PART II

EXPLANATION OF RECEIPT ESTIMATES

EXPLANATION OF RECEIPT ESTIMATES

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

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

Cash Receipts
All Governmental Funds
1997-1998
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	17,759	0	0	0	17,759
User taxes and fees	7,036	309	457	1,921	9,723
Sales and use tax	5,442	306	0	1,813	7,561
Cigarette and tobacco taxes	676	0	0	0	676
Motor fuel tax	165	0	219	108	492
Motor vehicle fees	487	0	73	0	560
Alcoholic beverages taxes	177	0	0	0	177
Highway use tax	0	0	165	0	165
Hotel/motel tax	0	0	0	0	0
Alcoholic beverage control license fees	30	3	0	0	33
Container tax	27	0	0	0	27
Auto rental tax	32	0	0	0	32
Business taxes	5,047	1,062	476	0	6,585
Corporation franchise tax	2,081	0	0	0	2,081
Corporation and utilities tax	1,504	73	0	0	1,577
Insurance taxes	641	0	0	0	641
Bank tax	707	0	0	0	707
Petroleum business tax	114	388	476	0	978
Regional business surcharge	0	601	0	0	601
Other taxes	1,094	0	87	143	1,324
Estate and gift taxes	1,022	0	0	0	1,022
Real property gains tax	33	0	0	0	33
Real estate transfer tax	0	0	87	143	230
Pari-mutuel taxes	38	0	0	0	38
Other taxes	1	0	0	0	1
Total Taxes	30,936	1,371	1,020	2,064	35,391
Miscellaneous receipts	1,598	5,531	1,326	639	9,094
Federal grants	0	20,511	1,131	0	21,642
Total	32,534	27,413	3,477	2,703	66,127
Bond and note proceeds	0	0	485	0	485

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	20,176	585	0	0	20,761
User taxes and fees	7,229	319	492	2,000	10,040
Sales and use tax	5,691	319	0	1,891	7,901
Cigarette and tobacco taxes	660	0	0	0	660
Motor fuel tax	170	0	221	109	500
Motor vehicle fees	443	0	107	0	550
Alcoholic beverages taxes	185	0	0	0	185
Highway use tax	0	0	164	0	164
Hotel/motel tax	0	0	0	0	0
Alcoholic beverage control license fees	27	0	0	0	27
Container tax	19	0	0	0	19
Auto rental tax	34	0	0	0	34
Business taxes	4,794	1,028	503	0	6,325
Corporation franchise tax	1,986	0	0	0	1,986
Corporation and utilities tax	1,455	77	0	0	1,532
Insurance taxes	669	0	0	0	669
Bank tax	580	0	0	0	580
Petroleum business tax	104	413	503	0	1,020
Regional business surcharge	0	538	0	0	538
Other taxes	1,099	0	112	218	1,429
Estate and gift taxes	1,033	0	0	0	1,033
Real property gains tax	28	0	0	0	28
Real estate transfer tax	0	0	112	218	330
Pari-mutuel taxes	37	0	0	0	37
Other taxes	1	0	0	0	1
Total Taxes	33,298	1,932	1,107	2,218	38,555
Miscellaneous receipts	1,534	5,812	1,805	622	9,773
Federal grants	0	22,016	1,249	0	23,265
Total	34,832	29,760	4,161	2,840	71,593
Bond and note proceeds	0	0	331	0	331

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

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	Total
Personal income tax	22,830	1,223	0	0	24,053
User taxes and fees	7,157	325	498	2,039	10,019
Sales and use tax	5,790	325	0	1,930	8,045
Cigarette and tobacco taxes	618	0	0	0	618
Motor fuel tax	170	0	221	109	500
Motor vehicle fees	355	0	137	0	492
Alcoholic beverages taxes	173	0	0	0	173
Highway use tax	0	0	140	0	140
Hotel/motel tax	0	0	0	0	0
Alcoholic beverage control license fees	16	0	0	0	16
Container tax	0	0	0	0	0
Auto rental tax	35	0	0	0	35
Business taxes	4,527	1,017	483	0	6,027
Corporation franchise tax	2,140	0	0	0	2,140
Corporation and utilities tax	1,001	92	0	0	1,093
Insurance taxes	646	0	0	0	646
Bank tax	650	0	0	0	650
Petroleum business tax	90	396	483	0	969
Regional business surcharge	0	529	0	0	529
Other taxes	980	0	112	167	1,259
Estate and gift taxes	929	0	0	0	929
Real property gains tax	14	0	0	0	14
Real estate transfer tax	0	0	112	167	279
Pari-mutuel taxes	36	0	0	0	36
Other taxes	1	0	0	0	1
Total Taxes	35,494	2,565	1,093	2,206	41,358
Miscellaneous receipts	1,242	5,678	1,871	629	9,420
Federal grants	0	21,862	1,411	0	23,273
Total	36,736	30,105	4,375	2,835	74,051
Bond and note proceeds	0	34	235	0	269

Cash Receipts
General Fund
1997-1998 through 1999-2000
(millions of dollars)

	1997-1998 Actual	1998-1999 Estimated	1999-2000 Recommended	1999-2000 Compared with 1998-1999
Personal income tax	17,759	20,176	22,830	2,654
User taxes and fees	7,036	7,229	7,157	(72)
Sales and use tax	5,442	5,691	5,790	99
Cigarette and tobacco taxes	676	660	618	(42)
Motor fuel tax	165	170	170	0
Motor vehicle fees	487	443	355	(88)
Alcoholic beverage taxes	177	185	173	(12)
Hotel/motel tax	0	0	0	0
Alcoholic beverage control license fees	30	27	16	(11)
Container tax	27	19	0	(19)
Auto rental tax	32	34	35	1
Business taxes	5,047	4,794	4,527	(267)
Corporation franchise tax	2,081	1,986	2,140	154
Corporation and utilities taxes	1,504	1,455	1,001	(454)
Insurance taxes	641	669	646	(23)
Bank tax	707	580	650	70
Petroleum business taxes	114	104	90	(14)
Other taxes	1,094	1,099	980	(119)
Estate and gift taxes	1,022	1,033	929	(104)
Real property gains tax	33	28	14	(14)
Real estate transfer tax	0	0	0	0
Pari-mutuel taxes	38	37	36	(1)
Other taxes	1	1	1	0
Total taxes	30,936	33,298	35,494	2,196
Miscellaneous receipts	1,598	1,534	1,242	(292)
Total	32,534	34,832	36,736	1,904

Cash Receipts
Special Revenue Funds
1997-1998 through 1999-2000
(millions of dollars)

	1997-1998 Actual	1998-1999 Estimated	1999-2000 Recommended	1999-2000 Compared with 1998-1999
Personal income tax	0	585	1,223	638
User taxes and fees	309	319	325	6
Sales and use tax	306	319	325	6
Alcoholic beverage control license fees	3	0	0	0
Business taxes	1,062	1,028	1,017	(11)
Corporation and utilities taxes	73	77	92	15
Petroleum business taxes	388	413	396	(17)
Regional business surcharge	601	538	529	(9)
Total taxes	1,371	1,932	2,565	633
Miscellaneous receipts	5,531	5,812	5,678	(134)
State university income	1,545	1,653	1,653	0
Lottery	1,658	1,587	1,586	(1)
Indigent care	574	590	620	30
All other	1,754	1,982	1,819	(163)
Federal grants	20,511	22,016	21,862	(154)
Total	27,413	29,760	30,105	345
Bond and note proceeds	0	0	34	34

Cash Receipts
Capital Projects Funds
1997-1998 through 1999-2000
(millions of dollars)

	1997-1998 Actual	1998-1999 Estimated	1999-2000 Recommended	1999-2000 Compared with 1998-1999
User taxes and fees	457	492	498	6
Motor fuel tax	219	221	221	0
Motor vehicle fees	73	107	137	30
Highway use tax	165	164	140	(24)
Business taxes	476	503	483	(20)
Petroleum business taxes	476	503	483	(20)
Other taxes	87	112	112	0
Real estate transfer tax	87	112	112	0
Total taxes	1,020	1,107	1,093	(14)
Miscellaneous receipts	1,326	1,805	1,871	66
Authority bond proceeds	1,225	1,693	1,759	66
State park fees	23	24	26	2
Environmental revenues	29	35	22	(13)
All other	49	53	64	11
Federal grants	1,131	1,249	1,411	162
Total	3,477	4,161	4,375	214
Bond and note proceeds	485	331	235	(96)

Cash Receipts
Debt Service Funds
1997-1998 through 1999-2000
(millions of dollars)

	1997-1998 Actual	1998-1999 Estimated	1999-2000 Recommended	1999-2000 Compared with 1998-1999
User taxes and fees	1,921	2,000	2,039	39
Sales and use tax	1,813	1,891	1,930	39
Motor fuel tax	108	109	109	0
Other taxes	143	218	167	(51)
Real estate transfer tax	143	218	167	(51)
Total Taxes	2,064	2,218	2,206	(12)
Miscellaneous receipts	639	622	629	7
Mental hygiene patient receipts	266	262	296	34
SUNY dormitory fees	194	195	196	1
Health patient receipts	145	131	102	(29)
All other	34	34	35	1
Total	2,703	2,840	2,835	(5)

ECONOMIC BACKDROP

The national economy grew rapidly during the first three months of 1998, then slowed sharply in the second quarter, due largely to the labor strike against General Motors. The second half of the year was relatively strong, but characterized by conflicting signs — strength in the consumer-oriented sectors of the economy offset by weakness in production and a moderate slow down in the rate of job creation. Internationally, a succession of countries succumbed to both financial turmoil and economic contraction and, as a result, foreign demand for U.S. goods and services declined.

By the fall of 1998, despite the resilience of the national economy, there were widespread fears that the economy would soon slow sharply or even decline. Falling commodity prices and consumers' expectation of relatively stable domestic retail prices constrained producers from raising prices, which, in turn, led to declining profit margins. In addition, faltering economies abroad led to decreases in the price of imported goods, thereby putting even more pressure on U.S. firms to keep their own prices low. Further, weakness in foreign economies led to a sharp deterioration in net exports. The "flight to quality" in the financial markets in the late summer and early fall signaled that investors were becoming averse to risk, which typically indicates that credit will be largely unavailable for financing future expansion. In response to the heightened danger of a major slowdown, the Federal Reserve Board (FRB) attempted to stabilize financial markets and buoy the economy by rapidly cutting short-term interest rates by a total of 75 basis points over a six-week period from late September to mid-November. So far, the interest rate cuts have had the desired effect. However, as 1998 ended, a number of economic indicators were still signaling slower growth in the near-term.

The economy is projected to continue growing in 1999, but at a slower rate than has occurred during recent years. Consumer spending will remain the mainstay of growth, as employment, wages and income continue to rise. However, net exports will continue to suffer from the strong dollar and the economic recessions in Asia and parts of Latin America. Although labor markets will remain tight, thereby placing significant upward pressure on labor costs, overall measures of inflation are projected to remain stable as most producers are forced to hold the line on prices due to fierce domestic and international competition. The FRB, faced with the prospect of stable inflation and a slowing domestic economy, is expected to continue to lower short-term interest rates during 1999.

New York's economy grew strongly throughout 1998 due, in part, to a financial sector that has been booming for several years. Private-sector employment growth exceeded 2 percent for the first time in this economic expansion. Likewise, the unemployment rate declined to its lowest level since 1990. The service sector accounted for a large portion of private employment growth, which outpaced overall employment growth by a substantial margin. The decline in manufacturing employment was minor. The combination of improved employment growth, a tighter labor market, and a surge in bonus payments at the beginning of the year provided a boost to wage growth.

Paralleling the national economy, New York's employment growth is expected to continue in 1999, although at a slower rate than in 1998. Growth rates in construction and business services will retreat slightly from their unusually high 1998 growth rates, and manufacturing employment will also decline, while financial sector will not likely match its gains of 1998. Overall private-sector employment is projected to grow slightly faster than total employment. A hiatus in the large increases in bonus payments, as well as the slowdown of employment growth, will result in slower wage growth in 1999. Non-wage income growth is expected to rise at a higher rate than in 1998 even though property income growth will be lower.

THE NATION

Recent History

The national economic growth rate accelerated in the first quarter of 1998 and although it slowed modestly during the remainder of the year, the resulting annual increase for the real Gross Domestic Product (GDP) was a healthy 3.7 percent. Inflation, as measured by the price index (chain-type) for GDP, remained remarkably low after seven consecutive years of economic recovery, rising by only 1.0 percent. The strong rate of real economic growth led to a continued high level of job creation — a gain of 3.2 million new jobs in 1998 — exceeding the 3.1 million gain achieved in 1997. In parallel with the large increase in new jobs, the unemployment rate, which dropped below 5.0 percent in 1997, stayed well below that threshold throughout 1998. Income growth was strong, which, in turn, supported growth in consumer spending and rapid growth in business investment.

However, the international financial turmoil and the sharp economic contractions that occurred, mainly in Asia, had a dampening effect on the U.S. economy. The trade deficit soared as a result of the strong dollar combined with the recessions in countries that can now no longer afford to purchase U.S. goods and services. By the fall of 1998, weakness in domestic farming and manufacturing, combined with jittery financial markets, the specter of a credit crunch, and a sudden downdraft in consumer sentiment, led to concerns that the economy could rapidly descend into a recession in 1999. In response, the FRB lowered short-term interest rates three times totaling 75 basis points in a six week period during September through November. The FRB's activity was in stark contrast to the steadfastness it had exhibited over the previous three years when it held rates relatively constant. The FRB actions stabilized financial markets and, by year end, the possibility of a 1999 recession had decreased.

Growth in consumption and investment provided the foundation for GDP expansion in 1998. Consumers continued to spend freely, attributable, in part, to wage gains, falling interest rates and extremely low energy prices, as well as a decline in the savings rate. Due to a continued high borrowing rate and the decision by some consumers to cash in a portion of their capital gains, the Nation's savings rate fell below zero during the fourth quarter of the year. However, consumer spending was boosted by the third straight year of 20 percent plus gains in major equity market indices. This "wealth effect" has made it difficult to judge the significance of traditional measures, such as the savings rate, on the ability of consumers to sustain increases in consumption.

Investment increases were led by growth in purchases of producers' durable equipment, particularly computer-related goods. Other significant factors in the Nation's growth were advances in housing starts and, in spite of weakened export markets, a solid increase in industrial production. Also, spending by state and local governments increased. On the negative side, corporate profits declined and the financial markets became very volatile. Finally, with exports to many countries almost coming to a halt, there was a substantial deterioration in the trade deficit, resulting in a drag on the real GDP growth rate of almost a full percentage point, the worst in 50 years.

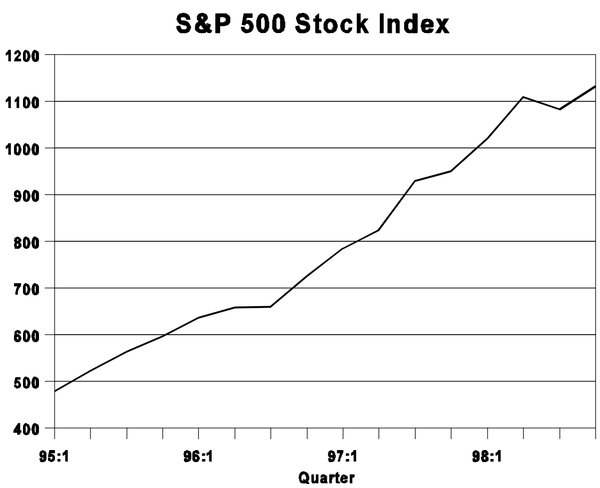
In spite of strong economic growth and a tight labor market, the inflation rate receded to levels last seen in the mid-1960's Viet Nam War era, mainly due to productivity increases, competition among worldwide producers, a significant rise in the value of the dollar, sharply lower oil prices and restrained increases in the cost to employers of fringe benefits for workers. Medical prices increased only modestly for the third consecutive year, which contributed to keeping total medical expenditures for both private businesses and governments under control. Inflation, as measured by the price index for GDP, was almost a full percentage point lower than the rate experienced in 1997. The Consumer Price Index (CPI) measure of inflation rose at a 1.6 percent annual rate in 1998, seven-tenths of one percentage point lower than in 1997. While consumer prices were showing modest increases, the underlying Producer Price Index (PPI) actually fell by a substantial 2.4 percent in 1998. The lack of evidence of accelerating inflation, combined with the strength of the dollar in comparison with most of the world's major currencies, kept long-term interest rates low during 1998, with the yield on 30-year Treasury bonds falling below 5.0 percent for a substantial portion of the year.

Compared with 1997, nominal GDP growth decreased substantially from 5.9 to 4.8 percent. However, due to the receding inflation rate, growth in real GDP was almost unchanged, falling only from 3.9 to 3.7 percent. The unemployment rate declined for the sixth consecutive year, falling from an annual average of 5.0 percent in 1997 to 4.5 percent in 1998. Average wages posted a robust 4.0 percent gain. Nominal personal income expanded at a rate of 5.0 percent, while real disposable income grew by 3.1 percent. Nominal consumption grew briskly by 5.7 percent, significantly faster than the nominal disposable income growth rate of 4.0 percent.

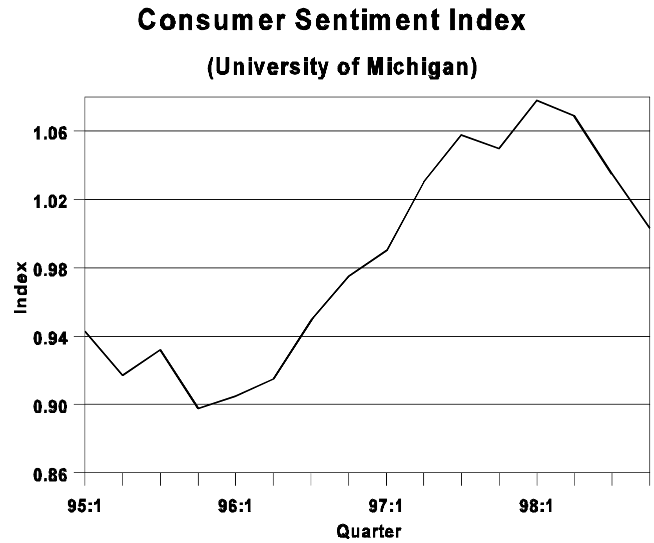
In summary, as displayed in the following graphs, two key factors, one positive and one negative, had major impacts on the Nation's economic performance in 1998. On the positive side, the booming stock market helped real consumer spending growth soar to its highest rate in the last fifteen years. This spending increase, compared with the prior year's increase, contributed 1.0 percentage points to real GDP growth. On the negative side, significant economic recessions in Asia, along with economic slowdowns elsewhere, led to an absolute decline in real exports. This decline, compared with the 1997 increase, reduced real GDP growth by 1.5 percentage points.

THE STOCK MARKET BOOMED

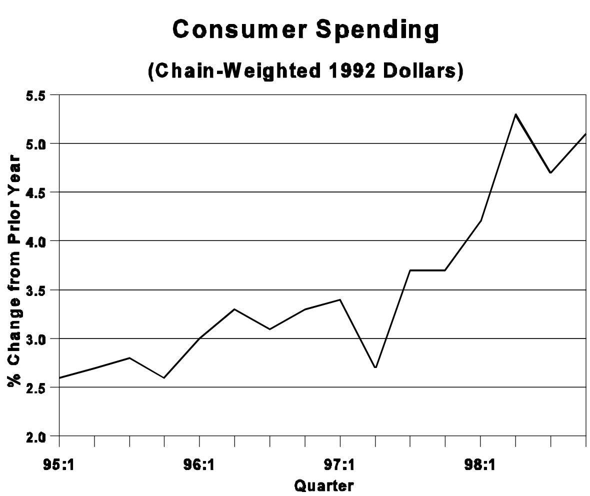
A strong stock market...



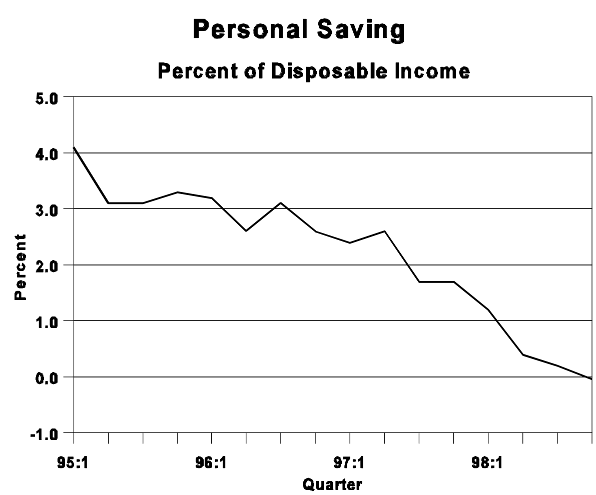
...has buoyed consumer sentiment.



Both factors have kept consumer spending strong...



...and the savings rate plunging.

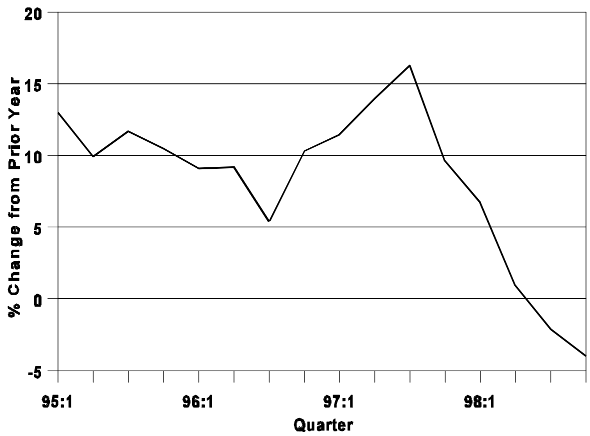


FOREIGN ECONOMIES FELL INTO RECESSION

Foreign recessions are hurting exports...

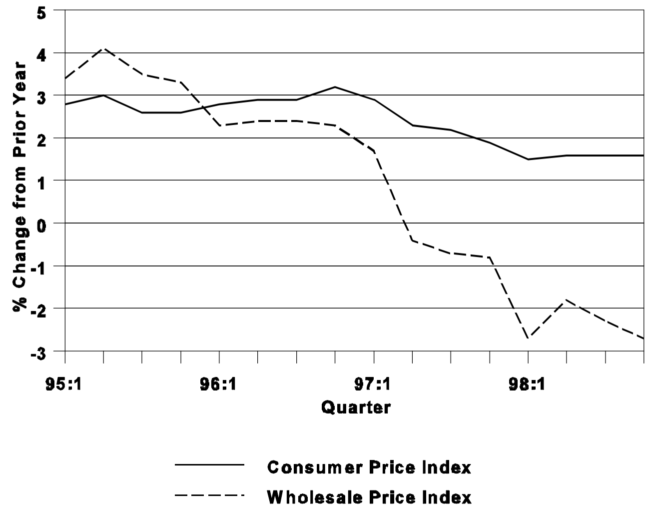
Exports of Goods and Services

(Chain-Weighted 1992 Dollars)



...and driving down prices.

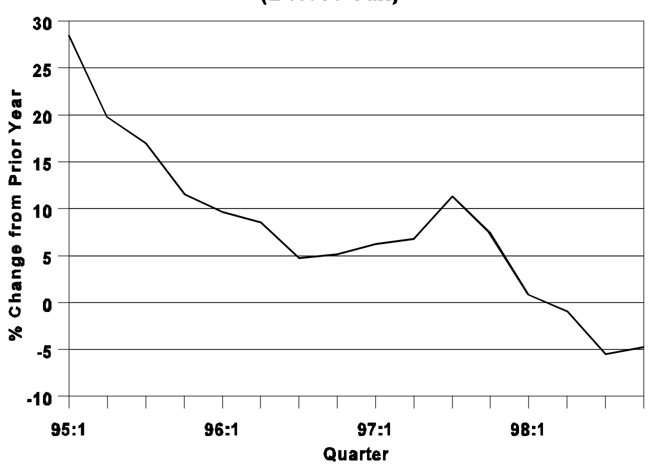
Consumer and Wholesale Prices



Leading to lower profits...

Corporate Profits

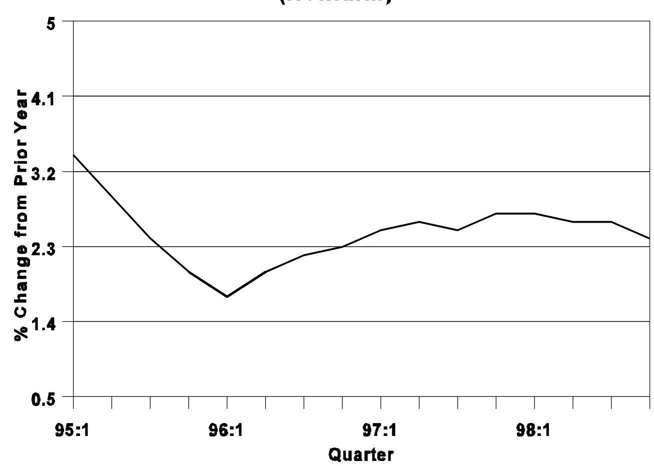
(Before Tax)



...and slowing job gains.

Employment

(Nonfarm)



There are several prominent features of the current economic environment that will significantly affect the GDP growth rate during the year ahead. Among the positive factors are the high level of consumer confidence (although the index has retreated somewhat from the record-setting levels achieved in the first half of 1998), the strong growth in disposable income, the decline in oil prices, the substantial retreat of long-term interest rates from their 1996 highs and the recent cuts in short-term interest rates by the FRB. These factors, combined with underlying support provided by the wealth that has been created in financial markets during the past few years, enhance the prospects of continued growth in consumption and business investment. With the Federal budget deficit eliminated and practically no evidence of incipient inflation, the chance of a near-term sharp rise in long-term interest rates remains low.

Unfortunately, other features of the current economic landscape will tend to inhibit growth. The low unemployment rate will hinder the rate of increase in employment. The high level of consumer debt burden and the low savings rate will restrain the size of spending increases, thereby offsetting some of the positive factors affecting consumption growth. This will be especially true should growth in the equity markets return to more normal levels. The declining rate of capacity utilization of the Nation's factories will weaken the demand for business investment. Rising labor costs and the inability to pass on cost increases because of competition from low-cost foreign producers is likely to prevent corporate profits from rising significantly. Also, the continuation, in 1999, of current recessions in many Asian and Latin American countries, along with slow economic growth in Europe, will exacerbate our trade deficit.

Outlook

Under the weight of a burgeoning trade deficit, economic growth will slow during the first half of 1999, followed by a rebound to a moderate pace that will, nevertheless, be significantly below the growth rate achieved over the last few years. The inflation rate will rise only modestly even though it will continue to be buffeted by contrary forces. A tight domestic labor market would normally begin to push up wages and then prices. However, pressures stemming from an excess of low-priced foreign goods and declining commodity prices will continue to keep prices down, thereby slowing profits growth. As a result of inflation remaining subdued, the FRB is expected to reduce short-term interest rates further.

Consumer spending is expected to be a mainstay of economic growth during 1999. However, with a high consumer debt burden and the savings rate at historically low levels, consumer confidence and equity markets must remain strong to avoid a potentially sharp slowdown in the growth of consumption. Business investment will continue to grow, but much more slowly than it did during the previous five years. In addition, excess production capacity in foreign countries, as well as the modest level of domestic capacity utilization, may cause U.S. businesses to scale back their investment plans more sharply than expected. Residential investment is expected to grow due to the positive impact of lower long-term interest and mortgage rates. The rate of business inventory buildup, which helped fuel the economic acceleration of the past two years, is expected to drop from its current high levels. Fiscal policy will no longer dampen the economy; however Congress is unlikely to approve major increases in Federal spending until the long-term requirements of the Social Security Trust Fund have been addressed. Imports will rise at a rapid rate as the strong dollar makes foreign goods relatively less expensive. Export growth will remain slow as economic growth in many countries around the world weakens and U.S. products become relatively more expensive for foreign consumers to purchase. As a result, there will be another substantial increase in the trade deficit.

Inflationary pressures are expected to be contained in 1999, kept in check by productivity gains, moderating increases in wage and fringe benefit costs, a continuation of low oil prices and severe domestic and international competition. As measured by the CPI, prices will increase slightly more than 2 percent, while the GDP price index measure will be up slightly more than 1 percent. This continues a trend of stable or declining inflation rates that has been prevalent throughout the 1990's. However, with the dollar weakening from its 1998 highs against both European and Asian currencies and oil prices no longer declining, the inflation rate will rebound from its 1998 lows. On an average annual basis, short-term interest rates are expected to fall below 4.0 percent and long-term rates will decline to about 4.8 percent. Interest payments to individuals are expected to decrease from 1998 levels.

In summary, nominal GDP is expected to grow by 3.6 percent, reflecting growth in real GDP of 2.4 percent and a small increase in the GDP price deflator. Nonagricultural employment should gain about 2.5 million new jobs on an average annual basis, although the rate of increase will be under 2.0 percent for most of the year. The unemployment rate will increase slightly to an annual rate of 4.7 percent. Labor costs, as measured by the employment cost index, are expected to increase by 4.2 percent. Given the forecast for employment and labor costs, nominal personal income will increase by 4.5 percent and nominal disposable income will rise by 4.6 percent. Nominal consumption, as a whole, will grow by 5.0 percent, with the service consumption component expected to grow more rapidly at 5.7 percent. Nondurable consumption is expected to grow at 4.6 percent and durable consumption will grow somewhat more slowly at 2.9 percent. Corporate profits growth will decline by 1.6 percent.

Risks

The overall forecast, which is an aggregation of many individual point estimates, reflects an economy that will grow moderately, yet still avoid significant inflationary pressures. There are, however, some major uncertainties in the forecast. Faster real growth could occur if the U.S. economy's internal strength is able to overcome negative forces which, for the most part, originated in other areas of the world. Robust increases in consumer spending could continue if a high level of consumer confidence, relatively low interest rates and rapid growth in the value of financial assets continues throughout 1999. Industry, to remain cost-competitive, may spend more heavily than expected to modernize its production facilities, thereby increasing not only investment, but also productivity. Growth in productivity could then provide opportunities for additional increases in employment without triggering inflation.

Alternatively, higher inflation could occur, even if growth does not rise faster than forecast. An acceleration of labor costs could occur, particularly if there are further reductions in the unemployment rate. Independently, oil prices could move sharply higher if countries that are currently experiencing economic hardship recover more quickly than expected and increase their demand for oil. Alternatively, if oil-producing nations regain the ability to limit worldwide production, prices for petroleum products could be increased by limiting supply. Given the low level of the world's inventory of food, major crop failures could push food prices sharply higher. As a consequence of any, or all, of the above factors, the rate of inflation could rise more rapidly than anticipated.

Perhaps more importantly, recent FRB actions to stabilize growth may lead to increased inflation as more liquidity creates upward pressure on prices. Under such circumstances, the FRB might reverse its current direction and raise short-term interest rates. Also, long-term rates could rise sharply if investors perceived a strengthening of inflationary pressures. Increases in Federal spending or, more likely, cuts in taxes, could be more stimulative than expected, depending upon the composition of the cuts and the extent of accommodation between fiscal policy and monetary policy.

In sharp contrast to the inflation fears which have dominated U.S. monetary policy in recent years is the risk of recession. The mushrooming financial crisis in Asia and elsewhere has caused many countries to devalue their currency (e.g. Brazil has recently devalued its currency), which could result in an even more precipitous drop in foreign demand for U.S. goods and services. A sharp drop in the value of foreign assets and a withdrawal of credit, could trigger a chain reaction of defaults throughout the international banking system, sending the global economy into recession. Declining equity prices throughout the world would similarly impact U.S. markets, thereby reducing wealth and causing consumers to lose their optimism. Such a set of circumstances would likely be sufficient to end the long expansion of the U.S. economy as well as place severe downward pressure on prices. Economic forecasts, by their nature, are uncertain. It is necessary to recognize that factors exist, alone or in combination, which will lead to economic outcomes that are sometimes significantly different than those originally envisioned.

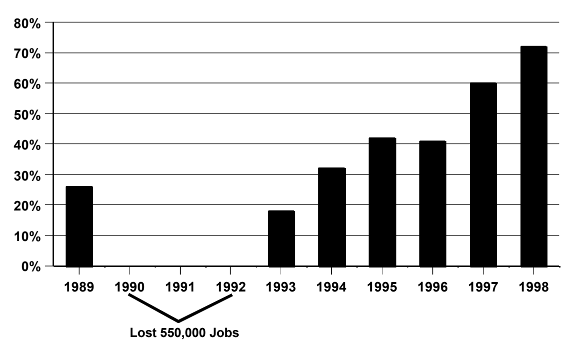
THE STATE

Recent History

The New York economy grew in 1998 at the most rapid rate in a decade. Most major sectors improved on their 1997 performance. Solid employment gains in the private sector were recorded despite weaknesses in banking and some manufacturing industries. The service, trade and construction sectors were the primary contributors to growth. The Budget Division estimates that overall nonagricultural employment growth was 1.9 percent — over 150,000 jobs — for 1998, with private employment increasing at a rate of 2.2 percent. This compares with overall employment growth at the national level of 2.6 percent and private-sector job growth of 2.8 percent. The growth rate of New York's private-sector employment has been steadily improving, relative to the nation, for the last four years and the relative performance is now at its best level in a decade.

Private Sector Employment Growth Rate

N.Y. rate divided by U.S. rate



All major sectors recorded increases in employment except for manufacturing. Of the major sectors in the State's economy (based on part-year data):

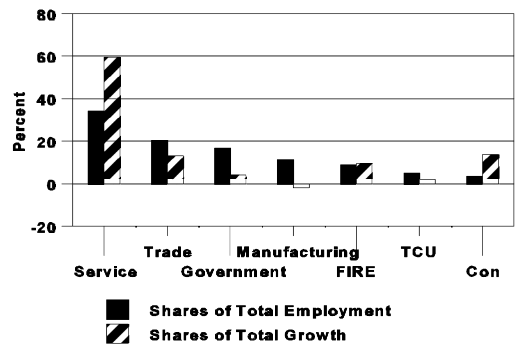
— Employment in the service sector climbed 92,000. Business, engineering and management services did particularly well; growth in health services was slightly faster than in the prior year while growth in education services was a bit slower.
— Manufacturing shed only 3,000 jobs, the best showing since 1984.
— Construction employment grew by 21,000, the largest increase since 1986.
— The trade sector added approximately 21,000 jobs.

— Finance, insurance, and real estate employment grew by 15,000, the largest increase since 1987, supported by heavy activity on Wall Street, but restrained by banking layoffs due in part to merger activities.

— Employment in transportation, communications, and public utilities increased by 3,000 jobs.

— Government employment grew by 6,000, with local government employment increasing by 9,000 and State government employment unchanged from the 1997 level. Federal employment declined by 3,000 jobs.

Employment
1998

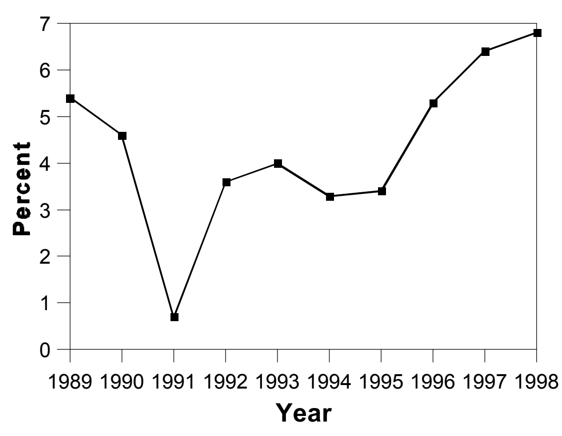


Note: TCU=Transportation, Communication & Utilities; FIRE=Finance, Insurance & Real Estate; Con=Construction.

The unemployment rate, at 5.7 percent, declined significantly from 1997, due to the acceleration of growth in employment. Despite low inflation, average wages increased by 4.8 percent, which is significantly higher than the national rate of increase. In real terms, average wages increased by 3.2 percent, compared with an average annual rate of increase of 1.7 percent for the previous three years. The growth in real wages experienced in the past several years has been significantly higher than the average over the period 1975-1997 and broad-based with significant growth across the private sector of the economy.

The strong average wage growth in 1998 resulted in part from a tighter labor market and the large increase in bonuses paid by Wall Street firms at the beginning of 1998. Bonuses paid by the securities industry at the end of 1998 are expected to be similar to those paid a year ago as a result of the decrease in securities industry profits in the second half of the year. (For industry detail on real average wage growth, see the table below.) The combination of improved employment growth and the strong performance of average wages produced wage[1] growth of 6.8 percent, the highest rate since 1988. The growth in wages was dominated by the service and FIRE sectors. Personal property income growth was weak and has dwindled substantially over the last two years due mostly to a decline in the growth of both dividend and rental income. Total personal income grew

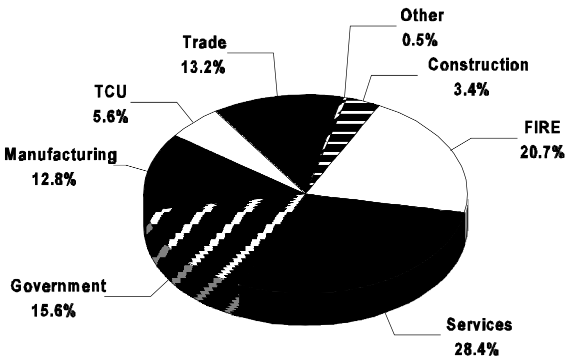
Wage Growth Rate
1989-1998



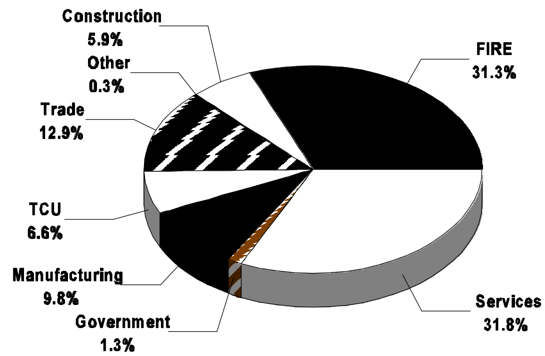
[1] For an explanation of the difference between wages as reported by DOB and as reported by the Federal Government (BEA), see the boxed text at the end of this section.

by approximately 4.9 percent, nearly identical to the national rate of 5.0 percent. Income growth substantially outpaced inflation, resulting in real income growth of over 3.5 percent in 1998.

Share of Wages
1998



Share of Wage Growth
1998



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

In the 1998-99 fiscal year, nominal growth in personal income is estimated to be close to 4.6 percent. In real terms, personal income will increase by 3.1 percent.

Employment, Real Wages and Average Wage Growth**

1975 to 1997

	EMPLOYMENT		REAL WAGE		REAL AVERAGE WAGE	
	Level (thous.)	Average Growth Rate (%)	Level (bil.)	Average Growth Rate (%)	Level (thous.)	Average Growth Rate(%)
	1997	1975-97	1997	1975-97	1997	1975-97
Construction	264.5	1.0	6.2	0.6	23.6	-0.4
Manufacturing	921.2	-2.0	25.3	-1.2	27.5	0.8
Trans., Comm., and Utilities	408.4	-0.3	10.7	-0.3	26.3	0.0
Trade	1641.3	0.7	25.8	0.3	15.7	-0.5
FIRE*	722.7	1.0	37.8	4.7	52.3	3.7
Service	2698.3	2.9	54.9	3.1	20.3	0.2
Government	1375.8	0.2	32.1	0.4	23.3	0.3
Total***	8037.0	0.7	194.3	1.3	24.2	0.5

1998

	EMPLOYMENT		REAL WAGE		REAL AVERAGE WAGE	
	Level (thous.)	Average Growth Rate (%)	Level (bil.)	Average Growth Rate (%)	Level (thous.)	Average Growth Rate(%)
Construction	285.9	8.1	6.9	10.7	24.2	2.4
Manufacturing	918.1	-0.3	26.1	3.0	28.4	3.4
Trans., Comm., and Utilities	411.7	0.8	11.4	6.4	27.7	5.6
Trade	1661.9	1.3	27.0	4.8	16.2	3.5
FIRE*	737.5	2.1	41.7	10.4	56.6	8.2
Service	2790.5	3.4	58.0	5.7	20.8	2.2
Government	1382.2	0.5	31.8	-1.0	23.0	-1.5
Total***	8192.4	1.9	204.3	5.2	24.9	3.2

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

Construction of Wage Series

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

DOB uses only actual or estimated New York wage data for the construction of the series. BEA, in contrast, uses national information to adjust the quarterly values determined from the New York wage data. Often, the consequence is a significant difference in the quarterly pattern between the two series (For example, for the first quarter of 1998, see footnote ** at the bottom of this page). Also, both series include bonus payments, but the DOB series averages its estimate of these payments across two calendar years, while BEA does not. Thus the shift of bonus payments from December to January, or vice versa, has little impact on the growth rate for wages in the DOB series. BEA does not smooth these payment shifts, resulting in annual growth rates that can be radically different than the DOB growth rates.

The series generated by either of these methods differs, on a quarterly percent-change-year-ago basis, from the series that results from using the DOB methodology except for simply leaving bonus payments in the quarter of actual payment. This series is referred to as the "actual payment" method. These three methods result in the annual growth rates shown below.

Wages
(Percent Change)

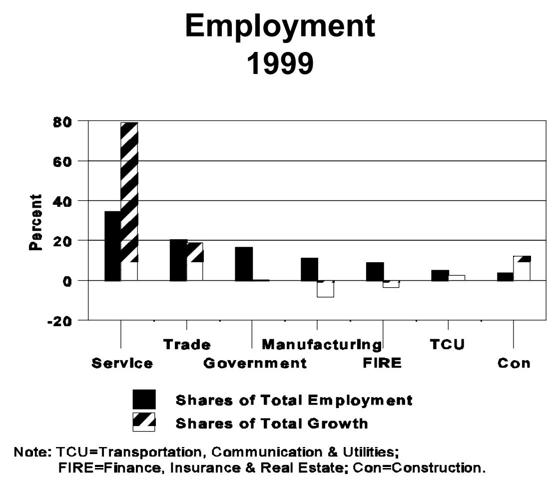
	1995	1996	1997	1998
DOB	3.4	5.3	6.4	7.2
AP*	4.6	5.9	5.9	7.4
BEA	4.6	5.9	6.1	5.5**

* Actual payment method. This is the series that is used to analyze and forecast personal income tax collections and liability.

** Based on published BEA numbers for the first two quarters of 1998 and the assumption that wages grew at an annual rate of 6 percent for the last two quarters. However, according to the Federal Unemployment Insurance Program wage data, the wage growth for the first quarter of 1998, based on a percent-change-year-ago basis, was 9.2 percent, while the comparable growth rate published by BEA was 5.0 percent. Therefore, the BEA-based 5.5 percent estimate in the table is likely to be revised upward when the data for all of 1998 becomes available.

Outlook

The New York economy is expected to continue to grow in 1999, although, following national trends, at a more moderate rate than in 1998. The strong employment growth of the last two years in the financial sector is likely to be partially reversed. This results from continued mergers in the banking sector and especially to the absence of profit growth for Wall Street firms in the second half of 1998. Also, a more moderate economic growth will prevent construction growth from being as robust in 1999 as in 1998. Employment in the government sector should remain at the 1998 level, and some declines in manufacturing employment will occur again as the drop-off in international demand for U.S. exports takes its toll. The service sector will not only continue to remain the largest contributor to growth but also will increase its share of total growth, a pattern that is typical of periods when overall employment growth slows. For the year as a whole, the projected employment change by sector is:

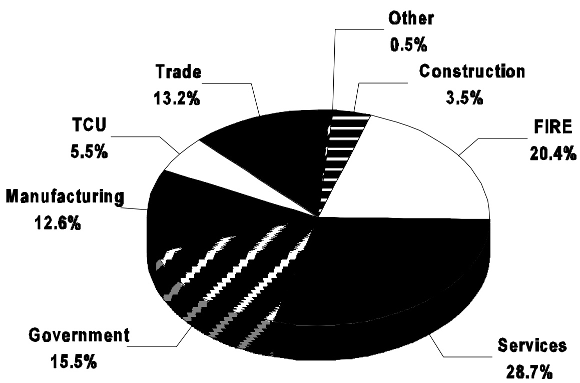


- — Services — 77,000 job gain.
- — Manufacturing — 8,000 job loss.
- — Construction — 12,000 job gain.
- — Retail and wholesale trade — 18,000 job gain.
- — Finance, insurance and real estate — 4,000 job loss.
- — Transportation, communications and utilities — 2,000 job gain.
- — Government — unchanged from 1998.

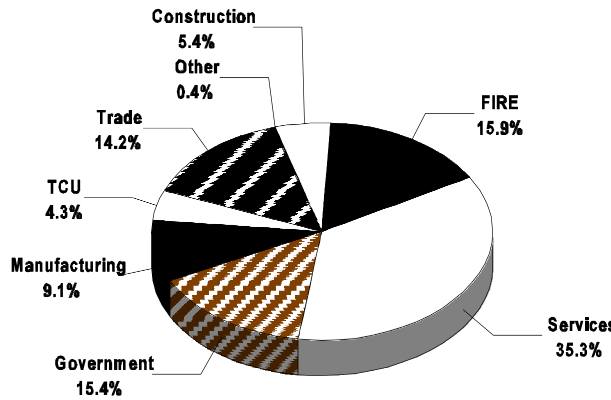
On an average annual basis, private-sector employment is expected to climb about 1.4 percent, while total employment will grow by about 1.2 percent or approximately 97,000 jobs. The unemployment rate will decline slightly. Unlike past periods of economic slowdown, the State's private employment situation will not deteriorate relative to the nation.

Low inflation, the general economic slowdown, and weak growth in bonus payments during 1999 should combine to drop average wage growth to 3.9 percent, about the same as the national growth in average wages. Growth in overall wages is expected to be 5.1 percent, due partly to a Wall Street slowdown in both job growth and bonus payments. Non-wage income is expected to increase by 2.8 percent, with property income rising at a rate of 0.4 percent, due mostly to a decline in interest income. Total personal income should increase by 4.2 percent.

Share of Wages
1999



Share of Wage Growth
1999



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

Risks

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

Selected Economic Indicators [1/]

	1994	1995	1996	1997	1998 (prelim.)*	1999 (proj.)	2000 (proj.)
United States							
Gross Domestic Product (current dollars, percent change)	5.9	4.6	5.4	5.9	4.8	3.6	4.0
Gross Domestic Product (constant dollars, percent change)	3.5	2.3	3.4	3.9	3.7	2.4	2.3
Corporate Profits (before tax, percent change)	15.0	18.8	7.0	8.0	-2.6	-1.6	-0.2
Personal Income [2/] (percent change)	5.1	5.5	5.8	5.6	5.0	4.5	4.3
Wages [2/] (percent change)	4.9	5.8	5.9	7.1	6.7	5.7	5.1
Nonagricultural Employment (percent change)	3.1	2.7	2.1	2.6	2.6	2.0	1.5
Unemployment Rate (percent)	6.1	5.6	5.4	5.0	4.5	4.7	4.9
New York State							
Personal Income [2/] (percent change)**	4.1	4.4	5.0	4.4	4.9	4.2	4.0
Wages [2/] (percent change)**	3.3	3.4	5.3	6.4	6.8	5.1	4.6
Nonagricultural Employment (percent change)	0.9	0.7	0.6	1.5	1.9	1.2	1.0
Unemployment Rate (percent)	7.0	6.3	6.2	6.4	5.7	5.5	5.5

[1/] Additional information on economic indicators is available on the Economic Outlook page of the N.Y.S. Division of the Budget's Web Site (www.state.ny.us/dob).

[2/] Technical note for personal income and wages for 1994 through 1995: U.S. personal income reflects a shift of wage income into the fourth quarter of 1993, with most of this income drawn from the first quarter of 1994, and a shift of wage income from the fourth quarter of 1994 to the first quarter of 1995. N.Y. personal income reflects smoothing of both historical and forecasted wage shifts at the State level across several quarters.

* Based on part-year data.

** Series developed by N.Y.S. Division of the Budget; excludes legal underground wages.

Source: U.S. Dept. of Commerce, N.Y.S. Dept of Labor, U.S. Bureau of Labor Statistics. (1998 estimates and 1999 and 2000 projections by N.Y.S. Division of the Budget.)

IMPLICATIONS FOR STATE REVENUES

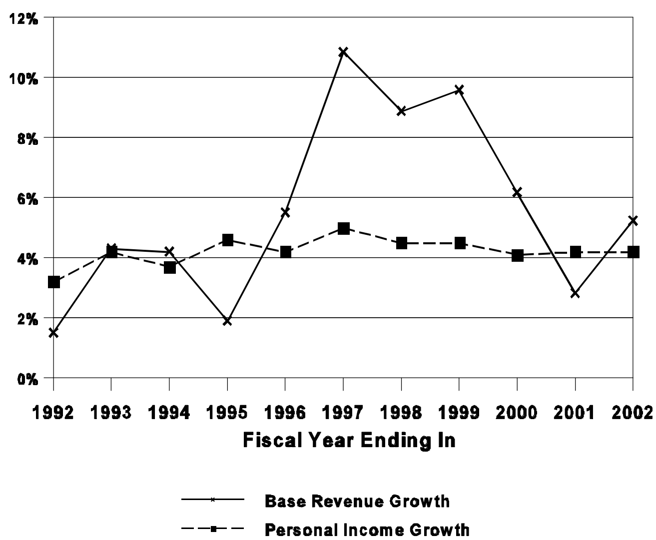
The receipt side of the Budget is comprised of a varied set of taxes, fees and miscellaneous revenue sources. These revenue sources are, to a significant extent, dependent upon national and State economic conditions. For example, revenue sources, such as the corporate franchise tax and the personal income tax, are sensitive to changes in profits, employment and income. In contrast, there are other revenue sources, such as the cigarette, tobacco, alcoholic beverage, and gasoline excise taxes, that are directly tied to the purchase of particular commodities. The purchase of these commodities are not very sensitive to general economic conditions in the short term, but are directly affected by commodity prices and personal income, as well as by the demographic characteristics of the State's population.

Historically, revenue growth has paralleled personal income growth fairly closely. However, there are periods when special factors influence revenue growth and distort this relationship. Examples include both State and Federal tax policy changes which create a wedge between economic events and revenue growth. Other examples, specific to base revenue growth in New York, include the payment by the State of refunds based on prior period activity or the earmarking of revenue sources to special revenue funds(which may have an effect on the General Fund without having any impact on the total funds received by the State.)

The significant and broad-based tax reductions that New York has enacted in recent years have obscured the normal relationship between income growth and tax receipts. The following analysis employs a base revenue series which was developed by removing the impact of tax law and administrative changes on revenues. The adjustments include the tax reductions of the last three years, other statutory and administrative changes, extraordinary refunds and earmarked revenues.

Personal income growth was aligned fairly closely with base revenue growth until fiscal year 1995-96, as the accompanying chart illustrates. However, starting in fiscal year 1996-97, growth in base revenues was almost twice the rate of personal income growth through fiscal year 1998-99.

Base Revenue and Personal Income Growth
(Percent Change)

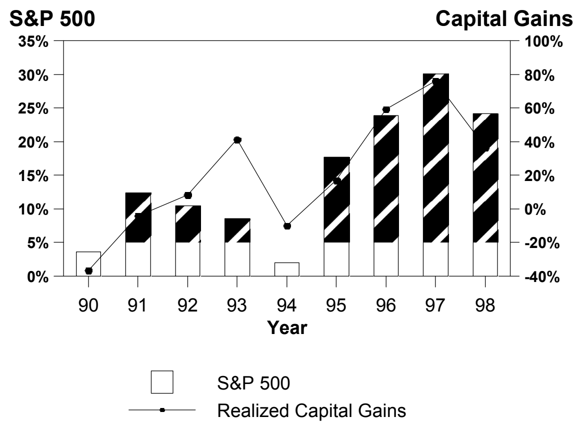


The rapid growth rate in base revenues relative to income is, in significant measure, due to the unprecedented growth in equity markets over this period, as exemplified by the increases in the Standard and Poor's 500 Stock Index in recent years. In fact, three consecutive years (1996 through 1998) of 20 percent plus gains in the S&P 500 index had never before occurred. The rapid appreciation in the value of stocks, coupled with recent changes in the Federal tax treatment of capital gains, has led to a striking increase in capital gains realizations for New York tax purposes. Realizations increased by approximately 60 percent for the 1996 tax year and by an estimated 75 percent in 1997.[2]

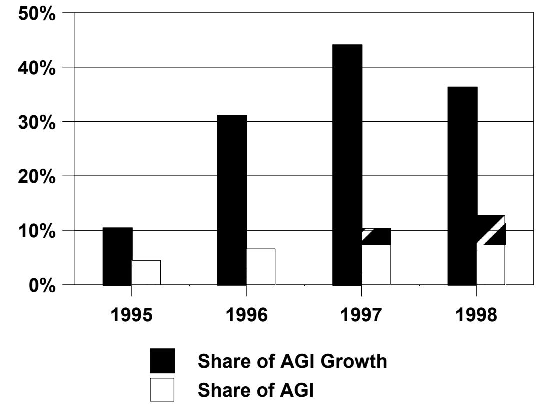
[2] The data sources are the Personal Income Tax study file and estimates of Adjusted Gross Income components based on income tax collection data. The last actual capital gains data is 1996, while 1998 data are based on estimated liability.

The share of adjusted gross income accounted for by capital gains has grown dramatically in recent years, increasing from 4.4 percent in 1995 to an estimated 12.7 percent in 1998. This in turn has had a large positive impact on personal income tax liability.

S&P 500 and Capital Gains
(Percent Change)

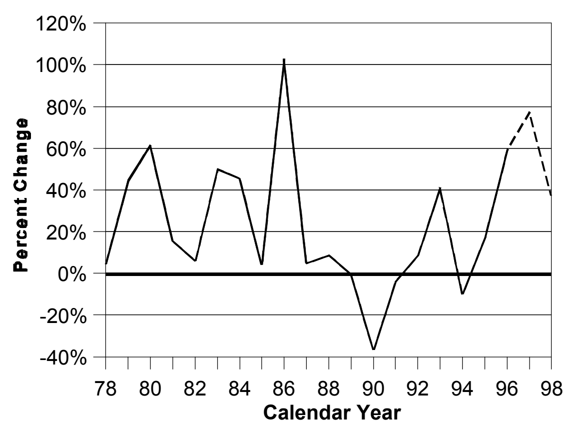


Capital Gains as Share of AGI



For 1999, the major economic variables impacting revenues, including stock market appreciation, are projected to moderate from their 1998 growth rates. The levels of most variables are still forecast to increase, and, as a result, the expectation is that State revenues will also increase, but at a slower rate. Historical growth in capital gains realizations has been extremely volatile as the accompanying chart indicates, and the rapid increases experienced recently can be expected to flatten out or actually turn negative in the near future.

Realized Capital Gains
NY Tax Returns



Large swings in capital gains realizations are often the result of the Federal tax policy treatment of capital gains. There was a major change in Federal treatment of capital gains realizations in 1997, which induced a significant increase in realizations in both 1997 and 1998. This tax-policy-induced impact on realizations should moderate significantly in 1999 and beyond. Given the volatility in the gains component of income, it would be imprudent to estimate revenues based on continued significant increases in equity markets in light of market volatility and in the absence of additional policy changes favorable to gains realization. Thus, expected growth in base revenue will return to a level consistent with the historical relationship to personal income growth. As a result, for the upcoming years, base revenues are projected to grow at a rate that is consistent with personal income growth.

TAX REDUCTION PACKAGE

This year, to build upon the proven success of the Governor's program of tax cuts that provide much needed relief to taxpayers and stimulate economic activity, the following package of tax reductions is recommended in the 1999-2000 Budget. When fully phased in, the package will return $1 billion of new tax relief to the hardworking taxpayers of the State. The plan is designed to be gradually implemented as the impact of already enacted tax reductions are fully absorbed in the State Financial Plan.

PERSONAL INCOME TAX

The top tax rate threshold, that now applies to taxable income over $40,000 for married couples filing jointly, will be moved up to $50,000 on January 1, 2002, and then to $60,000 on January 1, 2003. The corresponding thresholds for single and head of household filers will be moved from $20,000 to $30,000 and $30,000 to $45,000, respectively. This will reduce taxes for middle-income families by applying the 5.9 percent tax rate rather than the current top rate of 6.85 percent to a larger share of taxable income. The benefit of these changes will be confined to middle-class New Yorkers with taxable incomes between $20,000 and $150,000.

In addition, the dependent exemption will be doubled, increasing to $2,000 per dependent. When fully effective, these changes will produce annual savings of over $600 million.

UTILITY TAX REDUCTIONS

To reduce energy costs for residential and industrial consumers and to promote increased competition in the energy market, the Governor is proposing the following reforms and reductions in various taxes that affect utility bills:

- The tax on the importation of natural gas (section 189 of the Tax Law) will be repealed.
- The current franchise tax based on gross receipts and dividends (section 186 of the Tax Law) will be repealed.
- All energy companies will be taxed under a franchise tax based on net income, the method used by most corporations.
- The excise tax imposed on the receipts from the sale of energy commodities (gas and electricity) will be phased out.
- All energy corporations will be taxed on the same basis as other commercial enterprises for property tax purposes. This reform will phase in over a ten-year period to protect local government revenue streams.

The plan is designed to produce immediate rate relief and is expected to save utility ratepayers more than $150 million annually when fully effective.

BANK AND INSURANCE TAX REDUCTIONS

Last year, legislation was enacted to phase down the tax rate imposed on business corporations from 9 percent to 7.5 percent. This year equivalent changes will be made for the bank and insurance taxes. This will ensure business corporations will be treated equitably and provided the same incentives to expand and invest.

When fully effective, these reductions will save banks and insurance companies $150 million and provide additional incentives to expand and invest in New York to the vital sector of financial services.

ALTERNATIVE MINIMUM TAX (AMT)

The AMT will be reduced from 3 percent to 2.5 percent on July 1, 2000. This will lower taxes and provide a boost to manufacturing companies who are often subject to the AMT and find the tax an uncompetitive burden that makes New York an unattractive business location. This reduction will improve New York's competitive position relative to other states who do not impose an AMT. When fully effective, this reduction will save companies subject to the AMT $12 million.

URBAN JOBS TAX CREDIT

Beginning January 1, 2001, businesses who expand employment by more than 25 full-time jobs in a city will be offered up to a $1,000 credit per qualified employee. The credit applies to each job created over the 25 job threshold. In New York City the credit will be available in targeted areas. To receive the maximum benefit the jobs will have to pay at least $8.00 per hour and must be maintained for two years. When fully effective the credit should save employers $60 million per year. This credit is designed to aid economic development, generate jobs and rejuvenate cities throughout the State.

NEW YORK CAPITAL ASSET EXCLUSION

The Governor's tax reduction plan recognizes the importance of attracting entreprenuers and new business enterprises to New York. To encourage this activity, individuals that realize a gain from the sale of tangible or intangible assets actively used in a business in New York will benefit from an exclusion of a portion of the gain from income. The plan applies to assets first used in New York on or after June 1, 1999. The benefits increase the longer the assets are held. For assets held for one year, there is a 5 percent exclusion; for three years, a 10 percent exclusion; for five years, a 15 percent exclusion; and for 10 years, a 20 percent exclusion. When fully effective, this provision is estimated to save taxpayers $20 million.

QUALIFIED EMERGING TECHNOLOGY CREDIT

Beginning January 1, 2000, the Qualified Emerging Technology Credit will be expanded by increasing the employment tax credit from $1,000 for each individual to $1,500 and by expanding the emerging technology capital credit from 10 percent and 20 percent to 25 percent and 50 percent of a qualified investment which is held for a minimum of four and nine years, respectively. When fully effective, companies that qualify will receive an additional savings of $20 million.

ACCELERATE THE ELIMINATION OF MEDICAL PROVIDER ASSESSMENTS

This proposal will terminate the assessments on health facility providers as of March 31, 1999, instead of March 31, 2000, and save $223 million.

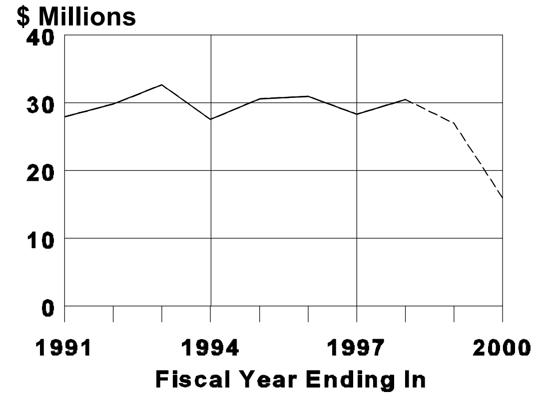
OTHER CHANGES

The Governor is also proposing several changes to the Tax Law that will have minimal effect on revenues, but will benefit taxpayers by reducing unnecessary burdens and providing tax savings to small businesses, farmers, non-profit organizations and individuals.

- The estate tax will be amended to ensure that State law continues to conform to recent Federal estate tax changes.
- The Tax Law will be amended to expand the farm land eligible for the existing credit to offset school property taxes.
- The minimum taxes imposed on petroleum businesses and aviation fuel businesses, and homeowner associations will be eliminated and the tax on agricultural cooperatives will be eliminated for small cooperatives.
- The personal income tax will be amended to protect innocent spouses where one spouse provides erroneous information on a joint return. These changes reduce administrative costs for the Tax Department and burdensome filing requirements for joint filers.
- The existing provisions that reduce the State's real estate transfer tax rates on Real Estate Investment Trusts (REITs) will be extended for three years to continue a successful program promoting real estate development.
- The threshold for filing personal income tax returns will be increased to equal the standard deduction.

ALCOHOLIC BEVERAGE CONTROL LICENSE FEES

Alcoholic Beverage Control License Fees



New York State distillers, brewers, wholesalers, retailers, and others who sell alcoholic beverages are required by law to be licensed by the State Liquor Authority. License fees vary, depending upon the type and location of the establishment or premises operated as well as the class of beverage for which the license is issued. The most significant source of revenue in this category is the licensing of about 2,500 retail liquor outlets, including package stores engaged in carry-out sales, and nearly 24,000 bars and restaurants that offer on-premises consumption. Of the universe of State-licensed bars and restaurants, about 18,600 are authorized to sell beer, wine, and liquor, approximately 3,450 licensees are permitted to sell beer and wine, and 1,700 sell only beer.

Until 1998-99, most licenses and permit fees were issued for three-year periods. This distribution led to variances in gross receipts on a year-to-year basis, particularly for liquor wholesaler and retailer licenses, which peaked every third year. The current fiscal year, 1998-99, would have been a peak year for liquor wholesaler and retailer licenses. However, legislation effective in 1998 (see below), will significantly reduce revenues in 1998-99 and 1999-2000, by replacing certain three-year licenses with one- and two-year licensing options. Since 1992-93, a portion of license fee receipts had been deposited in the Alcoholic Beverage Control Enhancement Account on an annual basis. Revenues deposited into the Account were used to support efforts to improve compliance and expedite license processing. To simplify agency budget presentation and execution, beginning in 1998-99, this special revenue fund was eliminated and all licensing fees were deposited in the General Fund. There will be no reduction in agency funding in 1998-99 and 1999-2000 resulting from this action.

Legislation enacted in 1997 will benefit the alcoholic beverage industry by clarifying the provisions for the sale of beer and wine products and by liberalizing licensing terms for bars and restaurants. On December 1, 1998, the required purchase of three-year licenses was changed, allowing licensees the option of purchasing annual or biennial licenses at a prorated cost. The new licensing plan enables licensees to realize improved cash flow by having the option of making reduced cash outlays on a more frequent annual or biennial basis, rather than the prior three-year basis. Due to the new payment option, and anticipated licensee behavior, the State will lose revenues during the initial three years of the program.

1998-99 RECEIPTS

Alcoholic beverage control license fee net receipts for the first nine months of the fiscal year were $22.6 million, 1.8 percent greater than receipts for the comparable period in 1997-98. Due to the initial effects of the licensing remittance changes discussed above, total gross receipts from alcoholic beverage control license fees will be reduced by $6 million for the year. As a result, gross receipts are estimated to reach $30 million. Refunds will be approximately $3 million, bringing estimated 1998-99 net receipts from this source to $27 million.

1999-2000 PROJECTIONS

Compared to 1998-99, gross alcoholic beverage control license fee receipts will decline significantly, due to the full-year effect of the 1997 licensing legislation. The legislation is expected to reduce projected State license fee receipts by $14 million in 1999-2000. Accordingly, gross receipts are projected at $19 million and refunds at $3 million, resulting in projected net receipts from alcoholic beverage control license fees of $16 million in 1999-2000.

OTHER FUNDS

Until 1998-99, a specific portion of total alcoholic beverage control license fee receipts was designated for deposit in the Alcoholic Beverage Control Enhancement Account. Deposits to this account totaled $2.3 million in 1996-97 and 1997-98. There are no deposits to the Account anticipated in 1998-99 and 1999-2000, as all license fees will be credited to the General Fund.

GENERAL FUND

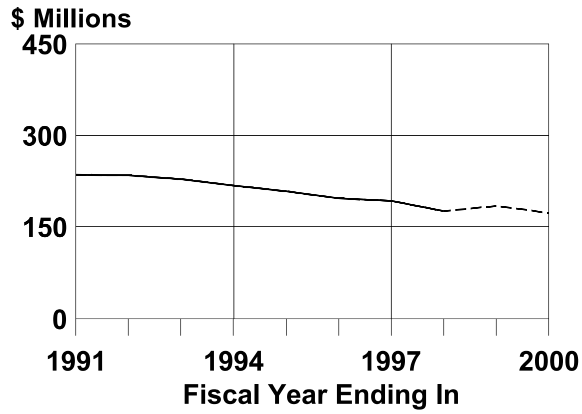
Gross General Fund receipts for 1998-99 are estimated to reach $30 million, and refunds will be about $3 million, bringing net General Fund receipts from this source to $27 million. In 1999-2000, gross General Fund receipts are projected at $19 million and refunds are expected to reach $3 million, leaving projected net General Fund receipts of $16 million for the year.

Receipts from Alcoholic Beverage Control License Fees
(thousands)

	Gross All Funds Collections	Refunds	Net All Funds Collections	Net General Fund Collections	Net ABC Fund 339 Account Collections
			Actual		
1990-91	$30,937	$3,003	$27,934	$27,934	. . . .
1991-92	32,835	3,024	29,811	29,811	. . . .
1992-93	37,120	2,627	34,493	32,678	$1,815
1993-94	32,007	2,237	29,770	27,615	2,155
1994-95	35,964	3,283	32,681	30,581	2,100
1995-96	36,356	2,981	33,375	30,975	2,400
1996-97	34,048	3,417	30,631	28,331	2,300
1997-98	35,549	2,629	32,920	30,620	2,300
			Estimated		
1998-99	$30,000	$3,000	$27,000	$27,000	. . . .
1999-2000 . . .	19,000	3,000	16,000	16,000	. . . .

ALCOHOLIC BEVERAGE TAXES

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



LEGISLATIVE CHANGES

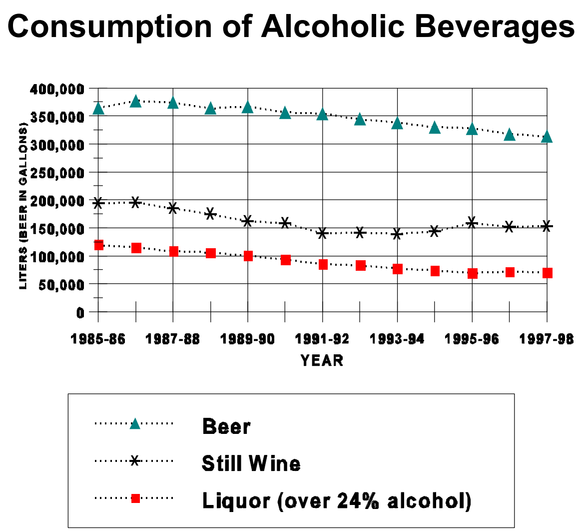
Legislation enacted in 1990 increased the tax rate on all liquor with more than 2 percent alcohol by 21 percent. On July 1, 1994, the tax rates on natural sparkling and artificially carbonated sparkling wines were reduced from 25 cents per liter and 15 cents per liter, respectively, to 5 cents per liter, equal to 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 to 16 cents per gallon. On January 1, 1999, the State beer excise tax was further reduced, to 13.5 cents per gallon.

Current State tax rates are as follows:

Liquor over 24% alcohol	$1.70 per liter
All other liquor with more than 2% alcohol	67 cents per liter
Natural sparkling wine	5 cents per liter
Artificially carbonated sparkling wine	5 cents per liter
Still wine	5 cents per liter
Beer with 0.5% or more alcohol	13.5 cents per gallon
Liquor with not more than 2% alcohol	1 cent per liter
Cider with more than 3.2% alcohol	1 cent per liter

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

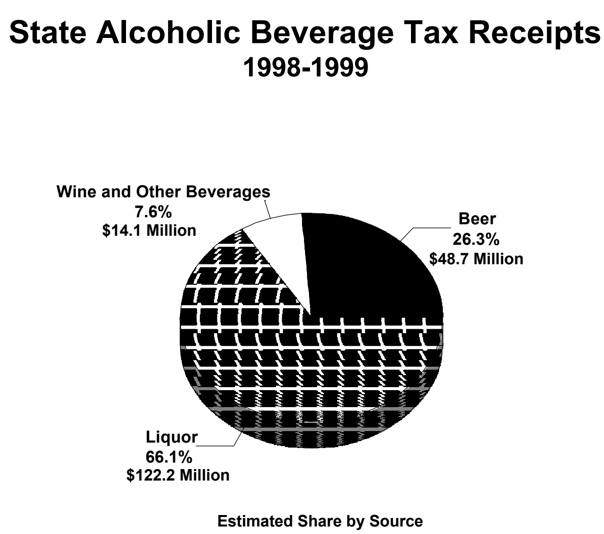
For several years, overall per capita consumption of taxed beverages remained fairly constant. The most important trends were a general decline in liquor consumption and an increase in the consumption of other beverages, reflecting a shift in consumer preferences toward lighter beverages, particularly wines, which peaked in consumption levels in 1995-96. The rising popularity of less expensive beverages with lower alcoholic content is attributed to the increasing proportion of young adults in New York's population and to the impact of rising prices on beverages with higher alcohol content. Additionally, there was an acceleration in the shift of overall consumer tastes toward low alcohol and nonalcoholic beverage selections that further reduced sales of the more traditional alcoholic beverages. (See chart.)



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

1998-99 RECEIPTS

Net receipts during the first nine months of the current fiscal year of $144.3 million represent an increase of 5.4 percent from the comparable period in 1997-98. Collections through the first nine months of 1998-99 include approximately $1.8 million that was improperly distributed to New York City in February 1998 and was properly credited to the State in May 1998. Revenue in the first nine months of 1997-98 was reduced by $6.3 million from the effects of the repeal of the original EFT provisions, which were enacted in 1996-97. Absent these adjustments, year-to-year tax collections would have declined by 0.5 percent ($0.8 million). Long-term declines in liquor consumption have been somewhat offset by a relatively new consumer preference for higher-priced liquor brands that began to become apparent in 1996-97 collections. Based on this experience, as well as the revenue effect of the 1996, 5 cents per gallon, reduction in the beer excise tax rate, and the 2.5 cents per gallon beer excise tax reduction effective January 1, 1999, gross alcoholic beverage tax receipts for 1998-99 are estimated at $185.3

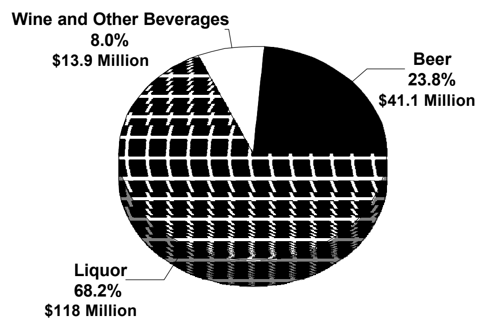


million and refunds at $0.3 million. The resulting net General Fund receipt estimate of $185 million includes $122.2 million from liquor over 24 percent alcohol. The 1997 enforcement provisions will preserve an estimated $3 million in liquor tax revenues that otherwise would have been lost due to evasion and avoidance. The January 1, 1999, excise tax reduction on beer is expected to reduce beer tax collections by $1.2 million, to $48.7 million. Revenues from wine and other specialty beverages are estimated to reach $14.1 million in 1998-99.

1999-2000 PROJECTIONS

Consumption of alcoholic beverages in the coming fiscal year are expected to follow national trends that reflect declines in the sales volume of liquor, beer and specialty beverages. These consumption declines will result in projected excise tax receipt declines from alcoholic beverage sources. Gross alcoholic beverage tax receipts are projected at $173.2 million and refunds at $0.2 million. Total projected net receipts of $173 million include $118 million from liquor, a decline of $4.2 million from 1998-99. Projected beer excise tax receipts of $41.1 million include a reduction of $7.6 million due to the 1999, 2.5 cents per gallon, beer excise tax cut. Revenues from wine and other specialty beverages are projected to total $13.9 million.

State Alcoholic Beverage Tax Receipts
1999-2000

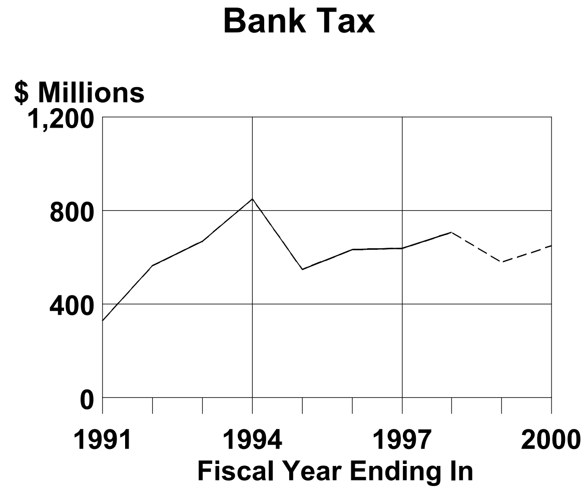


Projected Share by Source

General Fund Receipts from Alcoholic Beverage Taxes
(thousands)

	Gross Receipts	Refunds	Net Receipts
	-------------------- Actual	-------------------	-
1990-91	$236,373	$ 227	$236,146
1991-92	235,254	251	235,003
1992-93	229,113	142	228,971
1993-94	218,341	99	218,242
1994-95	209,134	98	209,036
1995-96	198,280	492	197,788
1996-97	192,960	(123)	193,083
1997-98	177,124	115	177,009
	------------------ Estimated	----------------	-
1998-99	$185,300	$ 300	$185,000
1999-2000	173,200	200	173,000

BANK TAX (Article 32)



Article 32 of the Tax Law imposes a franchise tax on banking corporations. The basic tax rate is 9 percent of entire net income with certain exclusions, discussed below. If a greater tax results, either a fixed minimum tax of $250 or one of two alternative taxes applies. The first alternative tax calculation is one-tenth of a mill on each dollar of taxable assets, or the amount of such assets apportioned to this State. For thrift and other institutions where mortgages comprise 33 percent or more of total assets, and where net worth is less than 5 percent of assets, this alternative tax rate is reduced to one-twenty-fifth of a mill; and for such institutions with a net worth of less than 4 percent of assets, one-fiftieth of a mill. The second alternative tax calculation is 3 percent of alternative entire net income, which is net income calculated without regard to certain exclusions.

SIGNIFICANT STATUTORY CHANGES

When originally added, many provisions of the Bank Tax were scheduled to expire for taxable years beginning on or after January 1, 1990, except the alternative minimum tax measured by assets and those provisions which apply to savings banks and savings and loan associations. Under legislation enacted in subsequent years, the last time being in 1997, this "sunset date" was extended through taxable years beginning before January 1, 2001.

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

— Banks may modify their Federal taxable income by deducting statutorily defined percentages of interest and dividend income. Unlike general corporations, they also may deduct expenses related to earnings from certain excluded income.

— Banks are not required to add back to taxable income any taxes paid to other states.

— The income allocation formula factors for banks, to deal with the taxation of multi-state businesses, differ from the general corporation franchise tax in that deposits are substituted for real property and only 80 percent of New York wages are used. The income allocation formula also differs regarding the treatment of receipts from mutual fund management, where out-of-state receipts are considered point-of-sale and thus increase the income allocation percentage compared to the treatment of such receipts under the corporation franchise tax where such receipts are treated as point-of-destination.

— Separate accounting and exemption of income derived from the operation of an International Banking Facility (IBF) are required under current law. An IBF is a corporate structure permitted to take deposits from and make loans to international sources without interest rate restrictions or reserve requirements.

— Other differences reflect Federal exclusions, Federal agency assistance and monetary transactions unique to banking corporations.

Legislation, enacted in 1990 and extended in 1992 and 1993, increased a temporary surcharge in effect since 1981 from 2.5 percent to 15 percent of tax otherwise due for taxable years ending after June 1990 and before July 1994. However, 1994 legislation provided for a phase-out of the surcharge, which reduced rates to 10 percent midway through the 1994 tax year, 5 percent midway through the 1995 tax year and to zero midway through the 1996 tax year.

The temporary surcharge imposed to support the metropolitan commuter transportation district is also applied to the bank tax, at the rate of 17 percent of the portion of tax otherwise due (excluding the regular business surcharge) allocable to such district.

Legislation in 1994:

— Conformed State estimated tax rules to the Federal rules by requiring large firms to pay 100 percent of their tax liability by the twelfth month of their fiscal year, instead of the previous 97 percent rule.
— Conformed the depreciation rule for non-New York property to Federal law by allowing the Federal tax treatment for such property.
— For taxable years beginning in 1994, the subsidiary capital taxation rules allow deduction of 60 percent of the amount by which gains exceed losses from such capital, to the extent such gains and losses were taken into account in determining taxable income.

Beginning June 1, 1997, the Federal Riegle-Neal Interstate Banking and Branching Efficiency Act of 1994 took effect. This act allows interstate mergers between adequately capitalized and managed banks, subject to concentration limits, state laws and the Community Reinvestment Act evaluations by the Federal Reserve.

In anticipation of changes to the Federal treatment of loan loss reserves by qualified thrift institutions (section 593 of the Internal Revenue Code), New York State amended the Tax Law in 1996 to prevent Federal law changes from significantly altering the deductibility of loan loss reserves when calculating taxable income. Section 593 required thrift institutions to maintain a bad debt reserve and, if converting to a bank, recognize the amount of bad debt reserves as income. The Federal Small Business Job Protection Act of 1996 amended section 593 of the Internal Revenue Code.

The Federal Deposit Insurance Funds Act of 1996 requires that the Federal Deposit Insurance Corporation assess a special premium on deposits insured by the Savings Association Insurance Fund (SAIF). This legislation is an attempt to recapitalize the depleted savings Fund after the SAIF was obligated to bail out thrift institutions during the S & L crisis of the 1980's. The Act also amends section 162 of the Internal Revenue Code to make the assessment deductible in the year paid. The State conforms to this latter provision.

In December 1996, the Federal Reserve Board announced it was increasing, from 10 percent to 25 percent, the amount of total revenue that a nonbank subsidiary of a bank holding company (generally identified as a "section 20 subsidiary") may derive from underwriting and dealing in securities that a member bank may not underwrite or trade. This limit is designed to ensure that the subsidiary will not violate section 20 of the Glass-Steagall Act, the depression era reform intended to separate lending and underwriting institutions. The increase became effective March 6, 1997.

During 1997, legislation was enacted to continue tax relief efforts and conform State tax law to Federal reform. Such legislation:

— Allows banks to claim a prospective net operating loss deduction (NOLD) for losses incurred on or after January 1, 2001.
— Allows banks that have elected Federal S corporation status to elect New York S corporation status and receive the same treatment as other New York S corporations (under the corporation franchise tax), including conforming changes as a result of the 1996 Federal Small Business Jobs Protection Act.
— Authorizes the formation of limited liability trust companies under Article 32, subject to certain restrictions.

The 1998-99 State Budget included bank tax relief as follows:

— The investment tax credit (ITC) was extended to banks that are brokers or dealers in securities.
— Gain from the sale of a qualified, emerging technology investment is deductible from Federal income for the bank tax, if reinvested in another qualified company. The amount deferred must be added to Federal income when the reinvestment is sold.

Proposed Statutory Changes

The 1998-99 State Budget included legislation to reduce the rate imposed under the net income base of the corporation franchise tax on general business corporations. The rate reduction, from 9 percent to 7.5 percent, is phased in over three years with the first phase applying to taxable years beginning after June 30, 1999. The current Budget proposes the same benefits be afforded to banks and insurance companies. The first phase applies to taxable years beginning after June 30, 2000. The timing of these reductions and the phase-in schedule provide the same benefit to banking corporations while allowing the State to continue to implement all of the multi-year tax reduction programs already in place.

RECENT DEVELOPMENTS

Historically, bank tax collections have been extremely volatile. For example, receipts grew by 50 percent between 1991-92 and 1993-94, declined by 36 percent in 1994-95, increased by 16 percent in 1995-96, increased by less than 1 percent in 1996-97, and by almost 11 percent in 1997-98. However, only extraordinary audit collections in 1996-97, which accounted for approximately 28 percent of collections, versus 11 percent in 1995-96 and 2 percent in 1997-98, prevented an 18 percent decline in that year.

Since 1993-94, with the exception of a single extraordinary payment in 1996-97, audit collections as a percent of net collections have declined considerably. This reduction can, in part, be attributed to the end of adjustments to liability periods from the mid to late 1980's when significant State and Federal law changes occurred.

CARTS Collections to Net Collections
(millions)

State Fiscal Year	CARTS	Net Collections	CARTS to Net Collections (Percent)
1989-90	$141	$425	33
1990-91	116	330	35
1991-92	154	566	28
1992-93	139	670	21
1993-94	76	851	9
1994-95	53	548	10
1995-96	71	635	11
1996-97	178	640	28
1997-98	16	707	2

Even with the expected decline in audit collections, net collections have remained volatile. Part of this volatility is attributed to large swings in underlying liability, which exacerbates collection volatility because of payment rules. The first installment on current liability is based on 25 percent of prior year liability, which is paid at the end of the State fiscal year (March for calendar year filers). For years in which liability is increasing the remaining installments are disproportionately higher than the first installment, while the reverse occurs when liability drops. The following table illustrates this relationship. If the current year estimated liability for a bank is low, the first installment on the bank's next year's liability reflects this weakness because of the first installment rule. However, if the taxpayer's current year estimated liability increases, subsequent estimated liability payments must increase to meet revised current year liability expectations. Summarizing, if there are swings in liability these are exacerbated by payment rules.

Calendar Year Commercial Banks Estimated Liability Payments
(millions)

Year	First Installment	Percent Change	Estimated Liability Payments	Percent Change	Current Year Estimated Liability	Percent Change
1992	$ 61	NA	$315	NA	$376	NA
1993	66	8	563	79	629	68
1994	145	120	412	-27	557	-11
1995	89	-39	588	43	677	21
1996	146	64	445	-24	591	-13
1997	112	-23	602	35	714	21
1998	166	48	. . . .	. . . .	. . . .	. . . .

As the following table illustrates, when the estimated liability payments and the first installment are converted to a State fiscal year the problem is magnified. For example, the 68 percent increase in 1993 estimated liability translates into an 86 percent increase in payments on 1993 liability during SFY 1993-94, while an 11 percent decline in 1994 estimated liability causes a 29 percent decline in payments on liability during SFY 1994-95. The impact of the volatile earnings of banking corporations in recent years coupled with the payment pattern described here is a primary factor in understanding the wide fluctuation in bank tax collections during the 1990's. This recurring pattern is described in more detail for the past several years in what follows.

Calendar Year Commercial Banks Estimated Liability Payments
During the State Fiscal Year
(millions)

State Fiscal Year	Current Year Estimated Liability Payments	Next Year First Installment	Payments on Liability (Current and Next) during the State Fiscal Year	Percent Change
1992-93	$315	$ 66	$381	. . . .
1993-94	563	145	708	86
1994-95	412	89	501	-29
1995-96	588	146	734	47
1996-97	445	112	557	-24
1997-98	602	166	768	38

In addition to the calendar year commercial banks' swings in liability, part of the decline in 1994-95 was due to the continued weakness in earnings from foreign banks, especially from Japanese banks, many of which had incurred substantial losses as the table at the end of this section illustrates. The largest absolute changes in receipts occurred almost exclusively in the commercial (calendar year and fiscal year) banking sector.

Although several factors contributed to the 1994 liability decline, the single most important reason was the steady rise in interest rates during this period, which affected the following areas:

— The unprecedented spread between the interest rates banks charge on existing loan portfolios and their "cost of funds" as paid on deposits, which contributed to the growth in bank earnings through 1993, deteriorated in 1994 as the Federal Reserve Board increased interest rates on several occasions, thereby depressing bank earnings.

— These interest rate increases also adversely affected trading and investment banking revenues from stock and bond markets, and from such financial hedging instruments as derivatives. In general, banks that specialize in the capital market business, including some of the largest commercial banks in New York, experienced declining profits in 1994 following very strong earnings in 1993. This is in contrast to firms that focus on consumer banking, many of which benefitted from rising interest rates through improved earnings from non-fixed interest rate products such as credit cards and other loans.

— Some banks posted substantial losses from currency trading and experienced well publicized losses from derivative activity, some of which were the subject of litigation by customers.

— As interest rates increased, the value of certain investment portfolios deteriorated and was reflected in 1994 earnings.

However, the decrease in payments on 1994 liability during the 1994-95 period does not fully explain the unprecedented decline in receipts between 1993-94 and 1994-95. Although "back-year adjustments," the credits against current year liabilities or refunds taken against prior voluntary overpayments, are usually substantial in the bank tax, such adjustments reached unprecedented levels in 1994-95, as banks reduced payments on 1994 liability with credits from 1993. This suggests that many commercial banks overstated their 1993 earnings to a larger degree than in the past, which they subsequently corrected by reducing their payments on 1994 liability.

In addition to taxpayers overstating their ultimate liability in 1993, the installment payment rules in the Tax Law further exaggerated the swing in collections. Although these effects are always present, the unusually large change in liability in calendar year 1993 and 1994 made, in effect, 1993-94 collections considerably larger and 1994-95 collections much smaller than they would have been in the absence of the fixed first installment rule.

The increase in 1995-96 collections was driven primarily by an estimated 50 percent increase in the calendar year commercial banking sector's surcharge-adjusted liability. Because 1994 liability was low, the first surcharge-adjusted installment on 1995 taxes was reduced to $79 million, or a 37 percent decline from the comparable payment on the 1994 tax year. This small first installment magnified growth in the remaining surcharge-adjusted payments on 1995 liability during the 1995-96 period. Some of the cash benefit of the 1995 liability increase was absorbed in 1996-97 as lower prior year adjustments; this pattern continued into 1997-98.

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

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

1998-99 RECEIPTS

Net collections from commercial banks during 1998-99 are projected to decrease by $179 million from 1997-98. This reflects a $36 million decline in payments on current-year (1998) liabilities and reduced first installments on next-year (1999) liabilities during 1998-99. Commercial bank collections have also suffered from increased refunds and carry forwards of prior year payments which are projected to increase by $143 million. However, bank tax collections will benefit from a $44 million increase in audit payments. In addition, net collections for thrift institutions are projected to increase by $8 million. As a result, net collections for Article 32 are projected to be $580 million, $127 million below the amount received in 1997-98.

More specifically, refunds are expected to reach approximately $75 million by year's end, $15 million above 1997-98 levels. In addition to cash refunds issued to taxpayers, collection reports for calendar year commercial banks also show higher overpayments of prior-year (1997) liability, which are taken as credits against current-year (1998) liability. Through December, prior-year adjustments (1997) have totaled $185 million for calendar year commercial banks and have reduced cash payments by that amount in State fiscal year 1998-99. Over the last five State fiscal years (1993-94, 1994-95, 1995-96, 1996-97 and 1997-98), calendar year commercial banks have made prior-year adjustments of $97 million, $126 million, $200 million, $185 million and $152 million respectively. The growing overpayment of estimated liability from 1993-94 to 1995-96 may have been the result of changes in the estimated payment provisions of the Tax Law, discussed earlier, and the phase-out of the business tax surcharge. However, while prior year adjustments slowed in 1996-97 and 1997-98 as banks adjusted to earlier changes, they are expected to increase in 1998-99.

Commercial bank net collections through December have totaled $408 million. Based on collections to date, net collections for the entire period are projected to reach approximately $565 million. This is a $135 million decrease from the 1997-98 level. The decrease is more than accounted for by the lower payments on 1998 liability and the increased adjustments (refunds and credit carry forwards) to prior-year payments. However, these net cash collection decreases have been partially offset by the return of audits to more normal levels during the current period.

Through December, collections from commercial bank fiscal year taxpayers of approximately $86 million represent a 45 percent increase over 1997-98. These fiscal year taxpayers are projected to account for just over 15 percent of total bank tax collections.

For the first time since 1995, collections from savings institutions through December are positive. It is possible that the large adjustments to prior-year liabilities resulting from the savings and loan debacle have diminished.

However, the restructuring of savings and savings and loan institutions has lowered the number of these firms and their tax liability base. In some cases, commercial banks have acquired thrifts and in other cases thrifts have merged and have been reclassified as commercial banks. In fact, from 1990 to 1994 the number of thrifts declined by 28 percent while their liability declined by 45 percent.

1999-2000 PROJECTIONS

Net collections for Article 32 are projected to be $650 million, $70 million above the amount received in 1998-99. Payments on 1999 liability from calendar year commercial banks during 1999-2000 are projected to increase by just under 10 percent. This growth is the result of a lower 1998 estimated liability that generates a small first installment in March of 1999. Subsequently, a higher estimated 1999 liability will require the banks to increase their payments on 1999 liability during 1999-2000. Also, the lower 1998 estimated liability should reduce the credit carry forwards from 1998 into 1999.

As discussed earlier, the increased amount of revenue "section 20" subsidiaries may derive from underwriting and dealing in securities will increase acquisition opportunities for banks. For example, during 1997, Banker's Trust purchased a stock brokerage firm and in 1998 Citicorp merged with Travelers Group whose subsidiaries included Salomon Smith Barney. While bank acquisitions, if successful, will increase the tax base in the long run, these transactions increase the volatility of the tax base in the short run, as these firms complete very complex financial transactions.

As discussed earlier, large adjustments to prior year liability stemming from the savings and loan crisis have subsided. However, friendly mergers with, or acquisitions of, other thrift institutions will continue as a variety of financial institutions look to expand their market coverage into traditional thrift businesses, including home mortgage loans and residential and commercial loans. These complex financial transactions will continue to increase this industry's revenue uncertainty.

Total bank collections for 1999-2000 are projected at $650 million, with collections from commercial banks estimated at $640 million, and the balance, $10 million, from thrift institutions.

Tax Receipts by Type of Bank
(thousands)

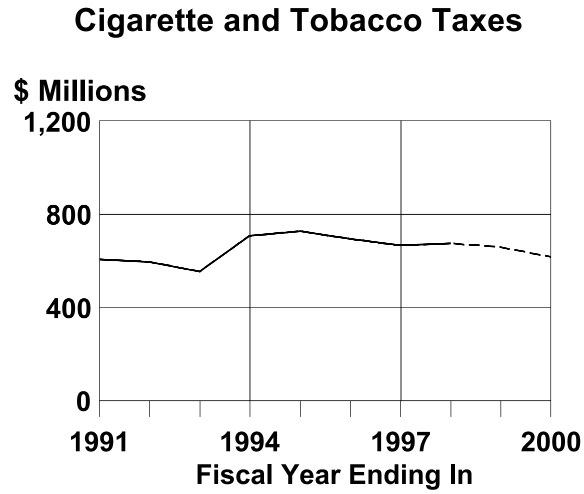
	State Banks, Trust Co's & National Banks	Savings Banks	Savings & Loan Assocs.	Total
		Actual		
1990-91	$270,647	$50,961	$ 9,092	$330,700
1991-92	498,918	54,432	12,469	565,819
1992-93	569,244	84,798	16,440	670,482
1993-94	784,033	45,861	20,840	850,734
1994-95	486,102	50,965	10,885	547,952
1995-96	611,513	24,455	(1,305)	634,663
1996-97	637,448	(3,003)	5,492	639,937
1997-98	700,344	1,183	5,796	707,323
		Estimated		
1998-99	$565,000	$10,000	$ 5,000	$580,000
1999-2000.	640,000	7,000	3,000	650,000

Bank Tax Receipts
(thousands)

	Gross Collections	Refunds	Net Collections
		Actual	
1990-91	$442,822	$112,122	$330,700
1991-92	628,800	62,981	565,819
1992-93	705,705	35,223	670,482
1993-94	905,413	54,679	850,734
1994-95	614,609	66,657	547,952
1995-96	702,354	67,691	634,663
1996-97	723,569	83,632	639,937
1997-98	765,723	58,400	707,323
		Estimated	
1998-99	$655,000	$ 75,000	$580,000
1999-2000	710,000	60,000	650,000

CIGARETTE AND TOBACCO TAXES

The New York State cigarette excise tax is imposed on the sale or use of cigarettes in the State at the rate of 56 cents per package of 20 cigarettes. State registered wholesalers purchase tax stamps from licensed stamping agents and affix the stamps to cigarette packages to be sold by New York State registered retailers. Purchasers of non-State stamped cigarettes (e.g., those sold on Indian reservations or out-of-State) are required to remit a cigarette use tax to the Department of Taxation and Finance for product consumed within the State. Prior to June 1, 1993, the State tax rate was 39 cents per package; prior to June 1, 1990, the State tax rate had been 33 cents per package. New York City levies a separate tax of 8 cents per standard package.



The Federal government imposes a cigarette excise tax on manufacturers and first importers of cigarettes. This tax was raised from 20 cents to 24 cents per pack of 20 cigarettes on January 1, 1993. (See table below for a listing of historical State, Federal and New York City excise tax rate revisions.) Federal legislation, signed on August 5, 1997, increased the Federal cigarette tax to 34 cents per pack, beginning January 1, 2000. On January 1, 2002, the Federal cigarette tax will increase an additional 5 cents, to 39 cents per pack. The reduced consumption resulting from the Federal tax increases will have no State revenue effect in 1998-99, but will result in a revenue loss in 1999-2000.

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

State		Federal		New York City	
Date Revised	*Rate*	*Date Revised*	*Rate*	*Date Revised*	*Rate*
--	3 cents	--	7 cents	--	1 cent
April 1, 1959	5 cents	November 1, 1951	8 cents	May 1, 1959	2 cents
April 1, 1965	10 cents	January 1, 1983	16 cents	June 1, 1963	4 cents
June 1, 1968	12 cents	January 1, 1991	20 cents	January 1, 1976	8 cents
February 1, 1972	15 cents	January 1, 1993	24 cents		
April 1, 1983	21 cents	January 1, 2000*	34 cents		
May 1, 1989	33 cents	January 1, 2002*	39 cents		
June 1, 1990	39 cents				
June 1, 1993	56 cents				

* Scheduled excise tax increase

Since 1993, the State has imposed a tax on other tobacco products, such as chewing tobacco and cigar tobacco, equal to 20 percent of their wholesale price. From July 1, 1989, to May 31, 1993, the tax rate was 15 percent. Similar to the cigarette tax, the Federal government imposes an excise tax on manufacturers and importers of tobacco products.

Legislation enacted in 1990 added an annual license fee of $100 for the registration of retail establishments and $25 for every vending machine that sells cigarettes or tobacco products. There are currently about 33,000 State-licensed retailers. This represents an increase of almost 5,000 retailers since enforcement legislation was signed by Governor Pataki in 1996. There are also approximately 6,000 retail vending machines in the State.

EVASION

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

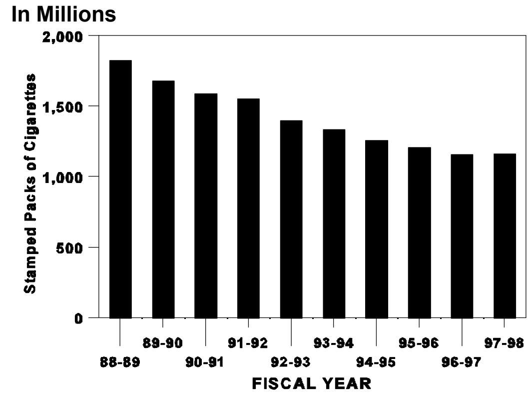
The positive effects of this legislation have been realized in the current fiscal year through an increase in the number of new retailer license applications for the 1999 calendar year. The increase in retailer licenses, as well as a continued enforcement presence, will lead to more moderate declines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

CONSUMPTION TRENDS

Taxable cigarette consumption has declined by about 53 percent since 1965 due to increases in: prices, awareness of the adverse health effects of smoking, smoking restrictions, and anti-smoking education programs. In recent years, consumption declines have slowed as less expensive "generic" brands of cigarettes have gained a larger share of taxable cigarette purchases.

Price-cutting promotions of major-label cigarette brands, intended to regain market share from generic brands that began in 1993 and continued through 1994, offset much of the expected consumption declines resulting from the June 1, 1993, 17 cent State cigarette excise tax increase. Since 1994, manufacturers have resumed their normal pattern of semi-annual price increases for major-label brands. These price increases, in addition to a major price increase announced on November 23, 1998, have increased prices well above their pre-1994 levels. Additionally, the settlement of cigarette wholesale bankruptcies resulted in approximately $6.7 million in atypical revenues in the last quarter of 1994-95 and $1.7 million in 1995-96. Adjusted for these bankruptcies and other atypical audit receipts, taxable State cigarette consumption declined 4.1 percent (see chart) and taxable tobacco consumption increased 13.8 percent during 1995-96. Cigarette consumption declined by 4.1 percent in 1996-97, but the revenue impact was mitigated by gains in revenue from an increase in other tobacco products consumption of 22.8 percent. Partly through the enforcement efforts of the Department of Taxation and Finance, cigarette excise tax collections increased by about $4 million, or 0.4 percent in 1997-98. Tobacco tax collections increased by $3.7 million (22.5 percent) during the same period.

New York State Taxable Cigarette Consumption



1998-99 RECEIPTS

Tobacco Settlement

On November 23, 1998, a major settlement between 46 states' Attorneys General and cigarette manufacturers was signed. In addition to billions of dollars in settlement costs to be paid out to eligible states, the major cigarette companies agreed to take actions to reduce teen smoking, limit advertising, pay punitive damages and provide funds for smoking cessation programs.

In the first nine months of 1998-99, net cigarette and tobacco tax receipts of $531.6 million represent an increase of about 0.7 percent over the similar period in 1997-98. Cigarette tax collections have increased by $4.3 million (0.8 percent) largely due to advanced purchases of stamped cigarettes in November 1998, made in anticipation of the major manufacturers' cigarette price increases. These purchases resulted in increased December credit payments and a 5.2 percent tax receipt increase in December 1998, compared to December 1997. Also, positive year-to-year comparisons were due to the success of the Department of Taxation and Finance's enforcement efforts which offset taxable consumption declines from two manufacturers' price increases: 5 cents per package of 20 cigarettes on April 13, 1998, and 6 cents per package on August 8, 1998. A third price increase, of 45 cents per package, beginning on November 23, 1998, coinciding with the landmark litigation settlement, is expected to reduce taxable cigarette consumption in the last quarter of 1998-99 and more dramatically in 1999-2000.

Year-to-year cigarette consumption in the last quarter of 1998-99 is estimated to decline about 12.6 percent, due primarily to retail prices that are more than 20 percent higher than in the similar period of 1997-98. Collections are also expected to decline due to the November pre-buying that accelerated purchases out of December 1998 and moved subsequent credit payments from January 1999 into the third quarter of the fiscal year. Receipts from the tobacco products tax have declined by about $0.8 million (5.4 percent) in the first nine months of 1998-99. Tobacco consumption is expected to continue to fall in the last three months of 1998-99, by $0.7 million compared to the last quarter of 1997-98.

For the full year, cigarette consumption is estimated to fall by 2.1 percent, and tobacco consumption is expected to decline by 7.5 percent. Resulting gross cigarette and tobacco products tax receipts for the year are estimated at $669 million and refunds at $9 million, for net General Fund receipts of $660 million for all of 1998-99. This amount includes net cigarette tax receipts of $638 million, tobacco products tax receipts of $18.4 million, and retail license and vending machine fees of $3.6 million. The estimated cigarette tax collections include the continued effects of the special 1996 enforcement legislation, which will raise $15 million in 1998-99.

1999-2000 PROJECTIONS

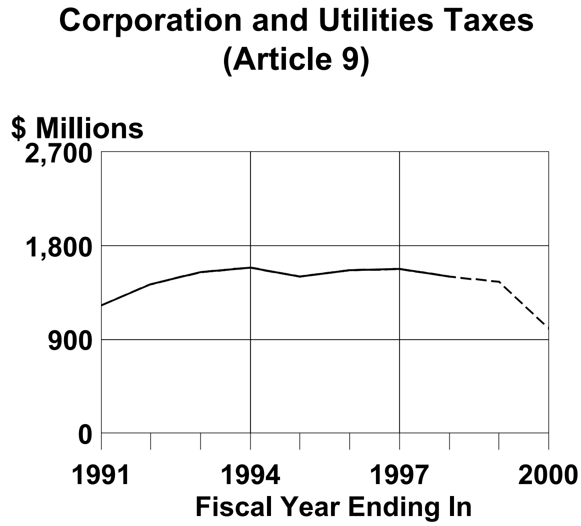
The full-year effect of the three manufacturers' price increases in 1998, coupled with the initial effects of the January 1, 2000, Federal excise tax increase, and the continuation of manufacturers' smaller semiannual price increases are projected to substantially reduce State excise tax collections in 1999-2000. Restrictions on cigarette advertising agreed to in the 1998 settlement, combined with expanded public health laws and persistent concerns with the health effects of cigarette smoking, will result in further declines of taxable cigarette consumption in the coming fiscal year. The continued impact of the 1996 cigarette enforcement legislation is expected to moderate the rate of decline in the overall "taxable" cigarette consumption base in 1999-2000. This will result in "taxed" cigarette purchases that are 6.4 percent less than in 1998-99. The major cigarette price increases instituted in 1998, as well as the advertising restrictions imposed upon manufacturers, are projected to reduce receipts by about $32 million in 1999-2000. Gross General Fund cigarette and tobacco tax receipts in 1999-2000 are projected at $628 million and refunds at $10 million, for net General Fund receipts of $618 million. This estimate includes $597 million in net cigarette tax receipts, $17.3 million from the tobacco products tax, and $3.7 million in license fees.

General Fund Receipts from
Cigarette and Tobacco Taxes
(thousands)

	Gross Collections	Less Refunds	Net General Fund Collections
	Actual		
1990-91	$611,895	$ 5,553	$606,342
1991-92	601,851	5,692	596,159
1992-93	560,584	5,497	555,087
1993-94	716,103	8,485	707,618
1994-95	734,134	7,638	726,496
1995-96	700,691	7,275	693,416
1996-97	675,756	8,724	667,032
1997-98	680,950	5,447	675,503
	Estimated		
1998-99	$669,000	$ 9,000	$660,000
1999-2000	628,000	10,000	618,000

CORPORATION AND UTILITIES TAXES
(Article 9)

Article 9 of the Tax Law imposes taxes on a number of industries, including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives. The primary sources of Article 9 State revenues come from gross receipts taxes on the public utility, telecommunications and transportation industries.



Legislation in 1997 continued the series of steps that have been taken to reduce the tax load on utility bills by scheduling rate cuts that will bring the rate on the largest components of this Article down from 3.5 percent to 2.5 percent of gross income. Prior to 1995, section 186-a imposed a tax on both the furnishing of utility services (including both the energy and lighting public utilities) and the telecommunications industry. Chapter 2 of the Laws of 1995 moved the tax on telecommunications services to a new section 186-e and provided an industry supported method of allocating revenues. Under the 1997 legislation, the section 186-a and 186-e rates were reduced from 3.5 percent to 3.25 percent October 1,1998, and to 2.5 percent after 1999.

The 1995 legislation enacting section 186-e for the taxation of telecommunications services, in part, corrected a provision governing the deduction of carrier access services that was found unconstitutionally discriminatory. That legislation also promoted tax equity among long distance carriers by allocating revenues depending upon where a call is placed or terminated and billed. These changes also averted the payment of an estimated $54 million of additional retroactive refund claims arising from the suit against the carrier access deduction. Section 186-a and 186-e taxes accounted for over 78 percent of Article 9 General Fund collections in 1997-98.

The 1997 rate cuts also reduced the additional franchise tax on transportation and transmission companies imposed by section 184. This tax is imposed on gross earnings from all sources in the State, including an allocated portion of receipts from interstate activities. The tax rate on local telephone companies will be 0.75 percent through June 2000 and 0.375 percent thereafter. The Telecommunications Act of 1995 restructured the transmission portion of section 184 to apply to only local telecommunications services. Furthermore, all toll revenues from international, interstate and between Local Access Transport Areas (LATAs) services and 30 percent of intra-LATA toll revenues were excluded from the tax base. Legislation enacted in 1996 subjects railroad and trucking companies to the Article 9-A net income tax for tax years beginning after 1997 unless such companies elect to remain subject to Article 9 taxes. Companies making such an election would become subject to a reduced section 184 tax rate of 0.6 percent, effective for tax years beginning in 1997. After the 1997 rate cuts, companies so electing would be subject to the reduced 0.375 percent rate for periods beginning in July 2000 and thereafter. Approximately 3 percent of 1997-98 Article 9 General Fund collections were attributable to section 184 taxes.

Section 186 provides for a franchise tax on public utilities including waterworks companies, gas companies, and electric or steam heating, lighting and power companies. The tax is assessed at the rate of 0.75 percent on gross earnings and 4.5 percent on the amount of dividends paid which exceed 4 percent of the amount of paid-in capital employed in New York State. Section 186 taxes contributed over 13 percent of 1997-98 Article 9 General Fund collections.

Taxpayers subject to sections 184, 186, 186-a and 186-e make tax payments on an estimated basis in March, June, September and December; a final payment is made in March. These payment schedules are comparable to those required for corporations taxable under other articles of the Tax Law. In addition, for taxable years beginning in 1994, State estimated tax rules for large businesses conform to Federal rules by requiring affected firms to pay 100 percent of their tax liability by the 12th month of their fiscal year.

Section 183 provides for a franchise tax on transportation and transmission companies including telecommunications, pipeline, trucking, railroad and other transportation companies. The tax is imposed on these companies either at the rate of 1.5 mills on each dollar of net value of issued capital stock allocated to New York State or, if dividends paid on its capital stock are 6 percent or more, the tax rate is 3/8 of a mill for each 1 percent of dividends. There is a minimum tax of $75, but the method of computation that yields the largest tax is controlling. Chapter 61 of the Laws of 1989 exempts airlines and freight forwarders from this tax and the tax imposed under section 184; these companies are now subject to the general business taxes imposed under Article 9-A of the Tax Law. The distribution of receipts from sections 183 and 184 to the State's General Fund and the Mass Transportation Operating Assistance Fund (MTOA) are discussed below in "Other Funds." Approximately 1 percent of 1997-98 Article 9 General Fund collections were derived from section 183 taxes.

Minor amounts of Article 9 taxes are collected under sections 180, 181, 185 and 189 and are discussed below.

Section 180 assesses an organization tax upon newly incorporated or reincorporated domestic (in-State) corporations. The tax is imposed at a rate of 1/20 of 1 percent of the total amount of the par value of the stock that the corporation is authorized to issue; for shares without par value the rate is five cents per share. Any change in authorized stock or capital structure is also taxed.

Section 181 imposes a license fee on out-of-State corporations for the privilege of exercising a corporation franchise or conducting business in a corporate or organized capacity in New York State at a rate equivalent to the organization tax imposed by section 180. An annual maintenance fee of $300 is also imposed. The first payments under the franchise taxes imposed by Article 9 (Corporation Tax), Article 9-A (General Business Tax), or Article 32 (Bank Tax) are considered payments of section 180 or 181 liability. After the Tax Department determined that maintenance fee receipts paid by corporations together with their other franchise tax remittances should be reflected in the Department's accounts as collected for section 181 liabilities, adjustments were taken in 1996-97 and 1997-98 for remittances for corporations’ franchise taxes for liability years ending in 1993, 1994 and 1995. Such adjustments are not a net cash gain to the financial plan, however, because the roughly $34 million and $20 million increases shown for section 181 are fully offset by reductions in other tax articles, primarily the corporation franchise tax. Adjustments for liability years ending in 1996 and 1997 are projected to be approximately $17 million in 1998-99.

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

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

The temporary 17 percent surcharge imposed to support the metropolitan commuter transportation district applies to the taxes imposed under sections 183, 184, 186, 186-a, 186-e and 189. Collections totaled over $188 million in 1997-98 and are included in the "Regional Business Tax Surcharge" section estimates.

1998-99 RECEIPTS

The primary factors used for estimating corporation and utilities tax collections are the level of consumption of electricity and natural gas and the price of each commodity. The following table illustrates annual trends in the consumption of electricity and natural gas through 1999. The information shown for the years 1990 to 1997 is based on published reports of the Public Service Commission, while that shown for 1998 through 1999 are estimates based on the historical data and on forecasts of general economic conditions for such years.

The quantities in the table reflect sales to ultimate consumers and do not include sales for resale.

Table I

	Electricity Sales (millions of kilowatt hours)	Percent Change	Gas Sales (millions of M cubic feet)	Percent Change
1990	112,312	0.8	538.3	-4.1
1991	112,426	0.1	523.8	-2.7
1992	111,478	-0.8	589.2	12.5
1993	112,352	0.8	595.1	1.0
1994	113,369	0.9	627.7	5.5
1995	112,771	-0.5	627.5	0.1
1996	113,660	0.8	635.5	1.3
1997	114,087	0.4	634.5	-0.2
1998 (est)	111,945	-1.9	539.1	-15.4
1999 (est)	115,465	3.1	553.6	3.1

Based on data through September 30, 1998, consumption of electricity in 1998 is estimated to have decreased by less than 2 percent from the previous year, while the quantity of natural gas consumed dropped by more than 15 percent. Natural gas prices have increased by nearly 7 percent. The price of electricity decreased by approximately 3 percent. These are reflected in the estimates for section 186 and 186-a taxpayers.

More than one-third of section 186-a receipts and three-quarters of 184 receipts in recent years have come from telecommunications companies. Former 186-a telecommunication receipts are now received under section 186-e. New services and data communications have increased call and message volume, while competition and deregulation have held down prices. Telecommunications companies' gross receipts in 1998 are estimated to have declined by less than 1 percent.

Legislation enacted in 1996 to lower section 184 taxes on rail and trucking companies is estimated to reduce collections by $12 million in each of 1998-99 and 1999-2000.

All funds collections through December 1998 are $1,144 million, a decrease of $23 million from the comparable period in 1997. Total receipts for 1998-99 include an estimated $20 million in audit collections. After adjusting for net refunds, year-to-year cash collections are expected to decline by approximately $45 million or 3 percent. After reflecting the factors discussed above, corporation and utilities taxes for 1998-99 are expected to yield total All Funds receipts of $1,532 million.

1999-2000 PROJECTIONS

In the coming year, the consumption of electricity and natural gas is projected to grow over 3 percent. The price of electricity is projected to drop nearly 3 percent and the price of natural gas is expected to decline less than 1 percent. Factors such as conversion from one fuel type to another, the severity of the weather, and the availability of oil or natural gas influence the levels of energy consumption and energy prices. Telecommunications companies' receipts are expected to grow over 1 percent.

Apart from the underlying economic activity, collections will be affected by scheduled tax rate reductions. The elimination of the Temporary Business Tax Surcharge reduced aggregate collections in 1997-98 by approximately $240 million. It is estimated that rate payers will save approximately $220 million in 1998-99 and $230 million in 1999-2000 from the elimination of the 15 percent surcharge. The 1997 tax rate reductions are estimated to reduce collections in 1999-2000 by approximately $99 million. The Power for Jobs tax credits, first enacted in 1997 and accelerated by legislation enacted in 1998, will lead to a further reduction of $80 million. Also, collections of prior-year liabilities, after audit, are projected at $20 million in 1999-2000. Under current law, total receipts are projected at $1,402 million.

RISKS

The forecast assumes average temperature ranges during 1999 and 2000. Continued milder-than-average weather could reduce heating or cooling energy demand and lower consumption below the current forecast. Prices are sensitive to supply and demand, conditions in the commodity market in question and general inflation. The present forecast is based on the economic projections outlined in the Economic Backdrop section. The US economy is expected to grow without fanning inflation and this results in continued growth in oil and natural gas production to meet domestic demand, offset by upward pressure on prices. In a boom-bust scenario, energy prices could climb rapidly in 1999-2000, following overall inflation. In a hard-landing scenario, a correction in the financial markets early in 1999 leads to a downward spiral of economic activity, reducing energy consumption below the baseline forecast. Lowered demand would put further downward pressure on energy prices.

Ongoing changes in the regulation of electric services and natural gas distribution and sale have the potential to interact with our tax structure in unpredictable ways. The former system of heavily regulated energy utility companies with monopoly markets is evolving into a competitive marketplace. New energy service companies as well as subsidiaries or combinations of the former utility companies will provide power to customers wherever it may be economically delivered. These changes will erode the Article 9 tax base over time.

PROPOSED LEGISLATION

This Budget recommends a complete overhaul of energy taxation in recognition of a rapidly evolving marketplace for energy products. Legislation submitted with this Budget will eliminate the section 186 special franchise tax. This will level the competitive playing field so that all energy companies will be subject to the same net income based franchise taxes. The section 189 gas import tax will also be eliminated. In addition, that portion of the 186-a additional franchise tax applicable to revenues from the commodity costs of energy will be phased down and eliminated over a five-year period. The proposal is designed to provide immediate benefits to ratepayers. Article 9 receipts will be reduced by an estimated $309 million.

OTHER FUNDS

Taxes imposed under Article 9 also support activities outside the General Fund. In calendar year 1997, 49.5 percent of receipts from the basic taxes levied under sections 183 and 184 were statutorily required to be deposited in the Metropolitan Transportation Operating Assistance Fund (MTOAF), a special revenue fund. In 1998 and 1999, 54 percent, 64 percent in 2000 and 80 percent in 2001 and thereafter of such receipts will go to MTOAF. The General Fund distribution will correspondingly drop to 50.5 percent for calendar year 1997, to 46 percent in 1998 and 1999, to 36 percent in 2000 and to 20 percent for 2001 and thereafter. These changes will compensate MTOAF for revenue losses associated with the 1997 tax rate cuts and 1996 legislation reducing taxes on the railroad and trucking industries by shifting the financial impact to the General Fund. Estimated special revenue fund receipts from section 183 and 184 taxes are anticipated to total $77 million in 1998-99 and $92 million in 1999-2000. Receipts from the 17 percent regional business tax surcharge imposed in the Metropolitan Transportation region also are deposited to this fund.

GENERAL FUND

After the deposits discussed above, General Fund net receipts for 1998-99 are estimated to reach $1,455 million.

Under current law, General Fund net collections for 1999-2000 are projected at $1,310 million, after the tax rate reductions, proposed additional reforms and distributions to other funds. After the proposed legislation, General Fund net receipts are projected at $1,001 million.

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

Section of Law	Type of Companies	All Funds 1997-98 Actual	1998-99 Estimated	1999-2000 Projected	1999-2000 Proposed
180	Organization and reorganizations	$ 1.7	$ 7.0	$ 2.0	$ 2.0
181	Foreign corporations and maintenance fees	23.7	23.0	23.0	23.0
183	Transportation and transmission companies	36.6	48.0	49.0	49.0
184	Additional tax on transportation and transmission companies	106.8	95.0	114.0	114.0
185	Agricultural cooperatives	0.2	0.2	0.2	0.2
186	Water, steam, gas, electric, light and power companies	196.3	189.0	191.0	(57.8)
186a&e	Public utilities	1,187.4	1,146.8	999.8	962.6
189	Natural gas importers	24.3	23.0	23.0	0.0
	Subtotal	$1,577.0	$1,532.0	$1,402.0	$1,093.0
		Special Revenue Funds			
	Less Other Funds MTOA*	73.1	77.0	92.0	92.0
	Net General Fund	$1,503.9	$1,455.0	$1,310.0	$1,001.0

* Per statute, 49.5 percent of sections 183 and 184 receipts in 1997, and 54 percent in 1998 and 1999, 64 percent in 2000 and 80 percent in 2001 and thereafter are dedicated to the Mass Transportation Operating Assistance Fund (MTOA).

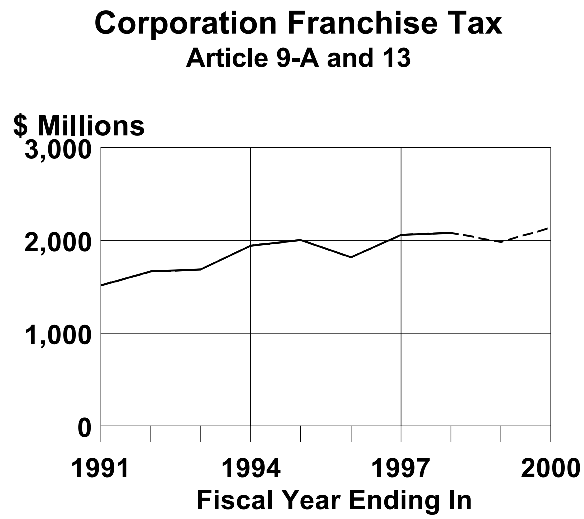
Table III
General Fund Receipts from
Corporation and Utilities Taxes
(Article 9)
(thousands)

	Gross Collections*	Refunds	Net Collections
	Actual		
1990-91	$1,237,350	$ 8,512	$1,228,838
1991-92	1,445,876	16,975	1,428,902
1992-93	1,549,389	5,078	1,544,312
1993-94	1,603,747	11,539	1,592,208
1994-95 **	1,573,834	69,245	1,504,589
1995-96 **	1,580,875	13,623	1,567,252
1996-97	1,615,662	38,823	1,576,839
1997-98	1,517,259	13,345	1,503,914
	Estimated		
1998-99	$1,472,000	$17,000	$1,455,000
1999-2000 (current law)	1,327,000	17,000	1,310,000
1999-2000 (proposed law)	$1,018,000	$17,000	$ 1,001,000

*Includes the 15 percent Temporary Business Tax Surcharge for 1991-92 and 1993-94, phased out to yield effective surcharge rates of 12.5 percent in 1994-95, 7.5 percent in 1995-96 and 2.5 percent in 1996-97.

**Legislation enacting the Revenue Accumulation Fund effectively increased the General Fund distributions from sections 183 and 184 to 94.4 percent for 1994-95 and 1995-96.

CORPORATION FRANCHISE TAX
(Article 9-A and 13)



This privilege tax is imposed on general business corporations under Article 9-A of the Tax Law, at the rate of 9 percent (see Recent Legislation) of Federal taxable income allocated to New York and modified by the exclusion, deduction, or addition of certain items. A variety of credits, discussed below, are allowed against the tax. In addition, Article 9-A requires tax computations to determine liability based on: (1) 3.25 percent of an alternative net income base (see Recent Legislation), against which no credits are allowed; (2) net worth; and (3) a fixed dollar minimum, which ranges from $100 to $1,500, depending on the size of the corporation's gross payroll, assets, and receipts. A corporation is required to pay tax on the basis of whichever of the applicable computations produces the greatest tax liability. For tax years ending after June 1990 and before July 1994, a State business surcharge of 15 percent of tax after the application of any credits was in effect. The surcharge fell to 10 percent during 1994, to 5 percent during 1995, and was eliminated during 1996. Also, since 1990, S corporations are required to pay certain of the taxes under this Article.

For Federal and State tax purposes, general business corporations operate either on a calendar year or, where the taxable fiscal year ends on the last day of a month other than December, on a fiscal-year accounting basis. All corporations follow a quarterly payment cycle with payment dates for calendar year corporations on the 15th day of March, June, September, and December. During any State fiscal year, collections under the corporation franchise tax reflect payments by fiscal year corporations primarily for two tax liability periods. For example, during State fiscal year 1998-99, fiscal year taxpayers are making installment and final payments on liability for tax years ending in 1998 and installments on liability for tax years ending in 1999. Similarly, activity by calendar year corporations is split among settlements (final payments and refunds) on 1997 tax year liability, installment and tentative final payments on 1998 liability, and an initial installment payment on 1999 liability.

Collections can be strongly influenced by transactions arising from earlier tax years, including refunds and credit carry-forwards of overpayments in such years, and collections of assessments issued following audits of returns filed for those years.

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

NEW YORK STATE CORPORATION FRANCHISE TAX INCENTIVES

Business tax incentives, which take the form of tax credits, deductions, or allocation formula changes, are designed to spur business investment and economic development within the State. While the distribution of these benefits varies widely among firms, their aggregate effect is to reduce the overall effective tax on "New York profits" of firms with net income to well below the amount that would be due from application of the statutory tax rate.

Special Tax Credits and Deductions

Use of the following credits and any other tax credits provided under this Article may not reduce final tax liability below the fixed minimum tax. Furthermore, taxpayers, whose liability is based on the alternative minimum tax (AMT), may not use tax credits to reduce their liability below the AMT.

Investment Tax Credit (ITC)

A firm doing business in New York is authorized to apply, as an offset against its computed tax liability, a credit determined as a percentage of the cost of new or expanded production facilities located in the State. The rate of this credit equals either: (1) 5 percent of eligible investments up to $350 million, (2) 4 percent of investments in excess of $350 million, (3) 9 percent of investments if such investments pertain to research and development costs, (4) 10 percent of investments made in Economic Development Zones, or (5) 25 percent of qualified historic barn rehabilitation expenditures in lieu of the regular ITC. In 1998, the ITC was extended to corporations, banks, and personal income taxpayers that are brokers or dealers in securities (see Recent Legislation).

Employment Incentive Credit/Wage Credit

The employment incentive tax credit (EITC), which complements the investment tax credit (ITC), equals as much as 2.5 percent of the original investment in each of the two years following the investment (for a total credit of up to 5 percent), depending on the percentage increase in employment within the State over the level achieved in the year preceding the investment. The period in which unused credits may be carried forward is, similar to the ITC, 15 years. Such credit may equal up to 15 percent of eligible investments in Economic Development Zones (EDZ). Beginning in 1994, for areas that are eligible to become an EDZ, but are not so designated, there is a wage tax credit either for a period up to five years or until the area becomes designated as an EDZ.

Allocation Formula Modification and Other Statutory Changes

Corporations that do business within and outside New York State are required to allocate a portion of their total income to New York, based on a three-factor allocation formula, the components of which are: (1) property, (2) payroll, and (3) receipts from sales. Receipts from sales are weighted twice in the computation of the allocation factor. This double-weighted receipts factor is designed to help improve the State's business climate, by reducing the tax liability of every corporation that has located a higher proportion of its total assets and workforce within New York than the percentage of its total sales made within the State. While this benefit was not available under the computation of the alternative minimum tax (AMT) for taxable years ending prior to 1994, legislation enacted in 1994 allows for double-weighting of receipts under the AMT after 1993.

Economic Development Zones Program

Legislation enacted in 1986 created the Economic Development Zones (EDZ) Program to target limited State resources, both direct expenditures and tax incentive "expenditures," to its neediest geographic areas. There are currently 40 designated zones. Within such zones, the investment tax credit rate is increased from 5 percent to 10 percent. The employment incentive credit "tail" on the initial investment has a maximum value of 15 percent. Thus, a manufacturing business locating in a zone and maintaining constant employment levels in the following three years could credit up to 25 percent of its investment in plant and equipment against its tax liability for its first four years in operation. In addition, any business may take a tax credit for eligible wages paid to employees in such zone. Such credits are targeted at, but not limited to, wages paid to individuals from groups that have been traditionally under-employed and to zone residents. Further, taxpayers investing in economic development zone capital corporations, established to provide equity capital for businesses locating in the zones, may take a credit of 25 percent of such investment. This capital corporation credit has a maximum of $300,000 and may not exceed half of the taxpayer's pre-credit tax liability.

Depreciation Changes

The Federal Tax Reform Act of 1986 (TRA) adopted the Modified Accelerated Cost Recovery System (MACRS) to increase markedly deductions for short-lived property and decrease (stretch out) deductions for buildings or other real estate, to which New York conformed regarding property located in New York and placed in service beginning in 1987. In 1994, the MACRS treatment was extended to non-New York property placed in service beginning in 1994.

REGIONAL BUSINESS TAX SURCHARGE

Legislation, first enacted in December 1982 and subsequently extended, imposes a temporary surcharge on business taxes to support mass transportation in the metropolitan commuter transportation district; the last extension was in 1997, effective for tax years ending before December 31, 2001. The surcharge rate is 17 percent of tax otherwise due, allocable to the district, after deduction of allowable credits and before application of the State business surcharge. This surcharge is not imposed on businesses located in the metropolitan district that are either S corporations or subject to tax under Article 13.

PRIOR LEGISLATION

Conforming to changes in the Federal tax law, the estimated payment rules were increased from 90 percent for taxable years ending in 1991, to 93 percent (1992), to 97 percent (1993), and to 100 percent in 1994 and thereafter. Under this rule, large corporations must remit the required percentage of their tax liability by the twelfth month of their taxable year.

The Federal Omnibus Budget Reconciliation Act (OBRA) of 1993 contained a number of provisions that have flow-through effects on New York taxpayers. The mark-to-market accounting method for securities dealers, effective for the 1993 tax year requires: (1) that securities held in inventory must be valued at their fair market value; and (2) that securities held at year end and not in inventory are treated as sold by the dealer for fair market value. OBRA also reduces or eliminates deductions for expenses relating to:

meals and entertainment, employer's share of compensation contributed to certain qualified retirement accounts, club dues, certain executive compensation over $1 million, moving, and lobbying.

During 1994, a number of changes to the State's Tax Law were enacted that have had a substantial impact on collections:

— A phase-out of the business surcharge rate was enacted, as described above.
— Starting with taxable year 1994, taxpayers paying under the alternative minimum tax (AMT) are provided a schedule for allowing net operating losses (NOLs) in the computation of the AMT. Additionally, those firms that paid under the AMT in the 1990-1993 period, as a result of not being allowed to include NOLs in the AMT computation, receive a credit for the amount of tax generated from the denial of the NOL deduction. Such credit is to be applied against future tax liability under the net income tax computation.
— The business allocation formula for computing taxable income under the alternative minimum tax (AMT) has been changed to allow double-weighting of the receipts factor, similar to the rules under the regular business income allocation formula used in the net income tax computation.
— For taxable years beginning in 1994, the depreciation rule for non-New York property was changed to conform to Federal law.
— The period in which the unused portion of the investment and employment incentive tax credits (ITC and EITC) can be carried forward to future tax years has been extended from 7 to 10 years (and from 10 to 15 years in 1997).
— A wage tax credit has been adopted for firms increasing employment in areas that are eligible to become Economic Development Zones but are not so designated.
— Effective with tax year 1994, the tax rate applied to the income of subchapter S corporations has been reduced.
— International airlines are now exempt from taxation when, under a reciprocity agreement, domestic airlines operating in a foreign country receive a similar exemption.
— Beginning with tax year 1994, New York no longer requires the inclusion of subsidiary income for companies using the Federal Internal Revenue Code section 936, regarding domestic companies operating subsidiaries in Puerto Rico and the Virgin Islands.
— Refundability of the unused portion of the Special Additional Mortgage Recording Tax credit is provided to both regular and S corporation nonbank mortgage lenders starting with taxable year 1994.
— In 1994, New York authorized formation of Limited Liability Companies (LLC) and Limited Liability Partnerships (LLP), which are business organizations that provide many of the tax benefits associated with partnerships and the liability protection afforded to corporations. Over time, this change is expected to reduce the number of taxpayers under this Article.

The 1996-97 State Budget contained additional reduction benefits:

— Effective for taxable years beginning on or after January 1, 1997, the investment tax credit (ITC) was expanded to allow a corporate franchise tax credit for the rehabilitation of historic barns in New York State. Eligible barns must meet the standards as defined by the Federal rehabilitation credit under section 47 of the Internal Revenue Code. However, a taxpayer may not claim both the regular investment tax credit on manufacturing property and the investment tax credit for rehabilitation of historic barns on the same property; and

- Eligible corporate farmers may claim a credit for school taxes paid against the corporate franchise tax. The tax credit is available to an eligible farmer defined as a taxpayer whose gross income from farming is at least two-thirds of total gross income.

The 1997-98 State Budget continued the State's business tax relief efforts with the following tax credits:

- Extends the investment tax credit carryforward period from 10 to 15 years. Any unused pre-1987 credits will now be available until 2002. Post-1986 credits will have a 15-year carryforward;
- Allows tax credits for electric vehicles, clean fuel vehicles using natural gas, methanol and other alternative fuels, and clean fuel refueling facility property; and
- Creates a new tax credit for employers who employ individuals with disabilities.

In addition, 1997 statutes conform the treatment of New York's S corporations to the treatment of Federal subchapter S corporations as amended by the 1996 Federal Small Business Job Protection Act.

RECENT LEGISLATION

The 1998-99 State Budget included a number of Tax Law changes that will have a significant impact on current and future receipts. The broadest reductions will result from the sweeping reforms to the corporate franchise tax rates. The following tables outline the rate reduction schedules for various taxpayers:

Table I: Large Business Taxpayers

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

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

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

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

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

Table IV: Alternative Minimum Tax Rate Reduction

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

Table V: Reduction in Fixed Dollar Minimum Tax for Small Business Taxpayers

Gross Payroll (set ranges in accordance with the second)	Present Law	Taxable Year Beginning After June 30, 1998 and Before July 1, 1999	Taxable years Beginning After June 30, 1999
$250,000 or less	$325	$100	$100
More than $250,000, but not more than $500,000	$325	$325	$225

The personal income tax (Article 22) equivalent used to compute the S corporation rate differential is reduced over a three year period. The following tables illustrate the phase in of the S corporation rate reduction:

Table VI: S Corporation Differential Rate for S Corporations with Entire Net Income over $290,000

Effective Date	Article 9-A Rate	Article 22 Equivalent Tax Rate	S Corporation Differential Rate
Before July 1, 1999	9.0%	7.875%	1.125%
Taxable years beginning after June 30, 1999 and before July 1, 2000	8.5%	7.525%	0.975%
Taxable years beginning after June 30, 2000 and before July 1, 2001	8.0%	7.175%	0.825%
Taxable years beginning after June 30, 2001	7.5%	6.850%	0.65%

Table VII: S Corporation Differential Rate for S Corporations with Entire Net Income of more than $200,000 but less than $290,000

Effective Date	Formula
Before July 1, 1999	$16,000 plus 9% of the amount over $200,000, but not over $290,000 plus an additional 5% of the amount over $250,000, but not over $290,000
Taxable years beginning after June 30, 1999	$14,900 plus 6.85% of the first $50,000 in excess of $200,000, plus 3.85% of the excess over $250,000

Table VIII: S Corporation Differential Rate Under the New law for S Corporations with Entire Net Income of $200,000 or less

Effective Date	Article 9-A Rate	Article 22 Equivalent Tax Rate (Percent)	S Corporation Differential Rate (Percent)
Before July 1, 1999	8.0%	7.875%	0.125%
Taxable years beginning after June 30, 1999	7.5%	7.450%	0.050%

In addition to the rate reductions and base changes, the 1998-99 State Budget added two new tax credits, an Investment Tax Credit for Brokers/Dealers in the Financial Securities Sector and tax credits for qualified emerging technology companies.

For corporations, banks, and personal income taxpayers, investments eligible for the ITC have been extended to equipment or buildings used in broker/dealer activity and in activities connected with broker/dealer operations such as the provision of investment advice and lending activities associated with the purchase and sale of securities.

The "New York State Emerging Industry Jobs Act" established Article 9-A tax credits for qualified emerging technology companies that invest in research and development in New York State. The provisions included an employment tax credit equal to $1,000 for each individual employed full time over a base year level. The Jobs Act also established two emerging capital credits that vary depending on how long the investment is held. The 1998-99 changes also provided for an emerging technology investment gain deferral. Effective for investments acquired on or after March 12, 1998, taxpayers may subtract from Federal adjusted gross income the gain from the sale of a qualified emerging technology investment (QETI), if they hold the investment for at least 36 months and reinvest the gain in a replacement QETI within one year.

PROPOSED LEGISLATION

This Budget includes a number of tax reductions and statutory relief measures that will be phased-in over several years.

- Energy Restructuring: As a result of the proposed Article 9 legislation (see related story in this appendix) for taxable years beginning on or after January 1, 1999, energy companies, previously taxed under section 186 of Article 9, will now be subject to the Article 9-A corporate franchise tax.
- Sales Tax Credit: In addition, energy service companies (not subject to rate regulation by State Department of Public Service) will be provided a temporary, one year, refundable tax credit against their Article 9-A tax liability for sales tax paid on the transmission and distribution of electricity beginning April 1, 1999, and ending March 31, 2000.
- New York Capital Asset Exclusion: Assets, used in a business acquired or created on or after June 1, 1999, will be provided special treatment by excluding a portion of the gain from the sale of these assets depending on the holding period: greater than one year, exclude 5 percent; greater than three years, exclude 10 percent; greater than five years, exclude 15 percent; and greater than ten years, exclude 20 percent.
- New Jobs Tax Credit Program for Cities: This targeted tax credit will provide an incentive to businesses to expand their workforce in cities across New York State. The credit applies to any employer in a city in New York State, including most of New York City, who employs more than 25 new workers in a year, above a base year employment level. The credit will be as much as $1,000 for every worker over the 25 person threshold.
- Targeted Tax Cut for Emerging Technology Companies: The 1998-99 State Budget created the "New York State Emerging Industry Jobs Act" that is designed to encourage the creation of jobs and investments in emerging technology industries by creating wage and capital tax credits. This Budget expands the wage credit from $1,000 per employee above a base level to $1,500, and it expands the capital credit of 10 percent and 20 percent for qualified investments held for four or nine years, respectively, to 25 percent and 50 percent.
- Lower Alternative Minimum Tax (AMT): This Budget builds on the AMT reduction enacted in the 1998-99 State Budget by further reducing the AMT rate from 3.0 percent to 2.5 percent for taxable years beginning after June 30, 2000.

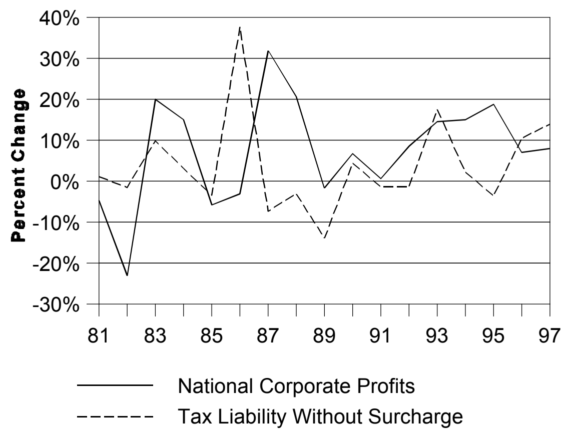
CORPORATE PROFITS IN 1992 THROUGH 1997

National pretax corporate profits grew by more than 8 percent in 1992, over 15 percent in 1993, by 15 percent in 1994, over 16 percent in 1995, and over 8 percent in 1996 and 1997. Corporate profits are expected to have grown by just under 4 percent in 1998.

National profit levels are made up of many diverse industries. The diversity of this base reduces the impact of any one sector on overall national profitability. However, a large and often volatile contributor to the New York State profit's base is the securities brokerage industry. This industry emerged from the recession of the early nineties by reporting record profits' levels in 1993. Profits declined by more than 60 percent, increased by 70 percent in 1995, and increased again in 1996 by 53 percent. Two years of solid growth drove the 1996 profit level above the previous record (1993) by almost 17 percent. Based on earnings reports, 1997 profit levels exceeded the record 1996 levels by over 26 percent. The underlying volatility of this segment of the New York State profits' base often makes comparisons with the national profit picture more difficult and less instructive for estimating the yield of this tax source.

The following graph illustrates that there is no simple correlation between corporate profits and franchise tax liability. In part, this difference stems from the fact that profits, as measured in the national income and product accounts and income subject to tax in New York are very different. In addition, the multitude of State and Federal tax reforms and reductions in recent years contribute to the differences between measured profits and tax liability. As a result, estimating collections for this tax requires a careful analysis of underlying liability and collection patterns.

Corporate Profits and Tax Liability



COLLECTIONS HISTORY

Between 1986 and 1992, national corporate profits nearly doubled, while the State tax liability of calendar year taxpayers grew by less than 1 percent. While the impact of this disparity in growth was masked in the early years of the period by changes in estimated tax rules and taxpayer behavior, the latter years of the period saw prolonged weakness in collections from this tax source.

Despite robust economic growth, as suggested by national corporate profit growth of 57 percent, collections dropped $275 million (18 percent) in the period between 1986-87 and 1989-90. Due to various tax law changes, such as the temporary business tax surcharge, the alternative minimum tax, and the expansion of the S corporation tax, collections rebounded sharply between 1989-90 and 1992-93. However, underlying liability, excluding the regional business and corporate franchise tax surcharges, only increased by 11 percent over the five-year period from 1987 to 1992. This weakness in liability growth was due, in part, to a structural change in the tax base, as more firms elected S corporation status, and to Federal tax changes which depressed liability at both the national and state level.

Further, the fortunes of the financial services industry have been an important element in this State's economy and in corporate franchise tax liability. For that reason, it is believed that the sharp declines in profitability experienced in the securities industry in the late 1980's also contributed to the declining collection pattern in that period. Data suggest that this industry's profit rebound in 1991 and 1992 was the primary cause of the liability growth underlying the 1991-92 and 1992-93 collection increase. Clearly, record profits on Wall Street in 1993 were the primary factor that contributed to the sharp increase in revenues in 1993-94, which occurred despite increased prior-year adjustments.

RECENT COLLECTIONS HISTORY

A broader array of taxpayers began to show improvement in 1993 continuing into 1994. In that year, payments on liability for calendar year taxpayers increased by just under 10 percent, only slightly below the national profits growth rate of 13 percent. The broad base of this growth becomes even more evident in light of the weakness in the financial services industry in 1994 (see table below), which, according to one publication (The Value Line Investment Survey), experienced a net profit decline of more than 50 percent between 1993 and 1994. The strong growth in the larger economy was the primary factor contributing to the record receipts in 1994-95, which topped the $2 billion mark, the third largest total in history. Total collections in 1995-96 declined by just under 10 percent from the prior fiscal year. This reduction was, in part, the result of the 1994 business tax cuts taking effect, including the phase down of the business tax surcharge.

Percent Distribution of Corporation Franchise Liability by Industry
1990 through 1995

Industry	1990	1991	1992	1993	1994	1995
Finance, Insurance and Real Estate* .	25	34	31	33	26	30
Wholesale and Retail Trade	16	16	15	16	18	18
Manufacturing	35	26	33	29	31	27
Services	12	13	12	14	16	15
Other	9	8	7	7	8	8
Not Classified	3	3	2	1	1	2

*Excludes banks taxable under Article 32, insurance companies taxable under Article 33, and S corporations taxable under Article 9-A.

Reported collections in 1996-97 exceeded the previous record by over 2 percent and those of the 1995-96 period by 13 percent. Strong receipts growth was driven by the securities brokerage industry's 1996 profit growth, which exceeded 53 percent. The robust financial services sector, combined with moderate growth in the broader economy, offset the impact of the reduced surcharge rate and the second year of the 1994 tax cuts. In addition, audit collections increased by 9 percent from the 1995-96 levels and refunds decreased by 12 percent for the same period. The net impact of these adjustments was approximately $75 million.

Strong receipts continued into 1997-98 as collections exceeded the record 1996-97 level by almost 1 percent and the 1995-96 level by over 14 percent. Building on the securities brokerage industry's 1996 profit growth of 53 percent profit, the 1997 profit growth from this sector exceeded 26 percent. However, during 1997-98, calendar year corporations' payments on 1997 liability increased by just over 2 percent. These payments on 1997 liability were reduced, in part, because of lower 1997 estimated liability and a strong first installment. However, final payments on 1997 liability from fiscal year taxpayers during 1997-98 increased by almost 33 percent, and payments on 1998 liability by fiscal year taxpayers increased by almost 12 percent. Audit payments remained virtually unchanged, increasing by less than one percent. However, refunds declined by over 13 percent from their 1996-97 level, adding almost $47 million to 1997-98 net receipts compared to the previous year.

1998-99 RECEIPTS

Through December, collections under the corporation franchise tax have totaled over $1,373 million and are 1 percent below collections from the comparable 1997-98 period. The largest factors contributing to this decline in collections are increases in calendar year taxpayers' prior year (1997) adjustments (refunds and credit carry forwards), which are $89 million ahead of 1997-98, and earlier prior-year adjustments, which are running $63 million ahead of 1997-98. In addition, audit collections through December are $57 million below 1997-98. These negative factors have more than offset the 11 percent increase from calender year taxpayers' payments on 1998 liability.

For the fiscal year as a whole, total collections for taxable years ending in 1998 are estimated at $1,714 million and collections for periods ending in 1999 are expected to reach $746 million. These amounts are expected to be reduced by refunds and credit carryforwards from 1997 taxpayers of about $570 million, and increased by a net of refunds and audits on account of earlier taxable periods of $86 million. Collections under Article 13 are projected to reach $10 million, for total corporate franchise tax receipts of $1,986 million.

Collections in 1998-99 are suffering from the weak earnings performance of the financial services industry. According to one well known report (The Value Line Investment Survey) earnings for this industry are expected to finish almost 3 percent below 1998. The volatility of the global economy has led to considerable uncertainty in the world's capital markets. As a result, one New York based firm reported its first quarterly loss in nine years during the third quarter of 1998. Another New York based firm reported a 79 percent decline in after-tax profits during the third quarter, the poorest performance for the company since 1995.

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

Article 9-A current law total collections for 1998-99 are estimated to fall almost 5 percent from receipts during 1997-98, reflecting tax reductions and increased prior year adjustments (refunds and credit carry forwards). Collections would have declined by 3 percent without the adjustment for tax cuts and conformity to ongoing changes in the Federal law.

1999-2000 PROJECTIONS

Total net corporation franchise tax receipts in 1999-2000, including an estimated $10 million in collections under Article 13, are projected at $2,140 million, $154 million above the 1998-99 estimate. The increase from 1998-99 receipts is the net result of reduced payments on 1999 liability, as a result of the tax reductions enacted over the last four years, and increases in collections resulting from legislation shifting utility taxpayers to the net income tax under Article 9-A. Based, in part, on an estimated decline in corporate profits of 2 percent and continued negative adjustments to prior year payments (refunds and credit carry forwards), receipts in 1999-2000, without the proposed Article 9 legislation, would decrease by 3 percent. The 1999-2000 estimate reflects a constant law liability increase for current calendar year taxpayers of approximately 4 percent.

Estimates of collections in 1999-2000 reflect several risks associated with the volatility of the financial markets and the global economy. Corporations, which operate in international markets, particularly emerging markets, are expected to experience slower profit growth as the upheaval in Asia's financial markets and the uncertainty in Russia and Latin America continue to unfold.

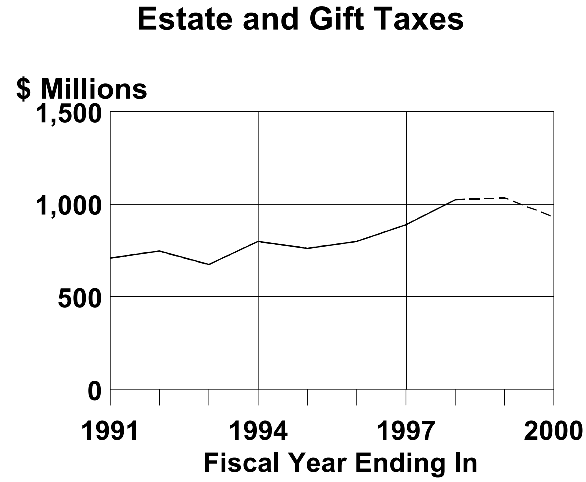
Total collections, for taxable years ending in 1999, are expected to reach $1,740 million and collections for periods ending in 2000 are projected at $749 million. These amounts are expected to be offset by refunds and credit carryforwards of over-payments from tax years ending in 1998 of $563 million. These adjustments are not significantly different than currently expected to occur during the 1998-99 period, because overpayments of 1998 estimated liability are not expected to be materially different than those attributed to the 1997 period. Net collection activity for earlier years is expected to more than double to $204 million, reflecting a decline in other back-year activity (refunds and credit forwards) and an increase in audit receipts. Collections under Article 13 are projected to add $10 million, for total corporate franchise tax receipts of $2,140 million.

General Fund Receipts from the Corporation Franchise Tax
Articles 9-A and 13
(thousands)

	Gross Collections	Refunds	Net Collections
	Actual		
1990-91	$1,878,789	$362,423	$1,516,366
1991-92	1,981,910	310,725	1,671,185
1992-93	2,033,438	342,487	1,690,951
1993-94	2,216,507	268,445	1,948,062
1994-95	2,289,477	277,680	2,011,798
1995-96	2,216,928	396,342	1,820,586
1996-97	2,414,219	347,524	2,066,695
1997-98	2,381,266	300,103	2,081,163
	Estimated		
1998-99	$2,386,000	$400,000	$1,986,000
1999-2000	2,489,000	350,000	2,140,000

ESTATE AND GIFT TAXES

ESTATE TAX



Legislation enacted in 1997 will significantly reduce State estate tax collections and change the way the New York State estate tax is imposed. In two steps, the State's current estate tax rate structure, credits and exemptions will be eliminated, and 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, for those dying on or after October 1, 1998, increased the unified credit (the credit that can be used to reduce liability of either the estate or gift tax under the unified imposition of these taxes) from $2,950 to $10,000, thereby increasing the value of transfers exempt from taxation to $300,000 from its prior $115,000 level. 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. 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.

In the second phase, for those dying on or after February 1, 2000, the estate tax will be replaced by a "pick-up tax." Also, the fee for filing a duplicate estate tax return with the Surrogate's Court will be repealed. In addition, the requirement for 90 percent of the estate tax to be paid within seven months of death to avoid underpayment interest will be changed to allow nine months for payment of total liability, which is consistent with Federal law.

Finally, the enacted legislation clarifies that New York's estate tax will conform to increases in the Federal unified credit enacted by the Federal Taxpayer Relief Act of 1997. This act will gradually increase the Federal unified credit to exempt taxable estates of up to $1 million on or after January 1, 2006. (See table.) However, New York law will not conform to Federal exemption levels above $1 million.

Federal Estate Tax Exemption Levels for Estates Created by Calendar Year

1998	$ 625,000
1999	$ 650,000
2000	$ 675,000
2001	$ 675,000
2002	$ 700,000
2003	$ 700,000
2004	$ 850,000
2005	$ 950,000
2006	$1,000,000

When fully effective, this tax reform will abolish State death taxes for 85 percent of those who would currently file, and provide needed relief to, among others, owners of family farms and other closely held businesses. There is no revenue effect anticipated from this legislation in 1998-99, but it will reduce estate tax revenues beginning in 1999-2000.

Current Law

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.

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

For those dying before February 1, 2000, New York's tax rates will range from 2 percent of the first $50,000 of net taxable transfers to 21 percent of net taxable transfers in excess of $10,100,000. For those dying before October 1, 1998, a general credit, in inverse relationship to the size of the gross tax liability, ranges from $2,950 at the lower brackets to $500 for net taxable estates valued at $175,000 and above. At $2,950, the credit eliminates the tax for transfers of less than $115,000. As the credit is reduced to $500, the amount of transfers sheltered declines.

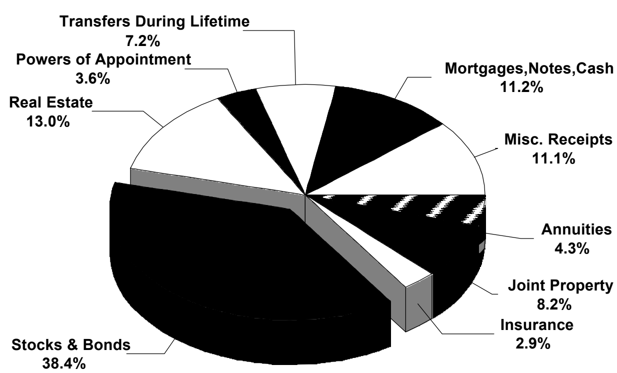
For those dying on or after October 1, 1998, and before February 1, 2000, the maximum credit is increased to $10,000. This eliminates the State estate tax for estates valued up to $300,000.

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

A portion of New York's estate taxes paid may be applied as a "credit" against Federal estate tax liability. The portion varies with the size of the taxable estate, up to a maximum credit of 16 percent of the Federal taxable estate. Most other states set their tax to equal this credit. New York's estate tax law will create a liability in excess of this credit until February 1, 2000, when New York will begin to tax at the maximum Federal credit.

The yield of the tax is heavily influenced by two factors: variations in the relatively small number of extra large estates (tax payments of at least $4 million) and the value of stocks and bonds, the largest components of estates subject to this tax. (See chart.) A pattern of fluctuating security prices and varying values of large estates is often observable (see table on next page), causing wide fluctuations in collections. A third factor, the enactment of various credits and deductions, has significantly reduced estate tax liability for many "smaller" estates, resulting in a lower level of receipts than otherwise would have been expected.

Components of Taxable Gross Estate 1996-97



Source: New York State Department of Taxation and Finance

Recent 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 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 for the first $15 million of qualified assets for estates consisting of small business interests, 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.

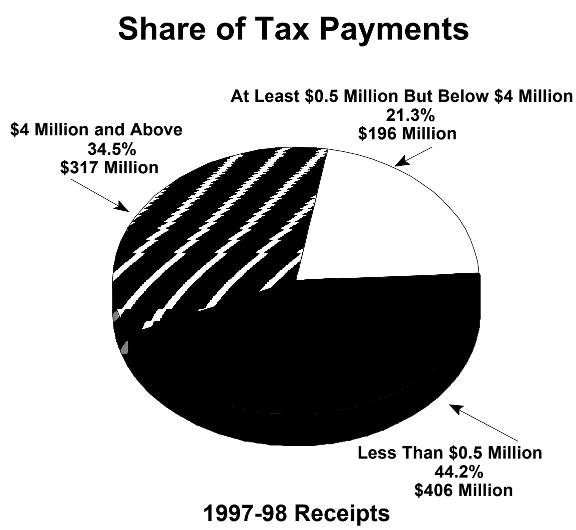
Legislation enacted in 1998 conformed certain State estate tax provisions to changes made to Federal law, most notably a new estate tax exclusion for assets in family-owned businesses. The 1998 legislation also repealed a $10 release of lien fee for estates created before May 25, 1990.

Estate Tax Collections - Prior to Refunds
(millions)

	Extra Large Estates [1]		Large Estates [2]		All Large Estates		Small Estates [3]	S&P 500 Index [4]	
	Number	Taxes	Number	Taxes	Number	Taxes	Taxes	Fiscal Year Average	Grand Total Taxes
1990-91	16	$151.0	94	$115.2	110	$266.2	$385.6	341.7	$651.8
1991-92	11	158.7	111	149.9	122	308.6	398.5	358.7	707.1
1992-93	9	78.8	125	135.9	134	214.7	410.7	406.6	625.4
1993-94	15	163.3	127	163.5	142	326.8	434.1	441.3	760.9
1994-95	13	141.4	140	152.8	153	294.2	460.6	461.4	754.8
1995-96	9	105.1	132	158.2	141	263.3	459.8	507.2	723.1
1996-97	24	243.0	123	151.3	147	394.3	447.7	638.6	842.0
1997-98	23	317.4	160	195.6	183	513.0	454.8	815.1	967.8
9-Mo.Comp.									
1997-98	18	$287.7	125	$154.0	143	$441.7	$353.9	776.8	$795.6
1998-99	16	208.4	163	198.2	179	406.6	395.4	1,027.2	802.0

[1] Liability of at least $4.0 million.
[2] Liability of at least $0.5 million but less than $4.0 million.
[3] Liability less than $0.5 million.
[4] Lagged 6 months.

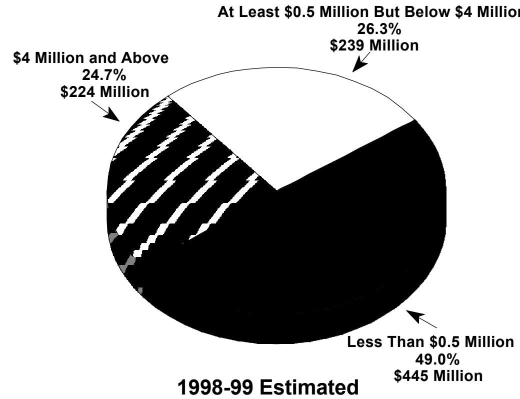
1998-99 Receipts



Net estate tax collections of $762.8 million for the first nine months of 1998-99 are 0.4 percent higher than collections during the comparable period in 1997-98. Substantial increases in collections from all estates with tax payments of less than $4 million have been almost totally offset by reductions in the group of $4 million and above which tends to be extremely volatile. Nine-month collections from estates with payments of at least $4 million were about $79.3 million, or 27.6 percent, less than the comparable period in 1997-98. Spurred by equity values that were 32.2 percent higher than the similar period in 1997-1998, large estates with tax payments of at least $0.5 million but less than $4 million were roughly $44.2 million greater than collections from this category in the first three quarters of 1997-98. Growth in equity values have also led to favorable year-to-year comparisons in the category of small estate tax payments (payments of less than $0.5 million). Collections from this group of estates, net of refunds, have totaled $356.2 million, an increase of 12 percent over the similar period in 1997-98. Collections through nine months of 1998-99 from the Tax Department's Case and Resource Tracking System (CARTS - primarily audit collections) have reached $25.2 million, a decline of about 5.7 percent from the same period of 1997-98.

The revenue effect of the 1998 Federal conformity legislation, the 1995 principal residence deduction, and the 1994 legislation enhancing other credits, is estimated to reduce collections by $86 million in 1998-99, primarily in the small estate tax payment category. CARTS collections are projected to reach $30 million, a decline of about $1 million from 1997-98. Altogether, with gross estate tax receipts estimated to total $964 million and refunds anticipated to reach $56 million, net estate tax receipts are expected to total $908 million in 1998-99, or $11.4 million less than in 1997-98. This estimate includes $224 million from extra-large estates, $239 million from the rest of the large estates category and $445 million from small estate collections.

Share of Tax Payments

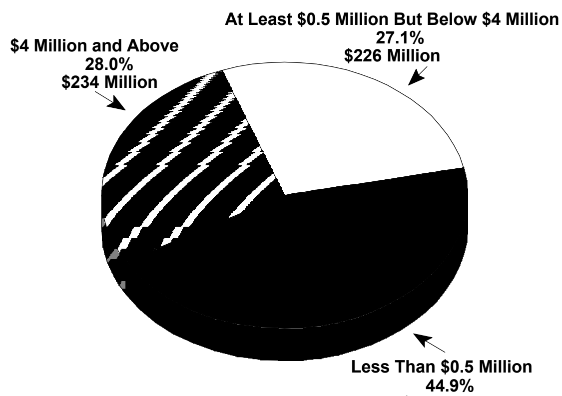


1998-99 Estimated

1999-2000 Projections

Pursuant to statute, for estates created on or after October 1, 1998, the time required to make an estimated payment of State estate liability has been extended from six months after the date of death to seven months after the date of death. This alteration to payment requirements will effectively move one month of estimated payments from 1999-2000 to 2000-01, resulting in reduced receipts despite projected continuing increases in equity values in 1999-2000 (growth of 14.7 percent in 1998-99, vs. 26.4 percent in 1999-2000; lagged seven months for valuation at date of death). A combination of the increased unified credit as well as the change in payment requirements will offset gains from the increased average value of all large estates (payments of at least $0.5 million). Large estate tax payments of more than $0.5 million but less than $4 million are projected to decline to $226 million and extra large estate tax payments are estimated to increase to $234 million in 1999-2000. As a whole, total large estate tax collections are projected to fall to $460 million in 1999-2000. The 1998 Federal conformity provisions, the 1995 principal residence deduction, and the 1994 legislation enhancing other credits are projected to save taxpayers $85 million in 1999-2000. Small estate tax receipts, buoyed by estimated CARTS collections of $31 million and higher equity values, but substantially reduced by the effects of the 1997 legislation, are projected to decline by 15.7 percent in 1999-2000, to $375 million. The 1997 estate tax legislation is projected to reduce State tax receipts by $119 million in 1999-2000. With gross estate tax collections projected

Share of Tax Payments



1999-2000 Estimated

at $893 million and refunds expected to reach $58 million, net collections from all categories of the estate tax, prior to legislation proposed with this Budget, are projected to be $835 million in 1999-2000.

Proposed Legislation

Estate and gift tax legislation submitted with this Budget will amend the State's estate and generation skipping transfer tax laws to conform to the Federal Reform and Restructuring Act of 1998, particularly Federal enactments concerning the closely held business deduction provisions. These amendments will also provide additional tax relief at the State level. This legislation will reduce estate tax revenues by $1 million in 1999-2000. Thus, total estate tax receipts are projected to be $834 million in 1999-2000.

GIFT TAX

Legislation enacted in 1997 increases the maximum unified credit to $10,000 for gifts made on or after January 1, 1999. Effective January 1, 2000, the State gift tax will be repealed for gifts made during the 2000 calendar year. These amendments will provide $41.5 million of relief to the State's taxpayers in 1999-2000.

New York is currently one of five states that impose 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 derives from the Federal tax base, with exclusions for transfers of property located outside the State. It does not apply to the first $10,000 of gifts made by a donor ($20,000 in the case of joint gifts by husband and wife) to any donee or gifts to a charity in any calendar year.

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

Gift tax collections are driven by the number of beneficiaries to which gifts are made, the value of gifts made to each donee (e.g., stocks and other assets), and the cumulative value of taxable transfers that have occurred.

Higher permissible marital deductions and the unification of the estate and gift tax credits initially reduce the gift tax base. However, after the applicable credits are exhausted, all additional gifts are subject to progressively higher rates of taxation, leading to higher levels of gift tax receipts. Additionally, since unified Federal credits in 1999 effectively exempt the first $650,000 of gifts from Federal gift tax, many persons make gifts up to this level. As the State currently exempts only the first $300,000 of such gifts, $115,000 for gifts made before January 1, 1999, State gift tax receipts have been increased by such behavior. Atypical individual tax payments, particularly in January, when estimated gift tax payments are due, may heavily skew tax collections in a given fiscal year.

RECENT STATUTORY CHANGES

Legislation enacted in 1991 required payment of 90 percent of the estimated gift tax by January 15, with the balance payable by April 15, for gifts made during the prior calendar year. Previously, the entire payment of State gift tax liability was required by April 15. Legislation enacted in 1994 increased the tax-exempt level of lifetime gifts from $108,000 to $115,000. Legislation enacted in 1996 corrected an anomaly in law and ensured that an increase in the estate and gift tax unified credit or a reduction in the rates of such taxes would not result in an increase in estate or gift tax liability, by modifying the computation of such taxes.

1998-99 Receipts

Final 1998-99 gift tax net collections are estimated to reach $125.3 million, a increase of $22.5 million, or 21.9 percent from 1997-98 receipts. In 1996-97, receipts were affected by a number of factors. Atypically large gifts made in 1995 skewed estimated gift tax payments by more than $50 million in January 1996, which resulted in an analogous increase in final payments in April 1996, which were only partially offset by refunds of $3 million paid in November 1996. Also, a combination of extraordinarily large gift tax remittances, as well as amnesty payments, resulted in additional 1996-97 payments of more than $11 million. A combination of record equity levels during the 1997 calendar year, as well as the initial effects of changes to Federal law regarding the treatment of capital gains, increased collections during the 1997-98 fiscal year. Collections through December of the current fiscal year of $28.6 million represent an increase of 1 percent from the similar period of 1997-98. Due to gift-giving behavior in calendar year 1998, similar to that in 1997, as well as record breaking equity values during 1998, receipts in the final three months of 1998-99 are expected to increase by 29.8 percent from the similar period in 1997-98.

1999-2000 Projections

Enactment of the first phase of the 1997 gift tax legislation increasing the level of tax-free lifetime gifts to $300,000, as well as anticipation of the repeal of the State gift tax for gifts made beginning January 1, 2000, will lead to a significant reduction from this source in 1999-2000. These actions are anticipated to reduce receipts by $42 million in the coming fiscal year versus what they otherwise would have been. Thus, with projected gross receipts of $100.3 million and refunds expected to reach $5.0 million, 1999-2000 net gift tax collections are projected at $95.3 million.

Estate and Gift Tax Collections
(millions)

	Estate Tax Receipts			Gift Tax Receipts			Total Net
	Gross	Refunds	Net	Gross	Refunds	Net	Receipts
	Actual						
1990-91	$651.8	$21.0	$630.8	$ 80.4	$1.3	$ 79.1	$ 709.9
1991-92	707.1	40.7	666.4	83.4	2.2	81.2	747.6
1992-93	625.4	23.0	602.4	72.8	2.7	70.1	672.5
1993-94	760.9	40.7	720.2	82.7	3.5	79.2	799.4
1994-95	754.8	59.2	695.6	68.2	4.4	63.8	759.4
1995-96	723.1	44.4	678.7	123.1	2.5	120.6	799.3
1996-97	842.0	50.5	791.5	103.8	6.0	97.8	889.3
1997-98	967.8	48.4	919.4	105.7	2.9	102.8	1,022.2
	Estimated						
1998-99	$964.0	$56.0	$908.0	$130.3	$5.0	$125.3	$1,033.3
1999-2000 (current law)	893.0	58.0	835.0	100.3	5.0	95.3	930.3
1999-2000 (proposed law)	892.0	58.0	834.0	100.3	5.0	95.3	929.3

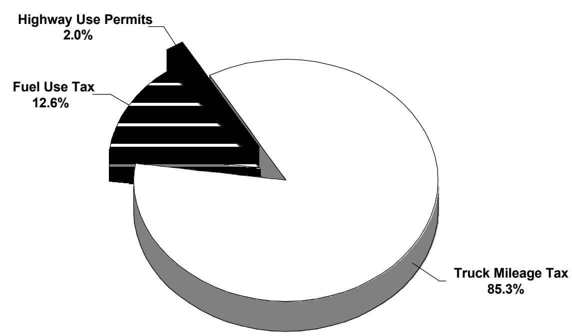
HIGHWAY USE TAX

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

The truck mileage tax 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 the gross vehicle weight. The tax is calculated by multiplying the number of "laden" or "unladen" miles traveled on public highways of the State, by the appropriate tax rate. In addition, a supplemental tax equal to the truck mileage tax was imposed prior to January 1, 1999. After January 1, 1999, the supplemental tax was reduced to 50 percent of the truck mileage tax.

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

Highway Use Tax Components



Estimated 1998-99 Receipts= $164.4 Million

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

SIGNIFICANT STATUTORY CHANGES

Chapter 190 of the Laws of 1990 made two major changes to the truck mileage tax portion of the highway use tax: (1) it eliminated the exclusion for miles traveled on the Thruway, and (2) it effectively doubled the tax on all miles traveled on New York State roadways other than the Thruway.

Chapter 329 of the Laws of 1991 provided that, beginning in April 1993, highway use tax collections be deposited in the Dedicated Highway and Bridge Trust Fund, which was established to support reconstruction, replacement, reconditioning and preservation of highways and bridges in the State. An exception to this rule produced General Fund deposits of $8.9 million in audit receipts in 1993-94. General Fund receipts in 1993-94 also included a $2 million carryover from 1992-93, reflecting moneys collected at the end of March 1993 but deposited in April.

Chapter 170 of the Laws of 1994 made three major changes to the highway use tax: (1) effective January 1, 1995, it reduced by one-half the truck mileage tax rates imposed on New York State Thruway mileage and eliminated such rates on and after January 1, 1996 (effectively restoring the pre-1991 base of the truck mileage tax); (2) on and after January 1, 1995, it 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); and (3) it 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 and 26,000 pounds and with fewer than three axles that had been taxed in New York, were excluded from the fuel use tax. Under IFTA, truckers are required to apply annually for a fuel use license and obtain decals, for each vehicle operated, from their base state. Truckers electing New York as their base state must pay an application fee of $4 for each decal required. This money is also deposited in the Dedicated Highway and Bridge Trust Fund.

Chapter 2 of the Laws of 1995 reduced the diesel fuel excise tax rate from ten cents per gallon to eight cents per gallon, effective January 1, 1996. As a result, the diesel fuel tax component of the fuel use tax has also been reduced to eight cents per gallon.

Legislation enacted in 1998 reduced the truck mileage supplemental tax by 50 percent, effective January 1, 1999.

1998-99 RECEIPTS

Net highway use tax receipts for 1997-98 were $164.8 million, including truck mileage tax receipts of $136.0 million; fuel use tax receipts of $24.6 million; and highway use permit fees of $4.2 million.

In the current fiscal year, national and New York economic growth has contributed to an increased demand for trucking. Truck mileage tax receipts for the first nine months of the fiscal year were 4.8 percent greater than the comparable period in 1997-98. Fuel use tax receipts for the first nine months of 1998-99 were 6 percent less than the comparable 1997-98 period due to lower fuel prices.

Based on collection experience to date, and expectations of a continued healthy economy, the base for computing total highway use taxes is expected to continue to grow. However, the 1998 law reducing the truck mileage supplemental tax by 50 percent, beginning January 1, 1999, will offset the expected growth. Net truck mileage tax receipts are projected at $137.1 million, fuel use tax receipts at $23.3 million, and permit fees at $4.0 million, bringing total estimated highway use tax receipts for 1998-99 to $164.4 million. The estimates reflect the continuing effect of reductions in the tax burden on the trucking industry, which are expected to total $39 million in 1998-99.

1999-2000 PROJECTIONS

Total highway use tax receipts for 1999-2000 are projected at $140.7 million. As a result of continued but slow economic growth, the base of the truck mileage tax is expected to increase by about 3.3 percent. The full-year impact of the 1998 Tax Law change, reducing the truck mileage supplemental tax by 50 percent, will reduce truck mileage tax receipts by approximately $35 million. Net truck mileage tax receipts are estimated at $111.8 million. Due to the lagged effect of a decline in fuel prices, the sales tax component of the fuel use tax is estimated to decline. Thus, despite growth in gallonage, total fuel use tax receipts are expected to fall slightly to $22.3 million. Permit fees of $6.6 million reflect the change from a regular renewal year to a peak triennial renewal year.

OTHER FUNDS

The Dedicated Highway and Bridge Trust Fund received $164.8 million in 1997-98, and will receive an estimated $164.4 million in 1998-99, and $140.7 million in 1999-2000.

Dedicated Highway and Bridge Trust Fund
(thousands)

	Gross Receipts	Refunds	Net Receipts
	Actual		
1994-95	$191,738	$2,577	$189,161
1995-96	174,377	4,373	170,004
1996-97	164,226	6,912	157,314
1997-98	167,644	2,834	164,810
	Estimated		
1998-99	$167,400	$3,000	$164,400
1999-2000	143,500	2,800	140,700

GENERAL FUND

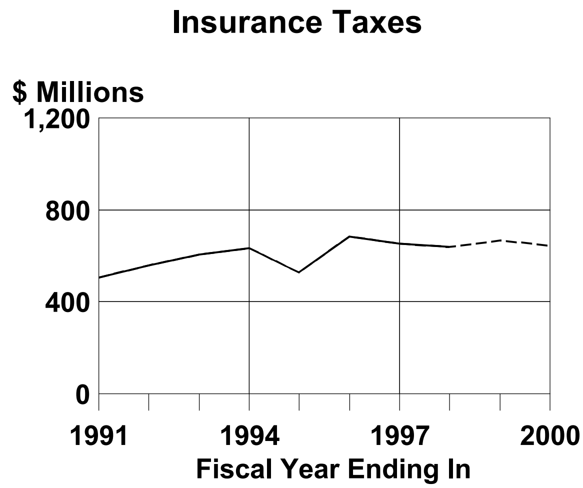
Highway use tax receipts are not required to be deposited into the General Fund in the current or subsequent fiscal years.

General Fund Highway Use Tax Receipts
(thousands)

	Gross Receipts	Refunds	Net Receipts
	Actual		
1989-90	$ 81,952	$2,225	$ 79,727
1990-91	117,269	1,734	115,535
1991-92	140,289	1,340	138,949
1992-93	154,375	2,130	152,245
1993-94	11,060	163	10,897

INSURANCE TAXES

The State collects taxes from insurance corporations, insurance brokers and certain insureds under the Tax Law and the Insurance Law. Insurance taxes account for approximately 11 percent of all business taxes and 2 percent of all General Fund tax revenues.



ARTICLE 33 OF THE TAX LAW

Article 33 of the Tax Law imposes two franchise taxes and two temporary tax surcharges on insurance corporations for the privilege of doing business or otherwise exercising a corporate franchise in New York.

The basic franchise tax under this Article is imposed on one of several measures of an insurance corporation's economic activity within the State. The most commonly used measure is a portion of a taxpayer's entire net income allocable to the State for the taxable year. Entire net income is allocated on the ratio of the taxpayer's New York premiums and payroll to its total premiums and payroll. Allocated net income is taxed at the rate of 9 percent. The basic franchise tax may be based on other measures such as business and investment capital. The final tax is based on the measure which produces the greatest liability, with a minimum franchise tax of $250.

The Tax Law also imposes an additional franchise tax on net premiums received or written by insurance corporations on risks resident or located within the State. The rate of the additional franchise tax varies generally with the type of risk covered by the insurance premium.

Net premiums received on life insurance and most accident and health insurance policies have been taxed at the rate of 0.8 percent through 1997. Net premiums written on property and casualty insurance risks are taxed at the rate of 1.3 percent. As shown in the accompanying table, the additional franchise tax generates the majority of insurance tax revenues received annually by the State under the Tax Law. Article 33 also provides for a limitation on tax liability, which caps through 1997 the aggregate of the basic franchise tax and the additional franchise tax at 2.6 percent of premiums. Liability may be reduced further by credits including, where applicable, credits for certain taxes required to be paid to other states and local jurisdictions.

Estimates of the Share of Additional Premiums Tax Rate to Total Liability
(millions)

Year	Additional Franchise Tax	Franchise Tax Liability after Surcharge	Share
1990	$291.00	$413.30	70.41%
1991	315.00	527.30	59.74%
1992	322.40	565.50	57.01%
1993	329.70	555.30	59.37%
1994	348.30	499.50	69.73%
1995	357.30	609.10	58.66%

Note: Full liability information is only available through 1995.

RECENT LEGISLATIVE CHANGES

Legislation enacted in 1997 provides for a premiums tax rate reduction and a reduction in the overall limit or "cap" on tax liability for life insurers. Beginning on January 1, 1998, the premiums tax rate fell from 0.8 percent to 0.7 percent. The legislation also lowered the limitation on tax liability for life companies from 2.6 percent to 2.0 percent of premiums. In addition, the legislation provides that the required first installment of estimated tax by these taxpayers will increase from 25 percent to 40 percent of the preceding year's tax, effective January 1, 1999.

The legislation also allows insurance companies to claim a credit for 100 percent of the amount invested in certified capital companies (CAPCOs) effective for taxable years beginning after 1998, although the credits may be earned before 1999. The money invested will be used to assist small businesses to expand and grow in New York. The credit can be claimed over 10 years, at a rate of 10 percent each year. There is a statewide cap of $100 million on the total amount of investments for which credits may be claimed. In addition, in total, insurance companies may not claim CAPCO credits of more than $10 million in any taxable year.

Finally, the legislation will allow the formation of captive insurance companies beginning in 1998, providing a competitive State tax structure for these new firms. A captive insurer is a company that primarily insures the risks of a parent or its parent's affiliated companies. Captive insurers will be subject to a special reduced premiums tax instead of the premiums and income-based tax that applies to other insurers. The tax rates decrease as the amount of premiums subject to taxation rises, with the highest rate equaling 0.4 percent. Captive insurers may not claim credits against tax liability.

EXEMPTIONS AND DEDUCTIONS

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

Certain corporations and other entities which provide insurance are exempt entirely from liability for the State franchise taxes and tax surcharges. Non-profit medical expense indemnity corporations and other health service corporations organized under Article 43 of the Insurance Law, including health maintenance organizations and Blue Cross and Blue Shield corporations, are examples of corporations and other entities which provide insurance services but are exempt from these State taxes.

Legislation in 1992 changed the method of taxation of the New York State Insurance Fund requiring the Fund to calculate its tax liability solely on the basis of the premiums tax at the rate of 2.6 percent of premiums. Legislation included with the 1999-2000 Budget will return the Fund to the same basis of taxation as other insurance companies.

In 1993, legislation was passed to correct provisions that allowed property and casualty companies to claim a deduction for undiscounted unpaid losses twice in computing State net income. The transition provisions of the change affecting Internal Revenue Code (IRC) section 847 income recognition closed the tax loophole prospectively, and required insurers to reflect underpaid amounts for tax years 1988 through 1992 over a three-year period, ending in 1995.

TAX SURCHARGE

In addition to the franchise taxes described above, a temporary tax surcharge was levied on insurance corporations by Chapter 190 of the Laws of 1990. The surcharge applied to taxable years ending after June 30, 1990, and before July 1, 1997. In the first four taxable years, the surcharge rate was 15 percent of franchise taxes imposed under Article 33, after deductions for allowable credits. The surcharge rate dropped to 10 percent halfway through the 1994 tax year, 5 percent halfway through the 1995 tax year, and to zero midway through the 1996 tax year and thereafter. As the rates changed in mid-year, the effective surcharge rates were 12.5 percent for the 1994 tax year, 7.5 percent for the 1995 tax year, and 2.5 percent in the 1996 tax year, and zero thereafter.

REGIONAL BUSINESS TAX SURCHARGE

Insurance corporations and other corporations doing business in the New York metropolitan region are also subject to a temporary regional business tax surcharge which finances mass transit operating assistance in that region. The temporary metropolitan transportation business tax surcharge was adopted in 1982 and subsequently extended through tax years ending before December 31, 2001. Receipts from this tax surcharge are deposited in a special revenue fund dedicated to mass transit assistance in the New York metropolitan region. In 1997-98, surcharge collections were $66 million, approximately 9.7 percent higher than the previous year's amount.

ARTICLE 33-A OF THE TAX LAW

Chapter 190 of the Laws of 1990 established a tax on independently procured insurance under Article 33-A of the Tax Law.

This tax is imposed on any individual, corporation or other entity purchasing or renewing an insurance contract covering certain property and casualty risks located in New York from an insurer not authorized to transact business in New York under a certificate of authority from the Superintendent of the Insurance Department. Collections under this Article were $3.3 million in 1997-98, about 31 percent lower than in the prior year.

INSURANCE LAW

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

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

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

The Insurance Law also imposes a premiums tax on a licensed excess lines insurance broker when a policy covering a New York risk is procured through such broker from an unauthorized insurer. 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.

PROPOSED LEGISLATION

To conform with the 1997 legislation that allows a reduction in the general corporate tax rate, legislation proposed with the 1999-2000 Budget reduces the net income tax rate for insurance companies from 9 percent to 7.5 percent over a three-year period beginning July 1, 2000. The proposed legislation also provides a reduction in the overall limitation on tax liability for property and casualty insurers from 2.6 percent to 2.0 percent of premiums over the same period of time.

1998-99 RECEIPTS

Collections through December are $459 million, approximately 5 percent lower than last year. The largest and most predictable component of tax collections from the insurance industry is the additional franchise tax on premiums, or the premiums tax. In 1998-99, the premiums tax is estimated to account for almost 60 percent of all insurance tax collections.

PROPERTY AND CASUALTY COMPANIES

Property and casualty insurance companies are the principal source of premiums taxes, typically accounting for some 72 percent of total premiums tax collections. A major share of these collections is attributable to the automobile, worker’s compensation, commercial and homeowners multi-peril sectors.

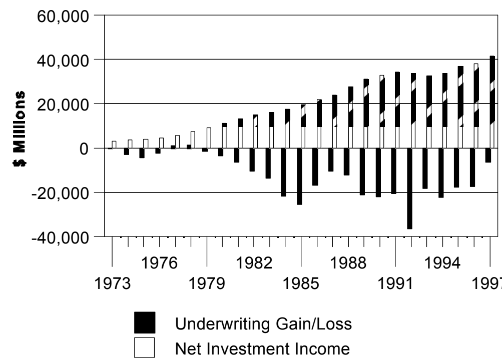
After improving in 1995 and 1996, the insurance industry enjoyed its best results in more than 20 years with its highest return on equity in 1997. Despite a continued strong economic environment in 1998, the premium base will grow only marginally for the year. Net premium growth in the property and casualty industry nationwide is expected to be about 2.4 percent, with these increases mainly in personal lines. Consistent with the national trend, New York taxable net premiums of private property and casualty insurers, excluding auto insurance, the State Insurance Fund (SIF) and the effects of statutory changes on worker's compensation, are projected to be approximately 3 percent for the year. The growth is attributed to continued economic expansion, growth in new business, higher personal injury claims, and rising property and casualty insurance rates in catastrophe-sensitive regions due to State legislation that allows insurance companies to use geographic location, catastrophe modeling, and reinsurance costs as underwriting criteria to determine rates for coastal properties. However, continued reductions in worker's compensation rates in New York since 1995, which have reduced the premium volume of private insurance companies and SIF, and the recent reductions in auto insurance rates by seven of the largest automobile insurance writers in the State, offset the positive growth and result in lower net premium growth in New York.

Estimates of collections of net income taxes in 1998-99 from property and casualty insurers reflect the losses incurred by the industry in 1998 and earlier years. In addition to reserves set aside by the property and casualty insurers of potential asbestos liability, the insurers of large Fortune 500 companies involved in the chemical, oil, nuclear, and defense industries have been pressured to put aside a portion of their capital for environmental and pollution cleanup. These long-tailed liabilities obligate insurers not only for the responsibility for the cleanup costs for current liabilities but also for the retroactive liabilities. As required by law, insurers have to report asbestos and environmental (A&E) claims and associated legal costs to state regulators. During the period from 1991 to 1997, insurers paid more than $28 billion for asbestos and environmental (A&E) claims and associated legal costs. As a result, remaining A&E reserves stood at $26.7 billion at the end of 1997, a decline of approximately 3 percent from 1996. Although the cleanup costs have been reduced as a result of advances in technology, the modification of cleanup practices and less-than expected growth in number of sites to be cleaned up, the industry's practice of putting aside A&E reserves has risen over time.

Finally, the industry is required to honor claims from catastrophes that occurred this year, as well as to continue paying claims for prior years. The major occurrences in 1998 were severe ice storms in New England and New York in January, severe windstorms, hail and tornadoes across 12 states from Minnesota to Vermont in late May and early June, Hurricane Bonnie in Carolina and Virginia and Hurricane Earl in the Florida Panhandle in August, and hurricane George in Puerto Rico, the U.S. Virgin Islands and four Gulf Coast states in October. According to industry reports, claim costs and other expenses attributable to disasters and catastrophes (defined as a single occurrence that generated insured losses exceeding $25 million) were approximately $8 billion for the first nine months of 1998, compared to $6.5 billion and $2.4 billion during the same period in 1996 and 1997, respectively.

Since 1979, the industry has consistently experienced underwriting losses as shown in the accompanying chart. Although these losses declined to $6.1 billion in 1997 from $16.7 billion in 1996, they are anticipated to increase in 1998. In the first half of 1998, underwriting losses were reported at $6 billion, compared with $2.2 billion during the same period in 1997. Had catastrophe losses remained the same as they were in first half of 1997, the industry underwriting loss for first half 1998 would have still increased by 45.5 percent to $3.2 billion. With catastrophe losses approximately $3 billion higher in the third quarter of 1998 than the third quarter of 1997, the underwriting losses for 1998 as a whole are expected to be more than $9 billion.

Property and Casualty Industry's Performance



Source: Best's Aggregates & Averages

While underwriting losses are increasing, to remain profitable, insurers have become more dependent on investment income, which is primarily made up of dividends earned from stocks, interest on bonds, and capital gains from the sale of investment assets. Over time, property and casualty insurers have sought more volatile investments with commensurately higher yields to compensate for underwriting losses. The percentage of assets invested in stocks has increased from 13.1 percent in 1993 to 19.0 percent in 1997, while the percentage in long-term bonds has decreased from 71.4 percent to 66.1 percent during the same period. Net investment income, together with realized capital gains, brought the industry's net investment gain to $38 billion in 1996 and to $41 billion in 1997, an increase of 7.9 percent. In the first half of 1998, the combination of net investment income and realized capital gains totaled $28.1 billion, an increase of 10.9 percent from $25.4 billion for the same period in 1997.

LIFE AND HEALTH COMPANIES

The other major source of premiums taxes, the life and health insurance industry, experienced a 5 percent increase in 1997, following a decline of 5 percent in 1996. Increased competition from banks, mutual funds and other financial institutions, shifting demographics, continued weak operating performance, and continued allegations of improper sales practices and other unethical and illegal conduct have depressed the industry's premium income and adversely affected its traditional life insurance business. Reserves set aside to cover potential claims and settlements in some of these cases could negatively affect earnings and tax liability. In 1998, premiums written are expected to have grown approximately 3 percent. Overall tax liability attributable to taxable life and health insurance premiums is anticipated to be flat during 1998, mainly because of the new legislation enacted in New York which lowered both the premium tax rate and the limitation on tax liability.

Due to problems associated with real estate-related investments, life and health companies invested less in real estate and more in stocks, while maintaining the same percentage of investment assets in bonds in 1997. Bonds account for more than 70 percent of the industry's invested assets. Despite the problems outlined above, net income tax liability in the life and health insurance industry increased sharply in 1995 and 1996, largely due to strong financial markets. In 1997, however, net income tax liability declined more than 10 percent. Had large insurers not paid or put aside reserves to settle regulatory disputes, net income tax liability, with the underlying strong financial markets, would have increased more than 10 percent. In 1998, net income tax liability is expected to increase approximately 5 percent.

Collections in the current year are expected to be larger than the underlying liability base because of a change in the estimated March prepayment rules governing life and health companies that increase receipts on a one-time basis. Net collections under the Tax Law in 1998-99 are estimated at $641 million, an increase of 4.2 percent from 1997-98. On a constant law basis, collections would increase by only 3.5 percent. The increase in underlying 1998 liability is being offset by a larger-than-expected refunds, a decline in SIF premiums, and a drop in taxes due to premium rate reductions.

Total collections under the Insurance Law are expected to increase in 1998-99 due to the end of litigation-related refunds of MTA credits. Collections are estimated at $28 million. This brings the sum of all insurance tax collections in the General Fund to $669 million, approximately $28 million higher than 1997-98.

1999-2000 PROJECTIONS

Despite the continuing consolidation trends and the shedding of non-core lines of business in the property and casualty and life and health industry, most industry analysts believe that the industry will remain in a low-pricing cycle in the near future.

With stagnant premium volumes, the industry continues to depend on the stock and bond market performance to offset underwriting losses. This is a potentially risky position should returns in the financial markets begin to weaken.

The soft-pricing market reflects stiff premium rate competition, despite catastrophic losses and A&E claims. In addition to these problems, loss reserve strengthening, regulatory issues, and non-price competition will continue to dampen the property and casualty industry's growth. The industry will continue to experience underwriting losses due to low premium rates and additional claims in some lines of business. Commercial lines are expected to experience continued strong price competition. While there are some rate increases anticipated in many personal lines, the homeowners line will continue to incur losses due to the increased frequency and severity of storms that have occurred in recent years. Moreover, statutory changes and competitive pressures in the workers' compensation and medical malpractice lines, which represent a major share of premium volume, are expected to weaken. This indicates that the growth rate in the State's largest source of insurance tax receipts, the 1.3 percent tax on property and casualty premiums, will continue to be modest for the foreseeable future.

The New York share of direct premiums written will continue to be the second largest, after California. The industry's premium growth in 1999, however, is anticipated to increase only modestly because of the full-year effects of the 1998 rate reductions in two major lines of business, auto insurance and workers' compensation, the likelihood of additional rate cuts in 1999, weaker economic and personal income growth, and modest inflation. The volatility in the financial markets as a consequence of world economic turmoil and political unrest is expected to continue. Investment income from dividends and interest is expected to grow modestly. As a result, the combination of investment income and realized capital gains is predicted to grow at a slower rate than for 1998.

The 1999-2000 forecast for tax receipts from property and casualty insurers is based on an increase in premium tax liability of approximately 2 percent, consistent with the prior year's growth. Assuming no extraordinary catastrophes and less vibrant stock and bond markets, net income tax liability in the property and casualty industry is projected to increase by 4 percent.

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

The forecast assumes that the life and health industry will grow modestly through the 1999 tax year. The New York share of premiums written will remain approximately 8 percent of the national market. Premiums written are expected to grow 3 percent. Net income tax liability is projected to grow 4 percent.

Net collections under the Tax Law in 1999-2000 are estimated at only $616 billion, a decrease of 4 percent from 1998-99, reflecting the impact of law changes governing life insurers.

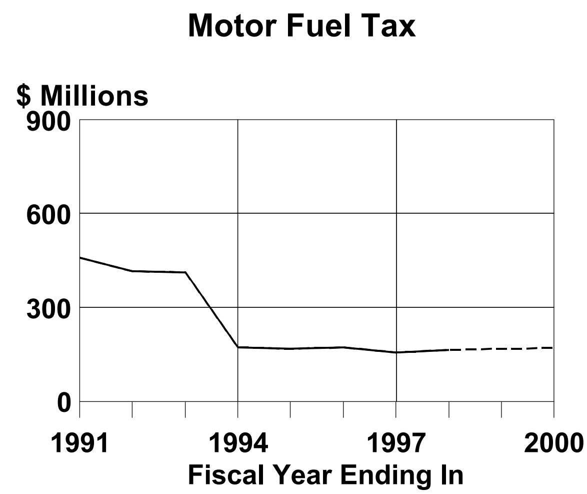
With the end of MTA credit refunding and the expected improvement in net retaliatory tax collections, net collections under the Insurance Law are estimated at $30 million, approximately $2 million more than collections for 1998-99. This brings total collections expected in the General Fund to $646 million in 1999-2000.

Insurance Tax Receipts
(millions)

	Tax Law				
	Gross Receipts	Refunds	Net	Insurance Law Net	Total Net Receipts
			Actual		
1989-90	$435.6	$33.6	$402.0	$64.8	$466.8
1990-91	446.8	36.8	445.0	63.3	508.3
1991-92	573.4	32.7	540.7	19.6	560.3
1992-93	593.7	30.2	563.5	43.2	606.7
1993-94	644.5	25.1	619.4	16.5	635.9
1994-95	538.7	36.2	502.5	27.5	530.0
1995-96	700.3	28.8	671.5	13.5	685.0
1996-97	649.5	28.8	620.7	32.8	653.5
1997-98	629.1	14.0	615.1	25.6	640.7
			Estimated		
1998-99	$680.0	$39.0	$641.0	$28.0	$669.0
1999-2000	645.5	29.5	616.0	30.0	646.0

MOTOR FUEL TAX

Motor fuel and diesel motor fuel taxes are levied by Article 12-A of the Tax Law upon the sale, generally for highway use, of gasoline and diesel fuel, respectively. The aggregate rate of tax imposed on each gallon of gasoline and diesel fuel is eight cents. The current eight cent rate for diesel fuel reflects a two cent per gallon tax reduction implemented on January 1, 1996.



ADMINISTRATION

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

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

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

EXCEPTIONS TO TAXATION

Exempted from payment of motor fuel taxes are the State and its political subdivisions (including counties, towns, cities, villages, school districts or other special districts supported by public funds), the Federal government, consular offices protected by treaties, nonpublic schools when purchases are for education-related uses, and fire companies.

The Article 12-A motor fuel tax is levied primarily on persons who operate motor vehicles on the State's public highways or who operate recreational motor boats on the State's waterways. Thus, it generally does not apply to fuel used for nonhighway purposes. For example, the State refunds any tax paid on fuel used exclusively in the operation of road-building machinery or exclusively for agricultural or commercial marine purposes, or in vehicles operated on rails or tracks.

To minimize the cost of mass transportation on riders and thereby promote its use, other partial or full exceptions are provided. Operators of private buses engaged in local transit in the State have been entitled to a full refund of motor fuel taxes paid for such use since 1974. Operators of other private buses and taxicabs are allowed a partial refund of three cents per gallon for gasoline and one cent per gallon for diesel fuel.

Under gasoline tax provisions in effect since 1985, the State, Federal government, and tax-exempt hospitals are exempt from payment of the tax. All other exempt organizations obtain their gasoline tax exemption through a refund of tax paid. Under 1988 diesel fuel tax provisions, fuel sold to the State or Federal government, fuel used for farming or residential heating, and kero-jet fuel sold to an airline are exempt from taxation. All other diesel fuel tax exemptions are obtained through refunds.

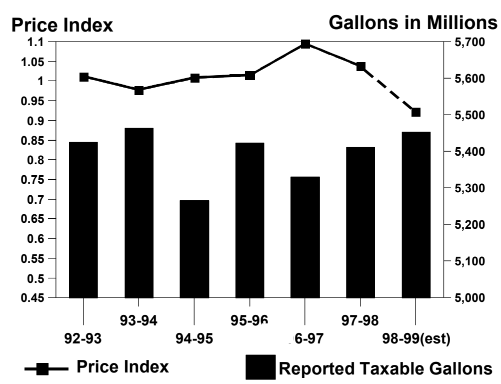
1998-99 RECEIPTS

Motor fuel tax receipts for 1997-98 were $491.8 million, including $437.8 million in gasoline tax receipts and $54.0 million in diesel fuel tax receipts.

Gasoline tax collections for the first nine months of 1998-99 have increased 0.3 percent from the comparable period last year. This year's increase can be attributed to increases in consumption and buildup of inventories as a result of low gasoline prices. The accompanying chart illustrates the historical relationship between gasoline prices and consumption.

Growth in diesel motor fuel tax collections for the first nine months of the fiscal year of 8.9 percent reflects a healthy trucking industry, low fuel prices, and continued State and national economic growth.

Gasoline Price and Consumption



Based on collections to date, motor fuel tax receipts for 1998-99 are estimated at $499.3 million, including $441.3 million in gasoline tax receipts and $58.0 million in diesel fuel tax receipts.

1999-2000 PROJECTIONS

Motor fuel tax receipts in 1999-2000 are expected to total $500.2 million, an increase of $0.9 million, or 0.2 percent over 1998-99. An estimated 3 percent increase in gasoline prices and slower State and national economic growth are expected to moderate year-to-year growth in gasoline consumption. Stable inventories, in contrast to the increases experienced in 1998-99, and flat audit collections will serve to further restrain growth in gasoline receipts. Total gasoline motor fuel tax receipts are estimated at $441.5 million. Diesel fuel collections for 1999-2000, estimated to be $58.7 million, similarly reflect price increases and the overall economic climate. A 1.5 percent increase in diesel motor fuel consumption is anticipated.

OTHER FUNDS

Since April 1, 1992, receipts attributable to one and three-fourths cents of the tax on each gallon of gasoline and diesel fuel sold in the State have been earmarked to the Emergency Highway Reconditioning and Preservation Fund and the Emergency Highway Construction and Reconstruction Fund. These funds were established, respectively, in 1972 and in 1983 to finance certain highway construction needs.

In 1991-92, the amount per gallon earmarked to each of these highway funds was five-eighths of one cent; in 1990-91, three-eighths of one cent; and, prior to April 1, 1990, one-quarter of one cent.

Motor fuel tax receipts earmarked to these funds in 1997-98 totaled $107.6 million. It is estimated that receipts totaling $109.2 million in 1998-99 and $109.4 million in 1999-2000 will be deposited into these funds.

Since April 1, 1993, one-half of the gasoline tax has been deposited in the Dedicated Highway and Bridge Trust Fund established to help finance the reconstruction, replacement, reconditioning and preservation of highways and bridges in the State. The Dedicated Highway and Bridge Trust Fund, which received $218.9 million in motor fuel taxes in 1997-98, will receive an estimated $220.7 million in 1998-99 and $220.8 million in 1999-2000.

GENERAL FUND

The General Fund currently receives two and one-quarter cents per gallon of the gasoline tax and six and one-quarter cents per gallon of the diesel motor fuel tax. Prior to January 1, 1996, the General Fund received eight and one-quarter cents per gallon of the 10 cent per gallon diesel motor fuel. Net General Fund motor fuel tax receipts were $165.3 million for 1997-98. General Fund receipts are estimated at $169.4 million for 1998-99, and $170 million for 1999-2000.

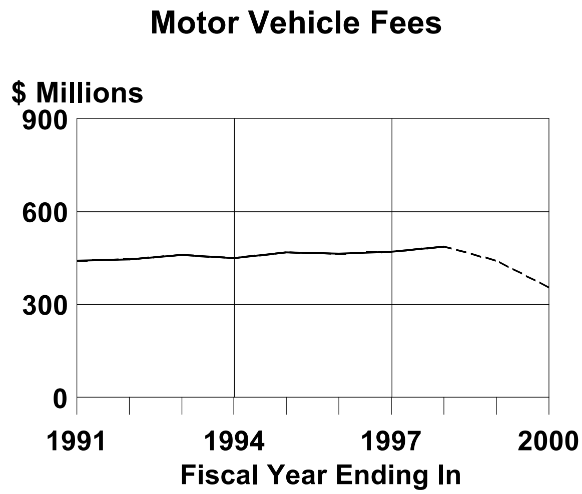
Motor Fuel Tax Receipts — All Funds
(thousands)

	Gross General Fund	Refunds	Net General Fund	Capital Projects [1/]	Debt Service [2/]	All Funds Net Collections
			Actual			
1990-91	$477,358	$18,410	$458,948	....	$ 46,158	$505,106
1991-92	431,010	13,831	417,179	....	75,264	492,443
1992-93	425,654	12,686	412,968	....	102,913	515,881
1993-94	180,180	6,546	173,634	$212,211	113,806	499,651
1994-95	174,483	5,515	168,968	212,514	103,480	484,962
1995-96	178,545	4,948	173,597	220,460	107,425	501,482
1996-97	161,813	4,282	157,531	210,835	103,143	471,509
1997-98	169,018	3,763	165,255	218,897	107,562	491,713
			Estimated			
1998-99	$173,400	$ 4,000	$169,400	$220,700	$109,200	$499,300
1999-2000	174,000	4,000	170,000	220,800	109,400	500,200

[1/] Dedicated Highway and Bridge Trust Fund
[2/] Emergency Highway Construction and Reconstruction Fund and Emergency Highway Reconditioning and Preservation Fund

MOTOR VEHICLE FEES

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



REGISTRATION REQUIREMENTS AND EXEMPTIONS

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

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

The following narrative on fees, drivers' licenses, and administration pertains to current law.

FEES

Vehicle Registration Fees

Most vehicle registration fees in New York are based on vehicle weight. Two important exceptions are buses, which are charged according to seating capacity, and semitrailers, which are registered at a flat fee. Legislation in 1989 mandated biennial registration of vehicles weighing less than 18,000 pounds; this biennialization began on June 16, 1989, and was phased in over a two-year period. From August 1, 1991, to June 30, 1992, a 15 percent surcharge was imposed on vehicle registration fees. Effective July 1, 1992, the surcharge was incorporated into the base registration fees.

Until June 30, 1998, passenger vehicles were registered at graduated rates of 86 cents per each 100 pounds up to 3,500 pounds, and $1.29 per each 100 pounds over 3,500 pounds, with a maximum annual registration fee of $74.25. Starting July 1, 1998, pursuant to Chapter 56, Laws of 1998, the graduated rates were reduced 25 percent. The rates are now 64.5 cents per each 100 pounds, up to 3,500 pounds, and 97 cents per each 100 pounds over 3,500 pounds, with a maximum annual registration fee of $56.06. Most other states impose average automobile registration charges that are greater than New York State's current average of approximately $21.

The registration fee for trucks and light delivery vehicles is $2.88 per each 500 pounds of maximum gross weight. Motorcycles, snowmobiles, all-terrain vehicles, ambulances, trucks used exclusively in the transportation of household goods, and other specialized vehicles have separate registration fee schedules. Chapter 435, Laws of 1997, imposed additional fees pertaining to motorcycle licenses and registrations. The additional fees are deposited in the Motorcycle Safety Fund, a special revenue account.

Buses are registered under a graduated fee schedule based on seating capacity, with a minimum fee of $59.85 for those with a seating capacity of 15 to 20 passengers and a maximum fee of $77.63 plus $2.30 for each additional passenger seat over 30. A reduced fee of $10 is charged for registering certain buses used in local transit. In addition, New York and many other states have entered into reciprocal proration agreements under which buses operated both in New York State and in other participating states may be eligible for prorated registration fees based on vehicle miles traveled in New York compared with miles traveled in other states.

At the request of the American Association of Motor Vehicle Administrators, tractors and semitrailers are registered separately, despite their use as a single operating unit. This approach, under which semitrailers are registered at a nominal rate of $23 (except that for model year 1989 or later, the fee is $69 for a registration period of 5-1/2 to 6-1/2 years), gives truckers greater flexibility in interchanging semitrailers. Tractors are registered at a fee of $1.21 per each 100 pounds of maximum gross weight.

Drivers' Licenses and Other Fees

Since June 1, 1992, operators' licenses have been issued for an annual fee of $5 per year and each chauffeur's license, $10 per year; prior to that date, the fees were $4 and $8, respectively. In 1991, a fee of $15 per year was instituted for a commercial driver's license with endorsements. Drivers' licenses (since September 1997) and renewals (since February 1996) are issued for five-year periods. A photo image fee is charged at the time of license issuance and renewal. Since April 1997, the charge for the photo image on a learner's or driver's license has been $3.

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

Major Sources of Motor Vehicle Fees
(thousands)

	1995-96	1996-97	1997-98	1998-99	1999-2000
	---------- Actual	----------	Preliminary	-------- Estimated	--------
Major vehicle registration programs (passenger, commercial, IRP, re-registrations)	$383,178	$386,414	$391,377	$339,569	$329,422
Major license programs (original and renewals)	75,272	83,304	100,643	105,025	93,372

ADMINISTRATION

Registration and licensing take place at the central and district offices of the Department of Motor Vehicles, by mail, and at county clerks' offices in most counties. Traditionally, a fixed portion of each of the fees collected by the county clerks was retained as compensation for services rendered. However, Chapter 309, Laws of 1996, as amended by Chapter 435, Laws of 1997, shifted county clerks' fees from a fixed retention fee system to a system based on a percentage of gross receipts. The new system started on

January 1, 1997, and allowed county clerks to retain 8.1 percent of applicable gross receipts until June 30, 1998. Chapter 56, Laws of 1998, provided a new retention rate of 9.3 percent until December 31, 1999.

Legislation submitted with this Budget proposes to increase the percentage of retention from 9.3 percent to 12.7 percent, effective April 1, 1999. The increase mitigates, in part, the decrease in gross receipts handled by county clerks as a result of the proposed processing by the Department of Motor Vehicles of all mail-in registration and license renewals.

Chapter 435, Laws of 1997, repealed the refunding, when requested, of the fee for the second year of a two-year registration period. However, Chapter 56, Laws of 1998, restored fully, and retroactively, the provisions pertaining to such refunds.

1998-99 RECEIPTS

Deposits in the General Fund and in the Dedicated Highway and Bridge Trust Fund through the first nine months of 1998-99 totaled $413.4 million, a decrease of 3.7 percent over the comparable period in 1997-98. The decrease in deposits reflects the 25 percent reduction in the registration fees for passenger cars and the restoration of refunds, including the retroactive portion, all discussed previously. Given the historical pattern of receipts in the last quarter of the fiscal year, the current estimate represents a decrease of 8.9 percent over the prior year. For the entire 1998-99 fiscal year, gross receipts are estimated at $588.2 million, of which receipts from vehicle registrations are projected at $405.7 million. The estimate for receipts from operators' licenses and other fees is $182.5 million. An estimated $38.7 million in refunds and county clerks' fees reduce expected receipts from motor vehicle fees to $549.5 million.

1999-2000 PROJECTIONS

Receipts for 1999-2000 are estimated at $525.4 million. The estimate for receipts from vehicle registrations is $354.2 million and for receipts from operator's licenses and other fees, $171.2 million. Again, an estimated $33.4 million in refunds and county clerks' fees would reduce receipts from motor vehicle fees to $492 million. The estimate reflects the first full-year effect of the reduction in passenger registrations and the new county clerks' retention schedule (discussed previously).

OTHER FUNDS

Since April 1, 1993, a percentage of registration fees has been earmarked to the Dedicated Highway and Bridge Trust Fund, a capital projects fund. A schedule of the percentages and amounts earmarked to the Dedicated Highway and Bridge Trust Fund is presented in the table below:

Dedicated Highway and Bridge Trust Fund
(millions)

Fiscal Year	Percentage Dedicated	Amount Deposited
1993-94	13%	$46.7
1994-95	April - December: 17 January - March: 20	45.1
1995-96	20	62.4
1996-97	20	71.4
1997-98	20	73.1
1998-99	April - June: 28 July 1998 - Feb. 1999: 34 March: 45.5	106.5
1999-2000	45.5	137.0

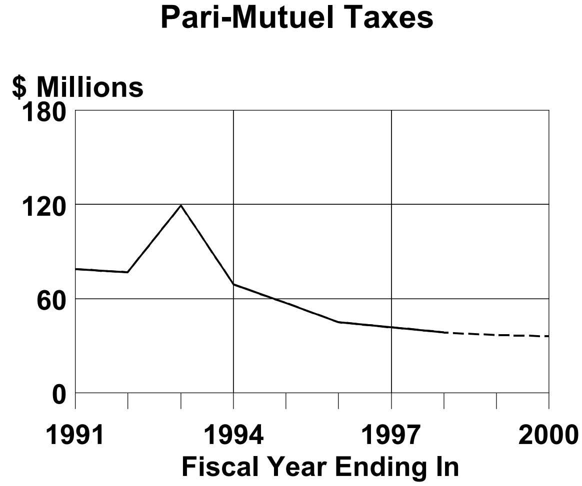
GENERAL FUND

Net General Fund receipts from motor vehicle fees are estimated at $443 million for 1998-99 and $355 million for 1999-2000.

Motor Vehicle Fee Receipts
(thousands)

	Gross Receipts	Dedicated Fund	County Clerk Retent.	Refunds	General Fund Receipts
	Actual				
		Less:			
1990-91	$467,442	....	$15,393	$8,749	$443,300
1991-92	475,947	....	15,453	14,206	446,288
1992-93	493,837	....	15,113	18,422	460,302
1993-94	528,967	$ 46,655	15,748	16,570	449,994
1994-95	547,930	45,128	16,678	16,258	469,866
1995-96	562,571	62,390	16,663	18,958	464,560
1996-97	582,277	71,442	17,206	21,596	472,033
1997-98	590,274	73,096	19,324	11,436	486,418
	Estimated				
1998-99	$588,200	$106,500	$19,700	$19,000	$443,000
1999-2000 (Current Law)	525,400	137,000	19,500	18,000	350,900
1999-2000 (Proposed Law)	525,400	137,000	15,400	18,000	355,000

PARI-MUTUEL TAXES



Taxes have been levied since 1940 on pari-mutuel wagering activity conducted first at horse racetracks and more recently also 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.

To foster New York State agriculture and breeding industries, a portion of the takeout is allocated to the State's thoroughbred and standardbred (harness) horse breeding and development funds. Since the establishment of these funds, over 400 farms and 6,000 jobs have been created or saved. During 1997 alone, some $10 million and $7 million were generated for the thoroughbred and harness funds, respectively.

The rise in OTB activity and simulcasting over the last two decades, which now accounts for 80 percent of the statewide handle, has 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 non-New York Racing Association (NYRA) tracks and, more importantly, reduced its on-track tax rates by 30 to 90 percent at thoroughbred and harness tracks. The State also assumed the costs for regulation and drug testing. In 1995, the State increased the takeout on NYRA wagers involving two horses, while lowering the takeout on NYRA wagers involving one horse. Legislation, enacted in 1997 and 1998, extended authorizations for telephone betting, in-home simulcasting experiments, expansion of track and OTB simulcasting through July 1, 2002, and lowered the tax rates on simulcast wagering. It also eliminated the State franchise fee on nonprofit racing associations, effective January 1, 1998.

1998-99 RECEIPTS

Increases in simulcasting handle, especially in-home and out-of-State simulcasting, are expected to offset the handle losses that result from shorter racing seasons, declining attendance, and less NYRA racing. As a result, the total 1998-99 Statewide betting handle (both on- and off-track) of $2.8 billion will be higher than the prior year.

Total thoroughbred on-track handle, including simulcasts, is estimated at $686 million, up less than 1 percent from the prior year. The continuing decline in wagering on live harness races is being offset in part by increased simulcasting. Total harness handle is estimated at $262 million. Handle at off-track betting corporations, despite a part year loss of in-home simulcasting of NYRA races, is estimated to increase to $1.9 billion, up 3.5 percent.

As a result of the reduced tax rates on simulcasting and the elimination of NYRA's franchise fee, racing receipts are expected to decline; thoroughbred racing by 3.6 percent to $18.8 million, and OTB receipts by 5.5 percent to $17.1 million. Harness receipts should be up 10 percent to $1.1 million, resulting in total pari-mutuel tax receipts of $37 million.

1999-2000 PROJECTIONS

This projection assumes a full racing season, albeit with shorter race weeks at both thoroughbred and harness tracks, except for the extended thoroughbred meet at Saratoga.

Thoroughbred racing: Total thoroughbred wagering is projected to decline 4.0 percent. A projected NYRA on-track handle of $471 million, including betting on out-of-State races, will produce $14.7 million in tax receipts, with NYRA intrastate simulcasting of $38 million producing an additional $1.4 million. The Finger Lakes racetrack, with a handle projected at $48 million, including simulcasts, will produce $0.2 million in tax, and other intratrack simulcast wagering, projected at $94 million, will add another $1.5 million.

Harness racing: Harness racing handle, including simulcasts, is projected to decrease to $252 million, generating tax receipts of $0.9 million.

Off-track betting: OTB handle is projected at $1.92 billion, producing tax collections of $17.3 million.

In aggregate, State pari-mutuel tax receipts are projected at $36 million in 1999-2000.

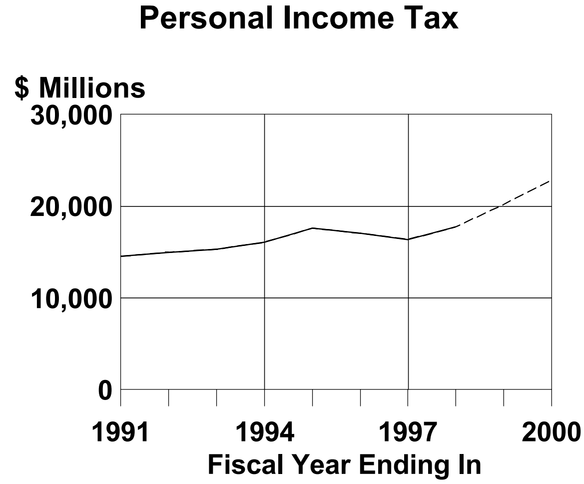
General Fund Receipts from Pari-Mutuel Taxes
(millions)

	Flat	Harness	OTB	Total
	Actual			
1990-91	$44.4	$5.6	$28.8	$78.8
1991-92	43.1	5.1	28.6	76.8
1992-93	87.6 [a]	4.7	26.9	119.2
1993-94	37.8	5.9	25.5	69.2
1994-95	34.3	2.8	20.2	57.3
1995-96	24.0	1.2	19.9	45.1
1996-97	20.5	1.1	20.1	41.7
1997-98	19.5	1.0	18.0	38.5
	Estimated			
1998-99	$18.8	$1.1	$17.1	$37.0
1999-2000	17.8	0.9	17.3	36.0

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

PERSONAL INCOME TAX

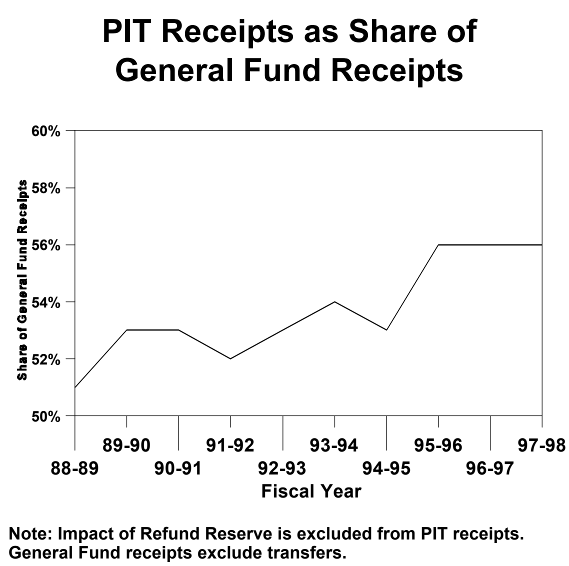
The personal income tax, the State's largest source of revenue, will account for more than one-half of estimated General Fund receipts during State fiscal years 1998-99 and 1999-2000.



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

Legislation enacted every year through 1994 deferred the remainder of the personal income tax cut originally enacted in the Tax Reform and Reduction Act of 1987, maintaining through 1994 the tax rate structure in effect in 1989. Also in 1994, a State earned income tax credit, calculated as a share of the Federal earned income tax credit, was added for 1994 and subsequent tax years.

In 1995, a substantial three-year reduction of the personal income tax was enacted. Under the 1987 Act, the top tax rate was scheduled to fall to 7 percent by 1997. Legislation in 1995 lowered it further to 6.85 percent by 1997. In addition, the income levels at which the top rate is effective were increased. For a married couple filing jointly, that taxable income level rose from $26,000 in 1994 to $40,000 in 1997. The State earned income tax credit was accelerated to 20 percent of the Federal credit by 1996. The 1995 legislation also retained the household credit, which had been scheduled to be phased out starting in 1996. Legislation in 1996 enhanced the State child and dependent care credit and provided additional tax relief for farmers. Legislation in 1997 further enhanced the State child and dependent care credit, expanded tax relief for farmers, created a solar energy credit for residences, and created a College Choice Tuition Savings Program with a tax exemption for qualified contributions. Legislation in 1998 enhanced the child and dependent care credit still further, accelerated implementation of the final phase of the agricultural school property tax credit, speeded up into 1998-99 the fully effective senior citizens' school property tax exemption under the STAR program, and began deposit of a portion of personal income tax receipts into the newly created STAR Fund.



STRUCTURE OF THE TAX

Tax Base

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

Beginning in 1991, the new Federal limit on itemized deductions for taxpayers with Federal adjusted gross income (AGI) above a certain amount is applied for State personal income tax purposes. This base amount, set at $100,000 ($50,000 for married couples filing separately) in 1991, is indexed for inflation afterward. In 1998, the amount is $124,500 ($62,250 for married couples filing separately). Otherwise allowable itemized deductions, except for medical expenses, casualty and theft losses, and interest payments, are reduced by the lower of either 3 percent of Federal adjusted gross income in excess of the base amount or 80 percent of allowable itemized deductions.

Basic Tax Structure

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

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

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

Current Tax Schedules

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

Credits

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

— The earned income tax credit is effective for tax years beginning on and after January 1, 1994, allowed at a rate of 7.5 percent of the Federal earned income tax credit in 1994, 10 percent of the Federal credit in 1995, and 20 percent in 1996 and later. The credit is refundable for State residents. The original 1994 legislation had set the 1996 credit at 15 percent; legislation in 1995 accelerated the final step of this credit to 1996. Starting in 1996, the earned income tax credit is offset by the amount of the household credit.

— The household credit is permitted for individuals 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. Under previous law, the household credit would have been reduced by 50 percent in 1996 and eliminated in 1997. Legislation in 1995 continued the credit permanently.

— The child and dependent care credit is allowed at a rate of 20 percent or more of the comparable Federal credit. In 1998 the percentage of 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. Starting in 1999, a credit of 100 percent of the Federal credit will be available to those with incomes less than $35,000, with the percentage gradually phasing down to 20 percent for those with incomes of $50,000 or more.

— The real property tax circuit-breaker credit is based on a more inclusive definition of income than that used in the income tax generally. For eligible taxpayers over the age of 65, the credit ranges downward from $375 as income rises to $18,000; for other taxpayers, the credit can be as high as $75.

— The farmer's school property tax credit, enacted in 1996 for tax years starting in 1997 and after, provides a credit for allowable school district property taxes paid by an eligible farmer on qualified agricultural property. A farmer must derive at least two-thirds of his or her Federal gross income from farming to be eligible. If a farmer's qualified acreage exceeds the base acreage stipulated for that tax year, the credit is reduced to less than the full amount of school property taxes paid. This 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. Legislation in 1998 accelerated the base acreage level of 250 acres from the 1999 to the 1998 tax year; prior to this legislation, the 1998 base acreage level had been set at 175 acres.

— The rehabilitation credit for historic barns effective for tax years starting in 1997 and after, provides a credit equal to 25 percent of a taxpayer's qualified rehabilitation expenses incurred in restoring a pre-1936 agricultural barn.

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

RECENT ADMINISTRATIVE ACTIONS THAT AFFECT REVENUE COLLECTIONS

Withholding Changes

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

Effective Date	Feature	Changes
1/1/97	Standard Deduction Rate Schedule	Increased to $6,975 for single individuals, $7,475 for married couples Lowered maximum rate to 6.85%, broadened the wage brackets to which the rates apply
4/1/96	Standard Deduction Rate Schedule	Increased to $6,300 for single individuals, $6,800 for married couples Lowered maximum rate to 7%, broadened the wage brackets to which the rates apply
7/1/95	Standard Deduction Rate Schedule	Increased to $5,650 for single individuals, $6,150 for married couples Lowered maximum rate to 7.59%, reduced the number of tax brackets
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
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
10/1/89	Standard Deduction Rate Schedule	Increased to $5,000 for single taxpayers and to $5,500 for married taxpayers Adopted 1989 rate schedule, with top rate at 7.875%

Refund Reserve Account Transactions

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

As part of the State's multi-year effort to end the Spring Borrowing through the Local Government Assistance Corporation (LGAC), State funds were deposited annually from 1993-94 through 1995-96 in the refund reserve account. The amounts deposited were $114 million in 1993-94, $136 million in 1994-95, and $271 million in 1995-96. LGAC funds in the refund reserve, totaling $521 million at the end of 1998-99, are available to finance refunds issued in the Spring of 1999, but must be restored to the reserve by March 31, 2000.

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

Year Ending March 31	Year End Balance	Change from Prior Year	Effect of Change in Year-End Balance on Reported General Fund Receipts
1998	$2,392.2	$ 530.4	Decreased receipts by 530.4
1997	1861.8	1,183.5	Decreased receipts by 1,183.5
1996	678.4	400.4	Decreased receipts by 400.4
1995	278.0	-861.6	Increased receipts by 861.6
1994	1,139.6	468.5	Decreased receipts by 468.5
1993	671.1	641.9	Decreased receipts by 641.9
1992	29.2	29.2	Decreased receipts by 29.2
1991	. . . .	-48.6	Increased receipts by 48.6
1990	48.6	48.6	Decreased receipts by 48.6
1989	. . . .	. . . .	No effect
1988	. . . .	-351.7	Increased receipts by 351.7

Timing of the Payment of Refunds

For many years, the payment of refunds during the final quarter of the State's fiscal year (i.e., the January-March period) had been explicitly modified to minimize potential year-end imbalances in the State's General Fund. This practice was made possible because the statute required merely that all refunds on timely filed claims (due no later than April 15, absent an approved request for an extension) be made by July 15 (i.e., within three months of the statutory due date) to avoid State liability for interest on late refunds. Effective since 1995, refunds must be paid within 45 days of the statutory due date to avoid State liability for interest. By changing the level of refunds paid in the final quarter of the fiscal year, the year-to-year change in collections under this tax can be significantly altered. The amount of refunds paid in the January-March period varied during the years 1978 to 1987, from a high of $506 million in 1979 to none in 1984. From 1988 to 1992, and in 1995, this amount was held constant by administrative practice at $360 million. In 1993 and 1994, however, refunds of $410 million were paid in the January through March period. In 1996, 1997, and 1998, refunds of $460 million, $577 million, and $500 million, respectively, were paid during that period.

Tax Tribunal Decision

In July 1997, the State's Tax Appeals Tribunal delivered a decision regarding the proper computation of State itemized deductions for certain high-income taxpayers. The new computation takes into consideration the interaction between State and Federal itemized deductions in determining State and local income taxes. It is estimated that the Tribunal's decision, which by law the State cannot appeal, reduced personal income tax receipts for 1998-99 and earlier years combined by more than $50 million. The ongoing annual impact is expected to be between $35 million and $40 million.

ESTIMATED LIABILITY

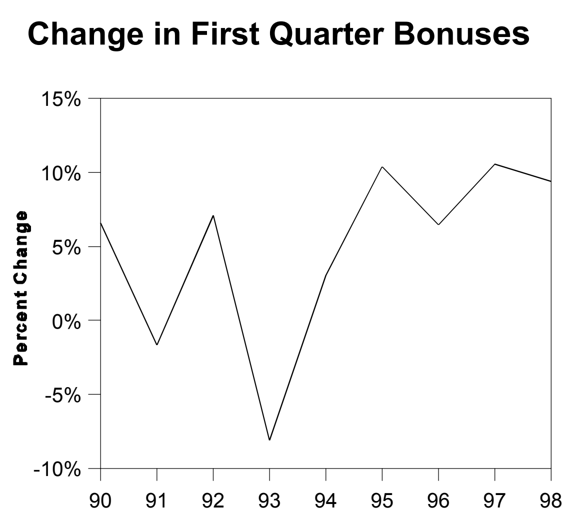
Adjusted gross income (AGI), the income base used to determine personal income tax liability, includes the major components listed below:

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

Component of Income	1992	1993	1994	1995	1996	1997 (Est.)
NYSAGI						
amount	$294,861	$297,112	$301,267	$321,094	$347,897	$384,927
% change		0.8%	1.4%	6.6%	8.3%	10.6%
Wages						
amount	$238,813	$237,972	$242,771	$253,551	$266,334	$281,999
% change		-0.4%	2.0%	4.4%	5.0%	5.9%
share of NYSAGI	81.0%	80.1%	80.6%	79.0%	76.6%	73.3%
Capital Gains						
amount	$ 9,457	$ 13,365	$ 12,032	$ 14,086	$ 22,441	$ 39,493
% change		41.3%	-10.0%	17.1%	59.3%	76.0%
share of NYSAGI	3.2%	4.5%	4.0%	4.4%	6.5%	10.3%
Interest and Dividends						
amount	$ 20,807	$ 18,567	$ 19,629	$ 22,680	$ 23,533	$ 25,200
% change		-10.8%	5.7%	15.5%	3.8%	7.1%
share of NYSAGI	7.1%	6.2%	6.5%	7.1%	6.8%	6.5%
Taxable Pension						
amount	$ 11,424	$ 13,078	$ 15,694	$ 16,620	$ 17,391	$ 18,217
% change		14.5%	20.0%	5.9%	4.6%	4.7%
share of NYSAGI	3.9%	4.4%	5.2%	5.2%	5.0%	4.7%
Business and Partnership Income						
amount	$ 19,586	$ 20,639	$ 19,665	$ 25,867	$ 31,424	$ 34,380
% change		5.4%	-4.7%	31.5%	21.5%	9.4%
share of NYSAGI	6.6%	6.9%	6.5%	8.1%	9.0%	8.9%
All Other Incomes/ Adjustments*						
amount	($ 5,226)	($ 6,509)	($ 8,524)	($ 11,710)	($ 13,226)	($ 14,362)
% change		24.6%	31.0%	37.4%	12.9%	8.6%

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

Strong performances in the financial sector over the recent years have resulted in a significant shift in the capital gains share of AGI. Since 1992, the share of capital gains in AGI is estimated to have more than tripled from 3.2 percent to 10.3 percent. Over the same period the share of wages in AGI is estimated to have decreased from 81 percent to 73.3 percent. Business and partnership income also shows strong growth between 1992 and 1997, though somewhat smaller than capital gains. The AGI data suggest that much of the rapid growth in liability in recent years can be attributed to the large increases in realized gains and business income.



Changes in timing of year-end bonus payments affect the growth rates in AGI. Bonuses in the Finance, Insurance and Real Estate (FIRE) Sector represent more than half of the total bonuses paid out each year. Under traditional patterns, about 40 percent of FIRE bonuses for a given year are paid in December, with the balance distributed in the beginning of the following year. In the 1992-93 cycle, however, a large share of the bonuses normally paid in January and February 1993 was accelerated into December 1992 to avoid potential Federal tax increases in 1993. It is estimated that as much as 75 percent of FIRE bonuses were paid that month. This unusual pattern recurred in the 1993-1994 period. Bonuses for 1994 through 1997, however, returned to the more traditional pattern, where it is estimated that approximately 30 percent of FIRE bonuses were paid at the end of the calendar year, while 70 percent were paid early in the following year. Given the relatively weak withholding pattern in late 1998, it is expected that a higher percentage of bonuses will be paid in early 1999.

1996 and 1997 Liability

Based on tax collections, total liability for 1996 was approximately $17.1 billion. Of this amount, $16.3 billion was accounted for by the approximately 8 million returns covered in the annual study of personal income tax returns prepared by the New York State Department of Taxation and Finance. The balance reflects liability received with fiduciary returns, late filed returns and other transactions excluded from the annual study. The AGI amount in the tax study for 1996 was $348 billion, yielding an average effective tax rate of 4.7 percent. The amount of earned income tax credit reflected in the study was $276 million.

As in 1995 and 1996, 1997 saw a significant increase in the number of millionaires in New York as a result of a strong performance in the financial sector. AGI is estimated to have grown more than 10.5 percent, to $385 billion. Wages and salaries are estimated to have increased nearly 6 percent. Following a 17 percent growth in 1995 and 59 percent growth in 1996, capital gains are estimated to have risen more than 75 percent. Indeed, continued strength in the stock market combined with the tax rate reduction on capital gains by the Federal government, effective after May 7, 1997, provided a strong impetus for realizing gains. Many taxpayers may well have finally realized some of the gains which they had been deferring since 1994 in anticipation of the Federal tax cut (an unlocking effect). Interest and dividend income is estimated to have increased around 7 percent, following an increase of 3.8 percent in 1996. Business net income and income derived from partnerships and S-Corporations are expected to have risen almost 9.5 percent following a 21.5 percent increase in 1996.

Legislation, passed in June 1995, implemented the final step of the personal income tax cut in the 1997 tax year, increasing the standard deduction, and reducing the maximum tax rate imposed on taxable income, compared to 1996. The resulting liability from the study file is estimated to be about $17 billion, a 4.4 percent growth compared to 1996. The effective tax rate is estimated to be 4.4 percent. Using 1997 AGI, the estimated net liability impact of the change in law from 1996 to 1997 is a savings to taxpayers of more than $1.5 billion.

1998 Liability

By all indicators, the State economy remained strong in 1998. AGI is estimated to have grown 10.5 percent, to $425 billion. Wages and salaries are estimated to have increased 7.5 percent, reflecting employment gains and healthy bonus performance, largely linked to 1997 market activity. Interest and dividend income is estimated to have risen more than 6 percent. Again, liability was impacted by another large increase in capital gains realizations of close to 40 percent. Over the 1997-98 period, gains realizations increased by 140 percent. Business net income, and income derived from partnerships and S-Corporations are expected to grow close to 6 percent.

Estimated liability is projected to have increased more than 13.5 percent, to $19.4 billion.

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

1999 Liability

In 1999, AGI is expected to grow approximately 4.4 percent, a return to a more normal historical rate. The increase in wages and salaries is projected to be 5 percent, reflecting a modest slowdown in the economy. Bonus growth is expected to pick up slightly in 1999 from relatively flat results in 1998. Capital gains realizations are expected to remain flat, after reaching a peak of 350 percent above the 1994 level. The other components of income are expected to grow, in aggregate, by about 5.3 percent. Under current law, estimated liability is projected to increase 5.3 percent, to $20.4 billion.

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

1998-99 RECEIPTS

Total personal income tax receipts for the 1998-99 fiscal year are now projected at $20,761 million, down $1,378 million from the Mid-Year Update. This forecast change largely reflects higher withholding tax collections due to stronger wage growth than earlier forecast, additional estimated tax installment payments due to stronger than expected financial markets, and the use of $2,317 million for the accelerated payment of refunds in the last quarter of the fiscal year and for deposit in the refund reserve account on March 31, 1999.

Key risks for the remainder of the fiscal year include the amount of withholding tax collections to be received during the first quarter of 1999 and the balance of estimated payments received on 1998 liability.

The current forecast assumes that estimated payments on 1998 liability will end the year more than 15 percent higher than comparable payments on 1997 liability. As already noted, this increase is due in part to strong financial markets in 1998, and increased capital gains realizations in response to 1997 Federal capital gains legislation.

Withholding collections, which increased 8.4 percent through the first nine months of the fiscal year, are expected to increase 8.3 percent for the remainder of 1998-99. The strong year-to-date increase in withholding is due to increased wages resulting from stronger than expected employment and average wage gains. Continued growth for the remainder of the year reflects strong base wage growth accompanied by modest growth in bonuses.

The estimate for the current year reflects the payment of $460 million in refunds on 1998 liability during the final quarter of the fiscal year, and a net benefit to collections of

$75 million from transactions in the refund reserve account. Without the refund reserve account transactions, 1998-99 net receipts are estimated to grow to $20,686 million, an increase of 13 percent from comparable 1997-98 receipts. The components of the estimate are detailed in Table 1, and are based on actual collections of $16.6 billion through December.

Table 1
Projected Fiscal-Year Collection Components
All-Funds
(millions)

	1997-98 (Actual)	1998-99 (Estimated)	1999-2000 (Projected)
Receipts			
Withholdings	$15,285	$16,565	$17,612
Estimated Payments . . .	4,419	5,235	5,670
Current Year	3,720	4,300	4,460
Prior Year*	699	935	1,210
Final returns	958	1,206	1,395
Current Year	71	70	1,320
Prior Year*	887	1,136	75
Delinquent collections	427	470	480
Gross Receipts	$21,088	$23,476	$25,157
Refunds			
Prior Year*	$ 1,885	$ 1,890	$1,995
Previous Years	136	165	145
Current Year	500	460	460
State-City Offset*	278	275	275
Total Refunds	$ 2,799	$ 2,790	$2,875
Reserve Transactions . . .	(530)	75	1,771
Net Receipts	$17,759	$20,761	$24,053

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

The planned balance in the refund reserve account on March 31, 1999, is $2,317 million. Of this amount, $521 million is attributable to Local Government Assistance Corporation (LGAC) transactions in 1993-94 ($114 million), 1994-95 ($136 million) and 1995-96 ($271 million). These transactions are part of the State's multi-year effort to end the Spring Borrowing and, while the $521 million is available to finance refunds to be issued in the Spring of 1999, it must be restored to the reserve by March 31, 2000.

1999-2000 PROJECTIONS

Based on current law, net personal income tax receipts would be expected to increase by 16 percent, to $24,053 million, in 1999-2000. Reported receipts would include the net gain to collections of the $1,771 million from net transactions in the refund reserve account.

Withholding receipts are projected to rise by 6.3 percent. Final payments with 1998 returns are expected to increase by $184 million from 1997 returns, reflecting strong income growth in 1998.

The other major component of collections, estimated payments on 1999 income, will grow moderately. This is consistent with expected non-wage income growth in 1999, the high base level of 1998 estimated tax payments, and lower growth in capital gains realizations following the high 1997 and 1998 levels resulting at least partially from the 1997 Federal capital gains changes.

Legislation proposed with this Budget will expand the thresholds for application of the top tax rate, increase the dependent exemption, authorize a New York capital asset exclusion, authorize a jobs tax credit for cities, increase the qualified emerging technology credit, and enhance the farmers' school property tax credit for farmers with agricultural set-aside land.

OTHER FUNDS

Legislation in 1998 created the School Tax Relief (STAR) Fund to help provide school tax reductions under the STAR program, accelerated the fully effective level of the enhanced senior citizens school property tax exemption into 1998-99, and accelerated the final level of the New York City personal income tax credit into the 1998 tax year for taxpayers age 65 or more. In 1998-99 dedicated personal income tax receipts of $585 million will be deposited in the School Tax Relief Fund. This amount is $119 million less than estimated at the time of the Mid-Year Update. In 1999-2000, receipts of $1,223 million will be deposited in the Fund.

GENERAL FUND

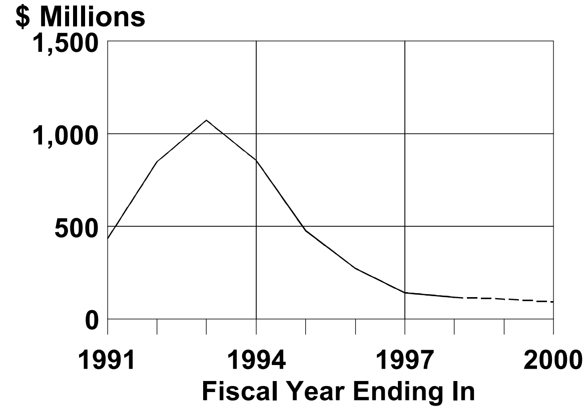
General Fund net personal income tax receipts are estimated at $20,176 million in 1998-99 and $22,830 million in 1999-2000.

Table 2
General Fund Receipts from the Personal Income Tax
(millions)

	Gross Collections	Refunds & Reserve Transactions	Net Collections
	------------------- Actual -------------------		
1990-91	$16,699	$2,183	$14,516
1991-92	17,028	2,115	14,913
1992-93	18,074	2,755	15,319
1993-94	18,727	2,693	16,034
1994-95	19,028	1,438	17,590
1995-96	19,857	2,859	16,998
1996-97	20,238	3,867	16,371
1997-98	21,088	3,329	17,759
	----------------- Estimated -----------------		
1998-99	$22,891	$2,715	$20,176
1999-2000	23,934	1,104	22,830

PETROLEUM BUSINESS TAXES

Petroleum Business Taxes



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

Petroleum business tax (PBT) rates have two components: the base tax, whose rates vary by product type; and the supplemental tax, which is imposed, in general, at a uniform rate. Both components are indexed to reflect petroleum price changes. The following table displays the current per gallon PBT rates for 1998, 1999 and estimated rates for 2000, which reflect changes in the index.

PBT rates had been subject to a business tax surcharge. Legislation in 1994 reduced the surcharge rate from 15 percent to 12.5 percent on June 1, 1994; to 7.5 percent on June 1, 1995; and to 2.5 percent on June 1, 1996. The business tax surcharge was eliminated on June 1, 1997.

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

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

Petroleum Business Tax Rates
(cents per gallon)

Petroleum Products [2]	1998 Base	1998 Supp	1998 Total	Jan.-Mar. 1999 Base	Jan.-Mar. 1999 Supp	Jan.-Mar. 1999 Total	Apr.-Dec. 1999 Base	Apr.-Dec. 1999 Supp	Apr.-Dec. 1999 Total	2000 [1] Base	2000 [1] Supp	2000 [1] Total
Automotive fuels												
Gasoline and other non-diesel fuels	8.8	5.8	**14.6**	8.4	5.6	**14.0**	8.4	5.6	**14.0**	8.0	5.4	**13.4**
Diesel	8.8	5.05	**13.85**	8.4	4.85	**13.25**	8.4	3.85	**12.25**	8.0	3.65	**11.65**
Aviation gasoline	8.8	5.8	**14.6**	8.4	5.6	**14.0**	8.4	5.6	**14.0**	8.0	5.4	**13.4**
Net rate after credit	5.8	none	**5.8**	5.6	none	**5.6**	5.6	none	**5.6**	5.4	none	**5.4**
Kero-jet fuel	5.8	none	**5.8**	5.6	none	**5.6**	5.6	none	**5.6**	5.4	none	**5.4**
Non-automotive diesel fuels	7.9	5.8	**13.7**	7.6	5.6	**13.2**	7.6	5.6	**13.2**	7.3	5.4	**12.7**
Commercial gallonage after credit	7.9	none	**7.9**	7.6	none	**7.6**	7.6	none	**7.6**	7.3	none	**7.3**
Electric utility after credit	3.07	5.8	**8.87**	3.01	5.6	**8.61**	2.51	5.6	**8.11**	2.43	5.4	**7.83**
Residual petroleum products	6.3	5.8	**12.1**	6.0	5.6	**11.6**	6.0	5.6	**11.6**	5.7	5.4	**11.1**
Commercial gallonage after credit	6.3	none	**6.3**	6.0	none	**6.0**	6.0	none	**6.0**	5.7	none	**5.7**
Electric utility after credit	1.52	5.8	**7.32**	1.45	5.6	**7.05**	0.95	5.6	**6.55**	0.87	5.4	**6.27**
Railroad diesel fuel	8.8	5.05	**13.85**	8.4	4.85	**13.25**	8.4	3.85	**12.25**	8.0	3.65	**11.65**
Net rate after exemption/refund	7.5	none	**7.5**	7.1	none	**7.1**	7.1	none	**7.1**	6.7	none	**6.7**

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

Legislation in 1994 provided that, beginning January 1, 1996, and annually thereafter, the indexed tax rates shall not change by more than 5 percent of the rates of the previous year. The index applicable to the 1996 calendar year required the 1995 rates to be increased by up to 4.41 percent on January 1, 1996. Similarly, the index for January 1, 1997, and January 1, 1998, increased by more than 5 percent (6.9 percent and 8 percent, respectively). Therefore, the basic and supplemental tax rates on various products were increased by up to 5 percent on these dates. In addition to the 5 percent cap on rate changes, the statute also requires the basic and supplemental rates to be rounded to the nearest tenth of one cent. As a result, the tax rates usually do not change by the full 5 percent allowed by the statutory formula. Projections used in this Budget call for the index for January 1, 2000, to decline by more than 5 percent, triggering rate reductions of up to 5 percent for 2000.

Petroleum Business Tax Index

Year	Fuel Price Change	PBT Index
1991	20.19%	20.19%
1992	16.47%	16.47%
1993	-14.40%	0.00%
1994	- 0.46%	0.00%
1995	- 8.72%	0.00%
1996	4.41%	4.41%
1997	6.88%	5.00%
1998	7.96%	5.00%
1999	-18.62%	- 5.00%
2000*	-10.86%	- 5.00%

*Estimated

The tax rate for kero-jet fuel for both 1996 and 1997 also reflects 1995 legislation, effective September 1, 1995, that reduced the base tax and eliminated the supplemental tax on kero-jet fuel. A credit that reduces the aviation gasoline rate to the kero-jet rate was also provided.

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

SIGNIFICANT STATUTORY CHANGES

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

The gallonage rates initially set by statute were:
— 5.5 cents for automotive-type fuel and aviation gasoline;
— 5.0 cents for nonautomotive middle distillate fuel;
— 4.0 cents for residual petroleum product; and
— 1.9 cents for kero-jet fuel.

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

The 1990 statute also imposed a business tax surcharge on those tax rates of 15 percent for two years and 10 percent for one year. Subsequent legislation extended the imposition of the surcharge until 1994 when legislation was enacted to implement the phase-out schedule discussed above. Fuel eligible for the utility credits was exempt from the surcharge. The initial kero-jet rate also was exempt from the surcharge.

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

Unlike the base tax, which is imposed at varying rates based upon the type of fuel, the supplemental tax, first imposed in 1991, originally applied uniformly to all fuels. At that time, certain fuels used in farming were exempted from the supplemental tax, and a credit against the supplemental tax was provided for certain fuels used in manufacturing. Under an additional 1991 modification, the petroleum business carrier tax was imposed. That tax is a complement to the fuel use tax imposed under the highway use tax and as such is imposed on fuel purchased by motor carriers outside the State but consumed within the State.

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

Legislation in 1994, effective September 1 of that year: (1) converted the credit/reimbursement allowed against the supplemental tax for certain manufacturing use to an exemption; (2) exempted diesel fuel and residual fuel used for off-highway farm production from all petroleum business taxes and provided farmers a reimbursement for the tax on gasoline used for off-highway farm production; (3) provided petroleum business taxpayers with a credit or reimbursement against the base tax in the amount of one-half the supplemental tax and the surcharge on that tax on commercial heating fuels (nonautomotive diesel motor fuel or residual fuel oil) that qualify as commercial gallonage; (4) allowed commercial fisherman to claim a reimbursement for petroleum business tax paid on diesel fuel and gasoline used in the operation of a commercial fishing vessel; (5) allowed petroleum businesses to apply for a refund of petroleum business taxes paid on transactions involving certain consumer bad debts; (6) allowed highway use taxpayers that purchase more fuel in New York State than they consume in State to claim refunds or credits for overpayments of the petroleum business carrier tax, effective January 1, 1995; and (7) exempted the sale or use of commercial heating oil for the exclusive use and consumption of not-for-profit organizations from the supplemental petroleum business tax and the surcharge on that tax, effective September 1, 1995.

Legislation in 1995, effective September 1, 1995, 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. In addition, effective January 1, 1996, a full exemption is provided for heating fuel oils that are for the exclusive use and consumption of certain not-for-profit organizations.

Legislation enacted in 1996 provided tax relief for railroads, commercial businesses, utilities, and motorists and truckers that use diesel motor fuel. Those tax cuts will be phased in by April 1, 1999. The 1996 tax cuts include a full exemption from the supplemental tax imposed on distillate and residual fuels used by the commercial sector for heating, effective March 1, 1997; and, effective January 1, 1998, expansion to a full exemption of the partial exemption provided for residual and distillate fuels used in manufacturing and reduction of the supplemental tax imposed on diesel motor fuel by three-quarters of one cent per gallon. On April 1, 1999, the supplemental tax imposed on diesel motor fuel will be reduced by an additional one cent per gallon and the base tax credit for residual and distillate fuels used by utilities to generate electricity will increase one-half cent per gallon. Where applicable, the new rate structure maintains indexing by allowing the rates to be adjusted by the index and then subsequently changing such rates, credits, by the fixed cents-per-gallon amount prescribed in statute.

Legislation enacted with the 1997-98 Budget created a credit or refund for vessels for fuel 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.

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

DISPOSITION OF REVENUES

In past years, proceeds of the 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, 27.3 percent or a guaranteed amount. The 1990 statute converting the tax from a gross receipt to a cents-per-gallon tax, expanded the tax yield and limited the MTOAF share to slightly more than 17.7 percent of the nonsurcharge proceeds, the dollar equivalent of its share prior to the expansion. The surcharge (now eliminated) and carrier tax receipts are deposited in the General Fund.

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

The PBT base tax fund distributions are listed as follows:

PBT Base Tax Fund Distribution

Effective Date	General Fund	MTOAF[1]	Dedicated Funds Pool[2]
	(percent)		
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

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

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

1998-99 RECEIPTS

Petroleum business tax receipts derived from motor fuel and diesel motor fuel are projected to follow the consumption trends of the fuel subject to the motor fuel excise tax. Residual fuels used by utilities are projected to increase due to the lower fuel price and weather conditions requiring more utility fuels.

Collections through December from petroleum business taxes, including audit receipts, surcharges and the carrier tax, have increased by approximately 7.4 percent from comparable receipts in 1997-98. Based on these collection trends, petroleum business taxes for the year are projected at $1,020.9 million. Those receipts reflect the elimination of the surcharge on June 1, 1997; the impact of the 1996 tax reductions for diesel motor fuel consumed by railroads; residual and distillate fuels consumed by the commercial sector; and additional credits or refunds provided to certain purchasers of aviation gasoline.

The estimate of receipts for 1998-99 includes the increases in PBT rates of 5 percent that took effect on January 1, 1998, and the decrease of 5 percent effective on January 1, 1999.

1999-2000 PROJECTIONS

The projected moderation in economic growth is expected to produce 0.2 percent and 1.5 percent increases in gasoline and diesel consumption, respectively. The demand for residual fuels consumed by utilities is projected to remain the same as the 1998-99 level.

Projected 1999-2000 receipts of $968.7 million assume that automotive fuel prices will increase by 2.3 percent and that inventories will remain stable. The estimate also reflects the continuation of the 1996 tax reductions which are projected to reduce 1999-2000 receipts by almost $36 million. In addition, receipts for 1999-2000 anticipate that the index that will be used to set PBT rates in January 2000 will decline by 5 percent. As a result, PBT rates are expected to decline in 1999-2000.

OTHER FUNDS

In 1997-98, the petroleum business tax provided MTOAF receipts of $108.2 million, Dedicated Highway and Bridge Trust Fund receipts of $476.5 million and Dedicated Mass Transportation Trust Fund receipts of $279.8 million.

Petroleum business taxes in 1998-99 are expected to provide MTOAF receipts of $117.5 million, Dedicated Highway and Bridge Trust Fund receipts of $503.4 million, and Dedicated Mass Transportation Trust Fund receipts of $295.7 million.

Petroleum business tax receipts in 1999-2000 are projected at $112.4 million for MTOAF, $482.9 million for the Dedicated Highway and Bridge Trust Fund, and $283.6 million for the Dedicated Mass Transportation Trust Fund.

GENERAL FUND

In 1997-98, petroleum business tax receipts of $114.1 million were deposited in the General Fund. General Fund receipts in 1998-99 are projected at $104.3 million. Those receipts reflect the decline due to legislative changes, and reductions in the General Fund share of petroleum business taxes that were implemented to hold the Dedicated Funds revenue stream harmless from the tax reductions.

General Fund receipts for 1999-2000 are projected at $89.8 million and reflect additional reductions in the General Fund share of petroleum business taxes as a result of the 1996 tax reductions.

PBT Receipts by Fund Type
(thousands)

	Total	Capital Projects[1]	Special Revenue[2]	General Fund
	------------------------------ Actual ------------------------------			
1990-91	$ 490,961	. . . .	$ 58,163	$ 432,798
1991-92	927,953	. . . .	82,159	845,794
1992-93	1,172,577	. . . .	99,576	1,073,001
1993-94	1,145,348	$ 55,026	235,694	854,628
1994-95	1,045,938	228,982	341,992	474,964
1995-96	1,004,782	423,843	299,389	272,550
1996-97	967,323	454,060	372,364	140,899
1997-98	978,627	476,501	388,030	114,096
	------------------------- Estimated ----------------------------			
1998-99	$1,020,900	$503,400	$413,200	$ 104,300
1999-2000	968,700	482,900	396,000	89,800

[1] Dedicated Highway and Bridge Trust Fund.
[2] Special Revenue includes MTOAF and Dedicated Mass Transportation Trust Fund.

REAL ESTATE TRANSFER TAX

The real estate transfer tax applies to each real property conveyance, whether by a deed or by transfer of securities, at a rate of $2 for each $500 of consideration or fraction thereof. The definition of consideration includes the value of any lien or encumbrance on the property transferred except on sales of one-, two- or three-family homes and residential condominiums, and sales where the consideration (including the value of any such lien or encumbrance) is less than $500,000. The person conveying the property (usually the seller) is responsible for payment of the tax, either through purchase of adhesive documentary stamps or by use of a metering machine, or other device, provided by the Commissioner of Taxation and Finance.

The real estate transfer tax provides invaluable data to local taxpayers and assessors, as well as to the Office of Real Property Services. Transfer deeds, which are reviewed by recording officers (i.e., county clerks or the City Register in New York City), are the most accurate and accessible source of realty sales information. Tax stamps affixed to the conveyance of transfer, usually a deed, indicate a property's sales value and offer proof that frequently is necessary when taxpayers pursue administrative or judicial review of property tax assessments.

RECENT DEVELOPMENTS

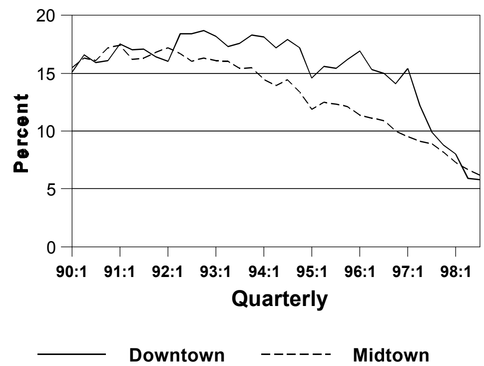
Despite periodic cyclical downturns, the historical trend of increasing property values tends to ensure long-term growth in collections from this tax. Nonetheless, the performance of New York City financial markets, interest rates, and employment expectations remain important factors influencing both sales activity and the pricing of real estate transactions in the short-term. Since 1995-96, these factors have combined to produce double digit percentage increases in collections. This period has been characterized by: sales from extra large commercial transactions, the tremendous growth of real estate investment trusts, the securitization of commercial mortgages, and the diversification of assets by large insurance companies both into real estate to establish positions, and sales of large portfolios to lighten positions. The real property gains tax was repealed in 1996, immediately lowering the tax on commercial conveyances over $1 million, which both unlocked transactions and encouraged demand. Also, the strong economy and low mortgage rates combined to drive up both residential prices and the number of sales, particularly in New York City.

Legislation enacted in 1994, and modified in 1995, 1996, and 1998 provided for the dedication of real estate transfer tax receipts to the Environmental Protection Fund (EPF) beginning June 1995. Under that legislation, $33.5 million was deposited in the EPF during 1995-96, $87 million in 1996-97 and 1997-98, and $112 million will be deposited in 1998-99 and annually thereafter. Additional legislation was enacted in 1996 that transfers all real estate transfer tax collections not dedicated to the EPF to the Clean Water/Clean Air Bond Debt Service Fund (Fund), beginning April 1, 1997. Receipts in the Fund in excess of debt service requirements are to be transferred back to the General Fund and classified as a transfer from other funds.

1998-99 RECEIPTS

Reported collections during the first nine months of 1998-99 totaled $247.3 million, up 41.3 percent from 1997-98 receipts for the comparable period. Regional growth has been uneven. The commercial sector in New York City, benefitting from lower vacancy rates and growth in the economy, has experienced tremendous increases in both pricing and sales. Receipts from Manhattan, which has benefitted from a surging financial sector, have witnessed triple-digit growth in the fiscal year through November. According to Cushman and Wakefield, the average direct vacancy rate for class A space in Midtown Manhattan dropped from 10.9 percent during the third quarter of 1996, to 6.2 percent during the third quarter of 1998. The drop in downtown Manhattan was even more dramatic — from 15 percent to 5.8 percent during the same period. (See graph.) The real estate market in New York City was extremely active in August, but the stock market downturn during September tempered demand somewhat. Anecdotal evidence suggests that banks are pulling back from providing loans in the amounts necessary to finance large commercial transactions, both buyers and sellers have backed out of deals, and residential demand has softened. Many upstate counties have yet to see any significant recovery in housing activity or prices.

Vacancy Rates in NYC Primary Markets



Source: Cushman & Wakefield

In comparison with 1997-98, county tax liabilities through November from New York City were up 70.8 percent to $75.8 million; from the five counties surrounding New York City, up 27.4 percent to $65.6 million; and, from the rest of the State, up 16.6 percent to $71.4 million; central office collections (through December), which are mostly non-deed type transactions, were up 30.7 percent to $43.3 million.

After accounting for $8 million in 1997-98 payments that were paid in April, collections for the balance of the fiscal year are expected to grow more slowly than during the first nine months. Although the September stock market downturn appeared to result in a real estate market slowdown, the subsequent rebound may cause a corresponding boost to real estate demand leading to more transactions at higher prices. Net all funds receipts in 1998-99 are estimated at $330 million, up 43.7 percent.

1999-2000 PROJECTIONS

The rapid increase both in prices and in the number of real estate transactions that typified activity in 1998-99 are unlikely to recur in 1999-2000. In particular, large one-time conveyances such as the sale of the General Motors building are not expected to occur at the same rate. Receipts from the sale of utility non-nuclear generating assets are an area of uncertainty in the estimate. Accordingly, net all funds receipts for 1999-2000, are expected to fall to $279 million, down 15.4 percent from 1998-99, but 21.5 percent higher than any prior year collections.

OTHER FUNDS

During 1998-99, the current statutory amount of real estate transfer tax receipts to be diverted from the General Fund to the EPF is $112 million. The remainder of such receipts, estimated at $218 million, are to be deposited in the Clean Water/Clean Air Bond Debt Service Fund.

GENERAL FUND

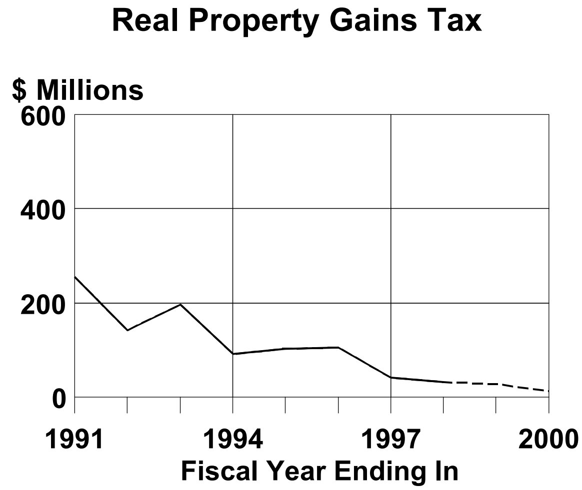
The General Fund will receive no direct deposit of real estate transfer tax receipts in 1998-99 or 1999-2000, after the statutory diversion of moneys to the EPF and all of the remaining tax receipts to the Clean Water/Clean Air Bond Debt Service Fund.

All Funds Receipts from Real Estate Transfer Taxes
(thousands)

	Gross Collections	Refunds	Net Collections (All Funds)	General Fund	EPF	CW/CA
			Actual			
1990-91	$153,920	$ 84	$153,836	$153,836	....	....
1991-92	140,413	246	140,167	140,167	....	....
1992-93	150,085	532	149,553	149,553	....	....
1993-94	163,174	618	162,556	162,556	....	....
1994-95	187,801	278	187,523	187,523	....	....
1995-96	182,005	307	181,698	148,198	$33,500	....
1996-97	194,859	371	194,488	....	87,000	....
1997-98	229,747	115	229,632	....	87,000	$142,632
			Estimated			
1998-99	$330,010	$ 10	$ 330,000	....	$112,000	$218,000
1999-2000	279,050	50	279,000	....	112,000	167,000

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, 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.



1998-99 RECEIPTS

Remaining collections stem primarily from installments for tax liability arising from sales of condominium and cooperative housing for projects that were still being sold at the time of the gains tax repeal. These deferred payments, which were augmented by accelerated payments of $4.4 million, amounted to $21 million through December with another $1 million expected by year-end. Collections from assessments processed through the Case and Assessment Resources Tracking System (CARTS) and other sources totaled $10 million through December, with an additional $3 million expected. Total refunds for the year are estimated at $7 million. As a result, net real property gains tax collections for 1998-99 are estimated at $28 million.

1999-2000 PROJECTIONS

It is projected that collections from outstanding audits will produce $5.5 million, and installments from existing deferred payment arrangements, which will be reduced by prior-year's payment accelerations, will produce an additional $11.5 million, for gross collections of $17 million. Refunds of $3 million of prior year liability will result in net real property gains tax collections of $14 million for 1999-2000.

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

	Gross Collections	Refunds	Net Collections
	------------------ Actual --------------------		
1990-91	$261,187	$ 5,559	$255,628
1991-92	161,579	18,659	142,920
1992-93	209,246	11,920	197,326
1993-94	119,116	26,494	92,622
1994-95	125,806	22,238	103,568
1995-96	150,412	44,503	105,909
1996-97	68,319	25,964	42,355
1997-98	68,181	35,551	32,630
	---------------- Estimated ------------------		
1998-99	$ 35,000	$ 7,000	$ 28,000
1999-2000	17,000	3,000	14,000

REGIONAL BUSINESS TAX SURCHARGE

In December 1982, a two-year surcharge on State business taxes (bank tax, corporation franchise tax, corporation and utilities taxes, and insurance taxes) was adopted to help finance mass transportation in the downstate metropolitan region. Statutes through 1997 have periodically extended the temporary surcharge, most recently for a period of four years. The surcharge is imposed at a rate of 17 percent on the portion of the statewide tax liability of the business that is allocated to the Metropolitan Commuter Transportation District (MCTD) and is the principal revenue source of the Mass Transportation Operating Assistance Fund. The MCTD comprises New York City, Long Island, and the counties of Dutchess, Orange, Putnam, Rockland and Westchester. For specific information on the taxes to which this surcharge is applied, see the related explanations in this Appendix.

For a variety of reasons, surcharge receipts have been volatile in recent years. Under a 1991 revision, the surcharge, similar to the State taxes to which it applies, is remitted quarterly, on an estimated basis. Business tax surcharge receipts were inflated in State fiscal year 1991-92, and, to a lesser extent, in 1992-93 by the effects of the conversion to quarterly estimated payments from the prior annual remittance schedule. In addition, surcharge receipts increased in 1991-92 and thereafter as a result of the rate increase enacted in mid-1991 affecting utilities paying tax under section 186-a of the Tax Law.

In recent years, a significant factor in year-to-year volatility has been the performance of the financial services sector. The exceptionally strong 1993 earnings performance of the financial services industry in New York City was the primary reason for the sharp increase in 1993-94 surcharge collections. By the same token, because of both weakness in 1994 tax liability in the financial services sector located in the New York City metropolitan region and the late enactment of the 1995 legislation to extend the surcharge, collections declined by more than 22 percent in 1994-95. The strong growth in the financial services sector in 1995 and the rollover of payments from 1994-95 contributed to a 21 percent increase in collections in 1995-96. Strong surcharge collections continued in 1996-97 with an 8 percent increase over 1995-96. Both continued growth in the financial services sector and extraordinary bank tax audit collections increased surcharge receipts in 1996-97, despite reduced collections from the utility and insurance taxes. For the third straight year, 1997-98 regional business tax surcharge collections increased over the prior fiscal year. While prior year collections were driven, primarily, by the financial sector, collections in 1997-98 increased as a result of an 18 percent increase in corporation and utilities collections. Volatility in the Article 9 taxes has occurred because of statutory changes, discussed in that section of this Appendix, that are also reflected in the surcharge collections.

RECENT LEGISLATION

Legislation enacted in 1997 extends the surcharge for taxable years ending before December 31, 2001. For gas importers under Article 9, the surcharge has been extended for taxable months ending on or before June 30, 2001.

1998-99 RECEIPTS

Surcharge receipts are projected to decrease by over 10 percent in 1998-99. This is a direct result of the general decline in business tax receipts in 1998-99. Net collections through December from the corporate franchise tax and the corporation and utilities taxes have declined relative to the same period in 1997-98. The corporation and utilities decline is related, in part, to warmer weather which has reduced heating and cooling days and tax rate reductions. Also contributing to reduced collections are lower bank tax receipts. These reductions have been offset by a minor increase in insurance receipts. See the related business tax descriptions in this Appendix for more details.

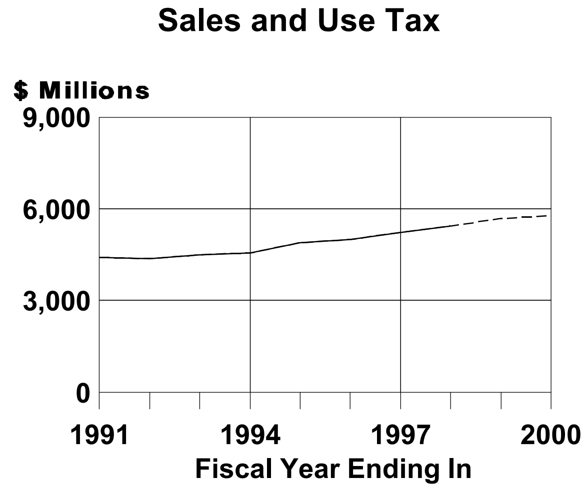
1999-2000 PROJECTIONS

Surcharge receipts are projected to decrease by under 2 percent in 1999-2000. This decrease is the net result of marginal increases in estimated surcharge receipts from the bank and insurance taxes and a decline in corporation and utilities surcharge receipts for the same period.

Regional Business Tax Surcharge Receipts
(thousands)

	Gross Collections	Refunds	Net Collections
	Actual		
1990-91	$368,789	$22,928	$345,861
1991-92	507,799	19,663	488,136
1992-93	496,739	24,333	472,406
1993-94	577,195	26,451	550,744
1994-95	463,192	35,330	427,862
1995-96	563,776	45,433	518,343
1996-97	614,534	54,302	560,232
1997-98	641,351	40,679	600,672
	Estimated		
1998-99	$583,000	$45,000	$538,000
1999-2000	574,000	45,000	529,000

SALES AND USE TAX



New York is one of 45 states imposing a general sales and compensating use tax. The State tax rate has been raised twice: from 2 percent to 3 percent on April 1, 1969, and to the current 4 percent rate on June 1, 1971. While State law generally authorizes a maximum combined State-local rate of 7 percent (7.25 percent in the Metropolitan Commuter Transportation District), there are many exceptions to this, most of them under special temporary authorizations.

The most long-standing exception has been the New York City sales and use tax, which has been imposed at the rate of 4 percent since July 1, 1974. A one-quarter of 1 percent sales tax to fund public transportation has been imposed in the 12-county Metropolitan Commuter Transportation District (MCTD) since September 1, 1981, bringing the aggregate sales tax rate in New York City to its current rate, 8.25 percent. As of March 1998, 20 counties and 4 cities (including New York City) outside those counties, accounting for more than 75 percent of the State's population, have a State-local rate that is 8 percent or higher.

BASE OF TAX

This broad-based consumption tax applies to receipts from: (1) sales and use within the State of most tangible personal property; (2) certain utility service billings; and (3) charges for restaurant meals, hotel and motel occupancy, and specified admissions and services.

To minimize the burden of the tax on low-income families, a broad exemption is provided for rent, most food for home consumption, drugs (including nonprescription drugs formerly subject to local sales taxes in the State), medical services, and public transportation services. Since October 1, 1980, billings for residential energy use have been exempt from the 4 percent State tax. Temporary exemptions from the State's 4 percent sales and use tax for certain clothing and footwear purchases were enacted for one-week periods in January and September of 1997 and 1998. Legislation enacted in 1998 exempted clothing and footwear costing less than $500 for the period of January 17 thru January 24, 1999. Effective December 1, 1999, the exemption for clothing and footwear costing less than $110 will be made permanent.

ADMINISTRATION

The frequency with which collections are remitted is based on volume. Vendors generally are required to submit quarterly reports and remit tax collections by March 20, June 20, September 20, and December 20. By regulation, vendors collecting $3,000 or less in sales tax per year may elect to file annually, in March. Prior to June 1, 1998, this threshold was $250 and the period for filing an annual return was a year ending May 31. Beginning in March 1976, vendors with quarterly taxable volume of $300,000 or more have been required to remit tax on a monthly basis.

Monthly remittances are due on the 20th day of the month following the month of collection and until 1991 were due on an estimated basis as prepayment on March 20 for the month of March. The March prepayment requirement was eliminated in 1983 for local sales taxes and in 1991 for the State tax. Under 1992 legislation, sales tax vendors with more than $5 million in State and local annual tax liability remit tax for the first 22 days of the month by electronic funds transfer (EFT) by the third business day thereafter. Legislation in 1994 and 1995 reduced the annual tax liability threshold to $4 million and $1 million, respectively. Currently, approximately 34 percent of the tax is remitted through EFT payments.

The tax usually is collected from the consumer by the final vendor. However, other special provisions permit some taxpayers to pay the State Tax Commissioner directly. In addition, legislation in 1985 substantially revised the manner in which sales and use taxes and motor fuel taxes on gasoline are remitted in New York. These taxes now are initially remitted by the importer in the month following import, with the bulk of the sales tax prepaid at a gallonage rate based upon regional prices and rates. The regional average motor fuel prices used to determine the sales and use prepayment rate for motor fuel and diesel motor fuel are determined semiannually by the Department of Taxation and Finance. Actual sales tax liability is reconciled ultimately by the vendor at the time of final remittance. Legislation in 1995 similarly revised the manner in which sales and use taxes on cigarettes are remitted. Effective September 1, 1995, cigarette agents were required to prepay the sales tax on cigarettes at the same time and in the same manner as the agent pays for cigarette stamps. The base retail price for cigarettes used to determine the sales and use prepayment rate is adjusted annually on September 1 to reflect changes in the selling price of cigarettes. Actual sales tax liability is reconciled when the vendors file their sales tax returns.

The State also administers and collects general and selective sales taxes imposed by municipalities. In general, local levies apply to the same items as the State tax, with the exception of certain variations in the tax treatment of goods and services used by manufacturers and of residential energy use. The application of State-administered selective local sales taxes to admissions, hotel occupancy, and restaurant meals charges parallels corresponding provisions of the general State sales and use tax.

SIGNIFICANT STATUTORY CHANGES

Legislation in 1989 modified the sales tax statute to enhance the competitiveness of New York businesses, increase the State's sales tax enforcement capability, and improve revenue productivity of the tax. This measure closed loopholes in the law adversely affecting New York businesses in competition with interstate printing, building and mail order firms; included entertainment promoters among vendors with sales tax responsibilities to ensure sales tax compliance at large athletic and entertainment events; and clarified the imposition of the use tax. The 1989 legislation also broadened the definition of vendor to include sellers regularly soliciting sales in the State or regularly delivering goods to New York locations, restored part of the sales tax base eroded by certain court decisions, and included cigarette and tobacco taxes in the price of those commodities for purposes of calculating the sales tax.

Legislation in 1990 modified the sales and use tax to accelerate the payment of tax on long-term leases of automobiles and light commercial vehicles and to extend the sales tax to charges for contractual interior cleaning, motor vehicle parking, protective and detective services, interior decorating, and telephone information and entertainment services.

Statutory revisions in 1991 extended the sales tax base to prewritten computer software, telephone answering services, and certain shipping charges.

Legislation in 1993 imposed an additional 5 percent State sales tax on information and entertainment services furnished or delivered by telephone and received aurally.

In 1994, legislation provided a vendor allowance credit in the amount of one and one-half percent of the State sales tax required to be collected and paid over with timely filed and fully paid quarterly or annual returns, up to a maximum credit of $100 per return.

Legislation in 1995 exempted receipts from the sale of meteorological services, certain purchases of goods and services to maintain guide dogs and coins of the Republic of South Africa sold for investment purposes. In addition, legislation that year exempted homeowners associations from the sales and use tax imposed on dues paid to social or athletic clubs and converted the credit for sales and use tax paid on motor fuels by fire and ambulance companies to an exemption.

Legislation in 1996 expanded the sales and use tax exemption applicable
vessels and aircraft; exempted receipts from t
owned by municipal corporations, district corporations and public benefit corporations; simplified the criteria for determining the taxability of shopping papers; waived EFT requirements for certain materialmen that can demonstrate hardship; provided a tem
exemption from the State 4 pe
tax imposed on the receipts of clothing and footwear priced under $500 during the one-week period of January 18 thru January 24, 1997, with localities granted the option to exempt the same purchases from locally imposed sales and use taxes; and exempted the receipts from the sale of certain promotional materials and associated services.

Legislation enacted in 1997 exempted clothing costing less than $100 from the State's 4 percent sales and use tax for the weeks of September 1 thru September 7 in 1997 and 1998, with localities granted the option to exempt the same purchases from locally imposed sales and use tax; made the exemption for clothing priced under $100 permanent on December 1, 1999, with local option; exempted the receipts from sales of automotive emissions testing equipment required for tests mandated by the Federal Clean Air Act; extended the existing exemption applicable to certain alternative fuel vehicles, and property and services associated with such vehicles until February 28, 2003; provides that on March 1, 1999, the current vendor allowance credit will increase to 3.5 percent of their sales tax liability, not to exceed $150 per quarter; excluded from the definition of vendors persons that are not otherwise vendors who purchase fulfillment services from a non-affiliated person in New York State; and eliminated the sales tax on certain receipts from: bulk sales made through vending machines, coin-operated photocopying, passenger buses, food and drink sold through vending machines, coin-dispensed luggage carts, wine consumed at wine tastings, admissions to live circuses and homeowners' association parking services.

Legislation enacted in 1998:

1. exempted clothing and footwear priced at less than $500 from the State's sales and use tax for the one-week period of January 17 thru January 23, 1998, with localities granted the option to exempt the same purchases from locally imposed sales and use tax;

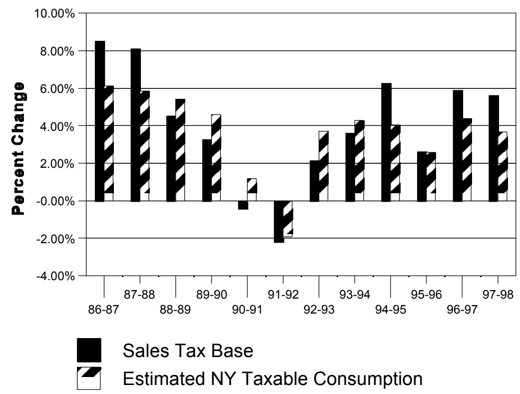
2. expanded the September 1 thru September 7, 1998, temporary clothing exemption to include both footwear and clothing priced under $500;
3. exempted clothing and footwear priced under $500 from the State's sales and use tax for the period of January 17 thru January 24, 1999, with local option;
4. expands the permanent clothing exemption commencing December 1, 1999, to include footwear and raises the threshold at which items become taxable to $110;
5. eliminated the sales tax on: required textbooks purchased by full- and part-time college students for their courses, effective June 1, 1998; computer system hardware used or consumed in designing and developing computer software for sale, effective June 1, 1998; and certain parts, tools, supplies, machinery, equipment and services used to produce oil or gas for sale, effective December 1, 1998;
6. provided for the threshold amount for the existing sales tax exemption for coin-operated telephone services to increase from 10 cents to 25 cents and expand the existing sales and use tax exemption for telephone and telegraph central office equipment to include equipment used in receiving, amplifying, processing, transmitting and re-transmitting such communications, effective September 1, 1998;
7. codified the State's policy that Internet access charges are not subject to sales and use tax and that an out-of-State business, which is not otherwise a vendor for the purposes of the sales tax, does not thereby become a vendor merely by utilizing an Internet server located in New York or advertising on a server located in New York;
8. grants qualifying materialmen primarily engaged in selling building materials to contractors the option of remitting their sales tax returns on either a cash or an accrual basis, effective June 1, 1999; and
9. clarified existing provisions concerning: the tax-exempt status of Merchant Marine veterans' groups, the definition of "affiliated persons" for the purposes of the fulfillment services exemption, and parking and garaging services provided by homeowners' associations.

EXPLANATION OF ESTIMATES

The estimates developed by the Division of the Budget begin with the forecast of the national and State economies. The variables that are most indicative of the level and changes in sales tax receipts are taxable consumption, employment, income, consumer sentiment, and industrial production which captures purchases by businesses. These variables are brought together in an econometric model to produce a forecast. This forecast is further supplemented with information on estimated audit collections, refunds, tax law changes, court decisions, administrative adjustments and changes in collection procedures to arrive at estimates of cash deposits to the General Fund, Local Government Assistance Corporation (LGAC), and the Mass Transportation Operating Assistance Fund (MTOAF).

The years since the late 1980's represent a good example of the relationship between sales tax receipts and underlying economic factors. Fiscal years 1986-87 and 1987-88 were marked by growth in the continuing sales tax base of over eight percent which can be traced back to strong employment and real income growth in New York and robust national growth in real consumption of goods and services taxable in New York. Conversely, fiscal years 1988-89 through 1991-92 were characterized by slower growth or actual declines in the sales tax base, declines in New York employment, real New York personal income, real national taxable consumption and consumer confidence. Finally, fiscal years 1992-93 to 1996-97 witnessed improved growth rates in estimated real national taxable consumption and higher levels of consumer confidence, but the State's economy came out of the recession more slowly and employment and real personal income grew only modestly. This resulted in growth in the sales tax base that, although improved from the early 1990's, was moderate compared with the late 1980's.

Growth in Base Sales Tax Receipts and Taxable Consumption



As the accompanying chart indicates, there is a close relationship between taxable consumption and growth in sales tax receipts. In periods of relative prosperity, base sales tax receipt growth exceeds growth in taxable consumption as business purchases and the consumption of durable goods subject to tax increase. The situation is reversed during recessionary periods as business purchasing contracts.

1998-99 RECEIPTS

Sales and use tax receipts for the first nine months of the fiscal year increased by approximately 4.4 percent from the comparable period in 1997-98. Sales tax receipts for all of 1998-99 are expected to reach $7,580 million (excluding MTOA receipts) which is 4.5 percent higher than 1997-98 receipts. Growth in the continuing sales tax base is projected to increase by approximately 5.0 percent over 1997-98 levels.

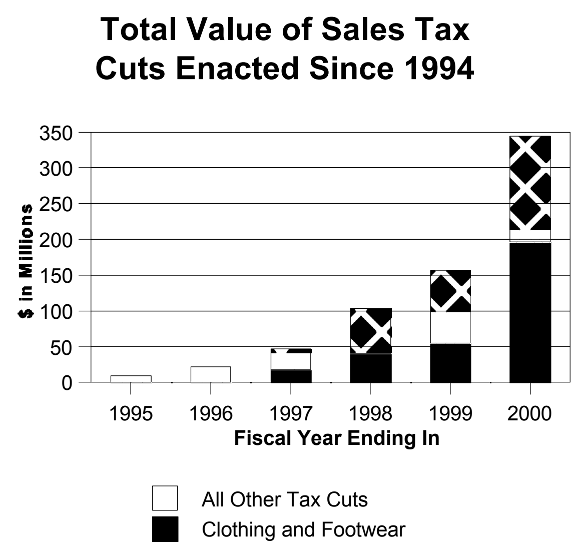
The minor reduction in growth of the continuing sales tax base from 5.6 percent in 1997-98 to 5.0 percent in 1998-99 may be traced to several underlying economic factors, including: (1) a modest drop in consumer sentiment during the late summer and early autumn; (2) slower growth in business output which implies a moderation in business spending; and (3) continued strengthening of the dollar which makes the United States a less attractive tourist destination. Offsetting these adverse factors are increases in the growth of State personal income of 4.6 percent, employment growth of 1.8 percent and an increase of 4.6 percent in consumption which is taxable in New York State.

In addition to the economic forecast, receipts from the Case Resource and Tracking System (CARTS) have not increased substantially from 1997-98 levels, and tax cuts enacted in 1997 and 1998 are expected to save taxpayers approximately $84 million more than in the preceding year. In contrast, higher cigarette prices resulting from the recent tobacco settlement should significantly increase sales tax receipts throughout the remainder of 1998-99 and into 1999-2000.

1999-2000 PROJECTIONS

The 1999-2000 sales tax forecast reflects growth in the continuing sales tax base of 4.4 percent. It is expected that growth in taxable consumption including both durable and non-durable goods will continue to slow relative to 1998-99. Further moderation in the growth rates of State employment, personal income and consumer sentiment also are expected to contribute to the slowdown in base sales and use tax receipts. Finally, it should be noted that future increases in Internet commerce may begin to significantly erode the State taxable sales base.

The 1999-2000 projections also reflect the part-year impact of the permanent clothing and footwear exemption, which will save taxpayers nearly $200 million. All other tax cuts enacted since 1994, including the full-year impact of the 1998 cuts, are expected to save taxpayers an additional $148 million. (See chart.)



CARTS receipts are not anticipated to increase substantially from 1998-99 levels. Reflecting all of these factors, General Fund and LGAC sales tax collections, including the telephone entertainment tax, are expected to total $7,719 million in 1999-2000, or an increase of 1.8 percent.

Legislation submitted with this Budget will: (1) extend certain special record keeping requirements for parking operators in Manhattan, minimally increasing 1999-2000 sales and use tax receipts; and (2) provide for a new price index to adjust the base retail price of cigarettes for the purposes of the prepaid sales tax on cigarettes. This will preserve a minimal amount of State sales tax revenue in 1999-2000.

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). The Fund received $1,813 million in 1997-98 and will receive an estimated $1,890 million in 1998-99 and $1,929 million in 1999-2000. LGATF receipts in excess of debt service requirements on LGAC bonds are transferred to the General Fund.

The Mass Transportation Operating Assistance Fund (MTOAF) was created in 1981 to finance State public transportation needs. The Fund derives part of its revenues from a one-fourth of 1 percent sales and compensating use tax imposed in the Metropolitan Commuter Transportation District. The Fund, which received $306 million in sales and use tax receipts in 1997-98, will receive an estimated $319 million in 1998-99 and $325 million in 1999-2000.

GENERAL FUND

Excluding the amount transferred from the LGATF, sales and use taxes accounted for General Fund receipts of $5,442 million in 1997-98. General Fund receipts from these taxes are estimated at $5,690 million for 1998-99, and $5,790 million for 1999-2000.

General Fund
Sales and Use Tax Receipts
(thousands)

	Gross Receipts	Refunds	Net Receipts
	------------------- Actual ---------------------		
1990-91	$4,423,184	$14,087	$4,409,097
1991-92	4,372,200	12,989	4,359,211
1992-93	4,514,288	27,538	4,486,750
1993-94	4,578,362	18,785	4,559,577
1994-95	4,918,969	21,151	4,897,818
1995-96	5,017,263	22,415	4,994,848
1996-97	5,265,260	40,212	5,225,048
1997-98	5,466,602	24,254	5,442,348
	----------------- Estimated ------------------		
1998-99.	$5,723,000	$33,000	$5,690,000
1999-2000 (Current law)	5,823,000	33,000	5,790,000
1999-2000 (Proposed law) . .	5,823,000	33,000	5,790,000

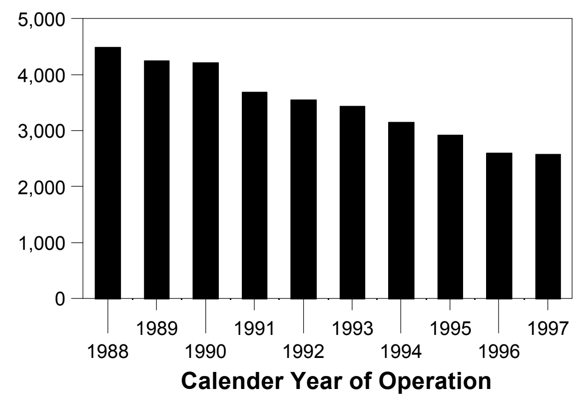
OTHER TAXES

RACING ADMISSIONS TAX

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

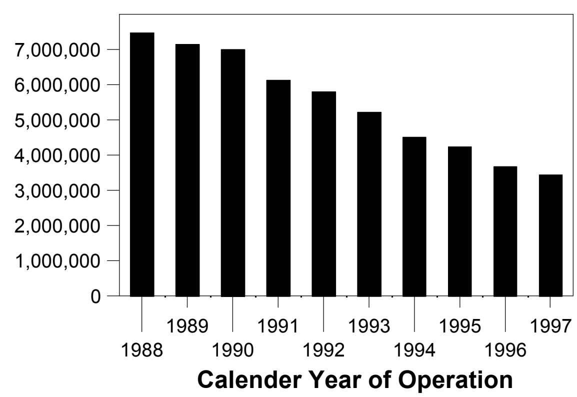
Based on receipts during the first nine months of the current fiscal year, which included the second year of the six-week extended racing season at Saratoga Racecourse, total 1998-99 collections are estimated at $280,000. Receipts from this tax for 1999-2000 are projected at $270,000. Increased attendance at simulcast facilities and Saratoga Racecourse is expected to be offset by continued admissions declines at other New York racetracks, due primarily to the New York Racing Association's decision to continue the non-Saratoga five days per week racing schedule that began in 1998.

New York State Tracks
Average Daily Attendance



Source: New York Racing Association

New York State Tracks
Total Attendance



Source: New York Racing Association

BOXING AND WRESTLING EXHIBITIONS TAX

A 5.5 percent tax is levied on gross receipts from boxing and wrestling exhibitions, including receipts from broadcast and motion picture rights. Single events of high spectator interest can influence the yield of the tax substantially, causing the receipts from this tax to vary considerably from year-to-year.

Based on receipts during the first nine months of the current fiscal year, full-year 1998-99 receipts are expected to reach $420,000. This represents a $219,000 decline from 1997-98 collections which were augmented by a one-time payment of back taxes. The continued growth of simulcast and on-site wrestling and boxing events are expected to increase collections from this revenue source to $430,000 for 1999-2000.

General Fund Receipts from Other Taxes
(thousands)

	Admissions	Exhibitions	Net Collections
	---------- Actual ----------		
1990-91	$477	$278	$755
1991-92	438	258	696
1992-93	405	336	741
1993-94	399	262	661
1994-95	357	277	634
1995-96	310	182	492
1996-97	272	232	504
1997-98	310	639	949
	---------- Estimated ----------		
1998-99	$280	$420	$700
1999-2000	270	430	700

MISCELLANEOUS USER TAXES

CONTAINER TAX

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

1998-99 Receipts

Container tax receipts for the first nine months of the current fiscal year have decreased by approximately 11.4 percent, or $2.4 million, from the comparable period in 1997-98. Estimated net General Fund receipts for 1998-99 of $19.2 million reflect the year-to-date results, and the repeal of the tax effective October 1, 1998.

1999-2000 Projections

Net container tax receipts of $0.2 million for the coming fiscal year reflect the repeal of the tax on October 1, 1998, and the net effect of audit collections and refunds.

AUTO RENTAL TAX

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

1998-99 Receipts

Receipts from the auto rental tax are influenced by the overall health of the economy, including consumer and business spending, and by the strength of the State's tourism industry. Collections for the first nine months of the current fiscal year were approximately 6.4 percent, or $1.7 million, higher than receipts in the comparable period of 1997-98. Based on collections to date and the expectation of moderate growth in the economy for the remaining months of the fiscal year, General Fund auto rental tax receipts for 1998-99 are estimated at $34.4 million.

1999-2000 Projections

Modest growth in the New York economy is anticipated next year as detailed in the Economic Backdrop section. As a result, auto rental receipts are projected to grow approximately 3.5 percent bringing General Fund auto rental receipts to $35.6 million in 1999-2000.

HOTEL OCCUPANCY TAX

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

On September 1, 1994, the State repealed the State hotel and motel occupancy tax, saving taxpayers approximately $100 million annually. State and, to a lesser extent, City hotel tax reductions have been credited with contributing to the recent boom in New York City hotel occupancy and revenues.

1998-99 Receipts and 1999-2000 Projections

Year-to-date hotel occupancy receipts of approximately $57,600 are the net result of audit efforts and refunds. Net residual payments for the remainder of the current year of $10,000 are expected to bring General Fund hotel receipts to $67,600. Net residual payments for 1999-2000 are projected to be zero.

General Fund Receipts from Miscellaneous User Taxes
(thousands)

	Container Tax [1/]	Auto Rental Tax	Hotel Occupancy Tax [2/]
	-------------------- Actual	--------------------	
1993-94	$51,602	$26,473	$70,069
1994-95	51,130	29,069	41,371
1995-96	45,574	28,344	1,783
1996-97	25,460	31,057	863
1997-98	26,937	32,039	56
	----------------- Estimated	------------------	
1998-99	$19,200	$34,400	$ 68
1999-00	200	35,600	. . . .

[1/] Repealed October 1, 1998.
[2/] Repealed September 1, 1994.

MISCELLANEOUS RECEIPTS
General Fund

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

In fiscal year 1997-98, Miscellaneous Receipts totaled $1,598 million. Major revenue sources in that year included: $270 million in unclaimed and abandoned property; $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); $490 million in fees, licenses, fines, royalties, and rents; $472 million in medical provider assessments; $199 million in reimbursements; and $4 million in Federal grants.

In addition, the receipts included $17 million from the Energy Research and Development Authority; $18 million as repayment for the clean up of the Love Canal area (last of three payments); and a $3 million reimbursement of spending for transportation facilities at Oak Point.

1998-99 RECEIPTS

Miscellaneous Receipts are estimated at $1,534 million in 1998-99, a decrease of $64 million from the prior year. The estimate assumes receipts of $290 million in unclaimed and abandoned property; $196 million in net investment earnings; $502 million in fees, licenses, fines, royalties and rents; $365 million in medical provider assessments, reflecting the first full-year of the gradual phase-out of assessments; $164 million in reimbursements; $4 million in Federal grants; $2 million from the Energy Research and Development Authority and a $11 million repayment from the Long Island Power Authority.

1999-2000 PROJECTIONS

Miscellaneous Receipts are projected at $1,242 million in 1999-2000, a decrease of $292 million from the amount estimated for 1998-99. This baseline projection assumes receipts of $294 million in unclaimed and abandoned property; $108 million in net investment earnings; $160 million in reimbursements; $498 million in fees, licenses, fines, royalties and rents; $175 million in medical provider assessments, reflecting the phase-out of assessments; $4 million in Federal grants; and $3 million from the Energy Research and Development Authority.

Legislation submitted with this Budget accelerates by a year the gradual phase-out of the assessments on private health facility providers. Such assessments are terminated on March 31, 1999. The moneys remaining in the 1999-2000 State fiscal year represent the normal lag in payments and the closure of the special revenue account, with all remaining moneys to be deposited in the General Fund.

Miscellaneous Receipts
(millions)

	------------------- Actual	-----------------		-------- Estimated --------	
	1995-96	1996-97	1997-98	1998-99	1999-2000
License, Fees, Etc.	$ 409	$ 446	$ 490	$ 502	$ 498
Federal Grants	4	4	4	4	4
Abandoned Property ...	263	265	270	290	294
Reimbursements	183	187	199	164	160
Investment Income	42	72	125	196	108
Other Transactions	519	1,098	510	378	178
Total	$1,420	$2,072	$1,598	$1,534	$1,242

MISCELLANEOUS RECEIPTS
Special Revenue Funds

Miscellaneous receipts in the Special Revenue fund type represent approximately 19 percent of total receipts in that fund type, excluding transfers from other funds. These receipts include State University of New York (SUNY) tuition and patient income, Lottery ticket sales, assessments on regulated industries, and a variety of fees and licenses, all of which are dedicated to support specific programs.

STATE UNIVERSITY INCOME

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

LOTTERY

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

INDIGENT CARE

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

ALL OTHER

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

Miscellaneous Receipts
Special Revenue Fund
(millions)

	Actual			Estimated	
	1995-96	1996-97	1997-98	1998-99	1999-2000
State university income	$1,574	$1,564	$1,545	$1,653	$1,653
Lottery	1,515	1,646	1,658	1,587	1,586
Indigent care	627	568	574	590	620
All other	1,555	1,647	1,754	1,982	1,819
Total	$5,271	$5,425	$5,531	$5,812	$5,678

LOTTERY

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

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

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

— Lotto games, which are pari-mutuel, pick-your-own-numbers games offering large top prizes with drawings conducted six times weekly: four 5-of-39 draws (Take 5), and two 6-of-54 draws (Lotto 54). For the Lotto 54 game, the value of any top prize not won is added to the top prize in the subsequent drawing;

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

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

Under current law, the Comptroller, pursuant to an appropriation, distributes all net receipts from the lottery directly to school districts for the purposes of providing school aid. This aid 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 the earmarking for prizes, Lottery uses a portion of net sales (not exceeding 15 percent) for its administration, and the remainder is available to support education. The statutory allocation to education for Lotto 54 games is 45 percent of ticket sales; for Take 5, numbers, and Pick 10 games, 35 percent; for instant games, 30 percent; and for Quick Draw, 25 percent. At the end of each fiscal year, any unspent portion of the 15 percent of ticket sales not used for administration is also used for education. Therefore, education actually receives a larger share of ticket sales than indicated in statute. For 1997-98, net lottery receipts from sales totaled $1,367.1 million. Disbursements of $1,533.9 million supported education, including $166.8 million from surplus administrative funds.

1998-99 RECEIPTS

Sales of lottery games, which will benefit from 53 weeks of collections, are expected to be $3.84 billion in 1998-99. Lotto 54, a jackpot driven game, is experiencing continuing weakness. The gradual weakening in Lotto sales stems from several factors. The primary cause is the low level of interest rates over the past year. This inhibits the rapid increase in jackpot levels because it increases the cost of purchasing annuities. Other influences include: (1) raised expectations of exceptionally large jackpots resulting from the competitive Power-Ball offered in other states; (2) increased competition from Indian casinos in and around New York; and (3) waning consumer interest, based on the maturity of a game that has not been changed for ten years. Instant ticket sales, despite being supported by 900 new agents, the installation of 800 new instant ticket vending machines

(ITVM), and a weekly TV game show, is suffering a decline in performance. Sales levels from the current mix of instant games remain strong, but are experiencing some erosion for older games. Numbers game sales are benefitting from the addition of new agents and have fully recovered from the introduction of the Quick Draw game. Quick Draw sales declines have moderated and are expected to be down slightly.

Through December, Instant game sales of $701.3 million, were down 5.8 percent from the comparable period in 1997-98; Lotto 54 sales of $568.9 million were down 14.9 percent despite the benefit of its fourth largest jackpot ever; Take 5 sales of $274.4 million were down 4.9 percent; Daily Numbers sales of $528.3 million were up 2.3 percent; Win 4 sales of $330.3 million were up 3.0 percent; Pick 10 sales of $36.0 million were down 3.6 percent; and Quick Draw sales of $360.8 million were down 3.9 percent.

For the full year, all games will benefit from an extra week of collections. Instant game sales are estimated at $951.3 million, down 4.3 percent from 1997-98; Lotto sales at $744.9 million, down 14.4 percent; Take 5 sales at $370.5 million, down 3.2 percent; Daily Numbers sales at $725.4 million, up 4.1 percent; Win 4 sales at $455.0 million, up 5.0 percent; Pick 10 sales at $48.9 million, down 1.8 percent; and Quick Draw sales at $494.4 million, down 1.8 percent.

Total sales of all lottery games are estimated at $3,790.4 million and are expected to provide $1,304.1 million for education. After including $145.9 million from unspent administrative allowances and miscellaneous income, total net lottery receipts for education in 1998-99 are expected to total $1,450 million, which is $80 million below the estimate at the time the 1998-99 Budget was adopted.

1999-2000 PROJECTIONS

Instant ticket sales, including sales resulting from a new authorization for 500 ITVMs, of $877 million are expected in 1999-2000, down 6.0 percent from 1998-99. Lotto sales are projected at $682 million, down 6.7 percent. This projection reflects the redesign of this game to one featuring a smaller matrix and a better overall chance of winning a prize.

Sales are projected to be level for Daily Numbers at $726 million, and up 1.0 percent for Win 4 at $460 million. Pick 10 sales, are expected to decline by 3.5 percent to $47 million. Take 5 sales are projected at $354 million, down 4.5 percent from 1998-99. Under current law, no sales are projected for Quick Draw, whose authorization is scheduled to expire March 31, 1999. The above comparisons reflect 52 weeks of collections in 1999-2000, versus 53 weeks in 1998-99.

Legislation, submitted with the Budget, will eliminate any sunset provision for the Quick Draw game and increase the allowable payout for prizes for instant ticket games from 55 percent to 65 percent. In addition, it will eliminate current restrictions on Quick Draw concerning: (1) the number of hours during which the game may be offered; (2) the minimum square footage required for a location; and (3) the requirements on food sales in locations serving alcohol. The Quick Draw proposals will preserve $478 million in current sales and add $142 million in incremental sales, which will add $184.2 million in revenue for education. The instant ticket proposal is expected to add $20 million in revenues for education.

In total, this Budget projects Lottery sales for 1999-2000 in excess of $3.8 billion, with current receipts for the support of education projected at $1,448 million (see Table 1), after paying prizes and budgeting $108.7 million for administration.

Table 1
Lottery Receipt Components
(millions)

	1996-97 Actual	1997-98 Actual	1998-99 Estimated	1999-2000 Proposed Law
Instant Game	$ 298.4	$ 298.5	$ 285.4	$ 285.7
Lotto Games	399.0	395.9	335.2	306.9
Take-5 Games	118.3	133.9	129.7	124.0
Daily Numbers Games	233.7	243.9	253.9	254.1
Win-4 Games	149.0	151.7	159.2	160.9
Pick 10 Games	20.2	17.4	17.1	16.5
Quick Draw	140.7	125.8	123.6	155.0
Subtotal	$1,359.3	$1,367.1	$1,304.1	$1,303.1
Administrative Surplus*	168.6	166.8	145.9	144.9
Current Receipts Subtotal	$1,527.9	$1,533.9	$1,450.0	$1,448.0
Carry-In from Prior Year	+5.3	0	0	0
Carry-Out from Current Year	0	0	0	0
Net Receipts for Education	$1,533.2	$1,533.9	$1,450.0	$1,448.0

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

Table 2
Net Lottery Receipts for Education
(thousands)

Actual	
1990-91	$ 940,012
1991-92	844,058
1992-93	961,000
1993-94	1,054,000
1994-95	1,161,850
1995-96	1,441,300
1996-97	1,533,203
1997-98	1,533,904
Estimated	
1998-99	$1,450,000
1999-2000 (Current Law)	1,243,800
1999-2000 (Proposed Law)	1,448,000

MISCELLANEOUS RECEIPTS
Capital Projects Funds

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

AUTHORITY BOND PROCEEDS

Pursuant to statutory authorizations, State agencies enter into contractual arrangements with public authorities to provide for the financing of State capital projects. The State makes payments directly for projects and is reimbursed by the public authority from the proceeds of bonds. The amount of bond reimbursements received annually is a direct result of the level of bondable capital spending in that year, and the timing of bond sales. As bondable spending fluctuates with the progress of capital programs, so too will the bond receipts reimbursing such spending.

Authority bond proceeds for 1999-2000 continue to represent approximately 94 percent of all miscellaneous receipts in this fund type. Reimbursements from bond proceeds are received from: the Thruway Authority to support projects in the Dedicated Highway and Bridge Trust Fund; the Housing Finance Agency to support housing programs; the Dormitory Authority to support educational facilities, mental hygiene capital improvements, and State health facilities; the Urban Development Corporation for correctional facilities and youth facilities; and the Environmental Facilities Corporation to support environmental programs.

STATE PARKS FEES AND ENVIRONMENTAL REVENUES

User fees and other revenues generated by State parks are deposited into the State Parks Infrastructure Fund (SPIF). These revenues, which are projected at $24 million in 1999-2000, will be used to finance improvements in the State's park system.

The Environmental Protection Fund (EPF) is projected to receive miscellaneous receipts in 1999-2000 from the sale of surplus State lands, leases of coastal State property, settlements and the sale of environmental license plates. Other environmental revenues are deposited in the Hudson River Park Fund and the Natural Resource Damages Fund from settlements with individuals and other parties who are liable for damage caused to State environmental properties.

ALL OTHER

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

Miscellaneous Receipts
Capital Projects Funds
(millions)

	Actual			Estimated	
	1995-96	1996-97	1997-98	1998-99	1999-2000
Authority Bond Proceeds					
Transportation	$ 697	$ 413	$ 480	$ 741	$ 964
Public protection	424	133	213	374	260
Education	122	143	169	165	175
Mental hygiene	260	226	216	210	207
Housing	136	96	50	96	82
Other	185	143	97	107	71
State park fees	22	25	23	24	26
Environmental revenues	10	14	29	35	22
All other	49	86	48	53	63
Total	$1,905	$1,279	$1,325	$1,805	$1,870

MISCELLANEOUS RECEIPTS
Debt Service Funds

Miscellaneous receipts in the Debt Service fund type include patient revenues, fees, interest income and other revenues. These revenues are dedicated in the first instance for the payment of lease-purchase, contractual obligations, and debt service, and support about 20 percent of the State's debt service payments. These revenues have been pledged as security for bonds issued for mental hygiene and health facilities, and dormitories, or are used by the State to pay debt service on general obligation housing bonds. After such requirements are satisfied, the balance of most miscellaneous receipts together with other receipts and transfers flow back to the General Fund or to Special Revenue funds which are used to offset the General Fund share of State operations.

MENTAL HYGIENE RECEIPTS

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

DORMITORY FEES

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

HEALTH PATIENT RECEIPTS

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

Miscellaneous Receipts
Debt Service Funds
(millions)

	Actual			Estimated	
	1995-96	1996-97	1997-98	1998-99	1999-2000
Mental hygiene patient receipts . . .	$270	$255	$266	$262	$296
SUNY dormitory fees	186	187	194	195	196
Health patient receipts	127	145	145	131	102
All other	36	37	34	34	35
Total	$619	$624	$639	$622	$629

FEDERAL GRANTS

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

Total receipts from the Federal government are projected at $23,265 million in 1998-99 and $23,273 million in 1999-2000. These revenues represent approximately 32 percent of total receipts in the governmental funds, excluding general obligation bond proceeds, and are deposited into the Special Revenue and the Capital Projects fund types.

SPECIAL REVENUE FUNDS

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

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

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

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

CAPITAL PROJECTS FUNDS

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

Federal Grants
(millions)

	Actual			Estimated	
	1995-96	1996-97	1997-98	1998-99	1999-2000
Special revenue					
Medicaid	$11,850	$12,424	$13,180	$13,603	$13,547
Welfare	2,146	1,864	2,330	1,950	1,691
All other special revenue	5,220	4,717	5,001	6,463	6,624
Capital projects	1,011	1,043	1,131	1,249	1,411
Total	$20,227	$20,048	$21,642	$23,265	$23,273