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
2001-2002
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	25,854	1,310	0	250	27,414
User taxes and fees	7,098	454	839	2,151	10,542
Sales and use tax	6,131	365	0	2,044	8,540
Cigarette and tobacco taxes	532	0	0	0	532
Motor fuel tax	0	62	320	107	489
Motor vehicle fees	185	27	371	0	583
Highway Use tax	0	0	148	0	148
Alcoholic beverages taxes	178	0	0	0	178
Alcoholic beverage control license fees	34	0	0	0	34
Auto rental tax	38	0	0	0	38
Business taxes	3,616	1,015	554	0	5,185
Corporation franchise tax	1,515	187	0	0	1,702
Corporation and utilities tax	972	246	0	0	1,218
Insurance taxes	633	63	0	0	696
Bank tax	496	70	0	0	566
Petroleum business tax	0	449	554	0	1,003
Other taxes	803	0	112	258	1,173
Estate tax	761	0	0	0	761
Gift tax	6	0	0	0	6
Real property gains tax	5	0	0	0	5
Real estate transfer tax	0	0	112	258	370
Pari-mutuel taxes	30	0	0	0	30
Other taxes	1	0	0	0	1
Total Taxes	37,371	2,779	1,505	2,659	44,314
Miscellaneous receipts	1,625	7,129	1,444	614	10,812
Federal grants	0	26,698	1,423	0	28,121
Total	38,996	36,606	4,372	3,273	83,247

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2002-2003
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	17,182	2,667	0	4,306	24,155
User taxes and fees	7,052	518	1,002	2,215	10,787
Sales and use tax	6,303	372	0	2,098	8,773
Cigarette and tobacco taxes	451	0	0	0	451
Motor fuel tax	0	68	350	117	535
Motor vehicle fees	76	78	465	0	619
Alcoholic beverages taxes	182	0	0	0	182
Highway Use tax	0	0	146	0	146
Alcoholic beverage control license fees	40	0	0	0	40
Auto rental tax	0	0	41	0	41
Business taxes	3,522	992	572	0	5,086
Corporation franchise tax	1,535	199	0	0	1,734
Corporation and utilities tax	868	195	0	0	1,063
Insurance taxes	670	67	0	0	737
Bank tax	449	69	0	0	518
Petroleum business tax	0	462	572	0	1,034
Other taxes	761	0	112	337	1,210
Estate tax	723	0	0	0	723
Gift tax	3	0	0	0	3
Real property gains tax	4	0	0	0	4
Real estate transfer tax	0	0	112	337	449
Pari-mutuel taxes	30	0	0	0	30
Other taxes	1	0	0	0	1
Total Taxes	28,517	4,177	1,686	6,858	41,238
Miscellaneous receipts	4,085	9,747	2,488	626	16,946
Federal grants	0	30,955	1,482	0	32,437
Total	32,602	44,879	5,656	7,484	90,621

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	15,250	2,707	0	5,097	23,054
User taxes and fees	7,508	601	1,099	2,255	11,463
Sales and use tax	6,765	393	0	2,255	9,413
Cigarette and tobacco taxes	446	0	0	0	446
Motor fuel tax	0	113	425	0	538
Motor vehicle fees	75	95	481	0	651
Alcoholic beverages taxes	180	0	0	0	180
Highway Use tax	0	0	149	0	149
Alcoholic beverage control license fees	42	0	0	0	42
Auto rental tax	0	0	44	0	44
Business taxes	3,682	1,000	554	0	5,236
Corporation franchise tax	1,591	205	0	0	1,796
Corporation and utilities tax	805	188	0	0	993
Insurance taxes	818	85	0	0	903
Bank tax	468	75	0	0	543
Petroleum business tax	0	447	554	0	1,001
Other taxes	771	0	112	292	1,175
Estate tax	736	0	0	0	736
Gift tax	0	0	0	0	0
Real property gains tax	2	0	0	0	2
Real estate transfer tax	0	0	112	292	404
Pari-mutuel taxes	32	0	0	0	32
Other taxes	1	0	0	0	1
Total Taxes	27,211	4,308	1,765	7,644	40,928
Miscellaneous receipts	3,538	10,204	2,790	702	17,234
Federal grants	0	30,390	1,668	0	32,058
Total	30,749	44,902	6,223	8,346	90,220

CASH RECEIPTS
GENERAL FUND
2001-2002 THROUGH 2003-2004
(millions of dollars)

	2001-2002 Actual	2002-2003 Estimated	2003-2004 Recommended	2003-2004 Compared with 2002-2003
Personal income tax	25,854	17,182	15,250	(1,932)
User taxes and fees	7,098	7,052	7,508	456
Sales and use tax	6,131	6,303	6,765	462
Cigarette and tobacco taxes	532	451	446	(5)
Motor fuel tax	0	0	0	0
Motor vehicle fees	185	76	75	(1)
Alcoholic beverages taxes	178	182	180	(2)
Alcoholic beverage control license fees	34	40	42	2
Auto rental tax	38	0	0	0
Business taxes	3,616	3,522	3,682	160
Corporation franchise tax	1,515	1,535	1,591	56
Corporation and utilities tax	972	868	805	(63)
Insurance taxes	633	670	818	148
Bank tax	496	449	468	19
Petroleum business tax	0	0	0	0
Other taxes	803	761	771	10
Estate tax	761	723	736	13
Gift tax	6	3	0	(3)
Real property gains tax	5	4	2	(2)
Pari-mutuel taxes	30	30	32	2
Other taxes	1	1	1	0
Total Taxes	37,371	28,517	27,211	(1,306)
Miscellaneous receipts	1,625	4,085	3,538	(547)
Total	38,996	32,602	30,749	(1,853)

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2001-2002 THROUGH 2003-2004
(millions of dollars)

	2001-2002 Actual	2002-2003 Estimated	2003-2004 Recommended	2003-2004 Compared with 2002-2003
Personal income tax	1,310	2,667	2,707	40
User taxes and fees	454	518	601	83
Sales and use tax	365	372	393	21
Motor fuel tax	62	68	113	45
Motor vehicle fees	27	78	95	17
Business taxes	1,015	992	1,000	8
Corporation franchise tax	187	199	205	6
Corporation and utilities tax	246	195	188	(7)
Insurance taxes	63	67	85	18
Bank tax	70	69	75	6
Petroleum business tax	449	462	447	(15)
Total Taxes	2,779	4,177	4,308	131
Miscellaneous receipts	7,129	9,747	10,204	457
State university income	1,824	1,897	2,138	241
Lottery	1,713	1,965	1,996	31
Indigent care	836	1,020	911	(109)
HCRA Transfer fund	335	1,159	1,510	351
Provider assessments	0	441	652	211
EPIC	278	535	597	62
Child health plus	303	398	367	(31)
All other	1,840	2,332	2,033	(299)
Federal grants	26,698	30,955	30,390	(565)
Total	36,606	44,879	44,902	23

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2001-2002 THROUGH 2003-2004
(millions of dollars)

	2001-2002 Actual	2002-2003 Estimated	2003-2004 Recommended	2003-2004 Compared with 2002-2003
User taxes and fees	839	1,002	1,099	97
Motor fuel tax	320	350	425	75
Motor vehicle fees	371	465	481	16
Highway Use tax	148	146	149	3
Auto Rental Tax	0	41	44	3
Business taxes	554	572	554	(18)
Petroleum business tax	554	572	554	(18)
Other taxes	112	112	112	0
Real estate transfer tax	112	112	112	0
Total Taxes	1,505	1,686	1,765	79
Miscellaneous receipts	1,444	2,488	2,790	302
Authority bond proceeds	1,360	2,305	2,557	252
State park fees	22	22	22	0
Environmental receipts	20	56	91	35
All other	42	105	120	15
Federal grants	1,423	1,482	1,668	186
Total	4,372	5,656	6,223	567

CASH RECEIPTS
DEBT SERVICE FUNDS
2001-2002 THROUGH 2003-2004
(millions of dollars)

	2001-2002 Actual	2002-2003 Estimated	2003-2004 Recommended	2003-2004 Compared with 2002-2003
Personal income tax	250	4,306	5,097	791
User taxes and fees	2,151	2,215	2,255	40
Sales and use tax	2,044	2,098	2,255	157
Motor fuel tax	107	117	0	(117)
Other taxes	258	337	292	(45)
Real estate transfer tax	258	337	292	(45)
Total Taxes	2,659	6,858	7,644	786
Miscellaneous receipts	614	626	702	76
Mental hygiene patient receipts	248	231	232	1
SUNY dormitory fees	247	284	292	8
Health patient receipts	91	85	93	8
All other	28	26	85	59
Total	3,273	7,484	8,346	862

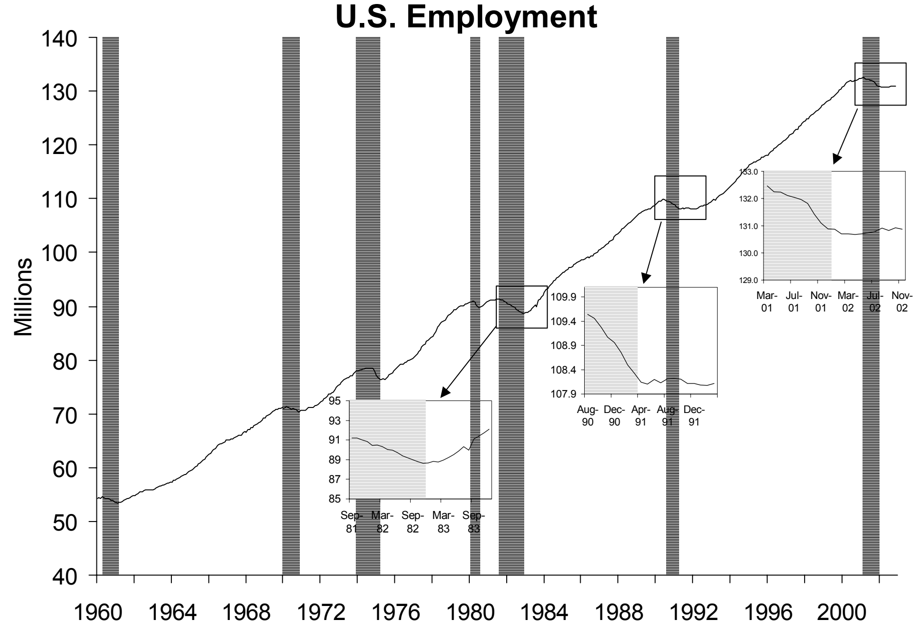
ECONOMIC BACKDROP

OVERVIEW

The financial market and high technology investment bubbles collapsed in 2000, leaving the national economy with extensive overcapacity and a business-led recession. The already weakened condition of the national economy was exacerbated by the events of September 11. However, the Federal Reserve moved quickly in January 2001 to lower interest rates, strengthening the housing market and consumer spending. Household spending remained positive throughout 2001 and showed remarkable resilience during the fourth quarter of 2001, particularly in response to generous incentive packages offered by the auto industry. By the beginning of 2002, the U.S. economy appeared to be in recovery.

However, in the middle of 2002, the expansion began to falter, looking more like the jobless recovery of the early 1990s than the historical norm for post-recession expansions (see Figure 1). Equity markets were falling, due in part to corporate accounting scandals. Households appeared to finally be feeling the resulting loss of wealth. The global economy weakened, while national security concerns escalated. Projected fourth quarter growth of less than one percent would be the lowest since real U.S. Gross Domestic Product (GDP) fell 0.3 percent in the third quarter of 2001 (see Figure 2). The Division of the Budget (DOB) projects real GDP growth of 2.4 percent for 2002, followed by growth of the same magnitude for 2003. These represent relatively weak growth rates for the first two years of an expansion.

Figure 1
U.S. Employment



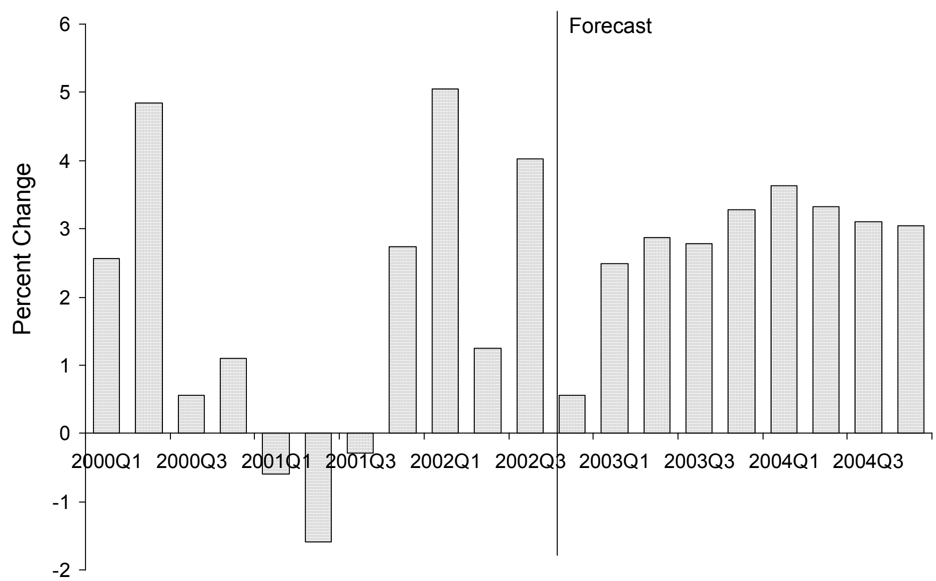
Note: Shaded areas represent US recessions.
Source: Economy.com.

The New York State economy is only now emerging from recession. As a result of the destruction in lower Manhattan and the prolonged downturn in equity markets, the State's recession has lasted longer than originally anticipated. Correspondingly, the downstate region has lost jobs at a faster pace than upstate. The finance sector is adapting to the demise of the stock price bubble, and is likely to continue to contract for the foreseeable future. The travel and tourism industry has still not recovered to pre-attack levels. Meanwhile, the upstate manufacturing sector continues to contract due to weakness in both the national and global economies. The Budget Division projects growth in State employment of 0.7 percent for 2003, following a 1.6 percent decline for 2002. Total State wages are projected to rise by 2.3 percent for 2003, following a decline of 3.2 percent for 2002.

The fundamentals of the U.S. economy are sound. Productivity growth remains above the 1973-94 average. A low inflation/low interest rate environment continues to prevail and both monetary and fiscal policy remain expansionary. Therefore, the Budget Division expects the national economy to return to its potential rate of growth of about 3.0 percent by 2004. Nevertheless, in the near-term there exists an extraordinary level of uncertainty related to national security concerns, corporate governance, and the financial markets. Whether consumer spending will hold up in the face of these risks is unknown. Moreover, since the securities and travel industries are likely to be among the last to recover, the implications for New York State's economic and fiscal situation are particularly grave.

Figure 2

Real Gross Domestic Product



Source: Economy.com; DOB staff estimates.

THE NATIONAL ECONOMY

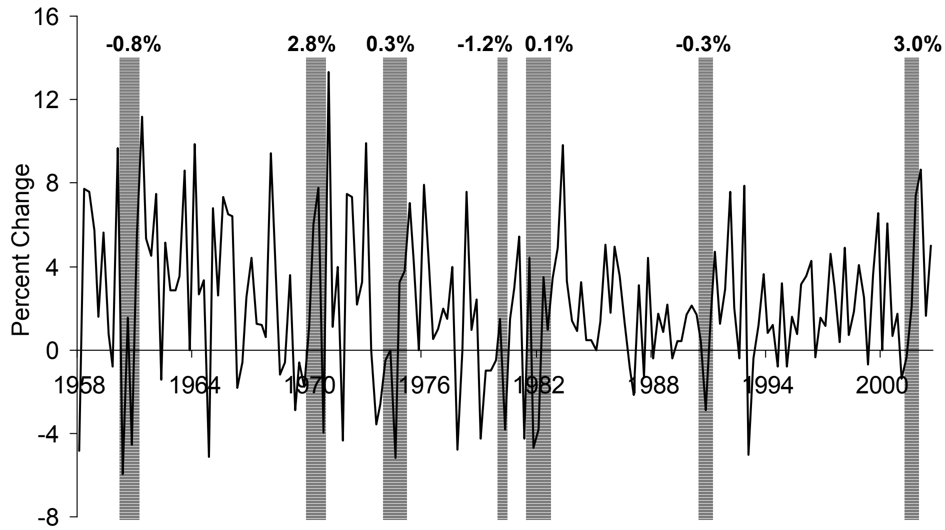
The 2001 Business Recession

The 2001 recession was unique in two ways.[1] It was unusually mild, encompassing only three quarters of decline in real U.S. GDP. Indeed, the average quarterly rate of decline for the 2001 recession was only 0.8 percent, less than half of the 2.0 percent decline for the early 1990s recession. A robust housing market and record high auto sales helped to offset steep

[1] The National Bureau of Economic Research (NBER) Business Cycle Dating Committee has not officially announced an end to the recession that began in March 2001. The Committee recently announced that it "will determine the date of a trough in activity when it concludes that a hypothetical subsequent downturn would be a separate recession, not a continuation of the past one." See <http://www.nber.org/cycles/ recessions.html>. Moreover, in June 2003, the U.S. Bureau of Labor Statistics (BLS) is expected to release its benchmark revision for national employment as measured under the Current Employment Statistics (CES) program and revise downward the March 2002 employment estimate by 284,000, or 0.2 percent (see <http://www.bls.gov/web/ cesbmpkg.htm#Overview>). Nevertheless, based on the Budget Division forecast, the Committee is expected to identify a business cycle trough in either late 2001 or early 2002.

declines in business spending and inventories. Another unique feature of the most recent downturn was the unusually high rates of productivity growth, averaging 3.0 percent over the last three quarters of 2001.

Figure 3
Nonfarm Business Productivity Growth



Note: Productivity is measured as output per hour. Shaded areas represent US recessions; numbers above recession bars show average productivity during recession; the most recent recession is assumed to span the last three quarters of 2001.
Source: Economy.com.

Figure 3 indicates the average rate of nonfarm business productivity growth for the past seven recessions, with the 2001 recession easily surpassing all the others. While the capacity overhang left by the high rates of investment growth of the late 1990s may be partly responsible for this phenomenon, it may also be an artifact of measurement. For example, during the fourth quarter of 2001, nonfarm business output grew 2.4 percent while hours worked in private nonfarm establishments fell a precipitous 3.7 percent in the wake of September 11. Since labor productivity is typically measured as output per hour, one would expect a measure for the fourth quarter of over six percent; labor productivity in the nonfarm business sector actually grew 7.4 percent during the fourth quarter.

Using the Division's current estimates for the fourth quarter of 2002, Table 1 compares what we believe is the first year of the current recovery with the first four quarters of the 1990s expansion and the average over the last five expansions. It is evident from the table that the current recovery has much in common with the "jobless recovery" of the early 1990s. Because of the shallowness of the last two recessions, the economic recoveries that followed did not exhibit the sizeable rebound that typically succeeds a downturn due to the release of pent-up demand. Hence, real U.S. GDP, personal income, wages, employment, profits, and prices are estimated to have grown at rates well below the average over the past five expansions, but comparable to those of the first four quarters of the 1990s expansion. In contrast, growth in government spending was above both the last expansion and the average of the last five, while the stock market uncharacteristically fell.

TABLE 1
AVERAGE GROWTH FOR FIRST FOUR QUARTERS OF U.S. EXPANSIONS*
SELECTED ECONOMIC INDICATORS

	Current Expansion**	Last Expansion	Last 5 Expansions
GDP Real	2.7	2.3	4.8
Consumption	2.2	2.5	4.7
Residential Fixed Investment	4.6	14.5	25.0
Nonresidential Fixed Investment	(1.2)	(2.0)	4.4
Government	3.5	0.2	0.2
Wages	3.6	4.6	8.3
Corp. profits with IVA and CCA***	(1.8)	9.6	29.7
CPI Urban	2.4	2.9	5.2
Non-Ag. Employment	(0.2)	(0.4)	1.7
S&P500	(17.3)	17.3	22.1
Federal Funds Rate	1.7	5.1	7.9

* Rates are simple averages over the seasonally adjusted annualized rates for the first four quarters of the expansion, except for the federal funds rate.
** Current national expansion is assumed to have begun during the first quarter of 2002; first four quarters are composed of three quarters of actuals and one quarter of forecast.
***IVA is the inventory valuation adjustment; CCA is the capital consumption adjustment.
Source: Economy.com; DOB staff estimates.

Was the 2001 recession truly as mild as we think? Recent revisions to key economic data suggest a deeper recession than originally thought. Moreover, expected future revisions may cause us to revisit this question yet again. In its annual comprehensive revision of the national income and product account data, the U.S. Bureau of Economic Analysis (BEA) significantly altered its depiction of the course of the national economy before and during the recession. The revisions are normally released each July to incorporate source data that are more complete, more detailed, and otherwise more pertinent than previously available.[2] Based on the revisions, we now know that the U.S. economy began to weaken much earlier than originally estimated, with real U.S. GDP declining during the first three quarters of 2001. Prior to the revision, GDP was estimated to have fallen only during the third quarter. As a result, real U.S. GDP growth for 2001 was revised down from 1.2 percent to 0.3 percent (see Table 2). It also appears that the economy generated more momentum during the fourth quarter of 2001 than originally thought, setting the stage for strong first quarter 2002 growth of 5.0 percent.

BEA revises its initial estimates of wage and salary disbursements, as measured under the National Income and Product Accounts (NIPA), based on data from the Covered Employment and Wage (CEW) program, also known as ES 202 program. CEW data is considered by most analysts to be the most accurate data source available for employment and wages (see Box 1). As indicated in the left-hand panel of Figure 4, for each year from 1998 through 2001, the revised NIPA estimates are very close to those derived directly from CEW program data. In July, national wage and salary disbursements for 2001 were revised down by $148 billion, resulting in a decline in the growth rate from 5.4 percent to 2.4 percent. Growth in corporate profits from current production was revised down for 1999 and 2000 by 2.0 and 6.3 percentage points respectively, while profits growth for 2001 was revised up by 3.0 percentage points.

More recent data indicate that we can expect additional revisions to critical economic data in the near future. The U.S. Bureau of Labor Statistics (BLS) also uses CEW data to revise its official estimate of national employment under the Current Employment Statistics (CES) program. In June 2002, BLS revised CES employment growth for the first half of 2001 down from its original estimates. However, more recent CEW data indicate that employment for the second half of 2001 can be expected to be revised down as well. In fact, CEW data indicate

[2] See Brent R. Moulton, Eugene P. Seskin, and Stephanie H. McCulla, “Annual Revision of the National Income and Product Accounts: Annual Estimates, 1999-2001 and Quarterly Estimates, 1999:I-2002:I”, *Survey of Current Business* (August 2002): 7-34.

a decline in national employment of 0.2 percent for 2001. This compares to the 0.2 percent increase currently indicated by the official payroll employment series (see Figure 4). In addition, CEW data for the first quarter of 2002 show a decline in wages from the same quarter in 2001 of 1.4 percent, a significantly larger drop than BEA's current estimate of -0.1 percent. This indicates that in the future, wages can be expected to be revised downward as well.

TABLE 2
2002 ANNUAL REVISION TO NATIONAL INCOME AND PRODUCT ACCOUNTS
(percent change)

	1999	2000	2001
Real Gross Domestic Product			
Current	4.1	3.8	0.3
Previously published	4.1	4.1	1.2
Difference	0.0	(0.4)	(0.9)
Consumption			
Current	4.9	4.3	2.5
Previously published	5.0	4.8	3.1
Difference	(0.1)	(0.5)	(0.6)
Gross Private Domestic Investment			
Current	6.6	6.2	(10.7)
Previously published	6.6	6.8	(8.0)
Difference	0.0	(0.6)	(2.7)
Personal Income			
Current	4.9	8.0	3.3
Previously published	4.7	7.0	4.9
Difference	0.1	1.0	(1.5)
Wage and Salary Disbursements			
Current	6.6	8.2	2.4
Previously published	6.7	8.2	5.4
Difference	(0.0)	0.0	(3.0)
Corporate Profits			
Current	5.7	2.7	(14.3)
Previously published	7.7	8.9	(17.4)
Difference	(2.0)	(6.3)	3.0

*Discrepancies are due to rounding.
Source: U.S. Department of Commerce, Bureau of Economic Analysis.

Figure 4
U.S. Employment and Wage Growth Comparison

* First quarter of 2002 only.
Source: Economy.com, Bureau of Labor Statistics.

BOX 1
COVERED EMPLOYMENT AND WAGE DATA

The Covered Employment and Wages (CEW) program, also known as the ES 202 program, has become an invaluable source of employment and wage data at both the national and state levels. The CEW program produces a comprehensive tabulation of employment and wage information for workers covered by State unemployment insurance laws and Federal workers covered by the Unemployment Compensation for Federal Employees program. The CEW program supplies data for the entire United States on the number of establishments, monthly employment, and quarterly wages by county, by type of ownership, and by industry at the 4-digit Standard Industrial Classification (SIC) level, and, more recently at the 6-digit North American Industry Classification System (NAICS) level.

Employment data under the CEW program represent the number of covered workers who worked during, or received pay for, the pay period that includes the 12th of the month. Excluded are members of the armed forces, the self-employed, proprietors, domestic workers, unpaid family workers, university teaching assistants, and railroad workers covered by the railroad unemployment insurance system. Over 96 percent of total wage and salary civilian jobs are included in the CEW data. Wages represent total compensation paid during the calendar quarter, regardless of when services were performed. Included in wages are pay for vacation and other paid leave, bonuses, some stock options payouts, tips, the cash value of meals and lodging, and in some States, contributions to deferred compensation plans, such as 401(k) plans. The CEW program does provide partial information on agricultural industries and employees in private households.

Data from the CEW program are used to benchmark another important and commonly used employment series published under the Current Employment Statistics (CES) program. Although timely, CES employment data, also known as Establishment Survey data, are based on a much smaller sample of firms and are therefore less accurate. CEW program data are used also by the Bureau of Economic Analysis (BEA) of the Department of Commerce as the basis for revising the wage and salary component of personal income.

OUTLOOK FOR U.S. CORPORATE PROFITS AND THE STOCK MARKET

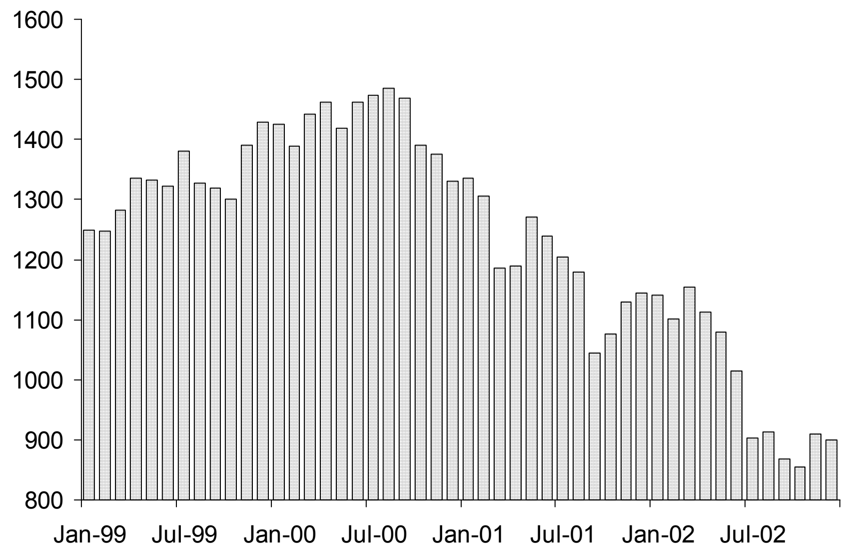
Two features particularly distinguish the current expansion from previous expansions — the behavior of corporate profits and the performance of the stock market. By the fourth quarter of 2000, profit declines on a year-ago basis were plaguing the transportation, communications, and utilities industries as well as durable manufacturing. Unable to raise prices and shift cost increases to consumers due to competitive pressures, businesses in those industries, as well as those in nondurable manufacturing and wholesale trade, saw their profits continue to fall for most of 2001.

The corporate sector finally reached a turning point toward the end of 2001. Although pre-tax corporate profits fell by $55.2 billion during the fourth quarter, that decline was largely due to the effect of the Job Creation and Worker Assistance Act of 2002.[3] However, profits from current production, which is adjusted for the impact of such law changes, actually grew by $124.2 billion.[4] Since the fourth quarter of 2001, profits from current production have been well above year-ago levels, though this growth was likely achieved through aggressive cost cutting, rather than through strong sales growth.

Based on estimated growth of 4.5 percent for the fourth quarter, pre-tax corporate profits grew on a quarterly basis throughout 2002. However, on an annual average basis, the Budget Division estimates pre-tax corporate profits to have declined 1.5 percent for 2002, again reflecting primarily the impact of the Job Creation and Worker Assistance Act of 2002 beginning with the fourth quarter of 2001. In contrast, profits from current production are estimated to have growth 7.9 percent for 2002. Growth in pre-tax corporate profits of 8.5 percent is projected for 2003. However, there are substantial risks associated with the corporate profits forecast stemming from the ongoing restatement of corporate earnings in the wake of the recent accounting scandals.

Figure 5

S&P 500 Stock Index



Source: Economy.com.

The demise of the speculative run-up in equity prices has cast a long shadow over both the recession and the current recovery, compounding the risk typically associated with

[3] This Act allowed corporate taxpayers to deduct an additional 30 percent of the value of qualifying capital assets and software in the first year, retroactively from the fourth quarter of 2001, if such property is purchased between September 11, 2001 and September 11, 2004. For a more detailed discussion, see "H.R. 3090, Job Creation and Worker Assistance Act of 2002", Congressional Budget Office, May 3, 2002.

[4] BEA's measure of profits from current production under the National Income and Product Accounts (NIPA) data deviates from pre-tax corporate profits by the capital consumption adjustment (CCA), an adjustment for changes in tax law pertaining to the deduction of depreciation costs, as well as by the inventory valuation adjustment (IVA), an adjustment for changes in the price of inputs withdrawn from the firm's inventories for production during the current period.

forecasting asset values. The stock market is typically a leading indicator, usually signaling growth at the end of a recession. However, not only did equity prices fail to grow toward the end of the recession, they continued to fall through much of 2002, despite the relative improvement in corporate profits. Revelations pertaining to corporate accounting errors forced investors to look backward rather than forward, resulting in a revaluing of equities to incorporate the new information. Thus, the market low of September 25, 2001, reached subsequent to the World Trade Center attack, was followed by a new low on October 9, 2002, a full year later (see Figure 5). Indeed, the 48.9 percent decline in the S&P 500 between its September 2000 peak and the October 2002 low was the greatest since the early 1930s. The Budget Division expects stock prices, as measured by the S&P 500, to fall 4.5 percent in 2003 on an annual average basis, following a 16.5 percent decline in 2002. This forecast represents the first time that the index would have fallen for three consecutive years on an average annual basis since the early 1940s.

OUTLOOK FOR U.S. EMPLOYMENT AND INCOME

Almost 2.4 million private sector jobs were lost between February 2001 and December 2002, as corporations struggled to restore profitability by containing costs.[5] The simultaneous growth in output and decline in employment indicate strong productivity growth for the period. Indeed, labor productivity averaged 5.1 percent over the first three quarters of 2002. Meanwhile, the 5.5 percent decline in employment in the manufacturing sector, where labor productivity is typically the greatest, is the largest rate of decline of any major sector.

The outlook for employment growth over the near term is weak. The continued overhang of productive capacity in the communications sector and the failure of the travel industry to fully recover from the events of September 11 resulted in a 4.1 percent decline in employment in the transportation, communication, and public utilities sector in 2002. Similarly, employment in hotels and other lodging places fell 3.9 percent, while wholesale and retail trade employment fell 1.5 percent and 0.9 percent, respectively. Employment growth in business services industries, which are dependent on the overall health of the economy, as well as on corporate spending, fell 2.8 percent. In contrast, employment in the expanding healthcare industries rose 2.8 percent.

The Budget Division expects employment growth of 0.6 percent for 2003, following a decline of 0.9 percent in 2002. Growth in the private sector will be slightly lower, while government employment is expected to grow 1.0 percent. This forecast is driven largely by the outlook for productivity and economic growth. Given the rate at which producers want to expand their output, high rates of productivity growth tend to dampen the need for new hires. Meanwhile, expectations of higher future growth will tend to increase the demand for workers. In the absence of significant investment growth, and with the implementation effects of prior investments becoming complete, productivity will likely revert to slower but still healthy rates of increase. The resulting adverse impact on the ability of firms to increase output per worker will lead firms to increase their rate of hiring to achieve even a moderate pace of economic growth. DOB's industry-specific forecasts for employment and wages are classified for both the nation and the State based on the North American Industry Classification System, or NAICS (see Box 2). The nation's unemployment rate is expected to hold steady at 5.8 percent for 2003.

The improvement in employment growth projected for 2003 will result in a similar rebound in wage growth to an expected 4.5 percent, after an increase of only 1.5 percent in 2002. However, growth of 4.5 percent is well below the average of the late 1990s and, owing to low inflation and relatively slow growth in employment, will be the third lowest rate in over a decade. Weak growth in wages is estimated to have resulted in personal income growth of only 3.1 percent for 2002, the lowest rate of growth in over 40 years. The Budget Division

[5] When BLS releases its benchmark revision in June 2003, the total number of jobs lost may be higher (see footnote 1).

projects faster growth in personal income of 4.7 percent for 2003. The greater acceleration in profits growth projected for 2003 relative to income growth suggests that, for the near future, gains in worker productivity are expected to accrue to firms in the form of earnings rather than to workers in the form of wages.

BOX 2
NORTH AMERICAN INDUSTRY CLASSIFICATION SYSTEM

The Standard Industrial Classification System (SIC) system — the system used for many years to classify most U.S. economic data by industry or type of business — will soon be replaced. All U.S. government data collection agencies are adopting the North American Industry Classification System, or NAICS. The purpose of this overhaul is to better reflect the current industrial composition of the U.S. economy and to make the classification system more compatible with those of Canada and Mexico.

NAICS differs from the older SIC system in its use of the type of production activity as its organizing principle. In contrast, the SIC system tends to focus on the type of output or end-use. For example, under the SIC system, retail trade businesses were those who sold directly to households, while wholesale trade often referred to sales to businesses. However, in today's economy, many firms sell to both households and businesses. Hence, under NAICS, retail trade businesses are those who sell merchandise in small quantities, while wholesale trade businesses sell goods in large quantities. While the SIC system was created for an economy which is primarily manufacturing based, the NAICS system is more suited to today's U.S. economy, which is more service and technology oriented.

Under NAICS, the broadest classification category is the 2-digit "broad sector" code, of which there are 20. Some sectors are very recognizable from the SIC classification system, such as construction. Other sectors include industries from a variety of SIC codes, such as the information sector. Another new NAICS grouping, accommodation and food services, includes both SIC categories of eating and drinking establishments and hotels. Some new detailed NAICS classifications that did not exist as independent SIC codes are: fiber optic cable manufacturing, convenience stores, telecommunication resellers, HMO medical centers, telemarketing bureaus, casinos, and bed-and-breakfast inns.

The NAICS system is being applied to a variety of economic data, including employment, wages and industrial production data. Employment data will be released on a NAICS basis starting in June 2003, although the historical data may not be complete at all levels of detail. In anticipation of the release of these data, DOB has constructed estimates of NAICS employment at the 20-group 2-digit level for employment data going back to 1964. The basis for the data construction is a "bridge" table developed by the Census Bureau from the 1997 Economic Census data.[1] This table allocates the 1997 level of employment for each two-digit major SIC industry classification to the appropriate two-digit NAICS sectors. These allocations are applied to employment for the entire historical period, producing a consistent set of historical data classified in accordance with NAICS.

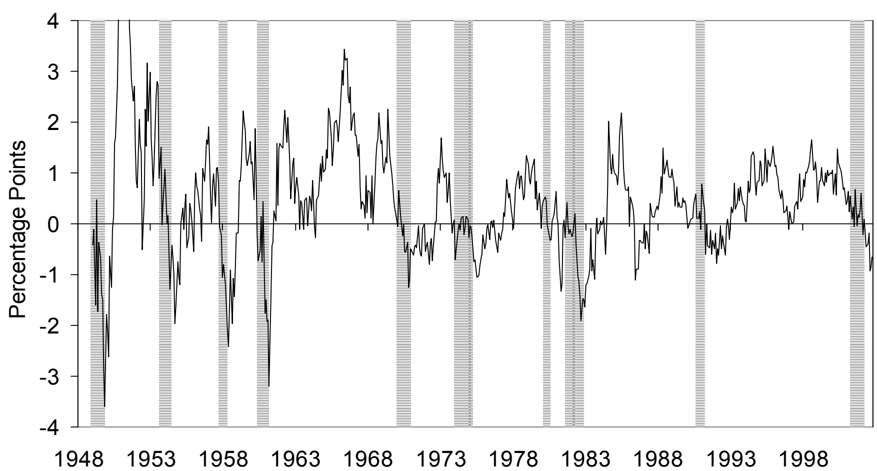
[1] See U.S. Census Bureau, "1997 Economic Census: Bridge Between SIC and NAICS," Table 2. See <http://www.census.gov/epcd/ec97brdg>.

BOX 3
THE HOUSEHOLD SURVEY PUZZLE

The projected improvement in the outlook for national employment is supported by a comparison of two alternative sources of employment data published by the U.S. Bureau of Labor Statistics. The source most often cited by economists who forecast employment is the Establishment Survey, which samples the payroll reports of about 300,000 firms across the country under the Current Employment Statistics (CES) program. Since it is an enumeration of jobs, an individual with two jobs would be counted twice. However, an alternative measure of employment comes from the Current Population Survey (CPS), or household survey, and is the primary data source for labor force and unemployment rate data. Because the CPS is most concerned with the employment status of a member of a household, an individual with more than one job is counted only once.

The chart below indicates that it is not unusual for these two data sources to diverge substantially in their measure of job growth. On average, payroll employment tends to grow faster, sometimes by more than a full percentage point. However, during and immediately following a recession, household survey employment tends to exhibit the higher growth rate. This has been true for all recessions since World War II, and the current post-recession period is no exception. The magnitude of the difference during and after the 2001 recession — on the order of one-half of one percentage point — is well within the historical norm. Thus, historical evidence suggests that the more rapid pace of employment growth exhibited by the household survey data can be expected to be matched, and eventually surpassed, by faster growth on a payroll basis, once the recovery has gathered steam.

Gap Between Establishment and Household Survey Employment Growth Rates



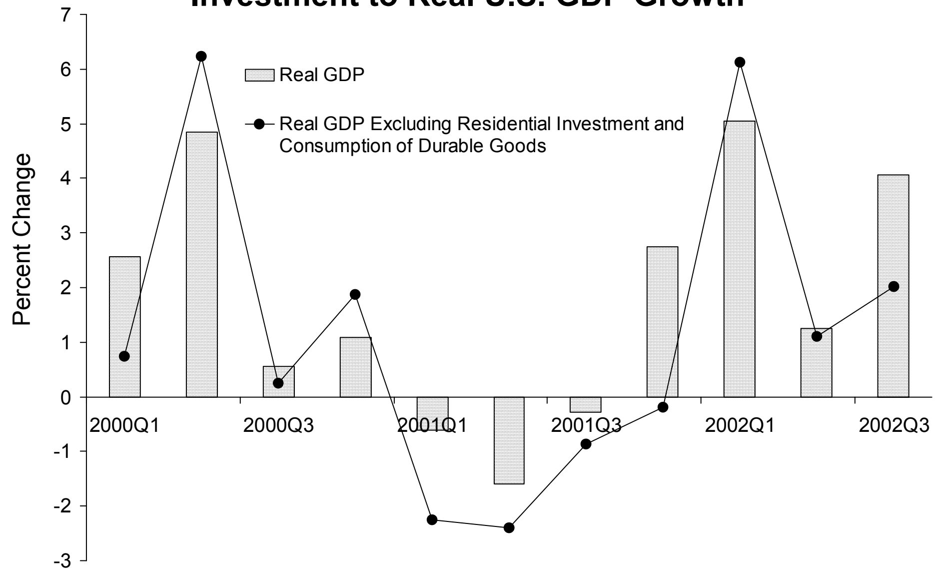
Note: Shaded areas represent US recessions. Growth rates are measured on a year-ago basis.
Source: Economy.com.

Consumption

Throughout the 2001 recession, consumers faced a declining stock market and a depressed labor market. Moreover, since September 11, U.S. households have faced national security concerns as well. Nevertheless, consumption growth has remained positive. Both monetary and fiscal policy have contributed to the resilience of consumers. The retroactive enactment of tax reductions yielded a significant boost to after-tax incomes during the third quarter of 2001. The Federal Reserve Board's 11 interest rate cuts during 2001 helped to keep the markets for housing and mortgage refinancing strong. Moreover, lower interest rates, coupled with generous incentive packages offered by automobile manufacturers, helped maintain auto sales at high levels. Figure 6 compares actual GDP growth to what growth would have been if residential investment and spending for consumer durables were excluded from the total. Had it not been for those two components of final demand, the decline in real output during 2001 would have been deeper and more prolonged (see Figure 6).

Figure 6

Contribution of Durable Consumption and Residential Investment to Real U.S. GDP Growth



Source: Economy.com.

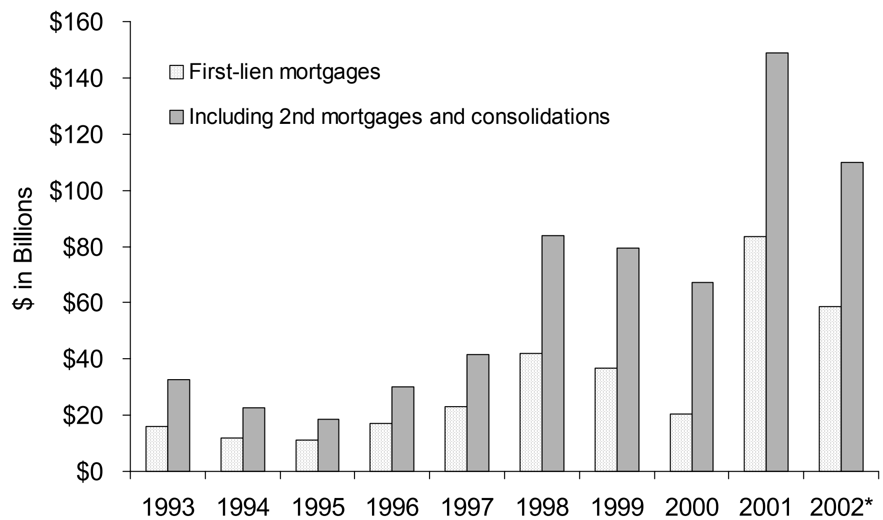
By taking advantage of lower mortgage rates and rising home prices, many homeowners have been able to extract equity from their homes through mortgage refinancing. More than half of those who refinanced from the first quarter of 2001 through the third quarter of 2002 borrowed 5 percent more than the original loan amount, "cashing-out" the growth in their equity and the extra savings resulting from lower interest rates. During 2001, cash-outs from first-lien mortgages reached a record $84 billion (see Figure 7).[6] A more comprehensive measure obtained by adding cash-outs from mortgage consolidations and second mortgages brings the total value of home equity taken out as cash to $148 billion for 2001.[7] It seems reasonable to believe that this extraction of home equity helped to maintain consumption growth despite the declines in financial wealth and employment. As of the middle of 2002, only half of the homeowners with mortgages are reported to have refinanced.[8] This suggests that households may continue to refinance and cash out equity from their homes to sustain their spending habits, although perhaps at a more moderate rate than in 2002.

[6] < http://www.freddiemac.com/news/finance/refi_archives.html>
[7] < http://www.freddiemac.com/news/finance/cashout_faq.html>
[8] "Mortgage Refinancing in 2001 and Early 2002," *Federal Reserve Bulletin*, December 2002, p. 470.

The strong growth in both sales volume and price in the housing market has raised questions about the possibility of a speculative bubble in the housing market similar to what occurred in the late 1980s. Given the importance of the housing market in sustaining both consumption and residential investment, a collapse of housing prices could be very damaging to the struggling economic recovery. However, a recent study indicates that the recent rise in home prices can be almost entirely explained by such economic fundamentals as increases in real per capita income, declines in real mortgage rates, and the low unemployment rate.[9] As indicated in Figure 8, the average new home price adjusted for average household income is actually below the adjusted price for the late 1980s. Real residential fixed investment rose an estimated 3.4 percent in 2002, although much of that growth occurred in the first quarter. With mortgage rates projected to rise over the course of this year, real residential fixed investment is expected to grow at a much lower 0.8 percent for 2003.

Figure 7

Home Equity Cashed Out Through Refinancing



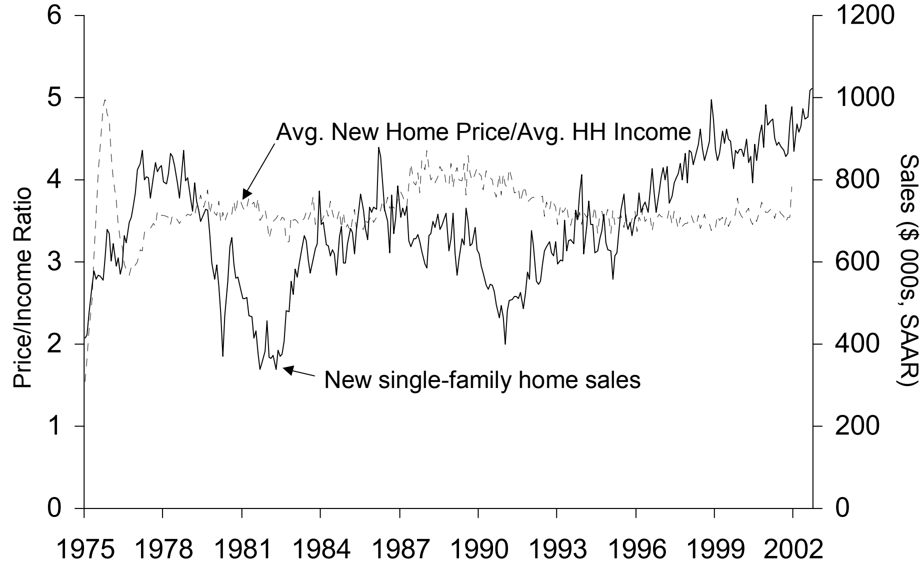
* Includes three quarters of data.

Source: Freddie Mac.

[9] Macroeconomic Advisers estimate a model of the Housing Price Index (HPI), a measure of average U.S. home prices, using real per capita income, the real mortgage rate, the unemployment rate and housing supply as explanatory variables. The model underestimates the recent value of the HPI by less than four percent. See Macroeconomic Advisers, *Economic Outlook*, Vol. 20, No. 9, October 15, 2002.

Figure 8

New Home Sales and Average Price per Dollar of Average Household Income

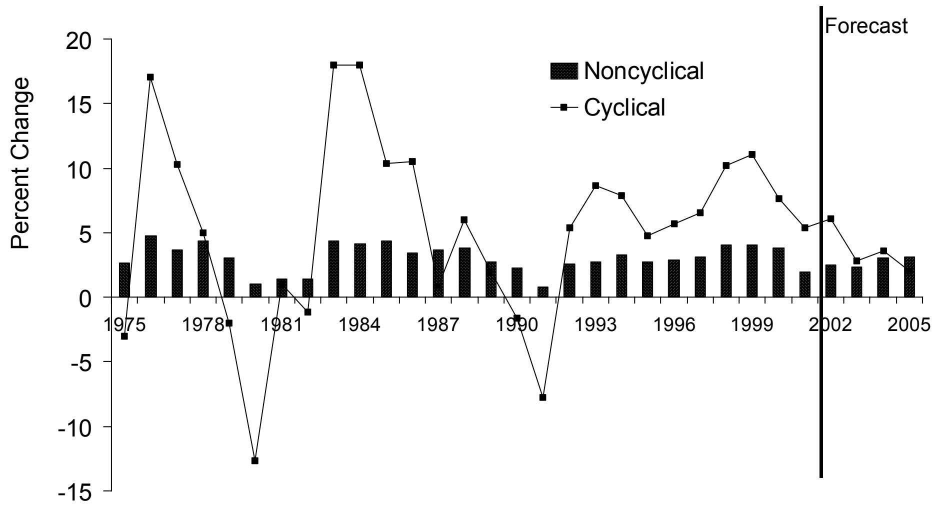


Source: Economy.com.

Through late 2002, consumption was buoyed by solid income growth afforded by high productivity growth, low interest rates, a strong housing market, and tax cuts. But the absence of any significant job growth, the continued stagnation of the stock market, as well as national security concerns, have weakened consumer sentiment and produced tremendous uncertainty surrounding the future behavior of the household sector. Concerns are growing that consumer demand for autos and housing may lessen and be no longer able to sustain the recovery. These concerns are only partially offset by the expected continuation in the refinancing trend.

Real consumption growth is expected to fall to 2.4 percent for 2003, following growth of 3.0 percent in 2002. This decline in the rate of overall consumption is largely explained by the projected decline in the growth of cyclical consumption, comprised primarily of consumer durables such as autos and home furnishings, from 6.1 percent in 2002 to 2.8 percent in 2003. This decline is driven by slightly higher interest rates, the expectation that auto sales will come down from their record high rates, as well as weaker growth in residential investment. Noncyclical consumption, comprised chiefly of services and nondurable goods, is the larger and historically more stable component of consumer spending, driven primarily by real personal income as well as spending habits that tend to persist over time (see Figure 9). With personal income growth of 4.7 percent projected for 2003, noncyclical consumption is expected to grow 2.3 percent for 2003, following growth of 2.5 percent for 2002.

Figure 9
Cyclical vs. Noncyclical Consumption Growth



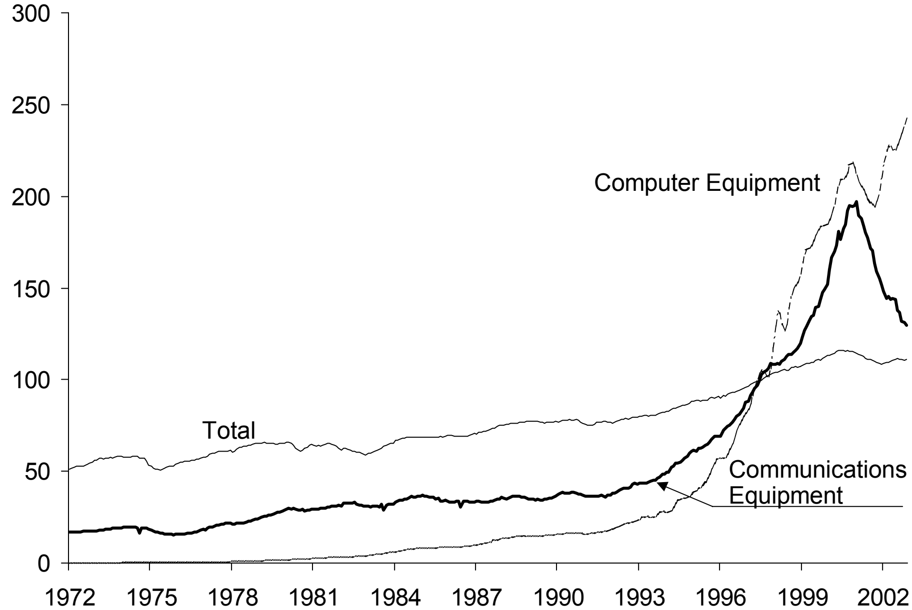
Source: Economy.com; DOB staff estimates.

Business Investment

The 2001 recession was led by a collapse in business spending that began in the fourth quarter of 2000. Several years of low financing costs and high investment growth created significant overcapacity, especially in the telecommunications and other high-tech sectors (see Figure 10). Industrial production of telecommunications equipment more than tripled between 1994 and 2000, but has declined 35 percent since its cyclical peak.

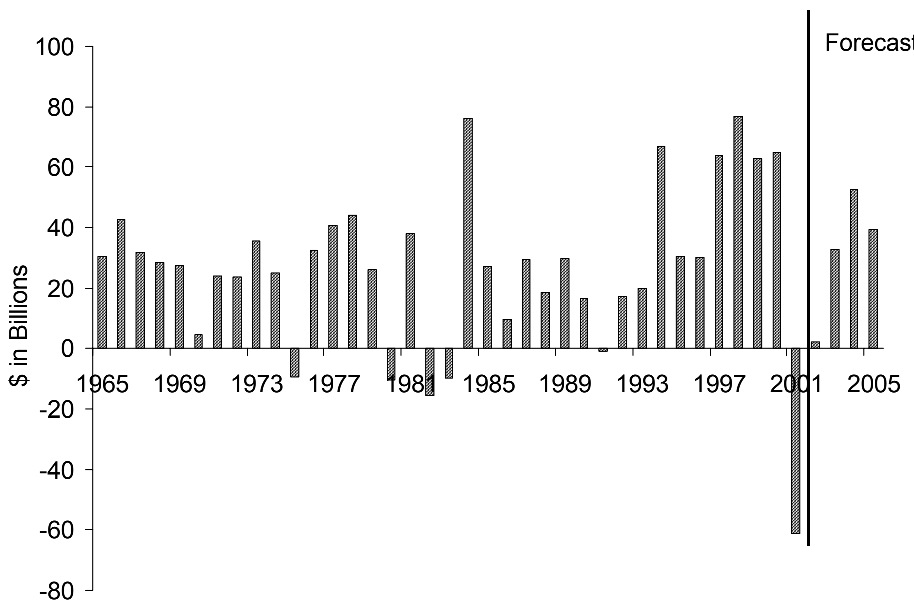
Figure 10

Industrial Production and Selected Components



Source: Economy.com.

Figure 11
Change in Private Inventories



Source: Economy.com; DOB staff estimates.

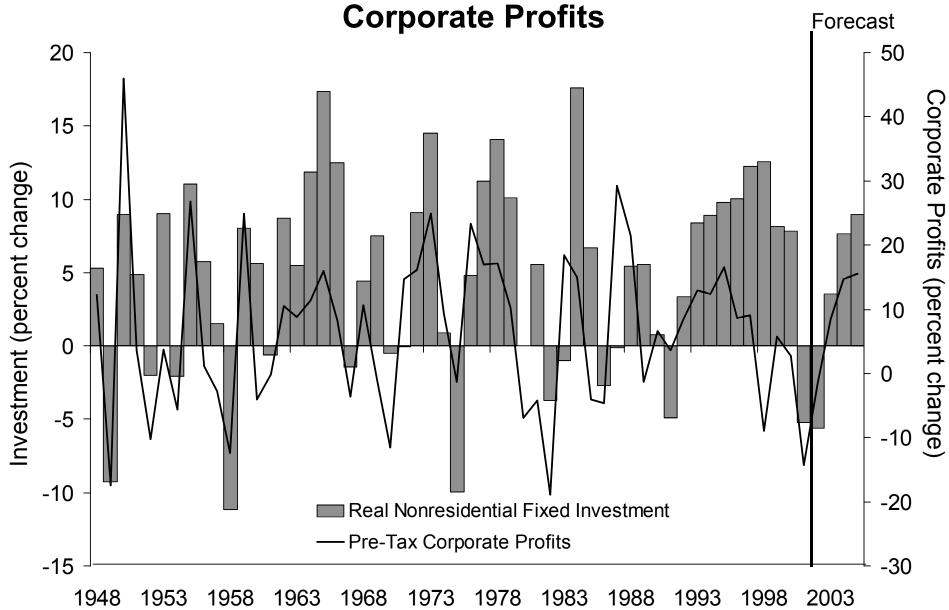
Over the long run, the business sector strives to achieve a level of investment that maintains firms' optimal capital-output ratio.[10] However, over the short run, investment will also vary with the business sector's outlook for economic growth, as well as the cost of acquiring capital financing through the debt and equity markets. Following a prolonged period

[10] With a Cobb-Douglas production function, the optimal capital-output ratio will be equal to the ratio of the price of output to the rental rate of capital.

of declining business spending for equipment and inventories, nonresidential investment is expected to improve in 2003 (see Figure 11 and Figure 12). Although interest rates remain low, the cost of equity financing is much higher than it was in the late 1990s. Therefore, the improvement in nonresidential investment is likely to be slow and uneven across sectors. While real investment in computers and peripheral equipment has been growing since the fourth quarter of 2001, overcapacity will continue to be a drag on investment in the telecommunications and airline industries. The Budget Division projects a decline of 5.6 percent in real nonresidential fixed investment for 2002, followed by an increase of 3.5 percent for 2003. The improvement in 2003 is largely accounted for by the computer and related equipment component of real business spending.

Figure 12

Growth in Real Nonresidential Fixed Investment and Corporate Profits



Source: Economy.com; DOB staff estimates.

Monetary and Fiscal Policy Outlook

With only modest growth in consumption and investment projected for the end of 2002, both monetary and fiscal policy are explicitly expansionary. Following several years of surpluses, the Federal government budget ended the 2001-02 fiscal year with a $159 billion deficit, the first since 1996-97. Several factors have contributed to the return of Federal budget deficits. Fiscal policy initiatives signed into law in March 2002 included a 13-week extension of unemployment benefits, $5 billion in special tax breaks to help revitalize the area of lower Manhattan struck by terrorists in September 2001, as well as providing for greater first-year write-offs for purchases of computers, machinery and other equipment by businesses. These initiatives overlay the tax reductions signed into law in June 2001. In addition to economic stimulus legislation, defense outlays grew by 13 percent in 2002, compared with average annual growth of 6 percent from 1999 to 2001, while outlays for other programs and activities rose nearly 12 percent.

Another contributor to the revival of Federal budget deficits is the operation of “automatic stabilizers” in the economy. As the economy moves into recession and revenues begin to fall, spending tends to increase for entitlement programs that serve the unemployed, such as unemployment benefits, food stamps, and Medicaid. Using the concept of a “cyclically adjusted budget” to remove the effects of the business cycle on the Federal budget, the

Congressional Budget Office (CBO) estimates that about one third of the expected decline in the Federal surplus from 2000 to 2003 is due to the operation of the economy's automatic stabilization mechanisms, while the remainder is mainly due to enacted tax reductions and discretionary spending increases.[11]

Although the full dimensions of Federal fiscal policy for 2002-03 have yet to unfold, the administration has proposed an economic stimulus package that would cost $102 billion this year and $674 billion over the next decade. Most of the stimulus comes from the following proposals related to the personal income tax: (1) the acceleration into 2003 of rate reductions now scheduled to take effect in 2004; (2) the exclusion of dividend income from taxable income; (3) the acceleration of marriage penalty relief; (4) the acceleration of the scheduled increase in the child care credit; (5) an accelerated expansion of the 10 percent tax bracket; and (6) an increase in the alternative minimum tax exemption. In addition, the package includes tax incentives for small businesses and monetary assistance for the unemployed.

Based on the limited information available, the Division of the Budget estimated the impact of the administration's proposed stimulus package on the U.S. economy, assuming it becomes law during the middle of 2003 in its present form. In addition, it is assumed that rebate checks will be promptly sent to those claiming the childcare credit, and that withholding tables will be adjusted almost immediately upon enactment. Based on these assumptions, simulation results indicate that the stimulus package would increase real consumption by 0.4 percentage points and real output by 0.2 percentage points in 2003, with the largest impact being felt in the fourth quarter.

After reducing its target for the federal funds rate 11 times from 6.5 percent to 1.75 percent during 2001, the Federal Reserve Board Federal Open Market Committee (FOMC) kept the target unchanged for most of 2002. These reductions have helped stimulate the housing and automobile markets, as well as allowing homeowners to sustain consumption through "cash out" mortgage refinancing. However, in response to a slowing economy, the FOMC voted for a further 50 basis point cut in the federal funds target to 1.25 percent at its November 6 meeting (see Figure 13). The last time the federal funds rate was at such a low level was July 1961, when it hit 1.17 percent.

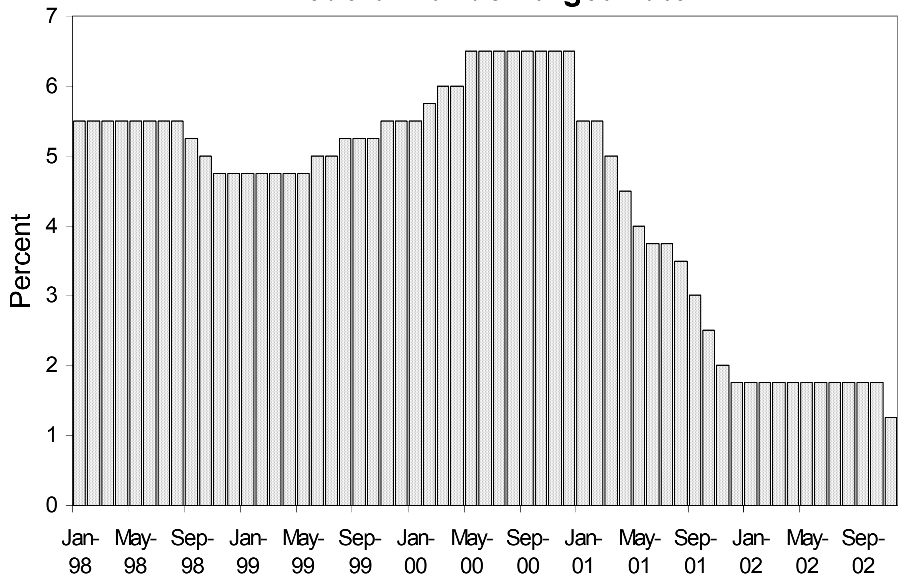
With the federal funds target rate at 1.25 percent, concerns are being raised about whether the FOMC would find itself running up against the "zero bound" on the real federal funds rate and so be unable to use monetary policy to further stimulate the economy. While hitting the "zero bound" would mean the Federal Reserve could no longer use its traditional monetary policy tool — short-term interest rates — it would not remain without the ability to apply monetary policy. Instead, the central bank would have to expand the scale of its asset purchases, or perhaps expand the menu of assets that it purchases, to include such assets as Treasury securities with longer maturities.[12]

[11] Congressional Budget Office, *CBO Report*, "The Standardized and Cyclically Adjusted Budgets: Updated Estimates," September 2002.

[12] Ben S. Bernanke, "Deflation: Making Sure 'It' Doesn't Happen Here," remarks before the National Economists Club, Washington, D.C., November 21, 2002. <http://www.federalreserve.gov/boarddocs/speeches/2002/20021121/default.htm>

Figure 13

Federal Funds Target Rate



Note: On January 3, 2001, target was reduced from 6.5 percent to 6 percent, and then again on January 31 from 6 percent to 5.5 percent.
Source: Federal Reserve Board of Governors.

The Division of the Budget projects a modest tightening of the federal funds target rate by the FOMC during the second half of 2003 as the economy slowly expands; the target rate is expected to rise to 2.0 percent by the end of the year. However, this forecast is not without risks. The Federal Reserve's attempts to keep interest rates low could be frustrated by the return of large Federal budget deficits, which tend to put upward pressure on rates, damping down demand for interest-sensitive components of consumer spending like automobiles and housing, as well as business investment.

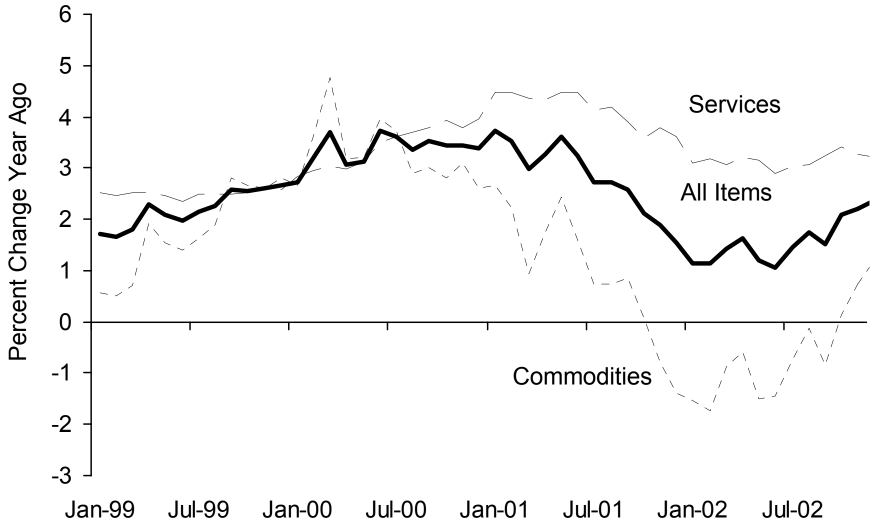
Outlook for Inflation

In early 2002, expectations of a robust recovery led market participants to believe that the Federal Reserve was likely to begin raising its target for the federal funds rate sometime later in the year. However, inflation has remained relatively restrained, due to a combination of factors — both here and abroad — such as the sluggish recovery, continued increases in productivity, and ever increasing globalization. Consumer prices as measured by the Consumer Price Index (CPI) rose 1.6 percent in 2002, while the GDP deflator, a broader measure of price growth, is estimated to have increased 1.1 percent.

However, these summary measures of inflation disguise the recent divergence in the behavior of goods and service prices, which became notable as of the middle of 2000 (see Figure 14). By 2002 the gap had widened, with the services component of the CPI rising 3.1 percent and the goods component falling 0.6 percent. In general, goods prices are believed to be more sensitive to changes in the business cycle, with the prices for services remaining relatively stable. But more specifically, prices for medical-care services have been increasing at a 5.1 percent rate, well above that of services overall. Thus, a significant portion of the recent divergence between the goods and services components appears to have been driven by the increase in medical care prices (see Figure 15). The gap between the inflation rates for commodities and services is expected to remain as growth in health care costs continues to outpace price increases in the rest of the economy.

Figure 14

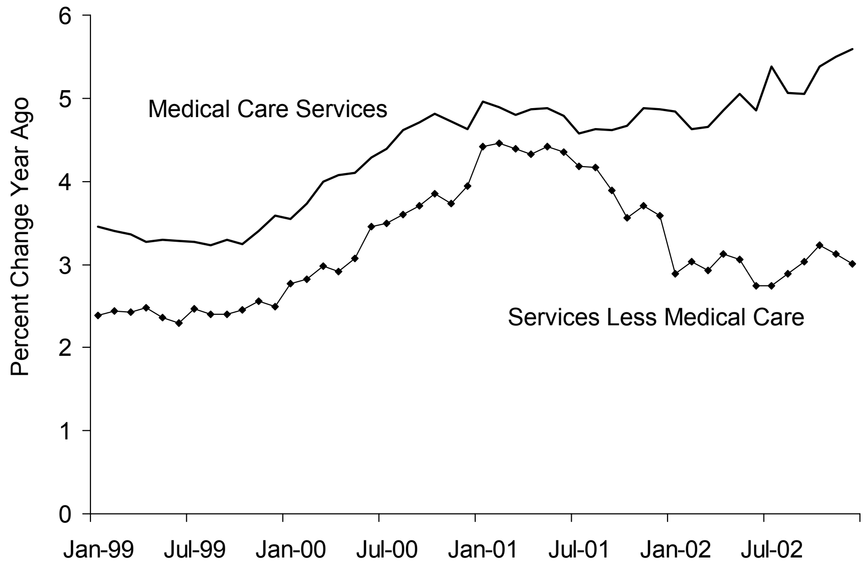
Commodities Inflation vs. Services Inflation



Source: Economy.com.

Figure 15

Medical Care Services CPI vs. Services CPI Less Medical Care



Source: Economy.com.

With the economy continuing its gradual recovery from recession, the Division of the Budget expects inflation will generally begin trending upward again. Moreover, oil prices are expected to remain high through the first half of 2003. The Division projects an increase in inflation, as measured by growth in the CPI, to 2.4 percent over the course of 2003. This forecast is consistent with an increase in services price growth of 4.2 percent, an increase in medical services inflation to a 6.2 percent rate, as well as an increase in all energy related prices for 2003.

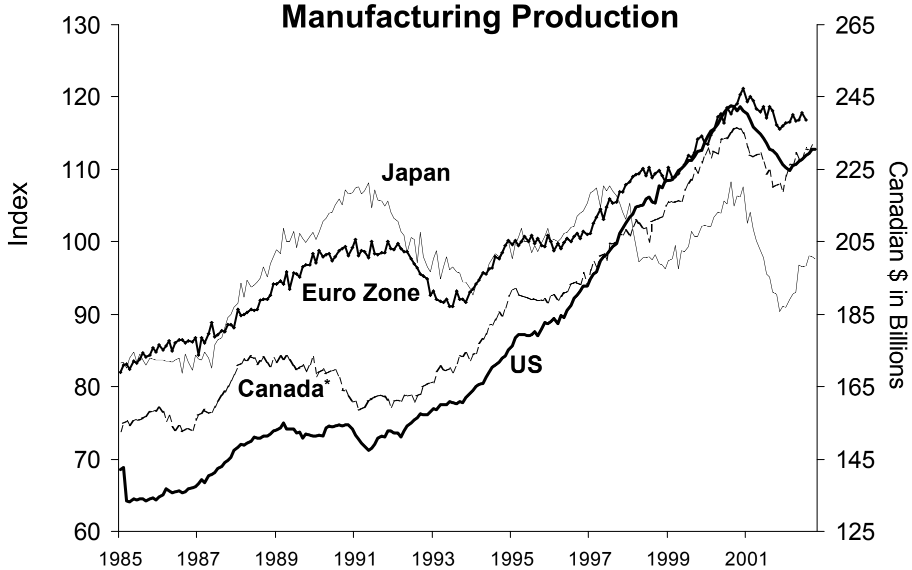
THE GLOBAL ECONOMY

The U.S. economy is, for many countries, a major engine of growth. Therefore, the weakness in U.S. economic growth has been reflected in reduced growth rates elsewhere in the world. With few exceptions, much of the world economy is growing well below potential. The Eurozone is growing very slowly; Argentina remains in recession, while Mexico and Brazil are growing only moderately; and the Japanese economy continues to stagger. Most of the other Asian countries are also growing moderately, with the exception of China, which continues to experience robust growth.

The movements of the U.S. economy and its largest trading partners have become much more synchronized in the last decade. Industrial production measures for the U.S., Canada, Japan, and the Eurozone peaked within five months of one another (see Figure 16). After dipping in the early 1990's, industrial production for those countries now participating in the common European currency continued on their upward trends through the U.S. business cycle peak in early 2001. The Japanese economy followed a similar course save for a major setback during the late 1990s. With little near-term improvement expected in the growth rate of the U.S. economy, we project a continuation of sluggish growth for most foreign economies. For the U.S., this pattern of weak international growth is reflected in both imports and exports. Both declined during the last recession and while growth has resumed during 2002, it has been at a much more moderate rate, thus far, than in pre-recession days (see Figure 17).

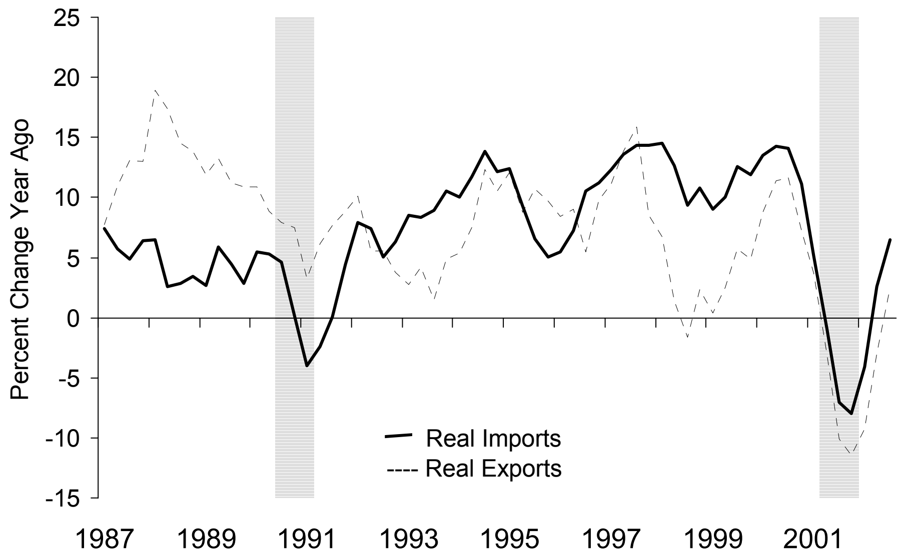
Figure 16

U.S. and Major Trading Partners: Manufacturing Production



* Real industrial output.
Source: Economy.com

Figure 17
Real Import and Export Growth



Note: Shaded areas represent US recessions.
Source: Economy. com.

The value of the dollar is another factor that has a strong impact on U.S. exports and imports. The dollar, as measured on a trade-weighted basis, peaked in 2001 at the highest level in well over a decade, retreating only slightly since then. As a consequence, export growth has lagged the growth in imports for much of 2002. The result has been a gap between imports and exports that has continued to mushroom, with only a brief hiatus during the recession. The gap has now reached a level of 5.1 percent of GDP. Indeed, as of the third quarter of 2002, real imports had almost regained their pre-recession peak, attained during the third quarter of 2000, owing almost entirely to demand generated by the household sector. In contrast, real exports were still an annualized $88 billion below their third quarter 2000 peak.

The resilience of U.S. consumers, relative to the business sector, is clearly reflected in the change in the composition of imports since 2000. By the third quarter of 2002, real imports of non-auto consumer goods had risen $35 billion above their pre-recession peak, on an annualized basis. In contrast, real imports of non-auto capital goods remained an annualized $77 billion below peak for the same quarter. Given the recent strength of the auto market, it is not surprising that real auto imports have risen $12 billion on an annualized basis above their third quarter 2000 level. The available data do not permit a breakdown of auto imports by final demand sector. However, between the third quarter of 2000 and the same quarter of 2002, the number of vehicles purchased by the business sector fell 9.5 percent, while the number of vehicles purchased by consumers grew 0.8 percent. Therefore, we infer that much of the growth in the demand for auto imports over the last two years had been generated by households.

The dollar is expected to decline slowly from current levels, but not in an amount sufficient to significantly alter the magnitude of the trade gap over the next couple of years. However, a weaker dollar is expected to modestly contribute to slightly higher goods price inflation in the coming year. The Budget Division expects that exports will grow 5.3 percent in 2003, following a decline of 1.1 percent in 2002. Imports are expected to increase by 7.5 percent in 2003, following 3.5 percent growth for 2002. The trade gap is expected to remain roughly constant as a percentage of GDP for 2003.

COMPARISON WITH OTHER FORECASTERS

Table 9 (at the end of this section) presents the Division of the Budget's baseline forecast for selected U.S. economic indicators. An alternative forecast for selected economic indicators assuming a costly war with Iraq appears in Box 4. The Division's macroeconomic model underwent substantial revision in 2000. A brief description of the model is presented in Box 5.

Table 3 compares DOB's forecast for major U.S. indicators with those of other forecasting groups. The Division of the Budget's baseline forecast for real U.S. GDP, which excludes the impacts of both the proposed federal stimulus package and a major Iraqi conflict, is 2.4 percent for 2003. This is slightly below most of the other forecasters, and significantly below Global Insight's forecast of 3.1 percent. DOB's forecast of 2.4 percent inflation for 2003 is the same as Macroeconomic Advisors. However, it is higher than other forecasters. The unemployment rate for 2003 ranges from 5.8 percent to 6.2 percent, with DOB's forecast at 5.8 percent.

TABLE 3
U.S. ECONOMIC FORECAST COMPARISON

	2002 (preliminary)	2003 (forecast)	2004 (forecast)	2005 (forecast)	2006 (forecast)
Gross Domestic Product (GDP) (1996 chain wt. percent change)					
DOB	2.4	2.4	3.3	3.1	3.0
Blue Chip Consensus	2.4	2.8	3.6	NA	NA
Economy.com	2.5	2.5	NA	NA	NA
Global Insight	2.4	3.1	4.7	3.3	3.3
Macroeconomic Advisers	2.4	2.6	3.8	NA	NA
Consumer Price Index (CPI) (percent change)					
DOB	1.6	2.4	2.5	2.6	2.6
Blue Chip Consensus	1.6	2.2	2.3	NA	NA
Economy.com	1.6	2.0	NA	NA	NA
Global Insight	1.6	2.3	2.4	2.6	2.4
Macroeconomic Advisers	1.6	2.4	2.0	NA	NA
Unemployment Rate (percent)					
DOB	5.8	5.8	5.4	5.1	5.1
Blue Chip Consensus	5.8	5.9	5.5	NA	NA
Economy.com	5.8	6.2	NA	NA	NA
Global Insight	5.8	6.2	5.3	5.0	5.1
Macroeconomic Advisers	5.8	5.9	5.4	NA	NA

Source: Projections for 2002-2006 by New York State Division of the Budget, January 2003; Blue Chip Economic Indicators, January 2003; Economy.com, Macro Forecast, January 2003; Global Insight, US Forecast Summary, January 2003; and Macroeconomic Advisers, Economic Outlook, January 2003.

BOX 4
ECONOMIC IMPACT OF WAR WITH IRAQ

A number of recent studies have produced a wide range of estimates of the cost of going to war with Iraq.[1] The width of this range is due to the variety of assumptions pertaining to the severity and the duration of the conflict. The Budget Division has performed simulations to analyze the impact of a more extreme set of events than those that underlie the baseline forecast. These simulations are based on the following assumptions:

- The war will begin in early 2003 and last about three months.
- Due to higher defense spending, the NIPA measure of the contribution of federal government expenditures to final demand rises over $20 billion in 2003.
- The price of West Texas Intermediate Crude oil hits $40 per barrel during the first quarter of 2003 and gradually declines to $30 per barrel at the end of 2003.
- Consumer confidence deteriorates significantly during the first half of 2003.
- The spread between 10-year Treasury and BAA corporate bond rates reaches 550 basis points early in 2003.

The table below compares this war scenario to DOB's baseline U.S. forecast. Higher oil prices and the declines in both consumer confidence and stock prices reduce real consumption growth by 0.4 percentage points in 2003 relative to the baseline. However, the increase in federal defense spending helps to offset the decline in the rate of consumption growth. Consequently, real GDP growth is only 0.1 percentage point below baseline. The spike in oil prices increases the rate of inflation for 2003 from 2.4 percent to 3.0 percent. Lower consumer and business confidence negatively impact the equity markets in early 2003. However, the market recovers faster after the short conflict, with the S&P 500 stock market index growing 15 percent in 2004 compared to baseline growth of 9.1 percent. The level of the index under the war scenario returns to the baseline level by the end of 2004. Higher long-term interest rates under the war scenario reduce residential investment by 2.5 percentage points in 2003, and the higher cost of borrowing lowers the growth in nonresidential investment as well, from 3.5 percent to 3.3 percent.

ECONOMIC IMPACT OF WAR WITH IRAQ
(Calendar Year)

	2002	2003			2004		
		War	Baseline	Difference	War	Baseline	Difference
GDP Real	2.4	2.3	2.4	(0.1)	3.2	3.3	(0.0)
Consumption	3.0	2.1	2.4	(0.4)	3.2	3.1	0.1
Residential Investment	3.4	(1.8)	0.8	(2.5)	0.1	(0.5)	0.6
Non-Res. Fixed Investment	(5.6)	3.3	3.5	(0.2)	7.5	7.7	(0.1)
Government	4.4	3.3	2.4	0.9	1.3	1.6	(0.4)
Personal Income	3.1	4.8	4.7	0.1	5.5	5.3	0.2
CPI Urban	1.6	3.0	2.4	0.5	2.7	2.5	0.2
S&P500	(16.5)	(10.9)	(4.5)	(6.4)	15.2	9.1	6.1
10-Year Treasury Note	4.6	4.4	4.3	0.1	5.5	5.4	0.1

Note: All indicators are percent changes except for 10-year Treasury rate; numbers may not add correctly due to rounding.
Source: Economy.com; DOB staff estimates.

The Budget Division also simulated the impact of war on the New York economy. Employment growth for 2003 under the war scenario is only marginally lower than baseline growth. However, the projected growth in bonuses is 2.8 percentage points lower than baseline for 2003. Lower bonus growth reduces the growth in wages for 2003 under the war scenario by 0.3 percentage points. In contrast, wage growth for 2004 under the war scenario is 0.7 percentage points higher than baseline. This is partly due to the higher rate of inflation projected under the war scenario.

[1] See "After an Attack on Iraq: The Economic Consequences," Macroeconomic Advisors, December 2002; "Estimated Costs of a Potential Conflict with Iraq," CBO, September 2002; "Assessing the Cost of Military Action Against Iraq: Using Desert Shield/Desert Storm as a Basis for Estimates," House Budget Committee, Democratic Caucus, October 2002; "War Games", *Regional Financial Review*, Economy.com, September 2002.

BOX 5
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 time 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 a significant improvement in the understanding of the long-run equilibrium relationships among macroeconomic data series and the predictive power of these relationships in constraining economic dynamics.

The Budget Division'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 that incorporate the results from the core model as inputs. The current estimation period for the model is 1965:1 through 2002:3. Our analysis borrows heavily from the Federal Reserve Board model which was redesigned the during the 1990s 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.

DOB/U.S. could be termed a neoclassical model in economic parlance. Agents optimize their behavior subject to economically meaningful constraints. Households exhibit optimizing behavior when making consumption and labor supply decisions, subject to a wealth constraint. Expected wealth is, in part, determined by expected future output and interest rates. Likewise, firms maximize profits when making labor demand and investment decisions. 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. 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 first assuming that expectations are rational and then specifying a common information set that is available to economic agents who incorporate all relevant information when forming and making their expectations. Long-run equilibrium is defined as the solution to a dynamic optimization problem carried out by households and firms. The model structure incorporates an error-correction framework that ensures movement back to long-run equilibrium.

The model structure reflects the microeconomic foundations that 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 that 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 that 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/USA Macroeconomic Model of the United States," edited by F. Brayton and P. Tinsley. Federal Reserve Board, Version 1.0, October 1996.

RISKS TO THE U.S. FORECAST

There are several significant risks that could adversely affect the U.S. economic recovery or perhaps even derail it and put the nation back into recession. By far the greatest is the risk of another terrorist attack, or series of attacks, that could lead to a steep decline in consumer confidence and spending, as well as a postponement of investment plans by businesses. Similarly, a war with Iraq carries the potential for a large spike of some duration in oil prices as well as a sharp drop in consumer sentiment and business confidence (see Box 4).

Consumer spending remained relatively strong during the recession, resulting in little pent-up demand. If job growth is inadequate, or if declines in the value of homes or financial assets too pronounced, or if consumer sentiment should deteriorate, then consumer spending growth could quickly fall. Businesses may be reluctant to increase investment spending if demand for their products and services remains weak or if geopolitical risks seem too large. Although the Federal government has adopted an expansionary policy stance, state and local governments are raising taxes and cutting back on spending. On balance, total government spending could be weaker than projected, reducing overall growth.

Given current growth prospects for the economies of our major trading partners, net exports are expected to continue be a drag on growth. That drag could worsen if some of these economies stumble. Oil prices and stock prices are difficult to forecast. Substantially higher or lower prices than projected could have correspondingly significant impacts on the economy. The wealth effect, which incorporates both equity and home prices, could be either positive or negative, depending on the path of these prices over the next several quarters.

On the other hand, there are forces that could propel economic growth to a faster pace than currently envisaged. Productivity has remained surprisingly strong throughout much of the recession and recovery to date. Stronger productivity could result in even faster growth in corporate profits. Moreover, if firms pass on more of the productivity increase to workers, average wage growth would also be stronger than what is reflected in the forecast. If concerns related to national security and corporate governance resolve themselves more quickly than anticipated, stronger profits could drive the stock market upward and consumer sentiment could rebound. Also, any additional tax cuts passed by Congress should result in higher growth, although that impact could be mitigated by higher long-term interest rates.

THE NEW YORK STATE ECONOMY

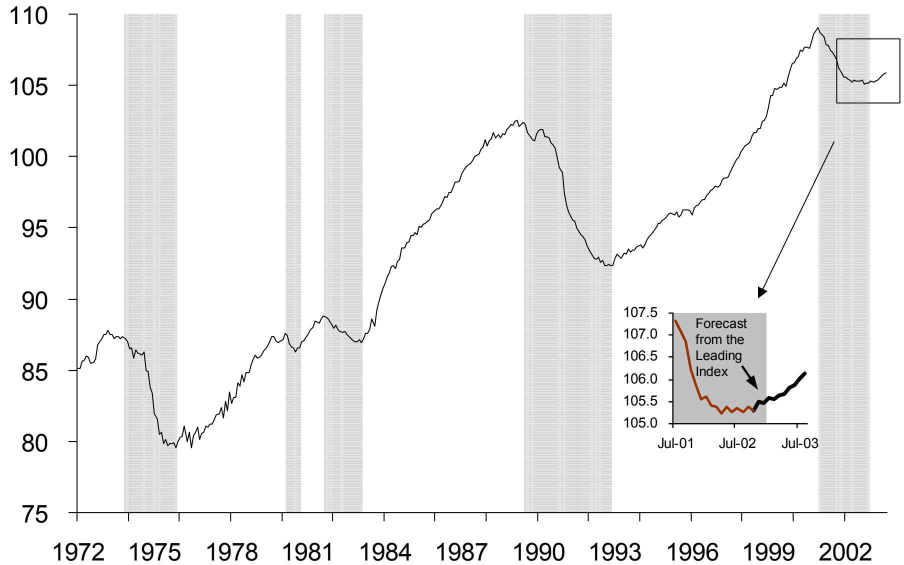
The 2001-02 Recession

The September 11 terrorist attack struck at the heart of the world's financial capital — New York City. It is therefore no surprise that the attack had a more severe impact on the New York economy than on any other state. Although the national economy has been in recovery for much of 2002, the Division of the Budget believes that the State economy is only now emerging from recession, implying a significantly longer downturn for the State than for the nation as a whole (see Box 6).

Based on the New York State Index of Coincident Economic Indicators, the State's last expansion peaked in December 2000 (see Figure 18). Like the previous recession in New York, the 2001-02 downturn began prior to the national business cycle peak designated by the National Bureau of Economic Research (NBER). Moreover, the New York State Index of Leading Economic Indicators projects an end to the State's recession in either late 2002 or early 2003. Nevertheless, the 2001-02 recession was not as deep as the recession that began in New York in 1989 and lasted more than three years. The major contributors to the loss of over one-half million jobs during the 1989-92 recession are largely absent today. For example, despite significant manufacturing layoffs, the scale of corporate restructuring within the manufacturing and trade sectors has been much less than in the early 1990s. In contrast to the downsizing of the State's defense industry that cost New York hundreds of thousands of jobs a decade ago, the nation's defense is now mobilized for the war on terrorism and a possible conflict with Iraq. Moreover, there is little evidence of the highly inflated real estate market that existed in the late 1980s.

Figure 18

New York Index of Coincident Economic Indicators



Source: Economy.com; DOB staff estimates.

For a number of reasons, the State's 2001-02 recession lasted longer than the national average. The national downturn unfolded in three stages, much of which centered on the financial markets. The first stage was initiated by the collapse of dot-com equity prices and the implosion of the high-tech sector that followed. These events precipitated heavy job losses in the State's manufacturing, trade, and finance industries during the first eight months of 2001. With the State and the nation already in recession, the destruction of the World Trade Center wrought catastrophe for the downstate economy, with the finance and travel and tourism industries being the hardest hit. The losses experienced during this second phase, the period just following September 11, are now estimated to be much greater than originally thought.

The final phase of the downturn began with the December 2001 collapse of Enron, the first major corporation to see its accounting irregularities become part of the popular lexicon. Continuing revelations pertaining to the misrepresentation of corporate revenues eventually sent stock prices below their post-September 11 lows. These events delayed any hope of a quick recovery on Wall Street, leading to further financial sector layoffs, as well as reductions in bonuses, even as the national economy was beginning to improve. As a result, the State recession extended well beyond that of the nation. Indeed, the Budget Division believes that revised data will ultimately show that the combined impact of the national recession, September 11, corporate accounting scandals, and the resulting decline in equity markets will result in the loss of approximately 270,000 jobs over the course of the recession.[13]

[13] The full impact of the recession and September 11 on State job growth is not yet reflected in the CES employment series for New York. Based on the most recent CEW data available, DOB expects the New York State Department of Labor to revise its employment estimates significantly downward for both 2001 and 2002 in its next benchmark revision, to be released in March 2003. However, neither is the full impact of September 11 reflected in CEW data. Many firms were temporarily relocated out-of-State immediately following the attack. Because many of these firms continued to participate in the State's Unemployment Insurance program, these relocated employees continued to appear in CEW data for New York. Therefore, for the months immediately following September 11, the revision to the CES data may be even larger than indicated by CEW data.

BOX 6
NEW YORK STATE INDICES OF COINCIDENT AND LEADING ECONOMIC INDICATORS

In the absence of an official mechanism for dating business cycles at the sub-national level, DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York.[1] The methodology used to construct the index is based on the Stock and Watson methodology (1991) and rests on the notion that co-movements in many macroeconomic time series can be captured by a single unobserved variable representing the overall state of the economy.[2] Four State data series — private sector employment, hours worked in the manufacturing sector, the unemployment rate, and sales tax receipts (as a proxy for retail sales) — are combined into a single index using the Kalman filter, a common approach to the estimation of unobserved variables.

Based on the DOB Coincident Index, five business cycles have been identified for New York since the early 1970s, as reported in the table below. A recession is judged to have begun if the DOB Coincident Index sustains three to five consecutive declines of significant depth. A similar approach is used to date business cycle troughs.

NEW YORK STATE BUSINESS CYCLES

Peak Date	Trough Date	Recession Length (in months)	Private Sector Job Losses
October 1973	November 1975	25	384,800
February 1980	September 1980	7	55,800
August 1981	February 1983	18	76,600
June 1989	November 1992	41	551,600
December 2000	?	?	?

Source: DOB staff estimates.

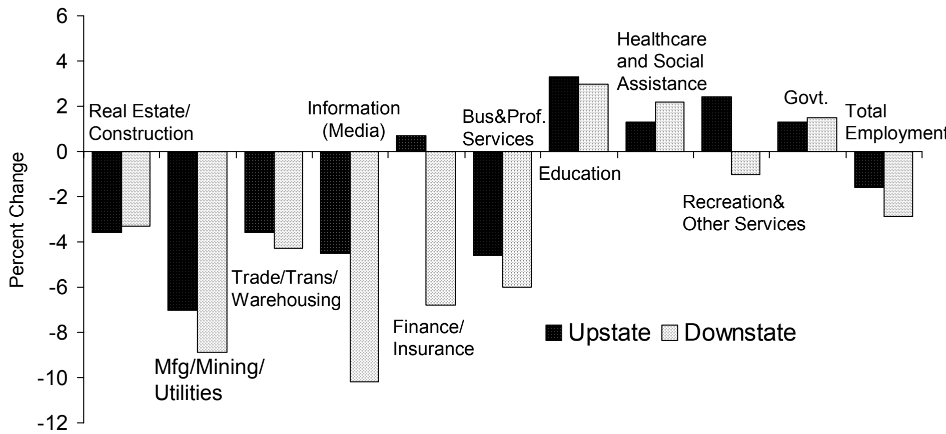
In order to gauge the future direction of the State economy, the Budget Division produces a forecast for the Coincident Index up to 12 months ahead. The forecasting model includes the following five leading economic variables in a vector autoregressive framework: the U.S. Index of Leading Economic Indicators (excluding stock prices and the interest rate spread), New York housing permits, New York initial unemployment insurance claims, stock prices, and the spread between the 10-year and one-year U.S. Treasury rates. The forecast of the Coincident Index becomes the New York State Index of Leading Economic Indicators.

[1] Megna, R. and Q. Xu (2003). "Forecasting the New York State Economy: The Coincident and Leading Indicators Approach," *International Journal of Forecasting* (forthcoming).
[2] Stock, J.H, and M.W. Watson (1991), "A Probability Model of the Coincident Economic Indicators," in K. Lahiri and G. H. Moore (eds.), *Leading Economic Indicators: New Approaches and Forecasting Records*, New York: Cambridge University Press, pp. 63-85.

With New York City at the epicenter of the State's economic turmoil, New York's 2001-02 recession has had disparate regional effects. Based on CEW data, the 10-county downstate region lost jobs at a significantly faster pace than upstate between the first half of 2001 and the first half of 2002, with downstate employment falling 2.9 percent, compared to a 1.6 percent decline upstate. Although the greatest disparity occurred in the finance and insurance sector, Figure 19 indicates large disparities within other sectors as well. Travel and tourism in New York City came to a virtual halt immediately after September 11 and has yet to fully recover. By the first half of 2002, downstate recreation and other services employment, including accommodations and arts and entertainment, had fallen 1.0 percent below the same period in 2001, while rising upstate by 2.4 percent.

The Budget Division's assessment that the State economy will be in recovery by the beginning of 2003 is supported by the results of a recent survey of New York businesses by the Econometric Research Institute at the University at Albany. Findings indicate that a majority of firms surveyed saw declines in profits and bonuses for 2002, while only slim majorities saw increases in employment and sales. In contrast, a majority of firms expect to see increases in all major business indicators in 2003. Firms were asked three times over a period of 18 months whether they expect to expand their business operations within the next five years. The percentage of firms that answered in the affirmative fell over time from 53 percent in April 2001, to 46 percent in December 2001, to 44 percent in October 2002, possibly an indication of a weak recovery to come. Survey results also indicate regional disparities, with New York City being the only region where a majority of firms reported declines in all major business indicators for 2002. However, a majority of firms in all regions, including New York City, expect increases for 2003.

Figure 19
Employment Growth: Upstate vs. Downstate
2002H1 over 2001H1



Note: Business and professional services includes NAICS broad sectors 54, 55 and 56; recreation and other services includes NAICS broad sectors 71, 72, and 81.
Source: NYS Department of Labor, CEW data.

The Impact of the Stock Market on the New York Economy

Due to the prominence of New York City in the world of finance, the financial markets exert a strong influence on both State employment and income growth, and thus on State revenues. The stock market cycle that began in October 1990 and that is believed to have ended in October 2002 has had a profound impact on both the State's economic and fiscal condition. Table 4 presents recent stock market trends and places them in historical perspective. Since the end of World War II, there have been 10 bear markets, defined as a sustained drop in the S&P 500 index of stock prices of about 20 percent or more.

As reported in Table 4, each market cycle begins with a run-up in equity prices, or bull market, during which the market's previous high is reached and eventually surpassed. As indicated in column (4), only the bear market of 1973-74 is comparable to the most recent one in terms of the percentage decline in prices. However, the 2000-02 bear market surpassed that of 1973-74 in length by almost one year, making it the longest bear market of the postwar period. The market has succeeded in attaining its prior peak within two years, except for the period following the 1973-74 bear market. Almost six years elapsed before the market finally returned to its January 11, 1973, peak.

These market cycles tend to be accompanied by a rise and fall in securities industry employment, although typically with a lag. Between February 1973 and October 1974, the State's securities industry lost 23 percent of its employment. The bull market that lasted from October 1990 to March 2000 was the longest bull market of the postwar period and is characterized by the largest run-up in prices, 417 percent. That market was accompanied by a 50 percent increase in industry employment between October 1991 and June 2001.

However, since then securities industry employment has fallen by 11.8 percent. History suggests that it could take years, and several intervening bull and bear markets, before both price and employment recover to the record levels reached in 2000 and 2001, respectively.

TABLE 4
BULL AND BEAR MARKETS

Price Run-Up	Peak Dates	Trough Dates	Percent Changes	Duration in Months	Market Hit Previous High: Dates	Market Hit Previous High: Months
(1)	(2)	(3)	(4)	(5)	(6)	(7)
	08/03/56	10/22/57	(21.5)	14.6	09/24/58	11.1
85.7%	12/12/61	06/26/62	(28.0)	6.5	09/03/63	14.2
78.8%	02/09/66	10/07/66	(22.2)	7.9	05/04/67	6.9
47.2%	11/29/68	05/26/70	(36.1)	17.9	03/06/72	21.4
73.5%	01/11/73	10/03/74	(48.2)	20.8	07/17/80	69.4
73.1%	09/21/76	03/06/78	(19.4)	17.5	08/15/79	17.3
58.9%	01/06/81	08/12/82	(25.8)	19.2	10/20/82	2.3
228.8%	08/25/87	12/04/87	(33.5)	3.4	07/19/89	19.5
64.8%	07/16/90	10/11/90	(19.9)	2.9	02/13/91	4.1
417.0%	03/24/00	10/09/02*	(49.1)	30.5	?	?

* Based on staff estimates.
Source: Economy.com.

After plummeting in the aftermath of September 11, the market began a brief rally between October 2001 and March 2002. However, the sluggish pace of the recovery, the loss of confidence by investors due to corporate accounting scandals and questions about corporate governance put the markets back on the downward course that had begun in March 2000. By late November 2002, the Standard and Poor's index of 500 stock prices was 37.5 percent below its peak value in 2000. Wall Street, which traditionally leads the State's economic recovery, had become the poorest performer among the State's major economic sectors. Moreover, the industry believes that 2003 will represent a third straight year of declines for equity markets, with no significant increase in retail activity until 2004 at the earliest.[14]

The combined effects of a weak economic expansion, the depreciation in equity values, and national security concerns can be seen in the income and employment levels of financial services firms in the State. Based on CEW data, 29,800 finance and insurance industry jobs were eliminated between the first half of 2001 and the same period in 2002, a decline of 5.3 percent. Pretax profits for the securities industry peaked at $21 billion in 2000, but fell 51 percent below that in 2001 and are estimated to have fallen even further to $7.9 billion for 2002. The securities industry projects profits of between $8.2 billion and $9.0 billion for 2003 (see Figure 20).

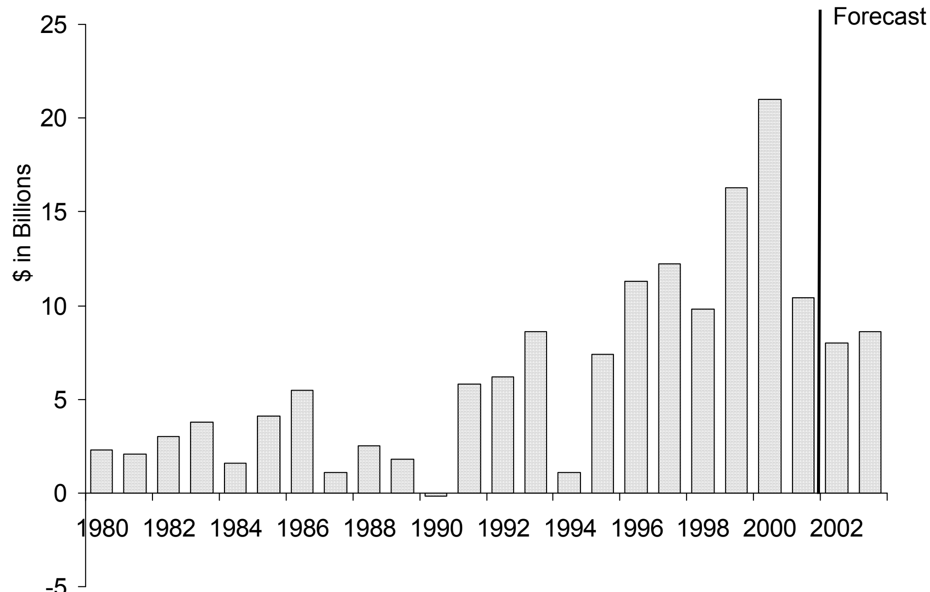
The securities industry's most lucrative sources of income, initial public offerings (IPOs) and merger and acquisition activity, are down significantly from their 2000 peaks. A decline in secondary market prices makes firms reluctant to use equity financing to fund business spending. Consequently, IPOs fell 28.4 percent in 2002.[15] This implies a fall-off in the value of IPOs of $50 billion or a decline of 66 percent since their 2000 peak.

Most affected by the depressed state of the secondary equities market has been merger and acquisition activity. Following a substantial 47.4 percent decline in 2001, the value of merger and acquisition underwriting is down 44.3 percent through the third quarter of 2002, compared with the same period of a year ago. Because of the high fees involved, the decline

[14] Securities Industry Association (SIA), *Securities Industry Trends*, Vol. XXVII, No.6, December 2002.
[15] This measure of IPO activity excludes closed-end bond fund issuances; see <http: /www.sia.com/reference_materials/pdf/keystats.pdf >.

in mergers and acquisitions represents a large revenue loss for the industry. Moreover, because of the weak demand for underwriting services, Wall Street firms have been forced to reduce their fees in order to compete for business.

Figure 20
Securities Industry Profits



Note: 2002 and 2003 are SIA projections; projection for 2003 is the midpoint of SIA's forecast range.
Source: Securities Industry Association (SIA).

The decline in stock prices and the weak recovery of the national economy continue to adversely affect debt underwriting activity as well. Notwithstanding the national recession and September 11, the value of debt underwriting was up 44 percent in 2001, thanks to falling interest rates and the weak stock market. In contrast, debt underwriting rose only 2.6 percent in 2002, despite even lower interest rates.

Since the stock market began to drop in 2000, Wall Street firms have adopted several significant measures to boost profits. Firms have increasingly specialized by eliminating particular products and services, sometimes even completely retreating from major business areas in order to increase their comparative advantage. A second and related measure is the reduction of compensation costs. Wall Street has endured several rounds of layoffs in the past two years. The industry is also estimated to have severely reduced employee compensation packages, including salaries, stock options, bonuses, and other benefits. Moreover, further cuts may be necessary in order to bring compensation levels back to their historical average relationship with revenues. For example, in the 1980s, compensation is reported to have averaged approximately 42 percent of net revenue; for 2001, that share had almost reached 50 percent.

Overview of the Anticipated 2003 Recovery

The New York State Indices of Coincident and Leading Economic Indicators suggest that New York's recession lasted through the fourth quarter of 2002. Table 5 compares characteristics of the forecast for the first year of the State's recovery with prior expansions. The Budget Division projects employment growth to be significantly stronger than was experienced during the first year of the last expansion and not unlike the longer-term average. However, expectations for bonuses stand in sharp contrast with those for employment. Similar to the early 1990s recovery but unlike earlier recoveries, finance and insurance sector bonuses are projected to decline during the first year of the 2003 expansion. This is due to unusually weak conditions in the financial markets. Whereas the stock market has been a leading indicator in the past, it lagged the economy in 2002 as equity markets continued to find their footing amid weak earnings growth and well-publicized scandals.

TABLE 5
AVERAGE GROWTH OVER FIRST FOUR QUARTERS OF NEW YORK EXPANSIONS[1]
SELECTED ECONOMIC INDICATORS

	Current Expansion[2]	Last Expansion	Last 4 Expansions[3]
Total Employment	0.7	0.1	0.6
Private Employment	0.9	0.2	0.9
Personal Income	3.1	1.9	7.2
Total Wages	2.3	1.7	6.4
Nonbonus Wages	3.9	2.6	6.6
Total Bonuses	(10.4)	(6.7)	3.7
Finance and Insurance Bonuses	(26.4)	(8.3)	20.9
Non-wage Income	4.2	2.2	8.5
Unemployment Rate	5.9	7.8	8.5
Composite CPI for New York	2.2	3.0	5.9

[1] Timing of New York State expansions is based on DOB staff estimates.
[2] Current State expansion is assumed to begin during the first quarter of 2003; all four quarters are forecast.
[3] Expansion that began in October of 1980 lasted only three quarters.
Source: Economy.com; NYS Department of Labor; DOB staff estimates.

The slow pace of the national economic recovery, combined with the aftermath of the events of September 11 and the financial markets shakeup, has had a severely adverse effect on State employment. Based on the Leading Index, the State economic recovery will be slow, as indicated in the highlighted portion of Figure 18. Although the Budget Division's forecast for average employment growth for 2003 is not low by historical standards, it represents an only modest rebound from the steep decline experienced in the wake of September 11. Based the Budget Division forecast, State private sector employment is not expected to approach its pre-recession fourth quarter peak until the fourth quarter of 2005.

Outlook for Employment

Total State nonagricultural employment is projected to rise 0.7 percent in 2003, following a 1.6 percent decline in 2002. The growth rate projected for the State for 2003 is slightly above the 0.6 percent increase for the nation as a whole. Private sector employment is projected to grow 0.9 percent in 2003, representing an increase of approximately 58,300 jobs, following a 2.1 percent drop for 2002. Table 6 reports projected changes in employment for selected groupings of NAICS sectors (see Box 7). The greatest losses are expected to occur in the manufacturing and transportation and warehousing sectors, while the greatest rates of gain are expected to be experienced in the health and arts, entertainment, and other services sectors. The State’s average annual unemployment rate is expected to be 5.9 percent this year, only a slight decrease from 6.0 percent in 2002. This unemployment picture for 2002 and 2003 compares favorably with the last three recessions. The State’s unemployment rate peaked at 10.2 percent in 1976, 8.6 percent in 1982-83, and again at 8.6 percent in 1992.

TABLE 6
CHANGE IN NEW YORK STATE PRIVATE SECTOR EMPLOYMENT FOR 2003
SELECTED SECTORS

	Percent	Levels
Manufacturing	(1.4)	(9,100)
Finance and Insurance	(0.2)	(1,000)
Arts, entertainment and recreation, accommodation and food, and other services	1.2	11,700
Wholesale and Retail Trade	0.6	7,100
Business and Professional Services	0.5	5,300
Transportation and Warehousing	(1.2)	(2,700)
Construction	1.8	5,900
Health Care and Social Assistance	2.5	28,000
Educational Services	2.6	6,500
Information (Media)	0.9	2,700
All Other	1.6	3,900
Total Private	**0.9**	**58,300**

Note: Business and professional services includes NAICS sectors 54, 55, and 56.
Source: NYS Department of Labor; DOB staff estimates.

Manufacturing

On an annual basis, manufacturing employment has been falling consistently since the early 1980s. The decline has tended to accelerate during recessions, as in 1982 and 1991, and this past recession was no exception. Along with the rest of the nation, the State's manufacturing sector shed 31,600 jobs during the first half of 2001, on a year-over-year basis, up from a loss of only 14,750 for the first half of 2000. The number of jobs lost almost doubled yet again in the first half of 2002 to 59,200, as the State's recession deepened after September 11.

In an effort to further understand the behavior of the State's manufacturing sector, we examine the pattern of job losses by firm size. We classify the State's manufacturing firms into three sizes: small firms of 50 employees or less; mid-size firms with between 51 and 250 employees; and large firms with more than 250 workers.[16] As defined here, small firms account for 28 percent of employment, but 89 percent of the establishments in this sector. In contrast, large firms account for 38 percent of employment but only 2 percent of firms. These shares remain fairly stable over the two-year period examined.

During the first stage of the slowdown, small firms lost the most jobs. During the first half of 2001, small firms lost 12,100 jobs, or 5.7 percent of their total workforce. This represents 38 percent of the jobs lost by the State's manufacturing sector during the period. Medium-size firms lost somewhat fewer jobs, while large firms lost the fewest. Interestingly, the situation reversed during the following year. Between the first half of 2001 and the first half of 2002, large firms lost 66 percent more jobs than small firms, or 40 percent of all the manufacturing jobs lost during the period, while small firms lost the least. During that period, small-firm employment fell 7.1 percent, while large firms lost 8.7 percent of their jobs.

Manufacturing firms in New York appear to have become more specialized during the 2001-02 recession. This finding emerges when classifying firms according to the primary activity of their parent company, rather than by the primary activity of the establishment itself. The rates of employment decline become even larger if the sample is expanded to include establishments whose parent company is a manufacturing firm even if the establishment itself engages another type of activity.[17] For example, among small firms, the rate of employment

[16] For this analysis, firms are classified by industry according to their so-called NAICS auxiliary code, the primary code which the U.S. Bureau of Labor Statistics will be using to report job losses and gains when it moves to NAICS-based reporting in 2003. An establishment's auxiliary NAICS code can differ from its parent company code when the primary activity of that establishment differs from the primary activity of the parent company.

[17] It is very rare for an establishment to engage in manufacturing activity if the parent company establishment does not.

decline over the two-year period from the first half of 2000 to the first half of 2002 rises from 12.4 percent for establishments classified by their own primary activity to 12.8 percent for establishments classified by that of the parent company (see Table 7). The net number of establishments that go out of business rises from 7.7 percent to 8.5 percent.

TABLE 7
DECLINE IN MANUFACTURING SECTOR EMPLOYMENT BY FIRM SIZE

	2002H1		2000H1-2002H1	
	Level	**Share**	**Job Losses**	**% Change**
Classified by Establishment Activity				
Employment				
Less than 50 Workers	185,906	28.3%	(26,397)	(12.4%)
Between 50 to 250 Workers	221,259	33.7%	(32,734)	(12.9%)
More than 250 Workers	248,774	37.9%	(31,618)	(11.3%)
Number of Firms				
Less than 50 Workers	19,560	88.5%	(1,640)	(7.7%)
Between 50 to 250 Workers	2,157	9.8%	(298)	(12.1%)
More than 250 Workers	377	1.7%	(44)	(10.3%)
Classified by Parent Company Activity[1]				
Employment				
Less than 50 Workers	189,706	27.1%	(27,872)	(12.8%)
Between 50 to 250 Workers	230,647	32.9%	(34,632)	(13.1%)
More than 250 Workers	280,042	40.0%	(40,388)	(12.6%)
Number of Firms				
Less than 50 Workers	19,907	88.2%	(1,848)	(8.5%)
Between 50 to 250 Workers	2,248	10.0%	(308)	(12.1%)
More than 250 Workers	414	1.8%	(49)	(10.6%)

[1]Includes firms with NAICS auxiliary code other than manufacturing.
Source: NYS Department of Labor, CEW data.

This finding is even more striking among large firms, for which the rate of employment decline rises from 11.3 percent to 12.6 percent, a difference of about 8,800 jobs. This pattern implies that during the recession, workers engaged in production activities that differ from the primary activity of the parent company had a greater chance of losing their jobs than workers engaged in the same activity as the parent company. Similarly, establishments whose primary production activity differed from the primary activity of the parent company had a greater chance of closing than those engaged in the same activity as the parent company, particularly among small firms.

The State's manufacturing sector continued to lose jobs in 2002, incurring the heaviest job losses among the State's major economic sectors, as a result of the national economic slowdown and the September 11 terrorist attack. The softness of the world economy and the resulting weakness of international demand for U.S. goods also contributed to the heavy losses. Through the first half of 2002, manufacturing jobs had declined 8.3 percent, with the downstate economy being hit harder than upstate. Over the same period, upstate lost 7.4 percent of its manufacturing employment, while downstate lost 9.5 percent.

The long-term decline in New York manufacturing employment is expected to continue throughout the forecast period. This sector's share of State employment has declined almost continually over the post-World War II period due to increasing global competition, rising productivity, and, most importantly, the profound change in the industrial structure of the State economy. The transition from a traditional manufacturing base to a more technology-intensive form of manufacturing is also expected to continue. Weak national and international demand for manufactured goods has hastened this sector's employment decline. The situation is expected to improve slightly over the course of 2003, with the improvement of both the U.S. and global economies. However, a possible softening in the auto market, following a period of record sales, is a source of risk for manufacturing in the western part of the State. Manufacturing employment is expected to fall 1.4 percent in 2003, following a decline of 6.2 percent in 2002.

Construction

The State's construction sector was strong throughout the latter half of the 1990s, experiencing the highest rate of employment growth among all of the major economic sectors. The prolonged economic expansion, strong income growth, and relatively low interest rates all stimulated demand for both residential and office construction, warehouses, government capital programs, as well as nonbuilding construction. Even with the impact of the national economic slowdown and the September 11 terrorist attack, State construction employment recorded a 1.2 percent gain in 2001.

However, the impacts of the national recession and September 11 on the construction sector have become clearly visible. Construction contracts for new buildings and major innovations in New York City fell 35 percent in the third quarter of 2002 compared with a year ago.[18] The downstate region accounts for two thirds of total State construction employment and recent data show a distinct weakening. Statewide construction employment fell 3.7 percent in the first half of 2002 compared to a year ago. Several conditions in this sector account for the post-September 11 employment pattern. The cleanup of the World Trade Center site created many construction jobs but was finished ahead of schedule, and reconstruction plans are still in the design phase. Finance industry layoffs and the relocation of operations to other states reduced the demand for office buildings. Consequently, commercial real estate prices have fallen, and have thus discouraged new office construction. Layoffs and falling incomes have also reduced demand for residential construction, despite record low interest rates. Finally, anecdotal evidence suggests that tight budgets for both State and local governments are significantly affecting the demand for public construction.[19]

Nevertheless, the construction sector is expected to expand again in 2003. A major contributor to this development will be the reconstruction effort on the site of the World Trade Center, which is expected to begin in the middle of 2003. Another contributor will be continued low mortgage rates. Construction employment is expected to grow 1.8 percent for 2003, following a decline of 2.4 percent for 2002.

Finance

During the late 1990s, the finance industry was the primary growth engine for downstate New York. Just prior to September 11, securities firms employed 186,342 people in New York City, about six percent of the total workforce. But the finance industry adds more to the State and City economies than the jobs that it directly creates. During the last expansion, the securities industry represented a major source of stimulus for a wide range of businesses. The high corporate earnings, wages, and bonuses produced by the securities industry are important in fueling the activity of other sectors, including real estate, construction, retail sales, publishing, accounting, legal and business services, restaurants, and entertainment. It is estimated that each job in New York City's securities industry generates about two additional jobs.[20] Securities industry firms located in New York City lost 19,200 jobs during the first half of 2002, compared with the same period in 2001. Applying a multiplier of two implies that the securities industry may account for 40 percent of the 144,800 jobs lost in New York City during that period, based on CEW data.

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[18] F.W. Dodge Division of McGraw-Hill Companies, as reported in Fredrickson, Tom, "Construction leveled in NYC; job cuts loom," *Crain's*, Vol. XVIII, no. 44, November 4-10, 2002.
[19] See <http://newyork.construction.com/NYCN/NY-Jan03/cover2_0103.htm>.
[20] Minnesota IMPLAN Group, Inc., IMPLAN Professional Version 2.0 Social Accounting & Impact Analysis Software.

It is estimated that the finance and insurance sector will have lost about 30,000 jobs by the end of 2002 relative to the sector's 2000 peak, a decline not seen since the early 1990s. It is projected that the industry will continue to cut compensation costs in order to boost profits. Some of this cost cutting may be achieved through continued consolidation, a trend that accelerated over 2002. Continued consolidation, combined with a weak profit performance for the finance and insurance industry and the aftermath of September 11, are expected to result in an employment decline of 0.2 percent in 2003, following a decline of 4.4 percent in 2002. We note that recent Federal regulatory changes require financial firms to establish backup operations at least 300 miles away from the primary site. For many firms, this may entail moving operations out-of-state, posing further risk to State employment in this industry, and to the Budget Division forecast.

Other Sectors

The State's wholesale and retail trade sectors have suffered heavy job losses due to the long lasting impact of September 11 and the slow national economic recovery. Wholesale trade lost 20,600 jobs during the first half of 2002, a decline of 5.5 percent, while retail trade lost 21,200 jobs over the same period, a decline of 2.5 percent. Owing to the combined weak national and global economies, and the continued terrorist threat, wholesale and retail trade employment is expected to grow only 0.3 percent and 0.7 percent, respectively, for 2003, following declines of 4.6 percent and 0.9 percent for 2002. Employment in the State's transportation and warehousing sector tends to track trade sector trends very closely. However, in 2003 the transportation sector will carry the additional burden of the ailing airline industry. Not only are jobs expected to be lost due to continued consolidation within the industry, but the federal takeover of airport security operations will result in a transfer of employees from the private to the public sector as well. Transportation and warehousing employment is projected to fall 1.2 percent this year, following a decline of 5.3 percent for 2002 (see Table 6).

Education and healthcare services continued to grow throughout the recession. Through the first half of 2002 compared to the same period in 2001, education services grew 3.1 percent, adding 7,530 jobs, following growth of 4.9 percent for 2001. Similarly, healthcare and social assistance services grew 1.9 percent during the first half of 2002, adding 20,600, following growth of 1.7 percent for 2001. The growth in the healthcare industry is expected to continue in line with the legislated expansion of government sponsored healthcare programs and the rise in insurance premiums. The Budget Division expects education and healthcare employment to grow 2.6 percent and 2.5 percent, respectively, for 2003.

With the collapse of the "dot-com" sector in 2000 and 2001 and the national recession, the State's media services industries have shed many jobs, falling 0.1 percent in 2001 and a much greater 7.2 percent in 2002.[21] With the continued expansion of the national economy, media services employment is expected to grow by 0.9 percent in 2003. The State's professional and technical services industries, as well as the management and administrative support services industries, are also expected to benefit from the continued national expansion. Professional and technical services industries are expected to grow 0.6 percent in 2003, following a decline of 4.5 percent in 2002, while management and administrative support services industries are expected to grow 0.4 percent in 2003, following a decline of 3.0 percent in 2002.

[21] Under NAICS, media services industries comprise the information sector, or broad sector 51.

BOX 7
THE TRANSITION FROM SIC TO NAICS: A SNAPSHOT OF THE STATE ECONOMY IN 2001

Beginning in March 2003, employment and wage data for New York State and sub-state regions will be published according to the North American Industrial Classification System (NAICS) instead of the current Standard Industrial Classification (SIC) system (see Box 2). In anticipation of the conversion to the NAICS, DOB has constructed estimates of NAICS employment and wage data at the 20 "broad sector" level for current employment and wage data, going back to 1975. The basis for the data construction is the employment and wage data that is received by the New York State Department of Labor under the CEW program. Recently, each firm has been reporting their employment and wages under both a SIC and a NAICS code.

The overlap of the SIC and NAICS codes at the firm level permits a reliable methodology for constructing a historical time series back to 1975 for employment and wages. The firm level data is aggregated to the 2-digit level on both a SIC and a NAICS basis. Three regions are specified: upstate, downstate, and unclassified. The statewide numbers are the sum of the three regions. For each region, and for each 2-digit SIC industry, the percentage of the industry that is allocated to each of the 2-digit NAICS groups is calculated using quarterly 2000 data. Then, to get the total for a specific NAICS group, the percentages relating to that NAICS group for each quarter are applied to the data for all the SIC industries. These same percentages are applied to the SIC data for all prior time periods in order to create a NAICS-based historical time series at the 2-digit level for both employment and wages.

In the SIC system, industries are classified into ten major sectors. The three largest sectors are services, government, and retail, accounting for 34.4 percent, 16.7 percent, and 15.3 percent of total State employment, respectively. The two smallest sectors are agriculture, forestry, and fishing; and mining. Together, they account for less than 1 percent of total employment. Under NAICS, government becomes the largest sector, accounting for 16.7 percent of total employment, followed by health care and social assistance (13.0 percent) and retail trade (10.3 percent). The smallest three sectors are mining; agriculture, forestry, fishing, and hunting; and utilities. Together they account for less than one percent of total employment.

Under NAICS, the manufacturing sector's share of total employment decreases from 9.9 percent to 8.3 percent. This is due, in part, to the shift of publishing from manufacturing to the newly created information sector. In addition, establishments that specialize in research and development, now classified under manufacturing, will be classified as professional, scientific, and technical services under NAICS even if the parent company is in manufacturing. The retail trade sector's share is significantly reduced under the new system, from 15.3 percent to 10.3 percent, reflecting primarily the removal of eating and drinking industries from this sector into the new accommodation and food services sector. The finance, insurance, and real estate sector under SIC becomes the finance and insurance sector under NAICS, causing its share to be reduced from 8.8 percent to 6.6 percent. Real estate industries are joined by rental and leasing to form a new sector under NAICS.

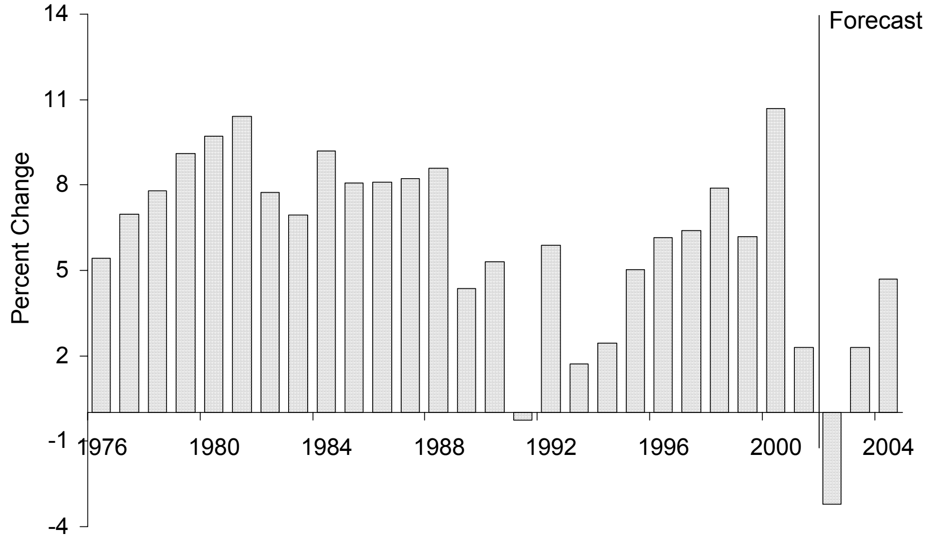
Outlook for Income

Weak growth in variable compensation and employment is expected to result in total wage growth of 2.3 percent for 2003, following an estimated decline of 3.2 percent for 2002 (see Figure 21). The weak growth in State wages projected for 2003 will result in total personal income growth of 3.1 percent, following growth of 0.4 percent for 2002 (see Table 9).

Because the state-level wage data published by BEA have proven unsatisfactory for the purpose of forecasting State personal income tax liability, the Budget Division constructs its own wage and personal income series based on CEW data. Moreover, because of the importance of trends in variable income — composed of bonus and stock options income — to the understanding of trends in State wages overall, the Budget Division has developed a methodology for decomposing its wage series into bonus and nonbonus wages. For a detailed discussion, see Box 8. The Budget Division's outlook for State income is based on these constructed series.

Figure 21

New York State Wage Growth



Source: NYS Department of Labor; DOB staff estimates.

Variable Income Growth

Variable income is defined as that portion of wages derived from bonus payments, stock incentive income, and other one-time payments (see Box 8). As a performance incentive for a given calendar year, firms tend to pay employee bonuses during either the fourth quarter of that year or the first quarter of the following year. Although stock options tend to be granted during the same quarters as the cash component of bonuses, often as part of a bonus package, an employee may exercise that option, thus transforming it into taxable income, at any time of the year. However, the concentration of variable income payments in the fourth and first quarters makes the State fiscal year a logical period of analysis for discussing the determinants of variable income growth.

Bonus income paid to employees in the finance and insurance industry has grown substantially since the early 1990s. During the 1999-2000 and 2000-01 State fiscal years, finance and insurance sector bonuses grew 43.5 percent and 23.8 percent, respectively, to levels that accounted for more than half of total bonuses paid in the State. Two factors were primarily responsible for this strong growth: the robust performance of security industry profits in those years and the shift in the State's corporate wage structure away from fixed to performance-based pay. An incentive-based payment structure allows employers to share with employees the risks of doing business and is particularly attractive to the securities industry, given the degree of volatility in industry profits.

The strong growth in finance and insurance bonuses was abruptly reversed during the 2001-02 State fiscal year when bonuses dropped 32.8 percent as a result of the national recession, the World Trade Center terrorist attack and the downslide in equity prices. As already noted, securities industry profits are estimated to have further deteriorated in 2002, dropping 62 percent from their record 2000 level. Moreover, tens of thousands of positions have been lost since September 11, 2001. Therefore, the Division of the Budget projects that variable income for the finance and insurance sector will fall 34.8 percent to $14.0 billion during the 2002-03 State fiscal year, a drop of 56.3 percent from the record $32.0 billion paid out in 2000-01 (see Figure 22). Variable income for that sector is expected to rise 8.7 percent during 2003-04, bringing it almost back up to its 1996-97 level.

BOX 8
THE CONSTRUCTION OF NEW YORK STATE WAGES AND THE ESTIMATION OF VARIABLE INCOME

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 (DOB) 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 Covered Employment and Wages (CEW) Program. 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 both the quarterly pattern and the annualized growth rates. For example, according to staff estimates based on the CEW data, wage growth for the first and second quarters of 2000, on a percent-change-year-ago basis, was 18.3 percent and 8.5 percent, respectively. The comparable growth rates originally published by the BEA were 2.4 percent and 5.4 percent. These estimates have since been revised up to 7.2 percent and 9.8 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA for State forecasting purposes.

A comparison with yet another source of wage data also demonstrates the greater accuracy of the CEW data. 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 CEW data than with the BEA's estimate of 2.4 percent.

Once an entire year of CEW 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, noncovered and unreported legal wages must be added to wages taken directly from the CEW data. The addition of these components typically changes the annual growth rate for State wages by no more than two-tenths of one percentage point.

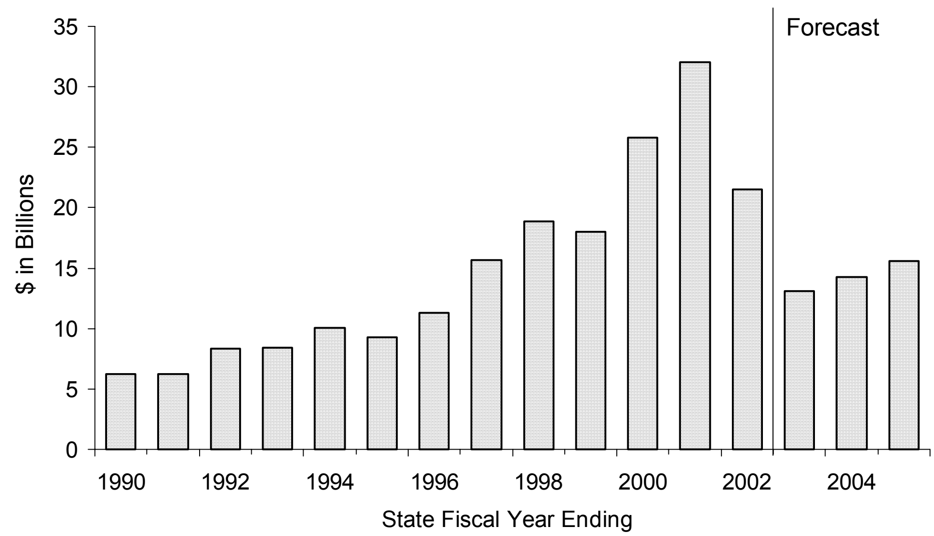
An increasing portion of New York State wages are paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. No government agency collects data on variable income as distinct from ordinary wages; therefore, it must be estimated. The Division of the Budget derives its estimate of bonuses from firm-level data as collected under the CEW program. This method allows a large degree of flexibility as to when individual firms actually make variable income payments. However, as with any estimation 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.

Firms report their wages to the CEW 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.

Figure 22

New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

Although the decline for 2002-03 will be steepest for finance and insurance firms, bonus income in other sectors is expected to fall as well, with an expected decline of 3.5 percent in State fiscal year 2002-03. This decline is expected to be followed by a 5.3 percent increase in 2003-04. As a result, finance and insurance sector bonuses as a percentage of total bonuses will drop to around 39.2 percent in 2003-04, compared with their peak share of 55.6 percent attained in 2000-01.

Overall, total bonus income for the State is projected to fall 18.5 percent for State fiscal year 2002-03, followed by growth of 6.6 percent for 2003-04. On a calendar year basis, total State bonus income is expected to decrease 23.0 percent for 2002, followed by a decline of 10.4 percent for 2003.

Nonbonus Wages

Unlike the variable component of income, nonbonus wages are driven largely by changes in employment and the nonbonus average wage, and are therefore relatively more stable. After adjusting for inflation, the nonbonus average wage for each of the State's industrial sectors is believed to have a stable long-run relationship with the real U.S. average wage for that sector. However, State real average wages can deviate from their long-run trend due to short-term fluctuations related to business cycles or shocks to the regional economy. Nonbonus average wages are projected to increase by 3.1 percent in 2003, following estimated growth of 1.5 percent for 2002. Total nonbonus wages are projected to grow 3.9 percent for 2003, following a decline of 0.1 percent for 2002.

Average Wage

The decline in bonuses is expected to contribute to slow growth in the State's overall average wage of 1.6 percent for 2003, following an estimated 1.7 percent decline for 2002. If the 2002 estimate turns out to be accurate, it will be the first decline in the State's average wage in the history of CEW data, which begins in 1975.

Nonwage Income

The Division of the Budget projects a 5.6 percent increase in the nonwage components of State personal income for 2002, followed by growth of 4.2 percent for 2003. Projected slower growth for 2003 is chiefly the result of an expected decline in the growth of transfer income as State economic conditions improve.

BOX 9
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 1990-91 national recession, the State's recession began noticeably earlier and ended significantly later than for the nation as a whole. Alternatively, during the early 1980's recession, the State's economy fared better than the nation.

The objective of DOB/N.Y. is to quantify the linkages between the national and State economies within an econometric modeling framework. 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 nonfarm payroll employment segment, a real nonbonus average wage segment, a bonus payment segment, and a nonwage 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 Nonbonus Wages

Our analysis suggests the existence of a long-run equilibrium relationship between real nonbonus average wage for most New York sectors and the national real average wage. Thus, the State average real nonbonus 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, though 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 that drive Wall Street profits — merger and acquisition activity, IPOs, 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 sectors; 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.

Nonwage Incomes and Other Variables

The New York nonwage 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. nonwage 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 risks described above for the national forecast, there are risks specific to the New York economy. Chief among these is a more prolonged downturn in the financial sector than currently projected, producing sharper declines in bonus payments and larger reductions in employment than reflected in the current forecast. Moreover, an unexpectedly large transfer of employees out of state in order to comply with regulations pertaining to backup operations could imply a larger decline in finance and insurance sector employment than anticipated. The effects of these declines would ripple through the downstate economy, resulting in lower wage and employment growth in other sectors as well, the magnitude of which could be quite substantial, although hard to forecast. The reductions in spending by state and local governments will also reverberate throughout the economy to a degree that is hard to estimate. In contrast, should concerns pertaining to national security and corporate governance resolve themselves more quickly than expected, a stronger upturn in stock prices, along with renewed activity in mergers and acquisitions and IPOs is possible, resulting in higher wage growth than projected.

SOURCES OF VOLATILITY IN THE INCOME TAX BASE — A RISK ASSESSMENT

The personal income tax (PIT) is not only the State's most important revenue source but is extremely volatile as well. PIT receipts are very sensitive to changes in conventional measures of income. For example, personal income, as measured by BEA, both fails to capture critical components of taxable income and includes components that are not taxed. However, State PIT collections are extremely volatile even when compared to New York State adjusted gross income (NYSAGI), a measure of taxable income derived from State tax returns from which total tax liability is determined. It is common to examine tax liability in terms of its "elasticity," or sensitivity to changes in the tax base. Because of the progressive nature of the State's income tax system, PIT liability is very elastic with respect to changes in taxable income as measured by NYSAGI. We find that when the personal income tax base rises (or falls), PIT liability tends to rise (or fall) by a much greater rate. Indeed, we find that the personal income tax is much more responsive to changes in income than other taxes.

The relative volatility of personal income tax receipts clearly emerges when comparing three alternative indicators of the size of the New York State tax base — PIT liability, NYSAGI, and personal income (see Figure 23). For 2000, PIT liability is estimated to have grown 17.9 percent. In contrast, NYSAGI is estimated to have grown 14.6 percent, while State personal income grew 8.4 percent.[22] During the following year, personal income tax liability reversed course, falling an estimated 8.6 percent. NYSAGI is estimated to have fallen a lesser 5.8 percent in 2001, while personal income grew 3.1 percent. Although State personal income is expected to grow in 2002, further declines are estimated for NYSAGI and liability as the impact of a depressed equity market continues to exert negative pressure on taxable income.[23]

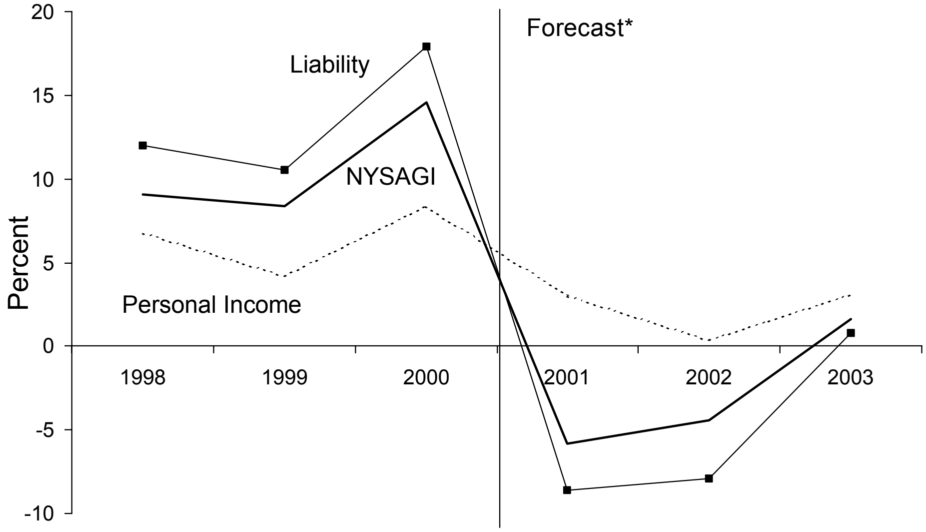
Much of the divergence between personal income growth and NYSAGI growth is explained by types of income not related to current production such as capital gains. Personal income is a National Income and Product Accounts (NIPA) concept, measuring income derived from value added to current production. In contrast, NYSAGI measures the taxable components of income and, as such, includes components that are taxable but not counted in personal income. Since a capital gain or loss earned from the sale of a financial asset is not related to current production, it is not included in the NIPA concept of personal

[22] For a discussion of how DOB constructs State personal income, see Box 8.

[23] For a more detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."

income.[24] With the dramatic rise in capital gains realizations during the late 1990s and 2000, and the equally dramatic declines since then, the growth in taxable income became much more volatile than the growth in income as defined under NIPA.

Figure 23
Indicators of New York State Tax Base
Growth Rate Comparison



* For personal income, forecast starts in 2002.
Source: NYS Department of Taxation and Finance; Economy.com; DOB staff estimates.

The extreme volatility in New York State personal income tax liability stems from the volatile nature of certain components of taxable income, such as capital gains realizations, bonuses, and stock incentive payouts. It is important to recall that these components of income differ fundamentally from other conventional economic indicators. Indicators such as GDP, employment, and personal income tend to have relatively stable bases, and although they do fluctuate with the business cycle, these changes are relatively marginal. In contrast, employers may drastically curtail or even eliminate bonus payments in response to a poor performance by the firm. Similarly, if taxpayers refrain from selling financial assets due to depressed market conditions or are carrying forward losses from prior years, little or no capital gains realizations income could result.

The additional volatility in personal income tax liability relative to NYSAGI is primarily related to the progressiveness of the State tax system. Because the volatile components of taxable income alluded to above tend to be concentrated among the State's high-income taxpayers who are taxed at the highest marginal tax rate, growth in those components will tend to increase the average tax rate. Moreover, taxpayers tend to move into higher tax brackets as their incomes rise. Between 1999 and 2000, the latest year for which detailed income tax data are available, the average effective tax rate increased from 4.63 percent to 4.76 percent, without any significant changes in tax law. The increase is the result of liability growing faster than NYSAGI. Correspondingly, the large decline in taxable income estimated for 2001, due in large part to the decline in capital gains realizations, is estimated to have resulted in a decline in the effective tax rate to 4.62 percent. Between 2000 and 2001, New York State personal income tax liability oscillated from growth of 17.9 percent to a decline of 8.6 percent, a 26.5 percentage point swing in only one year's time. This large swing clearly indicates how radical shifts in tax liability can be when the stock market falls.

[24] Any transaction costs generated by such a sale would be related to current production and therefore included in income.

TABLE 8
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS
($ in Billions)

	1999	2000	2001	2002	2003
NYSAGI					
Level	453.1	519.5	489.4	467.8	475.2
$ Change	35.1	66.4	(30.1)	(21.6)	7.4
Wages					
Level	328.9	373.2	381.2	368.8	377.3
$ Change	19.2	44.3	8.0	(12.3)	8.5
Capital Gains					
Level	49.5	64.0	30.9	19.5	16.9
$ Change	9.3	14.5	(33.0)	(11.5)	(2.5)
Partnership/S Corporation					
Level	35.3	38.9	36.5	36.2	37.5
$ Change	4.6	3.6	(2.4)	(0.4)	1.4

Note: Discrepancies are due to rounding.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The fact that the most volatile components of income account for such a large portion of NYSAGI poses significant risks to the Division of the Budget's personal income tax forecast. In 1999 and 2000, income from positive capital gains realizations grew an impressive 23.2 percent and 29.3 percent, respectively. However, preliminary data indicate a decline in capital gains realizations of more than 50 percent for 2001. The Budget Division projects further declines of 37.1 percent for 2002 and 12.9 percent for 2003. From Table 8 it can be determined that capital gains realizations accounted for 26.5 percent of the increase in NYSAGI in 1999 and 21.8 percent of the increase in 2000. For 2001, the decline in capital gains is larger than the estimated $30 billion decline in NYSAGI for that year. Because so much of the fluctuation in New York State taxable income derives from financial market volatility, there is a large degree of risk surrounding forecasts for the components of taxable income and, ultimately, tax liability.[25] Therefore, the Budget Division has consistently maintained that a conservative approach to projecting these components is warranted.

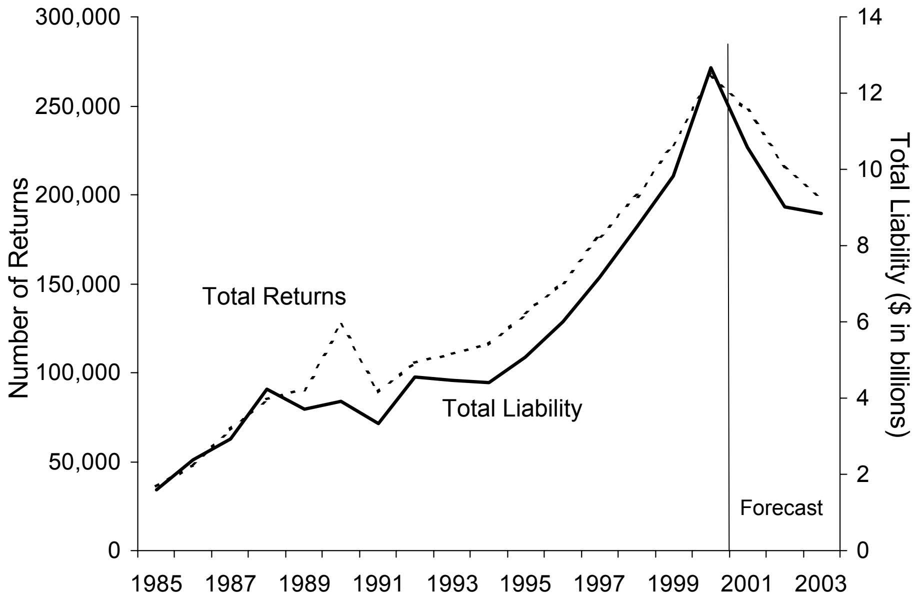
Changes in the State Distribution of Income

Given the progressive nature of the State's tax system, forecasting total income tax liability entails not only forecasting total income, but the distribution of income as well. Out-year estimation of the income distribution is especially risky since the share of income earned among the wealthiest taxpayers can fluctuate dramatically with such factors as the business cycle, the financial markets, and changes in federal tax treatment. The rising stock market created thousands of millionaires during the latter part of the 1990s, causing the share of total personal income tax liability accounted for by high-income taxpayers — those reporting taxable incomes of $200,000 or more — to grow rapidly during that period. Close to 9 million tax returns were filed in New York State for the 2000 tax year, representing growth of about 2.1 percent per year since 1995. Over the same period, the number of high-income taxpayers grew from 133,000 to 267,000, representing an average annual increase of 20.1 percent (see Figure 24). In 2000, the most recent year for which detailed tax return data are available, these high-income taxpayers represented a mere 3.0 percent of all taxpayers, but they accounted for 39.0 percent of NYSAGI and fully 51.2 percent of personal income tax liability, or $12.7 billion (see Figure 25).

[25] For a discussion of the Budget Division's use of Monte Carlo simulations to compute confidence bands around forecasts, see *Executive Budget Presentation, 2002-03, Appendix II*, pp. 129-136. The confidence bands around this year's forecast are comparable to what we show for last year's estimates.

Figure 24

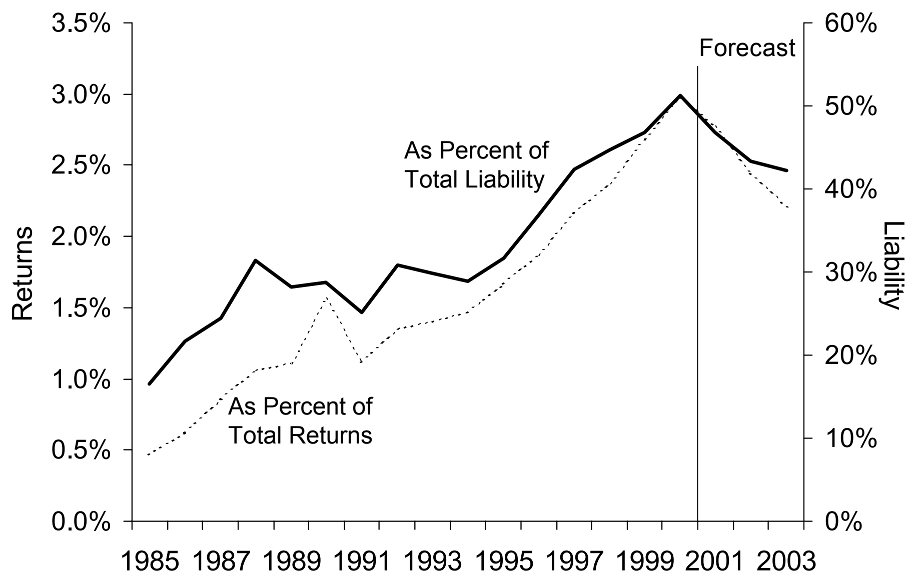
New York State High-Income Tax Returns



Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 25

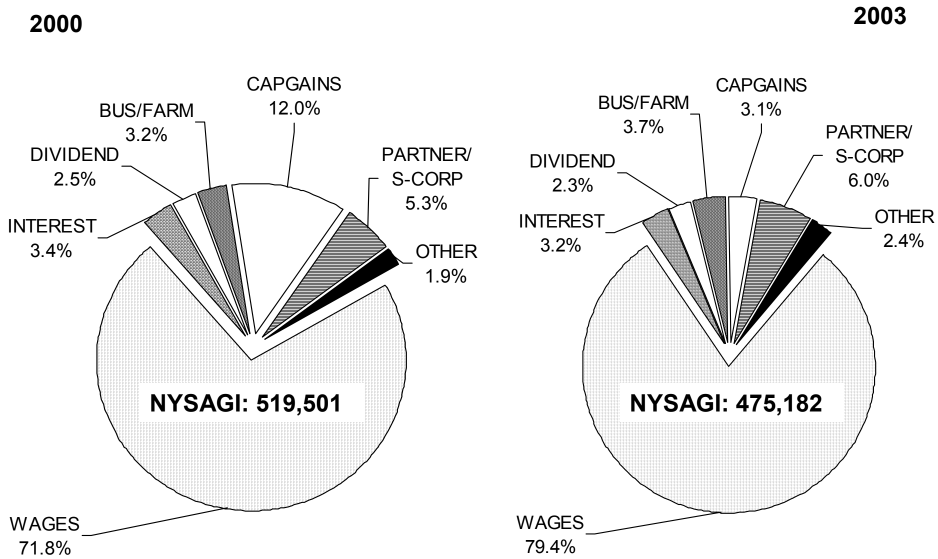
High-Income Taxpayers as Percent of Total Returns and Liability



Source: NYS Department of Taxation and Finance; DOB staff estimates.

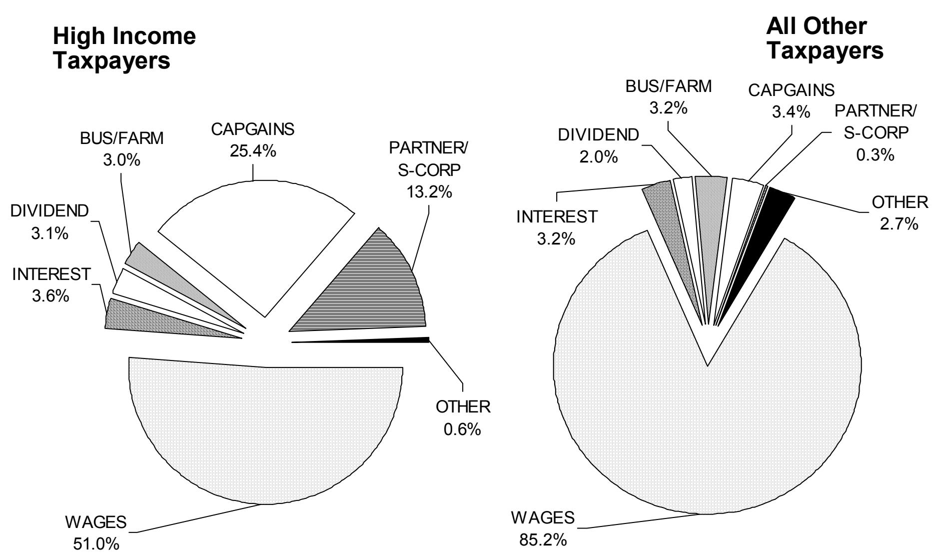
Figure 26 compares the composition of NYSAGI for all taxpayers for the 2000 tax year to that of 2003. The figure shows a clear shift from net capital gains income to wage income. By 2003, estimated net capital gains income only contributes 3.1 percent to taxable income, down from a high of 12.0 percent in 2000. At the same time, the share of wages increases from 71.8 percent to 79.4 percent, which is close to the historical average of 80.0 percent between 1977 and 2000.

Figure 26
Composition of NYSAGI for All Taxpayers



Note: Both capital gains and partnership/S-corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 27
Composition of NYSAGI for 2000

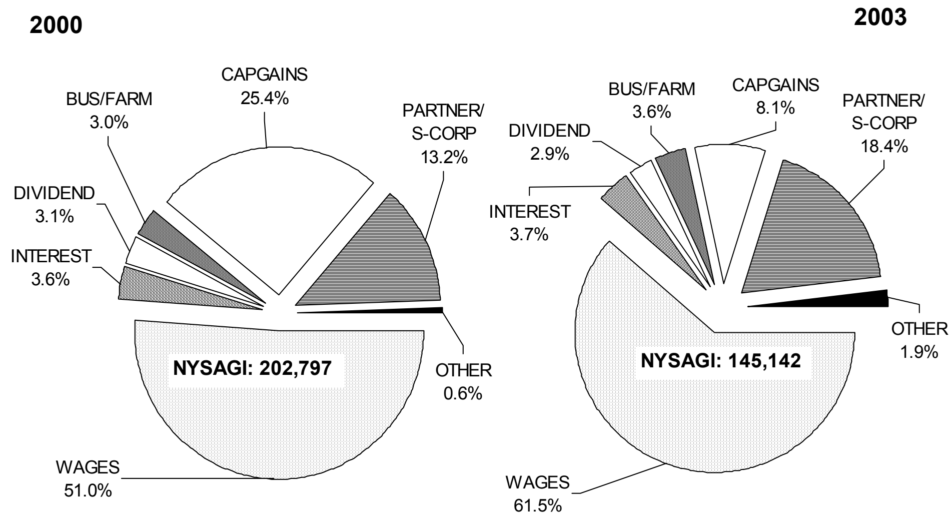


Note: High income taxpayers are defined as those reporting NYSAGI of more than $200,000. Capital gains and partnership/S-corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance.

Figure 27 compares the composition of adjusted gross income for high-income taxpayers with all other taxpayers for the 2000 tax year. It is evident from the figure that the most volatile components of taxable income, capital gains and partnership/S-corporation income comprise a much larger share among high-income taxpayers than for other payers.[26] Figure 28 shows the composition of taxable income for high-income taxpayers in a comparison between the 2000 and the 2003 tax year based on Budget Division estimates. For high-income taxpayers, the share for capital gains realizations is projected to fall by two-thirds from 25.4 percent in 2000 to only 8.1 percent in 2003, while the share of partnership income and wage income grows.

Figure 28 also indicates that NYSAGI reported by high-income taxpayers is estimated to have fallen by 28.4 percent between 2000 and 2003. This represents a partial reversal of the trends of the late 1990s. With the dramatic depreciation of the equity market and the corresponding decline in the net wealth of households, DOB projects a large decline in income among the State's high-income citizens. This decline is projected to occur because the incomes of these taxpayers tend to be heavily weighted toward the more volatile components of taxable income, such as bonus wages and capital gains realizations. The result is a predicted large decline in tax receipts from these payers. By 2003, the share of liability accounted for by these high-income taxpayers is expected to be down to 42.2 percent, from the high of 51.2 percent estimated for 2000.

Figure 28
Composition of NYSAGI for High-Income Taxpayers



Note: Both capital gains and partnership/S-corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The Major Components of NYSAGI

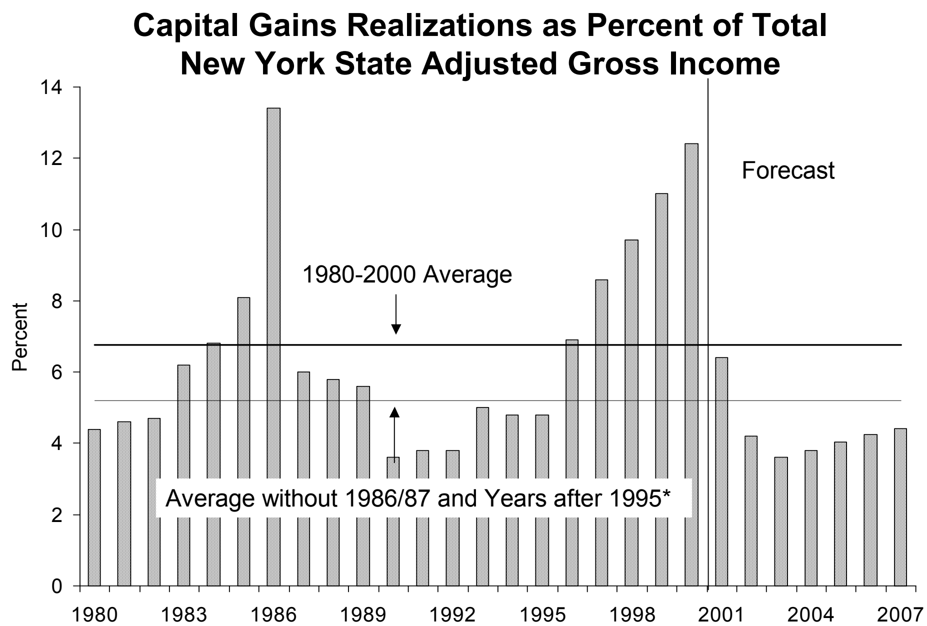
The Budget Division forecasts for the components of NYSAGI are based on detailed tax return data from a sample of State taxpayers through the 2000 tax year, made available by the New York State Department of Taxation and Finance. Although the measure of taxable wages derived from State tax returns does not precisely match the dollar amount derived from CEW data, they are believed to follow the same trend. Therefore, for a discussion of the Budget Division forecast for taxable wages, see "Outlook for Income" above.

[26] Although tax return data does not differentiate bonus income from non-bonus income, it can be surmised that bonus income represents a much larger share of taxable income among high-income taxpayers than among low-income taxpayers.

Positive Capital Gains Realizations

As discussed above, the volatility in capital gains realizations accounts for a large share of the fluctuation in total NYSAGI for recent years. Traditionally, the Budget Division's forecasting model has attempted to capture the inherent volatility in this component of income by incorporating those factors that are most likely to influence realization behavior, such as expected and actual tax law changes and financial market activity for the contemporaneous period.[27] Although the model performed well in prior years, DOB projections have always emphasized the high degree of uncertainty associated with any capital gains forecast.[28] In DOB's review of several models used to predict gains realizations, it is clear that most models were far too optimistic in their projections for 2001 and, in all likelihood, 2002.[29] The Budget Division now estimates a decline of over 50 percent in capital gains realizations for 2001. This decline reduces the share of capital gains out of total NYSAGI from 12.3 percent in 2000 to only 6.3 percent in 2001 (see Figure 29). In retrospect, most models used by fiscal analysts to predict future gains failed to fully incorporate the impact of the accumulation of past capital losses that can be used to offset gains.

Figure 29



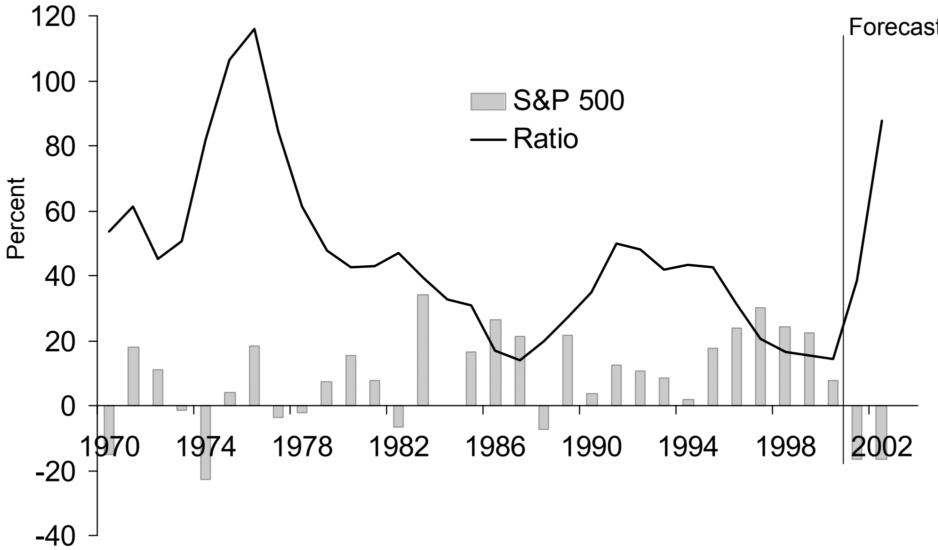
* Adjustment to account for distortions from the 1986 tax reform and the speculative bubble of the late 1990s.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

In any given tax year, taxpayers filing jointly can deduct up to $3000 ($1500 if filing individually) of their net capital losses from ordinary taxable income. The value of any remaining losses can be carried forward indefinitely and used to offset future capital gains. During a prolonged downturn in the equity market, losses can accumulate and be used in later years under improved market conditions, leading to lower taxable capital gains realizations than the performance of the equity market might suggest. Based on national Statistics of Income (SOI) data, we can construct a ratio between the level of losses carried

[27] For a discussion of DOB's traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu "The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study," *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, pp. 172-183.
[28] See *Executive Budget Presentation, 2002-03, Appendix II*, p. 131.
[29] See for example Congressional Budget Office "Where Did the Revenues Go?" *Revenue and Tax Policy Brief,* August 13, 2002.

over from the previous year and the level of capital gains.[30] Figure 30 illustrates how that ratio has changed over time compared with the performance of the S&P 500. As indicated in the figure, not only can the ratio of the loss carryover to gains exceed one, as it did in 1975 and 1976, but also it can peak one or two years after the decline in the stock market has ended. This observation suggests that accumulated losses can depress taxable gains realizations for several years.

Figure 30
Ratio of Loss Carryover to Capital Gains Realizations and Growth in the S&P 500



Note: Data for S&P 500 are actuals.
Source: IRS Statistics of Income; DOB staff estimates.

In an attempt to capture the impact of the loss carryover, the DOB forecast model now includes prior year stock market activity in addition to the contemporaneous value. For 2002, realizations are estimated to decline 37.1 percent, followed by yet another decline of 12.9 percent for 2003 (see Figure 31). However, we note that the potential for a large accumulation of losses poses a substantial risk to this forecast. Although there is no state-level data on the loss carryover, we can obtain an estimate by applying the ratio of the loss carryover to gains from the national SOI sample to the estimate of gains realizations for New York. These estimates appear in Figure 32 along with gains realizations and the ratio between the two. Moreover, we can apply estimates of the growth in the loss carryover for 2001, 2002, and the out-years to obtain estimates of the loss carryover for those years for New York. These estimates also appear in Figure 32. Losses carried forward from 2001 and 2002 could depress capital gains realizations for 2003 and the out-years beyond what stock market indicators such as the S&P 500 might suggest. The unprecedented severity and duration of the recent decline in the stock market raises significant risk for the out-year estimates of taxable gains. The level of gains could also deviate from the forecast if the underlying assumptions about the economy and financial market conditions deviate from expectations. Historically, financial market conditions are difficult to predict in the short-run. This can have a significant impact on short-term forecasting error.

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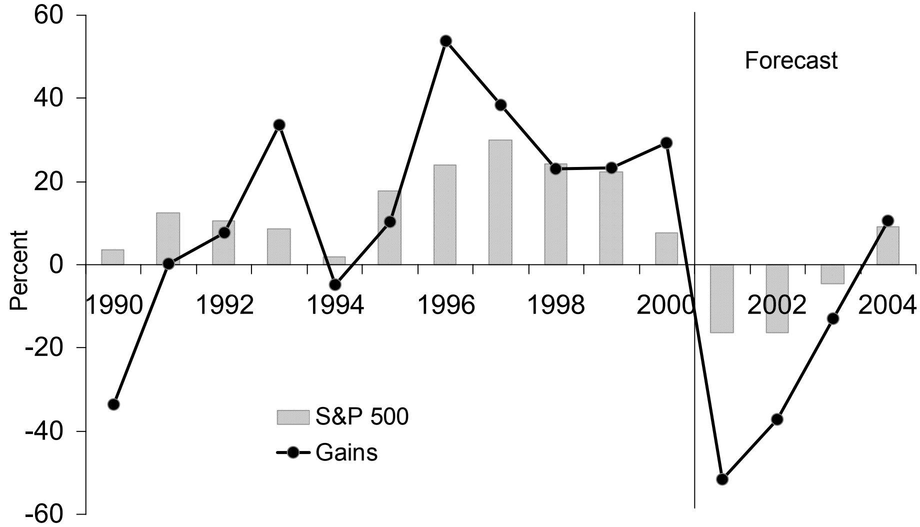
[30] For detailed information, see the IRS website at http://www.irs.gov/taxstats/index.html.

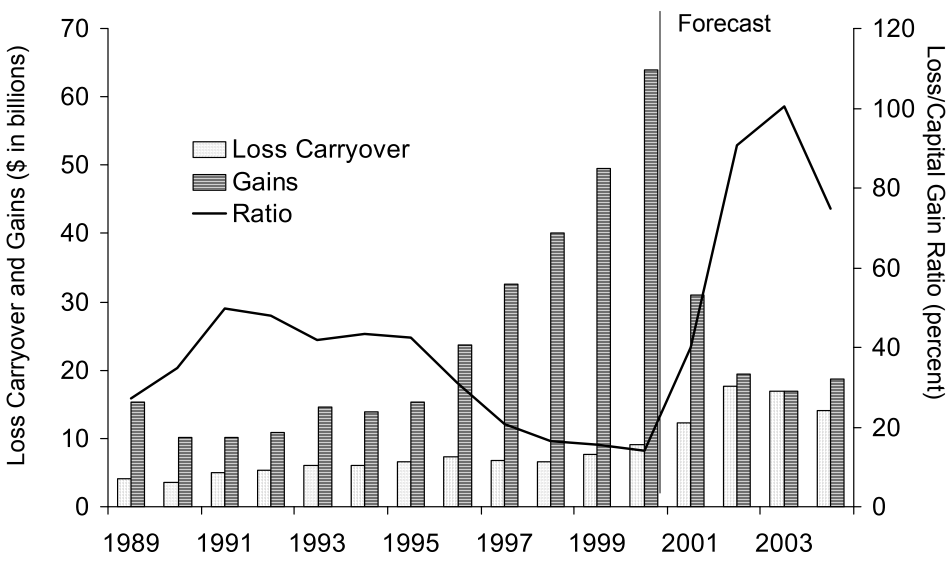
Figure 31

Growth Rate of Capital Gains Realizations and S&P 500



Note: Forecast period for the S&P 500 starts in 2003.
Source: IRS Statistics of Income; NYS Department of Taxation and Finance; DOB staff estimates.

Figure 32
Decomposing the Ratio of Loss Carryover to Capital Gains Realizations



Source: IRS Statistics of Income; NYS Department of Taxation and Finance; DOB staff estimates.

Rent, Royalty, Partnership, and S-Corporation Income

Positive rent, royalty, estate, trust, partnership and S-corporation income has become one of the largest components of NYSAGI, accounting for 7.8 percent in 1999 and 7.5 percent in 2000. The largest contributor to this component of taxable income is partnership income, much of which originates within the finance and real estate industry and, therefore, is expected to be closely tied to the overall performance of the economy, as well as to the performance of the stock market. An almost equally large contributor is income from S-Corporation ownership. Selection of S-Corporation status allows firms to pass earnings through to a limited number of shareholders and to avoid corporate taxation. Empirical work shows that the differential between personal income tax and corporate income tax rates can significantly affect election of S-Corporation status.[31] Consequently, DOB's forecast model includes the difference between the corporate franchise tax rate and the maximum marginal personal income tax rate, where the rates are composites of both State and federal rates. The model also includes real U.S. GDP and the S&P 500. While positive partnership and S-corporation income increased 10.1 percent in 2000, the DOB estimates declines of 6.2 percent for 2001 and 1.0 percent for 2002, due primarily to the weak performance of the equity markets. Growth of 3.8 percent is projected for 2003 as both the economy and financial markets improve.

Dividend Income

Dividend income is expected to rise and fall with the fortunes of publicly held U.S. firms, which, in turn, are expected to vary with the business cycle. For example, during the State's last recession, dividend income declined for four consecutive years from 1989 to 1992. Because a strong (or weak) economy, as measured by growth in real U.S. GDP, might have a sustained impact on the payout of dividends, the impact of the business cycle on dividend income is expected to last several years. Dividend income is also thought to be associated with firms' expectations pertaining to their future profitability, which is tied to the future strength of the economy. As interest rates incorporate inflationary expectations, which in turn incorporate expectations regarding the future strength of the economy, they represent a proxy for the latter.

Historically, State dividend income has ranged from a decline of 6 percent in 1991 to an increase of 22 percent in 1981, proving much more variable than U.S. dividend income, a component of the NIPA definition of U.S. personal income. This may suggest the importance of factors affecting the way taxpayers report their income, rather than changes in the payment of dividends by firms. The most obvious impact of a change in the tax law occurred in 1988, when reported dividend income grew 21.8 percent, followed by a decline of 2.6 percent the following year. Dividend income increases 18.2 percent in 2000 before a predicted decline of 20.8 percent in 2001. Moderate growth of 3.8 percent and 5.5 percent is projected for 2002 and 2003, respectively.

Interest Income

For a given amount of assets, an increase in interest rates will increase interest income. DOB's interest income forecasting model is based on this simple concept and accordingly includes the 10-year Treasury rate. In addition, the overall trend in taxable interest income for New York is found to closely track that of U.S. interest income, another component of the NIPA definition of U.S. personal income. However, taxable interest income for New York is much more volatile than the latter measure. For the period from 1976 to 2000, the average growth rate for U.S. interest income was 9.2 percent, with a standard deviation of 7.6 percentage points. In contrast, New York's interest income over the same period averaged 6.5 percent growth, with a standard deviation of over 13.0 percentage points. The additional volatility in the New York series could be related to the behavioral response of State taxpayers to past changes in the tax law related to interest income. Interest income increased by 20.9 percent in 2000 but is estimated to have fallen 7.7 percent during 2001 due to the steep decline in interest rates during the year. Interest income is estimated to have fallen 4.4 percent in 2002 and is projected to fall an additional 2.5 percent for 2003 due to the further decline in interest rates.

[31] See for example R. Carroll and D. Joulfaian "Taxes and Corporate Choice of Organizational Form," OTA Paper 73, Office of Tax Analysis, U.S. Treasury Department, Washington, DC, October 1997.

Business and Farm Income

Business and farm income combines income earned and reported as a result of operating a business, practicing a profession as a sole proprietor, or from operating a farm. This component of income is expected to vary with the overall state of the State and national economies. Consequently, the DOB forecasting model includes real U.S. GDP, as well as New York State proprietors' income, a component of the NIPA definition of New York personal income. The Budget Division estimates an increase of only 0.7 percent in business and farm income for 2001. This is well below the 8.1 percent growth for 2000. Small businesses in New York City were greatly affected by the World Trade Center events. An entire area of Manhattan was closed for weeks, retail trade was substantially reduced, and many retail businesses and restaurants in the vicinity of the World Trade Center buildings were either damaged or destroyed. Unlike large corporations, small businesses often lack full insurance coverage for the damages inflicted. Improved growth of 3.7 percent is estimated for 2002 due to the higher growth in both real U.S. GDP and State proprietors' income. Growth of 1.9 percent is projected for 2003.

In summary, given the uncertainty surrounding such volatile components as capital gains realizations and the small number of taxpayers who account for the majority of this income, there exists significant risk to the Division of the Budget's personal income tax forecast. Some of this risk stems from the connection between revenues and the stock market, which is particularly difficult to forecast. This risk is compounded further by the weakness of the national recovery, as well as extraordinary national security concerns. As a result, forecasts for income tax receipts for the upcoming years should be viewed with caution.

TABLE 9
SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2001 (actual)	2002 (estimate)	2003 (forecast)	2004 (forecast)	2005 (forecast)	2006 (forecast)	1976-2001 Average[2]
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	2.6	3.6	4.0	5.3	5.0	5.0	7.3
Gross Domestic Product	0.3	2.4	2.4	3.3	3.1	3.0	3.2
Consumption	2.5	3.0	2.4	3.1	3.0	2.9	3.4
Residential Fixed Investment	0.3	3.4	0.8	(0.5)	0.4	1.6	3.8
Nonresidential Fixed Investment	(5.2)	(5.6)	3.5	7.7	9.0	9.1	5.6
Change in Inventories (dollars)	(61.4)	2.2	32.9	52.6	39.2	29.5	27.8
Exports	(5.4)	(1.1)	5.3	6.5	6.8	6.7	6.3
Imports	(2.9)	3.5	7.5	7.6	7.3	7.7	7.5
Government Spending	3.7	4.4	2.4	1.6	1.6	1.6	2.2
Pre-tax Corp. Profits	(14.3)	(1.5)	8.5	14.7[3]	15.5[3]	4.5	6.7
Personal Income	3.3	3.1	4.7	5.3	5.7	5.9	7.5
Wages	2.4	1.5	4.5	6.0	6.1	5.9	7.2
Nonagricultural Employment	0.2	(0.9)	0.6	1.7	1.8	1.5	2.1
Unemployment Rate (percent)	4.8	5.8	5.8	5.4	5.1	5.1	6.4
S&P 500 Stock Price Index	(16.4)	(16.5)	(4.5)	9.1	10.3	8.6	11.4
Federal Funds Rate	3.9	1.7	1.4	2.7	3.7	3.8	7.3
Treasury Note (10 year)	5.0	4.6	4.3	5.4	6.0	6.2	8.3
Consumer Price Index	2.8	1.6	2.4	2.5	2.6	2.6	4.7
New York State Indicators							
Personal Income[4]	3.0	0.4	3.1	4.2	4.5	4.7	6.8
Wages and Salaries[4]							
Total	2.3	(3.2)	2.3	4.7	4.9	4.9	6.6
Without Bonus[5]	1.6	(0.1)	3.9	4.5	4.6	4.7	6.1
Bonus[5]	7.0	(23.0)	(10.4)	6.5	7.2	6.6	11.5
Wage Per Employee	2.8	(1.7)	1.6	3.7	3.9	3.9	5.6
Property Income	2.0	1.2	2.0	2.0	2.4	2.7	7.7
Proprietors' Income	2.5	2.8	3.9	5.0	4.5	4.4	8.7
Transfer Income	6.6	8.2	5.9	4.2	5.4	5.7	6.9
Nonfarm Employment[4]							
Total	(0.6)	(1.6)	0.7	1.0	0.9	0.9	0.9
Private	(0.8)	(2.1)	0.9	1.0	1.0	1.0	1.0
Unemployment Rate (percent)	4.9	6.0	5.9	5.7	5.5	5.5	6.8
Composite CPI of New York[5]	2.6	2.1	2.2	2.2	2.5	2.5	4.7
New York State Adjusted Gross Income							
Capital Gains	(51.6)	(37.1)	(12.9)	10.5	12.5	10.7	19.1
Partnership/ S-Corporation Gain	(6.2)	(1.0)	3.8	10.0	9.9	9.3	12.5
Business and Farm Income	0.7	3.7	1.9	4.5	3.2	3.4	7.3
Interest Income	(7.7)	(4.4)	(2.5)	3.1	2.4	1.2	6.5
Dividends	(20.8)	3.8	5.5	4.4	6.1	5.7	6.8
Total AGI	(5.8)	(4.4)	1.6	5.3	5.5	5.4	7.5

[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 1996 dollars, unless otherwise noted.

[2] NYSAGI numbers are 1976-2000 averages.

[3] Growth rates for 2004 and 2005 reflect the expiration of the "bonus depreciation" provision of the Job Creation and Worker Assistance Act of 2002 enacted on September 11, 2002. Since firms will no longer be able to depreciate their plant and equipment at the accelerated rate permitted under the 2002 law, taxable profits will rise, regardless of economic conditions. The Budget Division estimates that if not for the expiration of the bonus depreciation provision, pre-tax corporate profits would rise only 8.7 percent in 2004 and 5.2 percent for 2005.

[4] Nonagricultural employment, wage, and personal income numbers are based on CEW data.

[5] Series created by the Division of the Budget.

Source: Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.

TABLE 10
SELECTED ECONOMIC INDICATORS*
(State Fiscal Year)

	2001-02 (actual)	2002-03 (estimate)	2003-04 (forecast)	2004-05 (forecast)	2005-06 (forecast)	1976-77 - 2001-02 Average
U.S. Indicators[1]						
Gross Domestic Product (current dollars)	2.4	3.7	4.4	5.3	4.9	7.2
Gross Domestic Product	0.3	2.5	2.7	3.3	3.0	3.1
Consumption	2.5	2.8	2.7	3.1	2.9	3.3
Residential Fixed Investment	1.2	3.2	0.3	(0.5)	0.8	3.5
Nonresidential Fixed Investment	(7.8)	(3.0)	4.9	8.2	9.0	5.5
Change in Inventories (dollars)	(61.9)	15.1	40.8	50.8	35.3	27.2
Exports	(8.5)	3.0	5.1	6.8	6.7	6.1
Imports	(5.1)	7.0	7.1	7.5	7.4	7.4
Government Spending	4.2	3.8	2.2	1.6	1.6	2.2
Pre-tax Corp. Profits	(14.0)	3.2	8.7	18.1[2]	10.9	6.3
Personal Income	2.4	3.9	4.8	5.5	5.7	7.4
Wages	1.3	2.6	4.9	6.2	5.9	7.1
Nonagricultural Employment	(0.4)	(0.5)	0.9	1.8	1.7	2.1
Unemployment Rate (percent)	5.1	5.9	5.7	5.3	5.1	6.4
S&P 500 Stock Price Index	(16.9)	(18.2)	2.8	9.4	10.2	10.9
Federal Funds Rate	2.9	1.5	1.6	3.0	3.7	7.3
Treasury Note (10 year)	5.0	4.3	4.6	5.6	6.1	8.3
Consumer Price Index	2.3	2.0	2.4	2.6	2.6	4.7
New York State Indicators						
Personal Income[3]	(0.4)	1.8	4.1	4.3	4.5	6.7
Wages and Salaries[3]						
Total	(3.3)	(1.0)	4.3	4.8	4.8	6.4
Without Bonus[4]	(0.1)	1.4	4.0	4.6	4.6	6.1
Bonus[4]	(22.2)	(18.5)	6.6	6.7	6.9	10.6
Wage Per Employee	(1.7)	(0.2)	3.4	3.8	3.8	5.5
Property Income	0.3	2.0	1.8	2.1	2.5	7.7
Proprietors' Income	2.0	3.3	4.3	4.8	4.5	8.6
Transfer Income	7.1	7.9	5.3	4.5	5.3	6.8
Nonfarm Employment[3]						
Total	(1.5)	(0.8)	0.8	1.0	0.9	0.9
Private	(2.0)	(1.1)	1.0	1.1	1.0	1.0
Unemployment Rate (percent)	5.3	5.9	5.9	5.6	5.5	6.7
Composite CPI of New York[4]	2.4	2.2	2.2	2.3	2.5	4.6

[1] All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 1996 dollars, unless otherwise noted.

[2] Growth rates for 2004-05 reflect the expiration of the "bonus depreciation" provision of the Job Creation and Worker Assistance Act of 2002 enacted on September 11, 2002. Since firms will no longer be able to depreciate their plant and equipment at the accelerated rate permitted under the 2002 law, taxable profits will rise, regardless of economic conditions. The Budget Division estimates that if not for the expiration of the bonus depreciation provision, pre-tax corporate profits would rise only 8.0 percent in 2004-05.

[3] Nonagricultural employment, wage, and personal income numbers are based on CEW data.

[4] Series created by the Division of the Budget.

Source: Economy.com; NYS Department of Labor; DOB staff estimates.

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

Growth in All Funds tax receipts has been very volatile over the past three decades, reflecting both underlying economic conditions and significant changes in tax policy. The relatively small annual average growth in receipts during the 1990's was largely due to three factors: the severe economic downturn experienced in New York during the early 1990's, reduced inflation rates, and the significant tax reductions enacted over the 1995-2000 period. The decline in tax receipts for 2001-02 and estimated for 2002-03 is directly related to the adverse effects the of national economic recession, the decline in stock market values and the disproportionate impact of the World Trade Center disaster on the New York economy. The back-to-back decline in tax receipts is the first in many years, including the fiscally turbulent 1970's. It is estimated that receipts growth will remain weak in 2003-04 as the impacts of recession, the equity market decline, and the events of September 11 continue to adversely effect receipts. Growth is expected to return closer to historical averages as the economy revives in 2004-05 and 2005-06.

When receipts are adjusted for inflation, the impact of economic contractions becomes more apparent. There were significant consecutive declines in real receipts growth during the 1970's as New York suffered through the deep mid-1970's recession and the oil shocks of 1973 and 1980. The negative growth rates in the late 1980's and early 1990's reflect the 1990 economic recession and the large 1987 personal income tax cut. The growth declines in the mid-1990's are due to slow economic growth in 1994 and 1995 and the multi-year tax reduction program started in 1995. The real declines in receipts for 2001-02 and expected for 2002-03 are by far the most significant of the period and, again, reflect the impact of national recession, the deflation in stock values, and the adverse impact of September 11.

The series of charts in this section detail both the shift in tax shares over time between the major tax sources and the growth in receipts for a selected set of primary tax sources adjusted for inflation. The inflation-adjusted charts also provide timeline indicators for major tax law changes, economic downturns and the recent stock market boom all of which have impacted receipts growth over the past three decades.

PERSONAL INCOME TAX

The share of total tax receipts derived from the personal income tax has increased to historically high values in recent years, reaching 60 percent for the first time in 2000-01. It is estimated that the income tax share will decline as a percentage of All Fund tax receipts in 2002-03 and 2003-04 given the significant decline in receipts due to a depressed economy and a weak financial services sector.

By definition, the personal income tax is sensitive to changes in the income of State residents and non-residents who earn taxable income in New York. In recent years, growth in employment and rapid increases in the income of high-income individuals drove the income tax share upward, while the share of most other tax sources has declined. (See Economic Backdrop section.) This upward shift in share is expected to be reversed over the next few fiscal years as the income earned by high-income individuals in the form of bonuses, stock options, and taxable capital gains declined significantly in 2001 and 2002. Even as growth resumes in bonuses and capital gains, the income tax share of total taxes is expected to continue to decline modestly.

As can be seen in the accompanying chart and tables, during periods of economic recession, income tax collections either decline or increase at a low rate, while during periods of economic growth collections tend to increase more rapidly. Lowering tax rates tend to reduce growth in collections as can be seen during the tax cut programs of 1987-89 and 1995-97. The tax cuts of 1995-97 were followed by strong economic growth, partially the result of the Wall Street Boom, and net collections grew accordingly. Growth in the personal income tax averaged over 7.5 percent over the past three decades, but is expected to increase only by an average of 1 percent over the 2002-03 to 2005-06 period.

USER TAXES AND FEES

The user taxes and fees have declined as a share of total taxes since the early 1970's, reflecting, in part, that such taxes tend to be less sensitive to changes in the income of State residents than does the personal income tax. In addition, user taxes such as the taxes on cigarettes, motor fuel and alcoholic beverages are taxed at rates fixed in statute per quantity of the product consumed. These taxes are not very sensitive to overall price changes. As a result, during periods of economic expansion they tend to grow more slowly than other tax sources which include price increases in their base and they tend to decline less rapidly during economic downturns. Therefore, given the current economic forecast, it is expected that the share of taxes derived from user taxes and fees will increase modestly over the next two fiscal years.

In general for this category, periods with low- or negative-growth rates coincide with recessionary periods (1980-92, 1990-92, 2001-02) or the first year of the exemption on clothes and shoes. Higher growth rates are associated with periods of recovery or sustained economic growth. User tax and fee growth averaged 4.5 percent over the 1972-73 to 2001-02 period. For the 2003-04 Budget planning horizon, average growth of 3.8 percent is assumed.

BUSINESS TAXES AND OTHER TAXES

The business tax share of total taxes is very volatile, as a result of the significant variability of taxable business profits, but has declined in recent years due partially to reductions in tax rates and the base subject to tax. However, the volatility inherent in business taxes means that its share of total taxes can grow (decrease) above (below) average growth in an unpredictable manner.

The overall volatility of business tax collections is largely the result of intricacies of the tax law and timing issues associated with quarterly estimated payments made by business taxpayers. Although collections tend to decline during periods of recession, some of the most significant periods of quarterly growth occurred during the recession from 1990 to 1992. The growth during this period is largely explained by the imposition of a 15 percent business tax surcharge between 1990 and 1993. Additionally, collections display significant volatility during periods of consistent economic growth. Collections displayed almost no growth during the Wall Street Boom of the late 90's, which may be explained by aggressive tax planning by corporations given Federal law changes at both the Federal and State level. The graph also reveals that the impact of tax cuts and tax increases tends to have a lagged effect on collections growth. Business tax growth averaged over 5 percent for the past 30 years. The 2003-04 Budget assumes growth of 3.8 percent over the 2002-03 to 2005-06 time frame.

The share of other taxes have been dominated by the repeal of the real property gains tax and the gift tax, and the reduction in the pari-mutuel tax and the estate tax.

ALL FUNDS TAX RECEIPTS GROWTH
(millions of dollars)

Fiscal Year	All Funds Tax Receipts[1]	Percent Change	All Funds Inflation Adjusted[2]	Percent Change
1972-73	7,806.5		18,484.4	
1973-74	8,186.6	4.9	17,995.7	(2.6)
1974-75	8,662.8	5.8	17,109.0	(4.9)
1975-76	9,421.5	8.8	17,237.2	0.7
1976-77	10,347.7	9.8	17,915.6	3.9
1977-78	10,505.4	1.5	17,061.1	(4.8)
1978-79	11,153.9	6.2	16,701.7	(2.1)
1979-80	12,137.6	8.8	16,174.4	(3.2)
1980-81	13,496.0	11.2	15,951.2	(1.4)
1981-82	15,143.3	12.2	16,353.5	2.5
1982-83	16,025.0	5.8	16,455.6	0.6
1983-84	18,644.3	16.3	18,511.6	12.5
1984-85	20,391.8	9.4	19,445.4	5.0
1985-86	22,571.8	10.7	20,817.9	7.1
1986-87	24,358.3	7.9	22,093.7	6.1
1987-88	25,858.9	6.2	22,539.9	2.0
1988-89	26,261.7	1.6	21,951.9	(2.6)
1989-90	28,050.4	6.8	22,345.0	1.8
1990-91	27,818.2	(0.8)	21,019.9	(5.9)
1991-92	29,846.6	7.3	21,763.3	3.5
1992-93	31,661.2	6.1	22,390.0	2.9
1993-94	33,026.2	4.3	22,716.7	1.5
1994-95	33,050.3	0.1	22,141.7	(2.5)
1995-96	33,927.1	2.7	22,112.0	(0.1)
1996-97	34,620.3	2.0	21,911.6	(0.9)
1997-98	35,920.6	3.8	22,294.7	1.7
1998-99	38,494.6	7.2	23,514.2	5.5
1999-2000	41,389.2	7.5	24,648.6	4.8
2000-01	44,657.9	7.9	25,718.4	4.3
2001-02	42,474.6	(4.9)	23,915.9	(7.0)
2002-03*	39,987.9	(5.9)	22,080.4	(7.7)
2003-04**	40,968.5	2.5	22,082.1	0.0
2004-05**	43,038.3	5.1	22,628.0	2.5
2005-06**	45,428.3	5.6	23,275.1	2.9
Historical Average: 1973-74 to 2001-02		6.1		1.0
Historical Average: 1980-81 to 2001-02		6.0		1.9
Average Forecast 2002-03 to 2005-06		1.8		(0.6)

[1] Personal Income Tax defined as gross receipts less refunds — 2000-01 receipts reflect an adjustment for the timely payment of refunds.
[2] Receipts deflated by Consumer Price Index (CPI).
* Estimated.
** Projected.
Note: For law changes affecting amounts flowing into various funds, see individual sections.

MAJOR TAX GROUPS
(millions of dollars)

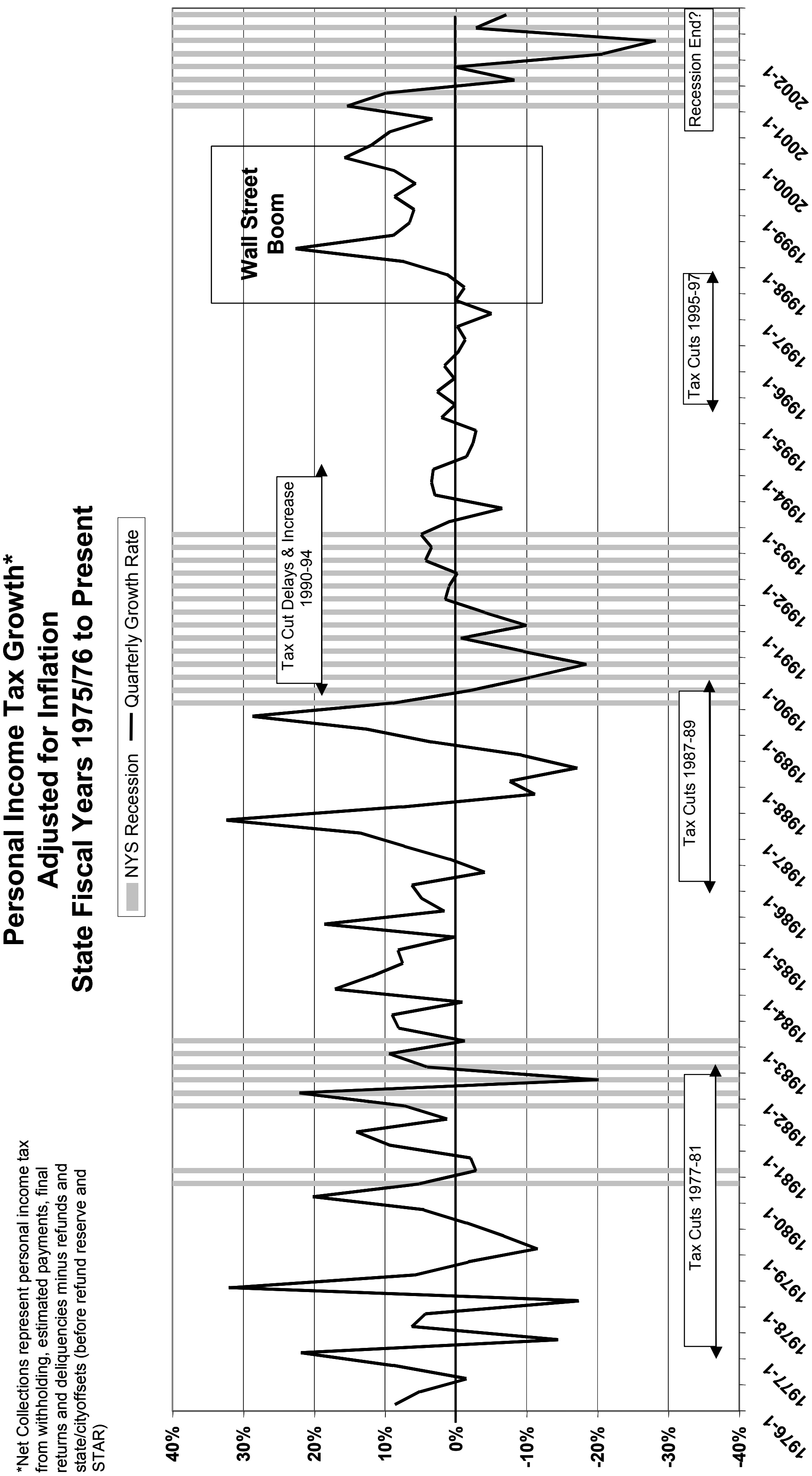
	State Funds Receipts Accounted for By:							
Fiscal Year	**Personal Income Tax[1]**	**Percent Change**	**User Taxes and Fees**	**Percent Change**	**Business Taxes**	**Percent Change**	**Other Taxes**	**Percent Change**
1972-73	3,211.9		2,978.7		1,282.6		333.3	
1973-74	3,432.0	6.9	3,137.9	5.3	1,296.1	1.1	320.6	(3.8)
1974-75	3,588.6	4.6	3,285.8	4.7	1,456.3	12.4	332.1	3.6
1975-76	3,948.8	10.0	3,437.8	4.6	1,699.0	16.7	335.9	1.1
1976-77	4,527.0	14.6	3,531.3	2.7	1,908.0	12.3	381.4	13.5
1977-78	4,506.2	(0.5)	3,710.2	5.1	1,998.8	4.8	290.2	(23.9)
1978-79	5,057.8	12.2	3,905.2	5.3	1,904.8	(4.7)	286.1	(1.4)
1979-80	5,780.0	14.3	4,129.6	5.7	1,973.3	3.6	254.7	(11.0)
1980-81	6,612.3	14.4	4,240.6	2.7	2,350.2	19.1	292.9	15.0
1981-82	8,034.0	21.5	4,434.8	4.6	2,392.1	1.8	282.4	(3.6)
1982-83	8,275.8	3.0	4,773.0	7.6	2,567.2	7.3	409.0	44.8
1983-84	9,374.0	13.3	5,476.4	14.7	3,203.9	24.8	590.0	44.3
1984-85	10,395.1	10.9	5,736.1	4.7	3,399.6	6.1	861.0	45.9
1985-86	11,582.3	11.4	6,319.4	10.2	3,606.1	6.1	1,064.0	23.6
1986-87	12,477.0	7.7	6,603.5	4.5	3,813.8	5.8	1,464.0	37.6
1987-88	13,569.3	8.8	7,071.9	7.1	3,923.5	2.9	1,294.2	(11.6)
1988-89	13,844.4	2.0	7,267.7	2.8	3,809.0	(2.9)	1,340.6	3.6
1989-90	15,301.0	10.5	7,857.5	8.1	3,725.8	(2.2)	1,166.1	(13.0)
1990-91	14,467.0	(5.5)	7,664.7	(2.5)	4,484.4	20.4	1,202.1	3.1
1991-92	14,942.6	3.3	8,093.4	5.6	5,699.0	27.1	1,111.6	(7.5)
1992-93	15,960.7	6.8	8,331.8	2.9	6,223.4	9.2	1,145.3	3.0
1993-94	16,502.0	3.4	8,597.6	3.2	6,798.3	9.2	1,128.3	(1.5)
1994-95	16,727.9	1.4	9,067.1	5.5	6,143.6	(9.6)	1,111.7	(1.5)
1995-96	17,398.5	4.0	9,152.7	0.9	6,240.1	1.6	1,135.8	2.2
1996-97	17,554.4	0.9	9,380.6	2.5	6,517.0	4.4	1,168.3	2.9
1997-98	18,289.0	4.2	9,722.4	3.6	6,585.6	1.1	1,323.6	13.3
1998-99	20,576.1	12.5	10,067.3	3.5	6,400.8	(2.8)	1,450.4	9.6
1999-2000	23,194.4	12.7	10,614.4	5.4	6,133.2	(4.2)	1,447.2	(0.2)
2000-01	26,942.5	16.2	10,669.5	0.5	5,846.2	(4.7)	1,199.7	(17.1)
2001-02	25,573.7	(5.1)	10,542.8	(1.2)	5,184.8	(11.3)	1,173.3	(2.2)
2002-03*	22,905.0	(10.4)	10,787.3	2.3	5,086.0	(1.9)	1,209.6	3.1
2003-04**	23,095.0	0.8	11,461.9	6.3	5,236.0	2.9	1,175.6	(2.8)
2004-05**	24,490.0	6.0	11,915.5	4.0	5,425.0	3.6	1,207.8	2.7
2005-06**	26,320.0	7.5	12,237.8	2.7	5,579.0	2.8	1,291.5	6.9
Historical Average: 1973-74 to 2001-02		7.6		4.5		5.3		5.8
Historical Average: 1980-81 to 2001-02		7.2		4.4		5.0		8.7
Average Forecast 2002-03 to 2005-06		1.0		3.8		1.9		2.5

[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 sections.

ALL FUNDS TAX RECEIPTS SHARES

	Percent of All State Funds Receipts Accounted for By:			
Fiscal Year	**Personal Income Tax[1]**	**User Taxes and Fees**	**Business Taxes**	**Other Taxes**
1972-73	41.1	38.2	16.4	4.3
1973-74	41.9	38.3	15.8	3.9
1974-75	41.4	37.9	16.8	3.8
1975-76	41.9	36.5	18.0	3.6
1976-77	43.7	34.1	18.4	3.7
1977-78	42.9	35.3	19.0	2.8
1978-79	45.3	35.0	17.1	2.6
1979-80	47.6	34.0	16.3	2.1
1980-81	49.0	31.4	17.4	2.2
1981-82	53.1	29.3	15.8	1.9
1982-83	51.6	29.8	16.0	2.6
1983-84	50.3	29.4	17.2	3.2
1984-85	51.0	28.1	16.7	4.2
1985-86	51.3	28.0	16.0	4.7
1986-87	51.2	27.1	15.7	6.0
1987-88	52.5	27.3	15.2	5.0
1988-89	52.7	27.7	14.5	5.1
1989-90	54.5	28.0	13.3	4.2
1990-91	52.0	27.6	16.1	4.3
1991-92	50.1	27.1	19.1	3.7
1992-93	50.4	26.3	19.7	3.6
1993-94	50.0	26.0	20.6	3.4
1994-95	50.6	27.4	18.6	3.4
1995-96	51.3	27.0	18.4	3.3
1996-97	50.7	27.1	18.8	3.4
1997-98	50.9	27.1	18.3	3.7
1998-99	53.5	26.2	16.6	3.8
1999-2000	56.0	25.6	14.8	3.5
2000-01	60.3	23.9	13.1	2.7
2001-02	60.2	24.8	12.2	2.8
2002-03*	57.3	27.0	12.7	3.0
2003-04**	56.4	28.0	12.7	2.8
2004-05**	56.9	27.7	12.6	2.8
2005-06**	57.9	26.9	12.3	2.8
Historical Average 1986-87 to 2001-02	50.0	29.7	16.7	3.6
Forecast Average 2002-03 to 2005-06	57.1	27.4	12.6	2.9

[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 sections.


Personal Income Tax Growth*
Adjusted for Inflation
State Fiscal Years 1975/76 to Present
NYS Recession
Quarterly Growth Rate
*Net Collections represent personal income tax from withholding, estimated payments, final returns and deliquencies minus refunds and state/cityoffsets (before refund reserve and STAR)
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
1976-1
1977-1
1978-1
1979-1
1980-1
1981-1
1982-1
1983-1
1984-1
1985-1
1986-1
1987-1
1988-1
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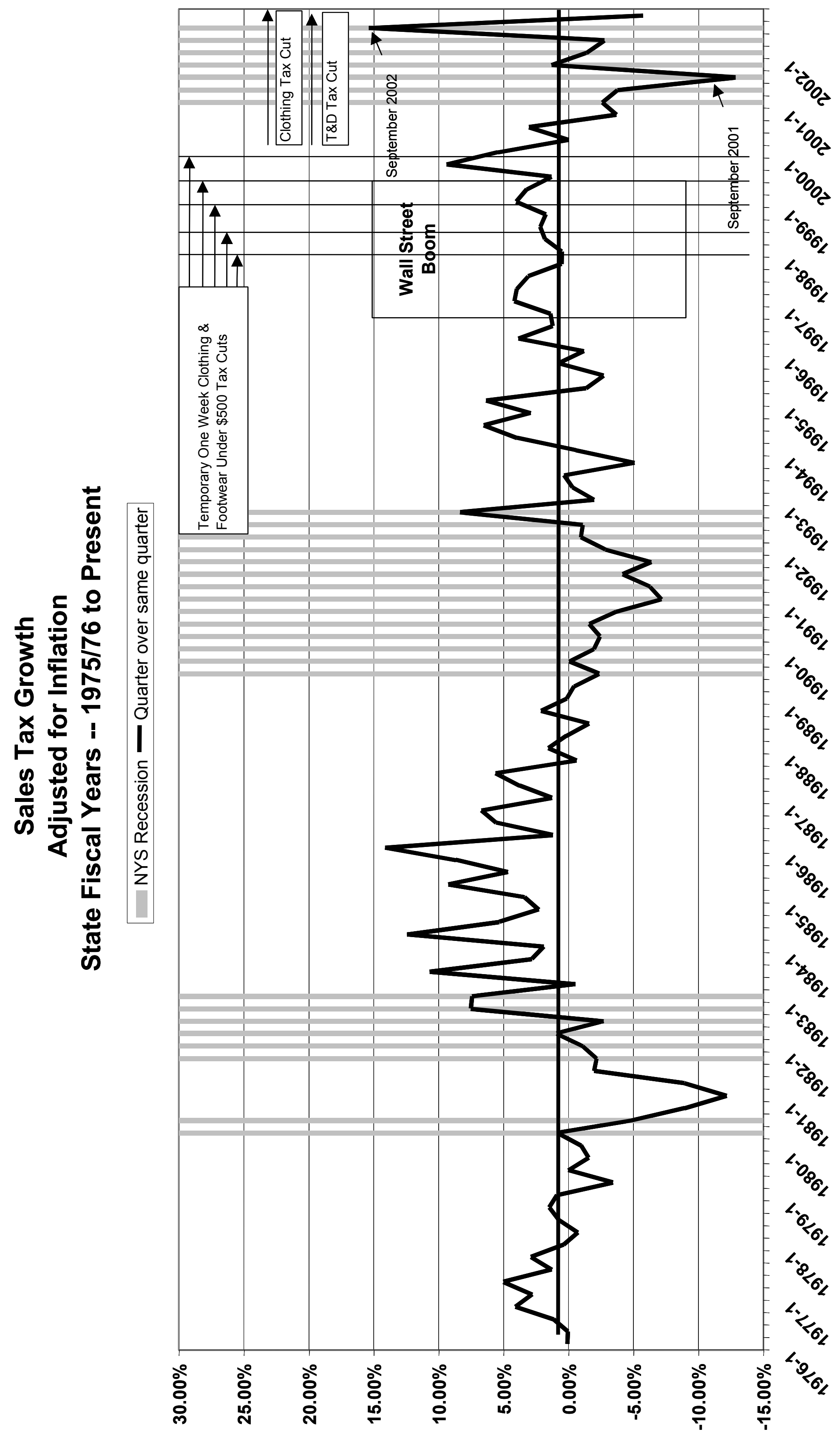
1993-1
1994-1
1995-1
1996-1
1997-1
1998-1
1999-1
2000-1
2001-1
2002-1
Tax Cuts 1977-81
Tax Cuts 1987-89
Tax Cut Delays & Increase 1990-94
Tax Cuts 1995-97
Wall Street Boom
Recession End?


Sales Tax Growth
Adjusted for Inflation
State Fiscal Years -- 1975/76 to Present
NYS Recession
Quarter over same quarter
Temporary One Week Clothing & Footwear Under $500 Tax Cuts
Wall Street Boom
September 2002
September 2001
Clothing Tax Cut
T&D Tax Cut
30.00%
25.00%
20.00%
15.00%
10.00%
5.00%
0.00%
-5.00%
-10.00%
-15.00%
1976-1
1977-1
1978-1
1979-1
1980-1
1981-1
1982-1
1983-1
1984-1
1985-1
1986-1
1987-1
1988-1
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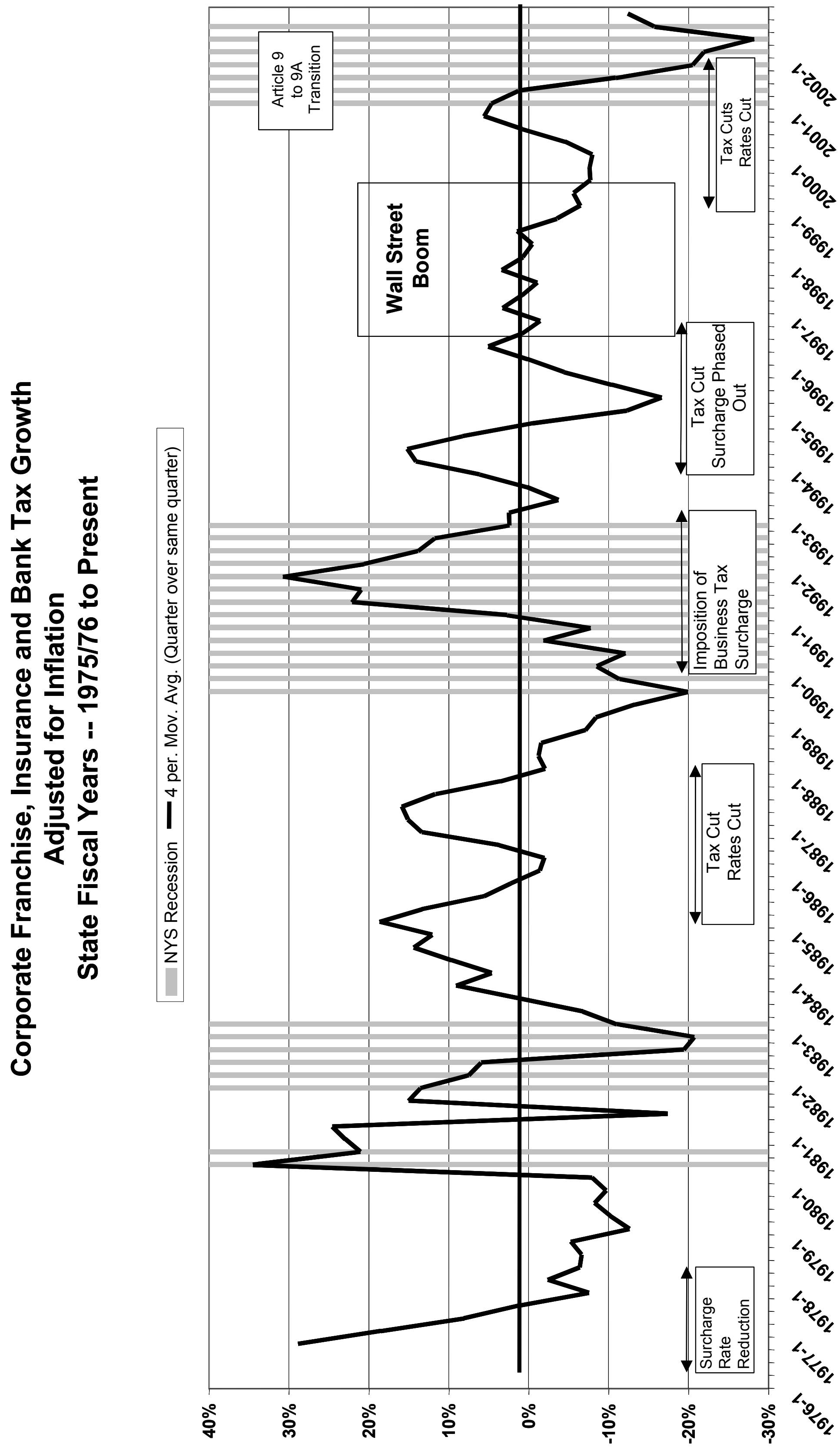
2001-1
2002-1


Corporate Franchise, Insurance and Bank Tax Growth
Adjusted for Inflation
State Fiscal Years -- 1975/76 to Present
NYS Recession
4 per. Mov. Avg. (Quarter over same quarter)
Surcharge Rate Reduction
Tax Cut Rates Cut
Imposition of Business Tax Surcharge
Tax Cut Surcharge Phased Out
Wall Street Boom
Tax Cuts Rates Cut
Article 9 to 9A Transition
40%
30%
20%
10%
0%
-10%
-20%
-30%
1976-1
1977-1
1978-1
1979-1
1980-1
1981-1
1982-1
1983-1
1984-1
1985-1
1986-1
1987-1
1988-1
1989-1
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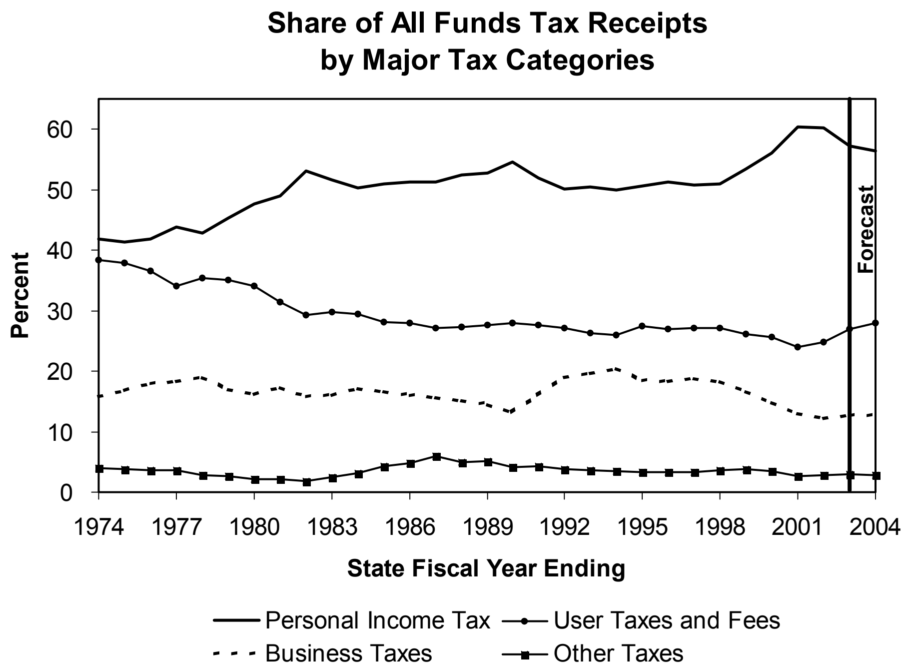
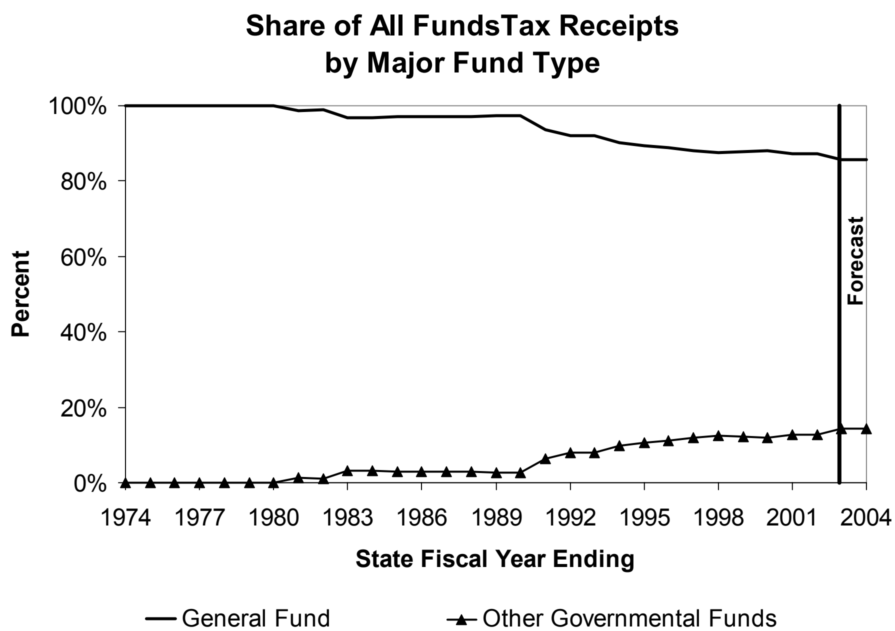
2000-1
2001-1
2002-1


Share of All Funds Tax Receipts
by Major Tax Categories
Percent
60
50
40
30
20
10
0
Forecast
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
State Fiscal Year Ending
Personal Income Tax
User Taxes and Fees
Business Taxes
Other Taxes


Share of All FundsTax Receipts
by Major Fund Type
Percent
100%
80%
60%
40%
20%
0%
Forecast
1974
1977
1980
1983
1986
1989
1992
1995
1998
2001
2004
State Fiscal Year Ending
General Fund
Other Governmental Funds

BASE GROWTH

All Funds receipts can be adjusted for the estimated value of tax policy and administrative changes to obtain an approximate base receipts series. The accompanying table reports growth in estimated base receipts compared to growth in actual receipts. Growth in base receipts is higher than for actual receipts in most years reflecting the impact of tax reductions in lowering actual receipts growth. The impact of the Wall Street boom on receipts growth in the late 1990's and into 2000-01 is much more evident in base growth. This is as expected given the fact that tax cuts enacted over the 1995-2000 period have reduced actual revenue growth substantially.

GOVERNMENTAL FUNDS
ACTUAL AND BASE TAX RECEIPTS GROWTH
(percent change)

Fiscal Year	Actual Receipts	Base Receipts
1986-87		
1987-88	6.16	6.44
1988-89	1.56	2.93
1989-90	6.78	8.29
1990-91	(0.75)	(3.78)
1991-92	7.25	1.40
1992-93	6.08	4.91
1993-94	4.31	4.23
1994-95	0.07	1.76
1995-96	2.65	3.66
1996-97	2.04	3.66
1997-98	3.75	4.73
1998-99	7.17	8.41
1999-2000	7.52	9.25
2000-01	7.90	11.50
2001-02	(4.89)	(3.83)
2002-03*	(5.85)	(5.09)
2003-04**	2.45	4.09
2004-05**	5.05	5.87
2005-06**	5.55	5.43
Historical Average 1986-87 to 2001-02	3.84	4.24
Forecast Average 2002-03 to 2005-06	1.80	2.58

* Estimated.
** Projected.
Notes:
Taxes only.
PIT is gross receipts less refunds.
Base receipts are actual receipts adjusted for incremental changes in taxes due to tax or administrative actions.

CASH FLOW

The following table reports monthly cash flow for General Fund taxes and miscellaneous receipts for 2003-04. The table highlights the impact of STAR, refund reserve, and revenue bond fund transactions on General Fund cash flow. For personal income and business tax collections, there is a pronounced quarterly pattern given that estimated payments on liability are due at calendar year quarter intervals for many large taxpayers. Sales tax collections also display quarterly peaks due to requirements that certain taxpayers with tax liability below $300,000 per quarter file on a quarterly basis. The monthly estimates for 2003-04 are consistent with monthly average shares from prior years adjusted for any proposed law changes that would impact normal cash flow.

In the personal income tax, withholding tax patterns are derived from quarterly wage forecasts. In addition, personal income tax net receipts reflect several other patterns: large tax settlement payments in April; high levels of refund payments in the February through May period; high withholding tax collections reflecting bonus payments in December through February; and STAR deposits primarily in the September through December period.

General Fund 2003-04 Cash Flow Estimate
(millions of dollars)

Revenue Sources	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	12 Month Total
Personal income tax	2,541.0	349.0	1,600.0	1,165.0	1,106.0	1,530.0	1,192.0	922.0	178.0	2,786.0	1,338.0	543.0	15,250.0
Gross receipts	3,870.0	1,586.0	2,352.0	1,664.0	1,576.0	2,327.0	1,726.0	1,604.0	2,667.0	3,730.0	2,173.0	2,175.0	27,450.0
Refunds	(1,052.4)	(1,120.0)	(219.0)	(110.0)	(101.0)	(107.0)	(92.0)	(269.0)	(231.0)	(16.0)	(390.0)	(647.6)	(4,355.0)
Refund reserve	427.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(468.4)	(41.0)
STAR	0.0	0.0	0.0	0.0	0.0	(180.0)	(44.0)	(105.0)	(2,198.0)	0.0	0.0	(180.0)	(2,707.0)
Debt Service Funds	(704.0)	(117.0)	(533.0)	(389.0)	(369.0)	(510.0)	(398.0)	(308.0)	(60.0)	(928.0)	(445.0)	(336.0)	(5,097.0)
User taxes and fees	554.0	516.1	781.4	539.2	582.6	784.7	583.4	582.0	786.0	583.1	483.6	731.5	7,507.6
Sales and use tax	483.5	458.5	720.3	474.2	516.4	718.7	517.5	521.0	726.5	516.3	431.6	680.4	6,764.9
Cigarette and tobacco taxes	44.0	33.2	37.3	38.4	41.2	39.8	42.6	35.7	35.2	36.8	31.4	30.3	445.9
Motor vehicle fees	6.2	6.5	6.3	6.1	6.3	5.9	6.3	6.0	5.7	6.4	6.2	6.8	74.7
Alcoholic beverage tax	17.0	14.5	14.5	17.0	14.3	16.1	13.2	16.0	15.4	19.7	11.2	10.9	179.8
ABC license fees	3.3	3.4	3.0	3.5	4.4	4.2	3.8	3.3	3.2	3.9	3.2	3.1	42.3
Auto rental tax	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Business taxes	64.8	12.5	788.6	41.5	35.6	813.6	32.2	(1.0)	800.6	40.3	19.3	1,034.0	3,682.0
Corporation franchise tax	48.1	15.5	286.7	34.1	27.2	328.7	25.2	5.3	311.8	28.0	14.3	466.1	1,591.0
Corporation and utilities	2.6	0.2	187.7	2.9	2.5	194.0	(8.7)	3.2	205.7	(0.9)	2.1	213.7	805.0
Insurance taxes	3.1	1.9	184.6	(0.4)	5.4	189.2	6.5	(3.9)	186.7	9.8	5.8	229.3	818.0
Bank tax	11.0	(5.1)	129.6	4.9	0.5	101.7	9.2	(5.6)	96.4	3.4	(2.9)	124.9	468.0
Petroleum business taxes	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Other taxes	60.0	66.3	71.7	65.8	70.3	67.5	54.8	58.7	61.6	63.1	68.4	63.0	771.2
Real property gains tax	0.1	0.2	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1	0.2	2.1
Estate and gift taxes	58.0	63.5	68.2	62.9	66.3	63.7	52.1	56.0	59.2	60.9	65.9	60.0	736.7
Pari-mutuel tax	1.8	2.6	3.3	2.7	3.7	3.5	2.5	2.5	2.1	2.0	2.3	2.7	31.7
Other taxes	0.1	0.0	0.1	0.0	0.1	0.1	0.0	0.0	0.1	0.0	0.1	0.1	0.7
Total taxes	3,219.8	943.9	3,241.7	1,811.5	1,794.5	3,195.8	1,862.4	1,561.7	1,826.2	3,472.5	1,909.3	2,371.5	27,210.8

SUMMARY OF STATE TAX REDUCTION PROGRAM

Since 1995-96, a multi-year tax reduction program has significantly reduced tax burdens at the State level. The accompanying table reports the tax reductions by tax type and year. In 2003-04, the annual value of the tax reduction program is estimated to total over $13.5 billion.

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	556.0	2,796.0	4,484.0	4,780.0	5,333.0	5,570.0	5,126.1	5,319.1	6,030.1
User Taxes and Fees	**130.0**	**210.6**	**268.6**	**388.9**	**560.0**	**1,103.8**	**1,213.1**	**1,223.9**	**900.5**
Sales and use tax	22.4	44.9	101.5	154.1	243.6	782.5	871.0	880.5	547.4
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	17.6	17.6	18.6
Motor vehicle fees	0.0	0.0	0.0	49.3	69.7	69.5	75.4	73.6	74.9
Highway use tax	19.9	34.6	33.4	38.7	73.1	75.4	85.2	87.6	90.8
Alcoholic beverage tax	3.2	17.4	17.1	18.0	24.6	25.5	28.3	28.2	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**	**1,599.4**	**2,097.3**	**2,426.4**	**2,724.7**	**3,042.8**
Corporation franchise tax	317.9	423.9	472.2	496.5	682.0	524.4	836.7	957.0	1,053.3
Corporation and utilities tax	179.6	248.8	285.1	304.5	459.4	1,093.4	1,024.2	1,127.6	1,289.9
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	235.2	235.7	244.9	248.4	251.9
Other Taxes	**53.0**	**182.8**	**178.9**	**322.3**	**317.9**	**582.9**	**785.6**	**823.9**	**851.4**
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	1.3	0.8
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	**1,437.7**	**4,215.9**	**6,114.2**	**6,730.6**	**7,810.3**	**9,354.0**	**9,551.2**	**10,091.6**	**10,824.8**
STAR	0.0	0.0	0.0	582.2	1,194.6	1,876.5	2,510.1	2,667.0	2,707.0
Grand Total	**1,437.7**	**4,215.9**	**6,114.2**	**7,312.8**	**9,004.9**	**11,230.5**	**12,061.3**	**12,758.6**	**13,531.8**

REVENUE ACTIONS

The 2003-04 Budget includes $1.3 billion in All Funds revenue actions necessary for Financial Plan balance. The accompanying table summarizes the revenue proposals by type of action required (legislative or administrative) and provides a short description of the proposal, the Fund type where revenue will be deposited, the last time an action was taken in an area and the incremental revenue gain from the proposed action.

FEE AND REVENUE ACTIONS LIST

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2003-04 (000)	New Full Annual Revenue (000)
I. ADMINISTRATIVE							
ABC	Increase penal bonds-10/1/03	GFMR	$1,000	$2,500	1967	$500	$1,000
CPB	Increase the Do Not Call registry fee - 2/1/04	SFMR	$800	TBD** during rule making	2002	$0	$700
DCJS	Increase the Unified Court System's data processing fee for criminal history searches - 10/1/03	SFMR	$16	$43	1991	$9,450	$18,900
DEC	Increase current user fees - 4/1/03	SFMR	Various	Various	1994	$500	$500
DMV	Increase photo ID fee - 4/1/03	SFMR	$3	$5	1997	$10,000	$10,000
HESC	Increase administrative fee for College Choice Tuition Savings Program - 4/1/03	SFMR	0.60%	0.65%	2002	$718	$718
Ins	Impose assessment to offset costs of disaster preparedness unit - 4/1/03	SFMR	Assessment finances Ins. Dept's costs	Increase assessment to finance new costs	NA	$2,081	$3,000
Ins	Impose assessment to offset costs of fraud proof prescription program - 4/1/03	SFMR	Assessment finances Ins. Dept's costs	Increase assessment to finance new costs	NA	$10,000	$10,000
Ins	Impose assessment to offset costs of immunization program - 4/1/03	SFMR	Assessment finances Ins. Dept's costs	Increase assessment to finance new costs	NA	$8,000	$8,000
Ins	Impose assessment to offset costs of newborn screening - 4/1/03	SFMR	Assessment finances Ins. Dept's costs	Increase assessment to finance new costs	NA	$6,000	$6,000
Ins	Impose assessment to offset costs of Center for Community Health screening and wellness programs - 4/1/03	SFMR	Assessment finances Ins. Dept's costs	Increase assessment to finance new costs	NA	$10,000	$10,000

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2003-04	New Full Annual Revenue
						(000)	(000)
Parks	Increase current user fees at 130 State facilities - 4/1/03	SFMR	Various	Various	1994	$2,500	$2,500
				Administrative Actions Subtotals		**$59,749**	**$71,318**
II. STATUTORY							
Ag&Mkts	Establish new biennial fee on unregistered/ unlicensed retail stores, food ware-houses, feed mills - 4/1/03	SFMR	None	$200 for food ware-houses; $100 for other	New	$342	$342
Ag&Mkts	Establish new annual fee for certificates of free sale - 4/1/03	SFMR	None	$25 per certificate	New	$65	$65
Ag&Mkts	Increase biennial fees for slaughterhouses, refrigerated ware-houses, food salvage facilities - 4/1/03	SFMR	$20-$100	$200	1988	$19	$19
Ag&Mkts	Increase biennial fees for Nursery Dealers and Nursery Growers - 4/1/03	SFMR	$20-$40	$100	1992	$254	$254
CVB	Increase Crime Victims Assistance fee - 10/1/03	SFMR	$10	$20	2000	$780	$1,560
CVB	Impose Crime Victims Assistance fee on V&T offenses - 10/1/03	SFMR	None	$5	New	$4,045	$8,090
CVB	Increase mandatory surcharges on penal law convictions by 25%-50% - 10/1/03	SFMR	$200/$110/ $50	$250/$140/ $75	2000	$1,950	$3,900
CVB	Increase mandatory surcharges on V&T convictions by 25%-50% - 10/1/03	SFMR	$200/$110/ $30/$20	$250/$140/ $45/$25	2000	$1,525	$3,050
DCJS	Increase mandatory surcharges on V&T felonies, misde-meanors, violations, & equipment - 10/1/03	SFMR	Felonies: $200 Misdemean: $110 Violations: $30 Equipment: $20	Felonies: $250 Misdemean: $140 Violations: $45 Equipment: $25	2000	$11,850	$23,700
DCJS	Increase attorney registration biennial fee - 10/1/03	SFMR	$300	$350	1991	$2,000	$4,000
DCJS	Impose $35 surcharge on driver's license reinstatement - 10/1/03	SFMR	None	$35	New	$8,950	$17,900

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2003-04	New Full Annual Revenue
						(000)	(000)
DCJS	Require holders of HAZMAT license endorsement to undergo criminal background check - 4/1/03	GFMR	None	$75	New	$2,000	$2,000
DCJS	Require sex offenders to pay a DNA data-bank fee, a sex offender registration fee, and a sex offender registration change fee - 4/1/03	GFMR	None	$50/$50/ $10	New	$800	$800
DCJS	Raise fingerprinting fee - 4/1/03	SFMR	$50	$75	1996	$9,900	$9,900
DEC	Impose fee on new tire sales - 10/1/03	GFMR	None	$2.25 per tire sold	N/A	$22,500	$45,000
DEC	Increase Oil and Gas Depth fees - 4/1/03	GFMR	Varies by depth	Double	1987	$200	$200
DEC	Increase by 25% fee charged per industrial facility permitted to discharge pollutants into NYS waters - 4/1/03	SFMR	$375 to $37,500	$475 to $47,000	1989	$1,000	$1,000
DEC	Increase by 25% fee charged per power plant permitted to discharge pollutants into NYS waters - 4/1/03	SFMR	$40,000	$50,000	1989	$500	$500
DEC	Increase fees for mining permits - 4/1/03	SFMR	$1,200 to $2,000 per acre	$1,500 to $4,000 per acre	1991	$750	$750
DMNA	Increase annual fee paid by nuclear generating facility operators - 4/1/03	SFMR	$550,000 for each reactor	$950,000 for each reactor	1994	$2,400	$2,400
DMV	Increase certificate of vehicle sale fee - 10/1/03	GFTX/ CFMR	$1	$5	1993	$6,000	$12,000
DMV	Increase data search fee by $1 - 10/1/03	GFMR/ CFMR	$5 manual $4 electronic	$6 manual $5 electronic	1991	$5,500	$11,000
DMV	Increase original title application fee - 10/1/03	GFTX/ CFMR	$5	$10	1989	$7,338	$14,675
DMV	Increase emissions sticker fee - 10/103	SFMR	$2	$4	1993	$8,000	$16,000
DOB	Increase cost recovery assess-ments' cap- 4/1/03	GFMR/ SFMR	$20 million	$40 million	1989	$15,000	$15,000
DOCS	Increase charge for license plates - 4/1/03	GFTX	$5.50	$15	1992	$21,700	$21,700

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2003-04	New Full Annual Revenue
						(000)	(000)
DOH-Medical Asst	Reestablish a temporary .7% non-reimbursable assessment on hospital revenues - 4/1/03	SFMR	None	.7% of gross revenues	Phased-out in 1999	$190,200	Reduce by 25% each year and phase-out by 2007
DOH-Medical Asst	Reestablish a temporary .6% assessment on home care services revenues - 4/1/03	SFMR	None	.6% of gross revenues	Phased-out in 1999	$17,000	Reduce by 25% each year and phase-out by 2007
DOH - Other	Increase vital records fee - 4/1/03	SFMR	$15	$30	1989	$1,680	$2,388
DOH - Other	Increase EPIC rates and deductibles by 10% - 4/1/03	SFMR	Various	Various	2001	$1,500	$1,500
DOH - Other	Increase covered lives assessment in HCRA - 1/1/04	Non-State Fund	$690 million	$725 million	2002	$35,000	$35,000
DOH - Other	Increase HCRA surcharges - 7/1/03	Non-State Fund	$8.18 Private payors $5.98 Medicaid payors	$8.85 Private payors $6.47 Medicaid payors	1996	$20,000	$80,000
DOT	Increase heavyweight “killer truck” fine schedule by average of $500 - 10/1/03	GFMR	Various	Average increase of $500	1985	$1,500	$3,000
DOT	Revise and expand the heavyweight truck permit program - 10/1/03	CFMR	Varies	No increase in fees, but increase in number of statutory permits allowed	NA	$750	$1,500
DSP	Raise vehicle insurance fee - 4/1/03	SFMR	$1	$5	1992	$42,700	$51,300
Judiciary	Increase parking surcharges - 10/1/03	GFMR	$5	$15	1991	$16,000	$32,000
Judiciary	Impose an Appellate Court motion fee - 10/1/03	GFMR	None	$35	New	$630	$1,260
Judiciary	Increase all civil courts fee by 25% - 10/1/03	GFMR	Various	Various	1990	$18,150	$36,300
Judiciary	Impose a $25 surcharge on DWI or DWAI convictions - 10/1/03	GFMR	None	$25	New	$500	$1,000
Judiciary	Impose a $35 motion fee on Supreme/County courts - 10/1/03	GFMR	None	$35	New	$4,200	$8,400
Law	Increase fee for broker/dealer statements - 4/1/03	SFMR	$20 to $800	$30 to $1,200	1989	$2,000	$2,000

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2003-04	New Full Annual Revenue
						(000)	(000)
Law	Increase fee for real estate syndication offerings - 4/1/03	SFMR	$500 to $20,000	$750 to $20,000	1989	$1,000	$1,000
ORPS	Increase the fee on real property transfers - 4/1/03	SFMR	$25	$50	1991	$9,600	$9,600
OSC	Increase criminal fines deposited into the Justice Court Fund - 4/1/03	GFMR	Varies from $100 to $1,500	Varies from $150 to $2,250	1989	$6,250	$12,500
OSC	Reduce dormancy period of uncashed checks from three years to one year - 4/1/03	GFMR	NA	NA		$38,000	0; acceleration
Parks	Double boat registration fees - 9/1/03	GFTX	$9 to $30 per boat	$18 to $60 per boat	1987	$1,300	$2,700
R&W	Assess .5% fee on annual racing handle (total amount wagered) to support regulatory activities - 4/1/03	SFMR	$0	.5% of total wagered	New	$16,000	$16,000
SED	Cap STAR savings for non-seniors at 2002-03 levels - 4/1/03	GFTX/ SFTX	NA	Cap at 2002-03 benefit	2002	$93,000	$0
TSC Lobbying	Double annual lobbyist registration fees - 4/1/03	GFMR	$50	$100-2004 $200-2005 biennially thereafter	1983	$200	$200
					Statutory Actions - Subtotal	**$652,528**	**$513,453**
					ADMINISTRATIVE AND STATUTORY - GRAND TOTAL	**$712,277**	**$584,771**

III. OTHER REVENUE ACTIONS

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2003-04	New Full Annual Revenue
Labor	Impose interest assessment on employer unemployment insurance taxes - 4/1/03	SFTX	None	Varies: Average of $1.80 per employee	NA	$22,000	TBD**
T&F	Replace current clothing sales tax exemption with four one-week exempt periods - 6/1/03	GFTX/ DFTX	Clothing items costing less than $110 are exempt all year	Clothing items costing less than $500 would be exempt for four one-week periods	2000	$363,400	$418,900

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2003-04	New Full Annual Revenue
						(000)	(000)
T&F	Eliminate the income base and other non-premium bases other than the fixed dollar minimum; raise the premiums' tax base to 2% of premiums - 1/1/03	GFTX/ SFTX	Percent of premiums: Life & Health 0.7% Accident & Health 1.0% Property & Casualty 1.3%	Percent of premiums: 2% all insurers	1999	$158,000	$160,000
T&F	Increase limited liability company filing fee - 1/1/03	GFTX/ DFTX	$50 per partner	$100 per partner	1995	$25,000	$25,000
T&F	Initiate withholding for nonresident partnership - 7/1/03	GFTX/ DFTX	No withholding	Implement withholding	NA	$15,000	$25,000
T&F	Decouple from Federal expensing for certain SUV's - 1/1/04	GFTX/ DFTX	Expense full amount in first year	Use regular depreciation	NA	$0	$2,000
					Other Revenue Actions - Subtotal	**$583,400**	**$630,900**
					ALL FEE AND REVENUE ACTIONS - GRAND TOTAL	**$1,295,677**	**$1,215,671**

Key:

CF = Capital Projects Fund
DF = Debt Service Funds
GF = General Fund
MR = Miscellaneous Receipts
SF = Special Revenue Funds
TX = Tax
* Key to Agency abbreviations in Appendix I
**TBD - To be determined

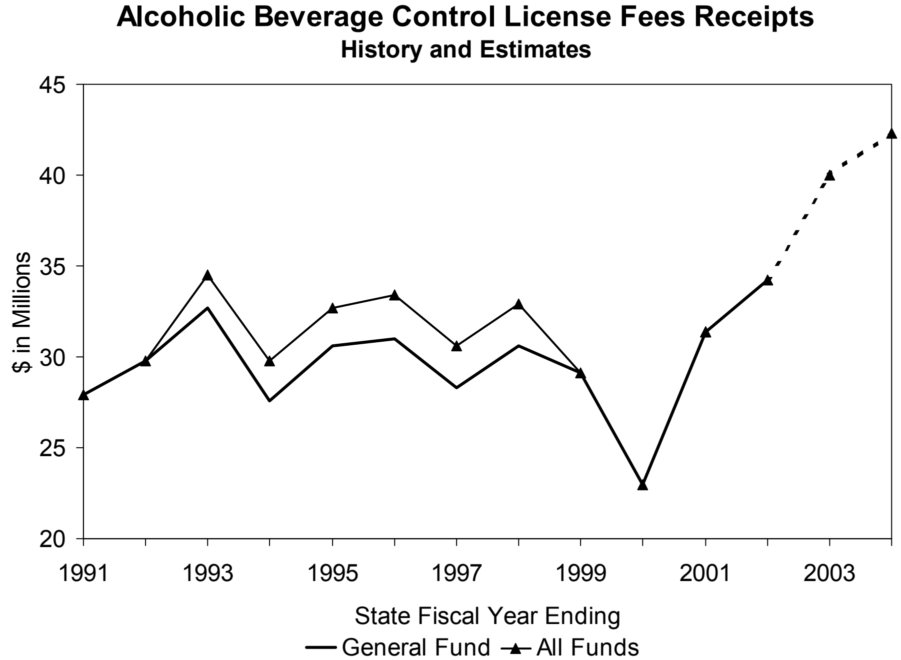
DEDICATED FUND TAX RECEIPTS

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)

	2001-02 Actual	2002-03 Estimate	2003-04 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal income tax	1,310.1	2,667.0	2,707.0
Dedicated Mass Transportation Trust Fund	414.7	482.4	533.0
Petroleum business tax	325.1	336.0	325.4
Motor fuel tax	61.8	68.5	112.5
Motor vehicle fees	27.8	77.9	95.1
Mass Trans. Operating Assistance Fund	1,054.7	1,027.8	1,067.8
Corporate Surcharges			
Corporation franchise tax	187.6	199.0	205.0
Corporation and utilities tax	162.8	122.0	105.0
Insurance tax	63.2	67.0	85.0
Bank tax	69.8	69.0	75.0
Other			
Sales and use tax	364.7	371.9	393.3
Petroleum business tax	123.7	125.9	121.5
Corporation and utilities — sections 183 & 184	82.9	73.0	83.0
Total Tax Receipts: Special Revenue Funds	2,779.5	4,177.2	4,307.8
DEBT SERVICE FUNDS			
Debt Reduction Reserve Fund			
Personal income tax	250.0	0.0	0.0
Revenue Bond Tax Fund			
Personal income tax	0.0	4,306.0	5,097.0
Emergency Highway Reconditioning and Preservation Fund			
Motor fuel tax	53.5	58.6	0.0
Emergency Highway Construction and Reconstruction Fund			
Motor fuel tax	53.5	58.4	0.0
Clean Water/Clean Air Fund			
Real estate transfer tax	258.6	336.8	292.4
Local Government Assistance Tax Fund			
Sales and use tax	2,043.7	2,098.3	2,254.4
Total Tax Receipts – Debt Service Funds	2,659.3	6,858.1	7,643.8
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,393.1	1,573.8	1,653.1
Petroleum business taxes	553.6	572.1	554.1
Motor fuel tax	320.6	349.3	424.8
Motor vehicle fees	370.6	465.0	481.5
Highway use tax	148.3	146.1	149.0
Transmission tax	0.0	0.0	0.0
Auto rental tax	0.0	41.3	43.7
Environmental Protection Fund			
Real estate transfer tax	112.0	112.0	112.0
Total Tax Receipts – Capital Projects Funds	1,505.1	1,685.8	1,765.1
Total Tax Receipts – Other Funds	**6,943.9**	**12,721.1**	**13,716.7**

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES



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 on the type and location of the establishment or premises operated, as well as on 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 about 26,500 bars and restaurants that offer on-premise consumption. The majority of State-licensed bars and restaurants (20,545 in 2001) are authorized to sell beer, wine, and liquor. Approximately 4,000 licensees are permitted to sell only beer and wine. The remaining 1,942 licensees in 2001 sold only beer. In addition, there were 19,000 grocery stores licensed to sell beer for off-premise consumption and 1,200 alcoholic beverage wholesalers. Finally, the remaining licenses, (not shown below) which account for roughly 6 percent of revenue, are made up of specialty and seasonal licenses (e.g. veterans' clubs, seasonal tour boats, etc.).

NUMBER OF LICENSES BY CATEGORY
(calendar year)

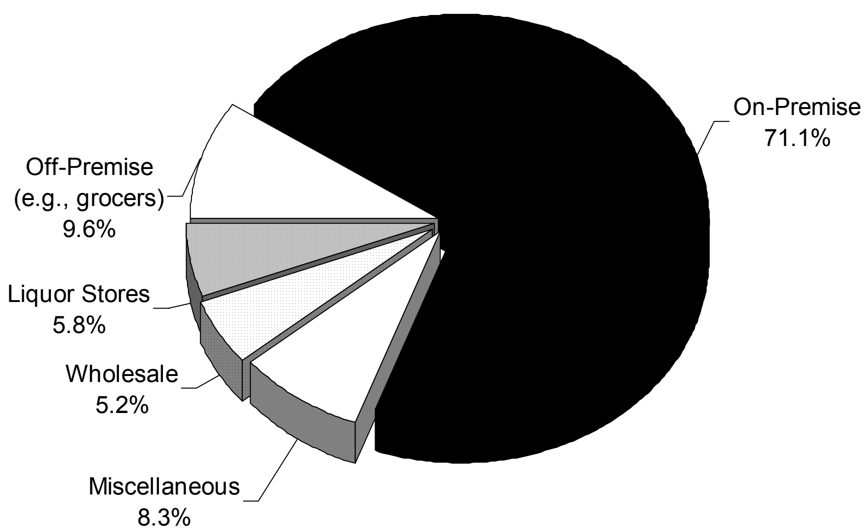
	Liquor Stores	Bars and Restaurants: Beer, Wine and Liquor	Beer and Wine	Beer Only	Subtotal	Grocery Stores	Wholesale	Total
1994	2,836	20,030	3,177	1,796	25,003	19,656	1,048	48,543
1995	2,753	19,831	3,372	1,763	24,966	19,768	1,057	48,544
1996	2,673	19,782	3,497	1,838	25,117	19,743	1,074	48,607
1997	2,621	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	1,883	25,848	19,202	1,031	48,587
2000	2,491	20,694	3,748	1,877	26,319	19,167	1,201	49,178
2001	2,482	20,545	3,991	1,942	26,478	18,994	1,181	49,135

SIGNIFICANT LEGISLATION

The following table summarizes the major alcoholic beverage license fees legislation enacted since 1994.

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
Legislation Enacted in 2002		
Fee Increases	License fees for most licensees increased by 28 percent.	September 1, 2002

Alcoholic Beverage Control License Fees
Share of 2002 Receipts by Licensee Category



2002-03 RECEIPTS

All Funds alcoholic beverage control license fee receipts to date are $28.8 million, 9.9 percent greater than receipts for the comparable period in 2001-02.

Compared to 2001-02, gross alcoholic beverage control license fee All Funds receipts are estimated to increase $5.8 million, or 17 percent, due primarily to the fee increases included in the 2002-03 Enacted Budget, which increased most fees 28 percent, effective August 1, 2002. These increases are expected to boost collections by $8 million in 2002-03. Gross receipts in 2002-03 are projected at $41.5 million and refunds at $1.5 million, resulting in estimated net receipts of $40 million.

2003-04 PROJECTIONS

Gross alcoholic beverage control license fee All Funds receipts are projected to be $43.8 million. Refunds will be approximately $1.5 million, bringing estimated 2003-04 net receipts to $42.3 million. The 2003-04 projection reflects the full year impact of the July 2002 fee increases. Since the total number of licensees is fairly constant from year to year (see table above), collections are a function of the number and type of license renewals that take place during the fiscal year.

OTHER FUNDS

From 1992-93 through 1997-98, a portion of license fee receipts was deposited in the Alcoholic Beverage Control Enhancement Account. 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 that time all licensing fees have been deposited in the General Fund.

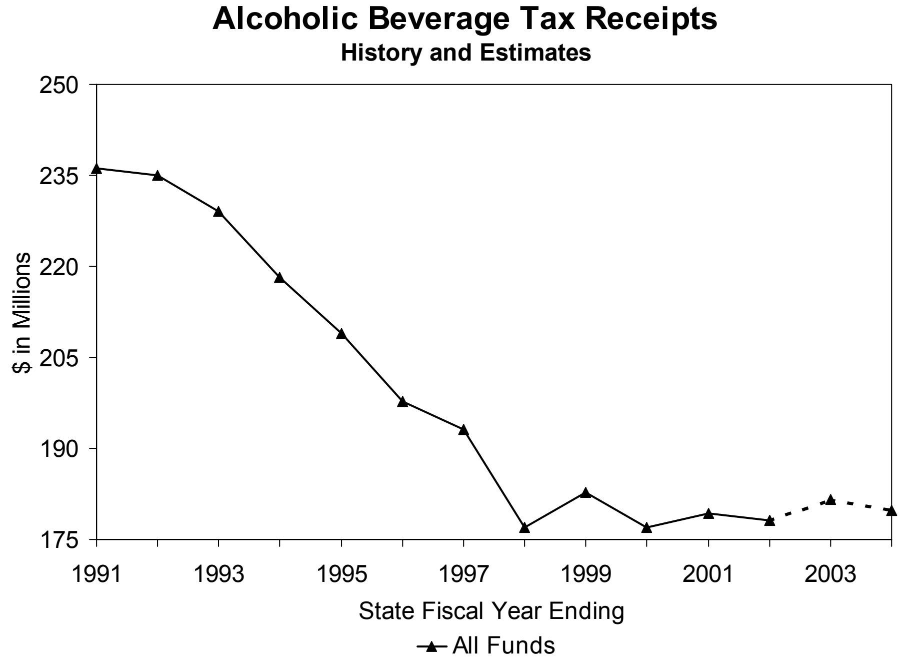
GENERAL FUND

General Fund receipts for 2002-03 are estimated to be $40 million. In 2003-04, General Fund receipts are projected to be $42.3 million, or 5.8 percent above 2002-03.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES RECEIPTS (thousands of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
	Actual						
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
2000-01	33,140	1,787	31,353	0	0	0	31,353
2001-02	35,495	1,251	34,244	0	0	0	34,244
	Estimated						
2002-03	41,500	1,500	40,000	0	0	0	40,000
2003-04	43,800	1,500	42,300	0	0	0	42,300

ALCOHOLIC BEVERAGE TAXES



DESCRIPTION

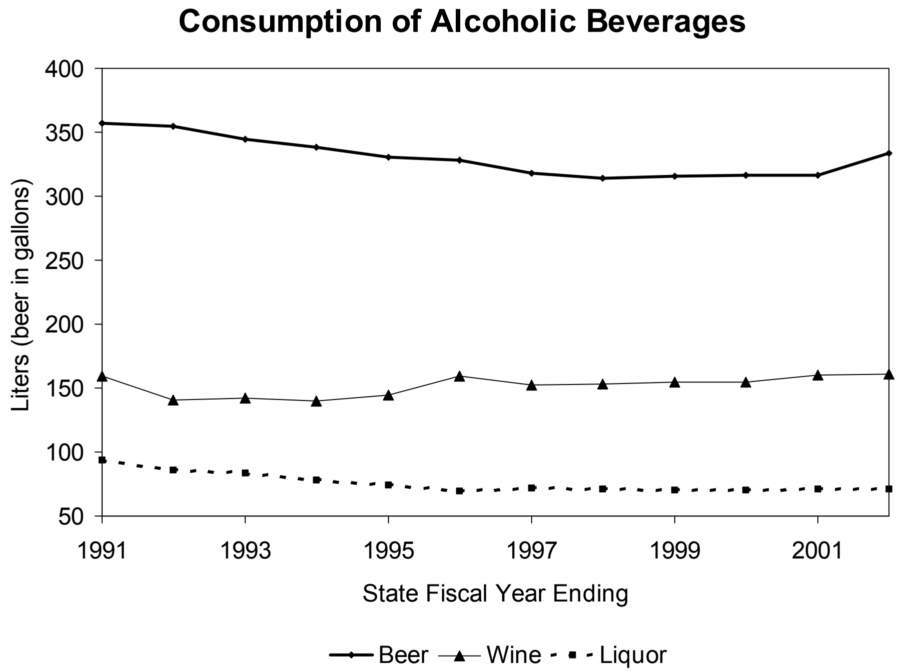
New York State imposes excise taxes at various rates on liquor, beer, wine and specialty beverages. These taxes are remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

State tax rates for 2002-03 are as follows (dollars per unit of measure):

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

*The beer tax rate will fall to 11 cents per gallon on September 1, 2003.

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 and liquor consumption has recently increased relative to beer consumption. In addition, the movement of alcoholic beverage demand towards less expensive beverages with lower alcohol content is attributed, in part, to the impact of rising prices on beverages with higher alcohol content.



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 alcohol beverage tax legislation enacted since 1994.

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
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

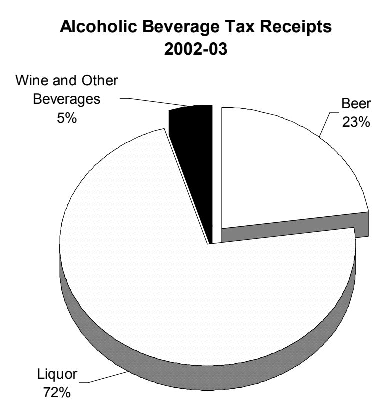
The State continues to suffer tax evasion due to the bootlegging of alcoholic beverages from other states. Enforcement legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture provisions. Additionally, the legislation provided higher fines for 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, thereby moderating year-over-year declines in State alcoholic beverage tax receipts. Legislation enacted in 2002 extended these provisions to October 31, 2007.

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 shall not exceed 30 percent in aggregate.
Any other person fails to pay the tax		50 percent of the tax amount due, plus 1 percent each month after the expiration. The penalty shall not be less than $100.

2002-03 RECEIPTS

Net All Funds receipts of $139.4 million received to date represent an increase of 1.7 percent from the comparable period in 2001-02. Accordingly, alcoholic beverage tax receipts for 2002-03 are estimated at $181.6 million, an increase of $3.5 million, or 2 percent from 2001-02. The bulk of estimated receipts, $131.3 million, are derived from the tax on liquor. The 1997 enforcement provisions will preserve an estimated $3 million in liquor tax revenues that otherwise would have been lost due to evasion and avoidance. The extension of enforcement provisions in 2002 will protect $1 million in liquor tax receipts in 2002-03 (part year), and about $3 million in subsequent years.



COMPONENTS OF ALCOHOLIC BEVERAGE TAX RECEIPTS
(millions of dollars)

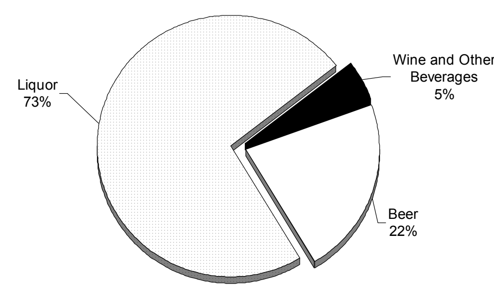
	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04
	Actual					--Estimated--	--Projected--
Beer	50.2	47.8	42.7	42.8	41.8	41.6	39.4
Liquor	125.4	125.7	125.2	128.0	127.9	131.3	131.6
Wine and Other	8.5	8.5	8.3	8.5	8.5	8.7	8.8
Subtotal	184.1	182.0	176.2	179.3	178.2	181.6	179.8
Reconciliation	(7.1)	0.8	0.8	0.0	0.0	0.0	0.0
Net Total	177.0	182.8	177.0	179.3	178.2	181.6	179.8

2003-04 PROJECTIONS

Total All Funds alcoholic beverage tax receipts are projected to be $179.8 million, a decrease of $1.8 million, or 1 percent, from 2002-03.

Based on recent trends, the consumption of beer and wine is expected to grow modestly, while liquor consumption is expected to be flat in 2003-04. The September 1, 2003, excise tax reduction on beer is expected to reduce beer tax collections by $2.5 million.

Alcoholic Beverage Tax Receipts
2003-04



Of the total projected alcoholic beverage tax receipts of $179.8 million, $131.6 million is derived from liquor, $39.4 million from beer, and $8.8 million from wine and other specialty beverages.

GENERAL FUND

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

ALCOHOLIC BEVERAGE TAX RECEIPTS
(thousands of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
	Actual						
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
2000-01	179,407	67	179,340	0	0	0	179,340
2001-02	178,146	1	178,146	0	0	0	178,146
	Estimated						
2002-03	182,500	900	181,600	0	0	0	181,600
2003-04	179,900	100	179,800	0	0	0	179,800

AUTO RENTAL TAXES

DESCRIPTION

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 a seating capacity of 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.

2002-03 Receipts

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 to date are $31.7 million, up 2.9 percent, or $0.9 million from the comparable period of the prior fiscal year. Based on collections to date, the continuing rebound from the World Trade Center (WTC) disaster, and the timing of certain payments, auto rental tax All Funds receipts for 2002-03 are estimated at $41.3 million, up $3.4 million, or 8.9 percent from 2001-02.

2003-04 Projections

Projected auto rental tax All Funds receipts in 2003-04 are projected to be $43.7 million, or $2.4 million above 2002-03.

OTHER FUNDS

Legislation enacted in 2002 dedicated all receipts from the auto rental tax to the Dedicated Highway and Bridge Trust Fund, effective April 1, 2002.

GENERAL FUND

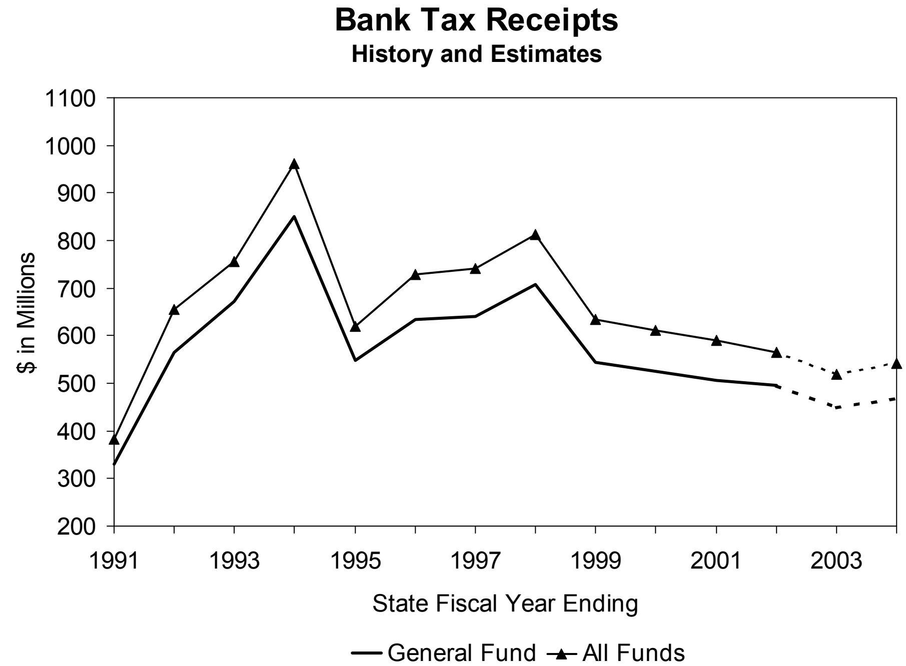
No auto rental tax receipts received on or after April 1, 2002, will be deposited in the General Fund.

AUTO RENTAL TAX RECEIPTS
(thousands of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Gross Capital Projects Funds	Refunds	Net Capital Projects Funds[1]	Debt Service Funds	All Funds Net Collections
	Actual								
1994-95	29,069	0	29,069	0	0	0	0	0	29,069
1995-96	28,344	0	28,344	0	0	0	0	0	28,344
1996-97	31,056	0	31,056	0	0	0	0	0	31,056
1997-98	32,039	0	32,039	0	0	0	0	0	32,039
1998-99	34,241	0	34,241	0	0	0	0	0	34,241
1999-2000	38,843	0	38,843	0	0	0	0	0	38,843
2000-01	38,916	0	38,916	0	0	0	0	0	38,916
2001-02	37,914	0	37,914	0	0	0	0	0	37,914
	Estimated								
2002-03	0	0	0	0	41,300	0	41,300	0	41,300
2003-04	0	0	0	0	43,700	0	43,700	0	43,700

[1] Dedicated Highway and Bridge Trust Fund.

BANK TAX



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

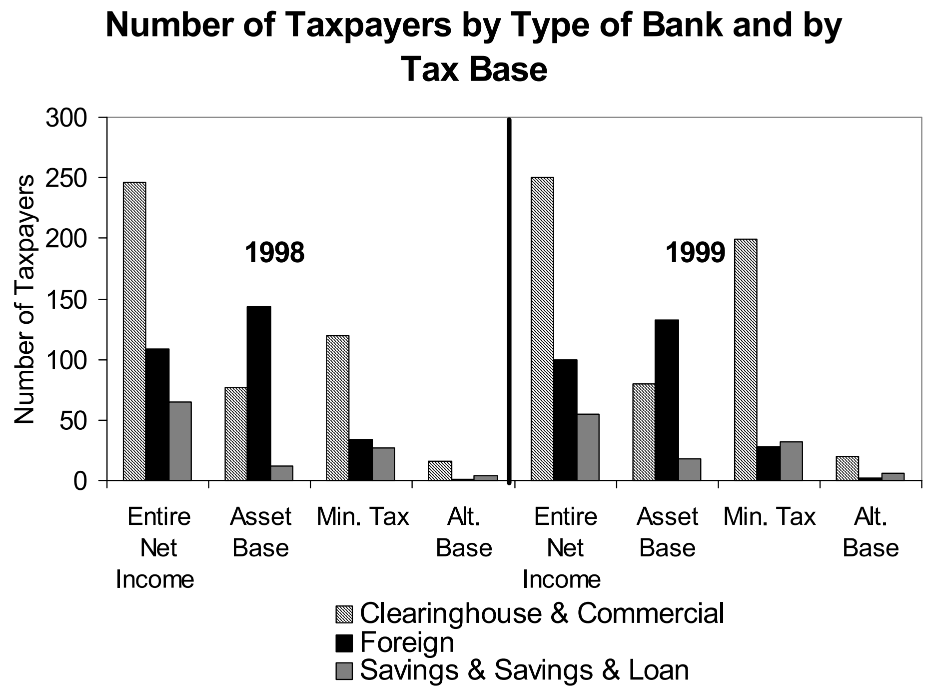
Article 32 bank tax liability is the highest of the following four computations:

1. 7.5 percent of allocated entire net Income (ENI);
2. 3 percent of allocated alternative entire net income (ENI without regard to specified exclusions);
3. 1/10, 1/25, or 1/50 of a mill of allocated taxable assets; or
4. a minimum tax of $250.

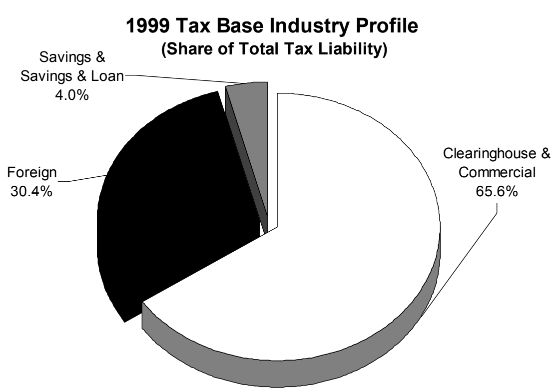
Additionally, corporations doing business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability allocable in the MCTD.

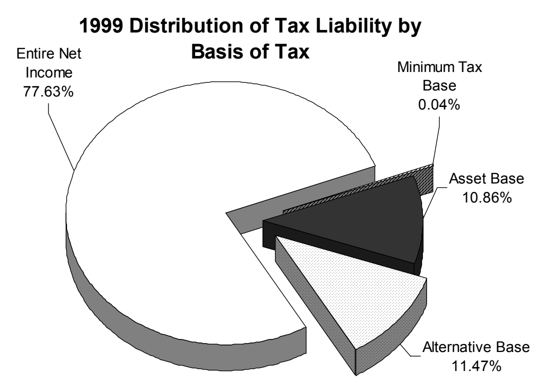
Tax Base

The primary source of data on bank tax liability is the Bank Tax Study File, which is compiled by the Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA). The study file includes tax data on all banks filing under Article 32. Between 1998 and 1999 (1999 representing the most recent liability data available), total tax liability decreased by roughly 1 percent, from $533 million to $529 million, while the number of taxpayers increased by 8 percent, with the majority of the increase in clearinghouse and commercial banking institutions. The following graph illustrates that, between 1998 and 1999, the number of clearinghouse and commercial taxpayers paying under the fixed dollar minimum tax base increased by roughly 65 percent.

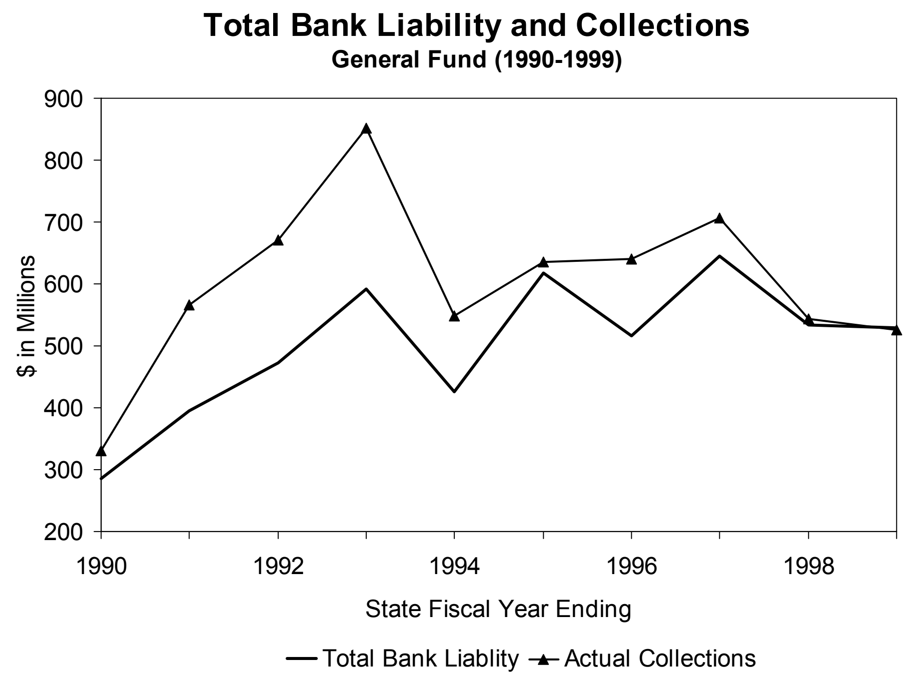


The following pie charts illustrate that clearinghouse and commercial banking institutions accounted for 65.6 percent of total tax liability in 1999, while foreign banking institutions and savings and savings and loan institutions accounted for 30.4 percent and 4 percent of liability respectively. Additionally, payments under the ENI base comprised roughly 77.6 percent of total tax liability under Article 32 in 1999.





The following graph compares total bank tax liability and collections over a ten-year period. This shows that, while liability and collections generally followed the same pattern from 1990 to 1997, these components began to merge in 1998 and 1999. Because taxpayers must pay estimated taxes months in advance, it is difficult for taxpayers to gauge how much is owed at the end of the tax year. This is especially true if business or economic conditions change. In many cases, taxpayers overpay throughout the year and then make adjustments to liability to reconcile tax due. Beginning in 1998, taxpayers have made adjustments to current year payments, which bring these payments closer to underlying liability.



SIGNIFICANT LEGISLATION

The bank tax structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to reduce State tax liability. The primary objective of these measures is to provide economic incentives to stimulate the New York economy.

SIGNIFICANT BANK TAX LEGISLATION

Subject	Description	Effective Date
Legislation Enacted in 1994		
Subsidiary Capital	Subsidiary capital taxation rules allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.	January 1, 1994
Legislation Enacted in 1997		
Credit for Employing Individuals with Disabilities	Employers who employ individuals with disabilities may claim a credit for a portion of wages paid to such individuals.	January 1, 1998
Net Operating Loss	Allows banks to claim a net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.	January 1, 2001
Legislation Enacted in 1998		
Investment Tax Credit	Bank taxpayers that are brokers/dealers in securities may claim a credit for equipment used in broker/dealer activities and in activities connected with broker/dealer operations.	October 1, 1998
Legislation Enacted in 1999		
Rate Reduction — ENI	Reduced the ENI tax rate from 9 percent to 7.5 percent in phases over three years.	June 30, 2000

Subject	Description	Effective Date
Legislation Enacted in 2000		
Empire Zones (EZ)	Economic Development Zones (EDZ) are 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 sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Legislation Enacted in 2001		
Bank Tax Extension	Provided an extension of the bank tax that had expired for commercial banks. The tax did not apply to tax years beginning on or after January 1, 2001. Sunsets for tax years beginning on or after January 1, 2003.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations. Extended the program from July 31, 2004 to December 31, 2020.	Various

PROPOSED LEGISLATION

Proposed legislation would make the Bank tax permanent, and extend the transitional provisions related to Gramm-Leach-Bliley Act until 2004. There is no estimated fiscal impact associated with this proposal as it preserves an existing revenue base.

2002-03 RECEIPTS

Based on collections to date, net All Funds collections for the year are estimated to be $518 million, representing a $48 million decrease from the 2001-2002 level. This decrease of 8.5 percent is the result of several factors.

The most significant factor is the continued weakness in the national and State economies. (See Economic Backdrop section.) Weakness in the economy has led to an increase in the bad debt and credit risks carried by banks in both the personal and commercial areas — in the U.S. as well as throughout the world — resulting in a deterioration of their financial condition. This is true despite the positive effect lower interest rates have had on mortgage investments and refinancing. However, banks that are asset sensitive have been hard hit by the fall in interest rates. A growing number of large banks face legal challenges regarding their role in the financial excesses and corporate disclosure scandals uncovered during the past two years. This can be expected to drive down earnings. Investment banking has suffered from lower underwriting and advisory activity and by the continued write downs of their investments in telecommunications companies. As a result of these losses, many investment banks have cut staff by significant numbers. Large major banks are continuing to shed poor performing consumer financing operations as well as other high-risk businesses.

The decrease in collections is partially offset by $24 million as a result of the change in the required first installment from 25 percent to 30 percent of prior year payments due in March for calendar year filers, effective January 1, 2003.

2003-04 PROJECTIONS

Net bank tax All Funds collections are expected to be $543 million in 2003-04, which is $25 million above the amount estimated for 2002-03.

The bank tax projection is based, in part, on the underlying relationship between tax liability and expected bank profitability. Bank profitability is measured using corporate profitability as a proxy. Corporate profits, which have remained depressed over the course of the 2002-03 State fiscal year, are expected to improve modestly during 2003-04.

Already scheduled tax reductions are expected to reduce bank tax receipts in both the 2002-03 and 2003-04 State fiscal years. Specifically, receipts will decline by an additional $38 million in 2002-03, and $32 million in 2003-04 due to previously enacted legislation, including the reduction of the entire net income tax rate, and the prospective net operating loss deduction.

OTHER FUNDS

Under current law, a business tax surcharge is imposed at a rate of 17 percent of the portion of the statewide tax liability allocated to the MCTD and is the principal revenue source of the Mass Transportation Operating Assistance Fund (MTOAF). Based on collections to date, the bank tax contribution to MTOAF for 2002-03 is projected to reach approximately $69 million. MTOAF bank tax receipts are affected by the same factors impacting overall bank tax receipts, and are expected to increase by approximately 8.6 percent to $75 million in 2003-04.

GENERAL FUND

Based on collections to date, General Fund net collections for State fiscal year 2002-03 are projected to reach $449 million, a decrease of $46.8 million or 9.4 percent from State fiscal year 2001-2002 levels, primarily driven by large adjustments to payments on 2000 and 2001 liability. This has resulted in both increased refunds and credit carry forwards, which has decreased collections in the current fiscal year.

Bank tax receipts for State fiscal year 2003-04 are expected to increase by roughly 4 percent, primarily driven by improved profitability and economic conditions overall.

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

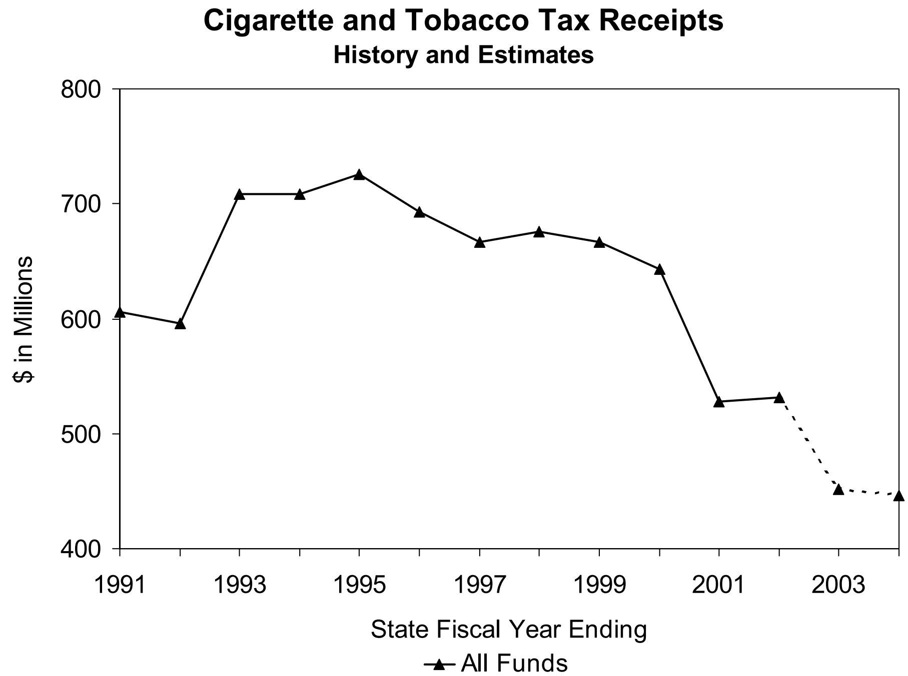
	State Banks, Trust Companies and National Banks	Savings Banks	Savings and Loan Associations	Total
	Actual			
1994-95	486,102	50,965	10,885	547,952
1995-96	611,513	24,455	(1,305)	634,663
1996-97	637,448	(3,003)	5,492	639,937
1997-98	700,344	1,183	5,796	707,323
1998-99	527,485	11,706	4,866	544,058
1999-2000	515,528	5,186	4,795	525,509
2000-01	495,896	5,188	4,392	505,476
2001-02	486,577	4,557	4,627	495,762
	Estimated			
2002-03	440,000	4,500	4,500	449,000
2003-04	458,600	4,700	4,700	468,000

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								
1994-95	615	67	548	78	8	71	0	0	619
1995-96	702	68	635	99	5	94	0	0	729
1996-97	724	84	640	110	9	101	0	0	741
1997-98	766	58	707	114	8	105	0	0	812
1998-99	624	80	544	102	11	91	0	0	635
1999-2000	598	72	526	94	9	85	0	0	611
2000-01	598	92	505	97	11	86	0	0	591
2001-02	565	69	496	80	10	70	0	0	566
	Estimated								
2002-03	544	95	449	78	9	69	0	0	518
2003-04	558	90	468	84	9	75	0	0	543

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

CIGARETTE AND TOBACCO TAXES



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 $1.50 per package of 20 cigarettes.

The Federal government imposes a cigarette excise tax on manufacturers and first importers of cigarettes. The Federal tax rate was increased from 24 cents to 34 cents per pack on January 1, 2000, and again to 39 cents per pack on January 1, 2002. Effective March 1, 2000, New York raised its tax by 55 cents to $1.11 per pack and effective April 3, 2002, by 39 cents to $1.50 per pack. New York City also levies a separate cigarette excise tax of $1.50 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	July 2, 2002	150
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				
April 3, 2002	150				

The State also imposes a tax on other tobacco products, such as chewing tobacco and cigar tobacco, at a rate of 37 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 when they purchase more than two cartons.

Tax Evasion

Cigarette tax evasion is a serious problem in New York and throughout the Northeast. Widespread evasion not only reduces State and local revenues but also reduces the income of 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. Further legislation enacted in 2002 increased the number of enforcement agents.

The positive effects of the 1996 enforcement legislation were realized later that year, 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 less severe declines in taxable cigarette consumption than would otherwise have been realized.

CIGARETTE TAX RATES IN NEW YORK AND BORDERING STATES*
(cents per pack)

	2002	2001	2000	1999	1998	1997
Connecticut	111	50	50	50	50	50
Massachusetts	76	76	76	76	76	76
New Jersey	150	80	80	80	80	40
New York	150	111	111	56	56	56
Pennsylvania	31	31	31	31	31	31
Vermont	93	44	44	44	44	44
NYS and NYC	300	119	119	64	64	64

* Highest rate in effect during calendar year.

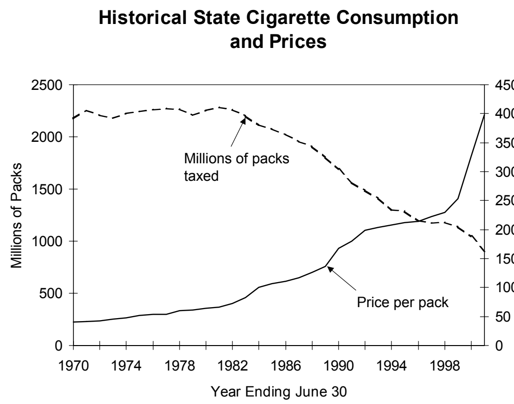
In 2000, the Governor signed comprehensive legislation targeted at combating cigarette bootlegging and reducing youth and adult smoking by banning Internet sales. This legislation was ruled unconstitutional by the U.S. District Court of the Southern District of New York and enjoined from going into effect. The State's appeal was heard in June 2002 and is currently under review. Significant legislative changes since 1994 are summarized in the following table.

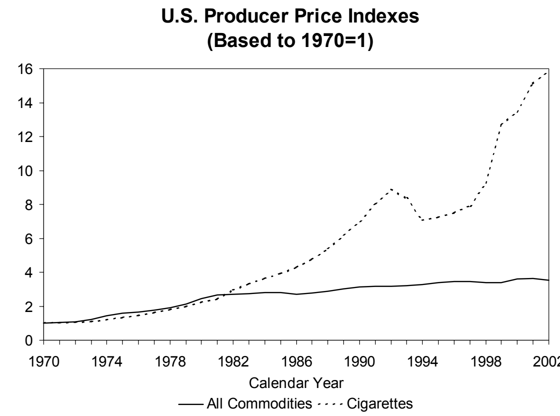
SIGNIFICANT LEGISLATION

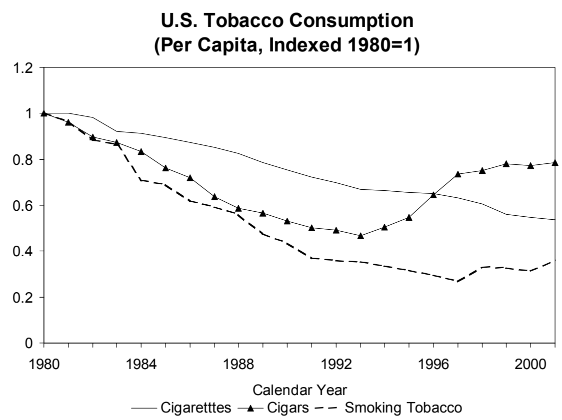
Subject	Description	Effective Date
Legislation Enacted in 1996		
Enforcement Provisions	Increased penalties and fines for selling unstamped cigarettes, violation of retail dealer and vending machine registration provisions, and providing inaccurate registration information.	December 3, 1996
Legislation 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 (HCRA) 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
Legislation Enacted In 2002		
Cigarette Tax Increase	Increased the cigarette excise tax from $1.11 per pack to $1.50 per pack.	April 3, 2002
Tobacco Tax Increase	Increased the other tobacco products tax from 20 percent of the wholesale price to 37 percent.	July 3, 2002
Enforcement Provisions	Increased the number of enforcement agents.	May 29, 2002

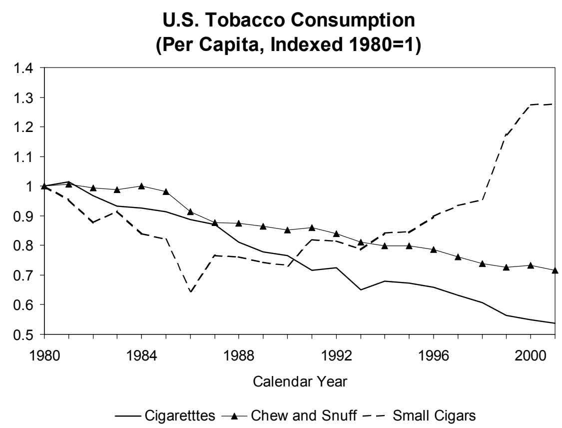
BRIEF REVIEW OF RECEIPTS HISTORY

Taxable cigarette consumption in New York has declined by nearly 60 percent since 1970, due to price increases, 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.









TOBACCO MSA PAYMENTS

Under the Tobacco Master Settlement Agreement (MSA) reached between states and manufacturers in 1998, manufacturers are required to make payments to New York. The amounts of these payments are subject to various adjustments. The volume adjustment is based on national consumption, not consumption in New York.

2002-03 RECEIPTS

Total cigarette and tobacco receipts are estimated at $1,132.2 million (including $35 million in one time floor tax revenue), an increase of $119.1 million, or 11.8 percent from 2001-02. The increase is due to the cigarette and tobacco tax increases that took effect April 3, 2002, and July 2, 2002, respectively. To date, total cigarette and tobacco tax receipts are $889.4 million, an increase of $109.5 million, or 14 percent above comparable receipts in 2001-02.

Underlying taxable cigarette consumption continued its secular decline in 2002-03. The decline in consumption is partially attributable to an estimated statewide retail price increase of 22.7 percent. The combined effects of the State and City tax increases were the predominant factor in this increase. In addition, manufacturers raised prices again. Since the MSA was signed in November 1998, the producer price index (which does not include taxes) for cigarettes has increased 70 percent (see graph above), as tobacco companies have attempted to recoup normal increases in operating costs and the cost of the MSA through price increases. Also, restrictions on cigarette advertising contained in the MSA and a general increase in the awareness of the health consequences of smoking have contributed to long-term declining trends in cigarette consumption.

2003-04 PROJECTIONS

Total cigarette and tobacco tax revenue is projected to be $1,078.4 million, a decrease of $53.8 million, or 4.8 percent from State fiscal year 2002-03. The decline is inflated due to the inclusion of a one time floor tax revenue in the prior fiscal year.

Legislation enacted in 2000 required the Department of State to promulgate standards for fire safe cigarettes by January 1, 2003 and required sales of such cigarettes to commence no more than 180 days after promulgation. Legislation submitted with this Budget proposes to delay implementation of the 2000 legislation for two years. This delay is estimated to increase total receipts by $15.7 million in 2003-04.

The long-term factors reducing cigarette consumption will continue to exert negative pressure on receipts. Price increases will continue to have a significant effect on taxable cigarette consumption in 2003-04. Wholesale prices are expected to rise 12.8 percent, and retail prices are expected to rise 6.2 percent. Since cigarette prices are high in New York relative to the surrounding states, there remains an added incentive for smokers to avoid paying the tax by purchasing retail cigarettes in surrounding states, bootlegged cigarettes, or cigarettes sold through mail order or on the Internet.

HCRA

More than 60 percent of the proceeds from the State cigarette tax of $1.50 is deposited in the Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000 (HCRA). Based on the percentage distribution of cigarette tax receipts in effect between April 1, 2002, and March 31, 2003 (see table below), the pool will receive an estimated $680.9 million in 2002-03. Based on the percentage distribution in effect beginning April 1, 2003 (see table below), receipts deposited in the pool in 2003-04 will total a projected $632.4 million.

Legislation passed in 2002 established the percentage distribution of cigarette tax revenue shown in the following table.

Cigarette Tax Distribution (percent)
Current Law

April 1, 2002, to April 30, 2002	
General Fund	56.30
HCRA	43.70
May 1, 2002, to March 31, 2003	
General Fund	35.45
HCRA	64.55
Beginning April 1, 2003	
General Fund	38.78
HCRA	61.22

CIGARETTE AND TOBACCO TAX REVENUE
($ millions)

	General Fund				HCRA
Fiscal Year	**Cigarette Tax**	**Tobacco Tax**	**Other**	**Total**	**Cigarette Tax**
1999-2000	619.8	20.1	3.4	643.4	28.4
2000-01	504.4	20.5	3.5	528.4	495.4
2001-02	507.6	21.9	2.2	531.7	481.4
2002-03*	407.8	38.8	4.7	451.4	680.9
2003-04*	400.6	42.0	3.4	445.9	632.4

Note: Components may not add to total due to rounding.
*Estimated

GENERAL FUND

General Fund cigarette and tobacco tax receipts for 2002-03 are estimated at $451.4 million, a decline of $80.3 million, or 15.1 percent, from 2001-02. To date, General Fund cigarette and tobacco tax receipts are an estimated $358.3 million, a decline of $44.6 million, or 11 percent. The large decline from 2001-02 is due to the decline in the percentage of receipts directed to the General Fund beginning May 1, 2002, prebuying which pushed some purchases from 2002-03 into 2001-02, and consumption declines resulting from the New York City tax increase.

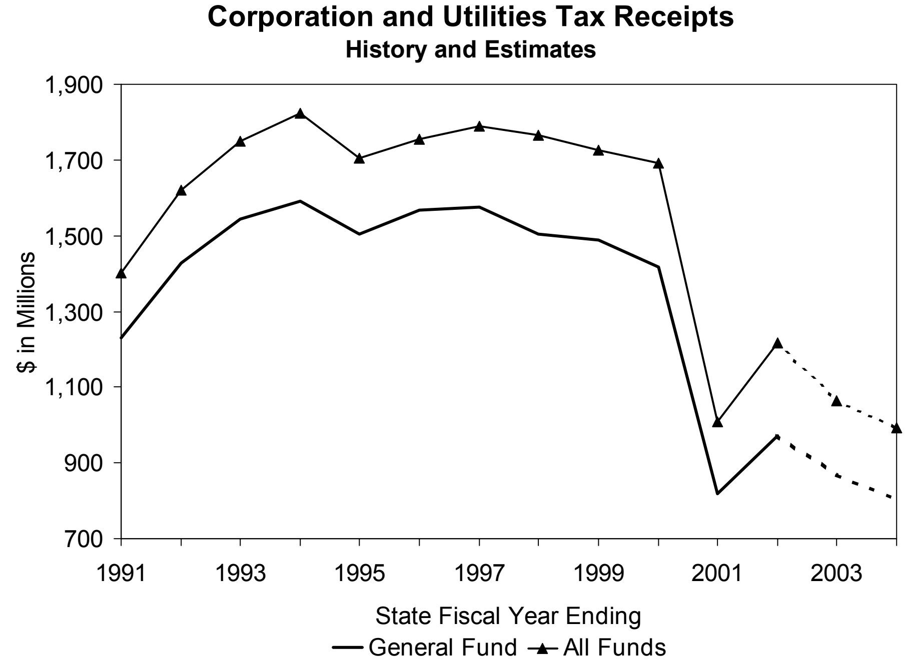
For 2003-04, General Fund cigarette tax receipts are projected to be $400.6 million. The tax on tobacco products and license fees are expected to total $45.4 million, an increase of $1.9 million from 2002-03. This increase is largely due to the full year impact of the July 2002 tax increase, a continuation of 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 cigarettes.

CIGARETTE AND TOBACCO TAX RECEIPTS
(thousands of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
				Actual			
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	643,158	0	0	0	643,159
2000-01	532,662	4,371	528,291	0	0	0	528,291
2001-02	538,848	7,143	531,705	0	0	0	531,705
				Estimated			
2002-03*	459,600	8,200	451,400	0	0	0	451,400
2003-04*							
(current law)	447,800	8,000	439,800	0	0	0	439,800
(proposed law)	453,900	8,000	445,900	0	0	0	445,900

* Note: In 2002-03 an estimated $680.9 million will be deposited in the Tobacco Control and Insurance Initiatives Pool, and in 2003-04 a projected $632.4 million will be deposited therein.

CORPORATION AND UTILITIES TAXES



DESCRIPTION

Article 9 of the Tax Law imposes taxes and fees on a number of specialized 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. Article 9 receipts come primarily 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 have significantly diminished the role of traditional energy utilities as the primary source of Article 9 receipts. In recent years, the telecommunications industry has become the primary source of these receipts.

Tax Rates and Base

The pie chart in the Receipts History section depicts the share of total 2001-02 Article 9 General Fund collections accounted for by each section of the Article.

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 at 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 stipulates an additional franchise tax on the transportation and telecommunication corporation in the State. The tax rate on telephone companies subject to this section is 0.375 percent of gross earnings, 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. Railroad and trucking companies that elect to remain subject to Article 9 taxes pay the tax at a rate of 0.375 percent of gross earning, including an allocated portion of receipts from interstate transportation-related transactions.

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 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 the furnishing of utility services (including both energy and lighting public utilities). This includes the commodity tax imposed on the gross operating income of utilities, corporations, and other entities not subject to the supervision of the Department of Public Service. It also includes the transmission and distribution tax imposed on the gross income of utilities and other entities that sell or furnish fuel, such as gas or electricity, through pipes or mains under the supervision of the Department of Public Service. Legislation enacted in 2000-01 imposes a separate tax rate on commodity sales 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 reported in the table below.

TAX RATES CONTAINED IN 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

The portion 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.

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 consumption. The amount of tax is determined by multiplying the number of thousand cubic feet of gas services delivered during the taxable period, the national average wellhead annual gas price published by the United State Department of Energy and the tax rate described in the table below. Recent reforms phase down the rate over a five-year period and eliminate the tax effective January 1, 2005. Gas services sold to a co-generation facility and gas services used to generate electricity for sale are exempted from the tax.

On May 1, 2001, the New York State Court of Appeals ruled that section 189 violated the Commerce Clause insofar as it failed to avoid theoretical double taxation by failing to provide a valid credit against this section for certain taxes that may have been paid to other states. In October 2001, legislation was enacted that provides a credit for taxes paid to another state, thus eliminating the double taxation issue and the Commerce Clause violation. The phase-out of the tax will continue, as scheduled.

TAX RATES CONTAINED IN 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. In 1996, 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. As a result, the appropriate amount of liability from 1993, 1994 and

1995 was adjusted in 1996-97 and 1997-98. Such adjustments are not a net cash gain to the Financial Plan. The roughly $21 million increase in 1999-2000 in section 181 receipts was 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. Legislation enacted in 2002 requires companies to pay 30 percent as a first installment, rather than 25 percent. For taxable years beginning in 1994, large businesses must 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	Eliminated the 15 percent surcharge for sections 183, 184, 186, and 186-a over three years.	January 1, 1994
Legislation Enacted in 1995		
Telecommunications Act of 1995	Restructured the transmission portion of section 184 to apply to only local telecommunication services. Also, all toll revenues from interstate, and inter-LATAs services were exempted.	January 1, 1995
	Enacted section 186-e, which imposed a 3.5 percent excise tax on receipts from telecommunications services.	
	Replaced the property factor with a new allocation mechanism. 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 carriers 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 (Article 9-A).	January 1, 1997
	Reduced the tax 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 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 low cost power to retail customers selected by the Power Allocation Board.	1997
Alternative Fuels Vehicle Credit	Created a tax 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 the 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 a tax credit equaling 35 percent of the first $6,000 of qualified wages (maximum of $2,100 per employee).	January 1, 1998

Subject	Description	Effective Date
Legislation Enacted in 1999		
MTOA Fund	Increased the percent of collections from section 183 and section 184 to be distributed to the MTOA Fund from 54 percent to 64 percent on January 1, 2000, and to 80 percent on January 1, 2001.	January 1, 2000 January 1, 2001
Section 189	Exempted generation plants that import natural gas for the production of electricity.	January 1, 2001
Section 183	Eliminated the excess dividends base for those local telecommunications companies with fewer than one million access lines.	January 1, 2002
Legislation Enacted in 2000		
Utility Tax Reform	Repealed the section 186 tax. 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	Provided an additional 300 megawatts of low-cost power to businesses across New York through the Power for Jobs program.	January 1, 2001
Legislation Enacted in 2001		
Section 189	Created a prospective and retroactive credit for taxes paid to other states where natural gas was purchased.	Retroactive to August 1, 1991
Legislation Enacted in 2002		
Power for Jobs	Provided low cost power for economic development through phase five of the Power for Jobs Program and provided an energy service company option for recipients under the program	July 30, 2002
Estimated Payments	Increased the first quarterly payment of estimated tax, for taxpayers paying under sections 182, 182-a, 184, 186-a, and 186-e, from 25 percent to 30 percent of the prior year's liability. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Within Article 9, only taxpayers under sections 182, 182-a, 184, 186-a, and 186-e are affected. Sunsets for tax years beginning on or after January 1, 2006, and expires January 1, 2007.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations. Extended the program from July 31, 2004 to December 31, 2020.	Various

Proposed Legislation

Legislation proposed with this Budget would redirect the remaining General Fund portion of the section 183 and 184 taxes to the Dedicated Highway and Bridge Trust Fund, beginning in State fiscal year 2004-05.

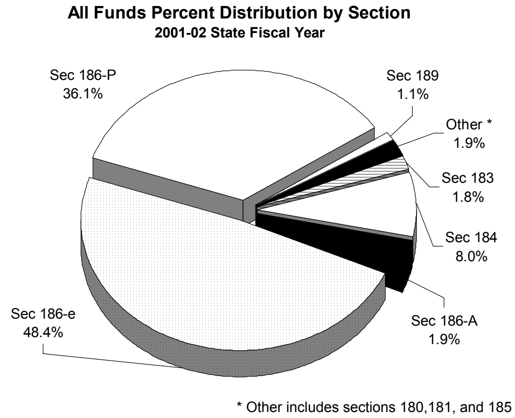
BRIEF REVIEW OF RECEIPTS HISTORY

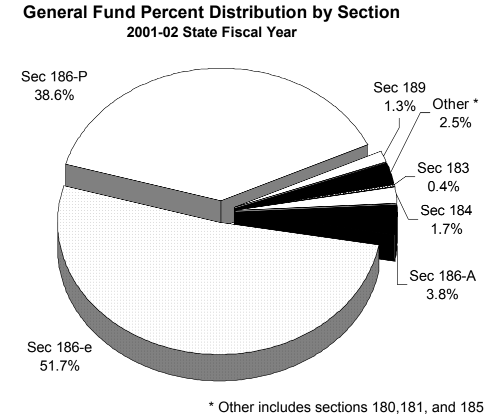
For State fiscal years 1990-91 through 2001-02, Article 9 receipts growth has been highly variable. To a large extent, this volatility is due to the numerous statutory changes reported in the prior section. Additionally, the fluctuations in energy prices and telecommunications demand have led to uneven growth over this period. In recent years, the presence of the evolving wireless industry has also contributed to the volatility of collections.

History of General Fund

The pie charts below show the breakdown of Article 9 collections, by section of law, for All Funds and the General Fund. For State fiscal years 1990-91 through 2001-02, the General

Fund received more than 80 percent of All Funds. These percentages are expected to remain relatively constant in 2002-03 and 2003-04. Small reductions in the estimated fund shares over the forecast can be attributed to statutory changes enacted in recent years.





History of Other Funds

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

Effective Date	General Fund	MTOAF	DHBTF
July 1, 1982	60.0	40.0	0.0
April 1, 1996	52.0	48.0	0.0
January 1, 1997	50.5	49.5	0.0
January 1, 1998	46.0	54.0	0.0
January 1, 2000	36.0	64.0	0.0
January 1, 2001	20.0	80.0	0.0
April 1, 2004[1]	0.0	80.0	20.0

[1] Proposed Legislation

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 above reports the statutory allocation of tax receipts by fund.

A proposal included in the Executive Budget would set aside the remainder of sections 183 and 184 receipts to the Dedicated Highway and Bridge Trust Fund beginning in State fiscal year 2004-05.

As stated earlier, 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. These funds are deposited in the MTOAF.

2002-03 RECEIPTS

Corporations and utilities taxes for 2002-03 are expected to yield total All Funds receipts of $1,063 million. This is a decrease of 12.7 percent compared with 2001-02.

Total All Funds receipts for 2002-03 include an estimated $21.8 million in audit collections. After adjusting for refunds, year-to-year cash collections are expected to decrease by approximately $155 million.

All of section 186-e receipts and more than half of section 184 receipts in recent years have come from telecommunications companies. Wireless communication services have taken a larger role in the industry, creating an increased call and message volume. Competition and deregulation have held down prices for these services, forcing the telecommunications companies to provide more services to their consumers at a lower cost, and thereby adversely affecting companies' gross receipts. The recent economic downturn and the saturation of the market have begun to slow the growth in collections from this industry.

The primary factors affecting the estimate of the remainder of Article 9 collections include the quantity consumed of electricity and natural gas, and the associated price of each commodity. Consumption is expected to increase this winter as a result of more severe weather. Receipts are expected to reflect higher winter levels of usage in the upcoming months.

The tables below report annual consumption and price data for electricity and natural gas. The information shown for the years 1992 to 2000 is based on published reports of the Public Service Commission. The 2000 report reflects the most recent data available. The quantities in the table report sales to ultimate consumers and include sales for resale.

CALENDAR YEAR HISTORY OF ELECTRICITY AND NATURAL GAS SALES
1992 TO 2000
(quantity in millions)

	Electricity Sales (kilowatt hours)	Percent Change	Gas Sales (M cubic feet)	Percent Change
1992	124,926	(6.9)	497.6	15.7
1993	136,236	9.0	506.0	1.7
1994	133,531	(2.0)	530.0	4.7
1995	134,609	0.8	622.9	17.5
1996	135,256	0.5	603.6	(3.1)
1997	135,605	0.3	638.2	5.7
1998	116,305	(14.2)	482.5	(24.4)
1999	115,059	(1.1)	531.4	10.1
2000	105,637	(8.2)	636.1	19.7

CALENDAR YEAR HISTORY OF ELECTRICITY AND NATURAL GAS PRICES
1992 TO 2000

	Electricity Price (kilowatt hours)	Percent Change	Gas Price (M cubic feet)	Percent Change
1992	11.39	3.7	6.51	1.0
1993	12.00	5.4	7.14	9.7
1994	12.23	1.9	7.55	5.7
1995	10.95	(10.5)	7.21	(4.5)
1996	11.09	1.3	8.03	11.4
1997	11.08	(0.0)	7.22	(10.1)
1998	10.50	(5.2)	8.25	14.3
1999	10.26	(2.3)	7.73	(6.3)
2000	11.21	9.3	8.40	8.7

Legislation enacted in 1996 to lower section 184 taxes on rail and trucking companies is estimated to reduce collections by nearly $13 million in 2002-03. The rate reductions enacted in 1997 for sections 184, 186-a and 186-e are estimated to reduce collections in 2002-03 by $396 million. The rate reductions enacted in 2000 for sections 186, 186-a, and 189 are estimated to reduce collections by more than $300 million in 2002-03. The Power for Jobs tax credit program, first enacted in 1997, accelerated in 1998, and expanded in 2000, 2001, and 2002 legislation, will reduce receipts by an estimated $65 million.

2003-04 PROJECTIONS

Corporation and utilities taxes for 2003-04 are expected to yield total All Fund receipts of $993 million. This is a decrease of 6.6 percent compared with 2002-03.

For 2003, the consumption of electricity is projected to grow 1.4 percent, while natural gas consumption is expected to increase by 2.0 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 decline by approximately 5.9 percent.

Reports filed by major telecommunication services providers with the SEC for the quarter ending September 30, 2002 indicate a significant drop in revenues for telephone services. The average monthly revenue per customer has dropped from $74 in 1995 to $61 in 2002. The average per minute cost has also dropped from $0.56 to $0.11 over the same time period. The telecommunications forecast assumes the continued slow growth in the industry, especially within the information technology, wireless, and Internet markets. This slowed growth is the result of market saturation, deregulation, over investment and product feature bundling.

Apart from underlying economic activity and related changes in the price and quantity of utility services consumed, collections will continue to 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 $13 million in 2003-04. The rate reductions enacted in 1997 and 2000 are estimated to reduce collections in 2003-04 by almost $700 million. Collections of prior-year liabilities, after audit, are projected at approximately $22 million in 2003-04.

OTHER FUNDS

As mentioned previously, a portion of Article 9 receipts are deposited into three special revenue funds. The section 183 and 184 collections deposited in the MTOAF will total an estimated $73.0 million for 2002-03 and $83 million for 2003-04. Under the Executive Budget proposal, the remaining portion of sections 183 and 184 would be used to support the Dedicated Highway and Bridge Trust Fund beginning in State fiscal year 2004-05.

The MTCD business tax surcharge will result in deposits of an estimated $122 million for 2002-03 and $105 million for 2003-04 into the MTOAF.

GENERAL FUND

General Fund collections for 2002-03 are estimated to be $868.0 million, a decrease of more that $100 million from last year. These receipts include an estimated $21.8 million in audit collections.

For 2003-04, the General Fund collections are estimated at $805 million. This includes an estimated $22 million in audit receipts, offset by $35 million in refunds.

Risks

The forecast assumes average temperature ranges during 2002 and 2003. If the winter proves to be harsher than average, heating demand could increase and greater energy consumption could result. Prices are sensitive to supply and demand conditions in the commodity markets, as well as to general inflation. 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.

As market saturation in wireless telecommunications continues, demand could fall, resulting in a level of consumption below the current forecast. However, recent company offerings suggest that companies in the wireless market are introducing new technology and more services, which could create a surge of demand in the industry. Prices are sensitive to changes in supply and demand, disposable income, business market conditions, changes in technology, and general inflation.

CORPORATION AND UTILITIES TAX RECEIPTS BY SECTION
(millions of dollars)

Section of Law	Type of Companies	Collections[1] 2001-02 Actual	2002-03 Estimated	2003-04 Projected
180	Organizations and reorganizations	4.0	4.3	4.3
181	Foreign corporations and maintenance fees	24.1	25.5	25.5
183	Transportation and transmission companies	19.3	30.8	30.0
184	Additional tax on transportation and transmission companies	84.3	61.0	73.5
185	Agricultural cooperatives	0.1	0.2	0.0
186	Water, steam, gas, electric, light and power companies	(4.1)	0.0	0.0
186a & e	Public utilities/telecommunication	915.0	806.1	748.9
189	Natural gas importers	12.5	13.1	5.7
	Subtotal	1,055.2	941.0	887.8
		Special Revenue Funds		
	Less Other Funds[2]			
	MTOAF	82.9	73.0	82.8
	Net General Fund	972.3	868.0	805.0

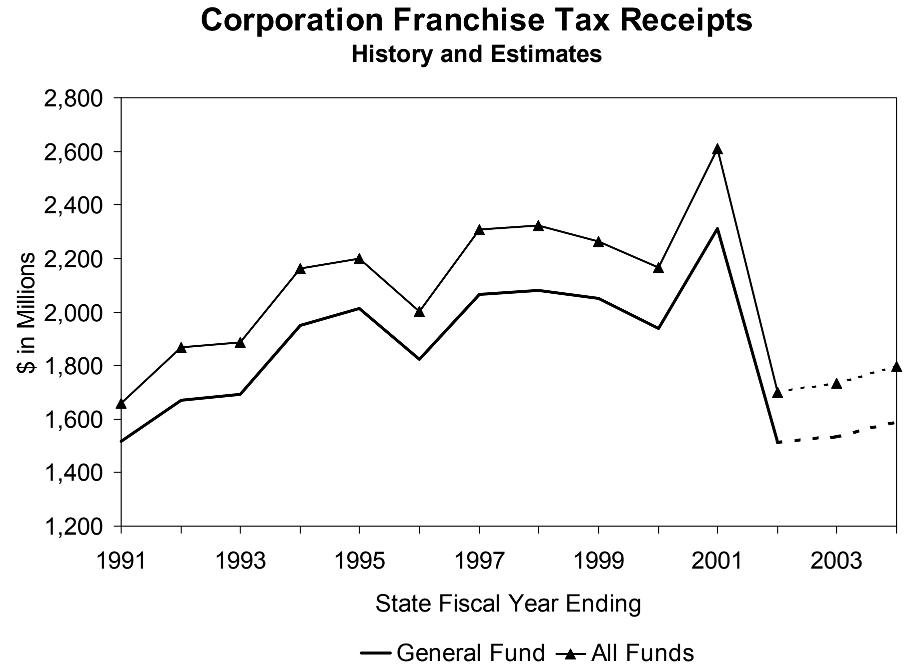
[1] Receipts from the regional business tax surcharge are excluded.
[2] Per statute, 80 percent of sections 183 and 184 receipts in 2001 and thereafter, are dedicated to the MTOAF.

CORPORATION AND UTILITIES TAX RECEIPTS
(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				
1994-95	1,574	69	1,505	203	3	200	0	0	1,705
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	243	2	241	0	0	1,745
1998-99	1,509	20	1,489	242	2	240	0	0	1,729
1999-2000	1,450	32	1,418	276	2	274	0	0	1,692
2000-01	847	30	817	193	1	192	0	0	1,009
2001-02	999	27	972	247	1	246	0	0	1,218
					Estimated				
2002-03	914	46	868	196	1	195	0	0	1,063
2003-04	840	35	805	189	1	188	0	0	993

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

CORPORATION FRANCHISE TAX



DESCRIPTION

The corporation franchise tax is levied by Article 9-A of the Tax Law on domestic and foreign corporations for the privilege of exercising their corporate franchise or 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 are attributed to several factors, such as variations in the rate of corporate profit growth; changes in the profit performance of important New York industries including financial service companies; and tax law and administrative changes.

Tax Rate

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

1. An allocated entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions. For C corporations, a rate of 7.5 percent is applied to this base after the exclusion, deduction, or addition of certain items and the base is allocated to New York. Tax credits will further reduce tax otherwise due. S corporations pay an entity level tax based on a differential. This represents the difference between the Article 9-A franchise tax rate at 7.5 percent and the personal income tax rate for S corporations at 7.45 percent. The S corporation rate under the personal income tax increases to 7.4725 percent as of June 30, 2003, reducing the differential by 45 percent.
2. An alternative minimum tax (AMT) 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.

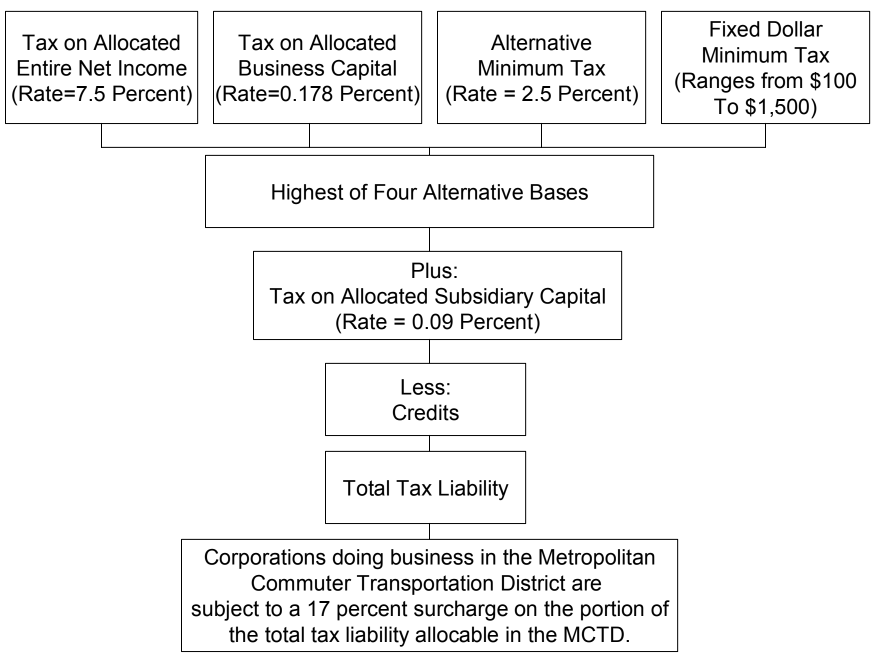
4. A fixed dollar minimum, which ranges from $100 to $1,500, depending on the size of the corporation's gross payroll, including general executive officers, during the applicable tax period.

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, corporations doing business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of the total tax liability allocable in the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF).

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

Article 9-A Flowchart



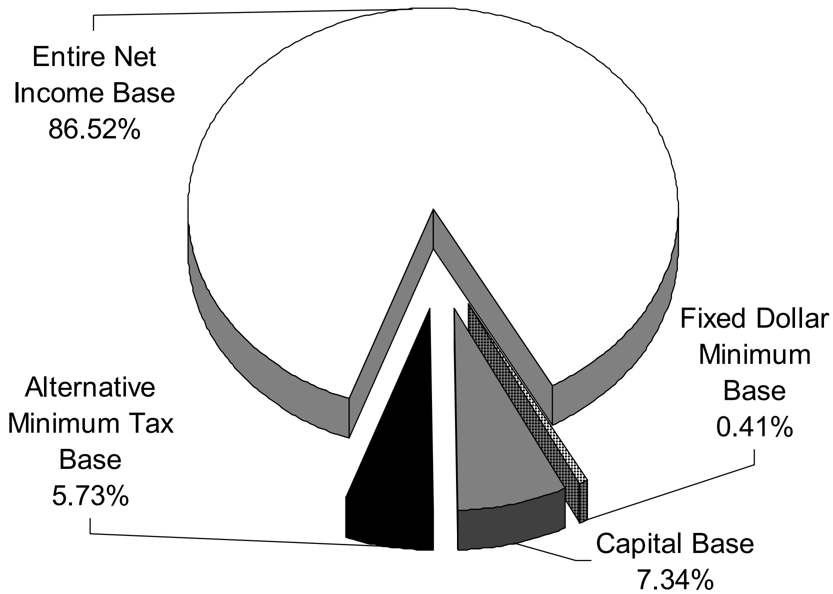
TAX BASE

The corporation franchise tax is made up of business entities classified as either C corporations or S corporations. The New York State Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA) compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The *1998 New York State Corporation Tax Statistical Report* indicates that 259,093 taxpayers filed as C corporations, while 280,051 taxpayers filed as S corporations. This report contains the most recent available data on C and S corporations. The number of C corporations increased by roughly 2 percent from the prior year, while the number of S corporations increased by nearly 6 percent.

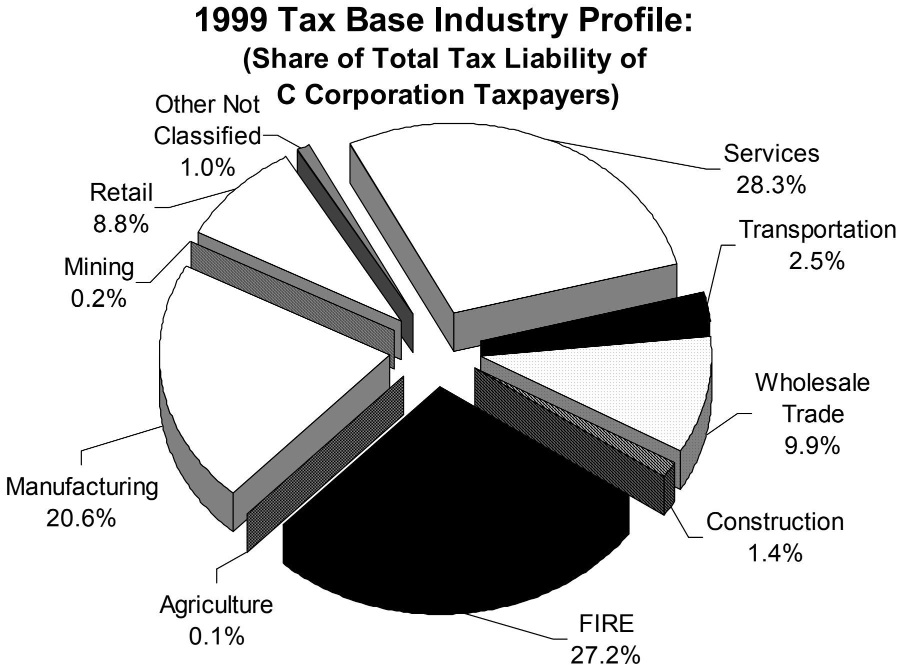
The OTPA's Corporate Franchise Tax Study File contains the most recent data available on Article 9-A liability. The study file includes all corporations filing under Article 9-A, except fixed dollar minimum tax filers and S corporations. The most current liability information is for the 1999 tax year.

As noted above, C corporations pay under the highest of four bases. In 1999, nearly 87 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 7.3 percent of liability. The AMT base has begun to diminish over time due to tax law changes, including a drop in the tax rate from 3.5 percent in 1995 to 2.5 percent currently. (See following chart.)

1999 Distribution of Tax Liability by Basis of Tax

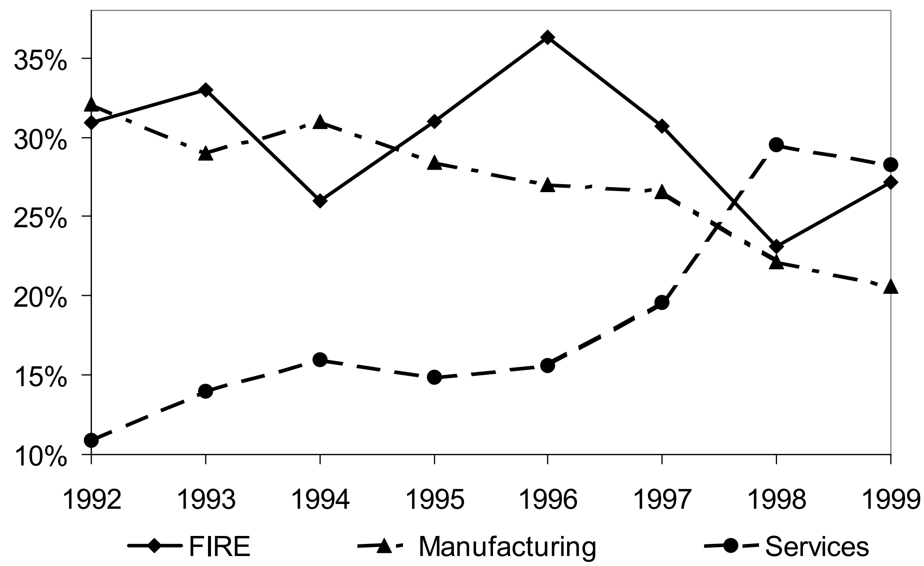


The next chart shows the distribution of tax liability by major industry sector. Liability paid by the finance, insurance, and real estate sector (FIRE) made up approximately 27.2 percent of total tax liability paid by C corporation taxpayers in 1999, with the manufacturing sector accounting for 20.6 percent of liability. The service industry has grown quite significantly throughout the 1990's and, in 1999, represented over 28.3 percent of total liability.



The following chart illustrates the fluctuation in the percentage of liability paid by the three industries that typically make up the largest share of liability for the period 1992 to 1999: FIRE, manufacturing and services. The FIRE industry is historically one of the largest sources of tax receipts for Article 9-A. Liability for this industry tends to be very volatile over time. Liability rose, for example, to 36 percent in 1996 and then dropped to as low as 23 percent in 1998. In comparison, the service industry has exhibited steady growth in recent years. The manufacturing industry's share of total liability has declined steadily. The chart illustrates that New York's corporate tax base has followed the national trend in shifting from manufacturing to services.

Industry Profile: Percent of Total Liability
(1992-1999)



SIGNIFICANT LEGISLATION

The corporate franchise tax structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to adjust 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. The following table summarizes the major corporation franchise tax legislation enacted since 1994.

SIGNIFICANT CORPORATION FRANCHISE TAX LEGISLATION

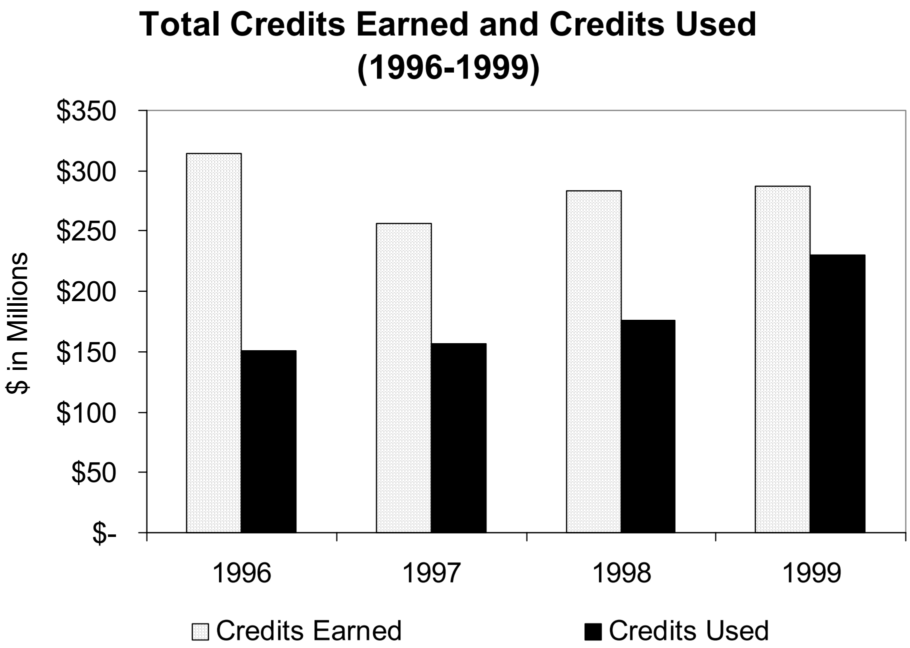
Subject	Description	Effective Date
Legislation Enacted in 1994		
Exclusion of Income for Foreign Airlines	Allowed foreign airlines to exclude the following items from entire net income: all income from international operations of aircraft effectively connected to the United States; foreign passive income, and income earned overseas.	Retroactive to January 1, 1989
Temporary Business Tax Surcharge	Eliminated the temporary 15 percent surcharge over a four year period.	January 1, 1994
Special Additional Mortgage Recording Tax (SAMRT)	Provided for refundability of the unused portion of the SAMRT credit to both regular and S corporation nonbank mortgage lenders.	January 1, 1994
Depreciation	Changed the Modified Accelerated Cost Recovery System (MACRS) depreciation rule for non-New York property to conform to provisions of the Federal Tax Reform Act of 1986.	January 1, 1994
Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP)	Provided New York State authority for formation of LLCs and LLPs, which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations.	October 24, 1994
Investment Tax Credit/ Employment Incentive Credit (EIC)	Extended carryover period for this credit from 7 to 10 years.	January 1, 1994
Rate Reduction – Alternative Minimum Tax (AMT)	Reduced rate from 5.0 percent to 3.5 percent.	January 1, 1995

Subject	Description	Effective Date
Legislation Enacted in 1996		
Rehabilitation Credit for Historic Barns	Allowed taxpayers to claim corporate franchise tax credit for the rehabilitation of historic barns in New York State.	January 1, 1997
Agricultural Property Tax Credit	Allowed eligible farmers to claim a real property tax credit against the corporate franchise tax.	January 1, 1997
Legislation Enacted in 1997		
Investment Tax Credit Carryforward	Allowed any unused pre-1987 investment tax credit to remain available until 2002. Post-1986 investment tax credit extended to 15-year carry forward.	January 1, 1998
Alternative Fuel Vehicle Credit	Provided corporations and individuals with a tax credit for a portion of the cost of purchasing or converting vehicles to operate on alternative fuels.	January 1, 1998
Credit for Employing Individuals with Disabilities	Allowed employers who employ individuals with disabilities to claim a credit for a portion of wages paid to such individuals.	January 1, 1998
Legislation Enacted in 1998		
Rate Reduction – AMT	Reduced rate from 3.5 percent to 3.0 percent phased in over 2 years.	June 30, 1998
Investment Tax Credit	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.	October 1, 1998
Emerging Technology Companies Credit	Provided, under the New York State Emerging Industry Jobs Act, corporate franchise tax credits for qualified emerging technology companies that create new jobs, or for certain corporate taxpayers that invest in emerging technology companies located in New York State.	January 1, 1999
Rate Reduction – ENI	Reduced the tax rate from 9 percent to 7.5 percent over a three-year period beginning after 6/30/99.	June 30, 1999
Legislation Enacted in 1999		
Rate Reduction – AMT	Reduced rate from 3.0 percent to 2.5 percent.	June 30, 2000
Mergers and Acquisitions	Repealed the provisions relating to mergers, acquisitions and consolidations.	January 1, 2000
Alternative Fuel Vehicle Credit	Expanded the alternative fuel credits to electric and clean fuel vehicles sold or leased to governmental entities, provided that the companies manufacture the vehicles in New York and create at least 25 full-time jobs.	January 1, 2000
Airline Apportionment	Reduced the percentage of income apportioned to New York by 40 percent by changing the allocation formula to multiply the New York Factor in the numerator of each component in the formula.	January 1, 2001
EDZ/ZEA Wage Tax Credit	Doubled the existing Economic Development Zone (EDZ) and Zone Equivalent Area (ZEA) wage tax credits.	January 1, 2001
Defibrillator Credit	Granted a new credit of $500 per automated external defibrillator.	January 1, 2001
Legislation Enacted in 2000		
Energy Reform and Reduction	Energy companies, previously taxed under section 186 of Article 9, will now be subject to the Article 9-A corporate franchise tax.	January 1, 2000
Industrial or Manufacturing Business Credit (IMB)	A refundable credit provided for any of the gross receipts taxes and the section 189 gas import tax on manufacturing uses of energy.	January 1, 2000
Low Income Housing Tax Credit	Based on the structure of the Federal low-income housing tax credit. In addition, the credit is expanded to include housing constructed for moderate-income households. The amount of the credit depends on whether a building is new, existing, or federally subsidized.	January 1, 2000
Securities and Commodities Brokers or Dealers Customer Sourcing	Allows securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001

Subject	Description	Effective Date
Empire Zones (EZ)	Economic Development Zones (EDZ) are 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 sales and use tax exemption. The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	January 1, 2001
Rate Reduction – S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003
Rate Reduction – Small Businesses	Small businesses with entire net income of $200,000 or less pay a reduced tax rate of 6.85 percent.	June 30, 2003
Legislation Enacted in 2002		
Low-Income Housing Tax Credit	Doubled the statewide, aggregate credit limit for the low-income housing tax credit from $2 million to $4 million.	May 29, 2002
Estimated Payment Requirement	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for those corporate taxpayers whose prior year's liability exceeds $100,000.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations. Extended the program from July 31, 2004 to December 31, 2020.	Various

Proposed Legislation

This year the Governor is proposing a change to the Empire Zones program. The Empire Zones program provides significant tax savings for businesses by designating virtually tax free zones, including a full rebate of local property taxes. This proposal provides that the cost of the property tax credit be equally shared between the State and localities benefiting from the economic benefits accruing to the zone. This proposal would require the County Director of Real Property Taxes to provide a refund equal to half the cost of the credit for qualified Empire Zones businesses. First, the Tax Department, after reviewing the taxpayer's tax return, would allow a tax credit equal to half the allowable credit. Second, the Tax Department would then issue to the taxpayer a QEZE property tax refund voucher for the other half. The taxpayer would then present this document to the County Director, with a refund application. The county pays the refund and then charges the city, town, school district and special district their share of the refund. The proposal would be for tax years beginning on or after January 1, 2004, for property taxes paid or incurred on or after January 1, 2004. This proposal is prospective, and has no expected fiscal impact in 2003-04. It would only be for taxpayers that had not previously claimed an Empire Zones real property tax credit.



Credits

The graph shows major credits earned and used by Article 9-A taxpayers, and illustrates that the amount of credits earned greatly exceeds the amount of credits used. These credits include the investment tax credit (ITC), Empire Zone credits, the alternative minimum tax (AMT) credit, the farmer's school credit, and a special additional mortgage recording credit. A credit earned is the amount of credit earned by a taxpayer in the current tax year. This is prior to any credit recapture, and does not include credits earned in or carried over from any prior years. In 1999, the ITC accounted for about 90 percent of all tax credits earned and about 87 percent of all tax credits used. It is anticipated that the amount of ITC used will increase due to tax law changes reducing the AMT rate to 3.0 percent in 1998 and to 2.5 percent in 2000. This is because the AMT, by construction, limits the amount of certain credits a taxpayer can use to reduce tax liability.

Historically, Tax Law provisions prevented taxpayers from using tax credits to reduce final tax liability below the fixed dollar minimum tax or the AMT. This resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. In 1999, nearly $1.8 billion worth of tax credits were carried forward. Legislation enacted in 2000, however, made it possible to apply the employment incentive credit and the newly created tax reduction credit against the AMT if taxpayers are within an Empire Zone. 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. In addition, the Empire Zone property tax credit is refundable, whereby taxpayers use the credit against liability, but receive a refund of any remaining credit. It is expected that these tax relief measures will result in somewhat fewer tax credits being carried forward to future years.

2002-03 RECEIPTS

Based on collections to date, total net All Funds collections for State fiscal year 2002-03 are estimated to reach $1,734 million, a $31 million dollar increase from the 2001-02 level. This follows a decline of nearly 35 percent from 2000-01 to 2001-02. Cash collections to date indicate 2002-03 receipts will remain depressed from 2000-01 levels, due to a number of factors related to tax law changes; taxpayer behavior, including adjustments on payments; continued weakness in the economy; and the continued impact of the World Trade Center disaster.

A number of tax law changes at both the State and Federal levels have contributed to reduced collections in the current fiscal year. At the State level, tax reductions valued at over $400 million became effective during the 2001-02 and 2002-03 State fiscal years. The most significant of these were the ENI and AMT rate reductions and the tax benefits available under the Empire Zones program. Additionally, following the September 11 attacks, the Federal government amended the Tax Code as part of the Job Creation and Worker Assistance Act of 2002. A new Federal bonus depreciation provision was enacted that allows taxpayers to elect to deduct 30 percent of the cost of most new capital assets placed in service between September 10, 2001, and September 11, 2004. Since the New York corporate tax structure follows the Federal structure, the additional deduction has reduced New York tax liability under both the ENI and AMT bases. The fiscal impact of this legislation is estimated to be $105 million in 2002-03.

Several legislative actions are expected to increase receipts during the 2002-03. A Tax Amnesty program authorized as part of the 2002-03 Enacted Budget is expected to increase receipts by $32 million in 2002-03. Additionally, receipts are expected to increase by $40 million as a result of the change in the required first installment from 25 to 30 percent of prior year payments, due in March for calendar year filers, effective January 1, 2003. Calendar year filers tax years end December 31.

Another factor influencing collections is taxpayer behavior. As in 2001-02, taxpayers have continued to make large adjustments to prior year payments. These adjustments, which can be taken as a refund or applied against the current year’s liability, will reduce cash collections during the State fiscal year. Last year, calendar year filers made adjustments to prior years’ liability, totaling over $600 million. This year, adjustments are expected to reach $554 million.

The economy continues to be a negative factor impinging on corporate franchise tax receipts. Payments on 2002 liability have been depressed by continued weakness in the economy and, in particular, the securities markets. Corporate profitability remains approximately 11 percent below levels achieved during the 2000-01 fiscal year. Profits from financial services firms continue to suffer from declines in both stock values, trading activity and the collapse of the Merger and Acquisition (M & A) and Initial Public Offering (IPO) markets.

Corporate tax receipts show signs of continued pressure resulting from the September 11 attacks. The tourism and airline industries continue to suffer from reduced travel by both business and leisure passengers. In addition, as a result of preliminary SEC recommendations regarding practices to strengthen the resilience of the U.S. financial system, it is expected that companies will decentralize operations to ensure they will have backup arrangements with sufficient out-of-region staff and equipment to recover critical activities in the event of another terrorist attack or other disaster.

2003-04 PROJECTIONS

Corporate franchise tax All Funds receipts are expected to increase by 3.6 percent from estimated 2002-03 levels to $1,796 million. The projection is driven by several factors. Corporate profitability is expected to improve during the 2003-04 fiscal year. In addition, the direct impact of the September 11 attacks continues to diminish. In contrast, the impact of the "Job Creation and Worker Assistance Act of 2002" will continue to reduce receipts. In addition, credits under the Empire Zones program are expected to grow as more businesses enter the program.

The corporate franchise tax projection is based, in part, on the underlying relationship between liability and overall corporate profitability. Corporate profits, which have declined significantly over the course of the 2001-02 and 2002-03 State fiscal years, are expected to improve during 2003-04.

OTHER FUNDS

Under current law, corporations doing business in the MCTD are subject to a 17 percent surcharge on the portion of the total tax liability allocable to the region. In addition, the MTOAF was held harmless from the ENI rate reduction, which began in 1999. As a result, MTOAF collections will not be diminished by the corresponding reduction in General Fund receipts. Based on collections to date, the Article 9-A MTOAF contribution for 2002-03 is projected to reach approximately $199 million, a 5.8 percent increase from 2001-02. As with General Fund receipts, surcharge collections are affected by the volatility of the financial services sector and general growth in business activity for the current tax year. Consistent with overall estimates, and the fact that the MTOAF is protected from the corporate franchise tax reduction, 2003-04 State fiscal year collections are expected to increase by roughly 3 percent.

GENERAL FUND

Based on collections to date, General Fund net collections for State fiscal year 2002-03 are projected to increase by $20 million, a 1.4 percent increase from State fiscal year 2001-2002 levels.

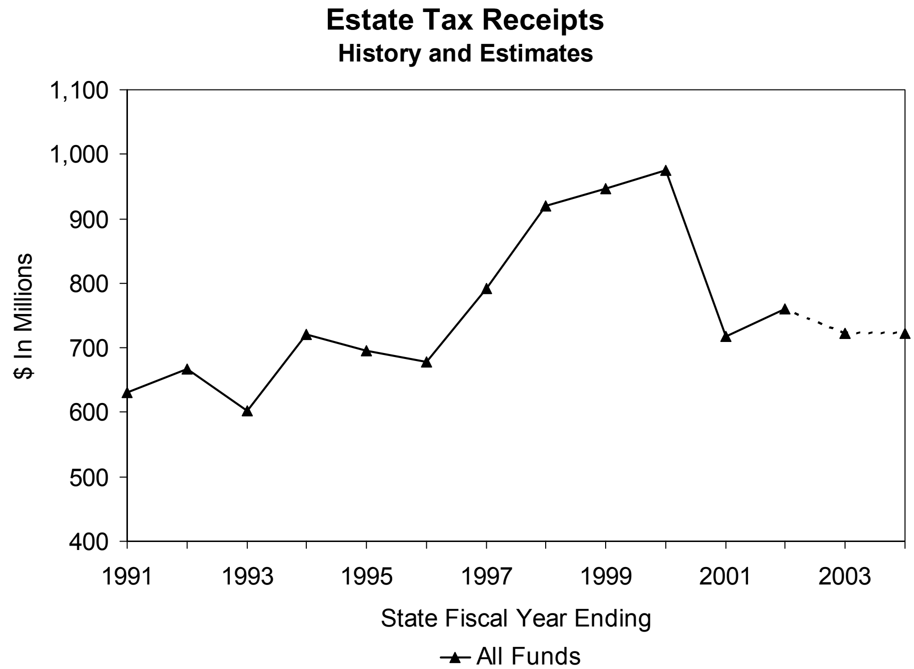
General Fund receipts for State fiscal year 2003-04 are expected to increase by 3.6 percent over 2002-03 levels to $1,591 million. This increase is the result of increasing corporate profitability, offset by the continuing impact of previously enacted tax cuts.

CORPORATION 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									
1994-95	2,289	278	2,012	207	20	187	0	0	2,199
1995-96	2,217	396	1,821	217	36	182	0	0	2,002
1996-97	2,414	348	2,067	274	36	239	0	0	2,306
1997-98	2,381	300	2,081	289	27	262	0	0	2,343
1998-99	2,479	429	2,050	243	30	213	0	0	2,262
1999-2000	2,422	483	1,939	272	43	229	0	0	2,168
2000-01	2,817	482	2,335	316	21	295	0	0	2,630
2001-02	2,012	497	1,515	236	48	188	0	0	1,703
Estimated									
2002-03	1,999	464	1,535	244	45	199	0	0	1,734
2003-04	1,978	387	1,591	255	50	205	0	0	1,796

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

ESTATE TAXES



DESCRIPTION

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.

Current Law

Legislation enacted in 1997 significantly reduced State estate tax collections and changed the way the New York State estate tax was imposed. The State's estate tax rate structure, credits and exemptions were eliminated in two phases.

The first phase of the estate tax legislation, for those dying on or after October 1, 1998, and before February 1, 2000, increased the unified credit (the credit that can be used to reduce liability of either the estate or gift tax under the unified imposition of these taxes) from $2,950 to $10,000, thereby increasing the value of transfers exempt from taxation to $300,000. In addition, the requirement for 90 percent of the estate tax to be paid within six months of death to avoid underpayment interest was changed to seven months.

The second phase, for decedents dying on or after February 1, 2000, eliminated New York's estate tax rate schedule and provided that New York State's estate tax would be equal to the maximum Federal credit for state death taxes paid, commonly called the pick-up tax. New York also automatically conformed State law to the unified credit provisions specified in Federal law, but capped the maximum credit to exempt the first $1,000,000. In February 2000, Federal law set the unified credit at $675,000 and contained a schedule that increased the credit to $1 million by 2006. (See table below.) In addition, consistent with Federal law, 100 percent of tax liability is due within nine months of the decedent's death.

Federal Legislation

The current Federal law converts the unified credit to an exemption and accelerates the phase-in schedule to effectively exempt the first $1 million of the value of an estate in 2002. (See table below.) Because New York conforms to the unified credit portion of Federal law, the $1 million exemption in New York law was also accelerated from 2006 to 2002.

State unified credit/exemption under the prior and current Federal law:

State Unified Credit/Exemption Amounts

Year	Prior to 2001 Federal Tax Reduction Program	After 2001 Federal Tax Reduction Program
2000, 2001	$675,000	$675,000
2002, 2003	700,000	1,000,000
2004	850,000	1,000,000*
2005	950,000	1,000,000*
2006 and thereafter	1,000,000	1,000,000*

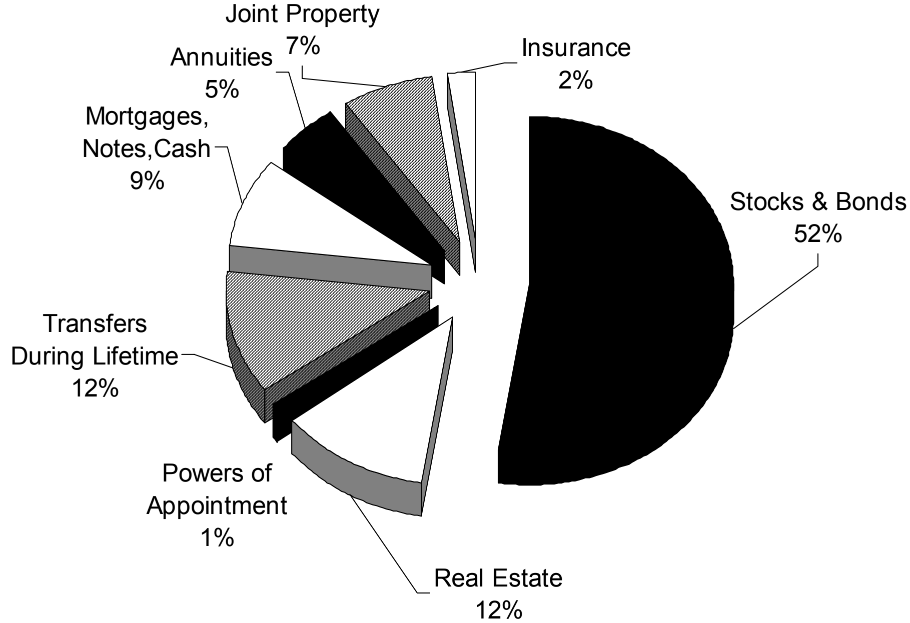
* New York State law caps the Unified Exemption set in Federal law at $1 million. The Federal law increases the amount to $1.5 million in 2004 and 2005, $2 million in 2006, 2007, and 2008, and $3.5 million in 2009.

In addition, the Federal law phases out the Federal credit for state death taxes over four years, by 25 percent per year. The provisions of New York's law setting the estate tax liability equal to the Federal credit for state death taxes conforms to the Federal law as it existed on July 22, 1998. As a result, New York estate tax liability will be unaffected by the phase-out of the Federal credit for state death taxes.

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 the equity market, given the large component of corporate stock in large taxable estates. Recent tax law changes have reduced estate tax collections across the board and thousands of the smallest estates have been eliminated from the tax rolls. As a result, volatility in receipts is expected to increase due to the more random nature of collections from large estates.

Components of Taxable Gross Estates
State Fiscal Year 2000-2001



SIGNIFICANT LEGISLATION

The major statutory changes since 1994 are summarized in the following table.

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).	June 7, 1995
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 estates of $300,000 or below.	October 1, 1998
	Increased credit from $2,950 to $10,000, thereby eliminating the tax on taxable gifts of $300,000 or below.	January 1, 1999
	Set the States' unified credit to equal the Federal credit, but capped the maximum credit to exempt the first $1,000,000 of the estate.	February 1, 2000
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		
Federal Conformity	Conforms New York State law to Federal law as of July 22, 1998, except for the unified credit provisions.	August 9, 1999
Family-Owned Business Deduction	Family-owned business exclusion repealed and replaced with family-owned business deduction, conforming to Federal law changes.	December 31, 1997

Subject	Description	Effective Date
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 of the return disclosing the cause of action if filed.	July 13, 1999

2002-03 RECEIPTS

For the 2002-03 fiscal year, estate tax receipts are estimated at $723.0 million, after subtracting estimated refunds of $40 million. This is composed of $77.8 million from super large estates with payments of over $25 million, $115.8 million from extra large estates with payments between $4 million and $25 million, $234.9 million from large estates with payments between $500,000 and $4 million, and $334.5 million from small estates with payments of less than $500,000. These receipts include Case and Resource Tracking System (CARTS) collections estimated at $30 million. The total estimate represents a decrease of 5 percent from the $761.4 million collected in 2001-02. It is estimated that the full year effects of the tax reductions enacted in 1997 have reduced total receipts by $428.4 million, or 46.4 percent, from the 1993-94 base.

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.

Year-to-date net estate tax collections of $550.9 million for 2002-03 are 0.3 percent lower than collections during the comparable period in 2001-02. Receipts are expected to decline over the rest of the fiscal year, reflecting estimated declines in the value of household net worth of 1.5 percent in 2002-03.

Year-to-date collections from super large estates are $77.8 million, an increase of $29.5 million, or 61 percent from the comparable period in 2001-02. Extra large estate collections in the first 9 months are $73.9 million, a decrease of $47 million, or 39 percent from the comparable period in 2001-02. Collections from large estates have increased by $32.6 million, or 23 percent, to $176.2 million from the comparable period in 2001-02. Small estate payments have experienced a decrease of $16.8 million, down 7 percent to $222.9 million from the similar period of 2001-02.

CARTS collections through nine months of 2002-03 were $25.8 million, a decrease of 20 percent from the same period of 2001-02. The previous year had a large audit payment in the first half of the fiscal year. Year-to-date refunds for 2002-03 are $21.8 million, 12 percent below the same period of 2001-02.

2003-04 PROJECTIONS

The combination of increasing the Federal unified credit from $675,000 to $1 million, and moving to a pick-up tax will partially offset an estimated 4.5 percent increase in the base of the tax. Including estimated CARTS collections of $31.5 million and refunds of $40 million, net estate tax receipts are projected to be $736.7 million in 2003-04.

Super large estate payments are projected to decline by $12.8 million or 16.5 percent to $65 million. The payments from extra large estates are expected to increase to $190 million. The results for the super large and extra large estates are based upon a distributional analysis that evaluates historical experience and predicts values for the future years. Large estate payments are estimated to decline by 11 percent to $209.2 million and small estates are expected to decline by 7.5 percent to $272.5 million. The results for the large and small estate payments are based on the projected value of household net worth which is expected to grow by 3.3 percent in 2003-04. The reduction in the estimate for large and small estates also reflect the effect of the recent tax cuts.

ESTATE TAX RECEIPTS BY SIZE OF ESTATE
(millions of dollars)

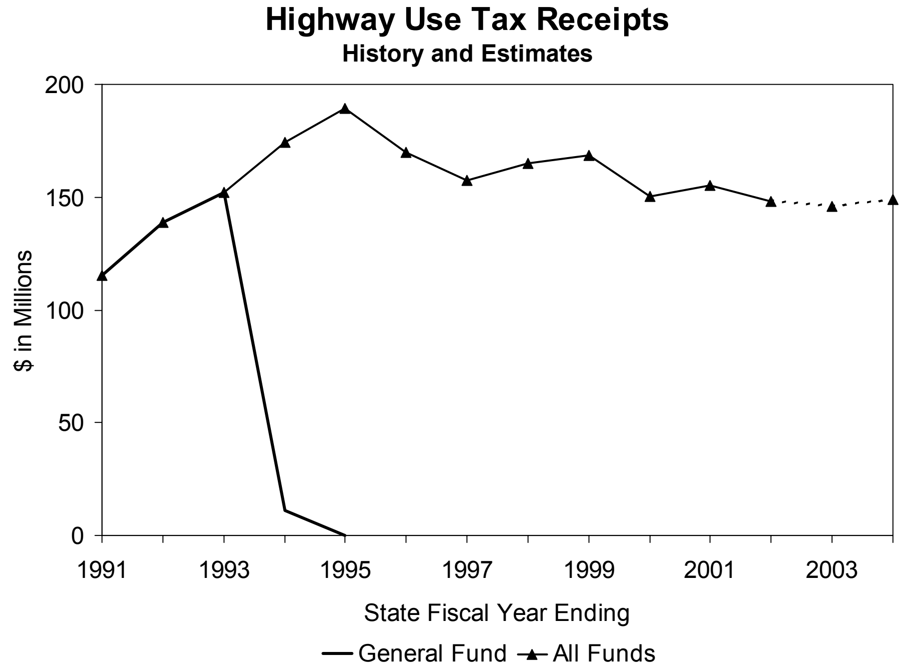
	Super Large Estates[1]		Extra Large Estates[2]		Large Estates[3]		Small Estates[4]	Grand Total
	Number	Taxes	Number	Taxes	Number	Taxes	Taxes	Taxes
1994-95	1	31.4	12	110.0	140	152.8	401.3	695.5
1995-96	1	37.5	8	67.5	132	158.2	415.4	678.6
1996-97	1	48.1	23	194.9	123	151.3	397.2	791.5
1997-98	5	176.7	18	140.7	160	195.5	406.4	919.3
1998-99	2	93.7	17	128.1	215	259.5	465.1	946.4
1999-2000	2	108.0	22	177.0	192	229.6	460.6	975.2
2000-01	0	0	22	160.0	179	224.7	332.4	717.1
2001-02	2	75.4	19	164.7	167	208.8	312.5	761.4
Estimated								
2002-03	3	77.8	15	115.8	200	234.9	294.5	723.0
2003-04	2	65.0	20	190.0	185	209.2	272.5	736.7

[1] Liability of at least $25.0 million.
[2] Liability of at least $4.0 million, but less than $25.0 million.
[3] Liability of at least $0.5 million but less than $4.0 million.
[4] Liability less than $0.5 million. (Small estates include CARTS, but all refunds are subtracted.)

ESTATE TAX RECEIPTS
(thousands of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
Actual							
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
1998-1999	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
2000-01	777,100	60,000	717,100	0	0	0	717,100
2001-02	791,014	29,614	761,400	0	0	0	761,400
Estimated							
2002-03	763,000	40,000	723,000	0	0	0	723,000
2003-04	776,700	40,000	736,700	0	0	0	736,700

HIGHWAY USE TAX



DESCRIPTION

Highway use tax revenues are derived from three sources: the truck mileage tax, 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. Under the gross weight method, 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 base truck mileage tax was imposed prior to January 1, 1999. Effective January 1, 1999, the supplemental tax was reduced by 50 percent, and effective April 1, 2001, the supplemental tax was reduced by an additional 20 percent of the remaining tax.

BASE TRUCK MILEAGE TAX RATES

Gross Weight Method

Laden Miles Gross Weight of Vehicle	Mills Per Mile
18,001 to 20,000	6.0
20,001 to 22,000	7.0
(increased gradually to)	
74,001 to 76,000	35.0
76,001 and over	add 2 mills per ton and fraction thereof
Unladen Miles Unloaded Weight of Truck	
18,001 to 20,000	6.0
20,001 to 22,000	7.0
(increased gradually to)	
28,001 to 30,000	10.0
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
8,501 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

Unloaded Weight Method

Unloaded Weight of Truck	Mills Per Mile
8,001 to 9,000	4.0
9,001 to 10,000	5.0
(increased gradually to)	
22,501 to 25,000	22.0
25,001 and over	27.0
Unloaded Weight of Tractor	
4,001 to 5,500	6.0
5,501 to 7,000	10.0
(increased gradually to)	
10,001 to 12,000	25.0
12,001 and over	33.0

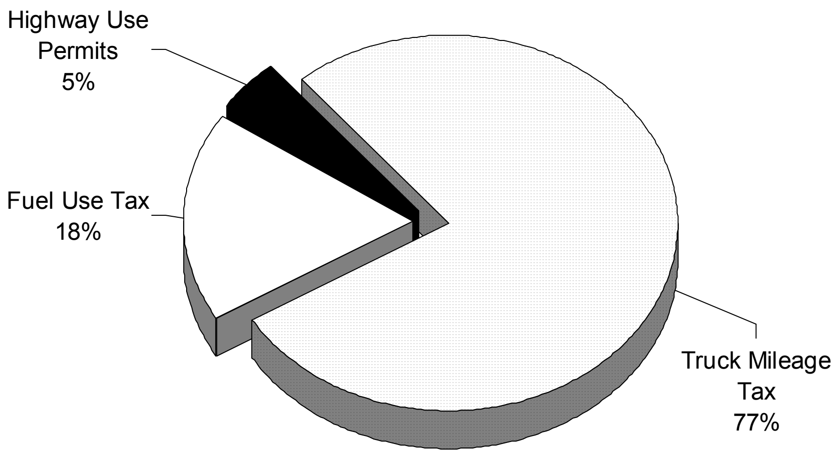
Highway Use Permits

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 and $4 for a permit renewal. 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.

Components of Highway Use Tax Receipts
Estimated State Fiscal Year 2002-03



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 1994.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996	January 1, 1995
Refunds	Permitted taxpayers who purchase more fuel in New York State than they consume in the State to claim refunds or credits for all excess payments of State fuel use taxes (prior to January 1, 1995, taxpayers could only obtain a refund or credit for the motor fuel tax portion of the fuel use tax).	January 1, 1995
International Fuel Tax Agreement	Authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996. This agreement provides for the uniform reporting and collection of fuel-use-related taxes among IFTA jurisdictions. Under IFTA, jurisdictions may only impose a fuel use tax on vehicles with loaded gross weights of more than 26,000 pounds or with three or more axles. Therefore, since January 1, 1996, vehicles with loaded gross weights between 18,000 pounds and 26,000 pounds and with fewer than three axles, that had been taxed in New York, were excluded from the fuel use tax.	
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

2002-03 RECEIPTS

In the current fiscal year, the weak economy contributed to a decline in trucking demand. In fact, truck mileage tax receipts to date in 2002-03 are 3.6 percent below the comparable 2001-02 period. This decline was partly due to the cut in the supplemental tax rate and reduced audit collections. Fuel use tax receipts to date in 2002-03 are 8.7 percent below the comparable 2001-02 period.

Based on collection experience to date, and the weak economic outlook (see Economic Backdrop section), highway use taxes will continue to decline. Net truck mileage tax receipts are projected at $113.4 million and fuel use tax receipts at $26.1 million. Permit fees of $6.6 million reflect a peak triennial renewal year. Total highway use tax All Funds receipts for 2002-03 are estimated at $146.1 million.

2003-04 PROJECTIONS

Total highway use tax All Fund receipts are projected at $149 million. The base of the truck mileage tax (demand for trucking) is expected to increase by 4 percent as a result of the improving economy. Net truck mileage tax receipts are estimated at $117.6 million. Due to the effect of increased fuel prices, the sales tax component of the fuel use tax is estimated to increase by 3.4 percent. As a result, fuel use tax receipts are expected to grow to $26.9 million. Permit fees of $4.5 million reflect a non-peak triennial renewal year.

OTHER FUNDS

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

GENERAL FUNDS

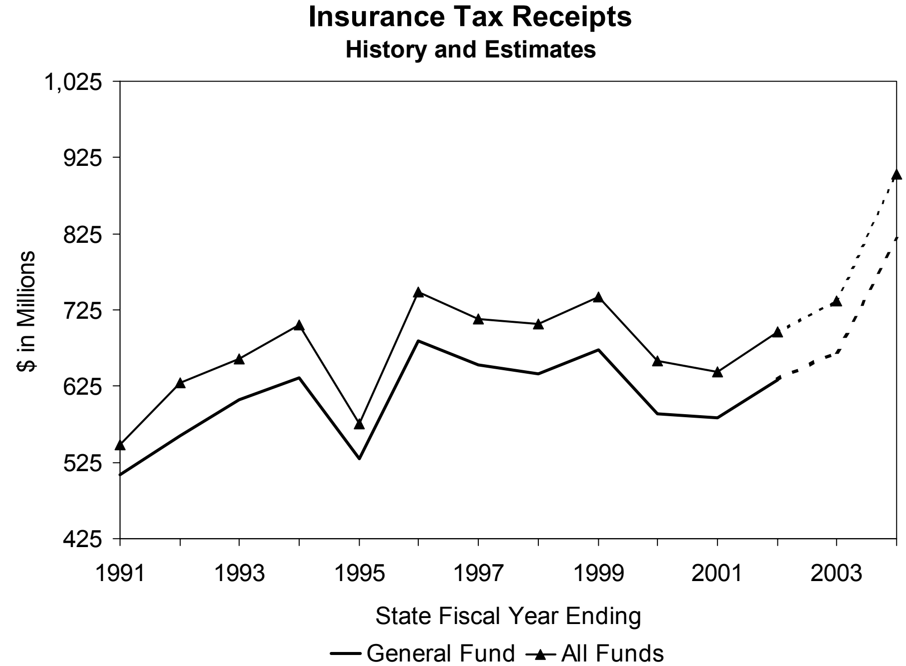
Since 1994-95, no highway use tax receipts have been deposited in the General Fund.

HIGHWAY USE TAX RECEIPTS
(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								
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
2000-01	0	0	0	0	157,180	2,105	155,075	0	155,075
2001-02	0	0	0	0	150,480	3,200	148,280	0	148,280
	Estimated								
2002-03	0	0	0	0	148,100	2,000	146,100	0	146,100
2003-04	0	0	0	0	151,000	2,000	149,000	0	149,000

[1] Dedicated Highway and Bridge Trust Fund

INSURANCE TAXES

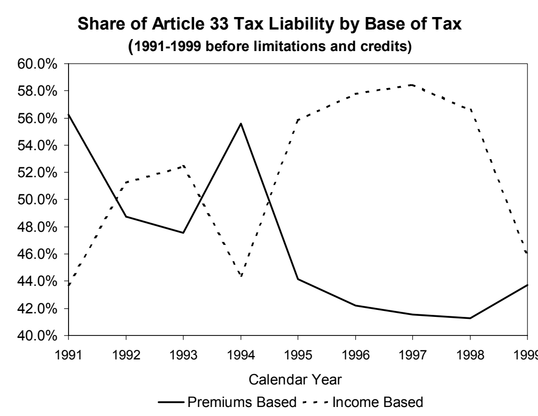


DESCRIPTION

The State collects taxes from insurance corporations, insurance brokers and certain insureds under Article 33 of the Tax Law and the Insurance Law. In addition, those Article 33 taxpayers doing 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.



The first component is a franchise tax that is computed under four alternative bases, with tax due based on the maximum of the four alternative bases and rates described in Table 1. In addition, there is a 0.08 percent tax rate applied to subsidiary capital allocated to New York.

TABLE 1
RATES FOR THE NET INCOME COMPONENT OF THE FRANCHISE TAX
BY TYPE OF BASE

Base	Rate
Allocated entire net income	7.5 percent
Allocated business and investment capital	1.6 mills for each dollar
Allocated income and officers' salaries	9.0 percent
Minimum tax	$250

Tax is allocated to New York under the entire net income base (ENI) by a formula, which apportions ENI 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 total premiums and total wages for the tax year for all employees.

The second component is an additional franchise 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 type of insurance covered and the type of insurer determines the rate of the premiums tax. 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

A maximum tax is computed based on net premiums. As of July 1, 2002, both life and nonlife insurers determine their limitation by multiplying net premiums by 2.0 percent. Prior to this time, the cap differed according to the type of insurer. In 1999, approximately 50 percent of insurance taxpayers benefited from the cap.

Generally, taxpayers with tax liability that exceeds the limitation may not reduce their liability with tax credits to a level below the limitation. However, special treatment is allowed for Empire Zone and Zone Equivalent Area tax credits. Taxpayers may use these credits to reduce their tax liability below the limitation.

Article 33-A of the Tax Law

Chapter 190 of the Laws of 1990 established a tax of 3.6 percent of premiums 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 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 (MTOAF), dedicated to mass transit assistance in the New York metropolitan region.

SIGNIFICANT LEGISLATION

Credits

Article 33 taxpayers are eligible for several targeted tax credits, including the certified capital companies (CAPCOs) credit, the investment tax credit (ITC), the long-term care insurance credit, and the Empire Zones credits. The table below lists the major tax credits available under Article 33.

DESCRIPTION OF MAJOR TAX CREDITS

Subject	Description
Retaliatory Tax Credit	Allows a credit up to 90 percent of retaliatory taxes paid to other states by New York domiciled or organized insurers.
Fire Insurance Tax Credit	Allows a credit for taxes paid on certain fire insurance premiums.
Investment in Certified Capital Companies Tax Credit	Equals 100 percent of the amount invested in CAPCOs for taxable years beginning after 1998. The credit is claimed at 10 percent per year for ten years. There is a dollar cap on the investment proceeds eligible for the credit. The original statewide cap was $100 million set in 1998. It was increased to $130 million in 1999 and to $280 million in 2000.
Special Additional Mortgage Recording Tax (SAMRT)	Provides up to 100 percent of SAMRT paid. A carry forward is allowed.
Investment Tax Credit	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 Credit	Creates a 10 percent credit for the cost of purchasing long-term care insurance as defined in the Insurance Law.
Empire Zones Program	Provides various tax incentives for insurers certified 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 tax exemption.

Furthermore, there are also several types of insurance contracts that 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 that 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) are examples of such exempt entities.

Recent Legislative Changes

The table below 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	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. The statewide cap was set at $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		
CAPCOs	The statewide cap is increased from $100 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: • 8.5 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 8.0 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 7.5 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Cap on Tax Liability	Reduces the limitation on tax liability for non-life insurers over a three-year period: • 2.4 percent for taxable years beginning after June 30, 2000 and before July 1, 2001. • 2.2 percent for taxable years beginning after June 30, 2001 and before July 1, 2002. • 2.0 percent for taxable years beginning on or after July 1, 2002.	June 30, 2000
Legislation Enacted in 2000		
CAPCOs	The statewide cap was increased from $130 million to $280 million.	January 1, 2002
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.
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

Subject	Description	Effective Date
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 tax exemption.	January 1, 2001
Legislation Enacted in 2002		
Estimated Payments	Increased the first quarterly payment of estimated tax from 25 percent to 30 percent of the prior year's liability for non-life insurance companies under Article 33. Life insurance companies, which currently pay a first quarterly payment of 40 percent, are not affected. Taxpayers whose prior year's liability exceeds $100,000 are affected. Taxpayers whose prior year's liability is between $1,000 and $100,000 will continue to make a first quarterly payment of 25 percent of the prior year's liability. Sunsets for tax years beginning on or after January 1, 2006, and expires January 1, 2007.	January 1, 2003
Empire Zones Program	Amended to clarify certain provisions and implement new components for several credit calculations. Extended the program from July 31, 2004 to December 31, 2020.	Various

Proposed Legislation

This year, the Governor has proposed two changes to the Insurance Tax law to simplify the structure.

- **Insurance Tax Restructuring:** This proposal would change the current tax structure for all insurers by eliminating the income base, and other non-premium bases with the exception of the fixed dollar minimum, and raising the premiums base tax to 2.0 percent. In addition, the legislation would change the first installment payment for all insurance taxpayers to 30 percent of estimated liability. This proposal puts New York in conformity with 37 other states that impose only a premiums based tax on insurance companies. The national average premiums rate is 2.1 percent.
- **CAPCO Program:** Another proposed change would create a fourth phase of the CAPCO program with a statewide cap of $250 million. The credit would become available after January 1, 2005, for investment in State supported research centers.

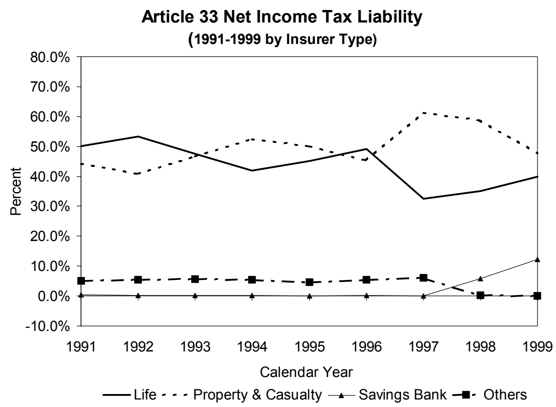
Federal Legislative Changes

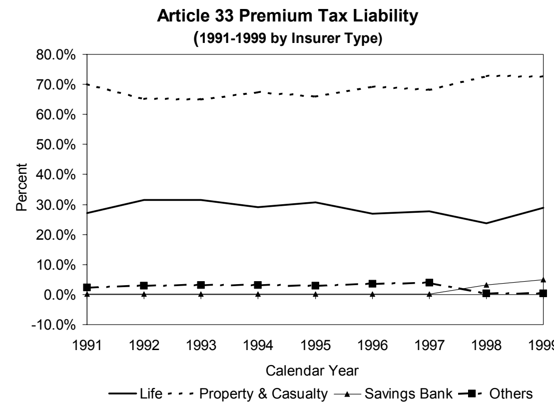
At the Federal level, the Terrorism Risk Insurance Act of 2002 (TIRA) will help to mitigate some industry risk by having private insurers and the federal government share the risk of future losses from terrorism. The legislation helps to make coverage available to owners of high profile structures or businesses with large concentrations of employees that could be exposed to chemical, biological, nuclear or radiological attacks.

2002-03 RECEIPTS

The estimate of All Funds receipts for State fiscal year 2002-03 is $737 million, an increase of 5.9 percent over the prior year. This primarily reflects an increase in premiums rates and premiums written in the 2002 calendar year.

The following graphs illustrate, for the 1991-1999 period that the Property/Casualty and Life/Health sectors combined have historically accounted for over 90 percent of tax liability.





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. Many property and casualty companies were adversely affected by the WTC disaster in 2001. In the five months following the terrorist attacks, insurers paid approximately $16 billion in claims. Payouts on these claims slowed drastically in 2002, mainly because the claims that remain are more complicated. The insurance industry currently estimates direct industry losses from the disaster to be approximately $40 billion. This estimate includes all lines of insurance, including workers' compensation, property, casualty, and reinsurance.

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 sector are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners' multi-peril. They account for approximately 80 percent of premiums. Table 4 reports actual property and casualty premiums from 1995 through 2001 for New York State.

Lines of Insurance	1995	1996	1997	1998	1999	2000	2001
Automobile	8,913	9,466	9,490	9,631	9,594	9,664	10,773
percent change	*3.98*	*6.20*	*0.26*	*1.49*	*(0.38)*	*.73*	*11.48*
Workers' Compensation	3,650	3,121	2,725	2,686	2,725	3,154	3,282
percent change	*(3.15)*	*(14.49)*	*(12.70)*	*(1.41)*	*1.44*	*15.74*	*4.06*
Commercial Multi-Peril	2,139	2,097	2,031	2,071	2,002	2,085	2,178
percent change	*4.70*	*(1.96)*	*(3.15)*	*1.99*	*(3.33)*	*4.15*	*4.46*
General Liability	1,853	1,851	2,091	2,734	1,825	2,148	2,455
percent change	*(6.45)*	*(0.11)*	*12.99*	*30.90*	*(33.25)*	*17.70*	*14.29*
Homeowners' Multi-Peril	1,966	2,053	2,133	2,181	2,230	2,326	2,469
percent change	*5.27*	*4.43*	*3.91*	*2.33*	*2.25*	*4.30*	*6.15*
Other	3,567	3,574	3,620	3,641	3,635	3,720	4,476
percent change	*(3.31)*	*0.20*	*1.29*	*0.61*	*(1.53)*	*2.34*	*20.32*
TOTAL P/C PREMIUMS	22,088	22,162	22,090	22,945	22,011	23,098	25,808
Annual Increase/Decrease							
percent change	*0.75*	*0.34*	*(0.32)*	*3.87*	*(4.07)*	*4.94*	*11.73*

As a result of the WTC disaster, the premiums tax collections have slightly increased as rates for commercial insurers have gone up. Net premiums for property and casualty companies overall grew by 11.7 percent in 2001 but are expected to return to average growth in 2002 and 2003.

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. Tax collections on premiums for life and health companies are expected to grow by approximately 2.8 percent throughout the forecast period. Overall, the estimate reflects continued growth at historical averages for this industry.

2003-04 PROJECTIONS

All Funds collections for 2003-04 are projected at $903 million, an increase of approximately 22.5 percent. The State fiscal year 2003-04 receipt gains are due to the proposed removal of the net income and other bases portion of the tax and the imposition of a 2.0 percent premiums rate for all types of insurance taxpayers. Absent the law change, it is expected that the net income base would increase minimally, primarily due to weak investment results for the industry.

The forecast of receipts from property and casualty insurers is based on an increase in premium liability of 5.0 percent, primarily resulting from modest growth in the automobile and homeowners sectors. It should be noted that many of these taxpayers are already paying at the 2.0 percent cap and will see no increase in tax paid under the proposed legislation. An increase in premiums, therefore, may not equate to a corresponding increase in revenue from all companies.

A significant downside risk to the forecast would be a continuation of the current economic slowdown. Given industry and economic conditions, some companies have withdrawn from certain lines of business, such as homeowners and private passenger automobile. Consolidations in this industry have continued over the past year, which reduced some competition and price pressure, allowing companies to increase premium rates. We expect that the supply on the property and casualty industry will remain below pre-September 11 levels.

The forecast assumes that the life and health sector will grow modestly through the 2003 tax year. Net income tax liability for this sector is projected to grow by 2.8 percent. Sales of variable annuities have fallen with the stock market in recent quarters. A major risk to the forecast would be the continued decline in investment income, affected by investment portfolios and annuity sales.

The Federal tax law changes, such as the Gramm-Leach-Bliley Act of 1999, which permits insurance companies, banks and brokerages to form consolidated companies offering a full range of financial services, does not appear to be materially affecting the industry at this time.

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. The MTOAF is estimated at $67 million for 2002-03 and $85 million for 2003-04.

GENERAL FUND

Based on collections to date, net collections for the year are estimated to be $670 million. This represents an increase of approximately $37 million from the prior year. The receipts estimate for 2002-03 includes an estimated $40 million in audit collections.

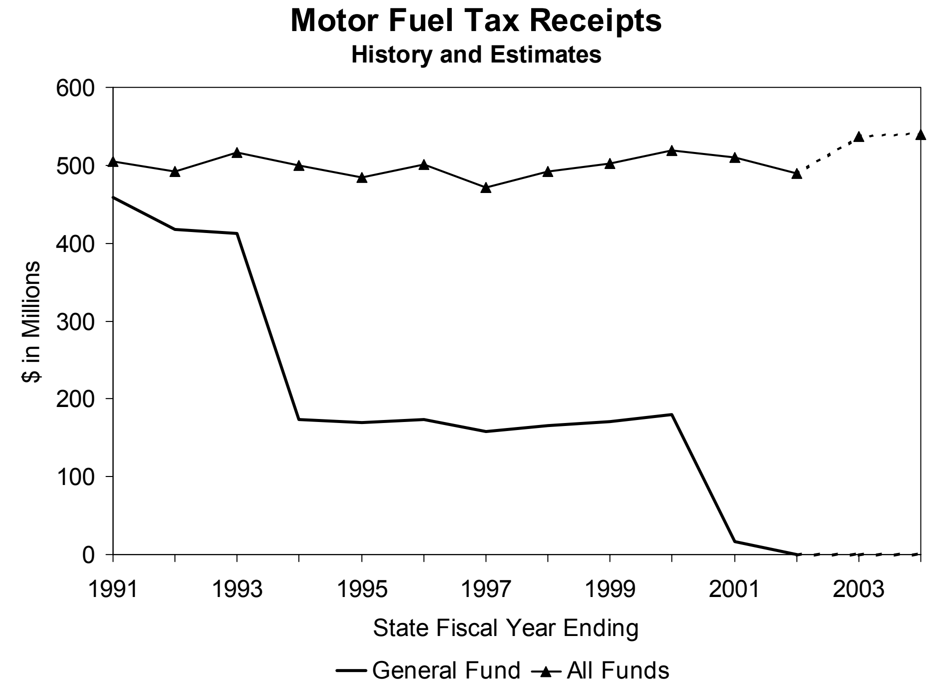
For 2003-04, General Fund collections are estimated at $818 million. The majority of the increase is attributable to the proposed tax law change. This includes an estimated $40 million in audits, offset by $35 million in refunds. The following table provides the receipts estimate for 2002-03 and the forecast for 2003-04, as well as a history of receipts for 1994-95 through 2001-02.

TABLE 5
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									
1994-95	593	36	27	530	50	4	46	0	0	576
1995-96	728	29	14	685	68	4	64	0	0	749
1996-97	715	29	33	653	68	8	60	0	0	713
1997-98	699	32	26	641	69	3	66	0	0	707
1998-99	744	45	26	673	76	6	70	0	0	743
1999-2000	633	45	(1)	589	79	10	69	0	0	658
2000-01	659	42	33	584	66	6	60	0	0	644
2001-02	708	34	41	633	81	18	63	0	0	696
	Estimated									
2002-03	745	35	40	670	77	10	67	0	0	737
2003-04[2]	893	35	40	818	95	10	85	0	0	903

[1] Mass Transportation Operating Assistance Fund
[2] Proposed Law

MOTOR FUEL TAX



DESCRIPTION

Motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of gasoline and diesel fuel, respectively. The 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 operating on the public highways of the State or in recreational motor boats operating 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;
- 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; and
- certain hospitals that qualify as exempt organizations under section 1116(a)(4) of the Tax Law.

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 for tax paid are available for fuel used by:

- omnibus carriers or taxicabs;
- nonpublic school vehicle operators, exclusively for education-related purposes; and
- volunteer ambulance services.

Administration

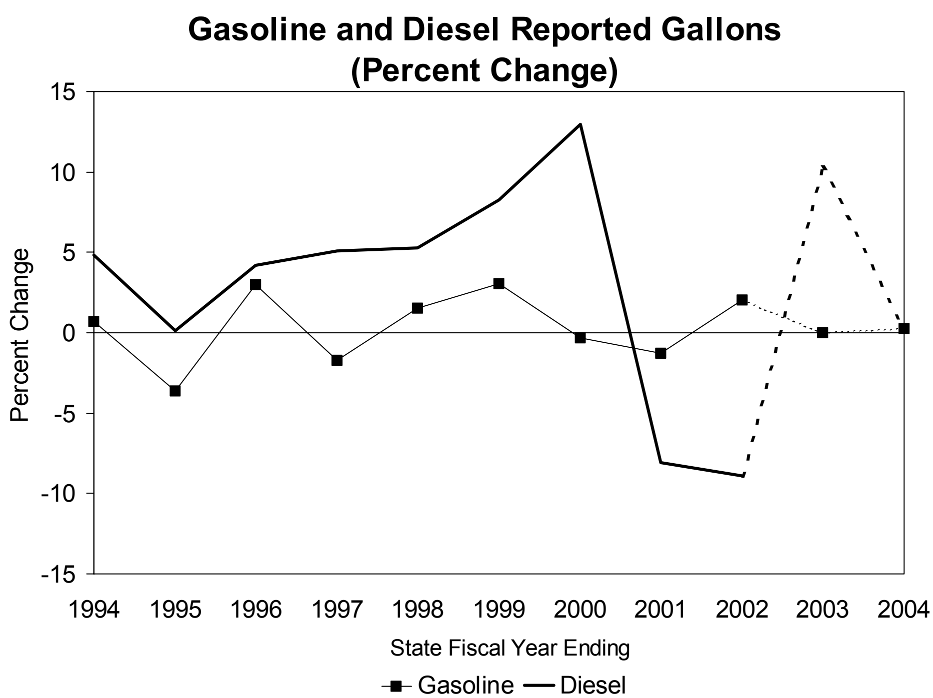
Although the motor fuel tax is imposed on the ultimate consumer of the fuel, the tax is remitted upon importation into New York. This tax-on-first-import system is designed to reduce gasoline tax evasion, which has involved bootlegging from other states and successions of tax-free sales among "dummy"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

Since 1988, taxes on diesel motor fuel have been 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. These taxpayers should remit taxes electronically or by certified check by the third business day following the first 22 days of each month. 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 first 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 was quite strong between 1995-96 and 1999-2000, reflecting robust demand for diesel fuel resulting from strong economic growth. The sharp decline in 2000-01 and the decline in 2001-02 diesel gallonage reflects, in part, higher prices for diesel fuel and the economic slowdown. Gasoline consumption has grown more slowly, but increased sharply in 1998-99, partially due to low gasoline prices during that period. Gasoline consumption declined slightly in 1999-2000, and again in 2000-01, and increased in 2001-02, due in part to price changes.



SIGNIFICANT LEGISLATION

Statutory changes since 1994 are summarized in the following table.

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

2002-03 RECEIPTS

All Funds receipts to date are $418.3 million, which is $6.2 million, or 1.5 percent, above the comparable period in 2001-02. Gasoline receipts to date are unchanged. Diesel receipts to date have increased by $6.2 million (13.5 percent) as the economy recovers from the adverse impact of the 2002 terrorist attacks and the national recession.

For the year as a whole, total motor fuel tax receipts are estimated at $534.8 million, an increase of $45.4 million, or 9.3 percent, from 2001-02. Due to a large negative accounting correction for gasoline receipts in March 2002, gasoline receipts for the remainder of the year are expected to be far above 2001-02 receipts for the same period. Accordingly, gasoline receipts for the year are estimated to increase by $36.4 million (8.4 percent). Diesel receipts are estimated to increase by $9 million (15.4 percent).

2003-04 PROJECTIONS

The gasoline and diesel consumption projections for 2003-04 reflect a slow recovery from recession and estimated fuel prices that continue to increase in 2003. All Funds receipts are projected to be $537.3 million, an increase of $2.5 million (0.5 percent). Gasoline receipts are projected to increase by $1.1 million. Diesel receipts are projected to increase $1.4 million.

OTHER FUNDS

Motor fuel tax revenues are by law distributed to four funds: the 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. The fund distribution is shown in the following table.

MOTOR FUEL TAX FUND DISTRIBUTION
(percent)

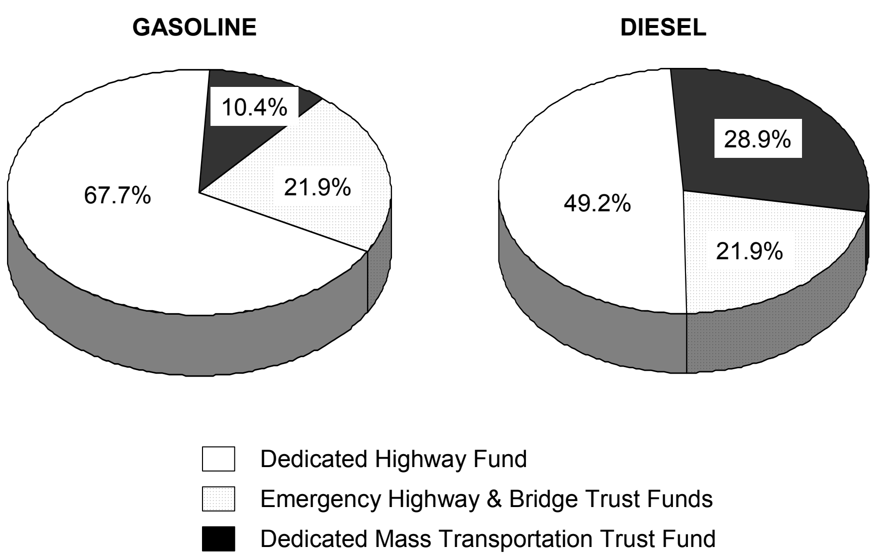
Effective Date	General Fund	DHBTF[1]	EHF[2]	DMTTF[3]
Prior to April 1, 1993				
Gasoline	78.1	0.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2000				
Gasoline	28.1	50.0	21.9	0.0
Diesel	78.1	0.0	21.9	0.0
Prior to April 1, 2001				
Gasoline	0.0	67.7	21.9	10.4
Diesel	28.1	31.5	21.9	18.5
Prior to April 1, 2003				
Gasoline	0.0	67.7	21.9	10.4
Diesel	0.0	49.2	21.9	28.9
After April 1, 2003				
Gasoline	0.0	81.5	0.0	18.5
Diesel	0.0	63.0	0.0	37.0

[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.

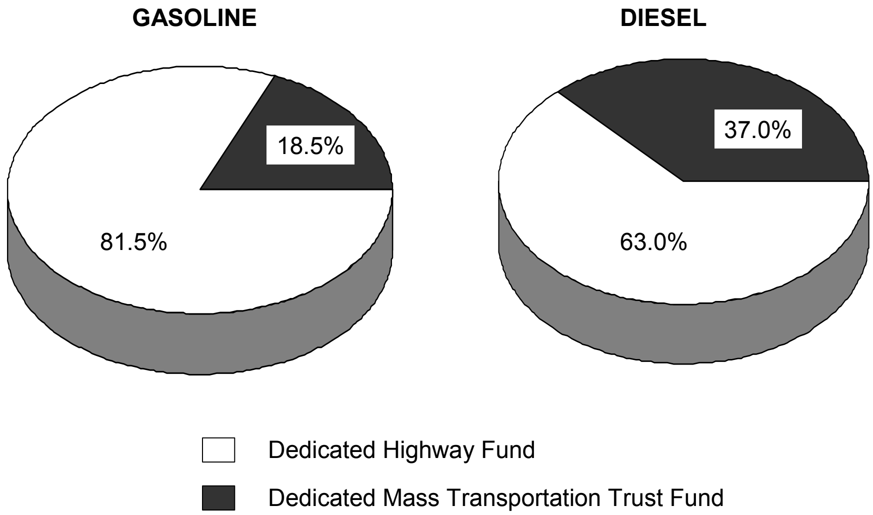
The percentage distributions of motor fuel tax revenue by fund and fuel type for State fiscal years 2002-03 and 2003-04, are displayed in the following pie charts.

Motor Fuel Tax Distributions by Fund

State Fiscal Year 2002-03



Motor Fuel Tax Distributions by Fund
State Fiscal Year 2003-04



GENERAL FUND

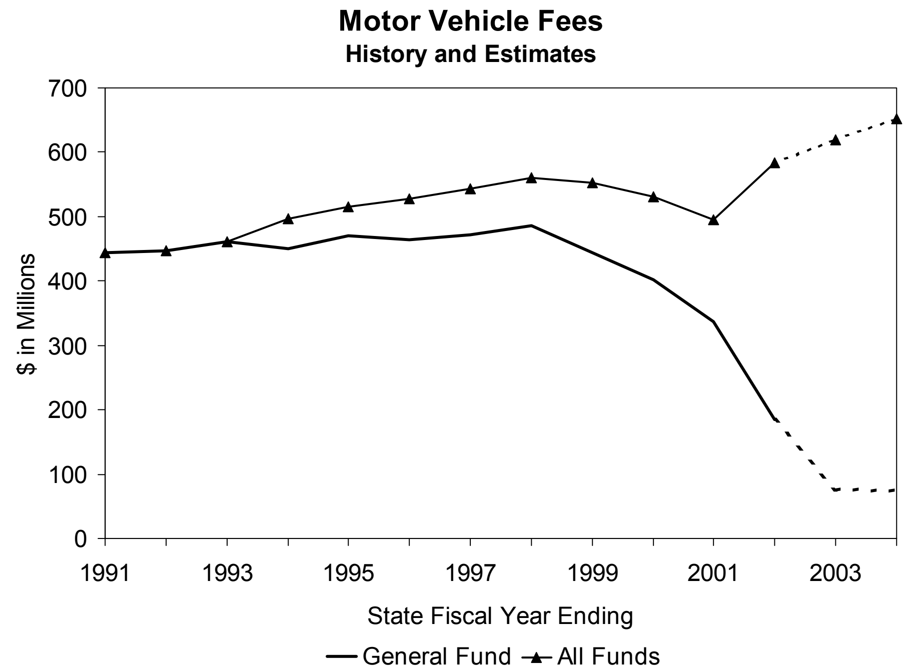
Motor fuel tax revenues are no longer deposited in the General Fund effective April 1, 2001.

MOTOR FUEL TAX RECEIPTS
(thousands of dollars)

	All Funds Gross Collections	Net General Fund	Net Special Revenue Funds[1]	Net Capital Projects Funds[2]	Net Debt Service Funds[3]	All Funds Refunds	All Funds Net Collections
	Actual						
1994-95	500,728	168,968	0	212,514	103,480	15,766	484,962
1995-96	515,775	173,597	0	220,460	107,425	14,293	501,482
1996-97	484,324	157,531	0	210,835	103,143	12,815	471,509
1997-98	503,666	165,255	0	218,897	107,562	11,953	491,713
1998-99	512,075	171,148	0	221,288	109,882	9,757	502,318
1999-2000	533,633	179,933	0	225,358	113,482	14,860	518,773
2000-01	524,251	17,312	58,088	323,291	111,633	13,926	510,325
2001-02	502,686	0	61,759	320,581	107,055	13,291	489,395
	Estimated						
2002-03	547,800	0	68,500	349,300	117,000	13,000	534,800
2003-04	550,300	0	112,500	424,800	0	13,000	537,300

[1] Dedicated Mass Transportation Trust Fund.
[2] Dedicated Highway and Bridge Trust Fund.
[3] Emergency Highway Reconditioning and Preservation Fund and Emergency Highway Construction and Reconstruction 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 the State are not usually required to be registered in New York.

Certain vehicles registered in New York are exempt from registration fees. The exemptions include: 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 societies 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 charged at 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 licensing 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 registrations 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 occur either in person or by mail at the central and district offices of the Department of Motor Vehicles, and 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 affecting revenues from motor vehicle fees.

Subject	Description	Effective Date
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
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 2001-January 2003)	January 1, 2001
Licenses	License renewal period extended to eight years.	April 1, 2000

2002-03 RECEIPTS

Gross receipts for fiscal year 2002-03 are estimated at $664 million. The estimate for receipts from registrations is $434 million and the estimate for receipts from licenses and other fees is $230 million. An estimated $45 million in refunds and county clerk retentions will result in estimated net All Funds receipts from motor vehicle fees of $619 million. The estimate reflects the continuing reissuance of new registration plates and the extension of a driver’s license renewal to eight years.

2003-04 PROJECTIONS

Consistent with historical trends, gross receipts for fiscal year 2003-04 are estimated at $692 million. The estimate for receipts from registrations is $431 million and $261 million for receipts from licenses and other fees. An estimated $41 million in refunds and county clerk retentions will result in estimated net All Funds receipts from motor vehicle fees of $651 million.

OTHER FUNDS

The Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation 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.

Pursuant to Chapter 63, Laws of 2000, in 2001-02 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 is allocated to highways and 37 percent to mass transportation. Other moneys from non-registration fees are shared in the same proportion.

Again pursuant to Chapter 63, Laws of 2000, beginning in 2002-03 an additional 31 percent of registration fees is earmarked to the same funds and in the same proportion as stated above. Thus, the total percentage of additional registration fees dedicated pursuant to Chapter 63, Laws of 2000, amounts to 54.5 percent. Since previous legislation had already earmarked 45.5 percent, all registration fees are earmarked to the two Trust Funds.

In fiscal year 2002-03, the Dedicated Highway and Bridge Trust Fund will receive an estimated $465 million and the Dedicated Mass Transportation Trust Fund will receive an estimated $78 million.

In fiscal year 2003-04, the Dedicated Highway and Bridge Trust Fund will receive a projected $481 million and the Dedicated Mass Transportation Trust Fund will receive a projected $95 million.

PROPOSED LEGISLATION

Legislation submitted with the Budget proposes to: (1) double current boat registration fees; (2) increase the fee for certificate of vehicle sale from $1 to $5; (3) increase the fee for original title application from $5 to $10; and (4) increase the charge for license plates from $5.50 to $15 per set. The increases are valued in 2003-04, respectively, at $1.3 million, $6 million, $7.3 million and $21.7 million.

In addition to increasing the fees listed above, the proposed legislation would dedicate the additional moneys from the certificate of sale fee and the original title application fee to the Dedicated Highway and Bridge Trust Fund beginning April 1, 2004. These two fees are valued in 2004-05, respectively, at $12 million and $14.7 million. Finally, the proposed legislation would dedicate $59.9 million from non-registration fees to the Dedicated Highway and Bridge Trust Fund in 2004-05.

DISTRIBUTION FROM REGISTRATION FEES
(percent)

Effective Date	General Fund	Dedicated Highway and Bridge Trust Fund	Dedicated Mass Transportation Trust Fund
Prior to April 1, 1993	100.0	0.0	0.0
April 1, 1993	87.0	13.0	0.0
January 1, 1995	83.0	17.0	0.0
January 1, 1996	80.0	20.0	0.0
April 1, 1998	72.0	28.0	0.0
July 1, 1998	66.0	34.0	0.0
February 1, 1999	54.5	45.5	0.0
April 1, 2001	31.0	60.3	8.7
April 1, 2002	0.0	79.8	20.2

GENERAL FUND

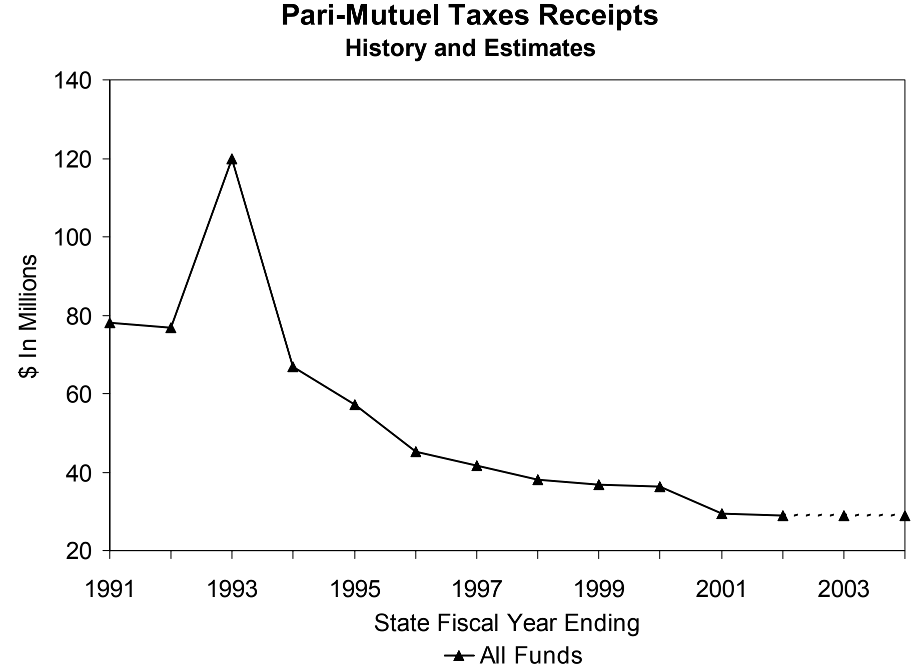
In fiscal year 2002-03, the General Fund will receive an estimated $76 million in motor vehicle fees. In fiscal year 2003-04, the General Fund will receive a projected $75 million based on proposed law.

MOTOR VEHICLE FEES
(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							
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
2000-01	372,554	18,712	16,425	337,417	0	157,309	0	494,726
2001-02	230,867	23,391	22,437	185,039	27,803	370,593	0	583,435
	Estimated							
2002-03	120,941	22,400	22,500	76,041	77,901	464,990	0	618,932
2003-04 current	79,360	21,000	20,000	38,360	95,092	481,492	0	614,944
2003-04 proposed	115,698	21,000	20,000	74,698	95,092	481,492	0	651,282

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

PARI-MUTUEL TAXES

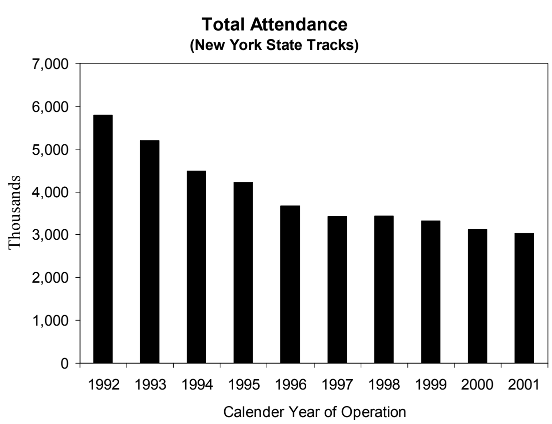


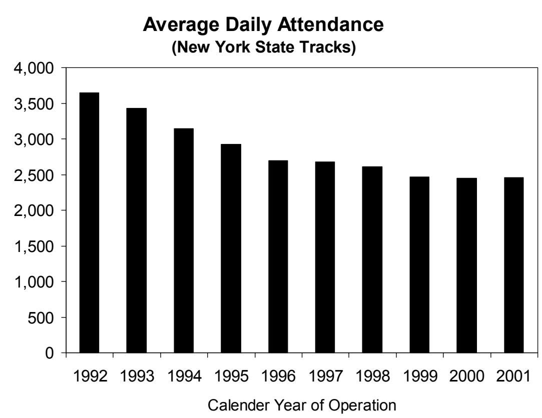
DESCRIPTION

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 agricultural 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 2001-02, $13 million and $7 million were 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 by as much as 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.

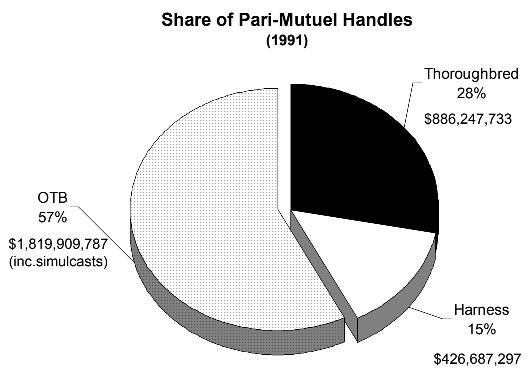
More recently, the State authorized telephone betting, in-home simulcasting experiments, expansion of simulcasting at both race tracks and OTB facilities. Also, the State lowered the tax rates on simulcast wagering, eliminated the State franchise fee on nonprofit racing associations, and reduced tax rates on NYRA bets.

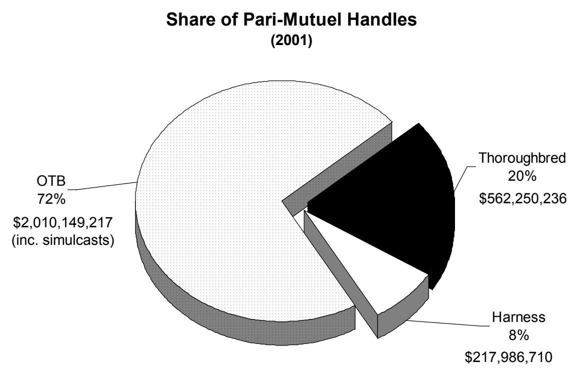
SIGNIFICANT LEGISLATION

The following table summarizes significant pari-mutual tax legislation enacted since 1994.

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
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 all NYRA bets to 2.6 percent.	September 10, 1999
	Cut the tax rate on all NYRA bets to 1.6 percent.	April 1, 2001

Subject	Description	Effective Date
Legislation Enacted in 2001		
Expanded Simulcasting	Lowered the takeout on NYRA races, decreased the percentage of takeout going to purses, allowed a "pick six" wager provided two contemporaneous out-of-State simulcast signals during the Saratoga meeting and provided a third out-of-State contemporaneous simulcast signal during the winter months and provided lower State tax rates for the additional simulcast racing.	June 12, 2001
Legislation Enacted in 2002		
Extended Expiring Laws	Extended to July 1, 2007, simulcasts for thoroughbred and harness racing, in-home simulcasts, telephone accounts and telephone wagering, simulcasts of out-of-State races, and current tax rates for off-track betting corporations.	June 17, 2002
	Extended the NYRA franchise to December 31, 2012, provided that Aqueduct racetrack commences video lottery gaming on April 1, 2003.	January 28, 2002





2002-03 RECEIPTS

Increases in simulcast handle, especially from out-of-State races, is expected to be offset by a continued decline in on-track handle. As a result, the total 2002-03 statewide betting handle (both on- and off-track) is expected to remain largely unchanged at approximately $2.8 billion.

The total thoroughbred on-track handle, including simulcasts, is estimated at $583 million, down 5 percent from the prior year. The continuing decline in wagering on live harness races is being offset, in part, by increased simulcasting. Total harness handle is estimated at $195 million. The handle at off-track betting corporations is estimated to increase to $2 billion, up 1.3 percent from the 2001-02 level.

Thoroughbred revenues, including simulcast receipts, are expected to decline by 6 percent from 2001-02 to $9.9 million, largely as the result of prior reductions in tax rates. OTB receipts are estimated to increase by 4 percent to $19 million. Receipts from harness tracks are expected to decrease 13 percent from $0.8 million to $0.7 million. Total pari-mutuel tax receipts are estimated to be $29.6 million.

2003-04 PROJECTIONS

Current Law

The pari-mutuel projections for 2003-04 assume a full racing season. In total, State pari-mutuel tax receipts are projected at $29.4 million for 2003-04.

Total on-track thoroughbred receipts are projected to decline by 2 percent as a result of a continuation of the downward trend in handle and attendance. A projected thoroughbred handle of $561.8 million, including betting on out-of-State races, will produce $9.7 million in tax receipts.

The harness racing handle is projected to decrease to $188.6 million, generating tax receipts of $0.7 million, including $0.3 million in revenue from on-track wagers and $0.4 million from simulcasting.

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

Proposed Law

Legislation submitted with this budget provides that:

- The racing industry beginning in State fiscal year 2003-04, directly fund the State's regulation of its activities. The tracks and OTBs would pay a separate regulating fee equivalent to 0.5 percent of all handle wagered on their races and/or at their facilities;
- The tracks would be authorized to set the takeout rate within a specified range;
- Unlimited simulcasting would be allowed; and,
- Mandatory fund balances for telephone accounts would be eliminated.

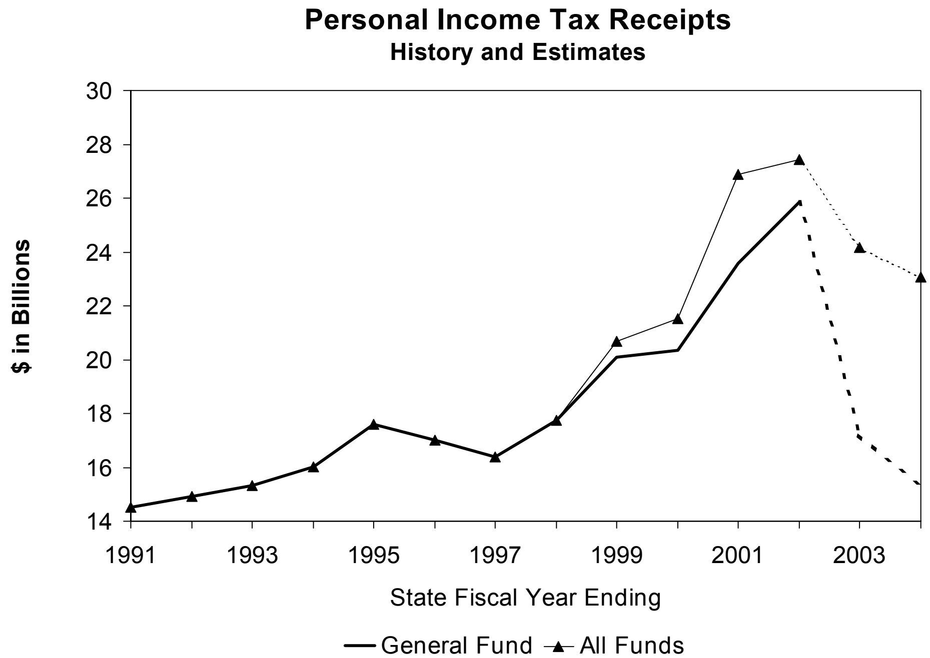
The passage of this proposed legislation will eliminate $12.2 million of General Fund support for the regulation of the racing industry in fiscal year 2003-04.

The increase in simulcasting and the elimination of minimum balances on telephone betting accounts are expected to increase the handle and generate approximately $2.3 million in additional State revenues in 2003-04.

PARI-MUTUEL TAXES RECEIPTS
(thousands of dollars)

	General Fund			Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Collections
	Flat	Harness	OTB				
	Actual						
1994-95	34,306	2,817	20,189	0	0	0	57,312
1995-96	23,985	1,220	19,906	0	0	0	45,111
1996-97	20,417	1,075	20,124	0	0	0	41,616
1997-98	19,329	1,013	18,022	0	0	0	38,364
1998-99	18,643	923	17,355	0	0	0	36,921
1999-2000	17,218	795	18,356	0	0	0	36,369
2000-01	14,152	750	14,444	0	0	0	29,346
2001-02	10,500	800	18,300	0	0	0	29,600
	Estimated						
2002-03	9,900	700	19,000	0	0	0	29,600
2003-04							
(current law)	9,700	700	19,000	0	0	0	29,400
(proposed law)	10,447	754	20,464	16,060	0	0	47,725

PERSONAL INCOME TAX



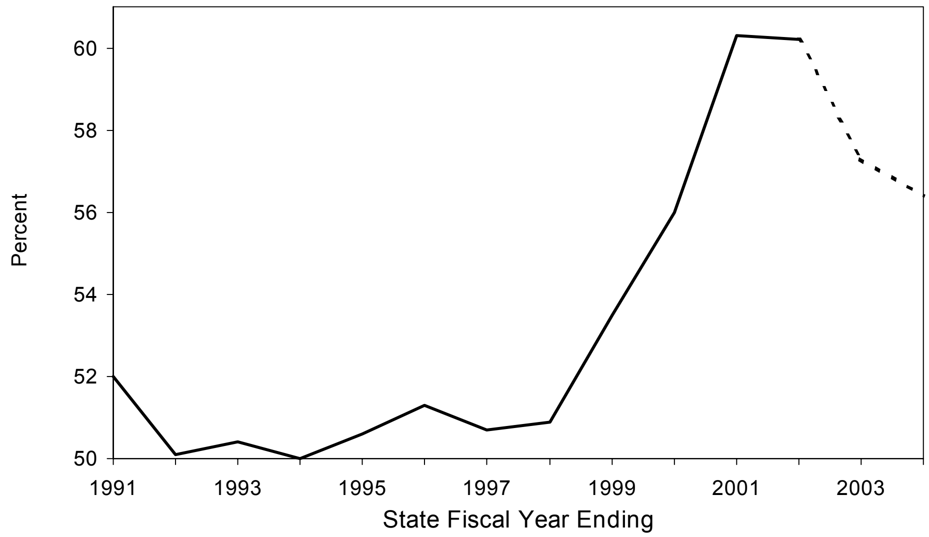
DESCRIPTION

The personal income tax is New York State's largest source of tax revenue. It is estimated that, during State fiscal years 2002-03 and 2003-04, the personal income tax will account for more than one-half of total General Fund tax 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 All Funds Tax Receipts



Note: Personal Income Tax (PIT) is defined as gross receipts less refunds; 2000-01 receipts reflect an adjustment for the timely payment of refunds.

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, such as: (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 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. For 2002, the threshold is $137,300 ($68,650 for married couples filing separately). 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.

The Federal Economic Growth and Tax Relief Reconciliation Act of 2001 stipulates that the limitation on itemized deductions will be phased out over four years beginning in 2006. The limitation will be eliminated for 2010 and after.

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 program that was phased in over the three years 1995 through 1997, as shown below:

TABLE 1
PERSONAL INCOME TAX
TOP RATE, STANDARD DEDUCTIONS AND DEPENDENT EXEMPTIONS
1994 - 2003
(dollars)

	1994	1995	1996	1997-2000	2001	2002	2003
Top Rate	7.875%	7.59375%	7.125%	6.85%	6.85%	6.85%	6.85%
Thresholds							
Married Filing Jointly	26,000	25,000	26,000	40,000	40,000	40,000	40,000
Single	13,000	12,500	13,000	20,000	20,000	20,000	20,000
Head of Household	17,000	19,000	17,000	30,000	30,000	30,000	30,000
Standard Deduction							
Married Filing Jointly	9,500	10,800	12,350	13,000	13,400	14,200	14,600
Single	6,000	6,600	7,400	7,500	7,500	7,500	7,500
Head of Household	7,000	8,150	10,000	10,500	10,500	10,500	10,500
Dependent Exemption	1,000	1,000	1,000	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

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. The EITC was raised to 22.5 percent of the Federal credit in 2000, 25 percent in 2001, and 27.5 percent in 2002. It is scheduled to increase 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. The 2001 Federal Economic Growth and Tax Relief Reconciliation Act provided marriage penalty relief for married taxpayers filing jointly by increasing the phase-out range for the credit beginning in 2002.
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.

Credit	Description
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. Federal legislation passed in 2001 enriches the child and dependent care credit starting in 2003. This new legislation increases the maximum allowable expenses from $2,400 to $3,000 for one dependent ($4,800 to $6,000 for two or more dependents); the maximum credit rate from 30 percent to 35 percent; and the income at which the credit begins to phase down from $10,000 to $15,000.
College Tuition Tax Credit	Available as an alternative to the college tuition deduction, this refundable credit equals the applicable percentage of allowed tuition expenses multiplied by 4 percent. The credit will be at least the lesser of tuition paid or $200. It is being phased in over a four-year period with applicable percentages of allowed tuition expenses beginning at 25 percent in tax year 2001, 50 percent in 2002, 75 percent in tax year 2003, and 100 percent in 2004 and thereafter.
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).

SIGNIFICANT LEGISLATION

The following major tax law changes enacted since 1994 have had a significant impact on personal income tax receipts.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Tax Reform Deferral	Continued deferral of the remainder of the tax cut enacted in the Tax Reform and Reduction Act of 1987.	1994 tax year
Earned Income Tax Credit	Created a State credit as a percentage of the Federal amount. The rates 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

Subject	Description	Effective Date
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 the 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 the 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 the 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
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 and after.	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 Deduction/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

Subject	Description	Effective Date
Petroleum Tank Credit	Created a two-year personal income tax credit of up to $500 for homeowners who remove and/or 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

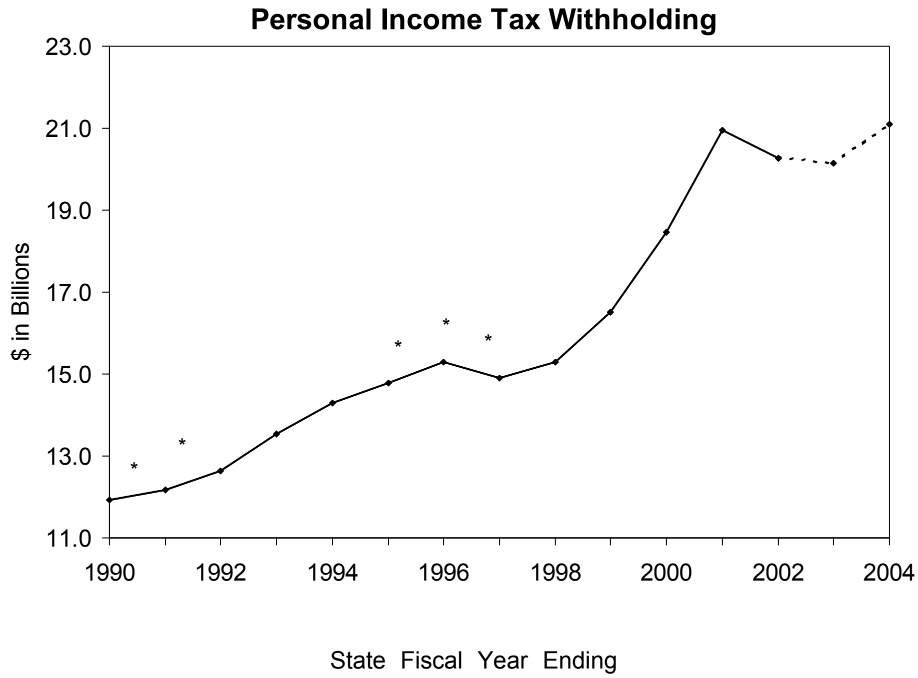
PROPOSED LEGISLATION

Legislation proposed with this Budget will include an historic homes credit, a limited liability company filing fee increase, withholding for certain partnerships, and decoupling from certain Federal vehicle expensing. Deposits into the STAR fund in 2003-04 assume passage of the proposal to freeze STAR benefits for non-seniors at 2002-03 levels.

Withholding Changes

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

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



The above graph shows the history of withholding collections beginning 1989-90. The symbol "*" indicates the date of withholding table changes.

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 schedule shown in Table 3 traces the changes in the year-end balance of this account and the effect of those changes on reported fiscal-year collections. (Also, see Table 6 below 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
2002	1,677.4	(1,840.0)	Increased receipts by 1,840.0
2001	3,517.4	(449.5)	Increased receipts by 449.5
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

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. Thereafter, no additional LGAC funds were deposited in the refund reserve account. At the end of 2002-03, these funds are available to finance refunds issued in the spring of 2003, but will be restored to the reserve by March 31, 2004.

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 provided reserves that were used to pay additional refunds during April and May. As part of multi-year strategy, these reserves were used to address the fiscal deficiencies caused by the September 11 attack and the national recession.

Table 4 shows the amount of reserves 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
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	521	41	2,955	3,517
2002	521	95	1,061	1,677
2003 est.	521	156	(250) [2]	427

[1] For EITC starting in 1995 (and subsequent increments), agricultural property tax credit starting in 1998, college choice tuition savings program starting in 1998, child care credit enhancements starting in 1999, marriage penalty relief and college tuition deduction/credit starting in 2002, and the long-term care insurance and petroleum tank credits starting in 2003.

[2] The 2002-03 Budget Agreement reduced the end of the year reserves by $250 million.

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 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. As has been administrative practice since 2001, refunds of $960 million will be paid during the period January through March 2003.

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, reduces total 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 in Table 5.

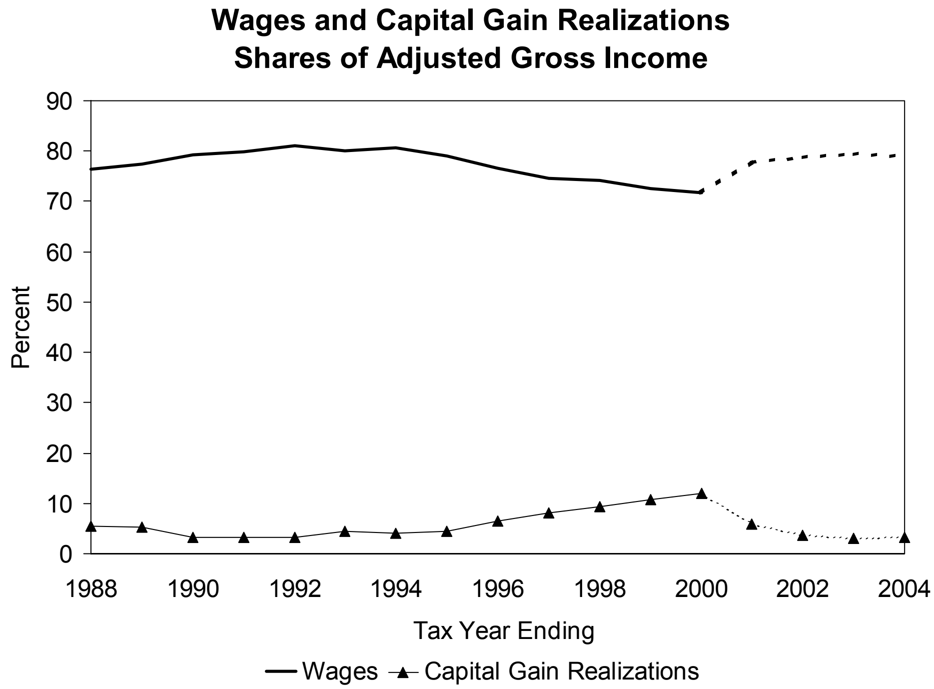
TABLE 5
DISTRIBUTION OF THE MAJOR COMPONENTS OF NEW YORK ADJUSTED GROSS INCOME (AGI)
(millions of dollars)

Component of Income	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003
NYSAGI										
Amount	301,362	321,124	347,981	383,179	417,996	453,130	519,501	489,413	467,784	475,182
% Change	1.4	6.6	8.4	10.1	9.1	8.4	14.6	(5.8)	(4.4)	1.6
Wages										
Amount	242,771	253,551	266,334	285,919	309,614	328,851	373,177	381,152	368,829	377,289
% Change	2.0	4.4	5.0	7.4	8.3	6.2	13.5	2.1	(3.2)	2.3
Share of NYSAGI	80.6	79.0	76.5	74.6	74.1	72.6	71.8	77.9	78.8	79.4
Net Capital Gains										
Amount	12,032	14,086	22,441	31,563	38,929	48,330	62,302	28,449	17,111	14,649
% Change	(10.0)	17.1	59.3	40.7	23.3	24.1	28.9	(54.3)	(39.9)	(14.4)
Share of NYSAGI	4.0	4.4	6.4	8.2	9.3	10.7	12.0	5.8	3.7	3.1
Interest and Dividends										
Amount	19,630	22,680	23,534	24,652	24,807	25,299	30,290	26,284	25,955	26,133
% Change	5.7	15.5	3.8	4.8	0.6	2.0	19.7	(13.2)	(1.3)	0.7
Share of NYSAGI	6.5	7.1	6.8	6.4	5.9	5.6	5.8	5.4	5.5	5.5
Taxable Pension										
Amount	15,694	16,620	17,391	18,953	18,891	20,854	22,121	22,263	23,464	24,618
% Change	20.0	5.9	4.6	9.0	(0.3)	10.4	6.1	0.6	5.4	4.9
Share of NYSAGI	5.2	5.2	5.0	4.9	4.5	4.6	4.3	4.5	5.0	5.2
Net Business and Partnership Income										
Amount	19,666	25,868	31,425	35,288	37,142	42,035	44,004	43,653	44,322	45,803
% Change	(4.7)	31.5	21.5	12.3	5.3	13.2	4.7	(0.8)	1.5	3.3
Share of NYSAGI	6.5	8.1	9.0	9.2	8.9	9.3	8.5	8.9	9.5	9.6
All Other Incomes/ Adjustments [1]										
Amount	(8,430)	(11,680)	(13,142)	(13,195)	(11,387)	(12,239)	(12,392)	(12,388)	(11,897)	(13,311)
% Change	29.5	38.6	12.5	0.4	(13.7)	7.5	1.2	(0.0)	(4.0)	11.9

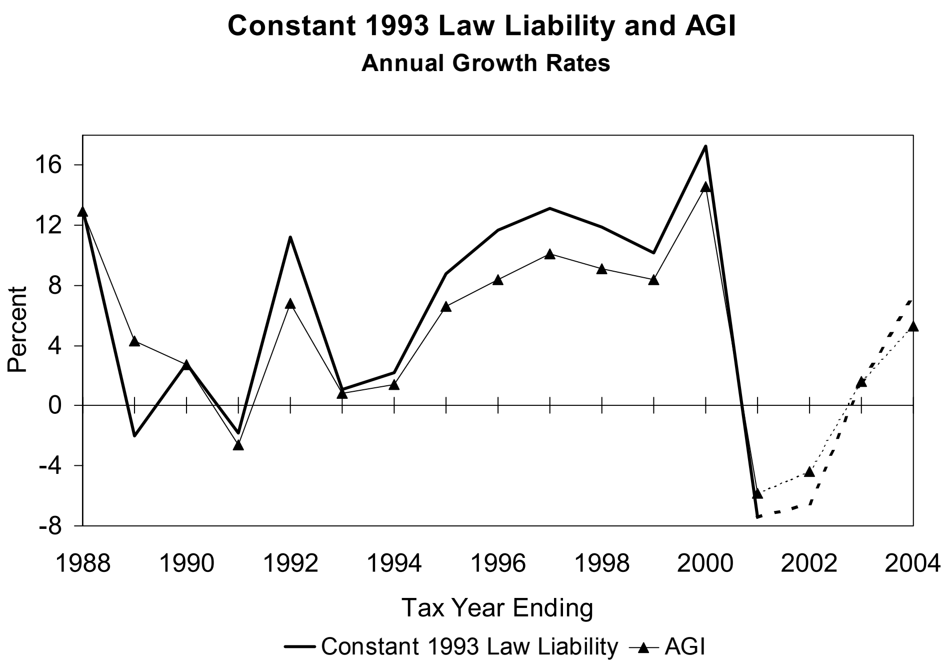
[1]Include alimony received, unemployment income, IRA income, and other incomes. This number is negative due to the Federal and New York adjustments to income, which together reduce final NYSAGI.

Strong performances in the financial sector in recent years caused a significant shift in the capital gains share of AGI. From 1994 to 2000, the share of capital gains in AGI tripled, from 4.0 percent to 12.0 percent. Over the same period, the share of wages in AGI decreased from 80.6 percent to 71.8 percent. Business and partnership income also posted strong growth between 1994 and 2000 and accounted for 8.5 percent of AGI in 2000. The AGI data demonstrate that much of the rapid growth in liability in the years before 2001 can be attributed to the large increases in realized capital gains and business income.

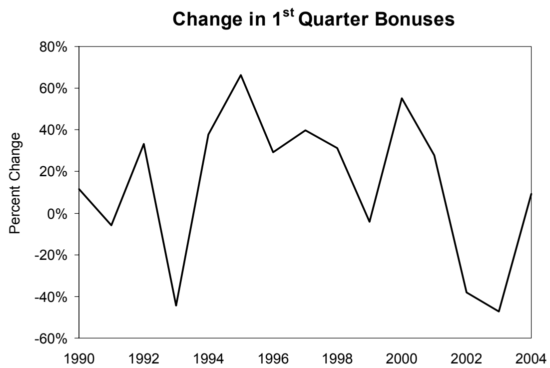
With the bursting of the stock market bubble and national recession, there has been a precipitous decline in investment related incomes. As the accompanying chart illustrates, it is expected that realized capital gains will decline as a share of taxable income.

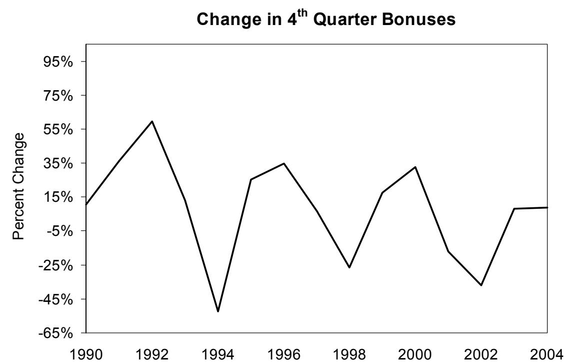


The following graph illustrates the relationship between the growth rates of liability, measured over time on a constant law basis, and AGI. A change in AGI typically results in a larger relative change in liability (see Economic Backdrop section titled Sources of Volatility in the Income Base). This discrepancy is due, in part, to the volatility of net capital gains and partnership income (which tends to be concentrated among high-income taxpayers) and the interaction of income changes with a progressive rate schedule.



Changes in timing of year-end bonus payments also affect the AGI growth rate. It is estimated that bonuses in the financial and insurance sector represent more than half of the total bonuses paid out each year. Under traditional patterns in the pre-1992-93 period, 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 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. It is estimated that approximately 30 percent of financial and insurance bonuses for 1994 and after, were paid at the end of the calendar year, while 70 percent were paid early in the following year, a distribution pattern closer to pre-1992-93 experience.





Prior to the World Trade Center disaster of September 11, 2001, an economic slowdown was already underway. The terrorist attacks shocked the struggling economy and pushed the nation into recession. New York State was more severely affected than the nation as a whole. (See Economic Backdrop section.) After an impressive growth rate of 14.6 percent in 2000, AGI is estimated to have declined close to 6 percent in 2001, with an additional decrease of more than 4 percent forecasted for 2002, due in large part to the recession. Such back-to-back AGI decreases are unprecedented in the history of the present State personal income tax system which was established in 1960. The last time the State experienced a drop in AGI was in 1991 with a 2.6 percent decline. This decline was followed by a 6.8 percent increase in 1992.

The State economy is expected to improve slowly, with an AGI growth rate of 1.6 percent projected for 2003 (see Economic Backdrop section).

2000 and 2001 Liability

Based on tax collections, total liability for 2000 was approximately $25.8 billion. Of this amount, $24.7 billion was accounted for by the 9 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 from fiduciary returns, late filed returns and other transactions excluded from the annual study. The AGI amount in the tax study for 2000 was $520 billion, yielding an average effective tax rate of 4.8 percent.

Reversing several years of tremendous expansion in the State, AGI in 2001 is estimated to have declined drastically to $489 billion, compared to $520 billion in 2000, a 5.8 percent loss in the personal income tax revenue base. Wages and salaries are estimated to have increased a modest 2.1 percent in 2001, compared to 13.5 percent in the previous year. Following 41 percent growth in 1997, 23 percent in 1998, 24 percent in 1999, and 29 percent in 2000, capital gains are estimated to have dropped more than 50 percent in 2001 as a result of poor performances in the financial sector. Interest and dividend income is estimated to have decreased 13 percent, following a 20 percent gain in 2000. This decline reflects the several cuts in the federal fund rates by the Federal Reserve, and poor corporate dividend earnings. Business net income and income derived from partnerships and S corporations are expected to have experienced a 1 percent decline after growing 13 percent in 1999 and 5 percent in 2000.

2002 AGI and Liability

In 2002, AGI is estimated to have declined 4.4 percent to $468 billion, reflecting the weak economic recovery and the continuing impact of the equity market decline. Wages and salaries are estimated to have decreased 3.2 percent. The drop in wages reflects the drastic cuts in financial sector bonuses as a result of the weak investment banking performance in 2001 and 2002, as well as slow growth in non-bonus average wages, and a decline in employment. See the Economic Backdrop section for a detailed account of the recent declines in the taxable income base.

Interest and dividend income is estimated to have continued its decline for a second year, with a 1.3 percent drop. Capital gains realizations are also projected to have dropped another 40 percent.

Business net income and income derived from partnerships and S corporations are expected to have recovered modestly with a 1.5 percent increase.

As a result, estimated liability is projected to have decreased 7.9 percent to $20.8 billion, an estimated loss of $1.8 billion in revenues compared to 2001, and $3.9 billion compared to 2000.

2003 AGI and Liability

In 2003, the State economy is expected to begin a slow recovery, with an associated AGI increase of 1.6 percent. This increase represents a total AGI of $475 billion, considerably below the 2000 peak of $520 billion.

Wages and salaries are projected to grow a modest 2.3 percent. Capital gains realizations are expected to be 14.4 percent below the 2002 level, reflecting the fact that individuals are allowed to carry indefinitely into future tax years unclaimed capital losses from previous years.

Incomes from businesses, partnerships and S corporations are expected to grow 3.3 percent.

Under current law, estimated liability is projected to grow 0.8 percent to $21 billion, $200 million more than 2002, signaling the turnaround in the State economy.

Tax Changes and Liability

The 1997 tax year was the final phase of the three-year personal income tax cut enacted in June 1995. This legislation raised the standard deduction and reduced the tax rate imposed on taxable income. Further legislation enacted since 1995 has increased the child and dependent care credit and the earned income tax credit. Other new credits and the New York State College Choice Tuition Savings Program were also created. These tax reductions have resulted in considerable savings for New York State taxpayers. The resulting 2001 liability, as extrapolated from the 2000 study file, is estimated to be $22.6 billion, representing an 8.6 percent decline compared to 2000. The effective tax rate is estimated to be 4.6 percent. Without the tax cuts enacted since 1995, it is estimated that liability would have been approximately $27.8 billion, more than $5 billion higher than under current law.

Under current law, liability is estimated at $20.8 billion and $21.0 billion in 2002 and 2003, respectively. Without the tax changes enacted since 1995, liability would be estimated at $25.9 billion in 2002 and $26.3 billion in 2003. Under both current law and constant law, effective tax rates are estimated to be significantly lower in the 2001 through 2003 tax years than in 2000. (See Table 6.)

TABLE 6
LIABILITY AND EFFECTIVE TAX RATES*
Current Law and Constant Law
1994 - 2003
(millions of dollars)

	Current Law			Constant (1994) Law		
	Liability		Effective Tax Rate	Liability		Effective Tax Rate
	Amount	Growth Rate	(percent)	Amount	Growth Rate	(percent)
1994	15,241	1.7	5.06	15,241	1.7	5.06
1995	16,011	5.1	4.99	16,541	8.5	5.15
1996	16,319	1.9	4.69	18,390	11.2	5.28
1997	16,950	3.9	4.42	20,711	12.6	5.40
1998	18,986	12.0	4.54	23,201	12.0	5.55
1999	20,977	10.5	4.63	25,595	10.3	5.65
2000	24,733	17.9	4.76	30,084	17.5	5.79
2001**	22,601	(8.6)	4.62	27,760	(7.7)	5.67
2002**	20,807	(7.9)	4.45	25,893	(6.7)	5.54
2003**	20,975	0.8	4.41	26,311	1.6	5.54

* Liability divided by AGI
**Estimated

Risks in Liability Estimates

The estimates are subject to significant risks. The national economy is slowly emerging from recession and thereby vulnerable to any significant shock. The rate of economic growth could be faster or slower than expected. The stock market and financial services industry may do much better or worse than envisioned. In addition, capital gains exhibit a high degree of volatility. (See Economic Backdrop section titled Sources of Volatility in the Income Base.)

2002-03 RECEIPTS

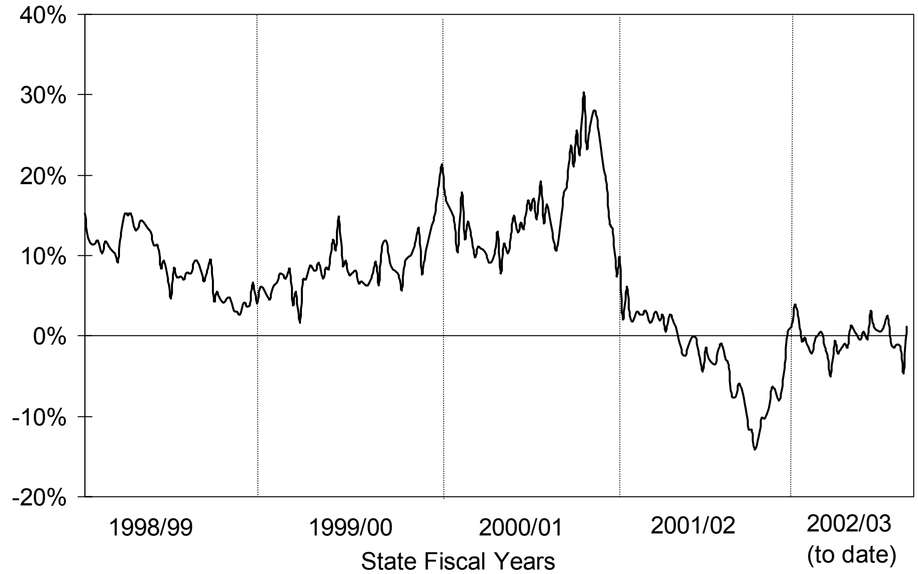
Based on current economic conditions, All Funds net personal income tax receipts for the 2002-03 fiscal year are estimated at $24,155 million.

Key risks for the remainder of the fiscal year include the amount of withholding tax collections to be received in the first quarter of 2003, the balance of estimated payments to be received on 2002 liability, and delinquency collections received for the remainder of the year from the amnesty program and other programmatic initiatives.

The current forecast assumes that estimated payments on 2002 liability will be 19.0 percent lower than comparable payments on 2001 liability.

Compared with the same period a year ago, withholding collections decreased 0.6 percent through the first nine months of the fiscal year. It is expected that withholding collections will decrease 0.6 percent for the remainder of 2002-03, largely reflecting continued weakness in bonus payments growth in the December to March period.

Weekly Withholding
Growth Rates Over 12 Weeks
4/1/98-1/10/03



Prior refunds are expected to return to normal levels following the high refund payments due to filing delays and victims' relief legislation following the World Trade Center attacks.

Without refund reserve transactions, All Funds net receipts are estimated at $22,905 million, a decrease of 10.4 percent from comparable 2001-02 receipts. The components of the estimate are detailed in Table 7, and are based on actual collections of $16.1 billion through December.

TABLE 7
PROJECTED FISCAL-YEAR COLLECTION COMPONENTS
ALL FUNDS
(millions of dollars)

	2000-01 (Actual)	2001-02 (Actual)	2002-03 (Estimated)	2003-04 (Projected)
Receipts				
Withholdings	20,955	20,261	20,145	21,105
Estimated Payments	6,874	6,353	4,815	4,485
Current Year	5,621	4,685	3,795	3,645
Prior Year*	1,253	1,668	1,020	840
Final Returns	1,684	1,874	1,335	1,140
Current Year	118	101	102	125
Prior Year*	1,566	1,773	1,233	1,015
Delinquent Collections	558	601	905	720
Gross Receipts	30,071	29,089	27,200	27,450
Refunds				
Prior Year*	2,313	2,165	2,770	2,925
Previous Years	187	165	265	170
Current Year	960	960	960	960
State-City Offset*	169	225	300	300
Total Refunds	3,629	3,515	4,295	4,355
Net Receipts	26,442	25,574	22,905	23,095
Reserve Transactions	450	1,840	1,250	-41
Net Reported	26,892	27,414	24,155	23,054

* 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, 2003, is $427 million.

An added risk to the estimate of 2002-03 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. Consequently, information about such payments was not available when the 2002-03 estimates were constructed.

2003-04 PROJECTIONS

Based on current law, net personal income tax receipts would have been expected to decrease by 4.7 percent, to $23,014 million, in 2003-04. Reported receipts include the net decrease to collections of $41 million from transactions in the refund reserve account.

Under current law, withholding receipts would have been projected to rise by 4.8 percent. Final payments related to 2002 returns would have been expected to decrease by $218 million from 2001 returns, reflecting the 2002 liability decrease.

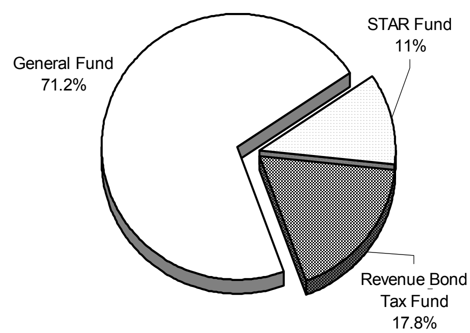
The other major component of collections, estimated payments on 2003 income, would have been projected to decrease by 4.3 percent. This is consistent with the expected slight decrease in total non-wage income in 2003, and a continued decline in capital gains realizations following the strong increases in 1997 through 2000.

Based on proposed law, withholding receipts are projected to rise 4.8 percent, estimated tax payments are projected to decrease 4.0 percent, and final payments are projected to decrease by $195 million from 2002-03 collections. As a result, net personal income tax receipts are expected to decrease by 4.6 percent, to $23,054 million, in 2003-04.

OTHER FUNDS

Legislation enacted in 1998 created the School Tax Relief (STAR) Fund to help provide school tax reductions under the STAR program. The same legislation 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 2002-03 and 2003-04, respectively, dedicated personal income tax receipts of $2,667 million and $2,707 million will be deposited into the School Tax Relief Fund.

Fund Shares of Net Receipts 2002-03



Personal income tax receipts of $250 million were deposited into the Debt Reduction Reserve Fund in the 2001-02 fiscal year.

Chapter 383, Laws of 2001, provides for the issuance of, and a source of payment for, State Personal Income Tax Revenue Bonds. Since May 2002, a portion of personal income tax receipts has been deposited in the Revenue Bond Tax Fund (RBTF), a State debt service fund under the joint custody of the Commissioner of Taxation and Finance and the State Comptroller. Chapter 383 requires the State Comptroller to deposit an amount equal to 25 percent of estimated monthly State personal income tax receipts (after payment of refunds and STAR deposits, but before any contribution from the refund reserve account) into the RBTF each month. These large deposits into the RBTF significantly reduce the amount reported as General Fund personal income tax receipts. Each month, RBTF moneys in excess of the amount needed for debt service payments are transferred back to the General Fund. Personal income tax receipts of $4,306 million and $5,097 million will be deposited in the Revenue Bond Trust Fund in 2002-03 and 2003-04, respectively.

GENERAL FUND

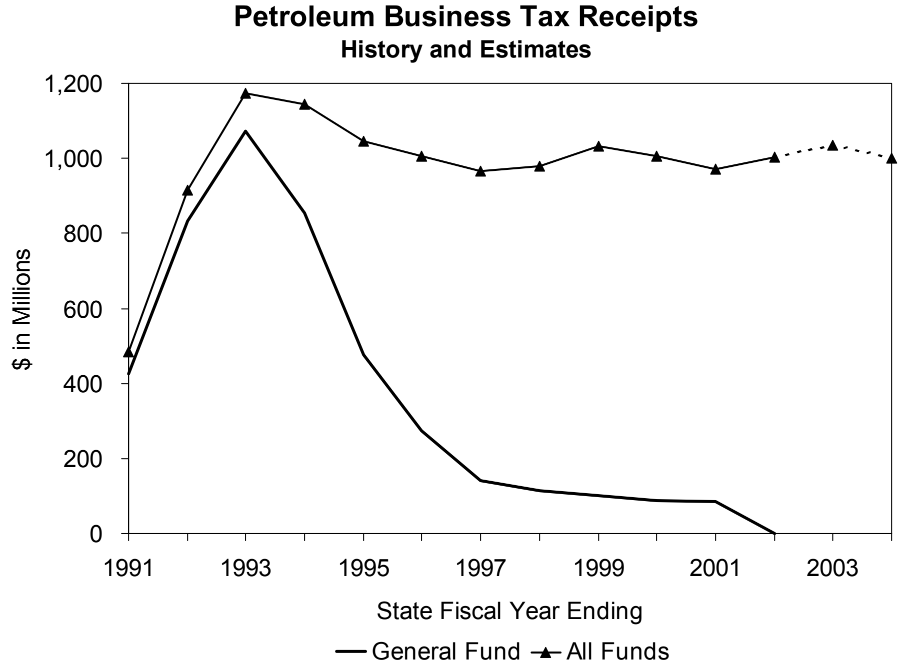
Under current law, General Fund net personal income tax receipts are estimated at $17,182 million in 2002-03 and would have been estimated at $15,220 million in 2003-04. Under proposed law, General Fund net personal income tax receipts are projected at $15,250 million in 2003-04.

TABLE 8
PERSONAL INCOME TAX RECEIPTS
(millions of dollars)

	Gross General Fund	Refunds	Net General Fund Receipts	Refund Reserve Transactions	Net General Fund	Special Revenue Funds[1]	Capital Projects Funds	Debt Service Funds[2]	All Funds Net Collections
	Actual								
1994-95	19,028	2,300	16,728	(862)	17,590	0	0	0	17,590
1995-96	19,857	2,459	17,398	400	16,998	0	0	0	16,998
1996-97	20,238	2,684	17,554	1,183	16,371	0	0	0	16,371
1997-98	21,088	2,799	18,289	530	17,759	0	0	0	17,759
1998-99	23,371	2,795	19,994	(86)	20,080	582	0	0	20,662
1999-2000	25,041	3,041	22,000	1,661	20,339	1,195	0	0	21,534
2000-01	26,744	3,629	23,115	(450)	23,565	3,077	0	250	26,892
2001-02	27,529	3,515	24,014	(1,840)	25,854	1,310	0	250	27,414
	Estimated								
2002-03	20,227	4,295	15,932	(1,250)	17,182	2,667	0	4,306	24,155
2003-04									
current law	19,616	4,355	15,261	41	15,220	2,707	0	5,087	23,014
proposed law	19,646	4,355	15,291	41	15,250	2,707	0	5,097	23,054

[1] STAR Fund.
[2] Debt Reduction Reserve Fund and Revenue Bond Trust Fund.

PETROLEUM BUSINESS TAXES



DESCRIPTION

Article 13-A of the Tax Law imposes a tax on petroleum businesses for the privilege of 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 the 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 along 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 subject to 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. These indexed rates reflect petroleum price changes. (See Table 3.) Table 1 displays the per gallon PBT rates for 2002, while Table 2 displays the scheduled rates for 2003 and the projected rates for 2004. The 2004 rates reflect changes due to indexing.

TABLE 1
PETROLEUM BUSINESS TAX RATES FOR 2002
(cents per gallon)

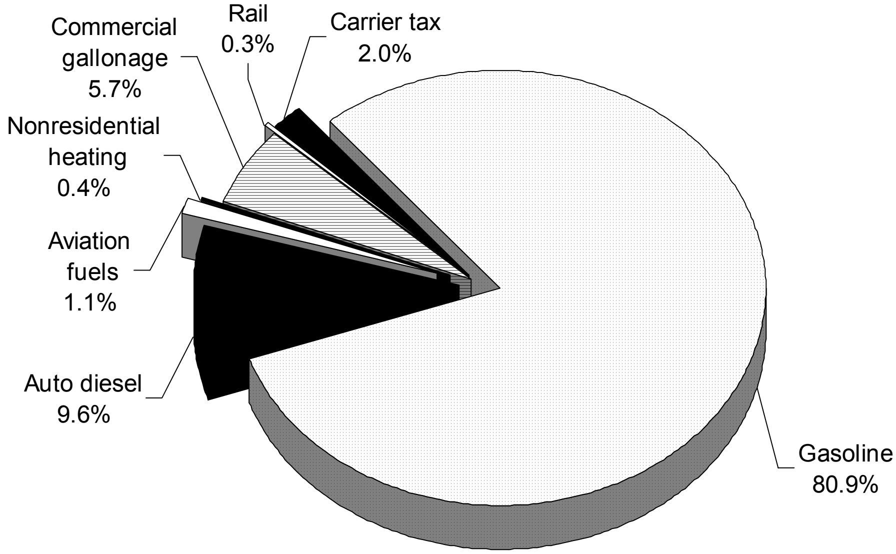
Petroleum Products	Jan.-Aug. 2002 Base	Supp	Total	Sep.-Dec. 2002 Base	Supp	Total
Automotive fuel						
Gasoline and other non-diesel	8.80	5.80	**14.60**	8.80	5.80	**14.60**
Diesel	8.80	4.05	**12.85**	8.80	4.05	**12.85**
Aviation gasoline	8.80	5.80	**14.60**	8.80	5.80	**14.60**
Net rate after credit	5.80	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**
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**
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**

TABLE 2
PETROLEUM BUSINESS TAX RATES FOR 2003 AND 2004
(cents per gallon)

Petroleum Products	2003 Base	Supp	Total	2004* Base	Supp	Total
Automotive fuel						
Gasoline and other non-diesel	8.40	5.60	**14.00**	8.80	5.80	**14.60**
Diesel	8.40	3.85	**12.25**	8.80	4.05	**12.85**
Aviation gasoline	8.40	5.60	**14.00**	8.80	5.80	**14.60**
Net rate after credit	5.60	0.0	**5.60**	5.80	0.0	**5.80**
Kero-jet fuel	5.60	0.0	**5.60**	5.80	0.0	**5.80**
Non-automotive diesel fuels	7.60	5.60	**13.20**	7.90	5.80	**13.70**
Commercial gallonage after credit	7.60	0.0	**7.60**	7.90	0.0	**7.90**
Nonresidential heating after credit	4.10	0.0	**4.10**	4.30	0.0	**4.30**
Residual petroleum products	5.80	5.60	**11.40**	6.10	5.80	**11.90**
Commercial gallonage after credit	5.80	0.0	**5.80**	6.00	0.0	**6.00**
Nonresidential heating after credit	3.10	0.0	**3.10**	3.20	0.0	**3.20**
Railroad diesel fuel	8.40	3.85	**12.25**	8.80	4.05	**12.85**
Net rate after exemption/refund	7.10	0.0	**7.10**	7.50	0.0	**7.50**

* Projected — A fuel price increase of 14.8 percent through August 2003 will result in an increase of 5 percent in the PBT tax rates on January 1, 2004.

PBT Components
Share of 2001-02 Receipts



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 changed through 1995.

Legislation in 1994 provided that beginning January 1, 1996, and annually thereafter, tax rates would be indexed using a new methodology. Tax rates could not increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute required that the basic and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percent change in tax rates usually does not exactly match the percent change in the index.

Based on changes in the index, PBT rates for 2002 increased by 5 percent, and then decreased by 5 percent beginning in 2003. The index for January 1, 2004, is projected to increase by more than 5 percent, triggering a tax rate increase of 5 percent for 2004. (See Tables 2 and 3.)

TABLE 3
FUEL PRICE AND PETROLEUM BUSINESS TAX INDEX
(percent change)

Year	Fuel Price	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	55.84	5.00
2002	13.08	5.00
2003	(19.51)	(5.00)
2004*	14.80	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 after that date. 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. The tax for the balance of the month is paid with the monthly returns filed by the twentieth of the following month.

SIGNIFICANT LEGISLATION

The following table summarizes the major petroleum business tax legislation since 1994.

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
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 by 20 percent the petroleum business tax rates on commercial gallons for space heating.	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, revenues from 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 revenues — the dollar equivalent of its share prior to the expansion. Carrier tax receipts were deposited in the General Fund until April 1, 2001.

Separate 1991 transportation legislation provided that effective April 1, 1993, 100 percent of the supplemental tax and a portion of the base tax (see Table 4) 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 remaining PBT General Fund receipts, including carrier tax receipts, were 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	0.0	19.7	80.3

[1] This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.
[2] This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund (63 percent).

2002-03 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 remain flat.

All Funds collections to date, including audit receipts, surcharges and the carrier tax, are $781.2 million, 6.6 percent above comparable receipts in 2001-02. Based on these collection trends, petroleum business tax All Funds receipts for the year are estimated at $1,034 million, an increase of $31.4 million or 3.1 percent from the prior year. The estimate for 2002-03 reflects the 5 percent increase in PBT rates that took effect on January 1, 2002, and the scheduled 5 percent decrease effective January 1, 2003. The estimate also reflects 2000 legislation that reduced taxes on commercial heating by 33 percent and eliminated PBT minimum taxes.

2003-04 PROJECTIONS

The forecast assumes a small increase in gasoline consumption and 2 percent growth in diesel consumption. The demand for residual fuels consumed by utilities is projected to be the same as 2002-03.

Projected 2003-04 All Funds receipts of $1,001 million assume that fuel inventories will remain stable. The estimate reflects the first full year impact of the 2000 legislation that reduced taxes on commercial heating by 33 percent. In addition, receipts for 2003-04 are based on an anticipated increase in January 2004 of 5 percent in the index used to set PBT tax rates.

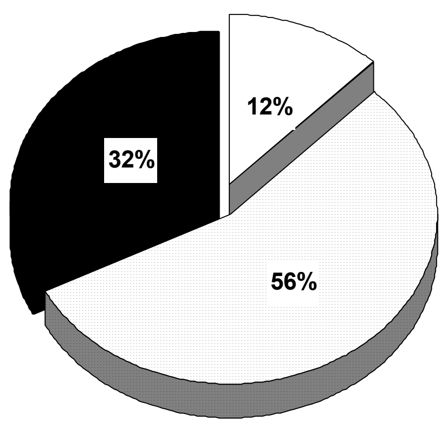
OTHER FUNDS

Legislation enacted in 2000 significantly increased the flow of PBT funds to the Dedicated Funds Pool. Effective April 1, 2001, all PBT receipts previously deposited in the General Fund, including the balance of the basic tax and the carrier tax, are now deposited in the Dedicated Funds Pool.

Petroleum business tax receipts in 2002-03 are estimated to be $125.9 million for MTOAF, $572.1 million for the Dedicated Highway and Bridge Trust Fund, and $336.0 million for the Dedicated Mass Transportation Trust Fund.

Petroleum business taxes in 2003-04 are projected to provide MTOAF receipts of $121.5 million, Dedicated Highway and Bridge Trust Fund receipts of $554.1 million, and Dedicated Mass Transportation Trust Fund receipts of $325.4 million.

PBT Receipts 2002-03



□ Mass Transportation Operating Assistance Fund
□ Dedicated Highway and Bridge Trust Fund
■ Dedicated Mass Transportation Trust Fund

GENERAL FUND

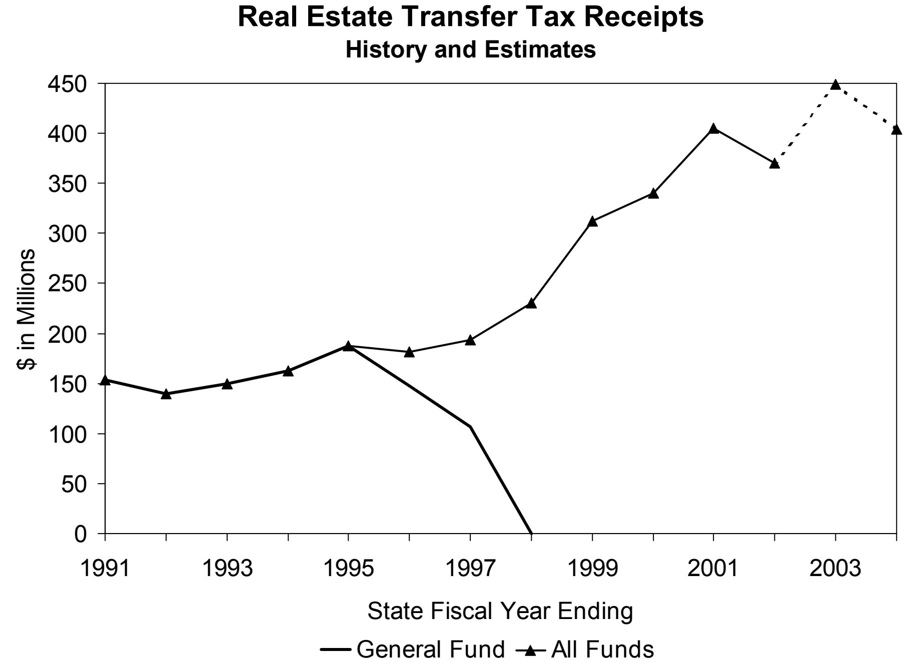
Legislation enacted in 2000 provided that all remaining PBT receipts deposited in the General Fund be deposited in the Dedicated Funds Pool, effective April 1, 2001. As a result, no PBT receipts will be deposited in the General Fund in 2002-03 and 2003-04.

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									
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	432,843	1,004,782
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	103,247	1,218	102,029	422,123	4,742	417,381	519,132	5,829	513,303	1,032,713
1999-2000	90,297	1,146	89,151	414,867	4,810	410,057	511,595	5,932	505,663	1,004,871
2000-01	88,252	2,031	86,221	404,909	9,319	395,590	500,813	11,527	489,286	971,097
2001-02	94	0	94	458,714	9,807	448,907	565,661	12,094	553,567	1,002,568
	Estimated									
2002-03	0	0	0	469,200	7,300	461,900	581,200	9,100	572,100	1,034,000
2003-04	0	0	0	455,800	8,900	446,900	565,200	11,100	554,100	1,001,000

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

REAL ESTATE TRANSFER TAX



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. The tax became effective August 1, 1968. Prior to May 1983, the rate was $1.10 per $1,000 of consideration. 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, by the use of a metering machine, or through other approaches provided by the Commissioner of Taxation and Finance.

The tax rate imposed on conveyances into new or existing real estate investment trusts is $2 per $1,000 of consideration. New York State (including agencies, instrumentalities, subdivisions, and public corporations), the United States (including agencies and instrumentalities), and the United Nations are exempt. 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 pursuant to the Federal bankruptcy act, and mere change of identity conveyances. A deduction from 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

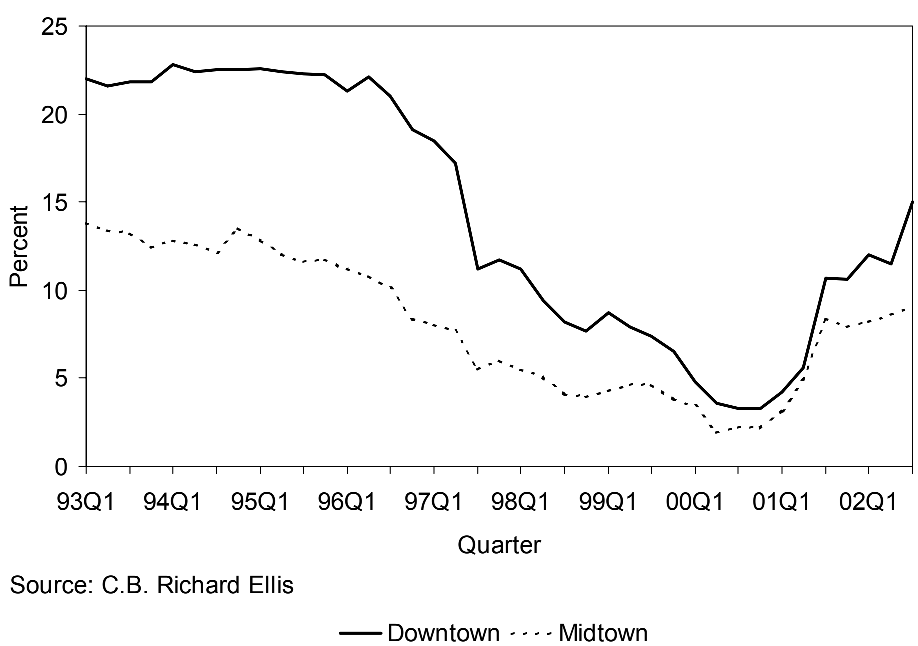
For deeded transfers, the tax is paid to a recording agent (generally the county clerk). For non-deeded transactions, payments are made directly to the Commissioner of Taxation and Finance. All payments are due to the recording agent within 15 days of the transfer. For counties with more than $1.2 million 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.

2002-03 RECEIPTS

Reported All Funds collections to date are $359.2 million, an increase of 21.1 percent from 2001-02 collections for the comparable period.

The large increase in receipts is due to a surge in residential conveyances and prices caused by record-low mortgage rates and a booming housing market. During the first seven months of the fiscal year, the total number of conveyances (including non-residential) jumped 10.3 percent, while average prices increased 9.1 percent compared with the first seven months of 2001-02. The Manhattan commercial market is expected to account for fewer receipts in 2002-03. The decline in demand for office space, which began in 2001-02 with the exit of unprofitable companies from the commercial real estate market, continued in 2002-03 with established companies subletting unneeded space. Despite the loss of a significant amount of office space in downtown Manhattan due to the World Trade Center disaster, the vacancy rate continued to rise in 2002-03. The vacancy rate downtown was 15 percent during the third quarter of 2002, up from 10.7 percent during the same period in 2001. In midtown, the rate increased from 8.4 percent to 9 percent during the same period. However, prices remained relatively strong at least partially due to investors moving from declining equity markets into real estate.

Vacancy Rates in Manhattan



Source: C.B. Richard Ellis

FISCAL YEAR LIABILITY THROUGH OCTOBER
(millions of dollars)

Region	2001-02 Liability	2002-03 Liability	Percent Change
Manhattan	53.7	56.1	4.4
Other Four Boroughs	30.2	39.8	31.9
Long Island	45.0	61.4	36.5
Rest of State	63.3	76.4	20.8
Central Office*	49.6	57.6	16.1

* Through November

Collections for the remainder of the fiscal year are expected to be $89.6 million, an increase of 21.1 percent from 2001-02 collections for the same period. Net All Funds receipts are estimated at $448.8 million, up 78.2 million, or 21.1 percent from the prior fiscal year.

2003-04 PROJECTIONS

Mortgage rates are expected to rise and the unprecedented number of residential transfers that took place in 2002-03 is unlikely to be repeated in 2003-04. Also, Manhattan commercial vacancy rates are projected to rise further in 2003-04. Accordingly, taxable conveyances are expected to decline. Residential prices are expected to continue to rise but at a slower rate reflecting a cooling in the residential housing market. Net All Funds receipts are expected to decrease $44.4 million, or 9.9 percent, to $404.4 million.

OTHER FUNDS

During 2002-03 and 2003-04, the statutory amount of real estate transfer tax receipts diverted to the Environmental Protection Fund is $112 million. The remainder of real estate transfer tax receipts, estimated at $336.8 million in 2002-03 and $292.4 million in 2003-04, 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 2002-03 or 2003-04. 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				
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	229,269	1,039	228,230	340,230
2000-01	0	0	0	0	112,000	293,181	436	292,745	404,745
2001-02	0	0	0	0	112,000	258,677	55	258,622	370,622
					Estimated				
2002-03	0	0	0	0	112,000	336,860	60	336,800	448,800
2003-04	0	0	0	0	112,000	292,460	60	292,400	404,400

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

REPEALED TAXES

GIFT TAX

Until the gift tax repeal on January 1, 2000, New York was one of 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.

2002-03 Receipts and 2003-04 Projections

All Funds net gift tax collections to date are $3.4 million. Net collections for 2002-03 are expected to be $3.8 million, consisting of $4.4 million in gross receipts and $0.6 million in refunds. No receipts are expected for 2003-04, or for any subsequent fiscal year.

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.

2002-03 Receipts and 2003-04 Projections

Container tax receipts for State fiscal year 2002-03 are estimated to be zero. This reflects the repeal of the tax effective October 1, 1998, and the net effect of audit collections and refunds. Receipts for 2003-04 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.

2002-03 Receipts and 2003-04 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 Resource Tracking System (CARTS). To date, All Funds collections are $3.6 million, with an additional $0.2 million expected by the end of the State fiscal year. Total refunds for the year are estimated to be negligible. As a result, net real property gains tax collections for 2002-03 are estimated to be $3.8 million.

All Funds collections from outstanding installments and CARTS will produce a projected $2.1 million in 2003-04. Refunds will be negligible.

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. State and, to a lesser extent, City hotel tax reductions have been credited with making New York City more attractive to tourists and convention planners.

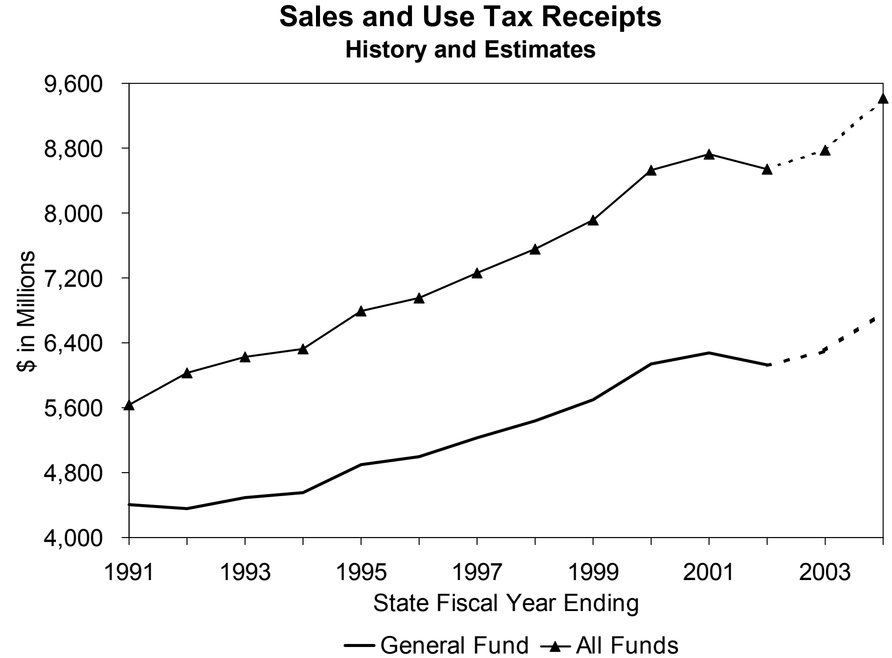
2002-03 Receipts and 2003-04 Projections

Hotel occupancy tax receipts for State fiscal year 2002-03 are expected to be zero. Net residual payments for 2003-04 are projected to be zero.

REPEALED TAXES RECEIPTS
(thousands of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
	Actual						
1994-95	286,521	26,555	208,720	0	0	0	208,720
1995-96	320,930	47,010	228,319	0	0	0	228,319
1996-97	198,442	31,963	140,982	0	0	0	140,982
1997-98	201,143	38,572	135,532	0	0	0	135,532
1998-99	184,301	11,309	154,033	0	0	0	154,033
1999-2000	109,442	15,107	94,327	0	0	0	94,327
2000-01	53,183	5,548	47,628	0	0	0	47,628
2001-02	11,120	1,120	10,000	0	0	0	10,000
	Estimated						
2002-03	8,200	600	7,600	0	0	0	7,600
2003-04	2,100	0	2,100	0	0	0	2,100

SALES AND USE TAX



DESCRIPTION

The sales and compensating use tax, which accounted for over 16.4 percent of 2001-02 General Fund tax revenues, not including transfers from other funds, is the second largest State tax revenue source (the personal income tax is the largest). 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, 28 counties and 15 cities (including New York City) have sought and received temporary legislative authority to impose 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;

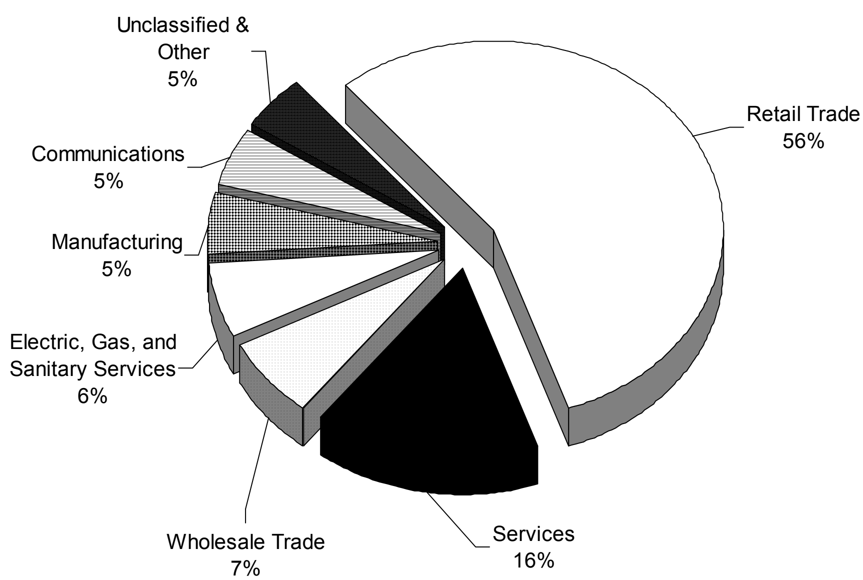
- food and beverages sold by restaurants, taverns and caterers;
- hotel occupancy; and
- certain admission charges and dues.

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

Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see discussion below), 56 percent of total taxable sales and purchases subject to the sales and use tax 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.

Industry Shares of Taxable Sales and Purchases

September 1999 to February 2000



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 taxable 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. These exemptions prevent 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 reduce the regressivity of the tax.[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 who 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 $500,000 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, 1995, and 2002 reduced the threshold to $4 million, $1 million and to the current $500,000 threshold, respectively. Approximately 54 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 that 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 allowance, enacted in 1994, is currently 3.5 percent of tax liability, up to a maximum of $150 per quarter for returns filed on time.

SIGNIFICANT LEGISLATION

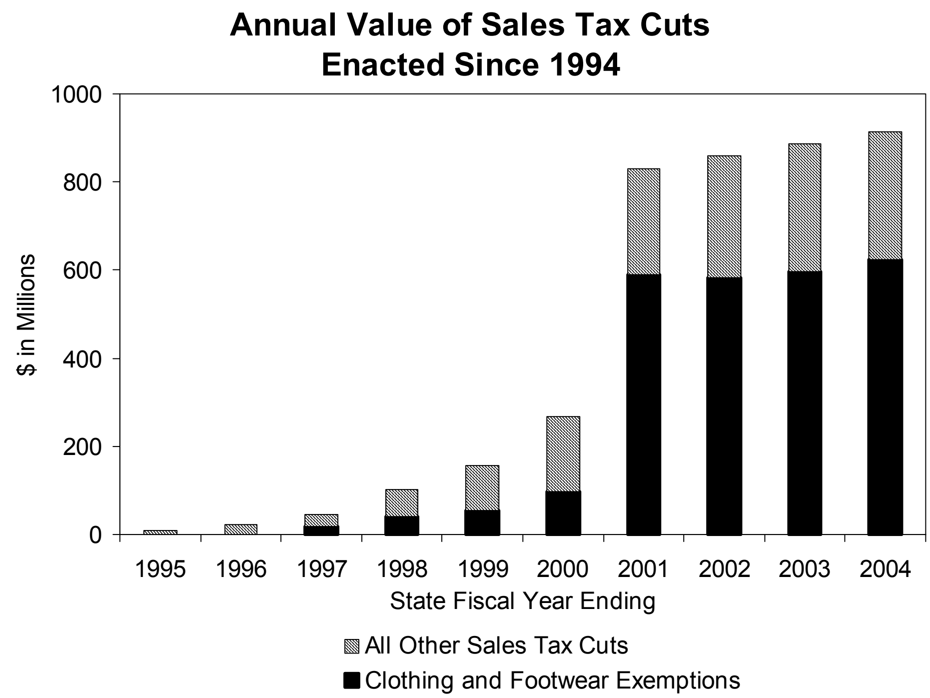
Numerous statutory changes have been made to the sales tax since its inception. The following table summarizes the major sales tax legislation enacted since 1994.

[1] A tax on goods or services is regressive if lower-income persons pay a relatively greater share of their income on the taxed good or service than higher-income persons.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Racehorses	Exempted certain registered racehorses used in authorized pari-mutuel events.	June 1, 1994
Vendor Allowance	Enacted the vendor allowance credit for timely filed quarterly or annual returns at the rate of 1.5 percent of State sales tax collected up to a maximum of $100 per return.	September 1, 1994
Legislation Enacted in 1995		
Homeowners' Associations	Exempted dues paid to homeowners' associations operating social or athletic facilities for their members.	September 1, 1995
Meteorological Services	Exempted the sale of meteorological information services.	September 1, 1995
Legislation Enacted in 1996		
Clothing and Footwear	Exempted clothing and footwear priced under $500 for the one-week period of January 18-24, 1997.	January 18-24, 1997
Promotional Materials	Expanded the exemption for certain printed promotional materials distributed by mail to customers in New York State.	March 1, 1997
Legislation Enacted in 1997		
Buses	Provided an exemption for buses used to transport persons for hire, and related parts and services.	December 1, 1997
Clothing and Footwear	Exempted clothing priced under $100 for the one-week periods of September 1-7, 1997 and September 1-7, 1998.	September 1-7, 1997, September 1-7, 1998
	Permanently exempted clothing priced under $100.	December 1, 1999
Homeowner Association Parking	Exempted parking services sold by a homeowners' association to its members.	December 1, 1997
Various Coin-Operated Devices	Raised the exemption threshold for bulk vending machine sales to 50 cents from 25 cents, exempted coin-operated car washes, exempted coin-operated photocopying costing under 50 cents, and exempted certain hot food and beverages sold through vending machines.	December 1, 1997
Vendor Allowance	Increased the sales tax vendor allowance from 1.5 percent to 3.5 percent of State tax collected capped at $150 per quarter.	March 1, 1999
Legislation Enacted in 1998		
Clothing and Footwear	Included footwear in the September 1-7, 1998, temporary clothing exemption and raised exemption threshold to $500 from $100.	September 1-7, 1998
	Exempted clothing and footwear priced under $500 during the January 17-24, 1999 period.	January 17-24, 1999
	Included footwear in the permanent clothing exemption beginning on December 1, 1999, and raised exemption threshold from $100 to $110.	December 1, 1999
Coin Telephones	Increased the exemption threshold for coin-operated telephone calls to 25 cents from 10 cents.	September 1, 1998
College Textbooks	Exempted textbooks purchased by college students which are required for their courses.	June 1, 1998
Computer Hardware	Exempted computer system hardware used to design and develop computer software for sale.	June 1, 1998
Internet Access Service	Codified State policy of exempting charges for Internet access services.	February 1, 1997
Materialmen	Allowed certain materialmen (i.e., building materials suppliers) to remit sales tax returns on either a cash or an accrual basis.	June 1, 1999
Telephone Central Office Equipment	Expanded existing exemption for telephone central office equipment to include such equipment or apparatus used in amplifying, receiving, processing, transmitting, and re-transmitting telephone signals.	September 1, 1998

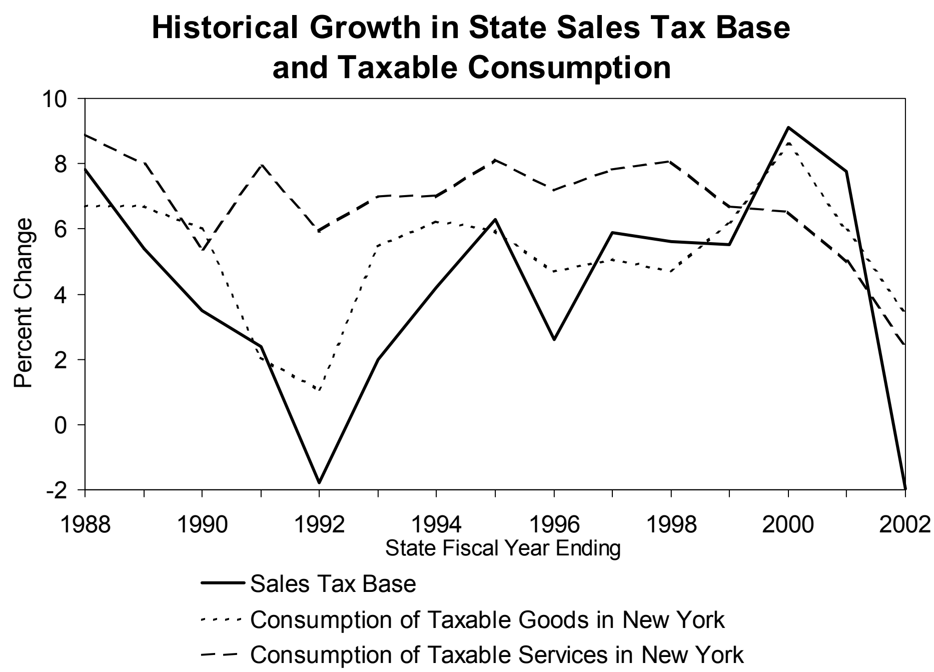
Subject	Description	Effective Date
Legislation Enacted in 1999		
Clothing and Footwear	Changed the effective date of the permanent exemption for clothing and footwear priced under $110 from December 1, 1999, to March 1, 2000.	March 1, 2000
	Temporarily exempted clothing and footwear priced under $500 for the periods of September 1-7, 1999, and January 15-21, 2000.	September 1-7, 1999; January 15-21, 2000
Computer Hardware	Provided an exemption for computer system hardware used to design and develop Internet web sites for sale.	March 1, 2001
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
Radio and Television Broadcasting	Exempted 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	Exempted manufacturing and industrial pollution control equipment and machinery.	March 1, 2001
Transmission and Distribution of Electricity and Gas	Phased out and eliminates over three years, the sales tax on the separately purchased transmission of electricity and gas.	September 1, 2000
Empire Zones	Exempted property and services used or consumed by qualified businesses within Empire 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
Legislation Enacted in 2001		
Empire Zones	Added eight new Empire Zones, for a total of 66 zones throughout the State. Four of the eight new Empire Zones became effective immediately.	October 29, 2001
Legislation Enacted in 2002		
Temporary Exemption in Liberty Zone	Temporarily exempted most tangible personal property priced under $500 sold in the Liberty and Resurgence Zones in New York City for the periods of June 9-11, July 9-11 and August 20-22, 2002.	June 1, 2002
EFT Threshold Change	Lowered the Electronic Fund Transfer threshold from $1 million to $500,000.	September 1, 2002

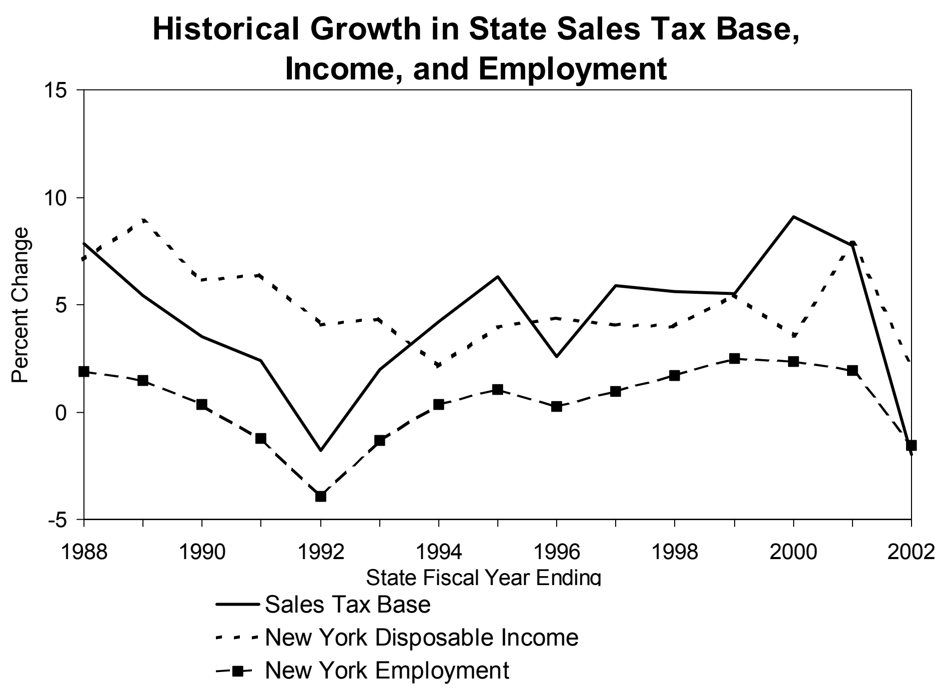
The tax cuts enacted since 1994-95 have had a substantial impact on sales tax receipts. The graph below depicts the estimated annual value of sales tax cuts enacted since 1994.



BRIEF REVIEW OF RECEIPTS HISTORY

The years since the 1980's exemplify 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 7 percent, which was 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. For the State fiscal years 1992-93 through 1996-97, the State's economy came out of the recession more slowly than the nation and employment and personal income grew more modestly than for the nation as a whole. This resulted in growth in the sales tax base that, although improved from the recessionary period of the early 1990s, was moderate compared to the late 1980's. Between State fiscal year 1997-98 and 2000-01, base sales tax receipts grew over 5 percent per year, reflecting the robust economy and strong growth in taxable consumption, State employment, and disposable income. Collections declined in 2001-02, due to the World Trade Center attack and a faltering economy.


Historical Growth in State Sales Tax Base
and Taxable Consumption
Percent Change
State Fiscal Year Ending
Sales Tax Base
Consumption of Taxable Goods in New York
Consumption of Taxable Services in New York


Historical Growth in State Sales Tax Base,
Income, and Employment
Percent Change
State Fiscal Year Ending
Sales Tax Base
New York Disposable Income
New York Employment

Major Economic Factors Affecting Sales Tax Receipts
State Fiscal Years 1994-95 to 2003-04
Percent Change

	94-95	95-96	96-97	97-98	98-99	99-2000	2000-01	01-02	Estimated 02-03	Projected 03-04
Consumption of Taxable Goods in NY	5.9	4.7	5.1	4.7	6.2	8.6	6.0	3.4	3.7	2.9
Consumption of Taxable Services in NY	8.1	7.2	7.8	8.1	6.7	6.5	5.0	2.4	3.6	5.4
NY Employment	1.1	0.2	1.0	1.7	2.5	2.3	1.9	(1.5)	(0.8)	0.8
NY Disposable Income	4.0	4.4	4.1	4.0	5.5	3.6	7.9	2.1	3.1	4.5
NY Nominal Value of New Auto and Light Truck Registrations	16.3	(0.6)	12.1	3.5	14.2	12.6	(5.2)	0.9	(1.6)	3.9
Sales Tax Base	6.3	2.6	5.9	5.6	5.5	9.1	7.8	(2.0)	2.6	4.3

2002-03 RECEIPTS

State fiscal year 2002-03 receipts from the State's 4 percent sales tax are estimated at $8,401.3 million, an increase of $226.3 million, or 2.8 percent, above 2001-02. The underlying sales tax base is estimated to increase 2.6 percent. Year-to-date sales and use tax receipts are $6,358.9 million, 3.9 percent, or $237.7 million above the comparable period in 2001-02.

Taxable sales were depressed early in the fiscal year due to the continued effects of the World Trade Center attacks, financial industry woes, and declines in overall employment. The surge in mortgage refinancing, which allowed consumers to tap increased home equity, provided support for increased growth in receipts. Receipts during the summer and fall were bolstered by the sharp increase in automobile sales that resulted from low-rate auto financing. Legislation enacted in 2002 to lower the EFT filing threshold to $500,000 generated an estimated $32.5 million in additional receipts in 2002-03. Additional legislation specified a suitable price index to calculate the pre-paid sales tax on cigarettes. This legislation generated an estimated $5.8 million in receipts in 2002-03. However, legislation enacted in May 2002 provided three tax exempt weeks in lower Manhattan during the summer of 2002, which reduced receipts by $10.0 million. Also, the third phase of the exemption for the transmission and distribution of gas and electricity reduced receipts by an additional $2.3 million.

2003-04 PROJECTIONS

Receipts from the State's 4 percent sales tax in 2003-04 are projected to be $9,019.3 million or $618 million (7.4 percent) above 2002-03 levels.

The increase is largely due to expected moderate national and State economic growth as well as to previously enacted and proposed tax law changes. Disposable income growth is expected to rebound somewhat in 2003-04 and cause a corresponding jump in the growth rate for receipts. New York's employment is projected to grow in 2003-04 for the first time in three years. Taken together, these factors result in projected growth in the sales tax base of 4.3 percent. Legislation submitted with this Budget proposes to eliminate the exemption on clothing and footwear priced under $110 and replace it with a $500 exemption effective during four separate weeks during the year. This proposal is expected to generate an estimated $363.4 million in 2003-04.

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 thereby 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). Sales tax deposits to LGATF were $2,043.7 million in 2001-02 and are estimated at $2,098.3 million in 2002-03 and $2,254.3 million in 2003-04. 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 $364.7 million in sales and use tax receipts in 2001-02, will receive an estimated $371.9 million in 2002-03 and $393.3 million in 2003-04.

GENERAL FUND

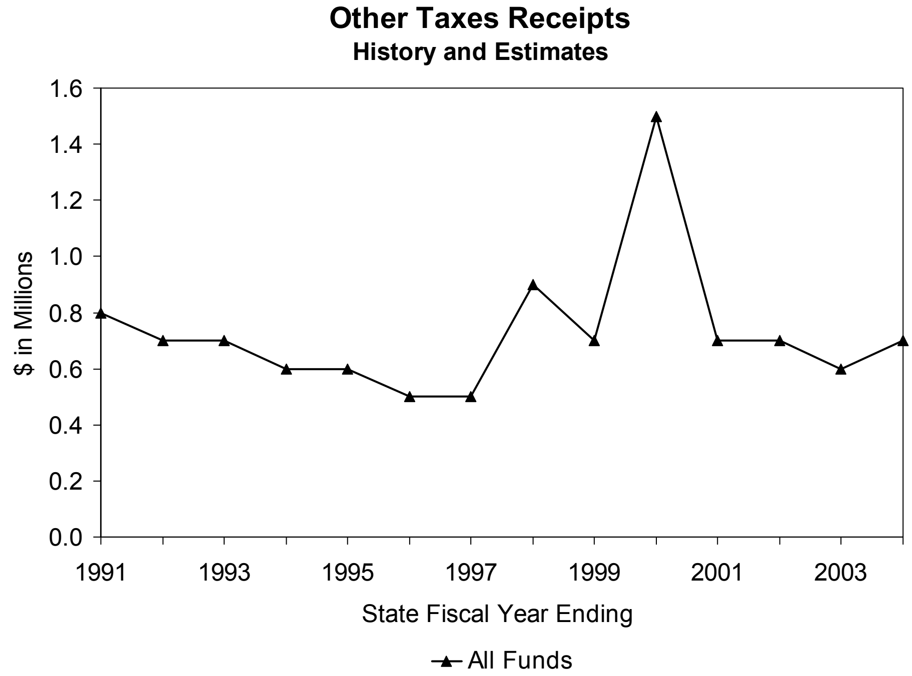
Direct deposits to the General Fund for 2002-03 are estimated to be $6,303 million, an increase of $172.7 million, or 2.8 percent, from 2001-02 receipts. General Fund receipts in 2003-04 are projected to be $6,764.9 million, a 7.3 percent increase from the current year.

SALES AND USE TAX RECEIPTS
(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			
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	293,199	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
2000-01	6,310,956	39,391	6,271,565	368,226	0	2,091,901	8,731,692
2001-02	6,173,782	42,521	6,131,261	364,737	0	2,043,676	8,539,674
				Estimated			
2002-03	6,343,000	40,000	6,303,000	371,900	0	2,098,300	8,773,200
2003-04							
(current law)	6,532,400	40,000	6,492,400	381,700	0	2,163,500	9,037,600
(proposed law)	6,804,900	40,000	6,764,900	393,300	0	2,254,400	9,412,600

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

OTHER TAXES



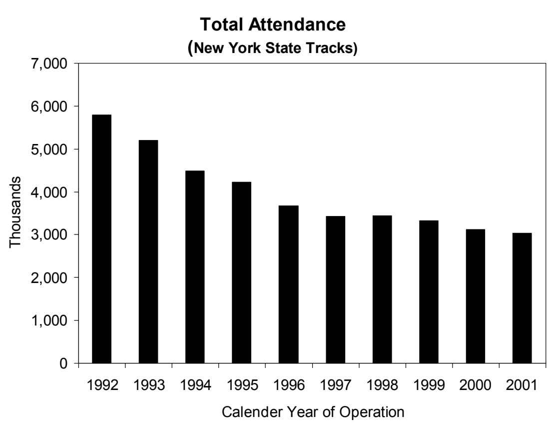
RACING ADMISSIONS TAX

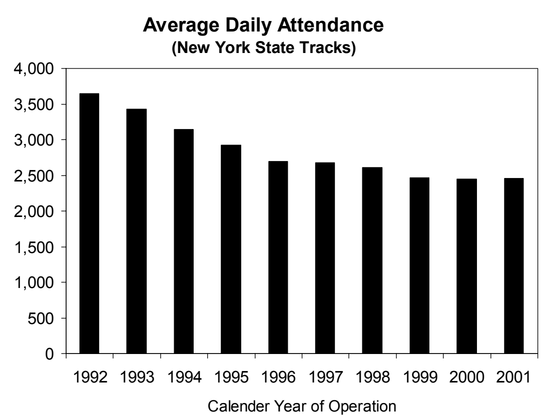
A 4 percent tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. Expanded interstate competition and growth in off-track betting activity within New York, as well as the proliferation of casinos in close proximity to New York residents, has led to declines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

2002-03 Receipts and 2003-04 Projections

Given the successful extended racing season at Saratoga Race Course during the summer of 2002, 2002-03 General Fund receipts are estimated at $300,000.

General Fund receipts for 2003-04 are projected to remain constant at $300,000. It is estimated that increased attendance at simulcast facilities and the Saratoga meet will be offset by continued modest admissions declines at other New York racetracks.





BOXING AND WRESTLING EXHIBITIONS TAX

A 3 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.

2002-03 Receipts and 2003-04 Projections

Based on year-to-date collections of the current fiscal year, receipts are expected to reach $300,000. There has been a decline in the number of major wrestling exhibitions in New York City since the terrorist attack on September 11, 2001. The reduction of New York City exhibitions and a lack of big name wrestlers has contributed to a small revenue reduction for this tax in State fiscal year 2002-03.

Receipts for the boxing and wrestling exhibitions tax are expected to increase to $400,000 for State fiscal year 2003-04, largely due to the expected return to more normal levels of boxing and wrestling exhibitions in New York City.

OTHER TAXES RECEIPTS
(thousands of dollars)

	General Fund		Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Collections
	Admissions	Exhibitions				
	Actual					
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
2000-01	300	400	0	0	0	700
2001-02	300	400	0	0	0	700
	Estimated					
2002-03	300	300	0	0	0	600
2003-04	300	400	0	0	0	700

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.

SIGNIFICANT LEGISLATION

The following table summarizes significant legislative provisions that impacted miscellaneous receipts since 1994.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1994
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1994
Legislation Enacted in 1995		
Assessments	Extended for one year the assessments on health facility providers.	April 1, 1995
Love Canal claims	Provided for the deposit into the General fund of moneys received from settlement of Love Canal claims.	April 1, 1995
Power authority of NY	Provided for the one-time payment to the General fund of $15.9 million in lieu of annual payments.	April 1, 1995
Legislation Enacted in 1996		
Assessments	Extended for one year the current assessments on health facility providers and imposed new assessments.	April 1, 1996
Power Authority, MMIA, Workers Compensation	Provided for the deposit into the General Fund of moneys from these entities, respectively: $50 million, $481 million, and $97 million.	April 1, 1996
Fees and Fines	Moved into the General Fund receipts previously deposited into various special revenue accounts.	August 31, 1996
Legislation Enacted in 1997		
Assessments	Provided for the collection of assessments for prior years from certain health facilities.	January 1, 1995
	Initiated a phase-out of the assessments on private health facility providers.	April 1, 1997
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1997
Legislation Enacted in 1998		
Assessments	Accelerated the phase-out of assessments on private health facility providers.	April 1, 1998
Legislation Enacted in 1999		
Assessments	Further accelerated the phase-out of assessments on private health facility providers.	April 1 1999
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 1999
Legislation Enacted in 2000		
Assessments	Provided amnesty on interest and penalties for private health facilities that paid any outstanding assessments by March 31, 2001.	April 1, 2000
Legislation Enacted in 2001		
Mandatory Surcharges	Extended for two years the mandatory surcharges pertaining largely to standing or moving violations of the Vehicle and Traffic Law.	October 31, 2001

Subject	Description	Effective Date
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002

2001-02 RECEIPTS

In State fiscal year 2001-02, miscellaneous receipts totaled $1,625 million. Major revenue sources in that year included: $439 million in unclaimed and abandoned property; $328 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); $528 million in fees, licenses, fines, royalties, and rents; $132 million in medical provider assessments; $160 million in reimbursements; and $4 million in Federal grants. In addition, the receipts included $32 million from the Thruway Authority, reflecting the early payment of bonds, and $2 million from revenue maximization.

2002-03 RECEIPTS

Miscellaneous receipts are estimated at $4,085 million for fiscal year 2002-03, including $1.9 billion in Tobacco Bond proceeds. With Tobacco proceeds excluded, miscellaneous receipts are estimated to increase $560 million from the prior year. The estimate includes receipts of $443 million in unclaimed and abandoned property; $42 million in net investment earnings; $520 million in fees, licenses, fines, royalties and rents; $144 million in medical provider assessments; $153 million in reimbursements; $5 million in Federal grants; $2 million from the Thruway Authority, reflecting the early payment of bonds; $67 million from PASNY for the Power for Jobs program; $158 million in additional bond issuance charges; $38 million from the supplemental wireless service charge; $2.5 million from the Energy Research and Development Authority; $5.4 million from revenue maximization; $48 million in a settlement recovery from Merrill Lynch; $30.5 million from a settlement recovery from various Wall Street firms; $8.6 million from a fine imposed on Western Union; and $300 million in abandoned property from the sales of securities received in prior years. There are also several transactions reflecting excess funds: (1) $150 million from the State of New York Mortgage Agency, (2) $50 million from the New York State Housing Finance Agency, and (3) $17.6 million from the Port Authority of New York and New Jersey.

2003-04 PROJECTIONS

Miscellaneous receipts are projected at $3,538 million in fiscal year 2003-04, including $1.9 billion in Tobacco Bond proceeds; a decrease of $547 million from the amount estimated for 2002-03, if we exclude the Tobacco Bond proceeds. This projection includes receipts of $526 million in unclaimed and abandoned property; $46 million in net investment earnings; $163 million in reimbursements; $553 million in fees, licenses, fines, royalties and rents; $153 million in continuing medical provider assessments; $4 million in Federal grants; $58 million from PASNY for the Power for Jobs program; $71 million from bond issuance charges and cost recovery assessments; and $63 million from the supplemental wireless service charge.

Proposed Legislation

Legislation submitted with the Executive Budget proposes to add new charges and fees and to raise the amount of some existing charges and fees. The following is a table and summary of the proposals impacting General Fund Miscellaneous Receipts.

DESCRIPTION	CHANGE	VALUE IN 2003-04 (millions of dollars)
Background check for holders of HAZMAT license endorsement	New: $75	2.0
Various fees on sex offenders	New: Various	0.8
Data search fees (DMV) [1]	From: Manual - $5 to $6 Electronic - $4 to $5	5.5
Oil and gas depth fees	Double	0.2
Fee on new tire sales	New: $2.25 per tire	22.5
Appellate Court motion fee	New: $35	0.6
Supreme Court motion fee	New: $35	4.2
Civil Court fees	Increase by 25 percent	18.1
Lobbyist registration fee	From: $50 to $100	0.2
Justice Court Fund - criminal fines	Various	6.2
Heavy weight truck fines	Increase by $500	1.5
Surcharge on DWI or DWAI convictions	New: $25	0.5
Parking surcharges	From: $5 to $15	16.0

[1] Note: The additional moneys from the proposal to raise DMV data search fees would be deposited in the General Fund until March 31, 2004, and thereafter would be deposited in the Dedicated Highway and Bridge Trust Fund.

Other legislative proposals impacting General Fund Miscellaneous Receipts include:

DESCRIPTION	CHANGE	VALUE IN 2003-04 (millions of dollars)
Reduce dormancy period for uncashed checks	From: 3 years to 1 year	38.0
Extend the base for cost recovery assessments	Double the base	15.0
Deposit indirect costs from DOT Dedicated Funds	New	5.1
Direct Data Search fees to the Dedicated Highway and Bridge Trust Fund from April 1, 2003	From: General Fund to the Dedicated Highway and Bridge Trust Fund	-50.0

MISCELLANEOUS RECEIPTS
GENERAL FUND
(millions of dollars)

	1999-2000	2000-01	2001-02	2002-03	2003-04
	Actual			-- Estimated --	-- Proposed --
License, Fees, Etc.	556	509	528	520	553
Federal Grants	4	4	4	5	4
Abandoned Property	316	333	439	743	526
Reimbursements	150	141	160	153	163
Investment Income	232	411	328	42	46
Other Transactions*	389	155	166	2,622	2,246
Total	1,647	1,553	1,625	4,085	3,538

*Includes proceeds from Tobacco securitization.

MISCELLANEOUS RECEIPTS
Special Revenue Funds

Miscellaneous receipts deposited to special revenue funds represent approximately 22 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, 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 SUNY'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, insurance companies, 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

Receipts from the sale of lottery tickets support public 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 insurance companies and hospitals.

HCRA TRANSFER FUND

This fund is supported by transfers from the Tobacco Control and Insurance Initiatives Pool and is used primarily to finance a portion of the State's Medicaid program, including expansion of programs such as Family Health Plus.

PROVIDER ASSESSMENTS

The provider assessment account receives moneys from a 6.0 percent assessment on nursing homes. The 2003-04 Executive Budget projects the receipt of additional moneys from a new 0.7 percent assessment on hospital revenues and 0.6 percent assessment on home care revenues.

ELDERLY PHARMACEUTICAL INSURANCE COVERAGE PROGRAM (EPIC)

New York's EPIC program helps senior citizens pay for their prescriptions. This program is partially funded by revenues authorized in HCRA.

CHILD HEALTH PLUS

The Child Health Plus (CHP) program subsidizes health insurance coverage for children of low-income families. Revenues authorized in HCRA fund the State's share of CHP.

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)

	1999-2000	2000-01	2001-02	2002-03	2003-04
	Actual			Estimated	
State University income	1,622	1,656	1,824	1,897	2,138
Lottery	1,496	1,587	1,713	1,965	1,996
Indigent care	763	873	836	1,020	911
HCRA transfer fund	0	246	335	1,159	1,510
Provider assessments	0	0	0	441	652
EPIC	40	178	278	535	597
Child Health Plus	183	259	303	398	367
All other	1,977	1,847	1,840	2,332	2,033
Total	6,081	6,646	7,129	9,747	10,204

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 an upper 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. The Division, pursuant to legislation enacted in 2001, is authorized to operate five 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 eleven times weekly: seven 5-of-39 draws (Take-5), two 6-of-59 draws (Lotto 59) and two multi-jurisdictional drawings (Mega Millions). For the Lotto 59 game and the Mega Millions (multi-jurisdictional 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 where players select either a three-digit number (Daily Numbers), a four-digit number (Win 4), and Instant Win, an add-on game to Daily Numbers and Win 4;
- 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; and
- Video Lottery Games, which are lottery games played on video gaming devices. They are allowed at selected thoroughbred and harness tracks, with county resolutions required for the participation of some tracks.

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 the Lotto 59 game and a new Instant Win game is 45 percent of ticket sales; for the Mega Millions, Take-5, Win 4, Numbers and Pick 10 games, 35 percent; for Instant Games, 20 percent with three games authorized at 10 percent; for Quick Draw, 25 percent; and for Video Lottery Terminals (VLTs), 60 percent of net machine income. After the earmarking for prizes, the Division has available 15 percent of net sales for its administrative expenses, of which any unused portion is used to support education.

SIGNIFICANT LEGISLATION

The following table summarizes significant lottery legislation enacted since 1994.

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 offered no more than once daily.	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

Subject	Description	Effective Date
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
Legislation Enacted in 1995		
Quick Draw	Authorized Quick Draw.	April 1, 1995
	Authorized a 60 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.	
Legislation Enacted in 2001		
Multi-jurisdictional	Allowed the Lottery Division to enter into agreements to conduct multi-jurisdictional lotto games with a 50 percent prize payout	October 29, 2001
Video Lottery Terminals	Allowed the Lottery Division to license the operation of video lottery machines at selected New York State racetracks.	October 29, 2001
Legislation Enacted in 2002		
Instant Games	Three 75 percent prize payout Instant ticket games may be offered during the fiscal year.	January 28, 2002

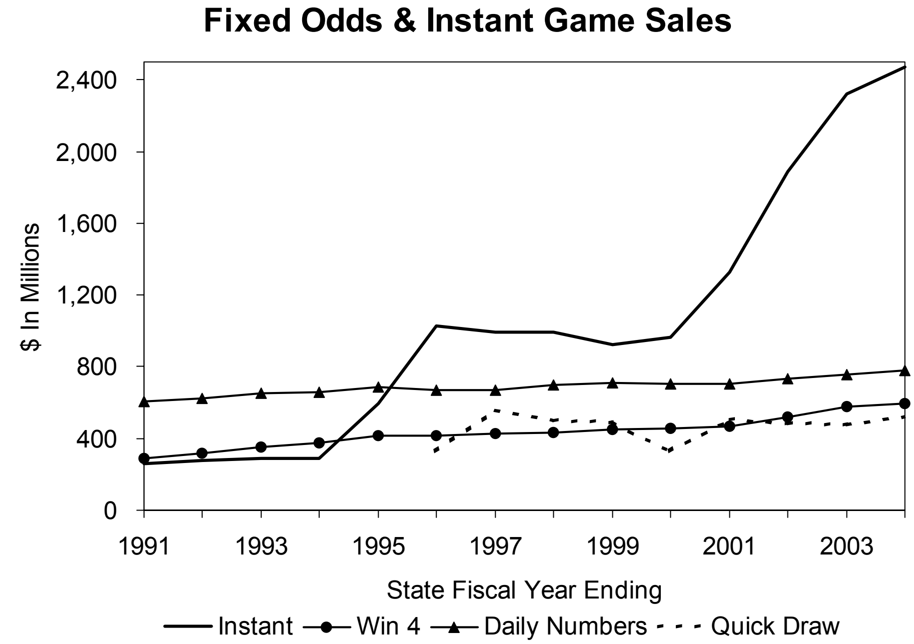
2002-03 RECEIPTS

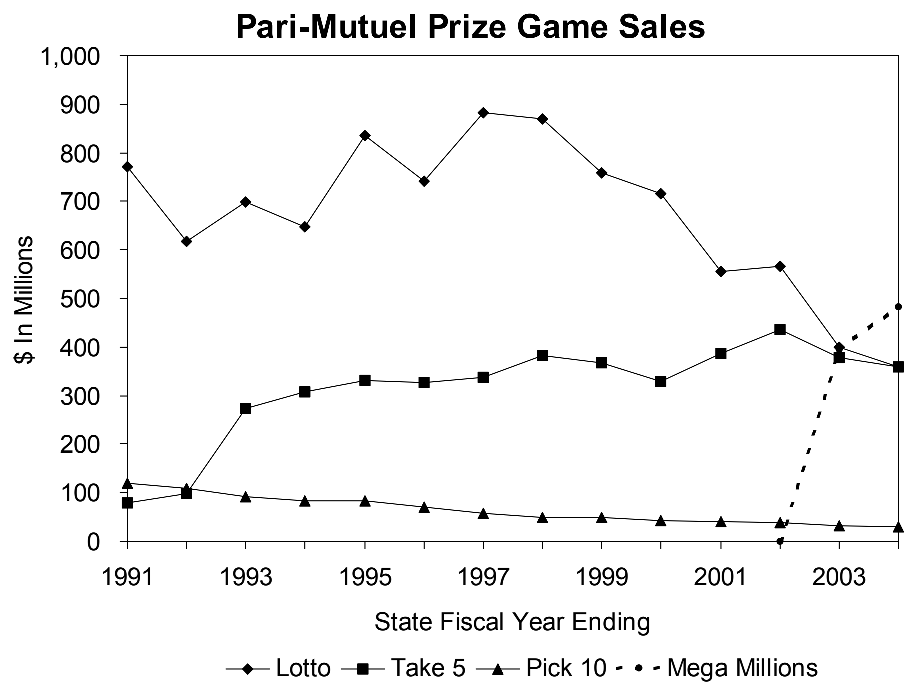
Total sales of all lottery games are estimated at $5.4 billion that in turn provide $1,522.1 million in receipts for education. This is an increase of $164 million or 12 percent from 2001-02. After including $269.6 million from unspent administrative allowances, a $37.2 million carry-in from 2001-02, and miscellaneous income, lottery receipts for education in 2002-03 are expected to total $1,828.9 million (see Table 1). The 2002-03 supplemental lottery appropriation sets disbursements to education at $1,843.1 million.

Current year receipts reflect a significant increase in revenue from Instant Game sales. This increase can be attributed to legislation increasing the prize payout on instant ticket games; the addition of up to three games each year with a 75 percent prize payout; and the introduction of new more popular game formats. The implementation of a two week call cycle program, in which Lottery marketing employees visit large agents every two weeks, also has contributed to sales growth. Total Instant Game sales are expected to increase 25.4 percent in 2002-03. In total, revenue from instant ticket sales is expected to increase from $377.1 million in 2001-02 to $469.5 million in 2002-03.

A gradual weakening in Lotto sales has developed over the past several years, stemming from several factors: (1) a general dilution of interest in ordinary jackpots, given raised expectations of exceptionally large jackpots from multi-state games; (2) increased competition from competing gambling outlets in and around New York; (3) reduced consumer interest, based on the maturity of the game; (4) a decline in the number of very large jackpots — a reflection of reduced participation, which contributes to an increase in the number of rolls required to achieve large jackpots; and (5) low interest rates which limits the size of jackpots at every prize level.

The phenomenon of declining trends in Lotto sales has been experienced in most states with similar Lotto structures. To counteract declining trends in Lotto sales, the Division introduced Lotto 59 on September 9, 2001. The game offers two plays for $1 and changed the payout matrix to 6 of 59. The September 11, 2001, World Trade Center terrorist attack and competition from the subsequent introduction of the Mega Millions game in May 2002 has contributed to a 26 percent year-to-date decline in Lotto sales.





Year-to-date sales of Mega Millions are $280 million, which equates to average weekly per capita sales of approximately 44 cents. This is consistent with demand in other states with similar demographics. The sales for mid-level to high-level jackpots have been improving in recent weeks, and average weekly per capita sales are expected to improve to approximately 50 cents by the end of the fiscal year.

Quick Draw sales in 2002-03 are expected to be down 1.4 percent compared with 2001-02. The Division has recently upgraded the computer graphics for this game, and has been promoting the Quick Draw Extra add-on game to combat the current erosion in sales.

Numbers game sales are benefiting from the addition of new agents, which has fostered player awareness. Revenue from sales is expected to increase moderately from $256.8 million in 2001-02 to $266.2 million in 2002-03. In December of 2001, a second daily drawing for the Numbers game and the Win 4 game was added by the Division. The estimated combined revenue effect for State fiscal year 2002-03 is an additional $61 million. Number sales are expected to increase by 3.7 percent and Win 4 sales are estimated to increase by 12 percent due, in large part, to the second draw per day and to stronger than expected growth in base sales.

The Division introduced a new Instant Win game in October of 2002. Instant Win is a terminal game that offers Daily Number and Win 4 players the opportunity to win prizes up to $500 for an additional $1 wager.

The increase in weekly draws for the Take-5 game from four to seven days in September of 2000 contributed an estimated $62.7 million in revenues for State fiscal year 2001-02. The degradation in sales from a maturing game life cycle and competition from the introduction of the Mega Millions game in May 2002 has dissipated sales gains from the additional draws, and has resulted in the 12 percent decline in comparative year-to-date sales.

Pick 10 is continuing the downtrend exhibited in recent years. Revenue from sales is expected to fall from $13.2 million to $11.7 million.

TABLE 1
COMPONENTS OF LOTTERY RECEIPTS
(millions of dollars)

	1998-99 Actual	1999-2000 Actual	2000-01 Actual	2001-02 Actual	2002-03 Estimated	2003-04 Projected
Instant Game	283.2	272.7	283.0	377.1	469.5	482.4
Lotto Games[1]	338.3	339.5	304.6	254.8	318.4	330.8
Take-5 Games	128.9	114.8	135.0	152.2	132.4	125.5
Daily Numbers Games[2]	249.2	246.7	247.4	256.8	266.2	275.4
Win-4 Games[2]	157.0	159.6	164.5	182.4	203.7	212.4
Pick 10 Games	17.0	15.1	14.5	13.2	11.7	10.7
Quick Draw	123.4	82.2	126.7	121.8	120.2	132.0
Subtotal	1,297.0	1,230.6	1,275.7	1,358.3	1,522.1	1,569.2
Administrative Surplus[3]	145.4	119.1	159.8	193.2	269.6	265.9
Current Receipts Subtotal	1,442.4	1,349.7	1,435.5	1,551.5	1,791.7	1,835.1
Carry-In from Prior Year	0.0	0.0	4.7	47.2	37.2	0.0
Net Receipts for Education	1,442.4	1,349.7	1,440.2	1,598.7	1,828.9	1,835.1
Carry-Out from Current Year	0.0	(4.7)	(47.2)	(37.2)	0.0	0.0
Disbursements for Education	1,442.4	1,345.0	1,393.0	1,561.5	1,828.9	1,835.1

[1]Includes receipts from Lotto, Millennium Millions and the Mega Millions games.

[2]Includes Instant Win

[3]Reflects miscellaneous income and the balance of the 15 percent administrative allowance, after deduction of actual expenses, vendor allowances, and agent commissions.

2003-04 PROJECTIONS

Lottery sales for 2003-04 are projected to be $5.6 billion, and associated receipts for the support of education at $1,835.1 million (see Table 1), including $265.9 million in administrative surplus and miscellaneous receipts.

The net revenues for the Mega Millions game are estimated to increase by 16 percent to $145 million in 2003-04. The increase reflects a full year of sales at per capita sales levels consistent with other similar states.

Sales of the Lotto game are projected to decline by $41.2 million from State fiscal year 2002-03. Increased competition from other gambling options and continued cannibalization from the Mega Millions game are expected to continue to contribute to weakening Lotto sales.

The Quick Draw game is projected to attain a $4.3 million increase in sales. The increase will be affected, in part, by the extra week of collections in 2003-04. Base sales are expected to drop by 1 percent from 2002-03 because of competition from other games, restrictions on locations that can operate Quick Draw games, and a maturing sales cycle.

Instant Game sales are expected to increase by $63 million in 2003-04. As the higher payout games become more mature, sales and revenue growth are expected to slow.

Sales of Take-5 games are projected to drop by $20 million from State fiscal year 2002-03. The continued competition from Mega Millions and the maturation of the game are expected to cause the declines in sales.

Daily Numbers and Win 4 are expected to continue to reap additional combined revenues of $17.9 million from State fiscal year 2002-03, due to the noon draw. Numbers sales are expected to increase by 3 percent and Win 4 sales are estimated to increase by 4 percent.

Sales from Pick 10 are expected to decrease by $2.8 million, due to the substitution of the more popular Take-5 and Instant games, and revenues will drop by $1 million. The Instant Win game revenues are projected to increase by $2.5 million in fiscal year 2003-04, reflecting a full year of operation.

The Division will make an administrative change on February 23, 2003, and reduce the time frame for draws of the Quick Draw game from five minutes to four minutes. An additional $12 million in revenues is estimated for fiscal year 2003-04.

Currently, there are no participants for the VLT program. This is primarily due to concerns about existing program parameters. Legislation submitted with this Budget addresses these issues by increasing hours of operation, altering the distribution of receipts, and eliminating the sunset. Given the lead time for implementing a VLT operation, the 2003-04 Financial Plan assumes no net revenue from this source.

With the continuation of Quick Draw, the full year effect of the Mega Millions, continued strength in Instant Game sales, and the above mentioned initiatives, total sales of all lottery games are estimated to be $5.6 billion. This will provide net lottery receipts of $1,569.2 million. After including $265.9 million from surplus administrative funds and miscellaneous receipts, net lottery receipts for education are estimated at $1,835.1 million.

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

Actual	
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	1,349,700
2000-01	1,440,200
2001-02	1,598,700
Estimated	
2002-03	1,828,900
2003-04	1,835,100

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 93 percent of all miscellaneous receipts flowing to capital project funds in 2002-03 and 92 percent in 2003-04.

STATE PARKS REVENUES

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 2003-04, will be used to finance improvements in the State's park system.

ENVIRONMENTAL REVENUES

Miscellaneous receipts from environmental revenues are projected to increase from $56 million in 2002-03 to $91 million in 2003-04. The $35 million net increase is primarily attributable to 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.

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)

	1999-2000	2000-01	2001-02	2002-03	2003-04
	Actual			Estimated	
Authority Bond Proceeds					
Transportation	859	875	710	929	965
Public protection	245	197	140	188	188
Education	280	413	266	375	349
Mental hygiene	118	40	63	179	130
Housing	66	12	124	102	102
Other	45	42	57	532	822
State Park Fees	25	16	23	22	22
Environmental Revenues	40	28	20	56	91
All Other	97	51	41	104	121
Total	1,775	1,674	1,444	2,487	2,790

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 20 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 cost 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 (DA) 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 DA 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 DA for the construction and improvement of Health Department facilities.

ALL OTHER

The all other miscellaneous receipts category primarily includes receipts from local housing agencies to finance the debt service costs on general obligation bonds. All other receipts for 2003-04 also include receipts to the Debt Reduction Reserve Fund (DRRF).

MISCELLANEOUS RECEIPTS
DEBT SERVICE FUNDS
(millions of dollars)

	1999-2000	2000-01	2001-02	2002-03	2003-04
	---------- Actual	----------	----------	---------- Estimated	----------
Mental hygiene patient receipts	267	258	248	231	232
SUNY dormitory fees	221	224	247	284	292
Health patient receipts	90	87	91	85	93
All other	33	291	28	26	85
Total	611	860	614	626	702

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 $32.44 billion in 2002-03 and $32.06 billion in 2003-04. These revenues represent approximately 36 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. The projections for both fiscal years include the flow-through of Federal aid to localities for World Trade Center disaster costs which amount to $1.70 billion and $861 million in 2002-03 and 2003-04, respectively.

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 finances care, medical supplies, and professional services for 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. 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			Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other				
	Actual							
1996-97	0	12,391	1,743	4,871	19,005	1,043	0	20,048
1997-98	0	13,118	2,219	5,174	20,511	1,132	0	21,643
1998-99	0	13,552	1,488	6,382	21,422	1,219	0	22,641
1999-2000	0	14,432	1,017	6,735	22,184	1,381	0	23,565
2000-01	0	15,203	1,450	7,620	24,273	1,509	0	25,782
2001-02	0	16,324	1,975	8,399	26,698	1,423	0	28,121
	Estimated							
2002-03	0	17,935	2,258	10,762	30,955	1,482	0	32,437
2003-04	0	18,844	1,962	9,584	30,390	1,668	0	32,058