PART II

EXPLANATION OF RECEIPT ESTIMATES

EXPLANATION OF RECEIPT ESTIMATES

In accordance with the requirements of Article VII of the State Constitution and section 22 of the State Finance Law, there is submitted herewith an explanation of the receipt estimates by fund type.

These estimates have been prepared by the Division of the Budget with the assistance of the Department of Taxation and Finance and other agencies concerned with the collection of State receipts. To the extent they are material, income sources not noted below are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts.

Cash Receipts
All Governmental Funds
1998-1999
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	20,080	582	0	0	20,662
User taxes and fees	7,244	321	498	2,004	10,067
Sales and use tax	5,697	321	0	1,894	7,912
Cigarette and tobacco taxes	667	0	0	0	667
Motor fuel tax	171	0	221	110	502
Motor vehicle fees	444	0	108	0	552
Alcoholic beverages taxes	183	0	0	0	183
Highway use tax	0	0	169	0	169
Hotel/motel tax	0	0	0	0	0
Alcoholic beverage control license fees	29	0	0	0	29
Container tax	19	0	0	0	19
Auto rental tax	34	0	0	0	34
Business taxes	4,857	1,031	513	0	6,401
Corporation franchise tax	2,050	0	0	0	2,050
Corporation and utilities tax	1,489	65	0	0	1,554
Insurance taxes	672	0	0	0	672
Bank tax	544	0	0	0	544
Petroleum business tax	102	419	513	0	1,034
Regional business surcharge	0	547	0	0	547
Other taxes	1,138	0	112	200	1,450
Estate and gift taxes	1,071	0	0	0	1,071
Real property gains tax	29	0	0	0	29
Real estate transfer tax	0	0	112	200	312
Pari-mutuel taxes	37	0	0	0	37
Other taxes	1	0	0	0	1
Total Taxes	33,319	1,934	1,123	2,204	38,580
Miscellaneous receipts	1,505	5,813	1,567	630	9,515
Federal grants	0	21,422	1,219	0	22,641
Total	34,824	29,169	3,909	2,834	70,736

Cash Receipts
All Governmental Funds
1999-2000
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	20,783	1,195	0	0	21,978
User taxes and fees	7,430	341	522	2,127	10,420
Sales and use tax	6,044	341	0	2,013	8,398
Cigarette and tobacco taxes	618	0	0	0	618
Motor fuel tax	180	0	229	114	523
Motor vehicle fees	353	0	146	0	499
Alcoholic beverages taxes	175	0	0	0	175
Highway use tax	0	0	147	0	147
Hotel/motel tax	0	0	0	0	0
Alcoholic beverage control license fees	20	0	0	0	20
Container tax	0	0	0	0	0
Auto rental tax	40	0	0	0	40
Business taxes	4,575	1,036	517	0	6,128
Corporation franchise tax	1,938	0	0	0	1,938
Corporation and utilities tax	1,358	84	0	0	1,442
Insurance taxes	616	0	0	0	616
Bank tax	570	0	0	0	570
Petroleum business tax	93	423	517	0	1,033
Regional business surcharge	0	529	0	0	529
Other taxes	1,010	0	112	209	1,331
Estate and gift taxes	987	0	0	0	987
Real property gains tax	(14)	0	0	0	(14)
Real estate transfer tax	0	0	112	209	321
Pari-mutuel taxes	36	0	0	0	36
Other taxes	1	0	0	0	1
Total Taxes	33,798	2,572	1,151	2,336	39,857
Miscellaneous receipts	1,474	5,942	1,866	606	9,888
Federal grants	0	21,556	1,319	0	22,875
Total	35,272	30,070	4,336	2,942	72,620

Cash Receipts
All Governmental Funds
2000-2001
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	23,060	3,210	250	0	26,520
User taxes and fees	7,055	418	629	2,096	10,198
Sales and use tax	5,944	358	0	1,980	8,282
Cigarette and tobacco taxes	496	0	0	0	496
Motor fuel tax	19	60	333	116	528
Motor vehicle fees	350	0	144	0	494
Alcoholic beverages taxes	174	0	0	0	174
Highway use tax	0	0	152	0	152
Hotel/motel tax	0	0	0	0	0
Alcoholic beverage control license fees	30	0	0	0	30
Container tax	0	0	0	0	0
Auto rental tax	42	0	0	0	42
Business taxes	4,241	1,009	499	0	5,749
Corporation franchise tax	2,177	0	0	0	2,177
Corporation and utilities tax	732	96	0	0	828
Insurance taxes	652	0	0	0	652
Bank tax	590	0	0	0	590
Petroleum business tax	90	408	499	0	997
Regional business surcharge	0	505	0	0	505
Other taxes	766	0	112	201	1,079
Estate and gift taxes	732	0	0	0	732
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	112	201	313
Pari-mutuel taxes	33	0	0	0	33
Other taxes	1	0	0	0	1
Total Taxes	35,122	4,637	1,490	2,297	43,546
Miscellaneous receipts	1,339	6,905	2,063	575	10,882
Federal grants	0	23,010	1,377	0	24,387
Total	36,461	34,552	4,930	2,872	78,815

Cash Receipts
General Fund
1998-1999 through 2000-2001
(millions of dollars)

	1998-1999 Actual	1999-2000 Estimated	2000-2001 Recommended	2000-2001 Compared with 1999-2000
Personal income tax	20,080	20,783	23,060	2,277
User taxes and fees	7,244	7,430	7,055	(375)
Sales and use tax	5,697	6,044	5,944	(100)
Cigarette and tobacco taxes	667	618	496	(122)
Motor fuel tax	171	180	19	(161)
Motor vehicle fees	444	353	350	(3)
Alcoholic beverage taxes	183	175	174	(1)
Hotel/motel tax	0	0	0	0
Alcoholic beverage control license fees	29	20	30	10
Container tax	19	0	0	0
Auto rental tax	34	40	42	2
Business taxes	4,857	4,575	4,241	(334)
Corporation franchise tax	2,050	1,938	2,177	239
Corporation and utilities taxes	1,489	1,358	732	(626)
Insurance taxes	672	616	652	36
Bank tax	544	570	590	20
Petroleum business taxes	102	93	90	(3)
Other taxes	1,138	1,010	766	(244)
Estate and gift taxes	1,071	987	732	(255)
Real property gains tax	29	(14)	0	14
Real estate transfer tax	0	0	0	0
Pari-mutuel taxes	37	36	33	(3)
Other taxes	1	1	1	0
Total taxes	33,319	33,798	35,122	1,324
Miscellaneous receipts	1,505	1,474	1,339	(135)
Total	34,824	35,272	36,461	1,189

Cash Receipts
Special Revenue Funds
1998-1999 through 2000-2001
(millions of dollars)

	1998-1999 Actual	1999-2000 Estimated	2000-2001 Recommended	2000-2001 Compared with 1999-2000
Personal income tax	582	1,195	3,210	2,015
User taxes and fees	321	341	418	77
Sales and use tax	321	341	358	17
Alcoholic beverage control license fees	0	0	0	0
Motor Fuel tax	0	0	60	60
Business taxes	1,031	1,036	1,009	(27)
Corporation and utilities taxes	65	84	96	12
Petroleum business taxes	419	423	408	(15)
Regional business surcharge	547	529	505	(24)
Total taxes	1,934	2,572	4,637	2,065
Miscellaneous receipts	5,813	5,942	6,905	963
State university income	1,561	1,602	1,649	47
Lottery	1,576	1,499	1,626	127
Indigent care	666	680	858	178
All other	2,010	2,161	2,772	611
Federal grants	21,422	21,556	23,010	1,454
Total	29,169	30,070	34,552	4,482

Cash Receipts
Capital Projects Funds
1998-1999 through 2000-2001
(millions of dollars)

	1998-1999 Actual	1999-2000 Estimated	2000-2001 Recommended	2000-2001 Compared with 1999-2000
Personal income tax	0	0	250	250
User taxes and fees	498	522	629	107
Motor fuel tax	221	229	333	104
Motor vehicle fees	108	146	144	(2)
Highway use tax	169	147	152	5
Business taxes	513	517	499	(18)
Petroleum business taxes	513	517	499	(18)
Other taxes	112	112	112	0
Real estate transfer tax	112	112	112	0
Total taxes	1,123	1,151	1,490	339
Miscellaneous receipts	1,567	1,866	2,063	197
Authority bond proceeds	1,460	1,700	1,675	(25)
State park fees	27	27	26	(1)
Environmental receipts	25	25	35	10
Tobacco settlement receipts	0	0	250	250
All other	55	114	77	(37)
Federal grants	1,219	1,319	1,377	58
Total	3,909	4,336	4,930	594

Cash Receipts
Debt Service Funds
1998-1999 through 2000-2001
(millions of dollars)

	1998-1999 Actual	1999-2000 Estimated	2000-2001 Recommended	2000-2001 Compared with 1999-2000
User taxes and fees	2,004	2,127	2,096	(31)
Sales and use tax	1,894	2,013	1,980	(33)
Motor fuel tax	110	114	116	2
Other taxes	200	209	201	(8)
Real estate transfer tax	200	209	201	(8)
Total Taxes	2,204	2,336	2,297	(39)
Miscellaneous receipts	630	606	575	(31)
Mental hygiene patient receipts	269	284	251	(33)
SUNY dormitory fees	202	202	205	3
Health patient receipts	126	85	89	4
All other	33	35	30	(5)
Total	2,834	2,942	2,872	(70)

ECONOMIC BACKDROP

THE NATION

OVERVIEW

Real Gross Domestic Product (GDP) expanded at a healthy 4 percent annual rate for 1999. Domestic demand was strong during 1999 as the pace of inventory accumulation declined and import growth far outpaced export growth. The strong pace of economic growth was accompanied by a drop in the unemployment rate from 4.4 percent in 1998 to 4.2 percent in 1999.

The major factors affecting real GDP growth in 1999 include:

1. Consumption, which was especially strong and has been a major engine of the robust growth during this expansion. Consumption accounts for two-thirds of the economic activity and grew by 5.2 percent in 1999.
2. Capital spending and investments in technology.
3. Personal income, which continued to grow at a healthy pace, thereby supporting the growth in consumer spending.
4. Finally, employment increases and growth in aggregate hours worked, combined with continued strong productivity growth of 2.7 percent.

Growth in the economy remains fairly balanced. However, strength in some sectors has been accompanied by a moderation of activity in other sectors. There are emerging signs that growth may be slowing in certain interest-sensitive sectors. For example, construction activity has slowed somewhat, with nonresidential construction declining and residential construction weakening during the year and turning negative in the third quarter of 1999. This moderation in construction activity is a consequence, in part, of a nearly one percentage point rise in mortgage rates during the year.

Some of the factors boosting the fourth quarter GDP growth were associated with preparations for the Y2K computer problem and the buildup of inventories to prepare for Y2K contingencies. The inventory buildup should be reversed, and should reduce the GDP growth rate for the first quarter of 2000.

Thus far, inflation has remained moderate, with the Consumer Price Index (CPI) measure of inflation rising at a 2.2 percent annual rate in 1999. The Federal Reserve Board (FRB) raised short-term interest rates three times, totaling 75 basis points, during 1999. Interest rates on longer maturity issues also increased during the second half of 1999. The rise in long-term rates reflects both the market's perception of increasing inflationary pressures and the decision by the FRB to tighten monetary policy.

The Division of the Budget (DOB) expects growth in national output to slow and inflation to rise through the end of 2000. Real GDP is expected to grow at an annual rate of 3.5 percent in 2000. The CPI is expected to rise modestly in 2000 by 2.4 percent, in part because of higher energy prices, and partly due to the end of a two year decline in the prices of non-oil imports. Consumption will remain the mainstay of growth, albeit at a somewhat reduced rate of increase, as employment, wages and income continue to rise. The trade deficit is projected to worsen, but at a much reduced rate. Short-term interest rates are expected to rise as the FRB tightens monetary policy. The forecast for the unemployment rate for 2000 is 4.1 percent, the lowest annual rate since 1969.

In summary, the economy remains strong heading into 2000 and current conditions indicate this growth should continue throughout the year. However, developing inflationary pressures will likely lead to tighter monetary policy, which should keep a lid on the near-term pace of the expansion.

THE LONGEST EXPANSION

In February 2000, the current expansion, which began in April 1991, will become the longest expansion on record. Table 1 compares the average annual growth rates of real GDP and CPI for the expansions and recessions of all business cycles since 1948. The average GDP growth rate for the current expansion is lower than for all the other expansions reported, except for the short expansion of 1980-81. In addition, the average CPI growth rate for the current expansion is the lowest since 1948. The GDP growth rate and the rate of consumer price inflation have exhibited less volatility in the current expansion than in prior expansions, as indicated by a smaller standard deviation. The standard deviation is a measure of the dispersion of individual observations (quarters) around the overall average. A smaller value indicates less volatility.

Table 1
Average Growth Rates of Real GDP and CPI Over Business Cycles

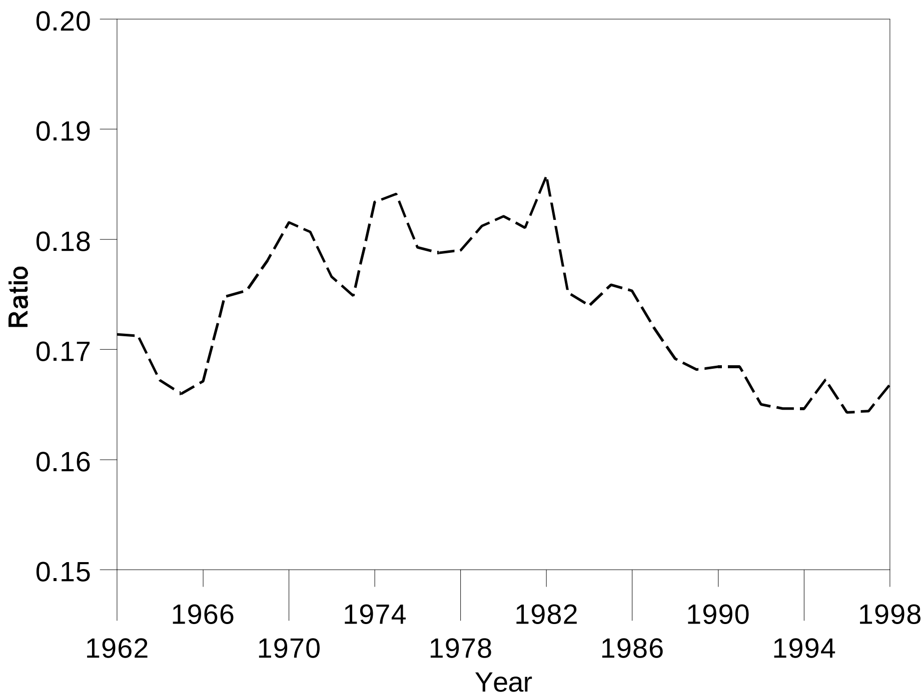
		Real Gross Domestic Product (GDP)		Consumer Price Index (CPI)	
		Average Growth Rate (Percent)	Standard Deviation	Average Growth Rate (Percent)	Standard Deviation
Recessions					
From	**To**				
1948 Q4	1949 Q3	-0.7	4.8	- 2.5	1.8
1953 Q3	1954 Q1	-3.3	2.4	1.2	0.6
1957 Q3	1958 Q1	-7.6	4.5	3.4	2.0
1960 Q2	1961 Q1	-1.2	3.3	1.5	1.2
1970 Q1	1970 Q4	-0.1	3.2	5.6	1.0
1974 Q1	1975 Q1	-2.9	2.6	11.4	1.5
1980 Q1	1980 Q2	-3.6	7.9	15.5	1.8
1981 Q3	1982 Q3	-1.4	4.7	7.0	2.9
1990 Q3	1991 Q1	-1.8	1.2	5.7	2.3
Expansions					
From	**To**				
1949 Q4	1953 Q2	6.8	6.3	3.3	4.9
1954 Q2	1957 Q2	3.6	4.1	1.2	2.0
1958 Q2	1960 Q1	6.5	4.5	1.1	1.1
1961 Q2	1969 Q4	4.8	3.1	2.7	1.8
1971 Q1	1973 Q4	5.2	4.1	5.0	2.6
1975 Q2	1979 Q4	4.4	4.0	8.1	3.0
1980 Q3	1981 Q2	3.0	5.8	9.9	2.0
1982 Q4	1990 Q2	4.1	2.4	3.8	1.7
1991 Q2	1999 Q3	3.6	1.8	2.6	0.7

Note: 1. The business cycle dates correspond with the dates published by the National Bureau of Economic Research (NBER).
2. The growth rates are average annualized growth rates.

There are two primary reasons for the relatively stable growth of GDP and CPI exhibited in the 1990's. First, there have been structural changes in the economy which have made it less cyclical. Second, a more preemptive and better managed monetary policy has been employed by the Federal Reserve Board.

An important structural change in the economy is the transition to just-in-time inventory management. This has improved the quality and timeliness of information that businesses receive about the demand for their goods and services. Consequently, businesses are able to make production adjustments to reflect demand fluctuations sooner, thereby avoiding big buildups or drawdowns of inventories and reducing large variations in production. Figure 1 shows a dramatic decline in the inventory-to-GDP ratio since the 1980's. New technology and the emergence of the Internet have also played an important role in inventory management. The contribution and the importance of the role of technology are discussed in more detail in a subsequent section.

Figure 1
Inventory to GDP Ratio



Other important structural changes in the economy that have occurred in recent years include: the increased flexibility of the labor market, thereby enabling a more efficient matching of skills and jobs; the increased importance of the trade sector, which can offset the fluctuations in domestic demand; the shift of the economy to a more stable service- sector oriented economy; and the acceleration of technological innovations, which has increased productivity and made the economy less subject to wage-driven inflation.

Along with these structural changes, actions taken by the FRB have also contributed to the longevity of the current expansion. For example, with the economy approaching boom conditions in 1994, the FRB raised the Federal funds rate by three percentage points. This had the intended effect of cooling off the economy, with growth of real GDP falling below 2 percent in 1995. Inflationary pressures were thereby ameliorated and the reduction of such pressures helped to sustain the current expansion.

In 1998, the plummeting currencies and economies of many Asian countries raised the danger of an abrupt end to the current expansion. When financial turmoil spread beyond Asia, particularly to Russia and to a highly leveraged financial fund in the U.S., the FRB rapidly reduced rates, thus signaling its willingness to loosen monetary policy to the degree necessary to forestall a free-fall into recession or financial market failure. By these and other policy actions taken during the current expansion, the FRB has been able to moderate the magnitude of swings in the real GDP growth rate and contributed to stability in the inflation rate.

CONSUMER SPENDING

Consumers have been the main drivers of growth during the current expansion and consumer confidence remains at almost record levels. Consumption, at two-thirds of total GDP, is the largest component of U.S. output.

The second half of the 1990's has been characterized by a significant increase in the wealth of American households, largely fueled by equity market increases since 1995. It seems apparent that the big bull market in stocks, along with a surge in real estate values, has contributed to consumption growth through what is commonly termed the wealth effect.

The wealth effect measures increased (decreased) purchases by consumers resulting from increases (decreases) in total wealth. Other things remaining equal, an increase in the value of the stock market and the value of housing makes people wealthier, resulting in increased consumption[1].

Figure 2 shows the value of the increase in household net worth and consumption over the period from 1960 to the third quarter of 1999. Increases in wealth are generally accompanied by increases in consumption. However, since mid-1994, while consumption growth has accelerated, household net worth has grown even faster. Given the historical relationship between consumption and wealth, the rapid increases in consumption are expected to continue.

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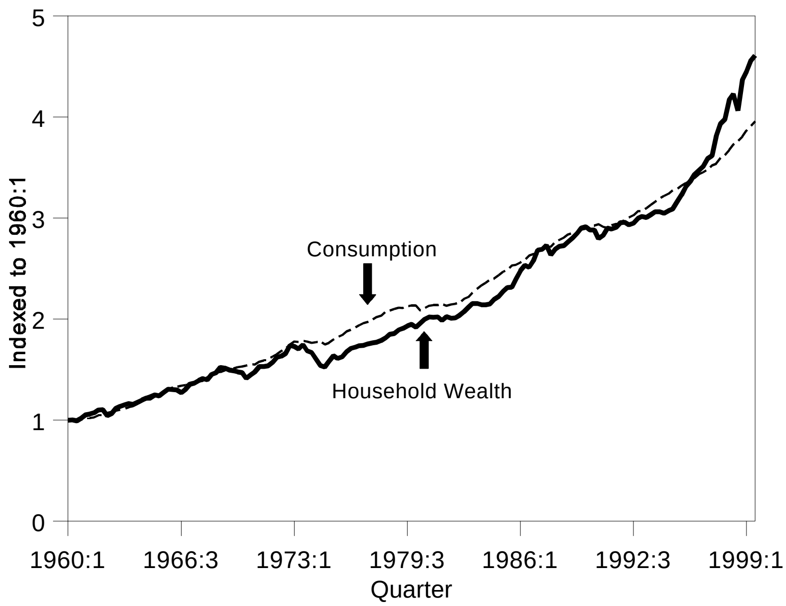
[1] Ludvigson and Steindel (1999) find that roughly four cents of each dollar of an increase in stock market wealth is spent. This amount is sizable when one looks at trillion-dollar gains in wealth from the stock market.

Source: Sydney Ludvigson and Charles Steindel , "How Important is the Stock Market Effect on Consumption?", Federal Reserve Bank of New York, Economic Policy Review, July 1999.

Figure 2
Household Wealth and Consumption Index

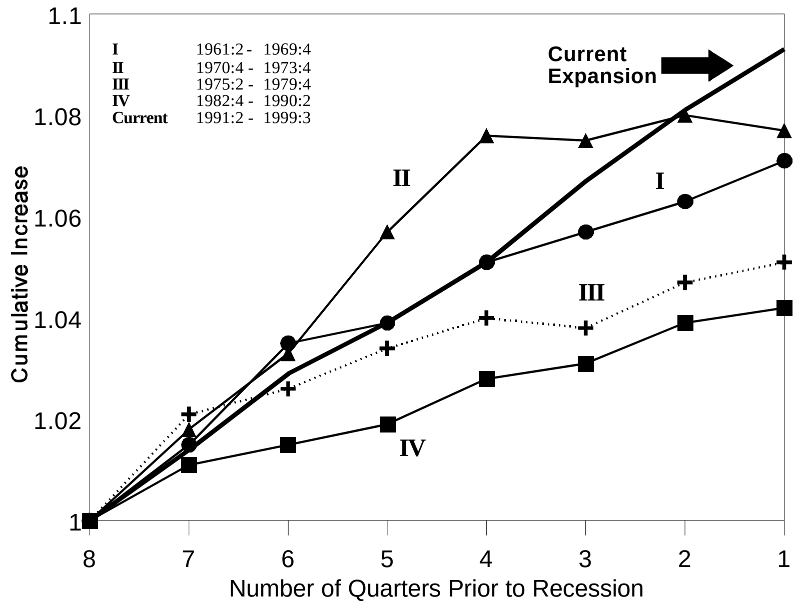


However, the effect of wealth on consumption needs to be considered cautiously. The economic literature is ambiguous concerning the size of the wealth effect. This adds uncertainty to the forecasts of future consumption growth, given the rapid gains in stock market wealth experienced in the past four years.

Consumption has grown at an average annual rate of 3.6 percent in the current expansion, underperforming the average growth rate in consumption of earlier expansions. However, the consumption growth rate has been escalating in recent quarters. Figure 3 shows the growth in consumption during the last eight quarters of all expansions since 1960 (excluding the 1980-81 expansion). Consumption has grown sharply since the fourth quarter of 1998, after lagging the consumption growth of prior expansions. After 4.9 percent growth during 1998, consumption continued to grow at 5.2 percent in 1999.

DOB expects that the current robust pace of consumption growth will slow in 2000, as the expansion reaches its mature stage and consumer confidence recedes. In addition, projected slower growth in the stock market is also expected to have an inhibiting impact on consumption.

Figure 3
Growth in Consumption



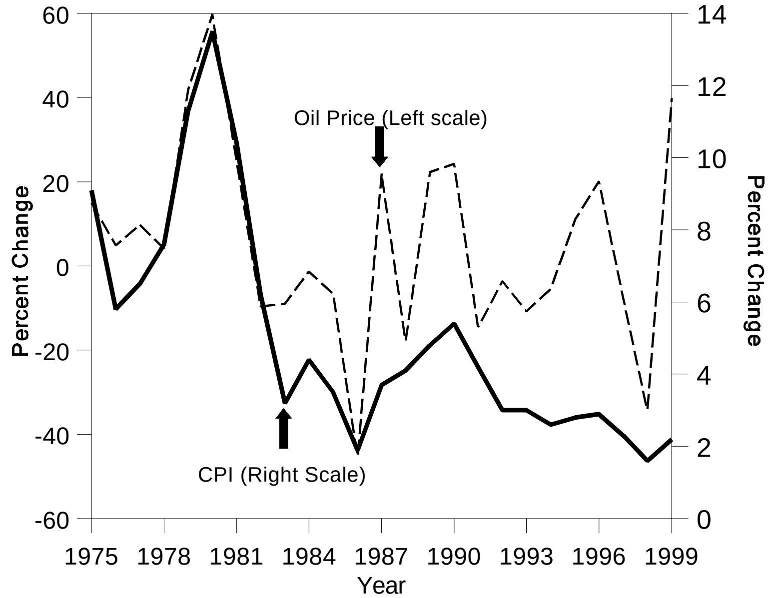
INFLATION AND PRODUCTIVITY

The past three years of the current expansion have been characterized by a combination of rapid growth in output accompanied by low inflation. The low inflation resulted from the interaction of several factors, including: falling oil prices, a strong dollar, and weak foreign demand. These positive conditions are dissipating. Foreign economies are beginning to recover from the global financial crisis of 1998; the dollar has weakened modestly, and oil prices have more than doubled since 1998.

Oil Price and Inflation

Movements in oil prices are an important factor affecting the CPI. Periods of increases in oil prices have usually been accompanied by higher inflation. For example, the mid- and late-1970's were characterized by two spikes in oil prices and higher inflation (see Figure 4). Increases in oil prices make it more expensive for companies to produce goods. As a result, producers tend to raise prices, which eventually ripple through the economy, resulting in higher inflation.

Figure 4
Oil Prices and Consumer Price Index



An oil price increase in today's economy may have less severe repercussions than 25 years ago. For example, despite a doubling of oil prices, inflation has remained tame in 1999. The secondary effects of an oil price increase on costs and prices in various sectors of the economy may be limited. Businesses, factories and vehicles are more energy-efficient today than they were during the oil crisis of 1979-80. Some research studies suggest that the oil price elasticity of real GDP, an estimate of how GDP responds to changes in oil prices, may have declined with the decreasing energy intensity of the economy since the 1980's. As a result, in recent periods, the economy is likely to be less sensitive to oil price fluctuations than in the past[2].

The rise in prices of commodities, such as petroleum products, has not flowed through into finished goods or consumer items. The competitive business climate of the 1990's is forcing companies to find ways of cutting costs and to keep the prices of their products from rising. For example, small firms are feeling the squeeze of higher oil prices but have not been able to pass along the increased costs to consumers[3].

A key question over the forecast horizon is whether oil prices will remain at high levels long enough to have significant effects on the economy. A more sustained increase in oil prices could spread to other sectors of the economy. Such a scenario poses a serious inflation risk to the economy and to our forecast.

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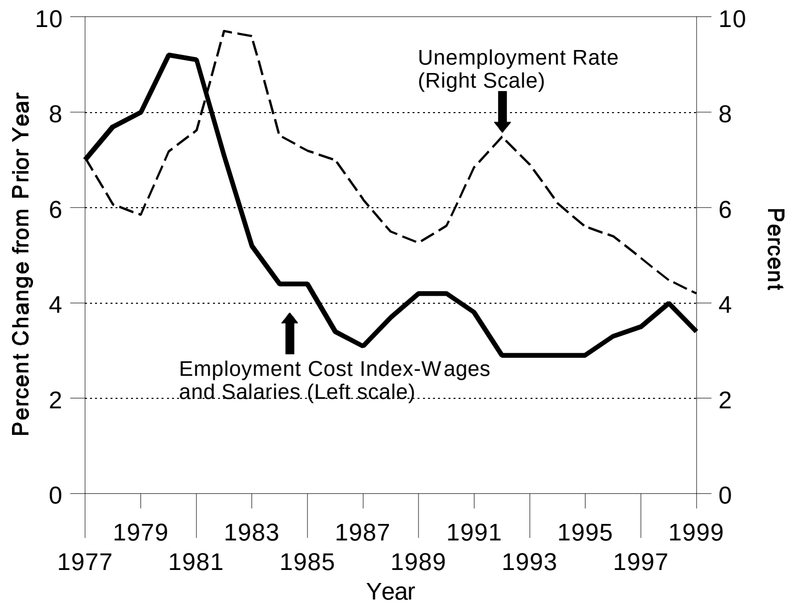
[2] Stephen Brown and Mine Yucel, "Energy Prices and State Economic Performance", Federal Reserve Bank of Dallas Economic Review, Second Quarter, 1995.

[3] Dan Morse and Joshua H. Prager, "Small Firm's Fuel Bills Jump but Are Hard to Pass Along", The Wall Street Journal, November 19, 1999.

Labor Market and Productivity

Continued tame growth in wages, especially in the service sector, is keeping a lid on price pressures. Wage inflation, as indicated by growth in the wage and salary component of the employment cost index (ECI), has remained in the 3 to 4 percent range since 1986 (see Figure 5). However, the absence of strong growth in wages in the 1990's, despite low unemployment rates, is noticeable when compared to prior history.

Figure 5
Employment Cost Index and Unemployment Rate



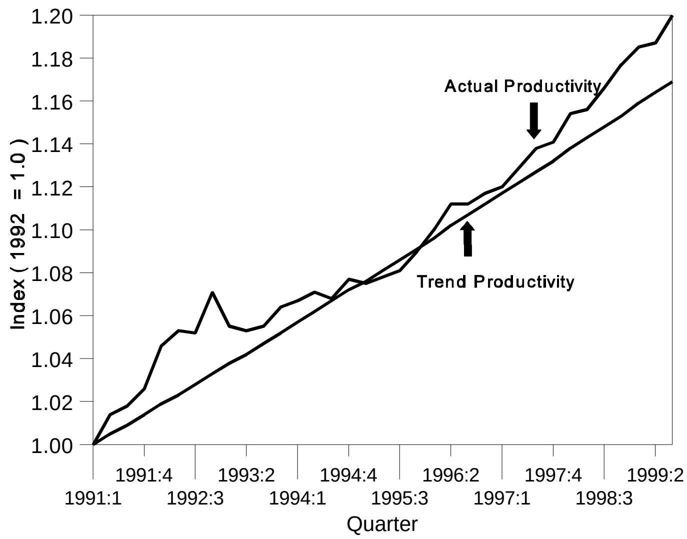
An increase in productivity, defined as output divided by total man-hours, holds down prices, holding other factors constant, by allowing businesses to boost their output of goods and services with labor costs remaining roughly constant. Productivity gains have been strong in recent years, due in large part to improvements in technology. This has helped keep inflation in check while the economy has continued to grow. While the positive effects on inflation from reduced oil prices, a strong dollar and weak foreign demand have diminished in recent quarters, the increase in worker productivity may be permanent. Since the growth potential of an economy depends on its labor force and productivity trends, permanently higher productivity growth will lead to permanently higher GDP growth without adding inflationary pressures to the economy.

The labor force has been growing at an annual average rate of 1.1 percent in the 1990's. If the underlying productivity trend is a constant 2.4 percent, the growth potential of the economy is 3.5 percent. Productivity grew by an average of 2.4 percent during the past five years and 2.7 percent during the past two years. Should these trends continue, the economy will have shifted to a new and higher potential growth path.

Productivity Gains in Expansions

Productivity gains typically slow down as an expansion matures and provide less of a cushion for rising labor and material input prices. However, productivity growth has followed an unusual pattern during the current economic expansion, with strong gains that are typical early in an expansion, followed by an atypical stagnation in the 1993-95 period and a resurgence of productivity gains beginning in 1996 (Figure 6). Between the first quarter of 1996 and the third quarter of 1999, productivity, as measured by output per hour in the non-farm business sector, rose at an average rate of 2.7 percent a year, compared with trend growth of 1.9 percent for the 1990's.

Figure 6
Productivity Growth in the 1990's



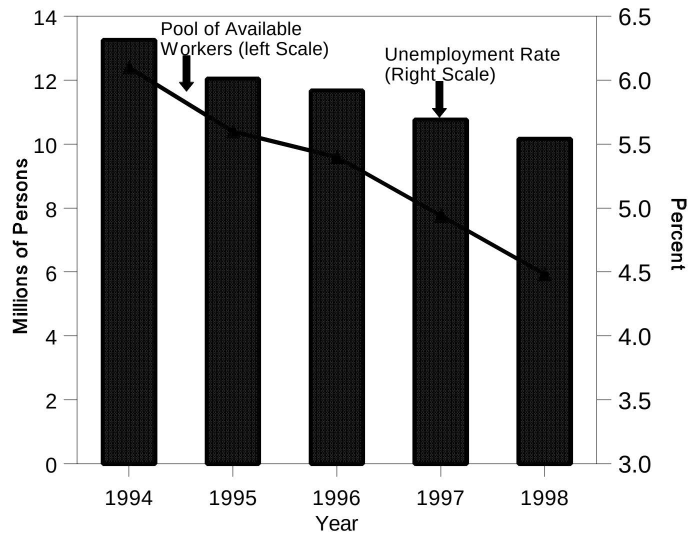
The fact that current productivity growth is exceeding its trend rate for the 1990's has led many economic analysts to believe that the economy has entered a "new era" of strong and continued productivity growth. This growth is being driven by advances in technology and telecommunications. The telecommunications revolution, along with other technical advances, such as the Internet, are expected to lead to further productivity gains, as businesses and workers adapt to the technological possibilities offered by the computer and telecommunications revolution. The point again is, holding other factors constant, this new environment would permit rapid growth in output without inflation.

MONETARY POLICY

The FRB has expressed continued concern about the potential for a resurgence of inflation and shown a willingness to tighten monetary policy to stave off any potential rise in inflation. In fact, the FRB raised rates three times in 1999 as a precautionary move when the economic data suggested inflationary pressures were on the rise. The FRB has been wary of the potential for sustained increases in raw materials prices as Asian economies continue to improve. The FRB has also closely monitored the behavior of financial markets, noting caution is warranted when equity market values seem excessive when compared to historical benchmarks.

With the unemployment rate hovering around 4.2 percent in the past few months, the FRB has closely monitored the potential of inflationary pressures arising from tight labor markets. An important measure of tightness is the declining pool of available workers, which includes both people who are unemployed and actively looking for work (and thus counted as being in the labor force), and those who are not currently in the labor force but want a job (discouraged workers). Figure 7 shows that the pool of available workers has been sliding since the early 1990's, with the unemployment rate inching lower. The shrinking pool of available workers is a growing concern for the FRB, given the potential for escalating wages. The key factor for future monetary policy is whether the economy slows down and the employers' search for new workers moderates, permitting the unemployment rate to stabilize at a point where there is no inherent inflationary bias.

Figure 7
Pool of Available Workers



Given the tight labor market, reflected by an unemployment rate remaining in the 4 percent range, we expect the FRB to resume tightening monetary policy in the new year, raising the Federal funds rate by another 50 basis points by the middle of 2000.

ROLE OF TECHNOLOGY AND THE INTERNET

Advances in the Internet and related technology are becoming important factors in the U.S. economic landscape and therefore deserve attention. The emergence of the Internet and e-commerce in recent years has affected the economy through a number of channels. First, easier and faster information exchange about what consumers want and quick access to what competitors are charging for the same good have heightened product market competition. Second, the Internet has enabled corporations to make their purchasing and inventory operations more efficient (see the just-in-time inventory discussion). Third, e-commerce has made access to goods for consumers easier and this access has sometimes made these goods less expensive to buy. Finally, the Internet boom has resulted in an increased globalization of labor markets, making it easier for employers and workers to match jobs with skills.

The impact of the Internet on the structure and the growth potential of the economy is difficult to assess due to the newly emerging nature of this technology. The Commerce Department has recently started tracking online retail sales and will start reporting the results next year. A recent study[4] estimates that the Internet economy generated more than $300 billion of revenue and employed about 1.2 million workers in 1998. The study also suggests that the growth of the Internet economy will decelerate as it expands but that the share of output

[4]The Internet Indicators. Center for Research in Electronic Commerce, University of Texas, 1998.

and employment in the Internet economy will continue to grow[5]. As already described, the Internet boom has been a part of the information and telecommunication advances which have helped to boost productivity growth.

FOREIGN SECTOR AND INTERNATIONAL CONSIDERATIONS

The U.S. trade deficit swelled to record levels in 1999, as gaps with China and Japan widened and oil prices surged from their lows in February 1999. The U.S. trade deficit has increased dramatically from 1.4 percent of GDP in the first quarter of 1994 to 4.3 percent in the third quarter of 1999. The causes of the widening deficit in recent years are threefold: much of the rest of the world has been in recession or growing more slowly than the U.S. economy, reducing export demand; domestic demand has been quite strong over the last few years, driving imports higher; and the appreciation of the dollar in 1997-98 made imports relatively cheap and exports relatively more expensive, thereby adversely affecting the trade deficit.

World Economy

In 1998, the Asian economies abruptly plunged into recession and, as a result, growth in the world economy also slowed down, with growth in Europe moderating and Latin America sliding into recession. In some cases, foreign currencies were devalued, particularly in Asia. These events had pronounced effects on the U.S. trade deficit. Export growth dipped and even declined for a couple of quarters as demand for exports fell. At the same time, with the appreciation of the dollar in 1997-98 making imports relatively cheaper, demand for imports increased.

Although export growth is picking up, imports continue to outpace exports. World economies are showing signs of reviving from their slump. The global recovery is beginning to stimulate demand for U.S. exports (see Figure 8). As an indication of revived economic growth worldwide, the growth rates in industrial production for the major trading partners of the U.S. — Japan, Mexico, and Canada are improving, although the improvement for Mexico is modest (see Figure 9). The 1997-98 downturn in Asia impacted economic growth among these economies by decreasing demand for their exports. As a result of improving economic conditions in Asia and Europe, foreign demand for U.S. goods and services is reviving. At the same time the dollar is weakening modestly, which will further encourage increased growth in U.S. exports.

[5]It should be noted that the study reflects combined investments in the Internet, Intranets and Extranets, which results in some overlap in employment.

Figure 8
Growth in World GDP and U.S. Exports

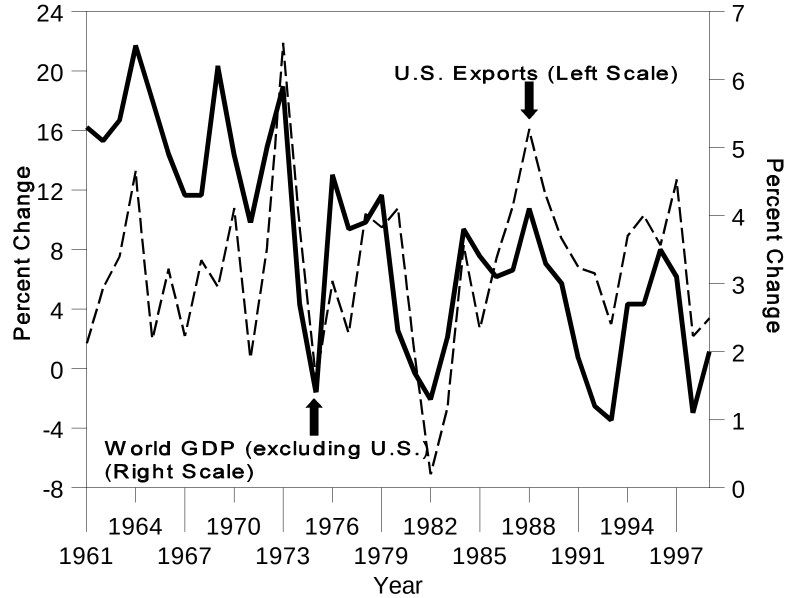
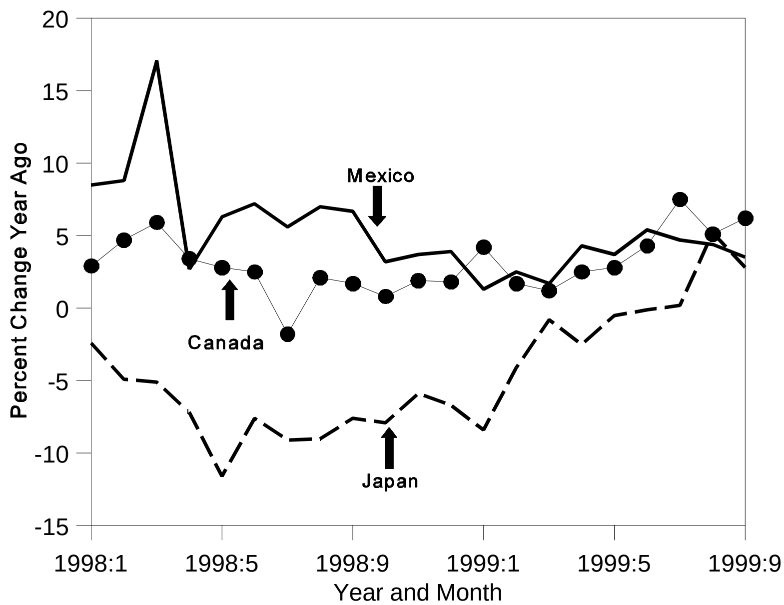


Figure 9
Industrial Production Indexes: Canada, Japan and Mexico



Strong Domestic Demand for Imports

While growth in exports is expected to accelerate, growth in imports is not expected to dampen in the near future, as consumers continue to have a voracious appetite for foreign products. The strong domestic demand for both business and consumer products has increased the demand for imports of these commodities. Figures 10 and 11 show the change in the composition of goods in U.S. imports from 1990 to 1998. The share of imports of industrial supplies and capital goods has increased, while the share of imports of food and beverages and other goods has declined. Led by the continued need to improve technology, the share of computers and peripherals has increased fourfold during the period 1990-98.

Figure 10
Distribution of U.S. Imports 1990

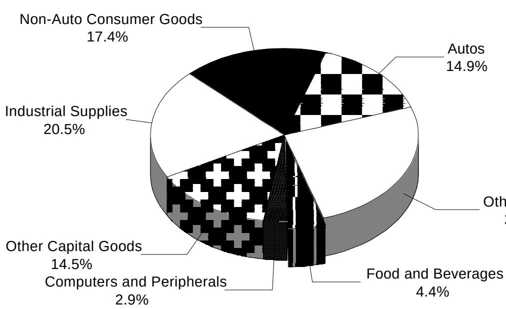
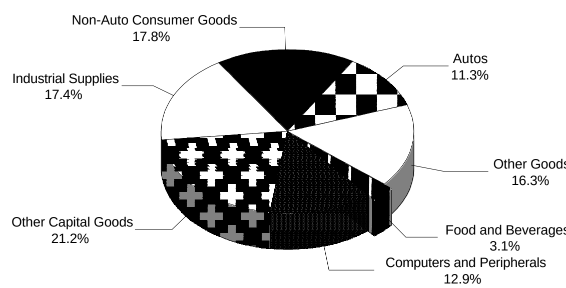


Figure 11
Distribution of U.S. Imports 1998

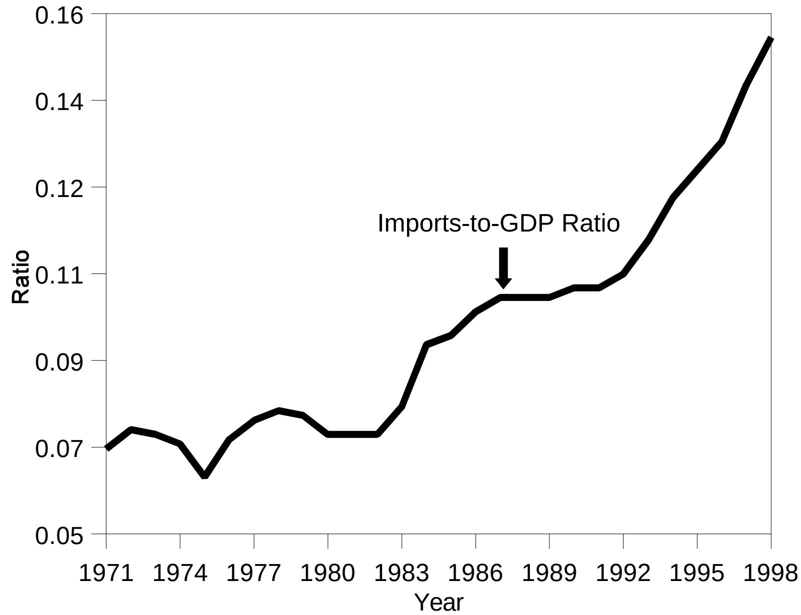


Capital spending on equipment and software is likely to continue to advance with the increasingly important role of the Internet and e-commerce in the economy. This could result in a near-term worsening of the trade deficit. However, over the longer term, the deficit should improve as domestic demand slows and the world economy improves and foreign demand for U.S. products increases.

Value of the Dollar

A strong dollar driven, in part, by high investor confidence in the U.S. economy has also contributed to the trade deficit in recent years. An increase in the inflow of foreign capital led to an increased demand for the dollar, thereby increasing its value relative to other currencies. A strong dollar makes imports relatively cheaper and therefore increases the demand for imports (and makes U.S. exports relatively more expensive). Figure 12 shows a sharp increase in the ratio of imports to GDP during the 1990's. While financing the current trade deficit will put some pressure on the dollar, a strong domestic economy and capital flows are likely to keep the dollar from depreciating significantly.

Figure 12
Imports to GDP Ratio



DOB ECONOMIC FORECAST FOR THE U.S. ECONOMY

Economic growth is expected to slow during 2000 and the inflation rate is projected to rise modestly. Accumulation of goods in the fourth quarter of 1999, because of the Year 2000 (Y2K) issue, will result in production growth slowing in the first quarter of 2000. DOB expects growth to revive for the remainder of 2000, resulting in 3.5 percent growth in real GDP for the year as a whole. This is modestly below 1999 growth in real GDP as well as below the average growth in output over the past three years. Much of the slowdown in 2000 is expected to be due to a decline in both inventory accumulation and residential investment. Consumption is also expected to slow to 3.8 percent from the very rapid 5.2 percent growth in 1999.

Nominal GDP is expected to grow by 5.1 percent as the GDP price deflator increases by 1.5 percent. Consumer prices, as measured by the CPI, are expected to grow at a 2.4 percent rate. Nonagricultural employment is projected to increase at a 1.7 percent rate. The tight labor market is expected to continue, with the unemployment rate projected to decline to 4.1 percent. Labor costs, as measured by the employment cost index, are expected to increase by 4 percent, a still modest growth rate for such a tight labor market. DOB expects two quarter-point increases in the Federal funds rate in 2000. This results in an average 5.9 percent Federal funds rate and a 30-year Treasury bond average yield of 6.5 percent. In addition, personal income and wages and salaries are expected to grow at 5.5 percent and 6.1 percent, respectively. Corporate profits are estimated to grow by 4.8 percent.

Table 2
Selected U.S. Economic Indicators

United States	1996	1997	1998	1999 (prelim.)	2000 (fcast)	2001 (fcast)	2002 (fcast)	2003 (fcast)
Gross Domestic Product (current dollars, percent change)	5.6	6.2	5.5	5.5	5.1	4.5	4.9	5.1
Gross Domestic Product (constant dollars, percent change)	3.7	4.5	4.3	4.0	3.5	2.9	2.9	2.8
Consumer Price Index (percent change)	2.9	2.3	1.6	2.2	2.4	2.5	2.8	2.9
Consumer Spending (constant dollars, percent change)	3.3	3.7	4.9	5.2	3.8	3.2	2.6	2.7
Investment, fixed (constant dollars, percent change)	9.3	8.5	11.8	8.6	5.7	2.1	3.7	5.6
Change in Inventories (Billions of Chained 1992 Dollars)	30.0	69.1	74.3	38.9	40.8	41.5	46.2	48.7
Exports (constant dollars, percent change)	8.3	12.7	2.2	3.4	6.7	7.5	8.3	8.2
Imports (constant dollars, percent change	8.6	13.7	11.6	11.8	8.5	5.3	5.7	8.1
Government Spending (constant dollars, percent change)	1.1	2.3	1.7	3.3	2.3	1.4	1.5	1.6
Corporate Profits								
Personal Income (percent change)	5.6	6.2	5.9	5.8	5.5	5.0	4.8	4.9
Wages (percent change)	5.9	7.2	7.6	6.9	6.1	5.7	5.0	5.1
Nonagricultural Employment (percent change)	2.1	2.6	2.6	2.2	1.7	1.5	1.2	1.3
Unemployment Rate (percent)	5.4	4.9	4.5	4.2	4.1	4.2	4.5	4.6
Standard and Poor's 500 Stock Price Index (percent change)	23.9	30.1	24.2	22.2	10.3	7.9	8.5	7.4
Treasury Bill Rate (3 month)	5.01	5.06	4.78	4.63	5.40	5.38	5.29	4.97
Treasury Bond Rate (30 year)	6.70	6.61	5.58	5.86	6.46	6.25	6.21	5.99

Source: U.S. Department of Commerce; NYS. Department of Labor; U.S. Bureau of Labor Statistics.

COMPARISON WITH OTHER FORECASTING GROUPS

The DOB forecast of 3.5 percent growth for real GDP for 2000 is modestly higher than the 3.2 percent forecast of the December Blue Chip Economic Consensus (an average of 50 private sector forecasts). The DOB forecast of inflation, as measured by the CPI, is 2.4 percent, which is slightly lower than the December Blue Chip Consensus of 2.5 percent. The July update of the economic forecast produced by the Congressional Budget Office (CBO) and the mid-year review by the Office of Management and Budget (OMB) project CPI growth to be 2.4 percent for 2000.

Table 3
U.S. Economic Forecast Comparison — 1999-2003

	1999 (prelim.)	2000 (forecast)	2001 (forecast)	2002 (forecast)	2003 (forecast)
Gross Domestic Product (GDP) (Constant dollars, percent change)					
DOB	4.0	3.5	2.9	2.9	2.8
Blue Chip Consensus	3.9	3.2	NA	NA	NA
Standard and Poor's DRI	4.0	3.6	3.1	2.8	3.0
WEFA	3.9	3.1	3.4	3.3	3.1
Consumer Price Index (CPI) (Percent change)					
DOB	2.2	2.4	2.5	2.8	2.9
Blue Chip Consensus	2.2	2.5	NA	NA	NA
Standard and Poor's DRI	2.2	2.3	2.1	2.5	2.7
WEFA	2.1	2.5	2.5	2.3	2.5
Congressional Budget Office (CBO)	2.2	2.5	2.5	2.5	2.5
Office of Management and Budget (OMB)	2.2	2.4	2.4	2.5	2.5
Unemployment Rate (percent change)					
DOB	4.2	4.1	4.2	4.5	4.6
Blue Chip Consensus	4.2	4.3	NA	NA	NA
Standard and Poor's DRI	4.2	4.0	4.2	4.5	4.5
WEFA	4.2	4.4	4.3	4.5	4.5
Congressional Budget Office (CBO)	4.2	4.3	4.6	4.9	5.1
Office of Management and Budget (OMB)	4.3	4.5	4.9	5.2	5.2

Source: NYS Division of the Budget; Blue Chip Economic Indicators, December 1999; Standard and Poor's DRI U.S. Forecast Summary, December 1999; WEFA Executive Summary, December 1999; Congressional Budget Office: The Economic and Budget Outlook: An Update, July 1999; Office of Management and Budget: Mid-Session Review, June 1999.

POTENTIAL RISKS

The DOB forecast is subject to certain risks, the most important of which can be summarized as: (a) inflation rising more markedly than expected, prompting further monetary tightening by the FRB; (b) stock market prices declining as a result of inflationary fears and higher interest rates; and (c) the dollar suffering more than anticipated as world economies recover. Expectations of higher inflation could lead the FRB to tighten its monetary policy more aggressively, thus slowing economic growth more sharply than anticipated. A significant correction in the stock market could result in slower growth in consumer spending than DOB now envisions. A decline in equity values could also adversely affect housing markets. Also, a greater-than-expected decline in inventories in the first quarter of 2000, as a result of the Y2K problem, may drag down economic growth estimates for the year.

Alternatively, if the recent productivity surge reflects a permanent trend change, and if the growth of real compensation per hour remains below productivity growth, the economy may be able to expand faster than expected in 2000 without a surge in inflation. Robust increases in consumption could continue if a high level of consumer confidence persists, accompanied by continued rapid growth in the value of financial assets.

History of Forecast Error in Blue Chip Consensus Forecasts

Any economic forecast is subject to errors due to continually changing economic and financial conditions. Table 4 reports the forecasting error in the Blue Chip Consensus for real GDP growth and the CPI for the period 1982-98. The forecasts are taken from the January Blue Chip Economic Consensus, which is a consensus of 50 economic forecasters. Forecasting error is computed as the difference between the forecast and the actual value. The current year forecast error is the difference between the January Blue Chip estimate and actual results for that year (e.g. the January 1982 forecast of 1982 real GDP and CPI). The prior year error is the error in predicting the current year 12 months before (e.g. the January 1982 forecast of 1983 real GDP and CPI).

Table 4
Blue Chip Consensus Forecast Error
for Real GDP and CPI: 1982-99

Year	Real GDP		CPI	
	Current Year Forecast Error [1/]	Prior Year Forecast Error [2/]	Current Year Forecast Error [1/]	Prior Year Forecast Error [2/]
1982	2.7	6.0	1.6	3.3
1983	-1.3	0.3	1.8	3.9
1984	-1.2	-2.1	0.6	0.9
1985	-0.4	0.5	1.6	2.3
1986	0.5	0.1	1.7	3.2
1987	-0.5	0.0	-0.5	0.6
1988	-2.0	-0.9	0.1	0.0
1989	0.3	-0.3	-0.1	-0.1
1990	0.6	0.6	-1.2	-0.7
1991	0.5	2.8	0.6	0.0
1992	-1.3	-0.4	0.3	1.0
1993	0.3	0.5	0.1	0.7
1994	-1.0	-0.8	0.2	1.0
1995	0.3	-0.1	0.5	0.5
1996	-1.5	-1.5	-0.1	0.7
1997	-2.2	-2.3	0.6	0.7
1998	-1.8	-2.2	0.6	1.4
1999	-1.6	-.7	-.2	0.4

Source: Blue Chip Economic Indicators; History from Standard and Poor's DRI
Forecast Error = Forecast Value - Actual Value
The actual values for the economic activity (GDP) for the period 1982-99 are taken from three different series in order to be consistent with forecasts done in a given year. Gross National Product (GNP) at 1982 constant prices is used for the period 1982-91. GDP at 1987 constant prices is used for the period 1992-95. From 1996 onwards, GDP at chained 1992 prices is used.

[1/] Current year forecast error is the difference between the forecast value for a given year that was reported in January of the same year and the actual value for the given year. For example, the forecast error for the year 1982 is 2.7 percent for the real GDP growth, the forecast for which was reported in January 1982.

[2/] Prior year forecast error is the difference between the forecast value for a given year that was reported in January of the previous year and the actual value for the given year, For example, the forecast error for the year 1982 is 6 percent for the real GDP growth, the forecast for which was reported in January 1981.

The expansion of the 1980's and the current expansion were generally under-predicted in each year. The underestimation of economic growth is more prominent in the last four years.

However, economic growth during recessions was over-predicted and by a significant magnitude. For example, the real GDP growth rate was over-predicted by 2.7 percent in the current year forecast for 1982. The over-prediction of economic growth during recessions indicates that economists are generally unable to predict the severity of economic downturns when they occur.

The forecasting errors for the CPI indicate that consumer prices have been over-predicted in most cases. This has been especially true in recent years. However, actual inflation for 1999 was slightly higher than predicted, probably due to the unexpected spike in oil prices.

In summary, economic forecasters tend to under-predict output growth during expansions and over-predict output growth in economic downturns. This is a variant on the theme that economic forecasters have great difficulty picking turning points in economic activity. For example, should the factors currently indicating slower growth become more pronounced than economists now project, an economic downturn would result which would not have been predicted by the majority of economists.

The Benchmark NIPA Revisions

The benchmark revisions to the GDP accounts alter the picture of the U.S. economy. The revisions to GDP support the "new paradigm" account of current growth addressed in this section. They suggest higher growth limits for the economy. The National Income and Product Accounts (NIPA) revisions to the GDP accounts indicate that both capital investment and productivity growth have been stronger than originally reported.

Change	Major Components Affected
Include business and government software expenditures as fixed investment	Private Fixed Investment Government Expenditure Corporate Profits
Include private noninsured pension plans in personal savings rather than government savings	Corporate Profits Components of Personal Income (dividend and interest income)
Reclassify government employee retirement plans	Components of Personal Income (dividend and interest income, transfer payments, other labor income)
Reduction in the amount of adjustments to interest receipts of "captive" finance companies	Components of Personal Income (interest income)
Improvement in the adjustment to nonfarm proprietor's income	Components of Personal Income (proprietor's income)
Treat estate and gift tax as capital transfers rather than current tax revenue	Personal Tax Payments Government Revenue and Saving
Change in computation of rental income from nonfarm nonresidential properties	Components of Personal Income (rental income)
Improved methodology for estimates of expenditures for new and used autos.	Consumption Spending Private Fixed Investment
Change in Private Inventories for construction	Inventories
Change in the methodology of estimation of Farm Proprietor's Income	Farm Proprietor's Income Corporate Profits

Average growth rates for the period 1995-98, before and after NIPA revisions, are shown below for selected economic indicators:

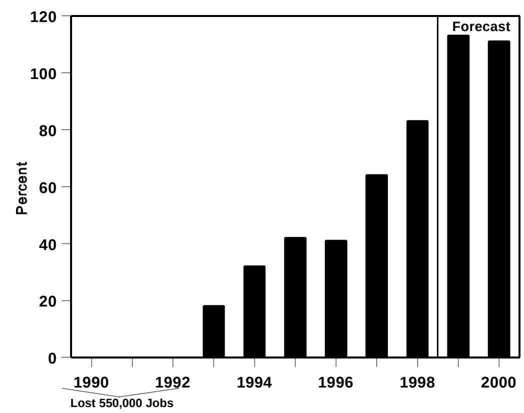
	Before Revisions	After Revisions
	(Percent Change)	
Gross Domestic Product (GDP) (Constant Dollars)	3.4	3.8

THE STATE

OVERVIEW

The New York economy in 1999 grew at a rapid pace, as it had in 1998[1]. After surpassing its pre-recession peak in 1998, employment grew by almost 2.3 percent in 1999 and the unemployment rate reached the lowest level in a decade. Relative to the nation, the growth rate of New York's private sector employment has continued to improve (see Figure 1).

Figure 1
Private Sector Employment
(N.Y. growth rate divided by U.S. rate)



While the booming financial and construction sectors played an important role in the continued expansion, the service sector, led by business services, accounts for a large portion of private employment growth. The decline in manufacturing employment continued. The combination of improved employment growth, a tight labor market, a surge in bonus payments at the end of the year, low inflation, a small increase in property income, and global competition supported a moderate 4.6 percent increase in personal income.

Paralleling the national trend, a moderate slowdown in New York economic growth is expected for 2000. Annual growth in private sector employment in 2000 is projected to be 1.8 percent, down from 2.6 percent in 1999. Led by business services, the service sector will continue to be the major contributor to employment growth in 2000. Construction sector employment growth will continue, but at a slower pace, partly due to weaker demand caused by interest rate increases and by the moderation of growth in other sectors of the economy. The employment gain in the financial sector is expected to be minimal as the consolidation in the banking services industry continues. The export-oriented manufacturing sector is expected to shed fewer jobs than in 1999, partly due to the continued recovery of many Asian economies. Personal income growth is expected to be 5.3 percent, stronger than in 1999, and, relative to 1999, bonuses and property income are expected to be two prominent contributors to personal income growth.

ECONOMIC SECTORS

New York State has a diverse economy, driven by financial and business services, tourism, and manufacturing. Besides being a financial center, New York City is also an international center for fashion and apparel, and publishing. The downstate region also has large information and media industries, as well as a concentration of computer hardware and software production and media services. High concentrations of manufacturing industries for transportation equipment, optics and imaging, materials processing, and refrigeration, heating, and electrical

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[1] The estimates for 1999 are based on anticipated revisions of employment data. Actual revisions may differ substantially from current expectations.

equipment products are located in the upstate region. In recent years, many of these sectors have been prospering.

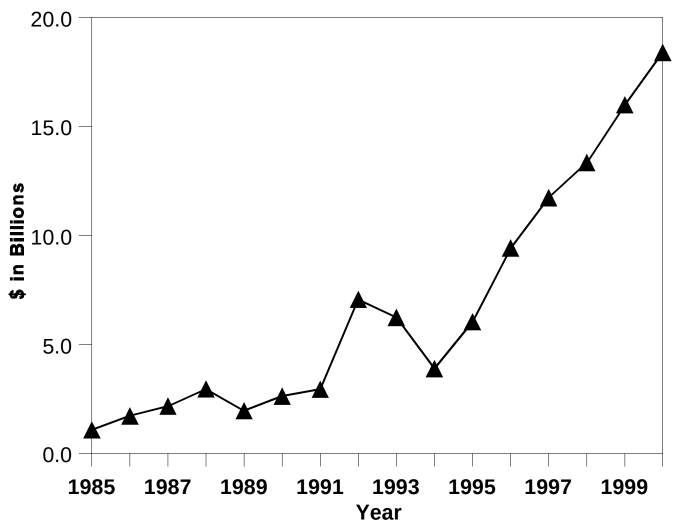
Wall Street

The securities industry — always a prominent force in the State economy since the New York Stock Exchange was established — has increased in importance over the past several decades (see Figure 2). During the current expansion, the securities industry has been a major source of corporate earnings and growth in wages paid as bonuses. In addition, the industry is an important source of revenue for governments and a wide range of businesses. For example, publishing, accounting, legal and business-services companies supply key inputs to securities firms, and the high corporate earnings produced by the securities industry are important in fueling other sectors' activities, especially real estate and construction, retail sales, restaurants, and entertainment industries. The employment impact is also considerable. The U.S. Department of Commerce has estimated that each job in New York City's securities industry generates about two additional City jobs[2]. According to this estimate, about 14 percent of total employment in New York City is related to the securities industry.

[2]Data on Wall Street - related employment are from the U.S. Department of Commerce's Regional Input-Output Modeling System.

Figure 2
Securities Industry

Figure 3
Securities Industry Bonuses



Securities industry profits set a record in 1999[3]. Nearly all facets of the industry performed extremely well in 1999 compared to 1998 when several industry segments suffered from the financial collapse in Asia and Russia. For example, initial public offerings are up 50 percent from 1998 to $36.5 billion in total volume and the merger-and-acquisition business topped $2.1 trillion in worldwide deals (as of the end of September), versus $1.9 trillion during 1998, an 11 percent increase.

Bonuses in the securities industry (see Figure 3) account for approximately 50 percent of total bonuses paid in the State in recent years. Bonus growth has a significant impact on State revenues, since bonus income tends to be taxed at the top income tax rates. With the securities industry enjoying record corporate earnings in 1999, the securities industry bonuses at the end of 1999 and at the beginning of 2000 are expected to set a record, perhaps as high as 25 percent above a year ago.[4] According to some sources, at least 2,000 people on Wall Street will earn $1 million or more, up from just over 1,000 last year, and as many as 75 executives will make more than $10 million, quadruple the number who earned this amount last year. Many Wall Street analysts, except those professionals working in a few areas such as bonds and foreign exchanges, may have significant increases in their bonus payments at the end of 1999 and the beginning of 2000.

Given the importance of income and employment in the securities industry for the New York economy, one would expect a downturn, or even a slowdown in the industry, to have a significant negative effect on the State economy, although the consequences for the State economy could be mitigated or exacerbated by the performance of other sectors of the State economy.

Manufacturing

The manufacturing share of employment has been declining continuously over the post-World War II period. This has been due in part to increasing global competition, rising productivity, and most importantly, a profound change in the industry structure in the State and national economies. Although employment in the manufacturing sector as a whole has been declining, some industries in this sector, such as the printing and electronic industries, actually grew in 1999.

New York's manufacturing sector today, although smaller than in the past, is more competitive than a decade ago. In addition, manufacturing remains an important sector of the economy, particularly for the upstate economy, accounting for a significant share of employment and wage income.

The State economy in general and the manufacturing sector in particular has changed over time to take comparative advantage of the highly educated, highly skilled labor force in the State. This is a primary reason for the significant growth in high-tech industries in New York in the past decade. As workers move into the fast-growing sectors, such as high-technology, the traditional manufacturing sector shrinks. In addition, traditional manufacturers have been forced to adopt new technologies to remain competitive. This has led to a shift

[3]The Securities Industry Association estimated that securities profits reached $13.2 billion in 1999.

[4]The potential error for the forecasts of bonuses is large. The historical growth rate of bonuses has been very volatile. Economic variables, including national ones, that might typically be used to explain bonus growth fail to explain much of the volatility. Econometric simulation studies by DOB demonstrate that the likely value of bonuses over the forecast period could differ significantly from our point estimate.

out of old-line manufacturing jobs to new high-technology manufacturing jobs or into other segments of the economy. This transition, from a traditional manufacturing base to a more technologically-intensive form of manufacturing, will benefit both the State economy and the manufacturing sector in the long run, as companies take advantage of the highly skilled New York workforce.

With strong growth in U.S. consumption, accelerating growth in most European countries, and a return to growth in most Asian countries, export-oriented manufacturing industries of New York are expected to shed fewer jobs in 2000 than in 1999, and consequently the decline in manufacturing employment will be mild relative to the nation.

Construction

Construction employment has surged during the last two years, with the highest employment growth rate among all of the major economic sectors. This is the result of strong demand for office buildings, warehouses, schools, and non-building construction. With the continued economic expansion, demand for construction has been strong. The real estate market has become very tight in New York City, causing rental prices to rise significantly for both commercial and residential properties. For example, the asking rental price for commercial space on the West Side of Manhattan increased from $20.5 per square foot in September 1998 to $25.3 per square foot in September 1999, a 23 percent increase. The per-square-foot cost for Class A space in Manhattan increased by an average of 8 percent from a year ago (as of August 1999). In addition, many regions of the State reported record home sales despite an increase in mortgage interest rates during 1999. According to an analysis by the Federal Reserve Bank of New York, a distinctive feature of this construction boom which differs from previous real estate expansions is that builders have engaged in fewer speculative projects.[5] Thus, in the event of an economic slowdown, there is less chance that an oversupply of office space and residential properties will exacerbate the economic downturn. However, despite this overall positive outlook, the moderate slowdown in economic growth, along with the interest rate increases expected in 2000, should make the growth in the construction employment distinctly slower than in the previous two years.

High-Technology and Services

The high-technology and service industries have emerged as important engines of economic growth in New York. The ongoing revolution in communications technology is a major component of the high-technology revolution.

The Internet, along with the ancillary software and hardware products and services necessary to operate on the Internet, has spawned many new companies in the State. Demand for information technology consultants, web-page designers, e-commerce experts, and software engineers is fueling job gains in business services, which, along with the strong demand for traditional business services, have made business services one of the fastest growing sectors in the State. The average growth rate of employment in business services in the past four years has been 6.9 percent, more than three times higher than the average growth rate of total employment.

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[5]See Jason Bram and James Orr. "Can New York City Bank on Wall Street?" Federal Reserve Bank of New York *Current Issues in Economics and Finance, Second District Highlights 5*, No. 11 (July 1999.)

The high-technology revolution is also increasing the demand for new medical products and pharmaceuticals. Although specific data on growth in this area are not available, many observers have commented on the growing importance of this industry. The major pharmaceutical companies and small biotech start-ups alike are expanding their research and production facilities to meet the rising health demands of an aging population and to exploit continued advances in medical science.

The fast-growing industries mentioned above, as well as motion picture, new-media, health care, and private education firms, are largely economically independent of the financial services industry. The rising importance of these industries can help mitigate the impact of a decline in Wall Street employment and earnings. As a result, the overall economy may be in better shape to weather a reversal on Wall Street than in the past. The Federal Reserve Bank of New York has emphasized this point in recent reports.[6]

PERFORMANCE OF STATE ECONOMY

The State economy in 1999 is estimated to have grown at a rate far in excess of historical averages. The accompanying table compares employment, real wages, and real average wage growth for 1999 with the 23 year period of 1975 to 1998.

Employment growth, estimated at 2.3 percent for 1999, far exceeds the historical average annual growth rate for employment of 0.8 percent. This improvement is true for all major industry classifications except manufacturing. The same story holds for real wages: the 1999 growth rate of 3.5 percent is substantially above the 1.5 percent historical rate. For real average wages, the growth rate in 1999 is 1.2 percent versus the average of 0.7 percent for the past 23 years.

[6]See James Orr and Rae Rosen, "New York-New Jersey Region's Job Growth to Continue in 1999, but Risks Have Risen." Federal Reserve Bank of New York *Current Issues in Economics and Finance, Second District Highlights 4*, No. 14 (December 1998); Jason Bram and James Orr, "Can New York City Bank on Wall Street?" Federal Reserve Bank of New York *Current Issues in Economics and Finance, Second District Highlights 5.* No. 11 (July 1999).

Table 5
Employment, Real Wages and Real Average Wages**

1975 to 1998

	EMPLOYMENT		REAL WAGE		REAL AVERAGE WAGE	
	Level (thous.) 1998	Average Growth Rate (%) 1975-98	Level (billions) 1998	Average Growth Rate (%) 1975-98	Level (thous.) 1998	Average Growth Rate(%) 1975-98
Construction	$283.5	1.3	$7.0	1.0	$24.5	-0.3
Manufacturing	913.4	-1.9	25.9	-1.1	28.3	0.8
Trans., Comm., and Utilities	413.6	-0.2	11.5	0.0	27.8	0.2
Trade	1662.8	0.7	27.2	0.5	16.3	-0.3
FIRE*	736.0	1.1	41.1	4.9	55.9	3.8
Service	2801.8	2.9	58.8	3.2	21.0	0.3
Government	1422.2	0.3	32.9	0.5	23.2	0.2
Total***	8237.8	0.8	206.1	1.5	25.0	0.7

1999

	EMPLOYMENT		REAL WAGE		REAL AVERAGE WAGE	
	Level (thous.)	Growth Rate (%)	Level (billions)	Growth Rate (%)	Level (thous.)	Growth Rate(%)
Construction	$304.6	7.4	$7.6	9.3	$25.0	1.8
Manufacturing	894.8	-2.0	25.8	-0.2	28.9	1.9
Trans., Comm., and Utilities	417.7	1.0	11.7	2.1	28.0	1.1
Trade	1697.0	2.1	28.4	4.6	16.7	2.5
FIRE*	751.8	2.1	44.8	8.9	59.6	6.7
Service	2921.9	4.3	62.1	5.4	21.2	1.1
Government	1433.1	0.8	33.3	1.2	23.3	0.5
Total***	8425.3	2.3	213.3	3.5	25.3	1.2

* FIRE: Finance, Insurance, and Real Estate.
** U.S. CPI (1982 - 1984 = 100) is used as the deflator to obtain real wages and real average wages.
*** Wages of the mining and agriculture sectors are included in total real wages. Mining employment is included in total employment.

BONUSES

Bonus payments are becoming an increasingly widespread form of employee compensation for U.S. businesses. More and more companies, both large and small, are offering bonus plans to their employees. Bonuses are also growing as a proportion of total wages and salaries. Bonus payments exhibit a very different growth pattern from non-bonus wages. Bonus payments can be very volatile, while non-bonus wages are more closely related to changes in total employment. While non-bonus wages tend to exhibit smooth growth, bonus payments can vary from zero to billions of dollars.

The estimate of bonus payments is very important in the forecast of the State's personal income tax (see personal income tax in explanation of receipts section). Bonuses are a growing share of total wages. They tend to be concentrated among high-income taxpayers and, as a result, are taxed at the top income tax rate. Further, the timing of bonus pay-outs affects the pattern of wage payments and consequently the State's cash flow. Tax collections from wages usually peak during December, January, and February, corresponding to the timing of bonus pay-outs.

Official data on bonus payments does not exist, but the bonus component of total State wages can be estimated based on wage data available from the New York State Department of Labor. Fundamentally, growth in total wages is determined by the growth in total employment and hours worked as well as growth in the average wage per worker. Total wages display a definite seasonal pattern, caused by both the seasonal change of employment and the seasonal payment of bonuses. Seasonality due to periodic changes in employment can be eliminated by focusing on the average wage per worker, rather than on total wages.

It then remains to distinguish the bonus component from the non-bonus component of the average wage per worker. To accomplish this, it is assumed that the growth of the non-bonus component of the average wage follows a linear trend over the course of the year. Since most bonus payments are made during the fourth and first quarters of the calendar year, the average wage for either the second or third quarter can be used as an estimate for the average non-bonus quarterly wage.[7] The deviations from the average non-bonus wages found in fourth and first quarters can be interpreted as average bonus payments for the corresponding quarters.

Total bonuses are then calculated as the product of the average bonus per worker and total employment. Using this methodology, bonus estimates were developed for 1999 and 2000. New York private sector bonuses for the 1999-2000 State fiscal year are estimated to total $29.1 billion, representing growth of 14 percent over the 1998-99 total of $25.5 billion.

While aggregate bonus payments fluctuate over time, the overall level has increased substantially in recent years. Bonus payments account for an estimated 7.5 percent of total wage earnings in New York in 1999 and 7.9 percent in 2000.

Bonuses as a percentage of total wages vary from industry to industry. The share of bonuses for the FIRE sector reached 25 percent of total wages for the sector in 1998. Security industry bonuses, a subset of FIRE wages, represented 40 percent of wages paid to employees. In contrast, for the transportation, communication and utility sector, bonus payments are negligible. In the aggregate, for 1998, the average wage for the State economy was $40,694, of which 7.8 percent was accounted for by bonus payments.

For the State fiscal year 1999-2000, total bonus payments are expected to increase by 14 percent. Overall bonuses are expected to increase by 8.9 percent in the fiscal year 2000-01. The following table provides detailed forecasts for the major sectors.

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[7]There is a tendency for this method to underestimate bonus payments, since some firms pay bonuses during the second and third quarters.

Table 6
Bonus Forecast
(percent change)

Sector	1999-2000	2000-01
Construction	8.0	8.0
Manufacturing	-3.8	5.0
Trade	7.0	7.0
Services	3.7	7.0
FIRE	21.8	10.0
Total	14.0	8.9

The FIRE sector, led by securities firms, will continue to be the leading contributor to bonus growth, with an estimated 21.8 percent increase for the 1999-2000 fiscal year and 10 percent growth for the 2000-01 fiscal year. For the government and transportation, communication, and utility sectors, bonus payments do not account for a significant fraction of wages. For all other sectors, bonus growth is expected to grow much slower than for bonuses in the FIRE sector.

Construction of Wage Series

To improve the link between economic and tax variables on a quarterly basis, DOB constructs its own wage series from the available primary data sources. This series differs from the one published by the U.S. Bureau of Economic Analysis (BEA).

DOB uses only actual or estimated New York wage data for the construction of the series. BEA, in contrast, uses national information to adjust the quarterly values determined from the New York wage data. Often, the consequence is a significant difference in the quarterly pattern and in the percent-change-year-ago growth rate between the two series. (For example, for the first quarter of 1999, see footnote ** at the bottom of this page.) These methods result in the annual growth rates shown below.

Wages
(Percent Change)

	1996	1997	1998	1999
DOB*	6.0	6.0	7.7	5.8
BEA	5.9	6.1	6.9	7.5**

* In most cases, this series is used to analyze and forecast personal income tax collections and liabilities.

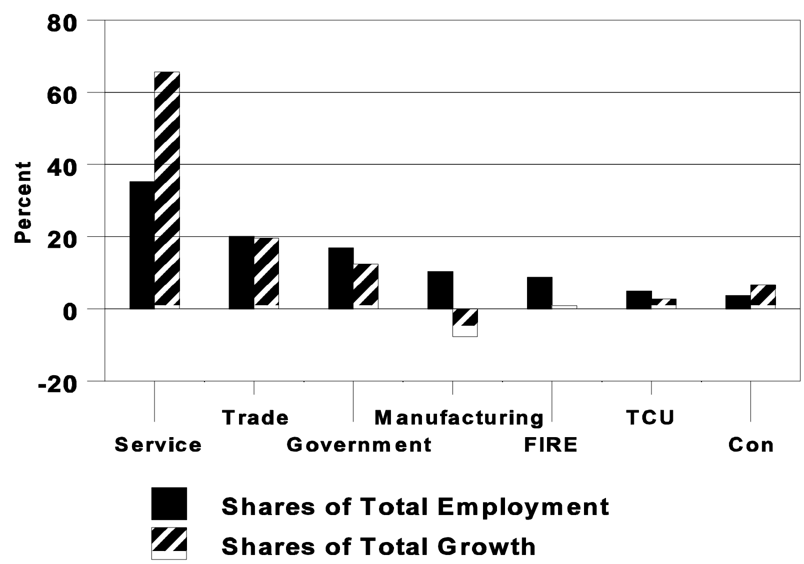
** Based on published BEA numbers for the first two quarters of 1999 and the assumption that wages grew at an annual rate of 5 percent for the last two quarters. However, according to the Federal Unemployment Insurance Program wage data, the wage growth for the first quarter of 1999, on a percent-change-year-ago basis, was 4.3 percent, while the comparable growth rate published by BEA was 8.9 percent. Therefore, the BEA-based 7.5 percent estimate in the table is likely to be revised downward when the data for all of 1999 becomes available.

OUTLOOK

Employment

The New York economy is expected to continue to grow in 2000, although, following national trends, at a more moderate rate than in 1999. The deceleration in overall economic growth will, in turn, slow construction growth from the robust rates achieved in 1999. Also, employment growth in the financial sector will slow. This is due, in part, to continued mergers in the banking sector. Employment in the government sector should grow at an increased rate, partly resulting from the one-time increase in Federal government employment for census workers. Manufacturing employment should continue to decline at a slower rate, with improved export demand partly offset by weakening domestic demand. The service sector will not only continue to remain the largest contributor to employment growth but will also increase its share of total growth, a pattern that is typical of periods when overall employment growth slows in the State (see Figure 4).

Figure 4
Employment (2000)



Note: TCU=Transportation, Communication & Utilities;
FIRE=Finance, Insurance & Real Estate; Con=Construction.

On an average annual basis, private-sector employment is expected to climb about 1.8 percent in 2000, while total employment will grow about 1.7 percent or approximately 145,000 jobs, a rate not quite as robust as for the past two years, but higher than for the other years of the current expansion. The unemployment rate will hover around 5.1 percent, the same rate as in 1999. The performance of the State's private employment growth rate relative to the nation has been improving during the last four years and job growth may have surpassed the nation in 1999, according to preliminary estimates of employment data. This improved performance relative to the nation is expected to persist in 2000. The following table reports the change in employment by sector.

Table 7
Change in Employment
(thousands)

	1996	1997	1998	1999 (prelim)	2000 (fcast)	2001 (fcast)	2002 (fcast)	2003 (fcast)
Construction	3.1	10.5	18.6	21.0	9.7	6.1	4.6	5.8
Manufacturing	-17.3	- 3.6	- 7.3	- 18.6	-11.3	- 6.7	-10.0	-11.5
Trans., Com., Uti.	1.6	4.1	5.9	4.1	3.9	4.6	5.1	4.1
Trade	8.5	20.7	21.7	34.2	28.5	17.2	10.2	6.2
FIRE	-6.0	4.3	13.8	15.8	1.3	3.7	4.7	0.4
Services	72.7	87.1	102.0	120.1	95.5	91.1	82.2	76.3
Government	-15.8	6.2	15.4	10.9	18.0	- 2.2	2.0	5.9

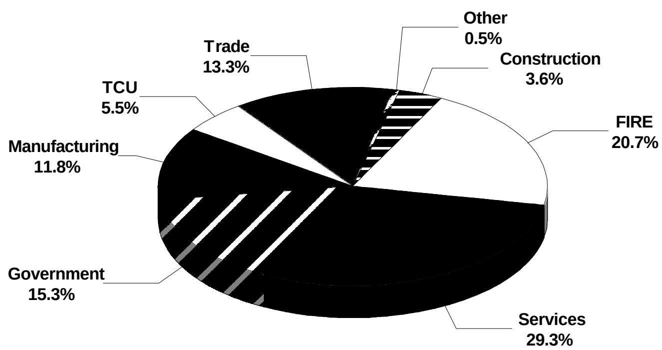
As the table shows, the services sector has consistently been the most important contributor to the employment growth in recent years, while the trade sector has been next in prominence. This pattern continues in the forecast period. The construction sector, although small, performed extremely well during the past two years, driven by strong demand in all major construction markets. The forecast for the construction sector calls for more modest growth over the forecast period. The employment changes in manufacturing and the transportation, communication, and utility sectors have been stable and this pattern is expected to continue. Employment growth in the FIRE sector will be weaker than in the past two years.

Income

A relatively low inflation rate and the general economic slowdown during 2000 should combine to keep growth in average wages modest at 4.4 percent, similar to the projected growth in national average wages. FIRE bonuses should increase 13 percent in 2000, in large part due to a continuation of a high level of profits in the securities industry. This will contribute to an 11 percent increase in total bonus payments for 2000. Growth in overall wages is expected to be 6.2 percent, 0.4 percentage points higher than in 1999 (see Figures 5 and 6).

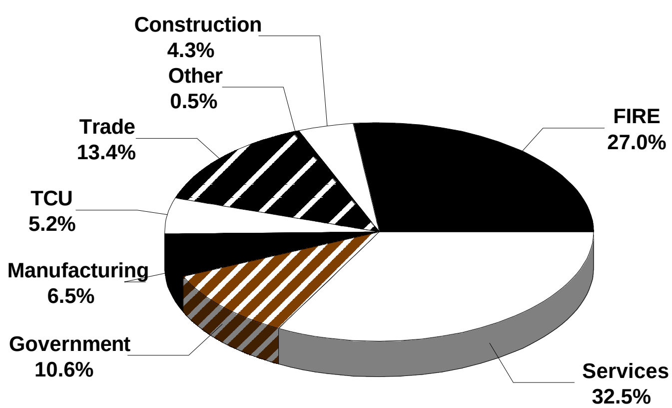
Non-wage income is expected to increase by 4.0 percent, with property income rising at a rate of 4.6 percent, an improvement over 1999. This is due mostly to an increase in interest income, which is the major component of property income. Total personal income is expected to increase by 5.3 percent.

Figure 5
Share of Wages (2000)



Note: TCU=Transportation, Communication & Utilities;
FIRE=Finance, Insurance & Real Estate.

Figure 6
Share of Wage Growth (2000)



Note: TCU=Transportation, Communication & Utilities;
FIRE= Finance, Insurance & Real Estate.

RISKS

In addition to the uncertainties described earlier for the U.S. economy, the forecast contains risks specific to New York. A major uncertainty is the possibility that average wages could grow faster or slower than forecast. Growth in average wages will be affected by the region's labor market conditions and the local inflation rate relative to the nation. It will also depend on the degree of profitability of firms that typically make large bonus payments and the timing of those payments. The securities industry is more important to the New York economy than to the national economy. Therefore, a large change in the performance of the securities market during the forecast horizon could result in wage and unemployment levels that are significantly different from those embodied in the forecast. Merging, downsizing, and relocation by firms, as a consequence of deregulation or continued severe foreign competition, combined with tight labor and real estate markets, may have more significant adverse effects on employment than expected.

Table 8
Selected Economic Indicators
(Calendar year, percent change)

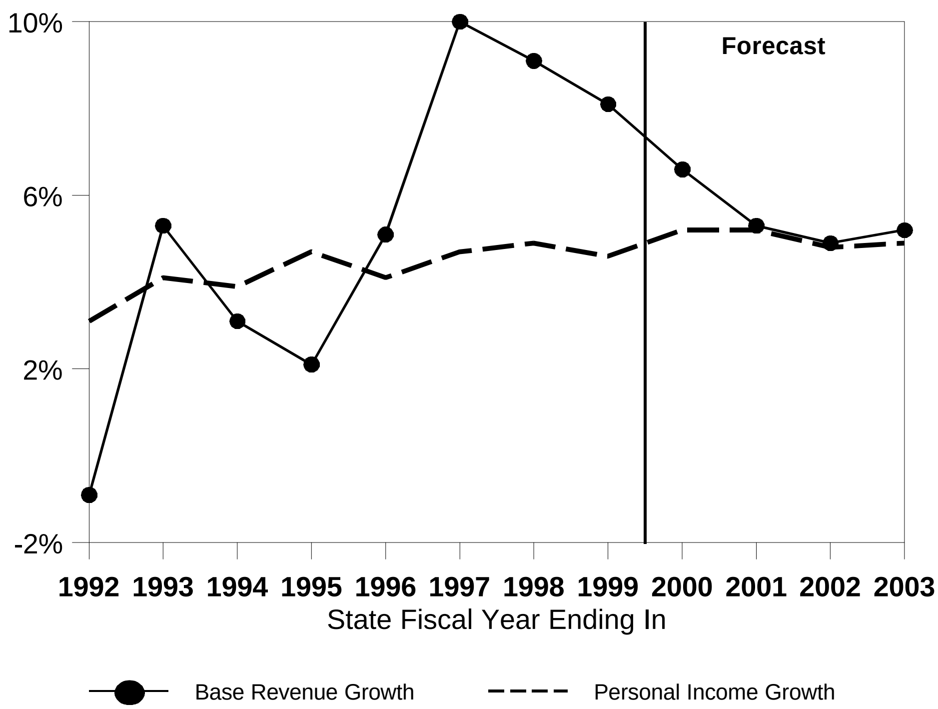
	1996	1997	1998	1999 (prelim.)	2000 (fcast)	2001 (fcast)	2002 (fcast)	2003 (fcast)
New York State								
Personal Income [1/]	5.2	4.2	5.3	4.6	5.3	4.9	4.9	4.9
Wages & Salaries [1/]								
Total [3/]	6.0	6.0	7.7	5.8	6.2	5.7	5.3	5.2
Without Bonus	4.0	5.5	7.2	6.0	5.9	5.3	5.0	4.9
Wage Per Employee [1/]	5.3	4.3	5.5	3.4	4.4	4.3	4.1	4.2
Property Income	6.8	3.2	1.5	2.4	4.6	3.7	3.6	3.3
Nonfarm Proprietors' Income	4.9	4.5	5.3	7.5	4.4	3.7	4.9	5.5
Transfer Income	5.8	2.1	2.7	3.3	4.1	4.6	5.2	5.4
Nonfarm Employment [4/, 5/]								
Total	0.6	1.6	2.1	2.3	1.7	1.3	1.1	1.0
Private	1.0	1.9	2.3	2.6	1.8	1.6	1.3	1.1
Unemployment Rate (%)	6.2	6.4	5.6	5.1	5.1	5.1	5.1	5.0
Personal Income Deflator [2/]	2.6	2.2	1.4	1.7	1.8	1.9	2.5	2.6
Sectoral Employment: [4/, 5/]								
Construction	1.3	4.1	7.0	7.4	3.2	1.9	1.4	1.8
Manufacturing	-1.8	-0.4	-0.8	-2.0	-1.3	-0.8	-1.1	-1.3
Trans., Comm., Utilities	0.4	1.0	1.4	1.0	0.9	1.1	1.2	1.0
Trade	0.5	1.3	1.3	2.1	1.7	1.0	0.6	0.4
Finance, Ins., & Real Estate	-0.8	0.6	1.9	2.1	0.2	0.5	0.6	0.0
Services	2.9	3.3	3.8	4.3	3.3	3.0	2.6	2.4
Government	-1.1	0.4	1.1	0.8	1.3	-0.2	0.1	0.4

[1/] New York historical wage and personal income numbers differ from the method used by the Bureau of Economic Analysis. For details, see section on Construction of Wage Series.
[2/] Series created by the Division of the Budget.
[3/] Bonus payments kept in quarters of actual payment.
[4/] Starting with the third quarter of 1998, historical and forecasted non-agricultural employment numbers reflect adjustments based on employment data provided by the Unemployment Insurance Program (202 data) for the third and fourth quarters of 1998.
[5/] 1999 estimates may be revised for New York when new data are available.
Sources: U.S. Department of Commerce, Bureau of Economic Analysis; NYS Department of Labor. Table reflects published National Income and Product Account data through November 1999, employment data through November 1999, and certain adjustments to New York data by the State Division of the Budget.

SOURCES OF VOLATILITY IN INCOME TAX ESTIMATES — A RISK ASSESSMENT

Personal income growth was aligned fairly closely with underlying revenue growth until fiscal year 1994-95, as the accompanying chart illustrates. Underlying revenue growth or base revenue is constructed by removing the impact of tax law and administrative changes on revenues. However, starting in fiscal year 1995-96, growth in base revenues was almost twice the rate of personal income growth through fiscal year 1998-99. The rapid increase in revenues during this episode is almost entirely due to the unprecedented increases in personal income tax receipts over this period. This section describes the major factors causing this growth and the risks associated with projecting continued atypical growth in these special factors.

Base Revenue and Personal Income Growth
(Percent Change)



The rapid growth in base income tax revenues relative to income is, in significant measure, due to the unprecedented growth in equity markets over this period, as exemplified by the increases in the stock indexes, such as the Wilshire 5000, the NASDAQ composite, and Standard and Poor's 500. In fact, the four consecutive years (1996 through 1999) of 20 percent plus gains for these three indexes are unprecedented. The NASDAQ grew at a record rate in 1999, increasing by almost 86 percent. The Standard and Poor's 500 growth rate for 1999 was the third fastest annual rate on record.

The rapid appreciation in the value of stocks, coupled with recent changes in the Federal tax treatment of capital gains, has led to a striking increase in capital gains realizations as reported on New York tax returns. For example, realizations increased by 60 percent and 40 percent in 1996 and 1997, respectively. As a result, the share of adjusted gross income accounted for by capital gains has grown dramatically in recent years, increasing from 4.4 percent in 1995 to an estimated 9.6 percent in 1998 and 11.0 percent in 1999.

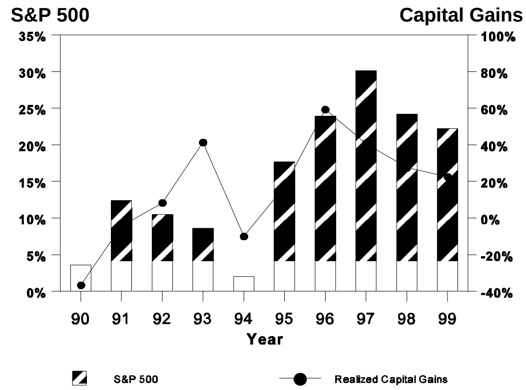
The large increases in capital gains realizations have had a dramatic impact on personal income tax liability. Liability growth has increased by 52.3 percent over the past 5 years, after correcting for tax law changes. That represents average liability growth of 10.5 percent. These changes are illustrated in the accompanying charts.

Over the financial plan forecast period, we expect a return to more normal rates of growth in the income components that are subject to financial sector forces. The result is an expectation that income tax revenues will continue to increase, but at a slower rate — more in line with historical norms.

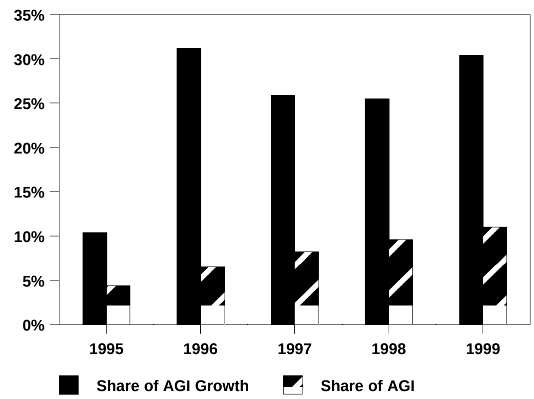
Historical growth in capital gains realizations reported on tax returns has been extremely volatile as the accompanying chart indicates, and, in the past, the rapid increases, such as the ones experienced recently, were followed by periods of no growth or decline. The factors that lead to large swings in gains realizations on tax returns are not understood with great precision, although several variables are clearly important:

— the effective Federal, State and local marginal tax rate on gains realizations;

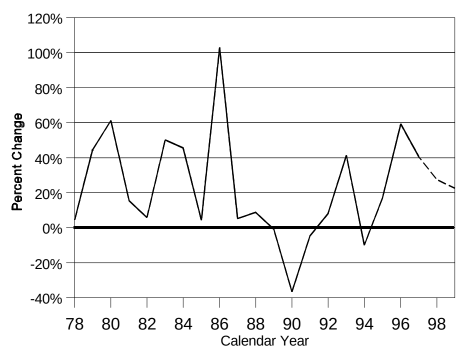
S & P 500 and Capital Gains
(Percent Change)



Capital Gains as Share of AGI



Realized Capital Gains:
NY Tax Returns



— the value of corporate equities;
— the value of household property subject to capital gains taxation;
— the overall performance of the economy; and
— the profitability of private sector companies.

Division of the Budget staff have constructed several alternative econometric models of capital gains realization behavior which employ these factors to help explain the volatility in reported realizations. Extensive simulation studies have been conducted to study the sensitivity of model results to small disturbances in the economy or the structure of the models. These studies employ a method termed "Monte Carlo" simulation to replicate model results thousands of times by introducing random errors to the equations and the parameter estimates of the estimated equations. These errors simulate the behavior of the real economy where random shocks or events lead to a divergence between actual and predicted outcomes. By examining the results from these experiments, measures of uncertainty can be developed which allow an assessment of the risk associated with a given forecast.

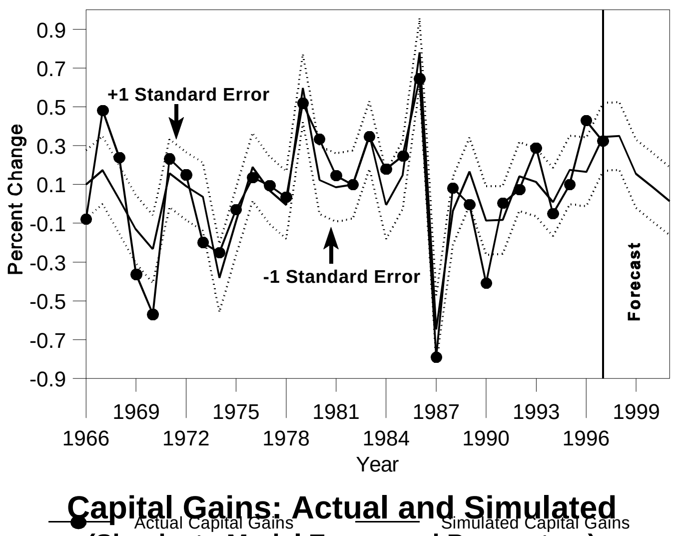
These studies show that the normal variation around the predicted value for capital gains in any period can be substantial. Normal variation is measured by the standard deviation around the predicted value. An example of this analysis is summarized in the following table and illustrated in the accompanying charts.

Table 9
Simulation Results for Capital Gains Model[1]
(Percent)

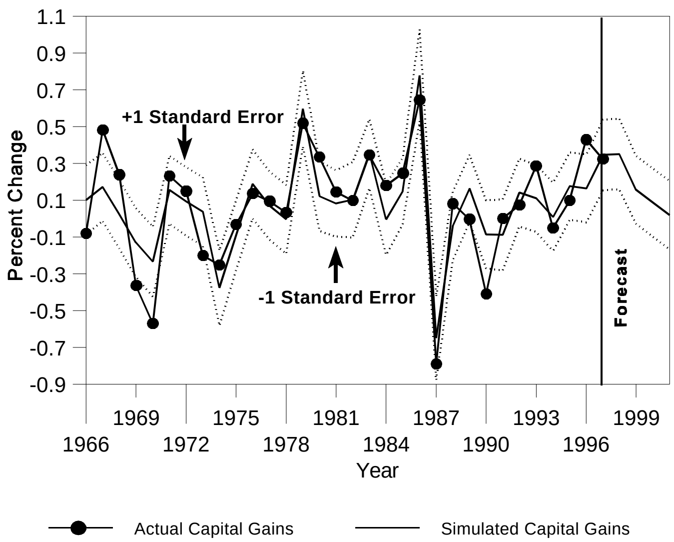
Year	Actual Growth	Model Errors: Mean Predicted Growth	Model Errors: One Standard Error Around Predicted Growth	Model Errors plus Parameter Estimate Errors: Mean Predicted Growth	Model Errors plus Parameter Estimate Errors: One Standard Error Around Predicted Growth
1965	36.4	-9.8	19.5	-9.8	20.4
1966	-7.5	10.1	17.6	10.3	18.8
1967	62.0	17.5	17.5	17.4	18.4
1968	27.1	2.4	17.6	2.6	18.7
1969	-30.4	-13.0	17.6	-12.9	18.6
1970	-43.4	-23.3	17.5	-23.3	18.9
1971	26.2	15.8	17.5	15.7	18.4
1972	16.2	9.2	17.6	9.4	18.6
1973	-18.0	3.8	17.6	4.0	18.6
1974	-22.2	-38.2	17.6	-37.7	20.4
1975	-2.9	-9.0	17.4	-9.1	19.0
1976	14.7	19.6	17.6	18.8	18.8
1977	10.1	7.0	17.4	7.1	18.5
1978	3.5	-0.5	17.4	-0.3	18.6
1979	68.1	59.7	17.6	59.8	20.6
1980	39.7	12.3	17.5	12.3	19.0
1981	15.7	8.5	17.6	8.3	18.1
1982	10.4	10.0	17.5	10.4	20.6
1983	41.6	35.4	17.5	35.4	18.7
1984	19.7	-0.5	17.5	-0.3	19.4
1985	28.0	15.1	17.5	15.1	18.0
1986	90.7	78.1	17.6	77.9	24.9
1987	-54.6	-64.7	17.5	-65.0	22.6
1988	8.5	-0.4	17.6	-3.8	18.6
1989	-0.3	16.6	17.5	16.5	18.2
1990	-33.5	-8.5	17.5	-8.6	18.5
1991	0.3	-8.2	17.6	-8.7	19.2
1992	7.7	14.1	17.7	14.2	18.4
1993	33.5	11.2	17.5	11.0	18.2
1994	-4.8	1.0	17.6	1.0	18.5
1995	10.4	17.5	17.6	17.6	18.3
1996	53.7	16.5	17.7	16.4	18.5
1997	38.3	34.5	17.6	34.7	19.2
1998	. . . .	35.0	17.5	35.1	19.2
1999	. . . .	15.5	17.6	15.8	18.5
2000	. . . .	8.5	17.7	8.7	18.5
2001	. . . .	1.4	17.5	2.0	18.6

[1]The explanatory variables used in the model include the effective Federal, State and local marginal tax rates on gains realizations, total dollar volume traded in stock markets, real gross domestic product and a dummy variable which captures the impact of the 1986 Federal Tax Reform Act.

Capital Gains: Actual and Simulated
(Shocks to Model Errors)



Capital Gains: Actual and Simulated
(Shocks to Model Errors and Parameters)



The model used in this exercise fits the historical data reasonably well. Clearly, however, there is a wide band of error around the estimates. This would indicate that caution be exercised in future projections of capital gains. A significant probability of a result substantially below the mean estimate cannot be ruled out by the above analysis. For example, the mean predicted growth rate of 15.8 percent for 1999 taken from column four of Table 9 has a standard error of 18.5 percent. This suggests that growth rates in capital gains ranging from over 34 percent to -3 percent are in the plausible range for 1999. Given this wide range of uncertainty, the point estimate does not convey information in which policy analysts or decision-makers can have much confidence.

Another reference point for examining capital gains projections and the associated risk inherent in the projections is alternative forecasts from other sources interested in the capital gains outlook. The Congressional Budget Office (CBO) produces forecasts of capital gains realizations as shown in the following table. The table compares estimates from the New York model with those produced by the CBO. The CBO forecast is far more conservative than the DOB projection based on the model used in the above simulation experiment.

Table 10
Comparison between U.S. and New York Capital Gains
(percent change)

Year	New York	U.S.[2]
1998	35.0	13.0
1999	15.8	- 6.0
2000	8.7	- 4.0
2001	2.0	- 2.0
2002	2.2	- 0.6
2003	1.2	0.6
2004	1.4	1.4

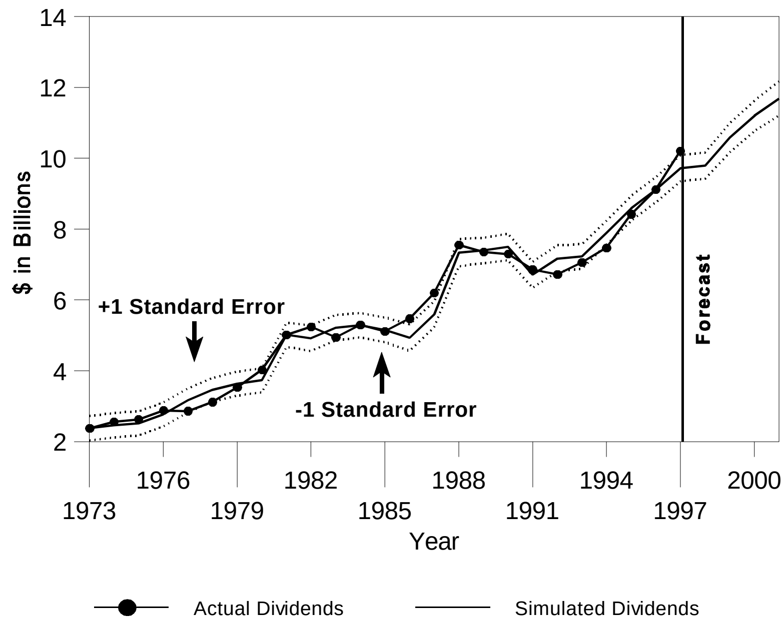
In summary, given the volatility in the gains component of income, there is significant risk associated with any capital gains forecast. This is especially true in light of recent market volatility and in the absence of additional tax policy changes favorable to gains realization. As a result, for the upcoming years, income tax receipts are projected to grow at a rate that is consistent with a decline in the rate of increase of capital gains realizations.

OTHER MAJOR NON-WAGE INCOME COMPONENTS

DOB staff have conducted similar simulation studies for the analysis of other major components of non-wage income, such as interest, dividends, and business income, which have helped drive income tax receipts up in recent years.

[2]CBO's new forecast should not change by much from its current forecast.

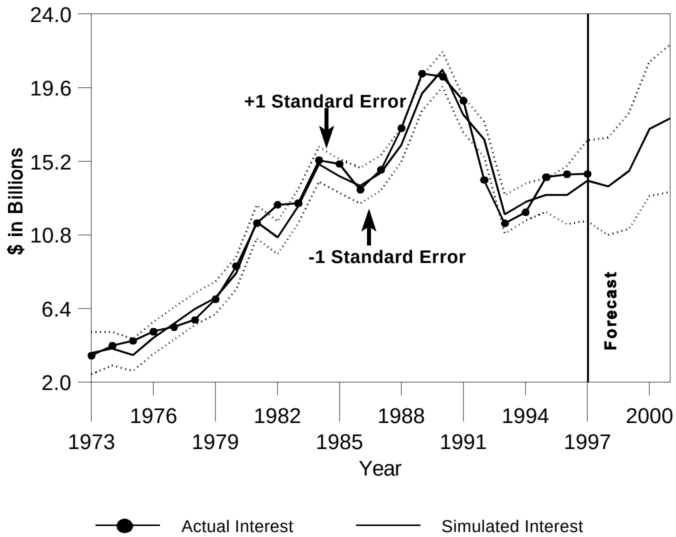
Dividends: Actual and Simulated
(Simulated Shocks to Model Errors)



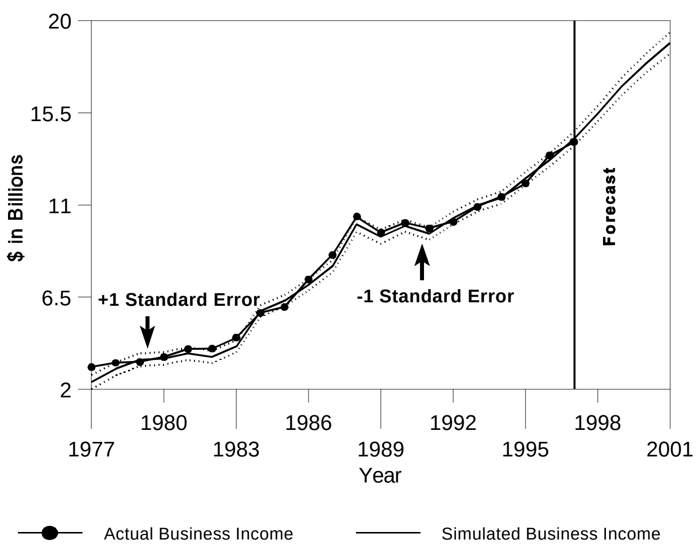
Econometric models have been developed which relate changes in these income components to changes in relevant economic variables. For example, interest income is explained primarily by movements in long-term and short-term interest rates. In another example, taxable dividends are determined by changes in dividends paid on Standard and Poor's 500 index stocks, the retained earnings of businesses, and overall corporate profits. Finally, business income is related to the industrial output of the economy, real Gross State Product, and proprietor's income.

The simulation analysis conducted for these components again indicates a relatively wide range of uncertainty around the predicted values especially for the interest income component. For example, the interest income model, which is estimated in levels, shows a range of more than $5 billion around the predicted value for 1999. The exception is the business income model, where there is a relatively tight band around the estimates. However, actual values often fall outside the error band,indicating significant fragility in the estimates.

Interest: Actual and Simulated
(Simulated Shocks to Model Errors)



Business Income: Actual and Simulated
(Simulated Shocks to Model Errors)



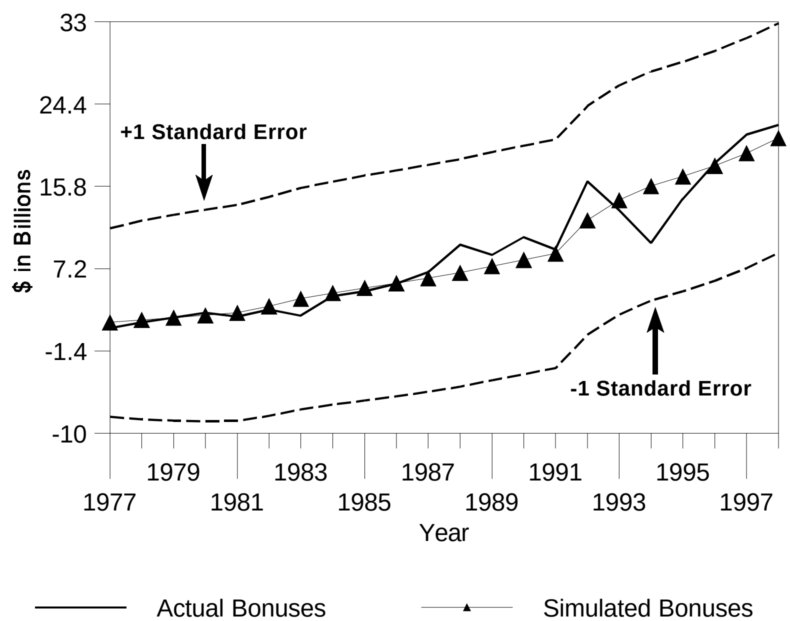
BONUSES INCOME

Bonus payments have a significant impact on State income tax collections. Therefore, it is important to evaluate the risks associated with the bonus forecast. As mentioned earlier, all major sectors, except the transportation, communication, and utility sector and the government sector, pay significant bonuses, typically at year end. Hence, the Division of the Budget employs statistical models to estimate bonus payments. The projections are based on a system of equations, estimating bonus activity by sector.

It is difficult to find simple economic relationships that adequately explain bonus results. This suggests that the bonus activity is the result of a more complicated dynamic economic process. For example, the stock market was doing very well in 1998 and 1999, based on the overall indices (see charts). However, the Asia currency crisis resulted in some security firms experiencing significant losses, which resulted in a bonus payment decline in the fourth quarter of 1998 and the first quarter of 1999.

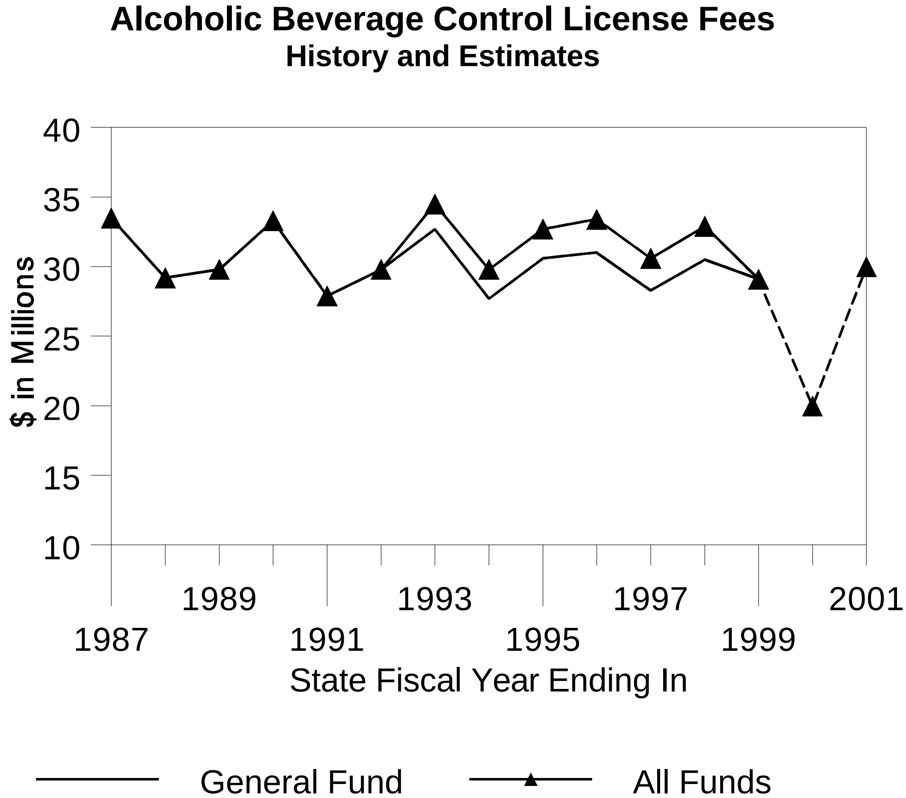
In addition, there is feedback from bonus activity to the overall economy. In fact, DOB analysis indicates that security-sector bonus activity actually is a good predictor of future bonus activity in other sectors. It is, therefore, difficult to disentangle changes in the overall economy and past bonus activity when attempting to predict future bonus results. As a result, the uncertainty of the security industry bonus estimate is amplified through its relationship to other sectors.

New York State Bonuses
(Simulated Shocks to Model Errors)



In the DOB bonus model, before-tax corporate profits are used to explain security-sector bonus activity. In other sectors, the security-sector results are used to drive bonuses, with a lag between security industry results and the associated impacts on other sectors. To evaluate the range of the uncertainty associated with the estimates, a simulation study was conducted, as described earlier. The accompanying graph shows the simulation results for total bonuses aggregated from the individual sectors. Again, the process is simulated thousands of times to develop average estimates of the error range around the forecast. The error range is substantial. Had the uncertainties associated with parameter estimation been included, the range would be even larger. Clearly, bonuses cannot be negative, so the lower bound to the forecast is actually zero. The important point is that a zero estimated value for bonuses in the financial sector is within a standard deviation of the predicted results. The range around the estimates is more than $30 billion. This is an indicator of the uncertainty associated with bonus estimates. Again, the point estimates are not providing a great deal of useful information to policymakers, given the wide range around the estimates. This suggests a cautious approach to estimating future bonus activity.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES



New York State distillers, brewers, wholesalers, retailers, and others who sell alcoholic beverages are required by law to be licensed by the State Liquor Authority. License fees vary, depending upon the type and location of the establishment or premises operated as well as the class of beverage for which the license is issued. The most significant source of revenue in this category is the licensing of about 2,600 retail liquor outlets, including package stores engaged in carry-out sales, and nearly 28,000 bars and restaurants that offer on-premises consumption. Of all the State-licensed bars and restaurants, about 19,800 are authorized to sell beer, wine, and liquor, approximately 3,700 licensees are permitted to sell beer and wine, and 1,950 sell only beer.

Number of Licenses by Category

		Bars and Restaurants						
	Liquor Stores	Beer, Wine and Liquor	Beer and Wine	Beer Only	Sub-Total	Grocery Stores	Wholesale	Total
1991	3,080	20,718	3,007	1,764	28,569	19,295	1,044	48,908
1992	2,984	20,375	3,103	1,829	28,291	19,526	1,042	48,859
1993	2,906	20,312	3,134	1,845	28,197	19,778	1,041	49,016
1994	2,836	20,030	3,177	1,796	27,839	19,656	1,048	48,543
1995	2,753	19,831	3,372	1,763	27,719	19,768	1,057	48,544
1996	2,673	19,782	3,497	1,838	27,790	19,743	1,074	48,607
1997	2,621	19,708	3,490	1,843	27,762	19,462	1,125	48,249
1998	2,596	19,853	3,712	1,950	28,111	19,417	1,142	48,670

Until 1998-99, most licenses and permit fees were issued for three-year periods. The three-year renewal process led to variances in gross receipts on a year-to-year basis, particularly for liquor wholesaler and retailer licenses, which peaked every third year. State fiscal year 1998-99 would have been a peak year for liquor wholesaler and retailer licenses.

However, legislation enacted in 1997 provided that on December 1, 1998, the required purchase of a three-year license be changed to allow licensees the option of purchasing an annual or biennial license at a prorated cost. The new licensing plan enables licensees to realize improved cash flow by providing them the option of making reduced cash outlays on a more frequent annual or biennial basis.

The legislation also benefitted the alcoholic beverage industry by clarifying the provisions for the sale of beer and wine products and by liberalizing licensing terms for bars and restaurants. Due to the new payment option, and anticipated licensee behavior, the State is expected to lose revenues during the initial three years of the program.

1999-2000 RECEIPTS

Compared to 1998-99, gross alcoholic beverage control license fee receipts will decline significantly, due to the full-year effect of the 1997 licensing legislation. Alcoholic beverage control license fee net receipts for the first nine months of 1999-2000 are estimated at $15.5 million, 31.4 percent less than receipts for the comparable period in 1998-99. For all of 1999-2000, the legislation is expected to reduce projected State license fee receipts by $11 million. Accordingly, 1999-2000 gross receipts are projected at $23 million and refunds at $3 million, resulting in projected net receipts from alcoholic beverage control license fees of $20 million.

2000-01 PROJECTIONS

The last year of the three-year impact from licensing remittance changes will reduce 2000-01 collections by $2 million. As a result, gross receipts are estimated to reach $33 million. Refunds will be approximately $3 million, bringing estimated 2000-01 net receipts from this source to $30 million.

OTHER FUNDS

For the period 1992-93 to 1998-99, a portion of license fee receipts was deposited in the Alcoholic Beverage Control Enhancement Account on an annual basis. Revenues deposited into the Account were used to support efforts to improve compliance and expedite license processing. Beginning in 1998-99, this special revenue fund was eliminated and all licensing fees were deposited in the General Fund to simplify agency budget presentation and execution. There was no reduction in agency funding resulting from this action.

GENERAL FUND

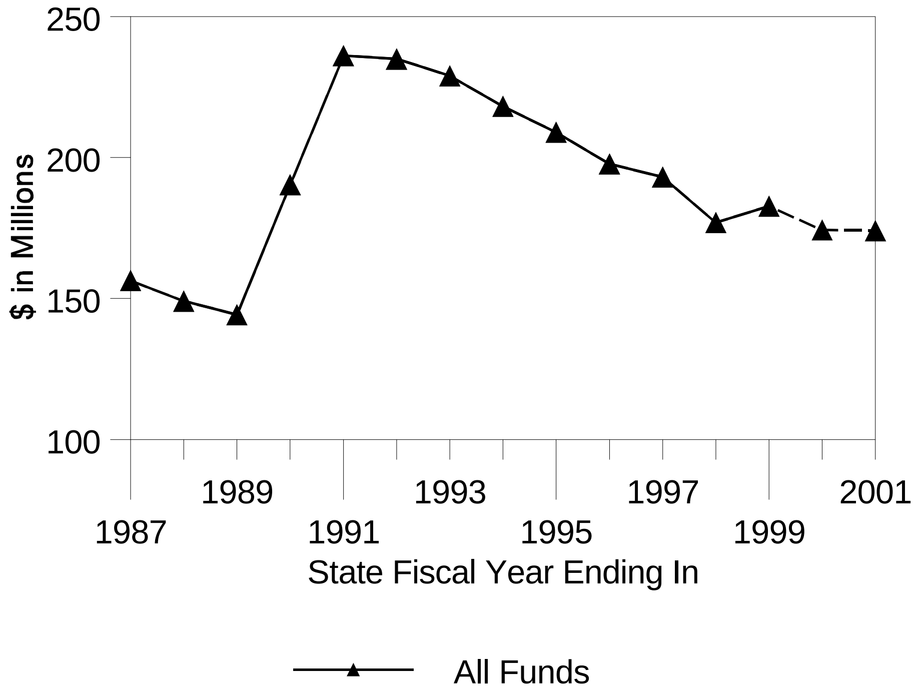
General Fund receipts for 1999-2000 are estimated to be $20 million. In 2000-01, General Fund receipts are projected at $30 million.

Receipts from Alcoholic Beverage Control License Fees
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
				Actual			
1991-92 .	$32,835	$3,024	$29,811	. . . .	. . . .	. . . .	$29,811
1992-93 .	35,305	2,627	32,678	$1,815	. . . .	. . . .	34,493
1993-94 .	29,852	2,237	27,615	2,155	. . . .	. . . .	29,770
1994-95 .	33,864	3,283	30,581	2,100	. . . .	. . . .	32,681
1995-96 .	33,956	2,981	30,975	2,400	. . . .	. . . .	33,375
1996-97 .	31.748	3,417	28,331	2,300	. . . .	. . . .	30,631
1997-98 .	33,249	2,629	30,620	2,300	. . . .	. . . .	32,920
1998-99 .	32,282	3,190	29,092	. . . .	. . . .	. . . .	29,092
				Estimated			
1999-2000	$23,000	$3,000	$20,000	. . . .	. . . .	. . . .	$20,000
2000-01 .	33,000	3,000	30,000	. . . .	. . . .	. . . .	30,000

ALCOHOLIC BEVERAGE TAXES

Alcoholic Beverage Tax Receipts
History and Estimates



New York State imposes excises at various rates on liquor, beer, wine and specialty beverages. These taxes are remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

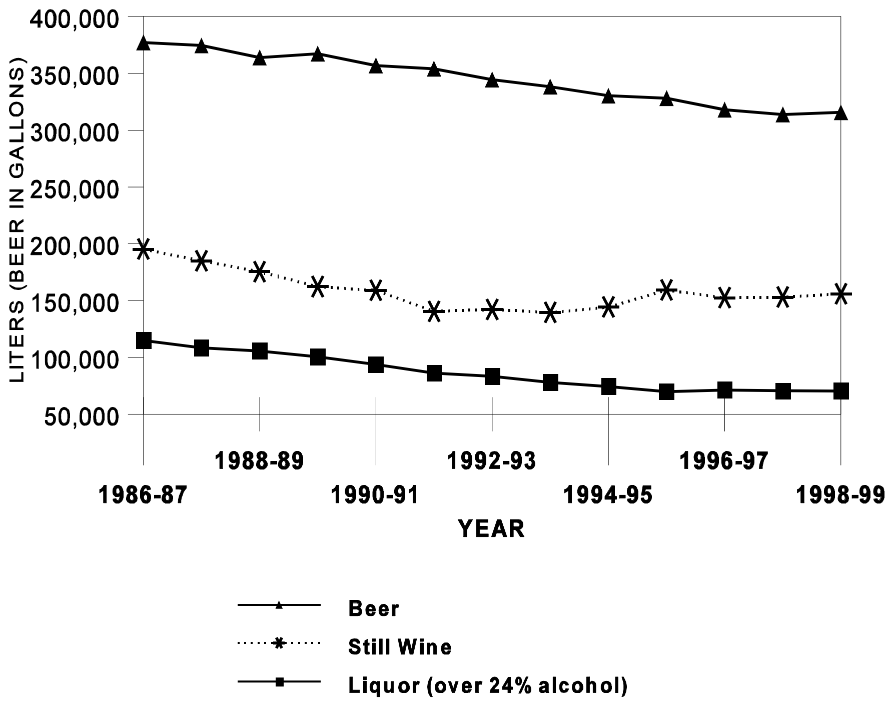
Current State tax rates are as follows:

Liquor over 24 percent alcohol	$1.70 per liter
All other liquor with more than 2 percent alcohol	0.67 per liter
Natural sparkling wine	0.05 per liter
Artificially carbonated sparkling wine	0.05 per liter
Still wine	0.05 per liter
Beer with 0.5 percent or more alcohol	0.135 per gallon
Liquor with not more than 2 percent alcohol	0.01 per liter
Cider with more than 3.2 percent alcohol	0.01 per liter

In addition, New York City imposes taxes of 12 cents per gallon on beer and 26.4 cents per liter on liquor with over 24 percent alcohol content. The State administers these taxes for the City and is reimbursed for its administrative expenses from tax collections.

For several years, overall per capita consumption of taxed beverages remained fairly constant. However, there has been, in general, a decline in liquor and beer consumption and an increase in the consumption of other beverages, reflecting a shift in consumer preferences. For example, wine consumption has increased relative to liquor and beer consumption in recent years (see chart). The rising popularity of less expensive beverages with lower alcoholic content is also attributed to the impact of rising prices on beverages with higher alcohol content.

Consumption of Alcoholic Beverages



LEGISLATIVE CHANGES

A significant number of statutory changes have been made to the alcoholic beverage tax since its inception. The following table summarizes the major tax legislation enacted since 1990.

Significant Alcoholic Beverage Tax Legislation

Subject	Description	Effective Date
Legislation Enacted in 1990		
Liquor Tax Increases	Increased the tax rate on all liquor with more than 2 percent alcohol by 21 percent.	June 1, 1990
Legislation Enacted in 1993		
Wine Tax Cut	Reduced the tax rates on natural sparkling and artificially carbonated sparkling wines to 5 cents per liter from 25 cents per liter and 15 cents per liter, respectively. The current rate is equal to the State excise tax rate on still wine.	July 1, 1994
Legislation Enacted in 1995		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 21 cents to 16 cents per gallon.	January 1, 1996
Legislation Enacted in 1998		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 16 cents to 13.5 cents per gallon.	January 1, 1999
Legislation Enacted in 1999		
Beer Tax Cut	Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 13.5 cents to 12.5 cents per gallon.	April 1, 2001

The State continues to suffer tax evasion through the bootlegging of liquor from other states. Enforcement legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture provisions. Additionally, the legislation provided higher fines for the bootlegging of varying volumes of liquor. These alcoholic beverage enforcement provisions have provided some protection to the State's liquor industry and the tax base, moderating year-over-year declines in State alcoholic beverage tax receipts. Legislation enacted in 1997 extended these enforcement provisions from October 31, 1997 to October 31, 2002. Legislation enacted in 1996, which required remittance of State alcoholic beverage excise tax liability through Electronic Funds Transfer (EFT) by the State's largest vendors, was repealed on April 8, 1997. The initial EFT provisions accelerated approximately $6.3 million into 1996-97, and the repeal of the provisions produced a similar one-time reduction in revenue in 1997-98.

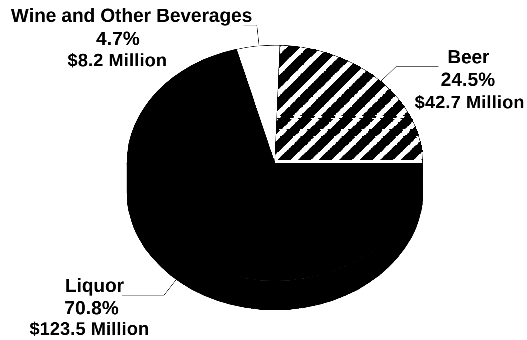
Alcoholic Beverage Tax Enforcement Provisions

Violations	Volume	Penalties
Import liquor without registration		Class A misdemeanor
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments		Class A misdemeanor
Cause liquor covered by a warehouse receipt to be removed from a warehouse		Class A misdemeanor
Three or more above violations in a five-year period		Class E felony
Import liquor without registration	More than 360 liters within 1 year	Class E felony
Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments	More than 360 liters within 1 year	Class E felony
Cause liquor covered by a warehouse receipt to be removed from a warehouse	More than 360 liters within 1 year	Class E felony
Custody, possession or control of liquor without registration or tax payments		Class B misdemeanor
Custody, possession or control of liquor without registration or tax payments	Exceeds 360 liters	Class E felony
Import liquor without registration	More than 90 liters	Seize transportation vehicles and liquor.
Distribute or hold liquor for sale without paying alcoholic beverage taxes	More than 90 liters	Seize transportation vehicles and liquor.
A distributor fails to pay the tax		10 percent of the tax amount to be due, plus 1 percent each month after the expiration. The penalty shall not be less than $100 but not exceeding 30 percent in aggregate.
Any other person fails to pay the tax		50 percent of the tax amount to be due, plus 1 percent each month after the expiration. The penalty shall not be less than $100.

Legislation enacted in 1999 increased the exemption for the first 100,000 barrels of domestically brewed beer to 200,000 barrels, effective April 1, 2001. Legislation submitted with this Budget will accelerate the exemption increase by moving the effective date from April 1, 2001, to January 1, 2000.

1999-2000 RECEIPTS

Alcoholic Beverage Tax Receipts
1999-2000



Estimated Share by Source

Estimated net receipts during the first nine months of the current fiscal year of $137.5 million represent a decrease of 3.5 percent from the comparable period in 1998-99. Long-term declines in liquor consumption have been somewhat offset by a relatively new consumer preference for higher-priced liquor brands that first became apparent in 1996-97 collections. Based on this experience, as well as the revenue effect of 1996 legislation which reduced the beer excise tax rate by 5 cents per gallon, and the 2.5 cents per gallon beer excise tax reduction effective January 1, 1999, gross alcoholic beverage tax receipts for 1999-2000 are estimated at $174.6 million with refunds at $0.2 million. The bulk of estimated receipts, $123.5 million, are derived from the tax on liquor. The 1997 enforcement provisions will preserve an estimated $3 million in liquor tax revenues that otherwise would have been lost due to evasion and avoidance. The January 1, 1999, excise tax reduction on beer is expected to reduce beer tax collections by $7.9 million, to $42.7 million. Revenues from wine and other specialty beverages are estimated to reach $8.2 million in 1999-2000.

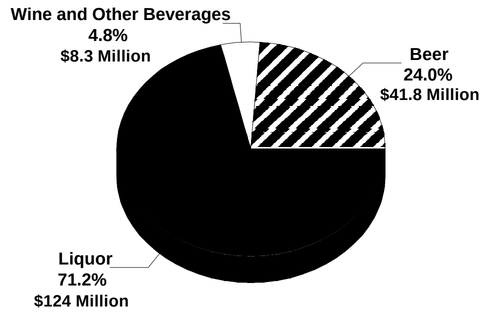
Components of Alcoholic Beverage Tax Receipts
(millions)

	1994-95 Actual	1995-96 Actual	1996-97 Actual	1997-98 Actual	1998-99 Actual	1999-2000 Estimated	2000-01 Projected
Beer	$ 68.6	$ 65.3	$ 50.6	$ 50.2	$ 47.8	$ 42.7	$ 41.8
Liquor	131.7	123.9	126.2	125.4	125.7	123.5	124.0
Wine & Other . .	8.1	8.9	8.3	8.5	8.5	8.2	8.3
Sub-Total	$208.4	$198.1	$185.1	$184.1	$182.0	$174.4	$174.1
Reconciliations .	0.6	-0.3	8.0	-7.1	0.8	. . . .	. . . .
Net Total	$209.0	$197.8	$193.1	$177.0	$182.8	$174.4	$174.1

2000-01 PROJECTIONS

The consumption of alcoholic beverages in the coming fiscal year is expected to grow slightly for liquor, wine, and beer. These consumption changes will result in minor projected increases in receipts. Gross alcoholic beverage tax receipts are projected at $174.3 million and refunds at $0.2 million. Total receipts include $124.0 million from liquor, a increase of $0.5 million from 1999-2000. Projected beer excise tax receipts of $41.8 million include a reduction of $7.8 million due to the 1999 2.5 cents per gallon beer excise tax reduction. Revenues from wine and other specialty beverages are projected to total $8.3 million.

Alcoholic Beverage Tax Receipts
2000-01



Projected Share by Source

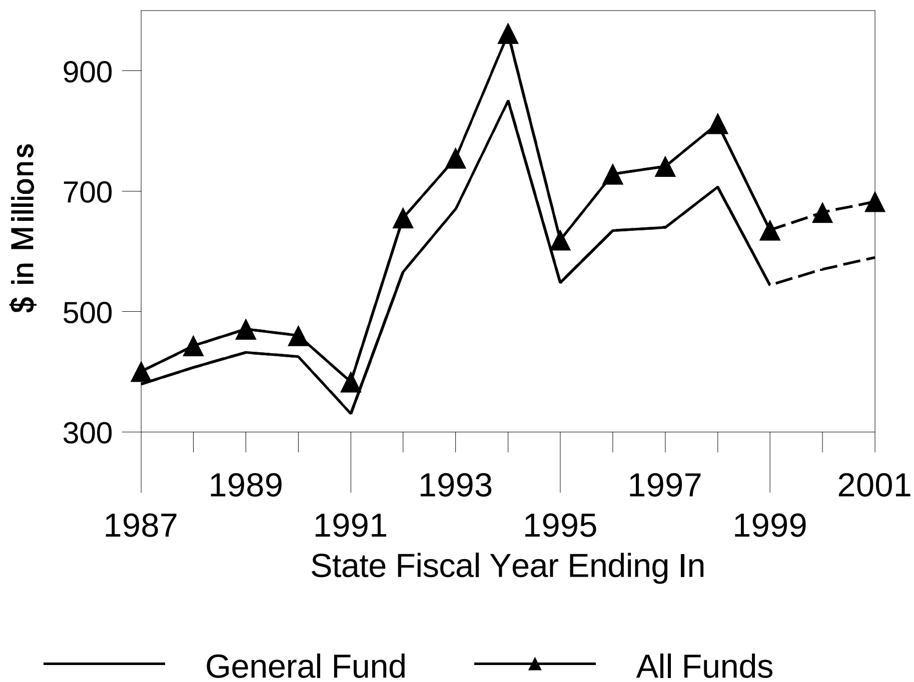
As already noted, legislation submitted with this Budget will accelerate the increase of the exemption for the first 100,000 barrels of domestically brewed beer to 200,000 barrels, effective January 1, 2000. The full year impact in 2000-01 is estimated at $1 million.

Receipts from Alcoholic Beverage Taxes
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
				Actual			
1991-92	$235,254	$251	$235,003	....	....	....	$235,003
1992-93	229,113	142	228,971	....	....	....	228,971
1993-94	218,341	99	218,242	....	....	....	218,242
1994-95	209,134	98	209,036	....	....	....	209,036
1995-96	198,280	492	197,788	....	....	....	197,788
1996-97	192,960	(123)	193,083	....	....	....	193,083
1997-98	177,124	115	177,009	....	....	....	177,009
1998-99	183,087	316	182,771	....	....	....	182,771
				Estimated			
1999-2000	$174,600	$ 200	$174,400	....	....	....	$174,400
2000-01 (current law)	175,300	200	175,100	....	....	....	175,100
2000-01 (proposed law)	174,300	200	174,100	....	....	....	174,100

BANK TAX (Article 32)

Bank Tax Receipts
History and Estimates



The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. As one can observe from the graph above, Article 32 receipts have tended to be quite volatile, reflecting several factors including statutory and regulatory changes and the variable profit performance of the banking sector.

TAX RATE

The Article 32 Bank tax liability is the greater of the following four computations.

— 9 percent rate applied to allocated entire net income;
— 10 percent of allocated alternative entire net income (ENI without regard to specified exclusions);
— 1/10, 1/25, or 1/50 of a mill of allocated taxable assets; or
— minimum tax of $250.

The table below reports the tax rates that apply to entire net income.

Table 1
History of Bank Tax Rate (ENI Base)
(percent)

Year	1968-70	1971-74	1975-76	1977	1978-84	1985-88	1989	1990-93
ENI Tax Rate	6.00	8.00	8.00	8.00	12.00	9.00	9.00	9.00
Temporary Business Surcharge	0	0	20.00	30.00	0	0	2.50	15.00

Year	1994	1995	1996	1997-99	2000	2001	2002
ENI Tax Rate	9.00	9.00	9.00	9.00	8.50	8.00	7.50
Temporary Business Surcharge	12.50	7.50	2.50	0	0	0	0

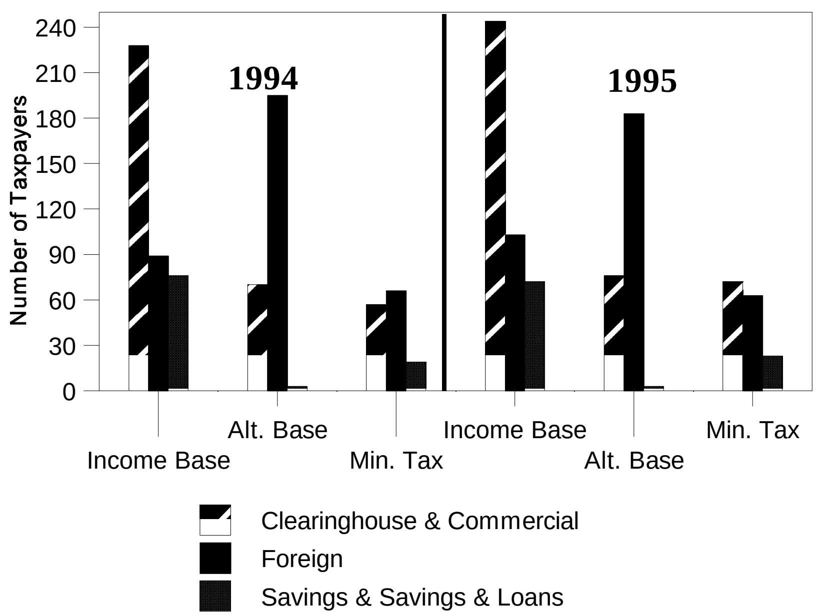
Source: NYS Department of Taxation and Finance, Office of Tax Policy Analysis

Additionally, a temporary surcharge is imposed within the Metropolitan Commuter Transportation District (MCTD), at the rate of 17 percent of the portion of tax allocable to such district.

TAX BASE

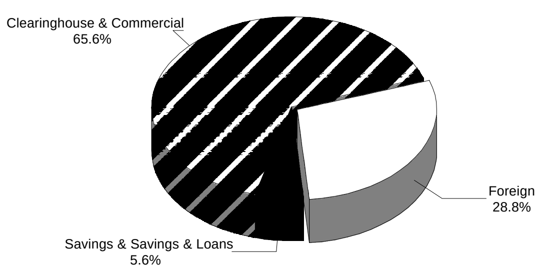
A major source of data on bank tax liability comes from the New York State Corporate Tax Statistical Report, published by the Office of Tax Policy Analysis (OTPA). This report includes tax data on all banks filing under Article 32. The latest report was published in August 1999 and contains statistical data for liability years ending in 1995. The three-year lag in liability data is due to the fact that a report cannot be completed until all bank tax returns are filed and finally amended by taxpayers. Between 1994 and 1995, the total tax liability of the bank tax increased by roughly 45 percent, from $426 million to $617.2 million. The bar graph below illustrates that between 1994 and 1995 the number of taxpayers increased by 4.4 percent, with the majority of the increase in clearinghouse and commercial banking institutions.

Number of Taxpayers by Type of Bank and by Tax Base

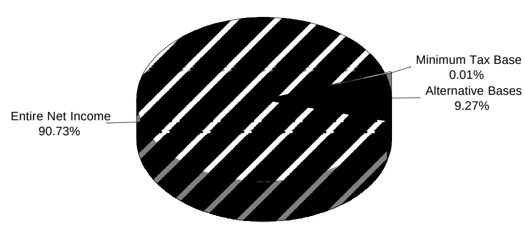


The pie graphs below report that clearinghouse and commercial banking institutions represented roughly 66 percent of total tax liability, while foreign banking institutions comprised 29 percent and saving and savings and loans accounted for roughly 6 percent of liability in 1995. Additionally, entire net income taxpayers comprised roughly 91 percent of total tax liability under Article 32 in 1995.

1995 Tax Base Industry Profile
(Share of Total Tax Liability)



1995 Distribution of Tax Liability by Basis of Tax



EXEMPTIONS TO THE TAX

Originally intended to expire, many provisions of the current bank tax have been extended. Under legislation enacted in subsequent years, the last time being in 1997, the "sunset date" was extended through taxable years beginning before January 1, 2001.

The statutory tax structure for banks and thrift institutions has a number of differences from the general corporation franchise tax:

— Banks may modify their Federal taxable income by deducting statutorily defined percentages of interest and dividend income. Unlike general corporations, they also may deduct expenses related to earnings from certain excluded income.
— Banks are not required to add back to taxable income any taxes paid to other states.
— The income allocation formula factors for banks, to deal with the taxation of multi-state businesses, differ from the general corporation franchise tax in that deposits are substituted for real property and only 80 percent of New York wages are used. The income allocation formula also differs regarding the treatment of receipts from mutual fund management, where out-of-state receipts are considered point-of-sale and thus increase the income allocation percentage compared to the treatment of such receipts under the corporation franchise tax where such receipts are treated as point-of-destination.
— Separate accounting and exemption of income derived from the operation of an International Banking Facility (IBF) are required under current law. An IBF is a corporate structure permitted to take deposits from and make loans to international sources without interest rate restrictions or reserve requirements.
— Other differences reflect Federal exclusions, Federal agency assistance and monetary transactions unique to banking corporations.

The following table highlights the major statutory changes in the tax structure for banks and thrift institutions over the past twenty years.

Subject	Description	Effective Year
Significant Legislation Affecting Modifications to Federal Taxable Income		
Deduction for Eligible Net Income of IBF	An International Banking Facility (IBF) is a separate set of asset and liability accounts established for the purpose of receiving deposits from, and extending credit to, foreign individuals or businesses.	1981
Bad Debt Deduction for Thrift Institutions	Thrift institutions may use the reserve method in calculating their deduction for bad debts on certain qualifying property.	1985
Deduction of 17 percent of Interest Income from Subsidiary Capital	In computing New York entire net income banks may deduct 17 percent of interest income from subsidiary capital.	1985
Deduction of 60 percent of Dividend Income and Excess Gains from Subsidiary Capital	In computing New York entire net income, banks may deduct 60 percent of dividend income and excess gains and losses from subsidiary capital.	1985
Deduction of 22.5 percent on Interest Income from Government Obligations	Taxpayers may deduct 22.5 percent of interest income on New York or U.S. obligations, other than obligations held for resale in connection with regular trading activities.	1985

Subject	Description	Effective Year
Bad Debt Deduction for Commercial Banks	New York State decoupled from the Federal calculation of the bad debt reduction of the Federal Tax Reform Act 1987 by continuing to allow large commercial banks to calculate bad debt deduction based on the reserve method.	1987
Subsidiary Capital	Subsidiary capital taxation rules allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.	1994
NOLD's	Allows banks to claim a net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.	2001
Significant Legislation Affecting Tax Rates		
ENI	The rate reduction, from 9 percent to 7.5 percent, is phased in over three years.	2000
Significant Legislation Involving Credits		
Economic Development Zone and Zone Equivalent Areas (EDZ) Tax Credits	Taxpayers may qualify for a credit for investments in zone capital corporations, direct equity investments in certified zone businesses, and contributions to community development projects.	1986
Credit for Employing Individuals with Disabilities	Employers who employ individuals with disabilities may claim a credit for a portion of wages paid to such individuals.	1998
Investment Credit for Financial Services Industry	An investment credit is allowed for qualified property used in the financial services industry.	1998
Other Significant Legislation		
Temporary Business Surcharge	Enacted in 1990, and extended in 1992 and 1993, legislation increased a temporary surcharge in effect since 1981 from 2.5 percent to 15 percent of tax otherwise due.	1990-1994
Tax Rules	Conformed State estimated tax rules to the Federal rules by requiring large firms to pay 100 percent of their tax liability by the twelfth month of their fiscal year; this replaced the previous 97 percent rule.	1994

Subsequent to the bank tax reform in the mid-1980's, there have been two significant law changes impacting the bank tax. First, the net operating loss deduction allows banks to claim net operating loss deductions (NOLD's) for losses incurred on or after January 1, 2001. Second, the rate reduction enacted in 1999 will reduce the bank tax rate on entire net income from 9.0 percent to 7.5 percent over a three year phase-in schedule beginning July 1, 2001.

GENERAL FUND RECEIPTS: REVIEW OF RECEIPTS HISTORY

Volatility in the profit performance of the financial services industry, due to both macroeconomic factors and radical changes in the structure of the industry, has led to wide variations in Article 32 receipts from year to year. This volatility has been exacerbated by statutory changes in the application of the tax. The major factors impacting receipts are summarized briefly in this section.

Several factors contributed to a decline in 1994 liability, the most important of which was the steady rise in interest rates during this period. This led to:

- — The unprecedented spread between the interest rates banks charged on existing loan portfolios and their "cost of funds" as paid on deposits, as the Federal Reserve Board increased interest rates on several occasions, thereby depressing bank earnings.
- — A reduction in trading and investment banking revenues from the stock and bond markets, and from financial hedging instruments such as derivatives.
- — An increase in losses from currency trading and well publicized losses from derivative activity, some of which were the subject of litigation by customers.
- — Deterioration in the value of certain investment portfolios.

However, the decrease in payments on 1994 liability during the 1994-95 period does not fully explain the unprecedented decline in receipts between 1993-94 and 1994-95. Credits against current year liabilities or refunds taken against prior year payments, often termed "back-year adjustments," are usually substantial in the bank tax. Such adjustments reached unprecedented levels in 1994-95, as banks reduced payments on 1994 liability with credits from 1993. This suggests that many commercial banks were in overpaid tax positions in 1993 and subsequently corrected for those overpayments by reducing their payments on 1994 liability.

The installment payment rules in the Tax Law further exaggerated the swing in collections over this period. Although these effects are always present, the unusually large change in liability from calendar year 1993 to 1994 made for a large swing in cash results.

The increase in 1995-96 collections was driven primarily by an estimated 50 percent increase in banking sector liability. As already noted, 1994 liability was relatively low and, as a result, the first installment on 1995 taxes was reduced significantly. This small first installment magnified growth in the remaining surcharge-adjusted payments on 1995 liability during the 1995-96 period. Some of the cash benefit of the 1995 liability increase was absorbed in 1996-97 as lower prior year adjustments; this pattern continued into 1997-98.

Extraordinary audit collections of $178 million were the primary factor in the growth in 1996-97 collections. Strong calendar year commercial banking sector's 1995 liability translated into a 66 percent increase in the 1996 first installment. However, this strong first installment, was followed by a decline in estimated 1996 liability. In fact, payments on 1996 liability during the 1996-97 period decreased by more than 24 percent, or approximately $144 million, and the first installment on 1997 liability decreased by 21 percent compared to the 1996 first installment.

The increase in 1997-98 collections was driven by an almost 39 percent increase in payments on 1997 liability from commercial banks when compared with 1996 payments. This increase in 1997-98 payments is, in part, the result of the 21 percent decline in the 1997 first installment. Because the commercial banks' 1997 estimated liability increased by almost 24 percent over the 1996 estimated liability and the 1997 first installment was low, the commercial banks were forced to increase their payments on 1997 liability during the remainder of 1997-98. The increased payments on 1997 liability during 1997-98 were offset by a 91 percent decline in audit collections.

Net collections from commercial banks during 1998-99 decreased by $172 million from 1997-98. Commercial bank collections suffered from increased refunds and carry forwards of prior year payments. However, bank tax collections did benefit from a $44 million increase in audit payments, although net collections for thrift institutions increased by $10.5 million. As a result, net collections for Article 32 were $544 million, $163 million below the amount received in 1997-98.

SPECIAL REVENUE FUND RECEIPTS

In December 1982, a two-year surcharge on State business taxes (bank tax, corporation franchise tax, corporation and utilities taxes, and insurances taxes) was adopted to help finance mass transportation in the downstate metropolitan region. Statutes through 1997 have periodically extended the temporary surcharge, most recently for a period of four years. The surcharge is imposed at a rate of 17 percent of the portion of the statewide tax liability that is allocated to the Metropolitan Commuter Transportation District (MCTD) and is the principal revenue source of the Mass Transportation Operating Assistance Fund (MTOA). It is expected that the surcharge will generate $95 million in 1999-2000, and $93 million in 2000-01 for MTOA.

1999-2000 RECEIPTS

Net commercial bank collections through December have totaled $416 million. Based on collections to date, total net collections for the entire period are estimated to reach approximately $570 million. This is a $26 million increase from the 1998-99 level. The increase was caused by higher payments on 1999 liability and the increased adjustments (credit carry forwards) from prior-year payments. Additionally, these net cash collection increases have been partially augmented by increased CARTS activity.

Growth in collections through December from savings institutions continues to be positive. It is possible that the large adjustments to prior-year liabilities, resulting from the significant savings and loan losses associated with the near-collapse of this industry in the late 1980's and early 1990's, have finally diminished.

2000-01 PROJECTIONS

Net collections for Article 32 are projected to be $590 million, which is $20 million above the amount estimated to be received in 1999-2000. Payments on 2000 liability from calendar year commercial banks during 2000-01 are projected to increase by 4 percent.

The bank tax projection is based on the underlying relationship between liability and the overall health of the economy. The relationship between economic growth and liability payments is then converted to an estimate of cash collections. As a result, we expect gross tax receipts to increase by 3.5 percent in 2000-01.

There is some risk to the forecast given the passage of a financial-services reform bill in Congress. The Gramm-Leach Bill repeals parts of the Glass-Steagall Act and the 1956 Bank Holding Company Act which, until now, did not permit insurance, bank, and brokerage firms to enter each other's markets. Deregulation in this industry may have significant tax implications given the merging of banking functions with activities traditionally taxed in other articles of the Tax Law.

Table 2
General Fund Receipts by Type of Bank
(thousands)

	State Banks, Trust Companies & National Banks	Savings Banks	Savings &Loan Associations	Total
	Actual			
1990-91	$270,647	$50,961	$ 9,092	$330,700
1991-92	498,918	54,432	12,469	565,819
1992-93	569,244	84,798	16,440	670,482
1993-94	784,033	45,861	20,840	850,734
1994-95	486,102	50,965	10,885	547,952
1995-96	611,513	24,455	(1,305)	634,663
1996-97	637,448	(3,003)	5,492	639,937
1997-98	700,344	1,183	5,796	707,323
1998-99	$527,485	$11,706	$ 4,866	$544,058
	Estimated			
1999-2000	$557,000	$9,000	$4,000	$570,000
2000	580,000	7,000	3,000	590,000

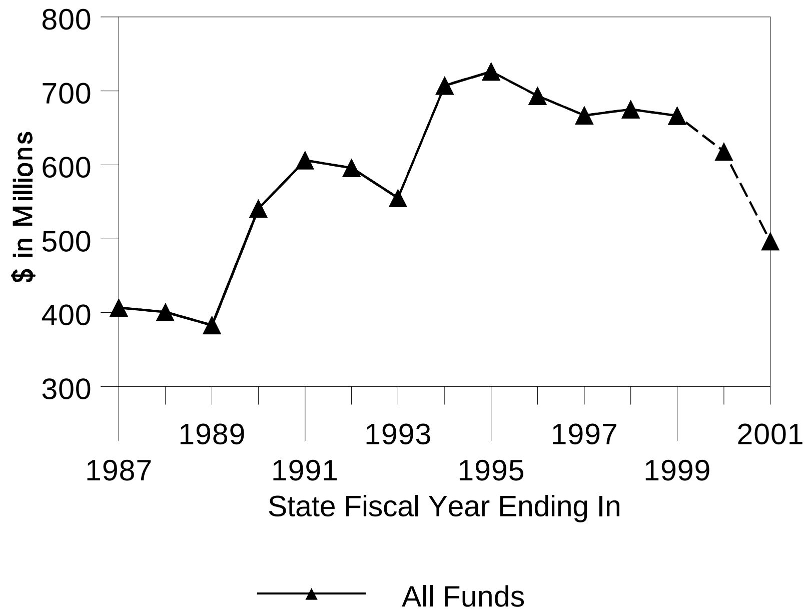
Table 3
Bank Tax Receipts
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Refunds	Net Special Revenue Funds [1]	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
	Actual								
1991-92	$628	$62	$566	$ 92	$ 2	$ 90	....	....	$656
1992-93	705	35	670	88	3	85	....	....	755
1993-94	905	54	851	115	4	111	....	....	962
1994-95	614	66	548	77	7	70	....	....	618
1995-96	702	67	635	98	5	93	....	....	728
1996-97	723	83	640	109	8	101	....	....	741
1997-98	765	58	707	113	8	105	....	....	812
1998-99	623	79	544	102	11	91	....	....	635
	Estimated								
1999-2000	$628	$58	$570	$101	$ 6	$ 95	....	....	$665
2000-01	654	64	590	98	5	93	....	....	683

[1] MCTD 17 percent surcharge deposited in the Mass Transportation Operating Assistance Fund.

CIGARETTE AND TOBACCO TAXES

Cigarette and Tobacco Taxes Receipts
History and Estimates



TAX RATE AND BASE

The New York State cigarette excise tax is imposed by Article 20 of the Tax Law on the sale or use of cigarettes within the State. The current tax rate is 56 cents per package of 20 cigarettes. Effective March 1, 2000, the rate is scheduled to increase to $1.11 per pack of 20 cigarettes.

The Federal government imposes a cigarette excise tax on manufacturers and first importers of cigarettes. The tax rate, currently 34 cents per pack, was increased from 24 cents per pack on January 1, 2000, and is scheduled to increase to 39 cents per pack on January 1, 2002. New York City also levies a separate cigarette excise tax of 8 cents per pack. Historical changes in State, City and Federal tax rates are shown in the following table.

State, Federal and New York City
Cigarette Excise Tax Rates
(Since 1950)

State		Federal		New York City	
Date Revised	***Rate*** (cents)	***Date Revised***	***Rate*** (cents)	***Date Revised***	***Rate*** (cents)
--	03	--	07	--	01
April 1, 1959	05	November 1, 1951	08	May 1, 1959	02
April 1, 1965	10	January 1, 1983	16	June 1, 1963	04
June 1, 1968	12	January 1, 1991	20	January 1, 1976	08
February 1, 1972	15	January 1, 1993	24		
April 1, 1983	21	January 1, 2000	34		
May 1, 1989	33	January 1, 2002*	39		
June 1, 1990	39				
June 1, 1993	56				
March 1, 2000*	111				

* Scheduled excise tax increase

The State also imposes a tax on other tobacco products, such as chewing tobacco and cigar tobacco, at a rate of 20 percent of their wholesale price. From July 1, 1989 to May 31, 1993 the rate was 15 percent of the wholesale price. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates depending on the type of product.

Legislation enacted in 1990 added a $100 license fee for the registration of retail establishments and a $25 license fee for each cigarette or tobacco product vending machine.

ADMINISTRATION

State registered stamping agents, most of whom are wholesalers, purchase tax stamps from the State and affix the stamps to cigarette packages to be sold by New York State registered retailers. Purchasers of non-State stamped cigarettes, such as cigarettes sold out-of-State or on Indian reservations, must remit the cigarette excise tax directly to the Department of Taxation and Finance.

EVASION

Cigarette tax evasion is a serious problem in New York and elsewhere in the Northeast. Widespread evasion not only reduces State and local revenues but also has an adverse impact upon legitimate wholesalers and retailers. The Department of Taxation and Finance has acted vigorously to curb cigarette bootlegging through investigatory and enforcement efforts. Legislation enacted in 1996 substantially increased penalties for retailers and wholesalers who sell unstamped or illegally stamped packages of cigarettes. To further the enforcement effort, the legislation also authorized the Department of Taxation and Finance to hire additional enforcement personnel. The additional personnel enables the Department of Taxation and Finance to better enforce the laws governing the taxation of cigarettes throughout the State.

The positive effects of this enforcement legislation were realized in 1998-99 through an increased number of new retailer license applications for the 1999 calendar year. The increase in the number of retailer licenses, as well as a continued enforcement presence, may have led to a more moderate decline in taxable cigarette consumption than would otherwise have been realized. Also, increased cigarette excise tax rates in neighboring states (e.g., New Jersey's January 1, 1998, doubling of its excise tax to 80 cents per pack of cigarettes) reduced the incentive to evade or avoid the New York tax in 1998-99 and 1999-2000.

Cigarette Tax Rates in States Bordering New York
(cents per pack)

	Current Rate	Previous Rate	Year Revised
Pennsylvania	31	18	1991
Vermont	44	20	1995
Connecticut	50	47	1994
New York*	56	39	1993
Massachusetts	76	51	1996
New Jersey	80	40	1998

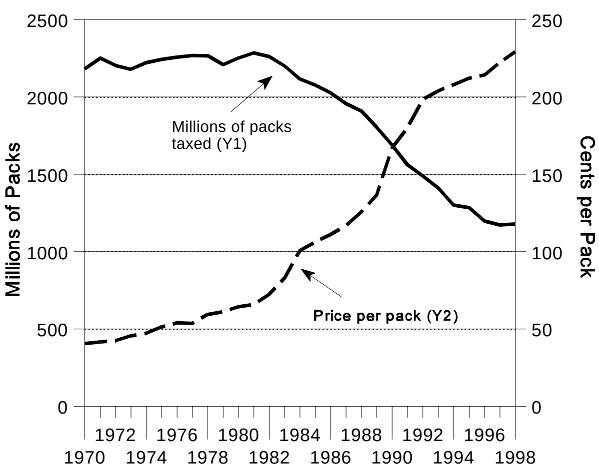
* Scheduled to increase by 55 cents March 1, 2000

The Governor will introduce legislation in 2000 as part of a comprehensive program targeted at combating cigarette bootlegging and Internet sales. The legislation will be designed to curb any additional illegal sales of cigarettes resulting from the recently enacted increase in cigarette excise tax rates.

CONSUMPTION TRENDS

Taxable cigarette consumption has declined by nearly 50 percent since 1970 due to increases in prices, growing public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, and anti-smoking education programs.

State Cigarette Consumption and Prices



Price-cutting promotions of major-label cigarette brands, intended to regain market share from generic brands that began in 1993 and continued through 1994, offset part of the consumption declines resulting from the June 1, 1993, 17 cent State cigarette excise tax increase. Since 1994, manufacturers have resumed their normal pattern of semi-annual price increases for major-label brands. These price increases, in addition to a 45 cent wholesale price increase in November 1998 and a 18 cent increase in August 1999 due to the tobacco settlement among the states, have increased prices well above their pre-1994 levels.

The settlement of cigarette wholesale bankruptcies resulted in approximately $6.7 million in atypical revenues in the last quarter of 1994-95 and $1.7 million in 1995-96. Adjusted for these bankruptcies and other atypical audit receipts, taxable State cigarette consumption declined 4.1 percent and taxable tobacco consumption increased 13.8 percent during 1995-96.

Cigarette consumption declined by 4.1 percent in 1996-97, but the revenue impact was mitigated by gains in revenue from an increase of 22.8 percent in consumption of other tobacco products.

Partly through the enforcement efforts of the Department of Taxation and Finance, cigarette excise tax collections increased by about $4 million, or 0.4 percent in 1997-98. Tobacco tax collections increased by $3.7 million during the same period.

Taxable consumption in 1998-99 was inflated by added sales from the 40 cent increase in the New Jersey cigarette excise tax and by added licensed retailers. However, these gains were partly offset by decreased consumption resulting from price increases induced by the Tobacco Settlement.

1999-2000 RECEIPTS

General Fund cigarette and tobacco tax receipts are estimated at $618.2 million, a decline of $48.4 million, or 7.3 percent, from 1998-99. Year-to-date cigarette tax receipts have declined $30 million, or 5.9 percent, while tobacco tax receipts have increased $0.9 million, or 5.9 percent. The declines in taxable cigarette consumption are largely attributable to the impact of the Tobacco Settlement signed in November 1998. As noted above, cigarette manufacturers have increased prices by 63 cents per pack since the settlement was finalized. Also, restrictions on cigarette advertising and a general increase in the awareness of the health consequences of smoking have contributed to long term declining trends in cigarette consumption.

Legislation enacted with the Health Care Reform Act of 2000 raised the State cigarette excise tax by 55 cents per pack to $1.11 per pack effective March 1, 2000. The revenue generated from this additional tax will be deposited in the Tobacco Control and Insurance Initiatives Pool.

2000-01 PROJECTIONS

In addition to the continuing underlying declining trends in cigarette consumption that also impacted 1999-2000 receipts, Federal and State tax increases will have a significant effect on taxable cigarette consumption in 2000-01. As cigarette prices will be high in New York relative to the surrounding states, there will be an added incentive for smokers to purchase bootlegged cigarettes or cigarettes sold through mail order or on the Internet. Overall taxable cigarette consumption is estimated to decrease by approximately 20 percent in 2000-01 relative to 1999-2000. The Governor will propose a comprehensive program to expand the Department of Taxation and Finance's efforts to contain the illegal bootlegging of cigarettes.

The tax on tobacco products is expected to total $20.6 million, an increase of $0.8 million from 1999-2000. This increase is largely due to a continuation of the consumption trends established in 1999-2000 and an expected shift of some current cigarette smokers to tobacco products, including roll-your-own tobacco, as a result of the large cigarette price increases.

Total cigarette and tobacco tax revenue is estimated at $937 million. Of the $1.11 per pack total cigarette tax, 55 cents or 49.55 percent will be deposited in the Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000 and the $496.7 million balance will be deposited in the General Fund.

Cigarette and Tobacco Taxes

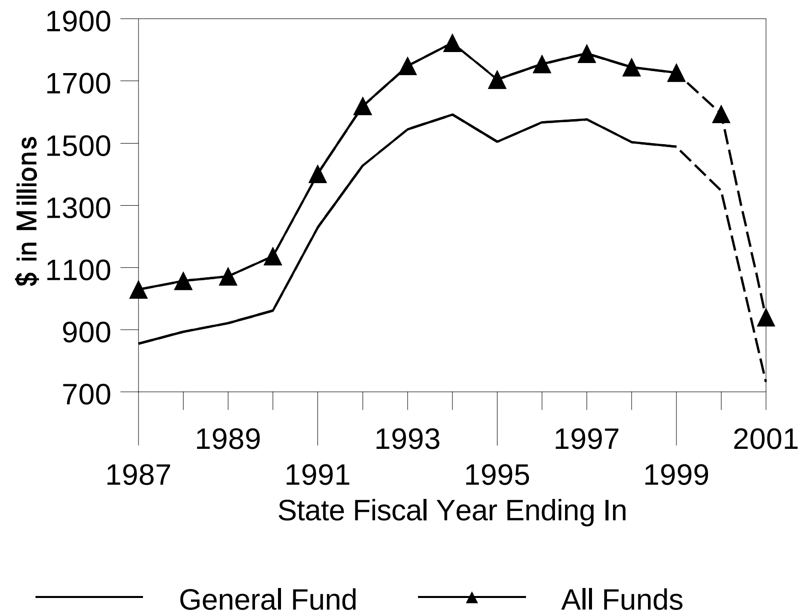
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
			---------- Actual ----------				
1991-92	$601,851	$5,692	$596,159	. . . .	. . . .	. . . .	$596,159
1992-93	560,584	5,497	555,087	. . . .	. . . .	. . . .	555,087
1993-94	716,103	8,485	707,618	. . . .	. . . .	. . . .	707,618
1994-95	734,134	7,638	726,496	. . . .	. . . .	. . . .	726,496
1995-96	700,691	7,275	693,416	. . . .	. . . .	. . . .	693,416
1996-97	675,756	8,724	667,032	. . . .	. . . .	. . . .	667,032
1997-98	680,950	5,447	675,503	. . . .	. . . .	. . . .	675,503
1998-99	671,699	5,118	666,581	. . . .	. . . .	. . . .	666,581
			---------- Estimated ----------				
1999-2000 . .	$623,200	$5,000	$618,200	. . . .	. . . .	. . . .	$618,200
2000-01*	501,700	5,000	496,700	. . . .	. . . .	. . . .	496,700

*Note: In 2000-01, an estimated $441 million will be deposited in the Tobacco Control and Insurance Initiatives Pool.

CORPORATION AND UTILITIES TAXES (Article 9)

Corporation and Utilities Taxes
History and Estimates



Article 9 of the Tax Law imposes taxes on a number of industries, including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives. The primary sources of Article 9 receipts come from gross receipts taxes on the public utility, telecommunications, and transportation industries. In addition, most Article 9 taxpayers that conduct business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their liability attributable to the MCTD. Surcharge receipts plus portions of other Article 9 taxes are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

SECTIONS OF THE TAX

Article 9 comprises several sections of the Tax Law that impose various taxes and specific levies on public utilities, transportation companies, and other corporations. The following is a discussion of these sections. In addition, the pie chart in the Historical Receipts section depicts the percent of 1998-99 Article 9 General Fund collections for each section.

Section 180 assesses an organization tax upon newly incorporated or reincorporated domestic (in-State) corporations. The tax is imposed at a rate of 1/20 of 1 percent of the total amount of the par value of the stock that the corporation is authorized to issue; for shares without par value the rate is five cents per share. Any shares subsequently authorized or changes in the capital structure (shares with par value to shares without par value, visa versa, or combination of) shall have a like tax imposed upon those shares.

Section 181 imposes a license fee on out-of-State corporations for the privilege of exercising a corporation franchise or conducting business in a corporate or organized capacity in New York State at a rate equivalent to the organization tax imposed by section 180. An annual maintenance fee of $300 is also imposed.

Section 183 provides for a franchise tax on transportation and transmission companies including telecommunications, pipeline, trucking, railroad, and other transportation companies. The tax is imposed on these companies either at the rate of 1.5 mills on each dollar of net value of issued capital stock allocated to New York State, or if dividends paid on its capital stock are 6 percent or more, the tax rate is 3/8 of a mill for each 1 percent of dividends. There is a minimum tax of $75, but the method of computation that yields the largest tax is controlling. Over 1 percent of 1998-99 Article 9 General Fund collections were derived from section 183 taxes.

Section 184 is imposed on the gross earnings of transportation and local telecommunications corporations from all sources in the State, including an allocated portion of receipts from interstate activities. The tax rate on local telephone companies will be 0.75 percent through June 2000 and 0.375 percent, thereafter. Furthermore, all toll revenues from international, interstate, and inter-Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA toll revenues are excluded from the tax base. Under this section, railroad and trucking companies that elect to remain subject to Article 9 taxes face a rate of 0.6 percent, which is further reduced to a 0.375 percent rate for periods beginning in July 2000 and thereafter. Approximately 3 percent of 1998-99 Article 9 General Fund collections were attributable to section 184 taxes.

Section 185 imposes a franchise tax on agricultural cooperatives at the rate of 1 mill per dollar of the net value of the corporation's issued capital stock allocated to New York State.

Section 186 imposes a franchise tax on public utilities including waterworks companies, gas companies, and electric or steam heating, lighting, and power companies. The tax is assessed at the rate of 0.75 percent on gross earnings and 4.5 percent on the amount of dividends paid which exceed 4 percent of the amount of paid-in capital employed in New York State. Section 186 taxes contributed over 12 percent of 1998-99 Article 9 General Fund collections.

Section 186-a imposes a tax on the gross income from furnishing utility services (including both the energy and lighting public utilities). Section 186-e imposes a tax on the gross receipts generated from telecommunications services. The rate for both section 186-a and section 186-e was reduced from 3.5 percent to 3.25 percent on October 1,1998, and to 2.5 percent beginning January 1, 2000. Section 186-a and 186-e taxes accounted for over 79 percent of Article 9 General Fund collections in 1998-99.

Section 189, effective August 1, 1991, imposes a tax on the importation of natural gas for use by the importer. The rate of this tax is 4.25 percent of the wellhead cost of the gas. Taxpayers producing or extracting gas from their own gas wells for their own use are exempt from this tax, as is gas used by cogenerators for host site energy production.

PAYMENT OF THE TAX

The first payments of the year's liability, under the franchise taxes imposed by Article 9 (corporation tax), Article 9-A (general business tax), or Article 32 (bank tax), are considered payments of section 180 or 181 liability. After the Tax Department determined that maintenance fee receipts paid by corporations together with their other franchise tax remittances should be reflected in the Department's accounts as section 181 liabilities, adjustments were taken in 1996-97 and 1997-98 for remittances for corporations' franchise taxes for liability years ending in 1993, 1994 and 1995. Such adjustments are not a net cash gain to the financial plan, however, because the roughly $34 million and $20 million increases in section 181 receipts are fully offset by reductions in other tax articles, primarily the corporation franchise tax. Adjustments for liability years ending in 1997 and 1998 are estimated to increase section 181 receipts by approximately $20 million in 1999-2000.

Taxpayers subject to sections 184, 186, 186-a and 186-e make tax payments on an estimated basis in March, June, September and December. A final payment is made in March. These payment schedules are comparable to those required for corporations taxable under other articles of the Tax Law.

Furthermore, for taxable years beginning in 1994, State estimated tax rules for large businesses conform to Federal rules. This requires affected firms to pay 100 percent of their tax liability by the 12th month of their fiscal year.

RECENT LEGISLATIVE CHANGES

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Imposed a 15 percent surcharge on tax liability after credits.	January 1, 1990
Section 184	Increased the rate from 0.3 to 0.75 percent.	January 1, 1990
Section 186-a	Provided that local exchange carriers could no longer exclude receipts from the sale of carrier access services to a long distance carrier.	July 1, 1990
Legislation Enacted in 1991		
Section 189	Imposed a tax of 4.25 percent on every gas importer for the gas services imported or caused to be imported into this State by such gas importer for its own use or consumption.	August 1, 1991
Legislation Enacted in 1992		
Financial Resource Asset Allowance	Allowed certain utilities that established a financial resource asset for rate-making purposes, (with PSC permission) to deduct an allowance from gross earnings subject to tax under section 186 and section 186-a.	January 1, 1992
Legislation Enacted in 1993		
Economic Development Zone Credit (EDZ)	Allowed regulated utilities to apply 96.5 percent of the 3 percent discount on gas, electric, steam or water sales or services rendered in an EDZ against tax liability.	January 1, 1993

Subject	Description	Effective Date
Legislation Enacted in 1994		
Temporary Business Tax Surcharge	Reduced the surcharges for sections 183, 184, 186, and 186-a from 15 percent to 10 percent, to 5 percent, and finally to 0 percent over three years.	January 1, 1994
Legislation Enacted in 1995		
Telecommunications Act of 1995	Restructured the transmission portion of section 184 to apply to only local telecommunication services. Also, all toll revenues from interstate, and inter-LATAs services were exempted.	January 1, 1995
	Enacted section 186-e, which imposed a 3.5 percent excise tax on receipts from telecommunications services.	
	Replaced the property factor with a Goldberg allocation. Under the Goldberg allocation method, receipts are allocated to New York if the call originates or terminates in this State and is charged to a services address in this State, regardless of where the charges for such services are billed or ultimately paid.	
	Shifted the access deduction from inter-exchange carriers and local carries who are ultimate sellers to initial sellers.	
Section 184	Exempted 30 percent of intra-LATA toll receipts.	January 1, 1996
Legislation Enacted in 1996		
Trucking and Railroad Companies	Allowed these companies the option of being taxed under the general corporate franchise tax.	January 1, 1997
	Reduced the rate on section 184 for these companies from 0.75 percent to 0.6 percent.	
Legislation Enacted in 1997		
Power for Jobs Program	Created a new tax credit against section 186-a, to compensate utilities for revenue losses associated with participation in the program. (The program makes low-cost power available to businesses, small businesses and not-for-profit corporations for job retention and creation.) The credit is allowed to the utility providing power to retail customers selected by the Power Allocation Board.	1997
Alternative Fuels Vehicle Credit	Created a credit equaling 50 percent of the incremental costs (capped at $5,000 per vehicle); 60 percent of the cost of clean-fuel components (capped at $5,000 or $10,000 per vehicle depending on weight); and 50 percent of the cost of new clean-fuel refueling property.	January 1, 1998
Rate Reductions	Reduced section 184 tax rate from 0.75 percent to 0.375 percent.	January 1, 1998
	Reduced section 186-a and section 186-e tax rates from 3.5 percent to 3.25 percent as of October 1, 1998 and to 2.5 percent on January 1, 2000.	

Subject	Description	Effective Date
Credit for Employers Who Hire Persons With Disabilities	Created credit equaling 35 percent of the first $6,000 of qualified wages (maximum of $2,100 per employee).	January 1, 1998
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Section 189	Exempted generation plants that import natural gas for the production of electricity.	January 1, 2001
Section 183	Eliminated the excess dividends base for those local telecommunications companies with fewer than one million access lines.	January 1, 2002

HISTORICAL RECEIPTS

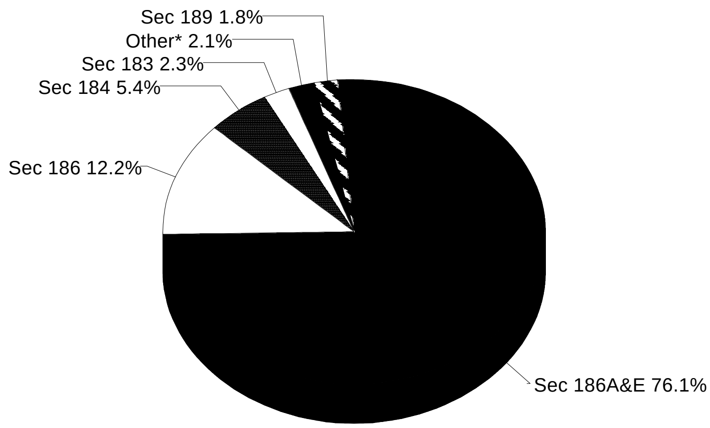
For State fiscal years 1989-90 through 1998-99, Article 9 receipts have been highly variable. To a great extent, this volatility is the product of legislative changes. The average annual growth rate for All Funds Article 9 receipts for this time period is 5.11 percent. This includes a high of 23.43 percent and low of -6.46 percent. Average baseline growth (growth from residential, commercial and industrial electricity, natural gas services, and telecommunication services), however, was only 2.97 percent after correcting for law changes.

General Fund

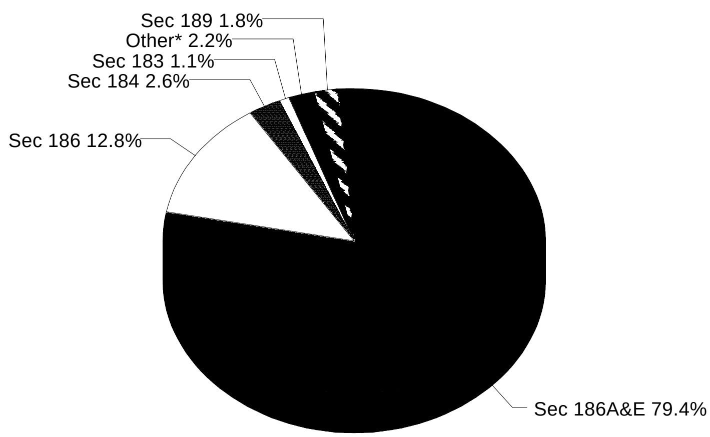
The pie charts below show the breakdown of collections, by section of law, for All Funds and the General Fund. For State fiscal years 1990-91 through 1998-99, the General Fund has averaged 87.6 percent of All Funds. However, this percentage is expected to decline to 84.2 percent in 1999-2000 and 80.8 percent in 2000-01 due to proposed changes described below.

1998-99 Article 9 Tax Receipts

All Funds Collections Percent Distribution by Section
(includes sections 180, 181 and 185)



General Fund Collections Percent Distribution by Section
(includes sections 180, 181 and 185)



Special Revenue Funds

Special Revenue Funds (SRFs) are dedicated funds used to support activities that are outside the scope of the General Fund. For Article 9, there are two such revenue streams.

Portions of the taxes imposed under sections 183 and 184 are statutorily required to be deposited in the MTOAF. The pie chart above illustrates how this requirement reduces the percentage of Article 9 collections from section 183 and 184 in the General Fund. In the future, receipts from sections 183 and 184 will become an even smaller portion of General Fund receipts. For 1999, 54 percent of total collections were required to be deposited in MTOAF. The deposit requirement increases to 64 percent in 2000 and 80 percent in 2001 and thereafter.

The other portion of Article 9 revenue deposited in a Special Revenue fund is the regional business tax surcharge. Taxpayers that do business within the MCTD (includes the counties of New York, Bronx, Kings, Queens, Richmond, Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester) are subject to a 17 percent surcharge on their liability attributable to the MCTD area.

PROPOSED LEGISLATION

This Budget recommends a complete overhaul of the method used to tax energy companies in recognition of a rapidly evolving marketplace for energy products. Legislation submitted with this Budget will eliminate the section 186 special franchise tax and move these companies to the Article 9-A tax. This will level the competitive playing field so that all energy companies will be subject to the same net income based franchise taxes. The section 189 gas import tax will also be eliminated. In addition, that portion of the 186-a additional franchise tax applicable to revenues from the commodity costs of energy will be phased down and eliminated over a six-year period. When the program is fully effective, Article 9 receipts will be reduced by an estimated $375 million.

The Power for Jobs program was authorized by Chapter 316 of the Laws of 1997, which made available 400 megawatts of lower cost power for use by businesses and not-for-profit companies. Chapter 386 of the Laws of 1998 amended the program to accelerate the power from the third year to the first year of the program and provide for an additional 50 megawatts of power in the third year. Because the demand for low-cost power by New York employers, especially those upstate, exceeds that available for allocation, this Budget recommends further expansion of the program.

The expansion of this program will provide an additional 200 megawatts of low-cost power to upstate businesses. This program will promote job creation and retention by lowering the cost of doing business in New York. Up to $20 million in annual savings will be provided for energy consumers, while the industry transitions to a competitive market.

1999-2000 RECEIPTS

Corporation and utilities taxes for 1999-2000 are expected to yield total All Funds receipts of $1,605 million. This is composed of $1,358 million for the General Fund, and $84 million to MTOAF from sections 183 and 184 and another $163 million to MTOAF from the regional business tax surcharge.

The primary factors used for estimating corporation and utilities tax collections from energy companies are the level of consumption of electricity and natural gas, and the price of each commodity. The table below illustrates annual consumption of electricity and natural gas and estimates of sales through 2000. The information shown for the years 1990 to 1998 is based on published reports of the Public Service Commission, while that shown for 1999 through 2000 provides estimates based on the historical data and on forecasts of general economic conditions for such years. The quantities in the table reflect sales to ultimate consumers and do not include sales for resale.

Table 1
History of Electricity and Natural Gas Sales
for 1990 to 2000
(millions)

	Electricity Sales (kilowatt hours)	Percent Change	Gas Sales (M cubic feet)	Percent Change
1990	112,312	0.8	538.3	-4.1
1991	112,426	0.1	523.8	-2.7
1992	111,478	-0.8	589.2	12.5
1993	112,352	0.8	595.1	1.0
1994	113,369	0.9	627.7	5.5
1995	112,771	-0.5	627.5	0.1
1996	113,660	0.8	635.5	1.3
1997	114,087	0.4	613.6	-3.5
1998	112,820	-1.1	509.5	-17.0
1999 (est.)	112,195	-0.6	514.5	1.0
2000 (est.)	115,414	2.9	557.2	4.4

Based on data through September 30, 1999, consumption of electricity in 1999 is estimated to decline by less than 1 percent from the previous year, while the consumption of natural gas is estimated to grow by nearly 1 percent. The price of natural gas is estimated, based on data through September 30, 1999, to increase by over 5 percent in 1999. The price of electricity is estimated to decrease by approximately 1 percent for the same time period.

More than one-third of section 186-a receipts and three-quarters of 184 receipts in recent years have come from telecommunications companies. Former 186-a telecommunication receipts are now received under section 186-e. New services and the explosion in data communications have increased call and message volume, while competition and deregulation have held down prices. Telecommunications companies' gross receipts are estimated to have increased by more than 2 percent for 1999.

Legislation enacted in 1996 to lower section 184 taxes on rail and trucking companies is estimated to reduce collections by $12 million in 1999-2000.

All Fund collections through December 1999 are estimated to be $1,220 million, a decrease of $54 million from the comparable period in 1998. Total receipts for 1999-2000 include an estimated $20 million in audit collections. After adjusting for net refunds, year-to-year cash collections are expected to decline by approximately $122 million or 7.1 percent. Thus, corporation and utilities taxes are expected to yield All Fund receipts of $1,605 million for 1999-2000.

2000-01 PROJECTIONS

Corporation and utilities taxes for 2000-01 are expected to yield total All Fund receipts of $941 million. This is composed of $732 million for the General Fund, $96 million to MTOAF from sections 183 and 184, and another $113 million to MTOAF from the regional business tax surcharge.

For 2000, the consumption of electricity is projected to grow nearly 3 percent and natural gas consumption will increase over 4 percent. For that same time period, the price of electricity is projected to decline less than 1 percent and the price of natural gas is estimated to grow by nearly 5 percent. Factors such as the substitution of cheaper fuel types, the severity of the weather, and the availability of oil or natural gas may influence energy consumption and energy prices. Telecommunications companies' receipts are expected to grow approximately 2.6 percent.

Apart from underlying economic activity and related changes in the price and quantity of utility services consumed, collections will be affected by scheduled tax rate reductions. The rate reductions enacted in 1997 are estimated to reduce collections in 2000-01 by approximately $417 million. The Power for Jobs tax credit program, first enacted in 1997 and accelerated by legislation enacted in 1998, will reduce receipts by an estimated $100 million. Collections of prior-year liabilities, after audit, are projected at $20 million in 2000-01. Thus, under current law, total receipts are projected at $1,250 million.

The proposed legislation included in this Budget results in a reduction of Article 9 receipts by an estimated $309 million for 2000-01. All Fund receipts, under proposed law, are projected at $941 million for 2000-01.

RISKS

The forecast assumes average temperature ranges during 2000 and 2001. Continued milder-than-average weather could reduce heating or cooling energy demand and lower consumption below the current forecast. Prices are sensitive to supply and demand, conditions in the commodity markets, and general inflation. The present forecast is based on the economic projections outlined in the Economic Backdrop section. Continued growth in the U.S. economy will require continued growth in oil and natural gas production to meet domestic demand. In a boom-bust scenario, energy prices could climb rapidly in 2000-01. In a hard-landing scenario, a correction in the financial markets early in 2000 leads to a downward spiral of economic activity, reducing energy consumption below the baseline forecast. Lowered demand would put further downward pressure on energy prices.

Ongoing changes in the regulation of electric services and natural gas distribution and sale have the potential to interact with our tax structure in unpredictable ways. The tax policy changes proposed with the Executive Budget are designed to substitute a coherent tax structure for the current archaic tax framework currently facing energy providers. This will reduce energy costs and prevent uneconomic efforts to avoid tax.

Table 2
Corporation and Utilities Tax Receipts by Section (Article 9)
(millions)

Section of Law	Type of Companies	1998-99 Actual	1999-2000 Estimated	2000-01 Projected	2000-01 Proposed
		Collections [1]			
180	Organizations and reorganizations	$ 7.8	$ 3.0	$ 2.0	$ 2.0
181	Foreign corporations and maintenance fees	25.1	23.0	24.0	24.0
183	Transportation and transmission companies	35.7	46.0	48.0	48.0
184	Additional tax on transportation and transmission companies . .	84.6	96.0	82.0	82.0
185	Agricultural cooperatives	0.1	0.2	0.2	0.2
186	Water, steam, gas, electric, light and power companies	190.2	191.0	196.0	0.0
186a&e	Public utilities	1,182.8	1,056.8	728.8	672.0
189	Natural gas importers	27.4	26.0	29.0	0.0
	Subtotal	$1,553.7	$1,442.0	$1,108.0	$828.2
			Special Revenue Funds		
	Less Other Funds MTOA [2]	64.9	84.0	96.0	96.0
	Net General Fund	$1,488.8	$1,358.0	$1,012.0	$732.2

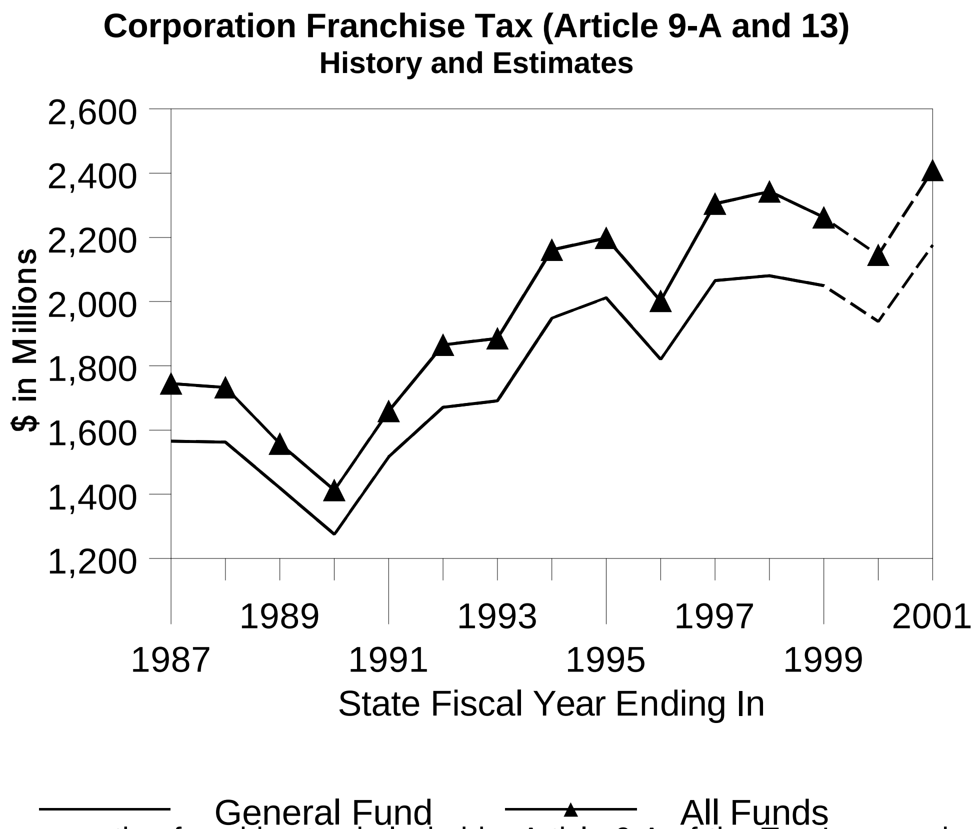
[1] Receipts from the regional business tax surcharge are excluded.
[2] Per statute, 54 percent of sections 183 and 184 receipts in 1998 and 1999, 64 percent in 2000, and 80 percent in 2001 and thereafter, are dedicated to the Mass Transportation Operating Assistance Fund (MTOAF).

Table 3
All Funds Receipts from Corporation and Utilities Taxes (Article 9)
(millions)

	Gross General Fund	Refunds	Net General Fund	Gross Special Revenue Funds	Refunds	Net Special Revenue Funds [1]	Capital Projects Funds	Gross Debt Service	All Funds Net Collections
					Actual				
1991-92	$1,446	$17	$1,429	$191	. . . .	$191	. . . .	. . . .	$1,620
1992-93	1,549	5	1,544	206	$1	205	. . . .	. . . .	1,749
1993-94	1,604	12	1,592	232	1	231	. . . .	. . . .	1,823
1994-95	1,574	69	1,505	204	3	201	. . . .	. . . .	1,706
1995-96	1,581	14	1,567	190	1	189	. . . .	. . . .	1,756
1996-97	1,616	39	1,577	214	2	212	. . . .	. . . .	1,789
1997-98	1,517	13	1,504	264	2	262	. . . .	. . . .	1,766
1998-99	1,506	17	1,489	240	2	238	. . . .	. . . .	1,727
					Estimated				
1999-2000 . . .	$1,377	$19	$1,358	$249	$2	$247	. . . .	. . . .	$1,605
2000-01 (Current law)	1,019	17	1,002	250	2	248	. . . .	. . . .	1,250
2000-01 (Proposed law)	749	17	732	211	2	209	. . . .	. . . .	941

[1] Receipts from the regional business tax surcharge and funds dedicated to MTOAF sections 183 and 184

CORPORATION FRANCHISE TAX
(Article 9-A and 13)



The corporation franchise tax is levied by Article 9-A of the Tax Law on domestic corporations for the privilege of exercising their corporate franchise and on foreign corporations for the privilege of doing business, employing capital, owning or leasing property, or maintaining an office in New York.

Corporate franchise tax receipts have historically been characterized by significant volatility. These fluctuations can be attributed to several factors such as variations in the rate of corporate profit growth, changes in the profit performance of important New York industries, such as financial service companies, and tax law and administrative changes.

TAX RATE

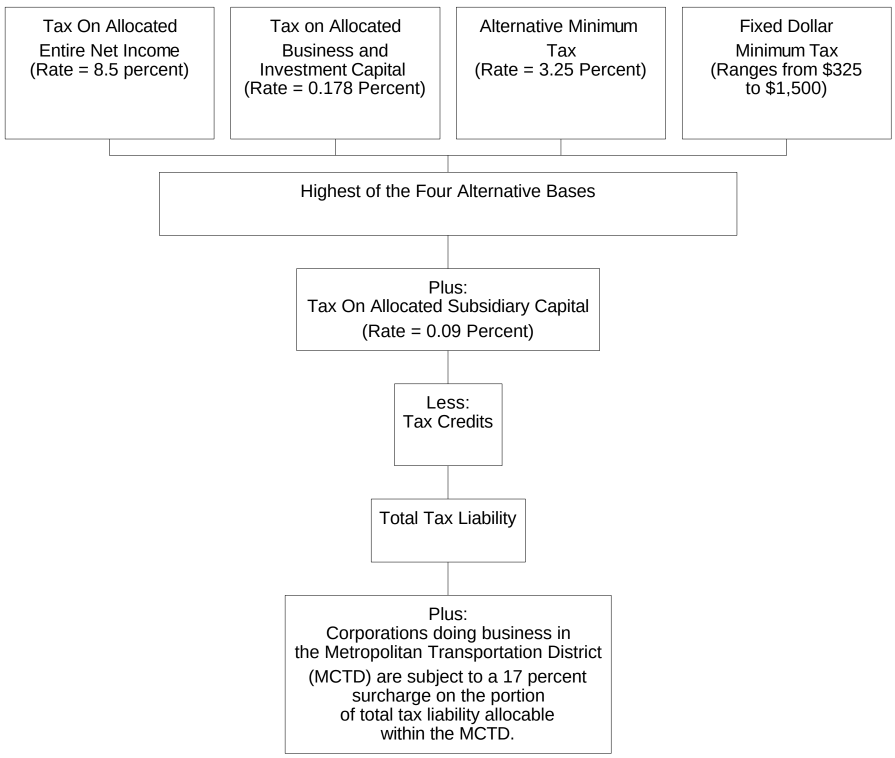
The Article 9-A corporation franchise tax requires a taxpayer to compute tax liability under four alternative bases and pay under the base that results in the largest tax. The four bases apply to:

1. Federal taxable income allocated to New York and modified by the exclusion, deduction, or addition of certain items and reduced by tax credits at a current rate of 8.5 percent.
2. An alternative net income base, which equals entire net income adjusted to reflect certain federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications, at a current rate of 3.0 percent.

3. A capital base at a rate of 0.178 percent. Allocated business and investment capital form the capital base. The maximum annual tax equals $350,000.
4. A fixed dollar minimum, which ranges from $100 to $1,500, depending on the size of the corporation's gross payroll, including general executive officers, during the applicable tax period.

The following flow chart shows the major elements in the computation of Article 9-A tax liability.

Article 9-A Flowchart



For tax years ending after June 1990 and before July 1994, a State business surcharge of 15 percent of tax, after the application of any credits, was in effect. The surcharge fell to 10 percent during 1994, to 5 percent during 1995, and was eliminated during 1996. Since 1990, S corporations have also been required to pay tax based on a differential rate, computed as the difference between the Article 9-A rate and the Article 22 rate.

Under Article 13 of the Tax Law, a tax of 9 percent (plus the applicable surcharge) is levied upon the unrelated business income of otherwise tax-exempt organizations operating in the State.

Table 1
History of Corporate Franchise Tax Rate (ENI Base)
(percent)

Year	1968-70	1971-74	1975-76	1977	1978-84	1985-88	1989	1990-93
ENI Tax Rate	7.000	9.000	9.000	9.000	9.000	9.000	9.000	9.000
Temporary Business Surcharge	. . . .	. . . .	20.000	. . . .	. . . .	15.000	12.500	7.500

Year	1996	1997-98	1999	2000	2001	2002
ENI Tax Rate	9.000	9.000	8.500	8.000	7.500	7.500
Temporary Business Surcharge	2.500	. . . .	. . . .	. . . .	. . . .	. . . .

Source: NYS Department of Taxation and Finance, Office of Tax Policy Analysis

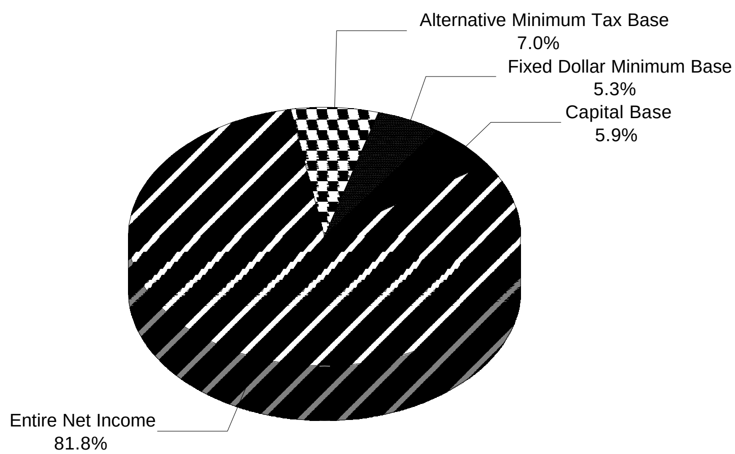
Additionally, legislation first enacted in December 1982, and subsequently extended, imposes a temporary surcharge on business taxes to support mass transportation in the metropolitan commuter transportation district (MCTD). The MCTD comprises New York City, Long Island, and the counties of Dutchess, Orange, Putnam, Rockland and Westchester. The surcharge rate is 17 percent of tax otherwise due, allocable to the district, after deduction of allowable credits and before application of the temporary State business surcharge.

TAX BASE

The New York State Corporate Tax Statistical Report provides detailed data on tax liability which are published by the Office of Tax Policy Analysis. The latest available report was released in August 1999.

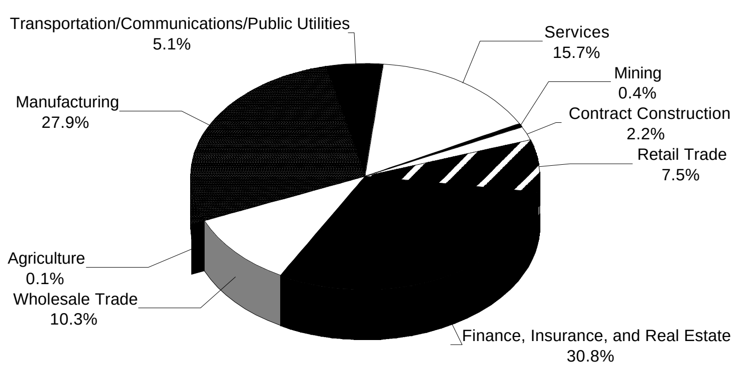
The report includes data on both C corporations and S corporations. In 1995, although the number of C corporation and S corporation tax filers was roughly comparable, C corporations made up the largest share of liability, accounting for 90 percent of total liability. The following pie charts illustrate the share of 1995 tax liability by tax base and the distribution of total tax liability among industries for C corporations. The first chart shows that the entire net income (ENI) base contributed 82 percent of total C corporation tax liability in 1995.

1995 Distribution of Tax Liability by Basis of Tax



The next chart shows the distribution of tax liability by industry. Liability paid by the finance, insurance, and real estate sector (FIRE) made up almost 31 percent of total tax liability paid by C corporation taxpayers in 1995, with manufacturing paying roughly 28 percent. Historically, the FIRE and manufacturing sectors have accounted for between 50 percent and 60 percent of the total corporate franchise liability of C corporations.

1995 Tax Base Industry Profile:
(Share of Total Tax Liability of C Corporation Taxpayers)



Source: New York State Department of Taxation and Finance
*Excludes S corporations taxable under Article 9-A.

EXCEPTIONS TO THE TAX

The corporate franchise tax structure includes various exclusions, exemptions and other statutory devices designed to reduce State tax liability. The distribution of these benefits varies widely among firms. However, the primary objectives are to provide economic incentives to stimulate the New York economy and to eliminate tax inequities across firms.

By law, the use of the business tax incentives listed here may not reduce the final tax liability below the fixed dollar minimum tax. Further, a taxpayer's ability to receive the full benefit of certain tax incentives is limited by the alternative minimum tax (AMT). Taxpayers may not use tax credits to reduce their AMT liability.

As mentioned earlier, New York State imposes a tax on entire net income at a rate of 8.5 percent of Federal taxable income allocated to New York and modified by the exclusion, deduction or addition of certain items. The following table reports the significant legislative actions that have impacted taxpayer's liability.

Subject	Description	Effective Year
Significant Legislation Affecting Modifications to Federal Taxable Income		
New Small Business Exemption	Exempted new small businesses, defined as a small business corporation under the Internal Revenue Code, having at least 90 percent of its assets and 80 percent of its employees located and employed within New York State, that is not a subsidiary of a taxable New York corporation, and is not a corporation which is substantially similar in operation and in ownership to a business entity (or entities) previously taxable under Article 9-A, under the alternative tax based on allocated business and investment capital.	1981
Exclusion of Income for Foreign Airlines	Allowed foreign airlines to exclude the following items from entire net income: all income from international operations of aircraft effectively connected to the United States; foreign passive income, and income earned overseas from overseas operations of aircraft.	1994
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	1994
Mergers and Acquisitions	Repealed the provisions relating to mergers, acquisitions and consolidations.	2000
Airline Apportionment	Reduced the percentage of income apportioned to New York by 40 percent by changing the allocation formula to multiply the New York Factor in the numerator of each component in the formula.	2001
Significant Legislation Affecting Tax Rates		
S Corporation Differential Tax	Imposed of a differential tax on the income of electing New York S corporations, or a fixed dollar minimum, whichever produces the largest liability.	1990
AMT	Expanded of the AMT base by restructuring the AMT computation to more closely parallel the Federal computation, including the elimination of the deduction for prior accrued net operating losses.	1990
AMT	Allowed a net operating loss (NOL) deduction. Allowed double weighting of receipts in the income allocation formula.	1994
AMT	Reduced rate to 3.5 percent.	1995

Subject	Description	Effective Year
AMT	Reduced rate to 3.25 percent, beginning after 6/30/98. Reduced to 3 percent for tax years beginning after 6/30/99.	1998
AMT	Reduced rate from 3.0 percent to 2.5 percent.	2000
ENI	Reduced the tax rate on ENI from 9 percent to 7.5 percent over a three-year period beginning after 6/30/99.	1999
Significant Legislation Involving Credits		
Investment Tax Credit (ITC)	Allowed a credit, based on the cost or other basis for Federal tax purposes, for depreciable tangible personal property acquired, constructed, reconstructed or erected used directly for improvement of pollution control, waste treatment and acid rain control treatments, and used for the purpose of research and development after December 31, 1968.	1987
Economic Development Zone (EDZ)	Allowed EDZ wage tax credit, EDZ capital corporation credit and EDZ investment tax credit. Taxpayers may qualify for a credit for investments in zone capital corporations, direct equity investments in certified zone businesses and contributions to community development credit. Additionally, taxpayers may claim a credit for doing business and creating jobs in EDZ.	1986
Employment Incentive Credit (EIC)	Allowed taxpayers who increase their number of employees to be eligible for the employment incentive tax credit with respect to property that is eligible for the investment tax credit.	1987
Special Additional Mortgage Recording Tax (SAMRT)	Provided for refundability of the unused portion of the SAMRT credit to both regular and S corporation nonbank mortgage lenders.	1994
Employment Incentive Credit (EIC)	Extended carryover period for this credit to 10 years.	1994
Investment Tax Credit Carryforward	Allowed any unused pre-1987 investment tax credit to remain available until 2002. Post-1986 investment tax credit extended to 15-year carryforward.	1997
Rehabilitation Credit for Historic Barns	Allowed taxpayers to claim corporate franchise tax credit for the rehabilitation of historic barns in New York State.	1997
Agricultural Property Tax Credit	Allowed eligible farmers to claim a real property tax credit against the corporate franchise tax.	1997
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting a vehicle to operate on alternative fuels.	1998
Credit for Employing Individuals with Disabilities	Allowed employers who employ individuals with disabilities to claim a credit for a portion of wages paid to such individuals.	1998
Investment Tax Credit for Financial Services Industry	Allowed an investment credit for qualified property used in the financial services industry.	1998

Subject	Description	Effective Year
Emerging Technology Companies Credit	Provided, under the New York State Emerging Industry Jobs Act, corporate franchise tax credits for qualified emerging technology companies that create new jobs, or for certain corporate taxpayers that invest in emerging technology companies located in New York State.	1999
Alternative Fuels	Expanded the alternative fuel credits to electric and clean fuel vehicles sold or leased to governmental entities, provided that the companies manufacture the vehicles in New York and create at least 25 full-time jobs.	2000
EDZ/ZEA Wage Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	2001
Defibrillator Credit	Granted a new credit of $500 per automated external defibrillator.	2001
Other Significant Legislation		
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	1994
Temporary Business Surcharge	Enacted in 1990, and extended in 1992 and 1993, legislation to increase a temporary surcharge in effect since 1981 from 2.5 percent to 15 percent of tax otherwise due.	1990-1994

RECENT LEGISLATION

Recently enacted legislation has focused on expanding existing tax credits while at the same time providing new credit vehicles, as well as overall rate reductions, as a tool to spur business investment and economic development within the State.

The 1998-99 State Budget included a number of Tax Law changes that will have a significant impact on current and future receipts. A significant reduction in receipts will result from the sweeping reductions in corporate franchise tax rates. The following tables outline the rate reduction program enacted in 1999:

Table 1
Large Business Taxpayers

Taxable Year Beginning	Tax Rate
Before July 1, 1999	9.0% of entire net income
After June 30, 1999 and before July 1, 2000	8.5%
After June 30, 2000 and before July 1, 2001	8.0%
After June 30, 2001	7.5%

Table 2
Small Business Taxpayers with ENI of Not More Than $200,000

Taxable Year Beginning	Tax Rate
Before July 1, 1999	8.0% of entire net income
After June 30, 1999	7.5%

Table 3
Small Business Taxpayers with ENI of More Than $200,000, but Not More Than $290,000

Taxable Year Beginning	Tax Rate
Before July 1, 1999	Sum of $16,000, plus 9% of excess of ENI base over $200,000, and 5% of excess ENI over $250,000
After June 30, 1999, and before July 1, 2000	Sum of $15,000, plus 8.5% of excess of ENI base over $200,000, and 5% of excess ENI over $250,000
After June 30, 2000, and before July 1, 2001	Sum of $15,000, plus 8% of excess of ENI base over $200,000, and 2.5% of excess ENI over $250,000
After June 30, 2001	7.5%

Table 4
Alternative Minimum Tax Rate Reduction

Taxable Year Beginning	Tax Rate
Before July 1, 1998	3.50%
After June 30, 1998, and before July 1, 1999	3.25%
After June 30, 1999	3.00%
After June 30, 2000	2.50%

Table 5
Reduction in Fixed Dollar Minimum Tax for Small Business Taxpayers

Gross Payroll	Present Law	Taxable Year Beginning After June 30, 1998 and Before July 1, 1999	Taxable years Beginning After June 30, 1999
$250,000 or less	$325	$100	$100
More than $250,000, but not more than $500,000	$325	$325	$225

The 1999-2000 Enacted Budget included the following targeted tax reductions:

— A new credit of $500 per automated external defibrillator purchased by all business taxpayers;
— New provisions eliminating language inhibiting certain forms of merger and acquisition activity.
— A further reduction in the corporation franchise alternative minimum tax rate from 3 percent to 2.5 percent.
— A reduction in the subsidiary capital tax base in the corporation franchise tax for banks and insurance subsidiaries, and for gas and electric subsidiaries.
— A doubling of economic development zone and zone equivalent area wage credits.
— An expansion of alternative fuels credits to certain vehicles leased to government entities, provided the company produces the vehicles in New York and creates at least 25 full-time jobs.
— New rules permitting air freight forwarders to file combined returns with their affiliated airlines, and to allocate their income by the specialized airline industry allocation factors.
— A change in the formula used to apportion airline income to New York.

PROPOSED LEGISLATION

This year the Governor has proposed several initiatives designed to further promote economic development in New York.

— **Energy Restructuring:** For taxable years beginning on or after January 1, 2000, energy companies, previously taxed under section 186 of Article 9, will now be subject to the Article 9-A corporate franchise tax.
— **Urban Jobs Credit:** This targeted tax credit will provide an incentive to businesses to expand their workforce in cities in upstate New York State. The credit applies to any employer who employs more than 25 new workers in a year, above a base year employment level. This credit will be as much as $1,000 for every worker over the 25 person threshold.
— **Brownfield Tax Credit:** This tax credit provides incentives to business and personal income taxpayers to encourage the voluntary clean-up of brownfields.
— **Green Buildings Tax Credit:** This tax credit is designed to enhance the construction and rehabilitation of environmentally sound buildings. Building owners will be provided a credit for the incremental cost of making a new or existing building meet higher environmental and health standards.
— **Homeowners' Associations:** Homeowners' associations function as nonprofit entities receiving dues from members. Currently, these associations pay a fixed-dollar minimum tax under the New York's corporate franchise tax, even though these associations have no taxable income for Federal income tax purposes. This proposal will eliminate the fixed-dollar minimum tax basis, hence relieving these associations from paying the State's franchise tax.
— **Low- and Moderate-Income Working Family State Housing Credit:** Mirroring the structure of the existing Federal low-income housing tax credit, this State program expands the Federal program to include more moderate-income households.
— **Small Business Rate Reduction:** Prior to the 1998-99 corporate franchise rate reductions, the tax rate for small businesses with entire net income (ENI) of not more then $200,000 was 8 percent, and the tax rate for small businesses with entire net income between $200,000 and $290,000 was set at a sliding scale between 8 percent and the 9 percent. The 1998-99 Enacted Budget reduced the tax rate to 7.5 percent for all taxpayers. This proposal seeks to lower the tax rate for small businesses in New York to 6.85 percent.

- **Repeal S corporation Differential Rate:** This proposal seeks to conform New York's Tax Law with Federal tax law for the purposes of S corporation taxation. Eliminating the S corporation differential rate will allow S corporations to be treated, for State tax purposes, as the pass-through entities that they were intended to be at the Federal level.
- **Transportation Access Program:** This program encourages businesses to make contributions to the State for the construction of transportation improvement projects. Taxpayers who invest in large transportation infrastructure projects, with values of at least $10 million, will receive a tax credit based on the increase in their payroll over a base amount. In addition, the company must add at least 1,000 new jobs Statewide to qualify for the program. This initiative ultimately helps to promote cooperate public-private partnerships to improve the State's infrastructure.
- **Biotech Refundable Credit:** This program will provide biotechnology companies incentives to invest in the State by allowing them a partial refund of unused tax credits.
- **Upstate High Technology Enterprise Zones:** This new initiative will promote high technology economic development in upstate areas outside the Metropolitan Commuter Transportation District. High technology companies who locate or expand in any upstate county or city will be eligible for the following package of incentives:

  Elimination of the Gross Receipts Tax on Energy (GRT) — Qualifying high-technology companies will receive a tax credit that rebates all energy GRT payments.

  Enhanced Qualified Emerging Technology Tax Credit (QETC) — Large technology companies that increase their employment in the zone by 10 percent above their current statewide employment will receive a new credit of $2,000 per new employee. Smaller companies will see a doubling of their existing credit to $2,000 per new employee.

  New Research and Development Credit — Qualified companies will receive a credit modeled on the current Federal credit for research and development costs.

  Interest-Free Investments — New high technology companies will receive a refundable credit for all interest paid associated with projects in the zone, making the cost of capital in the zone for these firms essentially interest-free.

GENERAL FUND RECEIPTS: REVIEW OF RECEIPTS HISTORY

For Federal and State tax purposes, general business corporations operate either on a calendar year or, where the taxable fiscal year ends on the last day of a month other than December, on a fiscal-year accounting basis. All corporations follow a quarterly payment cycle, with payment dates for calendar year corporations on the 15th day of March, June, September, and December. During any State fiscal year, collections under the corporation franchise tax reflect payments by fiscal year corporations primarily for two tax liability periods.

In 1994, payments on liability for calendar year taxpayers increased by just under 10 percent, only slightly below the national profits growth rate of 13 percent. The broad base of this growth becomes even more evident in light of the weakness in the financial services industry in 1994, which, according to the Value Line Investment Survey, experienced a net profit decline of more than 50 percent between 1993 and 1994. This strong growth in profits was the primary factor contributing to record receipts in 1994-95, which topped the $2 billion mark, the third largest total in history.

Total collections in 1995-96 declined by just under 10 percent from the prior fiscal year. This reduction was, in part, the result of business tax cuts enacted in 1994, including the phase down of the business tax surcharge.

Reported collections in 1996-97 exceeded those of the 1995-96 period by 13 percent. Strong receipts growth was driven largely by security industry profit growth, which exceeded 53 percent in 1996. The robust financial services sector, combined with moderate growth in the broader economy, offset the impact of the reduced surcharge rate and the second year impact of the 1994 tax cuts. In addition, audit collections increased by 9 percent from the 1995-96 levels and refunds decreased by 12 percent for the same period.

Receipts growth slowed in 1997-98, as collections exceeded the 1996-97 level by almost 1 percent but remained 14 percent above the 1995-96 results. Again, the results were supported by a strong financial services industry. Securities sector profit growth exceeded 26 percent in 1997. However, calendar year corporations' payments on 1997 liability during 1997-98 increased by just over 2 percent. These payments were reduced, in part, because of lower 1997 estimated liability and the large first installments made by corporations in March of 1996-97. Final payments on 1997 liability from fiscal year taxpayers during 1997-98 increased by almost 33 percent, and payments on 1998 liability by fiscal year taxpayers increased by almost 12 percent. Audit payments remained virtually unchanged, increasing by less than 1 percent. However, refunds declined by over 13 percent from their 1996-97 level, adding almost $47 million to 1997-98 net receipts when compared to the previous year.

State fiscal year 1998-99 collections were weak primarily due to the continued impact of corporate franchise tax reductions and the weak earnings performance of the financial service industry. In addition, the volatility of the global economy led to considerable losses for companies participating in international capital market activities. For example, one New York based firm reported its first quarterly loss in nine years during the third quarter of 1998. Another financial services firm reported a 79 percent decline in after-tax profits during the third quarter. Net collections for 1998-99 declined by 1.5 percent to $2,049 million.

Mergers and Acquisitions Activity

Securities company profit levels have benefitted from the surge in mergers and acquisitions over the last few years. Recently, Bankers Trust acquired Alex Brown and Sons; Dean Witter Discover and Morgan Stanley merged; the Travelers Group acquired Salomon Brothers and merged this firm with its subsidiary Smith Barney; subsequently, Citicorp and Travelers merged, creating Citigroup; and Merrill Lynch acquired Mercury Asset Management. In the long run, these transactions are expected to increase the value of the combined firms. However, the complexity of these transactions and the associated costs often make estimating profit performance and associated tax liability more volatile in the short run.

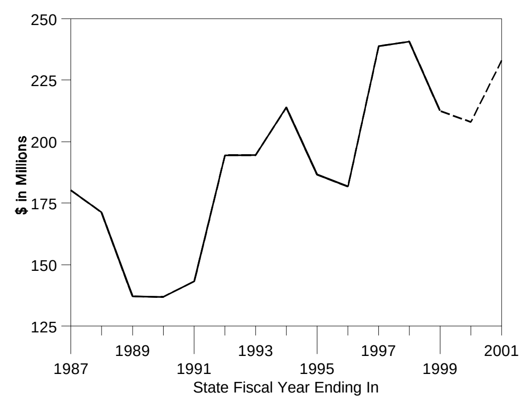
SPECIAL REVENUE FUND

In December 1982, a two-year surcharge on State business taxes (bank tax, corporation franchise tax, corporation and utilities taxes, and insurances taxes) was adopted to help finance mass transportation in the downstate metropolitan region. Statutes through 1997 have periodically extended the temporary surcharge, most recently for a period of four years. The surcharge is imposed at a rate of 17 percent of the portion of the statewide tax liability of the business that is allocated to the Metropolitan Commuter Transportation District (MCTD) and is the principal revenue source of the Mass Transportation Operating Assistance Fund (MTOA).

As one can observe from the graph, MTOA receipts have been quite volatile in the recent years. The surcharge is remitted quarterly on an estimated basis. Business tax surcharge receipts were inflated in State fiscal year 1991-92, and to a lesser extent, in 1992-93 by the effects of the conversion to quarterly estimated payments from the prior annual remittance schedule.

Similar to the situation for General Fund receipts, the performance of the financial services sector significantly affects surcharge collections. The exceptionally strong 1993 earnings performance of the financial services industry in New York City was the primary reason for the sharp increase in 1993-94 surcharge collections.

Special Revenue Collections



In recent years, volatility has been driven primarily by financial services sector performance. Due to weakness in the financial services sector and late enactment of the 1995 legislation to extend the surcharge, collections declined in 1994-95. Collections in 1995-96 continued to move downward but picked up significantly in 1996-97 due primarily to a resurgence in financial sector performance. Collections from the surcharge reached a peak in 1997-98 at $240.7 million and are expected to decline and moderate in the ensuring years. State fiscal year 1998-99 saw a decline of 12 percent as a direct result of a general decline in business tax receipts in 1998-99.

1999-2000 RECEIPTS

Based on collections to date, net collections for the entire period are projected to reach approximately $1,938 million. This is a $112 million decrease from 1998-99. The decrease is primarily attributable to the lower payments on 1999 liability during 1999-2000 and increased adjustments (refunds and credit carry forwards) to prior-year payments.

Additionally, the decline in corporate franchise tax receipts has resulted from the phase-in of business tax reductions. Additionally, the forecast contains risks with regard to the performance of Wall Street financial service companies in 1999.

2000-01 PROJECTIONS

Based on an analysis of the long-term relationship between economic activity and underlying corporate tax liability, corporate franchise tax receipts are estimated to increase by 12 percent in 2000-01. This analysis takes into account the fact that New York's business cycles do not necessarily synchronize with the U.S. economy.

Given the considerable downside risk in the current year, some upside risk exists in the out-years due to the passage of a financial-services reform bill in Congress. The Gramm-Leach Bill repeals parts of the Glass-Steagall Act and the 1956 Bank Holding Company Act which, until now, did not permit insurance, bank, and brokerage firms to enter each other's markets. Large brokerage houses based in New York City stand to gain from increased activity in merger and acquisitions and advisory business.

Additionally, combinations of solid demand and rising productivity have helped sustain and will continue to increase corporate profits as we head into the future. Overall, the economy has been sustained by the longevity of the bull market and continued consumer spending; none of which seem to be slowing down. This profit performance should eventually result in higher corporate liability. However, as already discussed, there are significant factors which mask the relationship between cash receipts and underlying liability.

Corporate Franchise Tax Receipts

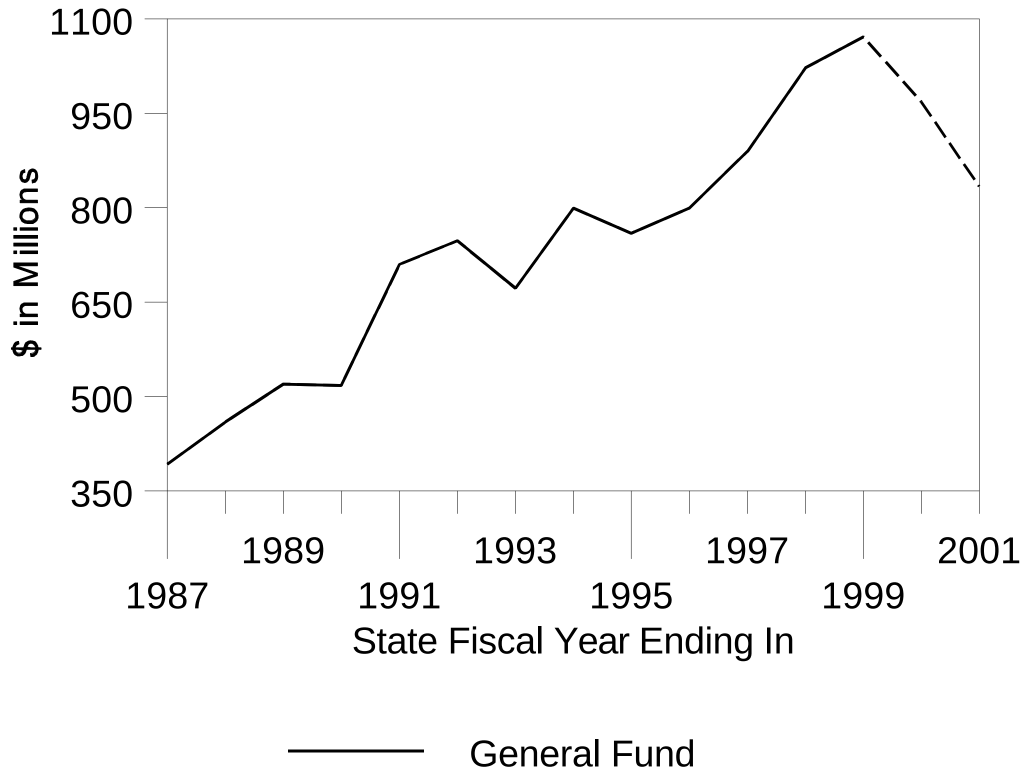
(millions)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Refunds	Net Special Revenue Funds [1/]	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
			Actual						
1991-92	$1,981	$310	$1,671	$207	$13	$194	....	....	$1,865
1992-93	2,033	342	1,691	210	16	194	....	....	1,885
1993-94	2,216	268	1,948	232	18	214	....	....	2,162
1994-95	2,289	277	2,012	206	20	186	....	....	2,198
1995-96	2,216	396	1,820	217	35	182	....	....	2,002
1996-97	2,414	347	2,067	273	35	238	....	....	2,305
1997-98	2,381	300	2,081	289	27	262	....	....	2,343
1998-99	2,479	429	2,050	243	31	212	....	....	2,262
			Estimated						
1999-2000	$2,373	$435	$1,938	$232	$24	$208	....	....	$2,146
2000-01 (current law)	2,279	346	1,933	229	23	206	....	....	2,139
2000-01 (proposed law)	2,567	391	2,176	260	27	233	....	....	2,018

1/ Mass Transportation Operating Assistance Fund

ESTATE AND GIFT TAXES

Estate and Gift Taxes Receipts
History and Estimates



CURRENT LAW

New York imposes a tax on the estates of deceased New York residents, and on that part of a nonresident's net estate made up of real and tangible personal property located within New York State. The tax applies to that portion of the estate in excess of any taxable gifts already made.

The Federal definition of "gross estate" is the basis for computing New York estate tax liability. This greatly simplifies the administration of estates by executors, eliminates overlapping tax procedures, and allows a more rapid determination of tax liability. An executor of an estate may value the estate as of the date of death or at the time that the estimated tax payment is due.

For those dying before February 1, 2000, New York's tax rates range from 2 percent of the first $50,000 of net taxable transfers to 21 percent of net taxable transfers in excess of $10.1 million. For those dying on or after October 1, 1998, and before February 1, 2000, the maximum unified credit is $10,000, which eliminates the State estate tax for estates valued up to $300,000.

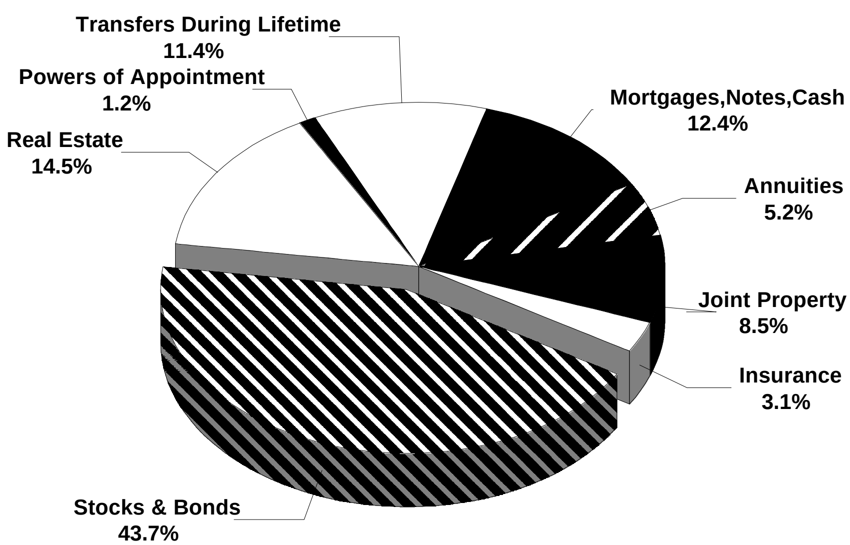
Also, for those dying before February 1, 2000, special real property valuation provisions lower State estate tax liability and ease the payment burden for farms and other closely held businesses. New York State permits farming and other closely held businesses to value qualified real property at current use, rather than best use, value. The provision provides estate tax relief by allowing the value of the property to be reduced by as much as $750,000.

A portion of New York's estate taxes paid may be applied as a "credit" against Federal estate tax liability. This portion varies with the size of the taxable estate ranging from zero for taxable estates of $300,000, to a maximum credit of 76 percent for taxable estates of $10 million or more. Most states set their tax to equal this credit. New York's estate tax law will create a liability in excess of this credit until February 1, 2000. After this date, New York will only tax up to the maximum Federal credit.

FACTORS AFFECTING YIELD

The yield of this tax is heavily influenced by three factors: tax changes, variations in the relatively small number of large estates, and the value of stocks and bonds, usually the largest component of taxable estates.

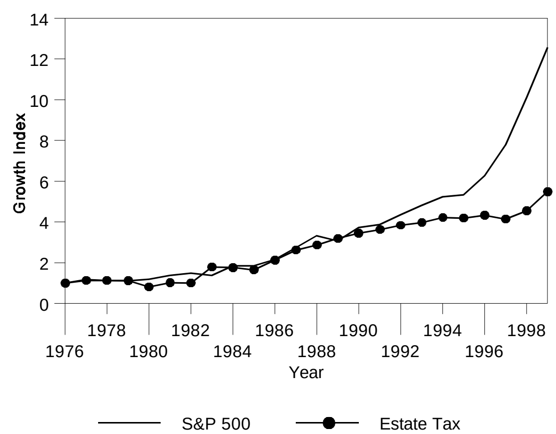
Components of Taxable Gross Estate 1997-98



Source: New York State Department of Taxation and Finance

As already reported, the enactment of various Tax Law changes has had a significant impact on collections in recent years. Historically, fluctuating security prices and varying numbers of large estates have caused wide fluctuations in collections. The historical relationship between growth in equity assets and estate tax collections is evident in the accompanying chart. The 1990's have led to some divergence in the common trend as a result of the very rapid increases in the equity markets.

Relationship of Equity Market and Estate Tax Receipts (1976 Base Year = 1)



RECENT STATUTORY CHANGES

The major statutory changes of the past several years are reported below.

Subject	Description	Effective Date
Legislation Enacted in 1991		
Tax Liability	Increased estimated tax payable from 80 percent to 90 percent.	June 12, 1991
Legislation Enacted in 1994		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,750 to $2,950, thereby eliminating the tax on taxable gifts/estates of $115,000 or below, up from $108,600.	June 9, 1994
Legislation Enacted in 1995		
Deduction	Authorized a principal residence deduction of $250,000 (maximum).	
Legislation Enacted in 1997		
Unified Credit for Estate and Gift Taxes	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable gifts of $300,000 or below.	January 1, 1999
	Increased credit to eliminate tax on taxable estates of $300,000 or below.	October 1, 1998
	Increased credit to eliminate tax on taxable estates of $675,000 or below.	February 1, 2000
	Increased credit to eliminate tax on taxable estates of $700,000 or below.	February 1, 2002
	Increased credit to eliminate tax on taxable estates of $850,000 or below.	February 1, 2005
	Increased credit to eliminate tax on taxable estates of $950,000 or below.	February 2, 2006
	Increased credit to eliminate tax on taxable estates of $1,000,000 or below.	February 1, 2006

Subject	Description	Effective Date
Estate Tax Rate	Set the New York estate tax rates equal to the Federal credit for State estate taxes paid.	February 1, 2000
Gift Tax	Repealed.	January 1, 2000
Tax Liability Due Date	Increased from six to seven months	October 1, 1998
	Increased from seven months to nine months (same as Federal).	February 1, 2000

1999-2000 RECEIPTS

In developing projections for estate tax receipts, the relationship between large and small estate collections and changes in the value of household equity is used to grow this component of collections to capture the recent divergence. A distributional analysis is utilized to estimate the value and number of large dollar estates.

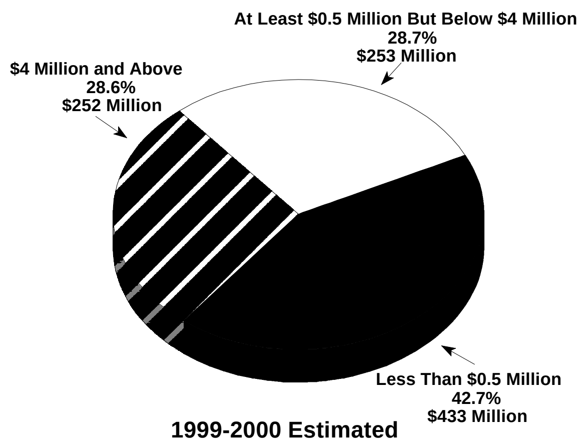
Estimated net estate tax collections of $725.0 million for the first nine months of 1999-2000 are 5.0 percent lower than collections during the comparable period in 1998-99. Benefitting collections in 1999-2000 were growth in household net worth of 4.8 percent (up from 4.3 percent of the prior year) and growth in equity values of 22.4 percent. However, the revenue effects of the 1998 Federal conformity legislation, the increase in the unified credit, and the deferral of tax payments by one month are the major contributors to this shortfall.

Estimated nine-month collections from estates with payments of at least $4 million were about $110.0 million, approximately equal to the comparable period in 1998-99. Although equity values grew 32.2 percent from the similar period in 1998-99, collections from large estates with tax payments of at least $0.5 million but less than $4 million actually decreased by $20 million. Similarly, small estate tax payments (payments of less than $0.5 million) experienced a decrease of $50 million, down 12.5 percent from the similar period in 1998-99.

Collections through nine months of 1999-2000 from the Tax Department's Case and Resource Tracking System (CARTS — primarily audit collections) have reached $19.2 million, a decline of about 25.7 percent from the same period of 1998-99.

For the 1999-2000 fiscal year, gross estate tax receipts, not including refunds, are estimated to total $913 million, composed of $250 million from estates valued at $4 million or more, $240 million from the rest of the large estates category, and $423 million from small estates. Net estate tax receipts of $882 million in 1999-2000 include refunds, which are anticipated to reach $56 million, and CARTS collections of $25 million. It is

Share of Tax Payments
(1999-2000 Estimated)

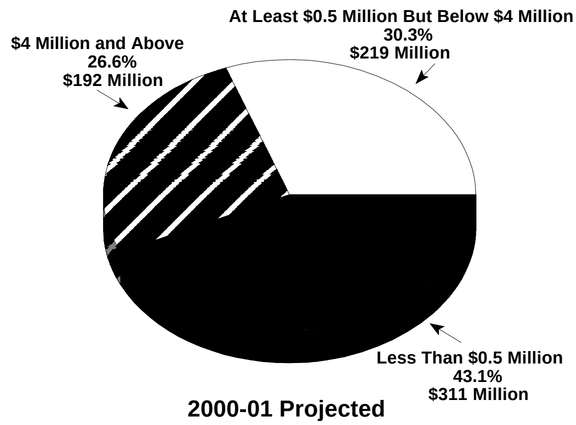


estimated that the effects of the aforementioned tax changes will reduce total receipts by $84 million.

2000-01 PROJECTIONS

Pursuant to statute, for estates created on or after February 1, 2000, the time required to make an estimated payment of State estate liability has been extended from seven months to nine months after the date of death. This alteration to payment requirements will effectively move almost two months of collections from 2000-01 to 2001-02, resulting in reduced receipts for 2000-01. Also, the combination of increasing the unified credit to $30,000 and the moving to a pickup tax will offset gains from the increased average value of all large estates, which are projected to grow 14.7 percent.

Share of Tax Payments
(2000-01 Projections)



Including CARTS collections of $24 million and refunds of $52 million, net estate tax receipts are projected to be $722 million in 2000-01.

Table 1
Estate Tax Collections — Prior to Refunds
(millions)

	Extra Large Estates [1]		Large Estates [2]		All Large Estates		Small Estates [3]	Grand Total Taxes
	Number	Taxes	Number	Taxes	Number	Taxes	Taxes	Taxes
1990-91	16	$151.0	94	$115.2	110	$266.2	$385.6	$651.8
1991-92	11	158.7	111	149.9	122	308.6	398.5	707.1
1992-93	9	78.8	125	135.9	134	214.7	410.7	625.4
1993-94	15	163.3	127	163.5	142	326.8	434.1	760.9
1994-95	13	141.4	140	152.8	153	294.2	460.6	754.8
1995-96	9	105.1	132	158.2	141	263.3	459.8	723.1
1996-97	24	243.0	123	151.3	147	394.3	447.7	842.0
1997-98	23	317.4	160	195.6	183	513.0	454.8	967.8
1998-99	19	221.8	215	259.5	234	481.3	511.7	993.0
8-Mo.Comp.								
1998-99	14	$166.7	147	$178.8	161	$345.5	$320.6	$666.1
1999-2000 . .	13	176.1	135	158.0	148	334.1	277.7	??
1999-2000 Estimated . . .	16	$252.4	195	$252.9	213	$505.3	$432.7	$938.0
2001-01 Projected . . .	15	192.5	170	218.7	185	411.2	362.8	774.0

1/ Liability of at least $4.0 million.
2/ Liability of at least $0.5 million but less than $4.0 million.
3/ Liability less than $0.5 million.

GIFT TAX

Until January 1, 2000, New York was one of only five states that imposed a gift tax as a complement to the transfer tax on estates to equalize the tax burden on lifetime transfers. Like the estate tax, the base of this levy is derived from the Federal tax base, with exclusions for transfers of property located outside the State. The gift tax did not apply to the first $10,000 of gifts made by a donor ($20,000 in the case of joint gifts by husband and wife) to any donee or gifts to a charity in any calendar year.

The tax was imposed on a lifetime basis: taxable gifts made during a taxpayer's lifetime, after allowable exclusions (e.g., the annual exclusion), were taxed in aggregate as one gift. The donor was first required to compute the tax due on all prior taxable gifts through the calendar quarter or year for which the return is filed. The donor was then allowed a credit for any tax previously paid. In addition, a unified credit was available to offset gift tax liability. To the extent this credit was used over an individual's lifetime, it reduced the unified credit available under the estate tax.

Gift tax collections were driven by the number of beneficiaries to which gifts are made, the value of gifts made, and the cumulative value of prior taxable transfers that have occurred. Higher permissible marital deductions and the unification of the estate and gift tax credits initially reduced the tax. However, after the applicable credits were exhausted, all additional gifts were subject to progressively higher rates of taxation, leading to higher levels of gift tax receipts. Additionally, because the unified credit at the Federal level was increased in 1999 to effectively exempt the first $650,000 of gifts from Federal gift tax, many persons made gifts up to this level. Since the State exempted only the first $300,000 of such gifts, State gift tax receipts were increased by such behavior. Atypical individual tax payments, particularly in January when estimated gift tax payments are due, could heavily skew tax collections in a given fiscal year.

RECENT STATUTORY CHANGES

For recent statutory changes, see Estate Tax section.

1999-2000 RECEIPTS

The increase in the unified credit, effectively eliminating all gifts totaling $300,000 or less, and the deferral of gifts until after the repeal of the gift tax effective January 1, 2000, will lead to a significant reduction in collections from this source for 1999-2000. Estimated collections of $36.7 million through December of the current fiscal year represent an increase of 28.4 percent from the same period in 1998-99. Receipts in the final three months of 1999-2000 are expected to decline by 29.2 percent from the comparable period of the prior fiscal year. Including $5 million in refunds, final 1999-2000 gift tax net collections, which reflect the tax on gifts made in 1999, are estimated at $105 million, a decrease of $20 million, or 16 percent, from 1998-99 receipts.

2000-01 PROJECTIONS

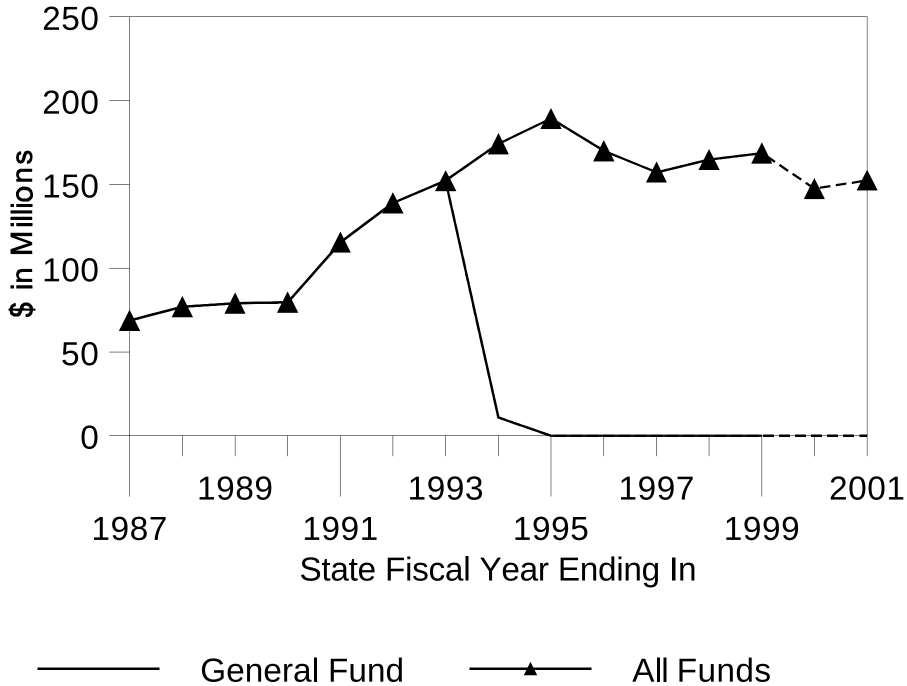
The State gift tax repeal will reduce receipts by $95 million in the coming fiscal year. Therefore, with gross receipts projected at $15 million and refunds expected to reach $5.0 million, net gift tax collections are projected at $10 million for 2000-01.

Table 2
Estate and Gift Tax Receipts
(thousands)

	General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
	Actual						
1991-92 .	$ 790,500	$42,900	$ 747,600	. . . .	. . . .	. . . .	$ 747,600
1992-93 .	698,200	25,700	672,500	. . . .	. . . .	. . . .	672,500
1993-94 .	843,600	44,200	799,400	. . . .	. . . .	. . . .	799,400
1994-95 .	823,000	63,600	759,400	. . . .	. . . .	. . . .	759,400
1995-96 .	846,200	46,900	799,300	. . . .	. . . .	. . . .	799,300
1996-97 .	945,800	56,500	889,300	. . . .	. . . .	. . . .	889,300
1997-98 .	1,073,500	51,300	1,022,200	. . . .	. . . .	. . . .	1,022,200
1998-99 .	1,124,100	52,600	1,071,500	. . . .	. . . .	. . . .	1,071,500
	Estimated						
1999-2000	$1,048,000	$61,000	$987,000	. . . .	. . . .	. . . .	$ 987,000
2000-01	789,000	57,000	732,000	. . . .	. . . .	. . . .	732,000

HIGHWAY USE TAX

Highway Use Tax Receipts
History and Estimates



Highway use tax revenues are derived from three sources: the truck mileage tax, related highway use permit fees, and the fuel use tax.

TRUCK MILEAGE TAX

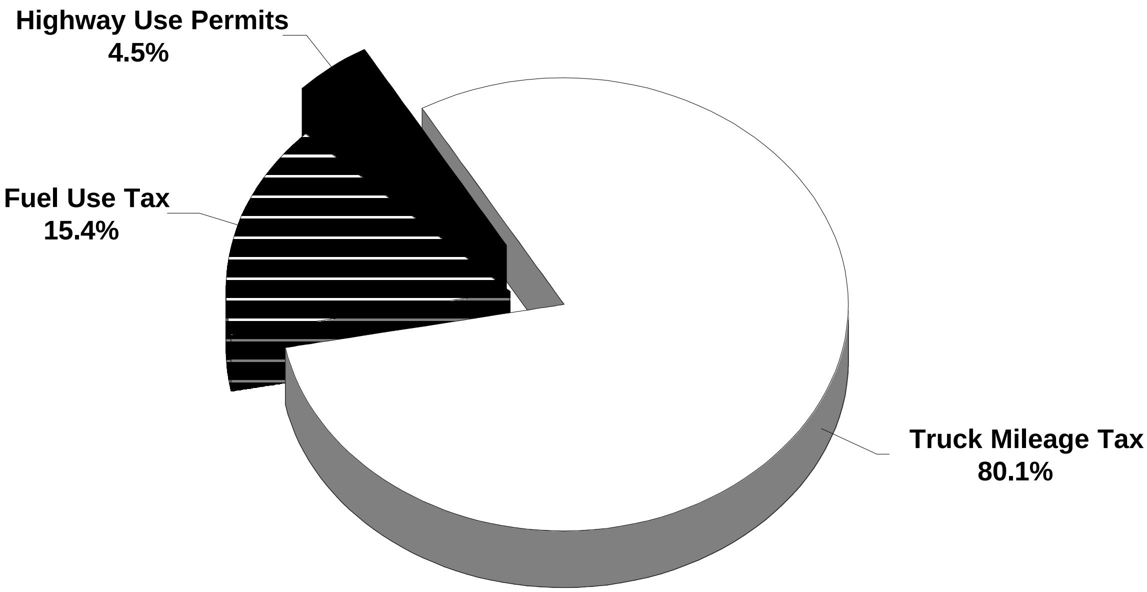
The truck mileage tax is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to the gross vehicle weight. The tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State by the appropriate tax rate.

Truck Mileage Tax Rates

Gross Weight Method		Unloaded Weight Method	
Laden Miles			
Gross Weight of Vehicle	**Mills Per Mile**	**Unloaded Weight of Truck**	**Mills Per Mile**
18,001 to 20,000	6.0	8,001 to 9,000	4.0
20,001 to 22,000	7.0	9,001 to 10,000	5.0
(increased gradually to)		(increased gradually to)	
74,001 to 76,000	35.0	22,501 to 25,000	22.0
76,001 and over	add 2 mills per ton and fraction thereof	25,001 and over	27.0
Unladen Miles		**Unloaded Weight of Tractor**	
Unloaded Weight of Truck		4,001 to 5,500	6.0
18,001 to 20,000	6.0	5,501 to 7,000	10.0
20,001 to 22,000	7.0	(increased gradually to)	
(increased gradually to)		10,001 to 12,000	25.0
28,001 to 30,000	10.0	12,001 and over	33.0
30,001 and over	add 5/10 of a mill per ton and fraction thereof		
Unloaded Weight of Tractor			
7,001 to 8,500	6.0		
5,501 to 10,000	7.0		
(increased gradually to)			
16,001 to 18,000	10.0		
18,001 and over	add 5/10 of a mill per ton and fraction thereof		

In addition, a supplemental tax equal to the truck mileage tax was imposed prior to January 1, 1999. After January 1, 1999, the supplemental tax was reduced by 50 percent, producing an overall reduction in the truck mileage tax of 25 percent.

Highway Use Tax Components
Estimated 1999-2000 Receipts = $147.5 Million



HIGHWAY USE PERMITS

Highway use permits are used to denote those vehicles subject to the highway use tax. The permits are issued triennially at $15 for an initial permit. Additionally, special permits are issued for the transportation of motor vehicles and for automotive fuel carriers, and for trips not to exceed 72 hours.

FUEL USE TAX

The fuel use tax is a complement to the motor fuel tax and the sales tax, and is levied on commercial vehicles: (1) having two axles and a gross vehicle weight of more than 26,000 pounds; (2) with three or more axles regardless of weight; or (3) used in combination when the gross vehicle weight exceeds 26,000 pounds. In contrast to the motor fuel tax, which is imposed upon the amount of fuel purchased within the State, the fuel use tax is imposed on fuel purchased outside but used within New York. This tax is levied on the basis of the number of miles traveled on the public highways of the State. The aggregate fuel use tax rate is the sum of the appropriate motor fuel tax rate and the sales tax rate. The statewide rate for the sales tax component is 7 percent of the average price of fuel — a cents-per-gallon-equivalent is set quarterly. A credit or refund is allowed for motor fuel tax or sales tax paid on fuels purchased but not used within the State.

SIGNIFICANT STATUTORY CHANGES

A significant number of statutory changes have been made to the highway use tax since its inception. The following table summarizes the major highway use tax legislation enacted since 1991.

Significant Highway Use Tax Legislation

Subject	Description	Effective Date
Legislation Enacted in 1991		
Fund Distribution	Beginning in April 1993, highway use tax collections were deposited in the Dedicated Highway and Bridge Trust Fund, which was established to support reconstruction, replacement, reconditioning and preservation of highways and bridges in the State.	July 15, 1991
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996.	January 1, 1995
Refunds	Permitted taxpayers who purchase more fuel in New York State than they consume in the State to claim refunds or credits for all excess payments of State fuel use taxes (prior to January 1, 1995, taxpayers could only obtain a refund or credit for the motor fuel tax portion of the fuel use tax).	January 1, 1995
International Fuel Tax Agreement	Authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996. This agreement provides for the uniform reporting and collection of fuel-use-related taxes among IFTA jurisdictions. Under IFTA, jurisdictions may only impose a fuel use tax on vehicles with loaded gross weights of more than 26,000 pounds or with three or more axles. Therefore, since January 1, 1996, vehicles with loaded gross weights between 18,000 pounds and 26,000 pounds and with fewer than three axles, that had been taxed in New York, were excluded from the fuel use tax.	January 1, 1996
Legislation Enacted in 1995		
Fuel Use Tax Rate Cut	Reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to eight cents per gallon.	January 1,1996
Legislation Enacted in 1998		
Supplemental Tax	Reduced the truck mileage supplemental tax by 50 percent.	January 1, 1999

1999-2000 RECEIPTS

Net highway use tax receipts for 1998-99 were $168.7 million, including truck mileage tax receipts of $140.4 million, fuel use tax receipts of $24.0 million, and highway use permit fees of $4.3 million.

In the current fiscal year, national and New York economic growth contributed to an increased demand for trucking. However, the 1998 law reducing the truck mileage supplemental tax by 50 percent, beginning January 1, 1999, offset 1999-2000 revenue growth due to improved economic conditions. Estimated truck mileage tax receipts for the first nine months of 1999-2000 were 17.4 percent less than the comparable period in 1998-99. Estimated fuel use tax receipts for the first nine months of 1999-2000 were 1.4 percent less than the comparable 1998-99 period due primarily to lagged lower fuel prices.

Based on collection experience to date, and expectations of a continued healthy economy, highway use taxes are expected to continue to grow. The full year impact of the 1998 Tax Law change will reduce truck mileage tax receipts by approximately $37 million. Net truck mileage tax receipts are projected at $118.2 million, fuel use tax receipts at $22.7 million, and permit fees at $6.6 million, which reflect the change from a regular renewal year to a peak triennial renewal year, bringing total estimated highway use tax receipts for 1999-2000 to $147.5 million.

2000-01 PROJECTIONS

Total highway use tax receipts for 2000-01 are projected at $152.5 million. The base of the truck mileage tax is expected to increase by about 5.3 percent as a result of continued economic growth. The 1998 Tax Law change, reducing the truck mileage supplemental tax by 50 percent, will reduce truck mileage tax receipts by approximately $39 million. Net truck mileage tax receipts are estimated at $122.1 million. Due to the lagged effect of an increase in fuel prices, the sales tax component of the fuel use tax is estimated to increase by more than 17 percent. Thus, total fuel use tax receipts are expected to grow to $26.0 million. Permit fees of $4.4 million reflect the change from a peak triennial renewal year to a regular renewal year.

OTHER FUNDS

The Dedicated Highway and Bridge Trust Fund received $168.7 million in 1998-99, and will receive an estimated $147.5 million in 1999-2000, and a projected $152.5 million in 2000-01.

GENERAL FUND

Since 1993-94, no highway use tax receipts have been deposited in the General Fund.

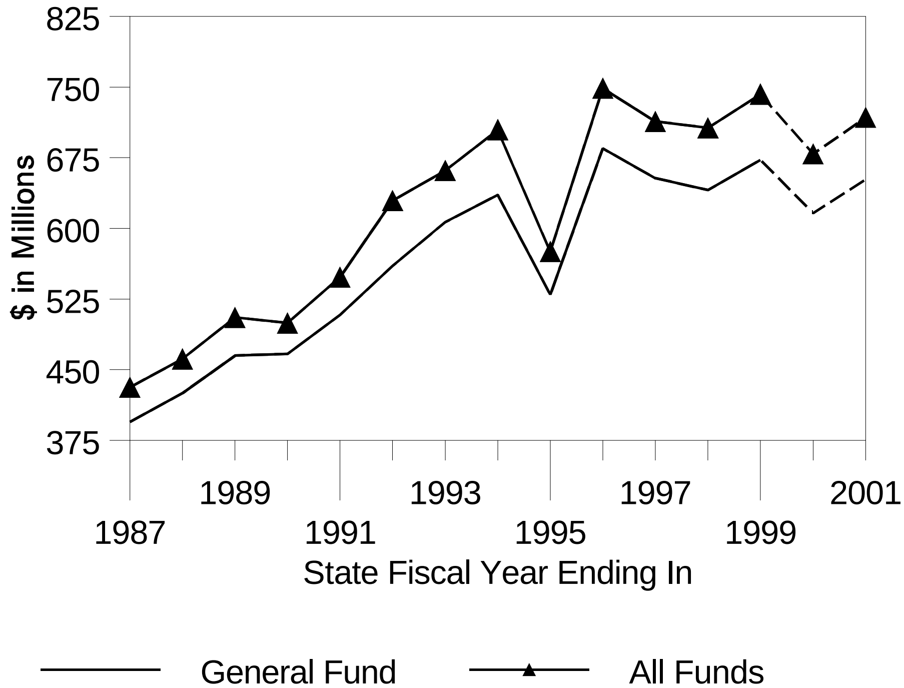
Highway Use Tax Receipts — All Funds
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Gross Capital Projects Funds [1/]	Refunds	Net Capital Projects Funds [1/]	Debt Service Funds	All Funds Net Collections
	---------- Actual ----------								
1991-92 . .	$140,289	$1,340	$138,949	. . . .	. . . .	. . . .	. . . .	. . . .	$138,949
1992-93 . .	154,375	2,130	152,245	. . . .	. . . .	. . . .	. . . .	. . . .	152,245
1993-94 . .	10,897	. . . .	10,897	. . . .	$166,071	$2,723	$163,348	. . . .	174,245
1994-95 . .	. . . .	. . . .	. . . .	. . . .	191,738	2,577	189,161	. . . .	189,161
1995-96 . .	. . . .	. . . .	. . . .	. . . .	174,377	4,373	170,004	. . . .	170,004
1996-97 . .	. . . .	. . . .	. . . .	. . . .	164.226	6,912	157,314	. . . .	157,314
1997-98 . .	. . . .	. . . .	. . . .	. . . .	167,644	2,834	164,810	. . . .	164,810
1998-99 . .	. . . .	. . . .	. . . .	. . . .	171,525	2,858	168,667	. . . .	168,667
	---------- Estimated ----------								
1999-2000	. . . .	. . . .	. . . .	. . . .	$150,300	$2,800	$147,500	. . . .	$147,500
2000-01 . .	. . . .	. . . .	. . . .	. . . .	155,300	2,800	152,500	. . . .	152,500

[1/] Dedicated Highway and Bridge Trust Fund

INSURANCE TAXES

Insurance Tax Receipts
History and Estimates



The State collects taxes from insurance corporations, insurance brokers and certain insureds under the Tax Law and the Insurance Law. In addition, those Article 33 taxpayers that do business in the Metropolitan Commuter Transportation District (MCTD), which includes the counties of New York, Bronx, Kings, Queens, Richmond, Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk and Westchester, are subject to a 17 percent surcharge on their tax liability attributable to the MCTD area. Insurance taxes account for approximately 11 percent of all business taxes and 2 percent of all General Fund tax revenues.

ARTICLE 33 OF THE TAX LAW

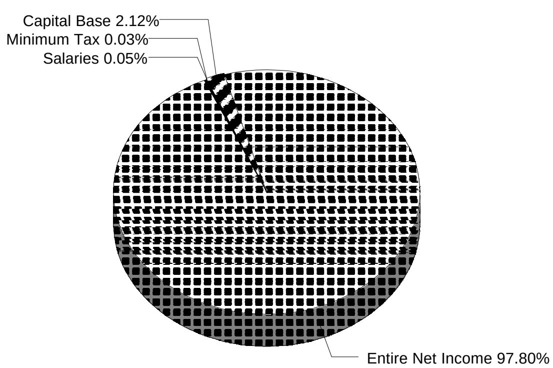
Article 33 of the Tax Law imposes a franchise tax on insurance corporations for the privilege of doing business or otherwise exercising a corporate franchise in New York. The insurance tax has two components. The first component of the franchise tax is comprised of four alternative bases for calculating the tax. Tax is paid under the base generating the largest tax. In addition, there is a 0.08 percent tax rate applied to allocated subsidiary capital allocated to New York. The four alternative bases and rates are described in the following table.

Table 1
Rates of the Net Income Tax
by Type of Base

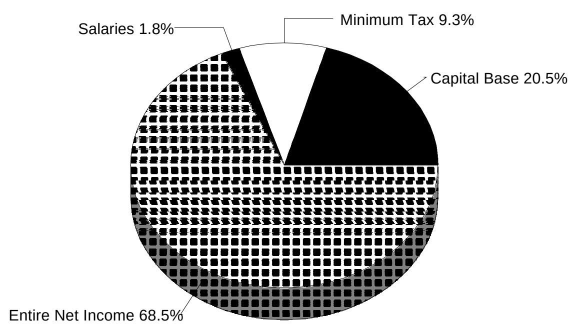
Base	Rate
Allocated entire net income	9.00 percent
Allocated business and investment capital	0.16 percent
Allocated income and officers' salaries	9.00 percent
Minimum tax	$250

Tax is allocated to New York for corporations based on a formula, which apportions income based on weighted ratios of premiums (with a weight of nine) and wages (with a weight of one), earned or paid in New York to the total amounts earned or paid.

Article 33 Net Income Tax for 1995
(Liability Distributed by Base)



Article 33 Net Income Tax for 1995
(Taxpayer Distributed by Basis)



The second component is a tax on gross premiums, less return premiums, written on risks located or resident in New York. This tax is added to the highest of the alternatives from the first component. The rate of the premiums tax is determined based on the type of insurance covered by the premium and the type of insurer. Table 2 reports the appropriate rates.

Table 2
Premium Tax Rates
by Type of Insurer

Type of Premium	Type of Insurer	Rate
Life, accident and health	Life and health	0.7 percent
Accident and health	Property and casualty	1.0 percent
Property and casualty	Property and casualty	1.3 percent

The total liability of these two components, less economic development zone (EDZ) and zone equivalent area (ZEA) credits, cannot exceed a cap calculated as a percent of taxable premiums. Taxpayers may then claim credits, other than EDZ and ZEA credits, against the total tax liability. This cap, as shown in Table 3, differs by type of insurer.

Table 3
Limitation on Tax
by Type of Insurer

Type of Insurer	Cap Level
Life insurers	2.0 percent of taxable premiums
All others	2.6 percent of taxable premiums

ARTICLE 33-A OF THE TAX LAW

Chapter 190 of the Laws of 1990 established a tax on independently procured insurance under Article 33-A of the Tax Law. This tax is imposed on any individual, corporation or other entity purchasing or renewing an insurance contract covering certain property and casualty risks located in New York from an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Insurance Department.

INSURANCE LAW

The Insurance Law authorizes the Superintendent of Insurance to assess and collect retaliatory taxes from a foreign insurance corporation, when the overall tax rate imposed by its home jurisdiction on New York companies exceeds the comparable tax rate imposed by New York on such foreign insurance companies.

Retaliatory taxes have been utilized by the states since the nineteenth century to ensure a measure of fairness in the interstate taxation of their domestic insurance corporations. Retaliatory taxes deter other states from discriminating against foreign corporations and effectively require states with a domestic insurance industry to maintain an overall tax rate on insurance corporations that is generally consistent with other states.

Nevertheless, there are a variety of mechanisms for taxing insurance corporations throughout the states, and differences in overall tax rates among the states are inevitable. New York provides an additional measure of protection for its domestic insurance industry by allowing domestic corporations to claim a credit under Article 33 of the Tax Law for 90 percent of the retaliatory taxes legally required to be paid to other states.

The Insurance Law also imposes a premiums tax on a licensed excess lines insurance broker, when a policy covering a New York risk is procured through such broker from an unauthorized insurer (an unauthorized insurer is an insurer not authorized to do business in New York). Transactions involving a licensed excess lines broker and an insurer not authorized to do business in New York are permissible under limited circumstances delineated in Article 21 of the Insurance Law. The tax is imposed at a rate of 3.6 percent of premiums covering risks located in New York.

REGIONAL BUSINESS TAX SURCHARGE

Insurance corporations and other corporations doing business in the New York metropolitan region are subject to a temporary regional business tax surcharge. The temporary metropolitan transportation business tax surcharge was adopted in 1982 and, subsequently, has been extended through tax years ending before December 31, 2001. Receipts from this tax surcharge are deposited in a special revenue fund dedicated to mass transit assistance in the New York metropolitan region.

CREDITS AND EXEMPTIONS

Table 4 lists those credits available under Article 33.

Table 4
Description of Credits

Credit	Description
Retaliatory	Up to 90 percent of retaliatory taxes paid to other states by New York domiciled or organized insurers.
Fire Insurance Tax	Allowed for taxes paid on certain fire insurance premiums.
Eligible Business Facility	Rate equals average of the value of eligible property and certain wages.
Economic Development Zone	EDZ wage credit, EDZ capital corporation credit and EDZ investment credit.
Investment in Certified Capital Companies (CAPCOs)	Credit equals 100 percent of amount invested in CAPCOs for taxable years beginning after 1998. The credit is claimed at 10 percent per year for 10 years. The original statewide cap was $100 million. It has been increased to $130 million.
Employers Who Hire Persons with Disabilities	Credit equals 35 percent of the first $6,000 of qualified wages (maximum of $2,100 per employee).
Special Additional Mortgage Recording Tax (SAMRT)	Up to 100 percent of SAMRT paid. A carryfoward is allowed.

Further, there are also several types of insurance contracts which are exempt from the additional franchise tax. These include, but are not limited to, annuity contracts and certain health insurance contracts for insureds aged 65 years and older as provided under section 4236 of the Insurance Law.

Certain corporations and other entities which provide insurance are exempt from State franchise taxes and tax surcharges. Non-profit medical expense indemnity corporations and other health service corporations, organized under Article 43 of the Insurance Law, are exempt from these State taxes. Health maintenance organizations (HMOs) and Blue Cross/Blue Shield corporations are examples of such corporations.

RECENT LEGISLATIVE CHANGES

The following list highlights legislation enacted since 1990 affecting insurance taxes:

Insurance Tax Legislation

Subject	Description	Effective Date
Legislation Enacted in 1990		
Temporary Business Tax Surcharge	Surcharge increased from 2.5 percent on the pre-credit tax liability of Article 33 taxpayers to 15 percent of post-credit tax liability.	July 1, 1990
Article 33-A	Imposed a direct writings tax on independently procured insurance (Article 33-A).	July 1, 1990
Legislation Enacted in 1991		
Property/Casualty Insurers	Made the decoupling provisions affecting property and casualty insurers permanent.	
Legislation Enacted in 1992		
Property/Casualty Insurers	Increased the premiums tax rate for property and casualty insurers from 1.2 percent to 1.3 percent.	January 1, 1992
State Insurance Fund	Changed the method of calculating tax liability to be solely on the basis of the premiums tax rate of 2.6 percent.	January 1, 1992
Legislation Enacted in 1993		
Internal Revenue Code 847	Corrects provisions that allowed property and casualty companies to claim a deduction for undiscounted, unpaid losses twice in computing State net income.	January 1, 1993
Legislation Enacted in 1994		
Temporary Business Tax Surcharge	Reduces the surcharge from 15 percent to 10 percent, 5 percent, and 0 percent over three years.	January 1, 1994
Legislation Enacted in 1997		
Premium Tax Rate for Life Insurers	Reduces the premium tax rate from 0.8 percent to 0.7 percent.	January 1, 1998
Cap on tax liability	Reduces the limitation on tax liability for life insurers from 2.6 percent to 2.0 percent.	January 1, 1998
Credit for Investment in Certified Capital Companies	Credit equals 100 percent of amount invested in CAPCOs for taxable years beginning after 1998. The rate equals 10 percent per year for 10 years. There is a statewide cap of $100 million.	January 1, 1999
Captive Insurance Companies	Allows the formation of captive insurance companies. Subject to a special premiums tax with a top rate of 0.4 percent or $5,000. This is in lieu of the premiums and income-based tax.	January 1, 1998
Credit for Employers Who Hire Persons with Disabilities	Credit equals 35 percent of the first $6,000 of qualified wages (maximum of $2,100 per employee).	January 1, 1998

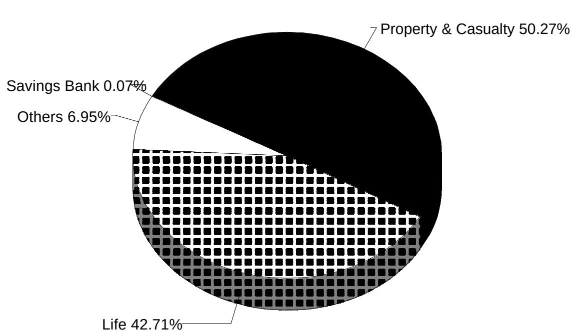
Subject	Description	Effective Date
Legislation Enacted in 1999		
CAPCOs	The statewide cap was increased $30 million to $130 million.	January 1, 2001
State Insurance Fund	Conforms the State Insurance Fund tax treatment to the regular insurance tax.	January 1, 2001
ENI Tax Rate	Reduces Entire Net Income tax rate over a 3 year period: -- 8.5 percent for taxable years beginning after June 30, 2000, and before July 1, 2001. -- 8.0 percent for taxable years beginning after June 30, 2001, and before July 1, 2002. -- 7.5 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Cap on Tax Liability	Reduces the limitation on tax liability for non-life insurers over a three-year period: -- 2.4 percent for taxable years beginning after June 30, 2000, and before July 1, 2001. -- 2.2 percent for taxable years beginning after June 30, 2001, and before July 1, 2002. -- 2.0 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000

1999-2000 RECEIPTS

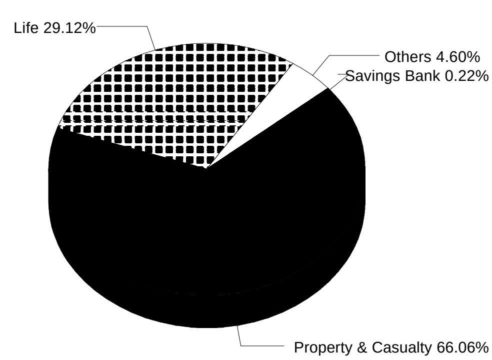
The estimate of All Fund receipts for 1999-2000 is $679.2 million, a decline of 8.5 percent over the prior State fiscal year. The All Funds estimate includes a General Fund estimate of $616.2 million with $63 million estimated for the regional business tax surcharge. General Fund collections through December are estimated to be $410.5 million, 13.8 percent lower than last year. Collections for the year have been dampened by the combined effect of a decline in large filer liability and statutory changes expanding certain tax credits available to the industry (e.g., expansion of the CAPCO credit and captive insurer's rate).

The two graphs shown below illustrate that the Property/Casualty and Life/Health sectors combined account for over 90 percent of the tax liability.

Article 33 Net Income Tax Liability
(for 1995, by Insurer)



Article 33 Premium Tax Liability
(for 1995, by Insurer)



Property and Casualty Companies

The property and casualty sector is the largest sector of the industry and represents over half of the State's collections. It accounts for over half of both the premium tax liability and net income tax liability. The five largest lines of business under property and casualty are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners multi-peril. They account for approximately 80 percent of the sector's premiums.

Table 5
Property and Casualty Insurance
New York Calendar Year Premiums
(millions)

Lines of Insurance	1992	1993	1994	1995	1996	1997	1998	1999 (est.)	2000 (est.)
Automobile	$ 7,855	$ 8,125	$ 8,572	$ 8,913	$ 9,466	$ 9,490	$ 9,631	$ 9,872	$10,198
percent of growth	*4.15*	*3.44*	*5.50*	*3.98*	*6.20*	*0.26*	*1.49*	*2.50*	*3.30*
Workers' Compensation	3,411	3,555	3,769	3,650	3,121	2,725	2,686	2,552	2,424
percent of growth	*-2.37*	*4.21*	*6.02*	*-3.15*	*-14.49*	*-12.70*	*-1.41*	*-5.00*	*-5.00*
Commercial Multi-Peril	1,989	2,006	2,043	2,139	2,097	2,031	2,071	2,102	2,174
percent of growth	*-4.28*	*0.85*	*1.84*	*4.70*	*-1.96*	*-3.15*	*1.99*	*1.50*	*3.40*
General Liability	1,902	1,939	1,981	1,853	1,851	2,091	2,734	2,922	3,118
percent of growth	*-2.31*	*1.94*	*2.17*	*-6.45*	*-0.11*	*12.99*	*30.90*	*6.90*	*6.70*
Homeowners Multi-Peril	1,696	1,761	1,868	1,966	2,053	2,133	2,181	2,187	2,264
percent of growth	*4.43*	*3.83*	*6.05*	*5.27*	*4.43*	*3.91*	*2.33*	*0.30*	*3.50*
Medical Malpractice	793	856	910	887	800	795	873	890	908
percent of growth	*2.02*	*7.92*	*6.26*	*-2.45*	*-9.84*	*-0.67*	*9.83*	*2.00*	*2.00*
Inland Marine	464	455	453	469	477	489	487	487	493
percent of growth	*-4.33*	*-1.90*	*-0.59*	*3.60*	*1.74*	*2.55*	*-0.40*	*-0.10*	*1.30*
Ocean Marine	433	521	518	489	485	461	421	429	433
percent of growth	*17.98*	*20.37*	*-0.60*	*-5.51*	*-0.92*	*-4.98*	*-8.69*	*2.00*	*1.00*
Fidelity and Surety	329	342	326	318	320	317	330	340	355
percent of growth	*7.17*	*3.80*	*-4.51*	*-2.62*	*0.76*	*-0.89*	*4.15*	*3.00*	*4.20*
Accident and Health	278	308	324	350	406	398	393	410	428
percent of growth	*-6.40*	*10.82*	*5.25*	*7.88*	*16.07*	*-1.95*	*-1.39*	*4.40*	*4.40*
Fire	278	304	331	332	315	300	269	277	287
percent of growth	*-2.11*	*9.40*	*8.97*	*0.18*	*-5.12*	*-4.91*	*-10.21*	*3.00*	*3.50*
Product Liability	201	177	201	144	130	141	111	113	115
percent of growth	*-14.47*	*-11.74*	*13.31*	*-28.15*	*-9.99*	*8.33*	*-21.03*	*1.50*	*1.50*
Other	564	560	627	577	641	719	758	784	823
percent of growth	*13.22*	*-0.81*	*12.03*	*-7.93*	*11.03*	*12.24*	*5.31*	*3.45*	*4.99*
TOTAL P/C PREMIUMS	$20,193	$20,909	$21,922	$20,088	$22,162	$22,090	$22,945	$23,366	$24,019
Annual Increase . . . . (percent)	*1.29*	*3.54*	*4.85*	*0.75*	*0.34*	*-0.32*	*3.87*	*1.84*	*2.80*

Net premiums for property and casualty companies overall are expected to grow by 1.8 percent. This is the result of slower growth in commercial multi-peril and general liability, a moderate decline in workers' compensation, and stronger growth in the automobile and homeowners multi-peril lines of business. This expected growth pattern reflects continued pricing pressure in the commercial markets and increased competition in the personal-lines market. It is consistent with industry expectations of 1.4 percent growth nationally.

Property and casualty net income tax liability is estimated to decline by approximately 15 percent. This reflects the combination of increased underwriting losses and declining net investment income. The decline in net investment income, year over year, results from more moderate growth in key economic indicators. Further, the previous year's net investment income was artificially high due to a one-time significant capital gain realization.

The industry, by its nature, is required to honor claims from catastrophes that occurred this year, as well as to continue paying claims for prior-year catastrophic events. Catastrophes for 1999 included: a record number of tornadoes in Tennessee and Arkansas ($1.3 billion); the tornadoes that hit Oklahoma and Kansas ($1.0 billion); the hard winter experienced by the Northwest; flooding in northern Arizona and Iowa; the eastern U.S. drought/heat wave ($1.0 billion); and the busier than average 1999 hurricane season, which produced hurricanes Bret, Dennis, Floyd ($6.0 billion alone), Harvey and Irene.

Life and Health Companies

Life and health insurance is the second largest sector of the industry and represents approximately a third of the State's collections. Premiums for life and health companies are expected to grow by 3 percent. This relatively slow growth is due, in part, to the continuation of recent events such as: increased competition from banks, mutual funds and other financial institutions; shifting demographics; weak operating performances; allegations of improper sales practices; other unethical and illegal conduct; and State legislation that lowered both the premium tax rate and the limitation on tax liability. These factors have acted in concert to depress premiums growth.

2000-01 PROJECTIONS

All Funds collections for 2000-01 are projected at $718 million, an increase of 5.7 percent. The All Funds estimate includes a General Fund receipts of $652 million and $66 million in receipts earmarked for the Metropolitan Mass Transportation Operating Assistance Fund (MTOA). Despite the continuing consolidation in the insurance industry and the shedding of non-core lines of business in the property and casualty sector, and the life and health industry, most industry analysts believe that insurance companies will remain in a low-pricing cycle over the next year to two years. With stagnant premium volumes, the industry continues to depend on the stock and bond market performance to offset underwriting losses. Estimated collections for the year will also be depressed due to the increased competition from banks and other financial service companies resulting from the repeal of the Glass-Steagall Act by the Federal government.

The forecast of receipts from property and casualty insurers is based on an increase in premium liability of 3 percent, primarily resulting from modest growth in the automobile sector. Assuming no extraordinary catastrophes and less vibrant stock and bond markets, net income tax liability for property and casulty companies is projected to increase by 3 percent.

The competitive forces and negative publicity, which have marked the last few years, will continue to hold down growth in the life and health insurance industry. The future role of life and health insurers in the health care field and a sluggish insurance market are major risks to the forecast.

The forecast assumes that the life and health industry will grow modestly through the 2000 tax year. The New York share of premiums written will remain approximately 8 percent of the national market, and those premiums written are expected to grow 3 percent. Net income tax liability for these companies is projected to grow 4 percent.

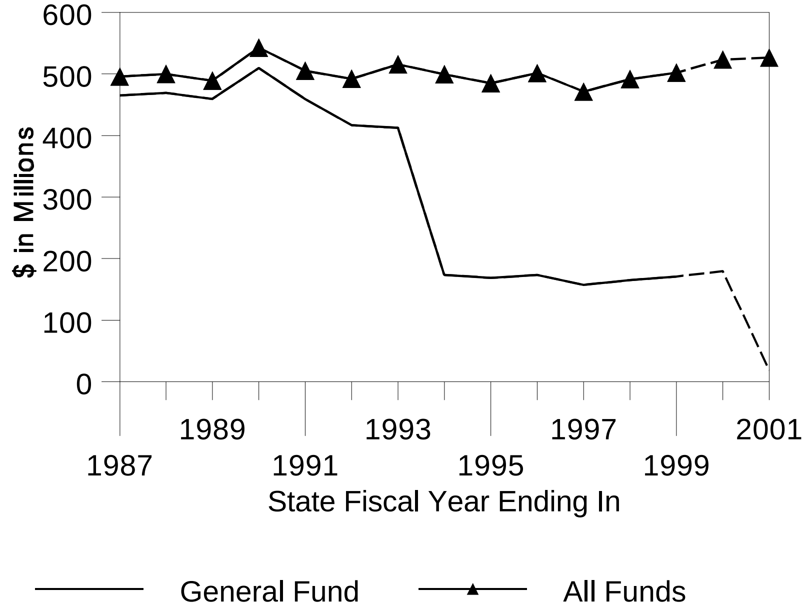
Table 6
Insurance Tax Receipts
(millions)

	Tax Law		Insurance Law							
	Gross General Fund	Refunds	Net	Net General Fund	Gross Special Revenue Funds	Refunds	Net Special Revenue Funds [1]	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
	Actual									
1991-92	$573.4	$32.7	$19.6	$560.3	$73.2	$3.9	$69.3	....	....	$629.6
1992-93	593.7	30.2	43.2	606.7	57.5	4.5	53.0	....	....	659.7
1993-94	644.5	25.1	16.5	635.9	72.7	3.7	69.0	....	....	704.9
1994-95	538.7	36.2	27.5	530.0	50.4	4.3	46.1	....	....	576.1
1995-96	700.3	28.8	13.5	685.0	68.1	3.9	64.2	....	....	749.2
1996-97	649.5	28.8	32.8	653.5	67.7	7.6	60.1	....	....	713.6
1997-98	629.1	14.0	25.6	640.7	68.8	2.8	66.0	....	....	706.7
1998-99	681.8	35.0	25.9	672.7	75.6	5.6	70.0	....	....	742.7
	Estimated									
1999-2000	616.2	20.0	20.0	616.2	70.0	7.0	63.0	....	....	679.2
2000-01	632.5	11.5	31.0	652.0	72.0	6.0	66.0	....	....	718.0

[1] Metropolitan Transportation Authority

MOTOR FUEL TAX

Motor Fuel Tax Receipts
History and Estimates



TAX RATE AND BASE

Motor fuel and diesel motor fuel taxes are levied by Article 12-A of the Tax Law upon the sale, generally for highway use, of gasoline and diesel fuel, respectively. The aggregate rate of tax imposed on each gallon of gasoline and diesel fuel is eight cents.

EXCEPTIONS TO TAXATION

The motor fuel tax is levied primarily on fuel used in motor vehicles operated on the public highways of the State or in recreational motor boats operated on the State's waterways. Exemptions, credits and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

Exemptions from the motor fuel tax include:
- — kerosene and crude oil (this exemption does not apply to the diesel motor fuel tax);
- — fuel not used in motor vehicles. "Motor vehicle" is defined as any vehicle propelled by power, except muscular power. However, vehicles such as boats (other than pleasure craft), road building machinery and tractors used exclusively for agricultural purposes are excluded from the definition of motor vehicles;
- — fuel used in tanks of vehicles entering New York State;
- — sales to State, local and Federal governments, the United Nations and qualifying Indian nations;
- — certain hospitals that qualify as exempt organizations under section 1116(a)(4) of the Tax Law; and
- — sales on qualified Indian reservations.

Other exemptions apply only to the diesel motor fuel tax, including certain sales for heating purposes and sales of kero-jet fuel for use in airplanes.

Full and partial refunds and credits of tax paid are available for:
— fuel used by omnibus carriers or taxicabs;
— fuel used by nonpublic school operators exclusively for education-related purposes;
— fuel consumed by volunteer ambulance services; and
— fuel used by certain commercial fishing vessels.

ADMINISTRATION

Although the motor fuel (primarily gasoline) tax is imposed on the consumer, the tax is remitted upon importation into New York. This tax-on-first-import system is designed to reduce gasoline tax evasion, which has involved bootlegging from other states and successions of tax-free sales among "dummy" corporations masked by erroneous record keeping and reporting.

Since 1988, collection and remittance of taxes on diesel fuel have been conformed to the statutory procedures used for gasoline. Taxes on diesel motor fuel are now collected upon the first non-exempt sale in the State. Prior to that time, the diesel motor fuel tax was collected at the time of retail sale or use by a bulk user.

Chapter 55 of the Laws of 1992 requires accelerated remittance of the tax by taxpayers with annual liability of more than $5 million for motor fuel and petroleum business taxes combined. The taxes for the first 22 days of each month must be remitted electronically or by certified check by the third business day following that period. Taxpayers can choose to make either a minimum payment of three-fourths of the comparable month's tax liability for the preceding year, or 90 percent of actual liability for the 22 days. Taxes for the balance of the month are remitted on the 20^{th} of the following month.

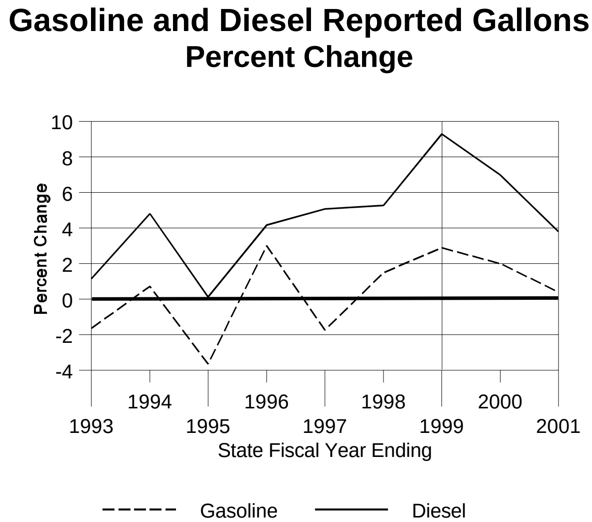
EXPLANATION OF ESTIMATES

The estimates of total tax receipts from the gasoline and diesel motor fuel taxes are premised on a forecast of consumption of these commodities. These estimates, developed in conjunction with those used in the petroleum business tax estimate, are based on statistical relationships derived by the Energy Information Administration (EIA), and an econometric model developed by the Division of the Budget.

The EIA has related the demand for motor gasoline to changes in gross domestic product (GDP) and motor fuel prices. It is estimated that a 1 percent increase in GDP increases the demand for motor gasoline by 0.1 percent. Likewise, a 10 percent increase in the price of fuel will decrease the demand for motor gasoline by 0.3 percent. To derive a State level forecast, estimates of growth in real New York disposable income are substituted for GDP growth.

The demand for diesel fuel is largely a function of the relative strength of the economy. Therefore, a statistical relationship using real gross domestic product to explain the level of taxable diesel consumption is employed to produce the diesel consumption forecast.

As the following graph illustrates, diesel consumption has been quite strong since 1994-95, reflecting robust demand resulting from the strong economy. Gasoline consumption has grown more slowly but spiked in 1998-99 due to low gasoline prices.



1999-2000 RECEIPTS

Estimates of receipts for the first nine months of the fiscal year indicate that all funds receipts are $17.9 million, or 4.7 percent over the comparable period in 1998-99. Gasoline receipts increased by $13 million (3.9 percent) and diesel receipts by $4.9 million (10.6 percent) — $6 million of the increase in gasoline receipts was received in April. Since the start of the State fiscal year, gasoline price increases of over 20 percent have restrained receipts growth by slowing consumption, although strong demand in the summer maintained year over year increases in motor fuel tax receipts associated with gasoline consumption.

For the remainder of the year, demand for diesel fuel is anticipated to remain strong as a result of continued growth in the State's economy. An overall increase of 7 percent in diesel consumption is estimated. Gasoline consumption is expected to be attenuated by the continued high price of this fuel. As a result, gasoline consumption is expected to increase by only 2.0 percent from 1998-99.

Total motor fuel tax receipts are estimated at $524 million, an increase of $21 million, or 4.2 percent from 1998-99. Gasoline receipts are estimated to increase by $16 million (3.5 percent) and diesel receipts by $5 million (9.3 percent).

2000-01 PROJECTIONS

The gasoline and diesel consumption estimates for 2000-01 reflect higher estimated fuel prices and moderating growth in the State economy. Gasoline consumption is anticipated to increase by 0.4 percent and diesel consumption by 3.8 percent.

All funds receipts are expected to grow by 0.7 percent, an increase of $3 million. Gasoline receipts are estimated to increase by $2 million (0.4 percent) and diesel receipts by $1 million (2.3 percent).

OTHER FUNDS

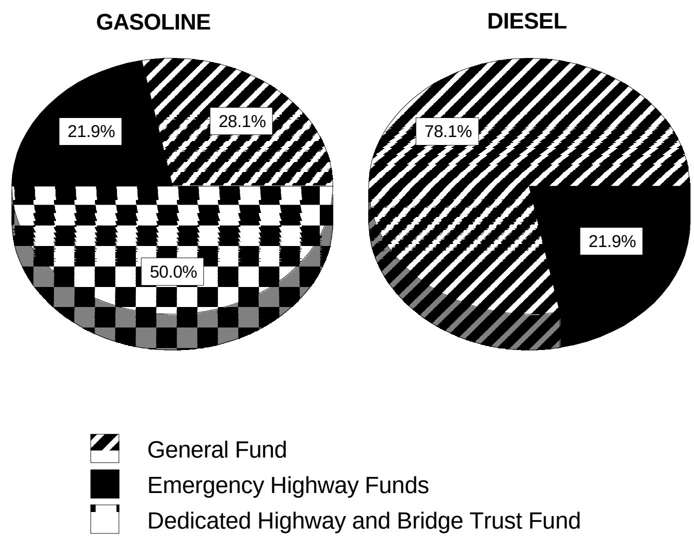
Motor fuel tax revenues are by law distributed to four funds: the General Fund, Dedicated Highway and Bridge Trust Fund, Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.

Since April 1, 1992, receipts attributable to one and three-fourths cents of the tax on each gallon of gasoline and diesel fuel sold in the State have been earmarked to the Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund. These funds were established, respectively, in 1972 and in 1983 to finance certain highway construction needs. In 1991-92, the amount per gallon earmarked to each of these funds was five-eighths of one cent. This amount was three-eighths of one cent in 1990-91; and one-quarter of one cent, prior to April 1, 1990.

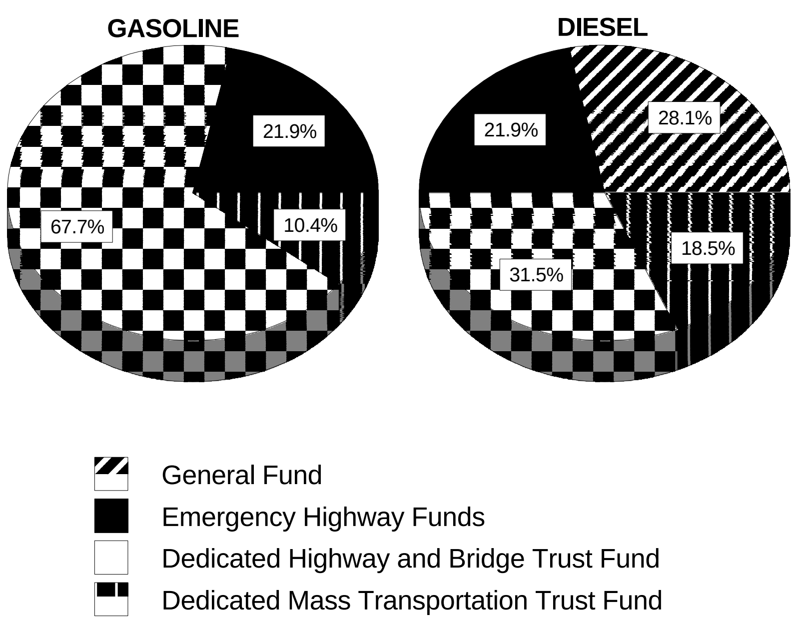
Since April 1, 1993, one-half of the gasoline tax has been deposited in the Dedicated Highway and Bridge Trust Fund established to help finance the reconstruction, replacement, reconditioning and preservation of highways and bridges in the State.

Chart 1 illustrates the current percentage distribution of motor fuel tax revenue by fund in State fiscal year 1999-2000. Legislation submitted with this Budget will redistribute certain motor fuel tax revenues from the General Fund to the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund in 2000-01. Chart 2 reports the proposed percentage distribution by fund for State fiscal year 2000-01.

1999-2000 Motor Fuel Tax Deposits by Fund



2000-01 Motor Fuel Tax Deposits by Fund

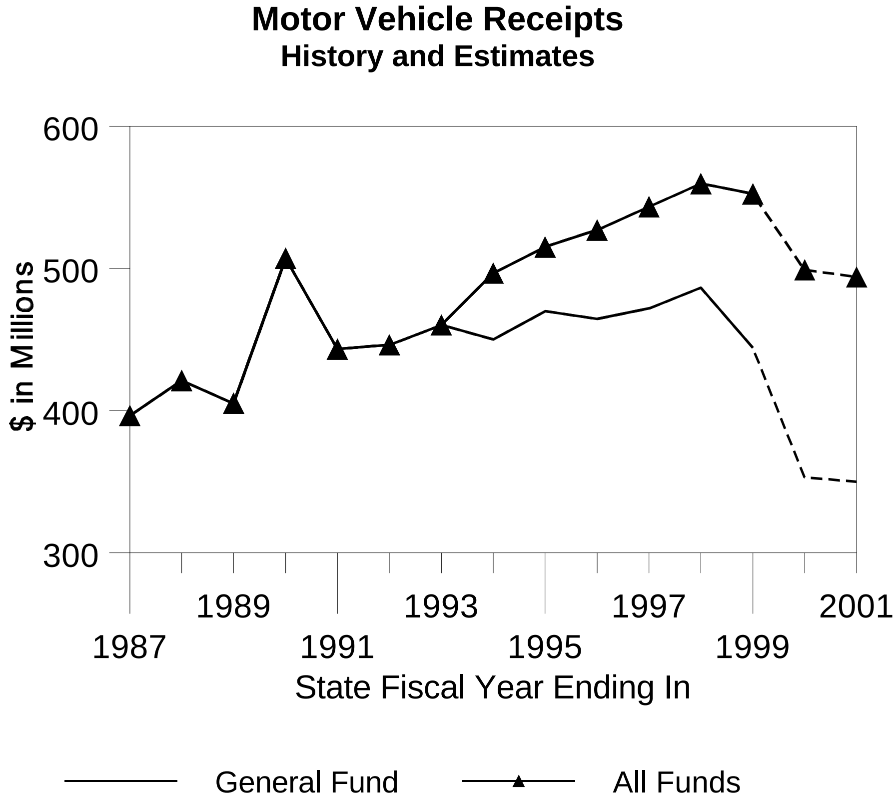


Motor Fuel Tax Receipts
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds [3/]	Capital Projects Funds [1/]	Debt Service Funds [2/]	All Funds Net Collections
			---------- Actual				
1991-92	$431,010	$13,831	$417,179	. . . .	. . . .	$ 75,264	$492,443
1992-93	425,654	12,686	412,968	. . . .	. . . .	102,913	515,881
1993-94	180,180	6,546	173,634	. . . .	$212,211	113,806	499,651
1994-95	174,483	5,515	168,968	. . . .	212,514	103,480	484,962
1995-96	178,545	4,948	173,597	. . . .	220,460	107,425	501,482
1996-97	161,813	4,282	157,531	. . . .	210,835	103,143	471,509
1997-98	169,018	3,763	165,255	. . . .	218,897	107,562	491,713
1998-99	180,906	9,758	171,148	. . . .	221,288	109,882	502,318
			---------- Estimated ----------				
1999-2000 . .	$184,900	$ 5,000	$179,900	. . . .	$229,100	$114,500	$523,500
2000-01 (Current law) .	186,600	5,000	181,600	. . . .	230,100	115,300	527,000
2000-01 (Proposed law)	23,800	5,000	18,800	$60,200	332,700	115,300	527,000

1/ Dedicated Highway and Bridge Trust Fund.
2/ Emergency Highway Reconditioning and Preservation Fund and Emergency Highway Construction and Reconstruction Fund.
3/ Dedicated Mass Transportation Trust Fund.

MOTOR VEHICLE FEES



Motor vehicle fees are derived from a variety of sources, but consist mainly of vehicle registration and driver licensing fees.

REGISTRATION REQUIREMENTS AND EXEMPTIONS

In general, motor vehicles, motorcycles, trailers, semitrailers, buses, and other types of vehicles operating in New York are required to be registered with the Department of Motor Vehicles. Vehicles owned by nonresidents and registered with a political jurisdiction outside this State are not usually required to be registered in New York.

Certain vehicles registered in New York are exempt from registration fees, including: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices, provided reciprocity is granted; and vehicles owned and used for the transportation of animals by a society for the prevention of cruelty to animals.

FEE SCHEDULES

Most vehicle registration fees in New York are based on weight. Two important exceptions are buses, which are charged according to seating capacity and semitrailers, which are registered for a flat fee. The main registration fees are as follows:

Main Registration Fees

Type of Vehicle	Weight of Vehicle	Annual Fee
Passenger vehicle	Each 100 lbs. or major fraction thereof up to 3500 lbs.	$ 0.645
	Plus: for each 100 lbs or major fraction thereof above 3500 lbs.	0.97
Passenger vehicle – minimum fee		10.35
Passenger vehicle – maximum fee		56.06
Passenger vehicle propelled by electricity		12.94
Auto truck and light delivery vehicle	Each 500 lbs. maximum gross weight or fraction thereof	2.88
Tractors (registered separately from semitrailers)	Each 100 lbs. maximum gross weight or fraction thereof	1.21
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	4.31
Semitrailers – pre-1989 model year		23.00 per year
Semitrailers – model year 1989 or later		69.00 for period of 5.5 years to 6.5 years
Bus – seating capacity 15 to 20 passengers		59.80

The other main source of motor vehicle fees are driver licensing fees. The main categories of license fees are listed below.

Main Licensing Fee Categories

Type of License	Fee
Initial application	$10.00
Learner's permit	2.50 -- for each six months
Learner's permit – commercial driver's license	7.50 -- for each six months
License renewal	2.50 -- for each six months
License renewal – commercial driver's license	7.50 -- for each six months

In summary, the largest sources of revenue are fees from vehicle registration and drivers' licenses. Other fees, relating to the operation of motor vehicles in the State, yield relatively minor amounts of revenue.

ADMINISTRATION

Traditionally, registration and licensing have taken place at the central and district offices of the Department of Motor Vehicles, by mail and at county clerk's offices in most counties. The county clerks were historically compensated with a fixed portion of each fee, but more recently, they receive a percentage of gross receipts.

County Clerks' Retention Schedule

Type of Retention	Period
Fixed portion of each fee.	Until December 31, 1996
8.1 percent of gross receipts.	From January 1, 1997
9.3 percent of gross receipts.	From July 1, 1998
12.7 percent of gross receipts.	From April 1, 1999

RECENT STATUTORY AND ADMINISTRATIVE CHANGES

Below is a summary of significant statutory or administrative changes in recent years that have a bearing on revenues from motor vehicle fees.

Subject	Description	Effective Date
Legislation Enacted in 1991		
Registration fees	A 15 percent surcharge imposed on vehicle registration fees.	August 1, 1991 through June 30,1992
Legislation Enacted in 1992		
Licenses	Annual fee for renewal of operator's license raised to $5, for commercial driver's license to $15.	June 1, 1992
Registration fees	Surcharge incorporated into base registration fees.	July 1, 1992
Administrative Changes 1992		
Photo image fee	Photo image fee raised to $2.25.	April 1, 1992
License plates	Standard plate fee increased to $5.75; vanity plate fee increased to $9.50.	April 1, 1992
Administrative Changes 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
Licenses	Original license period extended to five years.	September 1, 1997
Motorcycles	Add $2.50 to annual fee for registration and $0.50 for each six months to license or permit and earmark both to Motorcycle Safety Fund.	January 1, 1998
Administrative Changes 1997		

Subject	Description	Effective Date
Photo image fee	Photo image fee raised to $3.00.	April 1, 1997
Legislation Enacted in 1998		
Registration fees	Fees on passenger vehicle registration reduced 25 percent.	July 1, 1998

THE DEDICATED HIGHWAY AND BRIDGE TRUST FUND

A portion of motor vehicle fee receipts are distributed to the Dedicated Highway and Bridge Trust Fund, a capital fund. Since April 1, 1993, a percentage of registration fees has been earmarked to this fund. The percentage dedicated to the fund has been adjusted several times; a summary of the changes is set out below.

Dedicated Highway and Bridge Trust Fund
(millions)

State Fiscal Year	Percentage Dedicated	Amount Deposited
1993-94	13.0	$ 46.7
1994-95	17.0 April 1994-December 1994	45.1
	20.0 January 1995-March 1995	
1995-96	20.0	62.4
1996-97	20.0	71.4
1997-98	20.0	73.1
1998-99	28.0 April 1998-June 1998	108.2
	34.0 July 1998-February 1999	
	45.5 March 1999	
1999-2000 (Estimate)	45.5	146.0
2000-01 (Estimate)	45.5	144.0

1999-2000 RECEIPTS

Gross receipts for 1999-2000 are estimated at $537 million. The estimate for receipts from registrations is $359 million and the estimate for receipts from licenses and other fees is $178 million. An estimated $38 million in refunds and county clerk retention will result in estimated net receipts from motor vehicle fees of $499 million. The estimate reflects the first full-year effect of the reduction in passenger registrations and the new county clerks' retention schedule outlined above.

2000-01 PROJECTIONS

Gross receipts for 2000-01 are estimated at $531 million. The estimate for receipts from registrations is $381 million and for receipts from licenses and other fees is $150 million. An estimated $37 million in refunds and county clerk retention will result in estimated net receipts from motor vehicle fees of $494 million.

The estimate for 2000-01 assumes implementation of the following proposals:

- — License plate reissuance ($18.2 million): The first reissuance of license plates since 1986 will begin on October 1, 2000. The cost will remain at $5.50 per set. Motorists may pay an additional one-time charge of $20 to retain their current plate number;
- — Eight-year license renewal ($5.0 million): The duration of a driver's license renewal will be increased from five years to eight years, the annual rate ($5 dollars for most drivers) will remain the same. An eye test will be required at each renewal; and
- — Franchise dealer's fees ($0.3 million): A fee will be imposed on franchise dealers of new motor vehicles to cover the costs of the registration program enacted in 1999.

Motor Vehicle Fee Receipts

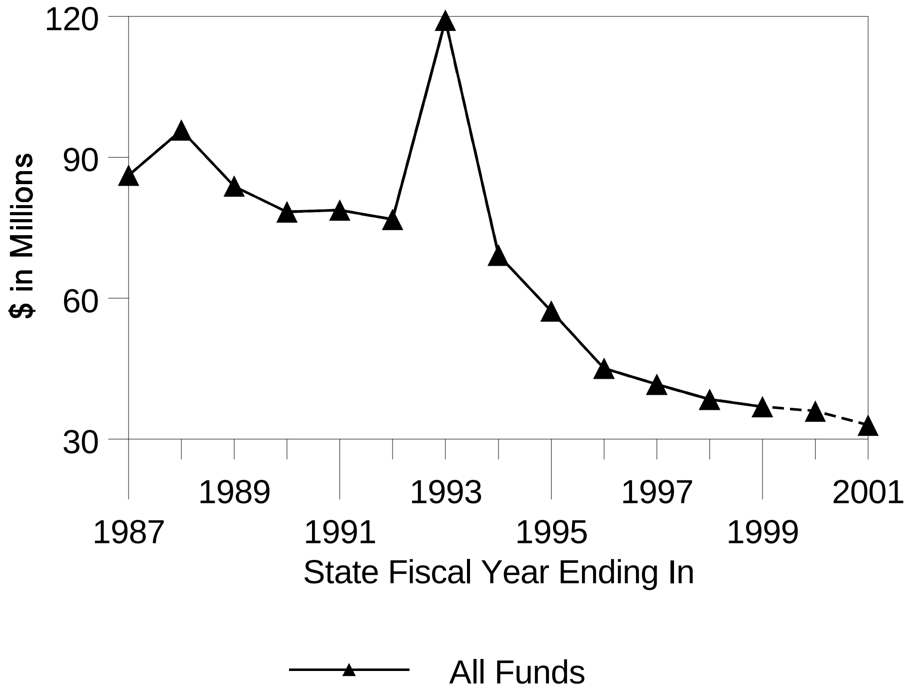
(thousands)

	Gross General Fund	Refunds	Less: County Clerks' Retention	Net General Fund	Special Revenue Funds	Capital Projects [1/] Funds	Debt Service Funds	All Funds Net Collections
	------------------------------------Actual------------------------------------							
1990-91	$467,442	$ 8,749	$15,393	$443,300	. . . .	NA	. . . .	$443,300
1991-92	475,947	14,206	15,453	440,288	. . . .	NA	. . . .	446,288
1992-93	493,837	18,422	15,113	460,302	. . . .	NA	. . . .	460,302
1993-94	482,312	16,570	15,748	449,994	. . . .	$ 46,655	. . . .	496,649
1994-95	502,802	16,258	16,678	409,866	. . . .	45,128	. . . .	514,994
1995-96	500,181	18,958	16,663	464,560	. . . .	62,390	. . . .	526,950
1996-97	511,195	21,596	17,206	472,033	. . . .	71,442	. . . .	543,475
1997-98	517,178	11,436	19,324	486,418	. . . .	73,096	. . . .	559,514
1998-99	478,085	13,795	20,135	444,155	. . . .	108,174	. . . .	552,329
	------------------------------------Estimated------------------------------------							
1999-2000 . . .	$391,000	$21,000	$17,000	$353,000	. . . .	$146,000	. . . .	$499,000
2000-01 (Current law) . .	362,500	19,000	17,000	326,500	. . . .	144,000	. . . .	470,500
2000-01 (Proposed law)	387,000	19,000	18,000	350,000	. . . .	144,000	. . . .	494,000

[1/] Dedicated Highway and Bridge Trust Fund

PARI-MUTUEL TAXES

Pari-Mutuel Receipts
History and Estimates

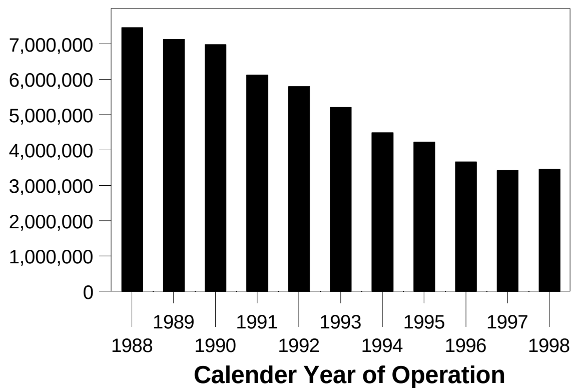


Since 1940, taxes have been levied on pari-mutuel wagering activity conducted first at horse racetracks and more recently at off-track betting (OTB) parlors and at simulcast theaters throughout the State. Each racing association or corporation pays the State a portion of the commission (the "takeout") withheld from wagering pools (the "handle") as a tax for the privilege of conducting pari-mutuel wagering on horse races.

To foster New York State agriculture and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standardbred (harness) horse breeding and development funds. Since the establishment of these funds, over 400 farms and 6,000 jobs have been created or saved. During 1998, $12 million went to thoroughbred funds and $6 million flowed to harness funds.

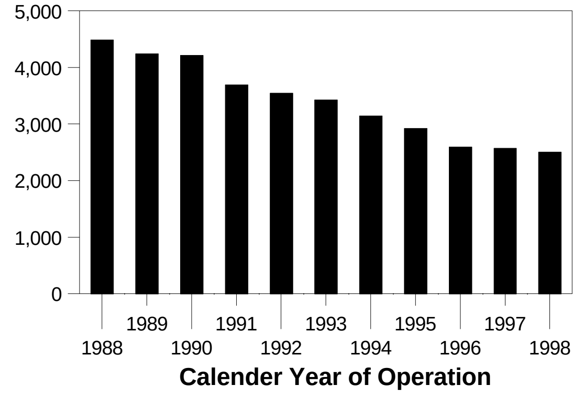
Over the last two decades, the rise in OTB activity and simulcasting, which now accounts for 80 percent of the statewide handle, has been accompanied by corresponding declines in handle and attendance at racetracks.

New York State Tracks
(Total Attendance)



Source: New York State Racing and Wagering Board

New York State Tracks
(Average Daily Attendance)



Source: New York State Racing and Wagering Board

To encourage the continuing viability of these tracks, the State authorized higher takeouts to support capital improvements at non-New York Racing Association (NYRA) tracks, and more importantly, reduced its on-track tax rates by 90 percent at thoroughbred and harness tracks. The State also assumed the costs for regulation and drug testing and increased the takeout on NYRA wagers involving two horses, while lowering the takeout on NYRA wagers involving one horse.

More recently, the State authorized telephone betting, in-home simulcasting experiments, expansion of track and OTB simulcasting, lowered the tax rates on simulcast wagering, eliminated the State franchise fee on nonprofit racing associations, and reduced tax rates.

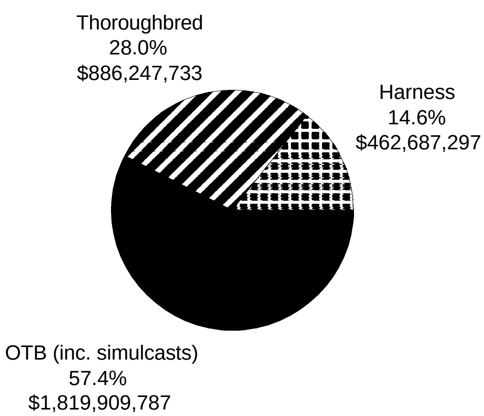
Subject	Description	Effective Date
Legislation Enacted in 1994		
Tax Rates	Lowered rates on all wagers at harness tracks and at the FLRA to 0.5 percent and provided credits up to 0.4 percent based on OTB simulcast handle of respective track.	September 1, 1994
Expand Betting	Authorized widespread in-home simulcasting experiments, simulcasts of flat racing bridging the time gap between the end of New York flat racing and the beginning of harness racing, and tripled the number of out-of-State harness track simulcasts.	July 6, 1994
Breakage	Allotted the State's share of all OTB breakage to horse breeding funds.	July 6, 1994
Legislation Enacted in 1995		
Tax Rates	Lowered rate on regular bets (involving one horse) at NYRA from 5 percent to 4 percent and reduced the tax on NYRA wagers at OTB in half: from 1.1 percent to 0.5 percent on regular and multiple (involving two horses) bets, and from 3.1 percent to 1.5 percent on exotic (involving three or more) bets.	June 1, 1995

Subject	Description	Effective Date
Takeout	Increased the takeout on NYRA wagers involving two horses (multiple bet) from 17 percent to 20 percent, while lowering the takeout on NYRA wagers involving one horse (regular bet) from 17 percent to 15 percent.	June 1, 1995
Legislation Enacted in 1999-98		
Tax Rates	Established the tax rate on all simulcast races at 1.5 percent for the initial race of the day and at 1.0 percent for later races, if NYRA is running. If NYRA is not racing, the tax rate on these races are 1.0 percent and 0.5 percent, respectively.	January 1, 1998
	Extended authorizations for lower tax rates for on-track and off-track bets on NYRA through June 30, 2002.	
Franchise Fee	Eliminated NYRA franchise fee.	January 1, 1998
Legislation Enacted in 1999		
Tax Rates	Cut the tax rate on NYRA regular bets to 2.6 percent each from 3.0 percent.	September 10, 1999
	Cut the tax rate on NYRA regular bets to 1.6 percent.	April 1, 2001

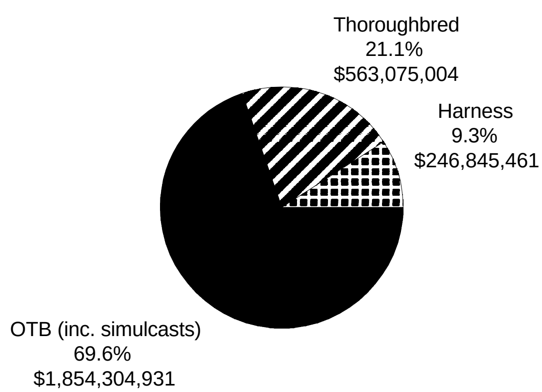
1999-2000 RECEIPTS

Increases in simulcasting handle, especially from out-of-State, are expected to offset the continued decline in on-track handle. As a result, the total 1999-2000 statewide betting handle (both on- and off-track) of $2.8 billion will be higher than the prior year.

Share of Pari-Mutuel Handle (1991)



Share of Pari-Mutuel Handle (1998)



Total thoroughbred on-track handle, including simulcasts, is estimated at $641 million, up 2.2 percent from the prior year. The continuing decline in wagering on live harness races is being offset, in part, by increased simulcasting, which has lower tax rates. Total harness handle is estimated at $262 million. Handle at off-track betting corporations is estimated to increase to $1.93 billion, up 3.5 percent, primarily resulting from the ability to offer in-home simulcasting of NYRA races for a full year.

Thoroughbred revenues are expected to decline by 9.7 percent to $16.8 million as a result of lower tax rates, while OTB receipts are estimated to increase by 5.2 percent to $18.3 million. Receipts from harness tracks should remain level at $0.9 million, resulting in total pari-mutuel tax receipts of $36 million.

2000-01 PROJECTIONS

The pari-mutuel projections for 2000-01 assume a full racing season, albeit with shorter race weeks at both thoroughbred and harness tracks. Additionally, the statutorily scheduled tax rate reductions on on-track NYRA wagering will apply. In aggregate, State pari-mutuel tax receipts are projected at $33 million in 2000-01.

Total on-track thoroughbred wagering is projected to decline 4.0 percent, while receipts will decline 15.5 percent as a result of previously enacted tax cuts. A projected NYRA handle of $515 million, including betting on out-of-State races, will produce $12.3 million in tax receipts; NYRA intrastate simulcasting revenues of $38 million will provide an additional $0.8 million in receipts. The Finger Lakes racetrack, with a handle projected at $48 million, including simulcasts, will produce $0.2 million in tax receipts; other intertrack simulcast wagering projected to generate $94 million in revenue will add another $0.9 million of tax receipts for total pari-mutuel receipts of $14.2 million.

Harness racing handle is projected to decrease to $252 million, generating tax receipts of $0.8 million, including $0.6 million in revenue from intertrack wagers on thoroughbred simulcasts. Yonkers Raceway is projected to provide $0.3 million, and Vernon Downs, Saratoga Raceway, Buffalo Raceway, and Monticello each providing less than $0.1 million in receipts.

OTB handle is projected at $1.92 billion, producing tax receipts of $18.0 million.

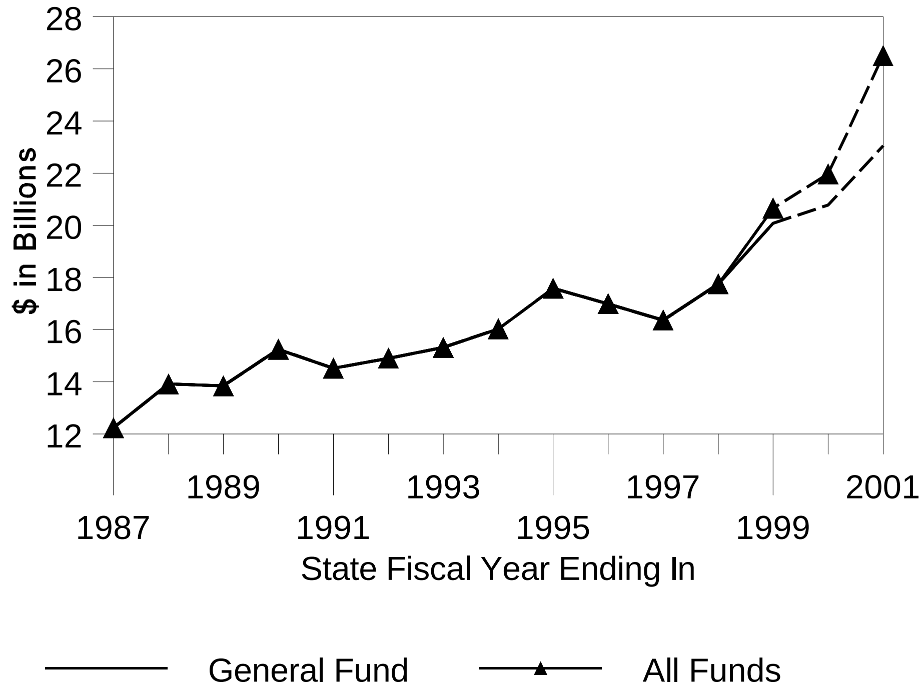
General Fund Receipts from Pari-Mutuel Taxes
(millions)

	General Fund			Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Collections
	Flat	Harness	OTB				
				Actual			
1991-92 .	$43.1	$5.1	$28.6	. . . .	. . . .	. . . .	$ 76.8
1992-93 .	87.6 [1/]	4.7	26.9	. . . .	. . . .	. . . .	119.2
1993-94 .	37.8	5.9	25.5	. . . .	. . . .	. . . .	69.2
1994-95 .	34.3	2.8	20.2	. . . .	. . . .	. . . .	57.3
1995-96 .	24.0	1.2	19.9	. . . .	. . . .	. . . .	45.1
1996-97 .	20.5	1.1	20.1	. . . .	. . . .	. . . .	41.7
1997-98 .	19.5	1.0	18.0	. . . .	. . . .	. . . .	38.5
1998-99 .	18.6	0.9	17.4	. . . .	. . . .	. . . .	36.9
				Estimated			
1999-2000	$16.8	$0.9	$18.3	. . . .	. . . .	. . . .	$ 36.0
2000-01 .	14.2	0.8	18.0	. . . .	. . . .	. . . .	33.0

[1/] Includes $47.9 million from the sale of land.

PERSONAL INCOME TAX

Personal Income Tax Receipts
History and Estimates

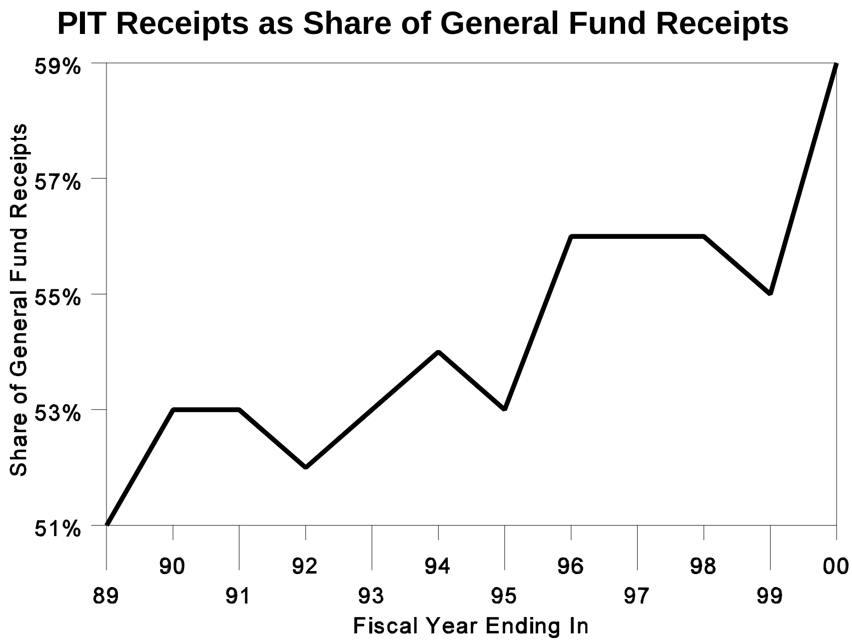


The personal income tax is New York State's largest source of tax revenue. It is estimated that during State fiscal years 1999-2000 and 2000-01, the personal income tax will account for more than one-half of total General Fund receipts.

Over the last decade, New York has greatly simplified its tax structure by reducing the rates applied to income and increasing standard deductions. Since 1995, the income tax burden has been reduced by about 20 percent.

TAX STRUCTURE

Tax Base



Note: Impact of Refund Reserve is excluded from PIT receipts. General Fund receipts exclude transfers.

The State tax structure adheres closely to the definitions of adjusted gross income and itemized deductions used for Federal personal income tax purposes, with certain modifications, including: (1) the inclusion of investment income from debt instruments issued by other states and municipalities and the exclusion of income on certain Federal obligations; and (2) the exclusion of pension income received by Federal, New York State and local government employees, private pension and annuity income up to $20,000 ($40,000 for married couples filing jointly), and any Social Security income and refunds otherwise included in Federal adjusted gross income.

Beginning in 1991, the new Federal limit on itemized deductions for taxpayers with Federal adjusted gross income (AGI) above a certain threshold is applied for State personal income tax purposes. This threshold amount, set at $100,000 ($50,000 for married couples filing separately) in 1991, is indexed for inflation afterward. In 1999, the threshold is $126,600 ($63,300 for married couples filing separately). Otherwise allowable itemized deductions, except for medical expenses, casualty and theft losses, and interest payments, are reduced by the lower of either 3 percent of Federal adjusted gross income in excess of the threshold amount or 80 percent of allowable itemized deductions.

Basic Tax Structure

For the 1989 through 1994 tax years, the tax was imposed at rates ranging from 4 percent to 7.875 percent on the taxable income of individuals, estates and trusts. For taxpayers with $100,000 or more of AGI, the benefit of the marginal tax rates in the lower brackets is recaptured through a supplementary mechanism in effect since 1991. In 1995, the State embarked on a major personal income tax cut which was phased in over three years as shown below:

Table 1
Personal Income Tax
Top Rate, Standard Deductions, Dependent Exemptions and EITC Rates
1994 - 1997

	1994	1995	1996	1997
Top Rate				
Rate	7.875%	7.59375%	7.125%	6.85%
Thresholds				
Married Filing Jointly	$26,000	$25,000	$26,000	$40,000
Single	13,000	12,500	13,000	20,000
Head of Household .	17,000	19,000	17,000	30,000
Standard Deduction				
Married Filing Jointly	9,500	10,800	12,350	13,000
Single	6,000	6,600	7,400	7,500
Head of Household .	7,000	8,150	10,000	10,500
Dependent Exemption	1,000	1,000	1,000	1,000
EITC Rate (as % of Federal credit)	7.5%	10%	20%	20%

Table 2
Current Tax Schedules

Married - Filing Jointly			Single			Head of Household		
Taxable Income	Tax	of Amt. Over	Taxable Income	Tax	of Amt. Over	Taxable Income	Tax	of Amt. Over
$0 to $16,000	$0 +4.00%	$ 0	$0 to $8,000	$0 +4.00%	$ 0	$0 to $11,000	$0 +4.00%	$ 0
$16,000 to $22,000	$640 +4.50%	16,000	$8,000 to $11,000	$320 +4.50%	8,000	$11,000 to $15,000	$440 +4.50%	11,000
$22,000 to $26,000	$910 +5.25%	22,000	$11,000 to $13,000	$455 +5.25%	11,000	$15,000 to $17,000	$620 +5.25%	15,000
$26,000 to $40,000	$1,120 +5.90%	26,000	$13,000 to $20,000	$560 +5.90%	13,000	$17,000 to $30,000	$725 +5.90%	17,000
$40,000 and over	$1,946 +6.85%	40,000	$20,000 and over	$973 +6.85%	20,000	$30,000 and over	$1,492 +6.85%	30,000

Credits

Current law authorizes a wide variety of credits against personal income tax liability. The major credits are:

Credit	Description
Earned Income Tax Credit (EITC)	Allowed at a rate of 7.5 percent of the Federal credit in 1994, 10 percent in 1995, and 20 percent in 1996 and later. Starting in 1996, the EITC is offset by the amount of the household credit. In 2000, the credit is scheduled to increase to 22.5 percent of the Federal credit, and to 25 percent of the Federal credit for 2001 and after The credit is fully refundable for New York residents whose credit amount exceeds tax liability.

Credit	Description
Household Credit	Permitted for individuals in amounts declining from $75 to $20, as their household income rises to $28,000. For married couples and heads of households, in amounts declining from $90 to $20, as their household income rises to $32,000. This latter category is also eligible for additional amounts based on the number of eligible exemptions and income level. Legislation in 1995 continued the credit permanently.
Child and Dependent Care Credit	Allowed at a rate of 20 percent or more of the comparable Federal credit. In 1997, the credit became refundable and equal to 60 percent of the Federal credit for those with incomes under $10,000, with a phase-down until it was 20 percent for incomes of $14,000 and above. In 1998, the percentage of the Federal credit increased to 100 percent for those with incomes less than $17,000, with this percentage gradually phasing down to 20 percent for those with incomes of $30,000 or more. For 1999 and later years, the phase-down from 100 percent to 20 percent begins at incomes of $35,000 and ends at incomes of $50,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability.
Real Property Tax Circuit Breaker Credit	Based on a more inclusive definition of income than that which is used in the income tax generally. For eligible taxpayers over the age of 65, the credit ranges downward from $375 as income rises to $18,000; for other taxpayers, the credit can be as high as $75.
Agricultural Property Tax Credit	Permitted allowable school district property taxes paid by an eligible farmer on qualified agricultural property. A farmer must derive at least two-thirds of his or her Federal gross income from farming to be eligible. If a farmer's qualified acreage exceeds the base acreage stipulated for that tax year, the credit is reduced to less than the full amount of school property taxes paid. Base acreage is 100 acres for 1997, and 250 acres in 1998 and later tax years. Legislation in 1997, applying to 1998 and later years, extended the credit to additional farmers by: (1) altering the eligibility test to require that farm income be at least two-thirds of gross income less $30,000; (2) reducing adjusted gross income by farm debt principal payments when determining the credit phase-out; and (3) making the credit available based on sales from maple syrup, cider, and farm wineries. In 1998, the base acreage level was accelerated to 250 acres for the 1998 tax year; prior to this legislation, the 1998 base acreage level had been set at 175 acres. In 1999, legislation expanded the farmer's credit to include agricultural land set aside or retired under a Federal supply management or soil conservation program.
Rehabilitation Credit for Historic Barns	Effective for tax years starting in 1997 and after. This credit equals 25 percent of a taxpayer's qualified rehabilitation expenses incurred in restoring a pre-1936 agricultural barn.

In addition, credits are allowed for investment in certain productive facilities, for investment in economic development zones, and for personal income taxes paid to other states. Finally, the excess deduction credit was allowed in 1995 only to ease the transition to the new tax structure only for taxpayers who itemized their deductions and whose taxable income was less than $24,500 ($49,000 for married couples).

RECENT STATUTORY CHANGES

The following major tax law changes have had a significant impact on personal income tax receipts.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Tax Reform Deferral	Continued deferral of the remainder of the tax cut enacted in the Tax Reform and Reduction Act of 1987.	1994 tax year
Earned Income Tax Credit	Created a State credit as a percentage of the Federal amount. The rates are 7.5 percent of the Federal credit in 1994, 10 percent in 1995, 15 percent in 1996, and 20 percent for 1997 and after.	1994 and after
Legislation Enacted in 1995		
Standard Deduction	Increased the standard deduction over three years.	1995 and after
Tax Rate Schedule	Reduced the top tax rate from 7.875 percent to 6.85 percent and raised bracket thresholds over three years.	1995 and after
Earned Income Tax Credit	Accelerated the credit into 1996 from 15 percent to 20 percent of the Federal amount, but offset it by the household credit.	1996
Legislation Enacted in 1996		
Child and Dependent Care Credit	Increased credit for taxpayers with adjusted gross incomes of less than $14,000 and made the credit refundable for residents beginning in 1996.	1996 and after
Agricultural Property Tax Credit	Created the credit.	1997 and after
Legislation Enacted in 1997		
Child and Dependent Care Credit	Increased credit to 100 percent of the Federal credit for incomes up to $17,000, phasing down to 20 percent for incomes of $30,000 or more.	1998 and after
Agricultural Property Tax Credit	Allowed $30,000 to be subtracted from income before calculating the percent of income from farming to qualify for the credit; eliminated principal payments on farm debt from the calculation of the income level at which the credit begins to phase out.	1998 and after
Solar Energy Credit	Created credit for residential investment in solar electric generating equipment.	1998 and after
College Choice Tuition Savings Program	Created New York State College Choice Tuition Savings Program.	1998 and after
Legislation Enacted in 1998		
Child and Dependent Care Credit	Increased the credit to 100 percent of the Federal credit for incomes up to $35,000, phasing down to 20 percent for incomes of $50,000 or more.	1999 and after
School Tax Relief Program (STAR)	Accelerated the fully effective senior citizens' school property tax exemption and began deposit of a portion of personal income tax receipts into the STAR fund.	1998-99 school year

Subject	Description	Effective Date
Legislation Enacted in 1999		
Earned Income Tax Credit	Increased EITC to 22.5 percent of the Federal credit in 2000 and 25 percent of the Federal credit for tax years beginning after 2000.	2000 and after
Agricultural Property Tax Credit	Expanded credit to include land set aside or retired under a Federal supply management or soil conservation program. Also increases "base acreage" by acreage enrolled or participating in a Federal environmental conservation acreage reserve program.	2001 and after
Qualified Emerging Technology Credit (QETC)	Extended credit to individual investors, including partners in partnerships and shareholders of subchapter S corporations.	2000 and after

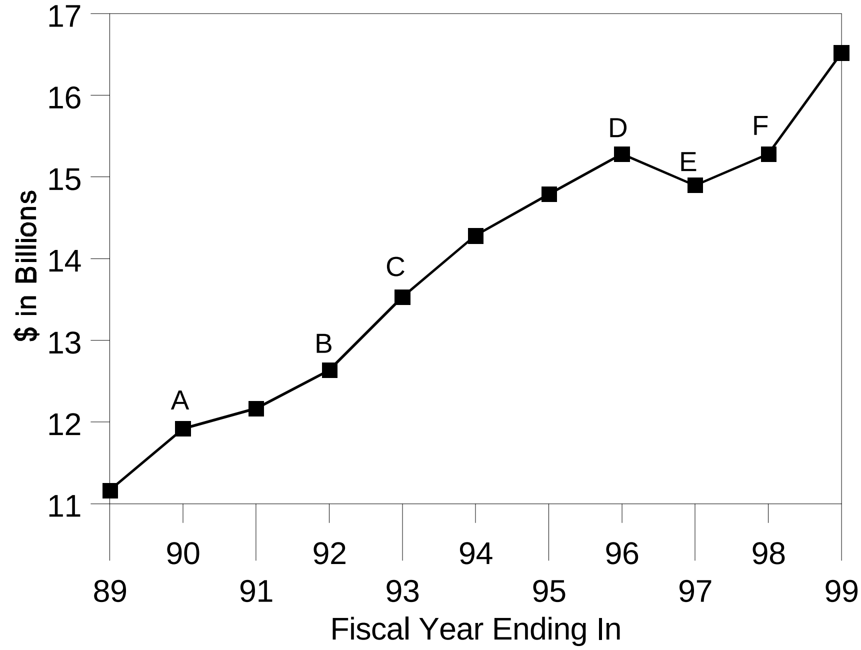
RECENT ADMINISTRATIVE ACTIONS THAT AFFECT REVENUE COLLECTIONS

Withholding Changes

Various changes in tax rates, deductions and exemptions have been reflected in withholding tables as follows:

	Effective Date	Feature	Changes
A.	10/1/89	Standard Deduction	Increased to $5,000 for single taxpayers and to $5,500 for married taxpayers.
		Rate Schedule	Adopted 1989 rate schedule, with top rate at 7.875 percent.
B.	10/1/91	Rate Schedule	Changed for taxpayers with taxable wages in excess of $90,000 annually to account for the Federal limitation on itemized deductions and for the State tax table benefit recapture.
C.	7/1/92	Rate Schedule	Changed for taxpayers with taxable wages in excess of $150,000 annually to account for the State tax table benefit recapture.
D.	7/1/95	Standard Deduction	Increased to $5,650 for single individuals, $6,150 for married couples.
		Rate Schedule	Lowered maximum rate to 7.59 percent, reduced the number of tax brackets.
E.	4/1/96	Standard Deduction	Increased to $6,300 for single individuals, $6,800 for married couples.
		Rate Schedule	Lowered maximum rate to 7 percent, broadened the wage brackets to which the rates apply.
F.	1/1/97	Standard Deduction	Increased to $6,975 for single individuals, $7,475 for married couples.
		Rate Schedule	Lowered maximum rate to 6.85 percent, broadened the wage brackets to which the rates apply.

Personal Income Tax Withholding



The above graph shows the history of withholding collections since 1988-89, with the timing of withholding table changes indicated.

Refund Reserve Account Transactions

The personal income tax refund reserve account has been used to adjust fiscal-year collections for: (1) changes in withholding tables; (2) delays in implementation of withholding changes; and (3) accomplishing other State fiscal goals. The following schedule traces the changes in the year-end balance of this account and the effect of those changes on reported fiscal-year collections (also see the table, later in this section, for the effects of refund reserve transactions on the current and subsequent fiscal years).

Table 3
March 31 Personal Income Tax Refund Reserve Account Balances and Effects of Changes on Reported Collections
(millions)

Year Ending March 31	Year End Balance	Change from Prior Year	Effect of Change in Year-End Balance on Reported General Fund Receipts
1999	$2,305.9	$ -86.3	Increased receipts by 86.3
1998	2,392.2	530.4	Decreased receipts by 530.4
1997	1,861.8	1,183.5	Decreased receipts by 1,183.5
1996	678.4	400.4	Decreased receipts by 400.4
1995	278.0	-861.6	Increased receipts by 861.6
1994	1,139.6	468.5	Decreased receipts by 468.5
1993	671.1	641.9	Decreased receipts by 641.9
1992	29.2	29.2	Decreased receipts by 29.2
1991	. . . .	-48.6	Increased receipts by 48.6
1990	48.6	48.6	Decreased receipts by 48.6
1989	. . . .	. . . .	No effect
1988	. . . .	-351.7	Increased receipts by 351.7

As part of the State's multi-year effort to end the Spring Borrowing through the Local Government Assistance Corporation (LGAC), State funds were deposited annually from 1993-94 through 1995-96 in the refund reserve account. The amounts deposited were $114 million in 1993-94, $136 million in 1994-95, and $271 million in 1995-96. LGAC funds in the refund reserve, totaling $521 million at the end of 1999-2000, are available to finance refunds issued in the Spring of 2000, but must be restored to the reserve by March 31, 2001.

Since 1994-95, when the EITC was created, additional funds have been deposited in the refund reserve account at the end of each fiscal year to pay for a portion of the cost of new tax reductions. Typically, an amount equal to one-quarter of a tax reduction's cost for a specific tax year has been deposited in the account on the following March 31. This practice reflects the sound fiscal policy of paying for a tax reduction in a timely fashion and provides funds to pay additional refunds during April and May.

The following table shows the amounts of reserve at the end of each fiscal year and the purposes for which the funds were reserved.

Table 4
Purposes of March 31 Personal Income Tax Refund Reserve Account Balances
(millions)

Date, March 31 of	LGAC	Net Tax Reduction [1/]	Reserves for Other Purposes	Total
1995	$250	$ 21	$ 7	$ 278
1996	521	32	125	678
1997	521	73	1,268	1,862
1998	521	90	1,781	2,392
1999	521	7	1,778	2,306
2000 est.	521	25	2,415	2,961

[1/] For EITC starting in 1995 (and the increment enacted in 1999), agricultural property tax credit starting in 1997, and child care credit enhancements starting in 1999. Reduced by $100 million starting in 1999 due to the payment of additional refunds in the January to March period.

Timing of the Payment of Refunds

For many years, the payment of refunds during the final quarter of the State's fiscal year (i.e., the January-March period) had been explicitly modified to minimize potential year-end imbalances in the State's General Fund. This practice was made possible because the statute required merely that all refunds on timely filed claims (due no later than April 15, absent an approved request for an extension) be made by July 15 (i.e., within three months of the statutory due date) to avoid State liability for interest on late refunds. Effective since 1995, refunds must be paid within 45 days of the statutory due date to avoid State liability for interest.

Tax Tribunal Decision

In July 1997, the State's Tax Appeals Tribunal delivered a decision regarding the proper computation of State itemized deductions for certain high-income taxpayers. The new computation takes into consideration the interaction between State and Federal itemized deductions in determining State and local income taxes. The Tribunal's decision, which by law the State cannot appeal, in effect, reduces personal income tax liability.

COMPONENTS OF ADJUSTED GROSS INCOME AND ESTIMATED TAX LIABILITY

Adjusted gross income (AGI), the income base used to determine personal income tax liability, includes the major components listed below:

Table 5
Distribution of the Major Components
of New York Adjusted Gross Income (AGI)
(millions)

Component of Income	1992	1993	1994	1995	1996	1997	1998	1999	2000
		------------ Actual ------------					------------ Estimated ------------		
NYSAGI									
amount	$294,861	$297,112	$301,267	$321,094	$347,897	$383,179	$417,211	$443,343	$471,744
% change		0.8%	1.4%	6.6%	8.3%	10.1%	8.9%	6.3%	6.4%
Wages									
amount	$238,813	$237,972	$242,771	$253,551	$266,334	$285,919	$307,406	$325,370	$345,148
% change		-0.4%	2.0%	4.4%	5.0%	7.4%	7.6%	5.8%	6.1%
share of NYSAGI	81.0%	80.1%	80.6%	79.0%	76.6%	74.6%	73.7%	72.8%	72.3%
Capital Gains*									
amount	$ 9,457	$ 13,365	$ 12,032	$ 14,086	$ 22,441	$ 31,563	$40,246	$49,311	$55,478
% change		41.3%	-10.0%	17.1%	59.3%	40.7%	27.5%	22.5%	12.5%
share of NYSAGI	3.2%	4.5%	4.0%	4.4%	6.5%	8.2%	9.6%	11.0%	11.6%
Interest and Dividends									
amount	$ 20,807	$ 18,567	$ 19,629	$ 22,680	$ 23,533	$ 24,652	$25,248	$26,361	$28,995
% change		-10.8%	5.7%	15.5%	3.8%	4.8%	2.4%	4.4%	10.0%
share of NYSAGI	7.1%	6.2%	6.5%	7.1%	6.8%	6.4%	6.1%	5.9%	6.1%
Taxable Pension									
amount	$ 11,424	$ 13,078	$ 15,694	$ 16,620	$ 17,391	$ 18,953	$20,004	$21,071	$22,243
% change		14.5%	20.0%	5.9%	4.6%	9.0%	5.5%	5.3%	5.6%
share of NYSAGI	3.9%	4.4%	5.2%	5.2%	5.0%	4.9%	4.8%	4.7%	4.7%
Business and Partnership Income									
amount	$ 19,586	$ 20,639	$ 19,665	$ 25,867	$ 31,424	$ 35,288	$37,247	$39,826	$42,163
% change		5.4%	-4.7%	31.5%	21.5%	12.3%	5.6%	6.9%	5.9%
share of NYSAGI	6.6%	6.9%	6.5%	8.1%	9.0%	9.3%	8.9%	8.9%	8.8%
All Other Incomes/ Adjustments**									
amount	($ 5,226)	($ 6,509)	($ 8,525)	($ 11,710)	($ 13,227)	($ 13,195)	($12,939)	($14,890)	($16,441)
% change		24.6%	31.0%	37.4%	12.9%	-0.2%	-1.9%	15.1%	10.4%

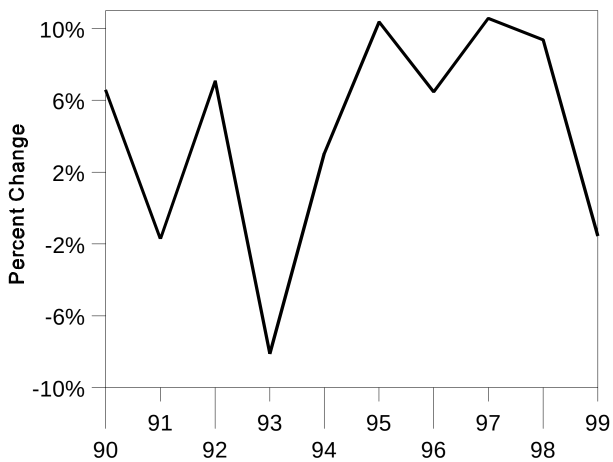
* The capital gains forecast has been adjusted slightly from the estimates provided in the Economic Backdrop section. These changes reflect cash collection patterns in 1998-99 and 1999-2000. These changes have reduced the 1998 estimate but increased the 1999 and 2000 projections. Overall, the capital gains base is estimated to be higher than the model-based estimates.

** Include alimony received, unemployment income, IRA income, and other incomes. This number is negative due to the Federal and New York adjustments to income, which together reduce final NYSAGI.

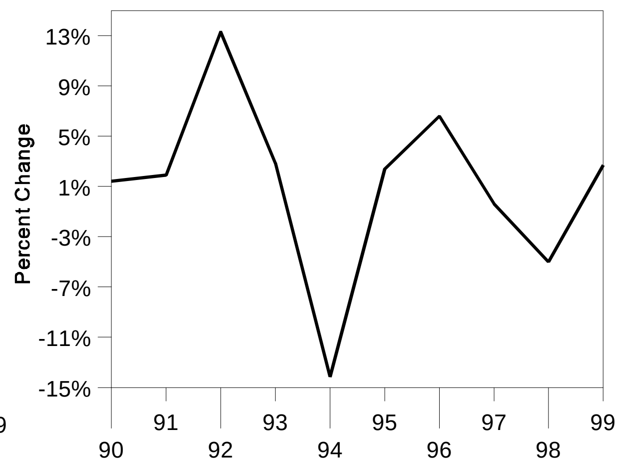
Strong performances in the financial sector in recent years have resulted in a significant shift in the capital gains share of AGI. Since 1992, the share of capital gains in AGI is estimated to have tripled from 3.2 percent to 9.6 percent. Over the same period the share of wages in AGI is estimated to have decreased from 81 percent to 73.7 percent. Business and partnership income also shows strong growth between 1992 and 1998, though somewhat smaller than capital gains, and accounts for an estimated 9.0 percent of AGI in 1998. The AGI data suggest that much of the rapid growth in liability in recent years can be attributed to the large increases in realized gains and business income.

Changes in timing of year-end bonus payments also affect the growth rates of AGI. Bonuses in the Finance, Insurance and Real Estate (FIRE) Sector represent more than half of the total bonuses paid out each year. Under traditional patterns, about 40 percent of FIRE bonuses for a given year are paid in December, with the balance distributed in the beginning of the following year. In the 1992-93 cycle, however, a large share of the bonuses normally paid in January and February 1993 was accelerated into December 1992 to avoid potential Federal tax increases in 1993. It is estimated that as much as 75 percent of FIRE bonuses were paid that month. This unusual pattern recurred in the 1993-1994 period. Bonuses for 1994 through 1998, however, returned to the more traditional pattern, where it is estimated that approximately 30 percent of FIRE bonuses were paid at the end of the calendar year, while 70 percent were paid early in the following year. It is expected, given current financial performance, that a somewhat higher percentage of bonuses will be paid in early 2000.

Change in 1st Quarter Bonuses



Change in 4th Quarter Bonuses



1997 and 1998 Liability

Based on tax collections, total liability for 1997 was approximately $17.5 billion. Of this amount, $17.0 billion was accounted for by the more than eight million returns covered in the annual study of personal income tax returns prepared by the New York State Department of Taxation and Finance. The balance reflects liability received with fiduciary returns, late filed returns and other transactions excluded from the annual study. The AGI amount in the tax study for 1997 was $383 billion, yielding an average effective tax rate of 4.4 percent.

As in 1996 and 1997, 1998 saw a significant increase in income concentrated in the high income segment of taxpayers, a result of a strong performance in the financial sector. AGI is estimated to have grown close to 9 percent, to $417 billion in 1998. Wages and salaries are estimated to have increased about 7.5 percent. Following a 59 percent growth in 1996 and 41 percent growth in 1997, capital gains are estimated to have risen about 27.5 percent in 1998. Interest and dividend income is estimated to have increased around 2.4 percent, following an increase of 4.8 percent in 1997. Business net income and income derived from partnerships and S corporations are expected to have risen more than 5.6 percent following a 12.3 percent increase in 1997.

Legislation, passed in June 1995, implemented the final step of the personal income tax cut in the 1997 tax year, increasing the standard deduction, and reducing the maximum tax rate imposed on taxable income, compared to 1996. The resulting 1998 liability as extrapolated from the 1997 study file is estimated to be close to $19 billion, a 11.4 percent growth compared to 1997. The effective tax rate is estimated to be 4.5 percent.

Under the Federal Taxpayer Relief Act of 1997, the Federal government reduced the tax rate on capital gains effective after May 7, 1997. In addition, starting in 1998 other Federal law changes will impact New York AGI and liability. Some of these changes include the introduction of Education IRAs and "Roth IRAs." Both are expected to have minimal impact on New York liability for the 1998 tax year.

1999 AGI and Liability

By all indicators, the State economy remained strong in 1999. AGI is estimated to have grown 7.2 percent, to $447 billion. Wages and salaries are estimated to have increased 5.8 percent, reflecting continued employment gains and healthy bonus performance, largely linked to 1998 market activity. Interest and dividend income is estimated to have risen 4.4 percent. Again, liability was impacted by another projected large increase in capital gains realizations of 22.5 percent. Over the 1997 through 1999 period, capital gains realizations increased by an estimated 56 percent. Business net income, and income derived from partnerships and S corporations are expected to grow close to 7 percent.

Estimated liability is projected to have increased 8.8 percent, to $20.5 billion.

In addition to qualified senior citizens, the STAR program begins to take effect for all other New York residential homeowners who itemize their deductions.

2000 AGI and Liability

In 2000, AGI is expected to grow approximately 6.8 percent, moderating somewhat from the strong growth of the last few years The increase in wages and salaries is projected to be 6.1 percent. Bonus growth is expected to increase in 2000 from relatively weak results in 1999. Capital gains realizations are expected to grow 12.5 percent, which is more in line with historical trends. The other components of income are expected to grow, in aggregate, by about 6.3 percent. Under current law, estimated liability is projected to increase 8.3 percent, to $22.2 billion.

Risks in Liability Estimates

The composition of the income components for the 1999 and 2000 liability years contributes to significant risk in the personal income tax liability estimates, and, consequently, in the personal income tax fiscal year cash estimates. Indeed, the liability forecasts assume continued strong growth in capital gains income and bonuses. Both of these income components often exhibit much more volatility than most other components of income. The concentration of large amounts of these income sources among high income taxpayers — who have high effective tax rates — compounds the risk for the liability and fiscal year cash estimates. If actual bonus or capital gains incomes vary much from the forecast values, personal income tax collections could be much different than the forecasted collections. (See section entitled Sources of Volatility in the Economic Backdrop section of this Appendix.)

1999-2000 RECEIPTS

Total personal income tax receipts for the 1999-2000 fiscal year are now projected at $21,978 million, up $153 million from the Mid-Year Update. This change largely reflects: higher withholding tax collections due to stronger wage growth than earlier forecast; additional estimated tax installment payments due to stronger than expected financial markets; and the use of $2,961 million for the accelerated payment of refunds in the last quarter of the fiscal year and for deposit in the refund reserve account on March 31, 2000.

Key risks for the remainder of the fiscal year include the amount of withholding tax collections to be received during the first quarter of 2000 and the balance of estimated payments received on 1999 liability.

The current forecast assumes that estimated payments on 1999 liability will end the year more than 9 percent higher than comparable payments on 1998 liability. As already noted, this increase is due in part to strong financial market performance in 1999, and the consequent impact on bonus payments and realized capital gains.

Withholding collections, which increased 8.8 percent through the first nine months of the fiscal year, are expected to increase 9.3 percent for the remainder of 1999-2000. The strong year-to-date increase in withholding is due to increased wages resulting from stronger than expected employment and average wage gains. Continued growth for the remainder of the year reflects strong base wage growth accompanied by a resurgence in bonus growth from the relatively low levels of the prior year.

The estimate for the current year reflects the payment of $460 million in refunds on 1999 liability during the final quarter of the fiscal year, and a net reduction in collections of $655 million from transactions in the refund reserve account. Without the refund reserve account transactions, 1999-2000 net receipts are estimated to grow to $22,633 million, an increase of 10 percent from comparable 1998-99 receipts. The components of the estimate are detailed in Table 6, and are based on estimated collections of $18.5 billion through December.

Table 6
Projected Fiscal-Year Collection Components
All-Funds
(millions)

	1998-99 (Actual)	1999-2000 (Estimated)	2000-01 (Projected)
Receipts			
Withholdings	$16,521	$18,003	$19,186
Estimated Payments	5,155	5,785	6,215
Current Year	4,222	4,620	4,925
Prior Year*	933	1,165	1,290
Final returns	1,229	1,420	1,510
Current Year	89	90	90
Prior Year*	1,140	1,330	1,420
Delinquent collections	466	495	510
Gross Receipts	$23,371	$25,703	$27,421
Refunds			
Prior Year*	$ 1,876	$2,115	$ 2,300
Previous Years	159	145	145
Current Year	460	460	460
State-City Offset*	300	350	390
Total Refunds	$ 2,795	$3,070	$ 3,295
Reserve Transactions	86	(655)	2,394
Net Receipts	$20,662	$21,978	$26,520

*NOTE: These components, collectively, are known as the "settlement" on the prior year's tax liability.

The planned balance in the refund reserve account on March 31, 2000, is $2,961 million. Of this amount, $521 million is attributable to Local Government Assistance Corporation (LGAC) transactions in 1993-94 ($114 million), 1994-95 ($136 million) and 1995-96 ($271 million). These transactions are part of the State's multi-year effort to end the Spring Borrowing and, while the $521 million is available to finance refunds to be issued in the Spring of 2000, it must be restored to the reserve by March 31, 2001. To continue the practice of depositing a portion of the cost of new personal income tax reductions in the reserve fund, $25 million in additional funds will be deposited in the reserve account on March 31. The remaining $2,415 million deposit in the account will include: $1,200 million for a tax reduction reserve, $615 million for 2000-01 expenditures from the 1999-2000 surplus, $50 million for a salary reserve, and $550 million for additional 1999-2000 surplus used in part to offset the cost of proposed tax reductions and to help reduce the debt burden of the State.

An added risk to the estimate of 1999-2000 receipts results from the timing of bonus payments paid by financial services companies. A large portion of these bonuses is paid in the first quarter of the calendar year. As a result, these results are not available when the 1999-2000 estimates were constructed.

2000-01 PROJECTIONS

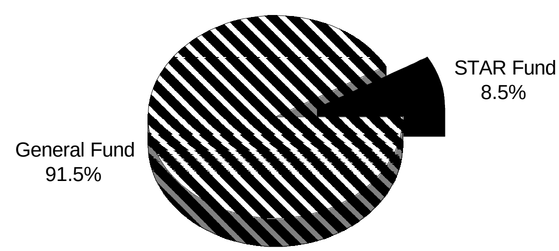
Based on current law, net personal income tax receipts would be expected to increase by 6.6 percent, to $24,126 million, in 2000-01. Reported receipts would include the net increase to collections of $2,394 million from net transactions in the refund reserve account.

Withholding receipts are projected to rise by 6.6 percent. Final payments with 1999 returns are expected to increase by $90 million from 1998 returns, reflecting strong income growth in 1999.

The other major component of collections, estimated payments on 2000 income, will grow moderately. This is consistent with expected non-wage income growth in 2000, the high base level of 1999 estimated tax payments, and lower growth in capital gains realizations following the high 1997 through 1999 levels resulting at least partially from the 1997 Federal capital gains changes.

Legislation proposed with this Budget will permit farmers to receive STAR benefits for their primary residences even if the farm is corporate-owned.

STAR Share of Net Receipts



OTHER FUNDS

Legislation in 1998 created the School Tax Relief (STAR) Fund to help provide school tax reductions under the STAR program, accelerated the fully effective level of the enhanced senior citizens school property tax exemption into 1998-99, and accelerated the final level of the New York City personal income tax credit into the 1998 tax year for taxpayers age 65 or more. In 1999-2000 dedicated personal income tax receipts of $1,195 million will be deposited in the School Tax Relief Fund. This amount is $48 million less than estimated at the time of the Mid-Year Update. In 2000-01, it is estimated that receipts of $3,210 million will be deposited in the Fund. This will include a STAR reserve deposit of $1,200 million.

In addition, in 2000-01 personal income tax receipts of $250 million will be deposited in the Debt Reduction Reserve Fund, a capital projects fund.

GENERAL FUND

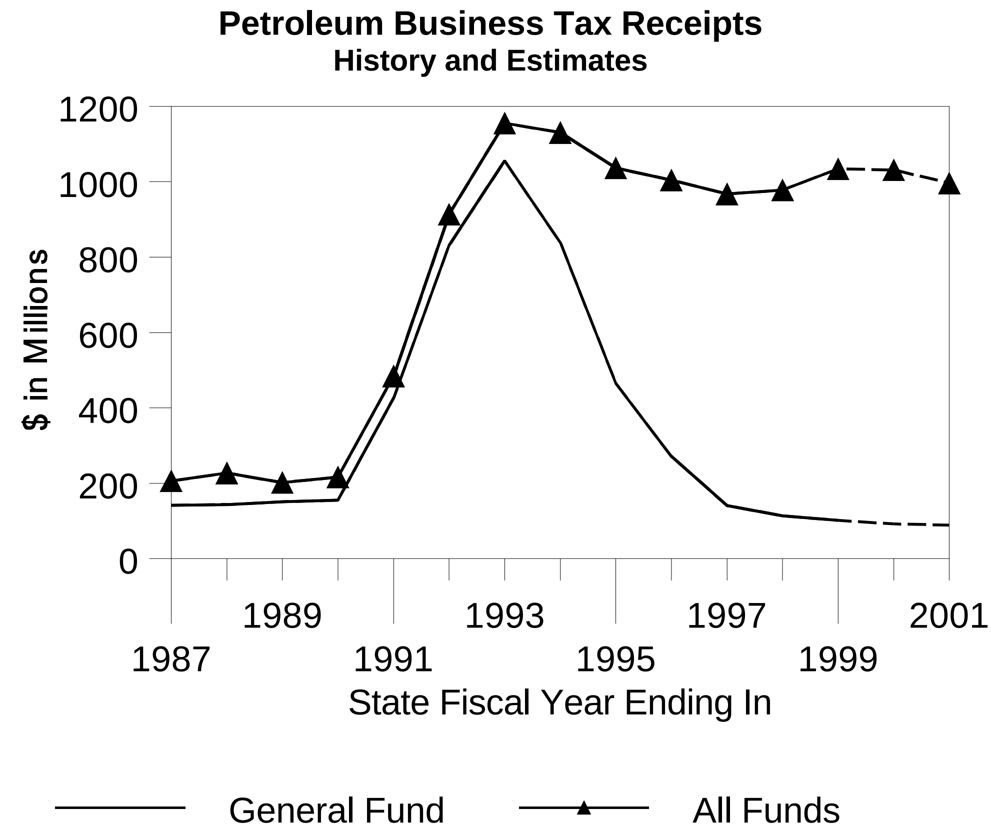
General Fund net personal income tax receipts are estimated at $20,783 million in 1999-2000 and $23,060 million in 2000-01.

Table 7
Personal Income Tax Receipts
(millions)

	Gross General Fund	Refunds & Reserve Transactions	Net General Fund	Special Revenue Funds [1/]	Capital Projects Funds [2/]	Debt Service Funds	All Funds Net Collections
			------- Actual -------				
1991-92	$17,028	$2,115	$14,913	. . . .	. . . .	. . . .	$14,913
1992-93	18,074	2,755	15,319	. . . .	. . . .	. . . .	15,319
1993-94	18,727	2,693	16,034	. . . .	. . . .	. . . .	16,034
1994-95	19,028	1,438	17,590	. . . .	. . . .	. . . .	17,590
1995-96	19,857	2,859	16,998	. . . .	. . . .	. . . .	16,998
1996-97	20,238	3,867	16,371	. . . .	. . . .	. . . .	16,371
1997-98	21,088	3,329	17,759	. . . .	. . . .	. . . .	17,759
1998-99	22,789	2,709	20,080	$ 582	. . . .	. . . .	20,662
					------- Estimated -------		
1999-2000 . . .	$24,508	$3,725	$20,783	$1,195	. . . .	. . . .	$21,978
2000-01 (Current law) .	23,962	901	23,061	3,209	$250	. . . .	26,520
2000-01 (Proposed law)	23,961	901	23,060	3,210	250	. . . .	26,520

[1/] STAR Fund.
[2/] Debt Reduction Reserve Fund

PETROLEUM BUSINESS TAXES



Article 13-A of the Tax Law imposes a privilege tax on petroleum businesses operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. The tax is collected monthly with State motor fuel taxes. Article 13-A also imposes the petroleum business carrier tax, which is a complement to, and is collected with, the fuel use tax portion of the highway use tax. Specifically exempted from Article 13-A taxes are fuel used for residential heating purposes, fuel sold to governments, kerosene other than kero-jet fuel, crude oil, liquefied petroleum gas (LPG), and certain bunker fuel.

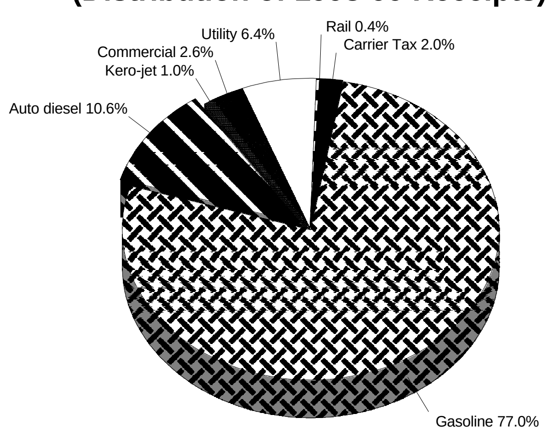
Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate. Both components are indexed to reflect petroleum price changes. Table 1 displays the current per gallon PBT rates for 1999 and 2000 as well as estimated rates for 2001, which reflect changes in the index.

Table 1
Petroleum Business Tax Rates
(cents per gallon)

Petroleum Products [2]	Apr.-Dec. 1999 Base	Supp	Total	2000 Base	Supp	Total	Jan.-Mar. 2001 [1] Base	Supp	Total	Apr.-Dec. 2001 [1] Base	Supp	Total
Automotive fuels												
Gasoline and other non-diesel fuels	8.4	5.6	**14.00**	8.0	5.4	**13.40**	8.4	5.6	**14.00**	8.4	5.6	**14.00**
Diesel	8.4	3.85	**12.25**	8.0	3.65	**11.65**	8.4	3.85	**12.25**	8.4	3.85	**12.25**
Aviation gasoline	8.4	5.6	**14.00**	8.0	5.4	**13.40**	8.4	5.6	**14.00**	8.4	5.6	**14.00**
Net rate after credit	5.6	none	**5.60**	5.4	none	**5.40**	5.6	none	**5.60**	5.6	none	**5.60**
Kero-jet fuel	5.6	none	**5.60**	5.4	none	**5.40**	5.6	none	**5.60**	5.6	none	**5.60**
Non-automotive diesel fuels	7.6	5.6	**13.20**	7.3	5.4	**12.70**	7.6	5.6	**13.20**	7.6	5.6	**13.20**
Commercial gallonage after credit	7.6	none	**7.60**	7.3	none	**7.30**	7.6	none	**7.60**	6.08	none	**6.08**
Electric utility after credit	2.51	5.6	**8.11**	2.43	5.4	**7.83**	2.52	5.6	**8.12**	2.52	5.6	**8.12**
Residual petroleum products	6.0	5.6	**11.60**	5.7	5.4	**11.10**	5.9	5.6	**11.50**	5.9	5.6	**11.50**
Commercial gallonage after credit	6.0	none	**6.00**	5.7	none	**5.70**	5.9	none	**5.90**	4.72	none	**4.72**
Electric utility after credit	0.95	5.6	**6.55**	0.87	5.4	**6.27**	0.86	5.6	**6.46**	0.86	5.6	**6.46**
Railroad diesel fuel	8.4	3.85	**12.25**	8.0	3.65	**11.65**	8.4	3.85	**12.25**	8.4	3.85	**12.25**
Net rate after exemption/ refund	7.1	none	**7.10**	6.7	none	**6.70**	7.1	none	**7.10**	7.1	none	**7.10**

[1] Estimated rates.
[2] PBT rates on fuel used in manufacturing were eliminated.

PBT Components
(Distribution of 1998-99 Receipts)



PBT rates had been subject to a business tax surcharge. The business tax surcharge was phased out beginning in 1994 and eliminated on June 1, 1997.

The basic and supplemental PBT tax rates have been subject to separately computed annual adjustments, on January 1 of each year, to reflect the change in the producer price index for refined petroleum products for the 12 months ended August 31 of the immediately preceding year.

Early in the decade, PBT tax rates rose substantially due to indexing and the sizable increases in the price of petroleum products. Tax rates rose about 20 percent on April 1, 1991, and by more than 16 percent on January 1, 1992. Annual legislation precluded the 1992 tax rates from being further indexed through 1995.

Legislation in 1994 provided that beginning January 1, 1996, and annually thereafter, the indexed tax rates shall not change by more than 5 percent of the rates of the previous year. In addition to the 5 percent cap on rate changes, the statute also requires the basic and supplemental rates to be rounded to the nearest tenth of one cent. As a result, the tax rates usually do not change by the full 5 percent allowed by the statutory formula.

The index applicable to the 1996 calendar year required the 1995 rates to be increased by up to 4.41 percent on January 1, 1996. Similarly, the index for January 1, 1997, and January 1, 1998, increased by more than 5 percent (6.9 percent and 8 percent, respectively). Therefore, the basic and supplemental tax rates on various products were increased up to 5 percent on these dates. Based on the index, PBT rates for 1999 and 2000 are scheduled to decline by 5 percent. Projections used in this Budget call for the index for January 1, 2001, to increase by more than 5 percent, triggering rate increases of up to 5 percent for 2001.

Table 2
Petroleum Business Tax Index
(percent)

Year	Fuel Price Change	PBT Index
1991	20.19	20.19
1992	16.47	16.47
1993	-14.40	0.00
1994	- 0.46	0.00
1995	- 8.72	0.00
1996	4.41	4.41
1997	6.88	5.00
1998	7.96	5.00
1999	-18.60	- 5.00
2000	- 7.81	- 5.00
2001*	42.01	5.00

*Estimated

The tax rate for kero-jet fuel for both 1999 and 2000 also reflects 1995 legislation, effective September 1, 1995, that reduced the base tax and eliminated the supplemental tax on kero-jet fuel. A credit that reduces the aviation gasoline rate to the kero-jet rate was also provided.

As described below, the base tax adopted in 1990 provides substantial credits for fuel used by corporations in the generation of electricity for sale, and such firms were not subject to the surcharge (now eliminated) on that tax. Those credits are also adjusted to reflect changes in the index.

SIGNIFICANT STATUTORY CHANGES

Base Tax and Rates

Legislation in 1990 revised and simplified the tax on petroleum businesses, converting the annual percentage-rate gross receipts tax to a monthly cents-per-gallon tax as of September 1, 1990 (the base tax). Unlike the prior gross receipts tax, the base tax does not apply to kerosene, bunker fuel or LPG.

The gallonage rates initially set by statute were:

- 5.5 cents for automotive-type fuel and aviation gasoline;
- 5.0 cents for nonautomotive middle distillate fuel;
- 4.0 cents for residual petroleum product; and
- 1.9 cents for kero-jet fuel.

The 1990 legislation provided for annual indexing of these rates to reflect price changes. Partial credits, also indexed, are provided for middle distillate and residual fuels used by certain electric corporations to generate electricity.

Supplemental Tax

Unlike the base tax, which is imposed at varying rates based upon the type of fuel, the supplemental tax, first imposed in 1991, was originally applied uniformly to all fuels. At that time, certain fuels used in farming were exempted from the supplemental tax, and a credit against the supplemental tax was provided for certain fuels used in manufacturing.

Surcharge

The 1990 statute also imposed a business tax surcharge of 15 percent for two years and 10 percent for one year. Fuel eligible for the utility credits was exempt from the surcharge. The initial kero-jet rate was also exempt from the surcharge. Subsequent legislation extended the imposition of the surcharge at 15 percent until 1994, when legislation was enacted to implement the phase-out of the surcharge. The 1994 legislation reduced the surcharge rate from 15 percent to 12.5 percent on June 1, 1994, to 7.5 percent on June 1, 1995, and to 2.5 percent on June 1, 1996. The surcharge was eliminated on June 1, 1997.

Lubricants

From September 1, 1990, until August 31, 1994, the State imposed a tax of 10 cents per quart on lubricants suitable for use in a motor vehicle engine. The tax was administered with the sales tax and was payable quarterly by the retail seller of the oil. Legislation in 1994 repealed this tax.

Carrier Tax

An additional 1991 modification imposed the petroleum business carrier tax. This tax is a complement to the fuel use tax imposed under the highway use tax, and is imposed on fuel purchased by motor carriers outside the State but consumed within the State.

Payments

Under 1992 legislation, businesses with yearly motor fuel and petroleum business taxes totaling more than $5 million are required to remit taxes for the first 22 days of the month by electronic funds transfer, by the third business day thereafter. The tax for the balance of the month is paid with the monthly returns filed by the 20th of the following month.

In addition to these major structural changes, numerous statutory changes have been made to the petroleum business tax during the last several years. The following is a list which summarizes the major legislation impacting the petroleum business tax enacted since 1994.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Manufacturing	Converted the credit/reimbursement allowed against the supplemental tax for certain manufacturing use to an exemption.	September 1, 1994
Farm Production	Exempted diesel fuel and residual fuel used for off-highway farm production from all petroleum business taxes and provided farmers a reimbursement for the tax on gasoline used for off-highway farm production.	September 1, 1994
Commercial Gallonage	Provided petroleum business taxpayers with a credit or reimbursement against the base tax in the amount of one-half of the supplemental tax and the surcharge on that tax on commercial heating fuels (nonautomotive diesel motor fuel or residual fuel oil) that qualify as commercial gallonage.	September 1, 1994
Fisherman	Allowed commercial fisherman to claim a reimbursement for petroleum business tax paid on diesel fuel and gasoline used in the operation of a commercial fishing vessel.	September 1, 1994
Bad Debts	Allowed petroleum businesses to apply for a refund of petroleum business taxes paid on transactions involving certain consumer bad debts.	September 1, 1994
Refunds/Credits	Allowed highway use taxpayers that purchase more fuel in New York State than they consume in the State to claim refunds or credits for overpayments of the petroleum business carrier tax.	January 1, 1995
Not-for-profit Organizations	Exempted the sale or use of commercial heating oil for the exclusive use and consumption of not-for-profit organizations from the supplemental petroleum business tax and the surcharge on that tax.	September 1, 1995

Subject	Description	Effective Date
Legislation Enacted in 1995		
Aviation Fuels	Effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products to a rate that is equivalent to the statutory supplemental tax rate. To maintain the first import system, which imposes the petroleum business tax on aviation gasoline upon importation, and still allow retail sellers of aviation gasoline to sell such product at a reduced rate, distributors of aviation gasoline must remit the full tax imposed on that product and may subsequently take a credit for the difference between the full rate and the reduced rate.	September 1, 1995
Not-for-profit Organizations	Provided full exemption for heating fuel that is for the exclusive use and consumption of certain not-for-profit organizations.	January 1, 1996
Legislation Enacted in 1996		
Railroads	Exempted diesel motor fuel used for railroads from the supplemental portion of the tax.	January 1, 1997
Commercial Heating	Provided full exemption from the supplemental tax imposed on distillate and residual fuels used by the commercial sector for heating.	March 1, 1997
Manufacturing	Expanded to a full exemption, the partial exemption provided for residual and distillate fuels used in manufacturing.	January 1, 1998
Diesel Supplemental Tax	Reduce the supplemental tax imposed on diesel motor fuel by three-quarters of one cent per gallon.	January 1, 1998
	Reduced the supplemental tax imposed on diesel motor fuel by an additional one cent per gallon.	April 1, 1999
Utilities	Increased the base tax credit for residual and distillate fuels used by utilities to generate electricity by one-half cent per gallon.	April 1, 1999
Legislation Enacted in 1997		
Vessels	Created a credit or refund for fuel used in vessels that was purchased in the State and consumed outside the State; clarified that the export credit/refund applies to export for use, as well as sale; stated that the legal incidence of the tax is on consumers; and limited the judicial remedies available to taxpayers.	April 1, 1984
Legislation Enacted in 1999		
Commercial Gallonage	Reduced the petroleum business tax rates on commercial gallons for space heating by 20 percent.	April 1, 2001
Mining and Extraction	Provided for reimbursement of petroleum business tax imposed on fuels used for mining and extraction.	April 1, 2001

Legislation submitted with this Budget will eliminate the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT, effective April 1, 2001. Currently, the Tax Law imposes a minimum tax of $25 per month on petroleum businesses, and $2 per month on aviation fuel businesses under the PBT.

DISPOSITION OF REVENUES

In past years, proceeds of the petroleum business tax have been shared by the General Fund and the Mass Transportation Operating Assistance Fund (MTOAF). Prior to the 1990 revisions, the General Fund received 72.7 percent and MTOAF received 27.3 percent or a guaranteed amount. The 1990 statute converting the tax from a gross receipts to a cents-per-gallon tax, expanded the tax yield, and limited the MTOAF share to slightly more than 17.7 percent of the nonsurcharge proceeds — the dollar equivalent of its share prior to the expansion. Carrier tax receipts are deposited in the General Fund.

Separate 1991 transportation legislation provided that on and after April 1, 1993, 100 percent of the supplemental tax and a portion of the base tax (see table below) would be split between the Dedicated Mass Transportation Trust Fund and the Dedicated Highway and Bridge Trust Fund.

Statutory changes to the PBT base tax fund distributions since 1993 are as follows:

Table 3
PBT Base Tax Fund Distribution
(percent)

Effective Date	General Fund	MTOAF [1/]	Dedicated Funds Pool [2/]
Prior to April 1, 1993	82.3	17.7	. . . .
April 1, 1993	28.3	17.7	54.0
September 1, 1994	22.4	18.6	59.0
September 1, 1995	18.0	19.2	62.8
April 1, 1996	17.4	19.3	63.3
January 1, 1997	14.5	19.3	66.2
January 1, 1998	12.4	19.5	68.1
April 1, 1999	10.7	19.5	69.8
April 1, 2001	9.8	19.7	70.5

[1/] This is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.

[2/] This pool is split 37 percent to the Dedicated Mass Transportation Trust Fund and 63 percent to the Dedicated Highway and Bridge Trust Fund.

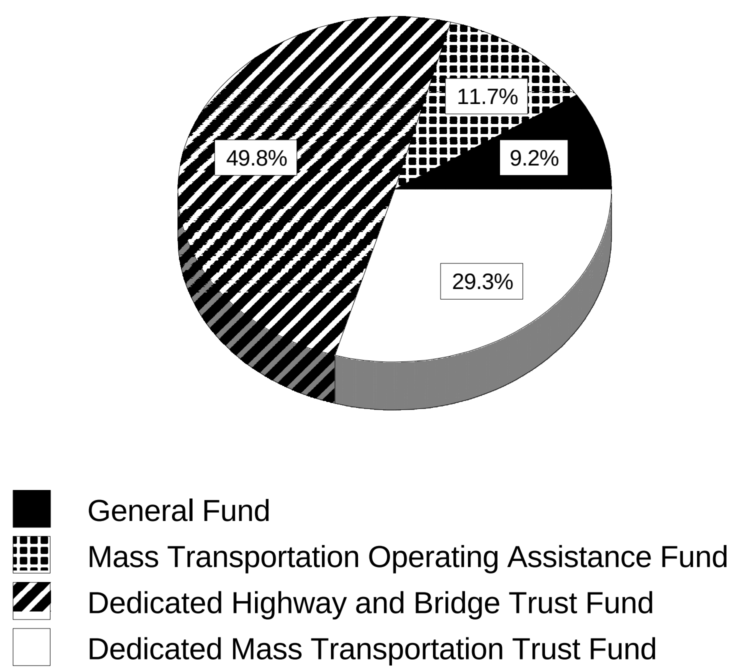
Legislation submitted with this Budget will redistribute PBT receipts. Effective April 1, 2001, all PBT General Fund receipts, including carrier tax receipts, will be redistributed to the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund.

1999-2000 RECEIPTS

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are projected to follow the same consumption trends as fuel subject to the motor fuel excise tax. (See section titled Motor Fuel Tax.) Residual fuels used by utilities are projected to decline due to their higher relative price.

Estimated collections through December from the petroleum business tax, including audit receipts, surcharges and the carrier tax, have increased by approximately 1.6 percent from comparable receipts in 1998-99. Based on these collection trends, petroleum business tax receipts for the year are projected at $1,031.9 million. Estimated receipts reflect the impact of the 1996 tax reductions for diesel motor fuel consumed by railroads, residual and distillate fuels consumed by the commercial sector, and additional credits or refunds provided to certain purchasers of aviation gasoline. The estimate of receipts for 1999-2000 reflects the 5 percent decrease in PBT rates that took effect on January 1, 1999, and the additional 5 percent decrease effective on January 1, 2000.

PBT Receipts
1999-2000 and 2000-01



2000-01 PROJECTIONS

The forecast for continued economic growth at the State level is expected to produce 0.4 percent and 3.8 percent increases in gasoline and diesel consumption, respectively. The demand for residual fuels consumed by utilities is projected to decline further due to the substantial increase in the relative price of residual fuel oil compared to natural gas.

Projected 2000-01 receipts of $996.7 million assume that automotive fuel prices will decrease by 0.9 percent and that inventories will remain stable. The estimate also reflects the continuation of the 1996 tax reductions. In addition, receipts for 2000-01 anticipate that the index used to set PBT rates in January 2001 will increase by 5 percent.

OTHER FUNDS

In 1998-99, the petroleum business tax provided MTOAF receipts of $117.1 million, Dedicated Highway and Bridge Trust Fund receipts of $513.3 million, and Dedicated Mass Transportation Trust Fund receipts of $301.5 million.

Petroleum business taxes in 1999-2000 are expected to provide MTOAF receipts of $119.3 million, Dedicated Highway and Bridge Trust Fund receipts of $516.7 million, and Dedicated Mass Transportation Trust Fund receipts of $303.5 million.

Petroleum business tax receipts in 2000-01 are projected at $115.7 million for MTOAF, $498.6 million for the Dedicated Highway and Bridge Trust Fund, and $292.8 million for the Dedicated Mass Transportation Trust Fund.

GENERAL FUND

In 1998-99, petroleum business tax receipts of $102.0 million were deposited in the General Fund. General Fund receipts in 1999-2000 are projected at $92.4 million. The decline in receipts is due to legislative changes and mandated reductions in the General Fund share of total petroleum business taxes. The share changes were implemented to hold the Dedicated Funds revenue stream harmless from recent tax reductions reducing the overall amount of PBT receipts collected.

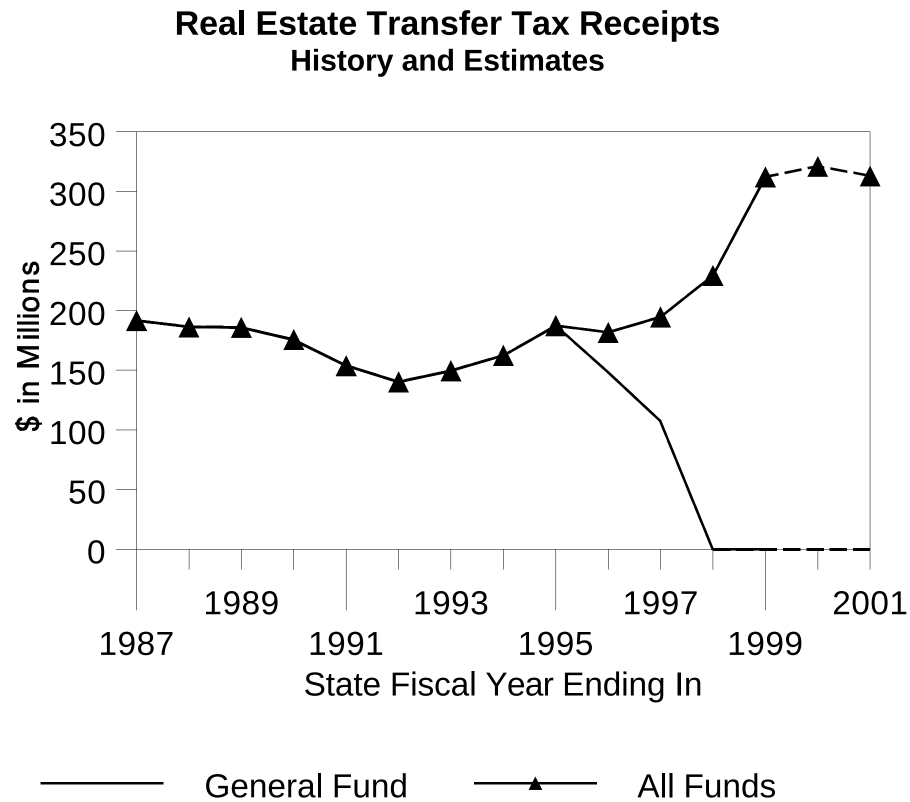
General Fund receipts for 2000-01 are projected at $89.6 million, reflecting additional reductions in the General Fund share of petroleum business taxes as a result of the 1996 tax reductions.

Petroleum Business Tax Receipts

	Gross General Fund	Refunds	Net General Fund	Gross Special Revenue Fund [1]	Refunds	Net Special Revenue Funds [1]	Gross Capital Projects [2] Funds	Refunds	Net Capital Projects [2] Funds	All Funds Net Collections
	Actual									
1991-92 . .	$ 847,134	$ 1,340	$ 845,794	$ 83,003	$ 844	$ 82,159	. . . .	. . . .	. . . .	$ 927,953
1992-93 . .	1,083,798	10,797	1,073,001	100,578	1,002	99,576	. . . .	. . . .	. . . .	1,172,577
1993-94 . .	870,846	16,218	854,628	240,167	4,473	235,694	$ 56,070	$ 1,044	$ 55,026	1,145,348
1994-95 . .	482,522	7,558	474,964	347,434	5,442	341,992	232,626	3,644	228,982	1,045,938
1995-96 . .	275,989	3,439	272,550	303,167	3,778	299,389	429,192	5,349	423,843	995,782
1996-97 . .	143,469	2,570	140,899	379,155	6,791	372,364	462,341	8,281	454,060	967,323
1997-98 . .	116,573	2,477	114,096	396,454	8,424	388,030	486,846	10,345	476,501	978,627
1998-99 . .	104,048	2,019	102,029	426,881	8,283	418,598	523,460	10,157	513,303	1,033,930
Estimated										
1999-2000	$ 94,191	$ 1,791	$ 92,400	$430,995	$ 8,195	$422,800	$526,715	$10,015	$516,700	$1,031,900
2000-01 . .	91,398	1,798	89,600	416,697	8,197	408,500	508,605	10,005	498,600	996,700

[1] Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
[2] Dedicated Highway and Bridge Trust Fund.

REAL ESTATE TRANSFER TAX



The New York State real estate transfer tax is imposed by Article 31 of the Tax Law on each conveyance of real property or interest therein, when the consideration exceeds $500, at a rate of $4 per $1,000 of consideration. Prior to May 1983, the rate was $1.10 per $1,000 of consideration. The tax became effective August 1, 1968. An additional tax, effective July 1, 1989, is imposed on conveyances of residential real property for which the consideration is $1 million or more. The rate is 1 percent of the consideration attributable to residential property.

Typically, the person conveying the property (grantor) is responsible for payment of the tax, either through the purchase of adhesive documentary stamps or by the use of a metering machine or through other devices, provided by the Commissioner of Taxation and Finance.

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITS) is $2 per $1,000 of consideration. The following governmental entities are exempt from the real estate transfer tax: New York State (including agencies, instrumentalities, subdivisions, and public corporations); the United States (including agencies and instrumentalities); and the United Nations. If an exempt entity is the grantor in a transfer, the tax burden falls upon the grantee. Significant exemptions from the tax are: conveyances to an exempt governmental agency, conveyances given pursuant to the Federal bankruptcy act, and mere change of identity conveyances. A deduction from the taxable consideration is allowed for any lien or encumbrance remaining at the time of sale involving a one-, two-, or three-family house or individual residential condominium unit.

ADMINISTRATION

For deeded transfers, the tax is paid to a recording agent (generally, the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of the Department of Taxation and Finance. All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million in liability during the previous calendar year, payments received between the 1st and 15th day of the month are due to the Commissioner by the 25th day of the same month. Payments received in such counties between the 16th and the final day of the month are due to the Commissioner by the 10th day of the following month. Payments from all other counties are due to the Commissioner by the 10th day of the month following their receipt. Although the county payment schedule is statutory, it is not useful for predicting monthly cash flows due to the unpredictable payment behavior of some large counties.

1999-2000 RECEIPTS

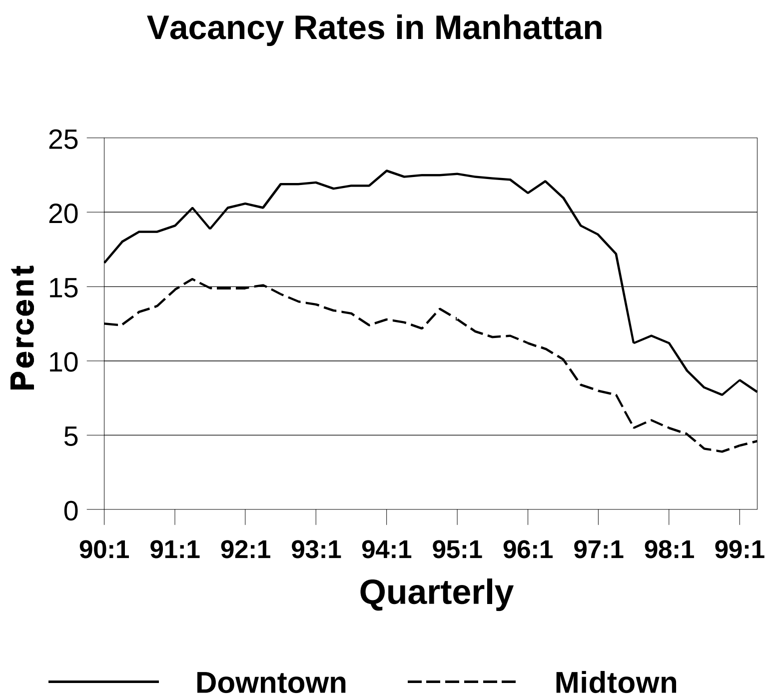
Reported collections during the first nine months of 1999-2000 are estimated to be $254.8 million, up 3.0 percent from 1998-99 collections for the comparable period. Unlike State fiscal year 1998-99, when downstate residential and commercial transactions (particularly in Manhattan) were responsible for much of the strength in collections, State fiscal year 1999-2000 collections are being driven by somewhat different factors.

In Manhattan, commercial prices and transactions are running below last year's record-setting pace, and vacancy rates have risen slightly in midtown since the end of 1998. During State fiscal year 1998-99, several large buildings were sold in Manhattan, while at the same time speculation regarding expected returns drove prices to all-time highs. Falling vacancy rates and rising commercial rents caused some tenants to negotiate future leases that contained large rent increases, in hopes that completing negotiations early would avoid even larger increases at the conclusion of existing contracts. This resulted in a temporary and rapid rise in expected returns and, hence, in asking prices for commercial real estate in Manhattan. According to Insignia Data, a company specializing in analyzing real estate industry activity, 102 Manhattan office buildings were transferred in calendar year 1998, for $6.6 billion in consideration. The projected total for 1999 is about $5.6 billion, with $4.6 billion of transfers completed through November.

In comparison with 1998-99, tax liabilities through October from Manhattan declined 29.5 percent to $36.0 million. For the remainder of New York City, receipts increased 34.1 percent to $29.3 million. On Long Island, receipts are up 12.8 percent to $42.0 million. The rest of the State has reported receipts up 8.5 percent, to $58.3 million. Central office collections (through November), which are mostly non-deeded transactions, were up 1.1 percent to $38.0 million.

Collections for the remainder of the fiscal year are expected to be $66.2 million, up 1.8 percent from 1998-99 collections for the same period. Net All Funds receipts in 1999-2000 are estimated at $321 million, up 2.8 percent.

2000-01 PROJECTIONS



Source: C.B. Richard Ellis

The estimate assumes that mortgage rates will be higher during 2000-01 than during 1999-2000. Accordingly, residential transfers are expected to fall somewhat in State fiscal year 2000-01. The estimate also relies on continued strength in the State economy, resulting in an increase in receipts from non-residential transactions. Net All Funds receipts are projected to decrease to $313 million, down 2.5 percent from the record setting pace of State fiscal year 1999-2000 results.

OTHER FUNDS

During 1999-2000 and 2000-01, the statutory amount of real estate transfer tax receipts diverted to the Environmental Protection Fund is $112 million. The remainder of such receipts, estimated at $209 million in 1999-2000 and $201 million in 2000-01, are to be deposited in the Clean Water/Clean Air Bond Debt Service Fund.

GENERAL FUND

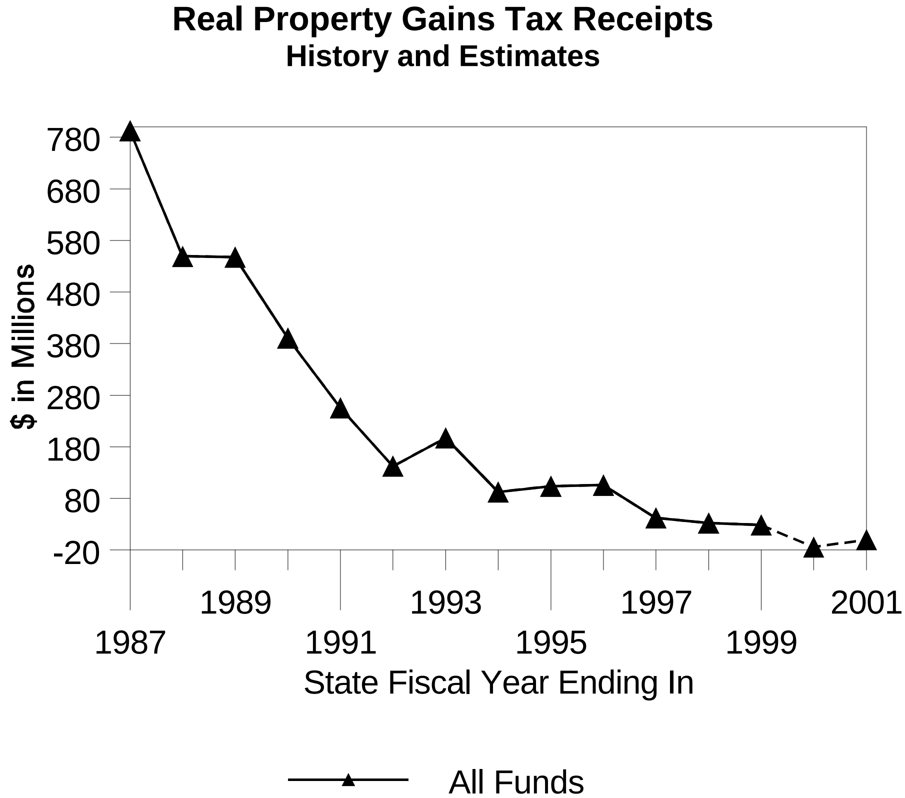
The General Fund will receive no direct deposit of real estate transfer tax receipts in 1999-2000 or 2000-01. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund.

Real Estate Transfer Tax Receipts
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue	Capital Projects [1/] Funds	Gross Debt Service [2/] Funds	Refunds	Debt Service [2/] Funds	All Funds Net Collections
					Actual				
1991-92 . .	$140,413	$246	$140,167	. . . .	. . . .	. . . .	. . . .	. . . .	$140,167
1992-93 . .	150,085	532	149,553	. . . .	. . . .	. . . .	. . . .	. . . .	149,553
1993-94 . .	163,174	618	162,556	. . . .	. . . .	. . . .	. . . .	. . . .	162,556
1994-95 . .	187,801	278	187,523	. . . .	. . . .	. . . .	. . . .	. . . .	187,523
1995-96 . .	148,505	307	148,198	. . . .	$ 33,500	. . . .	. . . .	. . . .	181,698
1996-97 . .	107,859	371	107,488	. . . .	87,000	. . . .	. . . .	. . . .	194,488
1997-98 . .	. . . .	. . . .	. . . .	. . . .	87,000	$142,747	$115	$142,632	229,632
1998-99 . .	. . . .	. . . .	. . . .	. . . .	112,000	200,383	14	200,369	312,369
					Estimated				
1999-2000	. . . .	. . . .	. . . .	. . . .	$112,000	$209,015	$15	$209,000	$321,000
2000-01 . .	. . . .	. . . .	. . . .	. . . .	112,000	201,015	15	201,000	313,000

[1/] Environmental Protection Fund.
[2/] Clean Water/Clean Air Bond Debt Service Fund.

REAL PROPERTY GAINS TAX



The real property gains tax, enacted in 1983, was repealed on July 13, 1996. All property transferred after June 15, 1996, is exempt from the provisions of the real property gains tax. This tax was levied at a rate of 10 percent of the gain from sales of New York commercial property of $1 million or greater, including anything of value arising from land ownership, such as air rights or zoning credits. This tax was unique to New York State, and its elimination has made real property located in New York more appealing to investors.

1999-2000 RECEIPTS

Remaining collections stem primarily from installments for tax liability arising from sales of condominium and cooperative housing for projects that were still being sold at the time of the gains tax repeal. These deferred payments amounted to $10 million through December, with another $1 million expected by year end. Collections from assessments processed through the Case and Assessment Resources Tracking System (CARTS) and other sources are estimated at $9 million through December, with an additional $3 million expected by the end of the State fiscal year. Total refunds for the year are estimated at $37 million, reflecting an adverse Tax Tribunal finding on the taxability of installment sales. As a result, net real property gains tax collections for 1999-2000 are estimated at -$14 million.

2000-01 PROJECTIONS

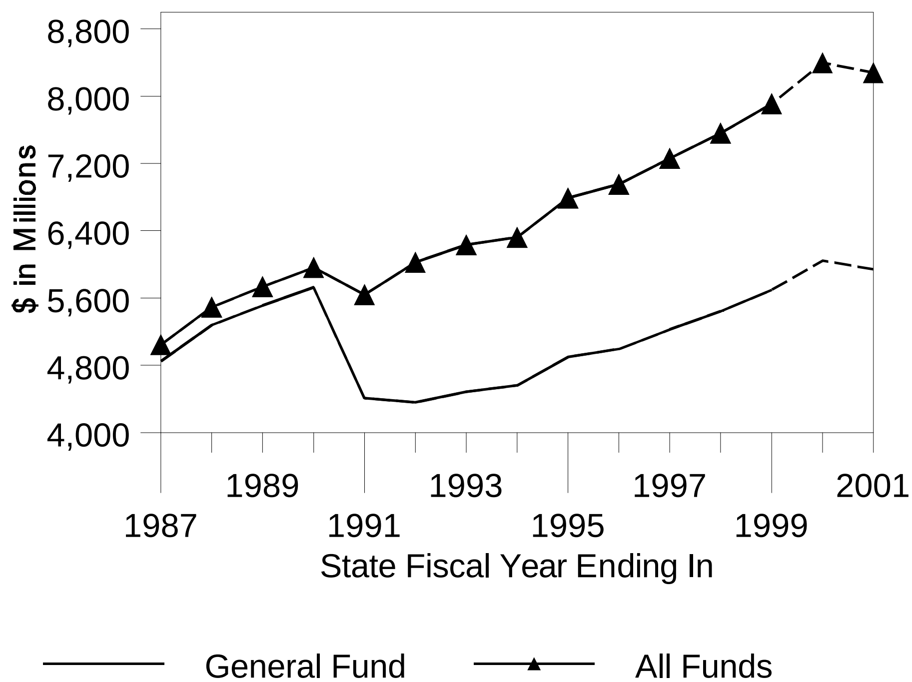
It is projected that collections from outstanding audits and installments will produce $4 million and $3 million, respectively. Refunds of $7 million of prior year liability will result in net real property gains tax collections of $0 million for 2000-01.

General Fund Receipts from the Real Property Gains Tax
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
			---------- Actual ----------				
1991-92	$161,579	$18,659	$142,920	. . . .	. . . .	. . . .	$142,920
1992-93	209,246	11,920	197,326	. . . .	. . . .	. . . .	197,326
1993-94	119,116	26,494	92,622	. . . .	. . . .	. . . .	92,622
1994-95	125,806	22,238	103,568	. . . .	. . . .	. . . .	103,568
1995-96	150,412	44,503	105,909	. . . .	. . . .	. . . .	105,909
1996-97	68,319	25,964	42,355	. . . .	. . . .	. . . .	42,355
1997-98	68,181	35,551	32,630	. . . .	. . . .	. . . .	32,630
1998-99	34,284	5,345	28,939	. . . .	. . . .	. . . .	28,939
			---------- Estimated ----------				
1999-2000 . .	$ 23,000	$37,000	-$14,000	. . . .	. . . .	. . . .	-$ 14,000
2000-01	7,000	7,000	. . . .	. . . .	. . . .	. . . .	. . . .

SALES AND USE TAX

Sales and Use Tax Receipts
History and Estimates



The sales and compensating use tax, which accounted for over 16 percent of General Fund revenues, not including transfers from other funds, in State fiscal year 1998-99, is the second largest State tax revenue source behind the personal income tax. The tax is levied on sales or uses within the State of most tangible personal property and on selected services.

TAX RATE

The tax, imposed by Article 28 of the Tax Law, was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969 and to the current 4 percent rate in 1971.

Counties and cities are authorized to impose the tax at up to a combined 3 percent rate. However, 20 counties and 4 cities (including New York City) that impose the tax have sought and received temporary legislative authority to impose at a higher rate. Thus, the combined State-local sales and use tax rate exceeds 7 percent in many instances. More than 75 percent of the State's population resides in areas where the tax rate is 8 percent or higher. An additional 0.25 percent sales and use tax is imposed in the 12 county Metropolitan Commuter Transportation District (MCTD). The entire proceeds from the MCTD tax are earmarked for the Mass Transportation Operating Assistance Fund.

BASE OF TAX

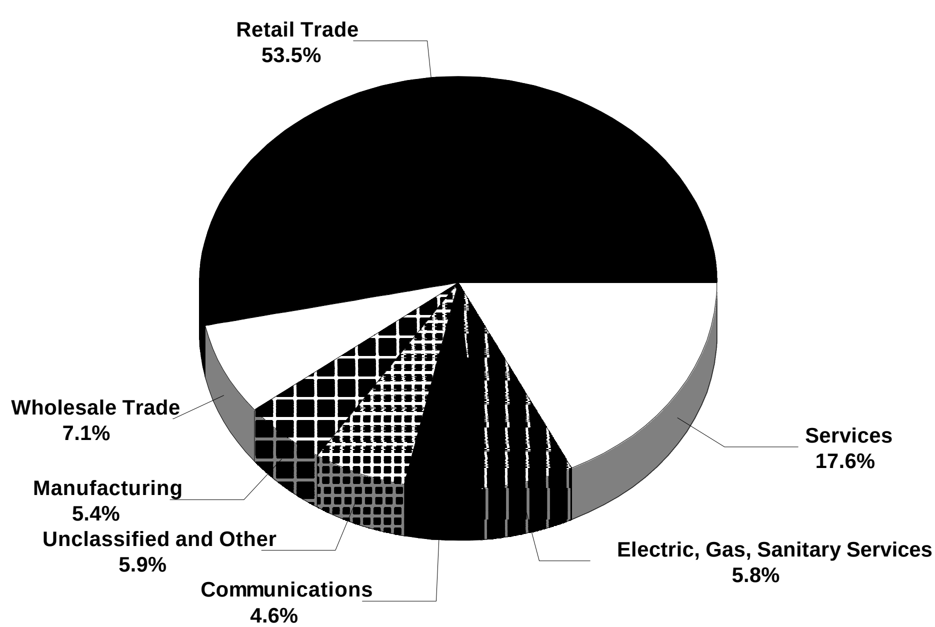
In general, all retail sales of tangible personal property are taxed unless specifically exempt, but services are taxable only if they are enumerated in the Tax Law.

Specifically, the sales tax is applied to receipts from the retail sale of:
— tangible personal property (unless specifically exempt);
— certain gas, electricity, refrigeration and steam, and telephone service;
— selected services;
— food and beverages sold by restaurants, taverns and caterers;
— hotel occupancy; and
— certain admission charges and dues.

Examples of taxable services include information services, installing or maintaining tangible personal property, and protective and detective services. An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

Although numerous exemptions of tangible personal property from tax have been enacted (see discussion below), nearly 54 percent of total taxable sales and purchases are reported by the retail trade industry. This includes, for example, automobile dealers, eating and drinking establishments, and general merchandise stores. The service industry, including hotels, automobile repair and business services, accounts for the next largest share of taxable sales and purchases at nearly 18 percent of the statewide total. Taxable purchases refers to purchases of tangible personal property or services on which use tax has been remitted.

Industry Shares of Taxable Sales and Purchases
March 1998 to August 1998



Source: NYS Department of Taxation and Finance

States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on their behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This would include, for example, taxable items purchased via mail order or over the Internet if the vendor has no nexus with New York. The use tax also applies to certain uses of self-produced property or services. With some exceptions, the base of the use tax mirrors the base of the sales tax. For example, no use tax is imposed on gas or electric service. The use tax is remitted by the purchaser directly to the New York State Department of Taxation and Finance, but low compliance for certain transactions is a continuing issue.

EXEMPTIONS

A myriad of exemptions from sales tax has been enacted over the life of the tax for various reasons. Broad exemptions have been provided for sales for resale, and machinery and equipment used in production or in research and development. This prevents multiple taxation of the same property, or tax pyramiding. Additionally, items including food, medicines, medical supplies, and residential energy have been excluded from tax to lessen its regressiveness.[1]

Other exemptions such as sales to exempt organizations, certain vending machine sales and certain other coin-operated sales are also provided. Services including legal, medical and other professional services, sales of real property, and rent payments are also beyond the scope of the sales tax.

ADMINISTRATION

Persons selling taxable property or services are required to register with the Department of Taxation and Finance as sales tax vendors. Vendors generally are required to remit the tax quarterly. However, vendors that collect more than $300,000 of tax in one of the immediately preceding four quarters must remit the tax monthly, by the 20th of the month following the month of collection. Vendors collecting less than $3,000 yearly may elect to file annually, in June. Prior to June 1998, the threshold for opting to file annually was $250 in tax collected.

Vendors collecting more than $1 million annually in State and local tax are required to remit the tax by electronic funds transfer (EFT). Collections for the first 22 days of the month must be remitted electronically or by certified check within three business days thereafter. Legislation enacted in 1992 started the EFT program, originally with the threshold for mandatory participation at $5 million in annual tax liability. Legislation in 1994 and 1995 reduced the threshold to $4 million and the current $1 million threshold, respectively. Approximately 34 percent of the tax is remitted via EFT.

Special provisions for remitting the sales tax on gasoline motor fuel and cigarettes, targeted at reducing tax evasion, have been enacted. Since 1985 the sales tax on gasoline has been remitted by the first importer of the fuel into New York. The tax is prepaid at

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[1] Taxing a good or service is regressive if low-income persons pay a relatively greater share of their income on the taxed good or service than higher-income persons.

a per gallon rate based on regional prices. Legislation enacted in 1995 required prepayment of the sales tax on cigarettes. The tax is prepaid by cigarette agents at the same time as they pay for cigarette excise tax stamps.

Sales tax vendors are allowed to retain a portion of the sales tax that they have collected both as partial compensation for the administrative costs of collecting and remitting the tax and as an incentive for timely payment of the tax to the State. The vendor credit, enacted in 1994, is currently 3.5 percent of tax liability up to a maximum of $150 per quarter for returns filed on time.

SIGNIFICANT STATUTORY CHANGES

Numerous statutory changes have been made to the sales tax since its inception. The following is not a comprehensive list, but summarizes major sales tax legislation enacted since 1991.

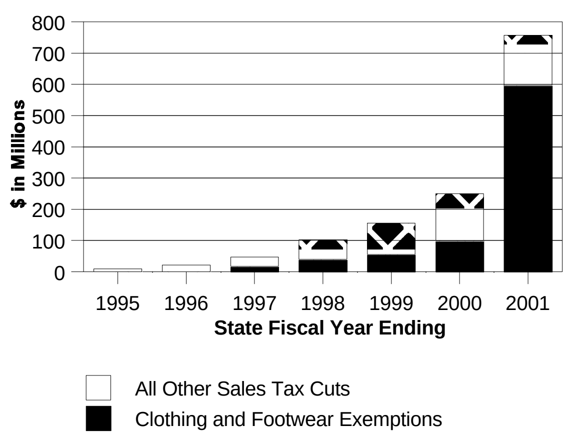
Subject	Description	Effective Date
Legislation Enacted in 1991		
Prewritten Computer Software	Expanded the types of computer software that are subject to the sales tax to include all prewritten software.	September 1, 1991
Shipping and Delivery	Included charges for shipping and delivery in the definition of taxable receipts.	September 1, 1991
Telephone Answering Services	Imposed tax on the receipts from the sale of telephone answering services.	September 1, 1991
Legislation Enacted in 1992		
Alternative Fuel Vehicles	Exempted incremental costs of new alternative fuel vehicles and related parts and services to the alternative fuel vehicles.	September 1, 1992
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1, 1994
Legislation Enacted in 1995		
Homeowners' Associations	Exempted dues paid to homeowners' associations operating social or athletic facilities for their members.	September 1, 1995
Meteorological Services	Exempted the sale of meteorological information services.	September 1, 1995
Legislation Enacted in 1996		
Clothing and Footwear	Exempted clothing and footwear priced under $500 for the one-week period of January 18-24, 1997.	January 18-24, 1997
Promotional Materials	Expanded the exemption for certain printed promotional materials distributed by mail to customers in New York State.	March 1, 1997

EXPLANATION OF RECEIPT ESTIMATES

Subject	Description	Effective Date
Legislation Enacted in 1997		
Buses	Provided an exemption for buses used to transport persons for hire, and related parts and services.	December 1, 1997
Clothing and Footwear	Exempted clothing priced under $100 for the one-week periods of September 1-7, 1997, and September 1-7, 1998.	September 1-7, 1997; September 1-7, 1998
	Permanently exempted clothing priced under $100.	December 1, 1999
Homeowner Association Parking	Exempted parking services sold by a homeowners' association to its members.	December 1, 1997
Various Coin-Operated Devices	Raised the exemption threshold for bulk vending machine sales to 50 cents from 25 cents, exempted coin-operated car washes, exempted coin-operated photocopying costing under 50 cents, and exempted certain hot food and beverages sold through vending machines.	December 1, 1997
Vendor Allowance	Increased the sales tax vendor allowance from 1.5 percent to 3.5 percent of State tax collected capped at $150 per quarter.	March 1, 1999
Legislation Enacted in 1998		
Clothing and Footwear	Included footwear in the September 1-7, 1998, temporary clothing exemption and raised exemption threshold to $500 from $100.	September 1-7, 1998
	Exempted clothing and footwear priced under $500 during the January 17-24, 1999 period.	January 17-24, 1999
	Included footwear in the permanent clothing exemption beginning on December 1, 1999, and raised exemption threshold from $100 to $110.	December 1, 1999
Coin Telephones	Increased the exemption threshold for coin-operated telephone calls to 25 cents from 10 cents.	September 1, 1998
College Textbooks	Exempted textbooks purchased by college students which are required for their courses.	June 1, 1998
Computer Hardware	Exempted computer system hardware used to design and develop computer software for sale.	June 1, 1998
Internet Access Service	Codified State policy of exempting charges for Internet access services.	February 1, 1997
Materialmen	Allowed certain materialmen (i.e., building materials suppliers) to remit sales tax returns on either a cash or an accrual basis.	June 1, 1999
Telephone Central Office Equipment	Expanded existing exemption for telephone central office equipment to include such equipment or apparatus used in amplifying, receiving, processing, transmitting, and re-transmitting telephone signals.	September 1, 1998

Subject	Description	Effective Date
Legislation Enacted in 1999		
Clothing and Footwear	Changed the effective date of the permanent exemption for clothing and footwear priced under $110 from December 1, 1999, to March 1, 2000.	March 1, 2000
	Temporarily exempted clothing and footwear priced under $500 for the periods of September 1-7, 1999, and January 15-21, 2000.	September 1-7, 1999; January 15-21, 2000
Computer Hardware	Provided an exemption for computer system hardware used to design and develop Internet web sites for sale.	March 1, 2001
Farming	Expanded the farm production exemption to include fencing and certain building materials. Converted the refund for tax paid on motor vehicles to an exemption.	March 1, 2001
Telecommunications Equipment	Exempted machinery and equipment used to upgrade cable television systems to provide telecommunications services for sale and to provide Internet access service for sale.	March 1, 2001
Theater	Exempted certain tangible personal property and services used in the production of live dramatic or musical arts performances.	March 1, 2001

Value of Sales Tax Cuts Enacted
Since 1994



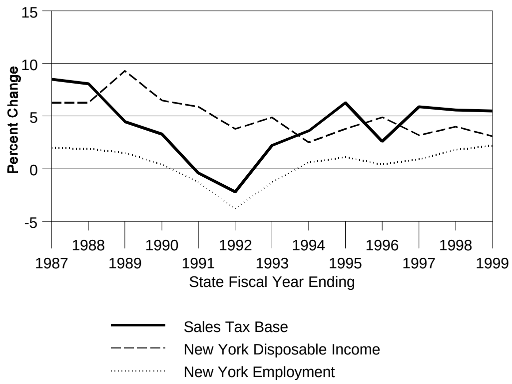
The tax cuts enacted since 1994-95 have had a substantial impact on sales tax receipts. In State fiscal year 1997-98, the sales tax savings accruing to taxpayers was over $100 million. Taxpayers saved an additional $53 million in 1998-99 and are estimated to save an additional $93 million in 1999-2000 and an additional $507 million in 2000-01. In total, these tax cuts are expected to save taxpayers over $750 million in 2000-01.

EXPLANATION OF ESTIMATES

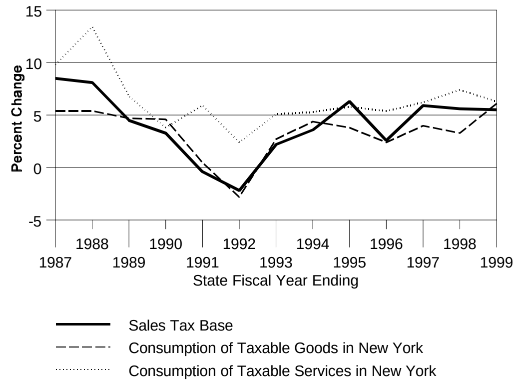
To generate a sales tax forecast, the Division of the Budget estimates an econometric model which establishes a relationship between quarterly economic growth and the underlying taxable sales base.

This forecast of taxable sales is supplemented by adjusting for Tax Law changes, audit collections, refunds, court decisions, administrative adjustments, and changes in collection procedures to arrive at a final sales tax estimate.

Growth in State Sales Tax Base, Income & Employment



Growth in State Sales Tax Base & Taxable Consumption



The years since the late 1980's represent a good example of the relationship between sales tax receipts and underlying economic factors. State fiscal years 1986-87 and 1987-88 were marked by growth in the continuing sales tax base of over eight percent, which is clearly related to the strong employment and income growth in New York and the associated robust growth in the consumption of goods and services taxable in New York. Conversely, State fiscal years 1988-89 through 1991-92 were characterized by slower growth or actual declines in the sales tax base, and this parallels declines in New York employment, New York disposable income, and taxable consumption. State fiscal years 1992-93 to 1996-97 witnessed improved growth rates in New York taxable consumption, but the State's economy came out of the recession more slowly and employment and personal income grew more modestly. This resulted in growth in the sales tax base that, although improved from the early 1990's, was moderate compared with the late 1980's. Since State fiscal year 1997-98, base sales tax receipts have grown over 5 percent per year reflecting the robust economy and continued strength in taxable consumption, State employment and disposable income.

1999-2000 RECEIPTS

State fiscal year 1999-2000 receipts from the State 4 percent sales tax are estimated at $8,057 million, an increase of $466 million, or 6.1 percent, above 1998-99. Growth in the underlying sales tax base is estimated at a healthy 7.0 percent. Year-to-date sales and use tax receipts are approximately 7.3 percent, or $418 million, above the comparable period in 1998-99. Receipts in the final quarter will be reduced by the exemptions for certain items of clothing and footwear as described below.

The strong growth in receipts can be attributed largely to the prospering State and national economies. Taxable consumption of goods in New York is expected to grow by 8.6 percent in 1999-2000 and taxable consumption of services to grow by 6.2 percent.

Several other factors have impacted 1999-2000 sales tax receipts, including:

— A carry-over of $33 million in receipts from State fiscal year 1998-99 due to the year-end closeout process;

— Taxpayer savings of nearly $100 million from the temporary clothing and footwear exemptions in September 1999 and January 2000, and the permanent exemption that begins March 1, 2000;

- — Taxpayer savings of $45 million from the first full-year impact of tax cuts enacted in 1998, including exemptions for college textbooks, 25 cent coin-operated telephone calls and certain telecommunications and computer hardware equipment;
- — Taxpayer savings of $25 million from the increased vendor credit that took effect on March 1, 1999;
- — Revenue gains of nearly $17 million from the cigarette manufacturers price increases resulting from the Tobacco Settlement; and
- — Audit and compliance receipts from the Case Resource and Tracking System (CARTS) program, which are projected to increase by $7 million over 1998-99 levels.

2000-01 PROJECTIONS

The current economic forecast projects slower growth in the variables believed to impact the level of taxable sales. Slower growth in State personal income, employment, and taxable consumption is anticipated. These factors combine to produce an increase of 4.5 percent in the continuing sales tax base.

Despite moderated but continuing growth anticipated in State taxable sales, cash receipts from the State 4 percent sales tax in 2000-01 are estimated to be $134 million (1.6 percent) below 1999-2000 levels, primarily due to the full-year impact of the permanent clothing and footwear exemption. This decrease will be partially offset by approximately $7 million in added sales tax receipts due to the 55 cent cigarette excise tax increase on March 1, 2000. It should be noted that hold-harmless provisions in the Tax Law prevent the clothing exemption from decreasing receipts that would have otherwise been available from the 0.25 percent MCTD tax in the Mass Transportation Operating Assistance Fund.

The primary risk factor for the sales and use tax estimate is the economic forecast, which provides the basis for the projection of growth in the taxable sales base. Unexpected slowdowns in income or employment would affect consumption and therefore impact the level of taxable sales. The forecast error in prior years can be largely attributed to the forecasts of economic variables.

Legislation submitted with this Budget will: expand the sales tax exemptions available to farmers and exempt certain equipment used in Internet web hosting facilities. These exemptions will have no impact on 2000-01 sales and use tax receipts.

FUNDS

The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). The Fund received $1,894 million in 1998-99 and will receive an estimated $2,013 million in 1999-2000 and $1,980 million in 2000-01. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

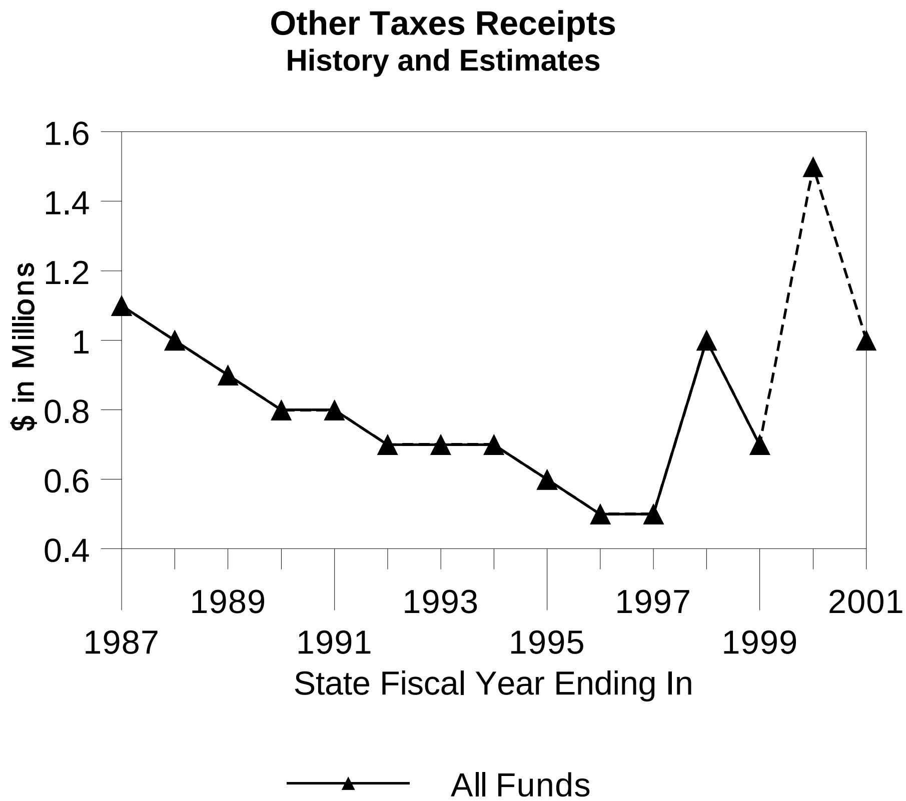
The Mass Transportation Operating Assistance Fund was created in 1981 to finance State public transportation needs. The Fund derives part of its revenues from the 0.25 percent sales and compensating use tax imposed in the Metropolitan Commuter Transportation District. The Fund, which received $321 million in sales and use tax receipts in 1998-99, will receive an estimated $341 million in 1999-2000 and $358 million in 2000-01.

Sales and Use Tax Receipts — All Funds
(thousands)

	Gross General Fund	Refunds	Net General Fund Receipts	Special Revenue Funds [1]	Capital Projects Funds	Debt Service Funds [2]	All Funds Net Collections
				Actual			
1991-92	$4,372,199	$12,989	$4,359,210	$231,300	. . . .	$1,434,827	$6,025,337
1992-93	4,514,288	27,538	4,486,750	241,589	. . . .	1,504,019	6,232,358
1993-94	4,578,362	18,785	4,559,577	248,163	. . . .	1,514,826	6,322,566
1994-95	4,918,969	21,151	4,897,818	263,607	. . . .	1,627,246	6,788,671
1995-96	5,036,299	41,451	4,994,848	292,199	. . . .	1,665,744	6,953,791
1996-97	5,265,260	40,212	5,225,048	289,129	. . . .	1,746,575	7,260,752
1997-98	5,466,602	24,254	5,442,348	305,949	. . . .	1,813,532	7,561,829
1998-99	5,728,834	32,136	5,696,698	321,405	. . . .	1,893,821	7,911,924
				Estimated			
1999-2000	$6,076,200	$32,000	$6,044,200	$341,200	. . . .	$2,012,500	$8,397,900
2000-01	5,974,800	32,000	5,942,800	357,700	. . . .	1,980,200	8,280,700

[1] Mass Transportation Operating Assistance Fund
[2] Local Government Assistance Tax Fund

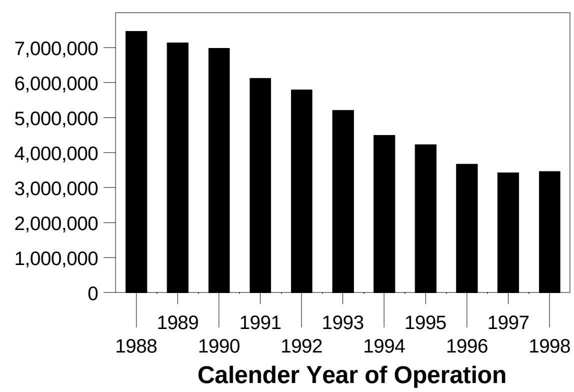
OTHER TAXES



RACING ADMISSIONS TAX

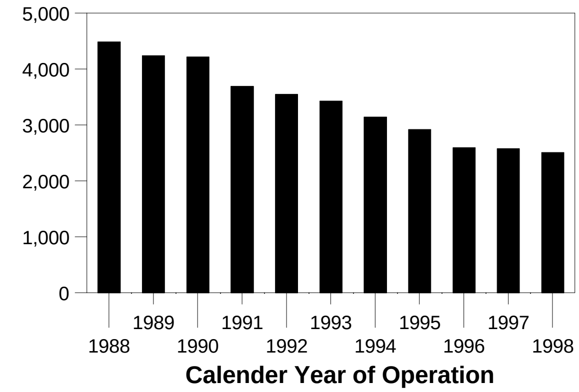
A 4 percent tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. Expanded interstate competition (e.g., the Meadowlands in New Jersey, OTB and jai alai in Connecticut) and growth in off-track betting activity within New York, as well as the proliferation of casinos within and outside New York State, have led to declines in total paid attendance at tracks (see charts) and in receipts from this source. Collections in 1996-97 were substantially reduced due to poor weather that resulted in a reduction in the number of racing days.

New York State Tracks
(Total Attendance)



Source: New York Racing Association

New York State Tracks
(Average Daily Attendance)



Source: New York Racing Association

Despite a successful extended racing season at Saratoga Racecourse, total 1999-2000 collections are estimated at $280,000. Receipts from this tax for 2000-01 are projected at $270,000. Increased attendance at simulcast facilities and the Saratoga Racecourse meeting are entirely offset by continued admissions declines at other New York racetracks.

BOXING AND WRESTLING EXHIBITIONS TAX

A 5.5 percent tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. Single events of high spectator interest, such as the heavyweight championship fight early in 1999, can influence the yield of the tax substantially, causing receipts to vary considerably from year to year. Collections in 1997-98 were augmented by a one-time payment of back taxes.

Based on estimated collections through the first nine months of the current fiscal year, 1999-2000 receipts are expected to reach $1.22 million, primarily the result of the aforementioned heavyweight fight. The continued growth of on-site wrestling and boxing events are expected to increase base receipts. However, the absence of any significantly large events will lower collections to $630,000 for 2000-01.

General Fund Receipts from Other Taxes
(thousands)

	General Fund		Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Collections
	Admissions	Exhibitions				
			Actual			
1991-92	$438	$ 258	....	....	....	$ 696
1992-93	405	336	....	....	....	741
1993-94	399	262	....	....	....	661
1994-95	357	277	....	....	....	634
1995-96	310	182	....	....	....	492
1996-97	272	232	....	....	....	504
1997-98	310	639	....	....	....	949
1998-99	294	400	....	....	....	694
			Estimated			
1999-2000	$280	$1,220	....	....	....	$1,500
2000-01	270	630	....	....	....	900

MISCELLANEOUS USER TAXES

AUTO RENTAL TAX

Since June 1, 1990, the State has imposed a 5 percent tax on charges for any rental or use in New York State of a passenger car with gross vehicle weight of 9,000 pounds or less that has seating capacity for nine or fewer passengers. The tax applies to a vehicle rented by a resident or a nonresident, regardless of where the vehicle is registered. The tax does not apply to a car lease covering a period of a year or more.

1999-2000 Receipts and 2000-01 Projections

Receipts from the auto rental tax are influenced by the overall health of the economy, including consumer and business spending, and by the strength of the State's tourism industry. Collections for the first nine months of the current fiscal year are estimated to be 19.0 percent, or $5.2 million, higher than receipts in the comparable period of 1998-99. Based on collections to date and the expectation of continuing growth in the economy for the remaining months of the fiscal year, General Fund auto rental tax receipts for 1999-2000 are estimated at $40.4 million.

Continued economic growth and demand for auto rentals are projected to increase 2000-01 receipts by $2 million over 1999-2000 levels.

CONTAINER TAX

From September 1, 1990, until November 30, 1995, New York State imposed a two cent tax on all nonrefillable soda containers that are in the State's bottle and can recycling deposit system. The deposit system was created in 1983 by the New York State Returnable Container Law, which imposes a refundable five cent deposit on soda and beer bottles and cans and wine cooler containers. Legislation enacted in 1995, effective December first of that year, cut the container tax to one cent per container. Legislation enacted in 1997 repealed the container tax effective October 1, 1998.

1999-2000 Receipts and 2000-01 Projections

Container tax receipts for the first nine months of State fiscal year 1999-2000 were approximately $6,000. This reflects the repeal of the tax effective October 1, 1998, and the net effect of audit collections and refunds. Receipts for 2000-01 are projected to be zero.

HOTEL OCCUPANCY TAX

From June 1, 1990, through August 31, 1994, New York State imposed a special hotel and motel occupancy tax at the rate of 5 percent of the daily charge for hotel or motel rooms or suites. Exemptions were provided for permanent residents and for rooms where the daily rate was less than $100.

On September 1, 1994, the State repealed the State hotel and motel occupancy tax, saving taxpayers approximately $75 million annually. State and, to a lesser extent, City hotel tax reductions have been credited with contributing to the recent boom in New York City hotel occupancy and revenues.

1999-2000 Receipts and 2000-01 Projections

The minimal year-to-date hotel occupancy receipts of approximately $4,300 reflect audit efforts and residual payments. Net residual payments for the remainder of 1999-2000 and for 2000-01 are projected to be zero.

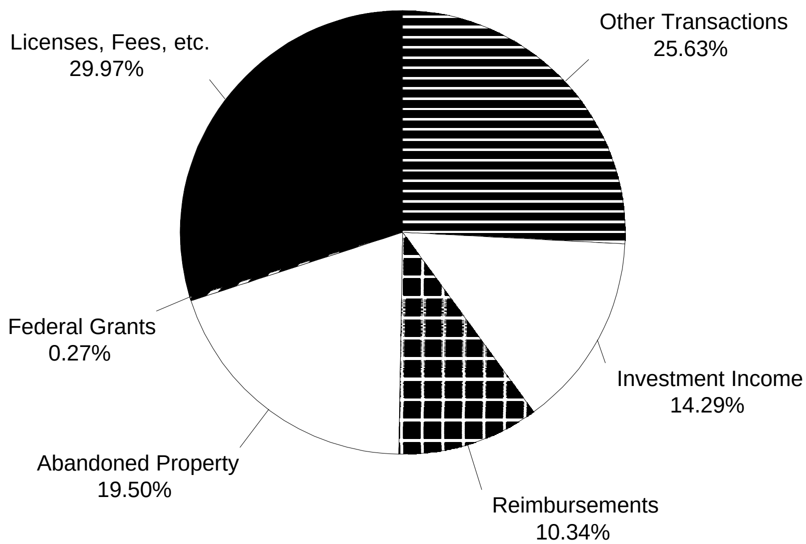
Receipts from Miscellaneous User Taxes
(thousands)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
				---------------- Actual			
1991-92	$129,948	$ 8	$129,940	....	....	....	$129,940
1992-93	152,538	19	152,519	....	....	....	152,519
1993-94	148,159	15	148,144	....	....	....	148,144
1994-95	121,686	115	121,571	....	....	....	121,571
1995-96	75,728	27	75,701	....	....	....	75,701
1996-97	57,416	36	57,380	....	....	....	57,380
1997-98	59,134	103	59,031	....	....	....	59,031
1998-99	53,275	1	53,274				53,274
				---------------- Estimated			
1999-2000	$ 40,400	....	$ 40,400	....	....	....	$ 40,400
2000-01	42,400	....	42,400	....	....	....	42,400

MISCELLANEOUS RECEIPTS
General Fund

Miscellaneous Receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, and transfers from the funds of other State entities. Income is also received from licenses, fines, and various reimbursements to the State's General Fund. Each year, the reported receipts are also affected by various nonrecurring transactions.

Main Components of Miscellaneous Receipts
State Fiscal Year 1998-99



In fiscal year 1998-99, Miscellaneous Receipts totaled $1,505 million. Major revenue sources in that year included: $293 million in unclaimed and abandoned property; $215 million in interest earnings on short-term investments and bank accounts (this amount is net of certain expenses incurred in providing banking services to various State agencies); $451 million in fees, licenses, fines, royalties, and rents; $373 million in medical provider assessments; $156 million in reimbursements; and $4 million in Federal grants. In addition, the receipts included $2 million from the Energy Research and Development Authority and a $11 million repayment from the Long Island Power Authority.

1999-2000 RECEIPTS

Miscellaneous Receipts are estimated at $1,474 million in 1999-2000, a decrease of $31 million from the prior year. The estimate includes receipts of $299 million in unclaimed and abandoned property; $231 million in net investment earnings; $551 million in fees, licenses, fines, royalties and rents; $158 million in medical provider assessments, reflecting the final year of the gradual phase-out of most assessments (only the assessments on State and voluntary OMRDD facilities will continue); $146 million in reimbursements; $4 million in Federal grants; $3 million from the Energy Research and Development Authority; and a one-time deposit of $82 million of HCRA moneys.

2000-01 PROJECTIONS

Miscellaneous Receipts are projected at $1,339 million in 2000-01, a decrease of $135 million from the amount estimated for 1999-2000. This projection includes receipts of $319 million in unclaimed and abandoned property; $219 million in net investment earnings; $146 million in reimbursements; $497 million in fees, licenses, fines, royalties and rents; $129 million in the continuing medical provider assessments; $4 million in Federal grants; $3 million from the Power Authority of the State of New York; and $1.5 million from the Energy Research and Development Authority.

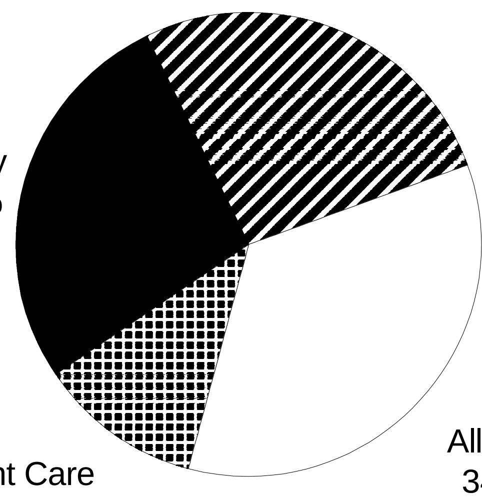
Legislation submitted with this Budget proposes an amnesty on interest and penalties for health facility providers who pay any outstanding assessments during the period April 1, 2000, through December 31, 2000. The amnesty program is expected to bring in $20 million in receipts.

General Fund
Miscellaneous Receipts
(millions)

	1996-97	1997-98	1998-99	1999-2000	2000-01
	---------------- Actual	--------------------		----------Estimated	----------
License, Fees, Etc.	$ 446	$ 490	$ 451	$ 551	$ 497
Federal Grants	4	4	4	4	4
Abandoned Property	265	270	293	299	319
Reimbursements	187	199	156	146	146
Investment Income	72	125	215	231	219
Other Transactions	1,098	510	386	243	154
Total	$2,072	$1,598	$1,505	$1,474	$1,339

MISCELLANEOUS RECEIPTS
Special Revenue Funds

Miscellaneous Receipts
1998-99 Special Revenue Funds Receipts



Miscellaneous receipts in the Special Revenue fund type represent approximately 20 percent of total receipts in that fund type, excluding transfers from other funds. These receipts include State University of New York (SUNY) tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses, all of which are dedicated to support specific programs.

STATE UNIVERSITY INCOME

The majority of receipts in the Special Revenue Funds which support the State University's operations are tuition, patient revenue, and user fees. SUNY's three teaching hospitals at Brooklyn, Stony Brook and Syracuse receive patient revenue from third-party payors including Medicare, Medicaid, Blue Cross, commercial insurers, and individuals. User fees, which include fees for food, parking, career placement and recreation, are generated from those who use these services, including students, faculty, staff, and the general public.

LOTTERY

A portion of the receipts from the sale of lottery tickets is earmarked for the support of education and the administrative costs associated with Lottery operations. The Lottery is discussed in detail in a separate section.

INDIGENT CARE

The Indigent Care Fund allows the State to claim Federal reimbursements to fund health care provided by hospitals to the medically indigent. Revenue is received from a bad debt and charity care pool funded with non-Federal Medicaid dollars, and money from various payors including Blue Cross, commercial insurers, and hospitals.

ALL OTHER

The remaining revenues in this category include a wide variety of fees, licenses, and assessments collected by State agencies primarily to support all or specific components of their operations. Receipts from assessments primarily reflect reimbursements from regulated industries, which fund the administrative costs of State agencies charged with their oversight. State agencies funded entirely from assessments include the Banking Department, the Insurance Department, the Public Service Commission, and the Workers' Compensation Board.

Miscellaneous Receipts
Special Revenue Funds
(millions)

	1996-97	1997-98	1998-99	1999-2000	2000-01
	Actual			Estimated	
State university income	$1,564	$1,545	$1,561	$1,602	$1,649
Lottery	1,646	1,658	1,576	1,499	1,626
Indigent care	568	574	666	680	858
All other	1,647	1,754	2,010	2,161	2,772
Total	$5,425	$5,531	$5,813	$5,942	$6,905

LOTTERY

In 1966, New York State voters approved a referendum authorizing a State lottery, and ticket sales commenced under the auspices of the Division of the Lottery. Under the original lottery legislation, a lotto-type game was offered with 30 percent of gross receipts earmarked to prizes, 55 percent to education, and the remaining 15 percent represented a limit on administrative expenses. Since then, numerous games have been introduced with varying prize payout schedules to make them attractive to the consumer.

The Lottery Division manages the sale of lottery tickets, operating as an independent agency within the Department of Taxation and Finance. It currently operates four types of games:

— Instant games, in which most prizes are won immediately;

— Lotto games, which are pari-mutuel, pick-your-own-numbers games offering large top prizes with drawings conducted six times weekly: four 5-of-39 draws (Take 5), and two 6-of-51 draws (Lotto 51). For the Lotto 51 game, the value of any top prize not won is added to the top prize in the subsequent drawing;

— Daily numbers games, which are fixed-odds games with daily drawings in which players select either a three digit number (Daily Numbers game) or a four digit number (Win 4 game); and

— Keno-like games, which are pari-mutuel pick-your-own 10 of 80 numbers games with drawings conducted either daily (Pick 10) or every five minutes (Quick Draw). Lottery pays top prizes of $500,000 in Pick 10 and $100,000 in Quick Draw.

Under current law, the Comptroller, pursuant to an appropriation, distributes all net receipts from the lottery directly to school districts for the purposes of providing school aid. This aid includes special allowances for textbooks for all school children and additional amounts for pupils in approved State-supported schools for the deaf and the blind.

After the earmarking for prizes, Lottery uses a portion of net sales (not exceeding 15 percent) for its administrative expenses and the remainder is available to support education. The minimum statutory allocation to education for Lotto 51 games is 45 percent of ticket sales; for Take 5, numbers and Pick 10 games, 35 percent; for instant games, 20 percent; and for Quick Draw, 25 percent. At the end of each fiscal year, any unspent portion of the 15 percent of ticket sales not used for administration is also used for education. Net lottery receipts from sales totaled $1,297 million for 1998-99. Disbursements of $1,442.4 million supported education, including $145.4 million from surplus administrative funds.

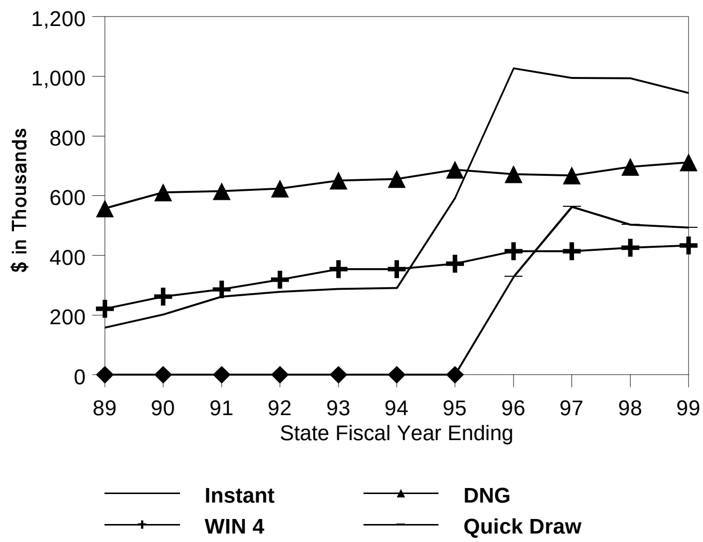
1999-2000 RECEIPTS

Sales of lottery games are expected to be $3.57 billion in 1999-2000.

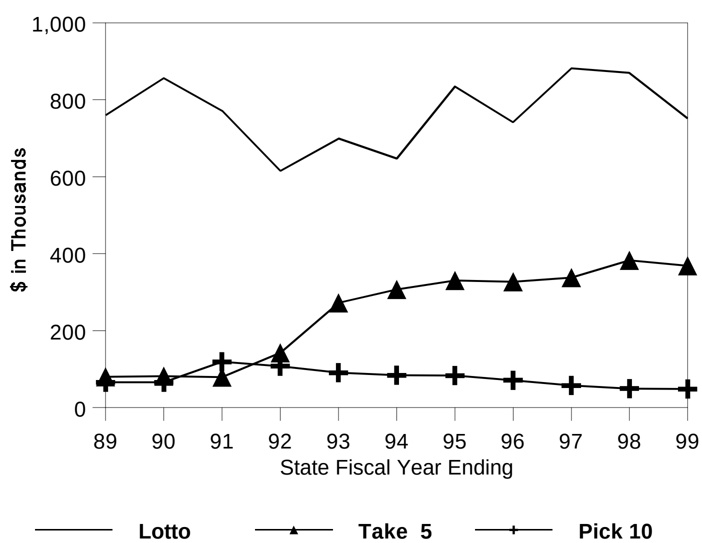
A gradual weakening in Lotto sales has developed over the past several years, stemming from several factors: (1) the low level of interest rates over recent years, which inhibits the rapid increase in jackpot levels because it increases the cost of purchasing annuities; (2) raised expectations of exceptionally large jackpots, resulting from the competitive Big Game and Power-Ball games offered in other states; (3) increased competition from Indian casinos in and around New York; and (4) waning consumer interest, based on the maturity of the game. This same phenomenon of declining trends in Lotto sales has been experienced in most states with similar Lotto structures.

Despite revising the Lotto game to improve the chance of winning a prize, Lotto 51, a jackpot driven game, is experiencing continuing weakness, primarily the result of a low number of very large jackpots. In addition, the recently concluded promotional Lotto 31 and Lotto Millennium games, which enjoyed limited success accounting for some $100 million in sales, may have siphoned off some Lotto 51 sales.

Fixed Odds/Instant Prize Games
(DNG, Win 4, QD, Instant)



Pari-Mutuel Prize Games
(Lotto, Take 5, Pick 10)



Instant ticket game sales have increased largely as the result of legislation passed in 1999 increasing the prize payout. Instant ticket sales had been down 6 percent prior to the impact of this legislation. Current sales levels from the new mix of instant games remain strong, but some erosion in the older games is noticeable.

Numbers game sales are benefitting from the addition of new agents and player awareness. Quick Draw sales are down significantly due to a four month shutdown, resulting from a temporary sunset of legislative authorization from April through July of 1999. Take 5 and Pick 10 are continuing the downtrends exhibited in recent years.

Total sales of all lottery games are estimated at $3,567 million, are expected to provide $1,232 million for education. After including $128 million from unspent administrative allowances and miscellaneous income, total net lottery receipts earned for education in 1999-2000 are expected to total $1,360 million. However, the 1999-2000 lottery appropriation caps disbursements to education at $1,345 million; this results in a $15 million carry-out from 1999-2000 into 2000-01.

Table 1
Components of Lottery Receipts
(millions)

	1994-95 Actual	1995-96 Actual	1996-97 Actual	1997-98 Actual	1998-99 Actual	1999-2000 Estimated	2000-01 Projected
Instant Game	$ 177.9	$ 308.0	$ 298.4	$ 298.5	$ 283.2	$ 271.5	$ 271.6
Lotto Games	375.8	333.9	399.0	395.9	338.3	345.5	301.9
Take-5 Games	116.0	114.5	118.3	133.9	128.9	115.0	111.1
Daily Numbers Games	240.5	235.6	233.7	243.9	249.2	244.0	245.5
Win-4 Games	145.1	144.8	149.0	151.7	157.0	159.0	160.9
Pick 10 Games	29.2	24.9	20.2	17.4	17.0	14.5	13.5
Quick Draw	0	82.0	140.7	125.8	123.4	82.5	123.5
Subtotal	$1,084.5	$1,243.7	$1,359.3	$1,367.1	$1,297.0	$1,232.0	$1,228.0
Administrative Surplus *	131.5	138.8	168.8	166.8	145.4	128.0	130.0
Current Receipts Subtotal	$1,216.0	$1,382.5	$1,527.9	$1,533.9	$1,442.4	1,360.0	$1,358.0
Carry-In from Prior Year	10.0	64.1	5.3	0	0	0	15.0
Carry-Out from Current Year	-64.2	-5.3	0	0	0	-15.0	0
Net Receipts for Education	$1,161.8	$1,441.3	$1,533.2	$1,533.9	$1,442.4	$1,345.0	$1,373.0

* Reflects miscellaneous income and the balance of the 15 percent administrative allowance, after deducting actual expenses, vendor allowances, and agent commissions.

2000-01 PROJECTIONS

Under current law, this Budget projects Lottery sales for 2000-01 of $3.70 million, with current receipts for the support of education projected at $1,373 million (see Table 1) after including a carry-in of $15 million from the prior year, paying prizes, and budgeting $111 million for administration.

Instant ticket sales, reflecting increased participation by players resulting from higher prize payouts, are expected to increase significantly. However, instant game receipts for education will improve only slightly, as the allocation for education was reduced. Nevertheless, it is projected that without the improved instant game payout, instant game sales in 2000-01 would have declined over 12 percent from 1998-99 results. Quick Draw receipts will benefit from a full year of sales, while all other game sales are projected to continue their recent trends, assuming no significant changes to their current format.

Legislation is being submitted with this Budget that would authorize the State to join a multi-state lottery. The proposal calls for an April 1, 2000, authorization. The proposal is projected to raise an additional $124 million in lottery aid for education and result in total lottery receipts for education of $1,497 million.

Table 2
Net Lottery Receipts for Education
(thousands)

Actual	
1991-92	$ 845,448
1992-93	961,000
1993-94	1,054,000
1994-95	1,161,850
1995-96	1,441,300
1996-97	1,533,203
1997-98	1,533,904
1998-99	1,442,427
Estimated	
1999-2000	$1,345,000
2000-01 (Current law)	1,373,000
2000-01 (Proposed law)	1,497,000

MISCELLANEOUS RECEIPTS
Capital Projects Funds

Miscellaneous receipts in the Capital Projects fund type include reimbursements from the proceeds of bonds sold by public authorities, fees, and other sources of revenue dedicated to specific funds primarily for environmental or transportation capital purposes.

REIMBURSEMENT FROM AUTHORITY BOND PROCEEDS

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. The State makes payments directly for projects and is reimbursed by the public authority from the proceeds of bonds. The amount of reimbursements received annually is a direct result of the level of bondable capital spending in that year, and the timing of bond sales. As bondable spending fluctuates with the progress of capital programs, so do the bond receipts reimbursing such spending. Reimbursements from authority bond proceeds will account for approximately 81 percent of all miscellaneous receipts flowing to capital project funds in 2000-01. Compared to the current year, authority reimbursements in 2000-01 are projected to remain level at approximately $1.70 billion.

STATE PARKS FEES AND ENVIRONMENTAL REVENUES

User fees and other revenues generated by State parks are deposited into the State Parks Infrastructure Fund. These revenues, which are projected at $26 million in 2000-01, will be used to finance improvements in the State's park system.

The Environmental Protection Fund is projected to receive miscellaneous receipts in 2000-01 from the sale of surplus State lands, leases of coastal State property, settlements, and the sale of environmental license plates. Other environmental revenues, from settlements with individuals and other parties who are liable for damage caused to State environmental properties, are deposited in the Natural Resource Damages Fund.

ALL OTHER

Various other monies are received in the Capital Projects funds to support capital programs and to reimburse the State for capital spending on behalf of municipalities and public authorities, such as the Housing Finance Agency. The remaining receipts are repayments of monies advanced or loaned to municipalities, authorities, and private corporations.

The All Other Miscellaneous Receipts category for 2000-01 is projected to increase $213 million over the current year and primarily reflects the deposit of $250 million in the Debt Reduction Reserve Fund (DRRF) from one-time moneys received by the State as part of its revenues under the tobacco settlement agreement. This deposit, together with an additional one-time deposit to DRRF of $250 million from the 1999-2000 surplus, will increase the DRRF balance at the beginning of 2000-01 to an historic high of $750 million. DRRF funds will be used to pay off the State's high cost debt or increase pay-as-you-go spending for previously bond-financed projects.

Miscellaneous Receipts
Capital Projects Funds
(millions)

	Actual			Estimated	
	1996-97	1997-98	1998-99	1999-2000	2000-01
Authority Bond Proceeds					
Transportation	$ 413	$ 480	$ 697	$ 893	$ 906
Public protection	133	213	351	278	210
Education	143	169	117	249	290
Mental hygiene	226	215	132	164	96
Housing	96	50	70	89	90
Other	143	97	92	27	83
State park fees	25	23	27	27	26
Environmental revenues	14	29	25	25	35
All other	86	49	56	114	327
Total	$1,279	$1,325	$1,567	$1,866	$2,063

MISCELLANEOUS RECEIPTS
Debt Service Funds

Miscellaneous receipts in the Debt Service fund type include patient revenues, fees, interest income, and other revenues. These revenues are dedicated in the first instance for the payment of lease-purchase agreements, contractual obligations, and debt service, and support about 15 percent of the State's debt service payments. These revenues have been pledged as security for bonds issued for mental hygiene and health facilities, and dormitories, or are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts together with other receipts and transfers, flow back to the General Fund or to Special Revenue funds which are used to offset the General Fund share of State operations.

MENTAL HYGIENE RECEIPTS

Payments from patients and various third-party payers, including Medicare and insurance companies, for services provided by the mental hygiene agencies are deposited in the Mental Health Services Fund as miscellaneous receipts. Additionally, portions of State and local assistance and Federal Medicaid payments to not-for-profit community facilities are earmarked to pay their share of debt service, and are also deposited as miscellaneous receipts in the Mental Health Services Fund. These receipts, together with the transferred Medicaid money, secure bonds sold by the Dormitory Authority for State and community mental hygiene facilities.

DORMITORY FEES

Miscellaneous receipts in the State University of New York (SUNY) Dormitory Fund are composed primarily of fees charged to SUNY students for room rentals in the dormitories. The receipts of the Fund are pledged for debt service on bonds sold by the Dormitory Authority for the construction and improvement of the dormitories pursuant to a lease agreement.

HEALTH PATIENT RECEIPTS

Patient care reimbursements at the Department of Health's hospitals (Roswell Park Cancer Institute — whose operations were transferred to a public corporation — and Helen Hayes) and veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund. Similar to mental hygiene receipts, they are composed of payments from Medicaid, Medicare, insurance, and individuals. Although Roswell Park's receipts in excess of debt service requirements are no longer reflected in the State's Financial Plan, its patient care reimbursements are required to continue to be deposited into the Fund to satisfy bondholder security and debt service obligations. Those receipts are pledged as security for bonds sold by the Dormitory Authority for the construction and improvement of Health Department facilities.

Miscellaneous Receipts
Debt Service Funds
(millions)

	1996-97	1997-98	1998-99	1999-2000	2000-2001
	Actual			Estimated	
Mental hygiene patient receipts	$255	$266	$269	$284	$251
SUNY dormitory fees	187	194	202	202	205
Health patient receipts	145	145	126	85	89
All other	37	34	33	35	30
Total	$624	$639	$630	$606	$575

FEDERAL GRANTS

To qualify to receive Federal grants, the State must comply with a broad spectrum of guidelines established by the Federal government. Each Federal grant is assigned a Catalog of Federal Domestic Assistance number which provides specific purposes for which grants must be used pursuant to Federal laws and regulations. Also, the State is required to follow specific cash management practices regarding the timing of cash draws from the Federal government pursuant to regulations for each grant award. In most cases, the State finances this spending in the first instance, and then subsequently receives reimbursement from the Federal government.

Total receipts from the Federal government are projected at $22.88 million in 1999-2000 and $24.39 million in 2000-01. These revenues represent approximately 31 percent of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the Special Revenue and the Capital Projects fund types.

SPECIAL REVENUE FUNDS

Federal grants account for approximately three-quarters of all receipts in the Special Revenue fund type, and are used to support a wide range of programs at the State and local government level. The single largest program supported by Federal funds is Medicaid.

The Medicaid program provides care, treatment, maintenance, medical supplies, and professional services to eligible persons. The State receives monies from the Federal government to make payments to providers for both State-operated and non-State- operated facilities. The State-operated category includes facilities of the Offices of Mental Health and Mental Retardation and Developmental Disabilities and the Department of Health, as well as teaching hospitals of the State University. These facilities receive Medicaid funds for the delivery of eligible services to patients.

Receipts for State-operated facilities represent 13 percent of total Federal Medicaid reimbursements, while receipts for non-State-operated facilities represent the remaining 87 percent.

Other Federal grants in the Special Revenue Funds support programs administered primarily by the departments of Education, Family Assistance, Health, and Labor. These programs include Welfare, Foster Care, Food and Nutrition Services, and Supplementary Educational Services.

CAPITAL PROJECTS FUNDS

Federal grants in the Capital Projects fund type finance transportation planning, engineering, and construction projects. Federal grants also support local wastewater treatment projects financed through the State's Revolving Loan Fund. Other Federal grants are for the rehabilitation of state armories, eligible housing programs, and other environmental purposes.

Federal Grants
(millions)

	General Fund	Special Revenue Funds: Medicaid	Welfare	All Other	Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
				Actual				
1991-92	....	$ 8,401	$1,523	$4,382	$14,306	$ 943	....	$15,249
1992-93	....	9,152	1,714	4,824	15,690	975	....	16,665
1993-94	....	10,620	1,873	5,067	17,560	913	....	18,473
1994-95	....	11,251	2,050	5,182	18,483	892	....	19,375
1995-96	....	11,849	2,041	5,326	19,216	1,011	....	20,227
1996-97	....	12,424	1,743	4,838	19,005	1,043	....	20,048
1997-98	....	13,183	2,219	5,109	20,511	1,132	....	21,643
1998-99	....	13,612	1,488	6,322	21,422	1,219	....	22,641
				Estimated				
1999-2000	....	$14,123	$1,112	$6,321	$21,556	$1,319	....	$22,875
2000-01	....	14,914	1,100	6,996	23,010	1,377	....	24,387