# 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**
**1999-2000**
**(millions of dollars)**

| | General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | Total |
|---|---|---|---|---|---|
| **Personal income tax** | 20,339 | 1,195 | 0 | 0 | 21,534 |
| **User taxes and fees** | 7,604 | 346 | 505 | 2,159 | 10,614 |
| Sales and use tax | 6,141 | 346 | 0 | 2,046 | 8,533 |
| Cigarette and tobacco taxes | 643 | 0 | 0 | 0 | 643 |
| Motor fuel tax | 180 | 0 | 225 | 113 | 518 |
| Motor vehicle fees | 401 | 0 | 130 | 0 | 531 |
| Alcoholic beverages taxes | 177 | 0 | 0 | 0 | 177 |
| Highway Use tax | 0 | 0 | 150 | 0 | 150 |
| Alcoholic beverage control license fees | 23 | 0 | 0 | 0 | 23 |
| Auto rental tax | 39 | 0 | 0 | 0 | 39 |
| **Business taxes** | 4,561 | 1,067 | 506 | 0 | 6,134 |
| Corporation franchise tax | 1,939 | 229 | 0 | 0 | 2,168 |
| Corporation and utilities tax | 1,418 | 274 | 0 | 0 | 1,692 |
| Insurance taxes | 589 | 69 | 0 | 0 | 658 |
| Bank tax | 526 | 85 | 0 | 0 | 611 |
| Petroleum business tax | 89 | 410 | 506 | 0 | 1,005 |
| **Other taxes** | 1,107 | 0 | 112 | 228 | 1,447 |
| Estate tax | 975 | 0 | 0 | 0 | 975 |
| Gift tax | 80 | 0 | 0 | 0 | 80 |
| Real property gains tax | 14 | 0 | 0 | 0 | 14 |
| Real estate transfer tax | 0 | 0 | 112 | 228 | 340 |
| Pari-mutuel taxes | 36 | 0 | 0 | 0 | 36 |
| Other taxes | 2 | 0 | 0 | 0 | 2 |
| **Total Taxes** | 33,611 | 2,608 | 1,123 | 2,387 | 39,729 |
| **Miscellaneous receipts** | 1,647 | 6,081 | 1,775 | 612 | 10,115 |
| **Federal grants** | 0 | 22,184 | 1,381 | 0 | 23,565 |
| **Total** | 35,258 | 30,873 | 4,279 | 2,999 | 73,409 |

**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** | 23,791 | 3,077 | 0 | 250 | 27,118 |
| **User taxes and fees** | 7,422 | 419 | 628 | 2,210 | 10,679 |
| Sales and use tax | 6,296 | 360 | 0 | 2,097 | 8,753 |
| Cigarette and tobacco taxes | 522 | 0 | 0 | 0 | 522 |
| Motor fuel tax | 19 | 59 | 324 | 113 | 515 |
| Motor vehicle fees | 338 | 0 | 149 | 0 | 487 |
| Alcoholic beverages taxes | 180 | 0 | 0 | 0 | 180 |
| Highway Use tax | 0 | 0 | 155 | 0 | 155 |
| Alcoholic beverage control license fees | 30 | 0 | 0 | 0 | 30 |
| Auto rental tax | 37 | 0 | 0 | 0 | 37 |
| **Business taxes** | 4,463 | 1,008 | 479 | 0 | 5,950 |
| Corporation franchise tax | 2,412 | 270 | 0 | 0 | 2,682 |
| Corporation and utilities tax | 845 | 195 | 0 | 0 | 1,040 |
| Insurance taxes | 567 | 65 | 0 | 0 | 632 |
| Bank tax | 551 | 83 | 0 | 0 | 634 |
| Petroleum business tax | 88 | 395 | 479 | 0 | 962 |
| **Other taxes** | 781 | 0 | 112 | 248 | 1,141 |
| Estate tax | 717 | 0 | 0 | 0 | 717 |
| Gift tax | 28 | 0 | 0 | 0 | 28 |
| Real property gains tax | 4 | 0 | 0 | 0 | 4 |
| Real estate transfer tax | 0 | 0 | 112 | 248 | 360 |
| Pari-mutuel taxes | 31 | 0 | 0 | 0 | 31 |
| Other taxes | 1 | 0 | 0 | 0 | 1 |
| **Total Taxes** | 36,457 | 4,504 | 1,219 | 2,708 | 44,888 |
| **Miscellaneous receipts** | 1,500 | 6,750 | 1,760 | 850 | 10,860 |
| **Federal grants** | 0 | 23,368 | 1,401 | 0 | 24,769 |
| **Total** | 37,957 | 34,622 | 4,380 | 3,558 | 80,517 |

**CASH RECEIPTS**
**ALL GOVERNMENTAL FUNDS**
**2001-2002**
**(millions of dollars)**

| | General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | Total |
|---|---|---|---|---|---|
| **Personal income tax** | 26,481 | 1,371 | 0 | 0 | 27,852 |
| **User taxes and fees** | 7,442 | 465 | 862 | 2,291 | 11,060 |
| Sales and use tax | 6,537 | 367 | 0 | 2,178 | 9,082 |
| Cigarette and tobacco taxes | 463 | 0 | 0 | 0 | 463 |
| Motor fuel tax | 0 | 66 | 337 | 113 | 516 |
| Motor vehicle fees | 195 | 32 | 374 | 0 | 601 |
| Alcoholic beverages taxes | 178 | 0 | 0 | 0 | 178 |
| Highway Use tax | 0 | 0 | 151 | 0 | 151 |
| Alcoholic beverage control license fees | 31 | 0 | 0 | 0 | 31 |
| Auto rental tax | 38 | 0 | 0 | 0 | 38 |
| **Business taxes** | 4,171 | 1,069 | 553 | 0 | 5,793 |
| Corporation franchise tax | 2,251 | 263 | 0 | 0 | 2,514 |
| Corporation and utilities tax | 875 | 214 | 0 | 0 | 1,089 |
| Insurance taxes | 540 | 64 | 0 | 0 | 604 |
| Bank tax | 505 | 82 | 0 | 0 | 587 |
| Petroleum business tax | 0 | 446 | 553 | 0 | 999 |
| **Other taxes** | 771 | 0 | 132 | 188 | 1,091 |
| Estate tax | 734 | 0 | 0 | 0 | 734 |
| Gift tax | 2 | 0 | 0 | 0 | 2 |
| Real property gains tax | 3 | 0 | 0 | 0 | 3 |
| Real estate transfer tax | 0 | 0 | 132 | 188 | 320 |
| Pari-mutuel taxes | 31 | 0 | 0 | 0 | 31 |
| Other taxes | 1 | 0 | 0 | 0 | 1 |
| **Total Taxes** | 38,865 | 2,905 | 1,547 | 2,479 | 45,796 |
| **Miscellaneous receipts** | 1,429 | 6,912 | 1,838 | 614 | 10,793 |
| **Federal grants** | 0 | 24,835 | 1,451 | 0 | 26,286 |
| **Total** | 40,294 | 34,652 | 4,836 | 3,093 | 82,875 |

**CASH RECEIPTS**
**GENERAL FUND**
**1999-2000 THROUGH 2001-2002**
**(millions of dollars)**

| | 1999-2000 Actual | 2000-2001 Estimated | 2001-2002 Recommended | 2001-2002 Compared with 2000-2001 |
|---|---|---|---|---|
| **Personal income tax** | 20,339 | 23,791 | 26,481 | 2,690 |
| **User taxes and fees** | 7,604 | 7,422 | 7,442 | 20 |
| Sales and use tax | 6,141 | 6,296 | 6,537 | 241 |
| Cigarette and tobacco taxes | 643 | 522 | 463 | (59) |
| Motor fuel tax | 180 | 19 | 0 | (19) |
| Motor vehicle fees | 401 | 338 | 195 | (143) |
| Alcoholic beverages taxes | 177 | 180 | 178 | (2) |
| Alcoholic beverage control license fees | 23 | 30 | 31 | 1 |
| Auto rental tax | 39 | 37 | 38 | 1 |
| **Business taxes** | 4,561 | 4,463 | 4,171 | (292) |
| Corporation franchise tax | 1,939 | 2,412 | 2,251 | (161) |
| Corporation and utilities tax | 1,418 | 845 | 875 | 30 |
| Insurance taxes | 589 | 567 | 540 | (27) |
| Bank tax | 526 | 551 | 505 | (46) |
| Petroleum business tax | 89 | 88 | 0 | (88) |
| **Other taxes** | 1,107 | 781 | 771 | (10) |
| Estate tax | 975 | 717 | 734 | 17 |
| Gift tax | 80 | 28 | 2 | (26) |
| Real property gains tax | 14 | 4 | 3 | (1) |
| Pari-mutuel taxes | 36 | 31 | 31 | 0 |
| Other taxes | 2 | 1 | 1 | 0 |
| **Total Taxes** | 33,611 | 36,457 | 38,865 | 2,408 |
| **Miscellaneous receipts** | 1,647 | 1,500 | 1,429 | (71) |
| **Total** | 35,258 | 37,957 | 40,294 | 2,337 |

**CASH RECEIPTS**
**SPECIAL REVENUE FUNDS**
**1999-2000 THROUGH 2001-2002**
**(millions of dollars)**

| | 1999-2000 Actual | 2000-2001 Estimated | 2001-2002 Recommended | 2001-2002 Compared with 2000-2001 |
|---|---|---|---|---|
| **Personal income tax** | 1,195 | 3,077 | 1,371 | (1,706) |
| **User taxes and fees** | 346 | 419 | 465 | 46 |
| Sales and use tax | 346 | 360 | 367 | 7 |
| Motor fuel tax | 0 | 59 | 66 | 7 |
| Motor vehicle fees | 0 | 0 | 32 | 32 |
| **Business taxes** | 1,067 | 1,008 | 1,069 | 61 |
| Corporation franchise tax | 229 | 270 | 263 | (7) |
| Corporation and utilities tax | 274 | 195 | 214 | 19 |
| Insurance taxes | 69 | 65 | 64 | (1) |
| Bank tax | 85 | 83 | 82 | (1) |
| Petroleum business tax | 410 | 395 | 446 | 51 |
| **Total Taxes** | 2,608 | 4,504 | 2,905 | (1,599) |
| **Miscellaneous receipts** | 6,081 | 6,750 | 6,912 | 162 |
| State university income | 1,622 | 1,663 | 1,797 | 134 |
| Lottery | 1,496 | 1,589 | 1,638 | 49 |
| Indigent care | 763 | 858 | 858 | 0 |
| All other | 2,200 | 2,640 | 2,619 | (21) |
| **Federal grants** | 22,184 | 23,368 | 24,835 | 1,467 |
| **Total** | 30,873 | 34,622 | 34,652 | 30 |

**CASH RECEIPTS**
**CAPITAL PROJECTS FUNDS**
**1999-2000 THROUGH 2001-2002**
**(millions of dollars)**

| | 1999-2000 Actual | 2000-2001 Estimated | 2001-2002 Recommended | 2001-2002 Compared with 2000-2001 |
|---|---|---|---|---|
| **User taxes and fees** | 505 | 628 | 862 | 234 |
| Motor fuel tax | 225 | 324 | 337 | 13 |
| Motor vehicle fees | 130 | 149 | 374 | 225 |
| Highway Use tax | 150 | 155 | 151 | (4) |
| **Business taxes** | 506 | 479 | 553 | 74 |
| Petroleum business tax | 506 | 479 | 553 | 74 |
| **Other taxes** | 112 | 112 | 132 | 20 |
| Real estate transfer tax | 112 | 112 | 132 | 20 |
| **Total Taxes** | 1,123 | 1,219 | 1,547 | 328 |
| **Miscellaneous receipts** | 1,775 | 1,760 | 1,838 | 78 |
| Authority bond proceeds | 1,613 | 1,637 | 1,643 | 6 |
| State park fees | 25 | 19 | 22 | 3 |
| Environmental receipts | 40 | 37 | 96 | 59 |
| All other | 97 | 67 | 77 | 10 |
| **Federal grants** | 1,381 | 1,401 | 1,451 | 50 |
| **Total** | 4,279 | 4,380 | 4,836 | 456 |

**CASH RECEIPTS**
**DEBT SERVICE FUNDS**
**1999-2000 THROUGH 2001-2002**
**(millions of dollars)**

| | 1999-2000 Actual | 2000-2001 Estimated | 2001-2002 Recommended | 2001-2002 Compared with 2000-2001 |
|---|---|---|---|---|
| **Personal income tax** | 0 | 250 | 0 | (250) |
| **User taxes and fees** | 2,159 | 2,210 | 2,291 | 81 |
| Sales and use tax | 2,046 | 2,097 | 2,178 | 81 |
| Motor fuel tax | 113 | 113 | 113 | 0 |
| **Other taxes** | 228 | 248 | 188 | (60) |
| Real estate transfer tax | 228 | 248 | 188 | (60) |
| **Total Taxes** | 2,387 | 2,708 | 2,479 | (229) |
| **Miscellaneous receipts** | 612 | 850 | 614 | (236) |
| Mental hygiene patient receipts | 267 | 263 | 240 | (23) |
| SUNY dormitory fees | 221 | 221 | 262 | 41 |
| Health patient receipts | 90 | 87 | 86 | (1) |
| Tobacco settlement receipts | 0 | 250 | 0 | (250) |
| All other | 34 | 29 | 26 | (3) |
| **Total** | 2,999 | 3,558 | 3,093 | (465) |

# ECONOMIC BACKDROP

## THE NATION

### OVERVIEW

In March of 2001, the U.S. economic expansion will enter an unprecedented eleventh year. The Federal Reserve Board's (FRB) six interest rate increases between June 1999 and May 2000, combined with declining stock prices and rising energy costs, significantly dampened the nation's rapid rate of growth. The Division of the Budget (DOB) estimates that growth for the second half of 2000 fell by more than half of the brisk 5.2 percent pace exhibited during the first half of the year. Fearing excessive weakness, the FRB cut its interest rate target in early January, four weeks before its next scheduled meeting. The national economy, as measured by real U.S. Gross Domestic Product (GDP), is now projected to grow 2.7 percent for 2001. The Federal Reserve's recent policy shift, combined with additional FRB actions which DOB anticipates will be taken in the near future, should ensure modest growth for this year.

New York participated vigorously in the national expansion in 2000, with employment growing 2.1 percent. The State's finance and high-tech sectors, in particular, benefitted from both national and global growth. However, the slowdown in the national economy, along with recent developments in the financial sector, are expected to slow both employment and income growth over the course of this year. DOB expects a decline in State personal income growth from 7.8 percent in 2000 to 4.6 percent for 2001. State job growth will also fall from 2.1 percent for 2000 to 1.4 percent for 2001.

### THE NATIONAL ECONOMY

#### *U.S. History's Longest Expansion*

While the Division of the Budget expects the current expansion to extend its record length, a significant downshifting occurred during the latter half of 2000. Consumers whose spending plans had been fueled by high equity prices, rising home values, and low interest rates suddenly chose to pull back. Business investment strategies, which had partially depended on high equity prices and strong output growth, are in partial retreat. Moreover, a weak euro and a still stagnant Japanese economy continue to limit the foreign sector's contribution to domestic growth. Nearly all of the recent evidence suggests that the current economic expansion entered a new phase characterized by more cautious behavior by consumers and investors and, hence, slower growth.

Economists are now debating how to reconcile the current slowdown with the transition to the "New Economy," where output growth can persist for long periods at high rates, with high productivity growth and low inflationary risk.[1] Many have argued that the economy has become less cyclical, with expansions becoming longer and recessions becoming shorter and less severe.[2] The freer flow of information among businesses, as well as between consumers and firms, may be producing an economy which is less rigid and more responsive to shifts in demand. In many ways, the economy has become nimbler.

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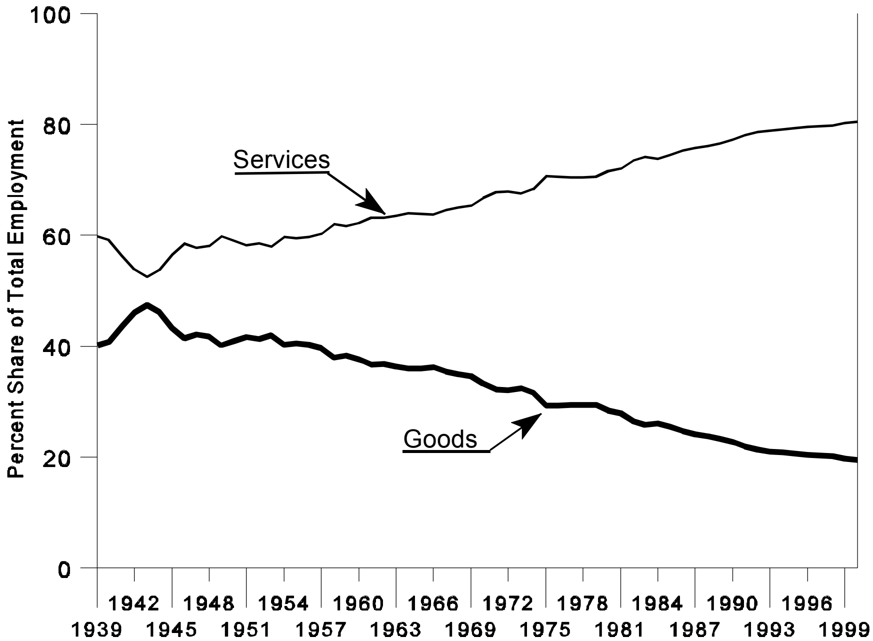
[1] For a review of the arguments surrounding the existence of a New Economy, please see <http://woodrow.mpls.frb.fed.us/pubs/region/00-06/newecon.html>.

[2] It should be recalled that the early-1990s recession was much more severe for New York State than for the nation as a whole.

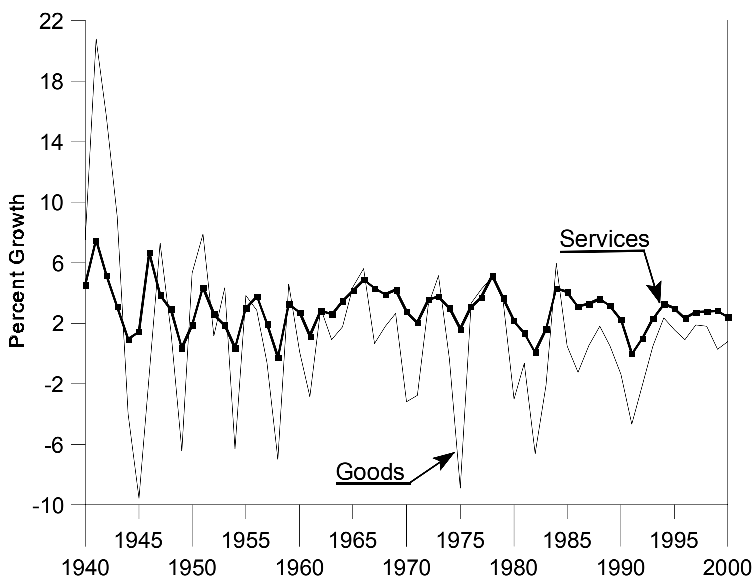
New technologies incorporating Internet-based information systems have helped firms to smooth out their inventory cycles. In part, the foundation for this transition has been laid by the longer-term shift from a manufacturing-based workforce to one where 80 percent are employed in service-producing industries where demand and, therefore, employment, is less volatile (see Figure 1 and Figure 2).

**Figure 1**
**Employment Shares: Goods & Services Producing Sectors**




Source: U.S. Bureau of Labor Statistics.

**Figure 2**
**Goods Production Employment Volatility**

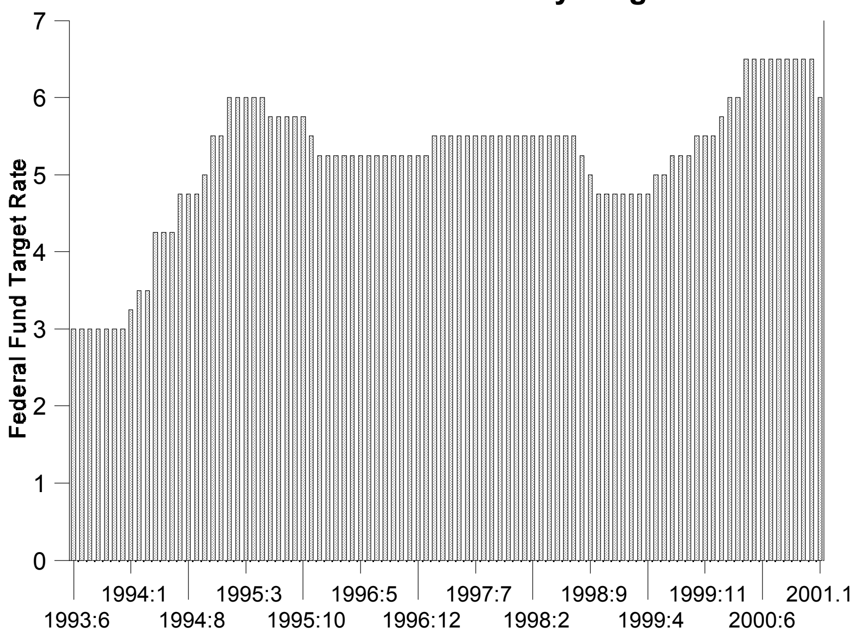



Source: U.S. Bureau of Labor Statistics.

The more agile U.S. economy is well complemented by the more activist stance adopted by the FRB since 1980. The Federal Reserve has closely monitored economic conditions and has demonstrated the will to act decisively to achieve its policy goals. Since the recession of 1990-91, the Federal Reserve has pursued four distinct shifts in monetary policy — the seven interest rate hikes between February 1994 and February 1995, the three rate declines during late 1998, the six rate hikes between June 1999 and May 2000, and the recent rate reduction on January 3, 2001 (see Figure 3).[3] The 1998 rate declines encouraged renewal of confidence in the nation's financial system in the wake of a global currency crisis which originated in East Asia. Both rounds of rate increases were intended to put the brakes on the brisk pace of economic growth and produce "soft landings," rather than recessions. Earlier this month, when it appeared that the economy may be headed toward a harder landing than anticipated, the central bank shifted once again to a policy of rate declines.

At the core of the "New Economy" argument is the ability of the economy to sustain a long-run rate of output growth above recent historical norms. The highest level of output which can be sustained over a long period is known as the economy's potential level of output, or more simply, potential GDP. Historically, when the economy has operated above its potential rate for a sufficiently long period, inflationary pressures have emerged. How quickly an episode of inflation will arise can depend critically upon such mitigating factors as the strength of the dollar, changes in the price of oil, the state of the world economy, and policy actions taken by the Federal Reserve.

**Figure 3**
**Federal Reserve Board Policy Target**




**Source: Federal Reserve Board.**

[3] The Federal Reserve Board increased its federal funds policy target once in March 1997, which most analysts have interpreted as an anti-speculative signal to the financial markets.

Based on an examination of the behavior of potential GDP, we observe that the current expansion possesses some unique features which may help to explain its longevity thus far. The Division of the Budget measures potential GDP by estimating the rate at which the fundamental determinants of economic expansion would have been expected to grow if not for variation due to the business cycle (see Box 1). These major determinants of long-term growth are labor, capital, and total factor productivity.

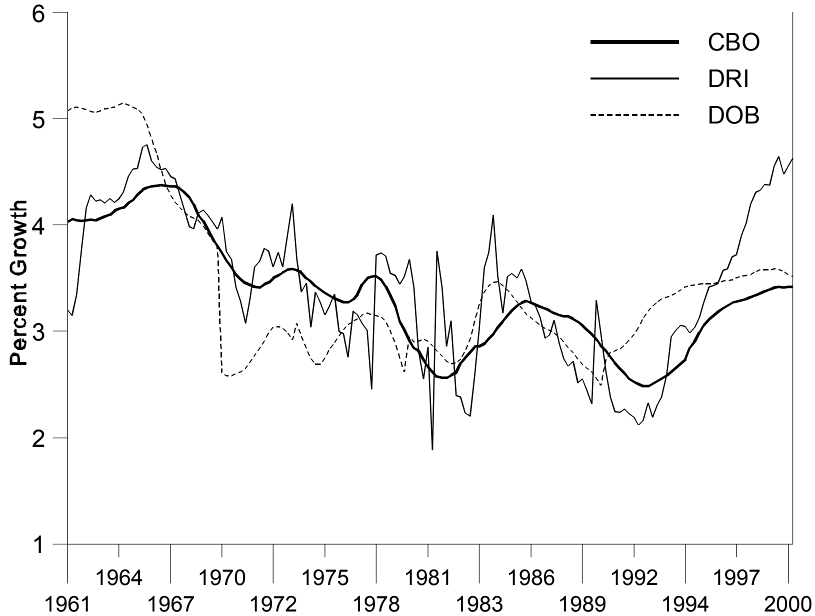
**TABLE 1**
**POTENTIAL REAL GDP GROWTH COMPARISON**
**(percent)**

| | Potential GDP Growth | | | |
|---|---|---|---|---|
| **Expansion** | **CBO** | **DRI** | **DOB** | **Actual** |
| 1961Q2-1969Q4 | 4.2 | 4.2 | 4.7 | 4.9 |
| 1971Q1-1973Q4 | 3.5 | 3.6 | 2.9 | 5.3 |
| 1975Q2-1979Q4 | 3.3 | 3.3 | 3.0 | 4.6 |
| 1980Q3-1981Q2 | 2.7 | 2.5 | 2.9 | 3.0 |
| 1983Q1-1990Q2 | 3.1 | 3.1 | 3.0 | 4.3 |
| 1991Q2-2000Q3 | 3.0 | 3.3 | 3.4 | 3.7 |
| | | | | |
| 1991Q2-1995Q1 | 2.6 | 2.5 | 3.2 | 3.2 |
| 1995Q1-2000Q3 | 3.2 | 3.9 | 3.5 | 4.1 |

Source: CBO, Standard and Poor's DRI, staff estimates

Figure 4 compares DOB's estimates of potential GDP growth with those of DRI and the Congressional Budget Office for the period from the fourth quarter of 1961 to the third quarter of 2000. There is agreement among all three estimates that the rate of potential output growth has increased throughout the current expansion. In contrast, during the long expansion of the 1960s, potential GDP growth peaked during the fourth quarter of 1964, not even half way through the expansion. For the expansion of the 1980s, the nation's third longest, growth peaked relatively early, during the fourth quarter of 1984. As indicated in Table 1, estimates of the average rate of potential GDP growth for the period from 1995 to the present range from 0.3 percentage points (DOB) to 1.4 percentage points (Standard and Poor's DRI) higher than for the period from the second quarter of 1991 through the first quarter of 1995. Table 1 shows several estimates of the average rate of potential GDP growth for all of the expansions since 1960. DOB analysis suggests that potential GDP growth now lies in the range of 3.5 percent per year.

**Figure 4**
**Potential Real GDP Growth**




Note: Data are 1996 chain-weighted.
Source: Congressional Budget Office; Standard and Poor's DRI; staff estimates.

The recent acceleration in potential GDP growth has been associated with several shifts in economic activity. Since 1995, we have observed strong increases in technology-related investment, much of which has been connected to the movement toward a more information-based economy. In addition, the rapid advance in computer-related technology has significantly reduced the life-spans of both computer hardware and software, relative to other forms of capital, giving this type of investment a high depreciation rate. Consumers wanting to remain on the electronic cutting edge also appear to be updating their software and equipment more regularly than we observe in markets for other consumer durables, which tend to be very volatile. The incorporation of information technologies is also enhancing labor productivity as transactions that once required an employee's time can now be conducted electronically. These technologies will continue to lift productivity growth as they diffuse throughout the economy.

**BOX 1**
**THE DETERMINATION OF**
**POTENTIAL GROSS DOMESTIC PRODUCT**

Potential Gross Domestic Product (GDP) is the level of output which the economy can produce when all available resources are being utilized at their most efficient levels. The economy can produce both above and below this level but when it does so for an extended period, economic agents can expect inflation to either rise or fall, although the precise timing of that movement can depend on many other factors.

Some knowledge of the economy's productive capacity is fundamental to the decision-making process for households, firms, and the monetary authority. Households partially base their expectations surrounding their lifetime accumulation of wealth upon their estimates of potential GDP. Firms choose a profit-maximizing level of labor based on their estimates of the economy's long-run productive potential. An estimate of potential GDP also enables these agents to form expectations regarding the direction which inflation will take in the future. Such expectations might induce the central bank to shift the course of monetary policy.

Measurement of potential GDP requires a formalization of the aggregate production process. Economists refer to this formalization as an aggregate production function, which stipulates that total output is related to the amount of resources which are applied to production. The precise nature of the production function depends upon which sector of the economy one is trying to model.

Following the Congressional Budget Office (CBO), the Division of the Budget divides the economy into five sectors: nonfarm business, farm, government, nonfarm housing, and households and nonprofit institutions.[1] The nonfarm business sector is by far the largest sector of the economy, comprising 84.6 percent of total GDP during the third quarter of 2000. To model this sector, the DOB again follows CBO and adopts the neoclassical growth model incorporating three inputs to the production process: labor as measured by the number of hours worked, the capital stock, and total factor productivity.

Over the course of an economic expansion, we expect periods during which labor and capital are utilized in magnitudes which are above their most efficient levels. Similarly, during recessions, we expect periods when these inputs are underutilized. Therefore, we can adjust the inputs to the production process to their "potential" levels by removing the historical movements in these series which can be associated with the business cycle. To measure the total potential capital stock, DOB multiplies the U.S. Bureau of Economic Analysis' measure of the real capital stock by the capacity utilization rate, after removing the cyclical component of the latter series by using a standard smoothing method known as the H-P filter.[2] To measure the potential level of the number of hours worked, we remove the cyclical component using a methodology developed by the CBO.

To estimate the potential level of total factor productivity, the actual values of labor and capital are substituted into a fixed-coefficient production function, where a coefficient of 0.7 is applied to labor and 0.3 is applied to capital. The residual obtained by subtracting the value of output obtained from this substitution from the historical value of output is assumed to represent total factor productivity. Removing the business cycle component from this residual yields its potential level. Substituting the potential levels of all of the inputs back into the fixed-coefficient production function, where total factor productivity is given a coefficient of one, yields a measure of potential nonfarm business GDP. For the other sectors of the economy, the cyclical component is removed directly from the series itself in accordance with the method used by CBO.

[1] See "CBO's Method for Estimating Potential Output," Congressional Budget Office, October 1995.
[2] See Robert J. Hodrick and Edward C. Prescott, "Postwar U.S. Business Cycles: An Empirical Investigation," Discussion Paper No. 451, Carnegie Mellon University, 1980.

Further, the global economic environment has also undergone a transformation. The intensification of global competitiveness has forced firms to find alternatives to raising prices in order to increase profits. These forces were largely behind the process of corporate restructuring which began in the 1980s and resulted in painful layoffs of both middle-management and production workers. This process remains ongoing within many manufacturing industries. Moreover, the recent strength of the U.S. dollar has put additional pressure on domestic firms whose products compete directly with foreign goods.

However, as the global economy strengthens and world demand for goods and services increases relative to supply, it is expected that producers will be freer to increase their prices. The success with which OPEC has been able to sustain its recent coordinated effort to control the price of oil may be an early example of a movement toward more aggressive pricing. Moreover, if the nation's growing trade deficit puts downward pressure on the value of the dollar, domestic firms competing with foreign produced goods will also see their pricing power increase.

The incorporation of information technology into just-in-time inventory control and other aspects of the production process has been credited with smoothing the buildup of inventories. However, no technology can totally eliminate the possibility that the collective behavior of firms, operating in an uncertain world, will produce investment cycles. It now appears that while financing was so readily available during the height of the stock market boom, many firms may have taken on unsustainable levels of debt given their revenues. Evidence of both over-leveraging and excess capacity has become particularly striking within the telecommunications industry. If the problem should spill over into other industries, the investment-led component of the current expansion could significantly diminish.

In conclusion, we may be beginning to see this record-breaking expansion behave more like a traditional business cycle. Whether this new period of slower growth will lead to a period of no growth, or even decline, remains uncertain. However, the probability of the expansion coming to an end within the next 12 months is projected to be low. The outlook for 2001 is dominated by the following trends.

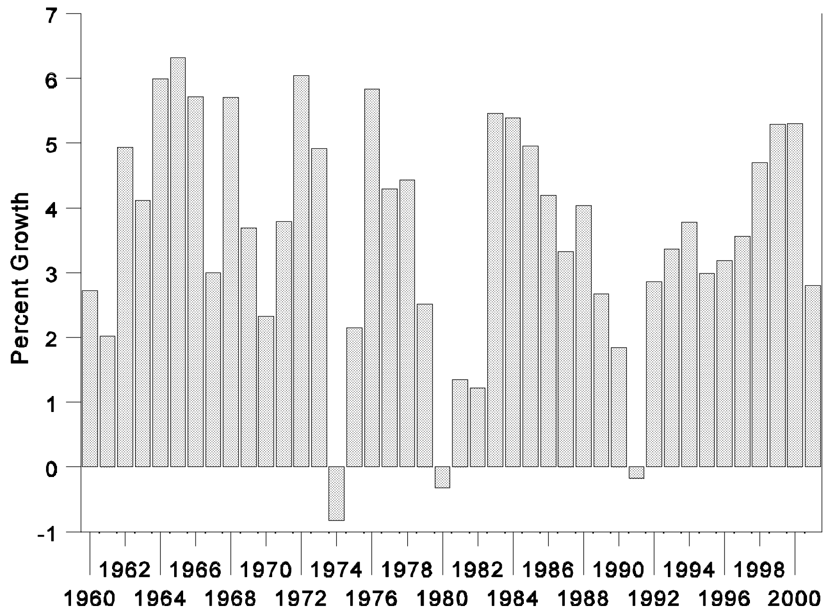
### *Consumers Showing Restraint*

Consumption spending, which represents about two-thirds of total U.S. real GDP, is expected to grow more slowly than we have witnessed in the recent past. This is due in large part to the contractionary impact of the Federal Reserve's monetary tightening, although higher energy costs are expected to play a role as well. Consumption growth of 2.8 percent is projected for 2001, a significant decline from the 5.3 percent growth estimated for 2000, but hardly weak by historical standards (see Figure 5).

DOB divides total consumption into two categories. The cyclical component includes large purchases such as automobiles and household appliances, which tend to increase when the economy expands and fall when the economy contracts. In contrast, the non-cyclical component comprises those goods and services which consumers tend to purchase more regularly, regardless of current economic conditions. These types of expenditures include food and other basic necessities, such as medical care. Accordingly, a greater decline is expected in the growth of the cyclical component of consumer spending than in the non-cyclical component for 2001.

The DOB forecast for consumption growth of near 3 percent for 2001 incorporates the assumption that only a portion of the nation's households are truly constrained by their current period incomes. Most households can afford to adopt a much longer planning horizon which takes into account expectations regarding their long-term job security, earnings growth, and the potential for accumulating wealth.[4] This long-term horizon explains the persistence in household consumption which is observable in historical data. As seen in Figure 5, declines in consumption have occurred, but are relatively rare. Consequently, even in a slowing economy, the confidence that better days lie ahead, and that income growth will resume at trend rates, will produce reasonably steady growth in consumption. A comparison of historical rates of consumption growth with growth in non-residential fixed investment confirms this view (see Figure 5 and Figure 6).

**Figure 5**
**Real Consumption Growth**

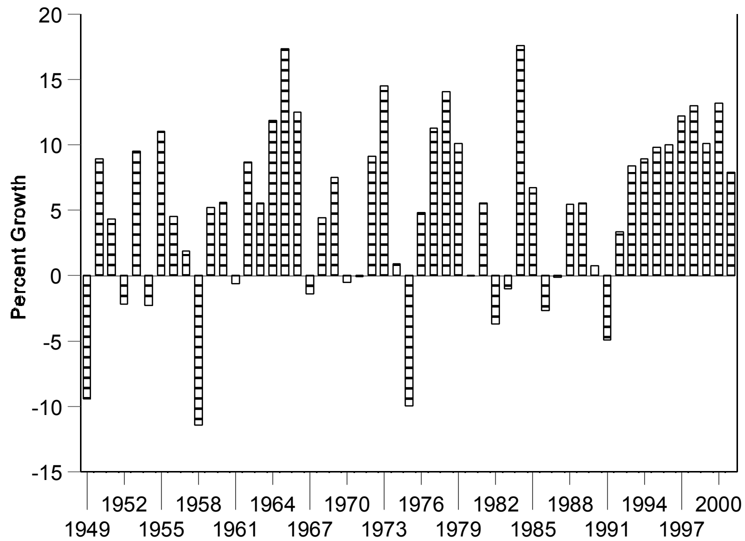



Note: Data for 2000 and 2001 are based on DOB forecast.
Source: Standard and Poor's DRI; staff estimates.

The impact on consumer spending of the Federal Reserve's 1999-2000 monetary tightening began during the second quarter of 2000, with a decline in consumption growth to 3.1 percent. Although growth in consumer expenditures accelerated to 4.5 percent in the third quarter, evidence is mounting that fourth quarter spending for durable items, such as automobiles and personal computers, softened significantly. Higher interest rates discourage consumption directly, for example, by increasing the cost of consumer credit. By reducing the demand for new housing, higher interest rates also reduce the demand for those goods associated with home improvements and the furnishing of a new home.

[4] The incorporation of smoothing behavior into consumption theory conforms with the life-cycle hypothesis due to Franco Modigliani, as well as the permanent income hypothesis due to Milton Friedman.

**Figure 6**
**Non-Residential Fixed Investment Growth**




Note: Data for 2000 and 2001 are based on DOB forecast.
Source: Standard and Poor's DRI; staff estimates.

Higher interest rates also have an indirect effect by raising business costs and thereby lowering earnings expectations. The reduction in expected profits, in turn, negatively affects stock prices, lowering the value of household wealth. Consumption growth falls due to the so-called "wealth effect." Consumers base their spending decisions not only on the value of their current year incomes but also on how much wealth they expect to accrue over the course of their lifetimes. A decline in the value of financial assets will cause households to reduce their estimates of their lifetime accumulation of wealth. Consumers will begin to adjust their buying habits to this new estimate, resulting in less spending.

While the wealth effect is nothing new, it may be becoming amplified by recent compensation trends, particularly within the technology and finance sectors. With a significant portion of executive pay now taking the form of stock options, spending habits may be becoming more closely tied to movements in equity prices There is at least anecdotal evidence that the stock market's reversal of fortune since the first quarter of 2000 is having a deleterious impact on consumption spending.

Although consumption data for the last three months of 2000 are not yet available, there is evidence of a significant slowdown in household spending during the quarter. Preliminary data indicates that retailers experienced the slowest growth in holiday spending in many years. Undoubtedly, the sudden loss of consumer confidence toward the end of 2000 and the contraction in household spending were factors which induced the Federal Reserve to reduce its interest rate policy target in early January. It should be noted that, historically shifts in the Federal Reserve's policy stance tend to impact on the real economy — employment, output, and real consumption — with a lag of 6 to 12 months. Federal Reserve actions to lower interest rates in early 2001 can be expected to boost economic activity in the second half of 2001 holding other factors constant.

### Investment Growth in Retreat

Consistent with the overall slowdown in economic activity, business investment spending growth is also expected to diminish. Businesses are still being transformed by the Internet and the information technology revolution, particularly the large "old-economy" firms who continue to seek new ways to cut costs, boost competitiveness, and maximize profits. However, higher interest rates and the overall decline in economic growth has caused firms to revise their investment strategies for 2001. DOB projects growth in non-residential fixed investment, including both computer and non-computer equipment, of 7.9 percent for 2001. Although this forecast is not low by historical standards, it is significantly below the strong 13.2 percent growth estimated for 2000.

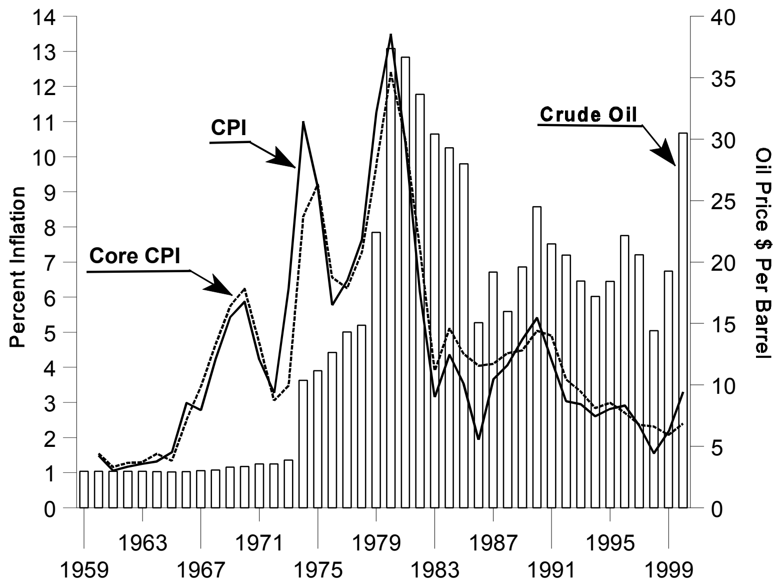
DOB's projection for investment spending incorporates the assumption that firms seek to attain an optimal level of capital, given the price of capital, the price of their output, and the overall rate of economic growth. Within this framework, higher depreciation rates, lower capital costs, and stronger economic growth will all tend to result in higher rates of investment, other things being equal. Until recently, it was common to assume that depreciation rates and capital costs remained constant. However, with computers and related equipment comprising a growing portion of the total capital stock, this assumption may no longer be valid. Computer-related technologies have shown a tendency to improve at a significantly faster rate than other technologies. This results in relatively high depreciation rates. At the same time, the price of computing power has fallen precipitously over time.

As seen in Figure 6, persistently strong rates of growth in non-residential fixed investment have been a distinguishing feature of this expansion. This contrasts with the last five years of the second and third longest expansions of the postwar era, those of the 1960s and 1980s. Growth averaged 8.1 percent and 3.0 percent per year during the last full five years of those expansions, respectively. During the 20 quarters ending with the third quarter of 2000, non-residential fixed investment growth averaged 12.1 percent per year. It seems apparent that the shift toward computers and computer-related equipment, which have exhibited higher than average depreciation rates and falling prices, explains a significant share of the overall growth in investment through 2000. However, after six years of strong investment growth, we expect that, in the current environment, many firms will postpone some of their planned additions to the economy's productive capacity until overall economic conditions improve. Consequently, we expect to see the rate of investment growth fall by about 60 percent for 2001.

### Diminishing Inflation

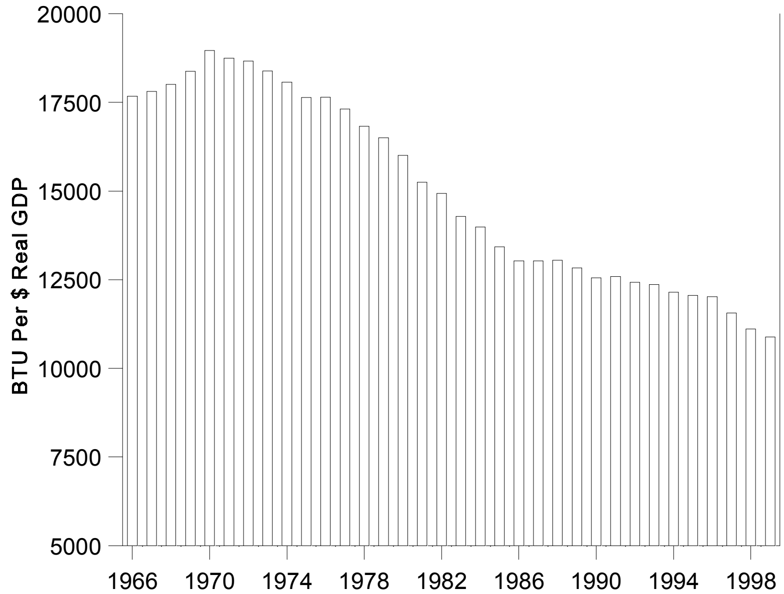
DOB expects inflation to recede in 2001 from what we experienced in 2000. The Consumer Price Index (CPI) is expected to rise by 2.7 percent in 2001, compared with a 3.3 percent increase for 2000. The forecast for 2001 does not signal a return to the low rates witnessed in 1998 and 1999. Indeed, the 1.6 percent growth in the CPI for 1998 was the lowest rate of inflation since the early 1960s. However, projected inflation for 2001 is expected to be about equal to the average rate for the current expansion.

**Figure 7**
**CPI and Price of Imported Crude Oil**




Source: Standard and Poor's DRI.

**Figure 8**
**Energy Dependence on U.S. Economy**




Source: U.S. Department of Energy; Standard and Poor's DRI.

Inflationary pressures have intensified since 1999. World commodity prices are no longer declining at the rates seen when the Asian economies were in recession during 1998 and 1999. Oil prices have almost tripled since the end of 1998, while the domestic labor market has tightened. However, the inflationary pressures normally associated with these phenomena have been counterbalanced to a significant degree by continued strong productivity growth and a competitive global environment. Consequently, even the 3.3 percent rise in the CPI estimated for 2000 is well below the 3.9 percent average for the entire 1980s expansion. The 2.4 percent estimated "core" rate for 2000, which excludes the volatile food and energy components, is even lower.

Historically, changes in the price of oil have had a significant impact on the rate of inflation (see Figure 7). However, the impact of energy price changes is much more muted in the current environment than when oil prices skyrocketed in the 1970s. According to the U.S. Department of Energy, energy usage per dollar of real GDP output fell 42.6 percent between 1970 and 1999 (see Figure 8). This decline is attributable to an increase in energy efficiency, along with the economy's shift toward less energy-intensive forms of production.[5]

The reduced significance of energy prices for the U.S. economy is evident in the recent path of the CPI. Oil prices have gyrated wildly over the last three years. After plunging by $10 per barrel in 1998, a decline of 50 percent since the beginning of 1997, the price of oil jumped by about $20 — tripling in price in the last two years. However, the CPI barely echoed these changes. The inflation rate fell 1.3 percentage points between 1996 and 1998, before reversing course and rising 1.7 percentage points between 1998 and 2000. The impact on the core inflation rate was even more muted. This inflation measure declined by four-tenths of a percentage point from 2.7 percent in 1996 to 2.3 percent in 1998, falling further to 2.1 percent in 1999, then rising only to 2.4 percent in 2000.

The Division of the Budget's U.S. macroeconomic model indicates that only a large and sustained increase in crude oil prices, well in excess of $5 per barrel from current prices, would have a sufficient impact on core inflation to invoke action by the Federal Reserve. Conversely, a decline in the refiners' acquisition price for imported oil to the Division's forecast of $27 per barrel would likely unwind most of the increase in the core inflation rate experienced in 2000. However, given the renewed pressure on prices within the health care industry and the low probability that this winter will be as mild as the last, it is unlikely that inflation will fall below the 2.5 percent range for 2001.

### *Monetary Policy in 2001*

As indicated above, the closely watched core inflation rate has risen only modestly in the wake of rapidly increasing energy prices. The absence of inflationary pressures cleared the path to a shift in the central bank's policy bias in December 2000 away from countering inflation, toward preventing a more severe slowdown. This was closely followed by a 50 basis point reduction in its interest rate policy target on January 3, 2001. Indeed, the significant slowdown we observed in the second half of 2000, resulting in part from actions taken by the FRB in 1999 and 2000, brought the rate of economic growth a full percentage point below the DOB estimate for potential GDP growth. DOB expects additional decreases in the central bank's federal funds interest rate target totaling 50 basis points during the first half of 2001.

DOB anticipates a shift in monetary policy by the Federal Reserve by applying what is known in the academic literature as Taylor's Rule.[6] Taylor's Rule was designed to reflect the fact that, in recent years, the Federal Reserve has executed shifts in its monetary

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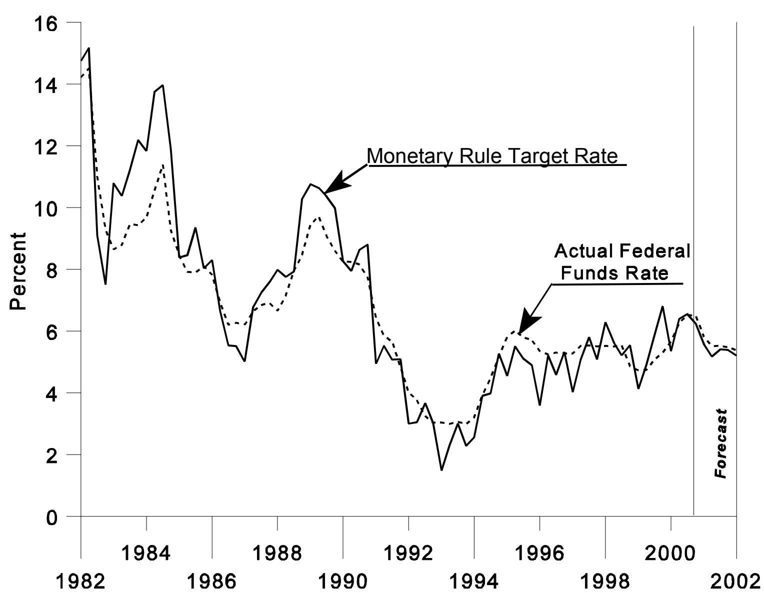
[5] Despite the low inflationary impact of higher energy costs, those industries where production remains relatively dependent upon energy have been hurt by the recent increases in energy prices.

[6] Please see John B. Taylor. "Discretion versus Policy Rules in Practice," Carnegie-Rochester Conference Series on Pubic Policy (December 1993), pp. 195-214.

policy stance by changing its federal funds rate policy target.[7] The federal funds rate is the interest rate which banks charge each other in the market for overnight loans. Banks often need such loans in order to meet the required reserve ratio mandated by the Federal Reserve.[8] If not for the intervention of the central bank, the federal funds rate would be fully determined by market conditions (that is, it would equal the long-run rate of return to capital — the real interest rate — plus the expected rate of inflation). To estimate the policy target, Taylor's Rule takes into account two key factors. The first is the gap between the central bank's target rate of inflation and the rate expected to prevail given economic conditions. The second factor is an estimate of the gap between the actual rate of output growth and potential GDP growth. Taylor's Rule anticipates a FRB adjustment to the Federal funds rate based on a weighted average of these two factors.

Figure 9 compares the federal funds policy target rate implied by the DOB application of Taylor's Rule with the actual federal funds rate for the period from the first quarter of 1982 through the first quarter of 2002. The model presumes that movements in the actual federal funds rate capture shifts in the Federal Reserve's monetary policy stance. DOB assumes that the central bank's target rates for inflation and potential GDP are 1.5 percent and 3.4 percent, respectively, and that the estimate for the underlying real interest rate is 2.0 percent.[9] Although Taylor's Rule represents only a simplification of the monetary policy process, it appears to capture the central bank's behavior acceptably well for most of the period. The combination of the current outlook with Taylor's Rule is consistent with the recent easing of interest rates and forms the basis for DOB's forecast of a total rate adjustment by the Federal Reserve of 100 basis points in early 2001.

**Figure 9**
**Monetary Policy and Taylor's Rule**




Source: Standard and Poor's DRI; staff estimates.

[7] Alternatively, the Federal Reserve could target the money supply.

[8] The Federal Reserve Board requires all banks to maintain a specified percentage of their deposits in a non-interest bearing account at one of the Federal Reserve Banks. That percentage is known as the required reserve ratio.

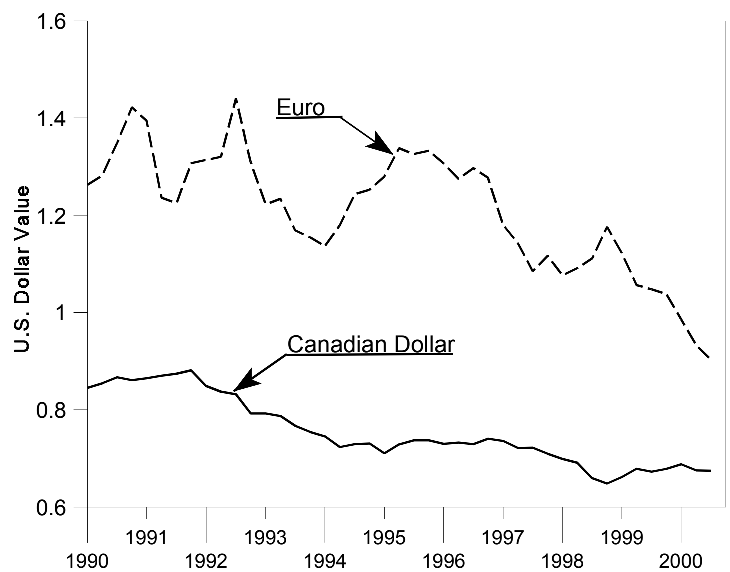
[9] The real rate of interest is commonly estimated at 2.0 percent; please see Taylor, *op. cit*.

### *Trade Deficit Continues to Widen*

The U.S. economy has sustained an ever widening trade deficit since the early 1980s. The persistence of this deficit has long raised the spectre of a weakening U.S. dollar relative to the currencies of our major trading partners. However, the unparalleled strength of the U.S. economy has caused the value of the U.S. dollar to remain strong, fueling further the nation's demand for relatively inexpensive imports. This, in turn, has further promoted the cycle of widening deficits. DOB projects real U.S. export growth of 8.3 percent for 2001, down slightly from the 9.9 percent growth estimated for 2000. Non-oil import growth, in constant dollars, will fall from 14.5 percent growth in 2000 to 7.9 percent growth in 2001, while real oil import growth will decline from 5.8 percent to 5.4 percent.

Growth in real exports reflects both the strength of the global economy outside of the U.S. and the real price of domestically produced goods and services relative to foreign prices. The latter incorporates the value of the dollar relative to foreign currencies. Growth in the world economy outside the U.S. is expected to be slightly lower than observed in 2000. This is in part due to the rise in energy prices and the steps taken by the European Central Bank to control inflation and prop up the sagging value of the euro (see Figure 10). The weakness in the euro will continue to hurt U.S. exports to the European Union in 2001. Moreover, the Japanese economy is expected to continue to see only limited growth this year, having expanded by only 0.2 percent during both the second and third quarters of 2000. Japan is the U.S. economy's third largest trading partner after Canada and the European Union. Relative weakness in the Canadian dollar will continue to limit export growth to our neighbor to the north.

**Figure 10**
**Euro and Canadian Dollar Exchange Rates**




Note: Euro data prior to 1999 calculated by Standard and Poor's DRI.
Source: Standard and Poor's DRI.

The growth in real imports reflects the strength of the domestic economy, primarily in the non-farm sector, as well as relative prices, including relative currency values. The slowdown in non-oil import growth projected for 2001 is primarily due to the slowdown in real private non-farm economic activity, which, in turn, is related to the overall slowdown of the U.S. economy. However, this slowdown will be mitigated to some extent by the continued strength of the U.S. dollar. Higher growth in real oil imports for 2001 reflects the anticipated decline in the price of oil below current levels, although the impact of lower prices will be offset to some extent by lower domestic growth.

### *National Employment and Income Outlook*

Consistent with the overall slowdown in the economy, DOB projects national employment growth to slow to 1.1 percent for 2001, from 2.1 percent in 2000. The deceleration in job growth will relax labor market conditions to some degree, resulting in an increase in the unemployment rate from 4.0 for 2000 to 4.3 percent for 2001. The DOB forecast for employment growth incorporates expectations among employers regarding economic conditions and labor productivity. In addition to fluctuating with the rate of technological change, the rate of productivity growth tends to fluctuate with output growth over the course of the business cycle. For example, when output growth fell by half between the second and third quarters, productivity growth fell from 6.1 percent to 3.8 percent. Consequently, the slowing economy is also expected to reduce productivity growth in 2001.

With the economy and employment growing more slowly, we will see slower income growth for 2001 than experienced in 2000. DOB projects U.S. personal income growth of 5.0 percent in 2001, following growth of 6.3 percent for 2000. The largest component of personal income, wages and salaries, is expected to grow 5.5 percent in 2001, following growth of 6.5 percent in 2000.

**TABLE 2**
**U.S. SELECTED ECONOMIC INDICATORS***
**(calendar year)**

| | 1999 (actual) | 2000 (preliminary) | 2001 (forecast) | 2002 (forecast) | 2003 (forecast) | 2004 (forecast) |
|---|---|---|---|---|---|---|
| Gross Domestic Product (current dollars) | 5.8 | 7.2 | 4.9 | 5.0 | 5.2 | 5.3 |
| Real Gross Domestic Product | 4.2 | 5.1 | 2.7 | 3.2 | 3.2 | 3.2 |
| Consumption | 5.3 | 5.3 | 2.8 | 2.5 | 2.5 | 2.5 |
| Residential Fixed Investment | 6.4 | (0.5) | (1.1) | 4.1 | 3.5 | 2.4 |
| Non-Residential Fixed Investment | 10.1 | 13.2 | 7.9 | 6.3 | 5.7 | 5.5 |
| Change in Inventories ($) | 45.3 | 58.2 | 24.8 | 23.1 | 23.9 | 25.9 |
| Exports | 2.9 | 9.9 | 8.3 | 8.0 | 7.9 | 8.1 |
| Imports | 10.7 | 14.0 | 7.8 | 6.2 | 6.3 | 6.3 |
| Government Spending | 3.3 | 2.8 | 1.3 | 1.7 | 2.3 | 2.7 |
| Pre-tax Corp. Profits | 8.5 | 14.2 | 3.4 | 4.5 | 5.7 | 5.6 |
| Personal Income | 5.4 | 6.3 | 5.0 | 4.9 | 4.8 | 4.8 |
| Wages | 6.7 | 6.5 | 5.5 | 5.5 | 5.1 | 5.2 |
| Non-Agricultural Employment | 2.3 | 2.1 | 1.1 | 1.8 | 1.9 | 1.8 |
| Unemployment Rate (percent) | 4.2 | 4.0 | 4.3 | 4.5 | 4.5 | 4.4 |
| S&P 500 Stock Price Index | 22.3 | 7.6 | (2.4) | 7.7 | 9.4 | 9.8 |
| Federal Funds Rate | 4.97 | 6.25 | 5.59 | 5.31 | 5.18 | 5.02 |
| Treasury Note (10 year) | 5.64 | 6.07 | 5.44 | 5.81 | 6.03 | 6.15 |
| Consumer Price Index | 2.2 | 3.3 | 2.7 | 2.2 | 2.3 | 2.5 |

* All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 96 dollars, unless otherwise noted.

Source: U.S. Department of Commerce; U.S. Bureau of Labor Statistics; Projections for 2000-04 by New York State Division of the Budget.

### *Comparison With Other Forecasting Groups*

Table 2 presents DOB's forecast for selected U.S. economic indicators. DOB's macroeconomic model for the U.S. economy underwent substantial revision in 2000; a brief description of the model is presented in Box 2.

Table 3 compares DOB's forecast for several major indicators with those of other forecasting groups. The DOB forecast of 2.7 percent growth for real GDP for 2001 is modestly higher than the 2.6 percent forecast of the January Blue Chip Economic Consensus (an average of 50 private sector forecasts). DOB's 2.7 percent forecast for 2001 inflation is slightly higher than the January Blue Chip Consensus forecast of 2.6 percent. The July update of the economic forecast produced by the Congressional Budget Office and the mid-year review of the Office of Management and Budget project CPI growth of 2.7 percent and 2.6 percent, respectively, for 2001.

**BOX 2**
**THE DIVISION OF THE BUDGET**
**U.S. MACROECONOMIC MODEL**

Macroeconomic modeling has undergone a number of important changes during the last 25 years, primarily as a result of developments in economic and econometric theory. These developments include the incorporation of both rational expectations and micro-foundations based on the long-run optimizing behavior of firms and households. In addition, analysts now employ more flexible specifications of behavioral relations within a vector autoregressive (VAR) model framework. Recent developments also include a more rigorous analysis of the times series properties of commonly used macroeconomic data series, as well as the implications of these properties for model specification and statistical inference. There has also been much study of the long-run equilibrium relationships among macroeconomic data series and the predictive power of these relationships in constraining economic dynamics.

The Division of the Budget's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The model contains 98 core equations, of which 29 are behavioral. In addition, there are hundreds of auxiliary forecasting equations which incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2000:3. Our analysis borrows heavily from the Federal Reserve Board model which has been redesigned over the past five years and was constructed using the most up-to-date advances in modeling techniques.[1] We are grateful to Federal Reserve Board economists for providing guidance and important insights as we developed the DOB/U.S. macroeconomic model.

At its heart, the DOB/U.S. is a neoclassical model. Agents optimize their behavior subject to economically meaningful constraints. Households exhibit maximizing behavior over consumption and labor supply, subject to a wealth constraint. Expected wealth is, in part, determined by expected future output and interest rates. Firms maximize profits over labor demand and investment. The value of investment is affected by the cost of capital, as well as expectations about the future path of output and inflation. The economy's long-run growth path converges to an estimate of potential GDP growth. Monetary policy is administered through adjustments to the federal funds rate, as guided by Taylor's Rule (see the section above entitled "Monetary Policy in 2001"). Current and anticipated changes in this rate influence agents' expectations and the rate of return on various financial assets.

DOB/U.S. incorporates three key theoretical elements into this neoclassical framework: expectations formation, equilibrium relationships, and dynamic adjustments (movements toward equilibrium). The model addresses expectations formation by imposing rational expectations as follows: the model specifies a common information set available to economic agents who then incorporate all relevant information when forming their expectations. The model structure incorporates an error correction framework which ensures movement back to an equilibrium which is a solution to a dynamic optimization problem carried out by households and firms.

The model structure reflects the microeconomic foundations which govern optimizing behavior, but is sufficiently flexible to capture the short-run fluctuations in employment and output caused by economic imbalances. DOB/U.S. incorporates dynamic adjustment mechanisms which reflect the fact that while agents are forward-looking, they do not adjust to changes in economic conditions instantaneously. The presence of frictions (costs of adjusting productive inputs, sticky wages, persistent spending habits) governs the adjustment of non-financial variables. These frictions, in turn, create imbalances which constitute important signals in the setting of wages and prices. In contrast, the financial sector is assumed to be unaffected by frictions due to the negligible cost of transactions and the presence of well-developed primary and secondary markets for financial assets.

[1] "A Guide to FRB/US A Macroeconomic Model of the United States," edited by F. Brayton and P. Tinsley. Federal Reserve Board, Version 1.0, October 1996.

**TABLE 3**
**U.S. ECONOMIC FORECAST COMPARISON — 2000-2004**

| | 2000 (preliminary) | 2001 (forecast) | 2002 (forecast) | 2003 (forecast) | 2004 (forecast) |
|---|---|---|---|---|---|
| Gross Domestic Product (GDP) (1996 chain percent change) | | | | | |
| DOB | 5.1 | 2.7 | 3.2 | 3.2 | 3.2 |
| Standard and Poor's DRI | 5.1 | 2.5 | 4.3 | 4.6 | 3.7 |
| WEFA | 5.1 | 2.8 | 3.4 | 3.5 | 3.4 |
| Blue Chip Consensus | 5.1 | 2.6 | N.A. | N.A. | N.A. |
| Congressional Budget Office | 4.9 | 3.1 | 2.7 | 2.7 | 2.7 |
| Office of Management and Budget | 4.8 | 3.2 | 3.1 | 3.0 | 2.9 |
| Consumer Price Index (CPI) (percent change) | | | | | |
| DOB | 3.3 | 2.7 | 2.2 | 2.3 | 2.5 |
| Standard and Poor's DRI | 3.4 | 2.6 | 1.8 | 2.0 | 2.2 |
| WEFA | 3.4 | 2.5 | 2.3 | 2.8 | 2.7 |
| Blue Chip Consensus | 3.2 | 2.6 | N.A. | N.A. | N.A. |
| Congressional Budget Office | 3.1 | 2.7 | 2.7 | 2.7 | 2.7 |
| Office of Management and Budget | 3.3 | 3.3 | 2.6 | 2.6 | 2.3 |
| Unemployment Rate (percent) | | | | | |
| DOB | 4.0 | 4.3 | 4.5 | 4.5 | 4.4 |
| Standard and Poor's DRI | 4.0 | 4.7 | 5.0 | 4.7 | 4.6 |
| WEFA | 4.1 | 4.7 | 4.9 | 4.9 | 4.9 |
| Blue Chip Consensus | 4.0 | 4.4 | N.A. | N.A. | N.A. |
| Congressional Budget Office | 3.8 | 3.7 | 4.3 | 4.3 | 4.3 |
| Office of Management and Budget | 4.1 | 4.1 | 4.3 | 4.5 | 4.7 |

Source: U.S. Forecast Summary, Standard and Poor's DRI, January 2001; U.S. Economic Outlook, WEFA, January 2001; Blue Chip Economic Indicators, December 2000 and January 2001; the Budget and Economic Outlook: An Update, CBO, July 2000; Mid Session Review, OMB June 2000.

### *Risks to the U.S. Forecast*

The most significant risk to the DOB forecast relates to those factors which may affect the rate at which the economy slows down. If layoffs, such as those now occurring at automobile plants and at those "dot-com" companies whose revenues have not met expectations, occur at a higher rate than expected, then employment growth may come in below expectations. This outcome would result in lower income growth and, hence, consumption growth than projected. A larger than expected decline in stock prices might also produce lower consumption growth through the wealth effect than is reflected in the forecast.

Firms spent heavily over the last five years on high-tech equipment so as not to be left behind while the information revolution was sweeping the nation. If, as the economy slows, firms perceive themselves as having excess capacity, cutbacks in investment may be more severe than projected, producing even slower growth than currently expected. Moreover, if the world economy should slow more than expected, or foreign currencies, such as the euro, should weaken more than anticipated, U.S. exports could grow less rapidly than expected, reducing overall growth. Similarly, if non-oil import growth does not decline as projected, overall growth will also be reduced. The potential for continued turmoil in the oil market also poses a downside risk to the forecast.

In contrast, if the Federal Reserve should cut interest rates further than projected, or by larger magnitudes, the economy might grow faster than reflected in the DOB forecast.

This upside risk could be compounded if equity prices fall less rapidly, or even rise, in response to lower interest rates, thereby increasing consumer confidence and producing stronger consumption growth than projected. Stronger growth in the world economy could accelerate the growth in U.S. exports beyond the current forecast, producing stronger than expected economic growth. An unexpectedly large dip in oil prices could have a similar positive impact on overall growth.

# THE STATE ECONOMY

## OVERVIEW

In recent years, the New York State economy has prospered, led by the finance, business services, construction, and tourism industries. Since the Federal Reserve's last monetary tightening in 1994-95, growth in both employment and wages has been above average rates for earlier expansions in almost every industrial sector (see Table 4). State employment grew a healthy 2.1 percent in 2000, led by the construction, services, and retail trade sectors.[10]

The service sector, led by business services, accounted for the largest portion of new private-sector jobs during 2000. In July of last year, the unemployment rate reached its lowest level in more than a decade and remained below 5.0 percent for the entire year. The combination of strong overall employment growth, a tight labor market, and strong growth in bonus payments produced an estimated 7.8 percent increase in personal income for 2000.

**TABLE 4**
**NEW YORK STATE'S RECENT ECONOMIC PERFORMANCE**
**COMPARED TO THE STATE'S EARLIER RECESSIONS AND EXPANSIONS SINCE 1973**
**(percent)**

| | Employment Growth | | | Real Average Wage Growth | | | Real Wage Growth | | |
|---|---|---|---|---|---|---|---|---|---|
| | Rec. | Exp. | 1996-99 | Rec. | Exp. | 1996-99 | Rec. | Exp. | 1996-99 |
| Construction | (7.0) | 3.8 | 5.5 | (1.6) | 0.4 | 1.4 | (8.4) | 4.3 | 7.0 |
| Manufacturing | (5.2) | (1.5) | (1.3) | 0.2 | 0.8 | 2.3 | (5.0) | (0.7) | (1.0) |
| Trans.,Comm., and Util. | (2.0) | 0.2 | 1.0 | (0.5) | (0.1) | 1.5 | (2.6) | 0.0 | 2.6 |
| Trade | (1.8) | 1.3 | 1.5 | (1.4) | 0.2 | 1.9 | (3.2) | 1.6 | 3.4 |
| FIRE* | (0.6) | 2.2 | 0.8 | 3.7 | 3.9 | 7.1 | 3.1 | 6.2 | 8.0 |
| Service | 1.0 | 3.7 | 3.6 | 0.0 | 0.5 | 1.5 | 1.1 | 4.2 | 5.2 |
| Government | 0.5 | 0.4 | 0.4 | (0.9) | 0.7 | 0.5 | (0.5) | 1.2 | 1.0 |
| Total | (1.4) | 1.5 | 1.7 | (0.1) | 0.8 | 2.3 | (1.5) | 2.3 | 4.1 |

* Finance, Insurance and Real Estate.

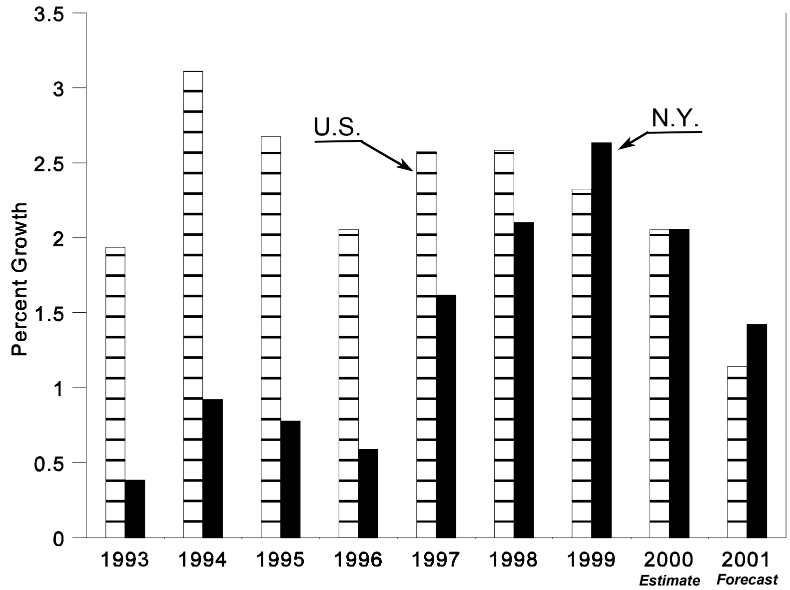
Source: New York State Department of Labor; BEA; staff estimates.

The New York economy has strengthened relative not only to its own recent performance, but also to the rest of the nation (see Figure 11 and Figure 12). New York's progress relative to other states demonstrates the extent to which the State has benefitted from both the strength of the U.S. expansion and the recovery of the world economy. Many of the State's key sectors, such as the financial and manufacturing sectors, are export-oriented. The adoption of a more global perspective by both domestic and foreign

[10] The Division of the Budget expects a slight upward revision to the current Employment Statistics series when those data are benchmarked in early 2001.

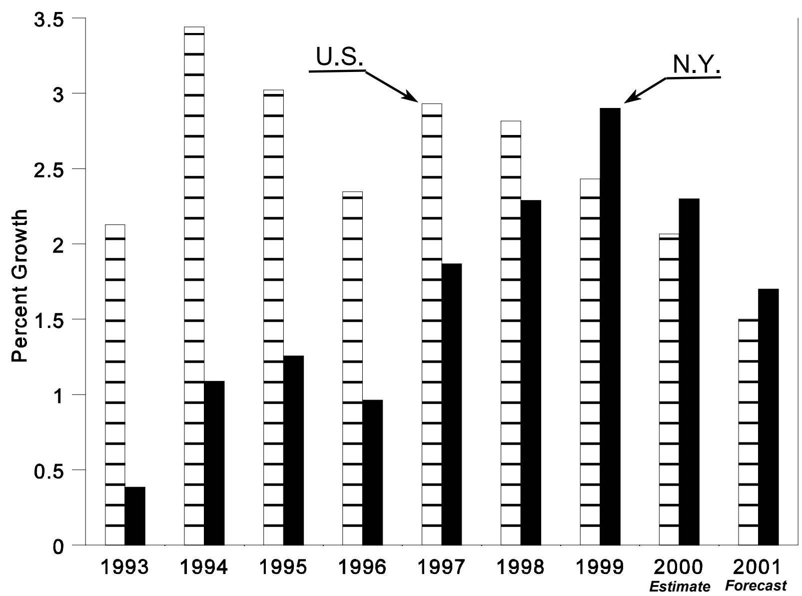
firms has greatly increased global demand for financial sector services, such as the marketing of securities and the management of mergers and acquisitions. In addition, rapid advances in information technology have benefitted New York due to the State's comparative advantage over many other states in this area of growing importance.

**Figure 11**
**Employment Growth — U.S. vs New York**




Source: Standard and Poor's DRI; NYS Department of Labor; and staff estimates.

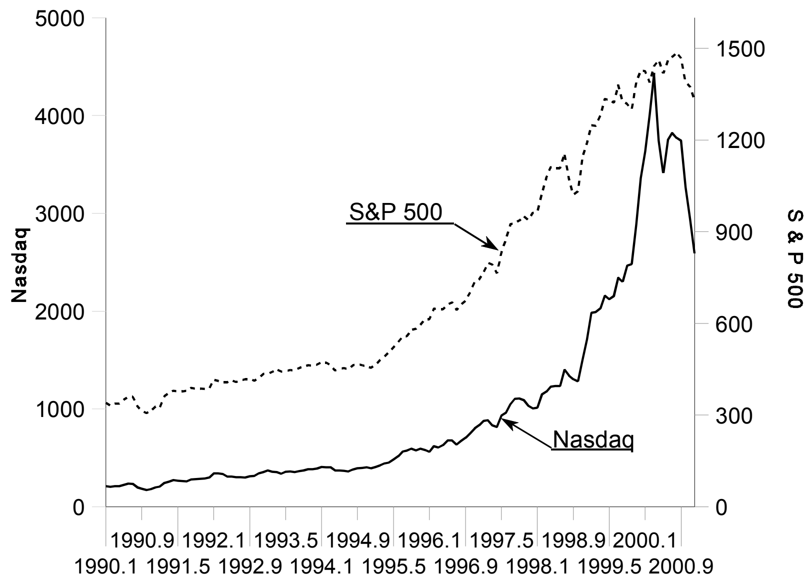
**Figure 12**
**Private Sector Employment Growth — U.S. vs New York**




Source: Standard and Poor's DRI; NYS Department of Labor; and staff estimates.

Recent events in the financial sector and a more sluggish national economy will be reflected in the State's economic performance in 2001. The rapid run-up in equity prices, which produced growth in the NASDAQ stock index of over 70 percent over the five-month period from October 1999 to March 2000, has been followed by a large downward correction as of the end of 2000 (see Figure 13). With a significant share of State income related either directly or indirectly to the fortunes of Wall Street, the implications of finance sector volatility for the New York economy are considerable.

**Figure 13**
**Nasdaq and the S&P 500**




Source: Standard and Poor's DRI.

### *Employment Outlook*

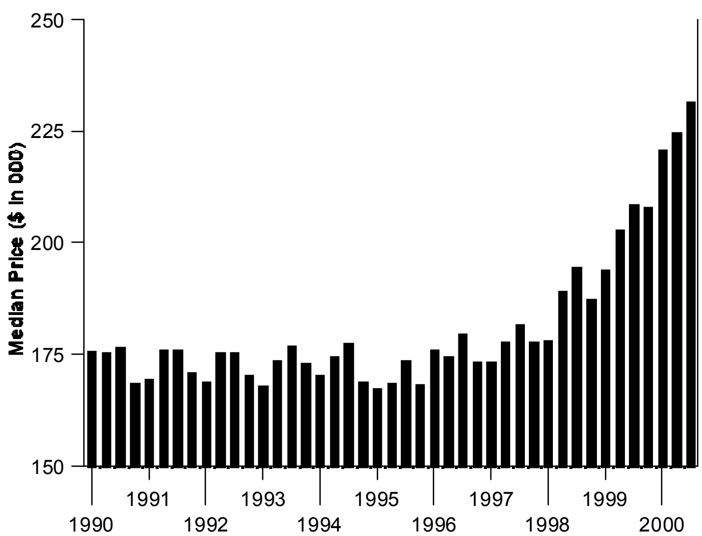
Paralleling the national trend, slower growth is expected for the State economy in 2001. However, New York private sector employment growth is expected to exceed national job gains in 2001. Private sector employment is projected to grow 1.7 percent this year, down from 2.3 percent in 2000. The projected decline in employment growth is anticipated to be broad-based as growth in the overall economy slows down. The service sector will not only continue to be the largest contributor to growth but will also increase its share of total job gains. Manufacturing employment may decline moderately, by historical standards, with both domestic and foreign demand for New York goods projected to fall.

The financial sector is not expected to be a significant contributor to State employment growth in 2001. The last four decades have been characterized by long periods of consolidation within the financial services industry, interrupted only briefly by periods of expansion in the number of securities firms. Historically, consolidation within the industry has been driven largely by three factors: technological change, deregulation, and globalization. All three of these factors have tended to favor firms able to raise large amounts of capital and develop a diversified revenue base. The adoption of new technologies has typically required large amounts of capital investment, while deregulation has tended to foster increased competition on the basis of price. Firms unable to sufficiently cut costs have tended to either merge with more efficient competitors or disappear entirely.

The most recent change in the regulatory environment occurred in November 1999, when Congress approved legislation eliminating the remaining restrictions of the Glass-Steagall Act. The Act was passed in 1933, following the financial debacle of the 1929-32 period, in order to limit banks' exposure to securities risk by separating the banking, securities, and insurance industries. Such separation is viewed as archaic and anti-competitive in today's more global environment. The Act's repeal will increase the pace of consolidation within the financial sector. That trend, along with continued weakness in the stock market, will cause employment to plateau in the financial sector for much of the current year.

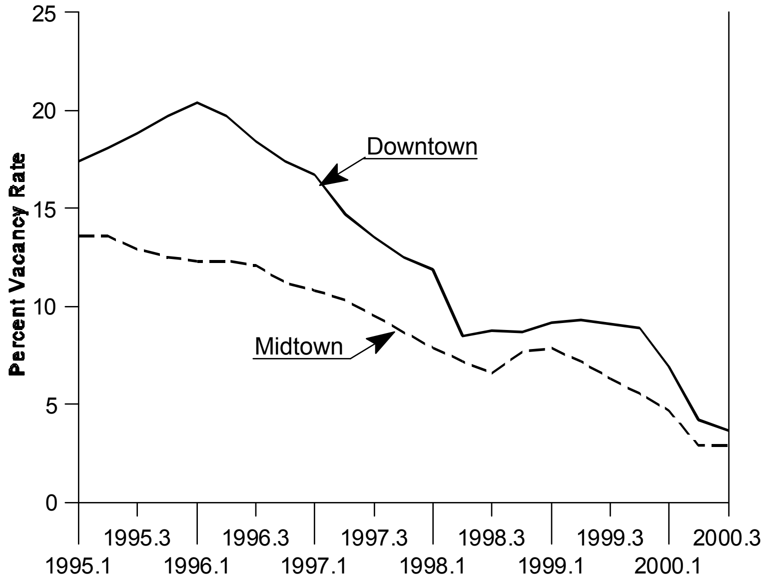
In recent years, construction has been a leading sector in New York thanks to rising home prices and declining commercial vacancy rates, particularly downstate (see Figure 14 and Figure 15). However, employment growth in this sector is expected to moderate in 2001 due to the lagged effect of the FRB's 1999-2000 interest rate increases and the overall slowdown in the economy. Job growth in the construction sector is projected to fall to 3.0 percent for 2001, following strong growth of 9.5 percent in 1999 and 6.2 percent in 2000.

**Figure 14**
**Median Price of Single Family Homes**
**New York Metropolitan Area**




Note: Areas include downstate New York, Northern New Jersey, Connecticut and Long Island.
Source: Standard & Poor's DRI.

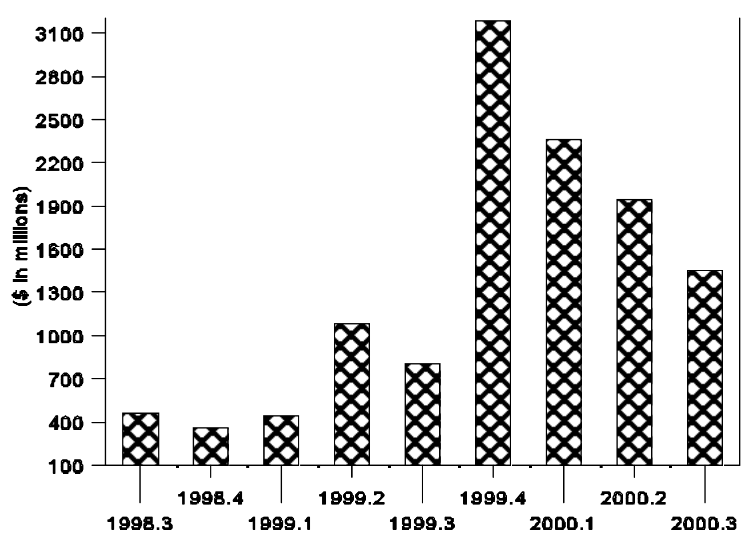
**Figure 15**
**Vacancy Rates in New York City Primary Markets**




Source: Cushman and Wakefield; NYC Office of Management and Budget.

Employment in the government sector is projected to grow 0.2 percent in 2001, following growth of 0.8 percent in 2000. Government employment was given a boost last year by temporary Federal workers hired to execute the 2000 census. In addition, the State may experience a net decline in Internet-related employment as the rapid descent of stock prices forces firms to consolidate or even cease operations. Although venture capital activity in New York grew significantly in 1999 and 2000 as a source of funding for high-tech startups and expansion, it peaked during the fourth quarter of 1999 (see Figure 16).

**Figure 16**
**Venture Capital Investment in New York**




Source: National Venture Capital Assoc.

Demographics may also play a role in capping State employment growth for 2001. The recent acceleration in New York's economic expansion has tightened the markets for both skilled and unskilled workers. Consequently, the pool of available labor has been diminishing. In addition, the State's population growth rate will remain below the national average, despite the fact that out-migration has slowed recently due to the State's improved economic conditions relative to the nation.

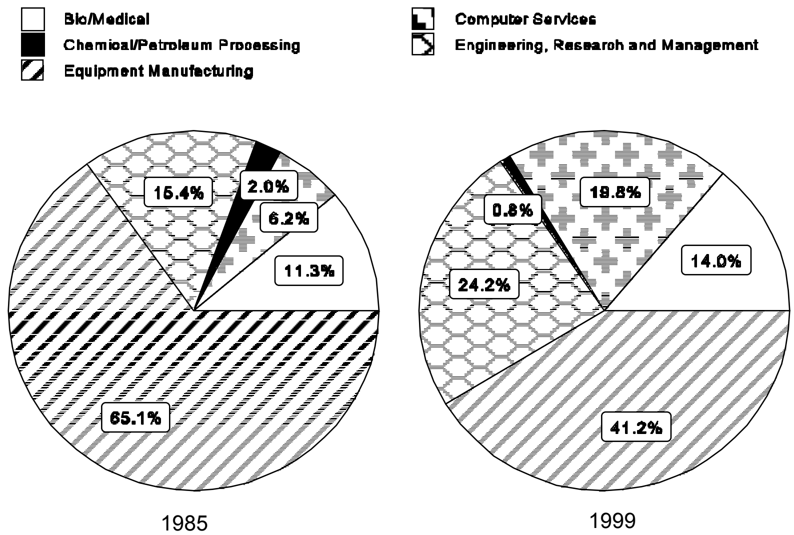
Total State employment is expected to grow 1.4 percent in 2001, with the addition of approximately 120,000 jobs. Although this pace of growth is not as robust as we have seen for the past three years, it remains strong relative to the average for the current expansion. Consistent with national trends, the State's unemployment rate is projected to increase from 4.7 percent in 2000 to 5.3 percent in 2001. State employment is expected to continue to grow at rates comparable to the national average, in contrast to a long-term trend of more sluggish growth for New York.

### *High-Tech Employment in New York*

New York has a vibrant high-tech economic sector comprising a range of industries from the manufacturing of chemicals, machinery, and electronics, to almost every aspect of the computer and computer-related industries. During the first quarter of 2000, the most recent quarter for which data are available, these industries accounted for 529,000 workers, or 6.4 percent of total State employment. In 1998, the most recent year for which detailed data are available for the nation, New York's high-tech employment represented 1.3 percent of the U.S. total. Although this sector is expected to see much slower growth in 2001, consistent with national trends, it remains important to the future of the State economy.

Total high-tech employment during the first quarter of 2000 stood 4.4 percent above the same quarter of the previous year. However, job growth in this sector has not proceeded smoothly. High-tech employment peaked in 1985 at 597,000, fell steadily until 1995, but has been growing ever since. Moreover, there has been a major redistribution of employment among the types of high-tech jobs which exist in New York. Since the 1970s, the sector has been transformed from one closely tied to the automobile, defense, and photonic industries, to one more closely tied to the computer and related industries. For example, computer programming and data processing services employment grew 223.0 percent between the first quarter of 1985 and the first quarter of 2000, the most recent quarter for which detailed data are available. This one job category comprised 21.7 percent of total high-tech employment in early 2000, compared to 6.0 percent in early 1985. Figure 17 illustrates how the sector's job composition has changed between 1985 and 1999.

**Figure 17**
**Changing Employment Composition of NY High-Tech Sector**




Note: Data definitions are due to U.S. Bureau of Labor Statistics and Empire State Development Corporation.
Source: NYS Department of Labor, ES 202.

### *Volatility on Wall Street*

Since 1995, Wall Street has been an important source of growth not just for New York, but for the entire nation. Five years of spectacular growth in stock prices created an enormous amount of wealth for U.S. households, helping to fuel a period of strong consumption growth. During this period, the securities industry increased its prominence as a source of corporate earnings, wage growth, and government revenue. Then in March of 2000, the market's steep climb reversed itself. In the fourth quarter of 2000, we began to see the impact of the decline in the value of the nation's wealth on consumer confidence and spending. Because the world's financial capital is located here in New York, the potential impact of a financial market slowdown may be greater for the State than for the nation as a whole.

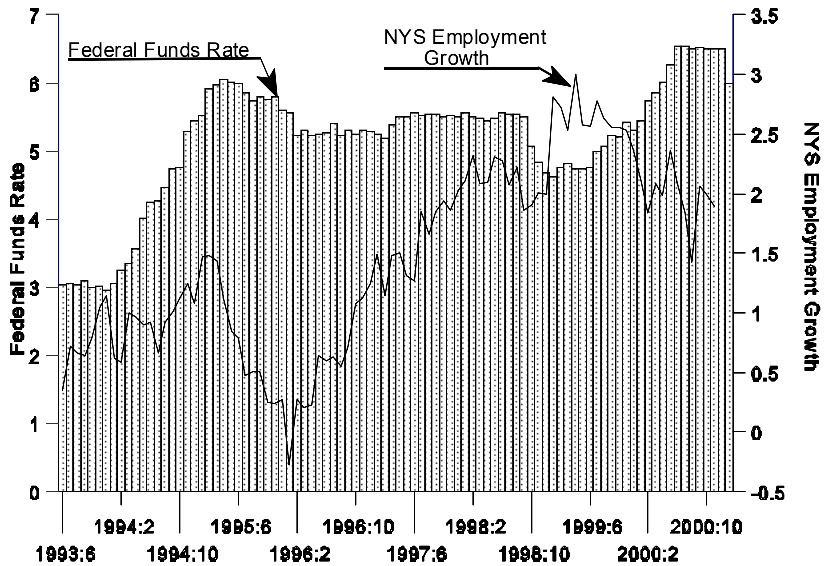
The securities industry has been a prominent force in the State economy ever since the New York Stock Exchange was established in 1817.[11] The industry provides economic stimulus to a wide range of private sector businesses, such as the publishing, accounting, legal, and business services industries. The industry's high corporate earnings act as an important growth engine for the real estate, retail sales, restaurant, and entertainment industries in the downstate region. The U.S. Department of Commerce estimates that each job in the New York City securities industry generates about two additional jobs.[12] Based on this estimate, about 14 percent of total employment in New York City is related to the securities industry.

[11] The NYSE was first established as the New York Stock & Exchange Board, but later changed its name to the New York Stock Exchange in 1863. For more information see <http://www.nyse.com/about/about.html>.

[12] U.S. Department of Commerce, Regional Input-Output Modeling System (RIMS II).

New York's unique position as the world's financial capital also gives the State a unique set of vulnerabilities. For example, the New York economy is acutely sensitive to shifts in monetary policy, which can have large impacts on financial markets. As indicated in Figure 18, State job growth tends to fall in response to increases in the Federal Reserve's policy target rate, and rise in response to decreases, although these changes often occur with a lag.

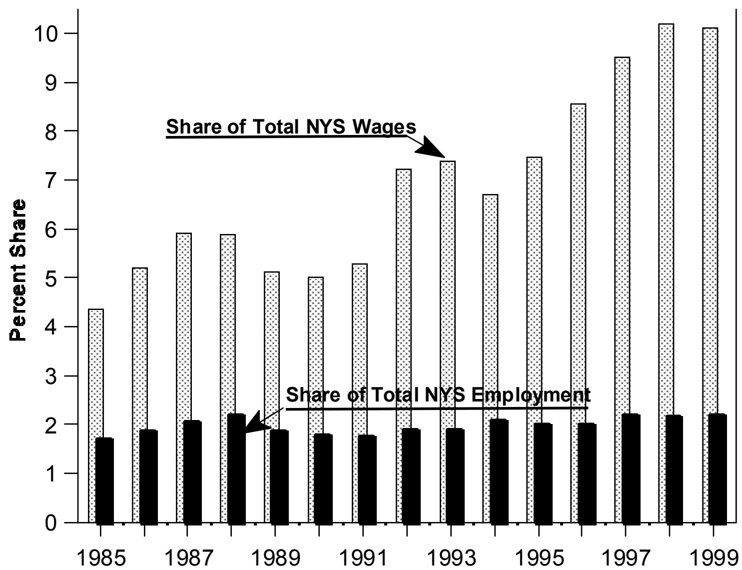
**Figure 18**
**Monetary Policy and New York State Employment Growth**




Source: Standard and Poor's DRI.

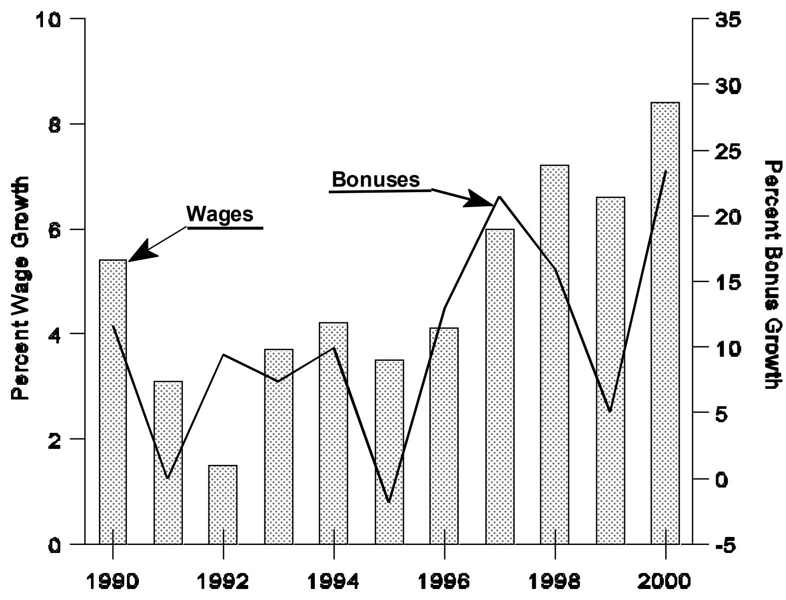
A significant source of volatility for the New York economy is the stock market. Although the securities industry's share of total New York employment has remained quite stable, its share of total State wages has more than doubled during the period from 1985 to 1999 (see Figure 19). Much of this growth can be attributed to the spectacular performance of the stock markets between 1995 and early 2000. This period of unprecedented growth in securities industry profits gave rise to very high wage growth, particularly in the form of bonuses. However, a turn-around in the fortunes of the securities industry can occur rapidly, and can have a profound impact on total wage growth for the entire State. Figure 20 indicates how much State wage growth is estimated to be affected by growth in bonus income, which closely tracks profit growth in the securities industry (see Figure 21).

**Figure 19**
**New York State Securities Industry**



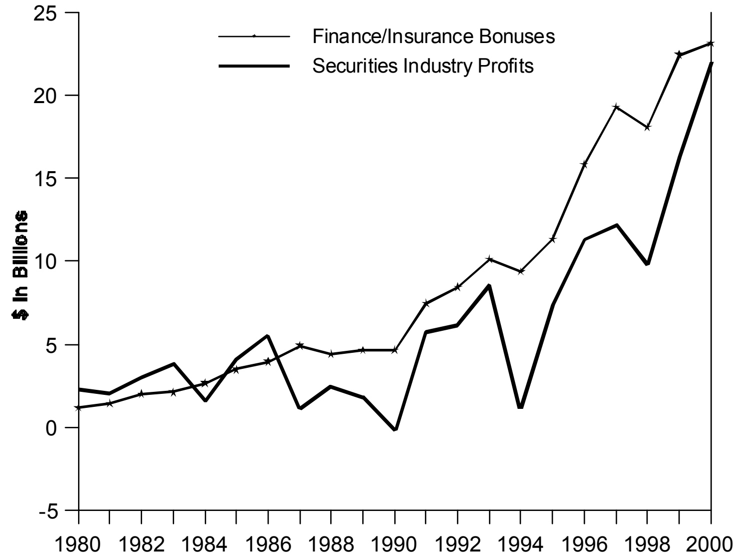

Source: NYS Department of Labor, ES 202.

**Figure 20**
**Total Wage and Bonus Growth**




Source: NYS Department of Labor, ES 202; staff estimates.

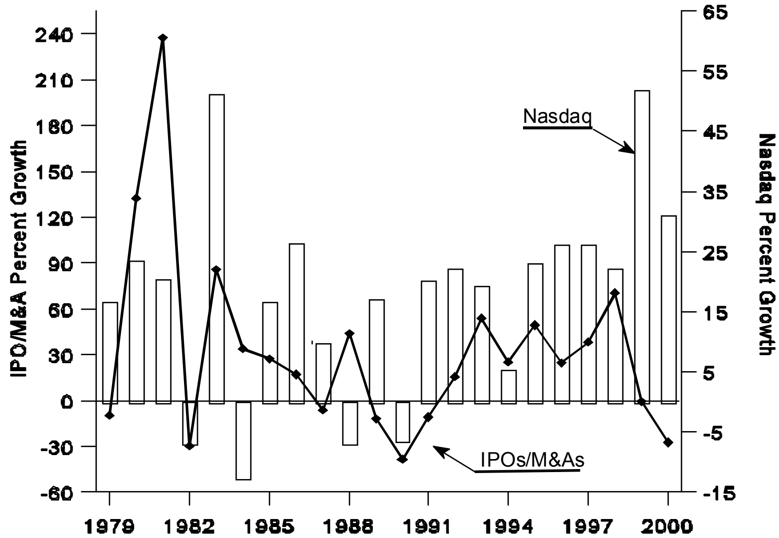
**Figure 21**
**Profits vs Bonuses**




Note: Bonuses are associated with the last three quarters of the year indicated and the first quarter of the following year.
Source: Securities Industry Assoc.; staff estimates.

Technology and competition continue to erode the commissions that stock brokers earn on the trading of stocks. Nevertheless, conditions in the stock market can have a profound impact on securities industry profits. Many of the industry's most important revenue sources are closely tied to the direction of stock prices. For example, securities firms which successfully market an initial public offering (IPO) earn substantial fee income from that activity. An IPO's success depends largely on the strength of the secondary market for stocks (see Figure 22). In addition, to the extent that a downturn in the stock market creates a more risk-averse environment for investors, it becomes more difficult to underwrite bonds, particularly high-yield bonds, another important source of profits for Wall Street firms. The volume of merger and acquisition activity, yet another important source of fee income, tends to be closely tied to conditions in the stock market as well.

**Figure 22**
**Growth in IPOs/M&As vs. Nasdaq Stock Index**




Note: Growth rates for 2000 are based on 11 months of data.
Source: Standard and Poor's DRI; Thomson Financial Services.

There is no better example of the volatility which can plague the securities industry than the performance of stock prices in 2000. While yet another profit record is expected to be broken, much of those earnings are based on activity from the first half of last year. Equity markets have performed poorly since April when compared with 1999. In 2000, the S&P 500 rose 7.6 percent on an annual average basis. However, as of the end of last year, the index was about 17 percent below its March peak of 1553. Similarly, the NASDAQ fell about 50 percent between its March 2000 peak and the year's end. Consequently, industry activity usually associated with a strong stock market also weakened. The value of initial public offerings for the five months from June to October 2000, the most recent month for which data are available, was down 24.4 percent from the first five months of the year. The value of merger and acquisition activity, which had grown 50.5 percent during the first quarter of 2000 compared to the same quarter of the previous year, was down 35.5 percent and 25.7 percent during the second and third quarters, respectively. Another key revenue source, the underwriting of corporate bonds, has also weakened.

### *Outlook for Bonuses and Other Income*

Bonus income paid to employees in the finance and insurance industry has grown substantially since 1990 and accounts for nearly 50 percent of total bonuses paid in the State in recent years. Two factors are primarily responsible for this strong growth: the robust performance of securities industry profits in recent years and the shift in the State's corporate wage structure away from fixed pay and toward performance-based bonuses. (see Box 3). This movement allows firms to share the risks of doing business with the employees who generate the revenues. This form of payment is particularly attractive to the securities industry, given the degree of volatility in industry profits (see Figure 21).

**BOX 3**
**ESTIMATION OF BONUS AND STOCK INCENTIVE INCOME**

An increasing portion of New York State wages are paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. No government agency collects data on variable income as distinct from ordinary wages; therefore, it must be estimated. The Division of the Budget (DOB) derives its estimate of bonuses from firm level data as collected under the Unemployment Insurance program. This method yields a large degree of flexibility as to when individual firms actually make variable income payments. However, as with any statistical method, some simplifying restrictions are necessary. DOB's method incorporates the assumption that each establishment makes variable income payments during at most two quarters of the year. However, the determination as to which quarters contain these payments is made at the firm level. That determination is made as follows:

Firms report their wages to the Unemployment Insurance program on a quarterly basis. The firm's average wage per employee is calculated for each quarter. The average over the two quarters with the lowest average wages are assumed to reflect the firm's base pay, that is, wages excluding variable pay. If the average wage for either of the remaining quarters is significantly above the base wage, then that quarter is assumed to contain variable income.[1] The average variable payment is then defined as total average wage minus the base average wage, after allowing for an inflation adjustment to base wages. Total variable pay is then calculated by multiplying the average bonus payment by the total number of firm employees. It is assumed that only private sector employees earn variable pay.

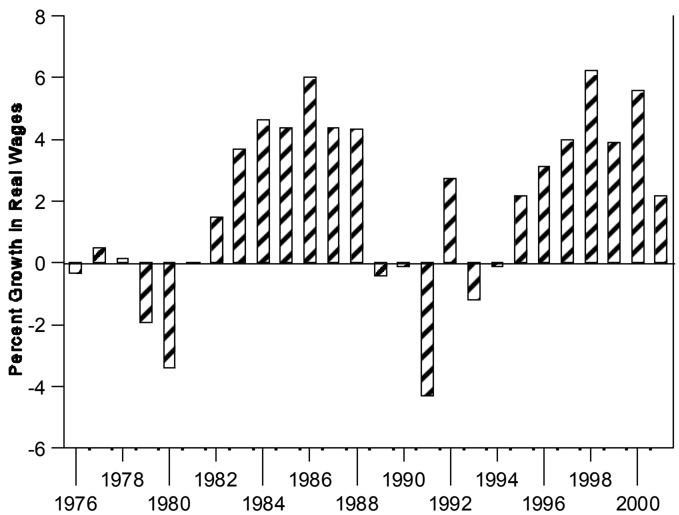
[1] The threshold adopted for this purpose was 25 percent. However, the variable income estimates are fairly robust to even a five percentage point swing in this criterion.

Bonus growth can have a significant impact on State government revenues since bonus income tends to be taxed at the highest marginal tax rates. Although 2000 may have been another year of record profits, some Wall Street trends established toward the end of 2000 raise serious doubts that the industry will repeat last year's impressive performance in 2001. The run-up in the stock prices of Internet and other technology-related firms has been reversed, with investors now demanding more evidence of short-term earnings potential. Consequently, DOB is projecting bonus growth of 1.5 percent for State fiscal year 2001-2002, following growth of 6.3 percent for State fiscal year 2000-2001.[13] This compares to a historical average growth rate of 11.7 percent for the period from 1977 to 1999. Bonuses in the combined finance and insurance industries are projected to decline 2.0 percent for the 2001-2002 bonus year, following 3.9 percent growth for State fiscal year 2000-2001. This compares to a historical average growth rate for these industries of 18.1 percent for the period from 1977 to 1999.

Moderate inflation and the national economic slowdown should offset continued strong productivity growth and a relatively tight labor market, producing growth in the base average wage (excluding bonus pay) of 4.0 percent for 2001. As a result of the slower growth in bonuses and only modest growth in base wages, growth in overall wages is projected at a moderate 5.0 percent for 2001, following growth of 9.1 percent for 2000 (see Figure 23 and Box 4). Non-wage income is expected to increase by 4.1 percent, with property income rising at a rate of 4.7 percent. Total personal income is expected to increase by 4.6 percent in 2001, following growth of 7.8 percent for 2000.

[13] Bonuses paid by a finance and insurance industry firm in January, February, or March are assumed to be associated with the firm's performance during the previous calendar year. Therefore, the concept of a "bonus year" for these industries happens to coincide with the State's fiscal year.

**Figure 23**
**New York Real Wage Growth**




Source: NYS Dept. of Labor; staff estimates.

There is yet another variable component of wage income which is becoming increasingly important — employee stock options — although its precise contribution to wage growth remains difficult to assess. The U.S. Bureau of Labor Statistics reports, based on a pilot survey, that 1.7 percent of all private industry employees are estimated to have received stock options in 1999.[14] While this number appears small, it may understate the potential importance of stock options to total wages, since stock options tend to be concentrated among executive employees earning $75,000 and above.

Publicly traded companies were far more likely to offer stock options than privately held firms. The BLS study also found significant variation by industry. Among publicly traded companies in the finance, insurance and real estate sector, an estimated 33.9 percent are estimated to have offered their employees stock options in 1999, the highest of any industry division. This last statistic underscores the importance of stock options for estimating future income fluctuations in New York State. However, recent declines in equity prices can be expected to discourage the exercise of options in the near-term, putting downward pressure on the growth of income from this source for 2001.

[14] U.S. Department of Labor, Bureau of Labor Statistics, "Pilot Survey on the Incidence of Stock Options in Private Industry in 1999," USDL: 00-290, October 11, 2000.

**BOX 4**
**CONSTRUCTING NEW YORK STATE WAGES**

Trends in State wages are critical to an accurate analysis and forecast of personal income tax liability and collections. To improve the link between the economic and tax variables on a quarterly basis, the Division of the Budget constructs its own wage series from the available primary data sources. This series differs from the data published by the U.S. Bureau of Economic Analysis (BEA).

The Division of the Budget uses only New York data to construct its State wage series. The primary source is data collected under the Federal Unemployment Insurance Program, known as the ES 202. In contrast, the BEA uses national information to adjust the quarterly values for seasonal variation, as well as to ensure that state-level wages add up to national estimates. The consequence is often a significant difference between the two series in the both the quarterly pattern and the annualized growth rates. For example, according to the ES 202, wage growth for the first and second quarters of 2000, on a percent-change-year-ago basis, was 12.8 percent and 8.0 percent, respectively. The comparable growth rates published by the BEA were 2.4 percent and 5.4 percent.

A comparison with yet another source of wage data also demonstrates the greater accuracy of the ES 202. Since the amount of wages withheld for personal income tax purposes varies systematically with wages itself, withholding data provide a useful guide for estimating State wage growth. For example, wages withheld during the first quarter of 2000 were 18.6 percent above withholding for the same quarter of the previous year. This estimate is much more consistent with the growth rate derived from the ES 202 than with the BEA's estimate of 2.4 percent.

Once an entire year of ES 202 data becomes available, the BEA revises its state-level wage data to be more consistent with that data source. For this reason, the Division of the Budget's method performs well in anticipating the BEA's revised estimates of annual growth in New York wages. To make the actual magnitudes of the Division of the Budget's wage series more strictly comparable to the BEA wage series, non-covered and unreported legal wages must be added to wages taken directly from the ES 202. The addition of these components typically changes the annual growth rate for State wages by no more than two-tenths of one percentage point.

## New York Forecast Summary

A summary of DOB's New York forecast appears in Table 5. DOB's New York forecast model also underwent a major revision in 2000. A brief description of the model appears in Box 5.

**TABLE 5**
**NEW YORK STATE SELECTED ECONOMIC INDICATORS**
**CALENDAR YEAR**
**(percent change)**

| | 1999 (actual) | 2000 (preliminary) | 2001 (forecast) | 2002 (forecast) | 2003 (forecast) | 2004 (forecast) |
|---|---|---|---|---|---|---|
| Personal Income[2] | 4.8 | 7.8 | 4.6 | 3.9 | 4.1 | 4.1 |
| Wages and Salaries[2] | | | | | | |
| Total | 6.2 | 9.1 | 5.0 | 4.1 | 4.4 | 4.5 |
| Without Bonus[1] | 5.7 | 7.7 | 5.4 | 4.2 | 4.1 | 4.2 |
| Bonus[1] | 10.1 | 19.4 | 2.4 | 3.6 | 6.6 | 6.6 |
| Wage Per Employee | 3.6 | 6.9 | 3.6 | 3.2 | 3.5 | 3.5 |
| Property Income | 2.4 | 5.7 | 4.7 | 3.5 | 3.2 | 3.1 |
| Nonfarm Proprietors' Income | 7.7 | 8.8 | 6.6 | 6.3 | 6.7 | 6.9 |
| Transfer Income | 3.5 | 4.8 | 4.1 | 4.3 | 4.7 | 4.6 |
| Nonfarm Employment[2] | | | | | | |
| Total | 2.6 | 2.1 | 1.4 | 0.9 | 0.8 | 1.0 |
| Private | 2.7 | 2.3 | 1.7 | 0.9 | 0.9 | 1.1 |
| Unemployment Rate (percent) | 5.2 | 4.7 | 5.3 | 5.6 | 5.7 | 5.7 |
| Composite CPI of New York[1] | 2.0 | 3.3 | 3.1 | 2.5 | 2.3 | 2.3 |

Source: US Department of Commerce, Bureau of Economic Analysis;
New York State Department of Labor

[1]Series created by the Division of the Budget.
[2]Non-agricultural employment, wage, and personal income numbers are based on the data provided by the Unemployment Insurance Program (202 data).

**BOX 5**
**THE NEW YORK STATE DIVISION OF THE BUDGET'S**
**NEW YORK MACROECONOMIC MODEL**

DOB'S New York Macroeconomic model (DOB/N.Y.) attempts to capture the fundamental linkages between the New York and the national economies. Clearly, New York's economy depends on economic developments in the U.S. economy, usually expanding when the national economy is growing and contracting when the nation is in recession. However, this relationship is neither simple nor static. The growth rate of the State's economy can vary substantially in comparison to the nation. For example, during the last national recession, the State's recession began noticeably earlier and ended significantly later than for the nation as a whole. Alternatively, during the early 1980s recession, the State's economy fared better than the nation.

The objective of DOB/N.Y. is to quantify the linkages between the United States' economy and New York's economy in an econometric modeling framework — one that specifically identifies the economic conditions in New York. DOB/N.Y. is a structural time series model with most of the exogenous variables derived from DOB/U.S. In general, the long-run equilibrium relationships between State and national economic variables are captured by a cointegration/error correction specification, while the State's specific dynamics are modeled using a restricted vector autoregressive (RVAR) framework. DOB/N.Y. has four major components: a non-farm payroll employment segment, a real non-bonus average wage segment, a bonus payment segment, and a non-wage income segment.

**Employment**

The national economy affects New York employment through two channels. First, if State employment growth for a specific sector is related to the growth of the U.S. employment in the same sector, U.S. employment for that sector is specified as an exogenous variable in the equation. Second, overall U.S. economic conditions, as measured by the growth of real U.S. GDP, is included either directly in the employment equations for some sectors or indirectly through the VAR relationships.

Intra-sectoral relationships for New York employment can be different from those for the nation as a whole. These relationships are captured in a restricted VAR model where the impact of one sector on other sectors is explicitly specified.

**Average Real Non-Bonus Wages**

Our analysis suggests the existence of a long-run equilibrium relationship between real non-bonus average wage for most New York sectors and the national real average wage. Thus, the State average real non-bonus wage by sector is modeled in a cointegration/error correction framework. This modeling approach is based on the belief that, in the long run, since both labor and capital are free to move in a market economy, regional differences in labor costs tend to disappear (this process may take quite a long time). This formulation allows for short-run adjustments towards equilibrium, which describe the short-run dynamics of State-specific economic conditions.

**Bonus Income**

The DOB model for finance and insurance bonus income incorporates those factors which drive Wall Street profits — merger and acquisition activity, IPO's, and the volume of debt underwriting. Our analysis shows that bonuses paid in the State's other economic sectors tend to have long-term equilibrium relationships with those paid in the finance and insurance; more technically — bonus payments in the financial services sector are cointegrated with bonuses paid in most other sectors. Consequently, the results from the finance and insurance sector bonus model are used to estimate bonuses paid in other sectors.

**Non-Wage Incomes and Other Variables**

The New York non-wage components, except for the residence adjustment, are all driven by their national counterparts. The relationship is modeled as a change in the New York variable as a function of a change in the U.S. non-wage counterpart along with lags of the independent and dependent variables as appropriate to account for short-term fluctuations.

### Risks to the New York Forecast

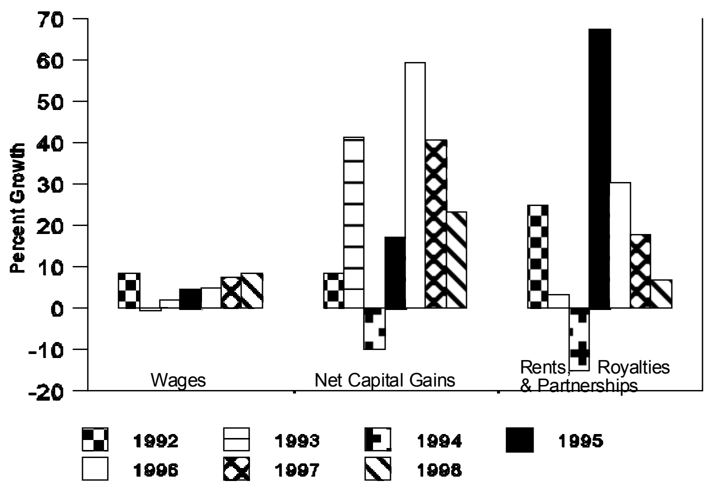
In addition to the uncertainties described earlier for the U.S. economy, the forecast contains risks specific to New York. These risks center largely on the securities industry. If equity markets perform more poorly than anticipated, securities industry profits are likely to be below expectations. Another source of industry risk lies in the high levels of corporate debt which were underwritten when stock prices were much higher than today. An acceleration in the default rate could also pose a serious risk to industry profits. As a consequence of either of these outcomes, bonus income growth could be even lower than projected. Moreover, there could be employment impacts, not only within the securities industry itself, but also in those industries which rely on the securities industry as a source of business. In contrast, should the Federal Reserve cut interest rates more aggressively than anticipated, both State income and employment growth could rise above expectation.

## SOURCES OF VOLATILITY IN INCOME TAX ESTIMATES — A RISK ASSESSMENT

In recent years, personal income tax revenues in New York State have increased considerably despite several major tax cuts. In the 1980-81 State fiscal year, personal income tax receipts represented less than 50 percent of State General Fund revenues. However, by the 1999-2000 State fiscal year, that ratio was nearly 64 percent. While some of this increase is certainly due to the improvement in the State economy, the magnitude of the growth in receipts has far exceeded that which can be easily measured using conventional economic indicators. For example, in 1998, State personal income grew 6.4 percent. That same year, New York State adjusted gross income (NYSAGI) grew 9.0 percent, while total personal income tax liability grew 12.0 percent.

The exaggerated response of tax receipts to economic growth can be attributed to several factors. As income increases over time, people tend to move to higher tax brackets. Between 1997 and 1998, the latest year for which detailed income tax data are available, the average effective tax rate, measured as the ratio of personal income tax liability to NYSAGI, increased from 4.42 percent to 4.54 percent.

**Figure 24**
**Volatility of Selected Components of NYSAGI**




Source: NYS Dept. of Taxation and Finance.

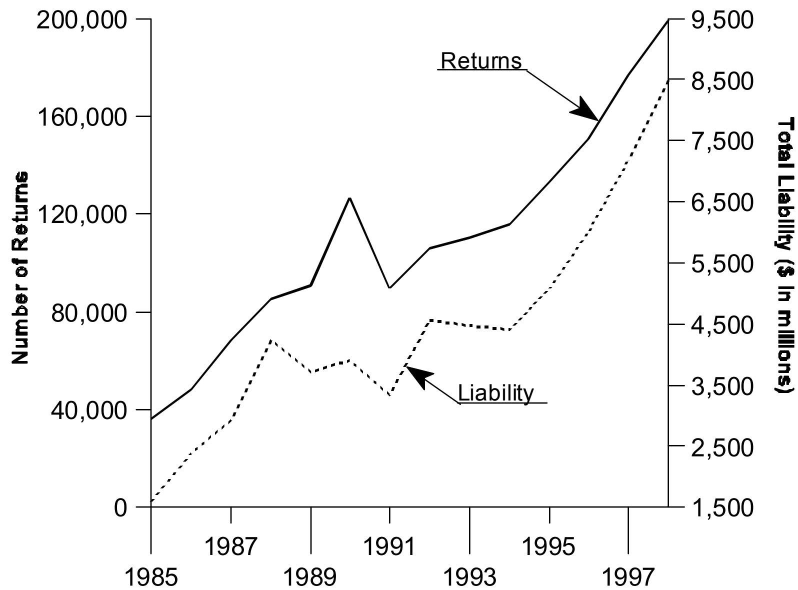
Perhaps the factor most responsible for the recent volatility of State tax receipts is the financial markets and their role in the State economy. The income components which have contributed the most to the large increase in NYSAGI include wages; capital gains; rent, royalty, and partnership income; dividends; and proprietary business income.[15] DOB estimates that the component of wages which has exhibited the most growth is bonus income. Over time, growth in these components has displayed large swings. Figure 24

[15] The traditional concept of personal income, as defined by the U.S. Department of Commerce Bureau of Economic Analysis (BEA), does not include capital gains. However, because capital gains are taxed, they are a component of both the Federal and State definitions of adjusted gross income and must be reported as such.

shows how much growth has varied recently for the three largest of these income components, wages, capital gains and rent, royalty, and partnership income. The large swings in the latter two components reflect to a large extent the fortunes of Wall Street.

To be sure, thanks to reduced tax rates and many refundable credits, about one million low-income filers no longer pay taxes and, instead, receive refunds from the State. The more than six million taxpayers with income between $10,000 and $200,000 represent a large portion of the taxpaying universe and accounted for about 55 percent of total personal income tax liability in 1998. In recent years, however, as a result of the economic expansion and the spectacular success of Wall Street between 1995 and 2000, a large number of New Yorkers with high incomes have contributed significantly to the growth in income tax liability.[16]

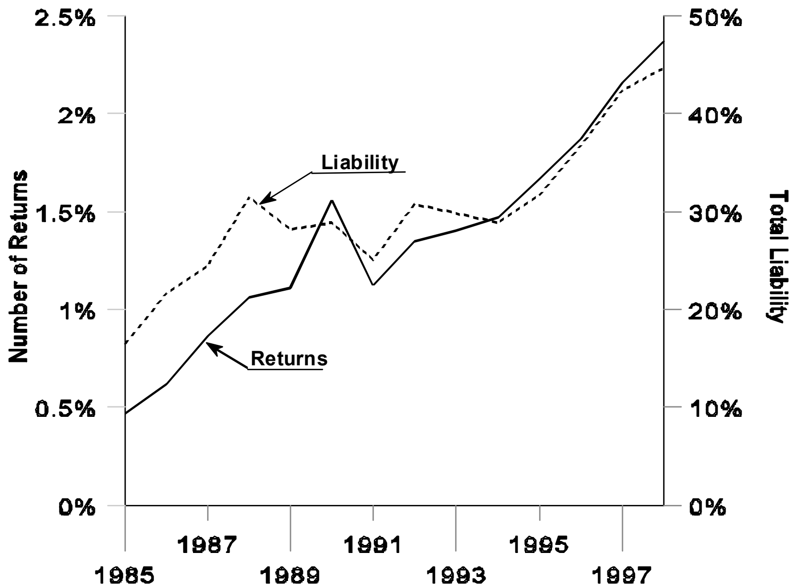
**Figure 25**
**New York State High Income Tax Returns**




Source: NYS Dept. of Taxation and Finance.

[16] Here we define a "high income taxpayer" as an individual filing singly or a couple filing jointly whose reported NYSAGI, including capital gains realizations, exceeds $200,000 during the calendar year.

**Figure 26**
**New York State High Income Taxpayers As Percent of Total Returns**

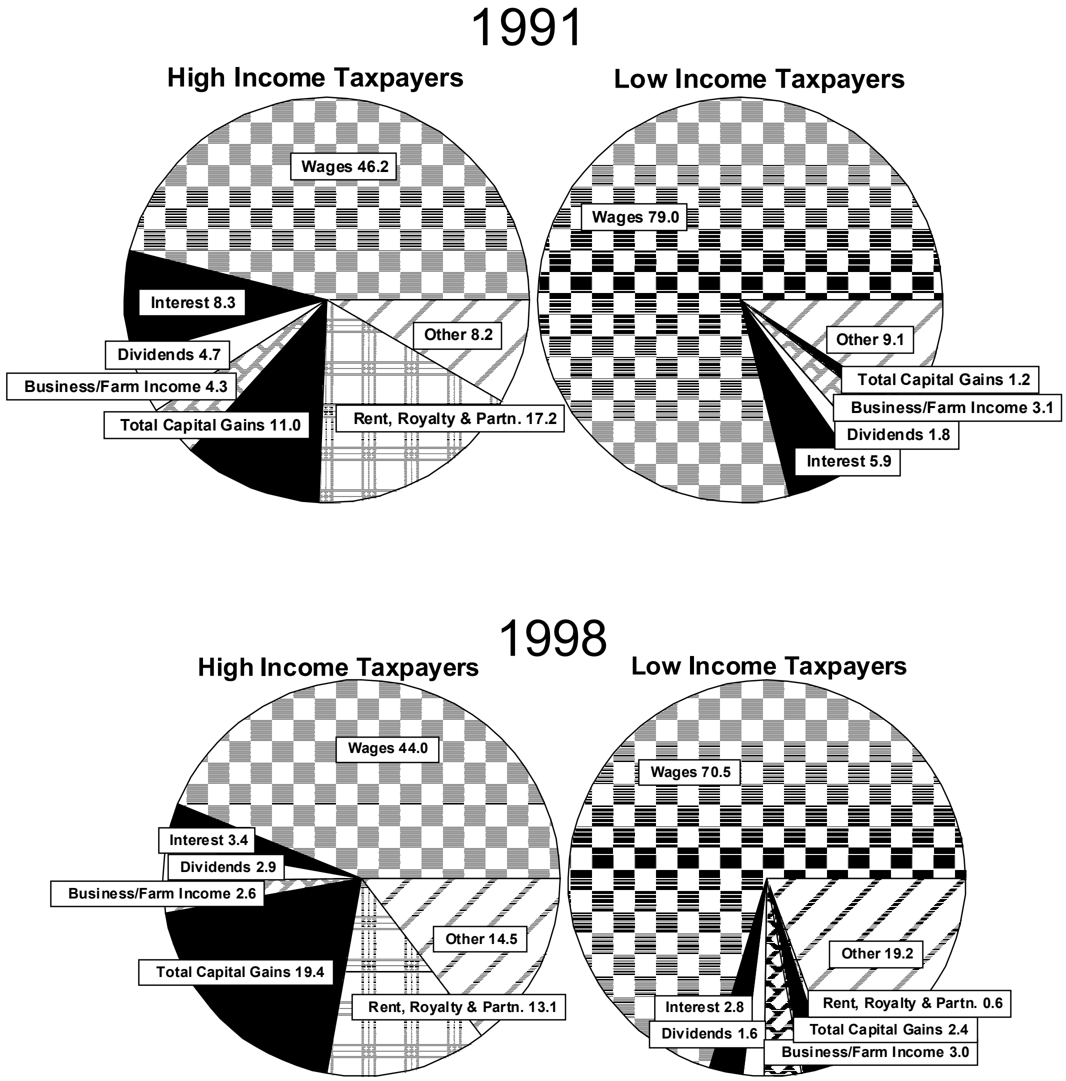



Source: NYS Dept. of Taxation and Finance.

While the total number of returns in New York State (about eight million) has grown by about one percent per year since 1995, the number of taxpayers reporting AGI above $200,000 has seen annual increases of about 15 percent (see Figure 25). Specifically, between 1994 and 1998 their ranks increased from about 116,000 to just over 177,000. In 1998, the most recent year for which detailed tax return data are available, these high income taxpayers represented 2.4 percent of all taxpayers (see Figure 26). However, they accounted for 32.5 percent of NYSAGI and fully 44.7 percent of total personal income tax liability, nearly $8.5 billion. But, while the rapid growth in income among the State's high income citizens has produced almost unprecedented growth in State tax receipts, reliance upon this growth as a source of future revenues may pose a substantial risk to the financial plan.

Figure 27 compares the composition of NYSAGI for New York's high income taxpayers with that of all other taxpayers for both 1991 and 1998. It is evident that the most volatile components of AGI comprise a much larger share of total AGI for the State's high income taxpayers than for others. Between 1991 and 1998, total capital gains realizations grew from 1.2 percent of total AGI to 2.4 percent for low income taxpayers. For high income taxpayers, the comparable shift was from 11.0 percent to 19.4 percent.

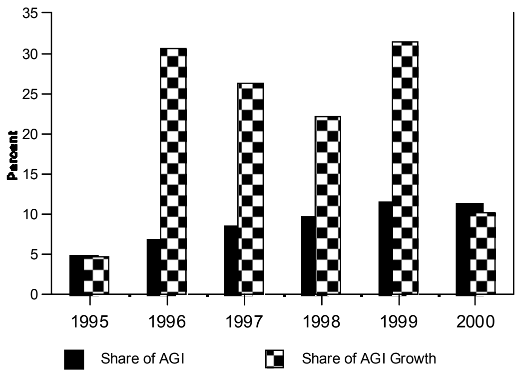
**Figure 27**
**Composition of NYSAGI**
**(percent of total AGI)**




Note: High Income taxpayers are defined as those reporting NYSAGI of more than $200,000. In 1991, low income taxpayers reported negative rent, royalty & partnership income in the aggregate; therefore, it is subsumed under other.
Source: NYS Dept. of Taxation and Finance.

The growing share of capital gains as a percentage of total NYSAGI has made more urgent the need to reliably project this source of income (see Figure 28). To that end, DOB has constructed a forecasting model which attempts to capture some of the inherent volatility of capital gains realization behavior.[17] DOB's forecasting model includes growth in real U.S. Gross Domestic Product to capture that component of capital gains realizations which tends to vary with the business cycle.

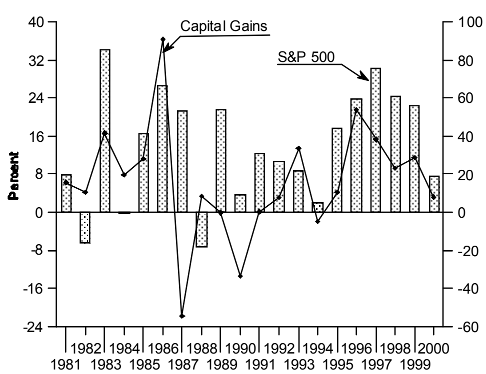
**Figure 28**
**Capital Gains and NYS AGI**




Source: NYS Department of Taxation and Finance

The forecast model also accounts for changes in the rate at which capital gains realizations are taxed, which can induce a significant degree of volatility in realizations even before the new rate takes effect. For example, the Tax Reform Act of 1986 included an increase in the tax rate on capital gains, becoming effective as of the 1987 tax year. As indicated in Figure 29, realizations increased over 90 percent in 1986 as investors sought to beat the new, higher rate. The following year, realizations fell 55 percent, despite an increase in stock prices of 21 percent, as represented by growth in the S&P 500. Since the higher rate increases the cost of realizing gains, the long-run response should be a decrease in realizations growth, all things being equal. DOB's model attempts to capture both the short-run and long-run impacts on taxpayer behavior of changes in tax law.

**Figure 29**
**Capital Gains Realizations and the S&P 500**




Source: Standard and Poor's DRI; NYS Dept. of Taxation and Finance.

Stock market volatility itself is a significant source of volatility in capital gains realizations behavior. This makes realizations very difficult to forecast with a large degree of precision.[18] There is little doubt that the growth in realizations from 1995 to 1998 is directly related to the dramatic growth in equity prices observed during

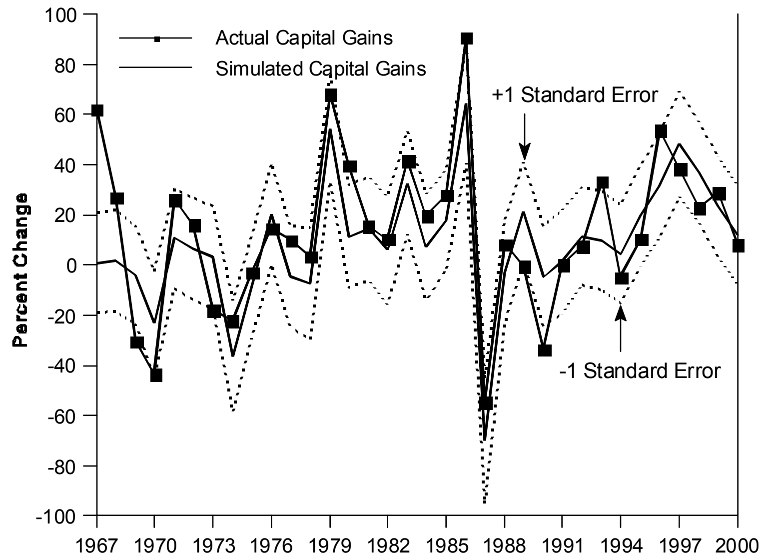
[17] The Division of the Budget capital gains model draws heavily from Preston Miller and Larry Ozanne "Forecasting Capital Gains Realizations," Congressional Budget Office, August 2000.

[18] Please see 2000-01 New York State Executive Budget Appendix II, pp. 126-130, for the results of simulation studies performed by the Division of the Budget staff of the confidence bands surrounding forecasts for some of the large components of NYSAGI.

those years. However, the significant drop in stock prices observed in 2000 and the uncertainty as to how investors will behave in 2001, pose significant risks to the financial plan for the coming State fiscal year.

Table 6 presents an assessment of the capital gains forecasting model's sensitivity to small disturbances which the model itself cannot capture. The standard deviation around the predicted growth rate establishes a band within which the actual growth rate might be expected to fluctuate with approximately 66 percent probability. The width of the band, which is illustrated in Figure 30, is determined by the volatility exhibited by capital gains realizations income over the period from 1967 to 1998, the last period for which data are available. While the forecasting model predicts no growth for 2001, we can only be confident that with 66 percent probability the actual growth rate will fall somewhere between -16.6 percent and 20.6 percent. If we want to be more confident about our prediction, we would have to accept an even wider band.

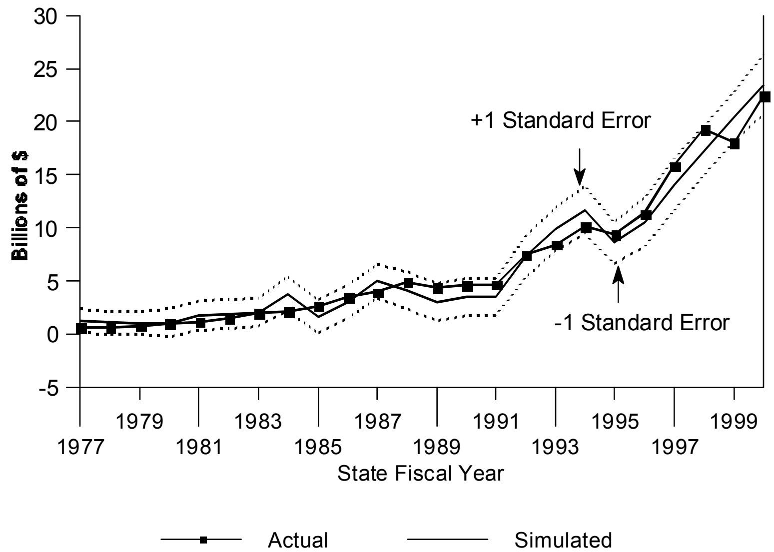
**Figure 30**
**Capital Gains Realizations Model**
**Monte Carlo Simulation**




Note: Shocks to both model errors and parameters are simulated.
Source: NYS Dept. of Taxation and Finance: staff estimates.

Even within wages and salaries, the most stable component of taxable income, the State's high income taxpayers account for a share of the total wage gains in this category which exceeds what their small numbers would suggest. It is estimated that most of these wage gains have come from the growth in both bonus income and income derived from the exercise of stock options over the period. While growth in these variable wage components of State income is, in part, a result of a strong economy, the exceptional performance of the financial sector has been equally important. These variable components of wage payments exhibit much more volatility than the non-variable component of State wages and salaries (see Figure 20), and their concentration among high income taxpayers — who tend to have high effective tax rates — compounds the risk in estimating out-year personal income tax liability. Figure 31 presents the results of a Monte Carlo simulation of the DOB bonus model for the combined finance and insurance industries. These results indicate that in simulating a confidence band around bonuses for the 1999-2000 State fiscal year, we could only be about 66 percent confident that bonuses would total somewhere between $20.7 billion and $26.3 billion — a $6 billion range.

**Figure 31**
**Finance and Insurance Industry**
**Bonus Model**
**Monte Carlo Simulation**




Note: Shocks to both model errors and parameters are simulated.
Source: NYS Dept. of Taxation and Finance; staff estimates.

In summary, given the uncertainty surrounding such volatile components as capital gains, bonuses, and stock incentive payouts, and the small number of taxpayers who account for the majority of this income, there exist significant risks to the Division of the Budget's personal income tax forecast. This is especially true in light of the turbulent conditions recently observed in the financial markets. As a result, for the upcoming years, income tax receipts are projected to grow at a rate that is consistent with relative caution as to the movements in these volatile income components.

**TABLE 6**
**SIMULATION RESULTS FOR CAPITAL GAINS REALIZATIONS MODEL**
**(Model Errors Plus Parameter Estimate Error — percent)**

| Year | Actual Growth* | Mean Predicted Growth | One Standard Error Around Predicted Growth |
|---|---|---|---|
| 1965 | 36.4 | (9.8) | 20.4 |
| 1966 | (7.5) | 10.3 | 18.8 |
| 1967 | 62.0 | 17.4 | 18.4 |
| 1968 | 27.1 | 2.6 | 18.7 |
| 1969 | (30.4) | 12.9 | 18.6 |
| 1970 | (43.4) | (23.3) | 18.9 |
| 1971 | 26.2 | 15.7 | 18.4 |
| 1972 | 16.2 | 9.4 | 18.6 |
| 1973 | (18.0) | 4.0 | 18.6 |
| 1974 | (22.2) | (37.7) | 20.4 |
| 1975 | (2.9) | (9.1) | 19.0 |
| 1976 | 14.7 | 18.8 | 18.8 |
| 1977 | 10.1 | 7.1 | 18.5 |
| 1978 | 3.5 | (0.3) | 18.6 |
| 1979 | 68.1 | 59.8 | 20.6 |
| 1980 | 39.7 | 12.3 | 19.0 |
| 1981 | 15.7 | 8.3 | 18.1 |
| 1982 | 10.4 | 10.4 | 20.6 |
| 1983 | 41.6 | 6.0 | 18.7 |
| 1984 | 19.7 | (0.3) | 19.4 |
| 1985 | 28.0 | 15.1 | 18.0 |
| 1986 | 90.7 | 77.9 | 24.9 |
| 1987 | (54.6) | (65.0) | 22.6 |
| 1988 | 8.5 | (3.8) | 18.6 |
| 1989 | (0.3) | 16.5 | 18.2 |
| 1990 | (33.5) | (8.6) | 18.5 |
| 1991 | 0.3 | (8.7) | 19.2 |
| 1992 | 7.7 | 14.2 | 18.4 |
| 1993 | 33.5 | 11.0 | 18.2 |
| 1994 | (4.8) | 1.0 | 18.5 |
| 1995 | 10.4 | 17.6 | 18.3 |
| 1996 | 53.7 | 16.4 | 18.5 |
| 1997 | 38.3 | 34.7 | 19.2 |
| 1998 | 23.0 | 35.1 | 19.2 |
| 1999** | 28.8 | 15.8 | 18.5 |
| 2000** | 8.0 | 8.7 | 18.5 |
| 2001** | 0.0 | 2.0 | 18.6 |

*Data reflect the model dependent variable which is the first difference in the logarithmic form of realizations.

**Forecast.

Source: New York State Department of Taxation and Finance; staff estimates.

# RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

Growth in All Funds tax receipts has been very volatile over the past two decades reflecting both underlying economic conditions and significant changes in tax policy. The relatively small annual average growth in receipts during the 1990s has resulted from the severe economic downturn experienced in New York during the early 1990s, reduced inflation rates, and the significant tax reductions enacted over the 1995-2000 period.

**ALL FUNDS TAX RECEIPTS**
**(millions of dollars)**

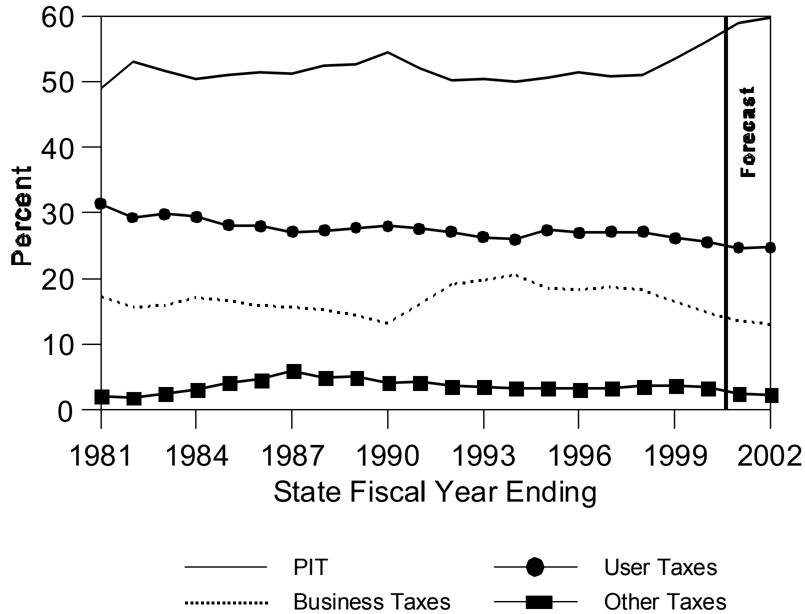
| | | | Percent of All State Funds Receipts Accounted for By: | | | |
|---|---|---|---|---|---|---|
| Fiscal Year | All Funds Receipts [1/] | Percent Change | Personal Income Tax [1/] | User Taxes and Fees | Business Taxes | Other Taxes |
| 1980-81 | 13,496 | 11.2 | 49.0 | 31.4 | 17.4 | 2.2 |
| 1981-82 | 15,143 | 12.2 | 53.1 | 29.3 | 15.8 | 1.9 |
| 1982-83 | 16,025 | 5.8 | 51.6 | 29.8 | 16.0 | 2.6 |
| 1983-84 | 18,644 | 16.3 | 50.3 | 29.4 | 17.2 | 3.2 |
| 1984-85 | 20,392 | 9.4 | 51.0 | 28.1 | 16.7 | 4.2 |
| 1985-86 | 22,572 | 10.7 | 51.3 | 28.0 | 16.0 | 4.7 |
| 1986-87 | 24,358 | 7.9 | 51.2 | 27.1 | 15.7 | 6.0 |
| 1987-88 | 25,859 | 6.2 | 52.5 | 27.3 | 15.2 | 5.0 |
| 1988-89 | 26,262 | 1.6 | 52.7 | 27.7 | 14.5 | 5.1 |
| 1989-90 | 28,050 | 6.8 | 54.5 | 28.0 | 13.3 | 4.2 |
| 1990-91 | 27,818 | (0.8) | 52.0 | 27.6 | 16.1 | 4.3 |
| 1991-92 | 29,847 | 7.3 | 50.1 | 27.1 | 19.1 | 3.7 |
| 1992-93 | 31,661 | 6.1 | 50.4 | 26.3 | 19.7 | 3.6 |
| 1993-94 | 33,026 | 4.3 | 50.0 | 26.0 | 20.6 | 3.4 |
| 1994-95 | 33,050 | 0.1 | 50.6 | 27.4 | 18.6 | 3.4 |
| 1995-96 | 33,927 | 2.7 | 51.3 | 27.0 | 18.4 | 3.3 |
| 1996-97 | 34,620 | 2.0 | 50.7 | 27.1 | 18.8 | 3.4 |
| 1997-98 | 35,921 | 3.8 | 50.9 | 27.1 | 18.3 | 3.7 |
| 1998-99 | 38,495 | 7.2 | 53.5 | 26.2 | 16.6 | 3.8 |
| 1999-2000 | 41,390 | 7.5 | 56.0 | 25.6 | 14.8 | 3.5 |
| 2000-01* | 43,271 | 4.5 | 58.9 | 24.7 | 13.7 | 2.6 |
| 2001-02** | 44,546 | 2.9 | 59.7 | 24.8 | 13.0 | 2.4 |

[1/] Personal Income Tax defined as gross receipts less refunds — 2000-01 receipts reflect an adjustment for the timely payment of refunds.

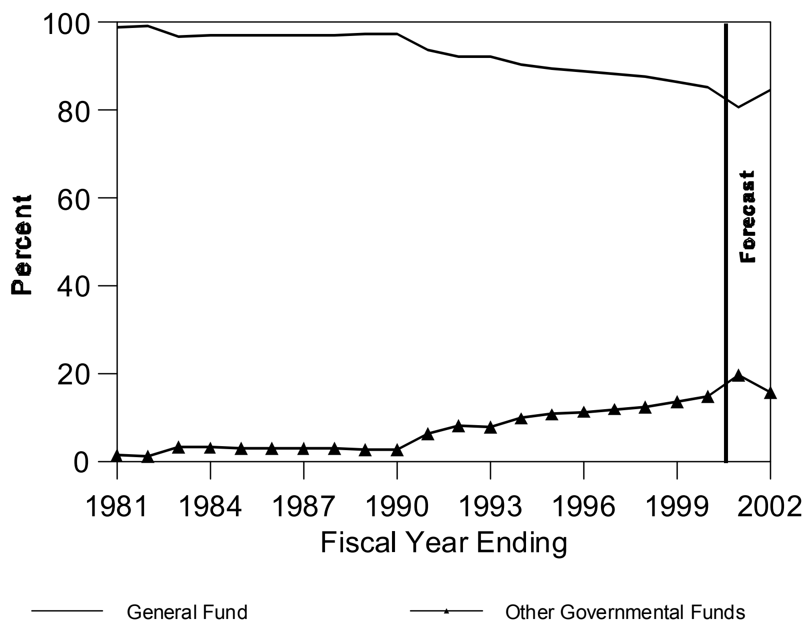
* Estimated.
** Projected.

Note: For law changes affecting amounts flowing into various funds, see individual revenue stories.

**Tax Share of State Funds by Major Tax Categories**




**Share of Receipts by Major Fund Type**



All Funds receipts can be adjusted for the estimated value of tax policy changes to obtain an approximate base receipts series. The accompanying chart shows growth in estimated base receipts compared to growth in New York personal income for fiscal years 1988-2002.

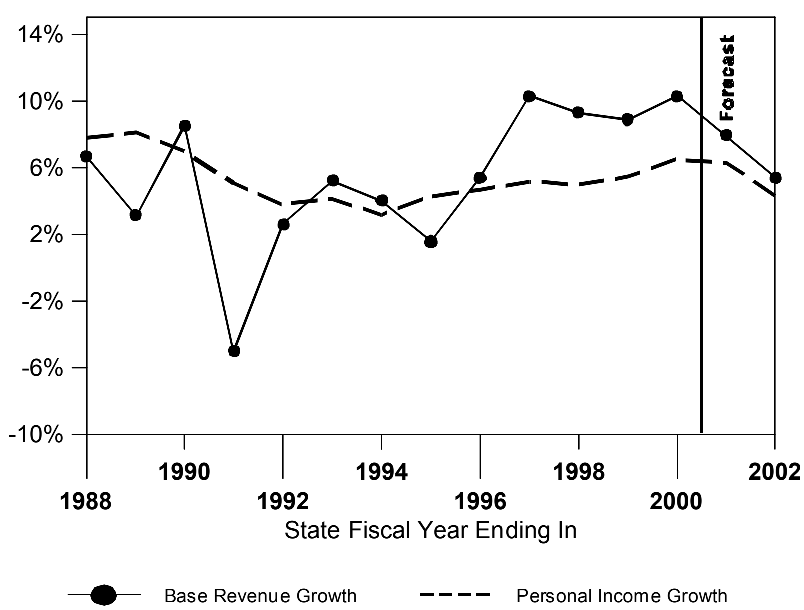
Clearly, base receipts growth has exceeded personal income growth significantly in recent years. However, for much of the period displayed, income and tax receipts grew more in tandem. In fact, income growth often exceeded receipts growth. The recent reversal of that relationship has been the result of several factors including the large increases in taxable capital gains reported on personal income tax returns. Capital gains, a component of taxable New York income, are not included as income in determining personal income for nontax purposes.

As has already been reported, capital gains are a highly volatile component of taxable income which can be impacted by changes in equity values, real estate prices and changes in tax treatment.

In addition, the importance of the income tax in the receipt mix has increased. The income tax is more sensitive to income changes than the remaining parts of the tax base. This tends to amplify the impact of income growth on overall receipts.

Over the projection period we expect that the receipts-income relationship will revert back to a pattern more consistent with historical experience. This cautious approach to receipts forecasting prevents an over reliance on special events, such as large increases in taxable capital gains, and features of the current economic situation which can change quickly to the detriment of the Financial Plan.

**Base Revenue and Personal Income Growth**
**(Percent Change)**



# DEDICATED FUND TAX RECEIPTS

Several tax sources are dedicated in whole or part to State Funds which are earmarked for specific purposes. The following table reports tax receipts by fund for the dedicated tax sources.

**DEDICATED FUND TAX RECEIPTS**
**(millions of dollars)**

| | 1999-2000 Actual | 2000-01 Estimate | 2001-02 Recommended |
|---|---|---|---|
| **Dedicated Highway and Bridge Trust Funds** | 1,011.2 | 1,106.9 | 1,414.9 |
| Motor fuel tax | 225.4 | 324.2 | 336.8 |
| Motor vehicle fees | 129.9 | 149.0 | 374.2 |
| Highway use tax | 150.2 | 154.8 | 151.3 |
| Petroleum business tax | 505.7 | 478.9 | 552.6 |
| **Dedicated Mass Transportation Trust Fund** | 297.0 | 340.4 | 423.1 |
| Petroleum business tax | 297.0 | 281.3 | 324.6 |
| Motor fuel tax | 0.0 | 59.1 | 66.5 |
| Motor vehicle fees | 0.0 | 0.0 | 32.0 |
| **Mass Trans. Operating Assistance Fund** | 1,116.1 | 1,086.1 | 1,111.6 |
| ***Surcharges*** | | | |
| Corporation franchise tax | 229.2 | 270.0 | 263.0 |
| Corporation and utilities tax | 203.2 | 113.0 | 116.7 |
| Insurance tax | 69.2 | 64.3 | 64.0 |
| Bank tax | 85.3 | 83.0 | 82.0 |
| ***Other*** | | | |
| Sales and use tax | 345.6 | 360.0 | 367.1 |
| Petroleum business tax | 113.1 | 113.8 | 121.8 |
| Corporation and utilities - sections 183 and 184 | 70.5 | 82.0 | 97.0 |
| **Emergency Highway Reconditioning and Preservation Fund** | | | |
| Motor fuel tax | 56.8 | 56.3 | 56.5 |
| **Emergency Highway Construction and Reconstruction Fund** | | | |
| Motor fuel tax | 56.7 | 56.3 | 56.4 |
| **Clean Water/Clean Air Fund** | | | |
| Real estate transfer tax | 228.2 | 248.0 | 188.0 |
| **Local Government Assistance Tax Fund** | | | |
| Sales and use tax | 2,045.8 | 2,097.4 | 2,178.3 |
| **Environmental Protection Fund** | | | |
| Real estate transfer tax | 112.0 | 112.0 | 132.0 |
| **School Tax Relief Fund (STAR)** | | | |
| Personal income tax | 1,194.6 | 3,077.0 | 1,371.0 |
| **Debt Reduction Reserve Fund** | | | |
| Personal income tax | 0.0 | 250.0 | 0.0 |
| **Other Funds Total** | 6,118.4 | 8,430.4 | 6,931.8 |

## GOVERNMENTAL TAX RECEIPTS

The following table reports tax receipts for all Governmental Funds.

**GOVERNMENTAL TAX RECEIPTS**
**(millions of dollars)**

| | 1999-2000 Actual | 2000-01 Estimate | 2001-02 Recommended |
|---|---|---|---|
| **Personal Income Taxes** | 21,533.2 | 27,118.0 | 27,852.0 |
| **User Taxes and Fees** | 10,614.7 | 10,678.8 | 11,061.0 |
| Sales and use tax | 8,532.4 | 8,753.2 | 9,082.2 |
| Cigarette and tobacco tax | 643.1 | 521.8 | 463.4 |
| Motor fuel tax | 518.8 | 514.9 | 516.2 |
| Motor vehicle fees | 531.4 | 487.0 | 600.8 |
| Highway use tax | 150.2 | 154.8 | 151.3 |
| Alcoholic beverage tax | 177.0 | 180.6 | 177.8 |
| ABC license fees | 23.0 | 30.0 | 31.0 |
| Hotel/motel tax | 0.0 | 0.0 | 0.0 |
| Container tax | 0.0 | 0.0 | 0.0 |
| Auto rental tax | 38.8 | 36.5 | 38.3 |
| **Business Taxes** | 6,133.7 | 5,949.3 | 5,793.4 |
| Corporation franchise tax | 2,167.8 | 2,682.0 | 2,514.7 |
| Corporation and utilities tax | 1,692.0 | 1,040.0 | 1,088.7 |
| Insurance tax | 658.2 | 631.3 | 604.0 |
| Bank tax | 610.8 | 634.0 | 587.0 |
| Petroleum business tax | 1,004.9 | 962.0 | 999.0 |
| **Other Taxes** | 1,447.6 | 1,141.0 | 1,090.8 |
| Estate tax | 975.2 | 716.6 | 734.1 |
| Gift tax | 79.5 | 28.0 | 2.0 |
| Real property gains tax | 14.8 | 4.0 | 3.3 |
| Real estate transfer tax | 340.2 | 360.0 | 320.0 |
| Pari-mutuel tax | 36.4 | 31.5 | 30.5 |
| Other taxes | 1.5 | 0.9 | 0.9 |
| **Total Taxes** | 39,729.2 | 44,887.1 | 45,797.2 |

# TAX REDUCTION PACKAGE

## UPSTATE REVITALIZATION PACKAGE

To continue the progress achieved in renewing the upstate economy, the Governor is proposing three targeted tax reduction initiatives.

### Expand Empire Zones

The first initiative will double, from two to four square miles, Empire Zone boundaries in qualifying upstate communities. This will extend the tax-free zone concept to these expanded areas to encourage economic development and job growth throughout upstate New York. The present tax benefits in Empire Zones include a credit for real property taxes, a tax reduction credit, sales and use tax exemptions, an investment tax credit for capital investment, and employment credits.

### Eliminate the Alternative Minimum Tax

The second initiative will phase out the alternative minimum tax (AMT) over a five-year period. This proposal, while benefitting all taxpayers who currently pay under the AMT, is especially advantageous to upstate manufacturers. The tax rate will be reduced from its current level of 2.5 percent to 2.0 percent beginning January 1, 2001, and will be fully eliminated as of January 1, 2005. Elimination of the AMT will improve New York's competitive position relative to other states that do not impose an AMT, and will allow manufacturers to make full use of credits they have earned, making economic expansion more profitable.

### Allow Single-Sales Factor for Manufacturing Companies

The third initiative will also benefit upstate manufacturing companies. Currently, multistate corporations allocate income using a three-factor formula of receipts, property and payroll. The receipts factor is double-weighted. Beginning January 1, 2001, New York will begin the move towards a single-sales factor for manufacturers. Changing the formula for manufacturers benefits those companies with large investments in property and payroll in New York and substantial sales outside the State. This provides an incentive to invest in or maintain payroll and plant facilities in New York. Several states have recently enacted similar laws and this action will help keep New York competitive in retaining and expanding our manufacturing base.

## TAX INCENTIVES FOR BROWNFIELD REDEVELOPMENT

This tax incentive package will encourage the remediation and redevelopment of brownfields to productive use. Brownfields are abandoned or underutilized properties found in many areas that require environmental remediation. Brownfields can take many forms, including abandoned industrial and commercial properties, vacant buildings, or defunct small business locations such as gas stations. Tax incentives will intensify the cleanup of brownfield sites and their restoration to productive use. The first proposal will provide tax incentives for the costs associated with both site remediation of brownfields and the purchase of property used on a brownfield site. The second proposal will encourage the redevelopment of brownfields — those of at least 10 acres and no more than 100 acres — through a credit for real property taxes. This credit applies to brownfields located in upstate cities. The third proposal will provide an enhanced real property tax benefit for upstate mega brownfields — those of more than 100 acres. The credit will be available for 19 years, rather than the 14 currently extended to qualified businesses under the Empire Zones program.

### *ENHANCEMENTS TO THE NEW YORK STATE LOW INCOME HOUSING TAX CREDIT PROGRAM*

Beginning immediately, an additional allocation of $2 million is proposed to enhance provisions of the Low-Income Housing Tax Credit Program enacted last year. This will allow even more participants to become involved in this important program, which is designed to encourage investment in low-income housing.

### *BIOTECHNOLOGY REFUNDABLE CREDIT*

This proposal will allow qualified biotechnology companies to claim a refund of their investment tax credits (ITCs) in certain situations where they have been precluded from using credits they have earned. Under present law, only new businesses can claim a refund of the ITC. This will provide these important and developing businesses, often experiencing significant losses, with much needed capital. Companies become eligible for this benefit beginning January 1, 2002.

### *AGRICULTURAL INCENTIVES*

The Governor is proposing two personal income tax credits benefitting the farmers of New York State: a farmland restoration credit and a school property tax credit for rented farmland. The proposed farmland restoration tax credit will provide a one-time State personal income tax credit for 25 percent of the capital costs of an approved list of land improvements, including: leveling, grading and terracing, contour furrowing, the construction, control, and protection of diversion channels, drainage ditches, earthen dams, watercourses, outlets, and ponds, the eradication of brush, and the planting of windbreaks, application of lime, installation of tile, repair and installation of fences, and repair of silos. The second part of this package will allow a school property tax credit for farmland that is rented out and used for farming.

Additionally, farmers with farms held in a corporation or as part of a partnership will be allowed to claim the School Tax Reduction (STAR) exemption for the farmer's primary residence.

### *HISTORIC HOMEOWNERSHIP REHABILITATION CREDIT*

The Governor is proposing an historic homeownership rehabilitation credit equal to either 15 percent or 25 percent of qualified rehabilitation expenditures made by a taxpayer on a personal residence. The credit, generally, can not exceed $50,000 for a residence. If the allowable credit exceeds the taxpayer's tax for any taxable year, the excess will be refunded to the taxpayer.

### *CONSERVATION DONOR TAX CREDIT*

The proposed conservation donor tax credit will provide a one-time State personal income tax credit to landowners who donate land or a conservation easement on their property. The credit will be for 25 percent of the donation's value and will be capped at $250,000. The credit will be non-refundable, with a carryover provision allowing the taxpayer to carry over the value of the credit for up to five years.

### CO-STAR

The Governor is proposing a Co-STAR program to provide county property tax exemptions for seniors and farmers starting with the 2002 tax year. As part of the Co-STAR program, senior citizens will be provided with additional relief under the New York City personal income tax. In recognition of the City's greater reliance on non-property taxes to fund services, there is a Co-STAR credit proposed for the City personal income tax that may be claimed by New York City taxpayers who are age 65 and older. The credit will increase, in five stages, from $25 for 2002 to $120 in tax years after 2005.

**STATE TAX REDUCTIONS**
**NEW PROPOSALS FOR 2001-02 BUDGET**
**GENERAL FUND IMPACT**
**(millions of dollars)**

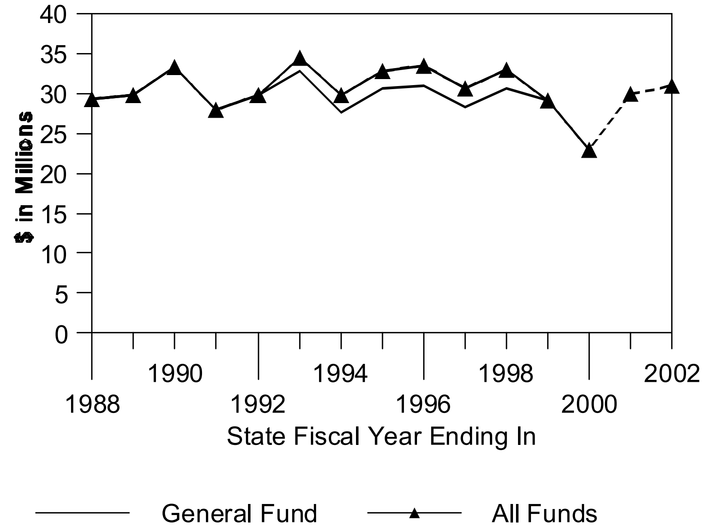
| | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | Fully Effective |
|---|---|---|---|---|---|---|
| Expand Empire Zones | 0.0 | 82.5 | 93.7 | 100.3 | 107.7 | 116.0 |
| Eliminate AMT/Single Sales Factor | 23.3 | 23.3 | 60.8 | 74.2 | 83.8 | 83.8 |
| Brownfields Package | 0.0 | 12.0 | 67.7 | 70.6 | 71.5 | 58.7 |
| Low- and Moderate-Income Housing Credit | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 0.0 |
| Biotechnology Refundable Credit | 0.0 | 1.0 | 1.0 | 1.0 | 1.0 | 1.0 |
| Farmland Restoration | 0.0 | 2.0 | 8.0 | 8.0 | 8.0 | 8.0 |
| Rented Farmland - School Property Tax Credit | 0.0 | 1.0 | 5.0 | 5.0 | 5.0 | 5.0 |
| Corporate Farms under STAR | 0.0 | 3.0 | 3.0 | 3.0 | 3.0 | 3.0 |
| Conservation Donor Credit | 0.0 | 3.0 | 12.0 | 12.0 | 12.0 | 12.0 |
| Historic Homes | 0.0 | 3.0 | 10.0 | 10.0 | 10.0 | 10.0 |
| Co-STAR | 0.0 | 50.0 | 101.0 | 146.0 | 190.0 | 230.0 |
| **Total** | 25.3 | 182.8 | 364.2 | 432.1 | 494.0 | 527.5 |

**STATE TAX REDUCTIONS - ALL FUNDS**
**Current and Recommended Law**
**(millions of dollars)**

| | 1995-96 | 1996-97 | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 | 2002-03 | 2003-04 |
|---|---|---|---|---|---|---|---|---|---|
| **Personal Income Taxes** | 555.9 | 2,806.0 | 4,502.0 | 4,791.0 | 5,230.0 | 5,390.0 | 5,746.1 | 6,183.8 | 6,768.0 |
| **User Taxes and Fees** | 130.0 | 212.1 | 270.1 | 389.5 | 566.8 | 1,119.9 | 1,254.5 | 1,357.5 | 1,460.8 |
| Sales and use tax | 22.4 | 46.4 | 103.0 | 155.8 | 245.4 | 792.5 | 910.4 | 1,007.3 | 1,102.8 |
| Cigarette and tobacco tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Motor fuel tax | 4.1 | 13.1 | 14.1 | 15.5 | 17.5 | 17.8 | 18.2 | 18.5 | 19.0 |
| Motor vehicle fees | 0.0 | 0.0 | 0.0 | 48.2 | 74.7 | 74.9 | 75.4 | 76.8 | 76.9 |
| Highway use tax | 19.9 | 34.6 | 33.4 | 38.7 | 73.1 | 76.1 | 87.3 | 90.2 | 93.3 |
| Alcoholic beverage tax | 3.2 | 17.4 | 17.1 | 18.0 | 24.6 | 25.5 | 28.4 | 28.3 | 30.7 |
| ABC license fees | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Hotel/Motel tax | 74.4 | 75.1 | 76.5 | 78.0 | 79.5 | 81.1 | 82.8 | 84.4 | 86.1 |
| Container tax | 6.0 | 25.5 | 26.0 | 35.3 | 52.0 | 52.0 | 52.0 | 52.0 | 52.0 |
| Auto rental tax | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| **Business Taxes** | 698.7 | 1,026.5 | 1,182.7 | 1,239.4 | 1,601.6 | 2,107.0 | 2,460.6 | 2,804.7 | 3,163.7 |
| Corporation franchise tax | 317.9 | 423.9 | 472.2 | 496.5 | 682.0 | 531.2 | 864.8 | 1,064.2 | 1,213.6 |
| Corporation and utilities tax | 179.6 | 248.8 | 285.1 | 304.5 | 459.4 | 1,093.4 | 1,027.2 | 1,097.3 | 1,247.4 |
| Insurance tax | 40.0 | 103.7 | 116.4 | 119.4 | 114.7 | 127.7 | 160.5 | 193.0 | 216.3 |
| Bank tax | 61.3 | 77.3 | 100.8 | 90.0 | 108.1 | 116.1 | 160.1 | 198.7 | 231.4 |
| Petroleum business tax | 99.9 | 172.8 | 208.2 | 229.0 | 237.4 | 238.6 | 248.0 | 251.5 | 255.0 |
| **Other Taxes** | 53.0 | 182.8 | 178.9 | 322.3 | 317.9 | 582.9 | 785.6 | 823.5 | 850.6 |
| Estate/Gift tax | 15.0 | 78.7 | 81.7 | 86.0 | 133.0 | 423.0 | 616.5 | 648.0 | 676.0 |
| Real property gains tax | 20.5 | 89.6 | 81.6 | 220.6 | 168.1 | 142.1 | 147.0 | 156.0 | 156.0 |
| Real estate transfer tax | 0.0 | 0.0 | 1.6 | 2.2 | 2.2 | 2.2 | 2.2 | 0.9 | 0.0 |
| Pari-mutuel tax | 17.5 | 14.5 | 14.0 | 13.5 | 14.5 | 15.5 | 19.8 | 18.5 | 18.5 |
| Other | 0.0 | 0.0 | 0.0 | 0.0 | 0.1 | 0.1 | 0.1 | 0.1 | 0.1 |
| **Subtotal** | 1,437.6 | 4,227.4 | 6,133.7 | 6,742.2 | 7,716.3 | 9,199.8 | 10,246.8 | 11,169.5 | 12,243.1 |
| **STAR** | 0.0 | 0.0 | 0.0 | 582.2 | 1,194.6 | 1,877.0 | 2,571.0 | 2,769.0 | 2,938.0 |
| **Medical/Provider** | 0.0 | 0.0 | 16.0 | 73.0 | 372.0 | 500.0 | 544.0 | 552.0 | 575.0 |
| **Grand Total** | 1,437.6 | 4,227.4 | 6,149.7 | 7,397.4 | 9,282.9 | 11,576.8 | 13,361.8 | 14,490.5 | 15,756.1 |

## ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

### Alcoholic Beverage Control License Fees Receipts
**History and Estimates**




### DESCRIPTION

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 2,500 retail liquor outlets, including package stores engaged in carry-out sales, and nearly 25,300 bars and restaurants that offer on-premises consumption. The majority of State-licensed bars and restaurants (20,325 in 1999) are authorized to sell beer, wine, and liquor. Approximately 3,700 licensees are permitted to sell only beer and wine. The remaining 1,323 licensees in 1999 sold 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 |
| 1992 | 2,984 | 20,375 | 3,103 | 1,829 | 25,307 | 19,526 | 1,042 | 48,859 |
| 1993 | 2,906 | 20,312 | 3,134 | 1,845 | 25,291 | 19,778 | 1,041 | 49,016 |
| 1994 | 2,836 | 20,030 | 3,177 | 1,796 | 25,003 | 19,656 | 1,048 | 48,543 |
| 1995 | 2,753 | 19,831 | 3,372 | 1,763 | 24,966 | 19,768 | 1,057 | 48,544 |
| 1996 | 2,673 | 19,782 | 3,497 | 1,838 | 25,117 | 19,743 | 1,074 | 48,607 |
| 1997 | 2,621 | 19,708 | 3,490 | 1,843 | 25,041 | 19,462 | 1,125 | 48,249 |
| 1998 | 2,596 | 19,853 | 3,712 | 1,950 | 25,515 | 19,417 | 1,142 | 48,670 |
| 1999 | 2,560 | 20,325 | 3,640 | 1,323 | 25,288 | 19,202 | 1,031 | 48,027 |

## SIGNIFICANT LEGISLATION

| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 1997** | | |
| License Renewal | The required purchase of a triennial license was changed to allow licensees to continue to purchase a triennial license or optionally purchase an annual or biennial license at a prorated cost. | December 1, 1998 |

## 2000-01 RECEIPTS

Compared to 1999-2000, gross alcoholic beverage control license fee receipts will increase significantly. Last year's receipts were depressed due to the full-year effect of legislation passed in 1997 changing license renewal requirements, which reduced 1999-2000 receipts by $9 million. The last year of the three-year impact from licensing remittance changes will reduce 2000-01 collections by an estimated $2 million.

Alcoholic beverage control license fee receipts for the first nine months of 2000-01 are estimated at $20.8 million net of refunds, 43.4 percent greater than receipts for the comparable period in 1999-2000. In summary, 2000-01 gross receipts are projected at $33 million and refunds at $3 million, resulting in estimated net receipts from alcoholic beverage control license fees of $30 million.

## 2001-02 PROJECTIONS

This is the first year with no downward pressure on receipts resulting from 1997 licensing legislation. Gross receipts are estimated to reach $34 million. Refunds will be approximately $3 million, bringing estimated 2001-02 net receipts from this source to $31 million.

## OTHER FUNDS

For the period from 1992-93 through 1997-98, 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 with licensing regulations and expedite license processing. Beginning in 1998-99, this special revenue fund was eliminated and since then all licensing fees have been deposited in the General Fund.

## GENERAL FUND

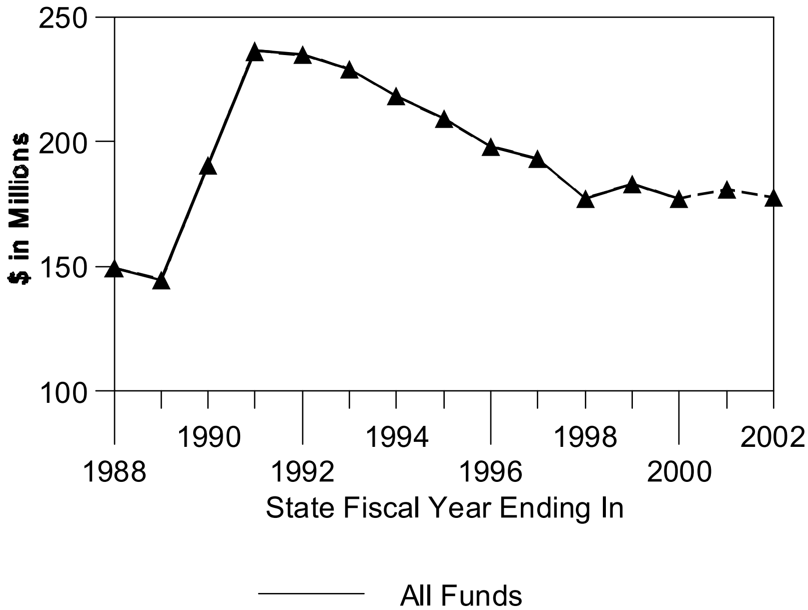
General Fund receipts for 2000-01 are estimated to be $30 million. In 2001-02, General Fund receipts are projected to reach $31 million.

**RECEIPTS FROM ALCOHOLIC BEVERAGE CONTROL LICENSE FEES (thousands of dollars)**

| | Gross General Fund | Refunds | Net General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | All Funds Net Collections |
|---|---|---|---|---|---|---|---|
| | Actual | | | | | | |
| 1992-93 | 35,305 | 2,627 | 32,678 | 1,815 | 0 | 0 | 34,493 |
| 1993-94 | 29,852 | 2,237 | 27,615 | 2,155 | 0 | 0 | 29,770 |
| 1994-95 | 33,864 | 3,283 | 30,581 | 2,100 | 0 | 0 | 32,681 |
| 1995-96 | 33,956 | 2,981 | 30,975 | 2,400 | 0 | 0 | 33,375 |
| 1996-97 | 31,748 | 3,417 | 28,331 | 2,300 | 0 | 0 | 30,631 |
| 1997-98 | 33,162 | 2,629 | 30,533 | 2,387 | 0 | 0 | 32,920 |
| 1998-99 | 32,282 | 3,190 | 29,092 | 0 | 0 | 0 | 29,092 |
| 1999-2000 | 25,566 | 2,615 | 22,951 | 0 | 0 | 0 | 22,951 |
| | Estimated | | | | | | |
| 2000-01 | 33,000 | 3,000 | 30,000 | 0 | 0 | 0 | 30,000 |
| 2001-02 | 34,000 | 3,000 | 31,000 | 0 | 0 | 0 | 31,000 |

# ALCOHOLIC BEVERAGE TAXES

**Alcoholic Beverage Taxes Receipts**
**History and Estimates**




## DESCRIPTION

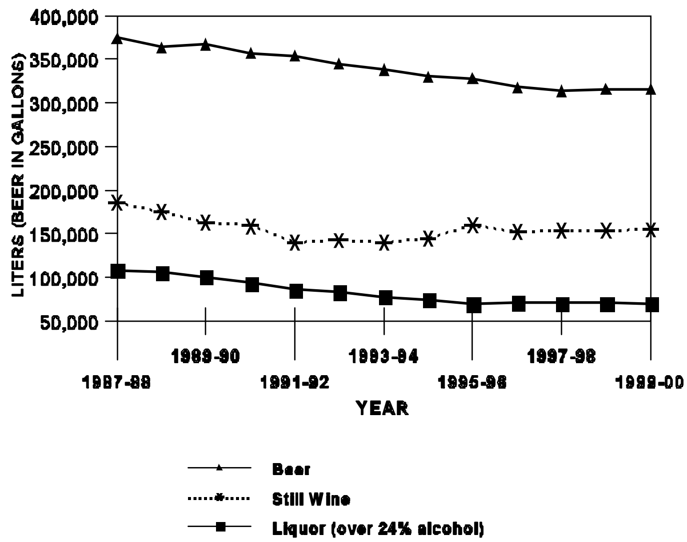
New York State imposes excises at various rates on liquor, beer, wine and specialty beverages. These taxes are remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

State tax rates for 2001-02 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 | 0.125 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 |

Overall, per capita consumption of taxed beverages has remained fairly constant in recent years. However, there have been shifts in consumer preferences. For example, wine consumption has recently increased relative to liquor and beer consumption. (See chart.) In addition, the movement of alcohol beverage demand towards less expensive beverages with lower alcoholic content is attributed, in part, to the impact of rising prices on beverages with higher alcohol content.

**Consumption of Alcoholic Beverages**




## *SIGNIFICANT LEGISLATION*

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 1995.

**SIGNIFICANT ALCOHOLIC BEVERAGE TAX LEGISLATION**

| Subject | Description | Effective Date |
|---|---|---|
| **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 |
| Exemption | Increased the small brewers exemption for the first 100,000 barrels of domestically brewed beer to 200,000 barrels. | April 1, 2001 |

| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 2000** | | |
| Exemption | Accelerated the small brewers exemption increase by moving the effective date from April 1, 2001, to January 1, 2000. | January 1, 2000 |
| Beer Tax Cut | Reduced the State excise tax rate on beer with at least 0.5 percent alcohol from 12.5 cents to 11 cents per gallon. | September 1, 2003 |

The State continues to suffer tax evasion through the bootlegging of alcoholic beverages 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.

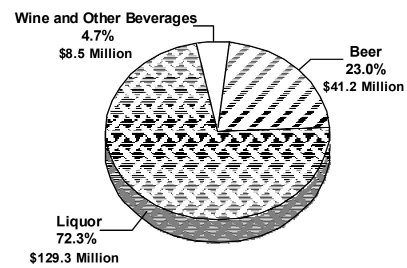
**ALCOHOLIC BEVERAGE TAX ENFORCEMENT PROVISIONS**

| 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 one year | Class E felony |
| Produce, distill, manufacture, compound, mix or ferment liquors without registration or tax payments | More than 360 liters within one year | Class E felony |
| Cause liquor covered by a warehouse receipt to be removed from a warehouse | More than 360 liters within one 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. |

| Violations | Volume | Penalties |
|---|---|---|
| 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. |

## 2000-01 RECEIPTS

Alcoholic Beverage Tax Receipts 2000-2001




Estimated Share by Source

Estimated net receipts of $139.8 million for the first nine months of the current fiscal year represent an increase of 2.5 percent from the comparable period in 1999-2000. Long-term declines in liquor consumption have been partially offset by a recent shift in consumer preference for higher-priced liquor brands. Based on this experience, as well as the revenue effect of reductions in the beer tax which became effective in 1996 and 1999, alcoholic beverage tax receipts for 2000-01 are estimated at $180.6 million. The bulk of estimated receipts, $122.7 million, are derived from the tax on liquor over 24 percent in alcohol content. 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, and the acceleration of increases in the small brewers exemption from April 1, 2001 to January 1, 2000 will reduce the beer tax receipts by $1 million. Total beer tax receipts are estimated to be $41.2 million. Revenues from wine and other specialty beverages are estimated to reach $8.5 million in 2000-01.

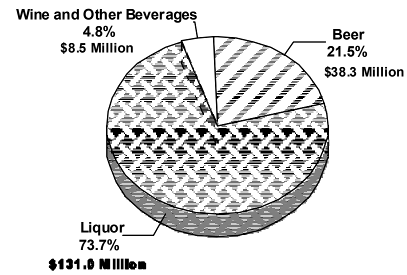
**COMPONENTS OF ALCOHOLIC BEVERAGE TAX RECEIPTS**
**(millions of dollars)**

| | 1995-96 Actual | 1996-97 Actual | 1997-98 Actual | 1998-99 Actual | 1999-2000 Actual | 2000-01 Estimated | 2001-02 Projected |
|---|---|---|---|---|---|---|---|
| Beer | 65.3 | 50.6 | 50.2 | 47.8 | 42.7 | 41.2 | 38.3 |
| Liquor | 123.9 | 126.2 | 125.4 | 125.7 | 125.2 | 129.3 | 131.0 |
| Wine and Other | 8.9 | 8.3 | 8.5 | 8.5 | 8.3 | 8.5 | 8.5 |
| Subtotal | 198.1 | 185.1 | 184.1 | 182.0 | 177.0 | 179.0 | 177.8 |
| Reconciliations | (0.3) | 8.0 | (7.1) | 0.8 | 0.8 | 1.6 | 0 |
| Net Total | 197.8 | 193.1 | 177.0 | 182.8 | 177.0 | 180.6 | 177.8 |

## *2001-02 PROJECTIONS*

In the coming fiscal year, the consumption of liquor, beer, and wine is expected to grow modestly. Taken together, consumption and tax rate changes are projected to cause a minor decrease in receipts. Total alcoholic beverage tax receipts are projected to be $177.8 million. This includes $131 million from liquor. Projected beer excise tax receipts of $38.3 million include a reduction of $7.9 million due to the 1999 two and one-half cents per gallon beer excise tax reduction, and a reduction of $3.1 million due to the 2001 one cent per gallon beer excise tax reduction. Revenues from wine and other specialty beverages are projected to total $8.5 million.

**Alcoholic Beverage Tax Receipts**
**2001-2002**




Projected Share by Source

## *GENERAL FUND*

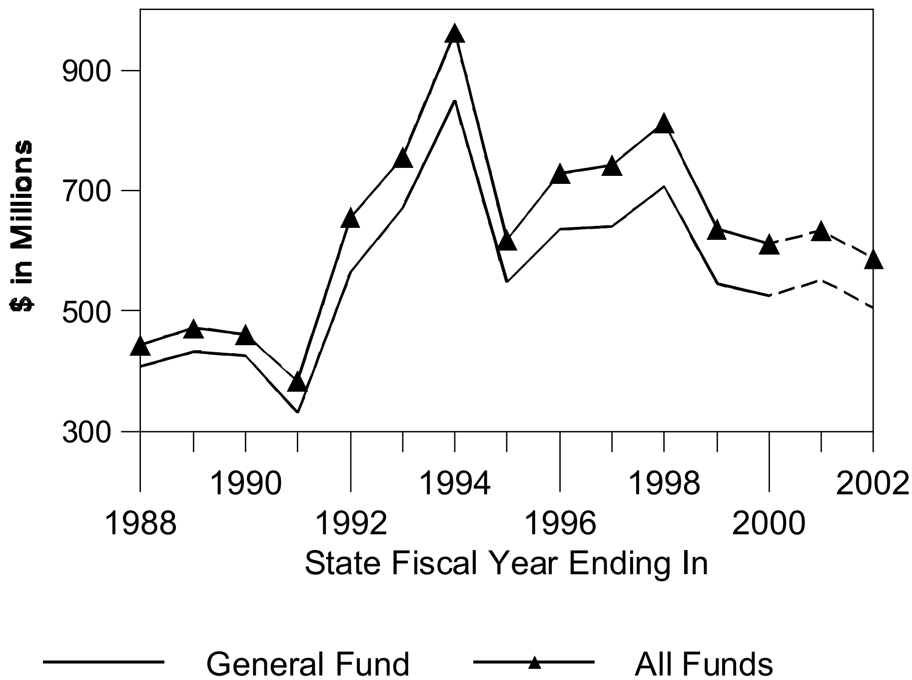
All receipts from the alcoholic beverage tax are deposited in the General Fund.

**RECEIPTS FROM ALCOHOLIC BEVERAGE TAXES**
**(thousands of dollars)**

| | Gross General Fund | Refunds | Net General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | All Funds Net Collections |
|---|---|---|---|---|---|---|---|
| | Actual | | | | | | |
| 1992-93 | 229,113 | 142 | 228,971 | 0 | 0 | 0 | 228,971 |
| 1993-94 | 218,341 | 99 | 218,242 | 0 | 0 | 0 | 218,242 |
| 1994-95 | 209,134 | 98 | 209,036 | 0 | 0 | 0 | 209,036 |
| 1995-96 | 198,280 | 492 | 197,788 | 0 | 0 | 0 | 197,788 |
| 1996-97 | 192,960 | (123) | 193,083 | 0 | 0 | 0 | 193,083 |
| 1997-98 | 177,124 | 115 | 177,009 | 0 | 0 | 0 | 177,009 |
| 1998-99 | 183,087 | 316 | 182,771 | 0 | 0 | 0 | 182,771 |
| 1999-2000 | 177,093 | 55 | 177,038 | 0 | 0 | 0 | 177,038 |
| | Estimated | | | | | | |
| 2000-01 | 180,700 | 100 | 180,600 | 0 | 0 | 0 | 180,600 |
| 2001-02 | 177,900 | 100 | 177,800 | 0 | 0 | 0 | 177,800 |

# BANK TAX (Article 32)

**Bank Tax Receipts**
**History and Estimates**




### DESCRIPTION

The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. As the graph above shows, Article 32 receipts have been volatile, reflecting statutory and regulatory changes and the variable profit performance of the banking sector.

### Tax Rate

Article 32 bank tax liability is calculated as the greater of the following four computations:

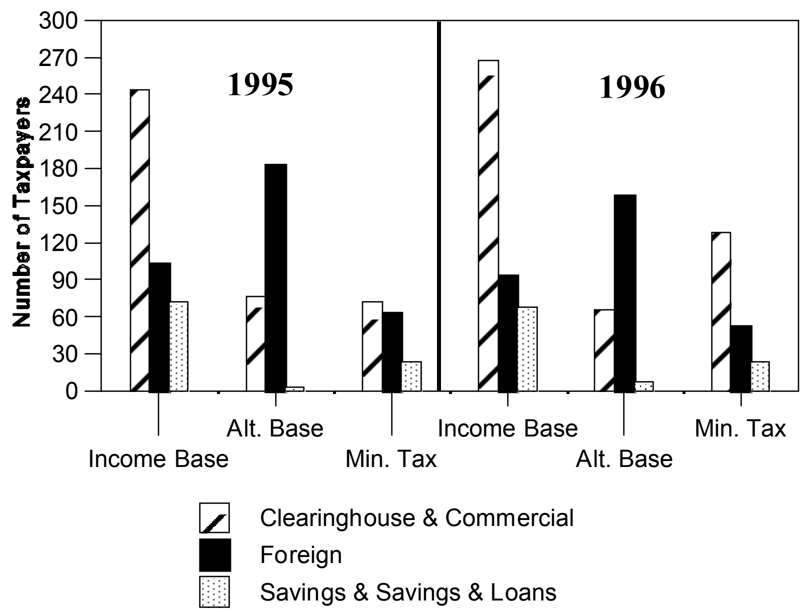
— 8.5 percent of allocated entire net income;
— 10 percent of allocated alternative entire net income (ENI without regard to specified exclusions);
— 1/10, 1/25, or 1/50 of a mill of allocated taxable assets; or
— a minimum tax of $250.

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*

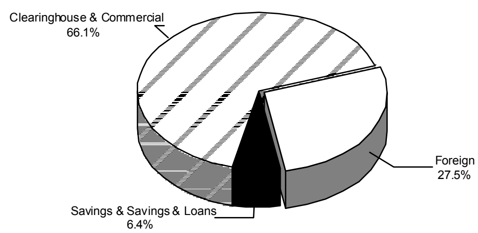
A major source of data on bank tax liability comes from the bank tax study file compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA). This study file includes tax data on all banks filing under Article 32. Between 1995 and 1996, total tax liability decreased by roughly 16 percent, from $617 million to $516.5 million. The graph below illustrates that, between 1995 and 1996, the number of taxpayers increased by 3 percent, with the majority of the increase in clearinghouse and commercial banking institutions. Additionally, between 1995 and 1996, the number of clearinghouse and commercial taxpayers paying under the minimum tax base increased by roughly 77 percent.

**Number of Taxpayers by Type of Bank and by Tax Base**

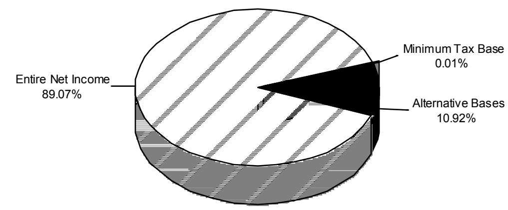



The pie charts below illustrate that clearinghouse and commercial banking institutions paid roughly 66 percent of total tax liability in 1996, while foreign banking institutions, and saving and savings and loan institutions accounted for 28 percent and 6 percent of liability, respectively. Additionally, payments under the entire net income (ENI) base comprised roughly 89 percent of total tax liability under Article 32 in 1996.

**1996 Tax Base Industry Profile**
**(Share of Total Tax Liability)**




**1996 Distribution of Tax Liability**
**by Basis of Tax**




### SIGNIFICANT LEGISLATION

#### Tax Policy Actions

The following tax actions will significantly affect Article 32 tax collections and the tax base:

— **Net Operation Loss Deduction (NOLD):** Effective for losses incurred on or after January 1, 2001, banking corporations subject to Article 32 will be allowed to deduct losses from ENI and to carry losses forward for 15 years. The NOLD is limited to the Federal NOLD in any given year with an exception that allows taxpayers to increase the NOLD by the excess of the State bad debt deduction over the Federal bad debt deduction.

— **Rate Reduction:** Effective for taxable years beginning after June 30, 2000, the ENI tax rate for banks is reduced to 7.5 percent over a three-year period.

— **Investment Tax Credit (ITC) for Brokers or Dealers in Securities:** The ITC is currently available to banking corporations for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations. The ITC provides a credit of 5 percent of the cost of qualified expenditures of up to $350 million and 4 percent for qualified investment expenditures in excess of $350 million.

### 2000-01 RECEIPTS

Based on collections to date, total net collections for the entire period are estimated to reach $634 million, a $23.2 million increase from the 1999-2000 level. The slight increase of 3.7 percent has resulted from flat payments on 2000 liability and on decreased adjustments (credit carry forwards) from prior-year payments. The weakness in 2000 liability payments is due, at least partially, to consolidation in the banking industry which has resulted in increased in charges against income.

### 2001-02 PROJECTIONS

Net collections for Article 32 are projected to be $587 million, which is $47 million below the amount estimated to be received in 2000-01.

The bank tax projection is based, in part, on the underlying relationship between liability and economic activity. Given the projected slowdown in national economic growth and, more specifically, weakness in the condition of the banking sector, gross tax receipts before the impact of law changes are expected to increase by a modest 1 percent in 2001-02.

Starting in 2001-02 and thereafter, significant tax reductions already enacted are expected to negatively impact on bank tax receipts. Specifically, receipts will decline by $43 million in 2001-02, $73 million in 2002-03, and $98 million in 2003-04 due to the phase-down of the rate imposed on banks to 7.5 percent by State fiscal year 2003-04. Further, the impact of the net-operating-loss tax incentive is expected to reduce bank tax receipts by $5 million starting in 2002-03, $11 million in 2003-04, $18 million in 2004-05 and by $31 million in 2005-06.

### OTHER FUNDS

Under current law, a 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 MCTD, and is the principal revenue source of the Mass Transportation Operating Assistance Fund (MTOA). Based on collections to date, the Article 32 contribution to MTOA for 2000-01 is projected to reach approximately $83 million, representing a 2 percent decrease from State fiscal year 1999-2000. MTOA receipts are affected by the same factors impacting overall bank tax receipts, and are expected to decrease by 1 percent in 2001-02.

### GENERAL FUND

Based on collections to date, General Fund net collections for 2000-01 are projected to increase by $25 million, a 5 percent increase from State fiscal year 1999-2000, primarily driven by small increases in payments on 2000 liability.

Bank tax receipts for State fiscal year 2001-02 are expected to decline by 8 percent, primarily driven by continued economic weakness nationally and in the banking sector. Additionally, the increase in credit card delinquencies in the third quarter, a decline of 3 percent in the sales of new single-family homes in October, and further credit tightening (as reported by the Federal Reserve Senior Loan Officer Survey) suggest a significant slowdown in banking sector activity that will negatively impact future collections.

**TABLE 2**
**GENERAL FUND RECEIPTS BY TYPE OF BANK**
**(thousands of dollars)**

| | State Banks, Trust Companies & National Banks | Savings Banks | Savings & Loan Associations | Total |
|---|---|---|---|---|
| | Actual | | | |
| 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 |
| 1999-2000 | 515,528 | 5,186 | 4,795 | 525,509 |
| | Estimated | | | |
| 2000-01 | 542,000 | 7,000 | 2,000 | 551,000 |
| 2001-02 | 496,000 | 7,000 | 2,000 | 505,000 |

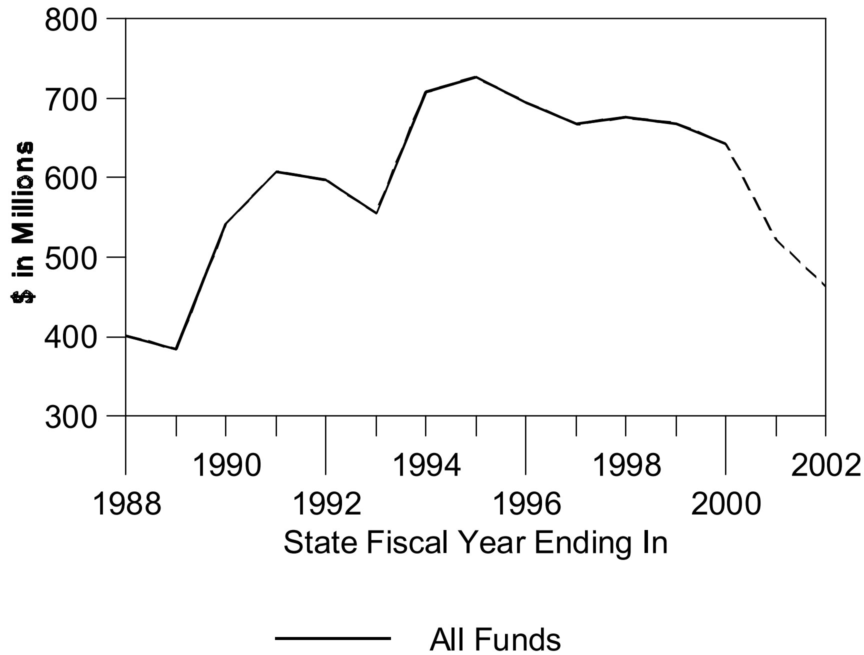
**TABLE 3**
**BANK TAX RECEIPTS**
**(millions of dollars)**

| | 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 | | | | | | | | |
| 1992-93 | 705 | 35 | 670 | 88 | 3 | 85 | 0 | 0 | 755 |
| 1993-94 | 905 | 54 | 851 | 115 | 4 | 111 | 0 | 0 | 962 |
| 1994-95 | 614 | 66 | 548 | 77 | 7 | 70 | 0 | 0 | 618 |
| 1995-96 | 702 | 67 | 635 | 98 | 5 | 93 | 0 | 0 | 728 |
| 1996-97 | 723 | 83 | 640 | 109 | 8 | 101 | 0 | 0 | 741 |
| 1997-98 | 765 | 58 | 707 | 113 | 8 | 105 | 0 | 0 | 812 |
| 1998-99 | 623 | 79 | 544 | 102 | 11 | 91 | 0 | 0 | 635 |
| 1999-2000 | 598 | 72 | 526 | 94 | 9 | 85 | 0 | 0 | 611 |
| | Estimated | | | | | | | | |
| 2000-01 | 651 | 100 | 551 | 91 | 8 | 83 | 0 | 0 | 634 |
| 2001-02 (current law) | 576 | 71 | 505 | 90 | 8 | 82 | 0 | 0 | 587 |

[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**




### DESCRIPTION

#### 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 $1.11 per package 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 | Rate (cents) | Federal | Rate (cents) | New York City | Rate (cents) |
|---|---|---|---|---|---|
| Before April 1, 1959 | 2 | Before November 1, 1951 | 7 | Before May 1, 1959 | 1 |
| April 1, 1959 | 5 | November 1, 1951 | 8 | May 1, 1959 | 2 |
| April 1, 1965 | 10 | January 1, 1983 | 16 | June 1, 1963 | 4 |
| June 1, 1968 | 12 | January 1, 1991 | 20 | January 1, 1976 | 8 |
| 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. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates depending on the type of product.

### 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.

### Tax 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 on 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.

The positive effects of this enforcement legislation were realized in 1999, with an increase in the number of new retailer license applications. This increase, as well as an enhanced State enforcement presence, may have led to a less severe 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)**

| | 2000 | 1999 | 1998 | 1997 | 1996 | 1995 |
|---|---|---|---|---|---|---|
| Connecticut | 50 | 50 | 50 | 50 | 50 | 50 |
| Massachusetts | 76 | 76 | 76 | 76 | 76 | 51 |
| New Jersey | 80 | 80 | 80 | 40 | 40 | 40 |
| New York | 111 | 56 | 56 | 56 | 56 | 56 |
| Pennsylvania | 31 | 31 | 31 | 31 | 31 | 31 |
| Vermont | 44 | 44 | 44 | 44 | 44 | 44 |

* Highest rate in effect during calendar year.

Effective March 1, 2000, New York raised its tax by 55 cents to $1.11 per pack, the highest rate in the nation. As a result, the Governor signed comprehensive legislation in 2000 targeted at combating cigarette bootlegging and Internet sales.

## *SIGNIFICANT LEGISLATION*

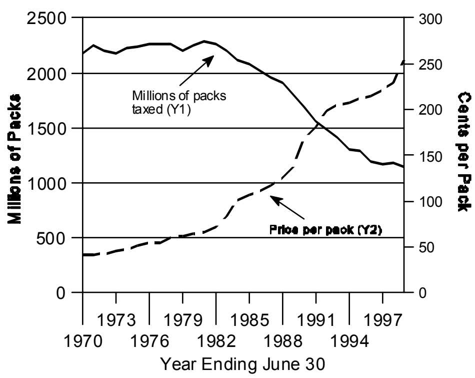
| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 1996** | | |
| Enforcement Provisions | Increased penalties and fines for selling unstamped cigarettes, violation of retail dealer and vending machine registration provisions, and providing inaccurate registration information. | December 3, 1996 |
| **Legislation Enacted in 1999** | | |
| Cigarette Tax Increase | Increased the cigarette excise tax from 56 cents to $1.11 per pack, as part of the Health Care Reform Act of 2000. | March 1, 2000 |
| **Legislation Enacted in 2000** | | |
| Underage Smoking | Increased penalties for illegal sales of tobacco products to minors. | September 1, 2000 |
| Enforcement Provisions | Created civil and criminal penalties for persons who sell and ship cigarettes to persons who are not licensed or registered cigarette dealers or agents. | November 16, 2000 |
| Enforcement Provisions* | Created civil and criminal penalties for carriers who transport cigarettes to persons who are not licensed or registered cigarette dealers or agents. | January 1, 2001 |
| Safe Cigarettes | Required the promulgation and imposition of fire-safety standards for cigarettes and rolled tobacco products sold in New York. | January 1, 2003 |

* This legislation has been the subject of a lawsuit, delaying the effective date until at least March 16, 2001.

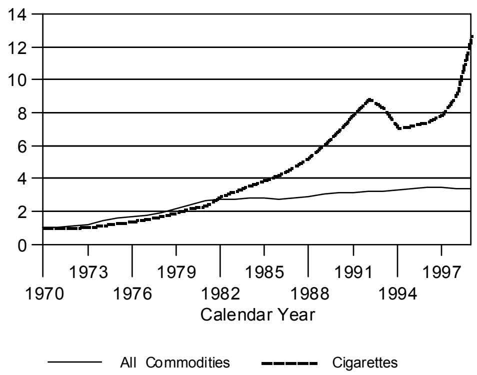
## BRIEF REVIEW OF RECEIPTS HISTORY

Taxable cigarette consumption in New York 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, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. The following graphs summarize some of these trends.

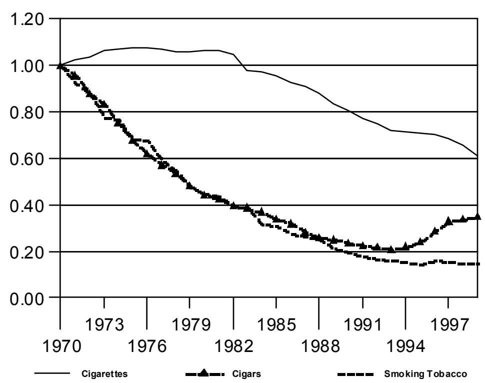
**Historical State Cigarette Consumption and Prices**



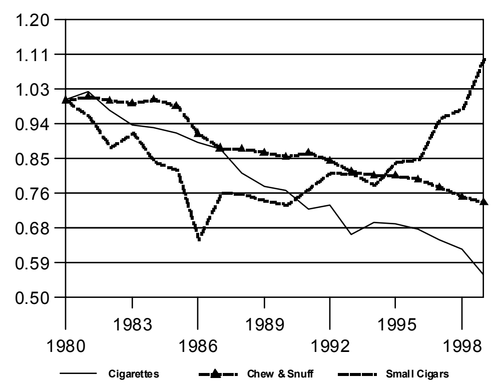

**Producer Price Indexes**
**(Based to 1970=1)**




**U.S. Tobacco Consumption**
**(Per Capita, Indexed 1970=1)**




**Taxable Sales of Tobacco**
**(Per Capita, Indexed 1980=1)**



### *2000-01 RECEIPTS*

Total cigarette and tobacco receipts are estimated at $1,011 million, an increase of $339.2 million, or 50.5 percent from 1999-2000. This change is the result of legislation which increased the State cigarette tax by 55 cents per pack effective March 1, 2000, as part of the Health Care Reform Act of 2000. Through December, total cigarette and tobacco tax receipts are estimated at $804.3 million, an increase of $296.7 million, or 58 percent over comparable receipts in 1999-2000. Receipts growth is not expected to continue at this level for the remainder of the fiscal year, due primarily to the payment of a one-time floor tax in May and October.

Underlying taxable cigarette consumption continued to decline in 2000-01. The decline in consumption is partially attributable to the State tax increase. Additionally, since the Tobacco Settlement was signed in November 1998, the producer price index (which does not include taxes) for cigarettes has increased by 46 percent, as tobacco companies have attempted to recoup the cost of the settlement through price increases. 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.

### *2001-02 PROJECTIONS*

Total cigarette and tobacco tax revenue is projected to be $894.1 million, a decline of $116.9 million, or 11.6 percent from State fiscal year 2000-01.

The long-term factors reducing cigarette consumption will continue to exert negative pressure on receipts. In addition, Federal tax increases will have a significant effect on taxable cigarette consumption in 2001-02, as will the 14 cent per pack increase in prices announced by cigarette manufacturers in December 2000. 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. Legislation addressing these tax compliance issues was recently signed into law by the Governor, but a restraining order was issued, which will delay the effective date until at least March 16, 2001. Overall, taxable cigarette consumption is projected to decrease by 7.7 percent in 2001-02 relative to 2000-01.

Legislation submitted with this Budget will alter the method of taxing moist snuff from 20 percent of the wholesale price to 39 cents per ounce. This will increase State fiscal year 2001-02 receipts by an estimated $161,000.

### *OTHER FUNDS*

Of the $1.11 per pack total cigarette tax, 49.55 percent will be deposited in the Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000. State fiscal year 2000-01 receipts dedicated to the pool will total an estimated $489.2 million.

Receipts dedicated to the pool in 2001-02 will total a projected $430.7 million.

### *GENERAL FUND*

In both 2000-01 and 2001-02, the General Fund will receive 50.45 percent of the $1.11 per pack total cigarette tax.

General Fund cigarette and tobacco tax receipts for 2000-01 are estimated at $521.8 million, a decline of $121.4 million, or 18.9 percent, from 1999-2000. The estimate includes $22.8 million of nonrecurring floor tax revenue. Through December, General Fund cigarette tax receipts were an estimated $396.4 million, a decline of $92.5 million, or 18.9 percent, while tobacco tax receipts and other fees have remained flat, at $18.8 million.

For 2001-02, General Fund tax receipts are projected to be $463.4 million. The tax on tobacco products and license fees is expected to total $24.9 million, an increase of $1.2 million from 2000-01. This increase is largely due to a continuation of the consumption trends and an expected shift of cigarette smokers to tobacco products, including roll-your-own tobacco, as a result of the significant price increases for cigarette.

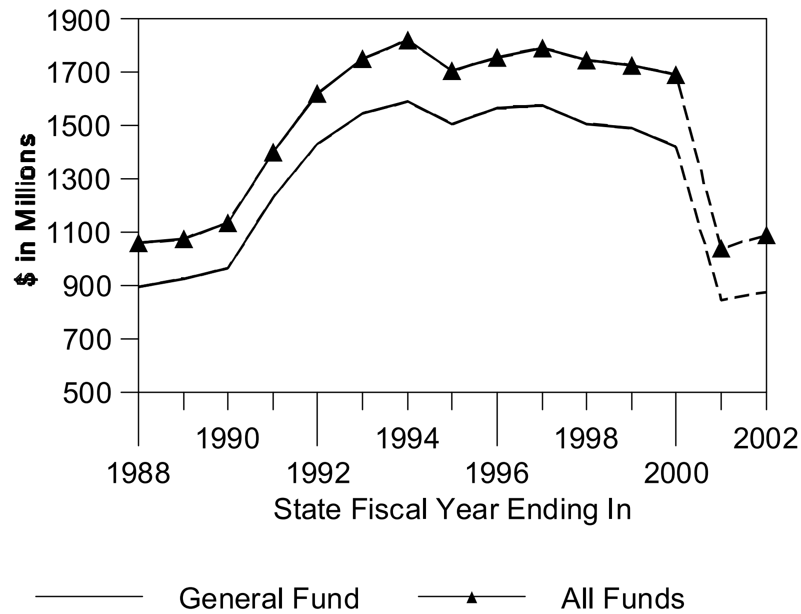
**CIGARETTE AND TOBACCO TAXES**
**(thousands of dollars)**

| | Gross General Fund | Refunds | Net General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | All Funds Net Collections |
|---|---|---|---|---|---|---|---|
| | Actual | | | | | | |
| 1992-93 | 560,584 | 5,497 | 555,087 | 0 | 0 | 0 | 555,087 |
| 1993-94 | 716,103 | 8,485 | 707,618 | 0 | 0 | 0 | 707,618 |
| 1994-95 | 734,134 | 7,638 | 726,496 | 0 | 0 | 0 | 726,496 |
| 1995-96 | 700,691 | 7,275 | 693,416 | 0 | 0 | 0 | 693,416 |
| 1996-97 | 675,756 | 8,724 | 667,032 | 0 | 0 | 0 | 667,032 |
| 1997-98 | 680,950 | 5,447 | 675,503 | 0 | 0 | 0 | 675,503 |
| 1998-99 | 671,699 | 5,118 | 666,581 | 0 | 0 | 0 | 666,581 |
| 1999-2000 | 648,609 | 5,451 | 643,159 | 0 | 0 | 0 | 643,159 |
| | Estimated | | | | | | |
| 2000-01* | 526,390 | 4,590 | 521,800 | 0 | 0 | 0 | 521,800 |
| 2001-02* | | | | | | | |
| (current law) | 467,300 | 4,000 | 463,300 | 0 | 0 | 0 | 463,300 |
| (proposed law) | 467,400 | 4,000 | 463,400 | 0 | 0 | 0 | 463,400 |

* Note: In 2000-01, an estimated $489.2 million will be deposited in the Tobacco Control and Insurance Initiatives Pool, and in 2001-02, a projected $430.7 million will be deposited.

# *CORPORATION AND UTILITIES TAXES (Article 9)*

**Corporation and Utilities Taxes (Article 9)**
**History and Estimates**




## *DESCRIPTION*

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 the public utility, telecommunications, and transportation industries. 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). Recent statutory and regulatory changes will diminish the role of traditional utilities as the primary source of Article 9 receipts.

### *Tax Rates and Base*

The pie chart in the Historical Receipts presentation depicts the share of total 1999-2000 Article 9 General Fund collections accounted for by each section of law.

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 (the nominal or face value of a security) of the stock that the corporation is authorized to issue; for shares of "no-par" value the rate is five cents per share. The tax also applies to any subsequent change in the capital structure on stocks (adjustment to the par value, a change in the number of "no-par" value stocks, etc.) or newly authorized stock.

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, trucking, railroad, and other transportation companies. The tax is imposed using the highest of the following three alternatives: a rate of 1.5 mills on each dollar of the net value of capital stock allocated to New York State; a tax rate of 3/8 of a mill per dollar of par value for each 1 percent of dividends paid on capital stock if dividends amount to 6 percent or more; or a minimum tax of $75.

Section 184 is imposed on gross earnings of transportation and local telecommunications corporations from all sources in the State, including an allocated portion of receipts from interstate transportation-related transactions. The tax rate on telephone companies subject to section 184 of Article 9 is 0.375 percent, as of July 1, 2000. 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 pay the tax at a rate of 0.375 percent for periods beginning in July 2000 and thereafter.

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.

Legislation enacted with the 2000-01 Enacted Budget repealed section 186 retroactive to January 1, 2000. This section had imposed a franchise tax on public utilities including waterworks, gas, electric, steam heating, lighting and power companies. These companies are now taxed under Article 9-A of the Tax Law (corporate franchise tax).

Section 186-a imposes a tax on gross income from furnishing utility services (including both energy and lighting public utilities). Recent statutory changes reduced the tax rates under section 186-a. Further, the 2000-01 legislation established a separate tax rate imposed on commodity sales (the actual utility product), and on the sale of transmission/distribution services used to transport and deliver utility services to homes and businesses. The commodity portion of the section 186-a tax will be eliminated January 1, 2005. The tax rate schedule for the commodity and transmission/distribution portions of the current tax is described in the table below.

**TABLE 1**
**TAX RATES OF SECTION 186-A**

| Effective Date | Type | Rate (percentage) |
|---|---|---|
| Prior to January 1, 2000 | Commodity | 3.25 |
| | Transmission/Distribution | 3.25 |
| January 1, 2000 | Commodity | 2.10 |
| | Transmission/Distribution | 2.50 |
| January 1, 2001 | Commodity | 2.00 |
| | Transmission/Distribution | 2.45 |
| January 1, 2002 | Commodity | 1.90 |
| | Transmission/Distribution | 2.40 |
| January 1, 2003 | Commodity | 0.85 |
| | Transmission/Distribution | 2.25 |
| January 1, 2004 | Commodity | 0.40 |
| | Transmission/Distribution | 2.125 |
| January 1, 2005 | Commodity | 0.00 |
| | Transmission/Distribution | 2.00 |

That part of the section 186-a tax imposed on the transmission/distribution of electric and gas utility services for nonresidential customers will be eliminated through a phased-in exclusion of gross receipts according to the following schedule. When fully phased in on January 1, 2005, only the residential portion of transmission/distribution services will remain taxable under section 186-a, at a rate of 2.0 percent.

**TABLE 2**
**PHASE-IN SCHEDULE FOR EXCLUSION OF**
**T&D NONRESIDENTIAL CUSTOMERS**

| Effective Date | Rate ( Percentage) |
|---|---|
| Calendar Year 2000 | 0 |
| Calendar Year 2001 | 0 |
| Calendar Year 2002 | 25 |
| Calendar Year 2003 | 50 |
| Calendar Year 2004 | 75 |
| Calendar Year 2005 | 100 |

Section 186-e imposes a tax on the gross receipts generated from telecommunications services. This rate was reduced to 2.5 percent on January 1, 2000.

Section 189, effective August 1, 1991, imposes a tax on the importation of natural gas for use by the importer. The cost used in the calculation of the tax is the wellhead cost of the natural gas. Recent reforms will phase down the rate over a five-year period and eliminate the tax effective January 1, 2005. Taxpayers producing or extracting natural gas from their own wells for their own use are exempt from this tax, as is natural gas used by congenerators for host site energy production.

**TABLE 3**
**TAX RATES OF SECTION 189**

| Effective Date | Rate (Percentage) |
|---|---|
| Prior to January 1, 2000 | 4.25 |
| January 1, 2000 | 2.10 |
| January 1, 2001 | 2.00 |
| January 1, 2002 | 1.90 |
| January 1, 2003 | 0.85 |
| January 1, 2004 | 0.40 |
| January 1, 2005 | 0.00 |

### *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 New York State Department of Taxation and Finance 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.

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 twelfth month of their fiscal year.

## *SIGNIFICANT LEGISLATION*

The following list highlights significant legislation enacted since 1994 affecting Article 9 taxes:

| 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 |

| Subject | Description | Effective Date |
|---|---|---|
| **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. | |
| 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<br>January 1, 2001 |
| Section 189 | Exempted generation plants that import natural gas for the production of electricity. | January 1, 2001 |

| Subject | Description | Effective Date |
|---|---|---|
| Section 183 | Eliminated the excess dividends base for those local telecommunications companies with fewer than one million access lines. | January 1, 2002 |
| **Legislation Enacted in 2000** | | |
| Utility Tax Reform | Section 186 tax is repealed. Section 186-a and section 189 tax are phased-out over a five-year period. Elimination of the gross receipts tax for manufacturers and industrial energy customers retroactive to January 1, 2000; elimination of the tax for all other business customers over a five-year period. For residential consumers the commodity tax is eliminated and the transmission/distribution rate of the 186-a tax is reduced from 2.5 percent to 2.0 percent. | January 1, 2000 |
| Power for Jobs | Provides an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program. | January 1, 2001 |

## *BRIEF REVIEW OF RECEIPTS HISTORY*

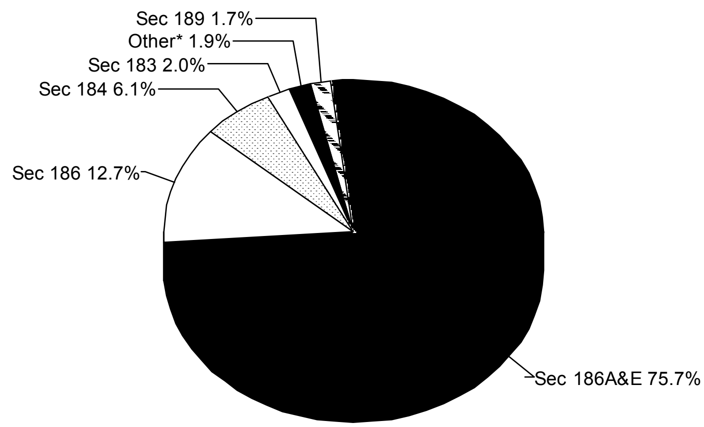
For State fiscal years 1990-91 through 1999-2000, Article 9 receipts have been highly variable. To a great extent, this volatility is the product of statutory changes. Average baseline growth (growth from residential, commercial and industrial electricity, natural gas services, and telecommunication services) was 3.29 percent, after correcting for law changes.

### *History of 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 1999-2000, the General Fund has averaged 87.2 percent of All Funds. However, this percentage is expected to decline to 79.1 percent in 2000-01 and 78.4 percent in 2001-02, due to the increased percentage of collections from sections 183 and 184 that have been earmarked to the MTOAF, sections 186-a and 186-e rate reductions, and statutory changes enacted in 2000.

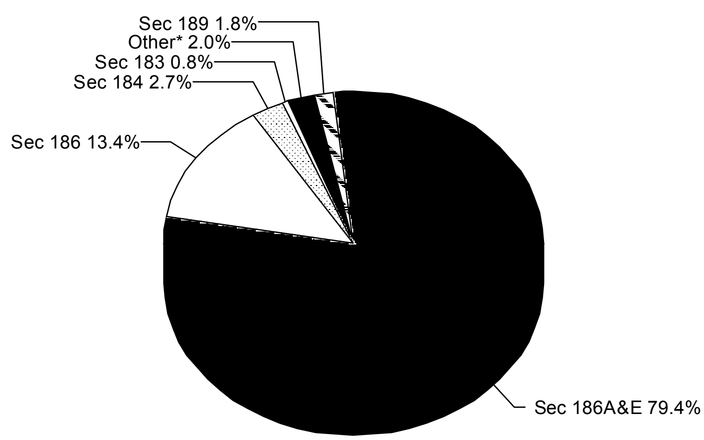
## 1999-2000 Article 9 Tax Receipts

### All Funds Percent Distribution by Section




Other* includes 180, 181, and 185

### General Fund Percent Distribution by Section




Other* includes 180, 181, and 185

### *History of Other 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.

Section 205 of the Tax Law requires that portions of the taxes imposed under sections 183 and 184 to be deposited in the Metropolitan Mass Transportation Operating Assistance Account of the MTOAF. The table below reports the statutory allocation of tax receipts by fund.

**TABLE 4**
**SECTIONS 183 AND 184 DISTRIBUTION TO FUNDS**
**SINCE 1982**
**(percentage)**

| Effective Date | General Fund | MTOAF |
|---|---|---|
| July 1, 1982 | 60.0 | 40.0 |
| April 1, 1996 | 52.0 | 48.0 |
| January 1, 1997 | 50.5 | 49.5 |
| January 1, 1998 | 46.0 | 54.0 |
| January 1, 2000 | 36.0 | 64.0 |
| January 1, 2001 | 20.0 | 80.0 |

Additionally, the MCTD business tax surcharge applies to Article 9. Taxpayers that do business within the 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 liability attributable to the MCTD area.

### *2000-01 RECEIPTS*

Corporations and utilities taxes for 2000-01 are expected to yield total All Funds receipts of $1,040 million. This is a decline of 38.5 percent compared to 1999-2000.

All Fund collections through December 2000 are estimated to be $740 million, a decrease of $495 million from the comparable period through December 1999. Total receipts for 2000-01 include an estimated $20 million in audit collections. After adjusting for net refunds, year-to-year cash collections are expected to decline by approximately $652 million or 38.5 percent.

The primary factors examined when estimating corporation and utilities tax collections include the consumption of electricity and natural gas, and the associated price of each commodity. The tables below report annual consumption and prices of electricity and natural gas and estimates of sales for 2000 and 2001. The information shown for the years 1991 to 1999 is based on published reports of the Public Service Commission. The magnitudes for 2000 and 2001 are estimates based on forecasts of general economic conditions for these years. The quantities in the table reflect sales to ultimate consumers and exclude sales for resale.

**TABLE 5**
**CALENDAR YEAR HISTORY OF ELECTRICITY AND NATURAL GAS SALES**
**1991 TO 2001**
**(quantity in millions)**

| | Electricity Sales (kilowatt hours) | Percent Change | Gas Sales (M cubic feet) | Percent Change |
|---|---|---|---|---|
| 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 | 110,029 | (2.5) | 501.6 | (1.6) |
| 2000 (est.) | 108,451 | (1.4) | 534.1 | 6.5 |
| 2001 (est.) | 109,285 | 0.8 | 543.0 | 1.7 |

**TABLE 6**
**CALENDAR YEAR HISTORY OF ELECTRICITY AND NATURAL GAS PRICES**
**1991 TO 2001**

| | Electricity Price | Percent Change | Gas price | Percent Change |
|---|---|---|---|---|
| 1991 | 10.75 | 6.6 | 6.74 | 1.3 |
| 1992 | 10.92 | 1.6 | 6.78 | 0.6 |
| 1993 | 11.49 | 5.2 | 7.38 | 8.9 |
| 1994 | 11.68 | 1.6 | 7.57 | 2.6 |
| 1995 | 11.89 | 1.8 | 7.10 | (6.2) |
| 1996 | 11.96 | 0.6 | 8.06 | 13.6 |
| 1997 | 11.96 | (0.0) | 8.22 | 1.9 |
| 1998 | 11.53 | (3.6) | 8.42 | 2.5 |
| 1999 | 11.36 | (1.5) | 8.22 | (2.3) |
| 2000 (est.) | 11.29 | (0.6) | 9.58 | 16.6 |
| 2001 (est.) | 11.18 | (1.0) | 11.24 | 17.4 |

All of section 186-e receipts and three-quarters of 184 receipts in recent years have come from telecommunications companies. 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 increase by more than 4 percent for 2000.

Legislation enacted in 1996 to lower section 184 taxes on rail and trucking companies is estimated to reduce collections by $12 million in 2000-01. The rate reductions enacted in 1997 are estimated to reduce collections in 2000-01 by $417 million. The Power For Jobs tax credit program, first enacted in 1997, accelerated in 1998 and expanded in 2000 legislation, will reduce receipts by an estimated $100 million. Legislation enacted in 2000 is estimated to reduce collections in 2000-01 by $256 million.

### *2001-02 PROJECTIONS*

Corporation and utilities taxes for 2001-02 are expected to yield total All Fund receipts of $1,089 million. This is an increase of 4.7 percent compared to 2000-01.

For 2001, the consumption of electricity is projected to grow nearly 1 percent, while natural gas consumption will increase over 1.7 percent. For that same time period, the price of electricity is projected to decline by 1 percent and the price of natural gas is estimated to grow by nearly 17 percent. Factors such as the substitution of cheaper fuel types, the severity of the weather, and the availability of oil or natural gas all influence energy consumption and energy prices. Telecommunications companies' receipts are expected to grow approximately 4 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 rail and trucking legislation enacted in 1996, pertaining to section 184, is estimated to reduce collections by $12 million in 2001-02. The rate reductions enacted in 1997 are estimated to reduce collections in 2001-02 by approximately $390 million. The Power for Jobs tax credit program, first enacted in 1997 and accelerated by legislation enacted in 1998 and 2000, will reduce receipts by an estimated $98 million. Legislation enacted in 2000 is estimated to reduce collections in 2001-02 by $214 million. Collections of prior-year liabilities, after audit, are projected at $20 million in 2001-02. Thus, under current law, total receipts are projected at $1,089 million.

### *OTHER FUNDS*

As mentioned previously, a portion of Article 9 receipts are deposited to two special revenue funds. The section 183 and 184 collections deposited in the MTOAF will total an estimated $82 million for 2000-01 and $97 million for 2001-02.

The MTCD business tax surcharge, will result in deposits of an estimated $113 million for 2000-01 and $117 million for 2001-02 into the MTOAF.

### *GENERAL FUND*

General Fund collections through December 2000 are estimated to be $616 million, a decrease of $444 million from the comparable period through December 1999. These receipts for 2000-01 include an estimated $20 million in audit collections. The estimate for 2000-01 is $845 million. This results in a year-to-year cash collections decline of $573 million or 40 percent.

For 2001-02, the General Fund collections are estimated at $875 million. This includes an estimated $20 million in audit receipts, offset by $17 million in refunds.

### *Risks*

The forecast assumes average temperature ranges during 2001 and 2002. 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, as well as general inflation. Continued growth in the U.S. economy will require continued growth in oil and natural gas production to meet domestic demand. 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 telecommunications forecast assumes the continuation of steady growth, especially within the Information Technology (IT), wireless, and Internet markets. However, if market saturation begins to occur in any sector, demand could fall resulting in consumption below the current forecast. Further, prices are sensitive to changes in supply and demand, disposable income, business market conditions, changes in technology, and general inflation.

**TABLE 7**
**CORPORATION AND UTILITIES TAX RECEIPTS BY SECTION (ARTICLE 9)**
**(millions of dollars)**

| Section of Law | Type of Companies | 1999-2000 Actual | 2000-01 Estimated | 2001-02 Projected |
|---|---|---|---|---|
| | | Collections [1/] | | |
| 180 | Organizations and reorganizations | 3.0 | 2.0 | 2.0 |
| 181 | Foreign corporations and maintenance fees | 24.6 | 24.0 | 24.0 |
| 183 | Transportation and transmission companies | 29.7 | 30.0 | 30.0 |
| 184 | Additional tax on transportation and transmission companies | 90.3 | 91.0 | 91.0 |
| 185 | Agricultural cooperatives | 0.1 | 0.1 | 0.1 |
| 186 | Water, steam, gas, electric, light and power companies | 189.4 | (47.0) | 0.0 |
| 186a & e | Public utilities/telecommunication | 1,126.5 | 808.9 | 812.9 |
| 189 | Natural gas importers | 25.2 | 18.0 | 12.0 |
| | Subtotal | 1,488.7 | 927.0 | 972.0 |
| | | Special Revenue Funds | | |
| | Less Other Funds MTOAF [2/] | 70.4 | 82.0 | 97.0 |
| | Net General Fund | 1,418.3 | 845.0 | 875.0 |

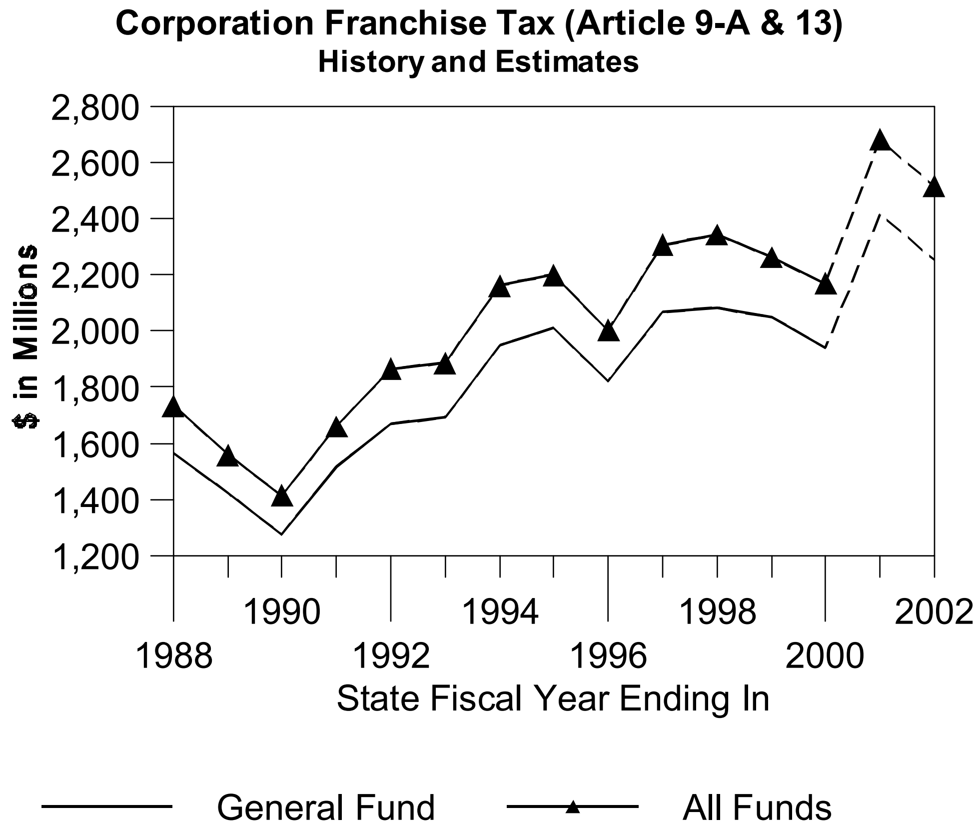
[1/] Receipts from the regional business tax surcharge are excluded.
[2/] Per statute, 54 percent of sections 183 and 184 receipts in 1998 and 1999, 64 percent in 2000, and 80 percent in 2001 and thereafter, are dedicated to the MTOAF.

**TABLE 8**
**ALL FUNDS RECEIPTS FROM**
**CORPORATION AND UTILITIES TAXES (ARTICLE 9)**
**(millions of dollars)**

| | 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 | | | | | | | | |
| 1992-93 | 1,549 | 5 | 1,544 | 206 | 1 | 205 | 0 | 0 | 1,749 |
| 1993-94 | 1,604 | 12 | 1,592 | 232 | 1 | 231 | 0 | 0 | 1,823 |
| 1994-95 | 1,574 | 69 | 1,505 | 204 | 3 | 201 | 0 | 0 | 1,706 |
| 1995-96 | 1,581 | 14 | 1,567 | 190 | 1 | 189 | 0 | 0 | 1,756 |
| 1996-97 | 1,616 | 39 | 1,577 | 214 | 2 | 212 | 0 | 0 | 1,789 |
| 1997-98 | 1,517 | 13 | 1,504 | 264 | 2 | 262 | 0 | 0 | 1,766 |
| 1998-99 | 1,506 | 17 | 1,489 | 240 | 2 | 238 | 0 | 0 | 1,727 |
| 1999-2000 | 1,444 | 26 | 1,418 | 276 | 2 | 274 | 0 | 0 | 1,692 |
| | Estimated | | | | | | | | |
| 2000-01 | 862 | 17 | 845 | 197 | 2 | 195 | 0 | 0 | 1,040 |
| 2001-02 | 892 | 17 | 875 | 216 | 2 | 214 | 0 | 0 | 1,089 |

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

## *CORPORATION FRANCHISE TAX (Article 9-A and 13)*




### *DESCRIPTION*

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, such as allowing railroad and trucking companies to elect to be taxed under Article 9-A and the deregulation of electric utility companies.

### *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 8.0 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 2.5 percent.
3. A capital base at a rate of 0.178 percent. Allocated business and investment capital form the capital base with a maximum annual tax of $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.

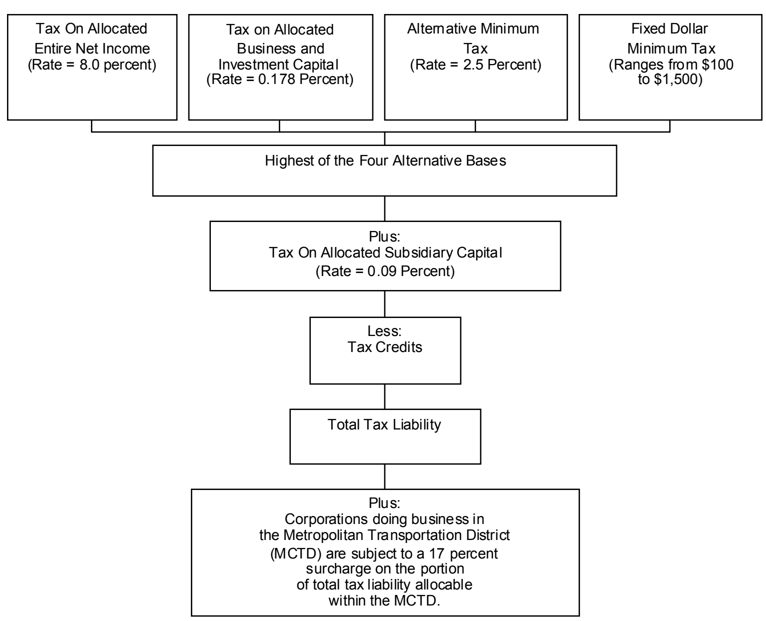
For tax years ending after June 1990 and before July 1994, a temporary State business surcharge of 15 percent of tax, after the application of any credits, was in effect. The surcharge fell to 12.5 percent during 1994, to 7.5 percent during 1995, to 2.5 percent during 1996, and was eliminated during 1997. 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.

Article 13 of the Tax Law levies a tax of 9 percent on the unrelated business income of otherwise tax-exempt organizations operating in the State.

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.

The following flow chart shows how alternative tax bases are used to compute Article 9-A tax liability.

**Article 9-A Flowchart**

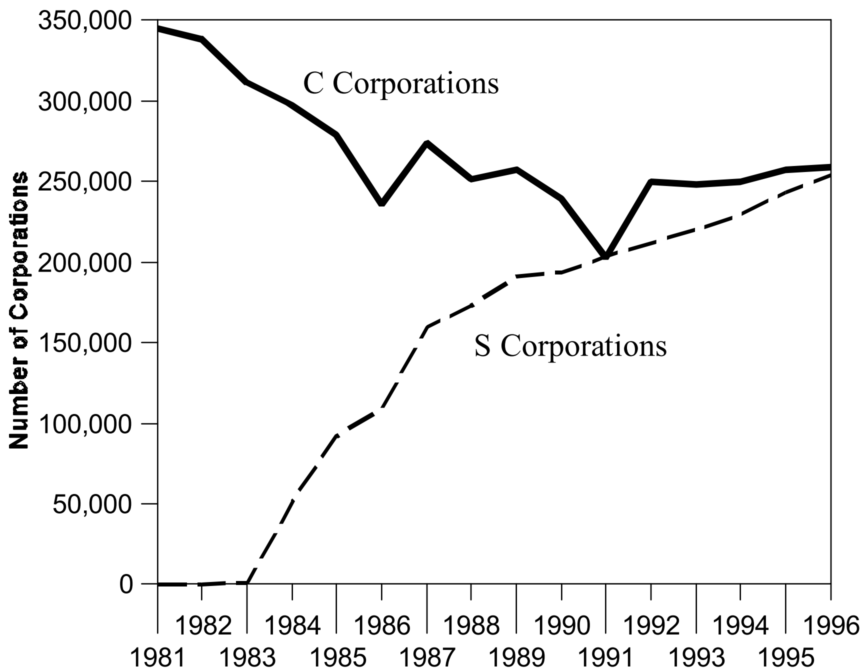


### *Tax Base*

The corporation franchise tax is made up of business entities classified as either C corporations or S corporations. In the 1996 tax year, C corporations accounted for approximately 90 percent of total tax liability. Corporations that elect S corporation status pay an "entity" tax, which is calculated as the difference between the corporation franchise tax and the personal income tax rate. In addition to the entity tax, the individual shareholders of the S corporation pay tax on their shares under the personal income tax.

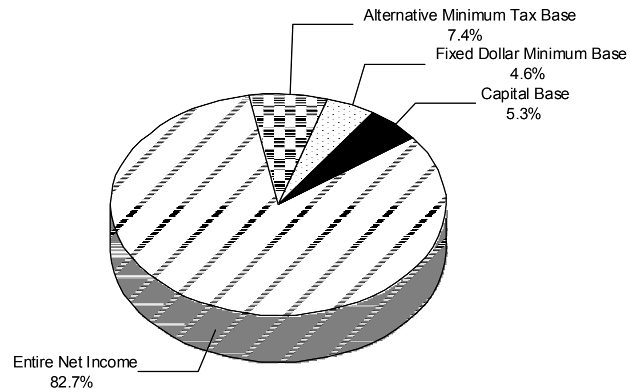
The New York State Department of Taxation and Finance's Office of Tax Policy Analysis compiles tax study files which include all corporations filing under Article 9-A except fixed dollar minimum tax filers and S corporations. The latest tax study file is 1996, which includes data items from the tax returns for each corporation. The 1996 tax study file indicates that 259,285 taxpayers paid as C corporations, while 254,236 taxpayers paid as S corporations. The chart below illustrates that, since 1982, the number of S corporations increased, while the number of C corporations decreased and then stabilized. S corporations grew in number because of State and Federal Tax Law advantages for small businesses which made S corporation elections attractive.

**Number of S Corps and C Corps**
**(1981-1996)**



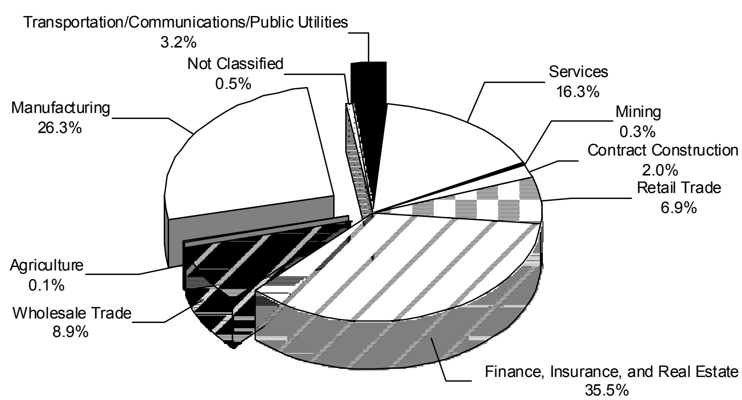
Several characteristics of C corporations are noteworthy. In 1996, about 83 percent of liability was paid under the entire net income base. The alternative minimum tax is the second largest base, at 7.4 percent of liability. (See pie chart.)

**1996 Distribution of Tax Liability by Basis of Tax**




The next chart shows the distribution of tax liability by major industry sector. Liability paid by the finance, insurance, and real estate sector (FIRE) made up almost 36 percent of total tax liability paid by C corporation taxpayers in 1996, with the manufacturing sector paying 26 percent of liability.

**1996 Tax Base Industry Profile:**
**(Share of Total Tax Liability of C Corporation Taxpayers)**

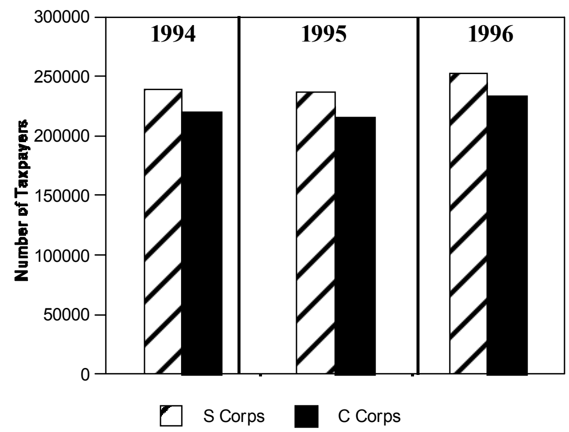



**Source: New York State Department of Taxation and Finance**
*Excludes S corporations taxable under Article 9-A.

The FIRE sector's share of total C corporation tax liability increased by about 5 percent from 1995. In contrast, the manufacturing sector's share of total tax liability decreased by slightly more than 1 percent. Historically, the FIRE and manufacturing sectors have accounted for 50 percent to 60 percent of total corporate franchise tax liability of C corporations. In 1996, they accounted for roughly 62 percent of total tax liability.

Although New York State is dominated by the presence of major corporations, small businesses (fewer than 100 employees) make up the vast majority of taxpayers under Article 9-A. In 1996, roughly 232,878 of C corporations and 252,482 of S corporations were small businesses. As the bar graph illustrates, the number of small businesses grew by roughly 7 percent between 1995 and 1996.

**Number of Small Businesses by S Corp and C Corp Status**
**(1994-1996)**



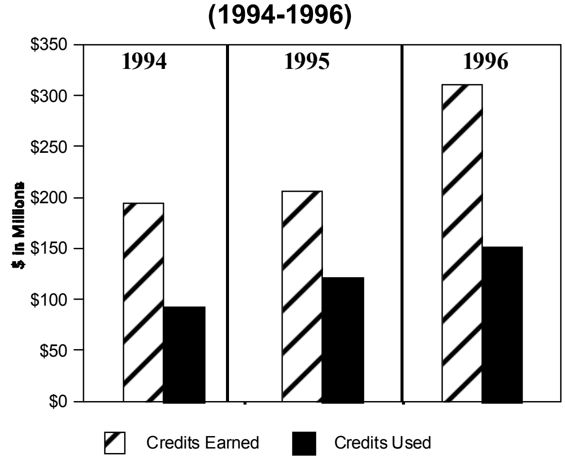

### *SIGNIFICANT LEGISLATION*

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. The primary objective of these provisions is to provide economic incentives to stimulate the New York economy and to eliminate tax inequities across firms.

#### *Credits*

As the graph indicates, the amount of credits earned and available to reduce entire net income (ENI) liability exceeds the amount of credits used. Additionally, since 1994, the number of credits earned has increased significantly. This trend is expected to continue as more targeted tax credits, such as the investment tax credit (ITC), are used by businesses in the State. The ITC accounts for the majority of the tax credit base. In 1996, the ITC accounted for about 88 percent of all tax credits used and for about 83 percent of all tax credits earned. It is anticipated that the amount of ITC credit used will increase due to the alternative minimum tax (AMT) rate reductions and the ability to apply credits against the AMT for corporations within an Empire Zone. Historically, Tax Law provisions prevented taxpayers from using the ITC to reduce final tax liability below the fixed dollar minimum tax. Further, a taxpayer's ability to receive the full benefit of certain tax incentives has been limited by the AMT. Legislation enacted in 2000, however, made it possible to apply the employment incentive credit and the newly created tax reduction credit against

**Total Credits Used and Credits Earned**
**(1994-1996)**



the AMT if the taxpayer is within an Empire Zone. Additionally, the tax reduction credit for qualified Empire Zone enterprises may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's corporate franchise tax liability to zero.

### *Tax Policy Actions*

The 2000-01 Enacted Budget included the following tax policy actions which will significantly affect Article 9-A tax collections:

— **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.

— **Financial Service Customer Sourcing:** For taxable years beginning on or after January 1, 2001, financial service taxpayers under Article 9-A will now allocate certain receipts by customer location

— **Small Business Rate Reduction:** For taxable years beginning on or after June 30, 2003, small businesses with entire net income of $200,000 or less will pay a lower tax rate of 6.85 percent.

— **S Corporation Rate Reduction:** For tax years beginning on or after June 30, 2003, the differential tax rate imposed on S corporations will be reduced by 45 percent.

— **Empire Zones:** For tax years beginning on or after January 1, 2001, Economic Development Zones will be transformed to Empire Zones, effectively providing for virtual "tax-free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption.

### *2000-01 RECEIPTS*

Based on collections to date, net collections are projected to reach approximately $2,682 million, a $515 million increase from 1999-2000. The increase is primarily attributable to broad-based increases in payments on 2000 liability. Adjustments to current-year payments from prior liability periods were consistent with prior-year patterns. There were no unusual credit carry forwards by taxpayers to offset 2000 cash payments. In addition, the initiation of Article 9-A payments by electric and gas utilities served to significantly increase receipts from this tax. Receipts were depressed due to the impact of roughly $170 million in already enacted tax reductions.

### *2001-02 PROJECTIONS*

Corporate franchise tax receipts are estimated to decrease by 6 percent in 2001-02. The decline is due to several factors. The growth in economic activity, at both the national and state level, is projected to be considerably less robust than in the previous year. In addition, weakness in both mergers and acquisition and initial public offering activity are expected to adversely affect earnings by Wall Street corporations.

In addition, proposed Tax Law changes will reduce receipts. These tax actions include the gradual elimination of the alternative minimum tax and the movement to a single-factor sales formula for the apportionment of manufacturers net income. See the Tax Reduction Package section contained in this Appendix for more details.

Further, corporate franchise tax receipts were adjusted to reflect a revision to estimates of the Empire Zone Program enacted with the 2000-01 Budget. The program was originally anticipated to reduce franchise tax receipts by $10 million in 2001-02. It is now expected the program will reduce receipts by an additional $70 million in 2001-02.

### *OTHER FUNDS*

Under current law, a 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 MCTD and is the principal revenue source of the Mass Transportation Operating Assistance Fund (MTOA). Based on collections to date, the Article 9-A MTOA contribution for 2000-01 is projected to reach approximately $270 million, an 18 percent increase from 1999-2000. As with General Fund receipts, the surcharge collections are affected by the energy utility restructuring, the volatility of the financial services sector, and general growth in business activity for the current tax year. Consistent with our overall estimates, and the fact that the MTOA is protected from the corporation franchise tax reduction, 2001-02 State fiscal year collections are expected to decrease by roughly 2.6 percent.

### *GENERAL FUND*

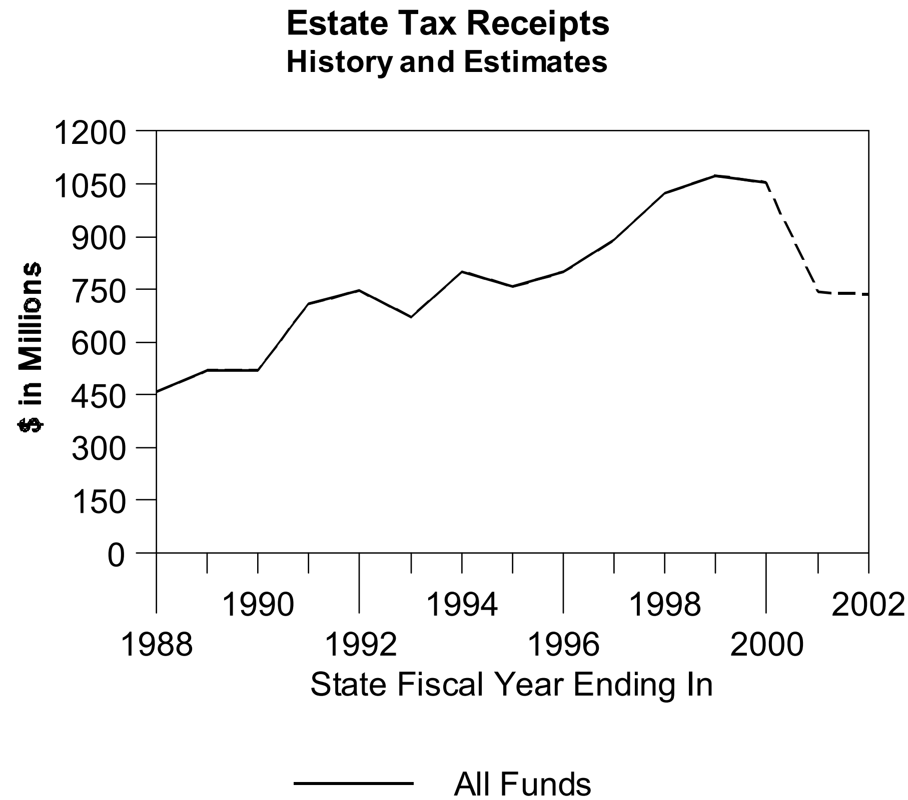
Based on collections to date, General Fund net collections for 2000-01 are projected to increase by 24 percent from 1999-2000. The increase in General Fund collections is primarily driven by the energy restructuring and strong growth in current tax year collections.

**CORPORATE FRANCHISE TAX RECEIPTS**
**(millions of dollars)**

| | 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 | | | | | | | | |
| 1992-93 | 2,013 | 342 | 1,691 | 210 | 16 | 194 | 0 | 0 | 1,885 |
| 1993-94 | 2,216 | 268 | 1,948 | 232 | 18 | 214 | 0 | 0 | 2,162 |
| 1994-95 | 2,289 | 277 | 2,012 | 206 | 20 | 186 | 0 | 0 | 2,198 |
| 1995-96 | 2,216 | 396 | 1,820 | 217 | 35 | 182 | 0 | 0 | 2,002 |
| 1996-97 | 2,414 | 347 | 2,067 | 273 | 35 | 238 | 0 | 0 | 2,305 |
| 1997-98 | 2,381 | 300 | 2,081 | 289 | 27 | 262 | 0 | 0 | 2,343 |
| 1998-99 | 2,479 | 429 | 2,050 | 243 | 31 | 212 | 0 | 0 | 2,262 |
| 1999-2000 | 2,420 | 482 | $1,938 | 272 | 43 | 229 | 0 | 0 | 2,167 |
| | Estimated | | | | | | | | |
| 2000-01 | 2,870 | 458 | 2,412 | 308 | 38 | 270 | 0 | 0 | 2,682 |
| 2001-02 | | | | | | | | | |
| (current law) | 2,710 | 433 | 2,277 | 302 | 37 | 265 | 0 | 0 | 2,543 |
| (proposed law) | 2,679 | 427 | 2,252 | 300 | 37 | 263 | 0 | 0 | 2,515 |

[1/] Mass Transportation Operating Assistance Fund

# ESTATE TAXES




## DESCRIPTION

### Current Law

New York imposes a tax on the estates of deceased State residents, and on that part of a nonresident's estate made up of real and tangible personal property located within New York State.

The New York estate tax is statutorily set to be equal to the Federal credit for state death taxes allowed against the Federal estate tax, or the part of the credit allocated to New York where the resident decedent owned real or tangible personal property outside of New York State, or where a non-resident decedent owned real or tangible personal property in New York State. Because the New York estate tax is allowed as a credit, dollar for dollar, against the Federal estate tax, the New York tax imposes no additional tax cost on the estate.

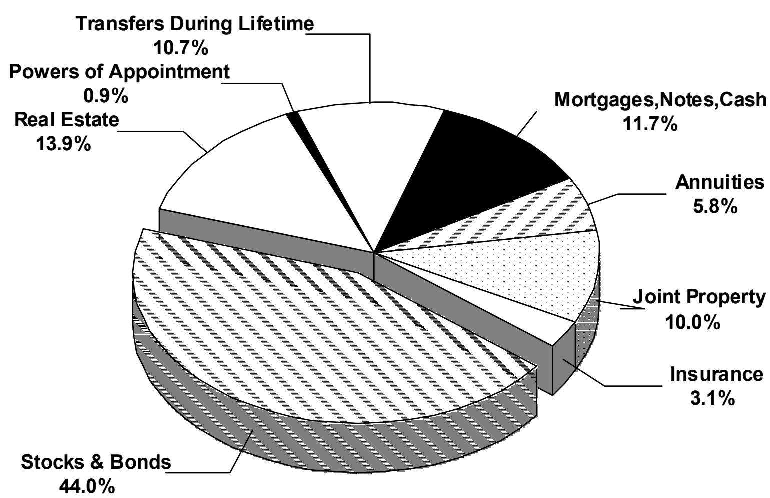
Effective February 1, 2000, and applicable to estates of individuals dying on or after that date, the requirement to file a New York State estate tax return is essentially the same as the requirement to file a Federal return. This means that beginning February 1, 2000, if no Federal estate tax return is required, no New York State return is required. On that date, the filing threshold was $675,000, and increases to $1 million will be phased in by the year 2006.

For those dying before February 1, 2000, New York's tax rates ranged 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 was $10,000, which eliminated the State estate tax for estates valued up to $300,000.

### Factors Affecting Yield

The recent yield of this tax has been heavily influenced by three factors: Tax Law 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 Estates 1997-98**




Source: New York State Department of Taxation and Finance

The enactment of various Tax Law changes has had a significant impact on collections in recent years. Historically, fluctuating security prices and the varying number of large estates have caused wide fluctuations in collections. Recent tax reductions have substantially reduced estate tax collections from the smallest estates, so volatility in receipts is expected to increase. This results from the elimination of a large number of small estates from the base of the tax and the more random nature of collections from large estates.

## SIGNIFICANT LEGISLATION

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 |

| Subject | Description | Effective Date |
|---|---|---|
| **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 |
| 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 to nine months (same as Federal). | February 1, 2000 |
| **Legislation Enacted in 1998** | | |
| Closely-Held Business | Interest on deferred payments of estate tax where estate consists largely of a closely-held business reduced from 4 percent to 2 percent. | January 1, 1998 |
| **Legislation Enacted in 1999** | | |
| Family-Owned Business Deduction | Family-owned business exclusion repealed and replaced with family-owned business deduction, conforming to Federal changes. | December 31, 1997 |
| Penalty and Interest | Penalty and interest waived on estate tax associated with a cause of action that was pending on the date of death, or which was associated with the decedent's death. The waiver is applicable from the date the return disclosing the cause of action if filed. | July 13, 1999 |

### *2000-01 RECEIPTS*

In developing projections for estate tax receipts, the value of household net worth is used to forecast receipts from estates that make payments of less than $4 million. A distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

Estimated net estate tax collections of $567.4 million for the first nine months of 2000-01 are 22 percent lower than collections during the comparable period in 1999-2000. Although household net worth grew by an estimated 4.8 percent in 2000-01, the recent tax cuts more than offset these gains and receipts have declined significantly.

Estimated nine-month collections from estates with payments of at least $4 million are $157.5 million or 19 percent higher than the comparable period in 1999-2000. Collections from large estates with tax payments of at least $0.5 million but less than $4 million decreased by $8.5 million to $170.9 million. Similarly, small estate payments (payments of less than $0.5 million) also experienced a decrease of $74 million, down 18 percent to $271.8 million from the similar period of 1999-2000. These declines largely reflect both the recent weakness in the equity markets and the impact of previously enacted tax reductions.

Collections through nine months of 2000-01 from the Tax Department's Case and Resource Tracking System (CARTS — primarily audit collections) have reached $15.3 million, a decline of about 40 percent from the same period of 1999-2000.

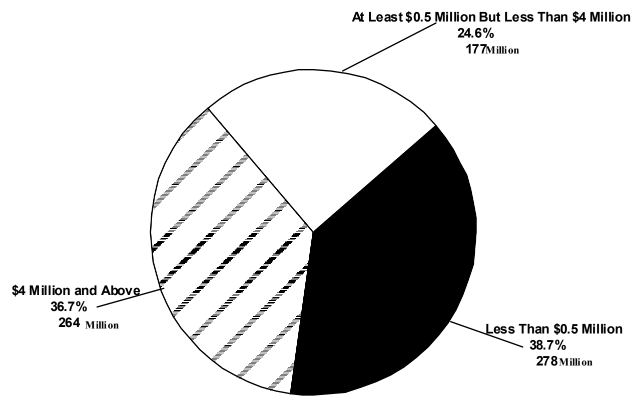
For the 2000-01 fiscal year, gross estate tax receipts, not including refunds, are estimated to total $741.6 million, composed of $264.7 million from estates with payment of $4 million or more, $277 million from estates with payments between $500,000 and $4 million, and $199.9 million from small estates. Net estate tax receipts of $716.6 million in 2000-01 include refunds, which are anticipated to reach $50 million, and CARTS collections of $25 million. It is estimated that the effects of the aforementioned tax cuts have reduced total receipts by $330.0 million.

### *2001-02 PROJECTIONS*

The combination of increasing the Federal unified credit to exclude estates valued at less than $675,000 and the first full-year effect of moving to a pickup tax will offset the 5.9 percent increase in the base of the tax.

Including CARTS collections of $24 million and refunds of $40 million, net estate tax receipts are projected to be $734.1 million in 2001-02.

## Share of Tax Payments
**(1999-2000 Estimated)**




## Share of Tax Payment
**(2000-01 Projections)**

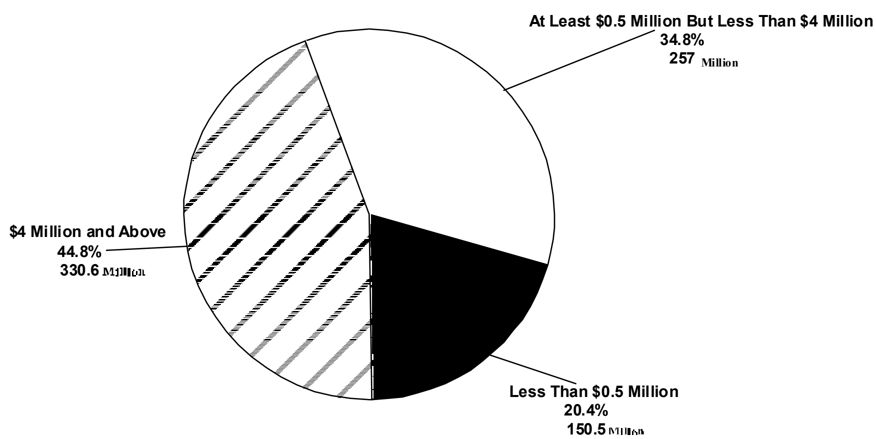


**TABLE 1**
**ESTATE TAX COLLECTIONS — PRIOR TO REFUNDS**
**(millions of dollars)**

| | Extra Large Estates [1/] | | Large Estates [2/] | | All Large Estates | | Small Estates [3/] | Grand Total |
|---|---|---|---|---|---|---|---|---|
| | 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 |
| 1999-2000 | 14 | 176.8 | 188 | 229.6 | 204 | 514.1 | 460.9 | 975.0 |
| | Estimated | | | | | | | |
| 2000-01 | 20 | 210.5 | 199 | 277.0 | 215 | 541.7 | 174.9 | 716.6 |
| 2001-02 Projected | 18 | 215.9 | 173 | 276.6 | 190 | 607.3 | 126.8 | 734.1 |

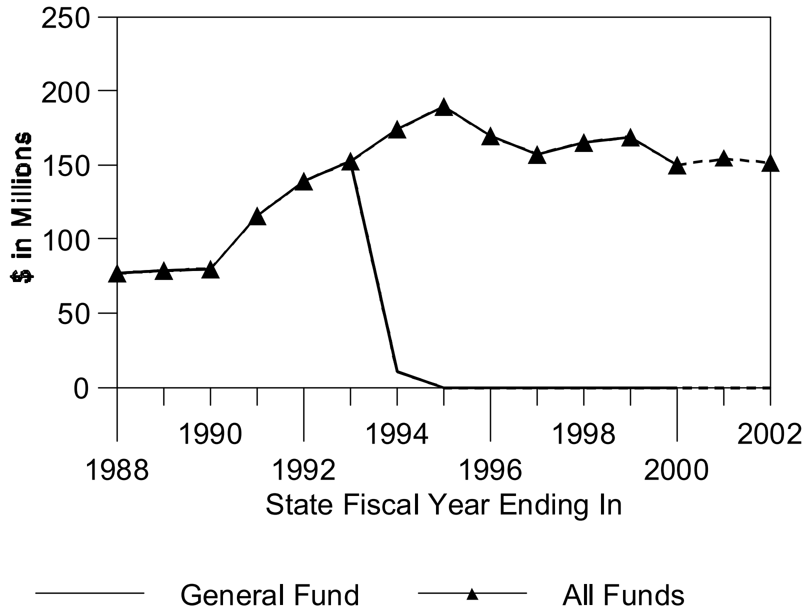
1/ Liability of at least $4.0 million.
2/ Liability of at least $0.5 million but less than $4.0 million.
3/ Liability less than $0.5 million.

**TABLE 2**
**ESTATE TAX**
**(thousands of dollars)**

| | General Fund | Refunds | Net General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | All Funds Net Collections |
|---|---|---|---|---|---|---|---|
| | Actual | | | | | | |
| 1993-94 | 760,901 | 40,660 | 720,241 | 0 | 0 | 0 | 720,241 |
| 1994-95 | 754,844 | 59,250 | 695,594 | 0 | 0 | 0 | 695,594 |
| 1995-96 | 723,097 | 44,399 | 678,698 | 0 | 0 | 0 | 678,698 |
| 1996-97 | 842,015 | 50,457 | 791,558 | 0 | 0 | 0 | 791,558 |
| 1997-98 | 967,785 | 48,424 | 919,361 | 0 | 0 | 0 | 919,361 |
| 1998-99 | 993,086 | 46,641 | 946,445 | 0 | 0 | 0 | 946,445 |
| 1999-2000 | 1,028,698 | 53,526 | 975,172 | 0 | 0 | 0 | 975,172 |
| | Estimated | | | | | | |
| 2000-01 | 766,700 | 51,000 | 716,600 | 0 | 0 | 0 | 716,600 |
| 2001-02 | 774,100 | 40,000 | 734,100 | 0 | 0 | 0 | 734,100 |

# HIGHWAY USE TAX

**Highway Use Tax Receipts**
**History and Estimates**




## DESCRIPTION

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

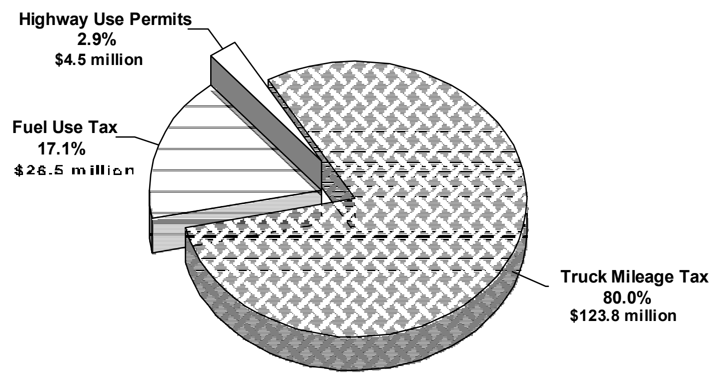
The truck mileage tax is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight in excess of 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is imposed at rates graduated according to the gross vehicle weight. The tax is calculated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

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, and after April 1, 2001, the supplemental tax will be reduced by an additional 20 percent.

## 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 | | |

**Highway Use Tax Components — Estimated 2000-2001**
**Receipts = $154.8 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 a cost of $15 for an initial permit. Additionally, special permits are issued for the transportation of motor vehicles, for automotive fuel carriers, and for trips into New York State 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 LEGISLATION*

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 1995.

**SIGNIFICANT HIGHWAY USE TAX LEGISLATION**

| Subject | Description | Effective Date |
|---|---|---|
| **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 |
| **Legislation Enacted in 2000** | | |
| Supplemental Tax | Reduced the truck mileage supplemental tax by 20 percent. | April 1, 2001 |

## *2000-01 RECEIPTS*

Net highway use tax receipts for 1999-2000 were $150.2 million, including truck mileage tax receipts of $119.1 million, fuel use tax receipts of $23.2 million, and highway use permit fees of $7.9 million.

In the current fiscal year, national and New York economic growth contributed to an increased demand for trucking. Estimated truck mileage tax receipts for the first nine months of 2000-01 were 4.3 percent greater than the comparable period in 1999-2000. Estimated fuel use tax receipts for the first nine months of 2000-01 were 13.6 percent greater than the comparable 1999-2000 period due primarily to higher fuel prices.

Based on collection experience to date, and expectations of an economy growing, but more slowly, highway use taxes will continue to grow. Net truck mileage tax receipts are projected at $123.8 million, fuel use tax receipts at $26.5 million, and permit fees at $4.5 million, which reflect the change from a peak triennial renewal year to a regular renewal year, bringing total estimated highway use tax receipts for 2000-01 to $154.8 million.

## *2001-02 PROJECTIONS*

Total highway use tax receipts for 2001-02 are projected at $151.3 million. The base of the truck mileage tax is expected to increase by about 2.5 percent as a result of continued but slow economic growth. Tax Law changes enacted with the 2000-01 Budget will reduce the truck mileage supplemental tax by 20 percent. This will reduce truck mileage tax receipts by approximately $8.5 million. Net truck mileage tax receipts are estimated at $118.3 million. Due to the continuing effect of increased fuel prices, the sales tax component of the fuel use tax is estimated to increase by more than 14 percent. Thus, fuel use tax receipts are expected to grow to $28.6 million. Permit fees of $4.3 million reflect a regular renewal year.

## *OTHER FUNDS*

The Dedicated Highway and Bridge Trust Fund receives all highway use tax receipts.

## GENERAL FUNDS

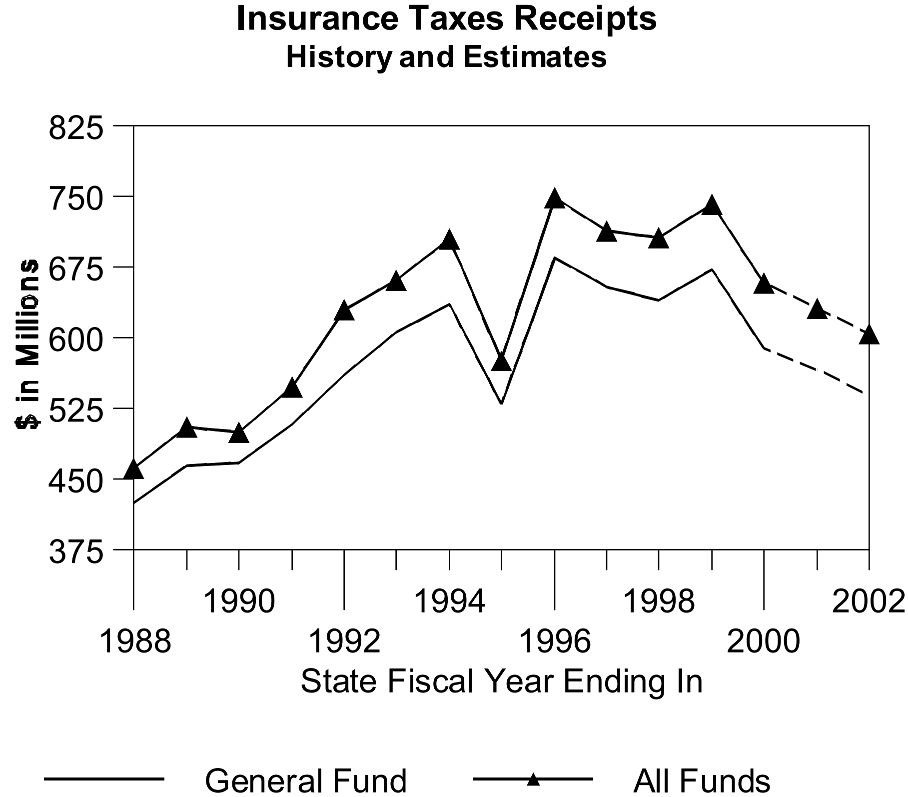
Beginning in 1994-95, no highway use tax receipts have been deposited in the General Fund.

**HIGHWAY USE TAX RECEIPTS — ALL FUNDS**
**(thousands of dollars)**

| | 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 | | | | |
| 1992-93 | 154,375 | 2,130 | 152,245 | 0 | 0 | 0 | 0 | 0 | 152,245 |
| 1993-94 | 10,897 | 0 | 10,897 | 0 | 166,071 | 2,723 | 163,348 | 0 | 174,245 |
| 1994-95 | 0 | 0 | 0 | 0 | 191,738 | 2,577 | 189,161 | 0 | 189,161 |
| 1995-96 | 0 | 0 | 0 | 0 | 174,377 | 4,373 | 170,004 | 0 | 170,004 |
| 1996-97 | 0 | 0 | 0 | 0 | 164.226 | 6,912 | 157,314 | 0 | 157,314 |
| 1997-98 | 0 | 0 | 0 | 0 | 167,644 | 2,834 | 164,810 | 0 | 164,810 |
| 1998-99 | 0 | 0 | 0 | 0 | 171,525 | 2,858 | 168,667 | 0 | 168,667 |
| 1999-2000 | 0 | 0 | 0 | 0 | 151,994 | 1,769 | 150,225 | 0 | 150,225 |
| | | | | | Estimated | | | | |
| 2000-01 | 0 | 0 | 0 | 0 | 156,800 | 2,000 | 154,800 | 0 | 154,800 |
| 2001-02 | 0 | 0 | 0 | 0 | 153,300 | 2,000 | 151,300 | 0 | 151,300 |

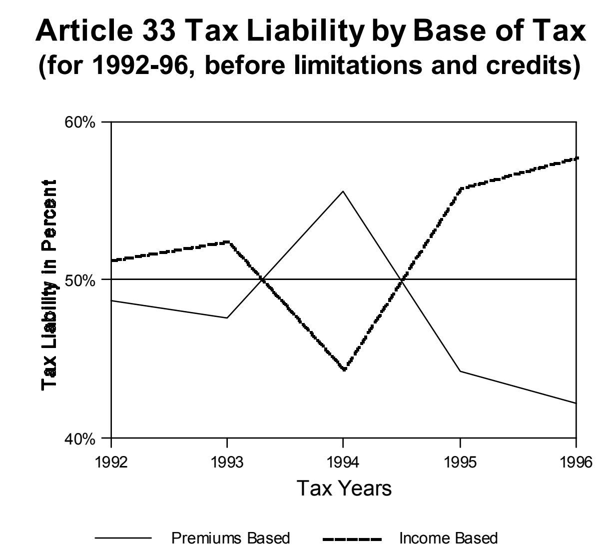
[1/] Dedicated Highway and Bridge Trust Fund

# INSURANCE TAXES




## DESCRIPTION

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.




### 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; a franchise tax based on alternative bases including net income and an additional franchise tax based on premiums.

The franchise tax component of the insurance 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 FOR THE NET INCOME COMPONENT OF THE FRANCHISE TAX**
**BY TYPE OF BASE**

| Base | Rate |
|---|---|
| Allocated entire net income | — 8.50 percent for taxable years beginning after June 30, 2000, and before July 1, 2001.<br>— 8.00 percent for taxable years beginning after June 30, 2001, and before July 1, 2002.<br>— 7.50 percent for taxable years beginning on or after July 1, 2002. |
| Allocated business and investment capital | — 1.6 mill |
| 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.

The additional franchise tax on premiums is a tax on gross premiums, less refunded premiums, written on risks located or resident in New York. This tax is added to the highest of the alternatives from the net income base. The rate of the premiums tax is determined by the type of insurance covered 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 Empire Zone (EZ) and Zone Equivalent Area (ZEA) credits, cannot exceed a cap calculated as a percent of taxable premiums. This cap, as shown in Table 3, differs by type of insurer. After application of the cap, taxpayers may then claim credits other than EZ and ZEA credits, against total tax liability.

**TABLE 3**
**LIMITATION ON TAX**
**BY TYPE OF INSURER**

| Type of Insurer | Cap Level |
|---|---|
| Life insurers | — 2.0 percent of taxable premiums. |
| All others | — 2.4 percent of taxable premiums for taxable years beginning after June 30, 2000, and before July 1, 2001.<br>— 2.2 percent of taxable premiums for taxable years beginning after June 30, 2001, and before July 1, 2002.<br>— 2.0 percent of taxable premiums for taxable years beginning on or after July 1, 2002. |

### *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.

### *Metropolitan Commuter Transportation District Business Tax Surcharge*

Insurance corporations and other corporations doing business in the New York metropolitan region are subject to a 17 percent temporary business tax surcharge on tax liability within the MCTD region. Receipts from this tax surcharge are deposited in a special revenue fund, the Mass Transportation Operating Assistance Fund, dedicated to mass transit assistance in the New York metropolitan region.

## SIGNIFICANT LEGISLATION

### Credits

Table 4 lists the major tax credits available under Article 33.

**TABLE 4**
**DESCRIPTION OF MAJOR TAX CREDITS**

| Credit | Description |
|---|---|
| Retaliatory | Allows up to 90 percent of retaliatory taxes paid to other states by New York domiciled or organized insurers. |
| Fire Insurance Tax | Allows for taxes paid on certain fire insurance premiums. |
| Investment in Certified Capital Companies (CAPCOs) | Equals 100 percent of amount invested in CAPCOs for taxable years beginning after 1998. The credit is claimed at 10 percent per year for ten years. The original statewide cap was $100 million. It has been increased to $130 million. |
| Special Additional Mortgage Recording Tax (SAMRT) | Provides up to 100 percent of SAMRT paid. A carryfoward is allowed. |
| Investment Tax Credit (ITC) | Allows insurance taxpayers that are brokers/dealers in securities to claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations. |
| Long-Term Care Insurance | Creates a 10 percent credit for cost of purchasing long-term care insurance as defined in the Insurance Law. |
| Low-Income Housing | Mirrors the structure of the existing Federal low-income housing tax credit. In addition, the State program expands the Federal program to include more moderate-income households. Generally, the amount of the credit is the applicable percentage, depending on whether a building is new, existing, or federally subsidized, of the qualified basis of each eligible low-income building. |
| Empire Zones Program | Provides tax incentives in Empire Zones. The enhanced benefits of this program include a tax credit on real property taxes paid, a tax reduction credit, and a sales and use exemption. |

Further, there are also several types of insurance contracts which are exempt from the 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 the regional business surcharge. 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 significant legislation enacted since 1994 affecting insurance taxes:

**INSURANCE TAX LEGISLATION**

| Subject | Description | Effective Date |
|---|---|---|
| **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 (CAPCO's) | Credit equals 100 percent of amount invested in CAPCO's for taxable years beginning after 1998. The rate equals 10 percent per year for ten 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 |
| **Legislation Enacted in 1999** | | |
| CAPCO's | The statewide cap was increased by $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 |
| Entire Net Income (ENI) Tax Rate | Reduces ENI tax rate over a three year period:<br>— 8.5 percent for taxable years beginning after June 30, 2000, and before July 1, 2001.<br>— 8.0 percent for taxable years beginning after June 30, 2001, and before July 1, 2002.<br>— 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:<br>— 2.4 percent for taxable years beginning after June 30, 2000, and before July 1, 2001.<br>— 2.2 percent for taxable years beginning after June 30, 2001, and before July 1, 2002.<br>— 2.0 percent for taxable years beginning on or after July 1, 2002. | June 30, 2000 |
| **Legislation Enacted in 2000** | | |
| CAPCO's | The statewide cap was increased by $150 million to $280 million. | January 1, 2003 |
| Investment Tax Credit | Insurance taxpayers that are brokers/dealers in securities may claim a credit for equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations. | Available for property placed in service between January 1, 2002, and October 1, 2003. |

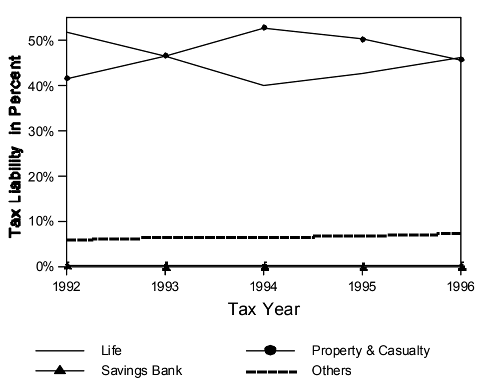
| Subject | Description | Effective Date |
|---|---|---|
| Long-Term Care Insurance Credit | Creates a 10 percent credit for cost of purchasing long-term care insurance as defined in the Insurance Law. | January 1, 2002 |
| Low-Income Housing | Mirrors the structure of the existing Federal low-income housing tax credit. In addition, it is expanded to include more moderate-income households. The amount of the credit is the applicable percentage, depending on whether a building is new, existing, or federally subsidized, of the qualified basis of each eligible low-income building. | January 1, 2000 |
| Empire Zones Program | Provides Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transforms the current Economic Development Zones into virtual "tax-free" zones for certain businesses. The enhanced benefits of this program include a tax credit on real property taxes paid, tax reduction credit, and sales and use exemption. | January 1, 2001 |

## *2000-01 RECEIPTS*

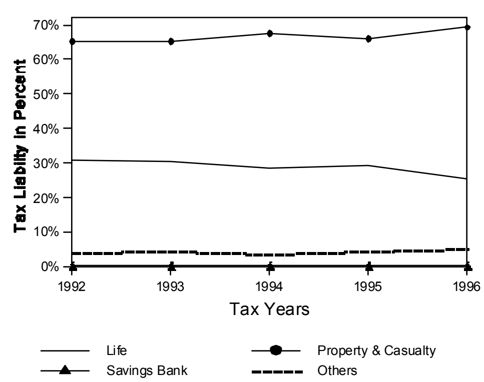
The estimate of All Fund receipts for 2000-01 is $631.3 million, a decline of 4.1 percent over the prior State fiscal year.

Graphs 1 and 2 illustrate, for the 1992-1996 period, that the Property/Casualty and Life/Health sectors combined have historically accounted for over 90 percent of tax liability.

**Article 33 Net Income Tax Liability**
**(for 1992-1996, 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 insurance tax collections. The property and casualty sector typically accounts for over 60 percent of premium tax liability and 45 percent of net income tax liability. The five largest lines of business under property and casualty lines of business are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners multi-peril. They account for approximately 80 percent of premiums. The table below lists the property and casualty New York premiums from 1993 through 1999 and estimates for 2000 and 2001.

**TABLE 5**
**PROPERTY AND CASUALTY INSURANCE**
**NEW YORK CALENDAR YEAR PREMIUMS**
**(millions of dollars/percent)**

| Lines of Insurance | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 (est.) | 2001 (est.) |
|---|---|---|---|---|---|---|---|---|---|
| Automobile | 8,125 | 8,572 | 8,913 | 9,466 | 9,490 | 9,631 | 9,594 | 9,740 | 9,945 |
| *percent change* | | *5.50* | *3.98* | *6.20* | *0.26* | *1.49* | *(0.38)* | *1.52* | *2.10* |
| Workers' Compensation | 3,555 | 3,769 | 3,650 | 3,121 | 2,725 | 2,686 | 2,752 | 2,794 | 2,845 |
| *percent change* | | *6.02* | *(3.15)* | *(14.49)* | *(12.70)* | *(1.41)* | *2.46* | *1.53* | *1.83* |
| Commercial Multi-Peril | 2,006 | 2,043 | 2,139 | 2,097 | 2,031 | 2,071 | 2,002 | 2,031 | 2,091 |
| *percent change* | | *1.84* | *4.70* | *(1.96)* | *(3.15)* | *1.99* | *(3.33)* | *1.45* | *2.95* |
| General Liability | 1,939 | 1,981 | 1,853 | 1,851 | 2,091 | 2,734 | 1,825 | 1,871 | 1,963 |
| *percent change* | | *2.17* | *(6.45)* | *(0.11)* | *12.99* | *30.90* | *(33.25)* | *2.52* | *4.92* |
| Homeowners Multi-Peril | 1,761 | 1,868 | 1,966 | 2,053 | 2,133 | 2,181 | 2,230 | 2,251 | 2,347 |
| *percent change* | | *6.05* | *5.27* | *4.43* | *3.91* | *2.33* | *2.25* | *0.94* | *4.26* |
| Other | 560 | 3,689 | 3,567 | 3,574 | 3,620 | 3,642 | 3,608 | 3,665 | 3,754 |
| *percent change* | | *12.03* | *(3.31)* | *0.20* | *1.29* | *0.61* | *(0.93)* | *1.58* | *2.42* |
| TOTAL P/C PREMIUMS | 20,909 | 21,922 | 22,088 | 22,162 | 22,090 | 22,945 | 22,011 | 22,352 | 22,945 |
| Annual Increase/Decrease *percent change* | | *4.85* | *0.75* | *0.34* | *(0.32)* | *3.87* | *(4.07)* | *1.55* | *2.65* |

Net premiums for property and casualty companies overall are expected to grow by 1.6 percent. This is the result of slower growth in the homeowners multi-peril and workers' compensation lines, due in part from increased competition within the personal-lines market. Somewhat offsetting this slow growth is stronger expected growth in the automobile, commercial multi-peril, and general liability lines of business.

Property and casualty net income tax liability is estimated to grow by almost 2.5 percent. This estimate reflects the combination of smaller underwriting losses with growth in net investment income for the property and casualty companies. The growth in net investment income results from moderate growth in interest rates and equity markets.

Also affecting net income tax liability are payouts of policies. The industry is required to honor claims from catastrophes that occurred this year, as well as to continue paying claims for prior-year catastrophic events.

### *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 insurance tax collections. Premiums for life and health companies are expected to grow by only 3 percent on a year-over-year basis. This weak growth is due, in part, to the continuation of recent factors inhibiting growth including: increased competition from banks, mutual funds and other financial institutions; shifting demographics (population shift to the south and west, population aging, etc.); and the weak operating performance of the industry overall.

### *2001-02 PROJECTIONS*

All Funds collections for 2001-02 are projected at $604 million, a decrease of 4.3 percent. Due to continued consolidation in the industry overall and the shedding of non-core lines of business by both the property and casualty and the life and health companies, most industry analysts believe that the industry will remain in a low-pricing cycle over the next year. With the resulting stagnation in premium volumes, the industry continues to depend on the stock and bond market performance to offset underwriting losses. Growth in the equity market is expected to moderate over the next year. Estimated collections for the year will also be depressed due to the increased competition resulting from the entry of banks and other financial service companies into the market after the repeal of the Glass-Steagall Act. Finally, collections will be lower due to the reduction in the ENI rate to 8.5 percent and the reduction in the cap on non-life insurers to 2.4 percent.

The forecast of receipts from property and casualty insurers is based on an increase in premium liability of 2.7 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 casualty companies is projected to increase by only 0.9 percent.

The competitive forces, 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 2001 tax year. The New York share of premiums written will remain approximately 8 percent of the national market, and premiums written are expected to grow 3.0 percent per year. Net income tax liability for this sector is projected to grow 1.1 percent.

### *OTHER FUNDS*

There is a surcharge of 17 percent upon companies tax liability attributed to the MCTD region and is deposited in the Mass Transportation Operating Assistance Fund. For 2000-01, the deposit is estimated at $64.3 million and $64.0 million for 2001-02.

### *GENERAL FUND*

General Fund collections through December 2000 are estimated to be $395 million, a decrease of $15 million from the comparable period in 1999. These receipts for 2000-01 include an estimated $23 million in audit collections. The estimate for all of 2000-01 is $567 million.

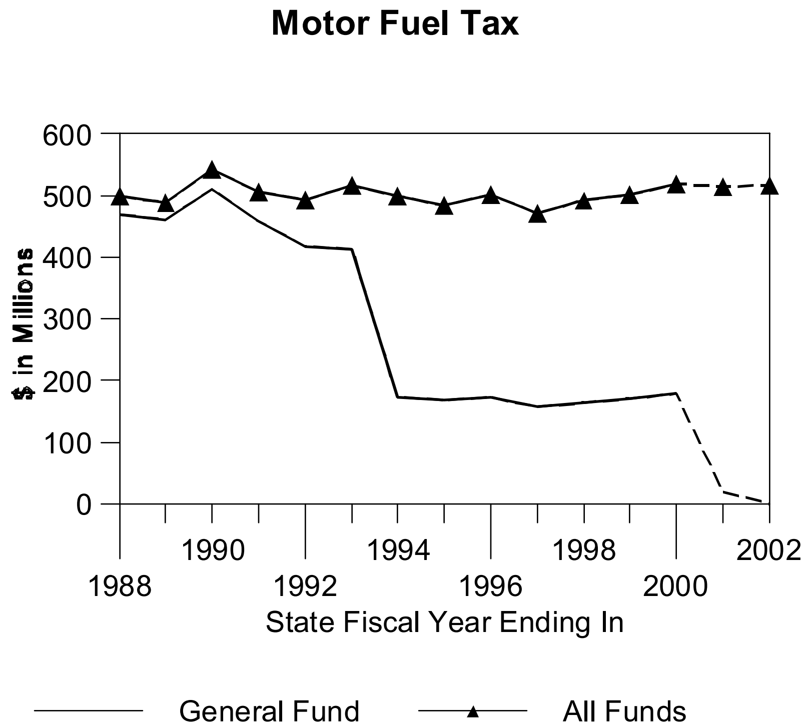
For 2001-02, General Fund collections are estimated at $540 million. This includes an estimated $20 million in audits, offset by $30 million in refunds. The table below provides the receipts estimate for 2000-01 and the forecast for 2001-02, as well as a history of receipts for 1992-93 through 1999-2000.

**TABLE 6**
**INSURANCE TAX RECEIPTS**
**(millions of dollars)**

| | 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 | | | | | | | | | |
| 1992-93 | 593.7 | 30.2 | 43.2 | 606.7 | 57.5 | 4.5 | 53.0 | 0 | 0 | 659.7 |
| 1993-94 | 644.5 | 25.1 | 16.5 | 635.9 | 72.7 | 3.7 | 69.0 | 0 | 0 | 704.9 |
| 1994-95 | 538.7 | 36.2 | 27.5 | 530.0 | 50.4 | 4.3 | 46.1 | 0 | 0 | 576.1 |
| 1995-96 | 700.3 | 28.8 | 13.5 | 685.0 | 68.1 | 3.9 | 64.2 | 0 | 0 | 749.2 |
| 1996-97 | 649.5 | 28.8 | 32.8 | 653.5 | 67.7 | 7.6 | 60.1 | 0 | 0 | 713.6 |
| 1997-98 | 629.1 | 14.0 | 25.6 | 640.7 | 68.8 | 2.8 | 66.0 | 0 | 0 | 706.7 |
| 1998-99 | 681.8 | 35.0 | 25.9 | 672.7 | 75.6 | 5.6 | 70.0 | 0 | 0 | 742.7 |
| 1999-2000 | 635.1 | 45.2 | (0.9) | 589.0 | 79.6 | 10.4 | 69.2 | 0 | 0 | 658.2 |
| | Estimated | | | | | | | | | |
| 2000-01 | 587.0 | 40.0 | 20.0 | 567.0 | 70.3 | 6.0 | 64.3 | 0 | 0 | 631.3 |
| 2001-02 | 550.0 | 30.0 | 20.0 | 540.0 | 70.0 | 6.0 | 64.0 | 0 | 0 | 604.0 |

[1/] Mass Transportation Operating Assistance Fund

# MOTOR FUEL TAX




## DESCRIPTION

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.

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.

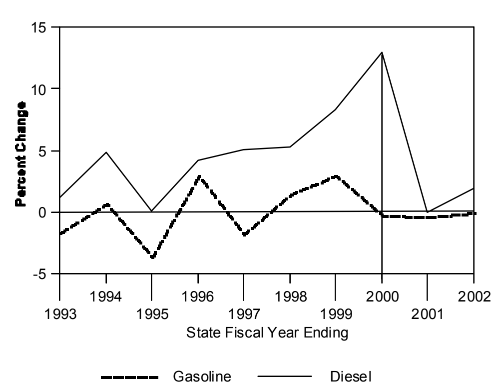
Since 1988, collection and remittance of taxes on diesel fuel have been conformed to the statutory procedures used for gasoline. Taxes on diesel motor fuel are now collected upon the first non-exempt sale in the State. Prior to that time, the diesel motor fuel tax was collected at the time of retail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

### Consumption History

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

**Gasoline and Diesel Reported Gallons — Percent Change**



## SIGNIFICANT LEGISLATION

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

| Subject | Description | Effective Date |
|---|---|---|
| **Legislation enacted in 1995** | | |
| Tax Liability | Reduced the diesel motor fuel tax from 10 cents to 8 cents per gallon. | January 1, 1996 |
| Exemption | Provided an up-front exemption from the motor fuel excise tax for retail sales of aviation gasoline. | September 1, 1995 |
| **Legislation enacted in 2000** | | |
| Distribution | Increased the percentage of motor fuel receipts dedicated to highway construction and transit. | April 1, 2000 |

**TABLE 1**
**MOTOR FUEL TAX FUND DISTRIBUTION**
**(percent)**

| Effective Date | General Fund | DHBTF [1] | EHF [2] | DMTTF [3] |
|---|---|---|---|---|
| Prior to April 1, 1993 | | | | |
| Gasoline | 78.1 | 0.0 | 21.9 | 0.0 |
| Diesel | 78.1 | 0.0 | 21.9 | 0.0 |
| Prior to April 1, 2000 | | | | |
| Gasoline | 28.1 | 50.0 | 21.9 | 0.0 |
| Diesel | 78.1 | 0.0 | 21.9 | 0.0 |
| Prior to April 1, 2001 | | | | |
| Gasoline | 0.0 | 67.7 | 21.9 | 10.4 |
| Diesel | 28.1 | 31.5 | 21.9 | 18.5 |
| After April 1, 2001 | | | | |
| Gasoline | 0.0 | 67.7 | 21.9 | 10.4 |
| Diesel | 0.0 | 49.2 | 21.9 | 28.9 |

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

## 2000-01 RECEIPTS

All Funds receipts for the first nine months of the fiscal year were an estimated $390 million, $4.3 million, or 1.1 percent below the comparable period in 1999-2000. Gasoline receipts decreased by $3.8 million (1.1 percent), while diesel receipts decreased by $0.6 million (1.1 percent).

For the remainder of the year, demand for diesel fuel is anticipated to remain roughly constant as growth in the State's economy moderates. Overall diesel consumption is expected to remain at 1999-2000 levels. Gasoline consumption is expected to decrease by 0.4 percent from 1999-2000 due largely to the continued high price of this fuel.

Total motor fuel tax receipts are estimated at $515 million, a decrease of $3.8 million, or 0.7 percent from 1999-2000. Gasoline receipts are estimated to decrease by $3.4 million (0.7 percent) and diesel receipts to decrease by $0.4 million (0.6 percent).

### *2001-02 PROJECTIONS*

The gasoline and diesel consumption estimates for 2001-02 reflect higher estimated fuel prices and moderating economic growth. All Funds receipts are projected to grow by 0.2 percent, an increase of $1.3 million. Gasoline receipts are projected to remain at $447.3 million. Diesel receipts are projected to increase by $1.3 million (1.9 percent).

### *OTHER FUNDS*

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

Since April 1, 1992, receipts attributable to 1-3/4 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. Effective April 1, 2003, these funds will be eliminated and the receipts distributed to the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund.

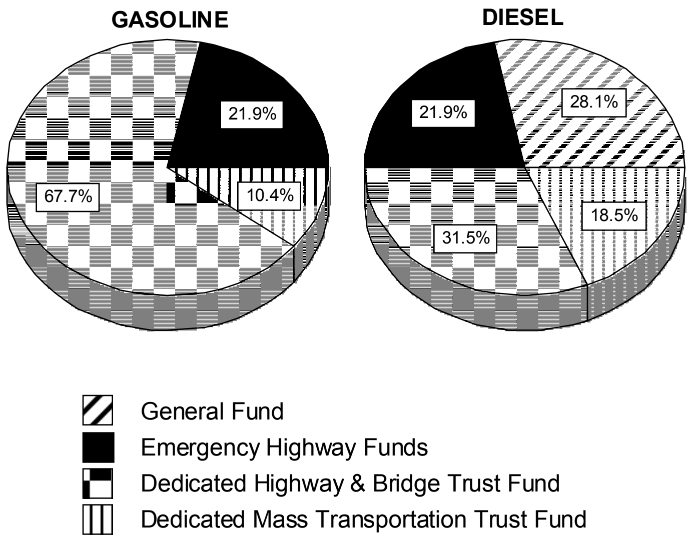
Since April 1, 1993, one-half of the gasoline tax has been deposited in the Dedicated Highway and Bridge Trust Fund established to help finance the reconstruction, replacement, reconditioning and preservation of highways and bridges in the State.

Effective April 1, 2000, 4 cents per gallon of the gasoline tax have been earmarked to the Dedicated Highway and Bridge Trust Fund; 2-1/4 cents are allocated to the pooled funds for highway construction and mass transit; and 1-3/4 cents are directed to the Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund.

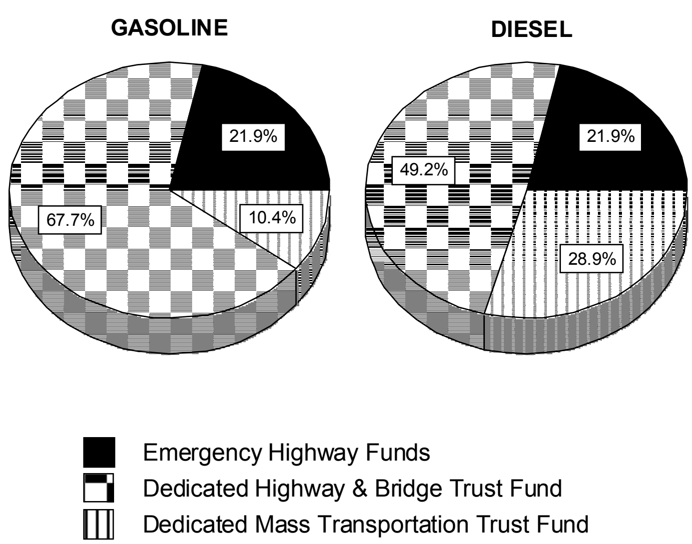
Additionally, 4 cents of the diesel tax have been earmarked to the pooled funds; 1-3/4 cents allocated to the Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund; and the remaining 2-1/4 cents directed to the General Fund. Beginning April 1, 2001, all diesel tax funds currently allocated to the General Fund will be directed to the pooled funds.

The percentage distribution of motor fuel tax revenue by fund in State fiscal year 2000-01 and 2001-02 are displayed in Charts 1 and 2.

## 2000-01 Motor Fuel Tax Deposits by Fund




## 2001-02 Motor Fuel Tax Deposits by Fund



## GENERAL FUND

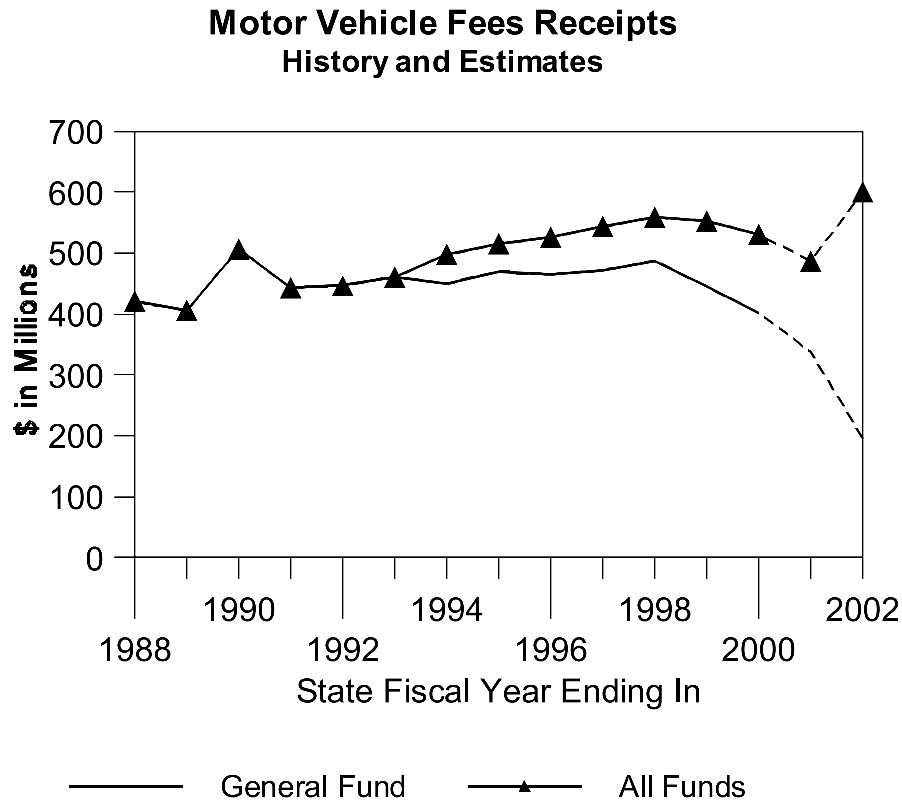
Deposits to the General Fund for 2000-01 are projected to be $19 million. In 2001-02, no motor fuel receipts will be deposited in the General Fund.

**TABLE 2**
**MOTOR FUEL TAX RECEIPTS**
**(thousands of dollars)**

| | Gross General Fund | Refunds | Net General Fund | Net Special Revenue Funds [3/] | Net Capital Projects Funds [1/] | Net Debt Service Funds [2/] | All Funds Net Collections |
|---|---|---|---|---|---|---|---|
| | Actual | | | | | | |
| 1992-93 | 425,654 | 12,686 | 412,968 | 0 | 0 | 102,913 | 515,881 |
| 1993-94 | 180,180 | 6,546 | 173,634 | 0 | 212,211 | 113,806 | 499,651 |
| 1994-95 | 174,483 | 5,515 | 168,968 | 0 | 212,514 | 103,480 | 484,962 |
| 1995-96 | 178,545 | 4,948 | 173,597 | 0 | 220,460 | 107,425 | 501,482 |
| 1996-97 | 161,813 | 4,282 | 157,531 | 0 | 210,835 | 103,143 | 471,509 |
| 1997-98 | 169,018 | 3,763 | 165,255 | 0 | 218,897 | 107,562 | 491,713 |
| 1998-99 | 180,906 | 9,758 | 171,148 | 0 | 221,288 | 109,882 | 502,318 |
| 1999-2000 | 185,134 | 5,201 | 179,933 | 0 | 225,358 | 113,482 | 518,773 |
| | Estimated | | | | | | |
| 2000-01 | 19,565 | 565 | 19,000 | 59,100 | 324,200 | 112,700 | 515,000 |
| 2001-02 | 0 | 0 | 0 | 66,500 | 336,900 | 112,900 | 516,300 |

[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




### DESCRIPTION

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 (dollars) |
|---|---|---|
| Passenger vehicle | Each 100 lbs. or major fraction thereof up to 3,500 lbs. | 0.645 |
| | Plus: for each 100 lbs or major fraction thereof above 3,500 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 (dollars) |
|---|---|
| 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 |

## *SIGNIFICANT LEGISLATION*

Below is a summary of significant statutory or administrative changes in recent years that have had 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** | | |
| Photo image fee | Photo image fee raised to $3.00. | April 1, 1997 |

| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 1998** | | |
| Registration fees | Fees on passenger vehicle registration reduced 25 percent. | July 1, 1998 |
| **Administrative Changes in 2000** | | |
| License plates | Reissuance. | January 1, 2001 |
| Licenses | License renewal period extended to eight years. | April 1, 2000 |

## *2000-01 RECEIPTS*

Gross receipts for 2000-01 are estimated at $523 million. The estimate for receipts from registrations is $395 million, and the estimate for receipts from licenses and other fees is $128 million. An estimated $36 million in refunds and county clerk retention will result in estimated net receipts from motor vehicle fees of $487 million. The estimate reflects the reissuance of new registration plates in the last quarter of the State fiscal year, and the extension of a driver's license renewal to eight years. Importantly, the estimate reflects lower than normal license renewals for this year, due primarily to the 1996 shift in the length of the renewal period from four years to five years.

## *2001-02 PROJECTIONS*

Gross receipts for 2001-02 are estimated at $638 million. The estimate for receipts from registrations is $400 million and for receipts from licenses and other fees is $238 million. An estimated $37 million in refunds and county clerk retention will result in estimated net receipts from motor vehicle fees of $601 million. The estimate includes several proposals discussed in more detail below.

## *OTHER FUNDS*

### *The Dedicated Highway and Bridge Trust Fund*

A portion of motor vehicle fee receipts is 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.

Moreover, starting in 2001-02, pursuant to Chapter 63, Laws of 2000, an additional 23.5 percent of registration fees is earmarked to (1) the Dedicated Highway and Bridge Trust Fund and (2) the Dedicated Mass Transportation Trust Fund; of this additional dedication, 63 percent will be allocated to (1) and 37 percent to (2). Other moneys from non-registration fees will be shared in the same proportion.

Legislation submitted with the Budget, effective April 1, 2001, earmarks additional moneys from non-registration fees now deposited in the General Fund to the Dedicated Highway and Bridge Trust Fund.

In fiscal year 2000-01, the Dedicated Highway and Bridge Trust Fund will receive an estimated $149 million.

In fiscal year 2001-02, the Dedicated Highway and Bridge Trust Fund will receive a projected $374.4 million and the Dedicated Mass Transportation Trust Fund will receive a projected $32 million.

A summary of recent and projected dedication amounts are set out in the table below.

**DISTRIBUTION FROM REGISTRATION FEES**
**(percentage)**

| Effective Date | General Fund | Dedicated Highway and Bridge Trust Fund | Dedicated Mass Transportation Trust Fund |
|---|---|---|---|
| Prior to April 1, 1993 | 0.0 | 0.0 | 0.0 |
| April 1, 1993 | 87.0 | 13.0 | 0.0 |
| April 1, 1994 | 83.0 | 17.0 | 0.0 |
| January 1, 1995 | 80.0 | 20.0 | 0.0 |
| April 1, 1998 | 72.0 | 28.0 | 0.0 |
| July 1, 1998 | 66.0 | 34.0 | 0.0 |
| March 1, 1999 | 54.5 | 45.5 | 0.0 |
| April 1, 2001 | 31.0 | 60.3 | 8.7 |

**DISTRIBUTION OF GENERAL FUND AMOUNTS OTHER THAN REGISTRATION FEES**
**(thousands of dollars)**

| Effective Date | General Fund | Dedicated Highway and Bridge Trust Fund | Dedicated Mass Transportation Trust Fund |
|---|---|---|---|
| April 1, 2001 Current Law | NA | 5,300 | 3,100 |
| April 1, 2001 Proposed Law | NA | 169,000 | NA |

## *GENERAL FUND*

In Fiscal Year 2000-01, the General Fund will receive an estimated $338 million in motor vehicle fees. In Fiscal Year 2001-02, the General Fund will receive a projected $194.6 million based on proposed law.

Legislation submitted with this Budget, effective April 1, 2001, will (a) allow motorists, for an additional one-time fee of $10, to purchase license plates with backgrounds that portray various regions of the State and (b) double boat registration fees. In addition, a planned administrative change will increase the duration of commercial drivers' license renewals from five to eight years.

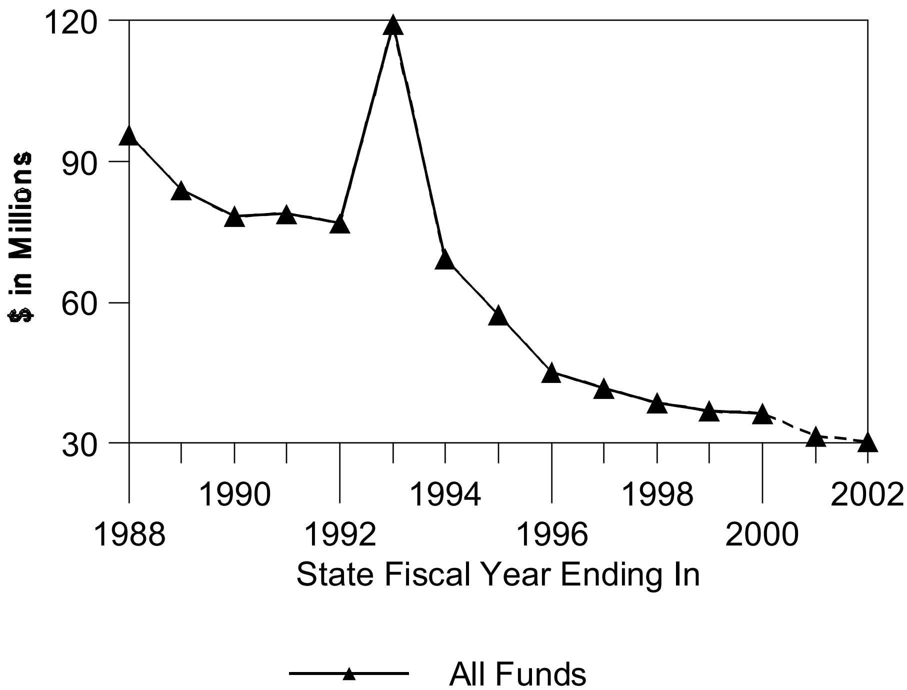
**MOTOR VEHICLE FEE RECEIPTS**
**(thousands of dollars)**

| | Gross General Fund | Refunds | Less: County Clerks' Retention | Net General Fund | Special Revenue Funds [1] | Capital Projects Funds [2] | Debt Service Funds | All Funds Net Collections |
|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | | |
| 1992-93 | 493,837 | 18,422 | 15,113 | 460,302 | 0 | 0 | 0 | 460,302 |
| 1993-94 | 482,312 | 16,570 | 15,748 | 449,994 | 0 | 46,655 | 0 | 496,649 |
| 1994-95 | 502,802 | 16,258 | 16,678 | 409,866 | 0 | 45,128 | 0 | 514,994 |
| 1995-96 | 500,181 | 18,958 | 16,663 | 464,560 | 0 | 62,390 | 0 | 526,950 |
| 1996-97 | 511,195 | 21,596 | 17,206 | 472,033 | 0 | 71,442 | 0 | 543,475 |
| 1997-98 | 517,178 | 11,436 | 19,324 | 486,418 | 0 | 73,096 | 0 | 559,514 |
| 1998-99 | 478,085 | 13,795 | 20,135 | 444,155 | 0 | 108,174 | 0 | 552,329 |
| 1999-2000 | 436,571 | 17,924 | 17,176 | 401,471 | 0 | 129,899 | 0 | 531,370 |
| | Estimated | | | | | | | |
| 2000-01 | 373,600 | 18,000 | 17,600 | 338,000 | 0 | 149,000 | 0 | 487,000 |
| 2001-02 | | | | | | | | |
| (current law) | 389,800 | 18,000 | 19,000 | 352,800 | 32,000 | 205,400 | 0 | 590,200 |
| (proposed law) | 231,600 | 18,000 | 19,000 | 194,600 | 32,000 | 374,400 | 0 | 601,000 |

[1] Dedicated Mass Transportation Transit Fund
[2] Dedicated Highway and Bridge Trust Fund

## PARI-MUTUEL TAXES

**Pari-Mutuel Taxes Receipts**
**History and Estimates**

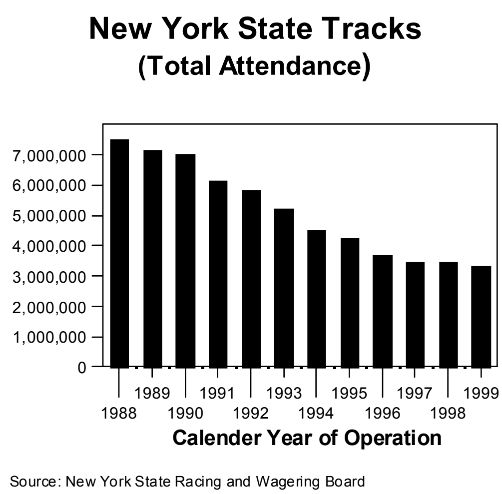


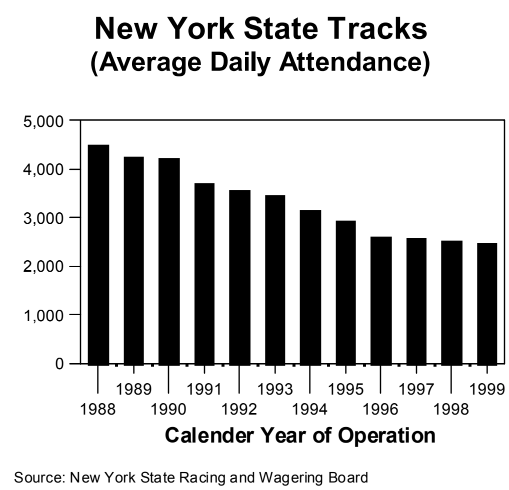

### DESCRIPTION

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 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 the New York agriculture and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standardbred (harness) horse breeding and development funds. During fiscal year 1999-2000, $13 million and $7 million was allocated to the thoroughbred and harness funds, respectively.

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.




To encourage the continuing viability of the industry, 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 up to 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 simulcasting at both race tracks and OTB facilities, lowered the tax rates on simulcast wagering, eliminated the State franchise fee on nonprofit racing associations, and reduced tax rates.

## *SIGNIFICANT LEGISLATION*

| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 1994** | | |
| Tax Rates | Lowered rates on all wagers at harness tracks and at the Finger Lakes Race Association to 0.5 percent and provided credits up to 0.4 percent based on OTB simulcast handle of respective track. | September 1, 1994 |
| Expanded 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 1998** | | |
| 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 |

## *2000-01 RECEIPTS*

Increases in simulcast handle, especially from out-of-State races, is expected to offset the continued decline in on-track handle. As a result, the total 2000-01 statewide betting handle (both on- and off-track) is expected to increase to $2.9 billion from last year's handle of $2.8 billion.

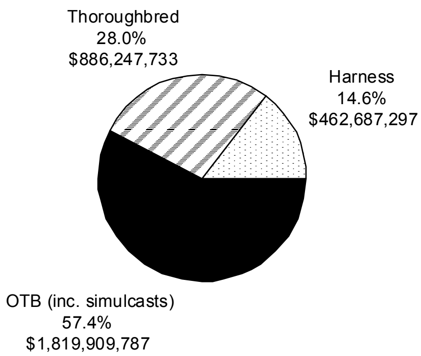
Total thoroughbred on-track handle, including simulcasts, is estimated at $662 million, down slightly from the prior year. The continuing decline in wagering on live harness races is being offset, in part, by increased simulcasting, with lower tax rates. Total harness handle is estimated at $193.6 million. Handle at off-track betting corporations is estimated to increase to $2.0 billion, up 2.5 percent.

Thoroughbred revenues are expected to decline by 8.8 percent to $15.6 million, largely the result of the enactment of lower tax rates. OTB receipts are estimated to decrease by 18 percent to $15 million. A $3.8 million refund from OTB to Connecticut (due to a settlement of a court case) accounts for the decrease in OTB receipts. Receipts from harness tracks are expected to stay constant at $0.9 million, resulting in total pari-mutuel tax receipts of $31.5 million.

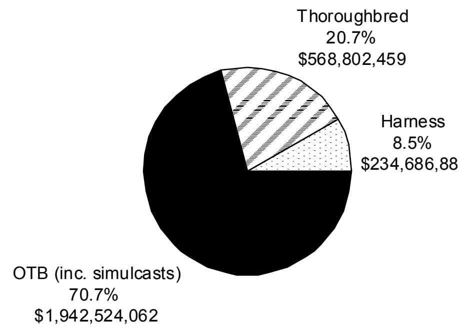
## *2001-02 PROJECTIONS*

The pari-mutuel projections for 2001-02 assume a full racing season. In total, State pari-mutuel tax receipts are projected at $30.5 million for 2001-02.

**Share of Pari-Mutuel Handles**
**(1991)**




**Share of Pari-Mutuel Handles**
**(1999)**




Total on-track thoroughbred handle is projected to decline 4.1 percent, while receipts will decline 32 percent as a result of previously enacted tax cuts. A projected NYRA handle of $511.9 million, including betting on out-of-State races, will produce $8.8 million in tax receipts; NYRA intrastate simulcasting revenues of $35.7 million will provide an additional $0.6 million in receipts.

Harness racing handle is projected to increase to $202.7 million, generating tax receipts of $0.9 million, including $0.6 million in revenue from intertrack wagers on thoroughbred simulcasts. Yonkers Raceway is projected to provide $0.2 million, and Vernon Downs, Saratoga Raceway, Buffalo Raceway, and Monticello are each expected to provide less than $0.1 million in receipts.

OTB handle is projected at $2 billion, producing tax receipts of $19 million.

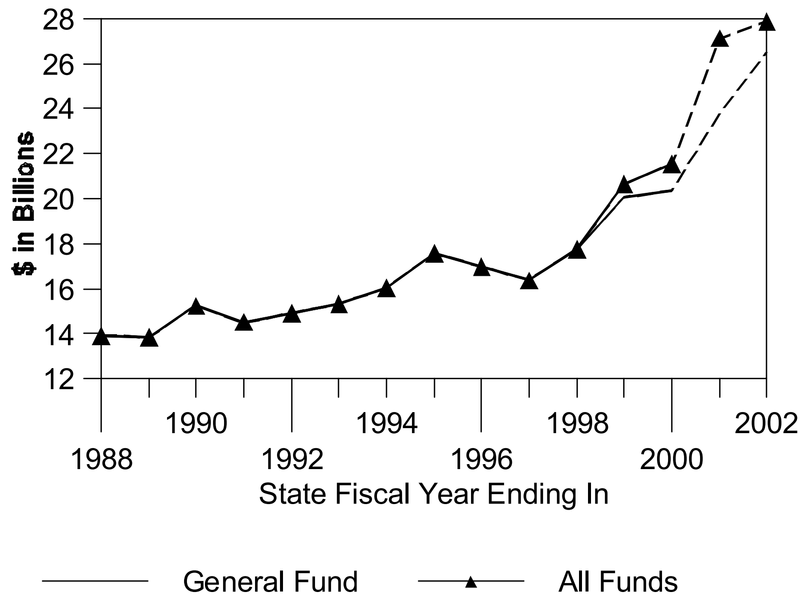
**GENERAL FUND RECEIPTS FROM PARI-MUTUEL TAXES**
**(millions of dollars)**

| | General Fund | | | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | All Funds Collections |
|---|---|---|---|---|---|---|---|
| | Flat | Harness | OTB | | | | |
| | Actual | | | | | | |
| 1992-93 | 87.6 [1/] | 4.7 | 26.9 | 0 | 0 | 0 | 119.2 |
| 1993-94 | 37.8 | 5.9 | 25.5 | 0 | 0 | 0 | 69.2 |
| 1994-95 | 34.3 | 2.8 | 20.2 | 0 | 0 | 0 | 57.3 |
| 1995-96 | 24.0 | 1.2 | 19.9 | 0 | 0 | 0 | 45.1 |
| 1996-97 | 20.5 | 1.1 | 20.1 | 0 | 0 | 0 | 41.7 |
| 1997-98 | 19.5 | 1.0 | 18.0 | 0 | 0 | 0 | 38.5 |
| 1998-99 | 18.6 | 0.9 | 17.4 | 0 | 0 | 0 | 36.9 |
| 1999-2000 | 16.8 | 0.9 | 18.3 | 0 | 0 | 0 | 36.0 |
| | Estimated | | | | | | |
| 2000-01 | 15.6 | 0.9 | 15.0 | 0 | 0 | 0 | 31.5 |
| 2000-02 | 10.6 | 0.9 | 19.0 | 0 | 0 | 0 | 30.5 |

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

## PERSONAL INCOME TAX

**Personal Income Tax Receipts**
**History and Estimates**



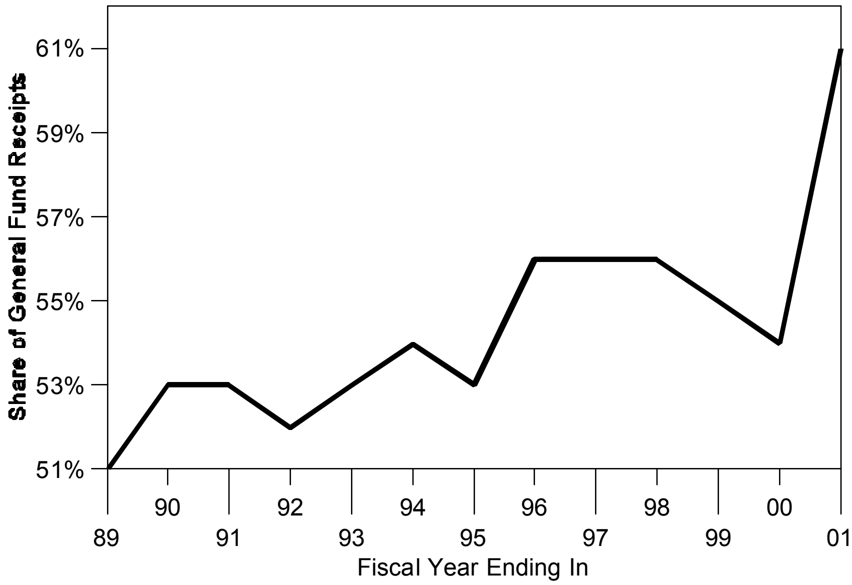

### *DESCRIPTION*

The personal income tax is New York State's largest source of tax revenue. It is estimated that, during State fiscal years 2000-01 and 2001-02, 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 overall income tax burden has been reduced by about 20 percent.

### *Tax Base*

**PIT Receipts as Share of General Fund Receipts**




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

The State's 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, was indexed for subsequent inflation. In 2000, the threshold is $128,950 ($64,475 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 was 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 AND DEPENDENT EXEMPTIONS**
**1994 - 1997**
**(dollars)**

| | 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 |

**TABLE 2**
**CURRENT TAX SCHEDULES**
**(dollars)**

| 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 |

## *SIGNIFICANT LEGISLATION*

### *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. For 2000, the credit was raised to 22.5 percent of the Federal credit. The credit is scheduled to increase to 25 percent of the Federal credit for 2001, to 27.5 percent of the Federal credit for 2002, and to 30 percent of the Federal credit in 2003 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, the phase-down from 100 percent to 20 percent began at incomes of $35,000 and ended at incomes of $50,000. For 2000 and later years, the credit as a share of the Federal credit equals 110 percent for incomes up to $25,000, phases down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equals 100 percent for incomes between $40,000 and $50,000, phases down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equals 20 percent for incomes over $65,000. 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 used generally in the income tax. 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 a credit for 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 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 |

| Subject | Description | Effective Date |
|---|---|---|
| Earned Income Tax Credit | Created a State credit as a percentage of the Federal amount. The rates were set at 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 into 1996 from 1997 the credit of 20 percent of the Federal amount, but offset it by the household credit. | 1996 |
| **Legislation Enacted in 1996** | | |
| Child and Dependent Care Credit | Increased the 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; subtracted principal payments on farm debt in calculation of the income to which the credit phase-out applies. | 1998 and after |
| Solar Energy Credit | Created a credit for residential investment in solar electric generating equipment. | 1998 and after |
| College Choice Tuition Savings Program | Created the 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 |
| **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 subsequent tax years. | 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 increased "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 |

| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 2000** | | |
| Earned Income Tax Credit | Increased the State's EITC to 30 percent of the Federal credit over a two-year period, beginning in 2002. The expansion will first increase the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003. | 2002 and after |
| Child Care Credit | Increased the credit to 110 percent of the Federal credit for those with incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equal to 100 percent for incomes between $40,000 and $50,000, phased down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equal to 20 percent for incomes greater than $65,000. | 2000 and after |
| Long-Term Care Insurance Credit | Created a long-term care insurance credit equal to 10 percent of a taxpayer's long-term care insurance premium. | 2002 and after |
| Marriage Penalty | Reduced the marriage penalty by increasing the standard deduction for taxpayers who are married filing jointly from $13,000 to $14,600 in three stages. | 2001 and after |
| College Tuition Credit | Created a deduction for the amount of tuition paid, up to $10,000, for attendance at a qualified institution of higher education. Also, the legislation provides the alternative of a refundable tax credit equal to 4 percent of such tuition. The credit will be at least the lesser of tuition paid or $200. The college tuition deduction will be implemented in four stages. | 2001 and after |
| Petroleum Tank Credit | Created a two-year, $500 personal income tax credit for homeowners who replace a residential fuel oil storage tank. | 2001 and 2002 |
| Alternative Energy Fuel Cell Credit | Created an alternative energy fuel cell credit equal to 20 percent of the cost of purchasing and installing a fuel cell to supply power to the taxpayer's home. | 2003 and after |

### *Proposed Legislation*

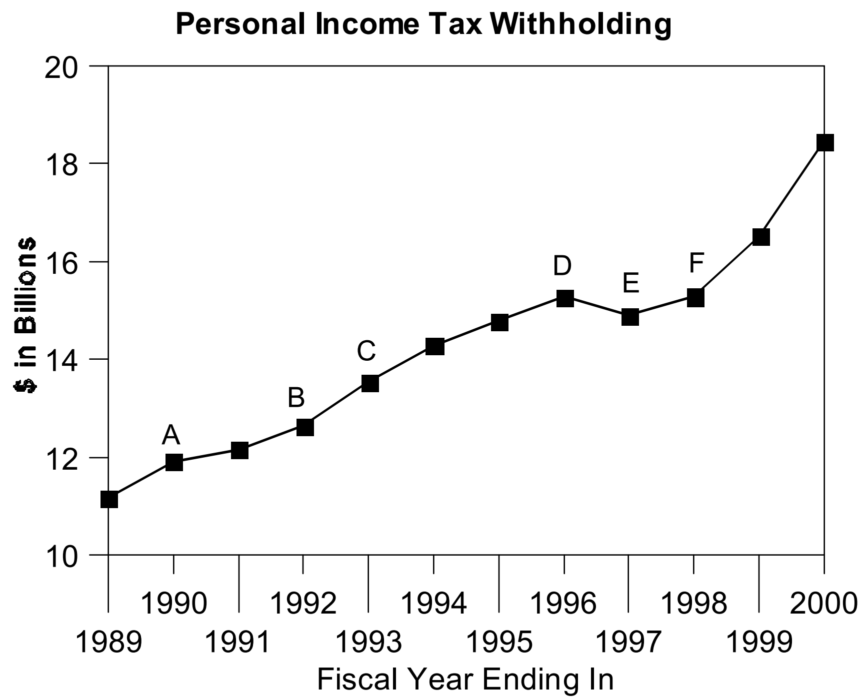
Legislation proposed with this Budget includes a conservation donor tax credit, an historic homes rehabilitation credit, an initiative designed to benefit farmers which includes a farmland restoration credit and the extension of the farmers' school tax credit to rented farmland, and co-STAR, a county property tax relief program for seniors and farmers which includes added New York City personal income tax relief for senior citizens.

### *Withholding Changes*

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

| Effective Date | Feature | Changes |
|---|---|---|
| 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. |
| 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. |
| 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. |

| Effective Date | Feature | Changes |
|---|---|---|
| 7/1/95 | Standard Deduction<br>Rate Schedule | Increased to $5,650 for single individuals, $6,150 for married couples.<br>Lowered maximum rate to 7.59 percent, reduced the number of tax brackets. |
| 4/1/96 | Standard Deduction<br>Rate Schedule | Increased to $6,300 for single individuals, $6,800 for married couples.<br>Lowered maximum rate to 7 percent, broadened the wage brackets to which the rates apply. |
| 1/1/97 | Standard Deduction<br>Rate Schedule | Increased to $6,975 for single individuals, $7,475 for married couples.<br>Lowered maximum rate to 6.85 percent, broadened the wage brackets to which the rates apply. |




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 of dollars)**

| Year Ending March 31 | Year End Balance | Change from Prior Year | Effect of Change in Year-End Balance on Reported General Fund Receipts |
|---|---|---|---|
| 2000 | 3,966.9 | 1,661.0 | Decreased receipts by 1,661.0 |
| 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 | 0.0 | (48.6) | Increased receipts by 48.6 |
| 1990 | 48.6 | 48.6 | Decreased receipts by 48.6 |
| 1989 | 0.0 | 0.0 | No effect |

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 2000-01, are available to finance refunds issued in the Spring of 2001, but must be restored to the reserve by March 31, 2002.

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 of dollars)**

| 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 | 521 | 25 | 3,421 | 3,967 |
| 2001 est. | 521 | 51 | 1,279 | 1,851 |

[1/] For EITC starting in 1995 (and subsequent increments), 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 of dollars)**

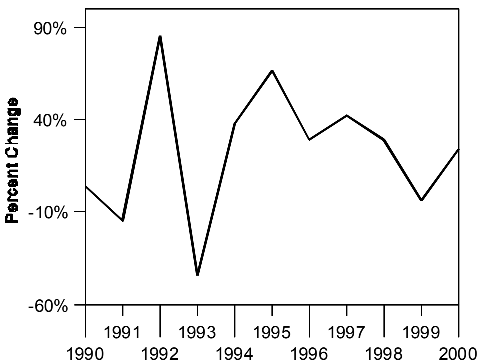
| Component of Income | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 |
|---|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | Estimated | | |
| ***NYSAGI*** | | | | | | | | | |
| amount | 297,112 | 301,362 | 321,124 | 347,891 | 383,179 | 417,996 | 452,373 | 491,957 | 514,777 |
| % change | 0.8 | 1.4 | 6.6 | 8.4 | 10.1 | 9.1 | 8.2 | 8.8 | 4.6 |
| ***Wages*** | | | | | | | | | |
| amount | 237,972 | 242,771 | 253,551 | 266,334 | 285,919 | 309,614 | 328,748 | 358,697 | 376,632 |
| % change | (0.4) | 2.0 | 4.4 | 5.0 | 7.4 | 8.3 | 6.2 | 9.1 | 5.0 |
| share of NYSAGI | 80.1 | 80.6 | 79.0 | 76.5 | 74.6 | 74.1 | 72.7 | 72.9 | 73.2 |
| ***Capital Gains*** | | | | | | | | | |
| amount | 13,365 | 12,032 | 14,086 | 22,441 | 31,563 | 38,929 | 49,492 | 53,512 | 53,303 |
| % change | 41.3 | (10.0) | 17.1 | 59.3 | 40.7 | 23.3 | 27.1 | 8.1 | (0.4) |
| share of NYSAGI | 4.5 | 4.0 | 4.4 | 6.4 | 8.2 | 9.3 | 10.9 | 10.9 | 10.4 |
| ***Interest and Dividends*** | | | | | | | | | |
| amount | 18,567 | 19,630 | 22,680 | 23,534 | 24,652 | 24,807 | 25,442 | 26,336 | 27,126 |
| % change | (10.8) | 5.7 | 15.5 | 3.8 | 4.8 | 0.6 | 2.6 | 3.5 | 3.0 |
| share of NYSAGI | 6.2 | 6.5 | 7.1 | 6.8 | 6.4 | 5.9 | 5.6 | 5.4 | 5.3 |
| ***Taxable Pension*** | | | | | | | | | |
| amount | 13,078 | 15,694 | 16,620 | 17,391 | 18,953 | 18,891 | 19,958 | 21,020 | 22,071 |
| % change | 14.5 | 20.0 | 5.9 | 4.6 | 9.0 | (0.3) | 5.6 | 5.3 | 5.0 |
| share of NYSAGI | 4.4 | 5.2 | 5.2 | 5.0 | 4.9 | 4.5 | 4.4 | 4.3 | 4.3 |
| ***Business and Partnership Income*** | | | | | | | | | |
| amount | 20,639 | 19,666 | 25,868 | 31,425 | 35,288 | 37,142 | 40,314 | 43,588 | 46,192 |
| % change | 5.4 | (4.7) | 31.5 | 21.5 | 12.3 | 5.3 | 8.5 | 8.1 | 6.0 |
| share of NYSAGI | 6.9 | 6.5 | 8.1 | 9.0 | 9.2 | 8.9 | 8.9 | 8.9 | 9.0 |
| ***All Other Incomes/ Adjustments**** | | | | | | | | | |
| amount | (6,509) | (8,430) | (11,680) | (13,142) | (13,195) | (11,387) | (11,581) | (11,195) | (10,546) |
| % change | 24.6 | 29.5 | 38.6 | 12.5 | 0.4 | (13.7) | 1.7 | (3.3) | (5.8) |

* 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.

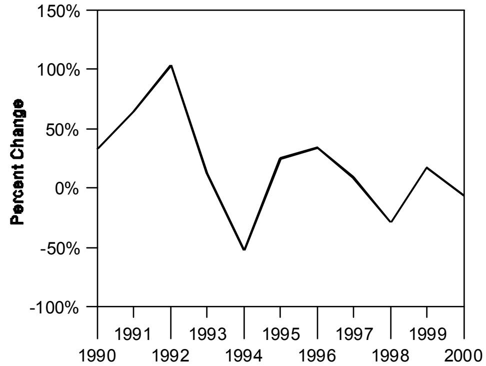
Strong performances in the financial sector in recent years have resulted in a significant shift in the capital gains share of AGI. From 1993 to 2000, the share of capital gains in AGI is estimated to have more than doubled from 4.5 percent to 10.9 percent. Over the same period the share of wages in AGI is estimated to have decreased from 80.1 percent to 72.9 percent. Business and partnership income also shows strong growth between 1993 and 2000, though somewhat smaller than capital gains, and accounts for an estimated 8.9 percent of AGI in 2000. 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 financial and insurance sector represent more than half of the total bonuses paid out each year. Under traditional patterns, about 40 percent of financial and insurance sector 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 financial and insurance bonuses were paid that month. This unusual pattern recurred in the 1993-1994 period. Bonuses for 1994 through 1999, however, returned to the more traditional pattern, where it is estimated that approximately 30 percent of financial and insurance 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 lower percentage of bonuses will be paid in early 2001.

**Change in 1st Quarter Bonuses**




**Change in 4th Quarter Bonuses**




### *1998 and 1999 Liability*

Based on tax collections, total liability for 1998 was approximately $19.6 billion. Of this amount, $19.0 billion was accounted for by the 8.4 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 1998 was $418 billion, yielding an average effective tax rate of 4.5 percent.

As in 1997 and 1998, 1999 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 more than 8 percent, to $452 billion, in 1999. Wages and salaries are estimated to have increased about 6.2 percent. Following 41 percent growth in 1997 and 23 percent growth in 1998, capital gains are estimated to have risen about 27 percent in 1999. Interest and dividend income is estimated to have increased 2.6 percent, following growth of 0.6 percent in 1998. Business net income and income derived from partnerships and S corporations are expected to have risen 8.5 percent following a 5.3 percent increase in 1998.

Legislation, passed in June 1995, implemented the final phase 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 1999 liability, as extrapolated from the 1998 study file, is estimated to be more than $21 billion, producing close to 11 percent growth compared to 1998. The effective tax rate is estimated to be close to 4.7 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 affected New York AGI and liability. Some of these changes include the introduction of Education IRAs and "Roth IRAs." Both are estimated to have had minimal impact on New York liability for the 1998 and 1999 tax years.

### *2000 AGI and Liability*

By most indicators, the State economy remained relatively strong in 2000, though slowing somewhat in the latter part of the year. AGI is estimated to have grown 8.8 percent, to $492 billion. Wages and salaries are estimated to have increased 9.1 percent, reflecting continued employment gains and healthy bonus performance, largely linked to 1999 market activity. Interest and dividend income is estimated to have risen 3.5 percent. Liability was affected by a smaller projected increase in capital gains realizations of about 8 percent. Over the 1998 through 2000 period, however, capital gains realizations are estimated to have increased more than 37 percent. Business net income, and income derived from partnerships and S corporations are estimated to have grown about 8 percent between 1999 and 2000.

Estimated liability is projected to have increased 11 percent, to $23.4 billion.

In addition to being fully implemented for qualified senior citizens, the STAR program entered its second phase for all other New York residential homeowners who itemize their deductions.

### *2001 AGI and Liability*

In 2001, AGI is expected to grow approximately 4.6 percent, moderating from the strong growth of the last few years. The increase in wages and salaries is projected to be 5.0 percent. Bonuses in 2001 are expected to increase less rapidly (only 2.4 percent) than the strong growth of 2000 (which was more than 19 percent). Financial sector bonuses are expected to remain flat in 2001. Capital gains realizations are also expected to show no growth. The other components of income are expected to grow, in aggregate, by about 6.4 percent. Under current law, estimated liability is projected to increase 5.4 percent, to $24.7 billion.

### *Risks in Liability Estimates*

The composition of the income components for the 2000 and 2001 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 moderate growth in bonuses and flat capital gains income. Both of these income components tend to exhibit much more volatility than most other components of income. The concentration of large amounts of income from these sources among high income taxpayers — who have the highest 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 forecasted collections. (See section entitled Sources of Volatility in the Economic Backdrop section of this Appendix.)

### *2000-01 RECEIPTS*

Based on current economic conditions, total personal income tax receipts for the 2000-01 fiscal year are now estimated at $27,118 million.

Key risks for the remainder of the fiscal year include the amount of withholding tax collections to be received during the first quarter of 2001 and the balance of estimated payments received on 2000 liability.

The current forecast assumes that estimated payments on 2000 liability will end the year approximately 11 percent higher than comparable payments on 1999 liability. As already noted, this increase is due in part to the financial market's strong performance in early 2000, and the consequent impact on bonus payments and realized capital gains.

Withholding collections, which increased 11.3 percent through the first nine months of the fiscal year, are expected to increase 2.5 percent for the remainder of 2000-01. The strong year-to-date increase in withholding is due to increased wages resulting from stronger than expected employment and average wage gains. The lower growth expected for the remainder of the year reflects slowing wage growth accompanied by weak bonus growth from the high levels of the prior year.

Without refund reserve transactions and changes in the timing of refund payments, net receipts are estimated to grow to $25,502 million, an increase of 10 percent from comparable 1999-2000 receipts. The components of the estimate are detailed in Table 6, and are based on estimated collections of $20.7 billion through December.

**TABLE 6**
**PROJECTED FISCAL-YEAR COLLECTION COMPONENTS**
**ALL-FUNDS**
**(millions of dollars)**

| | 1999-2000 (Actual) | 2000-01 (Estimated) | 2001-02 (Projected) |
|---|---|---|---|
| Receipts | | | |
| Withholdings | 18,461 | 20,027 | 21,036 |
| Estimated Payments | 5,835 | 6,450 | 6,730 |
| Current Year | 4,668 | 5,200 | 5,430 |
| Prior Year* | 1,166 | 1,250 | 1,300 |
| Final Returns | 1,429 | 1,671 | 1,730 |
| Current Year | 105 | 105 | 105 |
| Prior Year* | 1,324 | 1,566 | 1,625 |
| Delinquent Collections | 512 | 535 | 540 |
| Gross Receipts | 26,236 | 28,683 | 30,036 |
| Refunds | | | |
| Prior Year* | 2,124 | 2,296 | 2,045 |
| Previous Years | 132 | 155 | 155 |
| Current Year | 460 | 960 | 960 |
| State-City Offset* | 325 | 270 | 275 |
| Total Refunds | 3,041 | 3,681 | 3,435 |
| Reserve Transactions | (1,661) | 2,116 | 1,251 |
| Net Receipts | 21,533 | 27,118 | 27,852 |

* 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, 2001, is $1.85 billion. 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 $521 million is available to finance refunds to be issued in the Spring of 2001, it must be restored to the reserve by March 31, 2002. To continue the practice of depositing a portion of the cost of new personal income tax reductions in the reserve fund, $51 million in additional funds will be deposited in the reserve account on March 31.

An added risk to the estimate of 2000-01 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 2000-01 estimates were constructed.

### 2001-02 PROJECTIONS

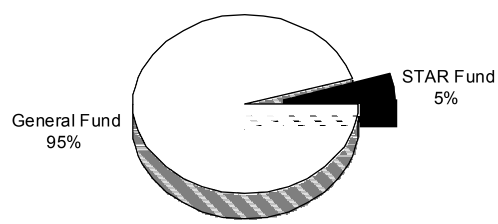
Based on current law, net personal income tax receipts are expected to increase by 2.7 percent, to $27,852 million, in 2001-02. Reported receipts include the net increase to collections of $1.25 billion from transactions in the refund reserve account.

Withholding receipts are projected to rise by 5 percent. Final payments related to 2000 returns are expected to increase by $59 million from 1999 returns, reflecting continued strong liability growth.

The other major component of collections, estimated payments on 2001 income, will grow moderately. This is consistent with expected non-wage income growth in 2001, the high base level of 2000 estimated tax payments, and lower growth in capital gains realizations following the high 1997 through 1999 levels that resulted, at least partially, from the 1997 Federal capital gains changes.

### OTHER FUNDS

**STAR Share of Net Receipts**




Legislation enacted 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 2000-01, dedicated personal income tax receipts of $1,877 million will be deposited in the School Tax Relief Fund. This amount is $17 million more than estimated at the time of the Mid-Year Update. In 2001-02, it is estimated that receipts of $1,371 million will be deposited in the Fund. This represents STAR costs for the year after use of $1,200 million in STAR reserves deposited in 2000-01.

### GENERAL FUND

General Fund net personal income tax receipts are estimated at $23,791 million in 2000-01 and $26,481 million in 2001-02.

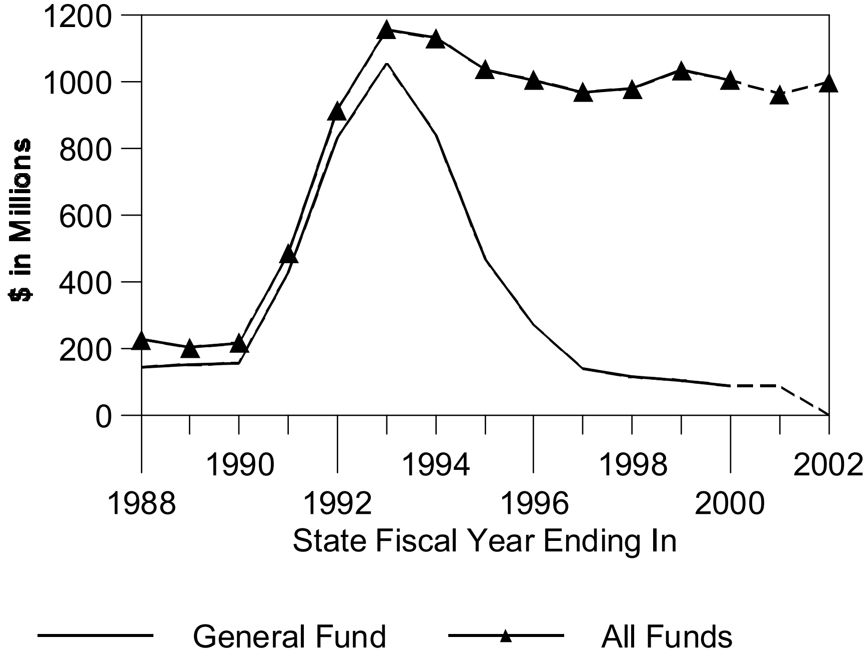
**TABLE 7**
**PERSONAL INCOME TAX RECEIPTS**
**(millions of dollars)**

| | 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 | | | | | | |
| 1992-93 | 18,074 | 2,755 | 15,319 | 0 | 0 | 0 | 15,319 |
| 1993-94 | 18,727 | 2,693 | 16,034 | 0 | 0 | 0 | 16,034 |
| 1994-95 | 19,028 | 1,438 | 17,590 | 0 | 0 | 0 | 17,590 |
| 1995-96 | 19,857 | 2,859 | 16,998 | 0 | 0 | 0 | 16,998 |
| 1996-97 | 20,238 | 3,867 | 16,371 | 0 | 0 | 0 | 16,371 |
| 1997-98 | 21,088 | 3,329 | 17,759 | 0 | 0 | 0 | 17,759 |
| 1998-99 | 23,371 | 2,709 | 20,080 | 582 | 0 | 0 | 20,662 |
| 1999-2000 | 26,236 | 4,703 | 20,339 | 1,195 | 0 | 0 | 21,534 |
| | Estimated | | | | | | |
| 2000-01 | 28,683 | 1,565 | 23,791 | 3,077 | 250 | 0 | 27,118 |
| 2001-02 | | | | | | | |
| (current law) | 30,036 | 2,184 | 26,481 | 1,371 | 0 | 0 | 27,852 |
| (proposed law) | 30,036 | 2,184 | 26,481 | 1,371 | 0 | 0 | 27,852 |

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

# PETROLEUM BUSINESS TAXES

**Petroleum Business Taxes Receipts**
**History and Estimates**




### DESCRIPTION

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 in conjunction with State motor fuel taxes (Article 12-A). Article 13-A also imposes the petroleum business carrier tax on fuel purchased outside New York and consumed within the State. The carrier tax is collected quarterly with the fuel use tax portion of the highway use tax (see section titled Highway Use Tax). Specifically exempted from Article 13-A taxes are fuel used for manufacturing, residential or not-for-profit organization heating purposes, fuel sold to governments, kerosene other than kero-jet fuel, crude oil, liquefied petroleum gas (LPG), and certain bunker fuel.

### Tax Rates and Indexing

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 partially indexed to reflect petroleum price changes. Table 1 displays the current per gallon PBT rates for 2000 and 2001. Table 2 displays estimated rates for 2002, which reflect changes due to indexing.

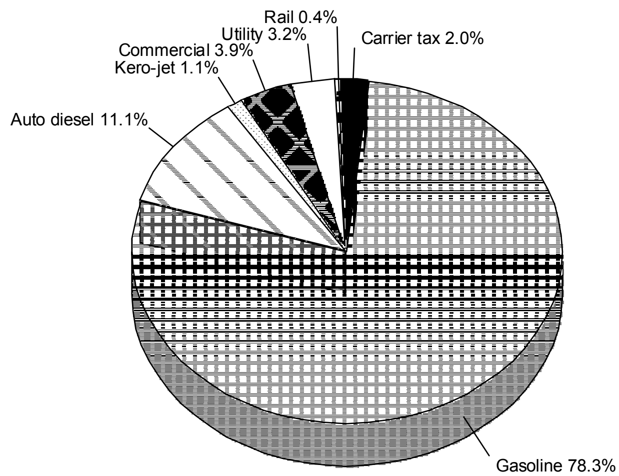
**TABLE 1**
**ACTUAL PETROLEUM BUSINESS TAX RATES**
**(cents per gallon)**

| Petroleum Products | 2000 Base | 2000 Supp | 2000 Total | Jan.-Mar. 2001 Base | Jan.-Mar. 2001 Supp | Jan.-Mar. 2001 Total | Apr.-Dec. 2001 Base | Apr.-Dec. 2001 Supp | Apr.-Dec. 2001 Total |
|---|---|---|---|---|---|---|---|---|---|
| Automotive fuel | | | | | | | | | |
| Gasoline and other non-diesel | 8.00 | 5.40 | **13.40** | 8.40 | 5.60 | **14.00** | 8.40 | 5.60 | **14.00** |
| Diesel | 8.00 | 3.65 | **11.65** | 8.40 | 3.85 | **12.25** | 8.40 | 3.85 | **12.25** |
| Aviation gasoline | 8.00 | 5.40 | **13.40** | 8.40 | 5.60 | **14.00** | 8.40 | 5.60 | **14.00** |
| Net rate after credit | 5.40 | 0.0 | **5.40** | 5.60 | 0.0 | **5.60** | 5.60 | 0.0 | **5.60** |
| Kero-jet fuel | 5.40 | 0.0 | **5.40** | 5.60 | 0.0 | **5.60** | 5.60 | 0.0 | **5.60** |
| Non-automotive diesel fuels | 7.30 | 5.40 | **12.70** | 7.60 | 5.60 | **13.20** | 7.60 | 5.60 | **13.20** |
| Commercial gallonage after credit | 7.30 | 0.0 | **7.30** | 7.60 | 0.0 | **7.60** | 7.60 | 0.0 | **7.60** |
| Electric utility after credit | 2.43 | 5.40 | **7.83** | 2.52 | 5.60 | **8.12** | 2.52 | 5.60 | **8.12** |
| Nonresidential heating after credit | 7.30 | 0.0 | **7.30** | 7.60 | 0.0 | **7.60** | 6.10 | 0.0 | **6.10** |
| Residual petroleum products | 5.70 | 5.40 | **11.10** | 5.90 | 5.60 | **11.50** | 5.90 | 5.60 | **11.50** |
| Commercial gallonage after credit | 5.70 | 0.0 | **5.70** | 5.90 | 0.0 | **5.90** | 5.90 | 0.0 | **5.90** |
| Electric utility after credit | 0.87 | 5.40 | **6.27** | 0.86 | 5.60 | **6.46** | 0.86 | 5.60 | **6.46** |
| Nonresidential heating after credit | 5.70 | 0.0 | **5.70** | 5.90 | 0.0 | **5.90** | 4.70 | 0.0 | **4.70** |
| Railroad diesel fuel | 8.00 | 3.65 | **11.65** | 8.40 | 3.85 | **12.25** | 8.40 | 3.85 | **12.25** |
| Net rate after exemption/refund | 6.70 | 0.0 | **6.70** | 7.10 | 0.0 | **7.10** | 7.10 | 0.0 | **7.10** |

**TABLE 2**
**ESTIMATED PETROLEUM BUSINESS TAX RATES**
**(cents per gallon)**

| Petroleum Products | Jan.-Aug. 2002 Base | Jan.-Aug. 2002 Supp | Jan.-Aug. 2002 Total | Sept.-Dec. 2002 Base | Sept.-Dec. 2002 Supp | Sept.-Dec. 2002 Total |
|---|---|---|---|---|---|---|
| Automotive fuel | | | | | | |
| Gasoline and other non-diesel | 8.80 | 5.80 | **14.60** | 8.80 | 5.80 | **14.60** |
| Diesel | 8.80 | 4.05 | **12.85** | 8.80 | 4.05 | **12.85** |
| Aviation gasoline | 8.80 | 5.80 | **14.60** | 8.80 | 5.80 | **14.60** |
| Net rate after credit | 5.80 | 0.0 | **5.80** | 5.80 | 0.0 | **5.80** |
| Kero-jet fuel | 5.80 | 0.0 | **5.80** | 5.80 | 0.0 | **5.80** |
| Non-automotive diesel fuels | 7.90 | 5.80 | **13.70** | 7.90 | 5.80 | **13.70** |
| Commercial gallonage after credit | 7.90 | 0.0 | **7.90** | 7.90 | 0.0 | **7.90** |
| Electric utility after credit | 2.60 | 5.80 | **8.40** | 2.60 | 5.80 | **8.40** |
| Nonresidential heating after credit | 6.30 | 0.0 | **6.30** | 4.30 | 0.0 | **4.30** |
| Residual petroleum products | 6.10 | 5.80 | **11.90** | 6.10 | 5.80 | **11.90** |
| Commercial gallonage after credit | 6.10 | 0.0 | **6.10** | 6.10 | 0.0 | **6.10** |
| Electric utility after credit | 0.84 | 5.80 | **6.64** | 0.84 | 5.80 | **6.64** |
| Nonresidential heating after credit | 4.90 | 0.0 | **4.90** | 3.30 | 0.0 | **3.30** |
| Railroad diesel fuel | 8.80 | 4.05 | **12.85** | 8.80 | 4.05 | **12.85** |
| Net rate after exemption/refund | 7.50 | 0.0 | **7.50** | 7.50 | 0.0 | **7.50** |

**PBT Components (Share of 1999-2000 Receipts)**




The basic and supplemental PBT tax rates are 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 ending August 31 of the immediately preceding year.

Early in the previous decade, PBT tax rates rose substantially due to indexing and 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, tax rates would again be indexed, but rates could not increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on rate changes, the statute required that the basic and supplemental rates be rounded to the nearest tenth of one cent. As a result, tax rates usually do not exactly match changes in the index.

Based on the index, PBT rates for 1999 and 2000 declined by 5 percent, but are scheduled to increase by 5 percent for 2001. Projections used in this Budget call for the index for January 1, 2002, to increase by more than 5 percent, triggering a rate increase of up to 5 percent for 2002.

**TABLE 3**
**PETROLEUM BUSINESS TAX INDEX**
**(percent)**

| Year | Fuel Price Change | PBT Index |
|---|---|---|
| 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 | 6.57 | 5.00 |
| 1998 | 7.96 | 5.00 |
| 1999 | (18.60) | (5.00) |
| 2000 | (7.85) | (5.00) |
| 2001 | 55.53 | 5.00 |
| 2002* | 7.75 | 5.00 |

* Estimated

### *Payments*

Under 1992 legislation, businesses with yearly motor fuel and petroleum business tax liability of more than $5 million are required to remit, using electronic funds transfer, their total tax liability for the first 22 days of the month, within three business days. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.

## *SIGNIFICANT LEGISLATION*

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 petroleum business tax collections since 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 and reduced the base rate by 1.33 cents per gallon. | 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 |

| Subject | Description | Effective Date |
|---|---|---|
| Manufacturing | Expanded to a full exemption, the partial exemption provided for residual and distillate fuels used in manufacturing. | January 1, 1998 |
| Diesel Supplemental Tax | Reduced by three-quarters of one cent per gallon the supplemental tax imposed on diesel motor fuel. | January 1, 1998 |
| | Reduced by an additional one cent per gallon the supplemental tax imposed on diesel motor fuel. | April 1, 1999 |
| Utilities | Increased by one-half cent per gallon the base tax credit for residual and distillate fuels used by utilities to generate electricity. | 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 Heating | Reduced 20 percent the petroleum business tax rates on commercial gallons for space heating by. | 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 Enacted in 2000** | | |
| Minimum Tax | Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT. | March 1, 2001 |
| Commercial Heating | Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating. | September 1, 2002 |

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 converted the tax from a gross receipts tax 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 until April 1, 2001.

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.

Legislation enacted in 2000 redistributed 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.

Statutory changes to the allocation of the PBT by fund type are reported in Table 4.

**TABLE 4**
**PBT BASE TAX FUND DISTRIBUTION**
**(percent)**

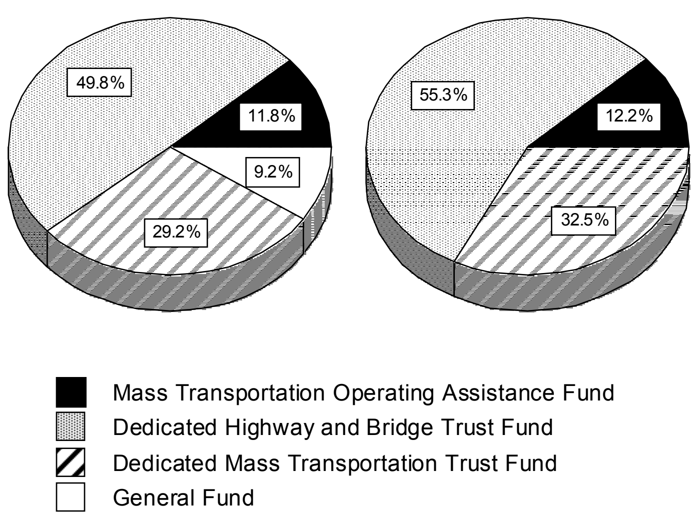
| Effective Date | General Fund | MTOAF [1/] | Dedicated Funds Pool [2/] |
|---|---|---|---|
| Prior to April 1, 1993 | 82.3 | 17.7 | 0.0 |
| April 1, 1993 | 28.3 | 17.7 | 54.0 |
| September 1, 1994 | 22.4 | 18.6 | 59.0 |
| September 1, 1995 | 18.0 | 19.2 | 62.8 |
| April 1, 1996 | 17.4 | 19.3 | 63.3 |
| 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 | 0 | 19.7 | 80.3 |

[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.

## *2000-01 RECEIPTS*

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are estimated 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 estimated to increase due to the decrease in the relative price of residual fuel oil compared to natural gas.

**PBT Receipts 2000-01 and 2001-02**



Estimated collections through December from the petroleum business tax, including audit receipts, surcharges and the carrier tax, were $727.1 million, 7.2 percent below comparable receipts in 1999-2000. Based on these collection trends, petroleum business tax receipts for the year are estimated at $962.0 million. The estimate of receipts for 2000-01 reflects the 5 percent decrease in PBT rates that took effect on January 1, 2000, and the 5 percent increase effective January 1, 2001.

### 2001-02 PROJECTIONS

The forecast assumes no increase in gasoline consumption and a 1.9 percent increase in diesel consumption. The demand for residual fuels consumed by utilities is projected to increase modestly due to lower residual fuel prices relative to natural gas prices.

Projected 2001-02 receipts of $999.0 million assume that fuel inventories will remain stable. The estimate also reflects: (1) 1999 legislation reducing taxes on commercial heating by 20 percent; (2) reimbursement of tax on fuels used for mining and extraction; and (3) 2000 legislation eliminating PBT minimum taxes. In addition, receipts for 2001-02 anticipate that the index used to set PBT rates in January 2002 will increase by 5 percent.

### OTHER FUNDS

In 1999-2000, the petroleum business tax provided MTOAF receipts of $113.1 million, Dedicated Highway and Bridge Trust Fund receipts of $505.7 million, and Dedicated Mass Transportation Trust Fund receipts of $297.0 million.

Petroleum business taxes in 2000-01 are expected to provide MTOAF receipts of $113.8 million, Dedicated Highway and Bridge Trust Fund receipts of $478.9 million, and Dedicated Mass Transportation Trust Fund receipts of $281.3 million.

Legislation enacted in 2000 significantly increased the flow of PBT funds to the Dedicated Funds Pool. Effective April 1, 2001, all PBT receipts currently deposited in the General Fund, including the balance of the basic tax and the carrier tax, will be deposited in the Dedicated Funds Pool. As a result, petroleum business tax receipts in 2001-02 are projected at $121.8 million for MTOAF, $552.6 million for the Dedicated Highway and Bridge Trust Fund, and $324.6 million for the Dedicated Mass Transportation Trust Fund.

### GENERAL FUND

In 1999-2000, petroleum business tax receipts of $89.1 million were deposited in the General Fund. General Fund receipts in 2000-01 are estimated at $88 million.

Legislation enacted in 2000 provided that all PBT receipts currently deposited in the General Fund will be deposited in the Dedicated Funds Pool. As a result, no PBT receipts will be deposited in the General Fund in 2001-02.

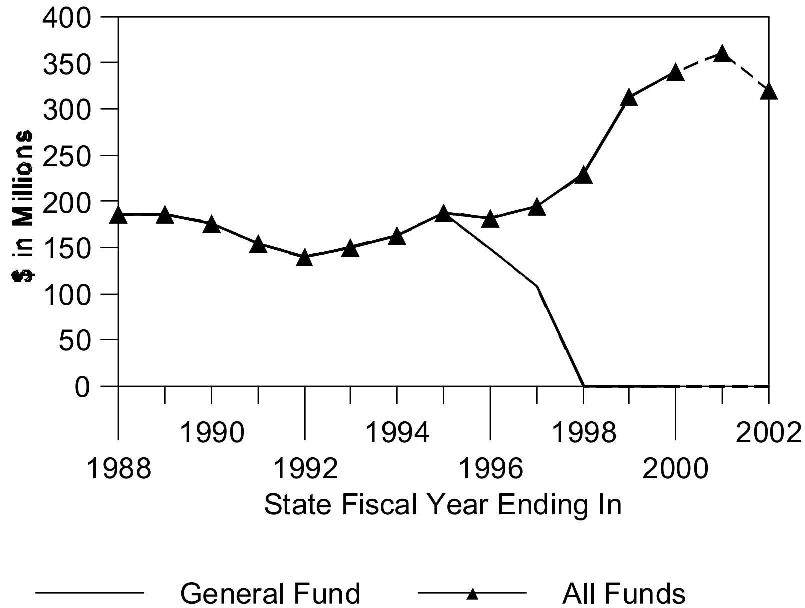
**PETROLEUM BUSINESS TAX RECEIPTS**
**(thousands of dollars)**

| | Gross General Fund | Refunds | Net General Fund | Gross Special Revenue Funds [1/] | Refunds | Net Special Revenue Funds [1/] | Gross Capital Projects Funds [2/] | Refunds | Net Capital Projects Funds [2/] | All Funds Net Collections |
|---|---|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | | | | |
| 1992-93 | 1,083,798 | 10,797 | 1,073,001 | 100,578 | 1,002 | 99,576 | 0 | 0 | 0 | 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 | 103,485 | 1,218 | 102,267 | 422,123 | 4,742 | 417,381 | 519,132 | 5,829 | 513,303 | 1,034,169 |
| 1999-2000 | 90,286 | 1,146 | 89,141 | 414,867 | 4,810 | 410,057 | 511,595 | 5,932 | 505,663 | 1,004,861 |
| | Estimated | | | | | | | | | |
| 2000-01 | 89,600 | 1,600 | 88,000 | 402,500 | 7,400 | 395,100 | 487,900 | 9,000 | 478,900 | 962,000 |
| 2001-02 | 0 | 0 | 0 | 451,900 | 5,500 | 446,400 | 559,500 | 6,900 | 552,600 | 999,000 |

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

# REAL ESTATE TRANSFER TAX

**Real Estate Transfer Tax Receipts**
**History and Estimates**




## DESCRIPTION

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 party 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*

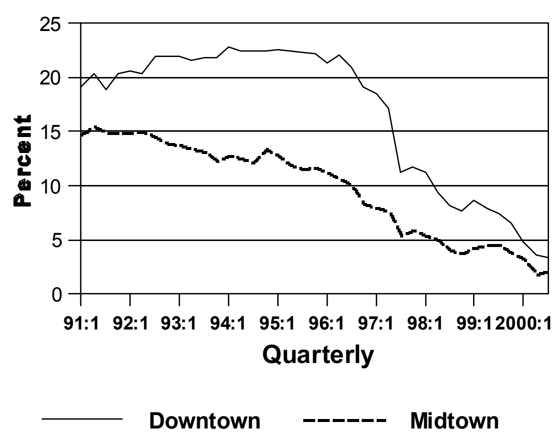
For deeded transfers, the tax is paid to a recording agent (generally, the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance. All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million in liability during the previous calendar year, payments received between the first and fifteenth day of the month are due to the Commissioner by the twenty-fifth day of the same month. Payments received in such counties between the sixteenth and the final day of the month are due to the Commissioner by the tenth day of the following month. Payments from all other counties are due to the Commissioner by the tenth 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.

### *2000-01 RECEIPTS*

Reported collections during the first nine months of 2000-01 are estimated to be $287.5 million, an increase of 13.4 percent from 1999-2000 collections for the comparable period.

During the first six months of the fiscal year, collections were driven by double-digit real estate price increases. Prices on residential properties downstate continued to escalate sharply over the first half of 2000. Receipts from nonresidential transactions have also risen from year-ago levels, largely the result of strong demand for rental space in Manhattan from a diverse group of business consumers. Vacancy rates in Manhattan have declined steadily since the early part of 1993. After a slight rise in early 1999, vacancy rates resumed their decline and now are at levels not seen since the early 1980's. During the third quarter of 2000, the vacancy rate in downtown Manhattan reached 3.3 percent while the rate in midtown was 2.2 percent.

**Vacancy Rates in Manhattan**




Source: C.B. Richard Ellis

For the remainder of the fiscal year, receipts growth is expected to slow. Overall, the number of transactions during the past five months were below year-ago levels, almost certainly the result of the steady rise in mortgage rates since early 1999. Additionally, demand for nonresidential property is expected to cool, as stock market uncertainties temper demand for space by the financial sector, and unprofitable companies are eliminated from the market picture.

**FISCAL YEAR LIABILITY THROUGH OCTOBER**
**(millions of dollars)**

| Region | 1999-2000 Liability | 2000-01 Liability | Percent Change |
|---|---|---|---|
| Manhattan | 36.0 | 43.2 | 20.0 |
| Other Four Boroughs | 29.3 | 32.4 | 10.6 |
| Long Island | 42.0 | 47.3 | 12.5 |
| Rest of State | 58.3 | 73.0 | 25.2 |
| Central Office* | 37.9 | 42.5 | 12.1 |

*Through November

Collections for the remainder of the fiscal year are expected to be $72.5 million, a decline of 16 percent from 1999-2000 collections for the same period. Net All Funds receipts are estimated at $360 million, up 5.8 percent.

### *2001-02 PROJECTIONS*

Mortgage rates are expected to increase during the early part of 2001-02. Accordingly, taxable transactions are expected to continue to decline. Residential prices are expected to remain roughly constant. The factors which negatively affected nonresidential receipts during 2000-01 will continue to do so in 2001-02. Net All Funds receipts are expected to decrease to $320 million, down 11.1 percent from the record setting levels of State fiscal year 2000-01.

### *OTHER FUNDS*

During 2000-01, the statutory amount of real estate transfer tax receipts diverted to the Environmental Protection Fund is $112 million. Legislation submitted with this Budget will increase this amount to $132 million in State fiscal year 2001-02 and thereafter. The remainder of real estate transfer tax receipts, estimated at $248 million in 2000-01 and $188 million in 2001-02, 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 2000-01 or 2001-02. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund.

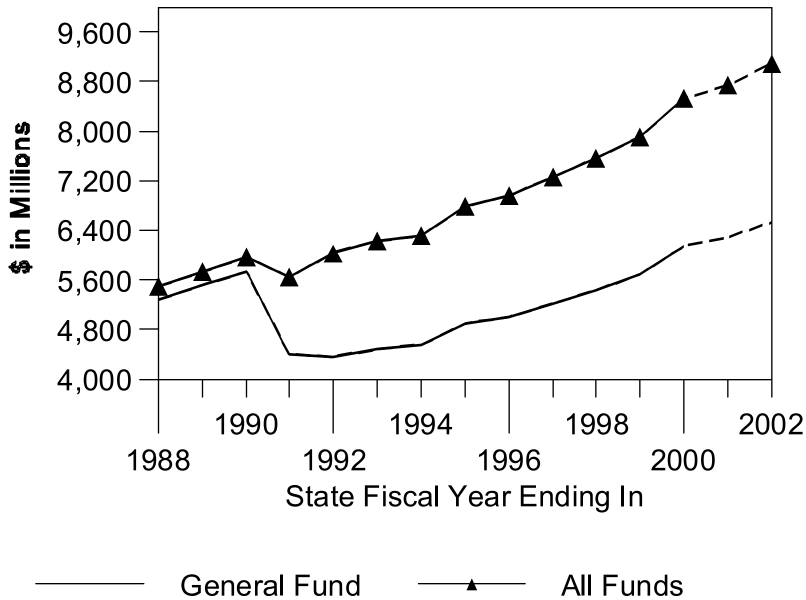
**REAL ESTATE TRANSFER TAX RECEIPTS**
**(thousands of dollars)**

| | Gross General Fund | Refunds | Net General Fund | Special Revenue Funds | Capital Projects Funds [1] | Gross Debt Service Funds [2] | Refunds | Debt Service Funds [2] | All Funds Net Collections |
|---|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | | | |
| 1992-93 | 150,085 | 532 | 149,553 | 0 | 0 | 0 | 0 | 0 | 149,553 |
| 1993-94 | 163,174 | 618 | 162,556 | 0 | 0 | 0 | 0 | 0 | 162,556 |
| 1994-95 | 187,801 | 278 | 187,523 | 0 | 0 | 0 | 0 | 0 | 187,523 |
| 1995-96 | 148,505 | 307 | 148,198 | 0 | 33,500 | 0 | 0 | 0 | 181,698 |
| 1996-97 | 107,859 | 371 | 107,488 | 0 | 87,000 | 0 | 0 | 0 | 194,488 |
| 1997-98 | 0 | 0 | 0 | 0 | 87,000 | 142,747 | 115 | 142,632 | 229,632 |
| 1998-99 | 0 | 0 | 0 | 0 | 112,000 | 200,383 | 14 | 200,369 | 312,369 |
| 1999-2000 | 0 | 0 | 0 | 0 | 112,000 | 228,334 | 104 | 228,230 | 340,230 |
| | Estimated | | | | | | | | |
| 2000-01 | 0 | 0 | 0 | 0 | 112,000 | 248,100 | 100 | 248,000 | 360,000 |
| 2001-02 | | | | | | | | | |
| (current law) | 0 | 0 | 0 | 0 | 112,000 | 208,100 | 100 | 208,000 | 320,000 |
| (proposed law) | 0 | 0 | 0 | 0 | 132,000 | 188,100 | 100 | 188,000 | 320,000 |

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

## SALES AND USE TAX

**Sales and Use Tax Receipts**
**History and Estimates**




### DESCRIPTION

The sales and compensating use tax, which accounted for over 16 percent of 1999-2000 General Fund revenues, not including transfers from other funds, 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) 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 70 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 (MTOAF).

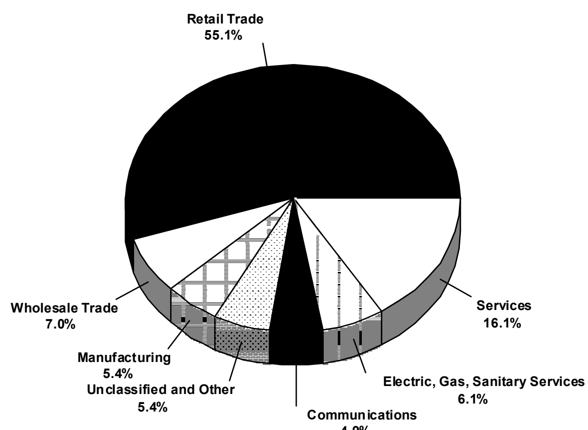
### *Base of Tax*

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.

**Industry Shares of Taxable Sales and Purchases**
**September 1998 to February 1999**




Source: NYS Department of Taxation and Finance

Although numerous exemptions of tangible personal property from tax have been enacted (see discussion below), 55 percent of total taxable sales and purchases are accounted for 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, at 16 percent of the statewide total, accounts for the next largest share of taxable sales and purchases.

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 a state's 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. 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 the sales tax have been enacted over the life of the tax. Broad exemptions have been provided for sales for resale and for 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, residential energy, and clothing and shoes costing less than $110 have been excluded from the sales 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. Legal, medical and other professional services, sales of real property, and rental 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 twentieth 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 to the current $1 million threshold, respectively. Approximately 34 percent of the tax is remitted via EFT.

To reduce tax evasion, special provisions for remitting the sales tax on gasoline motor fuel and cigarettes 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 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.

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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.

## SIGNIFICANT LEGISLATION

Numerous statutory changes have been made to the sales tax since its inception. The following summarizes the major sales tax legislation enacted since 1995.

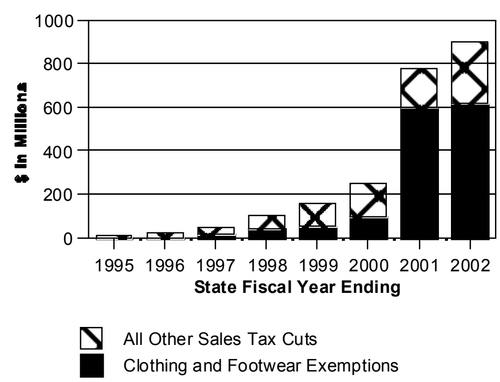
| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 1995** | | |
| Homeowners' Associations | Exempted dues paid to homeowners' associations operating social or athletic facilities for their members. | September 1, 1995 |
| Meteorological Services | Exempted the sale of 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 |
| **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 |

| Subject | Description | Effective Date |
|---|---|---|
| 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 |
| **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 |
| Farm Production | 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 |
| **Legislation Enacted in 2000** | | |
| Farm Production | Exempted property, building materials and utility services used in farm production. Expanded definition of farms to include commercial horse boarding operations. | September 1, 2000 |
| Internet Data Centers | Exempted computer hardware and software purchased by Internet Data Centers (web site hosting facilities) operating in New York. Included required equipment such as air conditioning systems, power systems, raised flooring, cabling, and the services related to the exempted property. | September 1, 2000 |
| Vending Machines | Exempted food and drink sold through a vending machine that costs 75 cents or less. | September 1, 2000 |
| Telecommunications Equipment and Communications Services | Exempted property used to provide telecommunications services, Internet access services, or a combination thereof. Also, exempted certain services to the exempted property, such as installation and maintenance. Provided a three-year exemption for machinery and equipment used to upgrade cable television systems to a digital-based technology. | September 1, 2000 |

| Subject | Description | Effective Date |
|---|---|---|
| Radio and Television Broadcasting | Exempts machinery and equipment (including parts, tools and supplies) and certain services used for production and transmission of live or recorded programs. A broadcaster includes Federal communications licensed radio and television stations, television networks, and cable television networks. | September 1, 2000 |
| Pollution Abatement | Exempts manufacturing and industrial pollution control equipment and machinery. | March 1, 2001 |
| Transmission and Distribution of Electricity and Gas | Phases out and eliminates over three years, the sales tax on the separately purchased transmission of electricity and gas. | September 1, 2000 |
| Qualified Zone Enterprise | Exempts property and services used or consumed by qualified businesses within Economic Development Zones. | March 1, 2001 |
| Purchase of Gas or Electricity from Outside of New York | Imposed a compensating use tax on purchases of gas or electricity from vendors located outside of New York | June 1, 2000 |

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 $103 million. Taxpayers saved an additional $53 million in 1998-99, an additional $90 million in 1999-2000, and are estimated to save an additional $531 million in 2000-01. In total, these tax cuts are expected to save taxpayers over $777 million in 2000-01.

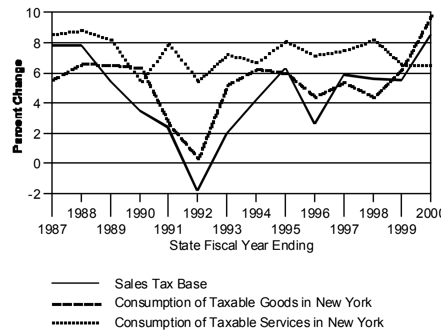
**Value of Sales Tax Cuts Enacted Since 1994**



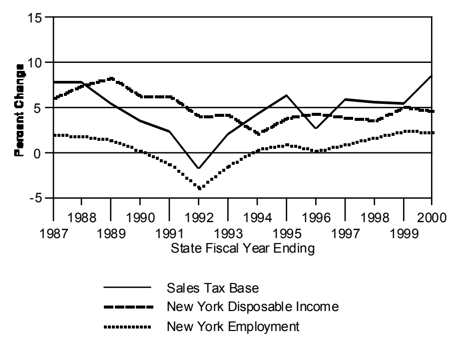
## BRIEF REVIEW OF RECEIPTS HISTORY

The years since the late 1980s 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 8 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 through 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 than the nation as a whole. This resulted in growth in the sales tax base that, although improved from the early 1990s, was moderate compared to prior periods. 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.

**Historical Growth in State Sales Tax Base and Taxable Consumption**




**Historical Growth in State Sales Tax Base, Income and Employment**




### 2000-01 RECEIPTS

State fiscal year 2000-01 receipts from the State 4 percent sales tax are estimated at $8,393 million, an increase of $207 million, or 2.5 percent, above 1999-2000. Growth in the underlying sales tax base is estimated at a healthy 8.4 percent. Year-to-date sales and use tax receipts are $6,346 million, 3.1 percent, or $190 million, above the comparable period in 1999-2000.

The strong growth in receipts, despite the clothing exemption effective March 1, 2000, can be attributed largely to the prospering State and national economies. Taxable consumption of goods in New York is expected to grow by 8.3 percent in 2000-01 and taxable consumption of services to grow by 6.7 percent.

Several other factors have impacted 2000-01 sales tax receipts, including:
- — A carry-over of $6 million in receipts from State fiscal year 1999-2000 due to the year-end closeout process;
- — Taxpayer savings of nearly $600 million from the clothing and footwear exemptions that began March 1, 2000;
- — Taxpayer savings of $35 million from the impact of tax cuts enacted in 2000, including exemptions for farm production equipment, Internet data centers, vending machines, communication services, and pollution abatement equipment; and
- — Audit and compliance receipts from the Case Resource and Tracking System (CARTS) program, which are projected to increase by $26 million over 1999-2000 levels.

### *2001-02 PROJECTIONS*

The current economic forecast projects slower growth in the factors believed to impact the level of taxable sales and associated sales tax receipts. Slower growth in State personal income, employment, and taxable consumption is anticipated. These factors combine to produce a still healthy increase of 5.1 percent in the continuing sales tax base.

Cash receipts from the State's 4 percent sales tax in 2001-02 are projected to be $322 million (3.8 percent) above 2000-01 levels. The difference between base and cash growth is due to exemptions, some of which became effective September 1, 2000, and some of which will become effective March 1, 2001. 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. Further, sales and use tax receipts were adjusted to reflect a revision to estimates of the Empire Zone Program enacted with the 2000-01 Budget. The program was originally anticipated to reduce receipts by $10 million in 2001-02. It is now expected the program will reduce receipts by an additional $30 million in 2001-02.

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.

### *OTHER 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). LGATF received $2,046 million in 1999-2000 and will receive an estimated $2,098 million in 2000-01 and $2,178 million in 2001-02. 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. MTOAF derives part of its revenues from the 0.25 percent sales and compensating use tax imposed in the Metropolitan Commuter Transportation District. MTOAF, which received $346 million in sales and use tax receipts in 1999-2000, will receive an estimated $360 million in 2000-01 and $367 million in 2001-02.

## GENERAL FUND

Direct deposits to the General Fund for 2000-01 are estimated to be $6,296 million, an increase of $155 million, or 2.5 percent, over 1999-2000 receipts. General Fund receipts in 2001-02 are projected to be $6,537 million, a 3.8 percent increase from the current year.

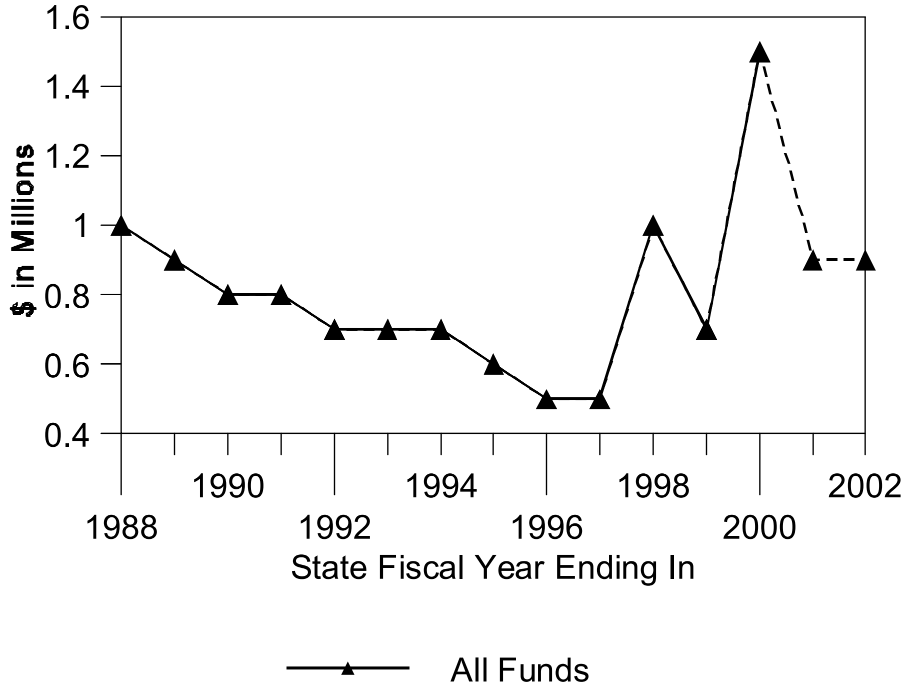
**SALES AND USE TAX RECEIPTS — ALL FUNDS**
**(thousands of dollars)**

| | Gross General Fund | Refunds | Net General Fund | Special Revenue Funds [1/] | Capital Projects Funds | Debt Service Funds [2/] | All Funds Net Collections |
|---|---|---|---|---|---|---|---|
| | | | | Actual | | | |
| 1992-93 | 4,514,288 | 27,538 | 4,486,750 | 241,589 | 0 | 1,504,019 | 6,232,358 |
| 1993-94 | 4,578,362 | 18,785 | 4,559,577 | 248,163 | 0 | 1,514,826 | 6,322,566 |
| 1994-95 | 4,918,969 | 21,151 | 4,897,818 | 263,607 | 0 | 1,627,246 | 6,788,671 |
| 1995-96 | 5,036,299 | 41,451 | 4,994,848 | 292,199 | 0 | 1,665,744 | 6,953,791 |
| 1996-97 | 5,265,260 | 40,212 | 5,225,048 | 289,129 | 0 | 1,746,575 | 7,260,752 |
| 1997-98 | 5,466,602 | 24,254 | 5,442,348 | 305,949 | 0 | 1,813,532 | 7,561,829 |
| 1998-99 | 5,728,834 | 32,136 | 5,696,698 | 321,405 | 0 | 1,893,821 | 7,911,924 |
| 1999-2000 | 6,182,347 | 41,388 | 6,140,959 | 345,646 | 0 | 2,045,844 | 8,532,449 |
| | | | | Estimated | | | |
| 2000-01 | 6,332,500 | 36,700 | 6,295,800 | 360,000 | 0 | 2,097,500 | 8,753,300 |
| 2001-02 | 6,574,900 | 38,100 | 6,536,800 | 367,000 | 0 | 2,178,300 | 9,082,100 |

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

# OTHER TAXES

**Other Taxes Receipts**
**History and Estimates**




## *RACING ADMISSIONS TAX*

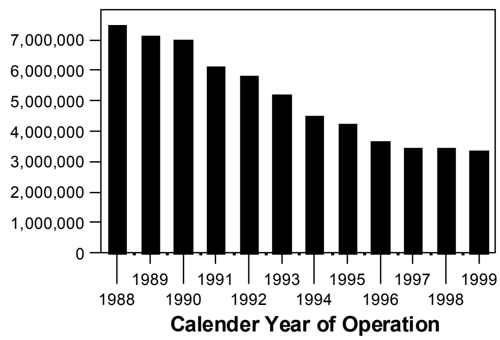
A 4 percent tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. Expanded interstate competition and growth in off-track betting activity within New York, as well as the proliferation of casinos within and outside New York State, have led to declines in total paid attendance at tracks (see charts below) 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.

### *2000-01 Receipts and 2001-02 Projections*

Given the successful extended racing season at Saratoga Race course during the summer of 2000, 2000-01 collections are estimated at $300,000.

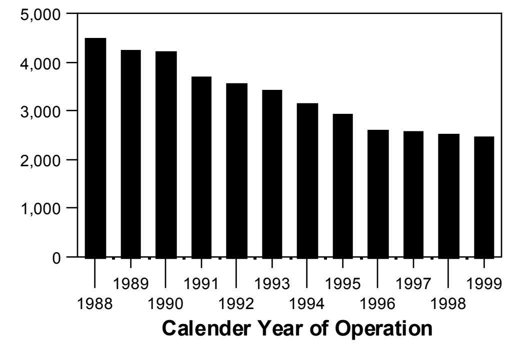
Receipts for 2001-02 are projected to remain constant at $300,000. It is estimated that increased attendance at simulcast facilities and during the Saratoga racing season will be offset by continued modest admissions declines at other New York racetracks.

**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

## *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 a heavyweight championship fight, can influence the yield of the tax substantially, causing receipts to vary considerably from year to year.

### *2000-01 Receipts and 2001-02 Projections*

Based on estimated collections through the first nine months of the current fiscal year, 2000-01, receipts are expected to reach $600,000. The continued growth of on-site wrestling and boxing events are expected to increase base receipts.

Receipts for the boxing and wrestling exhibitions tax are expected to remain constant at $600,000 for fiscal year 2001-02.

**GENERAL FUND RECEIPTS FROM OTHER TAXES**
**(thousands of dollars)**

| | General Fund | | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | All Funds Collections |
|---|---|---|---|---|---|---|
| | Admissions | Exhibitions | | | | |
| | Actual | | | | | |
| 1992-93 | 405 | 336 | 0 | 0 | 0 | 741 |
| 1993-94 | 399 | 262 | 0 | 0 | 0 | 661 |
| 1994-95 | 357 | 277 | 0 | 0 | 0 | 634 |
| 1995-96 | 310 | 182 | 0 | 0 | 0 | 492 |
| 1996-97 | 272 | 232 | 0 | 0 | 0 | 504 |
| 1997-98 | 310 | 639 | 0 | 0 | 0 | 949 |
| 1998-99 | 294 | 400 | 0 | 0 | 0 | 694 |
| 1999-2000 | 280 | 1,220 | 0 | 0 | 0 | 1,500 |
| | Estimated | | | | | |
| 2000-01 | 300 | 600 | 0 | 0 | 0 | 900 |
| 2001-02 | 300 | 600 | 0 | 0 | 0 | 900 |

# MISCELLANEOUS 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.

### 2000-01 Receipts and 2001-02 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 $30.8 million, down 9.3 percent, or $2.3 million from the comparable period of the prior fiscal year. Previous year receipts were especially high due to strong auto rental activity during the summer of 1999. Based on collections to date and the expectation of steady but moderate growth in the economy for the remaining months of the fiscal year, General Fund auto rental tax receipts for 2000-01 are estimated at $36.5 million.

Continued but reduced growth in both the economy and the demand for auto rentals is projected to increase 2001-02 receipts to $38.3 million, or $1.8 million over 2000-01 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 bottles and cans of soda and beer, as well as 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.

### 2000-01 Receipts and 2001-02 Projections

Container tax receipts for State fiscal year 2000-01 are expected to be approximately $7,000. This reflects the repeal of the tax effective October 1, 1998, and the net effect of audit collections and refunds. Receipts for 2001-02 are projected to be zero.

## GIFT TAX

Until the gift tax repeal on 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 was derived from the Federal tax base, with exclusions for transfers of property located outside the State. The tax was imposed on a lifetime basis — taxable gifts made during a taxpayer's lifetime, after allowable exclusions, were taxed in aggregate as one gift.

### 2000-01 Receipts and 2001-02 Projections

Net gift tax collections for the first nine months of 2000-01 are estimated to be $26.3 million, a decrease of 29 percent from the same period in 1999-2000. Net collections for all of 2000-01 are expected to be $28 million, consisting of $32 million in gross receipts and $4 million in refunds. Net receipts for 2001-02 are projected to total $2 million, consisting of $3 million in audit receipts and $1 million in refunds.

## 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.

### 2000-01 Receipts and 2001-02 Projections

Hotel occupancy tax receipts for State fiscal year 2000-01 are expected to be approximately $7,000 which reflect audit efforts and residual payments. Net residual payments for the remainder of 2000-01 and for 2001-02 are projected to be zero.

## 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.

### 2000-01 Receipts and 2001-02 Projections

Remaining collections stem primarily from deferred installment payments 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 and collections from assessments processed through the Case and Assessment Resources Tracking System (CARTS). These collections are estimated to be $4 million through December, with an additional $1.5 million expected by the end of the State fiscal year. Total refunds for the year are estimated to be $1.5 million. As a result, net real property gains tax collections for 2000-01 are estimated to be $4 million.

Collections from outstanding installments and CARTS will produce a projected $3.8 million in 2001-02. Refunds of $0.5 million of prior year liability will result in a projected net real property gains tax collections of $3.3 million for 2001-02.

**RECEIPTS FROM MISCELLANEOUS TAXES**
**(thousands of dollars)**

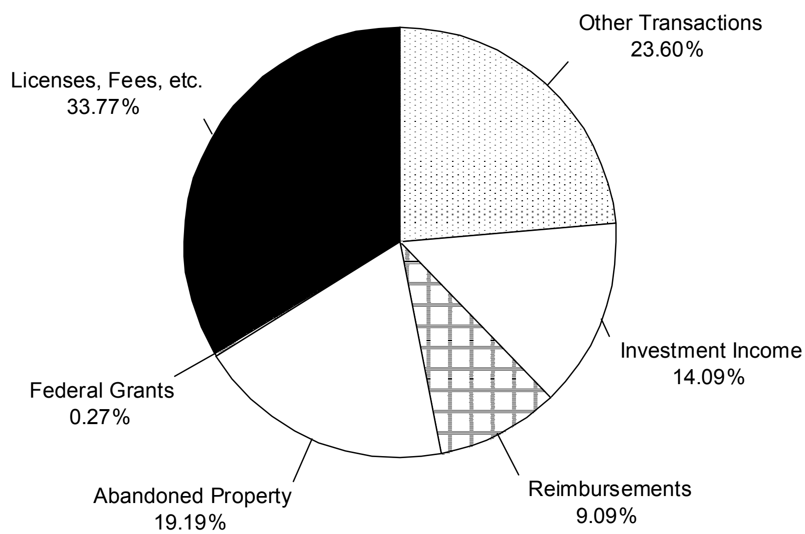
| | Gross General Fund | Refunds | Net General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | All Funds Net Collections |
|---|---|---|---|---|---|---|---|
| | Actual | | | | | | |
| 1992-93 | 434,583 | 14,650 | 419,933 | 0 | 0 | 0 | 419,933 |
| 1993-94 | 349,978 | 30,050 | 319,928 | 0 | 0 | 0 | 319,928 |
| 1994-95 | 315,590 | 26,670 | 288,920 | 0 | 0 | 0 | 288,920 |
| 1995-96 | 349,274 | 47,037 | 302,237 | 0 | 0 | 0 | 302,237 |
| 1996-97 | 229,498 | 31,999 | 197,499 | 0 | 0 | 0 | 197,499 |
| 1997-98 | 233,182 | 38,675 | 194,507 | 0 | 0 | 0 | 194,507 |
| 1998-99 | 218,542 | 11,310 | 207,232 | 0 | 0 | 0 | 207,232 |
| 1999-2000 | 148,282 | 15,107 | 133,175 | 0 | 0 | 0 | 133,175 |
| | Estimated | | | | | | |
| 2000-01 | 74,000 | 5,500 | 68,500 | 0 | 0 | 0 | 68,500 |
| 2001-02 | 45,100 | 1,500 | 43,600 | 0 | 0 | 0 | 43,600 |

# MISCELLANEOUS RECEIPTS
## General Fund

### DESCRIPTION

Miscellaneous Receipts cover a broad range of unrelated revenue sources with significant recurring income derived from abandoned property, investment earnings, fees, 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**




### SIGNIFICANT LEGISLATION

Chapter 56, Laws of 1998, initiated a phase-out of assessments on private health facility providers. Chapter 407, Laws of 1999, accelerated the phase-out to December 1999.

Chapter 57, Laws of 2000, provides amnesty on interest and penalties for private health facilities who pay any outstanding assessments by March 31, 2001.

### 1999-2000 RECEIPTS

In State fiscal year 1999-2000, Miscellaneous Receipts totaled $1,647 million. Major revenue sources in that year included: $316 million in unclaimed and abandoned property; $232 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); $556 million in fees, licenses, fines, royalties, and rents; $159 million in medical provider assessments; $150 million in reimbursements; and $4 million in Federal grants. In addition, the receipts included $3 million from the Energy Research and Development Authority (ERDA) and $227 million in Health Care Reform Act (HCRA) and New York Perspective Hospital Reimbursement Methodology Act (NYPHRM) payments.

### 2000-01 RECEIPTS

Miscellaneous Receipts are estimated at $1,500 million in 2000-01, a decrease of $147 million from the prior year. The estimate includes receipts of $328 million in unclaimed and abandoned property; $353 million in net investment earnings; $500 million in fees, licenses, fines, royalties and rents; $149 million in medical provider assessments; $158 million in reimbursements; $4 million in Federal grants; $1.5 million from the ERDA; $3 million from Power Authority of the State of New York (PASNY); and $3.5 million in a one-time payment from audit recoveries. The estimate for unclaimed and abandoned property reflects the early results of an interagency cooperative project. Investment earnings reflect large balances and high interest rates.

### 2001-02 PROJECTIONS

Miscellaneous Receipts are projected at $1,429 million in 2001-02, a decrease of $71 million from the amount estimated for 2000-01. This projection includes receipts of $343 million in unclaimed and abandoned property; $285 million in net investment earnings; $155 million in reimbursements; $483 million in fees, licenses, fines, royalties and rents; $133 million in continuing medical provider assessments; $4 million in Federal grants; $25 million from the PASNY; and $1.2 million from the ERDA. As in 2000-01, the estimate for unclaimed and abandoned property reflects the results of the interagency cooperative project. Investment earnings in 2001-02 reflect lower balances and estimated lower interest rates than those in 2000-01.

**GENERAL FUND**
**MISCELLANEOUS RECEIPTS**
**(millions of dollars)**

| | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 |
|---|---|---|---|---|---|
| | Actual | | | Estimated | |
| License, Fees, Etc. | 490 | 451 | 556 | 500 | 483 |
| Federal Grants | 4 | 4 | 4 | 4 | 4 |
| Abandoned Property | 270 | 293 | 316 | 328 | 343 |
| Reimbursements | 199 | 156 | 150 | 158 | 155 |
| Investment Income | 125 | 215 | 232 | 353 | 285 |
| Other Transactions | 510 | 468 | 389 | 157 | 159 |
| Total | 1,598 | 1,587 | 1,647 | 1,500 | 1,429 |

## *MISCELLANEOUS RECEIPTS*
## *Special Revenue Funds*

Miscellaneous receipts deposited to special revenue funds represent approximately 20 percent of total special revenue receipts, excluding transfers from other funds. These receipts include State University of New York (SUNY) tuition and patient income, lottery receipts for education, programs funded by HCRA 2000, 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 special revenue receipts that support the State University's operations are provided by 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 service users, including students, faculty, staff, and the public.

### *LOTTERY*

A portion of the receipts from the sale of lottery tickets is earmarked for the support of education, as well as 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 reimbursement for payments to hospitals that provide care for the medically indigent. The State makes payments in the first instance 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.

### *HCRA TRANSFER FUND*

The Health Care Reform Act of 2000 (HCRA) provides funding for several health and mental hygiene programs including prescription drug assistance for the elderly, supplemental Medicare insurance, and other public health services.

### *ALL OTHER*

The remaining revenues in this category include 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 of dollars)**

| | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 |
|---|---|---|---|---|---|
| | Actual | | | Estimated | |
| State University income | 1,545 | 1,561 | 1,622 | 1,663 | 1,797 |
| Lottery | 1,658 | 1,576 | 1,496 | 1,589 | 1,638 |
| Indigent care | 574 | 666 | 763 | 858 | 858 |
| HCRA transfer fund | 0 | 0 | 0 | 296 | 291 |
| All other | 1,754 | 2,010 | 2,200 | 2,344 | 2,328 |
| Total | 5,531 | 5,813 | 6,081 | 6,750 | 6,912 |

# LOTTERY

## DESCRIPTION

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 (the Division). 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 representing 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 Division manages the sale of lottery tickets and operates 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 nine times weekly: seven 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) or a four digit number (Win 4); 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) during certain intervals. The Division 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.

The minimum statutory allocation to education for Lotto 51 games is 45 percent of ticket sales; for Take 5, Win 4, numbers and Pick 10 games, 35 percent; for instant games, 20 percent; and for Quick Draw, 25 percent. After the earmarking for prizes, the Division uses a portion of net sales (not exceeding 15 percent) for its administrative expenses and the remainder is available to support education.

## SIGNIFICANT LEGISLATION

| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 1994** | | |
| Limit on Draws per Day | The tickets for Pick 10, Take 5, and Lotto games are to be sold only once a day. | April 1, 1994 |
| Unclaimed Prize Money | The use of unclaimed prize money to supplement other games by the Division is limited to 16 weeks per year. | April 1, 1994 |
| Annual Plan | The Division is required to submit an annual report to the Legislature, the Governor, and the Division of the Budget each year. | April 1, 1994 |

| Subject | Description | Effective Date |
|---|---|---|
| **Legislation Enacted in 1995** | | |
| Quick Draw | Authorized Quick Draw. | April 1, 1995 |
| | Sixty percent prize payout. | |
| | Drawings for the game can be held no more than 13 hours each day, of which only eight consecutive hours can be operated. | |
| | If there is no license for the sale of alcohol, then the premises have to be a minimum of 2,500 square feet. | |
| | If there is a license to sell alcohol, then at least 25 percent of the gross sales must be from sales of food. | |
| **Legislation Enacted in 1999** | | |
| Instant Games | Authorized a 65 percent prize payout. | April 1, 1999 |
| | Reduced the percent dedicated to education from 30 percent to 20 percent. | |

### *1999-2000*

Net lottery receipts from sales totaled $1,221.7 million for 1999-2000. After including $128.0 million from surplus administrative funds and miscellaneous receipts, total current receipts were $1,349.7 million. Disbursements in support of education were capped at $1,345 million, which required $4.7 million in lottery receipts to be carried into 2000-01.

### *2000-01 RECEIPTS*

Total sales of all lottery games, estimated at $4.09 billion, are expected to provide $1,275.1 million for education in revenue from current ticket sales, is up $53.4 million or 4.4 percent above 1999-2000. After including $154.7 million from unspent administrative allowances, a $4.7 million carry-in from 1999-2000, and miscellaneous income, total net lottery receipts earned for education in 2000-01 are expected to total $1,434.5 million. The 2000-01 lottery appropriation caps disbursements to education at $1,393 million. As a result, there will be a $41.5 million carry-out from 2000-01 into 2001-02.

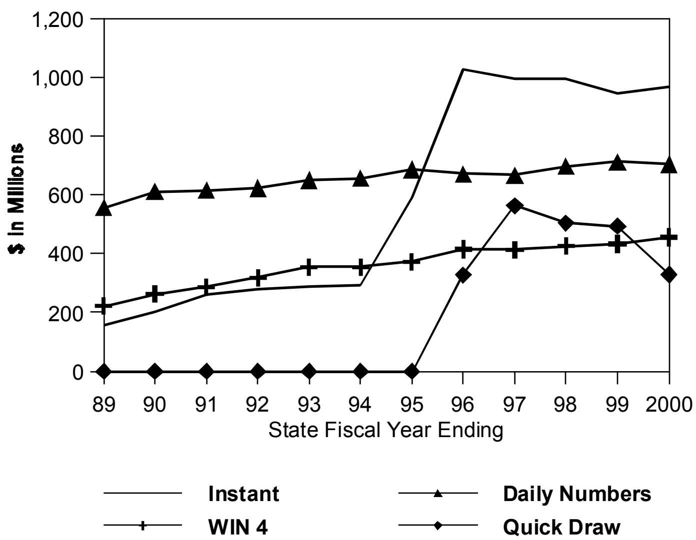
Legislation passed in 1999 allowed the Division to increase the prize payout on instant tickets from 55 percent to 65 percent. On October 2, 1999, the Division began to introduce some games with the higher prize payout. By March 31, 2001, the transition will be complete and all instant games will offer a 65 percent prize payout. This has resulted in an increase in sales, which had been dropping by about 6 percent annually. Sales were up 2.4 percent in 1999-2000 and are expected to be up another 33 percent in 2000-01. Due to the increased prize payouts, there was a significant increase in revenue from sales which was somewhat offset by the new allocation to education. As a result, revenue from instant ticket sales is expected to increase from $257.5 million in 1999-2000 to $273.3 million in 2000-01. This change reversed a two-year decline in revenue from instant games. As the higher payout games become more mature, it is expected that sales and revenue growth will moderate.

A gradual weakening in Lotto sales has developed over the past several years, stemming from several factors: (1) dilution of interest in ordinary jackpots given raised expectations of exceptionally large jackpots, resulting from the Big Game and Power-Ball games offered in other states; (2) increased competition from Indian casinos in and around

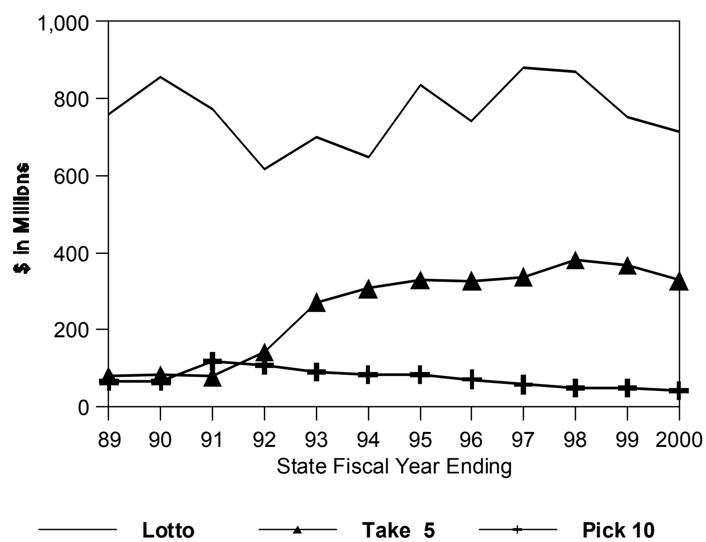
New York; (3) reduced consumer interest, based on the maturity of the game, and (4) a decline in the number of very large jackpots. This same phenomenon of declining trends in Lotto sales has been experienced in most states with similar Lotto structures.

In addition, the Lotto Millennium game, which was started on October 1, 2000, and concluded November 4, 2000, accounted for $121 million in sales and $54.5 million in revenue. However, the success of this promotion appears to have siphoned off a portion of Lotto 51 sales.

**Fixed Odds/Instant Prize Game Sales**




**Pari-Mutuel Prize Game Sales**



Numbers game sales are benefitting from the addition of new agents and player awareness. Quick Draw sales in 2000-01 are expected to be up 51 percent compared to 1999-2000. This represents a rebound from a four-month shutdown, due to a temporary sunset of legislative authorization from April through July of 1999. The number of draws per week for Take 5 was increased from four to seven days on September 10, 2000. The estimated additional revenues for fiscal year 2000-01 are $27.8 million. Pick 10 is continuing the downtrend exhibited in recent years.

**TABLE 1**
**COMPONENTS OF LOTTERY RECEIPTS**
**(millions of dollars)**

| | 1996-97 Actual | 1997-98 Actual | 1998-99 Actual | 1999-2000 Actual | 2000-01 Estimated | Current Law 2001-02 Projected | Proposed Law 2001-02 Projected |
|---|---|---|---|---|---|---|---|
| Instant Game | 298.4 | 298.5 | 283.2 | 257.5 | 273.3 | 280.3 | 280.3 |
| Lotto Games [1/] | 399.0 | 395.9 | 338.3 | 345.5 | 316.2 | 238.1 | 347.8 |
| Take-5 Games | 118.3 | 133.9 | 128.9 | 115.0 | 134.3 | 149.6 | 139.6 |
| Daily Numbers Games | 233.7 | 243.9 | 249.2 | 246.6 | 246.9 | 249.3 | 249.3 |
| Win-4 Games | 149.0 | 151.7 | 157.0 | 159.5 | 162.8 | 164.4 | 164.4 |
| Pick 10 Games | 20.2 | 17.4 | 17.0 | 15.1 | 14.5 | 12.0 | 12.0 |
| Quick Draw | 140.7 | 125.8 | 123.4 | 82.5 | 124.1 | 2.4 | 125.3 |
| Subtotal | 1,359.3 | 1,367.1 | 1,297.0 | 1,221.7 | 1,275.1 | 1,096.1 | 1318.7 |
| Administrative Surplus [2/] | 168.8 | 166.8 | 145.4 | 128.0 | 154.7 | 120.6 | 165.1 |
| Current Receipts Subtotal | 1,527.9 | 1,533.9 | 1,442.4 | 1,349.7 | 1,429.8 | 1,216.7 | 1,483.8 |
| Carry-In from Prior Year | 5.3 | 0.0 | 0.0 | 0.0 | 4.7 | 41.5 | 41.5 |
| Carry-Out from Current Year | 0.0 | 0.0 | 0.0 | (4.7) | (41.5) | 0.0 | 0.0 |
| Net Receipts for Education | 1,533.2 | 1,533.9 | 1,442.4 | 1,345.0 | 1,393.0 | 1,258.2 | 1525.3 |

1/ Includes receipts from Millennium Millions and the proposed Multistate games.
2/ Reflects miscellaneous income and the balance of the 15 percent administrative allowance, after deducting actual expenses, vendor allowances, and agent commissions.

### *2001-02 PROJECTIONS*

### *Current Law*

Lottery sales for 2001-02 are projected at $3.6 billion, and current receipts for the support of education at $1,258.2 million (see Table 1). This includes a carry-in of $41.5 million from the prior year, and $120.6 million in administrative surplus and miscellaneous receipts.

Lotto sales are expected to decrease by $179.2 million from 2000-01, in part due to the age of the game and the absence of a Millennium Millions game. Lotto revenues would likewise decline by $94 million. The Quick Draw game will sunset on March 31, 2001, and, if not renewed, current law would allow only $2.4 million in Quick Draw receipts from sales in 2000-01 but not deposited until 2001-02. Therefore, there would be a net 2001-02 revenue loss of $151.8 million.

Instant Games are expected to produce $101.7 million in additional sales in 2001-02, due to the addition of new staff, implementation of a new marketing schedule, and the full-year effect of the change to a 65 percent prize payout. These changes are expected to produce $20.3 million in additional revenue from sales.

Sales from Take-5 games are projected to increase by $43.8 million from State fiscal year 2000-01, reflecting the first full-year impact of going from four to seven days of prize drawings. This would produce additional revenue from sales of $15.3 million. Daily Numbers and Win-4 sales are expected to increase by $7.1 million and $4.6 million, respectively, which will increase revenue by $4 million. Sales from Pick 10 are expected to decrease by $7.0 million, due to the substitution of the more popular Take-5 and Instant games, and revenues will drop by $2.5 million.

### Proposed Law

Legislation submitted with this Budget will allow the Division to enter into multi-jurisdictional agreements to conduct multi-state lotto games with a 50 percent prize payout. This new game is expected to produce significant new revenue for education but will siphon off sales and revenue from Lotto and Take-5. Thus, the projected additional net revenue for fiscal year 2001-02 is $125 million for lottery aid for education from the multi-state lottery. The legislation will also make Quick Draw permanent and preserve $151.8 million in net receipts for education.

In addition, the Division is requesting appropriations to continue with the implementation of the Instant Game Two-Week Call Cycle. The Division marketing representatives will visit selected high-selling retailers every two weeks and take a more active part in managing the lottery business for the retailers. Initial staff were hired in October 2000 and the Two-Week Call Cycle began in November 2000 in parts of the State. Additional staff requested in the 2001-02 Executive Budget will increase revenue by $11 million for the fiscal year.

With the continuation of Quick Draw, the addition of the Multi-state game, and staffing for the Instant Game Two-Week Call Cycle, total sales of all Lottery games are estimated to be $4.4 billion. This will provide net Lottery receipts of $1,318.7 million. Disbursements of $1,525.3 million will be used for education, including $165.1 million from surplus administrative funds and a $41.5 million carry-in from the prior fiscal year.

### Impact

**TABLE 2**
**NET LOTTERY RECEIPTS FOR EDUCATION**
**(thousands of dollars)**

| | |
|---|---|
| ----------------------- Actual ------------------------ | |
| 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 |
| 1999-2000 | 1,345,000 |
| -------------------- Estimated -------------------- | |
| 2000-01 | 1,393,000 |
| 2001-02 (current law) | 1,258,200 |
| (proposed law) | 1,525,300 |

# *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 89 percent of all miscellaneous receipts flowing to capital project funds in 2001-02. Compared to the current year, reimbursements from authority bond proceeds will remain flat — increases in education reimbursements related to the RESCUE program and other reimbursements related to the Strategic Investment Program are offset by comparable decreases in transportation and public protection reimbursements.

### *STATE PARKS FEES*

User fees and other revenues generated by State parks are deposited into the State Parks Infrastructure Fund. These revenues, which are projected at $22 million in 2001-02, will be used to finance improvements in the State's park system.

### *ENVIRONMENTAL REVENUES*

Miscellaneous receipts from environmental revenues are projected to increase from $37 million in 2000-01 to $96 million in 2001-02. The $59 million net increase is primarily attributable to $36 million in industry fees which will be deposited to the new Remedial Program Transfer Fund and used to partially finance the industry's 50 percent share of the cost of State Superfund projects. The balance of the $59 million net increase is driven by a $20 million reimbursement necessary to satisfy an advance disbursement used to support the development of the Hudson River Park in New York City.

Environmental revenues also include receipts that are deposited to the Environmental Protection Fund 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 moneys 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 moneys advanced or loaned to municipalities, authorities, and private corporations.

**MISCELLANEOUS RECEIPTS**
**CAPITAL PROJECTS FUNDS**
**(millions of dollars)**

| | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 |
|---|---|---|---|---|---|
| | Actual | | | Estimated | |
| Authority Bond Proceeds | | | | | |
| Transportation | 480 | 697 | 859 | 908 | 703 |
| Public protection | 213 | 351 | 245 | 210 | 188 |
| Education | 169 | 117 | 280 | 241 | 314 |
| Mental hygiene | 215 | 132 | 118 | 129 | 105 |
| Housing | 50 | 70 | 66 | 98 | 108 |
| Other | 97 | 92 | 45 | 51 | 225 |
| State Park Fees | 23 | 27 | 25 | 19 | 22 |
| Environmental Revenues | 29 | 25 | 40 | 37 | 96 |
| All Other | 49 | 56 | 97 | 68 | 76 |
| Total | 1,325 | 1,567 | 1,775 | 1,761 | 1,837 |

# 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 Corporation and the Helen Hayes Hospital) and veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund. Similar to mental hygiene receipts, these receipts are composed of payments from Medicaid, Medicare, insurance, and individuals and are pledged as security for bonds sold by the Dormitory Authority for the construction and improvement of Health Department facilities.

### ALL OTHER

The all other miscellaneous receipts category for 2000-01 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, increased the 2000-01 DRRF balance to $750 million. As planned, $500 million of DRRF deposits will be used in 2000-01 and the $250 million balance will be used in 2001-02 to decrease high cost debt and increase pay-as-you-go spending — generating $1.2 billion in lower debt service costs.

**MISCELLANEOUS RECEIPTS**
**DEBT SERVICE FUNDS**
**(millions of dollars)**

| | 1997-98 | 1998-99 | 1999-2000 | 2000-01 | 2001-02 |
|---|---|---|---|---|---|
| | Actual | | | Estimated | |
| Mental hygiene patient receipts | 266 | 269 | 267 | 263 | 240 |
| SUNY dormitory fees | 194 | 202 | 221 | 221 | 262 |
| Health patient receipts | 145 | 126 | 90 | 87 | 86 |
| All other | 34 | 33 | 33 | 279 | 26 |
| Total | 639 | 630 | 611 | 850 | 614 |

# FEDERAL GRANTS

To qualify to receive Federal grants, the State must comply with guidelines established by the Federal government. Each Federal grant 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 spending in the first instance, then receives reimbursement from the Federal government.

Total receipts from the Federal government are projected at $24.77 billion in 2000-01 and $26.29 billion in 2001-02. These revenues represent approximately 32 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 special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds.

Medicaid provides care, treatment, maintenance, medical supplies, and professional services to eligible persons. The State receives moneys 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 of dollars)**

| | General Fund | Special Revenue Funds: Medicaid | Special Revenue Funds: Welfare | Special Revenue Funds: All Other | Total Special Revenue Funds | Capital Projects Funds | Debt Service Funds | Total All Funds |
|---|---|---|---|---|---|---|---|---|
| | Actual | | | | | | | |
| 1995-96 | 0 | 11,849 | 2,041 | 5,326 | 19,216 | 1,011 | 0 | 20,227 |
| 1996-97 | 0 | 12,424 | 1,743 | 4,838 | 19,005 | 1,043 | 0 | 20,048 |
| 1997-98 | 0 | 13,183 | 2,219 | 5,109 | 20,511 | 1,132 | 0 | 21,643 |
| 1998-99 | 0 | 13,612 | 1,488 | 6,322 | 21,422 | 1,219 | 0 | 22,641 |
| 1999-2000 | 0 | 14,532 | 1,017 | 6,635 | 22,184 | 1,381 | 0 | 23,565 |
| | Estimated | | | | | | | |
| 2000-01 | 0 | 15,073 | 1,100 | 7,195 | 23,368 | 1,401 | 0 | 24,769 |
| 2001-02 | 0 | 16,035 | 1,459 | 7,341 | 24,835 | 1,451 | 0 | 26,286 |