

EXECUTIVE BUDGET

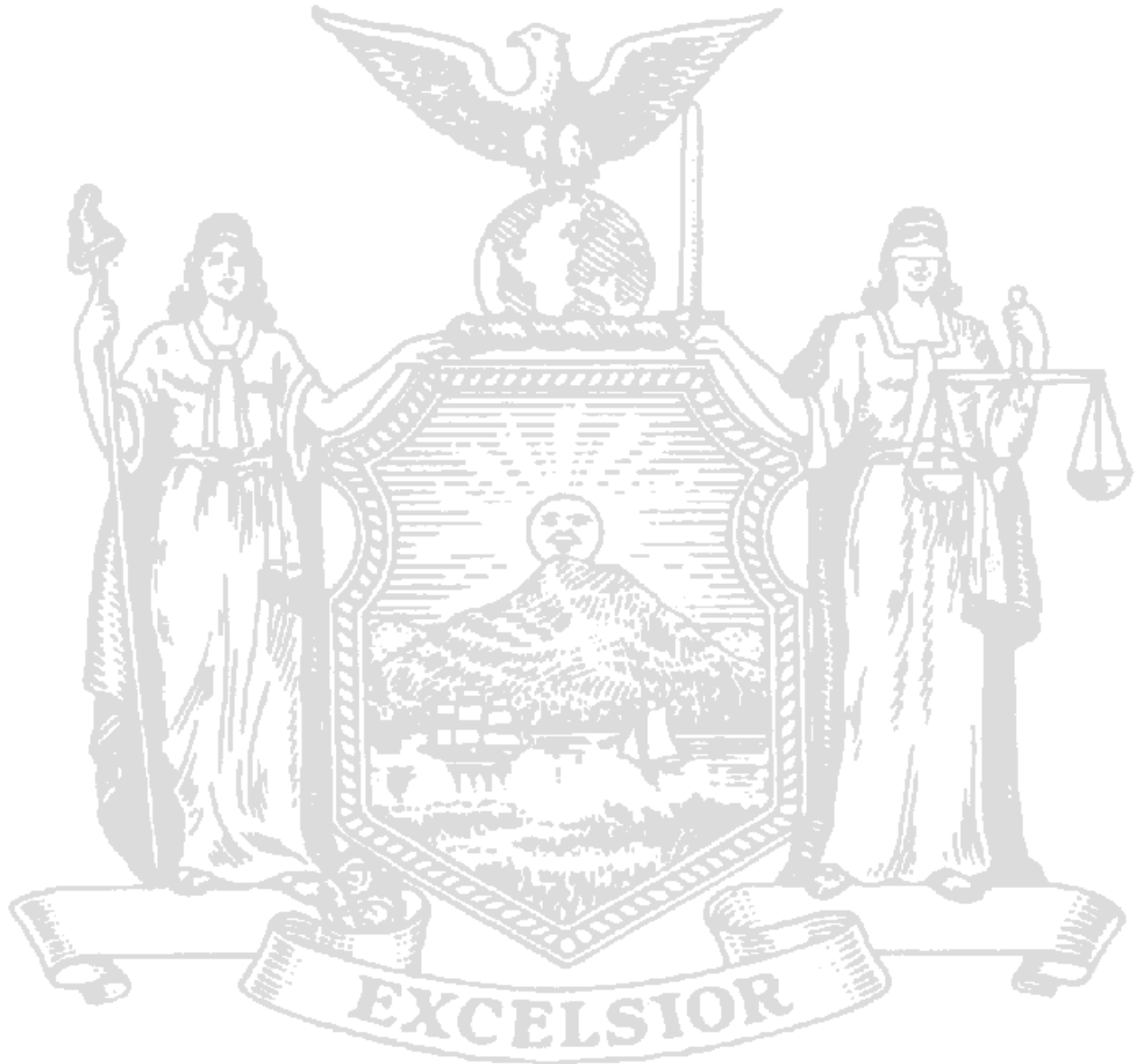
ECONOMIC AND REVENUE OUTLOOK

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RECEIPTS OVERVIEW



RECEIPTS OVERVIEW

The Economic and Revenue Outlook is a new volume designed to enhance the presentation and transparency of the 2006-07 Executive Budget. The book provides detailed information on the economic and receipt projections underlying the Executive Budget. The economic analysis and forecasts presented in this volume are also used in the development of the expenditure projections where spending trends are impacted by economic conditions.

Financial Plan receipts comprise a variety of taxes, fees, charges for State-provided services, Federal grants, and other miscellaneous receipts. The Economic and Revenue Outlook includes receipt information set forth in Article VII of the State Constitution and section 22 of the State Finance Law and provides new information to supplement extensive reporting enhancements undertaken in recent years. The Division of the Budget (DOB) believes the new information will aid the Legislature and the public in fully understanding and evaluating the economic assumptions and receipts estimates underlying the 2006-07 Executive Budget. The receipt estimates and projections 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, sources of receipts not referenced in this volume are discussed in the presentations of the agencies primarily responsible for executing the programs financed by such receipts.

The Economic and Revenue Outlook is presented in the following general sections:

- **Financial Plan Receipts and Projections:** Provides a summary of Financial Plan receipts for the current year and the 2006-07 Budget year by tax category and fund type.
- **Financial Plan Tables and Cash Flow:** Provides Financial Plan tables for receipts by fund type and includes a detailed report on cash flow projections for the upcoming fiscal year.
- **Economic Backdrop:** Provides a detailed description of the Division's forecast of key economic indicators for the National and New York State economies.
- **2006-07 Revenue Actions:** Summarizes the revenue actions proposed with the 2006-07 Executive Budget.
- **Summary of State Tax Reduction Program:** Summarizes the impact of various tax reductions implemented over the past decade by tax type for All Funds receipts.
- **Recent Trends in All Funds Receipts:** Examines historical trends in State receipts over the past three decades along with projections of receipts for fiscal years 2005-06 and 2006-07.
- **Tax Receipt Explanation:** Provides a detailed report for each tax and miscellaneous receipts source describing historical receipts and projections for the current and upcoming budget years, the impact of legislation proposed with the Executive Budget, and significant legislation that has been enacted.
- **Dedicated Fund Tax Receipts:** Provides a report on dedicated tax receipt estimates, with an emphasis on transportation-related dedicated taxes.
- **Audit and Compliance Receipts:** Provides data and analysis to better understand receipts collections.
- **Comparison of New York State Tax Structure to Other States:** Compares the New York tax structure and burden to other states.
- **Economic and Revenue Estimating Methodology:** Provides a comprehensive review of the methodology used in determining the tax receipt projections.
- As part of the methodology, an assessment of forecast performance for both economic and receipts projections.

RECEIPTS OVERVIEW

TOTAL RECEIPTS (millions of dollars)							
	2004-05	2005-06	Annual	Percent	2006-07	Annual	Percent
	Actual	Estimated	Change	Change	Projected	Change	Change
General Fund	43,863	47,930	4,067	9.3	50,166	2,236	4.7
Taxes	32,507	35,331	2,824	8.7	37,363	2,032	5.8
Miscellaneous Receipts	2,217	2,591	374	16.9	2,708	117	4.5
Federal Grants	9	9	0	0.0	9	-	-
Transfers	9,130	9,999	869	9.5	10,086	87	0.9
State Funds	64,317	71,748	7,431	11.6	73,618	1,870	2.6
Taxes	48,598	53,513	4,915	10.1	56,851	3,338	6.2
Miscellaneous Receipts	15,710	18,225	2,515	16.0	16,757	(1,468)	(8.1)
Federal Grants	9	10	1	11.1	10	-	-
All Funds	100,679	107,973	7,294	7.2	109,724	1,751	1.6
Taxes	48,598	53,513	4,915	10.1	56,851	3,338	6.2
Miscellaneous Receipts	15,859	18,241	2,382	15.0	16,772	(1,469)	(8.1)
Federal Grants	36,222	36,219	(3)	(0.0)	36,101	(118)	(0.3)

FISCAL YEAR 2005-06 OVERVIEW

- Total All Funds receipts are estimated to reach nearly \$108 billion, an increase of \$7.3 billion, or 7.2 percent from 2004-05 results. All Funds tax receipts are estimated to grow by 10.1 percent, the second consecutive year of double digit growth. The majority of this increase is attributable to the combination of improved economic performance and the residual impact of the temporary tax surcharges imposed in 2003. Miscellaneous receipts are estimated to increase by \$2.4 billion, or 15 percent, largely the result of one-time actions taken to balance the 2005-06 Financial Plan.
- Total State Funds receipts are estimated to be nearly \$72 billion, an increase of \$7.4 billion, or 11.6 percent from 2004-05 actual results. State Funds tax receipts are expected to increase by \$4.9 billion, or 10.1 percent. State Funds Miscellaneous receipts are estimated to increase by more than \$2.5 billion, or 16 percent.
- Total General Fund receipts are estimated at \$47.9 billion, an increase of \$4.1 billion, or 9.3 percent from 2004-05 actuals. General Fund tax receipt growth is estimated at 8.7 percent. General Fund miscellaneous receipts are estimated to increase by 16.9 percent, reflecting actions taken with the 2005-06 Budget and unanticipated increases in investment income.

FISCAL YEAR 2006-07 OVERVIEW

- Total All Funds receipts are expected to reach nearly \$110 billion, an increase of \$1.8 billion, or 1.6 percent from 2005-06 estimates. All Funds tax receipts are projected to increase by \$3.3 billion or 6.2 percent. The majority of this increase is attributable to the expectation of continued economic expansion offset by the sunset of the personal income tax surcharge and the proposed tax reductions included with this Budget (net of receipt enhancements). All Funds Federal grants are expected to decrease by \$118 million, or less than 1 percent. All Funds Miscellaneous receipts are projected to decrease by nearly \$1.5 billion, or 8.1 percent, due to the loss of health care conversion proceeds used to support State Medicaid and other public health care costs.
- Total State Funds receipts are projected to be nearly \$74 billion, an increase of \$1.9 billion, or 2.6 percent from 2005-06 estimated receipts.
- Total General Fund receipts are projected at \$50.2 billion, an increase of \$2.2 billion, or 4.7 percent from 2005-06 estimates. General Fund tax receipt growth is projected at 5.8 percent. General Fund miscellaneous receipts are projected to increase by 4.5 percent.

RECEIPTS OVERVIEW

2005-06 AND 2006-07 ESTIMATED RECEIPTS (millions of dollars)					
	<u>2004-05</u> <u>Actual</u>	<u>2005-06</u> <u>Estimated</u>	<u>Percent</u> <u>Change</u>	<u>2006-07</u> <u>Estimated</u>	<u>Percent</u> <u>Change</u>
ALL FUNDS RECEIPTS					
Taxes	48,598	53,513	10.1	56,851	6.2
Federal grants	36,222	36,219	(0.0)	36,101	(0.3)
Miscellaneous receipts	15,859	18,241	15.0	16,772	(8.1)
Total Receipts	100,679	107,973	7.2	109,724	1.6
STATE FUNDS RECEIPTS					
Personal income tax	28,100	30,988	10.3	33,574	8.3
User taxes and fees	13,036	13,782	5.7	14,613	6.0
Business taxes	5,806	6,919	19.2	6,964	0.7
Other taxes	1,656	1,824	10.1	1,700	(6.8)
Total taxes	48,598	53,513	10.1	56,851	6.2
Misc. receipts & Federal grants	15,719	18,235	16.0	16,767	(8.1)
Lottery	1,939	1,947	0.4	2,073	6.5
VLTs	154	160	3.9	358	123.8
Other	13,626	16,128	18.4	14,336	(11.1)
Total receipts	64,317	71,748	11.6	73,618	2.6
GENERAL FUND RECEIPTS					
Personal income tax	18,781	20,827	10.9	22,654	8.8
Gross - refunds	28,100	30,988	10.3	33,574	8.3
STAR	(3,059)	(3,219)	5.2	(3,368)	4.6
RBTF	(6,260)	(6,942)	10.9	(7,552)	8.8
User taxes and fees	8,731	8,637	(1.1)	8,810	2.0
Total Sales tax	10,588	10,581	(0.1)	10,857	2.6
LGAC	(2,493)	(2,608)	4.6	(2,714)	4.1
Other user taxes and fees	636	664	4.4	667	0.5
Business taxes	4,069	4,973	22.2	4,999	0.5
Other taxes	926	894	(3.5)	900	0.7
Total taxes	32,507	35,331	8.7	37,363	5.8
Misc. receipts & Federal grants	2,226	2,600	16.8	2,717	4.5
Transfers	9,130	9,999	9.5	10,086	0.9
Total receipts	43,863	47,930	9.3	50,166	4.7

RECEIPTS OVERVIEW

2007-08 AND 2008-09 OUTYEAR PROJECTED RECEIPTS (millions of dollars)					
	2006-07 <u>Projected</u>	2007-08 <u>Projected</u>	Percent <u>Change</u>	2008-09 <u>Projected</u>	Percent <u>Change</u>
ALL FUNDS RECEIPTS					
Taxes	56,851	57,396	1.0	59,515	3.7
Federal grants	36,101	37,210	3.1	39,079	5.0
Miscellaneous receipts	16,772	18,240	8.8	18,671	2.4
Total Receipts	109,724	112,846	2.8	117,265	3.9
STATE FUNDS RECEIPTS					
Personal income tax	33,574	33,573	(0.0)	35,756	6.5
User taxes and fees	14,613	15,081	3.2	15,490	2.7
Business taxes	6,964	7,125	2.3	6,766	(5.0)
Other taxes	1,700	1,617	(4.9)	1,503	(7.1)
Total taxes	56,851	57,396	1.0	59,515	3.7
Misc. receipts & Federal grants	16,767	18,192	8.5	18,623	2.4
Lottery	2,073	2,081	0.4	2,146	3.1
VLTs	358	820	129.1	1,304	59.0
Other	14,336	15,291	6.7	15,173	(0.8)
Total receipts	73,618	75,588	2.7	78,138	3.4
GENERAL FUND RECEIPTS					
Personal income tax	22,654	22,519	(0.6)	24,014	6.6
Gross - refunds	33,574	33,573	(0.0)	35,756	6.5
STAR	(3,368)	(3,548)	5.3	(3,737)	5.3
RBTF	(7,552)	(7,506)	(0.6)	(8,005)	6.6
User taxes and fees	8,810	9,131	3.6	9,416	3.1
Total Sales tax	10,857	11,303	4.1	11,691	3.4
LGAC	(2,714)	(2,826)	4.1	(2,923)	3.4
Other user taxes and fees	667	654	(1.9)	648	(0.9)
Business taxes	4,999	5,083	1.7	4,696	(7.6)
Other taxes	900	817	(9.2)	703	(14.0)
Total taxes	37,363	37,550	0.5	38,829	3.4
Misc. receipts & Federal grants	2,717	2,582	(5.0)	2,351	(8.9)
Transfers	10,086	9,879	(2.0)	10,285	4.1
Total receipts	50,166	50,011	(0.3)	51,465	2.9

CHANGE FROM MID-YEAR UPDATE

All Funds receipts estimates have been revised upward by \$634 million for fiscal year 2005-06. Tax receipts growth for fiscal year 2005-06 has significantly exceeded expectations and, as a result, All Funds tax estimates for fiscal year 2005-06 have been increased by \$759 million from the Mid-Year Update. The growth in tax receipts is offset by a downward revision in Federal grants of \$256 million.

The upward revision to General Fund receipts for fiscal year 2005-06 is \$809 million, a combination of \$536 million in tax receipts, \$144 million in miscellaneous receipts and the remainder in transfers from other funds. The General Fund change, excluding transfers, is \$680 million higher than at the time of the Mid-Year Update.

Base growth, adjusted for law changes, in tax receipts for fiscal year 2005-06 is estimated at 11.2 percent, the second consecutive year of double digit growth in base receipts. Growth in the tax receipts base has benefited from several factors including:

- improvements in overall economic activity;
- the continued profitability and compensation gains of financial services companies;
- the continued rapid escalation in real estate market values; and
- the residual impact of temporary tax actions taken in 2003, especially with respect to high-income taxpayers.

RECEIPTS OVERVIEW

All Funds receipts have been revised upward by \$1.6 billion for fiscal year 2006-07. The forecast for fiscal year 2006-07 tax receipts has been increased by \$1.4 billion from the Mid-Year Update. All Funds miscellaneous receipts are revised up by \$934 million. These positive revisions are offset by an expected decline from the Mid-Year Update in Federal grants of \$777 million.

The upward revision to General Fund receipts is \$1.4 billion. Tax revisions account for \$856 million of this revision with the remainder of the growth split between miscellaneous receipts and transfers at \$340 million and \$198 million, respectively. The General Fund change, excluding transfers, is \$1.2 billion higher than at the time of the Mid-Year Update.

The current projection assumes continued rapid growth in base tax receipts of 8.2 percent. A portion of this expected gain in receipts is due to events that have already occurred. The strong economy in 2005 will continue to drive large gains in receipts in early fiscal year 2006-07 as personal income taxpayers finalize payments on their 2005 liability. Receipts growth for the second half of 2006-07 is expected to slow, reflecting the sunset of the temporary income tax surcharge, a modest cooling off of the economy, and a moderate decline in tax receipts associated with the large gains in real estate prices in 2004 and 2005, as the housing market hits a plateau. Actual receipts will grow more slowly than the underlying base, reflecting the impact of proposed and already enacted tax reductions.

Out-year tax receipts, before the impact of recommended tax actions, are expected to grow at rates consistent with the mature stage of economic expansion, in the range of 5 to 6 percent. The tax actions proposed with this Budget are projected to reduce out-year receipts growth to 1 percent in fiscal year 2007-08 and 3.7 percent in 2008-09.

CHANGE FROM MID-YEAR UPDATE ESTIMATES & PROJECTIONS								
(millions of dollars)								
	2005-06 Mid-Year Update	2005-06 Executive Budget	Change	Percent Change	2006-07 Mid-Year Update	2006-07 Executive Budget	Change	Percent Change
General Fund	37,251	37,931	680	1.8	38,884	40,080	1,196	3.1
Taxes	34,795	35,331	536	1.5	36,507	37,363	856	2.3
Miscellaneous Receipts	2,447	2,591	144	5.9	2,368	2,708	340	14.4
Federal Grants	9	9	0	0	9	9	0	0
State Funds	70,865	71,748	883	1.2	71,285	73,618	2,333	3.3
Taxes	52,754	53,513	759	1.4	55,448	56,851	1,403	2.5
Miscellaneous Receipts	18,101	18,225	124	0.7	15,827	16,757	930	5.9
Federal Grants	10	10	0	0	10	10	0	0
All Funds	107,339	107,973	634	0.6	108,164	109,724	1,560	1.4
Taxes	52,754	53,513	759	1.4	55,448	56,851	1,403	2.5
Miscellaneous Receipts	18,110	18,241	131	0.7	15,838	16,772	934	5.9
Federal Grants	36,475	36,219	(256)	(0.7)	36,878	36,101	(777)	(2.1)

RECEIPTS OVERVIEW

Governmental Funds Actual and Base Tax Receipts Growth (percent growth)			
State Fiscal Year	Actual Receipts	Base Receipts	Inflation Adjusted Base Receipts
1987-88	6.2	6.4	2.2
1988-89	1.6	2.9	(1.8)
1989-90	6.8	8.3	2.7
1990-91	(0.8)	(3.8)	(7.7)
1991-92	7.2	1.4	(1.6)
1992-93	6.1	5.0	1.9
1993-94	4.3	4.2	1.6
1994-95	0.1	1.8	(1.0)
1995-96	2.6	3.7	0.7
1996-97	2.0	3.7	1.3
1997-98	3.7	4.7	3.1
1998-99	7.2	8.4	6.1
1999-00	7.5	9.2	5.6
2000-01	7.9	10.3	7.3
2001-02	(4.9)	(3.8)	(5.3)
2002-03	(6.7)	(6.6)	(8.7)
2003-04	8.2	5.7	2.9
2004-05	13.4	12.4	9.6
2005-06	10.1	11.2	8.6
2006-07	6.2	8.2	5.6
2007-08	1.0	5.3	2.6
2008-09	3.7	5.3	2.6
	Actual Change	Base Change	Inflation Adjusted Base Change
Historical Average (87-88 to 04-05)	4.0	4.1	1.1
Forecast Average (05-06 to 08-09)	5.3	7.5	4.8
Recessions	1.5	(0.4)	(3.1)
Expansions	4.5	5.8	2.5

Personal Income Tax

All Funds income tax receipts for 2005-06 are estimated to reach \$31 billion, an increase of \$2.9 billion, or 10.3 percent, from 2004-05. The increase is primarily due to continued strong growth in income, offset by the part-year impact of the elimination of the temporary surcharge on January 1, 2006. The All Funds income tax estimate is \$327 million higher than the Mid-Year Financial Plan Update, reflecting higher-than-anticipated withholding receipts. However, the \$562 million increase in the amount of 2005 refunds set to be paid between January and March will result in an All Funds estimate that is \$235 million lower than the Mid-Year estimate.

All Funds receipts for 2006-07 are projected to total \$33.6 billion, an increase of \$2.6 billion, or 8.3 percent over 2005-06. This reflects continued strong growth in incomes for 2006 and the residual benefit of large tax year 2005 liabilities. These positive factors are offset in part by the expiration of the temporary income tax surcharge beginning in tax year 2006, and the partial impact of income tax reductions recommended with this Budget. The estimate is \$714 million above the Mid-Year estimate (holding law changes constant), due largely to better-than-anticipated results with respect to 2005 liability.

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General Fund personal income tax receipts for 2005-06 are expected to total \$20.8 billion, a 10.9 percent increase over the prior year. Personal income tax receipts directly deposited to the General Fund are projected to reach \$22.7 billion in 2006-07, an increase of 8.8 percent.

All Funds receipts for 2007-08 are projected at \$33.6 billion, virtually unchanged from 2006-07 due to the nearly full impact of proposed income tax reductions. All Funds receipts for 2008-09 are projected at \$35.8 billion, \$2.2 billion, or 6.5 percent, above 2007-08, reflecting relatively strong liability growth offset somewhat by the residual impact of proposed law changes.

User Taxes and Fees

All Funds user taxes and fees collections for 2005-06 are estimated to be \$13.8 billion, or 5.7 percent, above the 2004-05 total. This growth is primarily due to the inclusion of cigarette tax receipts which were not part of the All Funds budget prior to 2005-06. All Funds user taxes are estimated to be approximately \$104 million greater in 2005-06 than was estimated in the Mid-Year Update; the revision is largely the result of collection experience through December.

All Funds user taxes and fees receipts for 2006-07 are projected to reach \$14.6 billion, an increase of \$831 million, or 6 percent, from 2005-06. The sales and use tax is projected to reach \$11.5 billion, an increase of \$357 million, or 3.2 percent from 2005-06. The sales tax base is expected to increase by 4.2 percent due largely to increases in employment, income and overall consumption. The increased revenue from the expanding base will be slightly offset by changing the two-week sales tax exemption on clothing costing less than \$110 and replacing it with an exemption for two specified tax-free weeks for clothing and footwear costing less than \$250. These gains will be modestly offset by providing new exemptions for specified "Energy Star" products and alternative fuel purchases as well as a proposed increase in the vendor credit. User taxes for 2006-07 are now projected to be \$111 million more than in the Mid-Year Update (holding law changes constant).

The other user taxes and fees in this category are projected to increase \$474 million (18.2 percent) from 2005-06. The main changes in this area are due to a recommended increase in the cigarette tax and new exemptions for purchases of alternative fuels.

General Fund user taxes and fee receipts are expected to total \$8.6 billion in fiscal year 2005-06, a decrease of 1.1 percent from the prior year. The decrease largely reflects the sunset of the temporary sales tax surcharge offset by growth in the sales tax base. General Fund user taxes and fees receipts for 2006-07 are projected to reach \$8.8 billion, an increase of \$173 million, or 2 percent from 2005-06. The sales tax is projected to increase \$170 million, or 2.1 percent. The low growth is due in part to the expiration of the one-quarter percent sales tax surcharge and is offset by modest base growth. The other user taxes and fees are projected to be virtually unchanged from 2005-06.

All Funds user taxes and fees in 2007-08 are projected to increase by \$468 million, or 3.2 percent, with further growth of \$409 million or 2.7 percent in 2008-09. Ongoing growth is primarily related to positive economic trends and proposed changes in the sales tax clothing exemption.

Business Taxes

All Funds business tax receipts for 2005-06 are estimated to reach \$6.9 billion, an increase of \$1.1 billion, or 19.2 percent, over the prior year. The increase is primarily due to significant growth in the corporate franchise tax of 42 percent and bank tax of 28 percent. These increases are offset by a decline in corporate utility taxes (6.7 percent) that is

RECEIPTS OVERVIEW

attributable to the final phase-in of tax cuts implemented in 2000. Petroleum business and insurance taxes are expected to grow at rates of 3.8 percent and 5.2 percent, respectively. The 2005-06 estimates are \$561 million higher than estimated in the Mid-Year Financial Plan Update, primarily reflecting continued growth in underlying liability and unexpected gains in audit and compliance receipts from the corporate franchise and bank taxes.

All Funds business tax receipts for 2006-07 are projected to increase by less than one percent, or \$44 million, over the prior year. The almost flat growth in taxes is attributable to the phase-in and implementation of recommended tax reductions included with this Budget, which will reduce 2006-07 receipts by \$176 million. The proposed reductions include restructuring the corporation and bank taxes by eliminating the alternative minimum taxes and capital/asset bases imposed on banks and corporations; eliminating the additional subsidiary tax and S corporation differential tax imposed on businesses; and reducing taxes imposed on certain life insurance companies. The 2006-07 projections for business taxes are \$213 million or 3 percent higher than projected in the Mid-Year Financial Plan Update. The net increase reflects continued growth in the corporate franchise tax, declines in certain insurance taxes, a moderation of growth in the bank tax, and the impact of the recommended reductions discussed above.

General Fund business taxes are expected to reach almost \$5 billion in 2005-06, an increase of 22.2 percent. Business tax receipts deposited directly to the General Fund are projected to remain virtually unchanged in 2006-07, reflecting the factors described above.

All Funds business tax receipts for 2007-08 are projected to increase \$161 million or 2.3 percent from the prior year. The increase reflects trend growth in business tax receipts, offset by the continued phase-in of tax reductions, including the recommended reduction in the tax rate imposed under the entire net income base from 7.5 percent to 6.75 percent.

All Funds business tax receipts for 2008-09 are projected to decline \$359 million or by about 5 percent from the prior year. The decrease reflects trend growth in business tax receipts, offset by the impact of the full implementation of tax reductions including the impact of allowing businesses to immediately deduct certain depreciable assets that, in combination, will reduce business tax receipts by \$926 million.

Other Taxes

All Funds other tax receipts for 2005-06 are estimated to reach \$1.8 billion, up \$168 million or 10.1 percent from 2004-05 receipts, reflecting strong growth in real estate transfer tax receipts partially offset by decreases in estimates for most of the remaining taxes in this category. Other tax estimates are up \$306 million from the Mid-Year Update estimate. Receipts estimates for the estate tax and the real estate transfer tax have increased significantly, reflecting stronger-than-anticipated growth in collections from small estates and the strength of the downstate residential and commercial real estate markets.

All Funds other tax receipts in 2006-07 are projected to be \$1.7 billion, down \$124 million or 6.8 percent from 2005-06 receipts, largely reflecting a \$130 million decrease in real estate transfer tax receipts due to the expected cooling of the downstate real estate market. The other taxes receipts projection is up \$123 million from the Mid-Year Update. The receipts projections for the estate tax and the real estate transfer tax have increased moderately from the Mid-Year Update, reflecting continued strength in receipts from small estates and higher real estate sales than forecast in October.

General Fund other taxes are expected to total \$894 million in fiscal year 2005-06, a decrease of 3.5 percent. Receipts in this category are projected to remain virtually unchanged at \$900 million in fiscal year 2006-07.

The 2007-08 All Funds receipts projection for other taxes is \$1.6 billion, down \$83 million or 4.9 percent from 2006-07 receipts. This decrease results from the recommended phaseout of the estate tax, partially offset by underlying growth in estate tax receipts. The 2008-09 All Funds receipts projection for other taxes is \$1.5 billion, down \$114 million or 7.1 percent from 2007-08 receipts. This decrease results from the continued phaseout of the estate tax proposed with this Budget, again partially offset by underlying growth in estate tax receipts.

Miscellaneous Receipts

All Funds miscellaneous receipts include moneys received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, and a variety of fees and licenses. All Funds miscellaneous receipts are projected to total \$16.8 billion in 2006-07, a decrease of \$1.4 billion from the current year. Proceeds from health care conversions, which the State uses to finance Medicaid and public health programs, are projected to decline from \$2.7 billion in 2005-06 to \$500 million in 2006-07. Annual growth in lottery revenues, including from VLTs (\$392 million) and in SUNY tuition income and other revenue (\$311 million) partially offset this decline. Miscellaneous Federal receipts are expected to remain stable.

General Fund miscellaneous receipts collections, including Federal grants, are estimated to be \$2.6 billion in 2005-06, up \$374 million or 16.8 percent from 2004-05 receipts. This increase is primarily the result of a larger transfer of abandoned property collections and receipts from the local government revenue and disbursement program. General Fund miscellaneous receipts estimates have been revised up by \$144 million from the Mid-Year Update.

General Fund miscellaneous receipts collections in 2006-07 are projected to reach \$2.7 billion, up \$117 million or 4.5 percent from 2005-06 results, primarily due to proposed fee and fine legislation as well as revised assumptions with respect to investment income receipts. General Fund miscellaneous receipts projections are up by approximately \$340 million from the Mid-Year Update, primarily due to legislative proposals and increases in investment income and other transactions.

General Fund miscellaneous receipts in 2007-08 are projected to be nearly \$2.6 billion, down \$135 million or 5.0 percent from the prior year. This decrease is primarily the result of the loss of certain receipts from the Power Authority. In 2008-09, General Fund miscellaneous receipts collections are projected to be nearly \$2.4 billion, down \$231 million or nearly 9 percent from 2007-08. This decrease results from expected declines in licenses and fees, the loss of bond issuance charges from the base and a decrease in the value of the local government revenue and disbursement program.

TAX REDUCTION PACKAGE

The 2006-07 Budget contains a comprehensive program to reduce State and local tax burdens. The major components of the program include:

Personal Income Tax

- Eliminating the remaining marriage penalty by increasing the standard deduction for married taxpayers and raising the threshold where the rate table recapture applies.
- Increasing the income threshold where the income tax top rate applies from \$40,000 to \$60,000 for married taxpayers and from \$20,000 to \$30,000 for single taxpayers and increasing the rate recapture income thresholds.

RECEIPTS OVERVIEW

- Reducing the top tax rate from 6.85 percent to 6.75 percent.
- Providing a primary and secondary education credit for qualified expenses for students residing in under-performing school districts.
- Providing a refundable credit to seniors for increased energy bills.
- Allowing a credit for the purchase or upgrade to a more energy efficient home heating system.
- Providing a credit for the restoration of historic homes.

Local Property Tax

- Providing rebates of \$400 for STAR-qualified taxpayers in school districts that control increases in school budgets.
- Providing an inflation adjustment to elderly recipients of the Enhanced STAR exemption.

Business Taxes

- Simplifying and reforming the corporate and bank taxes by eliminating the alternative minimum, capital and asset bases.
- Reducing the top corporate tax rates on entire net income to 6.75 percent (consistent with the proposed top income tax rate).
- Allowing the immediate expensing of capital investments in New York.
- Eliminating the S corporation differential tax rate.
- Authorizing ten new economic development zones tied to the Centers for Excellence.
- Making permanent and increasing the annual allocation for the film credit program.
- Reducing taxes imposed on certain life insurance companies.
- Allowing a refundable credit to small businesses and farmers with high energy costs.
- Increasing the low income housing credit.

Other Actions

- Eliminating the estate tax by gradually increasing the exemption threshold and then eliminating the tax.
- Providing an increased vendor allowance for businesses remitting the sales tax to compensate them for the cost of compliance.

RECEIPTS OVERVIEW

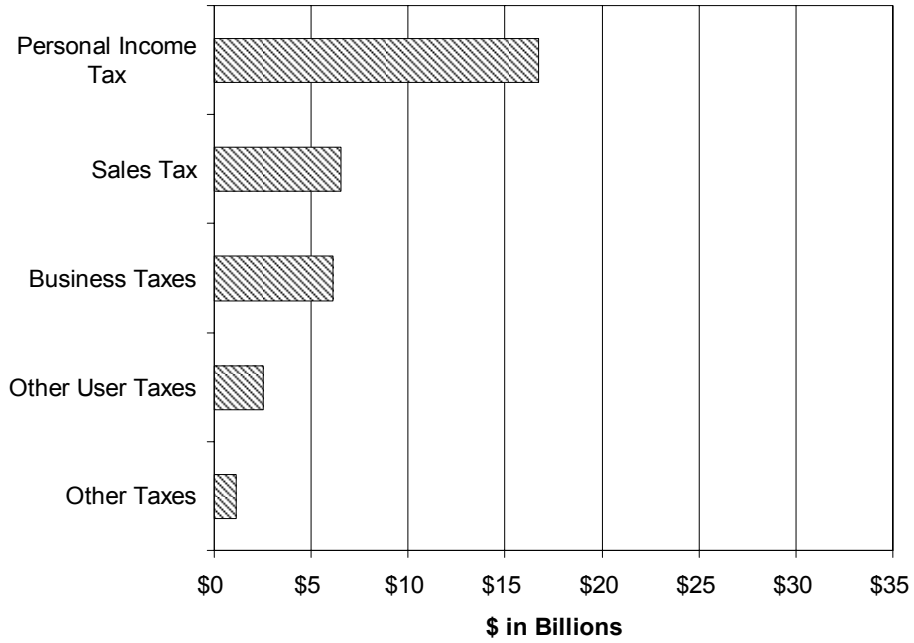
RECOMMENDED ALL FUNDS LEGISLATION			
(\$ in millions)			
TAX REDUCTIONS			
	2006-07	2007-08	2008-09
PERSONAL INCOME TAX	(130)	(1,736)	(1,986)
Cut Top Rate to 6.75%	-	(325)	(475)
Stretch Tax Brackets (tax brackets & rate recapture)	-	(325)	(475)
Eliminate Marriage Penalty (standard deduction & rate recapture)	(125)	(475)	(400)
Primary and Secondary Education Credit	-	(400)	(400)
Strengthening Families - Expand EITC to Noncustodial parents	(4)	(14)	(14)
National Guard Exemption	(1)	(1)	(1)
Farmers Land Conservation Credits	-	(1)	(1)
Special Expensing of NY Assets	-	-	(150)
Home Heating Credit for Elderly	-	(100)	-
Improve Home Energy Efficiency	-	(25)	-
Small Business and Farmer Energy Assistance	-	(60)	(60)
Historic Homes	-	(10)	(10)
STAR	(602)	(671)	(737)
STAR Plus Rebate	(530)	(580)	(625)
Enhanced STAR Exemption	(72)	(91)	(112)
USER TAXES AND FEES	(20)	(51)	(76)
Exemption for Admission Charges to Amusement Parks	(1)	(1)	(1)
Exemption for Energy Star Products	(6)	(6)	(6)
Sales Tax Vendor Credit	(13)	(44)	(69)
Exemption for Alternative Fuels	-	-	-
BUSINESS TAXES	(176)	(362)	(926)
Cut Entire Net Income Rate to 6.75%	-	(29)	(57)
Special Expensing of NY Assets for Corporations	-	-	(331)
Eliminate Subcapital Tax	(5)	(10)	(15)
Eliminate S-corp Differential Rate	(40)	(40)	(40)
Eliminate AMT and Capital Base for Corporations	(57)	(115)	(172)
Empire Zones	-	(20)	(20)
Make Film Credits Permanent and Increase Annual Allocation	-	-	-
Low Income Housing	(2)	(4)	(6)
Encourage Purchase of Alternative Fuel Vehicles	-	(10)	(5)
Encourage Alternative Fuel Production - Biofuel	-	(1)	(5)
Cut Bank Tax Rate to 6.75%	-	(8)	(16)
Special Expensing of NY Assets for Banks	-	-	(80)
Eliminate AMT and Capital Base for Banks	(54)	(108)	(161)
Marginal Tax Rate for Annuity Premiums	(3)	(3)	(3)
Lower Life Insurance Tax Maximum	(15)	(15)	(15)
Exemption for Alternative Fuels	-	-	-
OTHER TAXES	-	(152)	(329)
Eliminate Estate Tax	-	(152)	(329)
TOTAL TAX REDUCTIONS	(927)	(2,972)	(4,054)

RECEIPTS OVERVIEW

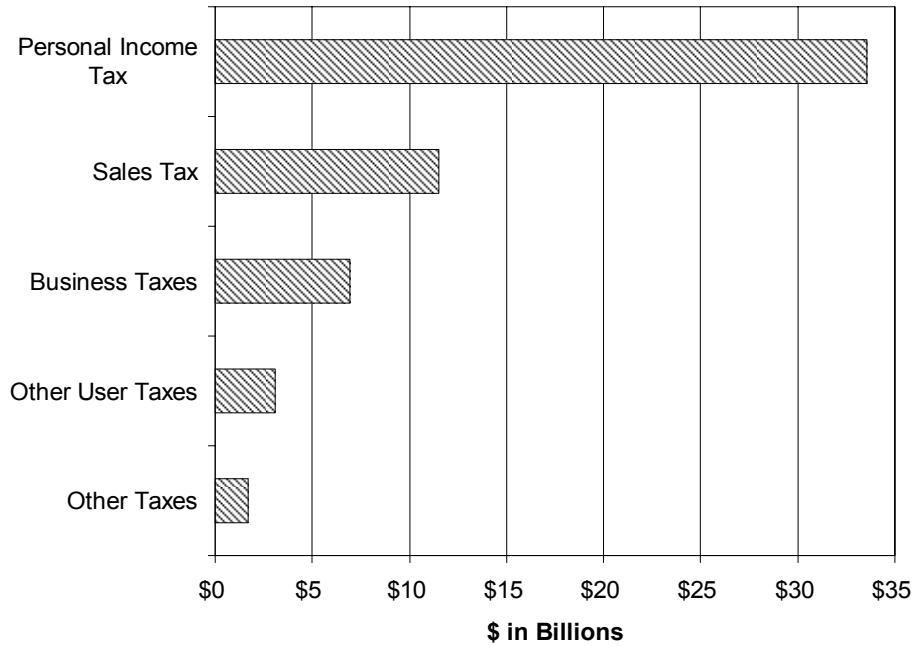
RECOMMENDED ALL FUNDS LEGISLATION (\$ in millions)			
REVENUE ENHANCEMENTS			
	2006-07	2007-08	2008-09
PERSONAL INCOME TAX	-	31	31
Higher LLC Fees sunset 1/1/07 - 3-year extender	-	30	30
Stuckless Case - Non-Resident Income	-	1	1
Limitation on EITC Offset	-	-	-
USER TAXES AND FEES	287	928	925
Clothing Exemption - 2 weeks, permanent, \$250	(21)	605	605
Increase Cigarette Tax to \$2.50 per pack	308	323	320
BUSINESS TAXES	103	131	160
Article 9-A Fixed Dollar Minimum Tax - 3-year extension	46	46	46
Adjust Tax Treatment of REITS and RICS	57	86	114
ALL OTHER	138	57	296
Quick Draw Restrictions	38	57	57
VLT Expansion	-	-	239
Abandoned Property Dormancy Periods	100	-	-
TOTAL REVENUE ENHANCEMENTS	528	1,147	1,412
NET FINANCIAL PLAN TOTAL	(399)	(1,825)	(2,642)

CASH IMPACT OF SIGNIFICANT RECENT AND RECOMMENDED TAX ACTIONS (millions of dollars)						
	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09
Income tax temporary rate increase	1,155	1,496	1,444	425	0	0
1/4 percent sales tax temporary increase	445	584	129	0	0	0
Sales tax on clothing (current law)	441	586	583	605	0	0
Sales tax on clothing (proposed)	441	586	583	584	605	605
Personal income tax net changes (proposed)	0	0	0	(732)	(2,376)	(2,692)
Business tax net changes (proposed)	0	0	0	(73)	(231)	(766)
Other net changes (proposed)	0	0	0	427	177	211

1994-95 All Funds Tax Receipts

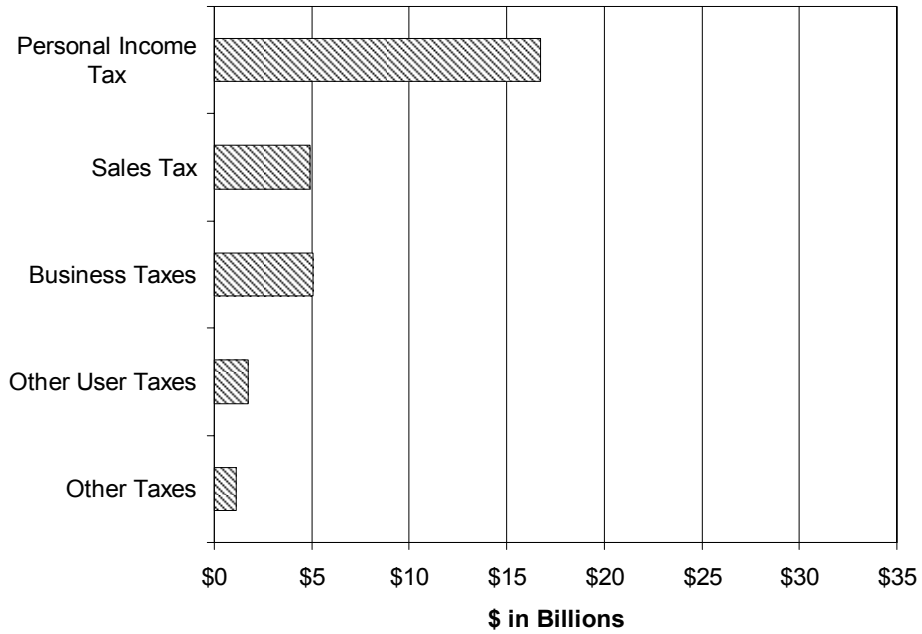


2006-07 All Funds Tax Receipts

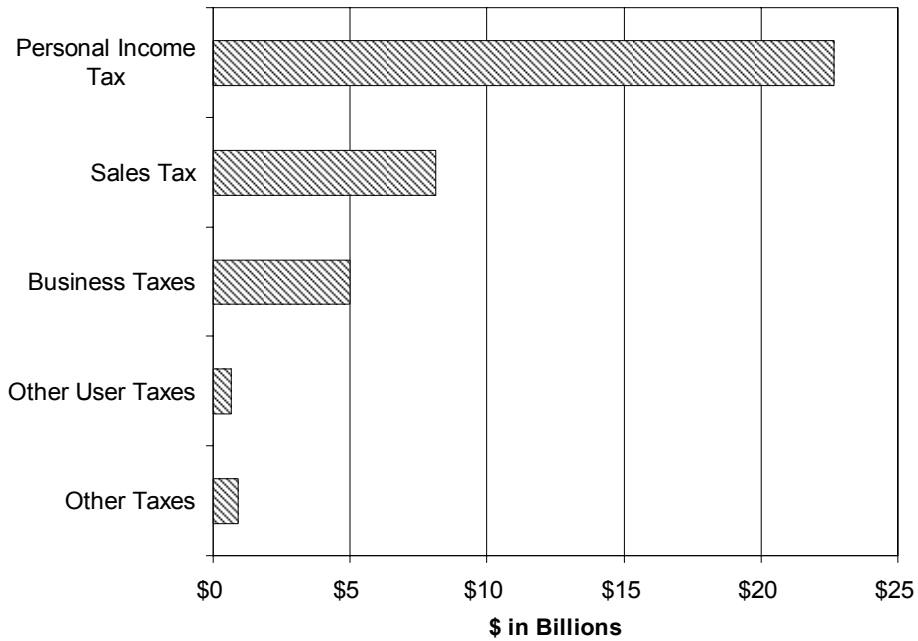


RECEIPTS OVERVIEW

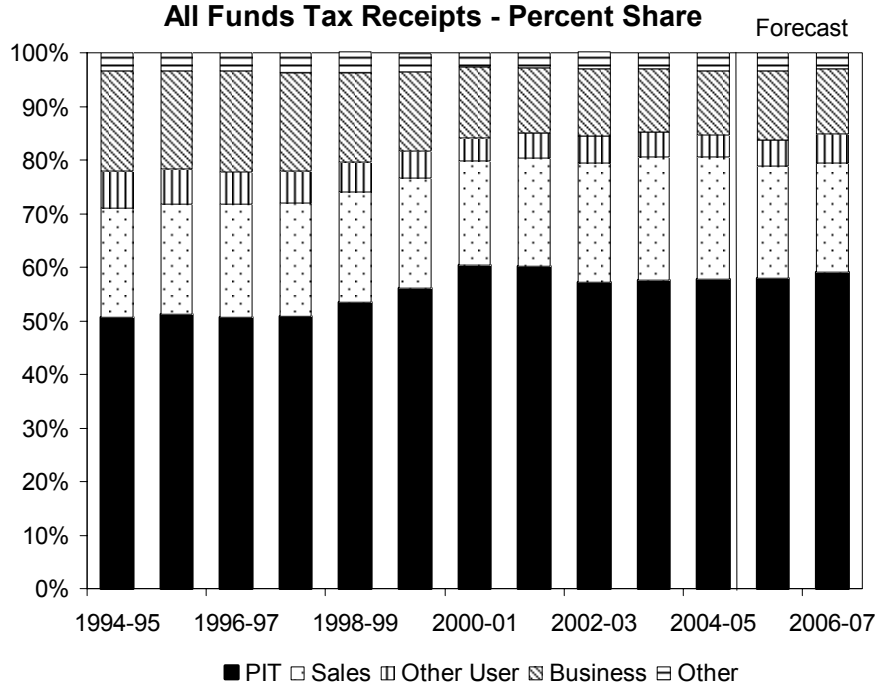
1994-95 General Fund Tax Receipts



2006-07 General Fund Tax Receipts



RECEIPTS OVERVIEW



RECEIPTS OVERVIEW

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	18,781	3,059	0	6,260	28,100
User taxes and fees	8,731	677	1,135	2,493	13,036
Sales and use tax	8,094	429	0	2,493	11,016
Cigarette and tobacco taxes	406	0	0	0	406
Motor fuel tax	0	110	419	0	529
Motor vehicle fees	4	138	525	0	667
Highway use tax	0	0	151	0	151
Alcoholic beverages taxes	185	0	0	0	185
Alcoholic beverage control license fees	42	0	0	0	42
Auto rental tax	0	0	40	0	40
Business taxes	4,069	1,122	615	0	5,806
Corporation franchise tax	1,858	253	0	0	2,111
Corporation and utilities tax	617	193	16	0	826
Insurance taxes	1,007	101	0	0	1,108
Bank tax	587	89	0	0	676
Petroleum business tax	0	486	599	0	1,085
Other taxes	926	0	112	618	1,656
Estate tax	895	0	0	0	895
Gift tax	3	0	0	0	3
Real property gains tax	1	0	0	0	1
Real estate transfer tax	0	0	112	618	730
Pari-mutuel taxes	26	0	0	0	26
Other taxes	1	0	0	0	1
Total Taxes	32,507	4,858	1,862	9,371	48,598
Miscellaneous receipts	2,217	11,115	1,759	768	15,859
Federal grants	9	34,492	1,721	0	36,222
Total	34,733	50,465	5,342	10,139	100,679

RECEIPTS OVERVIEW

CASH RECEIPTS ALL GOVERNMENTAL FUNDS 2005-2006 (millions of dollars)					
	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	20,827	3,219	0	6,942	30,988
User taxes and fees	8,637	1,443	1,093	2,608	13,781
Sales and use tax	7,973	600	0	2,608	11,181
Cigarette and tobacco taxes	405	570	0	0	975
Motor fuel tax	0	109	413	0	522
Motor vehicle fees	24	164	478	0	666
Alcoholic beverages taxes	189	0	0	0	189
Highway use tax	0	0	159	0	159
Alcoholic beverage control license fees	46	0	0	0	46
Auto rental tax	0	0	43	0	43
Business taxes	4,973	1,300	646	0	6,919
Corporation franchise tax	2,642	349	0	0	2,991
Corporation and utilities tax	586	169	17	0	772
Insurance taxes	1,055	95	0	0	1,150
Bank tax	690	175	0	0	865
Petroleum business tax	0	512	629	0	1,141
Other taxes	894	0	112	818	1,824
Estate tax	868	0	0	0	868
Gift tax	2	0	0	0	2
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	112	818	930
Pari-mutuel taxes	23	0	0	0	23
Other taxes	1	0	0	0	1
Total Taxes	35,331	5,962	1,851	10,368	53,512
Miscellaneous receipts	2,591	13,249	1,715	686	18,241
Federal grants	9	34,429	1,782	0	36,220
Total	37,931	53,640	5,348	11,054	107,973

RECEIPTS OVERVIEW

CASH RECEIPTS ALL GOVERNMENTAL FUNDS 2006-2007 (millions of dollars)					
	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	22,654	3,368	0	7,552	33,574
User taxes and fees	8,810	1,950	1,139	2,714	14,613
Sales and use tax	8,143	681	0	2,714	11,538
Cigarette and tobacco taxes	432	983	0	0	1,415
Motor fuel tax	0	110	415	0	525
Motor vehicle fees	0	176	517	0	693
Alcoholic beverages taxes	191	0	0	0	191
Highway use tax	0	0	162	0	162
Alcoholic beverage control license fees	44	0	0	0	44
Auto rental tax	0	0	45	0	45
Business taxes	4,999	1,291	674	0	6,964
Corporation franchise tax	2,671	379	0	0	3,050
Corporation and utilities tax	593	170	17	0	780
Insurance taxes	1,068	98	0	0	1,166
Bank tax	667	109	0	0	776
Petroleum business tax	0	535	657	0	1,192
Other taxes	900	0	147	653	1,700
Estate tax	874	0	0	0	874
Gift tax	0	0	0	0	0
Real property gains tax	0	0	0	0	0
Real estate transfer tax	0	0	147	653	800
Pari-mutuel taxes	25	0	0	0	25
Other taxes	1	0	0	0	1
Total Taxes	37,363	6,609	1,960	10,919	56,851
Miscellaneous receipts	2,708	11,509	1,890	665	16,772
Federal grants	9	34,338	1,754	0	36,101
Total	40,080	52,456	5,604	11,584	109,724

RECEIPTS OVERVIEW

CASH RECEIPTS GENERAL FUND 2004-2005 THROUGH 2006-2007 (millions of dollars)				
	2004-2005 Actual	2005-2006 Estimated	2006-2007 Recommended	2006-2007 Compared with 2005-2006
Personal income tax	18,781	20,827	22,654	1,827
User taxes and fees	8,731	8,637	8,810	173
Sales and use tax	8,094	7,973	8,143	170
Cigarette and tobacco taxes	406	405	432	27
Motor fuel tax	0	0	0	0
Motor vehicle fees	4	24	0	(24)
Alcoholic beverages taxes	185	189	191	2
Alcoholic beverage control license fees	42	46	44	(2)
Auto rental tax	0	0	0	0
Business taxes	4,069	4,973	4,999	26
Corporation franchise tax	1,858	2,642	2,671	29
Corporation and utilities tax	617	586	593	7
Insurance taxes	1,007	1,055	1,068	13
Bank tax	587	690	667	(23)
Petroleum business tax	0	0	0	0
Other taxes	926	894	900	6
Estate tax	895	868	874	6
Gift tax	3	2	0	(2)
Real property gains tax	1	0	0	0
Pari-mutuel taxes	26	23	25	2
Other taxes	1	1	1	0
Total Taxes	32,507	35,331	37,363	2,032
Miscellaneous receipts	2,217	2,591	2,708	117
Federal Grants	9	9	9	0
Total	34,733	37,931	40,080	2,149

RECEIPTS OVERVIEW

CASH RECEIPTS SPECIAL REVENUE FUNDS 2004-2005 THROUGH 2006-2007 (millions of dollars)				
	2004-2005 Actual	2005-2006 Estimated	2006-2007 Recommended	2006-2007 Compared with 2005-2006
Personal income tax	3,059	3,219	3,368	149
User taxes and fees	677	1,443	1,950	507
Sales and use tax	429	600	681	81
Cigarette and tobacco taxes	0	570	983	413
Motor fuel tax	110	109	110	1
Motor vehicle fees	138	164	176	12
Business taxes	1,122	1,300	1,291	(10)
Corporation franchise tax	253	349	379	29
Corporation and utilities tax	193	169	170	1
Insurance taxes	101	95	98	3
Bank tax	89	175	109	(66)
Petroleum business tax	486	512	535	23
Total Taxes	4,858	5,962	6,609	647
Miscellaneous receipts	11,115	13,249	11,509	(1,740)
Federal grants	34,492	34,429	34,338	(91)
Total	50,465	53,640	52,456	(1,184)

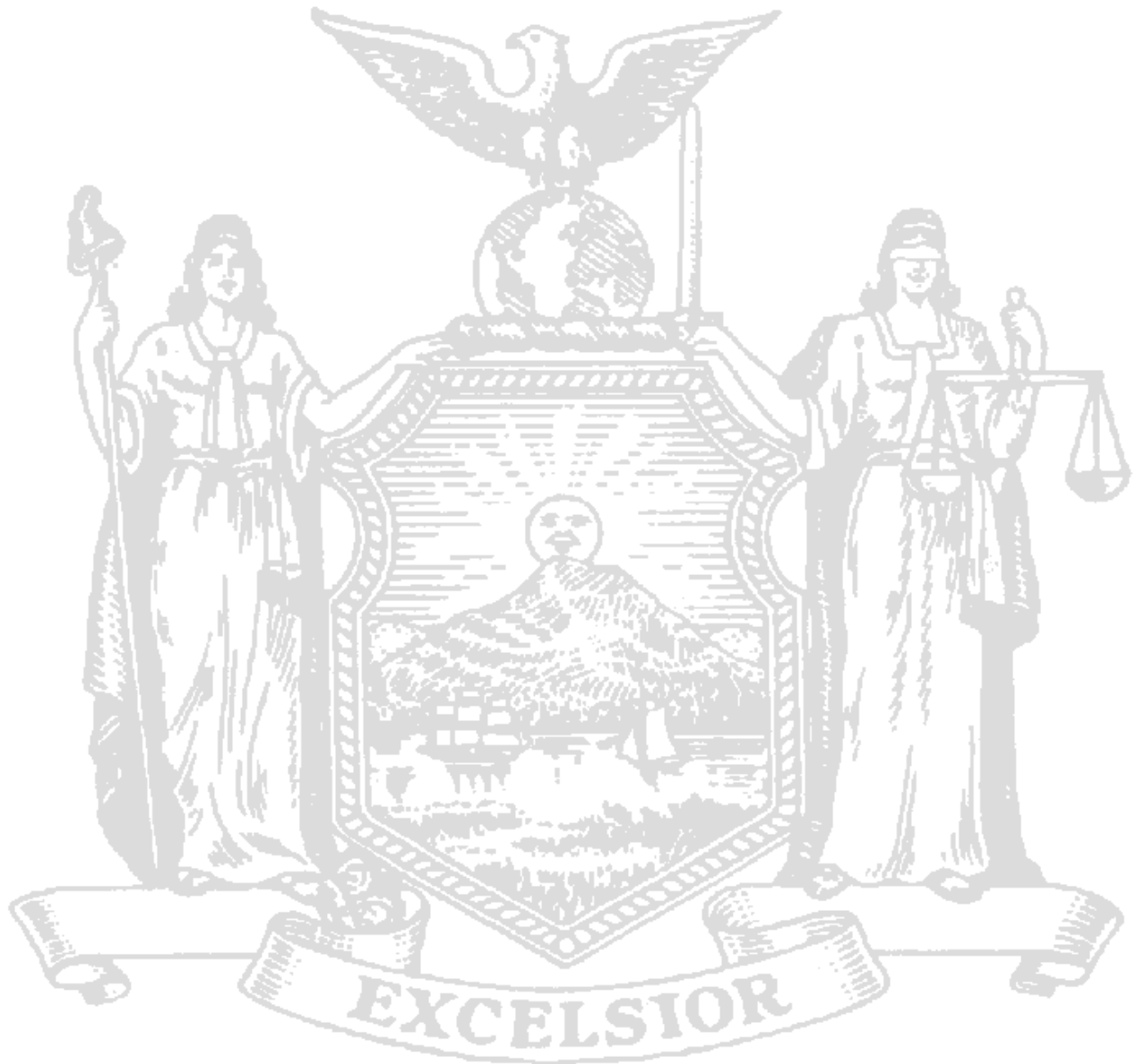
CASH RECEIPTS CAPITAL PROJECTS FUNDS 2004-2005 THROUGH 2006-2007 (millions of dollars)				
	2004-2005 Actual	2005-2006 Estimated	2006-2007 Recommended	2006-2007 Compared with 2005-2006
User taxes and fees	1,135	1,093	1,139	46
Motor fuel tax	419	413	415	2
Motor vehicle fees	525	478	517	39
Highway use tax	151	159	162	3
Auto rental tax	40	43	45	2
Business taxes	615	646	674	28
Corporation and utilities tax	16	17	17	0
Petroleum business tax	599	629	657	28
Other taxes	112	112	147	35
Real estate transfer tax	112	112	147	35
Total Taxes	1,862	1,851	1,960	109
Miscellaneous receipts	1,759	1,715	1,890	175
Federal grants	1,721	1,782	1,754	(28)
Total	5,342	5,348	5,604	256

RECEIPTS OVERVIEW

CASH RECEIPTS DEBT SERVICE FUNDS 2004-2005 THROUGH 2006-2007 (millions of dollars)				
	2004-2005 Actual	2005-2006 Estimated	2006-2007 Recommended	2006-2007 Compared with 2005-2006
Personal income tax	6,260	6,942	7,552	610
User taxes and fees	2,493	2,608	2,714	106
Sales and use tax	2,493	2,608	2,714	106
Motor fuel tax	0	0	0	0
Other taxes	618	818	653	(165)
Real estate transfer tax	618	818	653	(165)
Total Taxes	9,371	10,368	10,919	551
Miscellaneous receipts	768	686	665	(21)
Total	10,139	11,054	11,584	530

GENERAL FUND PERSONAL INCOME TAX COMPONENTS 2004-2005 THROUGH 2006-2007 (millions of dollars)			
	2004-2005 Actual	2005-2006 Estimated	2006-2007 Recommended
Withholdings	23,374	24,737	25,770
Estimated Payments	7,062	9,357	10,280
Final Payments	1,629	1,817	2,250
Delinquencies	703	740	774
Gross Collections	32,768	36,651	39,074
State/City Offset	(440)	(441)	(440)
Refunds	(4,228)	(5,222)	(5,060)
Reported Tax Collections	28,100	30,988	33,574
STAR	(3,059)	(3,219)	(3,368)
RBTF	(6,260)	(6,942)	(7,552)
General Fund	18,781	20,827	22,654

CASH FLOW



CASH FLOW

The following tables report quarterly cash flow for General Fund tax receipts. Actual results are provided for 2004-05 and the first three quarters of the current State fiscal year, and estimates are reported for the remainder of 2005-06 and for all of 2006-07. The tables highlight the impact of STAR and revenue bond fund transactions on General Fund cash flow. The quarterly estimates for 2005-06 and 2006-07 are primarily based on average shares from prior years adjusted for proposed and previously enacted law changes that will impact normal cash flow. Through December, the values included in the tax stories and the following tables reflect actual results from the Department of Taxation and Finance. These values may differ in a minor way from Office of the State Comptroller results, which were not final for the month of December at the time of publication of the fiscal year 2006-07 Executive Budget. This section also contains charts showing monthly General Fund cash flow for total taxes and the major tax categories.

PERSONAL INCOME TAX

The personal income tax cash flow has followed a fairly typical pattern in 2005-06, with prepayments in withholding and estimated tax in line with Tax Law requirements. One significant factor was large tax payments in April 2005 as many taxpayers needed to compensate for insufficient prepayments during 2004 on tax year 2004 liability. In addition, the increase in the amount of tax year 2005 refunds to be paid between January and March, from \$960 million to \$1,512 million, will reduce fourth quarter net collections relative to previous years. Finally, the expiration of the temporary surcharge on January 1, 2006, will reduce fourth quarter withholding collections.

Cash flow for 2006-07 is expected to exhibit a normal cash flow pattern with a strong settlement expected in April due to continued shortfalls in prepayments by many taxpayers. Tax cuts proposed with this Budget will have only a limited cash flow impact in 2006-07.

USER TAXES AND FEES

The cash flow pattern in user taxes and fees for 2005-06 was impacted by the elimination of the temporary sales tax surcharge in June of 2005. The 2006-07 cash flow for sales tax returns to a pattern more consistent with historical averages. Historically, the fourth quarter share has been slightly smaller than the other quarters.

BUSINESS TAXES

General Fund cash flow for business taxes typically follows a pattern of large quarterly collections in June, September, December and March. In 2005-06, this pattern was affected slightly by large audit and compliance collections in the corporate franchise tax early in the fiscal year. However, cash flow for 2006-07 is expected to return to a more normal historical pattern.

OTHER TAXES

General Fund cash flow for Other Taxes is dominated by the estate tax which comprises approximately 97 percent of the total. Unlike most taxes that have cash flow patterns determined by statute and possible seasonal influences, the estate tax follows no regular pattern during the year. Prior year cash flow gives little guidance to future cash flow patterns. A minor portion of the tax category comes from pari-mutuel taxes on horse racing which does display some seasonality but is such a minor portion of the category that it has little impact on overall cash flow. Monthly cash flow for the estate tax for 2006-07 is assumed to be uniform throughout the fiscal year. This methodology is employed in years when there are no statutory changes.

CASH FLOW

GENERAL FUND 2004-05 QUARTERLY CASHFLOW ACTUALS					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal income tax	5,098	4,444	2,806	6,433	18,781
Gross collections	9,406	6,420	7,136	9,805	32,767
Refunds	(2,609)	(304)	(679)	(1,075)	(4,667)
STAR Fund deposit	0	(187)	(2,716)	(156)	(3,059)
DRRF deposit/RBTF	(1,699)	(1,485)	(935)	(2,141)	(6,260)
User taxes and fees	2,230	2,206	2,194	2,099	8,730
Sales and use taxes	2,059	2,044	2,039	1,951	8,093
Cigarette and tobacco taxes	106	109	104	87	406
Motor vehicle fees	10	(3)	(7)	4	4
Alcoholic beverage taxes	45	47	48	45	185
ABC License fees	10	9	10	13	42
Business taxes	867	953	885	1,364	4,069
Corporation franchise tax	391	419	409	639	1,858
Corp. & utilities taxes	121	146	165	185	617
Insurance taxes	201	225	210	371	1,007
Bank Taxes	154	163	101	169	587
Other taxes	196	169	181	380	926
Estate & Gift tax	189	160	176	374	898
Real property gains tax	1	0	(1)	(0)	1
Pari-mutuel taxes	6	8	6	6	26
Other taxes	0	0	0	0	1
TOTAL	8,391	7,772	6,067	10,277	32,506
TOTAL TAXES (Before Transfers & STAR)	10,915	10,273	10,534	13,326	45,049

GENERAL FUND 2005-06 QUARTERLY CASHFLOW ACTUALS AND ESTIMATES					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal income tax	6,113	4,896	2,735	7,083	20,827
Gross collections	11,086	7,059	7,266	11,240	36,651
Refunds	(2,935)	(332)	(793)	(1,603)	(5,663)
STAR Fund deposit	0	(198)	(2,826)	(195)	(3,219)
DRRF deposit/RBTF	(2,038)	(1,633)	(912)	(2,359)	(6,942)
User taxes and fees	2,222	2,206	2,163	2,046	8,637
Sales and use taxes	2,059	2,028	1,984	1,902	7,973
Cigarette and tobacco taxes	104	114	101	86	405
Motor vehicle fees	0	0	24	0	24
Alcoholic beverage taxes	47	52	46	44	189
ABC License fees	12	12	8	14	46
Business taxes	1,285	1,092	1,003	1,593	4,973
Corporation franchise tax	730	595	493	824	2,642
Corp. & utilities taxes	110	146	158	172	586
Insurance taxes	210	222	234	389	1,055
Bank Taxes	235	129	118	208	690
Other taxes	243	248	216	187	894
Estate & Gift tax	237	240	211	182	870
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	6	8	5	4	23
Other taxes	0	0	0	1	1
TOTAL	9,863	8,442	6,117	10,909	35,332
TOTAL TAXES (Before Transfers & STAR)	12,766	11,239	10,737	14,289	49,031

CASH FLOW

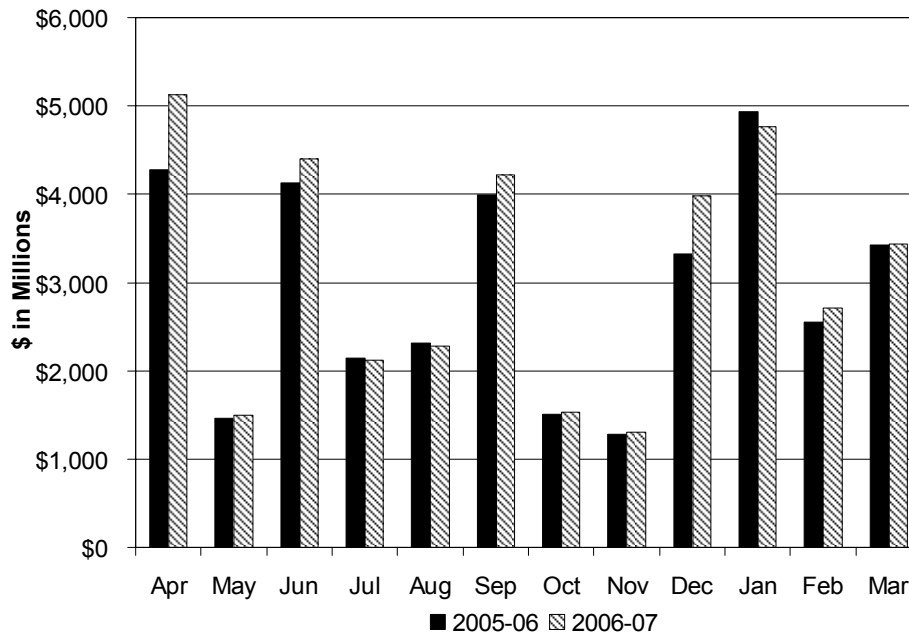
GENERAL FUND QUARTERLY CASHFLOW COMPARISON					
SFY 2005-06 vs. SFY 2004-05					
(percent growth)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal income tax	19.9	10.2	(2.5)	10.1	10.9
Gross collections	17.9	10.0	1.8	14.6	11.9
Refunds	12.5	9.2	16.8	49.2	21.4
STAR Fund deposit	0.0	5.9	4.1	25.0	5.2
DRRF deposit/RBTF	20.0	10.0	(2.5)	10.2	10.9
User taxes and fees	(0.4)	0.0	(1.5)	(2.6)	(1.1)
Sales and use taxes	0.0	(0.8)	(2.7)	(2.6)	(1.5)
Cigarette and tobacco taxes	(1.9)	4.6	(2.9)	0.0	0.0
Motor vehicle fees	(100.0)	(100.0)	(442.9)	(100.0)	500.0
Alcoholic beverage taxes	4.4	10.6	(4.2)	(2.2)	2.2
ABC License fees	20.0	33.3	(20.0)	7.7	9.5
Business taxes	48.2	14.6	13.3	16.8	22.2
Corporation franchise tax	86.7	42.0	20.5	29.0	42.2
Corp. & utilities taxes	(9.1)	0.0	(4.2)	(7.0)	(5.0)
Insurance taxes	4.5	(1.3)	11.4	4.9	4.8
Bank Taxes	52.6	(20.9)	16.8	23.3	17.6
Other taxes	23.7	46.7	19.5	(50.7)	(3.4)
Estate & Gift tax	25.4	50.0	20.1	(51.3)	(3.2)
Real property gains tax	(100.0)	(100.0)	(128.6)	(100.0)	(70.4)
Pari-mutuel taxes	(1.6)	(4.8)	(15.3)	(28.9)	(11.6)
Other taxes	(100.0)	(100.0)	0.0	333.0	36.8
TOTAL	17.5	8.6	0.8	6.2	8.7
TOTAL TAXES (Before Transfers & STAR)	17.0	9.4	1.9	7.2	8.8

GENERAL FUND 2006-07 QUARTERLY CASHFLOW PROJECTIONS					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal income tax	7,358	4,956	3,171	7,169	22,654
Gross collections	12,616	7,176	7,879	11,403	39,074
Refunds	(2,806)	(346)	(730)	(1,618)	(5,500)
STAR Fund deposit	0	(223)	(2,921)	(224)	(3,368)
DRRF deposit/RBTF	(2,452)	(1,651)	(1,057)	(2,392)	(7,552)
User taxes and fees	2,232	2,181	2,283	2,114	8,810
Sales and use taxes	2,064	2,003	2,109	1,967	8,143
Cigarette and tobacco taxes	109	117	115	91	432
Motor vehicle fees	0	0	0	0	0
Alcoholic beverage taxes	47	52	48	44	191
ABC License fees	12	9	11	12	44
Business taxes	1,207	1,252	1,138	1,402	4,999
Corporation franchise tax	635	692	591	753	2,671
Corp. & utilities taxes	122	145	162	164	593
Insurance taxes	246	252	236	334	1,068
Bank Taxes	204	163	149	151	667
Other taxes	225	227	223	225	900
Estate & Gift tax	219	218	218	219	874
Real property gains tax	0	0	0	0	0
Pari-mutuel taxes	6	8	5	6	25
Other taxes	0	0	0	0	1
TOTAL	11,022	8,616	6,815	10,910	37,363
TOTAL TAXES (Before Transfers & STAR)	14,357	11,379	11,704	14,357	51,797

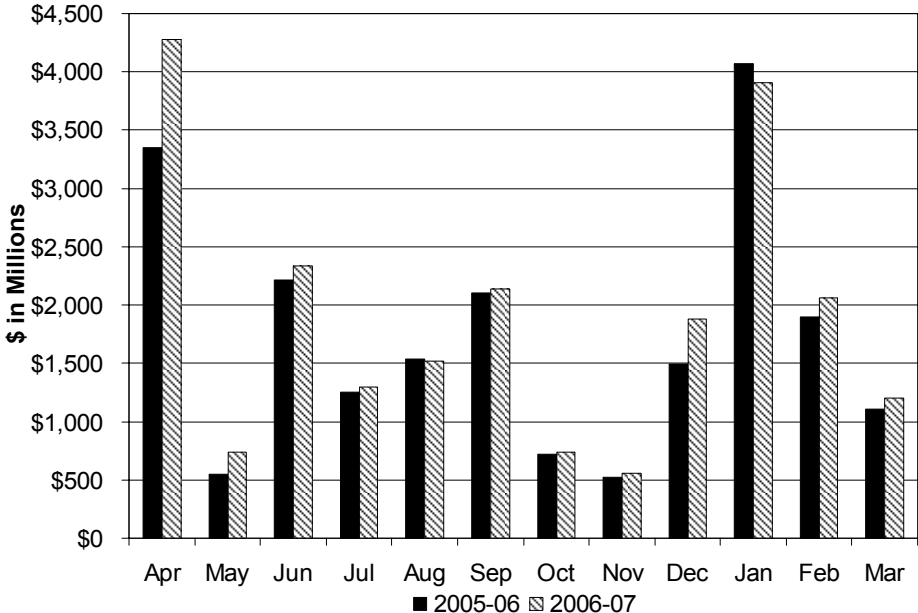
CASH FLOW

GENERAL FUND QUARTERLY CASHFLOW COMPARISON					
SFY 2005-06 vs. SFY 2004-05					
(percent change)					
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter	Total
Personal income tax	20.4	1.2	15.9	1.2	8.8
Gross collections	13.8	1.7	8.4	1.5	6.6
Refunds	(4.4)	4.2	(7.9)	1.0	(2.9)
STAR Fund deposit	0.0	12.6	3.4	14.9	4.6
DRRF deposit/RBTF	20.3	1.1	15.9	1.4	8.8
User taxes and fees	0.5	(1.1)	5.5	3.3	2.0
Sales and use taxes	0.2	(1.2)	6.3	3.4	2.1
Cigarette and tobacco taxes	4.8	2.6	13.9	5.8	6.7
Motor vehicle fees	0.0	0.0	0.0	0.0	0.0
Alcoholic beverage taxes	0.0	0.0	4.3	0.0	1.1
ABC License fees	0.0	(25.0)	37.5	(14.3)	(4.3)
Business taxes	(6.1)	14.7	13.5	(12.0)	0.5
Corporation franchise tax	(13.0)	16.3	19.9	(8.6)	1.1
Corp. & utilities taxes	10.9	(0.7)	2.5	(4.7)	1.2
Insurance taxes	17.1	13.5	0.9	(14.1)	1.2
Bank Taxes	(13.2)	26.4	26.3	(27.5)	(3.4)
Other taxes	(7.4)	(8.6)	3.3	20.2	0.6
Estate & Gift tax	(7.6)	(9.2)	3.3	20.3	0.5
Real property gains tax	0.0	0.0	0.0	0.0	(100.0)
Pari-mutuel taxes	(1.7)	5.0	4.0	37.5	8.7
Other taxes	(100.0)	(100.0)	0.0	333.0	36.8
TOTAL	11.8	2.1	11.4	(0.0)	5.7
TOTAL TAXES (Before Transfers & STAR)	12.5	1.2	9.0	0.5	5.6

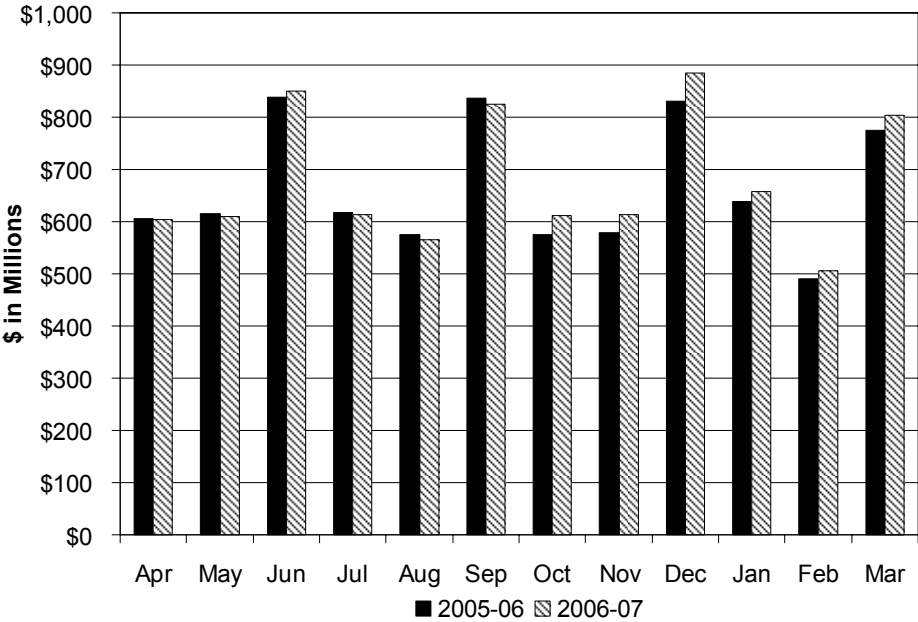
Cashflow - Total Taxes



Cashflow - Personal Income Tax

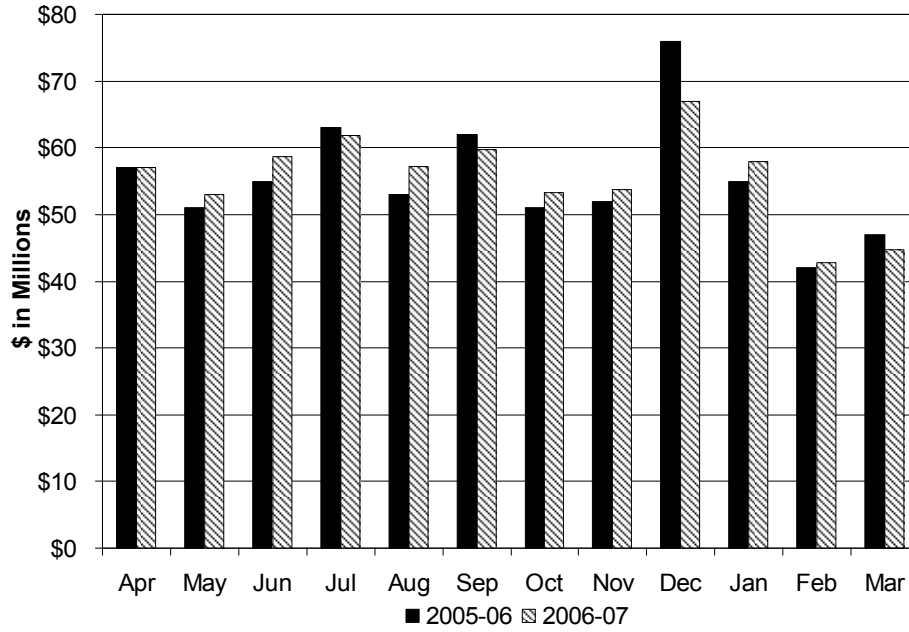


Cashflow - Sales Tax

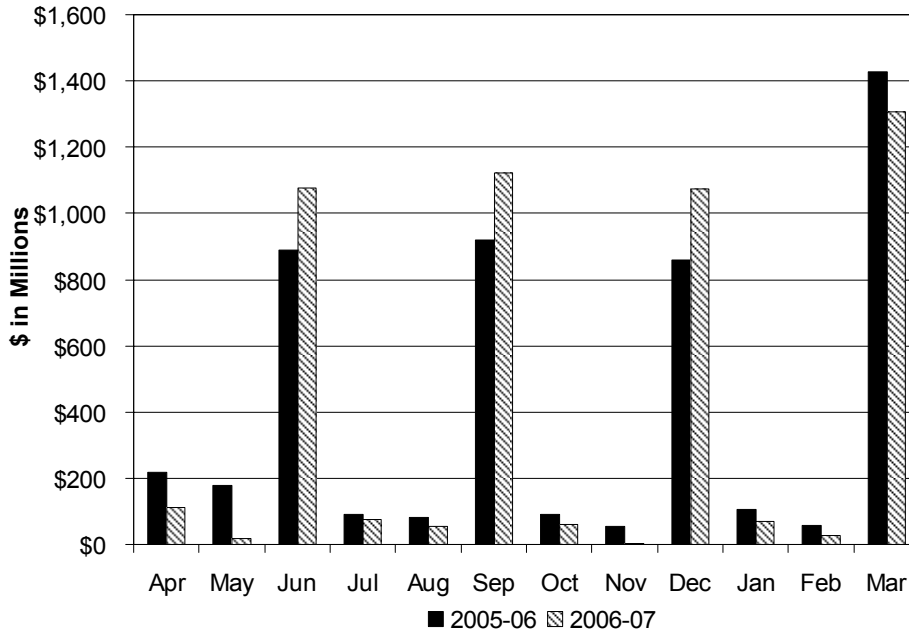


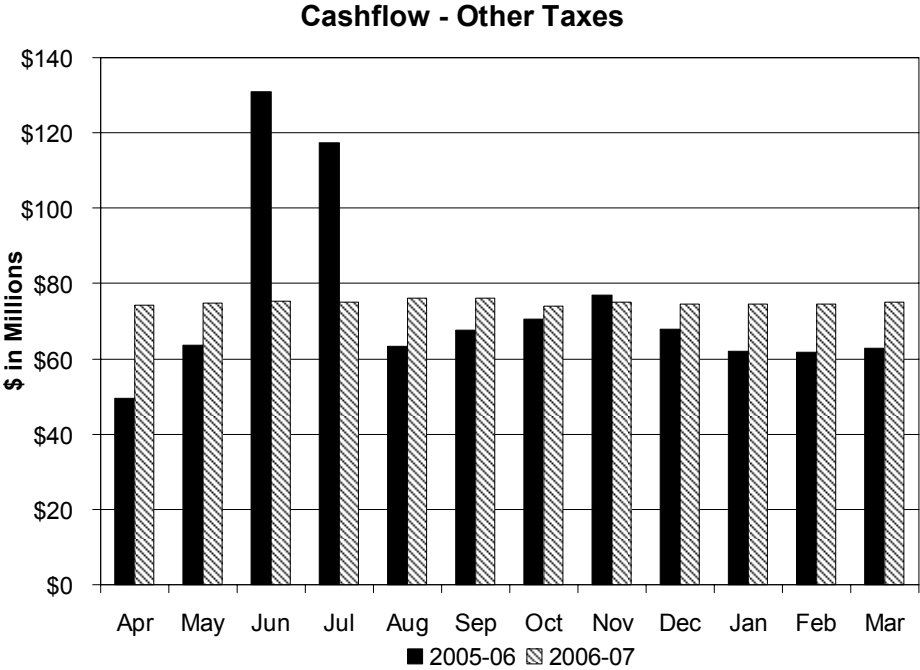
CASH FLOW

Cashflow - Other User Taxes and Fees

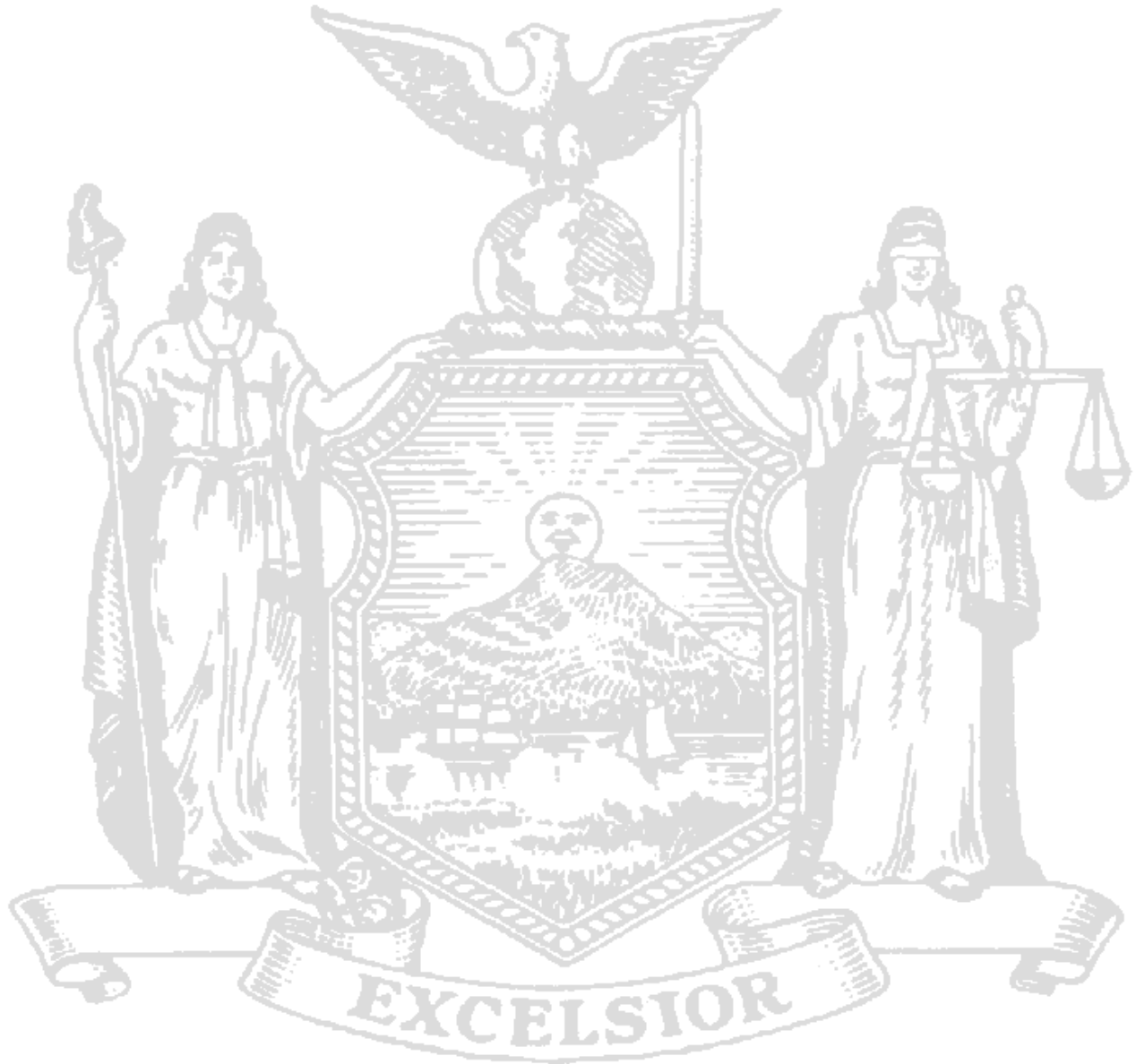


Cashflow - Business Taxes





ECONOMIC BACKDROP



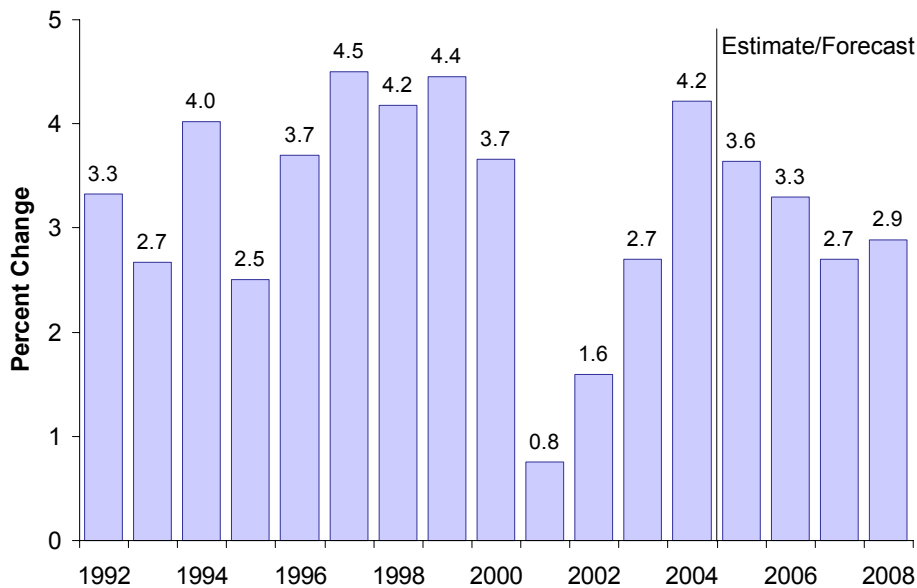
ECONOMIC BACKDROP

OVERVIEW

The U.S. economy remains strong and resilient after weathering a number of negative shocks. The national economic expansion is expected to continue through the forecast horizon, but with growth slowing modestly in 2006 and further still in the out years (see Figure 1). The Budget Division forecast reflects the successful engineering of a soft landing by the Federal Reserve, similar to the events of 1994-95. Consistent with more moderate growth at the national level, the New York State economy is also expected to see continued, albeit slightly slower growth in 2006 and beyond.

Energy costs had already been spiraling upward when the southern part of the U.S. was hit by the most severe hurricane season on record. In addition to the storms' extraordinary human cost, significant damage occurred to the nation's energy production and refining capacity. With global demand for energy at peak levels, supply disruptions accompanied by added uncertainty about future market conditions resulted in a further spiking of energy prices. Since then, crude oil, gasoline, and natural gas prices have receded to pre-hurricane levels. However, these events served to demonstrate just how sensitive tight energy markets can be to developments that threaten supplies. In the meantime, higher energy prices have begun to filter through the rest of the economy, effectively behaving as a "tax" on household spending and putting downward pressure on growth during the fourth quarter of 2005 and beyond.

Figure 1
Outlook for Real U.S. GDP Growth



Source: Moody's Economy.com; DOB staff estimates.

The nation's housing sector, which has accounted for a substantial portion of economic growth in recent years, is finally revealing signs of a slowdown. The most recent data indicate slowing home price growth, stalling new home sales, and a growing inventory of unsold homes. Nevertheless, underlying national economic activity remains sound, and the rebuilding of the areas most affected by the storms is likely to have a net positive effect on growth going forward. In addition, solid growth is projected for the global economy, and following several years of strong profit growth, business sector conditions are favorable for

ECONOMIC BACKDROP

continued expansion. Thus, slower growth in household spending is expected to be partially offset by export and business investment growth, as well as private and Federal government spending to rebuild the areas that were devastated by the summer's storms.

Given the recent increase in capacity utilization and a strengthening labor market — both signs of the economy's underlying strength — the extent to which inflationary expectations may be ratcheting upward remains a source of uncertainty going forward. Although consumer prices outside of the energy and food sectors have thus far shown only a modest boost from higher energy costs, there is evidence that some firms have begun to successfully pass higher costs on to their customers. As labor markets tighten, this pricing power could translate into added wage pressure, which in turn could motivate the Federal Reserve to raise interest rates higher than currently anticipated. At the same time, more subdued household sector spending will be a much weaker contributor to economic growth than it has been in recent years. Thus, going forward we expect to be entering a regime of slower growth than experienced in 2004 and 2005. The Budget Division projects real GDP growth of 3.3 percent in 2006, following growth of 3.6 percent in 2005.

Rising interest rates and a weakening housing market are expected to have strong implications for the New York State economy as well. A strong housing market and solid securities industry activity have been key drivers of economic activity in New York. The New York City tourism industry is operating at full capacity. In addition, strong corporate profits growth nationwide has not only fueled demand within the State's business services industries, but also spawned a build-up of cash reserves contributing to a wave of merger and acquisition activity that has spurred demand for finance industry services. Consequently, the State is estimated to have had above average growth in private sector employment of 1.1 percent for 2005.

Much of the recent strength in the drivers of the New York State economy has stemmed from an extended period of low long-term interest rates, both here and abroad. All things being equal, rising interest rates imply both a reduction in the affordability of housing and lower future corporate earnings. There is already anecdotal evidence that the extraordinary growth in home prices seen in recent years, particularly in the downstate regions, is coming to an end. These developments portend lower rates of State job growth for the coming year. For 2006, the Budget Division projects total employment growth of 0.8 percent and private sector growth of 0.9 percent.

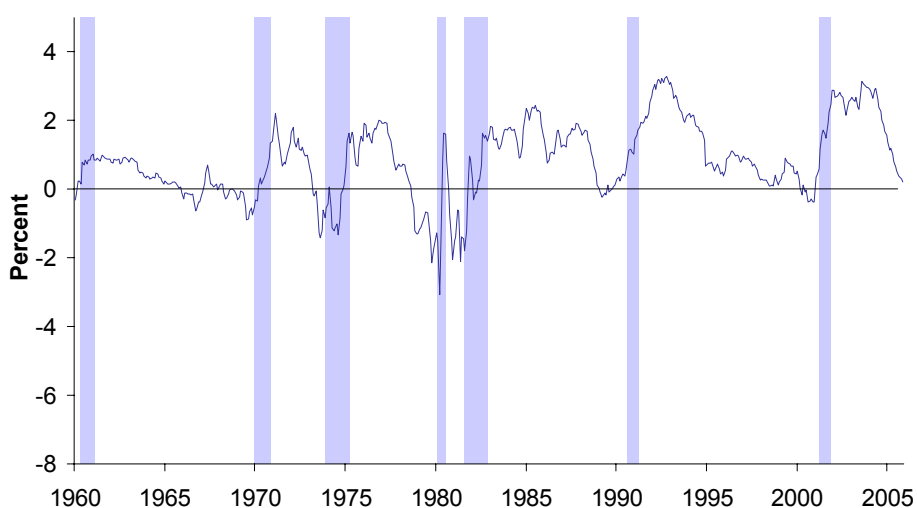
THE NATIONAL ECONOMY

The events of last year represented both the best and worst of times. The nation sustained major shocks to both lives and livelihoods, but unlike in 2001, when an already faltering U.S. economy sustained a horrific terrorist attack, the U.S. economy in 2005 was on a relatively strong footing when hurricanes slammed the southern region in the midst of an ongoing energy price shock. Owing to the underlying strength of the economy, there is little risk that the U.S. economy will fall into a recession in 2006 based on those events. Indeed, the Budget Division projects that the Federal Reserve's interest rate policy will successfully engineer a soft landing, much as it did in 1994-95, resulting in slowing but continued growth over the course of 2006. There are, however, risks to the forecast. Though down from their peaks, energy prices remain high on a year-over-year basis. In addition, interest rates are rising and recent data suggest that the housing market will no longer be the growth engine it has been in recent years. Though these developments pose little risk to the economy's immediate future, they are expected to become more consequential by late 2006 or early 2007.

A chief source of risk going forward is the economy's response to past and future monetary policy actions. The central bank is on course to shift from a path of removing accommodation to one of monetary tightening. Given the lag between interest rate changes

and the economy's response to those changes, believed to be up to 18 months, there is a considerable amount of uncertainty as to the timing and the depth of their full economic impact. Although the Federal Reserve has been successful in achieving soft landings in the past, there is always the risk that the Federal Reserve will increase rates by more than is necessary to achieve their stated goal of price stability, possibly leading to a recession.¹ The induction of a new Federal Reserve chairman adds further to this uncertainty. Moreover, the fear that a monetary tightening might lead the economy into recession is not without historical basis. A narrowing of the spread between long and short-term interest rates, often referred to as a flattening of the yield curve and typically the result of monetary tightening, has preceded many recessions (see Figure 2). However, recent shifts in the dynamics of global capital markets may have clouded the traditional interpretation of this signal.

Figure 2
Narrowing Term Spreads Often Presage a Recession



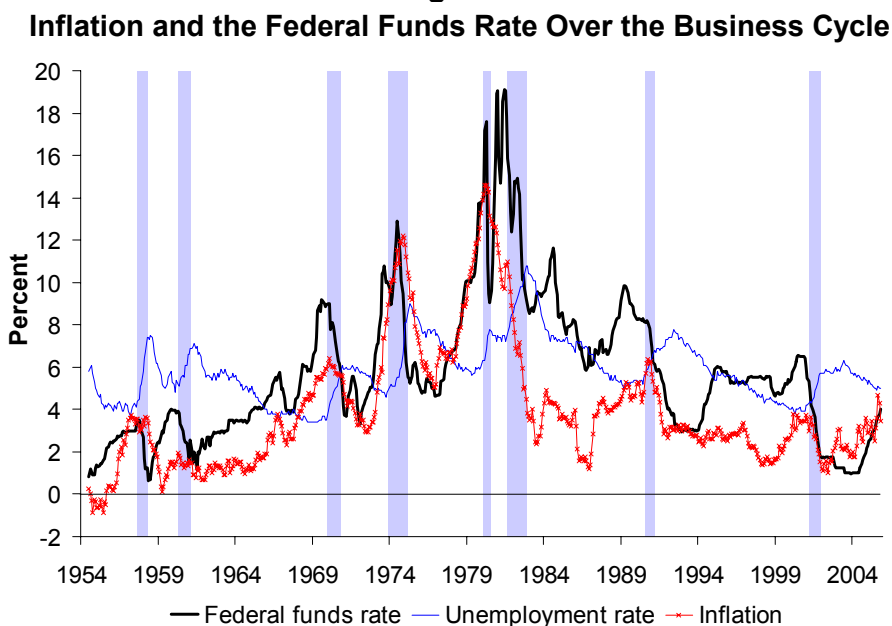
Note: The term spread is defined as the difference between the 10-year and the 1-year Treasury rates. Shaded areas represent U.S. recessions.

Source: Moody's Economy.com.

Although business investment and job gains have accelerated substantially since the anemic early years of the recovery, the recent behavior of the corporate sector can still be described as cautious, as evidenced by the large buildup of cash reserves relative to capital spending. If the increase in the cost of capital resulting from higher interest rates is not balanced by a concomitant rise in equity prices, hopes for continued healthy increases in capital spending and employment may deteriorate. However, since higher interest rates reduce the value that investors place on future corporate profits, equity prices have tended to weaken with a shift in the direction of monetary policy away from accommodation. In addition, with the anticipated decline in mortgage refinancing, elevated energy prices, and approximately average growth in employment and wages, the household sector is expected to make less of a contribution to economic growth this year.

¹ The existing record of speeches and Congressional testimony indicates that the primary difference in Federal Reserve operation will entail an increase in policy transparency consistent with Bernanke's preference for explicit inflation targeting. See, for example, Ben Bernanke (2003), "Inflation Targeting: Prospects and Problems," The Federal Reserve Board, remarks at the 28th Annual Policy Conference, Federal Reserve Bank of St. Louis, St. Louis, Missouri, October 17.

Figure 3



Note: Shaded areas represent U.S. recessions.

Source: Moody's Economy.com.

Is the Business Cycle in Remission?

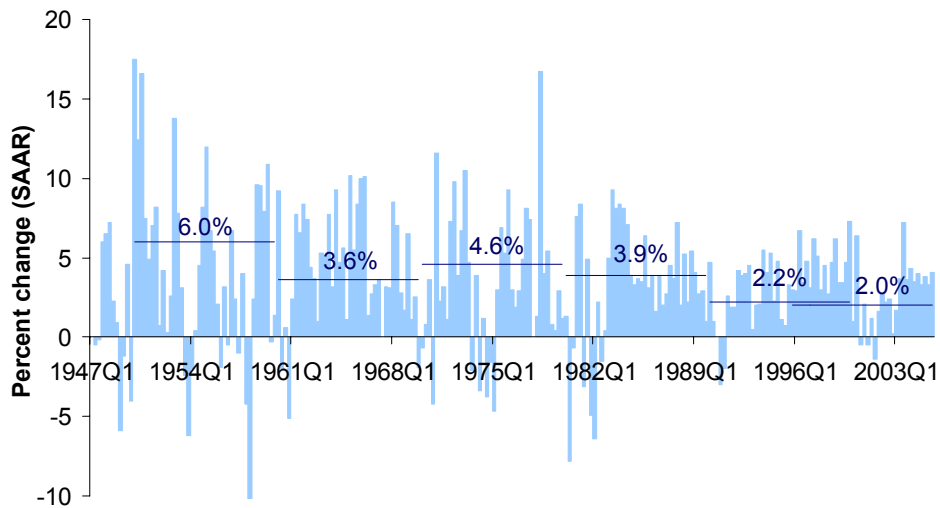
As Figure 3 makes evident, a shift in the course of monetary policy has preceded almost every recession of the postwar period. Typically, as the expansionary phase of the business cycle proceeds, economic growth advances and the unemployment rate falls as more of the labor force is absorbed. But, as the economy heats up, so does inflation, and this prompts the Federal Reserve to raise short-term interest rates, a response that has often resulted in recession. However, it has now become widely acknowledged that while this same basic pattern of events still holds, something about the business cycle has changed: U.S. output growth has become less volatile over the course of the post-World War II period, and particularly since the mid-1980s. This phenomenon has been deemed so significant as to have earned the designation “the Great Moderation.”² If this observation represents a permanent shift in the underlying structure of the U.S. economy, then it might also represent a mitigating factor against the risks to the current expansion outlined above.

As illustrated in Figure 4, the standard deviation in seasonally adjusted annualized quarterly GDP growth rates has fallen from a high of 6.0 percent in the 1950s, to a low of 2.0 percent in the ten year period from 1995Q4 to 2005Q3. A number of studies examining this development find a decisive shift in output volatility in early 1984. Discussions of the phenomenon typically identify three possible explanations for a break at this juncture — secular shifts in the structure of the economy, more effective monetary policy, and “good luck.”

² This discussion draws largely upon the following sources: Ben Bernanke (2003), “‘Constrained Discretion’ and Monetary Policy,” The Federal Reserve Board, remarks before the Money Marketeers of New York University, New York, New York, February 3; Ben Bernanke (2004), “The Great Moderation,” The Federal Reserve Board, remarks at the Meetings of the Eastern Economic Association, Washington, DC, February 20; Richard Clarida, Jordi Gali, and Mark Gertler (2000), “Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory,” *Quarterly Journal of Economics*, 115; Robert J. Gordon (2005), “What Caused the Decline in U.S. Business Cycle Volatility?” National Bureau of Economic Research Working Paper 11777; Margaret M. McConnell and Gabriel Perez-Quiros (2000), “Output Fluctuations in the United States: What Has Changed Since the Early 1980s,” *American Economic Review*, 90(5), pp. 1464-1476; James H. Stock and Mark W. Watson (2002), “Has the Business Cycle Changed and Why?” *NBER Macroeconomics Annual 2002*, pp. 159-218.

The structural shift argument typically focuses on the behavior of output volatility by component and the redistribution of value added away from the more volatile components — particularly investment in residential structures, inventory investment, and Federal government spending — to the more stable categories of spending like consumer services (see Box 1). Bank deregulation in the early 1980s is generally credited for helping to stabilize residential investment, while advances in information technology allow firms to monitor and quickly adjust their inventories in response to market fluctuations. In the meantime, the winding down of the Cold War in the late 1980s has played a major role in reducing some of the volatility in Federal government spending.

Figure 4
The Secular Decline in Real Output Volatility



Note: The numbers represent the standard deviation in real U.S. GDP growth over the decade. For consistency, the final period extends from 1995Q4-2005Q3.
Source: Moody's Economy.com; DOB staff estimates.

The second explanation, improved implementation of monetary policy, has received wide attention in the literature. It is now widely acknowledged that for monetary policy to successfully achieve price stability, the private sector must believe that the central bank will act decisively to keep inflation close to its long-run target value. It is often argued that such faith was lost during the late 1970s, when the Federal Reserve failed to raise interest rates sufficiently to prevent inflationary expectations from spiraling upward. However, since 1979, central bank policy has been more focused on the containment of inflationary expectations and has demonstrated a stronger commitment to keeping expectations well anchored, acting preemptively when deemed necessary. More recently, the Federal Reserve has endeavored to operate with more transparency, issuing brief policy statements at the end of each meeting of the Federal Open Market Committee (FOMC) that not only specifies its current intentions, but often telegraphs future policy moves as well. This transparency is yet one more tool in the central bank's arsenal in the battle to keep inflation expectations well anchored.

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The third candidate explanation is a reduction in the number and/or severity of shocks to the economy. Examples of such shocks include monetary shocks, fiscal shocks, productivity shocks, and oil or other commodity price shocks.³ For example, as alluded to above, Federal military spending was the source of positive demand shocks during the early part of the postwar period, but that role has diminished since the late 1980s and the end of the Cold War. Similarly, negative supply shocks were equally significant during the 1970s. The increase in energy prices and associated deceleration in productivity resulted in both higher inflation and a rising unemployment rate, a phenomenon more popularly known as “stagflation.” Subsequent to the early 1980s, a number of positive supply shocks, such as declining import prices and accelerating productivity growth, have the opposite effect.

Unfortunately, it is difficult to empirically distinguish between the impacts of structural change and “luck,” since many of the factors that initiated the structural changes to the U.S. economy described above are themselves the product of good fortune. In addition, much of the empirical work includes only aggregate measures of U.S. output, without regard to compositional changes. Therefore, only partial light can be shed on the question of which of the three factors best explains the decline in output volatility. One study finds that improvements in monetary policy implementation account for an estimated 25 percent of the reduction in output volatility, while money shocks, productivity shocks, and commodity price shocks account for another 25 percent. This leaves roughly half of the decline unaccounted for.⁴ Moreover, of the portion of the decline that can be accounted for, only about half is related to a deliberate shift in monetary policy-making; the other half being attributed to fewer or less severe shocks, i.e., luck. Simulation results from yet another study similarly indicate that the biggest driver of the business cycle and of reduced post-1984 output volatility is the accumulation of shocks, with only about half of the change in the standard deviation of the output gap attributable to responses to inflation and interest rates, the targets of monetary policy.

Undoubtedly, all three explanations of the decline in business cycle volatility are at least partially valid. However, the studies referred to above find ample support for the “good luck” hypothesis. This leaves substantial room for an unexpected economic shock to cause an at least temporary pause in the long-term decline in volatility, a pause that could result in a substantial slowdown or even a recession. Such a shock might entail a run on the dollar should the U.S. current account deficit surpass some critical value, or a commodity price shock resulting from the pressures of synchronized global growth. Moreover, while the 1984 break-point typically identified as the watershed in output volatility is consistent with the timing of the aftermath of the early 1980s recession, it is also consistent with the increasing integration of the global economy. Though neither purely a structural shift nor an economic shock, global integration and the resulting competition with lower cost developing countries has put significant downward pressure on domestic prices, making inflation that much easier to contain.

³ Research on the precise definition and identification of money shocks is ongoing. In an effort to address the endogeneity problem in the identification of the response of output to monetary shocks, Romer and Romer (2004) define monetary shocks as changes in the Federal Reserve’s federal funds target rate “not taken in response to information about future economic developments.” They infer that information from Federal Reserve Greenbook forecasts. The resulting series is found to “Granger cause” the growth in industrial production for the period from 1969 to 1996. The fact that the converse is found not to be true may indicate that the Romers have achieved some success in addressing the simultaneity problem. See Christina D. Romer and David H. Romer (2004), “A New Measure of Monetary Shocks: Derivation and Implications,” University of California, Berkeley, March.

⁴ See Stock and Watson (2002), p. 24, footnote 5.

BOX 1 THE GREAT MODERATION

An extensive literature has emerged that both documents and attempts to explain the long-term decline in output volatility known as the “Great Moderation.” Data in support of the argument that structural shifts are largely responsible for output becoming more stable appear in the table below. This argument typically focuses on the behavior of output within each component and on the redistribution of value added away from the more volatile to the more stable categories of spending. Among the eleven major expenditure components of GDP that appear in the table below, about 80 percent of the decline in output volatility since 1984 can be attributed to lower volatility in each of the individual components, while the remaining 20 percent can be attributed to a shift away from the more volatile components — particularly investment in residential structures, inventory investment, and Federal government spending — toward the more stable components like consumer services. Note that both imports and exports volatility have also declined; however, the volatility in net exports has not.

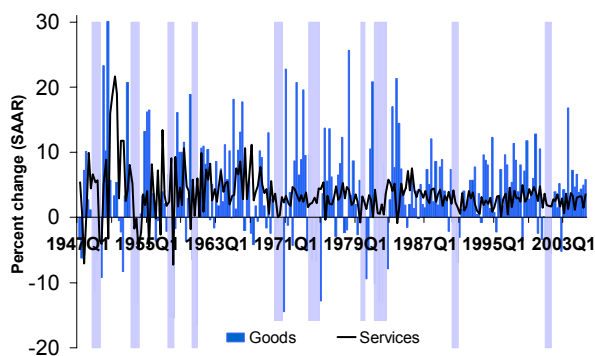
THE DECLINE IN OUTPUT VOLATILITY BY COMPONENT

	Quarterly Percent Change (SAAR)						Output Shares		
	Average			Standard Deviation			Average		
	1947-1983	1984-2005	Change	1947-1983	1984-2005	Change	1947-1983	1984-2005	Change
Total GDP	3.6	3.3	(0.4)	4.9	2.1	(2.8)	—	—	—
PCE, Services	4.3	3.2	(1.0)	2.3	1.5	(0.8)	26.2	38.1	11.9
PCE, Nondurable	2.7	2.9	0.2	3.6	2.3	(1.3)	27.9	20.6	(7.3)
PCE, Durables	6.9	6.7	(0.2)	21.1	11.0	(10.1)	8.5	8.5	(0.0)
Change in Inventories	0.7	0.4	(0.3)	1.0	0.5	(0.5)	—	—	—
Res Fixed Investment	6.3	4.0	(2.2)	26.0	9.3	(16.7)	4.9	4.5	(0.4)
Nonres. Fixed PDE	6.0	7.1	1.1	16.4	9.0	(7.4)	6.5	7.9	1.4
Nonres. Fixed Structures	3.9	0.6	(3.3)	10.9	11.3	0.3	3.9	3.2	(0.7)
Exports	6.2	6.8	0.7	23.8	7.9	(15.9)	6.1	9.7	3.6
Imports	8.1	7.7	(0.4)	22.7	8.1	(14.6)	5.8	12.2	6.4
Govt, State & Local	4.3	3.0	(1.3)	5.2	2.5	(2.7)	9.7	11.5	1.8
Govt, Federal	4.1	1.9	(2.2)	18.3	7.6	(10.7)	11.2	7.7	(3.5)

Source: Moody's Economy.com.

Figure 1 illustrates how much more volatile goods production is than services, though the volatility of both have diminished. Several studies note that the decline in volatility in the goods producing sector, particularly durable goods, has been larger on the production side than on the sales side, with the implication that inventory management is a primary source of the reduction in volatility. An examination of the behavior of inventories as a share of total output, as illustrated in Figure 2, appears to give some support to this notion. Many credit advances in information technology that have allowed firms to monitor their sales and supply chains more closely and adjust to changes in customer behavior in a more timely fashion.

Box 1 - Figure 1
The Secular Decline in Output Volatility
Goods and Services



Source: Moody's Economy.com.

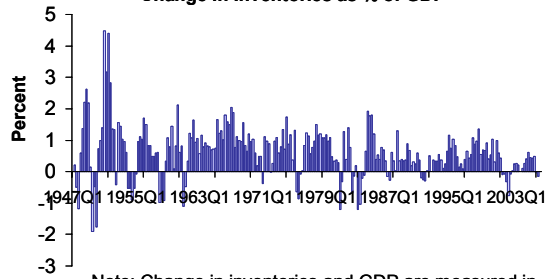
Given that personal consumption expenditures account for about two thirds of total GDP, an increase in their stability has been a major contributor to the overall decline in output volatility. Two structural changes help to explain this decline, at least in part. Although goods production still accounts for about as large a

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BOX 1 (CONTINUED FROM PREVIOUS PAGE)

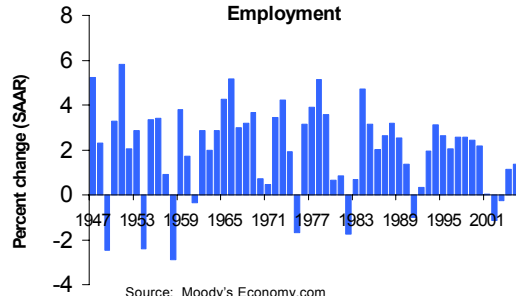
fraction of total output now as it did in the 1950s, there has been a dramatic shift in employment from the production of goods to services. Given that the manufacturing sector has been responsible for an overwhelming proportion of the volatility in employment (see Figure 3), the shift to services may have reduced the volatility of total real wages (see Figure 4). In addition, changes in financial sector regulations, which have resulted in a myriad of innovations in this sector, have permitted households to become less sensitive to income volatility. Financial deregulation and the proliferation of new instruments such as credit cards, derivatives, and loan securitization have made credit more easily available to more consumers. Fewer restrictions on borrowing have allowed households to more easily smooth consumption between good times and bad, and as a consequence, making recessions shorter. In addition to promoting consumption smoothing, financial market innovations have helped to stabilize residential investment, particularly the elimination of Regulation Q, which limited the interest rate that banks could pay on deposits.

Box 1 - Figure 2
The Secular Decline in Output Volatility
Change in Inventories as % of GDP



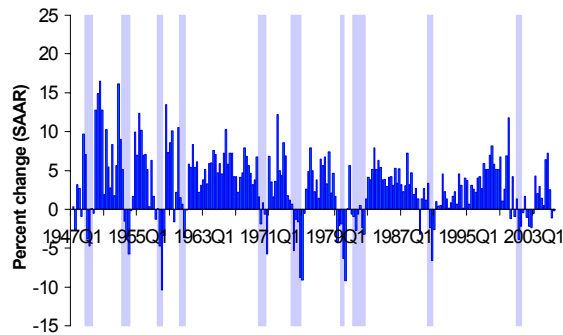
Note: Change in inventories and GDP are measured in nominal terms.
 Source: Moody's Economy.com.

Box 1 - Figure 3
The Secular Decline in Output Volatility
Employment



Source: Moody's Economy.com

Box 1 - Figure 4
The Secular Decline in Real Wage Growth



Note: Real wages are deflated by CPI growth and adjusted for the "Clinton tax effect." Shaded areas represent U.S. recessions.
 Source: Moody's Economy.com.

One study finds that while the Volker years stand out as a period when the Federal Reserve was particularly focused on reducing inflation, with little regard for the impact on output growth, the central bank's reaction function under Greenspan is more reminiscent of the pre-Volker regime than of the policy during the Volker years. However, this may be the case because since 1990, inflation has been relatively low due largely to a number of positive supply shocks in the late 1990s, such as high productivity growth and the Asian currency crisis. The author concludes that, "With adverse instead of beneficial shocks, the Greenspan reaction function might have looked much like Volcker's."⁵ This result reinforces the importance of "good luck" in the relatively benign business cycle regime we have enjoyed since the early 1980s. However, at some point the escape hatch provided by such exogenous forces as globalization and positive productivity shocks could close and inflation become more volatile. Should we experience a sufficiently adverse shock, or if inflationary expectations were to once again become unhinged due to a prolonged period of price volatility, a return to the more turbulent days of shorter expansions and longer recessions may return.

U.S. Absorbs an Energy Shock

If in Figure 3 inflation had been replaced with oil prices, the picture would look very similar. Several studies make the case that energy shocks have been a key driver of the U.S. business cycle during the postwar period.⁶ Energy price increases feed into core inflation, defined as the rate of inflation excluding the volatile food and energy components, raising the expectation that inflation will continue to rise in the future. The Federal Reserve has tended to respond by increasing interest rates, slowing economic growth. As discussed in the previous section, the central bank has become more committed since the early 1980s to acting preemptively, since then inflation expectations have remained well anchored. Nevertheless, statistical analysis indicates that increases in energy prices eventually do pass through to core inflation, after controlling for the effects of the business cycle, productivity growth, non-oil import prices, and inflation expectations, though gradually and over a long period (see Box 2).

Thus, even if inflation expectations remain in check, we can still expect to see increases in non-energy prices as a result of the recent increases in oil and natural gas prices, although based on the analysis presented in Box 2, the magnitude of the pass-through has fallen substantially since the 1970s. The Budget Division projects that the rate of overall inflation, as measured by growth in the CPI, will moderate slightly to 3.1 percent for 2006, as energy prices continue to recede from their peaks, following a rate of 3.4 percent for 2005. In contrast, due to the delay in the response of core inflation to an energy shock, the growth in core consumer prices is projected to climb to 2.4 percent for 2006, following a rate of 2.2 percent for 2005.

⁵ See Gordon (2005), p. 54.

⁶ For example, see James. Hamilton (2003), "What Is an Oil Shock?" *Journal of Econometrics* 113 (April), pp. 363-398.

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BOX 2

THE PASS-THROUGH OF ENERGY PRICE SHOCKS TO CORE INFLATION

The precise impact of energy price shocks on the U.S. economy has been the controversial subject of much research. That impact is thought to depend largely upon the extent to which changes in energy costs pass through to core inflation, i.e., the change in prices excluding the volatile food and energy components. To measure the impact of energy prices on core inflation, we must control for all of the other factors that affect core inflation. For example, near the peak of the business cycle, when markets are tight, it should be easier for firms to pass along higher costs to consumers than during a slowdown. Similarly, with employment and wages growing, consumers would be willing to pay more as well. Thus, when the unemployment rate is above the so-called non-accelerating inflation rate of unemployment, commonly referred to as the NAIRU, core inflation should be lower. Alternatively, when the prices of the imported goods with which domestic non-energy producers must compete grow at a faster rate than core inflation, core inflation can be expected to accelerate. In addition, when productivity growth is high, firms can absorb higher costs without sacrificing profits, removing the necessity of raising output prices and risk losing market share. In contrast, if firms expect high future inflation, they may feel more comfortable raising prices today without risking market share, since with wages presumably growing with expected future inflation, consumers are willing to pay those higher prices. The results of a statistical analysis that includes all of these factors appear below:

$$\begin{aligned} INF_t^C = & 2.39 - 0.65 (U_t - U_t^{NAIRU}) + 0.07 (INF_{t-1}^{IM} - INF_{t-1}^C) - 0.65 PDL(12, 2, PROD_t) \\ & (0.64) \quad (0.11) \quad (0.02) \\ & + 0.22 PDL(24, 2, INF_t^E - INF_t^C) - 0.14 PDL(24, 2, INF_t^E - INF_t^C) D1980Q2 \\ & + 0.32 INF_{t-1}^C + 0.55 \hat{INF}_{t+4} \\ & (0.07) \quad (0.16) \end{aligned}$$

$$\bar{R}^2 = 0.83 \quad DW=2.00 \quad 1957Q2 - 2005Q3$$

INF_t^C = Core CPI inflation

U_t = Unemployment rate

INF_{t-1}^{IM} = Non-oil import price inflation

$PROD_t$ = Nonfarm business productivity growth

INF_t^E = Energy CPI inflation

\hat{INF} = Expected annual inflation, one year ahead

$PDL(l,d,var)$ = Polynomial distributed lag (l = number of lags; d = degree of polynomial)

$D1980Q2$ = Break dummy {= 1 for period $\geq 1980Q2$; 0 otherwise}

Note: All inflation and growth rates are annualized from prior quarter;

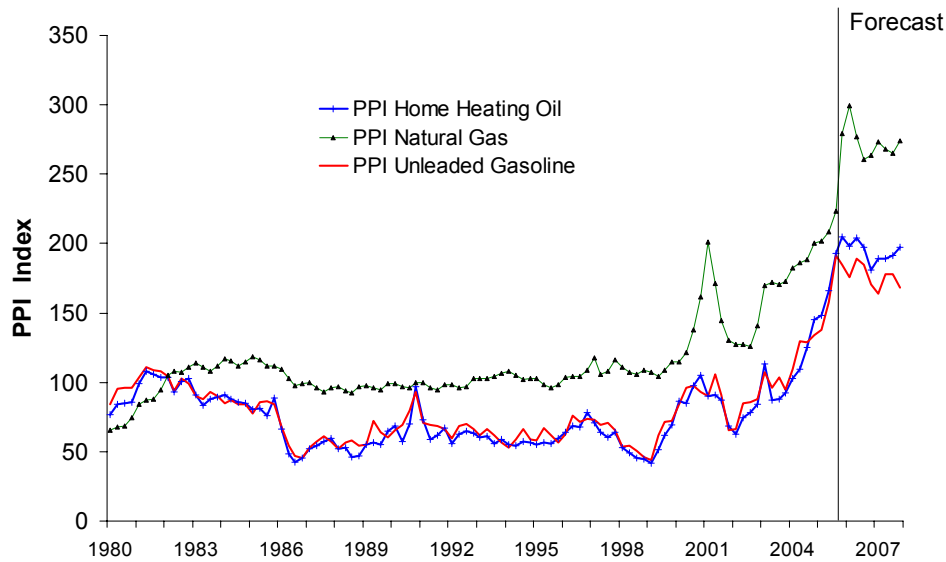
standard errors are in parentheses.

The model results indicate that for the period since 1980Q1, if energy inflation rises above core inflation, an average of 8 percent of the difference eventually passes through to the core inflation rate. Model results also indicate that the extent of the pass-through has changed over time. Based on a test for structural change, the impact of energy prices on core inflation is found to have dropped about 64 percent between the period from 1957Q2 to 1980Q1 and the subsequent period. This finding is consistent with the prevailing belief that the economy has become more energy efficient since the oil shocks of the 1970s. Nevertheless, the pass-through of increases in energy prices to core inflation remains alive and well, though weaker than in the past.

Although down from the record highs reached during the 2005 hurricane season, energy prices remain significantly higher than this time last year (see Figure 5). Quarterly inflation, measured by growth in the CPI at seasonally adjusted annualized rates, rose to 4.2 percent during the second quarter of 2005, and is estimated to have peaked at 5.1 percent in the third quarter and is projected to fall below 3 percent by the first quarter of 2006 and remain there for the remainder of the forecast horizon. Quarterly core inflation is estimated to have

peaked in the first quarter of 2006, and barring any additional shocks, is expected to follow the path of overall inflation into the outyears (see Figure 6). This relatively benign outlook is the product of stable inflation expectations, as well as the downward pressure on inflation produced by continuing global integration. Statistical results indicate that the influence of import price growth on overall inflation, as represented by growth in the CPI, doubled between the period from 1983 to 1988 and the period after.⁷ This downward pressure was further strengthened by the East Asian currency crisis in the fall of 1997, when the developing nations in that region sought to boost their exports to the developed world in order to improve their weakened economies. In 1998, import prices fell 6.0 percent, contributing to general price inflation of only 1.5 percent, the lowest since the early 1960s.

Figure 5
Recent Trends in Energy Prices



Source: Moody's Economy.com; DOB staff estimates.

The importance of global competitive pressures on inflation is evident in the comparison of the “stickiness” of consumer prices relative to producer-to-producer prices. As illustrated in Figure 7, even the price index for “core” intermediate goods shows much more pronounced fluctuations than general price inflation, an observation that is consistent with anecdotal evidence that firms are generally more able to pass cost increases on to other businesses than to consumers.⁸ Nevertheless, movements in the CPI trace out the same general shape as producer prices, indicating that producer price pressure does eventually get passed on to a limited degree. For example, the food industry has recently announced that food prices will rise anywhere from one to four percent in the coming months in order to cover heightened transportation costs.⁹ However, as indicated in Figure 8, industries that face relatively intense foreign competition for market share have seen very little price

⁷ A statistical test for structural breaks in the relationship between the two variables was used in the context of a regression of overall consumer price inflation (as represented by the first difference in the logs) on import price inflation. The quarterly model also includes three lags of the dependent variable, the medical care component of the CPI, a dummy variable for the second quarter of 1986, an intercept, and an intercept shift term that reduces the overall model intercept for the period from the fourth quarter of 1990 onward. The test statistic is strongest for the second quarter of 1988, indicating that the change in the relationship between import prices and general inflation is most likely to have occurred at that time.

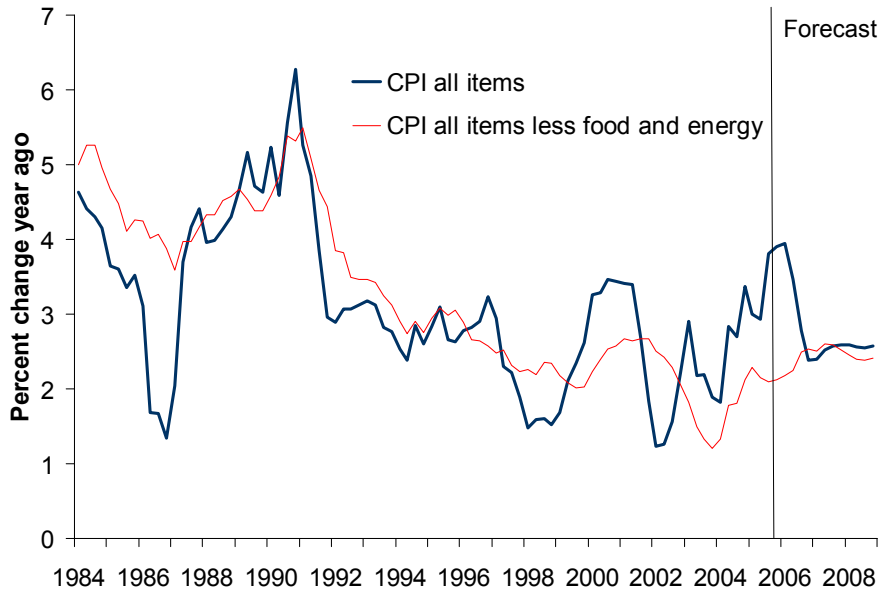
⁸ See, for example, The Federal Reserve Board, “Minutes of the Federal Open Market Committee, November 1, 2005.” < <http://www.federalreserve.gov/fomc/minutes/20051101.htm>>

⁹ See *The Wall Street Journal*, “Food industry firms announce price increases due to energy cost increases,” November 16, 2005.

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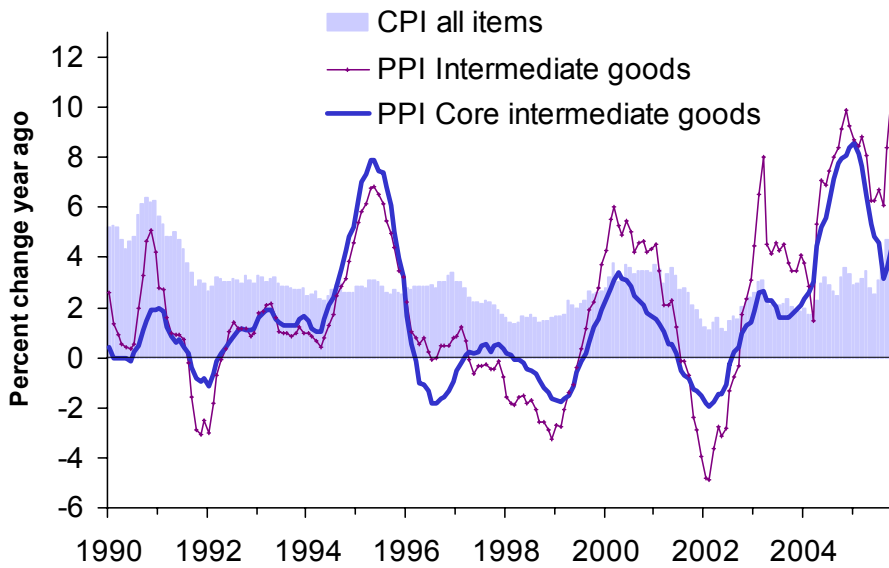
inflation since the mid-1990s, and in the case of apparel, persistent price deflation. This experience contrasts significantly with industries that face primarily only domestic competition, such as medical and education services (see Figure 9). Of course, the largest increases are observed in the energy-dependent transportation sector.

Figure 6
General vs. Core Inflation



Source: Moody's Economy.com; DOB staff estimates.

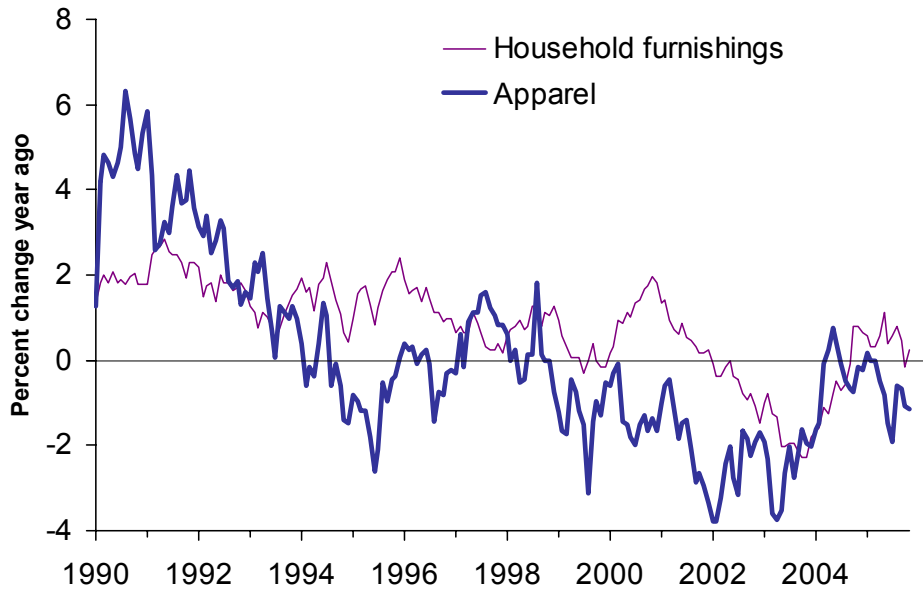
Figure 7
Recent Trends in Producer Prices



Source: Moody's Economy.com.

Figure 8

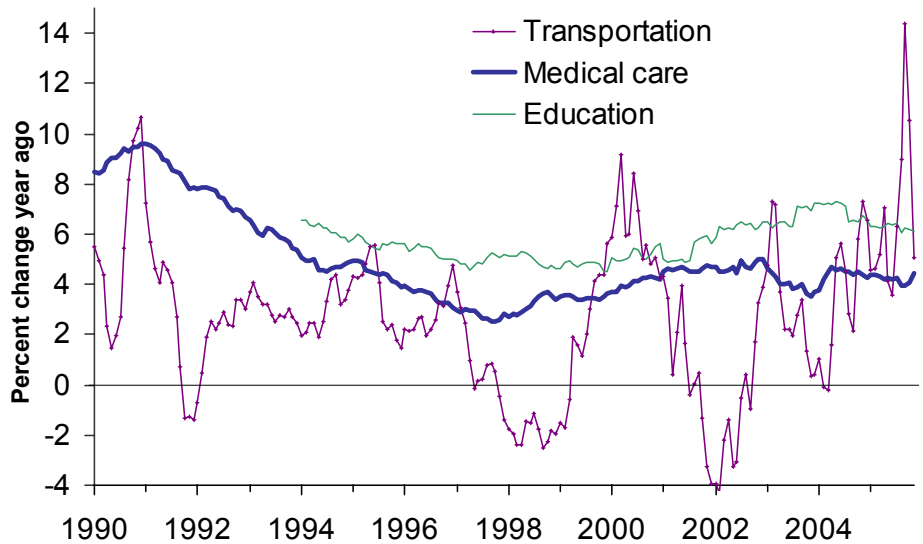
Consumer Prices for Goods Facing Foreign Competition



Source: Moody's Economy.com.

Figure 9

Consumer Prices for Goods Facing Little Foreign Competition



Note: The data for the education component of the CPI begin in 1994.
Source: Moody's Economy.com.

Energy costs are expected to continue to recede over the course of 2006 as the speculative risk premium diminishes and the market price becomes more reflective of global supply and demand conditions. However, the decline will not be dramatic, as energy market conditions are expected to remain tight. Although the U.S. economy is projected to slow down this year, China, now the second largest importer of oil, is expected to continue to expand in the nine percent range, while Japan, the third largest energy importer, is also expected to see accelerating growth in 2006. In addition, refining capacity is not expected to

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expand substantially in the United States. Thus, barring any additional major shocks, the Budget Division projects only a moderate decline in oil prices, as measured by the refinery acquisition price of imported oil, from current highs above \$55 per barrel to about \$50 by the end of 2006. In summary, last year's increases are expected to continue to gradually filter through the general price level, as reflected in the forecast for core inflation.

If the decline in output and inflation volatility over the last two decades is at least in part due to more effective monetary policy, then how much of the recent increases in producer prices enters the general price level depends in part on Federal Reserve actions. As stated above, global competitive forces and high productivity growth in the late 1990s, followed by the 2001 recession and a persistently weak labor market in 2002 and 2003, facilitated the Federal Reserve's task of maintaining price stability. However, with a briskly growing domestic economy and an increasingly synchronized global business cycle, that task is likely to become more of a challenge. Global growth has already put upward pressure on commodity prices in addition to energy. Moreover, the size of the U.S. trade and federal budget deficits increases the vulnerability of the dollar. A significant depreciation of the U.S. dollar would increase the risks to inflation, making the Federal Reserve's goal that much harder to achieve.

With the expected increase in the federal funds target rate to 4.50 percent at the end of January, the central bank is expected to enter a phase of monetary tightening. How much the Federal Reserve will have to tighten ultimately depends on its assessment of inflation expectations. If households and businesses expect prices to continue to rise, then the Federal Reserve is presumed to be willing to tolerate below trend growth rates over the short-run in order to preserve long-term price stability. However, the Federal Reserve's ability to control inflation is not an exact science. It is generally acknowledged that interest rate increases take six to 18 months before their full impact is felt. It is therefore highly possible that the central bank could overshoot its target. The recent flattening of the yield curve is giving an ambiguous signal on this matter.

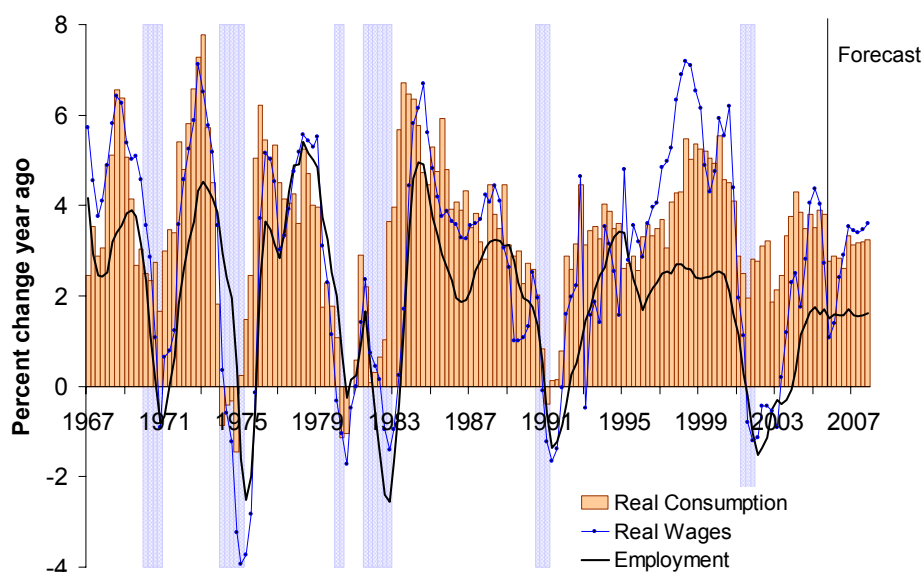
The slow pace at which energy prices are creeping into the core, combined with well anchored inflation expectations, have permitted the Federal Reserve to continue on its "measured" course of 25 basis point interest rate increases, bringing the federal funds rate closer into alignment with a "neutral" monetary policy in the 4.25 percent to 4.75 percent range. 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. 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 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.

The Budget Division projects that the Federal Reserve will move its federal funds target rate beyond the neutral point during the second quarter and enter a phase of monetary tightening in an attempt to contain inflationary expectations. The federal funds rate is expected to reach approximately 5.1 percent by the end of 2006. The 10-year Treasury rate is expected to rise to 5.5 percent by the fourth quarter of 2006, producing a spread between the federal funds rate and the 10-year rate of about 40 basis points. The 10-year Treasury rate is expected to average 5.2 percent in 2006, up from 4.3 percent in 2005. Again, the relatively narrow spread between long and short-term rates potentially signals the risk of a slowing economy going forward.

Household Spending to Sputter

Household spending maintained its position as the economy’s primary growth engine right through the 2001 recession and has remained so throughout the current expansion (see Figure 10). Low interest rates and a buoyant housing market, along with Federal tax reductions and solid wage and employment growth have all supported strong growth in consumption from the second quarter of 2003 onward. Growth in total real consumption averaged a high 3.9 percent during that period, with the less cyclical component that includes services and nondurable goods averaging 3.5 percent; the more business-cycle, interest rate sensitive durable component averaged a strong 6.7 percent (see Figure 11). However, going forward it is likely that high energy costs and climbing interest rates will have a cooling effect on consumption spending beginning with the fourth quarter of 2005 and continuing through 2006. The Budget Division projects total real consumption growth of 2.9 percent for 2006, following an estimated 3.5 percent growth for 2005. Noncyclical spending which includes spending on nondurable goods and services is projected to grow 3.2 percent for 2006, following 3.4 percent growth for 2005, while the more volatile cyclical component is expected to grow only 0.9 percent for 2006, following 4.3 percent growth for 2005.

Figure 10
Real Consumption, Real Wages, and Employment



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

The Impact of Rising Energy Costs

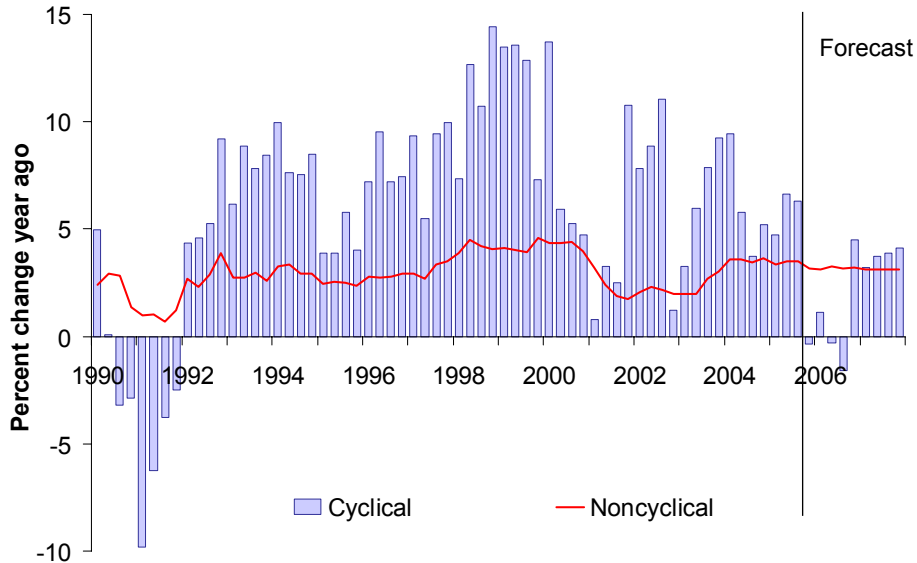
Based on data for the first 11 months of 2005, the energy component of the CPI was 16.9 percent higher than the same period in 2004, and 29.1 percent higher than the same period in 2003. Higher energy costs have been acting as a tax on household spending, made all the more onerous by the recent increase in the consumption of energy as a share of total wages (see Figure 12).¹⁰ Sales of light trucks and sport utility vehicles have been hard hit by increases in petroleum prices (see Figure 13). The extreme volatility in the sales data indicates how sensitive consumer demand is to sudden changes in price, such as dealer buying incentives and the cost of gasoline. Since SUVs are larger and generally more expensive than traditional autos, any movement away from these types of vehicles will tend

¹⁰ To the extent that energy is imported, the “tax” becomes a drag on overall GDP as well.

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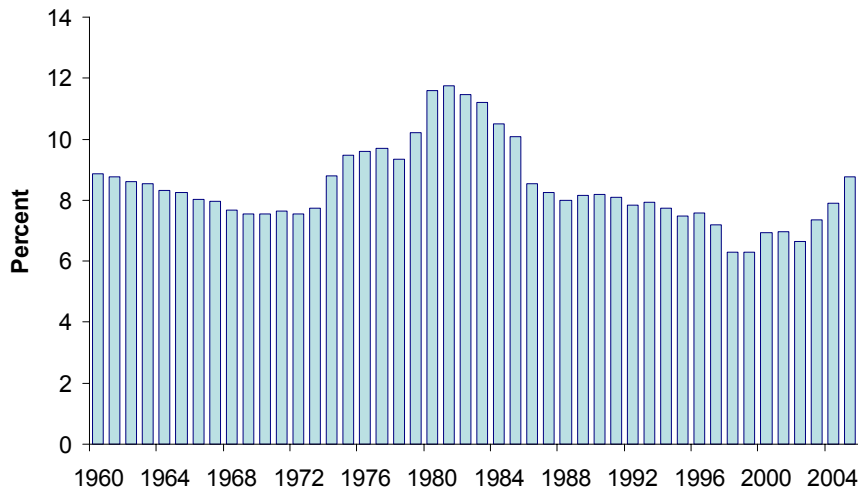
to depress household spending on vehicles overall. Going forward, rising short-term interest rates will further exacerbate the impact of higher energy prices on vehicle sales, which accounted for 44.4 percent of total real durable consumption during the first three quarters of 2005.

Figure 11
Cyclical and Noncyclical Consumption Growth



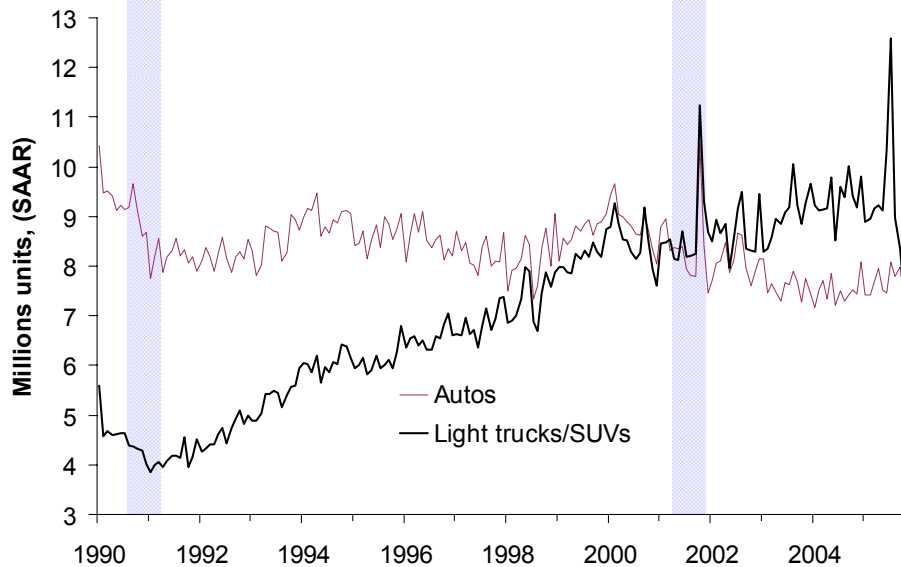
Source: Moody's Economy.com; DOB staff estimates.

Figure 12
Consumer Spending for Energy Goods and Services
as Share of Total Wages



Note: Shares for 2005 are based on three quarters of data.
Source: Moody's Economy.com; DOB staff estimates.

Figure 13
Light Vehicle Sales



Note: Data are seasonally adjusted annual rates; shaded areas represent U.S. recessions.
Source: Moody's Economy.com.

Mortgage Equity Withdrawals

The recent housing boom has been a key catalyst for household spending in recent years and its waning will further depress consumption growth in 2006 and beyond. As illustrated in Figure 14, spending on furniture and household equipment grew rapidly, both before and after the 2001 recession, averaging 13.2 percent annually from 1996Q1 through 2000Q1 and 11.7 percent from 2003Q2 through 2005Q3. However, because some of this growth is accounted for by price declines, its share of total durable consumption has remained relatively stable since the mid-1990s. Since home furnishings and appliances often provide many years of use, consumers typically borrow to finance their cost. Thus, as borrowing costs rise due to higher interest rates, household durable spending is expected to fall, all else being equal. However, rising interest rates are also expected to reduce another source of household liquidity, namely mortgage refinancing and the large volume of home equity cash-outs that have fueled spending in recent years. Figure 15 indicates that by Freddie Mac's estimate, 2005 may turn out to be another record year of equity cash-outs, yielding a total volume of \$243.5 billion in wealth. But that volume is expected to fall by \$93 billion in 2006.¹¹

There is a wealth of anecdotal evidence linking mortgage equity withdrawals to the high rates of consumption growth we have witnessed in the recent past. It is difficult to estimate the impact of equity withdrawals on consumption. Since the withdrawal of equity does not affect the value of household wealth, which is ultimately what drives consumption, there could be no affect. On the other hand, equity withdrawals may primarily impact those households who would be otherwise liquidity constrained. A recent study estimates that

¹¹ Mortgage refinancing is not the only source of equity extraction. Greenspan and Kennedy (2005) provide a more comprehensive estimate of equity extraction for 2004 of \$350 billion, compared with an estimate of \$185 billion based on Freddie Mac-owned loans. If Freddie Mac's current estimate of \$244 billion for 2005, which is based on the first three quarters of data, is expanded by the 2004 ratio between the two estimates, more comprehensive projections for 2005 and 2006 become \$460 billion and \$284 billion, respectively, implying a decline of \$175 billion. See Alan Greenspan and James Kennedy, "Estimates of Home Mortgage Originations, Repayments, and Debt on One-to-Four-Family Residences," The Federal Reserve Board *Finance and Economics Discussion Series*, 2005-41.

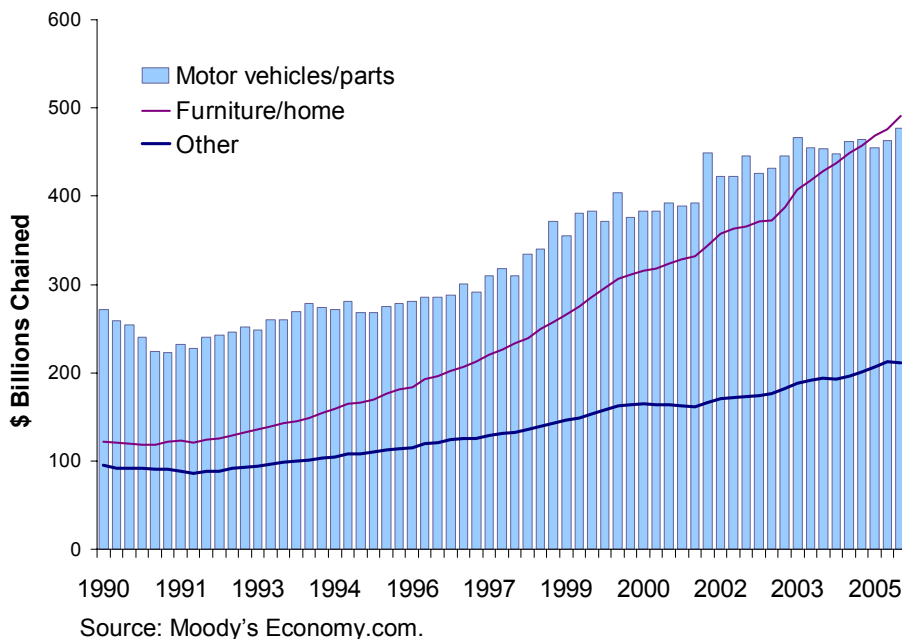
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about half of the value of equity extraction is used to finance consumption expenditures, implying a drag on total consumption of about 0.5 percent, should withdrawals decline by \$93 billion this year.¹² A Budget Division analysis finds results to be highly sensitive not only to the model specification, but also to which components of spending are assumed to be affected. The anticipated decline in mortgage equity withdrawals is a significant risk to the forecast for household spending for 2006.

Housing Market Risks

The recent appreciation in home values has also supported strong rates of consumption growth, beyond what would have resulted from low interest rates alone. Even those who do not “cash out” their home equity may still spend more because of the increase in their net worth through the wealth effect. Recent data indicate that for the third quarter of 2005, the household and nonprofit sector reported a net worth of \$51.1 trillion, an increase of 34.6 percent since the same quarter of 2002. Approximately 40 percent of this increase is estimated to have come from real estate. However, this source of support is expected to diminish for 2006 as the rise in home prices decelerates. The most recent data indicate that the housing market is finally cooling and that prices may even fall in those areas where there are localized price bubbles. Home prices are expected to vary with the fundamentals of the housing market: incomes, housing supply, interest rates, and inflation expectations. Model estimates based on these forces imply much lower housing prices than are currently observed, implying the potential for a price bubble (see Figure 16).¹³

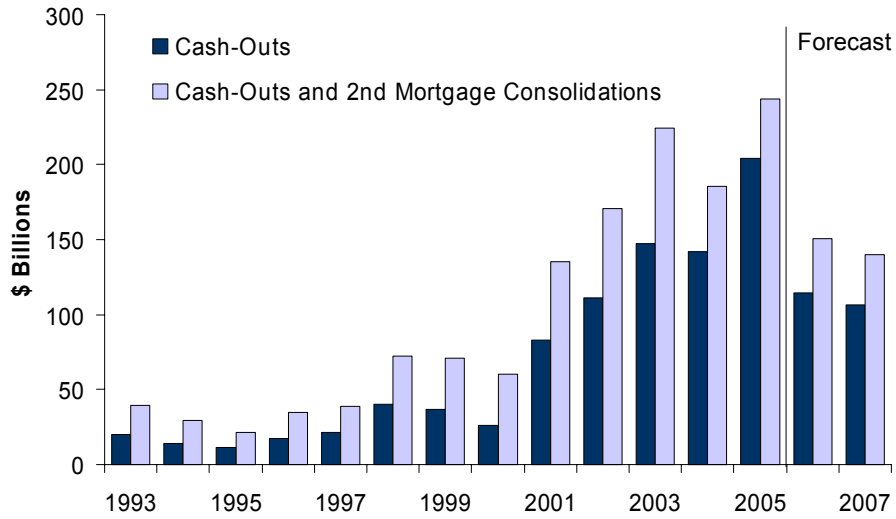
Figure 14
Real Durable Goods Consumption by Type



¹² See, for example, Alan Greenspan (2005), “Mortgage Banking,” The Federal Reserve Board, remarks to the American Bankers Association Annual Convention, Palm Desert, California, September 26.

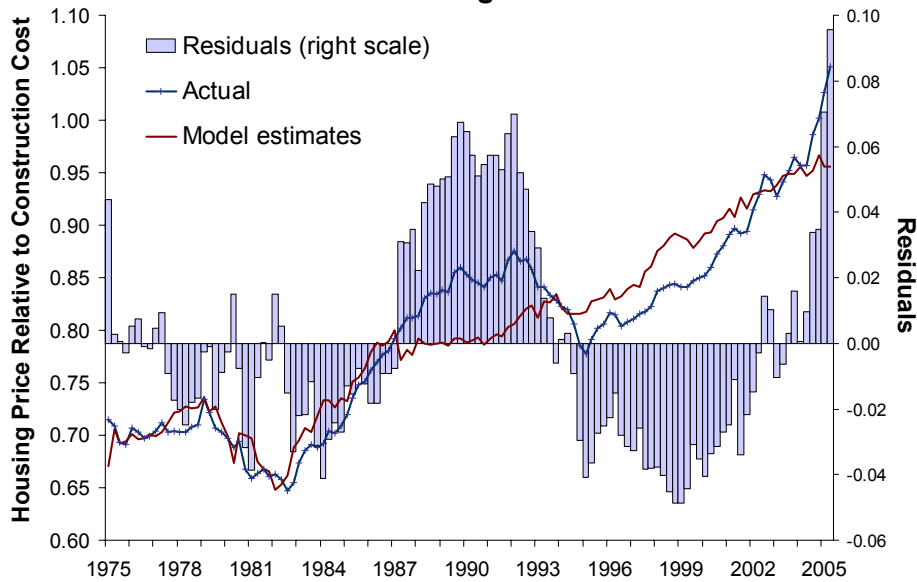
¹³ This conclusion is based on a statistical model by Macroeconomic Advisers that regresses the excess of housing prices over construction costs, as measured by the log of the Office of Federal Housing Enterprise Oversight (OFHEO) House Price Index minus the log of the implicit price deflator for NIPA residential construction, on the housing stock, interest rates, and inflation expectations.

Figure 15
Home Equity Cash-Out Volume



Note: Estimate for 2005 is based on nine months of data; 2006 and 2007 are Freddie Mac forecast.
Source: Freddie Mac.

Figure 16
Is There a Housing Price Bubble?



Note: The model estimates the difference between home price and cost of construction.
Source: Macroeconomic Advisers.

The behavior of home prices alone does not give a comprehensive view of the future direction of the market. We construct a more comprehensive measure of housing affordability by state that incorporates the other key fundamentals of housing demand — interest rates and income. For each state for a given year, we amortize the nominal median existing home price by the prevailing mortgage interest rate and divide by the average wage for that state. The results appear in Figure 17 for 1981, the last peak in national nominal existing home prices, and in Figure 18 for 2004, the last year for which complete data are

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available. A comparison of the two maps indicates that despite record nominal prices, housing was still more affordable in 2004 than in 1981. Although wage growth is certainly one causal factor, the critical element appears to be the historically low level of interest rates in 2004, when the national average rate on conventional mortgages was 5.84 percent compared to the 16.63 percent average for 1981. Figure 19 shows the longer term trend in housing affordability. By this measure, housing is far from the record levels of the 1980s. However, as the alternative scenario demonstrates, affordability will decline substantially as interest rates rise.

Figure 17

Annual Payment for Median Existing Single Family Home as Percent of Average Wage in 1981

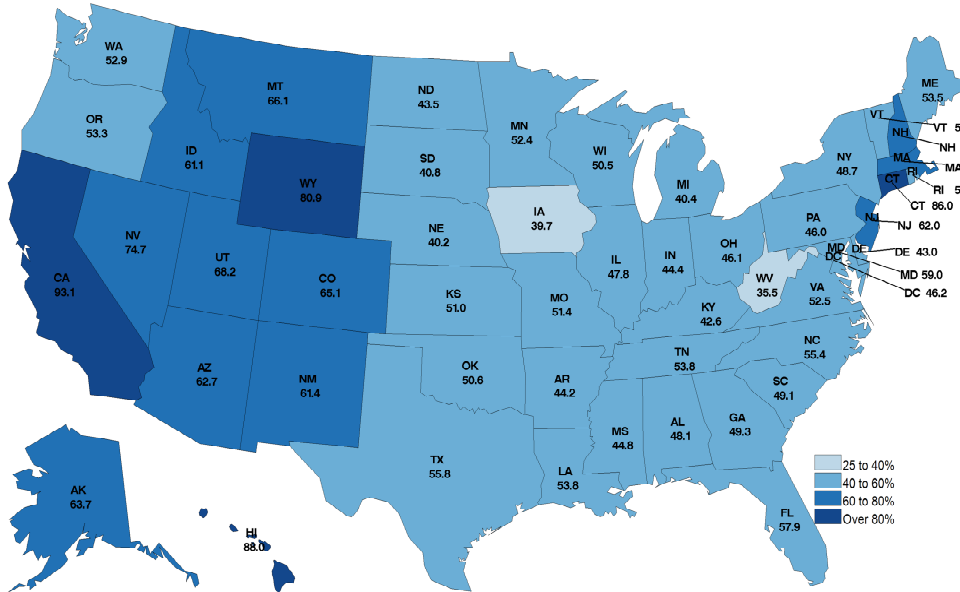
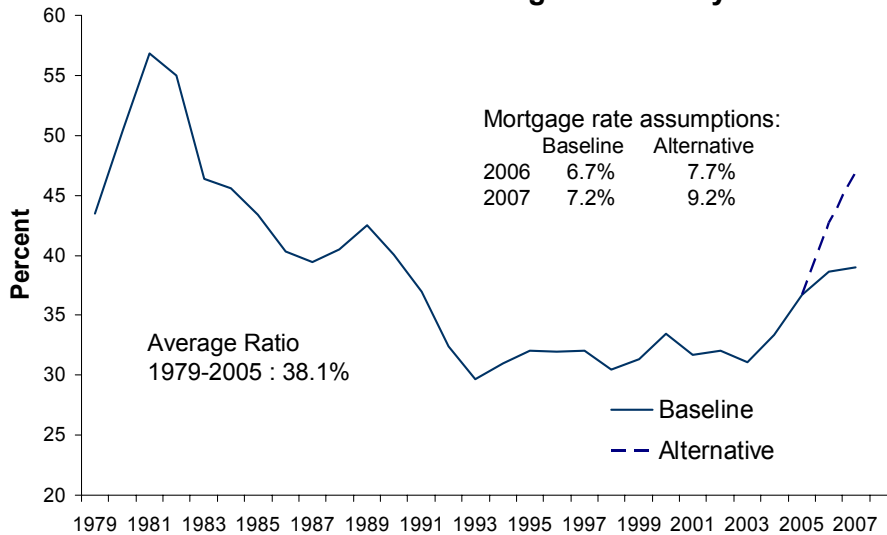


Figure 19

Trends in U.S. Housing Affordability



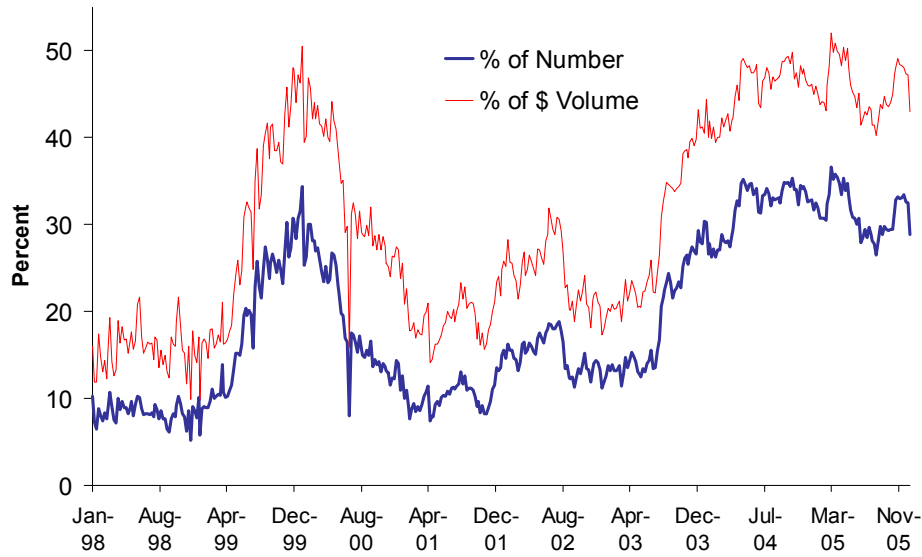
Note: Ratio refers to annual mortgage payment implied by current median home price and current mortgage interest rate, as percent of average wages. Estimates for 2005 are based on three quarters of data.

Source: Moody's Economy.com; DOB staff estimates.

The affordability problem may be even further exacerbated by that portion of the mortgagee population with adjustable rate and other types of exotic loans whose burdens are highly sensitive to interest rate increases. Figure 20 shows what percentage of mortgage applications surveyed in a given week have adjustable rates versus fixed rates, underlining the numbers of households that may be at risk as interest rates rise. For example, through the middle of November 2005, an average of 31.3 percent of all mortgage applications involved adjustable rates. However, of the total dollar volume of mortgage loans applied for during that period, the percentage involving adjustable rates was fully 45.4 percent. Those households whose contract terms make them highly vulnerable to changes in interest rates are also most likely to curtail their spending as rates rise, posing a risk to consumption growth.

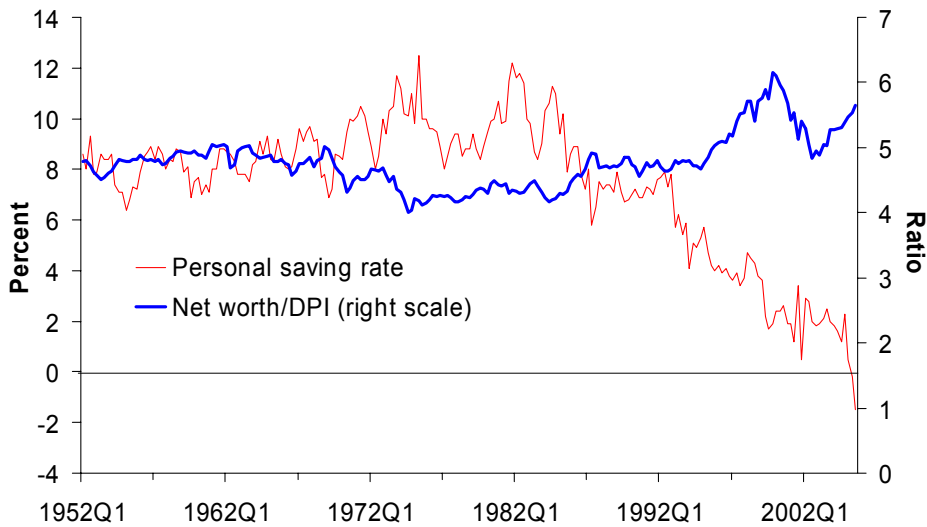
As housing becomes less affordable due to rising interest rates, home prices can be expected to weaken. A decline in home prices, or even a slowing of home price growth can be expected to reverse the wealth effect, inducing households to curtail their spending and increase their savings out of current income, since they can no longer count on their homes to continue to “feather their nests” at the same rate as in the recent past. As indicated in Figure 21, household rates of saving out of disposable personal income tend to move in the opposite direction from household net worth as a multiple of the same income measure. The personal rate of saving from the first quarter of 2000 through the third quarter of 2002, a period when household net worth declined 11.9 percent, averaged 2.2 percent. It subsequently fell to 1.3 percent for the subsequent period with the dramatic rise in net worth reported between 2003 and 2005.

Figure 20
MBA Percent Adjustable Rate Mortgages



Note: Data is from MBA's Weekly Mortgage Application Survey.
 Source: Moody's Economy.com.

Figure 21
Personal Saving and Household Net Worth
Relative to Disposable Income



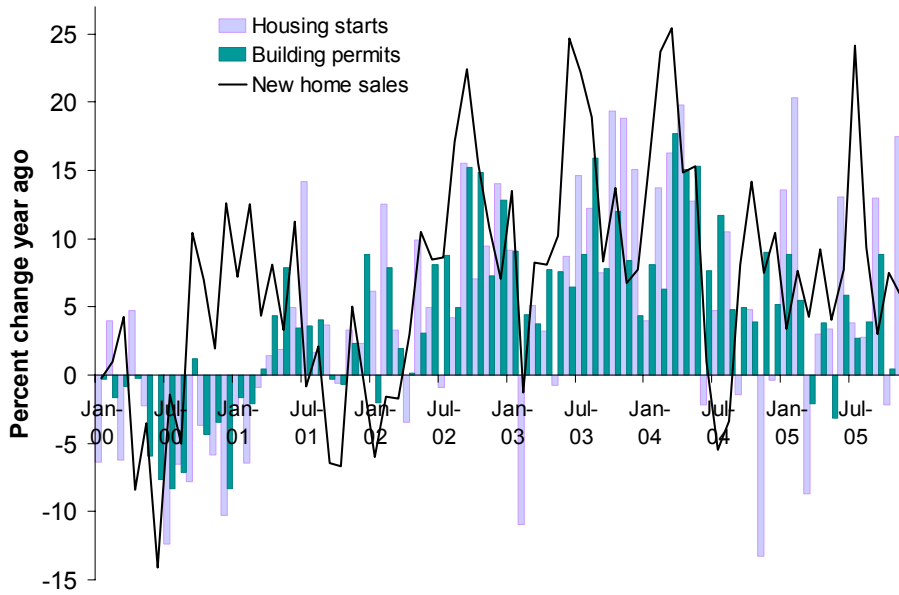
Note: Saving rate is defined as personal savings as percent of disposable income.
 Source: Moody's Economy.com.

Residential Investment to Decline — Finally

In addition, with interest rates rising and housing gradually becoming less affordable, the demand for new housing is also expected to wane. Although housing starts are extremely volatile, Figure 22 indicates that their growth may have peaked early in 2005. Similarly, year-ago growth in new home sales averaged 10.6 percent per month in 2004 but only 7.8 percent in 2005 through November. The Budget Division expects real residential fixed

investment to fall 0.2 percent in 2006, following 7.1 percent growth in 2005. However, there are risks to this forecast. Table 1 presents the results of a risk analysis that varies the Budget Division’s assumptions regarding projected values for home prices and the mortgage rate. If mortgage rates should rise 150 basis points higher than projected, real residential investment falls 1.6 percent in 2006 and 5.3 percent in 2007, rather than the baseline projected declines of 0.2 percent and 3.1 percent, respectively. Alternatively, if mortgage rates rise as projected in the baseline forecast but home prices fall twice as much, real residential investment falls 2.9 percent in 2006 and 6.0 percent in 2007. If both mortgage rates and home prices change according to the alternative assumptions, real residential investment falls by substantially more than the forecast that appears in Figure 23.

Figure 22
Growth in Housing Starts and New Home Sales



Source: Moody's Economy.com.

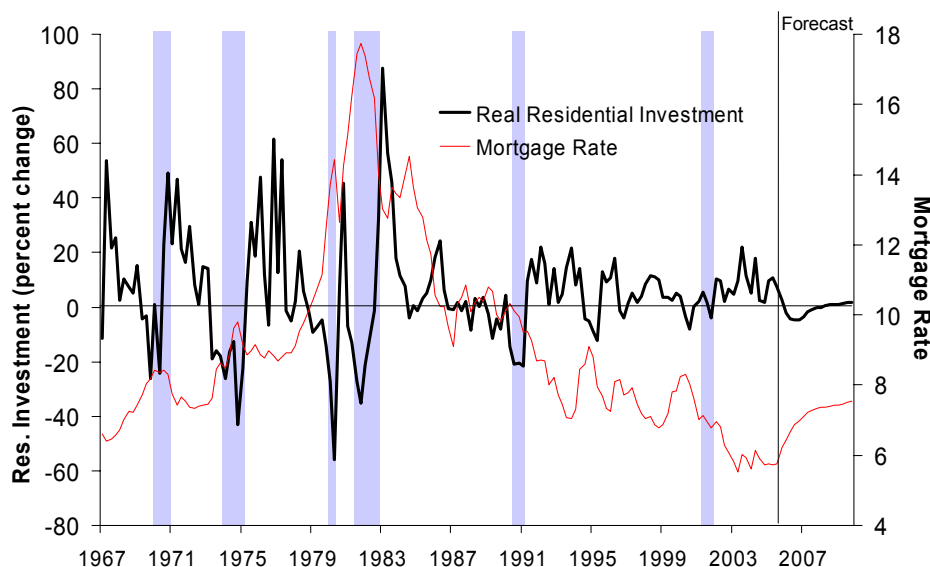
TABLE 1
PROJECTED GROWTH IN REAL RESIDENTIAL INVESTMENT: A RISK ANALYSIS
Percent

	Real home price growth	Mortgage rate	Residential investment growth
Baseline forecast			
2004	8.6	5.8	10.3
2005	3.7	5.9	7.1
2006	(4.7)	6.7	(0.2)
2007	(0.6)	7.2	(3.1)
Scenario 1: baseline home prices, 150 basis point increase in mortgage rates			
2006	-	8.2	(1.6)
2007	-	8.7	(5.3)
Scenario 2: baseline mortgage rates, house price decline doubled			
2006	(9.4)	-	(2.9)
2007	(1.2)	-	(6.0)
Scenario 3: house price decline doubled, 150 basis point increase in mortgage rates			
2006	(9.4)	8.2	(4.3)
2007	(1.2)	8.7	(8.3)

Source: Moody's Economy.com; DOB staff estimates.

Figure 23

Real Residential Investment



Note: Shaded areas represent U.S. recessions.

Source: Moody's Economy.com; DOB staff estimates.

Slow but Steady Labor Market Growth

Following an unusual period of job losses in the early phase of the recovery, the national labor market has experienced steady growth for two consecutive years, with growth of 1.1 percent in 2004 accelerating to 1.6 percent in 2005. Indeed, employment data for September 2005 indicate solid underlying growth after netting out the estimates for the hurricanes' impact. Establishment survey data through August showed average monthly growth in payroll employment for 2005 of about 195,500 jobs. However, the impact of the hurricanes produced employment gains of only 17,000 in September and 25,000 in October. Varying estimates exist as to the magnitude of the job losses related to the hurricanes, but each is well above 200,000, implying healthy underlying growth (see Box 3).¹⁴ Moreover, the 305,000 jobs added in November were both strong and widespread. The Budget Division projects employment growth of 1.6 percent for 2006, following growth of the same magnitude for 2005. The Budget Division's forecast of 1.7 percent growth in private sector employment for 2006 translates into an average monthly gain of about 180,000 jobs. This forecast implies a slower pace of job growth relative to 2005, after netting out the impact of the hurricanes, but is still estimated to exceed the number of monthly entrants to the labor force. Consistent with this modest decline in employment and labor force growth, an unemployment rate of 4.9 percent is projected for 2006, on an annual average basis, following a rate of 5.1 percent for 2005.

¹⁴ The U.S. Bureau of Labor Statistics (BLS) reports that, based on Local Area Unemployment Statistics (LAUS) from the household survey, the areas most affected by Hurricane Katrina posted an employment level of 3,062,735 for the month of August and 2,739,300 for September, on a seasonally unadjusted basis. Thus, employment fell by more than 323,000 during a month when employment would normally be rising with the start of a new school year. The Establishment Survey yields a lower estimate, while weekly initial unemployment claims data indicate a hurricane-related loss above 500,000.

**BOX 3
THE ECONOMIC IMPACT OF KATRINA AND RITA**

Two major hurricanes hit the Gulf Coast: Katrina at the end of August and Rita in mid-September. In addition to the tragic loss of life, many lost their means of livelihood due to either damage to or the total loss of their property or business. The table below shows the impact of the two hurricanes on personal income and corporate profits as measured in the National Income and Product Accounts. Total damage to both public and private fixed assets is estimated at \$389 billion, compared to \$117 billion in damage caused by the four hurricanes that hit during the third quarter of 2004. Total net personal income losses for the third quarter have been valued at close to an annualized \$80 billion. As indicated in the table, most of the damage was to rental property, though some of those losses were offset by transfer payments. Corporate businesses also experienced significant uninsured losses of fixed capital. Added to these losses are benefit payouts by insurance firms, bringing total corporate losses to just over \$165 billion.

Impact of Hurricanes on Third Quarter Personal Income and Corporate Profits
\$ Billions, annualized

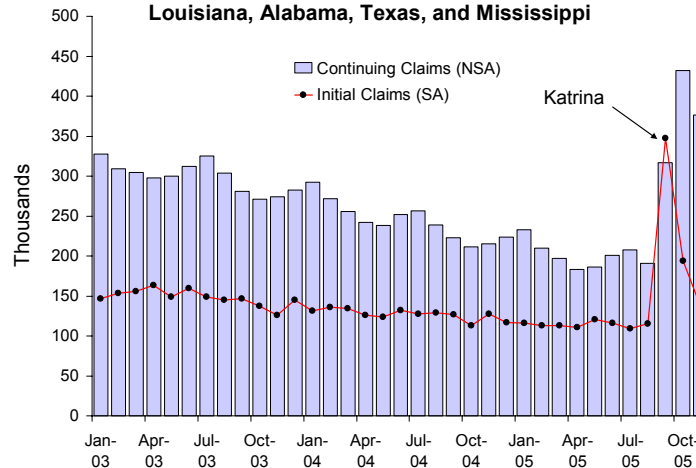
	<u>Total</u>	<u>Damage to Fixed Assets</u>	<u>Insurance Benefits</u>
Personal Income	(\$79.8)	(\$280.4)	\$200.7
Transfer Income	\$45.5	\$0.	\$45.5
Rental Income with CCAAdj.	(\$103.7)	(\$229.4)	\$125.7
Proprietor's Income with CCAAdj.	(\$21.6)	(\$51.0)	\$29.4
Corporate Profits with CCAAdj.	(\$165.3)	(\$88.8)	(\$76.5)

Source: Bureau of Economic Analysis.

In addition to the loss of life and property, many jobs were lost. The most affected area from Katrina was the New Orleans-Metairie-Kenner metro area, which lost over 223,000 jobs in September, compared to 240,000 for the entire state of Louisiana. The area added only 12,000 jobs during the two months that followed, compared to 19,000 for the state overall. Mississippi lost 52,000 jobs in September, followed by gains of 11,000 in both October and November. Alabama experienced a small impact as well. Hurricane Rita struck hardest at the border between Texas and Louisiana. The Beaumont-Port Arthur metro area in Texas lost 6,000 jobs due to Rita, a decline of 4 percent from a year ago. However, the net impact for the state of Texas was positive, especially for Houston, since so many Katrina refugees relocated there.

In Louisiana, initial claims for unemployment benefits jumped from 14,000 in August to 160,000 in September. Claims also rose in Texas, Mississippi and Alabama. Most of the increase in Texas was reportedly due to those former jobholders who temporarily relocated there. Since then, initial claims have come down though continuing claims remain high.

**Box 3 – Figure 1
Unemployment Insurance Claims for the states of
Louisiana, Alabama, Texas, and Mississippi**



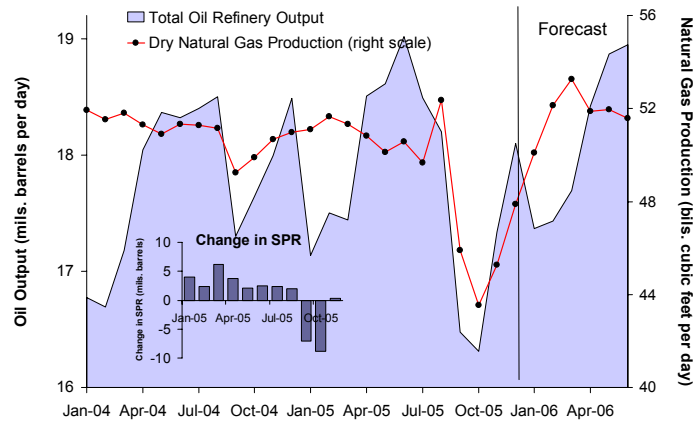
Source: Moody's Economy.com.

ECONOMIC BACKDROP

BOX 3 (CONTINUED FROM PREVIOUS PAGE)

Since the hurricanes struck the heart of the U.S. petroleum and natural gas industry, both the production and distribution of energy supplies were interrupted. Immediately following Katrina, the reduction in oil production due to facility shutdowns reached 1.4 million barrels per day. About mid-way through the recovery process, Rita hit causing further damage. Releases from the national Strategic Petroleum Reserve (SPR) helped to ameliorate the reduction in oil output, as illustrated in the figure below by the quick rebound in oil supplies after the storms, but no such relief exists for the supply of natural gas. Natural gas production losses peaked at 8.8 billion cubic feet per day right after Katrina, and after a brief, partial recovery, rose again to 8 billion cubic feet per day. The Henry Hub, a key junction of several pipelines in central Louisiana that serves as the pricing point for natural gas, closed for over a week as a result of damage from Rita. The U.S. Energy Information Administration estimates that the production of both oil and natural gas will return to normal by the end of the first quarter of 2006.

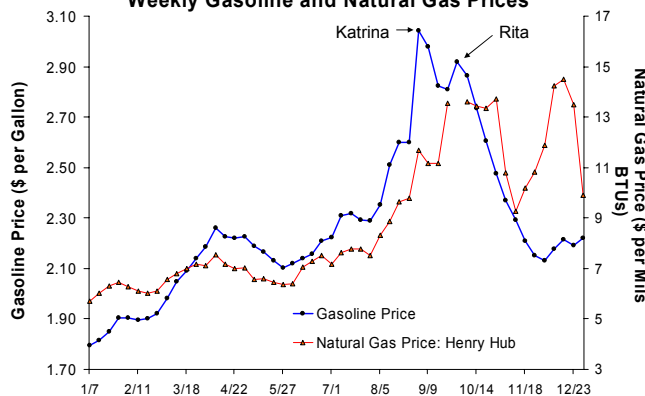
Box 3 -- Figure 2
Oil and Natural Gas Production



Source: Energy Information Administration.

The hurricanes sent the price of gasoline up to record highs, especially on the East Coast due to pipeline disruptions. During the first week of September, prices rose above \$3 per gallon. And just as prices were coming down, Rita dealt a second blow. Since then, gasoline prices have returned to their mid-summer levels, having fallen below their Katrina-related peak by late October. Natural gas prices have also come down.

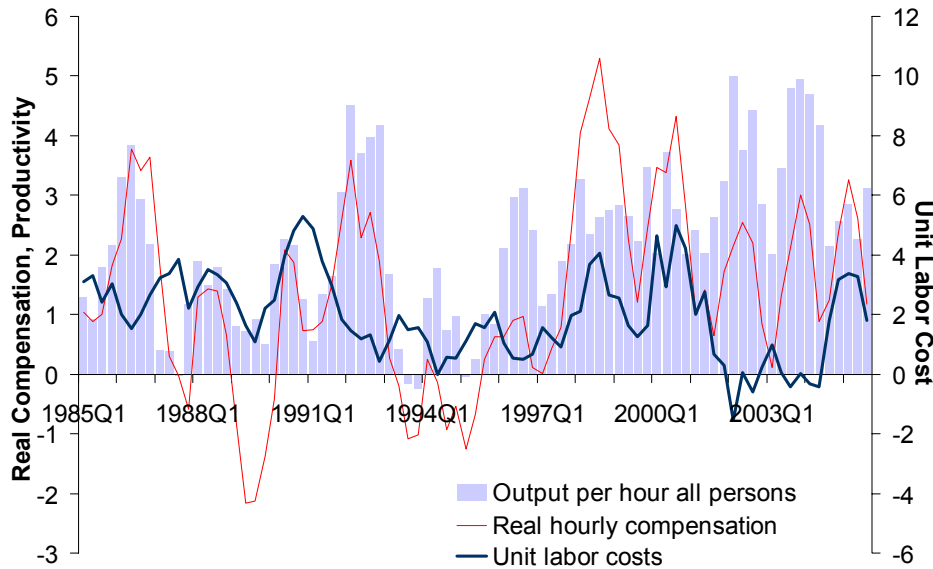
Box 3 -- Figure 3
Weekly Gasoline and Natural Gas Prices



Source: Moody's Economy.com.

Employment growth has improved dramatically since 2003.¹⁵ Given the labor market’s healthy pace of growth, the question arises as to whether labor markets are tightening sufficiently to warrant fear of inflationary pressure from wage increases. Figure 24 shows that following two quarters of strong growth during the first half of 2005, real hourly compensation and unit labor costs both moderated in the third quarter, implying little evidence of mounting cost pressures. Figure 25 indicates that the labor force participation rate is still below the high rates experienced during the late 1990s and 2000 and is expected to remain so for the near future, despite recent increases. Yet another measure of labor costs, the employment cost index, has been growing below the rate of inflation since the middle of 2004 (see Box 4). The index has decelerated significantly since its growth rate peak in 2000 and continues to do so, an indication that employer pressures are not significantly contributing to output price growth.

Figure 24
Nonfarm Business Productivity and Unit Labor Costs
 Percent change year ago



Source: Moody’s Economy.com.

In December 2005, the national economy entered the fifth year of the current economic expansion, yet there is little evidence that a tightening labor market is putting substantial upward pressure on wages. This can in part be explained by the fact that the labor market has only gradually ramped up since the start of the recovery, in contrast to past recoveries that saw much higher rates of job creation in their early phases. Even the “jobless recovery” of the early 1990s brought year-over-year growth of over 2 percent by the third quarter of 1993, with the recovery only entering its third year. Moreover, as indicated in Figure 24, productivity growth has remained strong, though it is below the extraordinarily high rates witnessed earlier in the expansion when uncertain firms were attempting to extract every possible bit of output from their employees.¹⁶ The business sector has acted with relative

¹⁵ The labor market was likely weaker in early 2004 than currently published data suggest. BLS announced in October that, with the release of January 2006 data on February 3rd, employment for March 2005 will be revised down by 191,000, or 0.1 percent. The upcoming revision is in line with the 0.2 percent average for the last ten years, but will be unusual in one respect. Although BLS tends to underestimate employment when the labor market is strong and overestimate when the labor market is weak, this year, they have overestimated. For more information on the 2005 Benchmark revision, see <<http://www.bls.gov/ces/cesprelbnk.htm>>.

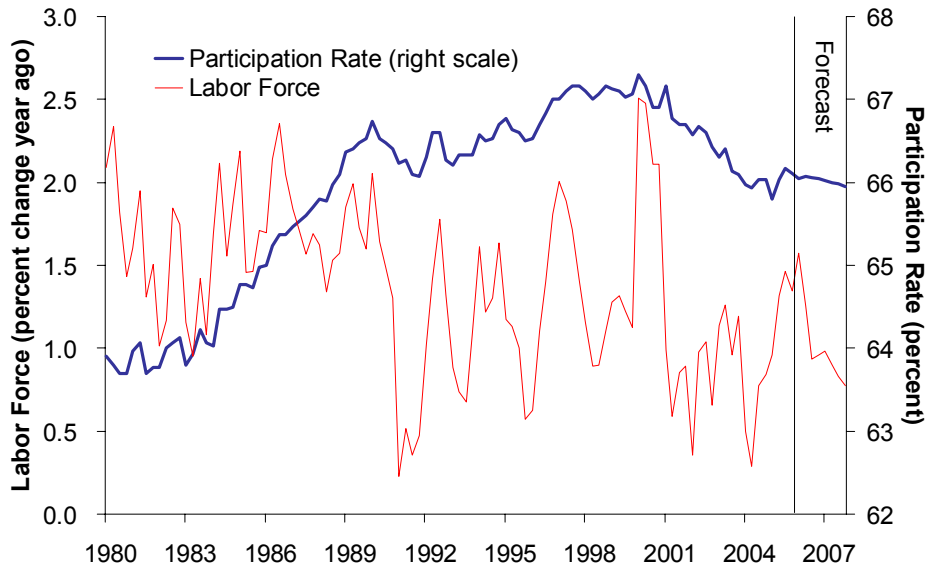
¹⁶ For a more complete discussion of the relationship between the high rates of productivity growth and the low rates of job growth that characterized the early phase of the current expansion, see New York State Division of the Budget, *2005-06 New York State Executive Budget — Financial Plan*, pp. 187-193.

ECONOMIC BACKDROP

caution with respect to expanding both the workforce and, as we will see below, their plant and equipment. Again, increased global integration has also increased firms' options for expansion. Anecdotal evidence suggests that some firms that are contracting their U.S. operations are in fact expanding overseas.¹⁷ According to BEA, the NIPA component most affected by outsourcing is imported business, professional, and technical services.¹⁸ Prior to the 2001 recession, demand for imported services appeared to have complemented the demand for such services produced domestically. However, more recently, it appears that firms may be substituting one for the other. In 2002, during the aftermath of the last recession, professional and business services employment fell by almost 2 percent, while growth in imported business, professional, and technical services only took a modest dip. This development represents a striking break from the past. These conditions are reflected in the Budget Division's forecast for wage growth of 5.4 percent for 2006, consistent with projected productivity growth of 2.3 percent and inflation of 3.1 percent. This forecast implies the continued presence of at least some slack in the labor market and suggests that wage growth will not be a significant source of output price pressure in the near future.

Figure 25

Labor Force Growth and the Labor Participation Rate



Source: Moody's Economy.com; DOB staff estimates.

¹⁷ See Jathon Sapsford, Norihiko Shirouzu, and Joseph B. White, "Toyota Maps Plan To Displace GM As Top Car Maker," *The Wall Street Journal*, November 19, 2005; Page A1.

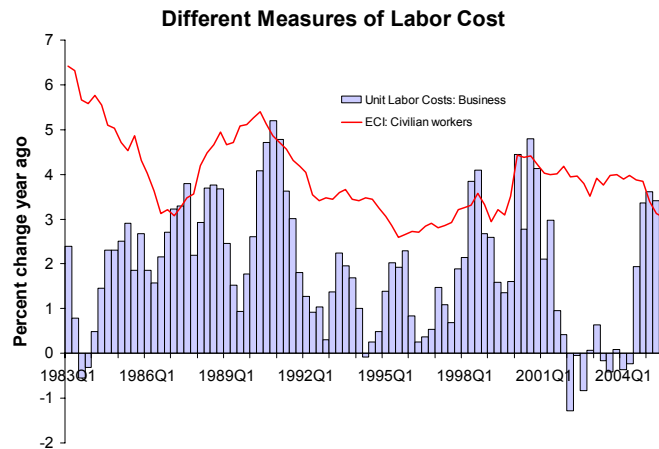
¹⁸ See < http://www.bea.gov/bea/dn/GDP_outsourcing.pdf>.

**BOX 4
DIFFERENT MEASURES OF LABOR COST**

The U.S. Bureau of Labor Statistics (BLS) provides several measures of labor cost. One of these measures, unit labor costs, is defined as the cost of labor per unit of output and is calculated by dividing total employee compensation by total output. An increase in unit labor costs could be a result of an increase in compensation, either in the form of wage and salary hikes, an increase in benefit costs, or a decrease in the amount of capital equipment per worker or, perhaps, a reduction in its quality. An increase in labor productivity would tend to decrease unit labor costs. Therefore, these two measures often go hand in hand. However, like the productivity data, unit labor cost data only cover the private sector. Thus, they include the self-employed, also known as proprietors' income, but exclude all government employment.

An alternative measure of labor costs is the Employment Cost Index (ECI), a closely watched indicator of wage and salary and benefit costs designed to be unaffected by employment shifts between occupations and industries. The latter objective is attained by holding constant the distribution of employment among industries and occupations over time. The ECI excludes farm, household, and federal government employees, as well as the self-employed. While this concept is similar to the compensation measure used to compute unit labor costs, the two are based on different estimation methods. Both the wage and salary and the benefits components of the ECI are based on National Compensation Survey (NCS) data. The measure of wages and salaries used in calculating unit labor costs is based primarily on Current Employment Survey (CES) data, though with adjustments based on NCS data. The benefits component of unit labor costs is imputed by BLS.

Because the ECI is a measure of costs per hour of work, while unit labor costs are measured per unit of output, changes in the ECI match changes in average hourly earnings more closely than they match unit labor cost growth. In addition, as seen in the figure below, unit labor costs are more volatile, since they reflect the cyclical nature of labor productivity, and unit labor costs lack the stabilizing influence of fixed industry-occupation weights. Thus, a shift in the mix of jobs away from low-paying occupations toward high-paying occupations would increase unit labor costs even if the wages paid by the particular jobs had not changed. This would not be true with the ECI.



Source: Moody's Economy.com.

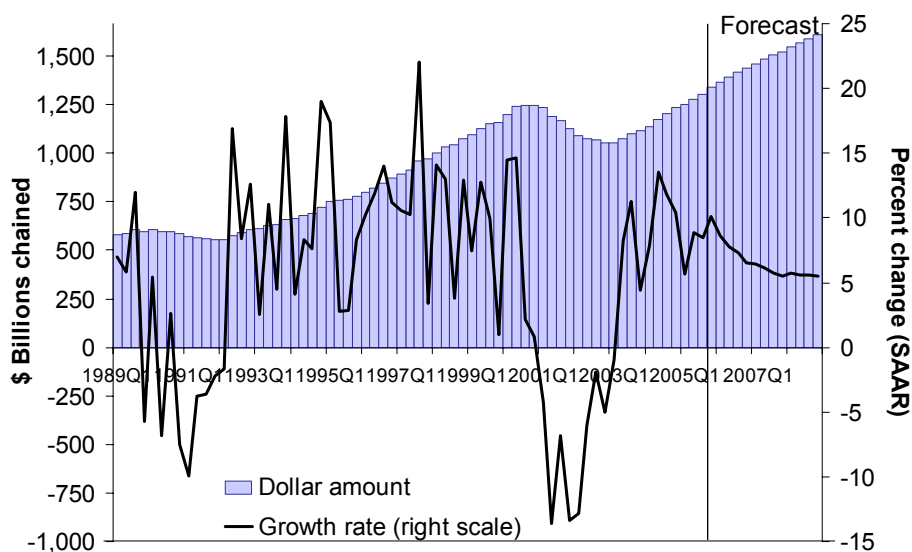
BUSINESS INVESTMENT REMAINS HEALTHY

Business fixed investment — spending by businesses on offices, factories, equipment, and software — is a relatively small share of gross domestic product (GDP), accounting for about 11 percent of the total, but has been quite volatile historically. As a consequence, it has had a disproportionate impact on changes in GDP. The business sector's rapid rate of investment in capital goods led the long economic expansion of the 1990s, while the subsequent unwinding of that growth factors significantly in the persistent weakness that followed the relatively shallow 2001 recession (see Figure 26). However, strong economic growth in 2004 and 2005 translated into healthy investment growth as well, with quarterly growth averaging 12.1 percent over the seven quarters from 2004Q1 through 2005Q3.

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Although, as growth in the overall economy decelerates in 2006, so will business sector investment, though to a smaller degree. The Budget Division expects growth in nonresidential fixed investment to slow to 8.4 percent in 2006, following growth of 9.0 percent in 2005.

Figure 26
Real Nonresidential Fixed Investment



Source: Moody's Economy.com; DOB staff estimates.

A number of factors were quite favorable to the recovery of investment spending over the last two years. Profit maximizing firms are assumed to choose a level of investment that achieves an optimal long-run relationship between the expected level of sales and the stock of plant and equipment, given the input and output prices that firms currently face in the marketplace and expect to face in the future.¹⁹ Strong economic growth in 2004 and 2005 implied strong sales, which in turn motivated firms to expand and invest. Indeed, before hurricane-related costs hit the finance and insurance sector, corporate profits were quite strong, and the corporate sector responded to that signal with solid investment growth. Similarly, a reduction in the cost of acquiring and using capital goods, commonly referred to as the user cost of capital, also induces firms to purchase more capital. Factors that reduce the user cost include a decrease in the prices of new investment goods, declines in inflation-adjusted borrowing costs, rising equity prices, and changes in the tax code that favor investment.²⁰ Although short-term borrowing costs have been rising since the middle of 2004, they remain low from a historical perspective, while long-term corporate bond rates have remained virtually flat over the last 12 months. In addition, Federal tax policy actions served to lower the financial cost of capital.²¹

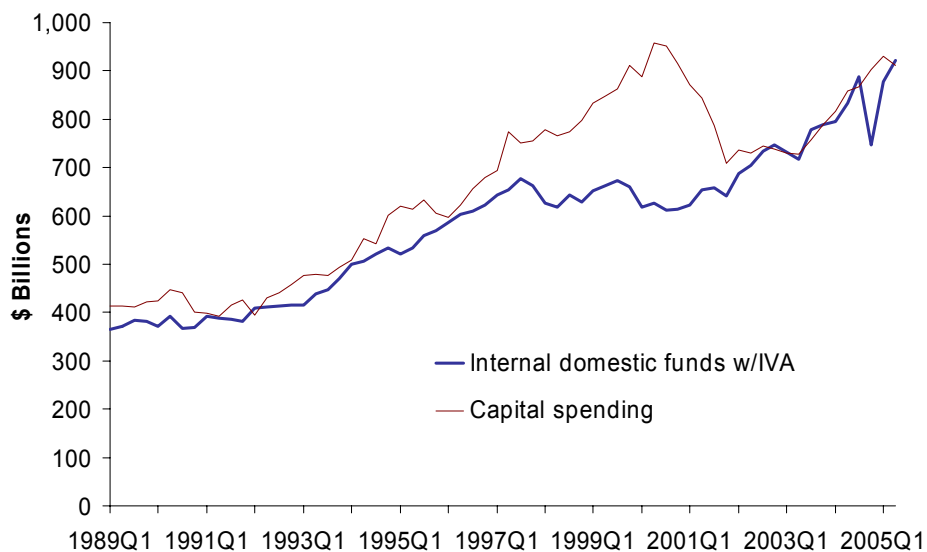
¹⁹ Optimal investment is the level that maintains the profit maximizing or cost minimizing capital-output ratio. With a Cobb-Douglas production function, the optimal capital-output ratio will be equal to the ratio of the price of output to the rental rate of capital. This condition implies that the optimal growth rate of investment varies with output growth and changes in the rental rate of capital relative to output price.

²⁰ Rising equity prices reduce the relative financial cost of capital, holding dividend payments constant.

²¹ Legislation was enacted in March of 2002 that, among other things, allowed firms to immediately deduct an additional 30 percent of the value of certain qualifying capital assets and software in the first year, if such property is placed in service between September 11, 2001 and September 11, 2004. In later tax legislation signed into law in May 2003, the partial expensing provision was increased to 50 percent and the purchase date was moved forward to December 31, 2004.

Some of the above factors are expected to wind down for 2006. Overall economic growth is expected to decelerate over the course of the year. Both short and long-term interest rates are expected to rise this year, increasing the user cost of capital. In addition, there are no new Federal fiscal policy initiatives of consequence coming online for 2006. The projected slowdown in nonresidential fixed investment is consistent with this outlook. Nevertheless, the Budget Division expects to continue to see healthy, albeit slower growth of spending on nonresidential plant and equipment for 2006 and the outyears.

Figure 27
Finance Gap for Nonfinancial Corporations



Source: Moody's Economy.com.

The Budget Division forecast for nonresidential investment is not without risk. There is evidence that despite healthy rates of investment growth, capital spending has been restrained. Figure 27 shows the corporate “financing gap,” defined as the difference between the amounts of internal funds available for investment and the amount actually spent, and indicates a historically large degree of restraint in capital spending. There is anecdotal evidence suggesting that some U.S. firms are buying back their equities from the public, while others are increasing their direct investments abroad, building offices and plants and buying equipment for those facilities in foreign countries. BEA data on foreign direct investment indicate that while capital inflows into the U.S. increased 112.6 percent between 1994 and 2004, outflows increased 213.0 percent. There has also been speculation that these funds could be used to spur a new wave of mergers and acquisitions that appears to be emerging.

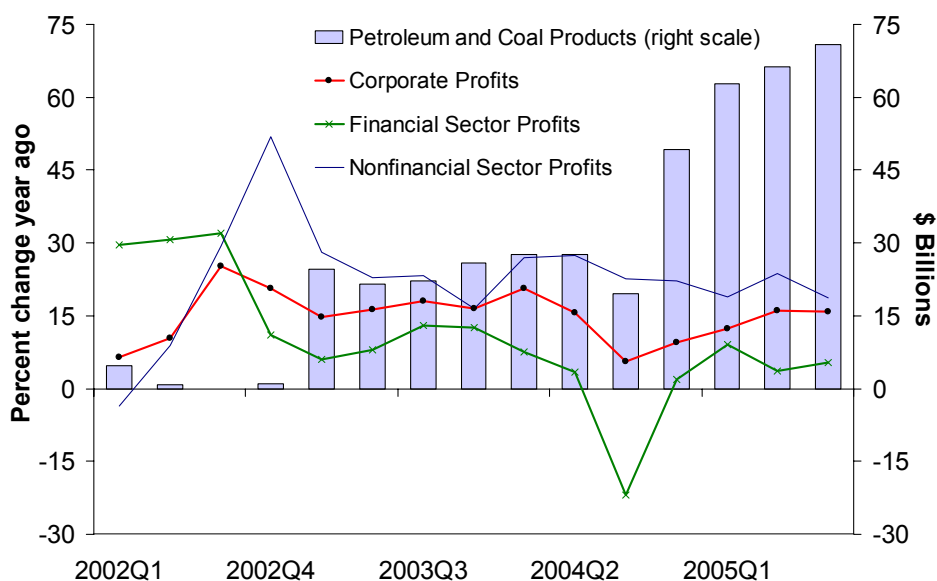
Outlook for U.S. Corporate Profits and the Stock Market

The recent combination of high productivity growth and restrained spending by businesses has resulted in strong growth in corporate profits from current production (including the capital consumption and inventory valuation adjustments). While corporate profits to date have shown strong growth in 2005, examining corporate profits by industry group shows that there has been considerable variation in the growth of profits by industry (see Figure 28). Most of the growth in profits over the last two years has been concentrated in nonfinancial industries, specifically the petroleum and coal industries. This reflects the recent trend of rising energy prices, brought about by tightened supplies and increased global

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demand for energy inputs by the Asian economies. Another factor that seems to have played a role is a special one-time change in U.S. tax law that expires at the end of 2005. Under this law, companies were allowed to transfer profit from overseas operations back to the U.S. and pay a special low tax rate of 5.25 percent (versus a normal effective rate of close to 25 percent for many U.S. firms). As of the end of the third quarter of 2005, U.S. companies had announced plans to repatriate some \$206 billion in foreign profits to the U.S.²² Meanwhile, profit growth has been less robust for the financial industry — and for the second year in a row, profits in the financial sector were adversely affected in the third quarter by the recently ended hurricane season, due to payouts by insurance companies to survivors of hurricanes Katrina, Rita, and Wilma.

Figure 28
Corporate Profits by Industry



Source: Moody's Economy.com.

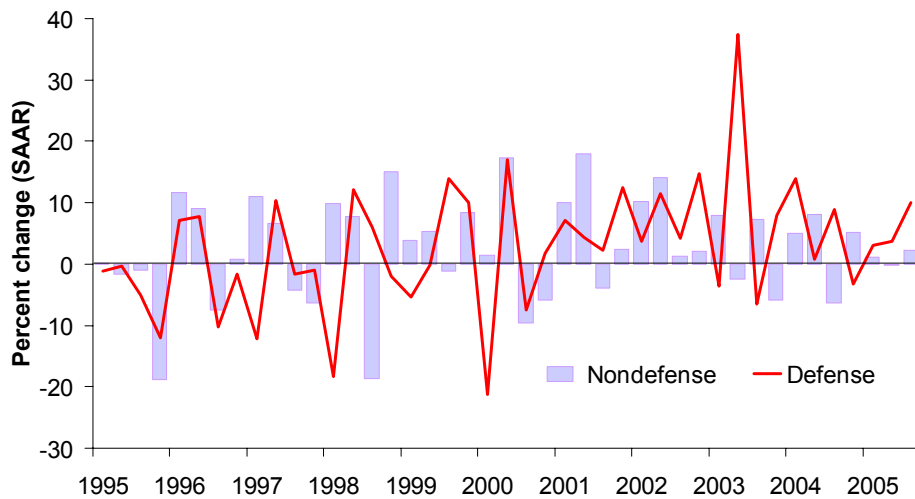
Going forward, though, the Budget Division expects that overall corporate profitability will diminish under pressure from various sources. These include rising interest rates and increased unit labor costs as productivity declines. However, these higher costs are expected to be partially offset by increased pricing power as inflationary pressures build. The Budget Division projects growth in corporate profits from current production to fall to 8.7 percent in 2006, from 15.0 percent growth for 2005. Lower growth in corporate profits will be reflected in turn through diminished equity price growth. The stock market is typically viewed as a leading indicator, since equity prices represent how investors assess the long-term value of holding stocks. Thus, over the long term, equity values depend on present and expected future corporate profits, discounted by the interest rate. As we enter a phase of monetary tightening, the rate on Baa corporate bonds is expected to rise from 6.07 percent in 2005 to 6.93 percent in 2006. Therefore, rising interest rates and diminished profits growth will restrain the rise in equity values. The Budget Division projects that the stock market, as represented by Standard and Poor's 500 Index (S&P 500), will rise 10.0 percent in 2006. Though projected growth for this year is above the 6.8 percent increase in 2005, it is well below the 17.3 percent growth experienced in 2004.

²² "Tax Break Brings Billions to U.S., But Impact on Hiring is Unclear," Timothy Aeppl, *The Wall Street Journal*, October 5, 2005, page A1.

Outlook for Government Spending

The impact of the Iraq war on Federal government spending has been significant. Between the second quarter of 2003 and the third quarter of 2005, real Federal government expenditures rose more than 13 percent. This increase has been largely driven by a 37 percent rise in defense spending at the beginning of the war. During those 12 quarters, real defense spending grew at an average annualized rate of 7.0 percent, compared to an average rate of 1.3 percent for nondefense spending (see Figure 29). In contrast, from the first quarter of 1990 through the first quarter of 2003, the average annual percent change in the defense portion of real spending was slightly negative.

Figure 29
Federal Government
Real Consumption Expenditures and Investment



Source: Moody's Economy.com.

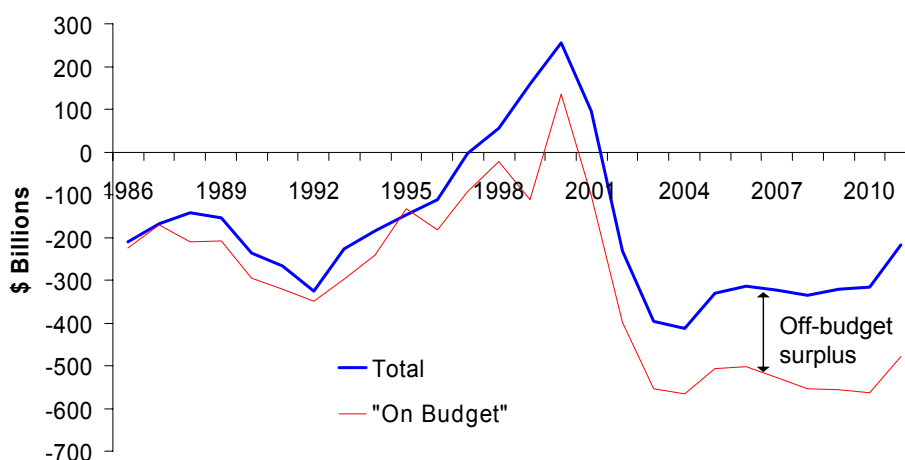
The Federal government spent \$2.7 billion in both September and October for emergency readiness and response following the hurricanes. In November and December, the Federal government spent a total of \$9.1 billion and 4.3 billion, respectively, which suggests that spending will be high during the fourth quarter as well, although funds spent in the form of transfer payments are not reflected in the Federal government portion of GDP.

For 2006, Federal government spending is expected to decelerate as hurricane relief dissipates and troops return home from Iraq. Pressure from the budget deficit is expected to keep nondefense spending growth low as well. The Budget Division projects growth of 2.4 percent in the Federal contribution to real GDP for 2006, following 2.6 percent growth for 2005. The moderate slowdown in spending for 2006 is expected to be accompanied by a small reduction in the Federal government budget deficit.²³ For the Federal fiscal year ending October 31, 2006, the Congressional Budget Office (CBO) projects a constant law budget deficit of \$314 billion, following a deficit of \$331 billion for the 2005 fiscal year (see Figure 30).²⁴

²³ A reduction in the federal contribution to real U.S. GDP does not necessarily imply a lower deficit. Entitlement spending is accounted for under the NIPA as transfer payments to individuals and, therefore, does not represent value added by the government.

²⁴ Discounting the Social Security trust fund surplus, these deficits become \$507 billion in 2004-05 and \$503 billion in 2005-06, assuming no changes to current tax law or additional spending initiatives.

Figure 30
Federal Budget Deficit



Note: Values for 2005-2011 are Congressional Budget Office (CBO) estimate and forecast. Off-budget surplus includes Social Security trust fund and Postal Service.
Source: Moody's Economy.com; The Budget and Economic Outlook: An Update, Congressional Budget Office (CBO), September 2005.

Spending at the state and local level is expected to grow with increasing tax receipts. From the last quarter of 2004 through the quarter of 2005, state tax revenues as reported under the National Income and Product Accounts increased an average of over 12 percent, seasonally adjusted at annualized rates. The state and local government component of real GDP is expected to grow 2.1 percent for 2006, following growth of 1.6 percent in 2005. Overall growth in real government spending of 2.2 percent is projected for 2006, following growth of 2.0 percent for 2005.

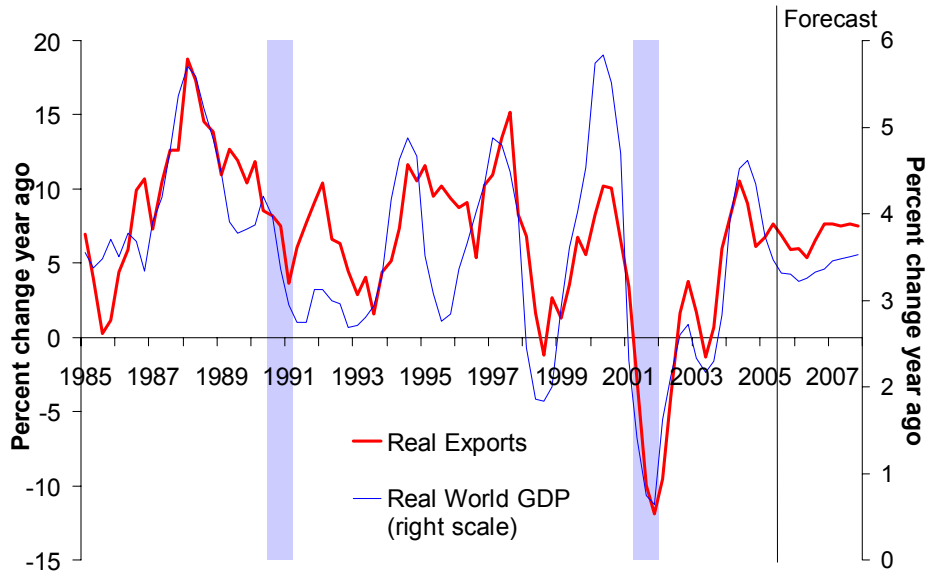
The total value of the national debt held by the public, including both U.S. Treasury and nonmarketable securities, has been increasing steadily since 2002. To date, no significant crowding out of private sector investment by public sector borrowing has been observed. Indeed, the 10-year Treasury rate has remained conspicuously low. However, as discussed above, these low government borrowing rates are to some extent related to the high demand for U.S. government securities among foreign governments interested in staving off the appreciation of their currencies in relation to the U.S. dollar. Given the historically high level of the combined government and trade deficits as a percentage of GDP, the Federal government deficit is yet another significant risk to our interest rate forecast.

The International Economy

Over the last decade, the global economy has become increasingly integrated, and as a result, the global business cycle has become ever more synchronous. Two forces are key to understanding this development. First, with China and much of the developing world becoming more market-oriented, not only are their economies getting larger, but their export orientation has made them more dependent on demand generated by the developed world. In addition, with the central banks of the developed world becoming increasingly focused on price stability, interest rates across the globe have had more of a tendency to rise together. Thus, with the expected deceleration of the U.S. economy in 2006, along with an expected rise in interest rates not only here but in many of the nation's major trading partners as well, a moderate slowdown in global growth is projected as well. Real world GDP is projected to grow 3.3 percent in 2006, following growth of 3.5 percent in 2005 and 4.4 percent in 2004.

Figure 31 shows the favorable impact a strengthening global economy can have on the demand for U.S. exports. The Division of the Budget forecasts that real U.S. exports will grow by 6.4 percent in 2006, following growth of 6.8 percent in 2005.

Figure 31
Real Export and World GDP Growth



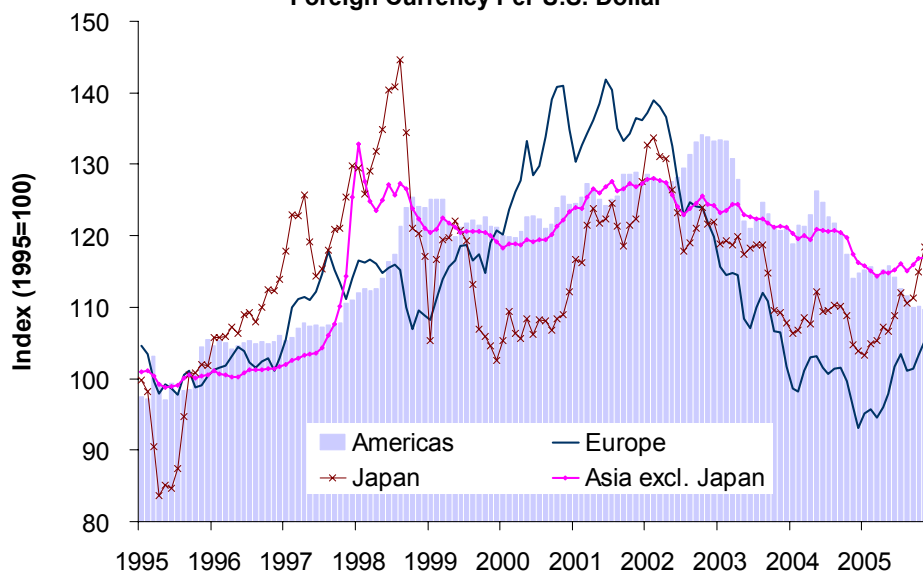
Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; Global Insight; DOB staff estimates.

Slower domestic growth in 2006 is expected to put downward pressure on the demand for imports. The Division of the Budget forecasts real import growth of 5.4 percent for this year, following growth of 6.0 percent in 2005. Although exports are projected to grow faster than imports in 2006, the expected differential is not enough to reduce the nation's trade deficit from about 6 percent of GDP. It is a puzzle that the dollar has not depreciated more. Here again, the integration of global capital markets and the central role played by the U.S. economy and, particularly the U.S. dollar, provides some insight. In a break from the period prior to the 1990s, a substantial portion of the increase in international savings has been generated by the developing world, particularly East Asia, Latin America, and the oil-producing nations that have benefited from the recent increases in the world price of oil. U.S. financial markets attracted a substantial portion of this "glut" of international savings, affecting both interest rates and the value of the dollar.²⁵

As observed in Figure 32, the dollar has enjoyed a gradual depreciation against the currencies of all of the nation's major trading blocks since 2002. The rate of depreciation against Asian currencies excluding Japan has been the smallest, since several Asian currencies, including the Chinese yuan, have traditionally been pegged to the dollar. The rate of depreciation has been steepest against the euro and the yen. Table 2 shows the rate at which total foreign holdings of U.S. Treasury securities has increased over the last two years, along with the holdings of the two countries that are the largest individual holders, Japan and China. As of October 2005, the most recent month for which data are available, foreign holdings of U.S. Treasury securities totaled \$2.1 trillion. Had it not been for the substantial foreign flows into U.S. capital markets, the dollar's depreciation might have been more severe.

²⁵ See Ben Bernanke (2005) "The Global Saving Glut and the U.S. Current Account Deficit," The Federal Reserve Board, Remarks by Governor Ben S. Bernanke At the Homer Jones Lecture, St. Louis, Missouri, April 14.

Figure 32
Trade Weighted Value of Dollar
Foreign Currency Per U.S. Dollar



Source: Moody's Economy.com.

In the near-term, a sudden depreciation of the dollar is a risk but not an expectation. Figure 32 shows that, though still down from its peak in 2002, the dollar has more recently strengthened against the euro and the yen, due primarily to recent increases in short-term U.S. interest rates. Indeed, Table 2 indicates that Japanese holdings of U.S. Treasuries showed virtually no growth in 2005. However, because of continued relatively weak, though improving growth, the Bank of Japan is likely to wait before ending its loose policy stance. Moreover, a stronger yen poses a risk to Japanese export growth. In contrast, in its December meeting, the European Central Bank raised its target interest rate for the first time in five years, from 2 percent to 2.25 percent, a development that may diminish the dollar's recent advances against the euro.

In a surprise move, China altered its currency policy during the summer of 2005, resulting in an appreciation of the yuan against the dollar of about 2 percent. Consistent with these events, China's holdings of U.S. Treasuries appear to have grown only half as fast in 2005 as they did in 2004. Nevertheless, total foreign holdings of U.S. treasury securities increased over 11 percent during the first ten months of 2005, indicating that even without the large increases by Japan and China seen in 2004, there is ample international demand for U.S. securities. Of course, should net capital inflow to the United States begin to subside, we would indeed observe downward pressure on the value of the dollar and on U.S. asset prices, which in turn would contribute to a reduction in the U.S. current-account deficit. And while it is believed that this development is likely to proceed only gradually over time, as developing nations create more domestic opportunities for investment, a more sudden turn of events is always a risk to the forecast.

TABLE 2
MAJOR FOREIGN HOLDERS OF TREASURY SECURITIES*
 (\$ in billions)

	Japan			Mainland China			Grand Total**	
	\$ Level	\$ Change	% Share of Total	\$ Level	\$ Change	% Share of Total	\$ Level	\$ Change
Jan-04	582.60		37.1	157.60		10.0	1,568.50	
Feb-04	613.20	30.60	38.1	155.00	(2.60)	9.6	1,609.20	40.70
Mar-04	645.30	32.10	38.6	158.70	3.70	9.5	1,670.00	60.80
Apr-04	651.80	6.50	38.1	163.90	5.20	9.6	1,711.20	41.20
May-04	666.40	14.60	38.2	165.80	1.90	9.5	1,743.80	32.60
Jun-04	677.50	11.10	37.7	180.45	14.65	10.0	1,796.05	52.25
Jul-04	675.40	(2.10)	37.8	196.40	15.95	11.0	1,788.20	(7.85)
Aug-04	699.40	24.00	38.7	201.60	5.20	11.2	1,806.40	18.20
Sep-04	698.80	(0.60)	38.2	209.40	7.80	11.4	1,830.80	24.40
Oct-04	692.30	(6.50)	37.4	214.80	5.40	11.6	1,849.00	18.20
Nov-04	693.00	0.70	36.8	220.20	5.40	11.7	1,882.80	33.80
Dec-04	689.90	(3.10)	36.6	222.90	2.70	11.8	1,885.50	2.70
Jan-05	679.30	(10.60)	35.6	223.50	0.60	11.7	1,909.10	23.60
Feb-05	680.70	1.40	35.0	224.90	1.40	11.6	1,947.00	37.90
Mar-05	680.50	(0.20)	34.4	223.50	(1.40)	11.3	1,977.80	30.80
Apr-05	685.70	5.20	34.3	240.50	17.00	12.0	2,001.00	23.20
May-05	686.20	0.50	33.8	243.50	3.00	12.0	2,028.30	27.30
Jun-05	681.20	(5.00)	33.8	243.70	0.20	12.1	2,012.60	(15.70)
Jul-05	683.30	2.10	33.6	242.10	(1.60)	11.9	2,034.20	21.60
Aug-05	684.60	1.30	33.2	248.00	5.90	12.0	2,063.10	28.90
Sep-05	687.30	2.70	33.3	252.20	4.20	12.2	2,065.50	2.40
Oct-05	681.60	(5.70)	32.4	247.60	(4.60)	11.8	2,102.00	36.50

* Estimated foreign holdings of U.S. Treasury marketable and nonmarketable bills, bonds and notes are based on Treasury Foreign Portfolio Investment survey benchmarks and on monthly data reported under the Treasury International Capital (TIC) Reporting System.

** Grand Total is the total of all 27 countries included in the Portfolio Investment Survey.

Source: U.S. Department of the Treasury/Federal Reserve Board.

Over the long-term, the U.S. economy continues to see the impact of global integration. Capital inflows from foreign nations have affected not only exchange rates, but interest rates as well. As discussed above, long-term U.S. interest rates have remained stubbornly low, resulting in the infamous interest rate “conundrum.” A recent study finds that above average capital inflows have lowered the yield on 10-year Treasury notes a full percentage below where it otherwise would be.²⁶ This episode demonstrates that among the many ramifications of a more integrated global economy, the capacity of a central bank to fully achieve its policy goals may be in question. There may be other risks associated with increased global integration as well. The housing market boom now believed to be winding down has been of global dimension. The possibility of a global real estate bubble creates the potential for a global bust. More generally, with national business cycles becoming more synchronous, the benefits of international diversification will diminish over time, with the risk that global recessions will be deeper than in previous downturns.

Comparison with Other Forecasters

Table 3 compares the Budget Division’s (DOB) forecast for a selection of U.S. indicators with those of other forecasting groups. Forecasts for real U.S. GDP growth for 2006 range from a low of 3.3 percent (DOB) to a high of 3.7 percent (Macroeconomic Advisers and Moody’s Economy.com). DOB’s 2006 inflation forecast of 3.1 percent is at the high end of the forecast range, but not far above the Blue Chip Consensus and lower than that of Moody’s Economy.com. Unemployment rate forecasts for 2006 range between 4.8 and 5 percent, with DOB’s forecast right in the middle.

²⁶ See Francis E. Warnock and Veronica C. Warnock (2005), “International Capital Flows and U.S. Interest Rates,” The Federal Reserve Board, *International Finance Discussion Papers*, 2005-840.

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TABLE 3
U.S. ECONOMIC FORECAST COMPARISON

	2005 (preliminary)	2006 (forecast)	2007 (forecast)	2008 (forecast)	2009 (forecast)
Real U.S. GDP (% change)					
DOB	3.6	3.3	2.7	2.9	3.1
Blue Chip Consensus	3.6	3.4	NA	NA	NA
Moody's Economy.com	3.6	3.7	NA	NA	NA
Global Insight	3.6	3.4	2.7	3.0	3.2
Macroeconomic Advisers	3.6	3.7	3.4	NA	NA
Consumer Price Index (% change)					
DOB	3.4	3.1	2.5	2.6	2.6
Blue Chip Consensus	3.4	3.0	NA	NA	NA
Moody's Economy.com	3.3	3.2	NA	NA	NA
Global Insight	3.4	2.6	1.8	2.0	2.0
Macroeconomic Advisers	3.4	2.7	2.0	NA	NA
Unemployment Rate (%)					
DOB	5.1	4.9	4.9	5.0	5.1
Blue Chip Consensus	5.1	5.0	NA	NA	NA
Moody's Economy.com	5.1	4.9	NA	NA	NA
Global Insight	5.1	4.8	4.9	5.0	4.9
Macroeconomic Advisers	5.1	5.0	5.0	NA	NA

Source: Projections for 2005-2009 by New York State Division of the Budget, January 2006; Blue Chip Economic Indicators, December 2005; Moody's Economy.com, Macro Forecast, December 2005; Global Insight, US Executive Summary, January 2006; and Macroeconomic Advisers, Economic Outlook, January 2006.

Risks to the U.S. Forecast

Although the Budget Division believes that the U.S. economy will grow at approximately its long-term trend growth rate through the end of the forecast horizon, many risks attend this forecast. Some of these risks were analyzed above. However, more generally, the forecast is contingent upon the absence of severe shocks to the economy. Unpredictable events such as a terrorist attack remain the biggest risk to continued economic expansion. Such a shock could impair economic growth in many ways, such as causing a plunge in consumer confidence, the stock market, investment spending by firms, or impairing the transportation of economic goods and services, or causing a large spike in oil prices. A severe and extended downturn could easily materialize from such shocks.

There are other significant factors that could lead to noticeably lower economic growth. An extended period of energy prices that are higher than projected could well reduce the ability of consumers and businesses to spend on non-energy related items. Colder weather than normal in the Northeast could raise natural gas prices even further, and consumers might respond by reducing spending by more than is currently anticipated over the coming months. Such cutbacks could make firms behave even more cautiously and reduce business capital spending. Persistently high energy prices also raise the possibility that inflation expectations could ratchet higher, causing the Federal Reserve Board to tighten more than anticipated, and raising the likelihood of a major economic slowdown or even a recession.

A sharp reduction in the inflow of foreign funds might also add to inflationary pressures by weakening the U.S. dollar, which might also cause the Federal Reserve to increase rates more than currently anticipated. Such a development might also produce an imbalance in the market for U.S. Treasury securities, causing long-term rates to rise in order to fund the Federal budget deficit. Higher interest rates could, in turn, induce households to increase the personal saving rate, resulting in even further cutbacks in consumer spending. This risk would only be exacerbated by lower than expected equity or housing prices, particularly if

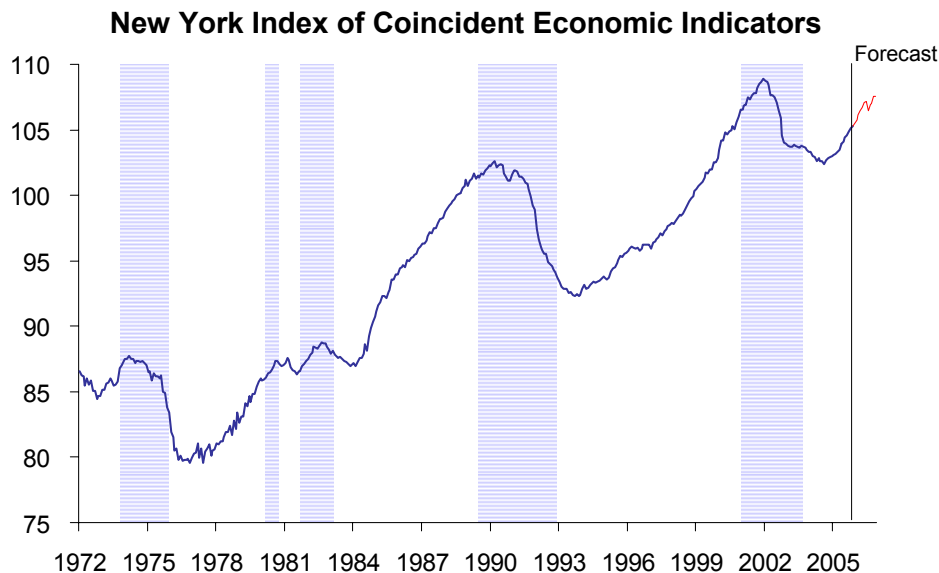
the anticipated easing of home prices happens suddenly rather than gradually as expected. Again, lower consumption growth could weaken expected future corporate profits and, in turn, lower employment and investment growth.

On the other hand, lower inflation than expected, perhaps as a result of an even greater drop in the price of oil or more modest growth in unit labor costs, possibly due to slower growth in wages or stronger productivity growth, could induce the Federal Reserve to keep monetary policy much less restrictive than expected, resulting in stronger consumption and investment growth than projected. 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. Moreover, stronger employment growth could result in higher real wages, supporting faster growth in consumer spending than currently anticipated.

THE NEW YORK STATE ECONOMY

The State's recovery from a lengthy recession that lasted almost two and one-half years is now well into its third year (see Figure 33 and Box 5). In 2005, private sector employment growth is estimated to have accelerated to 1.1 percent, following three consecutive years of job losses from 2001 through 2003 and 0.8 percent growth in 2004. Low interest rates and rising home prices, in particular, have powered the State's financial and housing sectors. As a net exporter of both financial, and professional and business services, the New York economy also benefits from strong growth in national corporate profits. In addition, New York City's tourism industry has been booming. However, as illustrated in Figure 33, the momentum of the State expansion may have peaked in 2005. Although the New York State Leading Index indicates continued growth through 2006, the rate of growth is expected to slow going forward. Thus, State private sector employment growth is projected to slow to 0.9 percent in 2006.

Figure 33



Note: Shaded areas represent N.Y. recessions. Forecast is derived from the New York Leading Index.

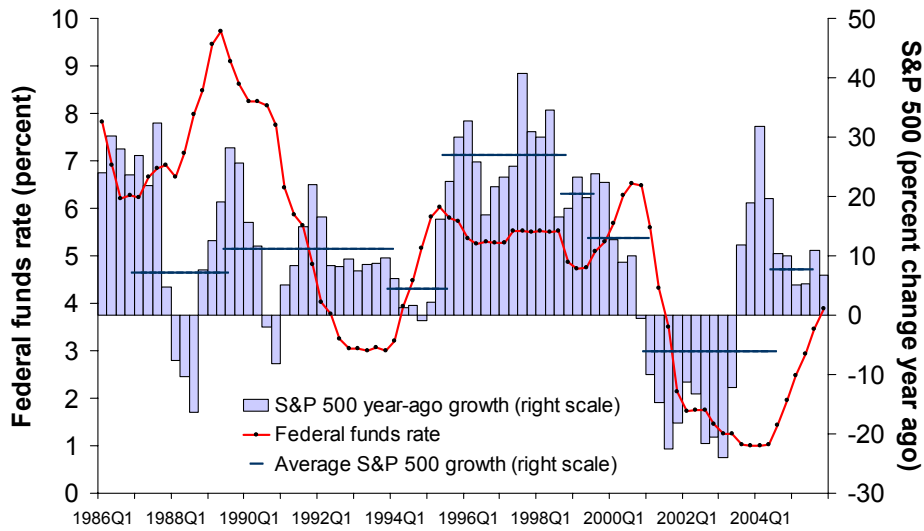
Source: Moody's Economy.com; DOB staff estimates.

The anticipated slowdown in the momentum of the State economy is largely due to three factors. First, with the Federal Reserve Board moving into a tightening mode, short-term interest rates will continue to rise at least through the first quarter of 2006. Historically,

ECONOMIC BACKDROP

equity prices have tended to weaken, at least temporarily, with a shift in the direction of monetary policy away from accommodation (see Figure 34). As shown earlier in Figure 2, term spreads have narrowed significantly, with the yield curve even inverting at times. The elimination of the spread between short- and long-term rates is particularly detrimental to entities such as banks and hedge funds that typically leverage short-term borrowed funds to lend or invest at longer-term rates. Second, with the housing market already starting to cool, a major driver of recent economic activity will diminish. Finally, the ratcheting down of U.S. corporate profits growth is expected to reduce some of the strong momentum observed in the State's professional and business services sector in 2005.

Figure 34
Equity Markets and Monetary Policy



Source: Moody's Economy.com.

**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.

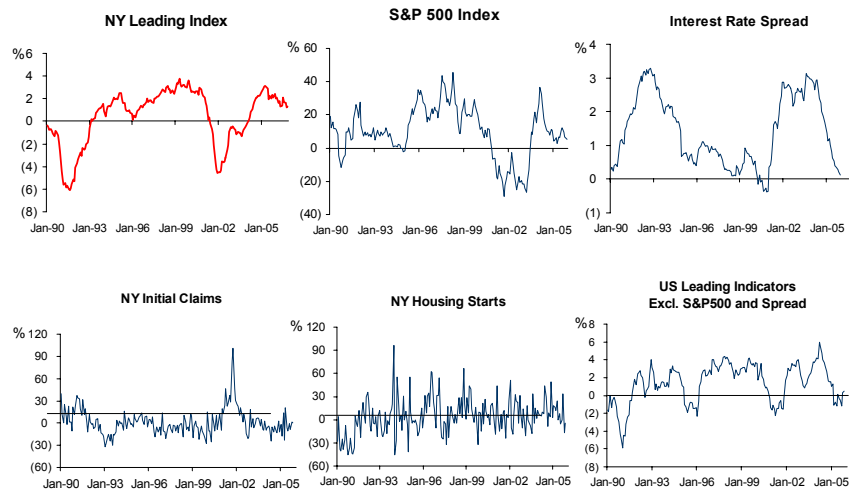
NEW YORK STATE BUSINESS CYCLES

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	324,600

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 starts, 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: Moody's Economy.com, DOB staff estimates.

¹ 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.

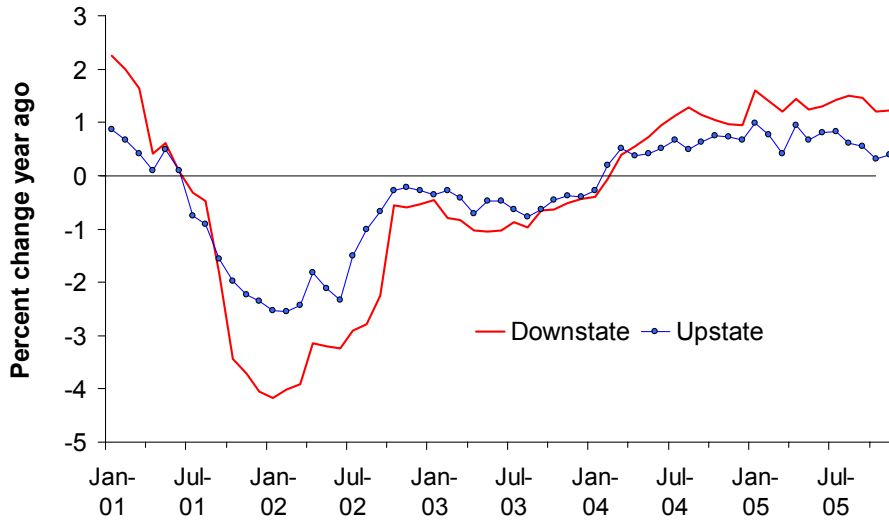
² J.H. Stock and M.W. Watson (1991), "A Probability Model of the Coincident Economic Indicators," in K. Lahiri and G. H. Moore (eds.), *Leading Economic Indicators: New Approaches and Forecasting Records*, New York: Cambridge University Press, pp. 63-85.

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The State's labor market slowdown is expected to be concentrated upstate. Figure 35 compares private sector employment growth for the ten-county downstate region with that of the rest of the State for the period from January 2001 through November 2005. Although the events of September 11 put Manhattan at the center of the State's economic downturn, the downstate regional economy has seen a dramatic turnaround. The most recent Current Employment Statistics (CES) data indicate that since May 2004, the ten-county downstate region has added jobs at a significantly faster pace than upstate.

Figure 35

Private Sector Employment Growth: Upstate vs. Downstate

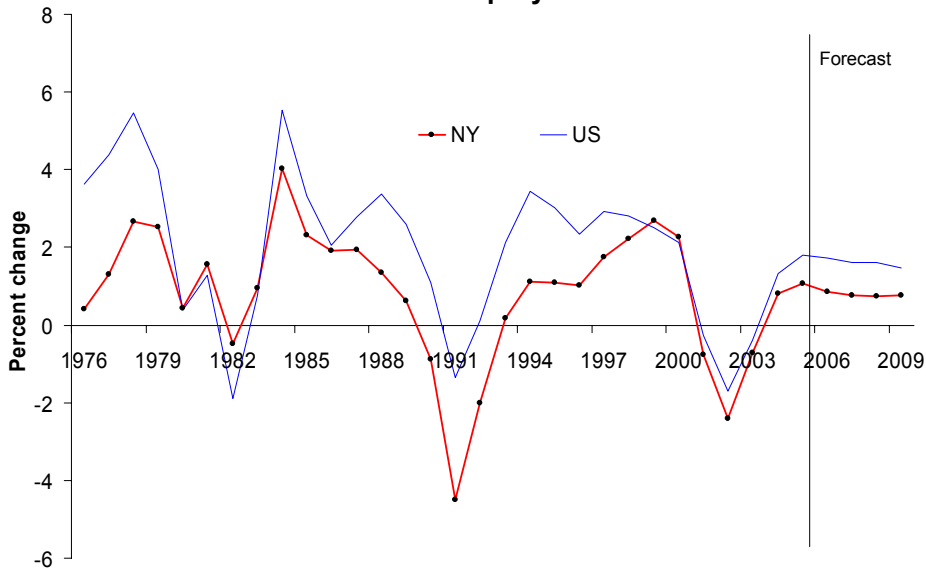


Note: Upstate is defined as the State total minus the ten downstate counties.
Source: NYS Department of Labor, CES data.

Outlook for Employment

Total State nonagricultural employment is projected to rise 0.8 percent in 2006, a slight decrease from growth of 0.9 percent for 2005. Projected growth for 2006 is below the 1.6 percent expected increase for the nation as a whole, but consistent with historical trends in relative employment performance. Since 1960, the State's rate of employment growth during expansions has been consistently below that of the nation (see Figure 36). Private sector employment is projected to grow 0.9 percent in 2006, representing an increase of about 60,000 jobs, following growth of 1.1 percent for 2005. Government sector employment is expected to grow by 0.3 percent for 2006, the same as in 2005. Table 4 reports projected changes in employment for selected groupings of North American Industry Classification System (NAICS) sectors. Job growth is expected to be broad-based, with the exception of the manufacturing and utilities sectors, which are expected to continue to show job losses. The greatest gains are expected to be experienced in the health and social assistance sector, followed by the leisure and hospitality sector and the management, administrative and support services sector. The State's average annual unemployment rate is expected to be 5.0 percent in 2006, the same as that in 2005. The State's unemployment rate peaked most recently at 6.5 percent in September 2003, which compares favorably with past recessions.

Figure 36
Private Sector Employment Growth



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

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TABLE 4
CHANGE IN NEW YORK STATE EMPLOYMENT FOR 2006
SELECTED SECTORS

	Percent	Levels
Total Private	0.9	59,900
Utilities	(0.4)	(200)
Construction	1.0	3,200
Manufacturing and Mining	(1.1)	(6,200)
Wholesale Trade	0.5	1,700
Retail Trade	0.6	4,900
Transportation and Warehousing	0.8	1,800
Information	0.1	400
Finance and Insurance	0.4	1,900
Real Estate and Rental and Leasing	1.4	2,700
Professional, Scientific and Technical Services	0.6	3,200
Management and Admin. and Support Services	1.1	5,800
Educational Services	1.8	4,700
Healthcare & Social Assistance	2.1	24,200
Leisure, Hospitality and Other Services	1.2	11,700
Government	0.3	4,900
Total	0.8	64,800

Note: Management, administration and support services include NAICS sectors 55 and 56. Sum of sectors may not match the total due to rounding.

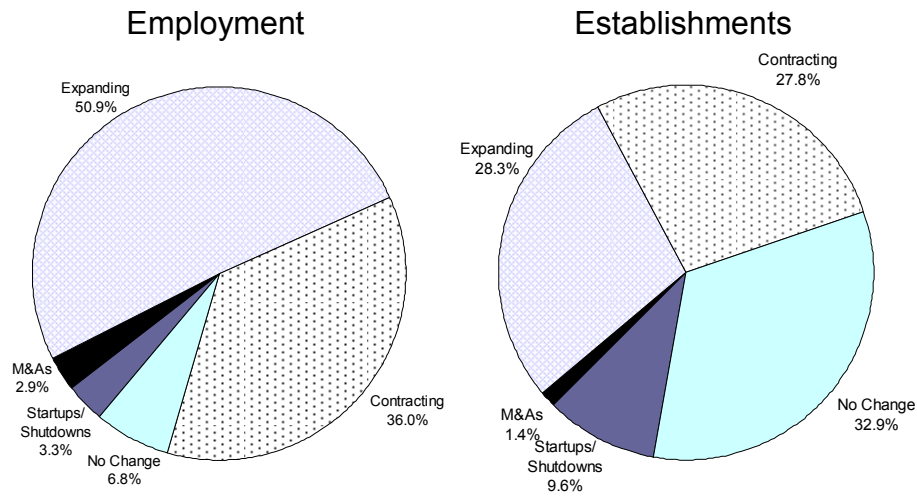
Source: NYS Department of Labor; DOB staff estimates.

Current labor market dynamics support the Budget Division forecast for continuing growth in the State's labor market. During times when State employment is growing slowly, or even falling, an examination of the underlying dynamics reveals an extremely active labor market — even in the worst of times, new firms are created and existing firms add jobs. For example, though private sector employment fell 2.4 percent in 2002, about 39.7 percent of the State's business establishments created jobs. As New York's economic expansion proceeds, 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 either shutting down or laying off workers can be expected to fall. Box 6, page 83, describes the methodology used to perform the analysis.

Figure 37 shows the composition of the State's employment and establishment base, as defined in Box 6, for the second quarter of 2005 by establishment type. Startups and shutdowns accounted for about 9.6 percent of the establishment base for 2005Q2, but because these firms tend to be quite small, averaging only about five employees, they accounted for only about 3.3 percent of the State's private sector employment base for that quarter. Startup firms added 89,800 employees to total employment, net of shutdowns. Firms that were either acquired or absorbed by other firms accounted for 1.4 percent of the establishment base. The average size of these firms was about 26 employees and accounted for 2.9 percent of employment.

Existing firms represent an overwhelming proportion of both private sector establishments and employment — 89 percent of the State's establishment base and 93.7 percent of the job base in the second quarter of 2005. Existing firms are classified according to whether they added jobs, lost jobs, or remained unchanged relative to the same quarter of the prior year. As indicated in Figure 37, these types accounted for roughly equal shares of establishments in the second quarter of 2005 but 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 less than three employees, expanding firms averaging 23 employees, and contracting firms averaging 17. 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 37
Composition of State's Employment and Establishment Base
2005Q2

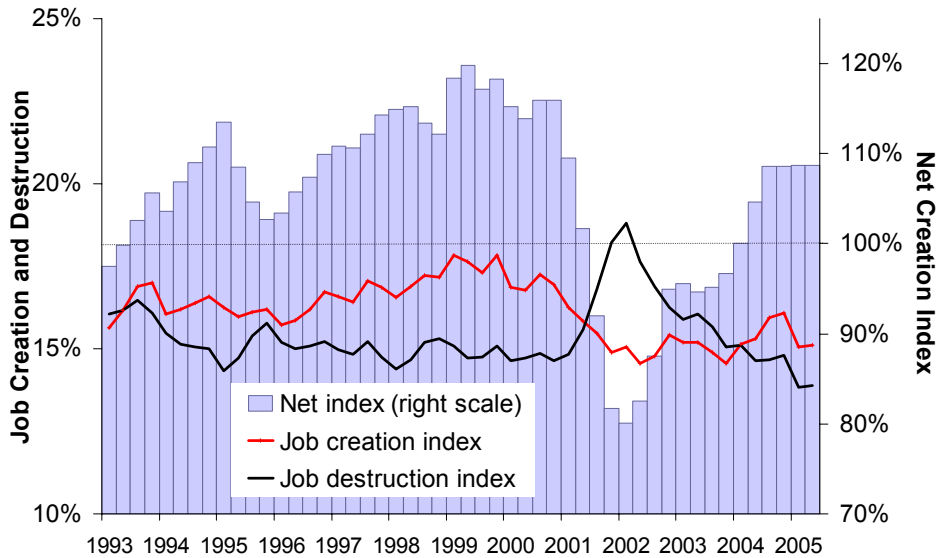


Source: NYS Labor Department; DOB staff estimates.

Figure 38 shows the gross rates of job creation and destruction, as defined in Box 6 for the period from the first quarter of 1993 through the second quarter of 2005. When 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, except for a small widening in the second quarter of 2003, perhaps indicating the impact of the Iraq war on the business sector outlook. Late in 2003, the expanding national economy gave a boost to New York, bringing the State's 2001-2003 recession to an end. And because a significant portion of the State economy is export-oriented (see Figure 39), global growth combined with a strong U.S. economy to keep the State's net job creation index above 100 percent from the first quarter of 2004 to the second quarter of 2005. Continued, albeit slower, national and global growth is expected to contribute to a modest pace of job growth for New York in 2006. The job creation index remained solidly above the job destruction index for five consecutive quarters starting in 2004Q2, supporting the Budget Division forecast for private sector employment growth of 0.9 percent for 2006, following 1.1 percent growth in 2005.

Figure 38

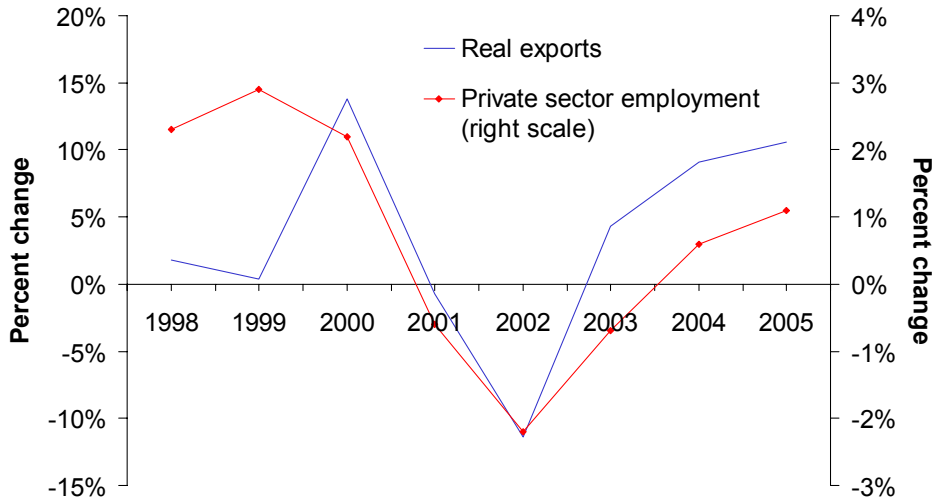
NYS Private Sector Employment Dynamics



Source: NYS Department of Labor; DOB staff estimates.

Figure 39

Growth in Real Exports from New York and Private Sector Employment



Note: Growth rates for 2005 are based on ten months of data for real exports and 11 months of data for private employment.

Source: Moody's Economy.com.

**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 Quarterly Census of Employment and Wages (QCEW) 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 2005, the most recent period for which data are available, the QCEW data covered 550,821 private sector establishments in New York State and 6,938,762 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 to 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 QCEW 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 2004 and the second quarter of 2005 is constructed by adding together the number of jobs created by firm startups (firms which existed during the second quarter of 2005 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 2004 and the second quarter of 2005, a total of 1,042,301 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 2005 job count, we follow BLS and define the base as the average of the two quarters. Performing this calculation for the second quarter of 2005 produces the following:

$$\text{Gross rate of job gains} = \frac{\text{Startup gains} + \text{Existing firm gains} + \text{M \& A gains}}{\text{Base}} = \frac{1,042,301}{6,897,039} = 15.1\%$$

This result indicates that the State's gross rate of job creation for the second quarter of 2005 is 15.1 percent. An analysis of job creation at the establishment level also confirms the conventional wisdom that small firms are the State economy's primary growth engine. For example, of the over one million gross number of jobs created during the second quarter of 2005, 51 percent were created by firms with less than 50 employees. Another 24 percent were created by medium sized firms of between 50 and 250 workers, and the remaining 25 percent by large firms with workforces exceeding 250.

(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 2005," <<http://www.bls.gov/news.release/pdf/cewbd.pdf>>. This study examines QCEW data aggregated across industries from the first quarter of 1992 through the first quarter of 2005. The considerable 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 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 QCEW 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.

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BOX 6 (CONTINUED FROM PREVIOUS PAGE)

We similarly construct a gross rate of job destruction by adding together employment at firms that existed in the second quarter of 2004 but not in the second quarter of 2005, 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 2005 yields:

$$\text{Gross rate of job losses} = \frac{\text{Shutdown losses} + \text{Existing firm losses} + \text{M \& A losses}}{\text{Base}} = \frac{958,860}{6,897,039} = 13.9\%$$

This result states that the gross rate at which jobs were lost between the two quarters is 13.9 percent.

For the second quarter of 2005, the gross rate of job creation exceeded the gross rate of job destruction. The net change in employment can also be represented by a net index of job creation, constructed by dividing the gross rate of job gains by the gross rate of job losses. For the second quarter of 2005, this calculation yields:

$$\text{Net index of job creation} = \frac{\text{Gross rate of job gains}}{\text{Gross rate of job losses}} = \frac{15.1\%}{13.9\%} = 108.7\%$$

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

As illustrated in the table below, two industries can have similar values for the net index but have very different underlying dynamics. For the second quarter of 2005, the educational services sector and the professional, scientific, and technical services sector had similar net indices of job creation of 115.6 percent and 113.5 percent, respectively. However, underlying these numbers lie very different dynamics. The professional, scientific, and technical services sector has a much higher turnover rate than the educational services sector. Understanding these differences has implications for fine-tuning the Budget Division employment forecast.

Sector (NAICS code)	Gross rate of job creation	Gross rate of job destruction	Net index of job creation
Educational Services (61)	8.8%	7.6%	115.6%
Professional, Scientific, and Technical Services (54)	16.9%	14.9%	113.5%

Figure 38 in the text above plots the gross rates of job creation and destruction (measured on the left scale) along with the net creation index (measured on the right scale) from the first quarter of 1993 to the second quarter of 2005 for the entire State private sector. Visual inspection suggests a lag between declines in the rate of job creation and increases in the rate of job destruction. This observation is confirmed by statistical analysis:

$$\Delta \ln loss_t = -0.0033 + 0.6604 * \Delta \ln loss_{t-1} - 0.4659 * \Delta \ln loss_{t-2} - 0.7184 * \Delta \ln gain_{t-1}$$

(0.0035) (0.1247) (0.1293) (0.1369)

The above equation states that a change in the gross rate of job loss depends on the change for the prior two quarters as well as the prior quarter's change in the gross rate of job gains. The coefficient on the latter term is large and statistically significant, indicating substantial predictive power. Its negative sign indicates that when the economy turns down, a slowdown in new hires tends to precede an increase in layoffs of existing workers. The reverse hypothesis, that a change in the rate of job losses precedes a change in the rate of job gains, was also tested but rejected. The most recent QCEW data indicate that for the first two quarters of 2005, the rate of job creation was down relative to the end of 2004, possibly signaling that the rate of job destruction may increase in the near future. This development would result in a weakening of net employment growth, consistent with the Budget Division forecast.

In order to obtain first-hand information about business sector sentiment for the coming year, the University at Albany Economic Research Institute conducts a survey of New York State business establishments twice a year. A summary of the most recent survey results is given in Box 7.

BOX 7 THE NEW YORK STATE ESTABLISHMENT SURVEY REPORT

The Budget Division's assessment that the State economy will continue to expand at a moderate pace is supported by the results from a survey of New York businesses produced by the Econometric Research Institute (ERI) at the University at Albany. The establishment survey is conducted twice a year, first in April and again about six months later. The most recent survey, conducted in November 2005, asks establishments to anticipate the direction of change for both 2005 and 2006 for various indicators of firm performance, including employment, wages, bonuses, profits, and sales.¹ Results from the November 2005 survey indicate that expectations receded somewhat in all categories compared to the April survey. Firms revised their expectations significantly downward for sales, profits, and bonuses for 2005. Indeed, the majority of firms expected profits to be much lower in 2005 than they were in 2004. These responses are consistent with the rapid increase in energy prices in the third quarter of 2005, just before the survey was taken. However, results also indicate that establishments are expecting stronger growth for 2006 in all of the five categories listed above, as well as in product prices, than was observed in 2005 (see figure below).

November 2005 Business Sentiment Survey Outlook for 2005 vs 2006



Source: Econometrics Research Institute.

Establishments are expecting larger employment gains in 2006 than in 2005 for half of the 15 industrial sectors surveyed, with the greatest growth being in the transportation and warehousing sector. Based on the magnitude of the difference between diffusion index values for 2005 and 2006, the greatest improvement is expected in the manufacturing sector. These results are consistent with the Budget Division forecast for State manufacturing employment to continue to decline in 2006, but at a significantly lower rate than in 2005.

Finally, firms continue to remain optimistic about the longer term, with 42 percent expecting to expand over the next five years, while only 9 percent expect to contract. In addition to questions on their outlook for the future, respondents were also asked to indicate the three most important factors in their business decisions. The most common concerns were labor costs (62 percent), state and local taxes (45 percent), government regulations (36 percent), energy costs (49 percent), and availability of skilled labor (31 percent).

¹ ERI compiles the survey results and computes diffusion index values that allow aggregate comparisons to be made across region, industry, firm size, and time periods. A diffusion index value is the percentage of establishments indicating an increase minus the percentage expecting a decrease. Hence, an index value greater than zero indicates that more firms anticipate an increase than a decrease.

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Regional Profile

A comparison of private sector employment growth by region shows varying degrees of strength across the State (see Table 5). Cumulative employment growth over the period from 1992 to 2004, the most recent year of complete data, ranges from 16.7 percent in Long Island to zero percent in the Southern Tier. Two additional regions, the Capital Region and the Mid-Hudson Region, exhibited double-digit growth. Both Long Island and the Mid-Hudson Region are marked by their proximity to New York City, whose slightly weaker 9.0 percent performance is due in part to the devastating impact of September 11. The Capital Region, being the seat of State government, is to an extent insulated from normal business cycle variability. The State's poorest performing regions during the period are those in the western part of the State — the Finger Lakes Region, Western New York, Central New York, and the Southern Tier — whose economies more closely resemble those of the industrial Midwest than the relatively more service-oriented economies of the eastern half of the State. These more manufacturing-based regions have been hurt by the ongoing downsizing of the nation's defense, auto, and other goods-producing industries.

**TABLE 5
REGIONAL PRIVATE SECTOR EMPLOYMENT AND
WAGE GROWTH FROM 1992 TO 2004**

Region	Employment (Levels in thousands)			Wage (Levels in \$ millions)		
	1992	2004	Percent Growth	1992	2004	Percent Growth
New York City	2,657	2,896	9.0	108,830	195,060	79.2
Long Island	864	1,009	16.7	24,477	42,155	72.2
Mid Hudson	634	716	12.9	18,701	31,640	69.2
Capital Region	337	382	13.1	8,155	13,646	67.3
Mohawk Valley	124	132	6.4	2,496	3,674	47.2
North Country	101	106	5.2	1,957	2,924	49.4
Central New York	280	283	1.1	6,847	9,828	43.5
Southern Tier	233	233	0.0	5,520	7,640	38.4
Western New York	508	514	1.2	11,494	16,890	47.0
Finger Lakes	445	454	2.0	11,803	16,327	38.3
NYS Total	6,254	6,856	9.6	202,666	348,274	71.8

Note: Statewide totals include employment not classifiable by region.
Source: NYS Department of Labor, QCEW.

The persistent weakness of the poorest performing regions has resulted in a shift in the State's labor market toward the eastern portion of the State. In 1992, the combined employment share of these four Western regions was 23.5 percent, compared with 71.9 percent for the four top performing regions. By 2004, this split had shifted to 21.7 percent and 73.0 percent, respectively. The employment shares of the two middle regions declined marginally over the period. Both of these regions have been affected by the downsizing of New York defense-related producers, but those losses have been partially offset by gains in tourism-related industries.

The State's bifurcated job performance is reflected in the underlying labor market dynamics as well. Table 6 lists job creation and destruction rates for each of the State's ten regions. Interestingly, the four top-performing regions show higher rates of job destruction than the four poorest performers. However, they also have proportionally higher rates of job creation as well, producing higher rates of net job creation and thus higher rates of job growth. This result demonstrates that the top-performing regions are not only adding jobs at a faster rate, but are more dynamic as well.

**TABLE 6
REGIONAL JOB DYNAMICS FOR NEW YORK**

Regional Job Creation Rate (%)					
	2001	2002	2003	2004	2005
New York City	15.5	14.6	15.3	16.8	16.0
Long Island	16.7	15.5	15.4	16.5	15.6
Mid Hudson	16.1	16.0	15.7	15.3	15.4
Capital Region	15.2	14.7	17.3	14.6	14.0
Mohawk Valley	13.1	13.7	16.0	13.3	13.9
North Country	14.3	15.4	13.8	14.8	12.8
Central New York	13.3	16.4	14.7	13.9	14.3
Southern Tier	14.0	12.7	12.9	12.3	12.5
Western New York	15.1	14.0	13.2	14.1	14.2
Finger Lakes	14.6	13.5	14.4	13.5	13.7
NYS Total	15.6	15.0	15.0	15.6	15.1
Regional Job Destruction Rate (%)					
	2001	2002	2003	2004	2005
New York City	16.8	18.2	16.3	16.2	14.3
Long Island	17.0	16.1	14.7	15.1	14.6
Mid Hudson	15.4	16.3	15.2	13.6	14.0
Capital Region	14.9	15.7	16.0	13.4	12.9
Mohawk Valley	14.6	14.9	19.0	13.0	13.2
North Country	14.4	15.6	14.1	14.5	12.1
Central New York	14.2	18.8	14.8	13.2	13.9
Southern Tier	14.0	15.9	14.8	12.1	11.5
Western New York	17.0	15.3	14.0	13.5	13.9
Finger Lakes	16.4	16.3	15.0	13.0	12.8
NYS Total	16.4	17.4	15.7	14.8	13.9
Regional Net Job Creation Index					
	2001	2002	2003	2004	2005
New York City	93.4	80.4	93.6	104.1	112.0
Long Island	98.4	96.6	104.4	108.9	106.6
Mid Hudson	104.9	98.1	103.2	112.1	110.3
Capital Region	102.8	93.7	108.2	108.7	108.3
Mohawk Valley	90.3	91.8	84.3	102.4	104.7
North Country	99.7	98.9	98.0	102.1	106.3
Central New York	94.2	87.9	98.8	105.1	102.8
Southern Tier	101.9	80.1	87.0	102.0	108.9
Western New York	89.1	92.2	94.2	104.9	101.9
Finger Lakes	89.4	82.9	96.3	103.8	107.5
NYS Total	96.2	86.2	95.5	105.5	108.7

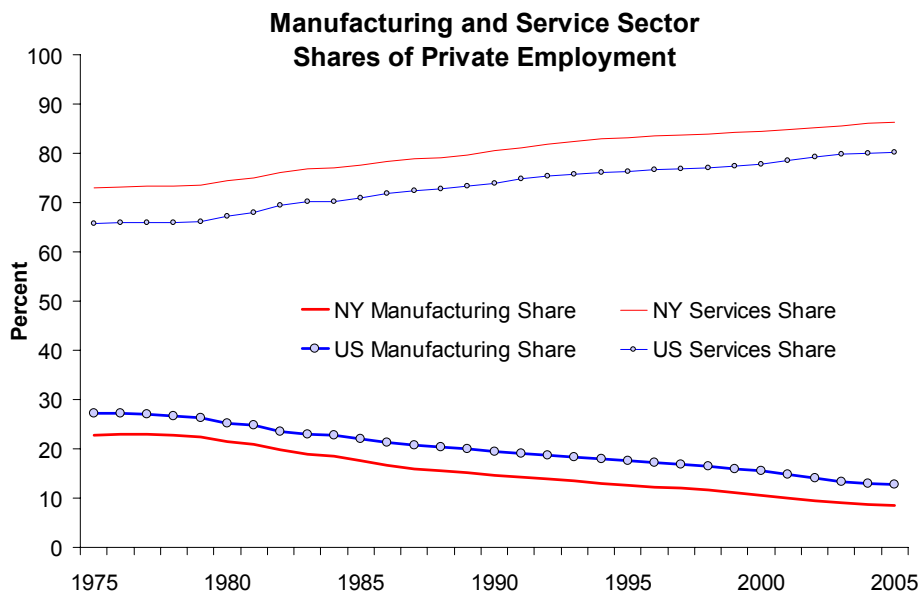
Note: Values for 2005 are based on two quarters of data.
Source: NYS Department of Labor, QCEW; DOB staff estimates.

Manufacturing

The long-term decline in New York manufacturing employment is expected to continue throughout the forecast period. However, manufacturing's rate of job decline is projected to diminish over the course of 2006, in tandem with the improvement in both the U.S. and global economies. Manufacturing and mining employment is expected to fall 1.1 percent in 2006, following an estimated decline of 2.0 percent in 2005.²⁷ Since the mid-1970s, New York's comparative advantage has been shifting in favor of the production of services (see Figure 40). Productivity growth and competitive pressures arising from increased globalization have resulted in the decline of 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. This acceleration was due to an increase in the gross rate of job destruction, while the gross rate of job creation remained relatively flat.

²⁷ The Budget Division combines manufacturing and mining for forecasting purposes. As of the second quarter of 2005, mining accounted for less than 1 percent of total employment in this category and will be ignored for the remainder of the discussion.

Figure 40



Note: Values for 2005 are based on two quarters of data for N.Y. and 11 months of data for the U.S.

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

Although the manufacturing sector continues to bear the brunt of the State's job losses, there has been some improvement. Manufacturing lost 50,400 jobs in 2002, a decline of 7.2 percent, the fastest decline reported since the QCEW program started in 1975. The rate of job loss eased somewhat in 2003 due to a decline in the gross rate of job destruction, while the gross rate of job creation remained flat. In 2004, job creation began to rise, while job destruction continued to fall, leading to a net index of job creation value of 90 percent by the end of the year. A total of about 13,000 jobs were lost in the first half of 2005 compared to the same period in 2004. Although the large size of the job gap during the first half of 2005 signals the likelihood that the State's manufacturing sector will continue to lose jobs in 2006, the decline is not expected to be as rapid as in the recent past.

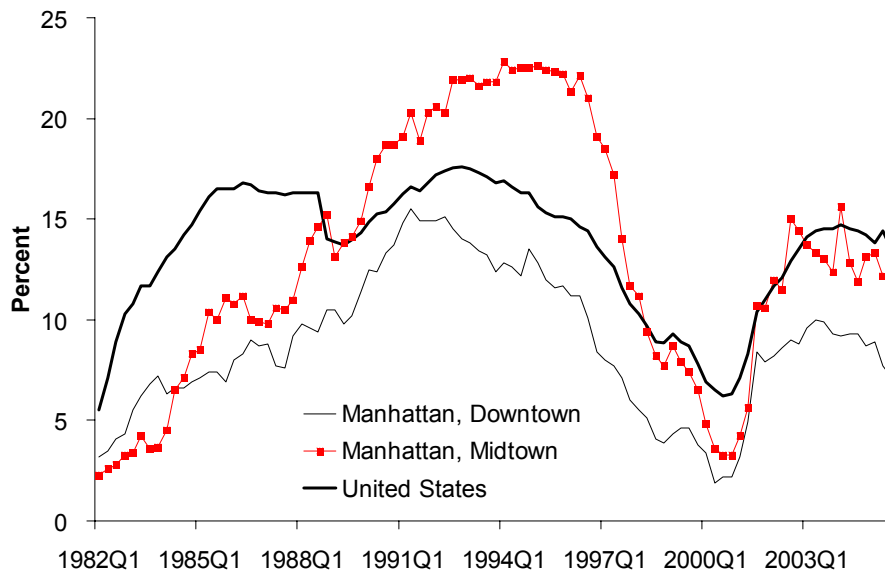
Manufacturing is very important in Western New York and the Finger Lakes Region. In 2004, these two regions accounted for 29 percent of State manufacturing employment, though only 14.1 percent of total State employment. Greatly affected by the continued downsizing by the State's large manufacturers, the Finger Lakes region experienced the most severe decline in manufacturing as a share of total regional employment. That share fell from 23.2 percent in 2000 to 19.4 percent in 2004. Western New York had a similar experience, its manufacturing share falling 3.1 percentage points over the same period.

Manufacturing's share of total regional employment fell in the State's other regions as well, though less sharply. Although New York City experienced the greatest absolute number of manufacturing losses, the decline in the sector's share of total regional private employment was among the smallest of the ten regions. In 2004, New York City's share of total State employment was 42.3 percent, but its share of State manufacturing employment was only 20 percent. However, while New York City's share of the State manufacturing employment was declining, those of Long Island and the Mid-Hudson Region were increasing. The Mid-Hudson Region's share of State manufacturing employment increased 1.7 percentage points from 2000 to 2004, while Long Island's share increased 0.8 percentage points over the same period.

Construction and Real Estate

Construction employment is projected to rise 1 percent in 2006, following estimated growth of 1.2 percent in 2005. Due to historically low interest rates, and an extremely strong housing market, employment in the construction and real estate sectors improved very quickly in 2004 and 2005. Construction employment has been increasing steadily since the first half of 2004. The sector's index of net job creation was above 100 percent from the second quarter of 2004 through the second quarter of 2005, with similar growth projected for the rest of 2005, 2006 and 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" took place in August 2004, with construction expected to be completed in 2008. In addition, office vacancy rates in both downtown and midtown Manhattan fell during the first three quarters of 2005, supporting the expectation that the construction sector will continue to add jobs in 2006 (see Figure 41).

Figure 41
Office Vacancy Rates



Source: Moody's Economy.com.

The real estate sector took a big hit after September 11, primarily due to increased rates of job destruction. 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 2003, 2004, and the first half of 2005. The real estate rental and leasing sector added 2,600 jobs during the first half of 2005 compared with the same period of 2004. Job growth of 1.4 percent is projected for all of 2005, followed by growth of the same magnitude for 2006.

Over the period from 2000 to 2004, New York City and the Finger Lakes Region suffered the greatest construction job losses, with declines of 7.8 percent and 5.5 percent, respectively. The greatest gains occurred in Long Island, which experienced a 7.1 percent increase. The bulk of the State's construction jobs are concentrated in the three downstate regions of New York City, Long Island, and Mid-Hudson. Together, these three regions accounted for 67.9 percent of State construction employment in 2004. However, within the

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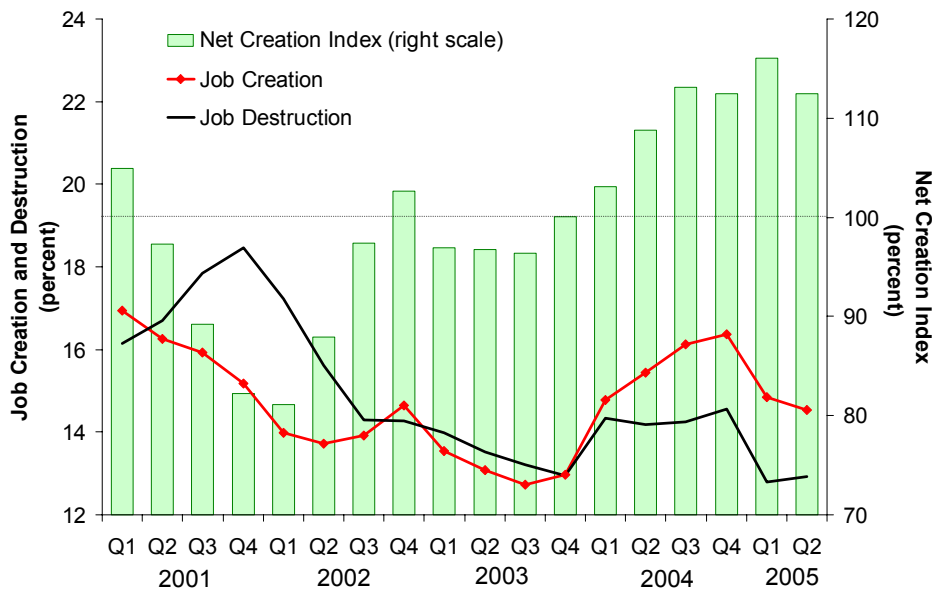
downstate region, the concentration of construction jobs is higher in Long Island and Mid-Hudson than in New York City. New York City's share of total State employment was 42.3 percent in 2004, while its share of State construction employment was 33.8 percent.

In contrast, the Long Island and Mid-Hudson shares of total State employment were 14.7 percent and 10.4 percent in 2004, while their shares of State construction employment were 19.9 percent and 14.3 percent, respectively. Within regions, construction employment as a share of the regional total has remained relatively stable over the period.

Trade, Transportation, and Warehousing

Wholesale and retail trade jobs are projected to grow 0.5 percent and 0.6 percent, respectively, in 2006, following an estimated 0.1 percent decline in wholesale trade employment and estimated 1.4 percent growth for retail trade for 2005. The State's wholesale and retail trade sectors suffered heavy job losses for three consecutive years prior to 2004, due to the long-lasting impact of the State's 2001-2003 recession and the slow pace of the early phase of the national economic recovery.

Figure 42
Retail Trade



Source: NYS Department of Labor; DOB staff estimates.

The wholesale trade sector was dominated by job declines from early 2001 through the first quarter of 2004, but began to experience net growth by the second quarter of 2004. For 2004 as a whole, the sector added 2,100 jobs, producing growth of 0.6 percent, followed by yet another decline of 0.1 percent for 2005. Nevertheless, having produced net rates of job creation above 100 percent for four of the five quarters from 2004Q2 to 2005Q2, wholesale trade is expected to be a net contributor to State job growth in 2006. In the retail trade sector, the job gap narrowed significantly during the second half of 2002 and remained small in 2003. From the first quarter of 2004 through the second quarter of 2005, this sector's job creation index of was above 100 percent, lending support to the expectation that retail trade will continue to add jobs in 2006 (see Figure 42).

The State's wholesale trade sector lost 28,000 jobs, a decline of 7.4 percent, between 2000 and 2004. All ten regions experienced losses during this period. The three downstate regions accounted for 67.3 percent of the State wholesale trade employment in 2004. For the retail trade section, only the Capital Region, North Country, Long Island and Mid-Hudson Regions experienced employment gains.

Transportation and warehousing employment is projected to increase 0.8 percent in 2006, following estimated growth of 1.5 percent for 2005. 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. Although high energy costs were likely to have been a factor restraining job growth in this sector in 2005, the substantial recent narrowing of the job gap in the State's transportation and warehousing sector suggests that employment in this sector is likely to continue growing in 2006.

Information (Media and Communications)

The Budget Division expects information sector employment to add jobs in 2006 at a rate of 0.1 percent, following an estimated 0.4 percent decline in 2005. Although the projected rate of job growth for 2006 is not high, it represents a substantial improvement for this sector. The information sector, which includes publishing, motion pictures, broadcasting, and telecommunications, is one of the most dynamic sectors in the State, exhibiting gross rates of job creation and destruction generally well above statewide averages. However, this sector has been contracting since the start of the State's recession. The job gap remained large in 2003, but narrowed significantly during 2004 and the first two quarters of 2005, producing a net job creation index of 97.8 percent for the second quarter of 2005.

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, representing a loss of 28,500 jobs in 2002. The downward trend for this industry group continued during 2003, with the loss of 20,000 jobs, a decline of 6.8 percent. But the pace of decline slowed significantly during 2004 and the first half of 2005. The State lost another 1,700 jobs during the first two quarters of 2005 compared to the same period of 2004, a decline of 0.6 percent.

Although every region experienced a decline in information sector employment over the period from 2000 to 2004, the greatest losses occurred in New York City, which saw a decline of 20.9 percent. As a result, the information sector's share of the total New York City employment dropped from 6.2 percent to 5.2 percent over the period. At the same time, the City's share of statewide information sector employment fell from 58.3 percent in 2000 to 55.8 percent in 2004.

Finance and Insurance

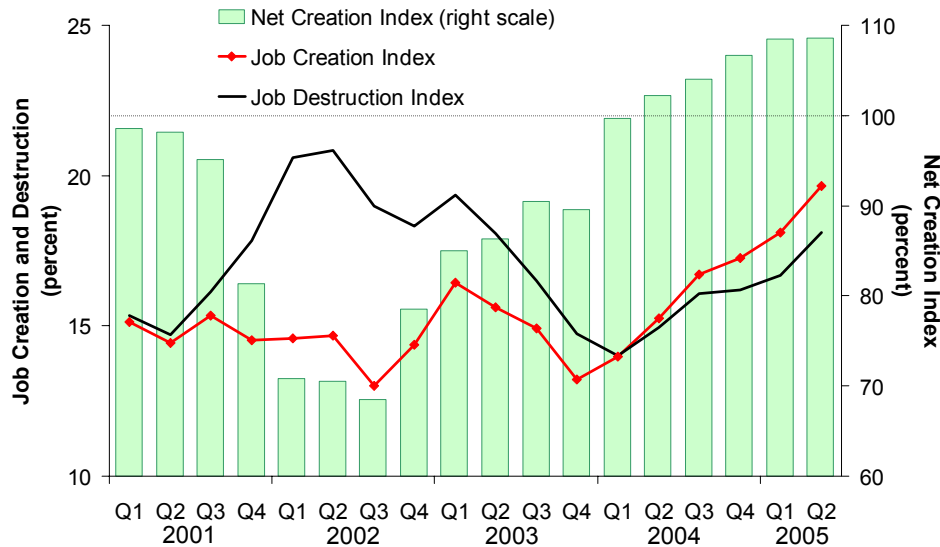
The Budget Division expects finance and insurance sector employment to grow a modest 0.4 percent in 2006, following estimated growth of 1.2 percent for 2005. This forecast is consistent with a net job creation index value above 100 percent for the first half of 2005. The attacks of September 11, the national recession, and corporate scandals all combined to have a significant impact on the State's financial sector; 29,800 jobs in finance and insurance were lost in 2002, a decline of 5.4 percent. As expected, an overwhelming proportion of these losses occurred primarily in New York City. This trend continued in 2003, with finance and insurance losing another 11,000 jobs. However, these job losses lowered industry compensation costs and helped Wall Street firms to increase profits significantly in 2003. Indeed, in the aftermath of the stock market crash of 1987 and the recession of

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1990-91, it took ten years for the securities industry to return to its employment peak of 1987. In contrast, the net job creation index for finance and insurance became positive in 2004 and the first half of 2005, which along with improving equity market conditions toward the end of the year, suggests continuing growth in 2006 for this sector (see Figure 43).

The State's finance and insurance sector jobs are highly concentrated in New York City. The City's share of total State employment was 42.3 percent in 2004, while its share of State finance and insurance employment was 60.6 percent, down from 64.2 percent in 2000. Because of heightened security concerns after September 11, finance and insurance employment in New York City fell 13.2 percent between 2000 and 2004. In contrast, finance and insurance employment in Western New York increased 17.2 percent, while its share of the State finance and insurance employment increased from 4.4 percent in 2000 to 5.6 percent in 2004.

Figure 43
Finance and Insurance



Source: NYS Department of Labor; DOB staff estimates.

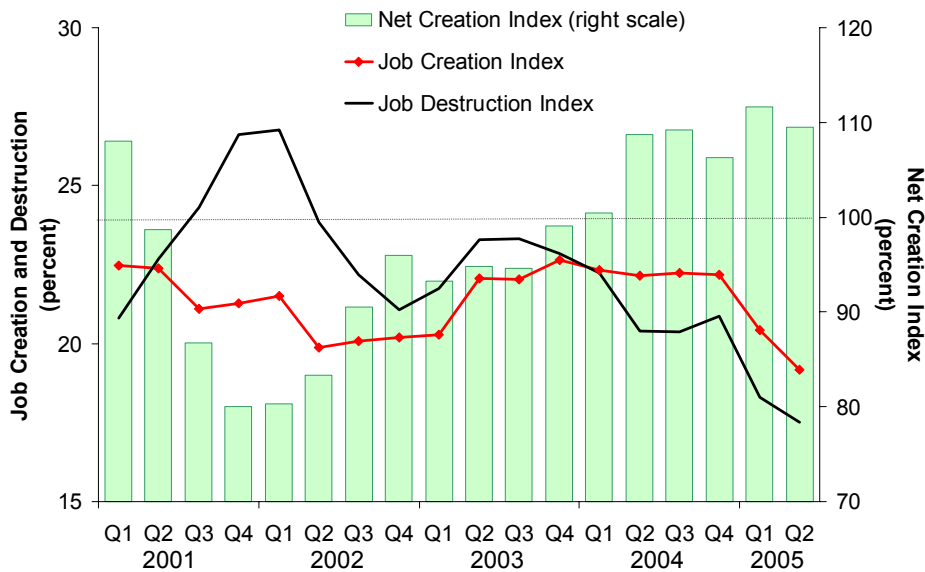
Business and Professional Services

All of the State's business and professional services industries benefited from the strength of the national economy in 2005. Professional and technical services industries are projected to grow 0.6 percent in 2006, following estimated growth of 1.7 percent in 2005, while management and administrative support services industries are expected to grow 1.1 percent in 2006, following 1.7 percent growth in 2005.

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. However, the job gap narrowed substantially during the first three quarters of 2003, with the net index rising above 100 percent by the fourth quarter. The industry continued to produce net job growth in 2004, due to both an upward trend in the gross rate of job creation and a downward trend in the gross rate of job destruction. In the first half of 2005, both job creation and job destruction declined, but the net job creation index was still above 100 percent, supporting the expectation that this sector will continue to add jobs in 2006, but at a modest rate.

The gross rate of job destruction 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 (see Figure 44). The job gap continued to narrow in 2003, which resulted in positive net job creation in 2004 and the first half of 2005. Management services growth may have been stymied by the desire to avoid expanding management operations in New York City in the wake of September 11, accelerating the decline in the number of corporate headquarters located in the State. This sector also contains temporary help services, which is one of the first employment classes to grow following a downturn and helps to explain the substantial improvement in this sector between 2003 and 2004. Many firms hire temporary workers coming out of a recession, uncertain as to whether an increase in the demand for their products will be sustained. Therefore, an increase in temporary service employment is often a good indicator that the labor market is turning upward.

Figure 44
Management, Administrative, and Support Services



Source: NYS Department of Labor; DOB staff estimates.

Education and Healthcare

The Budget Division expects education and healthcare employment to grow 1.8 percent and 2.1 percent, respectively, for 2006. These sectors continued to grow throughout the recession, exhibiting net job creation indices well above 100 percent. Educational services grew 1.4 percent during the first half of 2005 compared to the same period in 2004, adding 3,800 jobs. Similarly, healthcare and social assistance services grew 1.7 percent during the first half of 2005, adding 19,600 jobs, following growth of 1.8 percent for 2004.

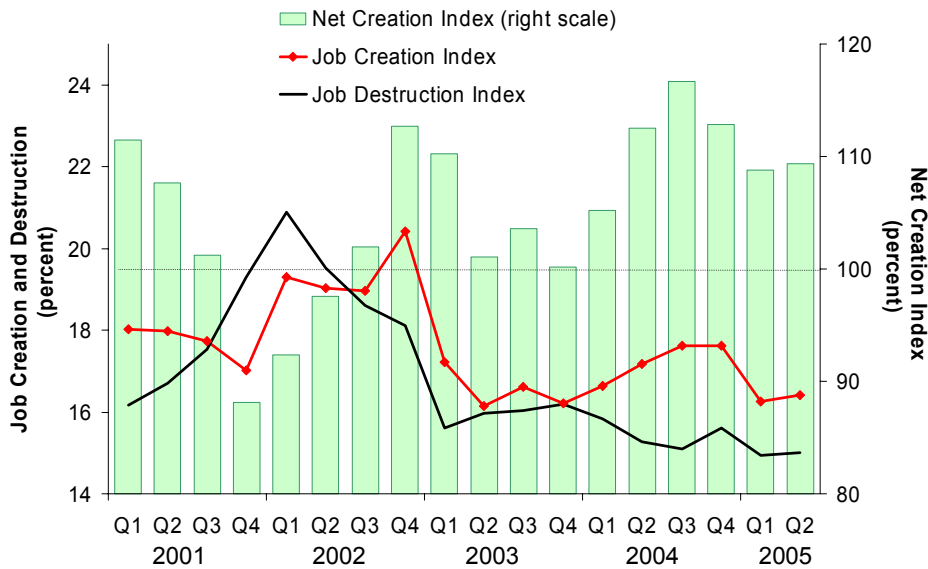
Every region except for the Mohawk Valley experienced employment growth in the education sector from 2000 to 2004. The strongest regions were the Finger Lakes and North Country, with growth of 28.3 percent and 28.1 percent, respectively. In addition, the Capital Region, Long Island, New York City, and Western New York each had growth rates of more than 10 percent during this period. The health and social services sector also produced job gains in every region in the State during the period. The most impressive was the North Country region, with a growth rate of 16.5 percent, followed by Long Island, with an 11.7 percent gain.

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Leisure, Hospitality, and Other Services

The Budget Division expects leisure, hospitality, and other services employment to grow 1.1 percent in 2006, following estimated growth of 1.4 percent in 2005. September 11 had a severe impact on this sector, particularly the arts and entertainment industries. The gross rate of job destruction increased considerably during the fourth quarter of 2001 and the first quarter of 2002, although the sector began to bounce back soon thereafter (see Figure 45). This sector produced net job creation index values above 100 percent in the first two quarters of 2005, supporting the expectation that the sector continued to add jobs during the second half of 2005 and will continue to do so in 2006 as well.

Figure 45
Leisure, Hospitality, and Other Services



Source: NYS Department of Labor; DOB staff estimates.

**BOX 8
REGIONAL EMPLOYMENT TRENDS**

The table below shows private sector employment trends by sector and region for 2001 through 2005. Growth rates for 2005 are based on the first half of the year compared to the same period in 2004.

Region	Percent change					Percent share of State total				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Manufacturing and Mining										
New York City	(10.4)	(10.4)	(8.8)	(5.0)	(5.1)	22.0	21.2	20.5	20.0	19.5
Long Island	(5.1)	(7.1)	(4.3)	(0.1)	(0.7)	13.9	14.0	14.2	14.6	14.8
Mid Hudson	(2.0)	4.0	(4.1)	(2.7)	(1.7)	9.2	10.3	10.5	10.5	10.6
Capital Region	(4.6)	(7.4)	(5.1)	0.6	1.3	5.3	5.3	5.4	5.5	5.7
Mohawk Valley	(8.2)	(8.7)	(5.6)	(0.3)	(0.4)	3.5	3.5	3.5	3.6	3.6
North Country	(6.4)	(3.8)	(2.0)	(6.3)	(4.1)	2.4	2.5	2.6	2.5	2.5
Central New York	(6.6)	(7.2)	(7.3)	(4.2)	(1.4)	6.8	6.8	6.7	6.6	6.7
Southern Tier	(4.1)	(9.6)	(6.3)	0.5	0.6	7.4	7.2	7.2	7.4	7.5
Western New York	(5.0)	(7.5)	(4.7)	(2.8)	(2.9)	14.2	14.2	14.4	14.3	14.3
Finger Lakes	(5.1)	(8.1)	(5.3)	(3.7)	(2.3)	14.9	14.8	14.9	14.7	14.7
Construction and Real Estate										
New York City	(0.2)	(4.1)	(0.6)	0.1	1.8	45.6	44.9	44.7	44.2	45.3
Long Island	1.0	1.3	(0.4)	3.4	1.5	15.3	15.9	15.9	16.2	16.2
Mid Hudson	2.3	(2.2)	2.6	1.2	2.6	11.9	12.0	12.3	12.3	12.4
Capital Region	0.7	(2.5)	2.9	2.9	0.1	5.0	5.0	5.2	5.3	5.2
Mohawk Valley	(0.1)	2.3	1.1	1.0	1.2	1.2	1.3	1.3	1.3	1.2
North Country	5.1	(2.0)	(4.9)	3.4	2.8	1.4	1.4	1.4	1.4	1.3
Central New York	1.1	(2.8)	1.8	0.2	0.3	3.5	3.5	3.6	3.5	3.4
Southern Tier	4.1	(4.3)	(1.0)	0.3	0.7	2.3	2.3	2.3	2.3	2.2
Western New York	(0.1)	(1.6)	(2.1)	3.9	(0.4)	5.9	5.9	5.8	6.0	5.7
Finger Lakes	0.8	(5.6)	(1.1)	2.3	3.0	5.4	5.3	5.2	5.3	5.2
Trade, Transportation and Warehousing										
New York City	(2.7)	(4.1)	(0.7)	1.6	1.6	35.7	35.3	35.2	35.4	35.5
Long Island	(1.5)	(1.9)	1.1	0.6	0.3	17.5	17.7	18.0	17.9	17.8
Mid Hudson	(0.8)	(3.7)	(0.6)	1.8	2.1	11.8	11.7	11.7	11.8	11.9
Capital Region	(0.7)	(0.9)	2.3	0.8	1.1	5.9	6.0	6.2	6.1	6.1
Mohawk Valley	(0.2)	0.1	(0.1)	0.4	2.6	2.1	2.2	2.2	2.2	2.2
North Country	0.4	(3.1)	(0.6)	4.4	2.4	1.8	1.8	1.8	1.9	1.9
Central New York	(1.0)	(2.0)	(0.9)	0.9	0.7	4.7	4.8	4.7	4.7	4.7
Southern Tier	(0.1)	(1.8)	(1.5)	0.3	0.6	3.3	3.4	3.3	3.3	3.3
Western New York	(2.0)	(2.6)	(1.6)	(0.1)	1.5	8.0	8.1	8.0	7.9	7.9
Finger Lakes	(0.3)	(3.1)	(1.4)	0.6	1.4	6.4	6.4	6.3	6.3	6.3
Information										
New York City	(2.1)	(11.1)	(7.2)	(2.0)	0.6	57.2	55.7	55.4	55.8	56.3
Long Island	1.4	(1.4)	(9.4)	(2.3)	1.7	9.7	10.5	10.2	10.2	10.5
Mid Hudson	(2.2)	(6.8)	(1.6)	(5.4)	(4.9)	8.4	8.6	9.0	8.8	8.7
Capital Region	(1.3)	(5.7)	1.1	(7.9)	(1.9)	4.2	4.4	4.7	4.5	4.5
Mohawk Valley	3.9	8.2	(10.0)	(2.7)	(0.4)	1.5	1.7	1.7	1.7	1.6
North Country	(0.1)	(3.9)	0.4	(3.1)	(6.3)	0.7	0.7	0.8	0.8	0.7
Central New York	3.5	(13.1)	0.4	0.4	(5.3)	2.6	2.4	2.6	2.7	2.6
Southern Tier	(3.4)	(2.9)	(10.1)	(2.4)	(1.4)	1.8	1.9	1.8	1.8	1.8
Western New York	5.9	(3.3)	(5.1)	(0.9)	(4.4)	3.7	3.9	4.0	4.0	3.9
Finger Lakes	7.4	0.3	(3.3)	(8.0)	(5.0)	4.3	4.7	4.9	4.6	4.4

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(BOX 8 CONTINUED FROM PREVIOUS PAGE)

Region	Percent change from previous year					Percent share of the State total				
	2001	2002	2003	2004	2005	2001	2002	2003	2004	2005
Finance and Insurance										
New York City	(1.0)	(8.9)	(4.1)	0.4	1.8	64.3	62.0	60.7	60.6	60.7
Long Island	(4.6)	1.7	1.2	0.4	(2.5)	11.1	12.0	12.4	12.4	12.0
Mid Hudson	(2.2)	(1.9)	0.3	3.4	7.4	5.7	6.0	6.1	6.3	6.6
Capital Region	(1.3)	0.1	0.9	2.0	1.9	3.8	4.1	4.2	4.2	4.3
Mohawk Valley	1.3	(5.0)	(1.9)	4.3	3.3	1.5	1.5	1.5	1.5	1.5
North Country	(2.3)	(0.1)	(1.7)	1.0	2.6	0.5	0.5	0.5	0.5	0.5
Central New York	(1.2)	(2.8)	(0.9)	(0.6)	2.1	2.6	2.6	2.7	2.7	2.7
Southern Tier	1.8	0.6	1.2	0.1	0.1	1.7	1.8	1.9	1.8	1.8
Western New York	2.4	10.6	1.3	2.2	0.1	4.5	5.3	5.5	5.6	5.5
Finger Lakes	0.1	(4.6)	4.9	1.7	(0.4)	2.7	2.8	3.0	3.0	2.9
Business and Professional Services										
New York City	(3.7)	(5.1)	(1.3)	0.8	2.3	50.5	50.0	49.7	49.3	49.7
Long Island	(0.7)	(3.8)	(0.2)	2.6	2.1	13.9	13.9	14.0	14.1	14.1
Mid Hudson	2.0	0.4	1.3	4.9	0.1	8.1	8.5	8.6	8.9	8.8
Capital Region	0.9	(4.1)	1.1	2.6	2.5	5.0	5.0	5.1	5.1	5.2
Mohawk Valley	(7.2)	(2.5)	(1.3)	(3.6)	(5.7)	1.1	1.1	1.1	1.1	1.0
North Country	0.2	5.9	0.3	(8.6)	10.2	0.6	0.6	0.7	0.6	0.6
Central New York	(3.7)	0.6	9.3	2.7	1.2	2.9	3.0	3.3	3.3	3.3
Southern Tier	1.3	(12.0)	(8.4)	(1.3)	(0.6)	2.5	2.3	2.1	2.0	2.0
Western New York	(4.7)	0.8	2.2	2.5	2.2	5.8	6.1	6.3	6.3	6.3
Finger Lakes	(5.8)	(3.5)	1.3	2.3	3.2	5.3	5.4	5.5	5.5	5.6
Education and Healthcare										
New York City	2.7	2.8	1.7	1.6	1.8	45.0	45.2	45.1	45.0	45.2
Long Island	3.0	3.5	3.3	1.8	1.9	13.0	13.2	13.3	13.3	13.3
Mid Hudson	1.4	0.4	1.8	2.1	2.1	11.0	10.8	10.7	10.8	10.7
Capital Region	3.1	1.8	2.2	2.0	0.7	5.7	5.7	5.7	5.7	5.7
Mohawk Valley	2.1	2.0	3.4	1.0	1.1	2.1	2.1	2.1	2.1	2.1
North Country	3.7	4.7	2.7	5.6	(0.0)	1.6	1.6	1.7	1.7	1.7
Central New York	2.8	0.1	0.8	3.8	1.7	3.8	3.7	3.6	3.7	3.7
Southern Tier	2.3	2.0	2.8	0.9	3.0	4.1	4.1	4.1	4.1	4.1
Western New York	0.0	0.8	1.9	3.2	1.9	6.7	6.6	6.6	6.7	6.7
Finger Lakes	1.5	1.1	2.3	3.6	2.1	6.5	6.4	6.4	6.6	6.6
Leisure, Hospitality and Other Services										
New York City	0.0	(0.6)	1.3	2.2	2.6	40.7	40.4	40.7	40.8	41.8
Long Island	1.7	1.6	2.3	3.0	1.1	14.0	14.2	14.4	14.6	14.3
Mid Hudson	1.9	3.7	1.7	2.6	0.6	10.5	10.9	11.0	11.1	10.8
Capital Region	1.0	3.5	2.1	0.8	0.3	5.9	6.1	6.2	6.2	6.0
Mohawk Valley	1.9	0.3	(13.4)	1.3	0.0	2.2	2.2	1.9	1.9	1.8
North Country	(1.4)	0.6	(1.6)	(3.7)	(0.4)	2.1	2.1	2.0	1.9	1.8
Central New York	0.2	(0.1)	1.0	1.5	0.2	4.4	4.4	4.4	4.4	4.4
Southern Tier	1.0	2.6	0.9	0.9	0.3	3.3	3.4	3.4	3.4	3.3
Western New York	(1.5)	1.6	(0.1)	0.1	(0.8)	8.2	8.3	8.3	8.1	8.1
Finger Lakes	(3.0)	2.4	1.9	0.9	1.7	6.2	6.3	6.4	6.4	6.4

Source: NYS Department of Labor, QCEW.

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 46 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 2000-2001 State fiscal year, just as the stock market was beginning to collapse. After several years of recovery on Wall Street, the finance and insurance sector's wage share is expected to be 19.8 percent in the current fiscal year, less than one percentage point shy of its record. In contrast, finance and insurance sector employment accounted for only 6.6 percent of total State employment in the 2000-2001 State fiscal year, though that share is estimated to have fallen to 6.3 percent for the current fiscal 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. As indicated in Figure 47, that gap is expected to widen. Between 1980 and 2005, total finance and insurance industry wages increased almost eight-fold, while employment rose by only 9.5 percent. For the rest of the economy, total wages grew by about one third that of the financial services rate. However, statewide employment grew 17 percent over the same period, almost double the rate of job growth for the finance and insurance industry.

Figure 46
Finance and Insurance Sector Employment and Wages
as Share of State Total



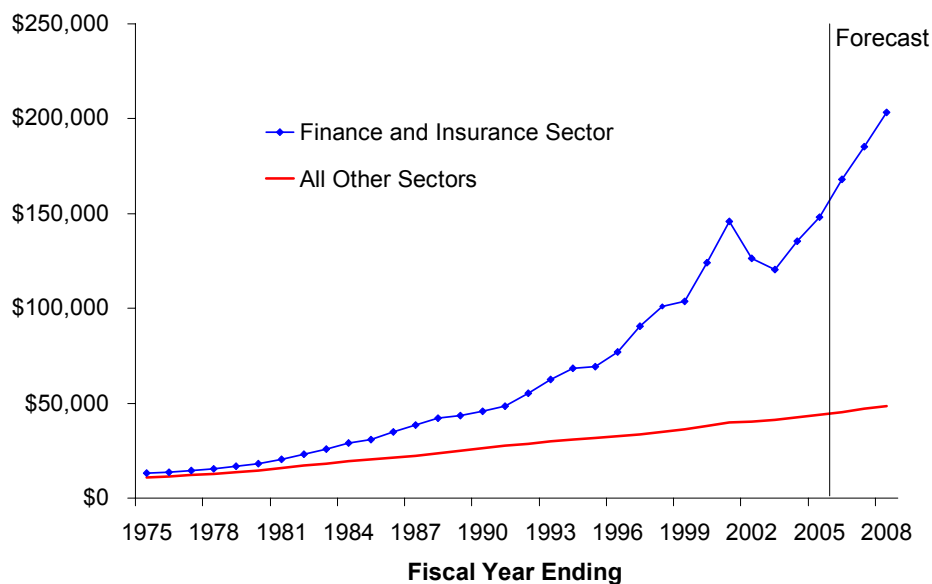
Source: NYS Department of Labor; DOB staff estimates.

Equity prices, as represented by the Standard and Poor Index of 500 common stocks (S&P 500), rose 6.8 percent on an annual average basis in 2005, but increased only about 3 percent from year-end 2004 to year-end 2005. The market appeared to be on an upward trend early in the year, but lost strength quickly. Initial public offerings (IPOs) were a relatively weak \$39 billion, down 18.4 percent from 2004. This decline was consistent with both the weak performance of the secondary market and the significant amount of cash

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reserves being held by nonfinancial corporations. The magnitude of those reserves may continue to reduce the need to raise funds through equity issuances, possibly dampening IPO growth for 2006. In addition, low interest rates, which raise the opportunity cost of issuing equities, might also be contributing to slower IPO activity. Finally, strong corporate cash positions appear to have supported record-high corporate stock buybacks in 2005 that are estimated at \$440 billion, a 41 percent increase over 2004. Continued buybacks may buttress equity market values for the coming year, but could have a negative impact on IPO underwriting activity.

Figure 47
Average Wages in New York

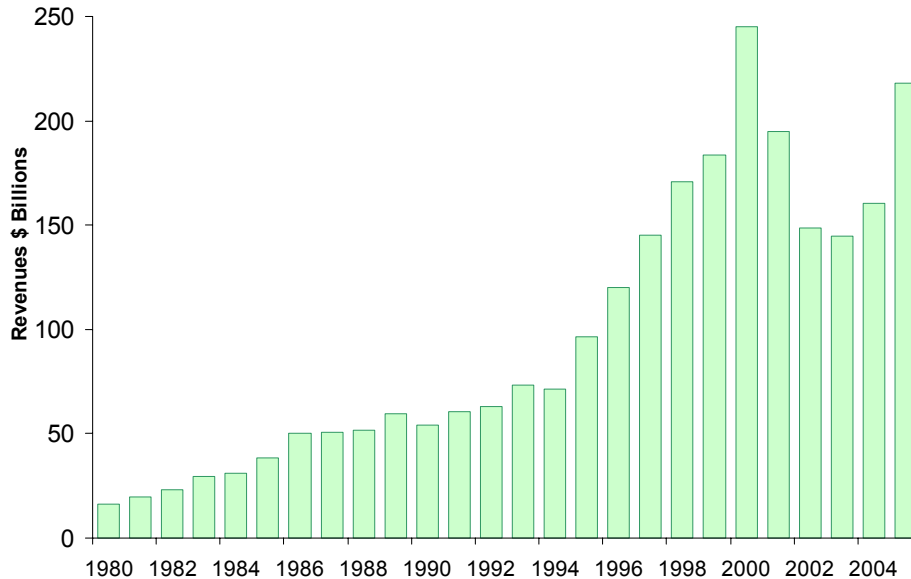


Source: NYS Department of Labor; DOB staff estimates.

In contrast, another main engine of Wall Street profits, mergers and acquisitions has been running strong. Merger and acquisition activity took a deep plunge along with the secondary market in 2001, but started to recover in 2002. In 2005, the value of announced deals involving domestic companies increased 28 percent, reaching \$1.1 trillion dollars, making 2005 the best year since 2000. Announced global deals were even stronger, growing by 31 percent over 2004, based on Securities Industry Association (SIA) estimates. Merger and acquisition activity is typically spurred by a shock to the economy, such as rapid technological change, a supply shock, or regulatory change, and has tended to be concentrated in the industrial sectors most affected by that shock. However, the current wave of deals is unusually diverse, covering such industries as financial services, energy and power production, telecommunications, and healthcare, among others. Consequently, it is expected that merger and acquisition activity will remain strong going forward into 2006.

In addition, there was a record volume of corporate and municipal bond underwriting in 2005, possibly reflecting the expectation that the low interest rate environment may be ending. Total underwriting activity increased to \$3.15 trillion for 2005, based on a SIA estimate. Thus, despite an unimpressive equity market performance and rising short-term interest rates, 2005 was a relatively good year for the securities industry. Strong merger and acquisition and proprietary trading activity, along with strong demand for bond underwriting services fueled solid revenue growth of 36.2 percent for the first three quarters of 2005, compared to the same period in 2004, following growth of 10.9 percent for 2004 (see Figure 48).

Figure 48
Securities Industry Revenues



Note: Level for 2005 is based on three quarters of data annualized.
Source: Securities Industry Association.

Since so many securities industry firms are headquartered in New York City, their most profitable activities tend to be concentrated there. Hence, a large portion of securities industry wages are paid to employees who work in the City. This season’s bonus payments for New York City-based workers are expected to be very strong. The Budget Division projects bonus growth for the finance and insurance sector of 21.2 percent for the 2005-06 bonus season, following 10.2 percent growth for 2004-05.

Housing Affordability

Consistent with national trends, New York State housing market values have been spiraling upward since the second quarter of 2000. Between that quarter of 2000 and the third quarter of 2005, the median price for an existing single-family home rose 92 percent, compared to a 13 percent increase in the average wage. In order to assess affordability conditions within the State, we repeat the analysis presented earlier for the nation as a whole for New York State. We choose 1988 as a reference year, since that is the last time housing prices reached a cyclical peak in New York. Again, an index of affordability was constructed by amortizing each county’s median home price by the prevailing mortgage rate and dividing it by the county average wage. Figure 49 and Figure 50 display the results for 1988 and 2004.²⁸

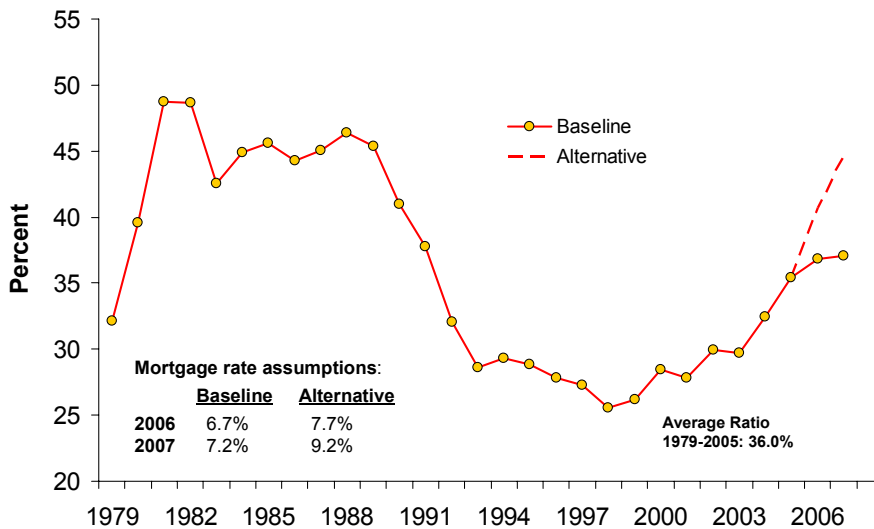
²⁸ At the time this report was produced, only three quarters of median home price data and two quarters of QCEW employment and wage data were available at a county level for 2005. QCEW quarterly wages are highly seasonal due to bonuses, which tend to peak during the first quarter of the calendar year, while home prices do not have significant seasonal patterns. Therefore, using incomplete or annualized data for the year could lead to inflated average wages and affordability figures. Since DOB does not forecast county level employment and wages, we use 2004 data to construct the maps shown below.

affordability index of 32 percent. Calculating the index by combining 1988 mortgage rates with 2004 home prices produces a decline in affordability of 28 percent. This implies that housing prices adjusted by average wages are higher in 2004 than in the prior housing peak year of 1988, holding interest rates constant.

Examining the change in affordability between the two years at the county level produces more disparate results. Despite lower mortgage rates in 2004, housing in some areas was actually less affordable in 2004 than in 1988. For example, the index value for Manhattan (New York County) was 89.6 percent in 2004, compared with 86.2 percent in 1988. For the remaining boroughs, conditions were very similar for both years. However, affordability trends downstate contrast sharply with those in many upstate areas. For example, the index value for Erie County was only 19.4 percent in 2004, compared with 34.3 percent in 1988; for Broome County, 19.2 percent in 2004, compared with 44.8 percent in 1988. Further comparisons indicate that regional disparity within the State has been much greater during the current housing boom than in the last one.

On balance, our analysis indicates while we may not be in the midst of a statewide housing bubble, home prices are exceptionally high in some regions. Indeed, there is some anecdotal evidence suggesting that prices have already started to fall in some areas. Moreover, it is uncertain by how much sales transactions will slow, should home prices start to fall at a more substantial rate, and, in turn, how much such a development will impact the overall economy.

Figure 51
Trends in New York Housing Affordability



Note: Ratio refers to annual mortgage payment implied by current median home price and current mortgage interest rate, as percent of average wages. Estimates for 2005 are based on three quarters of data.
Source: Moody's Economy.com; DOB staff estimates.

Although the available data on State housing prices, employment, and wages are incomplete for 2005, a combination of the most recent data and the Budget Division forecast suggests that housing affordability deteriorated further last year. Median existing single-family home prices in New York grew another 14.1 percent during the first three quarters of 2005 over the same period of the prior year, while total wages and employment for 2005 are estimated to have increased 5.1 percent and 0.9 percent, respectively. Clearly, home prices are growing much faster than average wages. In addition, mortgage rates were slightly

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higher in 2005 than in 2004, and, as a result, housing became less affordable in New York between 2004 and 2005. Figure 51 displays the Budget Division outlook for statewide housing affordability based on forecast values for all of the relevant variables, as well as results based on an alternative scenario of higher interest rates than currently projected.

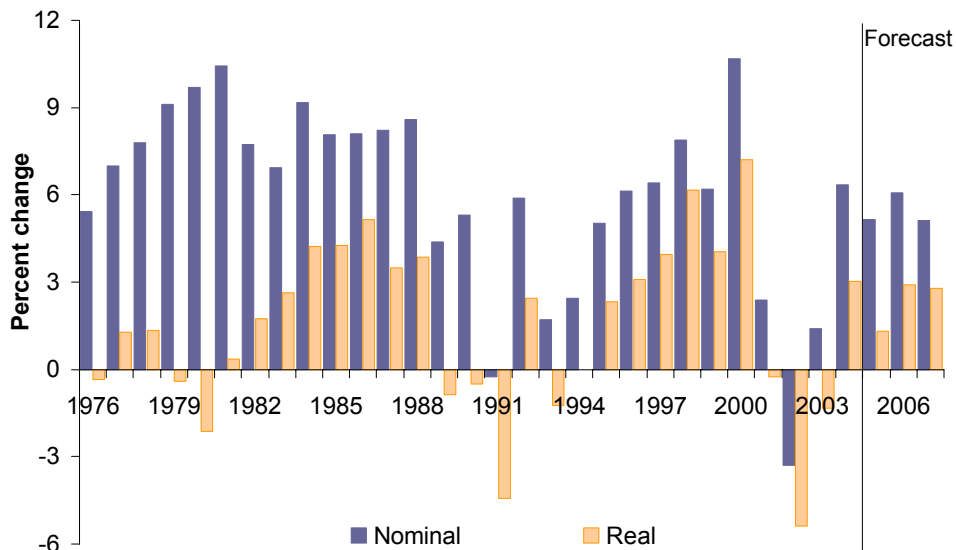
Outlook for Income

Growth in variable compensation and employment is expected to result in total wage growth of 6.1 percent for 2006, following an estimated increase of 5.1 percent for 2005 (see Figure 52). The strong growth in State wages, property income, and proprietors' income projected for 2006 will result in total personal income growth of 5.7 percent, following 5.1 percent for 2005.

Because the state-level wage data published by BEA have proven unsatisfactory for the purpose of forecasting State personal income tax liability and other taxes, the Budget Division constructs its own wage and personal income series based on QCEW data. Moreover, because of the importance of trends in variable income — composed of bonus stock-options income and other one-time payments — 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 9 and Box 10. The Budget Division's outlook for State income is based on these constructed series.

Figure 52

New York State Wage Growth Real and Nominal Growth Rates



Source: NYS Department of Labor; DOB staff estimates.

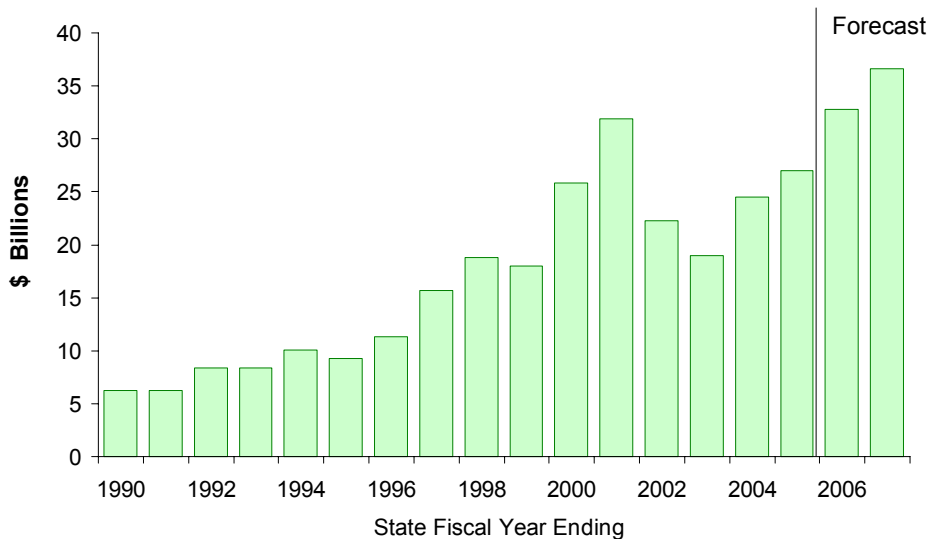
Variable Income Growth

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.²⁹ State variable income, as forecast by the Budget Division, is projected to rise 15.4 percent for the 2005-06 fiscal year, followed by growth of 9.0 percent for 2006-07. 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.

Since 1990, there has been a substantial shift in the State’s corporate wage structure away from fixed-pay to performance-based pay. Figure 53 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 NYSE-member firms’ 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 14.9 percent for the 2002-03 State fiscal year. In contrast, nonbonus income for this sector is estimated to have fallen only 6.6 percent, mainly due to the decline in employment.

Figure 53
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates.

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 percent from their record 2000 level. The industry has since recovered from this low. As discussed above, recent increases in debt underwriting, proprietary trading, and mergers and acquisitions resulted in securities industry revenue growth of 36.2 percent for the first three quarters of 2005.

²⁹ See Box 9 for a more detailed discussion of bonus estimation.

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NYSE-member firms alone are expected to see growth of about 12 percent. The value of corporate underwriting is estimated to have reached an all-time high of \$3.2 trillion in 2005, a 10 percent increase from 2004, while growth in the value of announced merger and acquisition deals is estimated at an even stronger 28 percent, reaching \$1.1 trillion.

Based on these trends, the Budget Division projects that variable income for the finance and insurance sector will grow 21.2 percent to \$32.8 billion during the 2005-06 State fiscal year, compared with \$27.0 billion in 2004-05. The 2005-06 forecast implies that variable compensation paid by the State finance and insurance sector will reach yet another record-level high. Variable compensation for 2005-06 is projected to be 2.6 percent above the 2000-01 season, despite the fact that industry revenues for 2005, based on three quarters of data annualized, are 11 percent below the 2000 peak. Again, as discussed above, the main reason for this apparent inconsistency is the increasing concentration of the industry's most highly profitable operations in New York City, which remains the world's financial capital, despite the failure of total industry employment to recover to its 2000 peak.

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 4.3 percent in calendar 2006, following estimated growth of 3.4 percent for 2005. With a positive boost from employment, total nonbonus wages are projected to grow 5.1 percent for 2006, following an increase of 4.4 percent for 2005.

Average Wages and Inflation

For 2006, average wage growth is expected to grow 5.3 percent due to high growth in bonuses, following growth of 4.2 percent for 2005. The Budget Division projects growth in the composite CPI for New York of 3.1 percent for 2006, following growth of 3.8 percent for 2005. The projected decline in inflation for New York for 2006 parallels that for the nation.

Nonwage Income

The Division of the Budget projects a 5.3 percent increase in the nonwage components of State personal income for 2006, following growth of 5.1 percent for 2005. For 2006, stronger growth in property and proprietors' income will be offset by slower growth in transfer payments.

Risks to the New York Forecast

In addition to the risks described above for the national forecast, there are risks specific to New York. Another attack targeted at New York City would once again disproportionately affect the State economy, resulting in lower income and employment growth than reflected in the current forecast. Higher energy prices and the potential for greater pass-through to core inflation, combined with a growing rate of capacity utilization and a tightening labor market, raise the probability that the Federal Reserve will over-tighten. Such an outcome could negatively affect the financial markets, which would also disproportionately affect the New York State economy. In addition, the State's real estate market could decline more than anticipated, which would negatively affect household consumption and taxable capital gains realizations. These effects could ripple through the economy, affecting both employment and wages.

In contrast, should the national and world economies grow faster than expected, a stronger upturn in stock prices, along with even stronger activity in mergers and acquisitions and other Wall Street activities is possible, resulting in higher wage and bonuses growth than projected. It is important to recall that the financial markets, which are so pivotal to the direction of the downstate economy, are notoriously difficult to forecast. With the economy becoming increasingly globalized, and the pace of both technological and regulatory change accelerating, projecting finance industry revenues and profits has never been more challenging.

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BOX 9 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 DOB uses only New York data to construct its State wage series. The primary source is data collected under the Quarterly Census of Employment and Wages (QCEW) 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 QCEW 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 6.1 percent and 9.9 percent, respectively. However, the lack of timeliness in the revision process limits the usefulness of BEA data for state forecasting purposes.

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

Once an entire year of QCEW data becomes available, the BEA revises its state-level wage data to be more consistent with that data source. For this reason, DOB'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'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 QCEW 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. DOB derives its bonus estimate from firm-level data collected under the QCEW 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 QCEW program on a quarterly basis. A 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.

BOX 10
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.¹ 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 1980s 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, since both labor and capital are free to move in a market economy, regional differences in labor costs tend to converge toward their long-run equilibrium values, 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

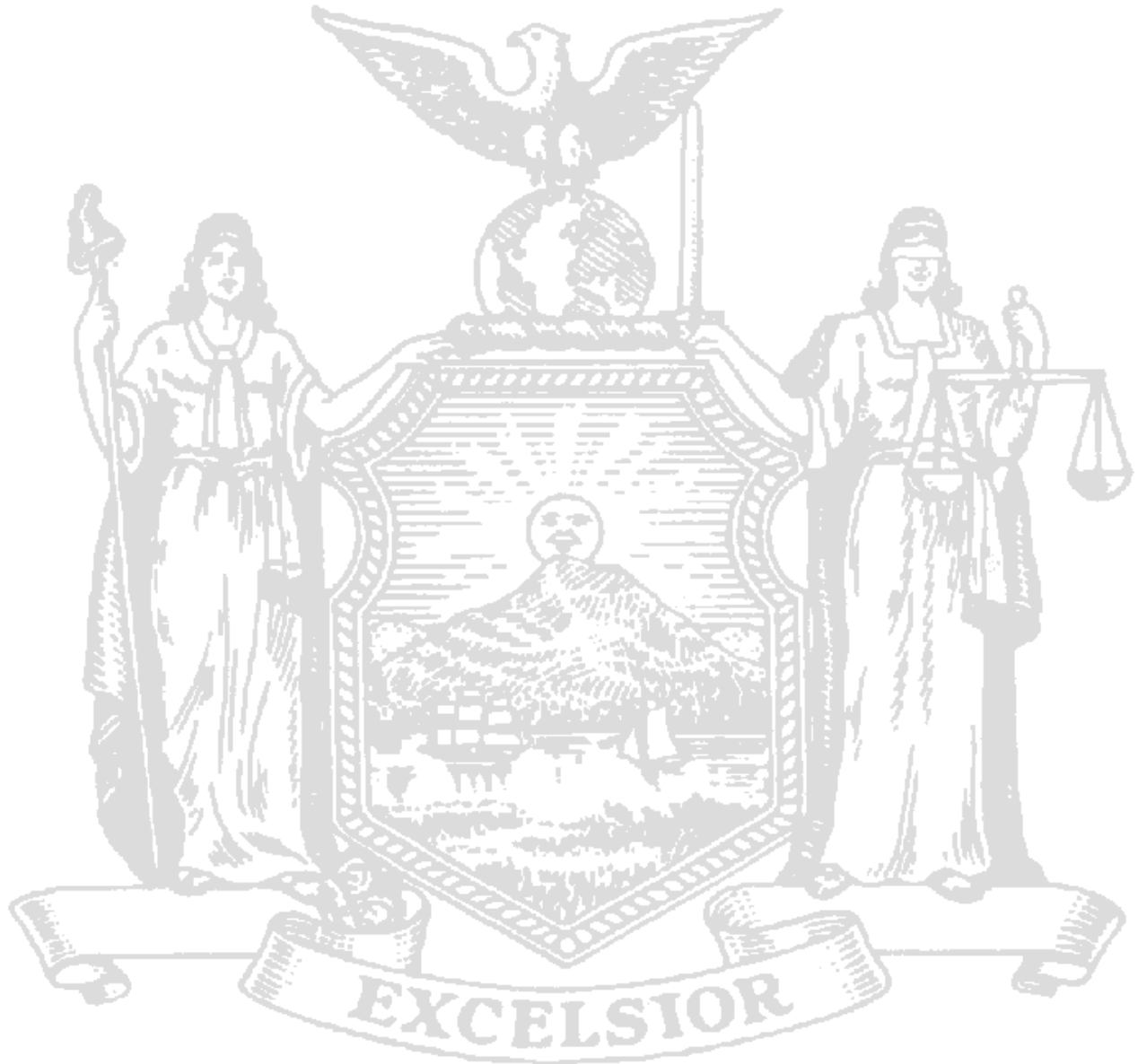
The DOB model for finance and insurance bonus income incorporates those factors that drive Wall Street profits: merger and acquisition activity, IPOs, and the volume of debt underwriting. Our analysis shows that bonuses paid in the State's other economic sectors tend to have long-term equilibrium relationships 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.

¹ For more information, see New York State 2004-05 Executive Budget, Revenue Estimating Methodology, pp. 5-9.

***NEW YORK STATE
ADJUSTED GROSS INCOME***

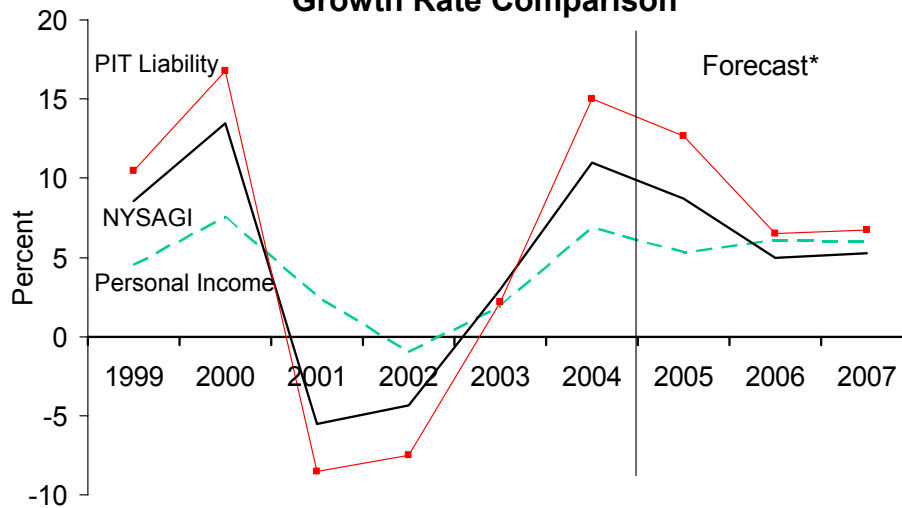


NEW YORK STATE ADJUSTED GROSS INCOME

As in many states, New York's revenue structure relies heavily upon the personal income tax (PIT). The income tax accounts for almost 60 percent of total state tax receipts. PIT liability is the amount which State taxpayers actually owe based on total earnings during a given tax year, but this measure of the State's tax base is much more variable than conventional measures of personal income such as New York State adjusted gross income (NYSAGI) or personal income.¹ NYSAGI is a measure of income from which total tax liability is ultimately determined in conformity with State tax returns. Personal income is a National Income and Product Accounts (NIPA) concept, measuring income derived from value added to current production.² The relative volatility of these three concepts is presented in Figure 1.

In 2002, all three indicators of the State's tax base reflected a weak underlying economy. While personal income showed a small decline of 1.0 percent, NYSAGI actually fell by 4.4 percent and PIT liability fell by 7.5 percent. The difference in volatility also emerges when the economy grows. For example in 2004, personal income experienced solid growth of 6.9 percent, while NYSAGI is estimated to have grown a considerably stronger 11.0 percent and PIT liability an even faster 15.1 percent, holding tax rates constant at their 2002 values. For 2005, 2006, and 2007, these indicators are projected to follow a similar pattern, after adjusting for changes in tax rates. In 2006, growth in NYSAGI is lower than that of personal income because the projected decline in the real estate market is expected to affect taxable income much more than it will affect personal income. This development will be discussed in much more detail below.

Figure 1
Indicators of New York State Tax Base
Growth Rate Comparison



* Growth rates for PIT liability and NYSAGI for 2004 are staff estimates. PIT liability growth rates are at 2002 law.

Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

Elasticity is a common measure of the sensitivity of one economic variable to changes in another. The percent change in the value of an economic variable in response to the percent change in real U.S. GDP yields the elasticity measure. Typically, PIT liability has a higher elasticity value than NYSAGI, while NYSAGI has a higher elasticity value with respect to changes in overall economic conditions (as measured by GDP) than personal income. The responsiveness of NYSAGI to economic trends tends to be higher than that of personal

¹ For more details on personal income tax liability, see Tax Receipt Section "Personal Income Tax."

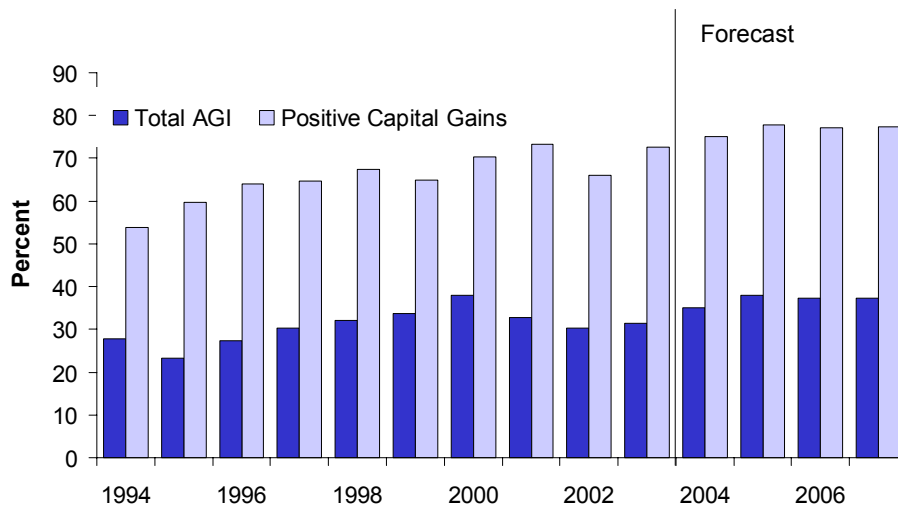
² For a discussion of how DOB constructs State personal income, see Box 9 on page 106.

NEW YORK STATE ADJUSTED GROSS INCOME

income because NYSAGI measures the taxable components of income, including realized capital gains and losses. These are not included in the NIPA concept of personal income since they do not add to the value of current production.³ 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. In 2001 and 2002, income from positive capital gains realizations declined dramatically at rates of 50 percent and 27 percent, respectively, in response to the downturn in the economy and the financial markets (see Table 1). DOB's estimate suggests a strong positive response of capital gains income to the upturn in economic activity in 2004. Moreover, NYSAGI can fluctuate due to statutory changes in the definition of taxable income, as well as due to taxpayers' strategic responses to such changes.

PIT liability is even more elastic than NYSAGI, primarily due to the progressivity of the State tax system. The volatile components of taxable income, 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. While the top one percent of taxpayers, ranked by their NYSAGI, accounted for 31.4 percent of adjusted gross income in 2003, they accounted for fully 72.7 percent of capital gains realizations (see Figure 2). Growth in those components usually increases the average, or effective, tax rate and contributes to the elasticity of the response of liability to income changes. Liability also tends to grow faster than taxable income because as incomes grow over time, taxpayers are pushed into higher tax brackets, which also raises the effective tax rate. This impact is exacerbated in New York by provisions in State statute that recapture the benefits of lower tax rates in the tax tables for high income taxpayers.

Figure 2
Income Shares of the Top One Percent Taxpayers
AGI and Capital Gains Realizations



Note: For nonresident taxpayers, shares are based on total income.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

³ However, any transaction cost generated by such a sale would add value to current production and would therefore be included in personal income.

NEW YORK STATE ADJUSTED GROSS INCOME

Table 1 contrasts the volatility of positive capital gains with that of wages, positive partnership/S corporation income, and total NYSAGI. In 2002, NYSAGI declined by only 4.4 percent, while capital gains realizations declined by 27.0 percent. Indeed, the \$8.6 billion decline in capital gains realizations constituted 40.9 percent of the \$21.1 billion decline in NYSAGI. For 2004, DOB estimates that strong NYSAGI growth of 11.0 percent was accompanied by 66.9 percent growth in capital gains. The estimated \$20.8 billion increase in capital gains realizations for 2004 accounts for 40.1 percent of the estimated \$52.0 billion increase in NYSAGI. For that same year, growth in the other large component, partnership and S corporation income, is estimated to only account for 9.9 percent of NYSAGI growth. The fact that the most volatile components of income can and have accounted for a large portion of the change in NYSAGI poses significant risks to the Division of the Budget's personal income tax forecast.⁴ Therefore, the Budget Division has consistently maintained that a conservative approach to projecting these components is warranted.

**TABLE 1
CHANGES IN NYSAGI AND ITS MAJOR COMPONENTS**

	2000	2001	2002	2003	2004	2005	2006	2007
NYSAGI								
Level in \$billions	508.9	481.0	459.9	473.8	525.8	571.6	599.9	631.6
\$ Change in \$billions	55.8	(27.9)	(21.1)	13.9	52.0	45.8	28.3	31.7
% Change	12.3	(5.5)	(4.4)	3.0	11.0	8.7	4.9	5.3
Wages								
Level in \$billions	368.2	376.2	368.7	373.3	397.7	418.2	443.7	466.1
\$ Change in \$billions	39.3	8.0	(7.4)	4.6	24.4	20.5	25.5	22.4
% Change	12.0	2.2	(2.0)	1.2	6.5	5.1	6.1	5.1
Capital Gains								
Level in \$billions	64.0	32.0	23.3	31.2	52.0	72.5	70.3	74.9
\$ Change in \$billions	14.5	(32.0)	(8.6)	7.8	20.8	20.5	(2.2)	4.7
% Change	29.3	(50.0)	(27.0)	33.6	66.9	39.4	(3.1)	6.7
Partnership/S-Corporation								
Level in \$billions	38.9	37.9	39.1	41.1	46.2	50.6	55.1	59.4
\$ Change in \$billions	3.6	(1.0)	1.2	2.0	5.1	4.3	4.5	4.3
% Change	10.1	(2.6)	3.0	5.2	12.5	9.4	8.9	7.8

Note: Discrepancies due to rounding.

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

Changes in the State Distribution of Income and Revenue Risk

Because the State has a progressive tax system, the distribution of income across taxpayers helps determine total income tax liability. Outyear estimation of the income distribution is risky since the share of income earned among the wealthiest taxpayers can fluctuate dramatically with such factors as the business cycle, the condition of financial markets, and changes in federal and state tax treatment. As incomes rise, some taxpayers move into higher income tax brackets, increasing the effective tax rate and the amount of liability generated from a given amount of adjusted gross income. The opposite occurs as incomes fall. The effective tax rate fell from a high of 4.76 percent in 2000 to a low of 4.43 percent in 2002 without any significant changes in tax law. As the economy and equity markets improved, and income tax rates for high-income taxpayers were increased in 2003, the effective tax rate climbed to 4.66. DOB estimates that without the tax law change, the effective tax rate would have fallen slightly to 4.40 percent largely because of a 6.5 percent decline in bonuses. In 2004, the effective tax rate is estimated to have increased to 4.84 percent under current law, and 4.56 percent under 2002 tax law. The temporary increase in tax rates for high-income taxpayers will be reversed in 2006, which will diminish the

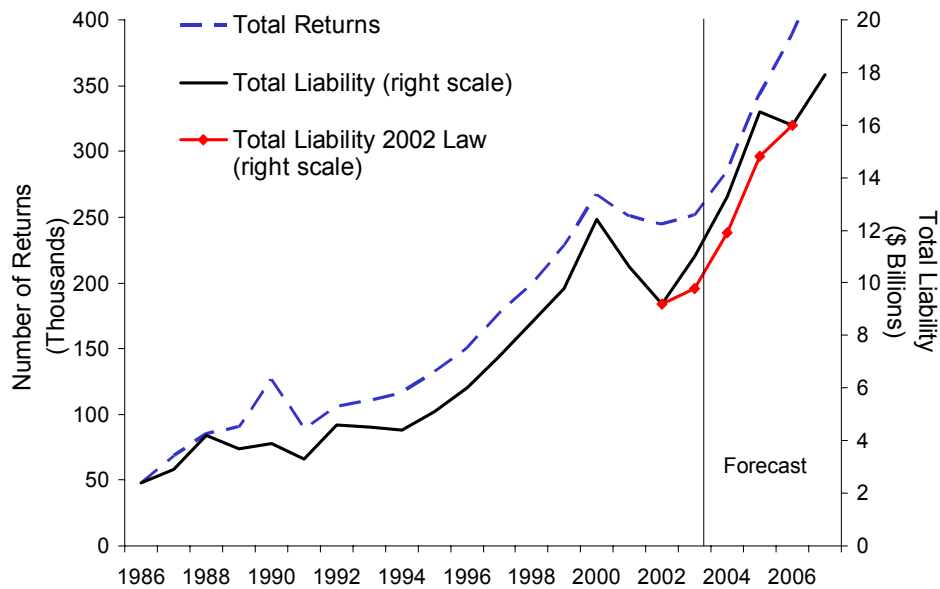
⁴ For a discussion of the Budget Division's use of fan charts to compute prediction intervals around forecasts, see the New York State Adjusted Growth Income section of the Economic and Receipt Estimation Methodology.

NEW YORK STATE ADJUSTED GROSS INCOME

liability generated from NYSAGI. The decline in liability in 2006 will be compounded if the projected reduction in real estate transactions lowers capital gains realizations, since capital gains income is highly concentrated among the wealthiest taxpayers who are also subject to the tax rate reduction.

The rising stock market created thousands of millionaires in the late 1990s, causing the share of total personal income tax liability accounted for by high-income taxpayers—those reporting NYSAGI of \$200,000 or more—to grow rapidly during that period.⁵ While the collapse of the equity markets in 2000 and 2001 led to a noticeable decline in returns filed by high-income taxpayers, the 9.0 percent average annual growth rate in high-income returns between 1992 and 2003 far outpaced the 0.9 percent overall growth in returns (see Figure 3). In 2003, high-income taxpayers represented a mere 2.8 percent of all taxpayers but accounted for 33.5 percent of NYSAGI and 48.8 percent of personal income tax liability (see Figure 4). The increasing concentration of liability among high-income taxpayers increases the elasticity of total liability with respect to tax rate changes that affect high-income taxpayers.

Figure 3
New York State High-Income Tax Returns



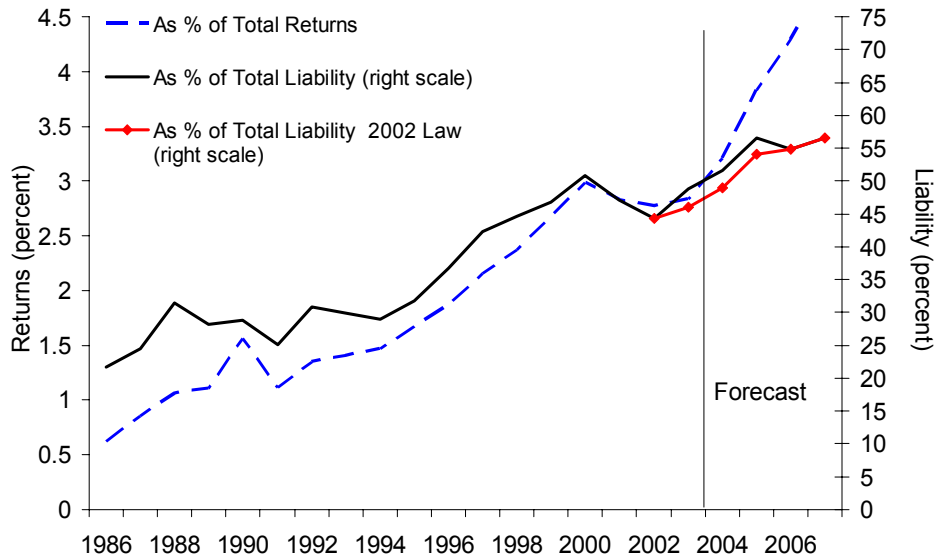
Source: NYS Department of Taxation and Finance; DOB staff estimates.

⁵ 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.

NEW YORK STATE ADJUSTED GROSS INCOME

Figure 4

High-Income Taxpayers as Percent of Total Returns and Liability



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

**TABLE 2
THE RISING CONCENTRATION OF STATE INCOME AND LIABILITY
1993 VERSUS 2003**

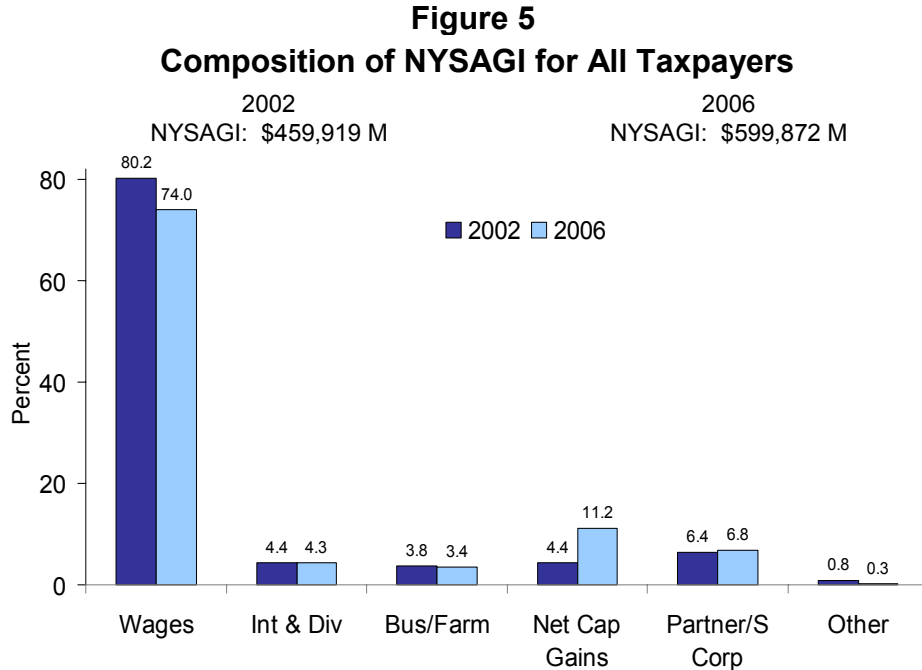
	Number of Returns	Gross Income	Wage Income	Nonwage Income	Liability
1993					
Total (\$ in millions)	7,873,667	\$311,033	\$237,972	\$73,061	\$14,981
Top 1% (percent share)	—	18.5	12.1	39.4	26.6
Top 5% (percent share)	—	33.2	26.2	56.3	45.4
Top 10% (percent share)	—	44.2	38.2	63.5	57.4
Top 25% (percent share)	—	66.1	62.7	77.0	78.8
2003					
Total (\$ in millions)	8,836,584	\$512,628	\$373,313	\$139,315	\$22,465
Top 1% (percent share)	—	23.3	15.3	44.7	35.9
Top 5% (percent share)	—	38.8	30.6	60.9	56.7
Top 10% (percent share)	—	49.6	42.6	68.4	68.3
Top 25% (percent share)	—	70.4	65.9	82.6	86.9

Note: Returns are ranked on the basis of gross income and are based on weighted statistical sample of all tax returns. Source: NYS Department of Taxation and Finance; DOB staff estimates.

Table 2 indicates that trends in both wage and nonwage income are responsible for the increasing concentration of liability since the early 1990s. The share of nonwage income accruing to the top 25 percent of taxpayers grew 5.6 percentage points between 1993 and 2003, while the wage share grew 3.2 percentage points. Much of the growth in nonwage income during the 1990s has been in capital gains realizations and partnership/S corporation income, which tend to accrue primarily to high-income filers. Although wage income is more evenly distributed across taxpayers than nonwage income, the gains in wages earned since 1993 have accrued disproportionately to the top filers.

NEW YORK STATE ADJUSTED GROSS INCOME

Figure 5 compares the composition of NYSAGI for all taxpayers for 2002, the second year of the State's recession, to that for the 2006 tax year, based on Budget Division projections. The figure shows a substantial shift in income from wages to net capital gains realizations over the period.⁶ By 2006, net capital gains income is projected to contribute 11.2 percent to NYSAGI, up from 4.4 percent in 2002. Net capital gains realizations peaked at 12.2 percent of NYSAGI in 2000 at the height of the stock market bubble, and again in 2005 at the same share with the estimated peak of the real estate market boom. The wage share is expected to decrease from 80.2 percent in 2002 to 74.0 percent in 2006. Business and farm income is predicted to decrease slightly from 3.8 percent to 3.4 percent while, net partnership income is expected to increase from 6.4 percent of NYSAGI to 6.8 percent over the period.



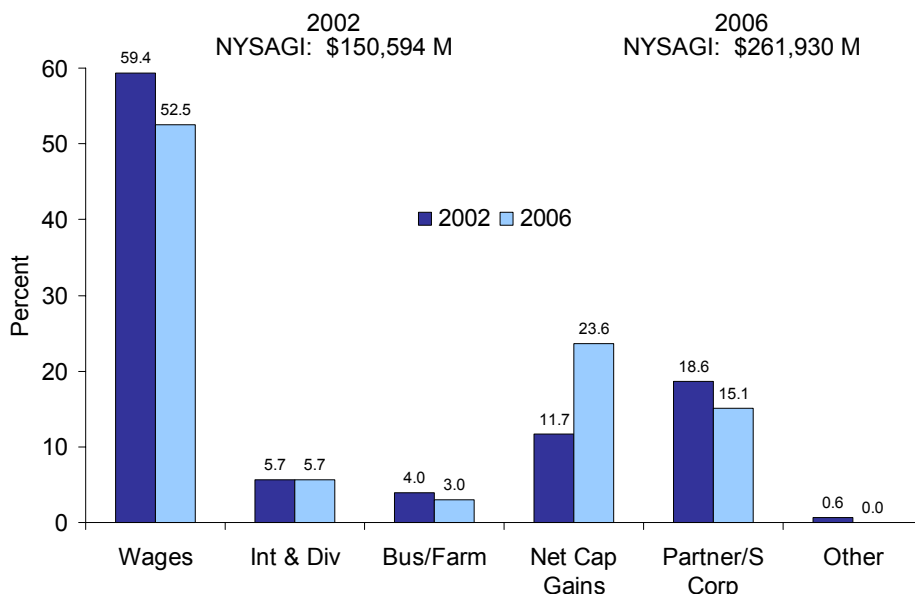
Note: Both capital gains and partnership/S corporation gains income are net of losses.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The composition of NYSAGI for high-income taxpayers differs noticeably from that of all other taxpayers (see Figure 6). In particular, the wage share is more than 20 percentage points lower, while net capital gains and partnership/S corporation income make up a much larger share among high-income taxpayers than for taxpayers overall.⁷ Their share of net capital gains realizations is projected to increase from 11.7 percent in 2002 to 23.6 percent in 2006. Meanwhile, their shares for partnership/S corporation income and particularly wages are projected to fall.

⁶ Net capital gains and partnership/S corporation income in these figures are net of the corresponding aggregate losses.

⁷ Although tax return data do 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.

Figure 6
Composition of NYSAGI for High-Income Taxpayers



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

The Major Components of NYSAGI

The Budget Division forecasts for the components of NYSAGI are based on detailed tax return data from a sample of State taxpayers through the 2003 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 Quarterly Census Employment and Wages (QCEW) data, they tend to follow the same trend. Therefore, for a discussion of the Budget Division forecast for taxable wages, see “Outlook for Income” above. The methodology section contains the estimation equations and information about the forecasting models for the components discussed below.

Positive Capital Gains Realizations

The volatility in capital gains realizations has accounted for a large share of the fluctuation in total NYSAGI in recent years. Positive capital gains income dropped from \$64.0 billion, or 12.6 percent of total NYSAGI, in 2000 to \$23.3 billion, or 5.1 percent of NYSAGI, in 2002. In 2004, gains are estimated to have rebounded to \$52.0 billion, or 6.5 percent of NYSAGI, and are projected to reach \$72.5 billion, 12.7 percent of NYSAGI, by 2005 (see Table 1). 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, financial market activity and real estate market activity.⁸

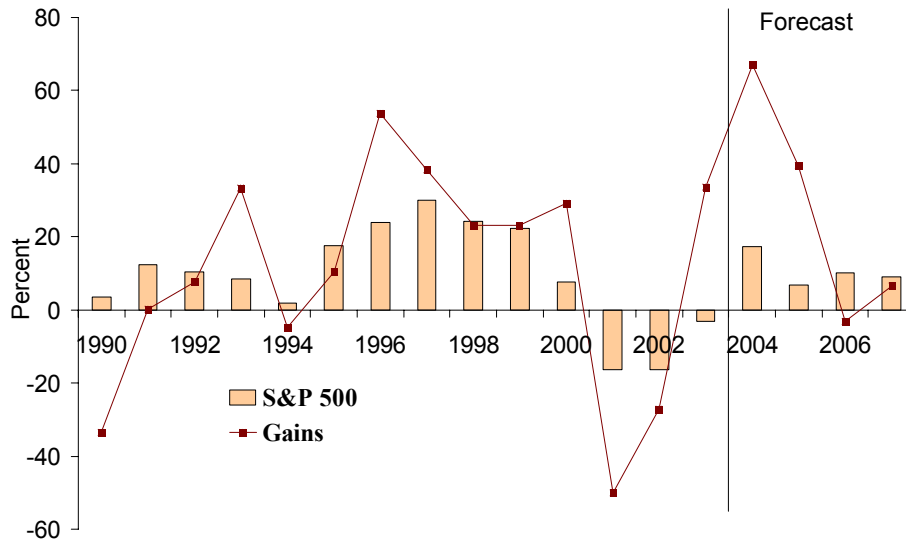
The Federal and state taxes on capital gains constitute a cost associated with realizing capital gains and can greatly affect realization behavior. The anticipated hike in the capital gains tax rate from 20 percent to 28 percent in 1987, for example, caused an increase in realizations of 91 percent in 1986, followed by a decline of 55 percent in 1987. Capital gains

⁸ 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.

NEW YORK STATE ADJUSTED GROSS INCOME

realizations are also strongly influenced by fluctuations in equity market prices. Mirroring these fluctuations, capital gains realizations experienced rapid increases in 1999 and 2000, followed by drastic declines in 2001 and 2002. Capital gains realizations tend to be even more volatile than the equity markets that drive them as shown in Figure 7.

Figure 7
Growth in Capital Gains Realizations and S&P 500



Note: Forecast period for the S&P 500 starts in 2006.

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

Gains from certain real estate transactions are also taxable as capital gains. National data indicate that in 1993, 22 percent of net capital gains realizations were generated by real estate transactions, with 11 percent from business property and 2 percent from the sale of personal residences.⁹ However, this share is likely to show substantial fluctuation as conditions in the real estate market change. Historical data for California show that in 2003, 22 percent of positive capital gains realizations were generated by real estate transactions. That share has fluctuated from a low of 9 percent in both 1999 and 2000, to a high of 32 percent in both 1990 and 1991.¹⁰ Real estate transfer tax data for New York suggest growth of 52.6 percent in cash collections related to real estate transactions for 2004, followed by an estimated increase of 26.1 percent for 2005. For 2006, the Budget Division projects that cash collections associated with real estate transactions will decline from their very high 2005 level with the anticipated decline in real estate sales, due to higher interest rates and the flattening — or even slight decline — in home prices.

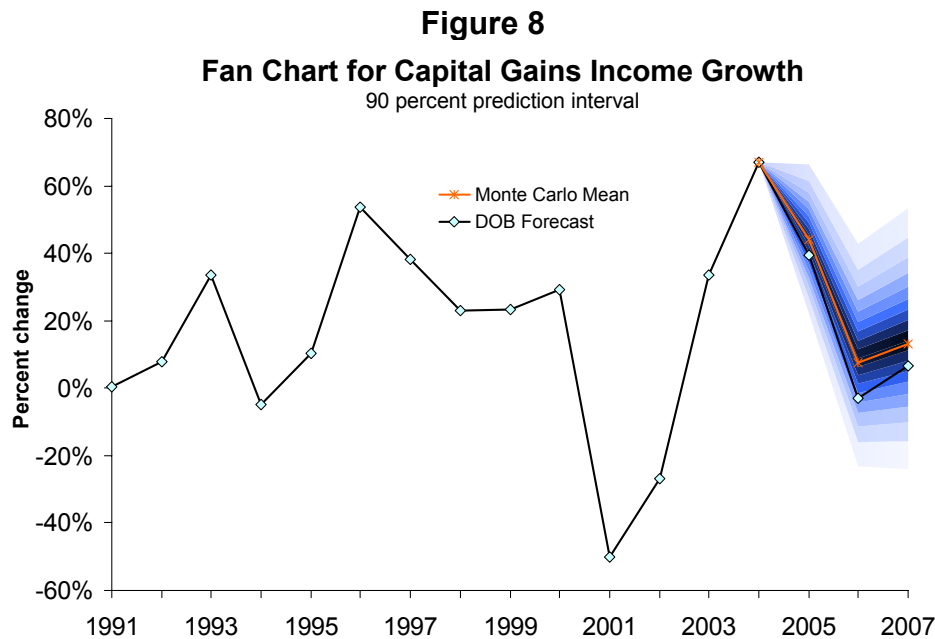
Based on the exceptional upswing in the real estate market in 2004 and 2005 and very decent year-over-year growth in equity markets, the Budget Division's model predicts substantial increases in capital gains income of 66.9 percent in 2004, and 39.4 percent in 2005 (see Figure 7). These large increases are expected to be followed by a 3.1 percent decline in realizations in 2006 with the projected cooling of the real estate market, and moderate growth of 6.7 percent in 2007.

⁹ L. E. Burman and P. R. Ricoy, "Capital Gains and the People Who Realize Them" *National Tax Journal* 50(3), September 1997, pp. 427-451.

¹⁰ Unpublished Study, Economics and Statistical Research Bureau, California Franchise Tax Board.

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DOB projections have emphasized the high degree of uncertainty associated with any capital gains forecast, particularly since realizations are driven by extremely volatile equity and real estate prices. The tool used by the Division of the Budget for presenting the risk to the forecast is the fan chart. As described in considerable detail in the methodology section, fan charts display prediction intervals. Given the volatility of capital gains realizations, the intervals are rather wide, suggesting that a wide range of growth rates are possible given the properties of the forecasting model and the history of the capital gains series itself (see Figure 8). For example, looking at 2006, a 50 percent prediction region encompasses growth rates ranging from a decline of 4.3 percent to an increase of 22.7 percent. DOB's forecast of a 3.1 percent decline falls in the lower end of this range, based on an assessment of the considerable downside risks to the model forecast from a cooling real estate market combined with threats from losses carried forward from the 2000-2002 bear market that are unprecedented in magnitude.¹¹



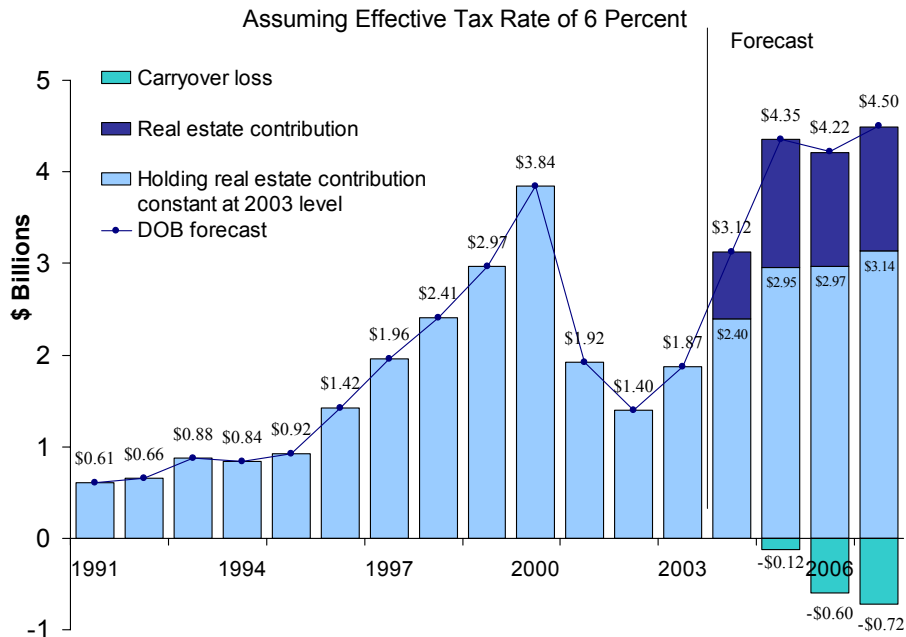
Note: With 90 percent probability, capital gains growth will fall within the shaded region. Bands represent 5 percent probability regions.

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

The uncertainty about the path of the real estate market in New York for 2006 poses a very high risk to the capital gains forecast. In 2004 and 2005, cash collections related to the real estate market experienced very strong growth, almost doubling from \$470 million to \$900 million. This growth in real estate market transactions is estimated to have had a large impact on capital gains realizations. Figure 9 compares the value of PIT liability derived from DOB's capital gains realizations projections to simulated liability holding the real estate market gains constant at its 2003 level. The dark areas at the top of the columns for the period from 2004 to 2007 reflect the estimated contribution to liability from real estate market growth above and beyond the 2003 level. By 2005, growth in the real estate sector since 2003 is estimated to have contributed \$1.4 billion to liability or 32.2 percent of the total. DOB expects that real estate transactions will decline in 2006, thus reducing the real estate contribution to \$1.25 billion, or 29.5 percent of the total. Because the contribution of the real estate market is so large, its condition can greatly affect the liability forecast. If transactions experience a larger decline in 2006 than anticipated, capital gains income and the associated liability may decline considerably more than indicated in DOB's forecast.

¹¹ For more of a discussion regarding carry-forward losses, please see 2005-06 *New York State Executive Budget - Financial Plan*, pp 240-241.

Figure 9
Personal Income Tax Revenues from Capital Gains Realizations



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

Additional risks to the capital gains forecast emanate from the substantial losses that taxpayers are continuing to carry forward from the previous bear market. Processing data at the national level suggest that unused losses increased slightly in 2004, despite reasonable advances in equity prices. In addition to these already realized losses, unrealized capital losses can be presumed to exist, since equity markets still remain below their 2000 peak. The potential for taxpayers to use both of these types of losses to offset gains is the source of an additional deviation from the model forecast. The impact of these reductions on projected liability also appears in Figure 9. It is DOB's assessment that an additional \$600 million in liability might result for 2006 were it not for the offset of positive capital gains realizations by realized losses.

Rent, Royalty, Partnership, and S Corporation Gains

Positive rent, royalty, estate, trust, partnership and S corporation income accounted for 8.7 percent of NYSAGI in 2007 and is projected to contribute 9.2 percent for 2006.¹² 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, S corporation status has increased dramatically, as rules governing which businesses can form S corporations have become less stringent, making this a very flexible business form. Together, partnership income and S corporation income contribute more than 90 percent to this category's income total.

While New York proprietors' income (as defined under NIPA and which includes partnership, S corporation, and sole proprietorship income) grew at an average annual rate of 7.4 percent between 1978 and 2003, taxable partnership and S corporation income grew at a

¹² The numbers here differ from those depicted in Figure 5 because we are looking at gains rather than gains net of losses.

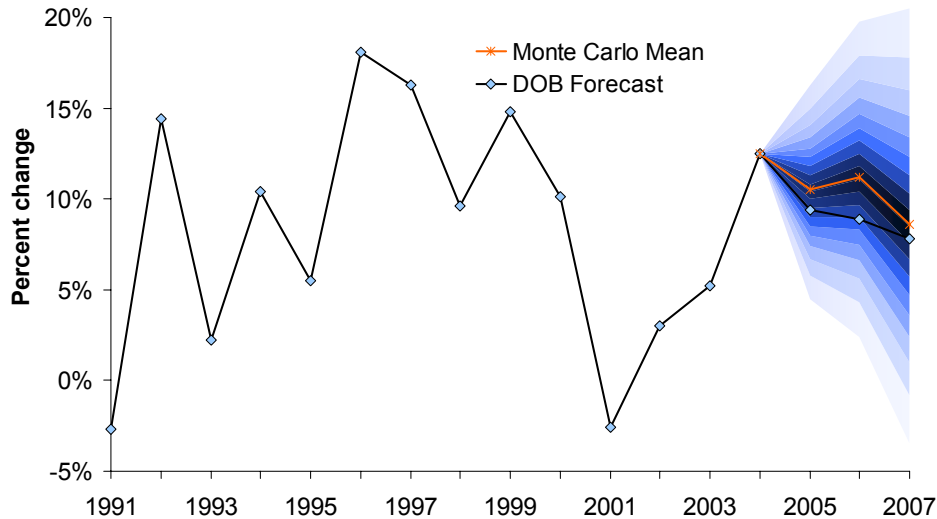
NEW YORK STATE ADJUSTED GROSS INCOME

significantly faster rate of 11.3 percent. Some of this growth is due to past tax law changes and to an easing of the requirements for forming S corporations. In the absence of further policy actions, it is expected that the S corporation income component will grow somewhat more slowly, though its flexibility makes S corporation status a continued favorite among new businesses. The Budget Division estimates very strong growth in positive partnership and S corporation income of 12.5 percent for 2004, followed by healthy growth of 9.4 percent and 8.9 percent, respectively, for 2005 and 2006. These strong growth rates reflect a strong underlying economy, and solid equity and real estate markets.

Figure 10

Fan Chart for Partnership/S Corporation Income Growth

90 percent prediction intervals



Note: With 90 percent probability, actual growth will fall into the shaded region.

Bands represent 5 percent probability regions.

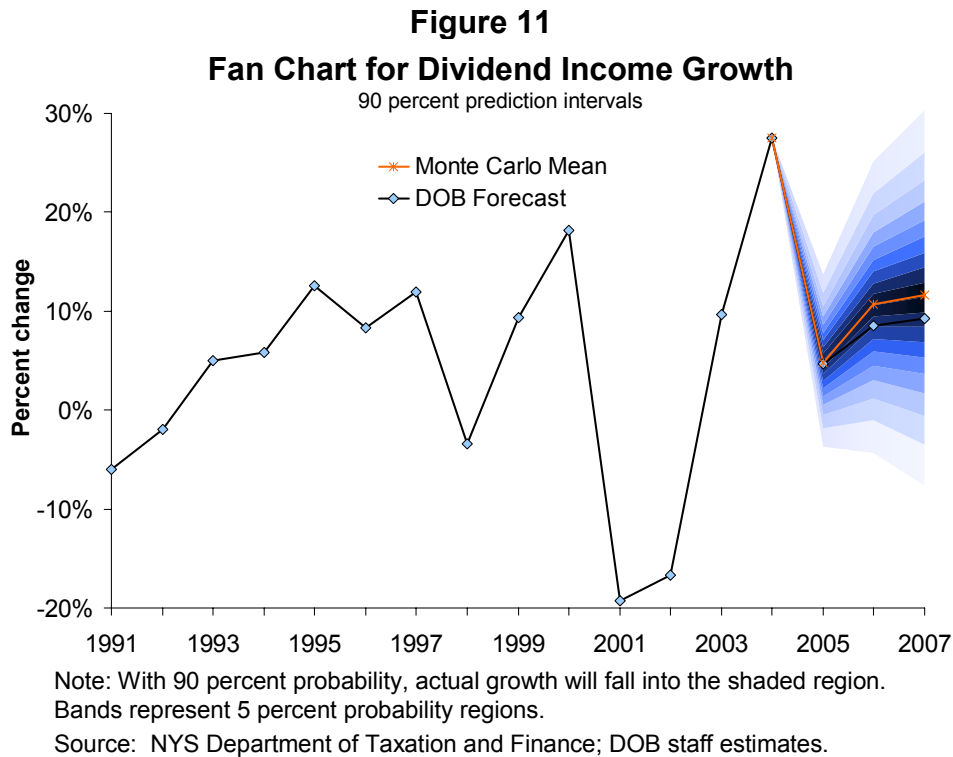
Source: NYS Department of Taxation and Finance; DOB staff estimates.

The fan chart for partnership and S corporation income shows DOB's assessment of the forecast risks (see Figure 10). The prediction regions are substantially narrower than those for capital gains because partnership and S corporation income has historically been less volatile than capital gains realizations. The 50 percent prediction interval for 2006 encompasses growth rates ranging from 6.6 percent to 14.7 percent. The Budget Division considers the risks to the model forecast to be on the downside, particularly since the real estate market is not captured in the forecast model, although there is a high concentration of real estate partnership in New York State. DOB's forecast thus reflects the considerable risk emanating from the real estate market in 2006 that the model does not capture. The Budget Division also views a decline in the profitability of hedge funds as a source of downside risk.

NEW YORK STATE ADJUSTED GROSS INCOME

Dividend Income

After strong growth of 9.7 percent in 2003, the Budget Division estimates dividend income to have grown dramatically by 27.5 percent in 2004, followed by 4.7 percent in 2005. Much of the strong growth in 2003 and 2004 is attributed to a change in dividend taxation. With the passage of the Jobs and Growth Tax Relief Reconciliation Act (JGTRRA), dividend income earned as of May 2003 began to be taxed at the lower capital gains tax rate of 15 percent rather than as ordinary income. DOB's estimate for strong growth in 2004, followed by much lower growth for 2005, reflects a number of one-time dividend payouts in 2004, most notably the \$32 billion dividend distribution by Microsoft, estimated to have raised the level in 2004, and lowering an otherwise solid growth rate for 2005. DOB predicts strong dividend growth of around 9 percent for 2006 and 2007.



The 50 percent prediction interval for 2006 includes dividend income growth rates ranging from 3.0 percent to 16.6 percent (see Figure 11). DOB considers upside and downside risks to the model forecast to be balanced for 2005, but slightly on the downside for 2006 and 2007. Higher than predicted energy prices and interest rates may add to increased fears of inflation with adverse effects on equity markets and corporate profitability.

Interest Income

Taxable interest income declined in 2003 by 7.4 percent because of falling interest rates, marking the third straight year of falling interest income. DOB estimates that interest income will continue to decrease slightly at a rate of 3.4 percent in 2004, as U.S. interest income also declines. With the continued rise in interest rates, we expect to see higher interest income for 2005 and 2006, resulting in growth of 5.3 percent and 7.9 percent respectively.

The fan chart shows the considerable volatility of taxable interest income resulting in relatively wide prediction regions (see Figure 12). The 50 percent prediction region contains growth rates ranging from 0.1 percent to 16.6 percent for 2006. While DOB generally

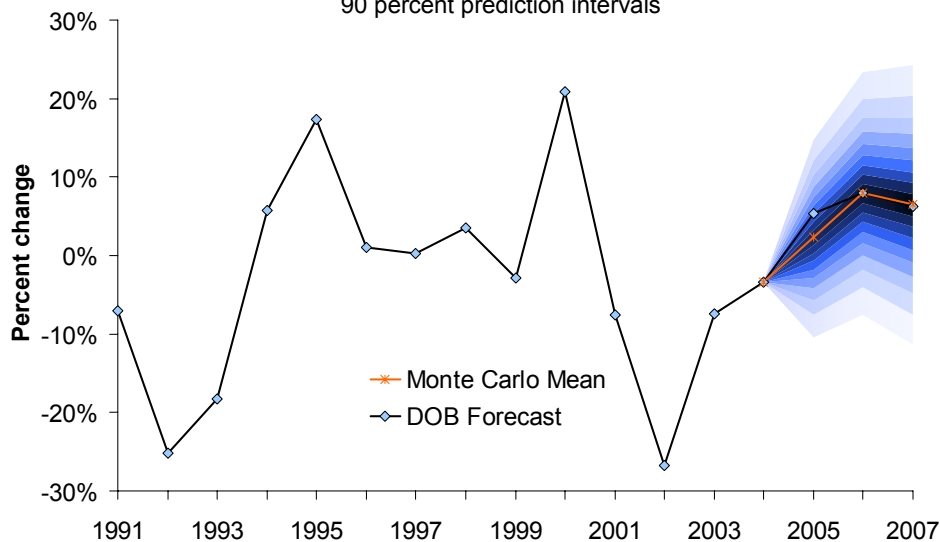
NEW YORK STATE ADJUSTED GROSS INCOME

considers upside and downside risks to be balanced, we see some upside risk to the model estimate for 2005 should taxable interest income have rebounded more aggressively than anticipated following four years of historically low interest rates.

Figure 12

Fan Chart for Interest Income Growth

90 percent prediction intervals



Note: With 90 percent probability, actual growth will fall into the shaded region. Bands represent 5 percent probability regions.

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

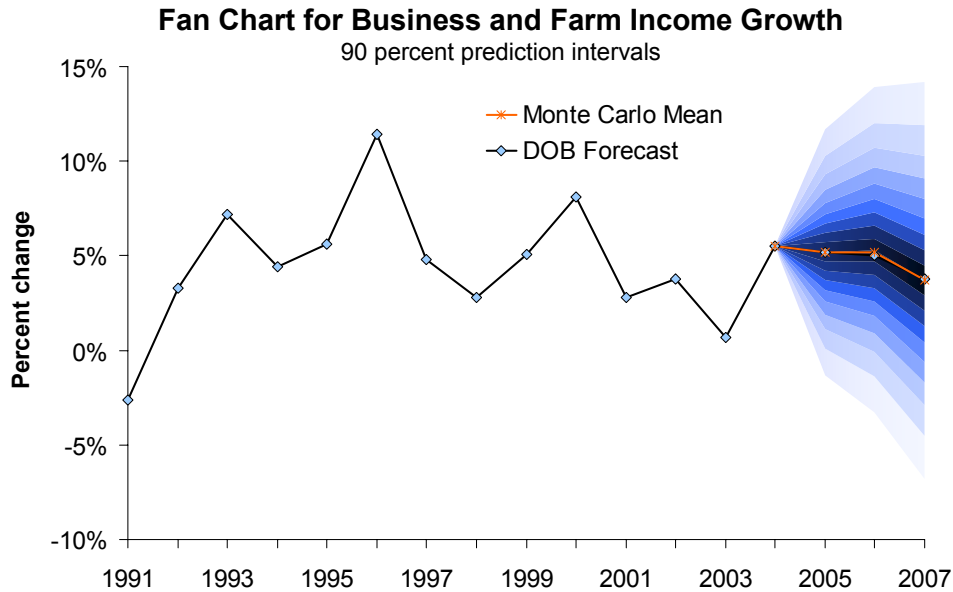
Business and Farm Income

Business and farm income grew at an annual rate of 6.8 percent from 1978 to 2003. However, since 1990, business and farm income has only grown at an annual average rate of 4.4 percent. Proprietors' income, as defined under NIPA, grew similarly for the same periods, at annual average rates of 7.4 percent and 4.7 percent, respectively. Growth for 2003 was considerably lower at 0.7 percent due to the provisions of JGTRRA related to depreciation.¹³ Because of strong rates of economic growth in 2004 and 2005, and projected for 2006, business income is estimated to have grown at rates above recent annual averages — 5.5 percent in 2004, 5.2 percent in 2005 — with 5.0 percent growth projected for 2006. For 2007, business and farm income growth is expected to slow to 3.8 percent, consistent with slower growth in the national economy.

Growth in business and farm income has been relatively stable over the past 13 years, resulting in a fan chart with relatively narrow prediction intervals (see Figure 13). The 50 percent prediction interval encompasses growth rates between 0.8 percent and 8.6 percent for 2006. DOB considers the upside and downside risks to the model forecast to be balanced. Therefore, as indicated in Figure 13, no adjustment to the forecast is required.

¹³ See Congressional Budget Office, Congressional Budget Cost Estimate, H.R. 2, "Jobs and Growth Tax Relief Reconciliation Act of 2003," May 23, 2003.

Figure 13



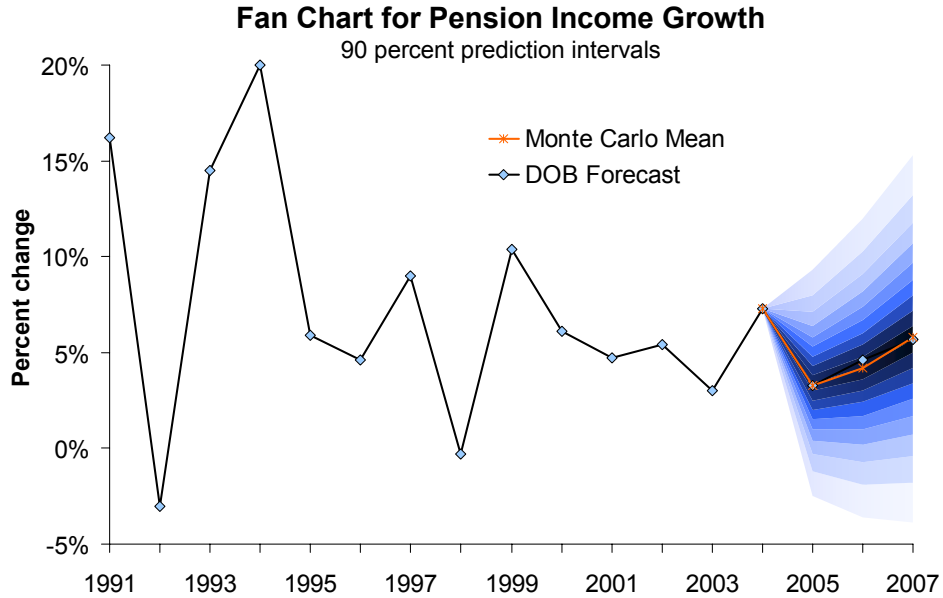
Note: With 90 percent probability, actual growth will fall into the shaded region. Bands represent 5 percent probability regions.
Source: NYS Department of Taxation and Finance; DOB staff estimates.

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 in turn 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. While the average annual growth rate between 1978 and 1989 was 13.4 percent, it fell to 7.3 percent between 1990 and 2003. This coincides with a decline in the 10-year Treasury rate from 10.3 percent in the earlier years to 6.2 percent in the later years. For pension income, DOB’s forecasting model estimates 7.3 percent growth for 2004, consistent with the increase in the 10-year Treasury rate to 4.3 percent. Consistent with small and only gradual increases in interest rates for 2005, 2006 and 2007, pension income is projected to grow on an annual basis at lower but increasing rates of 3.3, 4.6 and 5.7 percent, respectively.

The 50 percent prediction region for 2006 encompasses growth rates for pension income ranging from 0.2 percent to 7.4 percent. As indicated in Figure 14, the risks are assessed to be balanced.

Figure 14



Note: With 90 percent probability, actual growth will fall into the shaded region. Bands represent 5 percent probability regions.

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

Summary

In summary, given the uncertainty surrounding such volatile components as capital gains realizations and bonuses, and the small number of taxpayers who account for the majority of the income from these realizations, 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 real estate market, which shows signs of weakening. Further risk is caused by the link 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. Financial sector bonuses, another volatile component of income, also can be adversely impacted by a weakening equity market. Should the momentum in GDP growth slow in 2006 relative to the forecast, business and farm income and partnership and S corporation income could be lower than expected. Rough estimates suggest that a one percentage point reduction in GDP growth translates into a decline in NYSAGI of about \$1 billion and a decline in PIT liability of about \$50 million.

ECONOMIC SUMMARY

SELECTED ECONOMIC INDICATORS							
(Calendar Year)							
	2004	2005	2006	2007	2008	2009	1976-2004
	(actual)*	(estimate)	(forecast)	(forecast)	(forecast)	(forecast)	Average ²
U.S. Indicators¹							
Gross Domestic Product (current dollars)	7.0	6.5	6.0	5.3	5.4	5.5	7.1
Gross Domestic Product Consumption	4.2	3.6	3.3	2.7	2.9	3.1	3.2
Residential Fixed Investment	3.9	3.5	2.9	3.2	3.3	3.3	3.4
Nonresidential Fixed Investment	10.3	7.1	(0.2)	(3.1)	(0.0)	1.1	4.4
Change in Inventories (dollars)	9.4	9.0	8.4	6.4	5.7	5.5	5.1
Exports	52.0	23.6	40.4	36.4	32.7	33.5	28.0
Imports	8.4	6.8	6.4	7.6	7.2	7.6	5.8
Government Spending	10.7	6.0	5.4	7.2	7.2	7.0	7.4
Corporate Profits ³	2.2	2.0	2.2	1.9	2.2	2.2	2.3
Personal Income	12.6	15.0	8.7	5.7	6.0	6.4	8.1
Wages	5.9	5.3	6.0	6.0	6.1	6.0	7.1
Nonagricultural Employment	5.4	6.0	5.4	5.8	5.9	5.8	6.8
Unemployment Rate (percent)	1.1	1.6	1.6	1.6	1.6	1.5	1.9
S&P 500 Stock Price Index	5.5	5.1	4.9	4.9	5.0	5.1	6.3
Federal Funds Rate	17.3	6.8	10.0	9.1	8.6	8.1	10.1
Treasury Note (10-year)	1.3	3.2	4.8	5.1	5.1	5.1	6.7
Consumer Price Index	4.3	4.3	5.1	5.7	5.9	6.0	7.9
	2.7	3.4	3.1	2.5	2.6	2.6	4.5
New York State Indicators							
Personal Income ⁴	6.9	5.1	5.7	5.4	5.1	5.1	6.3
Wages and Salaries ⁴							
Total	6.4	5.1	6.1	5.1	4.9	4.7	6.0
Without Bonus ⁵	4.5	4.4	5.1	4.5	4.3	4.2	5.7
Bonus ⁵	21.8	10.8	12.4	9.3	8.6	7.4	10.2
Wage Per Employee	5.7	4.2	5.3	4.4	4.2	3.9	5.3
Property Income	4.5	1.6	4.5	4.7	4.7	4.6	6.5
Proprietors' Income	9.3	6.0	6.9	7.5	7.1	7.3	8.4
Transfer Income	8.3	5.8	5.0	5.8	5.4	6.1	6.9
Nonfarm Employment ⁴							
Total	0.6	0.9	0.8	0.7	0.7	0.7	0.7
Private	0.8	1.1	0.9	0.8	0.7	0.8	0.8
Unemployment Rate (percent)	5.8	5.0	5.0	5.1	5.2	5.3	6.7
Composite CPI of New York ⁵	3.2	3.8	3.1	2.3	2.4	2.5	4.5
New York State Adjusted Gross Income							
Capital Gains	66.9	39.4	(3.1)	6.7	11.2	(0.3)	15.4
Partnership/ S Corporation Gains	12.5	9.4	8.9	7.8	8.1	8.4	11.3
Business and Farm Income	5.5	5.2	5.0	3.8	4.4	4.6	6.8
Interest Income	(3.4)	5.3	7.9	6.3	3.3	3.1	4.3
Dividends	27.5	4.7	8.5	9.3	7.1	6.2	5.2
Total NYSAGI	11.0	8.7	4.9	5.3	5.9	4.3	5.8
* For NYSAGI variables, 2004 is an estimate.							
¹ All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 dollars, unless otherwise noted.							
² For the NYSAGI variables, averages are calculated using data through 2003. Partnership and S corporation gains data start in 1978, NYSAGI data in 1980.							
³ Includes inventory valuation and capital consumption adjustments.							
⁴ Nonagricultural employment, wage, and personal income numbers are based on QCEW data.							
⁵ Series created by the Division of the Budget.							
Source: Moody's Economy.com; NYS Department of Labor; NYS Department of Taxation and Finance; DOB staff estimates.							

ECONOMIC SUMMARY

SELECTED ECONOMIC INDICATORS*						
(State Fiscal Year)						
	2004-05 (actual)	2005-06 (estimate)	2006-07 (forecast)	2007-08 (forecast)	2008-09 (forecast)	1976-77 - 2004-05 Average
U.S. Indicators¹						
Gross Domestic Product (current dollars)	6.8	6.5	5.7	5.3	5.4	7.0
Gross Domestic Product Consumption	4.0	3.6	3.1	2.7	2.9	3.2
Residential Fixed Investment	3.7	3.3	3.0	3.2	3.3	3.4
Nonresidential Fixed Investment	9.2	6.3	(2.4)	(2.2)	0.4	4.1
Change in Inventories (dollars)	10.0	8.7	7.9	6.1	5.6	5.2
Exports	56.1	19.0	39.9	35.4	32.4	28.3
Imports	8.0	6.6	6.8	7.5	7.2	5.9
Government Spending	10.8	4.5	6.2	7.4	7.1	7.4
Corporate Profits ²	1.9	2.1	2.1	2.0	2.2	2.2
Personal Income	10.7	14.5	7.3	6.1	5.8	7.9
Wages	6.2	5.1	6.2	6.0	6.1	7.1
Nonagricultural Employment	6.1	5.4	5.6	5.8	5.9	6.7
Unemployment Rate (percent)	1.5	1.6	1.6	1.6	1.6	1.9
S&P 500 Stock Price Index	5.4	5.0	4.9	4.9	5.0	6.3
Federal Funds Rate	11.0	7.4	10.3	9.0	8.5	9.9
Treasury Note (10-year)	1.7	3.7	5.0	5.1	5.1	6.7
Consumer Price Index	4.3	4.4	5.3	5.8	5.9	7.9
	3.0	3.6	2.8	2.6	2.6	4.4
New York State Indicators						
Personal Income ³	6.3	5.6	5.6	5.3	5.0	6.3
Wages and Salaries ³						
Total	5.5	6.1	5.5	5.1	4.7	6.0
Without Bonus ⁴	4.8	4.8	5.0	4.4	4.2	5.7
Bonus ⁴	10.8	15.4	9.0	9.2	7.8	10.1
Wage Per Employee	4.5	5.2	4.7	4.4	4.0	5.2
Property Income	4.5	2.3	4.5	4.7	4.6	6.5
Proprietors' Income	8.5	5.8	7.4	7.4	7.1	8.3
Transfer Income	7.9	5.0	5.7	5.6	5.4	6.8
Nonfarm Employment ³						
Total	0.9	0.9	0.8	0.7	0.7	0.7
Private	1.1	1.0	0.8	0.7	0.7	0.8
Unemployment Rate (percent)	5.5	5.0	5.1	5.1	5.2	6.7
Composite CPI of New York ⁴	3.6	3.8	2.7	2.3	2.4	4.5

¹ All indicators are percent changes except change in inventories, the unemployment rate, and interest rates; all GDP components refer to chained 2000 dollars, unless otherwise noted.

² Includes inventory valuation and capital consumption adjustments.

³ Nonagricultural employment, wage, and personal income numbers are based on QCEW data.

⁴ Series created by the Division of the Budget.

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

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

All Funds receipts are subject to significant volatility. The main factors impacting growth include:

- changes in underlying economic conditions including the rate of inflation;
- changes in tax policy;
- changes in the structure of the economy (the shift from manufacturing to services);
- changes in the demographic make-up of taxpayers; and
- unexpected shocks to the economy.

RECENT TRENDS OVERVIEW

Historically, growth in All Funds tax receipts has been very volatile, reflecting both underlying economic conditions and significant changes in tax policy. This variability is evident in the charts accompanying this section that detail changes in tax receipts over more than three decades (the data appendix in this volume reports receipts by fiscal year covering the period from 1974-75 to the present).

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 reduction 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. The decline in tax receipts for fiscal years 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.

Tax receipts growth has rebounded significantly over the past three fiscal years. In fact, it is estimated tax receipts have increased by nearly 40 percent since fiscal year 2002-03. The increases in receipts growth have exceeded expectations as important segments of the economy have grown at unexpectedly rapid rates. The rapid recovery of the financial services industry and the growth in the number and value of real estate market transactions have fueled much of the economic improvement. In addition, the relative weakness in the dollar compared to foreign currencies has had a positive impact on the tourism industry, especially in New York City. Most of these positive economic trends are expected to continue into fiscal year 2006-07, supporting relatively strong receipts growth in the upcoming and subsequent fiscal years (holding policy actions constant).

Receipts growth over the past several fiscal years has been supported by revenue actions taken in 2003, including the temporary three-year increase in personal income tax rates, the two-year one quarter of one percent sales tax surcharge, the replacement of the sales tax on clothing exemption with tax-free weeks and other actions including more aggressive efforts to reach non-residents with New York tax liability. The temporary quarter percent sales tax surcharge ended in the 2005-06 fiscal year and has had a negative impact on the current year receipts. The temporary income tax surcharge continued to support receipt levels in 2005-06. The income tax surcharge sunset on January 1, 2006. The elimination of these surcharges is estimated to remove almost \$2 billion from the ongoing receipts base.

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

Economic expansion continued in 2005 and that factor alone supported modest growth in the receipts base. However, the rapidly accelerating real estate market in 2005 boosted receipts significantly beyond what normal economic growth in isolation would support. This had a noticeable impact on real estate transfer and personal income tax collections.

The housing market appears to have cooled in late 2005 and is expected to remain stable in 2006 and beyond. The receipt estimates are based on the assumption that there is no housing market bubble. The market is assumed to have peaked and transactions will decline somewhat and prices will moderate. A stable housing market will have a relatively minor negative impact on the receipts base. Real estate transfer tax collections are expected to remain relatively flat after growing by more than 108 percent over the past three fiscal years. In addition, the forecast of capital gains is expected to fall modestly reflecting the leveling off of prices in the housing market.

The table below reports average growth, the standard deviation in growth (a measure of dispersion around the average) and the average share of total tax receipts for the major tax sources. The table reports these data for three ten-year periods beginning with fiscal year 1974-75.

ALL FUNDS SUMMARY OF HISTORICAL RECEIPTS TRENDS									
	AVERAGE PERCENT GROWTH			STANDARD DEVIATION			AVERAGE PERCENT SHARE		
	1975-1984	1985-1994	1995-2005	1975-1985	1985-1995	1995-2005	1975-1985	1985-1995	1995-2005
Total Taxes	9.0	5.0	4.1	4.0	3.7	6.2	100.0	100.0	100.0
Personal Income Tax	11.4	5.0	5.7	6.2	5.1	9.0	47.6	51.5	55.5
Sales Tax	8.2	3.8	5.5	2.4	3.6	4.4	21.7	19.8	20.5
Other User Taxes & Fees	3.3	3.5	(2.1)	8.7	7.1	5.3	10.6	7.5	5.8
Business Taxes	7.0	3.1	(0.3)	9.0	10.4	7.2	17.2	16.9	14.9
Other Taxes	12.9	0.7	4.7	23.0	8.0	12.0	2.9	4.3	3.3

The points discussed above are clearly evident in the receipts data.

- Average growth in total tax receipts has declined over each sub-period, reflecting lower inflation and a fiscal policy favoring tax reduction.
- The personal income tax is consistently the fastest growing receipt source despite major reductions in rates and the base over this period.
- The average income tax share of total receipts has been steadily increasing, another manifestation of higher average growth in this source over the past thirty years.
- Overall, tax volatility has increased for the 1995 through 2005 period reflecting several factors including: rapid growth in the economy in the 1990s, significant tax law changes, and the depressing impact of September 11th, on receipts.
- The standard deviation in receipts growth is larger than average growth for the 1995 through 2005 period illustrating the difficulty in projecting receipts over this period.

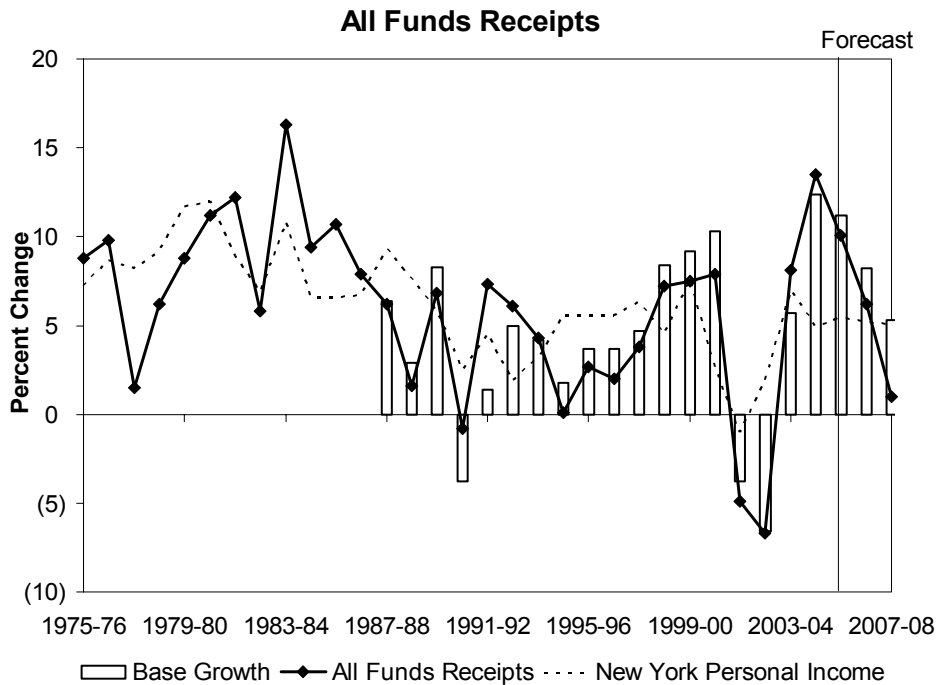
This Budget includes proposals to significantly reduce tax burdens over the next several fiscal years. The reductions include a restructuring of business taxes and significant reductions in the personal income tax. If implemented in total, these actions will reduce receipts by over \$4 billion annually when fully effective. The fiscal year 2006-07 impact is relatively modest, and the proposed phase-in schedule is described in full at the beginning of this volume.

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

This Budget also proposes permanently eliminating the sales tax clothing exemption and replacing it with two annual tax-free weeks for clothing and certain Energy Star related appliances. This action is similar to the actions taken in the 2002-03 and 2004-05 fiscal years and will support the receipts base in the outyears of the Financial Plan. In total, the net impact of the tax proposals contained in this Budget is to reduce receipts by \$3.5 billion when fully effective.

During past economic expansions, tax receipt growth has lagged behind changes in economic conditions. This lag has been especially true for the current expansion as the lack of significant employment growth, the continued depressing effects of the decline in equity markets, and the other aftershocks of the 2001 recession continued to depress tax receipts growth in fiscal years 2002-03 and 2003-04. Consistent with this pattern, improvement in economic conditions and the full revenue benefit of the temporary tax increases only became fully evident starting in fiscal year 2004-05. It is expected that the rapid growth in underlying receipts will continue into fiscal year 2006-07, partially reflecting the delayed impact of economic activity that occurred in 2005. Beyond the 2006-07 budget year, it is assumed receipts growth will continue at rates consistent with the mature stages of an economic expansion.

Over the past three decades, tax receipts growth has averaged 5.8 percent. However, the volatility around average growth has been significant with receipt changes ranging from a positive 12.2 percent in fiscal year 1981-82 to a negative 6.7 percent in fiscal year 2002-03. Much of this volatility was the result of law changes that can distort year-to-year growth comparisons. Base growth, adjusting for statutory and administrative changes, has averaged 4.1 percent over the period from fiscal year 1986-87 to fiscal year 2004-05. It is projected that base growth will average 7.5 percent over the 2005-06 to 2007-08 forecast period. As stated above, this forecast is consistent with the growth typical at this stage of an economic expansion.



RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

IMPACT OF INFLATION

When receipts are adjusted for inflation, the impact of economic contractions and the corrosive impact of inflation on real growth in receipts becomes much 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 1970s and early 1980s were characterized by significant inflation including periods of double digit annual price increases. In addition, the State began a program to reduce the State's relative tax burden. The inflationary environment changed dramatically in the 1980s and the impact on receipts growth became more muted. The negative real growth rates in the late 1980s and early 1990s reflect the large 1987 personal income tax cut and the 1990 economic recession. The declines in the rate of growth 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 tables in the data appendix and the graphs in this section show that, adjusting for tax policy changes and inflation, the decline in fiscal year 2001-02 and 2002-03 receipts was much more severe than for the other economic downturns of the previous three decades. Inflation-adjusted growth rebounded in fiscal year 2003-04 and 2004-05 (5.7 percent and 10.4 percent respectively) and is anticipated to be high (6.4 percent) in the current fiscal year, again reflecting improvements in real economic conditions and tax policy actions taken to support growth imposed in recent years. It is expected that inflation-adjusted tax receipts will grow moderately above the historical average for fiscal year 2006-07. Inflation adjusted growth declines in 2007-08 reflecting the impact of recommended tax reductions proposed with this Budget.

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 table earlier in this volume on historical base growth since fiscal year 1986-87 reports estimated base receipts compared to growth in actual receipts. Growth in base receipts is higher than for actual receipts in most years reported, 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 reductions enacted over the 1995-2000 period reduced actual revenue growth substantially. However, this trend reversed itself when taxes were temporarily increased in 2003 and caused actual growth in receipts to exceed base growth. It is expected that over the 2005-06 to 2008-09 period, base growth will again exceed actual receipts growth as temporary tax increases imposed in 2003 and additional tax reductions proposed with this Budget are phased-in.

IMPACT OF POLICY AND ECONOMICS

The series of charts (tables are included in the Data Appendix section) in this section detail both the shift in tax shares over time among the major tax sources and the growth in receipts for a selected set of primary tax sources both before and after adjusting for inflation. Three additional charts for the income, sales, and corporate franchise taxes provide timeline indicators for major tax law changes, economic downturns, the recent stock market boom, the 2001-02 downturn, and subsequent economic rebound, all of which are major factors that have impacted these major tax sources over the past 30 years. The charts also adjust for the impact of inflation making comparisons of the high inflation in the 1970s with the current period of low inflation possible.

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

The share of total tax collections attributable to a tax source is related to: economic activity, tax policy shifts, changes in taxpayer behavior, and structural changes in the economy. For example, the temporary personal income tax and sales tax increases adopted in 2003, holding other factors constant, should increase receipts for these tax sources beyond what could be expected from economic growth alone. As the temporary tax changes were phased-out in 2005 and 2006, the impact on tax shares is reversed, holding other factors constant. Changes in share due to law change can be spread over multiple years because it takes taxpayers time to adjust to law changes. As a result, the 2004-05 impact of the income tax increase appears much stronger than in 2003-04 as taxpayers became more aware of their increased liability and, consequently, increased their cash payments; and it is expected the phase-out of the tax surcharges will have a larger impact in fiscal year 2007-08 than in 2006-07 as taxpayers adjust ongoing payments to phase-out of surcharges.

Other policy changes, when interacting with economic change, can have more long-term impacts on tax shares. For example, part of the increase in the 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 actions allowing for the formation of limited liability companies (LLCs) 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 250 thousand in 2004. 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 of total taxes 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 partially the consequence of the rapid income growth associated with the large increases in financial service incomes and the rapid appreciation in equity prices. This shifted the income tax share upward despite the large reductions in income tax rates and the decline in stock prices over the 1995-97 period. The large declines in financial service incomes in 2002 and 2003 drove the income tax share down somewhat. The recent rebound on Wall Street and the housing price boom have helped return the income tax share to historic highs in 2005-06.

It is also often the case that economic and policy changes reinforce or magnify the impact of each change taken in isolation. This is especially true when there are unanticipated changes in economic conditions. Current events confirm this point. It now appears that a combination of renewed and partially unexpected economic activity, especially in the real estate and financial services sectors, is driving up tax payments by increasing the impact of the temporary income tax rate increases imposed in 2003 beyond what was originally anticipated. This served to increase the share of receipts from the income tax. The table earlier in this volume shows the significant impact these surcharges had on the receipts base. As the surcharge is fully phased-out as of January 1, 2006, the impact on the income tax share will be reversed in 2006-07 and beyond, holding other factors such as economic conditions constant.

In addition, structural changes in the underlying economy can significantly impact the share of a receipt source. For example, the long-term decline in smoking per capita for health related reasons has had an important negative impact on cigarette tax collections. Another more rapidly developing change in the economy impacting receipt shares is the shift

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

to Internet purchases of commodities subject to the sales tax. In many cases, these sales are beyond the reach of the State's efforts to collect tax. These and other changes in consumer tastes or in technology can have important impacts on tax receipts and the share of total tax received from a particular source.

Competitive pressures with other taxing jurisdictions also have had a long-term impact on the tax structure in New York. A half century ago, New York was a dominant economy in the United States with more population, employment, and income than any other state. The gradual erosion of that dominant position, along with continued competitive pressures on a global scale, has led New York policy makers, primarily in the last two decades, to change the State tax structure by lowering tax rates, providing special incentives to promote certain industries, establishing tax preferred regions, and taking other actions to promote competitiveness with other states. As is reported in the section on comparative tax burdens contained in this volume, competition among states has tended to lead to equality in tax burdens across states.

ECONOMY-RECEIPT RELATIONSHIP

Overall, as expected, there is a strong relationship between growth in the economy and in tax receipts adjusted for law changes. The relationship is to be expected given the sensitivity of the personal income tax and sales tax to changes in economic conditions, and especially to changes in personal income. However, there is significant noise in the relationship, even after correcting for law changes, unusual factors and changes in taxpayer behavior act to disturb this relationship over time. As is clear in the tables in the Data Appendix the receipts base has grown with the economy but at a slower overall pace over the past three decades. The slower growth reflects, in large part, the policy choices to lower the tax burden facing New Yorkers over this period. Inflation-adjusted All Funds receipts grew by 33.1 percent over the past 30 years, while real personal income increased by 60.9 percent. The slower growth primarily reflects the predominant policy choices over this period. The clear policy direction has been to reduce tax burdens at the State level.

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 in the Data Appendix. 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. Holding economic factors constant, changes in rates have an obvious effect. During the tax cut programs of 1987-89 and 1995-97 receipts growth slowed. The tax cuts of 1995-97 were partially offset by strong wage growth, particularly in financial sector bonuses, and, as a consequence, tax collections growth remained robust. When rates were increased with the temporary surcharge in 2003, receipts surged for fiscal years 2004-05 through 2005-06.

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 shares of most other tax sources have 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 and ailing equity markets. As a result, the income tax share of All Funds

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

tax receipts fell to 57 percent in fiscal year 2002-03. The share began to rebound in 2003-04, reflecting a marked recovery in these areas of economic activity and the impact of the temporary income tax surcharge. This share increase continued in 2004-05 as the full impact of the surcharge materialized and economic growth continued.

The estimated personal income tax share is expected to remain stable in 2005-06, reflecting the opposing forces of the phase-out of the surcharge and continued economic conditions. As the New York economic recovery continues over the Financial Plan horizon, growth in wages and other personal income components are projected to continue at historically average rates. Estimated capital gains growth becomes negative in 2006 as the real estate market cools but grows at projected rates approaching 10 percent per year in 2007 and beyond. The temporary tax increases imposed in 2003 have been fully phased-out. On balance, personal income tax growth is expected to average 7.5 percent over the 2005-06 to 2008-09 period, before accounting for phase-out of the 2003 surcharge and the tax reductions proposed with this Budget. The combination of ending the income tax surcharge and the tax reductions proposed with this Budget reduce the growth in income tax receipts in 2006-07 and 2007-08 by a significant amount, reducing overall growth to 6.6 percent and 4.9 percent, respectively. With overall receipts expected to grow at a 3.7 percent average over the period, the income tax share is expected to increase modestly to almost a 60 percent share of total receipts.

USER TAXES AND FEES

Overall, 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 are often a product of volatility in other more economically sensitive taxes. The sales tax share increased in 2003-04 and 2004-05 reflecting revenue actions temporarily increasing the rate and eliminating the exemption on clothing. The percentage share of the sales tax to total receipts is expected to decline in 2005-06 and 2006-07 as the temporary sales tax surcharge is eliminated. The increase in the cigarette tax and the elimination of the full year clothing exemption under the sales tax will offset some of the decline from loss of surcharge and keep the share of user taxes at about 26 percent of total receipts.

In general for this category, periods with low- or negative-growth rates coincide with recessionary periods (1980-82, 1990-92, 2001-02) or with a major policy shift such as the first year of the exemption on clothes and shoes. Higher growth rates are associated with periods of recovery or sustained economic growth. Sales tax growth averaged 5.7 percent over the 1975-76 to 2004-05 period. For the 2006-07 Budget planning horizon, average growth of 4.9 percent is assumed. Base growth over the forecast period is associated with a continued economic expansion, primarily increases in the employment and income base. This growth is offset by the phasing-out of the one quarter of one percent temporary tax increase in May of 2005. The Budget includes a proposal to replace the permanent clothing sales tax exemption with two tax-free weeks per year. This action will increase receipts in the outyears of the financial planning period for this category.

RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

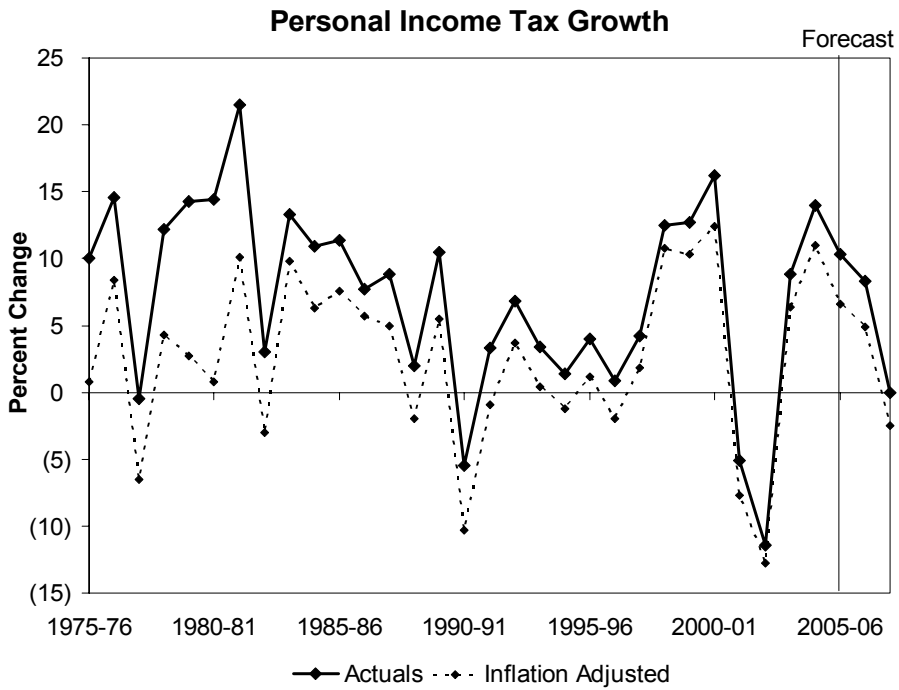
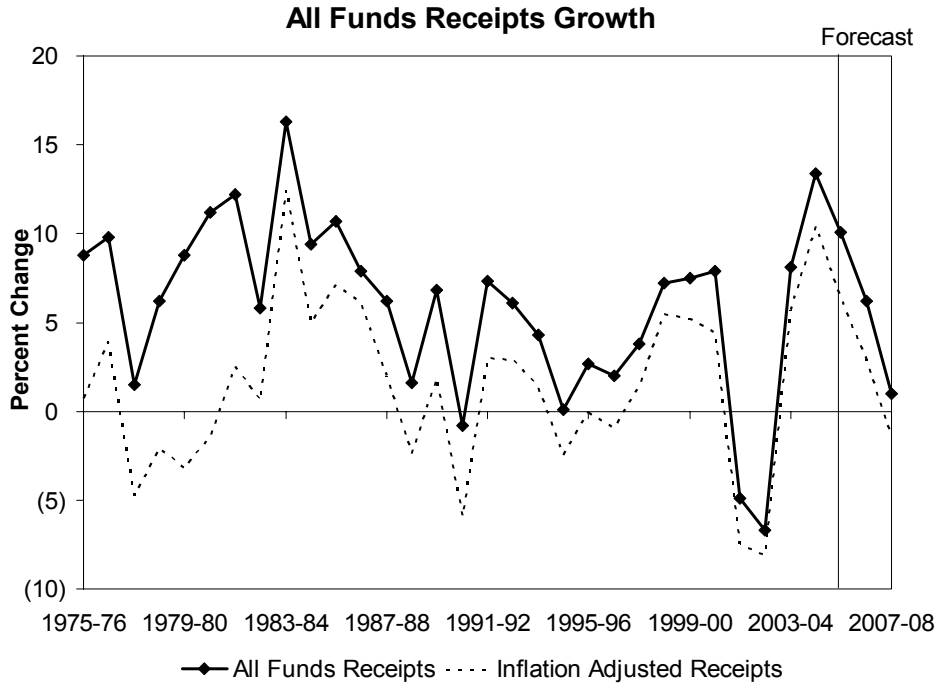
BUSINESS TAXES AND OTHER TAXES

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 their share of total taxes fluctuates in an unpredictable manner.

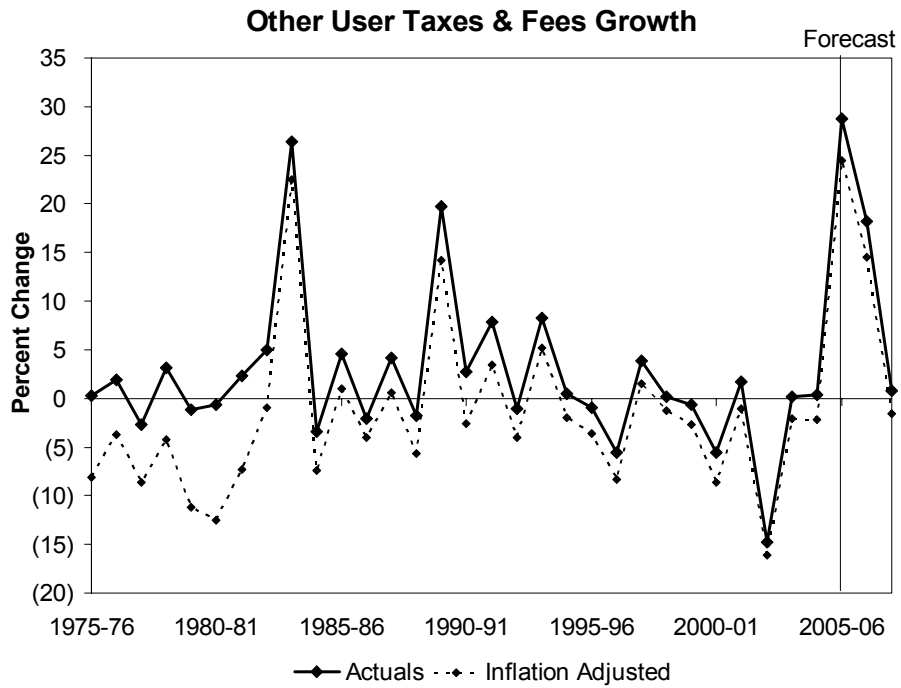
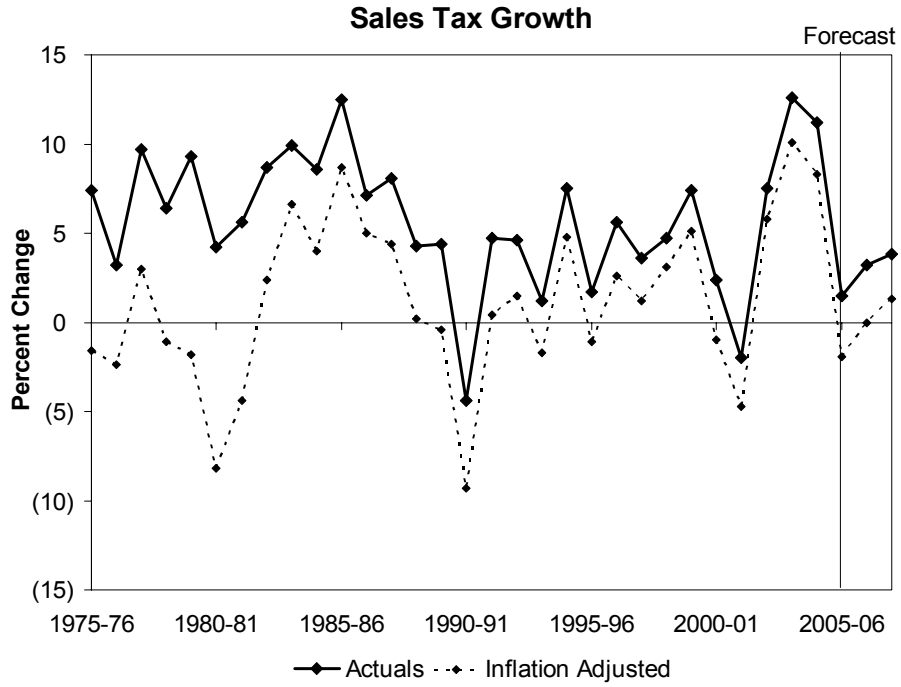
The overall volatility of business tax collections is largely the result of intricacies of the tax law and timing issues associated with tax payments made by business taxpayers and, more recently, reflects the impact of significant tax reductions. Although collections tend to decline during periods of 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. 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 just under 5 percent for the past 30 years. Business tax collections have surged over the last two fiscal years, reflecting at least in part the growth in corporate profitability over this period and the working off of prior period losses. In addition, corporations have made unusually large payments on prior year activity (audits) in the past two fiscal years. The unexpected surge in receipts may also be due to changes in Federal corporate tax policy that encouraged the recognition of income to take advantage of preferential tax treatment. The 2005-06 fiscal year increases in business tax receipts are the largest in at least two decades. This growth increased the business tax share to almost 13 percent of total tax receipts. The 2006-07 Budget assumes average growth of 2.7 percent over the next three fiscal years. The business tax share can be expected to shrink given the proposals included with this Budget to substantially reduce business tax burdens.

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 7.5 percent is expected for this tax category over the 2005-06 to 2008-09 period. Very large growth in estate tax and the real estate transfer tax receipts in fiscal year 2004-05 and 2005-06 to date reflect the rapid escalation in real estate values in recent years and the fact that several very large estates have been closed in the past two fiscal years. It is expected that real estate transfer tax receipts will shrink somewhat but remain large, reflecting a modest cooling in the real estate market. Estate tax collections return to a more normal level, consistent with expectation of a normal (average) number of large closed estates.

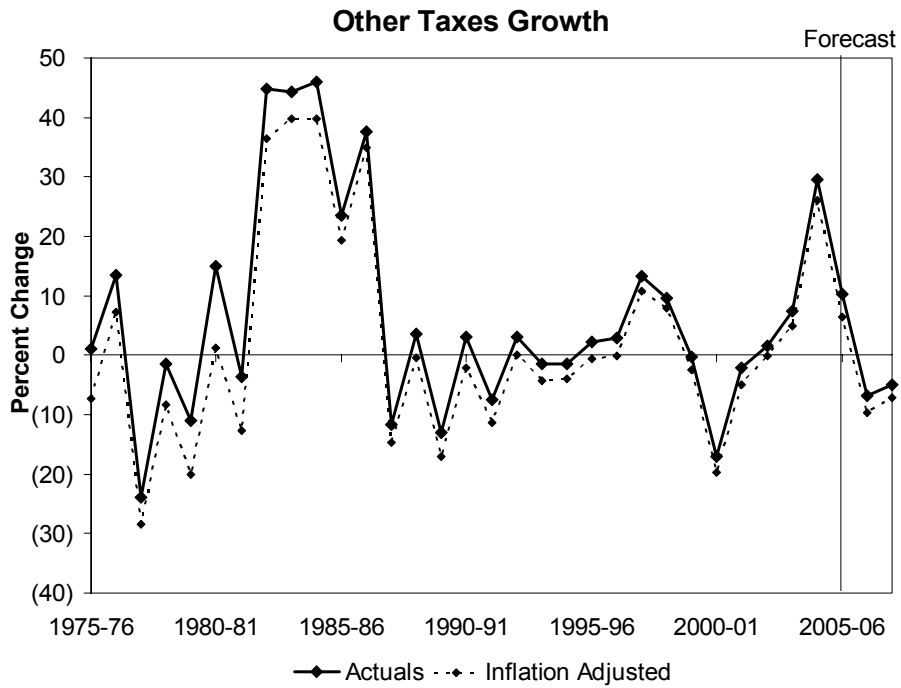
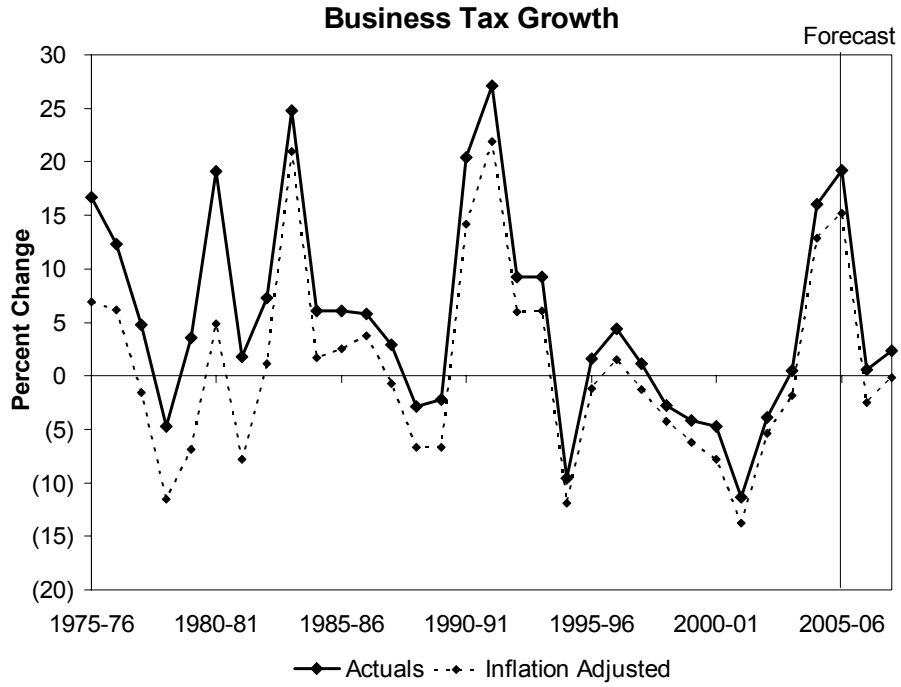
RECENT TRENDS IN ALL FUNDS TAX RECEIPTS



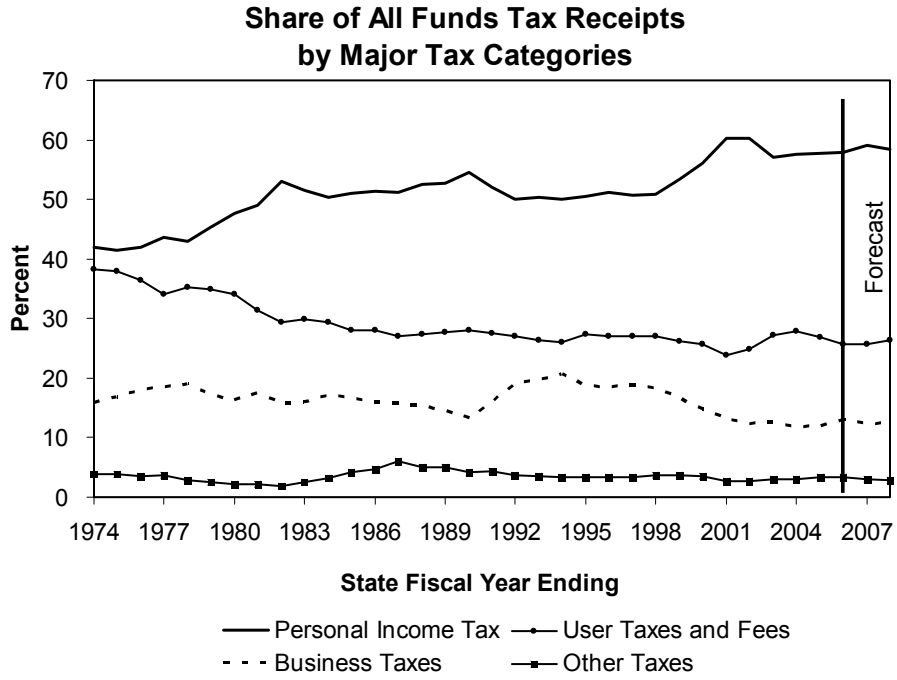
RECENT TRENDS IN ALL FUNDS TAX RECEIPTS



RECENT TRENDS IN ALL FUNDS TAX RECEIPTS



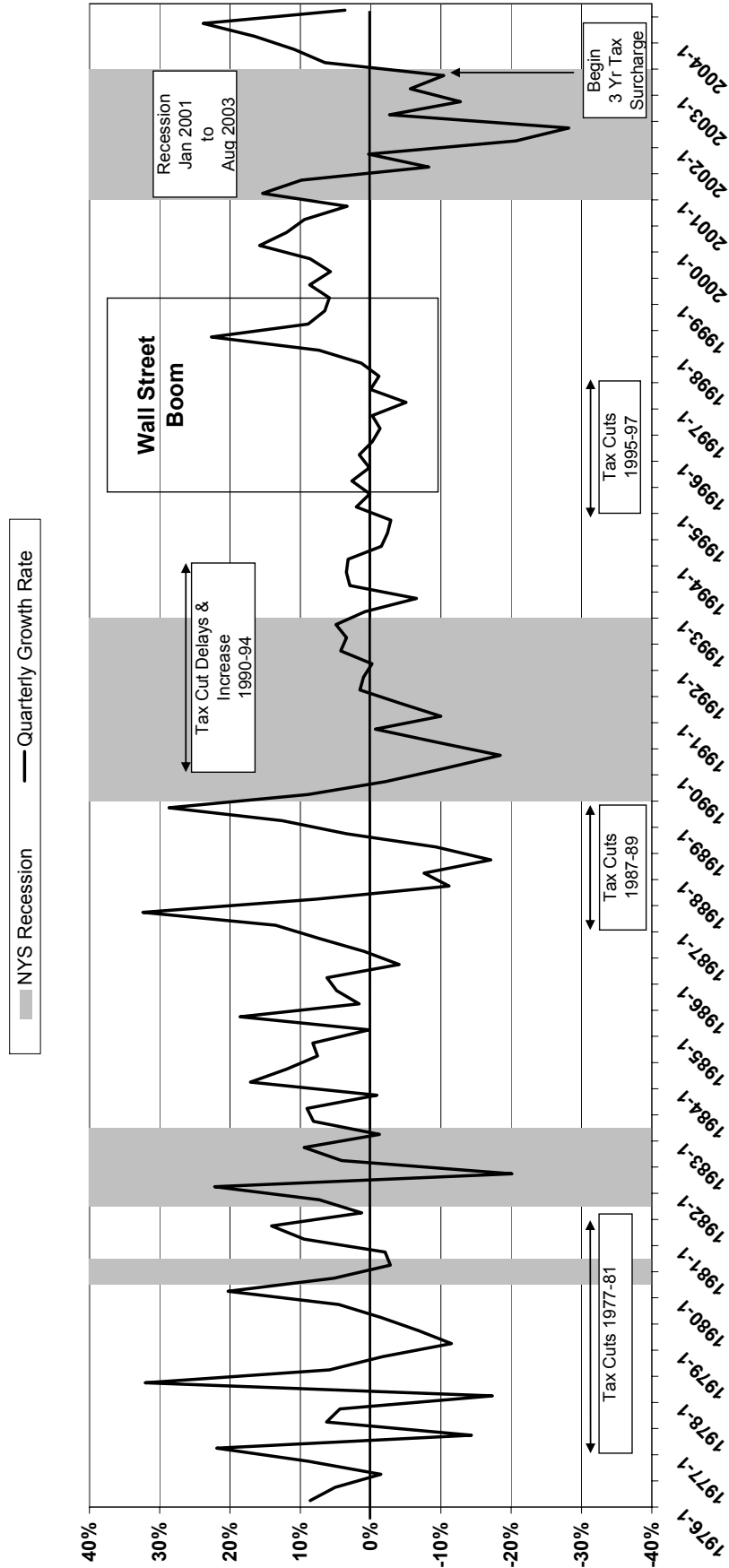
RECENT TRENDS IN ALL FUNDS TAX RECEIPTS



RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

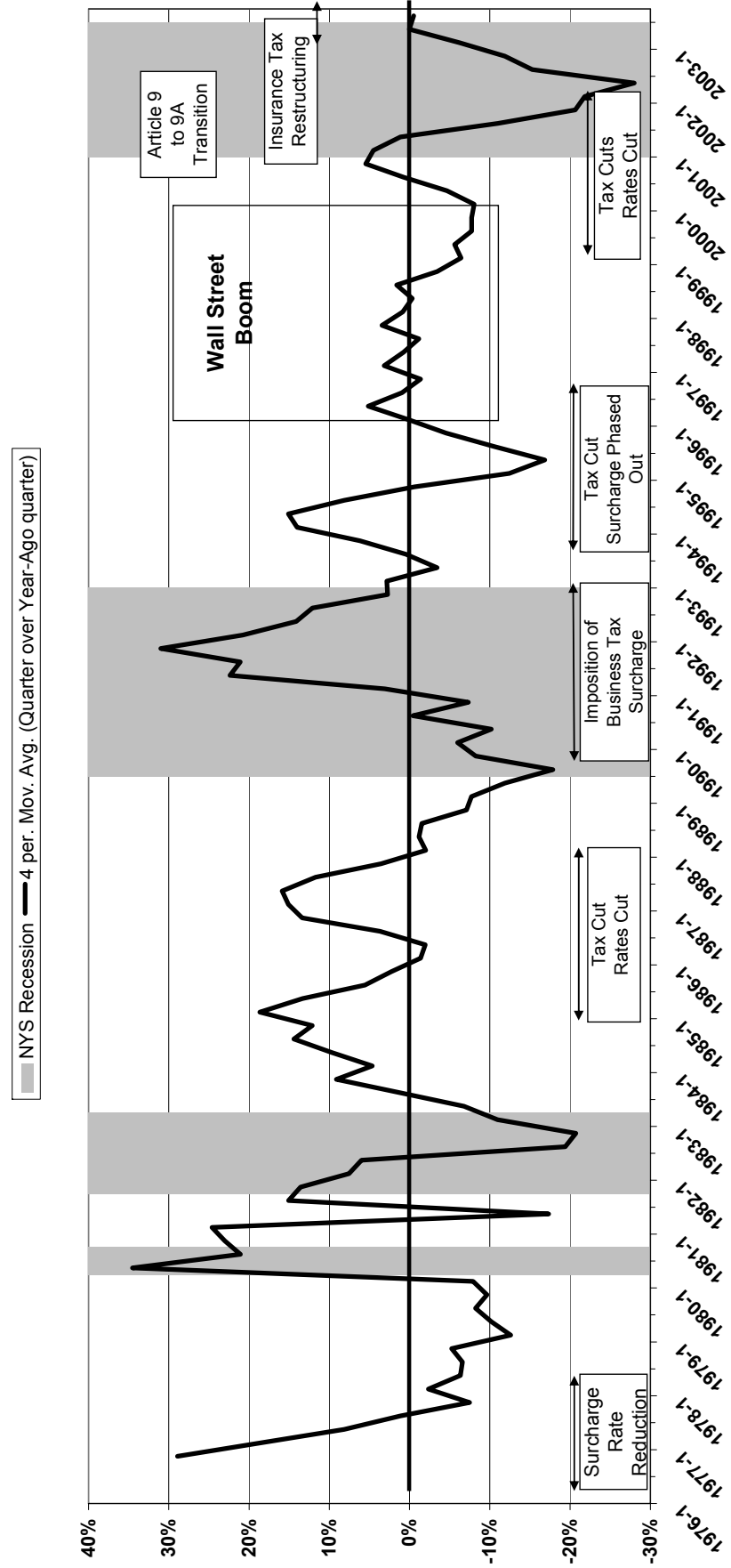
Personal Income Tax Growth* Adjusted for Inflation State Fiscal Years 1975/76 to Present

*Net Collections represent personal income tax from withholding, estimated payments, final returns and delinquencies minus refunds and state/city/offsets (before Refund Reserve and STAR)



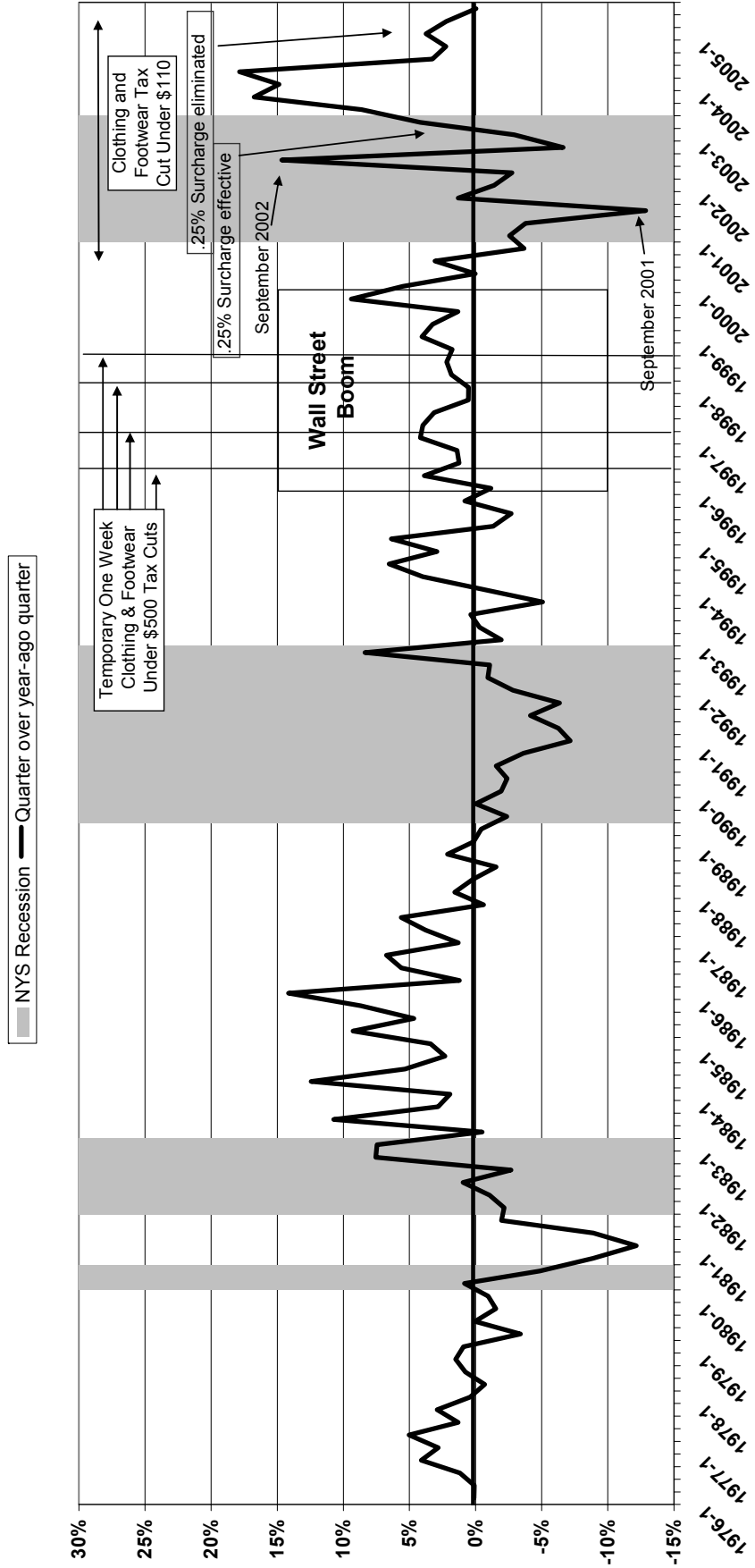
RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

Corporate Franchise, Insurance and Bank Tax Growth Adjusted for Inflation State Fiscal Years -- 1975/76 to Present

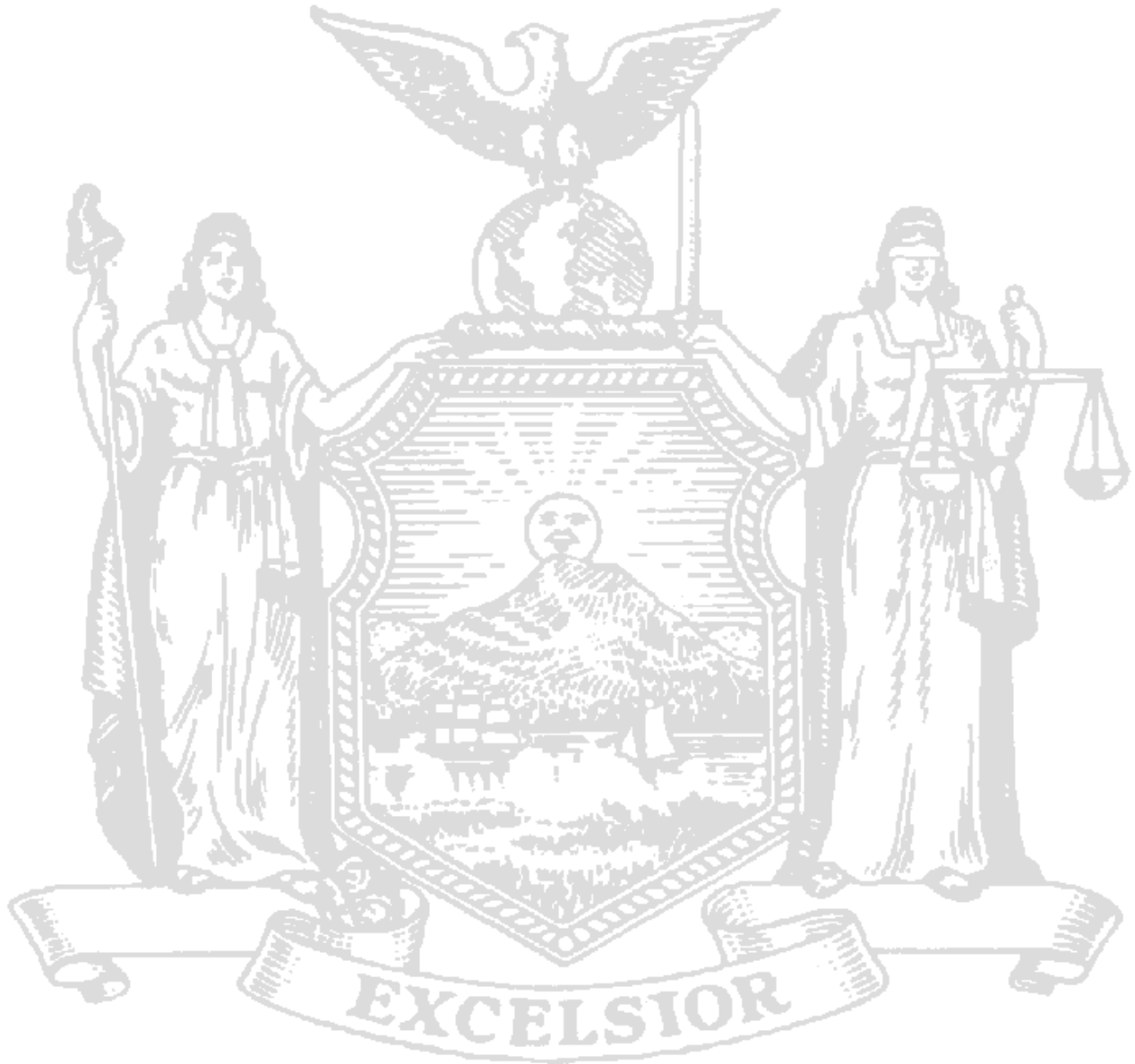


RECENT TRENDS IN ALL FUNDS TAX RECEIPTS

Sales Tax Growth Adjusted for Inflation State Fiscal Years -- 1975/76 to Present



REVENUE ACTIONS



REVENUE ACTIONS

The 2006-07 Budget includes a net negative increment of \$285 million in All Funds receipts reflecting the revenue actions contained in this budget. The accompanying table summarizes the revenue proposals by type of action required (legislative or administrative) and provides a short description of the proposal, the date that the proposal will become effective, the Fund type where revenue will be deposited, the last time an action was taken in the area and the incremental revenue gain or loss from the proposed action. This table represents gross revenue adds and reductions without any adjustments for associated spending changes, movements across funds or General Fund spending offsets.

FEE AND REVENUE ACTIONS LIST (dollars in thousands)

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2006-07	New Full Annual Revenue SFY 2008-09
I. ADMINISTRATIVE							
ABC	Streamlined disciplinary process - 4/1/06	GFMR	Various	Various	2003	\$9,000	\$9,000
CFS	Sale of community residential homes - 10/17/06	GFMR	None	None	N/A	\$100	\$0
CFS	Sale of YOCS building - 4/1/06	GFMR	None	None	N/A	\$1,000	\$0
CFS	Youth facility chargeback - 4/1/06	GFMR	None	None	N/A	\$2,000	\$1,000
DOT	Increase accident damage revenues - 4/1/06	SFMR	None	None	N/A	\$500	\$750
NYPA	Pilot payments - 4/1/06	GFMR	None	None	N/A	\$27,000	(\$100,000)
OGS	Real property sales proceeds - 4/1/06	SFMR	None	None	N/A	\$20,000	\$0
PARKS	Parks user fees - 4/1/06	SFMR	Various	Various	N/A	\$1,000	\$1,000
Administrative Actions - Subtotal						\$60,600	(\$88,250)
II. STATUTORY							
AGMKTS	Food safety inspection penalty - 4/1/06	GFMR	First - \$300 Subsequent - \$1,000	First - \$1,000 Subsequent - \$2,000	1990	\$1,100	\$1,100
BANKING	Increase investigation application fees and fines - 4/1/06	GFMR/SFMR	Various	Various	1997	\$8,000	\$8,000
CFS	Increase child care fines - 4/1/06	SFMR	\$500	\$1,000	2000	\$56	\$75
CPB	Recoupment of administrative costs - 4/1/06	SFMR	None	None	2004	\$150	\$150
DCJS	Automated speed enforcement fine - 4/1/06	GFMR	None	\$100	N/A	\$42,000	\$84,000
DCJS	Increase criminal history records fee - 60 days after enactment	SFMR	\$52	\$60	2003	\$4,000	\$8,000

REVENUE ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2006-07	New Full Annual Revenue SFY 2008-09
DMV	Internet point insurance reduction program - 4/16/06	SFMR	None	\$8 Student fee \$7,500 Insurance company provider fee	N/A	\$675	\$2,400
ENCON	Increase Title V OPP Fees - 4/1/06	SFMR	\$45	\$67	1999	\$6,100	\$6,100
ENCON	Wetlands permit fee - 4/1/06	SFMR	\$0	\$10 & \$50	1994	\$1,000	\$1,000
ENCON	Regulatory Fees - 4/1/06	SFMR	Various	Various	1983	\$3,700	\$3,700
HLTHOTH	HCRA compliance delinquency billings - 4/1/06	SFMR	None	None	N/A	\$15,000	\$40,000
INSUR	Increase maximum penalties - 90 days after enactment	GFMR	Various	Various	1970	\$800	\$800
LABOR	Increase asbestos handling license renewal fee - 4/1/06	SFMR	\$300	\$500	1987	\$185	\$185
MEDICAID	Continue nursing home reimbursable assessment - 3/31/07	GFMR/SFMR	6%	6%	2005	\$0	\$258,300
OSC	Accelerate dormancy periods for abandoned property - 4/1/06	GFMR	Various	Various	2004	\$100,000	\$0
PERB	New annual registration fee - 4/1/06	GFMR	\$0	\$50	N/A	\$525	\$525
SWN	Prepaid phone fees - 9/1/06	SFMR	\$0	\$14.40	N/A	\$3,500	\$8,500
Statutory Actions - Subtotal						\$186,791	\$422,835
ADMINISTRATIVE AND STATUTORY - TOTAL						\$247,391	\$334,585

III. OTHER REVENUE ACTIONS

T&F	Extend additional fixed dollar minimum brackets - 1/1/06	GFTX	None	None	2004	\$40,000	\$40,000
T&F	Change tax treatment of REITS and RICS - 1/1/07	GFTX	None	None	N/A	\$50,000	\$100,000
T&F	Extend Federal Gramm- Leach Bliley Act provisions - 1/1/06	GFTX	None	None	2004	\$0	\$0
T&F	Amend and make permanent Article 9 sections 183/184 distributions to DHBTF and MTOAF - 4/1/06	GFTX/DFTX/ SFTX	None	None	2003	\$0	\$0
T&F	Make bank tax reform provisions permanent - 1/1/06	GFTX	None	None	2004	\$0	\$0

REVENUE ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2006-07	New Full Annual Revenue SFY 2008-09
T&F	Improve the efficiency of the Brownfields program - 4/1/06	GFTX	None	None	2004	\$0	\$0
T&F	Clarify treatment of taxability of certain income for non-State residents - 1/1/06	GFTX/DFTX	None	None	N/A	\$0	\$1,000
T&F	Higher LLC fees – 1/1/07	GFTX/DFTX	None	None	2005	\$0	\$30,000
T&F	Limit EITC offset amount - 1/1/07	GFTX/DFTX	None	None	2004	\$0	\$0
T&F	Clothing exemption permanent at 2 weeks and \$250 – 6/1/06 & Immediately	GFTX/DFTX	None	None	2005	(\$21,000)	\$605,000
T&F	Contract compliance amendments - 4/1/06	GFTX/DFTX	None	None	2004	\$0	\$0
T&F	Increase cigarette tax - 6/1/06	GFTX/SFTX	\$1.50	\$2.50	2002	\$308,000	\$320,000
T&F	Tobacco enforcement and compliance - 1st of the month 90 days after enactment	GFTX/SFTX	None	None	2001	\$0	\$0
T&F	Make quick draw permanent and eliminate restrictions - 4/1/06	SFTX	None	None	2005	\$38,000	\$57,000
T&F	VLT expansion - 4/1/06	GFTX/SFTX	None	None	2005	\$0	\$329,000
Other Revenue Actions - Subtotal						\$415,000	\$1,482,000

IV. REVENUE REDUCTIONS

T&F	Cut ENI bank tax rate - 1/1/07	GFTX	7.50%	6.75%	1999	\$0	(\$16,200)
T&F	Cut ENI corporate franchise tax rate - 1/1/07	GFTX	7.50%	6.75%	1998	\$0	(\$57,200)
T&F	Eliminate AMT and capital base for corporations and banks - 1/1/06	GFTX	None	None	1999	(\$111,100)	(\$333,300)
T&F	Eliminate tax on subsidiary capital of corporations - 1/1/06	GFTX	None	None	N/A	(\$5,000)	(\$15,100)
T&F	Acceleration and expansion of Empire Zones - 1/1/06 & 1/1/07	GFTX	None	None	2005	(\$20,000)	(\$20,000)
T&F	Low income housing credit - 1/1/06	GFTX	None	None	2005	(\$2,000)	(\$6,000)
T&F	Lower limitations on life insurance tax rates - 1/1/06	GFTX	None	None	2003	(\$15,000)	(\$15,000)
T&F	Make film credits permanent - 1/1/09	GFTX	None	None	2004	\$0	\$0
T&F	Marginal tax rate for annuity premiums - 1/1/06	GFTX	None	None	1978	(\$3,000)	(\$3,000)

REVENUE ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2006-07	New Full Annual Revenue SFY 2008-09
T&F	Eliminate S-corporation differential rate - 1/1/06	GFTX	None	None	2001	(\$40,000)	(\$40,000)
T&F	Personal income tax credit for the restoration of historic homes - 1/1/06	GFTX/DFTX	None	None	N/A	\$0	(\$10,000)
T&F	Special expensing for NY assets for corporations and banks - 1/1/07	GFTX/DFTX	None	None	N/A	\$0	(\$560,500)
T&F	Strengthening families, expand EITC credit to noncustodial parents - 1/1/06	GFTX/DFTX	None	None	N/A	(\$3,500)	(\$14,000)
T&F	Stretch personal income tax brackets and rate recapture - 1/1/07	GFTX/DFTX	None	None	2006	\$0	(\$475,000)
T&F	Credit for primary and secondary education expenses - 1/1/06	GFTX/DFTX	None	None	N/A	\$0	(\$400,000)
T&F	Cut top personal income tax rate - 1/1/07	GFTX/DFTX	7.70%	6.75%	2006	\$0	(\$475,000)
T&F	Eliminate personal income tax marriage penalty - 1/1/06	GFTX/DFTX	None	None	2001	(\$125,000)	(\$400,000)
T&F	Farmers land conservation credits - 1/1/06	GFTX/DFTX	None	None	N/A	\$0	(\$1,000)
T&F	Encourage purchase of alternative fuel vehicles - 1/1/06	GFTX	None	None	N/A	\$0	(\$5,000)
T&F	Encourage production of alternative fuel - 1/1/06	GFTX	None	None	N/A	\$0	(\$1,000)
T&F	National Guard personal income tax exemption - 1/1/04	GFTX/DFTX	None	None	2004	(\$1,000)	(\$1,000)
T&F	Personal income tax elderly home heating credit - 1/1/06	GFTX/DFTX	None	None	N/A	\$0	\$0
T&F	Personal income tax credit for improving home energy efficiency - 1/1/06	GFTX/DFTX	None	None	N/A	\$0	\$0
T&F	Personal income tax credit for small business and farmer energy assistance - 1/1/06	GFTX/DFTX	None	None	N/A	\$0	\$(60,000)
T&F	Enhanced STAR exemption - 1/1/07	SFTX	None	None	2003	(\$72,000)	(\$112,000)
T&F	STAR Plus Rebate - 1/1/06	SFTX	None	None	N/A	(\$530,000)	(\$625,000)
T&F	Sales tax exemption for admission charges to amusement parks - 4/1/06	GFTX/DFTX	None	None	2005	(\$500)	(\$1,000)

REVENUE ACTIONS

Agency	Description Effective Date	Fund Type and Category	Current Fee	Proposed Fee	Year of Last Change	New Annual Revenue SFY 2006-07	New Full Annual Revenue SFY 2008-09
T&F	Sales tax exemption for Energy Star products - 4/1/06	GFTX/DFTX	None	None	N/A	(\$6,000)	(\$6,000)
T&F	Sales tax vendor credit - 9/1/06	GFTX/DFTX	None	None	1999	(\$13,000)	(\$69,000)
T&F	Eliminate estate tax - 1/1/07	GFTX	None	None	1999	\$0	(\$329,000)
T&F	Exempt Alternative Fuels from PBT, MFT, HUT, Sales Tax - 1/1/06	GFTX/DFTX	None	None	N/A	Minimal	Minimal
Revenue Reductions - Subtotal						<u>(\$947,100)</u>	<u>(\$4,050,300)</u>
OTHER REVENUE ACTIONS AND REDUCTIONS - TOTAL						<u>(\$532,100)</u>	<u>(\$2,568,300)</u>
ALL FEE AND REVENUE ACTIONS - GRAND TOTAL						<u>(\$284,709)</u>	<u>(\$2,233,715)</u>

REVENUE ACTIONS

The accompanying table summarizes enacted revenue actions taken over the past two state fiscal years by type of action (legislative or administrative) and provides a short description of the action, the date this action took place, the Fund type where the revenue is deposited and the incremental revenue gain or loss from the action.

RECENTLY ENACTED REVENUE ACTIONS (\$ in thousands)

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue
I. ADMINISTRATIVE					
AGMKTS	First violation food inspections	1/1/05	GFMR	\$300	\$400
CIV SVC	Increase exam fees sweep	4/1/04	SFMR	\$5	\$125
DCJS	Increase record review fee	4/1/04	GFMR	\$50	\$125
DHCR	Increase low income housing credit monitoring	10/1/04	SFMR	1%	\$0
DHCR	Increase low income housing tax credit application fees	2/27/06	SFMR	\$2,000 / 6%	\$500
DOT	Increase divisible load permits and fines	4/1/04	CFMR	\$360 - \$900	\$1,500
DOT	Increase divisible load permits and fines	4/1/04	GFMR	\$150 - \$3,750 + %	\$3,000
GSC	Medicare Part D subsidy	1/1/06	GFMR	None	\$67,300
OSC	Abandoned property - administrative	4/1/04	GFMR	N/A	\$21,000
PARKS	Increase weekend camping fees	4/1/05	SFMR	\$17	\$1,400
STATE	Campus fire safety	4/1/04	GFMR	\$50 - \$500	\$128
Administrative Actions - Subtotal					\$95,478
II. STATUTORY					
ABC	Increase filing fees	4/1/04	GFMR	Various Licensing Fees	\$400
CPB	Increase fine	9/1/04	SFMR	\$75, \$140 & \$250	\$200
CVB	Mandatory fees youthful offenders	8/1/04	SFMR	\$1,000	\$1,112
DMV	Data search fee	10/1/05	SFMR/CFMR	\$7 & \$10	\$24,000
DMV	Photo image fee	10/1/05	SFMR/CFMR	\$10	\$15,000
DOL	Boiler inspections	8/20/04	SFMR	Various	\$2,306
DOL	Explosives magazine storage	8/20/04	SFMR	\$50	\$30
DOL	Amusement device	8/20/04	SFMR	\$100	\$59
DOL	Asbestos licenses	8/20/04	SFMR	\$500	\$590
DOL	Asbestos certifications	8/20/04	SFMR	Various	\$818
DOL	Apparel registration renewal	8/20/04	SFMR	\$150	\$284
DOL	Easement day of rest	8/20/04	SFMR	\$40	\$3
DOL	Farm Permits	8/20/04	SFMR	\$40 & \$200	\$25
DOL	Defense dispensation	8/20/04	SFMR	\$40	\$1
DOL	Employment agency	8/20/04	SFMR	\$700	\$1
DOL	Commissary operator permits	8/20/04	SFMR	\$40	\$0

REVENUE ACTIONS

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue
ENCON	Extend waste tire fee	9/12/03	GFMR/SFMR	\$2.50	\$25,500
ENCON	Increase storm water fees	4/1/04	GFMR/SFMR	\$50 - \$350	\$2,100
ENCON	ATV registration fee increase	4/1/05	SFMR	\$25	\$2,500
HLTH OTH	Increase hospital surcharge	1/1/06	SFMR	6.54% & 8.95%	\$13,000
HLTH OTH	Increase covered lives assessment	1/1/06	SFMR	\$775 million Statewide target	\$50,000
INS	Agent license fee increase	4/1/05	GFMR	\$40	\$2,670
INS	Service of process fee increase	4/1/05	GFMR	\$40	\$1,356
INS	Reinsurance license fee increase	4/1/05	GFMR	\$500	\$30
MEDASST	Nursing home assessment	4/1/04	SFMR	5% of gross revenue	\$377,300
MEDASST	Increase nursing home reimbursable assessment to 6%	4/1/05	SFMR	6%	\$69,200
MEDASST	Establish hospital assessment	12/1/05	SFMR	0.35% of gross revenue	\$106,000
NYPA	Pilot payments	4/1/05	GFMR	None	\$100,000
ORPS	Real property transfer filing fee	9/1/04	SFMR	\$75 & \$165	\$18,900
PARKS	Increase snowmobile fee	8/1/04	GFMR/SFMR	\$45	\$5,500
PARKS	Increase non club members snowmobile fee	4/30/06	GFMR/SFMR	\$100	\$8,085
RWB	Racing fee increase	4/1/05	SFMR	0.50%	\$2,600
Statutory Actions - Subtotal					\$830,650
ADMINISTRATIVE AND STATUTORY ACTIONS - TOTAL					\$926,128

III. OTHER REVENUE ACTIONS

DMV	Driver responsibility program	8/20/05	GFTX	\$100 & \$250	\$44,300
DMV	Dealer issued temporary registration fee increase	10/1/05	SFTX/CFTX	\$5	\$2,400
DMV	Dealer/transporter registration fee increase	10/1/05	SFTX/CFTX	\$450 & \$37.50	\$1,200
DMV	Insurance buyback program expansion	10/1/05	SFTX/CFTX	\$8, \$10 & \$12	\$7,850
DMV	Salvaged vehicle inspection fee increase	10/1/05	SFTX/CFTX	\$150	\$1,600
DMV	Title fee increase	10/1/05	SFTX/CFTX	\$20 & \$50	\$125,000
Legislature	Mortgage recording tax	4/12/05	Local Revenue	None	\$0
Legislature	Increase MTA sales & compensating use tax	6/1/05	SFTX	None	\$245,300
Legislature	Native American regulations	9/1/05	GFTX/ SFTX	None	\$60,000
Legislature	Direct interstate wine shipments	7/12/05	GFTX/DFTX	None	\$3,800
T&F	Add new fixed dollar minimum	1/1/04	GFTX/DFTX	None	\$0
T&F	Reverse Meyers decision	1/1/04	GFTX/DFTX	None	\$0
T&F	Tax nonresidents' gain from sale of co-op stock	1/1/04	GFTX/DFTX	Tax Base	\$20,000
T&F	Seven day sales of alcoholic beverages	8/20/04	GFTX/DFTX	None	\$2,000

REVENUE ACTIONS

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue
T&F	Adopt tax shelter provisions	1/1/05	GFTX	None	\$0
T&F	Change computation of long term care insurance credit for nonresidents	1/1/05	GFTX/DFTX	None	\$6,000
T&F	Extend higher LLC fees	1/1/05	GFTX/DFTX	None	\$0
T&F	Increase capital base cap under Article 9A	1/1/05	GFTX	\$1,000,000	\$26,000
T&F	Internet affiliate	1/1/05	GFTX/DFTX	None	\$25,000
T&F	Allow tax department to enter into reciprocal offset agreements with other states – Immediately	4/12/05	GFTX/DFTX	None	\$2,000
T&F	Maintain Manhattan parking reporting requirements	4/12/05	GFTX/DFTX	None	\$700
T&F	Delay permanent clothing exemption and create two exemption weeks at \$110 threshold	8/20/04	GFTX/DFTX	None	\$0
T&F	Sales tax intercept for medicaid cap	4/12/05	GFTX/DFTX	None	\$0
T&F	Sales tax on amusement park admissions	4/12/05	GFTX/DFTX	None	\$0
T&F	Delay permanent clothing exemption with two \$110 weeks & offer local option	6/1/05	GFTX/DFTX	None	\$0
Other Revenue Actions - Subtotal					\$573,150

IV. REVENUE REDUCTIONS

Legislature	Empire zones	1/1/05	GFTX	None	(\$44,000)
Legislature	Farmers school tax credit for family property	1/1/05	GFTX/DFTX	Credit	(\$500)
Legislature	Motion picture production ITC	1/1/05	GFTX/DFTX	Credit	\$0
Legislature	Qualified emerging technology credit	1/1/05	GFTX	None	(\$10,000)
Legislature	Security guard training credit	1/1/05	GFTX/DFTX	Credit	(\$5,000)
Legislature	CAPCOs	4/1/05	GFTX	None	(\$6,000)
Legislature	Single sales factor	4/1/05	GFTX	None	(\$80,000)
Legislature	Transferability of CAPCO credits	4/1/05	GFTX	None	\$0
Legislature	Solar energy system credit	1/1/06	GFTX/DFTX	Credit	(\$500)
Legislature	Farmers school tax credit for commercial horse boarding	1/1/06	GFTX/DFTX	Credit	(\$500)
T&F	Extend alternative fuels vehicle credit	1/1/04	GFTX/DFTX	\$2,000 Credit	\$0
T&F	Exempt federal military pay	1/1/04	GFTX/DFTX	0%	(\$1,000)
T&F	Low income housing	1/1/04	GFTX/DFTX	None	(\$2,000)
T&F	Film production credit	1/1/04	GFTX/DFTX	None	(\$25,000)
T&F	Brownfield expansion	4/1/05	GFTX	None	(\$30,000)
T&F	Petroleum business tax on flights	11/1/04 & 6/1/05	CFTX/SFTX	None	(\$2,700)
T&F	Aircraft repair parts and labor	12/1/04	GFTX/DFTX	None	(\$2,000)

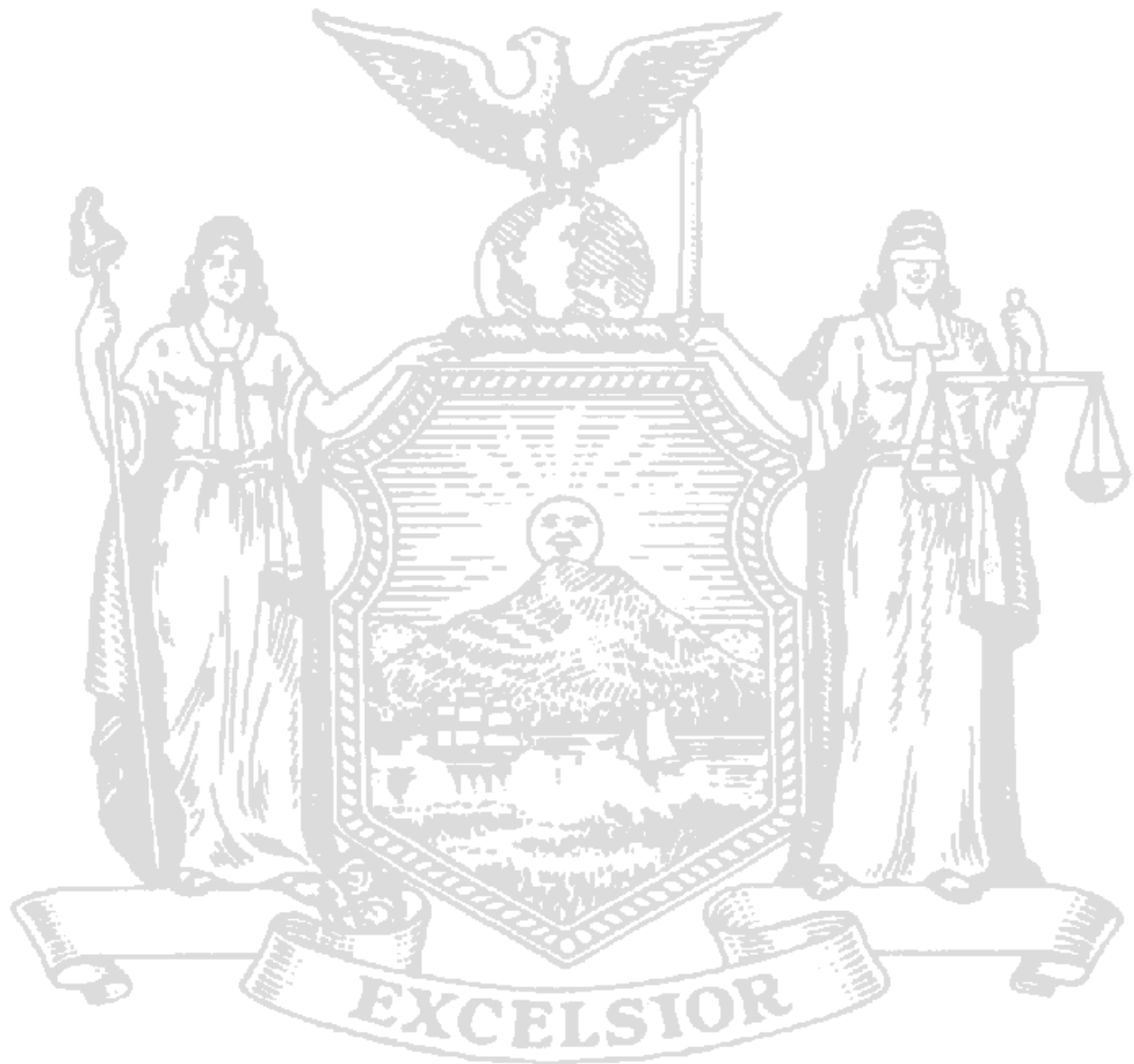
REVENUE ACTIONS

Agency	Description	Effective Date	Fund Type and Category	Enacted Fee	Full Annual Revenue
T&F	Water taxis	12/1/04	GFTX/DFTX	None	(\$400)
T&F	Long term care credit	1/1/04	GFTX/DFTX	None	(\$18,000)
T&F	Low income housing	1/1/05	GFTX/DFTX	None	(\$2,000)
T&F	Personal income tax credit for payers of the nursing home assessment	1/1/05	GFTX/DFTX	Credit	(\$40,000)
T&F	Exempt lower Manhattan office equipment from sales tax	9/1/05	GFTX/DFTX	None	(\$18,000)
T&F	Exempt residential solar equipment from sales tax	12/1/05	GFTX	None	(\$200)
T&F	Exempt coin operated automatic car washed from sales tax	12/1/05	GFTX	None	(\$1,300)
T&F	Exempt marine container machinery and equipment from sales tax	12/1/05	GFTX	None	\$0
T&F	Exempt waste transfer station services from sales tax	12/1/05	GFTX	None	(\$3,800)
T&F	CAPCOs	2006	GFTX	None	(\$6,000)
T&F	Green buildings tax credit	1/1/06	GFTX	None	(\$2,000)
T&F	Exempt State chartered credit unions from sales tax	3/1/06	GFTX/DFTX	None	(\$1,700)
T&F	Exempt electricity produced by co-op cogeneration facility from sales tax	4/1/06	GFTX/DFTX	None	\$0
Revenue Reductions - Subtotal					(\$308,100)
OTHER REVENUE ACTIONS AND REVENUE REDUCTIONS - TOTAL					\$265,050
ALL FEE AND REVENUE ACTIONS - GRAND TOTAL					\$1,191,178

Key:

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

SUMMARY OF STATE TAX REDUCTION PROGRAM



SUMMARY OF STATE TAX REDUCTION PROGRAM

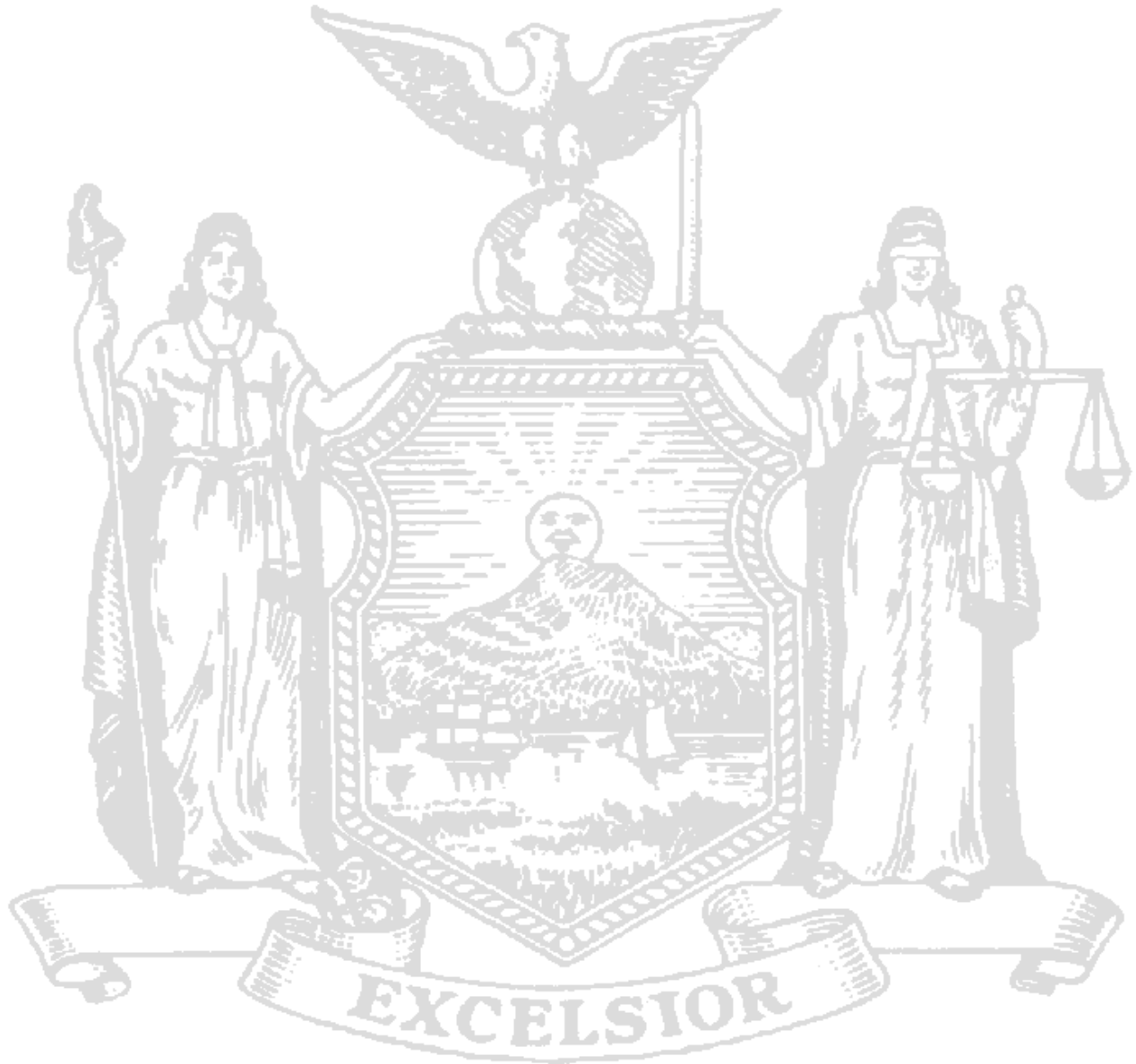
Since 1995-96, a multi-year tax reduction program has significantly reduced tax burdens at the State level. The accompanying tables and charts report the tax reductions by tax type and year. In 2006-07, the annual value of the tax reduction program is estimated to total nearly \$17.0 billion. Please see the individual tax stories for more detail on the previously enacted reductions included in the tables below and on recommended actions included with this Budget.

STATE TAX REDUCTIONS - ALL FUNDS								
Current Law and Proposed Law								
(millions of dollars)								
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08
Personal income tax	(5,571)	(5,128)	(5,325)	(6,049)	(6,719)	(7,272)	(7,979)	(10,017)
User taxes and fees	(1,093)	(1,190)	(1,246)	(456)	(233)	(731)	(859)	(1,522)
Sales and use taxes	(772)	(848)	(902)	(103)	126	(366)	(495)	(1,155)
Cigarette and tobacco taxes	0	0	0	0	0	0	0	0
Motor fuel tax	(18)	(18)	(18)	(19)	(19)	(19)	(19)	(19)
Motor vehicle fees	(70)	(75)	(74)	(75)	(74)	(77)	(76)	(79)
Highway use tax	(75)	(85)	(88)	(91)	(94)	(97)	(98)	(98)
Alcoholic beverage taxes	(26)	(29)	(29)	(32)	(34)	(34)	(34)	(34)
ABC License fees	0	0	0	0	0	0	0	0
Hotel/Motel tax	(81)	(83)	(84)	(86)	(86)	(86)	(86)	(86)
Container tax	(52)	(52)	(52)	(52)	(52)	(52)	(52)	(52)
Auto rental tax	0	0	0	0	0	0	0	0
Business taxes	(2,083)	(2,408)	(2,711)	(3,040)	(3,164)	(3,250)	(3,548)	(3,794)
Corporation franchise tax	(524)	(838)	(961)	(1,069)	(1,061)	(1,118)	(1,335)	(1,554)
Corp. & utilities taxes	(1,080)	(1,004)	(1,110)	(1,272)	(1,392)	(1,408)	(1,411)	(1,376)
Insurance taxes	(128)	(161)	(193)	(216)	(216)	(216)	(240)	(240)
Bank tax	(116)	(160)	(199)	(231)	(239)	(254)	(308)	(369)
Petroleum business taxes	(236)	(245)	(248)	(252)	(255)	(254)	(255)	(255)
Other taxes	(583)	(778)	(824)	(858)	(902)	(955)	(991)	(1,178)
Estate/Gift taxes	(423)	(609)	(648)	(676)	(713)	(762)	(787)	(965)
Real property gains tax	(142)	(147)	(156)	(163)	(170)	(175)	(185)	(194)
Real estate transfer tax	(2)	(2)	(1)	(1)	(1)	(0)	(0)	(0)
Pari-mutuel taxes	(16)	(20)	(19)	(19)	(19)	(18)	(18)	(18)
Other taxes	(0)	(0)	(0)	(0)	(0)	(0)	(0)	(0)
Subtotal	(9,330)	(9,503)	(10,105)	(10,404)	(11,018)	(12,209)	(13,376)	(16,511)
STAR	(1,877)	(2,510)	(2,664)	(2,821)	(3,059)	(3,219)	(3,368)	(3,548)
Grand Total	(11,207)	(12,014)	(12,770)	(13,225)	(14,077)	(15,428)	(16,744)	(20,059)

SUMMARY OF STATE TAX REDUCTION PROGRAM

2006-07 ALL FUNDS TAX REDUCTIONS		
Recommended Law		
(millions of dollars)		
	2006-07	2007-08
Personal income tax	(130)	(1,736)
User taxes and fees	(20)	(51)
Sales and use taxes	(20)	(51)
Cigarette and tobacco taxes	0	0
Motor fuel tax	0	0
Motor vehicle fees	0	0
Highway use tax	0	0
Alcoholic beverage taxes	0	0
ABC License fees	0	0
Hotel/Motel tax	0	0
Container tax	0	0
Auto rental tax	0	0
Business taxes	(176)	(362)
Corporation franchise tax	(104)	(229)
Corp. & utilities taxes	0	0
Insurance taxes	(18)	(18)
Bank tax	(54)	(116)
Petroleum business taxes	0	0
Other taxes	0	(152)
Estate/Gift taxes	0	(152)
Real property gains tax	0	0
Real estate transfer tax	0	0
Pari-mutuel taxes	0	0
Other taxes	0	0
Subtotal	(325)	(2,301)
STAR	(602)	(671)
Grand Total	(927)	(2,972)

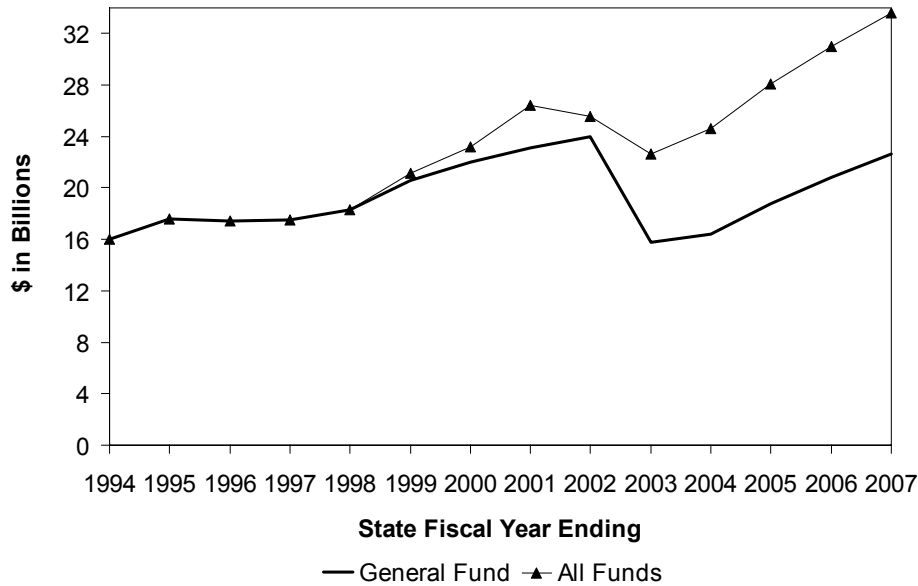
TAX RECEIPTS



PERSONAL INCOME TAX

PERSONAL INCOME TAX (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	18,781	20,826	2,045	10.9	22,654	1,828	8.8
Other Funds	9,319	10,162	843	9.0	10,920	758	7.5
All Funds	28,100	30,988	2,888	10.3	33,574	2,586	8.3

**Personal Income Tax Receipts
History and Estimates**



PERSONAL INCOME TAX BY FUND (millions of dollars)						
	Gross General Fund	Refunds	General Fund Receipts	Special Revenue Funds ¹	Debt Service Funds ²	All Funds Receipts
1997-98	21,088	2,799	18,289	0	0	18,289
1998-99	23,371	2,795	20,576	582	0	21,158
1999-2000	25,041	3,041	22,000	1,195	0	23,195
2000-01	26,744	3,629	23,115	3,077	250	26,442
2001-02	27,529	3,515	24,014	1,310	250	25,574
2002-03	20,037	4,296	15,741	2,664	4,243	22,648
2003-04	20,813	4,442	16,371	2,819	5,457	24,647
2004-05	23,448	4,668	18,781	3,059	6,260	28,100
Estimated						
2005-06	26,489	5,663	20,826	3,219	6,943	30,988
2006-07						
Current Law	28,251	5,445	22,806	3,296	7,602	33,704
Proposed Law	28,154	5,500	22,654	3,368	7,552	33,574

¹ STAR Fund.
² Debt Reduction Reserve Fund and Revenue Bond Tax Fund.

PERSONAL INCOME TAX

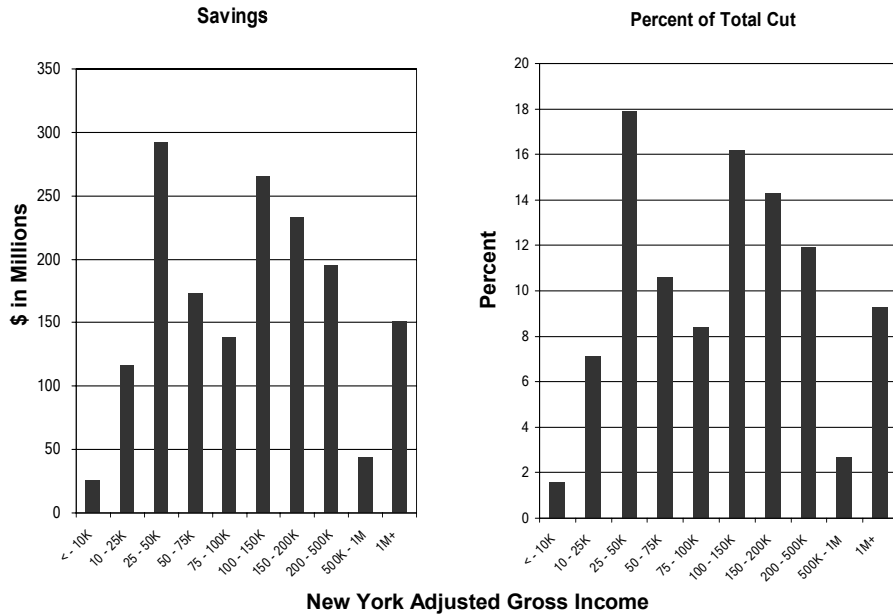
PROPOSED LEGISLATION

Legislation proposed with this Budget will:

- Reduce the top tax personal income tax (PIT) tax rate from 6.85 percent to 6.75 percent, increase the top income brackets to which the top rate applies, and increase the income thresholds applicable to the rate recapture by 20 percent.
- Eliminate the marriage penalty by increasing the standard deduction and the income thresholds applicable to the rate recapture for married taxpayers.
- Provide a new refundable credit for primary and secondary tuition and other instructional expenses. The maximum credit is \$500 per student and will be available to parents in school districts where one or more schools receiving Federal Title I funds are required to offer public school choice under the requirements of the federal No Child Left Behind Act" and with income under \$75,000.
- Ensure that energy costs are affordable and encourage the use and production of alternative fuels by providing:
 - Residents age 65 and older with incomes under \$75,000 a refundable credit equal to 25 percent of home heating expenses, up to a maximum credit of \$500.
 - A refundable credit equal to 50 percent of the costs of upgrading or renovating a residential home heating system.
 - Eligible small business taxpayers and farmers would qualify for a refundable credit for energy costs that exceed 10 percent of total costs for small businesses and 5 percent of total costs for farmers. The credit will equal 25 percent of such costs, up to a maximum of \$3,000.
 - Credits for the purchase of fuel efficient alternative fuel vehicles.
 - Credits for the production of alternative fuels.
- Provide for immediate expensing, in lieu of depreciation, for business assets placed in service in New York.
- Create a credit for the restoration of historic homes.
- Create a new earned income credit for certain low-income non-custodial parents who pay child support.
- Create a new credit for farmers for property tax on land related to conservation easements.
- Expand the current exemption for members of organized militia to persons called to service in New York State by the Federal government.
- Use the STAR fund component of the personal income tax to index the enhanced STAR exemption for inflation.
- Extend the current higher limited liability company fees through tax year 2009.
- Clarify the treatment of nonresident stock options associated with employment in New York.

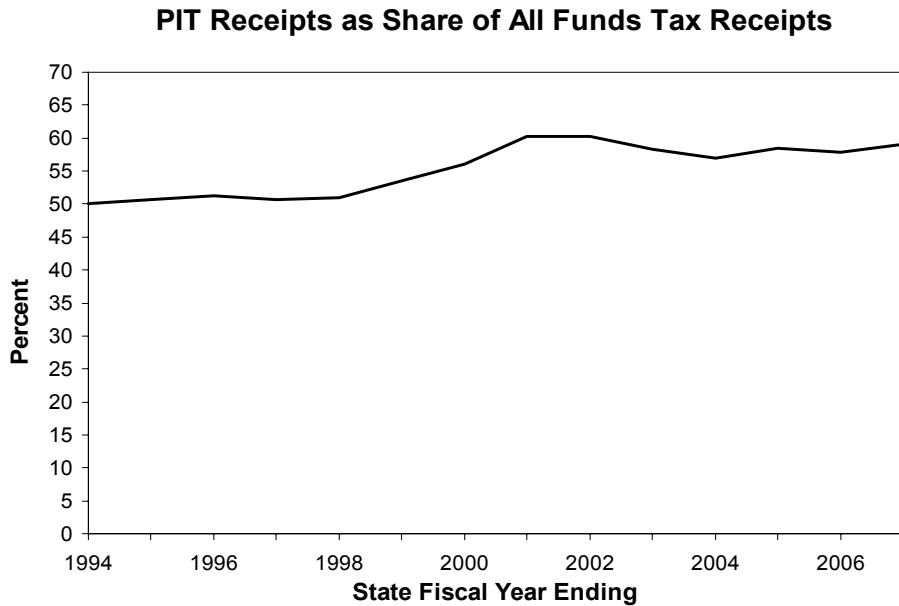
The personal income tax rate reduction, bracket stretch, elimination of the marriage penalty, and credit for primary and secondary instructional expenses, when fully phased-in, will save taxpayers approximately \$1.6 billion annually. The following charts show the distribution of savings and percent share of the total tax cut by income group.

Governor's Proposed Personal Income Tax Reduction Plan



DESCRIPTION

The personal income tax is by far New York State's largest source of tax receipts. It is estimated that the personal income tax will account for over 58 percent and 59 percent respective of 2005-06 and 2006-07 All Funds tax receipts, respectively.



Note: PIT Receipts are defined as gross receipts minus refunds

PERSONAL INCOME TAX

Tax Base

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; (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; and (3) the subtraction of State and local income taxes from Federal itemized deductions.

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 2006, the threshold is \$150,500 (\$75,250 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, and further reduced by up to 50 percent for upper-income taxpayers.

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

Tax Rates and Structure

Over the last decade, New York has greatly simplified its tax structure by reducing the rates applied to income and by increasing standard deductions. Since 1995, the overall impact of these tax reductions has reduced taxes by approximately 20 percent. The three-year temporary tax increase that was in effect for tax years 2003, 2004, and 2005 offsets a portion of this reduction during those years.

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 1995, 1996 and 1997 tax years. 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. For liability years 2007 and after, legislation proposed with this Budget will reduce the top rate to 6.75 percent, increase the top threshold to which the rate applies, and eliminate the marriage penalty by increasing the standard deduction.

PERSONAL INCOME TAX

TABLE 1
PERSONAL INCOME TAX
TOP RATE, STANDARD DEDUCTIONS AND DEPENDENT EXEMPTIONS
1994 - 2007
(dollars)

	1994	1995	1996	1997-2000	2001	2002	2003-2005	2006	2007*
Top Rate (percent)	7.875	7.59375	7.125	6.85	6.85	6.85	7.70	6.85	6.75
Thresholds									
Married Filing Jointly	26,000	25,000	26,000	40,000	40,000	40,000	500,000	40,000	60,000
Single	13,000	12,500	13,000	20,000	20,000	20,000	500,000	20,000	30,000
Head of Household	17,000	19,000	17,000	30,000	30,000	30,000	500,000	30,000	45,000
Standard Deduction									
Married Filing Jointly	9,500	10,800	12,350	13,000	13,400	14,200	14,600	14,600	15,000
Single	6,000	6,600	7,400	7,500	7,500	7,500	7,500	7,500	7,500
Head of Household	7,000	8,150	10,000	10,500	10,500	10,500	10,500	10,500	10,500
Dependent Exemption	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000	1,000
*Proposed Law									

TABLE 2
CURRENT TAX SCHEDULES FOR 2006 LIABILITY YEAR*
(dollars)

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

*Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above \$100,000.

PERSONAL INCOME TAX

TABLE 3
PROPOSED TAX SCHEDULES FOR 2007 LIABILITY YEAR*
(dollars)

Married - Filing Jointly			Single			Head of Household		
Taxable Income	Tax Rate %	Of Amt. Over	Taxable Income	Tax Rate %	Of Amt. Over	Taxable Income	Tax Rate %	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 60,000	1,120 +5.90	26,000	13,000 to 30,000	560 +5.90	13,000	17,000 to 45,000	725 +5.90	17,000
60,000 and over	3,126 +6.75	60,000	30,000 and over	1,563 +6.75	30,000	45,000 and over	2,377 +6.75	45,000

*Benefits of graduated tax rates recaptured for taxpayers with adjusted gross incomes above \$120,000 single and \$240,000 married.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular 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. For a more detailed discussion of tax expenditures, see the Annual Report on New York State Tax Expenditures prepared by the Department of Taxation and Finance and the Division of the Budget.

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 of 2001 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.

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Credit	Description
Child and Dependent Care Credit	<p>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.</p> <p>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.</p>
College Tuition Tax Credit	<p>Available as an alternative to the college tuition deduction, this refundable credit equals the applicable percentage of allowed tuition expenses multiplied by 4 percent. For 2004, the credit is at least the lesser of tuition paid or \$200, with a \$400 maximum. It was 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.</p>
Real Property Tax Circuit Breaker Credit	<p>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.</p>
Agricultural Property Tax Credit	<p>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.</p>
Rehabilitation Credit for Historic Barns	<p>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.</p>

In addition, credits are allowed for investment in certain productive facilities, for investment in economic development zones, for film production in New York and for personal income taxes paid to other states. The Economic Development Zone Program for Qualified Empire Zone Enterprise (QEZE) is discussed in more detail in the Corporate Franchise Tax section. In recent years, these credits have become an increasingly valuable benefit for partnerships, LLCs and S corporations, as these entities have become more widely used by businesses.

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

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Subject	Description	Effective Date
Legislation Enacted in 1995		
Standard Deduction	Increased the standard deduction over three years.	1995 and after
Tax Rate Schedule	Reduced the top tax rate from 7.875 percent to 6.85 percent and raised bracket thresholds over three years.	1995 and after
Earned Income Tax Credit	Accelerated into 1996 from 1997 the credit of 20 percent of the Federal amount, but offset it by the household credit.	1996
Legislation Enacted in 1996		
Child and Dependent Care Credit	Increased the credit for taxpayers with adjusted gross incomes of less than \$14,000 and made the credit refundable for residents beginning in 1996.	1996 and after
Agricultural Property Tax Credit	Created a credit for school property tax that farmers pay on their farm property.	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
Alternative Fuels Vehicle Credit	Created a credit for vehicles powered by electricity and alternative fuels; clean fuel refueling property; and qualified hybrid vehicles.	Extended in 2004
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 first increased the EITC to 27.5 percent of the Federal credit in 2002 and then to 30 percent of the Federal credit in 2003 and after.	2002 and after
Child 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

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Subject	Description	Effective Date
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, with a maximum of \$400. The college tuition deduction was 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.	2003 to 2005
Legislation Enacted in 2004		
Alternative Fuel Vehicles	Extended credit for certain alternative fuel vehicles, previously scheduled to expire after 2003, for one year.	2004
Sales of Cooperative Stock	Amended the definition of New-York-source income for nonresidents to include the gain from the sale of shares in a cooperative housing corporation where the premises are in New York and used solely for residential purposes.	2004 and after
Long-Term Care Insurance Credit	Increased the credit for long-term care insurance from 10 percent to 20 percent of premium expense.	2004 and after
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit sunsets in August 2008.	2004 and after
Military Pay Exemption	Exempted pay of members of the New York National Guard for services performed in New York as part of the "War on Terror."	2004 and after
Legislation Enacted in 2005		
Computation for Nonresidents – Long Term Care Credit	Required nonresident and part-year resident taxpayers to include their long-term care insurance credit in the base tax they compute before applying the income percentage that allocated their tax to New York.	2005 and after
Nursing Home Assessment Tax Credit	Created a refundable nursing home assessment tax credit for residents of a residential health care facility who paid any assessment amount themselves.	2005 and after
Special Additional Mortgage Recording Tax Credit	Created a refundable tax credit for the special additional mortgage recording tax paid by lenders on residential mortgages.	2004 and after
Limited Liability Company Fees	Extended the higher fees to tax years 2005 and 2006.	2005 and 2006
Electronic Filing of Returns	Required electronic filing for preparers filing more than 200 original PIT returns in 2005, and 100 returns in 2006 and later years.	2005 and after
Reciprocal Offsets	Authorized the Department of Taxation and Finance to enter into agreements with tax administrators in other states to offset New York tax overpayments against tax liabilities owed other states, provided that those other states agree to offset overpayments due their taxpayers against tax debts owed New York.	2005 and after
Security Guards Training Tax Credit	Provided security training tax credits to qualified building owners who employ qualified security officers who are employed under a legally binding written agreement and have completed a qualified security training program.	January 1, 2005
Solar Energy Tax Credit	Expanded the types of equipment eligible for the solar electricity generating equipment credit to include residential heating, cooling and water heating.	January 1, 2006
Farmer School Property Tax Credit	Extended the farmers school property tax credit to commercial horse boarding operations.	2006 and after
Farmer School Property Tax Credit	Extended the farmers school property tax to property transferred between family members.	2005 and after
ITC for Qualified Film Production Facilities	Expanded eligibility for the Investment Tax Credit to qualifying Film Production Facilities.	January 1, 2005

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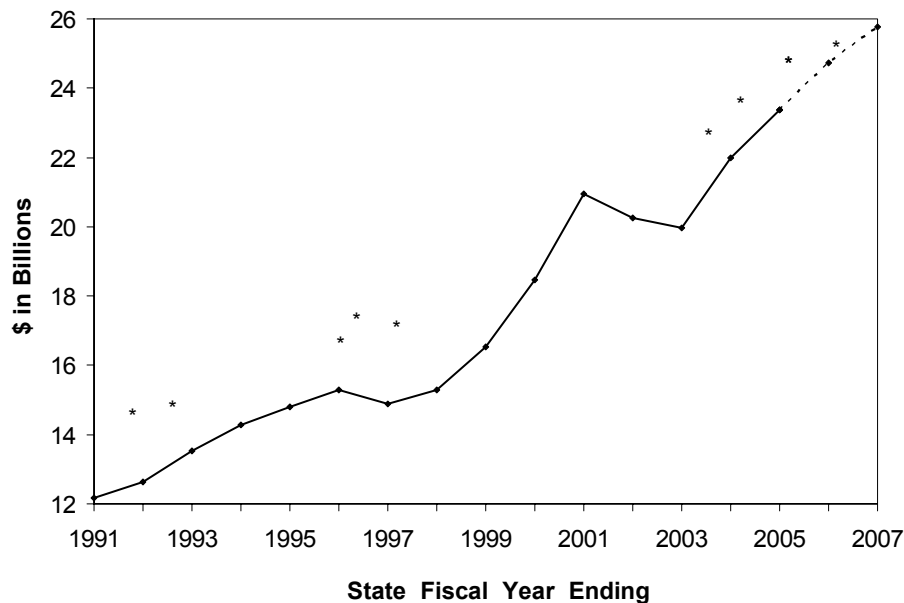
Subject	Description	Effective Date
Qualified Fuel Cell Electricity Generating Equipment	Created a credit for qualified fuel cell electricity-generating equipment.	January 1, 2005

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 8.55 percent and added two new wage brackets.
1/1/04	Rate Schedule	Decreased maximum rate to 7.7 percent and lowered rate for second highest bracket from 7.5 percent to 7.375 percent.
1/1/05	Rate Schedule	Lowered rate for second highest bracket from 7.375 to 7.25 percent.
1/1/06	Rate Schedule	Eliminated top two rates to reflect expiration of the temporary tax surcharge.

Personal Income Tax Withholding



The above graph shows the history of withholding collections beginning in 1990-91. The “*” symbol indicates the dates of withholding table changes.

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) has been managed in accordance with cash flow expectations and to minimize potential year-end imbalances in the State’s General Fund. From 2001 through 2005, refunds of \$960 million were paid during January through March. Given changes in technology and taxpayer behavior more refunds are currently being claimed by taxpayers during the February-March period. To ensure the timely payment of refunds, the amount of refunds paid during this period will be increased to \$1.5 billion. There is no net impact on the Financial Plans for 2005-06 and 2006-07 since the refund reserve deposit will be reduced by \$552 million on March 31, 2006.

Limited Liability Companies

A limited liability company (LLC) can be formed in New York by one or more persons by filing its articles of organization with the Secretary of State and paying an annual filing fee. The fee is reflected in the “returns” component of the personal income tax. For 2005-06, LLC fees are projected to increase to \$70 million or 9.2 percent above the prior year.

The annual filing fee has been imposed since 1994 and applies to any LLC that has any income, gain, loss or deduction attributable to New York sources in the taxable year. The amount of the filing fee is \$100 multiplied by the total of number of members in the LLC or LLP (limited liability partnership). The minimum fee is \$500 and the maximum is \$25,000. In addition, each individual member of an LLC/LLP is subject to a flat filing fee of \$100. The full amount of the filing fee for the tax year is due no later than January 31 of the following year. The following table show historical LLC fees, and estimated and projected fees for 2005-06 and 2006-07.

Limited Liability Company Fees (thousands of dollars)	
SFY	Amount
1995-96	764
1996-97	3,925
1997-98	7,677
1998-99	12,305
1999-00	16,680
2000-01	21,267
2001-02	24,869
2002-03	26,517
2003-04	71,419
2004-05	64,104
2005-06 Estimated	70,000
2006-07 Projected	70,000

Adjusted Gross Incomes, Estimated Tax Liability and Taxpayer Characteristics

New York State adjusted gross income, NYSAGI, is the income base that determines personal income tax liability. Table 4 lists the major components, their growth rates and their respective shares of NYSAGI. The data demonstrate that much of the fluctuation in the growth of NYSAGI can be attributed to fluctuation in the growth of realized capital gains.¹

¹ See also Economic Backdrop — Sources of Volatility in the Income Tax Base — A Risk Assessment

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TABLE 4
DISTRIBUTION OF THE MAJOR COMPONENTS OF
NEW YORK ADJUSTED GROSS INCOME (NYSAGI)
(millions of dollars)

Component of Income	1999	2000	2001	2002	2003	2004	2005	2006	2007
NYSAGI									
Amount	448,531	508,934	481,001	459,919	473,778	525,751	571,592	599,872	631,563
% Change	8.6	13.5	(5.5)	(4.4)	3.0	11.0	8.7	4.9	5.3
Wages									
Amount	328,851	368,177	376,158	368,720	373,313	397,718	418,201	443,695	466,102
% Change	6.2	12.0	2.2	(2.0)	1.2	6.5	5.1	6.1	5.1
Share of NYSAGI	73.3	72.3	78.2	80.2	78.8	75.6	73.2	74.0	73.8
Net Capital Gains									
Amount	48,330	62,302	29,450	20,398	28,455	49,427	69,855	67,473	72,011
% Change	24.1	28.9	(52.7)	(30.7)	39.5	73.7	41.3	(3.4)	6.7
Share of NYSAGI	10.8	12.2	6.1	4.4	6.0	9.4	12.2	11.2	11.4
Interest and Dividends									
Amount	25,299	30,290	26,506	20,465	20,417	22,623	23,747	25,695	27,719
% Change	2.0	19.7	(12.5)	(22.8)	(0.2)	10.8	5.0	8.2	7.9
Share of NYSAGI	5.6	6.0	5.5	4.4	4.3	4.3	4.2	4.3	4.4
Taxable Pension									
Amount	20,854	22,121	23,165	24,406	25,127	26,965	27,849	29,139	30,789
% Change	10.4	6.1	4.7	5.4	3.0	7.3	3.3	4.6	5.7
Share of NYSAGI	4.6	4.3	4.8	5.3	5.3	5.1	4.9	4.9	4.9
Net Business and Partnership Income									
Amount	42,035	44,004	45,191	46,763	48,157	53,028	57,290	61,265	64,923
% Change	13.2	4.7	2.7	3.5	3.0	10.1	8.0	6.9	6.0
Share of NYSAGI	9.4	8.6	9.4	10.2	10.2	10.1	10.0	10.2	10.3
All Other Incomes/ Adjustments /1									
Amount	(16,838)	(17,958)	(19,470)	(20,833)	(21,690)	(24,011)	(25,350)	(27,396)	(29,982)
% Change	3.6	6.7	8.4	7.0	4.1	10.7	5.6	8.1	9.4

/1 Includes alimony received, unemployment income, IRA income, and other income. This number is negative due to Federal and New York adjustments to income, which together reduce final NYSAGI.

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

The strong performance and subsequent collapse of the financial sector between 1994 and 2002 caused significant shifts in the share of capital gains realizations in NYSAGI. Between 1994 and 2000 the capital gains share tripled from 4.2 percent to 12.2 percent. However, its share shrank to 4.4 percent in 2002. Partly because of the shift in capital gains, the share of wages fell from 84.3 percent in 1994 to 72.3 percent in 2000 before rebounding to 80.2 percent in 2002. Other components are more stable or show consistent growth patterns over the years. Net business income grew from 6.8 percent of NYSAGI in 1994 to 8.6 percent in 2000 and 10.2 percent in 2002, driven by strong growth in the popularity of flexible domestic business entities such as Limited Partnerships (LPs), Limited Liability Companies (LLCs), Limited Liability Partnerships (LLPs), and S corporations.

The bursting of the stock market bubble, combined with the national recession, caused a precipitous decline in income earned from financial assets. Interest and dividends declined 12.5 percent in 2001, compared to a 19.7 percent increase in 2000. Net capital gains fell nearly 53 percent after growing by 29 percent in 2000. As the table illustrates, realized capital gains also declined significantly as a share of adjusted gross income.

Changes in the 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

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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, since the 1994-95 bonus cycle.

As the State economy began to emerge from recession in September 2003, the resurgence in equity market growth and the associated return to profitability by the financial sector helped AGI increase by an estimated 3.0 percent for 2003 and 11.0 percent for 2004. Somewhat more moderate, but still fairly strong, growth of 8.7 percent is expected to have occurred in 2005. With rising interest rates and higher energy prices expected to prevail in 2006 and 2007, AGI growth is anticipated to become much more moderate, increasing by 4.9 percent in 2006 and 5.3 percent in 2007.

Table 5 presents some trends in NYSAGI, certain AGI components and liability over a six-year span. In 1997, the national economy was still enjoying the long expansion that would end with a recession in 2001. The situation was decidedly different in 2003, when the State economy was just beginning its expansion. It should also be noted that there was a change in tax regime between the two years — while 1997 was the last year of a phased-in tax cut, 2003 saw the enactment of two new tax rates and tax brackets for upper-income taxpayers.

	1997					2003				
	Returns	NYSAGI	Wages	Nonwage Income	Liability	Returns	NYSAGI	Wages	Nonwage Income	Liability
Total	8,194,718	383,166	285,919	97,247	16,950	8,836,584	481,479	373,313	108,166	22,465
percent change						7.8	25.7	30.6	11.2	32.5
Residents	7,486,494	338,664	249,988	88,676	14,495	8,038,588	422,154	325,306	96,848	18,937
percent share	91.4	88.4	87.4	91.2	85.5	91.0	87.7	87.1	89.5	84.3
percent change						7.4	24.7	30.1	9.2	30.6
Nonresidents	708,223	44,502	35,931	8,571	2,455	797,996	59,325	48,007	11,318	3,529
percent share	8.6	11.6	12.6	8.8	14.5	9.0	12.3	12.9	10.5	15.7
percent change						12.7	33.3	33.6	32.1	43.8
Married filing jointly	3,209,797	248,572	180,314	68,258	11,893	3,232,437	305,481	229,194	76,287	15,828
percent share	39.2	64.9	63.1	70.2	70.2	36.6	63.4	61.4	70.5	70.5
percent change						0.7	22.9	27.1	11.8	33.1
Head of Household	1,246,005	32,293	28,862	3,431	688	1,521,609	46,321	41,559	4,762	764
percent share	15.2	8.4	10.1	3.5	4.1	17.2	9.6	11.1	4.4	3.4
percent change						22.1	43.4	44.0	38.8	11.0
Single Filers	3,738,915	102,301	76,742	25,559	4,368	4,082,538	129,676	102,560	27,116	5,873
percent share	45.6	26.7	26.8	26.3	25.8	46.2	26.9	27.5	25.1	26.1
percent change						9.2	26.8	33.6	6.1	34.5
Itemized Deduction	1,635,655	182,549	121,411	61,138	9,445	2,014,430	248,288	175,888	72,400	13,603
percent share	20.0	47.6	42.5	62.9	55.7	22.8	51.6	47.1	66.9	60.6
percent change						23.2	36.0	44.9	18.4	44.0
Standard Deduction	6,559,062	200,617	164,508	36,110	7,504	6,819,897	233,120	197,366	35,753	8,858
percent share	80.0	52.4	57.5	37.1	44.3	77.2	48.4	52.9	33.1	39.4
percent change						4.0	16.2	20.0	-1.0	18.0

Note: NYSAGI in this table differs from that in Table 4 due to different treatment of negative NYSAGI.
Source: NYS Department of Taxation and Finance; DOB staff estimates

Note that while the share of returns filed by nonresidents increased slightly over this period (from 8.6 percent to 9.0 percent), their share of tax liability increased from 14.5 percent to 15.7 percent. Due in part to the effect of the 2003 Tax Law change, resident liability rose by 30.6 percent from 1997 to 2003, while nonresident liability increased 43.8 percent. This was largely due to the nonwage components of income, including dividends,

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interest and capital gains. Resident and nonresident wages and salaries increased at similar rates over the period (30.1 and 33.6 percent, respectively), but while resident nonwage income increased only 9.2 percent, nonwage income for nonresidents increased 32.1 percent.

With respect to filing status, an interesting development is the slow decline in the share of returns from taxpayers filing as "married filing jointly." These taxpayers increased by only 0.7 percent from 1997 to 2003, leading to a decline in the share of taxpayers claiming this status from 39.2 percent to 36.6 percent. Meanwhile, returns filed as "head of household" increased 22.1 percent over the period, while filers claiming single status increased 9.2 percent. Married filing joint taxpayers account for the bulk of nonwage income, with a share of about 70 percent over the period, with single filers accounting for about 25 percent. Married taxpayers account for about 70 percent of the liability in both years despite the decline in the share of married taxpayers, while single filers' share is about 26 percent in both years.

Taxpayers who itemized their deductions made up 20.0 percent of taxpayers in 1997, rising to 22.8 percent by 2003. Largely reflecting the influence of the economic boom of the 1990s on incomes and increases in local property taxes and other deduction amounts, the share of liability swung more toward those using the itemized deduction. Standard deduction returns accounted for 80.0 percent of returns in 1997 and 44.3 percent of liability, while itemized returns accounted for the remainder and 55.7 percent of liability. By 2003 itemizers made up 60.6 percent of liability while standard deduction takers' share of liability had fallen to 39.4 percent.

Recent Liability History

As already noted, New York State was in recession during 2001 and 2002, and the economic difficulties the State experienced in those years are reflected in the data for AGI and tax liability. Based on tax collections, total liability was about \$23.2 billion in 2001, falling to \$21.2 billion in 2002. Of these amounts, \$22.4 billion for 2001 and \$20.7 billion for 2002, respectively, are accounted for by the approximately 8.8 million returns covered in the annual studies 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 studies. In the tax study for 2001, AGI was \$488 billion, yielding an average effective tax rate of 4.6 percent, while in the tax study for 2002 AGI was \$468 billion, resulting in an effective tax rate of 4.4 percent. Note: These AGI values are from taxpayer study files and so differ from those included in Table 4.

In contrast, AGI for 2000 was \$514.5 billion and tax liability for that year was \$24.5 billion, according to the annual personal income tax study file, providing an effective rate of 4.8 percent. From 1999 to 2000 AGI increased 13.5 percent and liability increased nearly 17 percent. However, from 2000 to 2001 AGI fell 5.2 percent and liability fell 8.5 percent, and from 2001 to 2002 AGI fell another 4.1 percent and liability slid an additional 7.5 percent.

Wages and salaries grew 12 percent in 2000 and saw very modest growth of 2.2 percent in 2001, before falling 2 percent in 2002, reflecting falling employment, slow growth in non-bonus average wages and drastic cuts in financial sector bonuses. Capital gains also reversed direction in 2001 and 2002. Capital gains had an average annual growth rate of 25.4 percent in 1998-2000, but declined 52.7 percent in 2001 and a further 30.7 percent for 2002, the recent declines coming in the aftermath of the bursting of the equity-market price bubble.

With interest rates decreasing from 2001 into 2003 and corporate dividend earnings faring poorly, income from earned interest and dividends fell. From nearly 20 percent growth in 2000, interest and dividends fell 12.5 percent in 2001 and decreased nearly 23 percent in 2002.

Business net income and income derived from partnerships and S-corporations is the only major component of AGI (other than taxable pensions) not to fall in the 2001 period. While this component grew 4.7 percent in 2000, growth moderated in the two following years, to 2.7 percent in 2001 and 3.5 percent in 2002.

Because of the unique composition of New York State's economy, it took until mid-2003 for signs of economic expansion to be evident in the State despite the official end of the national recession in November 2001. While capital gains grew at a robust 39.5 percent in 2003, growth in other AGI components was anemic: wages and salaries increased 1.2 percent over 2002 levels, pensions and business net income increased by 3.0 percent, and interest and dividend income fell by 0.2 percent. AGI increased by 3.0 percent, rather than declining as it had in 2001 and 2002. Owing to improved economic conditions, but also to two new, higher-rate tax brackets imposed on upper-income taxpayers, liability reversed its declines of the previous two years and increased 8.3 percent, for an effective tax rate of 4.7 percent.

Liability Forecasts, 2004 through 2007

Given the increased State-level economic activity evidenced in 2003, the Division of the Budget estimates that AGI grew more rapidly in 2004 and 2005. But the combination of rising energy prices, higher interest rates and a decline in the housing market will lead to more moderate growth in AGI and its components in 2006 and 2007.

In assessing anticipated trends in liability, it should be noted once again that a change in the tax regime is to take place in 2006. The temporary tax brackets enacted by the Legislature in May 2003 remained in force in 2004 and 2005, and are to expire at the end of 2005. This must be borne in mind in evaluating the liability forecasts in this period.

Capital gains are estimated to have continued their dramatic turn-around that began in 2003. The Division estimates that capital gains increased 73.7 percent in 2004, and rose another 41.3 percent in 2005. Besides the impact of Federal tax policy on capital gains (a reduction in the Federal tax rate on capital gains went into effect in 2003), the housing and equity markets have played major roles in the increases. With the housing market expected to cool in 2006, capital gains are expected to decline by 3.4 percent, then to show moderate growth of 6.7 percent in 2007. For a detailed discussion of the reasons for this reversal, see "The Major Components of AGI" in the section "Sources of Volatility in the Income Tax Base — A Risk Assessment."

With the economic recovery picking up steam in 2004, the Division of the Budget estimates that AGI has grown 11.0 percent over its 2003 level, to \$526 billion, actually pushing past the peak of \$509 billion reached in 2000 (See Table 4). Besides the extraordinary increase in capital gains already noted, both interest and dividends and business and partnership income are estimated to have increased at rates of better than 10 percent. Wages and salaries are estimated to have increased 6.5 percent. For further discussion, see the section "The Major Components of AGI".

Under current law (which includes the temporary tax rates adopted in 2003), 2004 liability is estimated to be \$25.9 billion, an increase of 15.1 percent from the 2003 current-law level. The tax increase is estimated to have resulted in higher liability of approximately \$1.5 billion for 2004 (See Table 7).

PERSONAL INCOME TAX

While overall economic growth remained strong in 2005, as evidenced by overall AGI growth of 8.7 percent, much of that is concentrated in large capital gains. Wages and salaries are estimated to have increased 5.1 percent for the year, while income from interest earnings and dividends increased by an estimated 5.0 percent, less than half the pace of the previous year. Net business and partnership income likewise is expected to have moderated, increasing by 8.0 percent, down from 2004's 10.1 percent (See Table 4).

For 2005, the last year of the 2003 temporary tax increases, the Division of the Budget estimates that liability increased 12.8 percent, to \$29.2 billion (See Table 7). This value is estimated to be \$1.74 billion more than what liability would have been without the income tax increase.

With more restrained economic growth forecast for 2006 and 2007, AGI growth likewise is expected to slow, to 4.9 percent and 5.3 percent growth, respectively. Wage growth of 6.1 percent, interest and dividend growth of 8.2 percent and net business and partnership income growth of 6.9 percent are expected to counterbalance the decline in capital gains in 2006. For 2007, while wage growth is anticipated to slow to 5.1 percent, capital gains and dividends and interest are forecast to increase at rates of 6.7 percent and 7.9 percent, respectively.

With the scheduled expiration of the 2003-2005 additional tax rates and tax brackets, liability is forecast to increase by only 0.2 percent in 2006, to \$29.2 billion, though the improvement expected in capital gains realizations in 2007 will help liability rise by 8.0 percent, to \$31.6 billion in that year.

Table 6 summarizes the impact of the surcharge for both tax liability and associated collections.

Tax Year		Fiscal Year				Liability Totals
		2003-04	2004-05	2005-06	2006-07	
2003	Withholding	632	0	0	0	
	Estimated Tax	326	0	0	0	
	Settlement	0	352	0	0	
	Total	958	324	0	0	1,282
2004	Withholding	197	531	0	0	
	Estimated Tax	0	416	0	0	
	Settlement	0	0	354	0	
	Total	197	947	354	0	1,498
2005	Withholding	0	225	617	0	
	Estimated Tax	0	0	473	0	
	Settlement	0	0	0	425	
	Total	0	225	1,090	425	1,740
SFY Totals		1,155	1,496	1,444	425	4,520

Source: DOB staff estimates.

Tax Changes and Liability

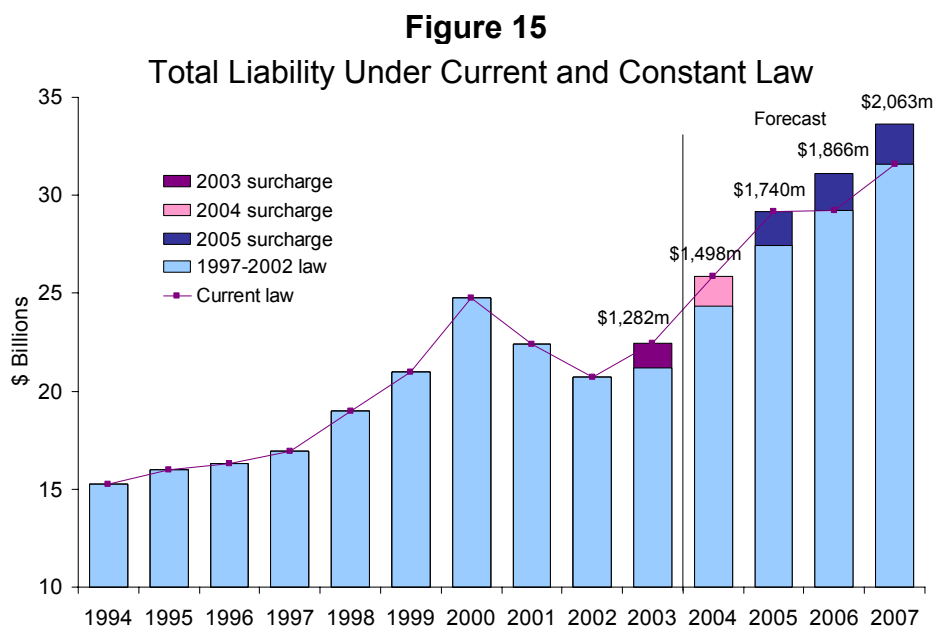
The 1997 tax year was the final phase of the three-year personal income tax cut enacted in June 1995. This legislation raised the standard deduction and reduced the tax rate imposed on taxable income. Further legislation enacted since 1995 has increased the child

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. While these tax reductions have resulted in considerable savings for New York State taxpayers, they have also reduced tax liability. The downturn in the economy further eroded personal income tax liability. Based on the 2002 study file, liability for that year was estimated at \$20.7 billion, representing a 7.5 percent decline compared to 2001. The effective tax rate is estimated to have been 4.43 percent. Without the tax cuts enacted in 1995, it is estimated that 2002 liability would have been approximately \$25.9 billion, about \$5.2 billion higher than under current law.

On the other hand, beginning with the 2003 tax year, two new brackets with higher tax rates were imposed on New York State taxpayers. Had the Tax Law been left unchanged, 2003 liability would have been \$21.2 billion, rather than the actual \$22.5 billion estimated for the year.

For the remaining two years under the 2003 law changes, liability is estimated at \$25.9 billion and \$29.1 billion for 2004 and 2005, respectively, or about \$1.5 billion and \$1.74 billion higher than under the law prevailing in 2002.

As noted, the expiration of the 2003 changes results in a return to the rates prevailing in 2002. For 2006, this implies a liability forecast of \$29.2 billion and, for 2007, a liability forecast of \$31.6 billion. The Division estimates that liability will be about \$1.9 billion less in 2006 than it would have been had the surcharges continued, and to be \$2.1 billion less in 2007 (see Figure 1).



Note: Values above each bar indicate the amount of additional liability due to the 2003-2005 surcharges for each tax year. The chart assumes the extension of the 2005 surcharges to the 2006 and 2007 tax years. The surcharge is scheduled to expire at the end of 2005.

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

As can be seen in Table 7, the 2003 law changes resulted in a sudden increase in the effective tax rate, from 4.43 percent in 2002 to 4.66 percent in 2003. Improving economic conditions tilted toward high-income taxpayers are mainly behind the increase in the effective rate in 2004 and 2005, while the presumed return to the 2002 prevailing tax rates lead to a sharp estimated decline in the effective rate to 4.81 percent in 2006 from the 5.04 percent rate of 2005.

PERSONAL INCOME TAX

TABLE 7						
LIABILITY AND EFFECTIVE TAX RATES*						
Current Law and Constant Law						
1995 - 2007						
(millions of dollars)						
	Current Law			1994 Law		
	Amount	Liability Growth Rate	Effective Tax Rate (percent)	Amount	Liability Growth Rate	Effective Tax Rate (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)	4.60	27,523	(7.8)	5.65
2002	20,729	(7.5)	4.43	25,876	(6.0)	5.53
2003	22,456	8.3	4.66	25,072	(3.1)	5.21
2004**	25,854	15.1	4.84	28,777	14.8	5.39
2005**	29,172	12.8	5.04	32,323	12.3	5.58
2006**	29,226	0.2	4.81	34,404	6.4	5.66
2007**	31,563	8.0	4.89	37,122	7.9	5.75
* Liability divided by AGI						
** Estimated						
Source: NYS Department of Taxation and Finance; DOB staff estimates.						

Risks in Liability Estimates

Liability estimates are subject to significant risks in terms of economic conditions and changes in taxpayer behavior. For example, a slowdown in economic growth would put downward pressure on tax liability, holding other factors constant. The stock market and the financial services industry more specifically, may do much better or much worse than envisioned, with consequent positive or negative impacts on State tax liability. As discussed in the "Economic Background" section "Sources of Volatility in the Income Tax Base," capital gains always exhibit a high degree of volatility and are difficult to forecast with precision.

TABLE 8						
CHANGES IN THE PERCENT DISTRIBUTION OF RETURNS, LIABILITY AND AGI FOR SELECTED INCOME GROUPS						
Income Group	2003 (Actual)			2006 (Forecast)		
	Returns	Liability	AGI	Returns	Liability	AGI
0 - \$50,000	70.9	8.4	24.4	67.8	6.5	19.0
\$50 - \$100,000	18.9	22.3	24.4	19.2	18.2	20.1
\$100 - \$200,000	7.3	20.6	17.8	8.7	20.4	17.9
\$200,000 - \$1,000,000	2.6	24.3	17.0	3.9	25.8	20.5
\$1,000,000 and above	0.3	24.5	16.5	0.4	29.1	22.6
Source: NYS Department of Taxation and Finance; DOB staff estimates.						

The concentration of significant liability in the payments of a small fraction of taxpayers represents a significant risk to the income tax forecast. As exhibited in Table 8, the shares of income tax liability and income (as measured by New York State AGI) for high income taxpayers are substantial. The shares for 2003 are based on the personal income tax study file created by the New York State Department of Taxation and Finance, while the 2006 shares are based on forecasts by the Division of the Budget. The table indicates that while there is a modest shift toward the higher-income groups in shares of returns over the period covered, the shift toward taxpayers in the highest-income group in terms of AGI and liability

PERSONAL INCOME TAX

is much greater. Over time the State has become increasingly reliant on its high-income taxpayers as a source of income tax revenues. This means changes in the economy that affect a small number of taxpayers in the high-income group can have disproportionate effects on State tax revenues (See Table 8).

Not surprisingly, the temporary higher tax rates in force during 2003-2005 increased the share of liability accounted for by high-income taxpayers. Table 9 shows the share of the top one percent of taxpayers under the 1995-2002 law compared to 2003-2005 law. In 2003, for example, the top one percent accounted for 33.8 percent of State liability under the 1995-2002 law, but 36.0 percent of liability under the 2003 law. By the 2005 tax year, the top one percent is forecast to have 40.3 percent of liability, in contrast to a share estimated at 37.8 under the 1995-2002 law. When the surcharges are removed, the Division estimates that the top one percent of taxpayers will still account for about 36 percent of total State personal income tax liability.

Year	1994, 1995-2002 Tax Law			2003-2005 Surcharges		
	Liability, top 1% (millions)	Liability, all taxpayers (millions)	Share of total liability, top 1%	Liability, top 1% (millions)	Liability, all taxpayers (millions)	Share of total liability, top 1%
1994	3,829	15,241	25.1	--	--	--
1995	4,243	16,011	26.5	--	--	--
1996	4,935	16,319	30.2	--	--	--
1997	5,705	16,950	33.7	--	--	--
1998	6,654	18,986	35.0	--	--	--
1999	7,462	20,977	35.6	--	--	--
2000	9,644	24,494	39.0	--	--	--
2001	7,864	22,406	35.1	--	--	--
2002	6,681	20,729	32.2	--	--	--
2003	7,146	21,173	33.8	8,079	22,456	36.0
2004*	8,623	24,357	35.4	9,754	25,854	37.7
2005*	10,374	27,432	37.8	11,743	29,172	40.3
2006*	10,720	29,226	36.7	12,139	31,093	39.0
2007*	11,416	31,563	36.2	12,929	33,626	38.4

* Estimated

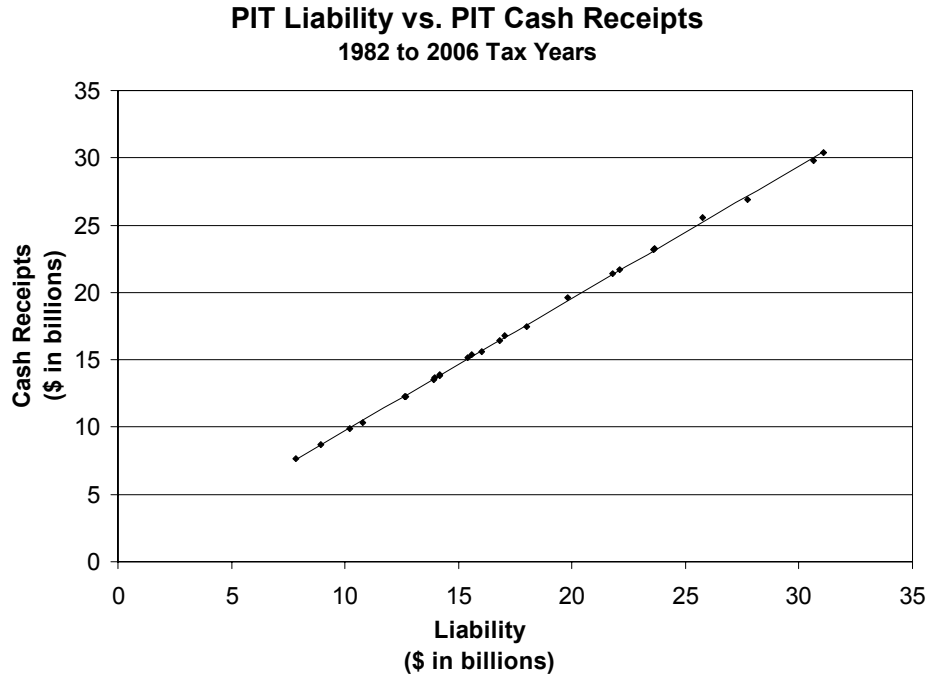
Note: The 2003-2005 surcharges are scheduled to expire at the end of the 2005 tax year.

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

PERSONAL INCOME TAX

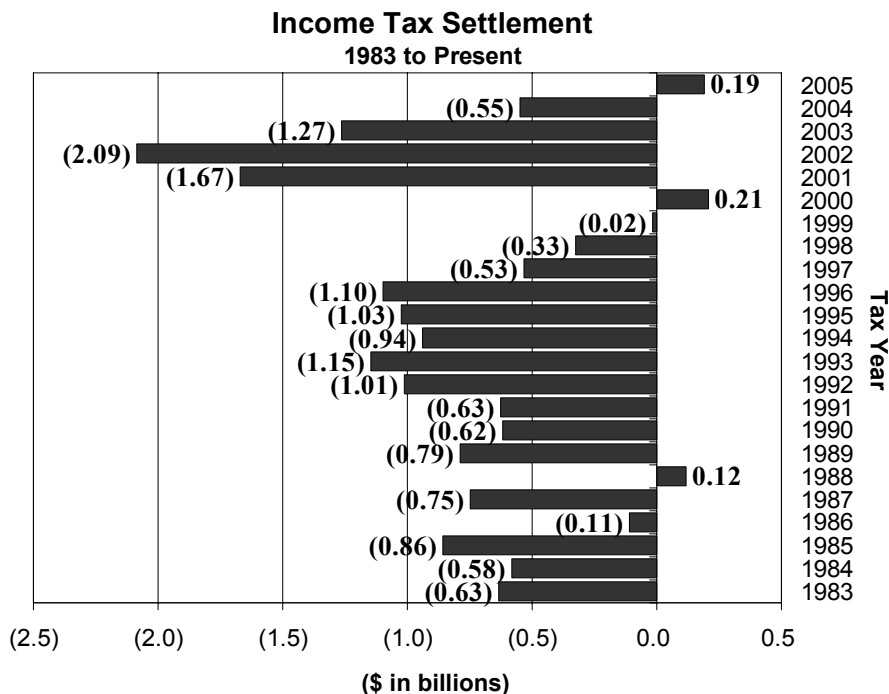
TAX LIABILITY AND CASH PAYMENTS

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 2005 tax year will be received before the end of the 2005-06 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 2005 tax year will be received largely in the 2006-07 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 2005 tax year can be received in fiscal year 2006-07 or a later fiscal year.

As is evident in the graph below showing net settlement payments for the 1983 through 2005 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), in times of rapid economic growth, and during periods with large increases in non-wage income.



Note: The settlement is comprised of extension payments plus final return payments minus refunds and the state-city offset.

Several different settlement patterns have occurred in recent years. With the rapid growth of the New York economy in the late 1990s, 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 have remained negative but below \$600 million for the 2004 tax year, and to become positive at \$190 million for tax year 2005. 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, due to continued extraordinary growth in non-wage income.

For a more detailed discussion of the methods and models used to develop estimates and projections for the personal income tax, please see the “Economic and Receipt Estimates Methodology” section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are approximately \$21.3 billion, an increase of \$1.9 billion, or approximately 10 percent above the comparable period in the prior fiscal year.

PERSONAL INCOME TAX

All Funds receipts for 2005-06 are estimated to be \$30,988 million, an increase of \$2,888 million, or 10.3 percent, above last year. The full elimination of the temporary surcharge on January 1, 2006 is estimated to reduce 2005-06 collections by approximately \$275 million, all in withholding.

Key risks for the remainder of the fiscal year include the amount of withholding tax collections to be received in the first quarter of 2006, and the balance of estimated payments to be received on 2005 liability, the latter reflecting continuing uncertainty about the effects of the temporary tax increases imposed in 2003 and expiring on January 1, 2006.

The current forecast assumes that estimated payments on 2005 liability will be 24.4 percent higher than comparable payments on 2004 liability. Non-wage incomes have risen substantially due to strong stock and real estate market performance.

Compared with the same period a year ago, withholding collections increased 5.7 percent through the first nine months of the fiscal year. This reflects solid growth associated with continued economic recovery.

Table 10 shows the components of the personal income tax from 2002-03 through 2006-07. The components of the 2005-06 estimates are based on actual collections of approximately \$21.3 billion to date, plus an additional \$552 million in refund payments on 2005 returns to increase this amount from \$960 million to \$1,512 million.

	2002-03	2003-04	2004-05	2005-06	2006-07
	(Actual)	(Actual)	(Actual)	(Estimated)	(Projected)
Receipts					
Withholding	19,959	21,986	23,375	24,737	25,770
Estimated Payments	4,855	5,159	7,062	9,357	10,280
Current Year	3,831	4,325	5,526	6,872	7,150
Prior Year*	1,024	834	1,536	2,485	3,130
Final Returns	1,333	1,313	1,629	1,817	2,250
Current Year	101	164	171	167	167
Prior Year*	1,232	1,149	1,458	1,650	2,083
Delinquent Collections	797	631	702	740	774
Gross Receipts	<u>26,944</u>	<u>29,089</u>	<u>32,768</u>	<u>36,651</u>	<u>39,074</u>
Refunds					
Prior Year*	2,780	2,948	3,107	3,440	3,290
Previous Years	268	272	243	270	270
Current Year*	960	960	960	1,512	1,500
State-City Offset*	288	261	357	441	440
Total Refunds	<u>4,296</u>	<u>4,442</u>	<u>4,668</u>	<u>5,663</u>	<u>5,500</u>
Net Receipts	<u>22,648</u>	<u>24,647</u>	<u>28,100</u>	<u>30,988</u>	<u>33,574</u>

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

An added risk to the estimate of 2005-06 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, complete information about such payments was not available when the 2005-06 estimates were constructed.

2006-07 Projections

All Funds receipts are projected to be \$33,574 million, an increase of \$2,586 million, or 8.3 percent above 2005-06.

PERSONAL INCOME TAX

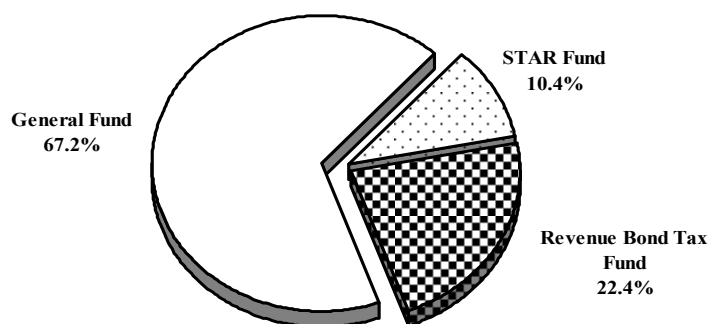
Withholding receipts are projected to rise by 4.2 percent, reflecting solid wage growth offset in part by the expiration of the temporary surcharge.

The other major component of collections, estimated payments on 2006 income, is projected to increase by 1.9 percent. This is consistent with a slowdown in the growth of non-wage income, along with the expiration of the temporary surcharge.

Final payments related to 2005 returns are expected to increase by \$442 million from 2004 returns, reflecting higher liabilities from both economic growth, and payment patterns relating to the 2003 tax increase.

General Fund

**Fund Shares of Net Receipts
2005-06**



Under current law, General Fund net personal income tax receipts are estimated at \$20,826 million in 2005-06 and are estimated at \$22,806 million in 2006-07, a 9.5 percent increase. Under proposed law, General Fund net personal income tax receipts are projected at \$22,654 million in 2006-07, an 8.8 percent increase.

Other Funds

Legislation enacted in 1998 created the School Tax Relief (STAR) Fund to help provide school tax reductions under the STAR program. The same legislation accelerated the fully effective level of the enhanced senior citizens' school property tax exemption into 1998-99, and accelerated the final level of the New York City personal income tax credit into the 1998 tax year for taxpayers age 65 or more. In 2005-06 and 2006-07, respectively, dedicated personal income tax receipts of \$3,219 million and \$3,368 million will be deposited into the School Tax Relief Fund.

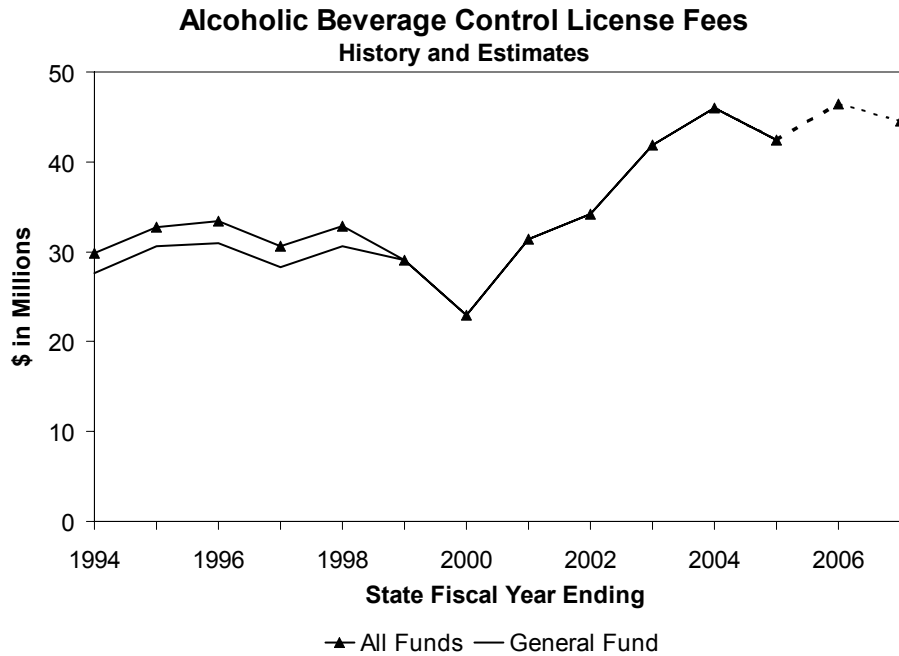
Chapter 383, Laws of 2001, provides for the issuance of, and a source of payment for State Personal Income Tax Revenue Bonds. Since May 2002, a portion of personal income tax receipts has been deposited in the Revenue Bond Tax Fund (RBTF), a State debt service fund under the joint custody of the Commissioner of Taxation and Finance and the State

PERSONAL INCOME TAX

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 \$6,943 million and \$7,552 million will be deposited in the RBTF in 2005-06 and 2006-07, respectively.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES (millions of dollars)							
	2004-05 <u>Actual</u>	2005-06 <u>Estimated</u>	<u>Change</u>	Percent <u>Change</u>	2006-07 <u>Projected</u>	<u>Change</u>	Percent <u>Change</u>
General Fund	42	46	4	9.6	45	(2)	(4.2)
Other Funds	0	0	0	0.0	0	0	0.0
All Funds	42	46	4	9.6	45	(2)	(4.2)



ALCOHOLIC BEVERAGE CONTROL LICENSE FEES BY FUND (thousands of dollars)					
	Gross General <u>Fund</u>	<u>Refunds</u>	General <u>Fund</u>	Special Revenue <u>Funds</u>	All Funds <u>Receipts</u>
1997-98	33,162	2,629	30,533	2,387	32,920
1998-99	32,282	3,190	29,092	0	29,092
1999-2000	25,566	2,615	22,951	0	22,951
2000-01	33,140	1,787	31,353	0	31,353
2001-02	35,495	1,251	34,244	0	34,244
2002-03	43,124	1,183	41,941	0	41,941
2003-04	47,187	1,796	45,391	0	45,391
2004-05	44,543	2,179	42,364	0	42,364
Estimated					
2005-06	48,700	2,300	46,400	0	46,400
2006-07	46,500	2,000	44,500	0	44,500

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

PROPOSED LEGISLATION

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			Subtotal	Grocery Stores	Wholesale	Total
		Beer, Wine and Liquor	Beer and Wine	Beer Only				
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
2003	2,501	19,666	4,470	1,977	26,113	18,726	1,233	48,573
2004	2,525	19,772	4,606	1,984	26,362	18,496	1,254	48,637
2005	2,558	19,686	4,825	1,984	26,495	18,270	1,294	48,617

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	Changed the required purchase of a triennial license 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	Increased license fees for most licensees 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
Legislation Enacted in 2004		
Seven Day Sales	Allowed liquor stores to open seven days per week.	August 20, 2004
Legislation Enacted in 2005		
Direct Shipments	Allowed the direct shipment of wine to individual consumers in New York State.	August 11, 2005

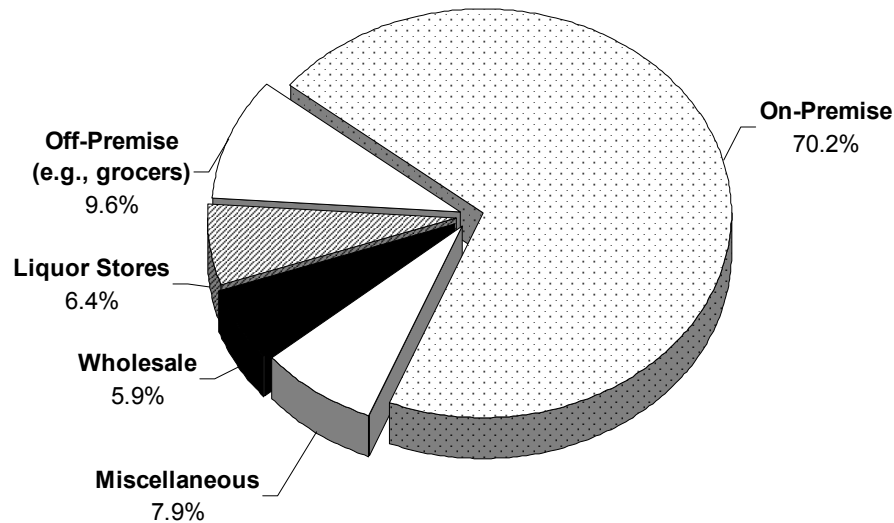
ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

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 26,400 bars and restaurants that offer on-premise consumption. The majority of State-licensed bars and restaurants (about 19,700 in 2005) are authorized to sell beer, wine, and liquor. Approximately 4,800 licensees are permitted to sell only beer and wine. The remaining 2,000 licensees in 2004 sold only beer. In addition, there were about 18,300 grocery stores licensed to sell beer for off-premise consumption and 1,300 alcoholic beverage wholesalers. Finally, the miscellaneous licenses (not shown above), which account for roughly 7.9 percent of revenue, are made up of specialty and seasonal licenses (for example, veterans' clubs and seasonal tour boats).

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcoholic beverage control license fees, please see the "Economic and Receipt Estimates Methodology" section of this volume.

Alcoholic Beverage Control License Fees
Share of 2004 Receipts by Licensee Category



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$33.1 million, an increase of \$3.6 million, or 12.2 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$46.4 million, an increase of \$4.1 million, or 9.6 percent above last year. The increase is attributable to the larger number of two-year licensees who renew in even years.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

2006-07 Projections

All Funds receipts are projected to be \$44.5 million, a decrease of \$1.9 million, or 4.2 percent below 2005-06. The decrease is attributable to the smaller number of two-year licensees who renew in odd years.

General Fund

Effective April 1, 1998, all proceeds from alcoholic beverage control license fees are deposited in the General Fund.

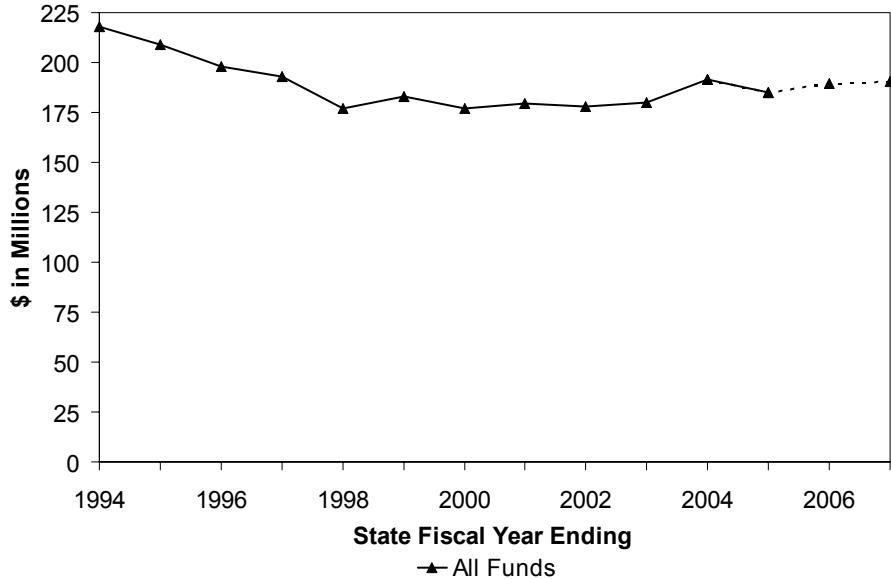
Other Funds

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.

ALCOHOLIC BEVERAGE TAXES

ALCOHOLIC BEVERAGE TAXES (millions of dollars)							
	2004-05	2005-06	<u>Change</u>	Percent	2006-07	<u>Change</u>	Percent
	<u>Actual</u>	<u>Estimated</u>		<u>Change</u>	<u>Change</u>		<u>Projected</u>
General Fund	185	189	5	2.4	191	1	0.7
Other Funds	0	0	0	0.0	0	0	0.0
All Funds	185	189	5	2.4	191	1	0.7

**Alcoholic Beverage Taxes
History and Estimates**



ALCOHOLIC BEVERAGE TAXES BY FUND (thousands of dollars)				
	Gross General Fund	<u>Refunds</u>	General Fund	All Funds <u>Receipts</u>
1997-98	177,124	115	177,009	177,009
1998-99	183,087	316	182,771	182,771
1999-2000	177,093	55	177,038	177,038
2000-01	179,407	67	179,340	179,340
2001-02	178,146	1	178,145	178,145
2002-03	180,686	931	179,755	179,755
2003-04	191,380	23	191,357	191,357
2004-05	184,955	68	184,887	184,887
Estimated				
2005-06	189,500	100	189,400	189,400
2006-07	190,800	100	190,700	190,700

ALCOHOLIC BEVERAGE TAXES

PROPOSED LEGISLATION

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

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 2005-06 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

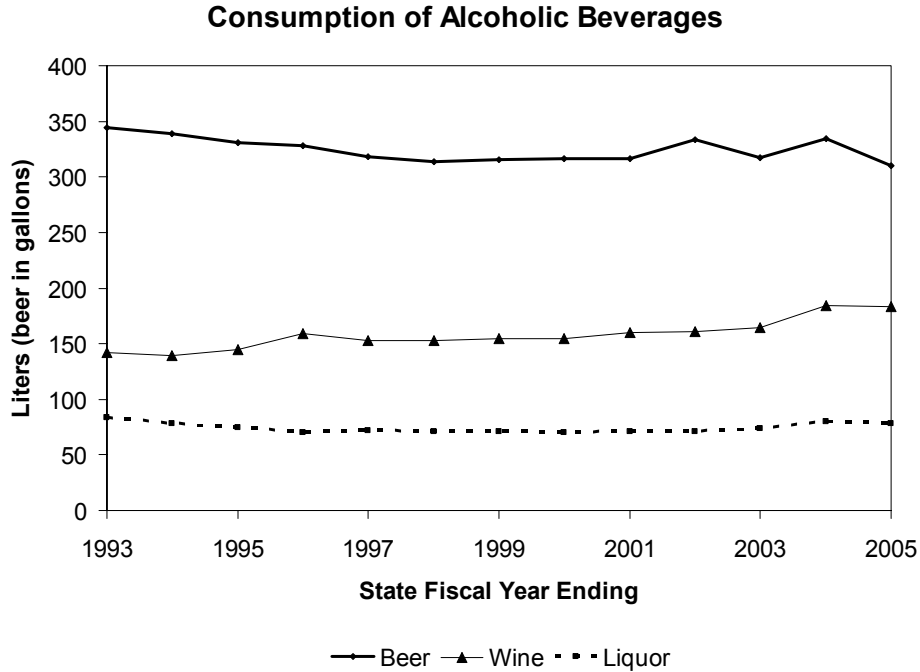
Administration

The tax is remitted by licensed distributors and noncommercial importers of such beverages in the month following the month of delivery (see Alcohol Beverage Control License Fees).

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



TAX LIABILITY

Overall, per capita consumption of taxed beverages and receipts has 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 in recent years has 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 (see table below). 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 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.

For a more detailed discussion of the methods and models used to develop estimates and projections for the alcohol beverage taxes, please see the “Economic and Receipt Estimates Methodology” section of this volume.

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

ALCOHOLIC BEVERAGE TAXES

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.
Failure by a distributor 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.
Failure by any other person 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.

RECEIPTS: ESTIMATES AND PROJECTIONS

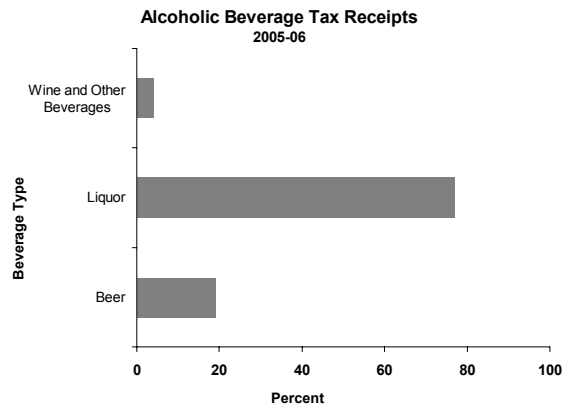
All Funds

2005-06 Estimates

All Funds collections to date are \$144.1 million, an increase of \$4.5 million, or 3.2 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$189.4 million, an increase of \$4.5 million, or 2.4 percent above last year.

The bulk of estimated receipts, \$146.0 million, are derived from the tax on liquor. Beer will generate an estimated \$35.6 million and wine and other taxed beverages an estimated \$7.8 million.



ALCOHOLIC BEVERAGE TAXES

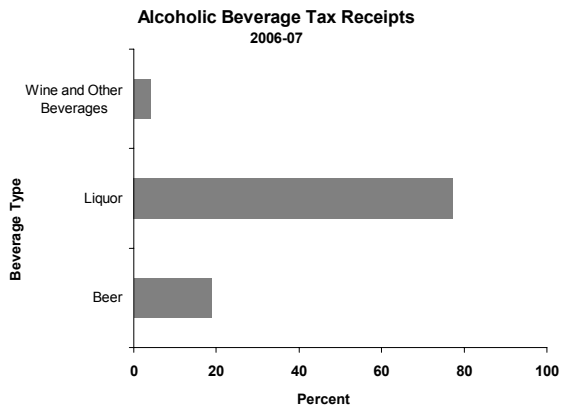
COMPONENTS OF ALCOHOLIC BEVERAGE TAX RECEIPTS							
(millions of dollars)							
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 Estimated	2006-07 Projected
Beer	43	42	39	39	34	35	36
Liquor	128	128	133	143	141	146	147
Wine and Other	9	9	9	10	10	8	8
Subtotal	179	178	181	191	185	189	191
Reconciliation	0	0	(1)	0	0	0	0
Net Total	179	178	180	191	185	189	191

2006-07 Projections

All Funds receipts are projected to be \$190.7 million, an increase of \$1.3 million, or 0.7 percent above 2005-06.

Based on recent trends, the consumption of liquor and beer is expected to grow modestly, while wine consumption is expected to remain relatively constant in 2006-07.

Of the total projected alcoholic beverage tax receipts, \$147.4 million is derived from liquor, \$35.7 million from beer, and \$7.6 million from wine and other specialty beverages.

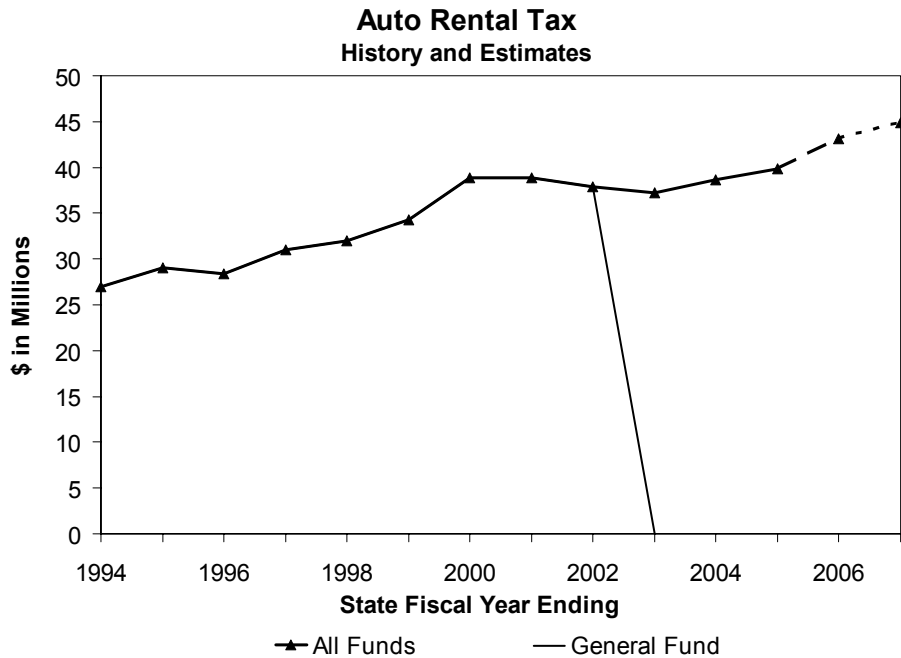


General Fund

Currently, all receipts from the alcoholic beverage tax are deposited in the General Fund.

AUTO RENTAL TAX

AUTO RENTAL TAX (thousands of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	0	0	0	0	0	0	0
Other Funds	40	43	3	8.3	45	2	4.2
All Funds	40	43	3	8.3	45	2	4.2



AUTO RENTAL TAX BY FUND (thousands of dollars)			
	General	Capital	All Funds
	<u>Fund</u>	<u>Projects</u>	<u>Receipts</u>
		<u>Funds</u> ¹	
1997-98	32,039	0	32,039
1998-99	34,241	0	34,241
1999-2000	38,843	0	38,843
2000-01	38,916	0	38,916
2001-02	37,914	0	37,914
2002-03	0	37,191	37,191
2003-04	0	38,593	38,593
2004-05	0	39,824	39,824
Estimated			
2005-06	0	43,100	43,100
2006-07	0	44,900	44,900

¹ Dedicated Highway and Bridge Trust Fund.

AUTO RENTAL TAX

PROPOSED LEGISLATION

No new legislation for this tax is proposed with this Budget.

DESCRIPTION

Tax Base and Rate

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.

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.

Administration

The auto rental tax is remitted quarterly by the vendor on the vendor's 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 have had a significant influence on receipts.

For a more detailed discussion of the methods and models used to develop estimates and projections for the auto rental tax, please see the "Economic and Receipt Estimates Methodology" section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

Funds collections to date are \$24.5 million, a decrease of \$9.7 million, or 28.4 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$43.1 million, an increase of \$3.3 million, or 8.2 percent above last year.

2006-07 Projections

All Funds receipts in 2006-07 are projected to be \$44.9 million, an increase of \$1.8 million, or 4.2 percent above 2005-06.

General Fund

Since April 1, 2002, no auto rental tax receipts have been deposited in the General Fund.

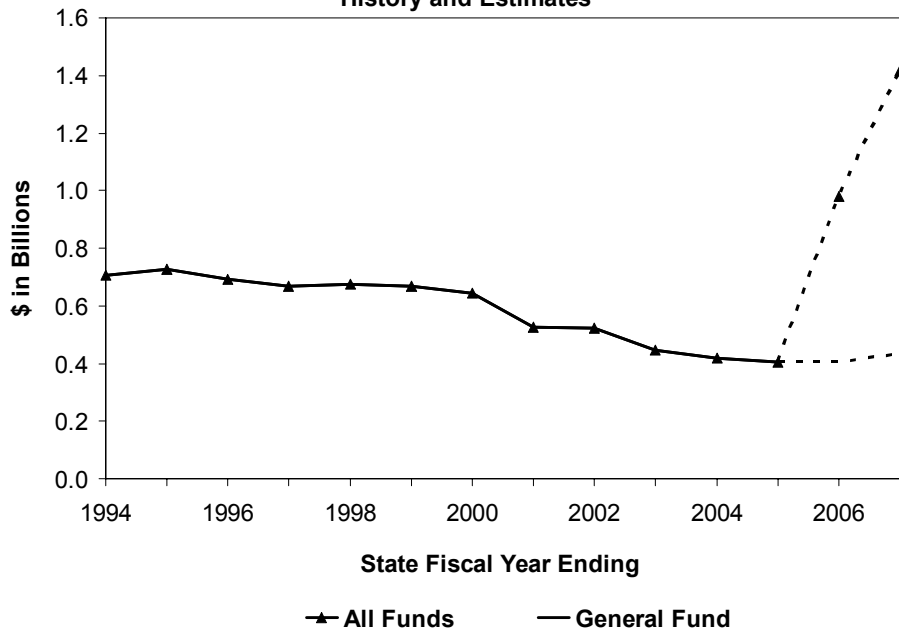
Other Funds

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

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAXES (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	406	405	(1)	(0.2)	432	27	6.7
Other Funds	0	570	570	100.0	983	413	72.5
All Funds	406	975	569	140.1	1,415	440	45.1

**Cigarette and Tobacco Tax Receipts
History and Estimates**



CIGARETTE AND TOBACCO TAXES BY FUND (millions of dollars)					
	Gross General <u>Fund</u>	<u>Refunds</u>	General <u>Fund</u>	Special Revenue <u>Funds*</u>	All Funds <u>Receipts</u>
1997-98	681	5	676	0	676
1998-99	672	5	667	0	667
1999-2000	649	5	643	0	643
2000-01	533	4	528	0	528
2001-02	530	7	523	0	532
2002-03	454	8	446	0	446
2003-04	428	9	419	0	419
2004-05	409	3	406	0	406
Estimated					
2005-06*	407	2	405	570	975
2006-07					
Current Law	420	3	417	587	1,004
Proposed Law	435	3	432	983	1,415

Between March 2000 and March 2005, a portion of the State's cigarette tax receipts was deposited in the off-budget Tobacco Control and Insurance Initiatives Pool established in the Health Care Reform Act of 2000. After March 2005, that portion is deposited in the HCRA Resources Pool which is a Special Revenue Fund within the State's Fund structure.

CIGARETTE AND TOBACCO TAXES

PROPOSED LEGISLATION

Legislation submitted with this Budget will:

- increase the State's excise tax on cigarettes to \$2.50 per pack and reduce New York City's excise tax to \$0.50 cents per pack on June 1, 2006; and
- delay implementation of legislation designed to allow the collection of the State's cigarette tax on cigarettes sold on New York reservations when purchased by non-Native Americans until March 1, 2007 and to implement an Indian export decal program.

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. Legislation submitted with this Budget will increase the State's excise tax on cigarettes to \$2.50 per pack and reduce New York City's excise tax to \$0.50 cents per pack on June 1, 2006. Historical changes in State, Federal and City tax rates are shown in the accompanying table.

STATE, FEDERAL AND NEW YORK CITY CIGARETTE EXCISE TAX RATES PER PACK OF 20 CIGARETTES (since 1950)					
State		Federal		New York City	
	<u>Rate</u> (cents)		<u>Rate</u> (cents)		<u>Rate</u> (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	June 1, 2005 (proposed)	50
May 1, 1989	33	January 1, 2002	39		
June 1, 1990	39				
June 1, 1993	56				
March 1, 2000	111				
April 3, 2002	150				
June 1, 2006 (proposed)	250				

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. Vending machine owners are required to purchase stickers from the Department of Taxation and Finance.

The following table provides a comparison of state and maximum local cigarette tax rates.

CIGARETTE AND TOBACCO TAXES

CIGARETTE TAX RATES			
Cents Per Pack Ranked by Maximum State and Local			
As of January 1, 2006			
<u>Rank (Low to High)</u>	<u>State Rate</u>	<u>Maximum Local Rate</u>	<u>Maximum State and Local Rate</u>
South Carolina	7.0		7.0
Mississippi	18.0		18.0
Tennessee	20.0	1.0	21.0
Missouri	17.0	7.0	24.0
North Carolina	25.0		25.0
Kentucky	30.0		30.0
Florida	33.9		33.9
Iowa	36.0		36.0
Louisiana	36.0		36.0
Georgia	37.0		37.0
Texas	41.0		41.0
North Dakota	44.0		44.0
Alabama	42.5	6.0	48.5
South Dakota	53.0		53.0
Delaware	55.0		55.0
West Virginia	55.0		55.0
Indiana	55.5		55.5
Idaho	57.0		57.0
Arkansas	59.0		59.0
Wyoming	60.0		60.0
Nebraska	64.0		64.0
Utah	69.5		69.5
Wisconsin	77.0		77.0
Kansas	79.0		79.0
New Hampshire	80.0		80.0
Nevada	80.0		80.0
Colorado	84.0		84.0
California	87.0		87.0
New Mexico	91.0		91.0
Virginia	30.0	65.0	95.0
District of Columbia	100.0		100.0
Maryland	100.0		100.0
Oklahoma	103.0		103.0
Arizona	118.0		118.0
Oregon	118.0		118.0
Vermont	119.0		119.0
Minnesota	123.0		123.0
Ohio	125.0	4.0	129.0
Pennsylvania	135.0		135.0
Hawaii	140.0		140.0
Connecticut	151.0		151.0
Massachusetts	151.0		151.0
Montana	170.0		170.0
Maine	200.0		200.0
Michigan	200.0		200.0
Washington	202.5		202.5
New Jersey	240.0		240.0
Illinois	98.0	148.0	246.0
Rhode Island	246.0		246.0
Alaska	160.0	130.0	290.0
New York	150.0	150.0	300.0

Source: Campaign for Tobacco-Free Kids

CIGARETTE AND TOBACCO TAXES

Administration

State-registered stamping agents who are mostly 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 otherwise would have occurred.

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. In April 2003, trucking associations from New York, New Jersey and Connecticut filed a separate suit to have the statute declared unconstitutional. The case was decided in favor of the State by the U.S. District Court of the Southern District of New York in December 2004. 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 in various stages of litigation. In March 2007, the State will implement legislation designed to allow the collection of the State's cigarette tax on cigarettes sold on New York reservations when purchased by non-Native Americans.

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

CIGARETTE AND TOBACCO TAXES

Subject	Description	Effective Date
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
Legislation Enacted In 2005		
Enforcement Provisions	Required collection of tax on sales to non-Native Americans on New York reservations.	March 1, 2006

TAX LIABILITY

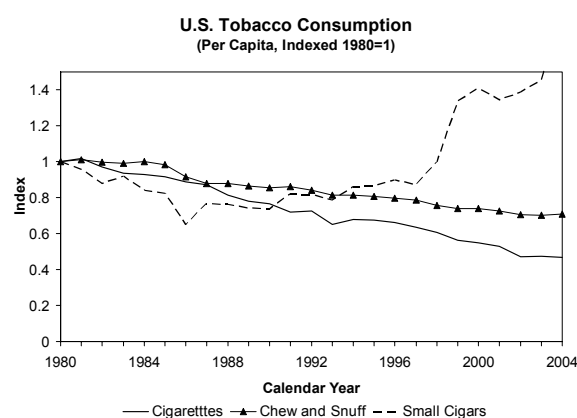
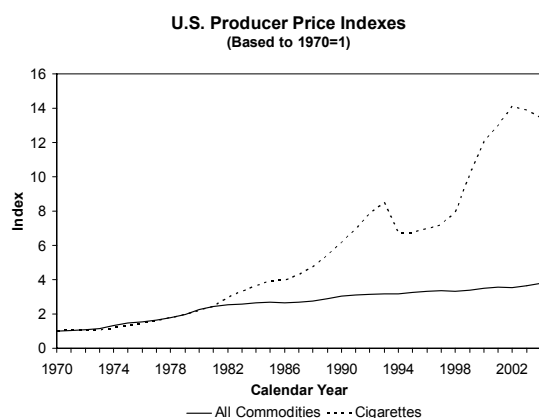
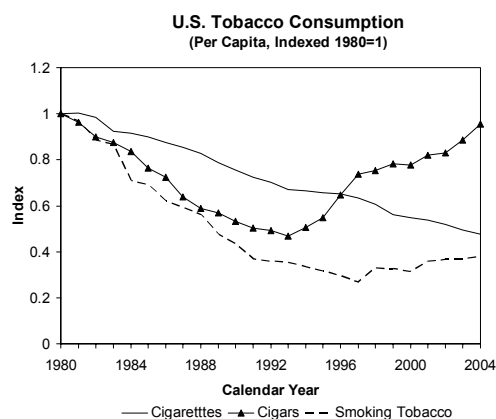
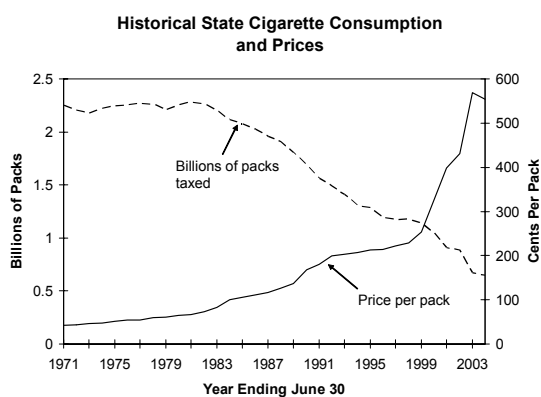
Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Recently, declines in taxable consumption have been exacerbated by evasion.

Cigarette Prices Compared To State and Federal Tax as a Percent of Retail Price											
	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004
Cents Per Pack	207.7	212.1	214.2	222.5	229.3	253.6	326.8	398.5	431.3	568.4	554.0
Tax as a Percent of Retail Price	38.5	37.7	37.3	36.0	34.9	31.9	24.5	36.4	33.6	33.3	34.1

Taxable cigarette consumption in New York has declined by more than 70 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.

For a more detailed discussion of the methods and models used to develop estimates and projections for the cigarette and tobacco taxes, please see the “Economic and Receipt Estimates Methodology” section of this volume.

CIGARETTE AND TOBACCO TAXES



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 adjustment for the volume of packs shipped is based on national shipments, and changes in New York consumption will have only a minor impact.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

Total collections (including HCRA) to date are \$769.3 million, an increase of \$0.8 million, or 0.1 percent above the comparable period in the prior fiscal year. Beginning in 2005-06, the portion of cigarette tax distributed to HCRA was included in the State's All Funds structure (see Health Care Reform Act below).

Total receipts for 2005-06 are estimated to be \$975 million, a decrease of \$4 million, or 0.4 percent below last year's amount including HCRA. The decline in fiscal year 2005-06 receipts is expected to be lower than declines for the past several years.

CIGARETTE AND TOBACCO TAXES

2006-07 Projections

Under current law, All Funds receipts would be projected at \$1,004 million, \$29 million or 3.0 percent above 2005-06. Under proposed law, All Funds receipts are projected to be \$1,415 million in 2006-07.

The long-term factors reducing cigarette consumption will continue to exert negative pressure on receipts. 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, 2006 (see table below), the pool will receive an estimated \$570 million in 2005-06 and would receive a projected \$587 million in 2006-07 from State cigarette tax receipts. Under proposed law, the pool will receive a projected \$983 million in State receipts and another \$17 million in New York City deposits in 2006-07. Beginning in 2005-06 this pool is included in All Funds collections as a Special Revenue Fund within the State's fund structure. Under current law, the State receives 46 percent of New York City's cigarette revenue.

Legislation passed in 2002 established the percentage distribution of cigarette tax receipts as shown in the following table. Legislation included with this Budget will change the percentage distribution of cigarette tax receipts.

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
Proposed Law	
Beginning June 1, 2006	
General Fund	26.74
HCRA	73.26

CIGARETTE AND TOBACCO TAXES

CIGARETTE AND TOBACCO TAX RECEIPTS (millions of dollars)						
Fiscal Year	General Fund				HCRA	General Fund Plus HCRA
	Cigarette Tax	Tobacco Tax	Other	Total	Cigarette Tax	
2001-02	499.0	21.9	2.2	523.1	481.4	1,004.5
2002-03	404.4	37.6	4.6	446.7	674.6	1,121.3
2003-04	375.8	40.4	3.0	419.2	593.3	1,012.5
2004-05	363.1	39.7	3.0	405.7	573.2	978.9
2005-06*	361.0	41.0	3.0	405.0	570.0	975.0
2006-07*	387.0	42.0	3.0	432.0	983.0	1,415.0

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

IMPACT ON HCRA RECEIPTS OF THE CIGARETTE TAX INCREASE (millions of dollars)							
	Current Law			Proposed Law			Change in HCRA
	<u>HCRA Receipts*</u>	<u>HCRA Share of City Receipts**</u>	<u>Total</u>	<u>HCRA Receipts*</u>	<u>HCRA Share of City Receipts**</u>	<u>Total</u>	
2005-06	570	107	677				
2006-07	587	105	692	983	17	1,000	308

*HCRA receives 61.22 percent of State cigarette tax receipts under current law and 73.26 percent under proposed law
** HCRA receives 46 percent of the City's cigarette tax under current law .

General Fund

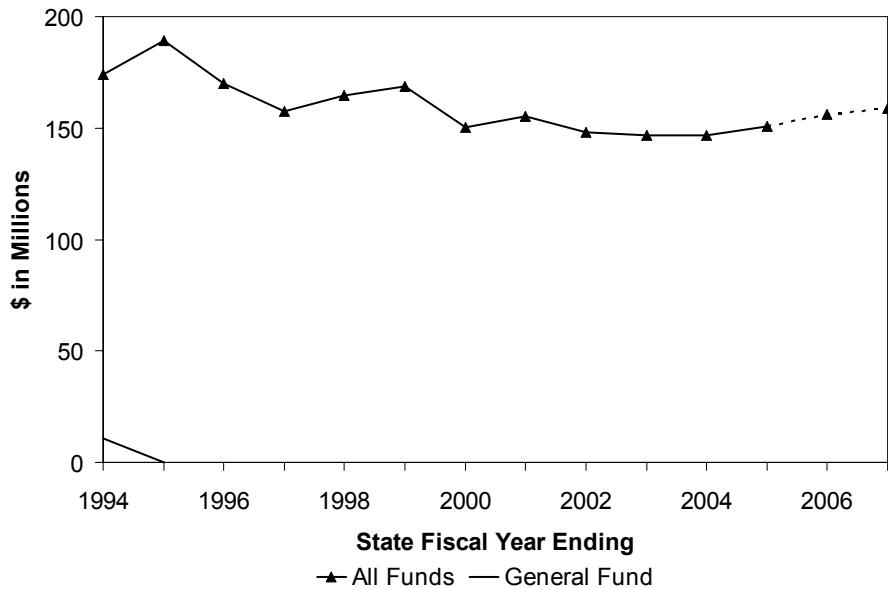
General Fund cigarette and tobacco tax receipts for 2005-06 are estimated at \$405 million, a decline of \$1 million, or 0.2 percent, from 2004-05. To date, General Fund cigarette and tobacco tax receipts are an estimated \$283.5 million, an increase of \$1.7 million, or 0.6 percent above the comparable period in the prior fiscal year.

For 2006-07, under current law General Fund cigarette tax receipts would be projected at \$372 million. The tax on tobacco products is expected to total \$42 million, an increase of \$1 million from 2005-06. This increase is due to continuation of consumption trends, and an expected shift of cigarette smokers to other 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 million. Under proposed law, 2006-07 General Fund receipts are projected at \$432 million.

HIGHWAY USE TAX

HIGHWAY USE TAX (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	0	0	0	0.0	0	0	0.0
Other Funds	151	159	8	4.9	162	3	1.8
All Funds	151	159	8	4.9	162	3	1.8

**Highway Use Tax Receipts
History and Estimates**



HIGHWAY USE TAX BY FUND (millions of dollars)				
	Gross Capital Projects		Capital Projects	All Funds Receipts
	Funds ¹	Refunds	Funds ¹	
1997-98	168	3	165	165
1998-99	172	3	169	169
1999-2000	152	2	150	150
2000-01	157	2	155	155
2001-02	150	2	148	148
2002-03	149	2	147	147
2003-04	149	2	147	147
2004-05	153	2	151	151
Estimated				
2005-06	161	2	159	159
2006-07	164	2	162	162

¹ Dedicated Highway and Bridge Trust Fund.

HIGHWAY USE TAX

PROPOSED LEGISLATION

Legislation submitted with this Budget will provide for an exemption for alternative fuels from the fuel use tax.

DESCRIPTION

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. 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 (TMT) 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.

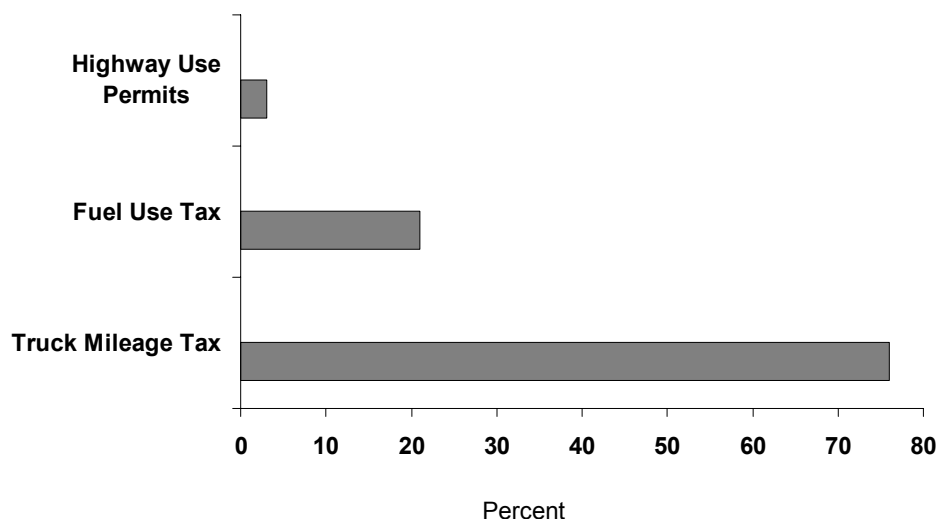
In addition, a supplemental tax equal to the base truck mileage tax was imposed in 1990. Effective January 1, 1999, the supplemental tax was reduced by 50 percent, and effective April 1, 2001, the supplemental tax was reduced by an additional 20 percent of the remaining tax.

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

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.

Components of Highway Use Tax Receipts
 Estimated State Fiscal Year 2005-06



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) having 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.

Significant Legislation

The significant statutory changes to this tax source since 1994 are summarized below.

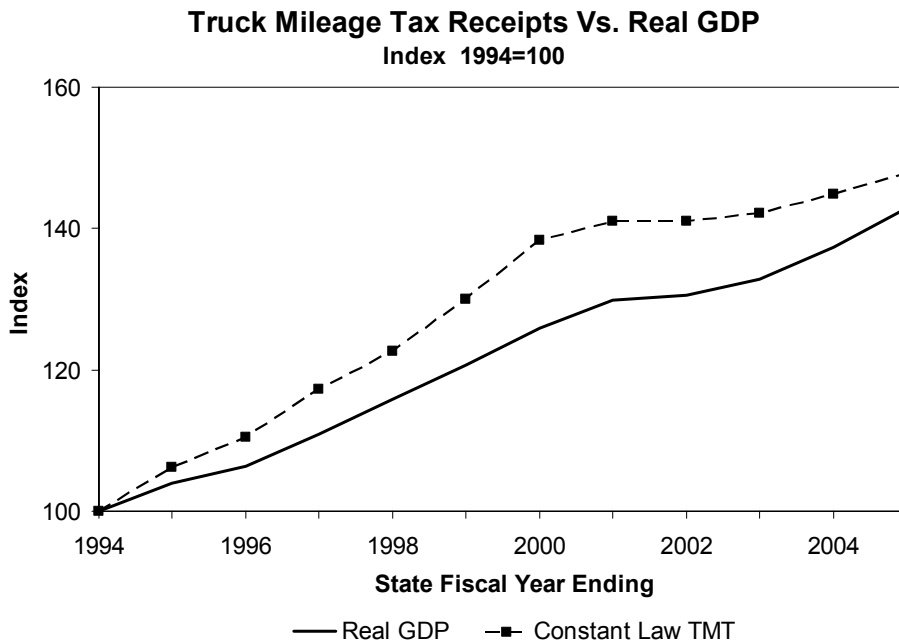
Subject	Description	Effective Date
Legislation Enacted in 1994		
Thruway Mileage	Reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on and after January 1, 1996	January 1, 1995

HIGHWAY USE TAX

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.



For a more detailed discussion of the methods and models used to develop estimates and projections for the highway use tax, please see the “Economic and Receipt Estimates Methodology” section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$120.0 million, an increase of \$3.6 million, or 3.1 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$158.8 million, an increase of \$7.4 million, or 4.9 percent above last year.

In the current fiscal year, the economic recovery led to an increase in trucking activity, while high fuel prices offset some of the increases. (See diesel fuel price in the “Motor Fuel Tax” section). Truck mileage tax receipts to date in 2005-06 are 0.4 percent above the comparable 2004-05 period. Fuel use tax receipts to date in 2005-06 are 12.9 percent above the comparable 2004-05 period, due to higher fuel prices.

Based on collection experience to date, and the improved economic outlook (see Economic Backdrop section), highway use tax receipts 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 \$115.9 million and fuel use tax receipts at \$35.8 million. Permit fees of \$7.1 million reflect a peak triennial renewal year.

2006-07 Projections

All Funds receipts are projected to be \$161.6 million, an increase of \$2.8 million, or 1.8 percent above 2005-06.

The base of the truck mileage tax is expected to increase by 2.0 percent as a result of increased demand for trucking services related to overall economic growth. Net truck mileage tax receipts are estimated at \$118.2 million. Due to the effect of increased fuel prices, the sales tax component of the fuel use tax is estimated to increase by 8.0 percent. As a result, fuel use tax receipts are expected to grow to \$38.7 million. Permit fees of \$4.7 million reflect a non-peak triennial renewal year. The fiscal impact from the proposed exemption of the alternative fuels is expected to be minimal.

General Fund

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

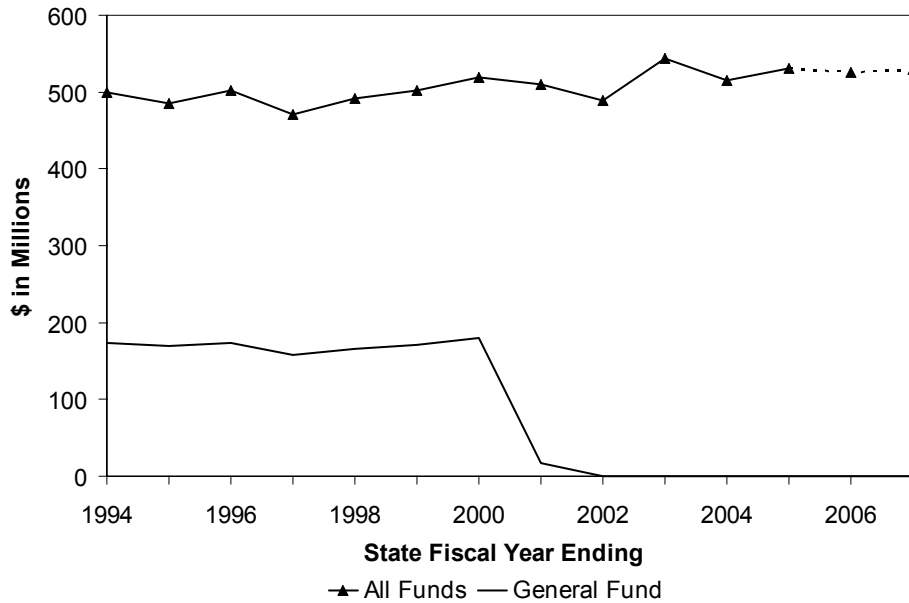
Other Funds

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

MOTOR FUEL TAX

MOTOR FUEL TAX (millions of dollars)							
	2004-05	2005-06			2006-07		
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Percent Change</u>	<u>Projected</u>	<u>Change</u>	<u>Percent Change</u>
General Fund	0	0	0	0.0	0	0	0.0
Other Funds	530	523	(7)	(1.3)	525	2	0.5
All Funds	530	523	(7)	(1.3)	525	2	0.5

**Motor Fuel Tax Receipts
History and Estimates**



MOTOR FUEL TAX BY FUND (millions of dollars)							
	<u>Gross All Funds Receipts</u>	<u>General Fund</u>	<u>Special Revenue Funds¹</u>	<u>Capital Projects Funds²</u>	<u>Debt Service Funds³</u>	<u>All Funds Refunds</u>	<u>All Funds Receipts</u>
1997-98	504	165	0	219	108	12	492
1998-99	512	171	0	221	110	10	502
1999-2000	534	180	0	225	114	15	519
2000-01	524	17	58	323	112	14	510
2001-02	502	0	62	320	107	13	489
2002-03	560	0	69	356	119	16	544
2003-04	528	0	105	411	0	12	516
2004-05	542	0	110	420	0	12	530
Estimated							
2005-06	534	0	110	413	0	11	523
2006-07*	537	0	110	415	0	12	525

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.
* Minimal impact on proposed legislation.

MOTOR FUEL TAX

PROPOSED LEGISLATION

Legislation submitted with this Budget will provide an exemption for alternative fuel purchases.

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.

The table below displays New York's fuel tax rank. The "additional tax" for New York is the petroleum business tax (PBT).

MOTOR FUEL TAX

Gasoline Tax Rates As of July 1, 2005 Cents Per Gallon				
	State	Excise Tax	Additional Tax	Total
1	Rhode Island	30.0	1.0	31.0
2	Washington	31.0		31.0
3	Pennsylvania	12.0	18.0	30.0
4	Wisconsin	29.9		29.9
5	Ohio	28.0		28.0
6	North Carolina	27.1	0.3	27.4
7	Montana	27.0		27.0
8	West Virginia	20.5	6.5	27.0
9	Nebraska	25.3	0.9	26.2
10	Maine	25.9		25.9
11	Connecticut	25.0		25.0
12	Idaho	25.0		25.0
13	Utah	24.5		24.5
14	Kansas	24.0		24.0
15	Oregon	24.0		24.0
16	Maryland	23.5		23.5
17	New York*	8.0	15.2	23.2
18	Delaware	23.0		23.0
19	Nevada	23.0		23.0
20	North Dakota	23.0		23.0
21	Dist. of Columbia	22.5		22.5
22	Colorado	22.0		22.0
23	South Dakota	22.0		22.0
24	Arkansas	21.5		21.5
25	Tennessee	20.0	1.4	21.4
26	Massachusetts	21.0		21.0
27	Iowa	20.7		20.7
28	Illinois*	19.0	1.1	20.1
29	Louisiana	20.0		20.0
30	Minnesota	20.0		20.0
31	Texas	20.0		20.0
32	Vermont	19.0	1.0	20.0
33	New Hampshire	18.0	1.5	19.5
34	Michigan*	19.0		19.0
35	New Mexico	17.0	1.9	18.9
36	Mississippi	18.0	0.4	18.4
37	Alabama	16.0	2.0	18.0
38	Arizona	18.0		18.0
39	California*	18.0		18.0
40	Indiana*	18.0		18.0
41	Virginia	17.5		17.5
42	Kentucky	16.0	1.4	17.4
43	Missouri	17.0		17.0
44	Oklahoma	16.0	1.0	17.0
45	Hawaii*	16.0		16.0
46	South Carolina	16.0		16.0
47	New Jersey	10.5	4.0	14.5
48	Florida	4.0	10.3	14.3
49	Wyoming	13.0	1.0	14.0
50	Alaska	8.0		8.0
51	Georgia*	7.5		7.5

* States which apply sales tax.
Sources: Federation of Tax Administrators; Commerce Clearing House

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.

MOTOR FUEL TAX

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.

The tax is generally remitted monthly, although vendors whose average monthly tax is less than \$200 may remit quarterly. 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 PBT combined. These taxpayers are required to 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 by 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

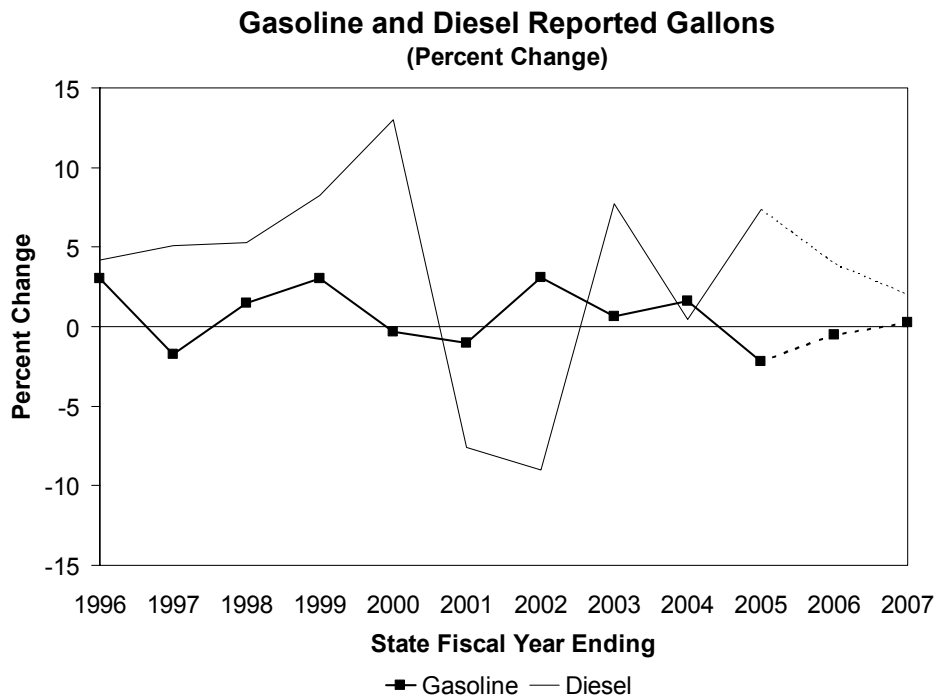
TAX LIABILITY

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.

For a more detailed discussion of the methods and models used to develop estimates and projections for the motor fuel tax, please see the “Economic and Receipt Estimates Methodology” section of this volume.

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 reflect, 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. In 2002-03 and 2003-04, gasoline gallonage increased despite gasoline price increases. This reflects the economic recovery. In 2004-05, gasoline gallonage declined more than 2 percent, due to the dramatic increase in gasoline price.



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

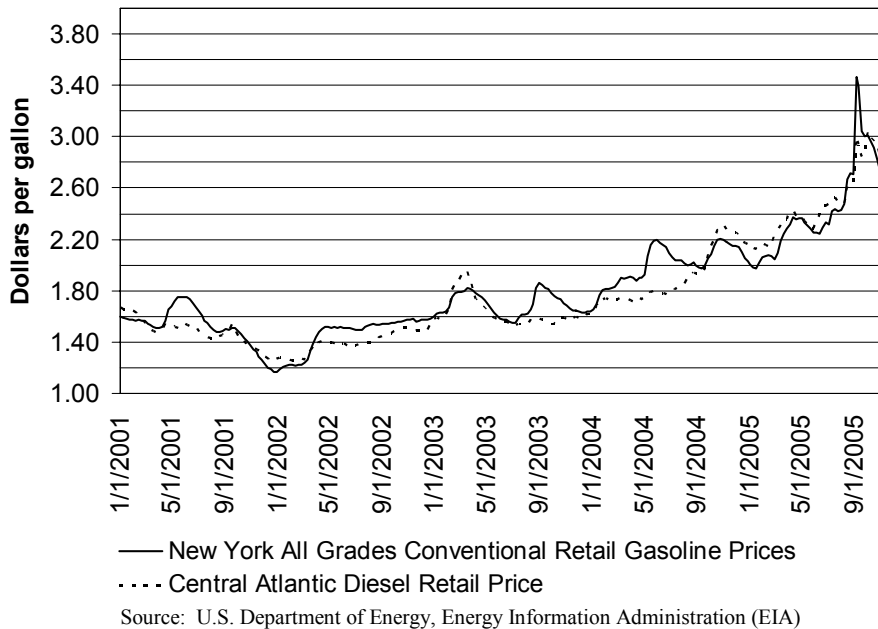
2005-06 Estimates

All Funds collections to date are \$406.3 million, a decrease of \$3.7 million, or 0.9 percent below the comparable period in the prior fiscal year. The decline is directly related to increased fuel prices.

MOTOR FUEL TAX

All Funds receipts for 2005-06 are estimated to be \$522.7 million, a decrease of \$7.1 million, or 1.3 percent below last year. The decline is related to reduced gasoline consumption. The overall receipt collections decline is moderated by continued, but slower, growth in diesel fuel consumption. The following chart shows a history of weekly price changes.

Gasoline and Diesel Weekly Prices



2006-07 Projections

All Funds receipts are projected to be \$525.1 million, an increase of \$2.4 million, or 0.5 percent above 2005-06.

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. A discussion related to energy prices can be seen in the Economic Forecast section of this volume. The fiscal impact from the proposed tax exemption for alternative fuel purchases is expected to be minimal.

Gasoline and Diesel Gallonage				
Fiscal Year	Gasoline (millions of gallons)	Percent Change	Diesel (millions of gallons)	Percent Change
2003-04	5,805.6	1.8	830.3	(1.0)
2004-05	5,669.3	(2.2)	904.3	8.9
2005-06	5,614.2	(1.0)	936.6	3.6
2006-07 (Est.)	5,626.8	0.2	955.3	2.0

General Fund

Motor fuel tax receipts are no longer deposited in the General Fund.

Other Funds

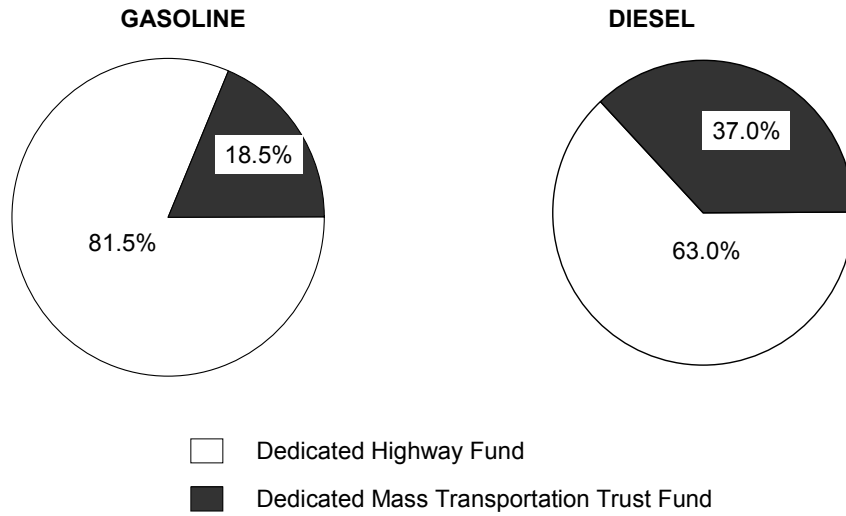
Since 2000, motor fuel tax receipts have been distributed by law to four funds: the Dedicated Highway and Bridge Trust Fund (DHBTF), the Dedicated Mass Transportation Trust Fund (DMTTF), the Emergency Highway Reconditioning and Preservation Fund, and the Emergency Highway Construction and Reconstruction 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	DHBTF¹	EHF²	DMTTF³
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
April 1, 2003 and After				
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.

MOTOR FUEL TAX

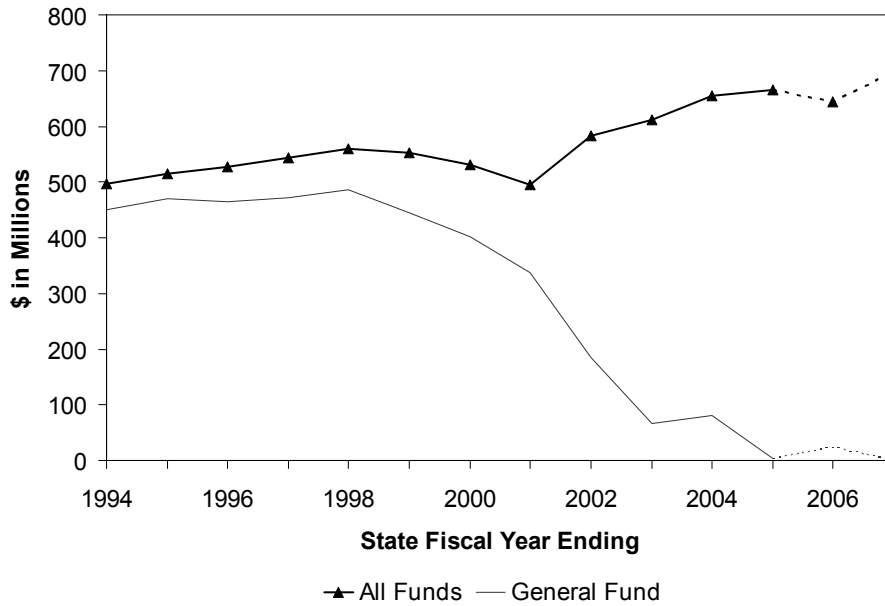
Motor Fuel Tax Distributions by Fund State Fiscal Years 2005-06 and 2006-07



MOTOR VEHICLE FEES

MOTOR VEHICLE FEES (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	4	24	20	507.7	0	(24)	0
Other Funds	662	642	(20)	(3.1)	693	51	8.0
All Funds	666	666	0	0	693	27	4.1

**Motor Vehicle Fees
History and Estimates**



MOTOR VEHICLE FEES BY FUND (millions of dollars)											
	Gross General Fund		Gross Special Revenue Funds ¹		Special Revenue Funds ¹		Gross Capital Projects Funds ²		Capital Projects Funds ²		All Funds Receipts
	<u>Fund</u>	<u>Refunds</u>	<u>Fund</u>	<u>Funds¹</u>	<u>Refunds</u>	<u>Funds¹</u>	<u>Funds²</u>	<u>Refunds</u>	<u>Funds²</u>	<u>Receipts</u>	
1997-98	497	11	486	0	0	0	73	0	73	559	
1998-99	438	14	424	0	0	0	108	0	108	532	
1999-2000	419	18	401	0	0	0	130	0	130	531	
2000-01	356	19	337	0	0	0	157	0	157	494	
2001-02	208	23	185	28	0	28	371	0	371	584	
2002-03	92	25	67	76	0	76	470	0	470	613	
2003-04	100	18	82	105	0	105	468	0	468	655	
2004-05	33	29	4	138	0	138	525	0	525	667	
Estimated											
2005-06	24	0	24	169	5	164	493	15	478	666	
2006-07	0	0	0	182	6	176	534	17	517	693	

¹Dedicated Mass Transportation Trust Fund
²Dedicated Highway and Bridge Trust Fund

MOTOR VEHICLE FEES

PROPOSED LEGISLATION

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

DESCRIPTION

Fee Base

Motor vehicle fees are imposed by the Vehicle and Traffic Law. In general, motor vehicles, motorcycles, trailers, semi-trailers, 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. Numerous other fees, related to the processes of registration or licensing, are another component of motor vehicle fees. Examples are: fees for inspection and emission stickers; repair shop certificates; and insurance civil penalties.

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 semi-trailers, which are charged a flat fee. Registration for vehicles weighing less than 18,000 pounds is biennial. 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 semi-trailers)	Each 100 lbs. maximum gross weight or fraction thereof	1.21
Trailers	Each 500 lbs. maximum gross weight or fraction thereof	4.31
Semi-trailers – pre-1989 model year		23.00 per year
Semi-trailers – 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 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
License renewal – chauffeur's driver's license	5.00 – 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, since 1997, they have received 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 revenue lost from these exemptions is minimal.

Significant Legislation

The significant statutory changes to motor vehicle fees since 1994 are summarized below.

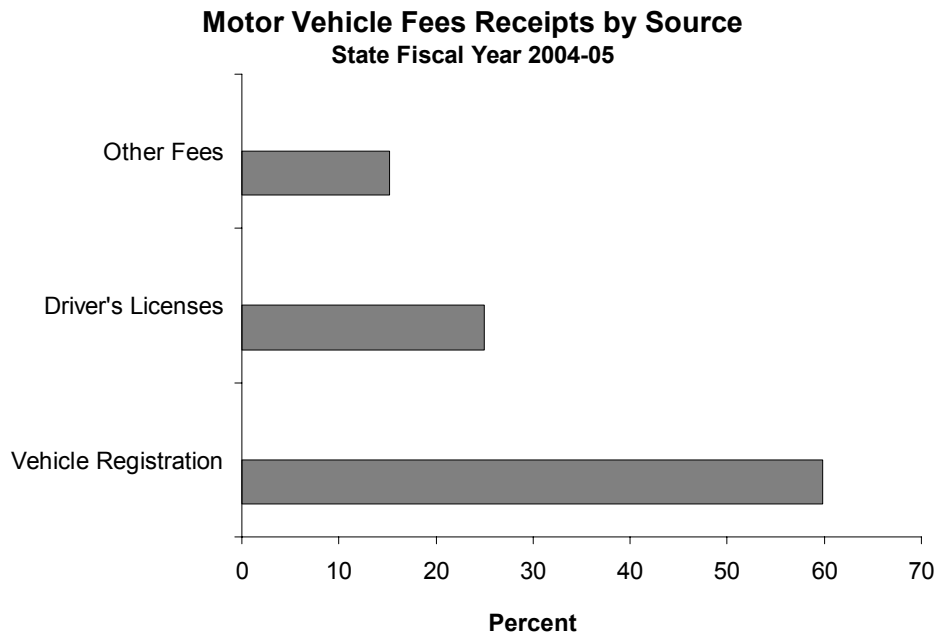
Subject	Description	Effective Date
Administrative Changes in 1996		
Licenses	License renewal period extended to five years.	April 1, 1996
Legislation Enacted in 1997		
Licenses	Original license period extended to five years.	September 1, 1997
Motorcycles	Added \$2.50 to annual fee for registration and \$0.50 for each six months to license or permit and earmarked both to Motorcycle Safety Fund.	January 1, 1998
Administrative Changes in 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
Legislation Enacted in 2005		
Title Fees	Title fees raised from \$10 to \$20 and \$30.	October 1, 2005
Insurance Buyback	Expanded the insurance buyback program.	October 1, 2005
Dealer Registration	Dealer/Transporter registration fees raised 50%.	October 1, 2005
Temporary Registration	Dealer issued temporary registration fees raised from \$2 to \$5.	October 1, 2005
Salvaged Vehicle Inspection	Salvaged vehicle inspection fees raised from \$100 to \$150.	October 1, 2005

MOTOR VEHICLE FEES

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 chart below shows the shares of revenue from vehicle registrations, licenses, and other fees.



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 or renewal schedules change.

For a more detailed discussion of the methods and models used to develop estimates and projections for the motor vehicle fees, please see the “Economic and Receipt Estimates Methodology” section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$446.2 million, a decrease of \$60.2 million, or 11.9 percent below the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$665.7 million, a decrease of \$0.5 million, or 0.1 percent below last year. The estimate for net receipts from registrations is \$430.9 million, and the estimate for net receipts from licenses and other fees is \$234.5 million.

MOTOR VEHICLE FEES

The estimate reflects a decline in registration fees due to marginally lower registrations in the passenger car category and the declining impact of the extension of a driver's license renewal to eight years, partially offset by the one-time adjustment for International Registration Program (IRP) registration fees collected in prior years.

2006-07 Projections

All Funds receipts are projected to be \$693.1 million, an increase of \$27.4 million, or 4.1 percent, above 2005-06.

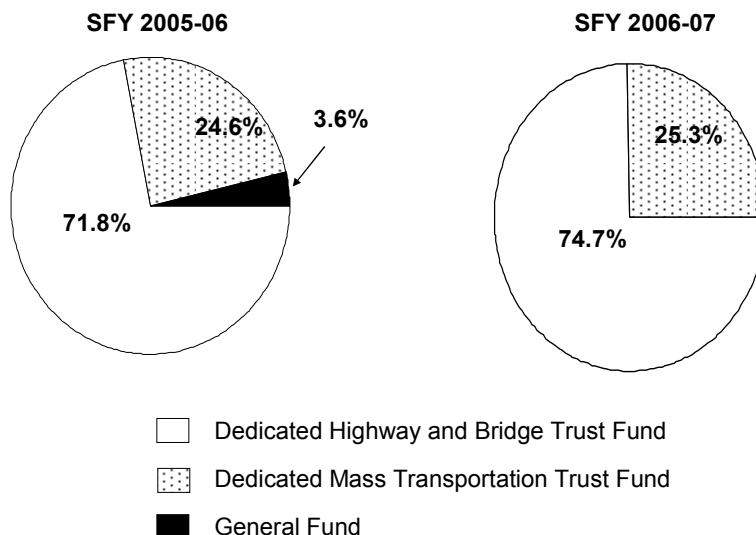
All Funds receipts from registrations are projected at \$426.0 million and net receipts from licenses and other fees are projected at \$267.1 million.

These projected receipts reflect the positive impact of registration fee increases resulting from higher average vehicle weights offset by a decline in receipts due to the declining impact of the change to a eight-year renewal cycle for driver's licenses. The fee increases are expected to add \$138.1 million in 2006-07.

General Fund

As a result of shifting motor vehicle receipts to dedicated transportation related funds, there has been a reduction in General Fund receipts from this source. In 2005-06, a one time adjustment for IRP registration fees collected in prior years will be deposited into the General Fund. Beginning in 2006-07, no receipts from this source will be deposited in the General Fund. The charts below show the estimated fund distribution from all sources of motor vehicle fees in 2005-06 and 2006-07.

Motor Vehicle Fees Distributions by Fund
State Fiscal Years 2005-06 and 2006-07



Other Funds

Since April 1, 1993, a percentage of registration fees has been earmarked to the Dedicated Highway and Bridge Trust Fund. The percentage dedicated to the fund has been adjusted several times.

MOTOR VEHICLE FEES

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.

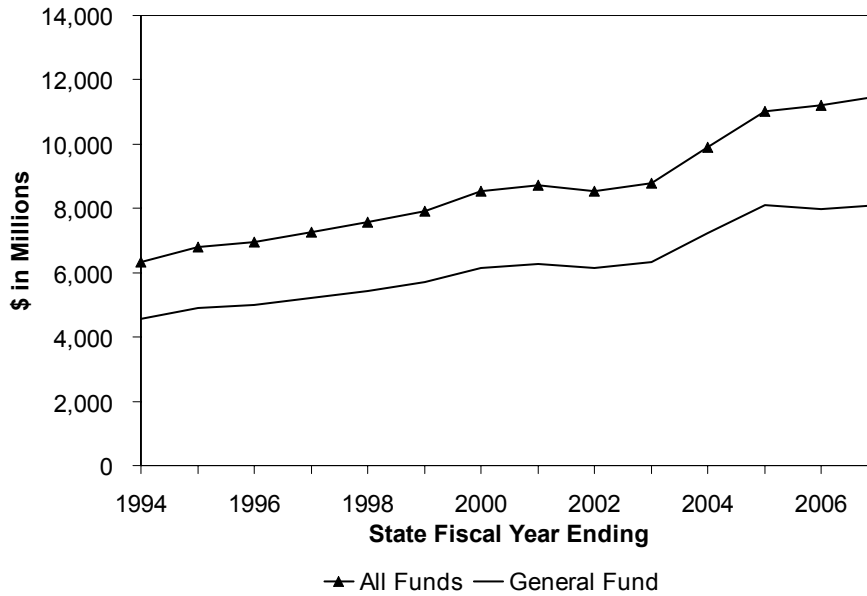
In State fiscal year 2005-06, the Dedicated Highway and Bridge Trust Fund will receive an estimated \$478.3 million and the Dedicated Mass Transportation Trust Fund will receive an estimated \$163.7 million.

In State fiscal year 2006-07, the Dedicated Highway and Bridge Trust Fund will receive a projected \$517.4 million and the Dedicated Mass Transportation Trust Fund will receive a projected \$175.7 million.

SALES AND USE TAX

SALES AND USE TAX (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	8,095	7,973	(122)	(1.5)	8,143	170	2.1
Other Funds	2,921	3,208	287	9.8	3,395	187	5.8
All Funds	11,016	11,181	165	1.5	11,538	357	3.2

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



SALES AND USE TAX BY FUND (millions of dollars)						
	Gross General		General	Special	Debt	All Funds
	<u>Fund</u>	<u>Refunds</u>	<u>Fund</u>	<u>Revenue Funds¹</u>	<u>Service Funds²</u>	<u>Receipts</u>
1997-98	5,466	24	5,442	306	1,814	7,562
1998-99	5,729	32	5,697	321	1,894	7,912
1999-2000	6,182	41	6,141	345	2,046	8,532
2000-01	6,311	39	6,272	368	2,092	8,732
2001-02	6,174	43	6,131	365	2,044	8,540
2002-03	6,390	62	6,328	362	2,106	8,796
2003-04	7,300	59	7,241	399	2,267	9,907
2004-05	8,143	49	8,094	429	2,493	11,016
Estimated						
2005-06	8,043	70	7,973	600	2,608	11,181
2006-07						
Current Law	8,242	70	8,172	681	2,723	11,576
Proposed Law	8,213	70	8,143	681	2,714	11,538

¹ Mass Transportation Operating Assistance Fund and The Public Safety and Security Account.
² Local Government Assistance Tax Fund.

SALES AND USE TAX

PROPOSED LEGISLATION

Legislation submitted with this Budget will:

- replace the exemption on clothing and footwear priced under \$110 with a \$250 per item threshold during two exemption weeks;
- exempt certain “Energy Star” products for two weeks;
- extend the vendor credit allowance base from the State tax to both State and local taxes and increase the credit rate from 3.5 percent to 5 percent over three years;
- reform the contract compliance rules to simplify administration;
- make the tax exemption for admissions to amusement parks permanent; and
- exempt alternative fuels from the tax.

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.

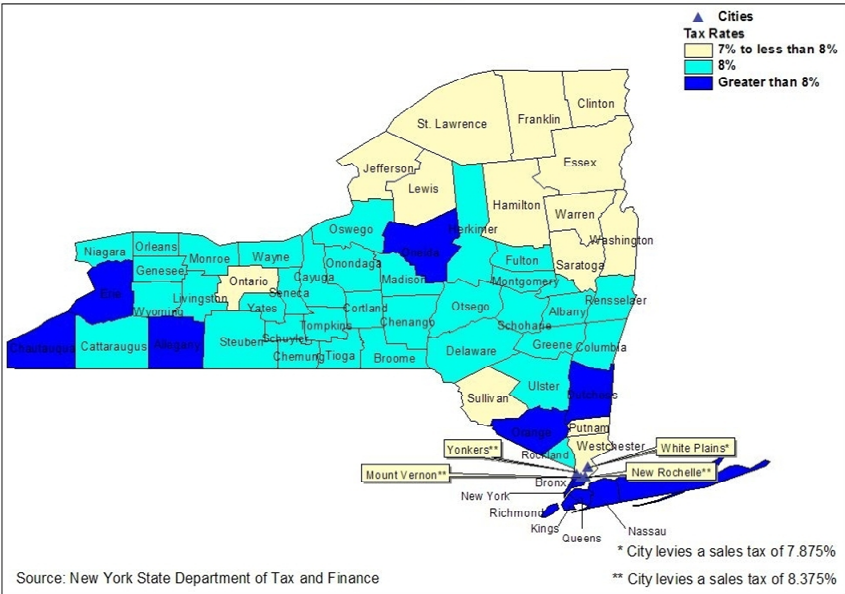
Examples of taxable services include installing or maintaining tangible personal property, and protective and detective services. An additional 5 percent sales tax is imposed on the receipts from the sale of telephone entertainment services that are exclusively delivered aurally.

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 4.25 percent in 2003. The rate reverted to 4 percent on June 1, 2005.

Counties and cities are authorized to impose the tax up to a combined 3 percent rate. However, 48 counties and 18 cities (including New York City) have sought and received legislative authority to temporarily impose a higher rate. The combined State-local sales and use tax rate exceeds 8 percent in many instances. More than 89 percent of the State’s population resides in areas where the tax rate is 8 percent or higher. An additional 0.375 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).

**Sales Tax Rates by County
2005**



Administration

There are nearly 600,000 persons selling taxable property or services that 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 March. 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 43 percent of the tax is remitted via EFT in the current fiscal year.

Sales Tax Vendors and Taxable Sales				
Filing Status	Number of Active Vendors*	% of Total Vendors	Taxable Sales and Purchases**	% of Total Sales
Monthly EFT	4,491	0.8	\$100,860,138,055	51.2
Monthly Non-EFT	31,171	5.3	62,513,640,717	31.8
Quarterly	268,113	45.6	32,419,054,196	16.5
Annual	<u>284,151</u>	<u>48.3</u>	<u>1,050,804,218</u>	<u>0.5</u>
Total	587,926	100.0	\$196,843,637,186	100.0

* Vendors identified for quarter ending February 28, 2005.
** Selling period March 1, 2001 through February 28, 2002.
Source: New York State Department of Taxation and Finance.

SALES AND USE TAX

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 contains 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 competitiveness.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

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.

SALES AND USE TAX

Subject	Description	Effective Date
Legislation Enacted in 1997		
Buses	Provided an exemption for buses used to transport persons for hire, and related parts and services.	December 1, 1997
Clothing and Footwear	Exempted clothing priced under \$100 for the one-week periods of September 1-7, 1997, and September 1-7, 1998.	September 1-7, 1997 September 1-7, 1998
	Permanently exempted clothing priced under \$100.	December 1, 1999
Homeowner Association Parking	Exempted parking services sold by a homeowners' association to its members.	December 1, 1997
Various Coin-Operated Devices	Raised the exemption threshold for bulk vending machine sales to 50 cents from 25 cents, exempted coin-operated car washes, exempted coin-operated photocopying costing under 50 cents, and exempted certain hot food and beverages sold through vending machines.	December 1, 1997
Vendor Allowance	Increased the sales tax vendor allowance from 1.5 percent to 3.5 percent of State tax collected, capped at \$150 per quarter.	March 1, 1999
Legislation Enacted in 1998		
Clothing and Footwear	Included footwear in the September 1-7, 1998, temporary clothing exemption and raised exemption threshold to \$500 from \$100.	September 1-7, 1998
	Exempted clothing and footwear priced under \$500 during the January 17-24, 1999, period.	January 17-24, 1999
	Included footwear in the permanent clothing exemption beginning on December 1, 1999, and raised exemption threshold from \$100 to \$110.	December 1, 1999
Coin Telephones	Increased the exemption threshold for coin-operated telephone calls to 25 cents from 10 cents.	September 1, 1998
College Textbooks	Exempted textbooks purchased by college students 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

SALES AND USE TAX

Subject	Description	Effective Date
Vending Machines	Exempted food and drink sold through a vending machine that costs 75 cents or less.	September 1, 2000
Telecommunications Equipment and Communications Services	Exempted property used to provide telecommunications services, Internet access services, or a combination thereof. Also, exempted certain services to the exempted property, such as installation and maintenance. Provided a three-year exemption for machinery and equipment used to upgrade cable television systems to a digital-based technology.	September 1, 2000
Radio and Television Broadcasting	Exempted machinery and equipment (including parts, tools and supplies) and certain services used for production and transmission of live or recorded programs. A broadcaster includes Federal communications licensed radio and television stations, television networks, and cable television networks.	September 1, 2000
Pollution Abatement	Exempted manufacturing and industrial pollution control equipment and machinery.	March 1, 2001
Transmission and Distribution of Electricity and Gas	Phased out 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
Legislation Enacted in 2004		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to May 31, 2005, for the temporary repeal of the exemption on items of clothing and footwear priced under \$110 and created two exemption weeks at the same \$110 threshold.	August 20, 2004
Aircraft Parts and Services	Exempted parts used exclusively to maintain, repair, overhaul or rebuild aircraft parts or aircraft services.	December 1, 2004
Vessels Providing Local Transit	Provided refunds and credits for certain vessels used to provide transit service and certain related property and services.	December 1, 2004
Contractors and Affiliates	Required contractors, subcontractors and their affiliates who make deliveries of taxable services or tangible personal property valued at more than \$300,000 to New York locations to register as sales tax vendors.	August 20, 2004
Legislation Enacted in 2005		
Extend Temporary Repeal of Clothing Exemption	Extended the expiration date to March 31, 2007, for the temporary repeal of the exemption on items of clothing and footwear priced under \$110 and created two exemption weeks at the same \$110 threshold. If the 2006-07 Executive Budget proposes tax cuts, the year-round exemption for such items takes effect on April 1, 2006.	April 12, 2005
Manhattan Parking Vendors	Made permanent the sales tax enforcement provisions relating to parking vendors in Manhattan.	April 12, 2005

SALES AND USE TAX

Subject	Description	Effective Date
Metropolitan Commuter Transportation District Sales Tax Rate	Increased the sales and use tax rate in the Metropolitan Commuter Transportation District (MTCD) from 0.25 percent to 0.375 percent.	June 1, 2005
Sales Tax Medicaid Intercept	Provided for the State to calculate an optional local "Medicaid amount", and for such amount to be intercepted from local sales tax distributions and directed to the State.	April 12, 2005
Amusement Park Admissions	Extended until October 1, 2006, the 75 percent sales tax exemption of the amount charged for admission to a qualifying place of amusement.	April 12, 2005
Lower Manhattan Office Space	Provided sales tax exemption for property used to furnish or equip lower Manhattan office space.	August 30, 2005
Residential Solar Energy	Exempted the sale and installation of residential solar energy systems equipment from sales and use taxes.	July 26, 2005
In Bay Car Washes	Exempted coin-operated or fully automated car washing, waxing or vacuuming from sales and use taxes.	December 1, 2005
Marine Terminal Facilities	Exempted certain machinery and equipment for marine container terminals in New York City from State sales and use taxes.	December 1, 2005
Waste Transfer Stations	Exempted certain waste transfer services from State and local sales and use taxes.	December 1, 2005
State Charter Credit Unions	Exempted State charter credit unions from sales and use taxes.	March 1, 2006
Direct Shipment of Wine	Provided for certain limited direct interstate shipments of wine.	August 11, 2005
Electricity	Exempted electricity, refrigeration and steam services produced by a cogeneration facility owned by certain cooperative corporations.	March 1, 2006

TAX LIABILITY

The sales and compensating use tax, which accounted for over 23 percent of 2004-05 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).

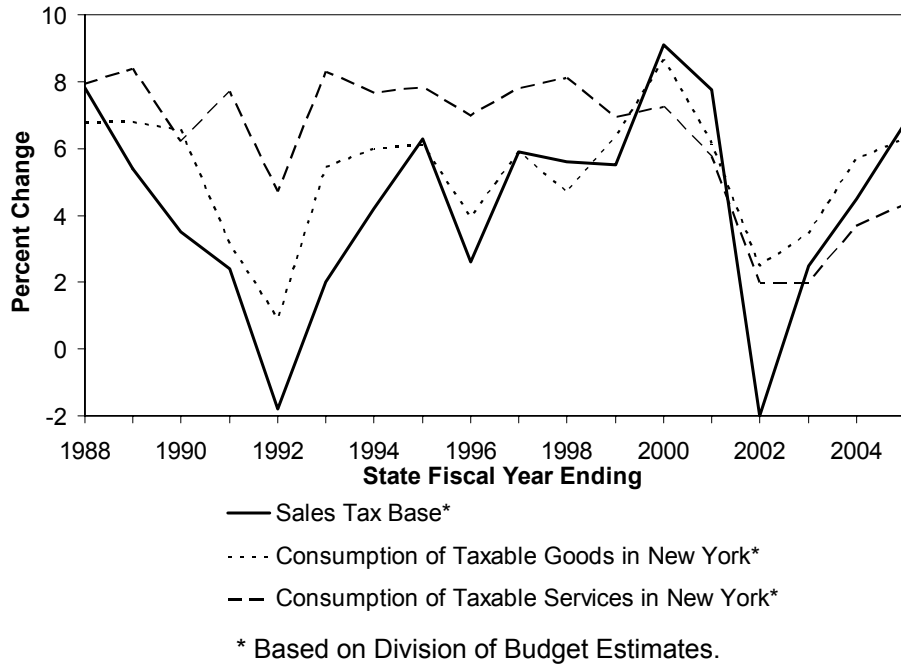
In the long run, sales tax receipts are a function of changes in the tax rate and the State's economic performance as measured by such factors as disposable income and employment. Short-run fluctuations can result from rapid changes in fuel prices, auto sales, and home sales. The following table and graphs show the growth rate of major economic factors affecting the sales tax.

For a more detailed discussion of the methods and models used to develop estimates and projections for the sales and use tax, please see the "Economic and Receipt Estimates Methodology" section of this volume.

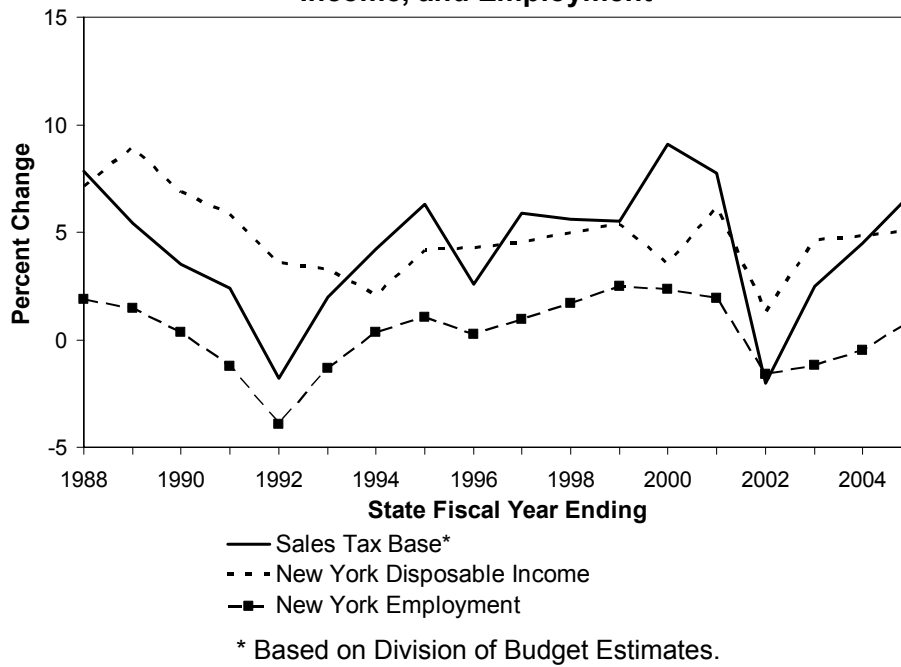
MAJOR ECONOMIC FACTORS AFFECTING SALES TAX RECEIPTS										
STATE FISCAL YEARS 1997-98 TO 2006-07										
Percent Change										
	97-98	98-99	99-2000	2000-01	01-02	02-03	03-04	04-05	Estimated 05-06	Projected 06-07
Consumption of Taxable Goods in NY	4.7	6.4	8.7	6.1	2.5	3.5	4.7	6.3	6.6	4.8
Consumption of Taxable Services in NY	8.1	7.0	7.2	5.8	2.0	2.0	3.7	4.3	4.9	4.9
NY Employment	1.7	2.5	2.3	1.9	(1.6)	(1.2)	(0.5)	0.9	0.9	0.7
NY Disposable Income	5.0	5.4	3.6	6.1	1.3	4.5	4.8	5.1	5.7	6.0
NY Nominal Value of New Auto and Light Truck Sales	3.5	13.5	13.0	(5.3)	8.2	4.2	4.3	(0.1)	3.7	1.0
Sales Tax Base	5.6	5.5	9.1	7.8	(2.0)	2.5	4.5	6.8	5.3	4.2

SALES AND USE TAX

Historical Growth in State Sales Tax Base and Taxable Consumption

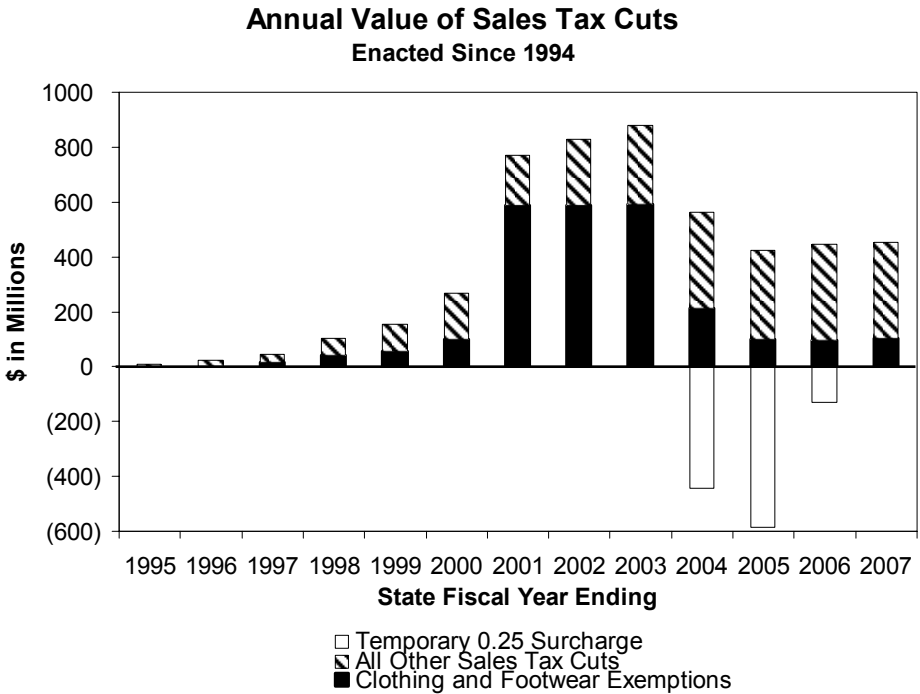


Historical Growth in State Sales Tax Base, Income, and Employment

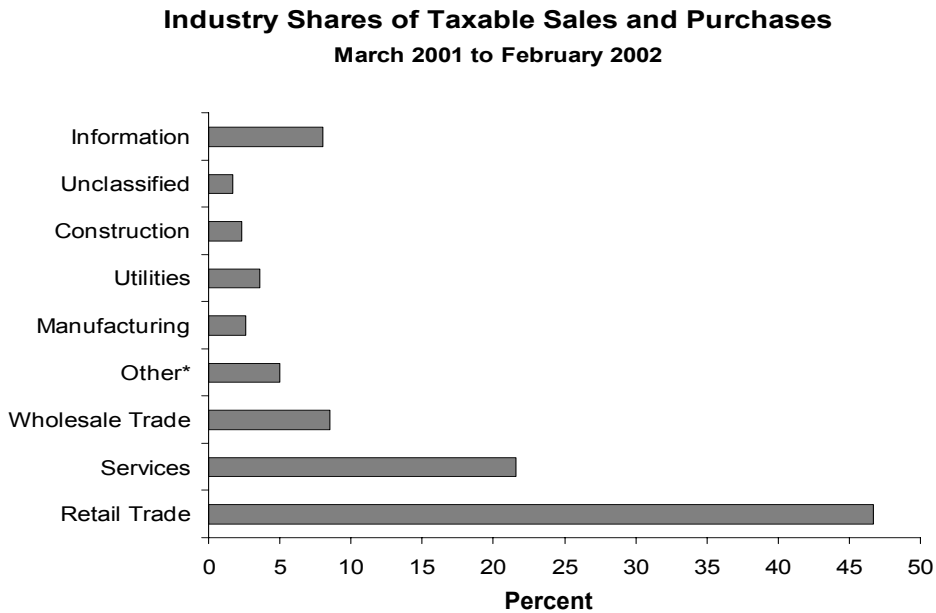


SALES AND USE TAX

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”), 45 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, and administrative services, at 21.2 percent of the statewide total, accounts for the next largest share of taxable sales and purchases.



*Includes Agriculture, Mining, Transportation, FIRE, Education and Government.
 Source: New York State Department of Taxation and Finance.

SALES AND USE TAX

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 will include, for example, taxable items purchased via mail order or on 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.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$8,478 million, an increase of \$96 million, or 1.1 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$11,180.8 million, an increase of \$164.7 million, or 1.5 percent above last year.

The underlying sales tax base is estimated to increase 5.3 percent. Taxable sales were bolstered by several factors. First, continued strength in mortgage refinancing allowed consumers to tap increased home equity. The Division of the Budget estimates that, on a national basis, consumers cashed out approximately \$243.5 billion in home equity in calendar year 2005. Second, brisk home sales buoyed spending on furniture and other household items. Finally, higher fuel prices increased sales tax receipts, though the increase was tempered by the reduction of consumption of other taxable items.

Legislation enacted in 2003 imposed a 0.25 percent sales and use tax surcharge on all taxable sales. The surcharge expired on May 31, 2005. This expiration is estimated to reduce revenue by \$482 million in 2005-06. Additional legislation enacted in 2005 suspended the clothing and footwear exemption, effective June 1, 2005. It was replaced with two separate exemption weeks during the 2005-06 fiscal year. This action is expected to add \$476 million to 2005-06 receipts.

2006-07 Projections

All Funds receipts are projected to be \$11,538.4 million, an increase of \$357.6 million, or 3.2 percent above 2005-06.

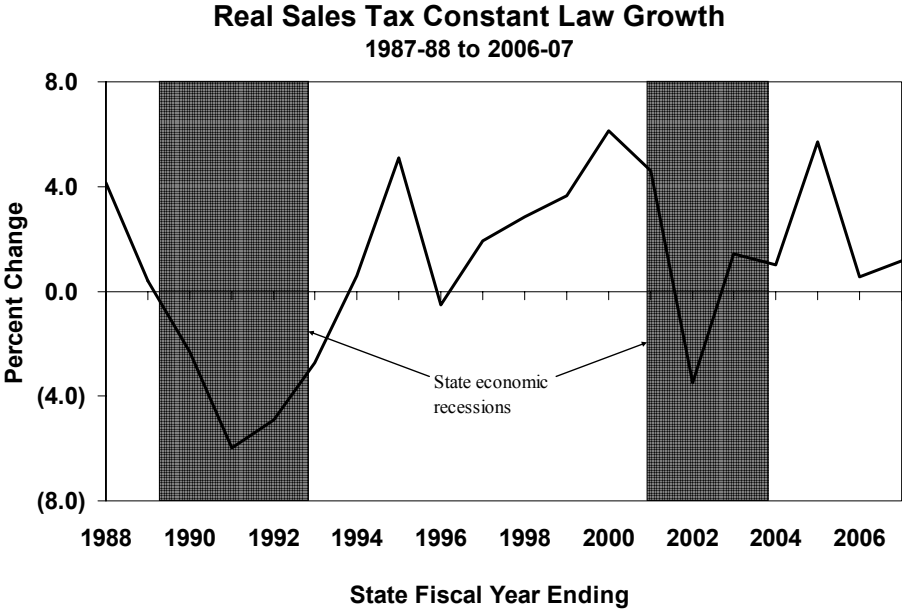
Disposable income is expected to grow 6.0 percent and employment to grow 0.7 percent in 2006-07. Taken together, these factors help explain a projected growth in the sales tax base of 4.2 percent. Projected base growth is lower than in 2005-06 due to projected lower consumer spending financed with cash from mortgage refinancing activity as well as lower new light vehicle sales.

Legislation submitted with this Budget proposes to eliminate the exemption on clothing and footwear priced under \$110 and replace it with a \$250 per item exemption effective during two separate weeks during 2006-07 and in subsequent years. This proposal is expected to secure an estimated \$584 million in 2006-07 for the State if the \$110 year-round exemption were in effect. However, it is \$21 million less than the amount that would have

SALES AND USE TAX

been generated from the two weeks exemption for clothing and footwear under \$110. Additional legislation proposes to exempt certain “Energy Star” items during the same two weeks that clothing is exempted, to increase the vendor credit, to exempt admission charges to amusement parks, to exempt alternative fuels and to reform contract compliance rules. These proposals are expected to reduce receipts by \$19.5 million.

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 will affect consumption and thereby impact the level of taxable sales.



General Fund

Direct deposits to the General Fund for 2005-06 are estimated to be \$7,972.6 million, a decrease of \$121.9 million, or 1.5 percent, from 2004-05 receipts. All proceeds from the 0.25 percent surcharge are deposited in the General Fund. General Fund receipts in 2006-07 are projected to be \$8,142.9 million, a 2.1 percent increase from the current year.

Other Funds

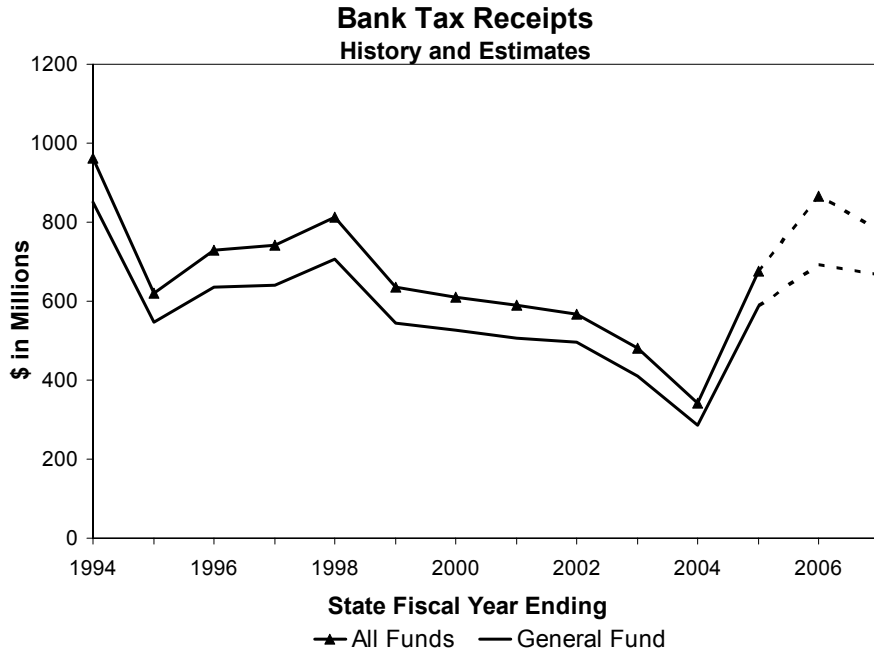
The Local Government Assistance Corporation (LGAC) was created in 1990 to help the State eliminate its annual spring borrowing. To pay the debt service on the bonds issued by LGAC, the State has diverted the yield of one-fourth of net sales and use tax collections from the 4 percent statewide sales tax to the Local Government Assistance Tax Fund (LGATF). Sales tax deposits to LGATF were \$2,492.7 million in 2004-05 and are estimated at \$2,608.1 million in 2005-06, and \$2,714.3 million in 2006-07. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

SALES AND USE TAX

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 0.375 percent sales and compensating use tax imposed in the MCTD. MTOAF, which received \$428.9 million in sales and use tax receipts in 2004-05, will receive an estimated \$600.1 million in 2005-06, and \$681.2 million in 2006-07.

BANK TAX

BANK TAX (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	587	690	103	17.5	667	(23)	(3.3)
Other Funds	89	175	86	96.6	109	(66)	(37.7)
All Funds	676	865	189	28.0	776	(89)	(10.3)



BANK TAX BY FUND (millions of dollars)							
	Gross General		Gross Special		Special		All Funds Receipts
	<u>Fund</u>	<u>Refunds</u>	<u>Fund</u>	<u>Revenue Funds</u>	<u>Revenue Funds</u> ¹		
1997-98	766	58	708	114	8	106	812
1998-99	624	80	544	102	11	91	635
1999-2000	598	72	526	94	9	85	611
2000-01	598	92	506	97	11	86	591
2001-02	565	69	496	80	10	70	566
2002-03	525	114	411	84	12	72	481
2003-04	431	142	289	71	15	56	342
2004-05	662	75	587	100	11	89	676
Estimated							
2005-06	776	86	690	187	12	175	865
2006-07							
Current Law	746	75	671	122	22	102	773
Proposed Law	742	75	667	131	22	109	776

¹Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

BANK TAX

PROPOSED LEGISLATION

Legislation proposed with this Budget will:

- eliminate the alternative minimum tax base;
- eliminate the asset base;
- reduce the tax rate on the entire net income tax base from 7.5 percent to 6.75 percent;
- allow for the immediate expensing of New York depreciable assets;
- make the 1985 and 1987 amendments to the bank tax permanent;
- extend the Federal Gramm-Leach-Bliley conforming provisions for two years;
- eliminate the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or a Regulated Investment Company (RIC) subsidiary; and
- hold the Metropolitan Transportation Authority (MTA) harmless for certain base changes in the tax.

DESCRIPTION

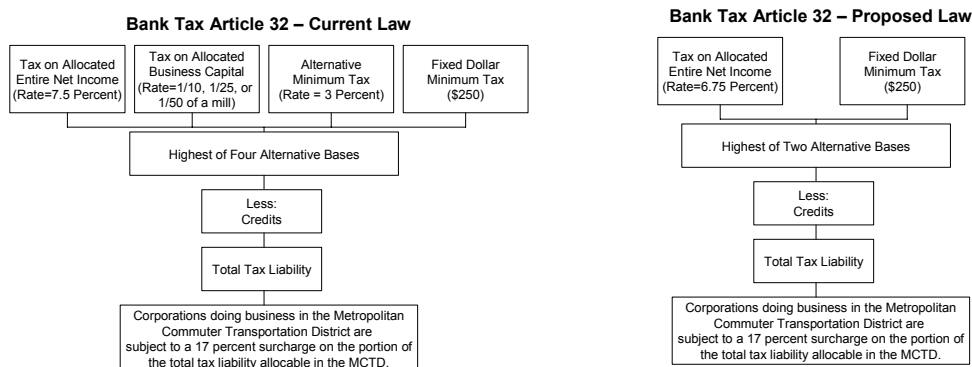
Tax Base and Rate

The bank tax is levied by Article 32 of the Tax Law on banking corporations conducting business in New York State. Banking corporations 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. Article 32 bank tax liability is computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.5 percent.
- An alternative minimum tax (AMT) base imposed at a rate of 3 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments, and State-specific net operating loss (NOL) modifications.
- An assets base imposed at the rate of 1/10, 1/25, or 1/50 of a mill of taxable assets allocated to New York. The applicable rate depends on the size of the bank's net worth relative to assets and mortgages as a percent of total assets.
- A fixed dollar minimum tax of \$250.

Legislation submitted with this Budget will reduce the tax rate imposed on the ENI base from 7.5 percent to 6.75 percent, and eliminate the AMT and asset bases.

Banks conducting business in the Metropolitan Commuter Transportation District (MCTD) are also 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). Legislation submitted with this Budget will hold the MTA harmless from the elimination of the AMT and asset bases, and for the immediate expensing of New York depreciable assets.



Administration

Banks that reasonably expect their tax liability to exceed \$1,000 for the current year are required to make tax payments on an estimated basis in March, June, September, and December. A final payment is made in March. Legislation enacted in 2002 and applicable to tax years 2003, 2004 and 2005 increased the first quarterly payment of estimated tax (paid annually in March) from 25 percent to 30 percent of the prior year’s liability for those taxpayers whose prior year’s liability exceeds \$100,000. Beginning in tax year 2006, the percentage returns to 25 percent.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer’s liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. 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. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

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

BANK TAX

Subject	Description	Effective Date
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
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
Green Buildings Credit	Allocated \$25 million to provide incentives for the purchase of recyclable building materials.	
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 refundable 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
Legislation Enacted in 2004		
Bank Tax Extension	Extended for one year, until January 1, 2006, certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. Also extended for two years, until January 1, 2006, the provisions relating to the Federal <i>Gramm-Leach Bliley Act</i> .	January 1, 2004
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004

Subject	Description	Effective Date
Brownfield Tax Credits	Expanded criteria for environmental zones (EN-Zones) and made technical changes. To qualify for new EN-Zones, brownfields must have a cleanup agreement prior to September 1, 2006. Also eliminated recapture provisions for disposition of property.	April 1, 2005
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation used to allocate income and assets to New York by banking corporations taxed under Article 32 that are owned by a bank or bank holding company and are substantially engaged in providing services to an investment company from a three-factor formula of receipts, deposits, and wages to a single receipts factors.	These provisions will be phased in over a three-year period starting in tax year 2006, and be fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments / Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Green Buildings Amendments	Provided an additional \$25 million of Green Building credits (originally authorized in 2001) and provided for the reallocation of unclaimed credits from periods authorized under the 2001 credit to those authorized under the 2005 credit.	January 1, 2006.
Security Guards Training Tax Credit	Provided security training tax credits to qualified building owners who employ qualified security officers who are employed under a legally binding written agreement and have completed a qualified security training program.	January 1, 2005
Qualified Fuel Cell Electricity Generating Equipment	Created a credit for qualified fuel cell electricity generating equipment.	January 1, 2005

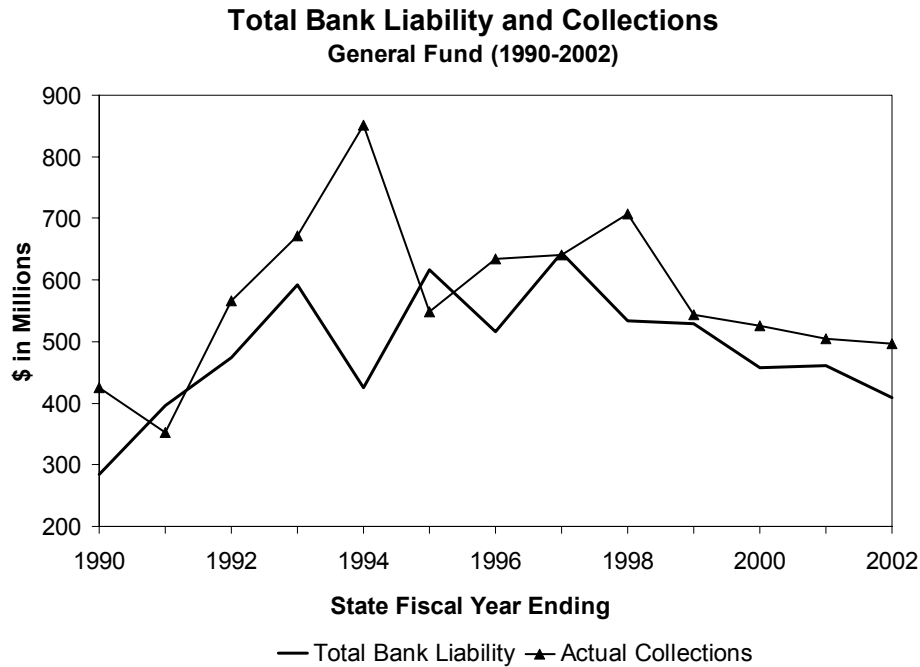
TAX LIABILITY

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. The annual study of bank tax returns indicates that 721 taxpayers filed tax returns as banking corporations in 2002, an 8.8 percent decrease from the previous year.

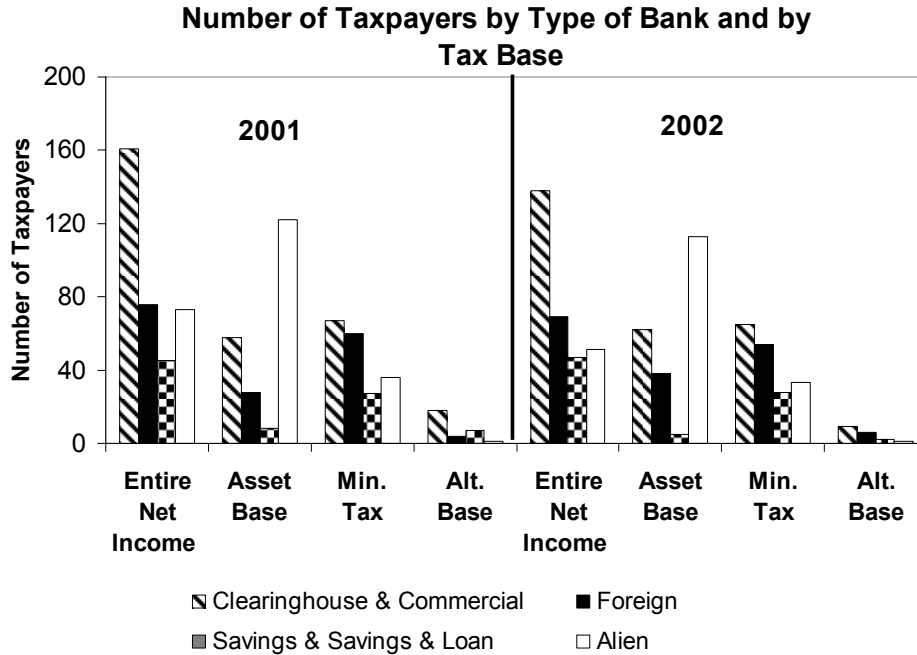
The link between underlying bank tax liability and collections in any given State fiscal year is often obscured by the timing of payments, the carry forward of prior year losses or credits, and the reconciliation of prior year liabilities. Tax collections are the net payments and adjustments made by taxpayers on returns and extensions over the course of a State fiscal year. Collections include a mandatory first installment payment that is paid in March and is based on 30 percent of the prior year's liability (beginning in tax year 2006, the percentage declines to 25 percent). In addition, banks are required to make estimated payments, based on projected liability for the current tax year in June, September, and December. A final payment is made in March. Taxpayers may make adjustments to these payments to more accurately 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. The Tax Law grants taxpayers generous extensions that allow the filing of returns many months after the end of their tax year.

BANK TAX

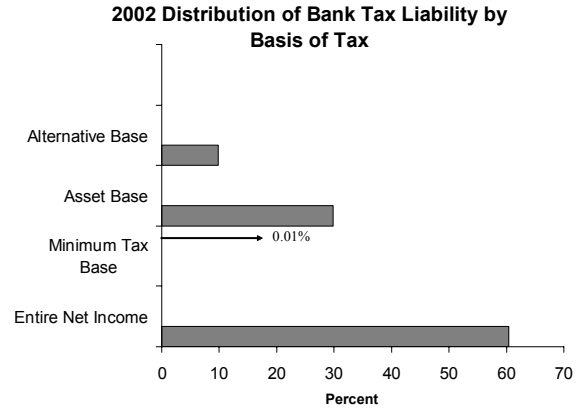
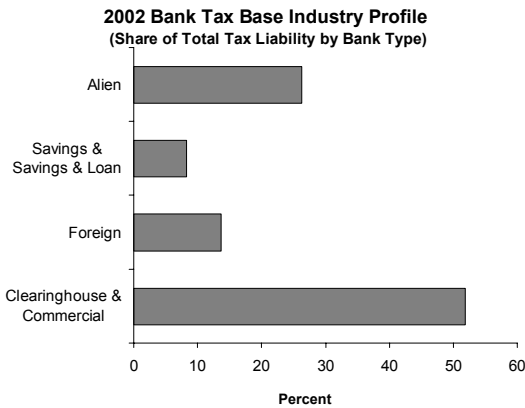
The accompanying graph compares historical bank tax liability and collections. Since taxpayers must pay estimated taxes months in advance of knowing actual liability, it is difficult for taxpayers to determine the proper level of payments to make over the course of a year. This is especially true if business or economic conditions change. The point illustrated is that there is significant volatility in the underlying relationship between payments and liability, which is further compounded by the potential difference between a taxpayer's tax year and the State fiscal year.



Between 2001 and 2002 (2002 representing the latest year for which complete data on tax liability are available), total General Fund tax liability decreased by roughly 11 percent, from \$460 million, to \$409 million. The number of taxpayers decreased by 8.8 percent, with the majority of the decrease occurring in alien banking institutions and commercial banks headquartered outside New York State. The following graph illustrates that, consistent with the overall decline in the number of taxpayers, the number of alien banks paying under the entire net income tax base decreased by 14.7 percent, from 2001 to 2002.



The following charts shows that clearinghouse and commercial banking institutions accounted for 51.8 percent of total tax liability in 2002, and alien banking institutions accounted for 26.3 percent of total liability, while foreign banking institutions and savings banks and savings and loan institutions together accounted for the remaining 21.9 percent of total liability. Additionally, payments under the ENI base comprised about 60.4 percent of total tax liability.



For a more detailed discussion of the methods and models used to develop estimates and projections for the bank tax, please see the “Economic and Receipt Estimates Methodology” section of this volume.

BANK TAX

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$623 million, an increase of \$138 million, or 28.5 percent, above the comparable period in the prior fiscal year. All Funds receipts for 2005-06 are estimated to be \$865 million, an increase of \$189 million, or 28.0 percent above last year.

The relative strength in current year net collections is the result of several factors. The continued growth of the national and State economies, and more specifically, the profitability of the banking sector continue to be reflected in bank tax receipts. Additionally, audit and compliance receipts on an All Funds basis are expected to increase by \$144 million, or 600 percent over 2004-05 collections.

2006-07 Projections

All Funds receipts are projected to be \$776 million, a decrease of \$89 million, or 10.3 percent, from 2005-06. The decrease is based, in part, on the underlying relationship between tax liability and expected bank profitability. Overall, bank earnings, which have improved in recent years, are expected to lose momentum in 2006-07, as the narrow spread between deposit and lending rates begins to dampen results. Audit and compliance receipts are projected to return to more normal levels. The expected declines in base receipts are offset by a proposal to change the treatment of REIT dividends that is expected to add roughly \$57.2 million to 2006-07 receipts.

General Fund

Based on collections to date, General Fund net collections for 2005-06 are estimated to reach \$690 million, an increase of \$103 million, or 17.5 percent above 2004-05. The increase is primarily due to the economic and industry influences previously discussed. Audit payments are estimated to be \$140 million, while refunds are expected to total roughly \$86 million.

Bank tax receipts for 2006-07 are expected to decrease by 3.3 percent, primarily constrained by low net interest margin spreads. The decrease is offset by \$50.0 million in receipts from the proposal to change the treatment of REITs.

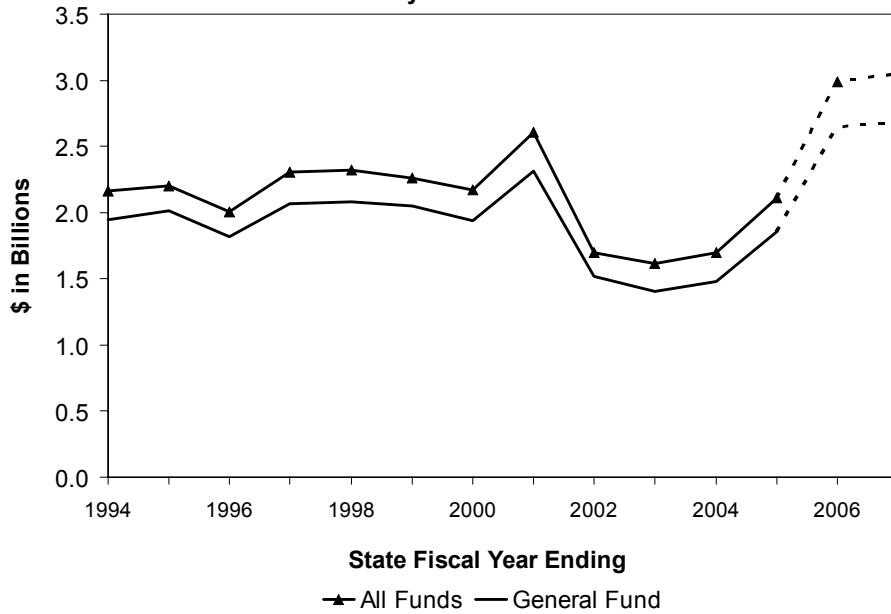
Other Funds

Based on collections to date, the bank tax contribution to MTOAF for 2005-06 is estimated to reach approximately \$175 million. A sizeable portion of this amount, which represents a 97.3 percent increase over the previous fiscal year, is attributable to audit and compliance receipts. MTOAF receipts are expected to decline to \$109 million in 2006-07, consistent with the projected decline in General Fund collections.

CORPORATION FRANCHISE TAX

CORPORATION FRANCHISE TAX (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	1,858	2,642	784	42.2	2,671	29	1.1
Other Funds	253	349	96	37.9	378	29	8.3
All Funds	2,111	2,991	880	41.7	3,049	58	1.9

**Corporate Franchise Tax Receipts
History and Estimates**



CORPORATION FRANCHISE TAX BY FUND (millions of dollars)							
	Gross General		Gross Special		Special Revenue		All Funds
	<u>Fund</u>	<u>Refunds</u>	<u>Fund</u>	<u>Funds</u>	<u>Refunds</u>	<u>Funds¹</u>	<u>Receipts</u>
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
2003-04	2,005	523	1,482	266	48	218	1,700
2004-05	2,285	427	1,858	293	40	253	2,111
Estimated							
2005-06	3,142	500	2,642	379	30	349	2,991
2006-07							
Current Law	3,234	494	2,740	408	35	373	3,113
Proposed Law	3,165	494	2,671	413	35	378	3,049

¹ Receipts from the MTA business tax surcharge are deposited in the Mass Transportation Operating Assistance Fund.

CORPORATION FRANCHISE TAX

PROPOSED LEGISLATION

Legislation proposed with this Budget will:

- eliminate the alternative minimum tax base;
- eliminate the business and investment capital base;
- reduce the tax rate on the entire net income tax base from 7.5 percent to 6.75 percent;
- eliminate the additional tax on subsidiary capital;
- eliminate the S corporation differential;
- allow for the immediate expensing of New York depreciable assets;
- extend existing Empire Zone tax credits to 10 newly created zones for eligible businesses that have demonstrated a substantial relationship with a Center of Excellence or other high technology research facility;
- provide businesses principally engaged in research and development in new clean energy technologies or renewable fuels all benefits of the Empire Zones program, whether or not these qualifying businesses are physically within existing zone boundaries;
- accelerate the authorization of the 12 new zones authorized in 2005 into 2006;
- restructure aspects of brownfields credit program;
- make the Empire State Film tax credit permanent and increase maximum annual credit to \$30 million;
- make permanent the credit for investing in low income housing;
- provide tax credits for the purchase of alternative fuel vehicles and for the production of alternative fuels;
- extend the additional brackets applicable to the Fixed Dollar Minimum tax for three years;
- eliminate the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or a Regulated Investment Company (RIC) subsidiary;
- extend the Federal Gramm-Leach-Bliley provisions for two years; and
- hold the Metropolitan Transportation Authority (MTA) harmless for certain base changes in the tax.

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.

For C corporations, current law requires corporation franchise tax liability to be computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. The four alternative bases are:

- An entire net income (ENI) base, which begins with Federal taxable income before net operating loss deductions and special deductions, and is further adjusted by the exclusion, deduction or addition of certain items. The resulting base is allocated to New York and subject to a tax rate of 7.5 percent. Qualifying small businesses with an ENI of \$290,000 or less are subject to a reduced rate.
- An alternative minimum tax (AMT) base imposed at a rate of 2.5 percent of entire net income (as calculated above) and further adjusted to reflect certain Federal tax preference items and adjustments and State-specific net operating loss (NOL) modifications.
- A capital base, imposed at a rate of 0.178 percent on business and investment capital allocated to New York. For most taxpayers, the maximum annual tax is \$1 million.

CORPORATION FRANCHISE TAX

- A fixed dollar minimum tax, which is based on a taxpayer's payroll as shown in the following schedule. Payroll amounts include the salaries of general executive officers.

Gross Payroll	\$500,000 or less	\$500,001 – \$1,000,000	\$1,000,001 – \$6,250,000	\$6,250,001 – \$25,000,000	\$25,000,001 or more
Fixed Dollar Minimum Tax	\$100	\$325	\$425	\$5,000	\$10,000

Taxpayers that have a gross payroll, total receipts, and average value of gross assets which are each \$1,000 or less are subject to an \$800 tax.

In addition to the tax paid on the highest of the four alternative bases, C corporations also pay a tax of 0.9 mills of each dollar of subsidiary capital allocated to New York State.

Legislation submitted with this Budget will reduce the tax rate imposed on the ENI base from 7.5 percent to 6.75 percent, and eliminate the AMT base, the capital base and the tax on subsidiary capital. In addition, legislation will extend the sunset date applicable to fixed dollar minimum brackets described above through tax year 2008.

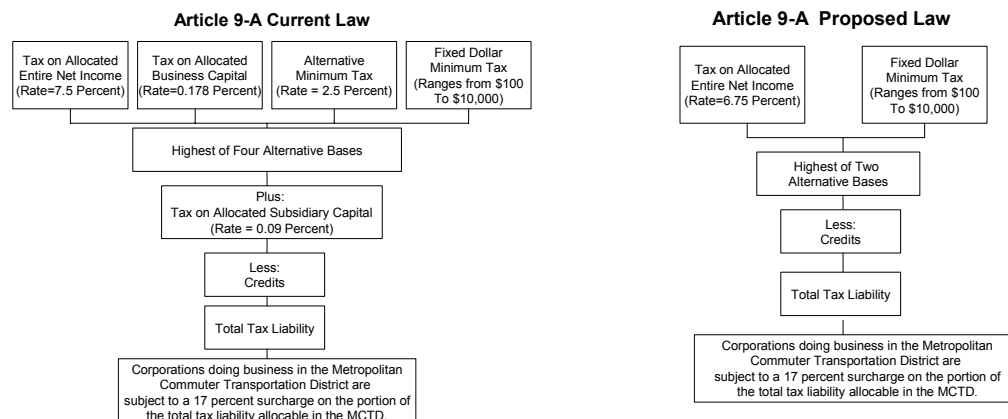
For S corporations, the Article 9-A corporation franchise tax liability is computed under two alternative bases, with tax due based on the highest tax calculated under the two bases. The two bases are:

- the fixed dollar minimum tax described above; and
- when in effect, an S corporation differential tax imposed at the rate of .3575 percent.

The S corporation differential tax was suspended with the enactment of the personal income tax surcharge applicable to tax years 2003, 2004 and 2005. Under current law, the S corporation tax would be re-imposed with the sunset of the personal income tax surcharge, as the C corporation rate would again be higher than the top personal income tax rate. Legislation submitted with this Budget will eliminate the S corporation differential tax.

Additionally, corporations conducting business in the Metropolitan Commuter Transportation District (MCTD) are currently subject to a 17 percent surcharge on the portion of the total tax liability computed using the franchise tax rates in effect for the period July 1, 1997 through June 30, 1998, and allocable in the MCTD. The collections from the surcharge are deposited into the Mass Transportation Operating Assistance Fund (MTOAF). Legislation submitted with this Budget will hold the MTA harmless from the elimination of the AMT and capital bases and the subsidiary capital tax, and for the immediate expensing of New York depreciable assets.

The following flow charts compare the computation of Article 9-A liability under current law and under proposed legislation submitted with this budget.



CORPORATION FRANCHISE TAX

Administration

Corporations that reasonably expect their tax liability to exceed \$1,000 for the current year are required to make tax payments on an estimated basis in March, June, September, and December. A final payment is made in March. Legislation enacted in 2002 and applicable to tax years 2003, 2004 and 2005 increased the first quarterly payment of estimated tax (paid annually in March) from 25 percent to 30 percent of the prior year's liability for those taxpayers whose prior year's liability exceeds \$100,000. Beginning in tax year 2006, the percentage returns to 25 percent.

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. The corporate franchise tax structure includes various tax expenditures, and 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. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

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
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

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
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 for any of the gross receipts taxes and the section 189 gas import tax on manufacturing uses of energy. Expires 12/31/2006 a result of Article 9 tax being phased out.	January 1, 2000
Low Income Housing Tax Credit	Provided a State credit based on the structure of the Federal low-income housing tax credit 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
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.	January 1, 2001
	The tax reduction credit may be applied against the fixed dollar minimum tax, which may reduce the taxpayer's liability to zero.	
Rate Reduction – S Corporations	Reduced the differential tax rate imposed on S corporations by 45 percent.	June 20, 2003

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
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
Green Building Credit	Allocated \$25 million to provide incentives for the purchase of recyclable building materials and other environmentally preferable tangible personal property and tax credits for the purchase of fuel cells, photovoltaic modules, and environmentally sensitive non-ozone depleting refrigerants.	January 1, 2001
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
Legislation Enacted in 2004		
Fixed Dollar Minimum Tax	Provided a temporary adjustment to the corporate franchise tax fixed dollar minimum tax schedule, with tax amounts ranging from \$100 to \$10,000. Applicable to tax years 2004 and 2005.	January 1, 2004
Empire State Film Production Credit	Provided a new tax credit for film production activity in New York State. The credit sunsets on August 20, 2008.	January 1, 2004
Low-Income Housing Credit	Provided an additional \$2 million in resources to be allocated by the Commissioner of the Division of Housing and Community Renewal (DHCR) to support tax credits for investing in low income housing.	January 1, 2004
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Alternative Fuels Credit	Extended for one year, until January 2005, the alternative fuels credit available for clean-fuel, electric, and hybrid vehicles and clean-fuel vehicle refueling property. Sunsets for tax years beginning after December 31, 2004.	January 1, 2004
Brownfield Tax Credits	Expanded criteria for environmental zones (EN-Zones) and made technical changes. To qualify for new En-Zones, brownfields must have cleanup agreement prior to September 1, 2006. Also eliminated recapture provisions for disposition of property.	April 1, 2005

CORPORATION FRANCHISE TAX

Subject	Description	Effective Date
Legislation Enacted in 2005		
Single Sales Apportionment	Changed the computation of a corporation's business allocation percentage from a three factor formula of payroll, property and receipts to a single receipts factor.	These provisions will be phased in over a three-year period starting in tax year 2006, and fully effective for tax years beginning on or after January 1, 2008
Empire Zones Amendments / Twelve New Zones	Made significant changes to the Empire Zone/Qualified Empire Zone Enterprise program with respect to zone boundaries, zone designations, taxpayer eligibility, and benefits. Also authorized twelve new Empire Zones.	Changes to eligibility and benefits apply to taxpayers certified on or after April 1, 2005
Small Business Rate Reduction	Lowered the tax rate from 6.85 percent to 6.5 percent for small businesses and expanded the definition of a qualifying small business.	January 1, 2005
Green Buildings Amendments	Provided an additional \$25 million of Green Building credits (originally authorized in 2001) and provided for the reallocation of unclaimed credits from periods authorized under the 2001 credit to those authorized under the 2005 credit.	January 1, 2006
Capital Base Increase	Increased the maximum tax due under the capital base alternative from \$350,000 to \$1 million for all taxpayers, excluding manufacturers.	January 1, 2005
Qualified Emerging Technology Companies Credit	Created a new refundable tax credit for qualified emerging technology companies for research and development property, research expenses, and high-technology training expenditures.	January 1, 2005
ITC for Qualified Film Production Facilities	Expanded eligibility for the Investment Tax Credit to qualifying film production facilities.	January 1, 2005
Security Guards Training Tax Credit	Provided security training tax credits to qualified building owners who employ qualified security officers who are employed under a legally binding written agreement and have completed a qualified security training program.	January 1, 2005
Qualified Fuel Cell Electricity Generating Equipment	Created a credit for qualified fuel cell electricity generating equipment.	January 1, 2005
Qualified Clean Fuel Refueling Property	Extended existing credits for qualified fuel refueling property.	January 1, 2005

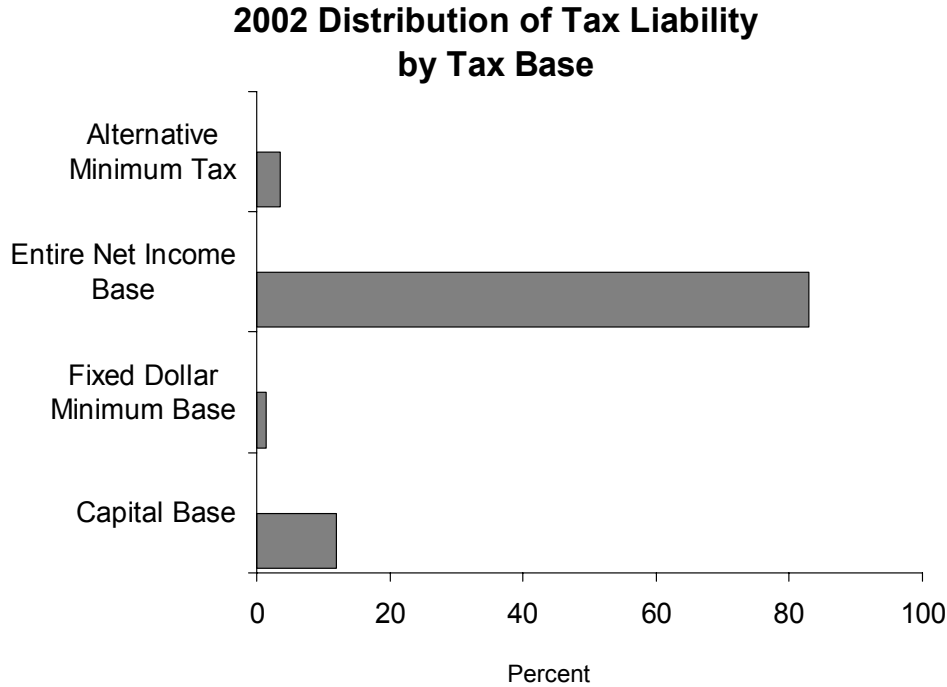
TAX LIABILITY

The Corporate Franchise Tax Study File contains the most recent data available on Article 9-A liability for all corporations filing under Article 9-A, except for certain fixed dollar minimum tax filers and S corporations. The most current liability information is for the 2002 tax year.

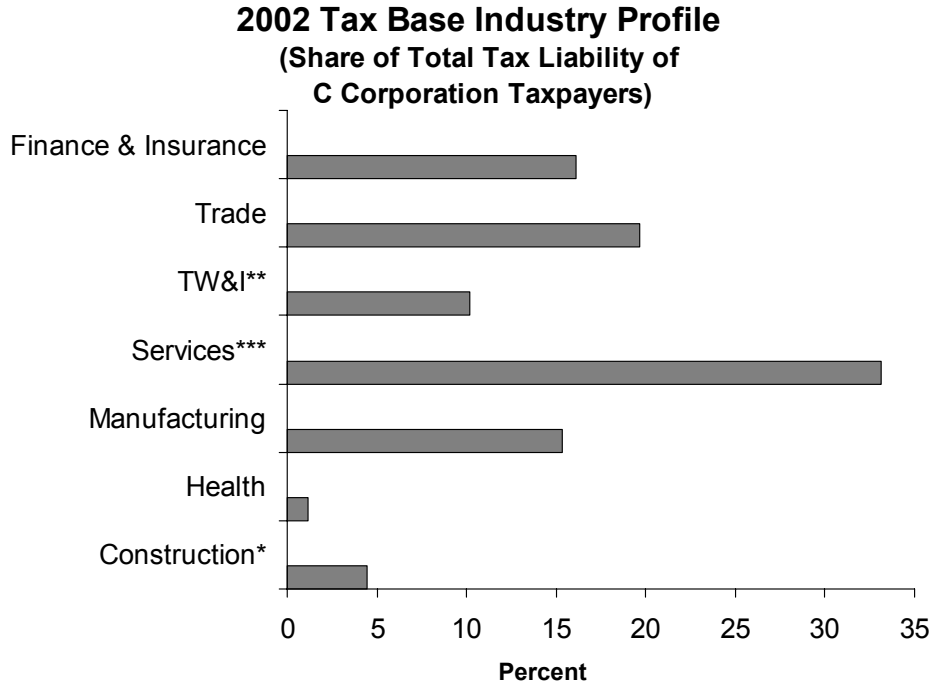
The New York State Department of Taxation and Finance's Office of Tax Policy Analysis (OTPA) compiles corporate tax return data relating to the total number of C and S corporations and tax liability for these entities. The *2001 New York State Corporation Tax Statistical Report*, the most recent data available, indicates that 261,146 taxpayers filed as C corporations, while 309,230 taxpayers filed as S corporations. The number of C corporations decreased by 1.8 percent from the prior year, while the number of S corporations increased by 2.9 percent.

CORPORATION FRANCHISE TAX

As noted above, C corporations pay under the highest of four alternative bases. In 2002, roughly 83 percent of liability was paid under the entire net income base. The capital base was the second largest base, at 12 percent of liability. These percentages have been fairly constant over time with the exception of the AMT base, which has begun to diminish due to Tax Law changes that have reduced the AMT rate.



The next chart shows the distribution of tax liability by major industry sector. The 2002 study file indicates that 16.3 percent of total C corporation liability was paid by the finance and insurance sector and 15.5 percent by the manufacturing sector. The share of total C corporation liability attributable to the service industries has been fairly constant in recent years.

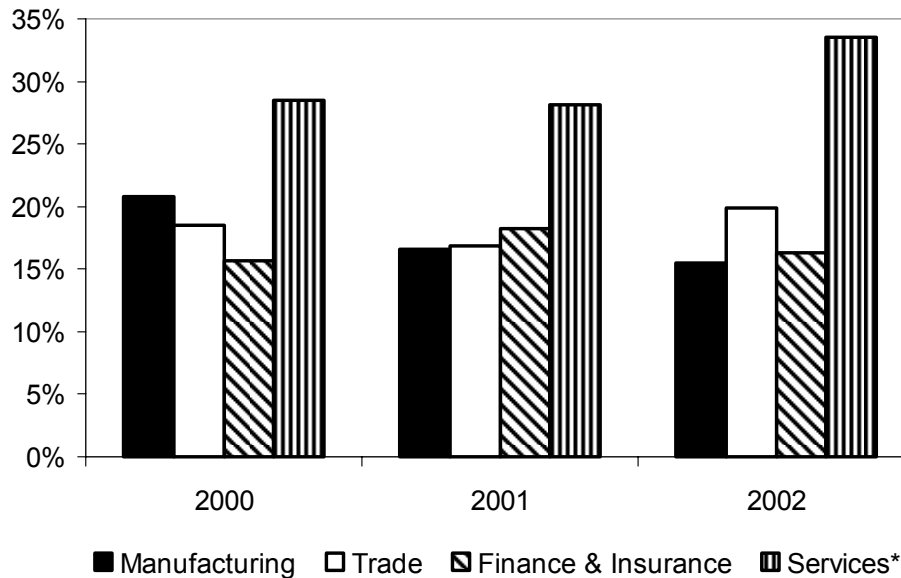


- * Construction, agriculture, mining, and utilities. (NAICS Sectors 11, 21, 22, and 23)
- ** Transportation and warehousing and information. (NAICS Sectors 48, 49, and 51)
- *** Services consist of real estate and rental and leasing; professional, scientific, and technical services; management of companies 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)

The following chart illustrates the fluctuation in the percentage of liability paid by the finance and insurance, trade, manufacturing, and services industry groups. These four industry groups accounted for the vast majority of total tax liability from 2000 to 2002. Liability for the finance and insurance sector was 15.7 percent in 2000, 18.2 percent in 2001, and 16.3 percent in 2002. In comparison, the service industry's share of total liability has remained relatively constant for this same three-year period at roughly 30 percent. The manufacturing industry's share of total liability is also 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. The share of manufacturing liability decreased from 2000 to 2001, and then remained roughly constant in 2002 as a percentage of the total.

CORPORATION FRANCHISE TAX

**Industry Profile: Percent of Total Liability
(2000-2002)**

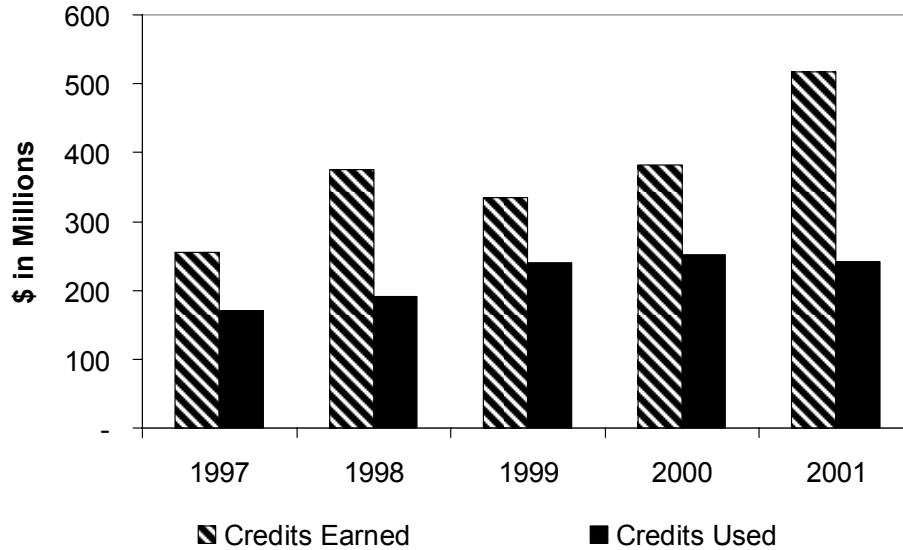


* These services consist of real estate and rental and leasing; professional, scientific, and technical services; management of companies and enterprises; administrative and support and waste management and remediation services; art, entertainment, and recreation services; accommodation and food services; 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 significantly 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 2001, the ITC, a benefit to manufacturing companies, accounted for about 33.4 percent of all of the above tax credits earned and about 42.3 percent of all tax credits used.

**Total Credits Earned and Credits Used
(1997-2001)**



Generally, 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. Noticeably, the amount of credits earned increased in the 2001 tax year as a result of the Empire Zones Program. Simultaneously, the amount of credits used in 2001 declined due to the overall decline in tax liability coupled with the limitations described above. It is expected that after 2001, refundable credits, especially those in the Empire Zones Program, will significantly increase the amount of credits used.

For a more detailed discussion of the methods and models used to develop estimates and projections for the corporate franchise tax, please see the “Economic and Receipt Estimates Methodology” section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$1,819 million, an increase of \$432 million, or 31.1 percent, above comparable period in the prior fiscal year. All Funds receipts for 2005-06 are estimated to be \$2,991 million, an increase of \$880 million, or 41.7 percent above last year.

The year-over-year growth in estimated corporate franchise tax receipts for 2005-06 represents the largest growth in collections, whether measured in dollars or percentage terms, since 1984-85, when growth over the previous year was roughly 27 percent. The Congressional Budget Office reports similar results for Federal corporate income tax receipts, as do most other states imposing such a tax.

This significant growth is not necessarily attributable to any particular factor, but is likely due to several factors acting in unison including the decline in prior year adjustments, strong growth in corporate profitability in successive years, changes to Federal tax law including

CORPORATION FRANCHISE TAX

repatriation of foreign income, and large growth in audit and compliance receipts. All Funds corporate audit and compliance receipts are projected to increase 47 percent over the prior year, reaching \$584 million in 2005-06. (See the “Audits and Compliance” section for a more detailed discussion).

2006-07 Projections

All Funds receipts are projected to increase only slightly, from \$2,991 million in 2005-06 to \$3,049 million in 2006-07.

It is expected that the growth in corporate profits will continue to increase underlying receipts by about 6 percent in 2006-07. However, that growth is almost entirely offset by the impact of the proposed tax reductions and the return to historic levels of audit collections.

General Fund

Based on collections to date, General Fund net collections for 2005-06 are projected to be \$2,642 million, an increase of \$784 million, or 42.2 percent over the prior year. Audit collections are expected to total \$515 million, while refunds are projected to offset receipts by approximately \$500 million.

General Fund receipts for 2006-07 are expected to increase by 1.1 percent over 2005-06 to \$2,671 million. This increase is primarily the result of continuing corporate profitability and an overall upswing in economic conditions. Audit collections are expected to total \$350 million, while refunds are projected to offset receipts by approximately \$494 million.

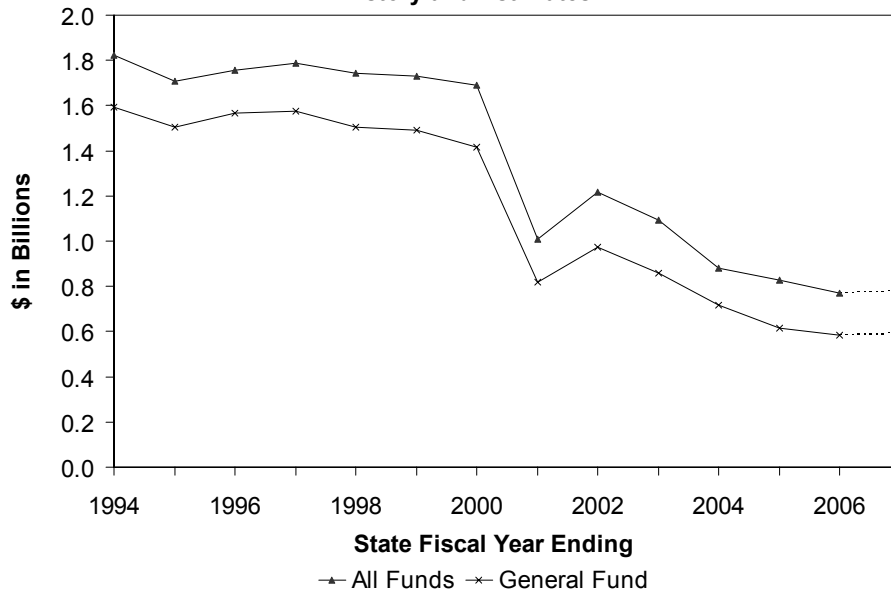
Other Funds

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. Based on collections to date, the Article 9-A MTOAF contribution for 2005-06 is projected to increase 37.9 percent over the prior year, reaching \$349 million. 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. Collections for 2006-07 are expected to increase by 8.3 percent.

CORPORATION AND UTILITIES TAXES

CORPORATION AND UTILITIES TAXES (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	617	586	(31)	(5.0)	593	7	1.2
Other Funds	210	186	(24)	(11.4)	187	1	0.4
All Funds	827	772	(55)	(6.7)	780	8	1.0

**Corporation and Utilities Tax Receipts
History and Estimates**



CORPORATION AND UTILITIES TAXES BY FUND (millions of dollars)											
	Gross General		Gross Special			Special Revenue		Gross Capital		Capital Projects	All Funds
	<u>Fund</u>	<u>Refunds</u>	<u>Fund</u>	<u>Revenue Funds</u>	<u>Refunds</u>	<u>Funds</u> ¹	<u>Project Funds</u>	<u>Refunds</u>	<u>Funds</u> ²	<u>Receipts</u>	
1997-98	1,517	13	1,504	243	2	241	0	0	0	1,745	
1998-99	1,509	20	1,489	242	2	240	0	0	0	1,729	
1999-2000	1,450	32	1,418	276	2	274	0	0	0	1,692	
2000-01	847	30	817	193	1	192	0	0	0	1,009	
2001-02	999	27	972	247	1	246	0	0	0	1,218	
2002-03	909	49	860	232	1	231	0	0	0	1,091	
2003-04	732	17	715	170	3	167	0	0	0	882	
2004-05	655	38	617	195	1	194	16	0	16	827	
Estimated											
2005-06	591	5	586	172	3	169	17	0	17	772	
2006-07 ³	608	15	593	173	3	170	17	0	17	780	

¹ Receipts from the MTA business tax surcharge and a portion of receipts from the taxes imposed by sections 183 and 184 of the Tax Law deposited in accounts of the Mass Transportation Operating Assistance Fund (MTOAF).

² A portion of receipts from taxes imposed by sections 183 and 184 of the Tax Law deposited to Dedicated Highway and Bridge Trust Fund (DHBTFF).

³ Proposed law will redistribute sections 183 and 184 receipts within the accounts of MTOAF.

CORPORATION AND UTILITIES TAXES

PROPOSED LEGISLATION

Legislation proposed with this Budget will amend the deposit and disposition provisions relating to the receipts from the taxes imposed on transportation and transmission companies by sections 183 and 184 to provide that such receipts shall be distributed as follows:

- 20 percent to the Dedicated Highway and Bridge Trust Fund;
- 27 percent to the Public Transportation Systems Operating Assistance Account (PTSOAA) of the MTOAF; and
- 53 percent to the Metropolitan Mass Transportation Operating Assistance Account (MMTOAA) of the MTOAF.

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. Historically, Article 9 receipts have come primarily from the public utility, telecommunications, and transportation industries. However, statutory and regulatory changes enacted in 2000 have reduced the percentage share of General Fund receipts attributable to utilities from 34.6 percent in 1999-2000 to 17.5 percent in 2004-05. In recent years, the telecommunications industry has become the primary source of receipts, accounting for 59 percent of 2004-05 General Fund receipts.

Section 180 assesses an organization tax upon newly incorporated or reincorporated domestic (in-State) corporations. The tax is imposed at a rate of $1/20^{\text{th}}$ of one 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. The tax rate for stocks with “no-par” value is five cents per share. The tax also applies to any subsequent change in the share of stocks including changes to the number of par value and “no-par” value stocks or newly authorized stock. The minimum tax imposed by section 180 is \$10.

Section 181 imposes a license fee on foreign (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 and attributable to the amount of capital stock employed in the State. Foreign corporations are also subject to an annual maintenance fee of \$300. Foreign corporations may claim a credit for the fee paid against the tax due under Article 9, the corporate franchise tax or the bank tax.

Section 183 provides for a franchise tax on the capital stock of transportation and transmission companies, including telecommunications, trucking, railroad, and other transportation companies. The tax is imposed at the highest of the following three alternatives:

- 1.5 mills per dollar of the net value of capital stock allocated to New York State;
- 0.375 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- a minimum tax of \$75.

Section 184 levies an additional franchise tax of .375 percent on the gross receipts of transportation and transmission companies. As of July 1, 2000, gross receipts from international, interstate, and inter-Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA gross receipts are excluded from the tax. Railroad and trucking

CORPORATION AND UTILITIES TAXES

companies that elected to remain subject to Article 9 taxes pay the tax at a rate of 0.375 percent of gross earnings, including an allocated portion of receipts from interstate transportation-related transactions.

Section 185 imposes a franchise tax on farmers, fruit-growers and other agricultural cooperatives. The tax is imposed at the highest of the following three alternatives:

- 1.0 mills per dollar of the net value of capital stock allocated to New York State;
- 0.25 mills per dollar of par value for each one percent of dividends paid on capital stock if dividends amount to 6 percent or more; or
- a minimum tax of \$10.

Effective January 1, 2000, the section 186 franchise tax imposed on public utilities and waterworks, gas, electric, steam heating, lighting and power companies was repealed, and these taxpayers became subject to the corporate franchise tax imposed under Article 9-A of the Tax Law.

Section 186-a imposes a two percent gross receipts tax on charges for the transportation, transmission, distribution, or delivery of electric and gas utility services. As shown in the following tables, between January 1, 2000 and January 1, 2005 the gross receipts tax imposed on:

- charges for transmission/distribution services to residential customers was gradually reduced from 3.25 percent to its current rate of 2 percent;
- charges for transmission/distribution services to nonresidential customers was gradually eliminated; and
- the sale of the energy commodity was gradually eliminated, declining from 3.25 percent to zero.

TAX RATES CONTAINED IN SECTION 186-a OF THE TAX LAW		
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

PHASE-IN SCHEDULE FOR EXCLUSION OF TRANSMISSION AND DISTRIBUTION FOR NONRESIDENTIAL CUSTOMERS	
Effective Date	Percent Excluded
Calendar Year 2000	0
Calendar Year 2001	0
Calendar Year 2002	25
Calendar Year 2003	50
Calendar Year 2004	75
Calendar Year 2005	100

CORPORATION AND UTILITIES TAXES

Section 186-e imposes a 2.5 percent gross receipts tax on charges for telecommunications services. The tax was reduced to 3.25 percent from 3.5 percent on October 1, 1998, and reduced again to 2.5 percent on January 1, 2000.

Section 189, effective August 1, 1991, imposed a tax on the importation of natural gas for consumption. As shown in the following table, the tax was gradually eliminated, effective January 1, 2005.

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

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 182, 182-a, 184, 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. Legislation enacted in 2002 and applicable to tax years 2003, 2004, and 2005 increased the first quarterly payment of estimated tax (paid annually in March) from 25 percent to 30 percent of the prior year's liability for those taxpayers whose prior year's liability exceeds \$100,000. Beginning in tax year 2006, the percentage returns to 25 percent.

As shown in the following table, section 205 of the Tax Law has been amended to provide various formulas for the deposit and disposition of receipts from the taxes imposed by sections 183 and 184 of the Tax Law to the Metropolitan Mass Transportation Operating Assistance (MMTOA) Account of the Mass Transportation Operating Assistance Fund (MTOAF) and more recently the Dedicated Highway and Bridge Trust Fund. Legislation proposed with this Budget will amend the disposition provisions contained in section 205 of the Tax Law to redistribute deposits from the MMTOA Account to the Public Transportation Systems Operating Assistance (PTSOA) Account of the MTOAF.

SECTIONS 183 AND 184 DISTRIBUTION TO FUNDS SINCE 1982 (percentage)				
Effective Date	General Fund	MMTOAA	PTSOAA	DHBTf
July 1, 1982	60.0	40.0	0.0	0.0
April 1, 1996	52.0	48.0	0.0	0.0
January 1, 1997	50.5	49.5	0.0	0.0
January 1, 1998	46.0	54.0	0.0	0.0
January 1, 2000	36.0	64.0	0.0	0.0
January 1, 2001	20.0	80.0	0.0	0.0
April 1, 2004	0.0	80.0	0.0	20.0
April 1, 2006 (current law)	20.0	80.0	0.0	0.0
April 1, 2006 (proposed law)	0.0	53.0	27.0	20.0

CORPORATION AND UTILITIES TAXES

All of the receipts from the 17 percent surcharge imposed on Article 9 taxpayers that conduct business in the MCTD is deposited in the MTAOF.

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. 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.	January 1, 1995
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). Reduced the tax rate on section 184 for these companies from 0.75 percent to 0.6 percent.	January 1, 1997
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. 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.	January 1, 1998
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

CORPORATION AND UTILITIES TAXES

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
Green Building Credit	Allocated \$25 million to provide incentives for the purchase of recyclable building materials and other environmentally preferable tangible personal property and tax credits for the purchase of fuel cells, photovoltaic modules, and environmentally sensitive non-ozone depleting refrigerants.	January 1, 2001
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. Sunsets for tax years beginning on or after January 1, 2006.	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
Legislation Enacted in 2004		
Power for Jobs Program	Modified the Power for Jobs Program to allow prior recipients of low cost power an option of a credit or rebate.	March 1, 2004
Alternative Fuels Credit	Extended the alternative fuels credit available for clean-fuel, electric, and hybrid vehicles and clean-fuel vehicle refueling property until January 2005.	January 1, 2004
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004
Brownfield Tax Credits	Expanded criteria for environmental zones (EN-Zones) and made technical changes. To qualify for EN-Zones, brownfields must have cleanup agreement prior to September 1, 2006. Also eliminated recapture provisions for disposition of property.	April 1, 2005
Legislation Enacted in 2005		
Power for Jobs Program Extension	Extended the Power for Jobs program through 2006.	April 1, 2005
Green Buildings Amendments	Provided an additional \$25 million of Green Building credits (originally authorized in 2001) and provided for the reallocation of unclaimed credits from periods authorized under the 2001 credit to those authorized under the 2005 credit.	January 1, 2006

CORPORATION AND UTILITIES TAXES

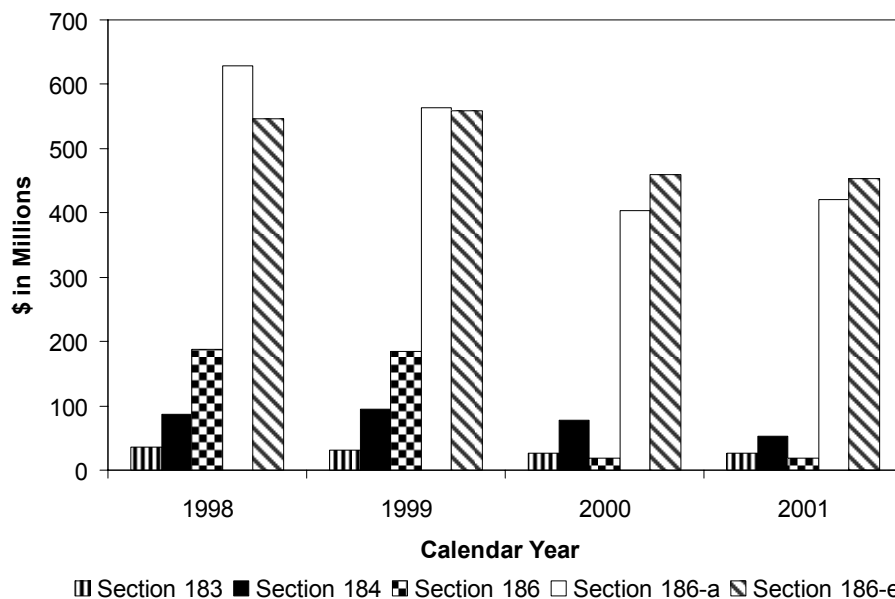
Subject	Description	Effective Date
Qualified Clean Fuel Refueling Property	Extended existing credits for qualified fuel refueling property.	January 1, 2005
Qualified Fuel Cell Electricity Generating Equipment	Created a credit for qualified fuel cell electricity generating equipment.	January 1, 2005

TAX LIABILITY

The *2001 New York State Corporate Tax Statistical Report* contains the most recent data available on Article 9 tax liability. The corporation and utilities tax represented almost 29 percent of the total New York State corporate tax liability in 2001. Total tax liability for Article 9 was \$985 million in 2000 and \$970 million in 2001, a decrease of \$15 million or 1.5 percent.

The chart below summarizes information from the *2001 New York State Corporate Tax Statistical Report* for Article 9 corporations. The significant decline in section 186 and 186-a liabilities in 2000 is due to legislation enacted in that year that repealed the section 186 tax beginning in tax year 1999 and that cut the tax rate on 186-a commodities and transmission and distribution beginning in tax year 2000.

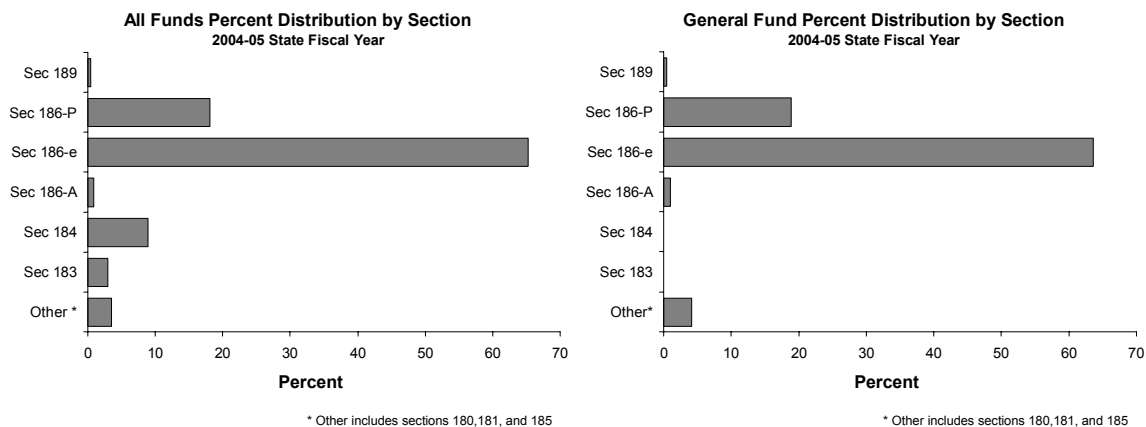
**Article 9 Tax Liability by Section
(1998-2001)**



For a more detailed discussion of the methods and models used to develop estimates and projections for the corporation and utility taxes, please see the “Economic and Receipt Estimates Methodology” section of this volume.

The bar graphs below depict the share of total 2004-05 Article 9 All Funds and General Fund collections attributable to each section of Article 9 of the Tax Law. The All Funds graph reflects collections attributable to each section of the Tax Law before the distribution of sections 183 and 184 to MTOAF and DHBTf.

CORPORATION AND UTILITIES TAXES



The table below reflects the amount of tax collections attributable to each section of Article 9 of the Tax Law. The subtotal reflects total taxes from the various sections prior to the distribution of receipts from sections 183 and 184 to MTOAF and DHBTF.

CORPORATION AND UTILITIES TAXES BY TAX LAW SECTION (millions of dollars)				
Section of Law	Type of Companies	2004-05 Actual	2005-06 Estimated	2006-07 Projected
180	Organizations and reorganizations	1	2	1
181	Foreign corporations and maintenance fees	28	10	10
183	Transportation and transmission companies	23	25	25
184	Additional tax on transportation and transmission companies	58	60	60
185	Agricultural cooperatives	0	0	0
186	Water, steam, gas, electric, light and power companies	17	6	2
186a & e	Public utilities/telecommunication	568	568	580
189	Natural gas importers	3	0	0
Various	MTA Surcharge	129	101	102
All Funds Total		827	772	780
Less Other Funds				
	MTA Surcharge	129	101	102
	MTOAF	65	68	68
	DHBTF	16	17	17
	Net General Fund	617	586	593

For a more detailed discussion of the methods and models used to develop estimates and projections for the corporation and utilities taxes, please see the “Economic and Receipt Estimates Methodology” section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds receipts collections to date are \$509 million, a decrease of \$58 million, or approximately 10.2 percent, below the comparable period in the prior fiscal year.

CORPORATION AND UTILITIES TAXES

All Funds receipts for 2005-06 are estimated to be \$772 million, a decrease of \$55 million, or 6.7 percent below last year. This decrease is due mainly to the final phase of tax rate reductions for power producers and transmission companies.

The primary factors affecting section 186-a collections include the quantity consumed of electricity and natural gas, and the associated price of each commodity. Quantity is affected by unusual weather and changes in oil and natural gas prices that affect electricity prices.

Some utilities have long-term contracts for the purchase of electric power and natural gas. If additional energy is needed to meet load requirements, utilities can purchase the commodity from independent power producers, other utilities, or through the New York Independent System Operator at market prices. The tax on receipts from the sale of commodities was eliminated on January 1, 2005. The tax on receipts from the transmission and distribution of gas or electricity dropped from 2.125 percent to 2 percent on January 1, 2005. Transmission and distribution costs are not affected by commodity contract prices; however, these costs could be affected by increased volume due to changes in weather.

2006-07 Projections

All Funds receipts are projected to be \$780 million, an increase of \$8 million, or 1 percent above 2005-06. The increase in All Funds is primarily due to continued but modest growth in the telecommunications industry from the wireless, digital and data services sector. This growth is offset by declines in section 184 as local telecommunications growth declined and the continued declines from energy utilities in section 186-a.

General Fund

General Fund collections for 2005-06 are estimated to be \$586 million, a decrease of \$31 million, or 5 percent below the prior year. The estimate reflects \$19 million in audit collections, offset by \$35 million in refunds.

For 2006-07, General Fund collections are projected to be \$593 million, an increase of \$7 million or, 1.2 percent above 2005-06. The 2006-07 estimate projects audit collections and refunds will remain at 2005-06 levels. Receipts from the telecommunications industry are expected to increase by 3 percent. Consistent with historical trends and statistical models, receipts from the transmission and distribution of gas and electricity are projected to increase by 4 percent in 2006-07.

Other Funds

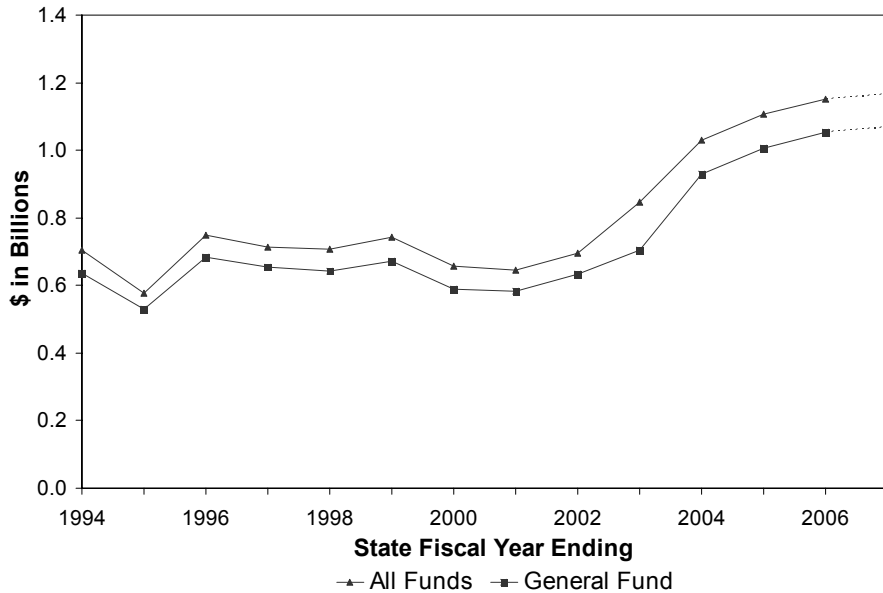
As mentioned previously, a portion of Article 9 receipts is deposited into special revenue funds. Sections 183 and 184 collections deposited in the MTOAF will total an estimated \$68 million for 2005-06. The remaining portion of sections 183 and 184 is earmarked for the DHBTF. In 2006-07, sections 183 and 184 collections deposited to MMTOAA will total \$45 million, to PTSOAA \$23 million and to DHBTF \$17 million.

The MCTD business tax surcharge will result in deposits of an estimated \$100.7 million for 2005-06 and \$101.7 million for 2006-07 into the MTOAF.

INSURANCE TAXES

INSURANCE TAXES (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	1,007	1,055	48	4.7	1,068	13	1.2
Other Funds	101	95	(6)	(5.9)	98	3	3.4
All Funds	1,108	1,150	42	3.8	1,166	16	1.4

**Insurance Tax Receipts
History and Estimates**



INSURANCE TAXES BY FUND (millions of dollars)							
	Gross General		Gross Special Revenue			Special Revenue	All Funds
	<u>Fund</u>	<u>Refunds</u>	<u>Fund</u>	<u>Funds</u>	<u>Refunds</u>	<u>Funds¹</u>	<u>Receipts</u>
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	647	64	583	70	10	60	643
2001-02	667	34	633	69	6	63	696
2002-03	755	59	696	82	10	72	768
2003-04	983	53	930	109	8	101	1,031
2004-05	1,058	51	1,007	109	8	101	1,108
Estimated							
2005-06	1,077	22	1,055	103	8	95	1,150
2006-07							
Current Law	1,116	30	1,086	106	8	98	1,184
Proposed Law	1,098	30	1,068	106	8	98	1,166

¹Receipts from the MTA surcharge are deposited in the Mass Transportation Operating Assistance Fund.

INSURANCE TAXES

PROPOSED LEGISLATION

Legislation proposed with this Budget will:

- decrease the minimum and maximum limitations imposed on taxes paid by life insurance companies;
- eliminate the deduction for certain dividends received by a parent company from a Real Estate Investment Trust (REIT) or a Regulated Investment Company (RIC) subsidiary; and
- limit the amount of annuity premiums included in computing the maximum limitation on tax due for life insurance companies. Only those annuity premiums in excess of 95 percent of total premiums will be included in the limitation. Current law requires life insurance companies to include all of their annuity premiums in the limitation if more than 95 percent of their total premiums is attributable to annuities.

DESCRIPTION

Tax Base and Rate

Under Article 33 of the Tax Law and the Insurance Law, the State imposes taxes on insurance corporations, insurance brokers and certain insureds for the privilege of conducting business or otherwise exercising a corporate franchise in New York.

Tax Rate on Non-Life Insurers

Non-life insurers are subject to a premiums-based tax. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A \$250 minimum tax applies to all non-life insurers.

Tax Rate on Life Insurers

The franchise tax on life insurers has two components. The first component is a franchise tax computed under four alternative bases, with tax due based on the highest tax calculated under the four alternative bases. In addition, a 0.8 of a mill tax rate applies to each dollar of subsidiary capital allocated to New York.

RATES FOR THE INCOME BASE OF THE FRANCHISE TAX ON LIFE INSURERS	
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 returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York. This tax is added to the sum of the tax due on the highest of the alternatives from the income base plus the tax imposed on subsidiary capital.

Maximum and minimum tax limitations are computed based on net premiums. Life insurers determine their maximum limitation by multiplying net premiums by 2.0 percent and their minimum limitation by multiplying net premiums by 1.5 percent. Under current law, the total tax calculated under the highest of the four alternative bases plus the tax imposed on subsidiary capital plus the 0.7 percent tax on net premiums must be at least as high as the minimum tax (1.5 percent of net premiums) but no greater than the maximum limitation (2.0 percent of net premiums). Legislation proposed with this Budget will decrease the maximum limitation from 2.0 percent to 1.75 percent and the minimum limitation from 1.5 percent to 1.25 percent.

Generally, taxpayers with a 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.

Article 33 taxpayers conducting business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on their tax liability attributable to the MCTD area.

Article 33 of the Tax Law also imposes a premiums tax on captive insurance companies licensed by the Superintendent of Insurance for the privilege of conducting business or otherwise exercising a corporate franchise in New York. The tax imposed on net premiums and net reinsurance premiums (gross premiums less return premiums) written on risks located or resident in the State at rates which vary with the amount of net premiums. The top rate is 0.4 percent on direct premiums and 0.225 percent on reinsurance premiums. Captive insurers are subject to a minimum tax of \$5,000. Tax credits are not allowed against the tax imposed on captive insurance companies and these companies are not subject to the metropolitan transportation business tax surcharge.

Other Taxes Imposed on Insurers

Article 33-A of the Tax Law imposes a tax at the rate of 3.6 percent of premiums on independently procured insurance. 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 unauthorized insurer (an unauthorized insurer is 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 imposes a premiums tax on a licensed excess line insurance broker when a policy covering a New York risk is procured through such broker from an unauthorized insurer. 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.

Administration

Insurance companies make tax payments on an estimated basis in March, June, September, and December. A final payment is made in March. Legislation enacted in 2002 and applicable to tax years 2003, 2004, and 2005 increased the first quarterly payment of estimated tax (paid annually in March) from 25 percent to 30 percent of the prior year's liability for those taxpayers whose prior year's liability exceeds \$100,000. Life insurance companies, which pay a first quarterly payment of 40 percent, were unaffected by the 2002 legislation. Beginning in tax year 2006, the percentage of prior year liability required to be remitted by these taxpayers will return to 25 percent.

INSURANCE TAXES

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 employed 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.

Receipts from the 17 percent business tax surcharge imposed on insurance companies conducting business in the MCTD are deposited in the Mass Transportation Operating Assistance Fund (MTOAF).

Tax Expenditures

Tax expenditures are defined as features of the Tax Law that by exclusion, exemption, deduction, allowance, credit, deferral, preferential tax rate or other statutory provision reduce the amount of a taxpayer's liability to the State by providing either economic incentives or tax relief to particular entities to achieve a public purpose. 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. For a more detailed discussion of tax expenditures, see the *Annual Report on New York State Tax Expenditures*, prepared by the Department of Taxation and Finance and the Division of the Budget.

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. CAPCO Program Two increased the cap by \$30 million, to \$130 million in 1999. CAPCO Program Three increased the cap by \$150 million, to \$280 million in 2000. CAPCO Program Four increased the cap by \$60 million, to \$340 million in 2004.
Special Additional Mortgage Recording Tax (SAMRT) Credit	Provides credit for 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.

There are also several types of insurance contracts that are exempt from the franchise tax. These include, but are not limited to, certain annuity contracts and certain health insurance contracts for insureds aged 65 years and older. Legislation submitted with this Budget will limit the amount of annuity premiums included in computing the maximum limitation on tax due for life insurance companies. Only those annuity premiums in excess of 95 percent of total premiums will be included in the limitation. Current law requires life insurance companies to include all of their annuity premiums in the limitation if more than 95 percent of their total premiums is attributable to annuities.

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; however, such entities may be subject to tax under other articles of the Tax Law. In addition, cooperative insurance companies in effect (operation) prior to January 1, 1974 are exempt from taxation while those formed on or after that date are subject to the tax.

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)	Changed credit 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	Established CAPCO Program Two. Increased Statewide cap 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: <ul style="list-style-type: none"> • 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: <ul style="list-style-type: none"> • 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

INSURANCE TAXES

Subject	Description	Effective Date
Legislation Enacted in 2000		
CAPCOs	Established CAPCO Program Three. Increased the statewide cap from \$130 million to \$280 million.	January 1, 2002
Investment Tax Credit	Allowed 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.	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
Green Building Credit	Allocated \$25 million to provide incentives for the purchase of recyclable building materials and other environmentally preferable tangible personal property and tax credits for the purchase of fuel cells, photovoltaic modules, and environmentally sensitive non-ozone depleting refrigerants.	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: <ul style="list-style-type: none"> 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	Required 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 modifications to 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
Legislation Enacted in 2004		
Fourth Certified Capital Company (CAPCO) Credit	Established CAPCO Program Four. Increased the Statewide cap from \$280 million to \$340 million.	January 1, 2006
Empire Zones Program Extension	Extended the Empire Zones (EZ) Program to March 31, 2005.	January 1, 2004

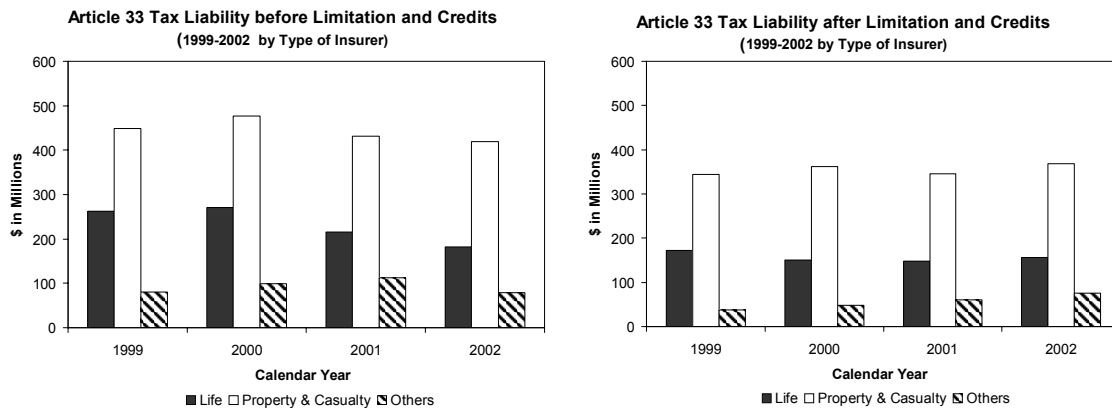
INSURANCE TAXES

Subject	Description	Effective Date
Brownfield Tax Credits	Expanded criteria for environmental zones (EN-Zones) and made technical changes. To qualify for new EN-Zones, brownfields must have cleanup agreement prior to September 1, 2006. Also eliminated recapture provisions for disposition of property.	April 1, 2005
Legislation Enacted in 2005		
Fifth Certified Capital Company (CAPCO) Program	Established CAPCO Program Five. Provided an additional allocation of \$60 million that is made available over a ten year period beginning in 2007.	April 1, 2005
Transferability of Certified Capital Company (CAPCO) Credits	Allowed insurance taxpayers under Article 33 the ability to sell or transfer unused CAPCO credits to an affiliated taxpayer.	April 1, 2005
Security Guards Training Tax Credit	Provided security training tax credits to qualified building owners who employ qualified security officers who are employed under a legally binding written agreement and have completed a qualified security training program.	January 1, 2005
Clean-Fuel Vehicle Refueling Property Credit	Extended the existing components of the alternative fuels credit for qualified clean fuel vehicle refueling property for three years.	January 1, 2005
Green Buildings Amendments	Provided an additional \$25 million of Green Building credits (originally authorized in 2001) and provided for the reallocation of unclaimed credits from periods authorized under the 2001 credit to those authorized under the 2005 credit.	January 1, 2006

TAX LIABILITY

The Department of Taxation and Finance's Insurance Franchise Tax Study File contains tax liability data for the 2002 tax year, the most recent year for which such data are available. The 2002 Study File indicates that the share of total insurance liability attributable to the property and casualty sector is the largest sector, accounting for 61 percent of total tax liability. Life insurers are the second largest, with 26 percent of total liability, with the 13 percent balance attributable to other insurers.

The following graphs show insurance tax liability for life insurers, property and casualty insurers and all other insurers from 1999 through 2002 before and after the application of the limitation of tax due as determined by taxable premiums and credits.



INSURANCE TAXES

Property and Casualty Companies

According to data from the New York State Insurance Department, the five largest lines of business under the property and casualty sector are automobile, workers' compensation, commercial multi-peril, general liability, and homeowners' multi-peril. In 2004, these lines accounted for more than 80 percent of total premiums. The table below reports actual property and casualty premiums and growth from 1998 through 2004 for New York State.

PROPERTY AND CASUALTY INSURANCE PREMIUMS NEW YORK CALENDAR YEAR (millions of dollars/percent)							
Lines of Insurance	1998	1999	2000	2001	2002	2003	2004
Automobile	9,631	9,594	9,664	10,773	11,910	12,566	12,903
<i>percent change</i>	<i>1.49</i>	<i>(0.38)</i>	<i>0.73</i>	<i>11.48</i>	<i>10.55</i>	<i>3.86</i>	<i>3.01</i>
Workers' Compensation	2,686	2,725	3,154	3,282	3,412	3,404	3,437
<i>percent change</i>	<i>(1.41)</i>	<i>1.44</i>	<i>15.74</i>	<i>4.06</i>	<i>3.96</i>	<i>9.41</i>	<i>0.95</i>
Commercial Multi-Peril	2,071	2,002	2,085	2,178	2,680	2,767	2,899
<i>percent change</i>	<i>1.99</i>	<i>(3.33)</i>	<i>4.15</i>	<i>4.46</i>	<i>23.05</i>	<i>3.25</i>	<i>4.76</i>
General Liability	2,734	1,825	2,148	2,455	3,319	3,494	4,004
<i>percent change</i>	<i>30.90</i>	<i>(33.25)</i>	<i>17.70</i>	<i>14.29</i>	<i>35.19</i>	<i>2.21</i>	<i>14.61</i>
Homeowners' Multi-Peril	2,181	2,230	2,326	2,469	2,661	2,901	3,183
<i>percent change</i>	<i>2.33</i>	<i>2.25</i>	<i>4.30</i>	<i>6.15</i>	<i>7.78</i>	<i>4.14</i>	<i>9.71</i>
Other	3,641	3,635	3,720	4,476	5,164	5,624	5,635
<i>percent change</i>	<i>0.61</i>	<i>(1.53)</i>	<i>2.34</i>	<i>20.32</i>	<i>15.37</i>	<i>8.91</i>	<i>0.18</i>
TOTAL P/C PREMIUMS	22,945	22,011	23,098	25,808	29,146	30,717	32,061
Annual Increase/Decrease							
<i>percent change</i>	<i>3.87</i>	<i>(4.07)</i>	<i>4.94</i>	<i>11.73</i>	<i>12.93</i>	<i>5.39</i>	<i>4.37</i>

Source: New York State Insurance Department

Total premiums for property and casualty companies overall grew by about 4 percent in 2004. This growth was consistent with industry expectations. Premium growth in 2005 is expected to grow about 4 percent. The forecast assumes a slight rise in property and casualty premiums due to weather related catastrophes in 2005.

Life Insurance Companies

Total collections from the life insurance sector are expected to increase throughout the forecast period due to historical trends and new product offerings within the industry. Changes in the demographic and competitive landscape have forced insurers to contend simultaneously with an aging population's need to save for retirement and competition from banks and securities brokers that offer similar types of investments.

The Federal Gramm-Leach-Bliley Act of 1999, which permits insurance companies, banks and brokerages to form consolidated companies offering a full range of financial services, has broken down the barriers that once separated the various sectors of the financial services industry. Banks and brokerage houses now sell more annuities than life insurance agents. Life insurance agents, in turn, now sell investment-oriented products, including mutual funds.

For a more detailed discussion of the methods and models used to develop estimates and projections for the insurance taxes, please see the "Economic and Receipt Estimates Methodology" section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$737 million, an increase of \$30 million, or 4.2 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$1,150 million, an increase of \$42 million, or 3.75 percent above last year. The increase is due to growth in current year liabilities, a reduction in offsets to prior year liabilities, and a 50 percent increase in audit and compliance receipts, offset by a projected decline of \$20 million from the taxes imposed on excess line brokers under the Insurance Law.

2006-07 Projections

All Funds receipts are projected to be \$1,166 million, an increase of \$16 million, or 1.4 percent above 2005-06. The forecast projects receipts from premiums and income-based taxes imposed on life insurers will grow by about 3.4 percent. That growth is offset by proposed tax reductions that will decrease the minimum and maximum limitations and limit the amount of annuity premiums included in computing the maximum limitations for life insurance companies by \$18 million. A small decline in the accident and health premium base offsets a portion of the normal growth in property and casualty premiums. Excess line premiums are expected to remain constant at \$100 million. Receipts from audit collections and taxes imposed under the Insurance Law are projected to remain at 2005-06 levels.

General Fund

Based on collections to date, 2005-06 receipts are projected to increase by \$48 million, to \$1,055 million. The receipts estimate for 2005-06 includes \$26 million in audit collections, \$28 million in refunds and \$100 million in insurance premiums tax collections.

For 2006-07, collections are projected at \$1,068 million. This estimate includes \$26 million in audits, offset by \$28 million in refunds. It also includes \$100 million in excess lines insurance premiums tax collections.

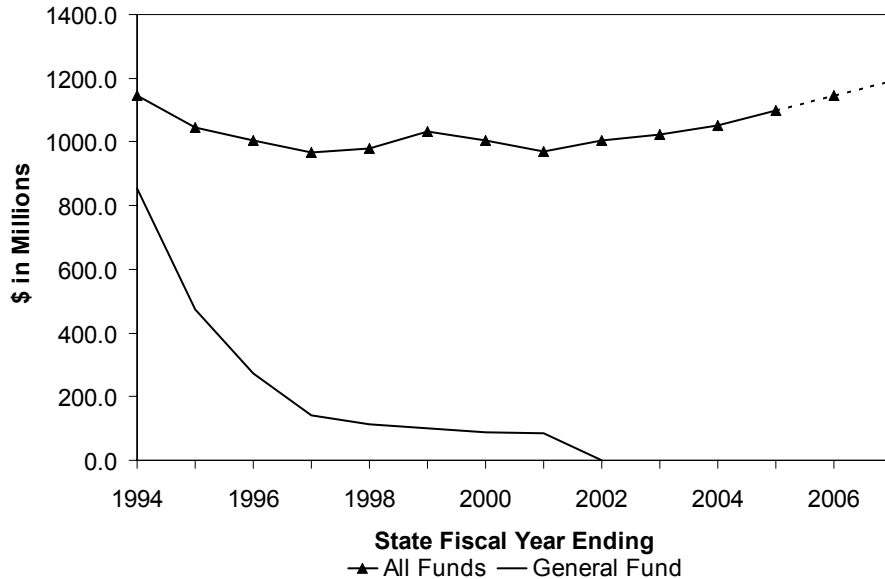
Other Funds

Collections deposited into MTOAF are estimated at \$95 million for 2005-06 and \$98 million for 2006-07.

PETROLEUM BUSINESS TAXES

PETROLEUM BUSINESS TAXES (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	0	0	0	0.0	0	0	0.0
Other Funds	1,085	1,141	56	5.2	1,192	51	4.5
All Funds	1,085	1,141	56	5.2	1,192	51	4.5

**Petroleum Business Taxes Receipts
History and Estimates**



PETROLEUM BUSINESS TAXES BY FUND (millions of dollars)											
	Gross General Fund		Gross Special Revenue Funds		Special Revenue Funds ¹		Gross Capital Projects Funds ²		Capital Projects Funds ²		All Funds Receipts
	Fund	Refunds	Fund	Refunds	Funds ¹	Refunds	Funds ²	Refunds	Funds ²		
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	1	0	1	462	8	454	578	10	568	1,023	
2003-04	0	0	0	478	6	472	587	7	580	1,052	
2004-05	0	0	0	492	6	486	607	8	599	1,085	
Estimated											
2005-06	0	0	0	519	7	512	637	8	629	1,141	
2006-07*	0	0	0	542	7	535	665	8	657	1,192	

¹ Dedicated Mass Transportation Trust Fund and Mass Transportation Operating Assistance Fund.
² Dedicated Highway and Bridge Trust Fund.
* Minimal impact of proposed legislation.

PETROLEUM BUSINESS TAXES

PROPOSED LEGISLATION

Legislation submitted with this Budget will provide for an exemption for alternative fuels.

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. Under tax rate indexing, annual adjustments are made on January 1 of each year to the tax rates to reflect the change in the producer price index (PPI) for refined petroleum products for the 12 months ending August 31 of the preceding year. However, under current law, 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, in general, that the base and supplemental tax rates each be rounded to the nearest tenth of one cent. As a result, the percentage change in tax rates is usually less than the percentage change in the index.

Based on changes in the petroleum PPI, the PBT rate index for 2005 increased by 5 percent and increased by another 5 percent on January 1, 2006. The petroleum PPI is projected to increase by 26.2 percent through August 2006, triggering a projected PBT rate index increase of 5 percent for 2007. (See Table 1 and 2)

Petroleum Products	2005			2006			2007*		
	Base	Supp	Total	Base	Supp	Total	Base	Supp	Total
Automotive fuel									
Gasoline and other non-diesel	9.20	6.00	15.20	9.60	6.30	15.90	10.00	6.60	16.60
Diesel	9.20	4.25	13.45	9.60	4.55	14.15	10.00	14.85	14.85
Aviation gasoline	9.20	6.00	15.20	9.60	6.30	15.90	10.00	6.60	16.60
Net rate after credit	6.00	0.00	6.00	6.30	0.00	6.30	6.60	0.00	6.60
Kero-jet fuel	6.00	0.00	6.00	6.30	0.00	6.30	6.60	0.00	6.60
Non-automotive diesel fuels	8.20	6.00	14.20	8.60	6.30	14.90	9.00	6.60	15.60
Commercial gallonage after credit	8.20	0.00	8.20	8.60	0.00	8.60	9.00	0.00	9.00
Nonresidential heating after credit	4.40	0.00	4.40	4.60	0.00	4.60	4.90	0.00	4.90
Residual petroleum products	6.30	6.00	12.30	6.60	6.30	12.90	6.90	6.60	13.50
Commercial gallonage after credit	6.30	0.00	6.30	6.60	0.00	6.60	6.90	0.00	6.90
Nonresidential heating after credit	3.40	0.00	3.40	3.60	0.00	3.60	3.70	0.00	3.70
Railroad diesel fuel	9.20	4.25	13.45	9.60	4.55	14.15	10.00	4.85	14.85
Net rate after exemption/refund	7.90	0.00	7.90	8.30	0.00	8.30	8.70	0.00	8.70

* Projected — An estimated fuel price increase of 26.2 percent through August 2006 will result in an increase of 5 percent in the PBT index on January 1, 2007.

PETROLEUM BUSINESS TAXES

Year	Petroleum PPI	PBT Rate Index
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	27.01	5.00
2005	12.94	5.00
2006	35.09	5.00
2007*	26.21	5.00

* Estimated

The “Motor Fuel Tax” section contains a table showing New York’s combined fuel tax rank among the 50 states.

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 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 fuels used for manufacturing, residential or not-for-profit organization heating purposes, fuel sold to governments, sales for export from the State, kerosene other than kero-jet fuel, crude oil, liquefied petroleum gas (LPG), and certain bunker fuel. For further expenditure items related to the PBT, see the New York State Tax Expenditure Report.

Significant Legislation

The significant statutory changes to this tax source since 1994 are summarized below.

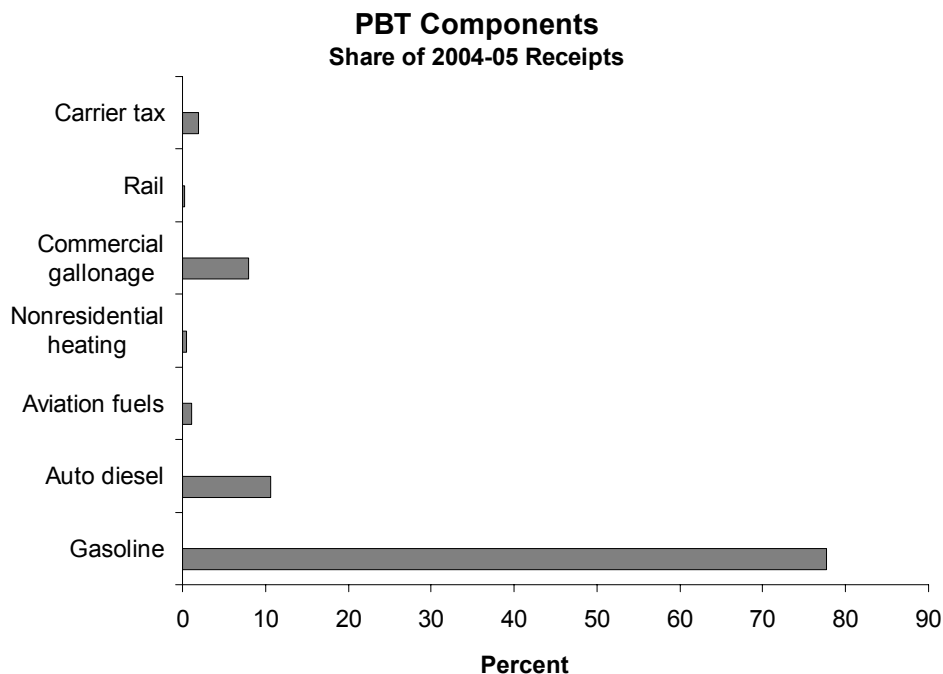
PETROLEUM BUSINESS TAXES

Subject	Description	Effective Date
Legislation Enacted in 1995		
Aviation Fuels	Effectively eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products to a rate that is equivalent to the statutory supplemental tax rate. To maintain the first import system, which imposes the petroleum business tax on aviation gasoline upon importation, and still allow retail sellers of aviation gasoline to sell such product at a reduced rate, distributors of aviation gasoline must remit the full tax imposed on that product and may subsequently take a credit for the difference between the full rate and the reduced rate.	September 1, 1995
Not-for-profit Organizations	Provided full exemption for heating fuel that is for the exclusive use and consumption of certain not-for-profit organizations.	January 1, 1996
Legislation Enacted in 1996		
Railroads	Exempted diesel motor fuel used for railroads from the supplemental portion of the tax and reduced the base rate by 1.33 cents per gallon.	January 1, 1997
Commercial Heating	Provided full exemption from the supplemental tax imposed on distillate and residual fuels used by the commercial sector for heating.	March 1, 1997
Manufacturing	Expanded to a full exemption, the partial exemption provided for residual and distillate fuels used in manufacturing.	January 1, 1998
Diesel Supplemental Tax	Reduced by three-quarters of one cent per gallon the supplemental tax imposed on diesel motor fuel.	January 1, 1998
	Reduced by an additional one cent per gallon the supplemental tax imposed on diesel motor fuel.	April 1, 1999
Utilities	Increased by one-half cent per gallon the base tax credit for residual and distillate fuels used by utilities to generate electricity.	April 1, 1999
Legislation Enacted in 1997		
Vessels	Created a credit or refund for fuel used in vessels that was purchased in the State and consumed outside the State; clarified that the export credit/refund applies to export for use, as well as sale; stated that the legal incidence of the tax is on consumers; and limited the judicial remedies available to taxpayers.	April 1, 1984
Legislation Enacted in 1999		
Commercial Heating	Reduced by 20 percent the petroleum business tax rates on commercial gallons for space heating.	April 1, 2001
Mining and Extraction	Provided for reimbursement of petroleum business tax imposed on fuels used for mining and extraction.	April 1, 2001
Legislation Enacted in 2000		
Minimum Tax	Eliminated the minimum taxes on petroleum businesses and aviation fuel businesses under the PBT.	March 1, 2001
Commercial Heating	Reduced by 33 percent the petroleum business tax rates on commercial gallons for space heating.	September 1, 2002
Legislation Enacted in 2004		
Aviation Fuel	Eliminated PBT on fuels used for aircraft overflight and landing.	November 1, 2004
	Exempted fuel burned on takeoff by airlines operating non-stop flights between at least four cities in New York.	June 1, 2005

TAX LIABILITY

Petroleum business tax receipts 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 number of gallons held in inventories, the fuel efficiency of motor vehicles, and State economic performance. The following chart displays the composition of PBT receipts by fuel type.

For a more detailed discussion of the methods and models used to develop estimates and projections for the petroleum business taxes, please see the “Economic and Receipt Estimates Methodology” section of this volume.



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$861.6 million, an increase of \$43.7 million, or 5.3 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$1,141 million, an increase of \$56 million, or 5.2 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"). Residual fuels used by utilities are estimated to increase modestly due to the decrease in the relative price of residual fuel oil compared to natural gas.

The estimate for 2005-06 reflects the 5 percent increase in PBT rates that took effect on January 1, 2005, and the 5 percent increase effective January 1, 2006. The estimate also reflects a loss of \$2.3 million in receipts from 2004 legislation that exempted certain uses of aviation fuel from the PBT.

2006-07 Projections

All Funds receipts are projected to be \$1,192 million, an increase of \$51 million, or 4.5 percent above 2005-06.

Gasoline and diesel receipts are projected to increase by \$41.4 million and \$9.1 million, respectively. Increases in taxable gasoline and diesel gallonage are projected to be marginal. The receipts increase is generated primarily by the 5 percent increase in the PBT rate index effective January 1, 2006, and the anticipated additional increase of 5 percent in January

PETROLEUM BUSINESS TAXES

2007. The estimate also reflects the loss of \$2.7 million in receipts from 2004 legislation exempting certain uses of aviation fuel. The fiscal impact from the proposed exemption of alternative fuels is expected to be minimal.

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 2005-06 and 2006-07.

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) were to 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 General Fund deposits and increased the amount deposited in the Dedicated Transportation funds.

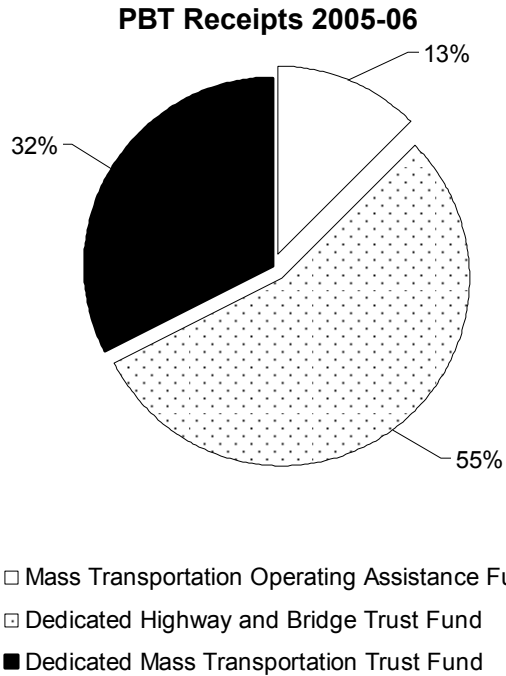
Legislation enacted in 2000 significantly increased the flow of PBT funds to the Dedicated Funds Pool. Effective April 1, 2001, all PBT receipts previously deposited in the General Fund, including the balance of the basic tax and the carrier tax, were redistributed to the Dedicated Highway and Bridge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

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).

PETROLEUM BUSINESS TAXES



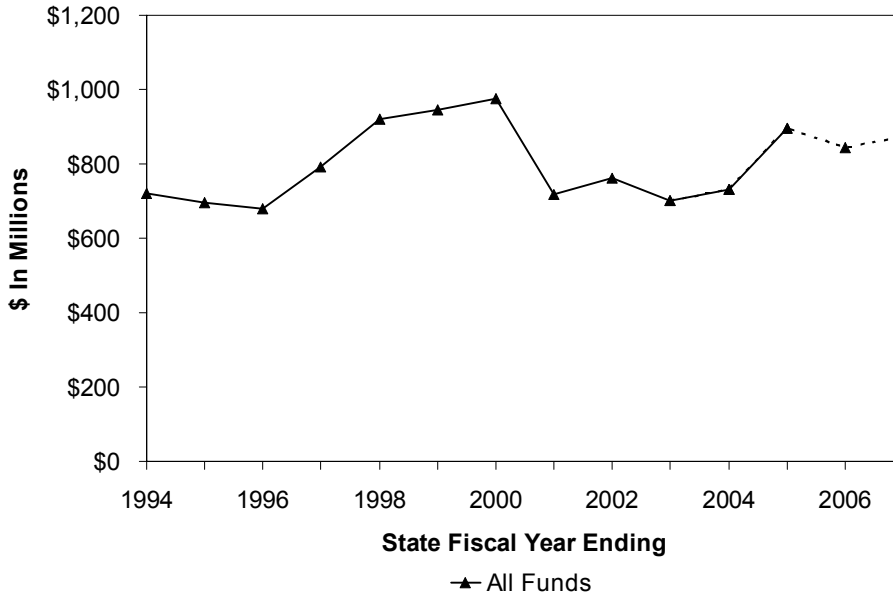
Petroleum business tax receipts in 2005-06 are estimated to be \$143.0 million for MTOAF, \$628.7 million for the Dedicated Highway and Bridge Trust Fund, and \$369.3 million for the Dedicated Mass Transportation Trust Fund.

Petroleum business taxes in 2006-07 are projected to provide MTOAF receipts of \$148.9 million, Dedicated Highway and Bridge Trust Fund receipts of \$657.2 million, and Dedicated Mass Transportation Trust Fund receipts of \$386.0 million.

ESTATE TAX

ESTATE TAX (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	895	868	(27)	(3.0)	874	6	0.7
Other Funds	0	0	0	0.0	0	0	0.0
All Funds	895	868	(27)	(3.0)	874	6	0.7

**Estate Tax Receipts
History and Estimates**



ESTATE TAX BY FUND (millions of dollars)				
	Gross General		General	All Funds
	<u>Fund</u>	<u>Refunds</u>	<u>Fund</u>	<u>Receipts</u>
1997-98	967	48	919	919
1998-99	993	47	946	946
1999-2000	1,029	54	975	975
2000-01	777	60	717	717
2001-02	791	30	761	761
2002-03	736	35	701	701
2003-04	760	28	732	732
2004-05	936	41	895	895
Estimated				
2005-06	908	40	868	868
2006-07	914	40	874	874

ESTATE TAX

PROPOSED LEGISLATION

Legislation proposed with this Budget will conform the State's unified credit to the Federal credit beginning in 2007 and will eliminate the tax in 2010.

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 value of the gross estate using Federal estate tax provisions in effect as of July 22, 1998. The Federal gross estate comprises the total amount of real estate, stocks and bonds, mortgages, notes, 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 from \$115,000 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 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 are 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, 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 above, 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, Federal law phased out the Federal credit for state death taxes over four years, by 25 percent per year. The credit was repealed for the estates of decedents dying after 2004. In 2005, the credit became 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 is 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.

If the payment of the tax will 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 tenth 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.

ESTATE TAX

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 State's unified credit to equal the Federal credit, but capped the maximum credit to exempt the first \$1,000,000 of the estate.	February 1, 2000
Estate Tax Rate	Set the New York estate tax rates equal to the Federal credit for State estate taxes paid.	February 1, 2000
Gift Tax	Repealed.	January 1, 2000
Tax Liability Due Date	Increased from six to seven months.	October 1, 1998
	Increased from seven to nine months (same as Federal).	February 1, 2000
Legislation Enacted in 1998		
Closely-Held Business	Reduced interest on deferred payments of estate tax, where estate consists largely of a closely-held business, 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	Repealed family-owned business exclusion and replaced with family-owned business deduction, conforming to Federal law changes.	December 31, 1997
Penalty and Interest	Waived penalty and interest 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

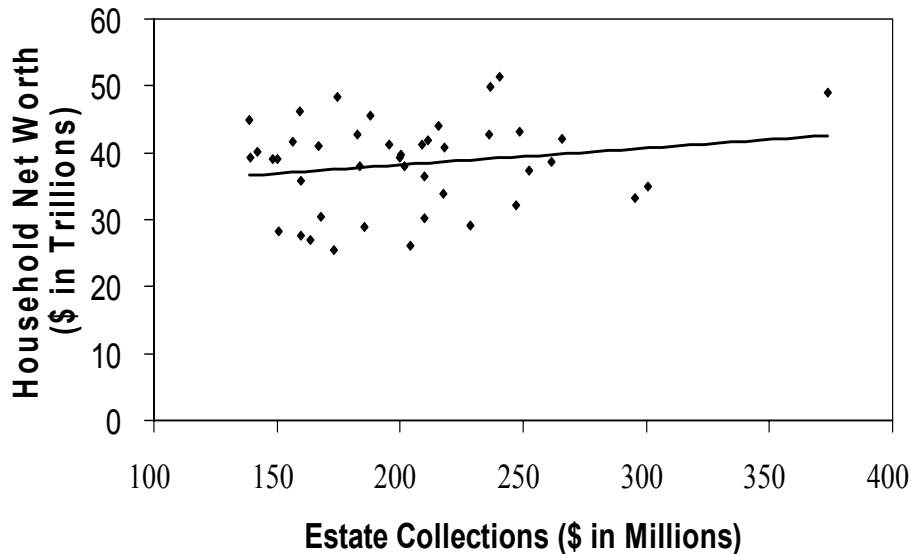
TAX LIABILITY

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 effectively exempt from the 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.

For a more detailed discussion of the methods and models used to develop estimates and projections for estate tax, please see the “Economic and Receipt Estimates Methodology” section of this volume.

Estate Tax Collections vs. Household Net Worth
Quarterly Data: 1995 - 2005



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$688 million, an increase of \$166 million, or 31.9 percent above the comparable period in the prior fiscal year.

CARTS collections through eight months of 2005-06 were \$23.1 million, an increase of 0.7 percent from the same period of 2004-05. Year-to-date refunds for 2005-06 are \$26.3 million, 10.3 percent below the same period of 2004-05.

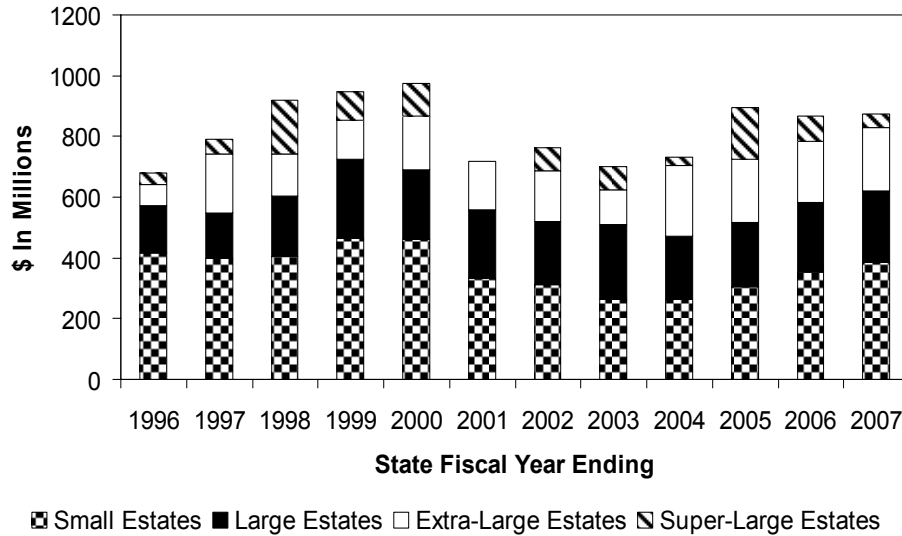
All Funds receipts for 2005-06 are estimated to be \$868 million, a decrease of \$27.3 million, or 3.0 percent below last year. This decrease reflects extraordinarily strong receipts in the second half of 2004-05 and receipts more in line with traditional collection levels in the second half of 2005-06.

Small estate year-to-date collections are \$262.2 million, an increase of \$26.9 million, or 11.4 percent from the comparable period in 2004-05. Small estate receipts for 2005-06 are estimated at \$352.5 million, an increase of \$48 million or 15.8 percent above 2004-05. Small estates receipts have grown as increases in net worth have increased the number of estates with a value in excess of the unified credit. Large estates are estimated to increase to \$229 million, reflecting the 3.8 percent increase in the year-to-date receipts.

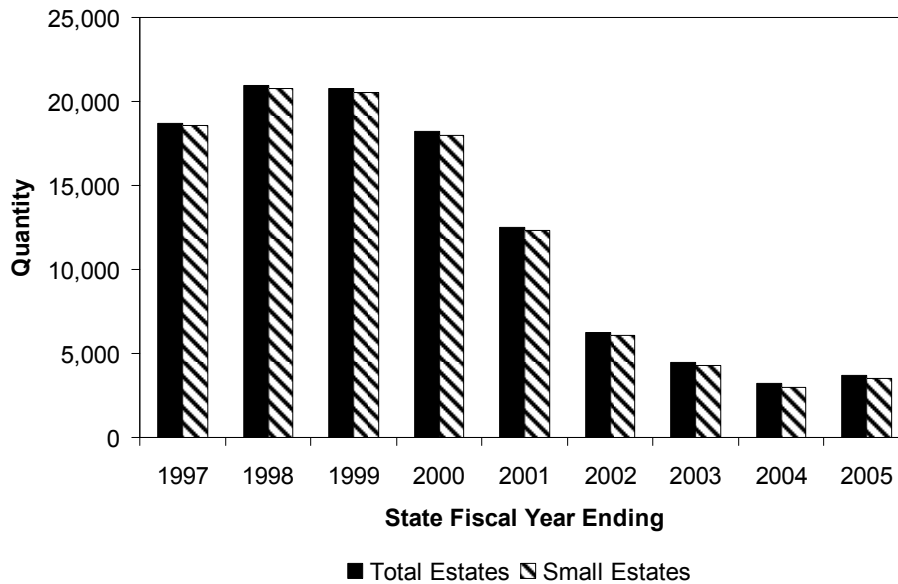
ESTATE TAX

Receipts from extra-large estates are estimated to decline from 2004-05 levels to \$203 million. An unusually large number of extra-large payments were received at the end of 2004-05. Two super-large payments totaling \$83.5 million have been received in 2005-06. No additional super-large payments are anticipated during the remainder of the year.

New York State Estate Tax Receipts



New York State Total Estates vs. Small Estates



2006-07 Projections

All Funds receipts are projected to be \$874 million, an increase of \$6 million or 0.7 percent above 2005-06. The estimate includes CARTS collections of \$32 million and refunds of \$40 million.

Super-large estate payments are projected to decrease by \$38.5 million, or 46.5 percent, to \$45 million. The payments from extra-large estates are expected to increase to \$208 million. The projections for the super-large and extra-large estates are based upon the distributional analysis which suggests the number of estates in this category will shrink in 2006-07. Large estate payments are estimated to increase by 3.1 percent to \$236 million and small estates are expected to increase by 9.2 percent or \$32.5 million, to \$385 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 8.5 percent in 2006-07.

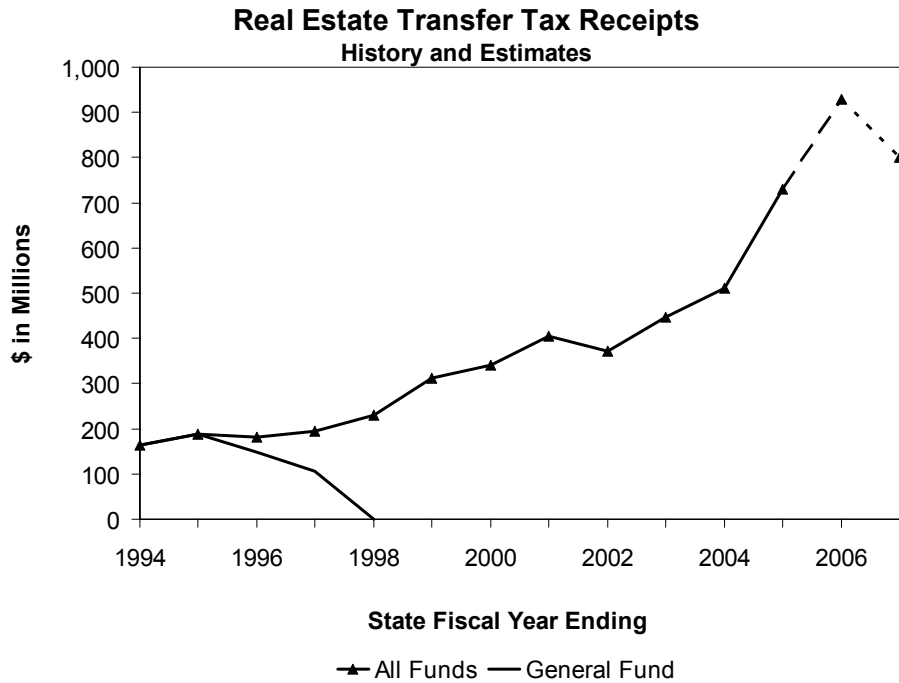
The legislation proposed with this Budget will not impact receipts in 2006-07.

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
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	0.0	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
2003-04	1	27.7	25	231.4	169	209.1	264.1	732.3
2004-05	2	170.3	23	207.6	191	212.9	304.5	895.3
	----- Estimated -----							
2005-06	2	83.5	22	203.0	185	229.0	352.5	868.0
2006-07	1	45.0	20	208.0	180	236.0	385.0	874.0

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 all CARTS less all refunds.)

REAL ESTATE TRANSFER TAX

REAL ESTATE TRANSFER TAX (thousands of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	0	0	0	0.0	0	0	0.0
Other Funds	730	930	200	27.4	800	(130)	(14.0)
All Funds	730	930	200	27.4	800	(130)	(14.0)



REAL ESTATE TRANSFER TAX BY FUND (thousands of dollars)					
	Capital Projects Funds ¹	Gross Debt Service Funds ²	Refunds	Debt Service Funds ²	All Funds Receipts
1997-98	87,000	142,747	115	142,632	229,632
1998-99	112,000	200,383	14	200,369	312,369
1999-2000	112,000	229,269	1,039	228,230	340,230
2000-01	112,000	293,181	436	292,745	404,745
2001-02	112,000	258,677	55	258,622	370,622
2002-03	112,000	335,761	202	335,559	447,559
2003-04	112,000	397,731	712	397,019	509,019
2004-05	112,000	618,340	740	617,600	729,600
Estimated					
2005-06	112,000	818,750	750	818,000	930,000
2006-07					
Current Law	137,000	618,340	750	617,590	754,590
Proposed Law	147,000	653,750	750	653,000	800,000

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

REAL ESTATE TRANSFER TAX

PROPOSED LEGISLATION

Legislation proposed with this Budget will increase the annual Environmental Protection Fund dedication from \$137 million to \$167 million over a three-year period.

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 (REITs) is \$2 per \$1,000 of consideration. The preferential tax rate for existing REITs is scheduled to sunset effective September 1, 2005. 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.

REAL ESTATE TRANSFER TAX

For a more detailed discussion of the methods and models used to develop estimates and projections for the Real Estate Transfer Tax, please see the “Economic and Receipt Estimates Methodology” section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$736.7 million, an increase of \$157.2 million, or 27.1 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$930.0 million, an increase of \$200 million, or 27.4 percent above last year.

The recent boom in the housing market, spurred by record-low mortgage rates that began in 2002-03, continued into the current fiscal year. The mansion tax has played an increasing role in the rapid growth in receipts that has characterized recent fiscal years. As average residential home prices have increased, so too has the proportion of homes priced in excess of \$1 million. In State fiscal year 1998-99, the mansion tax accounted for 11.3 percent of all real estate transfer tax receipts. By State Fiscal Year 2004-05, this share had increased to 26.0 percent. The 2005-06 estimate reflects liability data for the first seven months of the fiscal year, which indicate a decrease in the overall number of conveyances (including non-residential) of 6 percent, while showing an increase in receipts of 18 percent, when compared with the first seven months of 2004-05.

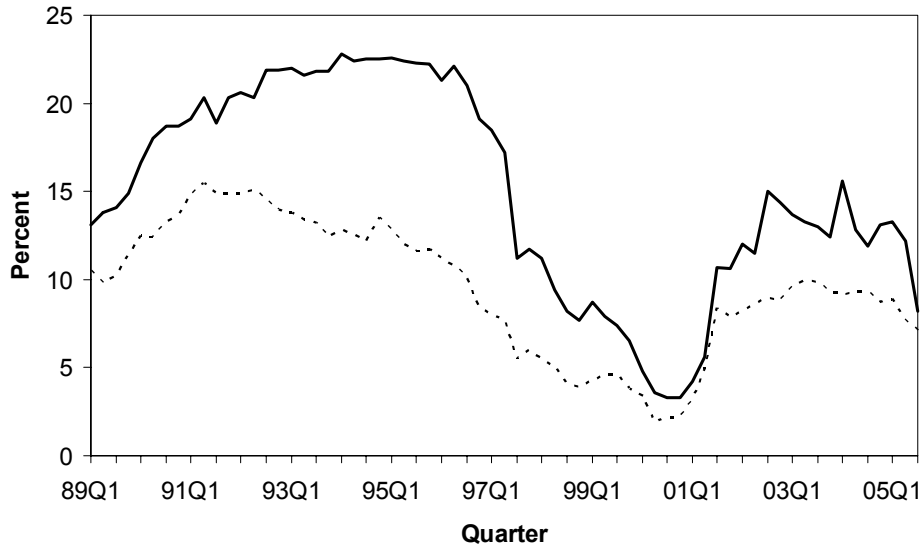
The following table compares tax liability by location through October of this fiscal year and 2004-05.

FISCAL YEAR LIABILITY THROUGH OCTOBER (millions of dollars)			
Region	2004-05 Liability	2005-06 Liability	Percent Change
Manhattan	95.6	181.7	90.1
Other Four Boroughs	76.6	99.1	29.4
Long Island	89.1	88.2	(1.0)
Rest of State	114.2	116.3	1.8
Central Office	81.6	53.7	(34.2)

The average New York residential home price is estimated to fall 1.7 percent in 2005-06. To date, the Manhattan commercial market has presented mixed signals. Vacancy rates are marginally lower than they were at this time last year. Downtown, the vacancy rate was 11.9 percent during the third quarter of 2005, versus 11.9 percent during the same period last year. The midtown rate fell from 9.3 percent to 7.1 percent during the same period. Anecdotal evidence suggests that foreign investors may be bidding up commercial prices in New York City as a result of the weak dollar.

REAL ESTATE TRANSFER TAX

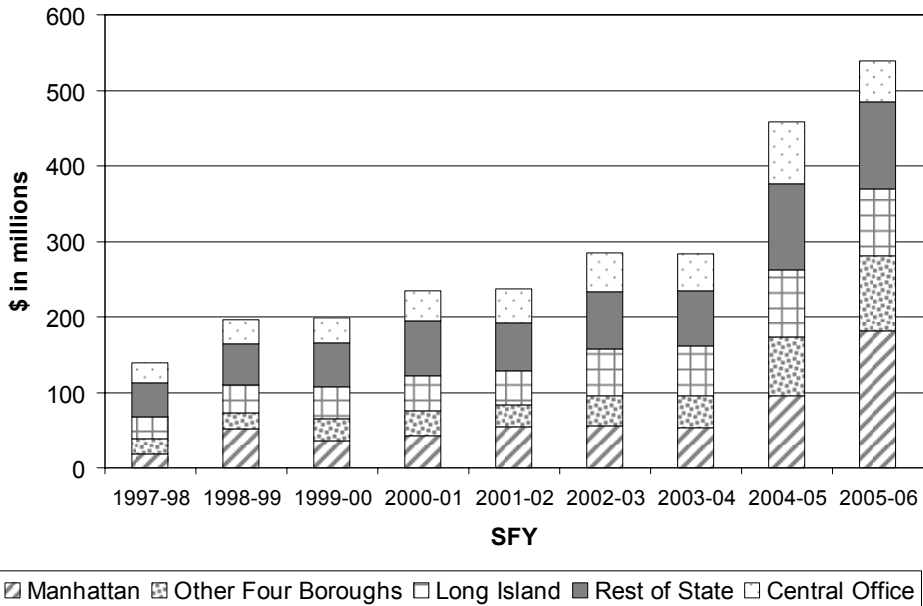
Vacancy Rates in Manhattan



Source: C.B. Richard Ellis

— Downtown ···· Midtown

Fiscal Year Liability Through October



2006-07 Projections

All Funds receipts are projected to be \$800 million, a decrease of \$130 million, or 14 percent below 2005-06.

Collections are expected to shrink due in part to the various mortgage rate increases during 2005. Projected increases in prices for both residential housing and commercial real estate (due to lower vacancy rates) should offset slightly for the effect of the increase in mortgage rates.

REAL ESTATE TRANSFER TAX

General Fund

The General Fund will receive no direct deposit of real estate transfer tax receipts in 2005-06 or 2006-07. However, the balance of the Clean Water/Clean Air Fund, not needed for debt service, is transferred to the General Fund.

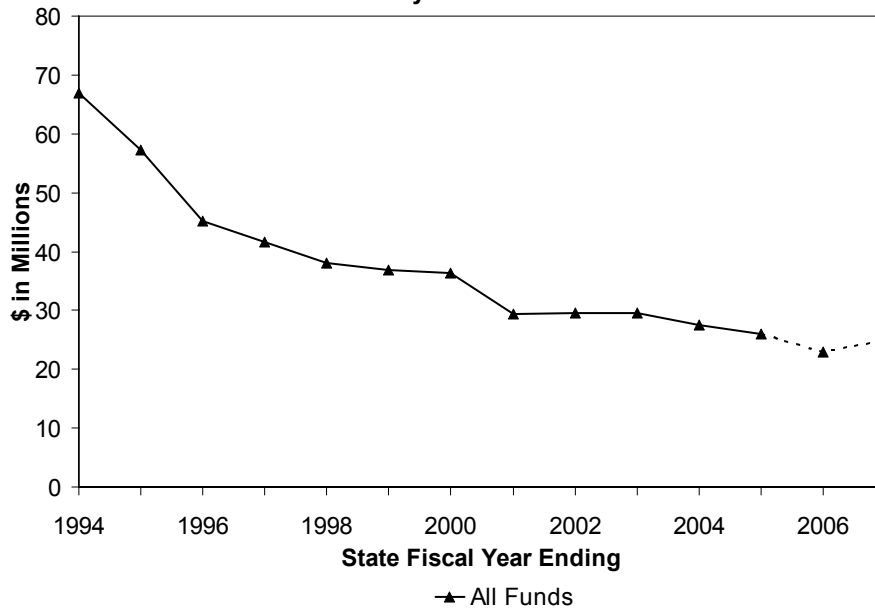
Other Funds

During 2005-06, the statutory amount of real estate transfer tax receipts diverted to the Environmental Protection Fund is \$112 million. During 2006-07, the statutory amount of real estate transfer tax receipts diverted to the Environmental Protection fund is \$137 million. Legislation proposed with this Budget will raise this amount up to \$147 million in 2006-07. The remainder of real estate transfer tax receipts, estimated at \$705 million in 2005-06 and \$532 million in 2006-07, is to be deposited in the Clean Water/Clean Air Bond Debt Service Fund.

PARI-MUTUEL TAXES

PARI-MUTUEL TAXES (thousands of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	26,029	23,000	(3,029)	(11.6)	25,000	2,000	8.7
Other Funds	0	0	0	0.0	0	0	0.0
All Funds	26,029	23,000	(3,029)	(11.6)	25,000	2,000	8.7

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



PARI-MUTUEL TAXES BY FUND (thousands of dollars)				
	General Fund			All Funds <u>Receipts</u>
	<u>Flat</u>	<u>Harness</u>	<u>OTB</u>	
1997-98	19,329	1,013	18,022	38,364
1998-99	18,643	923	17,355	36,921
1999-2000	17,218	795	18,356	36,369
2000-01	14,152	750	14,444	29,346
2001-02	10,525	852	18,269	29,646
2002-03	10,559	803	18,094	29,456
2003-04	9,999	796	16,694	27,489
2004-05	9,257	426	16,346	26,029
Estimated				
2005-06	5,700	300	17,000	23,000
2006-07	7,300	300	17,400	25,000

PARI-MUTUEL TAXES

PROPOSED LEGISLATION

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

DESCRIPTION

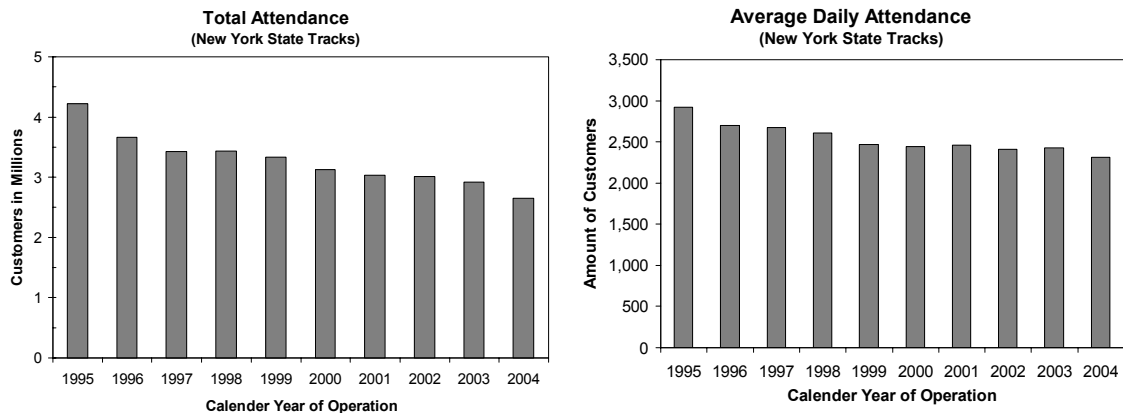
Tax Base and Rate

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 racing (thoroughbred or harness), the type of wager (regular, multiple, or exotic) and location at which it is placed (at the track, or off-track through simulcasting or at an Off-Track Betting Corporation). The average effective pari-mutuel tax rate is currently 1.02 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.

With the increase in OTB activity and simulcasting over the last 20 years, off-track bets now account for 75 percent of the statewide handle. The expansion of OTBs has contributed, in part, to the corresponding decline in handle and attendance at racetracks.

To promote growth of the industry, 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, authorized the expansion of simulcasting at racetracks and OTB facilities, allowed in-home simulcasting experiments and telephone betting, 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, 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
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 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 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 rate on all NYRA bets to 2.6 percent.	September 10, 1999
	Cut the 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

PARI-MUTUEL TAXES

Subject	Description	Effective Date
Legislation Enacted in 2003		
NYRA Franchise	Extended franchise 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
Legislation Enacted in 2005		
Regulatory Fee	Increased the amount of the fee from 0.39 percent to 0.50 percent of handle.	July 11, 2005
OTB Tax Credit	Allowed a credit equal to 45 percent of the pari-mutuel tax attributable to increased handle at regional off-track betting corporations for races which are conducted at tracks located within the State.	July 1, 2005

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.

For a more detailed discussion of the methods and models used to develop estimates and projections for the pari-mutuel taxes, please see the "Economic and Receipt Estimates Methodology" section of this volume.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$17.1 million, a decrease of \$1.4 million, or 7.8 percent below the comparable period in the prior fiscal year. All Funds receipts for 2005-06 are estimated to be \$23 million, a decrease of \$3 million, or 11.6 percent below last year.

Continued unfavorable fallout from NYRA's financial situation may have contributed to the decline in on-track handle in 2005-06. Year-to-date collections from thoroughbred on-track handle, including simulcasts, is \$5.7 million, a decrease of \$1.8 million or 25.2 percent from the same period last year. NYRA has failed to make all of its tax payments in 2005-06, and it is uncertain if payments will be made during the remainder of the fiscal year.

Receipts of pari-mutuel taxes from on-track harness wagering are estimated to be \$300,000 in 2005-06, down \$126,000, or 29.6 percent from 2004-05. The decline in receipts reflects the continued decline in handle at harness tracks. In addition, Yonkers Raceway has been closed since June 25, 2005, while its VLT facility is constructed.

Year-to-date receipts from off-track betting have increased \$512,000, or 4.7 percent from the comparable period in 2004-05. Receipts from OTB's are estimated at \$17.0 million for 2005-06, an increase of \$654,000, or 4.0 percent over the prior fiscal year.

2006-07 Projections

All Funds receipts are projected to be \$25 million, an increase of \$2 million or 8.7 percent above 2005-06 estimates.

PARI-MUTUEL TAXES

The OTB handle is projected to continue to increase in 2006-07, reflecting an expectation that OTB activity will increase from 2005-06 levels, generating tax receipts of \$17.4 million.

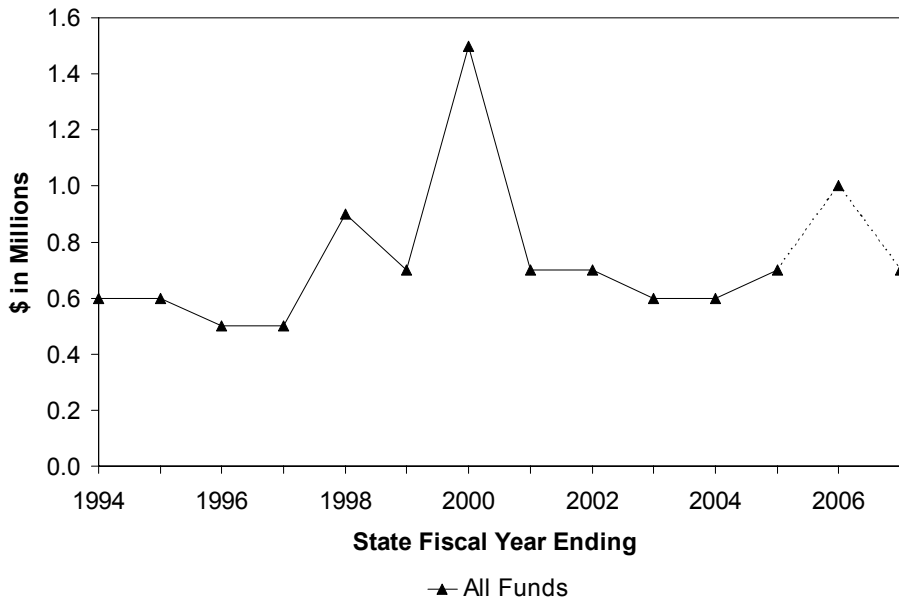
Total on-track thoroughbred receipts are projected to increase by \$1.6 million, or 28.1 percent. The downward trend in handle and attendance at thoroughbred tracks is expected to be offset by increased receipts from NYRA, as the racing association makes its full tax payments in 2006-07.

Receipts from harness racing are expected to remain at 2005-06 levels. The continued decline in handle is expected to be offset by the reopening of Yonkers Raceway in 2006.

OTHER TAXES

OTHER TAXES (thousands of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	731	1,000	269	36.8	700	(300)	(30.0)
Other Funds	0	0	0	0.0	0	0	0.0
All Funds	731	1,000	269	36.8	700	(300)	(30.0)

**Other Taxes Receipts
History and Estimates**



OTHER TAXES BY FUND (thousands of dollars)			
	General Fund		All Funds <u>Receipts</u>
	<u>Admissions</u>	<u>Exhibitions</u>	
1997-98	310	639	949
1998-99	294	400	694
1999-2000	299	1,238	1,537
2000-01	289	412	701
2001-02	285	388	673
2002-03	319	259	578
2003-04	344	226	570
2004-05	379	352	731
Estimated			
2005-06	550	450	1,000
2006-07	400	300	700

OTHER TAXES

PROPOSED LEGISLATION

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

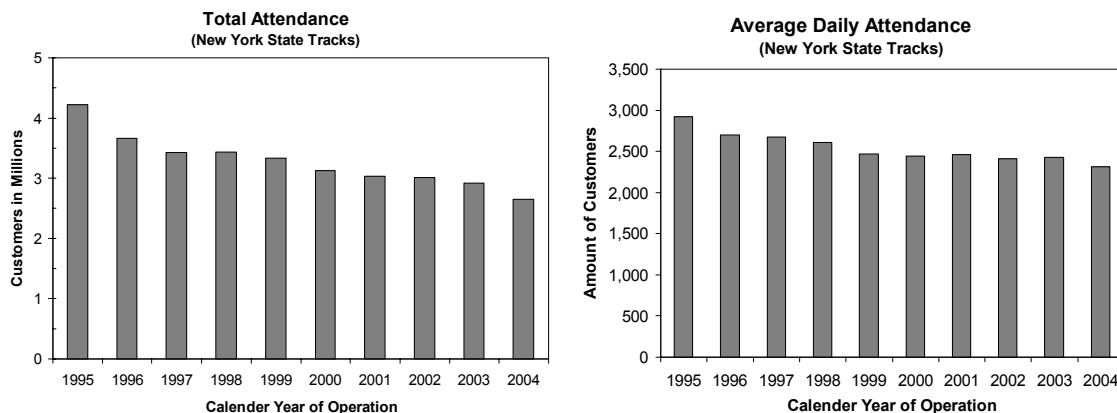
DESCRIPTION

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 within New York, expanded interstate competition, and the growth of casino activity in close proximity to New York residents have led to declines in total paid attendance at tracks (see charts below) and in receipts from this source. In addition, the introduction of video lottery terminals at tracks has led many facilities to eliminate their admission charges.

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

The New York State Racing and Wagering Board administers the collection of the racing admissions tax. It also 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 Department of Taxation and Finance is responsible for collecting the receipts of the boxing and wrestling exhibitions tax.

Significant Legislation

In 1999, the tax rate on boxing and wrestling exhibitions was reduced from 5.5 percent to 3 percent with a \$100,000 cap per exhibition.

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.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections to date are \$869,000, an increase of \$235,000 or 37.1 percent above the comparable period in the prior fiscal year.

All Funds receipts for 2005-06 are estimated to be \$1,000,000, an increase of \$269,000, or 36.8 percent above last year. The increase in receipts reflects the two pay-per-view wrestling events held in New York State in 2005-06 and the hosting of the Breeder's Cup in October 2005.

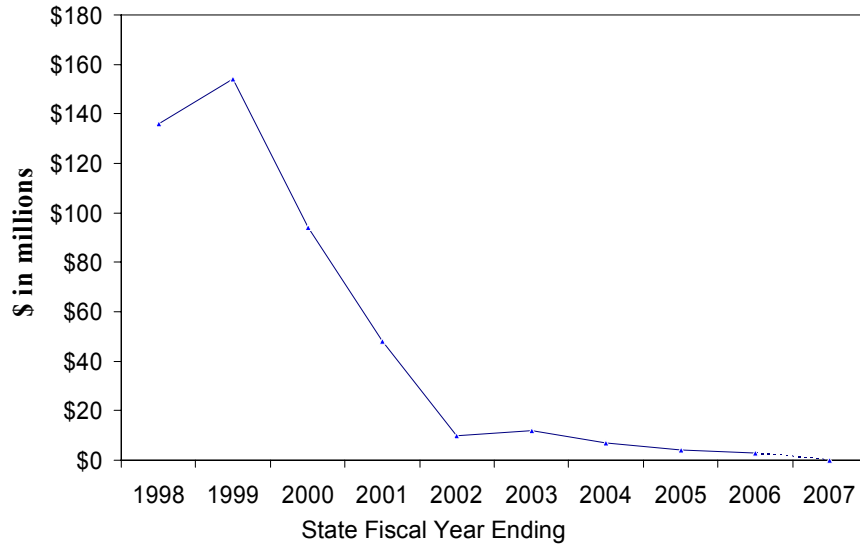
2006-07 Projections

All Funds receipts are projected to be \$700,000, a decrease of \$300,000, or 30 percent, from the prior year. The number of boxing and wrestling exhibitions in New York State is expected to remain at historic levels.

REPEALED TAXES

REPEALED TAXES (thousands of dollars)							
	2004-05	2005-06			2006-07		
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Percent</u>	<u>Projected</u>	<u>Change</u>	<u>Percent</u>
				<u>Change</u>			<u>Change</u>
General Fund	3,800	2,700	(1,100)	(29)	0	(2,700)	(100)
Other Funds	0	0	0	0.0	0	0.0	0.0
All Funds	3,800	2,700	(1,100)	(29)	0	(2,700)	(100)

Repealed Tax Collections
SFY 1997-98 to 2006-07



REPEALED TAXES BY FUND (thousands of dollars)				
	Gross		General	All Funds
	<u>Funds</u>	<u>Refunds</u>	<u>Fund</u>	<u>Receipts</u>
1997-98	201,143	38,572	135,532	135,532
1998-99	184,301	11,309	154,033	154,033
1999-2000	109,442	15,107	94,327	94,327
2000-01	53,183	5,548	47,628	47,628
2001-02	11,120	1,120	10,000	10,000
2002-03	12,623	732	11,891	11,891
2003-04	7,676	275	7,401	7,401
2004-05	5,000	1,200	3,800	3,800
Estimated				
2005-06	2,700	0	2,700	2,700
2006-07	0	0	0	0

REPEALED TAXES

GIFT TAX

Until it was repealed on January 1, 2000, New York was one of only five states that imposed a gift tax as a complement to the transfer tax on estates to equalize the tax burden on lifetime transfers. Like the estate tax, the base of this levy was derived from the Federal tax base, with exclusions for transfers of property located outside the State. The tax was imposed on a lifetime basis. Taxable gifts made during a taxpayer's lifetime, after allowable exclusions, were taxed in aggregate as one gift.

2005-06 Receipts and 2006-07 Projections

All Funds net gift tax collections to date are \$1.8 million. No receipts are expected for 2006-07 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.

2005-06 Receipts and 2006-07 Projections

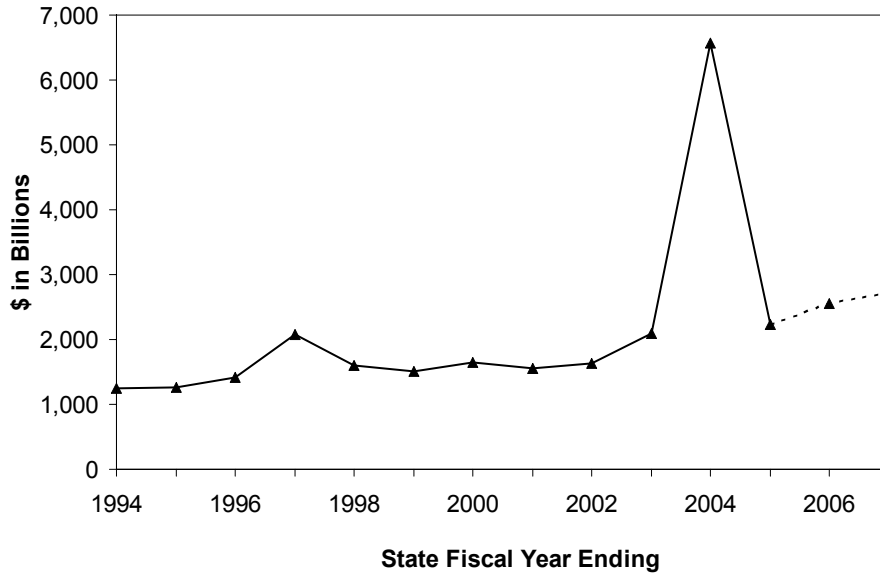
Remaining collections stem primarily from assessments on prior year tax liability and from deferred installment payments for tax liability arising from sales of condominium and cooperative housing for projects that were still being sold at the time of the gains tax repeal. To date, All Funds collections are \$0.74 million, with an additional \$0.1 million expected by the end of the State fiscal year. No refunds for this year are expected. As a result, net real property gains tax collections for 2005-06 are estimated to be \$0.84 million.

No receipts are expected for 2006-07 or for any subsequent fiscal year.

MISCELLANEOUS RECEIPTS GENERAL FUND

MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)							
	2004-05 <u>Actual</u>	2005-06 <u>Estimated</u>	<u>Change</u>	Percent <u>Change</u>	2006-07 <u>Projected</u>	<u>Change</u>	Percent <u>Change</u>
General Fund	2,226	2,600	374	16.8	2,717	117	4.5
All Funds	2,226	2,600	374	16.8	2,717	117	4.5

**Miscellaneous Receipts
History and Estimates**



MISCELLANEOUS RECEIPTS - GENERAL FUND (millions of dollars)					
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	2005-06 <u>Estimated</u>	2006-07 <u>Projected</u>
Licenses, Fees, Etc.	518	498	563	565	687
Federal Grants	6	654	9	9	9
Abandoned Property	767	606	569	798	729
Reimbursements	150	161	143	164	162
Investment Income	23	5	12	75	125
Other Transactions*	630	4,647	930	989	1,005
Total	2,094	6,571	2,226	2,600	2,717

* Includes proceeds from tobacco securitization.

MISCELLANEOUS RECEIPTS – GENERAL FUND

PROPOSED LEGISLATION

Legislation submitted with the Executive Budget proposes to add new charges and fees, to modify some existing charges and fees and reduce the time period for traveler's checks to be declared abandoned property. The following table summarizes the proposals impacting General Fund miscellaneous receipts.

DESCRIPTION	CHANGE	VALUE IN 2006-07 (millions of dollars)
Streamlined Disciplinary Process at ABC	Various	9.0
Food Safety Inspection Penalty	From: \$300 to \$500 \$1,000 to \$2,000	1.1
Automated Speed Enforcement Fine	New: \$100	41.9
Increase Banking Fines	Various	4.0
Increase Maximum Insurance Penalties	Various	0.8
New Annual PERB Registration Fee	New: \$50	0.5
Reduce dormancy period on unclaimed property	Various	100.0

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 may be significantly impacted 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

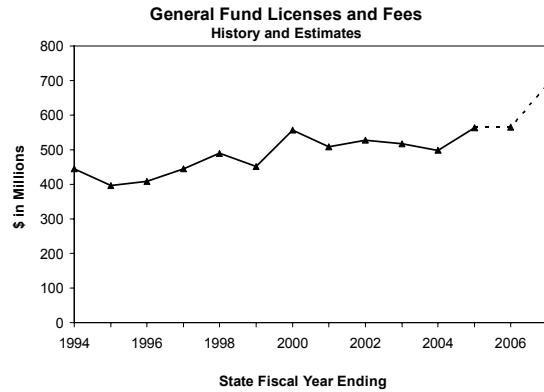
MISCELLANEOUS RECEIPTS – GENERAL FUND

Subject	Description	Effective Date
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
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 percent.	July 14, 2003
Oil and Gas Depth Fees	Increased Oil and Gas Depth fees by 50 percent.	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
Legislation Enacted in 2004		
Filing Fees	Increased Filing Fees for Alcoholic Beverage Control License applications.	April 1, 2004
Local Prosecution Program	Imposed various fees related to the Vehicle and Traffic Local Prosecution Program.	August 20, 2004
Driver Responsibility	Created the Driver Responsibility Program with fees of \$100 and \$250.	August 20, 2004
Federal Bed Contracts	Imposed State Correctional Facility Bed Rental Fee of \$30,000 per year to the Federal Government.	April 1, 2004
Waste Tire Fee	Extended the current Waste Tire Fee of \$2.50.	October 20, 2004
Stormwater Fees	Increased Stormwater Fees from \$50 to \$50-\$350.	April 1, 2004
Snowmobile Fee	Increased Snowmobile Fee from \$5 to \$10.	August 20, 2004
Legislation Enacted in 2005		
Food Inspection Violations	Imposed a fine of \$300 for the first food inspection violation.	January 1, 2005

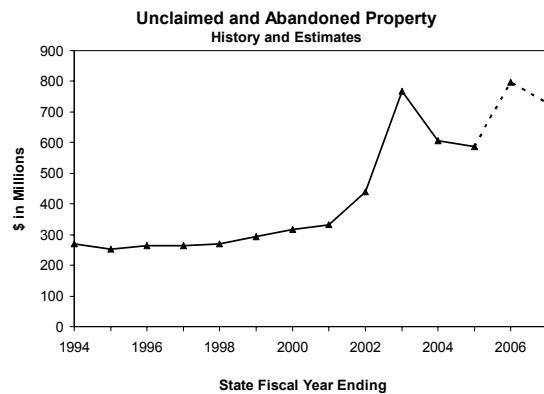
MISCELLANEOUS RECEIPTS – GENERAL FUND

Subject	Description	Effective Date
Agent License Fee	Increased insurance agent license fee from \$20 to \$40.	April 1, 2005
Service of Process Fee	Increased service of process fee from \$20 to \$40.	April 1, 2005
Reinsurance License Fee	Increased reinsurance license fee from \$100 to \$500.	April 1, 2005

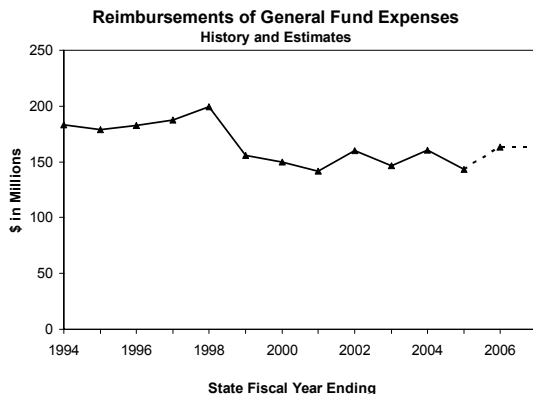
Components of Miscellaneous Receipts



Historically, General Fund license and fee revenues have grown modestly and fairly consistently, aside from minimal peaks and troughs associated with law changes. In 2006-07, these revenues are expected to increase as a result of fee and fine increases proposed in the Executive Budget. The most significant being the automated speed enforcement fine.

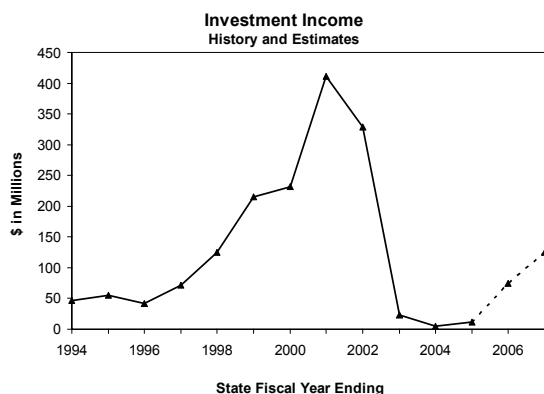


Historically, unclaimed and abandoned property revenue has remained relatively stable with minimal growth, aside from spikes in 2002-03 and 2003-04 resulting from a large amount of abandoned property released to the State of New York by the Office of the State Comptroller. This property was associated 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 maintain higher levels in the forecast period.

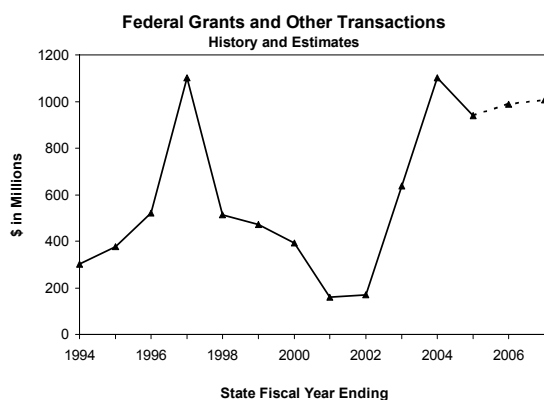


Historically, reimbursements of General Fund expense and revenue advances have remained relatively constant, and are expected to remain relatively constant over the forecast period.

MISCELLANEOUS RECEIPTS – GENERAL FUND



The trends in investment income are directly related to General Fund account balances and interest rates. For example, the large increase in 2000-01 followed by the severe drop in 2002-03 was a result of the impact of the economic growth and subsequent recession on the State's finances - balances declined and interest rates declined sharply. The forecast for investment income is for a slight increase in the outyears as interest rates and balances 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 including: 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.

2004-05 RECEIPTS

In State fiscal year 2004-05, miscellaneous receipts totaled \$2,226 million. Major revenue sources included: \$569 million in unclaimed and abandoned property; \$563 million in fees, licenses, fines, royalties, and rents; \$225 million from the State of New York Mortgage Agency; \$183 million from the securitization of tobacco bond proceeds; \$170 million in LGAC payments from the City of New York; \$143 million in reimbursements; \$158 million in medical provider assessments; \$80 million in additional bond issuance charges; \$57 million from the supplemental wireless surcharge; and \$50 million from the PASNY Power for Jobs program. In addition, the receipts include \$12 million in interest earnings on short-term investments and bank accounts, an amount that is net of certain expenses incurred in providing banking services to various State agencies, \$9 million in Federal Grants and \$7 million in payments from Chase Bank.

2005-06 ESTIMATES

Miscellaneous receipts are estimated at \$2,600 million for fiscal year 2005-06. Miscellaneous receipts are estimated to increase \$374 million from the prior year. The estimate includes: \$798 million in unclaimed and abandoned property; \$565 million in fees, licenses, fines, royalties, and rents; \$457 million from the local government revenue and disbursement program; \$165 million in medical provider assessments; \$164 million in reimbursements; \$125 million from the New York Power Authority pilot payments; \$103 million in additional bond issuance charges; \$75 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); \$61 million from the supplemental wireless surcharge; \$50 million from the State of New York Mortgage Agency; \$20 million in penalties from ABN AMRO Bank; \$9 million in Federal grants; \$6 million from the Medicare Part D Federal subsidy; and \$2 million from the securitization of tobacco bond proceeds.

MISCELLANEOUS RECEIPTS – GENERAL FUND

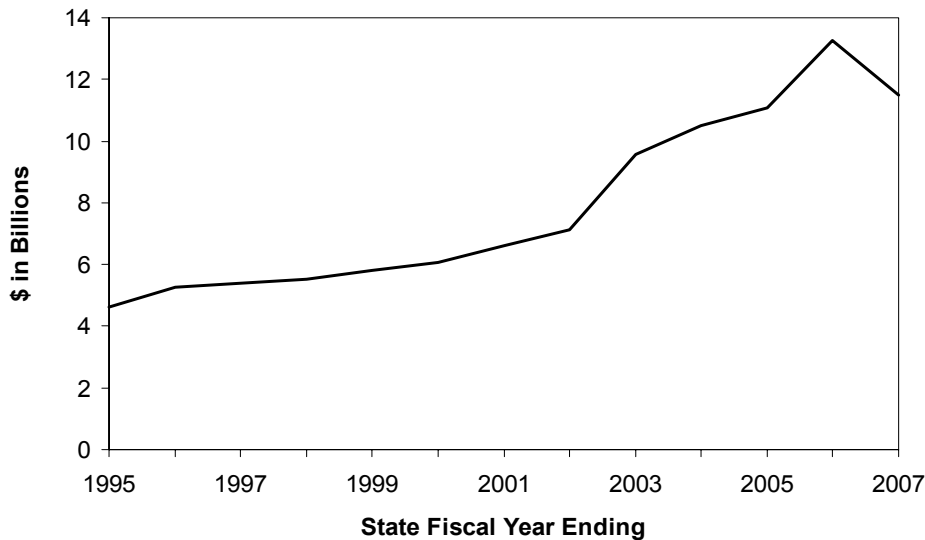
2006-07 PROJECTIONS

Miscellaneous receipts are projected at \$2,717 million in fiscal year 2006-07, an increase of \$117 million from 2005-06. This projection includes: \$729 million in unclaimed and abandoned property; \$687 million in fees, licenses, fines, royalties, and rents; \$447 million from the local government revenue and disbursement program (adjusted to reflect holding New York City harmless for recommended changes in City cigarette tax); \$175 million in medical provider assessments; \$162 million in reimbursements; \$127 million from the New York Power Authority pilot payments; \$125 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); \$73 million in additional bond issuance charges; \$67 million from the Medicare Part D Federal subsidy; \$63 million from the supplemental wireless surcharge; \$9 million in Federal grants; and \$53 million from other miscellaneous sources.

MISCELLANEOUS RECEIPTS SPECIAL REVENUE FUNDS

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	10972	13233	2261	20.6	11494	(1739)	(13.1)
Other Funds	143	16	(127)	(88.8)	15	0.0	0.0
All Funds	1115	13249	2134	19.2	11509	(1739)	(13.1)

**Special Revenue Fund Miscellaneous Receipts
History and Estimates**



Miscellaneous receipts deposited to special revenue funds represent approximately 22 percent of total special revenue receipts, excluding transfers from other funds. These receipts include SUNY tuition and patient income, lottery receipts for education, health care surcharges, assessments, and conversion proceeds used to finance Health Care Reform Act (HCRA) programs, assessments on regulated industries, and a variety of fees and licenses, all of which are dedicated to support specific programs. The following table summarizes miscellaneous receipts for 2002-03 through projected 2006-07.

MISCELLANEOUS RECEIPTS - SPECIAL REVENUE FUNDS (millions of dollars)					
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>Estimated</u>	
				<u>2005-06</u>	<u>2006-07</u>
HCRA (1)	2,034	2,394	2,374	5,571	3,212
State University Income	1,944	2,236	2,459	2,522	2,650
Lottery	1,931	2,090	2,226	2,294	2,618
Medicaid	1,598	1,187	1,219	462	759
Industry Assessments	451	445	493	503	523
All Other	1,612	2,165	2,344	1,897	1,747
Total	<u>9,570</u>	<u>10,517</u>	<u>11,115</u>	<u>13,249</u>	<u>11,509</u>

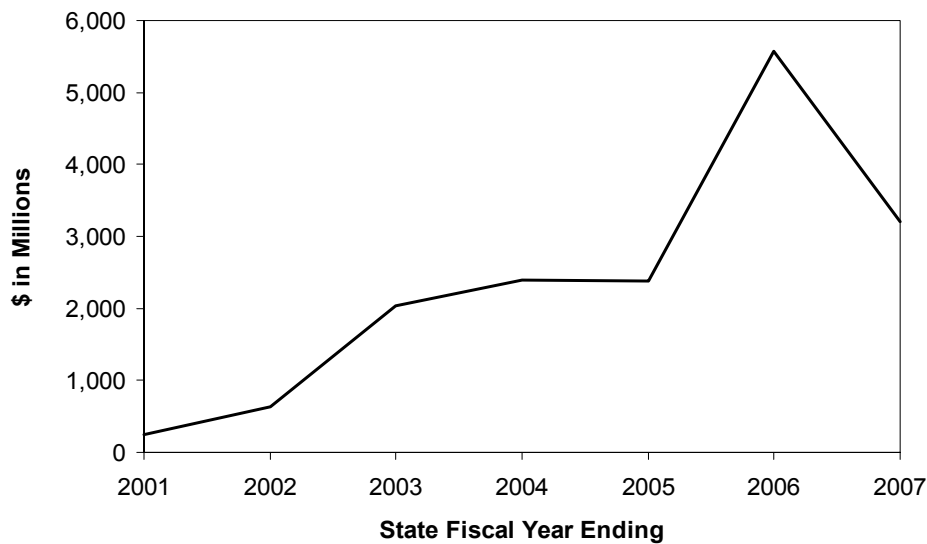
(1) The increase from 2004-05 to 2005-06 results in part from the inclusion of all HCRA funded programs on-budget in 2005-06

MISCELLANEOUS RECEIPTS – SPECIAL REVENUE FUNDS

HCRA FINANCING

HCRA receipts include recurring surcharges and assessments on hospital revenues, a “covered lives” assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute, as well as proceeds from insurance company conversions. These resources help finance the State’s Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage Program (EPIC), Child Health Plus (CHP), Healthy New York, Graduate Medical Education, AIDS programs, disproportionate share payments to hospitals and other various public health initiatives. The 2005-06 Enacted Budget created a new HCRA Resources Fund that includes all HCRA financed programs including those that were previously excluded from the State's Financial Plan.

**HCRA Financing Miscellaneous Receipts
History and Estimates**



Components of Miscellaneous Receipts

HCRA Financing Components of Miscellaneous Receipts (millions of dollars)		
	Estimated	
	2005-06	2006-07
Conversion Proceeds	2,743	500
Surcharges	1,637	1,686
Covered Lives Assessment	737	775
Hospital Assessment (1 percent)	240	199
All Other	214	52
Total Miscellaneous Receipts	5,571	3,212

Miscellaneous receipts are projected to total \$3.2 billion a decrease of \$2.4 billion from the current year. This decrease is primarily due to a decline in conversion proceeds (\$2.2 billion) and the elimination of a transfer from New York City of cigarette tax revenues (\$88 million).

MISCELLANEOUS RECEIPTS – SPECIAL REVENUE FUNDS

MEDICAID

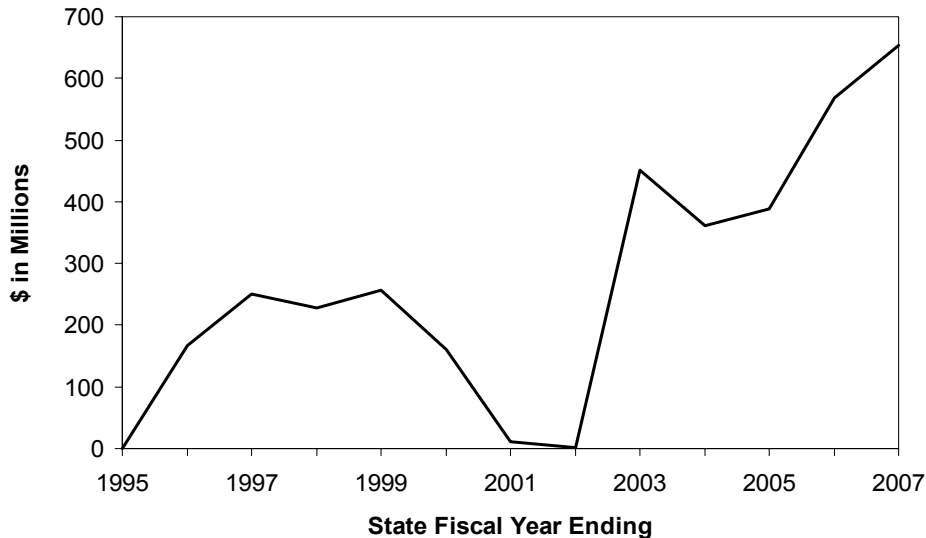
In addition to the General Fund, State Medicaid costs are financed by various Special Revenue Funds which include the HCRA Resources Fund (described above), the Provider Assessments Fund and the Indigent Care account. These resources are discussed in more detail below.

Medicaid Components of Miscellaneous Receipts (millions of dollars)		
	Estimated	
	2005-06	2006-07
Provider Assessments	463	760
Indigent Care (1)	0	0
Total Miscellaneous Receipts	463	760

Provider Assessments

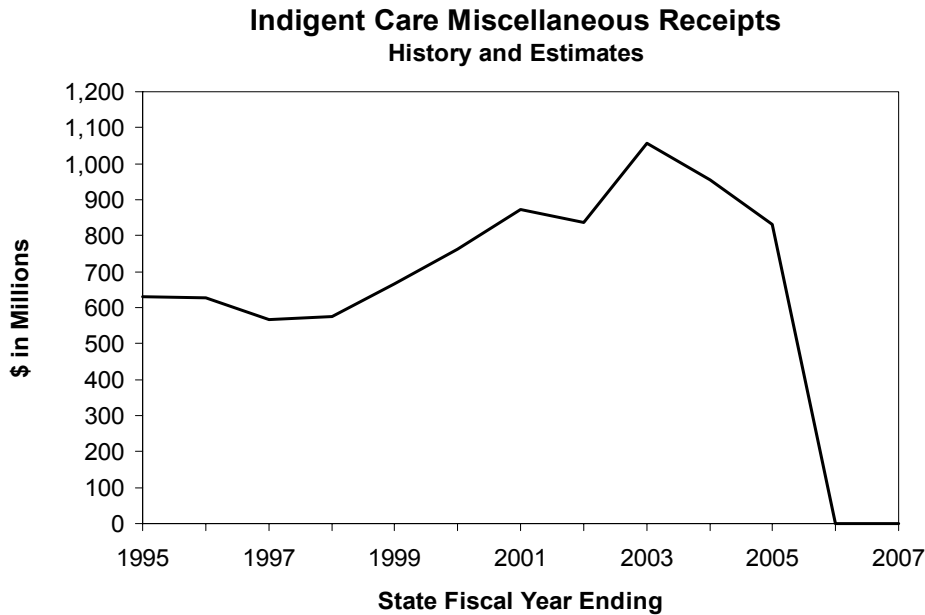
Prior nursing home assessments were eliminated as of April 1, 2000. A new Provider Assessments Fund was established with the 2002-03 Enacted Budget and is currently supported by a partially-reimbursable 6 percent assessment on nursing home revenues and a 0.35 percent assessment on hospital revenue.

**Provider Assessments Miscellaneous Receipts
History and Estimates**



Assessment receipts are projected to total \$760 million, an increase of \$297 million over the current year driven by delayed receipt of a .35 percent hospital cash assessment from 2005-06 to 2006-07 (\$106 million) and strengthening efforts to recoup nursing home assessments from delinquent payers (\$95 million).

MISCELLANEOUS RECEIPTS – SPECIAL REVENUE FUNDS



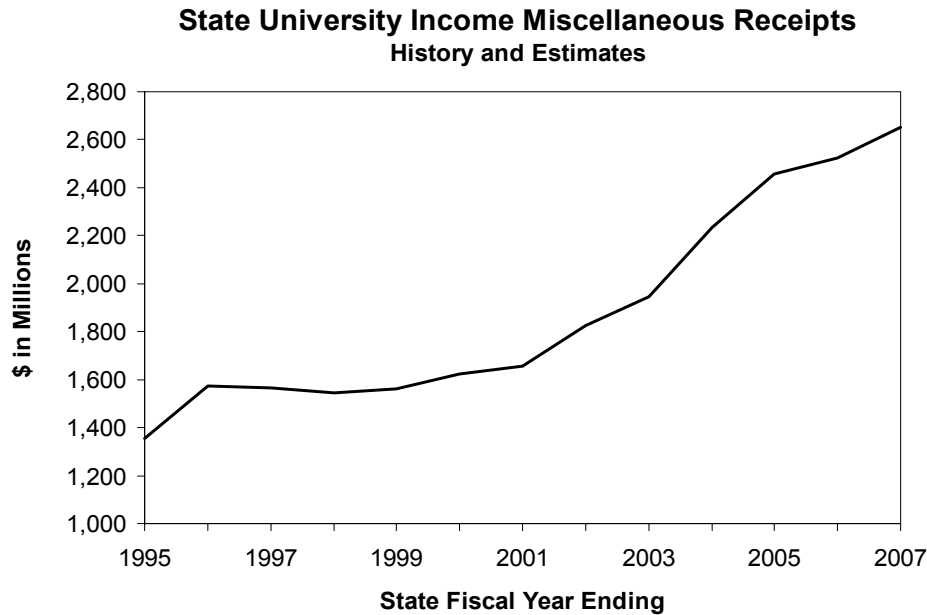
Indigent Care

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. This fund has been included in the new HCRA Resources Fund beginning in 2005-06 and thus excluded from this Medicaid section.

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, as well as the Long Island Veterans' Home, 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. Other receipts primarily include interest earnings and fringe benefit recoveries from SUNY's other special revenue accounts.

MISCELLANEOUS RECEIPTS – SPECIAL REVENUE FUNDS



Proposed Legislation

The Executive Budget recognizes the authority of the Board of Trustees to establish the tuition levels that are charged at SUNY campuses. Executive Budget receipts estimates assume a \$500 tuition increase that would result in tuition revenue growth of \$77 million over 2005-06.

Components of Miscellaneous Receipts

State University Income Components of Miscellaneous Receipts (millions of dollars)		
	Estimated	
	2005-06	2006-07
Tuition	966	1,034
Patient Revenues	957	1,003
User Fees	460	465
All Other	139	149
Total Miscellaneous Receipts	2,522	2,650

Miscellaneous receipts are projected to total \$2.7 billion and increase of \$128 million over the current year. This increase is driven primarily by a projected growth in tuition (\$68 million) and patient revenues (\$46 million).

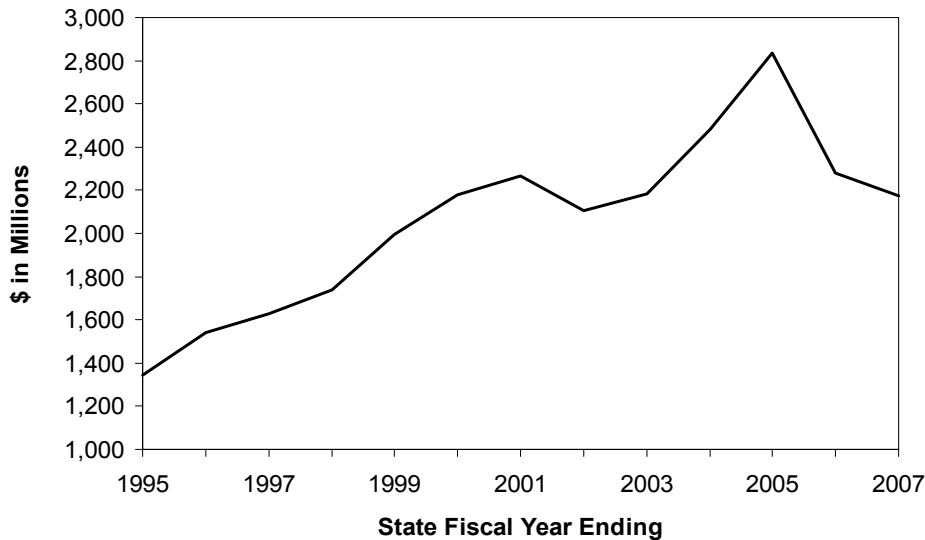
LOTTERY

Receipts from the sale of lottery tickets and proceeds from Video Lottery Terminals (VLT) 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.

MISCELLANEOUS RECEIPTS – SPECIAL REVENUE FUNDS

INDUSTRY ASSESSMENTS/ALL OTHER

**All Other Miscellaneous Receipts
History and Estimates**



Components of All Other Miscellaneous Receipts

All Other Components of All Other Miscellaneous Receipts (millions of dollars)		
	Estimated	
	2005-06	2006-07
Health	289	231
Environmental Conservation	208	219
State Police	136	139
HESC	151	128
Education	129	124
CUNY	120	120
Motor Vehicles	111	115
All Other	753	671
Total Miscellaneous Receipts	1,897	1,747

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 assessment include the Banking Department, the Insurance Department, the Public Service Commission, and the Workers' Compensation Board.

In addition to agency industry assessments, various fines and fees are collected to support agency operations and programs. The major sources of miscellaneous receipts by agency are detailed below.

Health receipts include reimbursement for patient care provided at the Department's health care facilities, regulatory fees, audit recoveries, and registration, testing and certification fees for various public health services.

MISCELLANEOUS RECEIPTS – SPECIAL REVENUE FUNDS

Environmental Conservation fees include vehicle emission inspection fees and fees on regulated pollutants, sporting license fees, revenues from the sale of forest products, and recreational user fees.

State Police miscellaneous revenue sources include seized assets, a portion of the State's monthly surcharge on cellular telephone bills, fees for accident reports and an annual fee on insurance policies of all registered motor vehicles.

HESC receipts include administrative fees paid by the Federal government and collections on defaulted loans

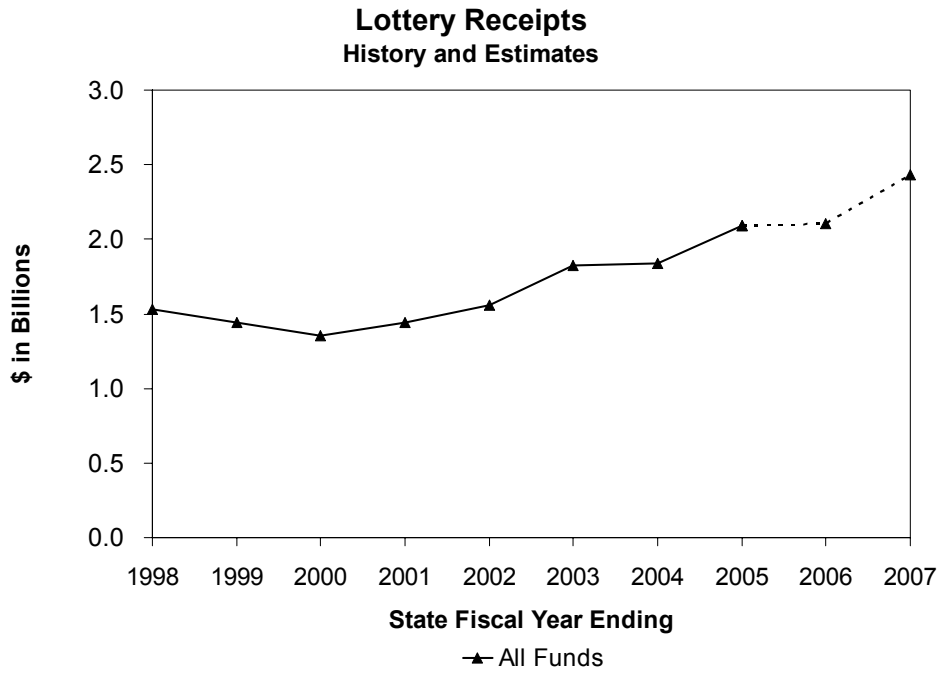
Education miscellaneous revenue sources include professional licensing fees and disciplinary fines, teacher certification fees and filing fees on certain documents filed in county clerks' offices.

CUNY miscellaneous receipts include income derived from excess tuition revenue and collections from self-supporting activities such as application fees, continuing education, and dormitory fees.

Motor Vehicles fees include, assessments against insurers, surcharges on traffic violations and suspended licenses and vehicle registration fees.

LOTTERY

MISCELLANEOUS RECEIPTS - LOTTERY							
(millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	0	0	0	0.0	0	0	0.0
Other Funds	2,093	2,107	14	0.7	2,431	324	15.4
All Funds	2,093	2,107	14	0.7	2,431	324	15.4



LOTTERY

COMPONENTS OF LOTTERY RECEIPTS (in Millions)							
LOTTERY GAMES	2001-02	2002-03	2003-04	2004-05	2005-06	Current Law 2006-07	Proposed Law 2006-07
	<u>Actual</u>	<u>Actual</u>	<u>Actual</u> ⁴	<u>Actual</u>	<u>Estimated</u>	<u>Projected</u>	<u>Projected</u>
Instant Game	377.1	465.7	529.0	550.0	589.0	620.0	620.0
Lotto Games ¹	254.8	175.7	163.4	137.5	128.0	104.0	104.0
Mega Millions		129.0	166.6	156.3	189.0	172.0	172.0
Take 5	152.2	133.5	128.9	121.3	117.0	112.0	112.0
Daily Numbers ²	256.8	267.0	271.8	278.4	286.0	292.0	292.0
Win 4 ²	182.4	205.6	213.2	220.1	230.0	242.0	242.0
Pick 10	13.2	11.9	12.1	11.8	11.0	11.0	11.0
Quick Draw	121.8	118.6	127.1	118.0	114.0	20.0	138.0
Subtotal	1,358.3	1,507.0	1,612.1	1,593.4	1,664.0	1,573.0	1,691.0
Administrative Surplus ³	192.2	281.9	272.3	296.0	329.0	298.0	335.0
Current Receipts Subtotal	1,550.5	1,788.9	1,884.4	1,889.4	1,993.0	1,871.0	2,026.0
Carry-in	47.2	37.2	0.0	49.3	0.0	46.5	46.5
Carry-out	(37.2)	0.0	(49.3)	0.0	(46.5)	0.0	0.0
VLT Transfer ⁵				154.6			
Disbursements for Education	1,560.5	1,826.1	1,835.1	2,093.3	1,946.5	1,917.5	2,072.5
VLT SBE Receipts ⁶					160.0	358.0	358.0
Total Education Disbursements	1,560.5	1,826.1	1,835.1	2,093.3	2,106.5	2,275.5	2,430.5
Total Current Receipts for Education	1,550.5	1,788.9	1,884.4	1,889.4	2,153.0	2,229.0	2,384.0

¹ Includes receipts from Lotto (Millennium Millions on December 1999 and October 2000 and King Kong in December 2006).

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.

⁴ 2003-04 Lottery Division's fiscal year included 53 weeks.

⁵ VLT revenue transferred to fund education through the current formula.

⁶ Receipts are dedicated to fund "SBE" initiatives.

PROPOSED LEGISLATION

- The Quick Draw game expires on May 31, 2006. This Budget includes legislation for permanent authorization to operate Quick Draw.
- Proposed legislation authorizes the elimination of Quick Draw restrictions related to food sales and hours of operation and reduces the restriction on the size of the establishment to 1,200 square feet. Current law specifies that Quick Draw may be only 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) for no more than 13 hours of daily operations, no more than 8 hours of which may be consecutive.

- Proposed legislation authorizes the expansion of the video lottery program, which will allow up to three new facilities.

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 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), or 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. Video Lottery Terminals (VLTs) are currently authorized only at selected thoroughbred and harness tracks.

The table below shows the distribution of lottery sales among prizes, revenue for education and the allowance for expenses related to administration of the games. Any unused administration revenue is earmarked for education.

Distribution of Lottery Sales (Percent)			
	Prizes	Education	Admin. Allowance
Lotto	40	45	15
Lotto - Millennium Millions	40	45	15
Instant Win	40	45	15
Mega Millions 50% Prize Payout	50	35	15
Take 5	50	35	15
Quick Draw	60	25	15
Numbers	50	35	15
Win 4	50	35	15
Pick 10	50	35	15
Instant	65	20	15
Three Games 75%	75	10	15

LOTTERY

The following table shows the distributions of VLT receipts (after prizes) among revenue for education, administration fee, operator commission, and funds available for promotions.

Distribution of VLT Receipts After Prizes* (Percent)				
<u>Racetracks in Westchester and Queens Counties</u>				
	<u>Revenues for Education</u>	<u>Lottery Administration Fee</u>	<u>Operator Commission</u>	<u>Promotions</u>
<u>Net Machine Income</u>				
Less than \$50 million	54	10	32	4
\$50 million to \$100 million	57	10	29	4
\$100 million to \$150 million	57	10	29	4
\$151 million and over	60	10	26	4
<u>Other Racetracks</u>				
	<u>Revenues for Education</u>	<u>Lottery Administration Fee</u>	<u>Operator Commission</u>	<u>Promotions</u>
<u>Net Machine Income</u>				
Less than \$50 million	50	10	32	8
\$50 million to \$100 million	53	10	29	8
\$100 million to \$150 million	56	10	29	5
\$151 million and over	59	10	26	5
*Not less than 90 percent of sales must be used for prizes. Net Machine Income is gross receipts minus prize payments.				

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.

Sales agents are notified electronically by the Division's operations vendor by Monday of each week of the amount due the State from sales during the previous week. The agent has until Tuesday to deposit sufficient funds in specified joint bank accounts at which time the operations vendor sweeps the receipts and transfers them to the Lottery Division by Wednesday morning. For VLTs, the Division sweeps the accounts daily and the State receives the revenue daily.

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. 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.	April 1, 1995

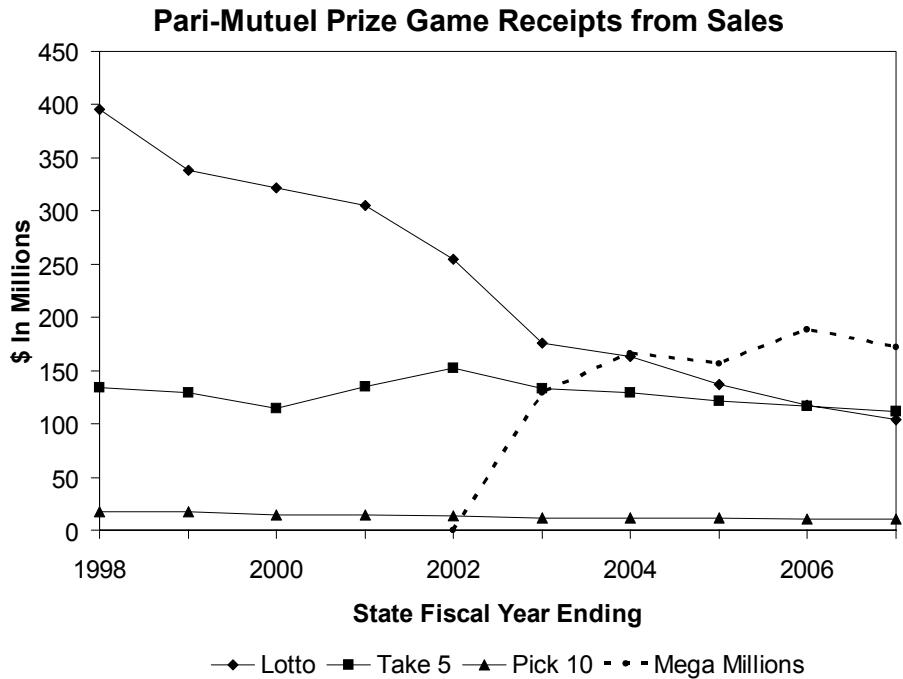
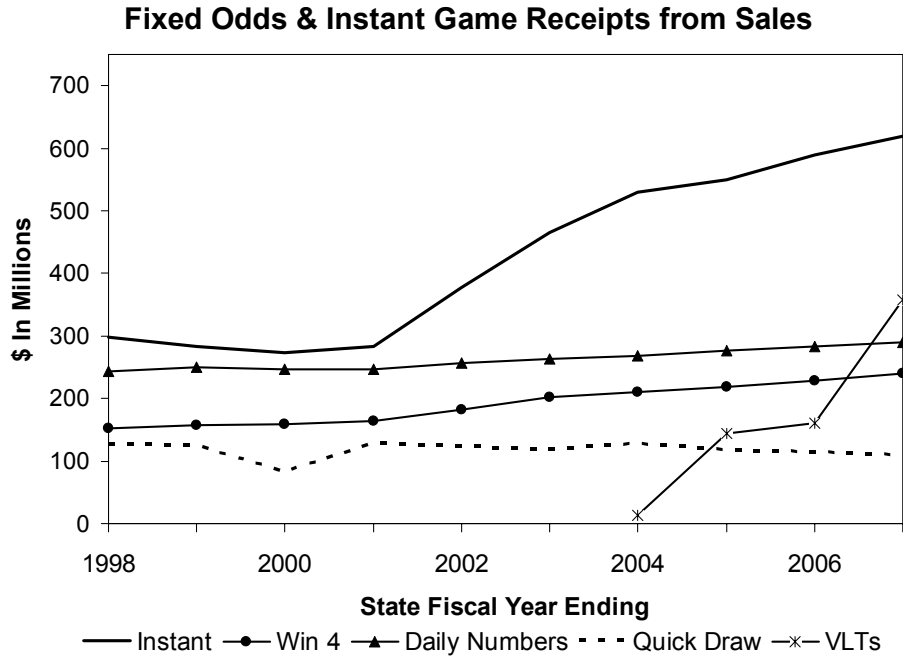
Subject	Description	Effective Date
	If there is no license for the sale of alcohol, then the premises have to be a minimum of 2,500 square feet. If there is a license to sell alcohol, then at least 25 percent of the gross sales must be from sales of food.	
Legislation Enacted in 1999		
Instant Games	Authorized a 65 percent prize payout. Reduced the percent dedicated to education from 30 percent to 20 percent.	April 1, 1999
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 (Mega Millions).	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	Authorized up to three 75 percent prize payout Instant ticket games to 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	Provided that of the total amount wagered on video lottery terminals, not less than 90 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
Legislation Enacted in 2004		
Quick Draw	Extended the operation of Quick Draw until May 31, 2005.	August 20, 2004
Legislation Enacted in 2005		
Quick Draw	Extended the operation of Quick Draw until May 31, 2006.	April 12, 2005
Video Lottery Terminals	Provides a graduated vendor's fee that allows participating tracks to receive 32 percent of the first \$50 million of revenue after prizes, 29 percent of the next \$50 million, and 26 percent of net revenue over \$100 million. In addition, a marketing allowance of 8 percent of the first \$100 million in net revenue and 5 percent thereafter was established. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens Counties. The expiration of the program is extended until December 31, 2017.	April 12, 2005

LOTTERY DEMAND

Factors that affect the demand for Lottery games include: the size of jackpots, 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.

For a more detailed discussion of the methods and models used to develop estimates and projections for the lottery tax, please see the "Economic and Receipt Estimates Methodology" section of this volume.

LOTTERY



RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds receipts for education from sales of Lottery games for 2005-06 are estimated to be \$2.11 billion, an increase of \$14 million, or 0.7 percent above 2004-05. Unspent

administrative allowances and miscellaneous income account for \$329 million. Net receipts for education also include \$160 million from the operation of video lottery terminals. A game-by-game profile follows.

Receipts from Instant Games sales are expected to increase to \$589 million in 2005-06, an increase of \$39 million, or 7.1 percent from last year. Growth rates have continued to decline from their peak in 2002-03 with the introduction of the 75 percent pay-out games.

Lotto receipts from sales are expected to decline from \$138 million in 2004-05 to \$118 million excluding \$10 million from the King Kong promotional game in 2005-06, a drop of 14.2 percent. The decline in Lotto is attributable to competition from the larger jackpots offered in the Mega Millions game and a decline in customer interest in small jackpot sizes.

Mega Millions revenue from sales in 2005-06 is estimated to be \$189 million, an increase of \$33 million from 2004-05. There have been five substantial jackpot roll-ups so far in the fiscal year, with the possibility of an additional significant roll-up before the end of the year. In addition, Mega Millions has benefited from the addition of California on June 24, 2005.

STATES PARTICIPATING IN MEGA MILLIONS	
California	New Jersey
Georgia	New York
Illinois	Ohio
Maryland	Texas
Massachusetts	Virginia
Michigan	Washington

Receipts from Take-5 sales are estimated to decline by 3.6 percent in 2005-06 to \$117 million. Take-5 sales have been negatively impacted by competition from other games and a maturing game life cycle.

Numbers and Win 4 continue to benefit from increased customer interest resulting from moving to two daily drawings. Receipts from sales of Numbers are estimated to increase from \$276 million in 2004-05 to \$283 million in 2005-06 excluding instant win receipts, an increase of \$7 million or 2.6 percent. Receipts from sales of Win 4 are estimated to increase by 4.7 percent from 2004-05, or \$10 million, to a total of \$228 million.

Receipts from Instant Win sales are estimated at \$5 million in 2005-06. Instant Win game sales reflect only a modest interest in the game which offers Numbers and Win 4 players the opportunity to win prizes up to \$500 for an additional \$1 wager.

Quick Draw is estimated to generate \$114 million in receipts from sales, a decline of \$4 million. Quick Draw receipts continue to decline as customer interest in the game continues to decline and as Quick Draw faces competition from other games. In addition, the impact of restrictions on smoking, and statutory limitations on the placement of terminals, hours of operation, and size of facilities continue to limit the potential revenue from Quick Draw.

The VLT program is operating at the following five track locations: Saratoga, Finger Lakes, Monticello, Buffalo and Batavia. Receipts from VLT sales are estimated at \$160 million for 2005-06. In 2005, the State's Court of Appeals ruled that the VLT program was constitutional.

LOTTERY

The King Kong promotional lottery game was conducted in October through December 2005. The King Kong game allowed customers to purchase tickets with a unique sequence of numbers. On December 5, 2005, the drawing was held for the \$55 million jackpot. The game generated \$9.9 million in receipts from sales of \$22 million. It is not anticipated that this promotional game will reoccur.

2006-07 Projections

Under proposed law, All Funds receipts for education from sales of Lottery games will increase by \$324 million, or 15.4 percent, to \$2.43 billion. Unspent administrative allowances and miscellaneous income are estimated at \$335 million. All Funds receipts from VLTs are projected at \$358 million.

Under current law, All Funds receipts for education from sales of Lottery games for 2006-07 would be projected to be \$2.28 billion, an increase of \$182 million, or 8.0 percent above 2005-06.

Instant games receipts from sales are projected to increase by \$31 million, or 5.3 percent, to \$620 million. Sales of 75 percent payout games are expected to continue to grow at a faster pace than 65 percent payout games.

Lotto game receipts from sales are projected to decline by \$14 million. The continued drop in Lotto sales reflects competition from other gambling options, continued competition from Mega Millions, and reduced customer interest in the low jackpots offered by Lotto.

Net receipts from Mega Millions sales are projected to decline by 9.0 percent, to \$172 million. To date, collection experience shows a direct correlation between the size of the jackpots and the amount of revenue received. The estimating methodology indicates that in 2006-07 the probability of achieving the number of significant roll-ups which occurred in 2005-06 is low. The 2005-06 year began with five consecutive roll-up cycles which resulted in jackpots over \$100 million, three of which had jackpots over \$200 million. This string of run-ups is unprecedented in the game's history. The estimate also incorporates lower customer interest in the lower jackpots offered at the beginning of the roll-up cycle.

Receipts from Take-5 sales are projected to decrease by \$5 million. This decline is consistent with the historic decline in Take-5 sales.

Daily Numbers and Win 4 receipts from sales are projected to increase by \$6 million and \$12 million, respectively. Receipts from Numbers sales are projected at \$289 million, an increase of 2.1 percent. Win 4 sales are expected to continue to grow at a faster pace than Numbers sales, with receipts from Win 4 sales increasing by 5.4 percent to \$240 million.

Instant Win receipts from sales are projected to remain constant at last year's level of \$5 million.

Receipts from sales of the Quick Draw game would decline by \$94 million or 82.5 percent if the game were allowed to sunset on May 31, 2006. If the authorization to operate Quick Draw is made permanent, as proposed in this Budget, receipts from sales are projected at \$110 million, a 3.5 percent decline from last year. The proposed reduction of restrictions on Quick Draw is estimated to produce an additional \$28 million in receipts from Quick Draw sales.

In 2006-07, three additional racetracks, Vernon Downs, Yonkers Raceway, and Tioga Downs are expected to begin VLT operations, respectively, in June 2006, September 2006, and June 2006. With inclusion of these additional locations, receipts from VLT sales are

expected to more than double from the 2005-06 level to \$358 million in 2006-07. Variations in the actual start dates and sizes of new facilities provide major risks to the accuracy of 2006-07 receipts estimates.

CURRENT LOTTERY RECEIPTS FOR EDUCATION	
(millions of dollars)	
1997-98	1,533.9
1998-99	1,442.4
1999-2000	1,349.7
2000-01	1,440.2
2001-02	1,550.5
2002-03	1,788.9
2003-04	1,884.4
2004-05 ¹	2,044.0
Estimated	
2005-06 ²	2,153.0
2006-07 ²	
(current law)	2,229.0
(proposed law)	2,384.0

¹ Includes VLT transfer of \$154.6 million.

² Includes VLT receipts of \$160 million in 2005-06 and \$358 million in 2006-07 to be deposited in a separate Lottery account to help fund SBE.

MISCELLANEOUS RECEIPTS CAPITAL PROJECTS FUNDS

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS							
(millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	Actual	Estimated	Change	Change	Projected	Change	Change
State Funds	1,759	2,145	386	21.9%	2,640	495	23.1%
Federal Funds	1,722	1,782	60	3.5%	1,754	-28	-1.6%
All Funds	3,481	3,927	446	12.8%	4,394	467	11.9%

MISCELLANEOUS RECEIPTS - CAPITAL PROJECTS FUNDS						
(millions of dollars)						
	2002-03	2003-04	2004-05	2005-06	2006-07	
Authority Bond Proceeds						
Transportation	473	1,571	1,072	852	960	
Public Protection	295	173	183	224	235	
Health and Social Welfare	0	31	30	65	83	
Education	283	556	592	855	1,142	
Mental Hygiene	86	180	188	209	275	
Econ. Develop./Gov. Oversight	260	185	369	518	680	
General Government	23	34	56	71	100	
Other	96	106	100	266	304	
State Park Fees	23	21	20	18	32	
Environmental Revenues	38	33	24	49	53	
All Other	102	139	149	184	190	
Total	1,679	3,029	2,783	3,311	4,054	
Accounting Adjustment		(861)	(1,024)	(1,166)	(1,414)	
Financial Plan Total		2,168	1,759	2,145	2,640	

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 capital projects funds, primarily for environmental or transportation capital purposes. The Miscellaneous Receipts table reflects an accounting adjustment for spending made directly from bonds sold by public authorities for State projects. This capital activity, commonly referred to as "Off-Budget Spending", is not reflected in the Comptroller's accounting system, but is included in the Five-Year Capital Program and Financial Plan. Although Federal Funds are included in the first table, in order to provide a more complete picture of non-tax receipts, a fuller discussion of Federal Funds is included in a separate section.

Regarding capital projects spending activity in the Capital Program and Financing Plan, State Funds receipts are utilized to finance two types of capital spending. Authority bond proceeds are used for spending financed with Authority Bonds, while Other Miscellaneous Receipts (Parks, Environmental, and Other receipts) are used to finance State Pay-As-You-Go spending. Federal Funds receipts (Federal Grants) are utilized to finance Federal Pay-As-You-Go spending.

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. Such contractual arrangements for financing capital project spending exist with the Empire State Development Corporation, the Dormitory Authority of the State of New York, the Environmental Facilities Corporation, the New York State Housing Finance Authority, and the New York State Thruway Authority. Currently, the primary functional areas for which authority bond proceeds finance capital projects spending are transportation, higher education, and economic development. After the State makes payments directly from appropriations for

MISCELLANEOUS RECEIPTS – CAPITAL PROJECTS FUNDS

project costs, it is reimbursed by the public authority from the proceeds of bonds sold previously, except for the "Off-Budget Spending" mentioned previously. The amount of reimbursements received annually reflects the level of bondable capital spending in that year and may fluctuate depending upon when the spending occurs and the timing of related bond sales. As bondable spending fluctuates to reflect the progress of capital programs across all areas, so do the bond receipts received as reimbursements. Reimbursements from authority bond proceeds will account for approximately 92 percent of all miscellaneous receipts flowing into Capital Projects Funds in 2005-06 and 93 percent in 2006-07.

STATE PARKS, ENVIRONMENTAL, AND OTHER REVENUES

The following miscellaneous receipts do not include reimbursements from authority bond proceeds.

State Parks user fees and related revenues are deposited into the State Parks Infrastructure Fund and the Miscellaneous Capital Projects Fund. These revenues, which are projected at \$24.7 million in 2005-06 and \$24.5 million in 2006-07, will be used to finance improvements at various facilities across the State's park system.

Other miscellaneous environmental revenues include receipts primarily from the sale of surplus State lands, the leases of coastal State property, and the sale of environmental license plates. These are deposited into the Environmental Protection Fund. 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. These environmental revenues are projected to increase modestly from \$49 million in 2005-06 to \$53 million in 2006-07. This increase is attributable to changes in reimbursements for estimated revisions to advance spending for various projects.

Other moneys and fees are received in the various Capital Projects Funds to support capital programs at State facilities. Finally, certain receipts reimburse the State for capital spending on behalf of municipalities, public authorities, and private corporations, primarily for transportation and environmental projects. A major portion of these receipts reflect repayments pursuant to previously negotiated agreements.

MISCELLANEOUS RECEIPTS DEBT SERVICE FUNDS

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS							
(millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	-	-	-	-		-	-
Other Funds	768	686	(82)	-10.7%	665	(21)	-3.1%
All Funds	768	686	(82)	-10.7%	665	(21)	-3.1%

	<u>1996-97</u>	<u>1997-98</u>	<u>1998-99</u>	<u>1999-00</u>	<u>2000-01</u>	<u>2001-02</u>	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
General Fund	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Other Funds	624	639	630	611	860	614	807	810	768	686	665
All Funds	624	639	630	611	860	614	807	810	768	686	665

MISCELLANEOUS RECEIPTS - DEBT SERVICE FUNDS					
(millions of dollars)					
	<u>2002-03</u>	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
Mental Hygiene Patient Receipts	407	322	305	259	228
SUNY Dormitory Fees	269	283	319	308	317
Health Patient Receipts	102	113	121	98	98
All Other	29	92	23	21	22
Total	<u>807</u>	<u>810</u>	<u>768</u>	<u>686</u>	<u>665</u>

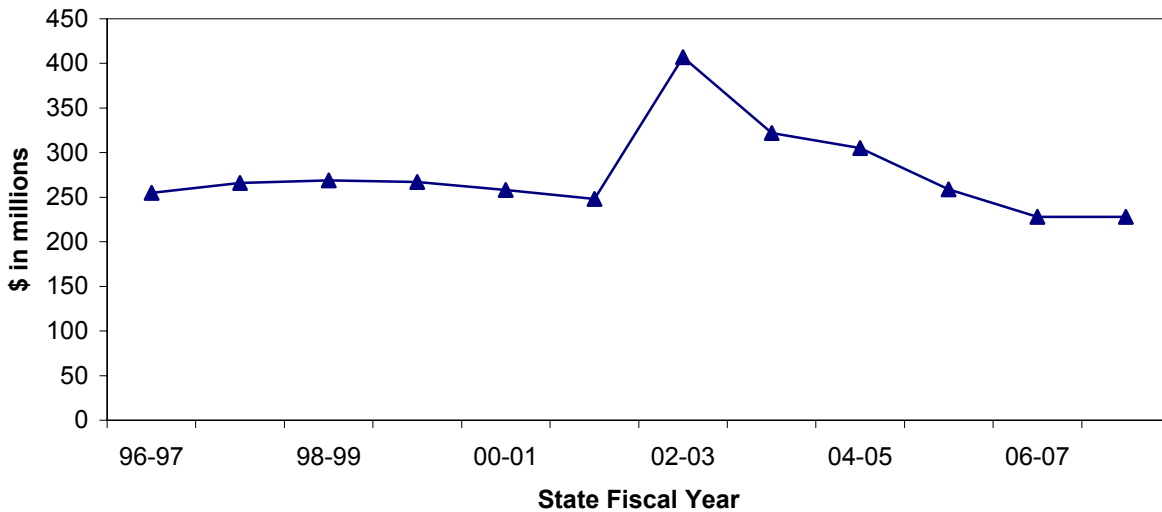
Miscellaneous receipts in the Debt Service fund type include patient revenues, rental fees, medical insurance payments, interest income, and other revenues. These revenues are first dedicated for the payment of lease-purchase agreements, contractual obligations, and debt service. These revenues support about 16 percent of the State's debt service payments and have been pledged as security for bonds issued for Mental Hygiene facilities, Department of Health facilities and the State University of New York (SUNY) dormitories. In addition, the revenues 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 to offset the cost of State operations.

MENTAL HYGIENE PATIENT 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. The revenues received are used to make lease-purchase payments to the Dormitory Authority of the State of New York (DASNY) for debt service on mental health services bonds. 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. These are also deposited as miscellaneous receipts in the Mental Health Services Fund. DASNY makes loans to eligible not-for-profit agencies providing mental health services and, in return, the voluntary agencies make rental payments equal to the amount of debt service on bonds issued to finance their projects.

MISCELLANEOUS RECEIPTS — DEBT SERVICE FUNDS

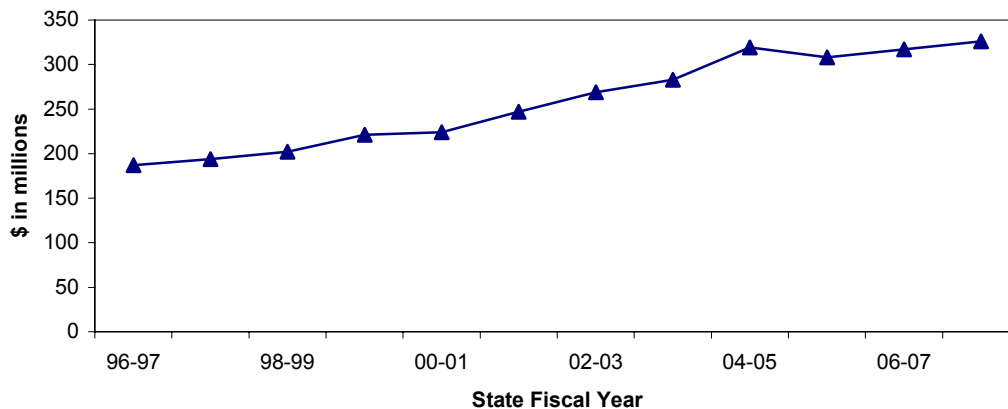
Mental Hygiene Patient Receipts
History and Estimates



DORMITORY FEES

Miscellaneous receipts in the SUNY Dormitory Fund are composed primarily of fees charged to SUNY students for dormitory room rentals and other associated fees. The receipts of the Fund are pledged for debt service on bonds issued by DASNY in the construction and rehabilitation of SUNY dormitories. These payments are made pursuant to a lease-purchase payment agreement.

SUNY Dormitory Fees
History and Estimates

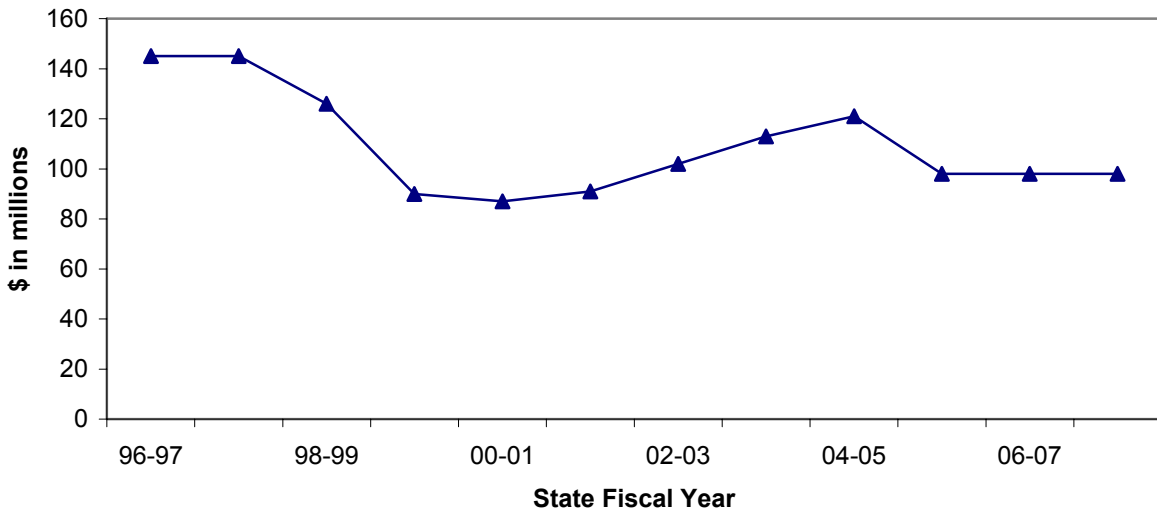


MISCELLANEOUS RECEIPTS — DEBT SERVICE FUNDS

HEALTH PATIENT RECEIPTS

Patient care reimbursements from the Department of Health's hospitals and the veterans' homes (Oxford, New York City and Western New York) are deposited into the Health Income Fund to make lease-purchase rental payments to DASNY. Similar to the Mental Hygiene Services Fund, the receipts are pledged for debt service of bonds issued by DASNY to finance the construction and rehabilitation of State hospitals and veteran's homes. These receipts are composed of payments from Medicaid, Medicare, insurance, and individuals.

Health Patient Receipts
History and Estimates



ALL OTHER

The all other miscellaneous receipts category primarily includes investment income receipts from the Local Government Assistance Corporation and payments from local housing agencies to finance the debt service costs on general obligation bonds. All other receipts include \$53 million in 2003-04 that were deposited to the Debt Reduction Reserve Fund and used to retire high cost debt.

2007-08 PROJECTIONS

Debt Service miscellaneous receipts are projected at \$671 million in fiscal year 2007-08, an increase of \$6 million from 2006-07. The projection includes: \$9 million increase for SUNY Dormitory Income Fund and a reduction of \$ 2.6 million in the Housing Development Fund. All other miscellaneous receipts remain the same.

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 \$36.2 billion in 2005-06 and \$36.1 billion in 2006-07. These revenues represent approximately 33 percent of total receipts in governmental funds, excluding general obligation bond proceeds, and are deposited into the Special Revenue and the Capital Projects fund types.

SPECIAL REVENUE FUNDS

Federal grants account for approximately three-quarters of all special revenue receipts and are used to support a wide range of programs at the State and local government level. Medicaid is the single largest program supported by Federal funds.

Medicaid 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 12 percent of total Federal Medicaid reimbursements, while receipts for non-State-operated facilities represent the remaining 88 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

FEDERAL GRANTS (millions of dollars)								
	General Fund	Special Revenue Funds			Total Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total All Funds
		Medicaid	Welfare	All Other				
----- Actual -----								
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
2003-04	654	20,943	1,788	12,390	35,121	1,548	0	37,323
2004-05	9	22,083	1,998	10,411	34,492	1,721	0	36,222
----- Estimated -----								
2005-06	9	21,979	2,500	9,949	34,428	1,782	0	36,219
2006-07	9	21,912	2,700	9,726	34,338	1,754	0	36,101

DEDICATED FUND TAX RECEIPTS

All or portions of several tax sources, including the personal income tax, transportation-related taxes and fees, cigarette taxes, sales and use taxes, and corporate taxes are statutorily dedicated to various dedicated Special Revenue, Debt Service and Capital Projects Funds. The table below identifies each dedicated fund by Fund type, the source and amount of dedicated tax receipts deposited in 2004-05 and estimated to be deposited in 2005-06 and 2006-07. The estimates reflect Executive Budget recommendations.

DEDICATED FUND TAX RECEIPTS (millions of dollars)			
	2004-05 Actual	2005-06 Estimated	2006-07 Recommended
SPECIAL REVENUE FUNDS			
School Tax Relief Fund (STAR)			
Personal income tax	3,059	3,219	3,368
Dedicated Mass Transportation Trust Fund			
Petroleum business tax	600	642	672
Motor fuel tax	352	369	386
Motor vehicle fees	110	109	110
	138	164	176
Mass Trans. Operating Assistance Fund			
	1,199	1,531	1,585
Corporate Surcharges			
Corporation franchise tax	253	349	378
Corporation and utilities tax	129	101	102
Insurance tax	101	95	98
Bank tax	89	175	109
Other			
Sales and use tax	429	600	681
Petroleum business tax	135	143	149
Corporation and utilities — sections 183 & 184	64	68	68
HCRA Resources Fund			
Cigarette Tax		570	983
Total Tax Receipts: Special Revenue Funds-Other	4,858	5,962	6,608
DEBT SERVICE FUNDS			
Revenue Bond Tax Fund			
Personal income tax	6,260	6,942	7,552
Clean Water/Clean Air Fund			
Real estate transfer tax	618	818	653
Local Government Assistance Tax Fund			
Sales and use tax	2,493	2,608	2,714
Total Tax Receipts: Debt Service Funds	9,371	10,368	10,919
CAPITAL PROJECTS FUNDS			
Dedicated Highway and Bridge Trust Funds			
Petroleum business taxes	1,750	1,739	1,813
Motor fuel tax	599	629	657
Motor vehicle fees	419	413	415
Highway use tax	525	478	517
Transmission tax	151	159	162
Auto rental tax	16	17	17
	40	43	45
Environmental Protection Fund			
Real estate transfer tax	112	112	147
Total Tax Receipts: Capital Projects Funds	1,862	1,851	1,960
Total Tax Receipts: Other Funds	16,091	18,181	19,487

DEDICATED FUND TAX RECEIPTS

The following discussion identifies the statutory provisions which establish the dedicated funds, the source of dedicated tax receipts and the formula used to allocate tax receipts to the funds, and the purposes for which those deposits may be used.

SPECIAL REVENUE FUNDS

School Tax Relief Fund (“STAR” Fund-053)

The School Tax Relief Fund is established by Section 97-rrr of the State Finance Law. The Fund consists of all moneys credited or transferred thereto from the General Fund or from any other fund or sources. The moneys of the Fund are appropriated for school property tax exemptions granted pursuant to the real property tax law.

Dedicated Mass Transportation Trust Fund (“DMTTF” Fund-073)

The Dedicated Mass Transportation Trust Fund is established by Section 89-c of the State Finance Law. State tax receipts of the DMTTF are derived from the State’s motor fuel tax, motor vehicle fees, and a portion of the petroleum business tax. The moneys of the DMTTF, pursuant to an appropriation, are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles, and rolling stock, or the payment of debt service or operating expenses incurred by mass transit operating agencies, and for rail projects.

Mass Transportation Operating Assistance Fund (“MTOAF” Fund-313)

The Mass Transportation Operating Assistance Fund is established by Section 88-a of the State Finance Law. The moneys of the MTOAF are subject to appropriation and are allocated among two accounts within the Fund. The moneys in each account must be used for the transportation assistance purposes for which each account was established.

- Public Transportation Systems Operating Assistance Account (PTSOAA - Fund 313-01)
- Metropolitan Mass Transportation Operating Assistance Account (MMTOAA - Fund 313-02)

The PTSOAA receives:

- As recommended in the Executive Budget, effective April 1, 2006, the PTSOAA will receive 27 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law.
- A portion of the petroleum business tax.

The MMTOAA receives:

- As recommended in the Executive Budget, effective April 1, 2006, MMTOAA will receive 53 percent of the receipts collected from the taxes imposed on transportation and transmission companies by sections 183 and 184 of Article 9 of the Tax Law.
- Tax receipts from the 17 percent surcharge imposed on taxpayers that are subject to the corporation franchise tax, corporations and utilities tax, the insurance taxes, and the bank tax and that conduct business in the Metropolitan Commuter Transportation District (“MCTD”).
- Tax receipts from the one-quarter of one percent sales and use tax imposed in the MCTD.
- A portion of the petroleum business tax.

DEDICATED FUND TAX RECEIPTS

Health Care Reform Act Resources Fund (“HCRA” Fund-061)

The Health Care Reform Act (HCRA) Resources Fund is established by section 92-dd of the State Finance Law and receives nearly 61 percent of total State cigarette tax revenues. Other revenues dedicated to this Fund include hospital surcharges and assessments, a Covered Lives Assessment on commercial insurers and a portion of cigarette revenue from New York City’s locally imposed cigarette tax. These resources support numerous public health, Medicaid and insurance programs for the uninsured/underinsured; including Family Health Plus, Healthy NY, Child Health Plus, anti-tobacco initiatives, graduate medical education, working disabled, and indigent care.

State Lottery Fund (Fund-160)

The State Lottery Fund is established by Section 92-c of the State Finance Law. Receipts of the Fund are derived from the sale of lottery tickets and from video gaming machines. The moneys of the Fund are used to pay the expenses incurred in the operation of the State Lottery and for the purchase of machinery or other capital equipment by the Division of the Lottery, and to provide aid to all school children, including pupils with special educational needs and handicapping conditions.

DEBT SERVICE FUNDS

Revenue Bond Tax Fund (“RBTF” Fund 311-02)

The Revenue Bond Tax Fund is established by Section 92-z of the State Finance Law. The Fund receives 25 percent of the receipts from the State personal income tax imposed by Article 22 of the Tax Law. Payments from the Fund are pledged to pay the debt service on State-supported Personal Income Tax Revenue Bonds, which support a variety of capital projects. No later than the fifteenth day of each month, the Comptroller is required to pay over to the General Fund all money in the RBTF in excess of the aggregate amount required to be set aside for debt service.

Clean Water/Clean Air Fund (“CWCAF” Fund-361)

The Clean Water Clean Air Fund is established by Section 97-bbb of the State Finance Law. The Fund receives all real estate transfer taxes in excess of the deposit to the Environmental Protection Fund. The moneys in the Fund are used to reimburse the General Fund for transfers made to the General Debt Service Fund to pay the debt service on 1996 Clean Water/Clean Air general obligations bonds. At the end of each month, the Comptroller is required to pay over to the General Fund all moneys in the CWCAF in excess of the aggregate amount required for such reimbursements.

Local Government Assistance Tax Fund (“LGATF” Fund-364)

The Local Government Assistance Tax Fund is established by Section 92-r of the State Finance Law. The Fund receives moneys collected from the imposition of the State sales and compensating use taxes in an amount attributable to a one percent rate of taxation. Payments from the Fund are pledged to pay the debt service on State-supported Local Government Assistance Corporation bonds originally issued in the early 1990s to finance payments to local governments previously financed by the State. The Comptroller is required to pay over to the General Fund all money in the LGATF in excess of the aggregate amount required to be set aside for debt service. In addition, local aid payments due to New York City and assigned by the City to the Sales Tax Asset Receivable Corporation (STARC) are appropriated from the LGATF.

DEDICATED FUND TAX RECEIPTS

CAPITAL PROJECTS FUNDS

Dedicated Highway and Bridge Trust Fund (“DHBTF” Fund-072)

The Dedicated Highway and Bridge Trust Fund is established by Section 89-b of the State Finance Law. The DHBTF receives moneys from the motor fuel tax, motor vehicle fees, highway use tax, auto rental tax, petroleum business tax and a portion of the transportation and transmission tax imposed under the corporations and utilities tax. The moneys of the Fund, pursuant to an appropriation, are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of State, county, town, city and village roads, aviation projects, matching federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, and ferry lines. Payments from the Fund are also pledged to support the debt service on State-supported Dedicated Highway and Bridge Trust Fund Bonds.

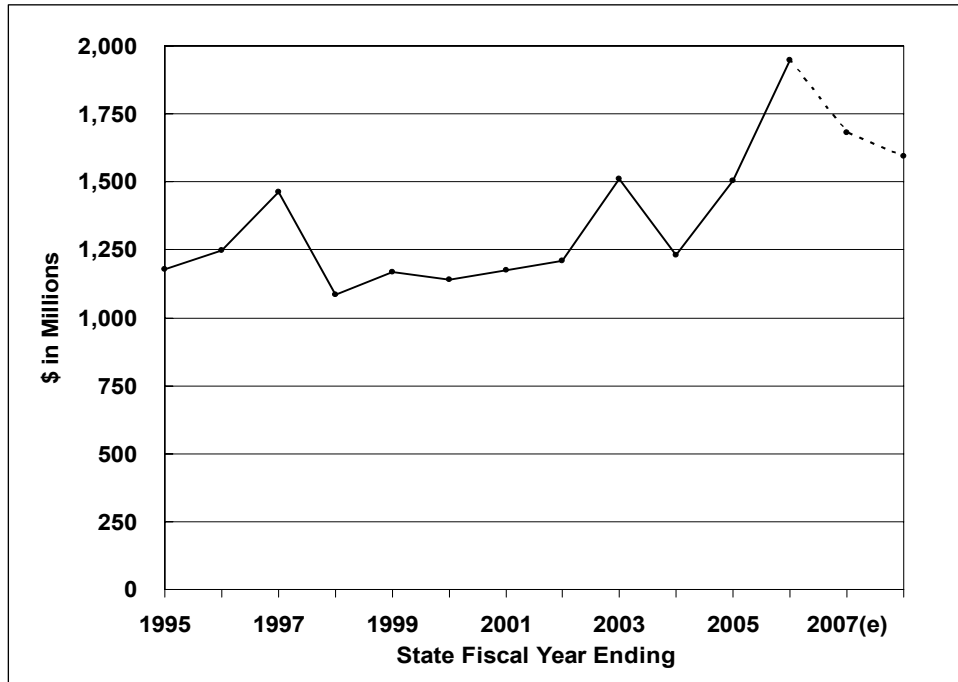
Environmental Protection Fund (“EPF” Fund-078)

The Environmental Protection Fund is established by Section 92-s of the State Finance Law. The Fund currently receives real estate transfer taxes in the amount of \$112 million. Legislation proposed with this Budget will increase the annual EPF dedication from \$137 million to \$167 million over a three-year period. Moneys in the Fund are deposited to the following accounts:

- The Solid Waste Account for any non-hazardous municipal landfill closure project, municipal waste reduction or recycling project or local solid waste management plans.
- The Parks, Recreation and Historic Preservation Account for any municipal park project, historic preservation project, urban cultural park project, waterfront revitalization program, or costal rehabilitation project.
- The Open Space Account for any open space land conservation project, bio-diversity stewardship and research, non-point source abatement and control projects, upon the request of the Director of the Budget.

AUDIT AND COMPLIANCE RECEIPTS

Audit and Compliance (millions of dollars)							
	2004-05	2005-06		Percent	2006-07		Percent
	<u>Actual</u>	<u>Estimated</u>	<u>Change</u>	<u>Change</u>	<u>Projected</u>	<u>Change</u>	<u>Change</u>
General Fund	1,428	1,718	290	20.3	1,500	(218)	(12.7)
Other Funds	75	232	157	208.5	182	(50)	(21.6)
All Funds	1,503	1,950	447	29.7	1,682	(268)	(13.7)



DESCRIPTION

This Audit and Compliance section summarizes the cash collected by the Department of Taxation and Finance related to its audit and compliance activities. The amounts reported in this section are already reflected in the estimates of individual tax receipts contained in this volume. The amounts also include payments made by taxpayers with personal income tax returns that are filed after the due date of final returns (i.e., after April 15th or October 15th for taxpayers that have received extensions). Collectively, it is estimated that the portion of receipts attributable to audit and compliance activities and reflected in the estimates and projections of the individual taxes described in this volume, will reach about \$1.95 billion in 2005-06 and about \$1.68 billion in 2006-07.

Base

The Department of Taxation and Finance's Office of Tax Operations (OTO) is comprised of an Audit Division and a Compliance Division. The Audit Division is responsible for verifying that the correct tax has been paid and the Compliance Division is responsible for collecting the correct tax and enforcement.

The collections base of OTO activities is the correct amount of taxes legally required to be paid, which is verified through the audit process. The receipts (i.e., "audit and compliance" collections or receipts) from audit activities are the result of incorrect tax payments, including filing returns with math errors; filing past due returns or the incorrect return; the improper interpretation of Tax Law, regulations or instructions; and tax evasion that results in a gap between the amount that is legally due and required to be paid and the amount that was voluntarily paid.

AUDIT AND COMPLIANCE RECEIPTS

The table below shows historical All Funds audit and compliance collections, All Funds tax receipts, and All Funds audit and compliance collections as a percent of All Funds tax receipts. Although All Funds audit and compliance receipts have fluctuated over time, they have consistently comprised roughly 3 to 4 percent of total All Funds tax receipts.

	All Funds Audit and Compliance Collections	All Funds Tax Receipts	Audit and Compliance As a Percent of All Funds
1993-94	1,090	33,026	3.3
1994-95	1,179	33,050	3.6
1995-96	1,247	33,927	3.7
1996-97	1,464	34,620	4.2
1997-98	1,085	35,921	3.0
1998-99	1,169	38,495	3.0
1999-00	1,141	41,389	2.8
2000-01	1,174	44,658	2.6
2001-02	1,209	42,475	2.8
2002-03	1,510	39,626	3.8
2003-04	1,232	42,851	2.9
2004-05	1,503	48,598	3.1
Estimated			
2005-06	1,950	53,513	3.6
2006-07	1,682	56,851	3.0

As is shown in the table, the historical distribution of audit and compliance receipts by broad tax categories (i.e., personal income tax, business taxes, sales and use taxes, and miscellaneous/other taxes) differs from the distribution of voluntary receipts by tax category. For example, the share of total audit and compliance receipts attributable to the business tax category ranged from about 27 to 33 percent over the five year period beginning in 2000-01. However, the business share of total taxes only comprise about 12-13 percent. Similarly, the total share of audit and compliance receipts attributable to the personal income tax does not match its share of total taxes. However, during this five year period, the percent share of audit and compliance receipts and total tax receipts attributable to the sales tax category were more consistent with one another, with the audit and compliance percentage ranging from 20 to 23 percent and the tax receipts percentage ranging from 19 to 23 percent.

AUDIT AND COMPLIANCE RECEIPTS

TABLE 2									
Percent of All Funds Audit and Compliance Collections By Tax Category				Percent of All Funds Collections By Tax Category					
	Business Taxes	Other Taxes and Fees	Sales Tax	Personal Income Tax		Business Taxes	Other Taxes and Fees	Sales Tax	Personal Income Tax
1993-94	27	6	23	44	21	11	18	50	
1994-95	26	7	26	41	19	11	20	51	
1995-96	36	8	19	37	18	11	20	51	
1996-97	40	6	20	35	19	10	20	51	
1997-98	36	9	20	35	18	11	20	51	
1998-99	40	6	19	36	17	10	20	54	
1999-00	34	6	20	40	15	10	20	56	
2000-01	30	6	22	43	13	8	19	60	
2001-02	31	7	20	43	12	8	19	60	
2002-03	31	4	20	45	13	8	22	57	
2003-04	27	5	23	46	12	8	23	58	
2004-05	33	4	21	42	12	8	23	58	
2005-06	66	2	10	22	12	8	21	59	
2006-07	31	3	20	46	12	8	21	59	

In addition, while the share of tax receipts by category has changed over the eleven year period beginning in 1993-94, the share of audit and compliance receipts by category fluctuates within a relatively stable band. For example, the share of tax receipts by business category has declined steadily from 21 to 12 percent, but the share of audit and compliance receipts has remained in the neighborhood of about one-third of total compliance collections.

The share of audit and compliance collections by tax category in 2005-06 is projected to shift dramatically, with the business tax category accounting for 66 percent of the total (compared to 33 percent in 2004-05), the sales tax category accounting for 10 percent of the total (compared to 21 percent in 2004-05) and the personal income tax category accounting for 22 percent of the total (compared to 42 percent in 2004-05). The shift to and concentration of audit and compliance receipts generated by the business tax base reflects the volatile nature of corporate tax receipts. The complexities of the Tax Law with respect to these taxes in particular can result in large settlements. It is projected that the concentration of audit receipts in the business tax category will not continue, and the share of audit receipts by tax category in 2006-07 will reflect shares that are more similar to recent history.

Significant Legislation

Significant statutory changes that have had an impact on audit and compliance activities are summarized below.

Tax Amnesty - 1994

In 1994, New York State authorized a three-month tax amnesty program that focused on three types of taxpayers. The income tax component focused on non-residents required to file a New York return. The business tax component also focused on out-of-state taxpayers whose activities in New York State make them taxpayers, and the compensating use tax component focused on resident individuals and small businesses. This amnesty program required eligible taxpayers to pay any taxes owed in addition to all applicable interest, in exchange for the waiver of any related criminal prosecution or other administrative penalties.

AUDIT AND COMPLIANCE RECEIPTS

Tax Amnesty- 1996

The legislation established a three-month tax amnesty program. Between November 1, 1996 and January 31, 1997, certain taxpayers could apply for a waiver of penalty relating to certain unpaid tax liabilities for taxable periods ending, or transactions or uses occurring, on or before December 31, 1994. The taxes covered by this amnesty program were the same taxes that were included under the 1985 program. These taxes were the personal income tax, the corporate franchise tax imposed under Article 9-A, certain taxes imposed under Article 9, the sales and use tax and the estate and gift tax. Three additional taxes that did not exist in 1985 were also covered by the program: the beverage container tax, the auto rental tax and the hotel occupancy tax.

The amnesty program excluded several groups of taxpayers. The excluded groups included those with outstanding liabilities owed under “sin” taxes (i.e., the alcoholic beverage tax and cigarette and tobacco products taxes), the real estate transfer tax, the real property gains tax, corporate franchise taxes imposed on banks and insurance companies, large corporations (those with more than 500 employees in the United States), regulated utilities and entities principally engaged in the conduct of aviation (with a tax liability under Article 9 of the Tax Law). Taxpayers that were involved in a criminal investigation or civil or criminal litigation relating to the penalty for which amnesty is sought were also excluded. Finally, taxpayers that received benefits under New York State’s 1985 and 1994 amnesty programs were ineligible for amnesty for those taxes for which they already received benefits.

Tax Amnesty- 2003

Taxpayers with outstanding liabilities were given a limited opportunity to settle those liabilities without penalties and with a reduction in the appropriate rate of interest. The tax amnesty applied to the personal income tax, sales and compensating use tax, corporate franchise taxes other than the bank and insurance taxes, and various excise taxes. The amnesty applied to taxable periods ending on or before December 31, 2000, or in the case of the sales tax or excise taxes with quarterly returns, periods ending on or before February 28, 2001. Under the estate tax, amnesty applied to estates of decedents dying on or before February 1, 2000.

Amnesty participants received a waiver of certain penalties and a two percent reduction in the applicable interest rate relating to unpaid liabilities. Beginning April 1, 2003, the interest rate computation applied to all liabilities increased by two percent for all taxpayers. Amnesty was not granted to taxpayers under criminal investigation, taxpayers who had been convicted of a tax-related crime, taxpayers who were parties to administrative proceedings with the Tax Department, or taxpayers with more than 500 employees.

Extension of Bank Tax Provisions

Legislation has extended on multiple occasions certain provisions of the Tax Law and the Administrative Code of the City of New York relating to the taxation of commercial banks. These include major reform amendments made in 1985 to the bank taxes imposed by New York State and New York City. At that time all taxpayers were made subject to new asset and alternative entire net income (ENI) tax bases. The method of allocation of income changed from separate accounting to three-factor formula apportionment. Several new modifications to income were also added, including new deductions for income from subsidiary capital, all these changes were temporary. Two years later, New York decoupled from changes made by the federal Tax Reform Act of 1986 with regard to the federal and state bad debt deductions. These amendments were also temporary.

AUDIT AND COMPLIANCE RECEIPTS

The primary motivation for these temporary statutory changes was the joint recognition by the industry, the Department of Taxation and Finance, and the New York City Department of Finance that the then current structure was deficient. The pre-1985 law was based upon separate accounting by branch. This antiquated system led to uncertainty for taxpayers, difficulties with administration, for both the industry and the State and City, and large audit assessments. Simplified administration and certainty of results were important goals of the new structure. The amendments were made temporary to provide an opportunity for adjustments if difficulties were encountered with the new law. Since enactment in 1985, the provisions have been extended without significant alterations. Legislation submitted with this budget make these provisions permanent.

Temporary Tax-Shelter Disclosure and Voluntary Compliance Initiative

Legislation enacted in 2005 created a tax-shelter disclosure requirement for taxpayers or advisors engaging in abusive tax shelters to provide copies of their Federal reports to the Commissioner of Taxation and Finance. The legislation also allowed taxpayers a limited period of time (from October 1, 2005 through March 1, 2006) to avoid substantial new penalties by voluntarily disclosing participation in such a shelter by filing amended returns for the liability periods affected. The Voluntary Compliance Initiative is available for tax liabilities under Articles 9, 9-A, 22, 30, 32 and 33. The disclosure reporting requirements mirror the permanent Federal requirements and sunset in July 2007.

Intangible Assets

Legislation enacted in 2003 required taxpayers (with some exceptions) who deduct interest or royalty expenses for amounts paid to a related member for the use of intangible assets to add back those deductions to their taxable income.

RECEIPTS: ESTIMATES AND PROJECTIONS

All Funds

2005-06 Estimates

All Funds collections through November are \$1,318 million, an increase of \$314 million, or 31.2 percent, above the comparable period in the prior fiscal year. Total net All Funds receipts for 2005-06 are estimated to be \$1,950 million, an increase of \$447 million, or 29.7 percent above last year.

The relative strength in current year audit and compliance collections is the result of several factors. The current audit cycle covers years where the economy was generally stronger and tax liability relatively high as a result. The issue of intangible holding companies being used as a tax planning tool has been both challenged through litigation and addressed with legislation, with positive results. Also, recent legislation, similar to a Federal initiative, has been enacted to enhance the reporting and tracking of tax shelters. These last two factors are providing enhanced information used in directing audit efforts as well as creating an environment where taxpayers are more willing to comply voluntarily or at least settle assessments as opposed to litigating them.

2006-07 Projections

All Funds receipts are projected to be \$1,682 million, a decrease of \$268 million, or 13.7 percent, below 2004-05. This decrease is based, in part, on the end of strong years in the audit cycle. Additionally, the goal of the OTO of fostering voluntary compliance is expected to be advanced as a result of recent litigation decisions, statutory changes and

AUDIT AND COMPLIANCE RECEIPTS

enhancements in information technology. As these efforts become more effective and voluntary compliance increases, the cash results attributed to this category of collections will decline as voluntary payments made instead will be attributable to their respective taxes. It is important to consider that a reduction in audit and compliance collections may actually be the result of an improvement in OTO performance as opposed to the contrary.

General Fund

Based on collections to date, General Fund collections for 2005-06 are estimated to reach \$1,718 million, an increase of \$290 million, or 20.3 percent over the prior year.

Audit and compliance receipts for 2006-07 are expected to decrease by \$218 million or 12.6 percent.

**COMPARISON OF
NEW YORK STATE TAX STRUCTURE
WITH OTHER STATES**



COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

An important consideration in tax policy decisions in New York State, and by extension in setting Budget priorities, is the position of the State in terms of state and local tax rates and bases relative to those of other states. A major program of tax reduction over the past decade has successfully reduced the disparity between New York State tax rates and burdens and those of the rest of the nation. However, local taxes remain high relative to other states.

This Budget recommends tax actions that will continue to lower the State burden as well as address the local tax disparity with other states. This budget proposes tax rebates to local property taxpayers who vote to control school spending increases at the local level and provides increased STAR benefits to seniors in all school districts. The 2005-06 Budget began the process of addressing high local tax burdens by gradually taking over local Medicaid costs.

The data presented here suggest the pressures on states to remain competitive with respect to tax policy are strong. This is evidenced by the clustering of states around a combined State and local tax-to-income percentage significantly below the percentage in New York.

Several important points on comparative tax structures can be seen by examining the accompanying tables and figures.

- Overall, state and local tax structures are broadly similar in both the taxes imposed and the rates applied. Average rates measured by the tax-to-income ratios are also roughly equivalent across states, especially when aggregating both state and local taxes together. The national average tax-to-income ratio has remained remarkably stable over time and significantly below that of New York.
- The variability across states within each category of tax (e.g., income, sales, or property taxes examined in isolation) is greater than the dispersion for taxes when examined in the aggregate (all State and local taxes added together). For example, a fairly large number of states have excluded the personal income tax from their fiscal policy mix, a smaller subset have excluded corporate taxes, and a few have no appreciable sales tax imposed.
- New York is an average tax state when looking only at state taxes. The state tax burden as measured by the ratio of state taxes to income is actually below the national average. The proposals included in this Budget will lower the relative burden further holding other state tax actions constant.
- When looking at the ratio of taxes in total (sum of state and local) to personal income, New York becomes a high-tax state. The combined state and local tax-to-income ratio for 2002 exceeds the national average by 29.8 percent.
- Therefore, New York's high tax status is due primarily to higher than average local tax burdens.
- At least a portion of the significant local tax burden in New York is due to the large portion of sales tax retained by localities in New York. This contrasts sharply with other states and reflects at least in part the need at the local level in New York for receipts to pay for the local share of Medicaid. The large local Medicaid share in New York was addressed as part of the local Medicaid relief program enacted with the 2005-06 Budget. The cost of the Medicaid program is being shifted to the State and should act to reduce taxing pressures at the local level over time.
- Higher than average property taxes as a share of income (38 percent above the national average) are tied in part to rapidly escalating school property taxes over the past few years. This Budget proposes STAR rebates to taxpayers in districts that vote to control school spending increases.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

- In general, it appears that the spread of state and local tax burdens across states has been narrowing significantly over time. This may reflect both national competitive pressures to keep taxes in line with other states, and the more widespread use of income taxes nationwide.
- Importantly, the aggressive policy of tax reduction and rapid growth in New York incomes realized over the past decade has narrowed the state and local tax burden gap relative to other states significantly. The tax-to-income ratio for New York exceeded the national average by \$4.08 per \$100 of personal income in 1994. By 2002, however, that gap had narrowed to \$3.02.
- The STAR property tax reduction program led to a significant easing in local property tax growth over the 2000-2002 period. The proposals in this Budget will continue that process by expanding STAR for school districts that control spending growth and for senior citizens Statewide.
- At the State level taxes per \$100 of personal income actually declined from \$6.99 in 1994 to \$6.31 in 2003 and are below the national average.
- The New York ranking in terms of State taxes went from 22nd highest in 1994 to 28th highest in 2003.

TABLE AND FIGURE CONSTRUCTION

This section compares the state and local tax structure in New York State with other states. Table 1 reports tax rates for the major tax sources utilized by state and local governments. The first and second columns of the table show the top personal income tax rate by state, and the income level at which the top rate takes effect; the third column lists top corporate tax rates (most state corporate tax structures have relatively flat rate structures, so the rate reported often applies to all corporate income subject to tax); the fourth column reports state sales tax rates; and the final column reports the average combined state and local sales tax rates imposed by the various jurisdictions within such State. The rates were those in effect in 2005 excluding the temporary surcharge imposed in New York State in that year. The income and corporate tax rates reported exclude local rates. This exclusion is important since New York is one of only a handful of states where a significant local personal income and corporate tax is imposed, as in New York City.

Tables 2 and 3 report state taxes collected by source divided by state personal income first for 1994 and then for 2003. The New York rank in terms of state taxes went from 22nd highest to 28th highest over this period.

Table 4 reports state and local taxes as a percentage of income. The data used in the calculations are for fiscal years ending in 2002, the latest year complete state and local tax information is available. The tax-to-income ratios include on this table include: state and local income taxes, state corporate taxes, state and local sales taxes, local property taxes, all other state and local taxes, and finally combined state and local taxes. The fifth table in this section shows the 2002 tax-to-income ratios for state imposed and locally imposed taxes separately. Table 6a reports changes in only the state tax-to-income ratio over the 1977-2003 period. During this time New York's State tax burden fell relative to the mean, and has been below the mean for the greater part of the last ten recorded years. Table 6b reports changes in the state and local tax-to-income ratio over the 1977-2002 period. While the average state and local tax to income ratio has declined nationwide over the twenty-five year period, it has declined much more dramatically in New York, especially over the past decade.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 7 reports local taxes as a share of income by state. Clearly, New York has the highest local tax burden using this measure. This is caused by relatively high property taxes, the relatively large sales tax burden at the local level, and the high ratio in the other category that picks up the income and corporate taxes imposed by New York City. Actions taken with the 2005-06 and this Budget are specifically designed to lower the local tax burden.

The bottom of each table reports the average for each tax category, as well as the standard deviation and the Coefficient of Variation (CV). Additionally, the difference between the national average and the New York values is reported. The box plots that accompany this section (Figures 1 and 3) show the dispersion of the 50 states around the median value (middle-ranked state, not the average state) of the tax-to-income ratio for that category. The shaded area in each box represents the 50 percent of states most closely clustered to the middle-ranked state (25 states). The hash marks or "whiskers" represent the 10th and the 90th (furthest from zero) percentiles of states. Dots just outside of the hash marks represent the remaining, outlying states. The vertical axis reports the ratio range.

While the standard deviation provides a sense of how the data is dispersed around the average value for all states, the CV allows comparisons of spread for data with different averages and is defined simply as the standard deviation divided by the average and is reported as a percentage. It essentially provides a normalized, unit-free measure of dispersion.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

The Tax-to-Income Percentage

The tax to personal income percentage offers one simple and commonly used way of comparing states with respect to relative tax burdens. It must be noted the real effort of tax burden analysis should be to determine who actually faces the economic consequences of a tax, not who is legally required to pay the tax. All simple measures of tax burden across states are inadequate from this perspective. In general, any single indicator of burden will necessarily be limited in value. The following additional issues should be taken into consideration when relying on this measure:

Tax Exportation

In using taxes per dollar of personal income as a measure of tax burden it must be noted that for many states a significant portion of the tax base is "exported" or paid by out-of-state taxpayers.

For example, in New York, a large number of workers from New Jersey and Connecticut pay tax on New York source income and on taxable sales while in New York. This means that, unless a portion of Connecticut's and New Jersey's personal income is also shifted to New York State, the actual burden on New Jersey residents will appear to be a burden on New York residents.

Another example of tax exportation can be seen in states with a large tourism economy. These states will realize increases in their sales tax collections and other excise taxes that may overstate the tax burden actually paid by their citizens.

Finally, methods used to apportion corporate taxable income are neither consistent across states, nor are they necessarily representative of actual activity. For example, some states use a three-factor allocation formula which takes into account the percentage of a taxpayer's property, payroll and receipts amounts to those amounts everywhere. Other states use different formulas. These differences in allocation formulas could result in either tax importation or exportation, again distorting this measure as a method of comparison of true tax burden imposed on each state's residents.

Overall, it would seem likely that New York State is a net exporter of tax burdens relative to other states. This serves to bias the tax-to-income percentage for New York upward — making burdens in New York appear too high using this measure.

Income Adjustments

Given two states with identical marginal tax rate structures, differences in the incomes of individuals could yield different tax-to-income percentage results. For example, if New York State and Alabama had identical progressive income brackets built into their respective tax codes, the higher average personal incomes of New York State residents would tend to lead to higher taxes per income due to the nature of the income tax.

Particularly important is the distinction between the National Income and Product Account (NIPA) measure of personal income as defined by the Bureau of Economic Analysis (BEA), and taxable personal income as defined by each state's respective tax code. For example, the NIPA personal income measure does not include capital gains (by the definition of personal income). However, capital gains are a component of New York Adjusted Gross Income (NYAGI) that contributes significantly to personal income tax receipts in New York State. States with high income individuals, like New York, would be more likely to have the tax-to-income percentage distorted upward. In the gains example, the percentage of personal income used in Table 2 will be influenced because the numerator will include capital gains income that is not included in the denominator, effectively overstating the tax burden since New York has a disproportionate share of taxpayers with large capital gains incomes.

Federal Offsets

The Federal tax structure allows for the deductibility of certain state and local taxes. As a result, residents of states with relatively higher state income, property and corporate tax burdens, such as New York State, receive a larger deduction, thereby offsetting a portion of the individual's total tax burden. Again, this is not reflected in the tax-to-income percentage reported here. Again, it would appear this biases the measure in a way that makes New York look like a relatively higher tax state than is actually the case.

In general, the tax-to-income percentage biases the tax burden in New York upward.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 1
Comparison of 2005 State Top Rates

State	Top PIT Rate	Highest Tax Bracket (Married Filing Joint)	Top Corp. Rate	State Sales Rate	Combined Sales Rate ^{1,2}
Alabama	5.00	\$6,000	6.50	4.00	8.00
Alaska	0.00	Flat Rate	9.40	0.00	1.15
Arizona	5.04	\$300,000	6.97	5.60	7.65
Arkansas	7.00	\$28,500	6.50	6.00	8.00
California	9.30	\$80,692	8.84	6.00	7.95
Colorado	4.63	Flat Rate	4.63	2.90	6.15
Connecticut	5.00	\$20,000	7.50	6.00	6.00
Delaware	5.95	\$60,000	8.70	0.00	0.00
Florida	0.00	Flat Rate	5.50	6.00	6.70
Georgia	6.00	\$10,000	6.00	4.00	6.80
Hawaii	8.25	\$80,000	6.40	4.00	4.00
Idaho	7.80	\$45,154	7.60	5.00	5.05
Illinois	3.00	Flat Rate	7.30	6.25	7.55
Indiana	3.40	Flat Rate	8.50	6.00	6.00
Iowa	8.98	\$55,890	12.00	5.00	6.60
Kansas	6.45	\$60,000	4.00	5.30	6.95
Kentucky	6.00	\$8,000	8.25	6.00	6.00
Louisiana	6.00	\$50,000	8.00	4.00	8.60
Maine	8.50	\$34,700	8.93	5.00	5.00
Maryland	4.75	\$3,000	7.00	5.00	5.00
Massachusetts	5.30	Flat Rate	9.50	5.00	5.00
Michigan	3.90	Flat Rate	1.90	6.00	6.00
Minnesota	7.85	\$115,510	9.80	6.50	6.70
Mississippi	5.00	\$10,000	5.00	7.00	7.00
Missouri	6.00	\$9,000	6.25	4.23	6.85
Montana	6.90	\$13,900	6.75	0.00	0.00
Nebraska	6.84	\$46,750	7.81	5.50	6.30
Nevada	0.00	Flat Rate	0.00	6.50	7.50
New Hampshire	5.00	On Interest and Dividends only	8.50	0.00	0.00
New Jersey	8.97	\$500,000	9.00	6.00	6.00
New Mexico	6.80	\$40,000	7.60	5.00	6.55
New York^{3,4,5}	6.85	\$40,000	7.50	4.00	8.25
North Carolina	8.25	\$200,000	6.90	4.50	7.05
North Dakota	5.54	\$326,450	7.00	5.00	5.50
Ohio	7.50	\$200,000	8.50	5.50	6.70
Oklahoma	6.65	\$20,000	6.00	4.50	8.10
Oregon	9.00	\$13,100	6.60	0.00	0.00
Pennsylvania	3.07	Flat Rate	9.99	6.00	6.25
Rhode Island	8.75	\$326,450	9.00	7.00	7.00
South Carolina	7.00	\$12,300	5.00	5.00	5.75
South Dakota	0.00	Flat Rate	0.00	4.00	5.25
Tennessee	6.00	On Interest and Dividends only	6.50	7.00	9.40
Texas	0.00	Flat Rate	4.50	6.25	7.95
Utah	7.00	\$8,626	5.00	4.75	6.45
Vermont	9.50	\$326,450	9.75	6.00	6.00
Virginia	5.75	\$17,000	6.00	4.00	5.00
Washington	0.00	Flat Rate	0.00	6.50	8.35
West Virginia	6.50	\$60,000	9.00	6.00	6.00
Wisconsin	6.75	\$176,770	7.90	5.00	5.40
Wyoming	0.00	Flat Rate	0.00	4.00	5.25
Mean Values	5.57		6.72	4.78	5.93
Standard Deviation	2.73		2.66	1.84	2.20
Coefficient of Variation	49.02		39.59	38.60	37.09

¹ Reflects the average value of state and all local rates imposed within that state.

² Source: The Sales Tax Clearinghouse.

³ The Top NYC PIT rate for 2005 was 4.45 percent, making the top combined rate for NYC residents **12.15** percent.

⁴ Top NYS PIT rate decreased to 6.85 percent on 1/1/2006. Measures of dispersion are calculated using the 2005 rate of 7.7 percent.

⁵ Permanent state sales tax rate reverts to 4.0 effective 6/1/2005. This would lower the NYS difference from the National Average to -0.78 for State only and 2.32 for State and local combined.

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 2 - 1994 Components and Percentage of Total State Tax Burden per \$100 Personal Income

State	Total State Taxes	PIT	Percent	Sales and Use	Percent	Corporate	Percent	Estate and Gift	Percent	Other	Percent
Alabama	6.01	1.73	28.7	3.23	53.7	0.28	4.6	0.04	0.6	0.75	12.4
Alaska	8.21	0.00	0.0	0.66	8.0	1.17	14.2	0.01	0.1	6.37	77.6
Arizona	6.94	1.73	24.9	4.01	57.8	0.37	5.4	0.05	0.7	0.78	11.2
Arkansas	7.34	2.21	30.2	4.13	56.2	0.43	5.8	0.03	0.4	0.55	7.4
California	6.80	2.40	35.3	2.94	43.2	0.63	9.3	0.07	1.1	0.76	11.1
Colorado	4.85	2.25	46.3	2.07	42.7	0.17	3.5	0.04	0.8	0.32	6.7
Connecticut	6.95	2.27	32.7	3.37	48.5	0.71	10.3	0.23	3.3	0.37	5.3
Delaware	8.55	3.24	37.9	1.25	14.6	0.92	10.7	0.14	1.6	3.01	35.2
Florida	5.77	0.00	0.0	4.39	76.1	0.31	5.3	0.11	1.9	0.96	16.6
Georgia	5.93	2.42	40.8	2.80	47.3	0.35	5.9	0.06	1.0	0.30	5.0
Hawaii	10.17	3.27	32.1	6.29	61.9	0.23	2.3	0.10	0.9	0.28	2.8
Idaho	7.51	2.63	35.1	3.55	47.3	0.42	5.6	0.03	0.4	0.87	11.6
Illinois	5.45	1.77	32.4	2.79	51.2	0.43	7.9	0.05	1.0	0.41	7.5
Indiana	6.22	2.51	40.3	2.79	44.9	0.66	10.7	0.08	1.3	0.17	2.8
Iowa	7.14	2.61	36.5	3.40	47.6	0.30	4.2	0.15	2.1	0.68	9.5
Kansas	6.78	2.21	32.5	3.34	49.3	0.47	6.9	0.16	2.4	0.60	8.9
Kentucky	8.12	2.47	30.4	3.88	47.8	0.38	4.7	0.11	1.3	1.28	15.8
Louisiana	5.48	1.22	22.3	2.85	52.1	0.27	5.0	0.07	1.2	1.06	19.4
Maine	7.32	2.55	34.8	3.70	50.5	0.38	5.2	0.04	0.6	0.65	8.9
Maryland	5.90	2.51	42.5	2.55	43.2	0.25	4.2	0.06	1.1	0.53	9.0
Massachusetts	6.87	3.55	51.6	2.21	32.1	0.66	9.6	0.17	2.5	0.28	4.1
Michigan	6.59	2.06	31.3	2.79	42.4	1.00	15.2	0.03	0.4	0.71	10.8
Minnesota	8.16	3.25	39.9	3.61	44.3	0.52	6.4	0.04	0.5	0.73	9.0
Mississippi	7.59	1.46	19.2	5.12	67.4	0.38	5.0	0.02	0.3	0.61	8.0
Missouri	5.32	1.93	36.2	2.70	50.7	0.23	4.3	0.05	0.9	0.42	7.9
Montana	7.55	2.25	29.8	1.57	20.9	0.45	5.9	0.07	0.9	3.21	42.5
Nebraska	6.30	2.10	33.4	3.38	53.6	0.33	5.3	0.04	0.6	0.45	7.2
Nevada	6.68	0.00	0.0	5.52	82.7	0.00	0.0	0.07	1.0	1.09	16.3
New Hampshire	3.10	0.13	4.3	1.80	57.9	0.53	17.2	0.12	4.0	0.51	16.6
New Jersey	6.11	2.03	33.2	3.14	51.4	0.49	8.0	0.14	2.3	0.31	5.1
New Mexico	9.21	1.95	21.1	5.11	55.5	0.41	4.5	0.04	0.4	1.71	18.5
New York	6.99	3.47	49.6	2.44	34.8	0.66	9.4	0.17	2.4	0.27	3.8
North Carolina	7.17	2.92	40.8	3.14	43.7	0.50	7.0	0.08	1.1	0.53	7.4
North Dakota	7.22	1.12	15.5	4.05	56.1	0.58	8.1	0.03	0.4	1.44	19.9
Ohio	5.86	2.11	36.0	2.95	50.4	0.27	4.6	0.04	0.6	0.49	8.4
Oklahoma	7.07	2.18	30.8	3.13	44.3	0.27	3.8	0.10	1.4	1.39	19.6
Oregon	6.15	3.93	64.0	0.83	13.5	0.40	6.5	0.07	1.1	0.92	14.9
Pennsylvania	6.29	1.74	27.6	2.98	47.4	0.55	8.7	0.22	3.5	0.81	12.9
Rhode Island	6.40	2.35	36.8	3.22	50.3	0.35	5.5	0.04	0.7	0.43	6.8
South Carolina	6.62	2.25	34.0	3.41	51.6	0.32	4.9	0.04	0.6	0.59	8.9
South Dakota	4.65	0.00	0.0	3.61	77.7	0.26	5.5	0.17	3.6	0.61	13.2
Tennessee	5.42	0.09	1.7	4.25	78.5	0.40	7.4	0.04	0.8	0.63	11.6
Texas	5.20	0.00	0.0	4.24	81.5	0.00	0.0	0.04	0.8	0.92	17.7
Utah	7.02	2.69	38.3	3.65	52.0	0.36	5.2	0.02	0.3	0.29	4.2
Vermont	7.05	2.42	34.4	3.39	48.1	0.30	4.2	0.07	1.0	0.87	12.3
Virginia	5.23	2.48	47.4	2.12	40.5	0.20	3.8	0.05	1.0	0.38	7.2
Washington	7.90	0.00	0.0	5.90	74.7	0.00	0.0	0.03	0.4	1.97	24.9
West Virginia	8.16	2.14	26.2	4.43	54.2	0.59	7.2	0.03	0.4	0.97	11.9
Wisconsin	7.67	3.31	43.2	3.33	43.5	0.49	6.4	0.05	0.6	0.48	6.3
Wyoming	7.51	0.00	0.0	2.64	35.2	0.00	0.0	0.26	3.5	4.61	61.3
Mean	6.73	1.96	28.8	3.29	49.6	0.41	6.2	0.08	1.2	0.99	14.1
Standard Deviation	1.20	1.05		1.13		0.23		0.06		1.10	
Coefficient of Variation	17.87	53.59		34.18		55.37		73.08		111.46	
NYS Diff. from Mean	0.26	1.51	20.7	(0.86)	(14.8)	0.24	3.1	0.09	1.2	(0.72)	(10.3)

Source: Moody's Economy.com, DOB Staff Estimates

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 3 - 2003 Components and Percentage of Total State Tax Burden per \$100 Personal Income

State	Total State Taxes	PIT	Percent	Sales and Use	Percent	Corporate	Percent	Estate and Gift	Percent	Other	Percent
Alabama	5.42	1.72	31.7	2.83	52.2	0.20	3.8	0.03	0.5	0.64	11.8
Alaska	5.23	0.00	0.0	0.71	13.6	0.97	18.5	0.01	0.1	3.55	67.8
Arizona	5.73	1.39	24.2	3.63	63.4	0.26	4.5	0.06	1.1	0.39	6.8
Arkansas	7.79	2.31	29.7	4.02	51.7	0.27	3.4	0.10	1.2	1.09	14.0
California	6.69	2.76	41.3	2.70	40.3	0.57	8.6	0.08	1.2	0.58	8.6
Colorado	4.22	2.06	48.8	1.78	42.1	0.13	3.0	0.03	0.8	0.22	5.3
Connecticut	6.37	2.44	38.3	3.21	50.4	0.23	3.6	0.13	2.1	0.36	5.6
Delaware	7.65	2.57	33.6	1.18	15.4	0.75	9.8	0.14	1.8	3.01	39.3
Florida	5.27	0.00	0.0	4.02	76.2	0.24	4.5	0.11	2.1	0.90	17.2
Georgia	5.35	2.50	46.8	2.40	44.9	0.19	3.6	0.04	0.7	0.21	4.0
Hawaii	9.36	2.72	29.1	6.16	65.8	0.08	0.9	0.04	0.4	0.36	3.8
Idaho	6.76	2.43	36.0	3.37	49.8	0.27	4.0	0.05	0.7	0.65	9.5
Illinois	5.20	1.72	33.1	2.66	51.3	0.30	5.8	0.06	1.1	0.46	8.8
Indiana	6.27	2.04	32.5	3.48	55.5	0.41	6.5	0.11	1.8	0.24	3.7
Iowa	5.86	2.13	36.4	2.82	48.1	0.17	2.8	0.09	1.5	0.65	11.2
Kansas	6.20	2.20	35.5	3.30	53.2	0.15	2.5	0.06	0.9	0.49	7.9
Kentucky	7.80	2.64	33.8	3.64	46.7	0.35	4.4	0.09	1.2	1.08	13.9
Louisiana	6.41	1.61	25.1	3.77	58.7	0.17	2.7	0.05	0.8	0.82	12.7
Maine	7.24	2.89	39.8	3.44	47.5	0.24	3.4	0.08	1.1	0.59	8.1
Maryland	5.32	2.27	42.6	2.36	44.3	0.18	3.5	0.07	1.3	0.44	8.3
Massachusetts	6.11	3.14	51.4	2.12	34.7	0.46	7.6	0.07	1.2	0.32	5.2
Michigan	7.14	2.05	28.7	3.20	44.8	0.58	8.1	0.03	0.4	1.29	18.0
Minnesota	8.07	3.10	38.4	3.50	43.4	0.34	4.3	0.07	0.9	1.05	13.0
Mississippi	7.50	1.53	20.4	4.96	66.1	0.43	5.8	0.03	0.4	0.54	7.3
Missouri	5.17	2.11	40.8	2.53	49.0	0.12	2.4	0.05	0.9	0.36	6.9
Montana	6.17	2.22	36.0	1.60	25.9	0.18	3.0	0.06	0.9	2.11	34.2
Nebraska	6.27	2.10	33.5	3.53	56.4	0.21	3.3	0.03	0.5	0.40	6.3
Nevada	5.76	0.00	0.0	4.89	84.8	0.00	0.0	0.05	0.9	0.82	14.3
New Hampshire	4.40	0.12	2.8	1.42	32.3	0.89	20.2	0.13	2.9	1.84	41.8
New Jersey	5.81	1.96	33.8	2.63	45.3	0.70	12.0	0.13	2.2	0.39	6.7
New Mexico	7.71	1.97	25.6	4.00	51.9	0.22	2.8	0.06	0.8	1.45	18.9
New York	6.12	3.28	53.6	2.19	35.8	0.30	4.9	0.10	1.7	0.24	3.9
North Carolina	6.76	3.02	44.7	2.88	42.6	0.38	5.7	0.06	0.8	0.42	6.2
North Dakota	6.47	1.10	16.9	3.57	55.2	0.31	4.8	0.04	0.6	1.46	22.5
Ohio	6.03	2.31	38.3	2.95	48.9	0.23	3.8	0.03	0.5	0.51	8.5
Oklahoma	6.34	2.27	35.8	2.40	37.9	0.11	1.8	0.08	1.3	1.48	23.3
Oregon	5.48	3.87	70.6	0.72	13.1	0.22	4.0	0.05	0.9	0.63	11.5
Pennsylvania	5.91	1.70	28.7	3.05	51.6	0.30	5.1	0.17	2.9	0.69	11.6
Rhode Island	6.46	2.36	36.6	3.53	54.7	0.19	3.0	0.08	1.2	0.30	4.6
South Carolina	5.90	2.17	36.7	3.19	54.0	0.16	2.7	0.04	0.7	0.34	5.8
South Dakota	4.56	0.00	0.0	3.65	80.1	0.20	4.3	0.12	2.7	0.59	12.9
Tennessee	5.31	0.07	1.3	4.13	77.9	0.37	7.0	0.05	1.0	0.68	12.9
Texas	4.47	0.00	0.0	3.59	80.3	0.00	0.0	0.04	0.9	0.84	18.8
Utah	6.56	2.61	39.8	3.34	50.9	0.25	3.7	0.05	0.8	0.31	4.7
Vermont	8.36	2.21	26.4	2.94	35.1	0.22	2.7	0.08	1.0	2.91	34.8
Virginia	5.18	2.71	52.2	1.90	36.7	0.13	2.5	0.06	1.1	0.38	7.4
Washington	6.44	0.00	0.0	5.02	78.0	0.00	0.0	0.06	1.0	1.36	21.1
West Virginia	8.11	2.38	29.4	4.41	54.3	0.41	5.1	0.02	0.3	0.88	10.9
Wisconsin	7.21	3.13	43.4	3.25	45.1	0.31	4.4	0.04	0.6	0.47	6.5
Wyoming	7.50	0.00	0.0	3.18	42.4	0.00	0.0	0.09	1.2	4.22	56.3
Mean	6.31	1.92	30.1	3.12	49.6	0.29	4.7	0.07	1.1	0.92	14.5
Standard Deviation	1.09	1.01		1.04		0.20		0.03		0.86	
Coefficient of Variation	17.26	52.48		33.51		70.79		50.51		92.98	
NYS Diff. from Mean	(0.19)	1.36	23.5	(0.92)	(13.8)	0.01	0.2	0.03	0.6	(0.68)	(10.6)

Source: Moody's Economy.com, DOB Staff Estimates

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

TABLE 4 COMPARISON OF 2002 SELECTED TAX COLLECTIONS AS A SHARE OF PERSONAL INCOME

State	State PIT	Local PIT	State Corporate	State Sales	Local Sales	Local Property	All Other	Total State/Local
Alabama	1.78	0.08	0.28	2.97	1.24	1.12	1.05	8.54
Alaska	0.00	0.00	1.30	0.69	0.81	3.77	3.43	10.00
Arizona	1.45	0.00	0.24	3.71	1.20	2.72	0.68	10.01
Arkansas	2.47	0.00	0.28	4.18	1.09	0.82	1.36	10.20
California	2.88	0.00	0.46	2.67	0.95	2.46	1.06	10.49
Colorado	2.27	0.00	0.13	1.85	1.61	2.72	0.49	9.08
Connecticut	2.50	0.00	0.10	3.07	0.00	4.07	0.53	10.28
Delaware	2.70	0.18	0.95	1.22	0.01	1.51	3.57	10.14
Florida	0.00	0.00	0.25	3.93	0.70	3.09	1.08	9.05
Georgia	2.65	0.00	0.23	2.46	1.38	2.69	0.42	9.82
Hawaii	3.06	0.00	0.14	5.82	0.35	1.69	0.59	11.66
Idaho	2.49	0.00	0.23	3.30	0.06	2.83	0.82	9.73
Illinois	1.80	0.00	0.33	2.72	0.63	3.82	0.73	10.04
Indiana	2.05	0.34	0.41	3.15	0.06	3.46	0.38	9.85
Iowa	2.14	0.05	0.11	3.08	0.42	3.49	0.80	10.10
Kansas	2.36	0.00	0.16	3.10	0.81	3.14	0.59	10.15
Kentucky	2.58	0.79	0.29	3.61	0.19	1.49	1.45	10.40
Louisiana	1.59	0.00	0.23	3.72	2.45	1.69	1.13	10.81
Maine	2.98	0.00	0.22	3.44	0.01	5.18	0.79	12.63
Maryland	2.37	1.48	0.18	2.36	0.14	2.59	0.88	10.00
Massachusetts	3.17	0.00	0.32	2.08	0.06	3.49	0.44	9.56
Michigan	2.02	0.16	0.68	3.32	0.06	2.60	1.27	10.10
Minnesota	3.26	0.00	0.32	3.45	0.09	2.94	0.99	11.05
Mississippi	1.54	0.00	0.31	4.98	0.11	2.57	0.69	10.21
Missouri	2.24	0.19	0.19	2.57	1.18	2.40	0.62	9.39
Montana	2.27	0.00	0.30	1.62	0.01	2.94	2.21	9.35
Nebraska	2.29	0.00	0.21	2.99	0.62	3.46	0.98	10.56
Nevada	0.00	0.00	0.00	5.01	0.75	2.39	1.50	9.65
New Hampshire	0.16	0.00	0.87	1.39	0.00	3.84	2.02	8.28
New Jersey	2.02	0.01	0.33	2.60	0.01	4.75	0.54	10.25
New Mexico	2.19	0.00	0.28	4.05	1.10	1.56	1.66	10.84
New York	3.78	0.68	0.33	1.94	1.38	3.96	1.05	13.13
North Carolina	3.18	0.00	0.29	2.87	0.56	2.37	0.60	9.88
North Dakota	1.19	0.00	0.30	3.70	0.41	3.17	1.55	10.31
Ohio	2.50	1.04	0.23	2.80	0.43	3.19	0.67	10.86
Oklahoma	2.54	0.00	0.19	2.52	1.30	1.64	1.55	9.74
Oregon	3.61	0.00	0.19	0.64	0.23	3.06	1.11	8.84
Pennsylvania	1.76	0.73	0.31	2.86	0.09	2.84	1.25	9.84
Rhode Island	2.45	0.00	0.08	3.45	0.01	4.34	0.43	10.77
South Carolina	2.26	0.00	0.15	3.03	0.26	2.96	0.71	9.37
South Dakota	0.00	0.00	0.20	3.80	0.75	3.27	0.99	9.01
Tennessee	0.09	0.00	0.32	3.80	0.89	2.17	0.89	8.15
Texas	0.00	0.00	0.00	3.76	0.81	3.91	0.93	9.41
Utah	2.76	0.00	0.19	3.48	1.02	2.44	0.47	10.36
Vermont	2.26	0.00	0.21	3.16	0.02	2.40	2.85	10.90
Virginia	2.79	0.00	0.13	1.99	0.73	2.79	0.78	9.22
Washington	0.00	0.00	0.00	5.04	1.03	2.20	1.62	9.89
West Virginia	2.39	0.00	0.51	4.44	0.14	2.07	1.18	10.73
Wisconsin	3.05	0.00	0.27	3.32	0.17	3.90	0.69	11.40
Wyoming	0.00	0.00	0.00	3.51	0.95	3.54	3.74	11.75
Mean Values	2.00	0.11	0.28	3.11	0.59	2.87	1.16	10.12
Standard Deviation	1.05	0.30	0.23	1.05	0.54	0.91	0.78	0.95
Coefficient of Variation	52.65	260.00	81.51	33.66	92.09	31.60	67.76	9.42
NYS Diff. from Avg.	1.78	0.57	0.05	-1.17	0.80	1.09	-0.11	3.02

Sources: Moody's Economy.com, DOB Staff Estimates

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 5 - State/Local Split of 2002 Tax-to-Income Ratio			
State	State Taxes	Local Taxes	State/Local
Alabama	5.72	2.82	8.54
Alaska	5.26	4.73	10.00
Arizona	5.88	4.12	10.01
Arkansas	8.25	1.95	10.20
California	6.77	3.72	10.49
Colorado	4.52	4.56	9.08
Connecticut	6.14	4.14	10.28
Delaware	8.20	1.94	10.14
Florida	5.12	3.93	9.05
Georgia	5.62	4.20	9.82
Hawaii	9.40	2.25	11.66
Idaho	6.71	3.02	9.73
Illinois	5.43	4.61	10.04
Indiana	5.92	3.94	9.85
Iowa	6.07	4.03	10.10
Kansas	6.12	4.03	10.15
Kentucky	7.70	2.71	10.40
Louisiana	6.53	4.28	10.81
Maine	7.30	5.32	12.63
Maryland	5.44	4.55	10.00
Massachusetts	5.93	3.63	9.56
Michigan	7.20	2.89	10.10
Minnesota	7.92	3.13	11.05
Mississippi	7.40	2.81	10.21
Missouri	5.42	3.97	9.39
Montana	6.32	3.03	9.35
Nebraska	5.94	4.62	10.56
Nevada	5.92	3.73	9.65
New Hampshire	4.37	3.92	8.28
New Jersey	5.42	4.82	10.25
New Mexico	8.07	2.78	10.84
New York	6.39	6.74	13.13
North Carolina	6.80	3.08	9.88
North Dakota	6.66	3.65	10.31
Ohio	6.04	4.81	10.86
Oklahoma	6.71	3.03	9.74
Oregon	5.07	3.77	8.84
Pennsylvania	5.79	4.05	9.84
Rhode Island	6.32	4.44	10.77
South Carolina	5.85	3.52	9.37
South Dakota	4.78	4.23	9.01
Tennessee	4.90	3.25	8.15
Texas	4.57	4.84	9.41
Utah	6.75	3.61	10.36
Vermont	8.42	2.48	10.90
Virginia	5.32	3.89	9.22
Washington	6.40	3.49	9.89
West Virginia	8.21	2.52	10.73
Wisconsin	7.24	4.16	11.40
Wyoming	7.07	4.68	11.75
Mean Values	6.35	3.77	10.12
Standard Deviation	1.12	0.90	0.95
Coefficient of Variation	17.66	23.97	9.42
NYS Diff. from Avg.	0.05	2.97	3.02

Sources: Moody's Economy.com, DOB Staff Estimates

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 6a - State Tax Burdens as a Pct. Of Personal Inc., 1977 - 2003

Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY Difference From Mean
1977	6.56	7.39	1.17	26.08	0.83
1978	6.42	6.91	1.34	20.80	0.49
1979	6.47	6.71	1.70	36.32	0.24
1980	6.45	6.57	2.72	42.21	0.12
1981	6.47	6.43	4.03	62.33	(0.04)
1982	6.62	6.55	3.67	55.48	(0.07)
1983	6.41	6.41	2.58	40.20	0.00
1984	6.58	6.69	2.34	35.55	0.12
1985	6.64	6.89	2.05	30.93	0.26
77-85 avg.	6.51	6.73			0.21
1986	6.61	7.10	2.02	30.52	0.49
1987	6.53	7.22	1.32	20.25	0.69
1988	6.64	7.02	1.41	21.26	0.38
1989	6.57	6.63	1.40	21.31	0.06
1990	6.54	6.75	1.42	21.73	0.21
1991	6.58	6.52	1.59	24.08	(0.07)
1992	6.55	6.64	1.32	20.14	0.09
1993	6.82	6.77	1.62	23.76	(0.05)
1994	6.73	6.99	1.21	18.05	0.26
86-94 avg.	6.62	6.85			0.23
1995	6.88	6.84	1.44	20.91	(0.04)
1996	6.74	6.46	1.33	19.80	(0.28)
1997	6.81	6.26	1.34	19.73	(0.55)
1998	6.71	6.11	1.28	19.01	(0.60)
1999	6.73	6.25	1.31	19.53	(0.49)
2000	6.76	6.29	1.22	18.09	(0.47)
2001	6.69	6.60	1.17	17.53	(0.10)
2002	6.35	6.39	1.12	17.66	0.05
2003	6.31	6.12	1.11	17.61	(0.19)
95-03 avg.	6.66	6.37			(0.30)

Sources: Moody's Economy.com, DOB Staff Estimates

Table 6b - State/Local Tax Burdens as a Pct. of Personal Inc., 1977 - 2002

Year	Mean	NYS	Standard Deviation	Coefficient of Variation	NY Difference From Mean
1977	10.52	15.48	1.82	17.34	4.96
1978	10.21	14.68	1.48	14.51	4.47
1979	10.11	13.95	1.80	17.79	3.84
1980	9.94	13.56	2.81	28.29	3.62
1981	9.86	13.21	4.07	41.30	3.35
1982	10.07	13.33	3.74	37.15	3.26
1983	9.95	13.22	2.79	28.03	3.27
1984	10.05	13.43	2.58	25.63	3.39
1985	10.19	13.82	2.37	23.28	3.63
77-85 avg.	10.10	13.85			3.75
1986	10.23	14.09	2.41	23.52	3.86
1987	10.28	14.47	1.65	16.04	4.19
1988	10.38	14.10	1.62	15.63	3.72
1989	10.28	13.67	1.47	14.34	3.39
1990	10.31	13.86	1.49	14.49	3.55
1991	10.43	13.87	1.65	15.81	3.44
1992	10.40	14.11	1.40	13.42	3.71
1993	10.70	14.53	1.72	16.08	3.82
1994	10.63	14.71	1.18	11.07	4.08
86-94 avg.	10.40	14.16			3.75
1995	10.79	14.22	1.41	13.03	3.43
1996	10.55	13.72	1.20	11.34	3.17
1997	10.63	13.55	1.21	11.35	2.92
1998	10.48	13.26	1.12	10.66	2.78
1999	10.45	13.26	1.01	9.68	2.80
2000	10.36	13.10	1.05	10.10	2.74
2001	10.24	13.12	0.97	9.48	2.88
2002	10.12	13.13	0.95	9.42	3.02
95-02 avg.	10.45	13.42			2.97

Sources: Moody's Economy.com, DOB Staff Estimates

COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Figure 1 - Distribution of Tax Burden Across States by Tax Type

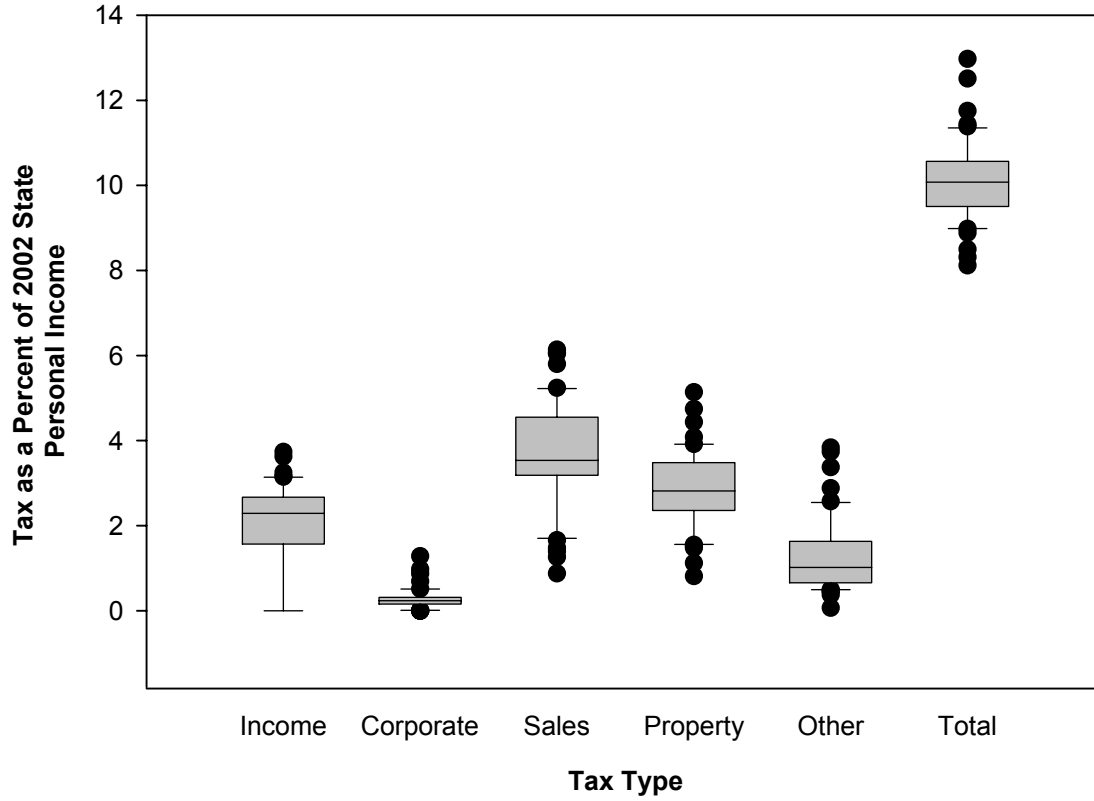
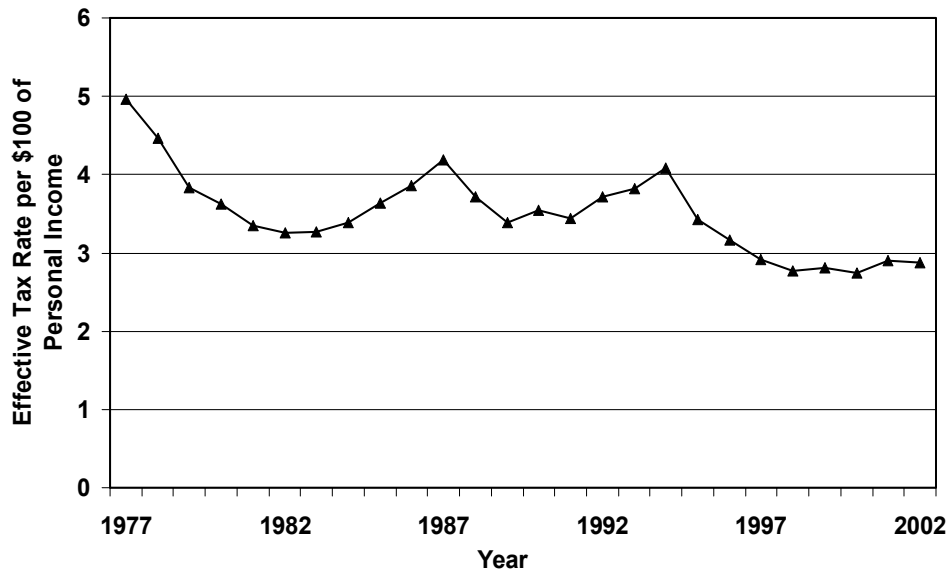
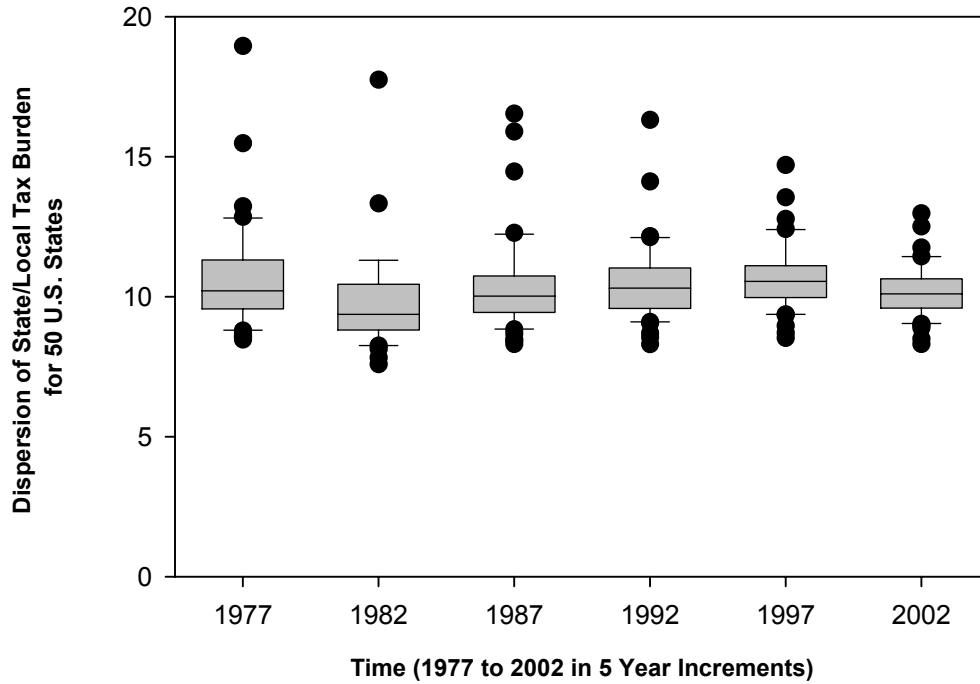


Figure 2 - NYS Difference From U.S. Mean State/Local Tax Burden



COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Figure 3 - Changes in Dispersion of State/Local Tax Burdens Through Time



COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Table 7 - 2002 Local Taxes Per \$100 of Personal Income

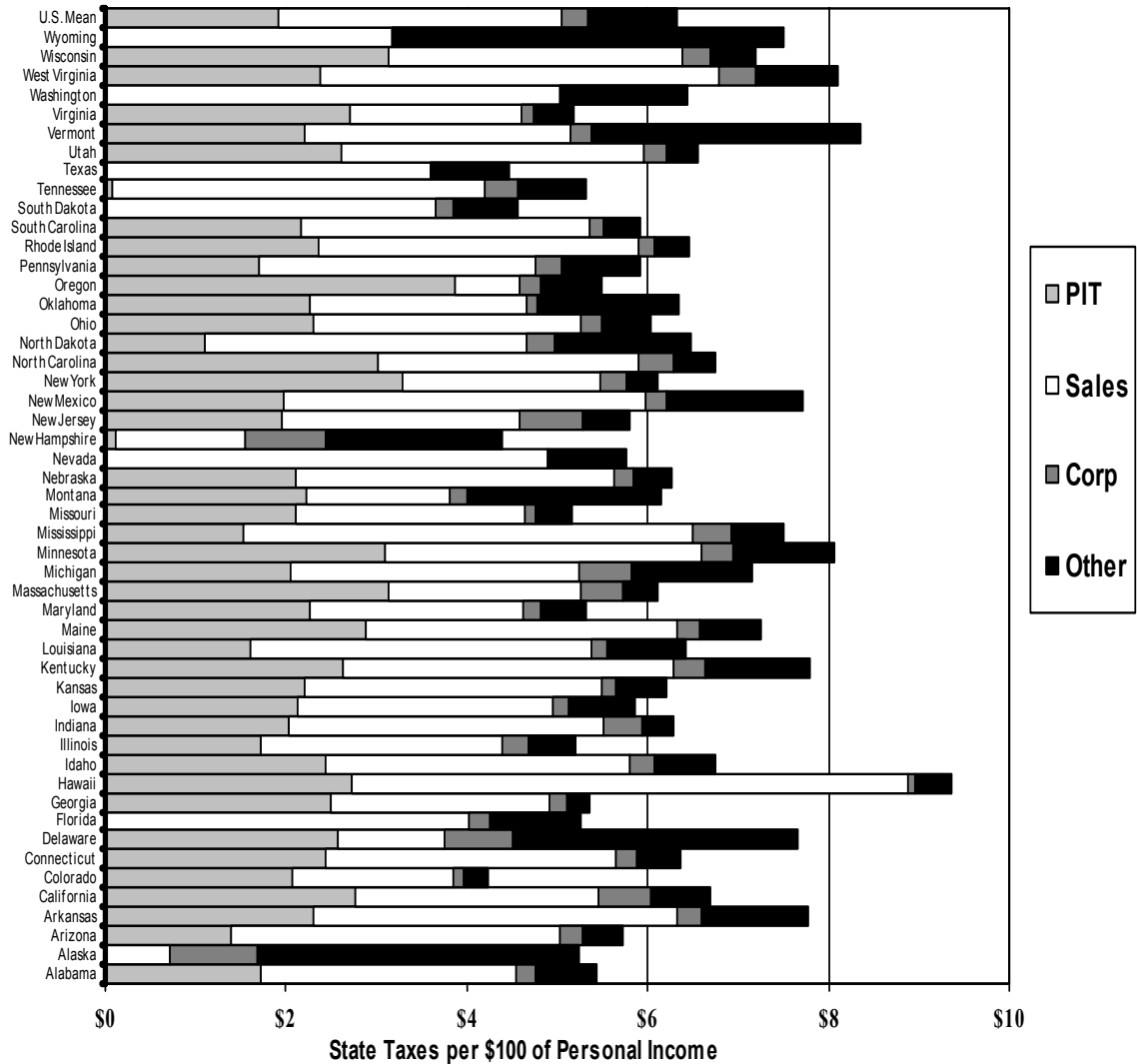
State	Total	Rank	Percent of			Percent of			Other	Rank	Percent of Total
			Property	Rank	Total	Sales	Rank	Total			
Alabama	2.82	42	1.12	49	39.8	1.24	6	44.1	0.45	9	16.0
Alaska	4.73	6	3.77	10	79.6	0.81	16	17.2	0.15	26	3.2
Arizona	4.12	18	2.72	28	66.0	1.20	7	29.1	0.20	22	4.9
Arkansas	1.95	49	0.82	50	41.9	1.09	10	56.0	0.04	50	2.1
California	3.72	29	2.46	34	66.3	0.95	14	25.4	0.31	15	8.2
Colorado	4.56	10	2.72	29	59.7	1.61	2	35.4	0.23	19	5.0
Connecticut	4.14	17	4.07	4	98.4	0.00	49	0.0	0.07	48	1.6
Delaware	1.94	50	1.51	47	77.9	0.01	45	0.7	0.42	11	21.5
Florida	3.93	24	3.09	20	78.6	0.70	22	17.9	0.14	30	3.5
Georgia	4.20	15	2.69	30	64.0	1.38	4	32.8	0.13	31	3.1
Hawaii	2.25	48	1.69	44	75.1	0.35	29	15.4	0.21	21	9.5
Idaho	3.02	40	2.83	26	94.0	0.06	41	1.9	0.12	33	4.1
Illinois	4.61	9	3.82	9	82.8	0.63	23	13.7	0.16	25	3.5
Indiana	3.94	23	3.46	14	88.0	0.06	40	1.4	0.42	10	10.6
Iowa	4.03	21	3.49	12	86.6	0.42	27	10.5	0.12	35	3.0
Kansas	4.03	20	3.14	19	78.0	0.81	18	20.0	0.08	44	2.0
Kentucky	2.71	45	1.49	48	54.9	0.19	32	7.2	1.03	5	38.0
Louisiana	4.28	13	1.69	43	39.5	2.45	1	57.1	0.14	29	3.4
Maine	5.32	2	5.18	1	97.4	0.01	46	0.2	0.13	32	2.4
Maryland	4.55	11	2.59	32	56.8	0.14	34	3.0	1.83	1	40.2
Massachusetts	3.63	31	3.49	13	96.1	0.06	39	1.7	0.08	42	2.2
Michigan	2.89	41	2.60	31	90.0	0.06	42	1.9	0.23	18	8.1
Minnesota	3.13	36	2.94	23	93.8	0.09	37	2.9	0.10	38	3.3
Mississippi	2.81	43	2.57	33	91.7	0.11	36	4.0	0.12	34	4.3
Missouri	3.97	22	2.40	37	60.4	1.18	8	29.8	0.39	12	9.9
Montana	3.03	38	2.94	24	96.9	0.01	44	0.5	0.08	43	2.6
Nebraska	4.62	8	3.46	15	75.0	0.62	24	13.5	0.53	7	11.5
Nevada	3.73	28	2.39	38	63.9	0.75	19	20.2	0.59	6	15.9
New Hampshire	3.92	25	3.84	8	98.0	0.00	50	0.0	0.08	45	2.0
New Jersey	4.82	4	4.75	2	98.4	0.01	48	0.2	0.07	47	1.4
New Mexico	2.78	44	1.56	46	56.3	1.10	9	39.7	0.11	37	4.0
New York	6.74	1	3.96	5	58.8	1.38	3	20.5	1.39	2	20.7
North Carolina	3.08	37	2.37	39	77.0	0.56	25	18.3	0.14	28	4.7
North Dakota	3.65	30	3.17	18	86.8	0.41	28	11.2	0.07	46	1.9
Ohio	4.81	5	3.19	17	66.3	0.43	26	9.0	1.19	3	24.8
Oklahoma	3.03	39	1.64	45	54.3	1.30	5	43.0	0.08	41	2.7
Oregon	3.77	27	3.06	21	81.1	0.23	31	6.2	0.48	8	12.7
Pennsylvania	4.05	19	2.84	25	70.1	0.09	38	2.2	1.12	4	27.7
Rhode Island	4.44	12	4.34	3	97.7	0.01	47	0.3	0.09	40	2.0
South Carolina	3.52	33	2.96	22	84.2	0.26	30	7.3	0.30	16	8.6
South Dakota	4.23	14	3.27	16	77.2	0.75	20	17.7	0.22	20	5.1
Tennessee	3.25	35	2.17	41	66.7	0.89	15	27.3	0.19	23	6.0
Texas	4.84	3	3.91	6	80.9	0.81	17	16.7	0.12	36	2.4
Utah	3.61	32	2.44	35	67.6	1.02	12	28.3	0.15	27	4.1
Vermont	2.48	47	2.40	36	96.9	0.02	43	0.7	0.06	49	2.4
Virginia	3.89	26	2.79	27	71.6	0.73	21	18.8	0.37	13	9.6
Washington	3.49	34	2.20	40	62.9	1.03	11	29.4	0.27	17	7.6
West Virginia	2.52	46	2.07	42	82.3	0.14	35	5.4	0.31	14	12.2
Wisconsin	4.16	16	3.90	7	93.8	0.17	33	4.0	0.09	39	2.2
Wyoming	4.68	7	3.54	11	75.7	0.95	13	20.4	0.18	24	3.9
Mean	3.77		2.87		76.0	0.59		15.8	0.31		8.2
Std. Dev.	0.90		0.91			0.54			0.37		
CV	23.97		31.60			92.09			118.66		
NYS Diff.	2.97		1.09		(17.1)	0.80		4.7	1.08		12.4

Source: Moody's Economy.com, DOB Staff estimates.

Note: "Other" includes NYC imposed taxes and all other categories.

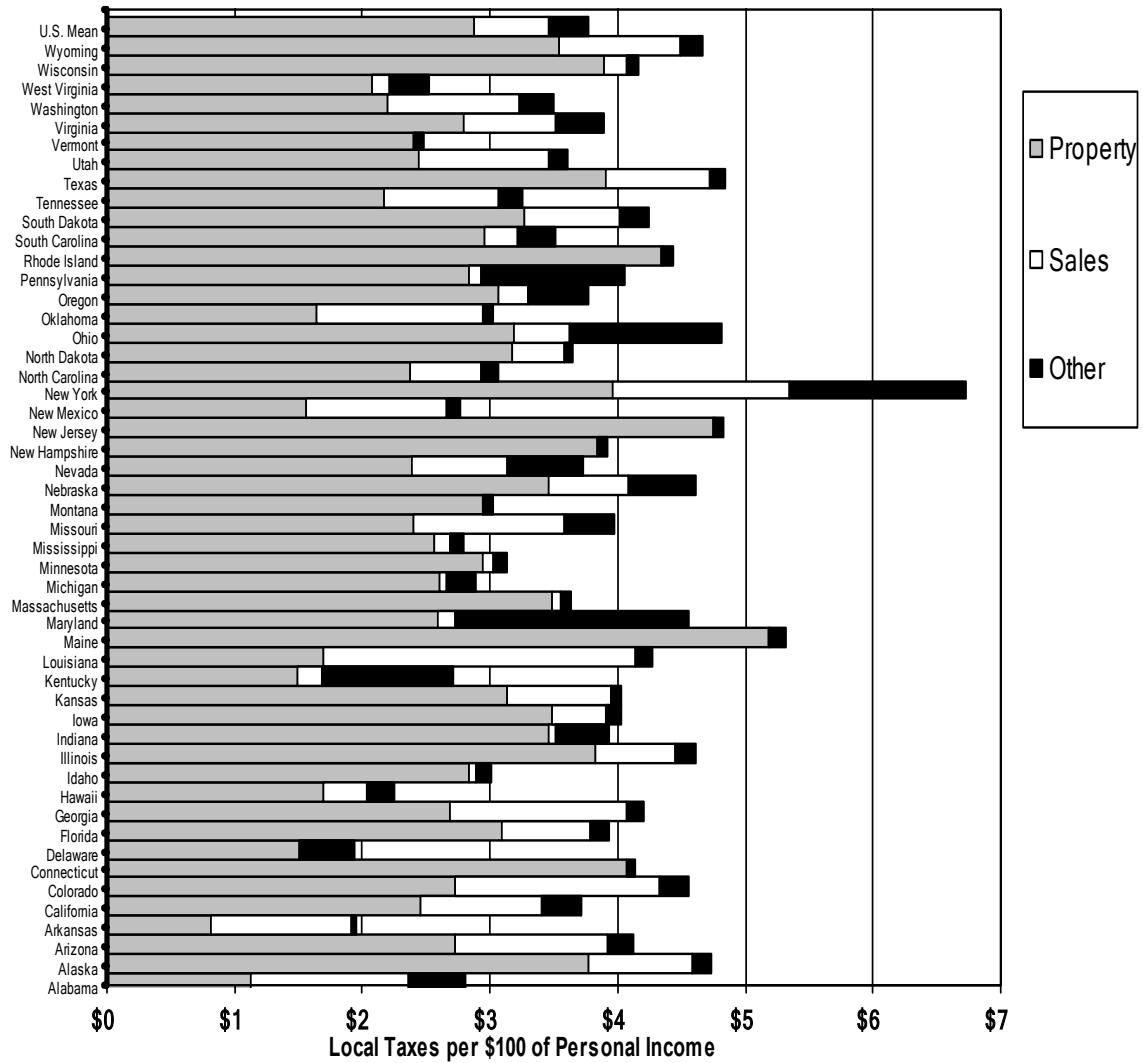
COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Figure 4 - Comparison of 2003 State Tax Burdens

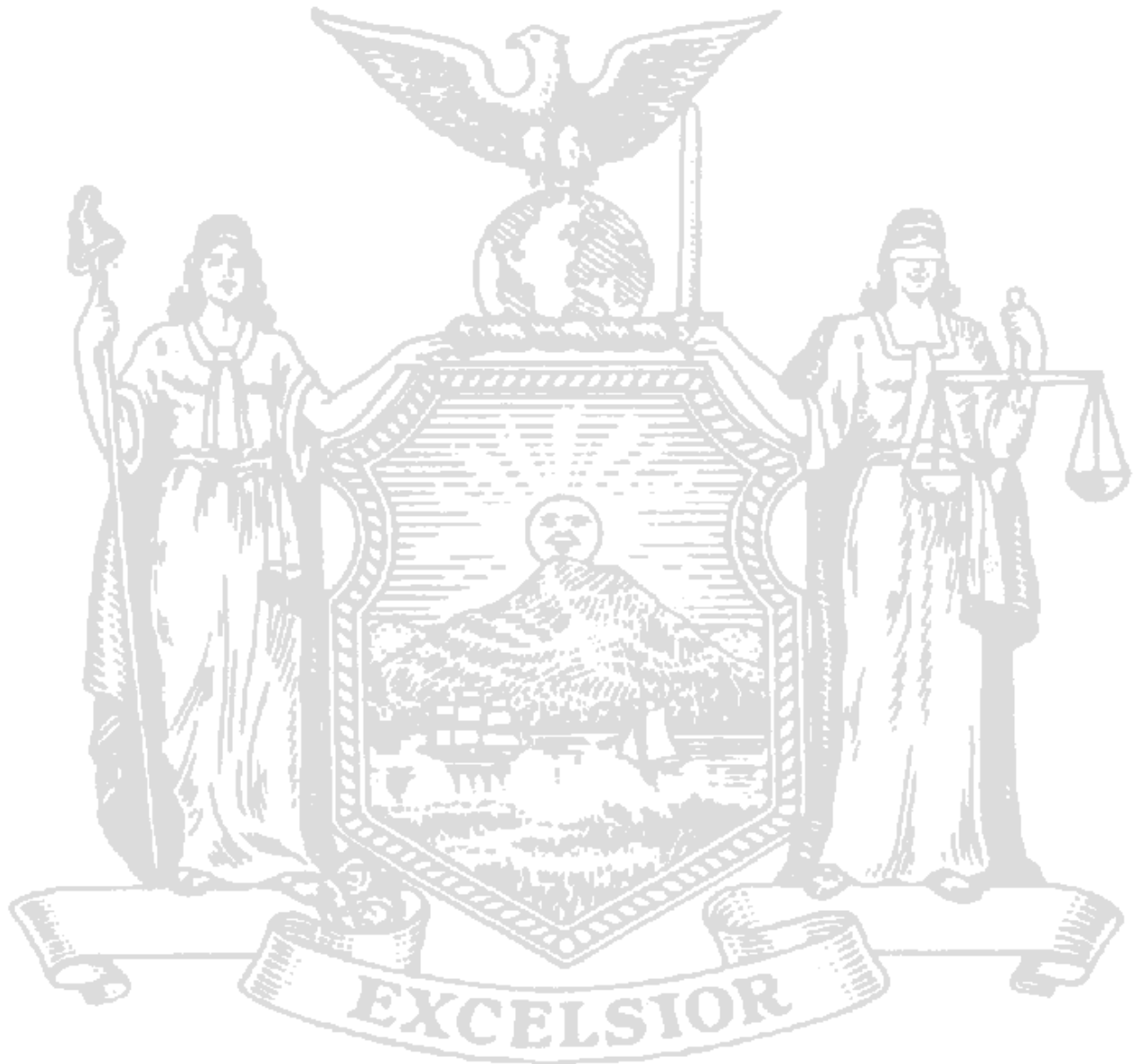


COMPARISON OF NEW YORK STATE TAX STRUCTURE WITH OTHER STATES

Figure 5 - Comparison of 2002 Local Tax Burdens



***ECONOMIC AND RECEIPTS
ESTIMATING METHODOLOGY***



AN OVERVIEW OF THE FORECAST PROCESS

The Division of the Budget (DOB) *Economic and Revenue Estimating Methodology* supplements the detailed forecast of the economy and the tax and miscellaneous receipts sources presented in the Executive Budget. The purpose of this volume is to provide background information on the methods and models used to generate the estimates for the major receipt sources contained in the Budget. DOB's forecast methodology utilizes sophisticated econometric models, augmented by the input of a panel of economic experts, and a thorough review of economic and revenue data to form multi-year quarterly projections of economic and revenue changes.

AN ASSESSMENT OF FORECAST RISK

No matter how sophisticated the methods used, all forecasts are subject to error. For this reason, a proper assessment of the most significant forecast risks can be as critical to the budget process as the forecast itself. Therefore, we begin by reviewing the most important sources of forecast error and discuss how they affect the forecasts used to construct the Executive Budget.

DATA QUALITY

Even the most accurate forecasting model is constrained by the accuracy of the available data. The data used by the Budget Division to produce a forecast typically undergo several stages of revision. For example, the quarterly components of real U.S. gross domestic product (GDP), the most widely cited measure of national economic activity, are revised no less than five times over a four year period, not including the rebasing process. Each revision incorporates data that were not available when the prior estimate was made. Initial estimates are often based on sample information, though early vintages are sometimes based on the informed judgment of the analyst charged with tabulating the data. The monthly employment estimates produced under the Current Employment Statistics (CES) program undergo a similar revision process as better, more broad-based data become available and with the evolution of seasonal factors. The total U.S. nonagricultural employment estimate for December 1989 has been revised no less than 10 times since it was first published in January 1990.¹ Less frequently, data are revised based on new definitions of the underlying concepts.² Unfortunately, revisions tend to be largest at or near business cycle turning points, when accuracy is most critical to fiscal planners. Finally, as demonstrated below, the available data are sometimes not suitable for economic or revenue forecasting purposes, such as the U.S. Bureau of Economic Analysis' estimate of wages at the state level.

MODEL SPECIFICATION ERROR

Economic forecasting models are by necessity simplifications of complex social processes involving millions of decisions made by independent agents. Although economic theory provides some guidance as to how these models should be specified, theory is often imprecise with respect to capturing behavioral dynamics and structural shifts.³ Moreover, modeled relationships may vary over time. Often one must choose between models that use the average behavior of the series over its entire history to forecast the future and models

¹ The current estimate for total employment for December 1989 of 108.8 million is 0.7 percent below the initial estimate of 109.5.

² The switch from SIC to NAICS, classification concepts is a classic example of how changes in the definition of a data series can challenge the modeler. The switch not only changed the industrial classification scheme, but also robbed state modelers of decades of employment history.

³ See R.C. Fair, *Specification, Estimation, and Analysis of Macroeconomic Models*, Cambridge, MA: Harvard University Press, 1984; and Clements M.P and D. F. Hendry, eds., *A Companion to Economic Forecasting*, Malden, MA: Blackwell Publisher, 2002.

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which give more weight to the more recent behavior of the series.⁴ Although more complicated models may do a better job of capturing history, they may be no better at forecasting the future, leading to the parsimony principle as a guiding precept in the model building process.

MODEL COEFFICIENTS: FIXED POINTS OR RANGES?

Although model coefficients are generally treated as fixed in the forecasting process, coefficient estimates are themselves random variables, governed by probability distributions. Typically, the distribution is assumed to be normal, a key to making statistical inference. Reporting the standard errors of the coefficient distributions gives some indication of the precision with which one can measure the relationship between two variables. For many of the results reported below, point estimates of the coefficients are reported along with their standard errors. However, it would be more accurate to say that there is a 66 percent probability that the true coefficient lies within a range of the estimated coefficient plus and minus the standard error.

ECONOMIC SHOCKS

A multitude of random events occur that can affect the economy and revenues but that no model can capture. September 11 is the most extreme example of such an event. Some economic variables are more sensitive to shocks than others. For example, equity markets rise and fall on the day's news, sometimes by large magnitudes. In contrast, GDP growth tends to fluctuate within a relatively narrow range. For all of these reasons, the probability of any forecast being precisely accurate is virtually zero. But although one can not be confident about hitting any particular number correctly, one can feel more confident about specifying a range within which the actual number is likely to fall. Often economic forecasters use sophisticated techniques, such as Monte Carlo analysis, to estimate confidence bands based on the model's performance, the precision of the coefficient estimates, and the inherent volatility of the series.⁵ A 95 percent confidence band (or even a much less exacting band) often can be quite wide, suggesting the possibility that the actual result could deviate substantially from the point estimate. From a practitioner's perspective, these techniques are only valid if the model is properly specified.

Sometimes what appears to be a random economic shock may actually be a more permanent structural change. Structural shifts in the underlying economy or revenue structure are difficult to model in practice, particularly since the true causes of such shifts only become clear with hindsight. This can lead to large forecast errors when these shifts occur rapidly or when the cumulative impact is felt over the forecast horizon. Policy makers must be kept aware that even a well specified model can perform badly when structural changes occur.

EVALUATING A LOSS FUNCTION

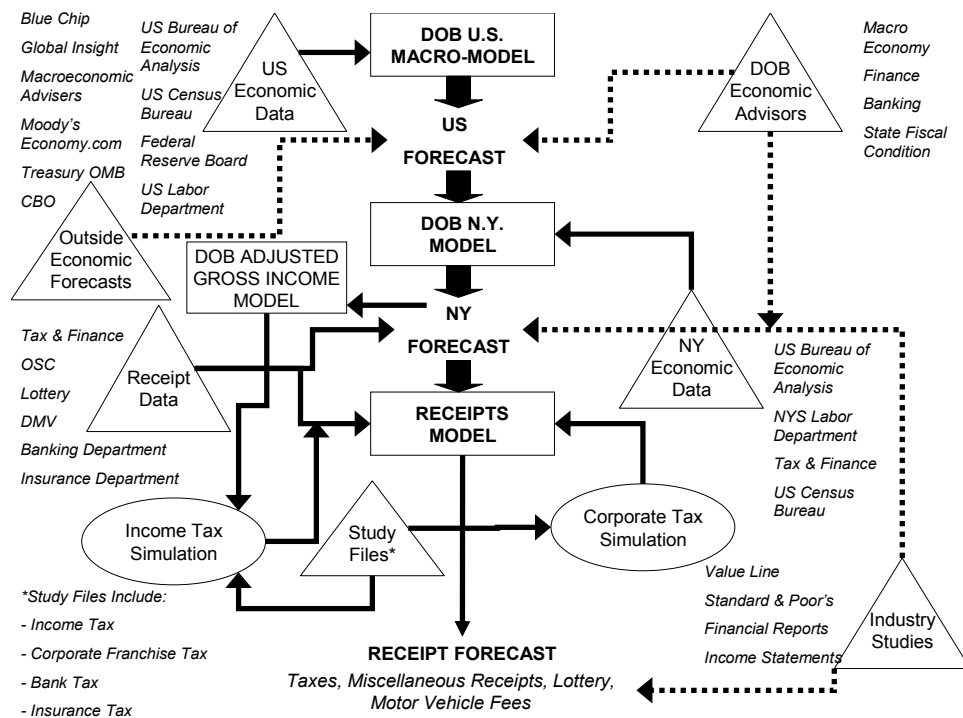
The prevalence of sources of forecast error underscores the importance of assessing the risks to the forecast, and explains why the discussion of such risks consumes such a large portion of the economic backdrop presented with the Executive Budget. In light of all of the potential sources of forecast risk, how does a budgeting entity utilize the knowledge of risks to inform the forecast? Standard econometric theory tells us that the probability of any point forecast being correct is zero, but a budget must be based on a single projection.

⁴ See Andrew C. Harvey, *Time Series Models*, second edition, Cambridge: The MIT Press, 1993.

⁵ For an example of such an analysis, see Lynn Holland, Hilke Kayser, Robert Megna, and Qiang Xu (2001). "The Volatility of Capital Gains Realizations in New York State: a Monte Carlo Study," in *Proceedings, 94th Annual Conference on Taxation*, National Tax Association, Washington, DC, 2002, pp. 172-183.

One way to reconcile these two facts is to evaluate the cost of one’s forecasting errors, giving rise to the notion of a loss function. A conventional example of a loss function is the root-mean-squared forecast error (RMSFE). In constructing that measure, the “cost” of an inaccurate forecast is the square of the forecast error itself, implying that large forecast errors are weighted more heavily than small errors. Because positive and negative errors of equal magnitude are weighted the same, the RMSFE is symmetric. However, in the professional world of forecasting, as in our daily lives, the costs associated with an inaccurate forecast may not truly be symmetric. For example, how much time we give ourselves to get to the airport may not be based on the average travel time between home and the gate, since the cost of being late and missing the plane may outweigh the cost of arriving early and waiting awhile longer. Granger and Pesaran (2000) show that the forecast evaluation criterion derived from their decision-based approach can differ markedly from the usual RMSFE.⁶ They suggest a more general approach, known as generalized cost-of-error functions, to deal with asymmetries in the cost of over- and under-predicting.⁷ In the revenue-estimating context, the cost of overestimating receipts for a fiscal year may outweigh the cost of underestimating receipts, given that ongoing spending decisions may be based on revenue resources projected to be available. In summary, forecast errors are an inevitable part of the process and, as a result, policymakers must be fully informed of the forecast risks, both as to direction and magnitude.

The Economic and Revenue Forecasting Process



The above flow chart provides an overview of the receipts forecasting process. The entire forecast process, from the gathering of information to the running of various economic and receipt models, is designed to inform and improve the DOB receipt estimates. As with any large scale forecasting process, the qualitative judgment of experts plays an important role in the estimation process. It is the job of the DOB economic and revenue analysts to

⁶ See C. W. J. Granger and M. H. Pesaran, “A Decision-based Approach to Forecast Evaluation,” in Chan and Tong (eds.), *Statistics and Finance: An Interface*, London: Imperial College Press, 2000; and C. W. J. Granger and M. H. Pesaran, “Economic and Statistical Measures of Forecast Accuracy,” *Journal of Forecasting*, 2000, Vol. 19, pp. 537-560.

⁷ For a detailed discussion, see C.W.J. Granger, *Empirical Modeling in Economics: Specification and Evaluation*, Cambridge University Press, 1999.

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consider all of the sources of model errors and to assess the impact of changes in the revenue environment that models cannot be expected to capture. Adjustments that balance all of these risks while minimizing the appropriate loss function are key elements of the process. Nevertheless, in the final analysis, such adjustments tend to be relatively small. The Budget Division's forecasting process remains guided primarily by the results from the models described in detail below.

THE ECONOMY

The economic environment is the most important factor influencing the receipts estimates. The receipts structure of New York State is dominated by tax sources, such as the personal income and sales taxes, that are sensitive to economic conditions. As a result, the first and most important step in the construction of receipts projections requires an analysis of economic trends at both the State and national levels. The schedule below sketches the frequency and timing of forecasts performed over the course of the year.

ECONOMIC AND REVENUE FORECAST SCHEDULE

A brief overview of how the Budget Division forecasting process unfolds over the course of the calendar year is presented below. From one perspective, the following schedule begins at the end, since the submission of the Executive Budget in January represents the culmination of research and analysis done throughout the preceding year. For the remainder of the year, the Economic and Revenue Unit closely monitors all of the relevant economic and revenue data and regularly updates an extensive array of annual, quarterly, monthly, weekly, and daily databases. For example, estimates of U.S. Gross Domestic Product data are released at the end of each month for the preceding quarter. U.S. employment and unemployment rate data are released on the first Friday of each month for the preceding month, while unemployment benefits claims data are released on a weekly basis. Receipts data published by the Office of the State Comptroller are released by the 15th of each month for the preceding month, while similar data from the New York State Department of Taxation and Finance are monitored on both a monthly and daily basis. The Executive Budget forecast is updated four times during the year in compliance with State Finance Law.

JANUARY	Governor submits Executive Budget to the Legislature by the middle of the month, or by February 1 following a gubernatorial election.
FEBRUARY	Prepare forecast for <i>Executive Budget With 30-Day Amendments</i> .
MARCH	Joint Legislative-Executive Economic and Revenue Consensus Forecasting Conference.
APRIL	Statutory deadline for enactment of State Budget by the Legislature.
JUNE/JULY	Prepare forecast for First Quarter Financial Plan Update (July Update).
SEPTEMBER/ OCTOBER	Prepare forecast for Mid-Year Financial Plan Update: <ul style="list-style-type: none">> Meet with DOB Economic Advisory Board for review and comment on mid-year forecast.> Incorporate comments of Advisory Board members.
DECEMBER	Prepare Executive Budget forecast and supporting documentation.

The process begins with a forecast of the U.S. economy. The heart of the DOB U.S. forecast is the DOB macroeconomic model. The DOB model structure employs recent advances in econometric modeling techniques to project the most likely path of the U.S. economy over the multi-year forecast horizon included in the Executive Budget. The model framework and its development are described in detail in this volume. Model output is combined with our qualitative assessment of economic conditions to complete a preliminary U.S. forecast. In addition, Division of the Budget staff review the projections of other forecasters of the U.S. economy to provide a yardstick against which to judge the DOB forecast.

The U.S. forecast serves as the key input to the New York macroeconomic forecast model. National conditions with respect to employment, income, financial markets, foreign trade, consumer confidence, and stock market prices can have a major impact on New York's economic performance. However, the New York economy is subject to idiosyncratic fluctuations, which can lead the State economy to perform much differently than the nation as a whole. The evolution of the New York economy is governed in part by a heavy concentration of jobs and income in the financial and business service industries. As a result, economic events that disproportionately affect these industries can have a greater impact on the New York economy than on the rest of the nation. The New York economic model is structured to capture both the obvious linkages to the national economy and the factors which may cause New York to deviate from the nation. The model estimates the future path of major elements of the New York economy, including employment, wages and other components of personal income and makes explicit use of the linkages between employment and income earned in the financial services sector and the rest of the State economy.

To adequately forecast personal income tax receipts — the largest single component of the receipts base — projections of the income components that make up State taxable income are also required. For this purpose, DOB has constructed models for each of the components of New York State adjusted gross income. The results from this series of models serve as input to the income tax simulation model described below, which is the primary tool for calculating New York personal income tax liability.

A final part of the economic forecast process involves using tax collection data to assess the current state of the New York economy. Tax data are often the most current information available for judging economic conditions. For example, personal income tax withholding provides information on wage and employment growth, while sales tax collections serve as an indicator of consumer purchasing activity. Clearly, there are dangers in relying too heavily on tax information to forecast the economy, but these data are vital in assessing the plausibility of the existing economic forecast, particularly for the year in progress and at or near turning points when “realtime” data are most valuable.

ECONOMIC ADVISORY BOARD

At this point, a key component of the forecast process takes place: the Budget Director and staff confer with a panel of economists with expertise in macroeconomic forecasting, finance, the regional economy, and public sector economics to obtain valuable input on current and projected economic conditions, as well as an assessment of the reasonableness of the DOB estimates. In addition, the panel provides input on other key functions that may impact receipts growth, including financial services compensation and the performance of sectors of the economy difficult to capture in any model.

FORECASTING RECEIPTS

Once the economic forecast is complete, these projections are used to forecast selected revenues. Again, DOB combines qualitative assessments, the econometric analysis, and expert opinions on the New York revenue structure to produce a final receipts forecast.

DECOMPOSING CASH COLLECTIONS

Much can be learned about the forces operating on receipts just by carefully examining the data. Many of the revenue sections of this report contain a series of related plots termed “component collection graphs.” The first graph in the series is the raw collections data for the tax. The next three plot the underlying components of the series as determined by the

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structural time series approach developed by Harvey.⁸ This approach decomposes the series into its trend, seasonal, and irregular components. In many cases, close examination of these charts reveals important patterns and shifts in the data that suggest strategies for modeling and forecasting. Although these graphs are not a substitute for more substantive analysis, they represent a productive first step in evaluating the data-generating process.

MODELING AND FORECASTING

The DOB receipts estimates for the major tax sources rely on a sophisticated set of econometric models that link economic conditions to revenue-generating capacity. The models use the economic forecasts described above as inputs and are calibrated to capture the impact of policy changes. As part of the revenue estimating process, DOB staff analyze industry trends, tax collection experience, and other information necessary to better understand and predict receipts activity.

For large tax sources, such as the personal income tax, receipt estimates are approached by constructing underlying taxpayer liability and then projecting liability into future periods based on the economic forecast generated from econometric models specifically developed for each tax. After liability is estimated for future taxable periods, it is converted to cash estimates on a fiscal year basis.

The Division of the Budget employs micro-simulation models to estimate future tax liabilities for the personal income and corporate taxes. This technique starts with detailed taxpayer information taken directly from tax returns (the data are stripped of identifying taxpayer information) and allows for the actual computation of tax under alternative policy and economic scenarios. The DOB simulations allow for a bottom-up estimate of tax liability for future years as the data file of taxpayers is “grown,” based on DOB estimates of economic growth. An advantage of this approach is it allows direct calculation of tax law changes and the revenue impact of already enacted and proposed tax changes on future liability. As with most DOB revenue models, the simulation models require projections of the economic variables that drive tax liability. The income tax and corporate tax simulation models incorporate the direct effect of a policy change on taxpayers. However, the models do not permit feedback from the taxpayer in response to the macroeconomy. For large policy changes intended to influence taxpayer behavior and trigger changes in the underlying economy, adjustments are made outside the modeling process.⁹ The simulation of future tax liability is most important for the income tax, which accounts for over half of General Fund tax receipts. The income tax simulation is discussed in greater detail later in this report.

⁸ See Andrew C. Harvey, *Forecasting, Structural Time Series Models and the Kalman Filter*. Cambridge: Cambridge University Press, 1989.

⁹ For examples of modeling efforts that attempt to incorporate such feedback, see Congressional Budget Office, *How CBO Analyzed the Macroeconomic Effects of the President's Budget*, July 2003.

U.S. MACROECONOMIC MODEL

The Economic and Revenue Unit within the Division of the Budget (DOB) provides projections on a wide range of economic and demographic variables. These estimates are used in the development of revenue and expenditure projections for the State, debt capacity analysis, and for other budget planning purposes. The Division has developed econometric models for the U.S. and State economies that yield the forecasts needed for these purposes.

RECENT DEVELOPMENTS IN MACROECONOMIC MODELING

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. However, fundamental changes in the structure of the economy since the 1970s have also led to a significant altering of the way the economy is modeled. Four related lines of economic research have had a significant impact on the current state of macroeconomic modeling.

The first major development was Robert Lucas' (1976) critique of the role of expectations in traditional macroeconomic models. If economic models did not incorporate the assumption that agents were forward looking, then it would be unlikely that model forecasts would be consistent with a rational response on the part of agents to a possible policy change. The result was a widespread adoption of rational expectations in macroeconomic forecasting models. The Lucas analysis also initiated the emergence of a new generation of econometric models explicitly based on micro-foundations in which firms and households are assumed to make decisions based on optimization plans that are realized in the long run.

Second, Christopher Sims (1980) raised serious doubts that standard large-scale econometric models were effective in properly identifying the behavioral relations among agents in the economy. This critique led to a more flexible identification of the behavioral relations among economic agents within a vector autoregression (VAR) model framework. Unlike structural models, VAR models do not impose an *a priori* structure on the dynamic relationships among economic variables.

A third development was initiated by the classic study of Nelson and Plosser (1982), which concluded that the hypothesis of nonstationarity cannot be rejected for a wide range of commonly used macroeconomic data series. Heuristically, nonstationarity implies the lack of a constant mean and variance in a time series. Research surrounding the absence of stationarity led to a re-evaluation of what constitutes a long-run equilibrium relationship, and prompted a revisiting of the problem of spurious regression described by Granger and Newbold (1974). This led to a more rigorous analysis of the time series properties of economic data and the implications of these properties for model specification and statistical inference.

Further, nonstationarity also led to a fourth development, engendered by the work of Engle and Granger (1987), Johansen (1991), and Phillips (1991) on the presence of long-run equilibrium relationships among macroeconomic data series, also known as cointegration. Although cointegrated series can deviate from their long-term trends for substantial periods, there is always a tendency to return to their common equilibrium paths. This behavior led to the development of a framework for dealing with nonstationary data in an econometric setting known as the error-correction model. The error-correction framework has permitted extensive research on how to best exploit the predictive power of cointegrating relationships.

Another area that has spawned a substantial wealth of academic research is the choice of an optimal monetary policy. The dramatic changes in the institutional structure of financial markets over the past 25 years have rendered the aggregate money supply a much less tractable target than interest rates. In addition, new developments in economic theory,

U.S. MACROECONOMIC MODEL

including game theory and the rational expectations hypothesis, appear to favor a rule-based monetary policy, as opposed to a purely discretionary approach. A rule-based approach is believed to maximize the credibility of the central bank, a key input to the effectiveness of the policy itself. However, the desirability of this feature must be weighed against the reliability of the information available when policy decisions are made. Perhaps the most popular example of an interest rate-setting rule is the one proposed by John Taylor (1993), commonly known as Taylor's rule. Although the debate as to which rule yields the optimal monetary policy is ongoing, recent research by Orphanides (2003) using real-time data indicates that Federal Reserve policy has been consistent with a "Taylor-rule framework" almost since its inception.

BASIC FEATURES

The Division of the Budget's U.S. macroeconomic model (DOB/U.S.) incorporates the theoretical advances described above in an econometric model used for forecasting and policy simulation. The agents represented by the model's behavioral equations optimize their behavior subject to economically meaningful constraints. The model addresses the Lucas critique by specifying an information set that is common to all economic agents, who incorporate this information when forming their expectations. The model's long-run equilibrium is 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 equilibrium in the long run.

Like the Federal Reserve Board model, summarized in Brayton and Tinsley (1996), the assumptions that govern the long-run behavior of DOB/U.S. are grounded in neoclassical microeconomic foundations. Consumers exhibit maximizing behavior over consumption and labor-supply decisions and firms maximize profit. The model solution converges to a balanced growth path in the long run. Consumption is determined by expected wealth; expected wealth is, in part, determined by expected future output and interest rates. The value of investment is affected by the cost of capital and expectations about the future path of output and inflation.

However, in addition to the microeconomic foundations which govern long-run behavior, DOB/U.S. incorporates dynamic adjustment mechanisms, reflecting that even forward-looking agents do not adjust to changes in economic conditions instantaneously. Sources of "friction" within the economy include adjustment costs, the wage-setting process, and persistent spending habits among consumers. The presence of such frictions delays the adjustment of nonfinancial variables, producing periods when labor and capital deviate from their optimal paths. The presence of such imbalances constitutes signals that are important in the setting of wages and prices because price setters must anticipate the actions of other agents. For example, firms set wages and prices in response to a set of expectations concerning productivity growth, available labor, and the consumption choices of households.

In contrast to the "real" sector, 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. This contrast between the real and financial sectors permits monetary policy to have a short-run impact on output. Monetary policy is administered through interest-rate manipulation via a federal funds rate policy target. Current and anticipated changes in this rate influence agents' expectations and the rate of return on various financial assets.

OVERVIEW OF MODEL STRUCTURE

DOB/U.S. comprises six modules of estimating equations, forecasting well over 200 variables. The first module estimates real potential U.S. output, as measured by real U.S.

gross domestic product (GDP). The next module estimates the formation of agent expectations, which become inputs to blocks of estimating equations in subsequent modules. Agent expectations play a key role in determining long-term equilibrium values of important economic variables, such as consumption and investment, which are estimated in the third module. A fourth module produces forecasts for variables thought to be influenced primarily by exogenous forces but which, in turn, play an important role in determining the economy's other major indicators. These variables, along with the long-term equilibrium values estimated in the third module, become inputs to the core behavioral model, which comprises the fifth block of estimating equations. The core behavioral model is the largest part of DOB/U.S. and much of the discussion that follows focuses on this component. The final module is comprised of satellite models that use core model variables as inputs, but do not feed back into the core.

The current estimation period for the model is the first quarter of 1965 through the third quarter of 2005, although some data series do not have historical values for the full period. Descriptions of each of the six modules follow below.

POTENTIAL OUTPUT AND THE OUTPUT GAP

Potential Gross Domestic Product (GDP) is one of the foundational elements of DOB/U.S., on which the model's long-term equilibrium values and monetary policy forecasts are based. Potential 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 can depend on a multiplicity of factors. The output gap is defined as the difference between actual and potential output.

The Budget Division method for estimating potential GDP largely follows that of the Congressional Budget Office (CBO) (1995, 2001). This method estimates potential GDP for each of the four major economic sectors defined under U.S. Bureau of Economic Analysis National Income and Product Account (NIPA) data: nonfarm business, farm, government, and households and nonprofit institutions. The nonfarm business sector is by far the largest sector of the U.S. economy, accounting for 77.4 percent of total GDP in 2000. A neoclassical growth model is used to model this sector, incorporating three inputs to the production process: labor (measured by the number of hours worked), the capital stock, and total factor productivity. The last of these three inputs, total factor productivity, is not directly measurable. It is estimated by substituting the actual values of hours worked and capital into a fixed coefficient Cobb-Douglas production function, where a coefficient of 0.7 is applied to labor and 0.3 is applied to capital and all values are in logarithms. Total factor productivity is the residual resulting from a subtraction of the log value of output accounted for by labor and capital from the historical log value of output.

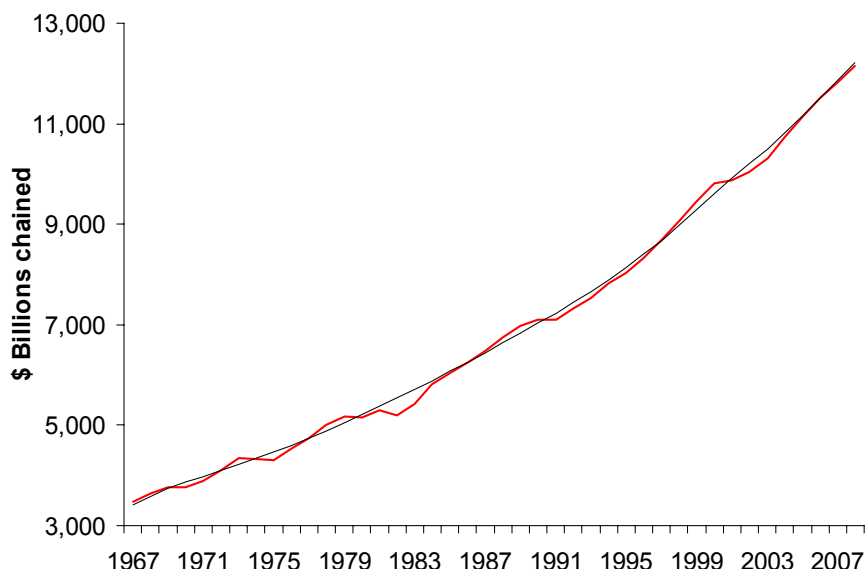
Each of the inputs to private nonfarm business production is assumed to contain a component that varies with the business cycle, and a long-term trend component that tracks the evolution of economy's capacity to produce. Inputs are adjusted to their "potential" levels by estimating and then removing the cyclical component from the data series. The cyclical component is assumed to be reflected in the deviation of the actual unemployment rate from what economists define as the nonaccelerating inflation rate of unemployment, or NAIRU. When the unemployment rate falls below the NAIRU, indicating a tight labor market, the stage is set for higher wage growth and, in turn, higher inflation. An unemployment rate above the NAIRU has the opposite effect. Estimation of the long-term trend component presumes that the "potential" level of an input grows smoothly over time, but rather than assuming a fixed growth rate, the growth rate is allowed to rise or fall at business cycle peaks as dictated by the data. Once the models are estimated, the potential

U.S. MACROECONOMIC MODEL

level is defined as the fitted values from the regression, where the unemployment rate deviations from the NAIRU are set equal to zero. This same method is applied to all three of the major inputs to private nonfarm business production.

To obtain a measure of potential private nonfarm business GDP, the potential levels of the three production inputs are substituted back into the production function where hours worked, capital, and total factor productivity are given coefficients of 0.7, 0.3, and 1.0, respectively. For the other three sectors of the economy, the cyclical component is removed directly from the series itself in accordance with a variant of the regression method used to estimate the potential levels of the inputs to private nonfarm business production. Nominal potential measures for the four sectors are also estimated by multiplying the chained dollar estimates by the implicit price deflators based on actual historical data for each quarter. The estimates for the four sectors are then “Fisher” added together to yield an estimate for total potential real U.S. GDP.¹ Figure 1 compares the DOB construction of potential GDP to actual.

Figure 1
Potential GDP vs. Actual



Source: Moody's Economy.com; DOB staff estimates.

EXPECTATIONS FORMATION

Few important macroeconomic relationships are free from the influence of expectations. When examining behavioral relationships in a full macroeconomic model, the general characteristics and policy implications of that model will depend upon precisely how expectations are formed.

Rational and Adaptive Expectations

Expectations play an important role in DOB/U.S. in the determination of consumer and firm behavior. For example, when deciding expenditure levels, consumers will take a

¹ Throughout DOB/U.S., aggregates of chained dollar estimates are calculated by “Fisher adding” the component series. Similarly, components of chained dollar estimates constructed by DOB, such as noncomputer, nonresidential fixed investment and nonoil imports, are calculated using Fisher subtraction.

long-term view of their income prospects. Thus, when deciding how much to spend in a given period, they consider not only their income in that period, but also their lifetime or “permanent income,” as per the “life cycle” or “permanent income” hypotheses put forward by Friedman (1957) and others. In estimating their permanent incomes, consumers are assumed to use all the information available to them at the time they make purchases. Producers are also assumed to be forward-looking, basing their decisions on their expectations of future prices, interest rates, and output. However, since both households and firms experience costs associated with adjusting their long-term expenditure plans, both are assumed to exhibit a degree of behavioral inertia, making adjustments only gradually.

DOB/U.S. assumes that all economic agents form their expectations “rationally,” meaning all available information is used, and that expectations are correct, on average, over the long-term. More formally, the expectation of a variable Y at time t , Y_t , formed at period $t-1$, is the statistical expectation of Y_t based on all available information at time $t-1$. However, because of the empirical finding that agents adjust their expectations only gradually, expectations in DOB/U.S. are assumed to have an “adaptive” component as well. We therefore include the term, αY_{t-1} , where α is hypothesized to be between zero and one. Consistent with rational expectations theory, it is assumed that agents’ long-run average forecast error is zero. This “hybrid” specification is inspired by Roberts (2001), Rudd and Whelan (2003), Sims (2003), and others who find that the notions of adaptive and rational expectations should not be viewed as mutually exclusive, particularly in light of the high information costs associated with forecasting. Moreover, given the empirical importance of lags in forecasting inflation, as well as other economic variables, it cannot be said that “price-stickiness” is model-inconsistent.

While the importance of expectations in forecasting is now well established, their specification continues to challenge model builders. DOB/U.S. estimates agent expectations in two stages. First, measures of expectations pertaining to three key economic variables are estimated within a vector autoregressive framework. These expectations become part of an information set that is shared by all agents who then use them, in turn, to form expectations over variables that are specific to a particular subset of agents, such as households and firms. Details of this process are presented below.

Shared Expectations

All agents in DOB/U.S. use a common information set to form expectations. This set consists of three key macroeconomic variables: inflation as represented by the GDP price deflator, the percentage output gap, and the federal funds rate. The percentage output gap is defined as actual real GDP minus potential real GDP, divided by actual real GDP. The variables are estimated within a VAR framework, with the federal funds rate and the GDP inflation rate in first-difference form (see Table 1).

The long-run values of the three variables are constrained by “endpoint” conditions. Two of these restrictions are represented by the first two terms on the right-hand side in Table 1. For inflation, the terminal constraint is the ten-year inflation rate expectation, as measured by survey data developed by the Federal Reserve Bank of Philadelphia. The endpoint condition for the federal funds rate is computed from forward rates. The assumption that the percentage output gap becomes zero in the long run is implied and need not appear explicitly in the equations. An important feature of the endpoint restrictions for the federal funds rate and inflation is that they are not fixed. Should the public alter its expectations in response to economic developments, such as a shift in monetary policy, these changes are captured and then fed into the rest of the model. Figure 2 illustrates how the three variables that comprise shared expectations converge to their long-term equilibrium values over time.

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**TABLE 1
HISTORICAL VAR MODEL**

Federal Funds Rate (r)

$$\Delta r_t = -0.0632(r-r_\infty)_{t-1} + 0.0313(\pi-\pi_\infty)_{t-1} + 0.122 \Delta r_{t-1} - 0.354 \Delta r_{t-2} + 0.129 \Delta r_{t-3} + 0.0152 \Delta r_{t-4} \\ (0.0425) \quad (0.0692) \quad (0.0849) \quad (0.0849) \quad (0.0856) \quad (0.0805) \\ + 0.0839 \Delta \pi_{t-1} + 0.199 \Delta \pi_{t-2} + 0.110 \Delta \pi_{t-3} + 0.0773 \Delta \pi_{t-4} \\ (0.0896) \quad (0.0858) \quad (0.0798) \quad (0.0688) \\ + 0.360 \chi_{t-1} - 0.105 \chi_{t-2} - 0.202 \chi_{t-3} + 0.0435 \chi_{t-4} \\ (0.0946) \quad (0.139) \quad (0.136) \quad (0.0949)$$

GDP Deflator (π)

$$\Delta \pi_t = -0.0323(r-r_\infty)_{t-1} - 0.0758(\pi-\pi_\infty)_{t-1} + 0.215 \Delta r_{t-1} + 0.00934 \Delta r_{t-2} + 0.0167 \Delta r_{t-3} + 0.0500 \Delta r_{t-4} \\ (0.0153) \quad (0.0834) \quad (0.102) \quad (0.102) \quad (0.103) \quad (0.0970) \\ - 0.449 \Delta \pi_{t-1} - 0.346 \Delta \pi_{t-2} + 0.256 \Delta \pi_{t-3} + 0.0509 \Delta \pi_{t-4} \\ (0.108) \quad (0.103) \quad (0.0963) \quad (0.0830) \\ + 0.0859 \chi_{t-1} + 0.0145 \chi_{t-2} - 0.0835 \chi_{t-3} - 0.0229 \chi_{t-4} \\ (0.114) \quad (0.167) \quad (0.163) \quad (0.114)$$

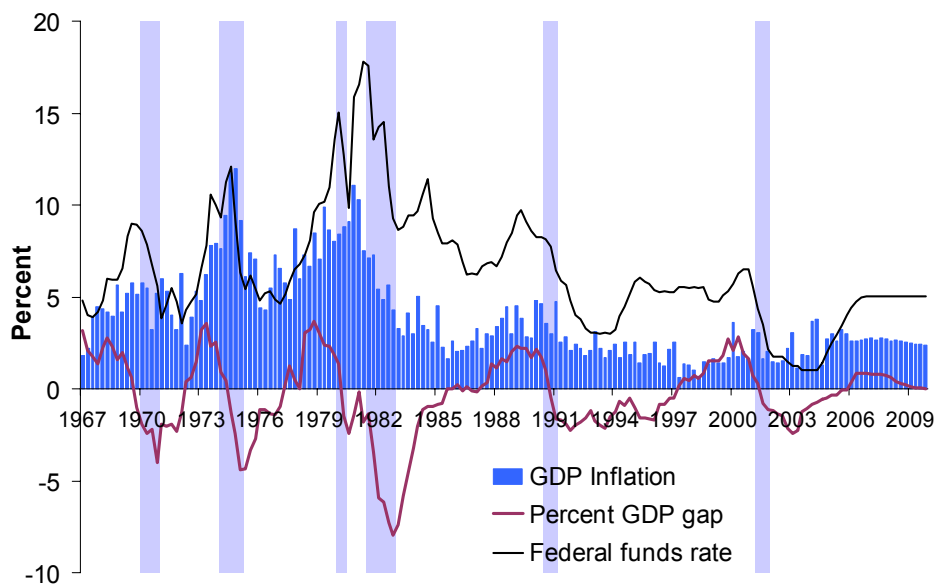
Percentage Output Gap (χ)

$$\chi_t = -0.0393(r-r_\infty)_{t-1} - 0.0485(\pi-\pi_\infty)_{t-1} + 0.109 \Delta r_{t-1} - 0.314 \Delta r_{t-2} + 0.0779 \Delta r_{t-3} - 0.0985 \Delta r_{t-4} \\ (0.0352) \quad (0.0572) \quad (0.0703) \quad (0.0702) \quad (0.0708) \quad (0.0666) \\ + 0.137 \Delta \pi_{t-1} + 0.120 \Delta \pi_{t-2} + 0.0444 \Delta \pi_{t-3} + 0.00889 \Delta \pi_{t-4} \\ (0.0741) \quad (0.0710) \quad (0.0660) \quad (0.0569) \\ + 1.153 \chi_{t-1} - 0.0244 \chi_{t-2} - 0.195 \chi_{t-3} - 0.00411 \chi_{t-4} \\ (0.0782) \quad (0.115) \quad (0.112) \quad (0.0785)$$

Note: The subscript ' ∞ ' is used to indicate the end-point condition.

For the percentage output gap, the end-point condition stipulates a long-run value of zero.

**Figure 2
Shared Expectations**



Note: Shaded areas represent U.S. recessions.

Source: Moody's Economy.com; DOB staff estimates.

Agent-Specific Expectations

The common information set is augmented by expectations pertaining to agents in specific sectors. For example, households base their consumption decisions on the expected lifetime accumulation of income and wealth. Therefore, the household-specific information set includes expectations over the components of real disposable personal income and after-tax values of securities- and nonsecurities-related wealth. Similarly, the firm sector-specific information set includes expectations over the relative prices of investment goods.

LONG-TERM EQUILIBRIUM DETERMINATION

The economy's long-term equilibrium is derived from a set of conditions that result from the optimizing behavior of economic agents, without regard for short-term adjustment costs. In the case of equilibrium consumption, households are assumed to be utility maximizers subject to a lifetime income constraint. Firms are assumed to maximize profits subject to a constant-returns-to-scale production function, and are assumed to exhibit price taking behavior.

Equilibrium Consumption

In the household sector, optimizing behavior is based on a life-cycle model in which consumers maximize the present discounted value of their expected lifetime utility. Risk-averse consumers who have unconstrained access to capital markets will tend to smooth their consumption spending over time, by borrowing, saving, or dissaving as circumstances demand, based on an estimate of expected future lifetime resources commonly referred to as "permanent income." Expected permanent income is comprised of the present discounted value of current and future real disposable income plus the value of household wealth. In DOB/U.S., the expected value of household permanent income for each quarter in the forecast period is approximated by a relatively stable share of expected potential GDP plus expected values for securities-related and nonsecurities-related wealth. The expected values for all of the components of permanent income are determined in the agent-specific expectations module.

Real disposable income is comprised of several income sources, including labor income, property income (including income from interest and dividends), and transfer income. For relatively young working-age household members, labor income will constitute a large share of permanent income, whereas for those in retirement, property and transfer income will predominate. Therefore, the precise composition of aggregate permanent income at any given point in time will depend on the age profile of the U.S. household population. Since this age profile varies over time, the various components of permanent income enter the equation for long-term equilibrium consumption separately. In addition, this equation includes the current and lagged value of the output gap, capturing the notion that the rate at which households discount future income may depend on household perceptions of income risk, which in turn is assumed to vary with the business cycle. In DOB/U.S., the variation in long-term equilibrium consumption is assumed to be best approximated by the variation in those components of total consumption that tend not to exhibit extreme volatility over the course of the business cycle, namely services and nondurable goods.²

Equilibrium Investment in Producer Durable Equipment

Between 1992 and 2000, nonresidential investment in producer durable equipment and software grew at an average annual rate of 11.5 percent. At the time, most econometric models failed to capture this persistent and significant growth. Tevlin and Whelan (2000)

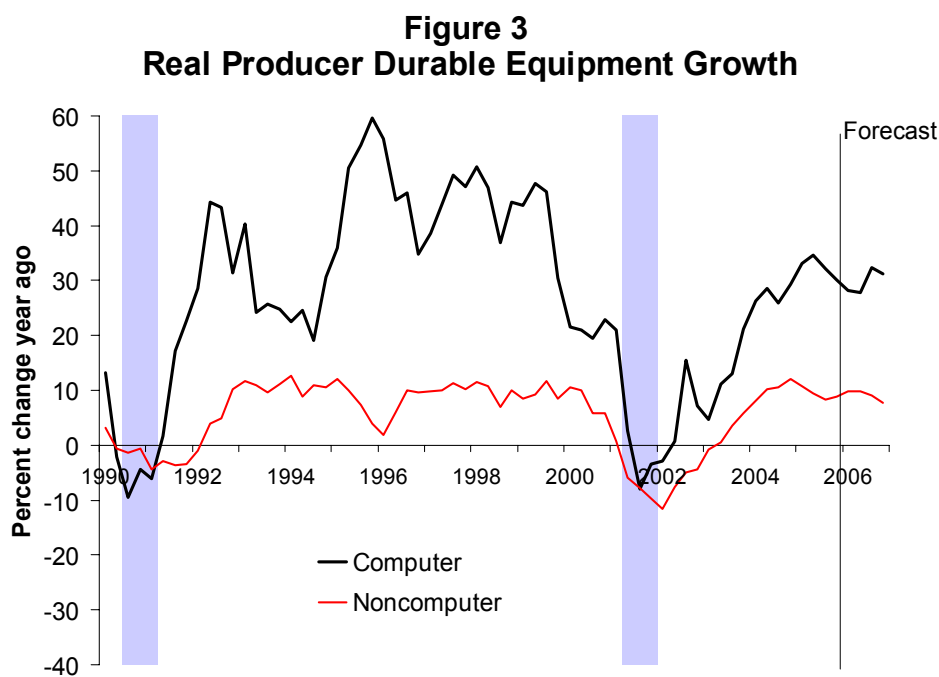
² A "Fisher addition" of nondurable and services consumption produces the noncyclical component of total consumption.

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postulate two reasons as to why so many failed to capture the late 1990s investment boom. First, the average depreciation rate for producer durable equipment increased dramatically as computers grew as a share of the total. The rapid rate of advancement in digital technology rendered computer and related equipment obsolete in just a few years. Indeed, the depreciation rate for computers and related equipment is more than twice the rate than for other equipment.³ Secondly, investment became more sensitive to the user cost of capital. In order to address these problems, DOB/U.S. estimates investment in computer equipment separately from the remainder of producer durable equipment.⁴ Figure 3 compares the growth in the two investment components since 1990.

Profit-maximizing behavior dictates that the long-term rate of equilibrium investment is the rate of investment that maintains the optimum capital-output ratio. Assuming a standard Cobb-Douglas production function, the optimal capital-output ratio will be proportional to the ratio of the price of output to the rental rate of capital. This relationship holds for both types of producer durable equipment. Given this optimal ratio, desired growth in investment varies with output growth and changes in the rental rate of capital.

For each type of equipment, the rental rate of capital is defined as its purchase price, represented by the implicit price deflator, multiplied by the sum of the financial cost of capital and the rate of depreciation. The financial cost of capital, a measure of the cost of borrowing in equity and debt markets, is estimated by giving equal weight to an estimate of the after-tax cost of equity and the yield on Moody's Baa-rated corporate bonds.⁵ Different rates of depreciation are used for computer and noncomputer equipment.



Note: Shaded areas represent U.S. recessions.
Source: Moody's Economy.com; DOB staff estimates.

³ See Fraumeni (1997).

⁴ The brisk growth of computer equipment as a share of total producer durable equipment may represent in part an error in the data. Chain-weighting tends to overestimate real quantities when prices fall as quickly as those of computers and related equipment.

⁵ The series that estimates the after-tax cost of borrowing in the equity market is created by Global Insight.

Equilibrium Prices, Productivity, Wages, and Hours Worked

In equilibrium, the price level is determined by the neoclassical model condition that price equals marginal cost. Long-run productivity growth is determined by a time series model reflecting the belief that its own recent history is the best predictor of future growth. Long-term equilibrium nominal wage growth is determined by the sum of trend productivity growth and the long-term expected rate of inflation. The desired level of man-hours worked is constructed by dividing potential real GDP by trend labor productivity.

EXOGENOUS VARIABLES

There are many economic variables for which economic theory provides little or no guidance as to either their long-term or short-term behavior. The exogenous variable module estimates future values for over 30 such variables, whose inputs are variables from the shared information set and autoregressive terms. Although a few exogenous variables become inputs to the behavioral equations within the core behavioral module, most are incorporated into identity equations defined to arrive at NIPA concepts.

THE CORE BEHAVIORAL MODULE

The core behavioral module contains 118 estimating equations, of which 33 are behavioral. The behavioral equations summarize the behavior of representative agents acting with foresight to achieve optimal outcomes in the presence of constraints. In the economy's real sector, the movement toward equilibrium is hampered, in the short run, by adjustment costs. Through the dynamic adjustment process, agents plan to close the gap between the current level of the variable in question and the desired level. The magnitude of an adjustment made by agents during any given period is based on the size of the gap, past values of the variable, and past and expected values of other variables that may affect agents' decisions.

In the financial sector, agents are assumed to adjust instantaneously when new information becomes available. Therefore, the equations for this sector do not contain any dynamic adjustment terms. The core behavioral module is composed of five sectors: households, firms, government, the financial sector, and the foreign sector. Each is described below.

The Household Sector

The main decision variables for households are consumption, housing investment, and labor supply. Following the Federal Reserve Board's methodology, DOB/U.S. assumes the existence of two groups of consumers. The larger class consists of forward-looking, utility-maximizing consumers whose consumption decisions are constrained by their permanent incomes as defined above. Implicit in the model is the recognition that this group of households is heterogeneous, representing various stages of the life-cycle. The second group is comprised of low-income households, who are assumed to base their consumption decisions on current-period income rather than permanent income. Such behavior may arise because of credit market constraints that prevent these households from borrowing for the purpose of smoothing their spending over time. Consequently, such households are referred to as "liquidity constrained."

The four equations for the household sector incorporate expectations from either the shared information set VAR model or the agent-specific information set. The agent-specific information set for the household sector contains the expected value of wage and nonwage income, as well as the expected value of household wealth. The behavioral equations for the household sector balance the theoretically appealing notion of a long-term equilibrium with

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the empirically observed phenomenon of habit persistence. The equations for the determination of cyclical consumption, noncyclical consumption, and housing investment appear in Table 2. Brief descriptions of the equations follow:

Consumption

Consumption is divided into cyclical (durable goods) and noncyclical components (services and nondurables), since these two components tend to exhibit significantly different growth rates over the course of a business cycle (see Figure 4). Noncyclical consumption is estimated using first differences of the logs of the data within a polynomial adjustment cost framework. The equation contains an “error-correction” term that captures the tendency toward equilibrium, a lagged dependent variable that captures the partial adjustment effects of habit persistence, forward expectations of both desired noncyclical consumption and the output gap, and real income. The latter term captures the behavior of liquidity-constrained households. The specification for cyclical consumption is very similar to the noncyclical consumption specification, except for the exclusion of the second expectations term and the inclusion of potential GDP and an interest rate, which captures the fact that many consumer durables, such as automobiles and large appliances, are purchased on credit.

TABLE 2
HOUSEHOLD SECTOR: REAL CONSUMPTION AND RESIDENTIAL INVESTMENT

Noncyclical Consumption

$$\Delta \ln C1_t = \frac{0.00469}{(0.000632)} + \sum_{\tau=0}^5 \frac{EZQC_{t+\tau}}{(0.0363)} + 0.0790 (\ln QC - \ln C1)_{t-1} + \frac{0.183}{(0.0670)} \Delta \ln C1_{t-1} + \frac{0.130}{(0.0308)} (\Delta \ln Y_t - \sum_{\tau=0}^5 EZQC_{t+\tau}) + \frac{0.0607}{(0.0117)} \sum_{\tau=0}^5 EZGAP_{t+\tau} + \frac{0.0469}{(0.0287)} \Delta \ln Y_{t-3} - \frac{0.0109}{(0.00329)} D1980Q2_t$$

$$\text{Adjusted } R^2 = 0.445$$

Cyclical Consumption

$$\Delta \ln C2_t = \sum_{\tau=0}^5 \frac{EZQC_{t+\tau}}{(0.00111)} + 0.00575 (\ln QC - \ln C2)_{t-1} - 0.383 \Delta \ln C2_{t-1} + \frac{0.571}{(0.210)} \Delta \ln Y_t - \frac{0.00517}{(0.00171)} \Delta r_{t-1} + \frac{0.312}{(0.0454)} \Delta \ln INVH_t - \frac{0.109}{(0.0226)} D1970Q4_t - \frac{0.0992}{(0.0225)} D1974Q4_t - \frac{0.0952}{(0.0233)} D1980Q2_t - \frac{0.0567}{(0.0227)} D1981Q4_t - \frac{0.0890}{(0.0222)} D1987Q1_t + \frac{0.0735}{(0.0226)} D2001Q4_t$$

$$\text{Adjusted } R^2 = 0.545$$

Residential Fixed Investment

$$\Delta \ln INVH_t = \frac{-13.2}{(4.92)} + \sum_{\tau=0}^5 \frac{EZQC_{t+\tau}}{(0.370)} + 1.11 (QC / INVH)_{t-1} + \frac{0.573}{(0.0557)} INVH_{t-1} - \frac{299}{(148)} \Delta PIH_t - \frac{2.15}{(1.35)} \Delta RM_t + \frac{0.392}{(0.174)} \Delta PSH_t + \frac{0.0420}{(0.0146)} \Delta Y_t + \frac{25.4}{(4.67)} D1980Q2Q3Q4_t + \frac{31.7}{(7.87)} D1976Q4_t + \frac{28.1}{(7.90)} D1977Q2_t$$

$$\text{Adjusted } R^2 = 0.569$$

C1	Real noncyclical consumption
C2	Real cyclical consumption
QC	Desired real noncyclical consumption
Y	Real disposable personal income
EZQC	Expected desired noncyclical consumption
EZGAP	Expected potential GDP gap.
POTGDP	Potential real GDP
r	Federal funds rate
INVH	Residential fixed investment
PIH	Price deflator for residential investment
RM	Mortgage rate
PSH	Real new home price

Residential Fixed Investment

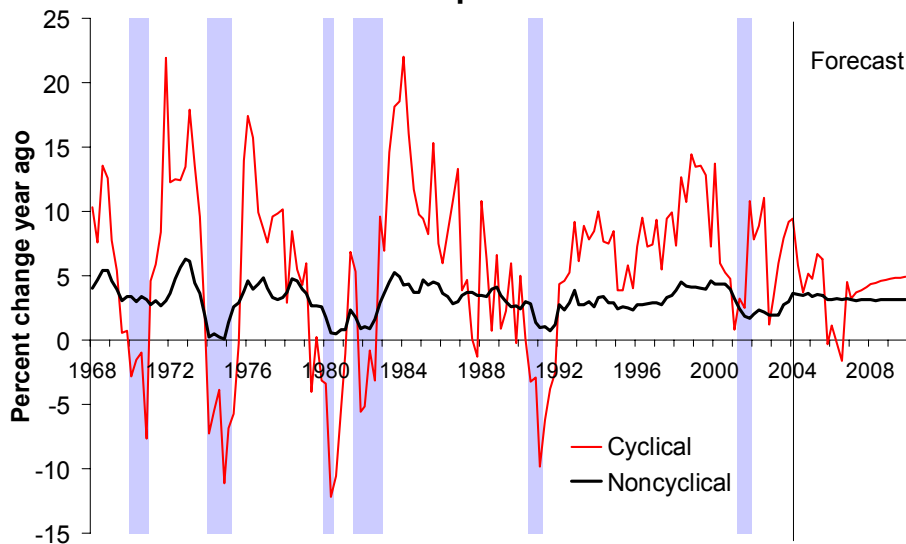
Residential investment by households is estimated using a dynamic adjustment equation. It is assumed that households adjust their rate of housing investment in accordance with a long-term equilibrium relation between desired noncyclical consumption and housing services. Two cost variables are also included in order to capture features of both supply and demand in the housing market. Thus, the equation contains desired consumption divided by current housing investment, a lagged endogenous variable to capture habit persistence, forward-looking expectations of desired consumption, the mortgage rate, the price deflator for residential investment, and the real average price of one-family homes sold.

Labor Supply

Households must make decisions about how much labor they supply to the labor market. In DOB/U.S., the behavioral equation which determines the first difference of the labor force participation rate includes its own lags; real GDP lagged three quarters; a dummy variable capturing the influx of women into the labor market in the 1960s, 1970s, and 1980s; and dummy variables capturing the extraordinary increases in hiring census workers in the first quarters of 1990 and 2000 for the decennial censuses. The labor supply is then determined by multiplying the labor force participation rate by an estimate of the working-age population (ages 16 through 64).

Figure 4

Cyclical vs Noncyclical Real Consumption Growth



Note: Shaded areas represent U.S. recessions.

Source: Moody's Economy.com; DOB staff estimates.

The Firm Sector

DOB/U.S. incorporates the assumption that firms set their prices and levels of factor inputs used in production to maximize profits. This sector determines the levels of the two components of nonresidential fixed investment, private nonresidential structures, labor demand, real wages, and output prices. Like the behavioral equations describing the household sector, several of the firm sector equations incorporate both error-correction terms to capture the impact of long-term equilibrium relationships and dynamic adjustment terms

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to capture firm-level adjustment costs. The behavioral equations for investment in computer-related producer durable equipment, all other producer durable equipment, and nonresidential structures appear in Table 3.

Nonresidential Investment

DOB/U.S. estimates three categories of nonresidential investment: investment in computer-related producer durable equipment and software, investment in all other equipment, and investment in nonresidential structures. The estimating equations for investment in computer and related equipment and all other equipment are virtually identical. Both equations contain an error-correction term, defined as a lag difference between equilibrium and current investment, an autoregressive term, forward expectations of equilibrium investment, and the appropriate rental rate of capital, as defined above. Longer lags yield a superior fit in the equation for noncomputer equipment due to its relatively low depreciation rate. In addition, the computer equipment equation contains the first difference in potential GDP growth and a dummy variable to capture the large decline in investment during the second and third quarters of 2001. The equation for noncomputer equipment contains the current period value for the output gap. Investment in nonresidential structures is determined by its own rental rate, real U.S. GDP growth, as well as its own past values and dummy variables.

**TABLE 3
FIRM SECTOR: NONRESIDENTIAL FIXED INVESTMENT**

$$\Delta ICO_t = -4.75 + \sum_{\tau=0}^5 EQICO_{t+\tau} + 0.132(QICO - ICO)_{t-1} + 0.108 \Delta ICO_{t-1} + 0.119 \Delta POTGDP_t - 0.0100 \Delta RRC_t - 11.9 Y2KD_t + 4.54 AR1$$

(0.852)
(0.0447)
(0.0939)
(0.0180)
(0.0205)
(1.44)
(0.116)

*Adjusted R*² = 0.692

$$\Delta IEXCO_t = 3.23 + \sum_{\tau=0}^5 EQIEXCO_{t+\tau} + 0.0607(QIEXCO - IEXCO)_{t-2} + 0.256 \Delta IEXCO_{t-2} + 0.975 GDPGAP_t - 446 \Delta RRO_{t-2} - 20.7 Y2KD_t + 0.171 AR1 + 0.239 AR3$$

(1.21)
(0.0202)
(0.0751)
(0.448)
(181)
(6.22)
(0.0826)
(0.0865)

*Adjusted R*² = 0.415

$$\Delta \ln IS_t = 0.240 \Delta \ln IS_{t-1} + 0.222 \Delta \ln IS_{t-2} + 0.643 \Delta \ln GDP_t - 0.174 \Delta \ln RRS_{t-3} + 0.201 \Delta \ln RRO_t - 0.0999 D1886Q2 - 0.104 D2001Q4 + 0.0690 D1978Q2$$

(0.0668)
(0.0666)
(0.174)
(0.0715)
(0.134)
(0.0228)
(0.0225)
(0.0235)

*Adjusted R*² = 0.425

ICO	Nonres. fixed investment – computer and related equipment
EQICO	Expected desired computer investment
QICO	Desired computer investment – durable equipment
POTGDP	Potential GDP
RRC	Rental rate – computers
Y2KD	Post-Y2K dummy for 2001
AR1	First-order autocorrelation correction
IEXCO	Nonres. fixed investment – durable equip. excl. computers
EQIEXCO	Expected future desired investment – durable equip. excl. computers
QIEXCO	Desired investment – durable equip. excl. computers
GDPGAP	Percent real GDP gap
RRO	Rental rate of capital – other durable equipment
AR3	Third-order autocorrelation correction
IS	Nonres. fixed investment – structures
GDP	Real GDP
RRS	Rental rate – structures
D1986Q2	Dummy for Tax Reform Act of 1986
D2001Q4	Dummy for retroactive provision of Job Creation and Worker Assistance Act of 2002

Labor Demand: Hours Worked and Employment

In DOB/U.S., the level of national employment is determined by estimating equations for the number of hours worked and the length of the average work week, which together capture the nonfarm private business sector's demand for labor. Total employment, in turn, affects the movements of many other economic variables, such as output, wages, consumption, and inflation. Hours worked are estimated using a dynamic adjustment equation that includes an error-correction term composed of the difference between long-term equilibrium hours and actual hours, real U.S. GDP growth, the expected one-period-ahead value of the output gap, and dummy variables.

The estimating equation for the average length of the workweek in the private nonfarm business sector also contains an error-correction term and the expected one-period-ahead value of the output gap. In addition, the model includes growth in real private nonfarm business GDP and dummy variables. The level of total private nonfarm employment is determined by dividing hours worked by the average length of the workweek multiplied by the number of weeks in a year.

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The Wage Rate

The average hourly wage rate is defined as total private employee compensation (cash wages and salaries plus additional costs such as medical insurance premiums and employer contributions for social insurance) divided by hours worked. The long-run equilibrium growth in the wage rate is assumed to depend on trend productivity growth and the inflation rate, where inflation is measured by the private nonfarm chain-weighted GDP deflator and productivity is private nonfarm output divided by hours worked adjusted to remove the effects of the business cycle. Thus, the equilibrium wage rate at time t is its value at time $t-1$ plus the sum of the growth rates for productivity and inflation. The actual quarterly wage rate is modeled in an error correction framework but contains additional lags capturing the presence of “wage-stickiness.” The model also includes the expected one-period-ahead value of the output gap to capture the impact of forward-looking behavior on the speed of adjustment toward equilibrium.

Output Prices

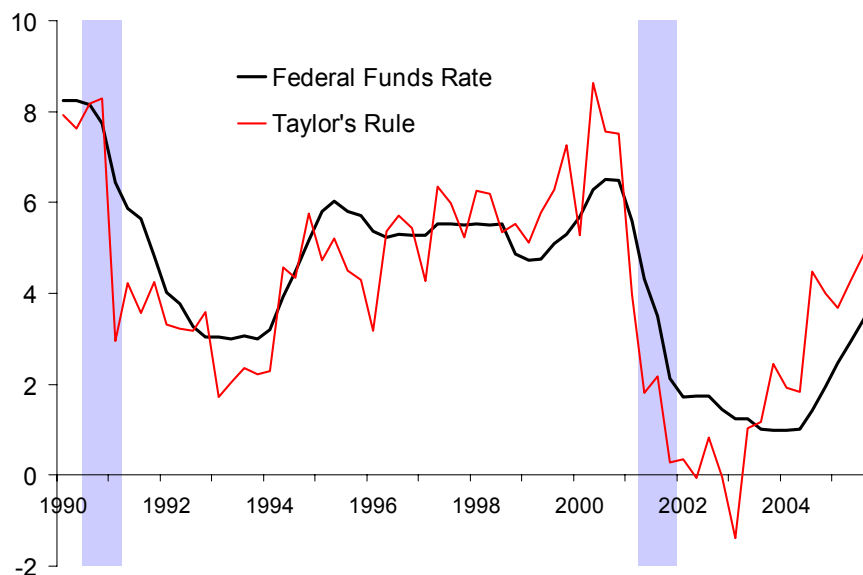
The price level is represented by the private nonfarm chain-weighted GDP deflator. Its growth is modeled within a dynamic adjustment framework in which the price level adjusts gradually from its current level to its long-term equilibrium value. The model also includes the expected one- and two-period-ahead values of the output gap, again to capture the impact of forward-looking behavior on the speed of adjustment toward equilibrium. In addition, the model contains the petroleum products component of the Producer Price Index (PPI) to capture the impact of wholesale energy prices, as well as dummy variables to capture the impact of the 1970s oil shocks above and beyond what is captured by the PPI.

The Government Sector

Monetary policy affects economic and financial decisions made by agents in the economy. The objective of monetary policy is to stabilize the economy’s performance — as reflected in the behavior of inflation, output, and employment — by balancing the twin goals of sustainable growth and price stability. This is accomplished by raising or lowering short-term interest rates through changes in the central bank’s target federal funds rate in a manner that is consistent with price stability and sustainable growth. Taylor’s rule approximates the way the Federal Reserve has historically conducted monetary policy, particularly when the classic rule is augmented by expectations over future inflation and output (see Figure 5). Taylor’s rule is a federal funds rate reaction function that responds to the deviation of inflation from its long-term target level and to the deviation of output growth from its potential level. However, the rule also yields a “normative prescription” for the direction of future policy.⁶

⁶ See Woodford (2002), p. 39.

Figure 5
Federal Funds Rate vs. Rate Implied by Taylor's Rule



Note: Shaded areas represent U.S. recessions.
 Source: Moody's Economy.com; DOB staff estimates.

Taylor's rule has several desirable features. First, it is formulated in terms of the federal funds rate, a measure of inflation, and the output gap. Thus, the rule posits a direct relationship between the Federal Reserve's primary policy instrument and the two indicators most important in judging the success of the central bank's stabilization policy. No reference to intermediate targets is necessary, greatly increasing the rule's appeal to policy makers. Second, the rule possesses the simplicity of a linear relationship. Finally, although Taylor's rule represents an empirical relationship, it has also been demonstrated to possess desirable theoretical properties as well. For example, Taylor's rule leads to a determinate rational-expectations equilibrium that is robust to the introduction of a plausible dynamic learning process.

Within DOB/U.S., monetary policy is administered through a modified version of Taylor's classic monetary rule. We assume the Federal Reserve Board (FRB) 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 output-growth deviation has a weight of 0.5. In addition, the contemporaneous value of inflation is replaced by an average of actual inflation for the past three quarters and expected inflation for both the current quarter and the quarter ahead. A similar modification is made to the output growth term. Hence, this modified specification operationalizes the requirement that the central bank be able to project the effect of its policy alternatives on the output gap and inflation and that its policy choice be consistent with that projection. The DOB/U.S. specification of Taylor's rule appears in Table 4.

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TABLE 4
MONETARY POLICY: TAYLOR'S RULE

$$r_T = \bar{\pi}_t + R_t + 1(\bar{\pi}_t - \pi_T) + 0.5(\bar{g}_t - g_T)$$

$$\bar{\pi}_t = \frac{\pi_{t-3} + \pi_{t-2} + \pi_{t-1} + \pi_t + \pi_{t+1}}{5}$$

$$\bar{g}_t = \frac{g_{t-3} + g_{t-2} + g_{t-1} + g_t + g_{t+1}}{5}$$

where, $R_t = r_t - \pi_t$

r	Federal funds market rate	g	GDP growth rate
r_T	Federal funds target rate	\bar{g}	Average GDP growth rate
$\bar{\pi}$	Average GDP inflation	g_T	GDP target growth rate
π	GDP inflation	R	Real rate of interest
π_T	Inflation target		

DOB/U.S. also contains equations that estimate the contribution to GDP from Federal, state and local governments. Spending by both the Federal government and state and local governments depend on the revenues they collect. Although government revenues come from various taxes — the personal income tax, the sales tax, corporate taxes, and various fees — we find that personal income tax revenues act as an adequate proxy for revenues from all these sources. Since the components of personal income grow at varying rates, the models for both Federal and state and local revenues include these components separately, as well as effective tax rates. All government sector variables are modeled in first-differenced logarithmic form.

Since government receipts are only available in nominal terms, final demand by the government sector is modeled in nominal terms as well. Real spending is calculated by deflating these nominal values by the appropriate price deflators. Since governments determine their budgets before they know how much revenue they will collect, they do not adjust quickly to current revenue shocks. In addition, Federal government spending is not constrained in the short run by contemporaneous-year revenues. Therefore, government spending models include past revenues with lags up to seven quarters, as well as the current period nonfarm GDP price deflator. The federal government spending model also includes the percentage GDP gap, capturing the countercyclicality of spending. Since most of the state and local government contribution to final demand is comprised of employee compensation, the spending model also includes government employment.

In addition, DOB/U.S. estimates the impact of changes in fiscal policy on the macroeconomy. Since the primary determinant of consumer spending is households' long-term expectation for disposable income, modeling fiscal policy impacts plays an important role in forecasting household consumption when there is a policy change, as there was in 2001 and 2003. For this purpose, DOB/U.S. combines the most recent Joint Committee on Taxation and CBO estimates where available with results from the Current Expenditure Survey data, disaggregated by income level, to estimate how much of the change in disposable income will affect consumption.

The Financial Sector

The financial sector of DOB/U.S. is subdivided into two blocks of equations: one determining equity prices and the other determining interest rates. Many analysts believe that short-run changes in stock market prices follow a random walk and therefore it is impossible to forecast the day-to-day movements of individual stocks with any accuracy.

However, long-run movements in price indices of large groups of stocks appear to move systematically with other economic variables. Much of the variation in the growth of the Standard & Poor's 500 price index can be explained by the contemporaneous and expected growth of pre-tax corporate profits after normalizing by the interest rate on Baa corporate bonds. A lead term is added to capture the influence of profit expectations on investors' decisions to buy and sell equities, and, consequently, on stock prices.

In addition to the federal funds rate, which is modeled based on Taylor's Rule, DOB/U.S. contains models for six interest rates: the three-month, one-year, five-year, and ten-year U.S. Treasury securities rates, as well as the Baa corporate bond rate and the 30-year conventional mortgage rate. These equations are specified within an error-correction model framework based on the expectations theory of the term structure of interest rates, which posits that the yield on the long-term bond equals the expected yield on a series of short-term bonds over the life of the long-term bond, plus term and risk premiums. The theory implies that the rate on one-year government bonds can be used to explain the rate on five-year bonds, which, in turn, is used to explain the rate on bonds of longer maturities. Although the term and risk premiums are not explicitly captured in the estimated model, their impacts are embodied in the estimated coefficients. A real GDP gap term is added to most of the equations to capture the impact of expected (future) inflationary pressures on current yield curve.

The Foreign Sector

Real U.S. exports are determined by the level of foreign economic activity, as measured by an estimate of the growth rate of global GDP, and U.S. export prices relative to foreign prices. Real imports are divided into non-oil and oil goods and services. Non-oil imports are a function of real domestic demand and the ratio of import prices to domestic prices. Oil imports are a function of real domestic demand, as well as oil prices relative to domestic prices. Both imports and exports equations contain additional dummy variables to capture one-time shocks, such as the September 11 terrorist attacks and the oil shock of 1970s.

SATELLITE MODELS

Sectoral Employment

Total employment is disaggregated into 20 industrial sectors based on North American Industry Classification System (NAICS). Individual equations incorporate "structural" variables that are forecast in prior modules, such as hours worked, real GDP, real personal income, the S&P 500 Stock Index adjusted for inflation, interest rates, and demographic variables. The general approach is to estimate an error-correction model (ECM), and if the level variables in the ECM are not significant, then to use a model in log differences. Some of the sectors are modeled in fourth differences to remove seasonality. In order to capture seasonality in those that were modeled in first differences, we add time-variant seasonal dummy variables, which are constructed using the Census X11 procedure.

Other Prices

The nonfarm private GDP deflator and other deflators from the core model are used to forecast several implicit price deflators for consumption, as well as the overall Consumer Price Index (CPI) and some of its components. The Producer Price Index (PPI) for refined petroleum products and other implicit price deflators for consumption are used to forecast several components of PPI.

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Non Personal Service Inflation

DOB provides forecasts for 32 detailed sub-components specifically for the purpose of forecasting the non-personal service (NPS) expenditure component of the State budget. Since these forecasts are used by many different units within the Division for fiscal planning purposes, most are modeled on a State fiscal year basis. This set of forecast variables includes price deflators for medical equipment, office equipment, office supplies, energy-related products, business services, and real estate rentals. Right-hand-side variables for these models include the DOB/U.S. forecasts for price indices described above. For example, the price index for light fuel oil explains much of the variation in the index for home heating oil. Likewise, the price index for medical equipment is well represented by the price index for total medical care excluding medical services and drugs and medical supplies. All three of the latter measures are forecast within DOB/U.S. Table 5 and Table 6 present the model specifications for these two variables.

TABLE 5 PRICE DEFLATOR FOR HOME HEATING OIL	
$\Delta \ln WPI057302 = -0.0002 + 0.9970 \Delta \ln WPI0573$	
$(0.0013) \quad (0.0105)$	
$Adjusted R^2 = 0.9885$	
WPI057302	PPI - Fuel oil #2 home heating oil
WPI0573	PPI - Light fuel oils

TABLE 6 PRICE DEFLATOR FOR MEDICAL EQUIPMENT	
$\Delta \ln CPIUEMB = -0.0088 + 8.0222 \Delta \ln CPIMED - 6.2649 \Delta \ln CPISVMED - 0.8066 \Delta \ln CPIUEMA$	
$(0.0060) \quad (1.7382) \quad (1.5267) \quad (0.2432)$	
$Adjusted R^2 = 0.8922$	
XCPUUEMB	Medical Equipment
CPIMED	CPI - Medical care
CPISVMED	CPI - Medical services
CPIUEMA	CPI - Drugs and medical supplies

Other Interest Rates and the Wilshire 5000

DOB/U.S. also estimates eight additional interest rates, including commercial paper rates, Treasury bond rates, state and local municipal bond rates, London Inter Bank Offering Rate (LIBOR) rates, and mortgage rates. These rates are estimated in single-equation models using variables from the core model as inputs. The Wilshire 5000 stock price index is estimated using the S&P 500 stock price index as an explanatory variable.

Miscellaneous Variables

Many miscellaneous variables are forecasted using variables from all the models discussed above, as well as the New York model. Forecasts of these miscellaneous variables are based on single-equation models.

CURRENT QUARTER ESTIMATION

The DOB/U.S. macroeconomic models described above are all quarterly models. The primary data source for these models is the National Income and Product Accounts (NIPA) data provided by the U.S. Department of Commerce Bureau of Economic Analysis (BEA).

However, BEA’s quarterly estimates are themselves based on data compiled, generally at a monthly frequency, by the U.S. Department of Labor Bureau of Labor Statistics, the U.S. Department of Commerce Census Bureau, and BEA itself. Much of these data, though not all, are reported to the public. The purpose of the Budget Division’s current quarter tracking forecasting system is to make maximum use of the available high frequency information at the time a forecast is made. This process allows DOB to more accurately estimate the base quarters for both real and nominal U.S. GDP, as well as U.S. personal income. Since the DOB/U.S. models discussed above tend to project equilibrium relationships assuming no exogenous shocks, the projected annual growth rate for the near term is heavily dependent upon the base quarter estimate. Hence, the accuracy of the base quarter is crucial to the accuracy of the overall forecast.

For each quarter, BEA produces three estimates in the months immediately following the quarter — an initial release followed by two revisions. These estimates are followed by at least three more annual revisions, typically released in July of each year. In addition, once every four years, BEA releases a comprehensive revision which includes an update of the reference year upon which measures of real activity are based. As an example, Table 7 presents a chronology for BEA’s first three releases of NIPA estimates, since these estimates are the most relevant to the Budget Division’s current quarter estimation, for the four quarters of 2004. As the table indicates, the initial estimate for any given quarter is released at the end of the first month of the following quarter. For example, the first release of the estimate for the first quarter of 2004, known as the “advance” release, was available at the end of April 2004. With the second or “preliminary” release, made public by BEA at the end of May 2004, the first quarter underwent its first of many revisions. The second revision of 2004Q1 was reported with the third or “final” release, at the end of June, and remained unchanged until the release of its first annual revision in July of 2004.

TABLE 7				
NIPA RELEASE SCHEDULE FOR THE FOUR QUARTERS OF 2004				
Release	2004Q1	2004Q2	2004Q3	2004Q4
Advance Estimate	Apr. 29, 2004	Jul. 30, 2004	Oct. 29, 2004	Jan. 28, 2005
Preliminary Estimate	May 27, 2004	Aug. 27, 2004	Nov. 30, 2004	Feb. 25, 2005
Final Estimate	Jun. 25, 2004	Sep. 29, 2004	Dec. 22, 2004	Mar. 30, 2005

Source: U.S. Bureau of Economic Analysis.

DOB always incorporates the most recent NIPA data when doing a forecast. For example, the forecast completed in the middle of December, in preparation for the Executive Budget, always includes the preliminary estimate of the third quarter that becomes available at the end of November. However, by mid-December, high frequency data related to the fourth quarter has also become available, and DOB’s current quarter methodology is designed to try to forecast the advance release of the fourth quarter, which will not be made public by BEA until the end of January of the following year.⁷ The high frequency data incorporated by DOB’s models include monthly payroll employment, retail trade, construction value-put-in-place, weekly initial unemployment insurance claims, monthly personal income and consumption estimates, monthly vehicle sales, manufacturing and trade shipments and inventories, monthly exports and imports, various price measures, and so on.⁸

⁷ We will use the term “current quarter” to refer to the quarter being forecast, although strictly speaking, between the end of the quarter and the release of the advance estimate, we are forecasting the prior quarter.

⁸ By the middle of December, some additional high frequency data has also become available hinting at the second revision, or final estimate, of the third quarter. DOB’s current quarter models attempt to use these data to anticipate these revisions. However, the focus of this description of the DOB’s current quarter methodology — and certainly the greater challenge — will be the models that estimate the advance release.

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In predicting the initial quarterly release, the information set available to the analyst changes with each additional high-frequency data release. Therefore, the analyst's vantage point determines the specification of the forecast model. For example, to predict the quarterly GDP deflator, DOB utilizes monthly CPI data, as well as monthly indices of import and export prices. CPI data for a particular month is released by the U.S. Bureau of Labor Statistics in the middle of the following month. Thus, if the analyst is trying to predict the advance estimate of the GDP deflator for the fourth quarter in mid-November, the relevant information set contains only one month of CPI, import price, and export price data for the quarter, i.e., for October, and the model specification can only include that one month. However, if a forecast is being done in mid-December, the information set contains two months of data, October and November. Thus, a second specification is required to be able to incorporate that information as well. Finally, by mid-January, all three months of CPI data for the quarter are available, suggesting yet a third specification. Finally, if a forecast is done between the release of the CPI and the trade price data, yet another specification might be necessary.

On average, forecast models are run from six different vantage points leading up to the NIPA advance release, although that number may vary depending on the demands of the Division's U.S. macromodel forecasting schedule. In addition to the GDP price deflator, DOB has developed forecasting models for the following nominal and real GDP components: durable, nondurable, and services consumption; fixed residential investment; business sector fixed investment in computer and computer-related durable equipment and software, noncomputer equipment, and structures; the change in inventories; federal government defense consumption and investment and nondefense consumption and investment spending; state and local government consumption and investment spending; oil and non-oil imports; and exports. Real U.S. GDP is calculated two ways: first, by dividing the sum of the nominal components by the price deflator, and second, by "Fisher adding" the real components. If the two methods produce different outcomes, adjustments are made before incorporating the results into DOB/U.S.

Current quarter models have also been developed for the following components of national personal income: wages and salary disbursements, transfer payments to persons, personal contributions for social insurance, other labor income, rental income of persons with the capital consumption adjustment (CCA), personal dividend income, personal interest income, and proprietors' income with the inventory valuation adjustment (IVA) and CCA. Examples of models for one real GDP component, two components of personal income, as well as additional detail pertaining to the GDP deflator appear below. In the interest of space, models for only three vantages are presented.

GDP DEFLATOR

As alluded to above, the current quarter GDP deflator is a function of the monthly CPI and the price deflators for imports and exports. The left-hand side variable is quarterly growth at seasonally adjusted annualized rates (SAAR). The right-hand side concepts are also annualized quarterly growth rates, though their precise specification varies with the data available, as well as the results of empirical testing. The first vantage includes the annualized growth rate of the first month of the current quarter over the first month of the previous quarter for CPI and for import prices, while the price deflator for exports enters as a "momentum term." The latter term captures the mathematical fact that greater the growth in the first month of the current quarter over the last month of the prior quarter, the greater current quarter growth will be.

For the second vantage, the model uses for all three explanatory variables the annualized growth rate of the average of the two available months of the current quarter divided by the average of the three months of the prior quarter plus the last month of the quarter before last. In addition, error terms are corrected for autocorrelation of lag four. When three months of

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data are available, we use the annualized growth rate of the sum of the months of the current quarter over the sum of the months of the prior quarter. As expected, the model fit improves as more information is incorporated. Table 8 presents the model specifications while Table 9 presents estimates for the vantages for 2004 and the first half of 2005.

TABLE 8 GDP DEFLATOR	
$V1: GGDF_t = 0.010 + 0.672 \left[\left(\frac{CPI_{t,1}}{\frac{1}{3} \sum_{i=1}^3 CPI_{t-1,i}} \right)^4 - 1 \right] - 0.054 \left[\left(\frac{PIB_{t,1}}{PIB_{t-1,1}} \right)^4 - 1 \right] + 0.198 \left[\left(\frac{PEB_{t,1}}{PEB_{t-1,3}} \right)^4 - 1 \right]$ <p style="text-align: right;"><i>Adjusted R</i>² = 0.436</p>	
$V2: GGDF_t = 0.007 + 0.544 \left[\left(\frac{\frac{1}{2} \sum_{i=1}^2 CPI_{t,i}}{\frac{1}{4} \left(\sum_{i=1}^3 CPI_{t-1,i} + CPI_{t-2,3} \right)} \right)^4 - 1 \right] - 0.058 \left[\left(\frac{\frac{1}{2} \sum_{i=1}^2 PIB_{t,i}}{\frac{1}{4} \left(\sum_{i=1}^3 PIB_{t-1,i} + PIB_{t-2,3} \right)} \right)^4 - 1 \right]$ $+ 0.067 \left[\left(\frac{\frac{1}{2} \sum_{i=1}^2 PEB_{t,i}}{\frac{1}{4} \left(\sum_{i=1}^3 PEB_{t-1,i} + PEB_{t-2,3} \right)} \right)^4 - 1 \right] + e_t$ <p style="text-align: right;"><i>Adjusted R</i>² = 0.577</p>	
$e_t = 0.420 e_{t-4}$	
$V3: GGDF_t = 0.782 \left[\left(\frac{\sum_{i=1}^3 CPI_{t,i}}{\sum_{i=1}^3 CPI_{t-1,i}} \right)^4 - 1 \right] - 0.104 \left[\left(\frac{\sum_{i=1}^3 PIB_{t,i}}{\sum_{i=1}^3 PIB_{t-1,i}} \right)^4 - 1 \right] + 0.116 \left[\left(\frac{\sum_{i=1}^3 PEB_{t,i}}{\sum_{i=1}^3 PEB_{t-1,i}} \right)^4 - 1 \right]$ <p style="text-align: right;"><i>Adjusted R</i>² = 0.598</p>	
<p>GGDF Annualized quarterly growth rate of GDP deflator CPI_{t,i} CPI for <i>i</i>th month of quarter <i>t</i> PIB_{t,i} Imports price deflator for <i>i</i>th month of quarter <i>t</i> PEB_{t,i} Exports price deflator for <i>i</i>th month of quarter <i>t</i></p>	

TABLE 9 CURRENT QUARTER ESTIMATES: GDP DEFLATOR					
Percent Change (SAAR)					
		Vantage 1	Vantage 2	Vantage 3	Advance
2004	Q1	2.0	1.6	1.6	2.5
	Q2	3.3	3.3	3.4	3.2
	Q3	1.7	1.4	1.1	1.3
	Q4	2.1	2.0	2.2	2.0
2005	Q1	1.7	2.0	3.1	3.2
	Q2	3.1	2.8	2.5	2.5

Source: Moody's Economy.com; DOB staff estimates.

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REAL NONDURABLE CONSUMPTION

NIPA consumption data are available both monthly and quarterly. With one month of consumption data available, the current quarter model uses two explanatory variables: the annualized growth rate of consumption for the first month of the current quarter over the first month of the previous quarter; and the annualized growth rate of the first month of the current quarter over the last month of the prior quarter. The second is a momentum term.

As more data become available, the overall fit of the model improves. With two months of data available, the model uses the annualized growth rate for these two months over the same months of the prior quarter, as well as a momentum term. Before the release of the third month of the NIPA consumption data, retail sales data become available. The third equation in Table 10 shows the model for the vantage with two months of consumption data and one month of real retail sales data. Real retail sales of nondurable goods are defined as the sum of the relevant components of retail sales data deflated by the CPI for nondurable goods. Table 11 presents the estimates for 2004 and the first half of 2005.

TABLE 10	
REAL NONDURABLE CONSUMPTION	
V1:	$GCN_t = \frac{0.014}{(0.003)} + \frac{0.479}{(0.071)} \left[\left(\frac{CN_{t,1}}{CN_{t-1,1}} \right)^4 - 1 \right] + \frac{0.084}{(0.026)} \left[\left(\frac{CN_{t,1}}{CN_{t-1,3}} \right)^{12} - 1 \right]$ <p style="text-align: right;"><i>Adjusted R</i>² = 0.592</p>
V2:	$GCN_t = \frac{0.006}{(0.002)} + \frac{0.439}{(0.049)} \left[\left(\frac{CN_{t,1}}{CN_{t-1,1}} \right)^4 - 1 \right] + \frac{0.180}{(0.058)} \left[\left(\frac{CN_{t,2}}{CN_{t-1,2}} \right)^4 - 1 \right]$ $+ \frac{0.207}{(0.033)} \left[\left(\frac{CN_{t,2}}{CN_{t-1,3}} \right)^6 - 1 \right]$ <p style="text-align: right;"><i>Adjusted R</i>² = 0.821</p>
V3:	$GCN_t = \frac{0.0022}{(0.0016)} + \frac{0.379}{(0.036)} \left[\left(\frac{CN_{t,1}}{CN_{t-1,1}} \right)^4 - 1 \right] + \frac{0.306}{(0.044)} \left[\left(\frac{CN_{t,2}}{CN_{t-1,2}} \right)^4 - 1 \right]$ $+ \frac{0.187}{(0.025)} \left[\left(\frac{RTN_{t,3}}{RTN_{t-1,3}} \right)^4 - 1 \right] + \frac{0.079}{(0.029)} \left[\left(\frac{CN_{t,2}}{CN_{t-1,3}} \right)^6 - 1 \right]$ <p style="text-align: right;"><i>Adjusted R</i>² = 0.914</p>
<i>GCN</i> _{<i>t</i>}	Annualized quarterly growth rate of real nondurable consumption
<i>CN</i> _{<i>t,i</i>}	Real nondurable consumption; <i>i</i> th month of quarter <i>t</i>
<i>RTN</i> _{<i>t,i</i>}	Real nondurable retail sales; <i>i</i> th month of quarter <i>t</i>

TABLE 11					
CURRENT QUARTER ESTIMATES: REAL NONDURABLE CONSUMPTION					
Percent Change (SAAR)					
		<u>Vantage 1</u>	<u>Vantage 2</u>	<u>Vantage 3</u>	<u>Advance</u>
2004	Q1	6.2	5.8	5.8	6.4
	Q2	2.1	1.2	1.1	-0.1
	Q3	2.7	3.2	2.8	3.9
	Q4	3.4	5.9	5.2	5.8
2005	Q1	5.5	7.1	5.4	4.9
	Q2	1.3	1.5	1.7	3.3

Source: Moody's Economy.com; DOB staff estimates.

WAGE AND SALARY DISBURSEMENT

Wage and salary disbursements are also available on both a monthly and quarterly basis. However, employment-related data are generally available sooner than monthly income data. There are four basic vantages for wages and salary model components with the quarterly annualized growth rate as the dependent variable. Vantage one contains one month of both monthly income and average weekly unemployment insurance claims data; vantage two contains one month of income data and two months of unemployment insurance claims data; vantage three contains two months of income and unemployment insurance claims data; and vantage four contains two months of income data and three months of unemployment insurance claims data. Three of these vantages appear in Table 12. For models with several economic explanatory variables, additional vantages may be run as new data become available for one economic variable but not the others.

In all of the wage and salary models, the right-hand-side variables are defined as annualized growth rates of the available month(s) over the same month(s) of the previous quarter. In general, we use all available monthly data as they become available. Data revisions of earlier months, particularly of monthly income data, also contribute to changes in the current quarter estimates. In addition to the monthly wage and salary data and unemployment insurance benefit claims, the model for the first and second vantages includes a dummy variable to capture the shifting of wages from the first quarter of 1994 to the fourth quarter of 1993, in anticipation of a tax law change. All three models include corrections for autocorrelated error terms. Income data for the second month greatly enhance the model fit whereas adding another month of unemployment claims data adds little to the fit, but still affects the estimated growth rate. Table 13 presents the estimates for 2004 and the first half of 2005.

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**TABLE 12
WAGE AND SALARY DISBURSEMENT**

$$\begin{aligned}
 \text{V1: } \quad GWS_t &= 106.724 \left[\left(\frac{WS_{t,1}}{WS_{t-1,1}} \right)^4 - 1 \right] - 0.082 \left[\left(\frac{UI_{t,1}}{UI_{t-1,1}} \right)^4 - 1 \right] + 4.062 D_1 + e_t \\
 &\quad (3.656) \qquad (0.036) \qquad (0.711) \\
 e_t &= -0.477 e_{t-1} - 0.280 e_{t-2} \qquad \text{Adjusted } R^2 = .851 \\
 &\quad (0.073) \qquad (0.075) \\
 \text{V2: } \quad GWS_t &= 100.066 \left[\left(\frac{\sum_{i=1}^2 WS_{t,i}}{\sum_{i=1}^2 WS_{t-1,i}} \right)^4 - 1 \right] - 0.247 \left[\left(\frac{\sum_{i=1}^2 UI_{t,i}}{\sum_{i=1}^2 UI_{t-1,i}} \right)^4 - 1 \right] + 1.542 D_1 + e_t \\
 &\quad (0.381) \qquad (0.109) \qquad (0.698) \\
 e_t &= -0.731 e_{t-1} - 0.602 e_{t-2} - 0.484 e_{t-3} \qquad \text{Adjusted } R^2 = .944 \\
 &\quad (0.078) \qquad (0.082) \qquad (0.077) \\
 \text{V3: } \quad GWS_t &= 100.189 \left[\left(\frac{\sum_{i=1}^2 WS_{t,i}}{\sum_{i=1}^2 WS_{t-1,i}} \right)^4 - 1 \right] - 0.342 \left[\left(\frac{\sum_{i=1}^3 UI_{t,i}}{\sum_{i=1}^3 UI_{t-1,i}} \right)^4 - 1 \right] + e_t \\
 &\quad (0.353) \qquad (0.105) \\
 e_t &= -0.805 e_{t-1} - 0.666 e_{t-2} - 0.530 e_{t-3} \qquad \text{Adjusted } R^2 = .944 \\
 &\quad (0.070) \qquad (0.080) \qquad (0.070)
 \end{aligned}$$

GWS_t Annualized quarterly growth rate in wage and salary disbursements
 $WS_{t,i}$ Monthly wage and salary disbursement data; i th month of quarter t
 $UI_{t,i}$ Average weekly unemployment insurance claims; i th month of quarter t
 D_1 Dummy=1 for 1993Q4 or 1994Q2, -1 for 1994Q1, 0 otherwise

**TABLE 13
CURRENT QUARTER ESTIMATES: WAGE AND SALARY
DISBURSEMENTS**

Percent Change (SAAR)

	Vantage 1	Vantage 2	Vantage 3	Advance
2004 Q1	2.9	4.3	4.3	4.8
Q2	5.3	6.3	6.4	5.4
Q3	3.7	4.0	4.3	4.4
Q4	5.6	NA	5.3	5.2
2005 Q1	5.3	4.7	5.4	5.4
Q2	6.5	5.4	5.4	5.0

Source: Moody's Economy.com; DOB staff estimates.

PROPRIETORS' INCOME

Models for proprietors' income with the inventory valuation and capital consumption adjustments incorporate monthly income data, as well as data on the 10-year Treasury rate, dummy variables that account for unusual fluctuations, and autocorrelated error terms.

As with wage and salary disbursement income, adding a second month of income data greatly improves the fit of the model; the fit does not improve much with additional information about economic factors, in this case the 10-year Treasury rate. Table 14 presents the specifications for this income component while Table 15 shows estimation results.

**TABLE 14
PROPRIETORS' INCOME**

$$\begin{aligned}
 \text{V1: } GPRP_t &= 97.323 \left[\left(\frac{PRP_{t,1}}{PRP_{t-1,1}} \right)^4 - 1 \right] - 3.906 \left[\left(\frac{TRATE10_{t,1}}{TRATE10_{t-1,1}} \right)^4 - 1 \right] + e_t \\
 &\quad (1.831) \quad (0.950) \\
 e_t &= -0.251e_{t-1} - 0.420 e_{t-2} \quad \text{Adjusted } R^2 = .876 \\
 &\quad (0.072) \quad (0.070) \\
 \\
 \text{V2: } GPRP_t &= 97.694 \left[\frac{\sum_{j=1}^2 PRP_{t,j}}{\sum_{j=1}^2 PRP_{t-1,j}} - 1 \right] - 1.389 \left[\frac{\sum_{j=1}^2 TRATE10_{t,j}}{\sum_{j=1}^2 TRATE10_{t-1,j}} - 1 \right] + 6.999 D_1 \\
 &\quad (0.843) \quad (0.435) \quad (1.646) \\
 &+ 6.738 D_2 + 4.728 D_3 + e_t \\
 &\quad (1.674) \quad (1.445) \\
 e_t &= -0.574 e_{t-1} - 0.370 e_{t-2} \quad \text{Adjusted } R^2 = .969 \\
 &\quad (0.070) \quad (0.070) \\
 \\
 \text{V3: } gprp_t &= 99.20 \left[\frac{\sum_{j=1}^2 PRP_{t,j}}{\sum_{j=1}^2 PRP_{t-1,j}} - 1 \right] - 0.441 \left[\frac{\sum_{j=1}^3 TRATE10_{t,j}}{\sum_{j=1}^3 TRATE10_{t-1,j}} - 1 \right] + 4.333 D_1 \\
 &\quad (0.347) \quad (0.135) \quad (0.400) \\
 &+ 1.563 D_2 + e_t \\
 &\quad (0.549) \\
 e_t &= -0.576 e_{t-1} - 0.368 e_{t-2} \quad \text{Adjusted } R^2 = .969 \\
 &\quad (0.070) \quad (0.070)
 \end{aligned}$$

GPRP_t Annualized quarterly growth rate in personal income
 PRP_{t,i} Monthly proprietors' income; *i*th month of quarter *t*
 TRATE10_{t,i} Interest rate on 10-year treasury notes; *i*th month of quarter *t*
 D₁ Dummy for 1980 third quarter
 D₂ Dummy for 1983 fourth quarter
 D₃ Dummy=1 for 1994Q1, -1 for 1994Q2, 0 otherwise

**TABLE 15
CURRENT QUARTER ESTIMATES: PROPRIETORS' INCOME
Percent Change (SAAR)**

	<u>Vantage 1</u>	<u>Vantage 2</u>	<u>Vantage 3</u>	<u>Advance</u>
2004 Q1	5.4	3.8	3.8	9.5
Q2	13.3	17.1	16.8	14.8
Q3	3.2	4.0	1.8	0.8
Q4	6.6	NA	6.1	14.1
2005 Q1	18.3	11.3	12.0	12.0
Q2	9.9	9.1	9.3	11.1

Source: Moody's Economy.com; DOB staff estimates.

FORECAST ACCURACY SELECTED VARIABLES

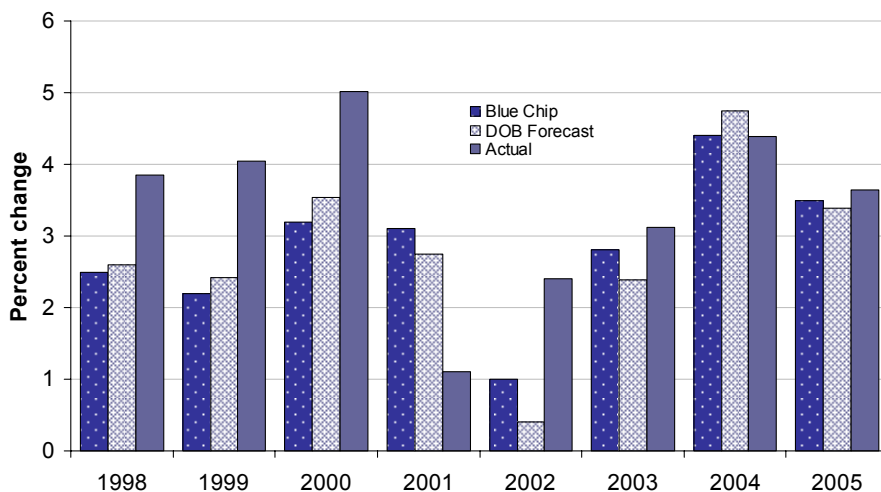
Forecasting the future of the economy is very difficult, due not only to the issues discussed above, but also to the occurrence of economic shocks, i.e., unpredictable events such as the September 11 attacks or the hurricanes that recently hit the Gulf Coast. Predicting business cycle turning points is a particularly difficult challenge for forecasters since the model coefficients, on which future predictions are based, are fixed at values that summarize the entire history of the data. For example, at the end of 2000, DOB predicted that the economy would experience a significant slowdown for the following year. However, we could not predict the events of September 11. On the other hand, we projected that the impact of September 11 would be less severe, but longer lasting than it turned out to

U.S. MACROECONOMIC MODEL

be. Here we select a few key economic variables and compare our one-year-ahead annual forecast to the initial BEA and BLS estimates.⁹ For comparison purposes, we also include the Blue Chip forecast where available.

As the following figures indicate, when the economy is on a steady growth path, the forecast errors tend to be smaller than when the economy actually changes direction. For both real U.S. GDP and inflation, DOB's forecast has tended to be very similar to the Blue Chip Consensus forecast. Like the Blue Chip consensus forecast, DOB overestimated the strength of real U.S. GDP during the 2001 recession, but underestimated strength of the economy coming out. In contrast, because of the unusually long period with which the U.S. labor market recovery lagged the recovery in output, there was a tendency to overpredict employment in 2002 and 2003 and income in 2003.

Figure 6
Executive Budget Forecast Accuracy: US Real GDP Growth
One year ahead

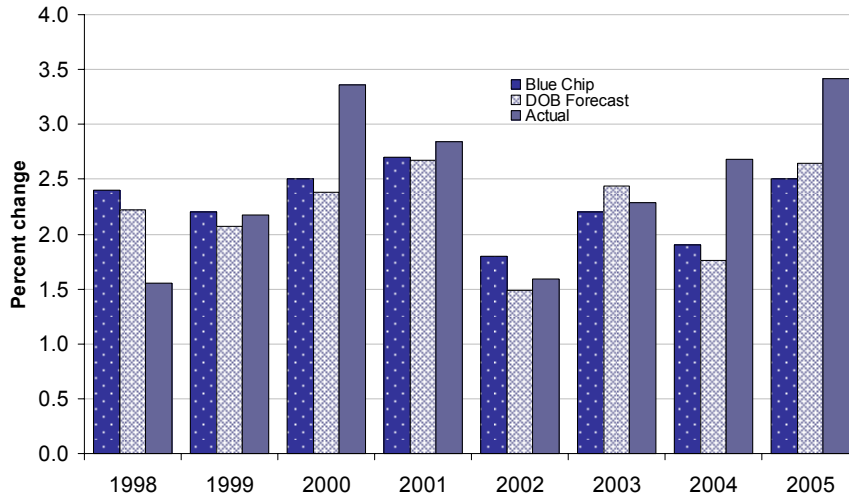


Note: "Actual" value for 2005 is DOB's current estimate based on three quarters of actual data.
Source: Moody's Economy.com; Blue Chip Economic Indicators, December forecast for next year; Federal Reserve Bank of Philadelphia; DOB staff estimates.

⁹ We use the initial estimates rather than the most recent estimates as benchmarks to assess DOB's forecast accuracy since it would be impossible to forecast future revisions to the data.

Figure 7

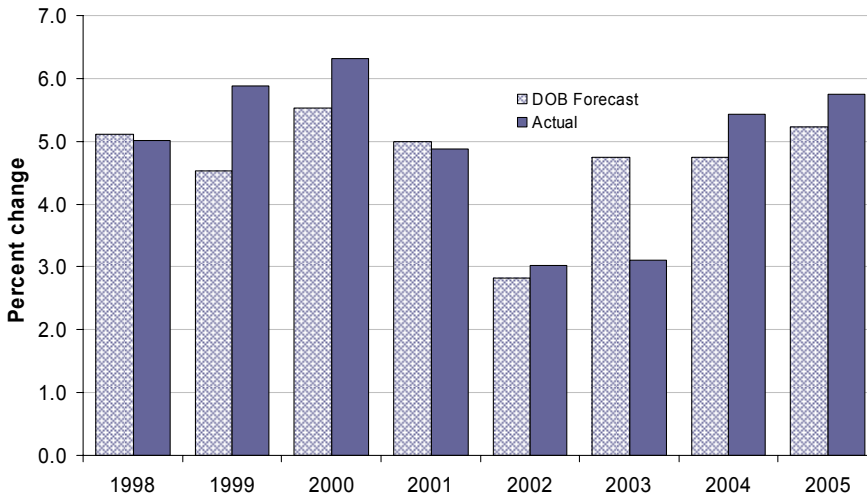
Executive Budget Forecast Accuracy: US Inflation
One year ahead



Note: "Actual" value for 2005 is DOB's current estimate based on three quarters of actual data.
Source: Moody's Economy.com; Blue Chip Economic Indicators, December forecast for next year; Federal Reserve Bank of Philadelphia; DOB staff estimates.

Figure 8

Executive Budget Forecast Accuracy: US Personal Income
One year ahead

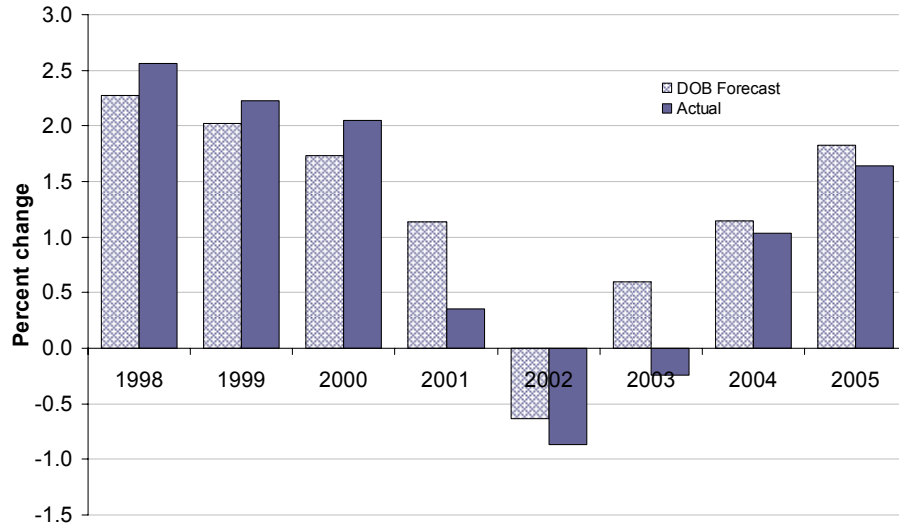


Note: Actual value for 2005 is estimated based on three quarters of actual data and one quarter of forecast.
Source: Moody's Economy.com; Federal Reserve Bank of Philadelphia; DOB staff estimates.

Figure 9

Executive Budget Forecast Accuracy: US Employment

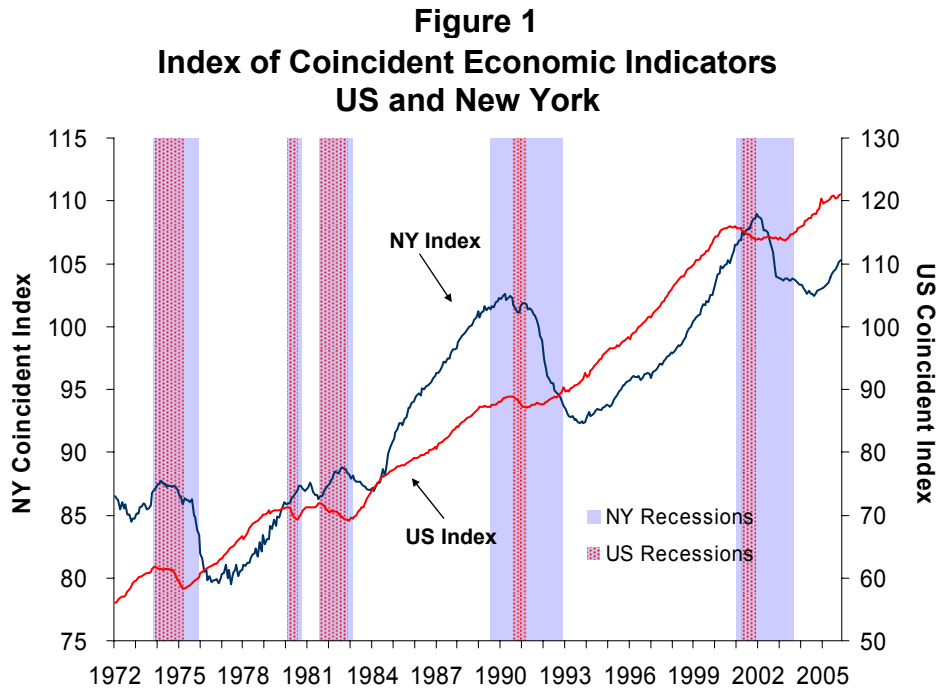
One year ahead



Source: Moody's Economy.com; Federal Reserve; DOB staff estimates.

NEW YORK STATE MACROECONOMIC MODEL

The Division of the Budget's macroeconomic model for New York State attempts to capture the fundamental linkages between the New York and national economies. As with all states, New York's economy depends on economic developments in the overall 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 rate of State economic growth can vary substantially from that of the nation. Figure 1 compares the lengths of the national recessions, as defined by the NBER Business Cycle Dating Committee, with those of the State as determined by the DOB methodology for constructing the New York State Index of Coincident Economic Indicators.¹ The comparison demonstrates by how much the two can differ in both length and severity. For example, during the early 1990s, the State was in recession noticeably earlier than the nation and came out of recession significantly later (see Figure 1).



Source: Moody's Economy.com; DOB staff estimates.

The DOB macroeconomic model for the State (DOB/N.Y.) quantifies the linkages between the national and State economies within an econometric framework that specifically identifies the unique aspects of economic conditions in New York. DOB/N.Y. is a structural time-series model, with most of the exogenous variables derived from DOB/U.S. In general, the long-run equilibrium relationships between State and national economic variables are captured using cointegration/error correction specifications, while the State's unique dynamics are modeled within a restricted VAR (RVAR) framework.²

¹ DOB staff constructed a New York State Index of Coincident Economic Indicators measuring overall economic conditions for New York as described in detail in Box 5 of the economic backdrop section.

² Because the number of parameters to be estimated within an unrestricted VAR framework is often very large, the model can be expected to be unstable. To address this concern, those parameters found to be insignificant at the 5 percent level are constrained to equal zero. The resulting RVAR model is both more parsimonious and more stable.

NEW YORK STATE MACROECONOMIC MODEL

MODEL STRUCTURE

DOB/N.Y. has six major modules: nonfarm payroll employment, real nonbonus average wage, bonus payment, nonwage income, price, and unemployment rate. 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 Covered Employment and Wage data, also known as the ES 202 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 described below for decomposing its wage series into bonus and nonbonus wages.

EMPLOYMENT

New York employment is disaggregated into 15 industrial sectors, parallel to DOB/U.S. DOB/N.Y. is an “open economy” model with most production factors and outputs free to move across the State’s borders. The relationship between the national economy and New York employment is captured through two channels. First, for those sectors where rates of State and national employment growth are significantly related, the national growth rate 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, are included directly in the employment equations for some sectors and are allowed to influence employment of other sectors through the VAR relationships.

For 13 industrial sectors, New York’s unique employment growth pattern is captured within an RVAR setting where the impact of one sector upon another is explicitly modeled. The choice as to which sectors to include on the right-hand side of a sectoral equation in the RVAR model is based on the results of an initial unrestricted VAR estimation. In the final RVAR specification, only those sectors that are well explained by the movements of other sectors are included in the final VAR model. Table 1 is an example of the sector employment.

TABLE 1 MANUFACTURING EMPLOYMENT	
$\Delta \ln E39_t = -0.00367 + 0.00782 \Delta \ln E23_{t-2} + 0.787 \Delta \ln EUS39_t - 0.0150 DQ1_t + 0.00846 DQ2_t$ <p style="text-align: center;">(0.00111) (0.00680) (0.0354) (0.00208) (0.00187)</p>	
Adjusted $R^2 = 0.940$	
E39	Manufacturing employment
E23	Construction employment
EUS39	National manufacturing employment
DQi	Seasonal dummy for quarter i

The two remaining industrial sectors are estimated individually. These equations are specified as autoregressive models, with a corresponding national employment term included in each equation as an exogenous variable.

BONUS AND STOCK INCENTIVE PAYMENTS

Total New York State wages are composed of two components: a base wage component which is relatively uniformly distributed over the course of the firm’s fiscal year, and a more variable component comprised primarily of bonus payments and income derived from the exercise of employee stock options and other one-time payments. There are several reasons why the variable component of wages is modeled separately. First, bonuses have grown substantially in the 1990s as a proportion of total wages. The two factors most responsible for this strong growth are the robust performance of securities industry profits during that

NEW YORK STATE MACROECONOMIC MODEL

period and the shift in the corporate wage structure away from fixed pay and toward performance-based bonuses. Second, bonus payments play a significant role in the forecast of State government finances, since they tend to be concentrated among high-income taxpayers and, therefore, are taxed at the top income tax rate. Further, the timing of bonus payments affects the pattern of wage payments and consequently the State's cash flow. Tax collections from wages usually peak during December, January, and February, corresponding to the timing of bonus payments. Finally, because they are performance-based, bonus payments display a very different growth pattern from nonbonus average wages in that they tend to be much more volatile.

No government agency collects data on variable income as distinct from ordinary wages; therefore, it must be estimated. The Division of the Budget derives its estimate of bonuses from firm-level data as collected under the Unemployment Insurance program. Firms report their wages to the Unemployment Insurance program on a quarterly basis. The firm's average wage per employee is calculated for each quarter. The average over the two quarters with the lowest average wages 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.³ 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, excluding those of private educational institutions, earn variable pay.

Bonus payments are modeled in two steps. First, a bonus payments model for the finance and insurance sector is estimated. The forecast results of the first step are then used to project bonus payments for other sectors. Finance and insurance sector wages, particularly from bonus payments, represent a significant share of total State wages and appear to have a leading influence on bonuses paid in other sectors. Second, the feedback effects of growth in this sector on other sectors of the economy, especially business services, can be substantial.

We have found that two indicators of Wall Street underwriting activities — the dollar volume of initial public offerings (IPOs) and the value of debt underwritings — can explain most of the variation in financial and insurance sector bonuses. Forecasts for these variables are based on interest rate and equity market forecasts provided by DOB/U.S. The finance and insurance sector bonus model is then constructed by using these underwriting activities as explanatory variables with an error-correction term. The finance and insurance sector bonus equation appears in Table 2.

TABLE 2 FINANCE AND INSURANCE SECTOR BONUSES	
$\ln B52_t = -1.71 + 0.179 \ln IPO_{t-4} + 0.267 \Delta_4 \ln DEBT_t + 0.0228 T + 1.35 DQ1_t$ <div style="display: flex; justify-content: space-around; font-size: small;"> (0.280) (0.0552) (0.173) (0.00314) (0.132) </div>	
<p><i>Adjusted R</i>² = 0.801</p>	
B52	Finance and insurance sector bonus
IPO	Value of initial public offering
DEBT	Value of debt underwriting
T	Time trend
DQ1	Seasonal dummy for quarter 1

³ 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.

NEW YORK STATE MACROECONOMIC MODEL

Our analysis shows that finance and insurance sector bonuses are a good predictor of bonus-payment behavior in other sectors. More technically, bonus payments in the financial services sector are cointegrated with bonuses paid in most other sectors. Therefore, we use a cointegration/error correction framework in the second step to estimate bonuses for all of the other sectors. Table 3 gives an example of the specification for bonuses in manufacturing.

TABLE 3 MANUFACTURING BONUSES	
$\Delta B39_t = 0.457 - 0.423 \Delta B39_{t-1} - 0.427 \Delta B39_{t-2} - 0.311 \Delta B39_{t-3} + 0.290 \Delta B39_{t-4} + 0.0321 \Delta B52_t$ $- 0.0219 \Delta B52_{t-4} - 0.435 DQ1_t - 0.522 DQ2_t - 0.789 DQ3_t - 0.324$ $\left(\begin{array}{c} B39_{t-1} - 1.232 - 0.0367 B52_{t-1} \\ (0.0860) \quad (0.00492) \end{array} \right)$	
<p>Adjusted $R^2 = 0.932$</p>	
B39	Manufacturing bonuses
B52	Finance and insurance bonuses
DQ _i	Seasonal dummy for quarter i

NONBONUS REAL AVERAGE WAGES

Once average nonbonus wages have been identified, they are divided by a price deflator estimated specifically for the New York economy (see “New York State Inflation Measure” below) to create nonbonus real average wages. To forecast nonbonus real average wages, DOB/N.Y. estimates 15 stochastic equations, one for each major industrial sector.

Statistical evidence suggests the existence of a long-run equilibrium relationship between the State nonbonus real average wage for most sectors and the national real average wage. Thus, the State nonbonus real average wage for most sectors is modeled in a cointegration/error-correction framework. This modeling approach is based on the belief that, since both labor and capital are free to move in a market economy, regional differences in labor costs will tend to disappear, although this process may take quite a long time. This formulation allows for short-run adjustments toward long-run equilibrium. These short-run dynamics account for the State’s unique economic conditions. Table 4 gives an example of the formulation for the nonbonus real average wage.

For a few sectors, average real nonbonus wages are not modeled in the cointegration/error correction framework, since there is no statistical evidence that they are cointegrated with the national real average wage. These sectors are modeled within an autoregressive framework, with one or more U.S. variables (current or lagged values) used as explanatory variables to capture the impact of national economic conditions.

NEW YORK STATE MACROECONOMIC MODEL

TABLE 4 FINANCE AND INSURANCE SECTOR REAL NONBONUS AVERAGE WAGE	
$\Delta RWA52_t = -0.371 \Delta RWA52_{t-1} - 0.467 \Delta RWA52_{t-2} - 0.227 \Delta RWA52_{t-3} + 0.274 \Delta RWA52_{t-4} + 0.00272 \Delta USRA_{t-1}$	<div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">(0.986)</div> <div style="text-align: center;">(0.101)</div> <div style="text-align: center;">(0.102)</div> <div style="text-align: center;">(0.0987)</div> <div style="text-align: center;">(0.00127)</div> </div>
$0.000250 \Delta USRA_{t-2} + 0.00300 \Delta USRA_{t-3} - 0.000470 \Delta USRA_{t-4} + 1.59 DQ1_t + 0.455 DQ2_t + 0.705 DQ3_t$	<div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">(0.00133)</div> <div style="text-align: center;">(0.00131)</div> <div style="text-align: center;">(0.00135)</div> <div style="text-align: center;">(0.470)</div> <div style="text-align: center;">(0.469)</div> <div style="text-align: center;">(0.462)</div> </div>
$+ 20.1 \Delta \ln GDP_{t-1} - 0.0112 RTRATE3_t - 0.0000130 (RWA52_{t-1} - 29.790 - 3.287 USRA_{t-1})$	<div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">(17.7)</div> <div style="text-align: center;">(0.0227)</div> <div style="text-align: center;">(0.00000705)</div> </div>
<p><i>Adjusted R</i>² = 0.567</p>	
RWA52	Real average wage for New York finance and insurance sector
USRA	U.S. real average wage
GDP	Real U.S. gross domestic product
RTRATE3	Real interest rate on 3-month Treasury notes
DQi	Seasonal dummy variables for quarters i

NONWAGE INCOME

DOB/N.Y. estimates six components of nonwage income: transfer income; property income, which includes dividend, interest, and rental income; proprietors' income; other labor income; personal contributions to social insurance programs; and the residence adjustment, which corrects for the fact that wages are measured according to place of employment rather than place of residence. The two largest components, transfer payments and property income, together account for almost 80 percent of total nonwage income.

All New York nonwage income components, except for the residence adjustment, are driven by their national counterparts, since they are either governed by Federal regulations or influenced by national conditions. In each of these equations, the change in the New York component of nonwage income is estimated as a function of the change in its U.S. counterpart, along with lags of the independent and dependent variables to account for short-term dynamics. Table 5 gives an example of the specification for property income.

Some of the nonwage equations use the concept of New York as a share of the national total to help explain the trend in the New York variable relative to the U.S. variable. The transfer income equation includes New York's population share; while the equation for contributions for social insurance includes New York's wage share. The residence adjustment is modeled as a function of New York earned income, which is comprised of wages, other labor income, and personal contributions for social insurance.

TABLE 5 PROPERTY INCOME	
$\Delta \ln PROP_t = 0.00167 + 0.621 \Delta \ln P_t + 0.234 \Delta \ln P_{t-1} - 0.308 \Delta \ln P_{t-2} + 0.0134 \Delta \ln PROP_{t-1}$	<div style="display: flex; justify-content: space-between;"> <div style="text-align: center;">(0.00120)</div> <div style="text-align: center;">(0.0446)</div> <div style="text-align: center;">(0.0694)</div> <div style="text-align: center;">(0.0682)</div> <div style="text-align: center;">(0.0992)</div> </div>
$+ 0.350 \Delta \ln PROP_{t-2}$	<div style="text-align: center;">(0.0882)</div>
<p><i>Adjusted R</i>² = 0.782</p>	
PROP	New York State property income
P	U.S. property income*(New York employment / U.S. employment)

NEW YORK STATE MACROECONOMIC MODEL

NEW YORK STATE INFLATION RATE

DOB/N.Y. estimates a measure of State inflation by constructing a composite consumer price index for New York State (CPINY). The CPINY is defined as a weighted average of the national CPI and the CPI for the New York City region. The CPINY equation, as shown in Table 6, is specified as a function of the current and lagged value of the U.S. CPI, as well as its own lag.

TABLE 6 COMPOSITE CPI FOR NEW YORK	
$\Delta_4 \ln CPINY_t = 0.00098 + 0.8365 * \Delta_4 \ln CPINY_{t-1} + 0.857 \Delta_4 \ln CPI_t - 0.715 \Delta_4 \ln CPI_{t-1}$	
$\begin{matrix} (0.00050) & (0.052) & (0.039) & (0.064) \end{matrix}$	
Adjusted R ² = 0.99	
CPINY	New York consumer price index
CPI	National consumer price index

NEW YORK STATE UNEMPLOYMENT RATE

The New York unemployment rate equation, shown in Table 7, is specified as a simple autoregressive process with the national unemployment rate (current and lagged) as an explanatory variable.

TABLE 7 NEW YORK UNEMPLOYMENT RATE	
$RUNY_t = 0.942 RUNY_{t-1} + 0.713 RUUS_t - 0.670 RUUS_{t-1} + 0.851 DQ1_t - 0.644 DQ2_t + 0.183 DQ3_t$	
$\begin{matrix} (0.0222) & (0.0738) & (0.0769) & (0.0609) & (0.0624) & (0.0609) \end{matrix}$	
Adjusted R ² = 0.977	
RUNY	New York unemployment rate
RUUS	U.S. unemployment rate
DQi	Seasonal dummy for quarter i

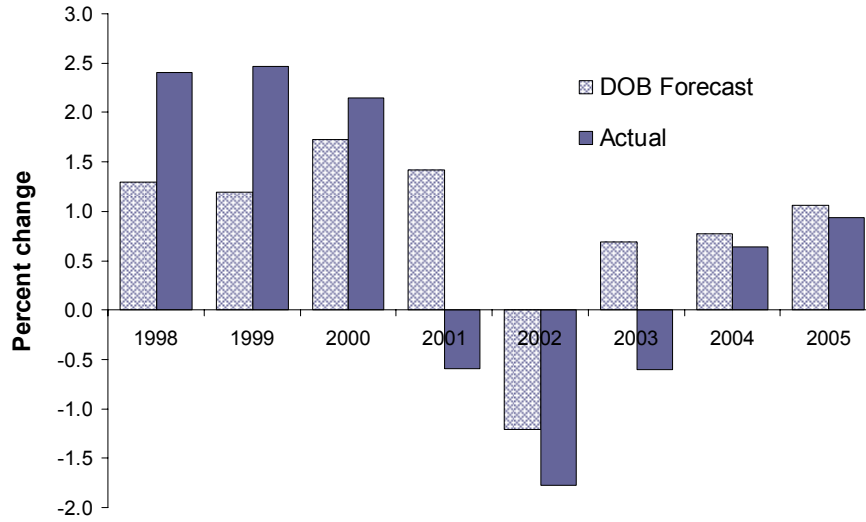
FORECAST ACCURACY FOR EMPLOYMENT AND WAGES

In addition to the problems pertaining to forecasting accuracy discussed in the U.S. section, the constraints that exist for the State economic models are even more severe due to limited amount of available data. Therefore, we are unable to construct a structural model of similar scale describing the relationships between income, consumption, and production. The main data source available for the New York model is Quarterly Census of Employment and Wages (QCEW) data obtained from the New York State Department of Labor. The following two figures compare DOB's one-year-ahead forecasts to actual QCEW data.

When the economy was doing well during the years of the technology and equity market bubble, DOB's forecast tended to underestimate State economic activity, as measured by employment and income. Moreover, even though DOB predicted a slowdown for 2001, we could not predict the events of September 11, after which the economic activity declined significantly more than predicted. However, though DOB under-predicted national economic growth after September 11, the impact of the attack on the State economy was deeper and longer lasting than projected, resulting in an over-prediction of State employment growth. Indeed, for 2003 the Budget Division was forecasting a modest amount of growth, but employment actually continued to fall for that year. The wage forecast errors are similar to those for employment. We note that prior to 2001, DOB used a different series to measure State wages. Therefore, forecast errors based on the former series are not included here.

Figure 2

Executive Budget Forecast Accuracy: New York Employment
One year ahead

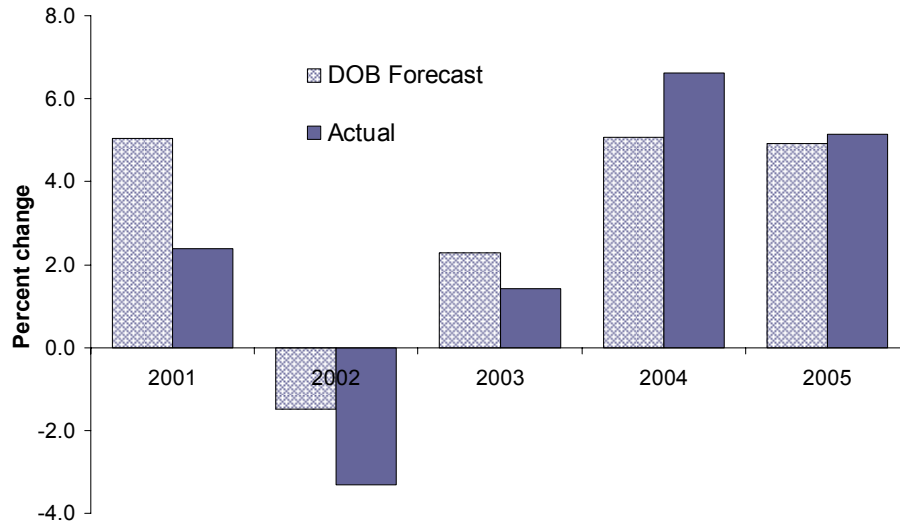


Note: "Actual" value for 2005 is DOB's current estimate based on half year of actual data.

Source: NY State Labor Department; DOB staff estimates.

Figure 3

Executive Budget Forecast Accuracy: New York Wages
One year ahead



Note: "Actual" value for 2005 is DOB's current estimate based on half year of actual data.

Source: NY State Labor Department; DOB staff estimates.

NEW YORK STATE ADJUSTED GROSS INCOME

Annual data pertaining to the number of tax returns and the components of New York State adjusted gross income (NYSAGI) are obtained from samples taken from the State taxpayer population by the New York State Department of Taxation and Finance. Single-equation econometric models are used to project the future number of returns, as well as all the components of income except for the largest component, wages. To ensure consistency with DOB's New York economic forecast, the forecast growth rate for State wages and salaries derived from DOB/N.Y. is applied to the wage base obtained from the taxpayer sample.

In almost all cases, the data series on the components of NYSAGI are found to be nonstationary. Therefore, to avoid being misled by spurious regression results, a logarithmic transformation is performed and then first-differenced for all series for which at least 20 observations are available. Shorter series are modeled in levels.

In constructing the sample, the Department of Taxation and Finance tries to capture as accurately as possible the characteristics of the State taxpayer population. However, it is unreasonable to expect that every component of income will be perfectly represented for each and every year. Dummy variables are incorporated into models where anomalies in the data are thought to be the product of sampling error. Detailed descriptions of the models for the number of returns and for the major components of NYSAGI, other than wages, are presented below. All estimation results presented below are based on tax return data from a sample of State taxpayers through the 2003 tax year, made available by the New York State Department of Taxation and Finance.

TAX RETURNS

The number of tax returns is expected to vary with the number of households that earn any kind of income during the year. The number of such households, in turn, should be closely associated with the number of individuals who are either self-employed, employed by others, or earn taxable income from a source other than labor. Since most taxable income is earned as wages and salaries and thus related to employment, total State payroll employment, which is forecast within DOB/N.Y., is a key input to this model.

New Yorkers can earn taxable income from sources other than payroll employment, such as self-employment and real and financial assets. Self-employment is expected to be closely related to proprietors' income, a component of the NIPA definition of State personal income that is available from BEA and forecast within DOB/N.Y. Another component of personal income that is forecast within DOB/N.Y., State property income, includes interest, dividend, and rental income. The DOB tax return model incorporates the sum of proprietors' and property income for New York, deflated by the consumer price index for New York as constructed by DOB.

A one-time upward shift in the number of tax returns is observed in 1987, believed to be related to the Tax Reform Act of 1986. Beginning in 1987, the two-earner deduction for married couples was eliminated, reducing the incentive for married couples to file joint tax returns. To capture this effect, a dummy variable for 1987 is added to the model. A dummy variable for 2000 is also included to account for a change in the way tax returns were processed and sampled starting that year. The equation specification is shown in Table 1.

NYS ADJUSTED GROSS INCOME

**TABLE 1
TAX RETURNS**

$$\Delta \ln RET_t = \underset{(0.00108)}{0.00221} + \underset{(0.0741)}{0.430} \Delta \ln NYSEMP_t + \underset{(0.0293)}{0.0980} \Delta \ln ((PROPNY + YENTNY) / CPINY)_t +$$

$$\underset{(0.00484)}{0.0186} D87_t + \underset{(0.00499)}{0.0378} D00_t$$

*Adjusted R*² = 0.897

RET	Number of tax returns
NYSEMP	Total State employment
PROPNY	State property income
YENTNY	State proprietors' income
CPINY	Consumer Price Index for New York
D87	Dummy variable for 1987 tax law change
D00	Dummy variable for 2000 processing changes

POSITIVE CAPITAL GAINS REALIZATIONS

New York State's positive capital gains realizations forecasting model incorporates those factors that are most likely to influence realization behavior: expected and actual tax law changes, equity market activity, and, as of this forecasting cycle, real estate market activity. Realization behavior appears to exhibit two types of responses to changes in tax law: a transitory response to an expected change in the law and a steady-state response to an actual change. For example, if the tax rate is expected to rise next year, then taxpayers may realize additional gains this year, in order to take advantage of the lower rate. However, in the long run, the higher tax rate should result in a lower level of current realizations, all things being equal. Based on Miller and Ozanne (2000), the transitory response variable is specified as the square of the difference between the rate expected to take effect next period and the current period rate, with the sign of the difference preserved. The long-term or steady-state response variable is the actual tax rate.

The growth in realizations is also expected to be directly related to growth in equity prices. To capture the effect of equity prices, the average price of all stocks traded is incorporated into the model. Forecasts of the average stock price are based on the forecast for the S&P 500 from DOB/U.S. A measure of real estate market activity has been added to the model in acknowledgement of another large and possibly growing contributor to capital gains realizations: real estate transactions. Taxpayers can exempt gains from the sale of a primary residence of up to \$250,000 (\$500,000 if filing jointly), but all other capital gains from real estate transactions are fully taxable. Conditions in the real estate market are captured by including New York State real estate transfer tax collections. The model specification is shown in Table 2.

Two years of dramatic declines in equity prices resulted in very large loss carryover amounts that appear not to have diminished in 2003 despite considerable growth in capital gains realizations. These carryover losses pose significant risk to the model forecast, particularly because of the lack of historical experience with respect to the magnitude of the loss carryover amounts. Adjustments are made to the capital gains forecast to balance these risks.

**TABLE 2
POSITIVE CAPITAL GAINS REALIZATIONS**

$$\Delta \ln CG_t = 0.0604 - 6.33 \Delta TRSTX_t - 2.65 \Delta PRMTX_t + 1.38 \Delta \ln EQTYP_t + 0.449 \Delta \ln RETT_t - 0.326 D90_t$$

(0.0290)
(2.31)
(0.688)
(0.192)
(0.164)
(0.138)

*Adjusted R*² = 0.818

CG	Positive capital gains realizations
TRSTX	Transitory tax measure
PRMTX	Permanent tax rate
EQTYP	Average price of stocks traded
RETT	Real estate transfer tax collections
D90	Dummy variable for 1990

POSITIVE RENT, ROYALTY, PARTNERSHIP, S CORPORATION, AND TRUST INCOME

The largest component of New York’s positive partnership, S corporation, rent, royalty, estate and trust gains (PSG) is partnership income, much of which originates within the finance industry. Therefore, growth in PSG is believed to be related closely to overall economic conditions, as represented by real U.S. GDP, as well as to the performance of the stock market, as represented by the S&P 500.

An almost equally large contributor to this income category is income from closely held corporations organized under subchapter S of the Internal Revenue Code, and known as S corporations. Selection of S corporation status allows firms to pass earnings through to a limited number of shareholders and to avoid corporate taxation. Empirical work shows that the differential between personal income tax and corporate income tax rates can significantly affect election of S corporation status.¹ As more firms choose S corporation status over C corporation status, which is taxed under the corporate franchise tax, personal income increases, all else equal. 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.

Changes in tax law are believed to account for some of the volatility in PSG. The enactment of the Tax Reform Act of 1986, which created additional incentives to elect S corporation status, is likely to have resulted in an unusually high rate of growth in this component of income in the late 1980s. In particular, we observe an unusually high rate of growth in this component in 1988 that was followed by extremely low growth in 1989. Possible explanations are the expectation of a large tax increase after 1988, or an increase in the fee for electing S corporation status in 1989. This effect is captured by a dummy variable that assumes a value of one for 1988 and minus one for 1989. The equation specification is shown in Table 3.

¹ See, for example, Carroll and Joulfaian (1997).

NYS ADJUSTED GROSS INCOME

TABLE 3
POSITIVE PARTNERSHIP, S CORPORATION,
RENT, ROYALTY, ESTATE AND TRUST INCOME

$$\Delta \ln \text{PSG}_t = 0.000317 + 0.477 \Delta \text{MTR}_t + 0.264 \Delta \ln \text{JS}_t + 2.23 \Delta \ln \text{GDP}_t + 0.228 \text{D88}_{-89}_t$$

(0.0159) (0.0817) (0.0637) (0.453) (.0279)

*Adjusted R*² = 0.840

PSG	Partnership, S corporation, rent, royalty, estate and trust income
MTR	Difference between corporate and personal income maximum marginal tax rates
JS	Standard and Poor's 500 stock index
GDP	Real U.S. GDP
D88_89	Dummy variable, 1 for 1988, -1 for 1989

DIVIDEND INCOME

Dividend income is expected to rise with the fortunes of publicly held U.S. firms, which, in turn, are expected to vary with the business cycle. For example, during the State's last recession, dividend income declined for four consecutive years from 1989 to 1992. Because a strong (or weak) economy, as measured by growth in real U.S. gross domestic product, might have a sustained impact on the payout of dividends, the impact of the business cycle on dividend income is modeled as a polynomial lag of real U.S. GDP. In a polynomial lag estimation, the coefficients on the various lags of GDP are estimated as functions of the length of the lag. As specified in the model shown in Table 4, the coefficient on the *i*th lag of GDP is equal to $-0.131i + 0.18i^2$. Thus, the coefficient on the second lag (*i*=2) of GDP is $0.457 = -0.131 \cdot 2 + 0.18 \cdot 4$.

Dividend income is also thought to be associated with firms' expectations pertaining to their future profitability, which is expected to be tied to the future strength of the economy. Because interest rates incorporate inflation expectations, which in turn incorporate expectations regarding the future strength of the economy, they represent a proxy for the latter. Interest rates are represented by the rate on the 10-year Treasury note.

Historically, State dividend income has ranged from a decline of 6 percent in 1991 to an increase of 22 percent in 1981, proving much more variable than U.S. dividend income, a component of the NIPA definition of U.S. personal income. This may suggest the importance of factors affecting the way taxpayers report their income, rather than changes in the payment of dividends by firms. The most obvious impact of a change in the tax law occurred in 1988, when reported dividend income grew 21.8 percent, followed by a decline of 2.6 percent the following year. A dummy variable is included to control for what is assumed to be the impact of the Tax Reform Act of 1986 on the reporting of taxable dividend income. A dummy variable is also included to capture the extraordinary impact of recessions (1975, 1990, 1991, 1992, 2001, 2002) beyond what is captured by fluctuations in real U.S. GDP.

**TABLE 4
DIVIDEND INCOME**

$$\Delta \ln DIV_t = 0.0367 \Delta TRATE10_t + 0.209 \Delta \ln JS_t + 0.0488 \Delta \ln GDP_{t-1} + 0.457 \Delta \ln GDP_{t-2} \\ (0.00965) \quad (0.0825) \quad (0.249) \quad (0.172) \\ 1.22 \Delta \ln GDP_{t-3} - 0.127 DREC_t + 0.121 D88_{89}_t \\ (0.434) \quad (0.030) \quad (0.0399)$$

*Adjusted R*² = 0.683

DIV	Dividend income
TRATE10	Interest rate on 10-year Treasury notes
JS	Standard and Poor's 500 stock Index
GDP	Real U.S. GDP
DREC	Recession dummy variable
D88_89	Dummy variable, 1 for 1988, -1 for 1989

INTEREST INCOME

For a given amount of assets, an increase in interest rates will increase interest income. DOB's interest income forecasting model is based on this simple concept and accordingly includes the 10-year Treasury rate. In addition, the overall trend in taxable interest income for New York is found to closely track that of U.S. interest income, another component of the NIPA definition of U.S. personal income. However, taxable interest income for New York is much more volatile than the latter measure. For the period from 1976 to 2002, the average growth rate for U.S. interest income was 8.0 percent, with a standard deviation of 8.4 percentage points. In contrast, New York's interest income over the same period averaged 4.8 percent growth, with a standard deviation of over 14.7 percentage points. The additional volatility in the New York series could be related to the behavioral response of State taxpayers to past changes in the tax law, as well as to sampling error. Dummy variables are included to capture extraordinary declines in 1992 and 2002 beyond what would have been expected due to the changes in interest rates. The model specification is shown in Table 5.

**TABLE 5
INTEREST INCOME**

$$\Delta \ln INT_t = -0.0168 + 0.967 \Delta \ln USINT_t + 0.0389 \Delta TRATE10_t - 0.204 D92_t - 0.214 D02_t \\ (0.0209) \quad (0.202) \quad (0.0119) \quad (0.0679) \quad (0.0703)$$

*Adjusted R*² = 0.816

INT	Interest income
USINT	U.S. interest income (NIPA definition)
TRATE10	Interest rate on 10-year Treasury notes
D92	Dummy variable for 1992
D02	Dummy variable for 2002

BUSINESS INCOME

Business income combines income earned and reported as a result of operating a business or practicing a profession as a sole proprietor, or from operating a farm. Such income is expected to vary with the overall strength of the State and national economies. The inclusion in the model of State proprietors' income, a component of the NIPA definition of New York personal income, which is forecast within DOB/N.Y., insures consistency between DOB's New York forecast and the forecast of this component of NYSAGI. Real U.S. GDP, forecast under DOB/U.S., captures the impact of the national business cycle, which might not be captured by the NIPA definition of State proprietors' income. In addition, a dummy variable is included to capture the downward shift in reported business

NYS ADJUSTED GROSS INCOME

income growth for the period from 1989 onward, perhaps due to new firms registering as S corporations rather than sole proprietorships, in order to take advantage of more favorable laws pertaining to liability. The equation specification is shown in Table 6.

TABLE 6 BUSINESS INCOME	
$\Delta \ln BUS_t = 0.0873 - 0.349 \Delta \ln BUS_{t-1} + 0.297 \Delta \ln YENTNY_t + 1.68 \Delta \ln GDP_t - 0.102 D89_t$ <p style="text-align: center;"> <small>(0.0249) (0.146) (0.207) (0.600) (0.215)</small> </p>	
<p><i>Adjusted R</i>² = 0.647</p>	
BUS	Sole proprietor and farm income
YENTNY	State proprietor income (NIPA definition)
GDP	Real U.S. GDP
D89	Dummy variable for 1989 onward

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 growth in the New York State population and 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 are tied to the future strength of the economy. As indicated above, interest rates represent a proxy for the latter. Pension income has grown steadily over the years with a growing New York State population, although the growth rate has declined considerably over time. While the average annual growth rate between 1978 and 1989 was 13.4 percent, it fell to 7.6 percent between 1990 and 2002. This coincides with a decline in the 10-year Treasury rate from 10.3 percent in the earlier years to 6.3 percent in the later years. The equation specification is shown in Table 7.

TABLE 7 PENSION INCOME	
$\Delta \ln PEN_t = -4.45 \Delta \ln NRY_t + 0.0129 \Delta TRATE10_{t-1} - 0.660 AR1 - 0.0866 D89_t + 0.152 D94_t$ <p style="text-align: center;"> <small>(1.53) (0.00712) (0.181) (0.0299) (0.0309)</small> </p>	
<p><i>Adjusted R</i>² = 0.684</p>	
NRY	New York State population
PEN	Pension income
TRATE10	Interest rate on 10-year Treasury notes
AR1	First order autoregressive term
D89	Dummy variable for 1989
D94	Dummy variable for 1994

RISK ASSESSMENT AND FAN CHARTS

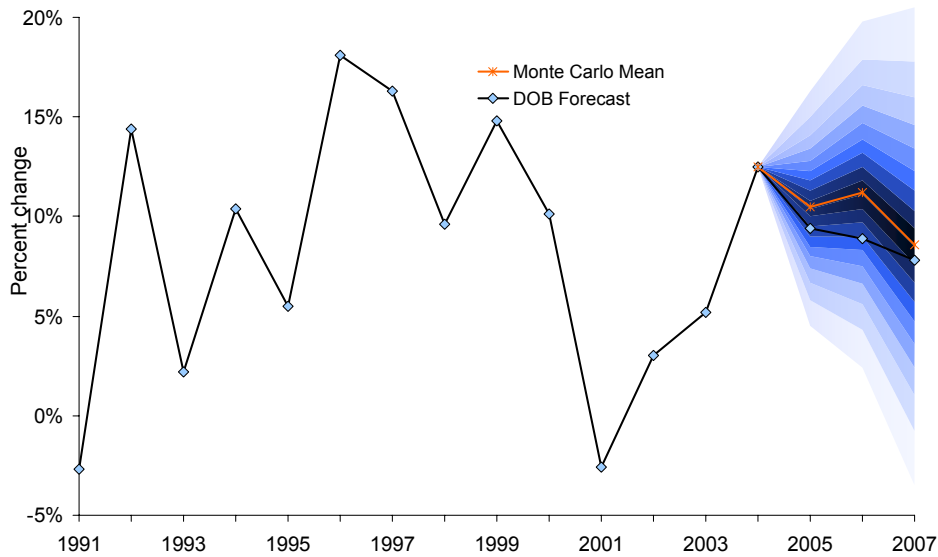
Introduction

The Division of the Budget uses forecasting models to project future values for the components of New York State adjusted gross income (NYSAGI). By and large, these models presume that the historical relationships between the components of income and a number of key economic indicators are useful for projecting their future behavior, and that these relationships are stable and can be estimated using standard statistical methods. Since all statistical models are simplifications of complex relationships, they are subject to model misspecification error. In addition, there are risks associated with the forecasts for the exogenous economic indicators. Even if a model is well specified and the future values of the exogenous inputs can be predicted with certainty, a statistical forecast remains subject to

error. There is always a component that cannot be captured by the model, which is simply ascribed to random variation. And the estimated parameters of the model are themselves random variables and, as such, subject to estimation error.

The tool used by the Division of the Budget for presenting the risk to the forecast is the fan chart. Fan charts display prediction intervals as shown in the sample chart below (see Figure 1). It is estimated that with 90 percent probability, future values will fall into the shaded area of the fan. Each band within the shaded area reflects five percent probability regions. The chart "fans out" over time to reflect the increasing uncertainty and growing risk as the forecast departs further from the base year. Not only does the fan chart graphically depict the risks associated with a point forecast as time progresses, but it also highlights how realizations that are quite far from the point estimate can have a reasonably high likelihood of occurring. Fan charts can exhibit skewness that reflects more downside or upside risk to the forecast, and the costs associated with erring on either side.

Figure 1
Fan Chart for Partnership/S Corporation Income Growth
 90 percent prediction intervals



Note: With 90 percent probability, actual growth will fall into the shaded region. Bands represent 5 percent probability regions.
 Source: NYS Department of Taxation and Finance; DOB staff estimates.

Monte Carlo Simulation Study

The fan charts used by DOB are based on means and standard deviations derived from another tool, the Monte Carlo simulation study. For a given model specification and a given set of exogenous inputs, Monte Carlo simulation studies evaluate the risk to the forecast due to variation in the dependent variable that cannot be explained by the model, as well as the random variation in the model parameters. By assumption, the model errors are considered to be draws from a normally distributed random variable with mean zero. For purposes of the simulation, the model parameters are also considered to be random variables that are distributed as multivariate normal. The standard deviation of the regression errors, and the means and standard deviations of the parameter distribution are derived from the regression analysis.

In order to simulate values for the dependent variable, a random number generator is used to generate a value for the model error and values for the parameters from each of the above probability distributions. Based on these draws and values from the input data set,

NYS ADJUSTED GROSS INCOME

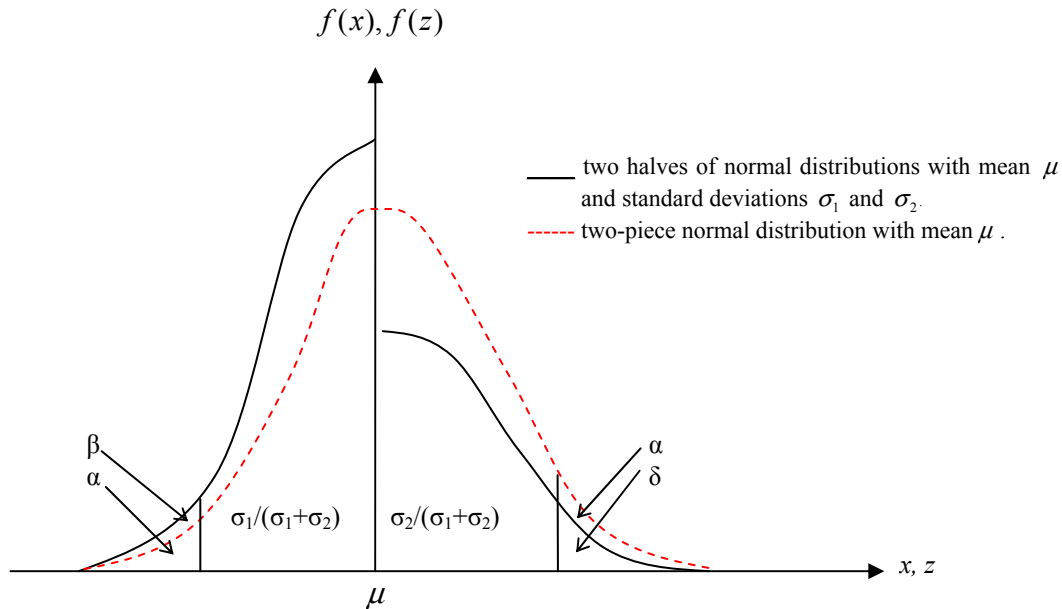
which for purposes of the simulation is assumed to be fixed, the model is solved for the dependent variable. This "experiment" is typically repeated thousands of times, yielding thousands of simulated values for each observation of the dependent variable. The means and standard deviations of these simulated values provide the starting point for the fan chart.

The Fan Chart: Theoretical Underpinnings

To capture the notion of asymmetric risk, the fan chart used by DOB is based on a two-piece normal distribution for each of the forecast years following an approach due to Wallis (1999). A two-piece normal distribution of the form

$$f(x) = \begin{cases} A \exp[-(x - \mu)^2 / 2\sigma_1^2] & x \leq \mu \\ A \exp[-(x - \mu)^2 / 2\sigma_2^2] & x \geq \mu \end{cases} \quad (1)$$

with $A = (\sqrt{2\pi}(\sigma_1 + \sigma_2)/2)^{-1}$, is formed by combining halves of two normal distributions having the same mean but different standard deviations, with parameters (μ, σ_1) and (μ, σ_2) , and scaling them to give the common value $f(\mu)$. If $\sigma_1 < \sigma_2$, the two-piece normal has positive skewness with the mean and median exceeding the mode. A smooth distribution $f(x)$ arises from scaling the discontinuous distribution $f(z)$ to the left of μ using $2\sigma_1/(\sigma_1 + \sigma_2)$ and the original distribution $f(z)$ to the right of μ using $2\sigma_2/(\sigma_1 + \sigma_2)$.



One can determine the cutoff values for the smooth probability density function $f(x)$ from the underlying standard normal cumulative distribution functions by recalling the scaling factors. For $\alpha < \sigma_1/(\sigma_1 + \sigma_2)$, i.e. to the left of μ , the point of the two-piece normal distribution defined by $\text{Prob}(X \leq x_\alpha) = \alpha$ is the same as the point that is defined by $\text{Prob}(Z \leq z_\beta) = \beta$, with

$$\beta = \frac{\alpha(\sigma_1 + \sigma_2)}{2\sigma_1} \quad \text{and} \quad x_\alpha = \sigma_1 z_\beta + \mu$$

Likewise, for $(1-\alpha) < \sigma_2/(\sigma_1 + \sigma_2)$, i.e. to the right of μ , the point of the two-piece normal distribution that is defined by $\text{Prob}(X \leq x_\alpha) = \alpha$ is the same as the point that is defined by $\text{Prob}(Z \leq z_\delta) = \delta$, with

$$\delta = \frac{\alpha(\sigma_1 + \sigma_2)}{2\sigma_2} \quad \text{and} \quad x_{1-\alpha} = \sigma_1 z_{1-\delta} + \mu$$

For the two-piece normal distribution, the mode remains at μ . The median of the distribution can be determined as the value defined by $\text{Prob}(X < x_\alpha) = 0.5$. The mean of the two-piece normal distribution depends on the skewness of the distribution and can be calculated as:

$$E(X) = \mu + \sqrt{\frac{2}{\pi}}(\sigma_2 - \sigma_1)$$

The Fan Chart: Choice of Parameters

In constructing its fan charts, DOB uses means from the Monte Carlo simulation study as the mean, μ , of the two underlying normal distributions. As mentioned above, if the two-piece normal distribution is skewed, the Monte Carlo mean becomes the mode or most likely outcome of the distribution and will differ from the median and the mean. In the sample fan chart above, the mode is displayed as the crossed line. Except for in extremely skewed cases the mode tends to fall close to the middle of the central 10 percent prediction interval. As Britton et al. (1998) point out in their discussion of the inflation fan chart by the Bank of England, the difference between the mean and the mode provides a measure of the skewness of the distribution. Given the skewness parameter, γ , DOB determines the two standard deviations, σ_1 and σ_2 , as $\sigma_1 = (1+\gamma)\sigma$ and $\sigma_2 = (1-\gamma)\sigma$, where σ is the standard deviation from the Monte Carlo simulation study.

By definition, the mean of the distribution is the weighted average of the realizations of the variable under all possible scenarios, with the weights corresponding to the probability or likelihood of each scenario. In its forecasts, DOB aims to assess and incorporate the likely risks. Though no attempt is made to strictly calculate the probability weighted average, the forecast will be considered a close approximation of the mean. Thus the skewness parameter, γ , is determined as the difference between DOB's forecast and the Monte Carlo mean. DOB's fan chart shows central prediction intervals with equal tail probabilities. For example, the region in the darkest two slivers represents the ten percent region in the center of the distribution. DOB adds regions with 5 percent probability on either side of the central interval to obtain the next prediction interval. If the distribution is skewed, the corresponding 5 percent prediction intervals will include different ranges of growth rates at the top and the bottom, thus leading to an asymmetric fan chart.

The 5 percent prediction regions encompass increasingly wider ranges of growth rates as one moves away from the center because the probability density of the two-piece normal distribution decreases as one moves further the tails. Thus the limiting probability for any single outcome to occur is higher for the central prediction regions than for intervals further out because a smaller range of outcomes shares the same cumulative probability. Over time, risks become cumulative and uncertainties grow. DOB uses its own forecast history to determine the degree to which σ_1 and σ_2 need to be adjusted upward to maintain the appropriate probability regions.

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ASSESSMENT OF FORECAST PERFORMANCE

SUMMARY

The forecast of tax receipts is a critical part of preparing the Financial Plan. The availability of receipts sets an important constraint on the ability of the State to finance spending priorities. However, all forecasts are subject to error. In an area as complex as receipt forecasting this error can be substantial. The size of the forecast errors can be mitigated by the proper application of forecast tools, but it cannot be eliminated.

The tax forecast over the past ten years (SFY 1995-96 to 2004-05) has ranged from quite accurate (less than 2 percent error) to considerably less precise (more than 6 percent error). The average absolute error over the period is 3.5 percent. Given the extreme volatility in receipts growth over this period, errors of this magnitude do not appear overly large. During economic expansions the tax receipt estimates understated actual results. However, receipts were significantly overestimated during the 2001-02 economic contraction.

There are numerous factors that will affect a receipt forecast. Many of them are interrelated and in some cases opposing trends impact the growth path of various taxes simultaneously. This chapter does not attempt to precisely measure the impact of one factor or another on a particular tax or in a particular year but to provide an overview of the major reasons for forecast failure. Further, this section will not repeat the description of the tax estimating methodologies and forecast explanations that are described in greater detail in the various chapters of this volume. Estimation errors in general can derive from many sources including:

- Data limitations;
- Model inadequacy;
- Economic forecast error (national, regional, state);
- Timing issues (including return filing schedules and tax credit carryovers);
- International political events or natural disasters; and
- Changes in the policy environment.

While this assessment will try to describe some of the reasons that the actual revenue total diverged from the Enacted Budget, it does not attempt to explain variations in other non-tax elements of the Budget such as:

- Miscellaneous receipts (including fees);
- Federal aid; and
- Tuition, patient income and other agency revenues.

SOURCES OF ERROR IN ESTIMATES

Each year as part of the Executive Budget, the Division publishes a national and State economic forecast. This forecast is the foundation for most of the tax estimates. The economic forecast becomes an input to tax receipt models that are used to link economic change to changes in the tax receipt base. Models are simplified versions of reality and as such are subject to error. An error in the forecast model for the economy can lead to an error in projecting tax receipts. Errors in the tax receipt models, independent of the economy, can often amplify the errors in predicting receipts.

Tax collections in New York are dependent on a host of specific factors that are difficult to accurately predict, including national and State economic conditions. Among the more specific factors that can impact New York receipt estimates are:

ASSESSMENT OF FORECAST

ALL TAXES

- National economic activity, especially employment and personal income growth;
- State economic activity, especially employment and income growth;
- Interest rates and inflation;
- One-time actions (that either spin up or delay collections and impact cash flow);
- Court decisions concerning the proper applicability of tax;
- Unanticipated shocks to the economy or tax structure (such as those associated with 9/11);
- State or Federal tax policy actions;
- Tax structures including tax rates and base subject to tax;
- Efficiency of tax collection systems;
- Enforcement efforts, audit activities and voluntary compliance;
- Errors in the estimation of significant tax policy actions;
- Timing of payments (shifting collections from one fiscal year to another);
- Tax Amnesty programs (1994, 1996 and 2003 covering personal income tax, corporate franchise tax, sales tax, estate and gift tax and other minor taxes);
- Timing of Budget enactment; and
- Statutorily mandated accounting changes.

INCOME TAX

- Large year to year variations in income of wealthy taxpayers, especially the non-wage components of income;
- Financial market activities including equity price changes and bonus payments; and
- Housing activity and prices.

SALES AND USER TAXES

- Consumption of taxable goods and services;
- Energy prices and production.

BUSINESS TAXES

- Corporate Profits of firms with a significant New York presence.

EVALUATION OF RISK

A critical factor in budget presentation is identifying risks to the Financial Plan. Knowledge about the current tax trends as well as the factors (economic, legal, regional) that can alter receipts is vital to decision makers. The most important risks are noted both in the DOB economic forecast and in the individual tax stories. All forecast errors impose costs policy makers seek to control in managing the Budget. However, it is not necessarily true that the cost of all forecast errors is the same. It may be that decision makers would prefer an underestimate to an overestimate of tax receipts. From the perspective of the Division, the harm to the State of underestimating tax receipts is relatively mild compared to the damage caused by significantly overestimating results. An unanticipated shortfall in tax receipts could result in mid-year spending cuts or the need to issue deficit financing notes leading to disruptions in government services provided by the State and its localities. The conservative evaluation of forecast error is the approach followed by most revenue forecasters at all levels of government and is recommended by outside monitors such as the credit rating agencies and the Citizens Budget Commission.

Over the course of the fiscal year when new information reveals errors in the budget forecast, receipts estimates are revised. However, the Budget Division follows a cautious path in revising forecasts because within year variations in tax collection results can be large and it is often prudent to take a relatively cautious approach to revisions within a fiscal year. Of course, a substantial shortfall in expected receipts requires actions to control expenditures thereby, requiring prompt re-estimates.

REVIEW OF THE ECONOMIC FORECAST

The ability to accurately forecast tax receipts is closely related to the level of volatility in the economy. The review of the State's economic activity is presented in the Economic Overview section of this volume. Generally, economic forecast errors are positively related to tax receipts forecast errors but the tax estimating errors can be more pronounced when multiple factors impact the estimate. The forecast errors tend to follow the State's business cycle with underestimates occurring during growth periods and overestimates at the beginning of downturns. A review of the DOB economic forecast accuracy is found earlier in this chapter.

CONSENSUS ECONOMIC FORECASTING

In an attempt to overcome late budgets, a statutory consensus economic and revenue forecasting process was created in 1996. While the discussions are valuable, they are neither joint forecasts nor a formal adoption of the State economic forecast.

The consensus forecast is used as a basis for setting a target for receipts on which the Legislative and Executive branches can agree. Reaching the revenue target facilitates the setting of budget priorities based upon a common assessment of available revenues.

A major factor in the accuracy of tax receipts estimates can be the timeframe in which the budget is adopted. Over the last ten years, State budgets have been passed as early as the beginning of the fiscal year and as late as August. Uncertainties concerning projected receipts can be a factor which impacts the timing of the adopted budget.

This assessment of forecast performance used in this chapter is based on the DOB's Enacted Budget Report in order to eliminate differences caused by either the rejection of Executive proposals or legislative action which was not anticipated. It also reflects, for the most part, an agreed to consensus with the Legislature on available resources. The tax forecasts are updated with the economic outlook at the time the Budget passed and reflect legislation and economic assumptions at the time of enactment.

TAX SOURCE REVIEW

While every effort is made to accurately estimate each State tax source, forecast errors in the largest tax sources have the greatest impact on budgetmaking. Even relatively small percentage differences in the personal income tax estimates in the Enacted Budget to actual collections can account for hundreds of millions of dollars, while relatively large percentage errors in smaller taxes will not sway the State's overall fiscal outlook.

Taxpayer behavior and general economic trends can move in opposite directions, especially in the short run. Unpredictable situations, such as the September 11th attack or some other disruption where the outlook for a large sector of the economy and taxpayer behavior quickly changes direction, pose major risks. Another critical factor in forecasting receipts is accounting for the impact of Federal and State tax policy actions on New York receipts. Since Federal budget actions are typically concluded in the fall (well after State budget enactment), unanticipated changes can alter previously made State forecasts.

ASSESSMENT OF FORECAST

PERSONAL INCOME TAX

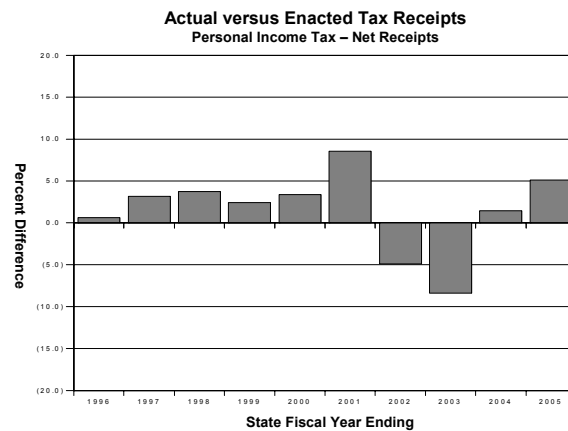
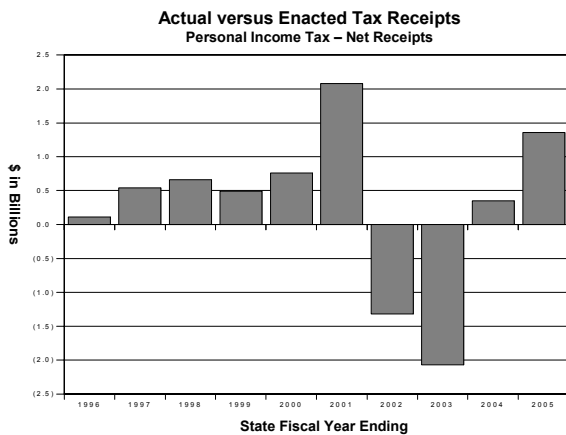
The primary difficulty in forecasting the personal income tax is predicting bonus payments and non-wage income components such as capital gains. This income is concentrated among the wealthiest taxpayers and is extremely volatile. (See Economic Overview section in this volume.)

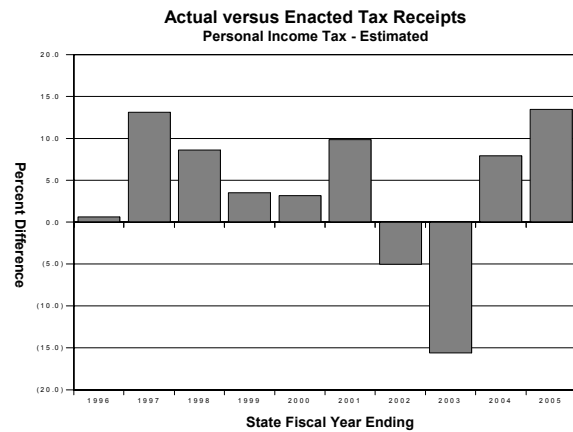
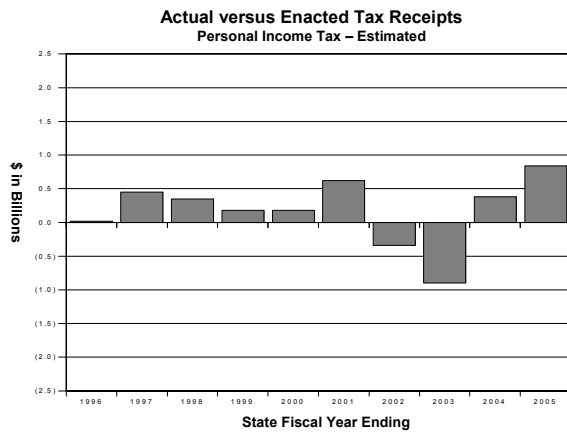
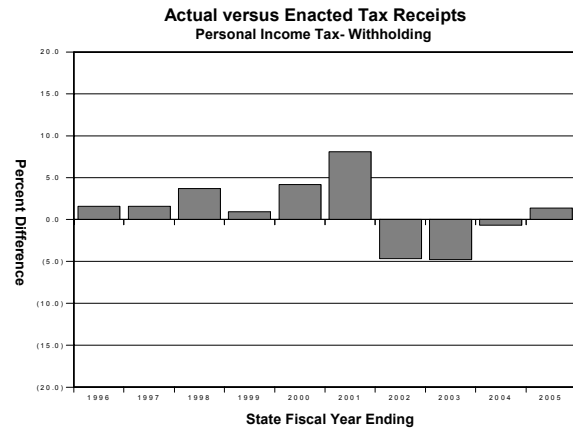
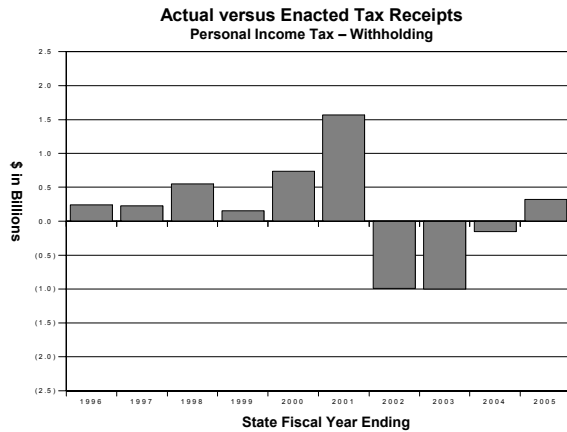
The charts show the forecast accuracy of both the relatively stable withholding component of the income tax and volatile estimated tax payments. Growth in withholding is generally consistent with wages. The range of variation for withholding estimates was an 8.1 percent underestimate in 2000-01 to a 4.8 percent overestimate in 2002-03. The average absolute error over the ten-year period is 3.2 percent.

Conversely, the range of forecasting variation for the estimated tax payments was a 13.5 percent underestimate in 2004-05 (also 13.1 percent under in 1996-97) and a 15.6 percent overestimate in 2002-03. The average absolute error during the period was 8.1 percent.

Due to the size of these two components, even small percentage errors in forecasting them can have a significant impact on the Financial Plan. Withholding taxes accounted for more than \$23 billion (about 70 percent of the gross personal income tax total) in 2004-05 and estimated taxes accounted for more than \$7 billion (about 22 percent of the gross total). Further, the estimated tax is also a growing share of overall income taxes. In 2004-05, it provided 22 percent of the total (gross collections minus refunds) compared to 16 percent in 1995-96.

The forecasting error rate for net personal income tax collections as measured in one fiscal year can be influenced by taxpayer behavior. The early or late filing of returns can be seen in terms of the amount of refunds paid or final payments collected. Unusual audit activities (including amnesty programs) which result in assessments can also alter the collection pattern. However, the size of the withholding and estimated tax collections error rates dominates this category. The overall net personal income tax forecasting error rate over the period is 4.2 percent. The historical income tax forecasts tend to underestimate receipts except during the downturn associated with economic recession and the events of September 11th. This is a pattern typical in the arena of economic and receipt forecasting of underestimating conditions during an expansion and over-forecasting results during a recession.





CONSUMPTION AND USER TAXES

Some of the factors which affect the sales tax forecast are growth in: employment, disposable income, consumption of durable and non-durable goods, consumption of services (taxable), trade employment, business purchases, housing sales, auto sales and consumer confidence. This tax source is fairly stable.

This category of taxes also covers motor fuel taxes, alcoholic beverage taxes and fees as well as cigarette and tobacco taxes. Among the main determinants of tax growth are demand for the product (gallons, liters, packs), price (relative to competitors), consumption patterns and overall economic activity. This group of taxes also has major enforcement issues which must be considered.

These sales and consumption taxes are broad based but forecasting can be complicated by new permanent exemptions, occasional temporary exemptions or rate changes. The forecast error of the consumption taxes ranged from overestimates of less than 1 percent in SFY 1995-96 to an underestimate of 4.8 percent in 2000-01. Typically, the errors have been under 2 percent.

BUSINESS TAXES

The major forecasting problem facing an analyst projecting the collection of business taxes is that many factors are industry specific. Tax collections can be affected by issues which do not necessarily follow broad economic trends (such as insurance underwriting profits, bank mergers, or utility industry restructuring). The various tax forecasts are further complicated by alternative methods of calculating tax liability, use of special deductions,

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various (and changing) allocation formulas, special tax rates, phase-in schedules for law changes and numerous tax credits (including carry-forward credits). The State's corporate tax bases can also be affected by changes in Federal law, the starting point for calculating New York tax liability.

Further, there can be a significant time lag between economic activity and tax collections. Payments can be irregular and can be significantly impacted by large tax settlements, refunds or audit collections. Collections in one year are the sum of adjustments from a number of previous years as well as from the current tax year activity.

In examining the overall error for business taxes, it should be noted that there are offsetting errors in many years. This effect is more prevalent in this category than in any other. As a result, the business tax dollar error and percent error charts show less overall error than the individual components would otherwise suggest.

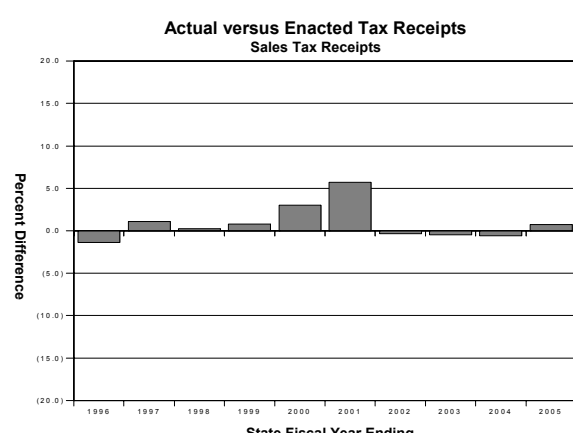
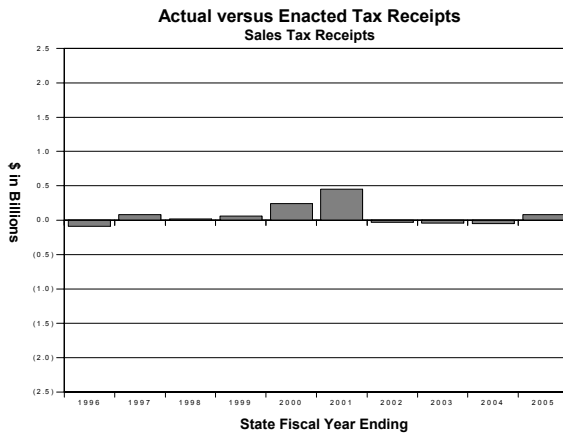
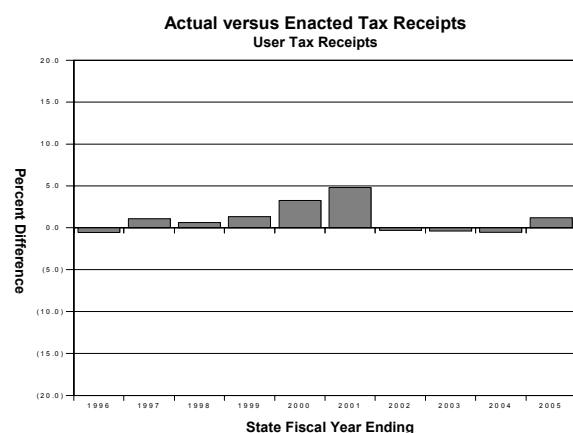
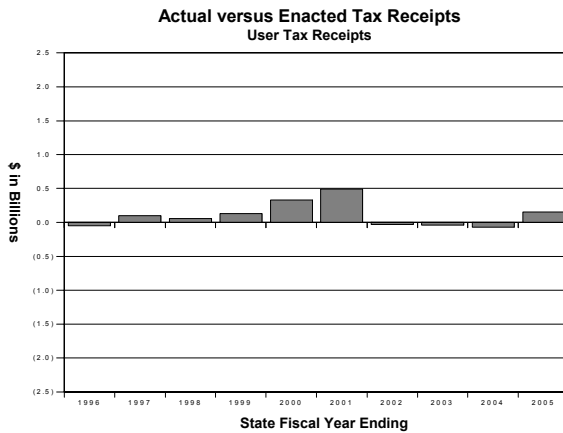
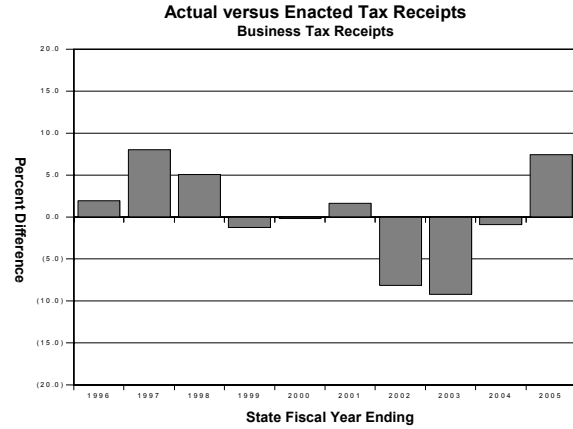
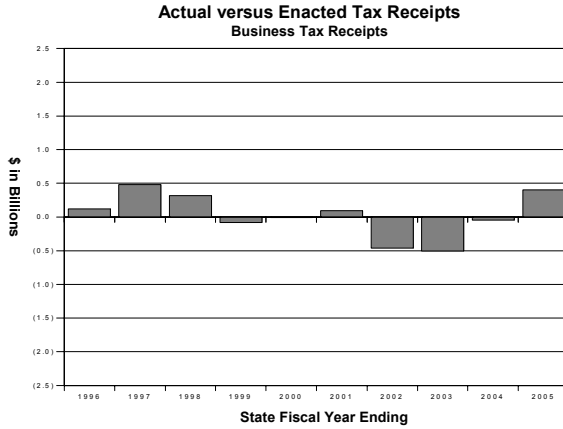
The main economic determinant used in estimating the corporate franchise tax is corporate profits based upon the definition used by the U.S. Bureau of Economic Analysis. It is difficult to match this concept of profits to taxable income since the two differ significantly and the profit reflects a mix of industries. In addition to the risk of inaccurate forecasts of corporate profits, the tax forecast is complicated by numerous out-of-model adjustments for law changes and trends in receipts not adequately captured in the econometric specifications. Further, the ability of corporations to time tax payments for either their own financial reporting or other business purposes or to maximize Federal tax benefits can impact State payments. The forecast error in this area ranged from a 10 percent underestimate in 1996-97 to a 24 percent overestimation in 2001-02, followed by an 18.6 percent overestimate in 2002-03.

Utility taxes are imposed on telecommunications, transportation and the energy sectors. Major changes in the Tax Law (2000) have shifted much of the receipts to the corporate franchise tax discussed above. In addition, utility tax rates were significantly reduced over a number of years. Forecasts of telecommunications sales as well as the demand (including prices) for electricity and natural gas drive the collections estimate. The forecast for this tax has ranged from a 13 percent underestimate in 2001-02 to a 16 percent overestimate the following year.

The insurance tax, which covers the life, health and property lines, considers trends in the underwriting markets as well as long term interest rates. Estimates for this tax range from a 28 percent underestimate in 1995-96 to a 10 percent overestimate in 1999-2000. This tax source has been underestimated by 9 to 18 percent in recent years.

Bank tax receipts, while erratic, are related to changes in net interest rate margins. The spread between the ten-year Treasury rate and the effective Federal Funds rate is used as a proxy for profits. Consolidations in the banking industry complicate forecasting. The bank tax has a wide range of forecast error, from 33 percent overestimation in 2003-04 to an underestimate of 49 percent in 2004-05.

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OTHER TAXES

The major taxes in this category are the estate and gift tax and the real estate transfer tax. These taxes can be highly variable and can be influenced by relatively few large taxpayers or economic activity in certain regions.

The estate and gift tax forecasting variations can be almost completely explained by changes in the relatively small number of extremely high-valued estates. This relationship has been much more pronounced recently as many small estates have been eliminated due to an increase in the unified credit. Federal tax law and State law changes can affect the timing of payments. Estate planning techniques can also impact collections.

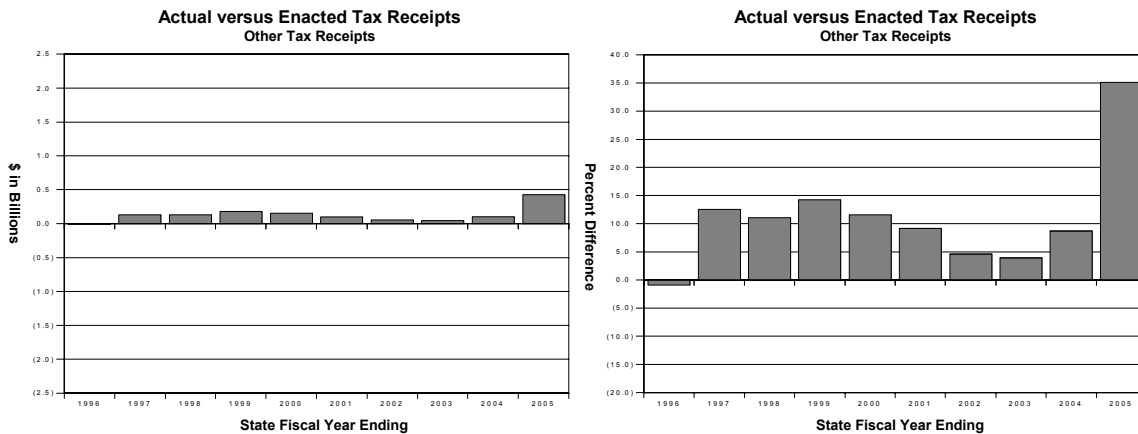
ASSESSMENT OF FORECAST

The variation in the estate and gift tax estimates from the Enacted Budget to the actual amount ranged from a 29 percent underestimate in 1996-97 to a 6 percent overestimate in 2002-03. The underestimates, especially between 1996-97 and 1999-2000 appear to relate to the number and size of very-large estates (tax payments of \$25 million or more) and extra-large estates (tax payments of \$4 million to \$25 million). The growth in the equities market during this period fueled much of the growth in these estates but it is only loosely correlated with tax liability.

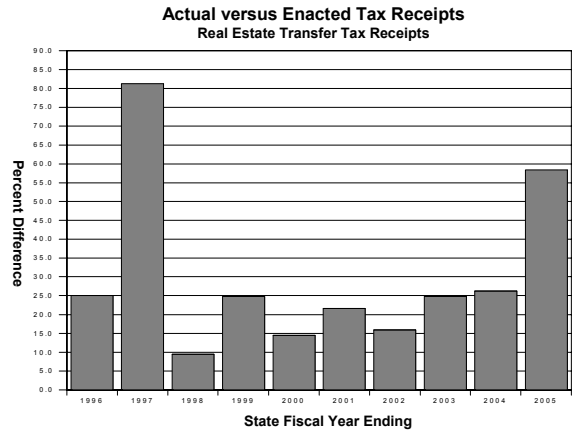
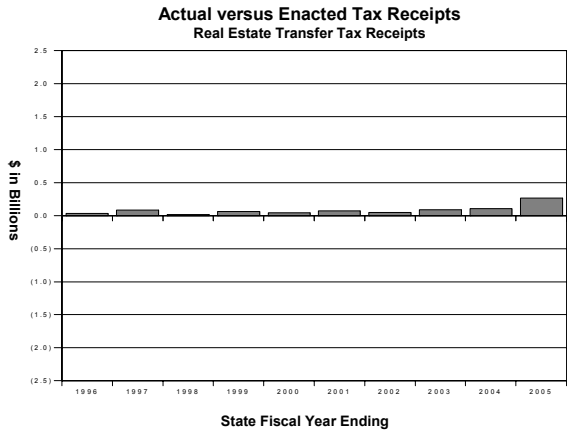
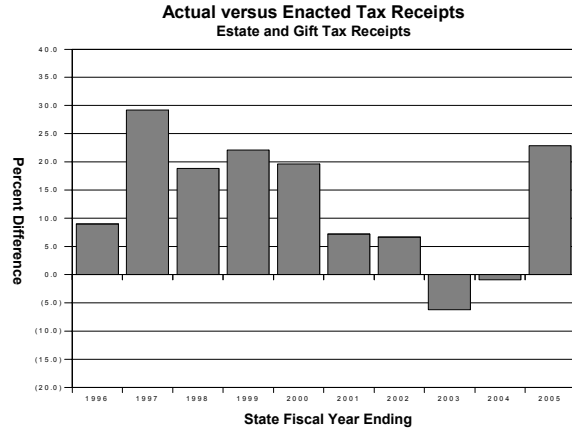
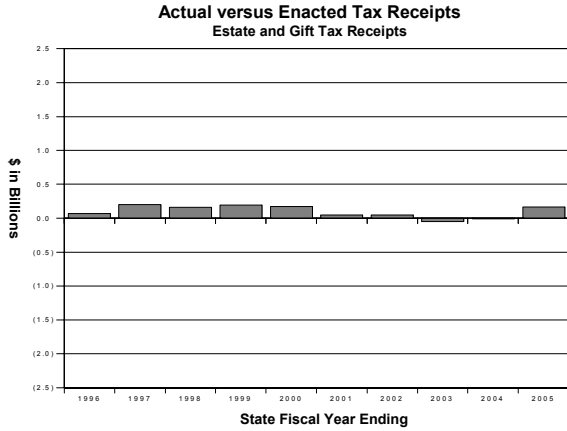
The high degree of risk associated with this tax is clearly seen in the final collection total for 2004-05. Extraordinarily high collections received in January and February 2005 turned a predicted 12 percent year-over-year decline in receipts into a 23 percent increase. While death and taxes may be inevitable, the timing can be unpredictable.

The real estate transfer tax is another highly variable source. Collections are closely related to mortgage rate changes, housing starts, average housing prices (especially downstate), Manhattan vacancy rates and nonresidential construction. This tax includes a special rate for high-value residential property, with the share of total collections from this segment growing at a rapid rate in recent years. The size of this tax source has increased from less than \$200 million in 1995-96 to more than \$700 million in 2004-05.

While the variation between the Enacted Budget forecast and actual transfer tax collections has had a wide range over the years, the dollar amounts have been between \$20 million and \$106 million through 2003-04. The 2004-05 experience of even more extraordinary growth tracks the increase in housing prices, especially in the downstate area. The sales of extremely large parcels and unlikelihood that current market strength is sustainable make this source more vulnerable to miscalculation than most taxes. Given the volatility in this area, extreme caution is prudent in high risk situations and this tends to lead to a more conservative forecasting approach for these taxes.



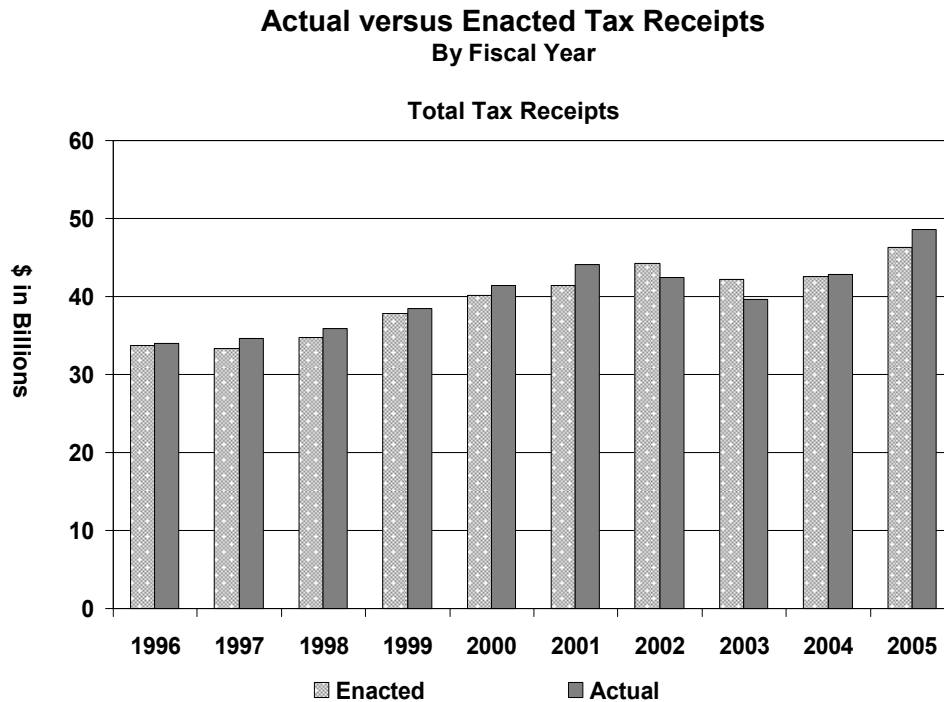
ASSESSMENT OF FORECAST



While lottery proceeds are not considered a tax source, it is forecast for budget purposes. The main factors affecting lottery receipts are game promotion, prize payouts and gaming opportunities (number of terminals, drawings, VLT venues). Economic conditions seem to have little explanatory powers in predicting lottery receipts. The variation in lottery receipts forecasts is modest over the ten year period with five overestimates of ranging from 1 percent to 5.7 percent and five underestimates of 3.1 percent or less five times.

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REVIEW OF FORECAST RESULTS



There is no generally accepted standard for judging receipt forecasts. Clearly, smaller errors are preferred to large misses. However, consistent with standards used by outside fiscal monitors, it is preferable to underestimate receipts as this provides a cushion against unplanned events.

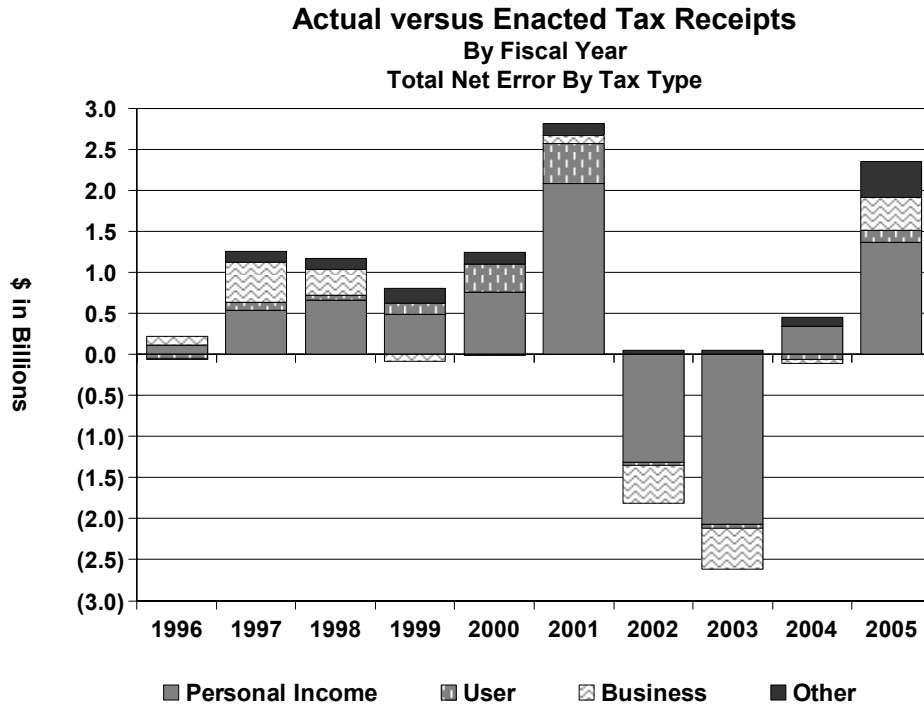
Using this standard, the Enacted Budget tax forecasts can generally be described as:

1. Good for personal income tax, with an error range of an 8.4 percent overestimate in 2002-03 to an 8.5 percent underestimate in 2000-01. Results are generally in the range of a 3-5 percent, absent extraordinary circumstances (such as September 11th). The average absolute error over the ten-year period was 4.2 percent.
2. Consistently good on sales and excise type taxes with a variation range of 0.6 percent overestimate in 1995-96 to 4.8 percent underestimate in 2000-01. The average absolute error over the ten-year period was an underestimate of 1.4 percent.
3. Good on business taxes overall, with a range from a 9.2 percent overestimate in 2002-03 to an 8 percent underestimate in 1996-97 but with wider variation in the forecast accuracy of the individual taxes. The overall average absolute error rate was 4.4 percent.
4. Generally large variation for the major "other taxes" (real estate transfer, estate taxes), with a range from 0.9 percent overestimate to a 35 percent underestimate (errors were more than 5 percent in seven of ten years and more than 10 percent in five of ten years). The average error over the period was 11.2 percent. These taxes regularly represent a small but very uncertain component in the State's Financial Plan and are consistently estimated in a conservative fashion.

One way of evaluating overall forecast error is in terms of how each tax source contributes to overall net error. The following chart shows the share of net total error by year over the ten-year period. As expected, errors in the personal income tax, the largest source, contribute the greatest share to the total error. The personal income tax share of the overall error is generally in the range of 60 to 80 percent.

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Corporate tax errors contribute the next largest share of the total variance. User taxes occasionally accounted for a significant share but only in years when the total net error was small (1995-96, 1998-99 and 2003-04). Other taxes, due to their relatively small size, contributed significantly to the total error only twice (1998-99 and 2003-04).



CONCLUSION

Overall, the tax forecasts have been both reasonable and consistent with errors made by economists and other fiscal forecasters. The average absolute error is about 3.5 percent. The error rate excluding the 2001-02 year was 3.2 percent. Forecasts have been cautious especially when the State economy moved from weakness to strength and during economic expansions resulting in under estimates in most years.

Due to its size and importance to the Financial Plan, personal income tax forecast errors are the most significant. Forecast errors have most often occurred in tax sources which can vary widely. Extra caution is required to avoid overestimation of these taxes. However, even large percent errors in "minor" tax sources are not as critical as small errors in the major sources.

The impact of September 11th on the State's tax receipts was unpredicted and unpredictable. The forecast in 2002-03 overestimated major tax sources. An expected quick recovery did not occur and instead the State remained in recession.

PERSONAL INCOME TAX

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Historical

The New York State (NYS) personal income tax was originally enacted in 1919, six years after the ratification of the 16th Amendment to the U.S. Constitution allowed the Federal government to levy a personal income tax. A top rate of three percent was imposed on taxable income over \$50,000, and remained in force until 1930. The present system of conformity to the Federal definition of adjusted gross income and of itemized deductions, however, did not begin until 1960. At one point during the 1970s the top rate reached 15.375 percent on taxable incomes over \$25,000. Over the years, the State has undergone several major tax law reforms and reductions, resulting in a top tax rate of 6.85 percent and numerous deductions and credits which benefit low-income persons, the elderly, businesses, and others. In May 2003, however, two new temporary top brackets were created, resulting in a maximum rate of 7.7 percent being in effect for the 2003-2005 tax years.

The Nature of the Forecasting Problem

Forecasting personal income tax (PIT) receipts presents unique challenges. One key factor is the complicated linkage between economic activity and PIT revenue. Individual taxpayer activities generate the various components of taxable income, such as wages and salaries, dividends, interest income, that through the operation of the tax code, give rise to tax liability and, in turn, generate tax payments (“cash”) to the State.

Another challenge arises from the timing of available data. The Department of Taxation and Finance provides current information on the flow of PIT receipts throughout the tax year, but it does not have current information on the income components that generate PIT liability. Setting aside the fact that taxpayers can request extensions on filing their returns, taxpayers generally must settle tax due at the time their returns are filed (minus any prepayments such as withholding or estimated tax), but it takes time to process the data and determine income components and liability. For example, quarterly cash information on withholding, which tracks the income component “wages and salaries” closely, and quarterly data on estimated payments for the 2005 tax year are compiled throughout 2005. In 2006, as taxpayers file their taxes, cash collections are completed and by December of 2006 a good estimate of 2005 liability is available. However, analysts do not have current information on income tax components that generated 2005 liability, because this information will not be available until the fall of 2007 when the income tax study file is completed. Because of the progressive nature of the State’s tax system, detailed knowledge of these income components is needed to accurately forecast future tax liability.

Detailed information on liability components such as wages and salaries, capital gains, dividends and interest earned is also necessary for analyzing the impact of possible policy changes on PIT liability. Tax changes that affect certain income components may have variable effects on taxpayers in different income groups. For example, a change in the tax treatment of capital gains would tend to affect higher-income taxpayers more than lower-income taxpayers, all things being equal. Therefore, we need to be able to project the income components across the income distribution of State taxpayers before we can forecast liability.

PERSONAL INCOME TAX

Computing the Personal Income Tax

The computation of the personal income tax starts with the addition of income components to arrive at Federal gross income¹. The Internal Revenue Code permits certain exclusions and adjustments in arriving at Federal adjusted gross income (FEDAGI). In addition, the State requires certain modifications to FEDAGI in order to calculate NYS adjusted gross income (NYSAGI). NYSAGI is reduced by the larger of the NYS standard deduction or itemized deductions. NYS itemized deductions generally conform to Federal itemized deductions, with certain modifications, such as the add-back of State and local income taxes. NYS conforms to Federal law by limiting itemized deductions for taxpayers with FEDAGI above a certain amount. Upper-income taxpayers are subject to a further deduction limitation under State law. NYS taxpayers may also subtract from NYSAGI a \$1,000 exemption for each dependent, not including the taxpayer and spouse, in determining taxable income.

A graduated tax rate schedule is applied to taxable income to compute the tax owed. Those with NYSAGI above \$100,000 must calculate a supplemental tax to recapture the benefit of the lower brackets. Finally, qualified taxpayers arrive at their final tax liability after subtracting certain credits.²

DATA SOURCES

Data on the personal income tax (PIT) come from two main sources: the NYS Department of Taxation and Finance and the Internal Revenue Service (IRS). The information is provided in the form of data files and various reports, detailed below.

PIT Study Files

PIT study files are created every year by the NYS Department of Taxation and Finance. The study file is a stratified statistical sample of about 247,000 income tax returns with detailed information, including: marital and resident status, components of income, Federal and NYS adjusted gross incomes, either the standard deduction or the components of itemized deductions, the number and amount of exemptions, tax liability and credits. Since the study files contain only a sample of the taxpayer universe, each record has a weight assigned to it so that, when file components are multiplied by the weights, the file reflects the approximately nine million PIT returns in New York State.

Cash Collection and Processing Reports

Daily, weekly, and monthly collection reports of withholding, estimated payments, and other components of collections are used extensively to keep track of PIT receipts on both a calendar and a fiscal year basis. These reports are generated by the Department of Taxation and Finance.

¹ The income components include: wages, salaries and tips; interest and dividend incomes; State and local income tax refunds; alimony received; net business and farm incomes; capital gains and losses; IRA distributions and pensions and annuities; rents and royalties; incomes from partnerships, S corporations and trusts; unemployment compensation; and taxable Social Security benefits.

² Current State law allows the following major credits: earned income tax credit; household credit; child and dependent care credit; real property tax circuit breaker credit; agricultural property tax credit; long-term care insurance credit; college tuition credit; nursing home assessment credit; investment credit; and Empire Zone credits.

Each component of receipts follows a different reporting schedule. Withholding information is reported on a daily basis³ while estimated payments follow a quarterly schedule (April-June-September-January). Final payments come mostly during the March-April-May period, but also in August and October, when returns are due for taxpayers receiving extensions. Refunds on timely filed returns must be issued within 45 days of the due date or within 45 days of the filing date, whichever is later. As a result, most refunds on timely filed returns are paid during the March-April-May period. Regardless of their individual schedules, all components of receipts are tracked monthly for cash flow purposes.

Federal Sources of Information

The Internal Revenue Service's Statistics of Income (SOI) program makes available Federal data on State resident taxpayers, through data files and reports. For instance, 2003 information on some of the income components for NYS residents was published in late spring of 2005 in the *SOI Bulletin*. Detailed information on the 2003 SOI public use data file became available during October 2005. The IRS plans to have 2004 tax year data available by August 2006. The SOI information is useful for a number of reasons: it can be used when the PIT study file is not available; it serves as a benchmark against which the reasonableness of the PIT study file can be checked; finally, it provides valuable Federal tax information that is missing from the New York study file.

STATUTORY CHANGES

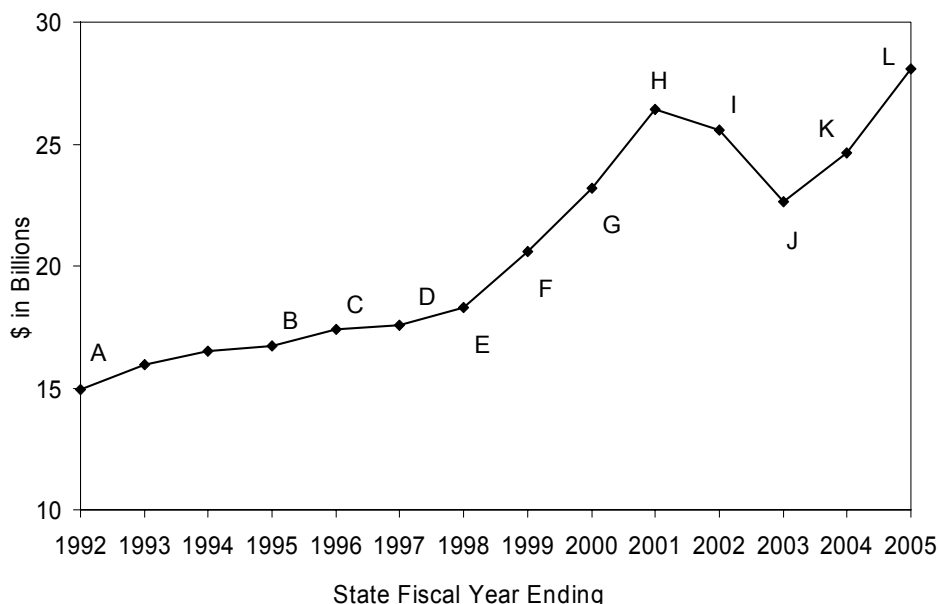
As indicated in the "Background" section, the State personal income tax law has been subjected to many changes over its history. The figure in this section shows actual PIT tax receipts for fiscal years 1991-92 to 2004-05. The graph also shows the changes in law that occurred in that period, thus indicating when PIT receipts were first affected. Note that the receipts are not adjusted for inflation.

³ If an employer was required to remit \$15,000 or more of withholding tax during the calendar year preceding the previous year, the employer must remit the tax on or before the third business day following the payroll date. If an employer was required to remit less than \$15,000, the employer has up to five business days following the date of payroll to send payment for the withholding tax. Employers who are qualified educational organizations or health care providers must remit the tax on or before the fifth business day following the date of payment. Employers who have withheld, but not paid over, a cumulative aggregate amount of less than \$700 at the close of a calendar quarter must remit the tax quarterly.

PERSONAL INCOME TAX

Current Law Personal Income Tax Receipts

SFY 1991-92 to 2004-05



- A. 1991-92: Changed rate schedule 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.
- B. 1994-95: Reflects the enactment of the State earned income tax credit (EITC) at 7.5 percent of the Federal credit, effective for the 1994 tax year.
- C. 1995-96: Reflects these changes for the 1995 tax year: standard deduction increased to \$6,600 for single individuals, \$10,800 for married couples; maximum rate lowered to 7.59 percent and number of tax brackets reduced; EITC increased to 10 percent of the Federal credit.
- D. 1996-97: Reflects these changes for 1996 tax year: standard deduction increased to \$7,400 for single individuals, \$12,350 for married couples; maximum rate lowered to 7 percent while the wage brackets to which the rates apply were broadened; EITC increased to 20 percent of the Federal credit, income levels for the Child and Dependent Care Credit increased and the credit was made refundable.
- E. 1997-98: Reflects creation of the Agricultural Property Tax Credit for the 1997 tax year. In addition, reflects these changes for the 1997 tax year: standard deduction raised to \$7,500 for single individuals, \$13,000 for married couples; maximum rate reduced to 6.85 percent and broadening of the wage brackets to which the rate is applied.
- F. 1998-99: Reflects these changes for the 1998 tax year: increase in the Child and Dependent Care Credit to 100 percent of the Federal credit for taxpayers with AGI up to \$17,000 and phased down to 20 percent for incomes of \$30,000 or more; changed calculation of the Agricultural Property Tax Credit; creation of the Solar Energy Credit; and of the College Choice Tuition Savings Program.
- G. 1999-2000: For the Child and Dependent Care Credit, reflects increases in the income levels for the range of the phase down from 100 percent to 20 percent of the Federal credit, setting the range at \$35,000 to \$50,000 for the 1999 tax year.
- H. 2000-01: Reflects these changes for the 2000 tax year: an increase in the Child and Dependent Care Credit raising the maximum to 110 percent of the Federal credit for incomes up to \$25,000, with a phase down from 110 percent to 20 percent for incomes above \$25,000; an increase in the State EITC to 22.5 percent of the Federal credit; and extension of the Qualified Emerging Technology Credit (QETC) to individuals in partnerships or S corporations.
- I. 2001-02: Reflects these changes for the 2001 tax year: another increase in the State EITC to 25 percent of the Federal credit; beginning the first phase of a three-year reduction of the marriage penalty; and providing the first phase of a four-year phase-in of the tuition deduction/credit.
- J. 2002-03: Reflects these changes for the 2002 tax year: a further increase of the State EITC to 27.5 percent of the Federal credit; providing the second phase of the three-year reduction of the marriage penalty; and the second phase of the four-year phase-in of the tuition deduction/credit.
- K. 2003-04: Reflects the following changes: implementation of a three-year temporary surcharge on high-income taxpayers, adopted in 2003, with the second-highest rate falling from 7.5 percent in 2003 to 7.375 percent in 2004 and to 7.25 percent in 2005 and a top rate of 7.7 percent in all three years; an increase in the State EITC to 30 percent of the Federal credit; provision of the final phase of a three-year reduction of the marriage penalty; and of the third phase of a four-year phase-in of the tuition deduction/credit.
- L. 2004-05: Reflects the following changes: continued application of the three-year temporary surcharge; increase in the long-term care insurance credit from 10 to 20 percent; and inclusion of gain from the sale of cooperative housing as NY-source income for nonresidents.

FORECAST METHODOLOGY

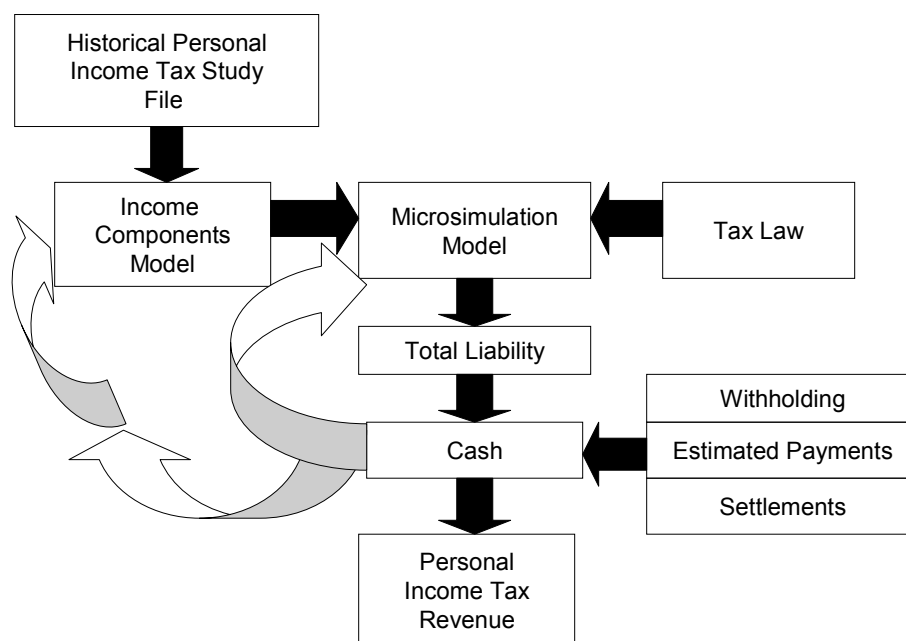
The estimating/forecasting process for the NYS personal income tax is composed of three major components. They are:

1. *The adjusted gross income (AGI) model*, which utilizes a set of econometric models to project the individual income components that make up gross income, and forecasts them over a five-year interval;
2. *The PIT micro-simulation model*, which uses the PIT study file and results from the AGI model to forecast PIT liability over the forecast interval. The simulation model is also used to assess the impact of tax law changes and perform “what-if” analyses.
3. *The liability-to-cash models*, which map calendar-year liability to fiscal-year cash estimates and monitor day-to-day actual cash receipts and refunds.

All three components of the estimation and forecasting process are closely interconnected. (See the figure below.)

- Information on individual income components from past PIT studies (up to tax year 2003 in the 2006-07 fiscal year budget cycle) serves as historical data for the AGI model of income components. In turn, forecast results from the AGI model, after necessary adjustments based on the latest available cash information (from tax year 2005), are fed into the PIT micro-simulation model.
- The most recent PIT study file is the starting point for the micro-simulation model. In order to compute liability beyond the base year, the study file weights are adjusted to reflect the results from the AGI model. The adjusted data enter the PIT micro-simulation model to forecast PIT liability, which, in turn, feeds into the cash-estimating process. However, where detailed information on PIT collections is already available (the 2004 and 2005 tax years in our instance), cash results help determine the income and liability targets for the PIT micro-simulation model.
- The liability forecast from the PIT micro-simulation model is used for projection of cash receipts for future years.

Components of the NYS PIT Forecasting Process



PERSONAL INCOME TAX

In the current fiscal year, cash information sets constraints on the income components analysis and the micro-simulation model outcome. (See white arrows in the figure above.) Conversely, for out-year projections, where no cash information is available, economic assumptions and micro-simulation estimates of liability drive the cash estimates. (See black arrows in the figure.)

Detail on the AGI forecasting model can be found in the “New York State Adjusted Gross Income” chapter of this book. The following section describes each of the remaining components of the PIT forecasting process.

The PIT Micro-simulation Model

The PIT micro-simulation model can be used in two ways. One use is to generate forecasts of PIT liability for future years. Its second use is to explore the fiscal impact of different tax policy scenarios and to assess the impact of any proposals on different taxpayer groups.

Forecasts of liability using the micro-simulation model proceed in two steps. The first step is to “advance” or “trend” the most recent study file into future tax years. This is done sequentially — the 2003 study file is the basis for the “trended” 2004 data set, which in turn is used to create the trended 2005 data set, and so forth. Once this is done for any given year, the new “trended” data set can be submitted to the second step, which is to compute the tax liability that would be expected, given the AGI forecast and existing tax law, for that year. This second step is essentially a PIT tax liability calculator, and follows the structure of the State tax form.

For example, the 2006-07 Executive Budget PIT liability projections require forecasts of aggregate AGI components and the number of tax returns from the AGI model for 2004 and beyond, since the 2003 study file is the most recent one available. A set of separate econometric models generates forecasts of the *shares* of the major components of AGI (wages and salaries, dividend income, interest income, business and farm income, and positive capital gains) for income groups. For example, the shares of wage and salary income were forecast for the five income groups in that component.

This provides a link between the U.S. and the New York State macroeconomic models discussed in previous sections. Some of the variables that are forecast in those models are used in the econometric estimation of the share equations. Thus, the liability forecasts that result from the PIT simulation model are consistent with the U.S. and State forecasts, as those forecasts generate variables that are used in the AGI forecasts, from which in turn the liability forecasts are obtained.

Another important feature of the process is that the taxpayers in the study file are broken down into income groups, each group being 10 percent of the total sample (a “decile”). These groups are determined using total NYSAGI. The deciles are then grouped together based on similar characteristics in formulating the econometric share equations discussed above. For example, the 10 deciles are formed into five income groups in estimating the share equations for New York State residents’ wages. This allows for an important characteristic of the population, namely that shares of AGI components grow at different rates for different income groups. This trait is utilized in the trending process discussed below.

Next, the information from these forecasts is combined with the study file in a two-step process. The first step consists of growing the PIT income components at the individual record level (using growth rates from the “share” forecasts) while at the same time reflecting the overall econometric forecast for each of the income components and numbers of returns (using growth rates from the AGI model). In the second step, the weight of each return is

adjusted through a convergence algorithm that balances the need to hit overall growth and distribution targets against the goal of minimizing the adjustment to the weight. The process is critical because of the importance of the income distribution in determining liability, due to the progressive nature of the tax code. The distribution adjusts over time as the AGI components grow at different rates. In the current example, this process resulted in a “trended” or forecast version of the study file for 2004. This 2004 data set now becomes an input for trending forward to 2005, using the same process.

Once a “trended” data file has been created, it can then be submitted to the “liability calculator” part of the model. This portion of the model takes the individual income and deduction components from each record and computes AGI, the final amounts of deductions and exemptions allowed, taxable income, and taxes before and after credits, as well as the various allowable credits for each record in the file. Then it multiplies the income and liability values by the weight assigned to the specific record. The grand total of the weighted records corresponds to the entire taxpaying population of the State. Total simulated results for AGI, deductions, and liability closely match the aggregate corresponding values from the study file. Adjusting parameters within this program allows simulation of different tax policies, such as altering tax rates.

Incorporating Processing Information

A two-year lag exists between the current year and the year of the latest complete PIT study file. For instance, the 2003 PIT study file became available in the fall of 2005. Therefore, liability for calendar year 2004 must be estimated from the 2003 data file before liability for 2005 and the out years can be projected. As mentioned earlier, however, in the first year of the two-year span from 2003 to 2005 (the 2004 tax year in this case), much information is available from actual cash receipts and, by late December 2005, from the processing of actual 2004 returns by the Department of Taxation and Finance. This processing information includes the number of tax returns processed and liability reported to date on returns, as well as the distribution of returns by income class and by resident status. These data can be used as a check on the trending process. The micro-simulation model must reflect this processing information and “age” the study file for the 2004 liability year so the simulation results will match the available aggregate and distributional targets for that year.

Policy Analysis

Because of the detail available, a strength of the PIT micro-simulation model is that in addition to estimating/forecasting current law, it is an effective tool for policy analysis, allowing the exploration of different tax scenarios, and assessment of the impact of policy changes on various taxpayer groups. For instance, what if the law is changed to increase the standard deduction, the exemption amount, or the top tax rate? What if the current earned income tax credit is enriched? What would be the fiscal impact of any of these changes on State revenues? How would various income groups or filing statuses benefit or lose under a proposal? In general, who would gain or lose from a particular tax proposal and by how much?

The Cash-to-Liability Process

The cash-to-liability process involves monitoring all available collection information for the different components of the personal income tax to better estimate current year receipts and to improve our estimates of current year liability. Year-to-year liability growth, along with the actual daily, weekly and monthly collections, is used as a guide for growth in cash collections.

PERSONAL INCOME TAX

The components of PIT cash receipts include withholding (current year and prior year), estimated payments (current year vouchers and extensions), final returns, delinquencies (assessments and prior year returns), and refunds (current, prior, minor offsets, State/City offsets, credit to estimated payments). The “settlement” consists of final returns, extension payments, and refunds. The table below lists the actual components of PIT cash for the 2004-05 State fiscal year and the estimated components for the 2005-06 State fiscal year.

COMPONENTS OF PIT CASH				
2004-05 AND 2005-06 FISCAL YEARS				
(millions of dollars)				
PIT Component	2004-05 Actuals	2005-06 Estimate	Change	Change (Percent)
Withholding	23,375	24,737	1,362	5.8
Estimated Tax	7,062	9,357	2,295	32.5
-- Current	5,526	6,872	1,346	24.4
-- Prior (IT-370)	1,536	2,485	949	61.8
Returns	1,629	1,817	188	11.5
-- Current	1,458	1,650	192	13.2
-- Subsequent	171	167	-4	(2.4)
Delinquencies	702	740	38	5.3
-- Assessed	630	675	45	7.1
-- Returns (prior)	72	65	-7	(10.3)
Gross	32,768	36,651	3,883	11.8
Refunds	4,668	5,663	995	21.3
Current	3,107	3,440	333	10.7
-- Refunds	2,989	3,335	346	11.6
-- Offsets	118	105	-13	(11.3)
Subsequent	960	1,512	552	57.5
Prior w/offsets	243	270	27	11.1
State/City	357	441	84	23.5
Net Total	28,100	30,988	2,888	10.3
“STAR”				
Special Fund	(3,059)	(3,219)	(160)	
RBTF	(6,260)	(6,942)	(682)	10.9
General Fund	18,781	20,827	2,046	10.9

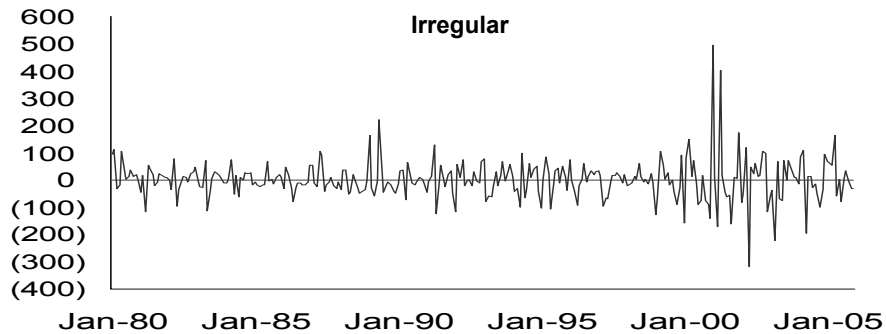
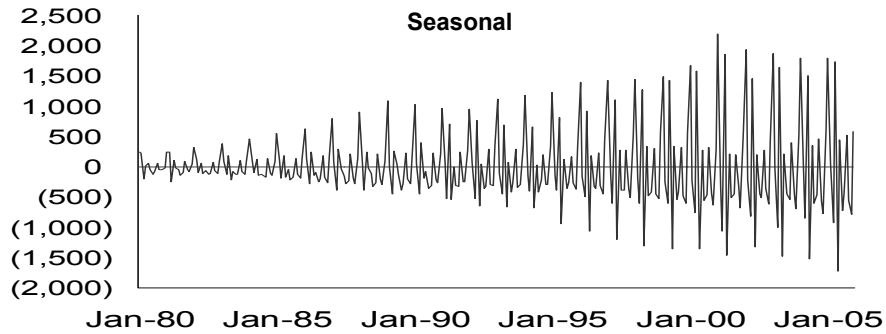
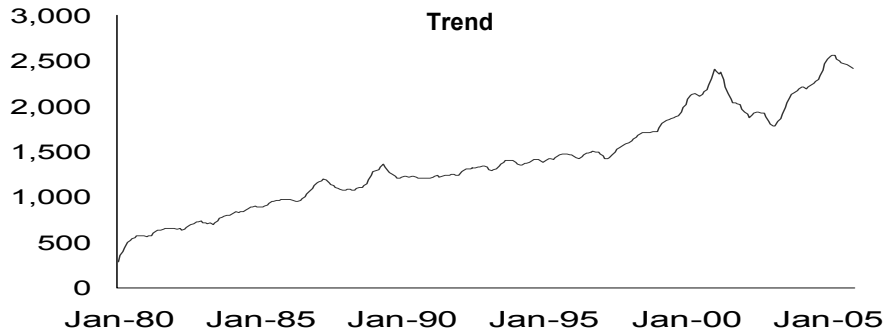
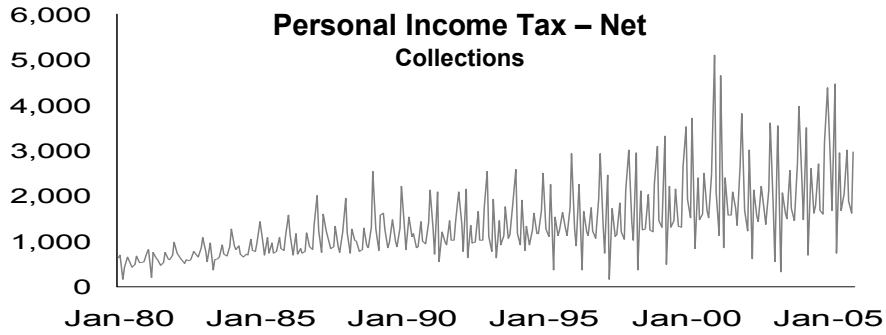
The following two sets of figures with the heading Collection Components (see the description in Overview section of this report), display historical trends in total net income tax and withholding collections. This is not to be confused with the separate components of the income tax detailed in subsequent graphs. The first panel of this series shows actual receipts, while the second graph displays smoothed trends, with increases occurring even while major tax cuts were implemented in the mid to late nineties. The large decline in receipts following September 11th is also evident and the recovery of receipts growth in recent months including the impact of the temporary surcharge is apparent. The third set shows the seasonality of net collections and withholding, with spikes in January and April

for total collections, and in January for withholding, particularly noteworthy. The irregular component shows large values relative to trend in recent years reflecting the stock market boom in the late 1990s and early 2000 and the subsequent recession.

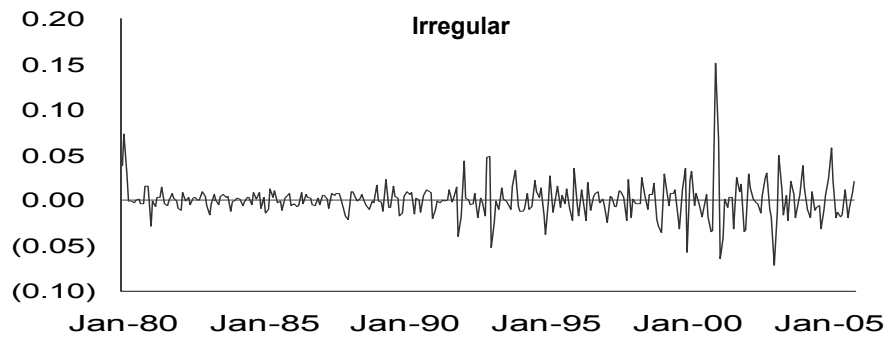
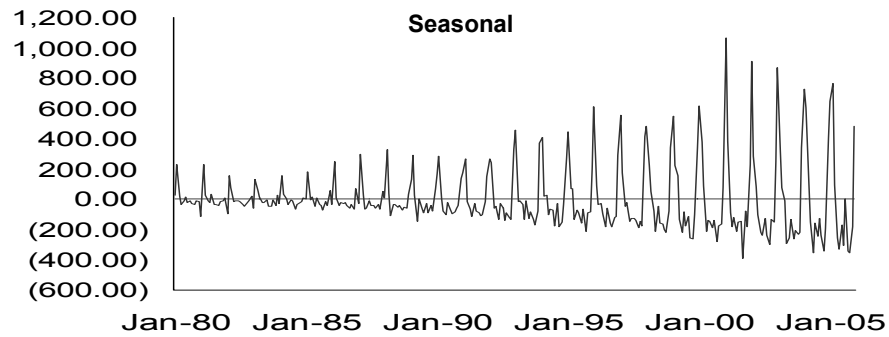
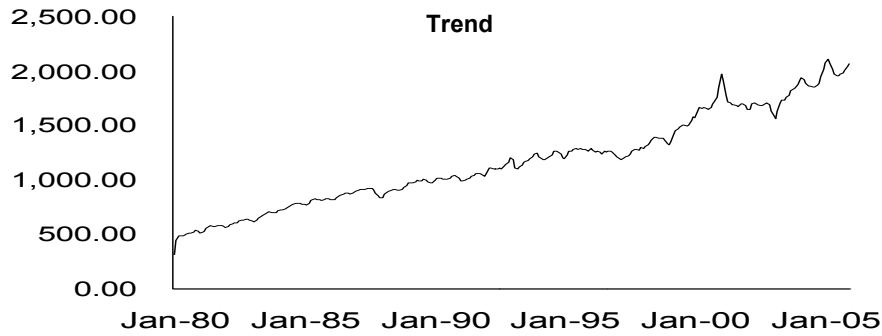
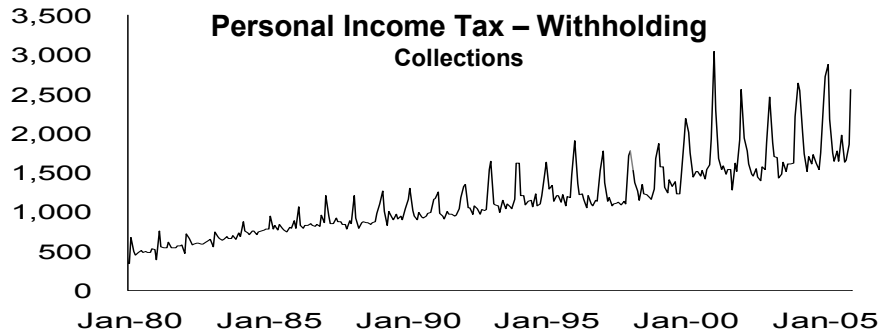
The last seven figures show the components of cash liability over time, estimated payments, withholding, extensions, and final return payments as a percentage of liability over time, refunds paid as a share of withholding collections, and the major components of PIT cash over the 2004-05 State fiscal year. Note the tendency for the cash components to return to an average percentage of liability. However, the components can deviate significantly from this average in a given year.

PERSONAL INCOME TAX

Collection Components (millions of dollars)

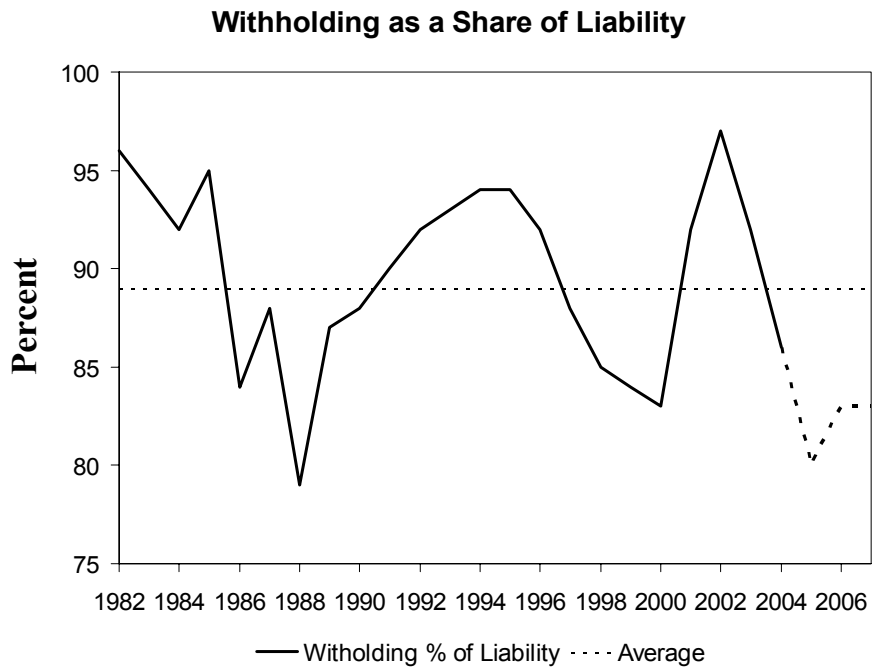
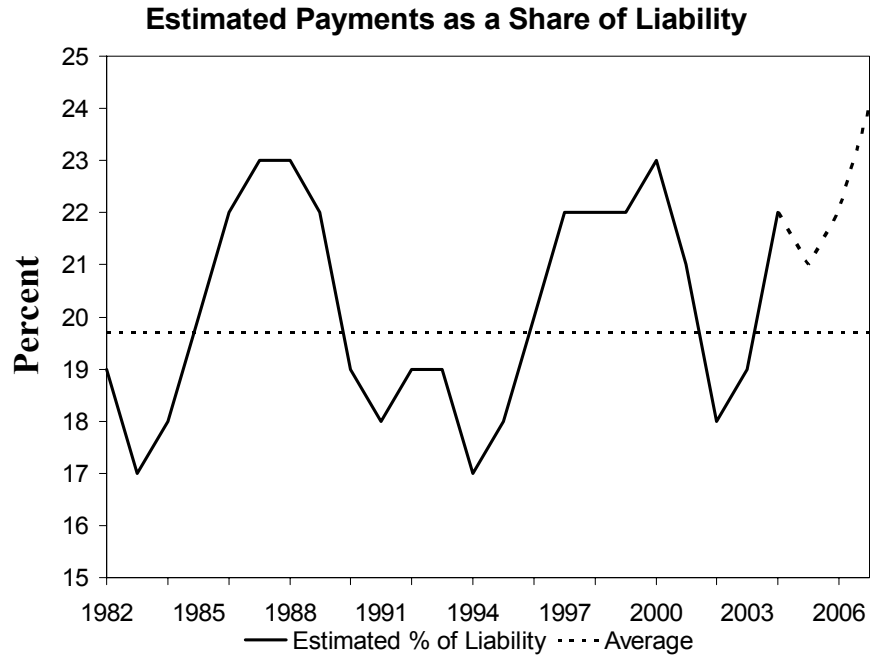


PERSONAL INCOME TAX

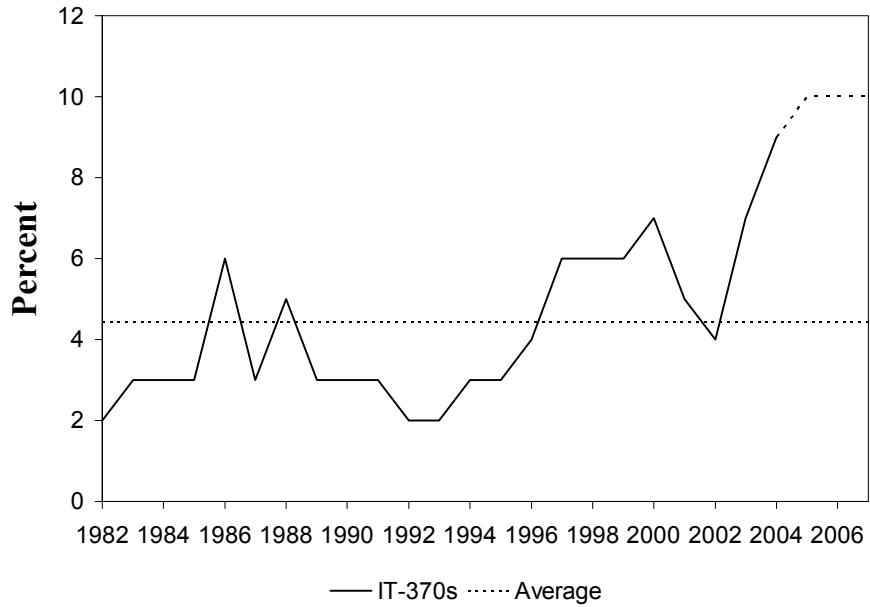


PERSONAL INCOME TAX

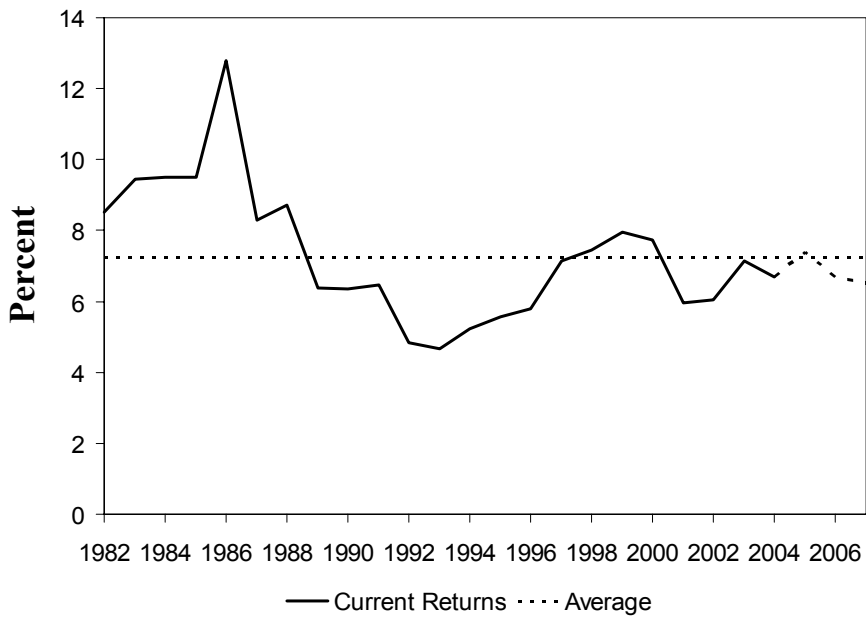
Estimated Payments and Withholding as a Percent of Liability 1982 to 2007 Tax Years



IT-370s as a Share of Liability

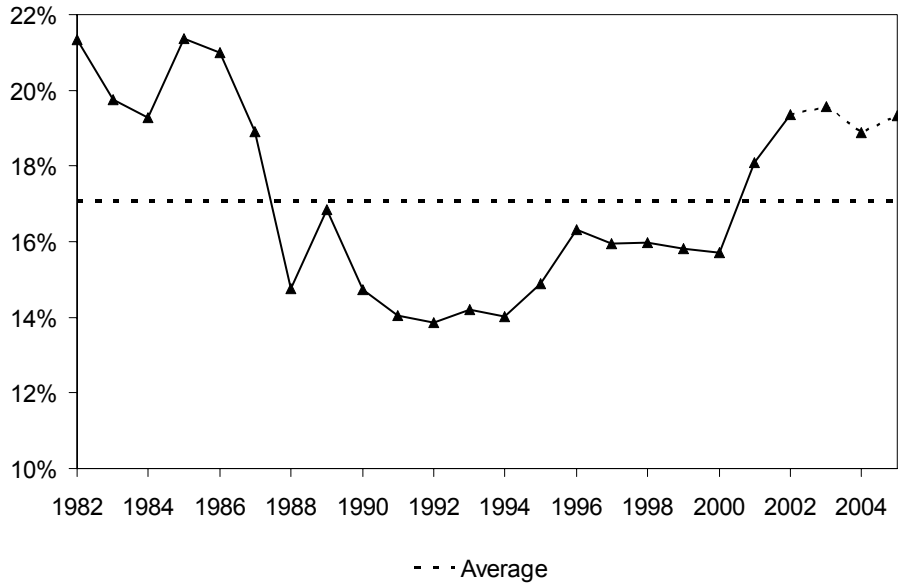


Current Returns as a Share of Liability

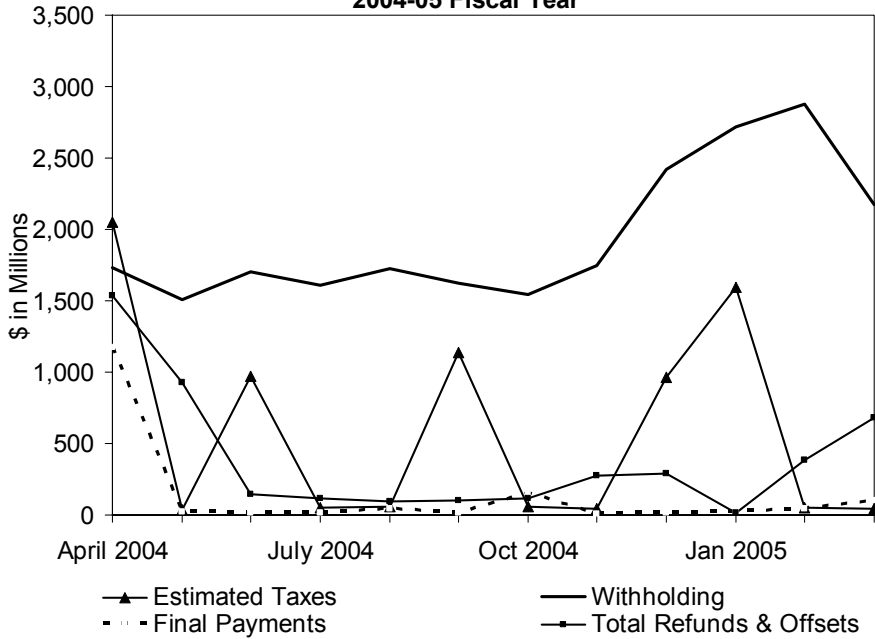


PERSONAL INCOME TAX

Refunds as a Percentage of Withholding
1982 - 2005 Tax Years



Main Components of PIT Cash Liability
2004-05 Fiscal Year



As stated earlier, information regarding the various components of tax collections is received on a daily, weekly, and monthly basis. Staff monitors tax collections and other information closely throughout the year to assess the performance of the estimates. For example, as a nearly \$25 billion component of collections, withholding collections generally are followed on a daily basis throughout the year, while payments with returns and extension requests as well as refunds are monitored most intensively in April and May of each year.

An all-encompassing report on cash collection components of the personal income tax is received from the Department of Taxation and Finance mid-month for the prior month. This report is used to determine the official cash flow for the month. Armed with this information, staff compares the original estimate for the month, and for the entire fiscal year, with all available actual cash information on each of the components. At the end of each quarter, this information is used, along with historical information and any pertinent legislative changes, to make necessary adjustments to the cash liability estimate.

Another critical aspect of the cash-to-liability process is forecasting the different components of receipts on a fiscal-year basis using results from the PIT simulation as a benchmark. Various methodologies are applied for different components of receipts.

The largest component of income tax collections, withholding tax, is estimated based on quarterly forecasts of NYS wages. Withholding is estimated using two alternative methodologies. One method applies withholding-to-wage growth elasticity to the forecasted growth rates for wages on a quarterly basis to estimate withholding growth rates for each quarter in the forecast period. The elasticity used for each quarter is based on historical elasticity trends and expected future elasticity changes.

The second method employs an econometric model to forecast withholding based on independent variables, including wages and shift variables reflecting law changes. More specifically, withholding is a function of quarterly wages, seasonal effects, and dummy variables for tax law changes. The wage impact is expected to vary by quarter. This effect is captured by multiplying wages with quarterly dummies. The form of the estimating equation is outlined below. The error term exhibits autocorrelation at seasonal frequencies. An autocorrelation correction is applied to the error term and the structural parameters are reestimated. The results are summarized in the following table.

The model is estimated in levels using quarterly data starting in 1975 and running through the fourth quarter of 2004. The summary table shows that the model fit is good and there is no evidence of serial correlation after correction. The elasticity estimates derived from the model are consistent with *a priori* expectations — we expect withholding to increase (decrease) at a faster rate than wages as people move through the graduated tax brackets. Given that the model is estimated in levels, the elasticities are calculated as arc elasticities computed using a year of data. The elasticities for the most recent quarters fall in the range of 1.15 to 1.22. The tax dummies are of the right sign and for the most recent law changes (dating back to 1987) quite significant.

PERSONAL INCOME TAX

DERIVED ELASTICITIES — SUMMARY STATISTICS			
Wage by Quarter	Derived Elasticity 2005	Coefficient Estimate *	t-statistic
Quarter 1	1.150	7.5	38.32
Quarter 2	1.173	6.4	26.76
Quarter 3	1.170	6.5	26.87
Quarter 4	1.150	6.2	31.10
Summary Statistic			
R2	.9972		
Durbin-Watson (at order 4)	1.6718		
* cents per dollar of wages			

WITHHOLDING	
$W_t = \beta_0 + \beta_1 DWAGE1_t + \beta_2 DWAGE2_t + \beta_3 DWAGE3_t + \beta_4 DWAGE4_t$ $+ \alpha_1 TAX1_t + \alpha_2 TAX2_t + \alpha_3 TAX3_t + \alpha_4 TAX4_t + \alpha_5 TAX5_t + \alpha_6 TAX6_t + \alpha_7 TAX7_t + \alpha_8 TAX8_t + \alpha_9 TAX9_t$ $+ \alpha_{10} TAX10_t + \alpha_{11} TAX11_t + \alpha_{12} TAX12_t + \alpha_{13} TAX13_t + \delta_1 S1_t + \delta_2 S2_t + \delta_3 S3_t$	
W	Withholding
DWAGEi...	Equals wages if period t is the i th quarter of the calendar year; 0 otherwise
S_i	Seasonal dummies i = 1...3
Note: The dummy variables TAX1 through TAX13 equal 1 in the following time periods, 0 otherwise:	
TAX1:	second quarter of 1980 and thereafter, reduction in top tax rate.
TAX2:	quarter of 1981 and thereafter, reduction in top tax rate.
TAX3:	fourth quarter of 1981 and thereafter, increased personal exemption and standard deduction.
TAX4:	third quarter of 1985 and thereafter, reduction in top tax rate, increased personal exemption and standard deduction.
TAX5:	second quarter of 1987 and thereafter, reduction in top tax rate and broadened wage brackets, increased personal exemption and standard deduction.
TAX6:	fourth quarter of 1987 and thereafter, reduction in top tax rate and adopted individual bracket structure for all, increased personal exemption and standard deduction.
TAX7:	fourth quarter of 1988 and thereafter, reduction in the top tax rate, increased standard deduction.
TAX8:	fourth quarter of 1989 and thereafter, adopted new rate schedule with top rate of 7.875, increased standard deduction.
TAX9:	fourth quarter of 1991 and thereafter, change in rate schedule for State tax table benefit recapture.
TAX10:	third quarter of 1995 and thereafter, reduction in the top tax rate and the number of wage brackets, increased standard deduction.
TAX11:	second quarter of 1996 and thereafter, reduction in the top tax rate and broadened wage brackets, increased standard deduction.
TAX12:	second quarter of 1997 and thereafter, reduction in the top rate and broadened wage brackets, increased standard deduction.
TAX13:	third quarter of 2003 through fourth quarter of 2004. The dummy is reduced from 1 gradually over the phase out range of the temporary surcharge.

Currently, the two alternative estimation procedures produce very similar results for the forecast period.

Non-withholding cash components are also estimated using two alternative methods. The first method uses historical patterns of growth rates and examines the share of non-withholding liability to total liability normally provided by each component. This analysis is referred to as the ratio method. It is combined with our estimates of liability growth to derive growth rates for the non-withholding cash components. These rates are then applied to the most recent actual cash information to forecast the outyears.

Structural Cash Component Model

The second method uses an econometric approach or “cash model” to estimate the non-withholding components of income tax collections. The models follow the approach of Harvey (1989)⁴ and can be described as a structural time series model. The general form of each equation can be written as follows:

$$\text{Cash Component}_t = \mu_t + \beta_t + \delta_t * \text{Liability}_t + \text{Error}_t$$

The model is estimated using the Kalman filter approach described in summary in Proietti (2002)⁵. This model allows the trend to change in a smooth manner over time to reflect changes in the tax environment apart from changes that impact liability. Each cash component includes income tax liability or adjusted income tax liability (liability minus withholding plus refunds) as an independent variable. This has the advantage of capturing the impact of law changes on the cash components. In addition, by including liability, the models tie back to our outyear projections of liability based on the AGI components and simulation models. The model is estimated in log form covering the period from 1980-2003, using annual observations. The discrepancy and credit to estimated variables are essentially random processes in the cash table and, thus, in the model they are estimated without a liability term. For forecasting purposes, the equations are solved recursively. The voucher estimate is solved first so that this variable can be used to help forecast extensions and final payments and create the adjusted liability variable. The results for the major cash components of income tax receipts are summarized in the following tables.

ESTIMATED ELASTICITIES (t - statistics in parenthesis)			
Dependent Variable (Cash Component)	Independent Variables		
	PIT Liability	Estimated Vouchers/Adjusted Liability	Withholding
Estimated Vouchers	1.44 (6.94)	-	-
Estimated Extensions	-	1.49 (7.41)	-
Final Payments	-	0.83 (6.82)	-
Refunds	-0.72 (-3.00)	-	1.91 (4.50)

The elasticity for vouchers is larger than one, suggesting that this component is quite sensitive to changes in underlying liability. Both extensions and final payments are very significantly related to voucher payments (and adjusted liability). The extension elasticity is above one as taxpayers with increasing liability from non-withheld sources seem more likely to make large adjustments in their extension payments when their non-withholding pre-payments change. As expected, the final payment elasticity is about one, with changes in estimated tax paid matched by similar percentage changes in final payments. In the refunds model, withholding is an additional explanatory variable. The logic is that refunds and withholding tend to move together. As wages increase, a taxpayer’s withholding increases and it is expected that, absent tax law changes and other behavioral changes, the value of refunds increases as well — the refund-to-withholding ratio should stay fairly constant over time, correcting for law changes. The negative coefficient on the liability variable indicates that, holding withholding constant, an increase in tax liability will decrease refunds. The table of summary statistics reports measures of model fit and the

⁴ Harvey, A.C. (1989), *Forecasting, Structural Time Series and the Kalman Filter*; Cambridge University Press.

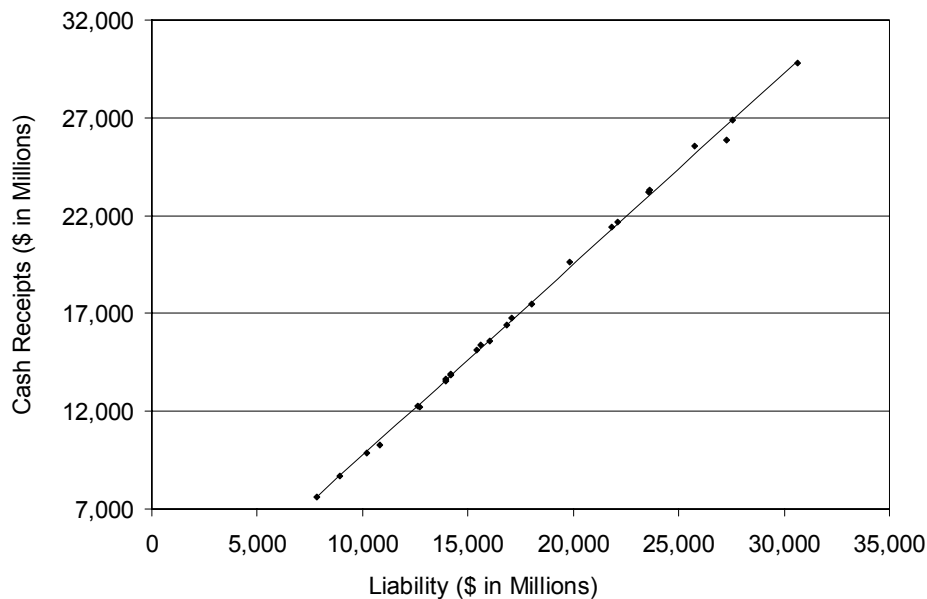
⁵ Proietti, Tommaso, (2002), *Forecasting with Structural Time Series Models*, in *A Companion to Economic Forecasting*, Blackwell.

PERSONAL INCOME TAX

Durbin-Watson test for serial correlation. The RD2 value is a measure of goodness of fit comparing predicted changes in the dependent variable to a random walk model. Overall, the models fit the data well and show no indication of significant autocorrelation.

SUMMARY STATISTICS			
Dependent Variable (Cash Component)	R2	RD2	Durbin-Watson
Estimated Vouchers	.96	.72	1.4
Estimated Extensions	.93	.75	2.0
Final Payments	.90	.71	1.9
Refunds	.93	.48	1.7

PIT Liability vs. PIT Cash Receipts
1982 to 2005 Tax Years



While the ratio method was used to construct our estimates, the structural model is used as a check on the reasonableness of these results. Overall, both methods provide very similar estimates of cash collections by fiscal year. This reflects the fact that the sum of cash collections correlates very closely with overall liability. A significant source of estimation error arises from the difficulty in assigning the liability to the correct cash component in the appropriate fiscal year. In addition, forecast error results from the imprecision in the forecast of future tax liability.

RISKS TO LIABILITY FORECAST

The PIT liability forecast is subject to considerable risks. Consumer spending may wane as the prior years' stimulus from tax cuts, home equity extraction, and interest rate cuts are spent. Additionally, the stock market and financial services industry may do much better or worse than envisioned. Significantly, any slowdown in the real estate market can be expected to exert a negative influence on receipts.

The predominance of volatile income components (such as capital gains realizations, bonuses and stock incentive payouts) in AGI and the concentration of such income in the hands of a relatively small number of high-income taxpayers also pose significant risks to the personal income tax forecast.

SALES AND USE TAX

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

New York State has imposed a general sales and use tax since 1965. It is currently the State’s second largest tax revenue source generating over \$11 billion annually. The tax rate has been 4 percent since 1971 although a temporary surcharge to 4.25 percent was imposed from June 1, 2003, to May 31, 2005. Counties and cities within the State are authorized to impose an additional 3 percent sales and use tax, although most have temporary authorizations to impose the tax at a higher rate. New York City and 37 counties currently have a State and local combined rate of 8 percent, including the 0.375 percent Metropolitan Commuter Transportation District tax in the MCTD area. The highest maximum combined State and local rate is 9.5 percent in Oneida County.

The tax applies to sales and uses within the State of tangible personal property (unless specifically exempt), certain utility service billings, restaurant meals, hotel and motel occupancy, and specified services and admission charges. Certain exemptions such as food, prescription drugs, residential energy, and college textbooks have been enacted to lessen the regressiveness of the tax. Other items, including machinery and equipment used in production and property purchased for resale, are excluded from tax to avoid tax pyramiding.

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 that they have collected quarterly. However, vendors who record more than \$300,000 of taxable sales in any 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 March. Finally, monthly filers collecting more than \$500,000 in tax annually are required to remit the tax by electronic funds transfer (EFT). The collections for the first 22 days of the month must be remitted electronically within three business days after the 22nd day.

DATA SOURCES

The primary sources of data used in the estimation and forecasting methodology for the sales tax are as follows:

- *AS043*, Department of Taxation and Finance Monthly Report of Receipts. This report contains gross and net receipts data.
- *Various reports, Department of Taxation and Finance*. Other reports supplementing the RS-43 provide information on data such as audit collections, prior period adjustments and daily receipts.
- *Various U.S. and New York government agencies, including the U.S. Bureau of Economic Analysis of the Commerce Department*. These agencies provide economic data used in the econometric equations.

SALES AND USE TAX

STATUTORY CHANGES

The Division of the Budget has developed a series of State fiscal year sales and use tax receipts that has been adjusted for Tax Law, and administrative and other changes to allow for year-to-year comparisons of the taxable sales base.

Major legislative and administrative events causing divergent growth in actual sales tax receipts from the constant law series include:

- large taxable base expansion in 1991-92;
- one-time spin-up due to the implementation of EFT in 1992;
- exceptional audit collections in 1994-95;
- implementation of vendor credit program in 1995-96;
- week-long exemptions for clothing and footwear biannually from 1997-98 to 1999-2000;
- exemption for promotional materials in 1997-98;
- exemption for college textbooks in 1998-99;
- expansion of the vendors' credit in 1999-2000;
- permanent exemption for clothing and footwear priced under \$110 beginning March 1, 2000;
- lower tax rate on charges for separately purchased transmission and distribution of electricity and gas in 2000-01;
- rate surcharge from 4 percent to 4.25 percent effective June 1, 2003 to May 31, 2005; and
- suspension of the permanent clothing exemption between June 1, 2003, and May 31, 2007; replaced by two exemption weeks annually at a threshold of \$110 per item.

FORECAST METHODOLOGY

Cash collections are reduced by credits and increased by collections from audits and other administrative processes, which, due to payment schedules, are unrelated to economic liability in the month remitted. To adjust the sales tax series to more closely correspond to the economic activity that generated the receipts, collections from the first ten days of the quarter are placed in the previous quarter, non-voluntary collections (audit collections, tax compliance) are removed from the series, the March prepayment (now repealed — applied to March 1976 through March 1990 only) is placed in April, and an adjustment is made for allocation errors made in prior periods.

Econometric Techniques

To generate a sales tax forecast, the Division of the Budget first estimates three single-equation econometric models, each representing a somewhat different approach to estimating the relationship between quarterly economic data and underlying sales tax collections. The year-over-year growth rates from each of the three equations are weighted to obtain a single growth rate forecast of the taxable sales base.

1. Consumption Equation

Equation 1 uses two taxable consumption variables, namely consumption of taxable goods and consumption of taxable services, to explain the nominal level of collections.

Dependent Variable

- Adjusted Quarterly Collections. (See above.)

SALES AND USE TAX

Consumption of Taxable Goods in New York

- Ratio of New York employment to U.S. employment multiplied by U.S. consumption of durable and non-durable goods that are taxable in New York.

Consumption of Taxable Services in New York

- Ratio of New York employment to U.S. employment multiplied by U.S. consumption of services that are taxable in New York.

Clothing Exemption Dummy

- Effective March 1, 2000, items of clothing and shoes costing less than \$110 are exempt from the sales and use tax. The dummy variable is 0.33 for the first quarter of 2000, and 1.0 thereafter. (Suspensions of the permanent clothing exemption are adjusted separately in the data set)

The National Income and Product Accounts data are used to distinguish between taxable and non-taxable goods and services. The ratio of New York employment to U.S. employment is included to share the national variables to produce an estimate of New York State's taxable consumption. Seasonal dummy variables are also used, since the sales tax base exhibits seasonal behavior with the school and Christmas shopping seasons being the busiest seasons.

The estimated equation takes the following form. The seasonal dummies are denoted by an "S."

CONSUMPTION EQUATION	
Adjusted Quarterly Collections $t = 20,805.3 + 10.0 * \text{Consumption of Taxable Goods } t + 24.0 *$	(0.48) (7.73) (5.61)
Consumption of Taxable Services $t - 37,394.7 * S \text{ Quarter } 1_t - 14,639.2 * S \text{ Quarter } 2_t$	(-3.75) (-1.33)
+ 57,357.1 * S Quarter 3 $t - 178,134 * (\text{Clothing Dummy } t)$	(5.67) (-7.70)
R-Bar Squared	0.992
Durbin-Watson Statistic	2.1
Standard Error of the Regression	\$36.9 million
Number of Observations	94

	PERCENT CHANGE IN EXOGENOUS VARIABLES — STATE FISCAL YEARS 1995-96 TO 2005-06										
	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06 Estimated
Taxable consumption of goods in NY as shared by employment ratio	2.4	4.0	3.4	5.9	8.5	6.7	2.6	3.5	5.9	6.2	5.3
Taxable consumption of services in NY as shared by employment ratio	5.1	6.3	7.2	6.7	6.5	5.5	1.5	2.7	2.9	5.0	2.7

2. Dynamic Adjustment Income and Employment Equation

Equation 2 uses disposable income, employment and a term that allows for gradual dynamic adjustment in the relationship between income, employment and sales tax collections. Two exogenous variables, an error correction term (see Davidson, Hendry, et al.) and a dummy for the permanent clothing exemption are used to explain the nominal level of collections in the regression equation. All variables (excluding the dummy) are expressed

SALES AND USE TAX

in terms of the difference from the same quarter in the prior year to eliminate the need for seasonal dummies. Finally, a term representing lagged values of the dependent variable is employed to eliminate serial correlation.

Dependent Variable

- The logarithm of adjusted quarterly collections minus the logarithm of prior year (same quarter) collections.

Employment

- The logarithm of current-quarter New York employment numbers minus the logarithm of prior year (same quarter) New York employment.

Error Correction Term

- The estimated long-run equilibrium relationship between adjusted collections and employment and disposable income. The theory is that consumers make corrections in the current quarter for any over or under spending four quarters ago and move towards the long-run equilibrium result.

Lagged Dependent Variable

- The logarithm of adjusted New York sales tax collections lagged one quarter minus the logarithm of New York sales tax collections lagged five quarters.

Clothing Exemption Dummy

- Effective March 1, 2000, items of clothing and shoes costing less than \$110 are exempt from the sales and use tax. The dummy variable is 0.33 for the first quarter of 2000, and 1.0 thereafter. (Suspensions of the permanent clothing exemption are adjusted separately in the data set)

The form of the estimated equation is as follows with all variables (except the dummy) expressed in logs.

DYNAMIC ADJUSTMENT INCOME AND EMPLOYMENT	
Adjusted Quarterly Coll. _t - Adjusted Quarterly Coll. _{t-4}	= -0.0001 + 1.1889 * (Employment _t - Employment _{t-4}) (-0.02) (5.48)
- 0.3227 * (Adjusted Quarterly Coll. _{t-4} - 1.138 * Employment _{t-4} - 0.683 * Disposable Income _{t-4}) +	
(-4.75)	(-48.7) (-20.65)
0.2296 * (Adjusted Quarterly Coll. _{t-1} - Adjusted Quarterly Coll. _{t-5}) - 0.0041 (Clothing Dummy _t) +	
(2.31)	(-0.67)
0.04463 * * (Disposable Income _t - Disposable Income _{t-4})	
(0.37)	
R-Bar Squared	0.5854
Durbin-Watson Statistic	2.07
Standard Error of the Regression	\$38.5 million
Number of Observations	94

	PERCENT CHANGE IN EXOGENOUS VARIABLES STATE FISCAL YEARS 1995-96 TO 2005-06										
	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06 Estimated
NY Disposable Income	4.2	4.5	5.0	5.4	3.6	6.1	1.3	4.5	4.8	5.1	5.7
NY Employment	0.2	1.0	1.7	2.5	2.3	1.9	(1.6)	(1.2)	(0.5)	0.9	0.9

3. Auto Sales and Retail Trade Employment Equation

The final equation uses two measures of employment and the value of new automobiles and trucks sold to explain sales tax collections.

Dependent Variable

- The logarithm of current-quarter adjusted sales tax collections.

Nominal Value of Registered Autos and Light Trucks

- The logarithm of New York new auto and light truck registrations multiplied by the national average price of a new car. These data are not seasonally adjusted.

Non-Trade Private Employment

- The logarithm of New York private non-trade employment multiplied by a measure of New York consumer price inflation. This is used as a proxy for business purchases. Trade employment is excluded to minimize multicollinearity. The consumer price index is included to create a nominal concept.

Retail Trade Employment

- This is expressed in the same manner as non-trade private employment above. This variable attempts to capture all other retail activity excluded by the other exogenous variables.

Dummy Variable

- The “Value of Newly Registered Autos and Trucks” variable increases significantly after the first quarter of 1993, due to the inclusion of light trucks in the data series after that date. A dummy variable is required to account for this change. The dummy variable is zero prior to and including the first quarter of 1993, and one thereafter.

All variables except the price deflator are non-seasonally adjusted. The form of the estimated equation is as follows.

AUTO SALES AND RETAIL TRADE EMPLOYMENT	
Adjusted Quarterly Coll. t	$= 5.04 + 0.088 * \text{Value of Newly Registered Autos and Trucks } t$ (17.3) (5.35)
+ 0.320 * Non-Trade Private Employment t	+ 0.704 * Retail Trade Employment t (2.54) (5.89)
- 0.033 * Dummy t	(-2.67)
R-Bar Squared	0.9913
Durbin-Watson Statistic	2.14
Standard Error of the Regression*	\$46.5 million
Number of Observations	94
* Normalized.	

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PERCENT CHANGE IN EXOGENOUS VARIABLES — STATE FISCAL YEARS 1995-96 TO 2005-06											
	95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05	05-06 Estimated
Nominal Value of Registered Autos and Light Trucks	0.9	12.9	3.5	13.5	13.0	(5.3)	8.2	4.2	4.3	-0.1	3.7
Non-trade Private Employment	0.7	1.5	2.1	2.6	2.5	2.2	(1.9)	(1.7)	(0.6)	1.0	1.0
Retail Trade Employment	1.3	0.9	0.9	1.4	2.9	1.9	(2.2)	(0.6)	(0.1)	1.8	1.0

Elasticities

Elasticities have been calculated for the exogenous variables in equation 1. Elasticity is a measure which reports the percentage change in a variable given a 1 percent change in another variable. For example, a 1 percent change in the real price of a commodity may result in a 0.5 percent change in the consumption of that commodity. So the price elasticity of demand (consumption) would be 0.5. The elasticities reported here were calculated by taking the average of endogenous and exogenous variables over the last five years. Then the average percent change in the endogenous variable resulting from a one percent change in exogenous variable was calculated. The stated elasticities for equation 2 are cointegrating coefficients, which represent long-run equilibrium relationships. Equation 3 is estimated in natural log terms. Therefore, the coefficients on the variables may be interpreted as elasticities.

ELASTICITY OF EXOGENOUS VARIABLES IN REGRESSION EQUATIONS	
	Elasticity
Equation 1	
Taxable consumption of goods in New York	0.70
Taxable consumption of services in New York	0.38
Equation 2	
New York employment	1.14
New York Disposable Income	0.68
Equation 3	
Nominal value of registered autos and light trucks in New York	0.09
New York non-trade private employment	0.30
New York retail trade employment	0.73

Adjustments

The Budget forecast of the relevant economic variables is used to produce an estimate of growth in base receipts. This growth rate is applied to a prior-year sales tax receipt base that has been adjusted for Tax Law and other changes to yield a current-year base forecast. This is then converted into a cash forecast by accounting for factors including Tax Law and administrative changes, audits, court decisions, tax cuts being phased in and prior-period adjustments.

It should be noted that the base growth forecasts produced by taking the weighted average of the three estimates of the taxable sales base generated by the equations do not necessarily match the concept of growth in the continuing sales tax base in periods for which actual sales tax collections data are available. The models take no account of the value of tax cuts or other administrative changes that impact sales tax collections. Adjusting actual data, where available, for such impacts yields the continuing sales tax base concept that makes year-to-year comparisons more accurate.

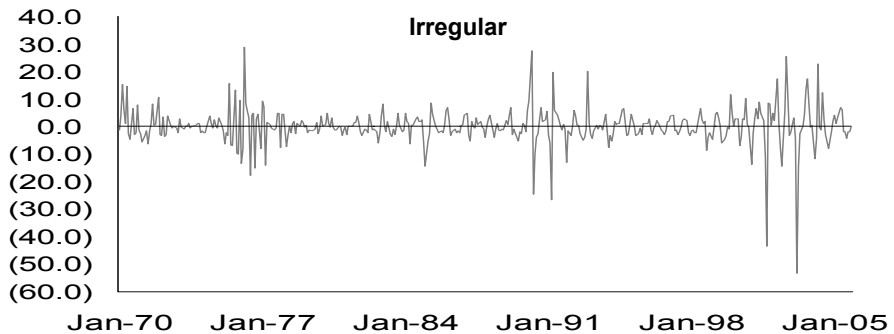
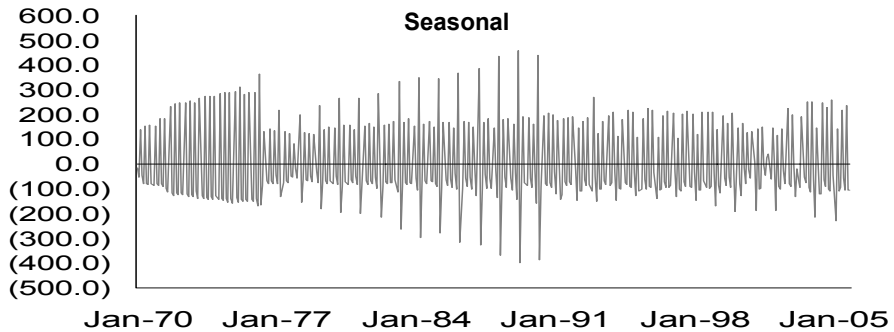
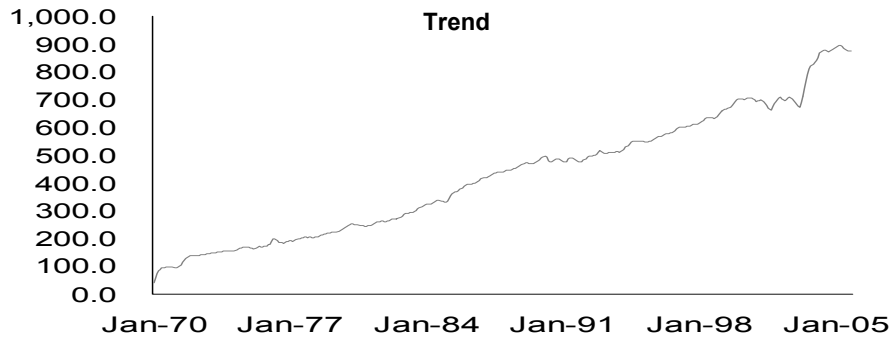
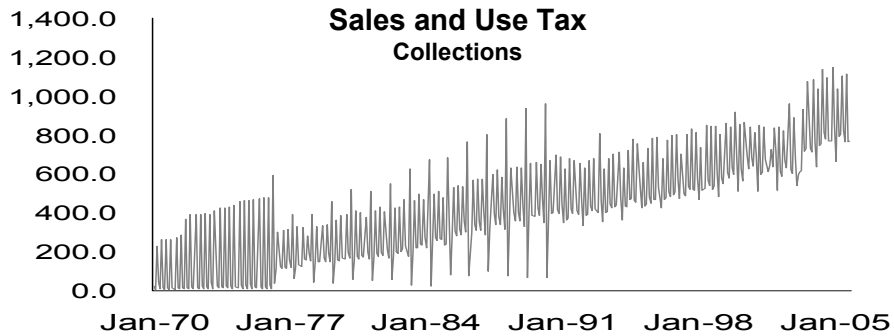
Cash Receipts

As is clear in the cash component graphs, the trend in sales tax collections has been fairly stable, reflecting consistent growth in the underlying base. The recent increase in trend and then flattening out is due to the temporary surcharge imposed in 2003 and sunset in June, of 2005. The abrupt change in the seasonal pattern in the early 1990s reflects elimination of the March sales tax pre-payment of April receipts. The large irregular values in recent years reflect the impact of September 11th and other unpredictable shocks to the economy.

PERCENTAGE DISTRIBUTION OF CASH RECEIPTS				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1996-97	24.4	25.3	25.5	24.8
1997-98	24.5	25.8	25.3	24.4
1998-99	24.8	25.6	25.0	24.6
1999-2000	24.3	24.7	26.1	25.0
2000-01	24.4	25.7	25.4	24.5
2001-02	24.7	23.5	26.7	25.1
2002-03	23.9	26.6	24.8	24.7
2003-04	22.7	26.3	26.4	24.5
2004-05	25.6	25.3	25.2	23.9
2005-06 (est.)	25.5	25.5	25.0	24.0

SALES AND USE TAX

Collection Components (millions of dollars)



Risks to the Forecast

Errors in the forecasts of the exogenous variables provide a degree of risk to the sales and use tax forecast. Forecast error in prior years can largely be attributed to the forecasts of the exogenous variables. Variation in the estimate may also occur as a result of administrative changes or unanticipated legislative action.

CIGARETTE AND TOBACCO TAXES

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

Legislation passed with the Health Care Reform Act of 2000 increased the tax on the sale or use of cigarettes within the State by 55 cents to \$1.11 per pack on March 1, 2000. Legislation enacted in 2002 raised the tax rate to \$1.50 per pack beginning on April 3, 2002. The tax on tobacco products increased from 20 percent to 37 percent of wholesale price on July 2, 2002. Prior to June 1, 1993, the cigarette tax was 39 cents per pack and the tobacco products tax was 15 percent of wholesale price.

The Federal government imposes a cigarette excise tax on manufacturers and first importers of cigarettes. The Federal tax rate, currently 39 cents per pack, was increased from 24 to 34 cents per pack on January 1, 2000, and increased again to 39 cents per pack on January 1, 2002. New York City also levies a separate cigarette excise tax, which increased from 8 cents to \$1.50 per pack on July 2, 2002. The Federal government also imposes an excise tax on manufacturers and importers of tobacco products at various rates, depending on the type of product.

Sales on qualified Native American reservations to Native Americans are exempt from tax along with sales to State and national governmental entities, the Armed Forces, the United Nations and diplomatic personnel.

Administration

State-registered stamping agents, who are mostly 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 reservations, must remit the cigarette excise tax directly to the Department of Taxation and Finance. Purchases of two cartons or less incur no use tax liability; however, purchases exceeding two cartons incur use tax liability on all cartons purchased.

DATA SOURCES

The primary sources of data used in the estimation and forecasting of the cigarette and tobacco tax are as follows:

- *AM043, Department of Taxation and Finance Monthly Report of Receipts.* This report contains gross and net receipts data for each component of the cigarette and tobacco products tax.
- *New York State Department of Taxation and Finance Monthly and Fiscal Year Comparison of Cigarette Tax Collections.* This report includes the number of stamps sold, assessments and agents’ commission.
- *The Tax Burden on Tobacco.* This annual data publication, previously published by the now-defunct Tobacco Institute, is produced by the economic consulting firm Orzechowski and Walker. It is the source of the consumption and cigarette price data used in the cigarette consumption forecasting equation.
- *Various U.S. and New York government agencies* provide the Consumer Price Index and population data used in the cigarette consumption equation.

CIGARETTE AND TOBACCO TAXES

The Division of the Budget has developed an econometric model to assist in forecasting State taxable cigarette consumption. A time trend and the real price of cigarettes are the exogenous variables used to explain consumption per capita of taxed cigarettes in New York. The price variable is the average annual price, including tax, of cigarettes in New York. This is indexed to 1982-84 and divided by the Consumer Price Index to measure the price of cigarettes relative to the overall prevailing price level. All variables except the time trend are in logarithmic form. An exogenous variable measuring the price of cigarettes in New York relative to surrounding states was attempted, but the results were less satisfactory. Specifically, the added variable was insignificant when used with the stand-alone price, and the fit was inferior when used alone. As an alternative to autocorrelation correction, a lagged dependent variable was added, but the results were inferior to the estimation method reported above.

The estimated price elasticity of the per capita consumption of cigarettes is -0.6 percent. This estimate is slightly out of the range of -0.3 percent to -0.5 percent typically noted in the economics literature¹. The trend decline in cigarette consumption, holding prices constant, is estimated at -2.1 percent per year. In other words, holding the real price of cigarettes constant, consumption per capita has declined on average 2.1 percent per year.

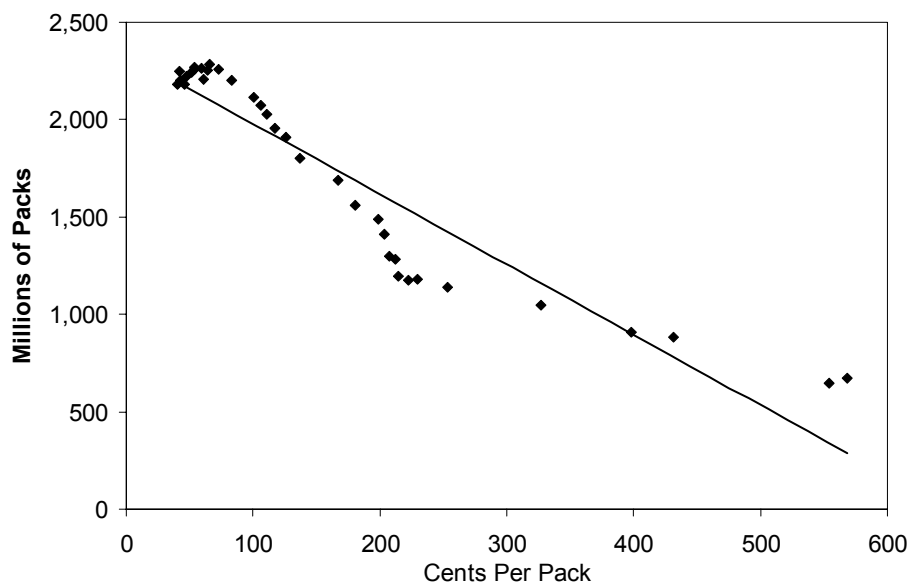
To produce an updated cigarette tax forecast, the equation's results are supplemented with the estimated impact on cigarette tax revenues of discrete events, such as large price increases by manufacturers, Federal and State cigarette excise tax increases and enforcement efforts.

To illustrate, consider tax receipts for State fiscal year 2000-01. In addition to the expectation of continuing declines in consumption from manufacturers' price increases and the growing aversion to smoking for health reasons, receipts in 2000-01 were affected by the near doubling of the State excise tax on March 1, 2000. Such a large effective price increase has had a negative impact on cigarette consumption beyond the price effect noted above. Since the price of cigarettes was high in New York relative to each of the surrounding states, there was a significant incentive for bootlegging cigarettes into the State. Legal avoidance of the tax also undoubtedly proliferated in the form of out-of-State purchases and tax-free sales on Indian reservations. Finally, legislation has been enacted to prohibit all purchases of cigarettes via mail-order or via the Internet. This law became effective March 1, 2003, but it does not apply to the U.S. Postal Service. Receipts in 2000-01 were also affected by the ten cent Federal excise tax increase that began January 1, 2000. However, this had a less severe impact on New York cigarette tax receipts since this tax increase was nationwide, and therefore did not exacerbate price differentials between New York and surrounding states or Native American reservations that may be exploited by illegal activities or legal avoidance.

¹ See, for example, W. Evans, J. Ringel, and D. Stech, *Tobacco Taxes and Public Policy to Discourage Smoking*, Tax Policy & the Economy, 1999, Issue 13.

CIGARETTE AND TOBACCO TAXES

N.Y. Tax-Paid Cigarette Consumption and Price



Data represent 1970-2004

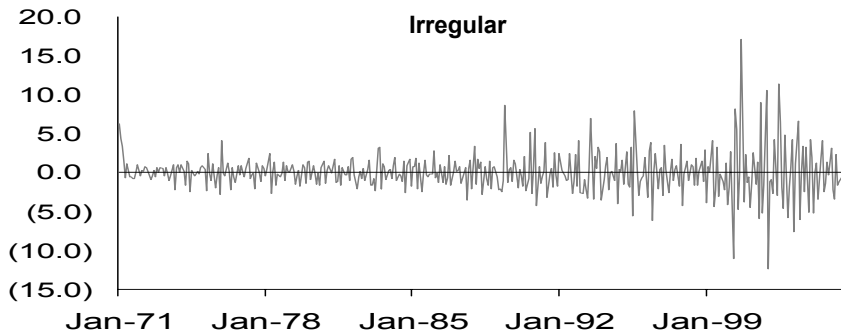
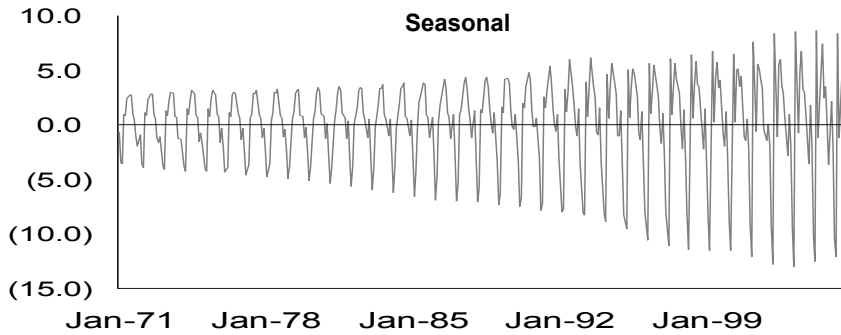
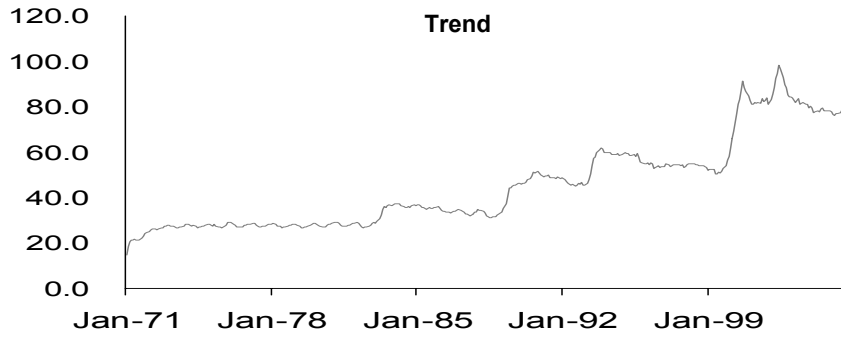
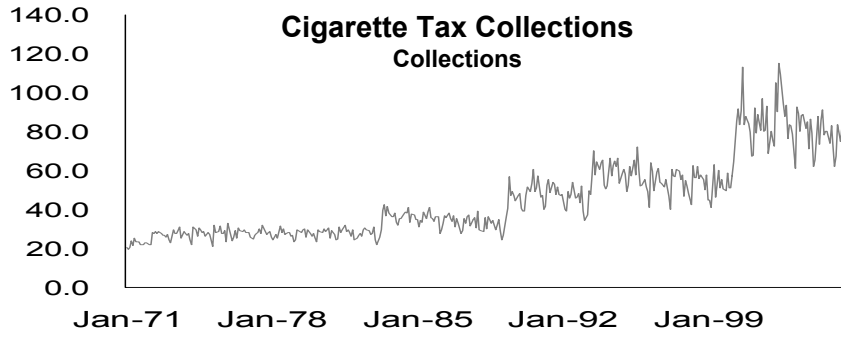
CIGARETTE TAX RATES AND TAXABLE CONSUMPTION CHANGES IN NEW YORK AND BORDERING STATES YEAR ENDING JUNE 30 (average cents per pack)					
	2004	2003	2002	2001	2000
Connecticut	151	111	50	50	50
(percent change)	(9.4)	(10.1)	(2.8)	(0.2)	(2.3)
Massachusetts	151	151	76	76	76
(percent change)	(7.5)	(14.4)	1.8	(3.7)	(2.2)
New Jersey	205	150	80	80	80
(percent change)	(9.0)	(17.6)	1.9	(1.2)	(4.0)
New York	150	150	150	111	111
(percent change)	(3.7)	(24.2)	(2.9)	(13.2)	(8.1)
Pennsylvania	135	100	31	31	31
(percent change)	(7.7)	(14.0)	0.2	(0.7)	(2.1)
Vermont	119	93	44	44	44
(percent change)	(11.4)	(16.3)	(0.7)	4.7	(1.1)

Cash Collections

The accompanying component collection graphs clearly illustrate the impact of recent law changes on receipt results. The overall trend in collections is negative, which is difficult to see. This is because a series of tax increases beginning in the early 1980s have periodically driven receipts in upward steps. After the change the negative trend re-emerges.

CIGARETTE AND TOBACCO TAXES

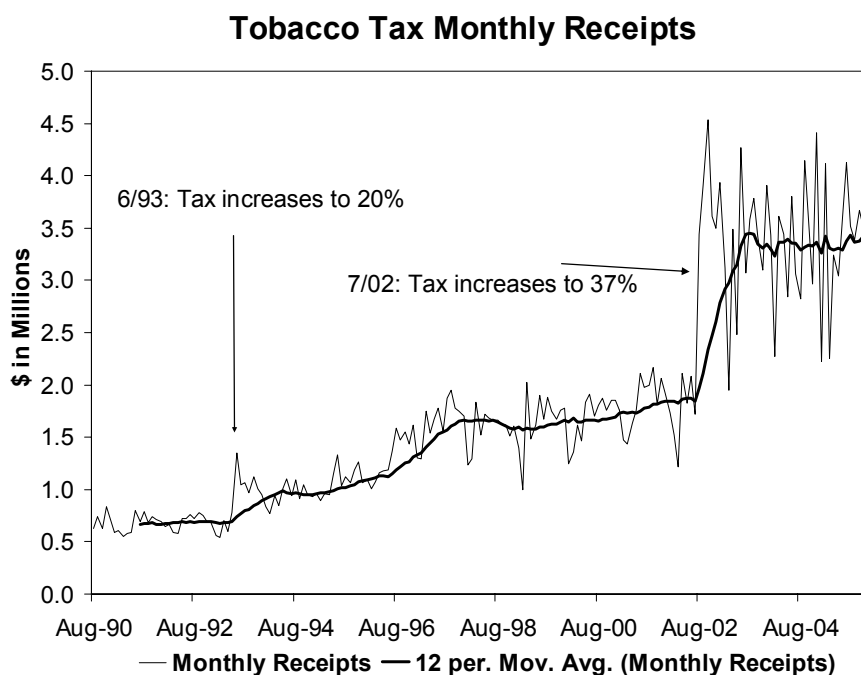
Collection Components (millions of dollars)



CIGARETTE AND TOBACCO TAXES

Tobacco Products Tax Forecast Development

Tobacco products tax receipts are a small component of the cigarette and tobacco taxes. In 2004-05, tobacco tax receipts of \$39.7 million accounted for only 4 percent of total cigarette and tobacco tax collections. This tax is imposed on products such as cigars, pipe tobacco and chewing tobacco. The Division of the Budget uses trend analysis as well as data published by the United States Department of Agriculture² to construct a tobacco products tax forecast. The following graph shows monthly and 12-month moving average tobacco tax collections from August 1989 to November 2005.



PERCENTAGE DISTRIBUTION OF CASH RECEIPTS

	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1997-98	26.7	26.9	24.5	21.9
1998-99	27.1	27.2	25.3	20.4
1999-2000	25.0	25.9	24.7	24.5
2000-01	24.2	28.7	25.6	21.5
2001-02	26.3	26.1	24.6	23.0
2002-03	28.4	27.2	23.7	20.7
2003-04	26.8	26.6	25.0	21.6
2004-05	26.4	26.6	25.5	21.5
2005-06 (est)	25.8	27.9	24.9	21.4

Risks to the Forecast

Several factors impart a substantial amount of uncertainty to the cigarette tax forecast. First, according to Securities and Exchange Commission (SEC) filings by Philip Morris, Inc., as of August 2002 there were hundreds of pending tobacco-related legal claims, including individual personal injury lawsuits, class action lawsuits and health care cost recovery lawsuits. In July 2000, a Florida jury in the Engle case awarded \$145 billion in punitive damages. Furthermore, action is being pursued by the United States Justice Department

² United States Department of Agriculture Economic Research Service, *Tobacco Situation and Outlook Report*, Washington D.C. (This publication is available on the Internet at <http://www.econ.ag.gov/briefing/tobacco/index.htm>)

CIGARETTE AND TOBACCO TAXES

against cigarette manufacturers in an attempt to recover billions of dollars of health care costs. If ultimately successful, any such litigation would likely cause another round of large wholesale price increases by the cigarette manufacturers. Such unanticipated price increases would decrease State and national taxable consumption.

Additional uncertainty originates from the effectiveness of new anti-smoking campaigns. As part of the Tobacco Master Settlement, participating cigarette manufacturers agreed to place limitations on advertising, sporting event sponsorship and “branded” merchandise, as well as contribute \$1.5 billion over ten years to support anti-smoking programs. Also, the Health Care Reform Act of 2000 designates moneys to fund anti-smoking campaigns in New York State.

MOTOR FUEL TAX

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

An 8 cent-per-gallon tax is imposed on the sale of gasoline and diesel motor fuel in the State. Prior to January 1, 1996, the diesel motor fuel tax was 10 cents per gallon. Non-highway uses of motor fuel, such as in construction machinery, agriculture, commercial marine activity, or vehicles operated on rails or tracks, are granted refunds of the tax. Thus, the tax is levied primarily on fuel used in motor vehicles operating on the public highways of the State or fuel used in recreational boats on the State’s waterways.

Beginning in State fiscal year 2001-02, all motor fuel tax revenue was earmarked for deposit in the Dedicated Highway and Bridge Trust Fund, the Dedicated Mass Transportation Trust Fund, and the Emergency Highway Funds. In 2003-04, all motor fuel tax receipts are earmarked to the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund.

Administration

The gasoline component of the motor fuel tax is remitted upon first import for sale, use, storage or distribution in New York State. The diesel motor fuel tax is collected on the first non-exempt sale in the State.

The tax is generally remitted monthly, although vendors whose average monthly tax is less than \$200 may remit quarterly. Vendors with annual tax liability of more than \$5 million for both the motor fuel tax and the petroleum business tax during the preceding year must remit the tax via electronic funds transfer (EFT) or by certified check by the third business day following the 22nd of each month.

DATA SOURCES

The primary sources of data used in the estimation and forecasting for the motor fuel tax are as follows:

- *AM043, Department of Taxation and Finance Monthly Report of Receipts.* This report contains gross and net receipts data for gasoline and diesel motor fuel tax receipts.
- *United States Energy Information Administration.* Various publications, including the Short Term Energy Outlook, Petroleum Marketing Monthly and Annual Energy and Motor Gasoline Watch, contain useful information. These are available on the Internet at <http://www.eia.doe.gov>.
- *Various U.S. and New York government agencies, including the U.S. Bureau of Economic Analysis of the Commerce Department.* These agencies provide economic data used to develop gasoline and diesel consumption forecasts.

STATUTORY CHANGES

The only significant law change in recent years has been the reduction in the diesel motor fuel tax from 10 cents per gallon to 8 cents per gallon, effective January 1, 1996.

MOTOR FUEL TAX

FORECAST METHODOLOGY

Econometric Techniques

Generating the motor fuel revenue forecast is a two-step process. First, a forecast of demand (gallons) is produced at an annual (fiscal year) frequency and the appropriate tax rate is applied. Second, various adjustments are made to arrive at the forecast of cash collections, since a direct relationship does not exist between demand and cash collections. Both of these steps are discussed below.

Gallonage

Both of the following equations are explicitly shown in the petroleum business tax (PBT) methodology.

Gasoline

- The Energy Information Administration (EIA) has reported estimated relationships between changes in real gross domestic product (GDP), national fuel prices and national gasoline demand. It estimates that a 1 percent increase in GDP will raise gasoline demand by 0.1 percent, and a 10 percent increase in fuel prices will decrease demand by 0.3 percent. To derive a State level forecast, real New York disposable personal income is substituted for GDP. The following table contains percentage changes of real New York disposable personal income and gasoline price.

PERCENT CHANGE IN EXOGENOUS VARIABLES		
	Real NY Disposable Income	Gasoline Price
1996-97	1.9	7.8
1997-98	2.4	(5.0)
1998-99	4.2	(12.4)
1999-2000	0.9	21.7
2000-01	4.1	18.6
2001-02	(0.1)	(9.3)
2002-03	3.0	5.7
2003-04	2.8	8.8
2004-05	2.1	20.7
2005-06 (est.)	1.9	26.2

Diesel

- Consumption of diesel fuel is forecasted with a simple econometric model relating consumption to a broad measure of New York economic activity (real New York disposable personal income). The model was most recently estimated with 123 observations of quarterly data (1975:1 to 2005:3). A dummy variable is used to isolate the impact of changes in tax remittance in State fiscal year 1988-89. A quarterly dummy variable is also used to reflect quarterly consumption patterns.

Adjustments

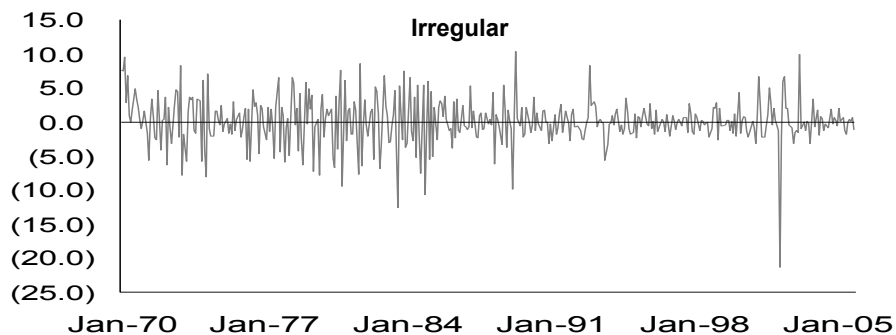
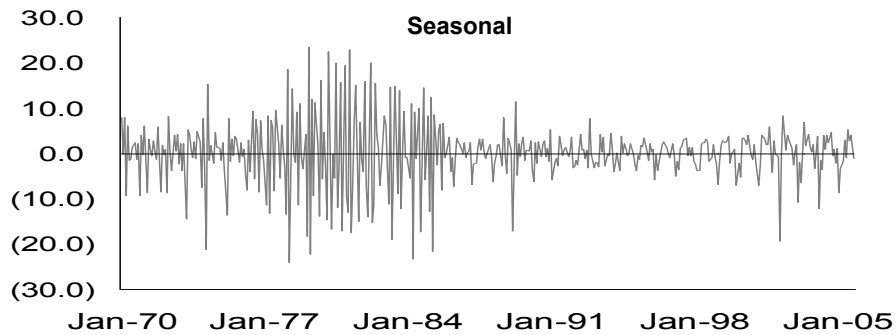
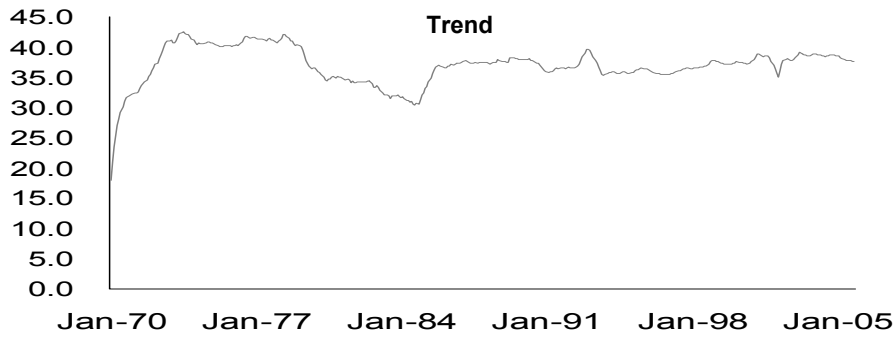
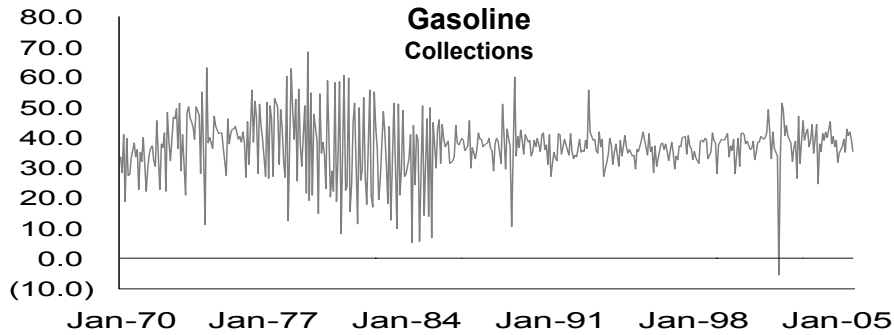
After generating a demand forecast and applying the appropriate tax rates, adjustments are made for refunds, audits, credits, pay schedule lags, accounting delays, historical and year-to-date collection patterns, tax law changes, tax evasion and Federal and State enforcement measures.

Cash Receipts

The gasoline motor fuel tax collection components show that gasoline motor fuel tax receipts display wide variation in monthly cash receipts, but the long-term trend has remained fairly stable since the mid-1980's, generally falling in the range of \$35 million to \$40 million per month. There is only a small seasonal pattern relative to total collections. The irregular component indicates there have been relatively large "outlier" months but only a few in recent years reflecting data adjustments between taxes.

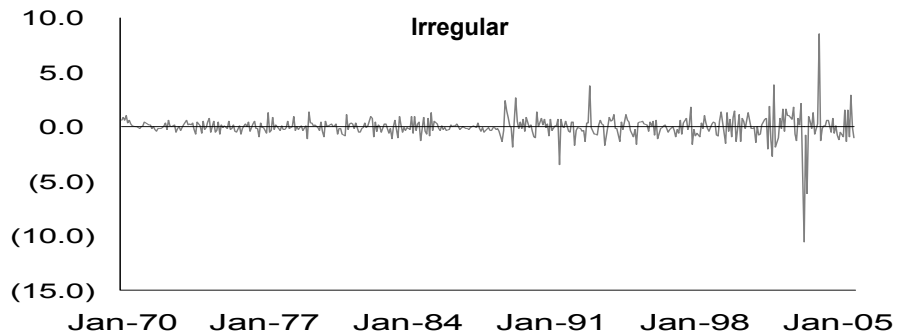
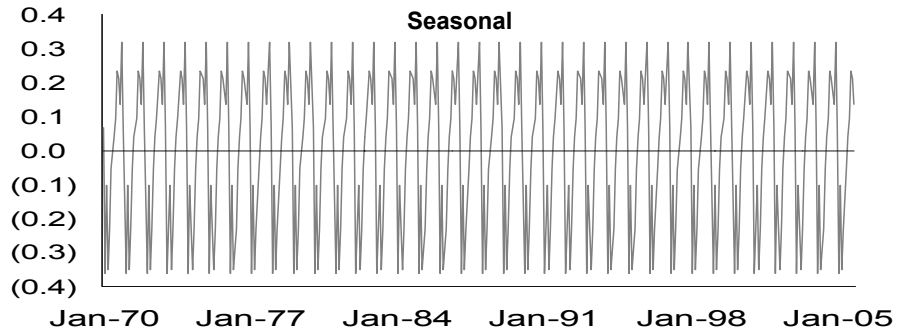
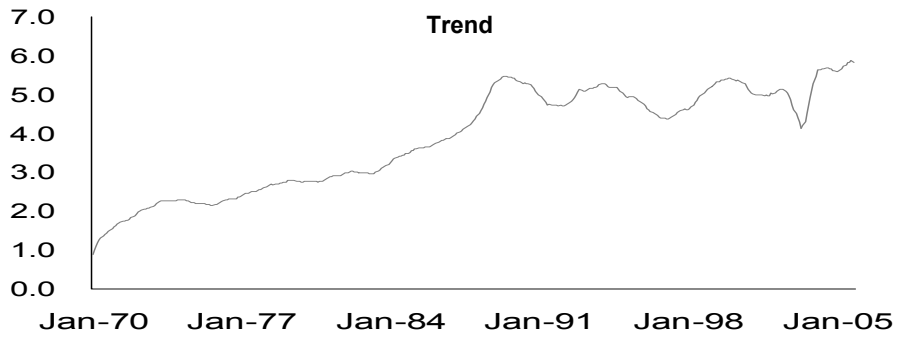
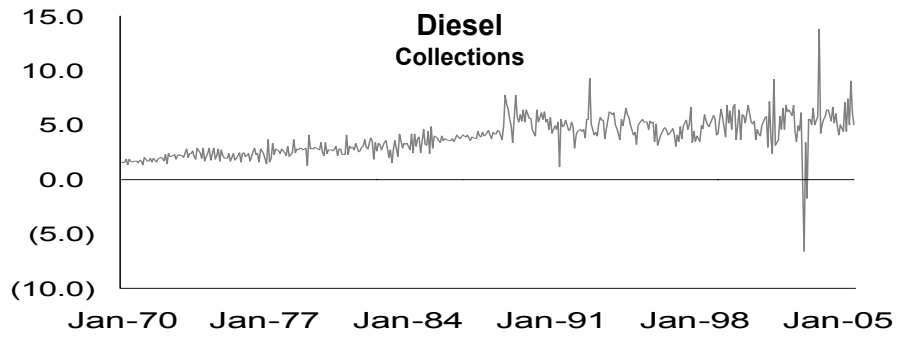
MOTOR FUEL TAX

Collection Components (millions of dollars)



The diesel motor fuel tax collection component graphs show that diesel receipts have also remained fairly stable, usually falling between \$4 million and \$6 million per month since 1988. However, as expected, the trend for diesel collections appears more sensitive to economic cycles. Large jumps in the irregular series in recent years reflect reporting anomalies associated with classifying receipts of petroleum business tax.

**Collection Components
(millions of dollars)**



MOTOR FUEL TAX

PERCENTAGE DISTRIBUTION OF CASH RECEIPTS				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996-97	24.6	26.7	25.3	23.4
1997-98	24.2	26.4	26.3	23.1
1998-99	24.4	26.7	25.1	23.7
1999-2000	25.7	26.3	24.0	24.0
2000-01	25.2	26.6	24.9	23.3
2001-02	27.2	30.0	27.0	15.8
2002-03	27.5	26.6	22.8	23.1
2003-04	23.1	25.3	26.2	25.4
2004-05	24.9	27.4	25.1	22.6
2005-06 (est.)	24.4	28.1	24.9	22.6

Risks to the Forecast

Due to the difficulty in predicting fuel prices, gasoline inventories, tax evasion and weather conditions, the revenue estimate has certain inherent risks. Global economic and political conditions as well as market forces affect fuel prices. For example, the West Texas intermediate crude oil price increased from \$19 per barrel in January 2002 to over \$65 per barrel by September 2005. The war in Iraq or natural disasters may add a degree of uncertainty to the future price of oil.

MOTOR VEHICLE FEES

BACKGROUND

Motor vehicle fees are imposed by the Vehicle and Traffic Law. An early version, enacted in 1929, was itself derived from other laws pertaining to traffic, such as the General Highway Traffic Law. The latest codification, which with subsequent amendments remains current, was enacted in 1959 and became effective in October 1960.

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the "Explanation of Receipts Estimates" section in this volume.

Tax Base and Rate

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

Most vehicle registration fees are based on vehicle weight, buses are charged according to seating capacity and semi-trailers are charged a flat fee. Registration for vehicles weighing less than 18,000 pounds is biennial.

Drivers' licenses are originally issued for five years and renewals for eight-year periods. Basic renewal rates, per annum, are \$5 for an operator's license, \$10 for a chauffeurs license, and \$15 for a commercial driver's license.

Numerous other fees, related to the processes of registration or licensing, are also components of motor vehicle fees. Such fees include inspection and emission stickers, repair shop certificates, and insurance civil penalties.

Administration

Registration and licensing take place at the central and district offices of the Department of Motor Vehicles and by mail and at county clerks' offices in most counties.

DATA SOURCES

The primary source of data is Preliminary Motor Vehicle Transactions, Department of Motor Vehicles. This report contains monthly data on item volume and dollar receipts.

STATUTORY CHANGES

The main statutory or administrative changes that have a bearing on actual cash receipts include:

- extension of license renewal period from four to five years (1996-97);
- change in method and rate for paying county clerks (1996-97);
- extension of validity of original licenses from four to five years (1997-98);
- increase in the photo image fee (1997-98);
- reduction of 25 percent in graduated rates on passenger cars (1998-99);
- extension of license renewal period from five to eight years (2000-01);
- re-issuance of license plates (2000-01 through 2002-03); and
- increase in title fees (2004-05).

MOTOR VEHICLE FEES

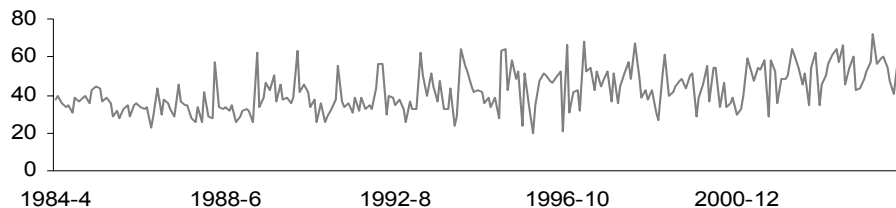
FORECAST METHODOLOGY

Since the preponderant parts of motor vehicle fees are registrations (70 percent) and licenses (20 percent), most attention is paid to the following variables:

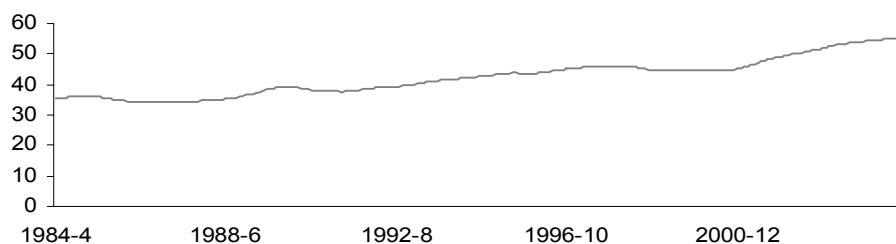
- the number of passenger and commercial vehicles and the average weight of each type;
- the number of new and renewal licenses; and
- the cyclical pattern of registration, licensing, and renewal.

**Collection Components
(millions of dollars)**

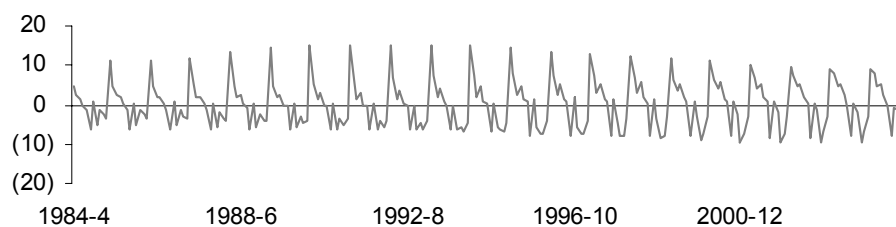
Motor Vehicle Fees
Collections



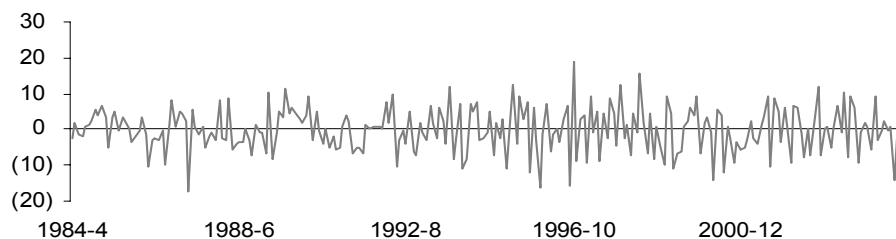
Trend



Seasonal



Irregular



Cash Receipts

As is clear from the components graphs, the overall trend in motor vehicle fee receipts has been fairly constant overtime. There is a pronounced seasonal pattern with peaks during the summer months. The irregular component is relatively large compared to trend.

MOTOR VEHICLE FEES

The cash forecast is developed by growing the existing base using estimated growth in registrations and licenses. Furthermore, the statutory or administrative changes pertaining to any variable (see Statutory Changes) are taken into account. The result is a cash forecast for the period in question. The table below illustrates quarterly cash flow for motor vehicle fees on an All Funds basis.

PERCENTAGE DISTRIBUTION OF CASH RECEIPTS				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996-97	26.3	22.3	25.3	26.1
1997-98	26.3	25.4	25.0	23.3
1998-99	31.2	23.5	20.1	25.2
1999-2000	23.6	26.0	24.4	26.0
2000-01	29.3	23.1	21.1	26.5
2001-02	26.1	23.9	25.0	25.0
2002-03	29.1	21.5	24.6	24.8
2003-04	27.9	25.5	22.4	24.2
2004-05	29.4	25.5	24.4	20.7
2005-06 (est.)	25.2	22.8	27.3	24.7

ALCOHOLIC BEVERAGE TAXES AND ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

Since 1933, after the repeal of National Prohibition, New York State has imposed excise taxes at various rates on liquor, beer, wine and specialty beverages. Licensed distributors and non-commercial importers of such beverages remit these taxes in the month following the month of delivery.

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.

Legislation enacted in 1990 increased the tax rate on all liquor with more than 2 percent alcohol by 21 percent. On July 1, 1994, the tax rates on natural sparkling and artificially carbonated sparkling wines were reduced from 25 cents per liter and 15 cents per liter, respectively, to 5 cents per liter, to equal the State excise tax rate on still wine. On January 1, 1996, the State excise tax rate on beer with at least 0.5 percent alcohol was reduced from 21 cents to 16 cents per gallon. On January 1, 1999, the State beer excise tax was further reduced to 13.5 cents per gallon. On April 1, 2001, the beer tax was cut an additional 1 cent per gallon. Effective September 1, 2003, the beer tax was further reduced to 11 cents per gallon.

State tax rates for 2005-06 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

Alcoholic beverage control license (ABCL) fees vary, depending upon the type and location of the establishment or premises operated as well as the class of beverage for which the license is issued.

DATA SOURCES

The primary sources of data used in the estimation and forecasting methodology for the alcoholic beverage tax are as follows:

- *AM043, Department of Taxation and Finance Monthly Report of Receipts*. This report contains gross and net receipts data for alcoholic beverage taxes.
- *Alcoholic Beverage Tax Monthly Statistical Report, Department of Taxation and Finance*. This report contains alcoholic beverage monthly consumption data.

ALCOHOLIC BEVERAGE TAXES AND ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

- *Alcoholic Beverage Control License Fees Monthly Report, Office of the State Comptroller.* This report contains gross and net receipts data for alcoholic beverage control license fee monthly collections.

STATUTORY CHANGES

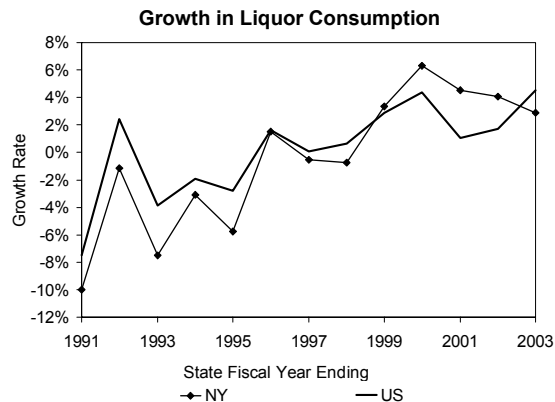
Historically, tax evasion has been a serious problem. Legislation enacted in 1993 added registration, invoice and manifest requirements, as well as seizure and forfeiture enforcement provisions. Additionally, the legislation provided higher fines based on the volumes of liquor bootlegged. These alcoholic beverage enforcement provisions have provided some protection to the State's liquor industry and tax base, moderating year-over-year declines in State alcoholic beverage tax receipts.

Legislation enacted in 1996, which required remittance of ABT liability through electronic funds transfer (EFT) by the State's largest vendors was repealed on April 8, 1997. The initial EFT provisions accelerated approximately \$6.3 million into State fiscal year 1996-97, and the repeal of the provisions produced a similar one-time reduction in revenue in State fiscal year 1997-98.

FORECAST METHODOLOGY

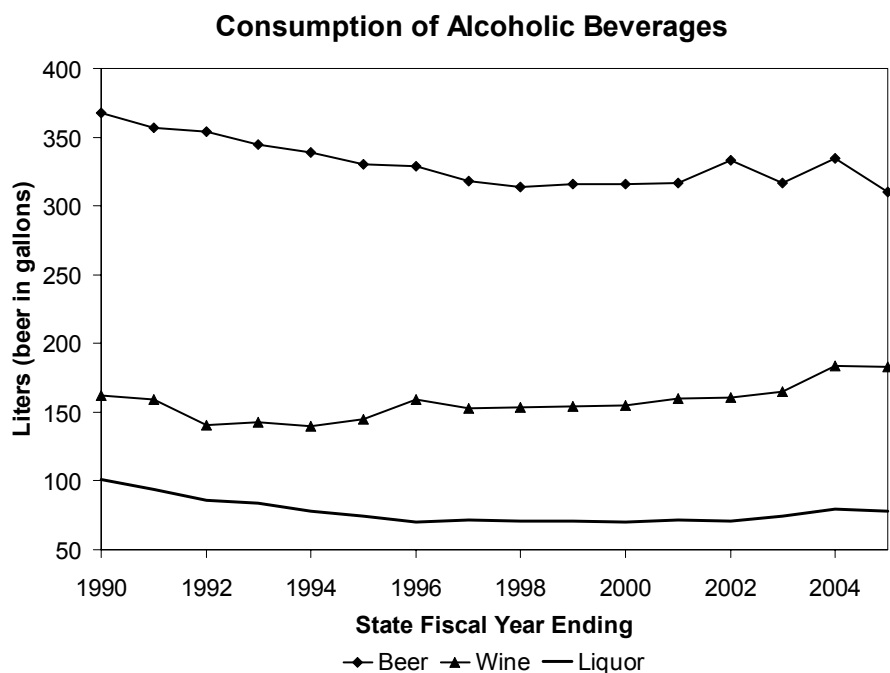
New York liquor consumption generally follows national trends. The chart below compares U.S. (using data from the Distilled Spirits Council of the U.S., Inc.) and New York consumption data. Consumption changes have a major effect on changes in excise tax receipts.

The forecast for this tax source is primarily based on an analysis of historical alcoholic beverage consumption trends. Data from the last several years indicate the decline in overall consumption has reversed. This can be attributed in part to tax reductions and enforcement efforts. Three time series models have been developed for the per capita consumption of beer, liquor and wine. These time series methods put more weight on recent observations reflecting shifts in recent trends. The actual annual per capita consumption data cover the period from fiscal year 1970-71 through fiscal year 2004-05. The level smoothing weight and the trend smoothing weight in the model are selected to maximize the Akaike Information Criterion — a measure of error variation corrected for the number of parameters estimated. A summary of the statistical results of these models is reported as follows:



Statistics	Beer:	Liquor:	Wine:
	Damped Trend Exponential Smoothing	Damped Trend Exponential Smoothing	Damped Trend Exponential Smoothing
Level Smoothing Weight	0.5768	0.6056	0.8425
Trend Smoothing Weight	0.9990	0.6851	0.9990
Adjusted R-Square	0.9430	0.9930	0.8860

ALCOHOLIC BEVERAGE TAXES AND ALCOHOLIC BEVERAGE CONTROL LICENSE FEES



Final estimates are constructed using the time series model forecasts with the following adjustments:

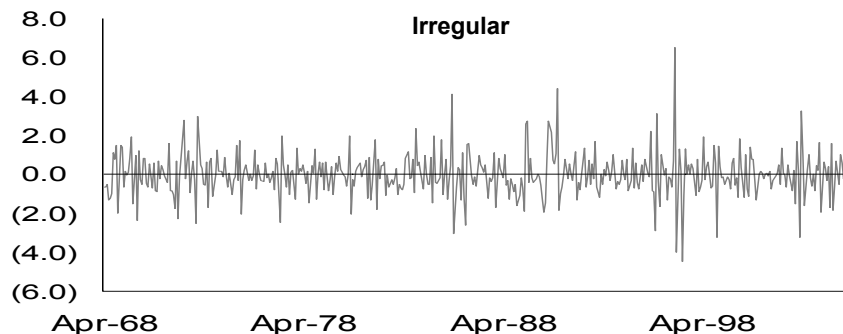
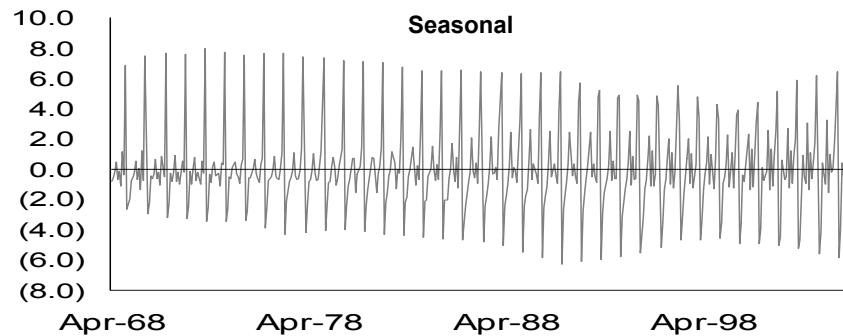
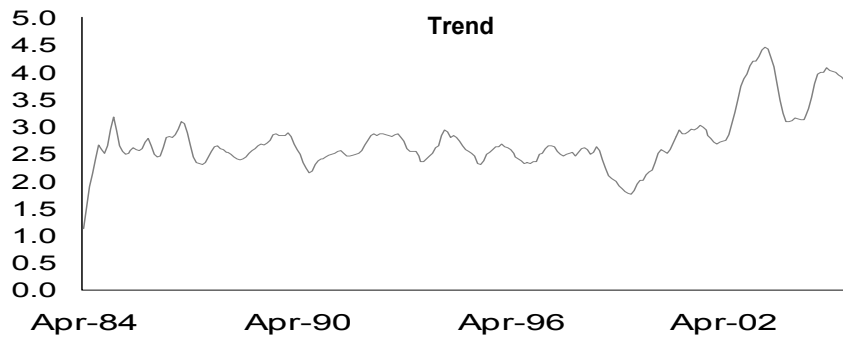
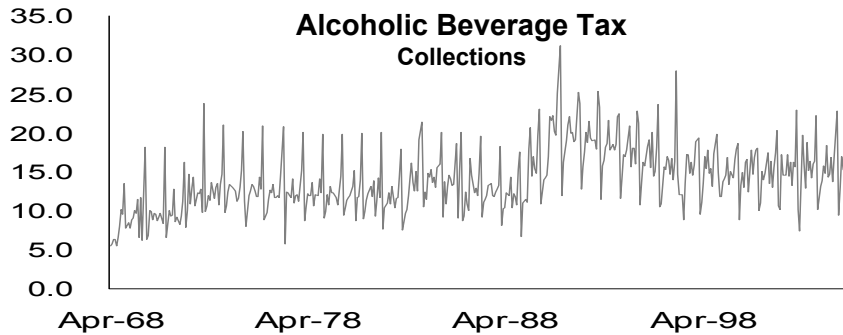
- *Price Elasticity:* Price changes in different alcoholic beverages have different impacts on consumption. Currently, the following price elasticities derived from the noted sources are used: beer, -0.3; liquor, -0.7; and wine, -0.7. (M. Grossman, J. L. Sinderlar, J. Mullahy and R. Anderson, Policy Watch: Alcohol and Cigarette Taxes, *Journal of Economic Perspectives*, V.7, Fall 1993; B. H. Baltagi and R. K. Goel, Quasi-Experimental Price Elasticity of Liquor Demand in the United States: 1960-83, *American Agricultural Economics Association*, May 1990.)
- *Cash Flow Results:* Tax collection experience and cash flow results are used to evaluate the estimate. Receipts year-to-date may indicate that the actual collections are slightly higher or lower than expected. From time-to-time, ABT receipts are understated or overstated due to misallocation to New York City. For instance, 1998-99 receipts were overstated by \$1.8 million. Thus, we adjust the data before making the forecast.
- *Tax Policy Changes:* In the ABT collection history, legislative changes have been the main cause of significant revenue fluctuations. The beer tax rate was reduced from 16 cents per gallon to 13.5 cents per gallon, beginning January 1, 1999, to 12.5 cents per gallon, beginning April 1, 2001, and to 11 cents per gallon, beginning September 1, 2003. These reductions are estimated to have reduced revenue by \$7.8 million, \$3.1 million, and \$4.9 million in 2005-06, respectively.
- *Enforcement:* The State continues to suffer tax evasion through the bootlegging of liquor from other states. As mentioned above, legislation enacted in 1997 extended the 1993 enforcement provisions from October 31, 1997, to October 31, 2002. Legislation enacted in 2002 extended these enforcement provisions from October 31, 2002, to October 31, 2007. ABT receipts in 2004-05 are estimated to have increased by \$3 million due to enforcement efforts.

ALCOHOLIC BEVERAGE TAXES AND ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

Cash Receipts

The collections pattern for this tax has remained fairly constant aside from the tax increases in the early 1990s. The seasonal pattern suggests increased consumption of taxable beverages in the winter months.

Collection Components (millions of dollars)



ALCOHOLIC BEVERAGE TAXES AND ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

PERCENTAGE DISTRIBUTION OF CASH RECEIPTS				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1996-97	24.8	24.9	30.2	20.1
1997-98	22.3	27.3	27.8	22.6
1998-99	25.1	26.3	27.5	21.1
1999-2000	23.9	25.6	27.5	23.0
2000-01	24.6	26.2	27.4	21.8
2001-02	24.6	26.6	25.7	23.1
2002-03	25.8	26.6	25.1	22.5
2003-04	24.1	25.7	25.5	24.6
2004-05	24.1	25.6	25.8	24.5
2005-06 (est)	25.0	27.5	24.3	23.2

Risks to Forecast

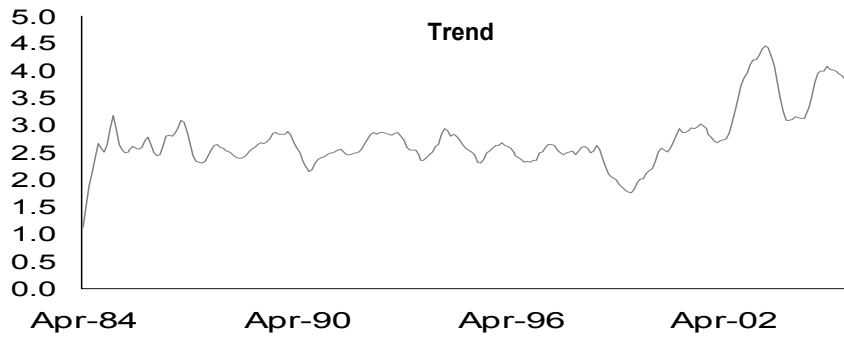
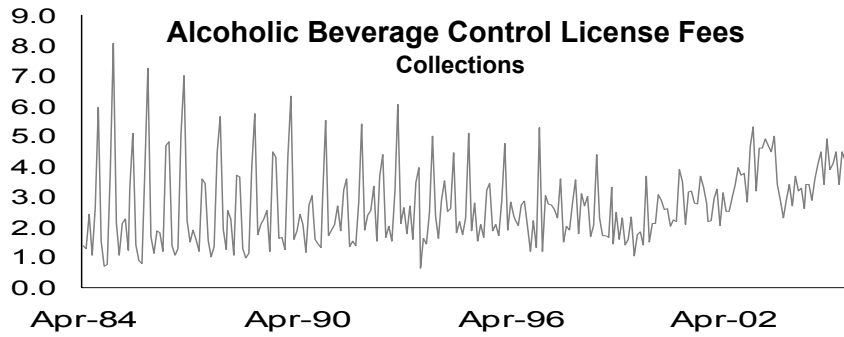
The forecast is based on time series models that are subject to error, especially due to the possible omission of exogenous factors that may influence collections. Also, the ABT is collected at the wholesale level, so taxable gallonage may also fluctuate due to the uncertainty of inventory levels.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

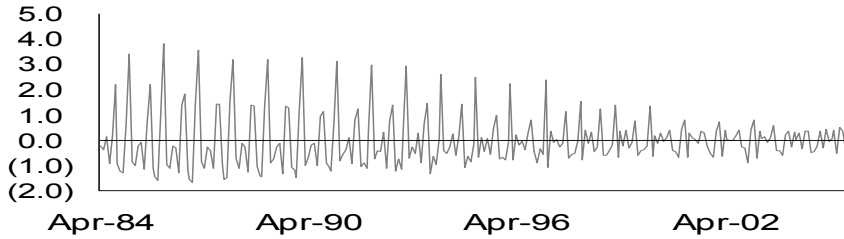
The estimate for ABCL fees is also based on collection trends. Historically, the base of the ABCL revenue has been declining. Until 1998-99, most license fees were issued for three-year periods. Legislative changes played a very important role in 1999-2000 ABCL fees collections. Legislation enacted in 1997 eliminated the three-year license and permitted on-premises alcoholic beverage retailers to revert to single-year or biennial licenses. The estimated decline in ABCL receipts due to these changes was \$9 million in 1999-2000. Legislation enacted in 2002 increased license fees for most licensees by 28 percent, effective September 1, 2002. The estimated increase in ABCL fee receipts due to this change was \$8 million in 2002-03 and more than \$10 million in 2003-04. As a result of the distribution of two-year licenses, a new annual receipts trend was created in ABCL fees: State fiscal years ending in even numbers will have higher receipts, and State fiscal years ending in odd numbers will have lower receipts.

ALCOHOLIC BEVERAGE TAXES AND ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

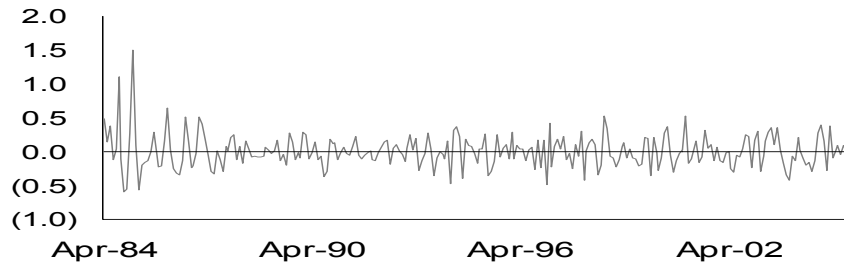
Collection Components (millions of dollars)



Seasonal



Irregular



ALCOHOLIC BEVERAGE TAXES AND ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

Cash Receipts

The components graphs indicate a stable trend with a slight decline in recent years. A very stable seasonal pattern with a peak early in the calendar year and a smaller summer time spike is also evident.

PERCENTAGE DISTRIBUTION OF CASH RECEIPTS				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996-97	26.3	27.0	19.2	27.5
1997-98	27.9	27.7	17.8	26.6
1998-99	30.3	27.9	19.7	22.1
1999-2000	28.0	23.1	20.1	28.8
2000-01	17.8	27.8	21.9	32.5
2001-02	26.9	28.4	21.3	23.4
2002-03	19.6	24.6	24.6	31.2
2003-04	30.6	30.9	18.9	19.6
2004-05	24.0	22.3	23.4	30.3
2005-06 (est.)	26.9	26.1	18.4	28.7

HIGHWAY USE TAX

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. The highway use tax (HUT) includes three components: the truck mileage tax, the fuel use tax, and highway use permit fees. All highway use tax receipts are earmarked to the Dedicated Highway and Bridge Trust Fund.

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds or, at the option of the carrier, 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 gross vehicle weight. The tax is calculated by multiplying the number of “laden” or “unladen” miles traveled on public highways of the State by the appropriate tax rate.

Highway use permits, used to denote those vehicles subject to the highway use tax, are issued triennially at \$15 for an initial permit and \$4 for a permit renewal. There are also special permits for the transportation of motor vehicles and for automotive fuel carriers, and for trips not to exceed 72 hours.

The fuel use tax is a complement to the motor fuel tax and the sales tax and is levied on commercial vehicles. 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 of the sales tax component is 7 percent of the average price of fuel; a cents-per-gallon equivalent is set quarterly.

DATA SOURCES

The primary sources of data used in the estimation and forecasting methodology for the highway use tax are as follows:

- *AM043, Department of Taxation and Finance Monthly Report of Receipts.* This report contains gross and net receipts data; and
- *Various U.S. and New York government agencies, including the U.S. Bureau of Economic Analysis of the Commerce Department.* These agencies provide economic data used in the econometric equation.

STATUTORY CHANGES

Truck Mileage Tax

Since 1951, the TMT has been levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds. In 1961, the State gave carriers the option of using an unloaded weight basis to compute truck mileage tax liability. A motor carrier pays tax based on both the number of miles driven on the public highways of this State and the weight of the vehicle.

HIGHWAY USE TAX

For State fiscal years 1990-91 through 1992-93, the economic recession retarded the demand for trucking. However, 1990 legislative changes contributed to large increases in highway use tax receipts. Legislation enacted in 1990 applied the truck mileage tax to New York State Thruway mileage. It also imposed a supplemental tax that effectively doubled truck mileage tax rates for all roadways other than the Thruway. Legislation enacted in 1994 reduced the truck mileage tax rates imposed on New York State Thruway mileage by one-half and eliminated such rates on January 1, 1996. The supplemental tax rate was reduced by 50 percent on January 1, 1999 (1998 legislation), and an additional 20 percent on April 1, 2001 (2000 legislation).

Fuel Use Tax

Legislation in 1977 expanded the fuel use tax to include a sales and use tax component. This law change altered the impact of fuel price changes on fuel use tax receipts. Increases in fuel prices tend to inhibit fuel consumption; in contrast, price increases raise the sales tax component rate and thereby fuel use tax collections.

Legislation in 1994 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 beginning January 1, 1995, and authorized the State to join the federally mandated International Fuel Tax Agreement (IFTA) on January 1, 1996.

Legislation in 1995 reduced the automotive diesel fuel excise tax rate from 10 cents per gallon to 8 cents per gallon. As a result, the diesel fuel tax component of the fuel use tax was also reduced to 8 cents per gallon, effective January 1, 1996.

FORECAST METHODOLOGY

In formulating its estimates and projections, the Division of the Budget relies principally upon the relationship of real gross domestic product (GDP) and TMT receipts. A quarterly regression model with variables in logs is used to estimate TMT revenues.

TMT data are actual tax collections from the Department of Taxation and Finance, adjusted for tax policy changes and irregular audit receipts. Real GDP is gross domestic product chained to 2000 dollars from the DOB forecast. Three dummy variables are set for: (1) the 1990 Tax Law change that applied the TMT rate to Thruway miles, which was eliminated in 1996, *dThruway*; (2) the 1990 Tax Law change that added a supplemental TMT, which was reduced by half in 1999 and an additional 20 percent in 2001, *dTMT*, and (3) a quarterly dummy variable is used to reflect seasonal patterns, *dQuarter*. The equation with t-statistics is:

TRUCK MILEAGE TAX MODEL	
$\log(\text{TMT}_t) = -2.53 + 1.36 \log(\text{GDP real}_t) + 0.62(\text{dTMT}_t) + 0.16(\text{dThruway}_t) - 0.14(\text{dQuarter}_t)$	
(-9.23) (43.11) (22.82) (6.39) (-5.12)	
R-Bar Squared	0.99
Durbin-Watson Statistic	0.87
Root Mean Squared Error	0.06
Number of Observations	120

The model suggests a strong link between trucking industry performance and real GDP. The elasticity of TMT receipts to real GDP is estimated at 1.4.

HIGHWAY USE TAX

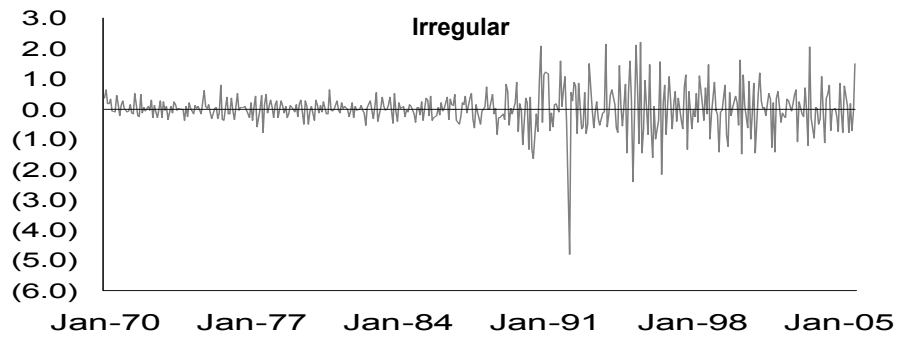
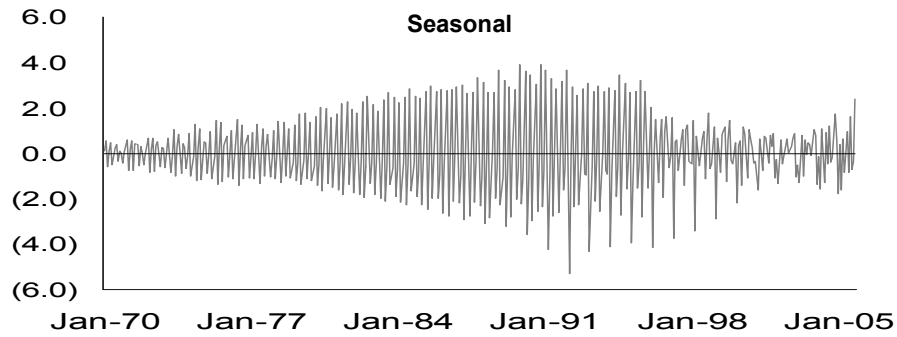
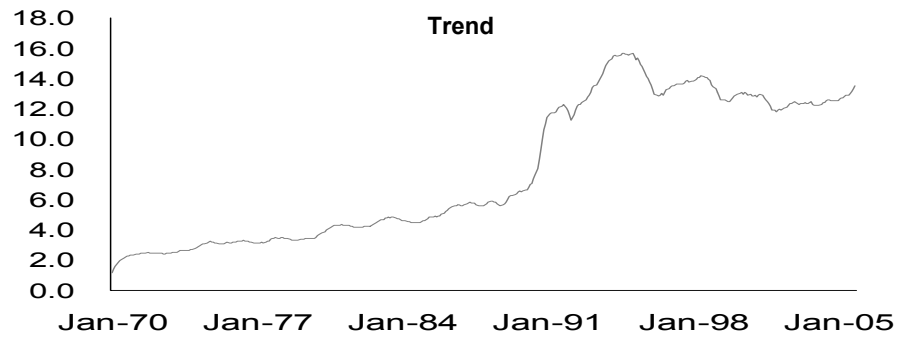
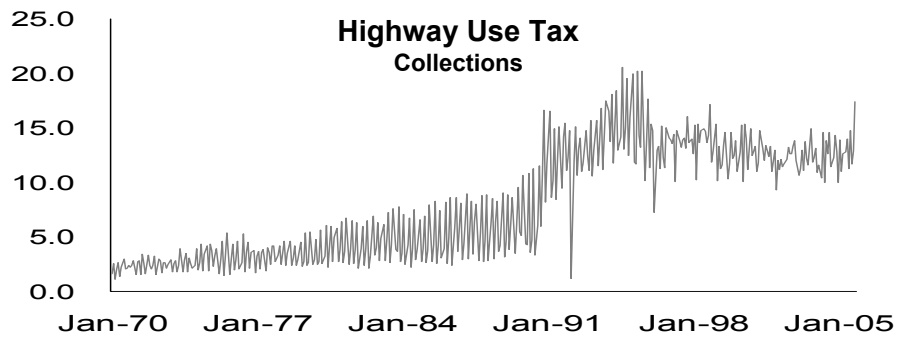
Fuel use tax collections fluctuate with fuel consumption, especially diesel fuel, which is influenced by both economic conditions and fuel prices. As a motor fuel tax complement, it also is affected by the extent to which fuel use taxpayers purchase fuel within the State and thus pay New York motor fuel and sales taxes instead.

CASH RECEIPTS

Highway use tax collections by constituent component are shown in the accompanying charts. The reductions in tax rates and elimination of the tax on the Thruway have resulted in a flattening out of trend growth and a reduction in the amplitude of the seasonal pattern in collections.

HIGHWAY USE TAX

Collection Components (millions of dollars)



HIGHWAY USE TAX

	PERCENTAGE DISTRIBUTION OF CASH RECEIPTS			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996-97	23.8	24.7	27.3	24.2
1997-98	25.3	24.9	26.5	23.2
1998-99	25.9	25.6	25.7	22.7
1999-2000	24.1	25.5	25.7	24.8
2000-01	24.6	26.2	25.9	23.3
2001-02	26.9	26.1	25.1	21.9
2002-03	24.0	25.8	27.0	23.2
2003-04	25.7	26.5	25.4	22.4
2004-05	25.4	25.5	26.0	23.1
2005-06 (est.)	24.8	23.9	27.2	24.1

BANK TAX

BACKGROUND

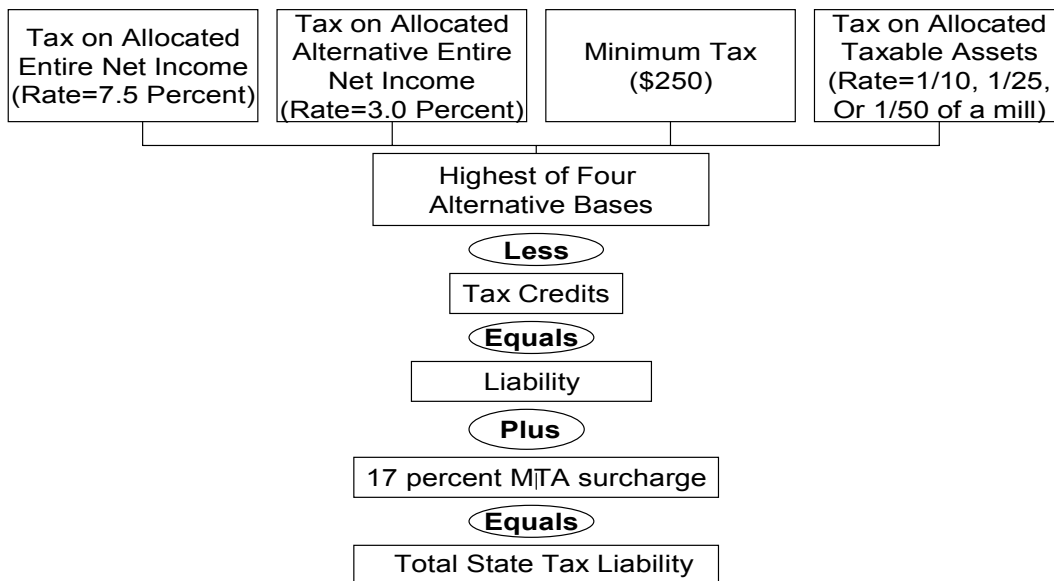
For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

Article 32 of the Tax Law imposes a franchise tax on banking corporations. Historically, Article 32 receipts have been quite volatile, reflecting statutory and regulatory changes and the variable profit performance of the banking sector. The basic tax rate is currently 7.5 percent of entire net income (ENI) with certain exclusions, discussed below. A fixed minimum tax of \$250 or one of two alternative taxes applies if a greater tax results. The first alternative tax calculation is on each dollar of taxable assets apportioned to the State, at a rate generally determined by the taxpayer’s net worth and lines of business conducted. The second alternative tax calculation is 3 percent of alternative entire net income, which is net income calculated without regard to certain exclusions.

In addition to the liability resulting from the highest of the four alternative base calculations, taxpayers doing business in the Metropolitan Commuter Transportation District (MCTD) are subject to a 17 percent surcharge on the portion of total tax liability allocable to the MCTD. Collections resulting from this surcharge are deposited to the Mass Transportation Operating Assistance Fund (MTOAF) to support the Metropolitan Transportation Authority (MTA).

Computation of Tax Liability (Current Law)



BANK TAX

DATA SOURCES

The major sources of data used in the estimation and forecasting methodology for the bank tax are as follows:

- *AC043, Department of Taxation and Finance Monthly Report of Corporation Tax.* This report, issued by the Office of Tax Policy Analysis (OTPA), provides reconciled monthly collections of bank tax receipts by filing periods.
- *New York State Corporate Tax Statistical Report.* This report is published by OTPA. It includes a detailed summary of bank tax data.
- *Federal Deposit Insurance Corporation.* New York Regional Outlook, Bank Trends, and Statistics on Banking.
- *Value Line Investment Survey.* Bank Industry.
- *Securities and Exchange (SEC) Web Site (<http://www.sec.gov>).* This web site is monitored for relevant quarterly (10-Q) and annual (10-K) financial reports.
- *Article 32 Bank Tax Study File.* This file is compiled by the Department of Taxation and Finance and includes all corporations filing under Article 32. It includes selected data items from the tax returns of each corporation.

STATUTORY CHANGES

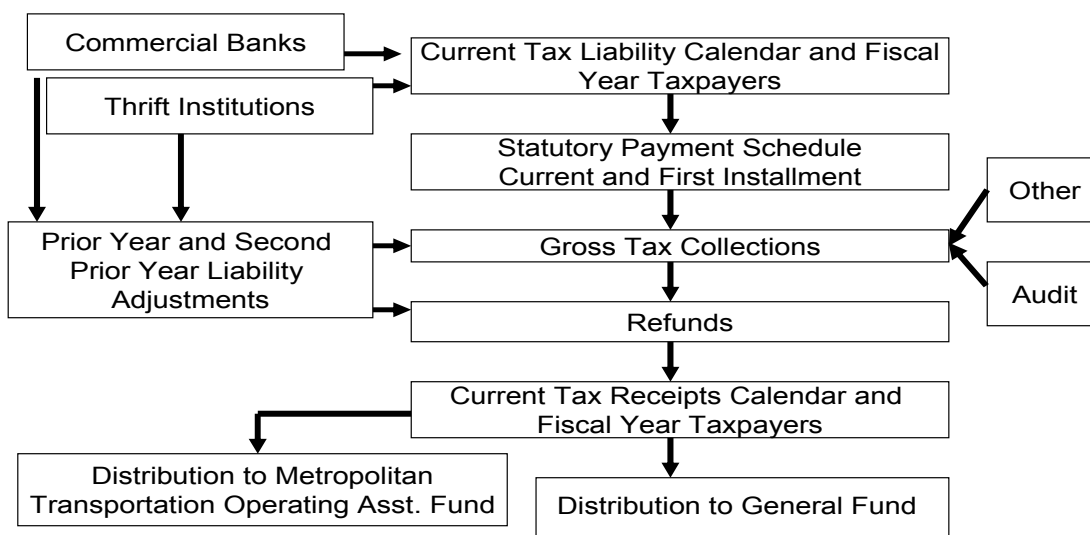
The chapter on individual taxes earlier in this volume contains a complete description of recent changes. In 1999, Congress passed the Gramm-Leach-Bliley Act (GLBA). This legislation essentially repealed the Glass-Steagall Act of 1933, which had prohibited certain affiliations between securities, bank, and insurance companies. As a result, legislation was enacted at the State level, first in 2000, and in subsequent years, allowing corporations and banks to maintain their original tax filing status. The 2004-05 Enacted Budget extended the State GLBA transitional provisions until 2006.

FORECAST METHODOLOGY

The estimates for the current year and the outyears are based on a blend of historical collection patterns, simple trending techniques, estimates of underlying company liability, econometric models for key components of the base sensitive to economic or consumption changes, and statutory changes or other occurrences that may affect collections.

The following flowchart highlights the components of Article 32 State fiscal year collections as reported by the New York State Department of Taxation and Finance.

Components of the Bank Tax



The forecast for bank tax collections is driven by a taxpayer’s payments on estimated liability. As a result, the forecast methodology begins by constructing a historical liability series for each type of taxpayer. The forecast breaks collections into groups by taxpayer type: commercial banks, savings institutions, and savings and loan institutions. Based on its Federal tax return, the taxpayer is either a calendar-year or fiscal-year taxpayer.

In addition, in any given year, taxpayers make adjustments to estimated liability from prior periods. These adjustments are either credit carryforwards, if the money is used to offset a current liability, or refunds, if the taxpayer has requested that overpayments on prior liability be returned. Both types of prior year adjustments place downward pressure on State fiscal year cash collections. The following table highlights the fiscal periods in which banks are making payments during a given State fiscal year.

STATE FISCAL YEAR 2004-2005 NET COLLECTIONS BY FISCAL PERIOD (million of dollars)			
	Savings	Savings & Loan	Commercial
Prior Fiscal Year	(0.0)	0.0	(23.0)
Current Fiscal Year	0.0	(0.0)	21.8
Next Fiscal Year (1 st Installment)	0.0	0.0	33.1
Second Prior Calendar Year	0.1	0.0	(20.9)
First Prior Calendar Year	(1.1)	(0.3)	(154.6)
Current Calendar Year	4.3	2.9	572.8
Next Year Calendar (1 st Installment)	1.2	1.3	157.1
Other Collections	0.0	0.0	0.0
Prior Years	(0.0)	(0.1)	(28.0)
CARTS (Audits)	0.3	0.9	18.8
Total Net Collections	4.8	4.8	577.1

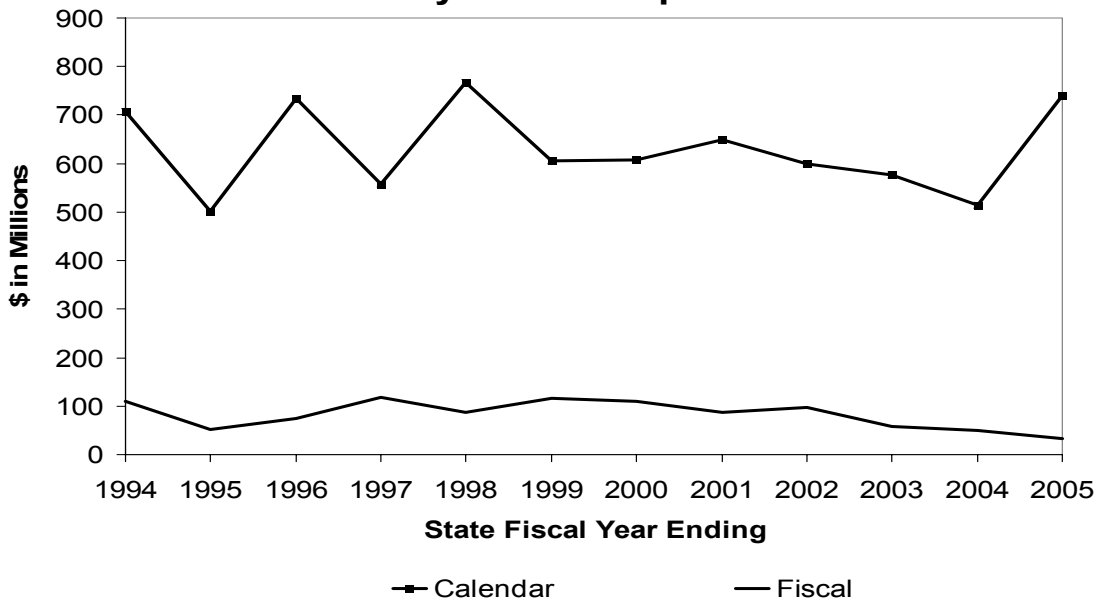
The table illustrates that calendar-year, commercial bank payments have the greatest influence on State fiscal year net collections. The forecast methodology tracks estimated liability, adjustments to estimated liability, and the first installment on the subsequent tax year. By focusing on the taxpayer’s liability and converting this to the State fiscal year, the methodology attempts to establish a link between the underlying economic and financial conditions of the banking industry and resulting cash payments.

BANK TAX

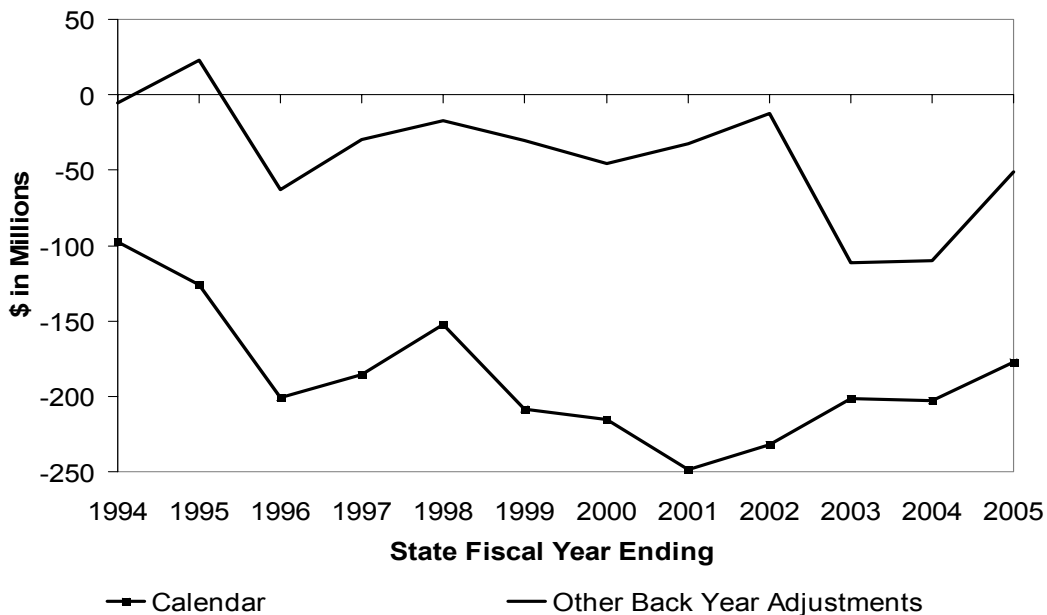
The following graphs illustrate the interplay between estimated payments on current year liability and adjustments to prior years' liabilities, resulting in net receipts collected during the State fiscal year. The first graph of taxpayers' payments on current and next year liability appears somewhat volatile, but noticeably demonstrates a decline during the brief recession following the events of September 11th. Most recently though, current and next year payments have increased as general economic and business conditions have also increased.

The second graph shows that prior year adjustments have had an increasingly negative impact on net receipts overall, but have recently moved in a positive direction.

Article 32 Current and Next Year Payments by Filer Groups



Article 32 Prior Year Adjustments



Outyear Forecast

Two approaches are used to forecast outyear receipts:

- Examining the public profit forecasts for large multinational banking corporations with a significant presence in New York State. This helps focus the analysis on the behavior of New York companies.
- Utilizing an econometric model that uses a proxy for the net interest margin from which banks derive profits forecast receipts over the forecast period. This margin, while a crude indication of banking sector activity, does appear to have a measure of explanatory power in predicting the path of future receipts. This model operates on the principle that profits derived from the interest rate spread and ENI rate changes ultimately determine outyear cash collections, subject to a substantial lag.

PERCENT CHANGE IN KEY VARIABLES STATE FISCAL YEARS 1999-00 TO 2004-05						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (Estimated)
Tax Collections*	(3.8)	(1.9)	(17.5)	(30.1)	97.8	20.7
Corporate Profits**	(3.0)	(9.2)	14.1	14.9	14.2	20.9
Tax Rates***	8.5	8.0	7.5	7.5	7.5	7.5

* Tax collections also reflect Tax Law changes.
 ** Corporate Profits was adjusted for 2002-03 for Federal depreciation allowances.
 *** The tax rate represents the actual tax rate paid under the entire net income base.

Econometric Model

The estimate of bank tax cash receipts is derived using an econometric model as a guide, the results of which serve as one step in the overall forecast process. The econometric model uses the logarithm of the taxable base for the dependent variable. The taxable base is constructed by dividing annual cash receipts by the nominal tax rate imposed on the ENI base for that year. Utilization of this method provides historical values for the dependent variable that exhibit a stronger correlation to the model regressors through time, as they are free of exogenous tax rate effects. The estimated bank tax base is then multiplied by the current law nominal tax rate on the ENI base to provide a baseline, net bank tax cash receipts estimate.

Dependent Variable

- The logarithm of the taxable bank tax base, calculated as described above.

Net Interest Margin.

- The spread between the 10-year U.S. Treasury rate and the effective Federal Funds rate, lagged three years (12 quarters).

Art. 32 Base

- Net bank tax collections divided by that year’s nominal ENI tax rate, converted to logs and lagged one full year (four quarters). This attempts to capture the effect of the cyclical element of the bank tax payment structure on future cash collections.

Dq2

- A dummy variable to account for seasonality with respect to second quarter collections.

BANK TAX

32 Rate

- The nominal bank tax rate applied to the ENI base for a given period, currently 7.5 percent. The ENI base is the base under which the majority of tax liability is incurred.

The Durbin-Watson statistic at a 95 percent confidence interval results in a failure to reject the null hypothesis, which is that there is no significant serial correlation. The model implies a long-run elasticity with respect to the net interest margin of about 1.

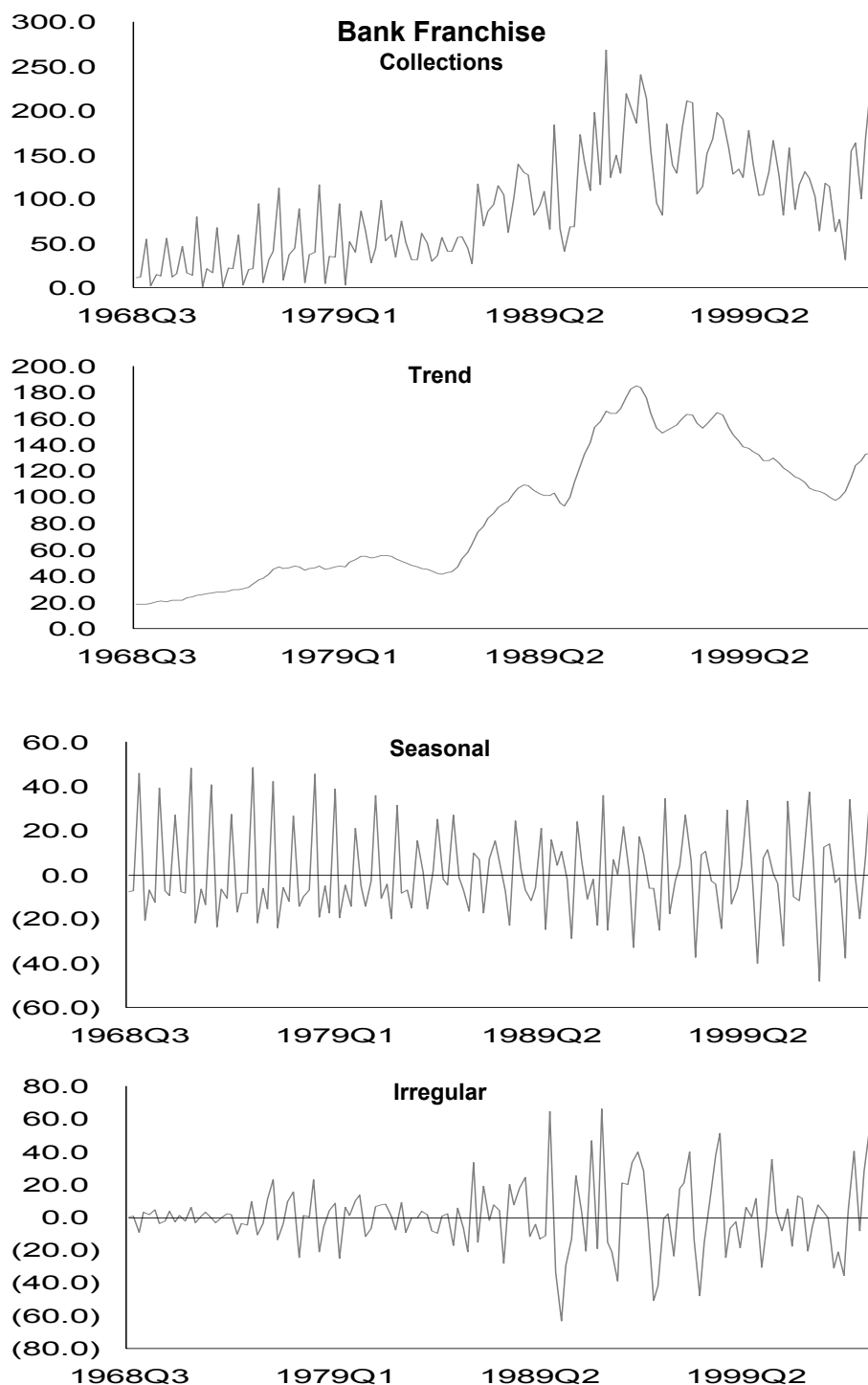
BANK TAX CASH RECEIPTS MODEL	
$\text{Log}(\text{Art. 32 Base}_t) = 2.947 - 0.242 * \text{log}(\text{Art. 32 Base}_{t-4}) + 0.374 * (\text{Dq2}) + 0.148 * \text{log}(\text{Net Interest Margin}_{t-12}) + \text{error}_t$ <p style="text-align: center;"> (7.57) (-1.59) (2.83) (3.33) </p>	
Net Bank Tax Cash Receipts _t = Art. 32 Base _t * 32 Rate (0.075)	
R-Bar Squared	0.3573
Durbin-Watson Statistic	1.7148
Root Mean Squared Error	0.3131
Number of Observations	36

Cash Receipts

The component graphs show that bank tax collections have tended to shrink in recent years, at least in part, reflecting tax rate cuts. The large irregular component relative to trend demonstrates the extreme volatility of this tax.

While the baseline cash receipts estimate derived from the econometric model provides a good starting point in the outyear forecasting process, bank tax collections have historically been extremely volatile, as shown by the graphs below. This volatility often necessitates substantial revision to the model-driven estimates. These revisions are based upon roughly the same methodology used in estimating current year cash receipts, which is essentially an examination of recent trends in the quarterly payment cycle.

**Collection Components
(millions of dollars)**



Based on statutory payment schedules, banking companies make quarterly payments on estimated liability during March, June, September, and December. The preceding graphs highlight a change in the volatility of bank tax receipts beginning in 1986, when a substantial number of changes to the bank tax took effect. The increased volatility evident graphically since 1986 makes it difficult to establish links between underlying economic fundamentals

BANK TAX

and cash receipts. The irregular component is large relative to trend indicating the difficulty in predicting future receipts. The following table illustrates the distribution of cash collections by quarter during the State fiscal year. Again, the pattern is quite volatile.

PERCENTAGE DISTRIBUTION OF BANK TAX GENERAL FUND COLLECTIONS				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1997-98	21.35	23.77	27.97	26.91
1998-99	28.97	23.54	24.63	22.87
1999-00	33.72	26.54	19.77	19.97
2000-01	25.99	32.84	24.86	16.31
2001-02	31.95	17.81	25.10	25.14
2002-03	30.22	25.17	15.72	28.89
2003-04	39.82	22.06	27.04	11.08
2004-05	25.76	28.52	17.14	28.58
2005-06 (est.)	34.06	18.72	17.04	30.18

The following table reports cash collections attributable to the first installment, three quarterly estimated payments, March final payment and adjustments made in subsequent years on a particular tax year's liability. For tax years starting January 1, 2003 through January 1, 2005, taxpayers paid a first installment based on 30 percent of the prior year's tax liability, rather than 25 percent. The 2001 tax year represents the latest year for which taxpayers may no longer statutorily file extensions. The table shows that, as previously discussed, payments and adjustments to liability continue for several fiscal years. The total payments on a tax year's liability are shown in the far right column. However, the table does not attempt to show the net interaction of payments on liability from different tax years, which would represent net cash collections at a point in time.

CALENDAR YEAR COMMERCIAL BANK TAX PAYMENTS ON LIABILITY (\$ MILLIONS)								
Tax Year	March Pre-Payment	1 st Qtr. Installment	2 nd Qtr. Installment	3 rd Qtr. Installment	March Final	Total 2 nd Year Adj.	Total 3 rd Year Adj.	Total Payments
1995	89.0	202.3	184.6	186.2	15.0	(185.3)	(13.5)	478.3
1996	146.0	153.5	187.2	133.6	(29.4)	(152.3)	(5.9)	432.6
1997	112.0	136.7	198.8	199.1	67.7	(208.7)	3.3	509.1
1998	165.5	131.1	195.9	162.6	(14.2)	(215.2)	1.4	427.0
1999	130.4	141.3	146.3	204.4	(4.3)	(248.8)	25.6	394.9
2000	119.3	92.9	178.9	217.3	50.0	(232.3)	(52.1)	373.9
2001	109.6	117.6	89.6	215.5	57.8	(148.6)	(49.8)	391.8
2002	118.9	116.3	130.0	147.9	7.9	(199.8)	(20.9)	300.3
2003	143.7	113.2	145.5	115.9	32.1	(154.6)	n/a	n/a
2004	98.7	147.4	196.6	159.7	69.0	n/a	n/a	n/a
2005	157.1	187.5	162.6	n/a	n/a	n/a	n/a	n/a

The tables in this section have attempted to demonstrate the relationship between taxpayers' cash payments and underlying liability. For example, State fiscal year 2005-06 current year estimated liability and the next year's first installment are computed from a forecast of the taxpayer's 2005 estimated liability and converted to the State fiscal year based on the statutory rules discussed earlier. These relationships are used to estimate current year cash based on historical growth ratios.

Risks to the Forecast

The bank tax forecasts involve, in large part, managing uncertainties, as follows:

- The volatile relationships between the economic and liability factors, which ultimately determine cash receipts. These relationships can be significantly altered due to collection patterns and adjustments made to prior year liability.
- Errors in the forecasts of the profits that are used to drive outyear receipts provide an additional risk to the bank tax estimate.

Analyzing industry trends and assessing risks are quite important in adjusting the bank tax forecast.

CORPORATION FRANCHISE TAX

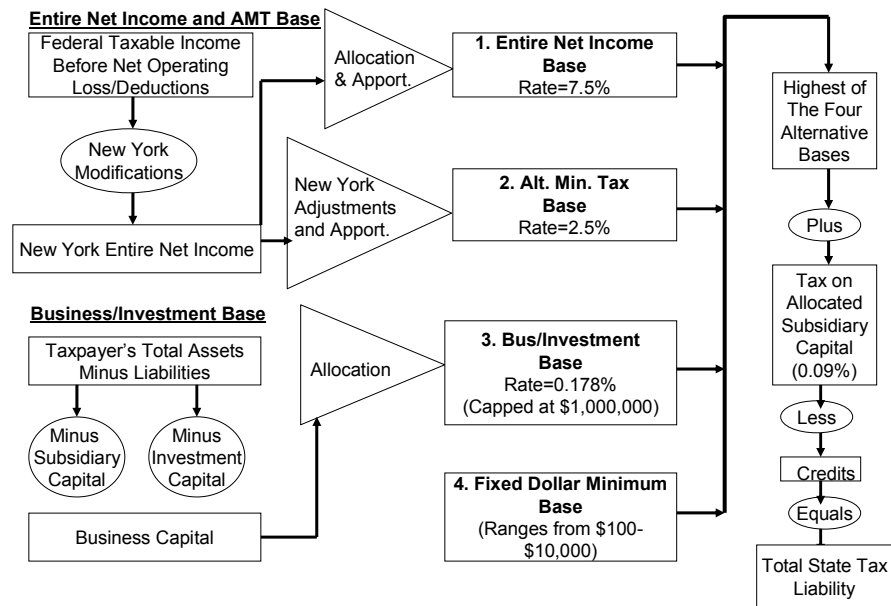
BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

Article 9-A of the Tax Law imposes a franchise tax on general business corporations for the privilege of conducting business in New York. The franchise tax has four separate bases: allocated entire net income (ENI), allocated alternative minimum taxable income (AMTI), allocated business and investment capital, and a fixed dollar minimum. Corporations pay on the base which results in the largest liability, plus a tax on allocated subsidiary capital. Additionally, New York State corporations doing business in the Metropolitan Commuter Transportation District (MCTD) must pay an additional surcharge of 17 percent of total tax liability allocable within the MCTD. The following diagram shows the computation of tax liability, and the applicable tax rates for each base.

Computation of General Fund Tax Liability (Current Law)



The allocated entire net income and allocated minimum taxable income bases generally start with Federal taxable income. Significant modifications to Federal taxable income include¹:

- Exclusions: interest, dividends, and capital gains from subsidiary capital.
- Deductions: net operating losses and fifty percent of dividends from non-subsidiary corporations.

¹ For a discussion and accounting of tax expenditures and tax credits related to the corporate franchise tax, see: *New York State Tax Expenditure Report*, published by the New York State Division of the Budget and the New York State Department of Taxation and Finance and *Analysis of Article 9-A General Business Corporation Franchise Tax Credits* published by the New York State Department of Taxation and Finance.

CORPORATION FRANCHISE TAX

- Credits: investment tax credit (ITC) and employment incentive credit/wage credit, Empire Zone credits, alternative minimum tax credit, farmer's school tax credit and special additional mortgage recording credit.

DATA SOURCES

The major sources of data used to forecast this tax include:

- *AC043 Department of Taxation and Finance Monthly Report of Corporation Tax*. This report, issued by the Office of Tax Policy Analysis (OTPA), provides reconciled monthly collections of corporate franchise tax receipts by filing periods.
- *New York State Corporate Tax Statistical Report*. This publication is a statistical report published by OTPA. The report provides a detailed summary of corporate tax data.
- *Analysis of Article 9-A General Business Corporation Franchise Tax Credit Report*. This report, published by OTPA, provides an accounting of credit activity under Article 9-A.
- *Article 9-A Corporation Franchise Tax Study File*. These files are compiled by the Department of Taxation and Finance and include all corporations filing under Article 9-A, except S corporations and certain fixed dollar minimum tax filers. It includes selected data items from the tax returns of each corporation. The most recent data available are from the 2002 tax year.

STATUTORY CHANGES

A number of Tax Law changes have had a substantial impact on Article 9-A collections. For New York State statutory changes to the corporation franchise tax, the chapters on individual taxes earlier in this volume contain a complete description of recent changes.

FORECAST METHODOLOGY

The estimates for the current year and the outyears are based on a blend of historical collection patterns, simple trending techniques, estimates of underlying company liability, econometric models for key components of the base sensitive to economic or consumption changes, and statutory changes or other occurrences that may affect collections.

Projecting corporate tax receipts is difficult given the large number of factors that can determine tax liability in any year, especially since, as reported above, the taxpayer computes tax under four different bases.

In theory, estimating corporate franchise tax cash receipts involves considering how general business conditions affect tax liability from year to year. While there is no single economic variable that mirrors the complexity of the tax code for corporations, corporate profits often serve as a proxy for taxable income under the ENI base that accounts for the bulk of liability in any tax year. It is important to note that the Bureau of Economic Analysis (BEA) defines corporate profits as the net income of organizations treated as corporations in the National Income and Product Accounts (NIPA). By contrast, taxable profits, or ENI, are a function of the tax code, and the two concepts differ significantly. The Division of the Budget uses corporate profits based on the BEA definition in a first step model for forecasting corporate tax receipts.

Tax Liability

The estimation process is further complicated by the fact that the tax liabilities of different types of taxpayers do not exhibit a uniform relationship to any economic variable. The following chart illustrates the fluctuation in the tax liability of the major industry groups

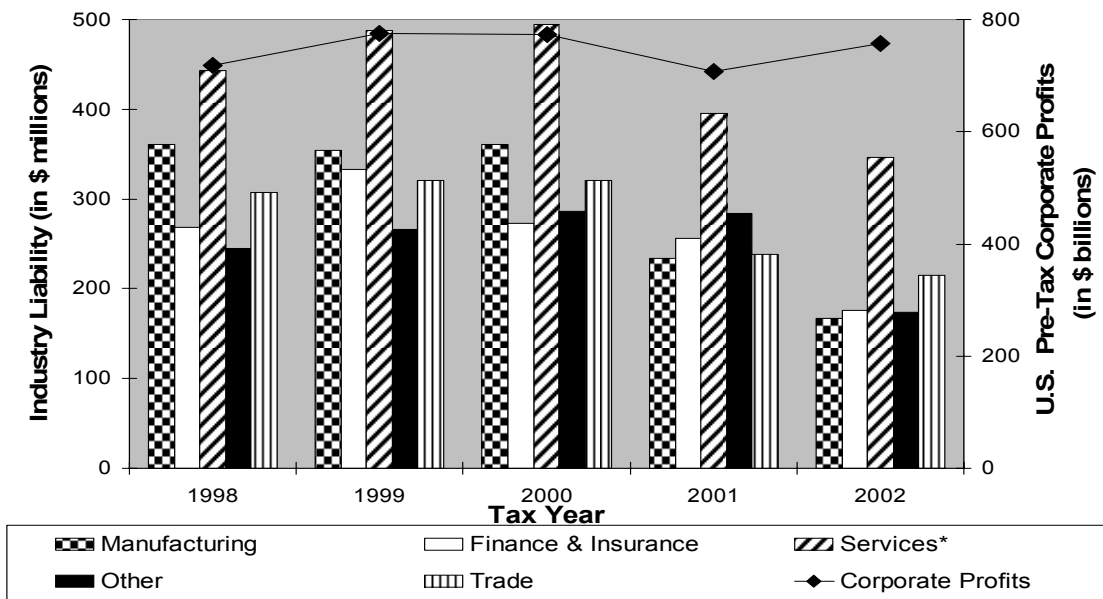
CORPORATION FRANCHISE TAX

as compared to changes in corporate profits for the period of 1998 to 2002. Information on tax liability comes from the Article 9-A Corporation Franchise Tax Study File for which 2002 is the latest year Article 9-A tax return data are available. While the tax liability of certain individual industries may appear to have a loose relationship to corporate profits for the time period shown, no strong positive relationship is apparent when examining industries in the aggregate.

Since the mix of industries comprising the tax base clearly changes over time, extrapolating cash receipts is more difficult. Accounting for these factors is an important part of managing the large uncertainties associated with estimating corporate franchise tax liability.

Elements of the Tax Law, such as tax credits, can also distort relationships between aggregate corporate profits and tax liability. For example, the investment tax credit allows manufacturing taxpayers to lessen liability during upswings in the business cycle, and credits are stockpiled during periods in which profits decline since liability itself often decreases. Again, factors such as law changes and the impact of tax credits are accounted for separately in the estimating process.

Liability Responsiveness by Industry Type



*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)

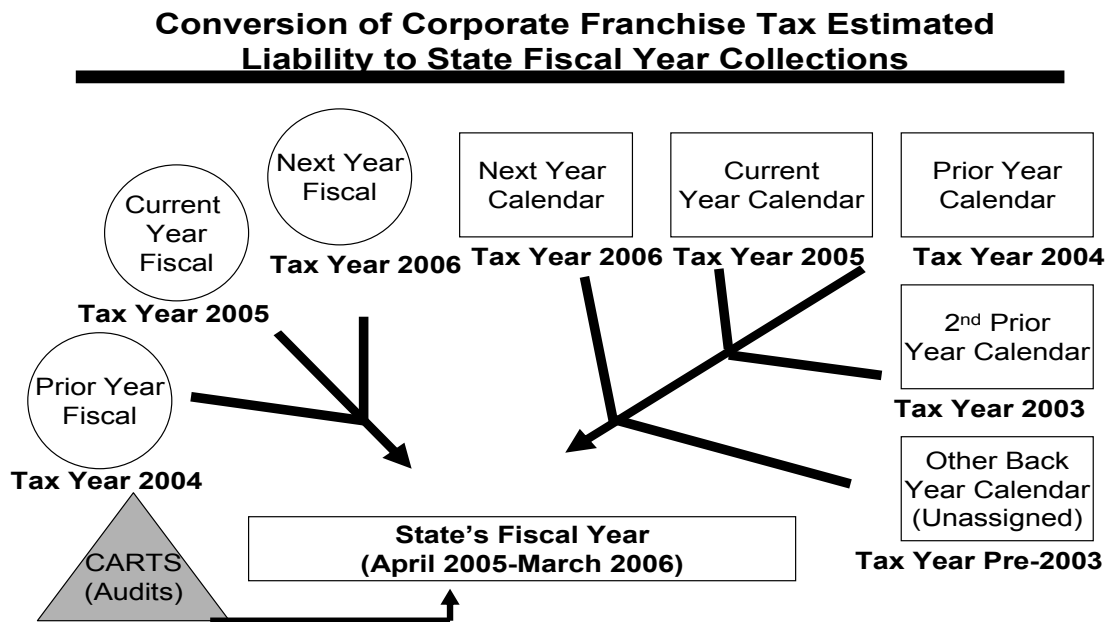
Cash Receipts

The cash estimation process involves attempting to allocate estimated liability to the State fiscal year in which it will be received. This is complicated by the complex payment system of the corporate franchise tax. State fiscal year cash collections of corporate franchise taxes are the result of an interplay between payments on estimated current year liability, and additional payments or refunds based on revised estimates of prior liability years.

CORPORATION FRANCHISE TAX

In a given State fiscal year, net cash receipts are the result of payments and adjustments on liability from several different tax years. Separately estimated audit collections, which represent administrative adjustments to prior year liability, are part of cash collections. Changes in payment rules on estimated payments, as well as a degree of flexibility in allowing corporate franchise taxpayers numerous extensions to file amended returns, also impact cash collection patterns.

Finally, not all corporate taxpayers have matching liability years. Calendar year taxpayers base both their internal accounting and their accounting for tax purposes on the standard twelve month calendar year. By contrast, taxpayers may also choose a twelve month period which differs from the calendar year for both internal and tax accounting purposes. For the purposes of the following chart, the payments and adjustments of these fiscal year taxpayers on various liability years are depicted by ovals. The chart details how payments on liability from different tax years ultimately result in State fiscal year cash collections.



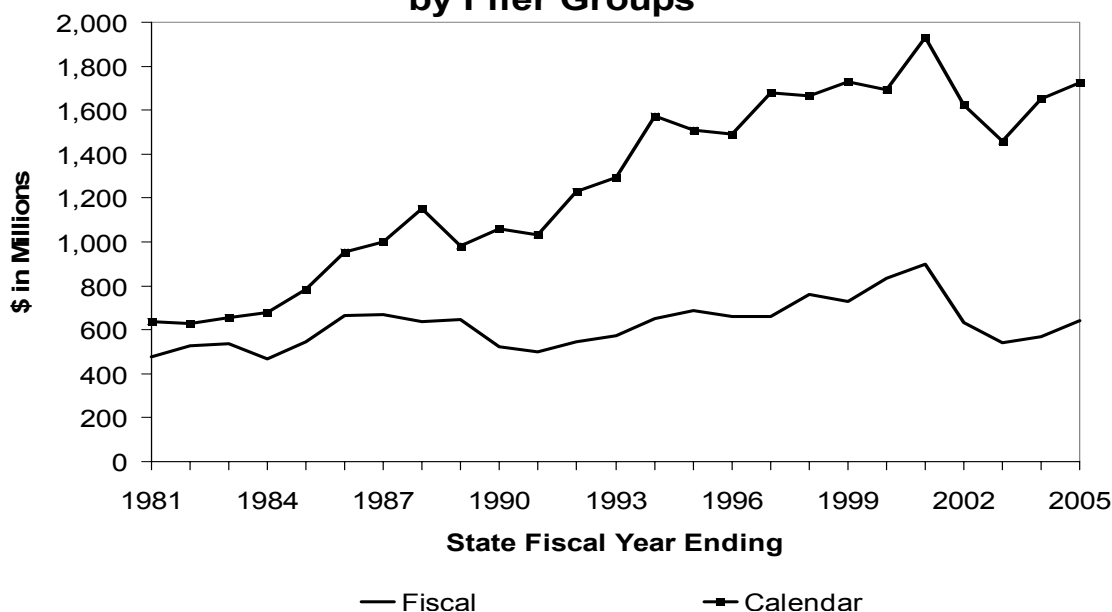
Current Year Forecast

For the current year forecast, we analyze trends in the cash components of collections. For example, current payments received, year to date, are compared to historical receipt amounts as a share of total payments for the State fiscal year, to estimate the remaining receipts for the year. By tracking each of the individual components that make up State fiscal year collections, we are able to apply historical trends to forecast the components.

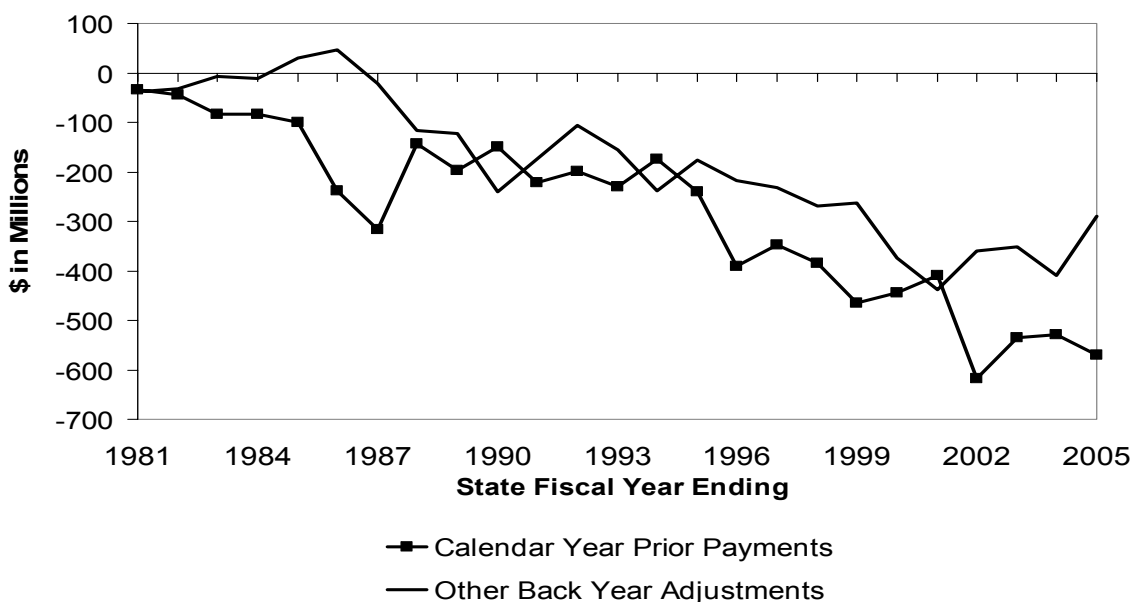
Currently, the forecasting methodology employed tracks the seven liability payment streams and the other unassigned liability payments (other back year calendar and audits and compliance receipts) indicated in the figure above to arrive at estimates of State fiscal year collections.

The following two graphs illustrate the major payment streams analyzed within a State fiscal year (2nd prior calendar payments and other back year payments have been combined). The first graph shows the relatively stable upward trend in payments on current year estimated tax from calendar year tax payments. However, the second graph shows the large and somewhat erratic largely negative adjustments to cash based on prior year adjustments.

**Article 9-A Current and Next Year Payments
by Filer Groups**



Article 9-A Prior Year Adjustments



Most importantly, the tracking of the payments from different periods helps establish a link between tax liability and underlying economic fundamentals as previously discussed. This becomes a starting point for the outyear projections.

Outyear Forecast

Several approaches are used to forecast outyear receipts:

- Examining the public profit forecasts for large multinational corporations with a significant presence in New York State.

CORPORATION FRANCHISE TAX

- Employing the econometric model described below.
- Making adjustments to the model results to account separately for items such as tax law changes and known anomalies in cash results.

PERCENT CHANGE IN KEY VARIABLES STATE FISCAL YEARS 1999-00 TO 2004-05						
	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (Estimated)
Tax Collections*	14.6	(35.1)	(7.1)	5.3	24.1	41.7
Corporate Profits**	(3.0)	(9.2)	14.1	14.9	14.2	20.9
Tax Rates***	8.0	7.5	7.5	7.5	7.5	7.5

* Tax collection growth also reflects Tax Law changes.
 ** Corporate Profits was adjusted for 2002-03 for Federal depreciation allowances.
 *** The tax rate represents the actual tax rate paid under the entire net income base.

Corporate Franchise Tax Cash Receipts Model

The estimate of corporate franchise tax cash receipts is derived using an econometric model as a guide, the results of which serve as one step in the overall process. The econometric model relates gross corporate franchise tax collections to corporate profits, previous collection patterns and the nominal tax rate in effect at that time.

Dependent Variable

- The logarithm of gross corporate franchise tax receipts. Theoretically, gross receipts should exhibit more correlation to economic factors since some of the additional complexities involved in the process of arriving at net receipts are eliminated.

Corp. Prof.

- The logarithm of U.S. corporate profits, lagged one quarter.

Gross 9-A

- The logarithm of gross corporate franchise tax collections, lagged a full year (four quarters). This attempts to capture the effect of the cyclical element of the corporate franchise tax payment structure on future cash collections.

9-A Rate

- The nominal corporate franchise tax rate applied to the ENI base for a given period, lagged one year (four quarters). The ENI base is the base under which the majority of tax liability is incurred.

d013

- A dummy variable that accounts for an anomaly in cash receipts in the third quarter of 2001. Cash collections were disrupted due to the events of September 11th, 2001.

dQ1

- A dummy variable representing the typically larger first calendar year quarter (last State Fiscal Year quarter) cash receipts. Calendar year tax filers (which incur the majority of tax liability) typically incur the bulk of their tax liability in this quarter. In March, both the final payment on the closing tax year's liability as well as a pre-payment on the new tax year's liability is due for these taxpayers.

The model corrects for first-order serial correlation, as shown by the second equation below.

CORPORATION FRANCHISE TAX

CORPORATE FRANCHISE TAX CASH RECEIPTS MODEL	
$\text{Log}(\text{Gross } 9\text{-}A_t) = 1.510 + 0.507 * \text{log}(\text{Corp. Prof. } t_{-1}) + 0.061 * \text{log}(\text{Gross } 9\text{-}A_{t-4})$ <p style="text-align: center;">(0.59) (1.74) (0.34)</p>	
$+ 0.102 * (9\text{-}A \text{ Rate } t_{-4}) - 0.335 * (d013_t) + 0.279 * (dQ1_t) + \text{error}_t$ <p style="text-align: center;">(2.17) (-2.92) (4.31)</p>	
$\text{error}_t = 0.472 * \text{error}_{t-1} + \text{error}_t$ <p style="text-align: center;">(2.67)</p>	
R-Bar Squared	0.6428
Durbin-Watson Statistic	1.7969
Root Mean Squared Error	0.1255
Number of Observations	44

The model fits the volatile cash series reasonably well and implies a long run elasticity with respect to profits of about 0.54. As expected, rates are positively related to cash collections. An estimate for refunds is derived using a historical average of forecasted gross receipts from the econometric model.

Historically, refunds have consistently totaled approximately 9.5 percent of the two prior calendar years' gross receipts. The refunds estimate is then subtracted from the estimated gross amount to arrive at a baseline, net cash receipts estimate.

Adjustment of Baseline Estimate

The baseline estimate is next adjusted for the estimated impact of Tax Law changes that are not captured by the tax rate variable. Additional adjustments are made for current cash receipts since the model generally fails to fully incorporate recent payment trends. While economic and business conditions are themselves volatile, so are the taxpayer's estimates of their tax liability; as a result, adjustments for recent trends in the quarterly payment process are therefore an important step in the estimation process.

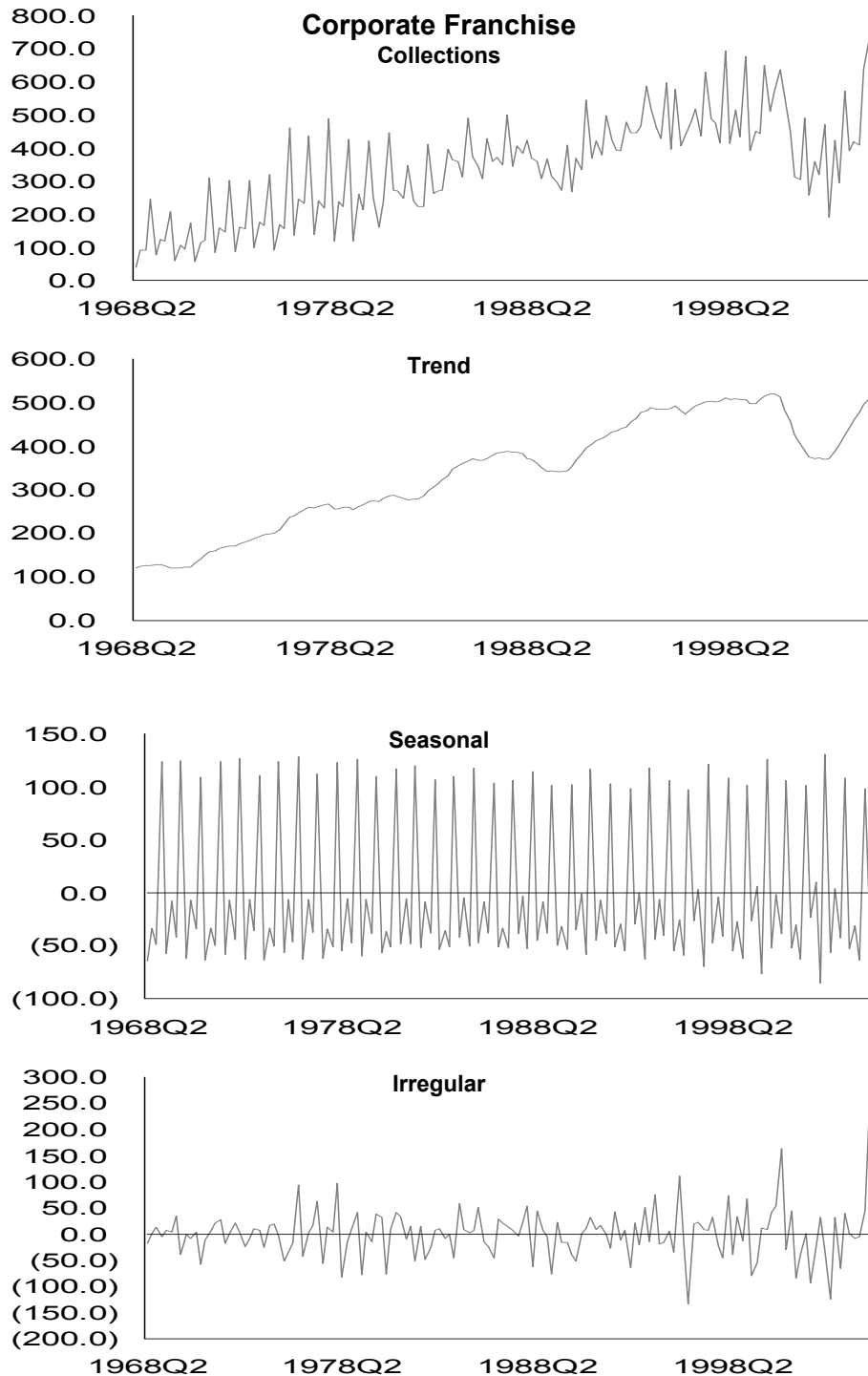
PERCENTAGE DISTRIBUTION OF GENERAL FUND COLLECTIONS				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1997-98	23.54	22.94	20.11	33.41
1998-99	20.30	25.29	21.27	33.14
1999-00	20.41	23.22	22.89	33.48
2000-01	23.65	25.86	23.69	26.80
2001-02	30.01	21.35	21.66	26.98
2002-03	18.44	25.44	22.75	33.36
2003-04	12.83	28.62	19.88	38.67
2004-05	23.34	25.06	24.38	27.22
2005-06 (est.)	27.64	22.78	18.80	30.78

Cash Receipts

The following graphs report the quarterly collection data and break the series into constituent components. The trend panel illustrates that the growth in collections is more moderate and less volatile than we would expect when just examining quarterly collections. It is apparent, however, that there has been significant cyclical behavior in corporate collections corresponding roughly with changes in overall economic activity. The large values for the irregular component indicate that shocks (unexpected) to this tax are substantial relative to trend. Current year fiscal collections indicate a substantial increase in the irregular component. This may reflect the large increase in audit payments early in the fiscal year.

CORPORATION FRANCHISE TAX

Collection Components (millions of dollars)



Current year collections can be strongly influenced by transactions occurring in earlier tax years, particularly by refunds and credit carryforwards resulting from the overpayment of tax in prior years. The collection of assessments following the audit of returns filed for past years can strongly influence cash results in any particular year.

Risks to the Forecast

The corporate franchise tax forecasts involve, in large part, managing uncertainties, as follows:

- The most significant risks to the forecast come first from the volatile relationships between economic and liability factors, and second from differences in liability and cash receipts. These relationships can be significantly altered by numerous factors through time.
- Error in the forecast of the corporate profits variable itself provides an additional risk to the corporate franchise tax estimate.

As a result, analyzing industry trends and assessing risks are quite important in adjusting the Division of the Budget corporate franchise tax forecast.

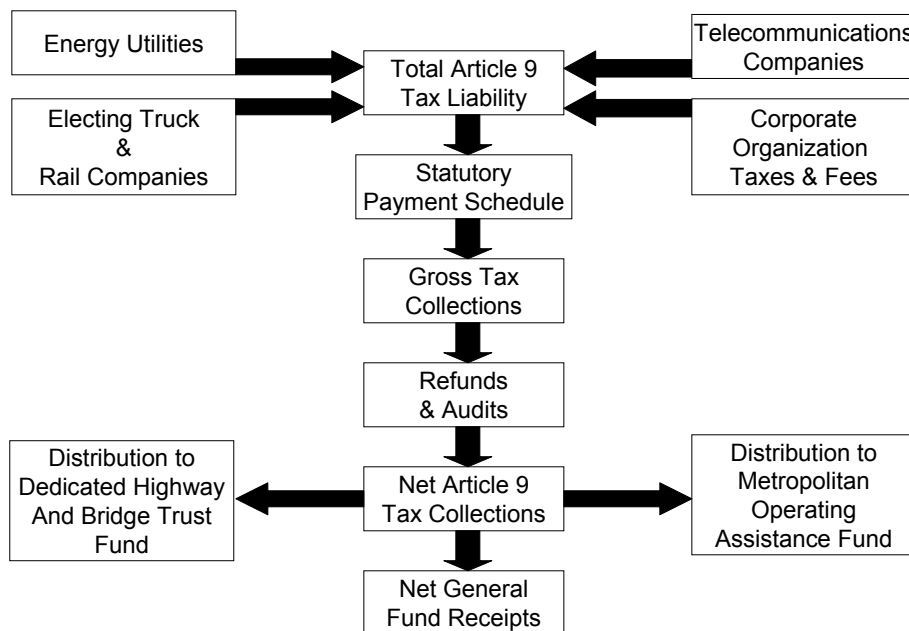
CORPORATION AND UTILITIES TAXES

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

Article 9 of the Tax Law imposes taxes on a number of different industries, including telecommunications companies, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies and public utilities. The following chart shows the sources and disposition of Article 9 receipts.



The gross income of a utility includes receipts from the sale of services, receipts from rents, royalties, interest and dividends, as well as profits from the sale of securities, real property or other assets. Historically, there have been very few asset sales. However, as a result of deregulation, companies were required to sell their generating facilities, including their nuclear plants. The forecasts deal with revenues from the transmission and distribution of energy and telecommunications services. All other sections of Article 9 are held constant. Tax Law changes enacted in 2000 have had a significant effect on Article 9 receipts, especially the utility tax base.

DATA SOURCES

The corporation and utility tax estimate is derived using a variety of data sources from both public and private sources, including the following:

- *ACOS-43 Department of Taxation and Finance Monthly Report of Corporation Tax.* This report, issued by the Office of Tax Policy Analysis (OTPA) at the New York State Department of Taxation and Finance, provides reconciled monthly collections of corporation and utilities taxes receipts by filing periods.

CORPORATION AND UTILITIES TAXES

- *New York State Corporate Tax Statistical Report*. This report is published by the Department of Taxation and Finance's OSPA and provides a detailed summary of corporation and utilities taxes data.
- *Value Line Investment Survey*. Electricity, Natural Gas, and the Telecommunication Industries summaries are used in the estimation process.
- *Securities and Exchange (SEC) Web Site* (<http://www.sec.gov>). This web site is monitored for relevant quarterly (10-Q) and annual (10-K) financial reports.
- *Public Service Commission*. Reports annual utility data.
- *Other Publications*. Wall Street Journal, New York Times, Business Week, Barrons, and Crain's.

STATUTORY CHANGES

A number of Tax Law changes have had a substantial impact on Article 9 collections. The chapters on individual taxes earlier in this volume contain a complete description of recent changes.

FORECAST METHODOLOGY

The estimates for the current year and the outyears are based on a blend of historical collection patterns, simple trending techniques, estimates of underlying company liability, econometric models for key components of the base sensitive to economic or consumption changes, and statutory changes or other occurrences that may affect collections. Certain sections of Article 9 are kept constant because of historical trends.

Electricity and Natural Gas

Energy revenues (electricity and natural gas) typically include the sale of the commodity and charges from transportation, transmission, distribution or delivery of energy. Before 2000, all revenues were taxed at the same rate. However currently, total utility tax revenues come from transportation and distribution charges only.

Since revenues from commercial and industrial customers are not taxed anymore, the model includes only the residential customers. In addition, the model removes revenues from commodity sales to residential customers.

The following table reports the percent changes for the major economic variables impacting the receipts estimates.

EXOGENOUS VARIABLES
Percent Change

	1999	2000	2001	2002	2003	2004	2005	2006
							(Estimated)	(Projected)
Price of Electricity NY - Residential	(3.12)	5.57	0.67	(3.26)	6.01	2.22	3.77	5.57
Personal Consumption of Electricity	0.16	5.25	5.56	3.43	3.31	4.38	9.94	6.39
Personal Consumption of Natural Gas	2.22	22.63	18.78	(16.26)	25.50	8.42	18.22	16.23

Since revenues of utility companies from residential customers include both commodity and transportation and distribution, the commodity piece is removed from the total. Forecasted prices are then combined with revenues to derive gross receipts growth rates for utility companies for current and outyears.

The growth rates are then applied to the utility revenues to derive calendar year estimates. Tax rates are applied to projections of gross receipts to generate tax liability estimates. Payment schedules are applied to the liability estimates to derive State fiscal year cash receipts. Fiscal year receipts are then adjusted to reflect the estimated effects of law

CORPORATION AND UTILITIES TAXES

revisions and other non-economic factors that affect collections. Historical monthly patterns are applied to the fiscal year projections to derive monthly cash flow estimates. Although the payment schedules are fixed in statute, a small number of returns such as, delayed returns, taxpayer fiscal year basis other than calendar year, adjusted returns and refunds or audits paid occur during the months not ending a quarter.

The table below summarizes the forecast results from the model described above. The table represents total receipts from sales to residential customers. The assumption is that half of the revenues come from transmission and distribution. A tax rate of 2 percent is then applied to the results and distributed to the proper fiscal year.

NEW YORK UTILITY MODEL RESULTS		
New York Electricity		
Calendar Year	(Sales * Price) (in millions)	Percent Change
2003	10,143	9.8
2004	10,721	5.7
2005	11,400	6.3
2006	11,842	3.9

The forecast assumes significant growth in the outyears in the telecommunication sector. The following table reports the history and forecasted revenues of the telecommunications industry in general and Verizon from Value Line. These growth rates are considered in generating the telecommunications forecast.

PERCENT GROWTH OF TELECOMMUNICATIONS REVENUES					
	2002	2003	2004	2005	2003
				(Estimated)	(Projected)
Telecommunications	34.3	1.5	(8.1)	21.8	16.7
Verizon	0.7	0.2	5.2	4.6	4.1

The tables below report annual consumption and price data for electricity and natural gas. The information shown for the years 1996 to 2003 is based on published reports of the Public Service Commission (PSC). Calendar year 2003 represents the most recent year for which data are available for both electricity and natural gas. The quantities in the table report sales to ultimate consumers and include sales for resale. The electric and gas prices reflect an average of residential, commercial and industrial prices. The figures below represent sales of electricity to full-service customers who receive their commodity and transportation services from the utility. The reduction in electricity sales represents, in part, the migration of some full-service customers to partial-service status as energy service company (ESCO) customers, which are not included in the PSC publication.

CALENDAR YEAR HISTORY OF ELECTRICITY AND NATURAL GAS SALES				
1995 TO 2002				
(quantity in millions)				
Year	Electricity Sales (kilowatt hours)	Percent Change	Gas Sales (MCF)	Percent Change
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)
2002	97,360	(5.8)	580.7	5.3
2003	95,169	(2.3)	518.3	(10.7)

CORPORATION AND UTILITIES TAXES

CALENDAR YEAR HISTORY OF ELECTRICITY AND NATURAL GAS PRICES 1995 TO 2002				
	Electricity Price Per Kilowatt Hour Sold		Gas Price Per MCF Sold	
	(cents)	Percent Change	(\$)	Percent Change
1996	11.96	0.6	8.06	13.57
1997	11.96	(0.01)	8.22	1.94
1998	11.53	(3.58)	8.42	2.48
1999	11.36	(1.53)	8.12	(3.57)
2000	12.07	6.27	7.57	(6.75)
2001	12.29	1.83	10.55	39.34
2002	11.82	(3.79)	9.02	(14.48)
2003	13.37	13.04	9.09	9.71

The table below shows equations for residential electricity and natural gas revenues.

ELECTRICITY AND GAS EQUATIONS				
$\Delta \ln(ERES_R) = 0.58 * \Delta \ln(SEDESRCNDY) + 0.47 * \Delta \ln(CSHHOPE)$				
(5.39)		(5.44)		
			DW = 2.2322	adj. R ² = 0.7731
$\Delta \ln(NGRES_R) = 0.87 * \Delta \ln(CSHHOPG) - 0.17 * D2000 + 0.09 * D2001$				
(10.42)		(-3.33) (1.85)		
			DW = 2.3756	adj. R ² = 0.7825
<i>ERES_R</i>	Residential Revenues - Electricity			
<i>NGRES_R</i>	Residential Revenues - Natural Gas			
<i>SEDESRCNDY</i>	Price of Electricity - Residential			
<i>CSHHOPE</i>	Personal Consumption Expenditures of Electricity			
<i>CSHHOPG</i>	Personal Consumption Expenditures of Natural Gas			
<i>D2000</i>	2000 dummy			
<i>D2001</i>	2001 dummy			

Cash Receipts

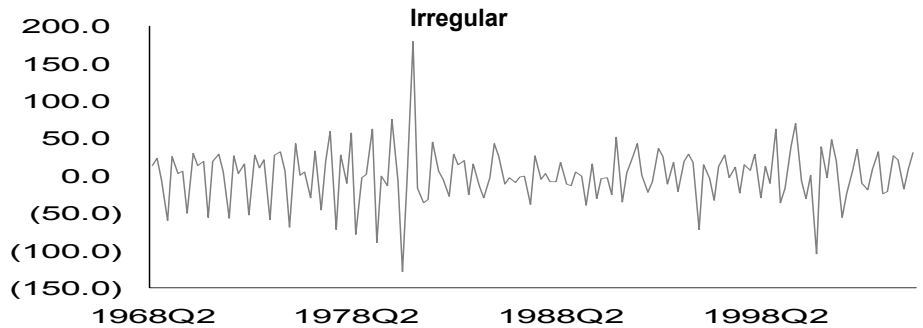
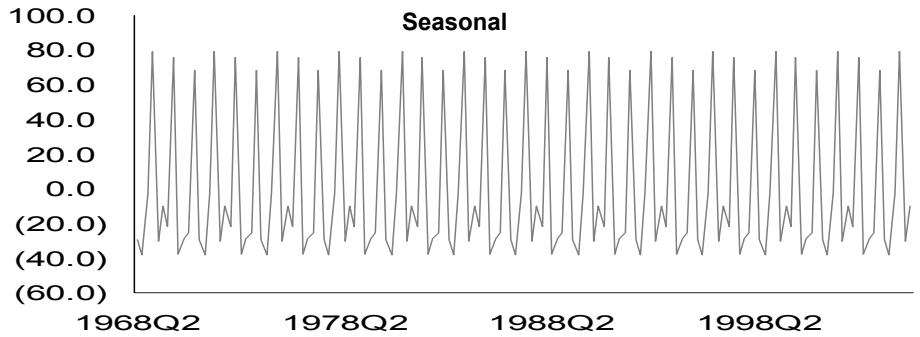
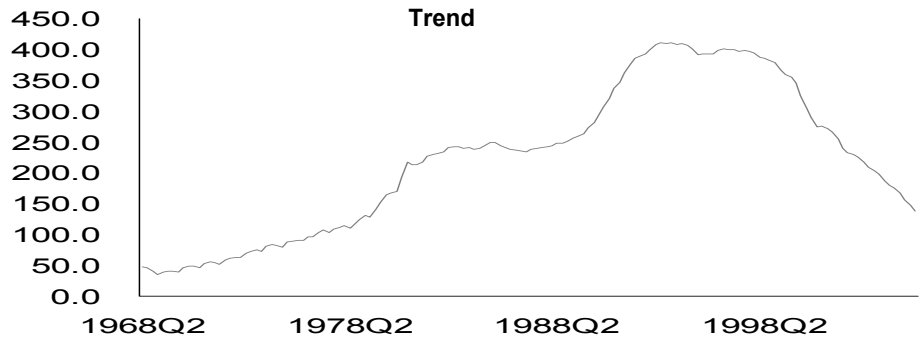
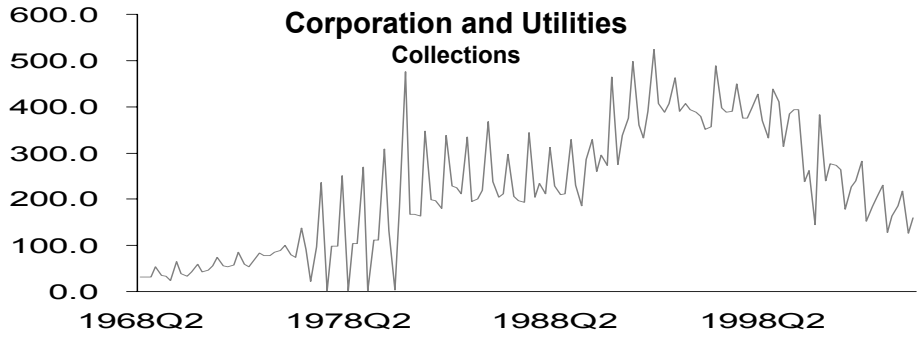
The table below illustrates the General Fund collections on a quarterly basis.

PERCENT DISTRIBUTION OF GENERAL FUND COLLECTIONS				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1997-98	24.26	24.62	24.93	26.19
1998-99	23.45	21.72	28.51	25.66
1999-2000	21.37	26.26	27.14	25.23
2000-01	27.92	29.31	16.34	25.73
2001-02	23.60	26.00	27.10	23.30
2002-03	18.94	23.54	27.10	30.42
2003-04	19.79	24.29	27.42	28.50
2004-05	19.49	23.56	26.72	30.23
2005-06 (est.)	21.30	24.79	28.27	25.64

Article 9 tax collections are shown in the accompanying graphs. There is a modest peak in the fourth quarter of the fiscal year when final payments and the first installment on current year tax is due. The trend in collections is down, reflecting recent law changes reducing or eliminating gross receipts taxes imposed on electric utilities. Large irregular values correspond to past changes in energy market prices and associated economic events.

CORPORATION AND UTILITIES TAXES

Collection Components (millions of dollars)



CORPORATION AND UTILITIES TAXES

Risks to the Forecast

The corporate and utilities forecasts involve managing uncertainties as follows:

- examining economic factors such as energy prices, changes in supply and demand, business market conditions, changes in technology, and general inflation; and
- analyzing statutory, regulatory and administrative changes, including Federal tax law changes, that affect tax rates and bases.

INSURANCE TAXES

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

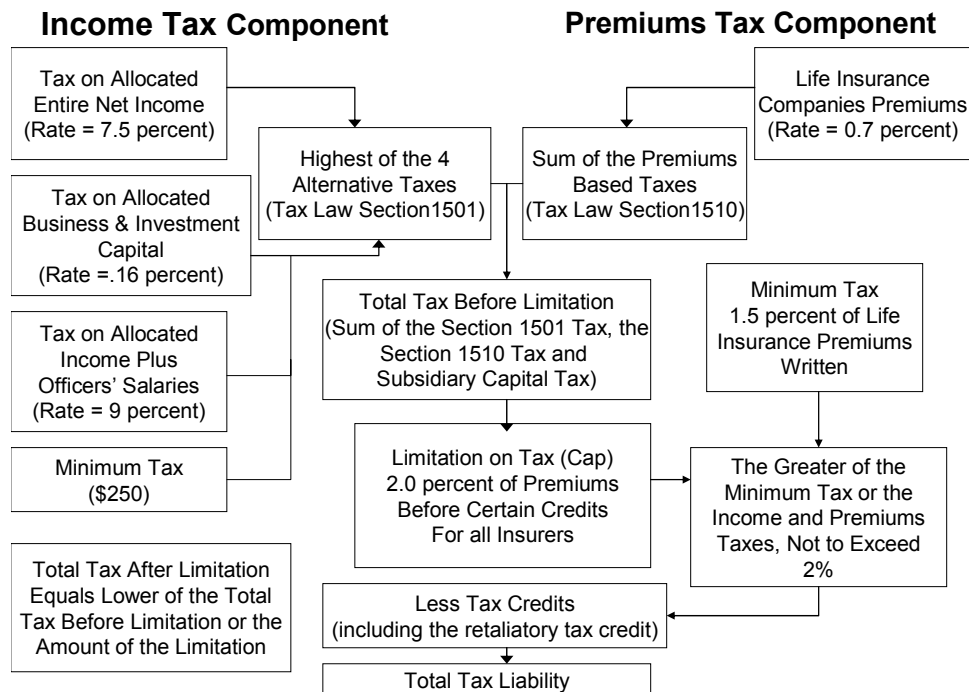
Article 33 of the Tax Law imposes a franchise tax on insurance companies. Legislation included in the 2003- 04 Enacted Budget changed the insurance tax structure effective for tax years beginning on or after January 1, 2003.

Life Insurers

For life insurers, the tax structure includes two components. The first component is an income based tax computed on the highest of four bases, plus a tax on subsidiary capital. The second component is a tax based on gross direct premiums, less return premiums thereon, written on risks located or resident in New York. Minimum and maximum limitations are applied to total tax liability before credits. The minimum limitation is 1.5 percent of premiums and the maximum limitation is 2 percent of premiums.

The income component is imposed on one of several measures of an insurance corporation’s economic activity within the State. Most taxpayers pay under the entire net income (ENI) base. The current tax rate on ENI equals 7.5 percent. Taxpayers allocate receipts according to the ratio of New York premiums and payroll to total premiums and payroll nationwide.

The chart below depicts the structure of the Article 33 insurance tax on life insurers.

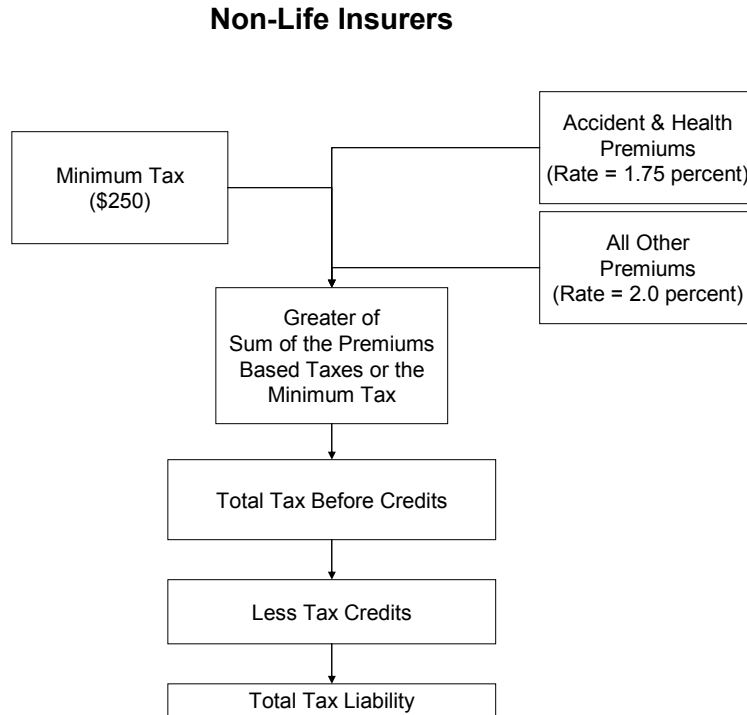


INSURANCE TAXES

Non-Life Insurers

For all non-life insurers, the income base was eliminated, as well as other non-premium bases besides the fixed dollar minimum. Non-life insurance companies pay tax solely on gross direct premiums, less return premiums written on risks located or resident in the State. The premiums base tax is 1.75 percent for accident and health premiums and 2.0 percent for all other premiums.

The chart below depicts the structure of the Article 33 insurance tax for all non-life insurers.



DATA SOURCES

The insurance tax estimate is derived using a variety of data sources from both the public and private sectors, including the following:

- *Article 33 Insurance Tax Study File.* This file, compiled by the Department of Taxation and Finance, includes selected data from all businesses filing tax returns under Article 33.
- *AC043 Department of Taxation and Finance Monthly Report of Corporation Tax.* This report, issued by the Office of Tax Policy Analysis (OTPA) at the New York State Department of Taxation and Finance, provides reconciled monthly collections of insurance tax receipts by filing periods.
- *New York State Corporate Tax Statistical Report.* This report is published by the Department of Taxation and Finance's OTPA. It provides a detailed summary of insurance tax data.
- *Value Line Investment Survey.* Insurance Industry.
- *Securities and Exchange Commission (SEC) Website.* This web site is monitored for relevant quarterly (10-Q) and annual (10-K) financial reports.
- *New York State Insurance Department.* Detail on lines of property and casualty insurance.
- *Other Publications.* Wall Street Journal, New York Times, Business Week, Barrons, A.M. Best Review, and Crain's.

STATUTORY CHANGES

A number of Tax Law changes have had a substantial impact on Article 33 collections. The chapters on individual taxes earlier in this volume contain a complete description of recent changes.

FORECAST METHODOLOGY

The estimates for the current year and the outyears are based on a blend of historical collection patterns, simple trending techniques, estimates of underlying company liability, econometric models for key components of the base sensitive to economic or consumption changes, and statutory changes or other occurrences that may affect collections.

Insurance premiums are divided into three broad categories: property and casualty, life and health, and accident and health, sold by non-life insurance companies. Net income is aggregated over life insurance companies and modeled separately. Our model currently uses four different equations to estimate liability for life insurance, accident and health, ENI, and property and casualty, as are discussed later in a table.

Property/Casualty Premiums

Dependent Variable (PRPC)

- Difference of the log of property and casualty liability

Medical CPI (CPIMED)

- The difference in the log of consumer price index for medical services is used to capture premium payouts which are related to the treatment of injury, therefore, medical care cost inflation has tended to be a significant driving force explaining premium growth over time.

Dummy Variable 2001 and 2002 (D0102)

- The model also includes a dummy variable for 2001 and 2002 to account for significant changes due to September 11, 2001. The dummy has a value of one for 2001 and 2002 when premiums grew extraordinarily in order to recover cost increases, and zero otherwise.

Housing Starts (HSTSNY)

- Difference of the log of new houses being built in New York.

Dummy Variable for 1988 (D88)

- Used to capture extraordinary fluctuations in the data series.

The historical growth rates of the major lines of property and casualty premiums are shown in the table below. This information is provided by the Insurance Department.

INSURANCE TAXES

CALENDAR YEAR PREMIUMS GROWTH (GROWTH RATE PERCENTAGES) 1997 TO 2004								
	1997	1998	1999	2000	2001	2002	2003	2004
Property/Casualty (Total Premiums)	(0.3)	3.9	(4.1)	4.9	11.7	12.9	5.4	4.4
Automobile	0.3	1.5	(0.4)	0.7	11.5	10.6	5.2	3.0
Workers Compensation	(12.7)	(1.4)	1.4	15.8	4.1	3.9	(0.2)	1.0
Commercial Multi-Peril	(3.2)	2.0	(3.4)	4.2	12.8	14.0	3.3	4.8
General Liability	13.0	30.7	(33.2)	17.7	14.3	35.2	5.3	14.6
Homeowners Multi-Peril	3.9	2.3	2.3	4.3	6.1	7.8	9.0	9.7

Life Insurance Premiums

Dependent Variable (PRLH)

- Difference in the log of life insurance liability.

Medical CPI (CPIMED)

- This variable is used to capture increases in healthcare costs.

Tax Rate (THL)

- The tax difference in the tax rate for life/health is included to capture responses in premiums to tax law changes.

Dummy Variable 1998 and 1999 (D98_99)

- The dummy has a value of one if 1998, negative one if 1999, or 0 otherwise to account for large fluctuations in premiums during those years.

Dummy Variable 2001 (D01)

- The model also includes a dummy variable for 2001 to account for significant changes due to September 11, 2001.

Accident/Health Premiums

Dependent Variable (PRAH)

- Difference in the log of accident/health liability.

Residential Population Ages 0 to 24 (NR024NY)

- First difference in the log of resident population ages 0 to 24. This variable is included to reflect the fact that people tend to get accident/health insurance when they have kids.

Personal Income (YPPNY)

- First difference in the log of personal income in New York. Insurance coverage is assumed to increase as income rises.

Housing Starts in New York (HSTSNY)

- First difference in the log of housing starts in New York. As home ownership increases, it is assumed that accident/health insurance coverage will increase as well. A three year lag of this variable is also included, suggesting a three-year lag in coverage for a considerable share of new homeowners.

Dummy Variable 1991 and 1992 (D91_92)

- The dummy has a value of one if 1991, negative one if 1992, or 0 otherwise.

ENI

Dependent Variable (TXENI)

- First difference in the tax collected on entire net income.

10-Year Treasury Bond Rate (TRATE10)

- The first difference in the ten-year Treasury note is included in the model.

Dummy Variable 2001 and 2002 (D01_02)

- The dummy has a value of one if 2001, negative one if 2002, or 0 otherwise

To further refine the net income estimate, an analysis of industry trends with particular attention to industry leaders is used. Several publications, including Value Line and Best's, provide estimates of the future earnings of the industry as a whole and industry leaders with a large New York presence.

The table below shows the insurance model forecasting equations using data from the OTPA Insurance Tax Study File from 1985 to 2002 with t-values in parenthesis.

INSURANCE MODEL FORMULAS FOR GENERATING FORECAST				
$\Delta \ln(PRPC)_t = 0.48 * \Delta \ln(CPIMED)_t + 0.09 * \Delta \ln(HSTS\text{NY})_{t-2} - .08 * D88_t + .13 * D0102_t$	(3.92)	(2.17)	(-3.10)	(7.08)
$\Delta \ln(PRLH)_t = 0.39 * \Delta \ln(CPIMED)_t - 0.55 * \Delta \ln(TLH)_t - 0.22 * D98_99_t + .12 * D01_t$	(2.56)	(-3.43)	(-9.29)	(3.67)
$\Delta \ln(PRAH)_t = 13.13 * \Delta \ln(NR024NY)_t - 0.51 * \Delta \ln(HSTS\text{NY})_{t-1} - .46 * \Delta \ln(HSTS\text{NY})_{t-3} +$	(3.58)	(2.77)	(-2.72)	
$2.55 * \Delta \ln(YPNY)_t + 1.45 * D91-92_t$	(6.02)	(23.23)		
$\Delta \ln(TXENI)_t = -170.5 * \Delta (TRATE10)_t - 609.53 * D01_02_t$	(-3.06)	(-5.57)		
			DW = 1.7747	adj. R ² = 0.8237
			DW = 2.09	adj. R ² = 0.87
			DW = 2.36	adj. R ² = 0.97
			DW = 2.46	adj. R ² = 0.70

The growth rates generated from these equations are then entered into a simulation model that calculates liability for taxpayers included in the most recent study file. This approach is compared to publicly available industry estimates to provide a test against model results.

State fiscal year General Fund collections are the sum of taxpayers' payments on current liability, installments on the following year's liability, and adjustments to prior year's estimated liability. In addition, the timing of these payments and adjustments to prior estimated liabilities make comparisons between the earnings, tax liability, and actual payments difficult to untangle when estimating future receipts, especially for the life insurance industry where the profit performance of firms still partially determines liability.

INSURANCE TAXES

COMPARISON OF GROWTH RATES IN ESTIMATED LIABILITY, FINAL LIABILITY, AND STATE FISCAL YEAR COLLECTIONS				
Calendar Year	Estimated Liability Growth Rate ¹	Final Liability Growth Rate ²	State Fiscal Year	General Fund Net Collections Growth Rate ³
1997	(1.37)	(3.33)	1997-98	(0.91)
1998	3.08	(3.61)	1998-99	5.16
1999	(7.28)	(1.25)	1999-2000	(8.80)
2000	(0.85)	1.39	2000-01	(6.73)
2001	(3.15)	(1.20)	2001-02	7.65
2002	14.76	8.13	2002-03	6.81
2003 (est.) ⁴	15.88	NA	2003-04	33.56
2004 (est.)	14.02	NA	2004-05	4.91
2005 (est.)	8.15	NA	2005-06	16.19

¹ Estimated liability is the sum of the taxpayers' first installment and the June, September, December, and March payments on current liability.

² Information from Department of Taxation and Finance Insurance Tax Study File.

³ State fiscal year General Fund collections are reported on the Department of Taxation and Finance Monthly Report of Corporation Tax: AC0S43.

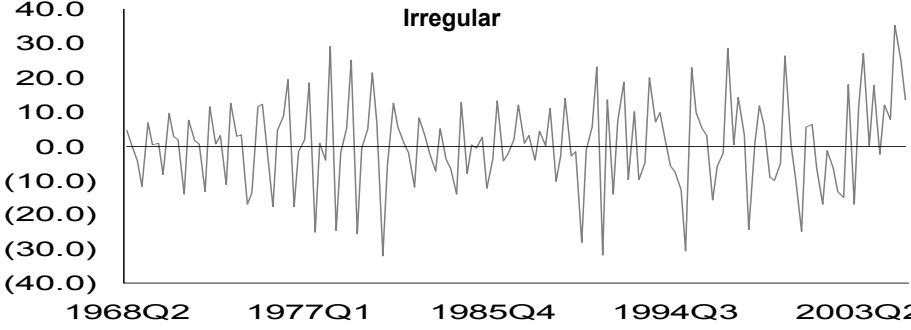
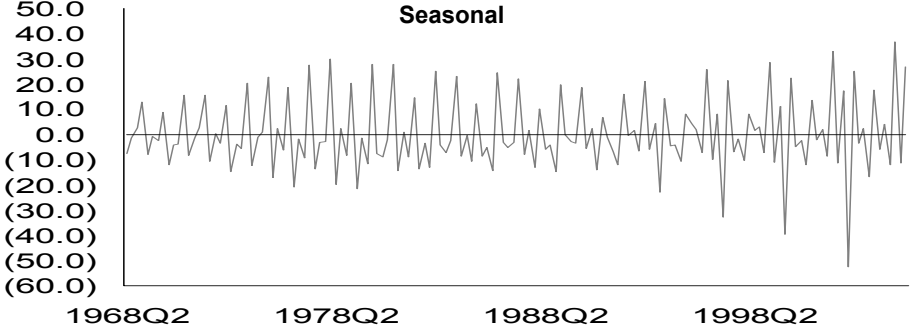
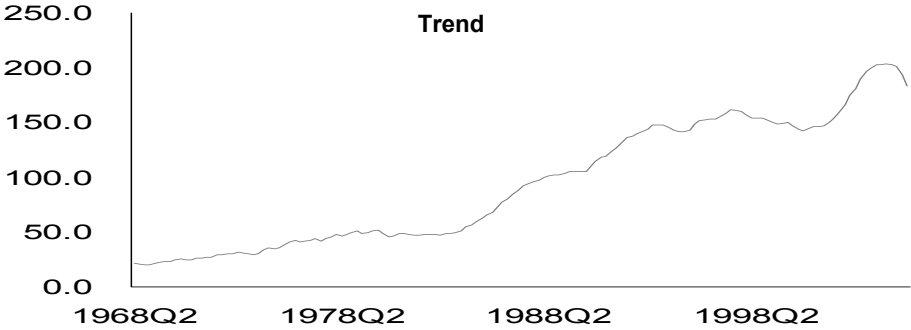
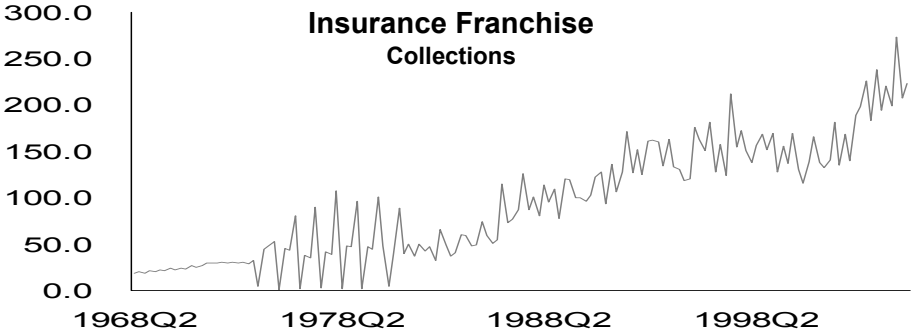
⁴ Insurance Tax Law restructuring changes enacted with the 2003-04 Budget affect 2003 calendar year liability and 2003-04 collections.

Cash Receipts

The accelerated trend in recent years reflects the shift to a purely premiums based tax for property and casualty insurers. This trend appears to have slowed in the current year. Periods of slower growth (a flat trend) tend to be associated with periods of intense competitive pricing by property and casualty companies. There is no discernable seasonal pattern and trend growth is strong relative to the irregular component indicating a fairly stable growth pattern.

PERCENT DISTRIBUTION OF GENERAL FUND COLLECTIONS				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1997-98	23.99	26.99	24.41	24.61
1998-99	23.31	24.97	22.54	29.18
1999-2000	19.80	26.37	22.72	31.12
2000-01	24.38	19.04	24.71	31.87
2001-02	24.40	21.32	21.36	32.92
2002-03	22.16	24.15	19.90	33.79
2003-04	22.00	24.34	19.88	33.79
2004-05	20.00	22.30	20.88	36.82
2005-06 (est.)	20.44	21.55	22.82	35.19

**Collection Components
(millions of dollars)**



INSURANCE TAXES

Risks to the Forecast

The insurance forecast involves examining uncertainties such as:

- premium growth and the economic performance of industry members;
- changes in investment income affecting investment portfolios and annuity sales;
- changes in the demographic and competitive environment; and
- weather-related catastrophes.

PETROLEUM BUSINESS TAXES

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

Article 13-A of the Tax Law imposes a privilege tax on petroleum businesses operating in the State, based upon the quantity of various petroleum products imported for sale or use in the State. Petroleum business tax (PBT) rates have two components: (1) the base tax, whose rates vary by product type; and (2) the supplemental tax, which is imposed, in general, at a uniform rate. Both components are indexed to reflect petroleum price changes. Exemptions include sales for export from the State, sales of fuel oil for manufacturing, residential or not-for-profit organization heating use, and sales to governmental entities when such entities buy petroleum for their own use. Sales of kerosene (other than kero-jet fuel), liquefied petroleum gas, and residual fuel oil used as bunker fuel, and crude oil are also exempted.

Article 13-A also imposes a petroleum business carrier tax on petroleum products purchased out-of-State but consumed in-State. This is a complement to, and administratively collected with, the fuel use tax portion of the highway use tax.

The table in the section titled “Petroleum Business Taxes” under the Tax Receipts of this volume displays the per gallon PBT rates for 2005 and 2006 and estimated rates for 2007. The 2007 rates reflect anticipated changes due to indexing.

Administration

The tax is collected monthly along with State motor fuel taxes. Imposition of the tax occurs at different points in the distribution chain, depending upon the type of product. Gasoline, which represents the preponderance of automotive fuel sales in the State, is taxed upon importation into the State for sale or upon manufacture in the State. Other non-diesel fuels such as compressed natural gas, methanol and ethanol become subject to the tax on their first sale as motor fuel in the State. Automotive diesel motor fuel is taxed upon its first non-exempt sale or use in the State. Non-automotive diesel fuel (such as #2 fuel oil used for commercial heating) and residual fuel usually become taxable upon the first taxable sale to the consumer or use of the product in the State.

DATA SOURCES

The primary sources of data used in the estimation and forecasting methodology for the petroleum business tax are as follows:

- *AM043, Department of Taxation and Finance Monthly Report of Receipts.* This report contains gross and net receipts data for gasoline and diesel tax receipts.
- *Gasoline and Petroleum Business Tax Monthly Statistical Report, Department of Taxation and Finance.* This report contains monthly gallonage data for gasoline, diesel and other PBT fuels.
- *United States Energy Information Administration.* Various publications, including *the Short Term Energy Outlook, Petroleum Marketing Monthly and Annual Energy and Motor Gasoline Watch*, contain useful information. These are available on the Internet at <http://www.eia.doe.gov>.

PETROLEUM BUSINESS TAXES

- *Various U.S. and New York government agencies, including the U.S. Bureau of Economic Analysis of the Commerce Department.* These agencies provide economic data used to develop gasoline, diesel and other fuels consumption forecasts.

STATUTORY CHANGES

Since 1983, the State has substantially changed its taxation of petroleum businesses. These revisions altered collection mechanisms, modified tax bases, and increased the level of taxation. The most significant changes occurred in 1990 with the restructuring of a gross receipts tax to a cents-per-gallon tax and the indexing of the tax rates to maintain price sensitivity. Full-year revenue history under the gallonage-based PBT, therefore, only exists starting with State fiscal year 1991-92. Full-year collections of both the basic PBT and the supplemental PBT began in State fiscal year 1992-93.

Major legislative changes under the PBT since 1994-95 are listed as follows:

- Legislation in 1995 eliminated the supplemental tax imposed on aviation gasoline and kero-jet fuel and reduced the base tax rate for those products.
- Legislation in 1996 provided a full exemption from the supplemental tax on commercial gallons, expanded to a full exemption on fuels used for manufacturing, and reduced the supplemental tax on diesel fuel by 1.75 cents per gallon.
- Legislation in 1999 reduced the tax rate on commercial heating by 20 percent.
- Legislation in 2000 further reduced the tax rate on commercial heating by 33 percent.

FORECAST METHODOLOGY

Forecasting PBT revenue is a two-step process. First, a forecast of demand (gallons) is produced from annual (fiscal year) data and the various tax rates, adjusted for indexing, for different petroleum products are applied. Second, various adjustments are made to arrive at the forecast of cash collections, since a direct relationship does not exist between reported gallonage and cash collections. Both of these steps are discussed below.

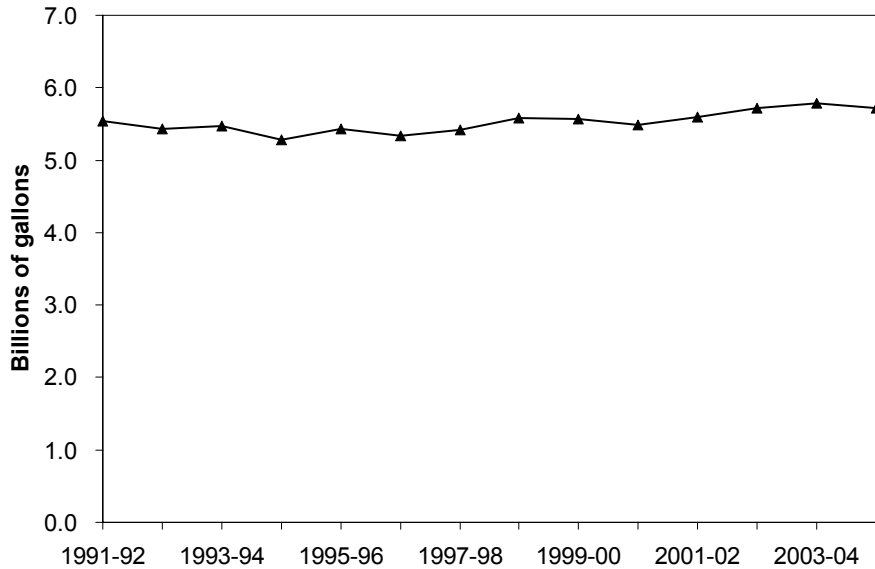
Gallonage

Gasoline

The estimate of gasoline consumption for the PBT is derived in the same manner as for the motor fuel tax. The Energy Information Administration (EIA) has reported estimated relationships between changes in real gross domestic product (GDP), national fuel prices and national gasoline demand. It estimates that a 1 percent increase in real GDP will raise gasoline demand by 0.1 percent, and a 10 percent increase in fuel prices will decrease demand by 0.3 percent. To derive a State level forecast, real New York disposable income growth is substituted for GDP.

PERCENT CHANGE IN EXOGENOUS VARIABLES		
	Real NY Disposable Income	Gasoline Price Index
1996-97	1.9	7.8
1997-98	2.4	(5.0)
1998-99	4.2	(12.4)
1999-2000	0.9	21.7
2000-01	4.1	18.6
2001-02	(0.1)	(9.3)
2002-03	3.0	5.7
2003-04	2.8	8.8
2004-05	2.1	20.7
2005-06 (est.)	1.9	26.2

PBT Gasoline Consumption



Diesel

The estimate of automotive diesel consumption for the PBT is derived in the same manner as for the motor fuel tax. Consumption of diesel fuel is forecast with a simple econometric model relating consumption to a broad measure of economic activity. The dependent variable is the number of gallons of diesel taxed in New York State. The explanatory variable is real GDP. The model was most recently estimated with 123 observations of quarterly data (1975:1 to 2005:3). A dummy variable is used to isolate the impact of changes in tax remittance procedures in State fiscal year 1988-89. A quarterly dummy variable is used to reflect seasonal consumption patterns. The equation is estimated in log form and is corrected for first-order serial correlation. The estimated equation, with t-statistics in parentheses, is as follows:

DIESEL CONSUMPTION MODEL	
$\text{Log}(\text{Diesel gallons}_t) = 6.99 + 1.33 \text{ log}(\text{GDPreal}_t) + 0.63 \text{ Dummy}_t - 0.10 \text{ Dqt1}_t + u_t$	$\begin{matrix} (17.01) & (28.62) & (10.16) & (-7.32) \end{matrix}$
$u_t = -.42 * u_{t-1}$	(-5.1)
R-Bar Squared	0.9578
Durbin-Watson Statistic	1.9949
Root Mean Squared Error	0.0831
Number of Observations	123

The model suggests a strong link between diesel consumption and real GDP. The elasticity of diesel gallons to real GDP is estimated at 1.3.

PETROLEUM BUSINESS TAXES

Utility Residual Fuels

Residual fuels are burned by electric utilities to produce electricity. They can switch to natural gas (which is not subject to the PBT) depending upon relative prices and State regulatory policy, which requires utilities to burn residual fuels during times of high residential demand for natural gas.

Rates/Indexing

Since 1990, basic and supplemental PBT tax rates have been subject to separately computed annual adjustments on January 1 of each year to reflect the change in the Producer Price Index for refined petroleum products (PPI) for the 12 months ending August 31 of the immediately preceding year. The tax rates, therefore, increase as prices rise and decrease as prices fall. The monthly history of the PPI is published by the Bureau of Labor Statistics of the United States Department of Labor. The Division of the Budget forecasts the PPI based on historical data. Beginning January 1, 1996, the PBT rate index has been adjusted annually subject to a maximum change of 5 percent of the current rate in any year. As a result, the PBT rate index decreased by 5 percent on January 1, 2003, and increased by 5 percent on January 1, 2004 through January 1, 2006. The PPI for January 1, 2007, is projected to increase by 26.2 percent, triggering a tax rate index increase of 5 percent for 2007.

It should be noted that, in general, the statute also requires the base and the supplemental gasoline rates to be rounded to the nearest tenth of one cent. As a result, the actual increases or decreases in the tax rates from indexing are usually slightly different than the full percentage change dictated by the tax rate index. Rates are also affected by statutory changes that may complement or offset the changes due to indexing.

Adjustments

After generating a demand forecast and applying the appropriate tax rates, adjustments are made for refunds, credits, pay schedule lags, accounting delays, historical and year-to-date collection patterns, tax law changes, tax evasion and Federal and State enforcement measures.

Cash Receipts

See Motor Fuel section for component graphs for gasoline and diesel taxes.

PERCENTAGE DISTRIBUTION OF CASH RECEIPTS				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996-97	25.1	24.7	24.2	26.0
1997-98	24.4	25.6	24.8	25.2
1998-99	24.5	26.6	25.0	23.9
1999-2000	25.8	26.6	25.6	22.0
2000-01	24.4	25.4	25.2	25.0
2001-02	24.2	24.1	24.8	26.9
2002-03	24.7	27.7	24.0	23.6
2003-04	24.6	26.8	22.8	25.7
2004-05	24.9	25.9	24.6	24.6
2005-06(est.)	23.7	27.7	23.7	24.9

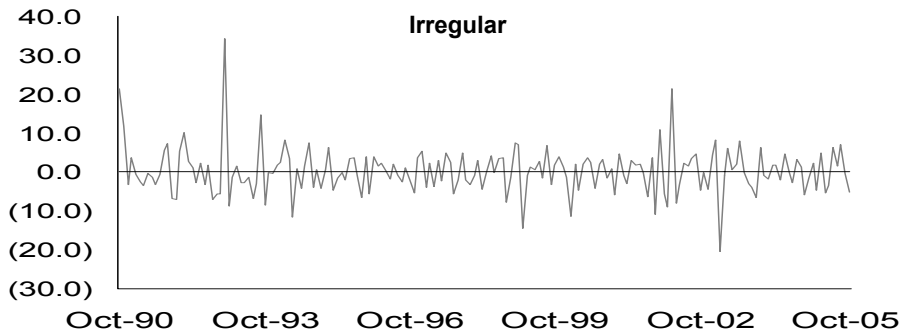
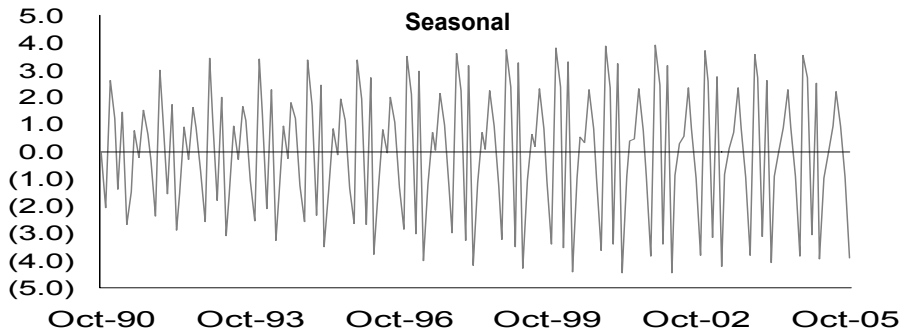
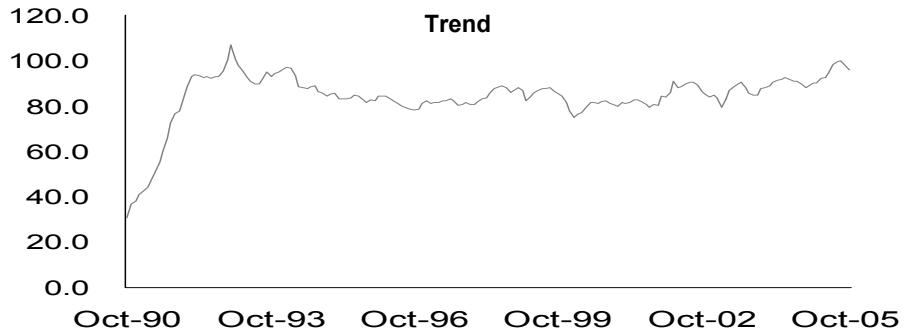
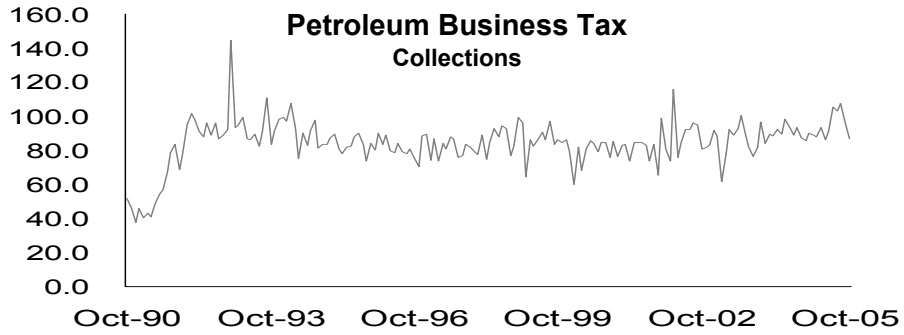
Risks to the Forecast

Historically, PBT receipts have remained relatively stable under a wide variety of political and economic conditions. However, due to the difficulty in predicting fuel prices, inventories, and weather conditions, the current PBT revenue estimate has some inherent

risks. Among these risks, the variation of fuel prices is the most noteworthy. Global economic and political conditions, as well as market forces, can affect fuel prices. For example, between January 1999 and October 1999, the world crude oil price increased by 116 percent. More recently, prices increased 65 percent from January 2005 to August 2005, before falling back. Changes in fuel prices may change fuel consumption, especially residual fuel consumption. The growth rate of utility residual fuel consumption exhibited volatility during the last five years ranging from a negative 27 percent to 126 percent. Fuel price changes may also change fuel inventories, the PBT index, and tax rates. Fortunately, the portions of the PBT most affected by price changes comprise a small portion of overall receipts.

PETROLEUM BUSINESS TAXES

Collection Components (millions of dollars)



ESTATE TAX

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

New York imposes a tax on estates of deceased New York residents, and on that part of a nonresident’s net estate made up of real and tangible personal property located within New York State. The tax applies to that portion of the estate in excess of any taxable gifts already made. Until February 1, 2000, the tax had progressive rates, ranging from 2 percent of the first \$50,000 of net taxable transfers to 21 percent of net taxable transfers in excess of \$10.1 million. For those dying on or after October 1, 1998, and before February 1, 2000, a non-refundable unified tax credit of \$10,000 eliminated the State estate tax for estates valued up to \$300,000.

Since February 1, 2000, the estate tax has been equal to the Federal credit allowable for state death taxes paid. 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.

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 (thousands of dollars)		
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 ¹
2005	950,000	1,000,000 ¹
2006 and thereafter	1,000,000	1,000,000 ¹

¹ 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 phased out the Federal credit for state death taxes over four years, by 25 percent per year. The credit was repealed for the estates of decedents dying after 2004. In 2005, it became 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 conform to the Federal law as it existed on July 22, 1998. As a result, New York estate tax liability has been unaffected by the phase-out of the Federal credit for state death taxes.

ESTATE TAX

Administration

The estate tax is due on or before the date fixed for filing the return. To avoid interest charges, payment must be made within nine months after the date of death. The Commissioner of Taxation and Finance may grant an extension of 12 months from the date fixed for payment and, in extreme cases, may extend the time of payment to four years from the date of death.

DATA SOURCES

The primary sources of data used in the estimation and forecasting of the estate tax are as follows:

- *Monthly estate tax receipts from the Department of Taxation and Finance on report AM043.*
- *Monthly estate tax receipts from the State of New York Office of the State Comptroller.*
- *New York State Estate Tax, Analysis of Final Returns OTPA.*
- *Daily Collections OTPA.*
- *Various U.S. and New York government agencies, including the U.S. Bureau of Economic Analysis of the Commerce Department.*

STATUTORY CHANGES

Legislation enacted in 1990 modernized the administration of the estate tax, imposed a State generation-skipping transfer tax, and revised the method for computing liability.

Legislation enacted in 1991 increased the estimated estate tax payable within six months of the date of death from 80 percent to 90 percent, with the balance of the tax due payable within nine months of the date of death.

Legislation enacted in 1994 provided a special estate tax credit of 5 percent of the first \$15 million of qualified assets for estates consisting of small business interest, and increased the maximum unified credit allowed against State estate tax liability from \$2,750 to \$2,950.

Legislation enacted in 1995 protects the value of a decedent's principal residence from estate tax liability. A maximum of \$250,000 of equity in the decedent's principal residence may be deducted from the value of the New York gross estate. This special deduction reduces the tax burden of transferring family homes, particularly those which are the primary asset of the estate.

Legislation enacted in 1997 significantly reduced State estate tax collections and changed the way the New York State estate tax is imposed. In two steps, the State's estate tax rate structure, credits and exemptions were eliminated and, instead, the State will only receive an amount equal to the maximum Federal credit for state death taxes (the "pick-up tax").

The first phase of the estate tax legislation increased the amount of the tax credit from \$2,950 to \$10,000. In addition, the provision requiring 90 percent of the estate tax to be paid within six months of death to avoid underpayment interest was changed to allow seven months.

In the second phase, for those dying on or after February 1, 2000, the estate tax was converted to a "pick-up tax", and the requirement for 90 percent of the estate tax to be paid within seven months of death to avoid underpayment interest was changed to allow nine months for payment of total liability, which is consistent with Federal law.

The enacted legislation also conforms with increases in the Federal unified credit and gradually increases the State's unified credit to exempt taxable estates of up to \$1 million.

On March 23, 2001, the Federal estate tax law was amended to repeal the tax over a ten-year period. The unified credit was converted to an exemption and New York State automatically conforms up to \$1 million. The Federal credit for state death tax was reduced by 25 percent per year beginning in 2002 and was eliminated in 2005 (New York does not automatically conform to the change). The New York estate tax is imposed pursuant to the Internal Revenue Code of July 22, 1998; therefore, New York residents will generally not be affected by any changes to Federal statute after that date.

FORECASTING METHODOLOGY

Economic variables alone cannot explain variances in revenues from this source. Not only is it difficult to forecast wealthy taxpayer mortality, it is also difficult to forecast the taxability of the decedent's estate. To the extent that the estate is left to a spouse, or to a charitable trust, there is no liability. In addition, less than one-half of one percent of estates account for over 51 percent of the tax liability. The number of estates required to pay the tax has also declined over time, in part because of the change to a "pick-up tax", the conversion of the unified credit to an exemption and its increase from \$700,000 to \$1 million on January 1, 2002. While a model (see below) using household assets and stock market indicators fits the payment data for the smaller estates, the value of new Federal exemptions and the rapidly increasing unified credit complicate the estimate. In projecting current year receipts, an analysis of historical trends supplements the econometric analysis.

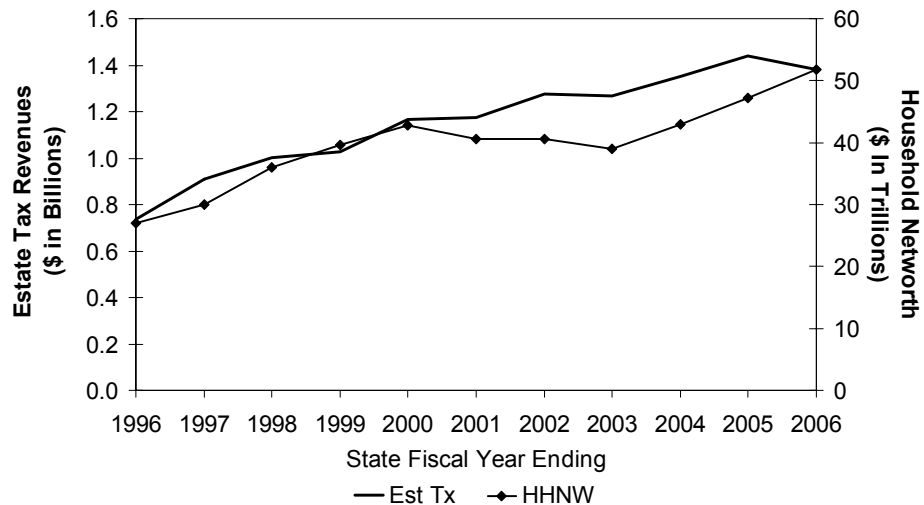
Econometric and Statistical Analysis

For purposes of projecting estate taxes, collections are separated into categories of super large estates (tax payment of at least \$25 million), extra large estates (tax payment of at least \$4 million but less than \$25 million), large estates (tax payment of at least \$500,000 but less than \$4 million), and small estates (less than \$500,000). To forecast collections in the super- and extra-large categories, the numbers of super-large and extra-large estates over the last 15 years are fitted to a statistical distribution. This distribution is then used to predict the number of super- and extra-large filers in future fiscal years. The same method is applied to the average real payment in each category. Once the predicted number of estates is multiplied by the average payment, an inflation factor, based on household net worth, is applied to determine the nominal growth rate of the taxable base.

For the remainder of estate tax payments, a regression equation is estimated with quarterly collections as the dependent variable. The main independent variable is a measure of household net worth which proxies for the value of the estates. The measure uses household net worth at the minimum of the value at time of death or its value nine months later. This corresponds to the valuation methodology in State statute. The revenue elasticity with respect to household net worth measured over the last five years of data is 0.7.

ESTATE TAX

Constant Law Estate Collections vs. Nationwide Household Net Worth



	2002-03	2003-04	2004-05	2005-06
Min. Household Net Worth (percent change)	(-3.3)	3.8	12.3	9.9
Total Collections (millions)	701.0	732.3	895.3	843.0
Impact of Law Change	428.4	483.3	502.0	497.0
Average Revenue Elasticity ¹	0.7	0.8	0.7	0.7

¹This elasticity is derived using the last five years of annual fiscal year data and taking the average of endogenous and exogenous variables. Then, one calculates the percent change in the endogenous variable resulting from a 1 percent change in the exogenous variable.

Revenue History

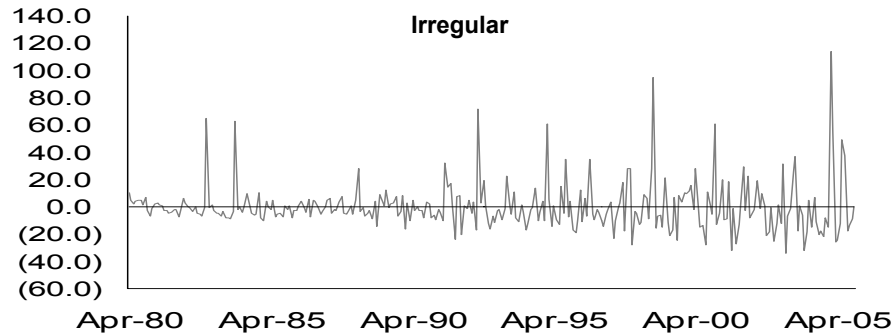
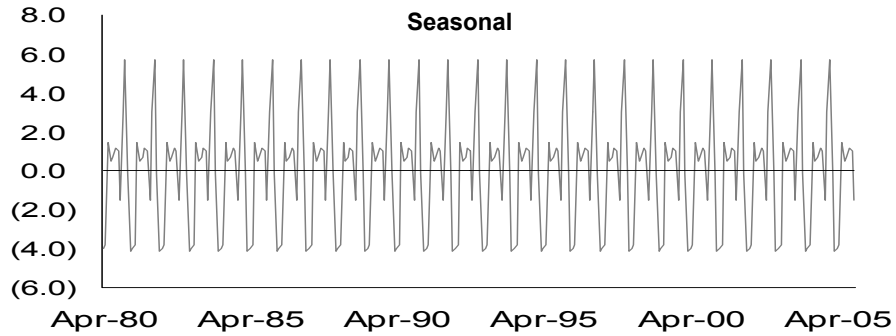
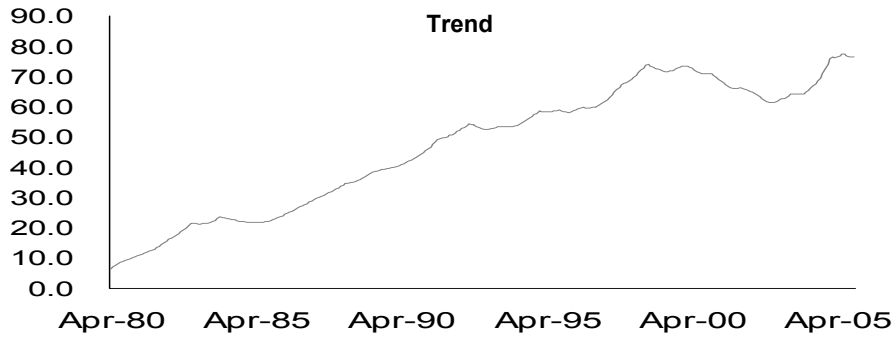
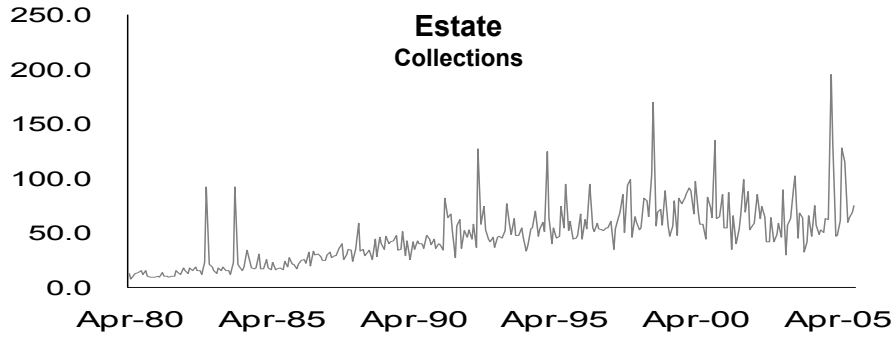
ESTATE TAX RECEIPTS STATE FISCAL YEAR ENDING MARCH 31 (millions of dollars)											
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (Estimated)
No. of Estates	20,252	18,704	20,946	20,760	18,205	12,505	6,242	4,484	3,225	3,712	3,956
Actual Receipts	679	792	919	946	975	717	761	701	732	895	843
Constant Law Receipts	738	909	1,001	1,029	1,165	1,174	1,274	1,262	1,353	1,440	1,380
Growth %	(2.6)	23.1	10.1	2.8	13.2	0.7	8.5	(0.9)	7.2	14.7	(4.3)
Small Estate ¹	416	397	407	465	461	332	313	262	264	304	353
Large Estate	158	152	195	259	229	225	209	248	209	213	219
Super/ Extra - Large Estates	105	243	317	222	285	160	239	191	259	377	272

¹ Estimated small estates include CARTS and all refunds are subtracted from small estates.

Cash Receipts

As expected, estate tax cash receipts are dominated by a large irregular component around a stable upward trend. Much of estate tax collections is dominated by random events.

**Collection Components
(millions of dollars)**



ESTATE TAX

PERCENTAGE DISTRIBUTION OF GENERAL FUND COLLECTIONS				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996-97	23.5	28.8	26.5	21.2
1997-98	26.9	32.1	23.6	17.4
1998-99	22.1	31.8	26.7	19.4
1999-00	20.5	26.8	27.2	25.5
2000-01	32.9	25.5	21.8	19.8
2001-02	25.7	18.3	28.6	27.4
2002-03	28.6	28.8	21.2	21.4
2003-04	22.5	27.6	28.3	21.6
2004-05	21.0	17.8	19.5	41.7
2005-06 (est.)	28.1	28.5	24.0	19.4

REAL ESTATE TRANSFER TAX

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

The New York State real estate transfer tax (RETT) is imposed on each conveyance of real property or interest therein when the consideration exceeds \$500, at a rate of \$4.00 per \$1,000 of consideration. The tax became effective August 1, 1968. Prior to May 1983, the rate was \$1.10 per \$1,000 of consideration. An additional “mansion” tax, effective July 1, 1989, is imposed on conveyances of residential real property for which the consideration is \$1 million or more at a rate of one percent of the total consideration attributable to residential property.

The tax rate imposed on conveyances into new or existing real estate investment trusts (REITS) is \$2.00 per \$1,000 of consideration.

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

In the State fiscal year 2004-05, there were 574,248 conveyances, which generated \$532 million in RETT (excluding mansion tax) liability. About 1.7 percent (9,582) of these were residential conveyances that involved consideration of \$1 million or more and generated \$198 million in mansion tax liability. Refunds and CARTS are insignificant.

DATA SOURCES

The primary sources of data used in the estimation and forecasting methodology for the RETT are as follows:

- *RS-43, Department of Taxation and Finance Monthly Report of Receipts.* This report contains gross and net receipts data.
- *RETT 7, Department of Taxation and Finance.* This form reports the monthly liability for each county. It is an important source of information since some counties do not remit payments to the Commissioner according to the statutory schedule.
- *Various U.S. and New York government agencies, including the U.S. Bureau of Economic Analysis of the Commerce Department.* These agencies provide economic data used in the econometric equation.

FORECAST METHODOLOGY

A regression equation is estimated with fiscal year liability (excluding the mansion tax) divided by the tax rate, which yields the dollar value of transfers, as the dependent variable. Independent variables in the model are: the mortgage rate, New York housing starts multiplied by an average New York housing price which yields a “value of sold housing”

REAL ESTATE TRANSFER TAX

variable, Manhattan vacancy rates, and the national price deflator for nonresidential construction (buildings and other). Mansion tax receipts are estimated using a separate equation, in which the average New York housing price is the primary independent variable.

A dummy captures the large increase in collections in SFY 2001-02. The typical payment behavior of all counties is then used to estimate State cash receipts. As the fiscal year progresses, year-to-date collections and liability are additional factors that determine the current-year estimate.

RETT (NON-MANSION TAX EQUATION)	
Dollar Value of Transfers = -6861 - 1823*[mortgage rate] + .0044*[value of sold housing] + (-0.54) (-2.13) (4.63)	
68505*[U.S. construction deflator, buildings] - 10.20*[square of Manhattan vacancy rates] (5.23) (-2.4)	
R-Bar Squared	0.9344
Durbin-Watson Statistic	1.3133
Standard Error of the Regression*	\$23.0 million
Number of Observations	31
*Normalized	

RETT (MANSION TAX EQUATION)	
Mansion Tax Receipts = -140.2 + 1.14*[avg home price] + 16.58*[Dummy for SFY 2001 Increase] (-9.62) (13.63) (1.09)	
R-Bar Squared	0.9459
Durbin-Watson Statistic	0.9623
Standard Error of the Regression	\$11.0 million
Number of Observations	15

PERCENT CHANGE IN EXOGENOUS VARIABLES STATE FISCAL YEARS 2000-01 TO 2005-06						
Exogenous Variable	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06 (Estimated)
Mortgage rate (level)	7.8	7.0	6.4	5.8	6.0	6.2
Value of sold housing	13.8	17.3	14.4	7.4	13.3	1.0
U.S. construction deflator, buildings	4.0	3.7	2.7	2.7	6.6	5.7
Square of Manhattan vac. rates (level)	35.7	291.6	513.0	537.0	476.3	388.6
Average House Price	10.0	9.7	12.6	5.9	8.2	(1.7)

ELASTICITIES	
Exogenous Variable	Revenue Elasticity - Last Five Years*
Mortgage rate (level)	(.13)
Value of sold housing	.45
U.S. Construction deflator, buildings	.78
Square of Manhattan vac. rates (level)	(.04)
Average House Price	2.49
* Using last five years of annual fiscal year data, take the average of endogenous and exogenous variables. Calculate the percent change in the endogenous variable resulting from a one percent change in the exogenous variable.	

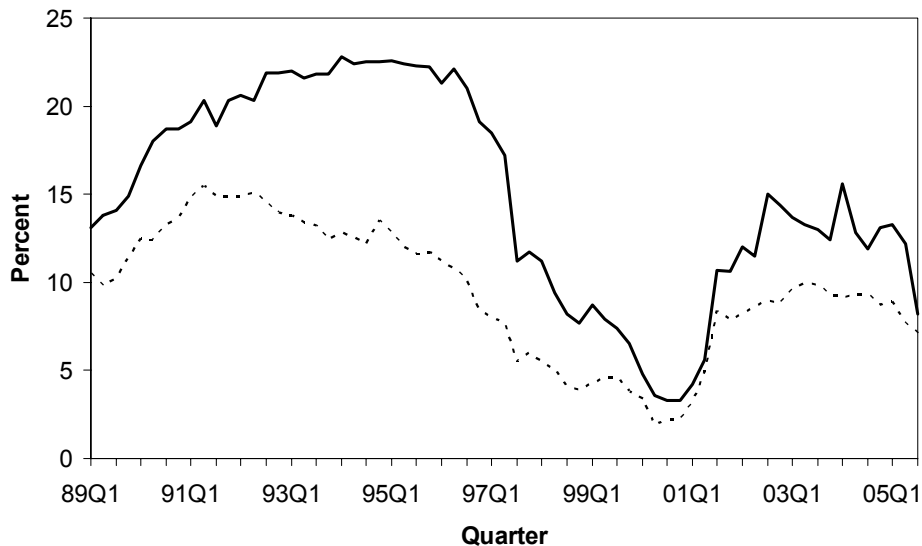
Recent Experience

As previously noted, actual State cash collections are dependent upon county payment behavior, particularly the counties comprising New York City and Long Island. Although the county payment schedule is statutory, there is no penalty for late payment. This becomes an important factor when the State closes its fiscal year. The closeout date (the last day receipts are attributed to the current fiscal year) for the real estate transfer tax is approximately March 25. Although these counties have payments due on the twenty-fifth of each month, payment by this date is rare. Typically, though not always, the Long Island counties make this payment between the twenty-fifth and final day of the month (at the end of the State's fiscal year; this payment is therefore attributed to the following fiscal year), and except for Richmond County, New York City counties pay sometime during the following two months.

Real estate transfer tax collections are dependent on the total value of real estate conveyances, which in turn are a function of the number of conveyances and the price of each individual conveyance. Between fifty percent and sixty percent of monthly collections are the result of activity in New York City and Long Island. Real estate values and the number of transfers in this geographical area are subject to more cyclical behavior than in the remainder of the State. This is due to the nature of the local economy, which is more dependent on financial services than the remainder of the State and the nation as a whole, and to the sometimes speculative nature of expected returns on commercial real estate transactions.

During State fiscal year 2004-05, collections were driven by strong residential demand. Collections were also boosted by the increasing percentage of residential transfers subject to the "mansion tax."

Vacancy Rates in Manhattan



Source: C.B. Richard Ellis

— Downtown - - - Midtown

REAL ESTATE TRANSFER TAX

Risks to the Forecast

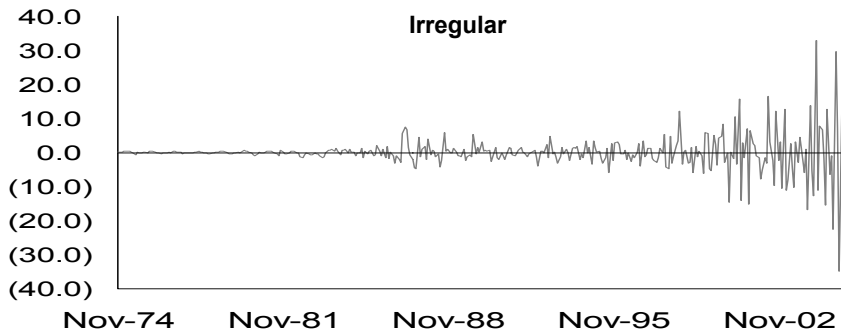
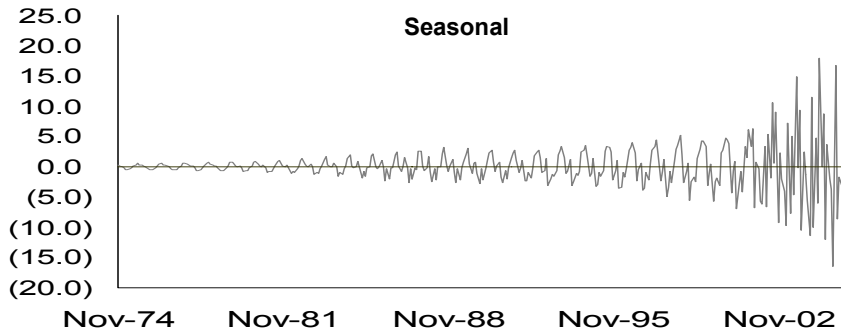
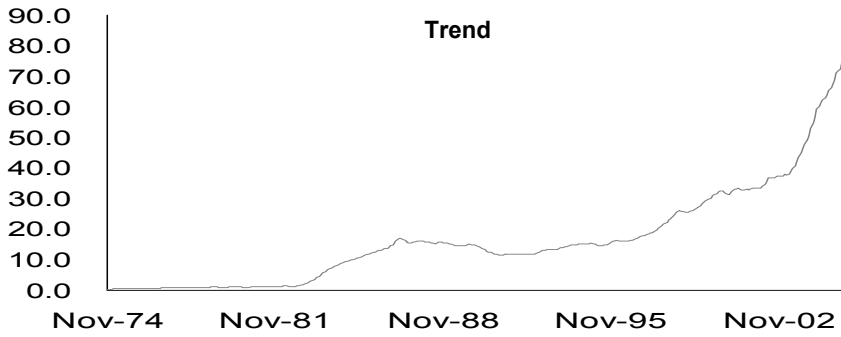
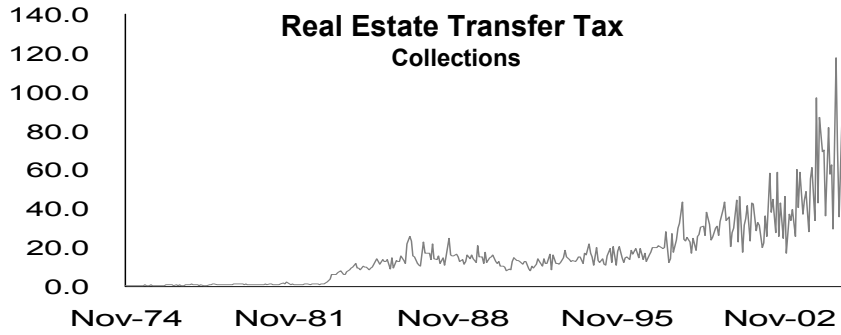
Errors in the forecasts of the exogenous variables provide a degree of risk to the real estate transfer tax forecast. Forecast error in prior years can largely be attributed to the forecasts of the exogenous variables and large unanticipated transfers. Variation in the estimate may also occur as a result of administrative changes or unanticipated legislative action.

Cash Receipts

The accelerating trend in collections in recent years is significant and large irregular values relative to trend indicate the significant volatility in this series.

REAL ESTATE TRANSFER TAX

Collection Components (millions of dollars)



REAL ESTATE TRANSFER TAX

PERCENTAGE DISTRIBUTION OF CASH RECEIPTS				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996-97	22.5	28.3	26.5	22.7
1997-98	23.5	26.6	26.1	23.8
1998-99	21.9	33.9	23.4	20.8
1999-2000	21.0	25.8	27.8	25.4
2000-01	24.5	28.0	19.4	28.1
2001-02	22.7	29.2	28.1	20.0
2002-03	27.0	24.8	27.6	20.6
2003-04	21.8	24.8	27.5	25.9
2004-05 (est.)	26.1	27.1	25.9	20.9

PARI-MUTUEL TAXES

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

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

In general, the tax varies based on the type of racing (thoroughbred or harness), the place where the bet is made (on-track or off-track), and the type of wager (regular, multiple, or exotic). Currently, all tracks, other than the New York Racing Association (NYRA) tracks of Aqueduct, Belmont, and Saratoga, have an effective tax rate of 0.6 percent on all bets. NYRA has a flat tax rate of 1.6 percent, and off-track betting corporations have an effective tax rate of 0.85 percent.

In the 1980s, the on-track harness handle was over \$850 million and the effective tax rate was over 8 percent. Currently, the on-track harness handle is marginally over \$100 million and the tax rate is 0.5 percent, providing taxes of \$0.4 million. Similarly, the on-track thoroughbred racing handle has fallen from over \$800 million to less than \$600 million and its effective tax rate from over 9 percent to less than 2 percent. Off-track betting, which started in 1972, had rapid growth in the 1970s and 1980s, as new facilities came on line and the State increased the hours of operation and types of betting. Over this period, the OTB handle has grown to \$2.0 billion, but its effective tax rate was reduced from over 3 percent to 0.85 percent.

Administration

The tax is collected by each on-track and off-track racing association, or corporation, and remitted to the State Commissioner of Taxation and Finance each month on the last business day. Such taxes cover the liability due for the period from the 16th day of the preceding month through the 15th day of the current month.

DATA SOURCES

Data on the pari-mutuel tax come from various sources:

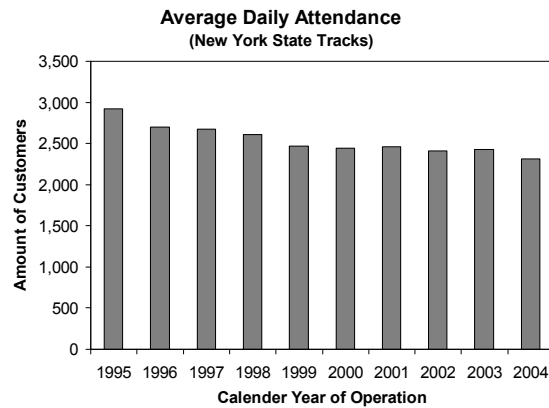
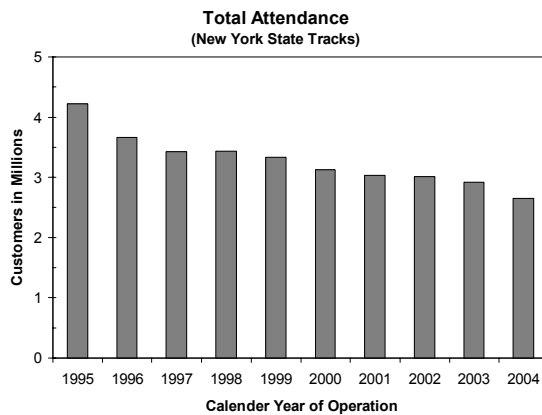
- *Department of Taxation and Finance.* Daily and monthly collection reports are received, compiled and analyzed.
- *OTB and Racetracks.* Monthly reports are collected from OTB, and various racetracks provide data upon request.
- *New York State Racing and Wagering Board.* The Board provides annual reports and additional information upon request.
- *Office of the State Comptroller.* Monthly collections reports are received and analyzed.

PARI-MUTUEL TAXES

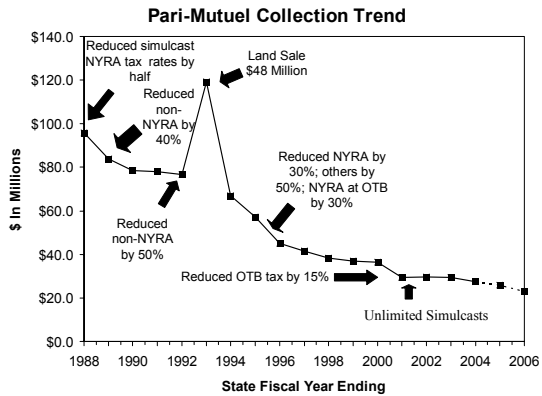
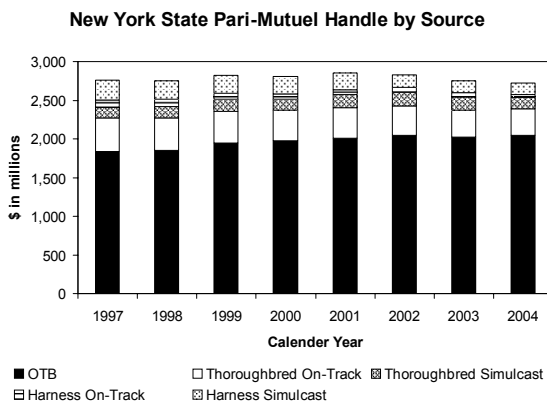
STATUTORY CHANGES

Over the last two decades, increases in OTB activity and simulcasts, which now account for 80 percent of the statewide handle, have been accompanied by a corresponding decline in handle and attendance at racetracks. To encourage the continuing viability of these tracks, the State authorized higher takeouts to support capital improvements at NYRA tracks and, more importantly, reduced its on-track tax rates by 30 percent to 90 percent at thoroughbred and harness tracks. In 1995, the State increased the takeout on NYRA multiple wagers (involving two horses), while lowering the takeout on NYRA regular wagers (involving one horse). Recent legislation extended the authorization for telephone betting, in-home simulcasting experiments, expansion of track and OTB simulcasting through July 1, 2007, and lowered the tax rates on simulcast wagering. It also eliminated the State franchise fee on nonprofit racing associations (NYRA), effective January 1, 1998. In addition, the tax rate on NYRA bets was cut from 3.0 percent to 2.6 percent in 1999, and to 1.6 percent in 2001. The NYRA franchise would have been extended to 2013, if NYRA installed VLTs (Video Lottery Terminals) in Aqueduct racetrack on or before March 1, 2004. Since NYRA was not able to initiate VLT operation by that date, the NYRA franchise will expire on December 31, 2007. Legislation enacted on May 16, 2003, 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.

Trends in Attendance: All Tracks



Trends in Wagering



FORECAST METHODOLOGY

Since the tax is a function of the kind of wager (bet), type of race, and the place where wagers are made, the starting point is the analysis of the trends in the data on handle in the various modes of betting. Several econometric studies have been performed on this source. However, changes to the tax base, increased competition from new racing venues, VLTs (Video Lottery Terminals), and casino and Native American gaming have made traditional econometric estimation difficult. It now appears that variations in weather conditions and the length of racing seasons are the most relevant factors affecting the tax base.

While earlier periods witnessed significant changes in the distribution of regular, multiple, and exotic wagers as the State authorized increases in the number and types of wagers, evidence from recent periods suggests that the relative distribution has remained stable. In 2004, New York State tracks reported that 35 percent of the wagers were regular, 38 percent multiple, and 26 percent exotic.

The expansion of OTBs has contributed, in part, to the continuing downward trends in on-track handle and attendance. Increased simulcasting in recent years has been a factor in off-track wagering now being over 80 percent of the statewide handle. Accordingly, time series models, with suitable adjustments for law changes and number of racing dates, are used to separately forecast thoroughbred, harness and OTB handles. At this point, tax rates are applied to the forecast of handles to determine tax revenues. In calendar year 2004, State taxes were \$28 million on a handle of \$2.75 billion, producing an effective tax rate of 1.02 percent. Given the low tax rates, a variance of \$1 million in handle creates only a \$10,000 variance in receipts.

Revenue History

FISCAL YEAR RECEIPTS (millions of dollars)											
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006
Actual	45.1	41.6	38.4	36.9	36.3	29.3	29.6	29.5	27.5	26.0	23.0
Constant Law	60.6	56.2	52.5	50.4	50.5	47.0	49.4	48.0	46.0	44.5	41.0
Constant Law Percent Growth	(5.0)	(7.3)	(6.6)	(4.0)	0.2	(6.9)	5.0	(3.0)	(4.2)	(3.2)	(7.9)

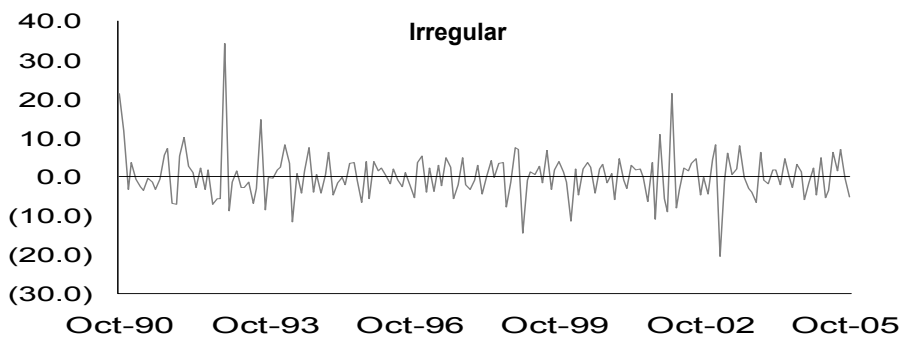
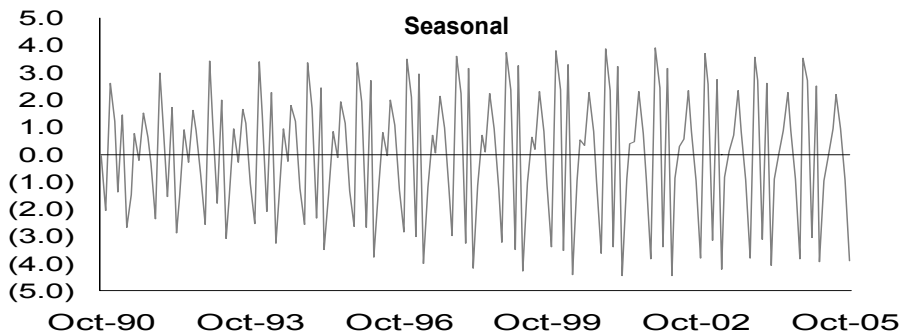
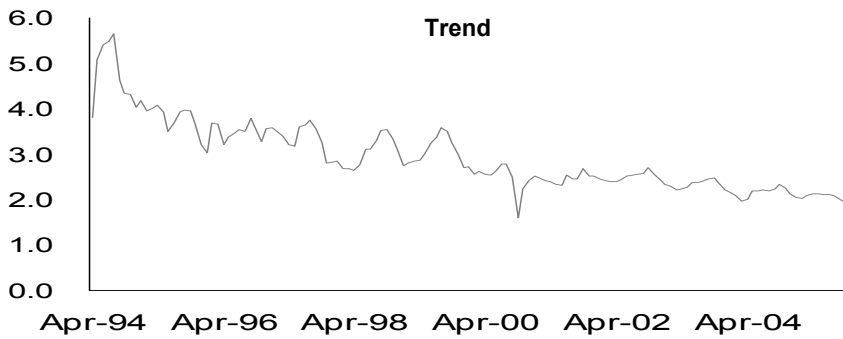
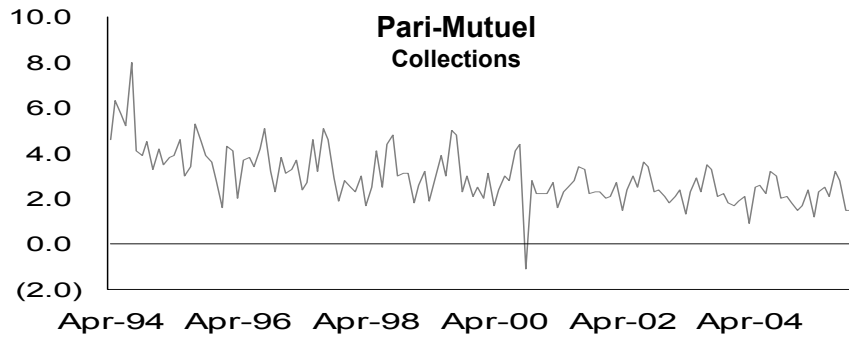
PERCENTAGE DISTRIBUTION OF GENERAL FUND COLLECTIONS				
	1 st Quarter	2 nd Quarter	3 rd Quarter	4 th Quarter
1995-96	25.5	29.2	22.9	22.4
1996-97	22.8	30.6	22.3	24.3
1997-98	25.5	34.0	20.2	20.3
1998-99	22.6	31.9	24.8	20.7
1999-00	23.8	35.2	20.1	20.9
2000-01	24.5	38.4	12.9	24.2
2001-02	21.8	32.3	22.8	23.1
2002-03	23.4	32.2	23.2	21.2
2003-04	23.8	33.2	22.1	20.9
2004-05	23.5	32.2	22.7	21.6
2005-06 (est)	26.1	35.2	19.6	19.1

Cash Receipts

Clearly, the trend in collections continues to be negative, reflecting the factors discussed above including declining attendance and reductions in tax rates. There is a clear seasonal pattern with collections higher in the summer and fall.

PARI-MUTUEL TAXES

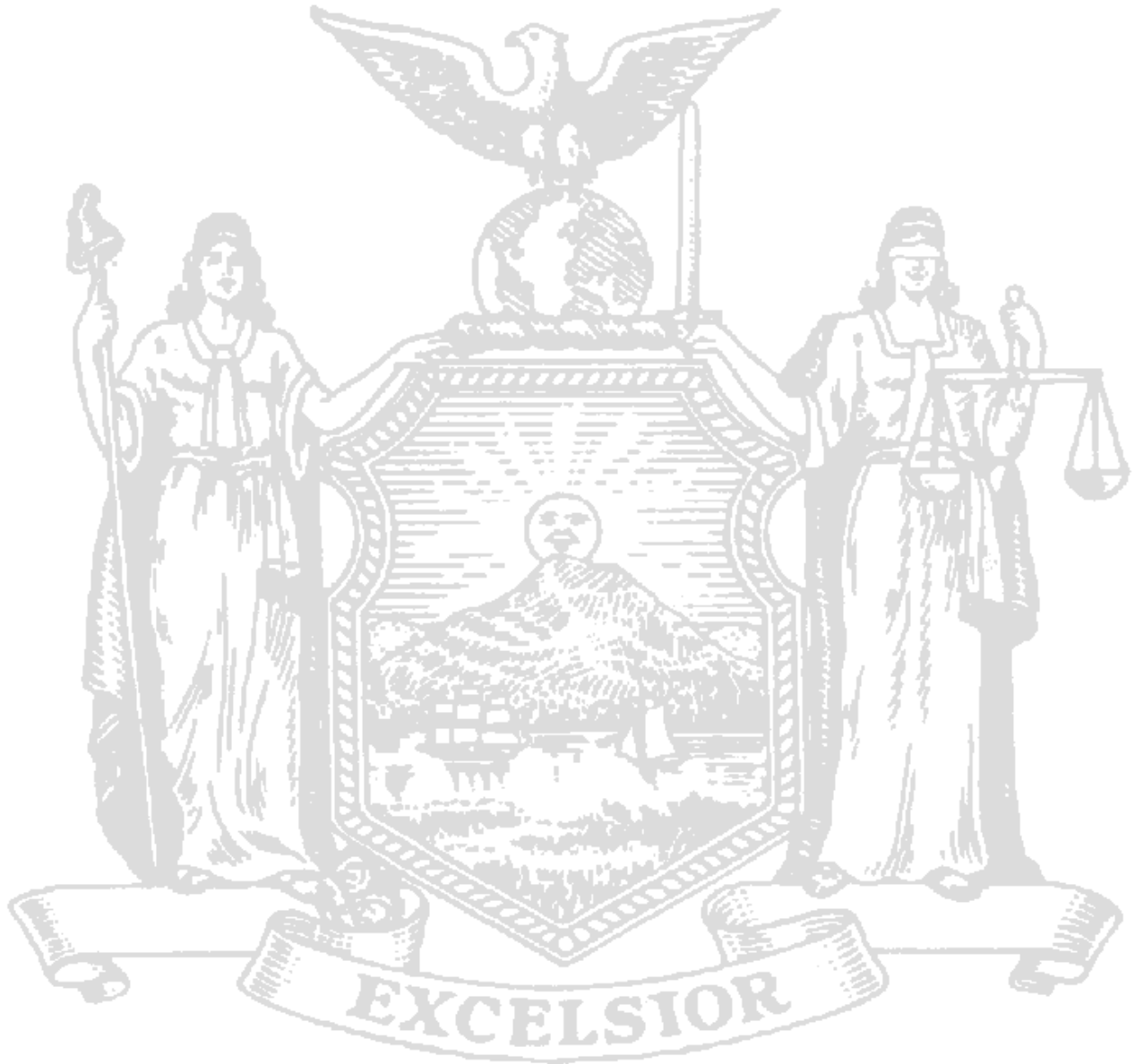
Collection Components (millions of dollars)



Risks To Forecast

Competition from VLTs and other gaming venues could cause some of the OTBs to close down a number of branches, or a reduction in the number of racing days due to continuing declines in handle at the tracks and increased competition from other forms of gambling such as casinos could decrease receipts.

LOTTERY



LOTTERY

BACKGROUND

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

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). The Division, which manages the sale of lottery tickets, currently operates five types of games.

1. Instant games, in which most prizes are paid immediately.
2. 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 Mega Millions game, the value of any prize not won is added to the top prize in the subsequent drawing. For Take 5, if there is no first prize winner, the monies will be added to the second prize pool.
3. Daily numbers games, which are fixed-odds games with twice daily drawings, in which players select either a three-digit number (Daily Numbers Game) or a four-digit (Win 4) game; and Instant Win, an add-on game to Daily Numbers and Win 4.
4. Keno-like games, which are pick-your-own 10-of-80 numbers games with drawings conducted either daily (Pick 10) or every four minutes (Quick Draw). Lottery pays top prizes of \$500,000 in Pick 10 and \$100,000 in Quick Draw.
5. Video Lottery games (VLTs), which are lottery games played on video gaming devices. They are allowed at selected thoroughbred and harness tracks.

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

After earmarking for prizes, the Division uses a portion of net sales (not exceeding 15 percent) for its administration, and the remainder is available to support education. The statutory allocation for education for Lotto 59 and Instant Win games is 45 percent of ticket sales; for Take 5, Mega Millions, Daily Numbers, Win 4, and Pick 10 games, 35 percent; for Instant games, 20 percent and 10 percent for up to three Instant Games per year; for Quick Draw, 25 percent; and for VLTs based on graduated schedules ranging from 50 percent to 60 percent of net machine income depending on the net machine income of each facility. At the end of each fiscal year, any unspent portion of the 15 percent of ticket sales not used for administration (10 percent for the VLT program) is also used for education.

Administration

Sales agents are notified electronically by the Division’s lottery game vendor by Monday of each week of the amount due the State from sales during the previous week. The agent has until Tuesday to deposit sufficient funds in specified joint bank accounts at which time the operations vendor sweeps the moneys and transfers them to the Lottery Division by Wednesday morning. For VLTs, the Division sweeps the accounts daily and the State receives the revenues daily.

DATA SOURCES

Data are collected from the Division and the Department of Taxation and Finance on a weekly and monthly basis.

LOTTERY

STATUTORY CHANGES

Legislation enacted in 1987, 1988, 1991, and 1999 increased the prize allocation for Instant games from 45 percent, to 50 percent, to 55 percent, and finally to 65 percent, respectively. Legislation enacted in 1995 and renewed in 1999, 2001, and 2002 authorized the Quick Draw game through May 31, 2004.

Legislation enacted on October 29, 2001, allowed the Lottery Division to enter into multi-jurisdictional agreements to conduct multistate lotto games with a 50 percent prize payout. The State elected to join with the Big Game states, and afterward the name was changed to Mega Millions. In addition, this 2001 legislation allowed the Lottery Division to license the operation of VLTs at selected New York State racetracks.

Legislation enacted on January 28, 2002, allowed the Lottery Division to offer up to three 75 percent prize payout Instant ticket games during the fiscal year.

Legislation enacted on May 2, 2003, made the following adjustments to the VLT program:

- From total sales of video lottery terminals, not less than 90 percent is to be paid out for prizes.
- Of the balance, the Lottery Division retains a 10 percent commission, the racetracks receive 29 percent, 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 in the first through fifth years and 5.2 percent in the following years. The racetracks are allowed to enter into agreements with the horsemen for no longer than five years of the VLT operation. The expiration date was changed to ten years after the start date of the program.

Legislation enacted in 2004 extended Quick Draw until May 31, 2005.

Legislation enacted on April 12, 2005, made the following changes to the VLT program:

- Of the total revenue wagered after payout for prizes, 32 percent of the first \$50 million, 29 percent of the next \$100 million and 26 percent thereafter shall be paid to the operator of the track.
- In addition, the legislation provided for an additional vendor's marketing allowance equal to 8 percent of the first \$100 million and 5 percent thereafter of total revenue wagered after payout for prizes to be used by the vendor track for the marketing and promotion and associated costs of its operations provided, however, that the allowance shall not exceed 4 percent in any year for a racetrack located in the county of Westchester or Queens.
- By implication, of the total revenue wagered after payout for prizes, 54 percent of the first \$50 million, 57 percent of the next \$100 million and 60 percent thereafter is earmarked for education, for tracks located in Westchester or Queens Counties, and 50 percent of the first \$50 million, 53 percent of the next \$50 million and 56 percent of the next \$50 million and 59 percent thereafter is earmarked for education from tracks not in Westchester or Queens counties.
- The 10 percent of total revenue after payout for prizes used for the expenses of the Division of the Lottery was not changed in this legislation.
- Extends the expiration of the program until December 31, 2017.

Legislation enacted in 2005 extended Quick Draw until May 31, 2006.

FORECAST METHODOLOGY

Economic conditions seem to have little explanatory power in predicting Lottery receipts. Accordingly, the various games are initially estimated using probability and time series models and are subsequently adjusted for marketing and operational plans, new game introductions, and law changes.

Lotto and Mega Millions

The sales of Lotto and Mega Millions tickets are volatile because the jackpots can randomly roll up to high amounts. High jackpots produce significant spikes in sales. The forecast of these games uses a simulation model that mimics the actual process and simulates one year of drawings. The model is run for 1,000 iterations (1,000 years of results) to produce output distributions for total sales, total revenue and the seeding necessary to maintain the jackpot levels. Distribution averages are used to predict the most likely receipts outcome.

First, to run the model, the jackpot structure is input and then a regression model based on historical sales-to-jackpot relationships is used to obtain an estimate of the average sales at each jackpot level, correcting for seasonal effects and other factors. After the sales for a specific draw are calculated, another model predicts the average coverage ratio (the combinations actually bet divided by the total number of combinations) at that sales level.

To determine if the jackpot will be hit, a random number generator is used to generate numbers between zero and one. If the random number is less than or equal to the coverage ratio, the jackpot is hit. If the random number is greater than the coverage ratio, the jackpot rolls to the next jackpot level and the model repeats the analysis.

The model simulates 104 jackpot draws and thus one full year of results. Since the sales and coverage ratio are not the same every time a given jackpot level is drawn, we cannot simply use the average sales and coverage ratio predicted by the regression equations. Instead we use a risk analysis program and substitute a probability distribution for sales at each jackpot level and use a Latin Hypercube random selection process to pick the actual sales at every given jackpot level from the probability distribution. The probability distributions are based upon the historical variance in sales at various jackpot levels. To illustrate, sales of Lotto at a \$3 million jackpot level may range between \$2.5 million and \$4.5 million, with an average of \$3.5 million. The \$3.5 million would be established using the regression equation and it can be postulated that the actual sales will vary according to a normal distribution with a mean of \$3.5 million and a variance of \$350,000. The risk analysis would randomly select the actual sales level from the distribution. The next time a \$3 million jackpot is encountered, a different sales level would be selected which would produce a different coverage ratio. There are thousands of such distributions employed in the model.

Performing the simulation 1,000 times essentially creates 1,000 potential years of results. This allows for the create distributions of possible results and evaluation of the probability of achieving a given level of sales. The model also contains features that allow the simulation of potential policy changes or other events that could affect sales, such as Mega Millions impact on Lotto, changing the size of the matrix, the interest rate, the level of seeding and altering the jackpot structure.

LOTTERY

Instant Games

Instant Games sales are forecast using an econometric model. The data for Instant Games are collected weekly and the model produces weekly estimates for the balance of the fiscal year. There are two exogenous variables: Weighted Average Prize Payout Percent and the number of Terminals. In addition, a trend variable and dummy variables to capture the impact of the One Week Sales Lag and the periodic use of 75 Percent Games are included. The equation is corrected for autocorrelation in the error terms.

Dependent Variable

- Current weekly sales of all Instant Games.

Weighted Average Prize Payout Percent

- Each Instant Game has a prize payout set in statute. Most games pay out 65 percent of sales, with up to three games paying out 75 percent. This variable is the average prize percent payout per week of all the Instant Games, weighted by the sales per game.

Terminals²

- This variable is the number of terminals that sold Instant Games each week. The variable appears to have a non-linear impact on sales. The square of terminals picks up the decreasing returns resulting from the addition of new terminals beyond a certain threshold.

75 Percent Games Dummy

- On October 27, 2001, the Division launched a 75 percent Instant Game and experienced significant growth in sales. The Lottery Division has offered three 75 percent Instant Games each fiscal year since 2002-03. A dummy variable is used to account for the increase in Instant Game sales caused by the 75 percent Instant Game. The dummy variable is zero prior to and including October 20, 2001, and is one for the time-span of the first 75 percent Instant Game and for the duration of the 75 percent Instant Games instituted each year.

One-Week Sales Lag

- The one-week lag incorporates a delayed effect in sales from when a new Instant Game is injected into the market.

Trend

- This variable captures trend growth over time.

INSTANT GAME - MULTIPLE REGRESSION EQUATION	
Instant Game Sales per Week _t = 31,197+104.81*Trend _t - .00019*Terminals ² _t +0.35*One-Wk Sales Lag _t	
t-values	(2.37) (7.07) (-4.73) (7.62)
+8.927*Weighted Average Prize Percent Payout _t +1,488*Percent Instant Games Dummy _t	
(0.51)	(3.04)
Total R Square =	.98
Durbin-Watson =	2.096
Number of Observations =	482
Root Mean Squared Error =	2,517

Quick Draw

Quick Draw sales are estimated using a multiple regression equation with three independent variables: the number of terminals, a trend variable, and a dummy variable for the “Quick Draw Extra” initiative. The equation is corrected for autocorrelation in the error terms.

Dependent Variable

- Weekly Quick Draw sales.

Trend

- This variable captures trend growth over time.

Terminals

- The variable is the number of terminals selling Quick Draw.

Quick Draw Extra

- This is a dummy variable that represents a game enhancement employing on-premise promotions involving bonus payouts. These promotions typically require on-premise retail displays and educational radio support. The dummy variable is zero prior to and including November 10, 2000, and is one for duration of the initiative thereafter.

QUICK DRAW - MULTIPLE REGRESSION EQUATION				
Quick Draw Sales per Week _t = 8,864 - 4.07*Trend _t + .5299*Terminals _t + 528.85*Quick Draw Extra _t				
t-values	(2.39)	(-3.38)	(.40)	(2.62)
Total R Square = .59 Durbin-Watson = 1.922 Number of Observations = 534 Root Mean Squared Error = 486				

Win 4

A multiple regression procedure is used to estimate Win 4 game sales. There are four independent variables: trend, a dummy variable representing the number of draws each day, a dummy variable representing Bonus weeks, and a dummy variable representing a seasonal pattern. The equation is corrected for autocorrelation in the error terms.

Dependent Variable

- This variable represents current weekly Win 4 sales.

Trend

- This variable captures trend growth over time.

Draws Per Day

- A dummy variable reflecting the number of Win 4 draws per day. On December 2, 2001, the Division launched a second daily draw, a noon draw for the Numbers and the Win 4 games. The dummy variable is zero prior to and including November 24, 2001, and one thereafter.

Bonus Week

- This is a dummy variable reflecting scheduled promotional Bonus weeks for this game. The dummy variable is zero in every week before and after scheduled Bonus weeks, and is one during the Bonus weeks.

LOTTERY

Seasonal Dummy

- Equal to one in the months of February through May and zero during the rest of the year, reflecting historically higher sales during this period of the year.

WIN 4 - MULTIPLE REGRESSION EQUATION				
Win 4 Sales per Week _t =	5,689	+ 5.94*Trend _t	+922.5*Draws Per Day _t	+ 224.28*Bonus Week _t +236.73*Seasonal Dummy _t
t-values	(29.69)	(18.06)	(7.22)	(3.82) (3.89)
Total R Square =	.98			
Durbin-Watson =	2.0162			
Number of Observations =	817			
Root Mean Squared Error =	308			

Daily Numbers Game

The Daily Numbers sales are estimated by employing a multiple regression equation. There are four independent variables: the number of draws per day, a trend and a dummy variable representing Bonus weeks, and a dummy variable representing a seasonal pattern. The equation is corrected for autocorrelation in the error terms.

Dependent Variable

- This variable represents current weekly Daily Numbers sales.

Trend

- This variable captures trend growth over time.

Draws Per Day

- This dummy variable reflects the number of Daily numbers draws per day. On December 2, 2001, the Division launched a second daily draw, a noon draw, for the Numbers and the Win 4 games. The dummy variable is zero prior to and including November 24, 2001, and one thereafter.

Bonus Week

- This dummy variable reflects scheduled promotional Bonus weeks for this game. The dummy variable is zero in every week before and after scheduled Bonus weeks, and is one during the Bonus weeks.

Seasonal Dummy

- Equal to one in the months of February through May and zero during the rest of the year, reflecting historically higher sales during this period of the year.

DAILY NUMBERS - MULTIPLE REGRESSION EQUATION				
Daily Numbers Sales per Week _t =	11,860	+ 2.71*Trend _t	+ 463.76*Draws Per Day _t	+ 477.59*Bonus Week _t +431.21*Seasonal Dummy _t
t-values	(56.38)	(6.64)	(2.61)	(5.30) (5.32)
Total R Square =	.94			
Durbin-Watson =	2.09			
Number of Observations =	870			
Root Mean Squared Error =	594			

Take 5

Take 5 sales are estimated using a multiple regression equation. There are three independent variables: a variable representing the change in prize payout percent from 40 percent to 50 percent, a variable reflecting the number of draws offered each week, and a dummy variable representing competition from the Mega Millions game. Essentially, these three special events explain most of the change in Take 5 sales. The equation is corrected for autocorrelation in the error terms.

Dependent Variable

- This variable represents current weekly Take 5 sales.

Trend

- This variable captures trend growth over time.

Change in Prize Payout Percent Dummy

- The variable represents the change in the game's prize payout percent from 40 percent at the game's inception to 50 percent on January 18, 1992. The dummy variable is zero prior to and including January 17, 1992, and one thereafter.

Draws Per Week

- This dummy variable represents the number of Take 5 draws available each week. The change from one to two draws per week on June 16, 1992, the growth from two to four draws per week on January 6, 1997, and the increase from four to seven draws on September 1, 2000, had significant effects on sales. The dummy variable is one prior to and including January 16, 1992, changed to two to reflect an additional draw per week until January 6, 1997, when it is changed to four, and has been seven since September 1, 2000, to represent seven draws per week.

Mega Millions Competition

- This dummy variable represents the negative impact on the sales of the Take 5 game from the introduction of the Mega Millions game. The dummy variable is zero prior to and including the week of May 18, 2002, and one thereafter.

TAKE 5 - MULTIPLE REGRESSION EQUATION				
Take 5 Sales per Week _t =	6,243	-5.47*Trend	+ 697.19* Draws Per Week _t	-573.03*Mega Millions Competition
t-values	(27.36)	(7.55)	(15.03)	(-3.75)
Total R Square =		.90		
Durbin-Watson =		2.07		
Number of Observations =		534		
Root Mean Squared Error =		265		

The following tables provide a history of receipts for education from Lottery and a history of sales of Lottery games.

**BASE LOTTERY RECEIPTS FOR EDUCATION
STATE FISCAL YEAR ENDING MARCH 31
(millions of dollars)**

	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (Estimated)
Actual Receipts	1,441	1,533	1,534	1,442	1,349	1,440	1,599	1,826	1,884	1,889	1,993
Growth Percent	24.0	6.4	0.0	(6.0)	(6.4)	6.7	11.0	14.2	3.2	0.2	5.5

LOTTERY

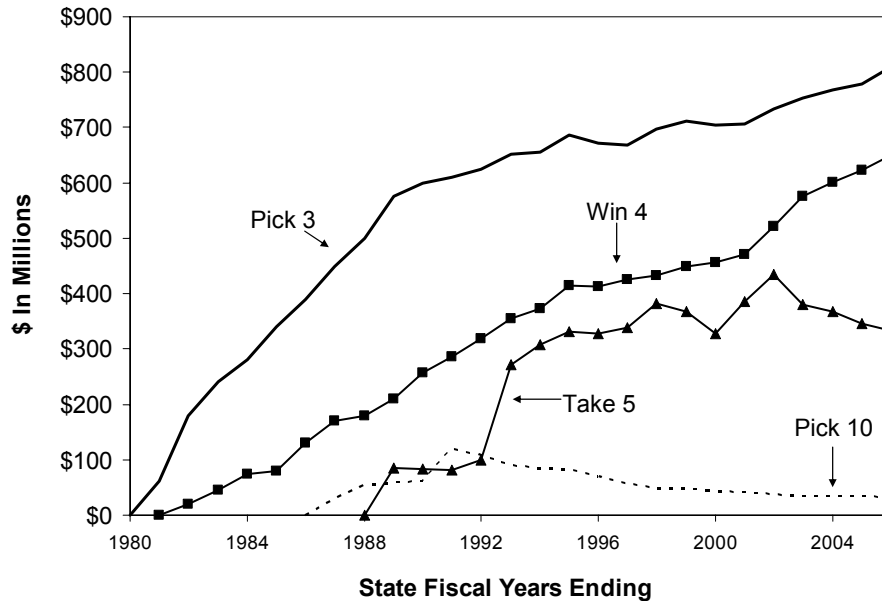
LOTTERY SALES OF PRIMARY GAMES (millions of dollars)

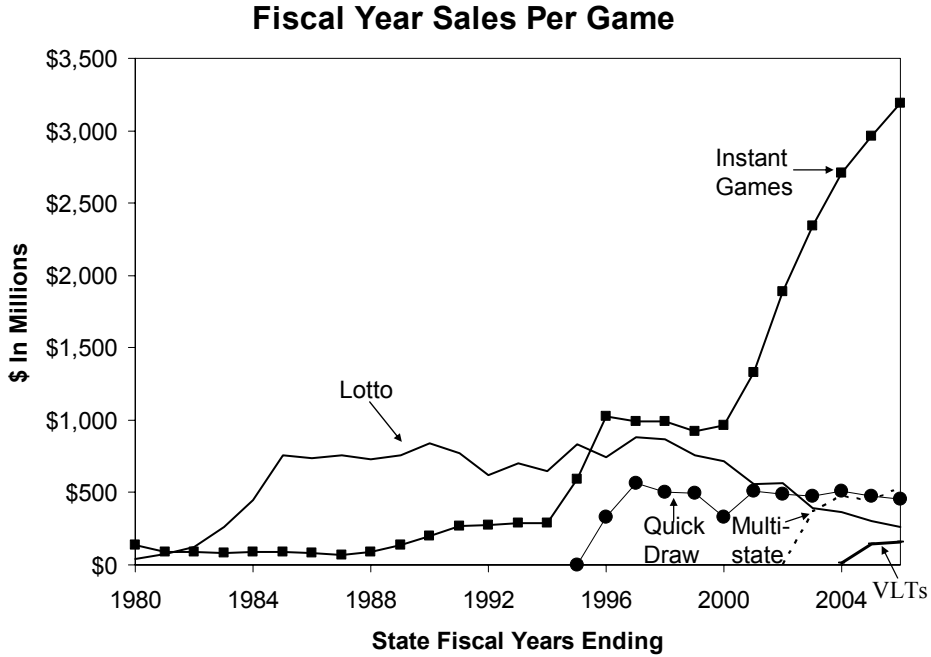
	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006 (Estimated)
Numbers	672	668	697	712	705	707	734	753	754	788	809
Win 4	414	426	433	449	456	470	521	577	599	622	651
Instant	1,026	995	994	926	967	1,327	1,886	2,346	2,801	2,961	3,191
Lotto	742	882	870	759	755	556	566	391	361	305	262
Quick Draw	328	563	503	493	329	507	488	474	500	472	567
Mega Millions	0	0	0	0	0	0	0	369	420	447	540

Lottery Revenue of Video Lottery Terminals (millions of dollars)

	2004	2005	2006 (Estimated)
VLT Receipts	13	144	160

Fiscal Year Sales per Game



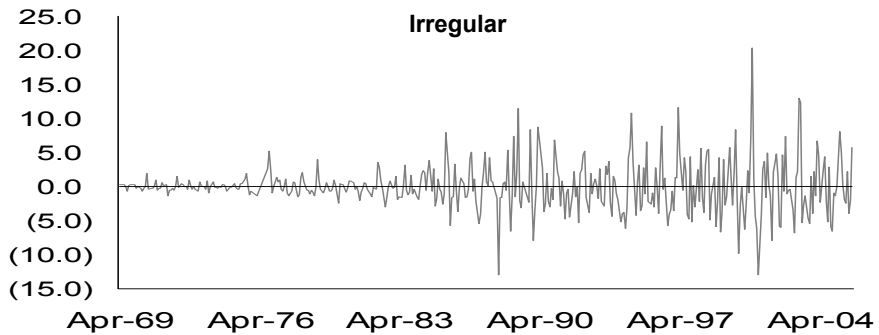
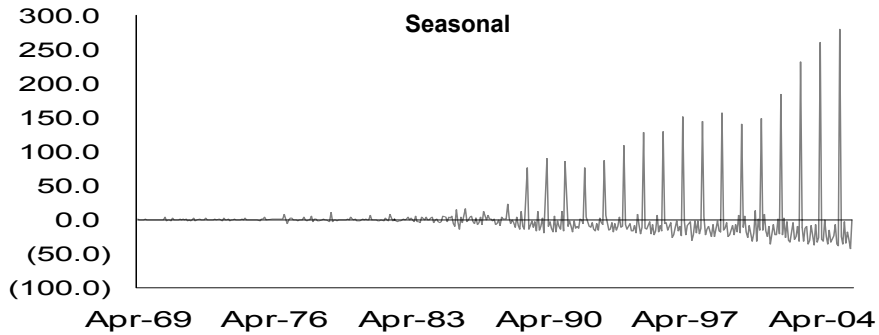
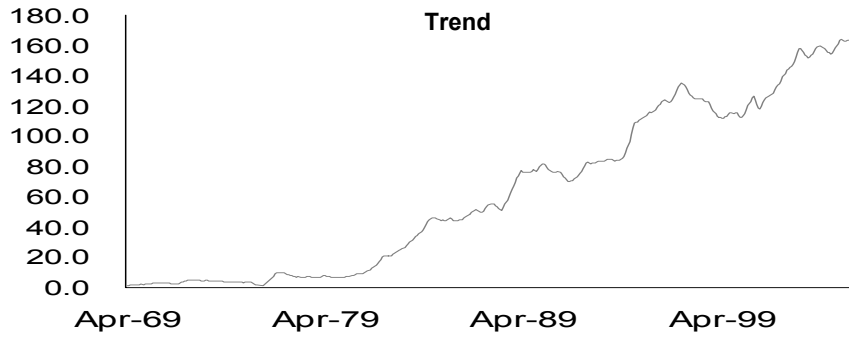
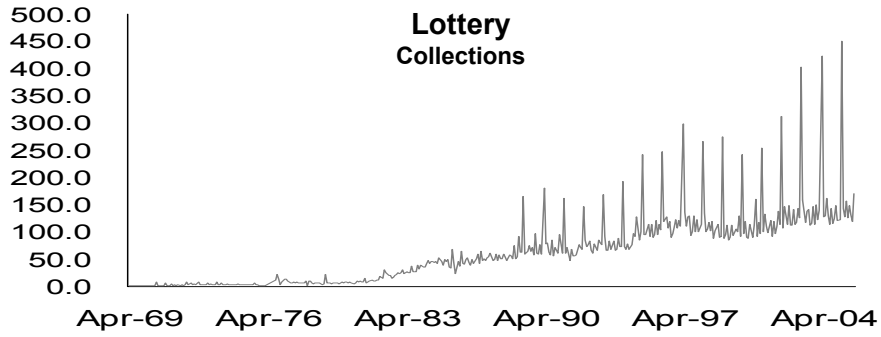


Cash Receipts

As is clear in the following cash component charts, there has been a strong upward trend in overall lottery receipts. The spike in the seasonal graph is for March when the administrative surplus for the Division of the Lottery is recognized. The relatively large irregular component relative to trend reflects the random nature of payouts associated with the Lotto and Mega Millions games.

LOTTERY

Collection Components (millions of dollars)

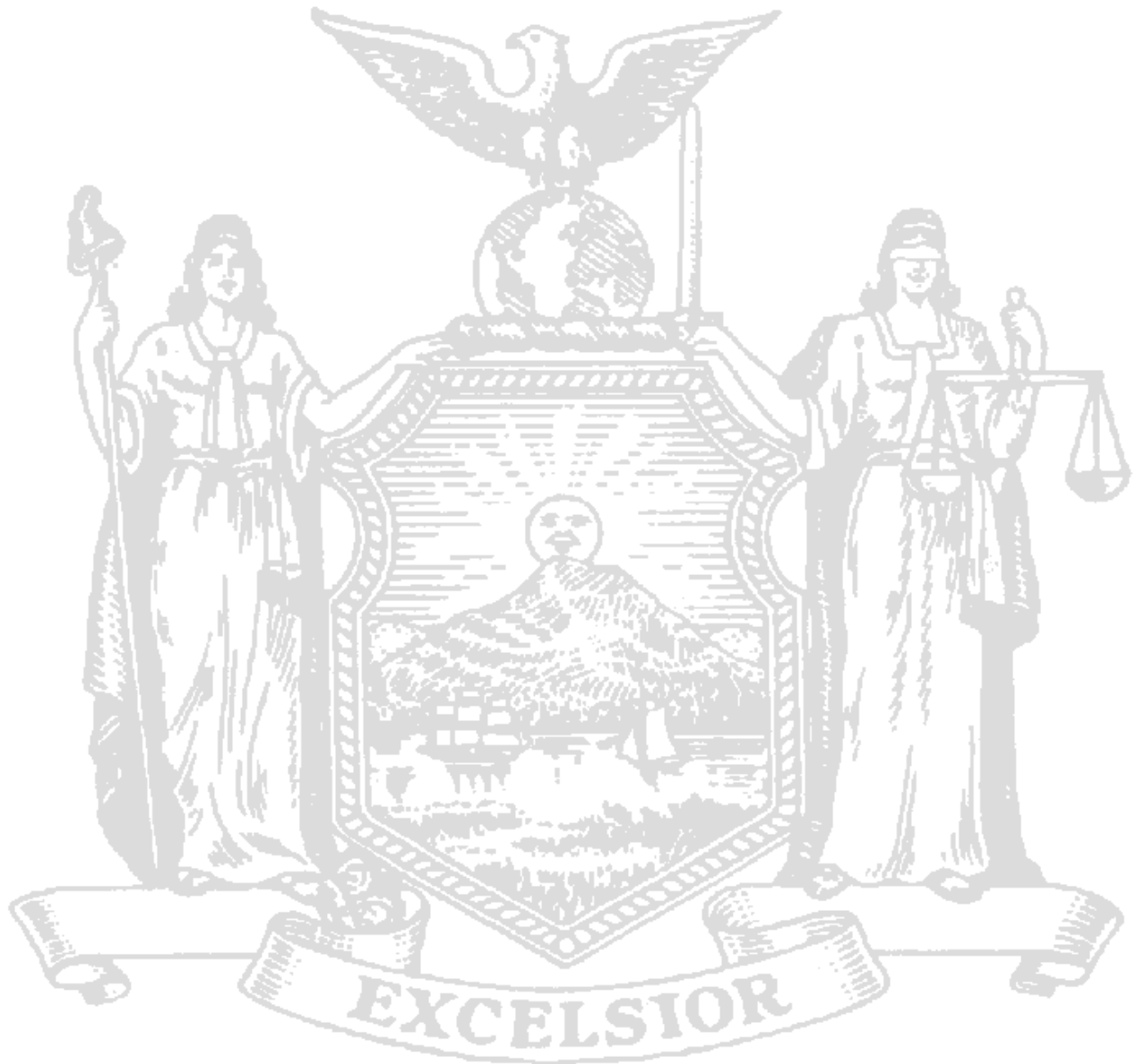


	PERCENTAGE DISTRIBUTION OF CASH RECEIPTS			
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
1996-97	21.4	18.8	19.2	40.6
1997-98	22.5	19.6	18.5	39.4
1998-99	21.9	20.4	18.6	39.1
1999-00	17.9	20.4	21.7	40.0
2000-01	19.0	18.6	21.0	41.4
2001-02	18.8	30.5	18.3	32.4
2002-03	19.4	20.0	19.9	40.7
2003-04	20.7	19.0	19.4	40.9
2004-05	20.2	19.6	19.7	40.5
2005-06 (est)	21.5	20.3	19.6	38.6

Risks To Forecast

Additional delays and unforeseen problems could reduce VLT revenues. The Mega Millions game may achieve lower sales than forecasted if the number of large jackpots is less than expected. Mega Millions cannibalization of sales for Lotto and Take-5 could be more severe than expected.

VIDEO LOTTERY



VIDEO LOTTERY

BACKGROUND

Chapter 383, Laws of 2001, first authorized video lottery terminals on October 29, 2001. This statute authorized the operation of video lottery terminals at selected racetracks throughout the State and set the initial operating parameters.

For a more detailed description of this tax source, and a listing of recent law changes impacting this tax, as well as a summary of the projections of this source for fiscal years 2005-06 and 2006-07, please see the “Explanation of Receipts Estimates” section in this volume.

Tax Base and Rate

Legislation enacted in 2005 altered the distribution of VLT receipts after payment of prizes. As shown in the following table, the distribution is different for racetracks in Westchester and Queens counties than for those located in other parts of the State.

Distribution of VLT Receipts After Prizes* (Percent)				
<u>Racetracks in Westchester and Queens Counties</u>				
<u>Net Machine Income</u>	Revenues for <u>Education</u>	Lottery <u>Administration Fee</u>	Operator <u>Commission</u>	<u>Promotions</u>
Less than \$50 million	54	10	32	4
\$50 million to \$100 million	57	10	29	4
\$100 million to \$150 million	57	10	29	4
\$151 million and over	60	10	26	4
<u>Other Racetracks</u>				
<u>Net Machine Income</u>	Revenues for <u>Education</u>	Lottery <u>Administration Fee</u>	Operator <u>Commission</u>	<u>Promotions</u>
Less than \$50 million	50	10	32	8
\$50 million to \$100 million	53	10	29	8
\$100 million to \$150 million	56	10	29	5
\$151 million and over	59	10	26	5
*Not less than 90 percent of sales must be used for prizes. Net Machine Income is gross receipts minus prize payments.				

Prior to the 2005 legislation, the amount dedicated to education was fixed in statute at 61 percent of net machine income (the amount wagered minus the prizes awarded), the tracks retained 29 percent of net machine income, and the Division of the Lottery retained 10 percent for administration expenses.

In addition, the statute provides that any amount not spent by the Division of the Lottery for administrative expenses is also earmarked for education. Under current law, the Comptroller, pursuant to an appropriation, distributes all net receipts from the lottery for the purposes of providing education aid. Legislation submitted with the 2006-07 Executive Budget provides for up to three additional licenses to operate video lottery facilities.

VIDEO LOTTERY

Administration

The Division of the Lottery has the responsibility for the regulation and oversight of the video lottery program. The Division of the Lottery's central computer system controls all video lottery terminals and accounts.

DATA SOURCES

The data available on VLT operations are collected and reported by the Division of the Lottery.

STATUTORY CHANGES

Legislation was enacted on October 29, 2001, to allow the Division of the Lottery to license the operation of VLTs at selected New York State racetracks. Additional legislation enacted on May 2, 2003, made the following major adjustments to the VLT program:

- Of the revenue remaining after payment of prizes, the Division of the Lottery retains 10 percent commission, the racetracks receive 29 percent, and 61 percent is dedicated to education.
- Of the 29 percent 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.
- Of the 29 percent commission paid to the tracks, the harness and thoroughbred Breeders' funds receive 4.3 percent in the first through fifth years and 5.2 percent in all the following years.
- The racetracks are allowed to enter into agreements with the horse owners for no longer than five years, to allow the tracks to retain a portion of the revenue dedicated to purses for the operation of the facilities. The program expires after ten years.

Legislation enacted on April 12, 2005 revised the distribution of VLT receipts, providing:

- A graduated vendor's fee that allows participating tracks to receive 32 percent of the first \$50 million of revenue after prizes, 29 percent of the next \$50 million, and 26 percent of net revenue over \$100 million.
- A marketing allowance of 8 percent of the first \$100 million of net revenue and 5 percent thereafter. The marketing allowance is limited to 4 percent of net revenue for tracks located in Westchester or Queens counties.
- An extension of the program's expiration until December 31, 2017.

FORECAST METHODOLOGY

The forecasting methodology used by the Division of the Budget falls into two broad categories. The first is a rather complex simulation model that is used to forecast potential revenues from facilities that do not exist yet. The second methodology is the more traditional econometric modeling that is used after a specific facility has operated long enough to produce enough historical data for modeling.

Forecast Methodology For Potential Gaming Facilities

Current simulation estimates are based on an approach flexible enough to respond to a rapidly changing policy environment. The first step of this approach was to develop initial estimates of net machine income and, therefore, the revenue-generating potential of each (existing) facility, by incorporating the most current information available from the Division of the Lottery, the tracks, private sector consultants, and published reports. At this early stage of the VLT program, it was critical for the Budget Division to adopt a modeling strategy capable of evaluating the impacts of competition, alternative facility locations,

varying numbers of facilities, and alternative plans for program expansion. This effort has required the development of a computer-based simulation model combining demographic, Geographical Information Systems (GIS), and marketing data. The purpose of the model is to simulate gambling behavior at the census tract level, resulting in an assessment of the underlying market for VLTs by facility over a multi-year forecast horizon.

The video lottery forecast begins by making certain assumptions concerning the structure and viability of the program. These assumptions include but are not limited to:

- The average prize payout averages 92 percent over the period of analysis.
- All facilities will operate for 365 days per year.
- All facilities, except for Monticello, will operate for 16 hours per day. Monticello operates only 14 hours per day, Sunday through Thursday.
- All facilities operate the expected number of machines.
- Marketing, advertising, food and beverage, entertainment, and the facilities' quality of experience are competitive.
- All facilities complete their currently anticipated expansion plans.
- All facilities qualifying for the VLT program begin operations and continue to operate throughout the period of analysis.
- The statutory distribution of revenue does not change over the period of analysis.
- Other than the facilities specifically accounted for in the model, no new casinos or racinos become operational in the market area during the period of analysis.

Defining the Market Area

Estimating revenues for an existing facility located in New York requires an assessment of the facility's capacity to attract participants, adjusting for the impact of potential competitors. Since most studies assume that a VLT facility's market can range as far as 150 miles, the market area for New York State facilities outside the New York metropolitan area includes any competing facility within either 150 miles or 150 minutes of a State-run facility. This leads to a definition of New York's market area that includes nine northeastern states — Connecticut, Maine, Massachusetts, New Hampshire, New Jersey, Pennsylvania, Rhode Island, Vermont, and New York — and eastern Canada. The latitude and longitude of all current and proposed facilities in this area and of the census tracts are key inputs of the DOB model. (The model assumes U.S. citizens may patronize Canadian facilities, but that Canadians do not patronize U.S. facilities.)

An evaluation of the market potential for video lottery terminals and slot machines in New York requires an assessment of three critical market characteristics:

1. The number of potential participants living in the New York market area.
2. The frequency with which participants visit a casino or VLT facility.
3. The amount spent per visit to a facility.

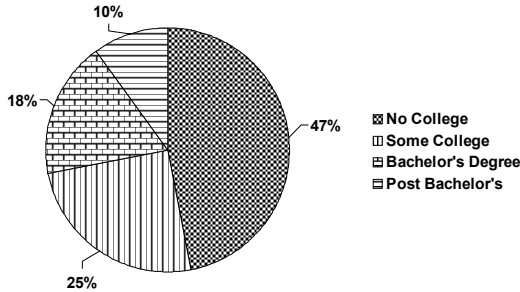
Number of Participants

Estimating the potential number of participants begins with a national demographic profile of people who typically patronize casinos. These data indicate the percentage of potential gamblers for four demographic characteristics: age, income, gender, and education. The same data also give an aggregate participation rate for each state. To account for differences among the states' participation rates, national rates for each demographic variable are adjusted to reflect the state-specific participation rate. Using the adjusted data, the number of participants are estimated by applying state-specific participation rates for each of the four demographic characteristics to each census tract in the nine-state study area. This provides an indication by census tract of how many people are likely to participate in the nine-state market area.

VIDEO LOTTERY

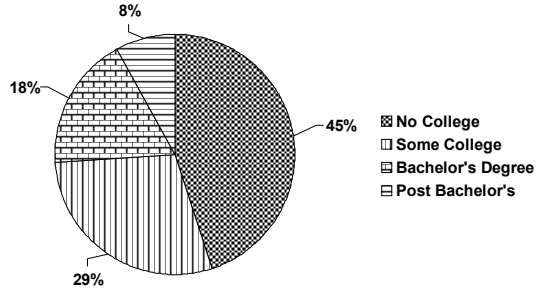
To arrive at a multi-year monthly forecast, demographic trends and participation rates are projected by month to March 2011. The appropriate monthly participation rate is applied to each of the four demographic categories in each census tract to arrive at four monthly estimates of the number of potential participants in each census tract. An unweighted average of the four estimates is used to arrive at a final estimate. The estimated participation rates of some fully mature states, such as New Jersey and Connecticut, are increased modestly over the projection period. This provides an estimate of the number of gamblers in each census tract by month through March 2011.

**UNITED STATES POPULATION
EDUCATION (Age 25+)**



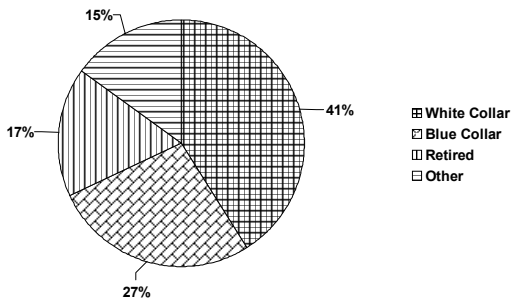
Source: The AGA Survey of USA Casino Entertainment 2005

**UNITED STATES CASINO
CUSTOMERS EDUCATION (Age 25+)**



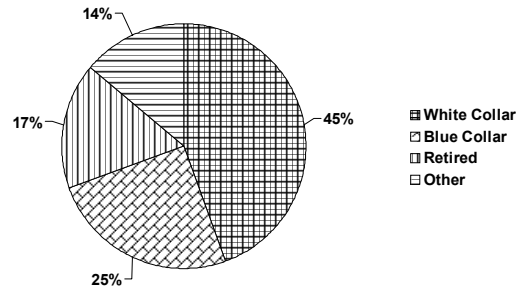
Source: The AGA Survey of USA Casino Entertainment 2005

**TOTAL UNITED STATES
EMPLOYMENT**



Source: The AGA Survey of USA Casino Entertainment 2005

**UNITED STATES CASINO CUSTOMERS
EMPLOYMENT**



Source: The AGA Survey of USA Casino Entertainment 2005

The available data contain estimates of participation rates only for people over 21. In New York, persons 18 and older can visit VLT facilities. To adjust for this, Census 2000 population estimates are used, with the participation rate from the next higher age bracket applied to estimate the number of participants in the 18 to 20 age bracket.

Applying this calculation to New York shows New York's population aged 21 years or older to be 13.5 million, with an estimated participation rate of 25.8 percent. However, participation rates vary by state from a high of 47 percent in Nevada to 6.4 percent in West Virginia. The participation rate appears correlated with the availability of casinos, suggesting that additional participants are encouraged by access to VLT venues. Therefore, it is assumed that as more VLTs become available over time, the participation rates in New York and some surrounding states will increase to between 35 percent and 40 percent, which seems to be the norm for states with easier access to these facilities.

PARTICIPATION RATES*	
State	Participation Rates (percent)
Connecticut	40
Maine	12
Massachusetts	31
New Hampshire	20
New Jersey	36
New York	27
Pennsylvania	21
Rhode Island	36
Vermont	9

* Source: "Profile of the American Casino Gambler."
Harrah's Survey 2004

This participation increase parallels the expected increase in the number of machines from about 14,000 today to roughly 47,000 in 2011, (depending upon the final disposition of the legislation submitted with the 2006-07 Budget). At that time, the industry will be fully mature and New York participation rates should equal those of other states, such as Connecticut and New Jersey, whose residents have had full access to casinos for several years.

Number of Visits

To estimate the frequency of visits, two approaches are combined. First, several published studies indicate that the closer an individual lives to a casino, the more frequent the visits. One study by KPMG postulated that a typical person within the primary market area of a casino (less than 50 miles) would visit on average ten times per year. A person within the secondary market area (50 miles to 100 miles) would visit six times per year on average and in the tertiary area (100 miles to 150 miles) would visit three times per year. The Harrah's Profile found that nationally the average casino player visits a casino 5.7 times per year. In the Northeast region, the average casino player visits 8.5 times per year. Again, the Profile gives the average number of visits by state; it appears that the number of visits increases in states with higher participation rates. The analysis has been calibrated using both studies, and the results from both approaches are relatively close. The number of visits is estimated monthly by census tract as population and participation rates rise over time, and are combined to produce a final forecast.

Amount Gambled

To determine the amount of income spent per visit, two studies were used. Oregon completed a study that indicated that the average person would gamble approximately 1.16 percent of annual income on all forms of gaming. On the other hand, KPMG, in its study of gambling in Michigan, postulated that people in the primary market area would be willing to lose \$40 each time they visited a casino, in the secondary market area \$50 each time, and in the tertiary market area \$65 each time. To derive the amount of gambling dollars using the KPMG methodology, the loss per visit was increased or decreased by indexing these amounts by the ratio of the per capita income of each census tract to the per capita income in Michigan. To grow the amount gambled in each census tract, personal income and population were increased by the growth rate between the 1990 and 2000 census. This allowed for growth in the amount gambled in the primary, secondary, and tertiary market areas by month through 2011. This also allowed calculation of the total amount of gambling dollars in each census tract by multiplying personal income by the Oregon average percentage of income gambled. Somewhat surprisingly, these two methodologies produced similar results. The amount gambled in each census tract is forecast monthly to 2011 as a function of the growth in population, income, and participation rates.

VIDEO LOTTERY

Defining the Market Area for Each Facility

The VLT analysis next concentrates on allocating the aggregate number of visits and gaming dollars in New York's market area to the potential venues. There are several existing facilities in New York, the surrounding states and Canada, and over the next five years, New York could add a significant number of new facilities. Each facility will compete for potential VLT players and gaming dollars. The following describes two methods for determining the distribution of potential VLT customers and revenue among all the competing facilities.

Concentric Rings

One method to establish a facility's market area begins with the industry accepted norms. The primary, secondary and tertiary markets are set at 0 to 50 miles, 50 to 100 miles, and 100 to 150 miles, respectively. This produces three concentric rings around each facility. The arc distance is calculated from the latitude and longitude of the geographic centroid of each census tract to the latitude and longitude of each facility, or the centroid of the census tract containing the facility. Where the actual location of the facility is unknown, a geographically logical location within the appropriate municipality or region is assumed. It is then determined whether a given census tract falls within the primary, secondary or tertiary market area of another facility. The attractiveness factor is used to adjust the facility's primary, secondary, and tertiary market area to reflect its relative drawing power.

Most census tracts fall into the market areas of several facilities. To allocate the visits (and the potential revenue from each census tract) to each facility, the probability that the participants in a census tract would visit each casino is calculated. To determine the probability that an individual would visit a casino, a gravity model approach is used, which assumes that the propensity to visit a facility is inversely related to the square of the distance from the facility and directly related to the facility's attractiveness. This is a standard approach in location theory and is used widely by those in the gaming industry. For each census tract, the number of visits and gambling dollars for each facility are calculated using probabilities similar to those shown in the following table. The table below indicates how a representative gambler of any given census tract might divide his time under seven possible scenarios. For example, the first scenario indicates that the gambler lives in the primary market area of only a single facility. Therefore, 100 percent of his gambling will take place at that facility. Under scenario four, the gambler lives in the primary market area of one facility, the secondary area of a second facility, and the tertiary market area of a third, and divides his gambling visits according to the probabilities listed in the table. Of course, many other scenarios are possible.

SAMPLE PROBABILITIES OF VISITING A CASINO (percent)							
	Primary	Primary Secondary	Primary Tertiary	Primary Secondary Tertiary	Secondary	Secondary Tertiary	Tertiary
Primary	100.0	88.2	96.1	85.2			
Secondary		11.8		11.4	100.0	76.8	
Tertiary			3.9	3.5		23.3	100.0
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Travel Time

The most accurate method to establish a facility's market area considers travel times. Here the model assumes that people are more responsive to the time it takes to travel to a facility than the straight line distance between their home and the facility. Again, following the norms in other studies, the primary, secondary and tertiary market areas were established as 0 to 50 minutes, 51 to 100 minutes and 101 to 150 minutes, respectively. Assuming an average speed of 50 miles per hour and allowing 15 minutes to get to a major highway from a home and another 15 minutes to get from a major highway to the facility make these market areas comparable in size to the concentric ring model. In this case, however, the market areas become irregular, generally following major highway systems, which could include census tracts with significantly different demographics than the census tracts identified using the concentric rings method. As already discussed, the size of the primary, secondary, and tertiary market areas is adjusted to reflect the attractiveness of facilities. The process for allocating visits and gambling dollars is identical to the concentric rings analysis (See table above). The preferred DOB model uses market areas defined by travel times in its simulations.

Facility Limits

To this point, the model produces estimates of the number of participants, the number of visits, and total gaming revenue spent at each facility. However, other factors limit usage. The industry standard assumption is that a participant will spend three hours at a VLT per visit. In New York, the hours of operation are limited to 16 hours per day. This implies that each machine can accommodate 5.33 players per day. For example, if a facility had 2,000 machines, the maximum number of average duration visits the facility could accommodate is 10,667 per day. If the model results indicate that a facility market area would only support 5,333 visits per day, half of the machines would stand idle on average. Likewise, if the facility's market area produces 21,333 visits per day, the waiting time to use machines would be significant and the revenue-generating capacity of the facility would be capped by its physical limits regardless of how many visitors the market produces.

Overall, industry experts estimate facility utilization at 80 percent. Looking at the facility limitations above, these two parameters were combined and a sliding scale, which compares the number of visits that the facility's market area will produce and adjusts the facility's utilization factor to account for expected market demand, was created. This permits the uncovering of possible areas of market saturation and areas with the greatest potential for expansion.

Other Factors

Since the object of the model is to produce estimates of State fiscal year revenues, it is necessary to be sensitive to the actual period of operation during each fiscal year and to the competitive effects of other facilities. For the tracks, the most recent information available from the Lottery Division is used to specify expected start dates and the initial number of machines. The model also has the ability to add new facilities anywhere in the Northeast and to adjust to any expansion plans anticipated by the tracks or other facilities.

To attempt to reflect the competitive impact of the recently authorized Native American casinos on the State's VLT facilities and visa versa, start dates and the number of terminals at each anticipated facility are assumed. At this time, however, the start dates, the number of machines and other parameters for the new Native American casinos are highly speculative, but to avoid over-estimating revenues from VLT facilities this factor must be considered.

VIDEO LOTTERY

Simulation Model Aggregate Results

Aggregate results for this model depend upon the combination of gaming facilities open during a particular fiscal year and other factors such as start dates, quantity of VLTs or slots offered, additional amenities, and several other situational gaming factors. Given an almost infinite number of different scenarios, estimated results of the quantity of gamblers, total net machine income, and total visits can be illustrated in a low to high range. The higher numbers in the range assume a more mature gaming market in year 2011, when New York State's gaming participation has attained levels comparable to adjacent states.

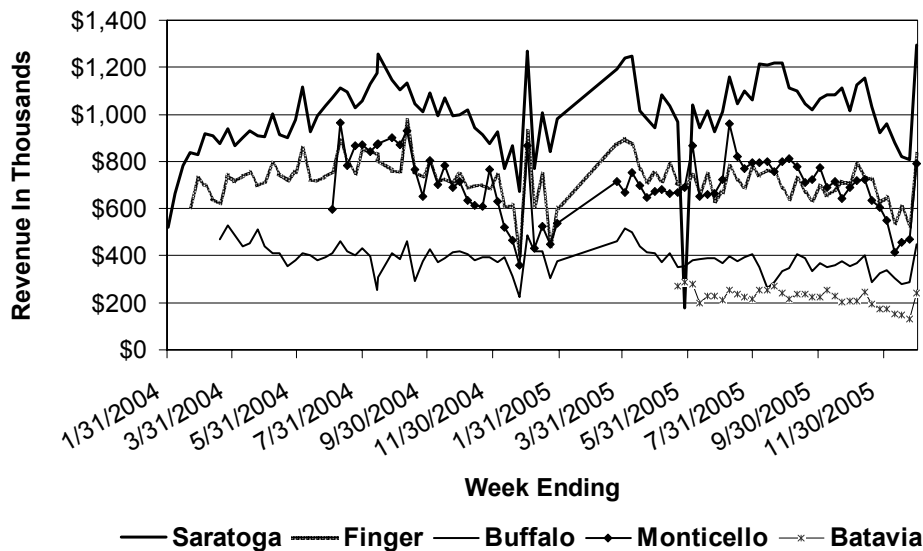
Estimated Aggregate Results Within the Market Analyzed Years 2006 - 2011:

Quantity of gamblers:	14 million to 16 million
Net machine income:	\$6.5 billion to \$8.8 billion
Total Visits:	117 million to 133 million

Forecast Methodology Subsequent to the Opening of a VLT or Casino Facility

After a facility has been opened long enough to compile an historic data series, VLT revenues are forecast using econometric models. VLT data are collected daily and the model produces daily estimates for the balance of the fiscal year. Currently, there are five VLT facilities in operation: Saratoga Gaming and Raceway, Finger Lakes Gaming and Racetrack, Fairgrounds Gaming and Raceway at Buffalo, Mighty M Gaming at Monticello, and Batavia Downs.

VLT RESULTS WEEKLY EDUCATION REVENUE



Saratoga Gaming and Raceway

The education revenue collected from the Saratoga facility is estimated using a multiple regression equation. There are five independent variables: the week-to-week difference, prize payout percent, seasonal Dummy, Saturday Dummy, and Sunday Dummy.

Dependent Variable

- Daily Education receipts.

Week-to-Week Difference

- This variable is the week-to-week difference of education receipts. The forecast figure is the average of all previous week-to-week difference results.

Prize Payout Percent

- A minimum of 90 percent prize payout is set in statute. The prize payout percent fluctuates daily and weekly based upon the proportion of customer wins to losses within a time frame.

Seasonal Dummy

- During the months of June, July, and August, the facility has an increase in business because of the scheduled race days in the summer. The value of this variable is 0.5 in the month of June, and one from July through August.

Saturday Dummy

- Typically the busiest day in VLT sales, this dummy variable is one on every Saturday.

Sunday Dummy

- This variable represents the proportion of Sunday education receipts compared to the previous Saturday education receipts. The remaining forecast of the dummy variable is the average of Sunday's percent of Saturday education receipts.

SARATOGA GAMING AND RACEWAY MULTIPLE REGRESSION EQUATION	
Saratoga Education Receipts per Day, = 772.63 + .4577*Week-to-Week Difference, -	
t-values	(5.91) (16.69)
695.59*Prize Payout Percent, + 15.71*Seasonal Dummy, + 39.77*Saturday Dummy, + 38.52*Sunday Dummy,	
(-4.91)	(3.92) (12.78) (10.15)
Total R Square = .63	
Durbin Watson = 2.11	
Number of Observations = 697	
Root Mean Squared Error = 29.51	

Finger Lakes Gaming and Racetrack

The education revenue collected from the Finger Lakes facility is forecasted using a multiple regression equation. There are five independent variables: the week-to-week difference, prize payout percent, seasonal Dummy, Saturday Dummy, and Sunday Dummy.

Dependent Variable

- Daily Education receipts.

Week-to-Week-Difference

- This variable is the week-to-week difference of education receipts. The forecast figure is the average of the all previous week-to-week difference results.

VIDEO LOTTERY

Prize Payout Percent

- A minimum of 90 percent prize payout is set in statute. The prize payout percent fluctuates daily and weekly based upon the proportion of customer wins to losses within a time frame.

Seasonal Dummy

- During the months of July and August, the facility has an increase in business because of the scheduled race days in the summer. The value of this variable is one from July through August.

Saturday Dummy

- Typically the busiest day in VLT sales, this dummy variable is one on every Saturday.

Sunday Dummy

- This variable represents the proportion of Sunday education receipts compared to the previous Saturday education receipts. The remaining forecast of the dummy variable is the average of Sunday's percent of Saturday education receipts.

FINGER LAKES GAMING AND RACETRACK MULTIPLE REGRESSION EQUATION	
Finger Lakes Education Receipts per Day _t = 90.35 + .3705* Week-to-Week Difference _t +	
t-values	(13.94) (14.85)
11.09* Prize Payout Percent _t + 246.14*Seasonal Dummy _t + 6.88*Saturday Dummy _t + 21.24*Sunday Dummy _t	
(1.63)	(10.75) (2.0) (10.13)
Total R Square = .61	
Durbin Watson = 2.24	
Number of Observations = 676	
Root Mean Squared Error = 24.96	

Fairgrounds Gaming and Raceway at Buffalo

The education revenue collected from the Buffalo facility is forecasted using a multiple regression equation. There are four independent variables: the week-to-week difference, prize payout percent, Saturday Dummy, and Sunday Dummy.

Dependent Variable

- Daily Education receipts.

Week-to-Week-Difference

- This variable is the week-to-week difference of education receipts. The forecast figure is the average of the all previous week-to-week difference results.

Prize Payout Percent

- A minimum of 90 percent prize payout is set in statute. The prize payout percent fluctuates daily and weekly based upon the proportion of customer wins to losses within a time frame.

Saturday Dummy

- Typically the busiest day in VLT sales, this dummy variable is one on every Saturday.

Sunday Dummy

- This variable represents the proportion of Sunday education receipts compared to the previous Saturday education receipts. The remaining forecast of the dummy variable is the average of Sunday’s percent of Saturday education receipts.

FAIRGROUNDS GAMING AND RACEWAY AT BUFFALO MULTIPLE REGRESSION EQUATION			
Buffalo Education Receipts per Day _t = 40.95 + .4728* Week-to-Week Difference _t + 14.23* Prize Payout Percent _t			
t-values	(5.36)	(16.30)	(1.71)
+ 14.75*Saturday Dummy _t + 2.93*Sunday Dummy _t +			
(11.08)	(1.71)		
Total R Square = .55			
Durbin Watson = 2.09			
Number of Observations = 649			
Root Mean Squared Error = 13.00			

Mighty M Gaming at Monticello

The education revenue collected from the Monticello facility is projected using a multiple regression equation. There are four independent variables: the week-to-week difference, prize payout percent, Saturday Dummy, and Sunday Dummy.

Dependent Variable

- Daily Education receipts.

Week-to-Week Difference

- This variable is the week-to-week difference of education receipts. The forecast figure is the average of all previous week-to-week difference results.

Prize Payout Percent

- A minimum of 90 percent prize payout is set in statute. The prize payout percent fluctuates daily and weekly based upon the proportion of customer wins to losses within a time frame.

Saturday Dummy

- Typically the busiest day in VLT sales, this dummy variable is one on every Saturday.

Sunday Dummy

- This variable represents the proportion of Sunday education receipts compared to the previous Saturday education receipts. The remaining forecast of the dummy variable is the average of Sunday’s percent of Saturday education receipts.

MIGHTY M GAMING AT MONTICELLO MULTIPLE REGRESSION EQUATION			
Monticello Education Receipts per Day _t = 598.67 + .4153* Week-to-Week Difference _t -			
t-values	(5.62)	(12.47)	
552.44* Prize Payout Percent _t + 60.34*Saturday Dummy _t + 33.54*Sunday Dummy _t +			
(-4.79)	(21.58)	(11.85)	
Total R Square = .71			
Durbin Watson = 2.04			
Number of Observations = 544			
Root Mean Squared Error = 26.23			

VIDEO LOTTERY

Batavia Downs Gaming

The education revenue collected from the Batavia facility is projected using a multiple regression equation. There are four independent variables: the week-to-week difference, prize payout percent, Saturday Dummy, and Sunday Dummy.

Dependent Variable

- Daily Education receipts.

Week-to-Week Difference

- This variable is the week-to-week difference of education receipts. The forecast figure is the average of all previous week-to-week difference results.

Prize Payout Percent

- A minimum of 90 percent prize payout is set in statute. The prize payout percent fluctuates daily and weekly based upon the proportion of customer wins to losses within a time frame.

Saturday Dummy

- Typically the busiest day in VLT sales, this dummy variable is one on every Saturday.

Sunday Dummy

- This variable represents the proportion of Sunday education receipts compared to the previous Saturday education receipts. The remaining forecast of the dummy variable is the average of Sunday's percent of Saturday education receipts.

BATAVIA DOWNS GAMING MULTIPLE REGRESSION EQUATION	
Batavia Education Receipts per Day _t = 219.51 + .4020* Week-to-Week Difference _t -	
t-values (4.73) (10.01)	
206.19* Prize Payout Percent _t + 9.74*Saturday Dummy _t + 2.14*Sunday Dummy _t +	
(-4.08) (7.56) (1.27)	
Total R Square =	.55
Durbin Watson =	2.04
Number of Observations =	215
Root Mean Squared Error =	7.32

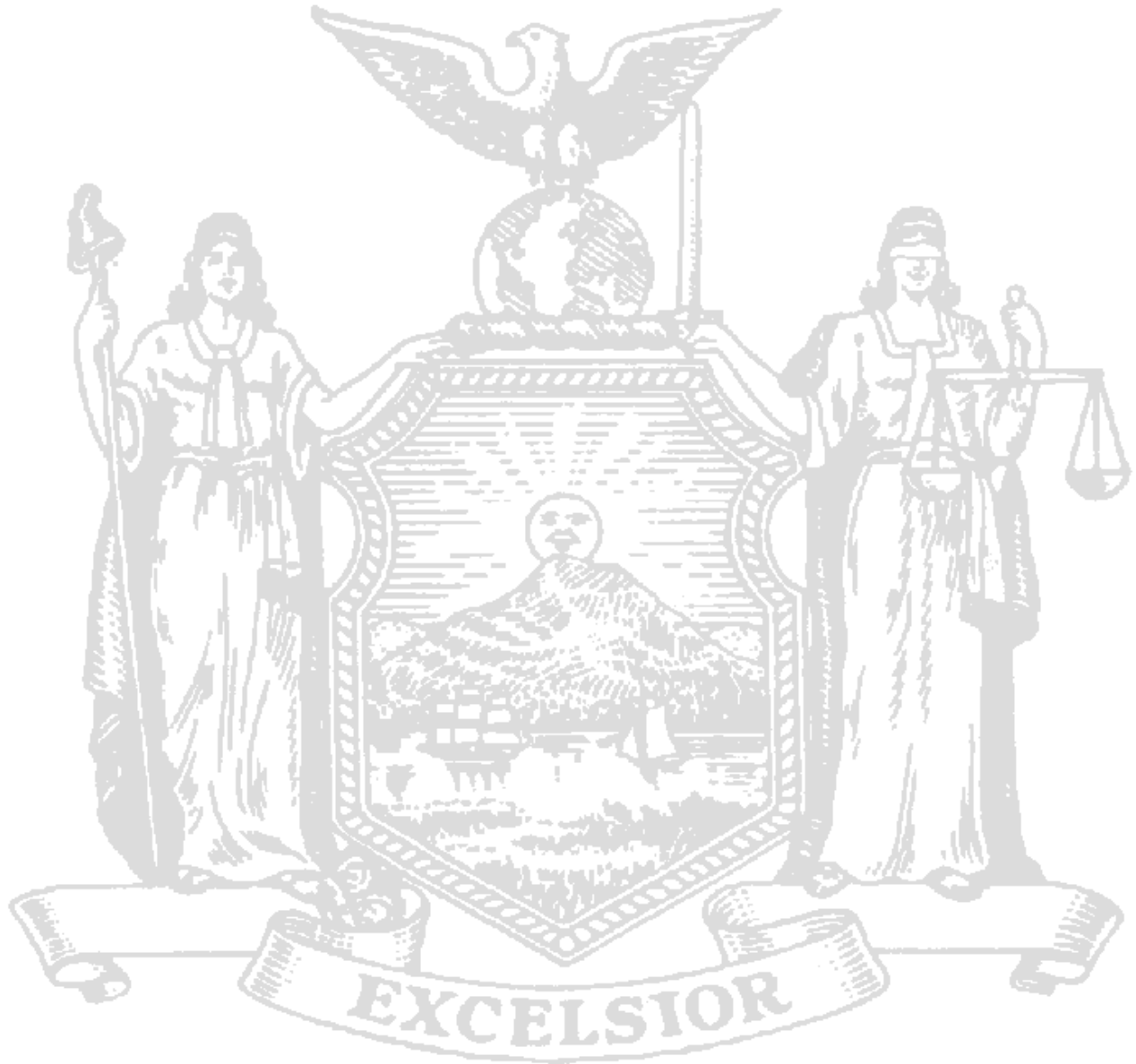
Risks to the Forecast

Clearly, the estimation process is highly dependent on a myriad of assumptions. Casinos compete by increasing the amount paid out in prizes. Payouts of not less than 90 percent are assumed, but, if competition drives this number up, it could have a significant impact on revenues. For example, if competition drives the prize payout up to 94 percent, the amount of revenue to New York would, holding other factors constant, fall by 25 percent. In addition, the estimate assumes no additional facilities will be built in New York State's market area. However, there are discussions about allowing slot machines at the Meadowlands, New Jersey, and in Maine. Other neighboring states are considering authorizing racinos, and there are continual expansions at Foxwoods, Mohegan Sun and Turning Stone. Pennsylvania recently passed legislation to allow up to 61,000 slot machines to operate in the state. Some slot-operated facilities are expected to be operating by 2006.

The forecast for 2006-07 of \$358 million is highly sensitive to the date Yonkers Raceway begins operations. This estimate assumes that Yonkers Raceway will begin operation on September 1, 2006. Should the start date be delayed, the estimate will not be achieved.

On the other hand, the market for video lottery gaming could be greater than anticipated, especially in the New York City metropolitan area. If this proves to be correct, the estimates of net machine income could be understated and the estimates of losses due to competition might be too high.

DATA APPENDIX



DATA APPENDIX

To facilitate understanding the analysis of budgetary trends and proposals contained in this Budget, the following data appendix has been compiled. It includes detailed historical data on tax collections and miscellaneous receipts. In addition, a table of fee and fine receipts by agency is included. Finally, a listing of relevant additional data sources, easily found through the facility of the Internet, are provided.

ALL FUNDS TAX RECEIPTS GROWTH AND SELECTED ECONOMIC INDICATORS (millions of dollars)										
Fiscal Year	All Funds Receipts (1)	Percent Change	All Funds Inflation Adjusted (2)	Percent Change	New York Personal Income	Percent Change	Inflation Adjusted New York Personal Income	Percent Change	CPI	Percent Change
1975-76	9,421.5	8.8	17,503.9	0.7	130.8	7.2	243.0	(1.8)	0.5	9.2
1976-77	10,347.7	9.8	18,175.1	3.9	142.2	8.7	249.7	2.7	0.6	5.8
1977-78	10,505.4	1.5	17,330.9	(4.8)	153.9	8.2	253.9	1.7	0.6	6.5
1978-79	11,153.9	6.2	17,096.3	(2.1)	168.1	9.2	257.6	1.5	0.7	7.6
1979-80	12,137.6	8.8	16,722.3	(3.2)	187.7	11.7	258.6	0.4	0.7	11.3
1980-81	13,496.0	11.2	16,382.0	(1.4)	210.2	12.0	255.2	(1.3)	0.8	13.5
1981-82	15,143.3	12.2	16,653.2	2.5	229.0	8.9	251.8	(1.3)	0.9	10.4
1982-83	16,025.0	5.8	16,600.5	0.6	244.9	6.9	253.7	0.7	1.0	6.2
1983-84	18,644.3	16.3	18,722.3	12.5	271.3	10.8	272.4	7.4	1.0	3.2
1984-85	20,391.8	9.4	19,620.1	5.0	289.2	6.6	278.2	2.1	1.0	4.4
1985-86	22,571.8	10.7	20,977.5	7.1	308.2	6.6	286.5	3.0	1.1	3.5
1986-87	24,358.3	7.9	22,206.2	6.1	328.7	6.7	299.7	4.6	1.1	1.9
1987-88	25,858.9	6.2	22,759.8	2.0	359.4	9.3	316.3	5.5	1.1	3.6
1988-89	26,261.7	1.6	22,203.9	(2.4)	386.5	7.6	326.8	3.3	1.2	4.1
1989-90	28,050.4	6.8	22,631.9	1.9	409.1	5.8	330.1	1.0	1.2	4.8
1990-91	27,818.2	(0.8)	21,290.8	(5.9)	419.5	2.5	321.0	(2.7)	1.3	5.4
1991-92	29,846.6	7.3	21,919.2	3.0	438.5	4.5	322.0	0.3	1.4	4.2
1992-93	31,661.2	6.1	22,565.4	2.9	446.8	1.9	318.4	(1.1)	1.4	3.0
1993-94	33,026.2	4.3	22,859.5	1.3	461.0	3.2	319.1	0.2	1.4	3.0
1994-95	33,050.3	0.1	22,297.4	(2.5)	486.9	5.6	328.5	2.9	1.5	2.6
1995-96	33,927.1	2.7	22,264.3	(0.1)	514.0	5.6	337.3	2.7	1.5	2.8
1996-97	34,620.3	2.0	22,071.1	(0.9)	543.0	5.6	346.2	2.6	1.6	2.9
1997-98	35,920.6	3.8	22,377.0	1.4	577.4	6.3	359.7	3.9	1.6	2.3
1998-99	38,494.6	7.2	23,615.1	5.5	603.6	4.5	370.3	3.0	1.6	1.5
1999-00	41,389.2	7.5	24,845.9	5.2	649.2	7.6	389.7	5.3	1.7	2.2
2000-01	44,657.9	7.9	25,935.0	4.4	665.8	2.6	386.7	(0.8)	1.7	3.4
2001-02	42,474.6	(4.9)	23,987.9	(7.5)	659.5	(1.0)	372.4	(3.7)	1.8	2.8
2002-03	39,626.4	(6.7)	22,034.0	(8.1)	672.1	1.9	373.7	0.3	1.8	1.6
2003-04	42,851.2	8.1	23,294.0	5.7	719.4	7.0	391.1	4.7	1.8	2.3
2004-05	48,597.9	13.4	25,727.9	10.4	754.9	4.9	399.7	2.2	1.9	2.7
2005-06*	53,513.2	10.1	27,384.7	6.4	796.6	5.5	407.6	2.0	2.0	3.5
2006-07**	56,850.7	6.2	28,180.9	2.9	838.0	5.2	415.4	1.9	2.0	3.2
2007-08**	57,395.7	1.0	27,752.5	(1.5)	880.9	5.1	425.9	2.5	2.1	2.5
Percent Growth (75-76 to 04-05)		354.8		33.1		450.0		60.9		241.8
Historical Average (75-76 to 04-05)		5.8		1.1		6.3		1.6		4.7
Standard Deviation (75-76 to 04-05)		5.0		4.6		3.0		2.6		3.1
Average Forecast (05-06 to 07-08)		7.7		4.6		5.2		2.2		3.0
Average Recessionary Growth		4.8		(0.7)		5.2		(0.6)		5.9
Average Expansionary Growth		6.3		2.1		7.0		2.8		4.1

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 stories.

DATA APPENDIX

PERSONAL INCOME TAX (millions of dollars)				
State Funds Receipts Accounted for By:				
Fiscal Year	Personal Income Tax(1)	Percent Change	Inflation Adjusted Personal Income Tax(1)	Percent Change
1975-76	3,948.8	10.0	7,336.4	0.8
1976-77	4,527.0	14.6	7,951.4	8.4
1977-78	4,506.2	(0.5)	7,433.9	(6.5)
1978-79	5,057.8	12.2	7,752.4	4.3
1979-80	5,780.0	14.3	7,963.3	2.7
1980-81	6,612.3	14.4	8,026.3	0.8
1981-82	8,034.0	21.5	8,835.0	10.1
1982-83	8,275.8	3.0	8,573.0	(3.0)
1983-84	9,374.0	13.3	9,413.2	9.8
1984-85	10,395.1	10.9	10,001.7	6.3
1985-86	11,582.3	11.4	10,764.2	7.6
1986-87	12,477.0	7.7	11,374.6	5.7
1987-88	13,569.3	8.8	11,943.1	5.0
1988-89	13,844.4	2.0	11,705.3	(2.0)
1989-90	15,301.0	10.5	12,345.3	5.5
1990-91	14,467.0	(5.5)	11,072.4	(10.3)
1991-92	14,942.6	3.3	10,973.8	(0.9)
1992-93	15,960.7	6.8	11,375.4	3.7
1993-94	16,502.0	3.4	11,422.0	0.4
1994-95	16,727.9	1.4	11,285.5	(1.2)
1995-96	17,398.5	4.0	11,417.6	1.2
1996-97	17,554.4	0.9	11,191.2	(2.0)
1997-98	18,289.0	4.2	11,393.2	1.8
1998-99	20,576.1	12.5	12,622.7	10.8
1999-00	23,194.4	12.7	13,923.6	10.3
2000-01	26,942.5	16.2	15,646.8	12.4
2001-02	25,573.7	(5.1)	14,443.0	(7.7)
2002-03	22,648.4	(11.4)	12,593.5	(12.8)
2003-04	24,647.2	8.8	13,398.3	6.4
2004-05	28,100.0	14.0	14,876.3	11.0
2005-06*	30,988.0	10.3	15,857.7	6.6
2006-07**	33,574.0	8.3	16,642.7	4.9
2007-08**	33,573.0	(0.0)	16,233.5	(2.5)
Percent Growth				
(75-76 to 04-05)		524.2		82.6
Historical Average				
(75-76 to 04-05)		7.1		2.3
Standard Deviation				
(75-76 to 04-05)		7.3		6.4
Average Forecast				
(05-06 to 07-08)		8.2		5.0
Average Recessionary Growth		4.6		(1.3)
Average Expansionary Growth		9.4		4.3
1. Personal Income Tax defined as gross receipts less refunds - 2000-01 receipts reflect an adjustment for the timely payment of refunds.				
* Estimated				
** Projected				
Note: For law changes affecting amounts flowing into various funds, see individual stories.				

SALES TAX (millions of dollars)				
State Funds Receipts Accounted for By:				
Fiscal Year	Sales Tax	Percent Change	Inflation Adjusted Sales Tax	Percent Change
1975-76	2,148.9	7.4	3,992.4	(1.6)
1976-77	2,218.2	3.2	3,896.1	(2.4)
1977-78	2,432.9	9.7	4,013.6	3.0
1978-79	2,588.7	6.4	3,967.9	(1.1)
1979-80	2,829.1	9.3	3,897.7	(1.8)
1980-81	2,948.4	4.2	3,578.8	(8.2)
1981-82	3,112.5	5.6	3,422.8	(4.4)
1982-83	3,383.9	8.7	3,505.5	2.4
1983-84	3,720.6	9.9	3,736.1	6.6
1984-85	4,039.2	8.6	3,886.3	4.0
1985-86	4,544.7	12.5	4,223.7	8.7
1986-87	4,866.9	7.1	4,436.9	5.0
1987-88	5,262.1	8.1	4,631.5	4.4
1988-89	5,490.3	4.3	4,642.0	0.2
1989-90	5,730.1	4.4	4,623.2	(0.4)
1990-91	5,479.6	(4.4)	4,193.8	(9.3)
1991-92	5,735.7	4.7	4,212.3	0.4
1992-93	6,000.1	4.6	4,276.4	1.5
1993-94	6,072.2	1.2	4,202.9	(1.7)
1994-95	6,529.1	7.5	4,404.9	4.8
1995-96	6,638.5	1.7	4,356.5	(1.1)
1996-97	7,008.2	5.6	4,467.9	2.6
1997-98	7,258.4	3.6	4,521.7	1.2
1998-99	7,598.8	4.7	4,661.6	3.1
1999-00	8,159.9	7.4	4,898.4	5.1
2000-01	8,351.7	2.4	4,850.3	(1.0)
2001-02	8,185.7	(2.0)	4,622.9	(4.7)
2002-03	8,796.0	7.5	4,891.0	5.8
2003-04	9,907.2	12.6	5,385.6	10.1
2004-05	11,016.1	11.2	5,832.0	8.3
2005-06*	11,180.8	1.5	5,721.6	(1.9)
2006-07**	11,538.4	3.2	5,719.6	(0.0)
2007-08**	11,980.8	3.8	5,793.1	1.3
Percent Growth (75-76 to 04-05)				
		361.0		34.9
Historical Average (75-76 to 04-05)				
		5.7		1.1
Standard Deviation (75-76 to 04-05)				
		3.8		4.5
Average Forecast (05-06 to 07-08)				
		4.9		1.9
Average Recessionary Growth				
		4.9		(0.8)
Average Expansionary Growth				
		6.1		1.3
* Estimated				
** Projected				
Note: For law changes affecting amounts flowing into various funds, see individual stories.				

DATA APPENDIX

OTHER USER TAXES AND FEES (millions of dollars)				
State Funds Receipts Accounted for By:				
Fiscal Year	Other User Taxes and Fees	Percent Change	Inflation Adjusted Other User Taxes and Fees	Percent Change
1975-76	1,288.9	0.3	2,394.6	(8.1)
1976-77	1,313.1	1.9	2,306.4	(3.7)
1977-78	1,277.3	(2.7)	2,107.2	(8.6)
1978-79	1,316.5	3.1	2,017.8	(4.2)
1979-80	1,300.5	(1.2)	1,791.7	(11.2)
1980-81	1,292.2	(0.6)	1,568.6	(12.5)
1981-82	1,322.3	2.3	1,454.2	(7.3)
1982-83	1,389.1	5.0	1,438.9	(1.0)
1983-84	1,755.8	26.4	1,763.2	22.5
1984-85	1,696.9	(3.4)	1,632.7	(7.4)
1985-86	1,774.7	4.6	1,649.3	1.0
1986-87	1,736.6	(2.1)	1,583.1	(4.0)
1987-88	1,809.8	4.2	1,592.9	0.6
1988-89	1,777.4	(1.8)	1,502.7	(5.7)
1989-90	2,127.4	19.7	1,716.4	14.2
1990-91	2,185.1	2.7	1,672.4	(2.6)
1991-92	2,357.7	7.9	1,731.5	3.5
1992-93	2,331.7	(1.1)	1,661.8	(4.0)
1993-94	2,525.4	8.3	1,748.0	5.2
1994-95	2,538.0	0.5	1,712.3	(2.0)
1995-96	2,514.2	(0.9)	1,649.9	(3.6)
1996-97	2,372.4	(5.6)	1,512.4	(8.3)
1997-98	2,464.0	3.9	1,535.0	1.5
1998-99	2,468.5	0.2	1,514.3	(1.3)
1999-00	2,454.5	(0.6)	1,473.4	(2.7)
2000-01	2,317.8	(5.6)	1,346.0	(8.6)
2001-02	2,357.1	1.7	1,331.2	(1.1)
2002-03	2,008.3	(14.8)	1,116.7	(16.1)
2003-04	2,011.8	0.2	1,093.6	(2.1)
2004-05	2,020.3	0.4	1,069.5	(2.2)
2005-06*	2,601.1	28.8	1,331.1	24.5
2006-07**	3,074.9	18.2	1,524.2	14.5
2007-08**	3,100.4	0.8	1,499.1	(1.6)
Percent Growth				
(75-76 to 04-05)		56.1		(54.3)
Historical Average				
(75-76 to 04-05)		1.8		(2.7)
Standard Deviation				
(75-76 to 04-05)		7.4		7.6
Average Forecast				
(05-06 to 07-08)		12.1		8.8
Average Recessionary Growth				
		0.4		(5.1)
Average Expansionary Growth				
		2.4		(2.2)
* Estimated				
** Projected				
Note: For law changes affecting amounts flowing into various funds, see individual stories.				

BUSINESS TAXES (millions of dollars)				
State Funds Receipts Accounted for By:				
Fiscal Year	Business Taxes	Percent Change	Inflation Adjusted Business Taxes	Percent Change
1975-76	1,699.0	16.7	3,156.5	6.9
1976-77	1,908.0	12.3	3,351.3	6.2
1977-78	1,998.8	4.8	3,297.4	(1.6)
1978-79	1,904.8	(4.7)	2,919.6	(11.5)
1979-80	1,973.3	3.6	2,718.7	(6.9)
1980-81	2,350.2	19.1	2,852.8	4.9
1981-82	2,392.1	1.8	2,630.6	(7.8)
1982-83	2,567.2	7.3	2,659.4	1.1
1983-84	3,203.9	24.8	3,217.3	21.0
1984-85	3,399.6	6.1	3,270.9	1.7
1985-86	3,606.1	6.1	3,351.4	2.5
1986-87	3,813.8	5.8	3,476.8	3.7
1987-88	3,923.5	2.9	3,453.3	(0.7)
1988-89	3,809.0	(2.9)	3,220.5	(6.7)
1989-90	3,725.8	(2.2)	3,006.1	(6.7)
1990-91	4,484.4	20.4	3,432.2	14.2
1991-92	5,699.0	27.1	4,185.3	21.9
1992-93	6,223.4	9.2	4,435.5	6.0
1993-94	6,798.3	9.2	4,705.5	6.1
1994-95	6,143.6	(9.6)	4,144.8	(11.9)
1995-96	6,240.1	1.6	4,095.0	(1.2)
1996-97	6,517.0	4.4	4,154.7	1.5
1997-98	6,585.6	1.1	4,102.5	(1.3)
1998-99	6,400.8	(2.8)	3,926.7	(4.3)
1999-00	6,133.2	(4.2)	3,681.8	(6.2)
2000-01	5,846.2	(4.7)	3,395.2	(7.8)
2001-02	5,184.8	(11.3)	2,928.2	(13.8)
2002-03	4,983.2	(3.9)	2,770.9	(5.4)
2003-04	5,006.8	0.5	2,721.7	(1.8)
2004-05	5,805.9	16.0	3,073.7	12.9
2005-06*	6,919.3	19.2	3,540.9	15.2
2006-07**	6,963.7	0.6	3,451.9	(2.5)
2007-08**	7,124.8	2.3	3,445.1	(0.2)
Percent Growth (75-76 to 04-05)				
		194.7		(13.8)
Historical Average (75-76 to 04-05)				
		4.8		0.1
Standard Deviation (75-76 to 04-05)				
		9.7		8.8
Average Forecast (05-06 to 07-08)				
		9.5		6.4
Average Recessionary Growth				
		8.7		2.6
Average Expansionary Growth				
		3.4		(1.3)
* Estimated				
** Projected				
Note: For law changes affecting amounts flowing into various funds, see individual stories.				

DATA APPENDIX

OTHER TAXES (millions of dollars)				
State Funds Receipts Accounted for By:				
Fiscal Year	Other Taxes	Percent Change	Inflation Adjusted Other Taxes	Percent Change
1975-76	335.9	1.1	624.1	(7.4)
1976-77	381.4	13.5	669.9	7.3
1977-78	290.2	(23.9)	478.7	(28.5)
1978-79	286.1	(1.4)	438.5	(8.4)
1979-80	254.7	(11.0)	350.9	(20.0)
1980-81	292.9	15.0	355.5	1.3
1981-82	282.4	(3.6)	310.6	(12.7)
1982-83	409.0	44.8	423.7	36.4
1983-84	590.0	44.3	592.5	39.8
1984-85	861.0	45.9	828.4	39.8
1985-86	1,064.0	23.6	988.8	19.4
1986-87	1,464.0	37.6	1,334.7	35.0
1987-88	1,294.2	(11.6)	1,139.1	(14.7)
1988-89	1,340.6	3.6	1,133.5	(0.5)
1989-90	1,166.1	(13.0)	940.8	(17.0)
1990-91	1,202.1	3.1	920.0	(2.2)
1991-92	1,111.6	(7.5)	816.4	(11.3)
1992-93	1,145.3	3.0	816.3	(0.0)
1993-94	1,128.3	(1.5)	781.0	(4.3)
1994-95	1,111.7	(1.5)	750.0	(4.0)
1995-96	1,135.8	2.2	745.4	(0.6)
1996-97	1,168.3	2.9	744.8	(0.1)
1997-98	1,323.6	13.3	824.5	10.7
1998-99	1,450.4	9.6	889.8	7.9
1999-00	1,447.2	(0.2)	868.8	(2.4)
2000-01	1,199.7	(17.1)	696.7	(19.8)
2001-02	1,173.3	(2.2)	662.6	(4.9)
2002-03	1,190.5	1.5	662.0	(0.1)
2003-04	1,278.2	7.4	694.8	5.0
2004-05	1,655.6	29.5	876.5	26.1
2005-06*	1,824.0	10.2	933.4	6.5
2006-07**	1,699.7	(6.8)	842.5	(9.7)
2007-08**	1,616.7	(4.9)	781.7	(7.2)
Percent Growth				
(75-76 to 04-05)		280.5		11.3
Historical Average				
(75-76 to 04-05)		6.1		1.5
Standard Deviation				
(75-76 to 04-05)		18.0		17.8
Average Forecast				
(05-06 to 07-08)		7.0		3.9
Average Recessionary Growth				
		6.3		0.4
Average Expansionary Growth				
		6.0		1.4
* Estimated				
** Projected				
Note: For law changes affecting amounts flowing into various funds, see individual stories.				

MISCELLANEOUS RECEIPTS (millions of dollars)						
All Funds Receipts Accounted for By:						
Fiscal Year	General Fund	Special Revenue Funds***	Capital Projects Funds	Debt Service Funds	All Funds	Percent Change
1984-85	1,122.3	531.6	501.0	995.0	3,149.8	
1985-86	979.0	1,221.2	606.0	1,038.0	3,844.2	22.0
1986-87	1,213.6	1,636.0	158.0	1,180.0	4,187.7	8.9
1987-88	1,174.3	2,046.8	464.0	1,287.0	4,972.0	18.7
1988-89	1,403.5	2,391.9	567.0	1,319.0	5,681.4	14.3
1989-90	1,387.9	2,532.2	451.0	1,527.0	5,898.1	3.8
1990-91	1,227.9	2,648.3	1,028.0	1,798.0	6,702.2	13.6
1991-92	1,369.2	3,629.5	1,092.0	544.0	6,634.7	(1.0)
1992-93	1,421.7	3,955.5	964.0	572.0	6,913.2	4.2
1993-94	1,242.0	4,146.1	996.0	555.0	6,939.1	0.4
1994-95	1,256.3	4,655.0	1,330.0	576.4	7,817.7	12.7
1995-96	1,416.0	5,280.3	1,902.0	618.7	9,217.0	17.9
1996-97	2,067.4	5,430.4	1,279.0	623.8	9,400.7	2.0
1997-98	1,593.9	5,538.9	1,325.0	639.0	9,096.8	(3.2)
1998-99	1,501.0	5,817.6	1,567.0	630.1	9,515.7	4.6
1999-00	1,643.0	6,180.9	1,775.0	611.4	10,210.3	7.3
2000-01	1,548.5	6,646.6	1,674.0	859.9	10,728.9	5.1
2001-02	1,621.7	7,142.4	1,444.0	613.6	10,821.7	0.9
2002-03	2,086.0	9,587.0	1,692.4	807.1	14,172.5	31.0
2003-04	5,917.2	10,520.1	2,190.7	810.3	19,438.3	37.2
2004-05	2,217.0	11,120.8	1,805.0	767.8	15,910.6	(18.1)
2005-06*	2,590.3	13,248.9	1,707.3	686.3	18,232.7	14.6
2006-07**	2,708.4	11,606.0	1,855.8	664.6	16,834.8	(7.7)
2007-08**	2,572.7	12,749.9	2,233.2	671.0	18,226.8	8.3
Percent Growth (84-85 to 04-05)						
	97.5	1,992.0	260.3	(22.8)	405.1	
Historical Average (84-85 to 04-05)						
	1,686.2	4,888.5	1,181.5	874.9	8,631.1	
Standard Deviation (84-85 to 04-05)						
	1,021.4	2,959.4	567.1	358.7	4,065.5	
Average Forecast (05-06 to 07-08)						
	2,623.8	12,534.9	1,932.1	673.9	17,764.8	
* Estimated						
** Projected						
*** DOB is currently constructing a historical data series to reflect adjustments for GASB 34.						

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ALL FUNDS TAX RECEIPTS SHARES (percent share)						
Fiscal Year	Percent of All State Funds Receipts Accounted for By:					Other Taxes
	Personal Income Tax(1)	Sales Tax	User Taxes and Fees	Business Taxes		
1973-74	41.9	22.8	15.6	15.8	3.9	
1974-75	41.4	23.1	14.8	16.8	3.8	
1975-76	41.9	22.8	13.7	18.0	3.6	
1976-77	43.7	21.4	12.7	18.4	3.7	
1977-78	42.9	23.2	12.2	19.0	2.8	
1978-79	45.3	23.2	11.8	17.1	2.6	
1979-80	47.6	23.3	10.7	16.3	2.1	
1980-81	49.0	21.8	9.6	17.4	2.2	
1981-82	53.1	20.6	8.7	15.8	1.9	
1982-83	51.6	21.1	8.7	16.0	2.6	
1983-84	50.3	20.0	9.4	17.2	3.2	
1984-85	51.0	19.8	8.3	16.7	4.2	
1985-86	51.3	20.1	7.9	16.0	4.7	
1986-87	51.2	20.0	7.1	15.7	6.0	
1987-88	52.5	20.3	7.0	15.2	5.0	
1988-89	52.7	20.9	6.8	14.5	5.1	
1989-90	54.5	20.4	7.6	13.3	4.2	
1990-91	52.0	19.7	7.9	16.1	4.3	
1991-92	50.1	19.2	7.9	19.1	3.7	
1992-93	50.4	19.0	7.4	19.7	3.6	
1993-94	50.0	18.4	7.6	20.6	3.4	
1994-95	50.6	19.8	7.7	18.6	3.4	
1995-96	51.3	19.6	7.4	18.4	3.3	
1996-97	50.7	20.2	6.9	18.8	3.4	
1997-98	50.9	20.2	6.9	18.3	3.7	
1998-99	53.5	19.7	6.4	16.6	3.8	
1999-00	56.0	19.7	5.9	14.8	3.5	
2000-01	60.3	18.7	5.2	13.1	2.7	
2001-02	60.2	19.3	5.5	12.2	2.8	
2002-03	57.2	22.2	5.1	12.6	3.0	
2003-04	57.5	23.1	4.7	11.7	3.0	
2004-05	57.8	22.7	4.2	11.9	3.4	
2005-06*	57.9	20.9	4.9	12.9	3.4	
2006-07**	59.1	20.3	5.4	12.2	3.0	
2007-08**	58.5	20.9	5.4	12.5	2.8	
Historical Average 75-76 to 04-05	51.4	20.6	8.1	16.5	3.5	
Historical Average 94-95 to 04-05	54.8	20.3	6.2	15.5	3.2	
Forecast Average 05-06 to 07-08	58.3	21.2	5.0	12.4	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

MISCELLANEOUS RECEIPTS

The revenue category of miscellaneous receipts is made up of thousands of miscellaneous revenue sources from virtually every state agency. The accompanying table summarizes the All Funds miscellaneous receipts revenue sources by agency and provides a short description of the source, the Fund type where revenue is deposited and the revenue generated from the source. The All Funds miscellaneous receipts revenue list below should not be viewed as a complete list but as a compilation of the most important non-tax receipts collected by agency. (Please note that Miscellaneous Receipts from The State University of New York, The City University of New York and Justice Court Fines are not yet included.) For proposals to alter fees and charges included in the Executive Budget, please see the Revenue Action Table in this volume. The table is organized by agency and Fund type.

ALL FUNDS MISCELLANEOUS RECEIPTS REVENUE LIST

<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts (000)</u>	<u>2005-06 Estimate (000)</u>	<u>2006-07 Forecast (000)</u>
<u>Department of Agriculture and Markets</u>				
Apple Research & Development	SRO	\$147	\$174	\$165
Cabbage Market Order	SRO	\$32	\$25	\$30
Dog Tag Replacement	SRO	\$1	\$0	\$1
Pet Dealer	SRO	\$26	\$26	\$26
Department of Agriculture and Markets - Subtotal		\$205	\$224	\$221
<u>Division of Alcoholic Beverage Control</u>				
Beer Retail License Off Premises - Renewal	GEN	\$4,968	\$4,676	\$9,402
Beer Retail License Off Premises Consumption - Original	GEN	\$2,484	\$2,484	\$4,701
Beer Retail License On Premises Consumption - Original	GEN	\$210	\$210	\$210
Beer Retail License On Premises Consumption - Renewal	GEN	\$230	\$230	\$230
Brewer's License - Original	GEN	\$212	\$212	\$212
Brewer's License Renewal	GEN	\$1,002	\$1,002	\$1,002
Cider Producers License - Original	GEN	\$1	\$1	\$1
Cider Producers License - Renewal	GEN	\$3	\$3	\$3
Fines and Civil Penalties	GEN	\$5,423	\$5,423	\$5,423
Liquor License Consumption on Premises - Original	GEN	\$8,525	\$8,525	\$8,525
Liquor License for Consumption On Premises - Renewal	GEN	\$21,142	\$21,142	\$21,142
Liquor Store Retail License - Original	GEN	\$922	\$922	\$922
Liquor Store Retail License Renewal	GEN	\$2,012	\$2,012	\$2,012
Permits - Original	GEN	\$1,060	\$1,060	\$1,060
Permits - Renewal	GEN	\$1,743	\$1,743	\$1,743
Wholesale Beer License - Original	GEN	\$44	\$44	\$44
Wholesale Beer License - Renewal	GEN	\$618	\$618	\$618
Wholesale Liquor License - Original	GEN	\$853	\$853	\$853
Wholesale Liquor License - Renewal	GEN	\$1,376	\$436	\$755
Wine Retail Off Premises - Original	GEN	\$23	\$23	\$23
Wine Retail Off Premises - Renewal	GEN	\$14	\$14	\$14
Wine Retail on Premises - Original	GEN	\$637	\$637	\$637
Wine Retail On Premises - Renewal	GEN	\$1,542	\$1,542	\$1,542
Wine Wholesale - Original	GEN	\$75	\$75	\$75
Wine Wholesale - Renewal	GEN	\$187	\$187	\$187
Winery Licenses - Original	GEN	\$16	\$16	\$16
Winery Licenses - Renewal	GEN	\$55	\$55	\$55
Division of Alcoholic Beverage Control - Subtotal		\$55,374	\$54,142	\$61,405

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts (000)</u>	<u>2005-06 Estimate (000)</u>	<u>2006-07 Forecast (000)</u>
<u>Office of Alcoholism and Substance Abuse Services</u>				
Credentialing Application	SRO	\$126	\$126	\$126
Credentialing Exam - CASAC	SRO	\$139	\$139	\$139
Credentialing Exam - CPP/CPS	SRO	\$1	\$1	\$1
Credentialing Renewal	SRO	\$428	\$428	\$428
Methadone Registry Transaction	SRO	\$217	\$224	\$232
Office of Alcoholism and Substance Abuse Services - Subtotal		\$911	\$918	\$926
<u>Banking Department</u>				
Fines	GEN	\$699	\$700	\$700
General Assessment	SRO	\$74,392	\$76,589	\$73,172
Investigation Fees Acquisition by Companies of Control of Banking Inst. (Capital less than \$15M)	GEN	\$0	\$0	\$0
Investigation Fees Acquisition by Companies of Control of Banking Institutions	GEN	\$25	\$25	\$25
Investigation Fees Acquisition of Business Licensed Lenders (by person or entity already licensed)	GEN	\$0	\$0	\$0
Investigation Fees Acquisition of Business Licensed Lenders (by unlicensed person or entity)	GEN	\$0	\$0	\$0
Investigation Fees Acquisition of Control of Investment Companies	GEN	\$0	\$0	\$0
Investigation Fees Acquisition/Control of Licensed Lenders by Purchase of Stock (unlic pers/entit	GEN	\$0	\$0	\$0
Investigation Fees Branch Banking Organizations	GEN	\$71	\$65	\$65
Investigation Fees Change Location Check Cashers	GEN	\$1	\$1	\$1
Investigation Fees Change Of Control Mortgage Bankers/Brokers	GEN	\$37	\$31	\$31
Investigation Fees Conversion from Mutual to Stock Form Ownership	GEN	\$0	\$5	\$0
Investigation Fees Conversion National Organization to State Organization	GEN	\$0	\$0	\$0
Investigation Fees Merger Agreement	GEN	\$6	\$6	\$6
Investigation Fees Merger National Organization to State Organization	GEN	\$3	\$3	\$0
Investigation Fees Merger/Acquisition Stock Form Savings Bank/Savings & Loans	GEN	\$0	\$5	\$0
Investigation Fees New Organizations Trust Companies	GEN	\$5	\$3	\$3
Investigation Fees Public Accommodation Offices	GEN	\$0	\$0	\$0
Investigation Fees Purchase of Assets	GEN	\$0	\$3	\$0
Investigation Fees Purchase of Assets by State Organization from National Organization	GEN	\$3	\$3	\$0
Investigation Fees Sale of Assets	GEN	\$0	\$0	\$0
Investigation Fees Acquisition of Control Licensed Lenders by Purchase of Stock (pers/ent licensed)	GEN	\$0	\$0	\$0
Investigation Fees Change Location Foreign Branches	GEN	\$3	\$3	\$3
Investigation Fees Change Location Licensed Lenders	GEN	\$1	\$1	\$1
Investigation Fees Change of Location Trust Companies	GEN	\$3	\$5	\$5
Investigation Fees Change of Location Banks	GEN	\$1	\$1	\$1
Investigation Fees Change of Location Foreign Agencies	GEN	\$0	\$0	\$0
Investigation Fees Change of Location Investment Companies	GEN	\$0	\$0	\$0
Investigation Fees Change of Location Savings & Loans	GEN	\$0	\$0	\$0
Investigation Fees Change of Location Savings Banks	GEN	\$4	\$4	\$4
Investigation Fees New Branch Licensed Lenders	GEN	\$1	\$1	\$1
Investigation Fees New Branch Mortgage Brokers	GEN	\$69	\$43	\$43
Investigation Fees New Branch Office License Mortgage Bankers	GEN	\$15	\$15	\$15
Investigation Fees New Organizations Bank Holding Companies	GEN	\$25	\$15	\$15
Investigation Fees New Organizations Bank Holding Companies (stock acquisition)	GEN	\$3	\$3	\$3
Investigation Fees New Organizations Banks	GEN	\$18	\$8	\$8

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05</u> <u>Receipts</u> (000)	<u>2005-06</u> <u>Estimate</u> (000)	<u>2006-07</u> <u>Forecast</u> (000)
Investigation Fees New Organizations Budget Planners	GEN	\$1	\$1	\$1
Investigation Fees New Organizations Check Cashers Limited	GEN	\$1	\$0	\$0
Investigation Fees New Organizations Check Cashers Regular/Mobile	GEN	\$16	\$13	\$13
Investigation Fees New Organizations Foreign Agencies and Branches	GEN	\$2	\$4	\$4
Investigation Fees New Organizations Foreign Representative Offices	GEN	\$1	\$1	\$1
Investigation Fees New Organizations Investment Companies	GEN	\$5	\$0	\$0
Investigation Fees New Organizations Licensed Lenders	GEN	\$1	\$1	\$1
Investigation Fees New Organizations Licensed Mortgage Bankers	GEN	\$56	\$40	\$40
Investigation Fees New Organizations Mortgage Brokers	GEN	\$192	\$151	\$151
Investigation Fees New Organizations Premium Finance Companies Regular	GEN	\$1	\$1	\$1
Investigation Fees New Organizations Private Bankers	GEN	\$0	\$0	\$0
Investigation Fees New Organizations Safe Deposit Companies	GEN	\$0	\$0	\$0
Investigation Fees New Organizations Sales Finance Companies	GEN	\$2	\$2	\$2
Investigation Fees New Organizations Savings & Loans	GEN	\$0	\$0	\$0
Investigation Fees New Organizations Savings & Loans (stock form)	GEN	\$0	\$0	\$0
Investigation Fees New Organizations Savings Banks	GEN	\$0	\$3	\$0
Investigation Fees New Organizations Savings Banks (stock form)	GEN	\$0	\$0	\$0
Investigation Fees New Organizations Transmitters of Money	GEN	\$7	\$8	\$8
Investigation Fees Temporary Change Location Foreign Branches	GEN	\$0	\$0	\$0
Investigation Fees Temporary Change of Location Savings & Loans	GEN	\$0	\$0	\$0
Investigation Fees Temporary Change of Location Banks	GEN	\$0	\$0	\$0
Investigation Fees Temporary Change of Location Foreign Agencies	GEN	\$0	\$0	\$0
Investigation Fees Temporary Change of Location Investment Companies	GEN	\$0	\$0	\$0
Investigation Fees Temporary Change of Location Savings Banks	GEN	\$0	\$0	\$0
Investigation Fees Temporary Change of Location Trust Companies	GEN	\$0	\$0	\$0
License Fees Check Cashers Limited	GEN	\$4	\$4	\$4
License Fees Check Cashers Mobile	GEN	\$1	\$1	\$1
License Fees Check Cashers - Mobile (half year)	GEN	\$0	\$0	\$0
License Fees Check Cashers Regular	GEN	\$235	\$235	\$235
License Fees Licensed Lenders	GEN	\$185	\$185	\$185
License Fees Licensed Lenders (half year)	GEN	\$1	\$0	\$1
License Fees Licensed Mortgage Bankers	GEN	\$1,669	\$1,669	\$1,669
License Fees Mortgage Brokers (Registration Fee)	GEN	\$1,586	\$1,586	\$1,586
License Fees Premium Finance Regular	GEN	\$21	\$21	\$21
License Fees Premium Finance Regular (half year)	GEN	\$0	\$0	\$0
License Fees Transmitter of Money	GEN	\$35	\$35	\$35
License Fees Check Cashers Regular (half year)	GEN	\$4	\$2	\$2
License Fees Premium Finance Limited Insurance Agent/Broker Holding <\$15000 of prem. fin. agreements	GEN	\$0	\$0	\$0
License Fees Sales Finance Companies	GEN	\$46	\$46	\$46

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts (000)</u>	<u>2005-06 Estimate (000)</u>	<u>2006-07 Forecast (000)</u>
License Fees Sales Finance Companies (half year)	GEN	\$0	\$0	\$0
Miscellaneous Fee	GEN	\$20	\$14	\$14
Sale of Suplus Equipment State Finance Law	GEN	\$0	\$0	\$0
Banking Department - Subtotal		\$79,474	\$81,559	\$78,121
<u>Office of Children and Family Services</u>				
CBVH Gifts & Bequests	SRO	\$2	\$6	\$6
CBVH Highway Revenue Fund 339-K1	SRO	\$223	\$300	\$300
CBVH Vending Fund	SRO	\$1,086	\$1,048	\$1,048
Child Care Fines	SRO	\$86	\$81	\$81
Hoyt Trust Fund	SRO	\$676	\$1,000	\$1,000
State Central Register	SRO	\$118	\$93	\$93
Youth Grants and Bequests	SRO	\$0	\$0	\$0
Office of Children and Family Services - Subtotal		\$2,191	\$2,528	\$2,528
<u>Department of Civil Service</u>				
Civil Service Section 11	INT	\$5,655	\$5,650	\$5,650
EHS Occupational Health Program	INT	\$274	\$300	\$300
Exam Application Processing fee	SRO	\$1,876	\$1,687	\$1,387
NYSHIP Premiums	AGY	\$4,711,251	\$4,800,000	\$4,800,000
Department of Civil Service - Subtotal		\$4,719,055	\$4,807,637	\$4,807,337
<u>State Consumer Protection Board</u>				
CPB Account	SRO	\$190	\$190	\$190
State Consumer Protection Board - Subtotal		\$190	\$190	\$190
<u>Department of Correctional Services</u>				
Asset Forfeiture Account	SRF	\$0	\$1	\$1
Cell Tower Space Rental	ENT	\$130	\$175	\$168
Commissary Sales	ENT	\$33,012	\$32,750	\$32,750
Crime Victim Fees	SRF	\$172	\$175	\$175
Day Reporting Administrative Fee	GEN	\$127	\$75	\$75
DNA Data Bank Fee	GEN	\$165	\$220	\$220
Employee Mess sales	ENT	\$1,323	\$800	\$800
Farm Product Sales	ENT	\$753	\$650	\$650
Food Production Center Sales	ENT	\$339	\$500	\$500
Mandatory Surcharge	SRF	\$2,665	\$2,700	\$2,700
Misbehavior Fee	GEN	\$312	\$290	\$290
Recycling Program Sales	ENT	\$173	\$201	\$201
Sex Offender Registry Fee	GEN	\$11	\$20	\$20
State Court Filing Fee	GEN	\$48	\$46	\$46
Supplemental sex offender victim fee	GEN	\$0	\$5	\$5
Work Release Room & Board	GEN	\$1,225	\$800	\$800
Department of Correctional Services - Subtotal		\$40,456	\$39,408	\$39,401
<u>Department of Economic Development</u>				
Commerce Economic Development Assistance (A7) Acct.	SRO	\$481	\$300	\$300
Commerce Economic Development Assistance (DO) Acct.	SRO	\$1,023	\$1,050	\$1,050
Minority & Women's Business Development Acct.	SRO	\$1	\$0	\$0
Procurement Opportunity Newsletter Acct.	SRO	\$637	\$613	\$613
Department of Economic Development - Subtotal		\$2,141	\$1,963	\$1,963
<u>State Education Department - School for the Blind</u>				
Federal Reimbursement of Breakfast/Lunch Program	SRO	\$53	\$19	\$50
Federal Reimbursement of Medicaid	SRO	\$2,563	\$1,599	\$0
Patient Participation Amount for Board & Care in ICF Units	SRO	\$4	\$12	\$0
State reimbursement Breakfast/Lunch Program	SRO	\$2	\$1	\$2
Tuition- Summer Self Program	SRO	\$0	\$0	\$0
State Education Department - School for the Blind - Subtotal		\$2,622	\$1,631	\$52

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05</u> <u>Receipts</u> (000)	<u>2005-06</u> <u>Estimate</u> (000)	<u>2006-07</u> <u>Forecast</u> (000)
<u>State Education Department</u>				
Archival records fee	SRO	\$52	\$52	\$52
County Court surcharge	SRO	\$42,188	\$42,188	\$42,188
County recording fee	SRO	\$14,064	\$14,064	\$14,064
High School Equivalency (GED)	SRO	\$177	\$160	\$160
Library fee	SRO	\$69	\$69	\$69
Love Your Library Fund	SRO	\$0	\$0	\$0
Museum Account	SRO	\$29	\$50	\$50
OP - Acupuncture	SRO	\$380	\$380	\$380
OP - Architecture	SRO	\$1,008	\$1,008	\$1,008
OP - Athletic Training	SRO	\$35	\$35	\$35
OP - Audiology	SRO	\$93	\$93	\$93
OP - Certified Public Accountant	SRO	\$2,470	\$2,470	\$2,470
OP - Certified Shorthand Reporting	SRO	\$6	\$6	\$6
OP - Certified Social Worker	SRO	\$1,590	\$0	\$0
OP - Chiropractic	SRO	\$443	\$443	\$443
OP - Clinical Lab Technician	SRO	\$0	\$0	\$0
OP - Clinical Lab Technologist	SRO	\$0	\$0	\$0
OP - Creative Art Therapy	SRO	\$0	\$124	\$124
OP - Cytotechnologist	SRO	\$0	\$0	\$0
OP - Dental Assisting	SRO	\$19	\$19	\$19
OP - Dental Hygiene	SRO	\$294	\$294	\$294
OP - Dentistry	SRO	\$1,848	\$1,848	\$1,848
OP - Dietetics & Nutrition	SRO	\$388	\$388	\$388
OP - Interior Design	SRO	\$23	\$23	\$23
OP - Land Surveying	SRO	\$160	\$160	\$160
OP - Land Surveying Intern	SRO	\$1	\$1	\$1
OP - Landscape Architecture	SRO	\$50	\$50	\$50
OP - Licensed Clinical Social Worker	SRO	\$1,094	\$1,500	\$1,500
OP - Licensed Master Social Worker	SRO	\$964	\$1,471	\$1,471
OP - Licensed Practical Nurse	SRO	\$1,480	\$1,480	\$1,480
OP - Marriage & Family Therapy	SRO	\$0	\$266	\$266
OP - Massage	SRO	\$578	\$578	\$578
OP - Medical Physics	SRO	\$90	\$90	\$90
OP - Medicine	SRO	\$24,449	\$24,449	\$24,449
OP - Mental Health Counselor	SRO	\$0	\$3,485	\$3,485
OP - Midwifery	SRO	\$53	\$53	\$53
OP - Nurse Practitioner	SRO	\$184	\$184	\$184
OP - Occupational Therapy	SRO	\$592	\$592	\$592
OP - Occupational Therapy Assistant	SRO	\$73	\$73	\$73
OP - Ophthalmic Dispensing	SRO	\$139	\$139	\$139
OP - Optometry	SRO	\$238	\$238	\$238
OP - Pharmacy	SRO	\$3,693	\$3,693	\$3,693
OP - Physical Therapy	SRO	\$1,317	\$1,317	\$1,317
OP - Physical Therapy Assistant	SRO	\$121	\$121	\$121
OP - Physician Assistant	SRO	\$199	\$199	\$199
OP - Podiatry	SRO	\$159	\$159	\$159
OP - Professional Engineer	SRO	\$2,341	\$2,341	\$2,341
OP - Professional Engineer Intern	SRO	\$121	\$121	\$121
OP - Psychoanalyst	SRO	\$0	\$124	\$124
OP - Psychology	SRO	\$391	\$391	\$391
OP - Public Accountant	SRO	\$3	\$3	\$3
OP - Registered Professional Nurse	SRO	\$8,426	\$8,426	\$8,426
OP - Respiratory Therapist	SRO	\$211	\$211	\$211
OP - Respiratory Therapy Technician	SRO	\$61	\$61	\$61
OP - Specialist Assistant	SRO	\$2	\$2	\$2
OP - Speech-Language Pathology	SRO	\$1,002	\$1,002	\$1,002
OP - Veterinary Medicine	SRO	\$428	\$428	\$428
OP - Veterinary Technology	SRO	\$125	\$125	\$125
Proprietary Schools Supervision	SRO	\$2,061	\$2,082	\$2,082
Records Center fee	INT	\$1,206	\$1,206	\$1,206
Regents Accreditation of Teacher Education	SRO	\$44	\$68	\$68

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts</u> (000)	<u>2005-06 Estimate</u> (000)	<u>2006-07 Forecast</u> (000)
Summer School of the Arts tuition	SRO	\$612	\$566	\$566
Teacher Certification	SRO	\$5,418	\$6,100	\$6,100
Tuition Reimbursement Account	SRO	\$1,155	\$903	\$935
State Education Department - Subtotal		\$124,416	\$128,171	\$128,203
State Board of Elections				
Voting Machine Examination Fee	SRO	\$0	\$0	\$40
State Board of Elections - Subtotal		\$0	\$0	\$40
Office of Employee Relations				
NASDER	SRO	\$20	\$20	\$20
Training & Materials	SRO	\$2	\$3	\$3
Office of Employee Relations - Subtotal		\$21	\$23	\$23
New York State Energy Research and Development Authority				
Low Level Radioactive Waste Assessment Reimbursement	GEN	\$2,069	\$2,000	\$2,000
New York State Energy Research and Development Authority - Subtotal		\$2,069	\$2,000	\$2,000
Department of Environmental Conservation				
Air Pollution Fines	GEN	\$3,022	\$2,461	\$2,461
Cons Fd/Main Acct - Fees	SRO	\$0	\$0	\$0
Cons Fd/Main Acct - Fines, Penalties, & Forfeitures	SRO	\$409	\$409	\$409
Cons Fd/Main Acct - Gifts & Unclaimed Prop	SRO	\$0	\$0	\$0
Cons Fd/Main Acct - Miscellaneous Sales	SRO	\$506	\$506	\$506
Cons Fd/Main Acct - Refunds & Reimbursements	SRO	\$53	\$53	\$53
Cons Fd/Main Acct - Rentals, Leases & Royalties	SRO	\$21	\$21	\$21
Cons Fd/Main Acct - Resident & Non-Resident Licenses	SRO	\$37,451	\$35,700	\$35,700
Cons Fd/Main Acct - Return A Gift To Wildlife (RAGTW)	SRO	\$491	\$491	\$491
Conservationist Magazine	SRO	\$554	\$550	\$550
Detergents	GEN	\$0	\$2	\$2
Environmental Camps	GEN	\$150	\$247	\$243
ERA - Air Fees	SRO	\$3,888	\$3,914	\$3,914
ERA - Hazardous Waste Fee	CPO	\$872	\$1,088	\$1,088
ERA - Hazardous Waste Fee	SRO	\$872	\$1,088	\$1,088
ERA - Pesticides Fee	SRO	\$4,029	\$4,219	\$4,219
ERA - SPDES Fees	SRO	\$10,353	\$10,029	\$10,029
ERA - Waste Transporter Fees	CPO	\$871	\$904	\$904
ERA - Waste Transporter Fees	SRO	\$871	\$904	\$904
Fish & Game Trust Resident Lifetime Licenses	SRO	\$1,579	\$1,350	\$1,350
Flood Control Permit	GEN	\$4	\$2	\$2
Flood Insurance Program	GEN	\$0	\$2	\$2
Forest Protection & Fire Management	GEN	\$5	\$12	\$12
Freedom of Information	GEN	\$34	\$44	\$44
Fresh Water Wetlands	GEN	\$132	\$291	\$291
Great Lakes Water Withdrawal Registration Fee	GEN	\$9	\$9	\$9
Habitat Acct - Licenses	SRO	\$58	\$20	\$20
Habitat Acct - Rentals, Leases, & Royalties	SRO	\$9	\$0	\$0
Hazardous Substance Bulk Storage	SRO	\$204	\$376	\$225
Hazardous Substances	GEN	\$25	\$8	\$8
IFTA -- Assessments	SRO	\$2,303	\$2,303	\$2,303
IFTA -- Haz Waste Surcharge	SRO	\$12,235	\$12,235	\$12,235
License Guides - Licenses	SRO	\$50	\$50	\$50
Marine Resources Acct - Fines & Penalties	SRO	\$416	\$416	\$416
Marine Resources Acct - Licenses	SRO	\$924	\$924	\$924
Marine Resources Acct - Sale of Surplus Property & Seized Fish	SRO	\$12	\$12	\$12
Marine Resources Acct - Shellfish Transplant Fee	SRO	\$14	\$14	\$14
Migratory Bird - Misc. Sales	SRO	\$1	\$6	\$6
Mined Land Reclamation Fee	SRO	\$2,735	\$2,748	\$2,733
Mined Land Reclamation Fines	GEN	\$116	\$252	\$252
Natural Resource Damages	SRO	\$2,800	\$580	\$580
Noisome or Unwholesome Substances	GEN	\$0	\$1	\$1

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts</u> (000)	<u>2005-06 Estimate</u> (000)	<u>2006-07 Forecast</u> (000)
NRA - Sale of Forest Products - State Lands	SRO	\$5,356	\$4,079	\$4,079
NRA - Sale of Products - State Tree Nursery	SRO	\$286	\$286	\$286
Oil & Gas Depth Fee	GEN	\$379	\$213	\$213
Oil & Gas Fines	GEN	\$0	\$95	\$95
Oil & Gas Lease Delay Rentals	GEN	\$118	\$65	\$65
Oil & Gas Lease Royalties/Storage	GEN	\$14	\$112	\$112
Oil & Gas NGPA determination fee	GEN	\$0	\$7	\$7
Oil & Gas Permit Fee	SRO	\$46	\$35	\$35
Oil Spill Compensation Fund - 4.25 cents per barrel	SRO	\$14,369	\$14,369	\$14,369
Oil Spill Compensation Fund - 8 cents per barrel	SRO	\$26,044	\$26,044	\$26,044
Oil Spill Compensation Fund - Registration Fee	SRO	\$1,257	\$1,257	\$1,257
Oil Spill Fund - Fines	SRO	\$1,243	\$1,243	\$1,243
Pesticides	GEN	\$1,775	\$1,012	\$1,012
Recreation Account-Rentals	SRO	\$594	\$594	\$594
Recreation Account-Winter	SRO	\$4,052	\$4,406	\$4,406
Reproduction fees - Oil & Gas	GEN	\$2	\$4	\$4
Solid & Hazardous Waste, Improper disposal of Hazardous waste	GEN	\$1,080	\$1,550	\$1,550
Stream Protection Fine	GEN	\$35	\$53	\$49
Surf Clam/Ocean Quahog - Fees	SRO	\$97	\$81	\$90
Title V OPP Program Fine	SRO	\$192	\$190	\$190
Title V OPP Program Fee	SRO	\$11,554	\$12,570	\$12,570
Underground Storage of Gas Permit	GEN	\$15	\$7	\$7
Waste Tire Management & Recycling Fee	SRO	\$27,458	\$25,500	\$25,500
Water Pollution, Discharge of sewers into certain waters, Deposit of garbage in waters	GEN	\$4,374	\$1,790	\$1,790
Water Well Driller Registration Fee	GEN	\$9	\$5	\$5
Department of Environmental Conservation - Subtotal		\$188,428	\$179,808	\$179,645
Environmental Facilities Corporation				
CWSRF - Annual Administration Fee	SRO	\$9,428	\$8,556	\$9,798
DWSRF - Annual Administrative Fee	SRO	\$1,201	\$1,142	\$1,146
DWSRF - Initial Financing Fee	SRO	\$1,224	\$1,064	\$1,460
IFP - Annual Administrative Fee	SRO	\$562	\$562	\$562
IFP - Application Fee	SRO	\$3	\$3	\$8
IFP - Finance Fee	SRO	\$612	\$400	\$255
Environmental Facilities Corporation - Subtotal		\$13,029	\$11,727	\$13,229
Office of General Services				
Administrative Support Fund	INT	\$267	\$267	\$267
Asset Preservation Fund	ENT	\$13	\$13	\$13
Building Support Services	INT	\$5,013	\$5,013	\$5,013
Central Printing	INT	\$2,586	\$2,586	\$2,586
Commodity Container Fund	SRO	\$15	\$15	\$15
Construction Services	INT	\$3,608	\$3,608	\$3,608
Convention Center Account	ENT	\$1,175	\$1,175	\$1,175
COPS Account	INT	\$28,338	\$28,338	\$28,338
Design & Construction ISF	INT	\$39,736	\$39,736	\$39,736
Downstate Warehouse	INT	\$1,137	\$1,137	\$1,137
Facility Rental Space	GEN	\$5,260	\$5,260	\$5,260
Federal Personal Property	INT	\$120	\$120	\$120
Fleet Management Account	INT	\$1,996	\$1,996	\$1,996
FOIL Requests	GEN	\$3	\$3	\$3
Food Services Account	INT	\$188	\$188	\$188
Homer Folks Account	INT	\$595	\$595	\$595
IMMICS Account	INT	\$1,815	\$1,815	\$1,815
Insurance Services Account	INT	\$9,223	\$9,223	\$9,223
IRM Account	INT	\$2,702	\$2,702	\$2,702
Parking Account	SRO	\$5,596	\$5,596	\$5,596
PASNY Account	INT	\$37,667	\$37,667	\$37,667
Plaza Special Events	SRO	\$538	\$538	\$538
Real Property Disposition Fund	SRO	\$2,166	\$2,166	\$2,166
Real Property Labor	INT	\$1,626	\$1,626	\$1,626
Salt Sales	GEN	\$2,148	\$2,148	\$2,148
Security Card Access	INT	\$150	\$150	\$150

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts</u> (000)	<u>2005-06 Estimate</u> (000)	<u>2006-07 Forecast</u> (000)
Solid Waste Management Fund	SRO	\$139	\$139	\$139
Surplus Property Account	SRO	\$3,014	\$3,014	\$3,014
Upland Easement Rights	GEN	\$2,148	\$2,148	\$2,148
Office of General Services - Subtotal		\$158,981	\$158,981	\$158,981
Department of Health				
Adult Home Quality Enhancement Fund-new Account	SRO	\$0	\$270	\$270
Alternative Delivery System	GEN	\$24	\$8	\$8
Application for Construction	SRO	\$428	\$400	\$400
Approval of Construction	SRO	\$2,794	\$2,000	\$2,500
Article 6 PHL Penalties	SRO	\$0	\$0	\$0
Asbestos Safety Training Certificate Fee	SRO	\$311	\$271	\$298
Assisted Living Residence Quality Oversight Acct-new Account	SRO	\$0	\$850	\$400
Biennial Physicians Registration Fee	SRO	\$23,229	\$21,842	\$22,497
Clinical Laboratory Reference System Assessment	SRO	\$15,976	\$17,000	\$17,000
Controlled Substance Violations	GEN	\$67	\$30	\$30
Criminal History Record Check	SRO	\$0	\$1,500	\$1,500
CSFP Salvage Account	SRO	\$0	\$2	\$2
Elap Account/ Returned Check	SRO	\$0	\$0	\$0
EMS Violations	GEN	\$11	\$9	\$9
Environmental Laboratory Approval Fee	SRO	\$3,024	\$3,500	\$3,500
Environmental Laboratory Approval Refund and Reimbursement	SRO	\$0	\$0	\$0
EPIC Fee Plan	SRO	\$260,949	\$219,797	\$230,000
EPIC Refund/ Reimbursement	SRO	\$13	\$8	\$0
EPIC Refund/ Reimbursement Plan	SRO	\$5,825	\$2,804	\$3,500
Fees From Operators	SRO	\$69	\$71	\$75
FOIL Fee Schedule	GEN	\$52	\$20	\$20
Funeral Directing Registration	SRO	\$579	\$500	\$500
Funeral Directing Violations	SRO	\$65	\$60	\$50
HCRA - 1% Statewide Assessment - Bad Debt and Charity Care and Capital Statewide Pool	SRO	\$230,370	\$240,059	\$240,059
HCRA - Covered Lives Assessment	SRO	\$701,320	\$725,000	\$775,000
HCRA - Patient Services Payments/Surcharges	SRO	\$1,556,620	\$1,636,866	\$1,636,866
HNHF Article 28 A/B Development Fee	SRO	\$2,614	\$2,312	\$2,382
HNHF Article 28 A/B Operational Fee	SRO	\$8,302	\$7,285	\$7,503
HNHF Dormitory Authority Homes for the Aging Development Fee	SRO	\$0	\$0	\$0
HNHF Dormitory Authority Homes for the Aging Refinancing Fee	SRO	\$0	\$0	\$0
HNHF Federally Aided Refinancing Fee	SRO	\$3,053	\$0	\$0
HNHF Federally-aided Development Fee	SRO	\$3,319	\$478	\$492
HNHF IDA Development Fee	SRO	\$334	\$1,055	\$404
HNHF IDA Refinancing Fees	SRO	\$0	\$321	\$331
Home Health Agency Violations	GEN	\$27	\$12	\$12
Hospital Violations	GEN	\$307	\$150	\$150
Local Public Health Services Refund/Reimbursement	SRO	\$0	\$0	\$0
Nurses Aide Certification	SRO	\$3,529	\$3,200	\$3,400
Patient Abuse	GEN	\$59	\$30	\$30
Penalties for Professional Misconduct	SRO	\$482	\$500	\$500
Penalty for Violation of Public Health Law	SRO	\$309	\$310	\$320
Provider Assessments	SRO	\$387,510	\$569,200	\$569,200
Public Health Licensing Fee	SRO	\$805	\$810	\$825
Quality of Care Improvement Account- new account	SRO	\$0	\$750	\$750
Radiological Health X-Ray Facility Inspection Fee	SRO	\$2,054	\$2,259	\$2,485
Radon Detection Device Fee	SRO	\$11	\$12	\$14
Remit to Hold Mass Gathering	GEN	\$25	\$20	\$20
SPARCS Annual Fee	SRO	\$4,964	\$3,652	\$3,762
State Aid Audit Exception	SRO	\$0	\$800	\$800
Tobacco Enforcement	SRO	\$0	\$0	\$0
Vital Statistic Fee	SRO	\$4,496	\$3,835	\$3,877
WIC Civil Monetary Penalties	SRO	\$2,145	\$2,000	\$2,000
Department of Health - Subtotal		\$3,226,071	\$3,471,859	\$3,533,740

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05</u> <u>Receipts</u> (000)	<u>2005-06</u> <u>Estimate</u> (000)	<u>2006-07</u> <u>Forecast</u> (000)
<u>New York State Higher Education Services Corporation</u>				
Administrative Account Cash Transfer	AGY	\$169,000	\$140,000	\$140,000
New York State Higher Education Services Corporation - Subtotal		\$169,000	\$140,000	\$140,000
<u>Division of Housing and Community Renewal</u>				
BuyOut Application Fee	GEN	\$44	\$20	\$20
Emergency Tenant Protection Act	SRO	\$519	\$600	\$600
Fees and Penalties	GEN	\$56	\$25	\$25
Low Income Housing Monitoring	SRO	\$1,226	\$1,200	\$1,200
Maximum Base Rent	SRO	\$636	\$400	\$400
Misc Other Fees	GEN	\$20	\$18	\$18
Mortgage Service	SRO	\$4,632	\$6,904	\$6,000
Rent Stabilization	SRO	\$34,156	\$35,194	\$35,194
Section 8 Administrative Fees	SRF	\$529	\$6,355	\$3,155
Tax Credit Application	SRO	\$1,030	\$1,000	\$1,000
Division of Housing and Community Renewal - Subtotal		\$42,847	\$51,716	\$47,612
<u>Office of the Inspector General</u>				
Seized Assets	SRO	\$0	\$50	\$75
Office of the Inspector General - Subtotal		\$0	\$50	\$75
<u>Insurance Department</u>				
Assessment to support department operations	SRO	\$166,902	\$174,100	\$176,860
Fines and Penalties	GEN	\$5,264	\$5,422	\$5,585
Fire Insurance Fee	GEN	\$14,183	\$14,609	\$15,047
License and Accreditation Fees	GEN	\$8,320	\$10,720	\$11,016
Misc other fees	GEN	\$1,732	\$1,784	\$1,788
Motor Vehicle Law Enforcement Fee	SRO	\$71,767	\$64,000	\$12,000
Other Assessments	SRO	\$176	\$177	\$183
Reimbursement for Company Examinations	SRO	\$9,450	\$9,639	\$9,832
Insurance Department - Subtotal		\$277,794	\$280,451	\$232,310
<u>Interest on Lawyer Account</u>				
Interest on Lawyer Account	SRO	\$9,530	\$13,000	\$0
Interest on Lawyer Account - Subtotal		\$9,530	\$13,000	\$0
<u>Temporary State Commission of Investigation</u>				
U.S. Dept. of the Treasury & U.S. Dept. of Justice, Asset Forfeiture & Money Laundering Section	SRO	\$577	\$156	\$0
Temporary State Commission of Investigation - Subtotal		\$577	\$156	\$0
<u>Judiciary</u>				
Accounting Actions (Surrogate Courts)	GEN	\$1,380	\$1,500	\$1,500
Accounting Actions (Surrogate Courts)	SRO	\$460	\$500	\$500
Attorney Registration Fee	SRO	\$36,000	\$26,000	\$36,000
Bail Interest (City & District Courts)	GEN	\$25	\$25	\$25
Bail Poundage	GEN	\$233	\$240	\$240
Civil Appeal (Appellate Division)	GEN	\$904	\$950	\$950
Civil Appeal (Appellate Division)	SRO	\$904	\$950	\$950
Commercial Claim Filing Fee (City & District Courts)	GEN	\$284	\$285	\$285
Commercial Claim Filing Fee (City & District Courts)	SRO	\$284	\$285	\$285
Copies of Records (Supreme and County Courts)	GEN	\$2,250	\$4,000	\$4,000
Crime Victim Assistance Fee	GEN	\$2,700	\$3,200	\$3,200
Criminal History and Other Searches	GEN	\$2,338	\$2,500	\$2,500
Criminal History and Other Searches	SRO	\$24,310	\$26,000	\$26,000
Criminal History and Other Searches	SRO	\$7,948	\$8,500	\$8,500
Criminal History and Other Searches	SRO	\$12,155	\$13,000	\$13,000
DWI Supplemental Surcharge	GEN	\$463	\$500	\$500
Encon Fines and Penalties (1)	SRO	\$114	\$120	\$120
Encon Fines and Penalties (2)	SRO	\$140	\$30	\$30
Encon Fines and Penalties (4)	SRO	\$9	\$10	\$10
Encon Fines and Penalties (5)	GEN	\$54	\$5	\$5
Filing of Claim (Court of Claims)	GEN	\$61	\$61	\$61
First Instance Proceeding (Appellate Courts)	GEN	\$49	\$53	\$53
First Instance Proceeding (Appellate Courts)	SRO	\$49	\$53	\$53

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts (000)</u>	<u>2005-06 Estimate (000)</u>	<u>2006-07 Forecast (000)</u>
First Paper (City & District Courts)	GEN	\$15,925	\$18,200	\$19,500
First Paper (City & District Courts)	SRO	\$8,575	\$9,800	\$10,500
Jury Demand (City and District Courts)	GEN	\$304	\$325	\$325
Jury Demand (City and District Courts)	SRO	\$164	\$175	\$175
Jury Trail Filing Demand (Supreme and County Courts)	GEN	\$2,597	\$3,300	\$3,300
Jury Trail Filing Demand (Supreme and County Courts)	SRO	\$866	\$1,100	\$1,100
Mandatory Surcharge (Felony)	GEN	\$1,360	\$1,360	\$1,360
Mandatory Surcharge (Misdemeanor)	GEN	\$2,200	\$2,400	\$2,400
Motion/Cross Motion (Appellate)	GEN	\$119	\$120	\$120
Motion/Cross Motion (Appellate)	SRO	\$119	\$120	\$120
Note of Issue / Request for Judicial Intervention (Supreme and County Courts)	GEN	\$16,684	\$16,800	\$16,800
Note of Issue / Request for Judicial Intervention (Supreme and County Courts)	SRO	\$7,150	\$7,200	\$7,200
Notice of Appeal (Supreme and County Courts)	GEN	\$504	\$550	\$550
Notice of Appeal (Supreme and County Courts)	SRO	\$504	\$550	\$550
Other Surrogate	GEN	\$3,675	\$3,750	\$3,750
Other Surrogate	SRO	\$1,225	\$1,250	\$1,250
Parking Violation Surcharge	GEN	\$914	\$1,000	\$1,000
Probate Administration (Surrogate Courts)	GEN	\$15,848	\$17,250	\$17,250
Probate Administration (Surrogate Courts)	SRO	\$5,283	\$5,750	\$5,750
Sex Offender Registration / DNA Databank Fees	GEN	\$70	\$160	\$160
Stipulation of Settlement / Voluntary Discontinuance (Supreme and County Courts)	GEN	\$1,850	\$2,000	\$2,000
Stipulation of Settlement / Voluntary Discontinuance (Supreme and County Courts)	SRO	\$1,850	\$2,000	\$2,000
Supreme and County Court Index Number	GEN	\$33,960	\$33,960	\$33,960
Supreme and County Court Index Number	SRO	\$22,640	\$22,640	\$22,640
Termination of Suspension Fee	SRO	\$729	\$950	\$1,000
Various (City & District Courts)	GEN	\$2,470	\$2,600	\$2,600
Various (City & District Courts)	SRO	\$1,330	\$1,400	\$1,400
Various (Supreme and County Courts Outside NYC)	GEN	\$17	\$25	\$25
VTL Felony Surcharge	GEN	\$430	\$520	\$520
VTL Misdemeanor Surcharge	GEN	\$1,780	\$1,800	\$1,800
VTL Other Surcharge	GEN	\$7,810	\$9,000	\$9,000
Judiciary - Subtotal		\$252,063	\$256,821	\$268,871
Department of Labor				
Amusement Device	SRO	\$72	\$115	\$115
Apparel Registration - Initial	SRO	\$86	\$121	\$121
Apparel Registration - Renewal	SRO	\$319	\$284	\$284
Asbestos Certification - Air Sampling Tech	SRO	\$89	\$98	\$98
Asbestos Certification - Asbestos Handler	SRO	\$259	\$306	\$306
Asbestos Certification - Asbestos Handler	SRO	\$282	\$311	\$311
Asbestos Certification - Inspector	SRO	\$233	\$231	\$231
Asbestos Certification - Management Planner	SRO	\$86	\$88	\$88
Asbestos Certification - Operation and Maintenance	SRO	\$73	\$84	\$84
Asbestos Certification - Project Designer	SRO	\$82	\$84	\$84
Asbestos Certification - Project Monitor	SRO	\$241	\$240	\$240
Asbestos Certification - Restricted Handler	SRO	\$18	\$19	\$19
Asbestos -Licenses - Initial/Renewal	SRO	\$362	\$589	\$589
Asbestos Proj. Notification	SRO	\$5,827	\$5,685	\$5,685
Blaster Certificate of Competency	SRO	\$12	\$32	\$32
Boiler Certificate of Competency	SRO	\$6	\$10	\$10
Boiler Inspection Penalty	GEN	\$17	\$15	\$15
Boiler Inspections - Antique External	SRO	\$0	\$0	\$0
Boiler Inspections - Antique Internal	SRO	\$1	\$1	\$1
Boiler Inspections - External	SRO	\$832	\$925	\$925
Boiler Inspections - Insurance Co Inspection RPTS	SRO	\$760	\$1,219	\$1,219
Boiler Inspections - Internal	SRO	\$121	\$159	\$159
Boiler Inspections - Miniature	SRO	\$1	\$2	\$2
Boiler Inspector National Quarterly Exam	SRO	\$0	\$1	\$1
Boiler Shop Survey	SRO	\$5	\$8	\$8

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05</u> <u>Receipts</u> (000)	<u>2005-06</u> <u>Estimate</u> (000)	<u>2006-07</u> <u>Forecast</u> (000)
Building Plans Exam	SRO	\$11	\$31	\$31
Child Performer Cert of Eligibility 499 Seats or Fewer	SRO	\$3	\$2	\$2
Child Performer Cert of Eligibility 500 or More	SRO	\$75	\$73	\$73
Civil Penalty - Apparel	GEN	\$105	\$80	\$80
Civil Penalty - Asbestos	GEN	\$630	\$350	\$350
Civil Penalty - Child Labor	GEN	\$87	\$150	\$150
Civil Penalty - Child Performer	SRO	\$0	\$2	\$2
Civil Penalty - Farm	GEN	\$4	\$2	\$2
Civil Penalty - Homework	GEN	\$11	\$5	\$5
Civil Penalty - Min Wage/Wage Claim	GEN	\$44	\$45	\$45
Civil Penalty - Non Monetary	GEN	\$199	\$250	\$250
Civil Penalty - Prevailing Wage	GEN	\$394	\$700	\$700
Commissary Operator Permits	SRO	\$0	\$0	\$0
Crane Operator Cert of Competency	SRO	\$88	\$125	\$125
Defense Dispensation	SRO	\$0	\$1	\$1
Easement - Day of Rest	SRO	\$3	\$3	\$3
Employment Agency (Cycle)	SRO	\$39	\$8	\$8
Enforcement Fund Transfers	SRO	\$1,991	\$1,976	\$1,976
Explosives Deal, Sale, Manufacture	SRO	\$11	\$12	\$12
Explosives Magazine, Storage	SRO	\$30	\$30	\$30
Explosives Own, Possess, Transport	SRO	\$17	\$14	\$14
Farm Grower Permits	SRO	\$5	\$7	\$7
Farm Labor Contractor Permits	SRO	\$10	\$18	\$18
Industrial Homework Certificates - Employer	SRO	\$0	\$1	\$1
Industrial Homework Certificates - Homeworke	SRO	\$0	\$2	\$2
Laser Operator Certificate of Competency	GEN	\$23	\$24	\$24
Laser Reg- High Mobile Hagh STAT; Unapproved Low	GEN	\$18	\$29	\$29
Permanent Variance	SRO	\$643	\$613	\$613
PESH Failure to Comply	SRO	\$162	\$430	\$430
Professional Employer Organization Exemption	GEN	\$2	\$0	\$0
Professional Employer Organization Registration - Initial	GEN	\$107	\$65	\$65
Professional Employer Organization Registration - Renewal	GEN	\$10	\$0	\$0
Public Assembly	SRO	\$148	\$154	\$154
Radiological Health License Cat #1	GEN	\$81	\$303	\$303
Radiological Health License Cat #2	GEN	\$241	\$579	\$579
Radiological Health License Cat #3	GEN	\$6	\$7	\$7
Scaffold Plan Examination (Window Cleaning Equip)	SRO	\$7	\$10	\$10
Tramways Aerial	SRO	\$5	\$11	\$11
Tramways Surface	SRO	\$3	\$7	\$7
Workplace Safety and Loss Certification Application	SRO	\$1	\$2	\$2
Workplace Safety and Loss Certification Fee	SRO	\$17	\$59	\$59
Workplace Safety and Loss DOL Consultation	SRO	\$0	\$0	\$0
Written Assurances	SRO	\$1	\$3	\$3
Department of Labor - Subtotal		\$15,015	\$16,806	\$16,806
Lake George Park Commission				
Boats, Docks, Moorings	SRO	\$843	\$850	\$850
Miscellaneous	SRO	\$135	\$190	\$156
Permits	SRO	\$17	\$15	\$15
Lake George Park Commission - Subtotal		\$995	\$1,055	\$1,021
Department of Law				
Broker Dealer Exemption Fee	SRO	\$50	\$0	\$0
Broker Dealer Statement Fee	SRO	\$5,615	\$0	\$0
Charities Registration Fee	GEN	\$0	\$0	\$0
Charities Report Filing Fee	GEN	\$0	\$0	\$0
Charities Report Filing Fee	GEN	\$0	\$0	\$0
Commodities Broker Dealer Registration Fee	SRO	\$0	\$0	\$0
Commodities Salesman Registration Fee	SRO	\$1	\$0	\$0
Commodities Salesman Supplemental Statement Fee	SRO	\$0	\$0	\$0
Franchise Agent Fee	SRO	\$9	\$12	\$14
Franchise Amendment Fee	SRO	\$159	\$162	\$172
Franchise Registrations Fee	SRO	\$215	\$236	\$253

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts</u> (000)	<u>2005-06 Estimate</u> (000)	<u>2006-07 Forecast</u> (000)
Investment Advisory Statement Fee	SRO	\$13	\$161	\$120
Litigation Settlement - Fines, Penalties & Forfeitures	SRO	\$23,909	\$20,061	\$15,512
"No Filing Required" Fee	SRO	\$31	\$40	\$38
Principals Fee	SRO	\$34	\$0	\$0
Professional Fund Raiser Registration Fee	GEN	\$420	\$420	\$420
Professional Solicitor Registration Fee	GEN	\$125	\$125	\$125
Real Estate Broker Dealer Statement Fee	SRO	\$314	\$0	\$0
Real Estate Finance "No Filing Required" Fee	SRO	\$67	\$73	\$78
Real Estate Finance Syndication Amendments	SRO	\$5	\$5	\$5
Real Estate Finance Syndication Offerings	SRO	\$10,238	\$10,545	\$10,861
Real Estate Syndication Exemptions	SRO	\$1,125	\$0	\$0
Salesman Statement Fee	SRO	\$80	\$85	\$88
Salesman Supplemental Statement Fee	SRO	\$56	\$0	\$0
Securities Takeover Fee	SRO	\$2	\$0	\$0
Department of Law - Subtotal		\$42,467	\$31,925	\$27,686
Temporary State Commission on Lobbying				
Civil Penalty Fine	SRO	\$56	\$125	\$250
Client Filing Fee	GEN	\$177	\$220	\$440
Foil Fees	GEN	\$0	\$0	\$0
Late Filing Fee	GEN	\$62	\$25	\$25
Lobbyist Registration Fee	GEN	\$492	\$300	\$1,200
Temporary State Commission on Lobbying - Subtotal		\$788	\$670	\$1,915
Division of the Lottery				
VLT Revenue for Education	SRO	\$141,791	\$0	\$0
Division of the Lottery - Subtotal		\$141,791	\$0	\$0
Main Office Parks & Recreation				
Boating Fees/Marina/Permits	CPO	\$526	\$595	\$595
Boating Fees/Marina/Permits	SRO	\$1,020	\$1,155	\$1,155
Boating Safety & Inspections	SRO	\$288	\$200	\$200
Boating Safety & Inspections	SRO	\$0	\$0	\$0
Cabins	CPO	\$1,168	\$1,352	\$1,352
Cabins	SRO	\$2,267	\$2,624	\$2,624
Camping	CPO	\$2,514	\$3,026	\$3,026
Camping	SRO	\$4,881	\$5,874	\$5,874
Concession Licenses	CPO	\$2,285	\$2,448	\$2,448
Concession Licenses	SRO	\$4,435	\$4,752	\$4,752
Empire Passport Sales	CPO	\$1,210	\$1,360	\$1,360
Empire Passport Sales	SRO	\$2,348	\$2,640	\$2,640
General Admission	CPO	\$1,868	\$1,853	\$1,853
General Admission	SRO	\$3,627	\$3,597	\$3,597
Golf	CPO	\$5,254	\$6,035	\$6,035
Golf	SRO	\$10,200	\$11,715	\$11,715
Pool Admissions	CPO	\$283	\$340	\$340
Pool Admissions	SRO	\$549	\$660	\$660
Real Estate Rentals	CPO	\$655	\$564	\$564
Real Estate Rentals	SRO	\$1,271	\$1,096	\$1,096
Reservation Fees	SRO	\$1,492	\$1,375	\$1,375
Special Permits	CPO	\$793	\$782	\$782
Special Permits	SRO	\$1,539	\$1,518	\$1,518
Vehicle Use	CPO	\$4,923	\$5,160	\$5,160
Vehicle Use	SRO	\$9,556	\$10,016	\$10,016
Main Office Parks & Recreation - Subtotal		\$64,950	\$70,735	\$70,735
Medicaid Fraud Control				
Medicaid Fraud Revenue and Recoveries	SRO	\$0	\$0	\$0
Seized Assets (MFCU)	SRO	\$0	\$0	\$22
Medicaid Fraud Control - Subtotal		\$0	\$0	\$22
Office of Mental Health				
Cap Improv Funds 12/1/99 Reimb	CPO	\$58,708	\$25,879	\$47,300
Community Stores	ENT	\$1,316	\$502	\$1,220
Cook Chill Acct	SRO	\$929	\$289	\$800
DASNY Bond Proceeds-Local	AGY	\$1,538	\$38,872	\$57,148

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts (000)</u>	<u>2005-06 Estimate (000)</u>	<u>2006-07 Forecast (000)</u>
Fingerprint	AGY	\$133	\$65	\$88
Gifts and Donations	SRO	\$534	\$23	\$0
Grants and Bequests-Hudson R	SRO	\$0	\$0	\$0
Medication Grant Program Recovery	SRO	\$232	\$500	\$500
MH Cap Improv Fund DASNY/OMH Admin	CPO	\$8,582	\$5,879	\$8,582
Misc Revenue	GEN	\$152	\$224	\$0
Miscellaneous	GEN	\$378	\$281	\$0
Research Recovery Account	SRO	\$3,560	\$3,560	\$3,560
Sheltered Workshop	ENT	\$2,165	\$766	\$2,168
Utica Print	INT	\$639	\$257	\$700
Office of Mental Health - Subtotal		\$78,867	\$77,096	\$122,066
<u>Office of Mental Retardation and Developmental Disabilities</u>				
Genetic Counseling	SRO	\$50	\$50	\$50
Gifts and Donations	SRO	\$248	\$70	\$500
Joint Clinic Operating Account	SRO	\$17,829	\$17,000	\$14,000
Mental Hygiene Community Stores Account	ENT	\$650	\$974	\$974
MH Community Stores	ENT	\$648	\$810	\$974
OMRDD Copy Center Account	INT	\$139	\$150	\$150
Provider of Service Assessment	GEN	\$112,200	\$123,000	\$126,700
Sheltered Workshop Revenue	ENT	\$1,922	\$2,341	\$2,774
VOICF/HCBS Advance Account	SRO	\$294	\$500	\$500
Office of Mental Retardation and Developmental Disabilities - Subtotal		\$133,979	\$144,895	\$146,622
<u>Division of Military and Naval Affairs</u>				
Armory Rental	SRO	\$3,811	\$3,606	\$2,206
Camp Smith Billeting	SRO	\$156	\$147	\$150
Distance Learning	SRO	\$0	\$0	\$3
Education Incentive	SRO	\$1,082	\$2,000	\$2,000
Military Fines	SRO	\$0	\$0	\$0
Seized Asset	SRO	\$131	\$151	\$152
Youth, Bequest & Donations	SRO	\$29	\$7	\$7
Division of Military and Naval Affairs - Subtotal		\$5,209	\$5,911	\$4,518
<u>State of New York Mortgage Agency</u>				
Miscellaneous Receipts	GEN	\$225,000	\$50,000	\$0
State of New York Mortgage Agency - Subtotal		\$225,000	\$50,000	\$0
<u>Department of Motor Vehicles</u>				
Agriculture Registration	SRO	\$8	\$8	\$8
Animal Control Registration	SRO	\$59	\$59	\$59
Appeal Fees	GEN	\$4	\$5	\$5
ATV Dealer Trail Fee	SRO	\$0	\$1,343	\$2,475
Autism Registration	SRO	\$1	\$3	\$5
Boat Safety Education Surcharge	SRO	\$1,244	\$1,244	\$1,244
Bus Company Civil Penalties	GEN	\$461	\$400	\$400
Bus Driver Applicant Processing Fee	GEN	\$36	\$36	\$36
Conservation Registration	CPO	\$171	\$171	\$171
Council of the Arts Registration	SRO	\$11	\$11	\$11
Cultural Institutions & Museums Registration	SRO	\$0	\$3	\$5
Dental Registration	SRO	\$4	\$1	\$1
Discover Queens Registration	SRO	\$0	\$2	\$3
Drive for the Cure Registration	SRO	\$83	\$83	\$83
Drive out Diabetes Registration	SRO	\$7	\$7	\$8
Electronic Search Fee	CPO	\$41,956	\$50,110	\$56,700
Electronic Search Fee	GEN	\$0	\$0	\$0
Erie Canal Registration	SRO	\$1	\$1	\$1
Express Mail Reimbursement	GEN	\$0	\$1,000	\$1,500
Federal Seized Assets Program	SRO	\$0	\$50	\$25
Fingerprint Fees	AGY	\$887	\$1,210	\$1,210
Fingerprint Fees	GEN	\$0	\$0	\$0
FS Assessment	SRO	\$23,314	\$26,000	\$26,520
FS Buy Back	GEN	\$18,965	\$22,650	\$27,225
FS Buy Back	SRO	\$6,322	\$7,550	\$9,075
Heavy Vehicle Fee	SRO	\$1,185	\$1,185	\$1,185

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts (000)</u>	<u>2005-06 Estimate (000)</u>	<u>2006-07 Forecast (000)</u>
Highway Safety Section 402 Acct.	SRF	\$18,961	\$19,000	\$19,000
Highway Safety Section 403 Acct.	SRF	\$492	\$500	\$500
I Love NY Registration	SRO	\$11	\$12	\$12
Keep Kids Free of Drugs Registration	SRO	\$3	\$3	\$3
Life Pass it on Registration	SRO	\$3	\$5	\$5
Manual Search Fee	CPO	\$17,063	\$21,206	\$24,700
Manual Search Fee	GEN	\$0	\$0	\$0
Marine & Coastal District Registration	SRO	\$10	\$10	\$10
Mobile Source Fund Emissions Inspection	SRO	\$33,480	\$33,480	\$33,480
Motorcycle Safety Fund Fees	SRO	\$1,839	\$1,076	\$1,085
Multiple Sclerosis Registration	SRO	\$6	\$6	\$6
NYS Seized Assets Program	SRO	\$170	\$1,700	\$300
Olympic Spirit Registration	SRO	\$15	\$15	\$16
Parking Scofflaw Suspension Fee	GEN	\$81	\$92	\$92
Peace at Home Registration	SRO	\$3	\$3	\$3
Point Insurance Reduction Course Participation Fee	SRO	\$1,539	\$1,515	\$1,600
Sale of recovered stolen parts	GEN	\$11	\$11	\$11
Sale of the Registration File	CPO	\$894	\$894	\$894
Sale of the Registration File	GEN	\$0	\$0	\$0
Sale of V & T Law Books	GEN	\$23	\$24	\$61
Self Insurance Notification Fee	GEN	\$217	\$100	\$100
Snowmobile Trail Fund Fee	SRO	\$5,578	\$5,500	\$5,500
Subpoena Fees	GEN	\$11	\$11	\$11
TSA Hazmat Background Check	AGY	\$28	\$163	\$163
TVB Receipts	GEN	\$122,355	\$123,000	\$123,000
Undelivered Disbursements	GEN	\$12	\$20	\$20
World University Games Registration	SRO	\$0	\$0	\$0
Department of Motor Vehicles - Subtotal		\$297,521	\$321,477	\$338,527
Organized Crime Task Force				
Seized Assets (State)	SRO	\$299	\$152	\$579
Organized Crime Task Force - Subtotal		\$299	\$152	\$579
Division of Parole				
Supervision Fee	GEN	\$486	\$1,500	\$0
Division of Parole - Subtotal		\$594,810	\$642,097	\$674,416
Public Employment Relations Board				
Disciplinary Arbitration Filing Fee	SRO	\$28	\$16	\$16
Foil Request Fees	SRO	\$7	\$3	\$3
Mediation/Arbitration Filing Fee	SRO	\$66	\$65	\$65
Newsletter Sales	SRO	\$2	\$4	\$4
Publications Sales	SRO	\$9	\$15	\$15
Voluntary Grievance Arbitration Filing Fee	SRO	\$1	\$1	\$1
Public Employment Relations Board - Subtotal		\$113	\$104	\$104
Public Service Department				
Customer Owned Currency Operated Telephone Account	SRO	\$240	\$108	\$0
Electric Generator Intervenor Account	SRO	\$0	\$136	\$0
Federal Pipeline Safety Account	SRF	\$1,477	\$954	\$0
General Fund	GEN	\$30	\$0	\$0
Underground Facility Safety Training Account	SRO	\$114	\$31	\$0
Public Service Department - Subtotal		\$1,861	\$1,229	\$0
Commission on Quality of Care and Advocacy for Persons With Disabilities				
Conference Fee	SRO	\$0	\$0	\$40
Disability and Technical Assistance Fee	SRO	\$157	\$186	\$192
Publication Fee	ENT	\$0	\$1	\$1
TRAID Enterprise Fee	ENT	\$3	\$5	\$5
Commission on Quality of Care and Advocacy for Persons With Disabilities - Subtotal		\$160	\$191	\$237

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05</u> <u>Receipts</u> (000)	<u>2005-06</u> <u>Estimate</u> (000)	<u>2006-07</u> <u>Forecast</u> (000)
<u>Office of Real Property Services</u>				
Oil and Gas Fee	SRO	\$38	\$40	\$40
Railroad Ceiling Fee	SRO	\$279	\$305	\$305
Real Property Transfer Fee	SRO	\$28,388	\$39,000	\$39,000
RPS Fee	SRO	\$1,056	\$1,100	\$1,100
Special Franchise Fee	SRO	\$2,571	\$2,300	\$2,300
Office of Real Property Services - Subtotal		\$32,333	\$42,745	\$42,745
<u>State Emergency Management Office</u>				
DPC Conference	SRO	\$26	\$31	\$31
Foil Requests	SRO	\$0	\$0	\$0
Love Canal Judgment	SRO	\$0	\$0	\$0
Oneida Judgment	SRO	\$1	\$2	\$2
Radiological Emergency Preparedness	SRO	\$3,300	\$3,300	\$3,300
State Emergency Management Office - Subtotal		\$3,327	\$3,334	\$3,334
<u>State Fair</u>				
State Fair - Advance & Group Ticket Sales	ENT	\$1,566	\$1,500	\$1,500
State Fair - Beer Cups	AGY	\$18	\$18	\$18
State Fair - Beer Vendors	ENT	\$219	\$219	\$219
State Fair - Entry Competitions	ENT	\$75	\$74	\$74
State Fair - General Admission	ENT	\$636	\$620	\$620
State Fair - Grandstand Fair Events	ENT	\$2,434	\$2,400	\$2,400
State Fair - Horse Shows	ENT	\$207	\$205	\$205
State Fair - Industrial Exhibit Authority	ENT	\$3,234	\$3,200	\$3,200
State Fair - Parking Operations	ENT	\$1,122	\$1,100	\$1,100
State Fair - Restaurants	ENT	\$43	\$43	\$43
State Fair - Space Rental	ENT	\$2,829	\$2,800	\$2,800
State Fair - Stall.Stable Rentals	ENT	\$53	\$44	\$44
State Fair - Tram Ride	ENT	\$40	\$38	\$38
State Fair - Subtotal		\$12,477	\$12,261	\$12,261
<u>Division of State Police</u>				
Accident Reports/Photo Fees	SRO	\$725	\$725	\$725
Asset Forfeitures	SRO	\$10,995	\$8,000	\$8,000
Cellular 911 Surcharge	SRO	\$0	\$0	\$0
Regulation of Indian Gaming	SRO	\$6,958	\$10,000	\$14,000
Thruway Authority Adm Offset	GEN	\$1,500	\$1,500	\$1,500
Tower Site Rentals	SRO	\$525	\$0	\$160
Trooper Candidate Exam Fee	SRO	\$303	\$10	\$200
Division of State Police - Subtotal		\$21,006	\$20,235	\$24,585
<u>Department of State</u>				
Administrative Rules	GEN	\$20	\$20	\$20
Athletic Commission Fees	GEN	\$0	\$0	\$0
Athletic Commission Fees	SRO	\$47	\$36	\$36
Athletic Commission Fines	SRO	\$1	\$12	\$5
Campus Fire Safety Fines	GEN	\$128	\$128	\$128
Cemeteries Assessment	SRO	\$144	\$155	\$155
Cemeteries Vandalism	SRO	\$414	\$456	\$456
Codes Building Permits	SRO	\$69	\$63	\$63
Codes Insignias	SRO	\$454	\$427	\$427
Codes Plan Approval	SRO	\$149	\$120	\$120
Codes Variance Petitions	SRO	\$80	\$92	\$92
Corporate Officers	SRO	\$1,895	\$1,819	\$1,819
Corporations 900 #	SRO	\$50	\$50	\$50
Corporations Fees	SRO	\$37,653	\$34,700	\$34,700
Corporations Miscellaneous Records & NYC County Clerk filings	SRO	\$2,196	\$2,086	\$2,086
Corporations State Records Fees	SRO	\$65	\$2	\$2
Corporations Summons & NYC Summons	SRO	\$2,918	\$2,900	\$2,900
Ethics Commission Penalties	GEN	\$62	\$10	\$10
Licensing Alarm Installers	SRO	\$191	\$170	\$170
Licensing Apartment Information Vendors	SRO	\$14	\$14	\$14
Licensing Appearance Enhancement	SRO	\$2,099	\$2,072	\$2,072
Licensing Armored Car Guards and Carriers	SRO	\$29	\$28	\$28

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05 Receipts</u> (000)	<u>2005-06 Estimate</u> (000)	<u>2006-07 Forecast</u> (000)
Licensing Athlete Agents	SRO	\$3	\$2	\$2
Licensing Barbers	SRO	\$220	\$212	\$212
Licensing Black Car Operators	SRO	\$26	\$24	\$24
Licensing Cease & Decist List	SRO	\$37	\$33	\$33
Licensing Change of Name, Address, Status	SRO	\$483	\$402	\$402
Licensing Coin Processors	SRO	\$0	\$0	\$0
Licensing Examinations	SRO	\$1,291	\$1,200	\$1,200
Licensing Hearing Aid Dealers & Dispensers	SRO	\$64	\$64	\$64
Licensing Notary Public	SRO	\$608	\$1,200	\$1,200
Licensing Private Investigators, and Watch, Guard and Patrol Agencies	SRO	\$918	\$864	\$864
Licensing Real Estate Brokers/Salesman	SRO	\$6,039	\$5,635	\$5,635
Licensing Real Estate Schools	SRO	\$159	\$150	\$150
Licensing Security Guards	SRO	\$3,036	\$2,898	\$2,898
Licensing State Certified and Licensed Real Estate Appraisers	SRO	\$1,007	\$1,001	\$1,001
Licensing Telemarketers	SRO	\$4	\$4	\$4
Licensing Upholstery & Bedding Seller Registration	SRO	\$106	\$84	\$84
NYS Fire Academy Training Fees	SRO	\$697	\$768	\$768
Pet Cemeteries Licenses	SRO	\$5	\$12	\$3
Sale of Corp Database	SRO	\$188	\$210	\$210
Subdivided Land Filings	GEN	\$58	\$45	\$45
Uniform Commercial Code Services	SRO	\$8,013	\$6,400	\$5,800
Department of State - Subtotal		\$71,641	\$66,567	\$65,951
Department of Taxation and Finance				
DOL Penalties(CARTS)	SRF	\$5,422	\$5,000	\$5,000
Motor Fuel Quality(12A Petroleum Testing Fees)	GEN	\$2,914	\$2,741	\$2,900
PIT-Admin Charges	GEN	\$0	\$0	\$0
PIT-Admin Charges	SRO	\$38,048	\$38,306	\$38,000
Sales Tax Admin	GEN	\$59,978	\$56,390	\$57,000
Uncashed OTB Tickets	GEN	\$3,388	\$3,922	\$3,500
Uncashed Pari-Mutuel	GEN	\$2,087	\$1,932	\$2,000
Wireless Surcharge	GEN	\$56,233	\$57,520	\$57,400
Wireless Surcharge	SRO	\$80,921	\$82,772	\$82,600
Department of Taxation and Finance - Subtotal		\$248,992	\$248,584	\$248,400
Department of Transportation				
Blanket Insurance - Special Hauling Permits	CPO	\$122	\$110	\$110
Campground Signs	CPO	\$3	\$3	\$3
Carrier Fees - Petitions	SRO	\$19	\$19	\$19
Divisible Load Permits	CPO	\$12,042	\$10,000	\$10,000
Engineering Charges on Highway Work Permits	CPO	\$2	\$200	\$200
Fines - Commercial Vehicle Safety	SRO	\$2,422	\$2,500	\$2,500
Fines - Section 385 of the Vehicle & Traffic Law	CPO	\$383	\$350	\$350
Fines & Penalties - Special Hauling	GEN	\$82	\$60	\$60
Highway Work	CPO	\$606	\$615	\$615
Highway Work - Major Commercial Development	CPO	\$18	\$75	\$100
ICC Vehicle Registration	SRO	\$8,079	\$7,000	\$7,000
Inspection Fee - Outdoor Advertising Signs	CPO	\$5	\$5	\$5
Landing Fees	SRO	\$263	\$250	\$250
Logo Signs	CPO	\$271	\$220	\$220
Outdoor Advertising Signs	CPO	\$582	\$330	\$330
Permits - Regional Hauling Surcharge	CPO	\$503	\$500	\$500
Rail Safety Fee	SRO	\$713	\$680	\$680
Removal of Illegal Signs	CPO	\$1	\$0	\$0
Signal Maintenance Fees	CPO	\$641	\$400	\$400
Signal Testing Fee	CPO	\$3	\$3	\$3
Ski Signs	CPO	\$3	\$3	\$3
Special Hauling Permits	CPO	\$5,872	\$5,000	\$5,000
Tourist Oriented Direction Signs	CPO	\$187	\$150	\$150
Towing	SRO	\$1,169	\$1,200	\$1,200
Towing - Region 10	CPO	\$647	\$750	\$750
Utility Highway Work Permits	CPO	\$1	\$650	\$875
Department of Transportation - Subtotal		\$34,639	\$31,073	\$31,323

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<u>Revenue Source Title</u>	<u>Fund Type</u>	<u>2004-05</u> <u>Receipts</u> (000)	<u>2005-06</u> <u>Estimate</u> (000)	<u>2006-07</u> <u>Forecast</u> (000)
Workers Compensation Board				
Administrative Assessment - DB	SRO	\$7,500	\$9,070	\$9,398
Administrative Assessment - IDP	SRO	\$41,624	\$44,064	\$44,064
Administrative Assessment - SI	SRO	\$6,330	\$7,985	\$8,264
Administrative Assessment - VAW	SRO	\$123	\$135	\$140
Administrative Assessment - VFF	SRO	\$110	\$1,214	\$1,257
Administrative Assessment - WC	SRO	\$157,400	\$168,348	\$174,240
Chiropractic Arbitration Request Fee	SRO	\$25	\$25	\$25
Claimant's Representative License Fee	GEN	\$14	\$13	\$13
Commissions from Public Telephones	GEN	\$0	\$0	\$0
Discrimination Penalty	GEN	\$0	\$0	\$0
Failure to File Form C-2	SRO	\$0	\$0	\$0
Failure to File Group Self Insured Trust Reports	SRO	\$95	\$35	\$35
Failure to File Notice of Election (Political Subdivision)	GEN	\$0	\$0	\$0
Failure to File Notice of Election (Political Subdivision)	GEN	\$0	\$0	\$0
Failure to File Required Notice	GEN	\$169	\$165	\$165
Failure to Provide Hospital Records	SRO	\$0	\$0	\$0
Federal Reimbursement - WTC	SRO	\$0	\$0	\$0
Finance Charges and Collection Fees	SRO	\$0	\$0	\$0
Fraudulent Practices	GEN	\$0	\$0	\$0
Frivolous Adjournment in Stale Case Part	SRO	\$6	\$5	\$5
General Refunds and Reimbursements	SRO	\$307	\$320	\$320
Hospital Arbitration Request Fee	SRO	\$2	\$2	\$2
Improper Use of Information	SRO	\$0	\$0	\$0
Improper Use of Information Obtained Under WCL 13-h(1)	SRO	\$0	\$0	\$0
Independent Medical Examiners Registration	SRO	\$4	\$3	\$3
Interest on Fund 339 B7	SRO	\$859	\$900	\$900
Laboratory Authorization License	SRO	\$2	\$2	\$2
Late Payment of Compensation Award	GEN	\$83	\$80	\$80
Late Payment of Conciliation Agreement	SRO	\$11	\$11	\$11
Late Payment of Medical Arbitration Assessment	GEN	\$312	\$310	\$310
Medical Arbitration Request Fee	SRO	\$79	\$70	\$70
Medical Bureau Authorization License	SRO	\$13	\$13	\$13
Medical Center Authorization License	SRO	\$0	\$0	\$0
Photocopy Fees	SRO	\$414	\$350	\$350
Podiatry Arbitration Request Fee	SRO	\$0	\$0	\$0
Psychologist Arbitration Request Fee	SRO	\$1	\$1	\$1
Publication Fee	SRO	\$1	\$0	\$0
Reimbursement Under Section 50-5f	SRO	\$302	\$50	\$50
Review Assessments (VF/VA)	GEN	\$0	\$0	\$0
Review Assessments (WC/DB)	GEN	\$237	\$230	\$230
Sale of Surplus Property	SRO	\$2	\$0	\$0
Self insurer's Representative License Fee	GEN	\$21	\$17	\$17
Subpoena Fee	SRO	\$24	\$20	\$20
Unnecessary Delay of Claim (WC/DB)	SRO	\$24	\$25	\$25
Workers Compensation Board - Subtotal		\$216,092	\$233,461	\$240,008

Key:

AGY = Agency Funds
 CPO = Capital Projects Fund
 ENT = Enterprise Funds
 GEN = General Fund
 INT = Internal Service Funds
 SFO & SRO = Special Revenue Funds

DATA APPENDIX

Department of Tax and Finance - New York State Tax Sourcebook — items included: State tax comparisons, State personal income tax component history, business tax component history, sales and use tax history, excise and user taxes and fees and property transfer taxes. (<http://www.tax.state.ny.us>)

Department of Tax and Finance - New York State Tax Collections (Statistical Summaries and Historical Tables Annual Report) — includes: annual tax collection data for all State and local taxes and fees administered by the Department of Tax and Finance. (http://www.tax.state.ny.us/statistics/stat_fy_collections.htm)

Federation of Tax Administrators — items included: State tax rate comparison, State tax collections and burdens, income tax rates, excise tax rates and motor fuel tax collections. (www.taxadmin.org)

U.S. Department of Commerce-Bureau of Economic Analysis — items included: State and local personal income, gross state product, regional input-output multipliers. (<http://www.bea.gov>)

Commerce Clearing House — items included: Federal and State tax data and research. (<http://tax.cchgroup.com/default>)

Internal Revenue Service - Statistics of Income — items included: business, individual tax statistics, exempt organizations statistics, and research papers. (<http://www.irs.gov/taxstats/index.html>)

US Department of Commerce - Economic Census — items included: State data of economic activity by business sector, housing starts, home sales, durable goods orders and shipments, services survey, construction spending, poverty statistics and household income. (<http://www.census.gov/econ/census02>)

US Department of Commerce - Survey of Current Business — items included: data on gross domestic product, corporate profits, government spending, personal income, international trade, state and regional statistics. (<http://www.bea.gov/>)

US Energy Information Agency — items included: US energy production, consumption net imports data, consumption by sector, monthly and annual energy reviews, regional and state energy profiles, forecasts. (<http://www.eia.doe.gov>)

NYS Energy Research and Development Authority — items included: national and State price data, supply information, historical usage data, and State energy planning. (http://www.nyserda.org/Energy_Information/energy_prices_supplies.asp)

Office of the State Comptroller — items included: State Financial Data including monthly reports on receipts and disbursements. (<http://www.osc.state.ny.us/finance/index.htm>)

Tax Foundation — items included: state and local tax burdens by state, business tax climate, corporate income tax, estate and gift tax, excise tax, Federal taxing and spending by state, income tax, lottery and gaming taxes, property taxes, sales and use taxes, State taxes and spending and tax reform. (<http://www.taxfoundation.org/>)

The Nelson A. Rockefeller Institute of Government- Fiscal Studies Program — includes State Revenue Reports, State Fiscal Briefs and News and New York State Statistical Yearbook. (http://www.rockinst.org/publications/fiscal_budget_index.html)

Department of Public Service (Five Year Book) — includes: financial statistics of the major investor owned utilities in New York State
(<http://www.dps.state.ny.us/5yrbook/welcome04.htm>)

