



Massachusetts Department of Revenue

Briefing Book FY2010 Consensus Revenue Estimate Hearing

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Introduction

This Briefing Book was created by the Department of Revenue (DOR) and is intended to provide you with DOR's current tax revenue estimates for FY09 and FY10 and relevant background information.

With the national economy in the midst of possibly the most severe recession since WWII and the stock and credit markets experiencing unprecedented volatility, tax revenue forecasting is more difficult and uncertain than it has been in recent memory. The economy has deteriorated since the October 15, 2008 FY09 revenue revision was released, the stock market and other asset markets have declined further, and economic and stock market forecasts for the remainder of FY09 and for FY10 have been downgraded.

Our FY09 and FY10 revenue forecasts are based on tax collections through November 2008 and economic projections of our outside vendors: Moody's Economy.com, Global Insight, and the New England Economic Partnership (NEEP). These figures have been adjusted for legislatively mandated tax changes.

We hope that you find this material useful in your deliberations.

FY08 Results

- FY08 tax collections totaled \$20.879 billion, up \$1.14 billion, or 5.8% from FY07.
- FY08 “baseline” tax collections (i.e., growth adjusted for the impact of tax law and administrative changes) were up 6.4% from FY07.
- FY08 tax collections were \$654 million above the final FY08 revenue estimate of \$20.225 billion, primarily due to higher than projected withholding collections, taxes on interest and dividends, and corporate and business taxes (mostly due to several large settlements). Capital gains taxes were up by about 23.2% in FY08 compared to FY07, and totaled about \$2.1 billion.
- FY08 saw strength in withholding tax collections and weakness in sales tax collections:
 - FY08 baseline withholding collections increased 5.7%, compared with growth of 6.7% in the previous fiscal year;
 - FY08 baseline sales tax collections were up only 0.7%, about the same as in FY07. FY08 sales tax collections were dragged down mostly by declining motor vehicle sales and weakness in the housing sector.
- Corporate and business collections were up 4.9% baseline in FY08, down from 11.2% baseline growth in FY07.

FY09 Summary

- The FY09 General Appropriation Act (using the consensus revenue estimate, which was agreed upon in January 2008) assumed FY09 revenue collections of \$20.987 billion. After adjusting for tax law changes not incorporated into the consensus estimate, the FY09 tax forecast was \$21.402 billion, reflecting actual growth of 2.5% and baseline growth of 0.6% from FY08 collections.
- On October 15, 2008 the Executive Office for Administration and Finance (A&F) reduced the FY09 revenue estimate by \$1.1 billion, to \$20.302 billion. The revised estimate reflects projected revenue declines of 2.8% actual and 3.9% baseline from FY08 collections.
- The October 15, 2008 estimate assumed that baseline revenues would decline by 5.2% over the last 9 months of FY09. Withholding was projected to grow by 2.0%, sales tax was projected to fall by 0.4%, and corporate/business tax was projected to decline by 25.2% (with the corporate/business decline partly due to non-recurring FY08 tax settlements, most of which were received in the second half of FY08). Capital gains taxes were projected to decrease by approximately 30% in fiscal year 2009 compared to 2008.
- Through November 2008, FY09 tax collections totaled \$7.197 billion, down \$89 million, or 1.2% actual and 1.3% baseline compared to the same five-month period in FY08, \$31 million below the November year-to-date benchmark set out in the October 15, 2008 revised revenue estimate. Specifically:
 - Year-to-date withholding is up 2.5% actual and 3.0% baseline.
 - Year-to-date income tax estimated payments are down 1.2% actual and 1.0% baseline, as taxpayers slowly adjust to non-wage income declines.

FY09 Summary

- Year-to-date corporate and business tax collections are down 22.7% actual and 22.4% baseline, with estimated payments (an indicator of current business conditions) down 7.8%, and refunds up 49%, a typical pattern during recessions.
- The Massachusetts economy has deteriorated more than projected since October 15th, and is projected to contract during the last three quarters of FY09, as a result of the unfolding national recession:
 - Massachusetts payroll employment is projected to decline by between 0.8% and 1.5% in the last three quarters of FY09, and wages and salaries are projected to rise by only 1.1% to 2.4% over the same period.
 - Retail sales are projected to decline by 6.1% to 6.5% over the remainder of FY09, though some of this decline is the result of dropping gasoline prices.
- Economy.com forecasts that tax year 2008 capital gains realizations (which mainly determine FY09 capital gains tax collections) will decline by 40.5% from tax year 2007, and will decline by an additional 1.0% in tax year 2009 before increasing by 15.3% in tax year 2010. An alternative model run by DOR projects that capital gains realizations will drop by 59% in tax year 2008 and a further 35% in tax year 2009 before rising 6.8% in tax year 2010.
- Using economic projections from Global Insight, Economy.com, and the New England Economic Partnership (NEEP), and Economy.com's capital gains projections, FY09 tax revenue is projected at \$19.553 billion to \$19.654 billion, \$648 million to \$749 million below the A&F October 15, 2008 FY09 estimate. Under the more pessimistic capital gains projections, and after adjustment for potential loss of withholding tax on bonus income, FY09 tax revenue is estimated to be \$18.965 billion to \$19.022 billion.

FY10 Summary

- The national economy is expected to experience a severe recession until the middle of calendar year 2009, and then begin to grow slowly, with FY10 real Gross Domestic Product (GDP) forecasts ranging from a decline of 0.1% to an increase of 1.6%.

- As a result of the national recession, the Massachusetts economy is projected to contract:
 - Massachusetts employment is expected to fall by 1.0% to 2.2% in FY10, compared to a decline of 0.5% to 1.1% in FY09, and Massachusetts wages and salary projections range from a decline of 0.7% to growth of 1.3% in FY10, compared to 2.0% to 3.2% growth in FY09;
 - Massachusetts personal income is expected to rise 1.6% to 2.3% in FY10, compared to growth of 1.9% to 3.1% in FY09;
 - Nationally, corporate profits forecasts vary substantially, with Economy.com forecasting a decline of 3.5% and Global Insight forecasting growth of 16.3% in FY10, compared to a range of -18.9% to -6.0% in FY09;
 - The stock market as measured by the S&P 500 is expected to decrease 13.6% to 19.4% in calendar year 2009, compared to a decline of 17.5% to 17.6% in calendar 2008.

- Using the economic growth assumptions from Global Insight, Economy.com, and the New England Economic Partnership (NEEP), and the capital gains estimates from Economy.com, FY10 tax revenue is projected to be \$19.992 billion to \$20.311 billion, reflecting baseline growth of 1.6% to 3.0% over FY09. Adjusting for the risk of declining bonus income and capital gains, tax revenue is projected to be \$19.167 to \$19.486 billion, reflecting baseline growth of 0.4% to 1.8% from the more pessimistic FY09 estimate.

Recent Revenue Trends

- **Two Measures of Tax Revenue Growth:**
 - Actual growth - growth in actual collections over two periods.
 - Baseline growth - growth had there been no tax law or administrative changes that affected tax collections. Baseline growth also adjusts for fluctuations in the timing of tax collections. Baseline growth is a better measure of the change in the underlying tax base and the economy.

FY2009 Year-to-Date Collections Through November 2008 (in \$ Millions)					
	11/08 FY09 YTD Collections	11/08 FY09 YTD \$ Change	11/08 FY09 YTD Actual % Change	11/08 FY09 YTD Baseline % Change	FY09 YTD \$ Above/(Below) Benchmark Based on A&F 10/15/08 FY09 Estimate of \$20.302 Billion
Income - Total	4,293	86	2.1%	2.0%	(18)
Income Withholding	3,659	91	2.5%	3.0%	21
Income Est. Payments (Cash)	608	(7)	-1.2%	-1.0%	(9)
Income Returns/Bills	225	27	13.8%	3.2%	(6)
Income Refunds (Cash)	204	26	14.3%	14.3%	26
Sales & Use - Total	1,699	(56)	-3.2%	-3.7%	(24)
Sales - Regular	1,218	(32)	-2.5%	-3.2%	(9)
Sales - Meals	288	3	1.1%	0.5%	(8)
Sales - Motor Vehicles	194	(28)	-12.6%	-11.7%	(7)
Corporate & Business - Total	429	(126)	-22.7%	-22.4%	(33)
Corporate Excise	417	42	11.3%	-1.7%	6
Insurance Excise	91	(7)	-7.0%	-7.0%	(1)
Financial Institutions Excise	(49)	(96)	N/A	N/A	(12)
Public Utilities Excise	(30)	(66)	N/A	N/A	(26)
All Other	775	7	1.0%	1.0%	45
Total Tax Collections	7,197	(89)	-1.2%	-1.3%	(31)

Recent Revenue Trends

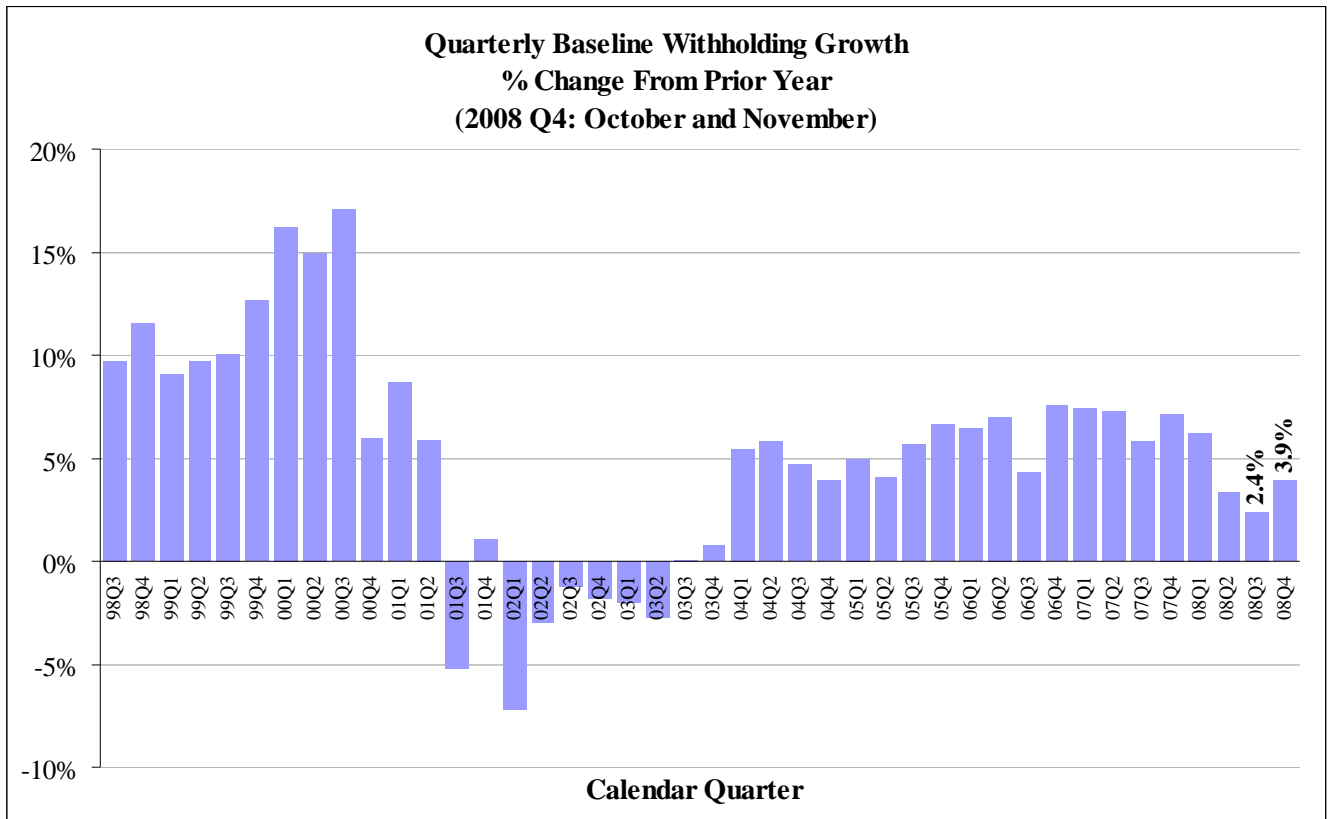
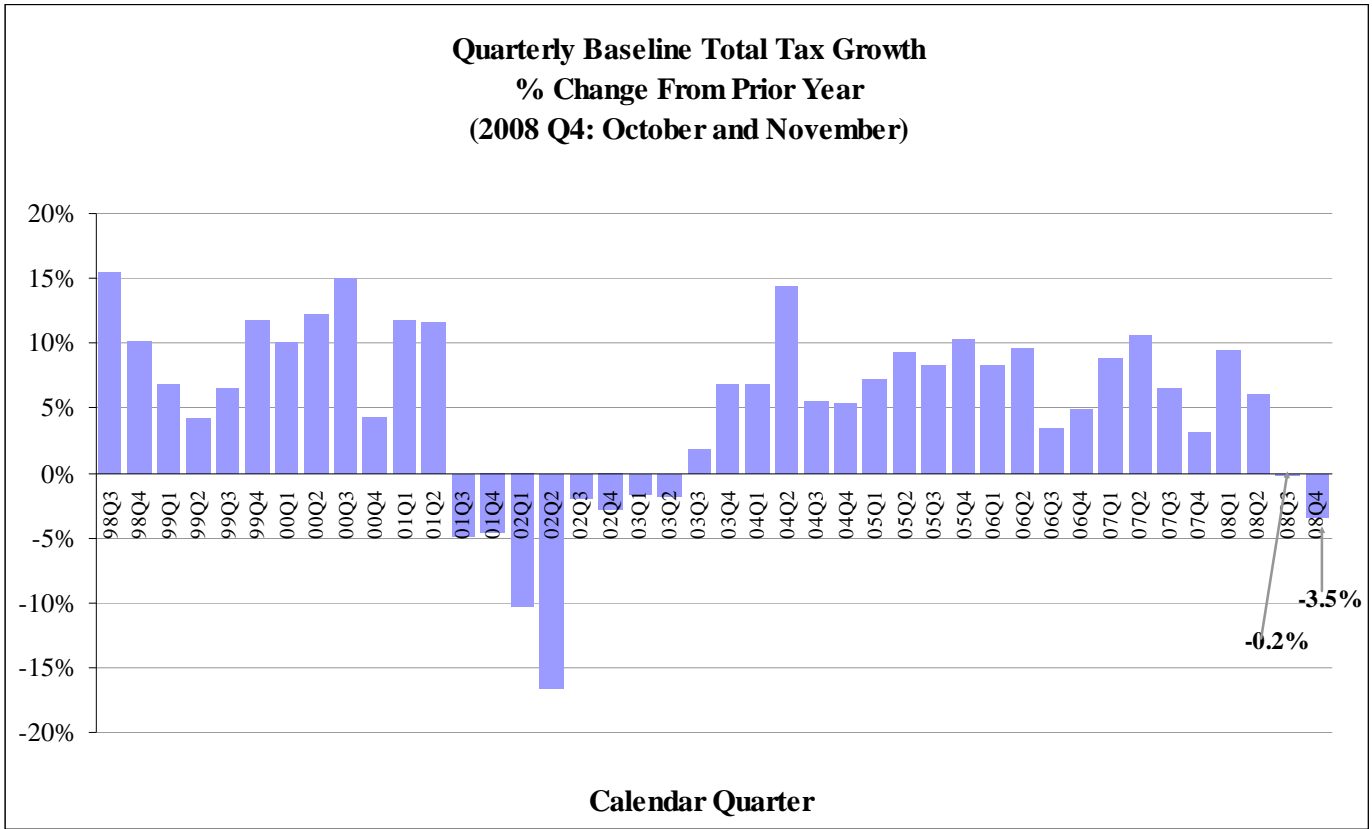
- **Withholding**
 - Withholding growth has slowed significantly in FY09, with baseline collections up 3.0% through November 2008, after having grown by 5.7% in FY08.

- **Income Tax Estimated Payments**
 - Income tax estimated payments have declined by 1% baseline in FY09, in contrast to growth of 19.3% in FY08. This reflects the expectation of weak non-wage income, primarily interest and dividends and capital gains.

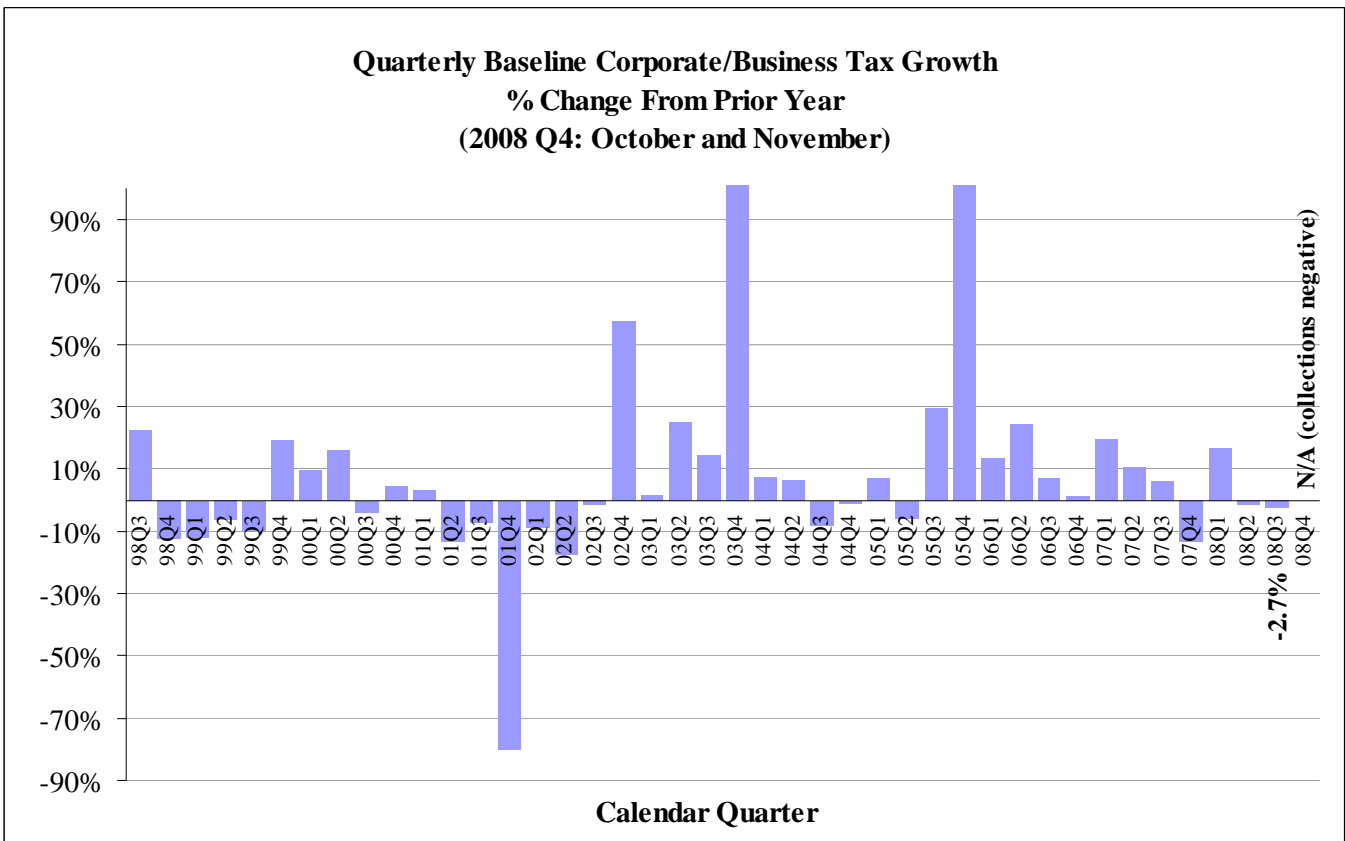
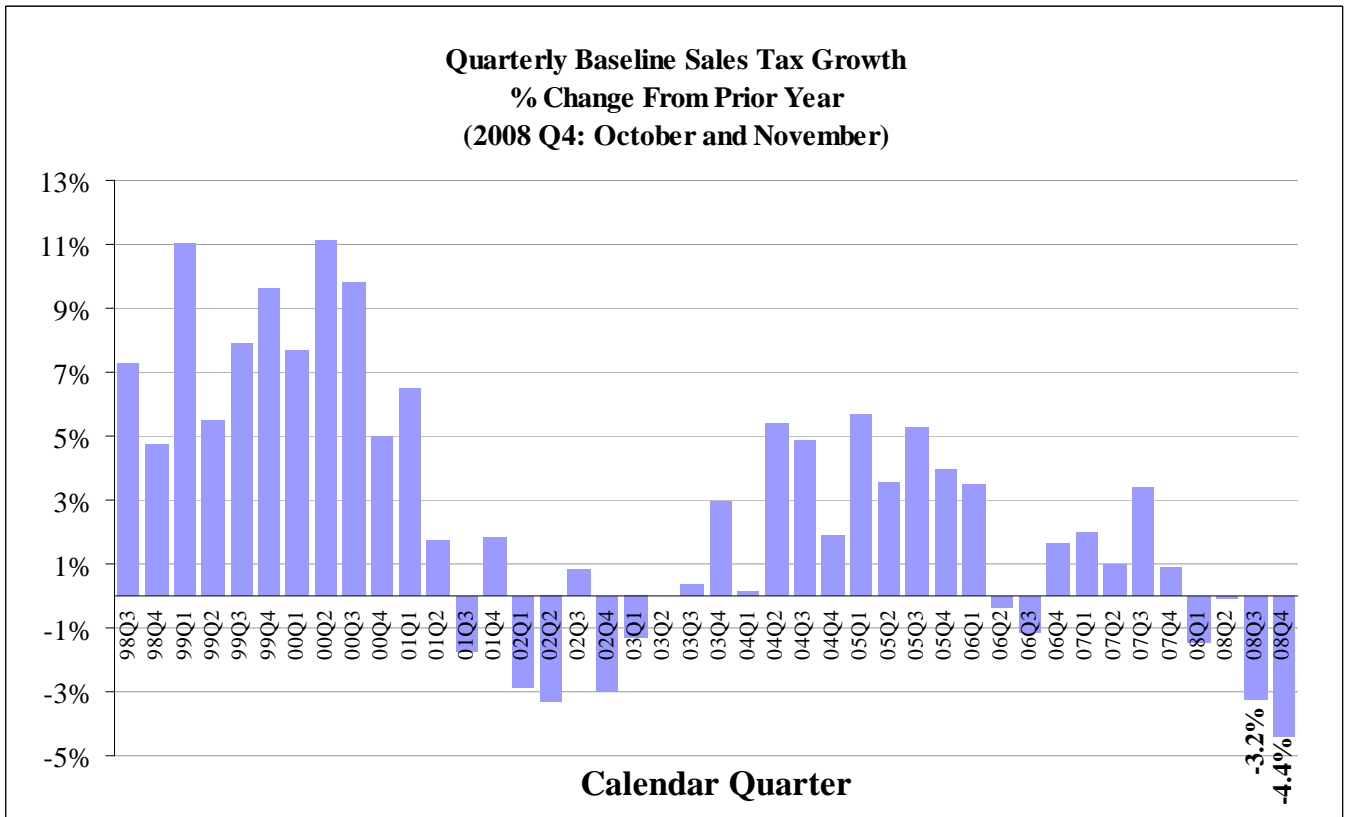
- **Sales Tax**
 - As consumers cut their spending, sales tax collections have declined significantly in FY09. Compared to growth of 0.8% in FY08, sales tax collections are down 3.7% baseline FY09 year-to-date, with weakness in all categories: motor vehicle sales tax has declined by 11.7% baseline; regular sales tax is down by 3.2% baseline; and meals tax has increased only 0.5% baseline.

- **Corporate and Business Excise**
 - As the economic environment deteriorates, corporate tax collections have declined substantially in the first five months of FY09, with a baseline decline of 22.4% through November, primarily due to refunds of estimated payments remitted during tax year 2007. YTD corporate estimated payments, which reflect current economic activity, are down 7.8%.

Recent Revenue Trends



Recent Revenue Trends



The U.S. Economy

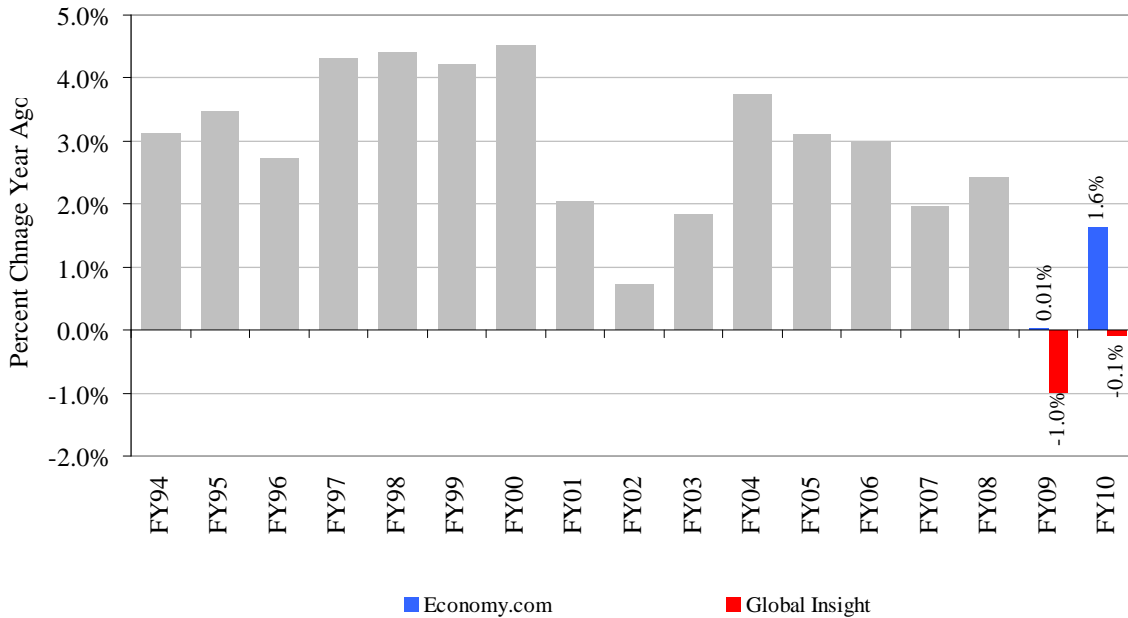
- DOR utilizes national and Massachusetts state economic forecasts from Global Insight, Moody's Economy.com, and the New England Economic Partnership.
- According to the National Bureau of Economic Research (NBER), the national economy has been in a recession since December 2007. The downturn originating from the housing market and the financial crisis has spread to the entire economy through negative effects on construction, household wealth, and consumer spending. Real GDP decreased at an annual rate of 0.5% in the third quarter of 2008, is expected to decrease at a rate of 5% or more in the current quarter, and decline for at least the first two quarters of calendar 2009.
- Labor market conditions have deteriorated substantially throughout 2008. US payroll employment fell by 533,000 in November, and by 1.9 million so far this year. The unemployment rate rose to 6.7% in November 2008, a 15-year high. It is expected to increase further in the next two years.
- The housing market has weakened further this year. Sales of new and existing homes have declined. In October 2008, new- and existing-home sales fell 40.1% and 1.6% respectively compared with October 2007. The inventory of unsold homes remains at a high level, home prices have fallen substantially, and foreclosures have hit record highs. As credit conditions weaken, unemployment rises and household finances become stretched, conditions in the housing market may worsen further in the near future.

The U.S. Economy

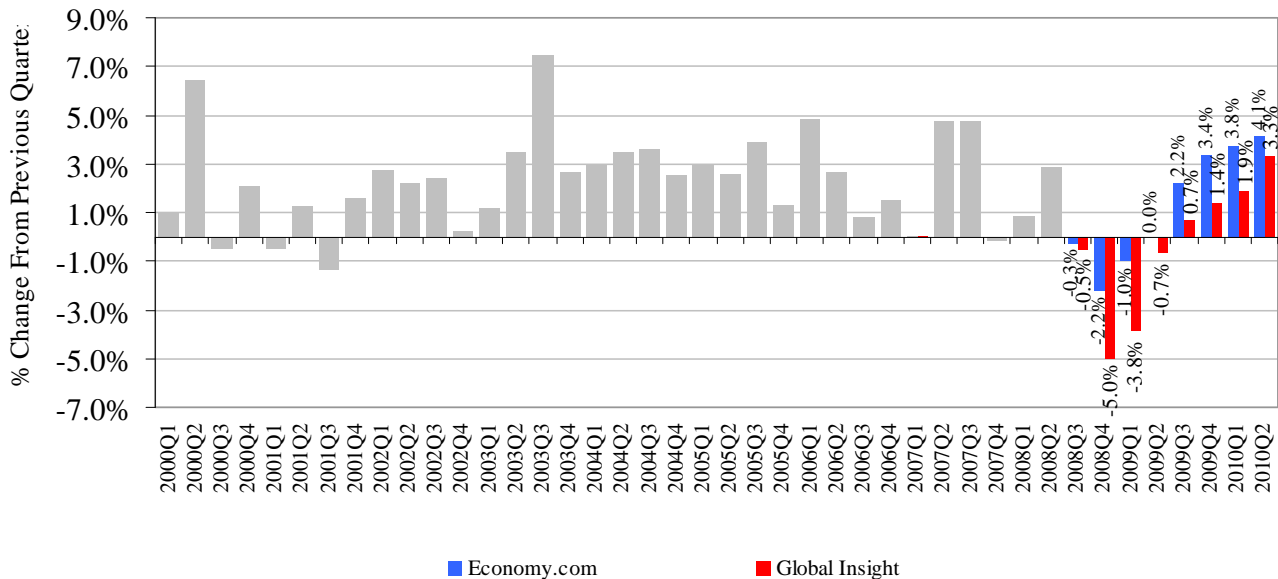
- In response to the financial and economic crisis, the Federal Reserve has cut the target federal funds rate nine times and by 3.75% since September 2007. The Federal Funds target rate now stands at an all-time low of 1%. Credit has continued to contract, with investors shifting assets into short-term U.S. Treasury securities at the expense of business and consumer lending. As a result, short-term U.S. Treasury rates recently dropped to 0% and still remain close to that level.
- After falling 3.2% in FY08, corporate profits are expected to decrease significantly over the remainder of FY09 due to the recession. Forecasters diverge on whether corporate profits will increase in FY10, with Economy.com projecting a further decline of 3.5% and Global Insight projecting growth of 16.3%.
- The stock market fell moderately in the first three quarters of calendar year 2008, with the average daily close of the S&P 500 index down by 9.9% compared to 2007. However, in the fourth quarter of calendar 2008, the stock market is expected to fall an unprecedented 40% compared to the fourth quarter of 2007. Although both Economy.com and Global Insight believe that the stock market has or will soon reach its low point, the forecast calendar year 2009 (FY10) average of the S&P 500 index will be well below 2008, with Economy.com projecting a decline of 13.6% and Global Insight predicting a decline of 19.4%, before recovering in calendar year 2010 (FY11).

The U.S. Economy

Real GDP Growth FY1994-10
(Forecasts begin in FY09)

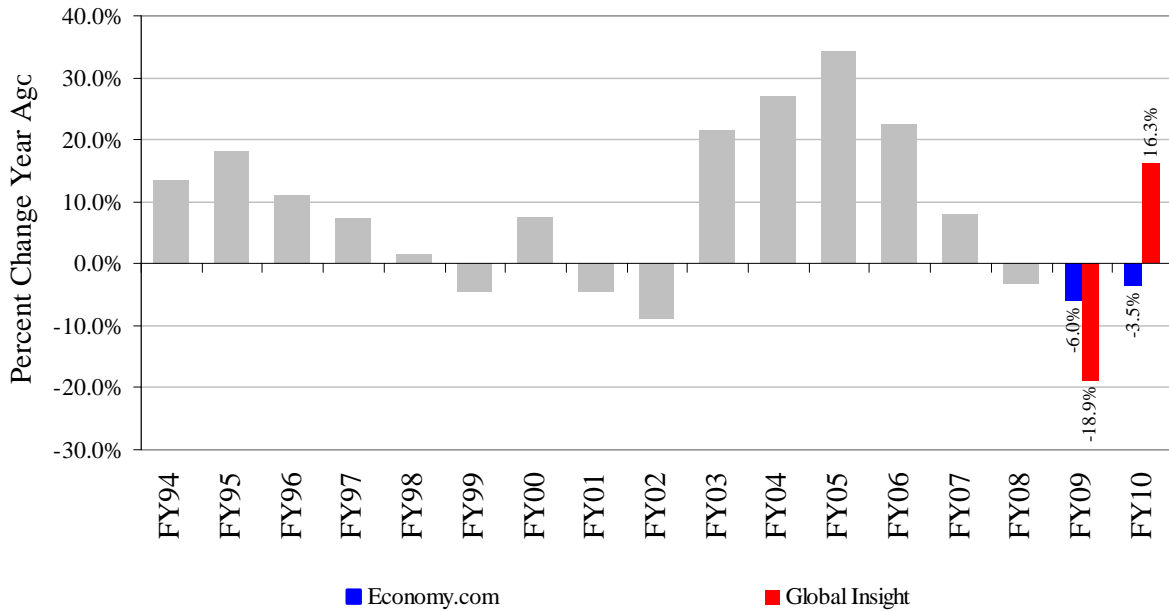


Annualized Quarterly Growth in U.S. Real GDP
(Change from Previous Quarter, Annualized)

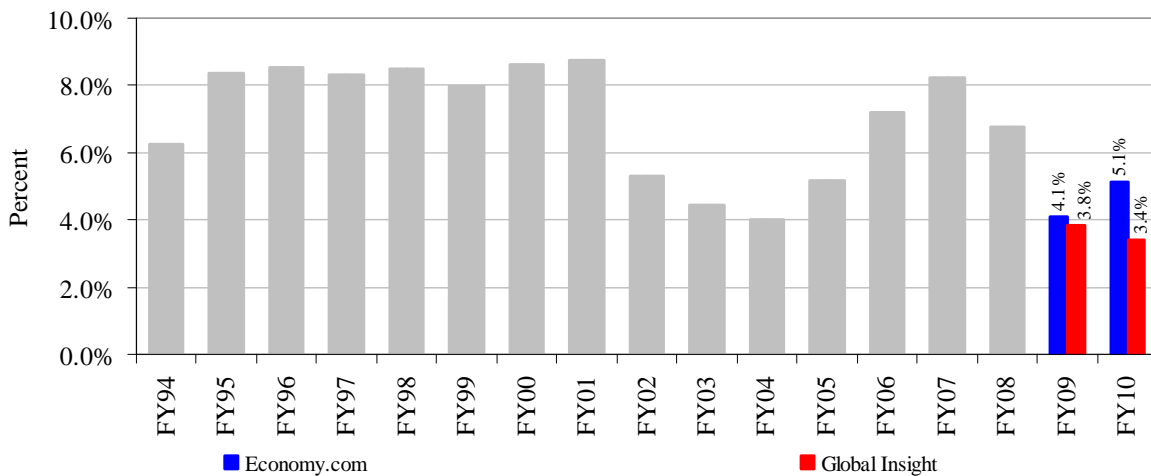


The U.S. Economy

Business Profits Are Expected to Decline
(Corporate Profits Before Tax FY1994-10)



Interest Rates Will Decline Through FY10
(Bank Prime Rate)

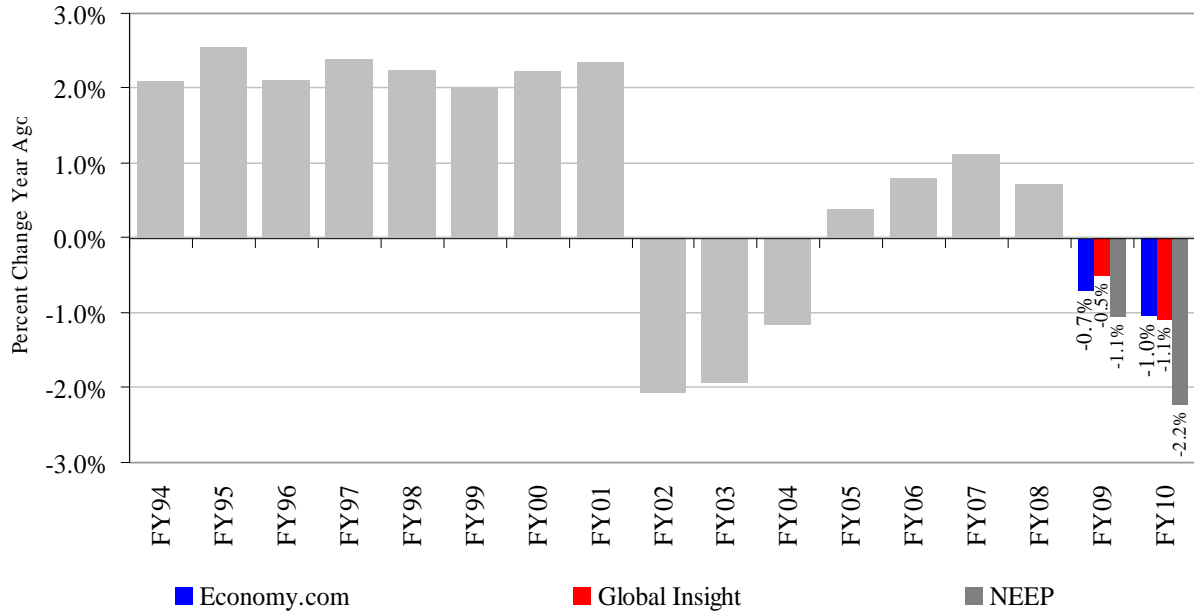


The Massachusetts Economy

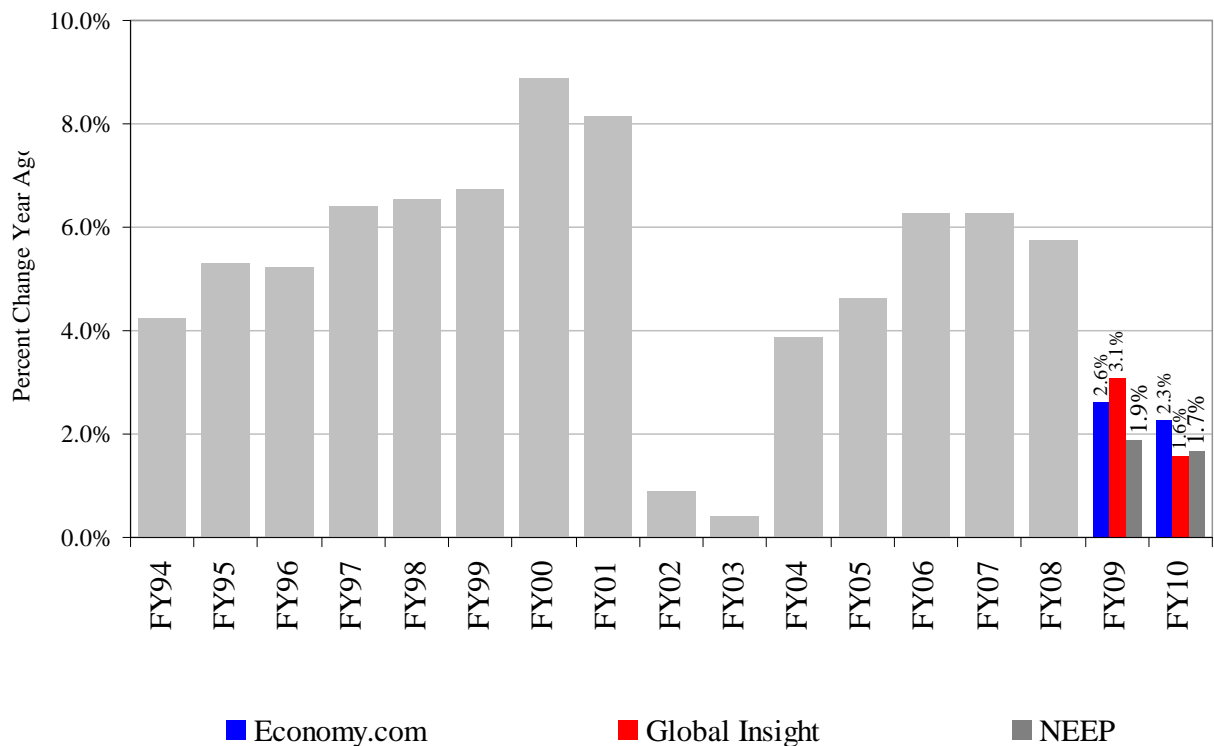
- As a result of the national economic downturn, the state economy is in a recession. The recession is expected to last through the first half of next year.
- The Commonwealth's employment situation has worsened recently. According to the U.S. Department of Labor, state employment in October 2008 declined by 7000 from the previous month, and grew by only 0.1% on a year-over-year basis. Over the same period, the unemployment rate increased from 4.3% to 5.5%, and is projected to average 5.7% to 5.9% for all of FY09 and 6.8% to 7.7% for FY10.
- According to the U.S. Bureau of Economic Analysis's most recent reports, Massachusetts wage and salary disbursements in the second quarter of 2008 increased by 5.8% (compared to the same quarter in 2007) after growing by 4.7% in the first quarter. Personal income increased by 5.5% in the second quarter after growing by 4.8% in the first quarter. (However, it is likely that these growth estimates will be revised downward as new data are received.) Wage and salary disbursements are projected to grow by 1.1% to 2.4% over the remainder of FY09. For FY10, the most pessimistic forecast projects that wages and salaries will decline by 0.7% and the most optimistic forecast projects growth of 1.3% over FY09.
- The state's housing market continued to weaken in 2008. According to the Massachusetts Association of Realtors, the median price of single family homes fell by 10.6% for single family homes and 10.7% for condominiums in October 2008 on a year-over-year basis. During the same period of time, sales rose by 6.6% for single family homes and fell by 1.0% for condominiums.
- Retail sales are projected to decline by 6.1% to 6.5% for the remainder of FY09 (though some of this decline is the result of a drop in gasoline prices, so is a net positive for the economy), and grow by 1.4% to 1.5% in FY10 as the economy slowly recovers.

The Massachusetts Economy

Massachusetts Employment Forecasts

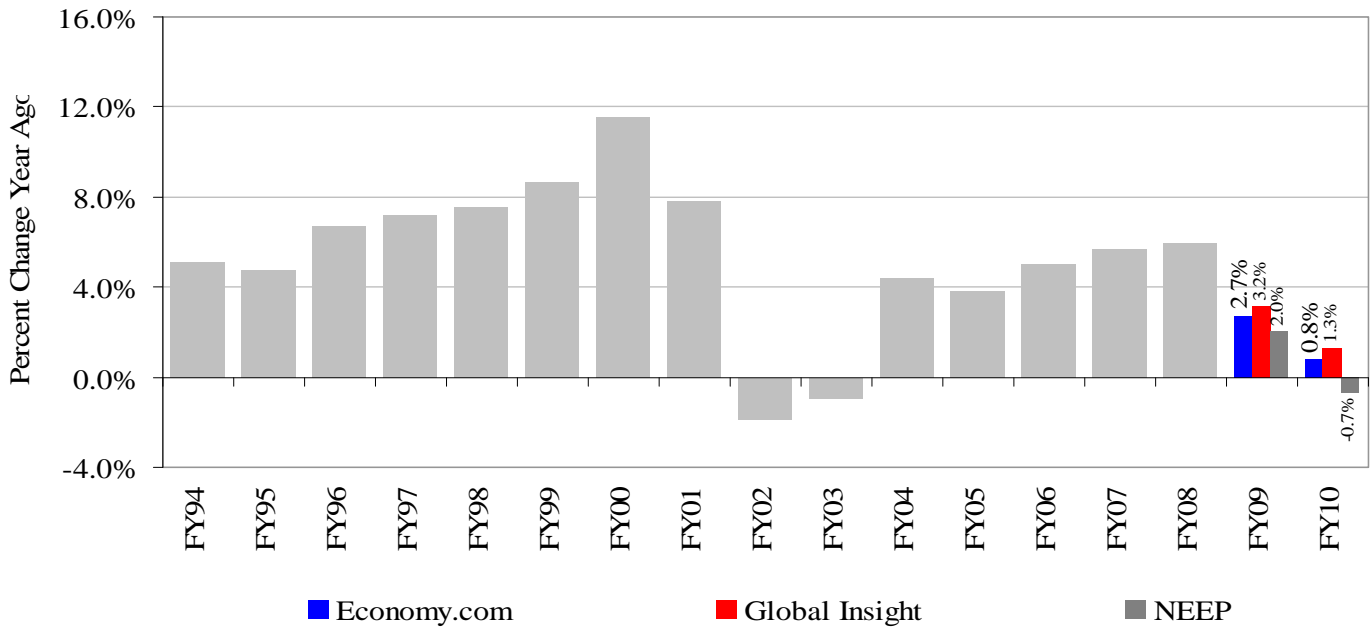


Massachusetts Personal Income Forecasts

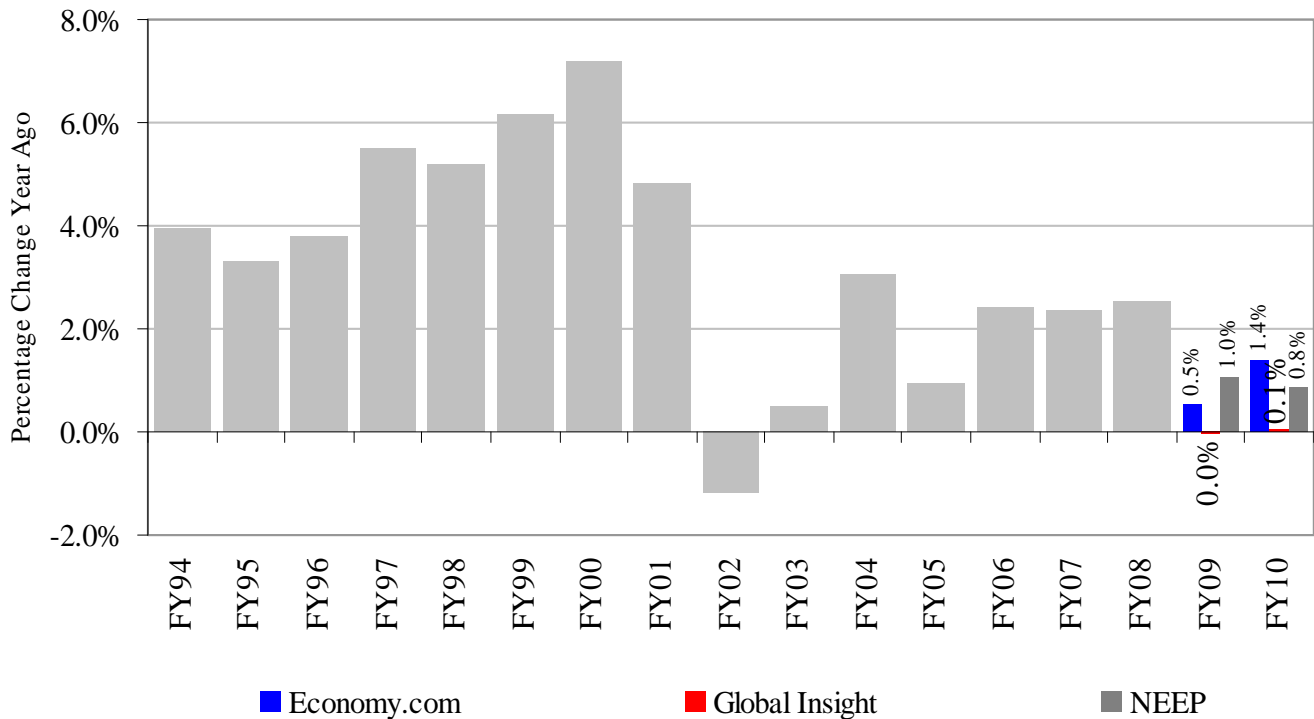


The Massachusetts Economy

Massachusetts Wages and Salaries Forecasts



Massachusetts Real Gross State Product (GSP) Growth FY1994-10



Massachusetts Economic Forecast Table

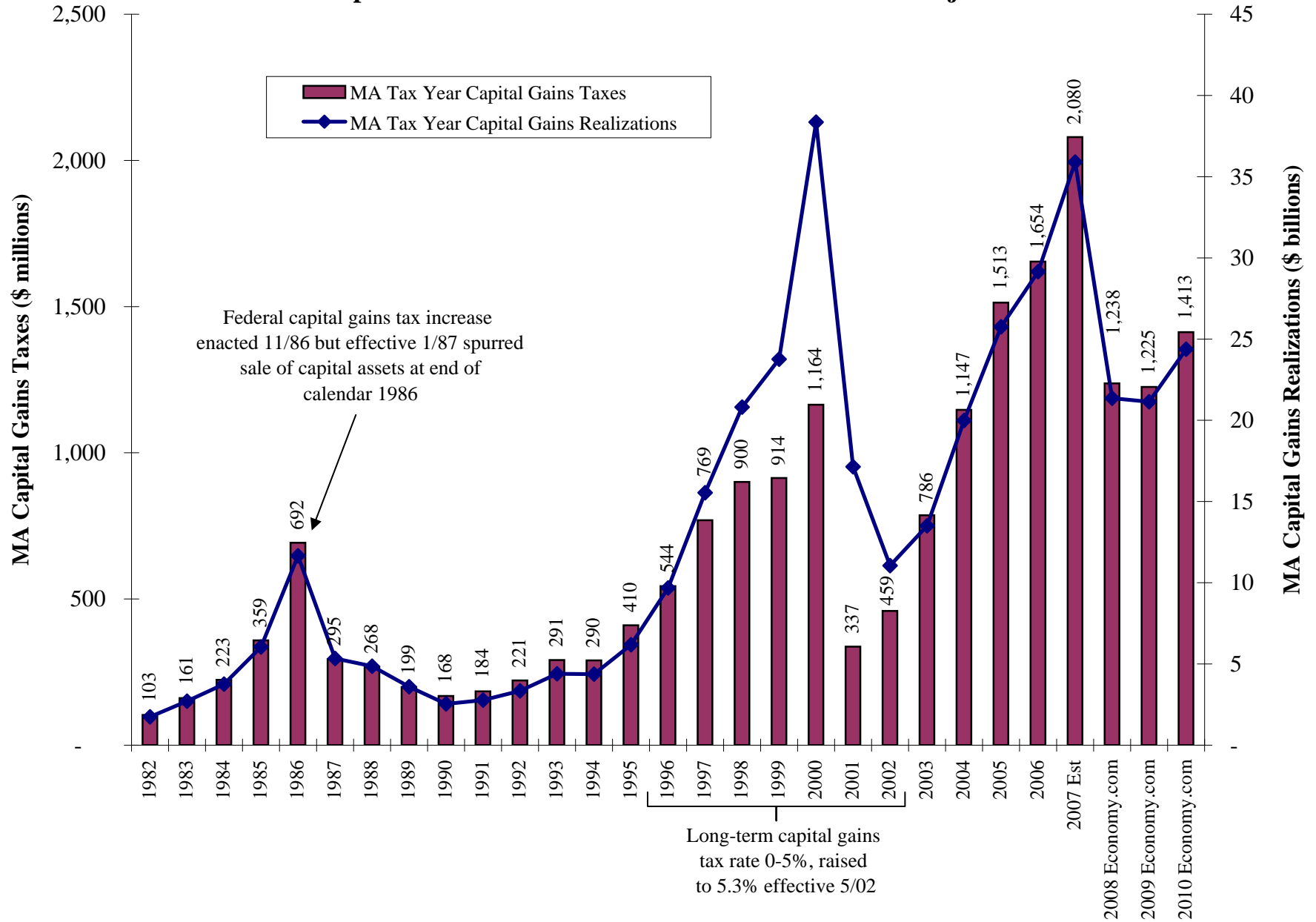
(Percent Change from Prior Fiscal Year)

U.S. & Massachusetts Economic Forecasts							
	History		Forecast				
	FY 2007	FY 2008	FY 2009 First Quarter	FY 2009 Last Three Quarters	FY 2009 Full Year	FY 2010	FY 2011
<u>US - Global Insight 12/08</u>							
Real GDP	2.0%	2.4%	0.7%	-1.6%	-1.0%	-0.1%	3.1%
Corporate Profits	7.9%	-3.2%	-10.4%	-21.9%	-18.9%	16.3%	6.0%
S&P500 (Calendar year)	8.6%	12.7%	-9.9%	-40.3%	-17.6%	-19.4%	14.8%
Unemployment Rate	4.5%	4.9%	6.0%	7.4%	7.1%	8.6%	8.4%
Bank Prime Rate	8.3%	6.7%	5.0%	3.4%	3.8%	3.4%	5.3%
Federal Funds Rate	5.3%	3.7%	1.9%	0.3%	0.7%	0.4%	2.3%
<u>US - Economy.com 11/08</u>							
Real GDP	2.0%	2.4%	0.8%	-0.3%	0.0%	1.6%	4.4%
Corporate Profits	7.9%	-3.2%	-6.1%	-6.0%	-6.0%	-3.5%	3.6%
SP500 (Calendar year)	8.6%	12.7%	-9.9%	-39.6%	-17.5%	-13.6%	21.1%
Unemployment Rate	4.5%	4.9%	6.0%	6.7%	6.5%	7.7%	7.0%
Bank Prime Rate	8.3%	6.7%	5.0%	3.8%	4.1%	5.1%	7.0%
Federal Funds Rate	5.3%	3.7%	1.9%	0.8%	1.1%	2.1%	4.0%
<u>Massachusetts - Global Insight 11/08</u>							
Real Gross State Product	2.5%	2.9%	1.1%	-0.4%	0.0%	0.1%	2.4%
Wages & Salaries	5.7%	5.9%	5.6%	2.4%	3.2%	1.3%	3.2%
Personal Income	6.3%	5.8%	4.5%	2.6%	3.1%	1.6%	3.6%
Employment	1.1%	0.7%	0.4%	-0.8%	-0.5%	-1.1%	0.6%
Retail Sales	4.0%	4.0%	1.3%	-6.1%	-4.3%	1.5%	5.5%
Unemployment Rate	4.7%	4.5%	5.2%	6.0%	5.8%	6.9%	6.8%
Housing Starts	-23.9%	-29.7%	-5.0%	-31.3%	-24.4%	-16.5%	39.0%
<u>Massachusetts - Economy.com 11/08</u>							
Real Gross State Product	2.3%	2.3%	2.6%	-0.2%	0.5%	1.4%	3.5%
Wages & Salaries	5.7%	5.9%	5.5%	1.8%	2.7%	0.8%	3.9%
Personal Income	6.3%	5.8%	4.5%	2.0%	2.6%	2.3%	5.1%
Employment	1.1%	0.7%	0.4%	-1.1%	-0.7%	-1.0%	1.3%
Retail Sales	2.9%	1.3%	-2.4%	-6.5%	-5.5%	1.4%	6.1%
Unemployment Rate	4.7%	4.5%	5.2%	5.9%	5.7%	6.8%	6.2%
Housing Permits	-25.8%	-27.4%	-42.4%	-33.0%	-35.7%	6.8%	58.2%
Home Sales	-10.4%	-14.2%	-17.4%	-9.5%	-11.7%	11.5%	3.5%
<u>Massachusetts - NEEP 11/08</u>							
Real Gross State Product	2.3%	2.3%	2.7%	0.5%	1.0%	0.8%	3.6%
Wages & Salaries	5.7%	5.9%	5.0%	1.1%	2.0%	-0.7%	1.3%
Personal Income	6.3%	5.8%	3.9%	1.2%	1.9%	1.7%	3.7%
Employment	1.1%	0.7%	0.2%	-1.5%	-1.1%	-2.2%	-0.5%
Retail Sales	2.9%	1.3%	-2.4%	-6.5%	-5.5%	1.4%	6.1%
Unemployment Rate	4.7%	4.5%	5.2%	6.2%	5.9%	7.7%	8.0%
Housing Permits	-25.8%	-27.4%	-31.1%	-35.1%	-34.0%	-35.6%	37.3%

Note: For S&P500, the numbers shown are calendar year numbers with one year lag.
Number for FY09Q1 is CY08 Q1:Q3 growth; Number for FY09Q2:Q4 is CY08Q4 growth.

Capital Gains Taxes

MA Capital Gains Realizations and Taxes Before Risk Adjustment



Capital Gains Taxes

- Estimates based on preliminary tax year 2007 income tax returns are that tax year 2007 capital gains realizations (taxes on which were remitted mostly in FY08) were \$35.9 billion, versus \$29.1 billion in tax year 2006, an increase of more than 23%. Long-term gains increased by about 20% while short-term gains increased by about 70%. Capital gains taxes grew from \$1.654 billion in tax year 2006 to approximately \$2.080 billion in tax year 2007, an increase of \$426 million, or 25.8%. On a fiscal year basis, FY08 capital gains taxes are estimated to have totaled about \$2.113 billion (though no exact numbers are available on a fiscal year basis), an increase of \$398 million, or 23.2%, from FY07.
- The October 15, 2008 A&F tax revenue estimate assumed that tax year 2008 capital gains realizations (which affect FY09 capital gains collections) would decline by 28%, and that FY09 capital gains taxes would decline by about 30%.
- Economy.com (the only economic forecaster that estimates state capital gains realizations) projects that Massachusetts capital gains realizations will decline by 40.5% in tax year 2008 compared to tax year 2007, decline a further 1.1% in tax year 2009, then increase by 15.3% in tax year 2010. Because taxpayers have been slow to adjust their 2008 estimated payments to the reduction in capital gains, virtually all of the projected decline in FY09 capital gains taxes will occur in the second half of the fiscal year, resulting in a FY09 decline in capital gains tax collections of 49%, or \$1.05 billion from FY08. Under the Economy.com forecast, capital gains taxes would actually increase by \$168 million in FY10, due entirely to the timing factors that greatly reduce FY09 capital gains tax collections.

Capital Gains Taxes

- The stock market has seen unprecedented volatility in calendar year 2008, particularly in the last four months of the year, and predicting capital gains taxes, already a difficult task, is even more uncertain than usual. As a result, DOR believes that there risk to the Economy.com capital gains estimates for FY09 and FY10. An alternative capital gains forecasting model developed by DOR predicts that capital gains realizations could decline by as much as 59% in tax year 2008 and an additional 35% in tax year 2009, before increasing by 7% in tax year 2010, a scenario similar to declines in capital gains seen in 2001 and 2002 during the last stock market decline. Under that scenario, FY09 capital gains taxes would decline by 73%, or \$1.54 billion, from FY08 and an additional 12%, or \$70 million in FY10.
- In addition to the impact on capital gains taxes, it is possible that the decline in the stock market and other financial asset markets will result in reduced bonus payments in FY09 and FY10 beyond what is reflected in the wage and salary forecasts from Economy.com, Global Insight, and the New England Economic Partnership. Consequently, we have included a separate risk factor adjustment of \$95 million for both fiscal years to account for this possibility.

FY09 AND FY10 TAX REVENUE PROJECTIONS

**FY09 and FY10 Tax Revenue Projections Using Economic Forecasts of Moody's Economy.com and Global Insight*
(in \$ Billions)**

	<u>FY09 Projections</u>	<u>\$ Growth from FY08</u>	<u>% Growth Actual from FY08</u>	<u>% Growth Baseline from FY08</u>	<u>FY10 Projections</u>	<u>\$ Growth from FY09</u>	<u>% Growth Actual from FY09</u>	<u>% Growth Baseline from FY09</u>
A&F 10/15/08	\$20.302	(\$0.577)	-2.8%	-3.9%	N/A	N/A	N/A	N/A
Economy.com	\$19.654	(\$1.225)	-5.9%	-7.0%	\$20.169	\$0.515	2.6%	2.0%
Global Insight	\$19.609	(\$1.270)	-6.1%	-7.2%	\$20.311	\$0.702	3.6%	3.0%
NEEP	\$19.553	(\$1.326)	-6.4%	-7.5%	\$19.992	\$0.439	2.2%	1.6%
Bonus Risk	(\$0.095)				(\$0.095)			
Capital Gains Risk	(\$0.492)				(\$0.730)			

*Excludes tax case settlements for the remainder of FY09 and for FY10

FY09 AND FY10 TAX REVENUE PROJECTIONS

FY08 Actual Tax Revenue Collections, FY09 and FY10 Tax Revenue Forecasts (in \$ millions)*

	----- FY 2009 -----					----- FY 2010 -----		
	FY08 Actual	A&F 10/15/08	Economy.com	Global Insight	NEEP	Economy.com	Global Insight	NEEP
Withholding	9,056	9,245	9,231	9,261	9,192	9,402	9,488	9,204
Capital Gains**	2,113	1,564	1,068	1,068	1,068	1,236	1,236	1,236
Other Income	1,316	1,437	1,420	1,396	1,362	1,420	1,418	1,463
Total Income Tax	12,484	12,246	11,719	11,725	11,623	12,057	12,141	11,903
Sales: Regular	2,952	2,932	2,874	2,863	2,874	2,912	2,904	2,912
Sales: Meals	633	660	644	647	644	651	651	645
Sales: Motor Vehicles	502	473	437	445	437	483	502	483
Sales Total	4,087	4,066	3,955	3,955	3,955	4,046	4,057	4,040
Corporate & Business	2,549	2,266	2,238	2,174	2,234	2,303	2,309	2,289
Other Tax Revenue	1,760	1,724	1,748	1,761	1,747	1,763	1,804	1,759
Total Tax Revenue	20,879	20,302	19,654	19,609	19,553	20,169	20,311	19,992
Bonus Risk	NA	NA	-95	-95	-95	-95	-95	-95
Capital Gains Risk	NA	NA	-492	-492	-492	-730	-730	-730
Total After Risks	NA	NA	19,067	19,022	18,965	19,345	19,486	19,167

*Excludes tax case settlements for the remainder of FY09 and for all of FY10

**Economy.com is the only forecast vendor that forecasts capital gains - Economy.com capital gains forecasts are used for Global Insight and NEEP

FY09 AND FY10 TAX REVENUE PROJECTIONS

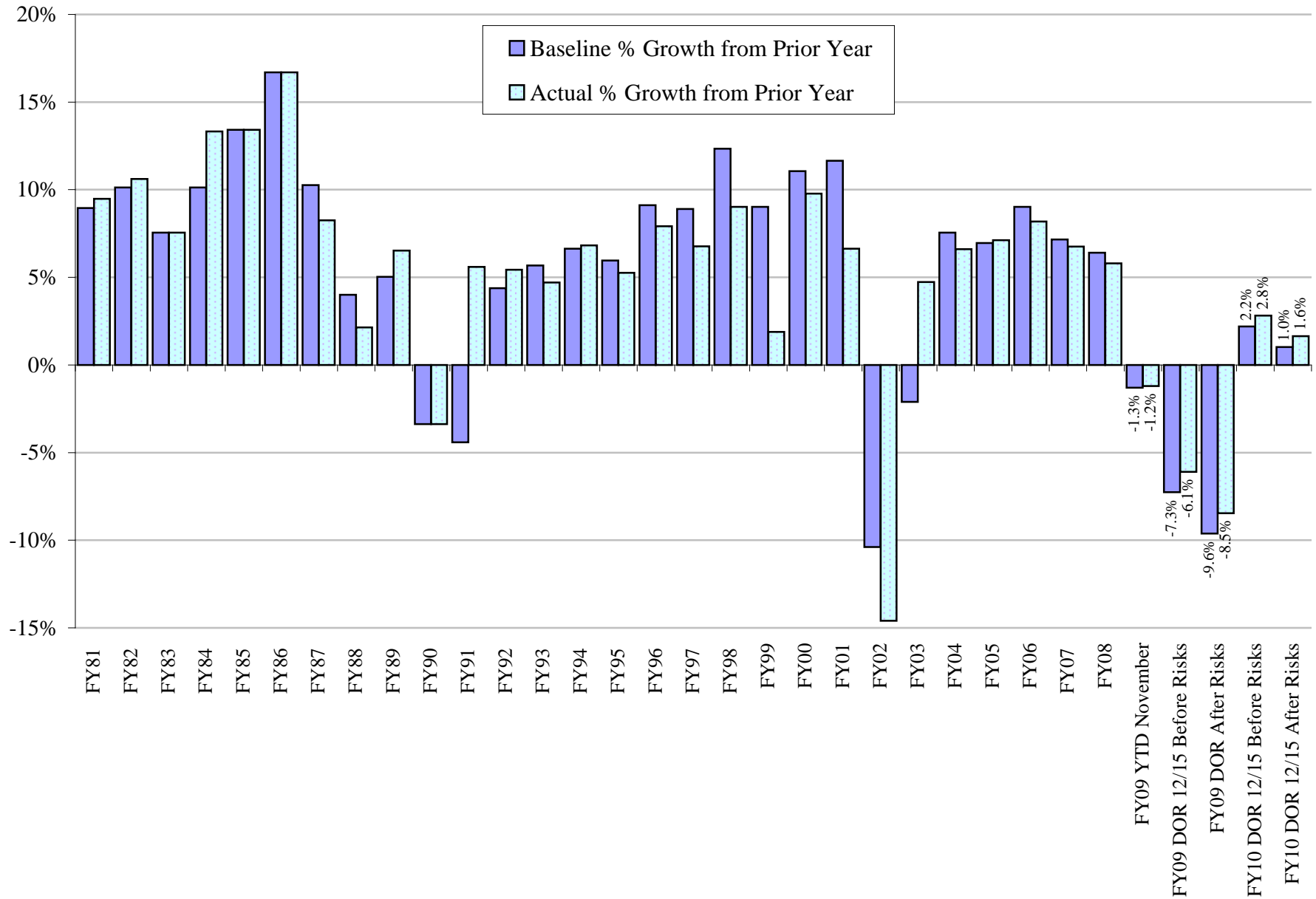
FY09 Year-To Date Baseline Growth; Forecasts for Remainder of FY09 and FY10*

	FY08 Actual	FY09 YTD	Baseline Growth Remainder of FY09			FY10 Baseline Growth		
		Baseline Growth	Economy.com	Global Insight	NEEP	Economy.com	Global Insight	NEEP
Income Total	9.9%	2.0%	-10.0%	-10.0%	-11.2%	3.0%	3.7%	2.6%
<i>Income Withholding</i>	5.7%	3.0%	1.2%	1.7%	0.5%	1.8%	2.4%	0.1%
Sales - Regular	1.2%	-3.2%	-3.7%	-4.3%	-3.7%	1.3%	1.4%	1.3%
Sales - Meals	4.0%	0.5%	1.6%	2.5%	1.4%	1.0%	0.6%	0.3%
Sales - Motor Vehicle	-5.6%	-11.7%	-13.8%	-10.9%	-13.8%	10.6%	12.8%	10.6%
Sales - Total	0.8%	-3.7%	-4.1%	-4.1%	-4.1%	2.3%	2.6%	2.2%
Corporate & Business	4.9%	-22.4%	-20.6%	-23.7%	-19.5%	-2.0%	1.0%	-2.5%
Other Tax Revenue	-1.2%	1.0%	-3.3%	-2.3%	-3.3%	1.4%	1.4%	-0.3%
Total Tax Revenue	6.4%	-1.3%	-10.1%	-10.5%	-10.9%	2.0%	3.0%	1.6%
After Bonus/Capital Gains Risk	NA	NA	-14.5%	-14.9%	-15.3%	0.8%	1.8%	0.4%

*Excludes tax case settlements for the remainder of FY09 and for FY10

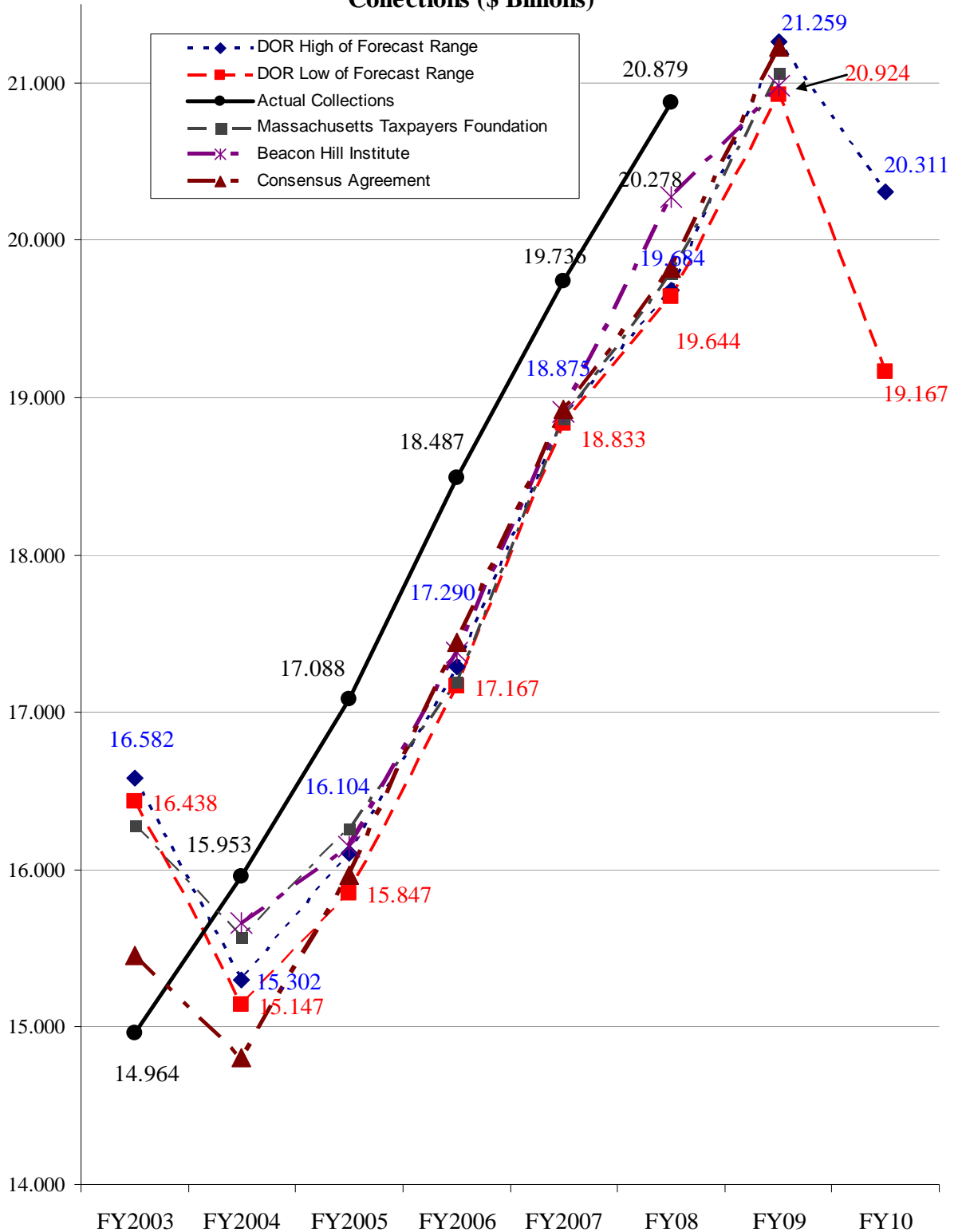
FY09 AND FY10 TAX REVENUE PROJECTIONS

Average of 3 Vendor Forecasts Before and After Adjustment for Bonus and Capital Gains Risks



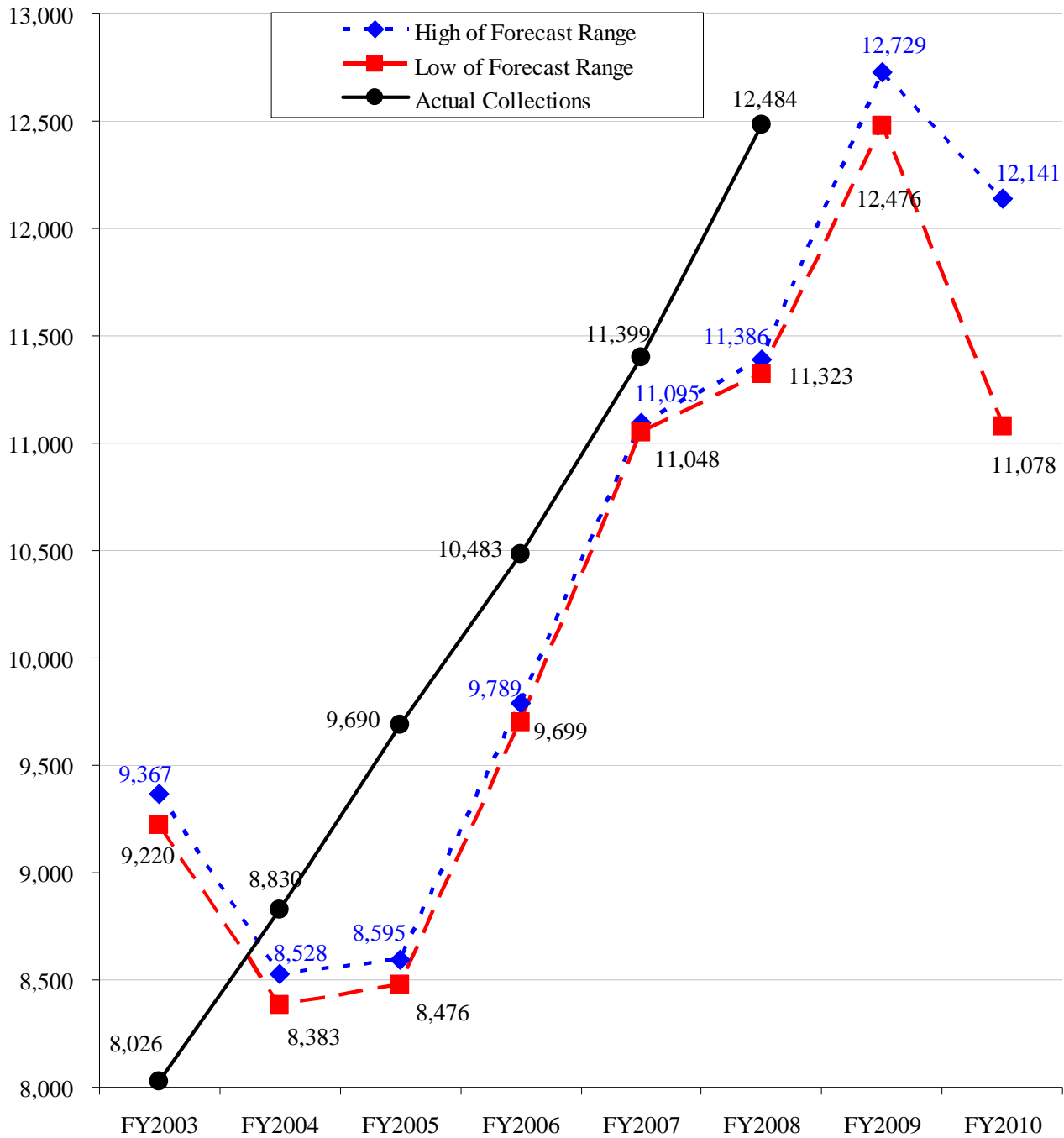
FY09 and FY10 Tax Revenue Projections

Total Tax Collections: DOR Consensus Hearing Estimates vs. Actual Collections (\$ Billions)



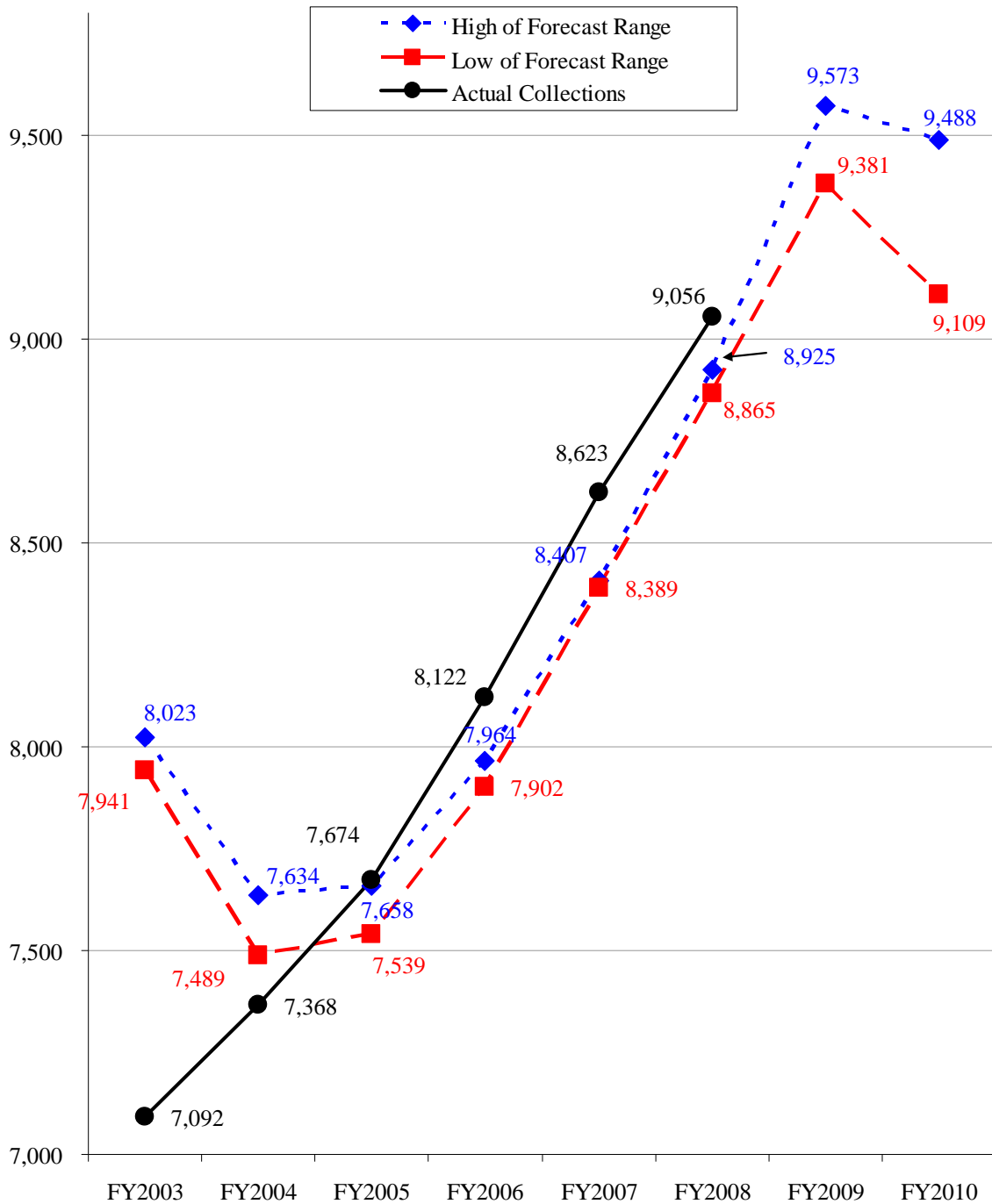
FY09 and FY10 Tax Revenue Projections

Total Personal Income Tax: DOR Consensus Hearing Forecast Range (Adjusted for Subsequent Tax Law Changes) vs. Actual Collections
(in \$Millions)



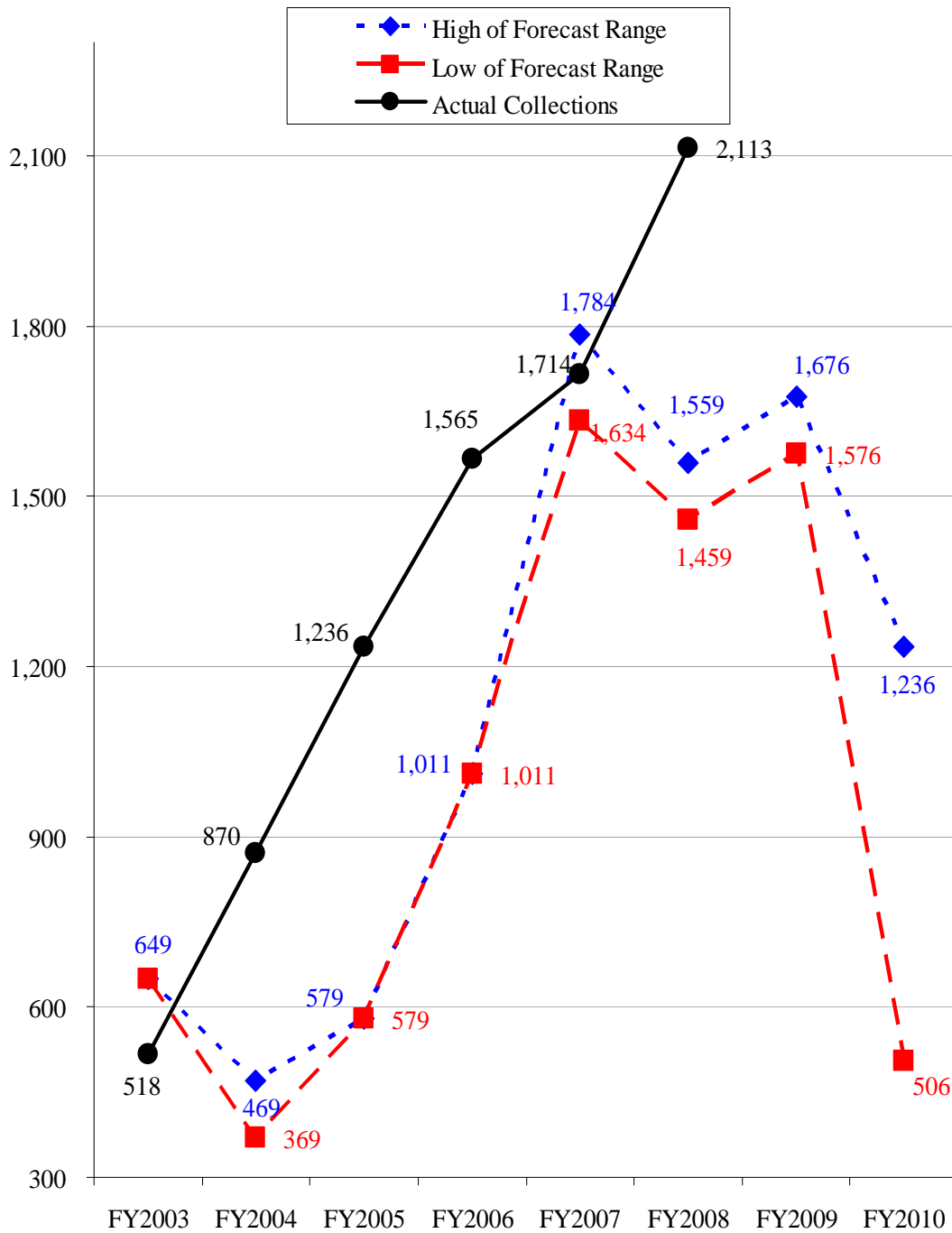
FY09 and FY10 Tax Revenue Projections

Income Tax Withholding: DOR Consensus Hearing Forecast Range (Adjusted for Subsequent Tax Law Changes) vs. Actual Collections (in \$Millions)



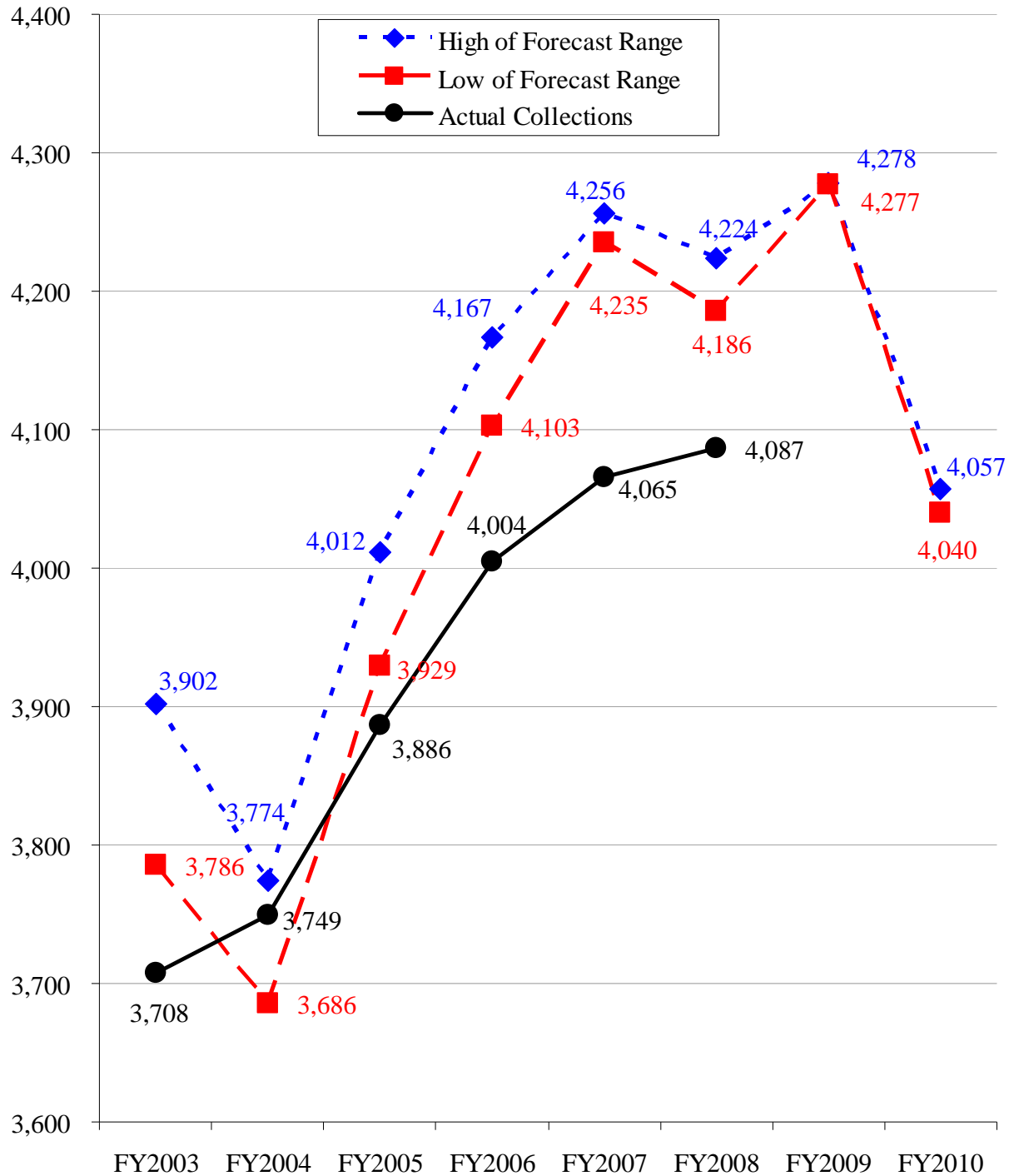
FY09 and FY10 Tax Revenue Projections

Capital Gains Tax: DOR Consensus Hearing Forecast Range (Adjusted for Subsequent Tax Law Changes) vs. Actual Collections
(in \$Millions)



FY09 and FY10 Tax Revenue Projections

Sales and Use Tax: DOR Consensus Hearing Forecast Range vs. Actual Collections
Collections
(in \$Millions)



FY09 and FY10 Tax Revenue Projections

Corporate/Business Tax: DOR Consensus Hearing Forecast Range (Adjusted for Subsequent Tax Law Changes) vs. Actual Collections
(in \$Millions)

