EXECUTIVE BUDGET APPENDIX II

CONTENTS

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PART I

FINANCIAL PLAN OVERVIEW

FINANCIAL PLAN

The Financial Plan Overview ("Overview") summarizes the Governor's Executive Budget for 2004-05. The State Constitution and State Finance Law prescribe the content and format of budgetary information to be supplied by the Governor at the time of submission of the Executive Budget. This section of the Budget fulfills the requirements of section 22 of the State Finance Law, providing summary financial plans and explanations of projected receipts and disbursements for the State's major governmental funds.

TABLE OF CONTENTS

EXECUTIVE SUMMARY

Consistent with the Division of the Budget (DOB) projections since last year's Enacted Budget, the 2003-04 Budget is soundly balanced while the baseline budget gap for 2004-05 is projected at $5.1 billion and the outyear gaps at roughly $7 billion to $8 billion. The Executive Budget recommendations will close the entire 2004-05 gap, and significantly reduce the outyear gaps.

Like most states, New York continues to face significant fiscal challenges. The national recession, in conjunction with the economic dislocation caused by the September 11th attacks, produced consecutive year-to-year declines in total tax receipts. Costs for employee pensions have increased dramatically, while Medicaid, welfare and other entitlement programs have also risen, reflecting the impact of the national recession and the jobless recovery that has followed. New York's fiscal difficulties were also compounded by last year's Enacted Budget process that resulted in spending growth in excess of recurring revenues. Flexible reserves, significantly increased when times were good, have now been depleted.

The 2004-05 Executive Budget projects that a strengthening economic recovery will produce a return to above-average rates of growth in tax revenues. The Financial Plan reflects overall tax receipt growth of 7.8 percent. Real Gross Domestic Product (GDP) growth for the United States is forecast at 4.7 percent, with employment growth expected to accelerate in 2004. The equity market rebound is expected to produce renewed growth in financial sector compensation and in taxable income gains for the owners of corporate equities. A detailed analysis of the economic and receipt forecast is contained later in this Overview.

Economic growth alone will not solve the State's fiscal problems. Thus, the Executive Budget moves toward structural budget balance with a prudent mix of recurring cuts, revenue actions and transitional financing. No new broad-based tax increases are proposed in the Budget.

Reforms are proposed to hold spending in line with available resources, particularly in Medicaid and pensions. State agency operations will continue to be made more efficient, in part through the expansion of operational "hosting" by one agency of administrative functions for multiple agencies. The State workforce is expected to remain level at roughly 187,900. Revenue proposals focus on maximization of Federal resources, closing tax loopholes and ensuring that fees adequately fund the activities they support. Rainy day reserves are increased, and modest but important targeted investments are recommended in economic development, including tax cuts. A detailed discussion of the proposed gap-closing plan follows this section.

The Executive Budget also includes funding in response to the State Court of Appeals ruling requiring the State to implement reforms that ensure all children have the opportunity for a sound basic education (SBE). This Budget takes the first step in a multi year effort to fund SBE costs by reserving all proceeds from video lottery terminals (VLTs) and providing additional General Fund support of $100 million to New York City for this purpose. VLT proceeds from facilities now being developed and new ones proposed with the Executive Budget are projected at $325 million in the 2004-05 school year growing to $2 billion annually over the next five years.

The 2004-05 Executive Budget is expected to have a positive $1.4 billion impact on local governments, and furthers the process of lowering the local property tax burden over a multi year period. The $3 billion STAR program significantly reduced the school tax burden for New Yorkers. Recommendations this year would contain the growth in local property taxes through a proposed multi year takeover of Medicaid long-term care costs, reforms in pensions and health care that lower costs for both the State and its localities, and a cap on school district spending increases. In addition, a comprehensive mandate relief package is proposed to assist local governments.

Finally, this Budget begins rebuilding State reserves by making a maximum $84 million deposit to the rainy day fund in 2003-04, the eighth such deposit made in the last nine years. The last several years have clearly demonstrated that adequate reserve levels are critical if the State is to withstand economic downturns without draconian local assistance budget cuts or massive layoffs.

SIZE OF 2004-05 EXECUTIVE BUDGET (millions of dollars)						
			Actual		Adjusted	
	2003-04 Revised	2004-05 Proposed	Annual Change	Percent Change	Annual Change	Percent Change
General Fund	42,060	41,885	(175)	(0.4)	1,725	4.3%
State Funds	62,112	63,498	1,386	2.2	3,286	5.5%
All Governmental Funds	98,293	99,806	1,513	1.5	3,413	3.5%

The 2003-04 projections and associated annual dollar and percentage changes described throughout this Overview continue to include $1.9 billion of spending in 2003-04 deferred from 2002-03 due to a delay in enacting tobacco securitization legislation (hereafter "the 2002-03 payment deferrals"). The 2003-04 Enacted Budget Report (dated May 28, 2003) summarized the 2002-03 payment deferrals and a detailed chart is provided later in this section. That spending will be reported by the Office of the State Comptroller (OSC) in final results for 2003-04, and thus is counted as spending in the 2003-04 Financial Plan. The adjusted percentage change excludes this $1.9 billion in spending from 2003-04 projections in order to provide a comparable basis for calculating the annual change.

The major components of the annual spending change are summarized in the following table, and are explained in more detail later in this report. The spending totals assume enactment of all cost containment proposals recommended in the Executive Budget.

SPENDING PROJECTIONS — AFTER RECOMMENDED SAVINGS MAJOR SOURCES OF ANNUAL CHANGE (millions of dollars)			
	General Fund	State Funds	All Governmental Funds
2003-04 Revised Estimate	***42,060***	***62,112***	***98,293***
Medicaid	373	672	738
Mental Hygiene	299	342	233
Debt Service	285	566	566
Employee Health Insurance	255	255	255
Higher Education	206	304	58
Pensions	184	184	184
School Aid	169	278	278
All Other	(46)	685	1,101
2002-03 Payment Deferrals	(1,900)	(1,900)	(1,900)
2004-05 Executive Budget	***41,885***	***63,498***	***99,806***
Annual $ Change	***(175)***	***1,386***	***1,513***
Annual % Change	***(0.4%)***	***2.2%***	***1.5%***

CLOSING THE 2004-05 GENERAL FUND BUDGET GAP

SOURCES OF THE 2004-05 GAP

Prior to the Governor's recommended budget actions, the State faced potential General Fund budget gaps of $5.1 billion in 2004-05, $6.7 billion in 2005-06, and $7.8 billion in 2006-07. The $5.1 billion gap is consistent with estimates provided by DOB at the time of the 2003-04 Enacted Budget. Those projections indicated that the original 2004-05 Executive

Budget gap of $2.8 billion would increase to between $5 billion and $6 billion primarily as a result of additional recurring spending adds in the Enacted Budget. The current $5.1 billion gap is at the lower end of the projected range due to modestly improved economic conditions and the expectation of continued increases in financial services incomes.

A summary explanation of the sources of the gap is provided below, and a more detailed analysis is provided later in this Overview.

CAUSES OF 2004-05 BUDGET GAP -- BEFORE RECOMMENDED SAVINGS ANNUAL RESOURCES/(COSTS) FROM 2003-04 (millions of dollars)		
Total Annual Revenue Changes		**(2,008)**
Revenue Growth (7%)	2,800	
Current Tax Law Changes	(265)	
Loss of One-time Tobacco Securitization Receipts	(3,400)	
Loss of One-time Federal Revenue Sharing	(645)	
Debt Service Impact on Receipts	(268)	
Loss of Other One-Time Revenues	(230)	
Total Annual Spending Changes		**(3,063)**
Loss of One-time Payment Deferrals	1,900	
Medicaid - includes Cycle Shift ($170m); Loss of Temporary FMAP Increase ($390m)	(1,268)	
Pension Costs (137% Annual Increase)	(664)	
Mental Hygiene - includes Loss of PIA ($220m) and Extra Payroll ($72m)	(596)	
Welfare - includes Loss of TANF/Offsets ($322 m)	(521)	
Higher Education - includes TAP Spending Roll ($104m); Loss of TANF ($246m)	(489)	
School Aid - includes Tail of 03-04 ($183m)	(444)	
Debt Service	(330)	
State Employee Health Insurance Costs	(255)	
All Other Spending/Fund Balance Changes	(396)	
Total Projected 2004-05 Budget Gap		**(5,071)**

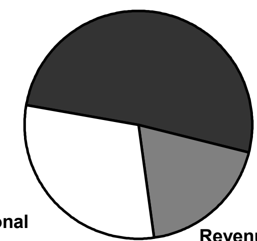
Underlying receipts growth in 2004-05, adjusted to exclude the impact of tax law changes, is projected to increase by roughly $2.8 billion (7 percent) over 2003-04. The incremental value of existing tax law changes results in a net decrease of $265 million in receipts, including the Sales Tax exemption on clothing ($330 million), the college tuition deduction ($50 million), Earned Income Tax Credit ($44 million) and the marriage penalty ($35 million), partially offset by net annual increases for the 2003 PIT and Sales tax increases. The underlying receipts growth is also offset by the loss of tobacco securitization proceeds which were used, as planned, to provide $3.8 billion of resources in 2003-04 and $400 million in 2004-05, resulting in a net decrease of $3.4 billion. A one-time Federal revenue sharing grant of $645 million provided by the Federal economic stimulus package is not available in 2004-05. In addition, increasing debt service costs reduce the amount of available General Fund taxes, including costs for the State Personal Income Tax (PIT) Revenue Bond Program and the Local Government Assistance Corporation (LGAC).

Annual spending (before Executive Budget recommendations) is projected to grow by $3.1 billion, driven mainly by higher costs for employee pensions (up 137 percent); Medicaid, primarily to support current service levels and the inability to achieve proposed cost containment actions in the 2003-04 Enacted Budget; as well as for mental hygiene, higher education and welfare.

Also, one-time actions that reduced General Fund spending in the 2003-04 budget are not available in 2004-05, including a temporary increase in the Federal match rate for Medicaid, the use of Federal Temporary Assistance for Needy Families (TANF) for welfare-related spending, and Medicaid and Tuition Assistance Program (TAP) payment rolls that drive higher 2004-05 costs.

Spending for debt service and employee health insurance is also projected to increase as a result of programmatic and inflationary pressures. These cost increases are partially offset by the 2002-03 payment deferrals.

Recommended Solutions to $5.1B Gap



2004-05 GAP-CLOSING PLAN

The Governor's Executive Budget fully closes the $5.1 billion General Fund budget gap in 2004-05 with a mix of spending restraint, revenue actions and transitional financing. Actions of nearly $3.9 billion in 2005-06 and $3.5 billion in 2006-07 reduce the outyear gaps to more manageable levels of $2.9 billion in 2005-06 and $4.3 billion in 2006-07. In addition, $240 million in 2004-05 ($325 million on a school year basis), growing to $2 billion annually over the next five years is reserved from new VLT resources to fund the SBE requirements.

The major sources of these gap-closing actions are summarized below, and more detail on these specific actions is provided later in this Overview.

SOURCES OF PROPOSED GENERAL FUND GAP-CLOSING ACTIONS SAVINGS/(COSTS) (millions of dollars)

	2004-05	2005-06	2006-07
2004-05 Initial Budget Gaps	**(5,071)**	**(6,727)**	**(7,805)**
Total Spending Actions:	**2,589**	**2,495**	**2,199**
Medicaid/Health Care Cost Containment	425	539	555
Pension Reform	440	301	150
Restructure Welfare Programs/Maximize TANF	362	382	396
Mental Hygiene Cost Containment/PIA	298	285	214
Restructure TAP to Encourage Timely Degree Completion	227	268	234
Restrain Growth in BOCES/Bldg. Aid/Transp. Aid	186	244	268
Debt Management	150	150	174
NYC School Aid for SBE (Supplement to VLT Reserves)	(70)	(100)	(100)
Medicaid Long-Term Care Takeover	(24)	(132)	(258)
All Other Spending	595	558	566
Total Revenue Actions:	**972**	**1,163**	**1,118**
Provide Four Weekly Sales Tax Exemptions	400	429	451
Health Care Provider Assessments	323	475	475
Criminal Justice Fees	58	113	113
Quick Draw Enhancements	43	68	68
Abandoned Property	42	3	
Fixed Dollar Minimum	40	40	40
Pistol Permit Fee	31	11	11
STAR Tax Credit	(11)	(57)	(113)
All Other Revenue	46	81	73
Total Nonrecurring Actions:	**1,510**	**219**	**139**
Capital Projects Bond Financing	283	192	139
Use of 2003-04 Surplus	261		
Continued Delay of Medicaid Cycle	190	(190)	
Additional Tobacco Benefit	181		
LGAC Payment Restructuring	170		
Federal Welfare Funds	115		
Reverse Meyers Tax Decision	50		
Use Available HFA Reserves in 2005-06		225	
All Other	260	(8)	
Total Savings Actions	**5,071**	**3,877**	**3,456**
2004-05 Executive Budget Gaps	**0**	**(2,850)**	**(4,349)**

Recommendations to restrain spending in the General Fund total $2.59 billion and include a combination of program restructuring and the use of alternate funding sources. Significant savings proposals include:

- Medicaid/health care cost containment to restrain prescription drug costs, lower the cost of optional services, enhance case management and reduce the need for General Fund payments to finance Health Care Reform Act (HCRA) spending ($425 million);
- Pension reforms, including a cap in the annual increases in employer contribution rates, to reduce the annual rate of increase in employer pension costs from 137 percent to 38 percent ($440 million);
- Restructure welfare-related programs including enhanced mandated employment requirements ($88 million) and use of Federal resources to support spending ($274 million);
- Cost containment in mental hygiene programs ($133 million) and initiatives to increase Patient Income Account (PIA) and other revenues ($165 million);
- Lower debt service costs through debt management actions including refundings and, expanded use of variable rate debt ($150 million);
- All other spending actions totaling $595 million include recommended efficiencies in State agency operations and restraint in local assistance spending and transportation costs; offset by
- General Fund spending increases totaling $94 million composed of $70 million additional General Fund school aid support to New York City ($100 million on a school year basis) that will supplement VLT reserves for SBE and initial costs for the proposed multi-year State takeover of local Medicaid costs for long-term care services ($24 million).

Revenue proposals are expected to raise $972 million in 2004-05 and include:

- Provision of four sales tax free weeks instead of a permanent exemption on clothing and footwear ($400 million); and
- Reimposition of an assessment on hospital and home care revenues and an increase to the existing reimbursable nursing home revenue assessment to support health care programs ($323 million).

The 2004-05 Financial Plan includes a total of $1.51 billion in nonrecurring actions including:

- The shift of various pay-as-you-go capital projects to bond financing ($283 million);
- A continuation of the legislative delay of the last Medicaid cycle payable at the end of the 2004-05 fiscal year ($190 million);
- Additional revenues produced by the 2003-04 tobacco bond sale transaction ($181 million);
- Implementation of an alternative proposal to provide support for New York City which eliminates legal uncertainty and protects LGAC bondholders while preserving expected City resources ($170 million);
- Legislation to reverse the effect of the recent “Meyers” decision to eliminate delays in collecting tax payments ($50 million); and,
- All other proposals include using available resources of the Power Authority of the State of New York (PASNY) to help finance the “Power-for-Jobs” program ($100 million), sweeps of available fund balances ($72 million) and continuation of bond issuance charges ($50 million).

In addition, surplus reserves from the Housing Finance Agency (HFA) will be available in 2004-05 and used to lower the projected 2005-06 outyear gap.

THE 2003-04 FINANCIAL PLAN UPDATE

SUMMARY OF MAJOR 2003-04 CHANGES SINCE THE ENACTED BUDGET

In the Enacted Budget, DOB projected a potential imbalance in the General Fund of roughly $900 million in 2003-04 prior to the anticipated receipt of Federal Funds from the Federal economic stimulus legislation. The stimulus package provided $1.07 billion of fiscal relief to the State, including $645 million in one-time Federal revenue sharing payments and $422 million from a 15-month increase in the Federal matching rate on Medicaid costs (FMAP). An additional $170 million of fiscal savings occurred from the delay in providing payments to New York City associated with the LGAC/Municipal Assistance Corporation (MAC) transaction for a total benefit of $1.24 billion. All other revisions since the Enacted Budget resulted in no significant change to budget balance, and incorporate a slightly improved receipts forecast, higher spending in Medicaid, welfare and TAP, and lower spending in State Operations and debt service. DOB's current receipts projection assumes significant growth in tax receipts for the remainder of the year.

Thus, the net positive impact of $1.24 billion, mostly from the Federal stimulus package, eliminated the potential $912 million General Fund Enacted Budget imbalance, allowed a maximum deposit of $84 million to the rainy day fund and generated a $261 million surplus to help lower the 2004-05 budget gap.

RECAP OF 2003-04 GENERAL FUND SAVINGS/(COSTS) (millions of dollars)	
Enacted Budget Potential Imbalance	**(912)**
Federal Revenue Sharing	645
Federal FMAP	422
Sub-Total After Federal Aid	**155**
LGAC/MAC Payment Delay	170
All Spending Changes	(17)
All Receipts Changes	37
Deposit to Rainy Day Fund	(84)
Total to Help Balance 2004-05	**261**

At the time of the Enacted Budget, DOB projected 2003-04 All Governmental Funds spending at $96.4 billion after reflecting legislative spending additions and the 2002-03 payment deferrals versus the legislative projection of $92.8 billion. Based on actual results to date, All Funds spending is currently projected at $98.3 billion, an increase of $1.9 billion since the initial projections. This increase is primarily attributable to higher projected spending in Medicaid for direct program needs, upward re-estimates to Federal grant levels, and higher Federal matching aid related to the one-time FMAP increase ($1.20 billion); an increase of Federal pass-through aid for the World Trade Center attacks ($556 million); and growth in Federal aid for education ($515 million) and child care spending ($126 million). These increases are partially offset by lower projected disbursements from the Community Projects Fund (CPF) ($300 million). All other spending increases and decreases result in no material change to total spending.

Revenue proposals added by the Legislature that DOB considered to be speculative and did not value in 2003-04, including Indian reservation taxes ($164 million), VLTs ($150 million) and intangible holding companies ($115 million), have not yet generated any material revenues in 2003-04 consistent with initial DOB projections as detailed below.

ESTIMATED IMPACT OF ENACTED BUDGET REVENUE PACKAGE ALL FUNDS TAX RECEIPTS - SFY 2003-04 (millions of dollars)		
	2003-04 Enacted	**2003-04 Revised**
Temporary PIT Increase	1,400	1,115
Sales Tax 0.25 Percent	451	445
Clothing	449	441
VLTs (Tracks Only)	0	0
Insurance Premiums Tax	158	158
Recapture of Bonus Depreciation	58	58
Intangible Holding Companies	0	0
Indians - Cigarettes and Gas	0	0
LLC's Filing Fees and Single Member	26	26
Non-Resident Partnership Withholding	15	15
Non-Resident Sales of Real Property	0	7
City Portion of Excise Tax	7	7
Reduced Refund for Late Refunds	5	5
Use Tax Line on PIT Return	0	0
SUV Decoupling	1	1
Regulatory Fees (Racing)	2	2
Six-Day Liquor Sales	0	1
Streamlined Sales Tax	0	0
Grand Total	**2,572**	**2,281**

The detail on all spending and revenue changes since the Enacted Budget are reflected in the Quarterly Financial Plans released in July, October and in this Overview. The following table provides a summary recap of all General Fund changes since the Enacted Budget, as reflected in each Quarterly Financial Plan Update published by DOB.

RECAP OF 2003-04 YEAR CHANGES SINCE ENACTED BUDGET GENERAL FUND (millions of dollars)				
	July	**October**	**January**	**Total**
Potential Enacted Budget Imbalance	(912)	0	0	**(912)**
Federal Revenue Sharing	645	0	0	**645**
Federal FMAP	371	51	0	**422**
LGAC Payment Delay	170	0	0	**170**
Member Items	100	0	0	**100**
Revenue Forecast	(193)	30	200	**37**
Medicaid	(100)	(54)	0	**(154)**
Welfare	(40)	(31)	0	**(71)**
Health Insurance	(26)	0	0	**(26)**
Lottery	(15)	15	0	**0**
TAP	0	(31)	0	**(31)**
State Operations	0	0	87	**87**
Debt Service **	0	0	26	**26**
All Other	0	20	32	**52**
Total	**0**	**0**	**345**	**345**
Deposit to TSRF				***(84)***
Net Surplus (used in 2004-05)				**261**

***$47 million of debt service costs appear as lower receipts transfers in the January estimate.*

SUMMARY OF CHANGES SINCE OCTOBER UPDATE

DOB has revised the 2003-04 Financial Plan (the "January Update") based on a review of actual operating results through mid-January 2004, and an updated analysis of underlying economic, revenue and spending trends. DOB projects the State will end the 2003-04 fiscal year with General Fund cash resources of $345 million above the levels projected in the Mid-Year Financial Plan Update issued October 28, 2003 (the "October Update"). Of this amount $261 million will reduce the 2004-05 budget gap and the remaining $84 million will be deposited to the Tax Stabilization Reserve Fund (the State's "rainy day reserve").

Total 2003-04 spending is projected at $42.06 billion in the General Fund and $62.11 billion in State Funds. Since the October Update, projected spending has been adjusted downward by $392 million in the General Fund and $752 million in State Funds. All Governmental Funds spending, projected to total $98.29 billion in 2003-04, has been revised upward by $314 million. These changes, as detailed below, consist primarily of higher Federal spending in education and Medicaid, offset by lower State-supported spending for the Community Projects Fund, State Operations, and debt service.

The projected General Fund closing balance of $1.01 billion consists of $794 million in the Tax Stabilization Reserve Fund (the Rainy Day Fund), $200 million in the CPF, and $20 million in the Contingency Reserve Fund for litigation (CRF). The projected increase of $284 million from the October Update reflects an additional $200 million balance in the CPF resulting from spending delays and a planned deposit of $84 million to the Rainy Day Fund (the eighth deposit in the last nine years). In addition, an additional deposit of $661 million to the Tax Refund Reserve Account will be made at year-end to account for the movement of $400 million in tobacco securitization proceeds planned for use in 2004-05 and the 2003-04 cash surplus of $261 million to help balance the 2004-05 fiscal year.

DETAIL OF 2003-04 CHANGES SINCE THE OCTOBER UPDATE

Current revenue and spending estimates for the General Fund, State Funds and All Governmental Funds are detailed below.

2003-04 REVENUE ESTIMATES (millions of dollars)			
	October Update	January Update	Change from October Update
General Fund	42,367	42,259	(108)
State Funds	62,647	62,394	(253)
All Governmental Funds	98,322	99,053	731

General Fund revenues are projected to total $42.26 billion in 2003-04 and have been revised downward by $108 million from the October Update. The net decrease reflects an increase in PIT receipts ($235 million) before a $661 million deposit to the Refund Reserve Account, Estate Taxes ($60 million) and higher transfers to the General Fund related to the Real Estate Transfer Tax ($35 million). These increases are offset by reductions in User Taxes ($90 million) and Business Taxes ($41 million). Adjusting for the impact of the Refund Reserve transaction and transfers to other funds, tax receipts have increased by roughly $200 million from the October Update.

Excluding the impact of the Refund Reserve transactions, All Funds tax receipts are expected to increase by $3.06 billion, or 7.7 percent in 2003-04. Over $2.16 billion or 70 percent of this increase is the result of tax actions adopted in the 2003-04 Enacted Budget.

Total State Funds receipts are now projected to be $62.39 billion, a decrease of $253 million from the October Update. This revision reflects State Funds receipts growth resulting from higher than anticipated revenues for CUNY ($141 million), additional State University of New York (SUNY) receipts primarily due to the use of bond funds to support SUNY capital equipment spending ($66 million), and higher than anticipated deposits from HCRA pools to a dedicated Special Revenue Fund (SRF) that supports spending for the Family Health Plus (FHP) health care program for low income families ($80 million). These increases are offset by a decline in Capital Projects Fund receipts resulting from the exclusion of capital projects receipts and disbursements in a manner consistent with the practice by OSC for reporting actual results, a reduction in miscellaneous receipts to HCRA where a nonrecurring transfer from the General Fund financed legislative restorations for health care ($128 million), and the General Fund decrease described above.

All Governmental Funds receipts are projected to total $99.05 billion, an increase of $731 million from the October Update, consisting mainly of upward revisions to the estimates of Federal aid for education ($518 million), Medicaid ($379 million), and children and families services ($142 million). Federal receipts are generally assumed to be received in the state fiscal year in which spending is projected to occur; therefore, the revisions to Federal receipts correspond to the federally-reimbursed spending adjustments described below.

2003-04 SPENDING ESTIMATES (millions of dollars)			
	October Update	January Update	Change from October Update
General Fund	42,452	42,060	(392)
State Funds	62,864	62,112	(752)
All Governmental Funds	97,979	98,293	314

Spending in the General Fund is projected to total $42.06 billion in 2003-04, a decrease of $392 million from the October Update. The revisions include lower estimated spending from the CPF ($200 million) now projected to occur in 2004-05, which does not affect budget balance since the resources required to pay this spending have already been set aside in a separate account. The remaining decrease of $192 million primarily reflects: a net reduction in State Operations spending ($87 million) including increased mental hygiene offsets, lower spending for the Judiciary, and a net reduction in costs across several agencies from the ongoing statewide austerity measures; lower debt service costs provided from debt management actions ($73 million); and downward reestimates to all other transfers ($41 million), offset by a projected deficiency in nonpublic school aid ($16 million).

State Funds spending is projected to total $62.11 billion in 2003-04, a decrease of $752 million from the October Update. This downward revision includes lower capital projects spending estimates to conform with OSC's accounting methods and the decrease in General Fund spending described earlier.

All Governmental Funds spending in 2003-04 is projected at $98.29 billion. The increase of $314 million from the October Update for federally-funded programs consists of: higher than anticipated disbursements for education ($518 million); Medicaid costs relating to the 15-month increase in the Federal matching rate ($379 million), and child care spending ($142 million). These Federal increases are partially offset by the State Funds decline described above.

2002-03 GENERAL FUND PAYMENT DEFERRALS

While total spending projections include the 2002-03 payment deferrals, the 2003-04 spending estimates within various programmatic areas have been adjusted to exclude the spending associated with this deferral which resulted from the delay in securing authorization to issue tobacco bonds. The adjustment, as detailed below, avoids distorting annual growth trends in a particular program area.

2002-03 GENERAL FUND PAYMENT DEFERRALS (millions of dollars)	
School Aid	1,312
CUNY Senior Colleges	219
Medicaid - Mentally Disabled Payments	82
Welfare - Administration	38
Empire State Development Corporation	35
Education - All Other	30
Education - Preschool Special Education	24
HESC	10
Division of Military and Naval Affairs	10
Welfare	8
All Other Local Assistance	58
Total Local Assistance	**1,826**
State Police	26
World Trade Center	9
All Other State Operations	2
Total State Operations	**37**
General State Charges	**33**
Capital Projects	**4**
Total 2002-03 Payment Deferrals	**1,900**

ECONOMIC OUTLOOK

U.S. ECONOMY

Following an unusually sluggish recovery period, the U.S. economy finally appears to be on a sustainable expansionary path. Since the simultaneous collapse of equities and the high-tech sector in 2000, the national economy absorbed three additional but distinct shocks: the September 11th terrorist attacks, a string of corporate governance scandals, and the war in Iraq and its aftermath. These events created an environment of uncertainty that lengthened the period of adjustment for the business sector from the unrealistic expectations of the late 1990s. However, the climate of uncertainty appears to have subsided and business confidence appears to be improving. Equity prices are rising in response to brisk profit growth and monetary policy is expected to remain accommodative. Household spending is expected to rise, supported by rising employment and incomes, and the continued impact of the 2003 tax cuts. Finally, the combined impact of a moderately falling dollar and accelerating growth in the world economy is expected to increase the demand for U.S. exports in 2004, although on balance, the trade deficit is projected to widen.

Strong real GDP growth of 4.7 percent is projected for 2004, following growth of 3.1 percent for 2003. Total nonagricultural employment is projected to rise 1.1 percent in 2004, following a decline of 0.2 percent in 2003. The U.S. unemployment rate is expected to decline to 5.7 percent in 2004, from 6.0 percent in 2003. Persistent slack in the economy and declining oil prices are expected to lower the inflation rate, as measured by growth in the Consumer Price Index (CPI), to 1.8 percent in 2004 from 2.3 percent in 2003. Personal income is expected to increase 4.7 percent in 2004 following an increase of 3.3 percent in 2003.

THE NEW YORK STATE ECONOMY

The New York State economy is slowly emerging from recession. The long recovery from September 11th and the loss of momentum in the national recovery due to corporate governance scandals and international tensions resulted in a lengthening of the State's recession. However, employment losses have stabilized and growth is evident in several sectors. State nonagricultural employment is projected to rise 0.8 percent in 2004, the first increase in four years. Moreover, with the first sustained rise in equity prices in three years and interest rates remaining low, the outlook for the finance industry has brightened, improving prospects for bonuses and wages. Bonuses in the finance and insurance sector are projected to rise 11.7 percent in 2004-05, following growth of 23.2 percent for 2003-04. Total New York wages are expected to grow 5.1 percent in 2004, the best performance in four years. Personal income is also expected to increase by 5.1 percent in 2004, primarily reflecting the strength in wage growth. Consistent with national trends, inflation in New York is projected to fall from 2.8 percent in 2003 to 2.1 percent in 2004.

A detailed account of the economic forecast is contained later in this volume (see Explanation of Receipts Estimates).

THE 2004-05 FINANCIAL PLAN

This section provides a comprehensive explanation of the Financial Plan activity within key functional areas (e.g. Medicaid) across all governmental fund types. The State accounts for all budgeted receipts and disbursements that support programs and other administrative costs of running State government within the All Governmental Funds type. The All Governmental Funds, comprised of funding supported by State Funds and Federal Funds, provides the most comprehensive view of the financial operations of the State. State Funds includes the General Fund, which is the principal operating fund of the State, and other State-supported funds including State SRFs, Capital Projects Funds and Debt Service Funds. A more detailed explanation of the State's fund structure is provided later in this Overview under the section entitled "Explanation of the Financial Plan tables."

RECEIPTS OUTLOOK

TOTAL RECEIPTS (millions of dollars)				
	2003-04	2004-05	Annual Change	% Change
General Fund	42,259	41,835	(424)	(1.0)
State Fund	62,394	63,137	743	1.2
All Governmental Funds	99,053	99,516	463	0.5

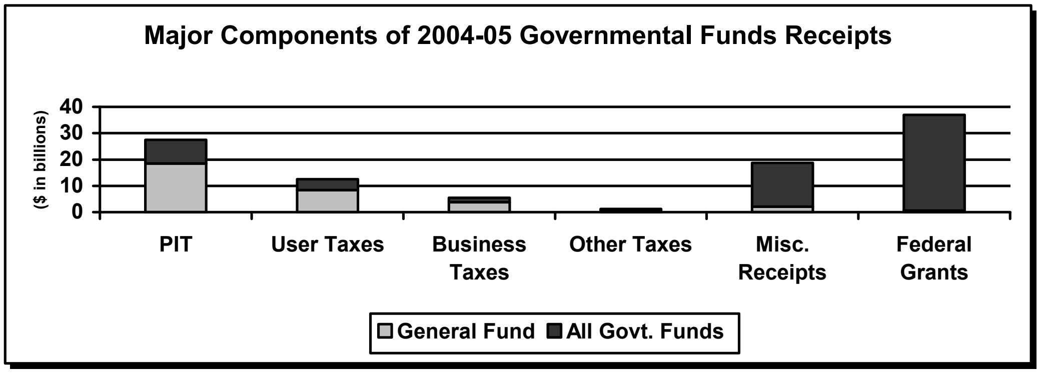
All Governmental Funds receipts are estimated to reach $99.05 billion in 2003-04, an increase of $10.98 billion (12.5 percent) from 2002-03. The increase reflects both gradually improving economic conditions and significant policy actions taken with the 2003-04 Enacted Budget. These actions included $4.20 billion in tobacco securitization proceeds as well as temporary increases in PIT rates and in the base and rate of the sales tax. The estimate is $731 million above the October estimate as discussed previously.

General Fund receipts are estimated to reach $42.26 billion in 2003-04, an increase of $4.86 billion (13.0 percent) from 2002-03. The increase is largely the result of the collection of $4.2 billion in tobacco securitization proceeds and $645 million in Federal revenue sharing grants. This estimate is $108 million below the October estimate. Adjusting for the Refund Reserve transaction and transfers out of the General Fund, tax receipts are expected to exceed October estimates by $200 million.

All Governmental Funds receipts are projected to reach $99.52 billion in 2004-05, an increase of $463 million (0.5 percent) from 2003-04. The small net increase is due to the one-time nature of tobacco securitization and federal revenue sharing received in 2003-04 offset by expected improvements in economic conditions that will increase tax receipts significantly, and by revenue actions taken with the 2003-04 budget.

General Fund receipts are projected to reach $41.83 billion in 2004-05, a decrease of $424 million (1.0 percent) from 2003-04. The major source of the annual change in the General Fund is the impact of the $4.2 billion in tobacco securitization proceeds and $645 million from Federal revenue sharing grants, which were received in 2003-04, but will not recur in 2004-05. This loss is offset, in part, by increased receipts from both the PIT and Sales Tax, as a result of temporary tax increases adopted as part of the 2003-04 Enacted

Budget. Overall, improved economic performance and a resurgence in financial service sector compensation are also expected to increase 2004-05 receipts. For a more detailed description of all receipts sources, please see the Explanation of Receipts section later in this volume.



Total Governmental Receipts comprise revenues from the PIT ($27.46 billion), user taxes and fees ($12.48 billion), business taxes ($5.44 billion), other taxes ($1.22 billion), miscellaneous receipts ($16.64 billion), and Federal Grants ($36.26 billion). As can be seen in the chart, a significant share of receipts are deposited into non-General Fund accounts.

ALL GOVERNMENTAL FUNDS 2003-04 TAX RECEIPTS ESTIMATES (millions of dollars)								
	All Governmental Funds				General Fund			
	2002-03 Actual	2003-04 Revised	Annual Change	Percent Change	2002-03 Actual	2003-04 Revised	Annual Change	Percent Change
Personal Income Tax (PIT)	23,698	24,083	385	1.6%	16,791	15,791	(1,000)	(6.0)%
PIT (Excluding Refund Reserve)	22,648	24,660	2,012	8.9%	15,741	16,368	627	4.0%
User Taxes and Fees	10,804	11,816	1,012	9.4%	7,063	7,897	834	11.8%
Business Taxes	4,983	4,983	0	0.0%	3,380	3,395	15	0.4%
Other Taxes	1,191	1,234	43	3.7%	743	784	41	5.5%
Total Taxes	40,676	42,116	1,440	3.5%	27,977	27,867	(110)	(0.4)%
Total Taxes (Excluding Refund Reserve)	39,626	42,692	3,066	7.7%	26,927	28,444	1,517	5.6%

ALL GOVERNMENTAL FUNDS 2004-05 TAX RECEIPTS ESTIMATES (millions of dollars)								
	All Governmental Funds				General Fund			
	2003-04 Revised	2004-05	Annual Change	Percent Change	2003-04 Revised	2004-05	Annual Change	Percent Change
Personal Income Tax (PIT)	24,083	27,462	3,379	14.0%	15,791	18,520	2,729	17.3%
PIT (Excluding Refund Reserve)	24,660	26,769	2,109	8.6%	16,368	17,827	1,459	8.9%
User Taxes and Fees	11,816	12,483	667	5.7%	7,897	8,340	443	5.6%
Business Taxes	4,983	5,440	457	9.2%	3,395	3,739	344	10.1%
Other Taxes	1,234	1,223	(11)	(0.9)%	784	762	(22)	(2.8)%
Total Taxes	42,116	46,608	4,492	10.7%	27,867	31,361	3,494	12.5%
Total Taxes (Excluding Refund Reserve)	42,692	45,913	3,221	7.5%	28,444	30,668	2,224	7.8%

Personal Income Tax

PIT net receipts for 2003-04 are estimated to reach $24.08 billion, an increase of $385 million (1.6 percent) from 2002-03 due largely to a modestly improved economic environment and the first-year impact of the temporary three-year PIT increase enacted in 2003. The increase is partially offset by a $1.63 billion lower contribution from the Refund Reserve account. Net of Refund Reserve transactions, All Funds income tax receipts are expected to grow 8.9 percent over 2002-03 results. The estimate is $235 million above the October Update forecast (adjusting for Refund Reserve transactions).

PIT General Fund receipts for 2003-04 are estimated to reach $15.79 billion, a decrease of $1 billion (5.9 percent) from 2002-03, due to the positive factors affecting All Funds receipts, more than offset by increased RBTF and STAR deposits of $1.2 billion and $171 million, respectively.

PIT net receipts for 2004-05 are projected to reach $27.46 billion, an increase of $3.38 billion (14.0 percent) from 2003-04 due largely to three factors: an increase in underlying liability growth associated with improved economic conditions; the temporary three-year tax increase enacted in 2003; and a $1.27 billion higher contribution from the Refund Reserve account. Net of the Refund Reserve transaction, All Funds income tax receipts are projected to increase by 8.6 percent over 2003-04.

PIT General Fund receipts for 2004-05 (net of the Refund Reserve transaction) are projected to reach $17.83 billion, an increase of $1.46 billion (8.9 percent) from 2003-04, due to the factors affecting All Funds receipts, somewhat offset by increased Revenue Bond Tax Fund (RBTF) and STAR deposits of $487 million and $163 million, respectively.

User Taxes and Fees

All Governmental Funds user taxes and fees receipts are estimated to reach $11.82 billion, an increase of $1.01 billion (9.4 percent) from 2002-03. The sales and use tax increased an estimated $1.03 billion (11.7 percent) from 2002-03, due mainly to modest improvement in the economy, the impact of the 0.25 percent surcharge imposed in 2003 (raising the State sales tax rate to 4.25 percent), and the substitution of tax-free weeks for clothing and footwear items costing less than $110 for the permanent exemption of clothing and footwear costing less than $110. The remainder of this category declined by an estimated $15 million (0.7 percent), due mainly to declines in taxable cigarette consumption. The estimate is $91 million below the October Update estimate.

General Fund user taxes and fees net receipts are estimated to reach $7.9 billion, an increase of $834 million (11.8 percent) from 2002-03. The sales and use tax increased an estimated $850 million (13.4 percent) from 2002-03, due mainly to the 0.25 percent surcharge and the changes to the clothing and footwear exemption. The other user taxes and fees declined by an estimated $16 million (2.2 percent), due mainly to declines in taxable cigarette consumption.

All Funds user taxes and fees net receipts for 2004-05 are projected to reach $12.48 billion, an increase of $667 million (5.7 percent) from 2003-04. The sales and use tax is projected to increase $662 million (6.8 percent) from 2003-04 due largely to increases in employment, income and overall consumption, which expanded the estimated taxable base. The 2004-05 projections include the proposed impact of retaining the clothing exemption for specified tax-free weeks at a higher threshold of $500 per item. The other user taxes and fees are projected to increase $5 million (0.2 percent) from 2003-04.

General Fund user taxes and fees net receipts for 2004-05 are projected to reach $8.34 billion, an increase of $443 million (5.6 percent) from 2003-04. The sales and use tax is projected to increase $488 million (6.8 percent) from 2003-04 due to increased economic growth and the recommended changes to the clothing and footwear exemption. The other user taxes and fees are projected to decrease $44 million (6.2 percent) from 2003-04, due mainly to the increased dedication of motor vehicle fee receipts to transportation funds.

Business Taxes

All Governmental Funds business tax receipts are expected to reach $5.0 billion in 2003-04, which is unchanged from 2002-03. Receipts are estimated to have remained roughly flat due to the offsetting impacts of weak profit performance in the corporate and banking sector in 2002 and 2003 with increased insurance tax collections associated with policy actions adopted in 2003. The estimate is $38 million below the October Update forecast as actual results continue to lag expectations.

General Fund business tax receipts in 2003-04 are estimated to be $3.39 billion, or $15 million (0.43 percent) over 2002-03. Receipts are slightly higher, due primarily to an increase in insurance tax collections as a result of tax restructuring.

All Governmental Funds business tax receipts in 2004-05 are expected to be $5.39 billion, or $411 million (8.3 percent) above 2003-04. This is primarily because of the anticipated increase in insurance tax receipts associated with continued premium growth and the expectation of strengthening corporate and bank profitability.

General Fund business tax receipts in 2004-05 are projected to be $3.74 billion, or $344 million (10.1 percent) over 2003-04. This is due primarily to tax law changes enacted in 2003-04 relating to intangible income and the de-coupling from certain Federal tax provisions, and the expectation of strengthening corporate and bank profits.

Other Taxes

All Funds other taxes, which include estate, pari-mutuel, gift, real property gains, real estate transfer, and racing admissions/boxing and wrestling exhibition taxes, are estimated at $1.23 billion in 2003-04, an increase of $43 million (3.7 percent) over 2002-03. The increase is primarily caused by an increase in the collections of the estate tax, which reflects an increase of equity values that improves the value of estates. The estimate is $93 million above the October Update forecast.

General Fund other taxes, which include estate, pari-mutuel, gift, real property gains, and racing admissions/boxing and wrestling exhibition taxes, are estimated at $784 million in 2003-04, an increase of $41 million (5.5 percent) over 2002-03. The increase is principally caused by a boost in the collections of the estate tax, which reflects an increase of market equity values from the recent improvement of the economy.

The estimate for All Funds other taxes in 2004-05 is $1.22 billion, which is $11 million (0.9 percent) below 2003-04. The decline is the result of a projected decrease in estate tax collections of $22 million partially offset by a projected increase in real estate transfer tax receipts of $11 million. This estimate reflects an anticipated leveling off of market equity values in the second half of 2004-05.

The estimate for General Fund other taxes in 2004-05 is $762 million, which is $22 million (2.8 percent) below 2003-04. This estimate also reflects an anticipated leveling off of market equity values in the second half of 2004-05.

MISCELLANEOUS RECEIPTS (millions of dollars)				
	2003-04	2004-05	Annual Change	% Change
General Fund	5,970	2,087	(3,883)	(65.0)
State Funds	19,621	16,517	(3,104)	(15.8)
All Governmental Funds	19,750	16,643	(3,107)	(15.7)

All Governmental Funds miscellaneous receipts for 2003-04 are projected to reach $19.75 billion, an increase of $5.60 billion (39.6 percent) from 2002-03. This increase primarily reflects the one-time receipt of tobacco securitization proceeds in the General Fund totaling $4.2 billion and projected growth of $1.40 billion in other State Funds. The revision reflects an increase of $195 million (1.0 percent) from the October Update, composed of the General Fund increase of $400 million from the acceleration of tobacco securitization proceeds offset by the projected decline of $205 million in other State funds.

Miscellaneous receipts in State Funds are projected at $19.62 billion, an increase of $5.62 billion (40.1 percent) from 2002-03. This increase is comprised of the net increase in the General Fund described below augmented by the projected growth of $1.74 billion in other State funds. Growth in other State funds includes higher receipts in transportation ($870 million), SUNY ($435 million), school aid ($113 million), CUNY ($87 million), and modest increases in numerous other programs. The estimate represents an increase of $197 million (1.0 percent) from the October Update. This increase from October is comprised of the General Fund changes described above, offset by the $225 million decrease in State Funds. This downward revision includes lower capital receipts estimates to conform with OSC's accounting methods ($325 million), partially offset by higher than anticipated revenues for CUNY ($141 million) and use of bond funds to support SUNY capital equipment spending ($66 million).

General Fund miscellaneous receipts for 2003-04 are estimated to reach $5.97 billion, including $4.2 billion in tobacco securitization proceeds, an increase of $3.88 billion (65.0 percent) from 2002-03. With tobacco securitization proceeds excluded, miscellaneous receipts are estimated to decrease by $321 million (15.4 percent) from 2002-03, largely due to lower collections in unclaimed and abandoned property. This estimate is $423 million above the October estimate, primarily the result of $400 million in tobacco securitization proceeds which were originally deposited in 2003-04 and will be used as anticipated in 2004-05.

All Governmental Funds miscellaneous receipts for 2004-05 are projected to reach $16.64 billion, a decrease of $3.10 billion (15.7 percent) from 2003-04. This decrease is primarily due to the one-time receipt of tobacco bond proceeds in 2003-04 of $4.2 billion, offset by projected growth of $779 million in other State funds.

Miscellaneous receipts in State Funds are projected at $16.52 billion in 2004-05, a decline of $3.10 billion (15.8 percent) from the current year. This net decrease is comprised of the decrease in the General Fund described above, offset by $779 million in State funds growth. Growth in other State funds includes higher receipts in lottery for anticipated VLT proceeds ($240 million), increased provider assessments reflecting the proposed assessments on nursing home, hospital and home care revenues ($258 million), and additional HCRA financing of health care costs ($279 million).

General Fund miscellaneous receipts are projected to total $2.09 billion in 2004-05, a decrease of $3.88 billion (65.0 percent) from the current fiscal year. This decrease is due largely to the tobacco securitization proceeds described above. Excluding these proceeds, General Fund miscellaneous receipts would increase by $317 million. This increase is due primarily to increased collections of Licenses and Fees, and an additional payment of $100 million from PASNY to offset the remaining cost of the “Power for Jobs” program.

TRANSFERS FROM OTHER FUNDS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**Percent Change**
PIT in Excess of Revenue Bond Debt Service	5,242	5,628	386	7.4
Sales Tax in Excess of LGAC Debt Service	1,944	2,047	103	5.3
Real Estate Taxes in Excess of CW/CA Debt Service	247	240	(7)	2.8
All Other Transfers	344	472	128	37.2
Total Transfers from Other Funds	**7,777**	**8,387**	**610**	**7.8**

Transfers to the General Fund from PIT receipts deposited to the RBTF in excess of debt service payable on State PIT Bonds is projected at $5.63 billion, an increase of $386 million from 2003-04. This increase is attributable to overall growth in personal income taxes, partially offset by a $102 million increase in debt service costs on those bonds.

The $103 million annual increase in transfers to the General Fund of sales tax receipts deposited to the Local Government Assistance Tax Fund in excess of debt service due on LGAC bonds is attributable to overall growth in sales tax receipts partially offset by a $16 million increase in debt service costs on LGAC bonds. These transfers are projected to total $2.0 billion in 2004-05.

Transfers to the General Fund of receipts from the real estate transfer tax deposited to the Clean Water/Clean Air (CW/CA) Debt Service Fund in excess of debt service due on those general obligation bonds is projected to total $240 million, a decrease of $7 million from 2003-04. This decrease reflects overall growth in real estate transfer taxes, partially offset by a $18 million increase in debt service costs.

All other transfers are projected to total $472 million in 2004-05, an increase of $127 million. This is due primarily to one-time fund sweeps ($91 million), a transfer from SUNY to reimburse the General Fund for equipment costs ($90 million) and increased transfers from the Waste Tire Management and Recycling program ($20 million), partially offset by a $59 million decrease in the transfer from the Environmental Protection Fund (EPF).

FEDERAL GRANTS (millions of dollars)				
	2003-04	2004-05	Annual Change	Percent Change
General Fund	645	0	(645)	(100.0)
State Funds	657	12	(645)	(98.2)
All Governmental Funds	37,187	36,265	(922)	(2.5)

All Governmental Funds Federal grants for 2003-04 are projected to reach $37.19 billion, an increase of $3.94 billion (11.8 percent) from 2002-03. This increase primarily reflects growth in federal spending in the following program areas: Medicaid ($2.44 billion), World Trade Center pass-through costs ($885 million), and the increase in the General Fund described below. The estimate represents an increase of $997 million (2.8 percent) from the October Update consisting mainly of upward revisions to the estimates of Federal aid for education ($518 million), Medicaid ($379 million), and children and family services ($142 million).

Federal Grants reported in State Funds are projected at $657 million in 2003-04, an increase of $657 million from 2002-03. This increase reflects primarily the one-time Federal revenue sharing payments received in 2003-04. This estimate has been revised modestly from the October Update ($12 million).

Federal Grants in the General Fund are projected at $645 million in 2003-04, an increase of $645 million from 2002-03. This increase reflects the one-time Federal revenue sharing payments received in 2003-04. The estimate remains unchanged from the October Update.

All Governmental Funds Federal grants for 2004-05 are projected to reach $36.27 billion, a decrease of $922 million (2.5 percent) from 2003-04. This decrease reflects primarily the General Fund decrease of $645 million from the current fiscal year, augmented by the decrease in World Trade Center pass-through costs ($200 million).

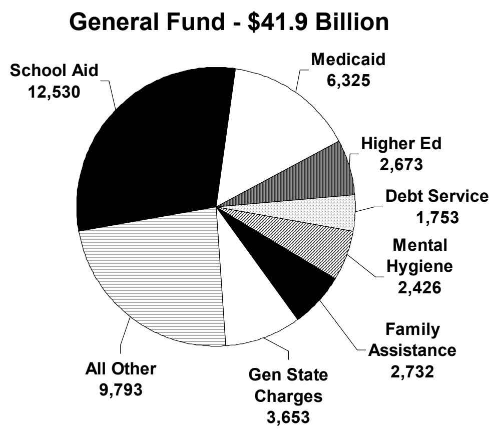
Federal Grants in State Funds are projected at $12 million, a decline of $633 million (96.3 percent) from the current year. This net decrease is comprised primarily of the decrease in the General Fund described above.

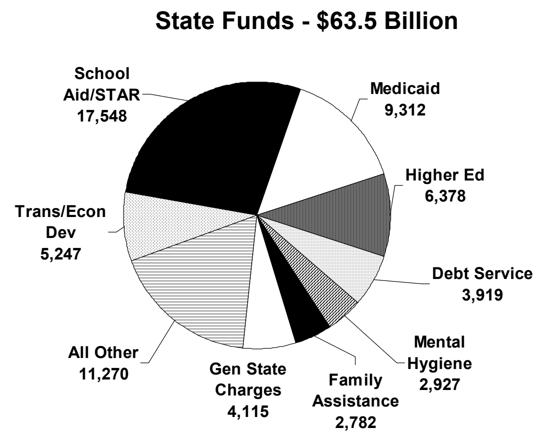
There are no projected Federal Grants in 2004-05 in the General Fund, a decrease of $645 million from the current fiscal year. This decrease reflects the loss of the one-time Federal revenue sharing payments received in 2003-04.

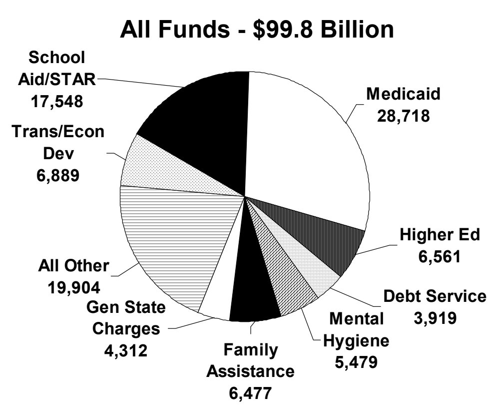
DISBURSEMENTS OUTLOOK

TOTAL DISBURSEMENTS (millions of dollars)				
	2003-04 Revised	2004-05 Proposed	Actual Annual Change	Actual Percent Change
General Fund	42,060	41,885	(175)	(0.4)
State Funds	62,112	63,498	1,386	2.2
All Governmental Funds	98,293	99,806	1,513	1.5

The Financial Plan projections assume that the 2004-05 Executive Budget and all accompanying proposals are enacted in their entirety. Absent the Executive Budget recommendations designed to reduce the growth in annual spending, General Fund spending would increase by more than $3 billion over 2003-04. (See "Sources of the 2004-05 Budget Gap" earlier in this Overview.) The following charts show the budget spending levels for 2004-05 by major function.







The major sources of annual spending changes between 2003-04 and 2004-05 (after reflecting all Executive Budget recommendations) are summarized in the table below. The 2003-04 projected spending totals are consistent with the reporting of actuals by OSC. Results within program areas (e.g. school aid, CUNY, Medicaid) are adjusted to eliminate the impact of the 2002-03 payment deferrals described earlier and provide a comparable basis of the annual change in each program area.

SPENDING PROJECTIONS -- AFTER RECOMMENDED SAVINGS MAJOR SOURCES OF ANNUAL CHANGE (millions of dollars)			
	General Fund	State Funds	All Governmental Funds
2003-04 Revised Estimate	***42,060***	***62,112***	***98,293***
Medicaid	373	672	738
Mental Hygiene	299	342	233
Debt Service	285	566	566
Employee Health Insurance	255	255	255
Higher Education	206	304	58
Pensions	184	184	184
School Aid	169	278	278
All Other	(46)	685	1,101
2002-03 Payment Deferrals	(1,900)	(1,900)	(1,900)
2004-05 Executive Budget	***41,885***	***63,498***	***99,806***
Annual $ Change	***(175)***	***1,386***	***1,513***
Annual % Change	***(0.4%)***	***2.2%***	***1.5%***

Primary sources of the annual change in projected disbursements are concentrated in the major areas of spending as detailed below.

Medicaid

DEPARTMENT OF HEALTH MEDICAID SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	2004-05	Annual Change	Percent Change
General Fund	**5,952**	**6,325**	**373**	**6.3**
Other State Support	2,688	2,987	299	11.1
State Funds	**8,640**	**9,312**	**672**	**7.8**
Federal Funds	19,340	19,406	66	0.3
All Governmental Funds	**27,980**	**28,718**	**738**	**2.6**

Medicaid, the single most expensive program budgeted in New York State, finances health care for low-income individuals, long-term care for the elderly, and services for disabled individuals, primarily through payments to health care providers.

New York's Medicaid program is financed jointly by the Federal government, the State, and counties (including New York City). Total Medicaid financing (including administrative costs) from all sources is projected to reach $42.7 billion in 2004-05, consisting of $21.9 billion in Federal support, $13.8 billion in State funding, and $7.0 billion in local government financing. The Financial Plan does not include the local government share of Medicaid funding, but does include the entire Federal share of the program.

Medicaid spending is budgeted principally in the Department of Health (DOH), but also appears in the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), Office of Alcohol and Substance Abuse Services (OASAS) and the State Education Department (SED). Projected Medicaid spending of $28.72 billion in DOH consists of $19.4 billion in Federal Funds and $9.3 billion in State Funds. Medicaid spending by other State agencies and administrative costs account for the remaining $2.5 billion in Federal and $4.5 billion in State support.

SOURCES OF ANNUAL SPENDING INCREASE/(DECREASE) IN DOH MEDICAID (millions of dollars)			
	General Fund	Other State Supported Funds	Federal Funds
Inflationary/Utilization/All Other	619	(175)	1,050
Loss of Federal Matching Rate (FMAP)	390		(584)
Nursing Home IGT Phase Out	90		(112)
2003-04 Medicaid Cycle Delay	170		340
2004-05 Medicaid Cycle Delay	(190)		(270)
Assessments	(323)	429	
Additional Support by HCRA	(163)	45	
Pharmacy Cost Containment	(93)		(191)
All Other Cost Containment	(170)		(256)
State Takeover/Increased Support	43		89
Total Annual Change	**373**	**299**	**66**

Inflation/Utilization Growth/All Other: Projected growth of approximately 7.4 percent reflects growth in medical cost inflation and utilization increases for hospitals, nursing homes, managed care programs and prescription drugs. The total Medicaid caseload is projected at 3.7 million in 2004-05, an increase of 5 percent from the current fiscal year. Other changes primarily include a "tobacco guarantee" payment to HCRA to replace the loss of revenue from the securitization of tobacco proceeds ($118 million).

Loss of Federal Matching Rate (FMAP): Expiration in June 2004 of the temporary 15-month increase in FMAP for Medicaid costs results in higher General Fund costs ($390 million) and lower spending from Federal Funds ($584 million). Total projected DOH General Fund savings from FMAP is $610 million in 2003-04 (another $80 million offsets in Mental Hygiene Medicaid costs) decreasing to $220 million in 2004-05. The additional FMAP support lowered Medicaid costs for the State and local governments by $1.01 billion in 2003-04 and provided $268 in resources to HCRA in 2003-04.

Nursing Home Intergovernmental Transfer (IGT) Phase Out: The planned phase-out of nursing home intergovernmental transfers implemented in 2001-02 increases General Fund costs by $90 million and reduces Federal Funds spending by $112 million (the remaining $22 million in costs accrue to local governments).

Cycle Payment Delays: The 2003-04 Enacted Budget deferred the last Medicaid cycle from March 31, 2004 into the 2004-05 fiscal year, producing an annual increase of $170 million. The 2004-05 Executive Budget continues this legislative action by delaying payment of the March 30, 2005 Medicaid cycle until April 1, 2005 ($190 million).

Assessments: The Executive Budget proposes a restoration of a 0.7 percent assessment on hospital and home care revenues and restoring the nursing home reimbursable assessment from 5.0 percent to 6.0 percent of revenues in order to finance State Medicaid spending. This recommendation lowers General Fund spending by $323 million and increases costs in the Provider Assessment Special Revenue Fund by $429 million, which is supported by the assessment revenues.

Additional Support by HCRA: Cost containment initiatives in FHP and the Child Health Plus (CHP) program produce HCRA savings that will support additional General Fund offloads related to pharmacy costs ($45 million). In addition, other proposed actions to reduce costs of programs supported by HCRA and the receipt of FMAP moneys have reduced the need for General Fund support for HCRA ($118 million).

Pharmacy Cost Containment: Several proposals to control the rising costs of prescription drugs would reduce spending growth in the General Fund ($93 million) and Federal Funds ($191 million). These proposals include establishing a preferred drug program that requires manufacturers to provide higher rebates to the State to secure placement of drugs on a preferred drug list; requiring prior authorization for certain high cost drugs; reducing pharmacy reimbursement; and increasing pharmacy co-payments for Medicaid recipients.

All Other Cost Containment: Recommended actions reduce General Fund costs by $170 million and Federal Funds spending by $256 million. These actions include General Fund reductions resulting from the elimination of various optional services provided to Medicaid recipients ($32 million), the payment of Federal Medicare premiums by, and implementation of a managed care program for, individuals who are dually eligible under both the Medicaid and Medicare programs ($46 million), elimination of long-term care eligibility loopholes ($25 million), nursing home cost containment initiatives including the elimination of payment "add-ons" for facilities with more than 300 beds and hospital-based facilities ($22 million), continuing the reduced payment levels to counties for services provided to mentally disabled individuals ($20 million), implementation of a case management program in partnership with counties for certain high cost individuals ($8 million), and other cost containment initiatives.

State Takeover/Increased Support: The 2004-05 Executive Budget includes higher General Fund costs for the proposed multi year State takeover of local Medicaid costs of long-term care services ($24 million) and a revision to the 1993 wage equalization factor used in the calculation of nursing home reimbursement rates ($19 million).

School Aid

SCHOOL AID SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**12,361**	**12,530**	**169**	**1.4**
Other State Support	1,911	2,020	109	5.7
State Funds	**14,272**	**14,550**	**278**	**1.9**
All Governmental Funds	**14,272**	**14,550**	**278**	**1.9**

School aid, the single largest program financed by the General Fund and State Funds, helps support elementary and secondary education provided to New York pupils enrolled in 680 school districts throughout the State. State funding is provided to districts based on aid formulas governed by statute and through reimbursement for various categorical programs.

On a school year basis (July 1 through June 30), support for general school aid is recommended at $14.6 billion, an increase of $147 million (1.0 percent) over the current school year. In addition to $14.6 billion for general school aid, the budget sets aside all revenues from VLTs to support SBE requirements. Based upon VLT facilities now being developed and new ones proposed with the Executive Budget, receipts are projected at $325 million in the 2004-05 school year, growing to $2 billion annually over the next five years. To supplement the VLT revenues, New York City will also receive a separate $100 million SBE matching grant ($70 million on a State fiscal year basis) as part of its general school aid. General Fund spending in 2004-05 is projected at $12.53 billion on a State fiscal year basis.

The school aid recommendations to restrain spending growth include targeted reforms in building aid, transportation aid and BOCES to generate savings of $186 million. Proposed reforms would restrain cost increases for building aid ($62 million) and transportation aid ($52 million). Other building aid reforms include establishment of priority-based project selection; a simplified State aid calculation; and a State clearinghouse for more efficient construction practices. Transportation aid reforms build on recent reforms for State reimbursement of school construction to reimburse costs consistent with the useful life of the assets. Other actions in school aid that reduce General Fund costs include recovery of overpayments and one-time State-supported bond financing of transportation capital costs as part of the transition to the new reimbursement program.

In addition, these recommendations include a Flex Aid program to provide school districts with needed flexibility by consolidating seven separate categories of aid totaling nearly $10 billion into a single aid program.

The State Lottery Fund contribution is projected at $1.95 billion, an increase of $110 million in additional lottery revenues, including $43 million associated with proposed enhancements to the Quick Draw program. In addition, $240 million is reserved from VLT revenues ($325 million on a school year basis) to support SBE reforms.

In addition to the school year totals referenced above, Federal Funds also provide $2.89 billion in education funding to school districts in 2004-05. This spending includes support for various programs such as: free and reduced price meals to low income children; supplemental funding for educational services to low achieving students; special education services to students with disabilities; professional development activities for teachers; and programs that prevent school violence.

Welfare

WELFARE SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**1,379**	**1,423**	**44**	**3.2**
State Funds	**1,379**	**1,423**	**44**	**3.2**
Federal Funds	2,049	1,979	(70)	(3.4)
All Governmental Funds	**3,428**	**3,402**	**(26)**	**(0.8)**

Welfare programs provide a wide range of benefits to poor families including cash assistance grants, child welfare services, tax credits for eligible low-income workers, and services that assist welfare recipients in securing and retaining employment. Funding is also provided for local administration of welfare programs. Total welfare caseload is estimated at 653,041 in 2004-05, an increase of 36,201 from the current fiscal year. Federal assistance consists of funds provided through the TANF block grant.

SOURCES OF ANNUAL SPENDING CHANGES IN WELFARE (millions of dollars)		
	General Fund	Federal Funds
Caseload/Expenditure Growth	125	
Loss of Offsets/TANF	322	(70)
Local Administration	74	
TANF Reprogramming	(372)	
Welfare Eligibility/Benefit Changes	(77)	
All Other	(28)	
Total Annual Change	**44**	**(70)**

Caseload/Expenditure Growth: Additional General Fund costs from caseload and expenditure growth reflect a projected 4.7 percent increase in the family caseload, a 10 percent increase in the single adult/childless couples caseload, and 3 percent growth in expenditures per person. Federal funding for welfare is a fixed amount provided through a TANF block grant and does not increase or decrease based on changes in caseload or State expenditures.

Loss of Offsets/TANF: 2004-05 General Fund increases resulting from the loss of TANF in 2003-04 ($322 million), include the one-time delay in the transfer of TANF funds to the Child Care Block Grant and the availability of one-time unprogrammed TANF initiative funding. The $70 million decrease in Federal Funds primarily reflects this reduced Federal funding available to support TANF-funded initiatives.

Local Administration Funding: Additional General Fund costs reflect increased funding for welfare employment and other initiatives ($63 million) and the use of one-time administration credits in 2003-04 ($56 million), which are partially offset by the annualization of the reduction in local administrative reimbursement enacted in 2003-04 ($45 million).

TANF Reprogramming: Actions proposed in the Budget will reprogram the remaining TANF funds to reduce General Fund costs by reducing the TANF to Title XX transfer from 10 percent to 5 percent ($122 million); reprogramming unspent prior-year TANF initiative funding ($104 million); utilizing prior-year child care funding ($83 million); budgeting the minimum TANF maintenance-of-effort level ($45 million); and reducing TANF for systems and other program initiatives ($18 million).

Proposed Welfare Eligibility/Benefit Changes: The 2004-05 Executive Budget reduces General Fund costs by $77 million through recommendations that would restructure welfare eligibility requirements, require full family sanctions that eliminate benefits if adults do not comply with mandated employment requirements, and impose a 10 percent reduction in welfare benefits to longer term participants.

All Other: The remaining annual decrease in General Fund costs relates primarily to a one-time prior year Federal settlement ($16 million), requiring a two-year limit on claiming local administrative reimbursement and rescinding unspent prior year contract funding ($12 million).

Office of Children and Family Services

CHILDREN AND FAMILY SERVICES SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
General Fund	**1,261**	**1,309**	**48**	**3.8**
Other State Support	36	50	14	38.9
State Funds	**1,297**	**1,359**	**62**	**4.8**
Federal Funds	1,865	1,716	(149)	(8.0)
All Governmental Funds	**3,162**	**3,075**	**(87)**	**(2.8)**

The Office of Children and Family Services (OCFS) provides child welfare services including foster care, adoption, child protective services and childcare. The net decrease in All Funds spending is attributable primarily to a reduction of the Federal TANF for Child Care and Title XX program support ($150 million), partially offset by growth in State child welfare costs for preventive services, child protective services, and adoption subsidies supported by the General Fund ($48 million) and other State support ($14 million). In the General Fund, the impact of the reduced TANF to Title XX transfer produces increased child welfare spending by $58 million.

Mental Hygiene

MENTAL HYGIENE SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
General Fund	**2,127**	**2,426**	**299**	**14.1**
Other State Support	458	501	43	9.4
State Funds	**2,585**	**2,927**	**342**	**13.2**
Federal Funds	2,661	2,552	(109)	4.1
All Governmental Funds	**5,246**	**5,479**	**233**	**4.4**

OMH, OMRDD and OASAS collectively provide a wide array of services to special needs populations. Services are administered to individuals with mental illnesses, developmental disabilities and/or chemical dependencies through institutional and community-based settings. Many of these services are partially financed with State and Federal Medicaid dollars.

Annual General Fund growth of $299 million is attributable primarily to increased State Operations costs including payment of an “extra” institutional facilities payroll ($95 million), local services and program enhancements including the OMRDD New York State - Creating Alternatives in Residential Environments and Services (NYS-CARES) program and OMH community-based housing initiatives ($85 million), and a reduction in available patient care revenues, primarily as a result of nonrecurring debt management actions ($69 million) and the expiration of the temporary 15-month increase in the Federal Medicaid matching rate ($40 million) used to support State Operations costs in the General Fund.

Absent proposed budget actions, mental hygiene agencies would have otherwise experienced roughly double the projected General Fund growth of $299 million in 2004-05, due mainly to the loss of nonrecurring offsets provided in 2003-04 by the temporary Medicaid matching rate increase and debt service savings that permitted more patient income revenues to be used for operations, and the extra institutional payroll due in 2004-05. Recommended cost containment actions to restrict this growth include Federal, local and third-party revenue maximization efforts primarily in the patient income account ($165 million), 5 percent reductions in various local assistance programs ($32 million) and a variety of State operations efficiencies ($56 million).

Higher spending of $43 million in other State-supported funds is attributable to growth in OMRDD’s Provider of Services SRF that supports development under the NYS-OPTS (New York State - Options for People Through Services) program.

The Federal Funds decline of $109 million primarily reflects an annual decrease in available patient care revenues due to nonrecurring actions implemented in the current year, including the Federal Medicaid matching rate ($40 million). This Federal Funds decline results in higher General Fund costs as these resources are no longer available to reduce the State’s cost of providing mental hygiene services in 2004-05.

Higher Education

HIGHER EDUCATION SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	**Projected 2004-05**	**Annual Change**	**Percent Change**
General Fund	**2,467**	**2,673**	**206**	**8.4**
Other State Support	3,637	3,735	98	2.7
State Funds	**6,104**	**6,408**	**304**	**5.0**
Federal Funds	428	182	(246)	(57.5)
All Governmental Funds	**6,532**	**6,590**	**58**	**0.9**

Higher education includes operational and administrative costs for SUNY, CUNY and the Higher Education Services Corporation (HESC) which is responsible for administering TAP grant awards to income eligible students.

SOURCES OF ANNUAL SPENDING CHANGE IN HIGHER EDUCATION (millions of dollars)			
	General Fund	Other State Supported Funds	Federal Funds
HESC Impact of TAP Roll	104		
HESC Nonrecurring TANF Funds	246		(246)
SUNY/CUNY/HESC Support	139	25	0
SUNY/CUNY CC Base Aid	(19)		
SUNY/CUNY Equipment Bonding	(37)	43	
HESC/TAP Restructuring	(227)		
Capital Matching Grants	0	30	0
Total Annual Change	**206**	**98**	**(246)**

HESC Impact of TAP Roll: General Fund costs increase by $104 million in 2004-05 as a result of legislative actions in the 2003-04 Enacted Budget that deferred TAP costs into 2004-05.

HESC Nonrecurring TANF Funds: TANF funding used in 2003-04 to finance the TAP program is no longer available in 2004-05 and thus General Fund spending increases ($246 million) and Federal spending decreases ($246 million).

SUNY/CUNY/HESC Support: The 2004-05 Executive Budget provides funding for higher costs at SUNY and CUNY for salaries and fringe benefits, community college enrollment growth, inflationary increases and growth in the number of TAP recipients.

SUNY/CUNY Community College Base Aid: Base aid decreases by 5 percent or $115 per student ($19 million).

SUNY/CUNY Equipment Bonding: The use of bond proceeds to support SUNY/CUNY capital equipment purchases will reduce General Fund spending ($37 million) and increase capital expenditures in the SRFs.

HESC/TAP Restructuring: Changes at HESC include the proposed restructuring of the TAP program, which would defer one-third of each student's award until graduation as an incentive for timely degree completion ($227 million).

Capital Matching Grants: The other funds increase reflects the first year of capital spending under the new $350 million Capital Matching Grants Program for public and private colleges and universities ($30 million).

Debt Service

DEBT SERVICE SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	**1,468**	**1,753**	**285**	**19.4**
Other State Support	1,885	2,166	281	14.9
State Funds	**3,353**	**3,919**	**566**	**16.9**
All Governmental Funds	**3,353**	**3,919**	**566**	**16.9**

Debt Service Funds are the conduits through which the State pays debt service on all State-supported bonds, including General Obligation bonds for which the State is constitutionally obligated to pay debt service and bonds issued by State public authorities (e.g., Empire State Development Corporation, Dormitory Authority, Thruway Authority, Local Government Assistance Corporation) for which the State is contractually obligated to pay debt service subject to an appropriation. Debt service is paid by transfers from the General Fund, dedicated taxes and fees, and other resources such as patient income revenues.

The growth in the General Fund is the result of increases in net debt service payments to support capital projects for Corrections ($86 million), SUNY Educational Facilities ($71 million), CUNY ($68 million), the Metropolitan Transportation Authority (MTA) ($41 million) and the Housing Finance Agency ($26 million), offset by modest reductions in other programs. The increase in net debt service costs related to other State-supported funds is also attributable to SUNY dormitory facilities ($32 million), Mental Hygiene facilities ($93 million), transportation ($70 million), economic development ($58 million) and educational capital programs ($38 million).

Recommendations to generate savings include expanded use of variable rate debt, increased use of swaps and other new refundings opportunities, streamlined approvals for refundings, and generating lower costs through the flexible use of issuers in the PIT program. Savings from these initiatives impact both spending and revenue in the General Fund by lowering debt service costs and/or increasing transfers of dedicated taxes from debt service funds.

General State Charges

GENERAL STATE CHARGES SPENDING PROJECTIONS (millions of dollars)				
	Adjusted 2003-04	Projected 2004-05	Annual Change	Percent Change
General Fund	3,257	3,652	395	12.1
State Funds	3,670	4,114	444	12.1
All Governmental Funds	3,842	4,312	470	12.2

General State Charges (GSCs) account for the costs of fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as for taxes on public lands and litigation. The General Fund supports approximately 85 percent of GSCs spending. Fringe benefit payments, many of which are mandated by statute or collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation and unemployment insurance. Fixed costs include State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and the costs of defending lawsuits against the State and its public officers.

Higher projected contributions to the New York State and Local Retirement Systems for fiscal year 2004-05 are associated with prior year pension investment losses and the expansion of retiree benefits. Baseline projections from OSC show an employer pension contribution rate of 12.3 percent of payroll in 2004-05 that would produce an annual State pension cost increase of $664 million (136.8 percent) in 2004-05. The Executive Budget proposes a series of pension reforms that will moderate these costs and produce a total employer pension contribution of $669 million, an annual increase of $184 million (37.9 percent).

Providing health insurance to State employees and retirees is projected to total $2.05 billion in 2004-05, an increase of $255 million. This is attributable primarily to underlying growth of 13 percent in premium costs to cover the rising expense and utilization of employee health care, including escalating prescription drug costs.

All Other

In addition to the programs described above, the Executive Budget includes funding for Economic Development, Parks, the Environment, Public Health, Education, Public Protection, General Government, the Judiciary, and various other programs.

Other significant savings actions contained in this Budget, include:

- $150 million in recurring State operations efficiencies (across the remaining agencies not discussed earlier) through continued application of a strict hiring freeze, savings from contract reviews, elimination of inflationary increases, and maximization of non-General Fund resources;
- Over $56 million in savings due to reductions in local public health programs and maximization of HCRA. In addition, significant reforms are proposed in the Early Intervention program that contribute savings in the outyears of the Financial Plan;
- $117 million in transportation savings by eliminating one-time legislative adds and maximizing non-General Fund resources; and
- Savings from modest five percent reductions to a variety of local assistance programs.

All other State Funds spending is projected to increase $685 million over the current fiscal year. Growth in other State-supported spending includes economic development capital projects ($320 million), capital projects related to the E-911 program ($100 million), increased taxpayer participation and tax levy growth in STAR ($163 million), spending from the Indigent Legal Services Fund ($31 million), and inflationary increases and higher enrollment in the Elderly Pharmaceutical Insurance Coverage (EPIC) program ($73 million).

All Governmental Funds spending for these programs is projected to increase by $1.10 billion from the current fiscal year. This increase includes State Funds spending growth of $685 million and higher Federal spending of $416 million for, among other things, transportation-related capital projects ($172 million), implementation of the Help America Vote Act of 2002 ($142 million), and reimbursement for World Trade Center costs ($200 million).

THE 2004-05 GOVERNMENTAL FUNDS FINANCIAL PLAN

The following sections summarize activity within the four major fund types that comprise the All Governmental Fund type: General Fund, SRFs, Capital Projects Funds and Debt Service Funds.

GENERAL FUND

The Financial Plan presentation of receipts and disbursement activity within each fund type is detailed below.

Receipts Outlook

GENERAL FUND RECEIPTS (millions of dollars)				
	2003-04	2004-05	Annual Change	Percent Change
Personal Income Tax	15,791	18,520	2,729	17.3
User Taxes and Fees	7,897	8,340	443	5.6
Business Taxes	3,395	3,739	344	10.1
Other Taxes	784	762	(22)	(2.8)
Miscellaneous Receipts	5,970	2,087	(3,883)	(65.0)
Federal Grants	645	0	(645)	(100.0)
Transfers From Other Funds	7,777	8,387	610	7.8
Total Receipts	**42,259**	**41,835**	**(424)**	**(1.0)**

The State projects General Fund receipts of $41.83 billion in 2004-05, a decrease of $424 million (1.0 percent) from the current year. The decline in General Fund receipts is the result of one-time revenues from tobacco securitization ($4.20 billion) and Federal revenue sharing grants ($645 million) received in 2003-04 which will not recur in 2004-05. This is partially offset by increased collections from PIT and sales and use taxes resulting from temporary tax actions taken in the 2003-04 Enacted Budget as well as underlying growth resulting from the improving economic climate and the Refund Reserve transaction that moves $661 million in PIT resources from 2003-04 to 2004-05.

More detail on the receipts outlook is provided earlier in this Overview, as well as in the Explanation of Receipts Estimates later in this volume.

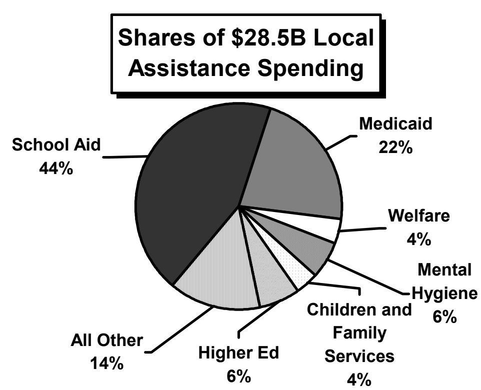
Disbursements Outlook

The State projects General Fund disbursements of $41.89 billion in 2004-05, a decrease of $175 million (0.4 percent) from the current year. The change in General Fund disbursements reflects higher spending in Grants to Local Governments, State Operations, GSCs and Debt Service, partially offset by lower spending in Capital Projects and Transfers to Other Funds (for a detailed discussion on annual changes in major spending areas please see the 2004-05 Financial Plan section earlier in this Overview).

GENERAL FUND DISBURSEMENTS (millions of dollars)				
	2003-04	Projected 2004-05	Annual Change	Percent Change
Grants to Local Governments	29,311	28,455	(856)	(2.9)
State Operations	7,055	7,251	196	2.8
General State Charges	3,257	3,652	395	12.1
Debt Service	1,468	1,753	285	19.4
Capital Projects	227	187	(40)	(17.6)
Transfers to Other Funds	742	587	(155)	(20.9)
Total Disbursements	**42,060**	**41,885**	**(175)**	**(0.4)**

Grants to Local Governments

Grants to Local Governments include financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. The most significant areas of spending in local assistance are for aid to public schools (44 percent) and for Medicaid (22 percent). Other large areas of spending include mental hygiene (6 percent), higher education (6 percent), children and family services (4 percent), welfare assistance (4 percent), general purpose aid to counties and municipalities (3 percent), preschool special education (3 percent), and public health (2 percent).



Local assistance spending is projected to be $28.46 billion in 2004-05, a decrease of $856 million (2.9 percent) from 2003-04. Spending growth of roughly $3.4 billion is offset by the local assistance share of the 2002-03 payment deferrals ($1.8 billion) plus a combination of recommended cost containment initiatives and the use of alternative financing sources totaling nearly $2.5 billion, as described earlier. Reforms are proposed to continue to provide planned fiscal relief to New York City while eliminating legal concerns associated with the current linkage to LGAC. The recommendations would eliminate all impacts on LGAC, and reduce total taxpayer costs (financed by both State and City taxpayers) by $1.9 billion, through legislation authorizing a refunding of MAC debt for a period of 10 years rather than 30 years. The State would provide additional resources of $170 million annually to New York

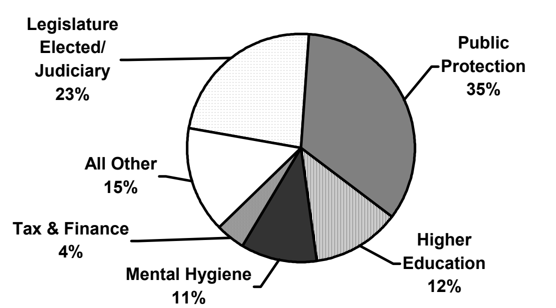
City to help them finance this refunding by directing certain State sales tax receipts previously received by the State to New York City. In addition, the recommendations would generate recurring savings to New York City of another $80 million through a variety of proposals.

Excluding payment deferrals, the annual increase in local assistance spending would be $970 million and is primarily attributable to higher spending in Medicaid ($373 million), HESC ($176 million), school aid ($169 million), preschool special education programs ($89 million), OCFS ($57 million) and mental hygiene ($55 million). These annual changes are discussed in more detail earlier in this Overview under "The 2004-05 Financial Plan."

State Operations

State Operations accounts for the cost of running the Executive, Legislative, and Judicial branches of government and is projected to total $7.25 billion in 2004-05, an increase of $196 million (2.8 percent) from the current year. Personal service costs (e.g., State employee payroll) comprise 73 percent of State Operations spending and the remaining 27 percent represents non-personal service costs for contracts, rent, supplies, and other operating expenses.

Shares of $7.3B State Operations Spending



The projected $196 million annual increase in State Operations costs includes higher spending of $130 million for an extra institutional payroll occurring in 2004-05. Spending for the Legislature and Judiciary is projected to remain unchanged.

Proposed savings initiatives designed to reduce annual spending growth associated with performance advances and inflation include various revenue maximization initiatives ($171 million), and the continuation of the strict statewide hiring freeze and other actions to restrain spending in agency operations ($142 million).

The revenue maximization efforts to finance State Operations spending include Federal revenue initiatives in mental hygiene programs ($70 million) and extending current provisions of the Motor Vehicle Insurance Fee to support State Police activities ($51 million). No general salary increases are budgeted in either 2003-04 or 2004-05.

The State's Executive agency All Funds workforce is projected to total 187,900 by the end 2004-05, level with the current year. Since 1994-95, the State workforce has declined by approximately 23,300.

General State Charges

GSCs account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislative and Judicial branches, as well as fixed costs for taxes on public lands and litigation costs.

Spending for GSCs is projected to be $3.65 billion in 2004-05, an increase of $395 million (12.1 percent) over the current year. This annual increase is due mostly to rising costs of employee health benefits to $2.05 billion (an increase of $255 million) and higher costs related to employer pension contributions to a level of $669 million (an increase of $184 million) after reflecting savings for proposed pension reforms. A more detailed discussion is provided earlier in this Overview under "The 2004-05 Financial Plan."

Transfers to Other Funds

Transfers to Other Funds is projected to total $2.53 billion in 2004-05, an increase of $90 million (3.7 percent) from the current year and include General Fund transfers to support debt service ($1.75 billion), capital projects ($187 million), and other funds ($587 million), including SUNY, banking services, and the Judiciary.

General Fund support for debt service is estimated to increase by $285 million (19.4 percent) to pay primarily for prior-year financings for CUNY, SUNY and correctional facilities partially offset by savings from the use of variable rate and interest rate exchange agreements to refund outstanding bonds and reduce borrowing costs.

The $40 million (17.6 percent) reduction in capital projects spending financed by the General Fund primarily reflects the use of bond proceeds to finance SUNY capital costs previously supported by the General Fund, as well as minor reestimates to other areas of capital projects spending.

All other transfers are projected to decline by $155 million in 2004-05 due to a nonrecurring transfer to the HCRA SRF that financed 2003-04 legislative restorations ($128 million) and the "doubling up" of 2002-03 and 2003-04 State subsidy payments to SUNY hospitals in 2003-04.

SPECIAL REVENUE FUNDS

SRFs receive State and Federal revenues dedicated to finance specific activities. SRFs are intended to be self-supporting with receipts equaling or exceeding disbursements. When statutorily authorized, certain funds and accounts may borrow from the State's Short-Term Investment Pool (STIP) to cover temporary cash shortfalls resulting from the timing of receipts and disbursements (i.e., disbursements occurring prior to receipts being received).

SRF spending accounts for 51 percent of projected All Governmental Funds disbursements in 2004-05. The SRFs have grown steadily as a percentage of All Governmental Funds in recent years as the State continues to identify alternate funding sources to support costs otherwise financed by the General Fund, and to maximize Federal revenues where available.

Receipts

SPECIAL REVENUE FUNDS RECEIPTS (millions of dollars)			
	2003-04	2004-05	Annual Change
Taxes	**4,458**	**4,784**	**326**
Miscellaneous Receipts:			
SUNY	2,240	2,303	63
Lottery	2,030	2,318	288
Indigent Care	901	876	(25)
HCRA	2,477	2,756	279
Provider Assessments	371	629	258
All Other	2,377	2,596	219
Total Miscellaneous Receipts	**10,396**	**11,478**	**1,082**
Federal Grants	**34,921**	**34,425**	**(496)**
Total Receipts	**49,775**	**50,687**	**912**

Total SRF receipts are projected to be $50.69 billion, an increase of $912 million (1.8 percent) from 2003-04. This growth is due primarily to increases in taxes ($326 million) and miscellaneous receipts ($1.08 billion), partially offset by a decrease in Federal grants ($496 million), as detailed below.

Taxes

Taxes dedicated to support programs funded in the SRFs total $4.78 billion in 2004-05, an increase of $326 million (7.3 percent) over 2003-04, and primarily include STAR and mass transportation programs. Taxes comprise 9 percent of total SRF receipts. The increase in taxes is due to increased deposits into the STAR fund ($163 million), increased collections from surcharges earmarked for the mass transportation funds ($118 million), and the imposition of a new surcharge on sales tax, which will be deposited into the New York State Wireless Telephone Emergency Service Account ($39 million).

Miscellaneous Receipts

Miscellaneous receipts comprise 23 percent of total SRF receipts and are projected to total $11.48 billion in 2004-05, an increase of $1.08 billion (10.4 percent) from the current fiscal year. These receipts include SUNY tuition, lottery receipts, transfers from the "off-budget" HCRA pools, assessments on regulated industries, and a variety of fees and licenses. Changes in miscellaneous receipts are generally consistent with the spending changes in the major program areas described below with the exception of Medicaid, where a nonrecurring General Fund transfer of $128 million in 2003-04 (rather than miscellaneous receipts) supports legislative restorations.

Federal Grants

Federal grants are projected to total $34.43 billion, a decrease of $496 million (1.4 percent) from 2003-04. Federal grants comprise 68 percent of total receipts in the SRFs primarily for health and welfare programs. The State is required to adhere to specific Federal guidelines governing use of grant moneys. In most cases, the State finances programs in the first instance, then receives reimbursement from the Federal government. In addition, the State is subject to the Federal Cash Management Improvement Act, which imposes interest penalties on the State if Federal Funds are not spent expeditiously. Federal reimbursement is assumed to be received in the State fiscal year in which the spending occurs; however, timing-related variances can produce temporary negative balances in these funds.

Changes to Federal grants correspond to changes in federally-reimbursed spending as described below with the exception of the nonrecurring deposit of $289 million in Federal Funds to support HCRA health care costs.

Disbursements

SPECIAL REVENUE FUNDS DISBURSEMENTS
(millions of dollars)

	2003-04	2004-05	Annual State Change	Annual Federal Change
STAR	2,835	2,998	163	0
Medicaid	22,028	22,393	299	66
SUNY	2,894	2,940	46	0
Education	2,823	2,889	(7)	73
Lottery	1,990	2,105	115	0
Welfare/OCFS	3,932	3,717	5	(220)
Transportation	1,650	1,750	100	0
World Trade Center	1,484	1,640	0	156
Labor	714	711	2	(5)
HESC	319	76	3	(246)
Child Health Plus (CHP)	745	809	25	39
EPIC	646	719	73	0
All Other	8,200	8,373	122	51
Total Disbursements	***50,260***	***51,120***	***946***	***(86)***
Annual % change		***1.7%***		

Disbursements from SRFs are projected to be $51.12 billion, an increase of $860 million (1.7 percent) from 2003-04. Of this amount, $16.64 billion is supported by State revenues and $34.48 billion is supported by Federal grants. Additional Federal grants support capital spending for a grand total in Federal grants of $36.27 billion. The growth in SRF is attributable primarily to projected spending increases in Medicaid, STAR, SUNY, education and transportation programs, partially offset by the loss of TANF block grant funds that support OCFS programs and TAP in 2003-04.

The following describes projected activity in the major SRFs in 2004-05, including sources of funding, programs supported, and an explanation of annual growth or decline.

Medicaid: The SRF structure of Medicaid is detailed below. For a detailed discussion of the annual changes in Medicaid, please refer to "the 2004-05 Financial Plan" section earlier in this Overview.

- **Federal Medicaid**: The Federal Medicaid Fund accounts for the receipt and disbursement of the Federal government's share of direct payments made to health care providers and reimbursement to local governments for the administrative costs of the program. Federal support for the Medicaid program is projected to total $19.41 billion in 2004-05, which represents roughly 40 percent of total Federal SRF spending.
- **Indigent Care**: The Indigent Care Fund receives revenue through transfers from the Health Care Initiatives Pool, Bad Debt and Charity Care Pools, and the Tobacco Control and Insurance Initiatives Pool. These HCRA pools are financed with taxes, assessments and surcharges on hospital revenues and third-party payers. The Indigent Care Fund makes Medicaid payments to providers and municipalities for the cost of providing care to the uninsured. Total disbursements from the Indigent Care Fund are estimated at $906 million in 2004-05, a decrease of $30 million from the current year.
- **Provider Assessments**: This account, created in 2002-03, is currently financed by a reimbursable assessment on nursing home revenues. The 2004-05 Executive Budget proposes an increase in the Medicaid reimbursable assessment on nursing home revenues from 5 percent to 6 percent and the restoration of a nonreimbursable 0.7 percent assessment on hospital and home care revenues. These assessments are expected to generate $629 million to finance Medicaid.
- **Health Care Reform Act Transfer**: This fund is supported by transfers from the Tobacco Control and Insurance Initiatives Pool and is used to finance a portion of the State's Medicaid program, including expansion of programs such as the FHP program and the workforce recruitment and retention program. Spending from this fund is projected to total $1.45 billion in 2004-05, an increase of $71 million over the current year.

STAR: This fund receives PIT receipts dedicated to the STAR property tax relief program. Spending for STAR is estimated at $3.0 billion in 2004-05, an increase of $163 million from 2003-04. STAR will provide $2.4 billion in local property tax relief for eligible homeowners statewide. In addition, residents of New York City, who pay property, income, and other taxes to fund City education services, will receive $560 million in City PIT reductions. Increased participation by taxpayers and local tax levy growth are largely responsible for the higher projected spending in 2004-05. The estimates include $20 million in savings from proposed legislation that would cap school district spending.

Lottery: The Lottery Fund supports public elementary and secondary school education through proceeds received from the sale of lottery tickets and the expected implementation of VLTs at racetracks. The 2004-05 Executive Budget projects roughly $2.32 billion in total lottery proceeds will be available to fund $2.19 billion of school aid costs and a reserve of

$240 million ($325 million on a school year basis) from VLT proceeds to finance SBE. The remaining $160 million supports administrative costs of operating lottery games. Lottery prize money is held in a separate fiduciary account.

SUNY: SUNY receives revenues from tuition, third-party payers, room rents, user fees and the Federal government which support the costs of operating hospitals, dormitories and regular campus services. The University's spending from SRFs is projected to total $2.94 billion in 2004-05, comprising of $2.77 billion in State funds and $172 million in Federal Funds. Federal spending remains unchanged from 2003-04, but State spending is projected to increase by $163 million.

Transportation: State funding for transit systems comprises the majority of transportation SRF spending. Over $1.67 billion of 2004-05 transit aid is supported by taxes dedicated to the Mass Transportation Operating Assistance (MTOA) Fund and the Dedicated Mass Transportation Trust Fund. Total disbursements from transportation SRFs are projected to be $1.75 billion in 2004-05, $100 million above the current year. This increase reflects the shift of $50 million in transit local aid from the General Fund to the SRFs, and a scheduled $46 million increase in capital support for the MTA from the Dedicated Mass Transportation Trust Fund.

CHP: The CHP program finances health insurance coverage for children of low-income families up to the age of 18. The 2004-05 Executive Budget projects total spending of $809 million, an increase of $64 million over 2003-04. Funding for this program comes from the State ($375 million financed by transfers from the Tobacco Control and Insurance Initiatives Pool) and Federal government ($434 million). The annual increase reflects shifting eligible children currently covered under Medicaid into CHP.

EPIC: EPIC provides prescription drug insurance to low-income senior citizens. This program is projected to cost $719 million in 2004-05, an increase of $73 million from 2003-04. Projected EPIC spending in 2004-05 is supported by $494 million in State transfers from the Tobacco Control and Insurance Initiatives Pool, $23 million in premiums/fees, and $202 million from manufacturer rebates.

Welfare: The State receives Federal welfare funding through the TANF block grant. In 2004-05, Federal welfare spending will total $1.98 billion, a decrease of $70 million from 2003-04, resulting primarily from the use of one-time available Federal funding to support TANF-funded initiatives.

Education: Education spending in SRFs, including educational programs for disabled children and disadvantaged pupils, is projected to total $2.89 billion in 2004-05. Increased Federal funding of $73 million will provide additional resources to school districts for programs that serve these students.

HESC: Federally-supported spending for HESC is projected to decrease by $246 million as a result of the elimination of TAP financing with TANF block grant funds. The remaining spending on student financial aid programs is supported by State and Federal sources ($66 million and $10 million, respectively).

OCFS: The State receives $1.72 billion in Federal funding for children and family services from several sources including the TANF block grant, Title IV-E Foster Care and Adoption Assistance Federal Payments, and the Title XX Social Services Block Grant. In 2004-05, State and Federal spending for children and family services is projected to total $1.74 billion, a decrease of $145 million from the current fiscal year. This decrease is attributable primarily to a reduction in TANF block grant moneys available to support child care and locally provided services to children and families.

Labor: Labor programs are supported primarily by Federal grants and include job training and re-employment services. Labor spending is estimated at $711 million in 2004-05 and remains virtually unchanged from 2003-04 levels.

All Other: Spending for all other SRFs is projected to total $8.37 billion in 2004-05, an increase of $173 million (2.1 percent) and primarily includes support for health care, public protection and general government programs.

CAPITAL PROJECTS FUNDS

The Capital Projects Fund group accounts for spending from the Capital Projects Fund, which is supported by a transfer from the General Fund, and spending from other funds for specific capital purposes, including transportation, mental health, housing, public protection, education and the environment. Those other funds include the Dedicated Highway and Bridge Trust Fund, Mental Hygiene Capital Facilities Improvement Fund, Housing Assistance and Housing Program Funds, the Correctional Facilities Capital Improvement Fund, the SUNY Residence Hall Rehabilitation Fund, the Hazardous Waste Remedial Fund, and EPF. Receipts from dedicated State taxes, miscellaneous receipts (which include proceeds from State-supported bonds issued by certain State public authorities), and Federal grants finance disbursements in the Capital Projects Fund group.

The following tables for Capital Projects Funds reflect an accounting adjustment for capital projects activity because certain capital spending is not reported by OSC in actual cash spending results, although it is reflected in the Generally Accepted Accounting Principles (GAAP) Financial Statements. This spending is related to programs which are financed in the first instance by bond proceeds, rather than with a short-term loan from the General Fund. This includes capital spending for local transportation projects for the CHIPS Program ($340 million), education projects for CUNY higher education facilities ($215 million), SUNY Community Colleges and Dormitory Facilities ($125 million), the Department of Mental Hygiene projects ($90 million) and a variety of economic development projects including the Community Enhancement Facilities Assistance Program ($540 million). These receipts and disbursements are included in this section in order to present a comprehensive picture of State capital projects spending.

CAPITAL PROJECTS FUNDS RECEIPTS (millions of dollars)				
	2003-04	2004-05	Annual Change	Percent Change
Taxes	1,752	1,806	54	3.1
Miscellaneous Receipts	3,685	3,741	56	1.5
Federal Grants	1,621	1,840	219	13.5
Total Receipts	**7,058**	**7,387**	**329**	**4.7**
Accounting Adjustment	(995)	(1,310)	(315)	(31.7)
Financial Plan Total	**6,063**	**6,077**	**14**	**0.2**

Taxes deposited to the Capital Projects Funds are projected to be $1.81 billion, an increase of $54 million (3.1 percent) from 2003-04. This includes highway-related taxes earmarked for the Dedicated Highway and Bridge Trust Fund and real estate transfer taxes that are designated for the EPF. The $54 million increase is due solely to projected growth in highway related taxes, as the EPF receives a statutory dedication of $112 million annually from the Real Estate Transfer Tax.

Miscellaneous receipts include bond proceeds that finance capital projects across all major functional areas, as well as other miscellaneous fees such as State park fees, industry-specific environmental fees and receipts from the sale of surplus State land. Miscellaneous receipts are projected to total $3.7 billion, an increase of $56 million (1.5 percent) from 2003-04. The estimated growth reflects a $34 million increase in authority bond proceeds and a projected increase of $22 million in other miscellaneous receipts.

Federal grants primarily support capital projects for transportation and the environment and are estimated at $1.84 billion, an increase of $219 million (13.5 percent) over 2003-04. Environmental grants are projected to remain unchanged, while grants for transportation and the World Trade Center highway reconstruction increase by $219 million.

CAPITAL PROJECTS FUNDS DISBURSEMENTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**Percent Change**
Transportation	3,461	3,538	77	2.2
Parks and Environment	688	649	(39)	(5.7)
Economic Development & Government Oversight	361	802	441	122.2
Health and Social Welfare	143	128	(15)	(10.5)
Education	748	807	59	7.9
Public Protection	206	215	9	4.4
Mental Health	299	298	(1)	(0.3)
General Government	80	185	105	131.3
Other	57	75	18	31.6
Total Disbursements	**6,043**	**6,697**	**654**	**10.8**
Accounting Adjustment	(995)	(1,310)	(315)	(31.7)
Financial Plan Total	**5,048**	**5,387**	**339**	**6.7**

The increase is attributable primarily to prior-year commitments in the areas of economic development ($441 million) and general government for financing of local public safety answering point equipment upgrades for wireless E-911 service ($100 million). See the Capital Program and Financing Plan for more details on capital spending.

DEBT SERVICE FUNDS

DEBT SERVICE FUNDS RECEIPTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**Percent Change**
Taxes	8,039	8,657	618	7.7
Miscellaneous Receipts	694	647	(47)	(6.8)
Total Receipts	**8,733**	**9,304**	**571**	**6.5**

This increase is attributable primarily to growth in dedicated State PIT receipts deposited to the RBTF ($487 million). Similar increases are projected for sales and use taxes deposited to the Local Government Assistance Tax Fund to support debt service on LGAC bonds ($120 million) and real estate transfer taxes deposited in the CW/CA Bond Debt Service Fund ($11 million). Receipts in excess of those required to satisfy the State's debt service obligations are transferred back to the General Fund. The projected decrease in miscellaneous receipts of $47 million is attributable to reduced funding of the Debt Reduction Reserve Fund, offset by a modest increase in receipts for health-related programs.

DEBT SERVICE FUNDS DISBURSEMENTS (millions of dollars)				
	2003-04	**2004-05**	**Annual Change**	**Percent Change**
General Debt Service Fund	2,742	3,229	487	17.8
LGAC	296	312	16	5.4
Mental Health	166	259	93	56.0
All Other	149	119	(30)	(20.1)
Total Disbursements	**3,353**	**3,919**	**566**	**16.9**

This increase, which is explained in more detail earlier in this Overview, reflects the growth in debt service costs after implementation of policy and statutory initiatives that have resulted in debt service savings over the last several years. Projected debt service costs and corresponding levels of State-supported debt outstanding are projected to remain within the caps and limitations imposed by the Debt Reform Act of 2000. See the Capital Program and Financing Plan for more details on debt projections.

FINANCIAL PLAN RESERVES AND RISKS

The State projects that balances in its principal reserves to guard against unbudgeted risks will total $815 million at the close of 2003-04 will remain unchanged through 2004-05. The reserves include $794 million in the TSRF (the State's rainy day fund) and $21 million in the CRF for litigation. To permanently improve the State's reserve levels, the Executive Budget includes legislation to gradually increase both the maximum size of the State's rainy day fund from 2 percent to 5 percent of General Fund spending, and the maximum annual deposits from two-tenths of one percent to five-tenths of one percent of spending. Absent this legislation, the State will reach its statutory maximum balance in the fund of 2 percent or $840 million with the next annual deposit.

The 2004-05 Financial Plan does not set aside specific reserves to cover potential costs that could materialize as a result of adverse rulings in pending litigation, future collective bargaining agreements with State employee unions, Federal disallowances, or other Federal actions that could adversely affect the State's projections of receipts and disbursements.

The State is a defendant in several court cases that could ultimately result in costs to the State Financial Plan. The most significant litigation is the State Court of Appeals ruling that the State's financing system for New York City public schools is unconstitutional. This ruling directs the State to submit a remedy to the Court by July 30, 2004. The 2004-05 Executive Budget provides $100 million in General Fund support and reserves all VLT revenues to provide SBE funding while the Governor's Commission on Educational Reform outlines a series of options for the State to consider. The VLT revenues are projected to increase from $240 million in 2004-05 to $950 million in 2005-06 and $1.3 billion in 2006-07.

Other litigation includes ongoing claims by several Indian Nations alleging wrongful possession of lands by the State and several counties, as well as claims involving the adequacy of shelter allowances for families on public assistance. The State has implemented a court-ordered increase in the shelter allowance schedule for public assistance families that became effective on November 1, 2003. The Court has also directed the parties to return on March 30, 2004 for further proceedings. For a complete summary of significant litigation affecting the State, please refer to the State's Annual Information Statement, as updated.

The State is negotiating new labor contracts with several State employee unions. The recently expired four-year agreements included a $500 nonrecurring lump sum payment and salary increases of 3.0 percent in 1999-2000 (effective mid-year), 3.0 percent in 2000-01 and 3.5 percent in 2001-02 and 2002-03, at a cost to the General Fund of approximately $2.5 billion over the life of the agreement. Each future one percent salary increase would cost the General Fund roughly $75 million annually.

The Federal government is currently auditing Medicaid claims submitted since 1993 under the school supportive health services program. At this point, these audits have not been finalized, and, as a result, the liability of the State and school districts for any disallowances cannot be determined. Federal regulations include an appeals process that could postpone repayment of any disallowances. The Financial Plan assumes the Federal government will fully reimburse these costs.

In addition, through December 2003, a portion of Federal Medicaid payments related to school supportive health services have been deferred by the Federal Centers for Medicare and Medicaid Services pending finalization of audits. Since the State has continued to reimburse school districts for these costs, these Federal deferrals, if not resolved, could negatively impact future health care spending.

In December 2003, the State received partial Federal approval of the Medicaid State Plan Amendment necessary to make disproportionate share hospital (DSH) payments over two years to public hospitals throughout the State, including the New York City Health and Hospital Corporation (HHC), SUNY and other State and county operated hospitals. Although full payment for SUNY and State-operated hospitals was secured with the initial approval, the State continues to seek Federal approval of the balance of anticipated payments totaling roughly $1.3 billion for HHC and other county hospitals. Failure of the Federal government to approve these remaining payments could have an adverse impact on the State's health care financing system.

CASH FLOW

In 2004-05, the General Fund is projected to have quarterly balances of $2.0 billion in June, $2.20 billion in September, $1.22 billion by the end of December, and $964 million at the end of March. The lowest projected month-end cash flow balance other than March is $1.2 billion in December. The 2004-05 General Fund cash flow estimates assume the Executive Budget is enacted on time and in its entirety.

OSC invests General Fund moneys, bond proceeds, and other funds not immediately required to make payments through STIP, which is comprised of joint custody funds (Governmental Funds, Internal Service Funds, Enterprise Funds and Private Purpose Trust Funds), as well as several sole custody funds including the Tobacco Settlement Fund.

OSC is authorized to make temporary loans from STIP to cover temporary cash shortfalls in certain funds and accounts resulting from the timing of receipts and disbursements. The Legislature authorizes the funds and accounts that may receive loans each year, based on legislation submitted with the Executive Budget. Loans may be granted only for amounts that the Director of the Budget certifies are "receivable on account" or can be repaid from the current operating receipts of the fund (i.e., loans cannot be granted in expectation of future revenue enhancements). In addition, the 2003-04 Enacted Budget included legislation that expires on March 31, 2004 permitting OSC to temporarily loan balances in other funds to the General Fund within any month. This authorization was utilized on September 12 and 15, 2003 to support intra-month cash flow needs; however, as required under the legislation, the General Fund ended September 2003 with a positive cash balance of $2.6 billion. The 2004-05 Executive Budget includes legislation to permanently extend this authorization.

OSC makes repayment of such loans from the first cash receipts into the fund. Fund balances outside the General Fund are presented on a net basis, i.e., they are reduced by the amount of outstanding temporary loans from the State's STIP. The total outstanding loan balance at March 31, 2003 was $1.68 billion. The sources of this outstanding loan balance include timing-related delays in the receipt from Federal Funds and the sale of bonds used to finance capital projects, a delinquent SUNY hospital loan, and unreimbursed costs related to the Office for Technology Internal Service funds.

GAAP-BASIS FINANCIAL PLANS

In addition to the cash-basis Financial Plans, the General Fund and All Governmental Funds Financial Plans are prepared on a Generally Accepted Accounting Principles basis (GAAP) in accordance with Governmental Accounting Standards Board (GASB) regulations.

Tables comparing the cash basis and GAAP basis General Fund Financial Plans are provided at the end of this Overview. The GAAP projections for both years are based on the accounting principles applied by the State Comptroller in the financial statements issued for 2002-03. They reflect the impact of GASB Statement 34 which has significantly changed the presentation of GAAP financial information for State and local governments. The changes are intended to portray the State's net overall financial condition, including activities that affect State assets and liabilities during the fiscal year. The GASB 34 results for 2002-03 show the State in a net positive overall financing condition of $42.40 billion.

In 2003-04, the General Fund GAAP Financial Plan shows total revenues of $37.31 billion, total expenditures of $43.41 billion, and net other financing sources of $7.43 billion, resulting in an operating surplus of $1.33 billion. This operating result reflects the receipt of the tobacco bond proceeds originally anticipated in 2002-03 but received in 2003-04, and the cash surplus in 2003-04. As a result, the accumulated deficit is expected to improve from $3.32 billion at the end of 2002-03 to an accumulated deficit of $1.99 billion at the end of 2003-04.

In 2004-05, the General Fund GAAP Financial Plan shows total revenues of $35.65 billion, total expenditures of $43.97 billion, and net other financing sources of $7.63 billion, resulting in an operating deficit of $691 million due to the use of 2003-04 cash reserves in 2004-05. The accumulated deficit is projected at $2.68 billion at the end of 2004-05, an improvement of $641 million from the 2002-03 actual results.

GENERAL FUND FINANCIAL PLAN OUTYEAR PROJECTIONS

At the beginning of the 2004-05 budget cycle, the State faced potential budget gaps of $6.7 billion in 2005-06 and $7.8 billion in 2006-07. The 2004-05 Executive Budget recommendations reduce the gaps by proposing roughly $3.5 billion in recurring savings. The gaps assume the Legislature will enact the 2004-05 Executive Budget and accompanying legislation in its entirety, and do not include any funding for possible collective bargaining salary increases or productivity savings.

OUTYEAR SAVINGS FROM 2004-05 EXECUTIVE BUDGET RECOMMENDATIONS (millions of dollars)

	2005-06	2006-07
Projected Base Level Gaps	**(6,727)**	**(7,805)**
Spending Actions	2,495	2,199
Revenue Proposals	1,163	1,118
Nonrecurring Actions	219	139
Remaining Gaps	**(2,850)**	**(4,349)**

The statewide austerity measures limiting discretionary spending, travel, and low-priority capital spending will remain in force, and all State agencies will continue to operate under a hiring freeze, consistent with existing guidelines. State agencies will continue to identify opportunities where agencies, through increased administrative flexibility, statutory changes or other means, can achieve greater productivity, improve services, and reduce costs to help lower the outyear budget gaps.

OUTYEAR RECEIPTS

GENERAL FUND RECEIPTS (millions of dollars)				
	2005-06	Percent Change	2006-07	Percent Change
Personal Income Tax (PIT)	18,864	1.9	19,685	4.4
PIT Adjusted for Refund Reserve	18,899	6.0	19,727	4.4
User Taxes and Fees	7,963	(4.5)	8,176	2.7
Business Taxes	3,890	4.0	3,967	2.0
Other Taxes	820	7.6	878	7.1
Total Taxes	31,537	0.6	32,706	3.7
Total Taxes Adjusted for Refund Reserve	**31,572**	**2.9**	**32,748**	**3.7**
Miscellaneous Receipts	1,989	(4.7)	1,821	(8.4)
Total Transfers from Other Funds	8,461	0.9	8,699	2.8
Total Receipts	41,987	0.4	43,226	3.0
Total Receipts Adjusted for Refund Reserve	**42,022**	**2.1**	**43,268**	**3.0**

General Fund receipts are estimated at $41.98 billion in 2005-06 and $43.27 billion in 2006-07. Receipts growth is expected to exceed historical averages as is typical of an economy in its expansionary stages. Tax receipts adjusted for Refund Reserve transactions, are expected to increase by 2.9 percent in 2005-06 and 3.7 percent in 2006-07. The reduced increases in both years reflect the phase-out of temporary tax increases in PIT and sales tax. Adjusting for the impact of law changes, tax receipt growth is expected to average 5 percent. The growth in tax receipts is consistent with a forecast of US and New York economic recovery extending into 2005 and 2006 and continued profitability in the financial services sector of the economy. A more detailed comparison of historical and projected growth rates for tax receipts is contained in the Explanation of Receipts Estimates section later in this volume.

Personal Income Tax

In general, income tax growth for 2005-06 and 2006-07 is governed by projections of growth in taxable personal income and its major components, including wages, interest and dividend earnings, realized taxable capital gains, and business net income and income derived from partnerships and S Corporations.

PIT receipts are projected to increase to $18.86 billion in 2005-06. The modest increase from 2004-05 largely reflects growth in underlying liability, offset by the phase out of the 2003 surcharge in tax year 2006. In addition, receipts are reduced by the incremental value of the STAR tax reduction program.

PIT receipts for 2006-07 are projected to increase by more than $800 million to $19.69 billion.

Wages are estimated to continue to improve steadily in 2005-06 and 2006-07, reflecting stronger employment growth, increases in bonuses paid, and the continuing return to normalcy after the 2001 World Trade Center attack.

Realized capital gains are expected to return to a robust level of growth in 2005 and 2006. This growth represents the continuation of the recovery of the stock market from the anemic period of 2001 through 2003.

The 2005-06 and 2006-07 projections also assume increases in the other major components of income, consistent with continued growth in the overall economy. The Explanation of Estimated Receipts Economic Backdrop section contains a more detailed discussion of these estimates.

There is significant uncertainty associated with the forecast of the outyear income components. In many cases, a reasonable range of uncertainty around the predicted income components would include a significant range around outyear income tax estimates.

User Taxes and Fees

Receipts from user taxes and fees are estimated to total $7.96 billion in 2005-06, a decrease of $377 million from 2004-05. The decrease is due to the scheduled decline in the State sales tax rate from 4.25 percent to 4 percent on June 1, 2005, and the loss of $170 million in receipts due to changes in the State sales tax base in New York City associated with the proposed MAC refinancing, offset in part by expected growth in the sales tax base.

User taxes and fees receipts are expected to grow to $8.18 billion in 2006-07. The economy is expected to be growing at trend rates over this period, resulting in sales tax growth more in line with historical averages. This is expected to result in underlying growth in the sales tax base of 4 percent to 5 percent.

Business Taxes

Business tax receipts are expected to increase to $3.89 billion in 2005-06. This is primarily due to the anticipated growth in corporate and bank profits, as well as the continued growth in insurance premiums. Receipts are projected to increase to $3.97 billion in 2006-07 reflecting continued modest increases in underlying liability.

Other Taxes

The receipts from other taxes are expected to increase to $820 million in 2005-06, which reflects the expected growth in stock market prices on the value of taxable estates. In 2006-07, receipts rise to $878 million, reflecting the expectation of continued growth in estate tax liability.

Miscellaneous Receipts

Miscellaneous Receipts for 2005-06 are estimated to be $1.99 billion. Receipts in this category are projected to be $1.82 billion in 2006-07.

TRANSFERS FROM OTHER FUNDS (millions of dollars)		
	2005-06	**2006-07**
PIT in Excess of Revenue Bond Debt Service	5,820	5,985
Sales Tax in Excess of LGAC Debt Service	2,085	2,152
Real Estate Taxes in Excess of CW/CA Debt Service	245	255
All Other Transfers	311	307
Total Transfers from Other Funds	**8,461**	**8,699**

Transfers from other funds are estimated to grow to $8.46 billion in 2005-06 and $8.70 billion in 2006-07. Both the 2005-06 and 2006-07 projections reflect growth in the dedicated portions of PIT, sales tax and the real estate transfer tax, which comprise a significant portion of transfers from other funds each year. The growth of $74 million in 2005-06 is due to projected growth in income, sales and real estate taxes, offset by net increases in debt service related to PIT Revenue Bonds, LGAC Bonds and CW/CA General Obligation debt service of $180 million. The growth of $238 million in 2006-07 is due to growth in income, sales and real estate taxes, offset by net increases in debt service related PIT Revenue Bonds, LGAC Bonds and CW/CA General Obligation debt service of $164 million.

OUTYEAR DISBURSEMENTS

GENERAL FUND DISBURSEMENTS (millions of dollars)		
	2005-06	2006-07
Total Disbursements	44,987	47,575

Absent additional spending controls greater than those proposed in the 2004-05 Executive Budget, DOB currently projects that General Fund spending would grow by $3.10 billion (7.4 percent) in 2005-06 and $2.59 billion (5.8 percent) in 2006-07. The primary sources of this growth are itemized in the table below, and are described in further detail following the table.

PROJECTED ANNUAL SPENDING GROWTH (millions of dollars)		
	2005-06	2006-07
Medicaid (including tobacco guarantee)	1,411	1,249
Welfare	366	225
School Aid (excluding SBE reserve)	214	285
Mental Hygiene	100	53
All Other Local Assistance	252	50
Employee Health Insurance	335	309
Pensions	237	174
State Operations	191	234
Debt Service	97	(24)
All Other	(101)	33
Total Annual $ Growth	**3,102**	**2,588**
Total Annual % Growth	**7.4**	**5.8**

GRANTS TO LOCAL GOVERNMENTS (millions of dollars)		
	2005-06	2006-07
Grants to Local Governments	30,798	32,660

Local assistance spending is projected to increase by $2.34 billion (8.2 percent) in 2005-06 and another $1.86 billion (6.0 percent) in 2006-07, primarily attributable to growth in the areas of Medicaid, welfare, and school aid.

General Fund spending for Medicaid is expected to grow by $1.41 billion in 2005-06 and another $1.25 billion in 2006-07. This increase is attributable largely to inflationary and utilization growth of $721 million in 2005-06 and $837 million in 2006-07 on the State's gross share of Medicaid costs totaling roughly $10 billion, which represent projected underlying growth of approximately 7.5 percent. These estimates are based on programmatic trends experienced in New York State's Medicaid program and the Congressional Budget Office national average projections. The remaining growth is attributable primarily to the loss of nonrecurring financing sources in 2004-05 including Federal FMAP ($220 million), payment of the March 30, 2005 cycle payment in 2005-06 ($190 million), and increased General Fund support over the two years for HCRA including the repayment of a 2002-03 loan ($200 million) and planned "tobacco guarantee" payments in 2006-07 ($435 million).

Welfare spending is projected to increase by $366 million (34 percent) in 2005-06 and by another $255 million (16 percent) in 2006-07 due to projected increases in family caseload (4.7 percent), the single adult/childless couples caseload (10 percent), and growth in expenditures per person (3 percent).

General school aid on a school year basis is projected to grow approximately $350 million (2.4 percent) in 2005-06 and $235 million (1.6 percent) in 2006-07. The general school aid projections assume growth in expense-based programs, and reflect the impact of recommended reforms to building aid, ongoing limits in transportation aid and maintenance of current levels for most other aid categories. On a state fiscal year basis, school aid spending is projected to grow by approximately $214 million (1.7 percent) in 2005-06 and $285 million (2.2 percent) in 2006-07. However, the SBE reserves (financed with VLT revenues), are not yet included in these spending totals, and would add an estimated $950 million in fiscal year 2005-06 and $1.30 billion in 2006-07.

Mental hygiene programs are projected to increase by $100 million (6.2 percent) in 2005-06 and an additional $53 million (3.1 percent) in 2006-07. This growth is primarily attributable to bed development for community mental health services and OMRDD NYSCARES programs that provide services to the mentally ill and mentally retarded and developmentally disabled populations.

All other local assistance programs increase by $252 million (3.6 percent) in 2005-06 and by $50 million (0.7 percent) in 2006-07. This two-year increase is largely due to programmatic growth in higher education costs primarily for payments to CUNY ($150 million), funding for ESDC economic development programs ($75 million), children and family services ($74 million), and preschool special education ($96 million) and various other programmatic growth across all other agencies. These increases are partially offset by reduced funding for community projects ($150 million) and the phase of the final payments to the City of Yonkers relating to a court ordered settlement ($35 million).

STATE OPERATIONS (millions of dollars)		
	2005-06	**2006-07**
State Operations	7,442	7,676

State Operations spending is expected to increase by $191 million, or 2.6 percent, in 2005-06 and $236 million (3.2 percent) in 2006-07. The growth in State Operations spending is due to normal salary step increases and increases for non-personal service costs (valued at roughly $125 million) and the decline in resources used to offset spending in the General Fund valued at roughly $175 million in 2005-06 and $100 million in 2006-07. The annual growth in 2005-06 is reduced by the loss of the extra institutional payroll in 2004-05. No general salary increases or productivity savings are budgeted in either 2005-06 or 2006-07.

GENERAL STATE CHARGES (millions of dollars)		
	2005-06	**2006-07**
General State Charges	4,109	4,612

GSCs are expected to increase by $457 million (12.5 percent) in 2005-06 and another $503 million (12.2 percent) in 2006-07 to finance anticipated cost increases in pension and health insurance benefits for State employees and retirees. Prior year pension fund investment losses are expected to increase the employer contribution rate to the New York State and Local Retirement Systems from 6.5 percent in 2004-05 to 8.6 percent of employee salaries in 2005-06 and 10.6 percent in 2006-07. These rates, which assume the 2004-05 Executive Budget pension reform recommendation are enacted, will still require additional State spending of $237 million in 2005-06 and another $174 million in 2006-07, for a total of $1.08 billion by 2006-07. Spending for employee health care costs is expected to increase by $335 million in 2005-06 and another $309 million in 2006-07 for a total of $2.70 billion in 2006-07. This funding level assumes 15 percent annual premium trend increases, and does not incorporate any potential productivity savings or other changes to existing labor contracts.

TRANSFERS TO OTHER FUNDS (millions of dollars)		
	2005-06	**2006-07**
Debt Service	1,850	1,826
Capital Projects	201	204
All Other	587	597
Total Transfers to Other Funds	**2,638**	**2,627**

Transfers to the Debt Service Funds increase by $97 million in 2005-06 and decrease by $24 million 2006-07. The change in debt service in the outyears is due primarily to the loss of refunding savings that occurred in the prior years and the use of PIT revenue bonds to finance the debt service costs for capital projects previously financed by the General Fund transfer.

Capital projects transfers are projected to increase by $14 million in 2005-06 and $3 million in 2006-07. These increases reflect routine reestimates based upon projected program activity.

All other transfers are projected to remain virtually unchanged through 2006-07.

HEALTH CARE REFORM ACT

In accordance with Chapters 62 and 686 of the Laws of 2003, the following provides the Financial Plan information regarding HCRA receipts and disbursements for 2004-05. As required, the estimates of receipts and disbursements are detailed on a quarterly basis.

OVERVIEW

In 1996, New York enacted landmark health care reform legislation – HCRA – that replaced the hospital reimbursement system established in 1983 with a deregulated system for most non-Medicare payers. This Act was designed to improve the fiscal health of hospitals and ensure that affordable and quality health care coverage was available to all New Yorkers. The Act was subsequently extended and modified in both 2000 and 2002 to expand CHP, initiate both FHP and Healthy New York, and provide needed funding to attract, train and recruit a high quality health care workforce. Last year (2003), this legislation was extended through June 30, 2005.

Historically, HCRA cash balances have been significant because the revenues have generally accumulated as anticipated, but the programs often took longer to implement and reach projected expenditure levels. The HCRA cash balance on December 31, 2001 was $1.93 billion, as certified in an audit completed by Fust Charles Chambers, LLP. Since then, spending levels in many major programs, such as FHP and EPIC, have significantly increased, outpacing the growth in recurring revenues. As a result, the HCRA cash balance as of April 1, 2004 is projected to be $406 million.

Chapters 62 and 686 of the Laws of 2003 also created the Tobacco Revenue Guarantee Fund which provides for replenishment by the General Fund of revenues up to the level of tobacco settlement dollars otherwise available to HCRA had these revenues not been securitized.

To mitigate HCRA's reliance on the General Fund and to improve the fiscal viability of HCRA in the outyears, a series of cost savings actions are proposed that produce a State Financial Plan benefit of more than $240 million in 2004-05. These proposals include actions that: reduce the cost of the EPIC program; bring FHP coverage more in line with that offered by private insurance policies; maximize the use of Medicaid dollars in the financing of Graduate Medical Education costs; and eliminate two unnecessary insurance pilot programs.

HCRA RECEIPTS

Public Goods Pool Receipts are estimated to total $2.20 billion in 2004-05. The sources of receipts include surcharges and assessments on hospital revenues, and a covered lives assessment that is paid by insurance carriers.

Tobacco Control and Insurance Initiatives Pool Receipts are projected to accumulate to $2.23 billion in 2004-05. These receipts are comprised of a portion of cigarette tax revenues, proceeds from insurance conversions, Federal revenues received with the renewal of the State's Medicaid managed care waiver and Federal relief associated with the World Trade Center disaster.

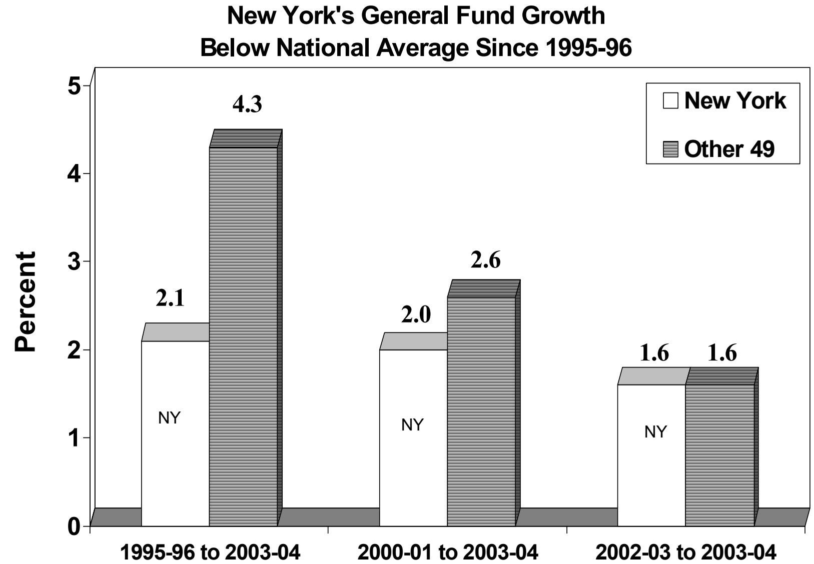
HCRA DISBURSEMENTS

Nearly three-quarters of HCRA disbursements (including indigent care) are appropriated in the State Budget. Total disbursements of $4.37 billion are projected in 2004-05. Major disbursement categories include: hospital indigent care; EPIC; Graduate Medical Education; CHP; FHP; provider workforce recruitment and retention funds paid through Medicaid rates; and transfers to accommodate various Medicaid and public health costs.

Additional detail on quarterly receipts and disbursements is contained in the Financial Plan tables later in this Overview. Based on the Executive Budget's recommendations, the cash balance at the end of 2004-05 will be $475 million, declining to approximately $150 million on June 30, 2005, when the HCRA statute expires.

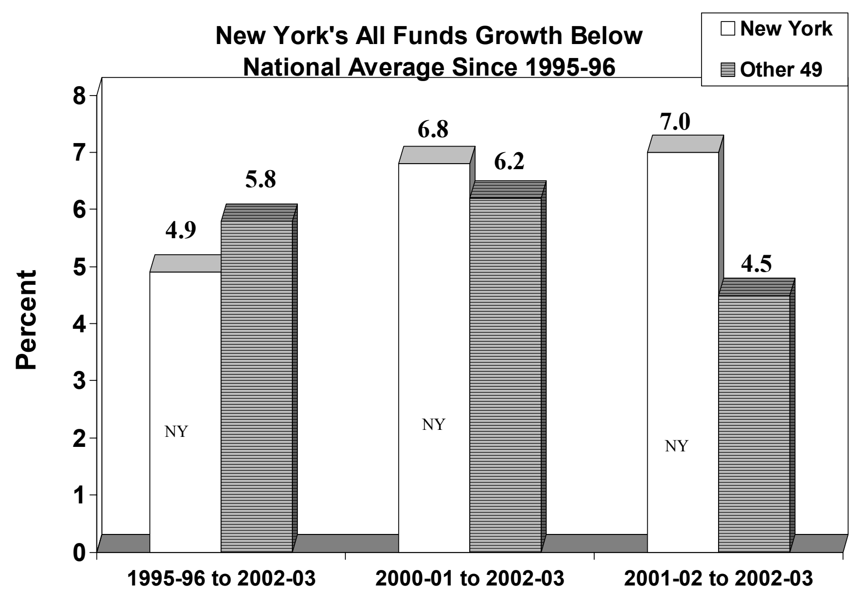
HISTORICAL FINANCIAL PLAN DATA

The following tables illustrate historical trends in the areas of spending, reserves, government workforce, debt levels, tax collections, pensions, credit ratings, and demographics. The information is meant to aid readers in understanding changes in State finances over time and in comparison to other states.



Notes: Growth measured for other states using the median of the average annual change rate for the other 49 states. Fiscal years 2002-03 and 2003-04 revised are the latest years for which comparative data are available. Spending in 2002-03 and 2003-04 is adjusted for $1.9 billion in payment delays as a result of deferred tobacco securitization proceeds. Sources: NYS Division of the Budget & National Association of State Budget Officers.

Since 1995, average annual spending growth in the General Fund has been lower in New York than in the other 49 states. However, in the most recent year for which comparable data is available, other states have pared back General Fund spending significantly and grew at approximately the same rate as New York.



Notes: Growth measured for other states using the median of the 49 state annual percent changes. Fiscal years 2001-02 and 2002-03 are the latest years for which comparative data are available from other states. Spending in 2002-03 and 2003-04 is adjusted for $1.9 billion in payment delays as a result of deferred tobacco securitization proceeds. Sources: NYS Division of the Budget and National Association of State Budget Officers.

Since 1995, average annual spending growth for All Funds has been lower in New York than in the other 49 states. However, in recent years New York's All Funds spending has grown above the national median, primarily reflecting increased Federal Funds spending for World Trade Center relief efforts, Medicaid, and welfare.

Sources of General Fund Spending Growth

Ten-Year and Five-Year Growth Trends

	Ten-Year Growth	
	General Fund	*Share of Growth*
1994-95 Spending	**33,399**	
School Aid	4,415	*52.0%*
Gen State Charges	1,435	*16.9%*
Corrections	478	*5.6%*
Medicaid	447	*5.3%*
Judiciary	425	*5.0%*
Pre-K Special Education	370	*4.4%*
Mental Health	313	*3.7%*
Public Health	298	*3.5%*
Children and Families	266	*3.1%*
Debt Service	145	*1.7%*
Housing	(47)	*-0.6%*
Motor Vehicles	(107)	*-1.3%*
Transportation	(470)	*-5.5%*
Welfare	(1,114)	*-13.1%*
All Other (Net)	1,632	*19.2%*
2004-05 Spending	**41,885**	
Dollar Change	*8,486*	
Percent Change	*25.4%*	

	Five-Year Growth	
	General Fund	*Share of Growth*
1999-00 Spending	**37,170**	
School Aid	1,913	*40.6%*
General State Charges	1,566	*33.2%*
Medicaid	542	*11.5%*
Corrections	285	*6.0%*
Children and Families	251	*5.3%*
Judiciary	230	*4.9%*
Mental Health	227	*4.8%*
Pre-K Special Education	177	*3.8%*
State University	145	*3.1%*
Mental Retardation	101	*2.1%*
Motor Vehicles	(118)	*-2.5%*
Welfare	(198)	*-4.2%*
Transportation	(220)	*-4.7%*
Debt Service	(489)	*-10.4%*
All Other (Net)	303	*6.4%*
2004-05 Spending	**41,885**	
Dollar Change	*4,715*	
Percent Change	*12.7%*	

Source: NYS Division of the Budget

Sources of State Funds Spending Growth

Ten-Year and Five-Year Growth Trends

	Ten-Year Growth	
	State Funds	***Share of Growth***
1994-95 Spending	**42,560**	
School Aid	5,274	*25.2%*
STAR	2,998	*14.3%*
Medicaid	2,848	*13.6%*
General State Charges	1,774	*8.5%*
Public Health	1,556	*7.4%*
Debt Service	1,537	*7.3%*
State University	1,511	*7.2%*
Judiciary	538	*2.6%*
Economic Development	501	*2.4%*
Transportation	472	*2.3%*
Corrections	471	*2.2%*
City University	425	*2.0%*
Energy Research (ORDA)	(8)	*0.0%*
Crime Victims	(16)	*-0.1%*
Housing	(41)	*-0.2%*
Welfare	(1,114)	*-5.3%*
All Other (Net)	2,212	*10.6%*
2004-05 Spending	**63,498**	
Dollar Change	*20,938*	
Percent Change	*49.2%*	

	Five-Year Growth	
	State Funds	***Share of Growth***
1999-00 Spending	**49,794**	
Medicaid	2,665	*19.4%*
School Aid	2,589	*18.9%*
STAR	1,803	*13.2%*
General State Charges	1,606	*11.7%*
State University	993	*7.2%*
Public Health	959	*7.0%*
Economic Development	501	*3.7%*
Transportation	458	*3.3%*
Mental Health	411	*3.0%*
City University	370	*2.7%*
Debt Service	342	*2.5%*
Crime Victims	(27)	*-0.2%*
Technology	(43)	*-0.3%*
Welfare Administration	(98)	*-0.7%*
Welfare	(198)	*-1.4%*
All Other (Net)	1,373	*10.0%*
2004-05 Spending	**63,498**	
Dollar Change	*13,704*	
Percent Change	*27.5%*	

Source: NYS Division of the Budget

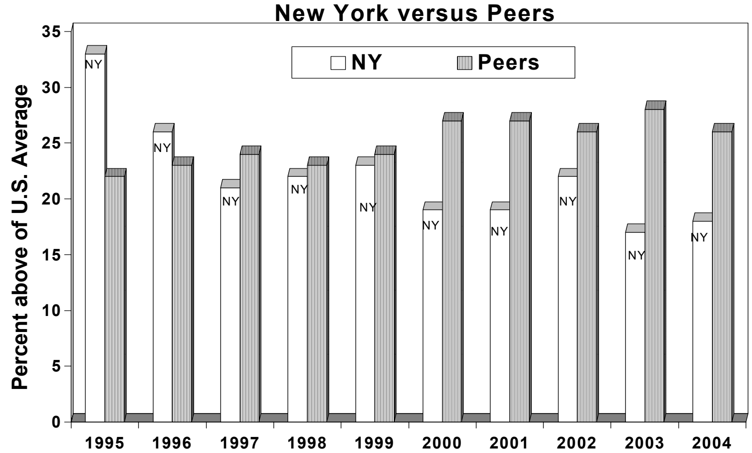
Sources of All Governmental Funds Spending Growth
Ten-Year and Five-Year Growth Trends

	Ten-Year Growth	
	All Funds	***Share of Growth***
1994-95 Spending	**61,898**	
Medicaid	12,798	*33.8%*
School Aid	5,274	*13.9%*
STAR	2,998	*7.9%*
Public Health	2,416	*6.4%*
General State Charges	1,916	*5.1%*
World Trade Center	1,700	*4.5%*
State University	1,592	*4.2%*
Debt Service	1,537	*4.1%*
Transportation	1,165	*3.1%*
Mental Retardation	979	*2.6%*
Energy Research (ORDA)	(31)	*-0.1%*
Housing	(39)	*-0.1%*
Welfare Administration	(147)	*-0.4%*
Welfare	(1,350)	*-3.6%*
All Other (Net)	7,100	*18.7%*
2004-05 Spending	**99,806**	
Dollar Change	*37,908*	
Percent Change	*61.2%*	

	Five-Year Growth	
	All Funds	***Share of Growth***
1999-00 Spending	**73,266**	
Medicaid	9,432	*35.5%*
School Aid	2,589	*9.8%*
STAR	1,803	*6.8%*
World Trade Center	1,700	*6.4%*
General State Charges	1,671	*6.3%*
Public Health	1,313	*4.9%*
State University	1,048	*3.9%*
Transportation	863	*3.3%*
Mental Retardation	801	*3.0%*
Welfare	763	*2.9%*
Children and Families	638	*2.4%*
Technology	(43)	*-0.2%*
Crime Victims	(44)	*-0.2%*
Welfare Administration	(98)	*-0.4%*
All Other (Net)	4,104	*15.5%*
2004-05 Spending	**99,806**	
Dollar Change	*26,540*	
Percent Change	*36.2%*	

Source: NYS Division of the Budget

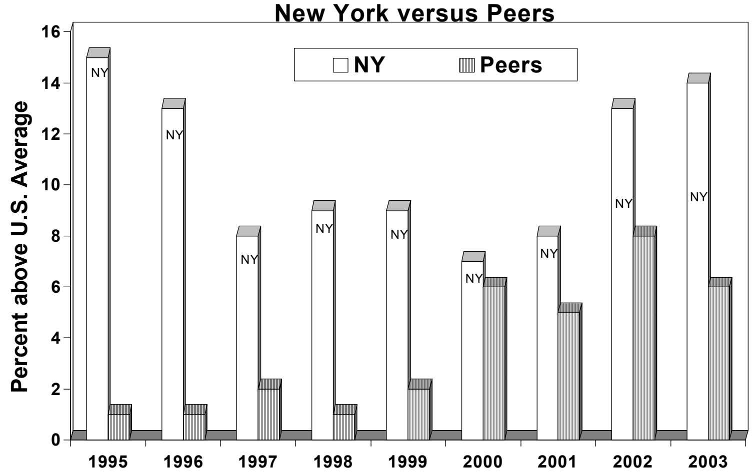
General Fund Spending Per Capita
New York versus Peers



Note: Spending in 2002-03 and 2003-04 is adjusted for $1.9 billion in payment delays as a result of deferred tobacco securitization proceeds. Peers include CA, CT, IL, MA, MI, MN, NJ, OH, PA, WA, and WI. Peer states calculation represents average of GF spending per capita as a percent of U.S. average (excluding New York).

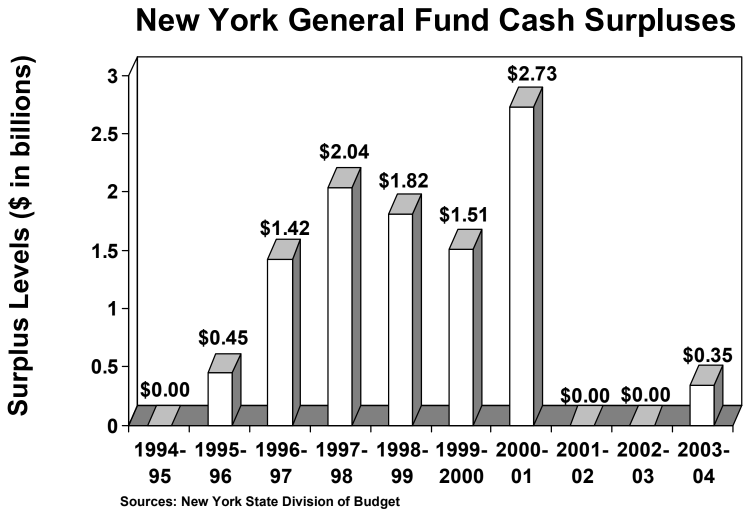
Since 1995, General Fund per capita spending in New York and in its peer states has ranged from approximately 120 percent to 130 percent of the U.S. average. New York's General Fund per capita spending decreased from 133 to 118 percent of the U.S. average between 1995 and 2004. During the same period, the average General Fund per capita spending for its peer states increased from 122 to 126 percent of the U.S. average. At 118 percent of the U.S. average, New York's General Fund per capita spending is now less than the average of its peers. New York's per capita spending level of $2,113 ranked it tenth among the states in 2003-04.

All Governmental Funds Spending Per Capita
New York versus Peers

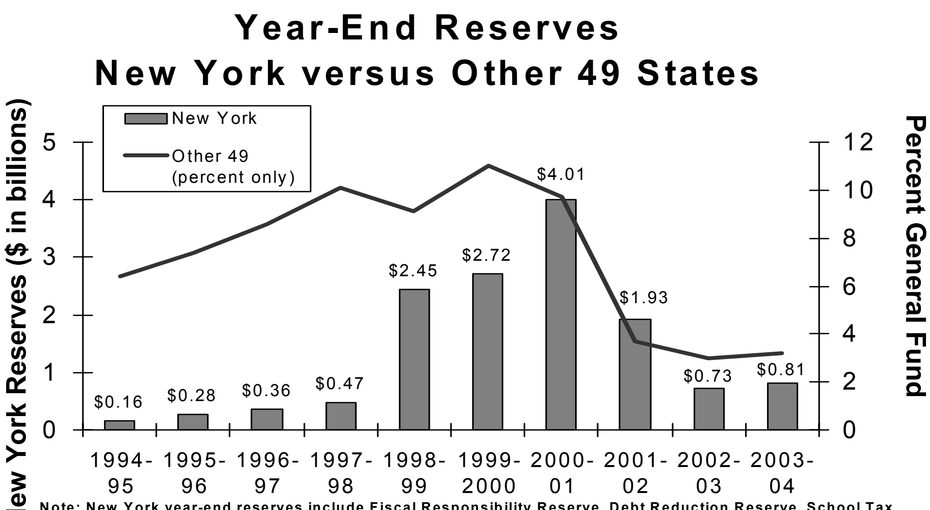


Note: NY Spending in 2002-03 is adjusted for $1.9 billion in payment delays as a result of deferred tobacco securitization proceeds. Peers include CA, CT, IL, MA, MI, MN, NJ, OH, PA, WA, and WI. Peer states calculation represents average of AF spending per capita as a percent of U.S. average (excluding New York).

During the mid-to-late 1990s, All Funds spending per capita in New York was reduced from 115 percent to 107 percent of the U.S. average, approximately the same level as the average of its peer states in 1999-2000. However, in 2002 and 2003, All Funds spending per capita in New York began to increase and in 2003 was 114 percent of the U.S. average, a modest decrease from its 1995 level. During the same period, average All Funds spending per capita for its peer states increased from 101 to 106 percent of the U.S. average. New York's 2002-03 All Funds spending per capita of $4,654 ranks it eleventh among the states.



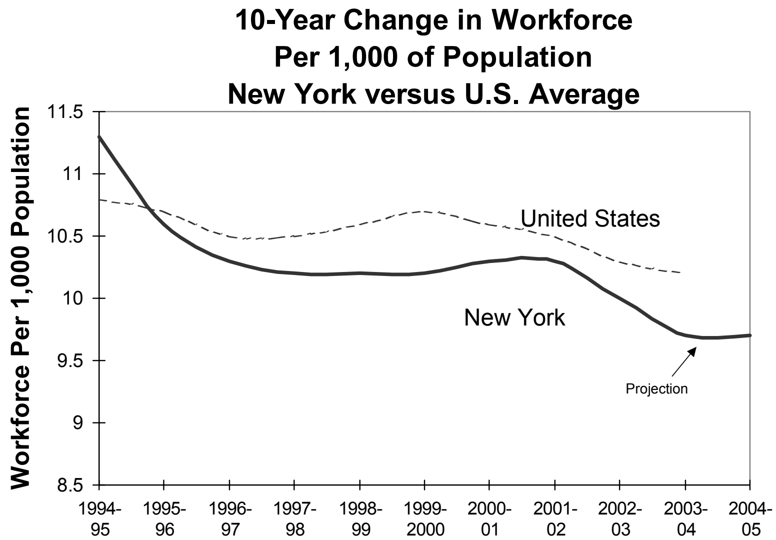
During the strong economic period of the mid-to-late 1990s as revenues exceeded spending, New York achieved six consecutive cash basis surpluses (1995-96 through 2000-01) that reached a high of $2.7 billion in 2000-01. Since 2001, amid a slowing national economy, the September 11th terrorist attacks, and continued spending pressures, New York and nearly every other state has struggled to maintain budget balance.



Note: New York year-end reserves include Fiscal Responsibility Reserve, Debt Reduction Reserve, School Tax Relief Reserve, Contingency Reserve Fund, and Tobacco Reserve Fund. New York General Fund spending in 2002-03 and 2003-04 is adjusted for $1.9 billion in payment delays.

Sources: New York State Division of Budget and National Association of State Budget Officers.

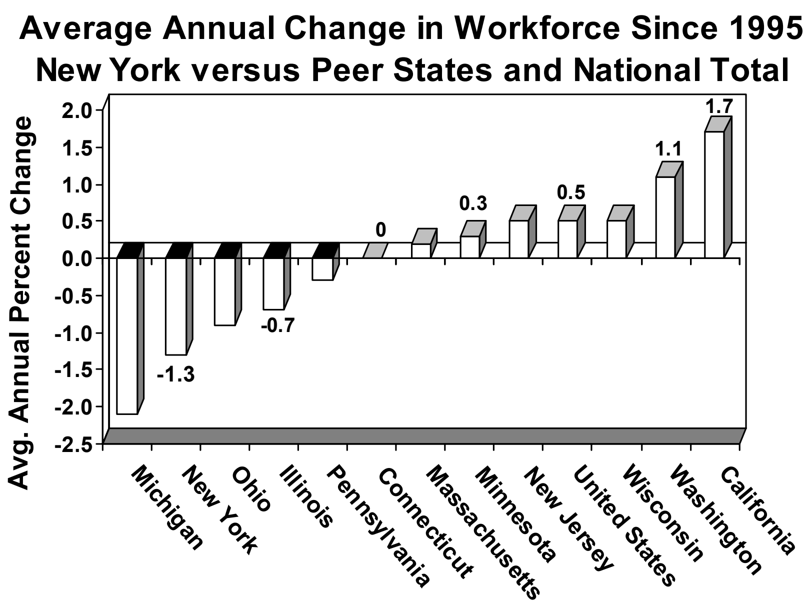
New York's reserve levels grew in the late 1990s and remained relatively strong through 2001-02. However, the State has drawn down over $3 billion in reserves to maintain budget balance in the aftermath of September 11th and the national recession. Accordingly, the State now has reserve levels that are again below the average of other states. The economic growth of the late 1990s allowed states to bolster their financial reserves, reaching a high in 2000 equal to 11 percent of General Fund spending. However, in the national economic downturn that began in 2000, those reserves fell to the current level of approximately three percent of General Fund spending.



Notes: Comparable workforce data not available for Wyoming. United States information represents aggregate state workforce for other 48 states per 1,000 of total population for other 48 states. New York workforce numbers do not include non-annual positions and employees of the Judiciary and Legislature.

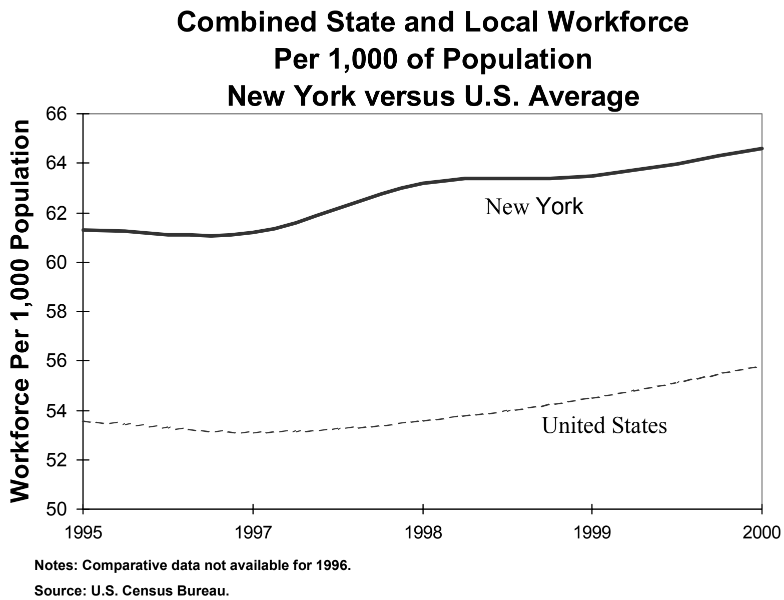
Sources: New York State Division of Budget and National Association of State Budget Officers.

While the 10-year national trend shows that state workforces per capita have been on the decline, the trend is more pronounced in New York. Faced with continued fiscal pressures since 2001-02, New York and many other states have curtailed spending growth, producing the first workforce reductions per capita since 1997. Since 1995, a State hiring freeze and targeted refilling of critical positions has reduced the New York State workforce by more than 20,000 filled positions. Today, there are 9.7 State employees for every 1,000 New Yorkers, compared to a workforce of 10.2 per 1,000 of population for other states.

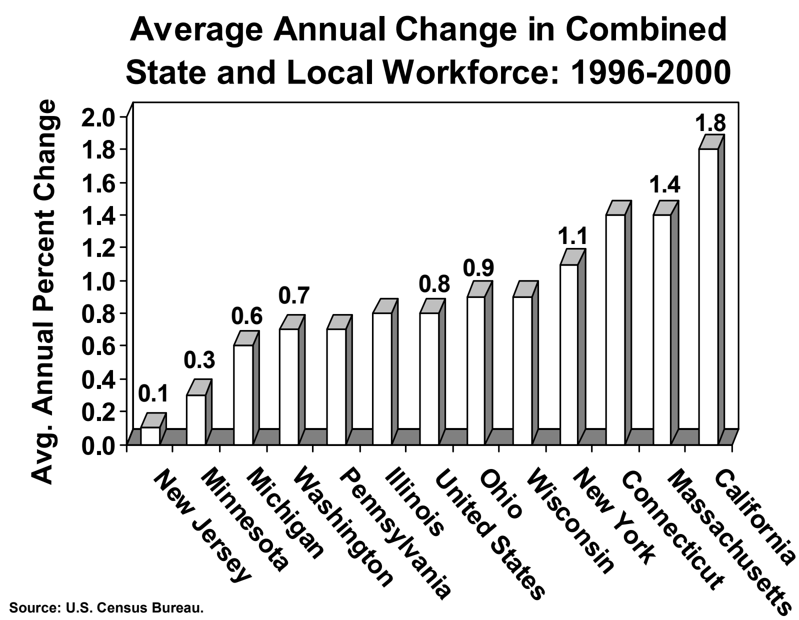


Sources: New York State Division of Budget and National Association of State Budget Officers.

Since 1994-95, New York's workforce has been reduced by an average of 1.3 percent annually while the total of other state workforces has increased by an average 0.5 percent annually (despite the average annual increase of 0.5 percent, the U.S. workforce per 1,000 of population still shows a decline because total population was increasing by an average 1.2 percent annually during this time period). Nationally, only three states had workforce reductions during this time period that were greater than New York's.

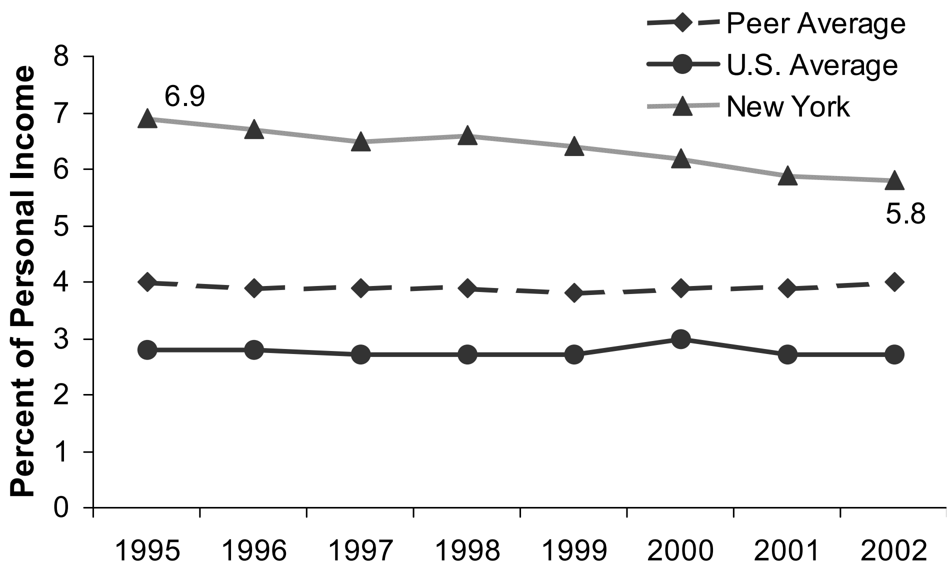


New York had 65 State and local government employees per 1,000 residents as of March 2000, the latest period for which comparative data are available. New York is approximately 16 percent higher than the national average.



Since 1995, New York's combined State and local workforce has increased by an average of 1.1 percent annually, compared to a U.S. average of 0.8 percent annually. The peer states of California, Massachusetts, and Connecticut have shown greater increases during this time period.

Debt as % of Personal Income

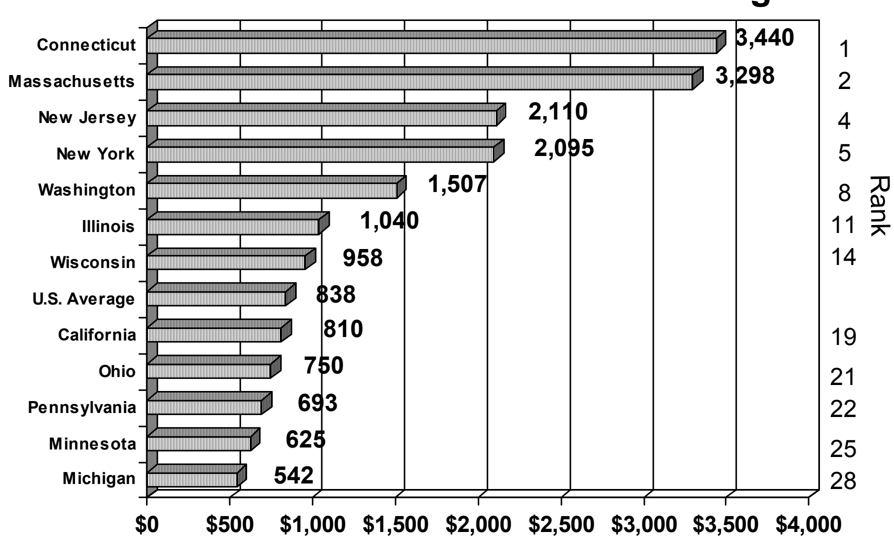


Note: Data points represent debt at the calendar year-end as a percent of the previous year's personal income.

Source: Moody's Investors Service, Inc.

Since 1995, New York's debt as a percent of personal income has decreased from 6.9 percent to 5.8 percent and moved closer to the average of four percent for its peer states. New York's personal income was growing faster than its outstanding debt. In other states, debt burdens relative to personal income generally remained stable during this time period.

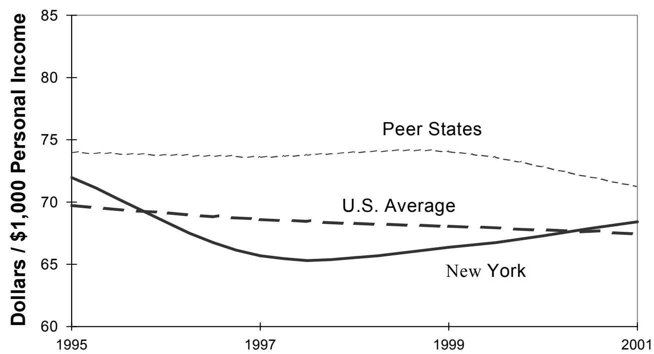
2002 Total Per Capita State Debt New York and Peer State Rankings



Source: Moody's Investors Service, Inc.

Although growth in debt outstanding has slowed in recent years, New York's debt per capita of $2,095 still ranks fifth highest in the nation. Only Connecticut, Massachusetts Hawaii and New Jersey have a higher debt per capita than New York.

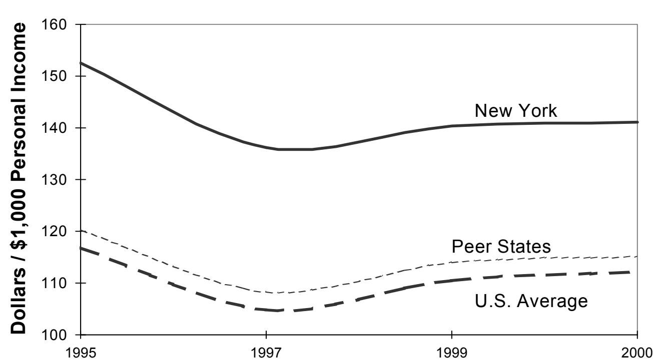
State Tax Collections
per $1,000 Personal Income



Note: Fiscal year 2001 is the most recent year for which comparative data are available.
Source: State of New York, Department of Tax and Finance, *New York State Tax Source Book.*

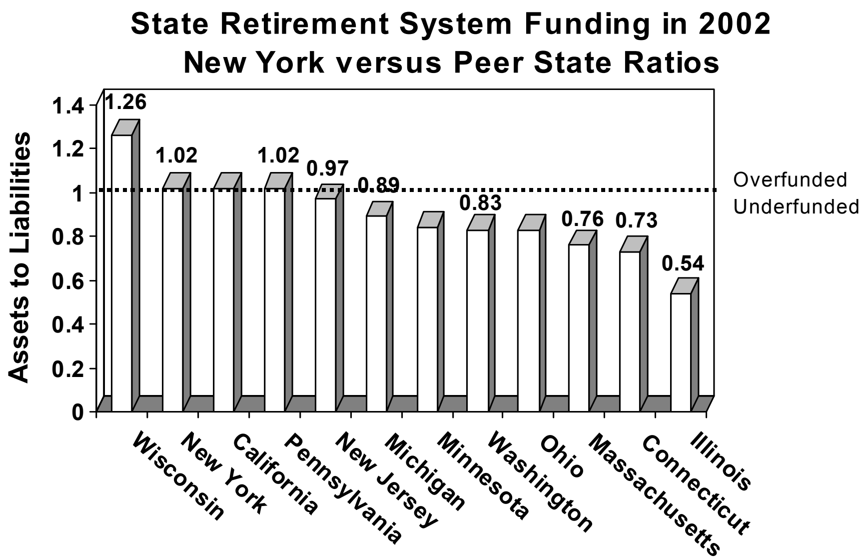
Since 1995, the New York State tax burden, as measured by State tax collections per $1,000 of personal income, decreased from 7.2 percent to 6.8 percent, approximately equal to the U.S. average and consistently lower than the average of its peer states. When comparing New York to other states in this way, it is important to note that the State collects a significant amount of taxes from non-residents, which has the effect of overstating tax collections as a share of personal income since non-resident income is not counted in the calculation. New York generates a relatively larger portion of its tax collections from non-resident visitors and from workers who commute to New York City from Connecticut and New Jersey. Furthermore, New York incomes are higher than the national average and, as a result, even if the New York tax structure were applied in all states, New York State taxes would appear higher because more affluent New York residents are subject to higher tax rates given the State's progressive rate structure. Finally, capital gains are not included in the definition of personal income, even though New York State residents pay tax on capital gains realizations. These factors, when coupled with a strong national economy, further overstate the tax-to-income ratio for New York and help explain why, despite State tax cuts, State tax collections per $1,000 of personal income increased from $66 to $68 between 1997 and 2001.

State and Local Tax Collections
per $1,000 Personal Income



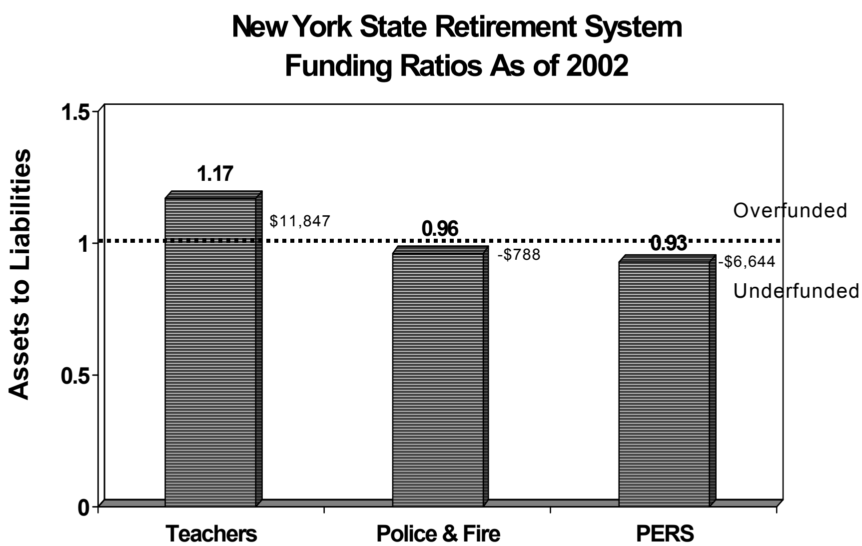
Note: Fiscal year 2000 is the most recent year for which comparative data are available.
Source: State of New York, Department of Tax and Finance, *New York State Tax Source Book.*

Since 1995, the New York State and local tax burden decreased from 15.3 percent to 14.1 percent of personal income. The combined State and local tax burden has been reduced, but is still higher than the national average. Some of this disparity is due to factors described above. Since data is available only through 2000, many of the New York State tax cuts of recent years are not yet fully reflected in this data.



Source: Wilshire Associates, Inc.

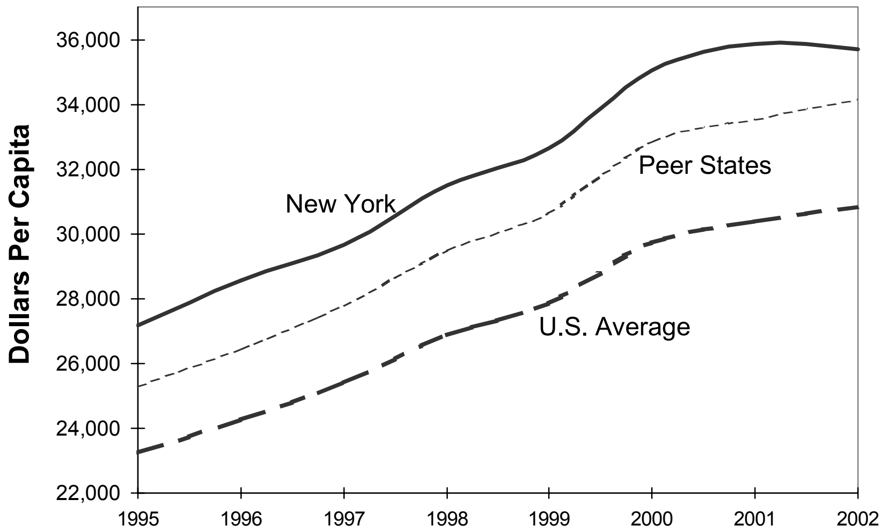
Falling asset values combined with continued growth in liabilities left the majority of state pension plans underfunded in 2002, the last year for which comparable data is available. New York and three of its peer states, Wisconsin, California, and Pennsylvania, were among only nine states in the nation with asset values exceeding liabilities as of 2002, down from 23 in 2001. Five states, including Illinois, have funding ratios of less than 70 percent, up from only three states in 2001. In nine states, including Illinois and Ohio, the amount of unfunded pension liability exceeds the level of General Fund spending. Compared to the other 49 states, New York's funding ratio in 2002 of 1.02 ranked it sixth best among the states.



Source: Wilshire Associates, Inc.

As of 2002, the combined assets of New York's three statewide retirement systems (New York Teachers, New York Police and Fire, and New York PERS) exceed its combined liabilities by two percent. The combined overfunding of $4.4 billion was fifth highest in the nation.

Per Capita Personal Income

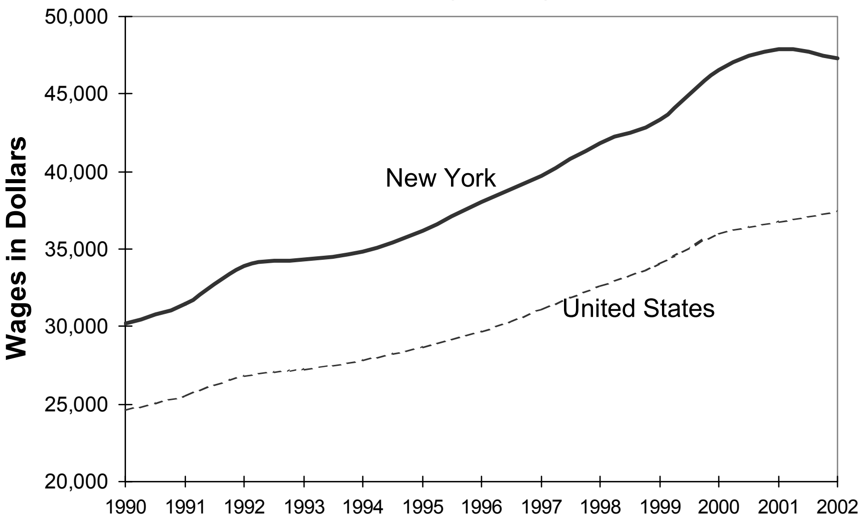


Note: Peer states line represents an average of peer state per capita personal incomes. United States is overall per capita personal income.

Source: U.S. Bureau of Economic Analysis.

Since 1995, per capita personal income for New York has been higher than the average of its peer states which has in turn been higher than the United States overall. During this time period, per capita personal income has grown an average of 4.0 percent annually in New York, 4.4 percent annually in its peer states, and 4.1 percent annually for the United States overall. In 2002, only Connecticut, Massachusetts and New Jersey had a higher per capita personal income than New York's $35,708.

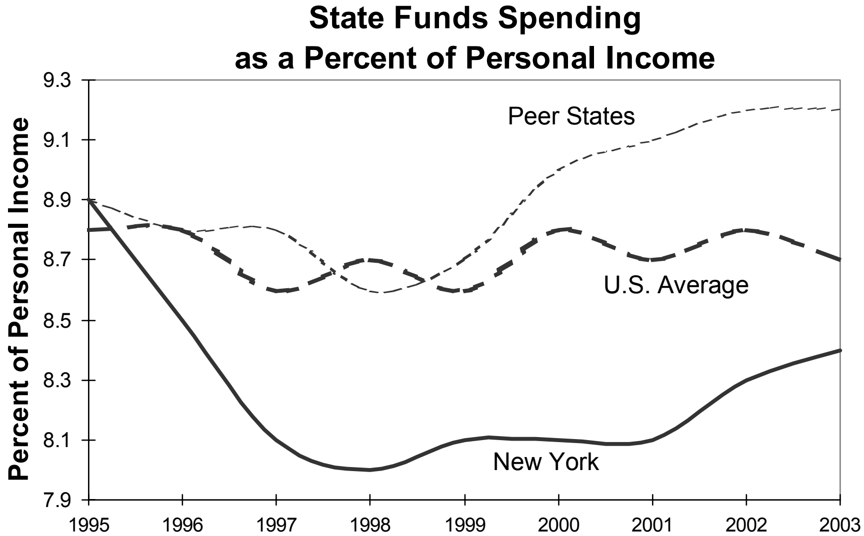
Average Wages



Notes: United States total excludes New York.

Source: U.S. Department of Labor, Bureau of Labor Statistics.

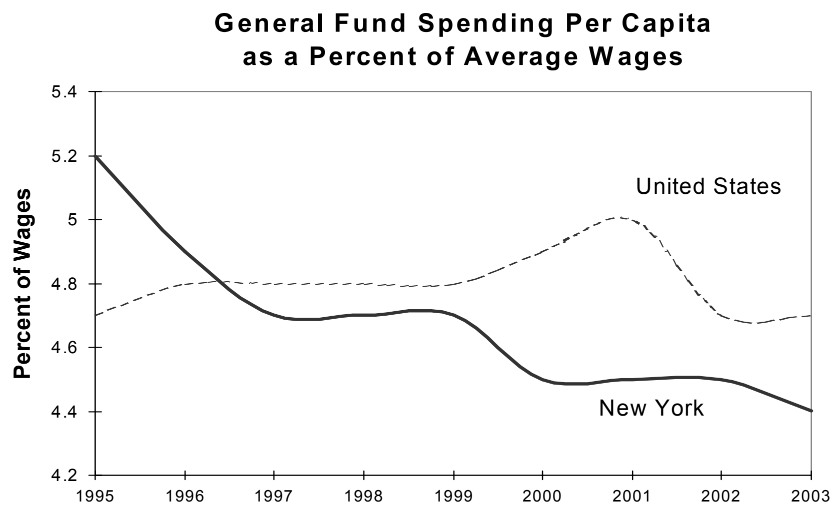
New York's wages are higher than the national average and have grown faster than the national average. Since 1990, New York's average wages have grown by an average 3.8 percent annually while average wages for the rest of the nation have grown by 3.6 percent annually. Compared to other states, New York's wages rank in the top ten for most sectors and first in the legal, education, and sales sectors.



Note: Peer states line represents an average of State Funds spending as a percent of personal income for New York's peer states. United States is overall State Funds spending as a percent of overall personal income.

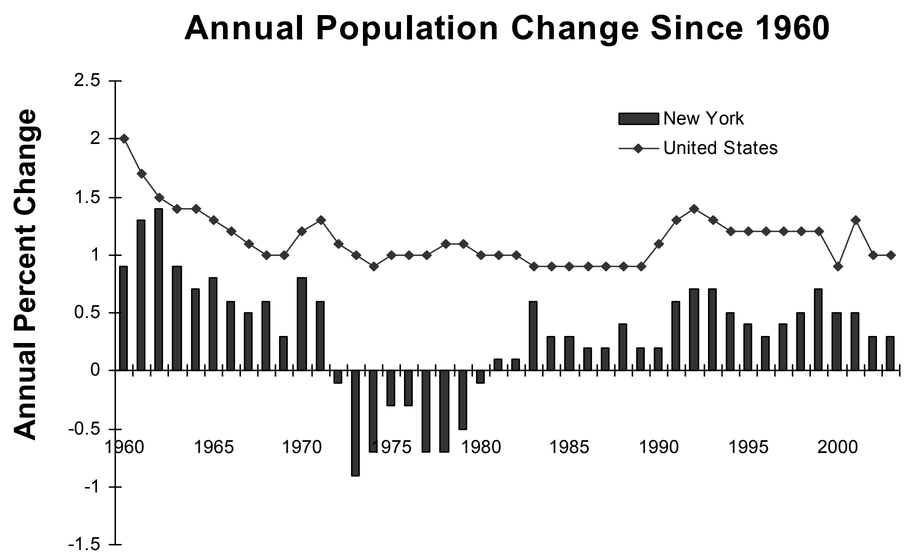
Sources: U.S. Bureau of Economic Analysis and National Association of State Budget Officers.

Except for 1994-95, New York's State Funds spending as a percent of personal income has been lower than the average of its peer states and lower than the United States overall in every fiscal year. Since 1994-95, State Funds spending as a percent of personal income has declined by 0.5 percent in New York, increased by 0.3 percent in New York's peer states, and remained relatively stable in the United States overall. Unlike its peer states, New York's average State Funds spending growth (3.9 percent annually) was lower than its average personal income growth (4.6 percent annually) during this time period.



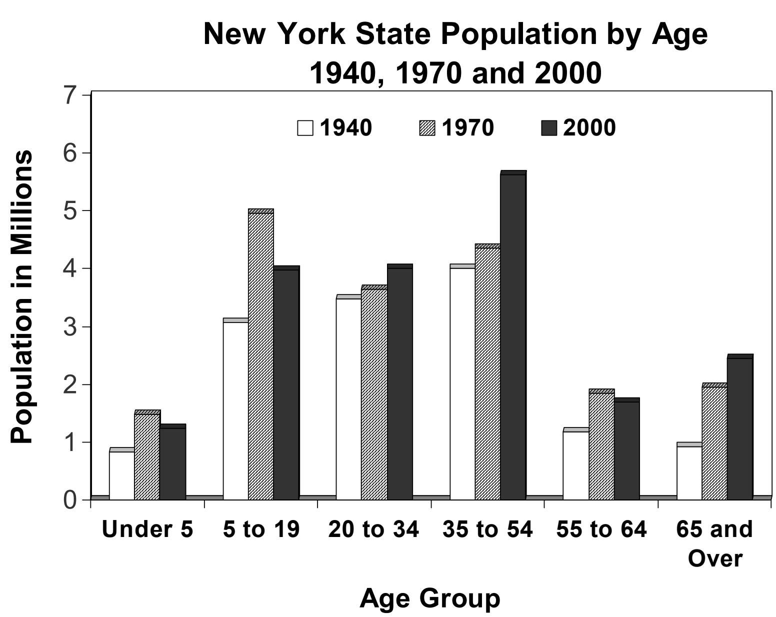
Source: U.S Census Bureau, U.S. Department of Labor, Bureau of Labor Statistics and National Association of State Budget Officers.

Since 1995, New York's General Fund per capita spending, as a percent of average annual wages, declined from 5.2 percent to 4.4 percent and since 1997 has been lower than the rest of the nation. While New York is higher than the U.S. average on both General Fund per capita spending and average annual wages, its spending to wages ratio is lower than the U.S. average.



Source: U.S Census Bureau.

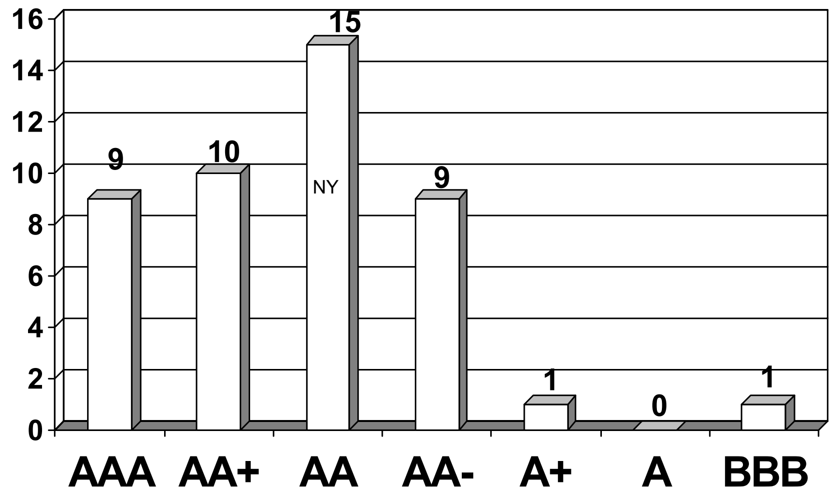
Since the 1950s, New York's population has grown more slowly than the national population. The national population, for most of this time period, has grown by approximately 1.0 percent annually. New York, apart from experiencing some population decline during the 1970s, has grown at approximately 0.5 percent annually, fueled primarily by immigration. Although New York is growing more slowly than the nation, it is still the third most populous state with approximately 19.2 million residents.



Source: U.S. Census Bureau

Between 1940 and 2000, the population of New York increased by 41 percent from 13.5 million to 19 million. New York's population in each of the six age groups increased in size since 1940, although not at a similar pace.

Standard & Poor's General Obligation Bond Ratings
Distribution of State Ratings



Source: Standard & Poor's.

New York is currently one of among 15 states that are rated AA by Standard & Poor's. Since 2001, Standard & Poor's has downgraded eight states (California, Colorado, Kentucky, Michigan, New Hampshire, New Jersey, Oregon and Wisconsin). Ten states now have negative outlooks, including New York.

New York State General Obligation Rating History

Year	S&P	Fitch	Moody's
1990	Downgrade AA- to A	A+	Downgrade A1 to A2
1991	A	A+	A2
1992	Downgrade A to A-	A+	A2
1993	A-	A+	A2
1994	A-	A+	A2
1995	A-	A+	A2
1996	A-	A+	A2
1997	Upgrade A- to A	A+	A2
1998	A	A+	A2
1999	Upgrade A to A+	A+	A2
2000	Upgrade A+ to AA	A+	A2
2001	AA	Upgrade A+ to AA	A2
2002	AA	AA	A2
2003	AA	Downgrade AA to AA-	A2

Standard & Poor's has upgraded New York three times since 1995, the most recent upgrade in 2001 by two notches from A+ to AA. Fitch currently assigns New York the AA- rating after three upgrades since 2000 and one downgrade in May 2003. Moody's has not adjusted New York's credit rating since 1990 when it downgraded the State from A1 to A2.

EXPLANATION OF THE FINANCIAL PLAN TABLES

The State's Executive Budget Financial Plan forecasts receipts and disbursements for each fiscal year. The economic forecast of DOB and the State's tax and fee structure serve as the basis for projecting receipts. After consulting with public and private sector experts, DOB prepares a detailed economic forecast for both the nation and New York, showing Gross Domestic Product (GDP), employment levels, inflation, wages, consumer spending, and other relevant economic indicators. It then projects the yield of the State's revenue structure against the backdrop of these forecasts.

Projected disbursements are based on agency staffing levels, program caseloads, levels of service needs, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions and changes in Federal law. In criminal justice, spending estimates are based on recent trends and data from the criminal justice system, as well as on estimates of the State's prison population. All projections account for the timing of payments, since not all the amounts appropriated in the budget are disbursed in the same fiscal year.

THE STATE'S FUND STRUCTURE

The State accounts for all of its spending and receipts by the fund in which the activity takes place (such as the General Fund or the Capital Projects Fund), and the broad category or purpose of that activity (such as State Operations or Capital projects). The Financial Plan tables sort all State projections and results by fund and category.

The State Constitution requires the Governor to submit an Executive Budget that is balanced in the General Fund — the Fund that receives the majority of State taxes. State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds. All Governmental Funds, which includes State Funds and Federal Funds, comprises four major fund types, and provides the most comprehensive view of the financial operations of the State. It includes:

- The General Fund, which receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues;
- SRFs, which receive Federal grants, certain dedicated taxes, fees and other revenues that are used for a specified purpose;
- Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and
- Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

Within each of these fund types, revenues and spending are classified by major categories of the Financial Plan (e.g., Taxes, Miscellaneous Receipts, Grants to Local Governments, State Operations). Activity in these Financial Plan categories is described in greater detail later in this Overview. Summary charts display the annual change for each category of the Financial Plan, and a narrative explanation of major changes follows each chart. The following tables summarize projected General Fund, State Funds and All Governmental Funds receipts and disbursements for the 2003-04 through 2006-07 fiscal years.

INDEX OF FINANCIAL PLAN TABLES

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	October	Change	January
Opening fund balance	815	0	815
Receipts:			
Taxes:			
Personal income tax	16,276	(485)	15,791
User taxes and fees	7,964	(67)	7,897
Business taxes	3,436	(41)	3,395
Other taxes	726	58	784
Miscellaneous receipts	5,547	423	5,970
Federal grants	645	0	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,173	69	5,242
Sales tax in excess of LGAC debt service	1,960	(16)	1,944
Real estate taxes in excess of CW/CA debt service	210	37	247
All other transfers	430	(86)	344
Total receipts	42,367	(108)	42,259
Disbursements:			
Grants to local governments	29,629	(318)	29,311
State operations	7,142	(87)	7,055
General State charges	3,258	(1)	3,257
Transfers to other funds:			
Debt service	1,541	(73)	1,468
Capital projects	255	(28)	227
Other purposes	627	115	742
Total disbursements	42,452	(392)	42,060
Change in fund balance	(85)	284	199
Closing fund balance	730	284	1,014
Tax Stabilization Reserve Fund	710	84	794
Contingency Reserve Fund	20	0	20
Community Project Fund	0	200	200

Note: Changes reflect the reclassification of $128 million in certain Medicaid disbursements from grants to local governments to transfers to other funds, pursuant to legislation enacted in 2003.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	Enacted	Change	January
Opening fund balance	815	0	815
Receipts:			
Taxes:			
Personal income tax	16,285	(494)	15,791
User taxes and fees	8,007	(110)	7,897
Business taxes	3,498	(103)	3,395
Other taxes	771	13	784
Miscellaneous receipts	5,569	401	5,970
Federal grants	0	645	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,125	117	5,242
Sales tax in excess of LGAC debt service	1,853	91	1,944
Real estate taxes in excess of CW/CA debt service	202	45	247
All other	430	(86)	344
Total receipts	41,740	519	42,259
Disbursements:			
Grants to local governments	29,835	(524)	29,311
State operations	7,205	(150)	7,055
General State charges	3,232	25	3,257
Transfers to other funds:			
Debt service	1,583	(115)	1,468
Capital projects	255	(28)	227
Other purposes	627	115	742
Total disbursements	42,737	(677)	42,060
Fiscal Management Plan/Federal Aid	912	(912)	0
Change in fund balance	(85)	284	199
Closing fund balance	730	284	1,014
Tax Stabilization Reserve Fund	710	84	794
Contingency Reserve Fund	20	0	20
Community Project Fund	0	200	200

Note: Changes reflect the reclassification of $128 million in certain Medicaid disbursements from grants to local governments to transfers to other funds, pursuant to legislation enacted in 2003.

CASH FINANCIAL PLAN
GENERAL FUND
2003-2004 AND 2004-2005
(millions of dollars)

	2003-2004 January	2004-2005 Recommended	Change
Opening fund balance	815	1,014	199
Receipts:			
Taxes:			
Personal income tax	15,791	18,520	2,729
User taxes and fees	7,897	8,340	443
Business taxes	3,395	3,739	344
Other taxes	784	762	(22)
Miscellaneous receipts	5,970	2,087	(3,883)
Federal grants	645	0	(645)
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,242	5,628	386
Sales tax in excess of LGAC debt service	1,944	2,047	103
Real estate taxes in excess of CW/CA debt service	247	240	(7)
All other	344	472	128
Total receipts	42,259	41,835	(424)
Disbursements:			
Grants to local governments	29,311	28,455	(856)
State operations	7,055	7,251	196
General State charges	3,257	3,652	395
Transfers to other funds:			
Debt service	1,468	1,753	285
Capital projects	227	187	(40)
Other purposes	742	587	(155)
Total disbursements	42,060	41,885	(175)
Change in fund balance	199	(50)	(249)
Closing fund balance	1,014	964	(50)
Tax Stabilization Reserve Fund	794	794	0
Contingency Reserve Fund	20	20	0
Community Project Fund	200	150	(50)

CASH FINANCIAL PLAN
GENERAL FUND
2004-2005 THROUGH 2006-2007
(millions of dollars)

	2004-2005 Recommended	2005-2006 Projected	2006-2007 Projected
Receipts:			
Taxes:			
Personal income tax	18,520	18,864	19,685
User taxes and fees	8,340	7,963	8,176
Business taxes	3,739	3,890	3,967
Other taxes	762	820	878
Miscellaneous receipts	2,087	1,989	1,821
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,628	5,820	5,985
Sales tax in excess of LGAC debt service	2,047	2,085	2,152
Real estate taxes in excess of CW/CA debt service	240	245	255
All other	472	311	307
Total receipts	41,835	41,987	43,226
Disbursements:			
Grants to local governments	28,455	30,798	32,660
State operations	7,251	7,442	7,676
General State charges	3,652	4,109	4,612
Transfers to other funds:			
Debt service	1,753	1,850	1,826
Capital projects	187	201	204
Other purposes	587	587	597
Total disbursements	41,885	44,987	47,575
Deposit to/(use of) Community Projects Fund	(50)	(150)	0
Margin	0	(2,850)	(4,349)

GENERAL FUND
PERSONAL INCOME TAX COMPONENTS
2002-2003 THROUGH 2004-2005
(millions of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
Withholdings	19,959	22,085	23,104
Estimated Payments	4,855	5,130	5,785
Final Payments	1,334	1,275	1,645
Delinquencies	796	595	660
Gross Collections	26,944	29,085	31,194
State/City Offset	(288)	(270)	(250)
Refund Reserve	1,050	(577)	693
Refunds	(4,008) (1)	(4,155) (2)	(4,175) (3)
Reported Tax Collections	23,698	24,083	27,462
STAR	(2,664)	(2,835)	(2,998)
RBTF	(4,243)	(5,457)	(5,944)
General Fund	16,791	15,791	18,520

Net personal income tax collections are affected by transactions in the tax refund reserve account. The tax refund reserve account is used to hold moneys designated to pay tax refunds. The Comptroller deposits receipts into this account at the discretion of the Commissioner of Taxation and Finance. The deposit of moneys into the account during a fiscal year has the effect of reducing receipts for the fiscal year, and the withdrawal of moneys from the account has the effect of increasing receipts in the fiscal year of withdrawal. The tax refund reserve account also includes amounts made available as a result of the LGAC financing program. Beginning in 1998-99, a portion of personal income tax collections is deposited directly in the School Tax Reduction (STAR) fund and used to make payments to reimburse local governments for their revenue decreases due to the STAR program.

Note 1: Reflects the payment of the balance of refunds on 2001 liability and payment of $960 million of calendar year 2002 refunds in the last quarter of the State's 2002-03 fiscal year and a balance in the Tax Refund Reserve Account of $627 million.

Note 2: Reflects the payment of the balance of refunds on 2002 liability and the projected payment of $960 million of calendar year 2003 refunds in the last quarter of the State's 2003-04 fiscal year and a projected balance in the Tax Refund Reserve Account of $1.20 billion.

Note 3: Reflects the payment of the balance of refunds on 2003 liability and the projected payment of $960 million of calendar year 2004 refunds in the last quarter of the State's 2004-05 fiscal year and a projected balance in the Tax Refund Reserve Account of $511 million.

CASH FINANCIAL PLAN
STATE FUNDS
2002-2003
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,032	1,090	(153)	169	2,138
Receipts:					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,091	9,427	1,677	807	14,002
Federal grants	0	0	0	0	0
Total receipts	30,068	13,632	3,367	7,611	54,678
Disbursements:					
Grants to local governments	24,887	10,036	399	0	35,322
State operations	7,678	4,069	0	7	11,754
General State charges	2,699	356	0	0	3,055
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	2,578	0	2,582
Total disbursements	35,264	14,465	2,977	3,045	55,751
Other financing sources (uses):					
Transfers from other funds	7,328	1,131	183	4,383	13,025
Transfers to other funds	(2,349)	(212)	(1,223)	(8,960)	(12,744)
Bond and note proceeds	0	0	245	0	245
Net other financing sources (uses)	4,979	919	(795)	(4,577)	526
Change in fund balance	(217)	86	(405)	(11)	(547)
Closing fund balance	815	1,176	(558)	158	1,591

CASH FINANCIAL PLAN
STATE FUNDS
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	1,230	(558)	158	1,645
Receipts:					
Taxes	27,867	4,458	1,752	8,039	42,116
Miscellaneous receipts	5,970	10,267	2,690	694	19,621
Federal grants	645	12	0	0	657
Total receipts	34,482	14,737	4,442	8,733	62,394
Disbursements:					
Grants to local governments	29,311	10,596	1,221	0	41,128
State operations	7,055	4,680	0	9	11,744
General State charges	3,257	413	0	0	3,670
Debt service	0	0	0	3,353	3,353
Capital projects	0	5	2,212	0	2,217
Total disbursements	39,623	15,694	3,433	3,362	62,112
Other financing sources (uses):					
Transfers from other funds	7,777	935	266	4,881	13,859
Transfers to other funds	(2,437)	(215)	(1,081)	(10,240)	(13,973)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,340	720	(567)	(5,359)	134
Change in fund balance	199	(237)	442	12	416
Closing fund balance	1,014	993	(116)	170	2,061

The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB34.

CASH FINANCIAL PLAN
STATE FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,014	993	(116)	170	2,061
Receipts:					
Taxes	31,361	4,784	1,806	8,657	46,608
Miscellaneous receipts	2,087	11,352	2,431	647	16,517
Federal grants	0	12	0	0	12
Total receipts	33,448	16,148	4,237	9,304	63,137
Disbursements:					
Grants to local governments	28,455	11,336	1,609	0	41,400
State operations	7,251	4,843	0	22	12,116
General State charges	3,652	462	0	0	4,114
Debt service	0	0	0	3,919	3,919
Capital projects	0	2	1,947	0	1,949
Total disbursements	39,358	16,643	3,556	3,941	63,498
Other financing sources (uses):					
Transfers from other funds	8,387	815	225	5,241	14,668
Transfers to other funds	(2,527)	(333)	(1,099)	(10,616)	(14,575)
Bond and note proceeds	0	0	131	0	131
Net other financing sources (uses)	5,860	482	(743)	(5,375)	224
Change in fund balance	(50)	(13)	(62)	(12)	(137)
Closing fund balance	964	980	(178)	158	1,924

CASH FINANCIAL PLAN
STATE FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	980	(178)	158	960
Receipts:					
Taxes	31,537	4,987	1,757	9,072	47,353
Miscellaneous receipts	1,989	12,278	2,214	656	17,137
Federal grants	0	12	0	0	12
Total receipts	33,526	17,277	3,971	9,728	64,502
Disbursements:					
Grants to local governments	30,798	11,624	1,004	0	43,426
State operations	7,442	4,921	0	22	12,385
General State charges	4,109	520	0	0	4,629
Debt service	0	0	0	4,372	4,372
Capital projects	0	1	2,239	0	2,240
Total disbursements	42,349	17,066	3,243	4,394	67,052
Other financing sources (uses):					
Transfers from other funds	8,461	811	238	5,457	14,967
Transfers to other funds	(2,638)	(240)	(1,208)	(10,804)	(14,890)
Bond and note proceeds	0	0	170	0	170
Net other financing sources (uses)	5,823	571	(800)	(5,347)	247
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Change in fund balance	(2,850)	782	(72)	(13)	(2,153)
Closing fund balance	(2,850)	1,762	(250)	145	(1,193)

CASH FINANCIAL PLAN
STATE FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,762	(250)	145	1,657
Receipts:					
Taxes	32,706	5,063	1,762	9,478	49,009
Miscellaneous receipts	1,821	12,777	2,284	665	17,547
Federal grants	0	12	0	0	12
Total receipts	34,527	17,852	4,046	10,143	66,568
Disbursements:					
Grants to local governments	32,660	11,752	880	0	45,292
State operations	7,676	4,982	0	22	12,680
General State charges	4,612	546	0	0	5,158
Debt service	0	0	0	4,718	4,718
Capital projects	0	1	2,264	0	2,265
Total disbursements	44,948	17,281	3,144	4,740	70,113
Other financing sources (uses):					
Transfers from other funds	8,699	824	242	5,515	15,280
Transfers to other funds	(2,627)	(241)	(1,332)	(10,933)	(15,133)
Bond and note proceeds	0	0	161	0	161
Net other financing sources (uses)	6,072	583	(929)	(5,418)	308
Change in fund balance	(4,349)	1,154	(27)	(15)	(3,237)
Closing fund balance	(4,349)	2,916	(277)	130	(1,580)

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,032	1,047	(268)	169	1,980
Receipts:					
Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,091	9,570	1,678	807	14,146
Federal grants	0	31,684	1,567	0	33,251
Total receipts	30,068	45,459	4,935	7,611	88,073
Disbursements:					
Grants to local governments	24,887	38,249	855	0	63,991
State operations	7,678	7,303	0	7	14,988
General State charges	2,699	540	0	0	3,239
Debt service	0	0	0	3,038	3,038
Capital projects	0	4	3,795	0	3,799
Total disbursements	35,264	46,096	4,650	3,045	89,055
Other financing sources (uses):					
Transfers from other funds	7,328	3,035	183	4,383	14,929
Transfers to other funds	(2,349)	(2,460)	(1,235)	(8,960)	(15,004)
Bond and note proceeds	0	0	245	0	245
Net other financing sources (uses)	4,979	575	(807)	(4,577)	170
Change in fund balance	(217)	(62)	(522)	(11)	(812)
Closing fund balance	815	985	(790)	158	1,168

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	1,039	(790)	158	1,222
Receipts:					
Taxes	27,867	4,458	1,752	8,039	42,116
Miscellaneous receipts	5,970	10,396	2,690	694	19,750
Federal grants	645	34,921	1,621	0	37,187
Total receipts	34,482	49,775	6,063	8,733	99,053
Disbursements:					
Grants to local governments	29,311	41,684	1,438	0	72,433
State operations	7,055	7,986	0	9	15,050
General State charges	3,257	585	0	0	3,842
Debt service	0	0	0	3,353	3,353
Capital projects	0	5	3,610	0	3,615
Total disbursements	39,623	50,260	5,048	3,362	98,293
Other financing sources (uses):					
Transfers from other funds	7,777	3,412	266	4,881	16,336
Transfers to other funds	(2,437)	(2,654)	(1,087)	(10,240)	(16,418)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	5,340	758	(573)	(5,359)	166
Change in fund balance	199	273	442	12	926
Closing fund balance	1,014	1,312	(348)	170	2,148

The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,014	1,312	(348)	170	2,148
Receipts:					
Taxes	31,361	4,784	1,806	8,657	46,608
Miscellaneous receipts	2,087	11,478	2,431	647	16,643
Federal grants	0	34,425	1,840	0	36,265
Total receipts	33,448	50,687	6,077	9,304	99,516
Disbursements:					
Grants to local governments	28,455	42,431	1,827	0	72,713
State operations	7,251	8,027	0	22	15,300
General State charges	3,652	660	0	0	4,312
Debt service	0	0	0	3,919	3,919
Capital projects	0	2	3,560	0	3,562
Total disbursements	39,358	51,120	5,387	3,941	99,806
Other financing sources (uses):					
Transfers from other funds	8,387	3,170	225	5,241	17,023
Transfers to other funds	(2,527)	(2,815)	(1,108)	(10,616)	(17,066)
Bond and note proceeds	0	0	131	0	131
Net other financing sources (uses)	5,860	355	(752)	(5,375)	88
Change in fund balance	(50)	(78)	(62)	(12)	(202)
Closing fund balance	964	1,234	(410)	158	1,946

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2005-2006
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	1,234	(410)	158	982
Receipts:					
Taxes	31,537	4,987	1,757	9,072	47,353
Miscellaneous receipts	1,989	12,372	2,214	656	17,231
Federal grants	0	33,557	1,902	0	35,459
Total receipts	33,526	50,916	5,873	9,728	100,043
Disbursements:					
Grants to local governments	30,798	41,632	1,222	0	73,652
State operations	7,442	8,059	0	22	15,523
General State charges	4,109	738	0	0	4,847
Debt service	0	0	0	4,372	4,372
Capital projects	0	1	3,914	0	3,915
Total disbursements	42,349	50,430	5,136	4,394	102,309
Other financing sources (uses):					
Transfers from other funds	8,461	3,122	238	5,457	17,278
Transfers to other funds	(2,638)	(2,647)	(1,217)	(10,804)	(17,306)
Bond and note proceeds	0	0	170	0	170
Net other financing sources (uses)	5,823	475	(809)	(5,347)	142
Deposit to/(use of) Community Projects Fund	(150)	0	0	0	(150)
Change in fund balance	(2,850)	961	(72)	(13)	(1,974)
Closing fund balance	(2,850)	2,195	(482)	145	(992)

CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2006-2007
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	0	2,195	(482)	145	1,858
Receipts:					
Taxes	32,706	5,063	1,762	9,478	49,009
Miscellaneous receipts	1,821	12,871	2,284	665	17,641
Federal grants	0	34,712	1,891	0	36,603
Total receipts	34,527	52,646	5,937	10,143	103,253
Disbursements:					
Grants to local governments	32,660	42,984	1,097	0	76,741
State operations	7,676	8,027	0	22	15,725
General State charges	4,612	769	0	0	5,381
Debt service	0	0	0	4,718	4,718
Capital projects	0	1	3,929	0	3,930
Total disbursements	44,948	51,781	5,026	4,740	106,495
Other financing sources (uses):					
Transfers from other funds	8,699	3,020	242	5,515	17,476
Transfers to other funds	(2,627)	(2,569)	(1,341)	(10,933)	(17,470)
Bond and note proceeds	0	0	161	0	161
Net other financing sources (uses)	6,072	451	(938)	(5,418)	167
Change in fund balance	(4,349)	1,316	(27)	(15)	(3,075)
Closing fund balance	(4,349)	3,511	(509)	130	(1,217)

CASH FINANCIAL PLAN
SPECIAL REVENUE FUNDS
2002-2003
(millions of dollars)

	State	Federal	Total
Opening fund balance	1,090	(43)	1,047
Receipts:			
Taxes	4,205	0	4,205
Miscellaneous receipts	9,427	143	9,570
Federal grants	0	31,684	31,684
Total receipts	13,632	31,827	45,459
Disbursements:			
Grants to local governments	10,036	28,213	38,249
State operations	4,069	3,234	7,303
General State charges	356	184	540
Debt service	0	0	0
Capital projects	4	0	4
Total disbursements	14,465	31,631	46,096
Other financing sources (uses):			
Transfers from other funds	1,131	1,904	3,035
Transfers to other funds	(212)	(2,248)	(2,460)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	919	(344)	575
Change in fund balance	86	(148)	(62)
Closing fund balance	1,176	(191)	985

CASH FINANCIAL PLAN
SPECIAL REVENUE FUNDS
2003-2004
(millions of dollars)

	State	Federal	Total
Opening fund balance	1,230	(191)	1,039
Receipts:			
Taxes	4,458	0	4,458
Miscellaneous receipts	10,267	129	10,396
Federal grants	12	34,909	34,921
Total receipts	14,737	35,038	49,775
Disbursements:			
Grants to local governments	10,596	31,088	41,684
State operations	4,680	3,306	7,986
General State charges	413	172	585
Debt service	0	0	0
Capital projects	5	0	5
Total disbursements	15,694	34,566	50,260
Other financing sources (uses):			
Transfers from other funds	935	2,477	3,412
Transfers to other funds	(215)	(2,439)	(2,654)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	720	38	758
Change in fund balance	(237)	510	273
Closing fund balance	993	319	1,312

The Special Revenue Funds opening fund balance has been increased by $54 million to reflect the reclassification of the Expendable and Non-expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

CASH FINANCIAL PLAN
SPECIAL REVENUE FUNDS
2004-2005
(millions of dollars)

	State	Federal	Total
Opening fund balance	993	319	1,312
Receipts:			
Taxes	4,784	0	4,784
Miscellaneous receipts	11,352	126	11,478
Federal grants	12	34,413	34,425
Total receipts	16,148	34,539	50,687
Disbursements:			
Grants to local governments	11,336	31,095	42,431
State operations	4,843	3,184	8,027
General State charges	462	198	660
Debt service	0	0	0
Capital projects	2	0	2
Total disbursements	16,643	34,477	51,120
Other financing sources (uses):			
Transfers from other funds	815	2,355	3,170
Transfers to other funds	(333)	(2,482)	(2,815)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	482	(127)	355
Change in fund balance	(13)	(65)	(78)
Closing fund balance	980	254	1,234

CASH FINANCIAL PLAN
SPECIAL REVENUE FUNDS
2005-2006
(millions of dollars)

	State	Federal	Total
Opening fund balance	980	254	1,234
Receipts:			
Taxes	4,987	0	4,987
Miscellaneous receipts	12,278	94	12,372
Federal grants	12	33,545	33,557
Total receipts	17,277	33,639	50,916
Disbursements:			
Grants to local governments	11,624	30,008	41,632
State operations	4,921	3,138	8,059
General State charges	520	218	738
Debt service	0	0	0
Capital projects	1	0	1
Total disbursements	17,066	33,364	50,430
Other financing sources (uses):			
Transfers from other funds	811	2,311	3,122
Transfers to other funds	(240)	(2,407)	(2,647)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	571	(96)	475
Change in fund balance	782	179	961
Closing fund balance	1,762	433	2,195

CASH FINANCIAL PLAN
SPECIAL REVENUE FUNDS
2006-2007
(millions of dollars)

	State	Federal	Total
Opening fund balance	1,762	433	2,195
Receipts:			
Taxes	5,063	0	5,063
Miscellaneous receipts	12,777	94	12,871
Federal grants	12	34,700	34,712
Total receipts	17,852	34,794	52,646
Disbursements:			
Grants to local governments	11,752	31,232	42,984
State operations	4,982	3,045	8,027
General State charges	546	223	769
Debt service	0	0	0
Capital projects	1	0	1
Total disbursements	17,281	34,500	51,781
Other financing sources (uses):			
Transfers from other funds	824	2,196	3,020
Transfers to other funds	(241)	(2,328)	(2,569)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	583	(132)	451
Change in fund balance	1,154	162	1,316
Closing fund balance	2,916	595	3,511

CASH FINANCIAL PLAN
CAPITAL PROJECTS FUNDS
2002-2003
(millions of dollars)

	State	Federal	Total
Opening fund balance	(153)	(115)	(268)
Receipts:			
Taxes	1,690	0	1,690
Miscellaneous receipts	1,677	1	1,678
Federal grants	0	1,567	1,567
Total receipts	3,367	1,568	4,935
Disbursements:			
Grants to local governments	399	456	855
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	2,578	1,217	3,795
Total disbursements	2,977	1,673	4,650
Other financing sources (uses):			
Transfers from other funds	183	0	183
Transfers to other funds	(1,223)	(12)	(1,235)
Bond and note proceeds	245	0	245
Net other financing sources (uses)	(795)	(12)	(807)
Change in fund balance	(405)	(117)	(522)
Closing fund balance	(558)	(232)	(790)

CASH FINANCIAL PLAN
CAPITAL PROJECTS FUNDS
2003-2004
(millions of dollars)

	State	Federal	Total
Opening fund balance	(558)	(232)	(790)
Receipts:			
Taxes	1,752	0	1,752
Miscellaneous receipts	2,690	0	2,690
Federal grants	0	1,621	1,621
Total receipts	4,442	1,621	6,063
Disbursements:			
Grants to local governments	1,221	217	1,438
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	2,212	1,398	3,610
Total disbursements	3,433	1,615	5,048
Other financing sources (uses):			
Transfers from other funds	266	0	266
Transfers to other funds	(1,081)	(6)	(1,087)
Bond and note proceeds	248	0	248
Net other financing sources (uses)	(567)	(6)	(573)
Change in fund balance	442	0	442
Closing fund balance	(116)	(232)	(348)

CASH FINANCIAL PLAN
CAPITAL PROJECTS FUNDS
2004-2005
(millions of dollars)

	State	Federal	Total
Opening fund balance	(116)	(232)	(348)
Receipts:			
Taxes	1,806	0	1,806
Miscellaneous receipts	2,431	0	2,431
Federal grants	0	1,840	1,840
Total receipts	4,237	1,840	6,077
Disbursements:			
Grants to local governments	1,609	218	1,827
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	1,947	1,613	3,560
Total disbursements	3,556	1,831	5,387
Other financing sources (uses):			
Transfers from other funds	225	0	225
Transfers to other funds	(1,099)	(9)	(1,108)
Bond and note proceeds	131	0	131
Net other financing sources (uses)	(743)	(9)	(752)
Change in fund balance	(62)	0	(62)
Closing fund balance	(178)	(232)	(410)

CASH FINANCIAL PLAN
CAPITAL PROJECTS FUNDS
2005-2006
(millions of dollars)

	State	Federal	Total
Opening fund balance	(178)	(232)	(410)
Receipts:			
Taxes	1,757	0	1,757
Miscellaneous receipts	2,214	0	2,214
Federal grants	0	1,902	1,902
Total receipts	3,971	1,902	5,873
Disbursements:			
Grants to local governments	1,004	218	1,222
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	2,239	1,675	3,914
Total disbursements	3,243	1,893	5,136
Other financing sources (uses):			
Transfers from other funds	238	0	238
Transfers to other funds	(1,208)	(9)	(1,217)
Bond and note proceeds	170	0	170
Net other financing sources (uses)	(800)	(9)	(809)
Change in fund balance	(72)	0	(72)
Closing fund balance	(250)	(232)	(482)

CASH FINANCIAL PLAN
CAPITAL PROJECTS FUNDS
2006-2007
(millions of dollars)

	State	Federal	Total
Opening fund balance	(250)	(232)	(482)
Receipts:			
Taxes	1,762	0	1,762
Miscellaneous receipts	2,284	0	2,284
Federal grants	0	1,891	1,891
Total receipts	4,046	1,891	5,937
Disbursements:			
Grants to local governments	880	217	1,097
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	2,264	1,665	3,929
Total disbursements	3,144	1,882	5,026
Other financing sources (uses):			
Transfers from other funds	242	0	242
Transfers to other funds	(1,332)	(9)	(1,341)
Bond and note proceeds	161	0	161
Net other financing sources (uses)	(929)	(9)	(938)
Change in fund balance	(27)	0	(27)
Closing fund balance	(277)	(232)	(509)

CASH FINANCIAL PLAN
PROPRIETARY AND FIDUCIARY FUNDS
2003-2004
(millions of dollars)

	Internal Service	Enterprise	Fiduciary
Opening fund balance	(104)	16	10
Receipts:			
Unemployment taxes	0	2,600	0
Miscellaneous receipts	572	78	1
Federal grants	0	25	0
Total receipts	572	2,703	1
Disbursements:			
Grants to local governments	0	0	0
State operations	520	81	1
Unemployment benefits	0	3,800	0
General State charges	39	2	0
Debt service	76	0	0
Capital projects	0	0	0
Total disbursements	635	3,883	1
Other financing sources (uses):			
Transfers from other funds	101	0	0
Transfers to other funds	(20)	0	0
Bond & Note Proceeds	0	0	0
Net other financing sources (uses)	81	0	0
Change in fund balance	18	(1,180)	0
Closing fund balance	(86)	(1,164)	10

The Enterprise Funds opening fund balance has been increased by $4 million to reflect the reclassification of the Unemployment Insurance Benefit Fund from the Fiduciary fund type to the Enterprise fund type pursuant to GASB 34.

The Fiduciary Funds opening fund balance has been decreased by $58 million to reflect the reclassification of the Expendable and Non-Expendable Trust Funds from the Fiduciary fund type to the Special Revenue and Enterprise fund types pursuant to GASB 34.

CASH FINANCIAL PLAN
PROPRIETARY AND FIDUCIARY FUNDS
2004-2005
(millions of dollars)

	Internal Service	Enterprise	Fiduciary
Opening fund balance	(86)	(1,164)	10
Receipts:			
Unemployment taxes	0	2,700	0
Miscellaneous receipts	536	82	1
Federal grants	0	25	0
Total receipts	536	2,807	1
Disbursements:			
Grants to local governments	0	0	0
State operations	525	82	1
Unemployment benefits	0	3,800	0
General State charges	43	2	0
Debt service	29	0	0
Capital Projects	0	0	0
Total disbursements	597	3,884	1
Other financing sources (uses):			
Transfers from other funds	81	0	0
Transfers to other funds	(37)	0	0
Bond & Note Proceeds	0	0	0
Net other financing sources (uses)	44	0	0
Change in fund balance	(17)	(1,077)	0
Closing fund balance	(103)	(2,241)	10

GAAP FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	July	Change	January
Revenues:			
Taxes:			
Personal income tax	16,197	350	16,547
User taxes and fees	8,016	(82)	7,934
Business taxes	3,338	(144)	3,194
Other taxes	694	72	766
Miscellaneous revenues	7,711	513	8,224
Federal grants	645	0	645
Total revenues	36,601	709	37,310
Expenditures:			
Grants to local governments	30,231	576	30,807
State operations	9,953	(157)	9,796
General State charges	2,742	43	2,785
Debt service	24	0	24
Capital projects	0	0	0
Total expenditures	42,950	462	43,412
Other financing sources (uses):			
Transfers from other funds	11,507	102	11,609
Transfers to other funds	(4,547)	12	(4,535)
Proceeds from financing arrangements/ advance refundings	357	3	360
Net other financing sources (uses)	7,317	117	7,434
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	968	364	1,332
Accumulated Deficit	(2,352)	364	(1,988)

GAAP FINANCIAL PLAN
GENERAL FUND
2003-2004 and 2004-2005
(millions of dollars)

	2003-2004 Estimate	2004-2005 Recommended	Change
Revenues:			
Taxes:			
Personal income tax	16,547	17,781	1,234
User taxes and fees	7,934	8,436	502
Business taxes	3,194	3,719	525
Other taxes	766	776	10
Miscellaneous revenues	8,224	4,940	(3,284)
Federal grants	645	0	(645)
Total revenues	37,310	35,652	(1,658)
Expenditures:			
Grants to local governments	30,807	31,099	292
State operations	9,796	9,851	55
General State charges	2,785	2,998	213
Debt service	24	25	1
Capital projects	0	0	0
Total expenditures	43,412	43,973	561
Other financing sources (uses):			
Transfers from other funds	11,609	11,883	274
Transfers to other funds	(4,535)	(4,593)	(58)
Proceeds from financing arrangements/ advance refundings	360	340	(20)
Net other financing sources (uses)	7,434	7,630	196
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	1,332	(691)	(2,023)
Accumulated Deficit	(1,988)	(2,679)	

CONVERSION OF CASH FINANCIAL PLAN
TO GAAP FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	Cash Financial Plan	Perspective Difference: Special Revenue Funds	Entity Difference: Other Funds	Cash Basis Subtotal	Changes in Accruals	Elimin-ations	Intrafund Eliminations	Reclass-ification	GAAP Financial Plan
Receipts/Revenues:									
Taxes:									
Personal income tax	15,791	0	0	15,791	756	0	0	0	16,547
User taxes and fees	7,897	0	0	7,897	37	0	0	0	7,934
Business taxes	3,395	0	0	3,395	(201)	0	0	0	3,194
Other taxes	784	0	0	784	(18)	0	0	0	766
Miscellaneous receipts	5,970	3,026	630	9,626	0	(90)	(570)	(742)	8,224
Federal Grants	645	0	0	645	0	0	0	0	645
Total receipts/revenues	34,482	3,026	630	38,138	574	(90)	(570)	(742)	37,310
Disbursements/expenditures:									
Grants to local governments	29,311	2,405	0	31,716	(534)	0	0	(375)	30,807
State operations	7,055	3,593	578	11,226	(13)	(250)	(570)	(597)	9,796
General State charges	3,257	215	41	3,513	171	(22)	0	(877)	2,785
Debt service	0	0	76	76	24	0	0	(76)	24
Capital projects	0	0	0	0	0	0	0	0	0
Total disbursements/expenditures	39,623	6,213	695	46,531	(352)	(272)	(570)	(1,925)	43,412
Other financing sources (uses):									
Transfers from other funds	7,777	3,201	101	11,079	0	(185)	(273)	988	11,609
Transfers to other funds	(2,437)	(178)	(20)	(2,635)	(5)	3	273	(2,171)	(4,535)
Proceeds from financing arrangements/ advance refundings	0	0	0	0	360	0	0	0	360
Net other financing sources (uses)	5,340	3,023	81	8,444	355	(182)	0	(1,183)	7,434
(Increase)/decrease in reserves	(199)	0	0	(199)	199	0	0	0	0
Receipts/revenues and other financing sources over (under) disbursements/expenditures and other financing uses	0	(164)	16	(148)	1,480	0	0	0	1,332

CONVERSION OF CASH FINANCIAL PLAN
TO GAAP FINANCIAL PLAN
GENERAL FUND
2004-2005
(millions of dollars)

	Cash Financial Plan	Perspective Difference Special Revenue Funds	Entity Difference Other Funds	Cash Basis Subtotal	Changes in Accruals	Elimin-ations	Intrafund Eliminations	Reclass-ification	GAAP Financial Plan
Receipts/Revenues:									
Taxes:									
Personal income tax	18,520	0	0	18,520	(739)	0	0	0	17,781
User taxes and fees	8,340	0	0	8,340	96	0	0	0	8,436
Business taxes	3,739	0	0	3,739	(20)	0	0	0	3,719
Other taxes	762	41	0	803	(27)	0	0	0	776
Miscellaneous receipts	2,087	3,541	594	6,222	(3)	(76)	(535)	(668)	4,940
Total receipts/revenues	33,448	3,582	594	37,624	(693)	(76)	(535)	(668)	35,652
Disbursements/expenditures:									
Grants to local governments	28,455	2,867	0	31,322	363	0	0	(586)	31,099
State operations	7,251	3,480	584	11,315	(100)	(239)	(535)	(590)	9,851
General State charges	3,652	245	45	3,942	(18)	(23)	0	(903)	2,998
Debt service	0	0	29	29	25	0	0	(29)	25
Capital projects	0	0	0	0	0	0	0	0	0
Total disbursements/expenditures	39,358	6,592	658	46,608	270	(262)	(535)	(2,108)	43,973
Other financing sources (uses):									
Transfers from other funds	8,387	3,257	81	11,725	0	(189)	(321)	668	11,883
Transfers to other funds	(2,527)	(240)	(37)	(2,804)	(5)	3	321	(2,108)	(4,593)
Proceeds from financing arrangements/ advance refundings	0	0	0	0	340	0	0	0	340
Net other financing sources (uses)	5,860	3,017	44	8,921	335	(186)	0	(1,440)	7,630
(Increase)/decrease in reserves	50	0	0	50	(50)	0	0	0	0
Receipts/revenues and other financing sources (under) over disbursements/expenditures and other financing uses	0	7	(20)	(13)	(678)	0	0	0	(691)

GAAP FINANCIAL PLAN
GENERAL FUND
2004-2005 THROUGH 2006-2007
(millions of dollars)

	2004-2005 Recommended	2005-2006 Projected	2006-2007 Projected
Revenues:			
Taxes:			
Personal income tax	17,781	18,952	19,671
User taxes and fees	8,436	8,031	8,247
Business taxes	3,719	3,871	3,967
Other taxes	776	861	878
Miscellaneous revenues	4,940	4,928	5,073
Total revenues	35,652	36,643	37,836
Expenditures:			
Grants to local governments	31,099	33,457	35,346
State operations	9,851	10,129	10,300
General State charges	2,998	3,513	3,910
Debt service	25	25	26
Capital projects	0	0	0
Total expenditures	43,973	47,124	49,582
Other financing sources (uses):			
Transfers from other funds	11,883	11,558	11,641
Transfers to other funds	(4,593)	(4,695)	(4,708)
Proceeds from financing arrangements/ advance refundings	340	326	320
Net other financing sources (uses)	7,630	7,189	7,253
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(691)	(3,292)	(4,493)

GAAP FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2003-2004
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	28,441	4,437	1,770	8,038	42,686
Patient fees	0	0	0	325	325
Miscellaneous revenues	8,224	2,063	149	87	10,523
Federal grants	645	36,980	1,621	0	39,246
Total revenues	37,310	43,480	3,540	8,450	92,780
Expenditures:					
Grants to local governments	30,807	38,396	1,429	0	70,632
State operations	9,796	1,528	0	9	11,333
General State charges	2,785	199	0	0	2,984
Debt service	24	0	0	2,898	2,922
Capital projects	0	5	3,283	0	3,288
Total expenditures	43,412	40,128	4,712	2,907	91,159
Other financing sources (uses):					
Transfers from other funds	11,609	1,181	245	4,957	17,992
Transfers to other funds	(4,535)	(4,242)	(1,096)	(10,504)	(20,377)
Proceeds of general obligation bonds	0	0	248	0	248
Proceeds from financing arrangements/ advance refundings	360	0	2,222	0	2,582
Net other financing sources (uses)	7,434	(3,061)	1,619	(5,547)	445
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,332	291	447	(4)	2,066

GAAP FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Revenues:					
Taxes	30,712	4,711	1,790	8,692	45,905
Patient fees	0	0		326	326
Miscellaneous revenues	4,940	2,317	257	23	7,537
Federal grants	0	36,552	1,840	0	38,392
Total revenues	35,652	43,580	3,887	9,041	92,160
Expenditures:					
Grants to local governments	31,099	38,951	1,817	0	71,867
State operations	9,851	1,610	0	22	11,483
General State charges	2,998	236	0	0	3,234
Debt service	25	0	0	3,236	3,261
Capital projects	0	2	3,248	0	3,250
Total expenditures	43,973	40,799	5,065	3,258	93,095
Other financing sources (uses):					
Transfers from other funds	11,883	1,084	201	5,270	18,438
Transfers to other funds	(4,593)	(4,138)	(1,126)	(11,022)	(20,879)
Proceeds of general obligation bonds	0	0	131	0	131
Proceeds from financing arrangements/ advance refundings	340	0	1,939	0	2,279
Net other financing sources (uses)	7,630	(3,054)	1,145	(5,752)	(31)
(Excess) deficiency of revenues and other financing sources over expenditures and other financing uses	(691)	(273)	(33)	31	(966)

GAAP FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)

	Major Funds				
	General Fund	Federal Special Revenue	Other Governmental Funds	Eliminations	Total
Revenues:					
Taxes:					
Personal income tax	16,547	0	8,263	0	24,810
User taxes and fees	7,934	0	3,948	0	11,882
Business taxes	3,194	0	1,590	0	4,784
Other taxes	766	0	444	0	1,210
Patient fees	0	0	325	0	325
Miscellaneous receipts	8,224	117	2,182	0	10,523
Federal grants	645	36,979	1,622	0	39,246
Total revenues	37,310	37,096	18,374	0	92,780
Expenditures:					
Grants to local governments	30,807	32,265	7,560	0	70,632
State operations	9,796	1,084	453	0	11,333
General State charges	2,785	155	44	0	2,984
Debt service	24	0	2,898	0	2,922
Capital projects	0	0	3,288	0	3,288
Total expenditures	43,412	33,504	14,243	0	91,159
Other financing sources (uses):					
Transfers from other funds	11,609	0	22,705	(16,322)	17,992
Transfers to other funds	(4,535)	(3,263)	(28,901)	16,322	(20,377)
Proceeds of General obligation bonds	0	0	248	0	248
Proceeds from financing arrangements/ advance refundings	360	0	2,222	0	2,582
Net other financing sources (uses)	7,434	(3,263)	(3,726)	0	445
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	1,332	329	405	0	2,066

GAAP FINANCIAL PLAN
GENERAL FUND
2004-2005
(millions of dollars)

	Major Funds				
	General Fund	Federal Special Revenue	Other Governmental Funds	Eliminations	Total
Revenues:					
Taxes:					
Personal income tax	17,781	0	8,882	0	26,663
User taxes and fees	8,436	0	4,178	0	12,614
Business taxes	3,719	0	1,681	0	5,400
Other taxes	776	0	452	0	1,228
Patient fees	0	0	326	0	326
Miscellaneous receipts	4,940	115	2,482	0	7,537
Federal grants	0	36,551	1,841	0	38,392
Total revenues	35,652	36,666	19,842	0	92,160
Expenditures:					
Grants to local governments	31,099	32,473	8,295	0	71,867
State operations	9,851	1,088	544	0	11,483
General State charges	2,998	179	57	0	3,234
Debt service	25	0	3,236	0	3,261
Capital projects	0	0	3,250	0	3,250
Total expenditures	43,973	33,740	15,382	0	93,095
Other financing sources (uses):					
Transfers from other funds	11,883	0	23,327	(16,772)	18,438
Transfers to other funds	(4,593)	(3,174)	(29,884)	16,772	(20,879)
Proceeds of General obligation bonds	0	0	131	0	131
Proceeds from financing arrangements/ advance refundings	340	0	1,939	0	2,279
Net other financing sources (uses)	7,630	(3,174)	(4,487)	0	(31)
Excess (deficiency) of revenues and other financing sources over expenditures and other financing uses	(691)	(248)	(27)	0	(966)

CASHFLOW
GENERAL FUND
2002-2003
(millions of dollars)

	First Quarter (Actual)	Second Quarter (Actual)	Third Quarter (Actual)	Fourth Quarter (Actual)	Total (Actual)
Opening fund balance	1,032	1,737	1,735	1,463	1,032
Receipts:					
Taxes:					
Personal income tax	6,754	3,763	2,148	4,126	16,791
User taxes and fees	1,781	1,816	1,745	1,721	7,063
Business taxes	702	833	758	1,087	3,380
Other taxes	211	214	157	161	743
Miscellaneous receipts	516	338	735	502	2,091
Transfers from other funds	1,469	1,813	1,562	2,484	7,328
Total receipts	11,433	8,777	7,105	10,081	37,396
Disbursements:					
Grants to local governments	6,950	4,662	4,577	8,698	24,887
State operations	2,233	2,432	1,881	1,132	7,678
General State charges	691	901	513	594	2,699
Transfers to other funds	854	784	406	305	2,349
Total disbursements	10,728	8,779	7,377	10,729	37,613
Excess (deficiency) of receipts over disbursements	705	(2)	(272)	(648)	(217)
Closing fund balance	1,737	1,735	1,463	815	815

CASHFLOW
GENERAL FUND
2003-2004
(millions of dollars)

	First Quarter (Actual)	Second Quarter (Actual)	Third Quarter (Actual)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	815	1,989	2,559	2,947	815
Receipts:					
Taxes:					
Personal income tax	4,600	4,131	2,550	4,510	15,791
User taxes and fees	1,820	2,107	2,057	1,913	7,897
Business taxes	651	887	758	1,099	3,395
Other taxes	175	223	224	162	784
Tobacco bond proceeds	2,202	0	1,998	0	4,200
Miscellaneous receipts	241	362	596	571	1,770
Federal Grants	323	0	322	0	645
Transfers from other funds	1,965	1,962	1,455	2,395	7,777
Total receipts	11,977	9,672	9,960	10,650	42,259
Disbursements:					
Grants to local governments	7,492	5,260	6,430	10,129	29,311
State operations	2,190	2,085	1,802	978	7,055
General State charges	546	1,241	728	742	3,257
Transfers to other funds	575	516	612	734	2,437
Total disbursements	10,803	9,102	9,572	12,583	42,060
Excess (deficiency) of receipts over disbursements	1,174	570	388	(1,933)	199
Closing fund balance	1,989	2,559	2,947	1,014	1,014

CASHFLOW
GENERAL FUND
2003-2004
(millions of dollars)

	April through December 2003 (Actual)	January 2004 (Projected)	February 2004 (Projected)	March 2004 (Projected)	Total
Opening fund balance	815	2,947	6,226	6,499	815
Receipts:					
Taxes:					
Personal income tax	11,281	3,188	1,450	(128)	15,791
User taxes and fees	5,984	614	533	766	7,897
Business taxes	2,296	44	29	1,026	3,395
Other taxes	622	55	55	52	784
Tobacco bond proceeds	4,200	0	0	0	4,200
Miscellaneous receipts	1,199	169	104	298	1,770
Federal Grants	645	0	0	0	645
Transfers from other funds	5,382	1,277	363	755	7,777
Total receipts	31,609	5,347	2,534	2,769	42,259
Disbursements:					
Grants to local governments	19,182	1,138	1,747	7,245	29,311
State operations	6,077	500	267	211	7,055
General State charges	2,515	237	184	320	3,257
Transfers to other funds	1,703	193	63	478	2,437
Total disbursements	29,477	2,068	2,261	8,254	42,060
Excess (deficiency) of receipts over disbursements	2,132	3,279	273	(5,485)	199
Closing fund balance	2,947	6,226	6,499	1,014	1,014

CASHFLOW
GENERAL FUND
2004-2005
(millions of dollars)

	First Quarter (Projected)	Second Quarter (Projected)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	1,014	2,001	2,200	1,222	1,014
Receipts:					
Taxes:					
Personal income tax	6,243	4,264	2,454	5,559	18,520
User taxes and fees	2,054	2,162	2,122	2,002	8,340
Business taxes	889	894	851	1,105	3,739
Other taxes	199	179	191	193	762
Miscellaneous receipts	547	406	669	465	2,087
Transfers from other funds	2,521	1,996	1,423	2,447	8,387
Total receipts	12,453	9,901	7,710	11,771	41,835
Disbursements:					
Grants to local governments	7,354	5,214	5,504	10,383	28,455
State operations	2,535	2,284	1,790	642	7,251
General State charges	781	1,495	671	705	3,652
Transfers to other funds	796	709	723	299	2,527
Total disbursements	11,466	9,702	8,688	12,029	41,885
Excess (deficiency) of receipts over disbursements	987	199	(978)	(258)	(50)
Closing fund balance	2,001	2,200	1,222	964	964

CASHFLOW
GENERAL FUND
2004-2005
(dollars in millions)

	2004 April	May	June	July	August	September	October	November	December	2005 January	February	March	Total
Opening fund balance	1,014	3,878	1,720	2,001	2,004	2,136	2,200	2,506	2,682	1,222	4,846	5,165	1,014
Receipts:													
Taxes													
Personal income tax	3,914	448	1,881	1,222	1,208	1,834	1,148	1,131	175	3,355	1,546	658	18,520
User taxes and fees	613	628	813	624	637	901	628	620	874	660	550	792	8,340
Business taxes	87	28	774	46	58	790	51	12	788	36	17	1,052	3,739
Other taxes	64	69	66	56	65	58	62	60	69	61	64	68	762
Miscellaneous receipts	120	118	309	117	131	158	117	313	239	74	114	277	2,087
Transfers from other funds	1,093	332	1,096	598	539	859	590	466	367	1,323	339	785	8,387
Total receipts	5,891	1,623	4,939	2,663	2,638	4,600	2,596	2,602	2,512	5,509	2,630	3,632	41,835
Disbursements:													
Grants to local governments	1,371	2,797	3,186	1,562	1,427	2,225	1,492	1,392	2,620	1,271	1,835	7,277	28,455
State operations	935	736	864	760	726	798	490	610	690	390	208	44	7,251
General State charges	355	164	262	233	288	974	254	175	242	267	196	242	3,652
Transfers to other funds	366	84	346	105	65	539	54	249	420	(43)	72	270	2,527
Total disbursements	3,027	3,781	4,658	2,660	2,506	4,536	2,290	2,426	3,972	1,885	2,311	7,833	41,885
Excess (deficiency) of receipts over disbursements	2,864	(2,158)	281	3	132	64	306	176	(1,460)	3,624	319	(4,201)	(50)
Closing fund balance	3,878	1,720	2,001	2,004	2,136	2,200	2,506	2,682	1,222	4,846	5,165	964	964

CASHFLOW
HEALTH CARE REFORM ACT
2004-05
(millions of dollars)

	First Quarter (Projected)	Second Quarter (Projected)	Third Quarter (Projected)	Fourth Quarter (Projected)	Total (Projected)
Opening fund balance	406	900	1,170	455	406
Receipts:					
Public Goods Pool	610	567	519	507	2,203
Tobacco Control and Insurance Initiatives Pool	704	580	173	774	2,231
Total receipts	1,314	1,147	692	1,281	4,434
Disbursements:					
Hospital Indigent Care Fund	311	236	220	95	862
Professional Education/Graduate Medical Education	104	98	100	96	398
Elderly Pharmaceutical Insurance Coverage (EPIC)	120	140	130	104	494
Child Health Plus (CHP)	72	106	130	67	375
Family Health Plus (FHP)	0	90	95	156	341
Workforce Recruitment and Retention	18	48	116	148	330
Public Health	47	35	35	0	117
Mental Health	39	15	15	17	86
Roswell Park Cancer Institute	0	25	25	28	78
Physician Excess Medical Malpractice	32	0	0	33	65
Transfer To Medicaid:					
Pharmacy Costs	0	0	211	148	359
Physician Costs	0	0	43	42	85
Health Insurance Demonstration Project	0	0	28	41	69
Supplemental Medical Insurance	0	0	17	51	68
All Other Medicaid	0	0	126	150	276
All Other	77	84	116	85	362
Total disbursements	820	877	1,407	1,261	4,365
Excess (deficiency) of receipts over disbursements	494	270	(715)	20	69
Closing fund balance	900	1,170	455	475	475

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	42,004	38,397	36,739
Alcoholic Beverage Control	0	0	0
Banking Department	0	0	0
Consumer Protection Board	441	402	367
Economic Development, Department of	17,262	32,218	36,140
Empire State Development Corporation	94,331	8,804	3,000
Energy Research and Development Authority	0	0	0
Housing Finance Agency	665	0	0
Housing and Community Renewal, Division of	81,922	74,472	65,143
Insurance Department	0	0	0
Olympic Regional Development Authority	7,471	7,400	7,350
Public Service, Department of	0	0	0
Science, Technology and Academic Research, Office of	33,226	27,527	57,057
Functional Total	277,322	189,220	205,796
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,266	4,140	4,173
Environmental Conservation, Department of	108,110	97,619	99,100
Environmental Facilities Corporation	0	0	0
Parks, Recreation and Historic Preservation, Office of	112,074	101,714	99,139
Functional Total	224,450	203,473	202,412
TRANSPORTATION			
Motor Vehicles, Department of	106,542	1,026	4,654
Thruway Authority	0	0	0
Transportation, Department of	165,080	161,797	111,616
Functional Total	271,622	162,823	116,270
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	882	927	806
Aging, Office for the	67,206	66,701	65,961
Children and Families, Council on	982	220	0
Children and Family Services, Office of	1,186,702	1,260,609	1,308,811
Health, Department of	6,764,517	6,775,448	7,199,673
Medical Assistance	5,951,713	5,951,821	6,325,009
Medicaid Administration	112,279	120,150	120,150
All Other	700,525	703,477	754,514
Human Rights, Division of	13,082	13,266	13,265
Labor, Department of	35,886	36,052	10,885
Prevention of Domestic Violence, Office of	2,611	2,208	2,060

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	916,300	1,459,190	1,500,104
Welfare Assistance	496,245	1,061,554	1,081,374
Welfare Administration	338,626	317,178	341,133
All Other	81,429	80,458	77,597
Welfare Inspector General, Office of	624	762	713
Workers' Compensation Board	0	0	0
Functional Total	8,988,792	9,615,383	10,102,278
MENTAL HEALTH			
Mental Health, Office of	1,300,853	1,148,411	1,342,434
Mental Retardation and Developmental Disabilities, Office of	766,750	683,464	799,200
Alcohol and Substance Abuse Services, Office of	300,604	292,510	281,500
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	3,058	2,829	2,962
Functional Total	2,371,265	2,127,214	2,426,096
PUBLIC PROTECTION			
Capital Defenders Office	12,039	12,169	11,391
Correction, Commission of	2,539	2,477	2,427
Correctional Services, Department of	1,808,057	1,867,174	1,918,692
Crime Victims Board	25,949	5,523	0
Criminal Justice Services, Division of	96,765	96,046	93,032
Investigation, Temporary State Commission of	2,901	2,751	2,839
Judicial Commissions	2,274	2,417	2,542
Military and Naval Affairs, Division of	56,944	35,721	26,208
Parole, Division of	183,713	177,332	177,603
Probation and Correctional Alternatives, Division of	85,071	75,679	72,480
Public Security, Office of	3,763	6,990	6,990
State Police, Division of	371,043	331,425	325,908
Functional Total	2,651,058	2,615,704	2,640,112
EDUCATION			
Arts, Council on the	51,178	44,782	44,477
City University of New York	856,729	683,626	729,397
Education, Department of	13,663,868	13,743,834	13,941,496
School Aid	12,279,888	12,361,375	12,529,932
STAR Property Tax Relief	0	0	0
Handicapped	741,058	762,387	851,459
All Other	642,922	620,072	560,105
Higher Education Services Corporation	319,340	546,436	722,318
State University Construction Fund	0	0	0
State University of New York	1,429,875	1,236,731	1,221,137
Functional Total	16,320,990	16,255,409	16,658,825

CASH DISBURSEMENTS BY FUNCTION
GENERAL FUND
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
GENERAL GOVERNMENT			
Audit and Control, Department of	151,673	152,933	163,376
Budget, Division of the	26,204	29,197	27,737
Civil Service, Department of	28,937	19,176	21,552
Elections, State Board of	3,506	3,428	3,616
Employee Relations, Office of	4,038	3,444	3,495
Executive Chamber	16,036	15,596	14,816
General Services, Office of	122,205	112,351	117,716
Inspector General, Office of	4,059	4,261	4,142
Law, Department of	118,551	110,450	112,311
Lieutenant Governor, Office of the	452	482	458
Lottery, Division of	0	0	0
Public Employment Relations Board	3,650	3,324	3,173
Racing and Wagering Board, State	9,559	236	0
Real Property Services, Office of	35,474	31,796	25,614
Regulatory Reform, Governor's Office of	3,347	3,229	3,375
State, Department of	16,833	19,632	14,943
Tax Appeals, Division of	3,018	2,718	2,718
Taxation and Finance, Department of	318,577	310,635	301,683
Technology, Office for	47,207	32,722	19,897
TSC Lobbying	1,009	959	975
Veterans Affairs, Division of	9,814	11,291	10,185
Functional Total	924,149	867,860	851,782
ALL OTHER CATEGORIES			
Legislature	216,679	200,535	200,535
Judiciary (excluding fringe benefits)	1,308,192	1,311,100	1,311,000
Homeland Security	2,356	12,930	12,963
World Trade Center	8,752	0	0
Local Government Assistance	834,162	823,960	799,361
Long-Term Debt Service	1,495,878	1,468,204	1,752,715
Capital Projects	181,785	226,903	187,138
General State Charges/Miscellaneous	3,435,636	4,078,827	4,417,881
One-time Payment Deferrals	(1,900,000)	1,900,000	0
Functional Total	5,583,440	10,022,459	8,681,593
TOTAL GENERAL FUND SPENDING	37,613,088	42,059,545	41,885,164

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	65,986	66,482	65,292
Alcoholic Beverage Control	10,686	10,637	10,319
Banking Department	58,262	54,450	58,221
Consumer Protection Board	3,447	3,348	2,465
Economic Development, Department of	85,851	240,067	604,718
Empire State Development Corporation	108,581	59,351	133,000
Energy Research and Development Authority	26,549	28,023	26,123
Housing Finance Agency	665	0	0
Housing and Community Renewal, Division of	206,593	188,004	182,735
Insurance Department	100,255	120,424	128,217
Olympic Regional Development Authority	7,627	7,750	7,750
Public Service, Department of	53,893	54,350	55,860
Science, Technology and Academic Research, Office of	45,026	32,527	72,057
Functional Total	773,421	865,413	1,346,757
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,266	4,140	4,173
Environmental Conservation, Department of	540,846	720,983	703,552
Environmental Facilities Corporation	10,424	7,401	12,416
Parks, Recreation and Historic Preservation, Office of	189,634	227,356	208,274
Functional Total	745,170	959,880	928,415
TRANSPORTATION			
Motor Vehicles, Department of	198,023	199,341	204,478
Thruway Authority	2,269	3,017	4,000
Transportation, Department of	3,463,834	3,756,999	3,691,702
Functional Total	3,664,126	3,959,357	3,900,180
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	937	1,044	994
Aging, Office for the	67,211	66,712	65,972
Children and Families, Council on	982	220	0
Children and Family Services, Office of	1,208,141	1,296,938	1,359,311
Health, Department of	10,548,850	10,879,953	11,680,358
Medical Assistance	8,413,692	8,640,121	9,311,509
Medicaid Administration	112,279	120,150	120,150
All Other	2,022,879	2,119,682	2,248,699
Human Rights, Division of	13,082	13,272	13,271
Labor, Department of	55,447	81,785	58,714
Prevention of Domestic Violence, Office of	2,617	2,238	2,090

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	974,555	1,543,800	1,579,032
Welfare Assistance	496,245	1,061,554	1,081,374
Welfare Administration	338,626	317,178	341,133
All Other	139,684	165,068	156,525
Welfare Inspector General, Office of	624	762	713
Workers' Compensation Board	130,678	140,403	139,107
Functional Total	13,003,124	14,027,127	14,899,562
MENTAL HEALTH			
Mental Health, Office of	1,497,182	1,457,086	1,644,142
Mental Retardation and Developmental Disabilities, Office of	830,723	791,908	959,125
Alcohol and Substance Abuse Services, Office of	324,204	333,666	320,586
Developmental Disabilities Planning Council	0	0	0
Quality of Care for the Mentally Disabled, Commission on	3,061	2,834	2,967
Functional Total	2,655,170	2,585,494	2,926,820
PUBLIC PROTECTION			
Capital Defenders Office	12,039	12,169	11,391
Correction, Commission of	2,539	2,477	2,427
Correctional Services, Department of	2,002,698	2,055,424	2,106,942
Crime Victims Board	52,894	33,073	0
Criminal Justice Services, Division of	101,101	115,579	171,690
Investigation, Temporary State Commission of	3,068	2,936	3,026
Judicial Commissions	2,274	2,417	2,542
Military and Naval Affairs, Division of	71,492	53,584	46,235
Parole, Division of	183,723	177,432	177,703
Probation and Correctional Alternatives, Division of	85,071	75,679	72,480
Public Security, Office of	3,763	10,749	11,929
State Police, Division of	454,306	464,949	467,901
Functional Total	2,974,968	3,006,468	3,074,266
EDUCATION			
Arts, Council on the	51,278	45,482	54,885
City University of New York	931,810	1,091,821	1,127,197
Education, Department of	18,305,982	18,570,379	19,033,220
School Aid	14,176,588	14,272,204	14,550,290
STAR Property Tax Relief	2,664,102	2,835,000	2,998,000
Handicapped	741,058	762,387	851,459
All Other	724,234	700,788	633,471
Higher Education Services Corporation	398,345	609,632	788,776
State University Construction Fund	8,818	9,300	9,402
State University of New York	4,083,997	4,402,587	4,462,401
Functional Total	23,780,230	24,729,201	25,475,881

CASH DISBURSEMENTS BY FUNCTION
STATE FUNDS
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
GENERAL GOVERNMENT			
Audit and Control, Department of	155,011	156,087	166,815
Budget, Division of the	31,385	41,094	39,786
Civil Service, Department of	30,167	20,176	22,652
Elections, State Board of	3,506	3,428	3,616
Employee Relations, Office of	4,082	3,632	3,683
Executive Chamber	16,103	15,696	14,916
General Services, Office of	184,783	201,798	209,363
Inspector General, Office of	5,115	5,502	5,441
Law, Department of	140,300	138,427	142,082
Lieutenant Governor, Office of the	452	482	458
Lottery, Division of	161,657	154,942	159,651
Public Employment Relations Board	3,697	3,555	3,472
Racing and Wagering Board, State	13,959	15,075	14,832
Real Property Services, Office of	46,150	51,822	53,800
Regulatory Reform, Governor's Office of	3,347	3,229	3,375
State, Department of	51,107	62,609	156,947
Tax Appeals, Division of	3,018	2,718	2,718
Taxation and Finance, Department of	347,577	342,538	337,749
Technology, Office for	47,207	32,722	19,897
TSC Lobbying	1,168	1,259	1,275
Veterans Affairs, Division of	9,814	11,291	10,185
Functional Total	1,259,605	1,268,082	1,372,713
ALL OTHER CATEGORIES			
Legislature	218,729	201,485	201,485
Judiciary (excluding fringe benefits)	1,453,830	1,470,854	1,472,009
Homeland Security	7,159	30,680	23,863
World Trade Center	8,752	0	1,375
Local Government Assistance	834,162	823,960	799,361
Long-Term Debt Service	3,038,389	3,352,698	3,919,150
General State Charges/Miscellaneous	3,234,223	2,931,698	3,156,482
One-time Payment Deferrals	(1,900,000)	1,900,000	0
Functional Total	6,895,244	10,711,375	9,573,725
TOTAL STATE FUNDS SPENDING	55,751,058	62,112,397	63,498,319

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT			
Agriculture and Markets, Department of	84,779	82,492	80,757
Alcoholic Beverage Control	10,746	10,637	10,319
Banking Department	58,262	54,450	58,221
Consumer Protection Board	3,447	3,348	2,465
Economic Development, Department of	105,379	240,399	605,057
Empire State Development Corporation	108,581	59,351	133,000
Energy Research and Development Authority	26,549	28,023	26,123
Housing Finance Agency	665	0	0
Housing and Community Renewal, Division of	267,593	222,993	217,724
Insurance Department	100,255	120,424	128,217
Olympic Regional Development Authority	7,627	7,750	7,750
Public Service, Department of	54,873	55,798	57,429
Science, Technology and Academic Research, Office of	50,457	38,152	77,682
Functional Total	879,213	923,817	1,404,744
PARKS AND THE ENVIRONMENT			
Adirondack Park Agency	4,483	4,490	4,523
Environmental Conservation, Department of	746,588	900,847	883,864
Environmental Facilities Corporation	10,424	7,401	12,416
Parks, Recreation and Historic Preservation, Office of	196,501	232,502	213,459
Functional Total	957,996	1,145,240	1,114,262
TRANSPORTATION			
Motor Vehicles, Department of	212,705	213,943	219,001
Thruway Authority	2,269	3,017	4,000
Transportation, Department of	4,917,214	5,154,000	5,261,099
Functional Total	5,132,188	5,370,960	5,484,100
HEALTH AND SOCIAL WELFARE			
Advocate for Persons with Disabilities, Office of	1,216	1,455	4,020
Aging, Office for the	161,756	172,193	176,628
Children and Families, Council on	1,310	220	0
Children and Family Services, Office of	3,296,287	3,161,941	3,074,572
Health, Department of	29,053,657	31,929,652	32,871,737
Medical Assistance	25,315,479	27,980,456	28,718,016
Medicaid Administration	507,681	530,100	542,400
All Other	3,230,497	3,419,096	3,611,321
Human Rights, Division of	14,357	14,873	14,884
Labor, Department of	932,859	749,983	721,602
Prevention of Domestic Violence, Office of	2,792	2,238	2,090

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
HEALTH AND SOCIAL WELFARE (Continued)			
Temporary and Disability Assistance, Office of	4,004,561	4,412,146	4,389,890
Welfare Assistance	2,803,488	3,110,454	3,060,380
Welfare Administration	338,626	317,178	341,133
All Other	862,447	984,514	988,377
Welfare Inspector General, Office of	1,021	1,132	1,083
Workers' Compensation Board	131,622	140,403	139,107
Functional Total	37,601,438	40,586,236	41,395,613
MENTAL HEALTH			
Mental Health, Office of	2,032,510	2,115,703	2,164,727
Mental Retardation and Developmental Disabilities, Office of	2,485,275	2,635,734	2,823,365
Alcohol and Substance Abuse Services, Office of	467,875	480,235	475,934
Developmental Disabilities Planning Council	3,449	3,800	3,730
Quality of Care for the Mentally Disabled, Commission on	9,541	10,925	11,200
Functional Total	4,998,650	5,246,397	5,478,956
PUBLIC PROTECTION			
Capital Defenders Office	12,039	12,169	11,391
Correction, Commission of	2,544	2,477	2,427
Correctional Services, Department of	2,097,934	2,086,436	2,137,954
Crime Victims Board	86,723	64,605	0
Criminal Justice Services, Division of	151,737	160,244	247,887
Investigation, Temporary State Commission of	3,074	2,936	3,026
Judicial Commissions	2,274	2,417	2,542
Military and Naval Affairs, Division of	1,184,039	129,389	132,929
Parole, Division of	189,443	181,175	179,403
Probation and Correctional Alternatives, Division of	88,528	75,679	72,480
Public Security, Office of	3,763	10,749	11,929
State Police, Division of	476,226	482,330	484,905
Functional Total	4,298,324	3,210,606	3,286,873
EDUCATION			
Arts, Council on the	52,033	46,084	55,497
City University of New York	931,810	1,091,821	1,127,197
Education, Department of	20,705,371	21,317,584	21,853,237
School Aid	14,176,588	14,272,204	14,550,290
STAR Property Tax Relief	2,664,102	2,835,000	2,998,000
Handicapped	1,202,923	1,314,903	1,426,076
All Other	2,661,758	2,895,477	2,878,871
Higher Education Services Corporation	790,297	865,738	798,976
State University Construction Fund	8,825	9,300	9,402
State University of New York	4,249,668	4,574,199	4,634,086
Functional Total	26,738,004	27,904,726	28,478,395

CASH DISBURSEMENTS BY FUNCTION
ALL GOVERNMENTAL FUNDS
(thousands of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended
GENERAL GOVERNMENT			
Audit and Control, Department of	155,011	156,087	166,815
Budget, Division of the	31,385	41,094	39,786
Civil Service, Department of	30,181	20,176	22,652
Elections, State Board of	3,506	6,428	148,253
Employee Relations, Office of	4,098	3,632	3,683
Executive Chamber	16,103	15,696	14,916
General Services, Office of	189,071	206,098	213,756
Inspector General, Office of	5,115	5,502	5,441
Law, Department of	162,610	159,317	163,180
Lieutenant Governor, Office of the	452	482	458
Lottery, Division of	161,657	154,942	159,651
Public Employment Relations Board	3,697	3,555	3,472
Racing and Wagering Board, State	13,959	15,075	14,832
Real Property Services, Office of	46,150	51,822	53,800
Regulatory Reform, Governor's Office of	3,347	3,229	3,375
State, Department of	108,961	132,445	235,389
Tax Appeals, Division of	3,018	2,718	2,718
Taxation and Finance, Department of	349,333	342,816	338,027
Technology, Office for	47,207	32,722	19,897
TSC Lobbying	1,168	1,259	1,275
Veterans Affairs, Division of	10,775	12,510	11,517
Functional Total	1,346,804	1,367,605	1,622,893
ALL OTHER CATEGORIES			
Legislature	218,729	201,485	201,485
Judiciary (excluding fringe benefits)	1,458,462	1,473,354	1,474,509
Homeland Security	7,159	168,286	87,819
World Trade Center	8,752	1,499,798	1,700,125
Local Government Assistance	834,162	823,960	799,361
Long-Term Debt Service	3,038,389	3,352,698	3,919,150
General State Charges/Miscellaneous	3,437,316	3,117,524	3,357,814
One-time Payment Deferrals	(1,900,000)	1,900,000	0
Functional Total	7,102,969	12,537,105	11,540,263
TOTAL ALL GOVERNMENTAL FUNDS SPENDING	89,055,586	98,292,692	99,806,099

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
2002-2003
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	16,791	2,664	0	4,243	23,698
User taxes and fees	7,063	506	1,010	2,225	10,804
Sales and use tax	6,328	362	0	2,106	8,796
Cigarette and tobacco taxes	446	0	0	0	446
Motor fuel tax	0	69	356	119	544
Motor vehicle fees	67	75	470	0	612
Highway Use tax	0	0	147	0	147
Alcoholic beverages taxes	180	0	0	0	180
Alcoholic beverage control license fees	42	0	0	0	42
Auto rental tax	0	0	37	0	37
Business taxes	3,380	1,035	568	0	4,983
Corporation franchise tax	1,407	205	0	0	1,612
Corporation and utilities tax	860	231	0	0	1,091
Insurance taxes	704	72	0	0	776
Bank tax	409	72	0	0	481
Petroleum business tax	0	455	568	0	1,023
Other taxes	743	0	112	336	1,191
Estate tax	701	0	0	0	701
Gift tax	7	0	0	0	7
Real property gains tax	5	0	0	0	5
Real estate transfer tax	0	0	112	336	448
Pari-mutuel taxes	29	0	0	0	29
Other taxes	1	0	0	0	1
Total Taxes	27,977	4,205	1,690	6,804	40,676
Miscellaneous receipts	2,091	9,570	1,678	807	14,146
Federal grants	0	31,684	1,567	0	33,251
Total	30,068	45,459	4,935	7,611	88,073

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	15,791	2,835	0	5,457	24,083
User taxes and fees	7,897	601	1,074	2,244	11,816
Sales and use tax	7,178	400	0	2,244	9,822
Cigarette and tobacco taxes	419	0	0	0	419
Motor fuel tax	0	105	403	0	508
Motor vehicle fees	68	96	486	0	650
Alcoholic beverages taxes	184	0	0	0	184
Highway Use tax	0	0	147	0	147
Alcoholic beverage control license fees	48	0	0	0	48
Auto rental tax	0	0	38	0	38
Business taxes	3,395	1,022	566	0	4,983
Corporation franchise tax	1,382	188	0	0	1,570
Corporation and utilities tax	755	205	0	0	960
Insurance taxes	872	105	0	0	977
Bank tax	386	65	0	0	451
Petroleum business tax	0	459	566	0	1,025
Other taxes	784	0	112	338	1,234
Estate tax	752	0	0	0	752
Gift tax	0	0	0	0	0
Real property gains tax	4	0	0	0	4
Real estate transfer tax	0	0	112	338	450
Pari-mutuel taxes	27	0	0	0	27
Other taxes	1	0	0	0	1
Total Taxes	27,867	4,458	1,752	8,039	42,116
Miscellaneous receipts	5,970	10,396	2,690	694	19,750
Federal grants	645	34,921	1,621	0	37,187
Total	34,482	49,775	6,063	8,733	99,053

CASH RECEIPTS
ALL GOVERNMENTAL FUNDS
2004-2005
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	18,520	2,998	0	5,944	27,462
User taxes and fees	8,340	695	1,084	2,364	12,483
Sales and use tax	7,666	454	0	2,364	10,484
Cigarette and tobacco taxes	424	107	0	0	531
Motor fuel tax	0	134	411	0	545
Motor vehicle fees	25	0	481	0	506
Alcoholic beverages taxes	183	0	0	0	183
Highway Use tax	0	0	152	0	152
Alcoholic beverage control license fees	42	0	0	0	42
Auto rental tax	0	0	40	0	40
Business taxes	3,739	1,091	610	0	5,440
Corporation franchise tax	1,746	238	0	0	1,984
Corporation and utilities tax	657	191	18	0	866
Insurance taxes	912	109	0	0	1,021
Bank tax	424	72	0	0	496
Petroleum business tax	0	481	592	0	1,073
Other taxes	762	0	112	349	1,223
Estate tax	730	0	0	0	730
Gift tax	0	0	0	0	0
Real property gains tax	3	0	0	0	3
Real estate transfer tax	0	0	112	349	461
Pari-mutuel taxes	28	0	0	0	28
Other taxes	1	0	0	0	1
Total Taxes	31,361	4,784	1,806	8,657	46,608
Miscellaneous receipts	2,087	11,478	2,431	647	16,643
Federal grants	0	34,425	1,840	0	36,265
Total	33,448	50,687	6,077	9,304	99,516

CASH RECEIPTS
GENERAL FUND
2002-2003 THROUGH 2004-2005
(millions of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended	2004-2005 Compared with 2003-2004
Personal income tax	16,791	15,791	18,520	2,729
User taxes and fees	7,063	7,897	8,340	443
Sales and use tax	6,328	7,178	7,666	488
Cigarette and tobacco taxes	446	419	424	5
Motor fuel tax	0	0	0	0
Motor vehicle fees	67	68	25	(43)
Alcoholic beverages taxes	180	184	183	(1)
Alcoholic beverage control license fees	42	48	42	(6)
Auto rental tax	0	0	0	0
Business taxes	3,380	3,395	3,739	344
Corporation franchise tax	1,407	1,382	1,746	364
Corporation and utilities tax	860	755	657	(98)
Insurance taxes	704	872	912	40
Bank tax	409	386	424	38
Petroleum business tax	0	0	0	0
Other taxes	743	784	762	(22)
Estate tax	701	752	730	(22)
Gift tax	7	0	0	0
Real property gains tax	5	4	3	(1)
Pari-mutuel taxes	29	27	28	1
Other taxes	1	1	1	0
Total Taxes	27,977	27,867	31,361	3,494
Miscellaneous receipts	2,091	5,970	2,087	(3,883)
Federal Grants	0	645	0	(645)
Total	30,068	34,482	33,448	(1,034)

CASH RECEIPTS
SPECIAL REVENUE FUNDS
2002-2003 THROUGH 2004-2005
(millions of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended	2004-2005 Compared with 2003-2004
Personal income tax	2,664	2,835	2,998	163
User taxes and fees	506	601	695	94
Sales and use tax	362	400	454	54
Motor fuel tax	69	105	107	2
Motor vehicle fees	75	96	134	38
Business taxes	1,035	1,022	1,091	69
Corporation franchise tax	205	188	238	50
Corporation and utilities tax	231	205	191	(14)
Insurance taxes	72	105	109	4
Bank tax	72	65	72	7
Petroleum business tax	455	459	481	22
Total Taxes	4,205	4,458	4,784	326
Miscellaneous receipts	9,570	10,396	11,478	1,082
Federal grants	31,684	34,921	34,425	(496)
Total	45,459	49,775	50,687	912

CASH RECEIPTS
CAPITAL PROJECTS FUNDS
2002-2003 THROUGH 2004-2005
(millions of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended	2004-2005 Compared with 2003-2004
User taxes and fees	1,010	1,074	1,084	10
Motor fuel tax	356	403	411	8
Motor vehicle fees	470	486	481	(5)
Highway Use tax	147	147	152	5
Auto Rental Tax	37	38	40	2
Business taxes	568	566	610	44
Corporation and utilities tax	0	0	18	18
Petroleum business tax	568	566	592	26
Other taxes	112	112	112	0
Real estate transfer tax	112	112	112	0
Total Taxes	1,690	1,752	1,806	54
Miscellaneous receipts	1,678	2,690	2,431	(259)
Federal grants	1,567	1,621	1,840	219
Total	4,935	6,063	6,077	14

CASH RECEIPTS
DEBT SERVICE FUNDS
2002-2003 THROUGH 2004-2005
(millions of dollars)

	2002-2003 Actual	2003-2004 Estimated	2004-2005 Recommended	2004-2005 Compared with 2003-2004
Personal income tax	4,243	5,457	5,944	487
User taxes and fees	2,225	2,244	2,364	120
Sales and use tax	2,106	2,244	2,364	120
Motor fuel tax	119	0	0	0
Other taxes	336	338	349	11
Real estate transfer tax	336	338	349	11
Total Taxes	6,804	8,039	8,657	618
Miscellaneous receipts	807	694	647	(47)
Total	7,611	8,733	9,304	571

ECONOMIC BACKDROP

OVERVIEW

Following six quarters of uncertain fortune, the U.S. economy finally appears to be on a sustainable expansionary path. The 20 months following the end of the 2001 recession represent one of the most unusual recovery periods of the postwar era, combining high productivity gains with low output growth and falling employment. The recovery exhibited sporadic signs of life — growth in real U.S. GDP of 4.7 percent in the first quarter of 2002, a rise in industrial production for every month between January and June 2002, and rising employment toward the end of 2002, including the addition of 158,000 jobs in January 2003 — but never gained momentum. However, by the summer of 2003, an array of indicators showed broad-based strength and, finally, a sustained rise in employment. Indeed, the third quarter of 2003 produced the fastest quarterly growth rate in real GDP in almost 20 years.

Why did the U.S. economic recovery take so long to find its footing? Since the simultaneous collapse of equities and the high-tech sector in 2000, the national economy absorbed three additional but distinct shocks: the September 11 terrorist attacks, a string of corporate governance scandals, and the war in Iraq and its aftermath. These events created an environment of uncertainty that lengthened the period of adjustment for the business sector from the unrealistic expectations of the late 1990s. However, the mood of the business sector contrasted starkly with the behavior of households. Thus, declining employment and an absence of business spending coincided with record-breaking sales in the interest-sensitive housing and auto markets.

Following an unusually sluggish recovery period, the U.S. economic expansion now appears to be on track. Low interest rates, low inflation, a booming housing market, and expansive fiscal policy combined in the middle of 2003 to increase confidence within the business sector, which has finally demonstrated a long-awaited impetus to spend. Moreover, the Federal Reserve has signaled a willingness to remain accommodative and fiscal policy will remain expansionary throughout 2004. Consequently, the Budget Division believes that the U.S. economy is soundly upon a path of sustainable growth. Strong real GDP growth of 4.7 percent is projected for 2004, following growth of 3.1 percent for 2003.

The New York State economy is slowly emerging from recession. A number of indicators and business sentiment surveys show that the overall State economy is indeed at a turning point. Though the legacy of the September 11 attack is still evident in New York City, where employment remains down on a year-over-year basis, employment losses have stabilized and growth is evident in some sectors. Moreover, with the first sustained rise in equity prices in three years and low interest rates, the profit outlook for the finance industry has brightened. Total New York wages are expected to grow 5.1 percent in 2004, the best performance in four years. State nonagricultural employment is projected to rise 0.8 percent in 2004, slightly below projected growth for the nation of 1.1 percent.

THE NATIONAL ECONOMY

The recession of 2001 and the ensuing recovery were atypical of the postwar period. The seeds of past recessions were often sown by an overheating economy and accelerating inflation, which induced the Federal Reserve to put on the brakes by raising interest rates.[1] Higher rates would in turn reduce household demand and a recession would eventually follow. Although the Federal Reserve's rate hikes during the second half of 1999 and the first half of 2000 did engender a mild downturn in the interest rate-sensitive areas of spending in

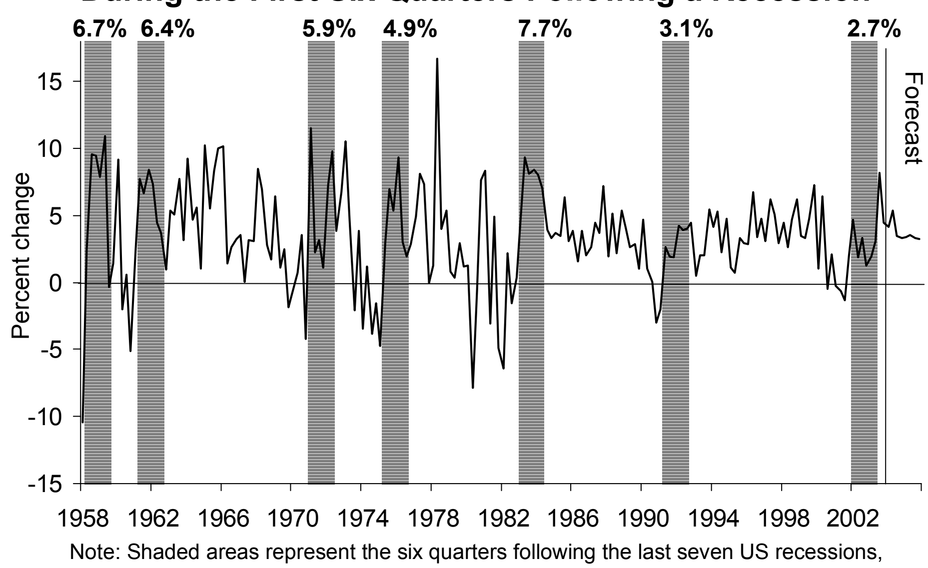
[1] Of course, each business cycle has its own unique traits, often related to idiosyncratic shocks such as the oil price increases in the 1970s.

2000 — indeed, revised data indicate that real U.S. GDP fell 0.5 percent during the third quarter — the overall impact of the monetary tightening was expected to be relatively mild, perhaps another "soft landing" as the Federal Reserve had successfully engineered in 1994-95. However, hopes for a soft landing dimmed after September 11, and, unlike in the typical postwar case, the business sector led the economy into a full-fledged recession. Nevertheless, the 2001 recession was mild as measured by the decline in real output, largely due to the rapid response of monetary policy to the slowdown. Had the Federal Reserve not cut rates early and sharply starting in January 2001, stimulating activity in the housing and auto markets, the recession would likely have been both deeper and more prolonged.

Though the 2001 recession was mild, the early stage of the recovery was unusually weak, comparable only to the beginning of the 1990s expansion (see Figure 1). No sooner did the recession end than a series of corporate governance scandals dealt a blow to an economy still reeling from September 11. Later in 2002, the economy was further shaken by the emerging conflict with Iraq. These events had the effect of delaying the rebound that typically occurs in the early stages of an economic recovery. Falling equity prices and global uncertainty focused the business sector on improving profits by cutting costs at the expense of both employment and investment growth. Moreover, the fact that consumption never actually declined during the recession meant less pent-up demand entering the recovery. This resulted in slow growth combined with falling employment through the second quarter of 2003. However, with inventories now sufficiently pared, business sector confidence increasing, low interest rates and fiscal stimulus in place, and a global economy on the verge of a rebound, the U.S. economic recovery finally appears to be on track.

Figure 1

Real U.S. GDP Growth
During the First Six Quarters Following a Recession



Note: Shaded areas represent the six quarters following the last seven US recessions, excluding the 1980 recession; numbers above bars show average annualized rate of quarterly job growth over the six quarters.
Source: Economy.com.

Because the usual economic rebound following a recession was delayed, all of the risks inherent in forecasting at or near business cycle turning points apply today. The lags with which economic data become available and the extent to which these data subsequently get revised are important parts of the problem. When the economy turns downward, preliminary attempts to measure economic activity tend to overestimate the strength of the economy. The opposite is often true for the recovery phase. Moreover, as the last two years have demonstrated, the economy is particularly vulnerable to shocks during a recovery. This is partly due to the fragility of business sentiment and consumer confidence at this stage of the business cycle. Finally, the impact of changes in public policy, such as the tax cuts passed in 2003, are notoriously difficult to estimate, both with respect to timing and magnitude. The size of the impact depends on how much consumers choose to spend and when. Moreover, Federal legislation passed in May 2003 reduced income tax rates retroactively to January of that year. The timing of the stimulus then depends on how workers adjust their behavior in response to the new tax schedules.

Table 1 shows Blue Chip consensus forecasts for real GDP growth (GNP if prior to 1992) published in January for the year just started and compares those forecasts to the actual growth rates for the same year. The "actuals" shown in the table are based on the very first estimate of the fourth quarter released by the U.S. Bureau of Economic Analysis (the "advance release"), since it is difficult for forecasters to anticipate future revisions in the underlying economic data. As Table 1 indicates, when the economy turns down, economists tend to overestimate real output growth and as the economy turns up they tend to underestimate growth.[2] The most recent recession and subsequent recovery are good examples. The January 2001 Blue Chip consensus forecast was 1.5 percentage points higher than the actual for that year, while the forecast for 2002 was 1.3 percentage points too low. These data suggest that there may be a tendency to underestimate the strength of the economic rebound that is now underway.

TABLE 1
FORECASTING ACCURACY NEAR TURNING POINTS

Forecast Year	Current Year Output Forecast	Actual (Advance Release)	Error
1980-1982 Recessions			
1980	-1.0	-0.1	-0.9
1981	0.7	2.0	-1.3
1982	0.3	-1.8	2.1
1983	2.5	3.3	-0.8
1984	5.8	6.8	-1.0
1990-1991 Recession			
1990	1.0	0.9	0.1
1991	0.0	-0.7	0.7
1992	1.6	2.1	-0.4
1993	2.9	2.9	-0.1
2001 Recession			
2001	2.6	1.1	1.5
2002	1.1	2.4	-1.3
2003	2.8	3.1	-0.3

Note: The error is defined as forecast minus actual.
Source: Blue Chip Consensus, January, various years; Federal Reserve Bank of Philadelphia.

The evidence presented below suggests that the current recovery will be sustained throughout the forecast period. The climate of uncertainty appears to have subsided and business confidence appears to be improving. The rebuilding of inventories is likely to require increased demand for workers. Firms are already starting to replace obsolete computer equipment and there is evidence that capacity shortfalls may be emerging in other areas. Moreover, equity prices are rising in response to brisk profit growth and monetary policy is expected to remain accommodative. Rising household demand is expected to be supported by rising employment and incomes, buttressed by the continued impact of the 2003 tax cuts. Finally, the combined impact of a moderately falling dollar and accelerating growth for the world economy is expected to increase the demand for U.S. exports, although on balance, the trade deficit is projected to widen in 2004.

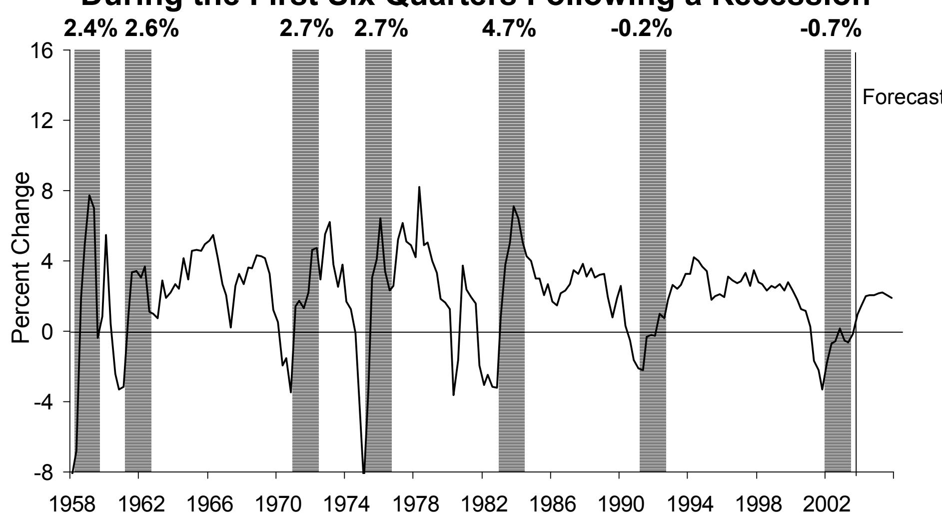
[2] The 1980 recession is not as much of an exception as it appears, since it lasted only through the first six months of the year.

The Longest Labor Market Turning Point

Although the National Bureau of Economic Research (NBER) Business Cycle Dating Committee declared November 2001 as the trough of the 2001 recession, U.S. employment continued to decline during most of 2002 and 2003. This fact distinguishes the beginning of the current recovery from most prior postwar recoveries (see Figure 2). Although the aftermath of the 1990-91 recession has often been referred to as a "jobless" recovery, payroll survey data indicate that the 2001 recession was followed by a "job-loss" recovery (see Box 1). More than two years after the November 2001 trough, private sector employment is still almost one million below its November 2001 level (see Table 2). Indeed, this lengthy period of job declines led the Committee to wait an unusually long 20 months before declaring a trough at November 2001. Many factors contributed to the economy's continued loss of jobs during the recovery. However, the shocks the economy sustained during the period — September 11, corporate governance scandals, and the war in Iraq — and the uncertainty they engendered, appear to be the most important explanation and the one best supported by the data. With the impact of these shocks now dissipating, the environment is likely to be much more favorable to job growth going forward.

Figure 2

Private Nonfarm Employment Growth During the First Six Quarters Following a Recession



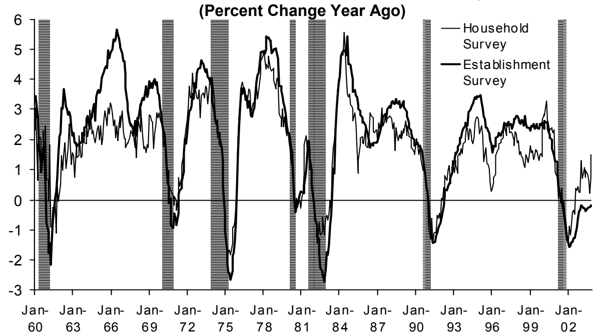
Note: Shaded areas represent the six quarters following the last seven US recessions, excluding the 1980 recession; numbers above bars show average annualized rate of quarterly job growth over the six quarters.
Source: Economy.com.

BOX 1
THE EMPLOYMENT PUZZLE

Two startlingly different portraits of national employment emerge when comparing two alternative sources of 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 400,000 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. An alternative measure of employment comes from the Current Population Survey (CPS) of about 60,000 households, commonly known as the household survey, which 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. Although on average, payroll employment tends to grow faster, 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. 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.

Total U.S. Employment
Establishment and Household Surveys
(Percent Change Year Ago)



Note: Establishment survey data suggest that employment has fallen since the recession officially ended. However, according to the household survey, employment grew during the same period.
Source: Economy.com.

However, the magnitude of the difference since the end of the 2001 recession has been substantially larger than the historical norm of about one-half of one percentage point. In fact, the difference between the two measures recently exceeded one percentage point, a magnitude reached briefly only twice during the postwar period. This difference has persisted for more than a year, a duration that is unparalleled in the last 45 years.

The current recovery has been labeled a "job-loss recovery," for until the last few months, employment as measured by the payroll survey continued to decline even after output growth had resumed. This is the worst post-recession job performance since World War II; only the recovery from the 1990 recession is at all comparable, and in that case employment growth hovered around zero but did not decline. In contrast, the household survey data indicate that employment has been trending upward since early 2002 and currently exceeds its prior 2000 peak. Even after adjusting for the design differences between the two surveys, a discrepancy of 2.2 million jobs remains. The most recent household survey data indicates that by December 2003, civilian employment was 840,000 above its March 2001 level.

Several explanations for the source of the difference have been advanced. One is that in an effort to minimize costs, firms may be hiring more individuals on a contract basis to avoid commitments and fringe benefit costs. If such individuals were self-employed, they would be counted in the household data, but not in the payroll count. It has also been suggested that the Census Bureau has been overestimating immigration, and therefore the entire population, since the most recent decennial census.[1] Since population estimates are used to inflate the household survey results to population totals, an overestimate of the population would produce an overestimate of employment as well.

[1] The Federal Reserve Board, "The Jobless Recovery", remarks by Governor Ben S. Bernanke at the Global Economic and Investment Outlook Conference, Carnegie Mellon University, Pittsburgh, Pa., November 6, 2003 at <http://www.federalreserve.gov/boarddocs/speeches/2003/2003110662/default.htm>.

TABLE 2
CHANGE IN U.S. EMPLOYMENT 25 MONTHS AFTER BUSINESS CYCLE TROUGH

	Cumulative Change in Employment Since Trough			
Trough Date	Level (000s)		Percent Change	
	Total	Private	Total	Private
Oct-45	5888	6157	15.3%	18.8%
Oct-49	5199	4543	12.1%	12.3%
May-54	3618	3080	7.4%	7.3%
Apr-58	3446	2882	6.8%	6.7%
Feb-61	2766	2108	5.2%	4.7%
Nov-70	4861	4007	6.9%	7.0%
Mar-75	5081	4760	6.6%	7.7%
Jul-80	(480)	8	-0.5%	0.0%
Nov-82	7317	7012	8.2%	9.6%
Mar-91	1681	1231	1.5%	1.4%
Nov-01	(776)	(907)	-0.6%	-0.8%

Source: Economy.com.

The reason most often cited for the "job-loss recovery" is the particularly high productivity growth experienced during and after the 2001 recession. Figure 3 shows average productivity growth over the first six quarters after each of the last seven recessions (excluding the short 1980 recession). The figure indicates that productivity growth during the period was robust, but not unprecedented. Indeed, the productivity growth observed during the six months following the 2001 recession might be identified as a return to normalcy following the exceptionally low productivity growth rates that followed the recession of 1990-91.

It has also been suggested that when the unemployment rate fell to 3.9 percent in the middle of 2000, employment had risen to a level that the economy could not sustain over the long run. Believing that the 1990s "New Economy" expansion would be virtually endless, firms hired more workers than long-term conditions could justify. However, "over-hiring" alone cannot justify the decline in employment experienced during the current expansion. By one definition, the sustainable level of employment is the level that is consistent with a 5 percent unemployment rate and a 67 percent labor force participation rate.[3] By that standard, the high level of employment attained at the expansionary peak was indeed unsustainable. However, the current employment level remains over 3 million below the sustainable level so defined. In addition, a comparison of actual employment with the Budget Division's estimate of potential employment indicates that the degree of over-hiring just prior to the 2001 recession was less than that which occurred before the 1990-91 recession.

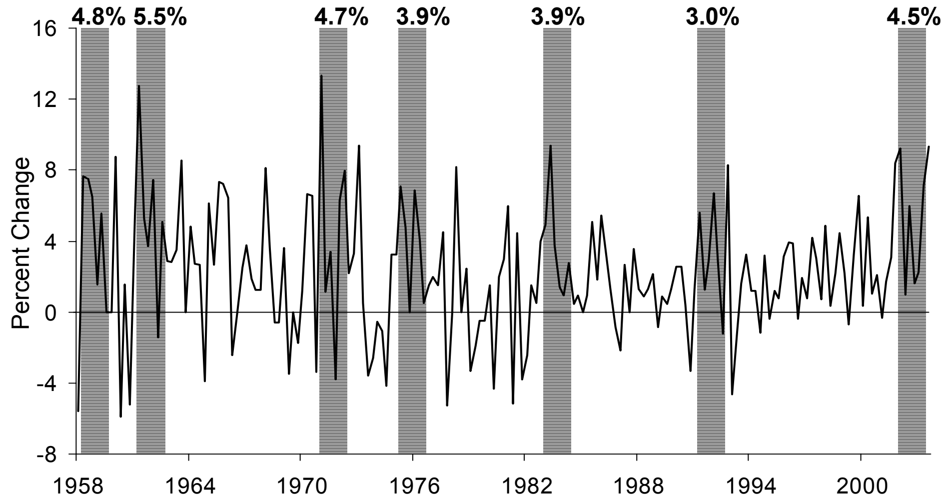
One study proposes structural change in the labor market as another explanation for the job-loss recovery.[4] Starting from the premise that industry restructuring often accelerates during a recession, the study's authors define job losses that occurred during the recession as permanent if they occurred within industries that continued to lose jobs during the expansion. In contrast, losses from industries that subsequently resumed growth are deemed to be temporary. The authors judge a large percentage of the job losses that occurred during the 2001 recession to have been permanent, forcing those who were laid off to find jobs in other industries. Thus, they conclude that structural change was a major contributor to the recent "job-loss recovery."

[3] See remarks by Governor Ben S. Bernanke delivered on November 6, 2003: <http://www.federalreserve.gov/boarddocs/speeches/2003/200311062/default.htm>

[4] See Erica L. Groshen and Simon Potter, "Has Structural Change Contributed to a Jobless Recovery?" Federal Reserve Bank of New York, *Current Issues in Economics and Finance*, Vol. 9, no. 8, August, 2003.

Figure 3

Nonfarm Business Productivity Growth During the First Six Quarters Following a Recession



Note: Productivity is measured as output per hour. Shaded areas represent the six quarters following the last seven US recessions, excluding the 1980 recession; numbers above bars show average rate of annualized quarterly growth over the six quarters.
Source: Economy.com.

The structural change argument raises the question as to why a relatively mild recession in terms of output growth would generate such a large degree of restructuring. In addition, the business sector underwent a substantial restructuring during and after the 1990-91 recession, but the economy still gained over one million jobs by the end of the second year of the recovery. This explanation also fails to address the uneven pattern of growth across industries during the recession. For example, the simultaneous decline of manufacturing jobs and increase in mortgage-lending jobs may not signal a restructuring as mush as the fact that while the manufacturing sector was in a recession, the housing sector was booming. Indeed, that boom has begun to ebb; the number of jobs in credit intermediation decreased in November for the second consecutive month, reflecting the falling demand for mortgage refinancing services. From July 2000 through September 2003, the industry had added a total of 251,000 jobs. From this evidence it appears that the simultaneous job losses from manufacturing and gains in mortgage lending represent the unique business cycles in those industries rather than restructuring.

It has also been suggested that the increasing globalization of the economy contributed to the job-loss recovery, an explanation that is closely related to the restructuring argument. It is true that a growing magnitude of the goods purchased in the U.S. is imported. In 1947, the ratio of imported goods to total goods output, both adjusted for price changes, was 6.8 percent. That ratio rose to 11.3 percent in 1967 and to 35.6 percent in 2003. However, due to the cyclical nature of international trade, imports actually fell during the recession and the early part of the recovery (see Figure 18).

The increasing cost of worker benefits has also been linked to job losses. Since 1980, the wage and salary portion of total compensation has risen 146 percent while the benefits portion has grown 216 percent, largely due to the rising cost of healthcare. This trend might induce reluctance among firms to hire permanent full-time workers, particularly during a time of uncertainty about business conditions. Firms might prefer to hire temporary workers, make existing employees work longer hours, or outsource to developing countries where wages are much lower. However, temporary help services employment also fell during much of the first

15 months of the recovery, and the average length of the private sector workweek has been remarkably stable.[5] Moreover, there is to date no evidence that the degree of outsourcing is sufficient to explain more than a small portion of the joblessness of the last two years.

Although all of the above factors may have contributed to the loss of over one million jobs in the 20 months following the official end of the 2001 recession, perhaps the most powerful factor is the financial and geopolitical uncertainty that clouded the business climate. The increased volatility in several key economic indicators during the first six quarters of the economic expansion strongly underlines the substantial uncertainty of the economic environment. As Figure 4 indicates, the perception of the business climate tends to be associated with the decision to create and eliminate jobs.[6] The business climate soured in the wake of September 11 and the corporate governance scandals that followed, with job losses intensifying at the end of 2001 and early 2002. Toward the middle of the year, the rate of job loss fell and even turned to gains in the fall. However, the run-up to the war in Iraq had a negative impact on business sentiment and those meager job gains became losses once again at the end of 2002 and the first half of 2003. As indicated in Figure 5, the uncertain climate similarly affected all areas of private business spending, including investment in equipment, software, and inventories.

With the nation becoming acclimated to long-term military engagement and the winding down of new announcements of corporate malfeasance, both business sentiment and consumer confidence appear to be on the upswing.[7] In addition, fiscal policy stimulus helped the third quarter of 2003 put forth the best economic performance in almost 20 years and a strong fourth quarter is expected as well. Additional fiscal policy stimulus in 2004 combined with continued accommodative monetary policy should ensure that, absent any further shocks, the recovery will continue to gain momentum and that the demand for labor will increase. The Budget Division is forecasting growth in U.S. employment of 1.1 percent for 2004, following a decline of 0.2 percent for 2003.

Improved prospects for employment growth will provide a boost to income growth as well. Wages and salaries are projected to grow 4.4 percent in 2004, following growth of only 2.1 percent in 2003. Total personal income is expected to grow 4.7 percent in 2004 following growth of 3.3 percent in 2003, outpacing growth in wages alone due to strong expected growth in several of the non-wage components of personal income including transfer payments, proprietors' income, and dividends. The forecasts for personal income and wage growth are below their respective historical averages (see Table 10), largely due to low inflation.

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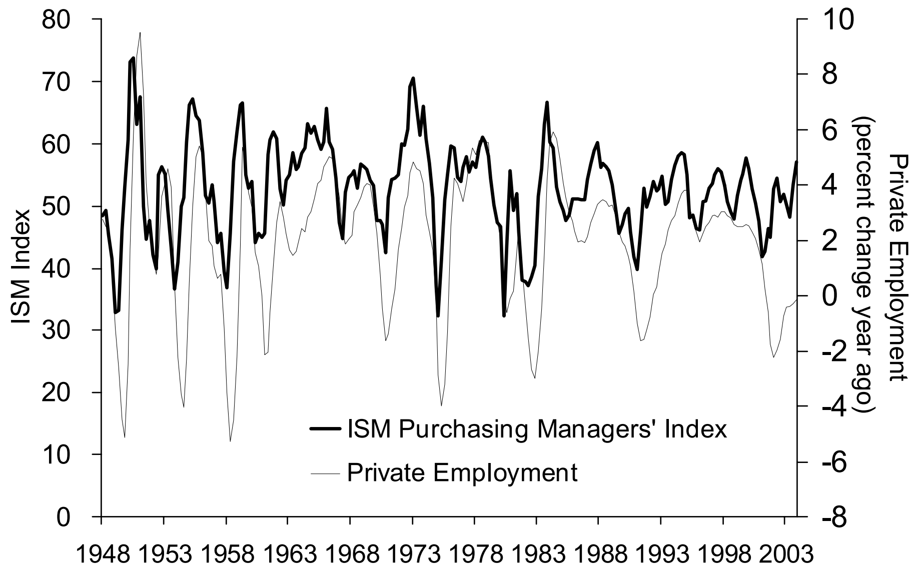
[5] For a comment on the BLS measure of the length of the average workweek, please see Stephen S. Roach, "The Productivity Paradox," *The New York Times*, November 30, 2003, Section 4.

[6] The Institute for Supply Management's (ISM) manufacturing Purchasing Managers' Index is a composite index based on seasonally adjusted diffusion indexes for five indicators: new orders, production, employment, supplier deliveries, and inventories. Based on qualitative response data collected from member firms, these indexes can be interpreted as indicators of manager sentiment. A statistical analysis indicates that private sector employment and the ISM manufacturing index are significantly related.

[7] It remains to be seen if the mutual fund scandal will have a disruptive effect on financial markets or simply be taken in stride.

Figure 4

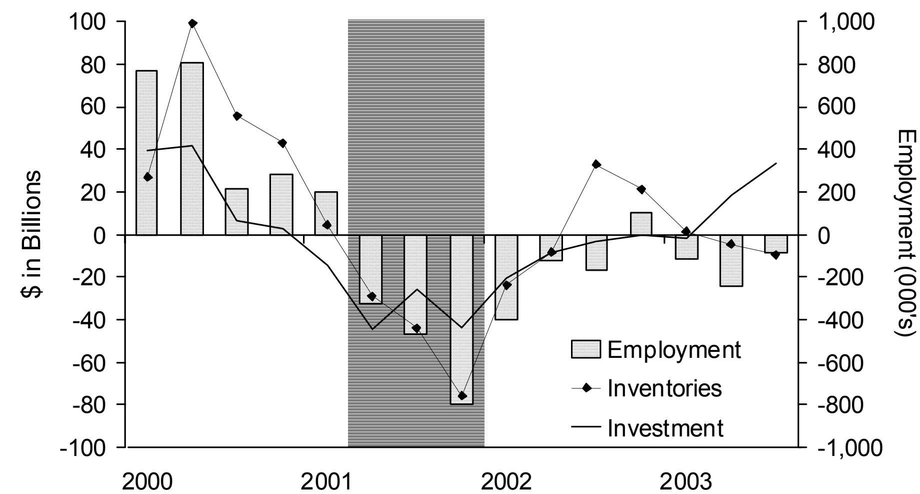
Business Confidence and Private Sector Employment



Source: Economy.com.

Figure 5

Changes in Employment, Nonresidential Fixed Investment, and Business Inventories



Note: Shaded areas represent the three quarters of the 2001 recession according to NBER.
Source: Economy.com.

Business Spending Due for a Rebound

The delayed rebound in economic activity is just as evident in investment spending as in employment. The two most important factors explaining the unusual behavior of business investment during the early phase of the current expansion are the excess capacity left over from the investment boom of the late 1990s and the extraordinary level of uncertainty facing those making capital investment decisions. Business investment appears finally to have begun to recover, with back-to-back increases in the second and third quarters of 2003. Given the short investment cycle for computers and related equipment, and the aging of the rest of the capital stock, we can expect sustained increases in business investment spending during the forecast period. This growth will be supported by continued low interest rates and tax investment incentives due to expire at the end of 2004.

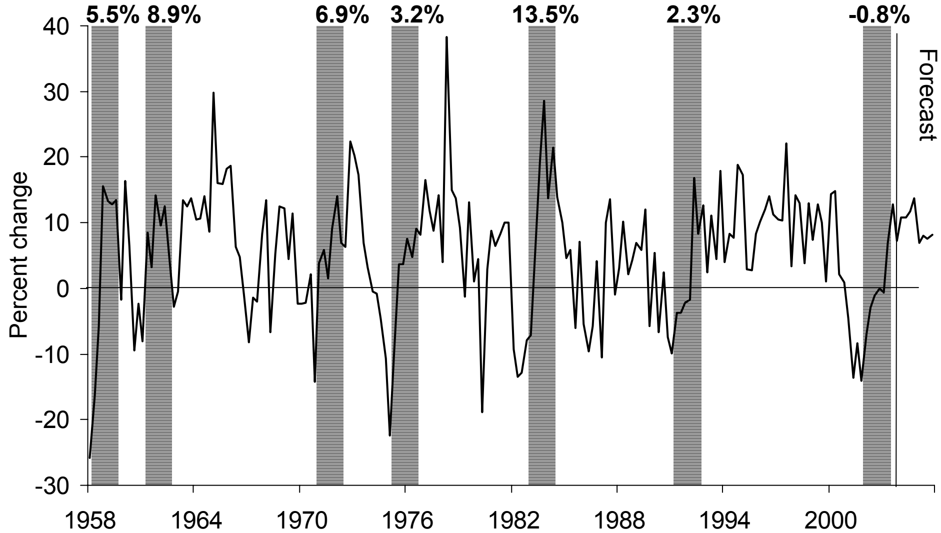
In analyzing business spending behavior over the long run, it is assumed that firms choose a level of investment that achieves an optimal relationship between the stock of capital and the level of output or sales.[8] If the business sector's outlook for economic growth improves, then firms will expect to produce more output, which in turn requires more capital, and investment spending will rise. Since, in the short-run, the capital stock can be adjusted only gradually, firms are continually making adjustments to get closer to the optimal relationship between capital and output. The short-run behavior of investment also varies with the cost of acquiring and using capital goods. The latter factor, commonly referred to as the user cost of capital, is affected by prices of new investment goods, inflation-adjusted borrowing costs, equity prices, the rate of capital depreciation, and the extent to which the tax code subsidizes or penalizes investment. Investment thus depends on a combination of objective economic factors, such as interest rates and equipment prices, and more subjective and forward-looking factors, such as expectations for the future. All of these factors are important to understanding investment behavior prior to, during, and subsequent to the 2001 recession.

During the six quarters immediately following the 2001 recession, investment spending was weaker than during earlier postwar recoveries (see Figure 6). Prior to 1990, the typical post-World War II recession was led by declines in household spending in response to higher interest rates, particularly on housing and consumer durables. But as discussed below, household spending on homes and automobiles held up well during the 2001 downturn. The recessions of 1990-91 and 2001 were instead led by a decline in business spending, which continued to decline even after the NBER-designated trough date. However, the decline in nonresidential fixed investment during the most recent downturn was much sharper and more prolonged than in the early 1990s.

The investment boom of the late 1990s left significant excess capacity in its wake. By late 2000, the generalized sense of optimism that had pervaded the latter part of the 1990s was waning. Many firms had just completed their Y2K adjustments, and so their replacement cycles for computers and software suddenly lengthened. The Federal Reserve's interest rate increases in the second half of 1999 and the first half of 2000 combined with lower equity prices to raise the user cost of capital. As dot-coms and telecommunications providers failed, competitive pressures to maintain technological leadership faded and demand for additional technology investment declined. Under diminished expectations for future sales, what earlier had been perceived as a sound investment became "capacity overhang," inducing firms to curtail their investment spending.

[8] Optimal investment is the level that maintains the profit maximizing or cost minimizing capital output ratio. 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. Given this optimal ratio, optimal investment varies with output growth and the rental rate of capital.

Figure 6
Growth in Nonresidential Fixed Investment During the First Six Quarters Following a Recession



Note: Shaded areas represent the six quarters following the last seven US recessions, excluding the 1980 recession; numbers above the bars show the average annualized rates of quarterly growth over the six quarters.
Source: Economy.com.

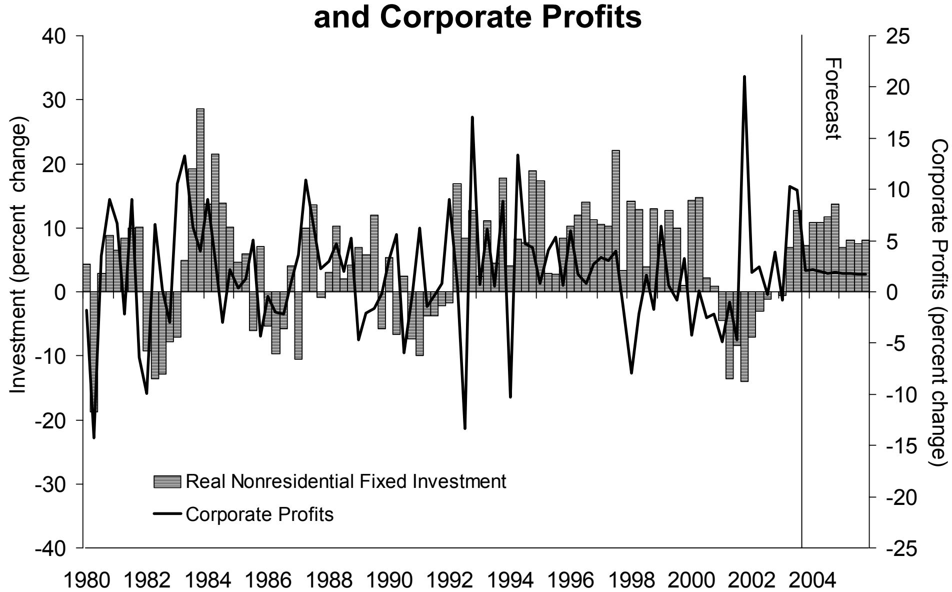
With each successive shock to the economy — the terrorist attacks of September 2001, revelations of corporate governance scandals, and the conflict in Iraq — the business climate deteriorated further, causing businesses to postpone capital spending. The positive investment growth of the fourth quarter of 2002 turned negative in the first quarter of 2003, as did inventories during the following quarter (see Figure 5). Investment was weak during the early phase of the recovery period despite federal tax policies designed to stimulate business spending.[9] The data indicate that business fixed investment remained weak until after the resolution of the Iraq crisis. Although econometric evidence suggests that profit growth tends to lead investment, the weakness during 2002 and early 2003 cannot be attributed to poor profits since corporate profits have exhibited robust growth since early 2002 (see Figure 7). This growth has been mainly due to aggressive cost cutting.

[9] The "Job Creation and Worker Assistance Act of 2002," (JCWA) signed into law in early March 2002, created a 30-percent first-year "bonus depreciation" on capital equipment acquired during the three years following September 11, 2001. This is in addition to regular depreciation. The law also allowed small businesses to expense the purchase of "qualified property" rather than depreciate it. For 2001 and 2002, up to $24,000 worth of depreciable assets could be expensed. The "Jobs and Growth Tax Relief Reconciliation Act of 2003" (JGTRRA), passed in May 2003, contained additional incentives for business investment, including a quadrupling of the amount of "qualified property" small businesses could expense and an increase in the rate of "bonus depreciation" to 50 percent for property acquired after May 5, 2003 and placed in service before January 1, 2004. Under the law, small businesses can now expense up to $100,000 in "qualified property" purchased through the end of 2005. The definition of "qualified property" was also amended to include off-the-shelf computer software.

In an attempt to quantify the extent of the capacity overhang in the U.S. economy, one study notes that during the 1961-1969 expansion, real business fixed investment increased 95 percent while real GDP increased 51 percent. During the 1982-1990 expansion, real investment rose 42 percent with real GDP rising about 37 percent. But during the expansion of 1991-2001, real business fixed investment climbed 113 percent while real GDP rose only about 39 percent.[10] Another study finds a substantial overhang only in telecommunications and information-processing equipment, and concludes that by 2002 what remained of the overhang was too small to significantly inhibit investment spending growth in the future.[11]

Figure 7

Growth in Real Nonresidential Fixed Investment and Corporate Profits



Note: Corporate profits growth rate is not annualized.
Source: Economy.com; DOB staff estimates.

Looking forward, several factors will help to insure that investment spending continues to grow. Interest rates are expected to remain relatively low. With business confidence increasing, firms can be expected to respond positively to fiscal policy incentives, such as bonus depreciation and full expensing. Real investment in computers and peripheral equipment has been growing since the fourth quarter of 2001, reflecting its unique replacement cycle. Indeed, as computers continue to account for an ever-increasing share of the capital stock, their accelerated pace of depreciation ensures that average investment growth will continue to grow over time. While investment in structures and other sectors has lagged, the aging of the existing capital stock suggests that capital shortfalls may be developing in some areas. Figure 8 compares actual and forecast values of private nonresidential investment in capital equipment, excluding computers and computer-related goods, to an estimate of the optimal level. The figure suggests that a situation of overcapacity has become one of undercapacity. Although excess capacity remains in select industries, it is deemed insufficient to significantly inhibit future growth. The Budget Division projects growth of 10.6 percent in real nonresidential fixed investment for 2004, following growth of 2.5 percent in 2003.

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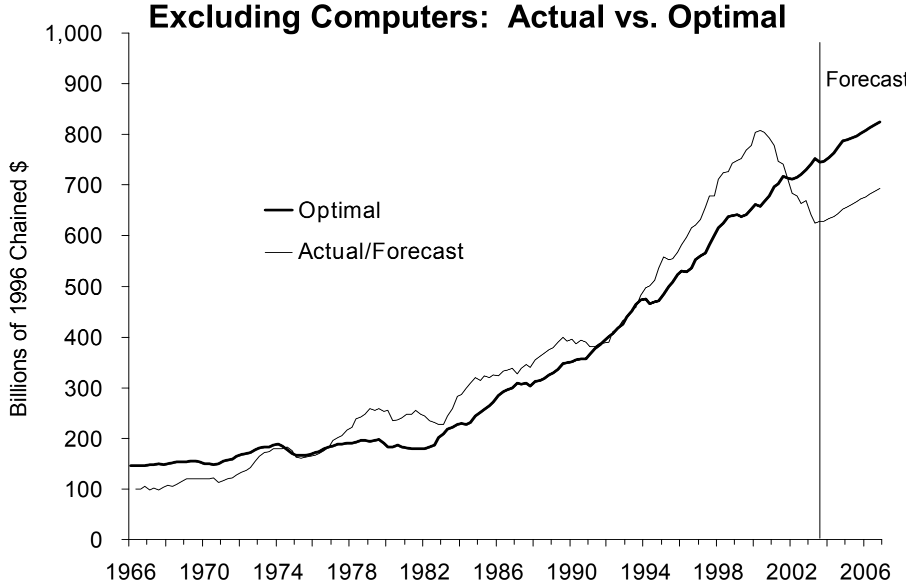
[10] Kevin L. Kliesen, "Waiting for the Investment Boom? It Might Be a While," *National Economic Trends,* May 2003, The Federal Reserve Bank of St. Louis.

[11] Eric French, Thomas Klier and David Oppedahl, "Is There Still an Investment Overhang, and if so, Should We Worry About It?" *Chicago Fed Letter*, Special Issue, Number 177a, May 2002, The Federal Reserve Bank of Chicago. The analysts use four methods to try to measure the extent of the capital overhang. One measure indicated no capital overhang, while the other three showed some overhang.

Figure 8

Nonresidential Investment in Capital Equipment Excluding Computers: Actual vs. Optimal



Source: Economy.com; DOB staff estimates.

Outlook For U.S. Corporate Profits And The Stock Market

Projected rates of investment growth will be supported by solid growth in corporate profits. As indicated in Figure 7, corporate profits from current production (including the capital consumption and inventory valuation adjustments) have been quite strong since the beginning of 2002. Indeed, corporate profits growth for 2002 was revised up by 9.7 percentage points during the most recent comprehensive revision of the National Income and Product Accounts (NIPA) data (see Box 2). On a year-over-year basis, corporate profits have exhibited strong growth for eight consecutive quarters. Early in 2002, profit growth was led by financial firms, which account for about 40 percent of total domestic corporate profits, and by wholesale and retail trade firms, which together account for about an additional 10 percent. Profits in other industries have been showing either low growth or declines, with durable manufacturing exhibiting the worst performance. Later in 2002 and early 2003, financial and trade firm profits deteriorated, while nondurable manufacturing and "other" industries started to improve. With productivity growth expected to remain robust, the Budget Division projects growth of 15.1 percent in corporate profits from current production for 2004, following growth of 18.7 percent in 2003.

BOX 2

2003 COMPREHENSIVE REVISION OF THE NATIONAL INCOME AND PRODUCT ACCOUNTS[1]

In December 2003, the Bureau of Economic Analysis released its 12th comprehensive revision of the national income and product accounts (NIPA). The comprehensive revision includes:

- changes in definitions and classifications, such as the recognition of implicit services provided by property and casualty insurance as services consumption and the allocation of a portion of implicit services provided by commercial banks to borrowers.
- introduction of new and improved methodologies and the incorporation of newly available and revised source data,
- presentational changes in the NIPA tables that reflect definitional changes.

The revised data do not paint a significantly different historical portrait of the major economic indicators, such as real output and personal income. The average growth rate of real output stayed at 3.2 percent for the period from 1929 to 2002. While real consumption and residential investment now appear to have grown faster than originally thought, exports and government expenditures grew more slowly.

Real output growth was revised down for 2002 by 0.3 percentage points, but was revised up by the same magnitude for 2001 (see table below). Real output declined during the first three quarters of 2001, consistent with prior estimates, although the biggest decline occurred during the third quarter of 2001, rather than the second quarter, as indicated by previous estimates (see graph below).

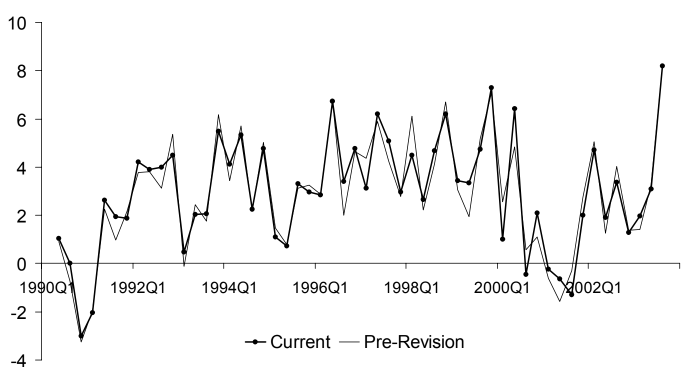
One of the most significant revisions was made to corporate profits. The 2002 growth rate was revised up from 8 percent to 17 percent. The large upward revision reflects improved methods of estimating the cost of stock options.

SELECTED NIPA REVISIONS

	Real GDP			Personal Income			Corporate Profits with IVA &CCA		
	Current	Pre-revision	Diff.	Current	Pre-revision	Diff.	Current	Pre-revision	Diff.
1999	4.4%	4.1%	0.3%	5.1%	4.9%	0.3%	6.2%	3.6%	2.6%
2000	3.7%	3.8%	-0.1%	8.0%	8.0%	0.1%	-3.9%	-2.2%	-1.7%
2001	0.5%	0.3%	0.3%	3.4%	3.3%	0.0%	-5.8%	-7.2%	1.4%
2002	2.2%	2.4%	-0.3%	2.3%	2.7%	-0.5%	17.4%	7.6%	9.7%

Note: Discrepancies are due to rounding.
Source: Economy.com.

NIPA Comprehensive Revision: Real GDP Growth
(percent change, annualized)



Source: Economy.com.

[1] For more information on 2003 Comprehensive revision, see <<www.bea.doc.gov/bea/dn1.htm>>.

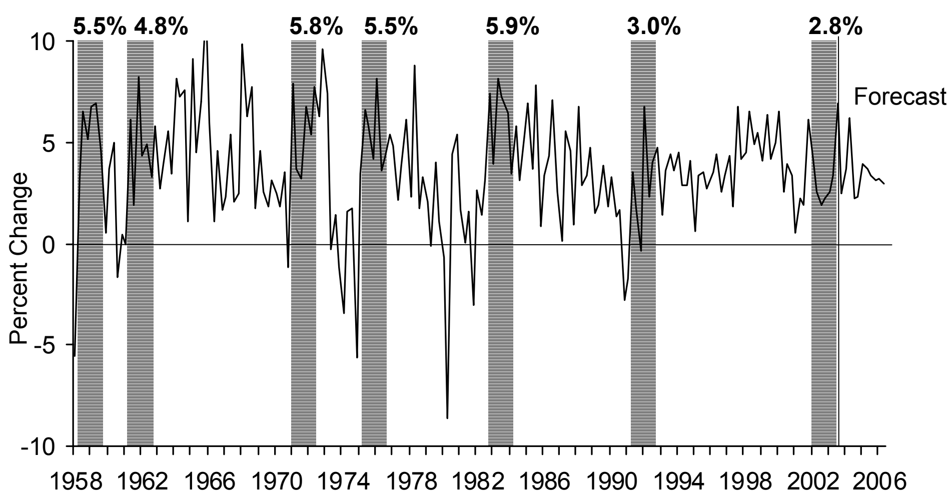
The growing profits depicted in Figure 7 were reflected in stock market growth long before other indicators. The stock market is typically viewed as a leading indicator, since equity prices represent how investors assess the long-term value of holding stocks, and are therefore forward looking. Consequently, equity values depend on present and expected future corporate profits, discounted by the interest rate. Solid growth in corporate profits going forward will continue to support the upward trend in equity values that dates back to the fall of 2002, although that trend was interrupted by the run-up to the war in Iraq. Since March 2003, equity prices have risen consistently. Continued low interest rates also bode well for equity values. For example, the rate on Baa corporate bonds is expected to rise only modestly through the forecast period from a near 40-year low of 6.8 percent in 2003 to 7.7 percent in 2005. The Budget Division projects that the stock market, as represented by Standard and Poor's 500 Index (S&P 500), will rise 15.6 percent in 2004, following a 3.2 percent decline for 2003.

Household Sector Spending Remains Solid

Unlike the typical postwar downturn, household sector spending held up extremely well during the 2001 recession. Much of that strength was the result of the interest rate cuts initiated by the Federal Reserve Board in January 2001, which stimulated both new home buying and a wave of mortgage refinancing. Fiscal policy stimulus and purchasing incentives offered by auto manufacturers immediately following September 11 were also factors. In contrast, consumption weakened during the period immediately following the recession (see Figure 9). Some of that weakness may have been due to the lack of pent-up demand following unusually strong spending during the recession.

Figure 9

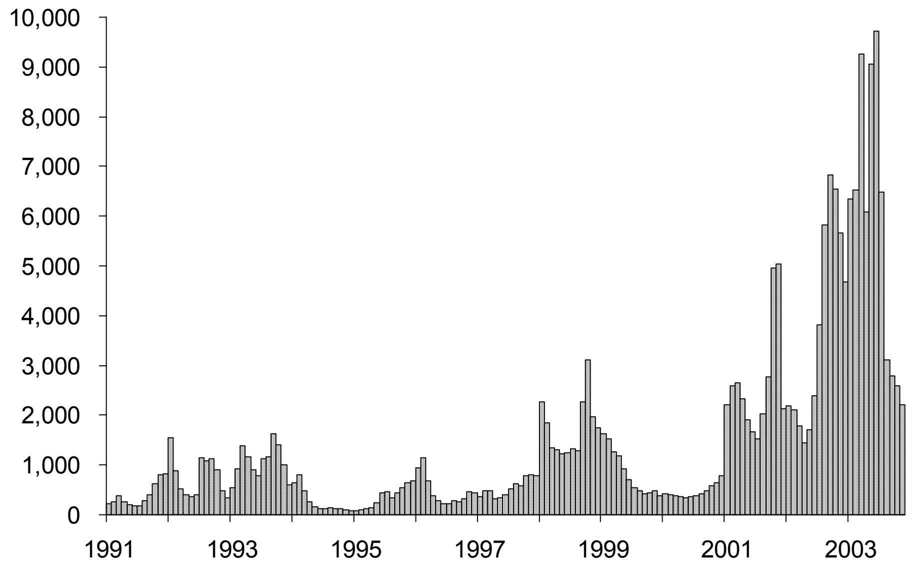
Consumption Growth
During the First Six Quarters Following a Recession



Note: Shaded areas represent the six quarters following the last seven US recessions, excluding the 1980 recession; numbers above the bars show the average annualized rates of quarterly growth over the six quarters.
Source: Economy.com.

Figure 10

Conventional Market Mortgage Refinance Index



Source: Economy.com.

With long-term interest rates expected to rise modestly over the course of 2004 and beyond, cash-outs from mortgage refinancing, which provided much support to consumption spending over the last three years, are expected to diminish. The Conventional Market Mortgage Refinance Index has declined more than 80 percent since its June 2003 peak (see Figure 10). Moreover, there is evidence that an increasing percentage of households are refinancing for the purpose of reducing their loan payments, rather than cashing out equity. The percentage of refinancings involving new loan amounts that are at least five percent higher than the original loan dropped from 63 percent in the second quarter of 2002 to 32 percent in the second and third quarters of 2003. Although lower monthly payments do imply more funds available for non-housing forms of consumption, the boost to consumption growth might be less than that from a direct extraction of equity. However, because of spending lags, the record cashout volume estimated for 2003 may continue to support consumption spending in 2004 as well (see Figure 11).

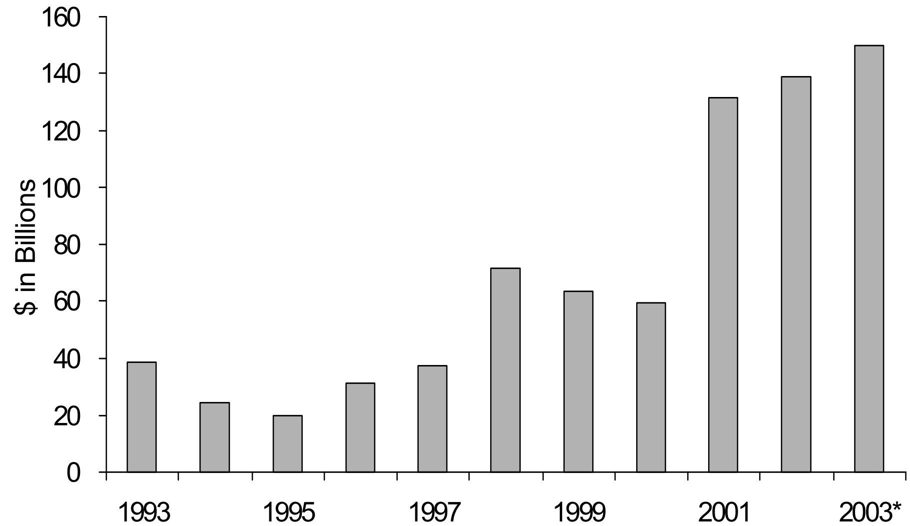
The continuing impact of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA) will also support further consumption growth in 2004.[12] Although there is little consensus as to the impact of the 2001 tax cut on consumption spending, most analysts agree that JGTRRA is at least in part responsible for the economy's strong performance during the third quarter of 2003. Consumption spending rose 6.4 percent during the third quarter, the highest growth since the third quarter of 1997. The total annualized boost to disposable income from the tax cut is estimated at about $107 billion for the third quarter of 2003, more than half of which was due to the childcare credit refund. Evidence suggests that most of this additional income was actually spent by consumers during the third quarter of

[12] JGTRRA, valued at $350 billion by the Joint Committee on Taxation, provides tax relief to both consumers and businesses. The Act's provisions include an increase in the child care tax credit per child from $600 to $1000, an acceleration of the statutory reductions in individual income tax rates originally slated to go into effect in 2006, an acceleration of marriage penalty relief, reduction of other income tax rates, as well as an increase in the individual alternative minimum tax exemption. As many of the law's provisions were made retroactive to January 1, tax rebate checks related to the childcare credit were sent to qualified taxpayers for up to $400 for each child during last summer.

2003. An additional boost to disposable income of approximately $150 billion annualized is expected in the first half of 2004, when many taxpayers settle with the IRS, primarily in the February to April period.

Figure 11

Home Equity Cashed Out Through Refinancing



Note: Total includes first lien mortgages, second mortgages and consolidations.
*The year 2003 includes only three quarters of data.
Source: Freddie Mac.

The primary determinant of consumer spending is households' long-term expectation for disposable income. Therefore, how tax cuts affect the behavior of household spending depends primarily on household income and whether the cut is permanent or temporary. With many of the tax cut provisions not set to expire until the end of 2010, households are likely to perceive them as permanent and so their impact will be significant. Based on an analysis of Consumer Expenditure Survey data, the marginal propensity to consume averages about 60 percent, although it is much higher for low-income households and much lower for high-income households (see Table 3). With JGTRRA not set to expire until 2010, the Budget Division estimates that the 2003 tax cuts added $16 billion to real consumption during 2003, with most of that consumption spending occurring in the third quarter, and will add $44 billion to real consumption during 2004, with much of it concentrated in the second quarter (see Figure 12).

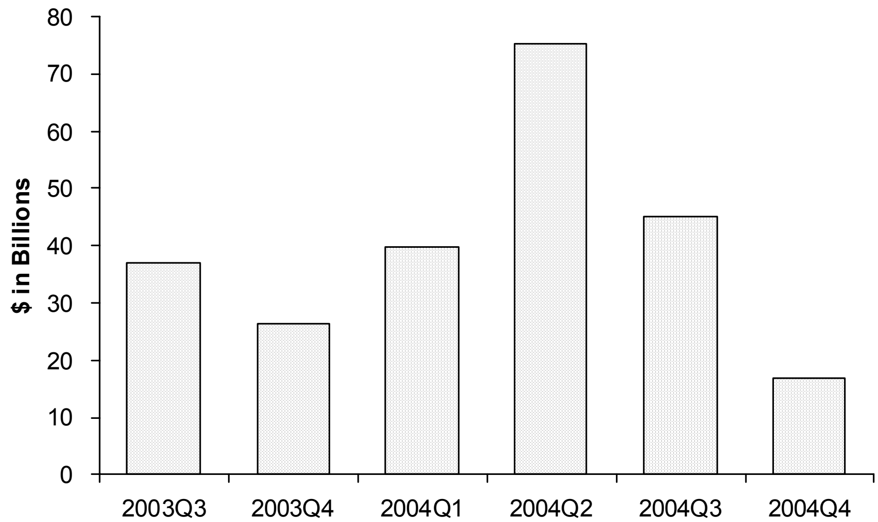
TABLE 3
MARGINAL PROPENSITY TO CONSUME
Consumer Expenditure Survey

Income Class	2000	2001
$7,000-29,000	70.0%	69.4%
$29,000-68,000	67.3%	65.7%
$68,000-143,000	38.9%	44.6%
$143,000 and Above	28.4%	30.8%

Note: Annual numbers are the average of quarterly MPCs.
Source: Consumer Expenditure Surveys, 2000 and 2001; DOB staff estimates.

Figure 12

Projected Impact of the JGTRRA on Real Consumption



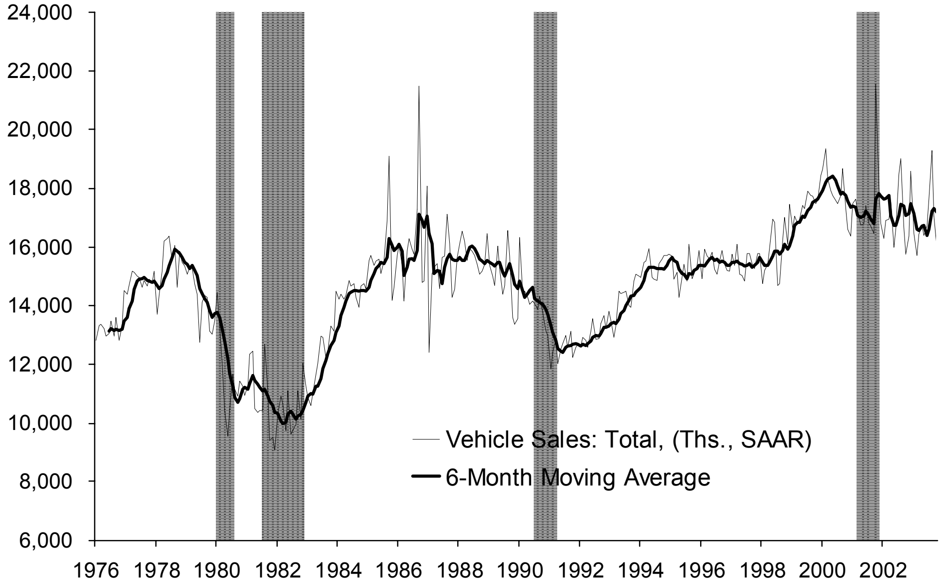
Note: JGTRRA refers to the "Jobs and Growth Tax Relief Reconciliation Act of 2003."
Source: Economy.com, Congressional Budget Office, U.S. Department of Treasury, DOB staff estimates.

After an especially strong third quarter due to the timing of the tax rebates, vehicle sales are expected to decline in the fourth quarter of 2003 (see Figure 13). However, the continuing impact of the tax cuts and the tail of the mortgage refinancing boom are expected to support strong durable goods sales during the first half of 2004. The timing of refund payments should produce particularly robust sales during the second quarter. Moreover, advancing employment and income growth should provide continued stimulus to household spending during the second half of the year and beyond. Overall, the cyclical component of real consumption, composed of vehicles and other durable goods, is expected to grow 7.4 percent in 2004, following growth of 6.5 percent in 2003. The less cyclical component of consumption, consisting of nondurable and services consumption, is projected to grow 3.2 percent in 2004, following growth of 2.5 percent in 2003, consistent with the projected growth in disposable income.

Households played a critical role in keeping the 2001 recession mild, not only through strong consumption spending, but also by supporting a booming housing market. Figure 14 shows the strength of the impact that the decline in mortgage rates has had on real fixed residential investment. Housing starts remain at record levels, despite the rise in mortgage rates since early 2003. However, with interest rates likely to rise further, and home prices at historically high levels, housing market growth is expected to moderate in 2004. The National Association of Realtors' Housing Affordability Index, which combines the impact of home prices, family incomes, and interest rates, remains at historically high levels, supporting the demand for housing. However, the index is expected to fall as interest rates and home prices continue to rise. The Budget Division expects real residential fixed investment to grow 5.5 percent in 2004, following growth of 9.0 percent in 2003.

Figure 13

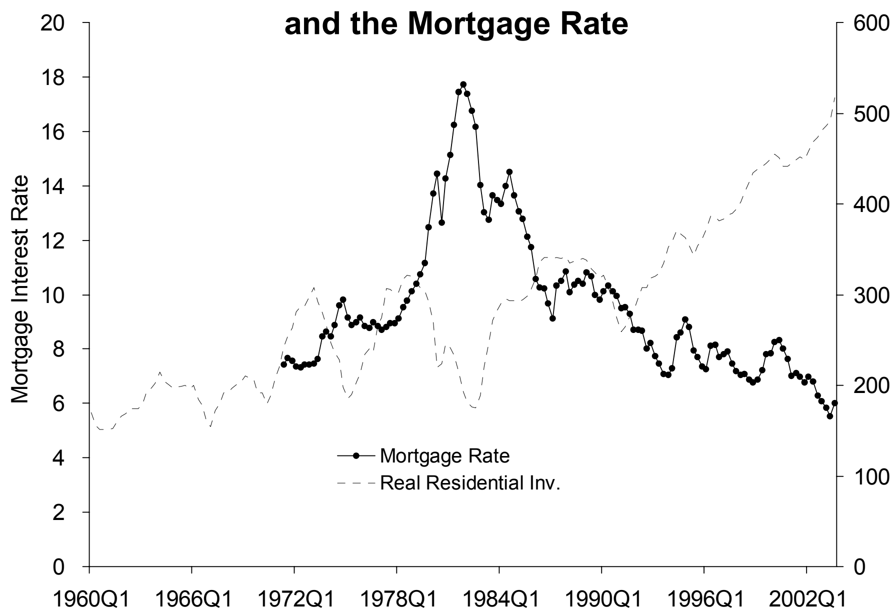
Vehicle Sales



Source: Economy.com

Figure 14

Real Residential Fixed Investment and the Mortgage Rate



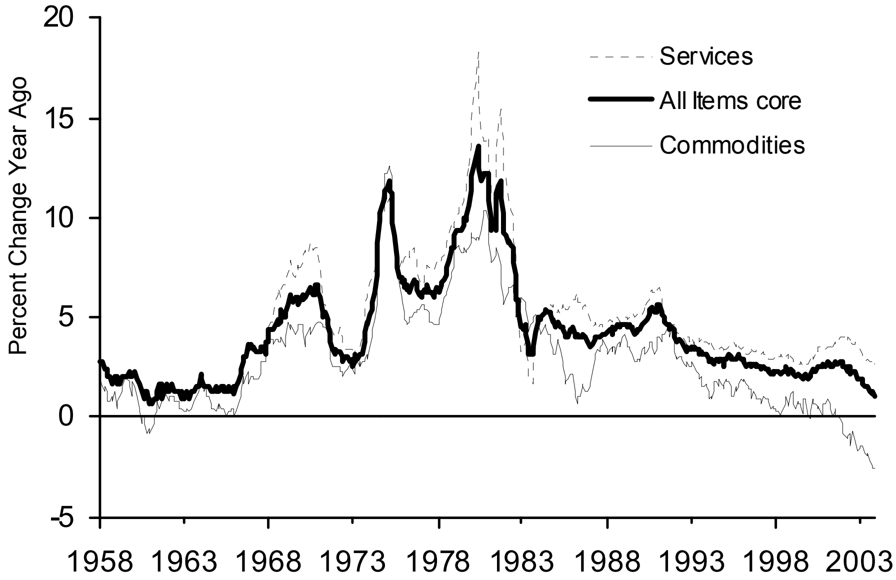
Source: Economy.com

Inflation and the Outlook on Monetary Policy

Inflation has been trending downward since the early 1980s. Recent trends in inflation, as measured by growth in the Consumer Price Index (CPI), have been dominated by weakness in the national and global economies, as well as turbulence in the energy market. For example, the rate of inflation fell from 3.4 percent in 2000 to 1.6 percent in 2002, primarily reflecting the contraction in economic activity. In contrast, the rise in inflation to 2.3 percent in 2003 is chiefly due to the rise in energy prices at the height of the Iraq conflict. Because of the volatility in food and energy prices, the movement in prices excluding these components, also known as the "core rate of inflation," is thought to give a truer picture of underlying price trends. The core rates of inflation for all items, commodities, and services appear in Figure 15. All have been trending downward since early 2002, with commodities prices actually exhibiting deflation on a year-over-year basis since the end of 2001.[13] Even medical care services inflation, which until about one year ago had been leading the services component of inflation upward, has moderated. Medical care services inflation averaged 4.5 percent in 2003, down from 5.1 percent for all of 2002.

Figure 15

Core CPI Inflation



Source: Economy.com.

What is the source of the disinflation in services prices and the deflationary trend in commodities? Inflationary pressures tend to be strongest during periods of expansion as the demand for labor and commodity resources increases. As the demand for labor weakens when the economy heads into recession, so does the pressure on employers to raise wages. Therefore, domestic inflation peaked along with the business cycle in early 2001. Moreover, with the increasing integration of the global economy, the U.S. downturn spread to our trading partners, reducing price pressures yet further. Because of the growing slack in the global economy, growth in the prices of traded goods has tended to be weaker than that of non-traded goods. Hence, one is more likely to observe deflation in the prices of commodities because they are traded more extensively.

Inflation rates tend to fall when there is spare capacity, even when the economy's rate of growth is strong. The degree of spare capacity rather than its rate of change is the more significant factor. A key measure of slack is the output gap, defined as the difference between actual and potential real GDP. Since potential GDP is unobservable, it must be estimated (see Box 3). The Budget Division currently estimates the economy's potential

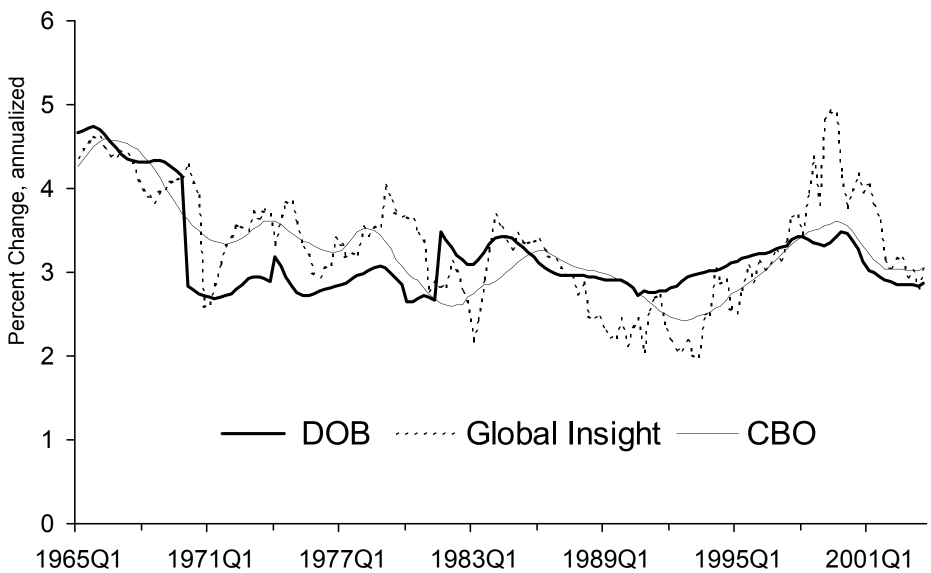
[13] Alternative measures of inflation include the price deflators associated with national output and its components. For example, the core deflator for personal consumption expenditures is reported to be closely monitored by the Federal Reserve Board. These measures are available on a quarterly basis, whereas the CPI is available monthly. However, the two sets of series tend to exhibit the same overall patterns.

growth rate to be about 3.0 percent (see Figure 16). A reduction in the size of the gap occurs when the growth rate of actual GDP exceeds the growth rate of potential GDP. With the economy's growth rate projected to exceed its potential in 2004, inflationary pressures can be expected to build from that source. Preliminary signals of such pressures have already emerged. For example, core wholesale finished goods prices, excluding food and energy, have begun to rise in recent months. Import prices have also been rising, due in part to the recent depreciation of the dollar.

Nevertheless, there are several reasons to expect inflation to remain low. The relatively strong output growth anticipated for 2004 will coincide with a significant degree of slack in the nation's labor market and industrial sector. The nation's unemployment rate is expected to fall only to 5.5 percent by the fourth quarter. An improving global economy will continue to sustain spare capacity as well. Moreover, the U. S. economy is expected to continue to exhibit high productivity growth. Finally, oil prices are expected to decline from recent levels. These factors will create countervailing downward pressures on inflation. On balance, the Budget Division believes that while the core rate of inflation will rise, an anticipated decline in energy prices will outweigh the impact of higher domestic and global growth, leading to slightly lower overall inflation for 2004. Consumer price inflation, as measured by growth in the CPI, is projected to fall to 1.8 percent from 2.3 percent in 2003.

Figure 16

Potential Real GDP



Source: Economy.com, Global Insight, Congressional Budget Office, DOB staff estimates.

The modest acceleration in the core rate of inflation projected for 2004 will induce the Federal Reserve to gradually increase the federal funds rate, after holding it steady at 1.0 percent since June 2003. The Budget Division uses a modified version of Taylor's monetary rule as a guide to forecasting changes in the Federal Reserve Board's federal funds policy target.[14] Taylor's rule is a federal funds rate reaction function that responds to both the deviation of inflation from its target level and the deviation of output growth from its potential level. We assume the Federal Reserve weighs deviations from its inflation target about twice as heavily as deviations from its output growth target, so the inflation deviation has a weight of 1 while the output-growth deviation has a weight of 0.5. In addition, the contemporaneous

[14] See John B. Taylor, "Discretion Versus Policy Rules in Practice," *Carnegie-Rochester Conference Series on Public Policy*, 39, 195-214, 1993.

value of inflation is replaced by an average of actual inflation for the past three quarters, estimated inflation for the current quarter, and expected inflation for one quarter ahead. A similar term is constructed for output growth.

BOX 3
THE DETERMINATION OF
POTENTIAL GROSS DOMESTIC PRODUCT

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

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

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

Following the Congressional Budget Office (CBO), the Division of the Budget divides the economy into five sectors: nonfarm business, farm, government, nonfarm housing, and households and nonprofit institutions.[1] The nonfarm business sector is by far the largest sector of the economy, comprising 84.1 percent of total GDP during 2000. To model this sector, the DOB again follows CBO and adopts a neoclassical growth model incorporating three inputs to the production process: labor as measured by the number of hours worked, the capital stock, and total factor productivity.

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

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

[1] See "CBO's Method for Estimating Potential Output," Congressional Budget Office, October 1995, and "CBO's Method for Estimating Potential Output: An Update," Congressional Budget Office, August 2001.

Recently, with inflation rates generally declining throughout the major world economies and outright deflation existing for an extended period of time in Japan, the Federal Reserve has expressed grave concern about the dangers of deflation in the United States, as seen in the minutes released after recent meetings of the Federal Open Market Committee. Thus, the federal funds rate is expected to rise more slowly than a strict application of Taylor's Rule would suggest. Indeed, recent research finds that a policy based on a modified Taylor's Rule may be more effective when the federal funds rate gets close to its nominal zero-bound.[15] The Budget Division expects the federal funds rate to move up 75 basis points by the end of 2004, representing a continued accommodative stance by the Federal Reserve from a historical standpoint.

Outlook on Government Spending

Between the third quarter of 2001 and the third quarter of 2003, real federal government expenditures rose 17.6 percent. During the same period, defense spending was up 22.7 percent, mostly due to conflicts in Iraq and Afghanistan (see Figure 17). In September 2003, Congress approved $87 billion in additional funds for the war in Iraq, with a significant portion of the money to be allocated for military compensation and purchases of military equipment.[16] However, DOB does not estimate strong growth for the federal component of GDP for either the fourth quarter of 2003 or all of 2004, since the level of spending was already very high during 2003. In addition, some of the spending allocated to the reconstruction of Iraq will be accounted for in real GDP as imports.[17] The Budget Division projects growth of 3.7 percent in the Federal contribution to real GDP growth for 2004, following growth of 8.1 percent for 2003. Spending at the state and local level will be continue to be restrained due to the lag in the response of state and local government receipts to changes in the direction of the overall economy. The state and local government component of real GDP is expected to grow 1.6 percent for 2004, following growth of only 0.8 percent in 2003.

The Federal budget deficit is not expected to have a significant impact on interest rates in the near term. This implies no significant crowding out of private sector investment by the public sector borrowing needs over the immediate forecasting horizon. However, the long-term impact of the deficit on interest rates is expected to be upward. The Budget Division projects a rise in the 10-year Treasury rate to 4.7 percent in 2004 from 4.0 percent in 2003.

The International Economy

The increased synchronicity of global markets implies that the growing strength of the U.S. economy will act as a renewed engine of global growth. Indeed, the 11.0 percent growth in real exports in the third quarter suggests that this growth is finally becoming palpable (see Figure 18). Goods exports, which account for about two thirds of all real U.S. exports, grew 8.9 percent in the third quarter. Much of that growth was accounted for by the almost 20 percent growth in capital goods exports, a category which accounted for 41.5 percent of U.S. goods exports during the first ten months of 2003 (see Figure 19).

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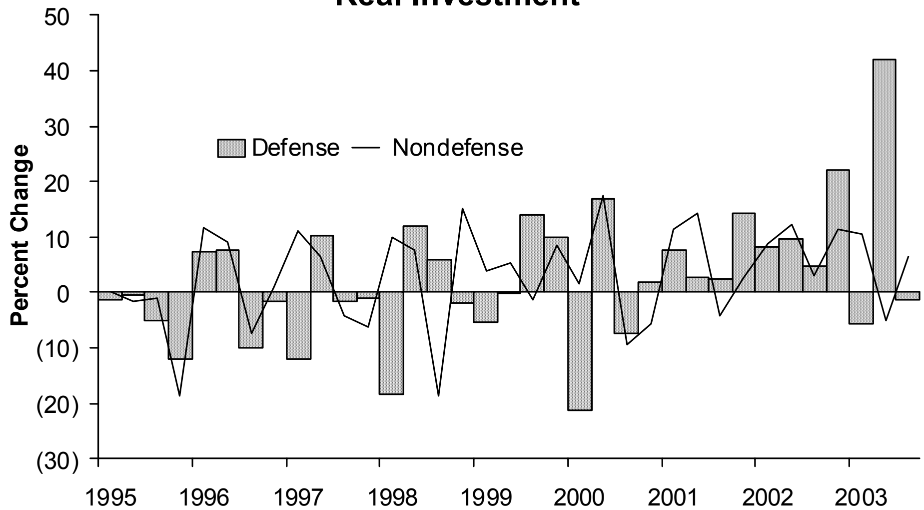
[15] See David L. Reifschneider and John C. Williams, "Three Lessons for Monetary Policy in a Low Inflation Era," *Finance and Economics Discussion Series*, 1999-44 (August).

[16] For more information see <<http://www.whitehouse.gov/omb/budget/amendments/supplemental_9_17_03.pdf>>.

[17] BEA includes military purchases abroad in a sub-category of "Imports of Services" called "Direct defense expenditures", which is defined as "Expenditures incurred by U.S. military agencies abroad, including expenditures by U.S. personnel, payments of wages to foreign residents, construction expenditures, payments for foreign contractual services, and procurement of foreign goods. Includes both goods and services that cannot be separately identified." For more information on this topic, see <http://www.bea.doc.gov/bea/newsrel/info0803.htm>.

Figure 17

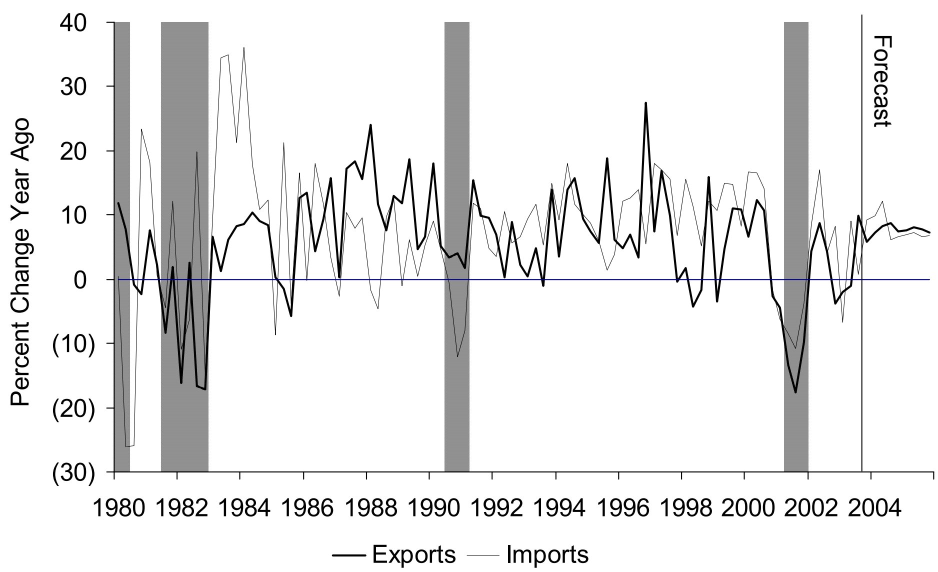
Real Federal Government Consumption Expenditures and Real Investment



Source: Economy.com

Figure 18

Real Import and Export Growth

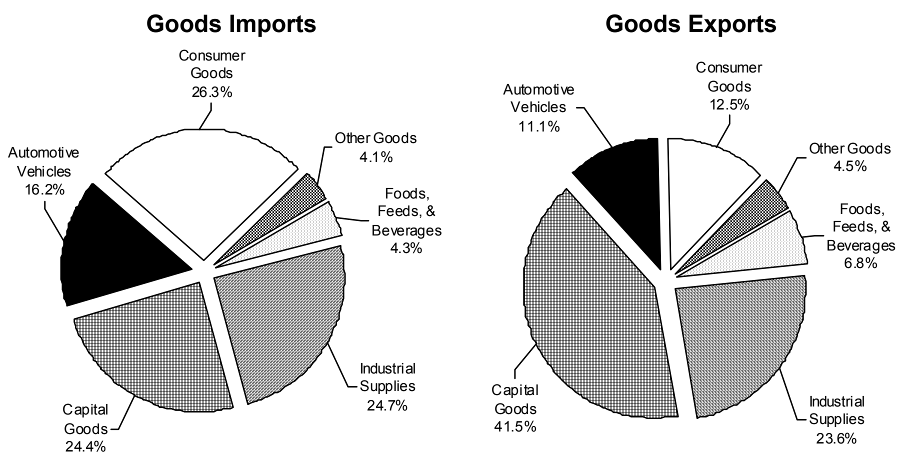


Note: Shaded areas represent US recessions.
Source: Economy.com; DOB staff estimates.

Although an increase in world demand for capital goods bodes well for global investment growth, growth rates are still well below potential. Table 4 displays a list of the nation's top 10 trading partners. These ten countries represent 68.8 percent of total U.S. imports and 66.3 percent of total U.S. exports in goods. Our largest trading partner, Canada grew 2.6 percent in the first quarter of 2003, but saw real GDP decline 0.3 percent in the second quarter, although final domestic demand grew a much stronger 2.9 percent. Like much of Latin America, the Mexican economy remains weak. One exception to the trend in Latin America is Chile, which saw average growth of over 3.0 percent for the first three quarters of 2003. China has averaged strong growth of 8.6 percent for the first three quarters of 2003, on a year-ago basis. While economic growth in Taiwan and South Korea has not been nearly as strong, both countries have seen solid improvement since the spring of 2003. After growing an anemic 0.9 percent in 2002, Euro area real GDP was virtually flat during the first two quarters of 2003. Euro area industrial production rose a mere 0.3 percent during the first eight months of 2003. Japan's economy has embarked upon a gradual recovery, characterized by increasing exports, business investment, and industrial production. However, housing investment and private consumption remain sluggish, and the decline in household income is only slowly reversing itself.

Figure 19

Composition of Real Imports and Exports of Goods by Principal End-Use Category for 2003



Note: Based on 10 months of data.
Source: U.S. Bureau of the Census.

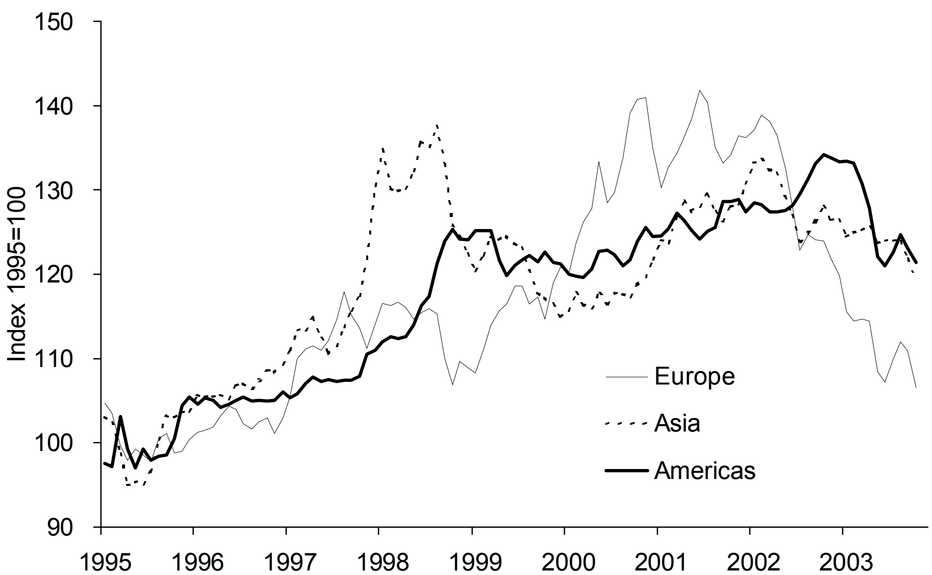
TABLE 4
TOP TEN TRADING PARTNERS OF THE U.S.
(Imports Plus Exports)

Country	YTD Through November 2003 ($ in Billions)
Canada	361.70
Mexico	215.82
China	164.28
Japan	155.39
Federal Republic Of Germany	87.99
United Kingdom	69.93
Republic of Korea	55.35
Taiwan	44.31
France	41.94
Malaysia	33.04

Source: U.S. Census Bureau.

The nation's foreign sector made a rare positive contribution to real GDP growth during the third quarter of 2003. Although the Budget Division is not forecasting an improvement in the U.S. trade deficit for the foreseeable future, the recent trend in the value of the dollar argues against too dramatic a deterioration in the U.S.'s net export position. Figure 20 shows trends in the trade-weighted value of the dollar against the currencies of three trading areas: Europe, the Americas, and Asia. The U.S. dollar has depreciated almost 12 percent against a trade-weighted measure of all foreign currencies since peaking in the first quarter of 2002, falling against all currencies except for several of our Asian trading partners, including China, Malaysia, and Hong Kong, nations that actively peg the values of their currencies to the U.S. dollar. As of the middle of 2002, the most recent period for which detailed data are available, both China and Hong Kong held particularly large portfolios of U.S. securities. We expect these two sets of countervailing forces to combine to allow a modest depreciation to continue, with a positive impact on U.S. export growth.

Figure 20
Trade Weighted Value of Dollar



Source: Economy.com.

With the U.S. economy exhibiting strong growth in the latter half of 2003 and into 2004, it will once again play the role of the global economy's growth engine. Holding other factors constant, this role suggests a continued widening of the nation's trade deficit for the foreseeable future, a trend that will only be cushioned by a modestly falling dollar. Although a large trade imbalance presents a currency risk, the strong growth in the U.S. economy relative to the rest of the world implies that the demand for U.S. dollar-denominated assets will remain strong, partially offsetting the forces driving down the value of the dollar. The Budget Division projects growth in real U.S. imports of 8.4 percent for 2004, following growth of 3.7 percent for 2003. Real U.S. exports are projected to grow 7.3 percent in 2004, following growth of 1.4 percent in 2003.

COMPARISON WITH OTHER FORECASTERS

Table 5 compares DOB's 2004 forecast for major U.S. indicators with those of other forecasting groups. Forecasts for real U.S. GDP growth range from a low of 4.3 percent (Economy.com) to a high of 4.9 percent (Macroeconomic Advisors). The Budget Division's forecast of 4.7 percent is in about the middle of the range. DOB's inflation forecast of 1.8 percent for 2004 is above the forecasters listed, but very similar to the Blue Chip Consensus. Unemployment rate forecasts for 2004 range from a low of 5.7 percent to a high of 6.1 percent. The Budget Division is at the low end of the range at 5.7 percent.

Table 10 and Table 11 present the Division of the Budget's baseline forecast for selected U.S. economic indicators. The Division's macroeconomic model underwent substantial revision in 2000. A brief description of the model is presented in Box 4.

TABLE 5
U.S. ECONOMIC FORECAST COMPARISON

	2003 (preliminary)	2004 (forecast)	2005 (forecast)	2006 (forecast)	2007 (forecast)
Gross Domestic Product (GDP)					
(1996 chain wt. percent change)					
DOB	3.1	4.7	3.5	3.3	3.1
Blue Chip Consensus	3.1	4.6	3.7	NA	NA
Economy.com	3.1	4.3	NA	NA	NA
Global Insight	3.0	4.7	3.8	3.3	3.3
Macroeconomic Advisers	3.1	4.9	4.2	3.7	3.0
Consumer Price Index (CPI)					
(percent change)					
DOB	2.3	1.8	2.1	2.3	2.4
Blue Chip Consensus	2.3	1.7	2.1	NA	NA
Economy.com	2.3	1.2	NA	NA	NA
Global Insight	2.3	1.3	1.6	1.7	2.1
Macroeconomic Advisers	2.3	1.2	1.5	1.8	1.9
Unemployment Rate					
(percent)					
DOB	6.0	5.7	5.2	5.0	5.1
Blue Chip Consensus	6.0	5.7	5.4	NA	NA
Economy.com	6.0	6.1	NA	NA	NA
Global Insight	6.0	5.7	5.4	5.5	5.5
Macroeconomic Advisers	6.0	5.8	5.2	4.9	4.9

Source: Projections for 2003-2007 by New York State Division of the Budget, January 2004; Blue Chip Economic Indicators, January 2004; Economy.com, Macro Forecast, January 2004; Global Insight, US Executive Summary, December 2003; and Macroeconomic Advisers, Economic Outlook, January 2004.

Risks to the U.S. Forecast

Although the Budget Division believes that the U.S. is on a sustainable growth path, that belief is contingent upon the absence of any further shocks to the economy. Unpredictable events such as a terrorist attack remain the biggest risk to the economic expansion. Such a shock could induce firms to postpone their spending and hiring plans again, reducing future investment and employment, which in turn could result in lower consumption growth. Moreover, a destructive attack on oil facilities abroad or a policy shift on the part of oil-producing nations could result in higher oil prices than anticipated, having adverse economic repercussions. Similarly, a corporate governance scandal of Enron proportions could dishearten investors, weakening equity prices and business and consumer spending.

If the Federal Reserve Board should initiate a policy of monetary tightening sooner than anticipated, growth could also be more restrained than expected. A significant risk of deflation has now receded, and the Federal Reserve has demonstrated in the past that it can swiftly shift course when it deems necessary. If households demonstrate a weaker response than expected to the fiscal stimulus provided by the tax cut, growth could be weaker than what is reflected in the forecast. In addition, with the personal savings rate now at a relatively low level, there is a risk of a “virtuous reform” by consumers to increase savings in order to readjust their balance sheets. The resulting decline in consumption growth could weaken corporate profits, which could in turn result in lower employment and investment growth. As discussed above, the dollar is at some risk of a sharp adverse reaction by foreign investors. A dollar collapse would impart a substantial inflationary impulse to the economy. This could well lead to higher interest rates and lower stock prices, both of which would constrict economic activity. This problem could be exacerbated by weaker-than-expected growth among the nation’s trading partners, producing weaker export growth than projected.

On the other hand, an economic resurgence that moderately exceeds the Budget Division’s expectations is also possible. A more rapid increase in export growth due to either a weakened dollar or faster global growth could generate a somewhat stronger increase in total output than expected. Similarly, lower inflation than expected, perhaps as a result of a substantial drop in the price of oil or stronger productivity growth than expected, could induce the Federal Reserve to postpone interest rate increases, resulting in stronger consumption and investment growth than projected. Moreover, strong productivity growth could result in higher real wages, supporting faster growth in consumer spending than expected.

BOX 4
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.

In economic parlance, DOB/U.S. could be termed a neoclassical model. 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 (such as those caused by sticky prices and wages). 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.

THE NEW YORK STATE ECONOMY

The New York State economy is finally emerging from recession, a view supported by both the most recent economic data and the results of recently conducted business sentiment surveys. Current conditions are similar to what they were one year ago, when it looked like the State recovery would begin in earnest. However, the U.S. and global recoveries lost momentum as the nation was heading toward war, resulting in an unanticipated lengthening of the State's recession. With the uncertainty of that period now dissipating, the State economy is poised for its first annual increase in employment in four years.

Private sector employment growth for the first four quarters of the State recovery is projected at 0.5 percent.[18] Although this is below average growth for this stage in a recovery, it is stronger than the 0.1 percent growth that followed the 1989-92 State recession.

The recent upturn in financial market activity has improved prospects for bonuses and wages as well. Wage growth for 2004 is estimated at 5.1 percent, with much of this strength attributable to improved financial sector performance. Personal income is also expected to increase by 5.1 percent in 2004, primarily reflecting the strength in wage growth. A detailed analysis of employment and wage trends at the establishment level is presented below that supports the Budget Division's positive outlook for this year. A focus on the Manhattan economy, the center of economic dislocation for this past recession, suggests that although it is lagging much of the rest of the State, it has shown remarkable resiliency since the destruction of the World Trade Center on September 11, 2001.

Emerging from the 2001-03 Recession

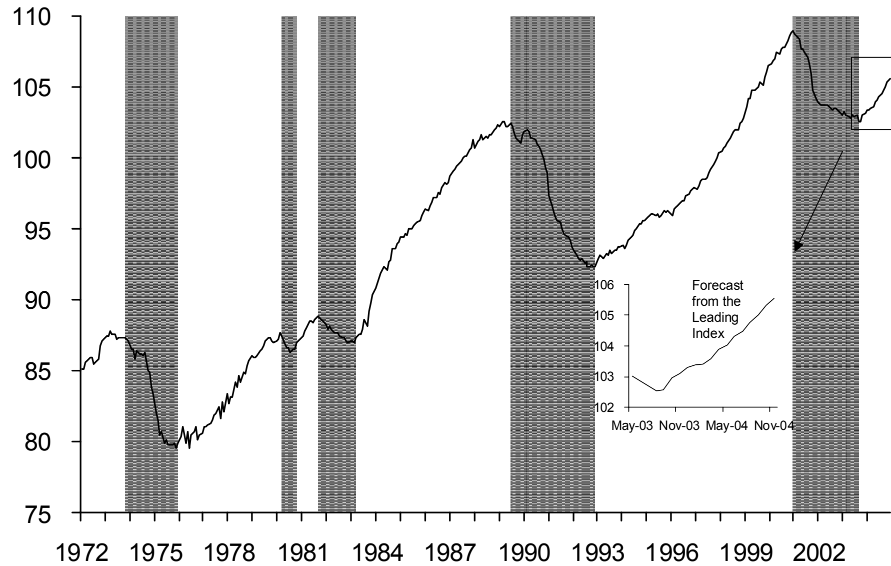
The tragedy of the September 11 terrorist attack is a haunting reminder of how an unexpected event can disproportionately affect the economy of a single state or region. Such events underline the importance of understanding each state's unique business cycle trends. The attack on the nation's and the world's financial capital — New York City — struck a severe blow to the State economy, a blow from which the State is still recovering. Although the national recession of 2001 officially ended in November of that year, the Division of the Budget believes that the State economy only emerged from recession in 2003, enduring a significantly longer downturn than the nation as a whole (see Box 5).

According to the New York State Index of Coincident Economic Indicators, the most recent recession started earlier in New York than in the nation and ended later, not unlike the recession of the early 1990s (see Figure 21). However, although the 2001-03 recession encompasses one of the most catastrophic events in the State's history, it was not as deep as the 1989-92 State recession that lasted more than three years and cost over 500,000 jobs. There are two striking differences between today's economy and that of the early 1990s. In contrast to the downsizing of the State's defense industry that eliminated hundreds of thousands of jobs a decade ago, the nation's defenses are now fully mobilized for the war on terrorism and the reconstruction of Iraq. Although little of the State's defense manufacturing sector survived the restructuring of the 1990s, the recent increase in Federal defense spending has benefited some of the State's manufacturing firms. But perhaps the more important difference pertains to the real estate market. In contrast to the market collapse that occurred in the early 1990s, the State's housing market has been booming and has cushioned the severity of the recession in many areas.

[18] The first four quarters of the current State expansion span the fourth quarter of 2003 and the first three quarters of 2004.

Figure 21

New York Index of Coincident Economic Indicators



Source: Economy.com; DOB staff estimates.

The New York State Index of Coincident Economic Indicators is used to date the State's distinct business cycle turning points. According to the Index, while the national economy was recovering in 2002 and the first half of 2003, the New York economy continued to decline until September 2003.[19] There are several reasons why the State's 2001-03 recession lasted so much longer than for the nation. Wall Street was at the center of the equity-price/high-tech collapse in early 2000 that ultimately precipitated the national downturn. The financial markets were a target of the far more destructive blow of September 11, and were hit once more with the collapse of the Enron Corporation and the string of corporate governance scandals that followed. The interruption of the national recovery due to the run-up to the war in Iraq further delayed the State's emergence from recession.

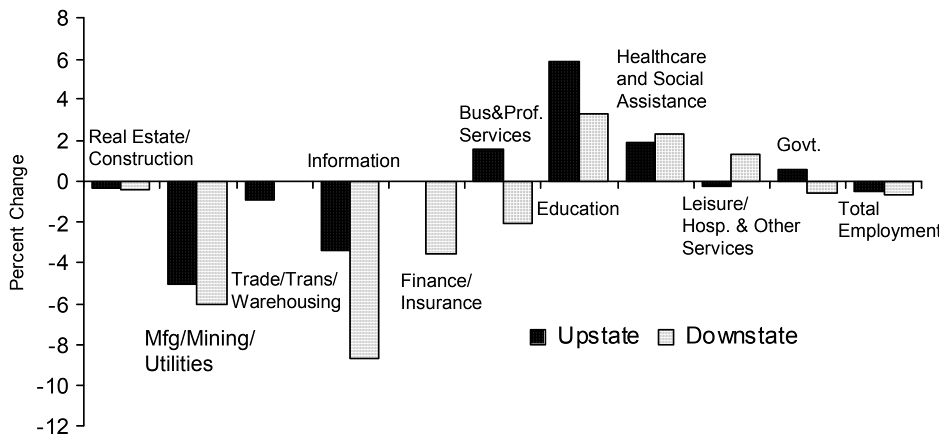
The impact of that delay was felt most acutely in New York City. Figure 22 compares employment growth for the 10-county downstate region for selected sectors with that of the rest of the State for the first half of 2003 relative to the same period in 2002. With Manhattan as the center of the State's economic downturn, the current recovery is clearly proceeding at disparate paces across the State's regions. The most recent Covered Employment and Wages (CEW) data available indicates that toward the end of the recession, the 10-county downstate region was still losing jobs at a slightly faster pace than upstate between the first half of 2002 and the first half of 2003, with downstate employment falling 0.7 percent, compared to a 0.5 percent decline upstate. While the greatest disparity now appears in the information sector, which includes the media and communications industries, large disparities also exist in the finance and insurance sector, and the business and professional services sectors. One area in which the downstate economy is doing better than upstate is in the leisure, hospitality and other services sector, which includes many of the travel and tourism industries such as accommodations, arts, and entertainment. This sector grew 1.3 percent downstate during the first half of 2003, but fell 0.2 percent upstate. The decline in manufacturing for both regions roughly reflects national trends.

[19] When the New York State Department of Labor releases its next benchmark revision of the Current Employment Statistics data in March 2004, the revised data may indicate that the State's recession ended either earlier or later in 2003.

Figure 22

Employment Growth: Upstate vs. Downstate

2003H1 over 2002H1



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 Budget Division's assessment that the State economy is now in recovery and will continue to expand throughout 2004 is supported by the results from two statewide surveys of business sentiment. A survey of New York businesses by the Econometric Research Institute at the University at Albany finds that 51 percent of the firms surveyed agreed that the New York State economy was still in recession as of October 2003, showing weak growth in both employment and wages and salaries. However, this number is significantly down from the 76 percent reported in April 2003 and from the post-US-recession high of 97 percent reported in January of 2002. The survey shows that while profits declined for 11.0 percent of establishments in 2003, 9.5 percent anticipate higher profits in 2004. Furthermore, 41.7 percent of establishments feel optimistic enough about the future to anticipate expanding over the next five years as compared to only 8.8 percent that expect to contract.[20]

Additional evidence indicating that the State economy is beginning to expand comes from the Empire State Manufacturing Survey conducted by the Federal Reserve Bank of New York. Perhaps the most positive part of the report is the nine consecutive increases in the General Business Conditions Index through December 2003. Its component indices also give rise to optimism. The manufacturing survey's inventory index has turned positive, implying that manufacturing firms are starting to restore their inventories. And while the survey's employment indices do not suggest outright job gains, they do show declining job losses.

The finance industry is expected to have its best profit performance in three years, and the travel and tourism industries, which were among those hardest hit by the events of September 11, have been steadily improving. The reconstruction of the World Trade Center site will provide an economic boost to lower Manhattan, while the expected improvement in the global economy should increase the demand for State-manufactured goods. All of this evidence suggests that the State economy is finally in recovery.

[20] These results are almost identical to those found in the October survey of 2002. At that time, the State economy had started to move in a positive direction but the crisis in Iraq in early 2003 may have put a damper on many firms' expansionary plans.

BOX 5
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 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.

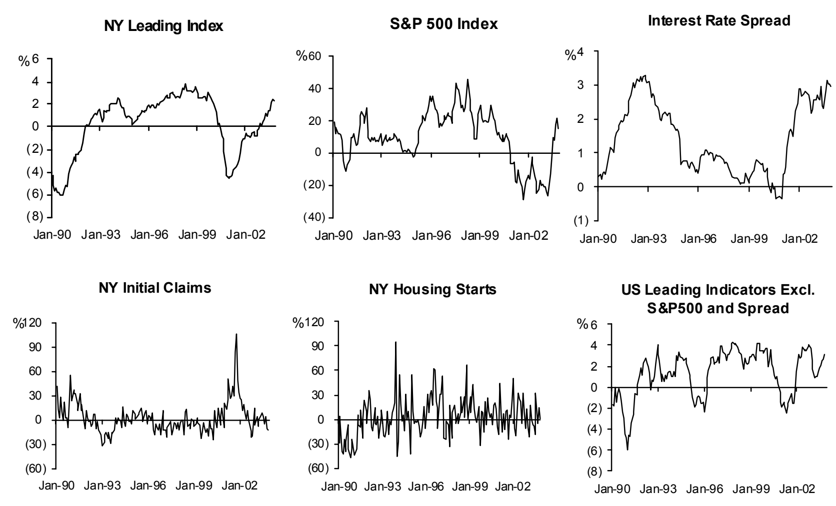
NEW YORK STATE BUSINESS CYCLES

Peak Date	Trough Date	Recession Length (in months)	Private Sector Job Losses
October 1973	November 1975	25	384,800
February 1980	September 1980	7	54,800
August 1981	February 1983	18	76,600
June 1989	November 1992	41	551,700
December 2000	August 2003	32	333,000

Source: DOB staff estimates.

In order to gauge the future direction of the State economy, the Budget Division produces the New York State Index of Leading Economic Indicators, which yields 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.

Variables Used in New York Index of Leading Indicators



Note: All percent changes are from prior year.
Source: Economy.com, DOB staff estimates.

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[1] See R. Megna, and Q. Xu (2003). "Forecasting the New York State Economy: The Coincident and Leading Indicators Approach," *International Journal of Forecasting*, Vol 19, pp 701-713.
[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.

Outlook for Employment

Total State nonagricultural employment is projected to rise 0.8 percent in 2004, following a 0.4 percent decline in 2003. The growth rate projected for the State for 2004 is slightly below the 1.1 percent expected increase for the nation as a whole. Private sector employment is projected to grow 0.9 percent in 2004, representing an increase of 60,200 jobs, following a 0.4 percent drop for 2003. Table 6 reports projected changes in employment for selected group of NAICS sectors. The greatest losses are expected to occur in the manufacturing sector, while the greatest rates of gain are expected to be experienced in the construction, educational and health services sectors. The State's average annual unemployment rate is expected to fall to 6.0 percent this year, a slight decrease from 6.2 percent in 2003. The unemployment outlook for this past recession compares favorably with the three previous recessions. The State's unemployment rate peaked at 10.3 percent in 1976, 8.6 percent in 1982-83, and again at 8.6 percent in 1992.

TABLE 6
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2004
SELECTED SECTORS

	Percent	Levels
Total Private	**0.9**	**60,200**
Utilities	(0.9)	(400)
Construction	5.3	17,200
Manufacturing and Mining	(3.4)	(21,100)
Wholesale Trade	0.4	1,500
Retail Trade	0.4	3,600
Transportation and Warehousing	0.6	1,400
Information	(2.1)	(5,700)
Finance and Insurance	0.4	2,300
Real Estate and Rental and Leasing	1.5	2,700
Professional, Scientific and Technical Services	1.7	8,300
Management and Admin. and Support Services.	1.2	6,400
Educational Services.	2.9	7,400
Healthcare & Social Assistance	2.1	23,400
Leisure, Hospitality and Other Services.	1.4	13,400
Government	**0.2**	**3,200**
Total	**0.8**	**63,400**

Note: Management and administration and support services includes NAICS sectors 55 and 56. Sum of sectors may not match the total due to rounding.
Source: NYS Department of Labor; DOB staff estimates.

Although State employment continues to be down on a year-over-year basis, current labor market dynamics support the expectation that employment will be on the rise by early 2004. The State labor market is extremely dynamic — even in the worst of times, new firms are created and existing firms add jobs. Though State private sector employment fell 2.4 percent in 2002, about 39.7 percent of establishments created jobs. As the New York State economy makes the transition from recession to recovery, the number of jobs being added by new firm startups and expanding firms is expected to grow, while the number of jobs being eliminated by firms shutting down and contracting firms is expected to fall. A detailed examination of establishment-level microdata indicates that this is exactly what we see. Box 6 describes the methodology used to perform the analysis.

BOX 6
ANALYZING PRIVATE SECTOR EMPLOYMENT DYNAMICS AT THE ESTABLISHMENT LEVEL

The expansion or contraction of an industry over time is usually measured by the net change or net growth in jobs. However, a look beneath the net numbers into the mechanics of job creation and destruction at the establishment level facilitates a deeper understanding of the underlying dynamics.[1] The data for this study derive from the Covered Employment and Wages (CEW), or ES-202, program.[2] These data include all establishments subject to Federal unemployment insurance laws and cover approximately 98 percent of all employment. For the second quarter of 2003, the most recent period for which data are available, the CEW data covered 538,609 private sector establishments in New York State and 6,811,662 private sector employees.

Establishment-level data facilitate the investigation of questions that cannot be addressed at the aggregate level. Such questions include whether the primary source of job creation is new firm startups or existing firms that have chosen to expand, or whether net employment growth is the result of an increase in the rate of job creation or a decrease in the rate of job destruction. Two industries may exhibit the same net change in employment but one may have a high job turnover rate, resulting from high gross rates of gains and losses, while the other may have a low turnover rate. Previous studies have found that high turnover rates tend to be associated with high net growth.[3] Hence, the underlying dynamics may give clues as to the near-term direction of the business cycle, and an industry that suddenly starts to experience an increase in firm startups or gross job creation may turn out be a leading industry in the economy's next growth phase. Moreover, one can also determine whether new jobs are being created in relatively high-wage or low-wage industries.

Because CEW data are not seasonally adjusted, comparisons over time should be restricted to the same quarter of various years. We, therefore, analyze job growth relative to the same quarter of the previous year. For example, the gross number of jobs created between the second quarter of 2002 and the second quarter of 2003 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2003 but did not exist four quarters prior), by expanding firms that existed in both quarters, and through firm mergers and acquisitions. Between the second quarter of 2002 and the second quarter of 2003, a total of 1,034,882 jobs were created from these three sources. Comparability across industries requires normalizing by a common base. Because the jobs that were eliminated between the two quarters are no longer in the 2003 job count, we follow BLS and define the base as the average of the two quarters. Performing this calculation for the second quarter of 2003 produces the following:

$$\text{Gross rate of job gain} = \frac{\text{Startup gains} + \text{Existing firm gains} + \text{M\&A gains}}{\text{Base}} = \frac{1{,}034{,}882}{6{,}839{,}719} = 15.1\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2003 is 15.1percent.

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2002 but not in the second quarter of 2003, jobs lost from contracting firms that existed in both quarters, and jobs lost due to a merger or acquisition. We then divide by the State's job base as defined above, which for the second quarter of 2003 yields:

$$\text{Gross rate of job loss} = \frac{\text{Shutdown losses} + \text{Existing firm losses} + \text{M\&A losses}}{\text{Base}} = \frac{1{,}090{,}995}{6{,}839{,}719} = 16.0\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 16.0 percent.

(continued on next page)

[1] For a similar analysis for the U.S., see U.S. Bureau of Labor Statistics (BLS), "Business Employment Dynamics: First Quarter 2003," <http://www.bls.gov/news.release/pdf/cewbd.pdf>. This study examines CEW data aggregated across industries for the period from the first quarter of 1992 through the first quarter of 2003. The long length of the series permits seasonal adjustment, which in turn allows comparisons relative to the prior quarter. Analysis at the industry level precludes seasonal adjustment since establishment data classified under NAICS are not available for the period prior to the first quarter of 2000. Nevertheless, our findings are generally consistent with the results of the BLS study.

[2] For a detailed description of CEW data, see *2003-04 New York State Executive Budget*, Appendix II, p. 100.

[3] See R. Jason Faberman, " Job flows and labor dynamics in the U.S. Rust Belt." *Monthly Labor Review*, September 2002, Vol. 125, No. 9, pp. 3-10.

BOX 6 *(continued from previous page)*

For the second quarter of 2003, the gross rate of job destruction exceeded the gross rate of job creation. We refer to the net number of jobs lost as the job gap, which for the second quarter of 2003 totaled 56,114. The net change in employment can also be represented by a net index of job creation, constructed by dividing the gross rate of job gain by the gross rate of job loss. For the second quarter of 2003, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gain}}{\text{Gross rate of job loss}} = \frac{15.1\%}{16.0\%} = 94.9\%$$

A net index value of exactly 100 percent implies a job gap of zero; a value above 100 percent indicates that employment is growing, while a value below 100 percent, as we see above, indicates a net job loss.

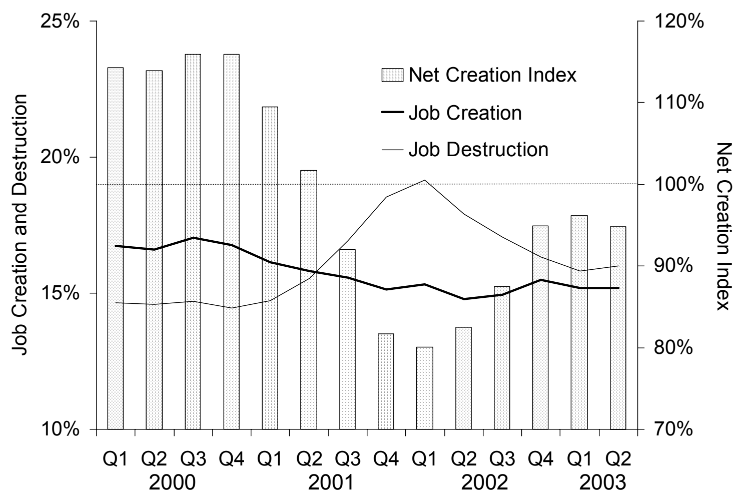
Clearly two industries could have similar values for the net index but have very different underlying dynamics. For example, by the second quarter of 2003, the construction sector and the transportation and warehousing sector had very similar net indices of job creation equal to 94.1 percent and 93.4 percent, respectively. However, underlying these numbers lie very different dynamics. As indicated in the table below, the construction sector has a much higher turnover rate than the transportation and warehousing sector. Understanding these differences have implications for fine-tuning the Budget Division employment forecast.

Employment Dynamics Comparison: 2003Q2

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Construction (23)	20.1%	21.4%	94.1%
Transportation and Warehousing (48/49)	11.7%	12.5%	93.4%

The figure below plots the gross rates of creation and destruction (measured on the left scale) along with the net creation index (measured on the right scale) from the first quarter of 2000 to the second quarter of 2003, for the entire State private sector. The State economy was booming during 2000 and the first quarter of 2001, resulting in net index values well above 100 percent. In 2000, the gross job creation index averaged 17 percent, while the gross job destruction index averaged 14.8 percent. The net index averaged 115 percent, resulting in a net addition of 155,000 private sector jobs. On average, about one of every six jobs in 2000 was new relative to 1999.

Gross Job Creation and Destruction Indices



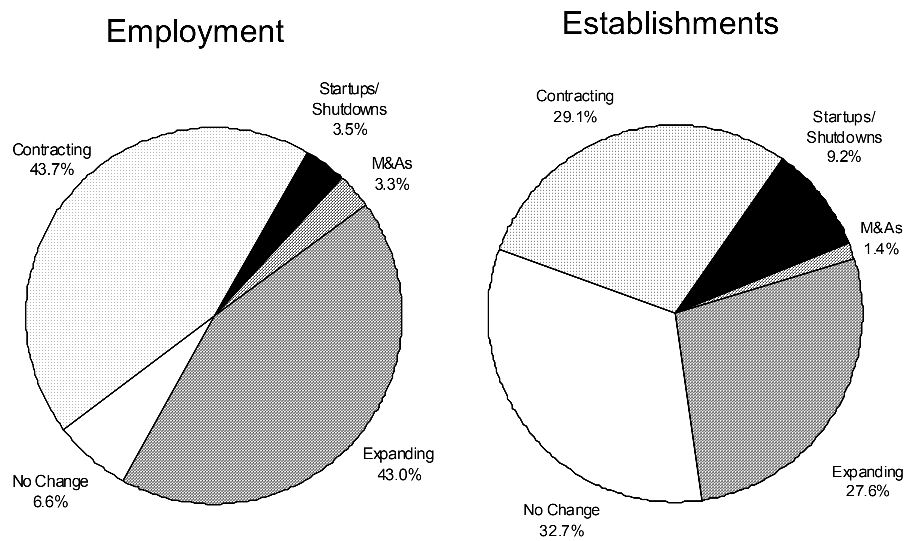
Source: Economy.com; DOB staff estimates.

By the third quarter of 2001, gross job destruction began to exceed gross job creation. However, the underlying dynamics indicate that the net decline in employment derived mainly from an acceleration in gross job destruction. Although gross job creation trended downward as of the first quarter of 2001, it is much flatter than the index of gross job destruction, indicating a relatively slow decline. However, the gross rate of job destruction rose steeply during the fourth quarter of 2001, reflecting the impact of September 11. The decline in the net index to 81.7 percent represents the loss of 236,500 jobs that occurred between the fourth quarter of 2000 and the fourth quarter of 2001.

Figure 23 shows the composition of the State's employment and establishment base as defined in Box 6 for the second quarter of 2003 by establishment type. Startups and shutdowns accounted for about 9.2 percent of the State's establishment base in the second quarter of 2003. Because these firms tend to be quite small, averaging only five employees, they accounted for only about 3.5 percent of the State's private sector employment base for that quarter. Indeed, startup firms did little more than replace firms that shutdown. Firms that were either acquired or absorbed by another firm account for 1.4 percent of the establishment base. The average size of these firms was about 23 employees and, therefore, account for 3.3 percent of employment.

Figure 23

Composition of State's Employment and Establishment Base 2003Q2



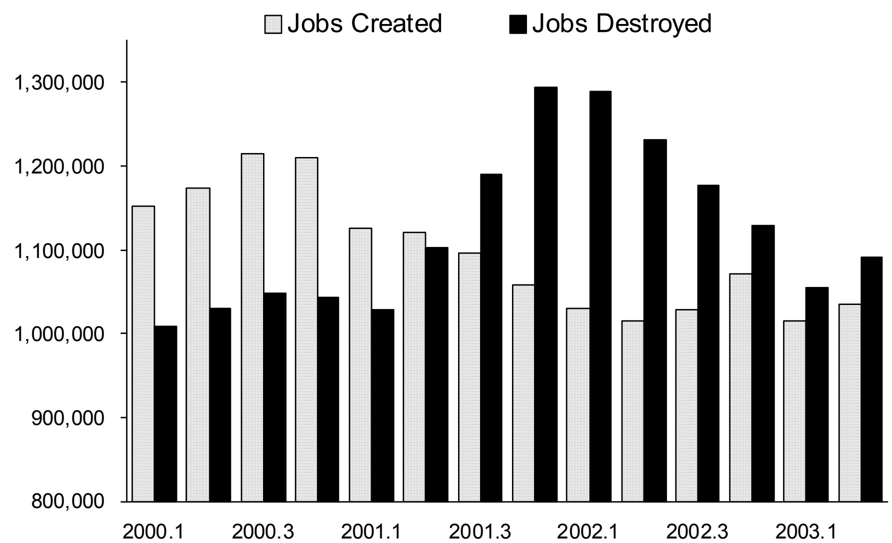
Source: NYS Labor Department; DOB staff estimates.

Existing firms account for an overwhelming proportion of both private sector establishments and employment — approximately 89.4 percent of the State's establishment base in the second quarter of 2003, and 93.2 percent of the job base. Existing firms are classified according to whether the firm expanded its workforce, reduced its workforce, or remained unchanged relative to the same quarter a year ago. As indicated in Figure 23, these types account for roughly equal shares of establishments but account for very different shares of employment. The average size of existing firms also varies by firm type, with those firms experiencing no change in employment averaging only three employees in 2002, expanding firms averaging 22 employees, and contracting firms averaging 18. Because existing firms account for so large a share of industry employment at any given point in time, they account for an overwhelming share of employment growth over time as well.

Figure 24 shows the gross numbers of jobs created and destroyed on a year-over-year basis for the period from the first quarter of 2000 through the second quarter of 2003. While the State economy was booming during the early part of the period, the gross number of jobs created well exceeded the gross number destroyed. However, the tide turned in the third quarter of 2001, with the number of jobs destroyed overtaking the number of jobs created. The full impact of September 11 is seen during the first quarter of 2002, when the gap between gross job destruction and creation is at its widest point. However, the job gap shows a narrowing trend after that, until a small widening in the second quarter of 2003, perhaps indicating the impact of the Iraqi conflict. The rate at which the job gap has narrowed supports the Budget Division forecast for positive year-over-year employment growth by the first quarter of 2004.

Figure 24

Job Creation and Destruction in New York



Source: NYS Department of Labor; DOB staff estimates.

Manufacturing

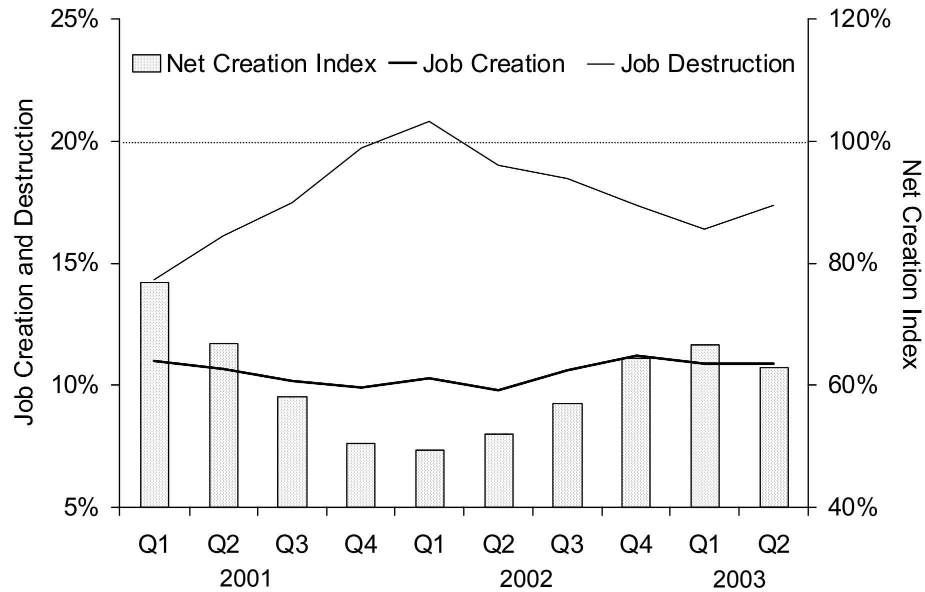
The long-term decline in New York manufacturing employment is expected to continue throughout the forecast period.[21] However, manufacturing's rate of job decline is projected to diminish over the course of 2004, with the improvement in both the U.S. and global economies, but only modestly. Manufacturing employment is expected to fall 3.4 percent in 2004, following a decline of 5.3 percent in 2003.

Since the mid-1970s, New York's comparative advantage has been shifting in favor of the production of services. Competitive pressures arising from increased globalization and rising productivity have resulted in the decline in State manufacturing employment each year since 1984. The rate of job loss from this sector accelerated during the recent recession, as it did during the earlier recessions of 1982 and 1991. As indicated in Figure 25, this acceleration was due to an increase in the gross rate of destruction, while the gross rate of job creation remained relatively flat.

The manufacturing sector lost 50,300 jobs in 2002, a decline of 7.2 percent, the fastest decline reported since the CEW program started in 1975. The rate of job loss eased somewhat in the first quarter of 2003, but rose slightly again in the second quarter. A total of 37,400 jobs were lost during the first half of 2003, a decline of 5.7 percent. The large size of the job gap during the first half of 2003 signals the likelihood that the State's manufacturing sector will continue to lose jobs in 2004.

[21] In evaluating the extent of the decline in manufacturing employment, care must be taken as to how jobs are classified. The number of jobs classified as manufacturing under the former SIC system is larger, and the decline more severe, than under the current NAICS system. For a detailed discussion, see *2003-04 New York State Executive Budget, Appendix II*, pp. 126-127.

Figure 25
Manufacturing



Source: NYS Department of Labor; DOB staff estimates.

Construction and Real Estate

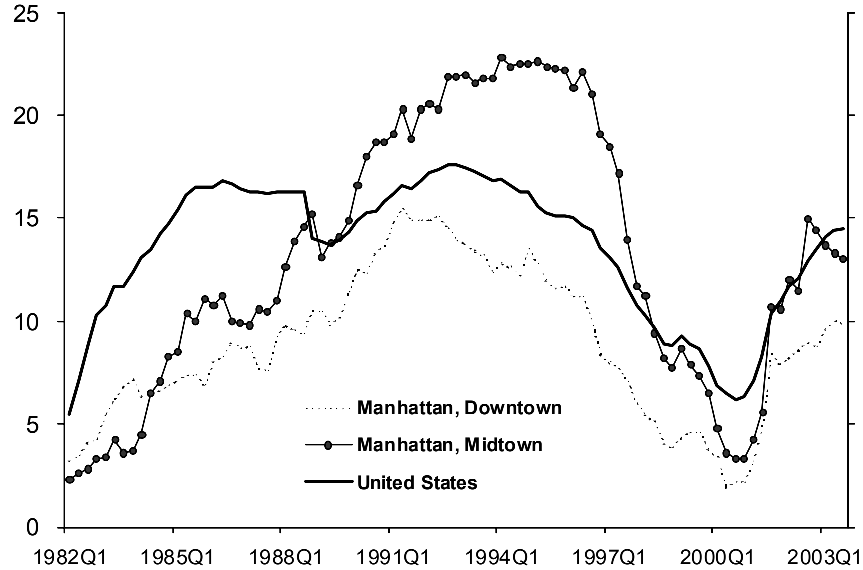
Construction employment is projected to rise 5.3 percent in 2004, following growth of 1.3 percent in 2003. Recent high levels of activity in the construction and real estate markets represent a key factor in distinguishing New York's 2001-03 recession from that of the early 1990s. State construction sector employment fell during all five years from 1989 to 1993, declining at double-digit rates in 1991 and 1992. In contrast, construction sector employment fell only 3.1 percent in 2002, due in part to the impact of historically low interest rates on the demand for housing. This same distinction between the two downturns can be observed in office vacancy rates as well (see Figure 26). Although vacancy rates in Manhattan have increased since 2000, they are far from the high rates attained during the early 1990s. Vacancy rates in midtown Manhattan fell during the second half of 2002 and the first three quarters of 2003.

Although construction employment continued to fall during the first half of 2003, the job gap has been gradually narrowing since the second quarter of 2002. By the second quarter of 2003, this sector's index of net job creation was 94.1 percent. The construction sector is expected to gain jobs during the second half of 2003 and grow briskly in 2004 and in the outyears. Contributing to these increases will be the reconstruction effort on the site of the World Trade Center. The groundbreaking for the "Freedom Tower" is scheduled for August 2004, with construction expected to be completed by September 11, 2008.

The real estate sector took a big hit after September 11, mainly because of an increased rate of job destruction. However, the industry bottomed out during the first quarter of 2002, and thanks to the housing boom of the last two years, the industry's index of net job creation exceeded 100 percent during the first half of 2003. Real estate rental and leasing sector employment increased 1.0 percent during the same period, due to a very strong housing market. Industry employment is expected to remain flat in 2004, as activity in the housing market begins to moderate.

Figure 26

Office Vacancy Rates



Source: Economy.com.

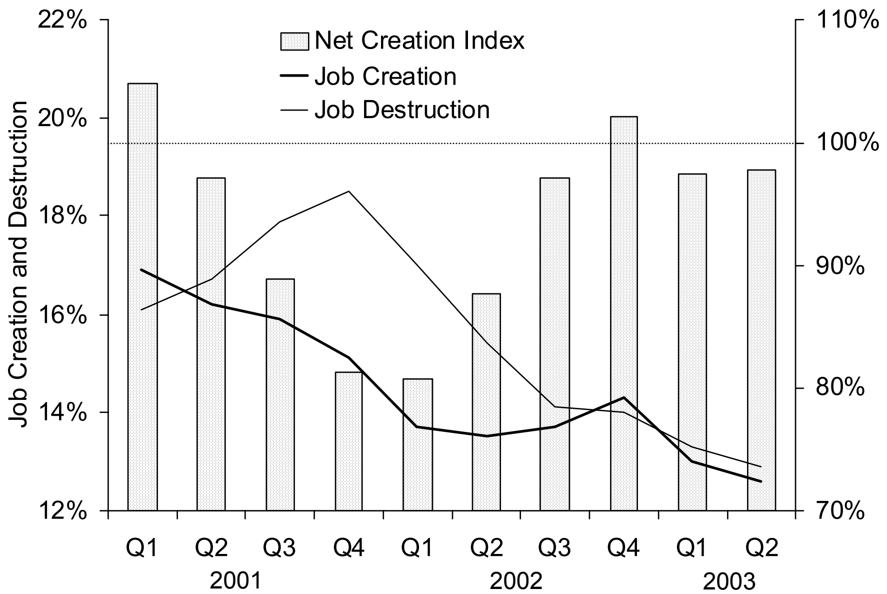
Trade, Transportation, and Warehousing

Both wholesale and retail trade employment are projected to grow 0.4 percent in 2004, following a decline of 0.7 percent and virtually no change, respectively, in 2003. 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 during 2002.

The wholesale trade sector has been dominated by job declines since early 2001. But wholesale trade lost 1,600 jobs in the first half of 2003, a decline of only 0.5 percent and a significant improvement from 2002. Wholesale trade is expected to be a net contributor to job growth in 2004 as the State and national economies improve. The job gap in the retail trade sector narrowed significantly during the second half of 2002 and remained small during the first half of 2003, lending support to the expectation that this sector will add jobs in 2004 (see Figure 27). By the first half of 2003, this sector's gross rate of job creation and destruction were well below the statewide average.

Transportation and warehousing employment, which tends to track the trade sectors very closely, is projected to increase 0.6 percent in 2004, following a decline of 0.8 percent for 2003. The impact of September 11 on employment is perhaps seen most dramatically in the transportation sector. The job gap in that sector was at its maximum during the first quarter of 2002, but has gradually narrowed since then, due primarily to a decline in the gross rate of job destruction. The substantial narrowing of the job gap in the State's transportation and warehousing sector suggests that employment in this sector is likely to grow in 2004.

Figure 27
Retail Trade



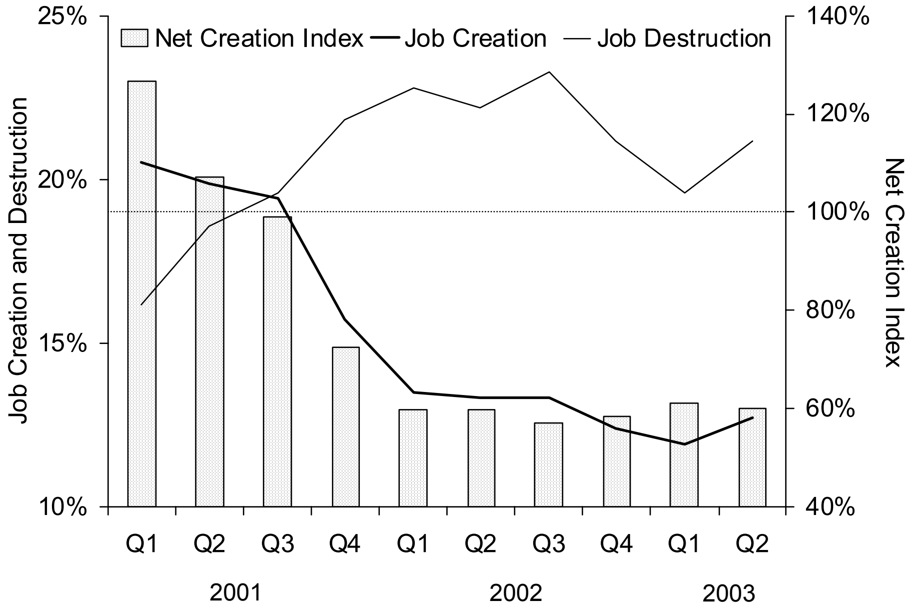
Source: NYS Department of Labor, DOB staff estimates.

Information (Media and Communications)

The Budget Division expects information sector employment to fall during 2004 at a rate of 2.1 percent, following a 6.1 percent decline in 2003. The information sector, which includes publishing, motion picture, broadcasting and telecommunications, is one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above the statewide averages (see Figure 28). However, this sector has been in contraction since the start of the State's recession. Although the rate of contraction has stabilized, it continued to exhibit a wide job gap and a net job creation index of only about 60 percent during the first half of 2003.

Following the collapse of the "dot-com" sector in 2000 and 2001, the State's media services and telecommunications industries shed jobs at the highest rate of any sector in 2002. Employment in the information sector declined 8.8 percent, or by 28,500 jobs in 2002. The downward trend for this industry group continued during the first half of 2003. The State lost another 23,800 jobs, 7.9 percent, during the first two quarters of 2003 versus the same period of 2002. Almost 80 percent of these job losses occurred in the downstate region.

Figure 28
Information Services



Source: NYS Department of Labor, DOB staff estimates.

Finance and Insurance

The Budget Division expects finance and insurance sector employment to grow a modest 0.4 percent in 2004, following a decline of 1.5 percent in 2003. This forecast is consistent with a net job creation index value of close to 90 percent during the first half of 2003. The attacks of September 11, the national recession and corporate scandals all combined to have a significant impact on the State's financial sector. About 30,000 jobs in finance and insurance were lost in 2002, a decline of 5.4 percent. New York City more than accounts for these losses. This trend continued during the first half of 2003, with the securities industry losing another 13,400 jobs. However, as discussed below, these job losses lowered industry compensation costs and helped Wall Street firms to increase profits significantly in 2003. Industry employment is not expected to recover quickly. Indeed, in the aftermath of the stock market crash of 1987 and the recession of 1990-91, it took 10 years for the securities industry to return to its employment peak of 1987. Nevertheless, the narrowing of this sector's job gap during the first half of 2003 suggests it is reasonable to expect some growth in 2004.

Business and Professional Services

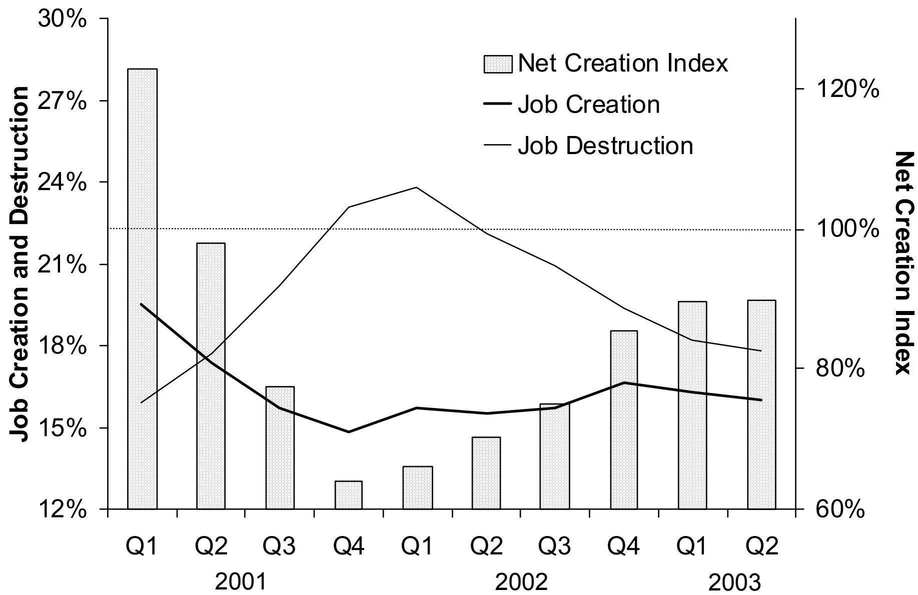
All of the State's business and professional services industries are expected to benefit from the strengthening national expansion in 2004. Professional and technical services industries are expected to grow 1.2 percent in 2004, following a decline of 0.8 percent in 2003, while management and administrative support services industries are expected to grow 1.7 percent in 2004, following a decline of 1.3 percent in 2003.

With the collapse of the high-tech bubble, the State's professional, scientific, and technical services industries saw a significant increase in the rate of gross job destruction during 2001 and early 2002 (see Figure 29). However, the job gap narrowed substantially in the first half of 2003, due primarily to a reversal of that trend, indicating that this sector is poised to grow in the near future.

The gross job destruction index rose swiftly in the management, administrative, and support services sectors in 2001, but the job gap had narrowed significantly by the fourth quarter of 2002. This sector contains temporary help services, one of the first types of employment to grow following a downturn. However, management services growth may have been stymied by the desire to avoid expanding management operations in New York in the wake of September 11.

Figure 29

Professional, Scientific & Technical Services



Source: NYS Department of Labor; DOB staff estimates.

Education and Healthcare

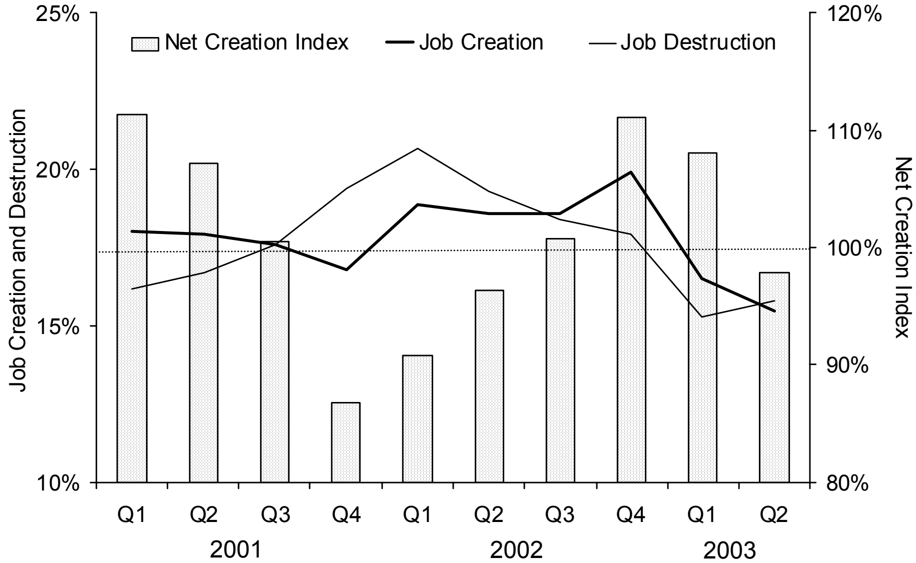
The Budget Division expects education and healthcare employment to grow 2.9 percent and 2.1 percent, respectively, for 2004. Education and healthcare services continued to grow throughout the recession, exhibiting net job creation indices remaining well above 100 percent. Education services grew 4.1 percent during the first half of 2003 compared to the same period in 2002, adding 10,400 jobs. Similarly, healthcare and social assistance services grew 2.1 percent during the first half of 2003, adding 23,600 jobs, following growth of 2.0 percent for 2002. 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.

Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to grow 1.4 percent in 2004, following growth of 0.9 percent in 2003. September 11 had a severe impact on these industries, particularly the arts and entertainment sectors. A steep increase in the rate of gross job destruction was experienced during the fourth quarter of 2001 and first quarter of 2002, although the sector began to bounce back soon thereafter (see Figure 30). This sector experienced a decline in gross job creation during the first two quarters of 2003, perhaps due to the climate of uncertainty engendered by the conflict in Iraq. Nevertheless, these sectors are expected to add jobs during the second half of 2003 and in 2004 as well.

Figure 30

Leisure, Hospitality and Other Services



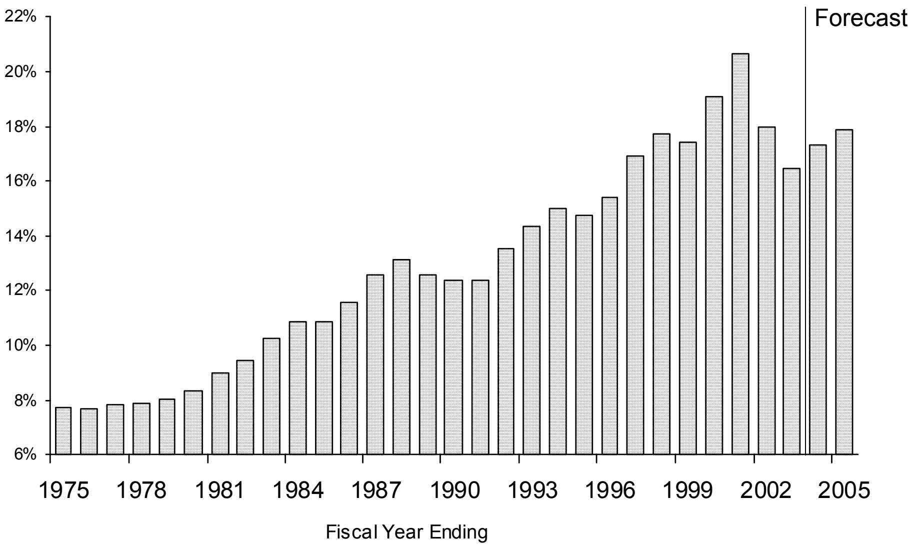
Source: NYS Department of Labor, DOB staff estimates.

The Securities Industry and the Stock Market

Because of the prominence of New York City in the world of finance, New York State revenues are profoundly affected by the fortunes of the financial markets. Figure 31 shows how finance and insurance sector wages have grown over time as a share of the State total. That share peaked at 20.6 percent during the 2000-01 State fiscal year, just as the stock market was beginning to collapse. In contrast, finance and insurance sector employment accounted for only 6.6 percent of total State employment during the same year. The financial markets affect employment and incomes in New York City and its surrounding suburbs, both directly, through compensation paid to finance sector workers and purchases made by finance sector firms, and indirectly, as finance sector workers spend their incomes on housing, entertainment, and other purchases. Finance sector workers are, on average, very highly compensated, as demonstrated by a comparison of their average wages to those of other New Yorkers (see Figure 32).

Figure 31

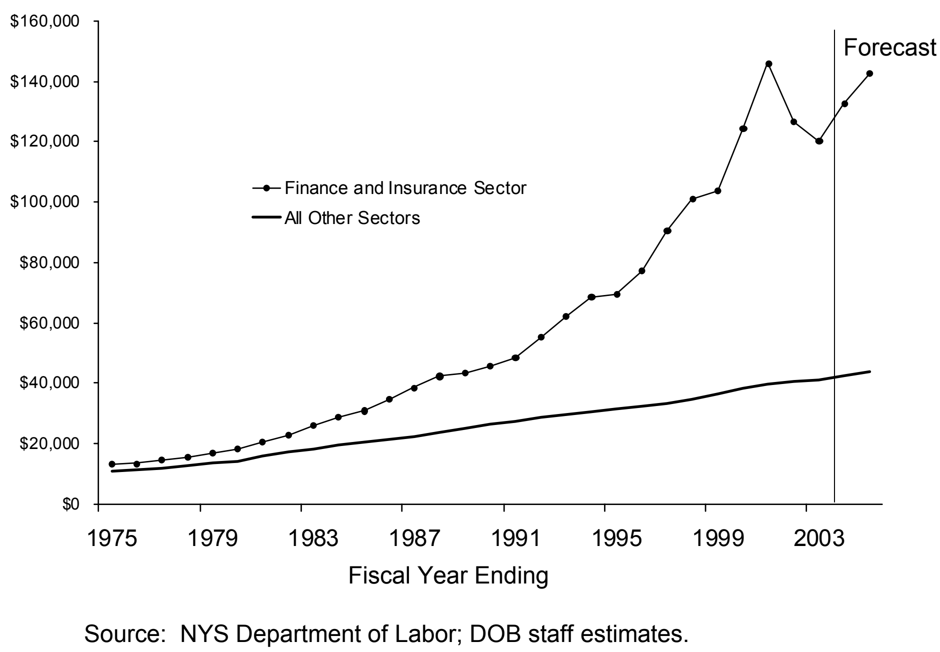
Finance and Insurance Sector Wages as Share of State Total



Source: NYS Department of Labor; DOB staff estimates.

Figure 32

Average Wages in New York



Source: NYS Department of Labor; DOB staff estimates.

The current bull market in equities has endured for over a year. Table 7 puts the current market in historical perspective. Since the end of World War II, there have been 10 bear markets, defined as a sustained drop in Standard and Poor's 500 Index (S&P 500) of about 20 percent or more. As seen in the table, each market cycle begins with a run-up in equity prices, or bull market, during which the market's previous high is reached and is eventually surpassed.

TABLE 7
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	?	?

Note: To-date the S&P 500 has risen 44.7 percent since the October 9, 2002 trough, but would have to rise another 36 percent, or about 400 points to reach its prior peak.
Source: Economy.com.

As indicated in column (4) of Table 7, 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. Following most postwar bear markets, stock prices managed to attain their prior peaks within two years of the trough. However, it took almost six years after the 1973-74 bear market for stock prices to reach their former January 11, 1973, high. It is likely to take even longer for the market to return to its more recent March 2000 record level. As of January 6, 2004, the S&P 500 had risen 44.7 percent since the October 9, 2002, trough, but will have to rise another 36 percent, or about 400 points, before reaching its prior peak.

Equity market cycles tend to be accompanied by a rise and fall in securities industry employment, although typically with a lag. For example, in the bear market of 1973-1974, the State's securities industry lost 23 percent of its employment from February 1973 to October 1974. The record-setting bull market that lasted from October 1990 to March 2000 was the longest of the postwar period and characterized by the largest run-up in prices, 417 percent. It was also accompanied by a 50 percent increase in industry employment. However, since peaking in December 2000, State securities employment has fallen by about 18 percent. History suggests that it could take years, and perhaps intervening bull and bear markets, before employment recovers to the record levels reached in 2001.

Despite the recent improvement in the equity prices, the securities industry's most lucrative sources of income — initial public offerings (IPOs) and merger and acquisition activity — remain much reduced from their 2000 peaks. With secondary market prices still well below their 1999-2000 levels, firms are more reluctant to use equity financing to fund business expansion. The rebound from the market lows of October 2002 lost momentum as the nation began to head down the path toward war, resulting in a substantial weakening in the markets for IPOs and mergers and acquisitions in the first half of 2003. However, markets for these activities started to strengthen toward the end of that year.

True IPOs are projected to raise a total of $15.9 billion in 2003, a decline of 38.2 percent from the $25.8 billion raised in 2002.[22] However, the number of deals increased substantially over the course of the year. While only $2.4 billion was raised in the first half of 2003, deals valued at $13.5 billion were reported for the second half. Moreover, the industry reports a significant backlog in the pipeline entering 2004 worth $10.1 billion.

Most affected by the decline in the secondary equities market has been merger and acquisition activity. After peaking in number and value in 2000, the number of completed domestic mergers and acquisitions fell 34 percent in 2001 and another 52 percent in 2002. Completed domestic mergers and acquisitions saw a decline in value of about 60 percent in the three-year period from 2000 to 2002. For the first nine months of 2003, the number and value of completed U.S. mergers and acquisitions were the lowest since 1994. Because of the high fees involved, the decline in mergers and acquisitions represents a large revenue loss for the industry. However, like the IPO market, there appears to have been a rebound in this market toward the end of 2003, with announced deals valued at $119 billion reported for October, an increase of 330 percent from October 2002.

Debt underwriting activity was running at record levels in early 2003 due to declining interest rates, but showed some slowing toward the end of year. However, year-to-date debt underwriting is still projected to be up about 12 percent from 2002. Total corporate debt issuance is expected to reach about $2.9 trillion in 2003, versus nearly $2.6 trillion in 2002.

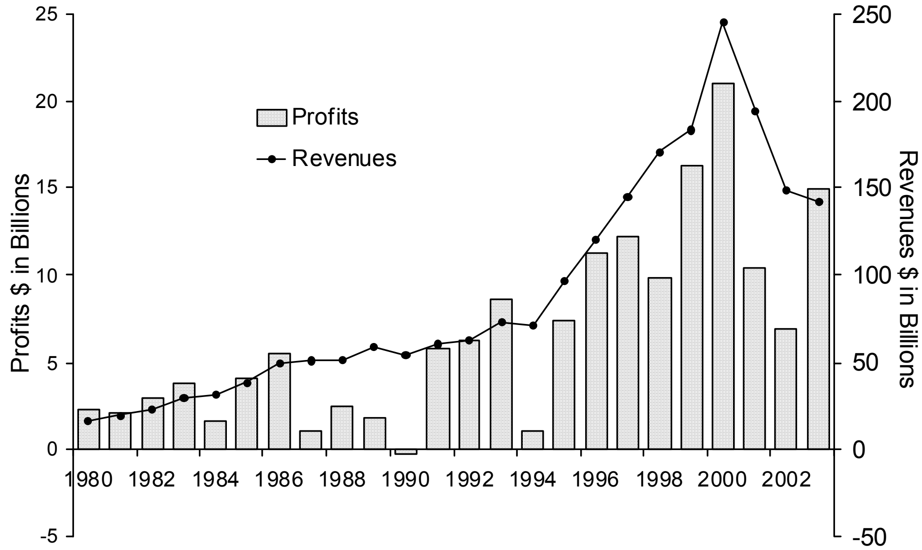
The combined effects of a weak start to the economic expansion, the decline in equity values, and national security concerns can be seen in the income levels of financial services firms. Pre-tax profits for the securities industry peaked at $21.0 billion in 2000, but fell 51 percent below that mark in 2001 (see Figure 33). Profits were only $6.9 billion in 2002. But, as indicated above, the improvement in both the economy and equities markets in the wake of the Iraq war has had a very positive impact, with securities industry profits of $15.0 billion now projected for 2003. However, much of this increase in profits has come about because of aggressive cost cutting by the industry. In fact, revenues generated for 2003 were about 4.5 percent below 2002, and 42.1 percent below 2000 levels.

In the wake of the economic downturn of 2001, the securities industry was able to cut expenses on gross interest and employee compensation. Due to the series of reductions in the federal funds rate that began in the first quarter of 2001 as the Federal Reserve sought to stimulate the economy, the gross interest expense of the industry fell an estimated 62 percent from 2000 to 2003. Reductions in personnel costs came from two sources: reductions in employment and reductions in compensation. Through the second quarter of 2003, the State's finance and insurance industry cut employment by 8.2 percent over a two-year period, eliminating 45,700 jobs. In addition, production payouts (payments tightly tied to revenue-generating activity) and bonuses (a more discretionary form of compensation) were reduced. Figure 34 shows that finance and insurance sector bonuses fell by about one-third in the 2001-02 fiscal year and are estimated to have fallen yet again in 2002-03.

[22] Securities Industry Association. True IPOs exclude closed-end funds.

Figure 33

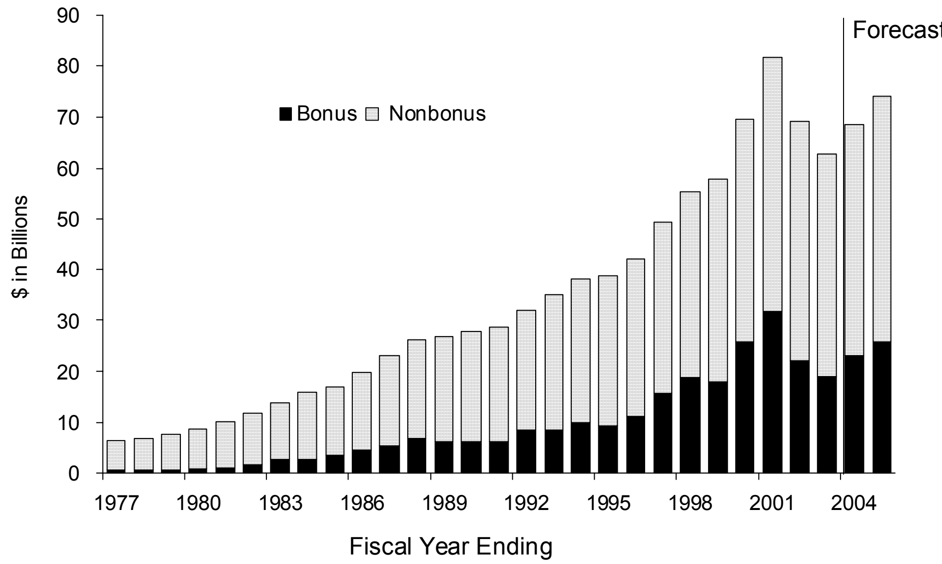
Securities Industry Profits and Revenues



Source: Securities Industry Association.

Figure 34

Total Wages in the Finance and Insurance Sector



Source: NYS Department of Labor; DOB staff estimates.

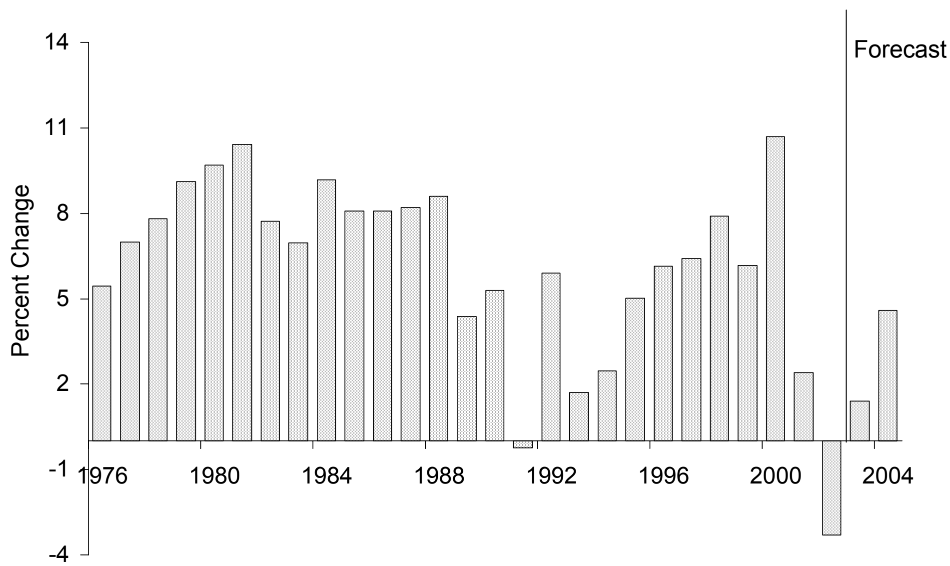
The combination of lower employment and lower compensation reduced total finance and insurance sector wages by 23.4 percent, from $81.9 billion in 2000-01 to $62.7 billion in 2002-03. The impact of these declines on finance and insurance sector wages as a share of the State total is clearly visible in Figure 31, while Figure 32 shows the concomitant impact on the industry average wage for both 2001-02 and 2002-03. However, with the industry's improved profit performance, compensation costs are expected to rise. The finance and insurance bonus share of total sector wages is expected to rise for both 2003-04 and the following year, though remaining below its former peak amount. As discussed above, sector employment is projected to grow in 2004 and a rising equity market is expected to result in higher production payouts and discretionary bonuses.

Outlook for Income

Growth in variable compensation and employment is expected to result in total wage growth of 5.1 percent for 2004, following an estimated increase of 1.8 percent for 2003 (see Figure 35). The strong growth in State wages, property income, and proprietors' income projected for 2004 will result in total personal income growth of 5.1 percent, following growth of 3.1 percent for 2003 (see Table 10).

Figure 35

New York State Wage Growth



Source: NYS Department of Labor; DOB staff estimates.

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 7. The Budget Division's outlook for State income is based on these constructed series.

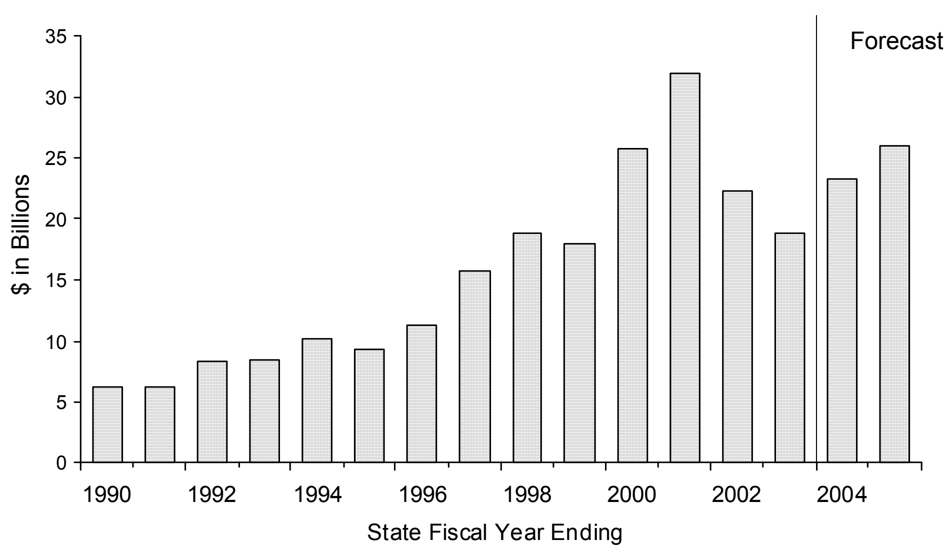
Variable Income Growth

Variable income is defined as that portion of wages derived primarily from bonus payments and stock incentive income, but also includes other one-time payments. As performance incentives 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 as part of a bonus package during the same quarters as the cash component, an employee may exercise that option, thus transforming it into taxable income, at different times. However, the concentration of variable income payments in the fourth and first calendar-year quarters makes the State fiscal year a logical period of analysis for discussing the determinants of variable income growth. Total State variable income is projected to rise 8.9 percent in the 2004-05 fiscal year, following growth of 15.2 percent in 2003-04. Growth in both years is more than accounted for by the finance and insurance sector, although bonus income in other sectors is expected to increase as well, with the exception of the information sector. On a calendar year basis, total State bonus income is expected to decrease 2.2 percent for 2003, followed by an increase of 12.7 percent for 2004.

Since 1990, there has been a substantial shift in the State's corporate wage structure away from fixed to performance-based pay. Figure 36 portrays how dramatically variable income paid to employees in the finance and insurance industry has grown since the early 1990s. The robust performance of security industry profits during 1999 and 2000 resulted in finance and insurance sector bonus growth of 43.5 percent and 23.7 percent in the 1999-2000 and 2000-01 State fiscal years, respectively, to levels that accounted for more than half of total bonuses paid in the State. 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. For example, when industry profits fell from $10.4 billion in 2001 to $6.9 billion in 2002, finance and insurance sector bonus income is estimated to have fallen 15.4 percent for the 2002-03 State fiscal year. In contrast, nonbonus income for this sector is estimated to have fallen only 6.4 percent, mainly due to the decline in employment.

Figure 36

New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

BOX 7
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 rates for the first and second quarters of 2000, on a percent-change-year-ago basis, were 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 6.3 percent and 10.0 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 is paid on a variable basis, in the form of either bonus payments or proceeds derived from the exercise of stock options. Because no government agency collects data on variable income as distinct from ordinary wages, 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 is 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.

The rapid run-up in finance and insurance bonuses was abruptly reversed during the 2001-02 State fiscal year when bonuses dropped 30.2 percent as a result of the national recession, the World Trade Center terrorist attack, and the downslide in equity prices. Securities industry profits further deteriorated in 2002, dropping 67.0 percent from their record 2000 level. With the recent rise in equity prices and the strong performance of the fixed income market, securities industry profits are projected to more than double in 2003.

However, the impact of this strong profit performance is likely to be tempered by relatively flat growth in revenues. Therefore, the Division of the Budget projects that variable income for the finance and insurance sector will grow 23.2 percent to $23.2 billion during the 2003-04 State fiscal year. Although this represents the highest bonus payout for this sector since the 2000-01 bonus season, it is still 27.3 percent below the record $31.9 billion estimated to have been paid out that year. Variable income for the sector is expected to rise 11.7 percent during 2004-05, bringing it back up to its 1999-00 level.

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. 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 3.3 percent in calendar 2004, following estimated growth of 2.7 percent for 2003. With a positive boost from employment, total nonbonus wages are projected to grow 4.1 percent for 2004, following an increase of 2.3 percent for 2003.

Average Wage

For the first time in the history of CEW data, which begins in 1975, average wages in New York showed a decline in 2002. This was mostly due to the steep decline in bonuses. However, the increase in bonuses is expected to contribute to stronger growth in the State's overall average wage of 4.3 percent for 2004, following an estimated 2.2 percent increase for 2003. The 2004 forecast for average wage growth is significantly below its historical average due to low expected inflation. The Budget Division projects growth in the composite CPI for New York of 2.1 percent for 2004, following growth of 2.8 percent for 2003.

Nonwage Income

The Division of the Budget projects a 5.1 percent increase in the nonwage components of State personal income for 2004, following growth of 4.9 percent for 2003. The modest increase in growth for 2004 is attributable to higher growth in property income, transfer income and proprietors' income.

BOX 8
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

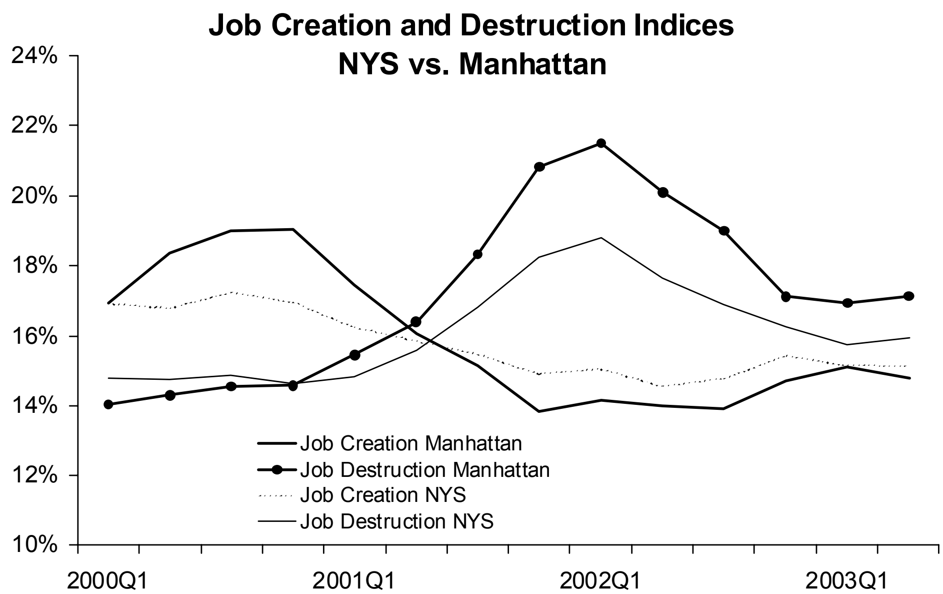
The New York nonwage components, except for the residence adjustment, are all driven by their national counterparts. The relationship is modeled as a change in the New York variable, as a function of a change in the U.S. nonwage counterpart ,along with lags of the independent and dependent variables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

Manhattan in the Eye of the Storm

Much of the growth in State incomes during the late 1990s was concentrated in industries with a strong presence in New York City, especially financial and information services. The recession and the tragedy of September 11 battered these sectors and the City employment picture. However, two years after the destruction of the World Trade Center, the City economy is well on the road to recovery. To examine the pace of the City's recovery from these events more closely, this section focuses on labor market dynamics in Manhattan since the start of the 2001-02 recession.

As the late 1990s boom was coming to a close in 2000, Manhattan's gross rate of job creation was strong and growing, while the gross rate of job destruction was relatively flat (see Figure 37). Manhattan was both creating jobs at a faster rate and was also losing jobs at a lower rate than the State overall. However, with Manhattan at the center of the State recession that started in January 2001, that trend reversed and employment began to fall. The gross rate of job creation started to decline in Manhattan in the first quarter of 2001, while gross job destruction started to rise. By the second quarter of 2001 — prior to September 11 — the rate of job destruction exceeded that of job creation, implying net losses.

Figure 37



Source: NYS Department of Labor; DOB staff estimates.

Following the attack on the World Trade Center, Manhattan's job gap widened dramatically. During the first quarter of 2002, 399,100 jobs were destroyed through firm shutdowns, mergers and acquisitions and the contraction of existing firms, while only 261,900 jobs were created through firm startups, mergers and acquisitions, and the expansion of existing firms. This resulted in a net job loss of almost 137,200 jobs.[23] More than half of the jobs lost in the State during that quarter were lost in Manhattan. Since then, the rate of job destruction in Manhattan has decelerated, though it continues to be driven by losses in contracting firms; the job creation index has shown modest improvement as well. Although Manhattan's job gap was still significantly larger than the statewide gap in the second quarter of 2003, it has narrowed substantially since the aftermath of September 11.

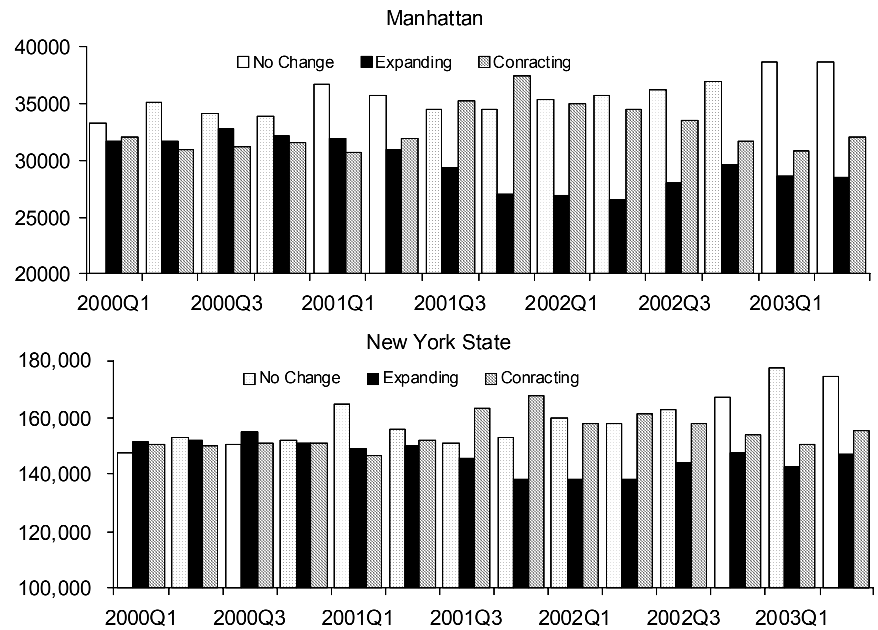
In Manhattan as elsewhere, labor market dynamics are dominated by existing firms. As indicated in Figure 38, the number of expanding firms in both Manhattan and the State continued to exceed the number of contracting firms until the second quarter of 2001.

[23] 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, CEW data may not reflect the full impact of September 11 on Manhattan employment.

However, with the onset of the State recession in early 2001, the number of contracting firms began to grow, peaking in the fourth quarter of that year, immediately following the attack. However, even during that quarter, the number of expanding firms in Manhattan was 72.2 percent as large as the number of contracting firms, an indicator of the dynamism of the Manhattan economy. Moreover, the rise in the number of expanding firms since the second quarter of 2002 clearly indicates a gradual improvement in business conditions since September 11.

Figure 38

Existing Firms in New York State and Manhattan



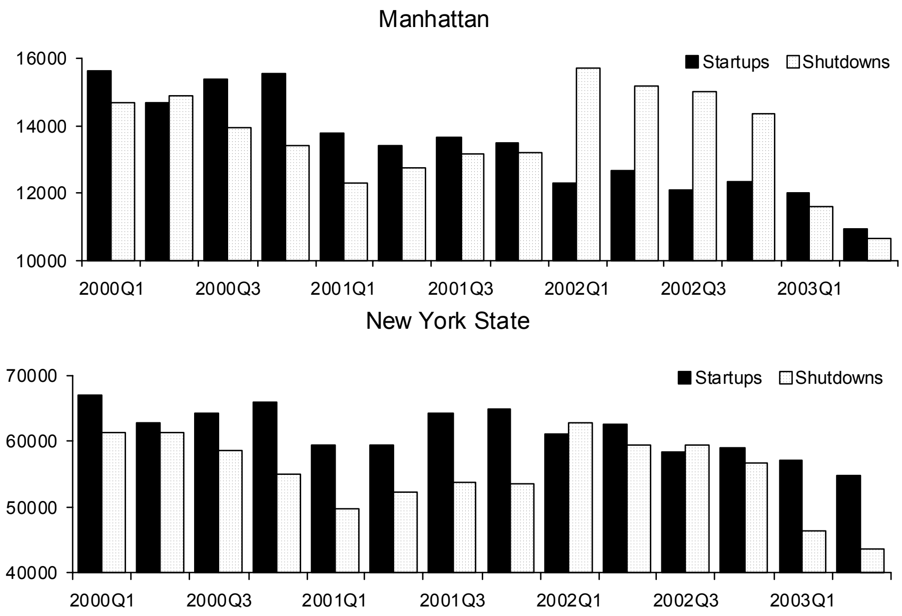
Source: NYS Department of Labor; DOB staff estimates.

The impact of the September 11 attack can be seen even more dramatically in firm startups and shutdowns. During almost every quarter in 2000 and 2001, the number of startups exceeded the number of shutdowns, in both Manhattan and the State overall (see Figure 39). However, this trend changed abruptly during the first quarter of 2002, when the number of shutdowns in Manhattan rose by 2500 compared to the prior quarter. Of this increase, about 60 percent occurred in just four sectors — professional and technical services, accommodations and food services, finance and insurance services, and the information sector — though these sectors accounted for only 32 percent of Manhattan's establishment base for the first quarter of 2002. The net number of firm shutdowns reached almost 3,400 during the first quarter of 2002, compared to only about 1,900 statewide. This fact implies a net increase in the number of firm startups outside of Manhattan.

The rise and fall in employment tends to follow the fortunes of existing firms. Figure 40 indicates that, following the September 11 attacks, job losses due to contracting firms peaked in Manhattan during the fourth quarter of 2001 at 258,400 (see Table 8). Employment losses due to firm shutdowns peaked in the following quarter, with half of the jobs lost, about 56,900, occurring in the finance and insurance, information, professional and technical services and accommodation and food services sectors.

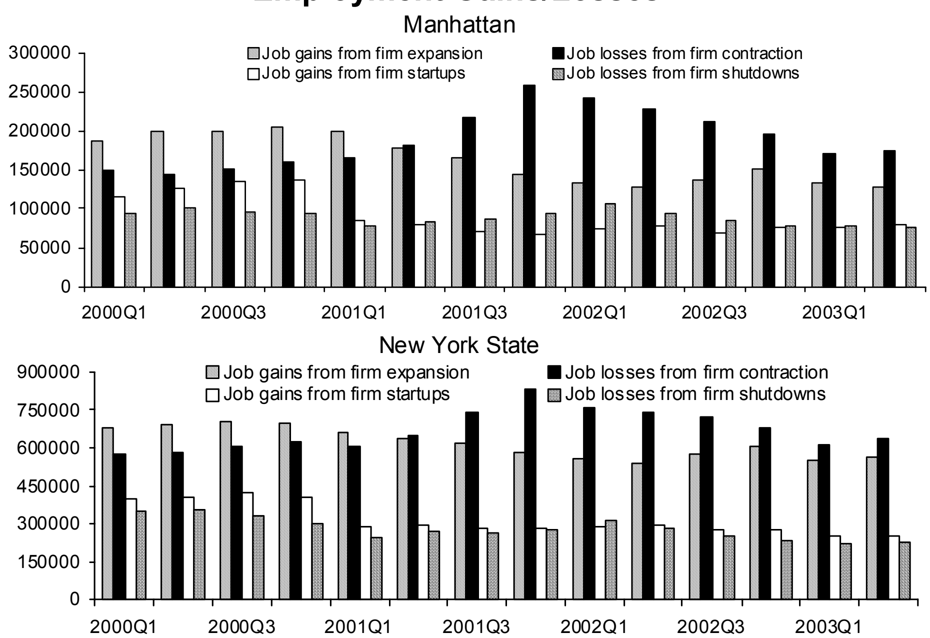
Although Manhattan — the epicenter of the 2001-03 contraction — lags much of the rest of the State, it is clearly on the road to recovery. By the first quarter of 2003, the number of firm startups exceeded shutdowns in Manhattan, due entirely to declines in firm shutdowns. These declines occurred in every sector of the economy except the utilities sector. And though Manhattan was still experiencing a net loss of jobs on a year-over-year basis in the second quarter of 2003, the extent to which the job gap has narrowed demonstrates the renewed vitality with which Manhattan is recovering from September 11.

Figure 39
Firm Startups and Shutdowns



Source: NYS Department of Labor; DOB staff estimates.

Figure 40
Employment Gains/Losses



Note: Compared to the same period of the prior year. Job gains and losses due to M&As and acquisitions are not included.
Source: NYS Department of Labor; DOB staff estimates.

TABLE 8
PRIVATE SECTOR JOB GAINS AND LOSSES IN NEW YORK AND MANHATTAN
(in thousands)

	New York State					Manhattan				
	Job Gains		Job Losses		Net Gains	Job Gains		Job Losses		Net Gains
	Expanding	Births	Contracting	Deaths	Losses	Expanding	Births	Contracting	Deaths	Losses
2000Q1	679.4	396.7	574.0	347.1	143.7	185.7	115.6	150.0	94.4	53.7
2000Q2	688.6	405.5	581.8	356.1	143.3	198.0	125.9	143.9	101.5	75.8
2000Q3	704.8	420.3	609.3	332.9	167.2	200.0	135.4	150.4	96.0	84.1
2000Q4	698.9	406.8	623.0	302.3	166.0	204.9	136.6	159.5	93.3	86.0
2001Q1	661.4	288.0	607.0	244.6	97.9	198.6	84.8	166.2	77.6	38.6
2001Q2	639.5	292.4	650.5	268.3	18.3	178.0	80.3	182.1	83.6	(6.5)
2001Q3	617.8	278.6	742.2	265.7	(95.5)	165.1	71.1	216.4	87.2	(60.7)
2001Q4	583.3	278.4	829.9	274.4	(236.5)	143.9	68.6	258.4	94.0	(134.4)
2002Q1	553.4	286.3	761.0	313.8	(256.9)	132.3	74.8	242.4	106.1	(137.2)
2002Q2	534.3	293.7	743.3	279.5	(215.2)	127.4	78.4	227.2	94.3	(113.1)
2002Q3	576.1	275.7	719.3	251.5	(147.3)	137.3	69.4	212.3	84.6	(92.9)
2002Q4	608.7	274.6	681.7	235.1	(57.4)	151.4	75.3	195.0	78.6	(44.2)
2003Q1	550.7	248.4	614.5	221.9	(32.0)	132.4	77.2	170.6	77.7	(28.2)
2003Q2	561.4	251.4	636.8	226.1	(56.1)	127.4	80.6	174.3	76.6	(41.9)

Note: Net gains and losses include net employment change due to mergers and acquisitions.
Source: NYS Labor Department; DOB staff estimates.

Risks to the New York Forecast

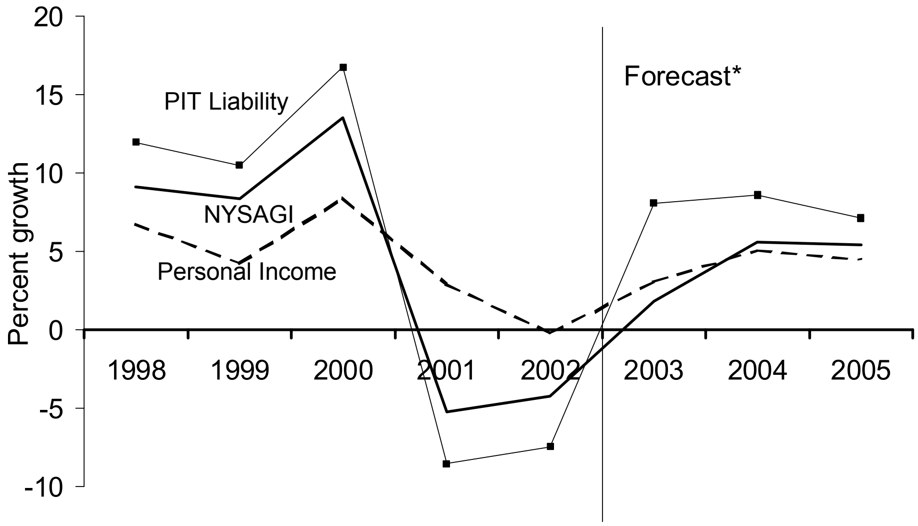
In addition to the risks described above for the national forecast, there are risks specific to the New York. Another attack targeted at New York City would once again disproportionately affect the State economy. Any other such shock that had a strong and prolonged impact on the financial markets would also disproportionately affect New York State, resulting in lower income and employment growth than reflected in the current forecast. In addition, if the national and world economies grow more slowly than expected, demand for New York State goods and services would also be lower than projected, dampening employment and income growth relative to the forecast. In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with increased activity in mergers and acquisitions and IPOs is possible, resulting in higher wage growth than projected.

The State's economic expansion is just starting to gain momentum, and as emphasized above, forecasting at or near a business cycle turning point is fraught with risk. Moreover, the financial markets, which are so pivotal to the direction of the downstate economy, are currently in a state of extreme flux. In the wake of several high-profile scandals, the pace of both technological and regulatory change is as rapid as it has ever been. These circumstances compound even further the difficulty in projecting industry revenues and profits.

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

As in many states, New York's revenue structure relies heavily upon the personal income tax (PIT). However, for a variety of reasons, PIT receipts can be extremely volatile, much more variable than conventional measures of personal income. This becomes readily apparent when comparing changes over time in actual liability with alternative indicators of the New York State income base (see Figure 41). PIT liability is the amount which State taxpayers actually owe based on total earnings during a given tax year.[24] New York State adjusted gross income (NYSAGI) is a measure of income from which total tax liability is ultimately determined and is derived from State tax returns. Personal income is a National Income and Product Accounts (NIPA) concept, measuring income derived from value added to current production.[25]

Figure 41
Indicators of New York State Tax Base
Growth Rate Comparison



* Growth rates for PIT liability and NYSAGI for 2002 are staff estimates.
Source: NYS Department of Taxation and Finance; Economy.com; DOB staff estimates.

It is evident in Figure 41 that PIT liability growth is much more variable than personal income, however defined. For example, in 2000, when all three indicators were on the upswing due to strong economic growth, personal income grew a historically robust 8.5 percent. Meanwhile, NYSAGI grew at an even stronger 13.5 percent, while PIT liability grew a remarkable 16.8 percent. When the national recession reversed this strong growth trend the following year, State personal income still grew, but at a much lower 3.0 percent. In contrast, NYSAGI fell 5.2 percent and PIT liability fell an even larger 8.5 percent. Similarly, with the New York economy still in recession in 2002, State personal income fell 0.2 percent, NYSAGI fell an estimated 4.2 percent, but PIT liability fell an estimated 7.4 percent. All three measures are expected to grow in 2003 and 2004 and past patterns suggest that NYSAGI can be expected to grow faster than personal income, while PIT liability can be expected to grow faster than both NYSAGI and personal income.

It is common to examine tax liability in terms of its sensitivity to changes in the economy and the tax base, or its "elasticity." For example, when the economy changes direction, personal income and particularly its largest component, wages, responds more strongly or "elastically" than indicators such as GDP and employment. Employers may drastically curtail or eliminate bonus payments in response to a poor performance by their firms that year. On the other hand, changes in firm employment levels are likely to occur more gradually.

[24] For a more detailed discussion of personal income tax liability, see Tax Receipt Section "Personal Income Tax."
[25] For a discussion of how DOB constructs State personal income, see Box 8.

NYSAGI responds more elastically than personal income to economic upturns and downturns. This is because NYSAGI measures the taxable components of income, including items such as realized capital gains and losses. Since a capital gain or loss earned from the sale of a financial asset does not add to the value of current production, it is not included in the NIPA concept of personal income.[26] In 1999 and 2000, income from positive capital gains realizations grew an impressive 23.2 percent and 29.3 percent, respectively. However, the most recent data available show a 50.0 percent decline in capital gains realizations for 2001, and DOB's forecast suggests additional declines in capital gains of 31.0 percent in 2002 and 6.9 percent in 2003. With the dramatic rise in capital gains realizations during the late 1990s and 2000, and the equally dramatic declines in 2001 and 2002, the growth in taxable income became much more volatile than the growth in personal income as defined under NIPA. Unlike indicators such as GDP and employment, which have relatively stable bases, income from capital gains realizations can fall dramatically if taxpayers refrain from selling financial assets due to depressed market conditions or if taxpayers are carrying forward losses from prior years. Moreover, NYSAGI can fluctuate due to statutory changes in the definition of taxable income, and taxpayers' strategic responses to such changes.

Personal income tax liability is quite elastic with respect to changes in personal income measured either by NYSAGI or personal income as defined under NIPA, primarily due to the progressiveness of the State tax system. The volatile components of taxable income referred to above, such as bonuses and capital gains realizations, tend to be concentrated among the State's high-income taxpayers who are also taxed at the highest marginal tax rate. Growth in those components is liable to increase the average tax rate, while declines are liable to lower it. The movement of taxpayers across tax brackets as their incomes rise and fall is likely to amplify changes in average tax rates. Between 2000 and 2001, the decline in taxable income and the even larger decline in tax liability lowered the effective tax rate from 4.76 percent to 4.60 percent without any significant changes in tax law. The large 25.3 percentage point swing in PIT liability between 2000 and 2001 clearly indicates how radically tax liability can shift when the stock market fluctuates. For 2002, additional declines in capital gains and bonuses are estimated to have further eroded the effective tax rate to 4.44 percent, in part causing the estimated 7.4 percent decline in liability. For 2003 and 2004, DOB expects the effective tax rate to increase to 4.72 percent and 4.86 percent, respectively, as both the economy and equity markets improve and tax law changes are implemented. The increases in income tax rates imposed in 2003 will significantly increase the effective tax rates for high-income taxpayers.

The most volatile components of income can and have accounted for a large portion of the changes in NYSAGI. This fact poses significant risks to the Division of the Budget's personal income tax forecast. From Table 9 it can be determined that the increase in capital gains realizations of $14.5 billion accounted for 23.6 percent of the $61.4 billion increase in NYSAGI in 2000. For 2001, the decline in capital gains of $32 billion is larger than the estimated $27.0 billion decline in NYSAGI for that year, and the estimated decline of $9.9 billion in capital gains realizations accounted for almost 50 percent of the $20.4 billion decline in NYSAGI in 2002. 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 several components of taxable income and, ultimately, tax liability itself.[27] Therefore, the Budget Division has consistently maintained that a conservative approach to projecting these components is warranted.

[26] However, any transaction cost generated by such a sale would add value to current production and would therefore be included in personal income.

[27] 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 those estimated two years ago.

TABLE 9
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS

	1999	2000	2001	2002	2003	2004
NYSAGI						
Level in billions of $	453.1	514.5	487.5	467.1	475.6	502.3
$ Change	35.1	61.4	-27.0	-20.4	8.5	26.7
% Change	8.4	13.5	-5.2	-4.2	1.8	5.6
Wages						
Level in billions of $	328.9	368.2	376.2	363.9	370.4	389.2
$ Change	19.2	39.3	8.0	-12.2	6.5	18.7
% Change	6.2	12.0	2.2	-3.3	1.8	5.1
Capital Gains						
Level in billions of $	49.5	64.0	32.0	22.0	20.5	23.2
$ Change	9.3	14.5	-32.0	-9.9	-1.5	2.6
% Change	23.2	29.3	-50.0	-31.0	-6.9	12.9
Partnership/S corporation						
Level in billions of $	35.3	38.9	37.9	38.0	41.3	45.0
$ Change	4.6	3.6	-1.0	0.1	3.3	3.7
% Change	14.8	10.1	-2.6	0.2	8.7	9.1

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

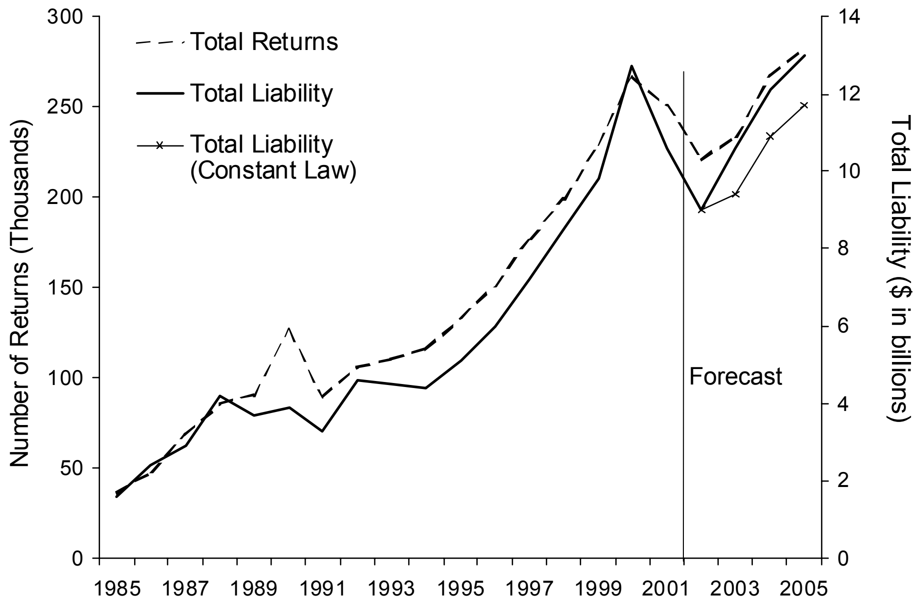
Changes in the State Distribution of Income

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 and state 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.[28] Approximately 8.9 million tax returns were filed in New York State for the 2001 tax year, reflecting an average annual growth of 1.9 percent since 1995. Over the same period, the number of high-income taxpayers grew from 133,000 to 251,000, reflecting an average annual growth of 15 percent (see Figure 42). In 2001, the most recent year for which detailed tax return data are available, these high-income taxpayers represented a mere 2.8 percent of all taxpayers, but they accounted for 35.0 percent of NYSAGI and 47.1 percent of personal income tax liability, or $10.6 billion out of a total of $22.4 billion (see Figure 43). In the peak year of 2000, high-income taxpayers represented 3.0 percent of all taxpayers but accounted for 50.8 percent of personal income tax liability.

[28] In 1995, 6,910 New York taxpayers had federal adjusted gross incomes of $1,000,000 or more. This number skyrocketed to 48,856 taxpayers in 2000. Between 1999 and 2000 alone, the number of millionaires almost doubled from 25,537 to 48,856.

Figure 42

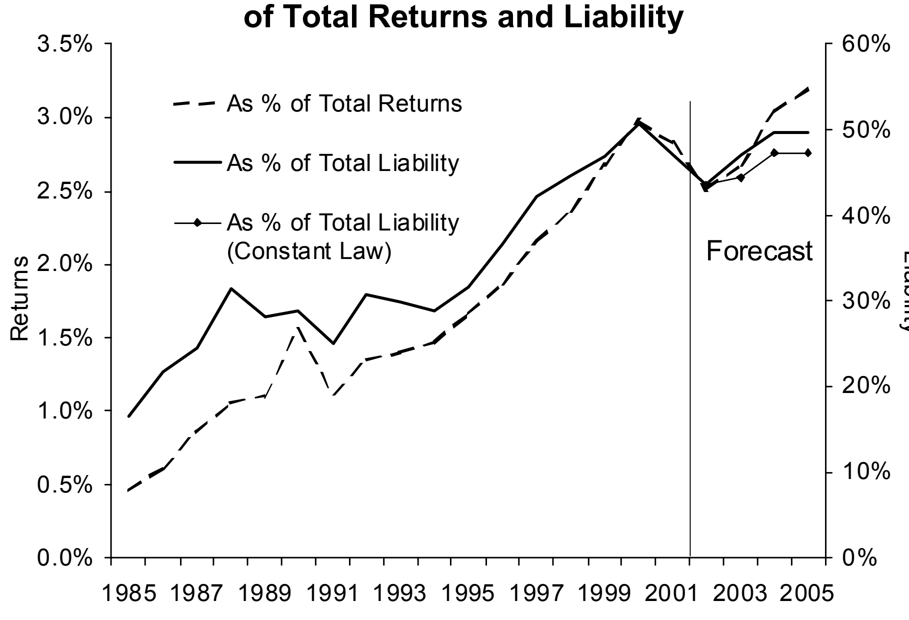
New York State High-Income Tax Returns



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

Figure 43

High-Income Taxpayers as Percent of Total Returns and Liability



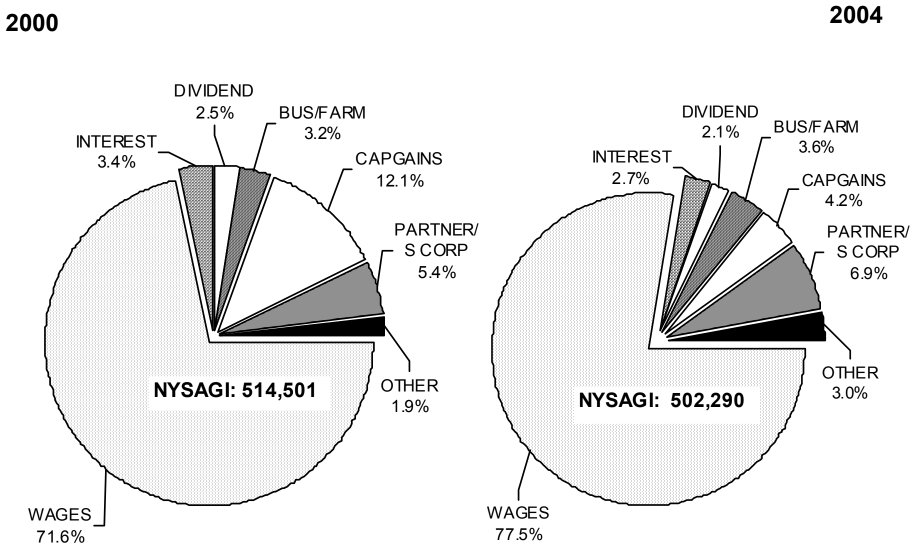
Source: NYS Department of Taxation and Finance; DOB staff estimates.

Figure 44 compares the composition of NYSAGI for all taxpayers for the peak tax year of 2000 to that for the 2004 tax year based on Budget Division projections. The figure shows a clear shift from net capital gains income to wage income. By 2004, estimated net capital gains income contributes only 4.2 percent to taxable income, down from a high of 12.1

percent in 2000. At the same time, the share of wages is expected to increase from 71.6 percent to 77.5 percent, which is close to the historical average of 80.0 percent between 1977 and 2000. Partnership income is expected to increase from 5.4 percent in 2000 to 6.9 percent in 2004.

Figure 44

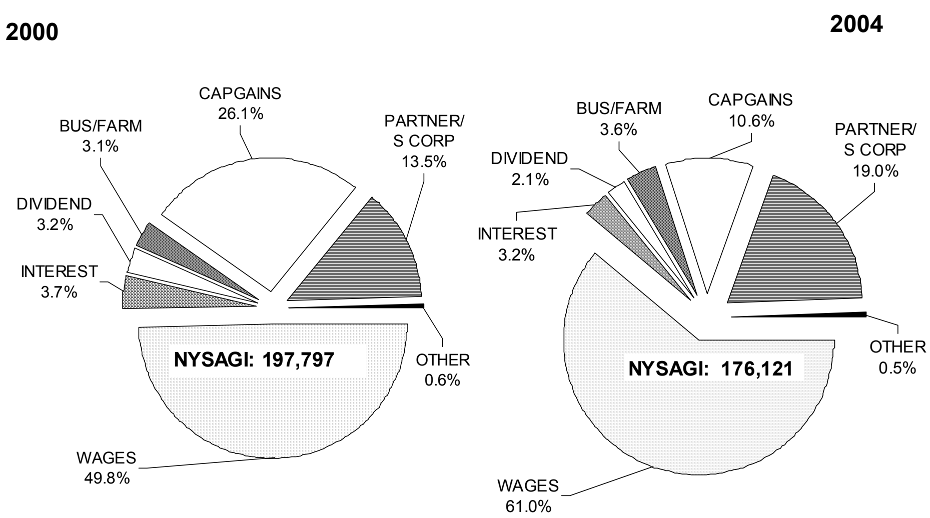
Composition of NYSAGI for All Taxpayers



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 45

Composition of NYSAGI for High-Income Taxpayers

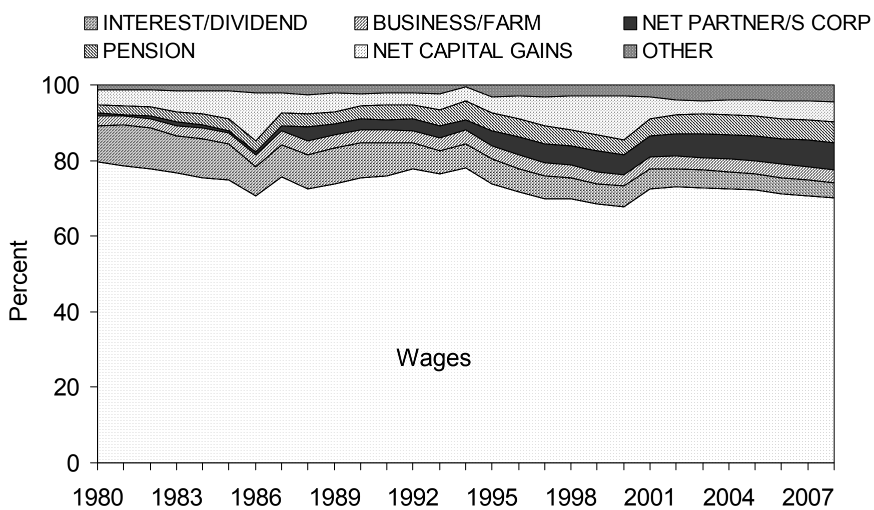


Note: Both capital gains and partnership/S corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The composition of NYSAGI for high-income taxpayers differs noticeably from that of all other taxpayers (see Figure 44 and Figure 45). Moreover, as is evident from the most volatile components of NYSAGI, capital gains and partnership/S corporation income make up a much larger share among high-income taxpayers than for taxpayers overall, while the share of wages is considerably lower.[29] This volatility becomes apparent when comparing the composition of NYSAGI for high-income taxpayers between the 2000 and 2004 tax years. For high-income taxpayers, the share of capital gains realizations is projected to fall from 26.1 percent in 2000 to only 10.6 percent in 2004. Meanwhile, the shares for partnership/S corporation income and wages are projected to grow substantially.

There has been considerable shifting over time in the largest components of income as shares of total NYSAGI (see Figure 46). The shares for wages, interest, and dividend income show a downward trend. The share for business and farm income remains stable, while the shares for partnership/S corporation income and pension income have grown steadily. The share for capital gains is the most volatile, peaking in 1986 in response to tax law changes and growing rapidly with the stock market bubble between 1995 and 2000. After three consecutive years of decline, we expect the share of capital gains income to start growing again in 2004.

Figure 46
Major Components of NYSAGI as Percent of Total



Note: NYSAGI is measured gross of deductions.
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 2001 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 Covered Employment and Wages (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.

[29] Although tax return data does not differentiate bonus income from nonbonus 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 has accounted for a large share of the fluctuation in total NYSAGI in recent years. 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.[30] The model also includes prior year stock market activity to account for capital losses realized in past years. In any given tax year, taxpayers can only claim a net $3,000 ($1,500 if filing individually) in capital gains losses against ordinary income, but they can carry the remaining losses over an indefinite period in order to offset gains in future years. Although the model has performed well, DOB projections have always emphasized the high degree of uncertainty associated with any capital gains forecast.[31]

The most recent bear market for stocks was unprecedented in the period since World War II in both severity and duration, and was therefore accompanied by historically large capital losses. U.S. Department of Treasury Statistics of Income (SOI) data suggest that, at the national level, the loss carryover grew 45.9 percent in 2000, 81.5 percent in 2001 and another 52.6 percent in 2002. This compares to consecutive increases of 30.7 percent, 35.5 percent and 43.9 percent from 1974 to 1976, during and following the 1973-74 bear market, the only other multiyear downturn in equities in recent history. At the national level, an estimated $350 billion in realized losses has been carried forward from 2002 tax returns for use to offset taxable gains earned in 2003 and beyond. In contrast, in 1999, just prior to the bursting of the stock-market bubble, the loss carryover totaled $87 billion, a quarter of its current size. And while the ratio of the loss carryover — estimated for New York — to taxable net capital gains was 19.7 in 2000, by 2002 it had risen to an estimated 138.9, above the ratio attained during the 1973-74 bear market (see Figure 47). Because of the lack of historical experience, adjustments are made to the forecast for the period from 2003 to 2008 to more effectively account for the anticipated impact of accumulated losses. These adjustments are based on the ratio of losses to gains derived from national SOI data and applied to New York (see Figure 48).[32]

The Budget Division estimates three consecutive years of decline in capital gains realizations: 50.0 percent in 2001, 31.0 percent in 2002 and a smaller decline of 6.9 percent for 2003 (see Figure 49). Despite the recent upturn in stock market performance, taxable capital gains are still expected to decline in 2003 because of the large loss carryover. Subsequently, capital gains are predicted to improve rather quickly as the loss carryover dissipates. While the loss carryover adjustments depress growth rates in 2004 and 2005, the growth rate of capital gains realization increases as the magnitude of applied losses tapers off. Overall, the Budget Division expects that the capital gains share of total NYSAGI will rise to its historical average value by 2008 (see Figure 50).

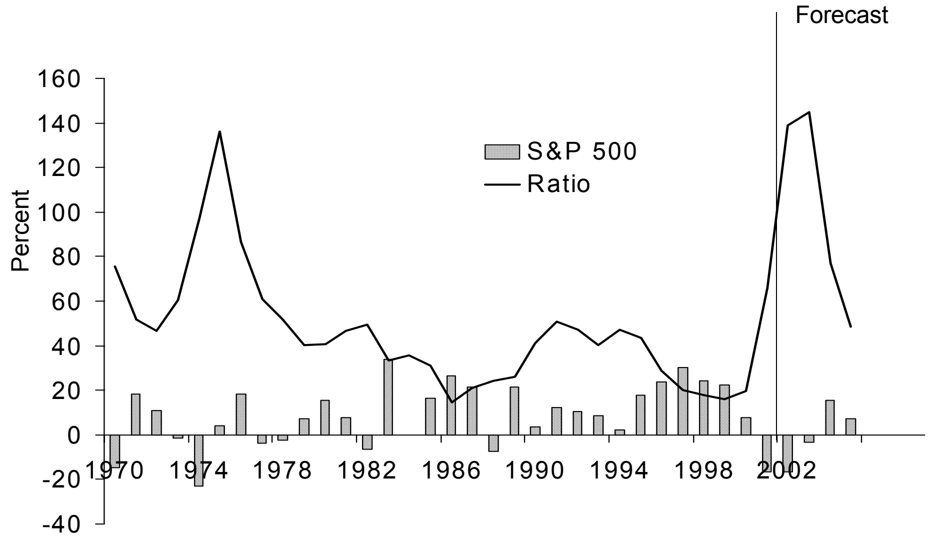
[30] For a discussion of DOB's traditional approach to modeling capital gains realizations, see L. Holland, H. Kayser, R. Megna and Q. Xu "The Volatility of Capital Gains Realizations in New York State: A Monte Carlo Study," *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, pp. 172-183.

[31] See *Executive Budget Presentation, 2002-03, Appendix II*, p. 131.

[32] Because the model cannot capture the full extent of the estimated value of the loss carryover, we perform manual adjustments to capital gains realizations. We estimate an unprecedented level of about $30 billion in losses. We assume that a little less than half that amount will be used to offset gains between 2003 and 2008. Positive taxable capital gains, gross of offsetting losses, provide an indication of the underlying performance of the stock market. However, these data are unavailable to researchers. Therefore, one should keep in mind that realized capital gains do not truly reflect the state of the markets until the loss carryover has sufficiently dissipated.

Figure 47

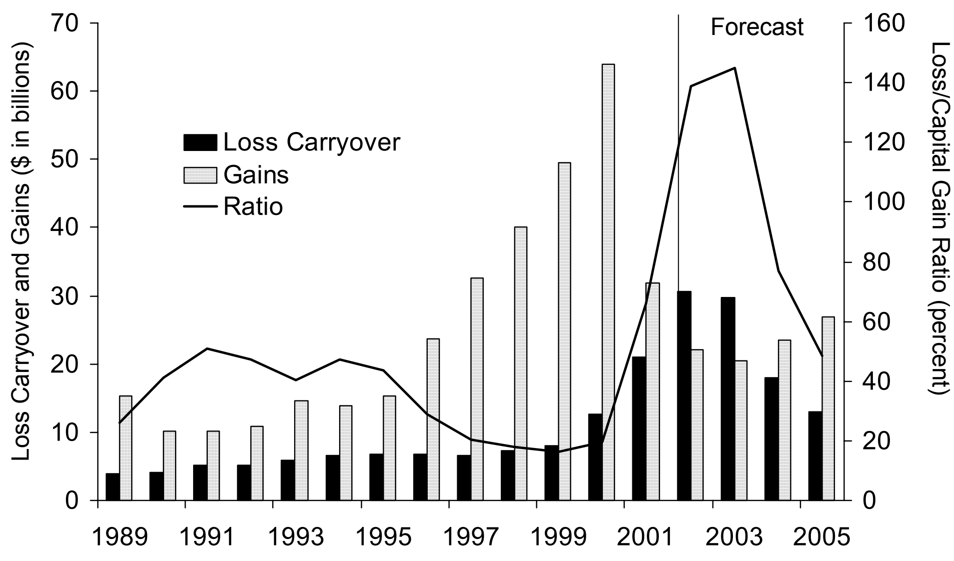
Ratio of Loss Carryover to Capital Gains Realizations and Growth in the S&P 500



Note: Forecast period for the S&P 500 starts in 2004.
Source: IRS Statistics of Income; DOB staff estimates.

Figure 48

Decomposing the Ratio of Loss Carryover to Capital Gains Realizations

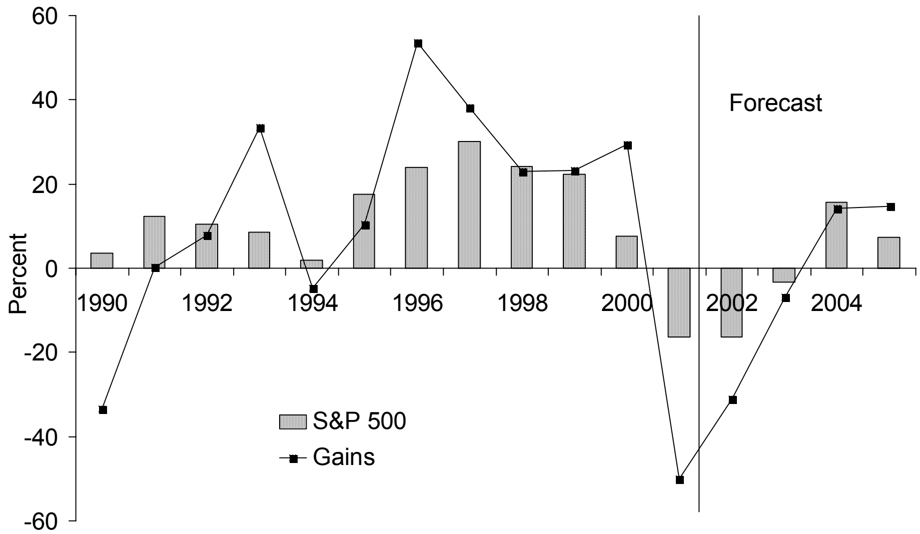


Source: IRS Statistics of Income; NYS Department of Taxation and Finance; DOB staff estimates.

The unprecedented size of the loss carryover poses significant risk for the out-year estimates of taxable gains. It is possible that larger amounts of accumulated losses will be applied to offset capital gains than anticipated in the forecast. 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 have been extremely difficult to predict in the short run, resulting in significant forecasting errors.

Figure 49

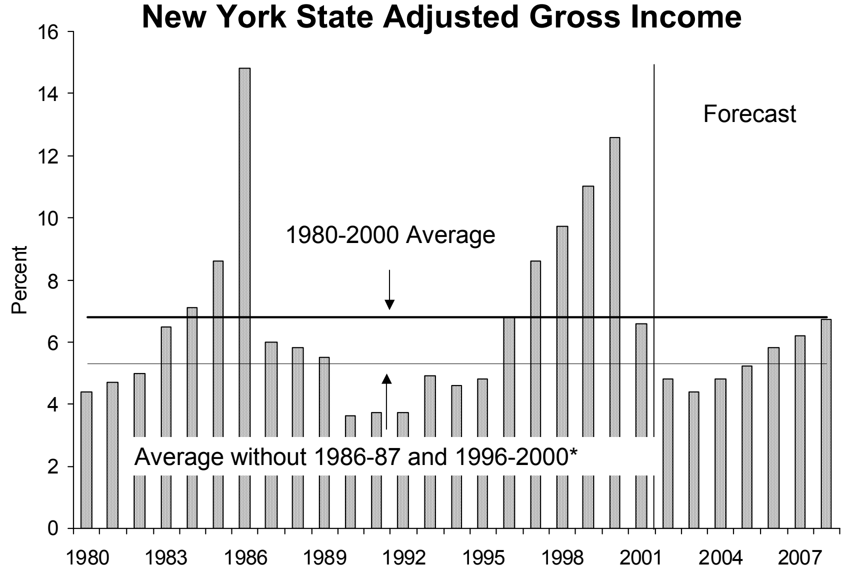
Growth in Capital Gains Realizations and S&P 500



Note: Forecast period for the S&P 500 starts in 2004.
Source: IRS Statistics of Income; NYS Department of Taxation and Finance; DOB staff estimates.

Figure 50

Capital Gains Realizations as Percent of Total New York State Adjusted Gross Income



*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.

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 7.6 percent in 2000 and an estimated 9.0 percent by 2004. The largest contributor to this component is partnership income, much of which originates within the finance and real estate industry and is therefore closely tied to both the overall performance of the economy and 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. Over the years, rules governing which businesses can form S corporations have become less stringent, making this a very flexible business form; its use has increased dramatically. Empirical work confirms that the differential between personal income tax and corporate income tax rates can significantly affect election of S corporation status.[33] 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. Together partnership income and S corporation income contribute more than 90 percent to this category's income total.

The DOB predicts that partnership and S corporation income will grow faster than other business income as the economy improves. While New York proprietors' income (which includes partnership income, S corporation income, and sole proprietorship income) grew at an average annual rate of 7.7 percent between 1978 and 2001, taxable partnership and S corporation income grew at a significantly faster rate of 9.7 percent. Some of this growth is due to past tax law changes and to easing of the requirements for forming S corporations. In the absence of further policy actions, it is expected that the growth rate will diminish but remain relatively high because its liability provisions and flexibility make S corporation status a continued favorite among new businesses. The Budget Division estimates that positive partnership and S corporation income increased slightly at a rate of 0.2 percent in 2002. As equity markets and the economy improve, growth in partnership and S corporation income is estimated at 8.7 percent in 2003, followed by growth of 9.1 percent in 2004.

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 equity market and with the overall performance of the national economy. For example, during the State's last recession, dividend income declined for four consecutive years from 1989 to 1992. DOB's dividend model includes the S&P 500 equity market index and a recession dummy. 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. Interest rates can be interpreted as containing information about future prospects for the economy, because they contain inflation expectations, which, in turn, are shaped by expectations for the economy.

Historically, State dividend income growth has ranged from a decline of 6 percent in 1991 to an increase of 22 percent in 1981, proving growth to be much more variable than U.S. dividend income. This reflects the importance of factors influencing how taxpayers report their income, such as tax law changes, as well as changes in dividend payments 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 in the next year. The Budget Division estimates dividend income to decline 4.6 percent in 2002 following a large decline of 19.3 percent in 2001. Dividend income is estimated to have exhibited slow positive growth of 0.9 percent in 2003, but is projected to grow a healthier 6.7 percent in 2004 due to a stronger economy and higher equity prices.

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

[33] 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.

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. However, taxable interest income for New York is much more volatile than the latter measure. For the period 1976 to 2001, the average growth rate for U.S. interest income was 8.9 percent, with a standard deviation of 7.6 percentage points. In contrast, New York's interest income as reported on returns over the same period averaged 6.0 percent growth, with a standard deviation of over 13.6 percentage points. Interest income fell 7.5 percent during 2001 due to the steep decline in interest rates during the year. Interest income is estimated to continue falling by 12.4 percent in 2002 and 5.1 percent in 2003 due to the continued decline in overall interest rates. Interest income is expected to fall modestly by 0.4 percent in 2004 before regaining positive growth in 2005.

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, DOB's forecasting model includes real U.S. GDP, as well as New York State proprietors' income. Historically, business and farm income grows more slowly than proprietors' income, at an annual rate of about 6.5 percent compared with proprietors' income growth of 7.7 percent. The Joint Committee on Taxation (JCT) and the Congressional Budget Office (CBO) estimate that business income will be substantially lower in 2003-2005 because of the provisions of the Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA).[34] Our estimates adjust for these provisions. The Budget Division estimates low growth of 2.9 percent in 2002, followed by a decline of 0.6 percent because of JGTRRA. For 2004, projections are for a growth rate more in line with history of 5.6 percent. There is a reasonable downside risk to our estimates for 2003 and 2004 because of the high estimates for revenue losses by JCT and CBO.

Pension Income

Pension income includes payments from retirement plans, life insurance annuity contracts, profit-sharing plans, military retirement pay, and employee savings plans. Pension income is linked to long-term interest rates, suggesting that firms base the level of pension and life-insurance benefits they offer to employees on their expectations of future profitability, which is tied to the future strength of the economy. Pension income has grown steadily over the years, although the growth rate has declined considerably over time despite an aging population. While the average annual growth rate between 1978 and 1989 was 13.4 percent, it fell to 7.3 percent between 1990 and 2001. This coincides with a decline in the 10-year Treasury rate from 10.3 percent in the earlier years to 6.5 percent in the later years. For pension income, DOB's forecasting model estimates 7.4 percent growth in 2002, followed by further growth of 5.1 percent and 5.2 percent for 2003 and 2004, respectively.

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. The effect of the loss carryover and of yet unrealized losses on capital gains realizations could very easily exceed our current forecast. Should the momentum in GDP growth slow in 2004 relative to the forecast, business and farm income and partnership and S corporation income could be lower than expected. Rough estimates suggest that one percentage point shaved from GDP growth translates into a decline in NYSAGI of about $1 billion and a decline in PIT liability of about $50 million.

[34] See Congressional Budget Office, Congressional Budget Cost Estimate, H.R. 2, "Jobs and Growth Tax Relief Reconciliation Act of 2003," May 23, 2003.

TABLE 10
SELECTED ECONOMIC INDICATORS
(Calendar Year)

	2002 (actual)	2003 (estimate)	2004 (forecast)	2005 (forecast)	2006 (forecast)	2007 (forecast)	1976-2002 Average[2]
U.S. Indicators[1]							
Gross Domestic Product (current dollars)	3.8	4.7	6.3	5.4	5.2	5.2	7.1
Gross Domestic Product	2.2	3.1	4.7	3.5	3.3	3.1	3.2
Consumption	3.4	3.1	4.0	3.4	3.1	2.7	3.3
Residential Fixed Investment	4.9	9.0	5.5	(0.9)	(1.0)	(0.3)	3.8
Nonresidential Fixed Investment	(7.2)	2.5	10.6	9.3	8.8	8.9	5.2
Change in Inventories (dollars)	5.7	(1.3)	46.6	37.7	29.1	23.9	27.0
Exports	(2.4)	1.4	7.3	7.8	7.2	6.6	6.0
Imports	3.3	3.7	8.4	7.1	6.8	6.8	7.4
Government Spending	3.8	3.4	2.4	1.7	1.5	1.3	2.3
Corporate Profits[3]	17.4	18.7	15.1	7.5	7.2	6.3	7.3
Personal Income	2.3	3.3	4.7	5.3	5.5	5.5	7.3
Wages	0.6	2.1	4.4	5.9	5.8	5.4	7.0
Nonagricultural Employment	(1.1)	(0.2)	1.1	2.0	1.7	1.3	2.0
Unemployment Rate (percent)	5.8	6.0	5.7	5.2	5.0	5.1	6.4
S&P 500 Stock Price Index	(16.5)	(3.2)	15.6	7.5	7.2	7.1	10.3
Federal Funds Rate	1.7	1.1	1.2	3.0	4.6	5.1	7.1
Treasury Note (10-year)	4.6	4.0	4.7	5.6	6.4	6.7	8.2
Consumer Price Index	1.6	2.3	1.8	2.1	2.3	2.4	4.6
New York State Indicators							
Personal Income[4]	(0.2)	3.1	5.1	4.5	4.7	4.9	6.5
Wages and Salaries[4]							
Total	(3.3)	1.8	5.1	4.9	4.7	4.8	6.2
Without Bonus[5]	(0.8)	2.3	4.1	4.5	4.5	4.4	5.9
Bonus[5]	(19.0)	(2.2)	12.7	7.9	6.7	8.2	10.4
Wage Per Employee	(1.6)	2.2	4.3	3.7	3.6	3.8	5.4
Property Income	0.9	1.4	3.9	3.1	3.3	3.9	7.5
Proprietors' Income	4.2	7.1	7.7	5.8	7.1	6.9	8.6
Transfer Income	7.8	5.2	5.7	5.0	5.2	5.6	6.9
Nonfarm Employment[4]							
Total	(1.8)	(0.4)	0.8	1.1	1.1	1.0	0.8
Private	(2.4)	(0.4)	0.9	1.3	1.3	1.1	0.9
Unemployment Rate (percent)	6.1	6.2	6.0	5.7	5.5	5.6	6.7
Composite CPI of New York[5]	2.2	2.8	2.1	2.0	2.1	2.2	4.6
New York State Adjusted Gross Income							
Capital Gains	(31.0)	(6.9)	12.9	13.7	16.5	13.2	16.4
Partnership/ S Corporation Gains	0.2	8.7	9.1	9.3	9.4	8.2	11.9
Business and Farm Income	2.9	(0.6)	5.6	4.3	10.6	4.4	7.2
Interest Income	(12.4)	(5.1)	(0.4)	1.7	1.6	0.6	6.0
Dividends	(4.6)	1.0	6.7	6.5	6.1	4.7	5.8
Total NYSAGI	(4.2)	1.8	5.6	5.4	5.9	5.6	7.0

[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] For the NYSAGI variables, averages are calculated using data through 2001. Partnership and S corporation gains data start in 1978.
[3] Includes inventory valuation and capital consumption adjustments.
[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 11
SELECTED ECONOMIC INDICATORS*
(State Fiscal Year)

	2002-03 (actual)	2003-04 (estimate)	2004-05 (forecast)	2005-06 (forecast)	2006-07 (forecast)	1976-77 - 2002-03 Average
U.S. Indicators[1]						
Gross Domestic Product (current dollars)	4.0	5.4	6.1	5.3	5.2	7.1
Gross Domestic Product	2.4	3.9	4.5	3.4	3.2	3.1
Consumption	3.1	3.5	3.9	3.3	2.9	3.3
Residential Fixed Investment	5.6	10.0	3.0	(1.2)	(0.9)	3.5
Nonresidential Fixed Investment	(4.7)	5.3	10.8	8.7	9.0	5.2
Change in Inventories (dollars)	12.0	7.5	47.2	35.1	27.4	26.7
Exports	0.5	2.2	7.9	7.7	7.0	6.0
Imports	5.7	4.1	8.5	6.8	6.8	7.3
Government Spending	3.8	3.7	1.9	1.7	1.5	2.3
Corporate Profits[2]	14.3	25.3	10.5	7.4	7.1	6.9
Personal Income	2.6	3.6	4.9	5.4	5.4	7.3
Wages	1.1	2.4	4.9	6.0	5.7	6.9
Nonagricultural Employment	(0.8)	(0.1)	1.6	2.0	1.6	2.0
Unemployment Rate (percent)	5.8	6.0	5.6	5.1	5.0	6.3
S&P 500 Stock Price Index	(19.7)	9.8	11.4	7.3	7.3	9.8
Federal Funds Rate	1.5	1.1	1.5	3.5	4.8	7.1
Treasury Note (10-year)	4.3	4.2	4.8	5.9	6.5	8.2
Consumer Price Index	2.0	2.0	1.9	2.1	2.3	4.6
New York State Indicators						
Personal Income[3]	1.2	4.5	4.7	4.6	4.7	6.5
Wages and Salaries[3]						
Total	(1.2)	4.1	4.8	4.9	4.8	6.1
Without Bonus[4]	0.3	2.8	4.3	4.6	4.4	5.9
Bonus[4]	(11.7)	15.2	8.9	7.1	7.3	9.8
Wage Per Employee	(0.0)	4.2	3.9	3.7	3.6	5.3
Property Income	1.4	2.0	3.7	3.1	3.5	7.5
Proprietors' Income	5.1	8.1	6.5	6.3	7.1	8.4
Transfer Income	7.2	5.3	5.5	5.1	5.3	6.8
Nonfarm Employment[3]						
Total	(1.2)	(0.2)	0.9	1.2	1.1	0.8
Private	(1.7)	(0.2)	1.1	1.3	1.2	0.9
Unemployment Rate (percent)	6.2	6.2	6.0	5.6	5.5	6.7
Composite CPI of New York[4]	2.5	2.6	2.0	2.0	2.1	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] Includes inventory valuation and capital consumption adjustments.
[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

SUMMARY

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. During the mid-1970s and early 1980s, tax revenue growth rates were quite high reflecting the inflationary environment of the times. Tax revenue growth in the mid-to-late 1980s was fueled by a bull market on Wall Street and large increases in real estate values. Tax growth dipped in the late 1980s, partly as a result of the implementation of a multi-year personal income tax cut program. The relatively small annual average growth in receipts during the 1990s was largely due to three factors: the severe economic downturn experienced in New York during the early 1990s, reduced inflation rates, and the significant tax reductions enacted over the 1995-2000 period. Most recently, the decline in tax receipts for 2001-02 and 2002-03 was directly related to the adverse effects of the national economic recession, the decline in stock market values, the disproportionate impact of the World Trade Center disaster on the New York economy and the continued impact of previously enacted tax reductions. The back-to-back decline in tax receipts was the first in many years, including the fiscally turbulent 1970s.

It is estimated that underlying receipts growth will remain relatively weak in 2003-04 as the continued impacts of recession, the aftermath of the equity market decline, and the events of September 11th continue to adversely affect receipts. However, base receipts growth will be supplemented by revenue actions taken with the 2003-04 Budget, including the temporary three-year increase in personal income tax rates and the two-year one quarter of one percent sales tax surcharge. Overall, tax receipts are expected to increase by 7.7 percent in 2003-04. Receipts increase by an estimated 5.2 percent when adjusting out the impact of law changes. Historically, tax receipt growth, adjusted for law changes, has lagged behind changes in economic conditions. This has been especially true for the current expansion as the lack of significant employment growth and the aftershocks of the 2001 recession continue to depress tax receipts growth before factoring in the impact of law changes.

As the negative influences acting on receipts growth subside, especially with respect to equity market conditions and the return to profitability in the financial services sector, the revenue picture is expected to brighten. Growth is expected to exceed historical averages as the economy revives in 2004-05 and 2005-06. Actual All Funds tax growth is projected to be 7.5 percent in 2004-05 and slow to just over 3 percent in 2005-06 and 2006-07 as the temporary tax increases are phased out. Adjusting for law changes, growth in tax receipts of 7 percent is projected for 2004-05 followed by estimated growth of approximately 5 percent in 2005-06 and 2006-07. Growth in estimated base receipts exceeds that of the historical period (1987-88 to 2002-03) by almost 2 percent.

IMPACT OF INFLATION

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 1970s, as New York suffered through the deep mid-1970s recession and the oil shocks of 1973 and 1980. The negative growth rates in the late 1980s and early 1990s reflect the large 1987 personal income tax cut and the 1990 economic recession. The growth declines in the mid-1990s 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 2002-03 are by far the most significant of the period and, again, reflect the impact of the national recession, the deflation in stock values, the adverse impact of September 11th, and the impact of previously enacted tax cuts. In fact, the 2001 recession had a far larger negative impact on tax receipts than any recession over the past 30 years. The first chart that follows shows that adjusting for tax policy changes and inflation, the decline in 2001-02 and 2002-03 was much more severe than for the other economic downturns of the previous three decades. It is expected that tax receipts, adjusted for inflation, will grow an average of 3.4 percent over the 2003-04 to 2006-07 period. This expected growth greatly exceeds historical averages. This is partly the result of law changes enacted in 2003-04. Adjusting for law changes, real base growth in tax receipts is estimated at 3.5 percent for this period, almost 3 percent higher than the average over the past 15 years.

SHIFTING TAX SHARES — IMPACT OF POLICY AND ECONOMICS

The series of charts and tables 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 both before and after adjusting 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 are major factors that have impacted receipts growth over the past 30 years.

The share of tax attributable to a major tax source is related to economic activity and tax policy shifts. For example, the temporary personal income tax and sales tax increases adopted last year, holding other factors constant, increase the share of the total for those taxes — for the years the increases are in effect. Other policy changes, when interacting with economic change, can have more long-term impacts on tax shares. For example, part of the increase in personal income tax share and decline in the corporate tax share in recent years can be traced to the movement of business income from the corporate to the individual income tax base. This movement was facilitated by State and Federal action allowing for the formation of Limited Liability Companies (LLC) and S corporations. These entities have many characteristics of a business but the flow of income to members (or shareholders) is taxed under the personal income tax. Over the past decade, the number of LLCs in New York has increased from zero in 1993 to over 150,000 in 2003. In addition, the growth in S corporations, which are companies with a small number of shareholders, has also been dramatic. New York first allowed S corporation status in 1981, but the number of S corporations grew dramatically in the 1990s. The combination of changing taxpayer behavior (filing status), aided by changes in policy facilitating the change in behavior, has resulted in significant changes in tax shares. In this case, the business share shrinks and the personal income tax share increases.

In other instances, changes in the economic environment can be so large as to conceal the impact of large tax policy shifts. For example, despite the significant income tax reductions of the late 1990s, income tax growth remained relatively high. This was the consequence of the rapid income growth associated with the large increases in financial service incomes. This shifted the income tax share upward despite the large reductions in income tax rates over the 1995-97 period.

Overall, there is a strong relationship between growth in the economy, as measured by personal income, and in tax receipts adjusted for law changes. The accompanying chart shows that growth in tax receipts responds positively to changes in personal income growth. The relationship is to be expected given the sensitivity of the personal income and sales tax to changes in economic conditions, and especially to changes in personal income. However, there is significant noise in this relationship, even after correcting for law changes, as unusual factors and changes in taxpayer behavior can disturb this relationship over time.

PERSONAL INCOME TAX

Personal income tax collections are strongly affected by both the economic cycle and changes in tax rates, as can be seen in the accompanying charts and tables. During periods of economic growth, collections from the income tax tend to increase more rapidly than the overall economy. During recessionary periods, income tax collections continue to increase but at a lower rate, with the exception of 2001-02 and 2002-03, when the September 11th attacks led to a more concentrated and lengthy economic impact in New York that depressed receipts. Lowering tax rates has the obvious effect of reducing growth in collections, holding economic factors constant, as can be seen during the tax cut programs of 1987-89 and 1995-97. The tax cuts of 1995-97 were overshadowed by strong wage growth, particularly in financial sector bonuses, and, as a consequence, tax collections growth remained robust.

The share of total tax receipts derived from the personal income tax has increased to historically high percentages in recent years, reaching 60 percent for the first time in 2000-01. 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 was reversed in 2001-02 and 2002-03 as the income earned by high-income individuals in the form of bonuses, stock options, and taxable capital gains declined significantly, due to a depressed economy.

The estimated PIT share is expected to increase in 2003-04, reflecting improved economic conditions as well as the temporary increase imposed in 2003 in income tax rates for taxpayers over $150,000. As the New York economic recovery continues over the next few fiscal years, growth in wages and other personal income components and in capital gains are projected to accelerate. The temporary tax increase will be phased out in 2004-06. On net, personal income tax growth will average almost 6.8 percent over the 2003-04 to 2006-07 period, close to its historical average of 7.0 percent over the past three decades. With overall receipts expected to grow at a slower 5.5 percent average over the period, the income tax share will rise and again reach 60 percent of tax receipts by State fiscal year 2006-07.

USER TAXES AND FEES

User taxes and fees have declined as a share of total taxes since the early 1970s, 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 that include price increases in their base and they tend to decline less rapidly during economic downturns. As a result, changes to the share of total taxes represented by user taxes is often a product of volatility in other more economically sensitive taxes. Therefore, given the current economic forecast, it is expected that the share of taxes derived from user taxes and fees will reach 27 percent of the total over the next two fiscal years. The percentage declines in 2005-06 and 2006-07 as the temporary surcharge is eliminated.

In general for this category, periods with low- or negative-growth rates coincide with recessionary periods (1980-82, 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 4.4 percent over the 1973-74 to 2002-03 period. For the 2003-04 Budget planning horizon, average growth of 3.8 percent is assumed. The lower than average growth rate is due to a lower than average inflationary environment as well as the phasing out of the one quarter of one percent temporary tax increase imposed in 2003, the shifting of a portion of sales tax receipts to New York City beginning in 2005-06, partially offset by proposed changes to the sales tax clothing exemption.

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. The volatility inherent in business taxes means that its share of total taxes fluctuates above and 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 tax payments made by business taxpayers and more recently reflects the impact of significant tax reductions. 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 1990s, which may be explained by aggressive tax planning by corporations, given Federal law changes at both the Federal and State level. In addition, a significant fraction of new businesses are being formed as LLC's or S corporations, and the income from these companies is primarily taxed under the personal income tax as discussed above. The graph and associated tables also reveal 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 2004-05 Budget assumes growth of 3.4 percent over the 2003-04 to 2006-07 time frame.

The share of other taxes has been dominated by the repeal of the real property gains tax and the gift tax, and the reductions in the pari-mutuel tax and the estate tax. Average growth of 3.8 percent is expected for this tax category over the 2003-04 to 2005-06 period.

The following tables provide detail on historical growth in actual All Funds tax receipts. In addition, receipts are adjusted to show the impact of inflation on overall receipts and on major tax categories.

- All Funds Tax Receipts Growth – Actual and inflation adjusted levels and growth rates.
- Major Tax Groups Receipts Growth – Actual levels and growth by major tax source.
- Major Tax Groups Inflation Adjusted Receipts Growth – Inflation adjusted growth by major tax source.
- All Funds Receipts Shares – Share of total tax receipts by major tax source.
- Actual, Base and Inflation Adjusted Base Receipts Growth – Tax receipts growth adjusted for law changes.

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	39,627.0	(6.7)	21,893.4	(8.5)
2003-04*	42,692.4	7.7	23,077.0	5.7
2004-05**	45,913.2	7.5	24,038.3	5.6
2005-06**	47,386.4	3.2	24,278.3	1.1
2006-07**	49,048.5	3.5	24,772.0	1.1
Historical Average 1973-74 to 2002-03		5.7		0.7
Historical Average 1980-81 to 2002-03		5.4		1.4
Average Forecast 2003-04 to 2006-07		5.5		3.4
Average Recessionary Growth		4.9		(1.1)
Average Expansionary Growth		6.9		2.0

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)

	All Funds Tax Receipts							
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	22,648.4	(11.4)	10,804.3	2.5	4,983.2	(3.9)	1,190.5	1.5
2003-04*	24,660.0	8.9	11,815.4	9.4	4,983.0	(0.0)	1,234.0	3.7
2004-05**	26,769.0	8.6	12,481.3	5.6	5,439.5	9.2	1,223.4	(0.9)
2005-06**	28,356.0	5.9	12,135.0	(2.8)	5,597.3	2.9	1,298.1	6.1
2006-07**	29,500.0	4.0	12,479.5	2.8	5,691.2	1.7	1,377.8	6.1
Historical Average 1973-74 to 2002-03		7.0		4.4		5.0		5.7
Historical Average 1980-81 to 2002-03		6.4		4.3		4.6		8.4
Average Forecast 2003-04 to 2006-07		6.8		3.8		3.4		3.8
Average Recessionary Growth		5.8		3.5		7.1		1.9
Average Expansionary Growth		8.9		5.2		4.0		8.0

[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.

MAJOR TAX GROUPS
(millions of dollars)

Inflation Adjusted All Funds Tax Receipts

Fiscal Year	Personal Income[1] Percent Change	User Taxes and Fees Percent Change	Business Taxes Percent Change	Other Taxes Percent Change
1973-74	(0.8)	(2.2)	(6.2)	(10.7)
1974-75	(6.1)	(5.9)	1.0	(6.9)
1975-76	1.9	(3.1)	8.1	(6.3)
1976-77	8.5	(2.8)	6.3	7.5
1977-78	(6.6)	(1.4)	(1.7)	(28.6)
1978-79	3.5	(3.0)	(12.1)	(9.1)
1979-80	1.7	(5.9)	(7.8)	(20.8)
1980-81	1.5	(8.9)	5.6	2.0
1981-82	11.0	(4.4)	(7.0)	(11.9)
1982-83	(2.0)	2.3	2.0	37.7
1983-84	9.5	10.9	20.7	39.5
1984-85	6.5	0.6	1.9	40.2
1985-86	7.8	6.6	2.6	19.5
1986-87	5.9	2.8	4.0	35.3
1987-88	4.5	2.9	(1.1)	(15.0)
1988-89	(2.2)	(1.4)	(6.9)	(0.7)
1989-90	5.3	3.0	(6.8)	(17.1)
1990-91	(10.3)	(7.5)	14.2	(2.2)
1991-92	(0.3)	1.9	22.6	(10.8)
1992-93	3.6	(0.2)	5.9	(0.1)
1993-94	0.6	0.4	6.3	(4.2)
1994-95	(1.3)	2.7	(12.0)	(4.0)
1995-96	1.2	(1.8)	(1.2)	(0.6)
1996-97	(2.0)	(0.5)	1.4	(0.1)
1997-98	2.2	1.6	(0.9)	11.1
1998-99	10.7	1.9	(4.3)	7.8
1999-2000	9.9	2.8	(6.6)	(2.7)
2000-01	12.3	(2.8)	(7.8)	(19.8)
2001-02	(7.2)	(3.4)	(13.3)	(4.4)
2002-03	(13.2)	0.5	(5.8)	(0.5)
2003-04*	6.8	7.2	(1.9)	1.7
2004-05**	6.6	3.7	7.1	(2.7)
2005-06**	3.8	(4.8)	0.8	3.9
2006-07**	1.6	0.5	(0.7)	3.7
Historical Average 1973-74 to 2002-03	1.9	(0.5)	0.0	0.8
Historical Average 1980-81 to 2002-03	2.4	0.4	0.6	4.3
Historical Average 1994-95 to 2002-03	1.4	0.1	(5.6)	(1.5)
Average Forecast 2003-04 to 2006-07	4.7	1.7	1.3	1.6
Average Recessionary Growth	(0.3)	(2.4)	1.0	(3.9)
Average Expansionary Growth	4.0	0.5	(0.8)	3.3

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

* Estimated.

** Projected.

ALL FUNDS TAX RECEIPTS

Fiscal Year	Percent of All Funds Tax Receipts Accounted for By: 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	57.2	27.3	12.6	3.0
2003-04*	57.8	27.7	11.7	2.9
2004-05**	58.3	27.2	11.8	2.7
2005-06**	59.8	25.6	11.8	2.7
2006-07**	60.1	25.4	11.6	2.8
Historical Average 1972-73 to 2002-03	50.2	29.6	16.6	3.6
Forecast Average 2003-04 to 2006-07	59.0	26.5	11.7	2.8

[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.

Base Growth

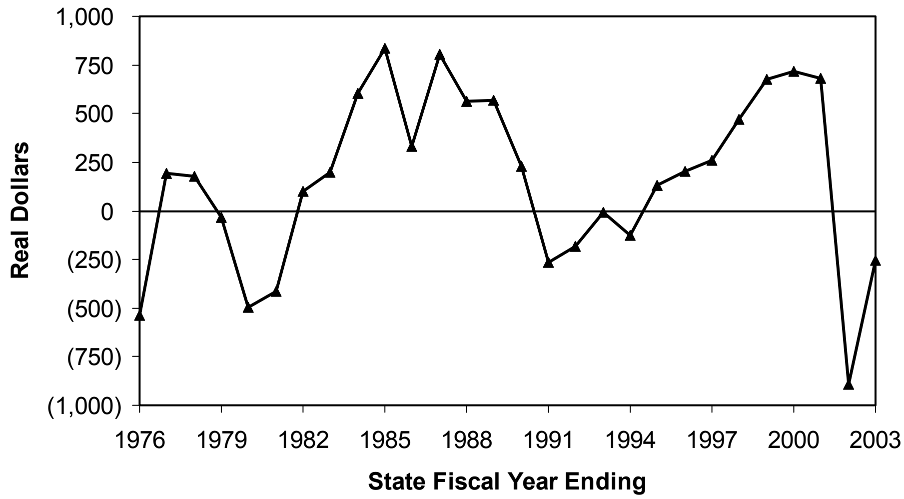
All Funds receipts can be adjusted for the estimated value of tax policy and administrative changes to obtain an approximate base receipts series. The accompanying table reports growth in estimated base receipts compared to growth in actual receipts. Growth in base receipts is higher than for actual 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 1990s 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. However, this trend is estimated to reverse itself in the period between 2003-04 and 2004-05 as a result of temporary tax increases, which will cause actual growth to exceed base growth.

ALL FUNDS
ACTUAL AND BASE GROWTH
(percent change)

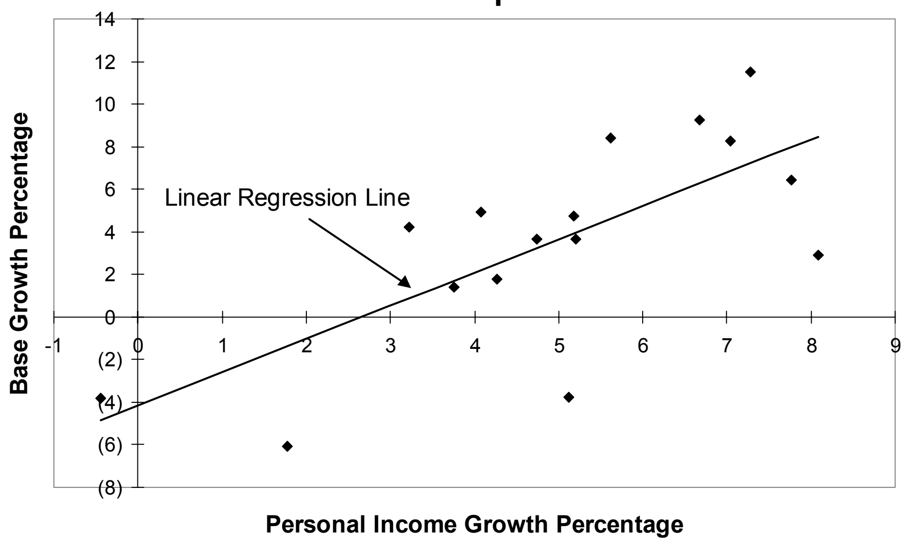
Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1987-88	6.16	6.44	2.28
1988-89	1.56	2.93	(1.29)
1989-90	6.78	8.29	3.20
1990-91	(0.75)	(3.78)	(8.73)
1991-92	7.25	1.40	(2.15)
1992-93	6.08	4.91	1.75
1993-94	4.31	4.23	1.38
1994-95	0.07	1.76	(0.89)
1995-96	2.65	3.66	0.85
1996-97	2.04	3.66	0.66
1997-98	3.75	4.73	2.71
1998-99	7.17	8.41	6.70
1999-2000	7.52	9.25	6.51
2000-01	7.90	11.50	7.82
2001-02	(4.89)	(3.83)	(6.11)
2002-03	(6.71)	(6.09)	(7.86)
2003-04*	7.74	5.18	3.15
2004-05**	7.54	7.00	5.02
2005-06**	3.21	4.72	2.57
2006-07**	3.51	5.65	3.23
Historical Average 1987-88 to 2002-03	3.18	3.59	0.43
Forecast Average 2003-04 to 2006-07	5.37	5.57	3.49

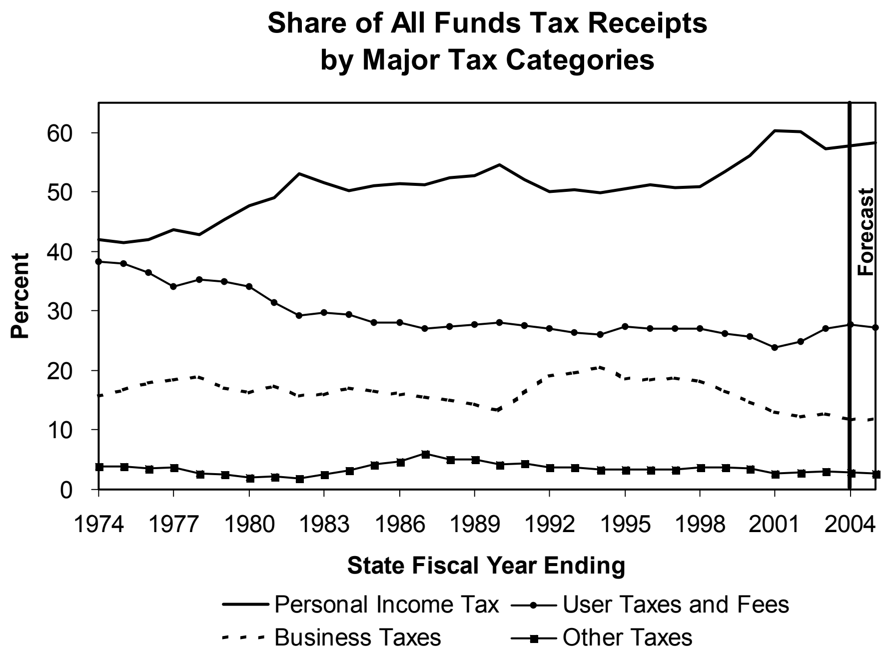
* Estimated.
** Projected.
Notes:
Taxes only.
PIT is gross receipts less refunds.
Base receipts are actual receipts adjusted for incremental changes in taxes due to tax or administrative actions.

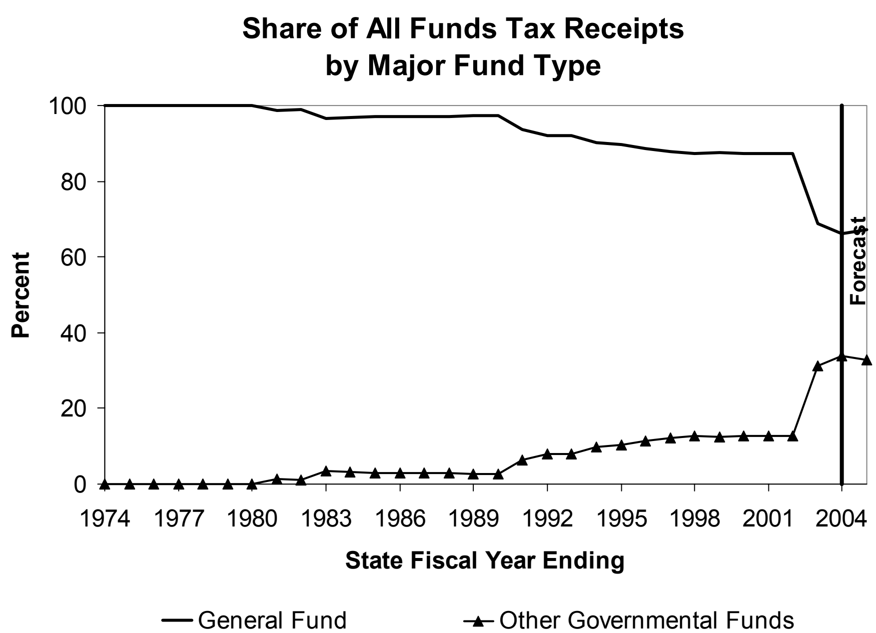
Cost of Business Cycles

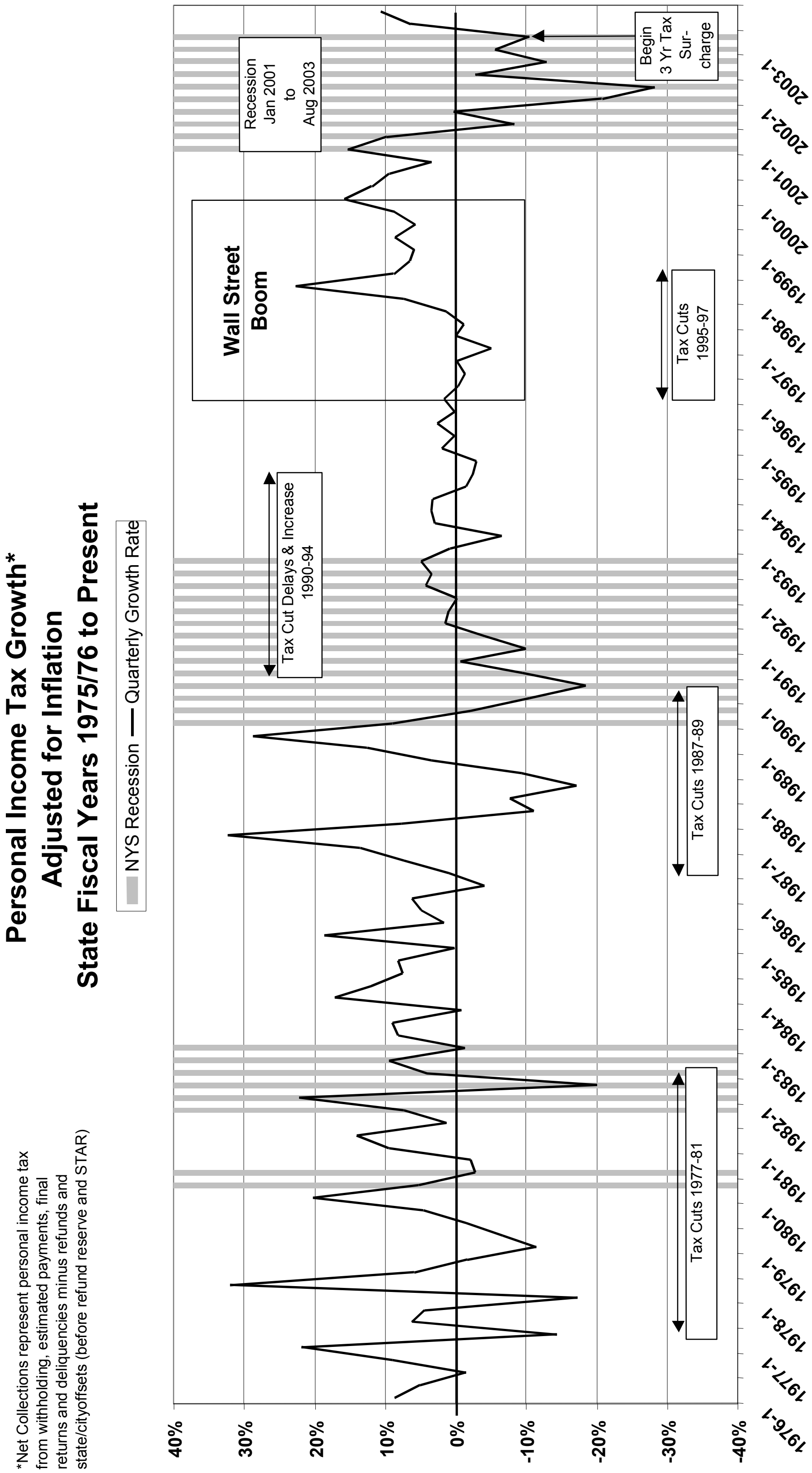


Relationship of Personal Income and Base Tax Receipts Growth




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


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


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)
Wall Street Boom
Recession Jan 2001 to Aug 2003
Begin 3 Yr Tax Sur- charge
Tax Cut Delays & Increase 1990-94
Tax Cuts 1977-81
Tax Cuts 1987-89
Tax Cuts 1995-97
40%
30%
20%
10%
0%
-10%
-20%
-30%
-40%
1976-1
1977-1
1978-1
1979-1
1980-1
1981-1
1982-1
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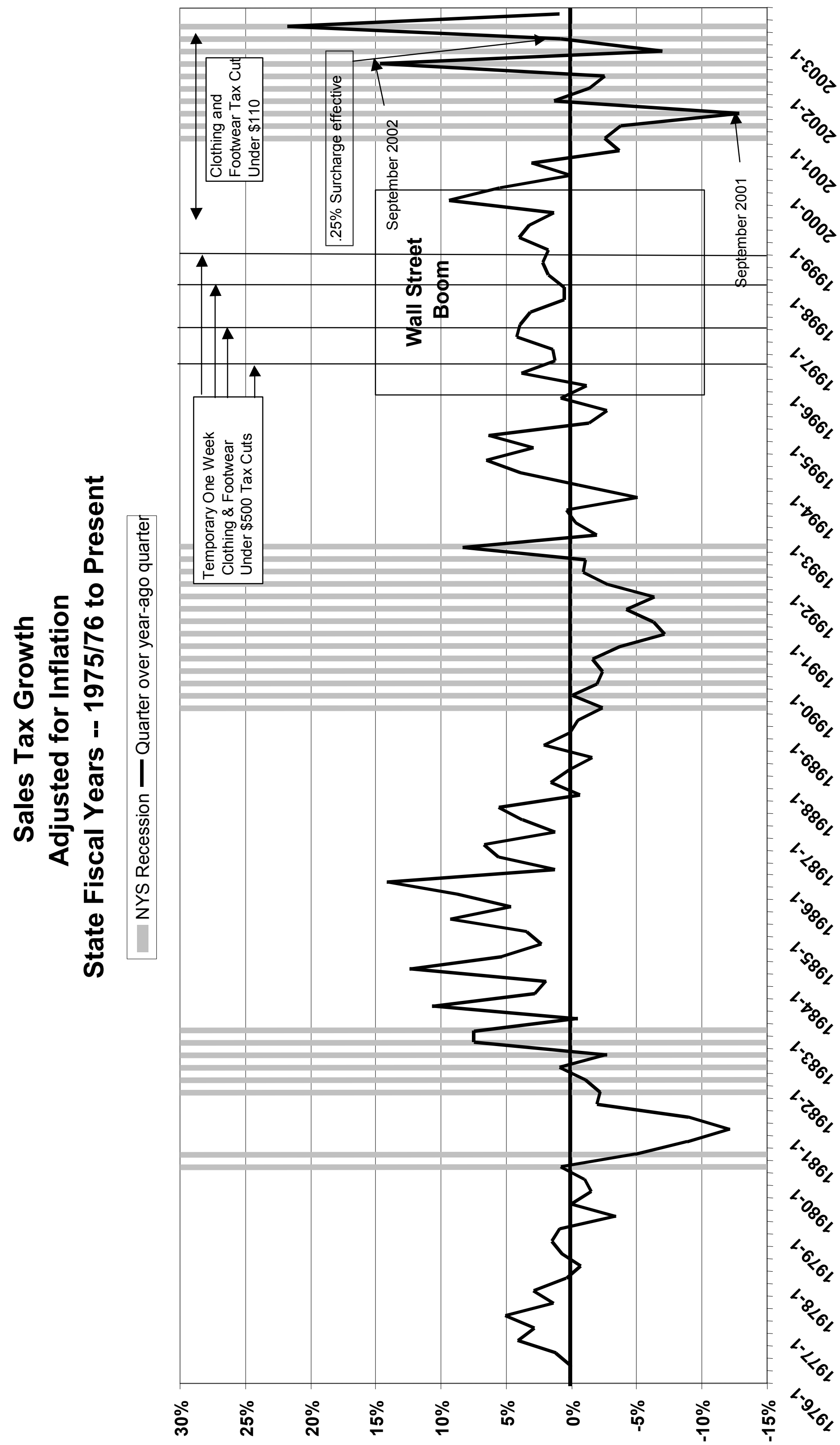
2002-1
2003-1



Sales Tax Growth
Adjusted for Inflation
State Fiscal Years -- 1975/76 to Present
NYS Recession
Quarter over year-ago quarter
Clothing and Footwear Tax Cut Under $110
.25% Surcharge effective
September 2002
Wall Street Boom
September 2001
Temporary One Week Clothing & Footwear Under $500 Tax Cuts
30%
25%
20%
15%
10%
5%
0%
-5%
-10%
-15%
1976-1
1977-1
1978-1
1979-1
1980-1
1981-1
1982-1
1983-1
1984-1
1985-1
1986-1
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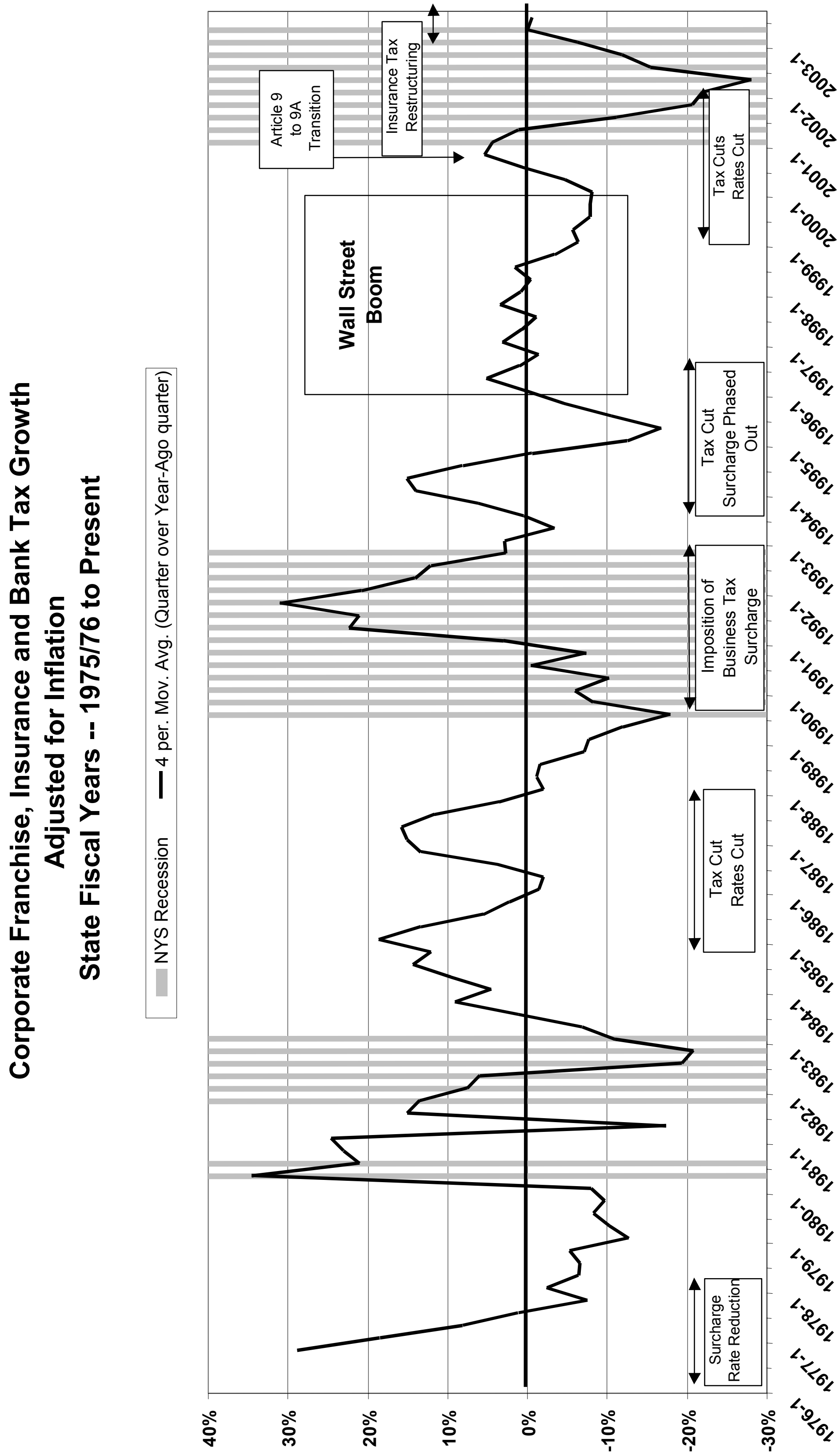
2001-1
2002-1
2003-1


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 Year-Ago quarter)
Wall Street Boom
Article 9 to 9A Transition
Insurance Tax Restructuring
Tax Cuts Rates Cut
Tax Cut Surcharge Phased Out
Imposition of Business Tax Surcharge
Tax Cut Rates Cut
Surcharge Rate Reduction
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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1991-1
1992-1
1993-1
1994-1
1995-1
1996-1
1997-1
1998-1
1999-1
2000-1
2001-1
2002-1
2003-1

CASH FLOW

The following tables report quarterly cash flow for General Fund tax receipts. Actual results are provided for 2002-03 and the first three quarters of the current State fiscal year, and estimates are reported for the remainder of 2003-04 and 2004-05. The table highlights the impact of STAR, refund reserve, and revenue bond fund transactions on General Fund cash flow. The quarterly estimates for 2003-04 and 2004-05 are consistent with average shares from prior years adjusted for proposed and previously enacted 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 the first quarter; high levels of refund payments in the first and fourth quarter of a State fiscal year; high withholding tax collections reflecting bonus payments in the fourth quarter; and STAR deposits primarily in the third quarter of the State fiscal year.

Several significant factors combined to change the 2003-04 personal income tax cash flow pattern from the pattern seen in a typical year. The largest variations were due to the enactment of the three-year temporary surcharge and the pattern of resulting additional withholding and estimated tax payments. Since withholding tables were changed in July 2003 and the Legislature required that the tables be designed to collect the full 2003 increase during 2003-04, there was a doubling-up of withholding increases in the second and third quarters of the fiscal year. In addition, taxpayers required to make quarterly estimated tax payments also increased their payments for the tax increase starting in the second quarter, again raising the share of collections received after the first quarter. Also, before technical corrections were made in estimated tax provisions, partnerships making estimated tax payments for their nonresident partners made extra payments in September, apparently causing the level of estimated tax payments collected in December and January to be depressed. The pattern of underlying growth in the State economy also affected the cash flow pattern. While there was very little wage growth early in the fiscal year, the second, third, and fourth quarters have shown increasingly strong growth.

In general, the personal income cash flow pattern for 2004-05 is expected to return to a more typical quarterly pattern. The 2004-05 year will not experience the doubling-up of withholding or the extra partnership estimated tax payments that occurred in the second half of the 2003 calendar year. This will result in small quarter-over-quarter growth rates for the second and third quarters of the State fiscal year. In addition, the cash flow pattern is expected to be affected by two somewhat-offsetting factors. High settlement payments, resulting from the need to make additional payments on 2003 tax liability, are expected to significantly increase net collections in the first quarter. In contrast, higher wage growth toward the end of the fiscal year is expected to result in a higher share of withholding collections in the January to March quarter than in a typical year.

Double-digit growth rates for user taxes and fees beginning in the second quarter of 2003-04 and ending after the first quarter of 2004-05 are due to the tax law changes contained in the 2003-04 Enacted Budget. Growth after the first quarter returns to more normal rates as the impact of law changes is reflected in the prior year base. On June 1, 2003, all clothing became subject to the sales and use tax except during two tax-free weeks (in August 2003 and January 2004) and the State sales and use tax rate increased from 4 percent to 4.25 percent.

GENERAL FUND 2002-03 QUARTERLY CASH FLOW ACTUALS
(millions of dollars)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal Income Tax	6,754.6	3,762.2	2,147.8	4,126.2	16,790.8
Gross collections	8,019.9	5,522.8	5,836.2	7,565.6	26,944.5
Refunds	(2,254.0)	(326.4)	(676.5)	(1,039.3)	(4,296.2)
Refund reserve	1,677.4	0.0	0.0	(627.5)	1,049.9
STAR Fund deposit	0.0	(180.0)	(2,296.0)	(188.1)	(2,664.1)
DDRF deposit/RBTF	(688.7)	(1,254.2)	(715.9)	(1,584.5)	(4,243.3)
User Taxes and Fees	1,781.2	1,816.1	1,745.2	1,720.0	7,062.5
Sales and use taxes	1,513.1	1,685.7	1,572.4	1,556.4	6,327.6
Cigarette and tobacco taxes	139.4	116.5	102.4	88.2	446.5
Motor vehicle fees	74.1	(44.3)	15.0	21.9	66.7
Alcoholic beverage taxes	46.4	47.9	45.1	40.4	179.8
ABC license fees	8.2	10.3	10.3	13.1	41.9
Business Taxes	702.0	833.3	756.9	1,087.6	3,379.8
Corporation franchise tax	259.6	358.2	319.7	469.7	1,407.2
Corporation and utilities taxes	162.8	202.2	232.8	261.8	859.6
Insurance taxes	156.0	170.0	140.1	237.9	704.0
Bank taxes	123.6	102.9	64.3	118.2	409.0
Other Taxes	209.6	213.5	158.5	161.3	742.9
Estate and gift tax	201.5	202.6	150.2	153.7	708.0
Real property gains tax	1.1	1.3	1.2	1.2	4.8
Pari-mutuel taxes	6.9	9.5	6.8	6.3	29.5
Other taxes	0.1	0.1	0.3	0.1	0.6
TOTAL	9,447.4	6,625.1	4,808.9	7,095.1	27,976.5
TOTAL TAXES (before transfers, STAR and Refund Reserve)	9,070.1	8,730.6	8,453.8	10,123.5	36,378.0

GENERAL FUND 2003-04 QUARTERLY CASH FLOW ACTUALS AND ESTIMATES
(millions of dollars)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal Income Tax	4,600.0	4,130.8	2,550.7	4,509.5	15,791.0
Gross collections	7,758.2	6,003.4	6,471.0	8,852.3	29,085.0
Refunds	(2,461.6)	(315.7)	(595.4)	(1,052.3)	(4,425.0)
Refund reserve	627.5	0.0	0.0	(1,204.5)	(577.0)
STAR Fund deposit	0.0	(180.0)	(2,475.0)	(180.0)	(2,835.0)
DDRF deposit/RBTF	(1,324.1)	(1,376.9)	(850.0)	(1,906.0)	(5,457.0)
User Taxes and Fees	1,820.0	2,107.4	2,056.4	1,912.9	7,896.7
Sales and use taxes	1,602.4	1,917.4	1,892.6	1,765.6	7,178.0
Cigarette and tobacco taxes	111.8	112.4	105.3	90.0	419.5
Motor vehicle fees	43.1	13.0	3.2	8.2	67.5
Alcoholic beverage taxes	48.6	50.4	46.6	38.1	183.7
ABC license fees	14.1	14.2	8.7	11.0	48.0
Business Taxes	650.1	887.1	758.2	1,099.4	3,394.8
Corporation franchise tax	190.1	424.1	294.5	473.2	1,382.0
Corporation and utilities taxes	141.5	173.6	196.6	243.3	755.0
Insurance taxes	204.6	226.4	189.6	251.7	872.3
Bank taxes	113.9	63.0	77.4	131.3	385.6
Other Taxes	175.7	223.0	222.8	162.6	784.0
Estate and gift tax	167.3	212.6	216.6	155.5	751.9
Real property gains tax	1.9	1.3	0.1	0.9	4.2
Pari-mutuel taxes	6.5	9.1	6.1	5.7	27.4
Other taxes	0.0	0.0	0.0	0.5	0.5
TOTAL	7,245.8	7,348.3	5,588.1	7,684.4	27,866.5
TOTAL TAXES (before transfers, STAR and Refund Reserve)	8,581.7	9,623.4	9,632.7	11,592.3	39,430.0

GENERAL FUND QUARTERLY CASH FLOW COMPARISON
SFY 2003-04 vs. SFY 2002-03
(percent)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal Income Tax	(31.9)	9.8	18.8	9.3	(6.0)
Gross collections	(3.3)	8.7	10.9	17.0	7.9
Refunds	9.2	(3.3)	(12.0)	1.3	3.0
Refund reserve	(62.6)	N/A	N/A	92.0	(155.0)
STAR Fund deposit	N/A	0.0	7.8	(4.3)	6.4
DDRF deposit/RBTF	92.3	9.8	18.7	20.3	28.6
User Taxes and Fees	2.2	16.0	17.8	11.2	11.8
Sales and use taxes	5.9	13.7	20.4	13.4	13.4
Cigarette and tobacco taxes	(19.8)	(3.5)	2.8	2.0	(6.0)
Motor vehicle fees	(41.8)	(129.3)	(78.7)	(62.6)	1.2
Alcoholic beverage taxes	4.7	5.2	3.3	(5.7)	2.2
ABC license fees	72.0	37.9	(15.5)	(16.0)	14.6
Business Taxes	(7.4)	6.5	0.2	1.1	0.4
Corporation franchise tax	(26.8)	18.4	(7.9)	0.7	(1.8)
Corporation and utilities taxes	(13.1)	(14.1)	(15.5)	(7.1)	(12.2)
Insurance taxes	31.2	33.2	35.3	5.8	23.9
Bank taxes	(7.8)	(38.8	20.4	11.0	(5.7)
Other Taxes	(16.2)	4.4	40.6	0.8	5.5
Estate and gift tax	(17.0)	4.9	44.2	1.1	6.2
Real property gains tax	72.7	0.0	(91.7)	(25.0)	(12.5)
Pari-mutuel taxes	(5.8)	(4.3)	(10.3)	(9.2)	(7.1)
Other taxes	(100.0)	(100.0)	(100.0)	400.0	(16.7)
TOTAL	(23.3)	10.9	16.2	8.3	(0.4)
TOTAL TAXES (before transfers, STAR and Refund Reserve)	(5.4)	10.2	13.9	14.5	8.4

GENERAL FUND 2004-05 QUARTERLY CASH FLOW ESTIMATES
(millions of dollars)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal Income Tax	6,243.1	4,264.0	2,454.0	5,559.0	18,520.1
Gross collections	9,077.0	6,213.0	6,567.0	9,337.0	31,194.0
Refunds	(2,359.5)	(346.0)	(657.0)	(1,062.5)	(4,425.0)
Refund reserve	1,204.5	0.0	0.0	(511.5)	693.0
STAR Fund deposit	0.0	(180.0)	(2,638.0)	(180.0)	(2,998.0)
DDRF deposit/RBTF	(1,679.0)	(1,423.0)	(818.0)	(2,024.0)	(5,944.0)
User Taxes and Fees	2,053.7	2,162.3	2,122.0	2,002.1	8,340.1
Sales and use taxes	1,870.3	1,979.7	1,956.6	1,859.2	7,665.9
Cigarette and tobacco taxes	117.0	114.4	104.8	87.7	423.8
Motor vehicle fees	6.3	6.4	6.4	6.4	25.6
Alcoholic beverage taxes	47.8	49.4	45.7	40.0	182.9
ABC license fees	12.3	12.4	8.5	8.8	42.0
Business Taxes	903.7	899.1	855.5	1,081.6	3,739.8
Corporation franchise tax	395.9	439.0	387.9	523.8	1,746.6
Corporation and utilities taxes	152.5	162.5	170.8	171.1	656.9
Insurance taxes	222.6	194.4	194.7	300.2	912.0
Bank taxes	117.7	98.2	97.0	111.4	424.3
Other Taxes	199.4	179.5	191.4	190.7	761.1
Estate and gift tax	191.5	170.3	185.0	184.0	730.8
Real property gains tax	0.4	0.4	0.4	0.4	1.7
Pari-mutuel taxes	7.3	8.7	5.8	6.2	28.0
Other taxes	0.2	0.1	0.2	0.1	0.6
TOTAL	9,384.9	7,499.9	5,617.8	8,856.8	31,360.9
TOTAL TAXES (before transfers, STAR and Refund Reserve)	10,538.9	9,846.9	9,798.4	12,249.2	42,433.4

GENERAL FUND QUARTERLY CASH FLOW COMPARISON
SFY 2004-05 vs. SFY 2003-04
(percent)

	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal Income Tax	35.7	3.2	(3.8)	23.3	17.3
Gross collections	17.0	3.5	1.5	5.5	7.3
Refunds	(4.1)	9.6	10.3	1.0	0.0
Refund reserve	92.0	N/A	N/A	(57.5)	(220.1)
STAR Fund deposit	N/A	0.0	6.6	0.0	5.7
DDRF deposit/RBTF	26.8	3.4	(3.8)	6.2	8.9
User Taxes and Fees	12.8	2.6	3.2	4.7	5.6
Sales and use taxes	16.7	3.2	3.4	5.3	6.8
Cigarette and tobacco taxes	4.6	1.8	(0.5)	(2.6)	1.0
Motor vehicle fees	(85.4)	(50.6)	100.6	(21.5)	(62.1)
Alcoholic beverage taxes	(1.6)	(2.0)	(1.9)	5.0	(0.4)
ABC license fees	(12.8)	(12.7)	(2.3)	(20.0)	(12.5)
Business Taxes	39.4	2.4	13.0	(2.6)	10.2
Corporation franchise tax	109.6	3.4	31.8	10.4	26.4
Corporation and utilities taxes	8.1	(6.4)	(12.9)	(29.9)	(13.0)
Insurance taxes	8.8	(10.4)	2.7	15.0	4.6
Bank taxes	3.3	55.6	25.5	(15.1)	10.1
Other Taxes	13.5	(19.5)	(14.1)	17.3	(2.9)
Estate and gift tax	14.5	(19.9)	(14.6)	18.4	(2.8)
Real property gains tax	(77.6)	(67.3)	325.0	(52.8)	(59.5)
Pari-mutuel taxes	12.6	(4.3)	(5.6)	7.9	2.0
Other taxes	N/A	N/A	N/A	(80.0)	20.0
TOTAL	29.5	2.1	0.5	15.3	12.5
TOTAL TAXES (before transfers, STAR and Refund Reserve)	22.8	2.3	1.7	5.7	7.6

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 $13.6 billion.

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

	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
Personal Income Taxes	2,796.0	4,484.0	4,780.0	5,333.0	5,570.0	5,126.1	5,319.1	6,030.1	6,530.1
User Taxes and Fees	**210.6**	**268.6**	**388.9**	**560.0**	**1,103.8**	**1,213.1**	**1,232.5**	**825.7**	**823.1**
Sales and use tax	44.9	101.5	154.1	243.6	782.5	871.0	889.1	472.6	464.9
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	13.1	14.1	15.5	17.5	17.8	17.6	17.6	18.6	18.6
Motor vehicle fees	0.0	0.0	49.3	69.7	69.5	75.4	73.6	74.9	73.9
Highway use tax	34.6	33.4	38.7	73.1	75.4	85.2	87.6	90.8	94.3
Alcoholic beverage tax	17.4	17.1	18.0	24.6	25.5	28.3	28.2	30.7	33.3
ABC license fees	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Hotel/Motel tax	75.1	76.5	78.0	79.5	81.1	82.8	84.4	86.1	86.1
Container tax	25.5	26.0	35.3	52.0	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	**1,026.5**	**1,187.5**	**1,241.8**	**1,565.8**	**2,081.7**	**2,401.9**	**2,713.8**	**3,060.1**	**3,161.8**
Corporation franchise tax	423.9	472.2	496.5	682.0	524.4	836.7	958.7	1,066.0	1,049.0
Corporation and utilities tax	248.8	289.9	306.9	425.8	1,077.8	999.7	1,115.0	1,294.5	1,405.3
Insurance tax	103.7	116.4	119.4	114.7	127.7	160.5	193.0	216.3	216.3
Bank tax	77.3	100.8	90.0	108.1	116.1	160.1	198.7	231.4	239.3
Petroleum business tax	172.8	208.2	229.0	235.2	235.7	244.9	248.4	251.9	251.9
Other Taxes	**182.8**	**178.9**	**322.3**	**317.9**	**582.9**	**785.6**	**823.9**	**851.4**	**898.4**
Estate/Gift tax	78.7	81.7	86.0	133.0	423.0	616.5	648.0	676.0	723.0
Real property gains tax	89.6	81.6	220.6	168.1	142.1	147.0	156.0	156.0	156.0
Real estate transfer tax	0.0	1.6	2.2	2.2	2.2	2.2	1.3	0.8	0.8
Pari-mutuel tax	14.5	14.0	13.5	14.5	15.5	19.8	18.5	18.5	18.5
Other	0.0	0.0	0.0	0.1	0.1	0.1	0.1	0.1	0.1
Subtotal	**4,215.9**	**6,119.0**	**6,733.0**	**7,776.7**	**9,338.4**	**9,525.9**	**10,089.3**	**10,767.3**	**11,413.4**
STAR	0.0	0.0	582.2	1,194.6	1,876.5	2,510.1	2,667.0	2,835.0	2,998.0
Grand Total	**4,215.9**	**6,119.0**	**7,315.2**	**8,971.3**	**11,214.9**	**12,036.0**	**12,753.4**	**13,602.3**	**14,411.4**

REVENUE ACTIONS

The 2004-05 Budget includes a net positive increment of $1.1 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 or loss 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 SFY2004-05 (000)	New Full Annual Revenue (000)
I. ADMINISTRATIVE							
DCJS	Increase record review fee -4/1/04	GFMR	$25	$50	1993	$125	$125
DHCR	Increase tax credit application fee - 4/1/04	GFMR/SFMR	Application Fee - $100 Reservation Fee - $250 Allocation Fee - 4.0%	$200 $500 5.0%	1990	$500	$500
DOT	Increase divisible load permits & fines - 4/1/04	GFMR	$50 - $4,700	$150-$3,750	1985	$1,500	$3,000
STATE	Campus fire safety - 4/1/04	GFMR	$50/$500	$50/$500	2003	$1,100	$1,100
CIV SVC	Increase exam fees - 4/1/04	SFMR	Various	Various	1997	$775	$775
DHCR	Increase low income housing credit monitoring fee - 4/1/04	SFMR	0.5%	1.0%	1991	$500	$500
DOCS	Cook Chill Revenue - 9/1/04	SFMR	None	Various	N/A	$1,000	$3,000
DOT	Increase divisible load permits & fines - 4/1/04	CFMR	$50 - $4,700	$150-$3,750	1985	$750	$1,500
				Administrative Actions Subtotals		**$6,250**	**$10,500**
II. STATUTORY							
ABC	Increase filing fees-4/1/04	GFMR	Various	Various	1976	$200	$400
BANKING	Fee Increase - 4/1/04	GFMR	$10 - $5,000	$20 - $10,000	1992	$2,000	$2,000
DCJS	Expand parking ticket surcharge - Immediately	GFMR	None	$15	NA	$7,500	$7,500
DCJS	Vehicle & Traffic local prosecution program - Immediately	GFMR	None	Various	NA	$17,800	$17,800
DCJS	Work zone automated speed enforcement - Immediately	GFMR	None	$100	NA	$15,000	$33,000

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2004-05 (000)	New Full Annual Revenue (000)
DMV	Driver Responsibility Program - Immediately	GFMR	None	$100/$1,000	NA	$17,500	$54,300
DMV	Increase ATV registration fee - Immediately	GFMR	$10	$45	NA	$5,833	$6,125
DOCS	Federal bed capacity contracts - 4/1/04	GFMR	None	$30,000/bed	NA	$15,000	$15,000
ENCON	Extend Waste Tire Fee - 60 days after enactment	GFMR/SFMR	$2.25	$2.25	2003	$300	$575
ENCON	Increase storm water fees - 4/1/04	GFMR/SFMR	$50	$50-$350	1988	$7,000	$7,000
LAW	Increase deceptive trade practices penalty - 4/1/04	GFMR	$500	$5,000	1963	$500	$500
PARKS	Increase Snowmobile Fee - Immediately	GFMR/SFMR	$5	$10	2002	$3,550	$3,550
ST POLIC	Handgun License fee - 90 days after enactment	GFMR/SFMR	None	$20-$100	NA	$32,500	$11,300
AG & MKTS	Retail food stores inspection fee - 10/1/05	SFMR	None	$100	NA	$381	$381
CPB	Increase fine - 9/1/04	SFMR	$5,000	$11,000	2002	$100	$200
CVB	Mandatory fees for youthful offenders - 180 days from passage	SFMR	None	$20 fee + Felony - $250 Misdemean or - $140 Violation - $75	NA	$540	$1,080
CVB	Crime victim assistance fee & surcharge - 180 days from passage	SFMR	None	$20 fee + Felony - $250 Misdemean or - $140 Violation - $75	NA	$25	$50
CVB	Sex offender fee - 180 days from passage	SFMR	None	$1,000	NA	$556	$1,112
DCJS	V&T local prosecution program - Immediately	SFMR	None	Various	NA	$5,000	$5,000
DM & NA	Increase REP fee - 4/1/04	SFMR	$550,000	$950,000	1994	$2,400	$2,400
ENCON	Increase air regulation fees - 4/1/04	SFMR	$100 - $11,000	$125 - $1,250	1994	$1,833	$1,833
HLTH OTH	Establish early intervention provider registration fee - 4/1/04	SFMR	None	Individual- $275 Agency- $900	NA	$1,000	$2,300
MED ASST	Home care assessment - 4/1/04	SFMR	None	0.7% of gross revenue	1999	$15,000	$17,000

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2004-05	New Full Annual Revenue
						(000)	(000)
MED ASST	Hospital assessment - 4/1/04	SFMR	None	0.7% of gross revenue	1999	$183,300	$199,900
MED ASST	Nursing home assessment - 4/1/04	SFMR	5.0% of gross revenue	6.0% of gross revenue	2003	$230,400*	$452,800*
ORPS	Real property transfer filing fee - 7/1/04	SFMR	$50	Homes & Farms - $75 Other Properties - $165	2003	$14,175	$18,900
PERB	Impasse/Improper practice filing fee - 4/1/04	SFMR	None	$75/$75	NA	$200	$200
SED GSPS	Eliminate restrictions on Quick Draw - 4/1/04	SFMR	None	None	NA	$43,000	$68,000
SED GSPS	VLT Expansion - Fully effective	SFMR	None	None	NA	$0	$2,000,000**
				Statutory Actions - Subtotal		**$622,593**	**$2,930,206**
		ADMINISTRATIVE AND STATUTORY - GRAND TOTAL				**$628,843**	**$2,940,706**
III. OTHER REVENUE ACTIONS							
T&F	Add new fixed dollar minimum - 1/1/04	GFTX	None	None	1998	$40,000	$40,000
T&F	Direct Wine Shipments - 6/1/04	GFTX/DFTX	None	None	NA	$2,000	$3,000
T&F	Empire Zones Program - Immediately	GFTX	None	None	2002	$0	$25,000
T&F	Low Income Filings - 1/1/04	GFTX/DFTX	None	None	NA	$1,000	$1,000
T&F	Replace Permanent Clothing Exemption - 6/1/04	GFTX/DFTX	None	None	2003	$400,000	$473,000
T&F	Reverse Meyers' Decision - 1/1/04	GFTX/DFTX	NA	NA	1994	$50,000	$0; acceleration
T&F	Tax Nonresidents gain from sales of Co-op Stock - 1/1/04	GFTX/DFTX	None	Taxpayer’s State income tax rate	NA	$5,000	$20,000
T&F	Extend Alternative Fuels Vehicle Credit - 1/1/04	GFTX/DFTX	$2,000 Credit	$2,000 Credit	2002	$(10,000)	$(10,000)
T&F	Biotechnology Investment Credit - 1/1/05	GFTX	None	None	NA	$(5,000)	$(10,000)
T&F	Exempt Federal Military Pay - 1/1/04	GFTX/DFTX	Taxpayer’s State income tax rate	0%	NA	$(1,000)	$(1,000)
T&F	Low-Income Housing - Immediately	GFTX	None	None	2002	$(2,000)	$(2,000)

Agency*	Fee Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY2004-05	New Full Annual Revenue
						(000)	(000)
T&F	Single Sales Factor for Manufacturers - Immediately	GFTX	None	None	1975	$0	$(40,000)
T&F	STAR Adjustment for Inflation - 1/1/04	GFTX	None	None	NA	$(11,000)	$(57,000)
					Other Revenue Actions - Subtotal	**$469,000**	**$442,000**
					ALL FEE AND REVENUE ACTIONS - GRAND TOTAL	**$1,097,843**	**$3,382,706**

*The General Fund impact is $125 million in 2004-05 and $258 million when fully effective.
**$2.0 billion estimate reflects the full year benefit of both the expansion proposed in this Budget and the estimated value of the existing program authorized at eight racetrack facilities across the state.

Key:

CF = Capital Projects Fund
DF = Debt Service Funds
GF = General Fund
MR = Miscellaneous Receipts
SF = Special Revenue Funds
TX = Tax

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)

	2002-03 Actual	2003-04 Estimate	2004-05 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal income tax	2,664.1	2,835.0	2,998.0
Dedicated Mass Transportation Trust Fund	477.9	533.2	587.9
Petroleum business tax	333.6	332.3	347.8
Motor fuel tax	68.6	104.7	106.9
Motor vehicle fees	75.7	96.2	133.2
Mass Trans. Operating Assistance Fund	1,071.5	1,089.4	1,157.5
Corporate Surcharges			
Corporation franchise tax	205.2	188.0	237.5
Corporation and utilities tax	160.1	133.2	120.2
Insurance tax	72.0	104.7	109.4
Bank tax	72.2	65.6	71.9
Other			
Sales and use tax	361.9	399.5	414.3
Petroleum business tax	120.6	126.8	133.0
Corporation and utilities — sections 183 & 184	71.1	71.6	71.2
Fund 339 (State Special Rev. Fund)	0.0	0.0	39.0
Sales Tax Surcharges 339LZ	0.0	0.0	39.0
Total Tax Receipts: - Special Revenue Funds-Other	4,213.5	4,457.6	4,782.4
DEBT SERVICE FUNDS			
Debt Reduction Reserve Fund			
Personal income tax	0.0	0.0	0.0
Revenue Bond Tax Fund			
Personal income tax	4,243.3	5,456.7	5,944.3
Emergency Highway Reconditioning and Preservation Fund			
Motor fuel tax	59.5	0.0	0.0
Emergency Highway Construction and Reconstruction Fund			
Motor fuel tax	59.5	0.0	0.0
Clean Water/Clean Air Fund			
Real estate transfer tax	335.6	338.0	349.0
Local Government Assistance Tax Fund			
Sales and use tax	2,106.5	2,244.5	2,364.0
Total Tax Receipts - Debt Service Funds	6,804.3	8,039.2	8,657.3
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds	1,578.3	1,639.7	1,693.7
Petroleum business taxes	568.1	565.9	592.2
Motor fuel tax	356.2	403.0	411.0
Motor vehicle fees	469.9	485.8	481.2
Highway use tax	146.8	147.0	151.9
Transmission tax	0.0	0.0	17.8
Auto rental tax	37.2	38.0	39.6
Environmental Protection Fund			
Real estate transfer tax	112.0	112.0	112.0
Total Tax Receipts - Capital Projects Funds	1,690.3	1,751.7	1,805.7
Total Tax Receipts - Other Funds	**12,708.1**	**14,428.5**	**15,245.4**

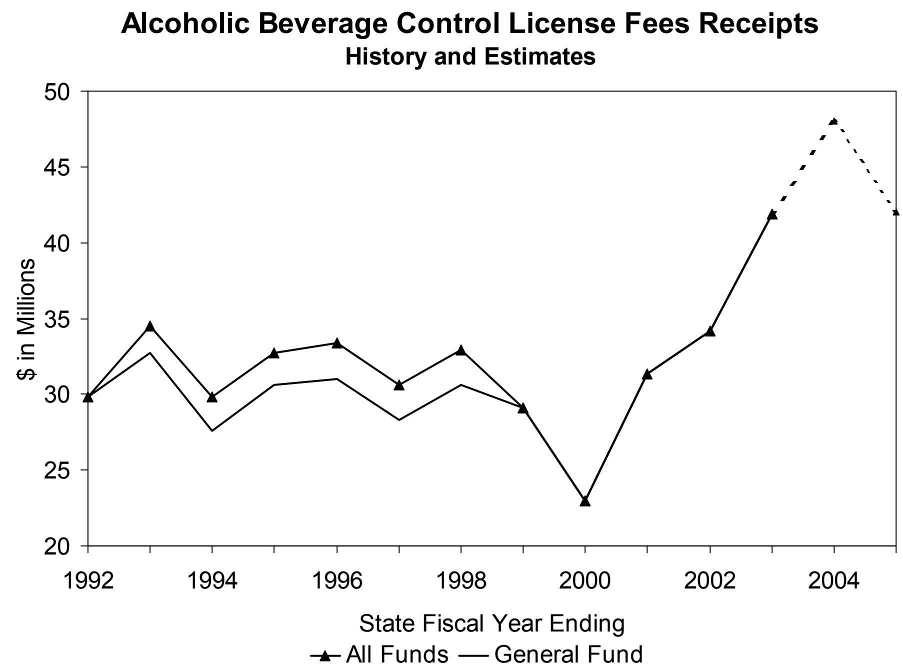
ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

SUMMARY

In 2003-04, All Funds collections from alcoholic beverage control license fees are estimated to be $48 million. This is an increase of $6.1 million, or 14.6 percent, from the prior year.

In 2004-05, All Funds collections alcoholic beverage control license fees are projected to be $42 million. This is a decrease of $6 million, or 12.5 percent, compared with 2003-04.

No new legislation for these fees is proposed with this Budget.



DESCRIPTION

Fee Base and Rate

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 the class of beverage for which the license is issued.

Administration

Fees are paid directly to the State Liquor Authority on or before the expiration date of the current one-, two-, or three-year license, or with the application for a new license.

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
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
2002	2,494	21,192	4,256	2,066	27,514	19,051	1,202	50,261

Significant Legislation

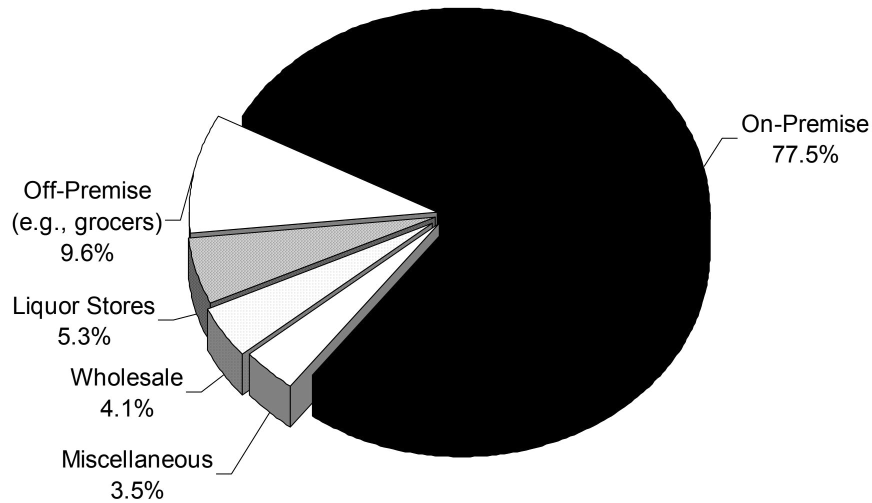
The significant statutory changes for this revenue source since 1994 are summarized below.

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
Legislation Enacted in 2003		
Open Sundays	Allowed liquor stores to have an option of closing a day other than Sunday.	May 15, 2003

FEE LIABILITY

The most significant source of revenue is the licensing of about 2,500 retail liquor outlets, including package stores engaged in carry-out sales, and about 27,500 bars and restaurants that offer on-premise consumption. The majority of State-licensed bars and restaurants (about 21,200 in 2002) are authorized to sell beer, wine, and liquor. Approximately 4,200 licensees are permitted to sell only beer and wine. The remaining 2,000 licensees in 2002 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 above) which account for roughly 6 percent of revenue, are made up of specialty and seasonal licenses (e.g., veterans' clubs, seasonal tour boats, etc.).

Alcoholic Beverage Control License Fees
Share of 2003 Receipts by Licensee Category



PROPOSED LEGISLATION

No new legislation for these fees is proposed with this Budget.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $38 million, an increase of $9.2 million, or 31.9 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $48 million, an increase of $6.1 million, or 14.6 percent above last year.

The increase is attributable to fee increases included in the 2002-03 Enacted Budget, which increased most fees by 28 percent, effective August 1, 2002, as well as a 5 percent growth in new license applications. The increase in new applications represents a rebound from a decline in applications incurred after the World Trade Center attacks. The fee increases are expected to boost collections by more than $10 million in 2003-04.

2004-05 Projections

Total net All Funds receipts are projected to be $42 million, a decrease of $6 million, or 12.5 percent below 2003-04.

The 2002 legislation included a provision to eliminate the two-year installment payment option on one-year licenses. This provision had the effect of boosting 2002-03 and 2003-04 receipts and is expected to depress receipts in 2004-05.

General Fund

Effective April 1, 1998, all proceeds from alcoholic beverage control license fees are deposited in the General Fund.

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.

RECEIPTS BY FUND TYPE

**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						
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
2002-03	43,124	1,183	41,941	0	0	0	41,941
	Estimated						
2003-04	49,500	1,500	48,000	0	0	0	48,000
2004-05	43,500	1,500	42,000	0	0	0	42,000

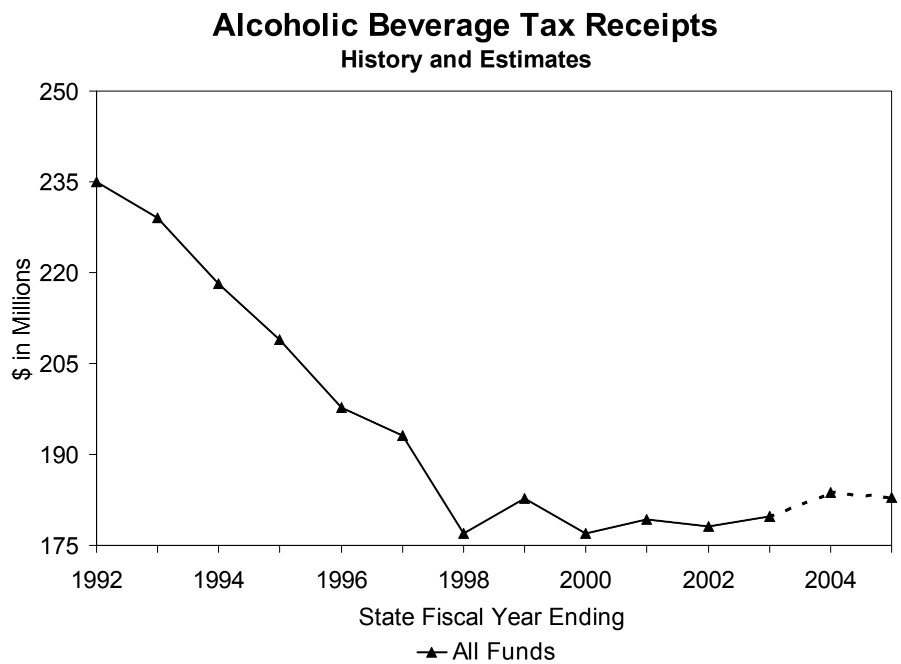
ALCOHOLIC BEVERAGE TAXES

SUMMARY

In 2003-04, All Funds collections from alcoholic beverage taxes are estimated to be $183.7 million. This is an increase of $3.9 million, or 2.2 percent from the prior year.

In 2004-05, All Funds collections from alcoholic beverage taxes are projected to be $182.9 million. This is a decrease of $0.8 million, or 0.4 percent, compared with 2003-04.

Legislation proposed with this Budget would allow for the direct shipment of wine to individual consumers in New York State, effective June 1, 2004.



DESCRIPTION

Tax Base and Rate

New York State imposes excise taxes at various rates on liquor, beer, wine and specialty beverages.

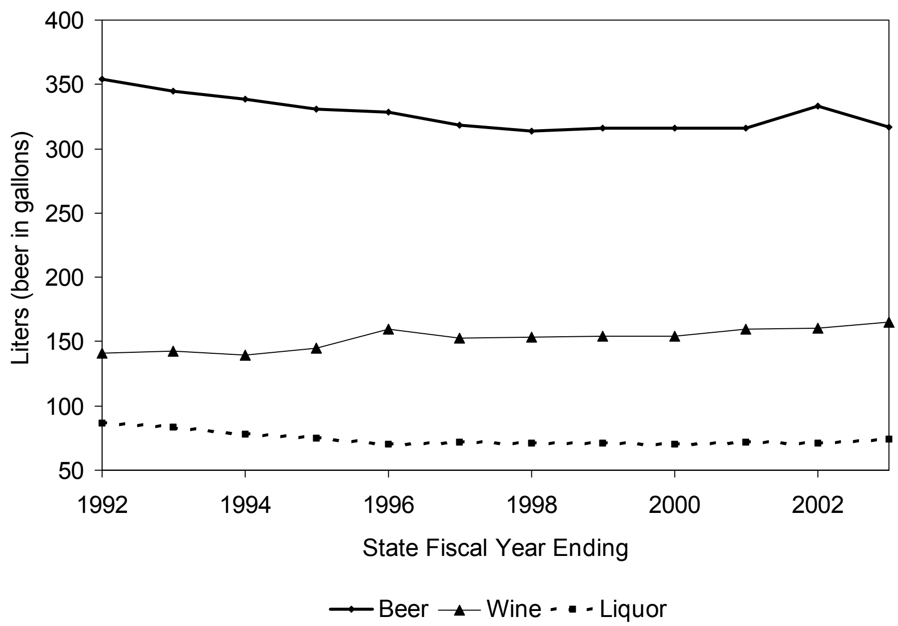
State tax rates for 2002-03 are as follows (dollars per unit of measure):

Liquor over 24 percent alcohol	1.70	per liter
All other liquor with more than 2 percent alcohol	0.67	per liter
Liquor with not more than 2 percent alcohol	0.01	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	0.11	per gallon
Cider with more than 3.2 percent alcohol	0.01	per liter

Administration

The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery.

Consumption of Alcoholic Beverages



Significant Legislation

The significant statutory changes to this tax source since 1994 are summarized below.

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 tax exemption from 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

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 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.

TAX LIABILITY

Overall, per capita consumption of taxed beverages and receipts have remained fairly constant in recent years with declines in one beverage class being offset with increases in others, due to shifts in consumer preferences. For example, wine and liquor consumption have 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 relative prices on beverages with higher alcohol content.

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.

PROPOSED LEGISLATION

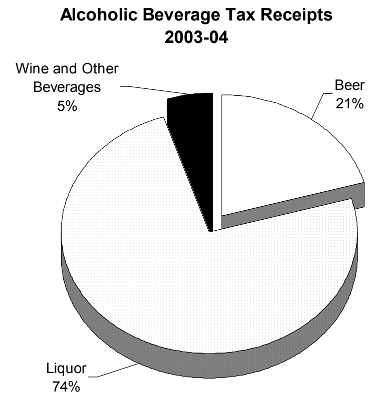
Legislation proposed with this Budget would allow for the direct shipment of wine to individual consumers in New York State, effective June 1, 2004.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $145.7 million, an increase of $6.3 million, or 4.5 percent above the comparable period in the prior fiscal year.



Total net All Funds receipts for 2003-04 are estimated to be $183.7 million, an increase of $3.9, or 2.2 percent above last year.

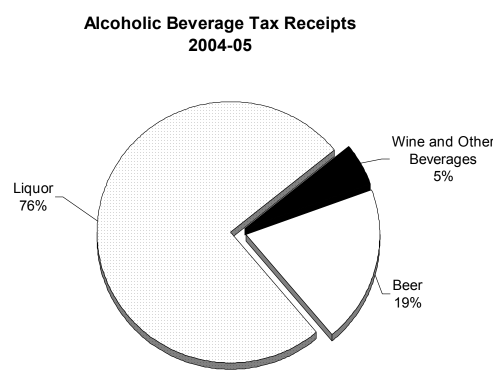
The bulk of estimated receipts, $136.4 million, are derived from the tax on liquor. The 2002 extension of enforcement provisions will protect $3 million in liquor tax receipts in 2003-04 and in subsequent years. The September 1, 2003, excise tax reduction on beer is expected to reduce beer tax collections by $2.4 million. In 2003-04, growth in wine and liquor volume is expected to exceed average growth during the previous three years. This excess growth, which accounts for approximately $0.7 million in 2003-04 receipts, may be attributable to 2003 legislation that allowed liquor stores to open on Sunday.

COMPONENTS OF ALCOHOLIC BEVERAGE TAX RECEIPTS
(millions of dollars)

	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05
			Actual			--Estimated--	--Projected--
Beer	47.8	42.7	42.8	41.8	38.9	38.0	35.6
Liquor	125.7	125.2	128.0	127.9	132.9	136.4	137.9
Wine and Other	8.5	8.3	8.5	8.5	8.7	9.3	9.4
Subtotal	182.0	176.2	179.3	178.2	180.5	183.7	182.9
Reconciliation	0.8	0.8	0.0	0.0	-0.7	0.0	0.0
Net Total	182.8	177.0	179.3	178.2	179.8	183.7	182.9

2004-05 Projections

Total net All Funds receipts are projected to be $182.9 million, a decrease of $0.8 million, or 0.4 percent below 2003-04.



Based on recent trends, the consumption of liquor and wine is expected to grow modestly, while beer consumption is expected to be flat in 2004-05. The September 1, 2003, excise tax reduction on beer is expected to reduce beer tax collections by $4.9 million.

The proposal to allow direct wine shipments noted above would generate minimal revenue in 2004-05.

Of the total projected alcoholic beverage tax receipts, $137.9 million is derived from liquor, $35.6 million from beer, and $9.4 million from wine and other specialty beverages.

General Fund

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

RECEIPTS BY FUND TYPE

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			
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
2002-03	180,686	931	179,755	0	0	0	179,755
				Estimated			
2003-04	183,800	100	183,700	0	0	0	183,700
2004-05	183,000	100	182,900	0	0	0	182,900

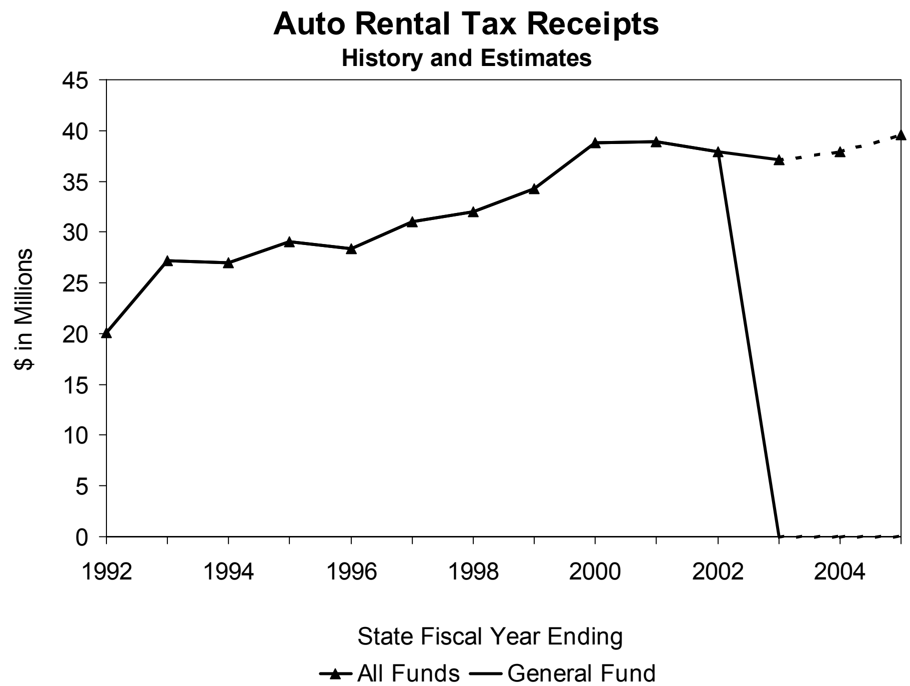
AUTO RENTAL TAXES

SUMMARY

In 2003-04, All Funds collections from auto rental taxes are estimated to be $38 million. This is an increase of $0.8 million, or 2.2 percent, from the prior year.

In 2004-05, All Funds collections from auto rental taxes are projected to be $39.6 million. This is an increase of $1.6 million, or 4.2 percent, compared with 2003-04.

No new legislation for these taxes is proposed with this Budget.



DESCRIPTION

Tax Base and Rate

The auto rental 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 one year or more.

Since June 1, 1990, the State has imposed a 5 percent tax on charges for the rental or use in New York State of a passenger car with a gross vehicle weight of 9,000 pounds or less.

Administration

The auto rental tax is remitted quarterly by the vendor on their sales tax return to the Department of Taxation and Finance.

TAX LIABILITY

Receipts from the auto rental tax are influenced by the overall health of the economy, particularly consumer and business spending on travel. Unusual events that affect travel, such as the WTC attacks, can influence receipts. Due to accounting differences between the Department of Taxation and Finance and the Office of the State Comptroller, the table at the end of this story overstates 2001-02 revenue and understates 2002-03 revenues.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $32.5 million, an increase of $0.8 million, or 2.5 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $38 million, an increase of $0.8 million, or 2.2 percent above last year. The small increase reflects the slow economic recovery from the WTC attacks.

2004-05 Projections

Projected auto rental tax All Funds receipts in 2004-05 are projected to be $39.6 million, an increase of $1.6 million, or 4.2 percent above 2003-04.

General Fund

Since April 1, 2002, no auto rental tax receipts are deposited in the General Fund.

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.

RECEIPTS BY FUND TYPE

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								
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
2002-03	0	0	0	0	37,191	0	37,191	0	37,191
	Estimated								
2003-04	0	0	0	0	38,000	0	38,000	0	38,000
2004-05	0	0	0	0	39,584	0	39,584	0	39,584

[1] Dedicated Highway and Bridge Trust Fund.

BANK TAX

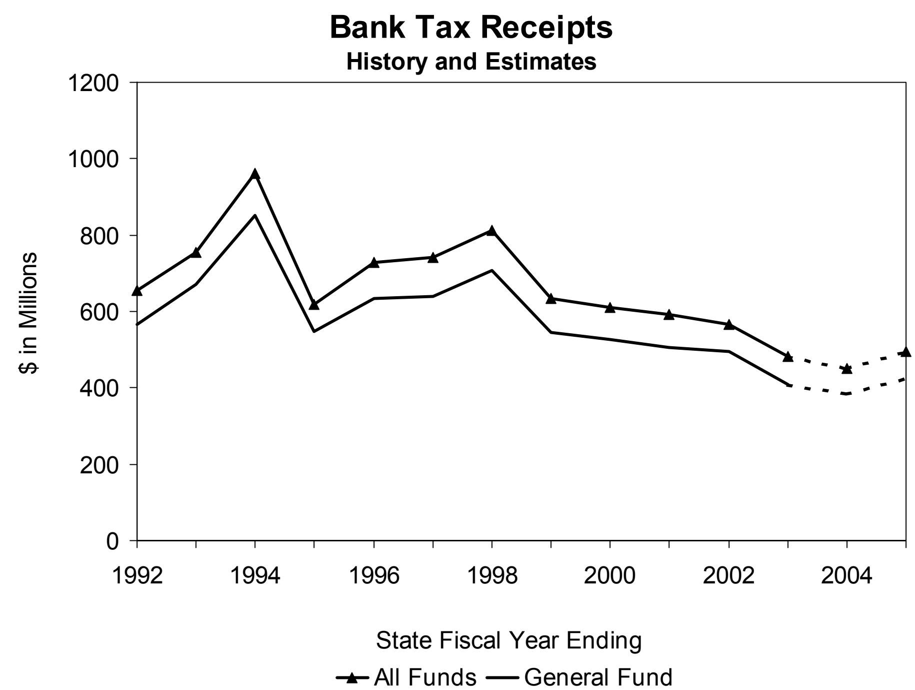
SUMMARY

In 2003-04, All Funds collections from the bank tax are estimated to be $451 million. This is a decrease of $30 million, or 6.2 percent, compared with 2002-03. Collections have been affected by depressed banking sector profitability in recent years that tends to have a lagged impact on current year receipts.

In 2004-05, All Funds collections from the bank tax are projected to be $496 million. This is an increase of $45 million, or 9.8 percent, compared with 2003-04, resulting mainly from expected continued improvement in bank profits.

Legislation proposed with this Budget would:

- extend the bank tax for one year and the Gramm-Leach-Bliley Act transitional provisions for two years; and
- extend the Metropolitan Transportation Authority (MTA) surcharge for four years, until 2009.



DESCRIPTION

Tax Base and Rate

The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. The Article 32 bank 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 are:

1. An allocated entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions. 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.

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 3 percent.
3. An assets base at the rate of 1/10, 1/25, or 1/50 of a mill of allocated taxable assets, depending on the size of the bank's assets.
4. A fixed dollar minimum of $250.

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. Banks are classified as commercial banks, savings banks, savings and loan associations, foreign banks and alien banks. Foreign banks are those formed under the laws of another state, whereas alien banks consist of banks formed under the laws of another country. The annual study of bank tax returns indicates that 826 taxpayers filed tax returns as banking corporations in 2000, an 11 percent decrease from the prior year.

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

Tax Expenditures

Tax expenditures are defined as features of the tax law that reduce the amount of a taxpayer's liability to the State. These provisions include 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 and specifically to strengthen the banking industry in New York. The major tax expenditure items for the bank tax include: the deduction of 60 percent of dividends, gains, and losses from subsidiary capital, the deduction of 22.5 percent of interest income from government obligations, and the international banking facility formula allocation election.

Significant Legislation

The significant statutory changes since 1994 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Subsidiary Capital	Specified subsidiary capital taxation rules to 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	Allowed employers who employ individuals with disabilities to claim a credit for a portion of wages paid to such individuals.	January 1, 1998
Net Operating Loss	Allowed 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	Allowed bank taxpayers that are brokers/dealers in securities to 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

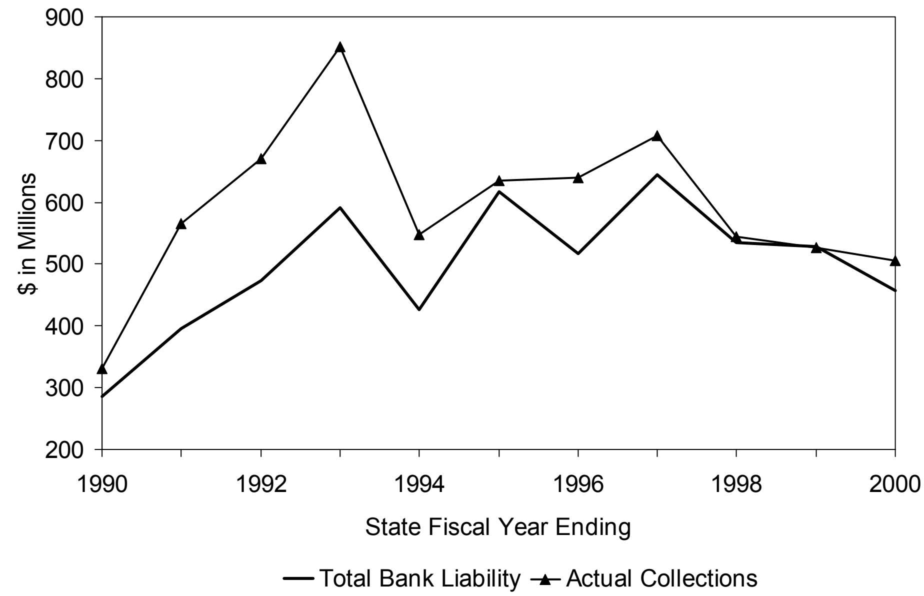
Subject	Description	Effective Date
Legislation Enacted in 2000		
Empire Zones (EZ)	Transformed Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction 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.	Various
Legislation Enacted in 2003		
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, 2003. Sunsets for tax years beginning on or after January 1, 2005.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Required taxpayers to make modifications to Federal taxable income for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component; a tangible property component; and an onsite groundwater remediation component.	April 1, 2005

TAX LIABILITY

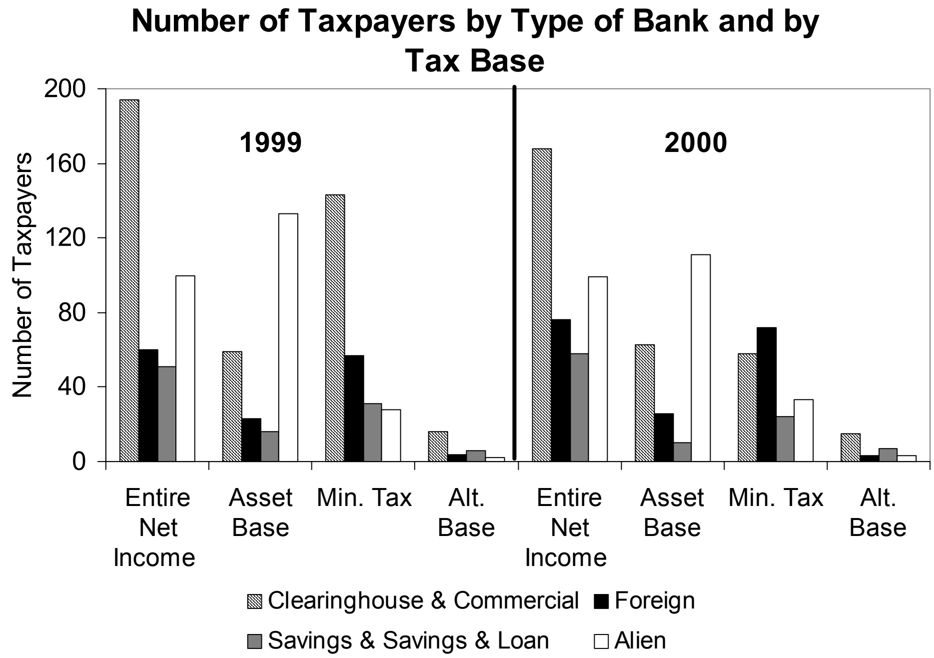
Tax liability and tax collections, while clearly related, can follow different patterns over time. Tax collections are payments made by taxpayers on returns and extensions for a certain filing period. These include a mandatory first installment payment based on 30 percent of the prior year's liability. Throughout the tax year, banks must also make estimated payments based on their expectation of tax liability at the end of their tax year. Taxpayers may make adjustments to these payments to better reflect their financial status. In contrast, tax liability is determined based on actual performance for a given year. It is generally calculated by tax bases, tax rates, special deductions and additions, losses and tax credits. Taxpayers have generous extensions under current law that allow the filing of returns many months after the end of their tax year.

The following graph compares total bank tax liability and collections over a ten-year period. The point illustrated is that, while liability and collections generally followed the same pattern from 1990 to 1997, there is significant volatility in the underlying relationship between each payment and liability. As discussed above, because taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments to make over the course of a year. This is especially true if business or economic conditions change.

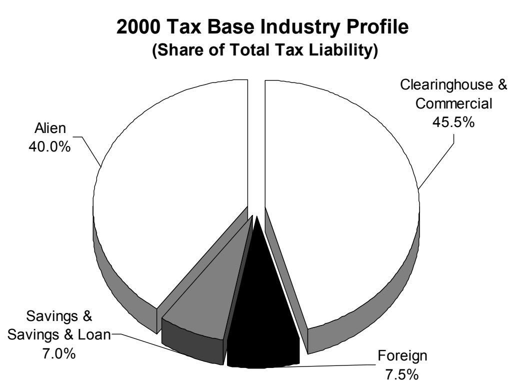
Total Bank Liability and Collections
General Fund (1990-2000)

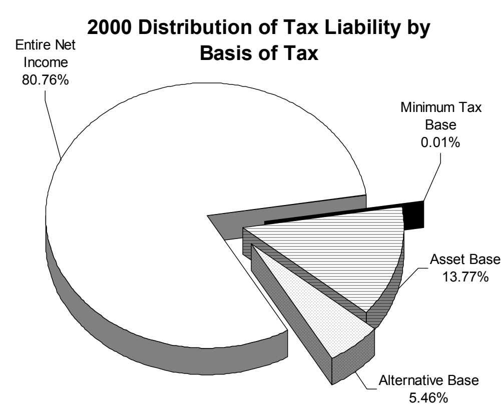


Between 1999 and 2000 (2000 representing the latest year for which tax data are available), total General Fund tax liability decreased by roughly 14 percent, from $529 million, to $457 million. The number of taxpayers decreased by 11 percent, with the majority of the decrease in clearinghouse and commercial banking institutions. This may be partially explained by the large number of consolidations and mergers resulting in subsidiaries filing as a single taxpayer with the parent corporation. The following graph illustrates that, between 1999 and 2000, the number of clearinghouse and commercial taxpayers paying under the fixed dollar minimum tax base decreased by roughly 59 percent. It is likely that these small taxpayers were merged with larger banks or possibly ceased operations in New York State because of the significant changes in the structure of the banking industry.



The following pie charts show that clearinghouse and commercial banking institutions accounted for 45.5 percent of total tax liability in 2000, and alien banking institutions accounted for 40 percent of total liability, while foreign banking institutions and savings and savings and loan institutions together accounted for the remaining 14.5 percent of total liability. Additionally, payments under the ENI base compromised about 80.8 percent of total tax liability.





PROPOSED LEGISLATION

The bank tax for commercial banks is scheduled to expire January 1, 2005. This proposal would extend the bank tax for one year and the Gramm-Leach-Bliley Act provisions for two years to preserve current revenues. Both provisions would expire in 2006. The Executive Budget also proposes to extend the MTA surcharge from tax years ending before December 31, 2005, to December 31, 2009.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $304 million, a decrease of $44 million, or 13 percent, below the comparable period in the prior fiscal year. Total net All Funds receipts for 2003-04 are estimated to be $451 million, a decrease of $30 million, or 6.2 percent below last year.

The weakness in current year net collections is the result of several factors. The slow growth of the national and State economies has contributed to the poor performance of the banking sector, which is sensitive to overall economic conditions. Additionally, there has been an increase in the bad debt and credit risks carried by banks in both the personal and commercial areas. Although lower interest rates have had a positive effect on the housing and durable goods markets, the effect on commercial bank earnings has worked in the opposite direction. This is primarily due to the reduced spread between the lending and borrowing rates.

Another major factor contributing to the weak growth in banking receipts is the continued restructuring of the banking sector in New York. There have been an increasing number of mergers and acquisitions as well as downsizing of banking facilities. The rapid entry and exit of banking institutions has also added to volatility. To attract customers, banks have been cutting fees, lowering lending rates, and offering other incentives. These activities are expected to drive down earnings.

In addition, net collections have been affected by the recent financial sector accounting scandals. Firms involved in illegal or unethical activities are paying large amounts to settle lawsuits, in addition to legal fees and penalties. The scandals may force regulators to adopt stricter measures to prevent unlawful activities, thereby setting limitations on the creation of new products. These factors have affected bank tax profitability and have had a negative impact on receipts.

The Executive Budget proposal to extend the bank tax for one year and the Gramm-Leach-Bliley provisions for two years will protect current revenues. The Budget proposal to extend the MTA surcharge for four years, until 2009, will maintain the existing annual revenue stream available to support transportation services in the Metropolitan Commuter Transportation District.

2004-05 Projections

Total net All Funds receipts are projected to be $496 million, an increase of $45 million, or 9.8 percent, above 2003-04.

The bank tax gains for State fiscal year 2004-05 are mainly due to the expected improvement in banking industry profitability. The increase is based in part on the underlying relationship between tax liability and expected bank profitability. Overall, bank earnings, which have improved over the course of the 2003-04 State fiscal year, are expected to improve further during 2004-05.

General Fund

Based on collections to date, General Fund net collections for State fiscal year 2003-04 are projected to reach $386 million, a decrease of $23 million, or 5.6 percent from State fiscal year 2002-2003 levels, primarily due to the economic and industry influences already discussed.

Bank tax receipts for State fiscal year 2004-05 are expected to increase by 9.8 percent, primarily driven by improved profitability and a more optimistic economic outlook.

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

	State Banks, Trust Companies and National Banks	Savings Banks	Savings and Loan Associations	Total
		Actual		
1995-96	612	24	(1)	635
1996-97	637	(3)	5	640
1997-98	700	1	6	707
1998-99	527	12	5	544
1999-2000	516	5	5	526
2000-01	496	5	4	505
2001-02	487	5	5	496
2002-03	398	5	6	409
		Estimated		
2003-04	376	5	5	386
2004-05	412	6	6	424

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. It is the principal revenue source of the Mass Transportation Operating Assistance Fund (MTOAF). MTOAF bank tax receipts are affected by the same factors impacting overall bank tax receipts. Based on collections to date, the bank tax contribution to MTOAF for 2003-04 is projected to reach approximately $66 million. These receipts are expected to increase to $72 million in 2004-05.

RECEIPTS BY FUND TYPE

BANK TAX RECEIPTS
(millions of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Refunds	Net Special Revenue Funds[1]	All Funds Net Collections
				Actual			
1995-96	702	68	635	99	5	94	729
1996-97	724	84	640	110	9	101	741
1997-98	766	58	707	114	8	105	812
1998-99	624	80	544	102	11	91	635
1999-2000	598	72	526	94	9	85	611
2000-01	598	92	505	97	11	86	591
2001-02	565	69	496	80	10	70	566
2002-03	525	114	409	84	12	72	481
				Estimated			
2003-04	511	125	386	78	12	66	451
2004-05	524	100	424	82	10	72	496

[1]MCTD 17 percent surcharge deposited in Mass Transportation Operating Assistance Fund.
Note: Components may not add to net collections due to rounding.

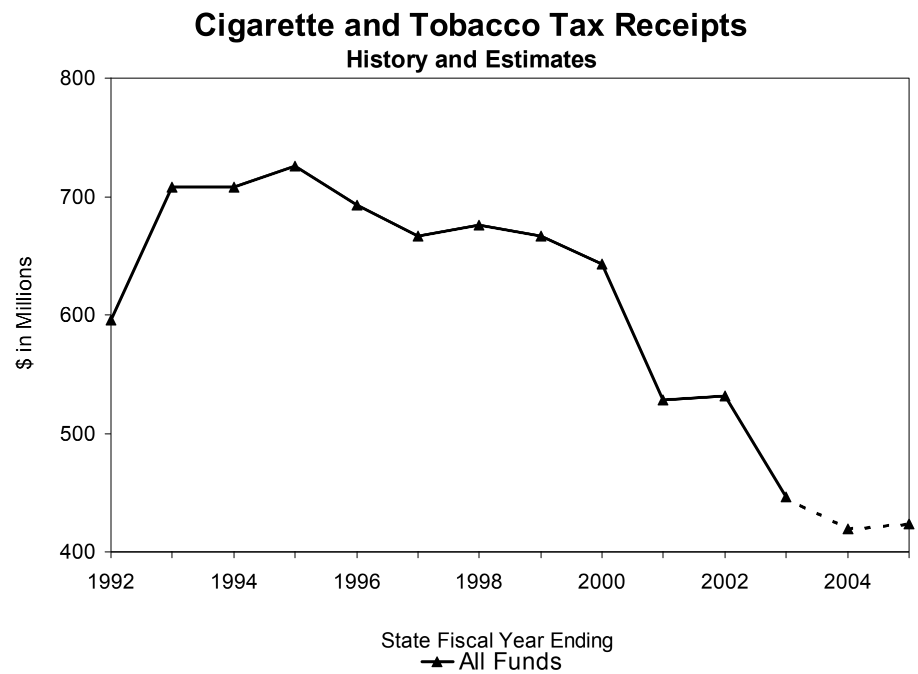
CIGARETTE AND TOBACCO TAXES

SUMMARY

In 2003-04, total collections from cigarette and tobacco taxes are estimated to be $1,013.2 million. This is a decrease of $108.1 million, or 9.6 percent from the prior year.

In 2004-05, total collections from cigarette and tobacco taxes are projected to be $1,021.1 million. This is an increase of $7.9 million, or 0.8 percent, compared with 2003-04.

Legislation proposed with this Budget would postpone implementation of regulations related to taxation of sales on Native American lands and authorizes the State to execute agreements with Native American nations regarding product prices and taxes.



DESCRIPTION

Tax Base and Rate

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, Federal and City tax rates are shown in the following table.

**STATE, FEDERAL AND NEW YORK CITY
CIGARETTE EXCISE TAX RATES
PER PACK OF 20 CIGARETTES
(since 1950)**

State		Federal		New York City	
	Rate (cents)		***Rate*** (cents)		***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, snuff, cigars, pipe tobacco and roll-your-own cigarette 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.

Retail establishments that sell cigarettes are required to purchase licenses, and vending machine owners are required to purchase stickers from the Department of Taxation and Finance.

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 Native American lands, 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 occured.

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

	2003	2002	2001	2000	1999	1998
Connecticut	151	111	50	50	50	50
Massachusetts	151	76	76	76	76	76
New Jersey	205	150	80	80	80	80
New York	150	150	111	111	56	56
Pennsylvania	100	31	31	31	31	31
Vermont	119	93	44	44	44	44
NYS and NYC	300	300	119	119	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 and the delivery by common carrier of cigarettes to individual consumers in New York. This law does not apply to the U.S. Postal Service. After a lawsuit by Brown and Williamson Tobacco, 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 the law became effective in March 2003 when the U.S. Circuit Court of Appeals ruled for the State. Appeals in this case have been exhausted. Currently, the statute is the subject of other litigation. In April 2003, trucking associations from New York, New Jersey and Connecticut filed suit to have the statute declared unconstitutional. Currently, the case is pending a decision by the U.S. District Court of the Southern District of New York. Four other cases filed by Native American tribes in New York seek to allow the tribes to ship cigarettes directly to New York consumers via common carriers and are pending decisions by various courts.

Significant Legislation

The significant statutory changes since 1994 are summarized below.

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.	July 1, 2004
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

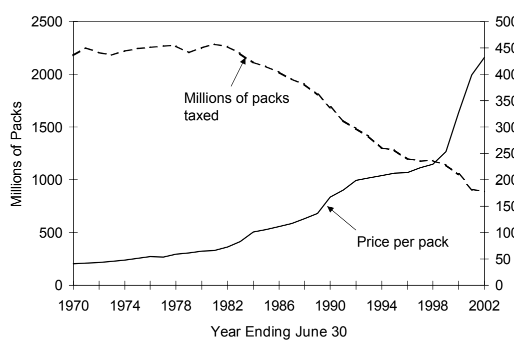
Subject	Description	Effective Date
Legislation Enacted in 2003		
Native American Regulations	Required the Commissioner of Taxation and Finance to promulgate regulations requiring the taxation of cigarettes sold to non-Native Americans.	March 1, 2004

TAX LIABILITY

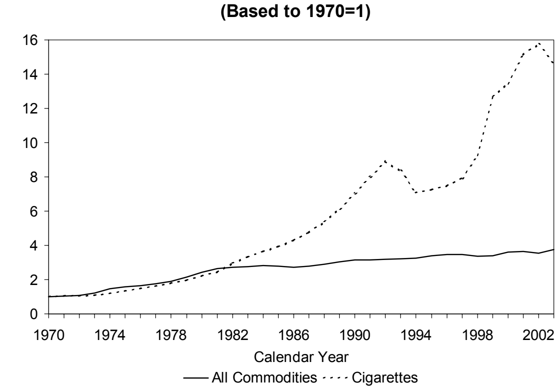
Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption reflecting the negative impact of public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Recently, declines in taxable consumption have been exacerbated by evasion.

Taxable cigarette consumption in New York has declined by more than 66 percent since 1970, due to the factors noted in the previous paragraph. The following graphs summarize the most important trends, which are the inverse relationship between cigarette prices and consumption, the large magnitude of wholesale cigarette price increases relative to other goods, and consumer substitution of other tobacco products for cigarettes.

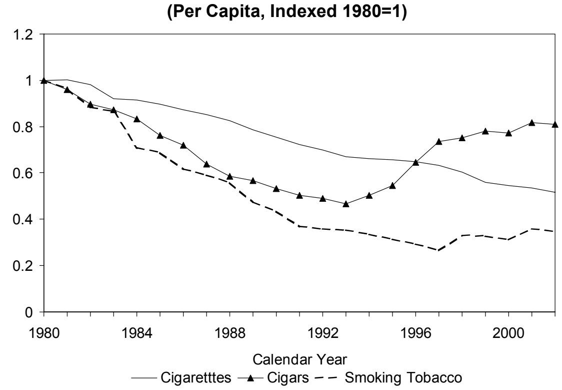
Historical State Cigarette Consumption and Prices



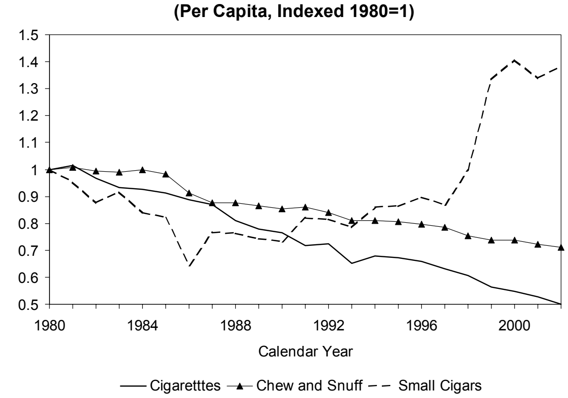
U.S. Producer Price Indexes (Based to 1970=1)



U.S. Tobacco Consumption (Per Capita, Indexed 1980=1)



U.S. Tobacco Consumption (Per Capita, Indexed 1980=1)



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.

PROPOSED LEGISLATION

Legislation proposed with this Budget would postpone implementation of regulations related to taxation of sales on Native American lands and authorizes the State to execute agreements with Native American nations regarding product prices and taxes.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Total net collections to date are $796.5 million, a decrease of $92.9 million, or 10.4 percent below the comparable period in the prior fiscal year.

Total net collections for 2003-04 (including HCRA) are estimated to be $1,013.2 million, a decrease of $108.1 billion, or 9.6 percent below last year.

The Division of the Budget estimates that producer prices will fall 3.1 percent, and that retail prices will increase 3.1 percent in 2003-04. This increase is due to the New York City tax increase that took effect July 3, 2002. If the one-quarter impact of the City tax increase on 2003-04 retail prices is excluded, retail prices during the remainder of 2003-04 are estimated to decline. Despite this estimated price decline, underlying taxable cigarette consumption is estimated to continue its secular decline during the remaining three quarters of 2003-04. It appears from the historical data that national cigarette price declines do not cause those who have stopped smoking to start again, nor do they affect the price gap that exists between New York City and neighboring states. Hence, New York smokers, particularly those in the City, have continued to find alternatives to purchasing taxable cigarettes. 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 the long-term declining trend in cigarette consumption.

2004-05 Projections

Total net collections are projected to be $1,021.1 million, $7.9 million or 0.8 percent above 2003-04.

Prospective agreements between Native American governments and the State based on legislation submitted with this Budget are projected to add $40 million in revenue in 2004-05.

The long-term factors reducing cigarette consumption will continue to exert negative pressure on receipts. Price increases are expected to resume and have a significant effect on underlying taxable cigarette consumption in 2004-05. Wholesale prices are expected to rise 9 percent, and retail prices are expected to rise 4 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.

Health Care Reform Act (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. Based on the percentage distribution of cigarette tax receipts in effect between April 1, 2003, and March 31, 2005 (see table below), the pool will receive an estimated $593.6 million in 2003-04 and a projected $597.4 million in 2004-05. This fund is maintained outside the State's fund structure and, therefore, is not included in All Funds net collections.

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 of dollars)

	General Fund				HCRA
Fiscal Year	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax
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	404.4	37.6	4.6	446.5	674.6
2003-04*	376.0	40.1	3.3	419.5	593.6
2004-05*	378.4	41.9	3.4	423.8	597.4

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

General Fund

General Fund cigarette and tobacco tax receipts for 2003-04 are estimated at $419.5 million, a decline of $27 million, or 6 percent, from 2002-03. To date, General Fund cigarette and tobacco tax receipts are an estimated $329.5 million, a decline of $28.8 million, or 8 percent below the comparable period in the prior fiscal year.

For 2004-05, General Fund cigarette tax receipts are projected to be $423.8 million. The tax on tobacco products is expected to total $41.9 million, an increase of $1.8 million from 2003-04. This increase is due to continuation of consumption trends, and an expected shift of cigarette smokers to tobacco products, including roll-your-own tobacco, as a result of continued price increases for cigarettes. Sales of retail licenses and vending machine stickers are projected to yield $3.4 million.

RECEIPTS BY FUND TYPE

CIGARETTE AND TOBACCO TAX RECEIPTS
(millions of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
	Actual						
1995-96	701	7	693	0	0	0	693
1996-97	676	9	667	0	0	0	667
1997-98	681	5	676	0	0	0	676
1998-99	672	5	667	0	0	0	667
1999-2000	649	5	643	0	0	0	643
2000-01	533	4	528	0	0	0	528
2001-02	539	7	532	0	0	0	532
2002-03	454	8	446	0	0	0	446
	Estimated						
2003-04*	429	9	420	0	0	0	420
2004-05*	432	8	424	0	0	0	424

* In 2003-04, an estimated $594 million will be deposited in the Tobacco Control and Insurance Initiatives Pool, and, in 2004-05, a projected $597 million will be deposited therein.

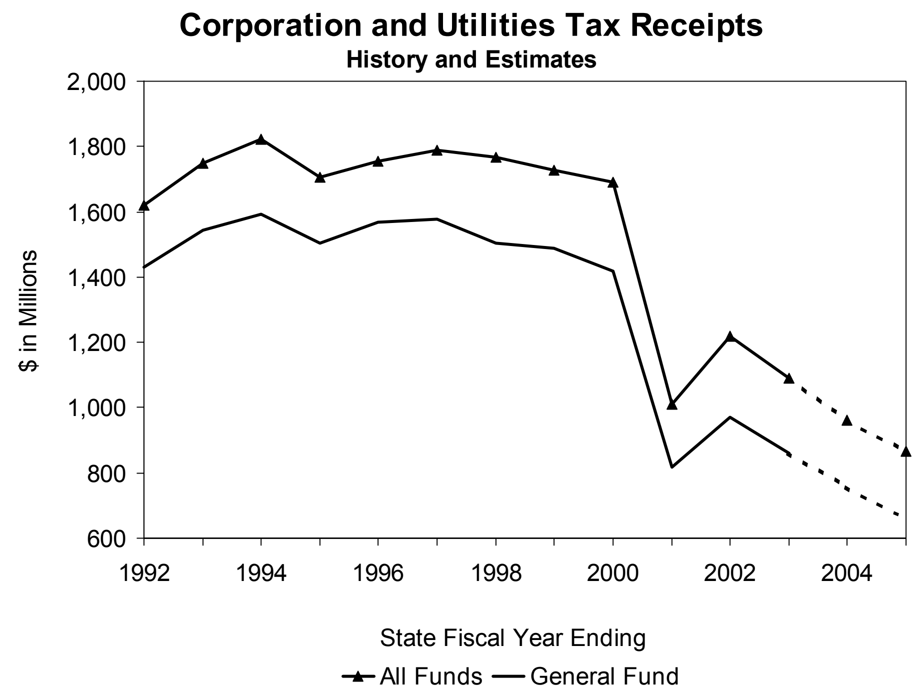
CORPORATION AND UTILITIES TAXES

SUMMARY

In 2003-04, All Funds collections from corporation and utilities taxes are estimated to be $960 million. This is a decrease of $131 million, or 12.0 percent, from the prior year resulting from the phase in of previously enacted tax law changes for utility taxpayers and increased competition and price pressure in the telecommunications industry.

In 2004-05, All Funds collections from corporation and utilities taxes are projected to be $866 million. This is a decrease of $94 million, or 9.8 percent, compared with 2003-04. Collections will continue to be affected primarily by legislation enacted in 2000 to reform the utility tax and the competitive environment facing the telecommunications industry.

Legislation proposed with this Budget would extend the Metropolitan Transportation Authority (MTA) surcharge for four years, until 2009. This would preserve current revenues.



DESCRIPTION

Tax Base and Rate

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. 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.

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. The fee is assessed 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 corporations 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 established 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. The tax 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 legislative acts 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 exempt 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

In addition, 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.

Administration

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 in March, 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.

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 three 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 Fund (MTOAF). Legislation enacted in 2003 allocated the remaining 20 percent of section 183 and 184 collections to the Dedicated Highway and Bridge Trust Fund (DHBTF), beginning on April 1, 2004. The table below reports the statutory allocation of tax receipts by fund.

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	0.0	80.0	20.0

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.

Significant Legislation

The significant statutory changes to this tax source since 1994 are summarized below.

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 service 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
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

Subject	Description	Effective Date
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.	Various
Legislation Enacted in 2003		
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005
Sections 183 & 184	Allocated the remaining 20 percent of section 183 and 184 collections to the Dedicated Highway and Bridge Trust Fund (DHBTF).	April 1, 2004

TAX LIABILITY

For State fiscal years 1991-92 through 2002-03, 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, historical fluctuations in energy prices and telecommunications demand have led to uneven growth over this period. In recent years, the emergence of the evolving wireless telecommunications sector has also contributed to the unstable nature of collections.

All of section 186-e receipts and more than half of section 184 receipts in recent years have come from telecommunications companies. These companies are dealing with intense competition and pricing pressures. Wireless communication services continue to take a larger role in the industry, creating an increased call and message volume. On November 24, 2003, telecommunications companies, by order of the Federal Communications Commission (FCC), implemented wireless phone number portability. Larger telecommunications companies are expected to benefit the most from number portability as a result of their action to secure long-term contracts with customers before the action was implemented. In addition, third generation (3G) services have been brought to the marketplace and are realizing more stable, and even higher, monthly average revenue-per-user numbers. In the outyears, we expect the industry to produce higher revenues as a result of these efforts and their push for making text messaging, picture transfers, web access and video games a “must have” feature.

However, certain actions taken by the U.S. Congress with respect to extending provisions of the Federal Internet Tax Freedom Act, if enacted, could remove a portion of these earnings from the base of taxable telecommunications services. The issue is expected to be addressed during the 2004 session of Congress, after 2003 negotiations failed to reach a compromise on a permanent moratorium on the taxation of Internet services by States and local governments.

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. Quantity is affected by:

- Expansion and contraction phases of the New York economy;
- Colder than normal weather during wintertime and springtime which increases gas volume;
- Summer heat waves which increase electricity demand; and
- Changes in oil and natural gas prices that affect electricity prices.

The tables below report annual consumption and price data for electricity and natural gas. The information shown for the years 1992 to 2001 is based on published reports of the Public Service Commission. The 2001 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 2001
(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
2001	103,390	(2.1)	551.6	(13.3)

CALENDAR YEAR HISTORY OF ELECTRICITY AND NATURAL GAS PRICES
1992 TO 2001

	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
2001	11.22	0.0	9.18	9.3

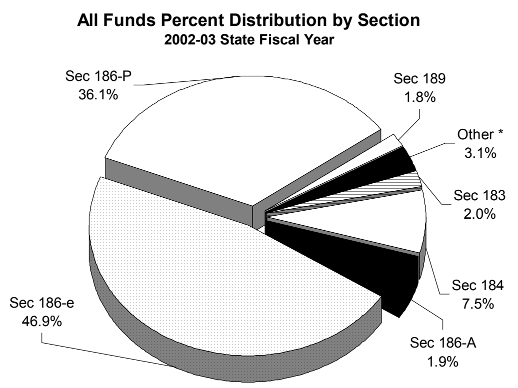
Factors such as the substitution of cheaper fuel types, the severity of the weather, and the availability of oil or natural gas all influence energy consumption and energy prices. The rate of growth of economic activity and inflation impact the price and quantity of utility services consumed. In addition, collections will continue to be affected by scheduled tax rate reductions.

PROPOSED LEGISLATION

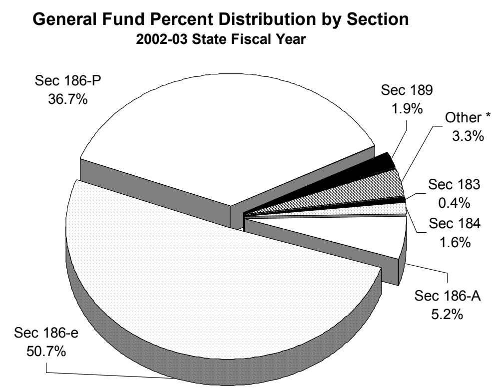
Legislation proposed with this Budget would extend the MTA surcharge, until 2009.

RECEIPTS: ESTIMATES AND PROJECTIONS

The pie charts below depict the share of total 2002-03 Article 9 All Funds and General Fund collections accounted for by each section of the Article. For State fiscal years 1991-92 through 2002-03, the General Fund received more than 80 percent of All Funds. The distribution between General Fund and Other Funds will remain relatively constant in 2003-04. In 2004-05, the distribution is expected to shift as a result of a legislation enacted with the 2003-04 Budget to transfer the remaining 20 percent of section 183 and 184 collections to the DHBTF. Small reductions in the estimated fund shares over the forecast can be attributed to statutory changes enacted in recent years.



* Other includes sections 180,181, and 185



* Other includes sections 180,181, and 185

All Funds

2003-04 Estimates

Net All Funds collections to date are $540.9 million, a decrease of $107 million, or approximately 16.5 percent, below the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $960 million, a decrease of $131 million, or 12.0 percent below last year. This decrease is due mainly to increased competitive pressure in the wireless industry and the scheduled tax rate reductions that continue to phase in. The Executive Budget proposal to extend the MTA surcharge for four years, until 2009, would maintain the existing annual revenue stream available to support transportation services in the Metropolitan Commuter Transportation District.

In 2003, telecommunications companies' receipts are expected to show a slight decline of 0.1 percent. The consumption of electricity is projected to remain relatively flat, while natural gas consumption is expected to increase by more than 10 percent. Severe weather in the Northeast and other factors caused a drop in supply and an increase in the prices of natural gas. Prices were expected to be moderate this year, but colder than normal weather and winter storms have caused this price increase. However, some industry insiders believe this price increase results from possible price gouging and market manipulation and have called for a congressional investigation into this issue.

In recent months, the economy has shown signs of recovery and the labor market has improved. Business investment rose, profits increased and stock prices all improved in the third quarter of 2003. However, some companies are still struggling to meet earnings expectations without raising prices and, since the jobless rate is still elevated, most employers are omitting or paying out modest year-end bonuses for employees.

2004-05 Projections

Total net All Funds receipts are projected to be $866 million, a decrease of $94 million, or 9.8 percent below 2003-04. All Funds collections are affected by the continuing price competition in the telecommunications industry and the fluctuations in the price and quantity of utility services.

General Fund

General Fund collections for 2003-04 are estimated to be $755 million, a decrease of more than $104 million, or 12 percent from last year. These receipts include an estimated $26 million in audit collections, offset by $35 million in refunds.

For 2004-05, General Fund collections are projected to be $657 million, a decrease of $98 million or, approximately, 13 percent from 2003-04. This includes an estimated $26 million in audit receipts, offset by $35 million in refunds.

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

Section of Law	Type of Companies	Collections[1] 2002-03 Actual	2003-04 Estimated	2004-05 Projected
180	Organizations and reorganizations	2.7	3.9	3.9
181	Foreign corporations and maintenance fees	26.0	25.6	25.6
183	Transportation and transmission companies	18.6	23.2	23.5
184	Additional tax on transportation and transmission companies	70.2	66.2	65.5
185	Agricultural cooperatives	0.0	0.0	0.0
186	Water, steam, gas, electric, light and power companies	0.6	0.6	0.6
186a & e	Public utilities/telecommunication	795.9	701.4	624.1
189	Natural gas importers	16.6	5.7	2.8
	Subtotal	930.6	826.6	746.0
		Special Revenue Funds		
	Less Other Funds			
	MTOAF[2]	71.1	71.6	71.2
	DHBTF[3]	0.0	0.0	17.8
	Net General Fund	859.5	755.0	657.0

[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.
[3] Per statute, 20 percent of sections 183 and 184 receipts after April 1, 2004 are dedicated to the DHBTF.

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 $71.6 million for 2003-04 and $71.2 million for 2004-05. The remaining portion of sections 183 and 184, estimated at $17.8 million, is earmarked for the Dedicated Highway and Bridge Trust Fund beginning in State fiscal year 2004-05.

The MCTD business tax surcharge will result in deposits of an estimated $133.4 million for 2003-04 and $120 million for 2004-05 into the MTOAF.

RECEIPTS BY FUND TYPE

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]	All Funds Net Collections
	Actual						
1995-96	1,581	14	1,567	190	1	189	1,756
1996-97	1,616	39	1,577	214	2	212	1,789
1997-98	1,517	13	1,504	243	2	241	1,745
1998-99	1,509	20	1,489	242	2	240	1,729
1999-2000	1,450	32	1,418	276	2	274	1,692
2000-01	847	30	817	193	1	192	1,009
2001-02	999	27	972	247	1	246	1,218
2002-03	909	49	860	232	1	231	1,091
	Estimated						
2003-04	790	35	755	206	1	205	960
2004-05	692	35	657	210	1	209	866

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

CORPORATION FRANCHISE TAX

SUMMARY

In 2003-04, All Funds collections from the corporation franchise tax are estimated to be $1,570 million, a decrease of $43 million, or 2.6 percent, compared with 2002-03. Collections have been adversely impacted by depressed corporate profits in recent years that tend to have a lagged impact on current year receipts.

In 2004-05, All Funds collections from the corporation franchise tax are projected to be $1,984 million. This is an increase of $414 million, or 26 percent, compared with 2003-04, resulting mainly from expected improvement in the profitability of corporations and the impact of recently enacted tax policy changes.

Legislation proposed with this Budget would:

- modify the fixed dollar minimum tax base;
- phase in a single sales factor for income allocation for manufacturers;
- create a new targeted incentive for biotech companies;
- reform and extend the Empire Zones Program;
- enhance the Low Income Housing Tax Credit; and
- extend the Metropolitan Transportation Authority (MTA) surcharge for four years, until 2009.

DESCRIPTION

Tax Base and Rate

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.

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 *1999 New York State Corporation Tax Statistical Report* indicates that 259,961 taxpayers filed as C corporations, while 286,122 taxpayers filed as S corporations. This report contains the most recent data available on C and S corporations. The number of C corporations increased by roughly 0.3 percent from the prior year, while the number of S corporations increased by nearly 2.2 percent.

For C corporations, 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 are:

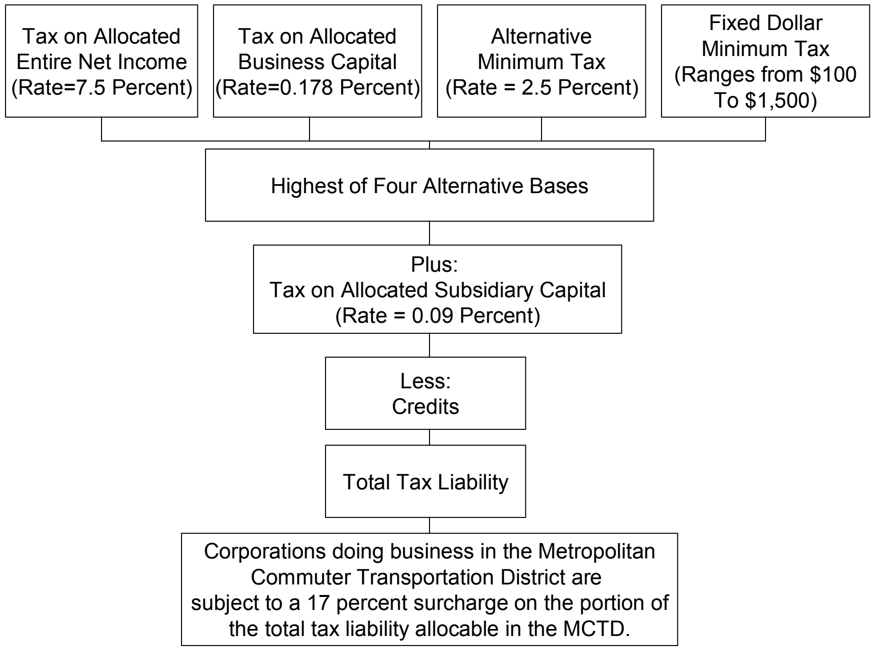
1. An allocated entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions. A rate of 7.5 percent applies to this base after the exclusion, deduction, or addition of certain items and the base is allocated to New York. Tax credits will further reduce tax otherwise due.
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, taxed at a rate of 2.5 percent.
3. A capital base, taxed at a rate of 0.178 percent. Allocated business and investment capital form the capital base, with a maximum annual tax of $350,000.
4. A fixed dollar minimum, which ranges from $100 to $1,500, depending on the size of the corporation's gross payroll, including general executive officers, during the applicable tax period.

For S corporations, the Article 9-A corporation franchise tax requires a taxpayer to pay a fixed dollar minimum, ranging from $100 to $1,500, depending on the size of the corporation's gross payroll during the applicable tax period. S corporations are subject to the fixed dollar minimum for tax years 2003, 2004 and 2005, after which they will revert back to the prior tax structure of an entity level tax.

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 Expenditures

Tax expenditures are defined as features of the tax law that reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular classes of persons or entities to achieve a public purpose. The corporate franchise tax structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to reduce State tax liability. The distribution of these benefits varies widely among firms. Among the major tax expenditure items for the corporate franchise tax are the exclusion of interest, dividends and capital gains from subsidiary capital, the investment tax credit, the Empire Zone credits, and the preferential tax rates for qualifying small business corporations.

Significant Legislation

The significant statutory changes since 1994 are summarized below.

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 three 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

Subject	Description	Effective Date
Investment Tax Credit/ Employment Incentive Credit (EIC)	Extended carryover period for this credit from seven to ten years.	January 1, 1994
Rate Reduction – Alternative Minimum Tax (AMT)	Reduced rate from 5.0 percent to 3.5 percent.	January 1, 1995
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 two years.	June 30, 1998
Investment Tax Credit	Allowed 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.	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 June 30, 1999.	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	Reformed energy taxation for energy companies, previously taxed under section 186 of Article 9, to pay tax under the Article 9-A corporate franchise tax.	January 1, 2000
Industrial or Manufacturing Business Credit (IMB)	Provided 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	The credit is based on the structure of the Federal low-income housing tax credit. The State program provides tax credits for 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

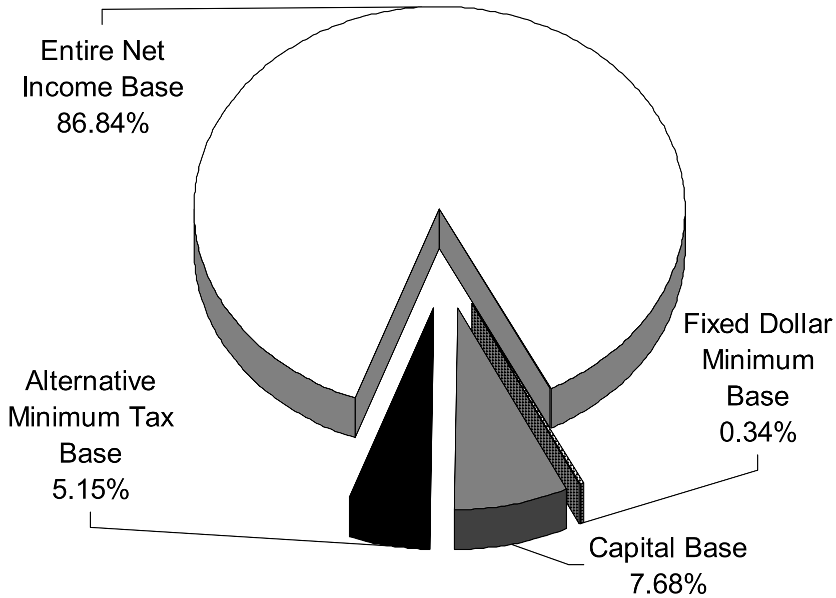
Subject	Description	Effective Date
Securities and Commodities Brokers or Dealers Customer Sourcing	Allowed securities broker/dealers to allocate receipts, which constitute commissions, margin interest or account maintenance fees, as a service performed at the customer's mailing address.	January 1, 2001
Empire Zones (EZ)	Transformed the Economic Development Zones (EDZ) to Empire Zones, effectively providing for virtual "tax free" zones for certain businesses. The enhanced benefits include a tax credit for real property taxes, a tax reduction credit, and a sales and use tax exemption. 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	Reduced tax rate for small businesses with entire net income of $200,000 or less to 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.	Various
Legislation Enacted in 2003		
Modification for Decoupling from Federal Bonus Depreciation	Decoupled from Federal depreciation allowances for property placed in service on or after June 1, 2003, that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	June 1, 2003
Intangible Holding Companies	Required taxpayers to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
S Corporation Tax Change	Taxed S corporations on a fixed dollar minimum amount for tax years 2003, 2004 and 2005 only. The fixed dollar minimum amounts are those imposed under Article 9-A, ranging from $100 to $1,500.	January 1, 2003
Superfund-Brownfield Tax Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005

TAX LIABILITY

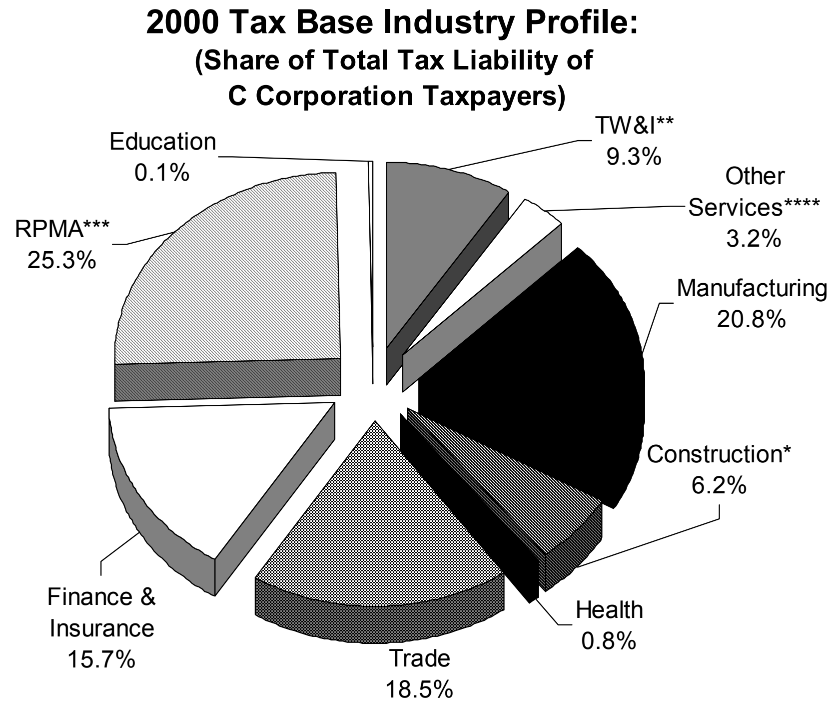
The OTPA's Corporate Franchise Tax Study File contains the most recent data available on Article 9-A liability. The study file includes all corporations filing under Article 9-A, except fixed dollar minimum tax filers and S corporations. The most current liability information is for the 2000 tax year.

As noted above, C corporations pay under the highest of four bases. In 2000, nearly 87 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 7.7 percent of liability. These percentages are fairly constant over time. The AMT base, however, has begun to diminish due to tax law changes, including a drop in the tax rate from 3.5 percent in 1995 to the current rate of 2.5 percent. (See following chart.)

2000 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 and insurance sector made up 15.7 percent of total tax liability paid by C corporation taxpayers in 2000, with the manufacturing sector accounting for 20.8 percent of liability. The service industries (consisting of RPMA and Other Services) share has grown quite significantly throughout the 1990s and, in 2000, represented over 28.5 percent of total liability.



* Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)

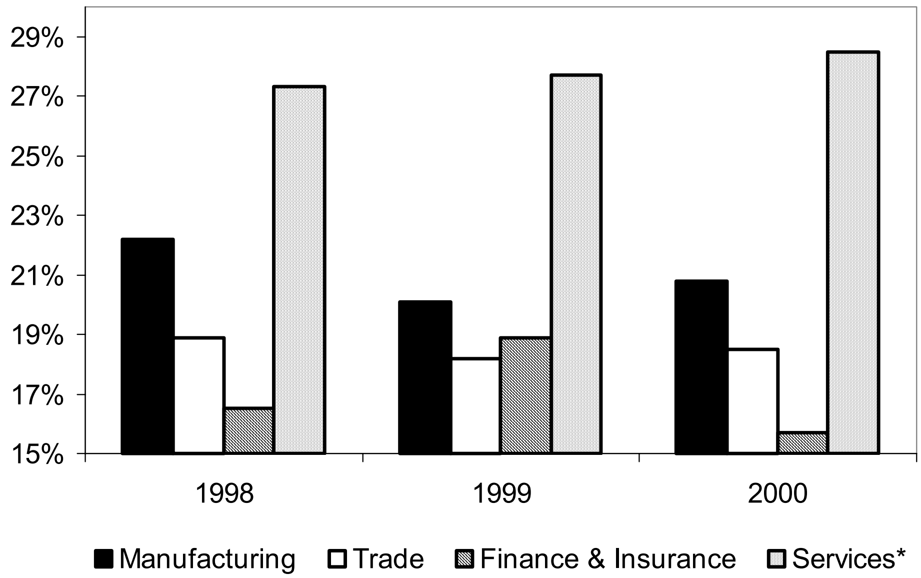
** Transportation and warehousing and information. (NAICS Sectors 48, 49, and 51)

*** Real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; and administrative and support and waste management and remediation services. (NAICS Sectors 53, 54, 55, and 56)

**** Art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 71, 72, and 81)

The following chart illustrates the fluctuation in the percentage of liability paid by the four industry groups that typically make up the vast majority of total tax liability for the period of 1998 to 2000: finance and insurance, trade, manufacturing, and services (consisting of RPMA and Other Services). Liability for the finance and insurance sector tends to fluctuate significantly over time. Liability shares for this industry rose from 16.5 percent in 1998 to 18.9 percent in 1999, and then dropped to 15.7 percent in 2000. In comparison, the service industry's share of total liability had increased steadily for this same three-year period. The manufacturing industry's share of total liability is also quite volatile and depends on both economic conditions and the ability of the companies in this sector to take advantage of tax credit programs designed to stimulate the industry. For manufacturers, liability decreased in 1999 and then increased in 2000, a mirror image of the finance and insurance industry.

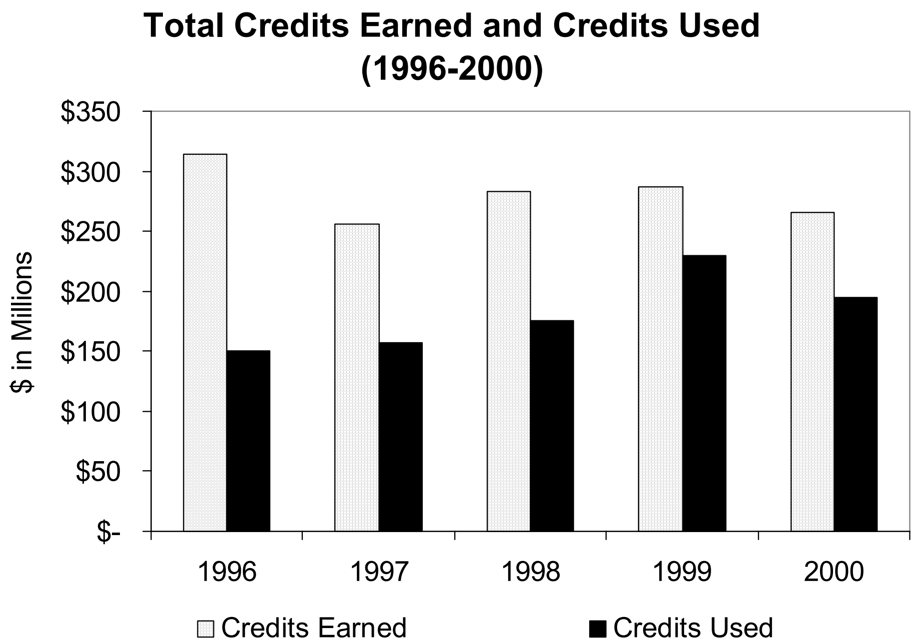
Industry Profile: Percent of Total Liability
(1998-2000)



* Services consist of real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; and other services. (NAICS Sectors 53, 54, 55,, 56, 71, 72, and 81)

Credits

The following 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), the Empire Zone credits, the alternative minimum tax (AMT) credit, the agricultural property tax credit, and the special additional mortgage recording credit. 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 2000, the ITC, a benefit to manufacturing companies, accounted for about 74 percent of all tax credits earned and about 57 percent of all tax credits used.



For the most part, Tax Law provisions prevent taxpayers from using tax credits to reduce final tax liability below the fixed dollar minimum tax or the AMT. This has resulted in taxpayers carrying forward a significant amount of tax credits into subsequent tax years. Legislation enacted in 2000, however, made it possible to apply the employment incentive credit and the 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 the Empire Zone tax relief measures will result in somewhat fewer tax credits being carried forward to future years.

PROPOSED LEGISLATION

Legislation proposed with this Budget would:

- modify the fixed dollar minimum tax base to add three new categories to the fixed dollar minimum amounts. Firms with a gross payroll amount of $25 million or higher would pay $10,000, those with a gross payroll amount between $6.25 million and $25 million would pay $5,000 and those with a gross payroll amount of $0.5 million or less would pay $100.
- phase in a single sales factor for manufacturers to replace the current three-factor allocation method for allocating out-of-State income for manufacturers. This measure would cut the tax on manufacturers and encourage them to stay and expand in New York.
- create a new targeted incentive program for biotech firms which would allow the transfer of losses to qualified corporations.
- reform the Empire Zones Program to extend the program beyond the current sunset date of 2004 and reduce the benefits period currently at 15 years, to 10 years.
- enhance the Low Income Housing Tax Credit Program by providing an additional $2 million in tax credits annually, or $20 million over the 10-year period of the

program, which would spur a new round of affordable housing construction. Total funding allocated over the life of the program, including this new proposal, would be $60 million.

- extend the MTA surcharge for four years, until 2009.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections through December are $1,042 million, a decrease of $33 million, or 3.1 percent, compared with the comparable period in the prior fiscal year. The decline is due to several factors, including tax cuts enacted in prior years, the slow growth of the national and State economies in the past two years, and the depressed corporate profitability of recent years. Total net All Funds receipts for 2003-04 are estimated to be $1,570 million, a decrease of $43 million, or 2.6 percent, compared with last year.

Significant tax law changes at both the State and Federal levels have driven down collections in the current fiscal year. At the State level, the incremental value of tax reductions over last year is nearly $100 million. The most significant tax benefits are those available under the Empire Zones program. Additionally, the change in the sales allocation for financial services has eroded receipts in the current year. Partially offsetting these tax reductions is a legislative action which has affected receipts beginning in the second quarter of the State fiscal year. This change, made with the 2003-04 Enacted Budget, involves decoupling from the Federal bonus depreciation rules. Starting in June 2003, taxpayers must add back to State income the special bonus depreciation allowance allowed by the Federal law. Extending the MTA surcharge for four years to 2009 will maintain the existing revenue stream available to support transportation services in the Metropolitan Commuter Transportation District.

Taxpayer behavior continues to influence collections. Adjustments in 2003-04 to prior year payments are expected to be somewhat lower than the large adjustments made over the past 2 years. These adjustments reduce cash collections during the State fiscal year. Last year, calendar year filers made adjustments to prior years' liability, reducing current year cash results by over $535 million. This year, adjustments are expected to reach $471 million.

2004-05 Projections

Total net All Funds receipts are projected to be $1,984 million, an increase of $414 million, or 26 percent above 2003-04.

The strong growth in tax receipts is driven mainly by the expected improvement in the economy, consistent with the recent surge in corporate profitability that is expected to continue at a more modest pace in 2004. Receipts are expected to increase as a result of a tax law change enacted with the 2003-04 Enacted Budget, which requires taxpayers to modify taxable income by adding back certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members. In addition, tax receipts will increase as a result of the incremental value of the tax effects of decoupling from the Federal bonus depreciation rules. Executive Budget proposals for the targeted tax incentive for biotech companies and the enhancement to the Low Income Housing Tax Credit are projected to reduce tax revenues by $7 million while the modification to the fixed dollar minimum tax base is expected to increase tax revenues by $40 million. Executive Budget proposals to reform the Empire Zones Program and to phase in a single sales factor for manufacturers will not affect receipts until State fiscal year 2005-06.

Taxpayers are expected to continue to make adjustments to prior year payments that will tend to depress 2004-05 receipts, although current information suggests the adjustments in 2004-05 will be consistent with adjustments in 2003-04.

General Fund

Based on collections to date, General Fund net collections for State fiscal year 2003-04 are projected to be $1,382 million, a decrease of $25 million, or 1.8 percent, compared with State fiscal year 2002-03.

General Fund receipts for State fiscal year 2004-05 are expected to increase by 26 percent over 2003-04 levels to $1,746 million. This increase is the result of improved corporate profitability and an overall upswing in economic conditions.

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. 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 2003-04 is projected to reach approximately $188 million, an 8.4 percent decrease from 2002-03. 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, 2004-05 State fiscal year collections are expected to increase by roughly 26 percent.

RECEIPTS BY FUND TYPE

CORPORATION FRANCHISE TAX RECEIPTS
(millions of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Refunds	Net Special Revenue Funds[1]	All Funds Net Collections
	Actual						
1995-96	2,217	396	1,821	217	36	182	2,002
1996-97	2,414	348	2,067	274	36	239	2,306
1997-98	2,381	300	2,081	289	27	262	2,343
1998-99	2,479	429	2,050	243	30	213	2,262
1999-2000	2,422	483	1,939	272	43	229	2,168
2000-01	2,817	482	2,335	316	21	295	2,630
2001-02	2,012	497	1,515	236	48	188	1,703
2002-03	1,940	533	1,407	247	42	205	1,612
	Estimated						
2003-04	1,882	500	1,382	233	45	188	1,570
2004-05							
(current law)	2,214	500	1,714	283	45	238	1,952
(proposed law)	2,246	500	1,746	283	45	238	1,984

[1]MCTD 17 percent surcharge deposited in Mass Transportation Operating Assistance Fund.
Note: Components may not add to net collections due to rounding.

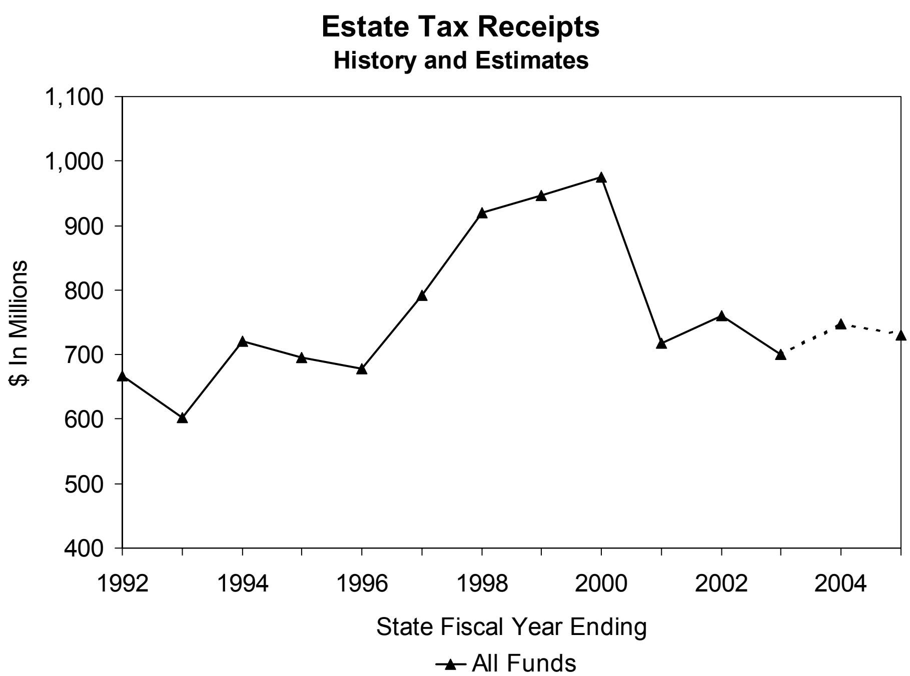
ESTATE TAXES

SUMMARY

In 2003-04, All Funds collections from estate taxes are estimated to be $747.4 million. This is an increase of $46.5 million, or 6.6 percent, from the prior year, reflecting the estimated rise in the market value of large estates.

In 2004-05, All Funds collections from estate taxes are projected to be $730.8 million. This is a decrease of $16.6 million, or 2.2 percent, compared with 2003-04.

No new legislation for this tax is proposed with this Budget.



DESCRIPTION

Tax Base and Rate

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

The tax base is calculated by first determining the Federal gross estate as of July 22, 1998. The Federal gross estate is comprised of the total amount of real estate, stocks and bonds, mortgages, notes, and cash, insurance on decedent's life, jointly owned property, other miscellaneous property, transfers during decedent's life, powers of appointment, and annuities that the decedent owned.

The Federal gross estate is reduced by the Qualified Conservation Easement Exclusion and the following deductions: funeral expenses and expenses incurred in administering property subject to claims; debts of the decedent; mortgages and liens; net losses during administration, and expenses incurred in administration of the estate not subject to claims;

bequests to a surviving spouse (marriage deduction), certain property interests; charitable, public, and similar gifts; and a qualified family-owned business interest deduction. This yields the Federal taxable estate for New York and becomes the basis for calculating New York's estate tax.

The total value of all items of real and tangible personal property of the taxpayer located outside of New York State is divided by the taxpayer's Federal gross estate to arrive at the proportion of the estate outside New York State. This proportion is then used to allocate the Federal credit for state death taxes.

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 million in the taxable value of an estate. 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.

Estates of decedents dying after 2004 will be subject to a graduated rate structure with tax rates that range from 0.8 percent on adjusted taxable estates in excess of $40,000 but less than $90,000, and up to 16 percent on adjusted taxable estates of $10,040,000 or more.

Federal Legislation

Current Federal law converted the old unified credit to an exemption and will continue to increase the value of the exemption until it reaches $3.5 million in 2009. As reported, State law capped the exemption at $1 million, effective in 2002. (See table below.)

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 credit will be repealed for the estates of decedents dying after 2004. In 2005, it will become a deduction until the phase-out of the Federal estate tax in 2010. 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.

Administration

The Surrogate Court has jurisdiction of the probate of the estate and the authority to finalize the amount of the tax. The tax due is required to be paid on or before the date fixed for filing the return, nine months after the decedent's date of death. A twelve-month extension may be granted by the Commissioner of Taxation and Finance for paying the tax.

If the payment of the tax would cause undue hardship, the Commissioner may authorize a payment extension for up to four years from the decedent's date of death. It may be necessary for the taxpayer to provide a bond in an amount of no more than twice the amount due if an extension is approved for payment of the tax.

If the payment of the tax due is not made within nine months of the decedent's date of death, additional interest is charged to the remaining payments of the tax. The interest for extended payments is computed and compounded daily on the portion remaining from the first day of the 10th month following the decedent's date of death to the date of the payment. There is no discount for early payment of the estate tax.

The executor and the spouse are personally liable for the payment of the estate tax. If there is no will, the Federal, New York and foreign death taxes paid or payable by estate representative are apportioned among the beneficiaries.

There is reciprocity with other states with the collection of inheritance and estate taxes in nonresident estates. Refund claims of an overpayment of the tax must be filed by the executor within three years from the time the return was filed or two years from the time the tax was paid, whichever is later.

Tax Expenditures

Since the tax is equal to the Federal credit for state death taxes, as it existed on July 22,1998, there are no New York specific tax expenditures.

Significant Legislation

The significant statutory changes since 1994 are summarized below.

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

Subject	Description	Effective Date
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	Conformed 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
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

TAX LIABILITY

The recent yield of this tax has been heavily influenced by three factors: tax law changes, annual 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 potential tax. As a result, the volatility in receipts from this source is expected to increase, due to the more random nature of collections from large estates.

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. In addition to the value of equities, a distributional analysis is utilized to estimate receipts and the number of estates where payments exceed $4 million.

PROPOSED LEGISLATION

No new legislation for this tax is proposed with this Budget.

RECEIPTS: ESTIMATES AND PROJECTIONS

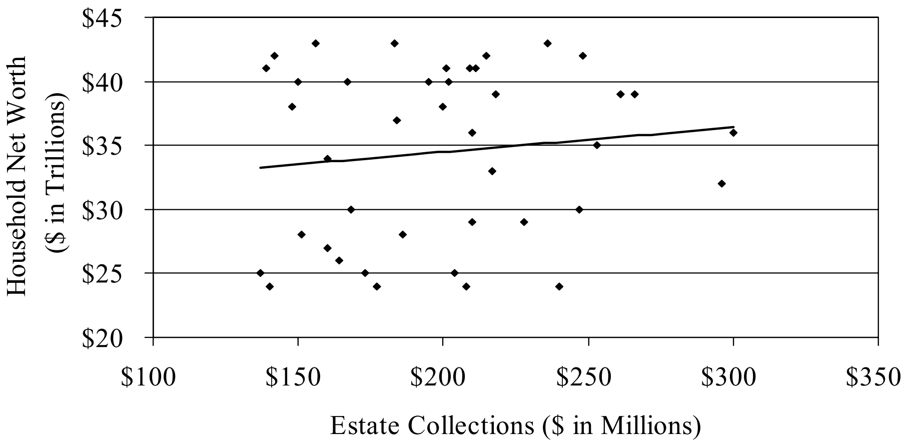
All Funds

2003-04 Estimates

Net All Funds collections to date are $593.4 million, an increase of $42.5 million, or 7.7 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $747.4 million, an increase of $46.5 million, or 6.6 percent above last year. Receipts are expected to increase modestly over the rest of the fiscal year, reflecting estimated increases in the value of household net worth of 5 percent over the past year. (See table below.)

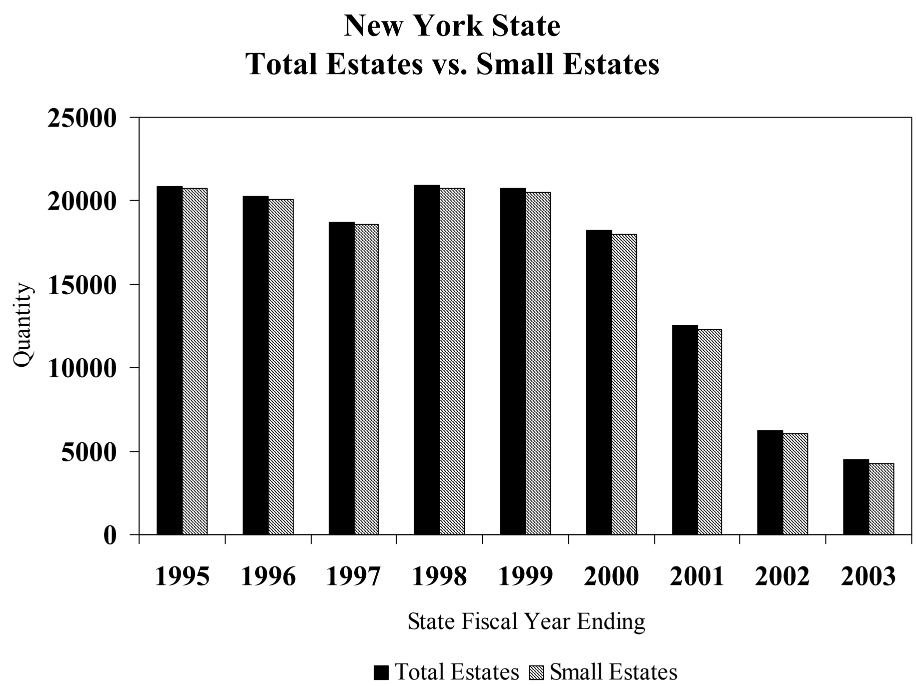
Estate Tax Collections vs. Household Net Worth

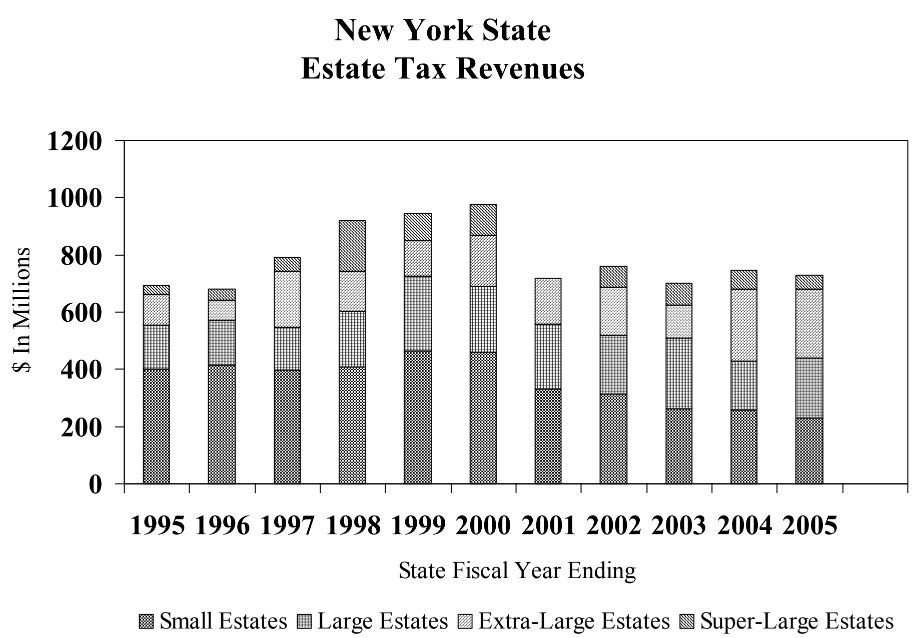


Quarterly Data: 1993 - 2003
The trend line represents the average increase in collections versus
A trillion dollar increase in Household Net Worth.

Extra-large estates year-to-date collections are $198 million, a significant increase of $124 million, or 16.8 percent from the comparable period in 2002-03, reflecting in part the $1 million unified exemption that reduces payments that otherwise would have been in the Super-large estate category to the Extra-large category and actual growth in the equity markets. Collections from small estate payments have experienced a decrease of $17 million, down 7.6 percent to $206 million from the similar period of 2002-03. This trend reflects a substantial impact from the $1 million unified exemption. It is estimated that the full year effects of the tax reductions enacted in 1997 have reduced total receipts by $483.3 million or 33 percent, from the 1993-94 base.

CARTS collections through nine months of 2003-04 were $19.6 million, a decrease of 24 percent from the same period of 2002-03. Year-to-date refunds for 2003-04 are $23.8 million, 9.4 percent above the same period of 2002-03.


New York State
Total Estates vs. Small Estates
25000
20000
15000
10000
5000
0
Quantity
1995
1996
1997
1998
1999
2000
2001
2002
2003
State Fiscal Year Ending
Total Estates
Small Estates


New York State
Estate Tax Revenues
1200
1000
800
600
400
200
0
$ In Millions
1995
1996
1997
1998
1999
2000
2001
2002
2003
2004
2005
State Fiscal Year Ending
Small Estates
Large Estates
Extra-Large Estates
Super-Large Estates

2004-05 Projections

All Funds receipts are projected to be $730.8 million, a decrease of $16.2 million or 2.2 percent below 2003-04. The estimate includes CARTS collections of $32 million and refunds of $42 million.

The estate collections will continue to be affected by the Federal unified credit amount of $1 million and the recent move to a pick-up tax, which will partially offset an estimated 1 percent increase in the base liability of the tax.

Super-large estate payments are projected to decrease by $15.8 million, or 24 percent, to $50.2 million. The payments from extra-large estates are expected to decrease to $240 million. The projections for the super-large and extra-large estates are based upon the distributional analysis that suggests the number of estates in this category will shrink in 2004-05. Large estate payments are estimated to increase by 21.7 percent to $209.5 million and small estates are expected to decline by 8 percent to $273.1 million. The results for the large and small estate payments are based on the projected value of household net worth, which is expected to increase by 3 percent in 2004-05.

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
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
2002-03	3	77.8	13	112.7	200	247.6	262.8	700.9
Estimated								
2003-04	2	66.0	20	252.5	185	172.2	256.7	747.4
2004-05	2	50.2	19	240.0	195	209.5	231.1	730.8

[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.)

RECEIPTS BY FUND TYPE

ESTATE TAX RECEIPTS
(millions of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Net Collections
Actual							
1995-96	723	44	679	0	0	0	679
1996-97	842	50	792	0	0	0	792
1997-98	968	48	919	0	0	0	919
1998-1999	993	47	946	0	0	0	946
1999-2000	1,029	54	975	0	0	0	975
2000-01	777	60	717	0	0	0	717
2001-02	791	30	761	0	0	0	761
2002-03	741	40	701	0	0	0	701
Estimated							
2003-04	787	40	747	0	0	0	747
2004-05	773	42	731	0	0	0	731

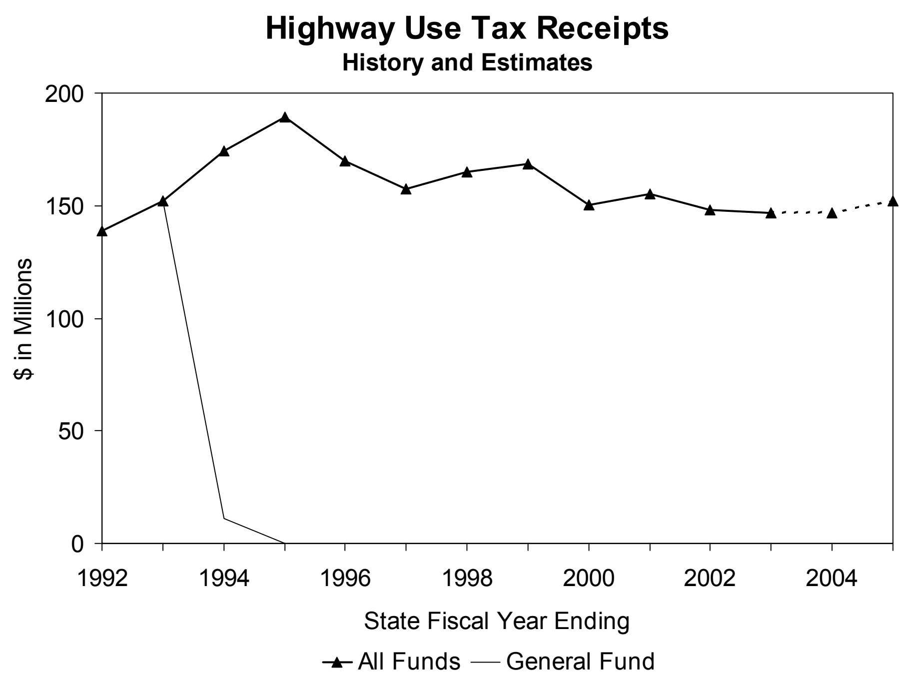
HIGHWAY USE TAX

SUMMARY

In 2003-04, All Funds collections from the highway use tax are estimated to be $147 million. This is an increase of $0.2 million, or 0.1 percent, from the prior year.

In 2004-05, All Funds collections from the highway use tax are projected to be $151.9 million. This is an increase of $4.9 million, or 3.3 percent, compared with 2003-04.

No new legislation for these taxes is proposed with this Budget.



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.

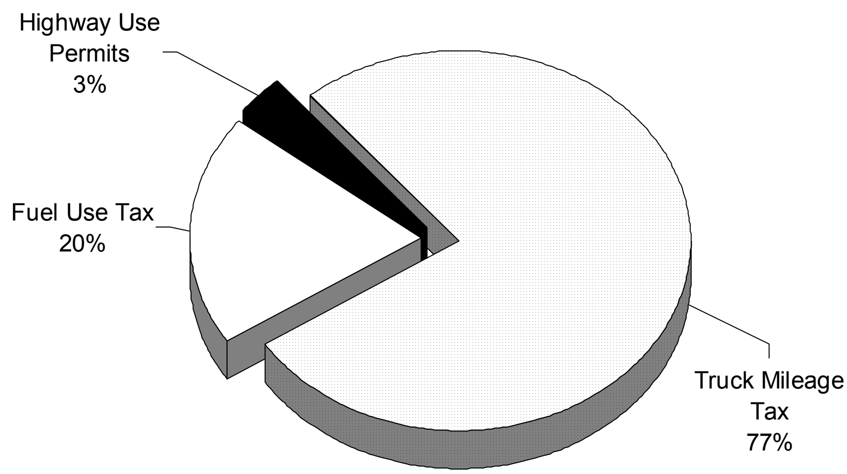
Fuel Use Tax

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.

Administration

Most taxpayers remit the truck mileage tax on a monthly basis. The tax is remitted on or before the last day of each month for the preceding month. Fuel use taxpayers file quarterly with their home state under the rules of the International Fuel Tax Agreement (IFTA). The home state subsequently distributes the funds to the state where the liability occurred.

Components of Highway Use Tax Receipts
Estimated State Fiscal Year 2003-04



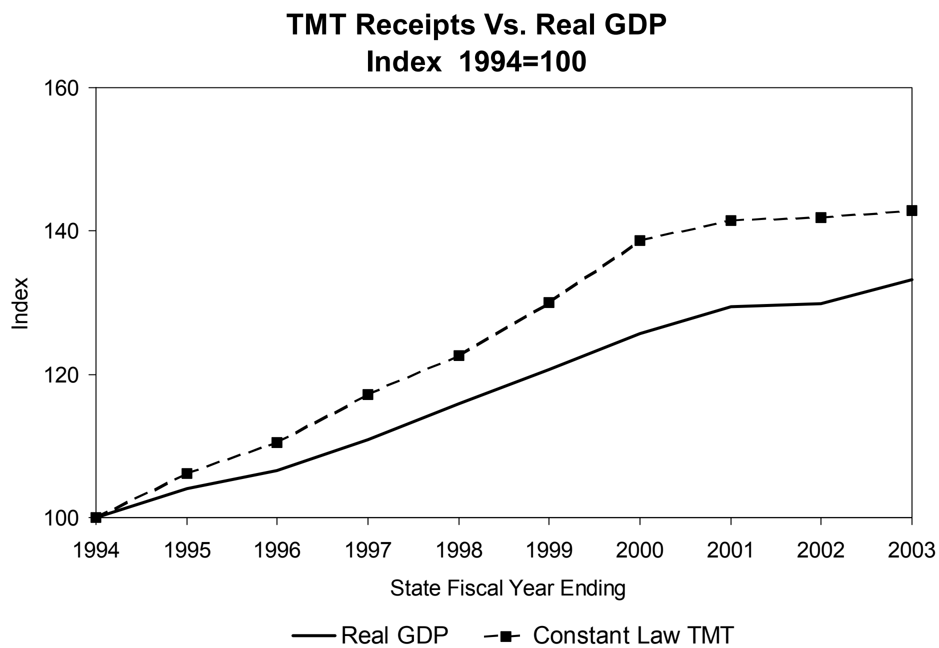
Significant Legislation

The significant statutory changes to this tax source since 1994 are summarized below.

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.	January 1, 1996
Legislation Enacted in 1995		
Fuel Use Tax Rate Cut	Reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to eight cents per gallon.	January 1,1996
Legislation Enacted in 1998		
Supplemental Tax	Reduced the truck mileage supplemental tax by 50 percent.	January 1, 1999
Legislation Enacted in 2000		
Supplemental Tax	Reduced the truck mileage supplemental tax by 20 percent.	April 1, 2001

TAX LIABILITY

Highway use tax receipts are a function of the demand for trucking, which fluctuates with national economic conditions. Liability declined in 1999-2000, reflecting tax cuts, and grew in 2000-01 although the increase was tempered by further tax cuts.



PROPOSED LEGISLATION

No new legislation for these taxes is proposed with this Budget.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $113.7 million, an increase of $0.9 million, or 0.8 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $147 million, an increase of $0.2 million, or 0.1 percent above last year.

In the current fiscal year, the slow economic recovery and less audit collections contributed to a moderate decline in trucking receipts. Truck mileage tax receipts to date in 2003-04 are 0.8 percent below the comparable 2002-03 period. Fuel use tax receipts to date in 2003-04 are 14.1 percent above the comparable 2002-03 period due to higher fuel prices.

Based on collection experience to date, and the improved economic outlook (see Economic Backdrop section), highway use taxes will continue to grow in line with real growth in the economy for the rest of the State fiscal year. Net truck mileage tax receipts are projected at $113.2 million and fuel use tax receipts at $29.1 million. Permit fees of $4.7 million reflect a non-peak triennial renewal year.

2004-05 Projections

Total net All Funds receipts are projected to be $151.9 million, an increase of $4.9 million, or 3.3 percent above 2003-04.

The base of the truck mileage tax (demand for trucking) is expected to increase by 3.7 percent as a result of the improving economy. Net truck mileage tax receipts are estimated at $117.4 million. Due to the effect of increased fuel prices, the sales tax component of the fuel use tax is estimated to increase by 2.1 percent. As a result, fuel use tax receipts are expected to grow to $30.3 million. Permit fees of $4.2 million reflect a non-peak triennial renewal year.

General Fund

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

Other Funds

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

RECEIPTS BY FUND TYPE

HIGHWAY USE TAX RECEIPTS
(millions 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								
1995-96	0	0	0	0	174	4	170	0	170
1996-97	0	0	0	0	164	7	157	0	157
1997-98	0	0	0	0	168	3	165	0	165
1998-99	0	0	0	0	172	3	169	0	167
1999-2000	0	0	0	0	152	2	150	0	150
2000-01	0	0	0	0	157	2	155	0	155
2001-02	0	0	0	0	150	2	148	0	148
2002-03	0	0	0	0	149	2	147	0	147
	Estimated								
2003-04	0	0	0	0	149	2	147	0	147
2004-05	0	0	0	0	154	2	152	0	152

[1] Dedicated Highway and Bridge Trust Fund

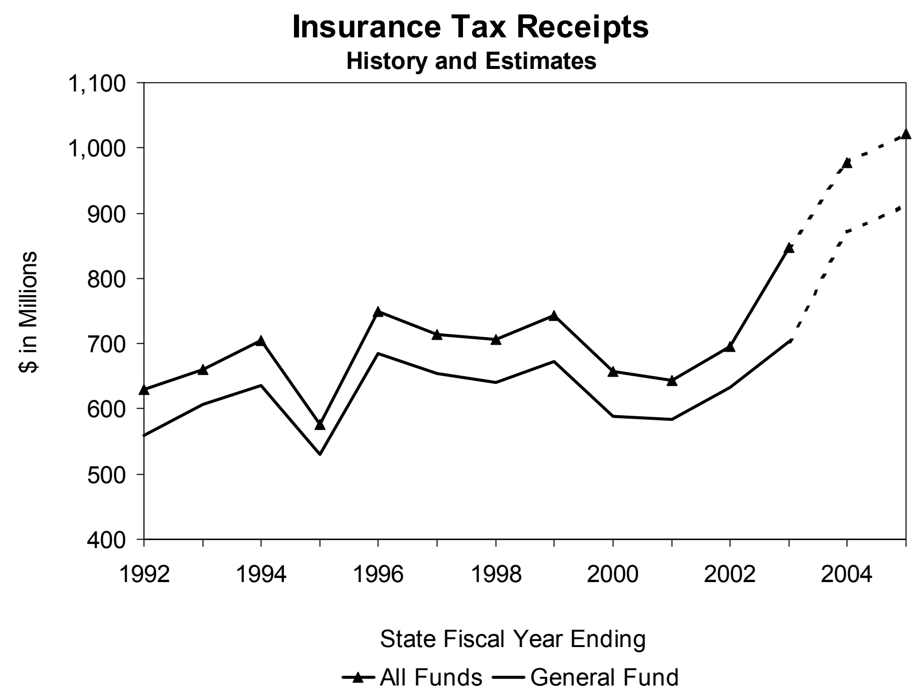
INSURANCE TAXES

SUMMARY

In 2003-04, All Funds collections from insurance taxes are estimated to be $977.0 million. This is an increase of $201 million, or 26.0 percent from the prior year, resulting mainly from the re-structuring of the insurance tax in 2003.

In 2004-05, All Funds collections from insurance taxes are projected to be $1,021 million. This is an increase of $44 million, or 4.5 percent, compared to 2003-04. Collections will continue to be affected by the tax law changes enacted with the 2003-04 Budget as well as overall industry trends.

Legislation proposed with this Budget would extend the Metropolitan Transportation Authority (MTA) surcharge for four years, until 2009. This would preserve current revenues.



DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State collects taxes from insurance corporations, insurance brokers and certain insureds for the privilege of doing business or otherwise exercising a corporate franchise in New York. The Tax Department's Insurance Franchise Tax Study File contains the most recent data available on the tax liability of these taxpayers under Article 33 of the Tax Law. The most current liability information is for the 2000 tax year.

Tax Rate on Non-Life Insurers

Tax law changes enacted in 2003 now require non-life insurance companies to pay a premiums-based tax. For tax years beginning on or after January 1, 2003, non-life insurance corporations are subject to a franchise tax based solely on gross direct premiums, less return premiums. These premiums are taxed at the rate of 2.0 percent, except non-life accident and health premiums, which are taxed at the rate of 1.75 percent. The $250 minimum tax imposed is still applicable to non-life insurers.

Tax Rate on Life Insurers

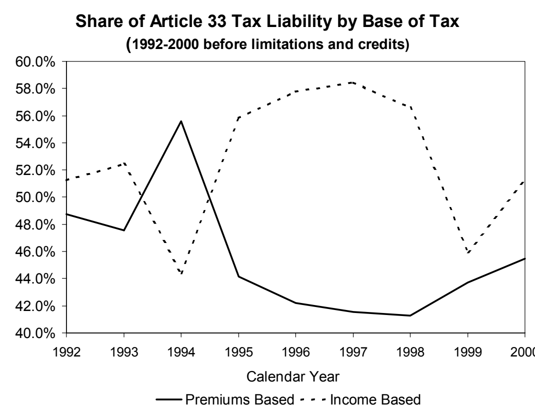
The recent law changes also impose a different tax structure on life insurers. The franchise tax on life insurers has two components. The first component is a franchise tax that is computed under four alternative bases, with tax due based on the maximum of the four alternative bases and rates described in the table below. In addition, there is a 0.08 percent tax rate applied to subsidiary capital allocated to New York.

RATES FOR THE NET INCOME COMPONENT OF THE FRANCHISE TAX ON LIFE INSURERS 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 tax rate on net income is 0.7 percent.



A maximum and a minimum tax limitation are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2.0 percent. As of January 1, 2003, life insurers also determine a minimum limitation of 1.5 percent of net premiums.

Generally, taxpayers with tax liability that exceeds the limitation may not reduce their liability with tax credits to a level below the limitation. However, taxpayers may use Empire Zone and Zone Equivalent Area tax credits to reduce their tax liability below the limitation.

Other Tax Rates Imposed on Insurers

In addition, 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.

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.

Furthermore, 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 temporary 17 percent surcharge on their tax liability attributable to the MCTD area.

Administration

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.

Additionally, receipts from the 17 percent temporary business tax surcharge on tax liability within the MCTD region 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.

Tax Expenditures

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.

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.

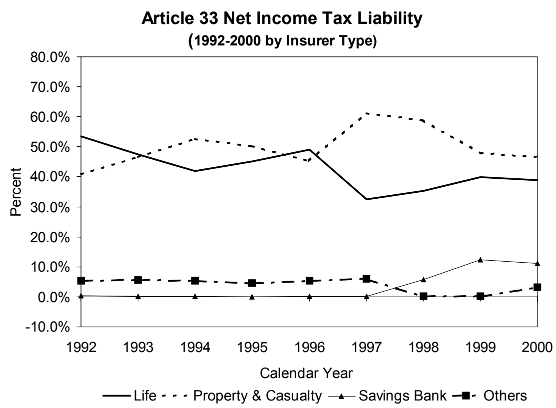
Significant Legislation

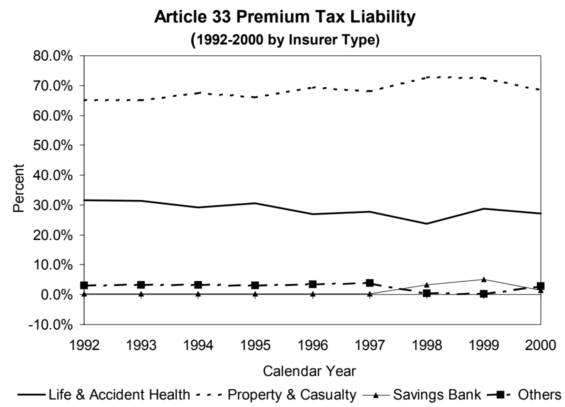
The significant statutory changes to this tax source since 1994 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1994		
Temporary Business Tax Surcharge	Eliminated the surcharge over a three-year period.	January 1, 1994
Legislation Enacted in 1997		
Premium Tax Rate for Life Insurers	Reduced the premium tax rate from 0.8 percent to 0.7 percent.	January 1, 1998
Cap on Tax Liability	Reduced 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 (CAPCOs)	Credit changed to equal 100 percent of amount invested in CAPCO's for taxable years beginning after 1998. The rate was changed to equal 10 percent per year for ten years. The statewide cap was set at $100 million.	January 1, 1999
Captive Insurance Companies	Allowed 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 was increased from $100 million to $130 million.	January 1, 2001
State Insurance Fund	Conformed the State Insurance Fund tax treatment to the regular insurance tax.	January 1, 2001
Entire Net Income (ENI) Tax Rate	Reduced 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	Reduced 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

Subject	Description	Effective Date
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	Created a 10 percent credit for cost of purchasing long-term care insurance as defined in the Insurance Law.	January 1, 2002
Empire Zones Program	Provided Qualified Empire Zone Enterprises (QEZE) tax incentives in Empire Zones. Transformed 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.	Various
Legislation Enacted in 2003		
Insurance Tax Structure	Changed the tax base for insurance taxpayers as follows: • Life and Health insurance taxpayers covering life and accident/health premiums are taxed on the four tax bases and are now subject to a minimum tax of 1.5 percent of premiums. • Non-life insurers covering accident & health premiums are subject to tax on 1.75 percent of premiums. • All other non-life insurers are subject to tax on 2.0 percent of premiums.	January 1, 2003
Modification for Decoupling from Federal Bonus Depreciation	Taxpayers must make modifications to Federal taxable income for property placed in service on or after June 1, 2003 that qualified for the special bonus depreciation allowance allowed by the Federal Job Creation and Worker Assistance Act of 2002 and the Jobs and Growth Tax Relief Reconciliation Act of 2003. The modifications do not apply to qualified resurgence zone property or qualified New York Liberty Zone property.	2003
Intangible Holding Companies	Taxpayers are required to modify Federal taxable income relating to certain royalty and interest payments made with respect to the use of intangible property by related members or royalty and interest payments received from related members.	January 1, 2003
Superfund-Brownfield Credits	Created tax incentives for the redevelopment of brownfields through three tax credits: a redevelopment tax credit, a real property tax credit, and an environmental remediation insurance credit. There are three components in the redevelopment tax credit: a site preparation component, a tangible property component, and an onsite groundwater remediation component.	April 1, 2005

TAX LIABILITY





Property and Casualty Companies

The property and casualty sector is the largest sector of the industry and typically accounts for over half of the State's insurance tax collections. In 2003, property and casualty companies experienced an upturn in premium rates reflecting strong demand for industry products. The five largest lines of business under property and casualty sector are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners' multi-peril. In 2002, these lines accounted for more than 80 percent of premiums. The table below reports actual property and casualty premiums and growth from 1996 through 2002 for New York State. The large premiums growth in 2002 reflects the tight demand conditions, particularly in the automobile and general liability lines of insurance.

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

Lines of Insurance	1996	1997	1998	1999	2000	2001	2002
Automobile	9,466	9,490	9,631	9,594	9,664	10,773	11,910
percent change	*6.20*	*0.26*	*1.49*	*(0.38)*	*0.73*	*11.48*	*10.55*
Workers' Compensation	3,121	2,725	2,686	2,725	3,154	3,282	3,412
percent change	*(14.49)*	*(12.70)*	*(1.41)*	*1.44*	*15.74*	*4.06*	*3.96*
Commercial Multi-Peril	2,097	2,031	2,071	2,002	2,085	2,178	2,680
percent change	*(1.96)*	*(3.15)*	*1.99*	*(3.33)*	*4.15*	*4.46*	*23.05*
General Liability	1,851	2,091	2,734	1,825	2,148	2,455	3,319
percent change	*(0.11)*	*12.99*	*30.90*	*(33.25)*	*17.70*	*14.29*	*35.19*
Homeowners' Multi-Peril	2,053	2,133	2,181	2,230	2,326	2,469	2,661
percent change	*4.43*	*3.91*	*2.33*	*2.25*	*4.30*	*6.15*	*7.78*
Other	3,574	3,620	3,641	3,635	3,720	4,476	5,164
percent change	*0.20*	*1.29*	*0.61*	*(1.53)*	*2.34*	*20.32*	*15.37*
TOTAL P/C PREMIUMS	22,162	22,090	22,945	22,011	23,098	25,808	29,146
Annual Increase/Decrease							
percent change	*0.34*	*(0.32)*	*3.87*	*(4.07)*	*4.94*	*11.73*	*12.93*

Net premiums for property and casualty companies overall grew by 12.9 percent in 2002. This upward trend is expected to continue through 2003. However, as more companies are attracted to the market, we expect an easing of price increases in 2004 and after.

The industry is facing a threat of costly asbestos claims for which it may be under-reserved. The ultimate liability for asbestos-related losses could approach $200 billion, with the U.S. insurance industry estimating their responsibility at $55 billion to $65 billion of that total.

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, a mature and relatively slow growth industry, are expected to grow modestly throughout the forecast period.

Changes in the demographic and competitive landscape have forced insurers to contend simultaneously with an aging population's need to save for retirement and the ongoing competitive threat from banks and securities brokers. The struggling economy and weak equity market that persisted during early 2003 have intensified many of these challenges. However, uncertain economic times have led some consumers to the safety of these large, well-capitalized life insurers.

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, have broken down the barriers that once separated the various sectors of the financial services industry. Banks and brokerage houses now sell more annuities than do life insurance agents. Life insurance agents, in turn, now sell investment-oriented products, including mutual funds.

PROPOSED LEGISLATION

Legislation proposed with this Budget would extend the MTA surcharge, until 2009.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $611 million, an increase of more than $145 million, or 31 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $977 million, an increase of $201 million or 26.0 percent above last year. This increase is due mainly to the restructuring of the tax enacted in 2003 as well as industry demand and competitive pressures that have driven up premium volume. The Executive Budget proposal to extend the MTA surcharge for four years, until 2009, would maintain the existing annual revenue stream available to support transportation services in the Metropolitan Commuter Transportation District.

2004-05 Projections

Total net All Funds receipts are projected to be $1,021 million, an increase of $44 million, or 4.5 percent above 2003-04. The State fiscal year 2004-05 receipt gains are primarily due to modest growth in the life insurance and property and casualty lines of insurance.

The forecast of receipts from property and casualty insurers is based on an increase in premium liability of 6.4 percent in 2004, primarily resulting from continued growth in the automobile and general liability sectors.

A continuing significant risk to the forecast would be changes in the factors that impact overall premium growth and the economic performance of industry members. Given industry and economic conditions over the past few years, some companies have withdrawn from certain lines of business, such as homeowners and private passenger automobile.

Consolidations in this industry have continued, which reduced some competition and price pressure, allowing companies to increase premium rates. However, in recent months, economic factors have suggested that the economy is recovering from the economic slowdown that began shortly after the September 11, 2001 attacks (see Economic Backdrop section). As a result, renewed competition in the industry should reduce premium growth in 2004 and after.

The forecast assumes that the life and health sector will grow modestly through the 2004 tax year. Premium liability for this sector is projected to grow by approximately 1.0 percent. Sales of variable annuities are affected by the changes in the stock market. Major risks would be weather-related catastrophes, continuing asbestos claims, as well as a decline in investment income affecting investment portfolios and annuity sales.

General Fund

Based on collections to date, net collections for 2003-04 are estimated to be $872.3 million. This represents an increase of approximately $160 million from the prior year, mainly due to the premiums tax restructuring. The receipts estimate for 2003-04 includes an estimated $40 million in audit collections, $35 million in refunds and $40 million in insurance premiums tax collections.

For 2004-05, collections are estimated at $912 million. The majority of the increase for 2004-05 can be attributed to economic factors and growth in the number of premiums written. This estimate includes an estimated $40 million in audits, offset by $35 million in refunds. It also includes 40 million in insurance premiums tax collections. The table below provides the receipts estimate for 2003-04 and the forecast for 2004-05, as well as a history of receipts for 1995-96 through 2002-03.

Other Funds

A surcharge of 17 percent of tax liability attributed to the MCTD region is deposited in the Mass Transportation Operating Assistance Fund. The MTOAF is estimated at $105 million for 2003-04 and $109 million for 2004-05.

RECEIPTS BY FUND TYPE

INSURANCE TAX RECEIPTS
(millions of dollars)

	Gross General Fund	Refunds	Net General Fund	Gross Special Revenue Funds	Refunds	Net Special Revenue Funds[1]	All Funds Net Collections
				Actual			
1995-96	714	29	685	68	4	64	749
1996-97	682	29	653	68	8	60	713
1997-98	673	32	641	69	3	66	707
1998-99	718	45	673	76	6	70	743
1999-2000	634	45	589	79	10	69	658
2000-01	626	42	584	66	6	60	644
2001-02	667	34	633	81	18	63	696
2002-03	724	20	704	82	10	72	776
				Estimated			
2003-04	907	35	872	115	10	105	977
2004-05	947	35	912	119	10	109	1,021

[1] Mass Transportation Operating Assistance Fund

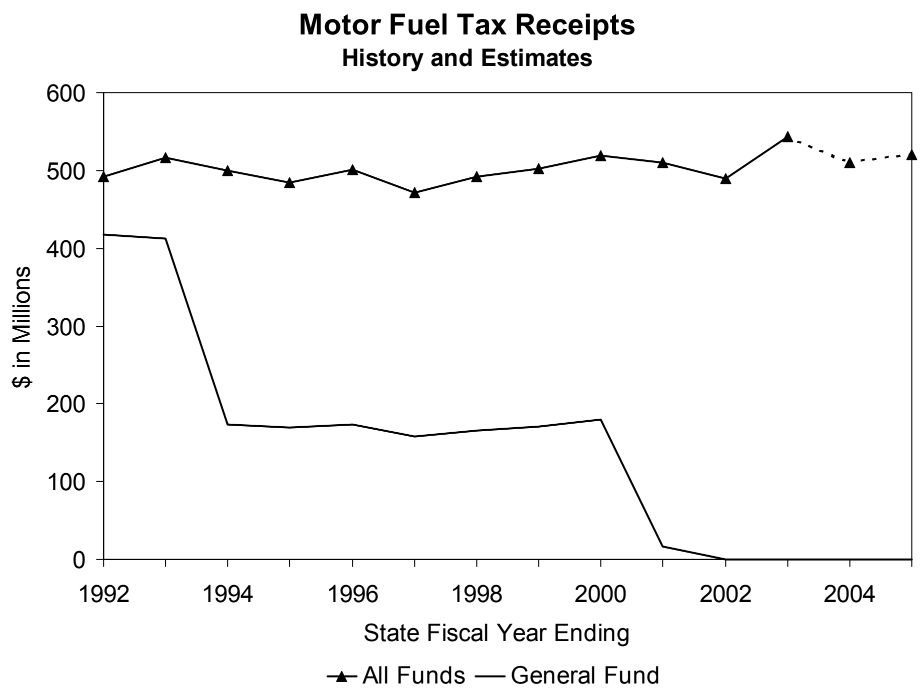
MOTOR FUEL TAX

SUMMARY

In 2003-04, All Funds collections from the motor fuel tax are estimated to be $507.7 million. This is a decrease of $36.1 million, or 6.6 percent, from the prior year.

In 2004-05, All Funds collections from the motor fuel tax are projected to be $517.9 million. This is an increase of $10.2 million, or 2 percent, compared with 2003-04.

Legislation proposed with this Budget would postpone implementation of regulations related to taxation of sales on Native American lands and authorizes the State to execute agreements with Native American nations regarding product prices and taxes.



DESCRIPTION

Tax Base and Rate

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 motorboats operating on the State's waterways. Exemptions, credits and refunds are allowed for certain other uses of gasoline and diesel motor fuel.

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 (PBT) 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.

Tax Expenditures

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.

Significant Legislation

The significant statutory changes for this tax source since 1994 are summarized below.

Subject	Description	Effective Date
Legislation Enacted in 1995		
Tax Liability	Reduced the diesel motor fuel tax from 10 cents to 8 cents per gallon.	January 1, 1996
Exemption	Provided an up-front exemption from the motor fuel excise tax for retail sales of aviation gasoline.	September 1, 1995
Legislation Enacted in 2003		
Native American Regulations	Required the Commissioner of Taxation and Finance to promulgate regulations requiring the taxation of motor fuel sold to non-Native Americans on Native American lands.	March 1, 2004

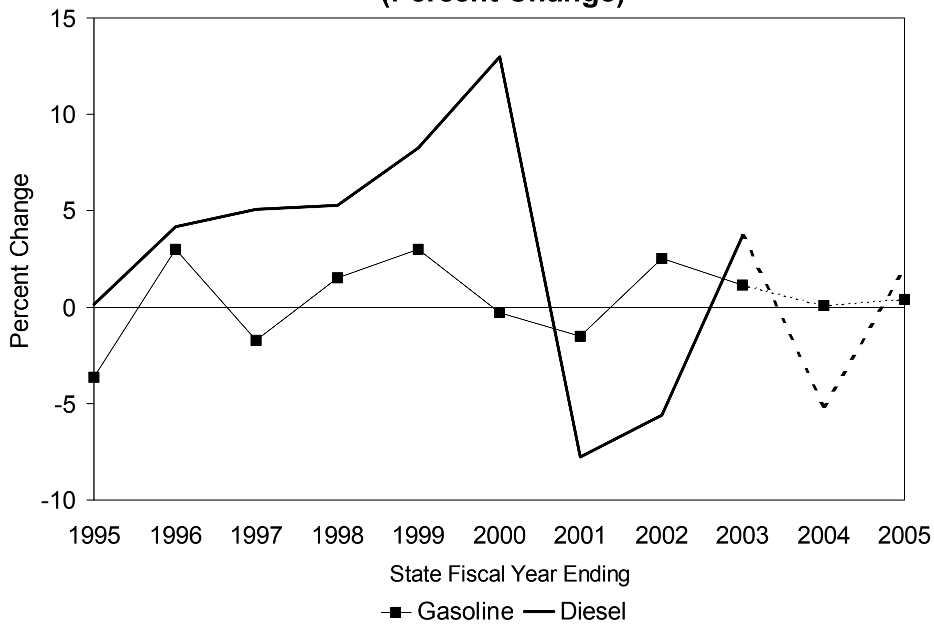
TAX LIABILITY

Motor Fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors. Gallonage is determined in large part by: fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles, and overall state economic performance.

Taxable Gallonage History

As the following graph illustrates, taxable diesel gallonage increased rapidly 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. Taxable diesel gallonage increased sharply in 2002-03 due to improved national economic growth. Taxable gasoline gallonage has grown more slowly, but increased sharply in 1998-99, partially due to low gasoline prices during that period. Taxable gasoline gallonage declined slightly in 1999-2000 and 2000-01 due in part to price increases, and increased in 2001-02 due to price declines. Gasoline gallonage declined slightly in 2002-03 due in part to price increases.

Gasoline and Diesel Reported Gallons
(Percent Change)



PROPOSED LEGISLATION

Legislation proposed with this Budget would postpone implementation of regulations related to taxation of sales on Native American lands and authorizes the State to execute agreements with Native American nations regarding product prices and taxes.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $384.7 million, a decrease of $33.6 million, or 8 percent below the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $507.7 million, a decrease of $36.1 million, or 6.6 percent below last year. This large decline is due to a carry-in of $2.6 million of 2001-02 receipts into 2002-03 and a reallocation of petroleum business tax

(PBT) receipts to motor fuel. In 2001-02, motor fuel tax receipts were misallocated to PBT and in 2002-03 this misallocation was corrected by reversing the 2001-02 misallocation. These factors combined to overstate 2002-03 motor fuel tax receipts by $18.4 million.

In 2003-04, further corrections have been made to motor fuel tax receipts for allocation errors made within the tax in prior fiscal years by reclassifying diesel receipts as motor fuel receipts in May and July of 2003. As a result, diesel receipts to date appear artificially low and gasoline receipts to date appear artificially high. These adjustments limit the value of a discussion of year-over-year receipts changes by fuel type.

2004-05 Projections

Total net All Funds receipts are projected to be $517.9 million, an increase of $10.2 million, or 2 percent above 2003-04.

Increases in taxable gasoline and diesel gallonage are projected to be modest, consistent with improved economic conditions, but tempered by estimated increases in fuel prices.

Prospective agreements between Native American governments and the State based on legislation submitted with this Budget are expected to add $7 million to 2004-05 revenue.

General Fund

Motor fuel tax revenues are no longer deposited in the General Fund.

Other Funds

Since 2000, motor fuel tax revenues have been distributed by law to four funds: the Dedicated Highway and Bridge Trust Fund (DHBTF), the Dedicated Mass Transportation Trust Fund (DMTTF), the Emergency Highway Reconditioning and Preservation Fund, and the Emergency Highway Construction and Reconstruction Fund. Currently, all motor fuel receipts are deposited into the DHBTF and DMTTF. The fund distribution since 1993 is shown in the following table.

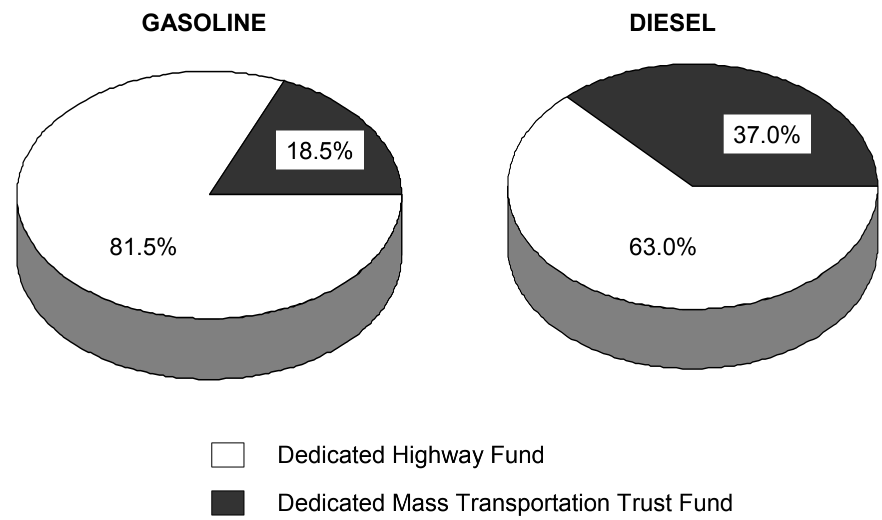
MOTOR FUEL TAX FUND DISTRIBUTION
(percent)

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 2003-04 and 2004-05 are displayed in the following pie charts.

Motor Fuel Tax Distributions by Fund
State Fiscal Years 2003-04 and 2004-05



RECEIPTS BY FUND TYPE

MOTOR FUEL TAX RECEIPTS
(millions 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						
1995-96	516	174	0	220	107	14	501
1996-97	484	158	0	211	103	13	472
1997-98	504	165	0	219	108	12	492
1998-99	512	171	0	221	110	10	502
1999-2000	534	180	0	225	113	15	519
2000-01	524	17	58	323	112	14	510
2001-02	503	0	62	321	107	13	489
2002-03	560	0	69	356	119	16	544
	Estimated						
2003-04	521	0	105	403	0	13	508
2004-05	531	0	107	411	0	13	518

[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.

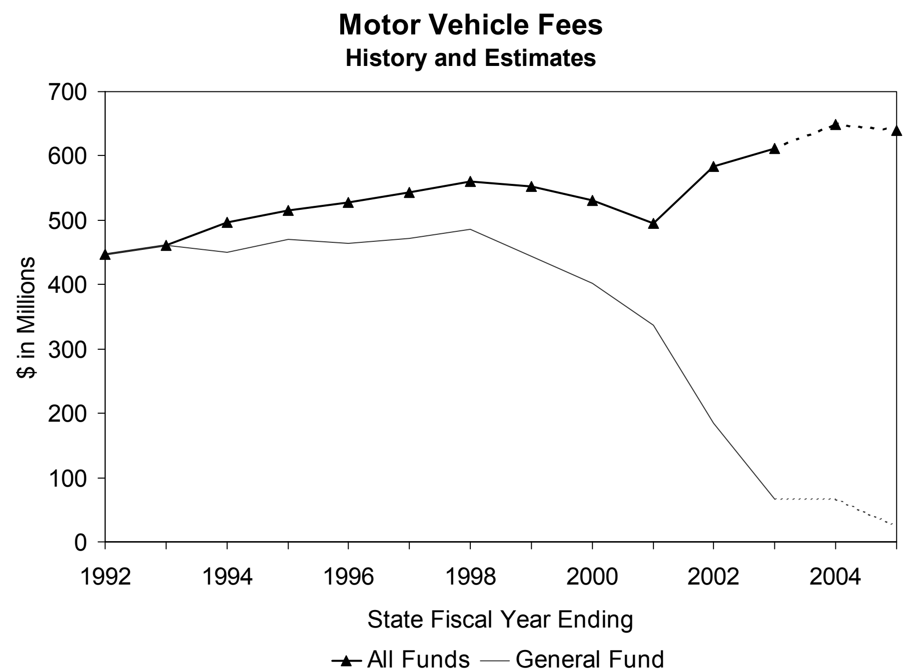
MOTOR VEHICLE FEES

SUMMARY

In 2003-04, All Funds collections from motor vehicle fees are estimated to be $649.5 million. This is an increase of $37.2 million, or 6.1 percent, from the prior year.

In 2004-05, All Funds collections from motor vehicle fees are projected to be $640 million. This is a decrease of $9.5 million, or 1.4 percent, compared with 2003-04.

No new legislation for these fees is proposed with this Budget.



DESCRIPTION

Fee Base

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.

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 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 main categories of licensing fees are listed below.

MAIN LICENSING FEES

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

Administration

Registration and licensing occur in person or by mail at the central and district offices of the Department of Motor Vehicles, and county clerks' 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

Fee Exemptions

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. The amount of these exemptions is minimal.

Significant Legislation

The significant statutory changes to motor vehicle fees since 1994 are summarized below.

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
Administrative Changes in 2003		
Photo Image Fee	Photo image fee raised to $5.00.	February 1, 2003

PROPOSED LEGISLATION

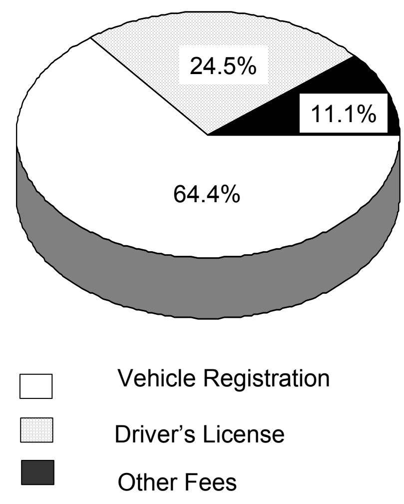
No new legislation for these fees is proposed with this Budget.

Fee Liability

The two main sources of motor vehicle fees are motor vehicle registrations and driver licensing.

Other fees, relating to the operation of motor vehicles in the State, yield relatively minor amounts of revenue. The pie chart below shows the shares of revenue from vehicle registrations, licenses, and other fees.

Motor Vehicle Fees Receipts by Sources
State Fiscal Year 2002-03



Vehicle registration and driver licensing fees are a function of the fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, these motor vehicle fees fluctuate little as a result of economic conditions. In general, collections change when fee and or renewal schedules change.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $496 million, an increase of $35.3 million, or 7.7 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $649.5 million, an increase of $37.2 million, or 6.1 percent above last year. The estimate for net receipts from registrations is $417 million, and the estimate for receipts from licenses and other fees is $232.5 million. An estimated $22 million in refunds will result in estimated gross All Funds receipts from motor vehicle fees of $671.5 million.

The estimate reflects registration fee increases due to higher vehicle weights in the passenger car category and the extension of a driver's license renewal to eight years.

2004-05 Projections

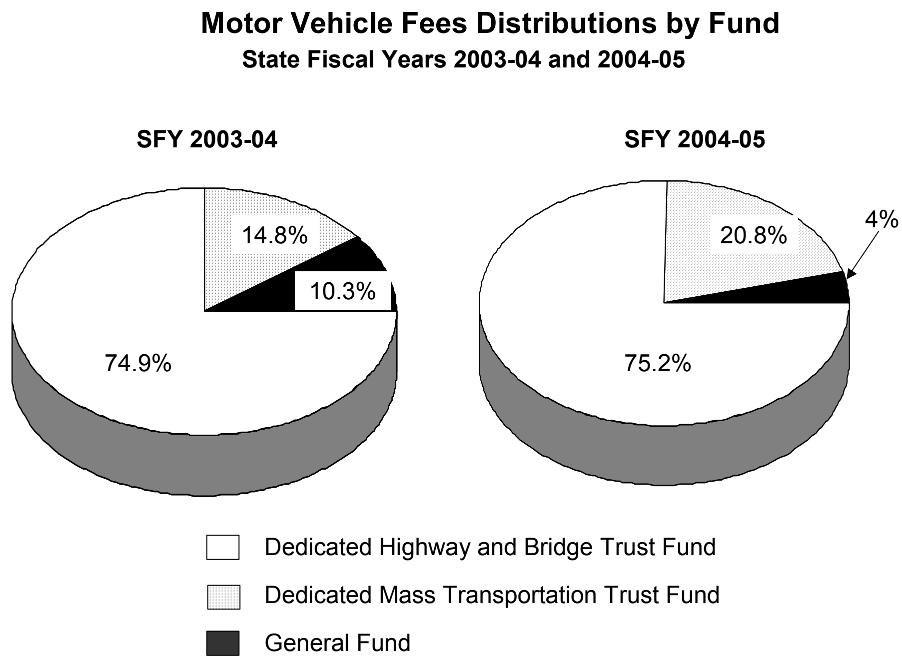
Total net All Funds receipts are projected to be $640 million, a decrease of $9.5 million, or 1.4 percent below 2003-04.

The projection for net receipts from registrations is $444 million and $196 million for receipts from licenses and other fees. A projected $21 million in refunds will result in estimated gross All Funds receipts from motor vehicle fees of $661 million.

The projection reflects continuing registration fee increases resulting from higher vehicle weights and a decline in receipts due to the declining impact of the eight-year renewal cycle for driver's licenses.

General Fund

As a result of shifting a portion of motor vehicle receipts to dedicated transportation related funds, there has been a reduction in General Fund receipts from this source. The pie chart below shows the estimated fund distribution from all sources of motor vehicle fees in State fiscal year 2003-04 and 2004-05.



In State fiscal year 2003-04, the General Fund will receive an estimated $67.5 million in motor vehicle fees. In State fiscal year 2004-05, the General Fund will receive a projected $25.6 million.

Other Funds

A portion of motor vehicle fee receipts is distributed to the Dedicated Highway and Bridge Trust 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 was 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.

Also 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.

Pursuant to Chapter 63, Laws of 2000, in State Fiscal Year 2003-04, $152.7 million from non-registration fees is dedicated to the Dedicated Highway and Bridge Trust Fund. An additional $67.9 million from the same source is dedicated to the Trust Fund pool, of which 63 percent is dedicated to the Dedicated Highway and Bridge Trust Fund and 37 percent is dedicated to the Mass Transportation Trust Fund.

In State fiscal year 2003-04, the Dedicated Highway and Bridge Trust Fund will receive an estimated $485.8 million and the Dedicated Mass Transportation Trust Fund will receive an estimated $96.2 million.

In State fiscal year 2004-05, the Dedicated Highway and Bridge Trust Fund will receive a projected $481.2 million and the Dedicated Mass Transportation Trust Fund will receive a projected $133.2 million.

RECEIPTS BY FUND TYPE

MOTOR VEHICLE FEES
(millions of dollars)

	Gross General Fund	Refunds	Net General Fund	Special Revenue Funds[1]	Capital Projects Funds[2]	Debt Service Funds	All Funds Net Collections
	Actual						
1995-96	484	19	465	0	62	0	527
1996-97	494	22	472	0	71	0	543
1997-98	497	11	486	0	73	0	560
1998-99	438	14	444	0	108	0	552
1999-2000	419	18	401	0	130	0	531
2000-01	356	19	337	0	157	0	495
2001-02	208	23	185	28	371	0	583
2002-03	92	25	67	76	470	0	612
	Estimated						
2003-04	90	22	68	96	486	0	650
2004-05	47	21	26	133	481	0	640

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

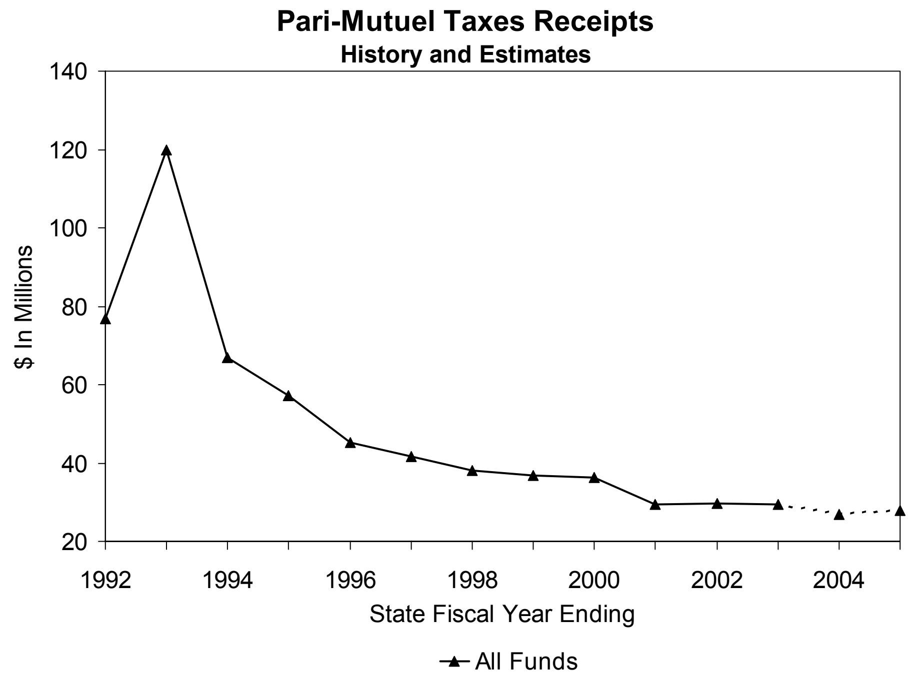
PARI-MUTUEL TAXES

SUMMARY

In 2003-04, All Funds collections from pari-mutuel taxes are estimated to be $27.4 million, a decrease of $2.1 million, or 7.1 percent, from the prior year.

In 2004-05 All Funds collections from pari-mutuel taxes are projected to be $28 million. This is an increase of $0.6 million, or 2.2 percent, compared with 2003-04. Collections will continue to be affected by the expected increase in simulcasts and declines in handle and attendance at racetracks.

No new legislation for these taxes is proposed with this Budget.



DESCRIPTION

Tax Base and Rate

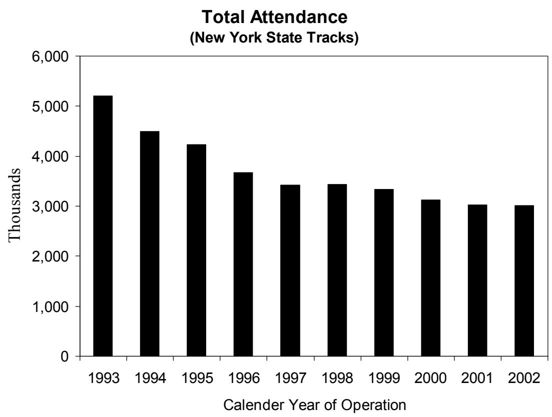
The State has levied taxes on pari-mutuel wagering activity conducted at horse racetracks, since 1940. Off-track betting (OTB) parlors were first authorized in 1970 and simulcasting was first authorized in 1984. Each racing association or corporation and Off Track Betting Corporation pays the State a 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. There are numerous tax rates imposed on wagering on horse races. The rates vary depending upon the type of bet, whether the wager is on live racing, simulcasting or placed at an Off Track Betting Corporation. The average effective pari-mutuel tax rate is currently 1.05 percent of the handle.

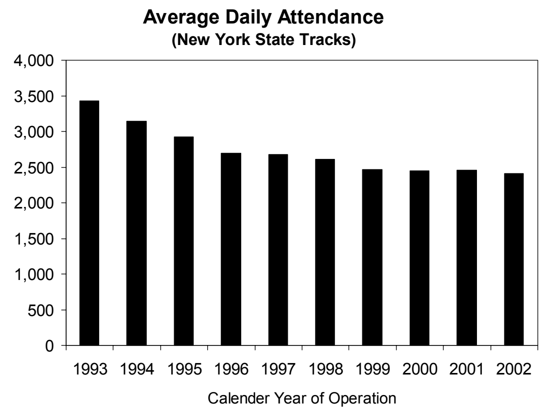
In an effort to support the New York agricultural and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standard bred (harness) horse breeding and development funds. During the calendar year 2002, $13.6 million and $7 million were allocated to the thoroughbred and harness funds, respectively.

With the increase in OTB activity and simulcasting over the last 20 years, off-track bets now account for 80 percent of the statewide handle. The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks.

The State has 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.

To promote growth of the industry, the State has authorized the expansion of simulcasting at racetracks and OTB facilities, in-home simulcasting experiments, and telephone betting. In addition, 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.





Administration

The New York State Racing and Wagering Board has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities. The racetracks and OTBs calculate the Pari-Mutuel tax owed to the State based upon the handle and the odds of the races ran, then remit the taxes as prescribed by law.

Significant Legislation

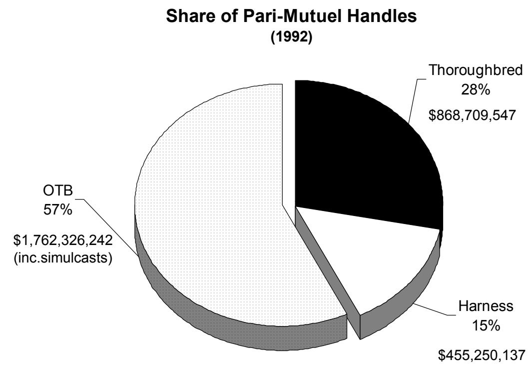
The significant statutory changes to this tax source since 1994 are summarized below.

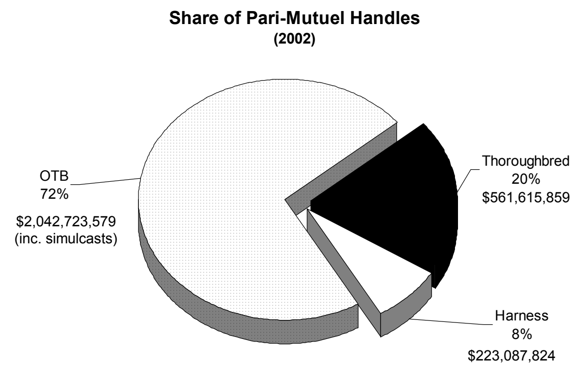
Subject	Description	Effective Date
Legislation Enacted in 1994		
Tax Rates	Lowered rates on all wagers at harness tracks and at the Finger Lakes Race Association to 0.5 percent and provided credits up to 0.4 percent based on OTB simulcast handle of respective track.	September 1, 1994
Expanded Betting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

Subject	Description	Effective Date
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 OTBs: 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
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
Legislation Enacted in 2003		
NYRA Franchise	Franchise extended to December 31, 2013, provided that VLTs are in operation at the Aqueduct raceway on or before March 1, 2004. If NYRA is not able to initiate VLT operation by that date, then the NYRA franchise will expire on December 31,2007.	January 29,2003
Regulatory fee	Instituted a regulatory fee to directly fund the State's regulation of racing, authorized tracks to set their own takeout rates within a narrow range, allowed unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts.	May 16, 2003

TAX LIABILITY

The primary factors that affect pari-mutuel tax liability are: the handle and attendance at racetracks and OTB parlors, the number of simulcasts, and competition from other forms of gambling.





PROPOSED LEGISLATION

No new legislation for these taxes is proposed with this Budget.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $21.7 million, a decrease of $1.5 million, or 6.4 percent below the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $27.4 million, a decrease of $2.1 million, or 7.1 percent below last year. Legislation, enacted on May 16, 2003, established a regulatory fee of 0.39 percent of all handle at Off Track Betting or racetrack facilities. This legislation also gave tracks the ability to change their takeout rate within a specified range, authorized unlimited simulcasts, and eliminated mandatory fund balances for telephone betting accounts. Despite the enactment of the new legislation, the anticipated increase in handle has yet to materialize. Recent concerns over the no-smoking laws that were passed in New York State in 2003, negative press from legal entanglements of NYRA, and terrorism fears may have contributed to the decline in the handle. The estimated total pari-mutuel handle for 2003-04 is expected to decline to approximately $2.5 billion.

The total thoroughbred on-track handle, including simulcasts, is estimated at $605 million, down 2.4 percent from last year. Total harness on track handle is estimated at $193 million. The handle at off-track betting corporations is estimated to decline to $1.7 billion, down 10 percent from the 2002-03 level.

Thoroughbred revenues, including simulcast receipts, are expected to decline by 2 percent from 2002-03 to $10.4 million. OTB receipts are estimated to decline by 10.5 percent to $16.2 million. Receipts from harness tracks are expected remain at $0.8 million. Total pari-mutuel tax receipts are estimated to be $27.4 million.

2004-05 Projections

Total net All Funds receipts are projected to be $28 million, an increase of $0.6 million, or 2.2 percent above 2003-04 estimates.

Total on-track thoroughbred receipts are projected to decline by 2 percent; a continuation of the downward trend in handle and attendance. An estimated thoroughbred handle of $600 million, including betting on out-of-State races, will produce $10.3 million in tax receipts.

The receipts for harness racing are expected to stay constant at $0.8 million; collections include $0.3 million in revenue from on-track wagers and $0.5 million from simulcasting.

The OTB handle is projected at $1.8 billion, generating tax receipts of $16.9 million, reflecting an estimated minor increase in handle due to recent legislation that authorized unlimited simulcasts and eliminated mandatory fund balances for telephone betting accounts.

RECEIPTS BY FUND TYPE

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						
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
2002-03	10,600	800	18,100	0	0	0	29,500
	Estimated						
2003-04	10,400	800	16,200	0	0	0	27,400
2004-05	10,300	800	16,900				28,000

PERSONAL INCOME TAX

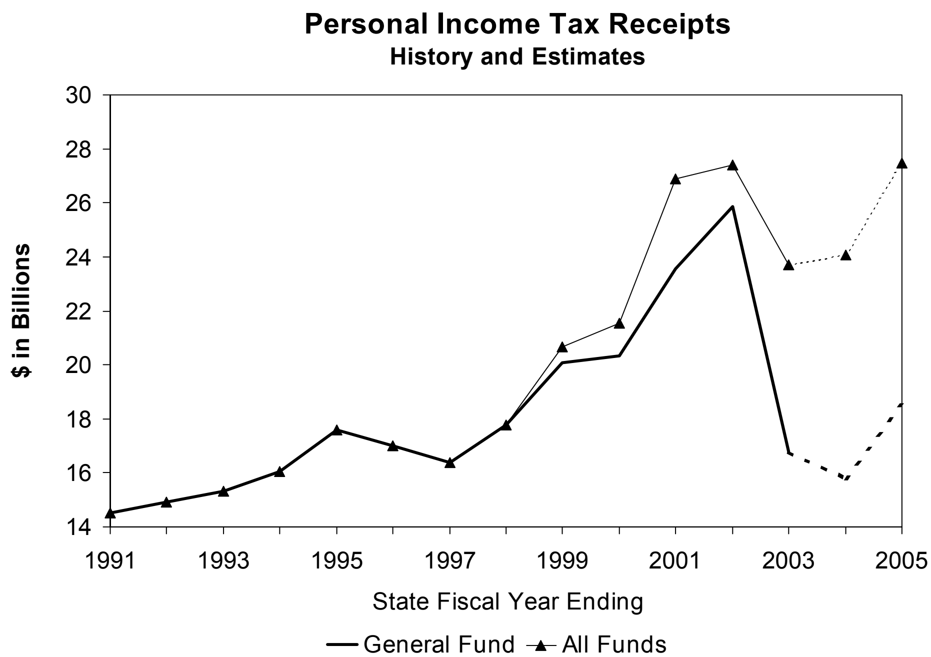
SUMMARY

In 2003-04, All Funds collections from the personal income tax are estimated to be $24,660 million. This is an increase of $2,012 million, or 8.9 percent, from the prior year, resulting from the emerging recovery from the economic weakness of the previous two years and the large temporary tax increase enacted in 2003.

In 2004-05, All Funds collections from the personal income tax are projected to be $26,769 million. This is an increase of $2,109 million, or 8.6 percent, compared with 2003-04. Collections will continue to be affected by the strengthening of the economy and the temporary tax increase.

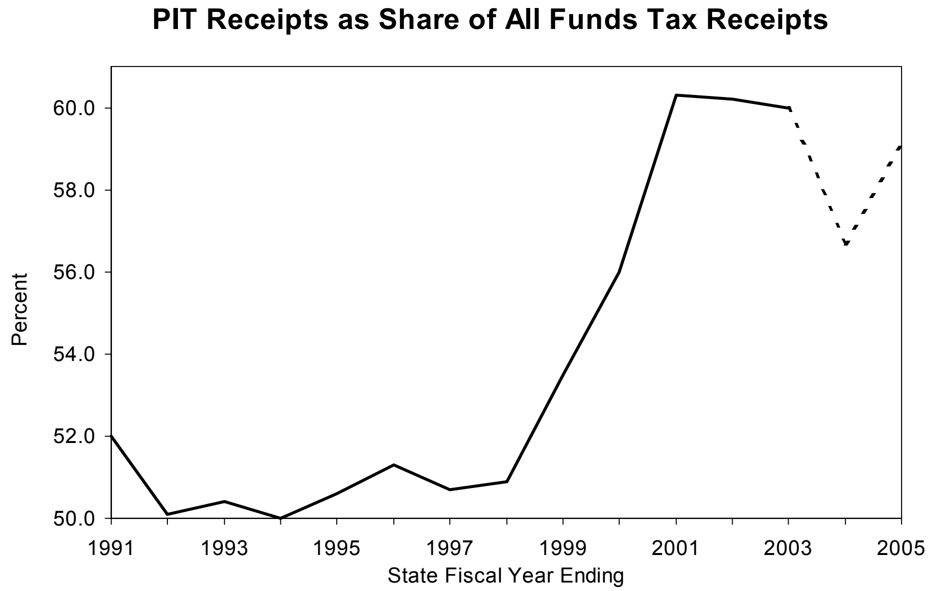
Legislation proposed with this Budget will:

- create a State STAR credit;
- clarify prepayment hearing availability;
- include in New York source income, gains from sales of cooperative apartment stock for non-residents;
- extend the alternative fuels vehicle program;
- ease filing requirements for low-income taxpayers; and
- exempt Federal military pay from the personal income tax for New York State Guard members activated and deployed full-time in the New York War on Terror.



DESCRIPTION

The personal income tax is New York State's largest source of tax revenue. It is estimated that, during State fiscal years 2003-04 and 2004-05, the personal income tax will account for more than one-half of All Funds receipts.



Note: Personal Income Tax (PIT) is defined as gross receipts less refunds

Tax Base

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 had been reduced by about 20 percent. The three-year temporary tax increase imposed last year is offsetting a portion of this reduction for the 2003 through 2005 tax years.

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 inflation. For 2003, the threshold is $139,500 ($69,750 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. The table below includes the temporary tax changes for the 2003 through 2005 tax years. For liability years 2006 and after, the tax reverts back to the rates in effect between 1997 and 2002.

TABLE 1
PERSONAL INCOME TAX
TOP RATE, STANDARD DEDUCTIONS AND DEPENDENT EXEMPTIONS
1995 - 2005
(dollars)

	1995	1996	1997-2000	2001	2002	2003-2005
Top Rate	7.59375%	7.125%	6.85%	6.85%	6.85%	7.70%
Thresholds						
Married Filing Jointly	25,000	26,000	40,000	40,000	40,000	500,000
Single	12,500	13,000	20,000	20,000	20,000	500,000
Head of Household	19,000	17,000	30,000	30,000	30,000	500,000
Standard Deduction						
Married Filing Jointly	10,800	12,350	13,000	13,400	14,200	14,600
Single	6,600	7,400	7,500	7,500	7,500	7,500
Head of Household	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

TABLE 2
CURRENT TAX SCHEDULES FOR 2004 LIABILITY YEAR
(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 to 150,000	1,946 +6.85%	40,000	20,000 to 100,000	973 +6.85%	20,000	30,000 to 125,000	1,492 +6.85%	30,000
150,000 to 500,000	9,481 7.375%*	150,000	100,000 to 500,000	6.453 7.375%*	100,000	125,000 to 500,000	8,000 7.375%*	125,000
500,000 and over	35,294 7.70%	500,000	500,000 and over	35,953 7.70%	500,000	500,000 and over	35,656 7.70%	500,000

* In 2005, the percentage drops to 7.25 percent.
* In 2006, the schedule reverts to the pre-2003 rates.

Tax Expenditures

Tax expenditures are defined as features of the tax law that reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular classes of persons or entities to achieve a public purpose. The personal income tax structure includes various exclusions, exemptions, tax credits, and other statutory devices designed to adjust State tax liability.

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, 27.5 percent in 2002, and 30 percent 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 single taxpayers in amounts declining from $75 to $20, as their household income rises to $28,000 and for married couples and heads of households, in amounts declining from $90 to $20, as their household income rises to $32,000. This latter category is also eligible for additional amounts based on the number of eligible exemptions and income level. Legislation in 1995 continued the credit permanently.
Child and Dependent Care Credit	Allowed at a rate of 20 percent or more of the comparable Federal credit. In 1997, the credit became refundable and equal to 60 percent of the Federal credit for those with incomes under $10,000, with a phase-down until it was 20 percent for incomes of $14,000 and above. In 1998, the percentage of the Federal credit increased to 100 percent for those with incomes less than $17,000, with this percentage gradually phasing down to 20 percent for those with incomes of $30,000 or more. For 1999, the phase-down from 100 percent to 20 percent began at incomes of $35,000 and ended at incomes of $50,000. For 2000 and later years, the credit as a share of the Federal credit equals 110 percent for incomes up to $25,000, phases down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equals 100 percent for incomes between $40,000 and $50,000, phases down from 100 percent to 20 percent for incomes between $50,000 and $65,000, and equals 20 percent for incomes over $65,000. The credit is fully refundable for New York residents whose credit amount exceeds tax liability. 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 for allowable school district property taxes paid by an eligible farmer on qualified agricultural property. Initially, a farmer had to 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 rise in the base acreage level to 250 acres was accelerated into 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. The Economic Development Zone Program for Qualified Empire Zone Enterprise (QEZEs) is discussed in more detail in the corporate franchise tax section. However, these credits have become an increasingly valuable benefit for partnerships, LLCs and S corporations. 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 significant statutory changes since 1994 are summarized below.

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
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 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

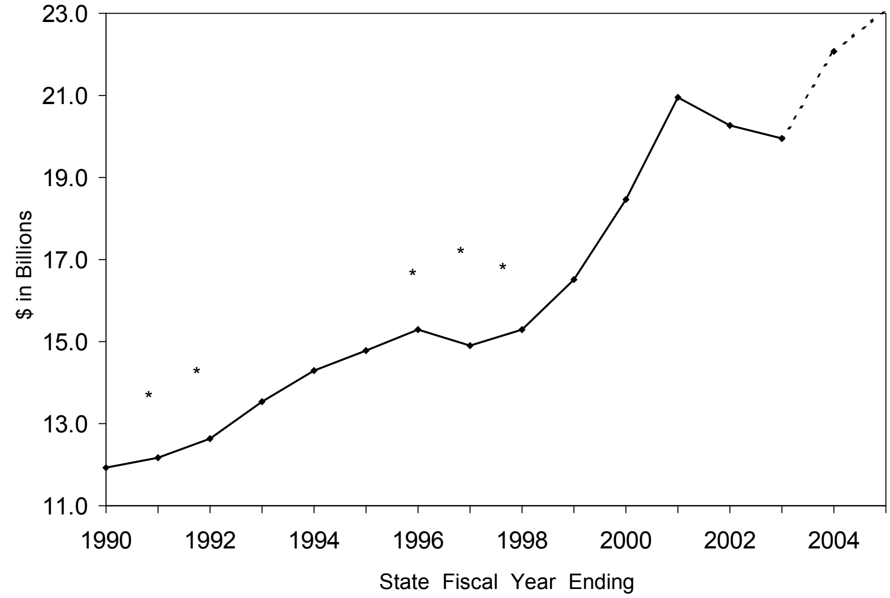
Subject	Description	Effective Date
Child and Dependent Care Credit	Increased the credit to 110 percent of the Federal credit for those with incomes up to $25,000, phased down from 110 percent to 100 percent for incomes between $25,000 and $40,000, equal to 100 percent for incomes between $40,000 and $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
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
Legislation Enacted in 2003		
Three-Year Tax Increase	Created two new tax brackets intended to temporarily boost collections for 2003, 2004, and 2005. See Table 2 — Current Tax Schedules for details.	2003 to 2005

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.
7/1/03	Rate Schedule	Raised maximum rate to 7.7 percent and added two new wage brackets.
1/1/04	Rate Schedule	Lowered rate for second highest bracket to 7.375 percent.

Personal Income Tax Withholding



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
2003	627.4	(1,050.0)	Increased receipts by 1,050.0
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 each fiscal year, these funds are available to finance refunds issued at the start of the new fiscal year, but will be restored to the reserve by the end of that year.

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 extra reserves to pay additional refunds during April and May. As part of a multi-year strategy, these reserves were used to address the fiscal deficiencies caused by the September 11th 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	Reserves for Tax Reductions [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	107	1,678	2,306
2000	521	125	3,321	3,967
2001	521	141	2,855	3,517
2002	521	195	961	1,677
2003	521	6[2]	100	627
2004 est.	521	47	636	1,204

[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, petroleum tank credits, marriage penalty relief and college tuition deduction/credit starting in 2002, and the long-term care insurance and starting in 2003, and the State STAR credit starting in 2004.
[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 possible because the statute only 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 2004.

PROPOSED LEGISLATION

Legislation submitted with this Budget will:

- create a State STAR credit designed to protect the STAR benefit from the effects of inflation;

- clarify prepayment hearing availability for a taxpayer issued an original notice and demand;
- include in New York source income, gains from sales of cooperative apartment stock;
- extend the alternative fuels vehicle program;
- ease filing requirements for low-income taxpayers; and
- exempt Federal military pay from the personal income tax for New York State Guard members activated and deployed full-time in the New York War on Terror.

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)

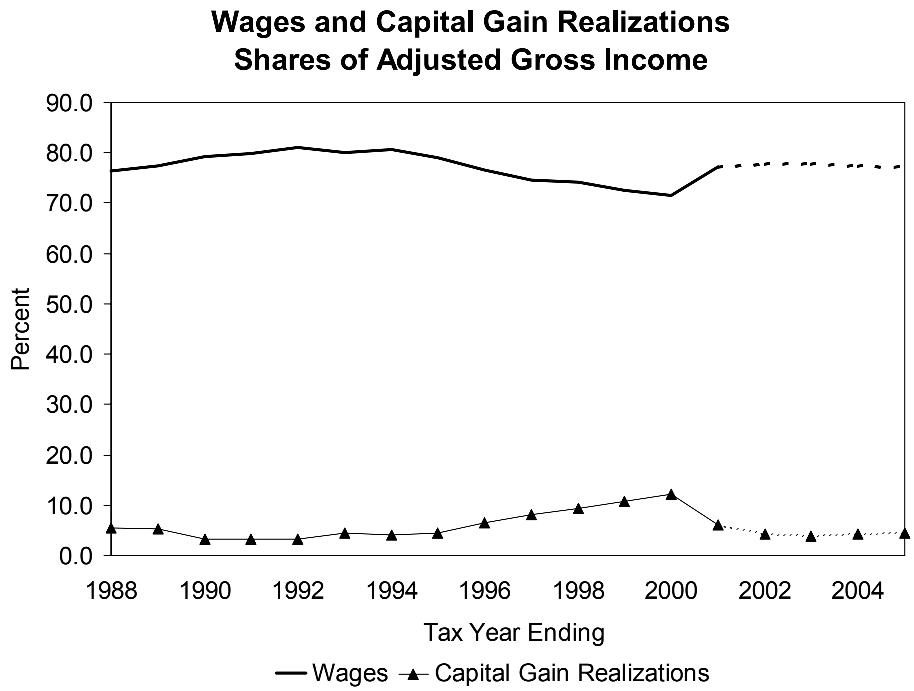
Component of Income	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
	Actual							Estimated		
NYSAGI										
Amount	321,124	347,981	383,179	417,996	453,130	514,501	487,532	467,119	475,598	502,290
% Change	6.6	8.4	10.1	9.1	8.4	13.5	(5.2)	(4.2)	1.8	5.6
Wages										
Amount	253,551	266,334	285,919	309,614	328,851	368,177	376,158	363,933	370,432	389,169
% Change	4.4	5.0	7.4	8.3	6.2	12.0	2.2	(3.2)	1.8	5.1
Share of NYSAGI	79.0	76.5	74.6	74.1	72.6	71.6	77.2	77.9	77.9	77.5
Net Capital Gains										
Amount	14,086	22,441	31,563	38,929	48,330	62,302	29,451	19,582	18,312	20.974
% Change	17.1	59.3	40.7	23.3	24.1	28.9	(52.7)	(33.5)	(6.5)	14.5
Share of NYSAGI	4.4	6.4	8.2	9.3	10.7	12.1	6.0	4.2	3.9	4.2
Interest and Dividends										
Amount	22,680	23,534	24,652	24,807	25,299	30,290	26,507	24,016	23,386	24,003
% Change	15.5	3.8	4.8	0.6	2.0	19.7	(12.5)	(9.4)	(2.6)	2.6
Share of NYSAGI	7.1	6.8	6.4	5.9	5.6	5.9	5.4	5.1	4.9	4.8
Taxable Pension										
Amount	16,620	17,391	18,953	18,891	20,854	22,121	23,165	24,889	26,151	27,508
% Change	5.9	4.6	9.0	(0.3)	10.4	6.1	4.7	7.4	5.1	5.2
Share of NYSAGI	5.2	5.0	4.9	4.5	4.6	4.3	4.8	5.3	5.5	5.5
Net Business and Partnership Income										
Amount	25,868	31,425	35,288	37,142	42,035	44,004	45,191	46,357	49,569	53,015
% Change	31.5	21.5	12.3	5.3	13.2	4.7	2.7	2.6	6.9	7.0
Share of NYSAGI	8.1	9.0	9.2	8.9	9.3	8.6	9.3	9.9	10.4	10.6
All Other Incomes/ Adjustments [1]										
Amount	(11,680)	(13,142)	(13,195)	(11,387)	(12,239)	(12,392)	(12,940)	(11,658)	(12,252)	(12,379)
% Change	38.6	12.5	0.4	(13.7)	7.5	1.2	4.4	(9.9)	5.1	1.0

[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.

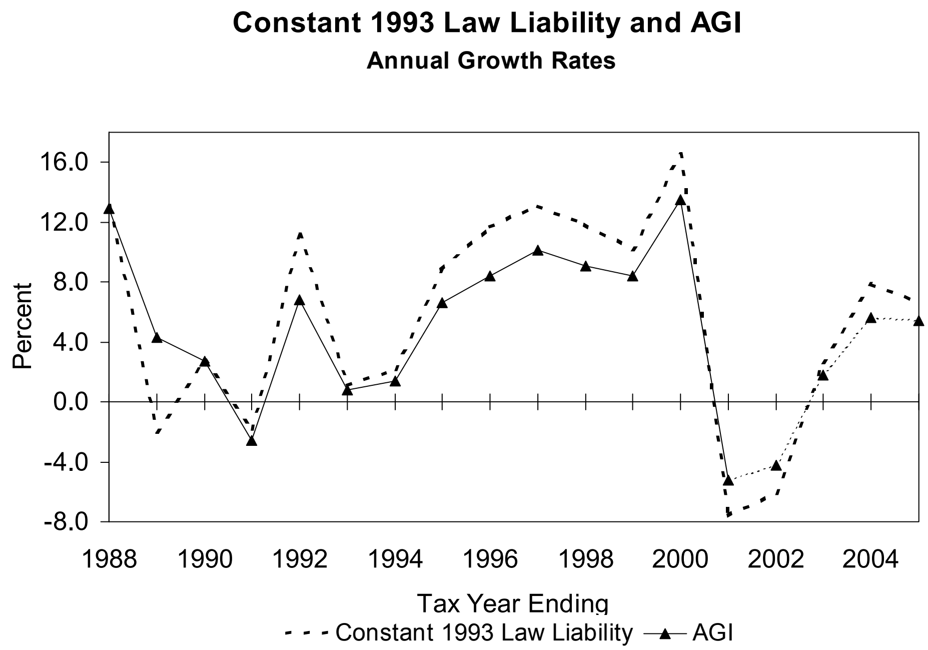
Strong performances in the financial sector in recent years caused a significant shift in the capital gains share of AGI. From 1994 to 2000, the share of capital gains in AGI tripled, from 4.0 percent to 12.1 percent. Over the same period, the share of wages in AGI decreased from 80.6 percent to 71.6 percent. Business and partnership income also posted strong growth between 1994 and 2000 and accounted for 8.6 percent of AGI in 2000. During the same period, the number of domestic limited partnerships (LPs), Limited Liability Companies

(LLCs) and Limited Liability Partnerships (LLPs) grew from approximately 4,000 to over 90,000. 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 (see Economic Backdrop - AGI components).

With the bursting of the stock market bubble and the national recession, there has been a precipitous decline in investment related incomes (Table 5). Interest and dividends declined 12.5 percent in 2001 compared to a 19.7 percent increase in 2000. Net capital gain decreased close to 53 percent after growing 29 percent in 2000. As the accompanying chart illustrates, realized capital gains have also declined as a share of adjusted gross income.

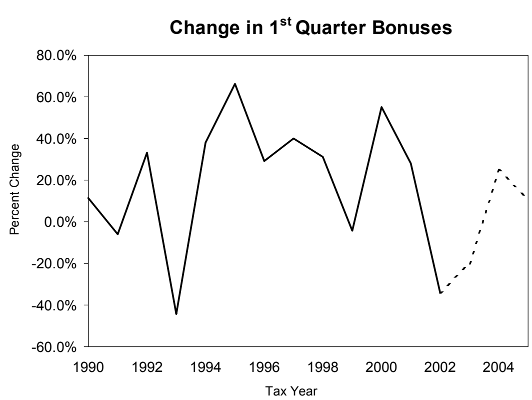


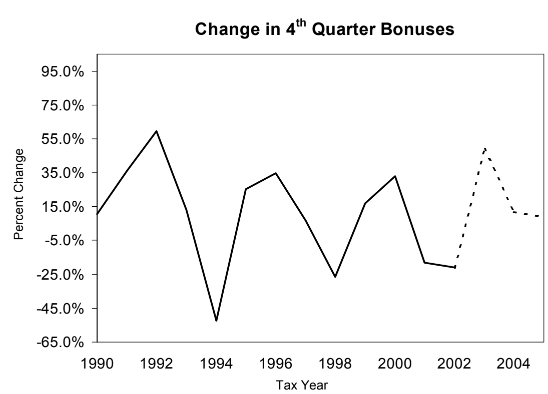
The following graph illustrates the relationship between the growth rates of liability, measured over time on a constant law basis, and AGI. A change in AGI typically results in a larger relative change in liability (see Economic Backdrop section titled Sources of Volatility in the Income Base). This 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. The pattern of these bonus payments has shifted over the years from approximately 40 percent paid at the end of the calendar year, and 60 percent paid early in the following year to 30 percent and 70 percent respectively.

In May 2003, the State Legislature passed a personal income tax increase for the 2003, 2004 and 2005 tax years. Since withholding on 2003 wages could not be increased until July 2003, the Legislature required the withholding rate increase for that latter part of the year to be twice that required by the increase in rates. As a result, it is expected that a significant share of bonus payments for 2003 will be postponed until the beginning of 2004.





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 13.5 percent in 2000, AGI declined 5.2 percent in 2001 and is estimated to have declined another 4.2 percent in 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 has begun to emerge from recession and there has been resurgence in equity market growth and a return to financial sector profitability. As a result, a 1.8 percent AGI increase is projected for 2003 and 5.6 percent is estimated for 2004. (See Economic Backdrop section.)

2001 and 2002 Liability

Based on tax collections, total liability for 2001 was approximately $23.2 billion. Of this amount, $22.4 billion was accounted for by the nine 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 not included in the annual study. The AGI amount in the tax study for 2001 was $488 billion, yielding an average effective tax rate of 4.6 percent. By contrast, AGI for 2000 was $514.5 billion and liability for that year was $24.5 billion, an effective rate of 4.76 percent. The 2001 decline in AGI and liability represents a reversal after several years of tremendous expansion in the State.

Reflecting continued poor economic conditions and the decline in stock market activity, AGI in 2002 is estimated to have declined to $467 billion, a 4.2 percent additional loss in the personal income tax revenue base. Wages and salaries are estimated to have decreased 3.2 percent, after a modest growth of 2.2 percent in 2001. The drop in wages reflect 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.)

Following considerable gains in the latter part of the 1990s, capital realizations dropped close to 53 percent in 2001, as a result of the collapse of the equity market bubble. It is estimated that taxable gains declined another 33.5 percent in 2002.

Interest and dividend income is estimated to have dropped 9.4 percent in 2002, following a 12.5 percent decrease the previous year. These declines reflect 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 2.6 percent increase in 2002 after growing 4.7 percent in 2000 and 2.7 percent in 2001.

In total, estimated liability is projected to have declined 7.4 percent to $20.7 billion in 2002, an estimated loss of $1.7 billion in the base compared to 2001 and $3.8 billion compared to 2000, yielding an affective tax rate of 4.44 percent.

2003 AGI and Liability

In 2003, the State economy is expected to have begun improving and AGI is estimated to have increased by 1.8 percent. This increase translates into a total AGI of $475.6 billion, still considerably below the 2000 peak of $514.5 billion.

Wages and salaries are projected to have grown 1.8 percent. Capital gains realizations are expected to have decreased 6.5 percent, reflecting the fact that individuals are allowed to carry indefinitely into future tax years unclaimed capital losses from previous years.

Business net income and income derived from partnerships and S corporations are expected to have grown 6.9 percent.

Under current law, estimated liability is projected to have grown 8.2 percent to $22.4 billion, $1.7 billion more than 2002, signaling the turnaround in the State economy, as well as the temporary tax measures passed by the Legislature in May 2003, which are estimated to have increased liability by nearly $1.3 billion.

2004 AGI and Liability

In 2004, with the State economic recovery accelerating, AGI is projected to increase by 5.6 percent. This increase, however, still leaves the AGI level below its 2000 peak.

Wages and salaries are projected to grow 5.1 percent, reflecting in large part the bonuses paid early in 2004.

Interest and dividend income is estimated to grow 2.6 percent. Capital gains are expected to grow 14.5 percent, while incomes from businesses, partnerships and S corporations are projected to increase 7 percent.

Overall, under current law, estimated liability is expected to grow 8.6 percent to $24.4 billion, including a $1.4 billion increase due to the temporary tax measure passed by the Legislature for the 2004 tax year.

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 downturn in the economy has further eroded the personal income tax liability. The 2002 liability, as extrapolated from the 2001 study file, is estimated to be $20.7 billion, representing an 7.4 percent decline compared to 2001. The effective tax rate is estimated to have been 4.44 percent. Without the tax cuts enacted since 1995, it is estimated that liability would have been approximately $25.8 billion, about $5.1 billion higher than under current law.

Under current law, liability is estimated at $22.4 billion and $24.4 billion in 2003 and 2004, respectively. These numbers reflect the tax increase passed by the Legislature in 2003. This tax increase is estimated to raise personal income tax liability by $1.3 billion in 2003 and $1.4 billion in 2004. Without the tax changes enacted since 1995, liability would be estimated at $26.5 billion in 2003 and $28.6 billion in 2004.

Under both current law and constant law, effective tax rates are estimated to be significantly lower in 2002 than in 2001. They are expected to be higher in 2003 and 2004 due to the economic recovery and the tax increase. (See Table 6.)

TABLE 6
LIABILITY AND EFFECTIVE TAX RATES*
Current Law and Constant Law
1995 - 2004
(millions of dollars)

	Current Law			Constant (1994) Law		
	Liability		Effective	Liability		Effective
	Amount	Growth Rate	Tax Rate	Amount	Growth Rate	Tax Rate
			(percent)			(percent)
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	24,494	16.8	4.76	29,853	16.6	5.80
2001	22,406	(8.5)	4.6	27,523	(7.8)	5.65
2002**	20,738	(7.4)	4.44	25,812	(6.2)	5.53
2003**	22,448	8.2	4.72	26,510	2.7	5.57
2004**	24,387	8.6	4.86	28,629	8.0	5.70

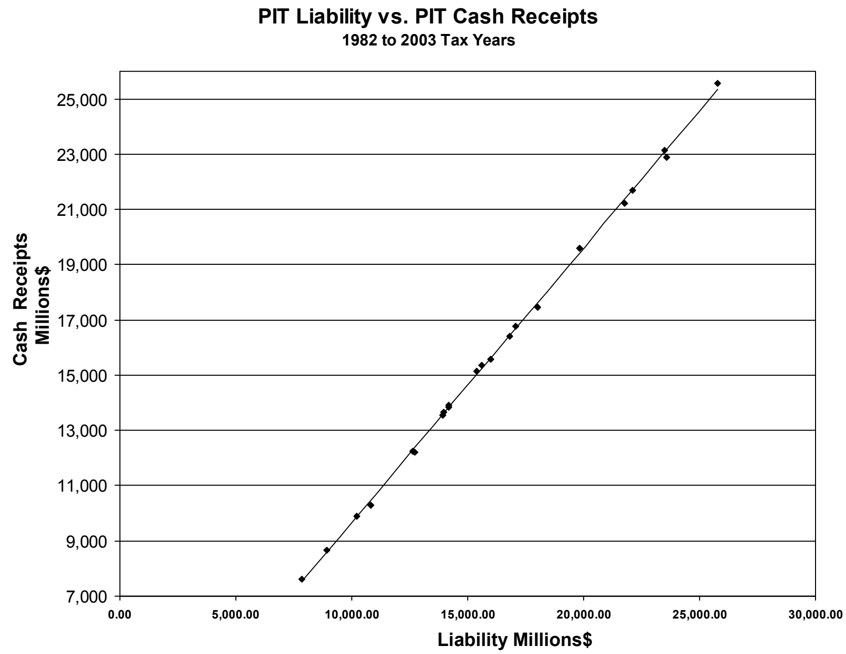
* Liability divided by AGI
** Estimated

Risks in Liability Estimates

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

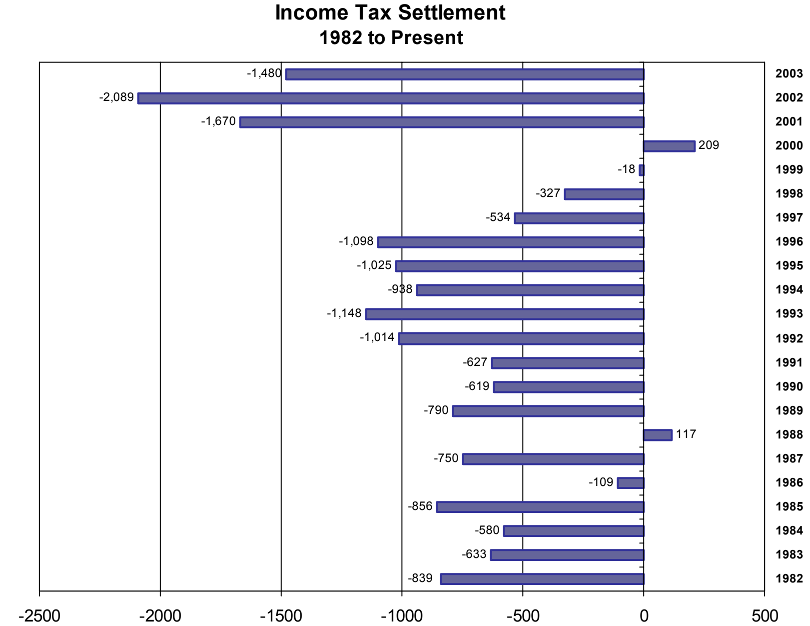
Tax Liability and Cash Payments

Although significant risks necessarily remain in any estimates of income tax liability, estimation of the level of tax liability for a particular tax year leads, with a high degree of confidence, to the approximate level of cash receipts that can be expected for the particular tax year. The consistency in this relationship is shown in the graph below.



Despite the strong relationship between tax-year liability and cash receipts, estimation of cash payments is subject to an important complication that pervades forecasts for the Executive Budget and other State Financial Plan updates. This complication is determining the portions of tax-year liability that will occur in particular State fiscal years. Income tax prepayments — withholding tax and quarterly estimated tax payments — tend to be received not long after income is earned. For example, most withholding tax payments and quarterly estimated tax payments for the 2003 tax year will be received before the end of the 2003-04 State fiscal year. Settlement payments — those payments received when taxpayers file final returns for a tax year — tend to be received in the next State fiscal year after the end of a tax year. Thus, settlement payments for the 2003 tax year will be received largely in the 2004-05 fiscal year. Some settlement payments (known as prior-year payments) are received later and can occur in a subsequent fiscal year. Such payments for the 2003 tax year can be received in 2005-06 or a later fiscal year.

As is evident in the graph below showing net settlement payments for the1982 through 2004 tax years, the amount of liability received in the settlement can vary widely from year to year. In most years, the net settlement has been very negative, with State settlement outlays (such as refunds and offsets) far exceeding taxpayer settlement payments (such as those sent with returns and extension requests). There have been some important exceptions to this pattern — most notably during times of tax reform (in 1986 and 1988) and in times of rapid economic growth (in the late1990s and in 2000).



Note: The settlement is comprised of extension payments plus final return payments minus refunds and the state-city offset

Several different settlement patterns are reflected in recent years. With the rapid growth of the New York economy in the late1990s, the settlement became much less negative than it traditionally had been. This pattern, accompanying the strongly growing economy, resulted generally from prepayment growth rates that fell short of liability growth rates, leading to the need for increased settlement payments with filed returns. With the weak economy of 2001 and 2002, taxpayers, in aggregate, dramatically reduced their settlement payments and the total settlement became very negative again, with the net amount paid out by the State exceeding $2 billion for the 2002 tax year. Due to the temporary tax increases enacted by the Legislature in 2003, the net settlement payout by the State is estimated to remain negative but below $1.5 billion for the 2003 tax year. This expected net settlement increase will reflect the need of high-income taxpayers to add to their settlement payments to cover liability increases that were not collected through added prepayments.

RECEIPTS: ESTIMATES AND PROJECTIONS

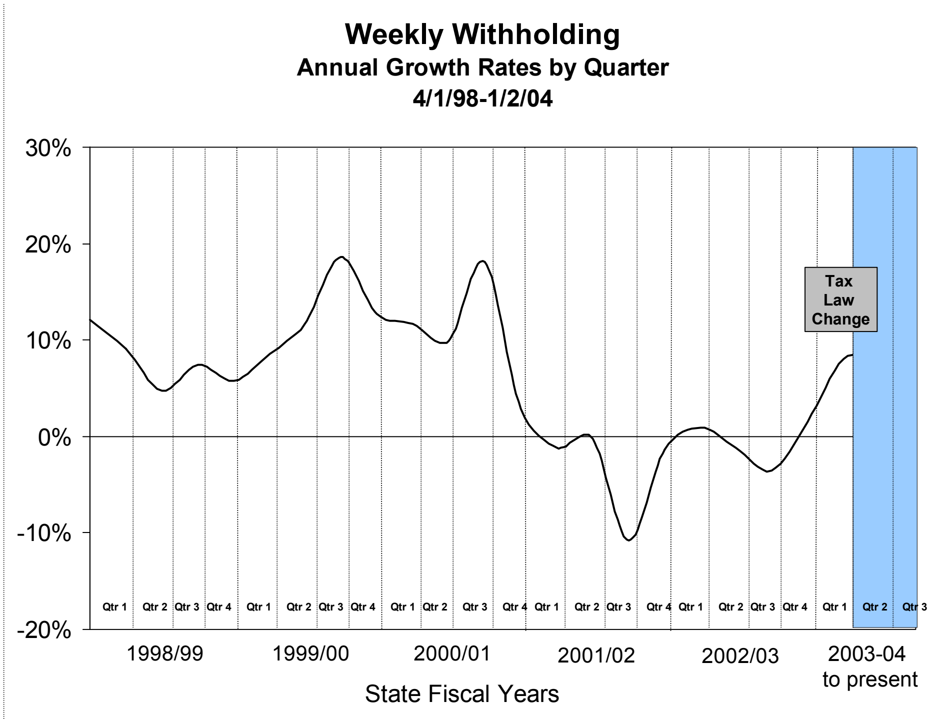
All Funds

2003-04 Estimates

Net All Funds collections to date are $16.9 billion, an increase of $0.7 billion, or 4.6 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $24,083 million, an increase of $385 million, or 1.6 percent, above last year.

Key risks for the remainder of the fiscal year include the amount of withholding tax collections to be received in the first quarter of 2004, the balance of estimated payments to be received on 2003 liability, and the remaining uncertainty of the effects of the legislative tax increases.



The current forecast assumes that estimated payments on 2003 liability will be 12.1 percent higher than comparable payments on 2002 liability.

Compared with the same period a year ago, withholding collections increased 6.3 percent through the first nine months of the fiscal year. The bulk of this growth is attributed to the legislative tax increases, while, in comparison, base growth was relatively weak. It is expected that withholding collections will pick up and increase 20.6 percent for the remainder of 2003-04, largely reflecting the continued economic recovery and renewed strength in bonus payments during the December to March period.

Without refund reserve transactions, net All Funds receipts are estimated at $24,660 million, an increase of 8.9 percent from comparable 2002-03 receipts. The components of the estimate are detailed in Table 7 and are based on actual collections of $16.9 billion through December.

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

	2001-02 (Actual)	2002-03 (Actual)	2003-04 (Estimated)	2004-05 (Projected)
Receipts				
Withholdings	20,261	19,959	22,085	23,104
Estimated Payments	6353	4,855	5,130	5,785
Current Year	4,685	3,831	4,295	4,695
Prior Year*	1,668	1,024	835	1,090
Final Returns	1,874	1,333	1,275	1,645
Current Year	101	101	125	145
Prior Year*	1,773	1,232	1,150	1,500
Delinquent Collections	601	797	595	660
Gross Receipts	29,089	26,944	29,085	31,194
Refunds				
Prior Year*	2,165	2,780	2,945	2,985
Previous Years	165	268	250	230
Current Year	960	960	960	960
State-City Offset*	225	288	270	250
Total Refunds	3,515	4,296	4,425	4,425
Net Receipts	25,574	22,648	24,660	26,769
Reserve Transactions	1,840	1,050	(577)	693
Net Reported	27,414	23,698	24,083	27,462

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

At the beginning of 2003-04, the balance in the refund reserve account was $627 million. The planned account balance on March 31, 2004, is $1,204 million. As a result, the net contribution of the refund reserve to 2003-04 receipts is expected to be a reduction of $577 million.

An added risk to the estimate of 2003-04 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 2003-04 estimates were constructed.

2004-05 Projections

Total net All Funds receipts are projected to be $27,462 million, an increase of $3,379 million, or 14.0 percent above 2003-04.

Under current law, withholding receipts would be projected to rise by 4.7 percent.

The other major component of collections, estimated payments on 2004 income, would be projected to increase by 9.2 percent. This is consistent with the improved health of Wall Street, an increase in capital gains realizations, and additional collections resulting from the 2003 law changes.

Final payments related to 2003 returns are expected to increase by $350 million from 2002 returns, reflecting a liability increase and settlement payments for the 2003 tax increase.

In 2004-05, largely as a result of the temporary three-year tax increase passed in 2003, there is expected to be a reversal of the recent trend of the income settlement becoming more negative each year than in the preceding year (see income tax settlement chart). Although some uncertainty remains about the level of additional prepayments being made due to the temporary tax increase and other 2003 enacted legislation, it appears that high-income taxpayers affected by the tax increase will need to add to their settlement payments to cover the full amount of the extra liability resulting from the temporary tax increase.

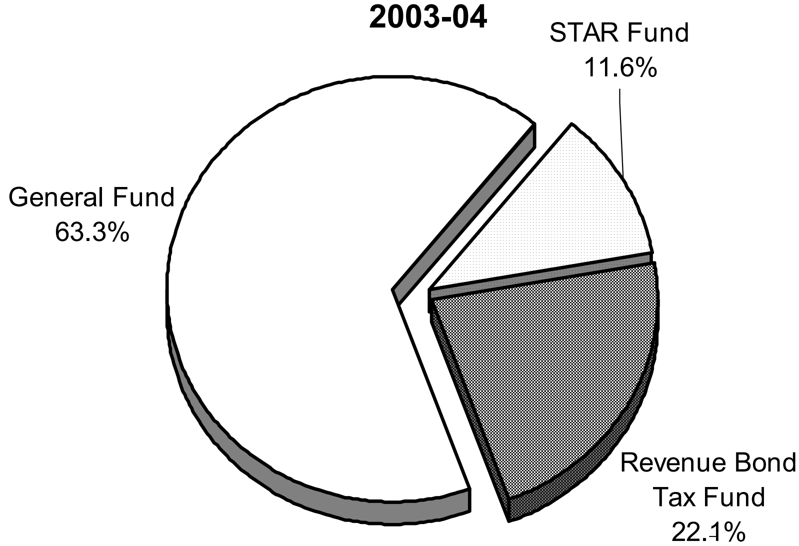
Based on proposed law, withholding receipts are projected to rise 4.6 percent, total estimated tax payments are projected to increase 12.8 percent, and final payments are projected to increase by $370 million from 2003-04 collections. As a result, net personal income tax receipts are expected to increase by 14.0 percent, to $27,462 million, in 2004-05.

General Fund

Under current law, General Fund net personal income tax receipts are estimated at $15,791 million in 2003-04 and would be estimated at $18,499 million in 2004-05, a 17.1 percent increase from the 2003-04 total. Under proposed law, General Fund net personal income tax receipts are projected at $18,520 million in 2004-05.

Other Funds

Fund Shares of Net Receipts
2003-04



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 2003-04 and 2004-05, respectively, dedicated personal income tax receipts of $2,835 million and $2,998 million will be deposited into the School Tax Relief Fund.

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 Trust 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 $5,457 million and $5,944 million will be deposited in the RBTF in 2003-04 and 2004-05, respectively.

RECEIPTS BY FUND TYPE

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								
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
2002-03	20,037	4,296	15,741	(1,050)	16,791	2,664	0	4,243	23,698
	Estimated								
2003-04	20,793	4,425	16,368	577	15,791	2,835	0	5,457	24,083
2004-05									
current law	22,220	4,425	17,795	(704)	18,499	2,998	0	5,932	27,429
proposed law	22,252	4,425	17,827	(693)	18,520	2,998	0	5,944	27,462

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

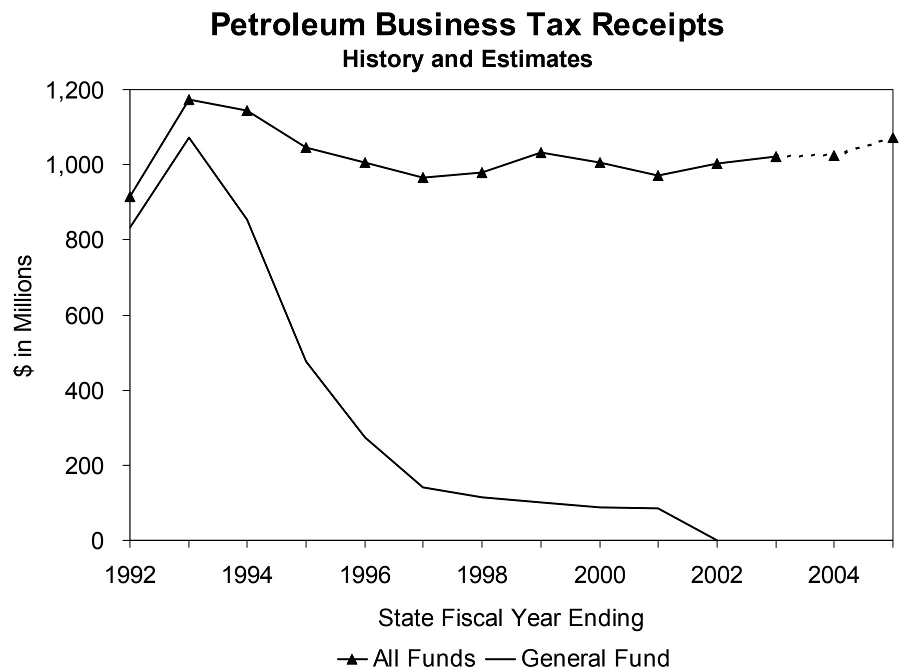
PETROLEUM BUSINESS TAXES

SUMMARY

In 2003-04, All Funds collections from petroleum business taxes are estimated to be $1,025 million. This is an increase of $2.2 million, or 0.2 percent, from the prior year.

In 2004-05, All Funds collections from petroleum business taxes are projected to be $1,073 million. This is an increase of $48 million, or 4.7 percent, compared with 2003-04.

Legislation proposed with this Budget would postpone implementation of regulations related to taxation of sales on Native American lands and authorizes the State to execute agreements with Native American nations regarding product prices and taxes.



DESCRIPTION

Tax Base and Rate

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. 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.

Legislation in 1994 provided the current methodology for tax rate indexing, which began on January 1, 1996, and applies to both the base and supplemental tax rates. Tax rates cannot increase or decrease by more than 5 percent per year. In addition to the 5 percent cap on tax rate changes, the statute requires that the base 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. The annual adjustments reflect the change in the producer price index for refined petroleum products for the 12 months ending August 31 of the immediately preceding year.

Based on changes in the index, PBT rates for 2003 decreased by 5 percent, and then will increase by 5 percent beginning in 2004. The index for January 1, 2005, is projected to decrease by 2.67 percent, triggering a tax rate decrease of 2.67 percent for 2005. (See Tables 1 and 2.)

TABLE 1
PETROLEUM BUSINESS TAX RATES FOR 2003 - 2005
(cents per gallon)

	2003			2004			2005*		
Petroleum Products	**Base**	**Supp**	**Total**	**Base**	**Supp**	**Total**	**Base**	**Supp**	**Total**
Automotive fuel									
Gasoline and other non-diesel	8.40	5.60	**14.00**	8.80	5.80	**14.60**	8.60	5.60	**14.20**
Diesel	8.40	3.85	**12.25**	8.80	4.05	**12.85**	8.60	3.85	**12.45**
Aviation gasoline	8.40	5.60	**14.00**	8.80	5.80	**14.60**	8.60	5.60	**14.20**
Net rate after credit	5.60	0.0	**5.60**	5.80	0.0	**5.80**	5.60	0.0	**5.60**
Kero-jet fuel	5.60	0.0	**5.60**	5.80	0.0	**5.80**	5.60	0.0	**5.60**
Non-automotive diesel fuels	7.60	5.60	**13.20**	7.90	5.80	**13.70**	7.70	5.60	**13.30**
Commercial gallonage after credit	7.60	0.0	**7.60**	7.90	0.0	**7.90**	7.70	0.0	**7.70**
Nonresidential heating after credit	4.10	0.0	**4.10**	4.30	0.0	**4.30**	4.20	0.0	**4.20**
Residual petroleum products	5.80	5.60	**11.40**	6.10	5.80	**11.90**	5.80	5.60	**11.40**
Commercial gallonage after credit	5.80	0.0	**5.80**	6.00	0.0	**6.00**	5.80	0.0	**5.80**
Nonresidential heating after credit	3.10	0.0	**3.10**	3.20	0.0	**3.20**	3.10	0.0	**3.10**
Railroad diesel fuel	8.40	3.85	**12.25**	8.80	4.05	**12.85**	8.60	3.85	**12.45**
Net rate after exemption/refund	7.10	0.0	**7.10**	7.50	0.0	**7.50**	7.30	0.0	**7.30**

* Projected — A fuel price decrease of 2.7 percent through August 2004 will result in a decrease of 2.7 percent in the PBT tax rates on January 1, 2005.

Administration

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.)

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.

Tax Expenditures

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. For further expenditure items related to the PBT, please see the New York State Tax Expenditure Report.

TABLE 2
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	26.98	5.00
2005*	(2.67)	(2.67)

* Estimated

Significant Legislation

The significant statutory changes to this tax source since 1994 are summarized below.

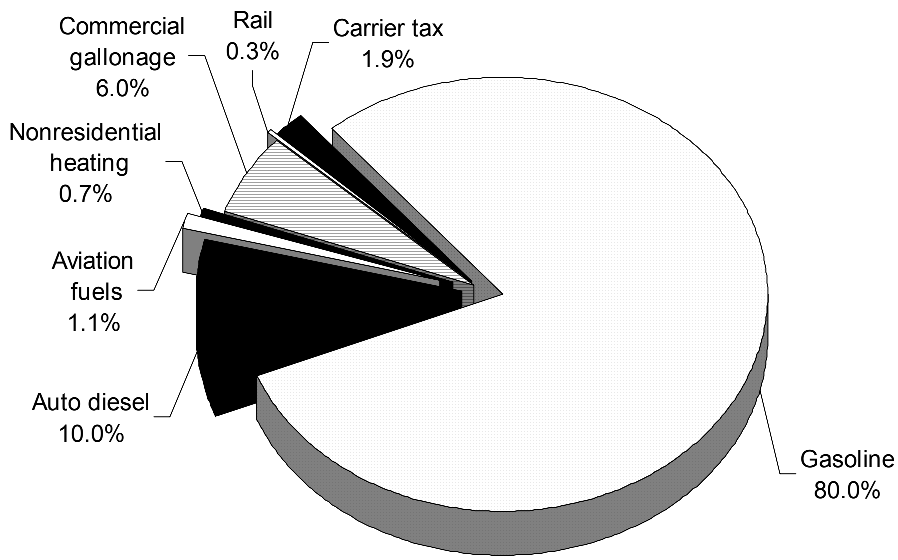
Subject	Description	Effective Date
Legislation Enacted in 1995		
Aviation Fuels	Effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products to a rate that is equivalent to the statutory supplemental tax rate. To maintain 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

Subject	Description	Effective Date
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
Legislation Enacted in 2003		
Native American Regulations	Required the Commissioner of Taxation and Finance to promulgate regulations requiring the taxation of petroleum productions sold to non-Native Americans on Native American lands.	March 1, 2004

TAX LIABILITY

Petroleum business tax collections are primarily a function of the number of gallons of fuel imported into the State by distributors. Gallonage is largely determined by overall fuel prices, the amount of gallons held in inventories, the fuel efficiency of motor vehicles, and State economic performance. The following pie chart displays the composition of PBT receipts by fuel type.

PBT Components
Share of 2002-03 Receipts



PROPOSED LEGISLATION

Legislation proposed with this Budget would postpone implementation of regulations related to taxation of sales on Native American lands and authorizes the State to execute agreements with Native American nations regarding product prices and taxes.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $781.7 million, an increase of $0.5 million, or 0.1 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $1,025 million, an increase of $2.2 million, or 0.2 percent above last year.

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.) In 2001-02 motor fuel tax receipts were misallocated to PBT and in 2002-03 this misallocation was corrected by reversing the 2001-02 misallocation. These factors combined to understate 2002-03 PBT receipts by $15.8 million. Residual fuels used by utilities are estimated to increase due to the decrease in the relative price of residual fuel oil compared to natural gas.

The estimate for 2003-04 reflects the 5 percent decrease in PBT rates that took effect on January 1, 2003, and the scheduled 5 percent increase effective January 1, 2004. The estimate also reflects 2000 legislation that reduced taxes on commercial heating by 33 percent and eliminated PBT minimum taxes.

2004-05 Projections

Total net All Funds receipts are projected to be $1,073 million, an increase of $48 million, or 4.7 percent above 2003-04.

Without counting projected tax receipts from Native American lands, gasoline and diesel receipts are projected to increase by $24.4 million and $5 million respectively. Increases in taxable gasoline and diesel gallonage are projected to be marginal. The increase is mainly generated by the 5 percent increase in PBT rates effective January 1, 2004.

In addition, receipts for 2004-05 are based on an anticipated decrease in January 2005 of 2.67 percent in the index used to set PBT tax rates.

Prospective agreements between Native American governments and the State based on legislation submitted with this Budget are expected to add a projected $13 million in revenue in 2004-05.

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 2003-04 and 2004-05.

Other Funds

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 3) would be split between the Dedicated Mass Transportation Trust Fund and the Dedicated Highway and Bridge Trust Fund. Numerous pieces of legislation were enacted in subsequent years that reduced the amount of deposits in the General Fund and increased the amount deposited in the Dedicated Transportation funds.

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 3.

TABLE 3
PBT BASE TAX FUND DISTRIBUTION
(percent)

Effective Date	General Fund	MTOAF[1]	Dedicated Funds Pool[2]
Prior to April 1, 1993	82.3	17.7	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

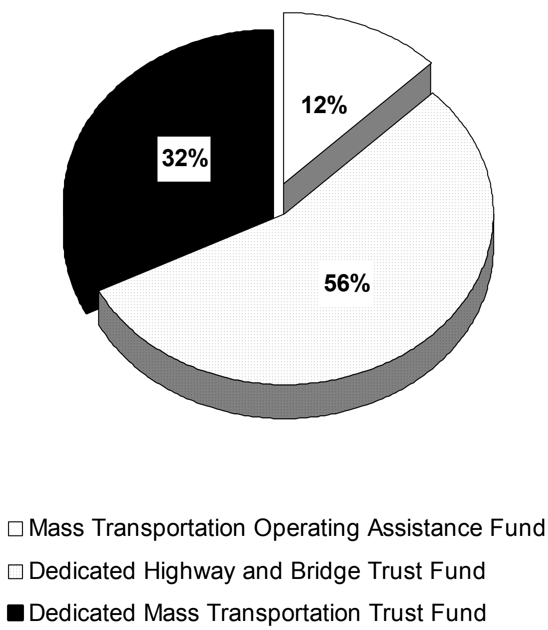
[1] This fund is split between the Public Transportation System Operating Assistance Account and the Metropolitan Mass Transportation Operating Assistance Account.
[2] This pool is split between the Dedicated Mass Transportation Trust Fund (37 percent) and the Dedicated Highway and Bridge Trust Fund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

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 2003-04 are estimated to be $126.8 million for MTOAF, $565.9 million for the Dedicated Highway and Bridge Trust Fund, and $332.3 million for the Dedicated Mass Transportation Trust Fund.

Petroleum business taxes in 2004-05 are projected to provide MTOAF receipts of $133 million, Dedicated Highway and Bridge Trust Fund receipts of $592.2 million, and Dedicated Mass Transportation Trust Fund receipts of $347.8 million.

PBT Receipts 2003-04



RECEIPTS BY FUND TYPE

PETROLEUM BUSINESS TAX RECEIPTS
(millions 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									
1995-96	276	3	273	303	4	299	438	5	433	1,005
1996-97	144	3	141	379	7	372	462	8	454	967
1997-98	116	2	114	396	8	388	487	10	477	979
1998-99	103	1	102	423	5	418	519	6	513	1,033
1999-2000	90	1	89	415	5	410	512	6	506	1,005
2000-01	88	2	86	405	9	396	501	12	489	971
2001-02	0	0	0	459	10	449	566	12	554	1,003
2002-03	0	0	1	462	8	454	578	10	568	1,023
	Estimated									
2003-04	0	0	0	467	8	459	576	10	566	1,025
2004-05	0	0	0	489	8	481	602	10	592	1,073

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

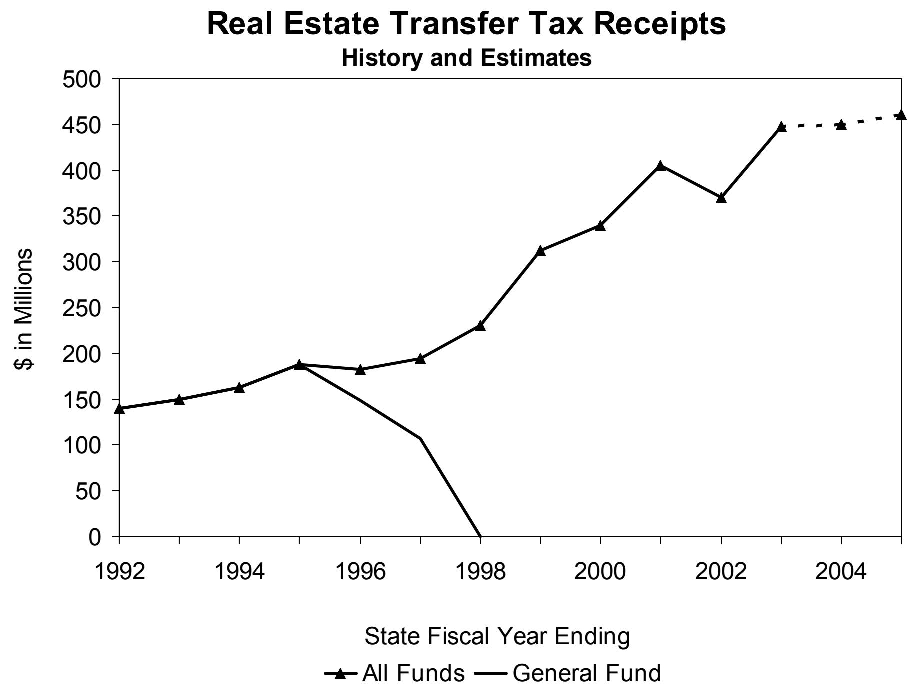
REAL ESTATE TRANSFER TAX

SUMMARY

In 2003-04, All Funds collections from the real estate transfer tax are estimated to be $450 million. This is an increase of $2.4 million, or 0.5 percent, from the prior year.

In 2004-05, All Funds collections from the real estate transfer tax are projected to be $461 million. This is an increase of $11 million, or 2.4 percent, compared with 2003-04.

No new legislation for these taxes is proposed with this Budget.



DESCRIPTION

Tax Base and Rate

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. Effective July 1, 1989, an additional 1 percent tax was imposed on conveyances for which the consideration is $1 million or more.

Administration

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.

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 ("central office" collections). 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.

Tax Expenditures

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. Other significant exemptions from the tax are: 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.

TAX LIABILITY

Real estate transfer tax receipts are a function of the number of conveyances and the consideration (price) per conveyance. Conveyances and prices are largely determined by mortgage rates, vacancy rates and inflation. The Manhattan commercial real estate market, which has historically been subject to large swings in demand and capacity, can have a significant impact on receipts.

PROPOSED LEGISLATION

No new legislation for these taxes is proposed with this Budget.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

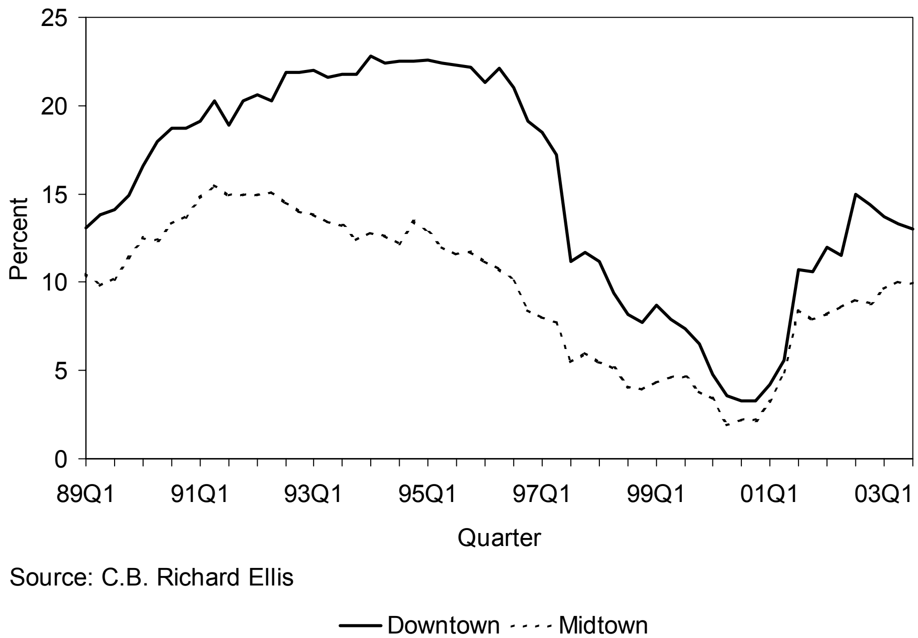
2003-04 Estimates

Net All Funds collections to date are $378 million, an increase of $18.8 million, or 5.2 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $450 million, an increase of $2.4 million, or 0.5 percent above last year.

The booming housing market, spurred by record-low mortgage rates that began in 2002-03, continued into the current fiscal year. The 2003-04 estimate reflects liability data for the first seven months of the fiscal year, which indicate a decline in the overall number of conveyances (including non-residential) of 2.5 percent, combined with an average price increase of 1.7 percent across all conveyances when compared with the first seven months of 2002-03. The weak Manhattan commercial market may have reached its nadir in 2003-04. The vacancy rate downtown fell to 13 percent during the third quarter of 2003, down from its recent peak of 15 percent during the same period last year. The midtown vacancy rate fell to 9.9 percent during the third quarter of 2003, which is the first quarterly decline (excluding the quarter following the WTC attacks) since the second quarter of 2000. As the graph below indicates, the rise in Manhattan vacancy rates since 2001 has not been as severe as during the early 1990s, due to far less excess capacity during the current downturn. The negative impact of the current Manhattan commercial downturn on receipts has been masked by the torrid statewide residential market.

Vacancy Rates in Manhattan



Source: C.B. Richard Ellis

FISCAL YEAR LIABILITY THROUGH OCTOBER
(millions of dollars)

Region	2002-03 Liability	2003-04 Liability	Percent Change
Manhattan	56.1	52.6	(6.3)
Other Four Boroughs	39.8	43.2	8.4
Long Island	61.4	65.5	6.7
Rest of State	76.4	72.1	(5.6)
Central Office*	57.6	49.9	(13.4)

* Through November

2004-05 Projections

Total net All Funds receipts are projected to be $461 million, an increase of $11 million, or 2.4 percent above 2003-04.

Collections are expected to rise despite a projected rise in the mortgage rate from 5.76 percent to 6.11 percent. Projected increases in prices for both residential housing and commercial real estate should more than compensate for the increase in mortgage rates.

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2003-04 or 2004-05. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund.

Other Funds

During 2003-04 and 2004-05, 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 $338 million in 2003-04 and $349 million in 2004-05, are to be deposited in the Clean Water/Clean Air Bond Debt Service Fund.

RECEIPTS BY FUND TYPE

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				
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
2002-03	0	0	0	0	112,000	335,761	202	335,559	447,559
					Estimated				
2003-04	0	0	0	0	112,000	338,720	720	338,000	450,000
2004-05	0	0	0	0	112,000	349,060	60	349,000	461,000

[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.

2003-04 Receipts and 2004-05 Projections

All Funds net gift tax collections to date are $3.5 million. Net collections for 2003-04 are expected to be $4.5 million, consisting of $4.9 million in gross receipts and $0.4 million in refunds. No receipts are expected for 2004-05 or for any subsequent fiscal year.

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.

2003-04 Receipts and 2004-05 Projections

Remaining collections stem primarily from assessments on prior year tax liability and 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. To date, All Funds collections are $3.4 million, with an additional $0.8 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 2003-04 are estimated to be $4.2 million.

All Funds collections from outstanding installments and recovered assessments will produce a projected $3 million in 2004-05. Refunds will be negligible.

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			
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
2002-03	12,623	732	11,891	0	0	0	11,891
				Estimated			
2003-04	9,100	400	8,700	0	0	0	8,700
2004-05	3,000	0	3,000	0	0	0	3,000

SALES AND USE TAX

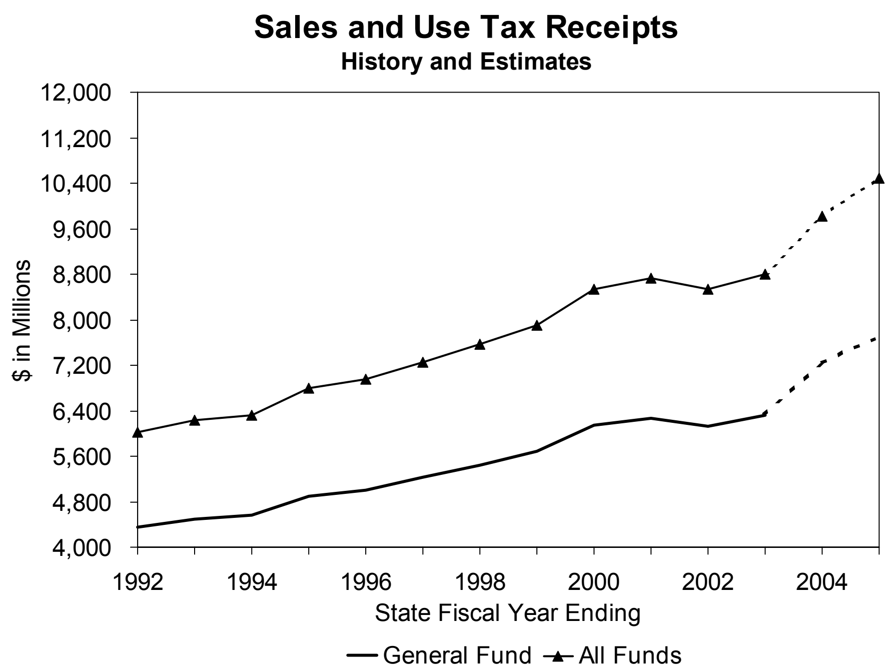
SUMMARY

In 2003-04, All Funds collections from the sales and use tax are estimated to be $9,822 million. This is an increase of $1,026 million, or 11.7 percent from the prior year.

In 2004-05, All Funds collections from the sales and use tax are projected to be $10,483.2 million. This is an increase of $661.2 million, or 6.7 percent, compared with 2003-04.

Legislation proposed with this Budget includes:

- replacing the exemption on clothing and footwear priced under $110 with a $500 per item threshold during three to four exemption weeks;
- extending the exemption for alternative fuel vehicles by one year; and
- surcharges of 3 percent on the sale of protective and detective services and 4 percent on certain admission charges to fund public safety and security.



DESCRIPTION

Tax Base

In general, all retail sales of tangible personal property are taxed under Article 28 of the Tax Law 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.

Tax Rate

The sales and compensating use tax, was enacted in 1965 at the rate of 2 percent. The tax rate was increased to 3 percent in 1969, to 4 percent rate in 1971, and to the current 4.25 percent rate in 2003. The rate is scheduled to revert to 4 percent on June 1, 2005.

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 legislative authority to temporarily 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).

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.

Effective with the 2003 personal income tax filing year, the New York State personal income tax return will contain a line on which taxpayers may enter the amount of use tax they owe for the preceding calendar year.

Tax Expenditures

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, a situation known as 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 and promote economic competiveness.[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 current scope of the sales tax.

Significant Legislation

The significant statutory changes to this tax source since 1994 are summarized below.

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

[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 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 that 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
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

Subject	Description	Effective Date
Transmission and Distribution of Electricity and Gas	Phased out 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
Legislation Enacted in 2003		
Surcharge	Raised the State sales tax rate from 4 to 4.25 percent through May 31, 2005.	June 1, 2003
Temporary repeal of clothing exemption	Temporarily repealed the exemption on items of clothing and footwear priced under $110 and created two clothing exemption weeks at the same $110 threshold.	June 1, 2003
Use tax line on PIT return	Required a line on PIT returns for taxpayers to report use tax owed.	May 24, 2003

TAX LIABILITY

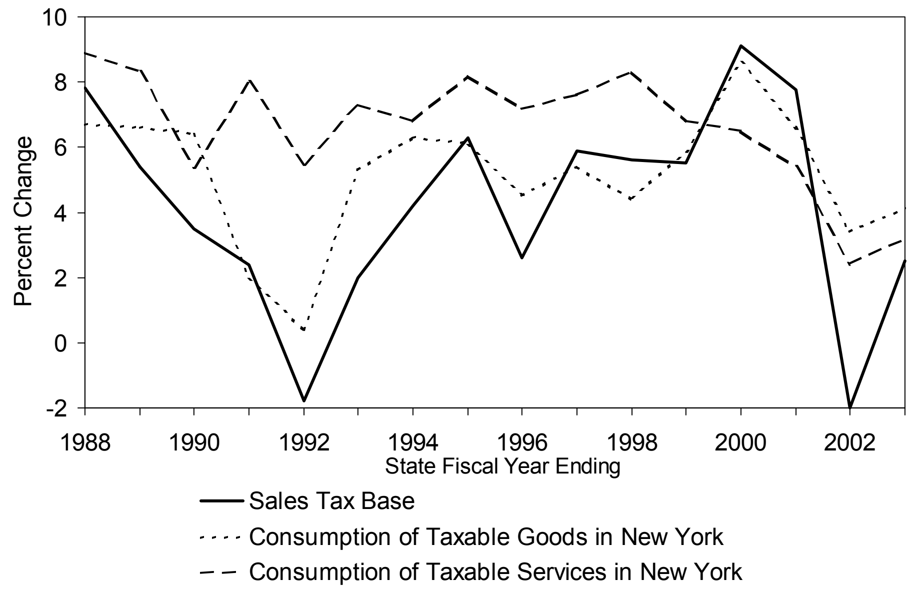
The sales and compensating use tax, which accounted for over 16.9 percent of 2002-03 General Fund tax revenues, not including transfers from other funds, is the second largest State tax revenue source (the personal income tax is the largest).

In the long run, sales tax receipts are a function of changes in the tax rate and the State's economic performance as measured by such factors as disposable income and employment. Short-run fluctuations can result from rapid changes in fuel prices, auto sales, and home sales. The following table and graphs shows the growth rate of major economic factors affecting the sales tax.

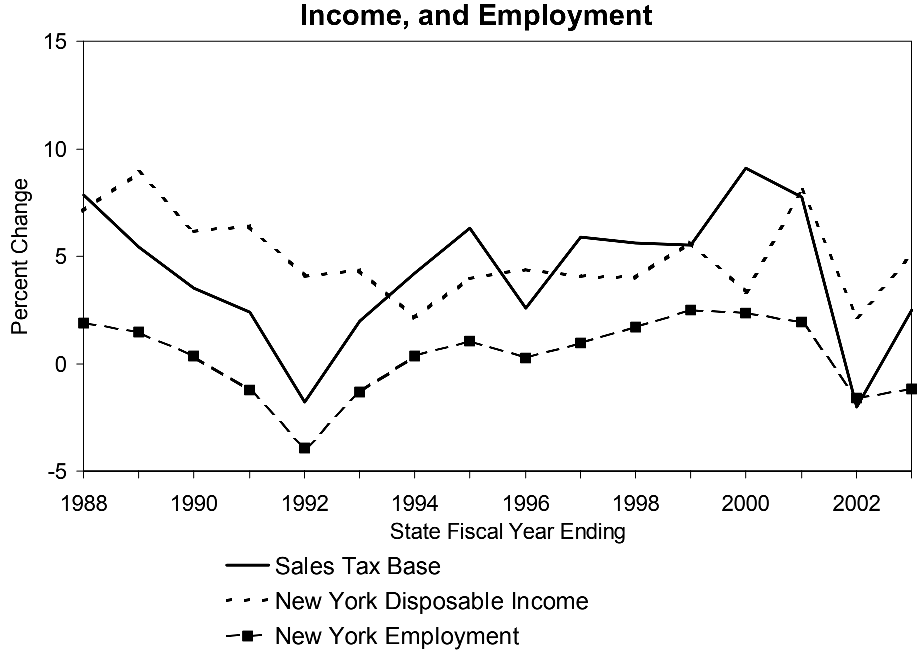
MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS
STATE FISCAL YEARS 1995-96 TO 2004-05
Percent Change

	95-96	96-97	97-98	98-99	99-2000	2000-01	01-02	02-03	Estimated 03-04	Projected 04-05
Consumption of Taxable Goods in NY	4.5	5.4	4.4	5.9	8.6	6.6	3.4	4.1	6.0	6.7
Consumption of Taxable Services in NY	7.2	7.6	8.3	6.8	6.5	5.4	2.4	3.2	3.0	5.6
NY Employment	0.2	1.0	1.7	2.5	2.3	1.9	(1.6)	(1.2)	(0.2)	0.9
NY Disposable Income	4.4	4.1	4.0	5.7	3.3	8.1	2.1	5.0	5.1	5.3
NY Nominal Value of New Auto and Light Truck Registrations	(0.6)	12.1	3.5	14.2	12.6	(5.2)	8.2	5.0	10.5	7.2
Sales Tax Base	2.6	5.9	5.6	5.5	9.1	7.8	(2.0)	2.5	2.3	5.1

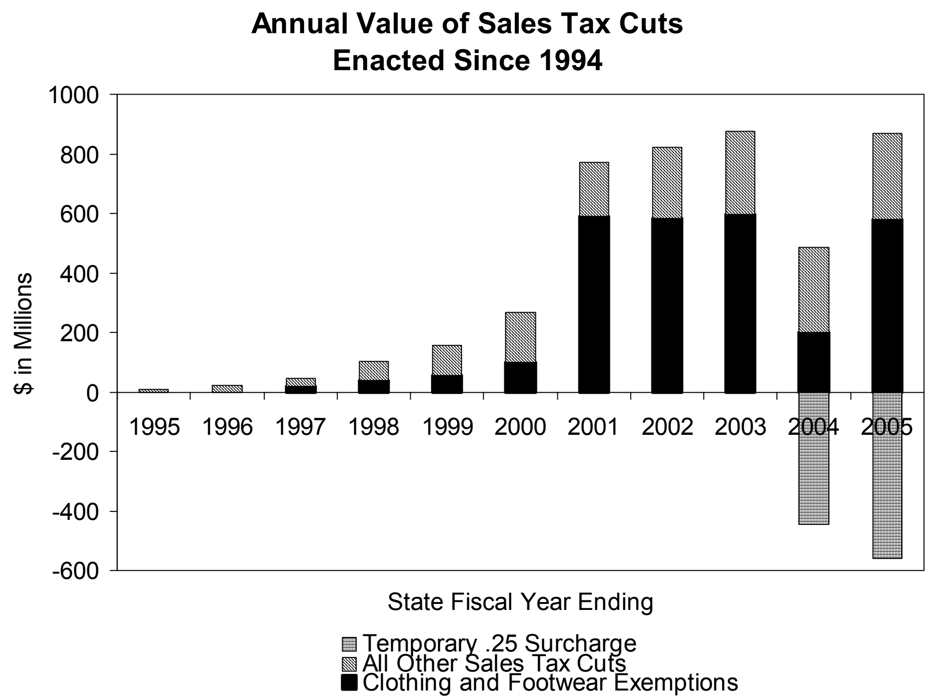
Historical Growth in State Sales Tax Base and Taxable Consumption



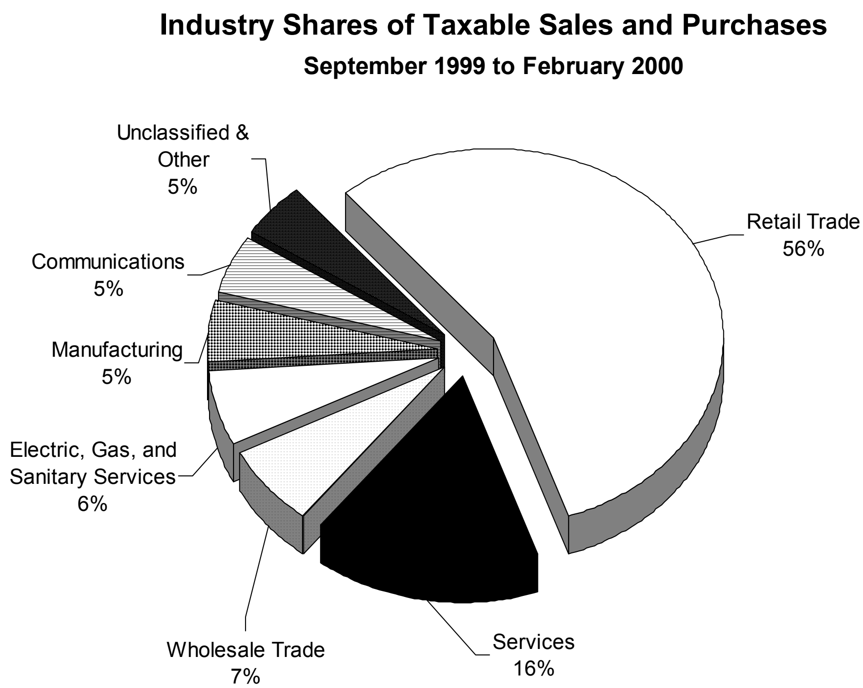
Historical Growth in State Sales Tax Base, Income, and Employment



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. The 0.25 percent temporary surcharge enacted in 2003 is shown as a negative bar.



Although numerous exemptions from tax on the sales of tangible personal property have been enacted (see "Tax Expenditures"), 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 and general merchandise stores. The service industry, including accommodations and food services, information, and administrative services, at 16 percent of the statewide total, accounts for the next largest share of taxable sales and purchases.



States are currently constrained by United States Supreme Court decisions limiting which out-of-state vendors can be required to collect the sales tax on a state's behalf. In general, a vendor must have some physical presence or nexus in a state to be required to collect that particular state's sales tax. Thus, a compensating use tax complements the sales tax, and is imposed on the use of taxable property or services in-state, if the transaction has not already been subject to tax. This would include, for example, taxable items purchased via mail order or over the Internet if the vendor has no 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.

PROPOSED LEGISLATION

Legislation submitted with this budget includes:

- replacing the exemption on clothing and footwear priced under $110 with a $500 per item threshold during three to four exemption weeks;
- extending the exemption for alternative fuel vehicles by one year; and
- surcharges of 3 percent on the sale of protective and detective services and 4 percent on certain admission charges to fund public safety and security.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $7,477 million, an increase of $816.4 million, or 12.2 percent above the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $9,822 million, an increase of $1,026 million, or 11.7 percent above last year.

The underlying sales tax base is estimated to increase 2.3 percent. Taxable sales were bolstered by several factors. Continued strength in mortgage refinancing allowed consumers to tap increased home equity. Brisk home sales buoyed spending on furniture and other household items, and Federal tax cuts in the form of direct payments to taxpayers allowed consumers to increase spending. In terms of real receipts growth, this recovery is somewhat similar to the early 1990s when absolute declines were followed by an initial year of slow growth (see following graph). However, the recent recession was not as severe or as prolonged as the previous recession. This may be due to buoyant consumer spending during this recession, which in turn could result in more moderate, post-recession consumption growth than, for example, the early 1980s.

Legislation enacted in 2003 imposed a 0.25 percent sales and use tax surcharge on all taxable sales. The surcharge is expected to generate $445 million in additional receipts in 2003-04. Additional legislation that suspended the clothing and footwear exemption and replaced it with two separate exemption weeks during the 2003-04 fiscal year is expected to add $441 million to 2003-04 receipts.

2004-05 Projections

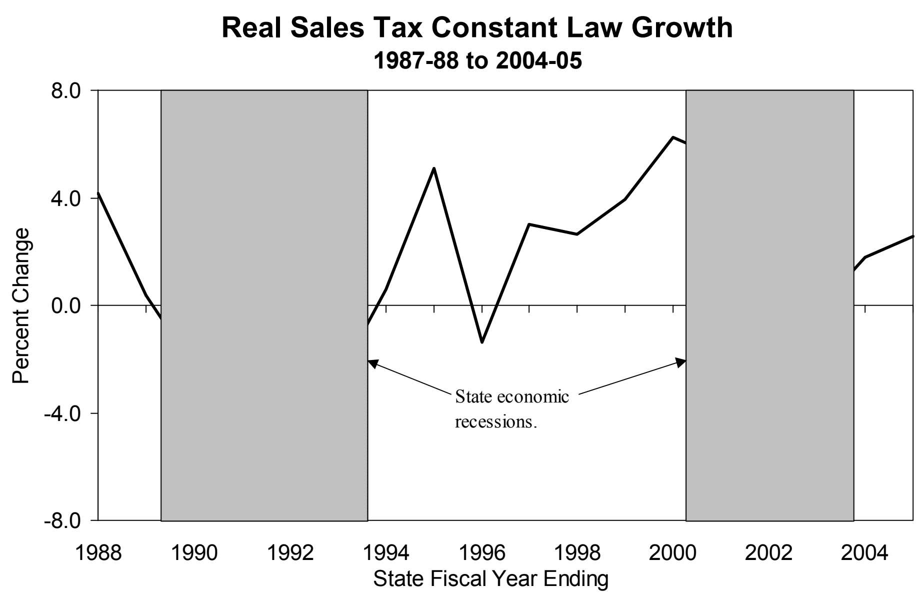
Total net All Funds receipts are projected to be $10,483.2 million, an increase of $661.2 million, or 6.7 percent above 2003-04.

The increase is largely due to an expected rebound in national and State economic growth as well as to previously enacted and proposed tax law changes. Disposable income is expected to grow 5.3 percent and employment to grow 0.9 percent in 2004-05. Taken together, these factors help explain a projected growth in the sales tax base of 5.1 percent. The temporary 0.25 percent sales and use tax surcharge and the clothing legislation enacted in 2003 are projected to generate an additional $560 million and $103 million, respectively, in 2004-05.

Legislation submitted with this Budget proposes to eliminate the exemption on clothing and footwear priced under $110 and replace it with a $500 per item exemption effective during three separate weeks during 2004-05 and four weeks in subsequent years. This proposal is expected to generate an estimated $400 million in 2004-05. Additional legislation proposes a one-year extension of the sales tax exemption on alternative fuel vehicles. This proposal is expected to decrease 2004-05 receipts by $1.2 million. Increased sales tax receipts from the proposal to allow direct wine shipments to New York consumers (see the Alcoholic Beverage Taxes story) are expected to amount to $2 million.

Additional legislation proposes to impose a 3 percent State-only sales and use tax surcharge on currently taxable protective and detective services and a 4 percent State-only sales tax surcharge on currently taxable admission charges. The revenue from these surcharges will be deposited in a special revenue account to fund public security and safety activities. These surcharges are projected to provide $39 million in additional revenue in 2004-05.

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.



General Fund

Direct deposits to the General Fund for 2003-04 are estimated to be $7,178 million, an increase of $850.4 million, or 13.4 percent, from 2002-03 receipts. All proceeds from the 0.25 percent surcharge are deposited in the General Fund. General Fund receipts in 2004-05 are projected to be $7,665.9 million, a 6.8 percent increase from the current year.

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 $2,106.5 million in 2002-03 and are estimated at $2,244.5 million in 2003-04, and $2,364.0 million in 2004-05. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

The Mass Transportation Operating Assistance Fund (MTOAF) 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 $361.9 million in sales and use tax receipts in 2002-03, will receive an estimated $399.5 million in 2003-04, and $414.3 million in 2004-05.

As noted above, legislation proposed with this Budget would provide $39 million in 2004-05, which would be dedicated to the Public Safety and Security Account.

RECEIPTS BY FUND TYPE

SALES AND USE TAX RECEIPTS
(millions 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			
1995-96	5,036	41	4,995	293	0	1,666	6,954
1996-97	5,265	40	5,225	289	0	1,747	7,261
1997-98	5,467	24	5,442	306	0	1,814	7,562
1998-99	5,729	32	5,697	321	0	1,894	7,912
1999-2000	6,182	41	6,141	346	0	2,046	8,532
2000-01	6,311	39	6,272	368	0	2,092	8,732
2001-02	6,174	43	6,131	365	0	2,044	8,540
2002-03	6,390	62	6,328	362	0	2,106	8,796
				Estimated			
2003-04	7,218	40	7,178	399	0	2,245	9,822
2004-05							
(current law)	7,411	40	7,372	414	0	2,264	10,050
(proposed law)	7,726	40	7,666	453	0	2,364	10,483

[1] Mass Transportation Operating Assistance Fund and the Public Safety and Security Account.
[2] Local Government Assistance Tax Fund.

OTHER TAXES

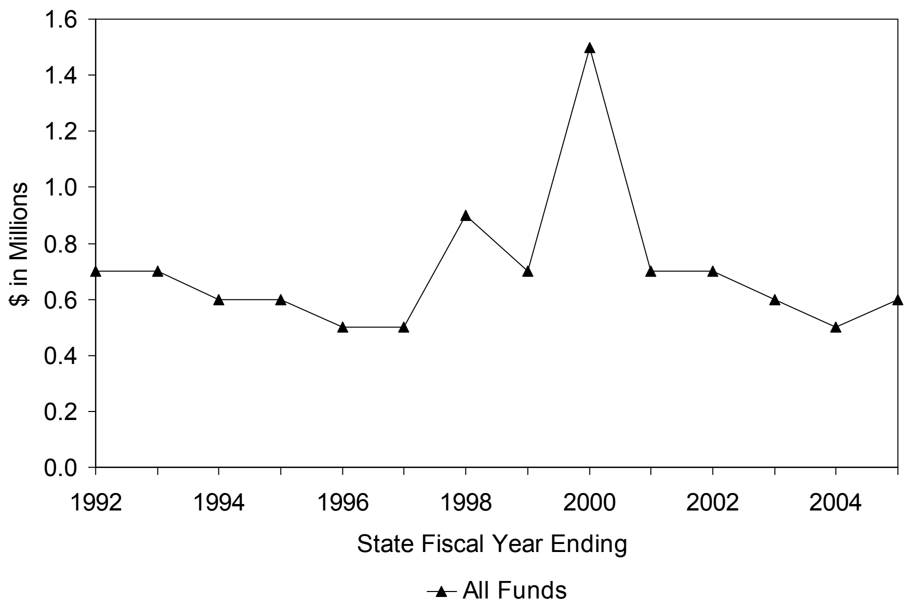
SUMMARY

In 2003-04, All Funds collections from other taxes are estimated to be $500,000. This is a decrease of $100,000, or 16.7 percent, from the prior year, resulting from the expected reduction of the number of wrestling and boxing exhibitions compared to previous years.

In 2004-05, All Funds collections from other taxes are estimated to be $600,000. This is an increase of $100,000, or 20 percent, from the prior year, resulting from the expected return to more normal levels of boxing and wrestling exhibitions in the State due to the increased interest in this form of entertainment. Admissions to enter into racetracks and wrestling/boxing exhibitions are expected to remain fairly constant.

No new legislation is proposed with this Budget.

Other Taxes Receipts
History and Estimates



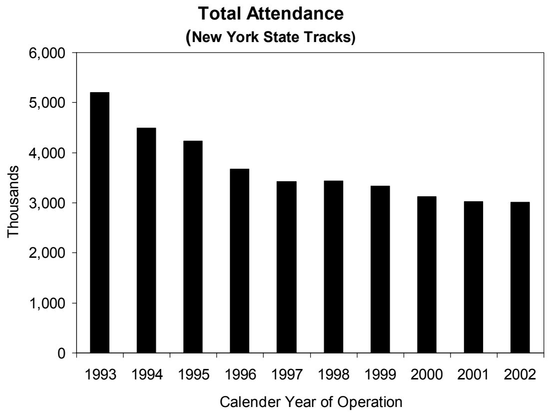
DESCRIPTION

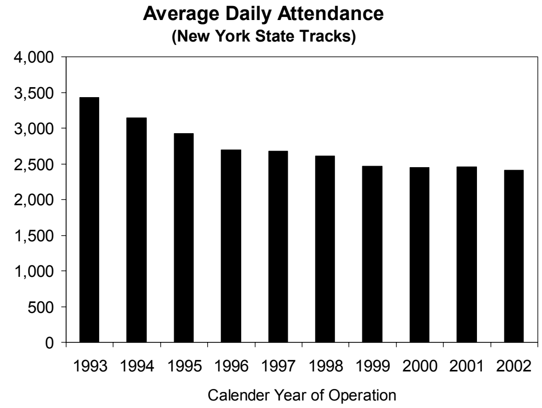
Tax Base and Rate

Racing Admissions Tax — A tax is levied on the charge for admissions to racetracks and simulcast theaters throughout the State. The increase in simulcasts at off-track betting locations with New York, expanded interstate competition, and the growth of casino activity 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.

Boxing and Wrestling Exhibitions Tax — A tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. A heavyweight championship fight, which is an event of high spectator interest, can impact the yield of the tax substantially, causing receipts to vary considerably from year to year.

The racing admissions tax rate is 4 percent. The boxing and wrestling exhibitions tax rate is 3 percent.





Administration

In regard to the racing admissions tax, the New York State Racing and Wagering Board has general jurisdiction over all horse racing activities and all pari-mutuel betting activities, both on-track and off-track, in the State and over the corporations, associations, and persons engaged in gaming activities.

In reference to the boxing and wrestling exhibitions tax, the Department of Taxation and Finance is responsible for collecting the receipts.

Significant Legislation

In 1999, a cap was established for boxing and wrestling fees.

TAX LIABILITY

The major factor that affects racing admissions tax liability is the number of customers who attend on-track races; this is dependent on factors such as the weather and competition from other types of gambling or non-gambling entertainment.

The wrestling and boxing exhibitions tax can be affected by the importance of the events staged in a given fiscal year and by the degree of competition at other types of entertainment venues.

PROPOSED LEGISLATION

No new legislation is proposed with this Budget.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $486,202, a decrease of $12,645, or 2.5 percent below the comparable period in the prior fiscal year.

Total net All Funds receipts for 2003-04 are estimated to be $500,000, a decrease of $100,000, or 16.7 percent below last year. The decrease in receipts reflects the reduced number of wrestling and boxing exhibitions in New York City and the rest of the State compared to previous years.

2004-05 Estimates

Total net All Funds receipts are projected to be $600,000, an increase of $100,000, or 16.7 percent above 2003-04. The expectation is that the levels of boxing and wrestling exhibitions in New York City will return to prior levels.

RECEIPTS BY FUND TYPE

OTHER TAXES RECEIPTS
(thousands of dollars)

	General Fund		Special Revenue Funds	Capital Projects Funds	Debt Service Funds	All Funds Collections
	Admissions	Exhibitions				
Actual						
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
2002-03	300	300	0	0	0	600
Estimated						
2003-04	300	200	0	0	0	500
2004-05	300	300	0	0	0	600

MISCELLANEOUS RECEIPTS
General Fund

DESCRIPTION

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

SIGNIFICANT LEGISLATION

The significant statutory changes since 1994 are summarized below.

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

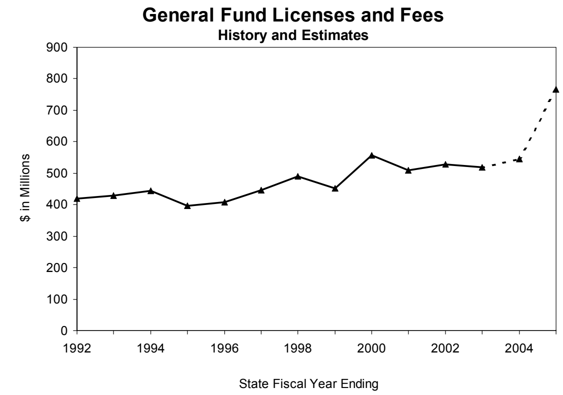
Subject	Description	Effective Date
Legislation Enacted in 2002		
Supplemental Wireless Service Surcharge	Increased from $0.70 to $1.20 monthly the State wireless communication service surcharge.	August 1, 2002
Legislation Enacted in 2003		
Abandoned Property	Reduced the time period for collecting abandoned property related to the demutualization of insurance companies, from five years to two.	January 1, 2003
Assessments	Increased cost recovery assessments' cap from $20 million to $40 million.	April 1, 2003
Criminal Fines	Increased criminal fines deposited into the Justice Court Fund from between $100 and $1,500 to $150 and $2,250.	April 1, 2003
Lobbyist Fee	Increased annual lobbyist registration fees to $100 (2004) and $200 (2005).	April 1, 2003
Uncashed Checks	Reduced dormancy period of uncashed checks from three years to one year.	April 1, 2003
Background Checks	Required holders of HAZMAT license endorsement to undergo criminal background check for a fee of $75.	May 15, 2003
Sex Offender Fee	Required sex offenders to pay a DNA databank fee of $50, a sex offender registration fee of $50, and a sex offender registration change fee of $10.	May 15, 2003
Data Search Fee	Increased data search fee by $1.	July 1, 2003
Court Motion Fees	Imposed a $45 motion fee on Supreme/County and Appellate Courts, a stipulation of Discontinuance Fee of $35 and increased all Civil Court Fees by 25%.	July 14, 2003
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50%.	August 1, 2003
Penal Bonds	Increased fee on penal bonds from $1,000 to $2,500.	October 1, 2003
DWI or DWAI Surcharge	Imposed a $25 surcharge on DWI or DWAI convictions.	November 12, 2003
Parking Surcharges	Increased parking surcharges from $5 to $15.	November 12, 2003

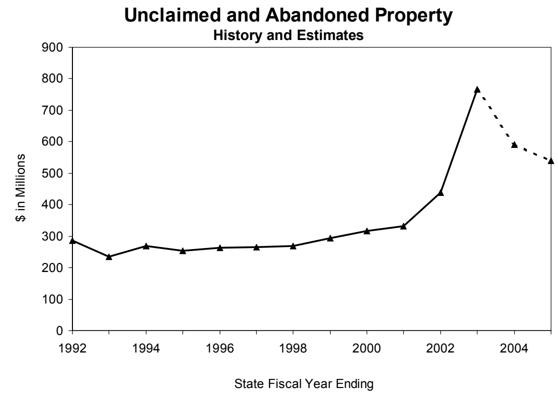
Proposed Legislation

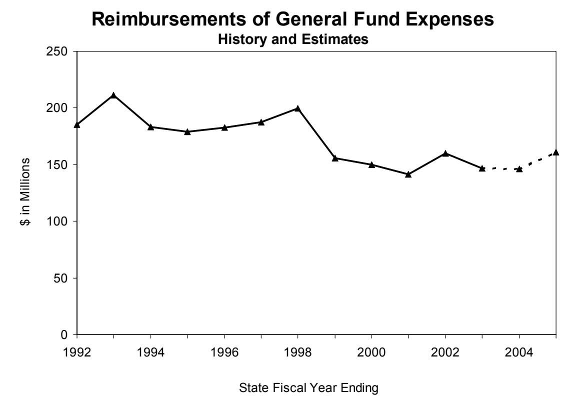
Legislation submitted with the Executive Budget proposes to add new charges and fees and to raise the amount of some existing charges and fees. The following is a table and summary of the proposals impacting General Fund Miscellaneous Receipts.

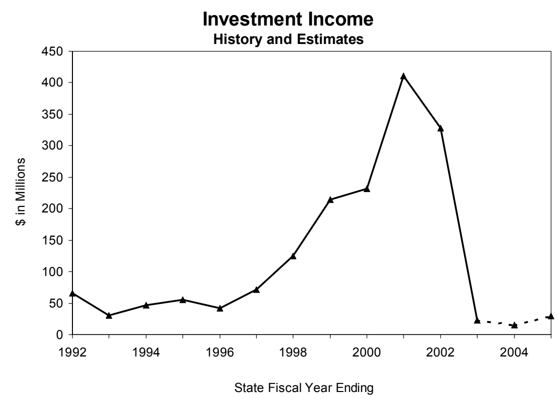
DESCRIPTION	CHANGE		VALUE IN 2004-05
			(millions of dollars)
Alcoholic Beverage License Filing Fees	Various		0.2
Banking Fees	From	$10 to $20 $5,000 to $10,000	2.0
Parking Ticket Surcharge	New	$15	7.5
Record Review Fee	From	$25 to $50	0.1
Work Zone Automated Speed Enforcement	New	$100	15.0
Tax Credit Application Fee	From	$100 to $200 $250 to $500 4% to 5%	0.5
ATV Registration Fee	From	$10 to $45	5.8
Driver Responsibility Program	New	$100 and $1,000	17.5
Federal Bed Capacity Contract	New	$30,000/bed	15.0
Divisible Load Permits and Fines	Various	$50 to $150	1.5
Waste Tire Fee	Extension of $2.25/tire		0.3
New State Land Gas Lease Sales	Various		0.8
Deceptive Trade Practices Penalty	From	$500 to $5,000	0.5
Snowmobile Fee	From	$5 to $10	1.0
Handgun License Fee	New	$20 to $100	31.0
Vehicle and Traffic Local Prosecution Program	Various		17.8

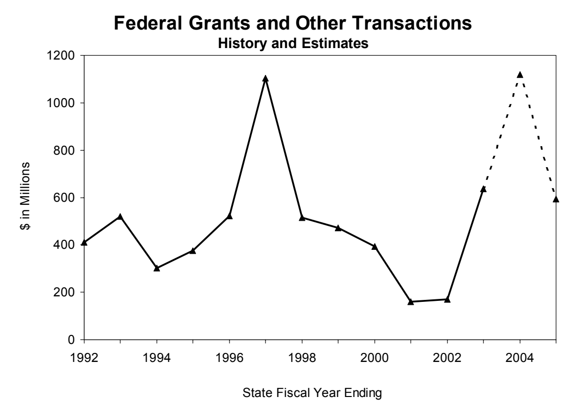
Components of Miscellaneous Receipts











Historically, General Fund Licenses and Fees revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2004-05, these revenues are expected to increase as a result of fee increases proposed in the Executive Budget.

Historically, Unclaimed and Abandoned Property revenue has remained relatively stable with minimal growth, aside from a spike in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated with the sale of stocks as well as a reduction in the dormancy period of uncashed checks. Unclaimed and Abandoned Property revenue is expected to return to more normal levels in the forecast period.

Historically, Reimbursements of General Fund Expenses Revenues have remained relatively constant. Reimbursements are expected to remain relatively constant over the forecast period.

The trends in Investment Income are directly related to the General Fund account balances and interest rates. For example, the large increase in 2000-2001 followed by the severe drop in 2002-2003 is a result of the impact of the economic growth and subsequent recession on the State's finances - balances declined and interest rates declined. The forecast for Investment Income is a slight increase in the outyears as interest rates increase.

Federal Grants and Other Transactions, excluding tobacco securitization proceeds, are an unrelated grouping of transactions and payments, which do not fall under the other Miscellaneous Receipts categories. Differences in collections year-to-year are the result of large, unusual payments to the State of New York. The increase in 2003-04 and its continuation in the forecast for 2004-05 is due to: Federal revenue sharing grants; Bond Issuance Charges on Tobacco Bond Proceeds; a supplemental wireless surcharge; and an increased number of Wall Street settlement payments to the State of New York.

2002-03 RECEIPTS

In State fiscal year 2002-03, miscellaneous receipts totaled $2,091 million. Major revenue sources in that year included: $767 million in unclaimed and abandoned property; $518 million in fees, licenses, fines, royalties, and rents; $150 million from the State of New York Mortgage Agency; $145 million in medical provider assessments; $145 million in reimbursements; $139 million in additional bond issuance charges; $67 million from the PASNY for the Power of Jobs program; $38 million from the New York State Housing Finance Agency; $28 million from the supplemental wireless surcharge; and $23 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). In addition the receipts include, $6 million in Federal grants and $6 million from revenue maximization.

2003-04 ESTIMATES

Miscellaneous receipts are estimated at $6,615 million for fiscal year 2003-04, including $4,200 million in Tobacco Bond proceeds. With tobacco proceeds excluded, miscellaneous receipts are estimated to increase $323 million from the prior year. The estimate includes $652 million from Federal Revenue Sharing grants; receipts of $590 million in unclaimed and abandoned property; $546 million in fees, licenses, fines, royalties, and rents; $148 million in medical provider assessments; $146 million in reimbursements; $113 million in additional bond issuance charges; $69 million in extraordinary fines from various Wall Street firms; $58 million from PASNY for the Power for Jobs program; $56 million from the supplemental wireless surcharge; $15 million in net investment earnings; $11 million from a tobacco settlement; $9 million from the Port Authority of New York and New Jersey; and $3 million from petroleum overcharge recoveries.

2004-05 PROJECTIONS

Miscellaneous receipts are projected at $2,087 million in fiscal year 2004-05, a decrease of $328 million from the amount estimated for 2003-04, with tobacco proceeds excluded. This projection includes $766 million in fees, licenses, fines, royalties and rents; receipts of $540 million in unclaimed and abandoned property; $181 million from a transfer of tobacco proceeds; $161 million in reimbursements; $149 million in medical provider assessments; $101 million in bond issuance charges; $100 million from PASNY for the Power for Jobs program; $73 million from the supplemental wireless surcharge; $30 million in net investment earnings; $25 million in proceeds from ESDC privatization and $4 million in Federal grants.

MISCELLANEOUS RECEIPTS
GENERAL FUND
(millions of dollars)

	2000-01	2001-02	2002-03	2003-04	2004-05
	Actual			Estimated	Projected
License, Fees, Etc.	509	528	518	546	766
Federal Grants	4	4	6	652	4
Abandoned Property	333	439	767	590	540
Reimbursements	141	160	144	146	161
Investment Income	411	328	23	15	30
Other Transactions*	155	166	633	4,666	586
Total	1,553	1,625	2,091	6,615	2,087

* Includes proceeds from Tobacco securitization.

MISCELLANEOUS RECEIPTS
Special Revenue Funds

Miscellaneous receipts deposited to special revenue funds represent approximately 23 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 and proceeds from the expected implementation of VLTs at racetracks are used to 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 FINANCING

Receipts from the Tobacco Control and Insurance Initiatives Pool and the Health Care Initiatives Pool are used primarily to finance a portion of the State's Medicaid program, including expansion of programs such as Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage Program, Child Health Plus, AIDS programs and community mental health expansion programs.

PROVIDER ASSESSMENTS

The provider assessment account receives moneys from a reimbursable assessment on nursing home revenues. The 2004-05 Executive Budget proposes an increase in the assessment on nursing home revenues from 5 percent to 6 percent and the reimposition of a nonreimbursable 0.7 percent assessment on hospital and home care revenues.

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)

	2000-01	2001-02	2002-03	2003-04	2004-05
	Actual			Estimated	
State University income	1,656	1,824	1,944	2,240	2,303
Lottery	1,587	1,713	1,931	2,030	2,318
Indigent care	873	836	1,056	901	876
HCRA financing	854	1,072	2,086	2,477	2,756
Provider assessments	0	0	423	371	629
All other	1,676	1,684	2,130	2,377	2,596
Total	6,646	7,129	9,570	10,396	11,478

LOTTERY

SUMMARY

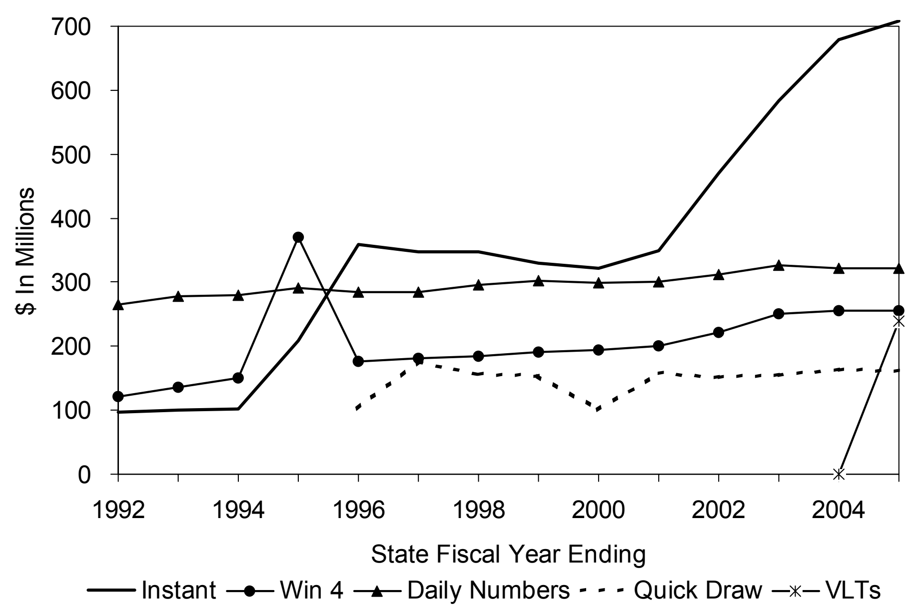
In 2003-04, All Funds collections from the Lottery Division are estimated to be $1,868.7 million. This is an increase of $42.5 million, or 2.3 percent, from the prior year, reflecting higher-than-expected sales in Instant Games, a full-year effect of the Mega Millions game, and improved sales in Quick Draw. The 2003-04 supplemental lottery appropriation sets disbursements to education at $1,835.1 million. The $33.6 million balance will be carried forward to 2004-05.

In 2004-05, All Funds current law collections from the Lottery Division are projected to be $1,767.7 million. This is a decrease of $67.4 million, or 3.7 percent, compared with 2003-04.

Legislation proposed with this Budget includes provisions to:

- Allow a VLT licensing program, which will allow up to 8 new facilities in New York State.
- The Quick Draw game expires on May 31, 2004. The Lottery Division proposes legislation to make permanent the authorization to operate Quick Draw. Estimated revenue, including administrative surplus, from Quick Draw for 2004-05 is $162 million. In addition, the proposed legislation will authorize the elimination of specific hours, space, and food requirements. This is expected to increase revenues from Quick Draw by $43 million.

Fixed Odds & Instant Game Revenues



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 four 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. The VLTs, are currently authorized to be used only at selected thoroughbred and harness tracks.

The minimum statutory allocation to education for the Lotto 59 and 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), 61 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.

Distribution of Lottery Sales
(Percent)

	Prizes	Revenue Percent	Admin. Allow
Lotto	40.0	45.0	15.0
Lotto - Millenium Millions	40.0	45.0	15.0
Instant Win	40.0	45.0	15.0
Mega Millions 50% Prize Payout	50.0	35.0	15.0
Take 5	50.0	35.0	15.0
Quick Draw	60.0	25.0	15.0
Numbers	50.0	35.0	15.0
Win 4	50.0	35.0	15.0
Pick 10	50.0	35.0	15.0
Instant	65.0	20.0	15.0
Three Games 75%	75.0	10.0	15.0
VLTs*	92.0	4.9	3.1

*Applies to SFY 2004-05. The administrative allowance includes the commission paid to the track (1.62 percent), purses (0.6 percent), and Breeders' funds (0.1 percent), and the amount retained by Lottery for administration (0.8 percent).

Administration

The Lottery Division develops, advertises, distributes, and performs all required responsibilities necessary to operate an effective State lottery. Under current law, the Comptroller, pursuant to an appropriation, distributes all net receipts from the lottery directly to school districts. 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.

Significant Legislation

The significant lottery legislation enacted since 1994 is summarized below.

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
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 hours can be consecutive.	
	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
Legislation Enacted in 2003		
Quick Draw	Extended the operation of Quick Draw until May 31, 2004.	January 28, 2002
Video Lottery Terminals	Of the total amount wagered on video lottery terminals, 92 percent is paid out for prizes. Of the balance, the Lottery Division retains 10 percent for administration, 29 percent is paid to the racetracks as a commission, and 61 percent is dedicated to education. Of the commission paid to the tracks, the amount allocated to purses in years one through three is 25.9 percent; in years four and five, 26.7 percent; and in subsequent years, 34.5 percent. The Breeders' funds receive 4.3 percent of the commission paid to racetracks in the first through fifth years and 5.2 percent in the following years. The racetracks are allowed to enter into agreements, not to exceed five years, with the horsemen to reduce the percentage of the vendor fee allocated to purses. The program expires ten years after the start of the program.	May 2, 2003

LOTTERY DEMAND

Factors that affect the demand for Lottery games include: the price of the lottery tickets, the amount spent on advertising and marketing, the prize payout percentage, the development of new games that generate increased sales, the potential customers' attitude towards the Lottery Division and competition from other gambling venues.

PROPOSED LEGISLATION

- The VLT licensing proposal will allow the Lottery Division to authorize up to 8 licenses for VLT gaming locations in New York State. A separate license is required for each VLT facility. This proposal was developed, in part, to generate additional education revenue to fund Sound Basic Education (SBE). The licenses will be awarded on a competitive basis and each proposed VLT location will be approved by the Lottery Division. In New York City, no more than five VLT facilities will be allowed to locate in New York County (south of 59th Street), Kings, and Richmond. No licenses will be granted for locations that are within 15 miles of a licensed VLT facility at a racetrack. To preserve competitive balance no additional facilities will be permitted in Westchester, Putnam and Rockland counties
- The Quick Draw game expires on May 31, 2004. The Lottery Division proposes legislation to extend the authorization to operate Quick Draw. Estimated revenue, including administrative surplus, from Quick Draw for 2004-05 is $162 million.
- The proposed legislation will authorize the elimination of restrictions on the Lottery's Quick Draw game. Under current law, Quick Draw may only be offered: (1) at facilities licensed for the sale of alcoholic beverages for on-premises consumption if at least 25 percent of the gross sales of the business are sales of food; (2) at locations not licensed for the sale of alcoholic beverages for consumption on the premises if the premises are greater than 2,500 square feet in area; and (3) Quick Draw is allowed no more than 13 hours of daily operations — no more than 8 hours of which may be consecutive. The estimated additional revenue gained from the elimination of the Quick Draw restrictions are $43 million, in State fiscal year 2004-05.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2003-04 Estimates

Net All Funds collections to date are $1,196.9 million, an increase of $80.8 million, or 7.2 percent above the comparable period in the prior fiscal year. Growth in revenue can be attributed primarily to better-than-expected Instant Game sales. To date, Instant Game sales are 14 percent above last year's sales. Recent legislation that increased the prize payout on instant ticket games; added up to three games each year with a 75 percent prize payout; and introduced new more popular game formats. All of these factors have contributed to sales growth.

Net All Funds collections for 2003-04 are estimated to be $1,868.7 million, an increase of $42.5 million, or 2.3 percent above last year. (See Table 1.) Total net All Funds sales for 2003-04 are estimated to be $5.9 billion that, in turn provides $1.6 billion in receipts for education. This is an increase of $84.5 million, or 5.6 percent, above last year. Unspent administrative allowances and miscellaneous income is estimated at $277.2 million. The 2003-04 supplemental lottery appropriation sets disbursements to education at $1,835.1 million. The $33.6 million balance will be carried forward into 2004-05.

A game by game profile reveals that:

Instant Games, as stated above, are experiencing increased sales. Total Instant Game sales are expected to increase by 19.5 percent and revenue from instant ticket sales is expected to increase to $536.8 million in 2003-04.

Lotto sales have declined over the past several years. The declines are attributable to: (1) a general dilution of interest in ordinary jackpots; (2) increased competition from 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; (5) low interest rates which limits the size of jackpots at every prize level; and (6) competition from Mega Millions. Similar declines have been experienced in many states with similar Lotto structures.

Mega Millions sales are $331.5 million. New York State is proving to be a dominant state among the Mega Millions coalition. To date, there have been only three substantial jackpot roll-ups during this State fiscal year. Considering the sales experience in 2002-03, the average weekly sales for Mega Millions in 2003-04 are expected to remain constant.

Take 5 continues to be characterized by diminishing sales. Competition from Mega Millions and a maturing game life cycle has caused estimated sales to drop by 4 percent, compared to 2002-03.

Numbers and Win 4 games are still benefiting from the addition of a second daily draw that was begun by the Division on December 2001. Revenue from sales for the Numbers game is expected to increase marginally from $263.4 million, in 2002-03, to $264 million in 2003-04. The estimated increase in revenue from sales for the Win 4 game is $7.8 million over 2002-03. The estimated combined revenue effect for State fiscal year 2003-04 from the addition of the second daily draw is $61.7 million. Numbers sales are expected to increase by 0.2 percent and Win 4 sales are estimated to increase by 4 percent.

The Instant Win game was introduced 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. Initial sales were promising but quickly deteriorated, reflecting only modest customer interest in this game. Revenue from sales are estimated to decrease by 15.2 percent in 2003-04 from 2002-03.

Pick 10 sales are expected to continue to marginally decline. Revenue from sales are estimated to remain constant at $11.9 million.

Quick Draw sales are expected to increase by 5 percent in 2003-04 over 2002-03. The primary reason for the improvement in sales is the increase in draws from every 5 minutes to every 4 minutes. The change in draws was made on February 23, 2003. Some Quick Draw vendors have boycotted Quick Draw sales as a protest over smoking restrictions. This has offset a portion of the gains associated with increased draws.

Despite several challenges, conflicts, and delays encountered with the VLT program, the Division has made substantial progress towards the opening of VLTs at authorized New York State racetracks. A central computer system is in place; all required contracts with VLT vendors and other related business entities are now approved by the Comptroller's office; and the initial gaming floor layouts have been received from most of the racetracks.

Due to the delays in the initiation of the VLT program, the Division of the Budget is not including any revenues from VLTs in the 2003-04 Financial Plan.

2004-05 Projections

Total net All Funds receipts are projected to be $1,767.7 million, a decrease of $67.4 million, or 3.7 percent, below 2003-04, with lottery base sales for 2004-05 estimated to be $5.9 billion. This figure includes $1,488 million in revenues from sales, $246.1 million in unused administrative surplus and miscellaneous receipts, and a $33.6 million carry-in from 2003-04.

Game by game estimates can be summarized as follows:

Instant games revenues are expected to increase by $26.2 million, in 2004-05. The higher payout games are projected to be entering a mature cycle.

Lotto game revenues are estimated to decline by $8.8 million. The continuing drop in Lotto sales reflects the increased competition from other gambling options, (e.g., casinos and VLTs) and continued cannibalization from the Mega Millions game.

Net receipts from Mega Millions is expected to drop by 1 percent, to $145.6 million in 2004-05. The game has gained a customer base, but the jackpots have yet to attain the anticipated lofty levels that its competition, the Powerball game, has achieved.

Revenues from Take-5 games are projected to drop by $12 million. The negative impact of competition from Mega Millions and the anticipated continuation of the game's maturation cycle will contribute to continued declines in sales.

Daily Numbers and Win 4 are estimated to remain roughly constant from State fiscal year 2003-04.

The Instant Win revenues are projected to decline by $0.6 million in State fiscal year 2004-05.

Revenues from Pick 10 are expected to decrease by $1 million, due to competition from the more popular Instant and Take-5 games.

The Quick Draw game is projected to decline $104 million, or 84 percent, in State fiscal year 2004-05, if the game is allowed to sunset on May 31, 2004. The estimated administrative surplus for 2004-05 will be further reduced by $31.6 million, because Quick Draw will only be operating the first two months of the State fiscal year. In addition, base sales are expected to drop because of competition from other games, restrictions on locations that can operate Quick Draw games, a maturing sales cycle, and continued diminished sales due to the recent smoking restrictions.

The current VLT program is estimated to generate $240.1 million in incremental revenues in State fiscal year 2004-05. All receipts from the VLT program are to be deposited in a separate Lottery account, not co-mingled with existing Lottery receipts, to help fund SBE. Despite anticipated construction and administrative delays, the following racetracks are expected to be operating in 2004-05: Saratoga Equine Sports Center, Buffalo Trotting Association, Inc., Finger Lakes Race Track, Monticello Raceway Management, Inc., and Batavia Downs. The proposed expansion of VLT facilities included with the Budget is expected to have no revenue impact in 2004-05. However, any receipts received from this expansion would also be deposited in the new account earmarked for SBE.

TABLE 1
COMPONENTS OF LOTTERY RECEIPTS
(millions of dollars)

	1999-2000 Actual	2000-01 Actual	2001-02 Actual	2002-03 Actual	2003-04 Estimated	Current Law 2004-05 Projected	Proposed Law 2004-05 Projected
Instant Game	272.7	283.0	377.1	465.7	536.8	563.0	563.0
Lotto Games[1]	339.5	304.6	254.8	175.7	162.3	153.5	153.5
Mega Millions				129.0	147.1	145.6	145.6
Take-5	114.8	135.0	152.2	133.5	128.5	116.3	116.3
Daily Numbers[2]	246.7	247.4	256.8	267.0	267.2	265.7	265.7
Win-4[2]	159.6	164.5	182.4	205.6	212.8	212.6	212.6
Pick 10	15.1	14.5	13.2	11.9	11.9	10.7	10.7
Quick Draw	82.2	126.7	121.8	118.6	124.9	20.6	156.6
Subtotal	1,230.6	1,275.7	1,358.3	1,507.0	1,591.5	1,488.0	1,624.0
Administrative Surplus[3]	119.1	159.8	193.2	281.9	277.2	246.1	287.8
Current Receipts Subtotal	1,349.7	1,435.5	1,551.5	1,788.9	1,868.7	1,734.1	1,911.8
Carry-In	0.0	4.7	47.2	37.2	0.0	33.6	33.6
Net Receipts for Education	1,349.7	1,440.2	1,598.7	1,826.2	1,868.7	1,767.7	1,945.4
Carry-Out	(4.7)	(47.2)	(37.2)	0.0	33.6	0.0	0.0
Disbursements for Education	1,345.0	1,393.0	1,561.5	1,826.2	1,835.1	1,767.7	1,945.4
VLTs						240.1	240.1

[1] Includes receipts from Lotto and Millennium Millions (Millennium Millions on December 1999 and October 2000).
[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.

The continuation of Quick Draw and removal of restrictions on Quick Draw; and the continued positive influence of Instant Game sales results in total sales of lottery games of an estimated $5.9 billion. This will provide net lottery receipts of $1,624 million. An additional $240.1 million expected from VLTs is to be deposited in a new separate Lottery account for the purpose of funding SBE. Additionally, $287.8 million from surplus administrative funds and miscellaneous receipts, and a $33.6 million carry-in from 2003-04, result in net lottery receipts for education of $2,185.5 million.

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

Actual	
1995-96	1,441.3
1996-97	1,533.2
1997-98	1,533.9
1998-99	1,442.4
1999-2000	1,349.7
2000-01	1,440.2
2001-02	1,598.7
2002-03	1,826.2
Estimated	
2003-04	1,835.1
2004-05	
(current law)	2,007.8*
(proposed law)	2,185.5*

Includes $240.1 million in VLT receipts to be deposited in a separate Lottery account to help fund SBE.

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. The Miscellaneous Receipts table reflects an accounting adjustment for capital activity that is not reflected by the Comptroller's accounting system, but which is included in the Five-Year Capital Program and Financial Plan.

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 94 percent of all miscellaneous receipts flowing to Capital Projects Funds in 2003-04 and 2004-05.

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 2004-05, will be used to finance improvements in the State's park system.

ENVIRONMENTAL REVENUES

Miscellaneous receipts from environmental revenues are projected to decrease from $91 million in 2003-04 to $60 million in 2004-05. This decrease is attributable to changes in reimbursements for advance spending for various projects, which have been or are anticipated to be completed in 2003-04.

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)

	2000-01	2001-02	2002-03	2003-04	2004-05
	Actual			Estimated	
Authority Bond Proceeds					
Transportation	875	710	473	1,752	1,221
Public Protection	197	140	295	188	188
Health and Social Welfare	0	0	0	23	29
Education	413	266	283	646	735
Mental Health	40	63	86	248	198
Econ. Develop./Gov. Oversight	12	101	260	347	790
General Government	0	12	23	47	152
Other	42	68	96	226	198
State Park Fees	16	23	23	22	22
Environmental Revenues	28	20	38	91	60
All Other	51	41	102	96	149
Total	1,674	1,444	1,679	3,686	3,742
Accounting Adjustment				(995)	(1,310)
Financial Plan Total				2,691	2,432

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 16 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)

	2000-01	2001-02	2002-03	2003-04	2004-05
	Actual			Estimated	
Mental hygiene patient receipts	258	248	407	232	228
SUNY dormitory fees	224	247	269	284	299
Health patient receipts	87	91	102	93	98
All other	291	28	29	85	22
Total	860	614	807	694	647

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 $37.19 billion in 2003-04 and $36.26 billion in 2004-05. These revenues represent approximately 37 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 $1.47 billion and $1.68 billion in 2003-04 and 2004-05, 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 11 percent of total Federal Medicaid reimbursements, while receipts for non-State-operated facilities represent the remaining 89 percent.

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

CAPITAL PROJECTS FUNDS

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

FEDERAL GRANTS
(millions of dollars)

	General Fund	Special Revenue Funds: Medicaid	Special Revenue Funds: Welfare	Special Revenue Funds: All Other	Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
	Actual							
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
2002-03	0	19,021	2,307	10,356	31,684	1,567	0	33,251
	Estimated							
2003-04	645	21,799	2,049	11,073	34,921	1,621	0	37,187
2004-05	0	21,749	1,979	10,697	34,425	1,840	0	36,265

PART III

CAPITAL PROGRAM AND FINANCING PLAN

CAPITAL PROGRAM AND FINANCING PLAN

INTRODUCTION

The Five-Year Capital Program and Financing Plan (the Plan) is submitted in accordance with section 22-c of the State Finance Law. The Plan consists of two sections, the Financing Plan and the Capital Program Plan, which provide financing and capital planning information for the current fiscal year and the five-year projection period from 2004-05 through 2008-09. As required by statute, the Plan will be updated following the enactment of the State Budget.

The Financing Plan provides a summary of agency capital spending on an agency and program basis and by financing source. Financing sources include State and Federal pay-as-you-go (PAYG) resources and proceeds from the issuance of general obligation and authority bonds. The Financing Plan includes detailed information on State-supported debt obligations, including the level of State-supported debt outstanding, debt issuances, retirements, and debt service costs. State-supported debt includes bonds or notes issued by the State or a State public benefit corporation for which the State is constitutionally obligated to pay debt service or is contractually obligated to pay debt service subject to an appropriation.

The Capital Program Plan describes agency capital goals and objectives, capital maintenance efforts, recommended methods for financing ongoing capital programs or initiatives, and schedules of projected appropriations, commitments and disbursements by agency.

To more accurately capture the level of capital cash disbursements supported by State resources and appropriations, the Financing Plan and the Capital Program Plan includes spending that is reflected by the State Comptroller as activity in State funds or accounts (i.e., spending financed with State and Federal cash resources and spending initially financed with State resources and reimbursed with State-supported bond proceeds) as well as capital receipts and spending that is financed directly from State-supported bond proceeds. This spending is not reflected by the Comptroller in actual cash-basis results, but is counted as receipts and spending in the Generally Accepted Accounting Principles (GAAP)-basis Financial Statements.

Following the Capital Program Plan section of the Plan is a section on Non-State-Supported Debt Obligations, which includes State-guaranteed debt, moral obligation financings and contingent contractual obligation financings. Under these financings, the State does not have a direct obligation to pay debt service but, under certain conditions, the State may be called upon to pay debt service if certain non-State resources are insufficient to satisfy scheduled debt service payments. The State does not expect to be required to pay debt service on any of these obligations in 2004-05.

FINANCING PLAN

OVERVIEW

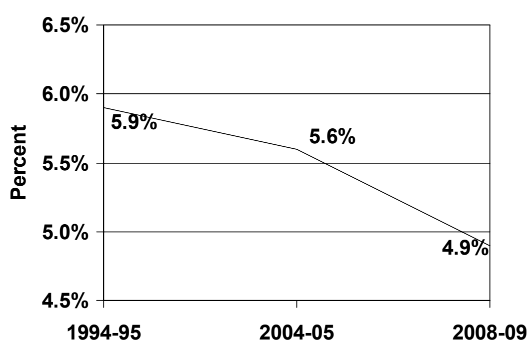
The Plan reflects continued support for capital projects that promote high technology projects, improve or maintain the State's transportation infrastructure, support educational projects that foster a competitive workforce, protect the State's natural resources, and enhance recreational opportunities and tourism. The State has both statutory and policy initiatives that ensure capital spending is prudently financed and that both the levels and costs of State-supported debt remain affordable. Those initiatives include:

- Using variable rate bonds and interest rate exchange agreements (swaps) at up to 15 percent of State-supported debt levels;
- Issuing traditional fixed rate bonds, convertible refunding bonds, swaps and variable rate bonds to maximize savings opportunities in a low interest rate environment;
- Using lower cost State Personal Income (PIT) Tax Revenue Bonds to finance capital projects;
- Ensuring that new bonded recommendations remain within the caps and limitations imposed by the Debt Reform Act of 2000 such that debt service costs are below 5 percent of All Governmental Funds receipts and debt outstanding is below 4 percent of State personal income. To ensure that the provisions of the Debt Reform Act are made permanent, the Governor will resubmit his Constitutional Debt Reform bill to:
    - Constitutionally mandate the State-supported debt outstanding and debt service caps now imposed by the Debt Reform Act;
    - Ban "back door" borrowing;
    - Constitutionally authorize a limited amount of revenue-backed debt and require that at least one-half of all new debt be approved by the voters; and
    - Authorize multiple general obligation bond act proposals; and
- Modernizing bond resolutions to eliminate unnecessary debt service reserve funds and lower debt levels.

The use of these debt management initiatives will continue to successfully control the growth and costs of the State's debt obligations. Under all standard measures, debt levels continue to remain affordable. Over the Plan:

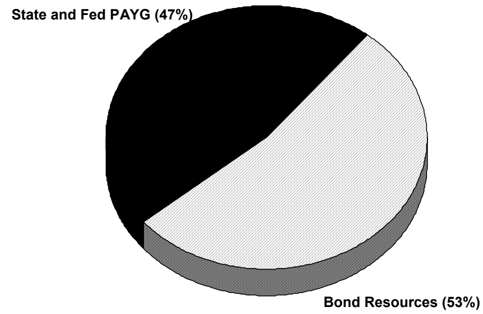
- The five-year average annual growth in total State-supported debt outstanding is projected to be 1.9 percent — less than the 4.8 percent average annual growth in personal income.
- Total State debt is projected to decline as a percent of personal income — from 5.6 percent in 2004-05 to 4.9 percent in 2008-09.
- Total debt service costs as a percent of All Funds receipts is projected to remain below 5 percent.

Debt as a Percent of Personal Income Declines



- Slightly less than one-half of the Plan's total capital spending is projected to be financed with State and Federal PAYG resources, with the bulk of that from Federal transportation funding.

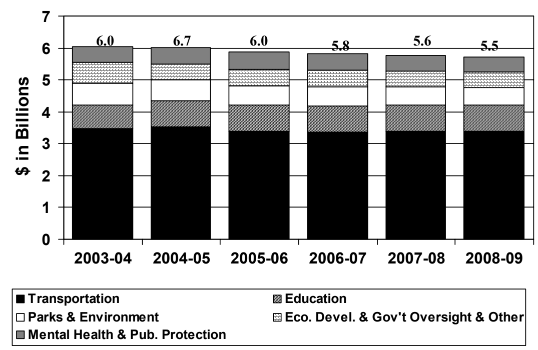
47 Percent of Capital Spending Financed with Cash Resources



CAPITAL SPENDING IS PRIORITIZED TO PRESERVE INFRASTRUCTURE AND ENCOURAGE ECONOMIC GROWTH

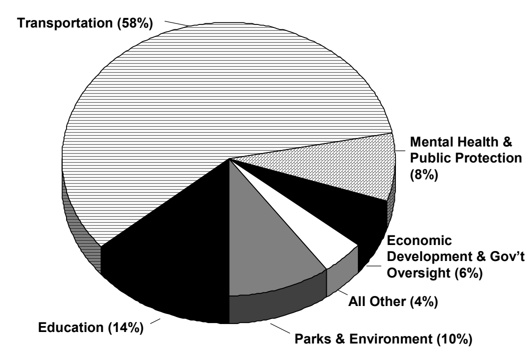
Over the Five-Year Plan, capital spending recommendations of $29.6 billion, or about $5.9 billion annually, focus on capital projects that achieve the core missions and priorities of each agency's program. Recommended new capital appropriations and reappropriations total roughly $44.6 billion (net of transfers).

Spending Is Prioritized to Preserve the State's Capital Infrastructure



Transportation spending, primarily for improvements and maintenance to the State's highways and bridges, continues to account for the largest share (58 percent) of total spending over the Plan. The balance of total spending will support other priority capital investments in the areas of education (14 percent), parks and the environment (10 percent), mental health and public protection (eight percent), economic development and government oversight (six percent) and health and social welfare, general government and other areas (four percent).

Five-Year Share of Capital Investments



Capital Projects Funds spending in 2004-05 is projected at $6.7 billion, or $653 million higher than the revised projection for 2003-04. This growth in spending is primarily attributable to the timing of disbursements for economic development projects financed under the existing Centers of Excellence/Empire Opportunity Fund/Gen*NY*sis/RESTORE/Community Capital Assistance/Multi-Modals Program, and new spending for the Regional Economic Growth Program to support high priority technology economic development projects ($441 million), general government ($106 million), transportation ($77 million), education ($59 million), public protection ($9 million), and other areas ($16 million), offset by modest decreases in spending from the completion of prior year commitments in the areas of parks and the environment ($39 million), health and social welfare ($15 million), and mental health ($1 million).

CAPITAL SPENDING BY FUNCTION
2003-2004 THROUGH 2008-2009
(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Transportation	3,460,994	3,538,449	3,385,625	3,364,351	3,384,090	3,404,217
Parks and Environment	687,980	649,095	621,514	600,578	591,311	554,717
Economic Development & Gov't. Oversight	360,737	802,117	354,100	270,419	141,117	99,450
Health and Social Welfare	143,111	127,785	124,368	124,030	116,870	112,800
Education	747,417	806,730	811,730	821,730	818,730	808,730
Public Protection	205,970	215,450	239,950	244,150	217,250	204,150
Mental Health	298,829	297,546	285,301	268,552	270,865	272,883
General Government	79,650	185,150	82,921	61,550	59,772	51,618
Other	58,850	74,400	75,045	42,125	30,000	10,000
Total	6,043,538	6,696,722	5,980,554	5,797,485	5,630,005	5,518,565

Key spending recommendations included in 2004-05 and over the remaining four years of the Plan are discussed below.

- Transportation capital spending of $17.1 billion includes the final year (2004-05) of the current five-year Department of Transportation (DOT) Capital Plan that will support highway and bridge construction levels of $1.65 billion. This level of funding will continue to foster economic growth by facilitating the efficient movement of people and goods and preserving important investments in the State's transportation infrastructure. Until new successors to the existing DOT Capital Plan and Federal Transportation Act (TEA-21) programs are developed, the outyears of the Plan assume construction levels will remain at $1.65 billion annually. Federal aid projections anticipate increases to New York under the successor Federal Act that was due October 1, 2003. This increased level is continued through the outyears of the Plan. When engineering costs and programs for other modes of transportation are added, capital spending for transportation will average over $3.4 billion annually over the Plan. The DOT Plan continues to assist localities in funding various transportation projects. Funding for local transportation programs, including the Consolidated Highway Improvement Program (CHIPS) and the Marchiselli Program, is projected at about $340 million in 2004-05 and is projected to total more than $1.6 billion over the Capital Plan.
- Parks and environment capital spending of $3.0 billion will average over $603 million annually and will continue to focus on the clean up of environmental hazards. Spending to support the newly refinanced State Superfund Program and the new Brownfields Program for the remediation of hazardous waste and hazardous substances and for off-site contamination of Brownfield clean-up sites will average about $94 million annually over the Plan. Another $15 million in annual disbursements will support grants and the implementation of State Superfund and Brownfield Cleanup Programs. Average annual spending of $122 million from the Environmental Protection Fund (EPF) will continue to finance a variety of critical environmental and recreational activities, including the Hudson River Park project and other municipal park projects. In addition, spending financed by reappropriations for the Clean Water/Clean Air Bond Act (CWCA) approved by the voters in 1996 will average about $105 million over the Plan and will finance water quality improvement and landfill and recycling projects.
- Economic development and government oversight spending of $1.7 billion will average $333 million annually and will support: economic development projects; housing programs administered by the Division of Housing and Community Renewal (DHCR); the disposal of nuclear waste at the Western New York Nuclear Service Center at West Valley; and the preservation and improvement of State Fairground buildings. The Plan includes $250 million in new funding for the Regional Economic Growth Program that will support priority high technology and economic development projects across the State. The plan also continues to support previously authorized economic development programs, including support for various projects financed

under the Centers of Excellence/Empire Opportunity Fund/Gen*NY*sis/RESTORE/ Community Capital Assistance/Multi-Modals Program, Community Enhancement Facilities Assistance Program (CEFAP), the Strategic Investment Program, the Office of Science, Technology and Academic Research (NYSTAR) Capital Facilities Program, and the Economic Development and Natural Resources Preservation Program (EDNRP). Capital spending for housing will average $113 million annually over the Plan and will continue to facilitate the construction and preservation of the State's low and moderate-income housing stock. The $441 million increase in 2004-05 spending from the prior year is primarily attributable to the timing of disbursements for economic development projects financed under the existing Centers of Excellence/Empire Opportunity Fund/Gen*NY*sis/RESTORE/Community Capital Assistance/Multi-Modals Program, and new spending for the Regional Economic Growth Program.

- Spending of more than $600 million for health and social welfare will average $121 million annually and will support: the preservation and maintenance of residential and non-residential youth facilities operated by the Office of Children and Family Services (OCFS); Homeless Housing Assistance Program (HHAP) Grants administered by the Office of Temporary and Disability Assistance (OTDA); and capital projects to protect the health and safety of patients at veterans homes and health care facilities operated by the Department of Health (DOH). In addition, new appropriations to the Department of Health will support the costs of replacing the existing 25-year old Veterans Nursing Home at Oxford. One-third of the cost of the new facility, or approximately $21 million, will be financed by the State and the remaining two-thirds will be financed with Federal resources.
- Education spending of $4.1 billion will average $814 million annually and reflects a new $1.8 billion Five-Year Capital Investment Program for the State University of New York (SUNY) and a new $1.1 billion Five-Year Capital Investment Program for the City University of New York (CUNY) to support facility and infrastructure improvements that are consistent with the needs and priorities of each system. The Plan also includes a new appropriation of $350 million to finance private and public higher education facilities capital matching grants and $80 million to provide school districts Transportation Capital Transition Grants to facilitate the conversion of such aid to an approach that more closely matches the useful life of the projects. Education reappropriations also include support for the five-year SUNY and CUNY community college Plans and the five-year SUNY Dormitories Plan enacted in 2003-04.
- Spending for public protection of $1.1 billion will average $224 million annually and will continue to focus on preserving and maintaining infrastructure investments at existing correctional facilities, and facilities operated and maintained by the Division of Military and Naval Affairs (DMNA) and the Division of State Police (DSP).
- Spending for mental hygiene capital projects of $1.4 billion will average $279 million annually. Department of Mental Hygiene spending will continue to support essential health and safety, rehabilitation and maintenance projects needed to preserve and maintain both institutional and community-based facilities operated and/or licensed by the Office of Mental Health (OMH), the Office of Mental Retardation and Developmental Disabilities (OMRDD), and the Office of Alcoholism and Substance Abuse Services (OASAS).
- General government spending of $441 million will average almost $90 million annually and will continue to support plans for the construction, rehabilitation, consolidation and renovation of State office buildings to achieve space efficiencies and reduce operational costs. Over the Plan, general government spending will continue to support the renovation of the Alfred E. Smith Office Building and the State Capitol, and the construction of the new Elk Street parking garage. The large increase in spending in this area is primarily attributable to $100 million in spending for local public safety answering point equipment upgrades for wireless E-911 service.

As noted previously, the amounts shown above reflect $1.3 billion in spending in 2004-05 (and average annual spending of about $760 over the four remaining years of the Plan) that the Comptroller does not recognize in actual cash spending totals, but does reflect in the GAAP Financial Statements and in State-supported debt outstanding and debt service costs. This spending supports economic development programs, including CEFAP, and the Centers of Excellence/Empire Opportunity Fund/Gen*NY*sis/ RESTORE/Community Capital Assistance/Multi-Modals Program; the CHIPs program which assists localities in funding various transportation programs; Department of Mental Hygiene capital projects; and education programs for CUNY higher education facilities, SUNY Dormitory Facilities and SUNY community colleges.

ESSENTIAL CAPITAL INVESTMENTS ARE PRUDENTLY FINANCED

The Plan continues to finance capital projects with a responsible combination of PAYG and bonded resources. Over the Five-Year Plan, 47 percent of total capital spending will be financed with cash resources — with 15 percent of total capital spending attributable to State PAYG resources and 32 percent attributable to Federal grants. The percentage of the Plan financed with authority bond proceeds and general obligation bonds is 50 percent and three percent, respectively.

CAPITAL SPENDING BY FINANCING SOURCES
2003-2004 THROUGH 2008-2009
(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Financing Source						
State Pay-As-You-Go	1,162,228	1,128,857	994,327	879,353	821,445	721,385
Federal Pay-As-You-Go	1,614,961	1,830,995	1,892,581	1,882,354	1,849,077	1,816,874
General Obligation Bonds	241,543	206,575	201,985	164,661	138,394	86,800
Authority Bonds	3,024,806	3,530,295	2,891,661	2,871,117	2,821,089	2,893,506
Total	6,043,538	6,696,722	5,980,554	5,797,485	5,630,005	5,518,565

CAPITALSPENDING BY FINANCING SOURCES
2003-2004 THROUGH 2008-2009
(percent of total spending)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Financing Source						
State Pay-As-You-Go	19	17	17	15	15	13
Federal Pay-As-You-Go	27	27	32	32	33	33
General Obligation Bonds	4	3	3	3	2	2
Authority Bonds	50	53	48	50	50	52
Total	100	100	100	100	100	100

STATE AND FEDERAL PAY-AS-YOU-GO FINANCING

Over the Five-Year Plan, slightly less than one-half of total spending is supported by State and Federal PAYG resources. State PAYG financing reflects payments for capital programs on a current basis from current State revenues. Federal PAYG resources support spending financed by grants from the Federal Government, primarily for highways and bridges, drinking water and water pollution control facilities, public protection, and housing.

State PAYG resources include: General Fund taxes; other taxes and user fees set aside or dedicated for specific capital programs; repayments from local governments and public authorities for their share of projects; and transfers from other funds, including the General Fund. Over the Plan, State PAYG resources of more than $4.5 billion will support 15 percent of total spending.

Approximately $2.7 billion, or an average of $548 million annually, of State PAYG financing over the Plan is in the Dedicated Highway and Bridge Trust Fund (DHBTF). The DHBTF receives receipts from the petroleum business tax, motor fuel tax, highway use tax, auto rental tax, motor vehicle and other transportation-related fees. Receipts deposited to the DHBTF are used to finance projects on a PAYG basis, to pay debt service on DHBTF and CHIPS Bonds, and to ensure that the debt service coverage requirements provided by the DHBTF Bond covenants are satisfied.

Capital spending supported by General Fund receipts is classified as a transfer to the various Capital Projects Funds. The General Fund transfer, which is reflected in total State PAYG spending, is projected at $187 million in 2004-05 and will average $204 million annually over the Plan. The General Fund transfer primarily finances minor rehabilitation projects of facilities operated by the Office of General Services (OGS), the Department of Environmental Conservation (DEC) and the Department of Mental Hygiene. The General Fund transfers also include $15 million annually to the Hazardous Waste Remedial Fund to support the new State Superfund program.

State PAYG resources derived from statutorily dedicated revenues that finance projects for environmental and recreational purposes are projected to average approximately $166 million annually. In addition to $13 million in miscellaneous receipts that will be deposited into the Hazardous Waste Remedial Fund, the EPF will continue to receive annual deposits of real estate transfer taxes ($112 million) and other miscellaneous receipts (approximately $9 million annually). The State Park Infrastructure Fund (SPIF), which continues to be supported by park fees and other miscellaneous revenues, will finance about $22 million annually in improvements to the State's park system.

Over the Plan, Federal grants account for 32 percent of total capital spending. The largest components of Federal PAYG spending are for transportation and the environment, averaging over $1.7 billion per year. In addition, $65 million per year will be spent for the Federal spending share of Department of Health Safe Drinking Water projects. Until a new successor to the existing TEA-21 is developed, the outyears of the Plan assume Federal aid levels for transportation will total approximately $1.6 billion annually, reflecting an assumed increase over current levels under the succeeding Federal act.

CAPITAL PROJECTS FINANCED BY
STATE AND FEDERAL PAY-AS-YOU-GO RESOURCES
2003-2004 THROUGH 2008-2009
(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Transportation						
Department of Transportation	2,003,499	2,163,964	2,061,567	1,962,567	1,884,617	1,793,908
Department of Motor Vehicles	116,401	136,449	153,367	149,006	147,670	146,470
Thruway Authority	3,017	4,000	4,000	4,000	4,000	4,000
Parks and Environment						
Department of Environmental Conservation	240,454	237,120	237,117	236,117	241,117	241,117
Office of Parks, Recreation and Historic Preservation	14,400	14,400	14,400	14,400	14,400	14,400
Hudson River Park Trust	40,000	31,683	0	0	0	0
Economic Development & Gov't. Oversight						
Division of Housing and Community Renewal	11,610	11,175	10,575	10,575	10,575	10,575
Department of Agriculture and Markets	1,863	2,000	2,000	2,000	2,000	2,000
Office of Science, Technology, and Academic Research	2,000	0	0	0	0	0
Health and Social Welfare						
Office of Children and Family Services	6,464	6,505	4,365	2,630	2,000	1,500
Department of Health	69,897	70,500	70,000	70,500	70,500	70,500
Office of Temporary and Disability Assistance	1,500	0	0	0	0	0
Education						
State Education Department	4,630	4,630	4,630	4,630	4,630	4,630
City University of New York	9,100	9,100	9,100	9,100	9,100	9,100
State University of New York:						
Senior Colleges	83,000	52,000	52,000	52,000	71,652	74,000
Community Colleges	5,000	6,000	6,000	6,000	8,348	6,000
Public Protection						
Division of State Police	2,800	2,800	3,500	3,500	3,500	3,500
Division of Military and Naval Affairs	15,170	24,650	48,450	52,650	25,750	12,650
Mental Health						
Office of Mental Health	35,550	37,318	36,500	36,500	36,500	36,500
Office of Mental Retardation and Developmental Disabilities	41,215	41,725	43,070	44,166	45,400	46,800
Office of Alcoholism and Substance Abuse Services	5,679	6,633	7,864	8,991	8,991	8,991
General Government						
Office of General Services	32,350	33,450	46,250	50,250	49,772	41,618
Other						
All State Agencies World Trade Center	25,000	60,000	70,000	40,000	30,000	10,000
Office of Homeland Security	6,590	3,750	2,153	2,125	0	0
Total State and Federal Pay-As-You-Go Financing	2,777,189	2,959,852	2,886,908	2,761,707	2,670,522	2,538,259

**CAPITAL PROJECTS FINANCED BY
STATE PAY-AS-YOU-GO RESOURCES
2003-2004 THROUGH 2008-2009
(thousands of dollars)**

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Transportation						
Department of Transportation	639,957	628,669	495,086	382,313	304,040	212,834
Department of Motor Vehicles	116,401	136,449	153,367	149,006	147,670	146,470
Thruway Authority	3,017	4,000	4,000	4,000	4,000	4,000
Parks and Environment						
Department of Environmental Conservation	97,954	94,620	94,617	93,617	98,617	98,617
Office of Parks, Recreation and Historic Preservation	11,900	11,900	11,900	11,900	11,900	11,900
Hudson River Park Trust	40,000	31,683	0	0	0	0
Economic Development & Gov't. Oversight						
Division of Housing and Community Renewal	1,610	1,175	575	575	575	575
Department of Agriculture and Markets	1,863	2,000	2,000	2,000	2,000	2,000
Office of Science, Technology, and Academic Research	2,000	0	0	0	0	0
Health and Social Welfare						
Office of Children and Family Services	6,464	6,505	4,365	2,630	2,000	1,500
Department of Health	5,478	5,500	5,000	5,500	5,500	5,500
Office of Temporary and Disability Assistance	1,500	0	0	0	0	0
Education						
State Education Department	4,630	4,630	4,630	4,630	4,630	4,630
City University of New York	9,100	9,100	9,100	9,100	9,100	9,100
State University of New York:						
Senior Colleges	83,000	52,000	52,000	52,000	71,652	74,000
Community Colleges	5,000	6,000	6,000	6,000	8,348	6,000
Public Protection						
Division of State Police	2,800	2,800	3,500	3,500	3,500	3,500
Division of Military and Naval Affairs	8,170	8,950	12,350	10,550	7,250	6,850
Mental Health						
Office of Mental Health	35,550	37,318	36,500	36,500	36,500	36,500
Office of Mental Retardation and Developmental Disabilities	41,215	41,725	43,070	44,166	45,400	46,800
Office of Alcoholism and Substance Abuse Services	5,679	6,633	7,864	8,991	8,991	8,991
General Government						
Office of General Services	32,350	33,450	46,250	50,250	49,772	41,618
Other						
Office of Homeland Security	6,590	3,750	2,153	2,125	0	0
Total State Pay-As-You-Go Financing	1,162,228	1,128,857	994,327	879,353	821,445	721,385

**CAPITAL PROJECTS FINANCED BY
FEDERAL GRANTS PAY-AS-YOU-GO RESOURCES
2003-2004 THROUGH 2008-2009
(thousands of dollars)**

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Transportation						
Department of Transportation	1,363,542	1,535,295	1,566,481	1,580,254	1,580,577	1,581,074
Parks and Environment						
Department of Environmental Conservation	142,500	142,500	142,500	142,500	142,500	142,500
Office of Parks, Recreation and Historic Preservation	2,500	2,500	2,500	2,500	2,500	2,500
Economic Development & Gov't. Oversight						
Division of Housing and Community Renewal	10,000	10,000	10,000	10,000	10,000	10,000
Health and Social Welfare						
Department of Health	64,419	65,000	65,000	65,000	65,000	65,000
Public Protection						
Division of Military and Naval Affairs	7,000	15,700	36,100	42,100	18,500	5,800
Other						
All State Agencies World Trade Center	25,000	60,000	70,000	40,000	30,000	10,000
Total Federal Grants Pay-As-You-Go Financing	1,614,961	1,830,995	1,892,581	1,882,354	1,849,077	1,816,874

GENERAL OBLIGATION BOND FINANCING

General obligation bond financing of capital projects is accomplished through the issuance of full-faith and credit State bonds that have been authorized by the voters. The Plan assumes the continued implementation of eight previously authorized bond acts (four for transportation and four for environmental and recreational programs). Over the Five-Year Plan, the bulk of general obligation bond financed spending ($525 million) supports environmental protection projects approved by the 1996 CWCA Bond Act. Disbursements from the 1986 Environmental Quality Bond Act for hazardous waste remediation will be completed during the Plan period, and will average about $41 million annually over the Plan. Spending authorizations from the remaining six bond acts will be virtually depleted by the end of the Plan.

Over the Plan period, general obligation financed spending accounts for only three percent of total spending. Spending supported by general obligation bonds totals over three percent in 2004-05, primarily from the 1996 CWCA Bond Act and 1986 Environmental Quality Bond Act. Capital spending supported by general obligation bonds declines to about two percent of total spending by the end of the Plan, reflecting the impact of the spend-down from authorizations other than the CWCA Bond Act.

CAPITAL PROJECTS FINANCED BY
GENERAL OBLIGATION BONDS
2003-2004 THROUGH 2008-2009
(thousands of dollars)

Transportation	**2003-2004**	**2004-2005**	**2005-2006**	**2006-2007**	**2007-2008**	**2008-2009**
Department of Transportation						
Action -1988	10,000	8,000	6,000	4,000	2,000	2,000
Infrastructure Renewal - 1983	4,160	5,000	5,000	5,000	5,000	5,000
Energy Conservation - 1979	40	200	200	200	200	200
Transportation Capital Facilities - 1967	1,400	400	400	400	400	400
Parks and Environment						
Department of Environmental Conservation						
Clean Water/Clean Air 1996	124,591	124,591	124,591	100,000	100,000	75,000
EQBA 1986	60,000	60,000	60,000	50,000	26,594	0
EQBA 1972	6,000	3,000	3,000	3,000	3,000	3,000
Pure Waters 1965	1,600	1,200	1,200	1,200	1,200	1,200
Office of Parks, Recreation and Historic Preservation						
EQBA 1986	3,343	3,775	1,185	861	0	0
Environmental Facilities Corporation						
Clean Water/Clean Air 1996	292	292	292	0	0	0
Economic Development & Gov't. Oversight						
Energy Research and Development Authority						
Clean Water/Clean Air 1996	117	117	117	0	0	0
Health and Social Welfare						
Department of Health						
Clean Water/Clean Air 1996	30,000	0	0	0	0	0
Total General Obligation Bond Financing	241,543	206,575	201,985	164,661	138,394	86,800

AUTHORITY BOND FINANCING

Authority bond-financed capital spending is reimbursed by the proceeds of bonds sold by State public authorities pursuant to contractual agreements with the State. Over the Plan, approximately 50 percent of total spending will be financed with authority bond proceeds.

The largest component of spending financed by authority bonds over the Plan is within the DHBTF (43 percent). DHBTF Bonds that are issued to support the final year of the current five-year DOT Capital Plan are projected at $880 million in 2004-05. DHBTF Bond issuances in 2005-06 through 2008-09 will support construction letting levels of $1.65 billion annually.

The State expects to use State PIT Revenue Bonds as the financing vehicle for the vast majority of bond-financed spending for non-transportation programs. Bond-financed spending for such programs decreases from approximately $2.3 billion in 2004-05 to about $1.4 billion in 2008-09, reflecting the "spend out" of certain economic development programs, including the Strategic Investment Program, CEFAP, and the Centers of Excellence/Empire Opportunity Fund/Gen*NY*sis/RESTORE/Community Capital Assistance/Multi-Modals Program. Authority bonds will also support about $696 million in new spending for the Regional Economic Growth Program, a new Veterans Nursing Home at Oxford, Transportation Capital Transition Grants to school districts, and public and private higher education facilities capital matching grants.

CAPITAL PROJECTS FINANCED BY AUTHORITY BONDS RESOURCES 2003-2004 THROUGH 2008-2009 (thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Transportation						
Department of Transportation	1,322,477	1,220,436	1,155,091	1,239,178	1,340,203	1,452,239
Parks and Environment						
Department of Environmental Conservation	186,000	166,729	179,729	195,000	205,000	220,000
Office of Parks, Recreation and Historic Preservation	10,000	0	0	0	0	0
Environmental Facilities Corporation	1,300	6,305	0	0	0	0
Economic Development & Gov't. Oversight						
Division of Housing and Community Renewal	74,840	78,275	73,625	73,625	73,625	73,625
Urban Development Corporation	50	90,000	83,333	100,000	41,667	0
Office of Science, Technology and Academic Research	3,000	15,000	17,700	0	0	0
Energy Research and Development Authority	13,250	11,350	13,250	13,250	13,250	13,250
All State Departments and Agencies						
Regional Economic Development	189,485	509,200	103,500	37,500	0	0
Strategic Investment Program	12,000	55,000	50,000	33,469	0	0
Community Enhancement Facility Assistance Program	50,497	30,000	0	0	0	0
Economic Development and Natural Resource Preservation Program	2,025	0	0	0	0	0
Health and Social Welfare						
Office of Children and Family Services	12,250	21,380	13,253	14,150	14,270	12,800
Department of Health	0	1,400	8,750	8,750	2,100	0
Office of Temporary and Disability Assistance	23,000	28,000	28,000	28,000	28,000	28,000
Education						
State University of New York:						
Senior Colleges	335,000	365,000	395,000	395,000	395,000	395,000
Community Colleges	20,000	50,000	50,000	50,000	35,000	35,000
City University of New York	215,000	215,000	215,000	215,000	215,000	215,000
State Education Department	75,687	75,000	0	0	0	0
Higher Education Facilities Capital Matching Grants	0	30,000	80,000	90,000	80,000	70,000
Public Protection						
Department of Correctional Services	188,000	188,000	188,000	188,000	188,000	188,000
Mental Health						
Office of Mental Health	159,982	158,635	148,006	132,018	132,030	132,042
Office of Mental Retardation and Developmental Disabilities	31,767	26,800	24,885	24,979	25,094	25,700
Office of Alcoholism and Substance Abuse Services	24,636	26,435	24,976	21,898	22,850	22,850
General Government						
Office of General Services	47,300	51,700	36,671	11,300	10,000	10,000
Department of State	0	100,000	0	0	0	0
Other						
Judiciary	16,100	3,500	445	0	0	0
Homeland Security	11,160	7,150	2,447	0	0	0
Total Authority Bond Financing	3,024,806	3,530,295	2,891,661	2,871,117	2,821,089	2,893,506

CAPITAL PROJECTS FUNDS FINANCIAL PLAN

The following table provides an explanation of the receipt, disbursement, transfer and general obligation bond amounts contained in the Plan and how they correspond to the applicable Governmental Funds financial plans.

CAPITAL PROJECTS FUNDS FINANCIAL PLAN
PREPARED ON THE CASH BASIS OF ACCOUNTING
2003-2004 THROUGH 2008-2009

(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Opening fund balances	(790,539)	(349,874)	(411,507)	(483,775)	(510,140)	(523,637)
Receipts:						
Taxes	1,751,700	1,805,700	1,756,600	1,762,100	1,783,500	1,801,300
Miscellaneous receipts	3,685,718	3,741,866	3,058,943	3,055,138	3,017,848	3,085,686
Federal grants	1,620,949	1,839,772	1,901,722	1,891,684	1,858,407	1,826,204
Total receipts	7,058,367	7,387,338	6,717,265	6,708,922	6,659,755	6,713,190
Disbursements:						
Grants to local governments	1,665,712	2,040,670	1,487,582	1,303,191	1,182,670	1,083,156
Capital projects	4,377,826	4,656,052	4,492,972	4,494,294	4,447,335	4,435,409
Total disbursements	6,043,538	6,696,722	5,980,554	5,797,485	5,630,005	5,518,565
Other financing sources (uses):						
Transfers from other funds	265,603	224,838	238,583	241,743	252,964	250,789
Transfers to other funds	(1,087,367)	(1,108,487)	(1,217,962)	(1,340,945)	(1,432,811)	(1,543,927)
Bond and note proceeds	247,600	131,400	170,400	161,400	136,600	86,400
Net other financing sources (uses)	(574,164)	(752,249)	(808,979)	(937,802)	(1,043,247)	(1,206,738)
Changes in fund balances	440,665	(61,633)	(72,268)	(26,365)	(13,497)	(12,113)
Closing fund balances	(349,874)	(411,507)	(483,775)	(510,140)	(523,637)	(535,750)

STATE-SUPPORTED BONDS FINANCE ESSENTIAL CAPITAL INVESTMENTS

The use of State-supported bonds to finance capital projects that construct, maintain, and preserve long-term assets is an integral part of the Plan. The Plan reflects the continuation of statutory and policy initiatives that ensure debt levels are prudently managed and remain affordable. This section of the Financing Plan describes the impact of bond-financed spending on the amount of State-supported debt and debt service disbursements included in the financial plans for the Debt Service Funds reflected in the Plan and discussed in previous sections of this document. Supporting this analysis are separate tables for debt issuances, debt retirements, debt outstanding and debt service.

STATUTORY AND POLICY LIMITS CONTINUE TO REDUCE GROWTH IN STATE-SUPPORTED DEBT

The Plan continues to recommend debt levels and costs that are within the statutory caps established by the Debt Reform Act of 2000. The Act applies to all new debt issued on and after April 1, 2000 and imposes phased-in caps which limit new debt outstanding to four percent of personal income and new debt service costs to five percent of All Funds Receipts. The debt outstanding cap and the debt service cap will be fully phased-in in 2009-10 and 2011-12, respectively.

NEW DEBT OUTSTANDING
(millions of dollars)

Year	Personal Income	Cap %	Actual / Capital Plan % Recommendation	% Recommendation Below Cap
2000-01 (Actual)	655,583	0.75	0.38	0.37
2001-02 (Actual)	682,206	1.25	0.67	0.58
2002-03 (Actual)	684,070	1.65	1.21	0.34
2003-04	711,105	1.98	1.55	0.43
2004-05	747,087	2.32	1.84	0.48
2005-06	780,844	2.65	2.05	0.60
2006-07	817,164	2.98	2.23	0.75
2007-08	856,861	3.32	2.36	0.96
2008-09	898,772	3.65	2.46	1.19

NEW DEBT SERVICE COSTS
(millions of dollars)

Year	All Funds Receipts	Cap %	Actual / Capital Plan % Recommendation	% Recommendation Below Cap
2000-01 (Actual)	83,527	0.75	0.09	0.66
2001-02 (Actual)	84,312	1.25	0.36	0.89
2002-03 (Actual)	88,274	1.65	0.53	1.12
2003-04	99,314	1.98	0.89	1.09
2004-05	99,516	2.32	1.18	1.14
2005-06	100,043	2.65	1.57	1.08
2006-07	103,254	2.98	1.82	1.15
2007-08	107,910	3.32	2.04	1.28
2008-09	110,073	3.65	2.18	1.47

Statutorily capping new debt levels to four percent of personal income ensures that the growth in new debt does not outpace the growth in personal income — a measure commonly used by the financial community to assess affordability. Over time, the debt outstanding cap imposed by the Debt Reform Act ensures that New York's total debt burden is limited to no more than four percent of State personal income. Over the Plan:

- The five-year average annual growth in total debt outstanding of 1.9 percent is significantly less than the projected average annual growth in personal income of 4.8 percent.
- Total debt outstanding as a percent of personal income will decline from 5.6 percent in 2004-05 to 4.9 percent in 2008-09.
- Total debt outstanding will increase from $41.7 billion in 2004-05 to $44.2 billion in 2008-09, or by an annual average of 1.5 percent.

The Governor will resubmit his Constitutional Debt Reform bill to make permanent the statutory caps and other limitations imposed by the Debt Reform Act.

PROJECTED STATE-SUPPORTED DEBT OUTSTANDING
2003-2004 THROUGH 2008-2009
(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
GENERAL OBLIGATION	3,911,589	3,708,403	3,540,982	3,353,459	3,139,660	2,883,728
LOCAL GOVERNMENT ASSISTANCE CORPORATION	4,550,230	4,434,625	4,303,048	4,189,686	4,038,967	3,877,934
OTHER LEASE-PURCHASE AND CONTRACTUAL-OBLIGATION FINANCING ARRANGEMENTS						
Transportation						
Metropolitan Trans Authority	2,395,205	2,353,925	2,310,930	2,265,955	2,218,820	2,169,325
Dormitory Authority						
Albany County Airport	33,965	32,255	30,465	28,585	26,600	24,510
Thruway Authority:						
Consolidated Local Highway Improvement	2,738,015	2,924,605	3,132,354	3,321,101	3,399,124	3,515,361
Dedicated Highway & Bridge	5,821,179	6,279,471	6,650,446	7,091,279	7,586,623	8,154,361
Education						
Dormitory Authority:						
SUNY Educational Facilities	4,273,331	4,191,930	4,355,120	4,519,212	4,678,997	4,797,182
SUNY Dormitory Facilities	589,770	646,383	700,311	753,701	806,204	857,607
SUNY Upstate Community Colleges	483,081	505,157	525,697	544,962	562,953	579,978
CUNY Educational Facilities	3,232,157	3,228,231	3,266,905	3,356,695	3,399,167	3,482,009
State Education Department	68,860	66,935	64,915	63,545	62,105	59,735
Library for the Blind	16,030	15,360	14,655	13,915	13,140	12,325
SUNY Athletic Facilities	25,200	24,270	23,305	22,300	21,250	20,165
RESCUE	177,615	164,847	151,632	137,923	123,659	108,768
University Facilities (Jobs 2000)	28,335	33,879	37,655	33,083	28,307	23,306
Judicial Training Institute	14,630	14,070	13,485	12,870	12,225	11,550
School District Capital Outlays	83,690	74,670	65,320	55,610	45,530	34,975
Transportation Transition Grants	0	62,177	47,381	32,098	16,309	(0)
Higher Capital Matching Grants	0	28,240	101,243	177,181	235,976	277,920
Health						
Dormitory Authority/DOH	418,045	413,120	409,355	402,624	386,317	369,821
Mental Hygiene						
Dormitory Authority/MCFFA:	3,496,685	3,609,965	3,677,411	3,696,225	3,737,733	3,758,715
Public Protection						
ESDC:						
Prison Facilities	3,875,842	3,985,536	4,052,546	4,111,509	4,172,529	4,234,878
Youth Facilities	196,795	199,395	196,431	197,737	197,750	189,041
Homeland Security	23,145	22,360	21,550	20,705	19,820	18,900
Environment						
Environmental Facilities Corp/ERDA:						
Riverbank Park	57,840	56,085	54,240	52,305	50,250	48,065
Water Pollution Control	170,459	160,620	154,557	151,574	158,293	165,682
Pilgrim Sewage Treatment	8,200	7,800	7,300	6,700	6,100	5,500
State Park Infrastructure	9,691	8,960	8,165	7,070	5,920	4,715
Fuel Tanks	7,515	5,060	2,550	0	0	0
Pipeline for Jobs (Jobs 2000)	20,194	18,195	16,105	13,925	11,650	9,252
Environmental Infrastructure	144,582	211,619	276,381	340,191	401,659	460,677
Hazardous Waste Remediation	48,612	116,495	195,511	286,338	384,475	494,634
West Valley	69,003	65,542	62,409	63,690	65,786	70,740
ESDC:						
Pine Barrens	12,755	12,110	11,435	10,725	9,980	9,195
State Building/Equipment						
ESDC:						
Empire State Plaza	55,109	45,121	36,034	27,640	19,887	12,726
State Buildings	13,419	12,786	12,103	11,367	10,574	9,719
State Capital Projects	220,780	212,835	204,395	195,430	185,900	175,850
ESDC / DA						
State Buildings	213,798	247,387	254,583	256,497	257,761	258,302
Certificates of Participation	145,770	276,330	315,095	323,424	299,277	263,392
E911	0	102,000	68,951	34,960	(0)	(0)
Housing						
Housing Finance Agency	1,257,594	1,316,274	1,367,981	1,408,430	1,448,560	1,486,193
Economic Development						
Triborough Bridge and Tunnel Authority/Javits Center	268,040	242,100	214,280	184,445	152,445	118,125
ESDC/DA						
University Technology Centers	156,763	145,757	134,268	123,148	111,536	99,374
Onondaga Convention Center	40,060	38,525	36,895	35,170	33,340	31,390
Sports Facilities	133,500	128,350	122,800	116,805	110,475	103,750
Community Enhancement Facilities	198,345	236,602	178,316	127,682	93,962	77,145
Natural Resources Preservation	15,195	10,375	5,320	0	0	0
Child Care Facilities	28,525	27,440	26,330	25,190	24,010	22,785
Buffalo Inner Harbor	0	51,000	47,067	42,911	38,521	33,882
Strategic Investment Program	129,120	158,325	115,213	70,445	27,755	12,784
Centers of Excellence et.al.	472,635	707,295	752,500	722,920	649,858	577,573
JOBS Now	11,240	8,600	5,860	3,000	0	0
Regional Economic Growth	0	25,500	109,819	205,995	236,547	222,510
Total Other Financing Arrangements	31,900,318	33,531,867	34,645,574	35,706,791	36,545,659	37,474,391
TOTAL STATE-SUPPORTED DEBT	40,362,137	41,674,896	42,489,604	43,249,937	43,724,286	44,236,053

ENSURING DEBT SERVICE COSTS REMAIN AFFORDABLE

The debt service table shows the amount of resources devoted to financing the principal and interest costs on new and currently outstanding State-supported debt. The table includes projected total annual debt service by program and issuer, and includes debt service on general obligation bonds, as well as other State-supported obligations issued by State public benefit corporations or authorities.

As a result of ongoing efforts to manage the State-supported bond portfolio in a low-interest rate environment, debt service costs will continue to remain affordable over the Plan. Total debt service costs as a percent of All Funds receipts are projected to increase from 4 percent in 2004-05 to about 4.7 percent in 2008-09. Growth in debt service costs have been moderated due to various debt management actions, including the refunding of over $13 billion (30 percent) of the outstanding portfolio in the last two years, to generate present value savings of $818 million. Those extraordinary savings were achieved by:

- Responsibly using variable rate bonds and interest rate exchange agreements within the limitations and guidelines imposed by legislation enacted in 2002 to generate present value savings of $611 million;
- Issuing traditional fixed rate and convertible refunding bonds to maximize savings opportunities in a low interest rate environment and generate present value savings of $207 million; and
- Modernizing the financing structure of State-supported bonds to eliminate unnecessary debt service reserve funds and lower debt levels.

RESPONSIBLE USE OF INTEREST RATE EXCHANGE AND VARIABLE RATE OBLIGATIONS TO REDUCE COSTS

Debt service costs also reflect the prudent diversification of the State-supported debt portfolio by using variable rate bonds and interest rate exchange agreements within the limitations and guidelines imposed by legislation enacted in 2002. The legislation provides that issuers of State-supported bonds may issue variable rate debt instruments that result in a maximum total net variable rate exposure of 15 percent of State-supported debt. Subject to various criteria established in the legislation to effectively manage risk, issuers may also enter into interest rate exchange agreements in a total notional amount that cannot exceed 15 percent of State-supported debt. Such criteria include:

- The adoption of interest rate exchange guidelines by all the State's Authorized Issuers;
- Minimum counterparty ratings of AA, and collateral requirements should their ratings fall;
- The provision of an independent finding that the terms and conditions of such agreements reflect a fair market value;
- The use of standardized interest rate exchange agreements; and
- Monthly reporting required by the Authorized Issuers and the Division of the Budget.

As authorized by the legislation, DOB has worked with its Authorized Issuers to enter into approximately $5.2 billion of synthetic fixed rate swaps to refinance outstanding State-supported obligations and produce $611 million in present value savings to the State. Those significant debt service savings achieved in a historically low interest rate environment whereby synthetic fixed swap rates are substantially lower than traditional fixed rate bond refinancings. In these transactions, the State's Authorized Issuers sold $5.2 billion in variable rate bonds and entered into $5.2 billion of swaps to hedge that variable rate exposure (at 65 percent of LIBOR) and yield a net fixed rate that was about 80 – 100 basis points lower than a traditional fixed rate refunding. It is currently projected that the percent of the notional amount of swaps outstanding to debt outstanding will remain below the 15 percent cap or at roughly 12 percent. The State will continue to review market conditions for opportunities to lower debt service costs, and could enter into new swap transactions up to the 15 percent limit.

(millions of dollars)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Interest Rate Exchange Cap	6,054	6,251	6,373	6,487	6,559	6,636
Notional Amount of Interest Rate Exchange Agreements	5,247	5,247	5,247	5,242	5,238	5,213
Percent of Interest Rate Exchange Agreements to Debt Outstanding	13.0	12.6	12.3	12.1	12.0	11.8

The following table presents estimates for net variable rate obligations exposure as authorized under the 15 percent limitation for all State-supported debt. The State's policy is to continue to count both direct variable rate exposure and 35 percent of the notional amount of outstanding 65 percent of LIBOR fixed rate swaps in its variable rate exposure. This policy reserve adjustment accounts for the unlikely risk that variable rate tax rates or market conditions produce a significant difference between payments owed on bonds and received by the State's Authorized Issuers under their 65 percent of LIBOR swaps, and that the factors affecting such payments can be consistent with variable rate exposure.

Currently, about $2.4 billion in State-supported convertible bonds are also outstanding. These bonds were issued to maximize refunding savings and to provide future opportunities for additional variable rate exposure. Such bonds bear a fixed rate until future mandatory tender dates in 2005, 2009, 2011, 2012 and 2013. After the tender date, the bonds optionally convert to either a fixed or variable rate. During the Plan, approximately $670 million in convertible bonds are assumed to convert to variable rate bonds in 2005-06 ($6 million) and 2008-09 ($664 million) and are reflected in the table below. Since the option to convert to either a fixed or variable rate on the remaining convertible bonds is determined at a future date beyond the period covered by this Plan, they are not yet accounted for in the calculations of variable rate exposure, but are considered in the State's overall variable rate policy.

(millions of dollars)

	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Net Variable Rate Cap	6,054	6,251	6,373	6,487	6,559	6,635
Statutory Outstanding Net Variable Rate Obligations	1,870	2,812	3,742	4,262	4,179	4,759
Policy Reserve for LIBOR Swaps	1,837	1,837	1,837	1,835	1,833	1,825
Percent of Overall Net Variable Rate Exposure to Debt Outstanding	9.2	11.2	13.1	14.1	13.8	14.9

As discussed above, the State has utilized variable rate obligations in conjunction with swaps to effectuate synthetic fixed rate refinancings that have significantly reduced debt service costs. The issuance of both hedged (i.e., swapped) and unhedged variable rate bonds typically require outside credit and/or liquidity support that is provided by municipal bond insurance companies (insurance for auction rate bonds) and banks (letters of credit or liquidity for variable rate demand bonds). Given the State's use of variable rate bonds over a relatively short horizon to maximize refunding opportunities, the State's Authorized Issuers have experienced market capacity limitations and higher support costs.

Depending on the availability of cost-effective capacity for credit support necessary for the issuance of synthetic fixed rate swaps or additional variable rate bonds, the State expects to increase its variable rate exposure by roughly $1 billon annually in each of the next two years.

PROJECTED STATE-SUPPORTED DEBT SERVICE
2003-04 THROUGH 2008-09
(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
GENERAL OBLIGATION	509,962	497,380	500,436	509,951	505,089	488,392
LOCAL GOVERNMENT ASSISTANCE CORPORATION	296,055	312,047	316,391	356,410	368,230	372,371
OTHER LEASE-PURCHASE AND CONTRACTUAL-OBLIGATION FINANCING ARRANGEMENTS						
Transportation						
Metropolitan Trans Authority	124,104	164,993	164,997	164,991	164,992	164,994
Dormitory Authority						
Albany County Airport	3,491	3,513	3,513	3,515	3,511	3,511
Thruway Authority:						
Consolidated Local Highway Improvement	246,828	271,590	298,052	326,755	390,434	419,725
Dedicated Highway & Bridge	690,150	735,494	775,714	869,570	943,481	1,025,296
Education						
Dormitory Authority:						
SUNY Educational Facilities	324,433	401,665	417,709	438,869	467,840	480,731
SUNY Dormitory Facilities	33,392	65,419	72,350	78,665	83,469	88,460
SUNY Upstate Community Colleges	28,530	33,799	44,181	46,831	49,171	51,835
CUNY Educational Facilities	172,613	243,845	317,349	349,518	361,346	373,686
State Education Department	7,881	6,546	6,512	6,523	7,385	7,684
Library for the Blind	1,708	1,729	1,732	1,732	1,732	1,731
SUNY Athletic Facilities	1,742	2,203	2,203	2,206	2,204	2,208
RESCUE	14,851	21,157	21,003	20,998	20,999	20,995
University Facilities (Jobs 2000)	3,403	5,107	6,203	6,507	6,505	6,506
Judicial Training Institute	1,475	1,587	1,589	1,589	1,588	1,589
School District Capital Outlays	13,046	12,943	12,945	12,946	12,946	12,947
Transportation Transition Grants	0	15,375	16,847	16,847	16,847	16,847
Higher Capital Matching Grants	0	3,080	12,335	24,636	36,503	47,038
Health						
Dormitory Authority/DOH	35,688	36,273	36,206	37,724	38,159	38,157
Mental Hygiene						
Dormitory Authority/MCFFA:	166,108	259,294	297,412	333,644	315,909	341,449
Public Protection						
ESDC:						
Prison Facilities	196,274	284,969	325,285	339,440	364,268	371,111
Youth Facilities	18,970	19,420	21,072	20,528	24,063	29,936
Homeland Security	1,938	1,937	1,935	1,935	1,937	1,937
Environment						
Environmental Facilities Corp/ERDA:						
Riverbank Park	4,837	4,839	4,837	4,836	4,838	4,836
Water Pollution Control	15,929	39,148	43,093	39,860	30,362	30,484
Pilgrim Sewage Treatment	578	674	748	817	779	741
State Park Infrastructure	1,295	1,220	1,248	1,508	1,509	1,506
Fuel Tanks	2,618	2,629	2,576	2,503	0	0
Pipeline for Jobs (Jobs 2000)	1,992	2,985	2,993	2,992	2,986	2,996
Environmental Infrastructure	9,632	11,101	17,306	23,564	30,127	36,775
Hazardous Waste Remediation	579	3,874	9,834	17,055	25,776	35,528
West Valley	16,784	18,267	13,611	13,053	10,514	12,433
ESDC:						
Pine Barrens	1,278	1,280	1,281	1,280	1,282	1,281
State Building/Equipment						
ESDC:						
Empire State Plaza	34,436	34,432	34,437	34,436	34,432	34,436
State Buildings	19,864	19,722	19,938	19,701	17,702	13,321
State Capital Projects	20,366	20,123	20,120	20,125	20,121	20,126
ESDC/DA:						
State Buildings	15,212	17,199	20,051	21,268	22,272	23,141
Certificates of Participation	63,096	40,141	74,582	106,180	139,193	150,495
E911	0	727	35,956	35,956	35,956	0
Housing						
Housing Finance Agency	61,718	98,201	105,353	122,190	126,864	133,328
Economic Development						
Triborough Bridge and Tunnel Authority/Javits Center	41,924	41,946	41,945	41,943	41,945	41,945
ESDC/DA:						
University Technology Centers	20,084	20,478	20,478	19,556	19,560	19,548
Onondaga Convention Center	3,857	3,875	3,878	3,875	3,872	3,878
Sports Facilities	11,188	12,148	12,269	12,245	12,272	12,266
Community Enhancement Facilities	48,612	43,552	69,493	40,431	40,423	18,011
Natural Resource Preservation	5,396	3,433	5,455	0	0	0
Child Care Facilities	2,485	2,610	2,609	2,613	2,611	2,611
Buffalo Inner Harbor	0	0	7,055	6,815	6,815	6,815
Strategic Investment Program	33,465	36,081	49,536	49,376	45,432	15,879
Centers of Excellence et.al.	20,109	63,264	94,490	105,655	109,769	105,567
JOBS Now	3,139	3,144	3,142	3,139	3,143	0
Regional Economic Growth	0	0	2,860	12,771	24,586	29,122
Other State Purposes						
Debt Reduction	53,184	0	0	0	0	0
Total Other Financing Arrangements	2,600,282	3,139,032	3,578,315	3,871,713	4,130,430	4,265,440
TOTAL STATE-SUPPORTED DEBT SERVICE	3,406,299	3,948,459	4,395,142	4,738,073	5,003,748	5,126,204

DEBT ISSUANCES

Projected debt issuances will finance capital investments that maintain the State's transportation infrastructure, promote economic growth, improve educational facilities, protect the environment, and preserve correctional and mental hygiene facilities. Over the Plan, annual debt issuances will remain roughly level and will average about $3 billion.

State general obligation bonds and other State revenue credits, which include State PIT Revenue Bonds, DHBTF Bonds, SUNY Dormitory Facilities Revenue Bonds, Mental Health Facilities Improvement Revenue Bonds and Department of Health Revenue Bonds, will be issued to support bond-financed capital projects over the Plan.

State PIT Revenue Bonds have successfully reduced borrowing costs and improved the marketability of State-supported obligations. PIT Revenue Bonds are issued by one (or more) of five Authorized Issuers under five broad functional categories (i.e., Education, Transportation, Environment, State Facilities and Equipment, and Economic Development and Housing) to support particular State-appropriation backed bonding programs which are authorized to be financed with PIT Revenue Bonds. To ensure that the State-supported debt issuance calendar can be effectively managed and to further reduce costs by facilitating the issuance of multiple bonding programs, legislation submitted with this Budget will permit all five Authorized Issuers to issue PIT Revenue Bonds for any authorized purpose. Over the Plan, PIT Revenue Bonds will be issued under five broad functional purposes in support of various capital projects.

- **Education Revenue Bonds** support SUNY and CUNY, SUNY NYSTAR, Transportation Capital Transition Grants, and private and public higher education facilities capital matching grants (2004-05 issuance of $325 million). Issuances for SUNY and CUNY continue to reflect administrative efficiencies that ensure bond sales more closely correspond with projected disbursements and facilitate the timely advancement of SUNY and CUNY capital projects.
- **Environmental Revenue Bonds** support the State Revolving Fund, EPF, the newly refinanced State Superfund Program and the new Brownfields Program, West Valley and other environmental projects (2004-05 issuance of $182 million).
- **Transportation Revenue Bonds** support CHIPs and other non-Dedicated Highway transportation purposes (2004-05 issuance of $347 million).
- **Economic Development and Housing Revenue Bonds** support Housing, the Strategic Investment Program (SIP), economic development projects in the Buffalo area, CEFAP, the Centers of Excellence/Empire Opportunity Fund/Gen*NY*sis/RESTORE/Community Capital Assistance/Multi-Modals Program, and the new Regional Economic Growth Program (2004-05 issuances of $607 million).
- **State Facilities and Equipment Revenue Bonds** support Correctional Facilities, Youth Facilities, State Office Buildings, Elk Street Parking Garage, and equipment bonds (2004-05 issuance of $510 million).

The remaining issuances in 2004-05 will be financed by voter approved general obligation bonds or other revenue credits which are supported by other streams of revenue including transportation-related taxes and fees, student dormitory fees, and patient income. General obligation bonds will be issued to implement projects financed by the voter-approved CWCA Bond Act and other prior bond acts, predominantly the 1986 Environmental Quality Bond Act.

Over the Plan, DHBTF Bonds, which are issued by the Thruway Authority and supported by transportation-related taxes and fees, will support the last year (2004-05) of the current five-year DOT Capital Plan. Issuances in the outyears of the Plan assume construction levels will remain at $1.65 billion annually and that Federal grants will average $3.4 billion annually. DHBTF issuances account for the largest share, or 31 percent of the Plan's total debt issuances.

SUNY Dormitory Facilities Bonds, which are issued by the Dormitory Authority of the State of New York (DA) and supported by dormitory fees and rents charged to students residing in housing facilities on campus, will average $77 million annually over the Plan. The bonds will support the expansion and renovation of SUNY Dormitory Facilities under the SUNY multi-year capital investment program enacted in 2003-04.

Mental Hygiene Bonds, which are issued by the DA and supported by patient revenues, will average $193 million over the Plan. These issuances will support capital projects to preserve and maintain both State and community-based facilities operated and/or licensed by OMH, OMRDD, and OASAS.

Department of Health Bonds, which are issued by the DA and supported by patient revenues, will support one-third (approximately $21 million) of the costs of replacing the existing veterans' nursing home at Oxford. The remaining two-thirds of the cost of the project will be financed by Federal resources.

Interest rates over the Plan are expected to increase, but to remain at relatively low levels. The Division forecasts that long-term, tax-exempt fixed rates on new issuances will range from 5.35 percent to 6.7 percent throughout the Capital Plan period. Short-term (3-10 years) tax-exempt rates, which are effectively used to reduce borrowing costs, will average 3.5 percent to 4.9 percent. Taxable rates (10 years) will range from 5.65 percent to 7 percent.

PROJECTED STATE-SUPPORTED BOND ISSUANCES
2003-2004 THROUGH 2008-2009
(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
GENERAL OBLIGATION	247,083	131,400	170,400	161,400	136,300	86,400
OTHER LEASE-PURCHASE AND CONTRACTUAL-OBLIGATION FINANCING ARRANGEMENTS						
Thruway Authority:						
Consolidated Local Highway Improvement	347,880	346,607	331,998	326,898	321,798	316,698
Dedicated Highway & Bridge	1,370,954	898,238	846,194	937,064	1,045,210	1,164,587
Education						
Dormitory Authority:						
SUNY Educational Facilities	45,900	71,418	324,906	326,400	326,400	300,900
SUNY Dormitory Facilities	59,855	76,500	76,500	76,500	76,500	76,500
SUNY Upstate Community Colleges	15,300	35,700	35,700	35,700	35,700	35,700
CUNY Educational Facilities	0	102,000	175,440	222,972	222,972	222,972
RESCUE	50,290	0	0	0	0	0
University Facilities (Jobs 2000)	6,120	9,197	8,160	0	0	0
Transportation Transition Grants	0	76,500	0	0	0	0
Higher Capital Matching Grants	0	30,600	81,600	91,800	81,600	71,400
Health						
Dormitory Authority/DOH	0	6,920	8,760	7,140	0	0
Mental Hygiene						
Dormitory Authority/MCFFA:	183,870	209,286	201,483	183,484	184,913	185,224
Public Protection						
ESDC:						
Prison Facilities	186,845	191,760	191,760	191,760	191,760	191,760
Youth Facilities	16,680	13,260	13,974	14,790	14,892	13,362
Homeland Security	9,695	0	0	0	0	0
Environment						
Environmental Facilities Corp/ERDA:						
Water Pollution Control	28,674	28,560	28,560	28,560	28,560	28,560
Pipeline for Jobs (Jobs 2000)	8,704	0	0	0	0	0
Environmental Infrastructure	30,137	72,144	72,144	73,440	73,440	73,440
Hazardous Waste Remediation	48,612	69,360	82,620	96,900	107,100	122,400
West Valley	13,568	11,577	13,515	13,515	13,515	13,515
State Building/Equipment						
ESDC / DA						
State Buildings	53,573	39,780	14,790	10,200	10,200	10,200
Certificates of Participation	38,725	163,000	102,000	102,000	102,000	102,000
E911	0	102,000	0	0	0	0
Housing						
Housing Finance Agency	101,439	109,599	104,244	104,244	104,244	104,244
Economic Development						
ESDC/DA						
Sports Facilities	15,100	0	0	0	0	0
Community Enhancement Facilities	0	82,107	0	0	0	0
Buffalo Inner Harbor	0	51,000	0	0	0	0
Strategic Investment Program	12,240	59,966	0	0	0	0
Centers of Excellence et.al.	187,145	278,460	106,080	38,760	0	0
JOBS Now	0	0	0	0	0	0
Regional Economic Growth	0	25,500	85,680	102,000	41,820	0
Total Other Financing Arrangements	2,831,305	3,161,038	2,906,107	2,984,126	2,982,624	3,033,462
TOTAL STATE-SUPPORTED BOND ISSUANCES	3,078,388	3,292,438	3,076,507	3,145,526	3,118,924	3,119,862

DEBT RETIREMENTS

The retirements table presents the annual repayment of principal for State-supported debt for each fiscal year within the Plan. It accounts for retirements as of the payment date due to bondholders, rather than the actual date the State makes the cash payment. For example, if principal payments are due on April 1, the bonds are considered outstanding on March 31, even if the State is contractually obligated to make payments to the trustee prior to that date. Retirements from both outstanding State-supported debt and debt expected to be issued during the course of the Plan are included in the retirements table.

The rate at which State-supported debt is retired or paid off has a significant impact on the State's ability to generate bond capacity to finance its capital programs. To appropriately match the term of bonds to the useful lives of the projects financed and to positively impact the rate at which State-supported debt is retired, the Plan continues to assume the use of shorter-term bonds to finance tax-exempt capital projects. In addition, ten-year terms will continue to be used for taxable programs.

Over the Plan, retirements of State-supported debt are projected to average $2.4 billion annually. Retirements will increase for many of the State's largest bonding programs, including those for CHIPs, the DHBTF, SUNY, CUNY, the Department of Correctional Services (DOCS) and Mental Health.

PROJECTED STATE-SUPPORTED DEBT RETIREMENTS
2003-2004 THROUGH 2008-2009
(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
GENERAL OBLIGATION	349,102	334,586	337,821	348,923	350,099	342,332
LOCAL GOVERNMENT ASSISTANCE CORPORATION	24,900	115,605	131,577	113,361	150,719	161,034
OTHER LEASE-PURCHASE AND CONTRACTUAL-OBLIGATION FINANCING ARRANGEMENTS						
Transportation						
Metropolitan Trans Authority	0	41,280	42,995	44,975	47,135	49,495
Dormitory Authority						
Albany County Airport	1,630	1,710	1,790	1,880	1,985	2,090
Thruway Authority:						
Consolidated Local Highway Improvement	149,940	160,018	124,248	138,151	243,774	200,461
Dedicated Highway & Bridge	358,255	439,945	475,219	496,231	549,866	596,850
Education						
Dormitory Authority:						
SUNY Educational Facilities	125,661	152,820	161,715	162,309	166,615	182,714
SUNY Dormitory Facilities	20,505	19,887	22,572	23,110	23,997	25,097
SUNY Upstate Community Colleges	12,293	13,624	15,160	16,435	17,709	18,675
CUNY Educational Facilities	164,252	105,926	136,766	133,182	180,501	140,130
State Education Department	1,830	1,925	2,020	1,370	1,440	2,370
Library for the Blind	640	670	705	740	775	815
SUNY Athletic Facilities	0	930	965	1,005	1,050	1,085
RESCUE	8,270	12,768	13,215	13,709	14,264	14,891
University Facilities (Jobs 2000)	2,415	3,653	4,384	4,572	4,776	5,002
Judicial Training Institute	535	560	585	615	645	675
School District Capital Outlays	8,760	9,020	9,350	9,710	10,080	10,555
Transportation Transition Grants	0	14,323	14,796	15,284	15,788	16,309
Higher Capital Matching Grants	0	2,360	8,597	15,862	22,805	29,456
Health						
Dormitory Authority/DOH	11,040	11,845	12,525	13,871	16,307	16,496
Mental Hygiene						
Dormitory Authority/MCFFA:	99,910	96,005	134,038	164,670	143,404	164,242
Public Protection						
ESDC:						
Prison Facilities	80,005	82,066	124,750	132,797	130,740	129,411
Youth Facilities	8,380	10,660	16,938	13,484	14,880	22,071
Homeland Security	995	785	810	845	885	920
Environment						
Environmental Facilities Corp/ERDA:						
Riverbank Park	1,680	1,755	1,845	1,935	2,055	2,185
Water Pollution Control	7,270	38,399	34,623	31,544	21,841	21,171
Pilgrim Sewage Treatment	400	400	500	600	600	600
State Park Infrastructure	865	731	795	1,095	1,150	1,205
Fuel Tanks	2,400	2,455	2,510	2,550	0	0
Pipeline for Jobs (Jobs 2000)	1,215	1,999	2,090	2,180	2,275	2,398
Environmental Infrastructure	3,925	5,107	7,381	9,630	11,972	14,422
Hazardous Waste Remediation	0	1,477	3,604	6,073	8,963	12,241
West Valley	13,250	15,038	16,648	12,234	11,418	8,562
ESDC:						
Pine Barrens	615	645	675	710	745	785
State Building/Equipment						
ESDC:						
Empire State Plaza	10,804	9,988	9,088	8,394	7,752	7,161
State Buildings	588	634	683	736	793	855
State Capital Projects	7,480	7,945	8,440	8,965	9,530	10,050
ESDC / DA						
State Buildings	6,435	6,191	7,594	8,285	8,936	9,659
Certificates of Participation	78,340	32,440	63,235	93,671	126,148	137,884
E911	0	0	33,049	33,991	34,960	0
Housing						
Housing Finance Agency	23,050	50,919	52,537	63,795	64,114	66,611
Economic Development						
Triborough Bridge and Tunnel Authority/Javits Center	24,180	25,940	27,820	29,835	32,000	34,320
ESDC/DA						
University Technology Centers	10,599	11,007	11,489	11,120	11,612	12,162
Onondaga Convention Center	1,445	1,535	1,630	1,725	1,830	1,950
Sports Facilities	4,395	5,150	5,550	5,995	6,330	6,725
Community Enhancement Facilities	43,500	43,850	58,286	50,634	33,720	16,817
Natural Resources Preservation	4,595	4,820	5,055	5,320	0	0
Child Care Facilities	940	1,085	1,110	1,140	1,180	1,225
Buffalo Inner Harbor	0	0	3,933	4,156	4,390	4,638
Strategic Investment Program	28,090	30,760	43,112	44,769	42,690	14,971
Centers of Excellence et.al.	11,350	43,800	60,875	68,339	73,062	72,285
JOBS Now	2,555	2,640	2,740	2,860	3,000	0
Regional Economic Growth	0	0	1,361	5,824	11,268	14,037
Total Other Financing Arrangements	1,345,282	1,529,489	1,792,399	1,922,909	2,143,757	2,104,729
TOTAL STATE-SUPPORTED RETIREMENTS	1,719,284	1,979,680	2,261,798	2,385,194	2,644,575	2,608,094

BOND AUTHORIZATIONS

Legal authorizations for the State to enter into contractual agreements with public authorities are provided in the enabling statutes of each authority. Those statutes generally contain limits, or caps, on the amount of bonds that can be issued for a program. As the bond cap is reached, or additional bondable appropriations are enacted, legislation is also enacted to raise the statutory caps to the level necessary to accommodate bondable capital needs.

Bond caps can provide authorizations to finance a single year's appropriations or can be for multi-year periods. In addition, the authorizations specify whether the cap is on the total bonds sold, including cost of issuance (gross), or only for project costs (net). The bond caps included in the Executive Budget reflect recommended bonding authorizations for certain State-supported bond programs that can be financed by State PIT Revenue Bonds issued by any Authorized Issuer or other State revenue credits issued by a particular issuer. The plan projects the following authorities will issue State PIT Revenue Bonds as follows:

- DA to support the new SUNY and CUNY Multi-Year Capital Investment Program, Transportation Capital Transition Grants, and public and private higher education facilities capital matching grants and Department of Health Revenue Bonds to provide a portion of the financing to construct a new veterans nursing home at Oxford;
- Empire State Development Corporation (ESDC) for capital projects that will preserve and maintain the State's correctional facilities, improve and maintain State facilities, promote economic development, and finance equipment needs essential to the delivery of services by various State agencies;
- Environmental Facilities Corporation (EFC) to support various environmental and recreational projects;
- Housing Finance Agency (HFA) to support various low and moderate-income housing programs; and
- Thruway Authority to support local transportation projects.

Bond Authorizations
(thousands of dollars)

Issuer	Program	Current Cap	Recommended Cap	Type of Cap
Dormitory Authority	CUNY Senior Community Colleges	3,465,000	4,305,000	Gross
Dormitory Authority	SUNY Senior Colleges	3,550,000	4,700,000	Gross
Dormitory Authority	Health Oxford Veteran's Home	473,500	495,000	Gross
Dormitory Authority	Transportation Transition Capital Grants	0	80,000	Net
Dormitory Authority	Higher Education Facilities Capital Matching Grants	0	350,000	Net
Empire State Development Corporation	Correctional Facilities	4,550,693	5,376,893	Gross
Empire State Development Corporation	State Office Building Improvements	22,000	32,000	Net
Empire State Development Corporation	Agency Equipment Needs	70,000	233,000	Net
Empire State Development Corporation	Regional Economic Growth Program	0	250,000	Net
Environmental Facilities Corporation	Environmental Infrastructure Projects	223,000	306,000	Net
Housing Finance Agency	Various Housing Programs	1,526,000	1,626,000	Net
Thruway Authority	Local Transportation Projects (CHIPS)	3,870,240	3,894,128	Net

DEBT SERVICE FUNDS FINANCIAL PLAN

The following table provides an explanation of the receipt, disbursement, and transfer amounts contained in the Plan and how they correspond to the applicable Governmental Funds financial plans.

DEBT SERVICE FUNDS FINANCIAL PLAN
PREPARED ON THE CASH BASIS OF ACCOUNTING
2003-2004 THROUGH 2008-2009
(thousands of dollars)

	2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Opening fund balances	158,057	170,967	158,462	144,924	129,641	118,236
Receipts:						
Taxes	8,039,250	8,657,250	9,072,300	9,478,050	10,092,600	10,754,100
Miscellaneous Receipts	694,029	647,176	655,736	664,571	670,979	679,608
Total Receipts	8,733,279	9,304,426	9,728,036	10,142,621	10,763,579	11,433,708
Disbursements:						
Debt Service	3,352,698	3,919,150	4,371,935	4,717,394	4,983,824	5,106,155
State Operations	9,091	22,340	22,340	22,340	22,340	22,340
Total Disbursements	3,361,789	3,941,490	4,394,275	4,739,734	5,006,164	5,128,495
Other financing sources (uses):						
Transfers From Other Funds	4,881,266	5,240,519	5,456,594	5,515,331	5,649,651	5,673,839
Transfers To Other Funds	(10,239,846)	(10,615,960)	(10,803,893)	(10,933,501)	(11,418,471)	(11,992,901)
Net other financing sources (uses)	(5,358,580)	(5,375,441)	(5,347,299)	(5,418,170)	(5,768,820)	(6,319,062)
Changes in fund balances	12,910	(12,505)	(13,538)	(15,283)	(11,405)	(13,849)
Closing fund balances	170,967	158,462	144,924	129,641	118,236	104,387

CAPITAL PROGRAM PLAN

The Capital Program Plan section provides a narrative description of the programmatic capital investment objectives of agencies over the 2003-04 thru 2007-08 period. These agency narratives also highlight accomplishments, new initiatives, and long-term financial requirements.

The accompanying tables provide five years of appropriation, commitment and disbursement projections for each program. Commitment levels in these tables reflect the value of contracts expected to be entered into by each agency in a given year. Each agency narrative compares the Plan's recommended commitment levels with last year's levels. The reappropriation projections reflect the unexpended balance of the original appropriation, and any unused amounts continue to be shown until the project is completed.

This section also includes summary schedules of disbursements, which aggregate the information presented in the individual agency tables. These summary tables eliminate transactions which simply move monies from one fund to another and, therefore, reflect only projections of disbursements for capital projects. This adjustment provides comparability between the Plan's summary of disbursements and the State's Financial Plan.

This section of the Plan is organized programmatically. Each program area begins with a functional overview, followed by each agency's narrative and financial summary tables. The programmatic areas are transportation, parks and environment, economic development and government oversight, health and social welfare, education, public protection, mental health, general government, and other.

All State agencies and authorities with State-supported capital programs have capital maintenance systems. Agencies are required to develop five-year maintenance plans, which include an assessment of assets with a replacement value of at least $5 million, and that reflect an asset's age, condition, condition goals, maintenance activities, and remaining useful life. In addition, every five years, agencies are also required to perform an independent evaluation of their maintenance plans to ensure that the recommended maintenance activities are consistent with current capital needs.

The capital maintenance plan summaries are included in the agency narratives, since the maintenance plans are a critical part of an agency's five-year capital plan. The appropriations reflected in each agency's five-year capital plan reflect a needs-assessment, which will continue to be refined as an agency implements an asset maintenance system.

TRANSPORTATION

New York's diverse transportation system plays a crucial role in our economy. The State's 239,000 lane miles of roads, 19,500 bridges, 4,000 railroad miles, 147 public use airports, 12 major ports and over 70 mass transit systems are among our most valuable resources. These important assets are managed and maintained by a network of State agencies, public authorities, local governments and private entities.

Historically, the State's transportation capital needs have been addressed in the context of comprehensive multi-year transportation plans, encompassing the State's major transportation stakeholders. The current five-year State Transportation Plan will be completed during 2004-05. A successor plan will need to be established to address transportation investment and financing for 2005-06 and subsequent years. In the interim, the Capital Program Plan includes funds for 2004-05, the last year of the current Transportation Plan, and, for broad planning purposes, assumes roughly flat annual levels of capital investment for 2005-06 through 2008-09.

The Capital Program Plan includes over $17 billion of transportation commitments for 2004-05 through 2008-09 that will improve our transportation facilities and spur our economy with job-producing investments. Additional funds are also included for projects that will repair and reconstruct facilities damaged in the September 11 attack on the World Trade Center. State support for the capital program of the Metropolitan Transportation Authority (MTA) will total more than $2.6 billion through the Aid to Localities budget during the plan period.

Significant portions of the State's transportation capital programs are supported by Federal aid, authorized in accordance with multi-year Federal transportation acts. The most recent Federal Transportation Act, known as TEA-21, expired on September 30, 2003. While Congress has temporarily extended the existing Federal transportation programs, a permanent successor act has not yet been passed. To the extent that Federal aid under the future Act varies from the assumptions in the Capital Program Plan, the State's programs will need to be adjusted accordingly.

DEPARTMENT OF TRANSPORTATION

DOT is primarily responsible for maintaining and rehabilitating the State's system of highways and bridges, which includes over 40,000 State highway lane miles and over 7,500 bridges. Private contractors perform all major construction and repair work, while DOT provides seasonal maintenance and repair. The Department also oversees and funds programs that help defray local capital expenses associated with road and bridge projects, including CHIPS and the Marchiselli Program.

The 2004-05 through 2008-09 Capital Program Plan assumes highway and bridge construction levels totaling $1.65 billion in each year of the Plan period. Supporting this construction level, the Plan also provides for engineering, planning and program management costs of more than $550 million annually.

The Capital Program Plan also provides:

- More than $1.4 billion for local capital programs, including the CHIPS and Marchiselli programs;
- $20 million annually for the State share of a rail freight and passenger program that will preserve and improve the State's rail system;
- $9 million annually for the Industrial Access Program which promotes job creation and retention by encouraging business expansion with highway, rail and port projects;
- $31 million annually for DOT maintenance facilities and equipment; and
- $8 million annually to help local and State airports match Federal aviation aid.

Preventive maintenance continues to be a key component of the DOT's activities. Since preventive activities extend the life of a road or bridge, they are cost-effective alternatives to major reconstruction. For highways, the goal of keeping water and other materials away from the base of the highway is accomplished through activities such as crack sealing, pothole repair, joint repair and drainage repair. Painting, washing, joint repair and maintaining drainage are key elements to extending the life of State bridges. A total of $1.9 billion will be available for the planned preventive maintenance activities over the next five years.

The Department's maintenance activities are supported by 313 sites around the State which encompass over 700 building types, including 60 maintenance headquarters, 125 maintenance sub-headquarters, 236 salt storage areas, 34 bridge crew facilities, two special crew facilities, a sign shop and 70 other storage and reload sites. The average age of the infrastructure is over 30 years. The total size of the infrastructure is approximately four million gross square feet.

The Department's maintenance facilities plan consists of an annual review of its overall needs and a prioritization of its projects. The program goal is to upgrade and repair its infrastructure based on evaluation of the condition, proposed use and corresponding health, safety and environmental concerns.

TRANSIT PROGRAMS

Mass transportation systems play an essential role in the State's economic and social networks. More than 25 percent of workers in New York State travel to work via mass transportation. Mass transit systems also alleviate ill effects on air quality by relieving traffic congestion.

The Capital Program will provide $2.8 billion of State support for the capital programs of transit systems throughout New York. This State assistance includes:

- Over $2.6 billion of State funding for the MTA capital program, to be provided to the Authority via Aid-to-Localities appropriations from the Dedicated Mass Transportation Trust Fund; and
- More than $157 million of State aid for the capital programs of other transit systems throughout the State, to be used for bus acquisitions, maintenance facility improvements and other projects. In addition, a portion of the non-MTA transit dedicated fund resources will be used to enhance operating aid for these systems.

DEPARTMENT OF MOTOR VEHICLES

The Department of Motor Vehicles issues driver's licenses and vehicle registrations, promotes highway safety, and collects revenues used for transportation purposes, including capital projects. The five-year plan recommends funding $733 million of the Department's transportation-related cash expenses from the DHBTF.

CANALS

The New York State Canal Corporation maintains, operates, develops and makes capital improvements to the 524-mile navigable waterway which includes 57 locks, numerous dams, reservoirs and water control structures. Revenues from canal tolls and other user fees are deposited into the Canal System Development Fund and, in accordance with the State Constitution, are used exclusively for the canals. Maintenance on the canals is conducted on an ongoing basis to ensure that canal facilities operate properly and that public safety is maintained.

TRANSPORTATION, DEPARTMENT OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Aviation	77,401	14,000	8,000	8,000	8,000	8,000	46,000
Highway Facilities	9,073,843	3,264,435	3,176,266	3,200,329	3,212,438	3,001,942	15,855,410
Maintenance Facilities	57,425	31,000	31,620	32,252	32,897	33,555	161,324
Mass Transportation and Rail Freight	261,677	71,115	71,115	71,115	71,115	71,115	355,575
Ports and Waterways	1,496	0	0	0	0	0	0
Total	9,471,842	3,380,550	3,287,001	3,311,696	3,324,450	3,114,612	16,418,309
Fund Summary							
Capital Projects Fund - A.C. and T.I. Fund (Bondable)	62,332	0	0	0	0	0	0
Capital Projects Fund - Advances	21,681	0	0	0	0	0	0
Capital Projects Fund - Aviation (Bondable)	3,071	0	0	0	0	0	0
Capital Projects Fund - Energy Conservation (Bondable)	1,040	0	0	0	0	0	0
Capital Projects Fund - Infrastructure Renewal (Bondable)	41,100	0	0	0	0	0	0
Dedicated Highway and Bridge Trust Fund	3,056,384	1,563,255	1,473,322	1,498,017	1,510,771	1,300,933	7,346,298
Dedicated Mass Transportation Fund	157,853	51,115	51,115	51,115	51,115	51,115	255,575
Engineering Services Fund	418,936	0	0	0	0	0	0
Federal Capital Projects Fund	5,500,403	1,706,000	1,700,000	1,700,000	1,700,000	1,700,000	8,506,000
Miscellaneous New York State Agency Fund	164,994	50,000	52,000	52,000	52,000	52,000	258,000
NY Metro Transportation Council Account	25,147	10,180	10,564	10,564	10,564	10,564	52,436
Regional Aviation Fund	18,901	0	0	0	0	0	0
Total	9,471,842	3,380,550	3,287,001	3,311,696	3,324,450	3,114,612	16,418,309

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Aviation	8,000	8,000	8,000	8,000	8,000
Highway Facilities	3,274,219	3,176,266	3,200,329	3,212,438	3,001,942
Maintenance Facilities	31,000	31,620	32,252	32,897	33,555
Mass Transportation and Rail Freight	71,115	71,115	71,115	71,115	20,000
Total	3,384,334	3,287,001	3,311,696	3,324,450	3,063,497
Fund Summary					
Dedicated Highway and Bridge Trust Fund	1,572,655	1,473,322	1,498,017	1,510,771	1,300,933
Dedicated Mass Transportation Fund	51,115	51,115	51,115	51,115	0
Federal Capital Projects Fund	1,700,000	1,700,000	1,700,000	1,700,000	1,700,000
Miscellaneous New York State Agency Fund	50,000	52,000	52,000	52,000	52,000
NY Metro Transportation Council Account	10,564	10,564	10,564	10,564	10,564
Total	3,384,334	3,287,001	3,311,696	3,324,450	3,063,497

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Aviation	21,938	20,775	11,600	24,004	7,853	10,700	74,932
Highway Facilities	3,307,626	3,342,479	3,147,684	3,040,669	3,168,001	3,183,757	15,882,590
Maintenance Facilities	21,992	26,066	29,416	59,692	30,955	20,300	166,429
Mass Transportation and Rail Freight	61,566	62,853	82,630	119,629	58,984	74,592	398,688
Ports and Waterways	0	0	0	0	0	300	300
Total	3,413,122	3,452,173	3,271,330	3,243,994	3,265,793	3,289,649	16,522,939
Fund Summary							
Capital Projects Fund - A.C. and T.I. Fund (Bondable)	10,000	8,000	6,000	4,000	2,000	2,000	22,000
Capital Projects Fund - Advances	500	500	500	500	500	500	2,500
Capital Projects Fund - Aviation (Bondable)	1,400	400	400	400	400	400	2,000
Capital Projects Fund - Energy Conservation (Bondable)	40	200	200	200	200	200	1,000
Capital Projects Fund - Infrastructure Renewal (Bondable)	4,160	5,000	5,000	5,000	5,000	5,000	25,000
Dedicated Highway and Bridge Trust Fund	1,744,213	1,748,343	1,585,636	1,562,030	1,594,790	1,620,292	8,111,091
Dedicated Mass Transportation Fund	46,271	49,876	52,722	53,402	53,050	53,492	262,542
Engineering Services Fund	222,075	81,107	31,108	15,493	6,561	3,976	138,245
Federal Capital Projects Fund	1,369,530	1,544,072	1,575,622	1,589,584	1,589,907	1,590,404	7,889,589
NY Metro Transportation Council Account	9,876	10,675	11,142	11,385	11,385	11,385	55,972
Regional Aviation Fund	5,057	4,000	3,000	2,000	2,000	2,000	13,000
Total	3,413,122	3,452,173	3,271,330	3,243,994	3,265,793	3,289,649	16,522,939

MOTOR VEHICLES, DEPARTMENT OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Transportation Support	0	138,184	155,367	151,006	149,670	148,470	742,697
Total	0	138,184	155,367	151,006	149,670	148,470	742,697
Fund Summary							
Dedicated Highway and Bridge Trust Fund	0	138,184	155,367	151,006	149,670	148,470	742,697
Total	0	138,184	155,367	151,006	149,670	148,470	742,697

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Transportation Support	138,184	155,367	151,006	149,670	148,470
Total	138,184	155,367	151,006	149,670	148,470
Fund Summary					
Dedicated Highway and Bridge Trust Fund	138,184	155,367	151,006	149,670	148,470
Total	138,184	155,367	151,006	149,670	148,470

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Transportation Support	116,401	136,449	153,367	149,006	147,670	146,470	732,962
Total	116,401	136,449	153,367	149,006	147,670	146,470	732,962
Fund Summary							
Dedicated Highway and Bridge Trust Fund	116,401	136,449	153,367	149,006	147,670	146,470	732,962
Total	116,401	136,449	153,367	149,006	147,670	146,470	732,962

THRUWAY AUTHORITY, NEW YORK STATE
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Canal Development Program	2,918	4,000	4,000	4,000	4,000	4,000	20,000
Total	2,918	4,000	4,000	4,000	4,000	4,000	20,000
Fund Summary							
New York State Canal System Development Fund	2,918	4,000	4,000	4,000	4,000	4,000	20,000
Total	2,918	4,000	4,000	4,000	4,000	4,000	20,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Canal Development Program	4,000	4,000	4,000	4,000	4,000
Total	4,000	4,000	4,000	4,000	4,000
Fund Summary					
New York State Canal System Development Fund	4,000	4,000	4,000	4,000	4,000
Total	4,000	4,000	4,000	4,000	4,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Canal Development Program	3,017	4,000	4,000	4,000	4,000	4,000	20,000
Total	3,017	4,000	4,000	4,000	4,000	4,000	20,000
Fund Summary							
New York State Canal System Development Fund	3,017	4,000	4,000	4,000	4,000	4,000	20,000
Total	3,017	4,000	4,000	4,000	4,000	4,000	20,000

METROPOLITAN TRANSPORTATION AUTHORITY
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Metropolitan Transportation Authority	36,000	0	0	0	0	0	0
Total	36,000	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund - Advances	36,000	0	0	0	0	0	0
Total	36,000	0	0	0	0	0	0

PARKS AND ENVIRONMENT

The DEC and the Office of Parks, Recreation and Historic Preservation (OPRHP) are the agencies responsible for preserving and protecting the State's extensive environmental, historic and cultural resources and providing recreational opportunities for its citizens. Each agency is responsible for the development and maintenance of a wide array of capital facilities. This category also includes EFC and the Hudson River Park Trust.

A major focus of DEC over the next five years will be the continued clean up of environmental hazards under the new and expanded State Superfund and Brownfields program, signed into law by Governor Pataki in 2003. Additionally, both DEC and OPRHP will continue to implement the CWCA Bond Act, proposed by the Governor, and endorsed by the voters in November 1996. The Bond Act authorized a total of $1.75 billion for projects vital to the State's environmental and economic health.

DEPARTMENT OF ENVIRONMENTAL CONSERVATION

DEC is charged with protecting the State's natural resources. Department responsibilities include cleaning up solid and hazardous waste disposal sites, enforcing air and water quality standards, maintaining hundreds of flood and coastal erosion projects, and stewardship of approximately four million acres of State land. The Department also provides safe opportunities for outdoor recreation including hunting, fishing, camping, hiking and other activities. DEC manages hundreds of facilities including dams, boat launch sites, campgrounds, fish hatcheries, wildlife management areas and a ski area.

DEC's capital program enhances and maintains the infrastructure necessary to provide a safe environment, and an estimated $598 million in capital disbursements will support these activities in 2004-05. DEC's Capital Plan directs resources to projects to ensure compliance with health and safety requirements and State and Federal environmental mandates. In 2004-05, new Capital Projects Fund appropriations of $31 million are recommended to address these needs, and to maintain and upgrade campgrounds, environmental centers and camps, fish hatcheries and other Department-owned buildings and facilities, maintain flood control structures, and fund shore protection projects for communities threatened by coastal erosion. Recommendations also include $10 million for remediation of Onondaga Lake.

The 2004-05 Executive Budget recommends new disbursements totaling $125 million from the 1996 CWCA for projects to be administered by DEC. The CWCA Bond Act funds such important activities as: water quality improvement projects, landfill closure and recycling projects, Brownfield's projects, safe drinking water projects and air quality improvement projects. The total authorization of $1.75 billion has been made available from the Bond Act.

Another key element of DEC's capital program is the EPF, a dedicated fund supported by revenues of approximately $125 million annually. The Executive Budget includes new appropriations of $125 million for 2004-05 to fund a host of critical environmental and recreational activities including: recycling; waterfront revitalization projects; non-point source water pollution control; farmland preservation; open space land acquisition; Hudson River Estuary Management and municipal parks projects; the Hudson River Park project; the restoration and preservation of historic barns; and stewardship projects on State-owned parks and lands. Additional EPF appropriations of $500 million through 2008-09 will continue funding these important activities.

The Department's Capital Plan also reflects the newly refinanced State Superfund program and a new Brownfields program enacted in 2003. Appropriations provide for $120 million in annual support to be bond-financed for the remediation of hazardous waste and hazardous substances and for off-site contamination at Brownfield Cleanup program sites.

The cost of these bonds will be supported equally be the State and industry. In addition, $15 million in General Fund support is provided for technical assistance grants (TAGs), Brownfield Opportunity Area (BOA) grants, and for State implementation of the Brownfield Cleanup program and non-bondable costs of the State Superfund and Brownfield Cleanup Programs. These programs, which will maintain the most stringent environmental and public health standards in the nation, while also spurring redevelopment of contaminated sites, succeed the $1.1 billion 1986 Environmental Quality Bond Act which is fully committed.

In 2004-05, the level of contract commitments projected in the Department's capital plan is $466 million. This is consistent with the commitment levels in the 2003-04 capital plan. Future year commitments are also consistent with appropriation levels recommended over the next five years.

The Department's capital maintenance plan focuses on preservation and preventive maintenance at its various lands, facilities and other structures. The Department manages a vast array of assets that vary in age, condition and useful life, including: approximately four million acres of land; 260 boat launching and fishing access sites; 100 flood control structures; 52 campgrounds; 12 fish hatcheries; one game farm; four environmental education camps; five environmental education centers; one tree nursery; and the Belleayre Mountain ski center. The Department has recently developed a computerized maintenance management system to facilitate planning and preventive maintenance for these extensive resources.

ENVIRONMENTAL FACILITIES CORPORATION

EFC is charged with helping local governments, State agencies and private industry comply with State and Federal environmental laws. EFC responsibilities include administering the Clean Water (CWSRF) and Drinking Water (DWSRF) State Revolving Funds; assisting New York businesses finance environmental projects through the Industrial Finance Program (IFP); and helping municipalities, State agencies, and businesses comply with environmental laws and regulations through the Technical Advisory Services (TAS) program, the Financial Assistance to Business (FAB) program and the Pipeline for Jobs program.

EFC, in conjunction with DEC, administers low-interest financings to recipients for water pollution control facilities via the CWSRF. As of December 1, 2003, the CWSRF has made 1,192 loans for approximately $9.6 billion to 437 recipients across the State since the program was initiated in 1989. The Capital Plan for DEC estimates commitments of $840 million from Federal and State funds for the CWSRF over five years.

The Drinking Water State Revolving Fund is a program administered by EFC, in conjunction with DOH, that provides low-interest financings, including grants, to publicly- and privately-owned community water systems and to nonprofit, non-community water systems for the construction of eligible safe drinking water projects. From its initiation in 1996 through December 1, 2003, the DWSRF has made 310 loans, 67 State Assistance Payments and 42 Federal Assistance Payments, worth approximately $1.06 billion, to 236 recipients across the State. DOH's Five-Year Capital Plan anticipates commitments for the DWSRF of $325 million in Federal funding.

In addition to appropriations to finance costs related to the 1996 CWCA Bond Act, EFC's Capital Program includes the reappropriation of $7.5 million for the Pipeline for Jobs program. This program was created to provide recipients with financial assistance for the planning, design and construction of eligible projects that are intended to create, improve, or extend water supply facilities for economic development.

HUDSON RIVER PARK TRUST

The Hudson River Park Trust (the Trust) is responsible for designing, developing, constructing, and maintaining the 550 acre Hudson River Park, which will extend five miles along the Hudson River waterfront from Battery Park City to 59th Street. During 2004-05, the Trust will continue to refine the framework and scope of the Hudson River Park, develop detailed cost estimates, explore alternative sources of funding and continue to oversee project design and construction.

The 2004-05 Executive Budget recommends $10 million in new appropriations from the EPF for the Trust for capital costs associated with the planning, design and construction of Park projects. This level of funding, when combined with prior year spending authority that is continued, will provide sufficient resources to meet 2004-05 obligations.

OFFICE OF PARKS, RECREATION AND HISTORIC PRESERVATION

The Office of Parks, Recreation and Historic Preservation operates 168 State parks and 35 historic sites that provide a place for visitors to relax and learn about New York's natural, historic and recreational treasures. More than 60 million people visit the State parks each year.

The State's park system is one of the oldest and best developed in the nation, featuring 27 golf courses, 76 developed beaches, 53 swimming pools, and more than 5,000 buildings. Since the majority of facilities at State parks were built more than 50 years ago, a primary component of the capital program is devoted to maintenance and rehabilitation.

For 2004-05, the capital plan supports approximately $20 million in capital disbursements from various sources. For new appropriations, $29 million is recommended for capital projects from SPIF, a dedicated fund consisting of revenues generated from day use and camping fees at the parks, as well as other miscellaneous revenues. Support is also provided for the Office's capital program from Fiduciary funds and Federal resources. In addition, funding will be available from the EPF to improve park facilities and protect the fragile natural resources at State parks. These funds are included in the DEC capital budget.

Funding will also be available from the EPF and the CWCA Bond Act to improve park facilities and protect the fragile natural resources at State parks. These funds are also included in the DEC capital budget.

The Office's five-year capital plan reflects the priority needs of the various parks and historic sites. A total of $84 million, mainly from SPIF, is planned to be spent on projects to improve health and safety and preserve facilities, and includes actions to:
- Maintain and restore historic sites;
- Rehabilitate park utility, sanitary, and water systems;
- Improve selected roads and bridges;
- Upgrade public comfort stations and campground wash houses;
- Maintain and improve park buildings, cabins and pool facilities; and
- Develop newly acquired park lands.

The Office's capital maintenance plan for 2004-05 concentrates investments in preservation and protection of its many facilities. The Office's assets consist of approximately 5,000 buildings which vary in age, condition and useful life including: historic buildings, offices, cabins, comfort stations, maintenance/storage buildings, restaurants, visitor/nature centers, pump houses and toll booths. The Office plans to focus its 2004-05 maintenance efforts primarily on site restoration, roof repair, and exterior construction projects.

CAPITAL PROGRAM PLAN

The level of contract commitments projected in OPRHP's capital plan is $34 million in 2004-05. Future year commitments reflect projected activity from both new appropriations and prior year appropriations.

ENVIRONMENTAL CONSERVATION, DEPARTMENT OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Administration	2,746	4,025	2,000	2,000	2,000	2,000	12,025
Air Resources	88,381	0	0	0	0	0	0
Clean Water Clean Air Implementation	8,317	2,527	0	0	0	0	2,527
Clean Water/Clean Air 96	181,301	0	0	0	0	0	0
Design and Construction Supervision	14	0	0	0	0	0	0
Environment and Recreation	367,380	125,000	125,000	125,000	125,000	125,000	625,000
Environmental Protection and Enhancements	95,203	0	0	0	0	0	0
Fish and Wildlife	10,586	1,900	1,500	1,500	1,500	1,500	7,900
Lands and Forests	21,695	2,650	1,500	1,500	1,500	1,500	8,650
Marine Resources	12,335	3,750	0	0	0	0	3,750
Operations	65,821	25,469	25,729	27,000	27,000	27,000	132,198
Recreation	3,957	2,500	1,350	1,325	1,325	1,325	7,825
Solid and Hazardous Waste Management	450,072	167,501	135,000	135,000	135,000	135,000	707,501
Solid Waste Management	110,509	10,845	650	675	675	675	13,520
Water Resources	907,127	201,485	199,000	199,000	199,000	199,000	997,485
Total	2,325,444	547,652	491,729	493,000	493,000	493,000	2,518,381
Fund Summary							
Capital Projects Fund	128,311	30,595	30,000	30,000	30,000	30,000	150,595
Capital Projects Fund - 1996 CWA (Bondable)	712,557	0	0	0	0	0	0
Capital Projects Fund - Advances	83,635	30,000	1,000	1,000	1,000	1,000	34,000
Capital Projects Fund - Authority Bonds	92,895	49,622	50,729	52,000	52,000	52,000	256,351
Capital Projects Fund - EQBA (Bondable)	39,241	327	0	0	0	0	327
Capital Projects Fund - EQBA 86 (Bondable)	250,589	0	0	0	0	0	0
Capital Projects Fund - PWBA (Bondable)	17,948	14,467	0	0	0	0	14,467
Clean Air Fund	11,384	0	0	0	0	0	0
Clean Water Clean Air Implementation Fund	8,317	2,527	0	0	0	0	2,527
Enterprise Fund	175	0	0	0	0	0	0
Environmental Protection Fund	462,583	125,000	125,000	125,000	125,000	125,000	625,000
Federal Capital Projects Fund	370,802	160,114	150,000	150,000	150,000	150,000	760,114
Financial Security Fund	1,835	0	0	0	0	0	0
Forest Preserve Expansion Fund	115	0	0	0	0	0	0
Hazardous Waste Remedial Fund - Cleanup	120,000	120,000	120,000	120,000	120,000	120,000	600,000
Hazardous Waste Remedial Fund - Oversight and Assessment	15,000	15,000	15,000	15,000	15,000	15,000	75,000
Hudson River Habitat Restor. Fund	351	0	0	0	0	0	0
Natural Resource Damages Fund	9,706	0	0	0	0	0	0
Total	2,325,444	547,652	491,729	493,000	493,000	493,000	2,518,381

ENVIRONMENTAL CONSERVATION, DEPARTMENT OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Administration	1,000	2,000	2,000	2,000	2,000
Air Resources	500	500	500	500	500
Clean Water Clean Air Implementation	2,527	0	0	0	0
Environment and Recreation	125,000	125,000	125,000	125,000	125,000
Fish and Wildlife	1,000	1,500	1,500	1,500	1,500
Lands and Forests	1,000	1,500	1,500	1,500	1,500
Marine Resources	200	200	200	200	200
Operations	17,245	15,000	15,000	15,000	15,000
Recreation	700	1,350	1,325	1,325	1,325
Solid and Hazardous Waste Management	113,000	96,000	110,000	120,000	135,000
Solid Waste Management	650	650	650	650	650
Water Resources	203,000	202,000	202,025	202,025	202,025
Total	465,822	445,700	459,700	469,700	484,700
Fund Summary					
Capital Projects Fund	30,595	30,000	30,000	30,000	30,000
Capital Projects Fund - Advances	31,000	1,000	1,000	1,000	1,000
Capital Projects Fund - Authority Bonds	50,000	50,000	50,000	50,000	50,000
Clean Water Clean Air Implementation Fund	2,527	0	0	0	0
Environmental Protection Fund	125,000	125,000	125,000	125,000	125,000
Federal Capital Projects Fund	142,500	142,500	142,500	142,500	142,500
Financial Security Fund	200	200	200	200	200
Hazardous Waste Remedial Fund - Cleanup	68,000	81,000	95,000	105,000	120,000
Hazardous Waste Remedial Fund - Oversight and Assessment	15,000	15,000	15,000	15,000	15,000
Natural Resource Damages Fund	1,000	1,000	1,000	1,000	1,000
Total	465,822	445,700	459,700	469,700	484,700

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Administration	186	0	0	0	0	0	0
Air Resources	16,933	17,224	13,000	11,750	12,735	9,250	63,959
Clean Water Clean Air Implementation	2,527	2,527	2,527	0	0	0	5,054
Clean Water/Clean Air 96	7,071	19,500	22,543	20,473	29,000	20,062	111,578
Environment and Recreation	92,919	100,750	99,250	105,410	112,500	115,083	532,993
Environmental Protection and Enhancements	34,081	20,250	21,750	14,590	12,500	9,917	79,007
Fish and Wildlife	1,127	1,101	925	954	825	818	4,623
Lands and Forests	409	20	17	17	17	17	88
Marine Resources	450	750	700	700	700	650	3,500
Operations	16,027	11,929	11,929	13,200	13,200	13,200	63,458
Recreation	314	0	0	0	0	0	0
Solid and Hazardous Waste Management	146,674	149,350	161,850	165,350	151,999	140,299	768,848
Solid Waste Management	51,383	15,356	13,388	9,127	5,100	3,328	46,299
Water Resources	253,480	259,469	260,694	243,746	238,335	227,693	1,229,937
Total	623,581	598,226	608,573	585,317	576,911	540,317	2,909,344
Fund Summary							
Capital Projects Fund	9,729	0	0	0	0	0	0
Capital Projects Fund - 1996 CWA (Bondable)	125,000	125,000	125,000	100,000	100,000	75,000	525,000
Capital Projects Fund - Advances	22,000	7,400	7,400	7,400	7,400	7,400	37,000
Capital Projects Fund - Authority Bonds	59,000	48,729	48,729	50,000	50,000	50,000	247,458
Capital Projects Fund - EQBA (Bondable)	6,000	3,000	3,000	3,000	3,000	3,000	15,000
Capital Projects Fund - EQBA 86 (Bondable)	60,000	60,000	60,000	50,000	26,594	0	196,594
Capital Projects Fund - PWBA (Bondable)	1,600	1,200	1,200	1,200	1,200	1,200	6,000
Clean Air Fund	2,000	2,650	0	0	0	0	2,650
Clean Water Clean Air Implementation Fund	2,527	2,527	2,527	0	0	0	5,054
Environmental Protection Fund	127,000	121,000	121,000	120,000	125,000	125,000	612,000
Federal Capital Projects Fund	142,500	142,500	142,500	142,500	142,500	142,500	712,500
Financial Security Fund	200	200	200	200	200	200	1,000
Forest Preserve Expansion Fund	25	20	17	17	17	17	88
Hazardous Waste Remedial Fund - Cleanup	50,000	68,000	81,000	95,000	105,000	120,000	469,000
Hazardous Waste Remedial Fund - Oversight and Assessment	15,000	15,000	15,000	15,000	15,000	15,000	75,000
Natural Resource Damages Fund	1,000	1,000	1,000	1,000	1,000	1,000	5,000
Total	623,581	598,226	608,573	585,317	576,911	540,317	2,909,344

ENVIRONMENTAL FACILITIES CORPORATION
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Clean Water - Clean Air Implementation	0	292	292	0	0	0	584
Pipeline for Jobs Program	7,500	0	0	0	0	0	0
Total	7,500	292	292	0	0	0	584
Fund Summary							
Capital Projects Fund - Authority Bonds	7,500	0	0	0	0	0	0
Clean Water Clean Air Implementation Fund	0	292	292	0	0	0	584
Total	7,500	292	292	0	0	0	584

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Clean Water - Clean Air Implementation	292	292	0	0	0
Total	292	292	0	0	0
Fund Summary					
Clean Water Clean Air Implementation Fund	292	292	0	0	0
Total	292	292	0	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Clean Water - Clean Air Implementation	292	292	292	0	0	0	584
Pipeline for Jobs Program	1,300	6,305	0	0	0	0	6,305
Total	1,592	6,597	292	0	0	0	6,889
Fund Summary							
Capital Projects Fund - Authority Bonds	1,300	6,305	0	0	0	0	6,305
Clean Water Clean Air Implementation Fund	292	292	292	0	0	0	584
Total	1,592	6,597	292	0	0	0	6,889

HUDSON RIVER PARK TRUST
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Regional Development	71,684	0	0	0	0	0	0
Total	71,684	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund - Advances	71,684	0	0	0	0	0	0
Total	71,684	0	0	0	0	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Regional Development	40,000	31,684	0	0	0	0	31,684
Total	40,000	31,684	0	0	0	0	31,684
Fund Summary							
Capital Projects Fund - Advances	40,000	31,684	0	0	0	0	31,684
Total	40,000	31,684	0	0	0	0	31,684

PARKS, RECREATION AND HISTORIC PRESERVATION, OFFICE OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Federal Capital Projects Fund	13,518	4,000	5,000	5,000	5,000	5,000	24,000
Maintenance and Improvement of Existing Facilities	100,387	34,950	35,250	35,250	35,805	35,805	177,060
Natural Heritage Trust	300	0	0	0	0	0	0
Outdoor Recreation	1,013	0	0	0	0	0	0
Parks EQBA	7,807	0	0	0	0	0	0
Total	123,025	38,950	40,250	40,250	40,805	40,805	201,060
Fund Summary							
Capital Projects Fund	972	0	0	0	0	0	0
Capital Projects Fund - EQBA 86 (Bondable)	7,807	0	0	0	0	0	0
Federal Capital Projects Fund	13,518	4,000	5,000	5,000	5,000	5,000	24,000
Fiduciary Funds - Misc. Combined Expendable Trust Fund	13,752	5,000	5,000	5,000	5,000	5,000	25,000
Misc. Capital Projects	3,988	1,250	1,200	1,200	1,200	1,200	6,050
Outdoor Recreation Development Bond Fund	230	0	0	0	0	0	0
Parks and Recreation Land Acquisition Bond Fund	783	0	0	0	0	0	0
State Parks Infrastructure Fund	81,975	28,700	29,050	29,050	29,605	29,605	146,010
Total	123,025	38,950	40,250	40,250	40,805	40,805	201,060

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Federal Capital Projects Fund	2,500	2,500	2,500	2,500	2,500
Maintenance and Improvement of Existing Facilities	31,700	31,050	31,050	31,605	31,605
Total	34,200	33,550	33,550	34,105	34,105
Fund Summary					
Federal Capital Projects Fund	2,500	2,500	2,500	2,500	2,500
Fiduciary Funds - Misc. Combined Expendable Trust Fund	2,000	1,000	1,000	1,000	1,000
Misc. Capital Projects	1,000	1,000	1,000	1,000	1,000
State Parks Infrastructure Fund	28,700	29,050	29,050	29,605	29,605
Total	34,200	33,550	33,550	34,105	34,105

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Federal Capital Projects Fund	2,500	2,500	2,500	2,500	2,500	2,500	12,500
Maintenance and Improvement of Existing Facilities	26,325	13,900	12,900	12,900	12,900	12,900	65,500
Parks EQBA	3,343	3,775	1,185	861	0	0	5,821
Total	32,168	20,175	16,585	16,261	15,400	15,400	83,821
Fund Summary							
Capital Projects Fund - EQBA 86 (Bondable)	3,343	3,775	1,185	861	0	0	5,821
Federal Capital Projects Fund	2,500	2,500	2,500	2,500	2,500	2,500	12,500
Fiduciary Funds - Misc. Combined Expendable Trust Fund	4,425	2,000	1,000	1,000	1,000	1,000	6,000
Misc. Capital Projects	1,000	1,000	1,000	1,000	1,000	1,000	5,000
State Parks Infrastructure Fund	20,900	10,900	10,900	10,900	10,900	10,900	54,500
Total	32,168	20,175	16,585	16,261	15,400	15,400	83,821

ECONOMIC DEVELOPMENT AND GOVERNMENT OVERSIGHT

DEPARTMENT OF AGRICULTURE AND MARKETS

The Department of Agriculture and Markets, in conjunction with the Industrial Exhibit Authority, is responsible for operating the New York State Fair and maintaining its buildings and grounds. The Fairgrounds include 28 major buildings and 100 other structures, the majority of which have a useful life of greater than 10 years and are in good overall condition.

		Condition			
Capital Asset Group	Age Range	Good	Fair	Poor	Total
Various State Fair Buildings	5 to 94 yrs.	110	14	4	128

For 2004-05, the capital plan supports approximately $2 million in capital disbursements and a total of $1.0 million in new appropriations financed with a transfer from the General Fund to repair and rehabilitate the Fair's facilities to ensure a safe and enjoyable experience for all Fair patrons and participants. An additional $6.4 million in disbursements will be made available for similar projects through 2008-09.

The 2004-05 Executive Budget also recommends continued spending from Special Revenue funds for the Fair (financed by revenues from public/private partnership agreements and year-round operation of the Fairgrounds) to complete needed improvements at various Fairgrounds buildings.

The Department's capital maintenance plan for the next five years prioritizes those projects that will preserve, rehabilitate and improve Fairgrounds buildings, land and infrastructure for year-round use, and continue to protect the State's investment in the facility. In addition, Fairgrounds structures are upgraded continually to meet more stringent building code requirements, provide accessibility for the disabled and ensure public safety.

For 2004-05, the level of commitments projected in the Capital Plan is $2 million. Future year commitments are consistent with planned appropriation levels over the next five years.

ECONOMIC DEVELOPMENT AND OFFICE OF SCIENCE, TECHNOLOGY AND ACADEMIC RESEARCH

For 2004-05, the Capital Plan includes $250 million in new funding for the Regional Economic Growth Program to support priority high technology and economic development projects that will have a significant regional impact. The Capital Plan also continues the $1.2 billion Centers of Excellence/Empire Opportunity Fund/Gen*NY*sis/RESTORE Program which is being administered by ESDC and the DA. This program was established to foster collaboration between the academic research community and the business sector in order to develop and commercialize new products and technologies; to promote critical private sector investment in emerging high technology fields; and to create and expand technology related businesses and employment. In addition, the Program also finances projects that create or retain jobs or increase business activity through the construction and rehabilitation of research and development facilities, incubators and industrial parks; downtown commercial revitalization; brownfield redevelopment; as well as other types of activities.

The Capital Plan includes reappropriations for previously authorized environmental, higher education, cultural and economic development projects including: $425 million for CEFAP authorized in 1997-98; $225 million for SIP authorized in 2000-01; $34.6 million for NYSTAR Capital Facilities Program authorized in 1999-00; $50 million for economic development projects in the Buffalo area authorized in 2000-01; $750,000 for EDNRP authorized in 1999-00; and $15 million for the construction of a stadium to house the Rochester Rhinos Soccer franchise authorized in 2000-01. State-supported public authority bonds finance these programs.

ENERGY RESEARCH AND DEVELOPMENT AUTHORITY

The Energy Research and Development Authority (ERDA) owns and manages the Western New York Nuclear Service Center at West Valley in Cattaraugus County, the site of a former nuclear fuel reprocessing facility and an inactive low-level radioactive waste disposal area.

The Authority's Capital Plan reflects its continuing role in a joint Federal-State Demonstration Project to treat and dispose of liquid nuclear waste at the Center and decommission the reprocessing facility. The Plan also includes ERDA's on-going maintenance costs at the disposal area to ensure its compliance with environmental laws.

ERDA's Capital Maintenance Plan indicates that the Western New York Service Center is approximately 36 years of age, in good condition, with a remaining useful life that will extend to the conclusion of the decommissioning of the site. The maintenance goal at the site is to preserve the facility in a state of good repair.

The 2004-05 commitment level of $11.5 million also includes the anticipated cost for ERDA's role in the CWCA Bond Act.

DIVISION OF HOUSING AND COMMUNITY RENEWAL

The State's housing capital programs provide grants, low-interest loans and technical assistance to facilitate construction and preservation of the State's low- and moderate-income housing stock. State capital funds are combined with Federal funds, low-cost mortgages and available private sector investments to finance activities that, absent the State's involvement, would not be financially feasible.

In addition to developing and maintaining low-cost housing, the housing capital programs foster economic growth across the State by creating additional construction jobs and encouraging new private sector investment in distressed areas.

The State's housing capital appropriations are made to DHCR, the State agency charged with coordinating the State's housing policies and programs. The individual housing programs are implemented through four public benefit corporations: the Housing Trust Fund Corporation (HTFC); the Affordable Housing Corporation (AHC), the Homeless Housing Assistance Corporation (HHAC); and HFA. DHCR staff perform the administrative functions generally associated with low-income housing programs as well as overseeing the State's involvement in Federal capital programs. HFA staff provide administrative support for the State programs that generally target moderate-income households.

The Capital Plan recommends $104 million in appropriations in 2004-05 to fund six housing capital programs:

- $29 million to the Low-Income Housing Trust Fund program to provide grants of up to $75,000 per unit to construct or renovate low-income apartment projects. The Capital Plan maintains 2004-05 funding levels for this program through 2008-09;
- $25 million to the Affordable Homeownership Development Program, which provides grants of up to $25,000 to low- and moderate-income households to assist in the acquisition or renovation of their homes. The Capital Plan maintains 2004-05 funding levels for this program through 2008-09;

- $13 million to the Public Housing Modernization Program to subsidize repairs at 74 State-supervised public housing projects across the State. A total of $400,000 from this appropriation will be reserved to fund capital activities aimed at reducing illegal drug activities at these projects. The Capital Plan maintains 2004-05 funding levels for this program through 2008-09;
- $7 million for the Homes for Working Families program to continue this award-winning initiative which combines State funds with other available public and private sector moneys, Federal Low Income Tax Credit proceeds and non-State supported bond funds to construct affordable rental housing for low- and moderate-income households;
- $400,000 for the Housing Opportunities Program, which provides grants to low-income elderly homeowners for emergency home repairs. The Capital Plan maintains 2004-05 funding levels for this program through 2008-09; and
- $30 million to HHAP which is funded from OTDA, to not-for-profit corporations and municipalities to expand and improve the supply of permanent, transitional and emergency housing for homeless persons.

In addition to State-funded programs, HTFC also awards and disburses Federal moneys pursuant to the U.S. Department of Housing and Urban Development's HOME program. This program provides grants to not-for-profit groups and local governments to partially fund the construction or rehabilitation of low- and moderate-income housing.

The Executive Budget also includes a reappropriation of $11 million to continue programs funded from the State's Housing Assistance Fund (HAF). The HAF was established in 1988 with a one-time appropriation to fund eight housing construction and development programs serving low- and moderate-income households with specific housing needs.

The 2004-05 Capital Plan contemplates the commitment of State housing funds in the year in which funds are appropriated. Requests for funding from the State's various housing programs are reviewed and evaluated on an annual basis by program staff. These applications are submitted by private and not-for-profit sponsors of proposed low- and moderate-income housing projects. The applications are scored and ranked on a competitive basis and the review process culminates in award notifications for the most effective projects in meeting the State's housing needs.

AGRICULTURE AND MARKETS, DEPARTMENT OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
State Fair	2,400	3,000	3,000	3,000	3,000	3,000	15,000
Total	2,400	3,000	3,000	3,000	3,000	3,000	15,000
Fund Summary							
Capital Projects Fund	400	1,000	1,000	1,000	1,000	1,000	5,000
Misc. Capital Projects	2,000	2,000	2,000	2,000	2,000	2,000	10,000
Total	2,400	3,000	3,000	3,000	3,000	3,000	15,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
State Fair	2,000	2,000	2,000	2,000	2,000
Total	2,000	2,000	2,000	2,000	2,000
Fund Summary					
Capital Projects Fund	1,000	1,000	1,000	1,000	1,000
Misc. Capital Projects	1,000	1,000	1,000	1,000	1,000
Total	2,000	2,000	2,000	2,000	2,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
State Fair	1,863	2,000	2,000	2,000	2,000	2,000	10,000
Total	1,863	2,000	2,000	2,000	2,000	2,000	10,000
Fund Summary							
Capital Projects Fund	628	1,000	1,000	1,000	1,000	1,000	5,000
Misc. Capital Projects	1,235	1,000	1,000	1,000	1,000	1,000	5,000
Total	1,863	2,000	2,000	2,000	2,000	2,000	10,000

EMPIRE STATE DEVELOPMENT CORPORATION
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Economic Development	65,050	250,000	0	0	0	0	250,000
Regional Development	425,000	0	0	0	0	0	0
Total	490,050	250,000	0	0	0	0	250,000
Fund Summary							
Capital Projects Fund - Authority Bonds	490,050	250,000	0	0	0	0	250,000
Total	490,050	250,000	0	0	0	0	250,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Economic Development	90,000	83,333	100,000	41,667	0
Regional Development	30,000	0	0	0	0
Total	120,000	83,333	100,000	41,667	0
Fund Summary					
Capital Projects Fund - Authority Bonds	120,000	83,333	100,000	41,667	0
Total	120,000	83,333	100,000	41,667	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Economic Development	50	90,000	83,333	100,000	41,667	0	315,000
Regional Development	50,497	30,000	0	0	0	0	30,000
Total	50,547	120,000	83,333	100,000	41,667	0	345,000
Fund Summary							
Capital Projects Fund - Authority Bonds	50,547	120,000	83,333	100,000	41,667	0	345,000
Total	50,547	120,000	83,333	100,000	41,667	0	345,000

ECONOMIC DEVELOPMENT CAPITAL
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Regional Development	1,200,000	0	0	0	0	0	0
Total	1,200,000	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund - Authority Bonds	1,200,000	0	0	0	0	0	0
Total	1,200,000	0	0	0	0	0	0

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Regional Development	509,200	103,500	37,500	0	0
Total	509,200	103,500	37,500	0	0
Fund Summary					
Capital Projects Fund - Authority Bonds	509,200	103,500	37,500	0	0
Total	509,200	103,500	37,500	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Regional Development	189,485	509,200	103,500	37,500	0	0	650,200
Total	189,485	509,200	103,500	37,500	0	0	650,200
Fund Summary							
Capital Projects Fund - Authority Bonds	189,485	509,200	103,500	37,500	0	0	650,200
Total	189,485	509,200	103,500	37,500	0	0	650,200

STRATEGIC INVESTMENT PROGRAM
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Strategic Investment Program	225,000	0	0	0	0	0	0
Total	225,000	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund - Authority Bonds	225,000	0	0	0	0	0	0
Total	225,000	0	0	0	0	0	0

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Strategic Investment Program	55,000	50,000	33,469	0	0
Total	55,000	50,000	33,469	0	0
Fund Summary					
Capital Projects Fund - Authority Bonds	55,000	50,000	33,469	0	0
Total	55,000	50,000	33,469	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Strategic Investment Program	12,000	55,000	50,000	33,469	0	0	138,469
Total	12,000	55,000	50,000	33,469	0	0	138,469
Fund Summary							
Capital Projects Fund - Authority Bonds	12,000	55,000	50,000	33,469	0	0	138,469
Total	12,000	55,000	50,000	33,469	0	0	138,469

ECONOMIC DEVELOPMENT AND NATURAL RESOURCE PRESERVATION
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Economic Development	750	0	0	0	0	0	0
Total	750	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund - Authority Bonds	750	0	0	0	0	0	0
Total	750	0	0	0	0	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Economic Development	2,025	0	0	0	0	0	0
Total	2,025	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund - Authority Bonds	2,025	0	0	0	0	0	0
Total	2,025	0	0	0	0	0	0

SCIENCE, TECHNOLOGY AND ACADEMIC RESEARCH, OFFICE OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Research Facilities	36,611	0	0	0	0	0	0
Total	36,611	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund	2,000	0	0	0	0	0	0
Capital Projects Fund - Authority Bonds	34,611	0	0	0	0	0	0
Total	36,611	0	0	0	0	0	0

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Research Facilities	15,000	17,700	0	0	0
Total	15,000	17,700	0	0	0
Fund Summary					
Capital Projects Fund - Authority Bonds	15,000	17,700	0	0	0
Total	15,000	17,700	0	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Research Facilities	5,000	15,000	17,700	0	0	0	32,700
Total	5,000	15,000	17,700	0	0	0	32,700
Fund Summary							
Capital Projects Fund	2,000	0	0	0	0	0	0
Capital Projects Fund - Authority Bonds	3,000	15,000	17,700	0	0	0	32,700
Total	5,000	15,000	17,700	0	0	0	32,700

ENERGY RESEARCH AND DEVELOPMENT AUTHORITY, NEW YORK STATE
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Clean Water - Clean Air Implementation	0	117	117	0	0	0	234
Western New York Nuclear Service Center Program	0	11,350	13,250	13,250	13,250	13,250	64,350
Total	0	11,467	13,367	13,250	13,250	13,250	64,584
Fund Summary							
Capital Projects Fund - Authority Bonds	0	11,350	13,250	13,250	13,250	13,250	64,350
Clean Water Clean Air Implementation Fund	0	117	117	0	0	0	234
Total	0	11,467	13,367	13,250	13,250	13,250	64,584

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Clean Water - Clean Air Implementation	117	117	0	0	0
Western New York Nuclear Service Center Program	11,350	13,250	13,250	13,250	13,250
Total	11,467	13,367	13,250	13,250	13,250
Fund Summary					
Capital Projects Fund	11,350	13,250	13,250	13,250	13,250
Clean Water Clean Air Implementation Fund	117	117	0	0	0
Total	11,467	13,367	13,250	13,250	13,250

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Clean Water - Clean Air Implementation	117	117	117	0	0	0	234
Western New York Nuclear Service Center Program	13,250	11,350	13,250	13,250	13,250	13,250	64,350
Total	13,367	11,467	13,367	13,250	13,250	13,250	64,584
Fund Summary							
Capital Projects Fund - Authority Bonds	13,250	11,350	13,250	13,250	13,250	13,250	64,350
Clean Water Clean Air Implementation Fund	117	117	117	0	0	0	234
Total	13,367	11,467	13,367	13,250	13,250	13,250	64,584

HOUSING AND COMMUNITY RENEWAL, DIVISION OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Affordable Housing Corporation	82,000	25,000	25,000	25,000	25,000	25,000	125,000
Homes for Working Families Program	10,000	7,000	7,000	7,000	7,000	7,000	35,000
Housing Assistance Fund	11,333	0	0	0	0	0	0
Housing Opportunity Program For Elderly	800	400	400	400	400	400	2,000
Housing Program Capital Improvement	19,720	0	0	0	0	0	0
Low Income Housing Trust Fund	117,924	29,000	29,000	29,000	29,000	29,000	145,000
Maintenance and Improvements of Existing Facilities	7,789	0	0	0	0	0	0
New Facilities	33,845	0	10,000	10,000	10,000	10,000	40,000
Public Housing Modernization Program	77,988	12,800	12,800	12,800	12,800	12,800	64,000
State Housing Bond Fund	7,344	0	0	0	0	0	0
Total	368,743	74,200	84,200	84,200	84,200	84,200	411,000
Fund Summary							
Capital Projects Fund	20,945	0	0	0	0	0	0
Federal Capital Projects Fund	32,620	0	10,000	10,000	10,000	10,000	40,000
Housing Assistance Fund	11,333	0	0	0	0	0	0
Housing Program Fund	296,501	74,200	74,200	74,200	74,200	74,200	371,000
State Housing Bond Fund	7,344	0	0	0	0	0	0
Total	368,743	74,200	84,200	84,200	84,200	84,200	411,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Affordable Housing Corporation	25,000	25,000	25,000	25,000	25,000
Homes for Working Families Program	7,000	7,000	7,000	7,000	7,000
Housing Opportunity Program For Elderly	400	400	400	400	400
Low Income Housing Trust Fund	29,000	29,000	29,000	29,000	29,000
New Facilities	0	10,000	10,000	10,000	10,000
Public Housing Modernization Program	12,800	12,800	12,800	12,800	12,800
Total	74,200	84,200	84,200	84,200	84,200
Fund Summary					
Federal Capital Projects Fund	0	10,000	10,000	10,000	10,000
Housing Program Fund	74,200	74,200	74,200	74,200	74,200
Total	74,200	84,200	84,200	84,200	84,200

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Affordable Housing Corporation	25,000	25,000	25,000	25,000	25,000	25,000	125,000
Homes for Working Families Program	7,000	7,000	7,000	7,000	7,000	7,000	35,000
Housing Assistance Fund	1,000	4,000	0	0	0	0	4,000
Housing Opportunity Program For Elderly	400	400	400	400	400	400	2,000
Housing Program Capital Improvement	1,035	625	575	575	575	575	2,925
Low Income Housing Trust Fund	31,150	30,250	29,000	29,000	29,000	29,000	146,250
New Facilities	10,575	10,550	10,000	10,000	10,000	10,000	50,550
Public Housing Modernization Program	11,900	12,800	12,800	12,800	12,800	12,800	64,000
Total	88,060	90,625	84,775	84,775	84,775	84,775	429,725
Fund Summary							
Capital Projects Fund	1,610	1,175	575	575	575	575	3,475
Federal Capital Projects Fund	10,000	10,000	10,000	10,000	10,000	10,000	50,000
Housing Assistance Fund	1,000	4,000	0	0	0	0	4,000
Housing Program Fund	75,450	75,450	74,200	74,200	74,200	74,200	372,250
Total	88,060	90,625	84,775	84,775	84,775	84,775	429,725

HEALTH AND SOCIAL WELFARE

Capital projects spending for this category includes OCFS, DOH, and OTDA. These agencies' capital plans support programs that provide critical services to maintain the quality of life for the people of New York State.

OFFICE OF CHILDREN AND FAMILY SERVICES

OCFS operates 37 residential youth facilities and 8 non-residential programs which serve nearly 2,000 youth, ages seven to 21. These facilities operate at a variety of security levels which range from secure centers, primarily housing juvenile offenders who were tried as adults, to community-based residences. The OCFS Capital Plan reflects the State's continued commitment to ensure that housing, program, and support space remains functional, safe, and secure.

The OCFS capital planning process will continue to identify improvements to its facilities to meet health and safety standards, and provide for program enhancements related to population needs. The agency's capital program focuses on the need to maintain the structural integrity of existing capital assets and to initiate facility modifications. This year's Capital Plan includes funding for health and safety, and environmental and facility preservation projects.

The Capital Plan also continues funding for the Child Care Facilities Development Program, which provides financial assistance for the construction or rehabilitation of child day care centers throughout the State. In addition, Section 529 of the Social Services Law requires OCFS to maintain the community house within the Tonawanda Indian Reservation. This year's plan provides additional funding necessary to maintain the community house that was built in 1936.

The OCFS capital program is funded from the Capital Projects Fund, the Youth Facilities Improvement Fund, and the Miscellaneous Capital Projects Fund. Disbursements from the Youth Facilities Improvement Fund and the Child Care Facilities Development Project are reimbursed by bond proceeds.

Recommended disbursements of $93 million are projected to support the OCFS Five-Year Plan for capital maintenance and improvement activities including $71 million for facility rehabilitation and improvement projects/security enhancements; $13 million for environmental compliance projects and $9 million for the Child Care Facilities Development Program. The capital plan also projects $20 million in fiscal year 2004-05 contract commitments, reflecting no change from 2003-04 projected levels.

In 2004-05, the OCFS capital maintenance program will include ongoing and new projects aimed at preserving the useful life of its facilities and infrastructure. Many of the Office's youth facilities are more than 30 years old and in "fair" condition, indicating the need for repair and/or improvement. The chart below lists OCFS facilities and group homes with information regarding age and condition.

		Condition			
Capital Asset Group	**Age Range**	**Good**	**Fair**	**Poor**	**Total**
Secure Facilities	20-40	1	2	0	3
Limited/Non-Secure Facilities	7-90	5	6	2	13
Newer 25 Bed Facilities	8-10	4	0	0	4
Older 25 Bed Facilities	30-40	0	12	0	12
Group Homes	30-40	0	5	0	5
	Total	10	25	2	37

DEPARTMENT OF HEALTH

The focus of DOH’s capital program is protecting the health and safety of its patients, employees and visitors. An integral part of this plan is to maintain and improve its capital assets which include five health care facilities: Helen Hayes Hospital in West Haverstraw and four veterans' homes in Oxford, St. Albans, Batavia, and the recently opened Montrose Veteran’s Home in the Hudson Valley. The Department also maintains the Wadsworth Center for Laboratories and Research, which is comprised of three laboratories located in Albany County.

In January 1999, pursuant to an operating agreement between the two parties, responsibility for operation of the Roswell Park Cancer Institute was transferred from the Department to the Roswell Park Cancer Institute Corporation. The Corporation is now responsible for the ongoing maintenance of Roswell's capital assets.

For 2004-05, DOH's Capital Program includes both ongoing and new projects to address major capital needs with estimated total disbursements of $72 million. Planned projects will preclude potentially more costly future capital expenditures while minimizing interruptions in clinical care services and laboratory functions. In addition, the Department will continue its participation in implementing the Safe Drinking Water Program, which will be financed through a $65 million Federal appropriation in 2004-05.

A bond-financed State appropriation of $21 million is recommended in the 2004-05 Executive Budget for the State share of a new $60 million Veterans Nursing Home at Oxford. DOH is seeking Federal funds to finance the balance of the project costs. Oxford is the oldest of the State’s four Veterans homes and the proposed 252-bed home will replace the existing 25-year old facility.

The Department’s capital program is financed by Federal grants and the State’s General Fund. Commitments are estimated at $373 million over the five-year plan, including, $325 million from Federal funds, and $48 million from the General Fund — including $27 million over the next five years for Capital maintenance. Debt Service on outstanding DA Bonds will continue to be supported by patient care revenues.

The Department's goals are to ensure a safe environment, preserve infrastructure and related equipment and to promote energy efficiency. The Capital Asset Maintenance Plan preserves the useful life of DOH’s facilities.

The following table identifies the capital asset group, age and condition of DOH’s facilities:

		Condition			
Capital Asset Group	**Age Range**	**Good**	**Fair**	**Poor**	**Total**
Helen Hayes Hospital	23-102	4	10	5	19
Wadsworth Center for Laboratories and Research	4-55	6	18	0	24
Veteran's Nursing Homes:					
Oxford	6-100	3	3	1	7
St. Albans	11	1	0	0	1
Batavia	9	1	0	0	1
Montrose	3	1	0	0	1
	Total	16	31	6	53

OFFICE OF TEMPORARY AND DISABILITY ASSISTANCE

OTDA administers HHAP which provides grants to not-for-profit corporations and municipalities to expand and improve the supply of permanent, transitional, and emergency housing for homeless persons. To date, over $542 million in HHAP funding has resulted in more than 500 capital projects statewide and a projected 10,300 housing units for the homeless. HHAP also links its projects to other State and Federal funding sources to deliver appropriate support services to help tenants move towards greater self-determination and economic self-sufficiency.

The SFY 2004-05 Capital Plan maintains the HHAP commitment level at $30 million, including $5 million for the development of housing for persons with HIV or AIDS.

CHILDREN AND FAMILY SERVICES OFFICE OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Child Care Facilities Development Program	8,724	0	0	0	0	0	0
Design and Construction Supervision	6,034	5,000	2,000	2,000	2,000	2,000	13,000
Executive Direction and Administrative Services	3,895	0	0	0	0	0	0
Maintenance and Improvement of Facilities	40,248	15,025	5,000	5,000	5,000	8,000	38,025
Program Improvement or Program Change	10,416	0	3,000	3,000	3,000	0	9,000
Youth Center	5,799	0	0	0	0	0	0
Total	75,116	20,025	10,000	10,000	10,000	10,000	60,025
Fund Summary							
Capital Projects Fund	13,930	1,325	1,000	1,000	1,000	1,000	5,325
Capital Projects Fund - Authority Bonds	8,724	0	0	0	0	0	0
Misc. Capital Projects	3,625	0	0	0	0	0	0
Youth Facilities Improvement Fund	48,837	18,700	9,000	9,000	9,000	9,000	54,700
Total	75,116	20,025	10,000	10,000	10,000	10,000	60,025

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Design and Construction Supervision	2,000	2,000	2,000	2,000	2,000
Maintenance and Improvement of Facilities	6,000	5,000	5,000	5,000	5,000
Program Improvement or Program Change	3,000	3,000	3,000	3,000	3,000
Total	11,000	10,000	10,000	10,000	10,000
Fund Summary					
Capital Projects Fund	1,000	1,000	1,000	1,000	1,000
Youth Facilities Improvement Fund	10,000	9,000	9,000	9,000	9,000
Total	11,000	10,000	10,000	10,000	10,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Child Care Facilities Development Program	0	8,724	0	0	0	0	8,724
Design and Construction Supervision	1,654	500	5,000	4,500	3,000	4,000	17,000
Executive Direction and Administrative Services	2,067	1,725	0	0	0	0	1,725
Maintenance and Improvement of Facilities	9,473	11,729	10,157	9,530	11,000	9,300	51,716
Program Improvement or Program Change	3,566	3,707	900	2,250	1,770	1,000	9,627
Youth Center	1,954	1,500	1,561	500	500	0	4,061
Total	18,714	27,885	17,618	16,780	16,270	14,300	92,853
Fund Summary							
Capital Projects Fund	4,464	5,005	4,365	2,630	2,000	1,500	15,500
Capital Projects Fund - Authority Bonds	0	8,724	0	0	0	0	8,724
Misc. Capital Projects	2,000	1,500	0	0	0	0	1,500
Youth Facilities Improvement Fund	12,250	12,656	13,253	14,150	14,270	12,800	67,129
Total	18,714	27,885	17,618	16,780	16,270	14,300	92,853

HEALTH, DEPARTMENT OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Design and Construction Supervision	452	21,000	0	0	0	0	21,000
Laboratories and Research	11,716	4,000	4,000	4,000	4,000	4,000	20,000
Maintenance and Improvements of Existing Institutions	27,651	7,600	7,600	7,600	7,600	7,600	38,000
New Institution Construction	20,000	0	0	0	0	0	0
Rehabilitation and Improvements	531	0	0	0	0	0	0
Safe Drinking Water - Clean Water/Clean Air 96	30,000	0	0	0	0	0	0
Water Resources	147,737	65,000	65,000	65,000	65,000	65,000	325,000
Total	238,087	97,600	76,600	76,600	76,600	76,600	404,000
Fund Summary							
Capital Projects Fund	40,350	11,600	11,600	11,600	11,600	11,600	58,000
Capital Projects Fund - 1996 CWA (Bondable)	30,000	0	0	0	0	0	0
Capital Projects Fund - Advances	20,000	21,000	0	0	0	0	21,000
Federal Capital Projects Fund	147,737	65,000	65,000	65,000	65,000	65,000	325,000
Total	238,087	97,600	76,600	76,600	76,600	76,600	404,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Design and Construction Supervision	1,400	8,750	8,750	2,100	0
Laboratories and Research	2,500	2,000	2,500	2,500	2,500
Maintenance and Improvements of Existing Institutions	3,000	3,000	3,000	3,000	3,000
Water Resources	65,000	65,000	65,000	65,000	65,000
Total	71,900	78,750	79,250	72,600	70,500
Fund Summary					
Capital Projects Fund	5,500	5,000	5,500	5,500	5,500
Capital Projects Fund - Advances	1,400	8,750	8,750	2,100	0
Federal Capital Projects Fund	65,000	65,000	65,000	65,000	65,000
Total	71,900	78,750	79,250	72,600	70,500

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Design and Construction Supervision	301	1,400	8,750	8,750	2,100	0	21,000
Laboratories and Research	1,873	1,550	2,750	1,500	1,500	0	7,300
Maintenance and Improvements of Existing Institutions	3,019	3,950	2,250	4,000	4,000	5,500	19,700
Rehabilitation and Improvements	285	0	0	0	0	0	0
Safe Drinking Water - Clean Water/Clean Air 96	30,000	0	0	0	0	0	0
Water Resources	64,419	65,000	65,000	65,000	65,000	65,000	325,000
Total	99,897	71,900	78,750	79,250	72,600	70,500	373,000
Fund Summary							
Capital Projects Fund	5,478	5,500	5,000	5,500	5,500	5,500	27,000
Capital Projects Fund - 1996 CWA (Bondable)	30,000	0	0	0	0	0	0
Capital Projects Fund - Advances	0	1,400	8,750	8,750	2,100	0	21,000
Federal Capital Projects Fund	64,419	65,000	65,000	65,000	65,000	65,000	325,000
Total	99,897	71,900	78,750	79,250	72,600	70,500	373,000

TEMPORARY AND DISABILITY ASSISTANCE, OFFICE OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Supported Housing Program	155,929	30,000	30,000	30,000	30,000	30,000	150,000
Total	155,929	30,000	30,000	30,000	30,000	30,000	150,000
Fund Summary							
Housing Program Fund	155,929	30,000	30,000	30,000	30,000	30,000	150,000
Total	155,929	30,000	30,000	30,000	30,000	30,000	150,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Supported Housing Program	30,000	30,000	30,000	30,000	30,000
Total	30,000	30,000	30,000	30,000	30,000
Fund Summary					
Housing Program Fund	30,000	30,000	30,000	30,000	30,000
Total	30,000	30,000	30,000	30,000	30,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Supported Housing Program	24,500	28,000	28,000	28,000	28,000	28,000	140,000
Total	24,500	28,000	28,000	28,000	28,000	28,000	140,000
Fund Summary							
Capital Projects Fund	1,500	0	0	0	0	0	0
Housing Program Fund	23,000	28,000	28,000	28,000	28,000	28,000	140,000
Total	24,500	28,000	28,000	28,000	28,000	28,000	140,000

EDUCATION

Capital planning is vital to the teaching, research and public service missions of both SUNY and CUNY systems. Capital Plans ensure that facilities are appropriately designed and developed to meet current and future needs and provide a safe and healthy environment for students, faculty and staff. The State Education Department's (SED) capital programs encompass the Department's various administrative offices and the rehabilitation of schools for the deaf, the blind and Native Americans.

STATE UNIVERSITY OF NEW YORK

SUNY is the largest public university system in the nation, with 64 campuses (including 30 community colleges) serving over 410,000 students. The goal of SUNY's capital program is to provide and preserve the physical infrastructure needed for the education of SUNY students.

The 34 State-operated SUNY campuses include approximately 3,000 classroom, dormitory, library, laboratory, athletic, student activity and hospital buildings. Nearly 85 percent of SUNY's facilities exceed 20 years of age and are in need of renovation, rehabilitation and repair. Accordingly, SUNY's capital program continues to emphasize the preservation of its existing State-operated facilities. Capital priorities at SUNY's 30 community colleges include major rehabilitation as well as targeted new construction at various campuses to accommodate changing academic needs.

SUNY's capital planning process starts with building condition surveys and the development of facility master plans for each campus to identify new construction and rehabilitation projects. For State-operated colleges, these plans are then developed into a system-wide, five-year University Master Capital Plan approved by the SUNY Board of Trustees. For community colleges, master plans are submitted to the local Boards of Trustees. The Trustees then select priority projects for inclusion in SUNY's capital budget request.

The 2004-05 Executive Budget recommends a new Five-Year Capital Investment Program that will provide nearly $1.8 billion over the next five years to respond to the needs and priorities of SUNY State-operated campuses. The new $1.8 billion Five-Year Capital Investment Program, combined with the $895 million enacted as part of the 2003-04 capital budget, provides nearly $2.7 billion for SUNY over a six-year period.

The $1.8 billion Five-Year Capital Investment Program includes $1.6 billion in State-supported bonding, $25 million in State-supported hard dollar projects, and $150 million that is funded through other campus funds. This new capital initiative will enable SUNY to continue its plan for revitalizing campuses through: the rehabilitation of existing buildings; construction and adaptation of facilities to meet current academic needs; and the use of technology for instruction, research and community service.

Major components of the capital program for 2004-05 through 2008-09 include:
- Campus core projects to meet critical health, safety and preservation needs and respond to new and changing academic requirements.
- Technology and campus development projects to promote innovative ways of teaching and learning.
- System-wide infrastructure projects to address needs such as underground utility projects.
- Campus improvements and quality of life projects to improve the overall appearance of SUNY campuses and their responsiveness to student needs.
- Residence hall projects for both new and renovated facilities.

- Supplementation of the State-supported capital program using non-State funds obtained through grants or gifts.
- Selected new facilities to meet critical campus needs.
- University-wide lump sums to provide for unanticipated critical maintenance needs and capital equipment for new or renovated facilities.

SUNY's Five-Year Capital Investment Program continues to emphasize projects that address health and safety, rehabilitation and preservation needs. These include projects to address code violations, meet accreditation standards, provide access for the disabled, preserve the integrity of SUNY's capital plant and address deferred maintenance needs. Given the age of SUNY's physical plant, a significant portion of the capital funding for State-operated colleges will be spent on preservation and rehabilitation needs.

For 2004-05, contract commitments are projected to reach $330 million reflecting activity levels consistent with the awarding of construction contracts for educational facilities. Total disbursements for both the State-operated and community colleges are estimated at $473 million in 2004-05, and are expected to increase to $510 million in 2008-09 to reflect anticipated commitment levels. Disbursements also reflect estimated off-budget expenditures such as those for bonded community college projects. Future disbursements are expected to remain relatively level.

Since bonding for academic facilities is now disbursement-based, the next bond sale is scheduled for 2005-06. SUNY's bond cap will be increased by $1.15 billion, for a total bonding authorization of $4.7 billion, to cover SUNY's planned bond sales for the new Five-Year Capital Investment Program.

CITY UNIVERSITY OF NEW YORK

CUNY's physical plant is comprised of 11 senior colleges, 6 community colleges, a graduate center, law school and Central Administration, serving more than 210,000 full-time and part-time students in over 25 million gross square feet of space.

CUNY's capital planning process begins with the development of a facility master plan for each campus, which details existing and anticipated facilities necessary to accommodate projected campus enrollment needs. The facility master plans provide the framework for development of the annual capital budget request and the University's Five-Year Capital Plan.

CUNY's rehabilitation projects are identified through building condition surveys, conducted jointly by DA and CUNY. New construction projects generally reflect the CUNY Board of Trustees' policy to replace leased and temporary facilities with new, University-owned structures.

Major projects at CUNY senior and community colleges are supported by bonds issued by the DA. The State pays the debt service on senior college projects other than Medgar Evers College. For community colleges and Medgar Evers College, debt service costs are shared with the City of New York. CUNY's minor rehabilitation projects for health and safety and preservation purposes are primarily supported by State General Fund appropriations.

The 2004-05 Executive Budget's capital recommendations include a new $1.1 billion Five-Year Capital Investment Program for CUNY senior colleges, which provides for facility and infrastructure improvements consistent with the University's needs and priorities. Funded projects encompass critical health and safety, preservation and handicapped access projects, as well as the completion of ongoing projects at John Jay College and Brooklyn College. CUNY's bond cap will be increased by $840 million, for a total bonding authorization of $4.3 billion, to cover CUNY's planned bond sales for the new senior college Five-Year Capital Investment Program and to reflect disbursement-based bonding.

The Governor's proposed $55 million community college capital plan for the period 2003-04 through 2007-08 was enacted as part of the 2003-04 budget, along with senior and community college capital reappropriations from the prior multi-year plan ($97 million and $63 million, respectively). The new $1.1 billion CUNY senior college Capital Plan, when combined with the $55 million for community colleges enacted as part of the 2003-04 Capital Budget, provides nearly $1.2 billion for CUNY over a six-year period.

For 2004-05, contract commitments are projected to reach $225 million, reflecting activity levels consistent with the awarding of construction contracts for CUNY facilities. Total disbursements for both the senior and community colleges are estimated at about $224 million in 2004-05, and are expected to remain level through 2008-09 to reflect anticipated commitment levels.

HIGHER EDUCATION FACILITIES CAPITAL MATCHING GRANTS PROGRAM

In addition to the new five-year capital plans for SUNY and CUNY, recommendations for 2004-05 include a new $350 million higher education competitive matching grant program for both public and private colleges in New York. This program will require a three to one (non-State to State) match by institutions that compete for capital grants made available for facilities and equipment.

Grants will be awarded by a new Higher Education Capital Investment Review Board consisting of seven members appointed by the Governor. Grants may only be used for new capital projects and will be targeted for priority categories that include economic development/high technology projects (including wet labs), critical academic facilities, and urban renewal/historic preservation.

For 2004-05, commitments are projected to be $30 million reflecting the start up of the new program. From 2004-05 until 2006-07, commitments are projected to increase reaching a high of $90 million in 2006-07. Commitments are then projected to taper off until 2008-09 when they are estimated to be $70 million. Disbursements are expected to follow the same pattern as commitments.

This program would leverage over $1 billion in external funds to match the State's $350 million investment, thereby providing for a combined capital program totaling $1.4 billion. The State's share of the program will be financed through the issuance of bonds.

STATE EDUCATION DEPARTMENT

The State Education Department's capital program provides for the maintenance of administrative facilities in Albany, the School for the Blind in Batavia, the School for the Deaf in Rome, and the three Native American schools on the Onondaga, St. Regis Mohawk and Tuscarora reservations.

The 2004-05 Executive Budget recommends the transfer of cultural education functions currently administered by the State Education Department (SED) to a newly created New York Institute for Cultural Education (NYICE). Consistent with this recommendation, portions of the capital funding for SED's Cultural Education Center are recommended for transfer to NYICE, effective with the creation of this new Institute on October 1, 2004.

Under the Capital Plan, the 2004-05 Executive Budget includes Capital Projects Fund appropriations of $10.3 million with disbursements projected to total $4.6 million. These appropriations include $5.8 million for various rehabilitation and renovation projects at the St. Regis Mohawk ($4.5 million) and the Tuscarora ($1.3 million) Elementary Schools.

For fiscal year 2004-05, the projected level of contract commitments is $4.6 million. Projects previously funded are being designed and awarded as anticipated.

The Capital Plan will enable the State Education Department and NYICE to maintain and preserve their assets, ensure health and safety of staff, students and the general public, and reduce dependence on leased space by maximizing the effective use of State-owned buildings.

In addition, a new Transportation Capital Transition Grant Program will assist the State in moving $75 million in transportation capital aid from an expenditure-based reimbursement program to one based on assumed amortization. Similar to the Building Aid Capital Outlay Transition Grant program in 2002-03, the new Transportation Grants will be for one-year and financed with State-supported bonds.

CITY UNIVERSITY OF NEW YORK
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Maintenance and Improvements	222,950	1,115,000	0	0	0	0	1,115,000
New Facilities	352,300	0	0	0	0	0	0
Program Changes and Expansion	2,311	0	0	0	0	0	0
Total	577,561	1,115,000	0	0	0	0	1,115,000
Fund Summary							
Capital Projects Fund	52,649	20,000	0	0	0	0	20,000
Capital Projects Fund - Advances	522,946	1,095,000	0	0	0	0	1,095,000
City University of New York Capital Projects Fund	1,966	0	0	0	0	0	0
Total	577,561	1,115,000	0	0	0	0	1,115,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Maintenance and Improvements	225,000	225,000	225,000	225,000	225,000
Total	225,000	225,000	225,000	225,000	225,000
Fund Summary					
Capital Projects Fund	10,000	10,000	10,000	10,000	10,000
Capital Projects Fund - Advances	215,000	215,000	215,000	215,000	215,000
Total	225,000	225,000	225,000	225,000	225,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Maintenance and Improvements	126,291	223,899	224,100	224,100	224,012	224,100	1,120,211
New Facilities	97,000	0	0	0	0	0	0
Program Changes and Expansion	809	201	0	0	88	0	289
Total	224,100	224,100	224,100	224,100	224,100	224,100	1,120,500
Fund Summary							
Capital Projects Fund	9,100	9,100	9,100	9,100	9,100	9,100	45,500
Capital Projects Fund - Advances	215,000	215,000	215,000	215,000	215,000	215,000	1,075,000
Total	224,100	224,100	224,100	224,100	224,100	224,100	1,120,500

STATE UNIVERSITY OF NEW YORK
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Maintenance and Improvements	2,347,113	1,787,000	0	0	0	0	1,787,000
New Facilities	19,666	0	0	0	0	0	0
Total	2,366,779	1,787,000	0	0	0	0	1,787,000
Fund Summary							
Capital Projects Fund	94,248	25,000	0	0	0	0	25,000
Capital Projects Fund - Advances	1,478,244	1,612,000	0	0	0	0	1,612,000
State University Capital Projects Fund	117,198	150,000	0	0	0	0	150,000
State University Residence Hall Rehabilitation Fund	677,089	0	0	0	0	0	0
Total	2,366,779	1,787,000	0	0	0	0	1,787,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Maintenance and Improvements	330,000	350,000	370,000	390,000	330,000
Total	330,000	350,000	370,000	390,000	330,000
Fund Summary					
Capital Projects Fund	5,000	5,000	5,000	5,000	5,000
Capital Projects Fund - Advances	275,000	295,000	315,000	335,000	275,000
State University Capital Projects Fund	20,000	20,000	20,000	20,000	20,000
State University Residence Hall Rehabilitation Fund	30,000	30,000	30,000	30,000	30,000
Total	330,000	350,000	370,000	390,000	330,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Maintenance and Improvements	443,000	473,000	503,000	503,000	510,000	510,000	2,499,000
Total	443,000	473,000	503,000	503,000	510,000	510,000	2,499,000
Fund Summary							
Capital Projects Fund	39,000	9,000	9,000	9,000	31,000	31,000	89,000
Capital Projects Fund - Advances	280,000	340,000	370,000	370,000	355,000	355,000	1,790,000
State University Capital Projects Fund	24,000	24,000	24,000	24,000	24,000	24,000	120,000
State University Residence Hall Rehabilitation Fund	100,000	100,000	100,000	100,000	100,000	100,000	500,000
Total	443,000	473,000	503,000	503,000	510,000	510,000	2,499,000

EDUCATION DEPARTMENT, STATE
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Administration	4,772	1,000	3,630	3,630	3,630	3,630	15,520
Capital Transition Grants	0	80,000	0	0	0	0	80,000
Cultural Education Center	14,114	1,000	0	0	0	0	1,000
Education Building	2,346	0	0	0	0	0	0
School for the Blind	3,507	0	0	0	0	0	0
School for the Deaf	536	2,500	0	0	0	0	2,500
Schools For Native American Reservations	1,500	5,800	0	0	0	0	5,800
Washington Avenue Armory	100	0	0	0	0	0	0
Total	26,875	90,300	3,630	3,630	3,630	3,630	104,820
Fund Summary							
Capital Projects Fund	15,865	10,300	3,630	3,630	3,630	3,630	24,820
Capital Projects Fund - Advances	11,010	0	0	0	0	0	0
Capital Projects Fund - Authority Bonds	0	80,000	0	0	0	0	80,000
Total	26,875	90,300	3,630	3,630	3,630	3,630	104,820

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Administration	2,000	0	0	0	0
Capital Transition Grants	75,000	0	0	0	0
Cultural Education Center	0	0	1,000	1,000	0
Education Building	1,630	3,630	3,630	3,630	4,630
School for the Blind	250	500	0	0	0
School for the Deaf	0	500	0	0	0
Schools For Native American Reservations	750	0	0	0	0
Total	79,630	4,630	4,630	4,630	4,630
Fund Summary					
Capital Projects Fund	79,630	4,630	4,630	4,630	4,630
Total	79,630	4,630	4,630	4,630	4,630

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Administration	2,309	946	1,030	1,079	1,830	3,630	8,515
Capital Transition Grants	0	75,000	0	0	0	0	75,000
Cultural Education Center	205	1,330	900	495	0	0	2,725
Education Building	478	84	300	988	0	0	1,372
Rebuild Schools to Uphold Education Program	75,687	0	0	0	0	0	0
School for the Blind	388	282	200	100	1,000	0	1,582
School for the Deaf	250	388	700	568	500	500	2,656
Schools For Native American Reservations	1,000	1,600	1,500	1,400	1,300	500	6,300
Total	80,317	79,630	4,630	4,630	4,630	4,630	98,150
Fund Summary							
Capital Projects Fund	4,630	4,630	4,630	4,630	4,630	4,630	23,150
Capital Projects Fund - Authority Bonds	75,687	75,000	0	0	0	0	75,000
Total	80,317	79,630	4,630	4,630	4,630	4,630	98,150

HIGHER EDUCATION FACILITIES CAPITAL MATCHING GRANTS PROGRAM
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Higher Education Capital Matching Grants	0	350,000	0	0	0	0	350,000
Total	0	350,000	0	0	0	0	350,000
Fund Summary							
Capital Projects Fund - Authority Bonds	0	350,000	0	0	0	0	350,000
Total	0	350,000	0	0	0	0	350,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Higher Education Capital Matching Grants	30,000	80,000	90,000	80,000	70,000
Total	30,000	80,000	90,000	80,000	70,000
Fund Summary					
Capital Projects Fund - Authority Bonds	30,000	80,000	90,000	80,000	70,000
Total	30,000	80,000	90,000	80,000	70,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Higher Education Capital Matching Grants	0	30,000	80,000	90,000	80,000	70,000	350,000
Total	0	30,000	80,000	90,000	80,000	70,000	350,000
Fund Summary							
Capital Projects Fund - Authority Bonds	0	30,000	80,000	90,000	80,000	70,000	350,000
Total	0	30,000	80,000	90,000	80,000	70,000	350,000

PUBLIC PROTECTION

The capital planning process provides DOCS with the means to ensure adequate bed capacity and to maintain a safe and secure environment in existing facilities. The DSP and DMNA capital programs ensure that existing facilities continue to be maintained.

DEPARTMENT OF CORRECTIONAL SERVICES

The focus of the 2004-05 capital projects recommendation is to preserve and maintain the State's existing prison infrastructure. The capital program ensures that all housing, medical, program, and support space remains functional, safe, and secure.

The Department's substantial rehabilitation and preservation requirements are due to several factors, including the age of many of the State's prisons and the changing needs of the inmate population, particularly in the area of health care. New capacity was created during the 1980's, often by converting older institutions from other uses to prisons. The focus of that effort was on security, not upgrading the structural integrity and infrastructure of these very old facilities.

The Department's Preventive Maintenance Program addresses this situation by providing funds for the system repairs and replacements necessary to keep capacity in service. Kitchen, heating, ventilation, hot water, electric and roofing systems are among the major problem areas requiring rehabilitation.

The Capital Asset Maintenance Plan is designed to preserve the useful life of the facilities and infrastructure. In evaluating assets, DOCS has established a rating system to identify the condition of its physical plant as a tool for prioritizing essential rehabilitation projects. The following table identifies the capital asset group, age and condition of the Department's assets:

		Condition			
Capital Asset Group	**Age Range**	**Good**	**Fair**	**Poor**	**Total**
Minimum Security	4 to 75 yrs.	15	1	0	16
Medium Security	8 to 100 yrs.	33	4	0	37
Maximum Security	0 to 150 yrs.	14	3	0	17
Support	40 to 60 yrs.	2	0	0	2
	Total	64	8	0	72

The program, consistent with the above objectives, recommends new capital project appropriations of approximately $1 billion over the next five years, and $756 million in reappropriations. These appropriations are grouped programmatically, allowing the Department to manage the flow of projects, respond to emergencies and adjust priorities to accommodate changes in facility conditions.

The DOCS Capital program is funded primarily from appropriations made from the Correctional Facilities Capital Improvement Fund, which is reimbursed by proceeds from bonds issued by ESDC. The five-year disbursement projection is $940 million.

DIVISION OF MILITARY AND NAVAL AFFAIRS

DMNA operates more than 110 facilities statewide, including: 59 Army National Guard Armories, 32 operations and maintenance facilities, 6 Air Guard bases, 3 aviation support facilities, 4 training facilities and Camp Smith. The total size of the infrastructure is over five million square feet, and the average age of the infrastructure is approximately 74 years. According to the National Guard Bureau, New York's infrastructure is the oldest in the nation and its overall condition is fair.

The highlight of the Division's 2004-09 Five Year Comprehensive Capital Maintenance Plan is the continuation of the Federal Military Construction program, which began in 2002-03. Under this program, the Federal government will fund more than 95 percent of the estimated $129 million cost of replacing or expanding armories and equipment maintenance facilities across New York State over the next five to seven years.

The Division's traditional capital program will also continue with its emphasis on maintenance and repair programs, technology upgrades, and energy efficiency projects. Infrastructure repair and upgrade projects are prioritized by the condition and proposed use of affected structures and corresponding health, safety and environmental concerns. Addressing the backlog of projects at existing facilities will be made easier by the recent decision to phase out some older, less utilized facilities. This consolidation will allow for the redirection of resources to facilities that play critical roles in supporting the Division's primary mission of maintaining its military readiness posture.

DIVISION OF STATE POLICE

The priorities of the DSP Capital Plan are to maintain the safety and integrity of State Police facilities across the State. Total disbursements for the Division's five-year capital plan are estimated at $17 million and will accommodate ongoing maintenance and improvement of State Police facilities.

The Capital Asset Maintenance Plan for the facilities of the DSP is designed to preserve the useful life of the facilities and infrastructure. Over the past several years capital initiatives have been focused on the repair and replacement of roofs, windows, access roadways, heating and ventilation systems, electrical systems and necessary improvements to facilities to meet health and safety needs. The plan for the next five years maintains the same focus.

		Condition			
Capital Asset Group	**Age Range**	**Good**	**Fair**	**Poor**	**Total**
Forensic Investigation Center	6 years	1	0	0	1
Troop Headquarters	25-46 years	9	0	0	9
Zone Headquarters	29-53 years	0	1	1	2
Stations	3-34 years	2	0	1	3
	Total	12	1	2	15

The commitments for 2003-04 of $3 million and are projected to remain the same in 2004-05. The 2004-05 Capital Plan assumes entering into commitments for new projects needed to rehabilitate State Police facilities to ensure their safety.

CORRECTIONAL SERVICES, DEPARTMENT OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Maintenance and Improvement of Existing Facilities	506,262	205,000	205,000	205,000	205,000	205,000	1,025,000
Medical Facilities	6,065	0	0	0	0	0	0
UDC Financed and Other New Facility Capacity Expansion	244,164	0	0	0	0	0	0
Total	756,491	205,000	205,000	205,000	205,000	205,000	1,025,000
Fund Summary							
Capital Projects Fund	42	0	0	0	0	0	0
Correctional Facilities Capital Improvement Fund	756,449	205,000	205,000	205,000	205,000	205,000	1,025,000
Total	756,491	205,000	205,000	205,000	205,000	205,000	1,025,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Maintenance and Improvement of Existing Facilities	175,000	175,000	175,000	175,000	175,000
Total	175,000	175,000	175,000	175,000	175,000
Fund Summary					
Correctional Facilities Capital Improvement Fund	175,000	175,000	175,000	175,000	175,000
Total	175,000	175,000	175,000	175,000	175,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Maintenance and Improvement of Existing Facilities	188,000	188,000	188,000	188,000	188,000	188,000	940,000
Total	188,000	188,000	188,000	188,000	188,000	188,000	940,000
Fund Summary							
Correctional Facilities Capital Improvement Fund	188,000	188,000	188,000	188,000	188,000	188,000	940,000
Total	188,000	188,000	188,000	188,000	188,000	188,000	940,000

MILITARY AND NAVAL AFFAIRS, DIVISION OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Design and Construction Supervision	9,050	12,400	2,600	1,700	2,000	2,300	21,000
Maintenance and Improvement of Existing Facilities	37,800	33,600	36,200	34,500	10,000	9,900	124,200
Total	46,850	46,000	38,800	36,200	12,000	12,200	145,200
Fund Summary							
Capital Projects Fund	17,200	7,000	8,000	10,800	6,700	6,700	39,200
Federal Capital Projects Fund	29,650	39,000	30,800	25,400	5,300	5,500	106,000
Total	46,850	46,000	38,800	36,200	12,000	12,200	145,200

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Design and Construction Supervision	4,200	2,600	1,400	1,400	1,400
Maintenance and Improvement of Existing Facilities	54,000	33,000	10,300	10,300	10,300
Total	58,200	35,600	11,700	11,700	11,700
Fund Summary					
Capital Projects Fund	6,800	9,000	7,000	7,000	7,000
Federal Capital Projects Fund	51,400	26,600	4,700	4,700	4,700
Total	58,200	35,600	11,700	11,700	11,700

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Design and Construction Supervision	5,535	8,000	8,850	4,800	1,400	1,850	24,900
Maintenance and Improvement of Existing Facilities	9,635	16,650	39,600	47,850	24,350	10,800	139,250
Total	15,170	24,650	48,450	52,650	25,750	12,650	164,150
Fund Summary							
Capital Projects Fund	8,170	8,950	12,350	10,550	7,250	6,850	45,950
Federal Capital Projects Fund	7,000	15,700	36,100	42,100	18,500	5,800	118,200
Total	15,170	24,650	48,450	52,650	25,750	12,650	164,150

STATE POLICE, DIVISION OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Maintenance and Improvement of Existing Facilities	5,329	2,800	3,500	3,500	3,500	3,500	16,800
New Facilities	279	0	0	0	0	0	0
Total	5,608	2,800	3,500	3,500	3,500	3,500	16,800
Fund Summary							
Capital Projects Fund	5,608	2,800	3,500	3,500	3,500	3,500	16,800
Total	5,608	2,800	3,500	3,500	3,500	3,500	16,800

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Maintenance and Improvement of Existing Facilities	2,800	3,500	3,500	3,500	3,500
Total	2,800	3,500	3,500	3,500	3,500
Fund Summary					
Capital Projects Fund	2,800	3,500	3,500	3,500	3,500
Total	2,800	3,500	3,500	3,500	3,500

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Maintenance and Improvement of Existing Facilities	2,722	2,591	3,500	3,500	3,500	3,500	16,591
New Facilities	78	209	0	0	0	0	209
Total	2,800	2,800	3,500	3,500	3,500	3,500	16,800
Fund Summary							
Capital Projects Fund	2,800	2,800	3,500	3,500	3,500	3,500	16,800
Total	2,800	2,800	3,500	3,500	3,500	3,500	16,800

MENTAL HEALTH

The Department of Mental Hygiene capital program is administered through the three agencies within the Department — OMH, OMRDD, and OASAS.

Capital projects for all Mental Hygiene agencies are supported by the General Fund and bonds issued by the DA. These financing mechanisms support the maintenance and rehabilitation of facilities operated by both the State and not-for-profit agencies, as well as the development of new community services for populations served by the State.

OFFICE OF MENTAL HEALTH

OMH provides high quality services to an inpatient population of approximately 5,300 persons on 23 separate, active campuses containing 28 institutions: 17 adult, six children and youth, three forensic and two research facilities. In addition, the Agency helps fund the capital construction of hundreds of community residential sites, various mental health related general hospital projects, including psychiatric inpatient and specialized emergency rooms, and a number of non-residential community programs.

The 2004-05 Capital Plan includes $485 million in total appropriations and $146 million in disbursements for OMH State-operated institutions that will continue to fund projects necessary to meet health and life safety codes, Joint Commission on Accreditation of Healthcare Organizations (JCAHO) accreditation standards, current Federal Medicaid certification requirements, and other projects that remediate environmental deficiencies, improve energy efficiency, preserve long-term facilities and consolidate campus facilities.

State Operations

New 2004-05 appropriations of $126 million and reappropriations of $359 million for OMH State-operated institutions support essential rehabilitation projects that preserve patient and staff health and safety and ensure compliance with facility accreditation standards. The 2004-05 State Operations capital budget reflects the proposed closure of the Middletown Psychiatric Center.

The budget also supports the establishment of a bipartisan Blue Ribbon Commission for the Closure of State Psychiatric Centers, which will provide additional closure recommendations based on the overall OMH-projected need for inpatient beds. The Commission will permit OMH to identify the long-term facilities and plan for any capital projects required for accreditation.

OMH's capital maintenance plan ensures that the investments in the OMH infrastructure are preserved, both to realize maximum useful building life and to prevent costly repairs in the future. A recent assessment report identifies OMH's capital assets by group, age, and condition:

		Condition			
Capital Asset Group	**Age Range**	**Good**	**Fair**	**Poor**	**Total**
Residential/Hospital Buildings	1-100+	65	46	2	113
Psychiatric Rehabilitation Buildings	1-100+	48	42	5	95
Administrative Support Buildings	1-100+	127	125	10	262
	Total	240	213	17	*470

* excludes 752 vacant buildings and those with non-OMH tenants.

Aid to Localities

For OMH community programs, new 2004-05 appropriations of $12 million and reappropriations of $192 million will make funds available for the development of new residential beds and for the preservation and maintenance of the community infrastructure. Recommended reappropriations continue previously authorized bed initiatives, including $65 million to support the new bed pipeline announced in the 2003-04 Budget, New York/New York II, and the 1999-00 $50 million capital initiative. A total of $51 million in disbursements, including $7 million financed from the General Fund, is recommended for 2004-05. This local capital funding will support the development of over 1,600 new Single Room Occupancy and Community Residence beds, including 200 beds for children and youth.

OFFICE OF MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES

OMRDD offers services in a variety of settings, ranging from homes and small facilities, to large institutional developmental centers. As in the past, the Five-Year Capital Plan for OMRDD continues to focus on serving consumers in the most appropriate settings, and keeping all programs safe for both consumers and staff.

In support of this goal, the Capital Plan recommends a total of $466 million in new appropriations over the five-year period. For 2004-05, the Capital Plan recommends new appropriations of $89 million and reappropriations of $191 million, funding the following:

- Projects necessary to maintain health and safety standards for existing facilities and ensure conformance with all Federal and State certification standards;
- Minor rehabilitation projects for existing State- and voluntary-operated community facilities;
- Environmental modifications to existing State- and voluntary-operated residential and day program space to improve accessibility for individuals with disabilities; and
- Improvements to secure or specialized treatment units which provide services to persons with severe behavioral challenges.

The bulk of the OMRDD Capital Plan (76 percent) is dedicated to the preservation of State facilities, in order to ensure both quality care for consumers, as well as continued Federal certification. Based on a recent assessment of OMRDD facilities by the DA, the following table identifies the capital asset group, age and condition of OMRDD assets:

		Condition			
Capital Asset Group	**Age Range**	**Good**	**Fair**	**Poor**	**Total**
Institutional	1-75	76	199	96*	371
Community	1-55	980	52**	0	1,032
	Total	1,056	251	96	1,403

* All 96 buildings are vacant and classified as programmatically obsolete, meaning they are not scheduled for short- or long-term use.

** According to agency estimates, at any point in time approximately five percent of State-operated community homes require minor maintenance work and are, therefore, rated as fair.

The Capital Plan for OMRDD will be financed through a mix of current resources and bond proceeds. Over the five years, more than 56 percent will be financed with Capital Projects Fund appropriations. It should be noted, however, that bonded appropriations do not generally support community development or NYS-CARES. The majority of community development since 1996-97 has been accomplished through private financing rather than the use of State-supported bonds. Accordingly, capital costs associated with the majority of not-for-profit community development.

OFFICE OF ALCOHOL AND SUBSTANCE ABUSE SERVICES

OASAS supports a network of providers offering a continuum of services to treat and prevent chemical dependency. While the majority of this system is operated by voluntary not-for-profit organizations, the State itself operates 13 Addiction Treatment Centers (ATCs). The Capital Plan recommends new appropriations of $185 million over the next five years to support projects throughout the system. These projects focus primarily on ensuring the health and safety of the system's clients, and the preservation of both State and voluntary facilities.

Annually, approximately $34 million are included in the Plan to support capital projects within a network of community-based residential and ambulatory treatment centers, chemical dependence outpatient clinics, and methadone clinics. Reappropriations for 2004-05 provide authorization necessary to continue the development of 100 residential treatment beds for either women with children or adolescents, as provided for in the 2000-01 enacted budget. Moreover, sufficient amounts are included in the Plan to continue the 213-bed treatment initiative enacted as part of the 1997-98 Budget.

In addition, the Plan includes nearly $2 million in annual appropriations to support critical maintenance projects in the State ATCs. While twelve of the thirteen State-operated facilities are considered fixed assets of other agencies, OASAS is responsible for their maintenance. Eleven of the thirteen facilities are located on the grounds of OMH Psychiatric Centers while another facility is located at the DOCS' Willard Drug Treatment Campus. The following table presents the age and condition of the single OASAS capital asset.

		Condition		
Capital Asset Group	**Age Range**	**Good**	**Fair**	**Poor**
Kingsboro ATC	8		X	

MENTAL HEALTH, OFFICE OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro- priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Administration	7,944	3,300	3,300	3,300	3,300	3,300	16,500
Design and Construction Supervision	10,650	10,000	10,000	10,000	10,000	10,000	50,000
Maintenance and Improvements of State Facilities	332,740	112,700	112,700	112,700	112,700	112,700	563,500
Non-Bondable Projects	8,000	1,000	1,000	1,000	1,000	1,000	5,000
Voluntary Facilities	192,036	11,494	86,506	11,518	11,530	11,542	132,590
Total	551,370	138,494	213,506	138,518	138,530	138,542	767,590
Fund Summary							
Capital Projects Fund	87,557	43,000	43,000	43,000	43,000	43,000	215,000
Mental Hygiene Capital Improvement Fund	463,813	95,494	170,506	95,518	95,530	95,542	552,590
Total	551,370	138,494	213,506	138,518	138,530	138,542	767,590

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Administration	3,300	3,300	3,300	3,300	3,300
Design and Construction Supervision	10,000	10,000	10,000	10,000	10,000
Maintenance and Improvements of State Facilities	112,700	112,700	112,700	112,700	112,700
Non-Bondable Projects	1,000	1,000	1,000	1,000	1,000
Voluntary Facilities	39,000	39,000	39,000	39,000	39,000
Total	166,000	166,000	166,000	166,000	166,000
Fund Summary					
Capital Projects Fund	42,000	42,000	42,000	42,000	42,000
Mental Hygiene Capital Improvement Fund	124,000	124,000	124,000	124,000	124,000
Total	166,000	166,000	166,000	166,000	166,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Administration	3,300	3,300	3,300	3,300	3,300	3,300	16,500
Design and Construction Supervision	1,500	4,300	3,000	8,000	3,200	3,300	21,800
Maintenance and Improvements of State Facilities	149,782	138,400	126,700	121,700	126,500	126,400	639,700
Non-Bondable Projects	1,000	1,000	1,000	1,000	1,000	1,000	5,000
Voluntary Facilities	40,950	49,953	51,506	35,518	35,530	35,542	208,049
Total	196,532	196,953	185,506	169,518	169,530	169,542	891,049
Fund Summary							
Capital Projects Fund	35,550	37,318	36,500	36,500	36,500	36,500	183,318
Mental Hygiene Capital Improvement Fund	160,982	159,635	149,006	133,018	133,030	133,042	707,731
Total	196,532	196,953	185,506	169,518	169,530	169,542	891,049

MENTAL RETARDATION AND DEVELOPMENTAL DISABILITIES, OFFICE OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Community Services Program	21,950	18,973	19,063	19,164	19,279	19,800	96,279
Design and Construction Supervision	0	5,000	5,000	5,000	5,000	5,000	25,000
Institutional Services Program	145,600	44,078	45,140	46,112	47,089	48,600	231,019
Non-Bondable Projects	1,000	1,000	1,000	1,000	1,000	1,000	5,000
Voluntary Facilities	22,890	20,085	20,952	21,726	22,595	23,200	108,558
Total	191,440	89,136	91,155	93,002	94,963	97,600	465,856
Fund Summary							
Capital Projects Fund	48,275	49,864	51,132	51,933	53,326	55,000	261,255
Mental Hygiene Capital Improvement Fund	143,165	39,272	40,023	41,069	41,637	42,600	204,601
Total	191,440	89,136	91,155	93,002	94,963	97,600	465,856

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Community Services Program	16,700	16,790	16,876	16,908	17,000
Design and Construction Supervision	5,000	5,000	5,000	5,000	5,000
Institutional Services Program	43,078	44,140	45,239	46,003	46,800
Non-Bondable Projects	1,000	1,000	1,000	1,000	1,000
Voluntary Facilities	15,185	16,052	17,249	18,011	18,800
Total	80,963	82,982	85,364	86,922	88,600
Fund Summary					
Capital Projects Fund	43,591	44,859	46,249	46,798	47,500
Mental Hygiene Capital Improvement Fund	37,372	38,123	39,115	40,124	41,100
Total	80,963	82,982	85,364	86,922	88,600

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Community Services Program	11,000	11,000	12,000	12,400	13,100	13,500	62,000
Design and Construction Supervision	5,000	5,000	5,000	5,000	5,000	5,000	25,000
Institutional Services Program	42,816	39,665	37,384	37,664	37,784	38,900	191,397
Voluntary Facilities	14,166	12,860	13,571	14,081	14,610	15,100	70,222
Total	72,982	68,525	67,955	69,145	70,494	72,500	348,619
Fund Summary							
Capital Projects Fund	41,215	41,725	43,070	44,166	45,400	46,800	221,161
Mental Hygiene Capital Improvement Fund	31,767	26,800	24,885	24,979	25,094	25,700	127,458
Total	72,982	68,525	67,955	69,145	70,494	72,500	348,619

ALCOHOLISM AND SUBSTANCE ABUSE SERVICES, OFFICE OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Administration	0	1,094	1,075	1,110	1,145	1,145	5,569
Community Alcoholism and Substance Abuse Facilities	110,267	31,560	31,560	31,560	31,560	31,560	157,800
Design and Construction Supervision	2,587	2,000	2,000	2,000	2,000	2,000	10,000
Institutional Services Program	14,302	1,500	1,500	1,500	1,500	1,500	7,500
Non-Bondable Projects	0	750	750	750	750	750	3,750
Total	127,156	36,904	36,885	36,920	36,955	36,955	184,619
Fund Summary							
Capital Projects Fund	19,577	9,154	9,135	9,170	9,205	9,205	45,869
Mental Hygiene Capital Improvement Fund	107,579	27,750	27,750	27,750	27,750	27,750	138,750
Total	127,156	36,904	36,885	36,920	36,955	36,955	184,619

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Community Alcoholism and Substance Abuse Facilities	26,500	27,700	28,300	29,000	31,500
Design and Construction Supervision	2,000	2,000	2,000	2,000	2,000
Institutional Services Program	5,554	5,076	2,000	2,000	2,000
Non-Bondable Projects	100	100	100	100	100
Total	34,154	34,876	32,400	33,100	35,600
Fund Summary					
Capital Projects Fund	8,390	8,326	8,520	9,245	9,500
Mental Hygiene Capital Improvement Fund	26,858	27,625	24,990	25,000	27,245
Total	35,248	35,951	33,510	34,245	36,745

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Administration	1,062	1,094	1,075	1,110	1,145	1,145	5,569
Community Alcoholism and Substance Abuse Facilities	22,455	25,035	25,413	26,479	27,396	27,396	131,719
Design and Construction Supervision	3,069	1,385	1,276	1,300	1,300	1,300	6,561
Institutional Services Program	3,729	5,554	5,076	2,000	2,000	2,000	16,630
Non-Bondable Projects	100	100	100	100	100	100	500
Total	30,415	33,168	32,940	30,989	31,941	31,941	160,979
Fund Summary							
Capital Projects Fund	5,679	6,633	7,864	8,991	8,991	8,991	41,470
Mental Hygiene Capital Improvement Fund	24,736	26,535	25,076	21,998	22,950	22,950	119,509
Total	30,415	33,168	32,940	30,989	31,941	31,941	160,979

GENERAL GOVERNMENT

OFFICE OF GENERAL SERVICES

OGS is responsible for the operation, maintenance, and renovation of 44 major and 84 ancillary State-owned and operated buildings located throughout the State. The estimated replacement value of these 130 buildings is over $4.5 billion. The 2004-05 Executive Budget emphasizes investments in the Office's asset management program, which includes preservation of facilities and preventive maintenance components aimed at reducing the number of emergencies and avoiding costly out year projects. Maintenance activities are undertaken by in-house staff, temporary service and outside contractors to protect existing capital assets and prevent further deterioration of the infrastructure. The asset management program for 2004-05 will fund high priority projects that will preserve the integrity of buildings and maintain a safe and healthy environment for the State's employees and the public. The Office will also have the flexibility to address critical infrastructure needs, while accommodating significant customer-tenant issues.

The Office continues to make significant capital investments in office facilities in the Albany area to compensate for years of under-investment and address the need for State offices to accommodate modern technology. Current and future projects include the modernization of the Alfred E. Smith Office Building, a new parking garage at Elk Street and continued critical repairs at the State Capitol.

The OGS preventive maintenance program plan concentrates on projects intended to maximize the life expectancy of the State’s essential capital assets. To accomplish this, the Office has developed a facility condition assessment system that assesses the architectural, structural, mechanical, electrical and site components of each facility. This system identifies resource requirements and assures maintenance adequacy, while allowing managers to define, develop, and prioritize cost estimates for capital repairs and replacement projects.

The preventive maintenance program plan is focused on the goals of maximizing the useful life of facilities, improving the reliability of systems and equipment, and providing the means for determining equipment management and replacement needs. According to industry standards, the average building is constructed to last a minimum of 40 years, while parking lots can last more than 25 years with routine maintenance. However, since many of the assets managed by the Office, such as the State Capitol and the Executive Mansion, are historically significant, their useful life can be considered indefinite. Over the long-term, maintenance efforts will continue to enhance facilities by improving the building appearance and upgrading the overall condition as a capital asset. The program is estimated to require $8 million in capital funding in 2004-05 to maintain the current infrastructure.

In evaluating its assets, the Office has established the following rating categories: good (shows normal wear and tear); poor (displays definite deterioration and may have unusable portions); and scrap (not usable). According to the most recent assessment of assets, 80 percent of the Office's buildings are rated in good condition, with 20 percent being rated in poor condition. The average age of office and support buildings is 35 years.

The following table identifies the capital asset group, age and condition of the Office's assets.

Capital Asset Group	Age Range	Condition Good	Fair	Poor	Total
Empire State Plaza and Downtown Operations	To 120 yrs.	36	0	0	36
Harriman State Office Building Campus	To 40 yrs.	17	9	0	26
Upstate Region	To 70 yrs.	21	11	0	32
Lease/Purchase	To 50 yrs.	5	0	0	5
Downstate Region	To 70 yrs.	8	2	0	10
Parking Services	To 40 yrs.	16	4	0	20
	Total	103	26	0	129

To address the challenges that lie ahead, the Office has developed a strategic plan that will provide for the orderly rehabilitation and renovation of facilities. That plan, coupled with on-going maintenance efforts, will ensure that the Office will achieve its long-term goals, while addressing the pressing needs of the State's infrastructure.

DEPARTMENT OF STATE

The Department of State (DOS) will continue to administer a $100 million Local Expedited Deployment Funding capital program, enacted in 2003-04, to provide State-supported bond-financed funding for local public safety answering point equipment and technology upgrades associated with wireless 911 service.

GENERAL SERVICES, OFFICE OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Design and Construction Supervision	18,000	9,071	11,760	12,600	12,600	12,600	58,631
Maintenance and Improvement of Real Property Facilities	264,969	34,379	44,240	47,400	47,400	47,400	220,819
Total	282,969	43,450	56,000	60,000	60,000	60,000	279,450
Fund Summary							
Capital Projects Fund	180,506	43,450	56,000	60,000	60,000	60,000	279,450
Capital Projects Fund - Advances	5,479	0	0	0	0	0	0
Capital Projects Fund - Authority Bonds	96,984	0	0	0	0	0	0
Total	282,969	43,450	56,000	60,000	60,000	60,000	279,450

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Design and Construction Supervision	9,071	11,760	12,600	12,600	12,600
Maintenance and Improvement of Real Property Facilities	34,129	44,240	47,400	47,400	47,400
Total	43,200	56,000	60,000	60,000	60,000
Fund Summary					
Capital Projects Fund	43,200	56,000	60,000	54,521	60,000
Capital Projects Fund - Advances	0	0	0	5,479	0
Total	43,200	56,000	60,000	60,000	60,000

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Design and Construction Supervision	7,852	6,500	5,600	3,771	2,000	19,510	37,381
Maintenance and Improvement of Real Property Facilities	71,798	78,650	77,321	57,779	57,772	32,108	303,630
Total	79,650	85,150	82,921	61,550	59,772	51,618	341,011
Fund Summary							
Capital Projects Fund	42,350	43,450	56,250	60,250	54,293	51,618	265,861
Capital Projects Fund - Advances	0	0	0	0	5,479	0	5,479
Capital Projects Fund - Authority Bonds	37,300	41,700	26,671	1,300	0	0	69,671
Total	79,650	85,150	82,921	61,550	59,772	51,618	341,011

STATE, DEPARTMENT OF
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Local Government and Community Services	100,000	0	0	0	0	0	0
Total	100,000	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund - Authority Bonds	100,000	0	0	0	0	0	0
Total	100,000	0	0	0	0	0	0

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Local Government and Community Services	100,000	0	0	0	0
Total	100,000	0	0	0	0
Fund Summary					
Capital Projects Fund - Authority Bonds	100,000	0	0	0	0
Total	100,000	0	0	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Local Government and Community Services	0	100,000	0	0	0	0	100,000
Total	0	100,000	0	0	0	0	100,000
Fund Summary							
Capital Projects Fund - Authority Bonds	0	100,000	0	0	0	0	100,000
Total	0	100,000	0	0	0	0	100,000

OTHER

This programmatic area includes the Judiciary, the Office of Homeland Security, and capital spending financed with Federal Funds for the World Trade Center site.

JUDICIARY

The 2004-05 Judiciary request includes reappropriations totaling $6.7 million. This reflects $3 million for expenses associated with the completion of the project to renovate and expand the Court of Appeals building and $3.7 million for expenses associated with improvements to the Justice Building quarters of the Appellate Division, Third Judicial Department.

HOMELAND SECURITY
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Homeland Security	27,000	5,000	0	0	0	0	5,000
Total	27,000	5,000	0	0	0	0	5,000
Fund Summary							
Capital Projects Fund	27,000	5,000	0	0	0	0	5,000
Total	27,000	5,000	0	0	0	0	5,000

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Homeland Security	5,000	0	0	0	0
Total	5,000	0	0	0	0
Fund Summary					
Capital Projects Fund	5,000	0	0	0	0
Total	5,000	0	0	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Homeland Security	17,750	10,900	4,600	2,125	0	0	17,625
Total	17,750	10,900	4,600	2,125	0	0	17,625
Fund Summary							
Capital Projects Fund	17,750	10,900	4,600	2,125	0	0	17,625
Total	17,750	10,900	4,600	2,125	0	0	17,625

JUDICIARY
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Courthouse Improvements	6,700	0	0	0	0	0	0
Total	6,700	0	0	0	0	0	0
Fund Summary							
Capital Projects Fund	6,700	0	0	0	0	0	0
Total	6,700	0	0	0	0	0	0

COMMITMENTS

	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009
Program Summary					
Courthouse Improvements	3,900	0	0	0	0
Total	3,900	0	0	0	0
Fund Summary					
Capital Projects Fund	3,900	0	0	0	0
Total	3,900	0	0	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
Courthouse Improvements	16,100	3,500	445	0	0	0	3,945
Total	16,100	3,500	445	0	0	0	3,945
Fund Summary							
Capital Projects Fund	16,100	3,500	445	0	0	0	3,945
Total	16,100	3,500	445	0	0	0	3,945

WORLD TRADE CENTER
SUMMARY OF
PROJECTED APPROPRIATIONS, COMMITMENTS, AND DISBURSEMENTS
2004-2005 THROUGH 2008-2009
(thousands of dollars)

APPROPRIATIONS

	Reappro-priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
World Trade Center	331,680	0	0	0	0	0	0
Total	331,680	0	0	0	0	0	0
Fund Summary							
Federal Capital Projects Fund	331,680	0	0	0	0	0	0
Total	331,680	0	0	0	0	0	0

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Program Summary							
World Trade Center	25,000	60,000	70,000	40,000	30,000	10,000	210,000
Total	25,000	60,000	70,000	40,000	30,000	10,000	210,000
Fund Summary							
Federal Capital Projects Fund	25,000	60,000	70,000	40,000	30,000	10,000	210,000
Total	25,000	60,000	70,000	40,000	30,000	10,000	210,000

SUMMARY OF
PROJECTED APPROPRIATIONS, ALL FUNDS, ALL PROGRAMS
BY FUND TYPE, AND MAJOR FUND, 2004-2005 THROUGH 2008-2009
(thousands of dollars)

	APPROPRIATIONS						
	Reappro- priations	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Capital Projects Funds Type							
Capital Projects Fund	762,135	260,088	217,997	225,633	222,961	224,635	1,151,314
Capital Projects Fund - Advances	2,250,679	2,758,000	1,000	1,000	1,000	1,000	2,762,000
Capital Projects Fund - A.C. and T.I. Fund (Bondable)	62,332	0	0	0	0	0	0
Capital Projects Fund - EQBA (Bondable)	39,241	327	0	0	0	0	327
Capital Projects Fund - PWBA (Bondable)	17,948	14,467	0	0	0	0	14,467
Capital Projects Fund - Infrastructure Renewal (Bondable)	41,100	0	0	0	0	0	0
Capital Projects Fund - Aviation (Bondable)	3,071	0	0	0	0	0	0
Capital Projects Fund - Energy Conservation (Bondable)	1,040	0	0	0	0	0	0
Capital Projects Fund - EQBA 86 (Bondable)	258,396	0	0	0	0	0	0
Capital Projects Fund - 1996 CWA (Bondable)	742,557	0	0	0	0	0	0
Capital Projects Fund - Authority Bonds	2,256,514	740,972	63,979	65,250	65,250	65,250	1,000,701
Dedicated Highway and Bridge Trust Fund	3,056,384	1,701,439	1,628,689	1,649,023	1,660,441	1,449,403	8,088,995
State University Residence Hall Rehabilitation Fund	677,089	0	0	0	0	0	0
State Parks Infrastructure Fund	81,975	28,700	29,050	29,050	29,605	29,605	146,010
Environmental Protection Fund	462,583	125,000	125,000	125,000	125,000	125,000	625,000
Federal Capital Projects Fund	6,426,410	1,974,114	1,960,800	1,955,400	1,935,300	1,935,500	9,761,114
Hazardous Waste Remedial Fund - Oversight and Assessment	15,000	15,000	15,000	15,000	15,000	15,000	75,000
Hazardous Waste Remedial Fund - Cleanup	120,000	120,000	120,000	120,000	120,000	120,000	600,000
Youth Facilities Improvement Fund	48,837	18,700	9,000	9,000	9,000	9,000	54,700
Housing Program Fund	452,430	104,200	104,200	104,200	104,200	104,200	521,000
Engineering Services Fund	418,936	0	0	0	0	0	0
Mental Hygiene Capital Improvement Fund	714,557	162,516	238,279	164,337	164,917	165,892	895,941
Correctional Facilities Capital Improvement Fund	756,449	205,000	205,000	205,000	205,000	205,000	1,025,000
Other Funds	190,785	160,186	7,609	7,200	7,200	7,200	189,395
Eliminations*	(696,623)	(299,271)	(290,660)	(283,555)	(283,441)	(282,330)	(1,439,257)
Type Subtotal	19,159,825	8,089,438	4,434,943	4,391,538	4,381,433	4,174,355	25,471,707
Capital Projects Funds - Bond Proceeds	1,204,985	0	0	0	0	0	0
Fiduciary Fund Type	178,746	55,000	57,000	57,000	57,000	57,000	283,000
Special Revenue Fund Type	194,384	61,295	61,679	61,679	61,679	61,679	308,011
Eliminations*	(1,204,985)	(0)	(0)	(0)	(0)	(0)	(0)
Total (All Fund Types)	19,532,955	8,205,733	4,553,622	4,510,217	4,500,112	4,293,034	26,062,718

* Reflects eliminations for 'netting out' of transfers between funds which are not capital program disbursements.

SUMMARY OF
PROJECTED APPROPRIATIONS, ALL FUNDS, ALL PROGRAMS
BY FUND TYPE, AND MAJOR FUND, 2004-2005 THROUGH 2008-2009
(thousands of dollars)

DISBURSEMENTS

	Estimated 2003-2004	2004-2005	2005-2006	2006-2007	2007-2008	2008-2009	Total 2004-2009
Capital Projects Funds Type							
Capital Projects Fund	247,753	190,686	198,249	198,517	209,739	207,564	1,004,755
Capital Projects Fund - Advances	557,500	595,984	601,650	601,650	585,479	577,900	2,962,663
Capital Projects Fund - A.C. and T.I. Fund (Bondable)	10,000	8,000	6,000	4,000	2,000	2,000	22,000
Capital Projects Fund - EQBA (Bondable)	6,000	3,000	3,000	3,000	3,000	3,000	15,000
Capital Projects Fund - PWBA (Bondable)	1,600	1,200	1,200	1,200	1,200	1,200	6,000
Capital Projects Fund - Infrastructure Renewal (Bondable)	4,160	5,000	5,000	5,000	5,000	5,000	25,000
Capital Projects Fund - Aviation (Bondable)	1,400	400	400	400	400	400	2,000
Capital Projects Fund - Energy Conservation (Bondable)	40	200	200	200	200	200	1,000
Capital Projects Fund - EQBA 86 (Bondable)	63,343	63,775	61,185	50,861	26,594	0	202,415
Capital Projects Fund - 1996 CWA (Bondable)	155,000	125,000	125,000	100,000	100,000	75,000	525,000
Capital Projects Fund - Authority Bonds	443,594	1,021,008	423,183	325,519	184,917	133,250	2,087,877
Dedicated Highway and Bridge Trust Fund	1,860,614	1,884,792	1,739,003	1,711,036	1,742,460	1,766,762	8,844,053
State University Residence Hall Rehabilitation Fund	100,000	100,000	100,000	100,000	100,000	100,000	500,000
State Parks Infrastructure Fund	20,900	10,900	10,900	10,900	10,900	10,900	54,500
Environmental Protection Fund	127,000	121,000	121,000	120,000	125,000	125,000	612,000
Federal Capital Projects Fund	1,620,949	1,839,772	1,901,722	1,891,684	1,858,407	1,826,204	9,317,789
Hazardous Waste Remedial Fund - Oversight and Assessment	15,000	15,000	15,000	15,000	15,000	15,000	75,000
Hazardous Waste Remedial Fund - Cleanup	50,000	68,000	81,000	95,000	105,000	120,000	469,000
Youth Facilities Improvement Fund	12,250	12,656	13,253	14,150	14,270	12,800	67,129
Housing Program Fund	98,450	103,450	102,200	102,200	102,200	102,200	512,250
Engineering Services Fund	222,075	81,107	31,108	15,493	6,561	3,976	138,245
Mental Hygiene Capital Improvement Fund	217,485	212,970	198,967	179,995	181,074	181,692	954,698
Correctional Facilities Capital Improvement Fund	188,000	188,000	188,000	188,000	188,000	188,000	940,000
Other Funds	41,470	43,656	37,153	33,217	33,217	33,217	180,460
Consolidated Highway Improvement Program	338,100	339,811	325,488	320,488	315,488	310,488	1,611,763
Eliminations*	(359,145)	(338,645)	(309,307)	(290,025)	(286,101)	(283,188)	(1,507,266)
Type Subtotal	6,043,538	6,696,722	5,980,554	5,797,485	5,630,005	5,518,565	29,623,331
Capital Projects Funds - Bond Proceeds	0	0	0	0	0	0	0
Fiduciary Fund Type	4,425	2,000	1,000	1,000	1,000	1,000	6,000
Special Revenue Fund Type	58,147	63,201	63,864	64,787	64,435	64,877	321,164
Total (All Fund Types)	6,106,110	6,761,923	6,045,418	5,863,272	5,695,440	5,584,442	29,950,495

* Reflects eliminations for 'netting out' of transfers between funds which are not capital program disbursements.

NON-STATE-SUPPORTED DEBT OBLIGATIONS

This section of the Plan discusses non-State-supported debt obligations, which include State-guaranteed debt, moral obligation financings and contingent contractual obligation financings. Under these financings, the State does not have a direct obligation to pay debt service, but, under certain conditions, may be called upon to pay debt service if specified non-State resources are insufficient to satisfy scheduled debt service payments. The State does not expect to be required to pay debt service on any of these obligations in 2004-05.

Non-State-Supported Debt Obligations Outstanding as of 3/31/04 (millions of dollars)	
State-Guaranteed Debt	
Job Development Authority	80
Moral Obligation Financings	
Housing Finance Agency	345
MCFFA Hospitals & Nursing Homes	30
Contingent Contractual-Obligations	
Secured Hospital Program	942
Tobacco Revenue Bonds	4,551
Total	5,948

STATE-GUARANTEED DEBT

The State Constitution and applicable statutes authorize the State to directly guarantee certain public authority debt obligations that finance or guarantee loans to encourage economic development by assisting private sector business expansion and job creation throughout the State. The statute further limits the amount of such bonds that may be outstanding at any one time to $750 million.

The only obligations outstanding under this authorization have been issued by the Job Development Authority (JDA) (doing business as ESDC). As of March 31, 2004, outstanding JDA obligations are projected to be $80 million. The State has never been called upon to make any payments pursuant to such guarantees and does not anticipate that it will be called upon to make any State guaranteed payments in 2004-05.

MORAL OBLIGATION FINANCINGS

The State's current outstanding moral obligation financings have involved the issuance of debt by a public authority to finance a revenue-producing project. The debt is secured by project revenues and includes statutory provisions morally committing the State, subject to appropriation by the Legislature, to make up any deficiencies that may occur in the issuer's debt service reserve fund in the event the issuer accesses such reserves.

Two authorities currently have outstanding moral obligation debt as authorized by their enabling acts. HFA issued bonds to finance various housing programs and hospital and health care facilities, while the DA has statutorily assumed liability for bonds issued originally by the Medical Care Facilities Finance Agency for the purpose of financing hospital and nursing home facilities. As of March 31, 2004, outstanding moral obligation bonds are projected at $375 million.

The State is not expected to authorize new moral obligation financings and there has never been a default on any moral obligation debt of any public authority and the State expects that no State moneys will be required in 2004-05.

CONTINGENT CONTRACTUAL OBLIGATIONS

The State may also enter into statutorily authorized contingent contractual-obligation financings under which the State enters into contracts obligating it to recommend appropriations to pay debt service on bonds in the event there are shortfalls in revenues from the non-State resources pledged, or otherwise available, to pay debt service on the bonds. Pursuant to legislation enacted in 1985 and 2003, respectively, the State has entered into contingent contractual obligation agreements related to bonds issued by the DA under the Secured Hospital Program and asset backed revenue bonds issued by the Tobacco Settlement Financing Corporation (TSFC). As required by these agreements, the debt service appropriations bill submitted with the Executive Budget includes appropriation authority sufficient to pay debt service due in 2004-05 on all such outstanding contingent-contractual obligations. The State has never been required to make contingent contractual payments and does not expect to make such payments in 2004-05.

Contingent contractual-obligations under the Secured Hospital Program were issued for the purpose of enabling 11 financially distressed not-for-profit hospitals to gain access to the capital markets. Subject to annual appropriation, the State is contractually obligated to pay debt service in the event there are shortfalls of revenues from other sources, which include hospital payments made under loan agreements between the DA and the hospitals, and certain reserve funds held by the applicable trustees for the bonds. The initial authorization to issue bonds under the Program, including refunding bonds, expired on March 1, 1998. Legislation enacted in 2002 and which expires on December 31, 2004, allows certain eligible secured hospital borrowers to refinance outstanding debt. Under this authorization, one eligible borrower has refinanced its outstanding debt. As of March 31, 2004, there is projected to be $942 million in Secured Hospital Bonds outstanding.

Legislation enacted in 2003 authorized the State to sell (i.e., securitize) all of its tobacco settlement payments (an asset) to the TSFC (a statutorily-created corporation that is a subsidiary of the Municipal Bond Bank Agency) through an asset-backed securitization transaction. To avoid the yield premium paid by other states that have similarly elected to securitize their tobacco payments, the legislation authorized the State to enter into a contingent contractual contract obligating the State to pay debt service in the event that tobacco receipts are insufficient. To ensure that State contractual payments will not be required and that tobacco receipts are sufficient to pay debt service, the tobacco bonds were structured to meet or exceed all rating agency tobacco bonds stress tests. The bonds carry a final nominal maturity of 20 years and an expected final maturity of 13 years. The $4.2 billion of payments received by the State from the securitization were deposited to the State's General Fund. As of March 31, 2004, there will be $4.6 billion in tobacco bonds outstanding.