New York State Senate

Economic and Revenue Forecast SFY 2010-11

Senate Finance Committee

Senator Carl Kruger, Chair
Senator Liz Krueger, Vice-Chair

Joseph F. Pennisi, Secretary to the Finance Committee

Prepared by Senate Finance Committee, Office of Fiscal Studies

Michael J. Laccetti, Director of Fiscal Studies

Mary C. Arzoumanian, Deputy Director of Fiscal Studies

Gopa Barua, Forecaster

James Hugger, Forecaster

Lei Liao, Forecaster

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EXECUTIVE SUMMARY

The Senate Finance Committee reviewed and analyzed the economic and revenue projections contained within the Executive Budget for SFY 2010-11. Based upon Global Insight's February economic forecast, the Senate Finance Committee projects $403 million in General Fund revenues (inclusive of miscellaneous receipts, lottery receipts, and transfers) below the Executive Budget forecast for SFY 2010-11. This decrease is in addition to the estimate for the remainder of SFY 2009-10, which is $340 million less than the Executive estimate. Therefore, the two year General Fund receipts forecast is $743 million below the Executive's projections.

New York has a variety of tax revenues that are deposited in the General Fund as well in special revenue funds, capital projects funds, and debt service funds which are to be utilized for specific spending purposes. In addition, certain tax revenues (e.g. petroleum business taxes and real estate transfer taxes) are exclusively deposited in these other funds. By aggregating all the revenues collected by the State in each fund, the Senate Finance Committee projects All Funds tax revenues to be $294 million below the Executive for SFY 2010-11. Similar to the projections for General Fund revenues, the projections for lower revenues in SFY 2010-11 is enhanced by the estimate of tax revenues for the remainder of the 2009-10 fiscal year, $208 million below the Executive estimate. This results in a two year All Funds tax revenue forecast that is $502 million below the Executive.

The economy at the national level is measured by the Gross Domestic Product (GDP), which is essentially a combination of goods and services produced and the consumption of these goods and services. The economy is then divided into three sectors – government, business, and the consumer – which are affected by many different variables whose impacts change from year to year. In order for the economy to grow, these three sectors must be working and growing together. As the recession lingered into 2009, the national economy continued to contract. Real GDP declined by 2.4 percent in 2009. While the National Bureau of Economic Research

(NBER) has not yet declared the turning point for the economy, most economists believe the downturn reached a trough in June 2009. With the effects of the Federal stimulus packages making their way through the economy, economic growth returned in the second half of the year. Real GDP increased by 2.2 percent and 5.7 percent in the third and fourth quarters, respectively. With the recovery slowly taking hold in 2010, real GDP is projected to continue to grow at a rate of 3.0 percent.

In New York, the economy is measured by the Gross State Product (GSP). This economy, unlike the national one, has two major sectors – consumer and business – with government taking a more supporting role. New York's economy also declined in 2009 but, at a slower rate than the national economy. The state of the New York economy, as shown by the change in real GSP, declined by 1.7 percent in 2009. The New York economy is projected to recover similar to the national economy. Real GSP is projected to grow by 2.7 percent in 2010.

The housing market decline and the resulting financial market crisis had a significant impact on employment and income in 2009. Employment at the national and state level declined by 4.3 percent and 2.1 percent, respectively. The decline in employment, in turn, constrained wages. Wages at the national and state level declined by 3.3 percent and 5.1 percent, respectively. The larger decline in wage income at the state level represents the decline in Wall Street bonus income as a result of more bonuses being paid in stock options rather than cash. With the slow recovery, employment is still projected to decline. Both national and state employment is projected to decline by 0.7 percent in 2010. However, wage growth is projected to return, increasing by 3.1 percent and 4.2 percent at the national and state level, respectively.

As outlined in the following tables, total All Funds tax collections are estimated at $58.57 billion in SFY 2009-10. This estimate is $208 million below the Executive Budget forecast. For SFY 2010-11, All Funds tax revenues are expected to increase by $4.9 billion to $63.5 billion or $294 million below the Executive's estimates.

Estimates for the remainder of the current fiscal year show the continued weakness in the economy over the course of 2009 and the impact of the political pressure on Wall Street bonuses, which has resulted in less cash payouts than in previous years. Global Insight's forecast of the overall national economy in 2010 is slightly weaker than the economic forecast presented by the Executive. Although the forecast for the State's personal income is stronger than that of the Executive, the employment forecast is weaker. This results in a revenue projection that is lower than the Executive.

SFY 2009-10 General Fund Collections

(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**22,307**	**22,364**	**(57)**
Withholding	28,694	28,748	(54)
Estimated Payments	9,020	9,117	(97)
Final Returns	1,851	1,836	15
Other Payments	1,252	1,266	(14)
Gross Collections	40,817	40,967	(150)
Refunds	(6,515)	(6,587)	72
STAR	(3,420)	(3,420)	0
RBTF	(8,575)	(8,596)	21
User Taxes and Fees	**8,088**	**8,229**	**(141)**
Sales and Use	7,360	7,504	(144)
Motor Vehicle	13	13	0
Cigarette/Tobacco	441	437	4
Alcoholic Beverage	222	223	(1)
Alcoholic Beverage License	52	52	0
Business Taxes	**5,669**	**5,688**	**(19)**
Corporate Franchise	2,488	2,500	(12)
Corporate Utilities	735	739	(4)
Insurance	1,273	1,279	(6)
Bank	1,173	1,170	3
Other Taxes	**912**	**953**	**(41)**
Estate and Gift	891	932	(41)
Pari-mutuel	20	20	0
Other	1	1	0
Total General Fund Taxes	**36,976**	**37,234**	**(258)**
Miscellaneous Receipts	3,496	3,508	(12)
Federal Grants	68	68	0
Lottery	2,831	2,831	0
Transfers	11,832	11,902	(70)
Total General Fund Receipts	**55,203**	**55,543**	**(340)**

SFY 2009-10 All Funds Collections

(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**34,302**	**34,380**	**(78)**
Withholding	28,694	28,748	(54)
Estimated Payments	9,020	9,117	(97)
Final Returns	1,851	1,836	15
Other Payments	1,252	1,266	(14)
Gross Collections	40,817	40,967	(150)
Refunds	(6,515)	(6,587)	72
User Taxes and Fees	**13,834**	**13,994**	**(160)**
Sales and Use	10,480	10,668	(188)
Auto Rental	84	79	5
Motor Vehicle	973	982	(9)
Cigarette/Tobacco	1,360	1335	25
Motor Fuel	508	501	7
Alcoholic Beverage Tax/Fees	274	275	(1)
Highway Use	141	140	1
Taxicab Surcharge	14	14	0
Business Taxes	**7,833**	**7,823**	**10**
Corporate Franchise	2,947	2,961	(14)
Corporate Utilities	964	968	(4)
Insurance	1,426	1,412	14
Bank	1,367	1,363	4
Petroleum Business	1,129	1,119	10
Other Taxes	**1,384**	**1,408**	**(24)**
Estate and Gift	891	932	(41)
Real Estate Transfer	472	455	17
Pari-mutuel	20	20	0
Other	1	1	0
MTA Payroll	1,217	1,173	44
Total All Funds Receipts	**58,570**	**58,778**	**(208)**

SFY 2010-11 General Fund Collections

(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**24,644**	**24,874**	**(230)**
Withholding	30,486	30,715	(229)
Estimated Payments	11,383	11,294	89
Final Returns	1,956	2,193	(237)
Other Payments	1,282	1,316	(34)
Gross Collections	45,107	45,518	(411)
Refunds	(7,971)	(8,075)	104
STAR	(3,208)	(3,208)	0
RBTF	(9,284)	(9,361)	77
User Taxes and Fees	**8,506**	**8,547**	**(41)**
Sales and Use	7,760	7,784	(24)
Motor Vehicle	43	43	0
Cigarette/Tobacco	438	438	0
Alcoholic Beverage	217	230	(13)
Alcoholic Beverage License	48	52	(4)
Business Taxes	**5,750**	**5,710**	**40**
Corporate Franchise	2,861	2,836	25
Corporate Utilities	714	705	9
Insurance	1,274	1,268	6
Bank	901	901	0
Other Taxes	**890**	**933**	**(43)**
Estate and Gift	867	910	(43)
Pari-mutuel	20	20	0
Other	3	3	0
Total General Fund Taxes	**39,790**	**40,064**	**(274)**
Miscellaneous Receipts	2,905	2,915	(10)
Federal Grants	60	60	0
Lottery	2,790	2,838	(48)
Transfers	11,691	11,762	(71)
Total General Fund Receipts	**57,236**	**57,639**	**(403)**

SFY 2010-11 All Funds Collections

(Millions of Dollars)

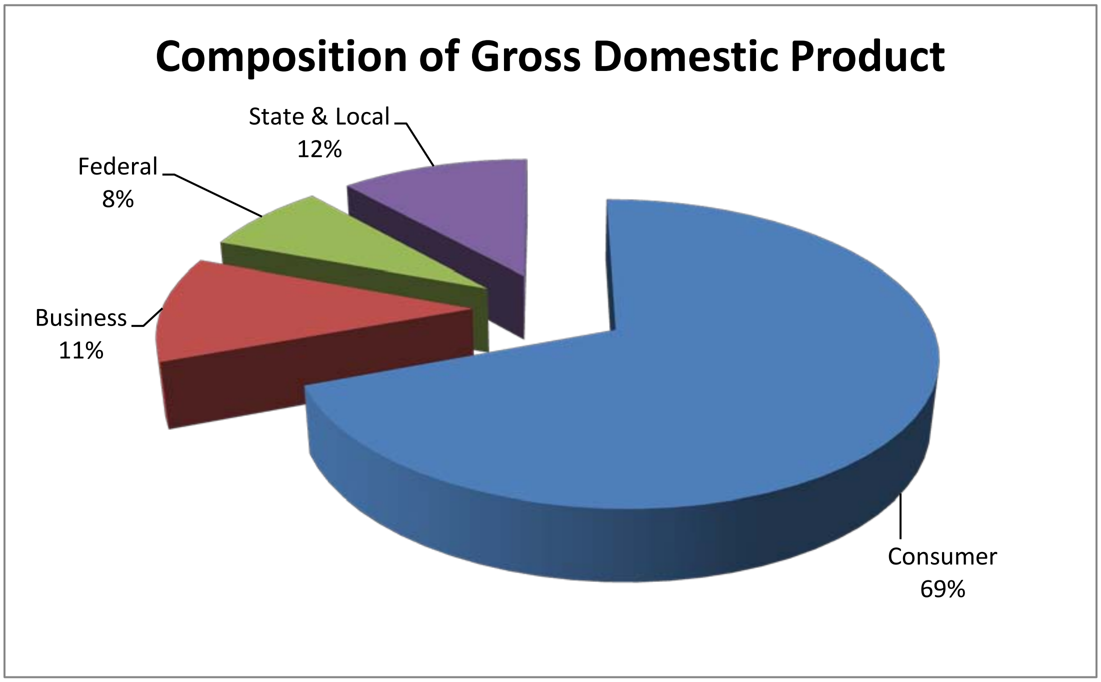
	Senate Finance	Executive Budget	Variance
Personal Income Tax	**37,136**	**37,443**	**(307)**
Withholding	30,486	30,715	(229)
Estimated Payments	11,383	11,294	89
Final Returns	1,956	2,193	(237)
Other Payments	1,282	1,316	(34)
Gross Collections	45,107	45,518	(411)
Refunds	(7,971)	(8,075)	104
User Taxes and Fees	**15,577**	**15,563**	**14**
Sales and Use	11,050	11,064	(14)
Auto Rental	105	95	10
Motor Vehicle	1,169	1,175	(6)
Cigarette/Tobacco	1,527	1,526	1
Motor Fuel	516	502	14
Alcoholic Beverage Tax/Fees	515	532	(17)
Syrup	450	450	0
Highway Use	160	134	26
Taxicab Surcharge	85	85	0
Business Taxes	**7,796**	**7,760**	**36**
Corporate Franchise	3,304	3,277	27
Corporate Utilities	934	922	12
Insurance	1,407	1,400	7
Bank	1,055	1,076	(21)
Petroleum Business	1,096	1,085	11
Other Taxes	**1,421**	**1,425**	**(4)**
Estate and Gift	867	910	(43)
Real Estate Transfer	531	492	39
Pari-mutuel	20	20	0
Other	3	3	0
MTA Payroll	1,544	1,577	(33)
Total All Funds Receipts	**63,474**	**63,768**	**(294)**

ECONOMIC OUTLOOK

The national economy as a whole is measured by the Gross Domestic Product (GDP); on the state level, it is measured by Gross State Product (GSP). GDP and GSP are essentially a combination of all the goods and services produced and consumed by the three sectors of the economy: the consumer, business, and government. These three sectors then utilize various inputs from the economy, such as interest rates and inflation, to conform to their needs. How these sectors interact with each other and react to the ever changing inputs of the economy form the basis by which the economy either expands or contracts. For example, the amount of income affects how much the consumer will spend. Increases in consumer spending translate into corporate profits for the business sector who then utilize such profits to make capital investments and hire new workers. Increases in both these sectors translate into increased tax revenues for the government sector; allowing for budgetary spending growth and/or tax relief.

As shown in Figure 1, the consumer is the major contributor to the economy, accounting for over two thirds of GDP. Due to the recession, business' share of GDP has declined from 15 percent in 2007 to 11 percent in 2009. Although business accounts for a small share of GDP, it is still an important contributor to the economy as it drives employment and wages which, in turn, spur consumer spending. Government, through its own spending habits, also plays a significant part in the economy. While the contribution to GDP by business has declined during the current recession, the Federal government's share of GDP has increased from 6 percent in 2007 to 8 percent in 2009. This is primarily due to the federal stimulus programs enacted to spur economic growth. Surprisingly, even though state and local government spending has been constrained due to declining state tax revenues, it still contributes more to GDP than Federal spending.

Figure 1



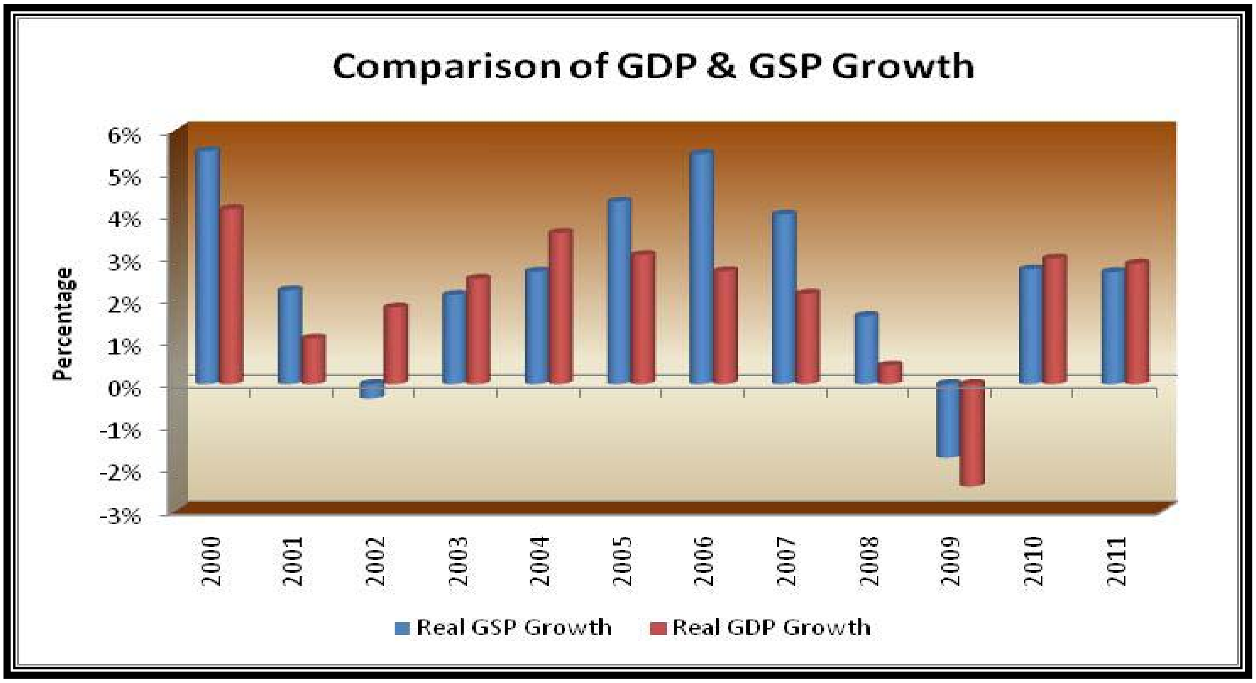
In 2008, the collapse of a global housing market bubble caused the value of those securities tied to the housing market to fall significantly. As a result, the global financial markets were on the verge of collapse. Credit markets seized up, restraining financings at all levels. Without access to credit, domestic spending contracted and the housing market declined even more. By the end of 2008, the Troubled Asset Relief Program (TARP) had been implemented in order to strengthen the financial markets.

At the beginning of 2009, the national economy was still deep in the recession. Job losses were mounting as businesses continued to cut costs as a result of decreased consumer demand. In order to jump start the economy, the American Recovery and Reinvestment Act (ARRA) was enacted.

The national economy, as measured by real GDP, continued to contract in the first half of 2009. Real GDP declined at the annualized rate of 6.4 percent and 0.7 percent in the first and second quarters, respectively. As the federal stimulus measures worked their way through the economy, economic growth returned; real GDP growing by 2.2 percent and 5.7 percent in the third and fourth quarters, respectively. However, for all of 2009, real GDP declined by 2.4 percent.

In 2010, the economic recovery that began in the second half of 2009 is projected to continue, albeit at a much slower pace than the fourth quarter of 2009. With the bottoming out of the housing market and job losses in the first half of 2010, real GDP is projected to increase by 3.0 percent in 2010.

Figure 2



Source: IHS Global Insight and NYS Senate Finance Committee

As mentioned above, the New York economy is measured by the Gross State Product (GSP), which is composed of two sectors: business and consumer. The economy in New York had also been adversely affected by the extreme depth of the current recession. Similar to the national economy, the New York economy declined in 2009; real GSP decreasing by 1.7 percent. However, this decline was not as severe as the economic decline at the national level.

As shown in Figure 2, the New York economy fared better than the national economy as opposed to the previous recession of 2001. Similar to the previous economic recovery, the New York economy is projected to recover at a slower pace than the national economy. Whereas the end of the national recession is believed to be June of 2009. The end of the recession in New York is not projected to occur until the first quarter of 2010. Due to this lag in economic growth, real GSP is projected to grow by 2.7 percent in 2010, lower than the projected growth of 3.0 percent at the national level.

United States Economic Outlook
(Dollar Figures in Billions)

	2008	2009	2010	2011
GDP	$14,441	$14,259	$14,843	$15,493
Percent Change	2.6	(1.3)	4.1	4.4
Real GDP	$13,312	$12,989	$13,375	$13,756
Percent Change	0.4	(2.4)	3.0	2.8
Consumption Expenditures	$9,291	$9,237	$9,460	$9,711
2005 Dollars, Percent Change	(0.2)	(0.6)	2.4	2.7
Government Expenditures	$2,518	$2,566	$2,607	$2,572
2005 Dollars, Percent Change	3.1	1.9	1.6	(1.3)
Investment Expenditures	$1,990	$1,523	$1,702	$1,933
2005 Dollars, Percent Change	(7.3)	(23.5)	11.8	13.6
Change in Inventories	($26)	($112)	21	49
Exports	$1,629	$1,469	$1,610	$1,712
2005 Dollars, Percent Change	5.4	(9.9)	9.7	6.3
Imports	$2,124	$1,822	$2,010	$2,161
2005 Dollars, Percent Change	(3.2)	(14.2)	10.3	7.5
CPI - All Urban, Percent Change	3.8	(0.3)	1.9	1.7
CPI - Core, Percent Change	2.3	1.7	1.4	1.6
Pretax Corporate Profits	$1,360	$1,300	$1,464	$1,577
Percent Change	(11.8)	(4.4)	12.6	7.7
After-tax Corporate Profits	$1,171	$1,111	$1,277	$1,327
Percent Change	(11.5)	(5.1)	15.0	3.9
Personal Income	$12,239	$12,072	$12,547	$13,078
Percent Change	2.9	(1.4)	3.9	4.2
Wages and Salaries	$6,546	$6,331	$6,525	$6,798
Percent Change	2.1	(3.3)	3.1	4.2
Nonagricultural Employment, Millions	137	131	130	132
Percent Change, Seasonally Adjusted	(0.6)	(4.3)	(0.7)	1.5
Unemployment Rate	5.8	9.3	9.9	9.3
Interest Rates				
T-Bill Rate, 3-Month	1.40	0.15	0.43	2.08
T-Note Rate, 10-Year	3.67	3.26	3.80	4.03
T-Bond Rate, 30-Year	4.28	4.07	4.68	4.81
Standard and Poor's 500 Stock Index	1,221	947	1,150	1,241
Percent Change	(17.3)	(22.5)	21.5	7.9

Source: Global Insight US Macroeconomic Forecast: February 2010

New York State Economic Outlook
Calendar Year

(Dollar Figures in Billions)

	2008	2009	2010	2011
Gross State Product	$1,144	$1,136	$1,181	$1,230
Percent Change	3.5	(0.6)	4.0	4.1
Real Gross State Product	$965	$948	$974	$999
Percent Change	1.6	(1.8)	2.7	2.6
Nonagricultural Employment, Thousands	8,799	8,612	8,553	8,679
Percent Change	0.7	(2.1)	(0.7)	1.5
Unemployment Rate	5.4	8.3	8.9	8.6
Personal Income	$950	$923	$964	$1,011
Percent Change	2.7	(2.8)	4.4	4.9
Wages and Salaries	$535	$507	$529	$553
Percent Change	2.1	(5.2)	4.3	4.5
Retail Sales	$240	$225	$239	$256
Percent Change	(1.2)	(6.3)	6.2	8.4
Housing Starts, Thousands	49	13	20	28
Percent Change	10.5	(73.5)	53.8	40.0

Source: Global Insight New York State Economic Forecast, February 2010

New York State Economic Outlook
State Fiscal Year
(Dollar Figures in Billions)

	2008-09	2009-10	2010-11	2011-12
Gross State Product	$1,143	$1,146	$1,192	$1,245
Percent Change	2.0	0.2	4.1	4.4
Real Gross State Product	$959	$953	$980	$1,015
Percent Change	0.2	(0.6)	2.8	3.6
Nonagricultural Employment, Thousands	8,766	8,579	8,566	8,728
Percent Change	0.8	(2.1)	(0.2)	1.9
Unemployment Rate	5.4	6.1	8.7	8.4
Personal Income	$937	$935	$976	$1,023
Percent Change	0.3	(0.2)	4.4	4.8
Wages and Salaries	$522	$516	$535	$560
Percent Change	(0.8)	(1.2)	3.8	4.7
Retail Sales	$233	$229	$243	$260
Percent Change	(4.7)	(1.9)	6.2	7.0
Housing Starts, Thousands	42	14	23	29
Percent Change	(5.2)	(66.3)	65.0	26.1

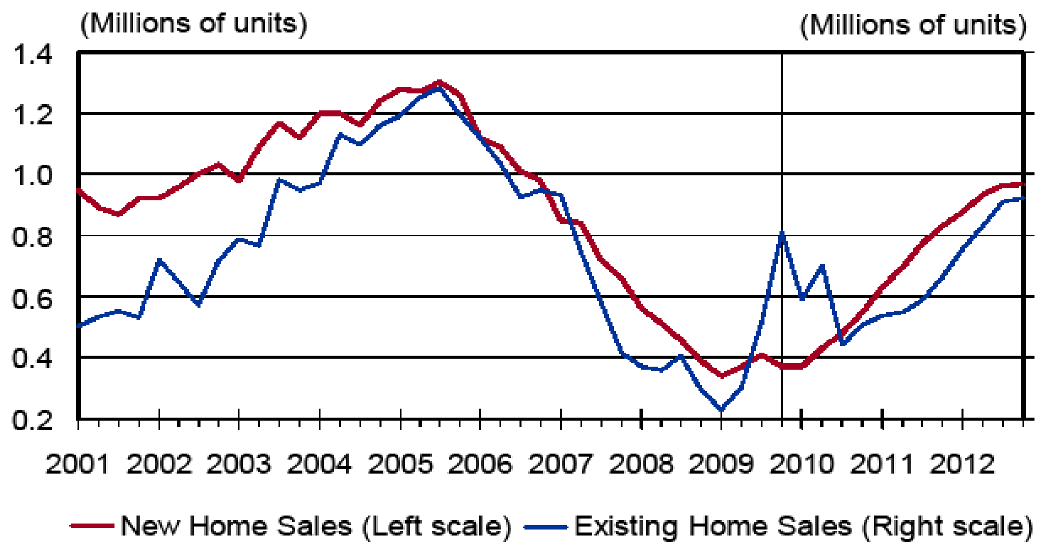
Source: Global Insight New York State Economic Forecast, February 2010

HOUSING MARKET

As the housing market was one of the primary drivers of the economic expansion, it was the primary driver of the economic downturn as well. As shown in Figure 3, sales of existing homes starting declining sharply in the first quarter of 2007 as the housing market bubble burst, reaching its trough in the first quarter of 2009.

Existing home sales in the second and third quarters of 2009 were buoyed by the enactment of the first time homebuyers tax credit enacted at the federal level. This tax credit allowed taxpayers a personal income tax credit for the costs of purchasing their first homes. This credit was capped at $8,000. However, this tax credit expired in December 2009. As a result, existing homes sales declined in the fourth quarter of 2009. Existing homes sales are projected to rebound in the first quarter of 2010, artificially inflated by the extension of the tax credit until April 30, 2010. Real growth in existing home sales is not projected until the second half of 2010.

Figure 3
Homes Sales

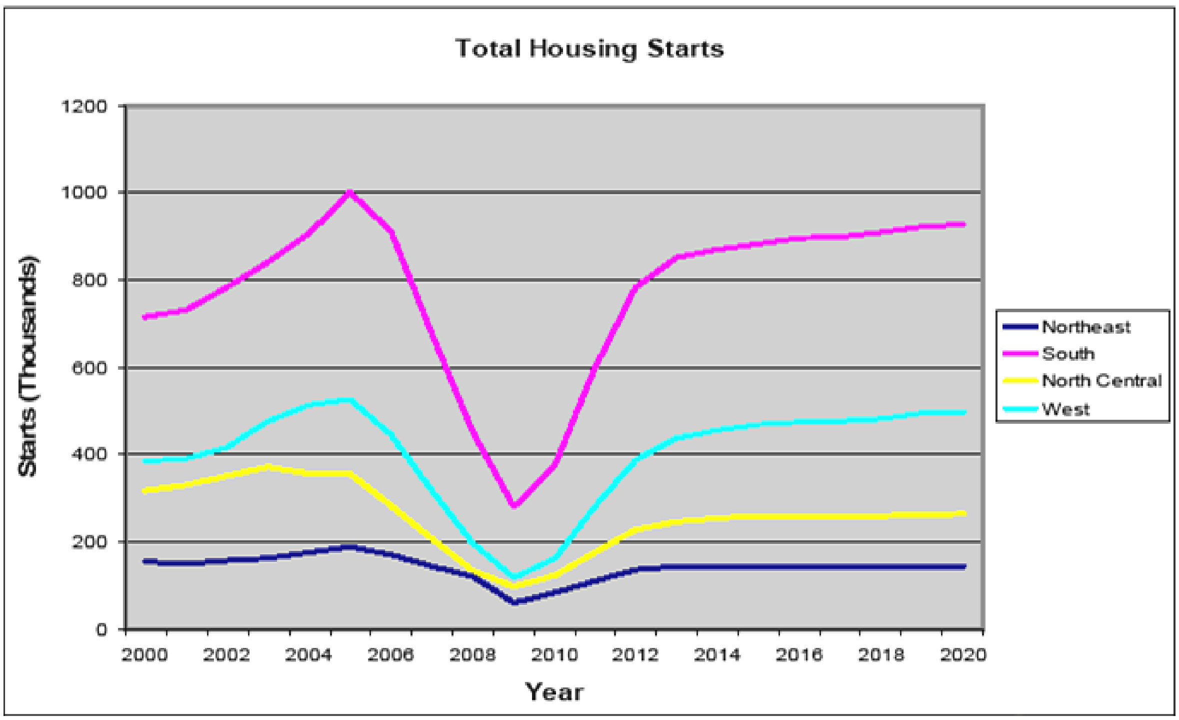


Source: IHS Global Insight

The bursting of the housing market bubble also negatively impacted the sales of new homes. Similar to existing home sales, the sales of new homes bottomed out in 2009. However, the impact of the first time homebuyer's tax credit was not as significant. As a result, new home sales are projected to have a U-shaped recovery rather than the erratic recovery of existing home sales.

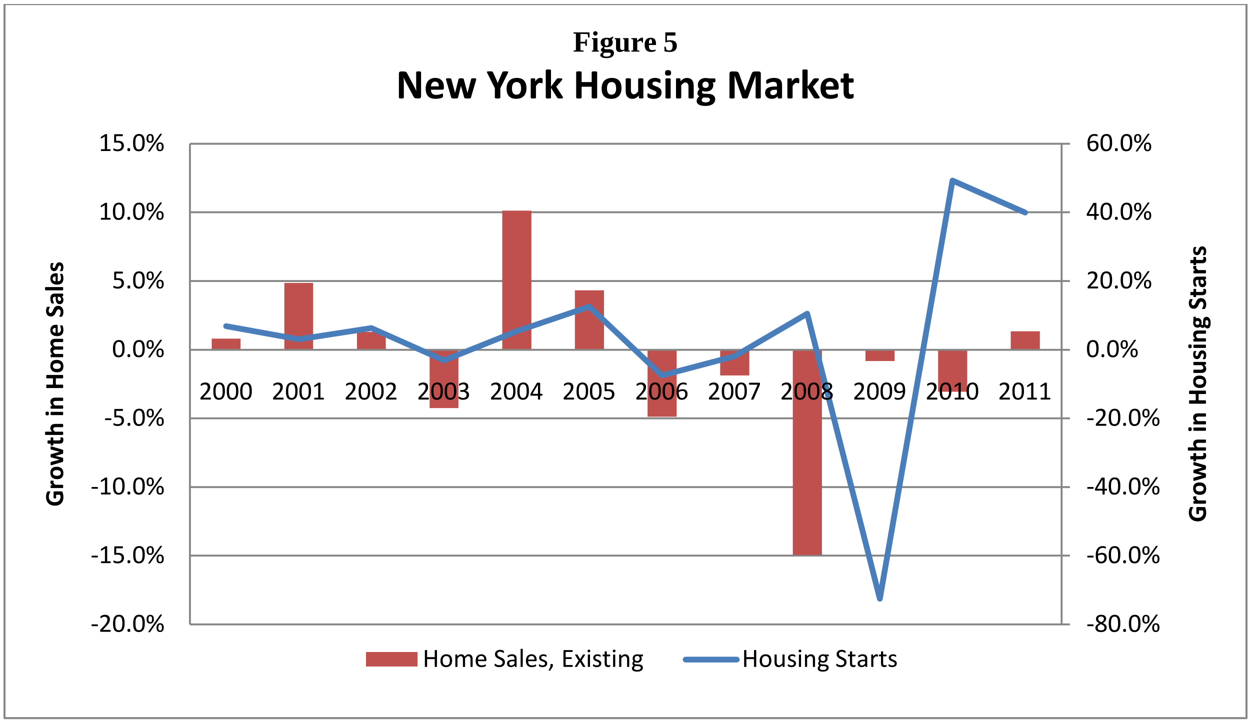
With the projected recovery in new home sales, the production levels and backlog of unsold new homes are declining quickly. As a result, housing starts are projected to recover in 2010. As shown in Figure 4, the regions of the country that benefitted greatly from the housing market bubble were also the ones most negatively impacted when the bubble burst.

Figure 4



Source: IHS Global Insight

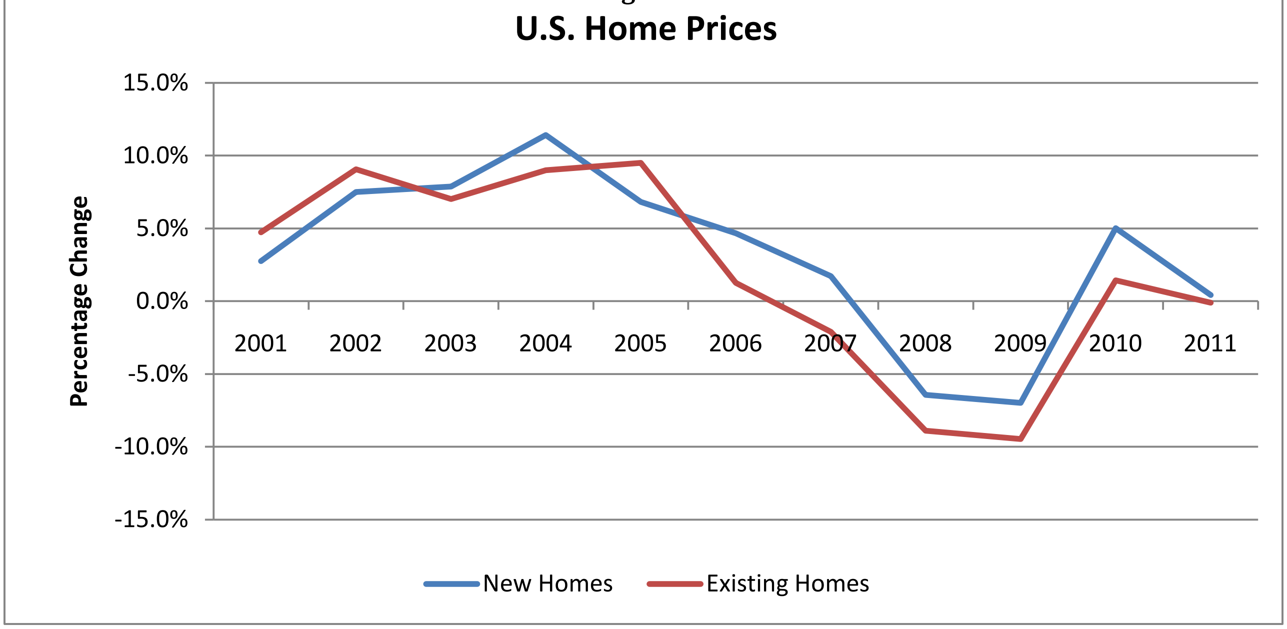
The housing market in New York was not exempt from the bursting of the real estate bubble. As shown in Figure 5, sales of existing, single family homes started to decline in 2006, with the most severe decline in 2008. Housing starts fell sharply in 2009 as the housing crisis deepened nationwide. Similar to projections of a slow recovery in the housing market nationwide in 2010, the housing market in New York will be slow to recover as well. Growth in existing home sales is not projected to occur until early 2011. However, housing starts in New York have currently reached its trough; growth is projected to occur throughout 2010.



Source: IHS Global Insight

As the demand for housing fell nationally, illustrated by the decline in existing home sales and housing starts, so did home prices. The tight credit market as a result of the collapse of the subprime mortgage market and the recession served to dampen the number of potential homebuyers in the market. Figure 6 shows the impact of the recession on both new and existing home prices nationwide. As the economy recovers and the housing market recovers, home prices are projected to increase. However, as with the housing market overall, this recovery is projected to be slow.

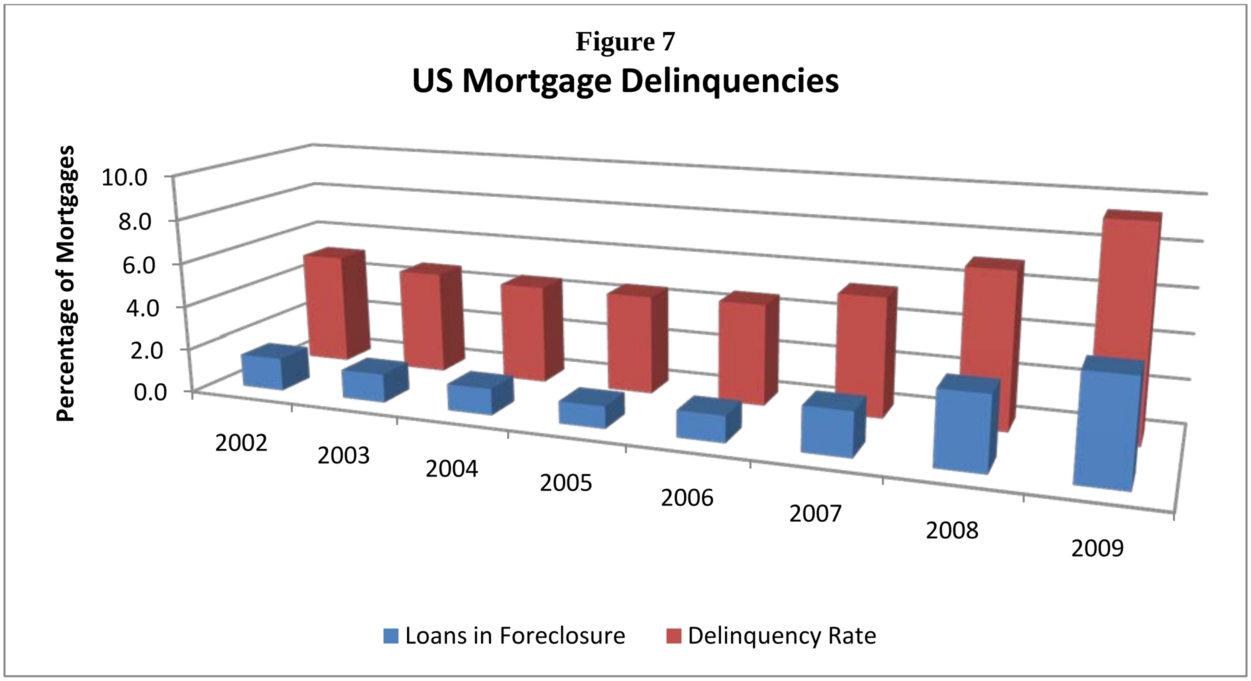
Figure 6



Source: IHS Global Insight

Of significance to the recovery in the housing market is the number of homes being foreclosed and the number of mortgage delinquencies. One of the major factors leading to the decline of the housing market was the large number of subprime mortgages being issued. Homeowners were being issued mortgages for amounts and structures that were beyond their means. When the prospectus of continued appreciation in the value of homes disappeared with the housing market bubble, the ability to repay these mortgages became increasingly difficult. As a result, the number of foreclosures and mortgage delinquencies significantly increased. As shown in Figure 7, the mortgage delinquency rate at the end of 2009 was over nine percent of total mortgages serviced; over double the delinquency rate in 2005, when delinquencies were at their lowest point. In turn, the percentage of mortgages in foreclosure has increased by four times those in foreclosure in 2005, the highest rate since 1978.

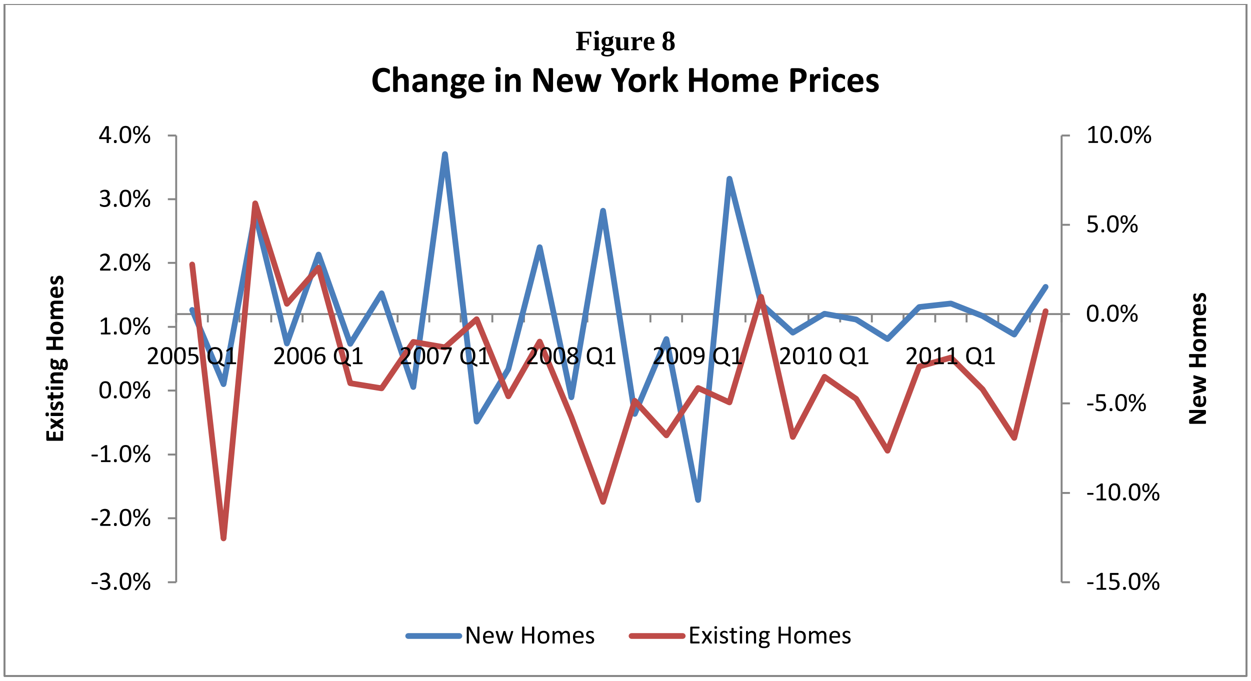
As the economy is projected to recover, the delinquency and foreclosure rates are projected to begin to decline. According to, RealtyTrac Inc., more than 315,000 households received a foreclosure-related notice in January 2010. This number is down approximately ten percent from December. Banks repossessed more than 87,000 homes in January, down five percent from December.



Source: U.S. Census Bureau and IHS Global Insight

Unlike prices at the national level, new home prices in New York were still exhibiting growth well into 2008. New home prices did not show significant declines until the third quarter of 2008, as shown in Figure 8. Buoyed by the first time homebuyer's tax credit enacted as part of the ARRA, new home prices in New York grew by over seven percent. However, this growth was short lived, with new home prices remaining flat in the second half of 2009. This trend is projected to continue into 2010; little growth in new home prices in 2010.

Although new home prices fared well over the course of the recession, existing home prices did not. As shown, existing home prices started to decline in the first quarter of 2008. Similar to new home prices, the federal tax credit helped to increase prices in the second half of 2009 with little growth in 2010.

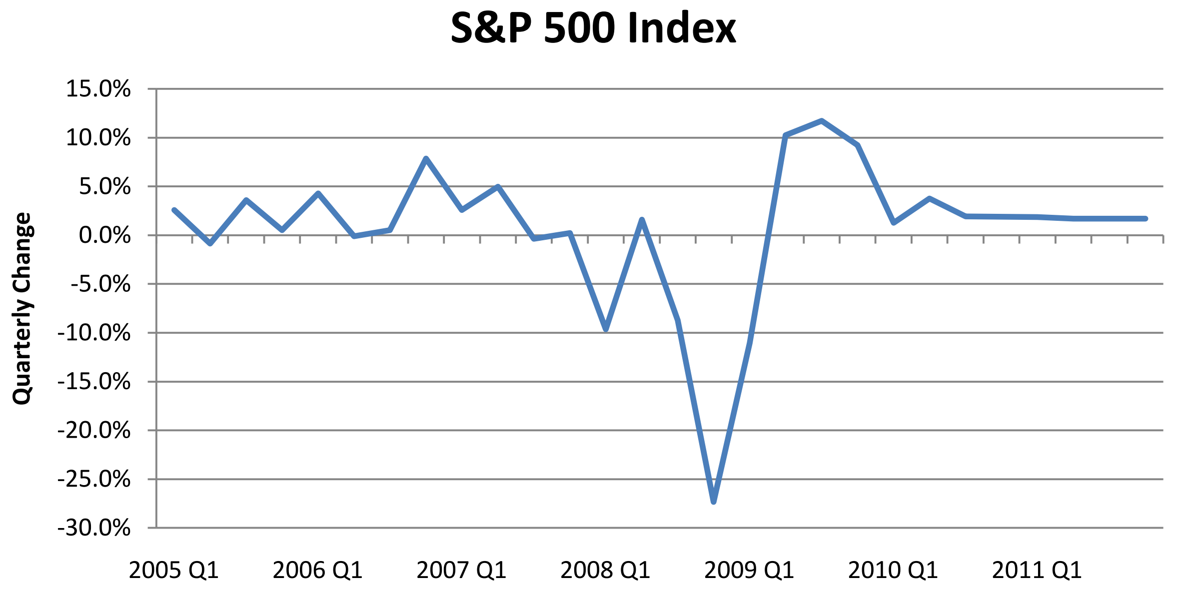


Source: IHS Global Insight

FINANCIAL MARKETS

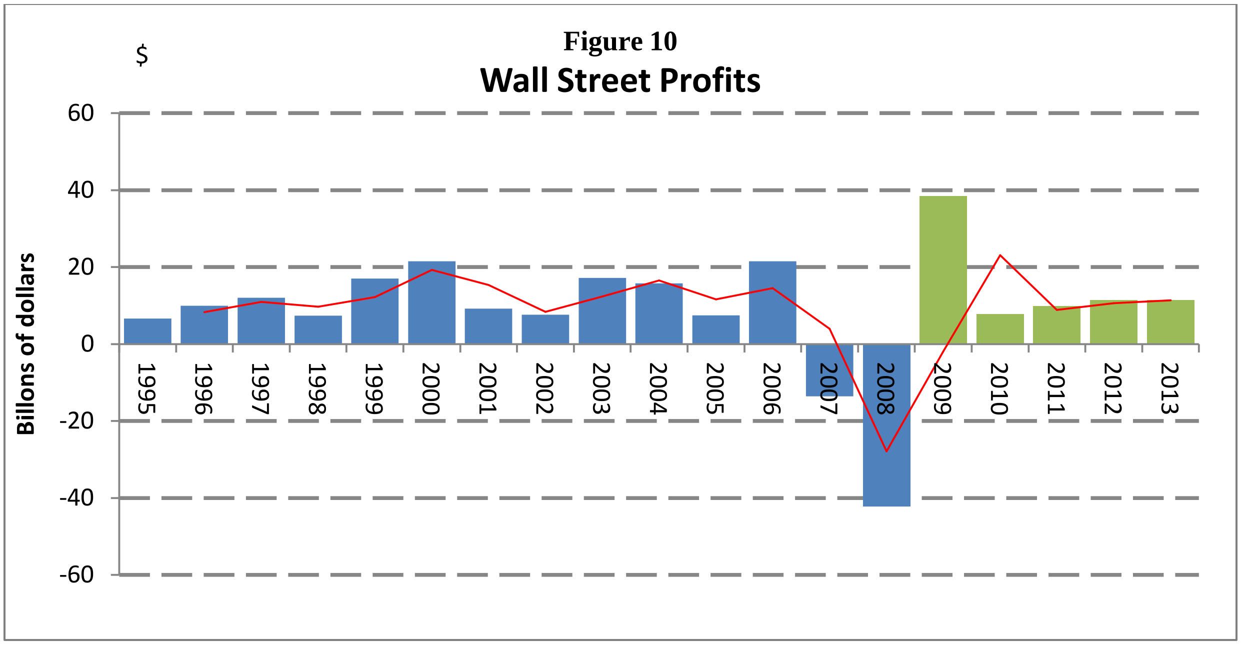
By the end of 2008, Wall Street was completely transformed. Of the five large investment banking institutions that existed at the start of 2008, two declared bankruptcy, one was bought by a major bank, and the remaining two reorganized as commercial banks. As a result of the collapse of the subprime mortgage market and the Lehman Brothers bankruptcy, the stock market tumbled in the third and fourth quarters of 2008. In 2009, the national economy was still in a recession, but Wall Street recovered much faster than anyone envisioned. As shown in Figure 9, the stock market, as measured by the S&P 500, had double digit growth in the second and third quarters of 2009. Although quarterly growth in the stock market was significant in 2009, the S&P 500 Index was still 405 points lower than its peak in the second quarter of 2007 and approximately 200 points down from its level at the end of 2008. As a result, the stock market declined by 22.5 percent on an annualized basis in 2009.

Figure 9



The stock market is projected to continue to exhibit growth in 2010, not the quarterly significant quarterly growth experienced in 2009. Similar to the annual change in 2009, the value of the stock market for 2010 is projected to be 100 points higher than its value at the end of 2009. This translates into annual stock market growth of 21.5 percent in 2010.

With the growth in the stock market, Wall Street profitability was estimated to exceed 2006 levels. According to a report by the New York State Comptroller, Wall Street net revenue totaled $91.4 billion in the first half of 2009, compared to $35 billion in the first half of 2008. The four largest investment firms headquartered in New York City earned a record $22.6 billion in the first nine months of 2009, compared to a loss of $40.3 billion in 2008. Figure 10 shows the Wall Street profits since 1995.

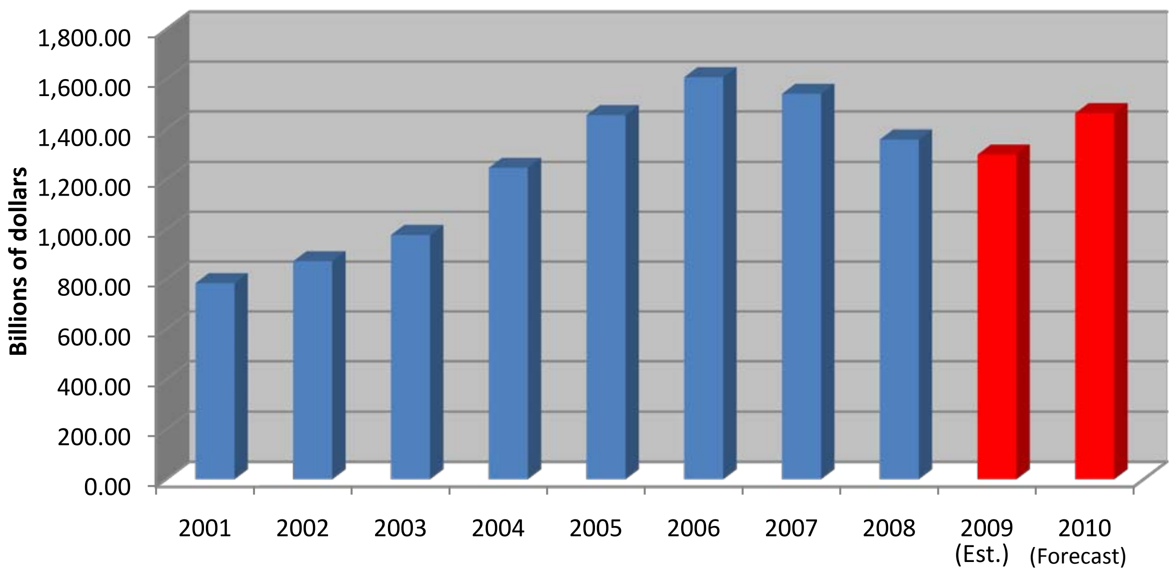


Source: Office of Deputy State Comptroller for New York City

Buoyed by the profitability of Wall Street firms and the rebound in the stock market performance, corporate profits for all of the nation's business declined by 4.4 percent through the end of 2009. This is a significant improvement over the projected declines of over 7.0 percent from one year ago. The extreme cost cutting measures along with government stimulus contributed to a strong rebound in corporate profits in the second half of 2009. In the third quarter, corporate profits grew at an annualized rate of 50 percent, the largest quarterly growth since the first quarter of 2004. The outlook for 2010 has improved as well, as corporate profits are projected to increase by 12.6 percent, surpassing 2005 levels as companies expand output production to keep pace with a growing economy.

Figure 11

U.S. Corporate Profits*

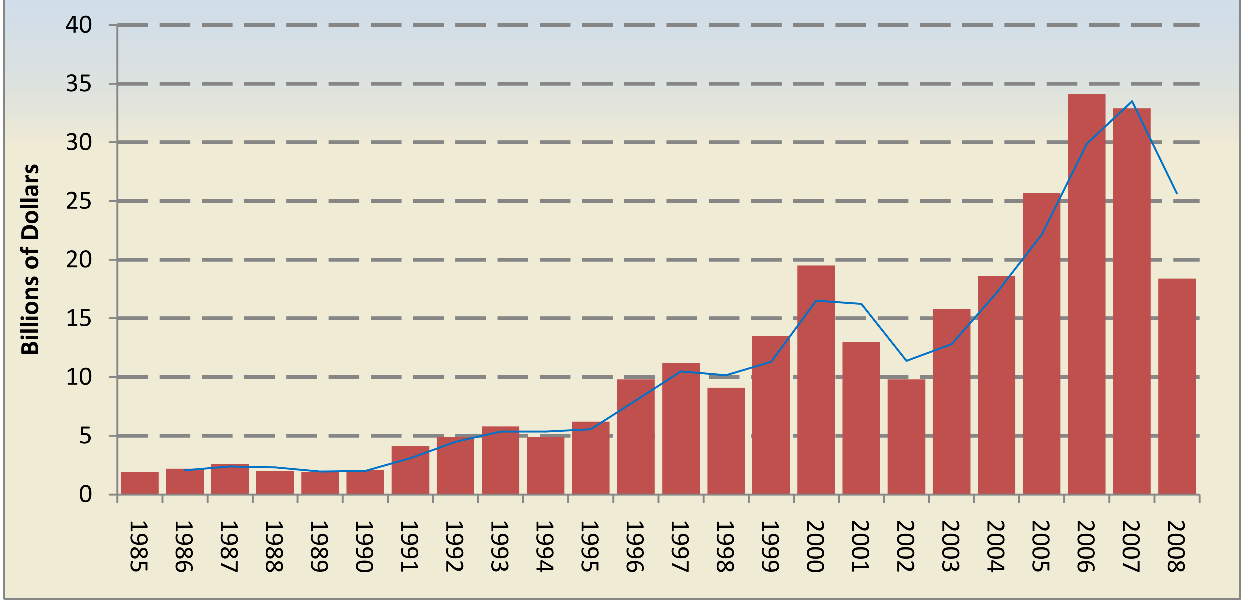


*Profits with Inventory Valuation and Capital Consumption Adjustments

The financial crisis resulted in a record decline in finance and insurance sector bonuses in the 2008-09 bonus season. As shown in Figure 12, Wall Street securities firms paid $18.4 billion in year-end 2008 bonuses in December and January, down 44 percent from 2007. The payment of bonuses by these firms has come under political fire due to the fact that the U.S. Treasury had directed tens of billions of dollars to augment Wall Street capital.

Although Wall Street firms are reporting record bonuses in the 2009 bonus season, the proportion of these bonuses being paid in cash is significantly less than in previous years. A larger portion of these bonuses are being paid in stock options or restricted stock or being incorporated in new compensation structures. These "new" structures of bonus payments are primarily a result of the political backlash.

Figure 12
Wall Street Bonuses



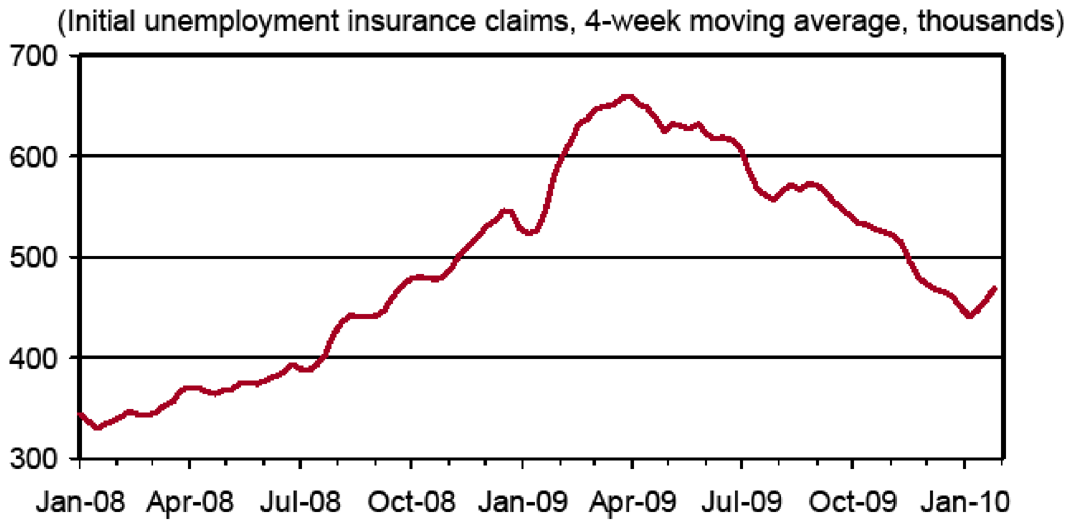
Source: Office of Deputy State Comptroller for New York City

LABOR MARKET AND INCOME

The labor market appears to be improving after a loss of approximately 8.4 million jobs over the past two years. The impact of federal stimulus programs, global growth, and the end of the largest inventory correction since the 1930s will enable growth to continue. A comparison of the total number of jobs lost during the second half of 2009 to the number lost during the first half shows the pace of job losses decelerated dramatically, falling 76 percent from the prior period. In Figure 13, initial unemployment claims have shown a steady decline since April 2009. Moreover, the decline in unemployment claims was broad based; all industries showing improvements. Management, administrative support, and waste services jobs was the category with the best showing due to the inclusion of the temporary job sector in this category. In addition, the latest evidence suggests that employers are getting ready to start hiring again as payroll declines over the last three months have averaged just 35,000.

Figure 13

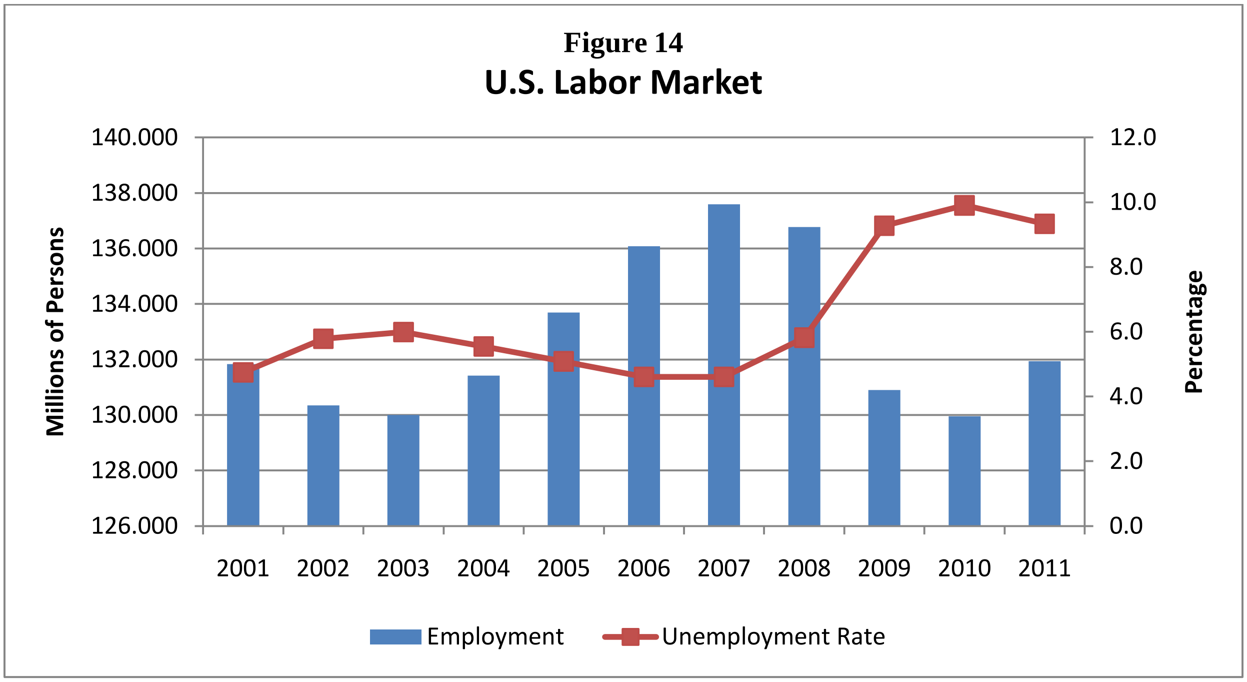
Initial Unemployment Claims



Source: IHS Global Insight

As shown in Figure 14, employment peaked in 2007, right before the onset of the current recession. By the end of 2009, employment declined by approximately 6.7 million jobs, a decline of almost 5 percent. As a result, the unemployment rate increased by over three percentage points in 2009, increasing to 9.3 percent. Although the rate of job losses and the number of initial claims for unemployment benefits have slowed in recent months, job growth is projected to be slow. Similar to the economic recovery following the 2001 recession, businesses will be wary about hiring new workers; instead getting the maximum productivity out of their current workforce.

As a result, employment is projected to continue to decline in the first quarter of 2010. Job growth is projected in the second quarter but, this growth is artificially inflated by federal government hiring for the national census in May. In the second half of 2010, employment is only projected to grow by 0.7 percent. For all of 2010, employment is projected to decline by an additional 1 million persons, or 0.7 percent. This additional decline in employment will, in turn, cause the unemployment rate to increase to 9.9 percent in 2010. Consistent job growth is not projected to return until 2011.

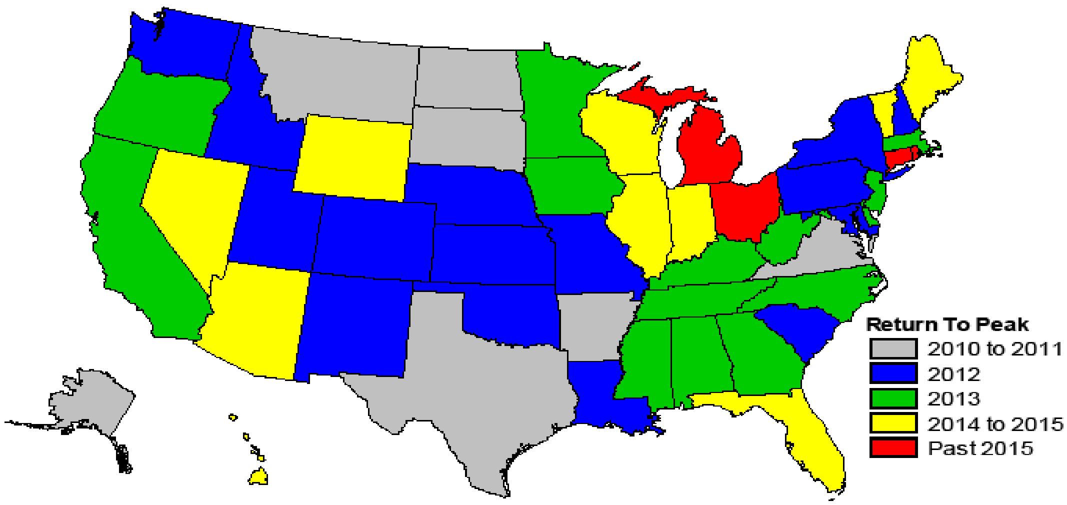


Source: IHS Global Insight

The decline in employment has impacted every state in the nation. However, the severity of the impact of the recession on each state's economy impacts the amount of time it will take to return to peak employment. Figure 15 shows when each state is projected to return to peak employment. As shown, states, such a Michigan and Ohio, that were negatively impacted by the decline of the US auto industry, are not projected to return to their peak employment levels until after 2015. Anemic growth in employment is also seen in states such as Florida and Arizona whose economies relied heavily on the housing market bubble. In contrast, those states who have weathered the current recession well are the ones who will have a quicker return of employment growth.

Figure 15

Return to Peak Employment Level

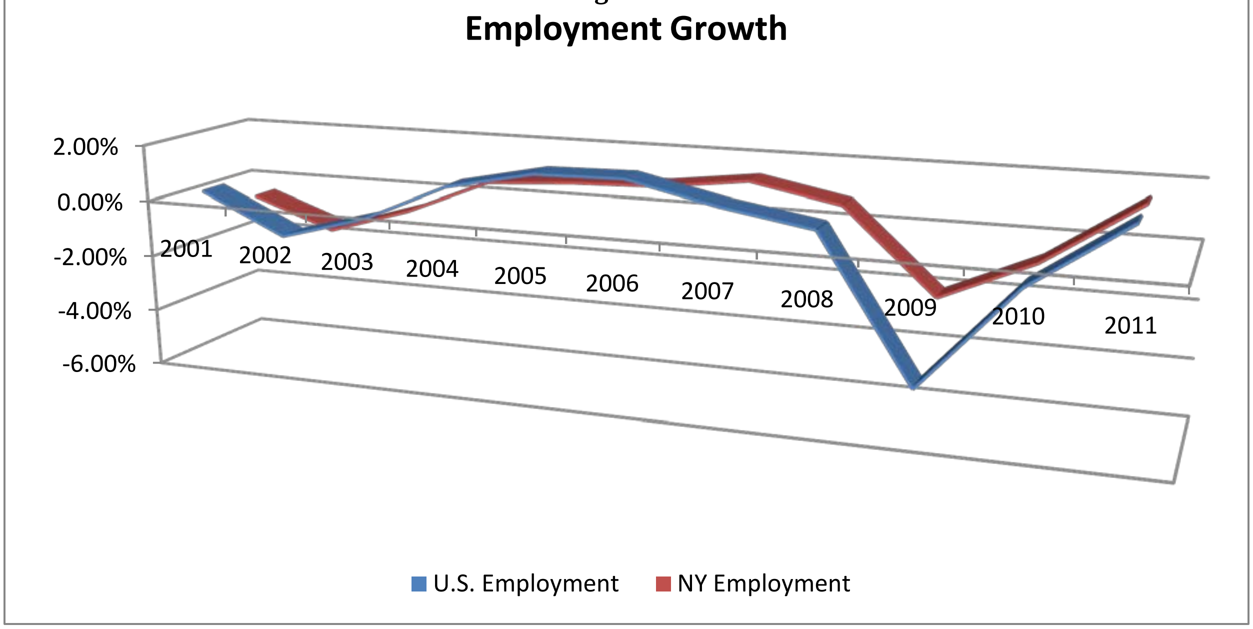


Source: IHS Global Insight

New York's employment losses during the current recession have not been quit as severe as the nation's (see Figure 16). Unlike the previous recession when New York's job losses exceeded the nation's, the same did not hold true in the current recession. Even with the State's recovery lagging the national recovery by two quarters, the State's employment growth is projected to return at the same rate as the nation's. Over the course of 2010, total State employment is projected to decline by 0.7 percent in 2010.

New York State's employment losses have moderated, but are in decline. The employment count through October shows a continued decline, at a rate of 2.8 percent. Job losses are far less than the U.S. average of 3.9 percent, and indeed rank 13th best among states losses, 242,000, include 36,000 in finance. New York State's seasonally adjusted unemployment rate climbed over the month from 8.6 percent in November to 9.0 percent in December 2009, matching a 26-year high, with New York City hitting 10.1 percent, the State Labor Department reported.

Figure 16

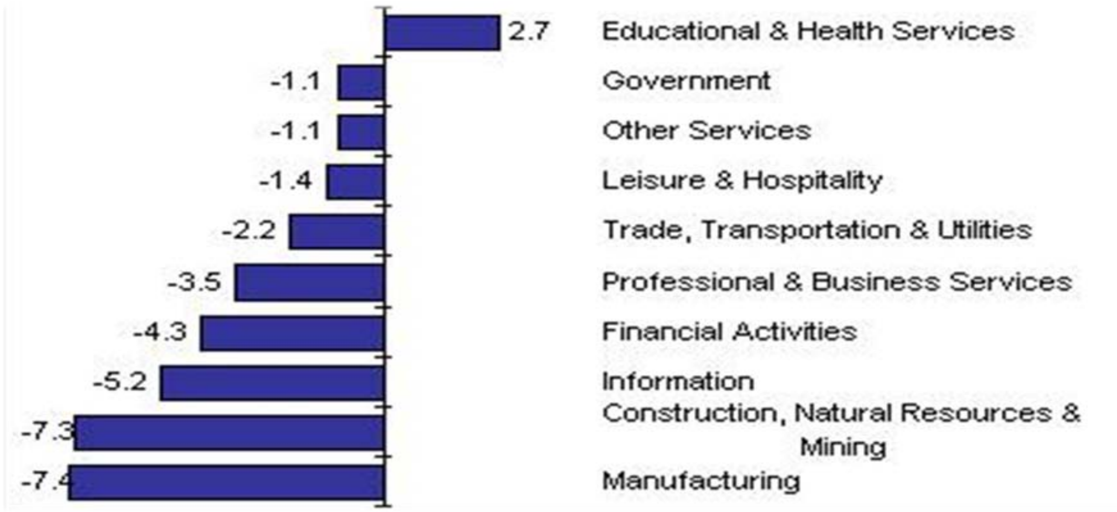


Source: IHS Global Insight

Continued weakness is projected in the real estate sector in 2010, particularly the commercial sector, due to tight credit market conditions and declining real estate values. Construction sector jobs are projected to continue to fall as well as with the manufacturing sector. While these two sectors account for the bulk of the job losses projected for 2010, they represent a substantial improvement over 2009. Strong growth in U.S. corporate profits suggests growing demand for State professional, scientific, and technical services industries. Of all the sectors, only private education and health and social assistance sectors have exhibited consistent strength and remain the biggest spots in the employment forecast. Figure 17 shows the percent change in 2009 employment by sector from a year earlier.

Figure 17

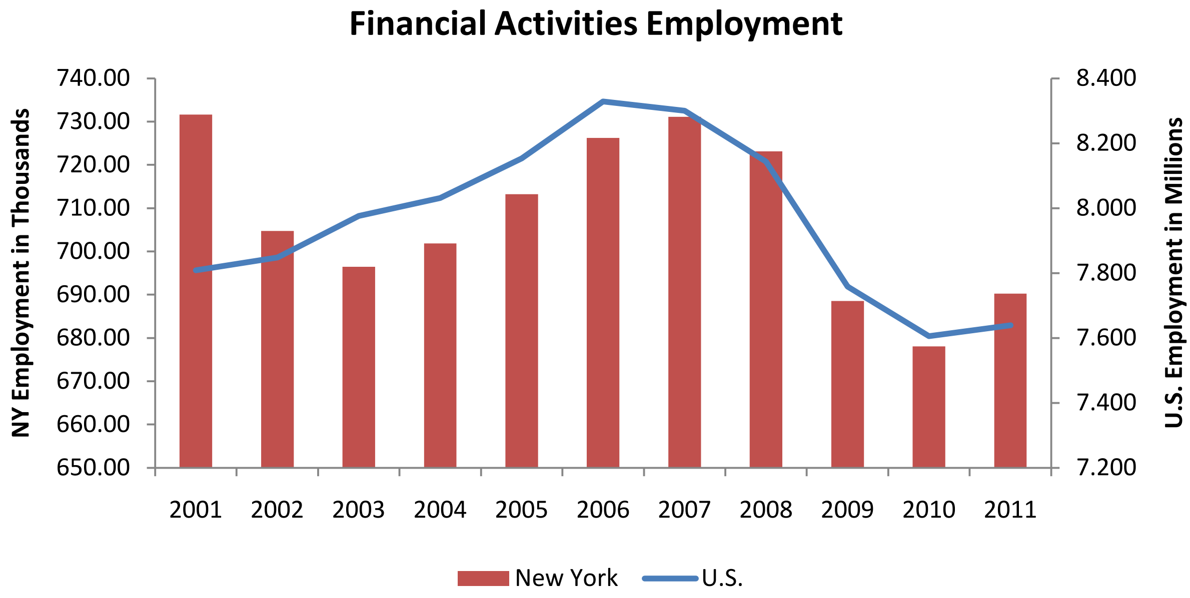
NY Employment by Sector
(Percent change from a year earlier, December 2009)



Source: IHS Global Insight

As to the labor market outlook for the financial sector in 2010, uncertainty remains. Last year, layoff announcements from the large banks numbered in the tens of thousands, but net employment has contracted by just 42,000 since the credit crunch began. The surviving firms are reporting returns to strong profitability and compensation. Financial activities job losses, which include both finance and insurance jobs and real estate jobs, totaled approximately 34,500 in 2009, approximately the same number of jobs lost in the previous recession. Job losses in the financial activities sector at the national level were approximately 542,000. In comparison, the financial activities sector in New York fared slightly better than at the national level; declining by 5.8 percent in New York as opposed to 6.5 percent nationally.

Figure 18



Source: IHS Global Insight

With the mounting job losses and the demand for labor being weak in 2009, wages were extremely constrained. After only 2.1 percent growth in 2008, wages at the national level declined by 3.3 percent in 2010. Although unemployment is projected to continue to rise in 2010, the economic recovery is projected to positively impact wages, growing by 3.1 percent in 2010.

Similar to what was happening at the national level, wages were constrained at the state level as well. However, the impact of the financial crisis on Wall Street as well as the negative atmosphere surrounding the payment of bonuses served to augment the impact the recession was having on wages in New York. As a result, wages declined by 5.2 percent in 2009. However, wage growth is projected to rebound in New York in 2010, outpacing wage growth at the national level. Wages are projected to increase by 4.3 percent in 2010.

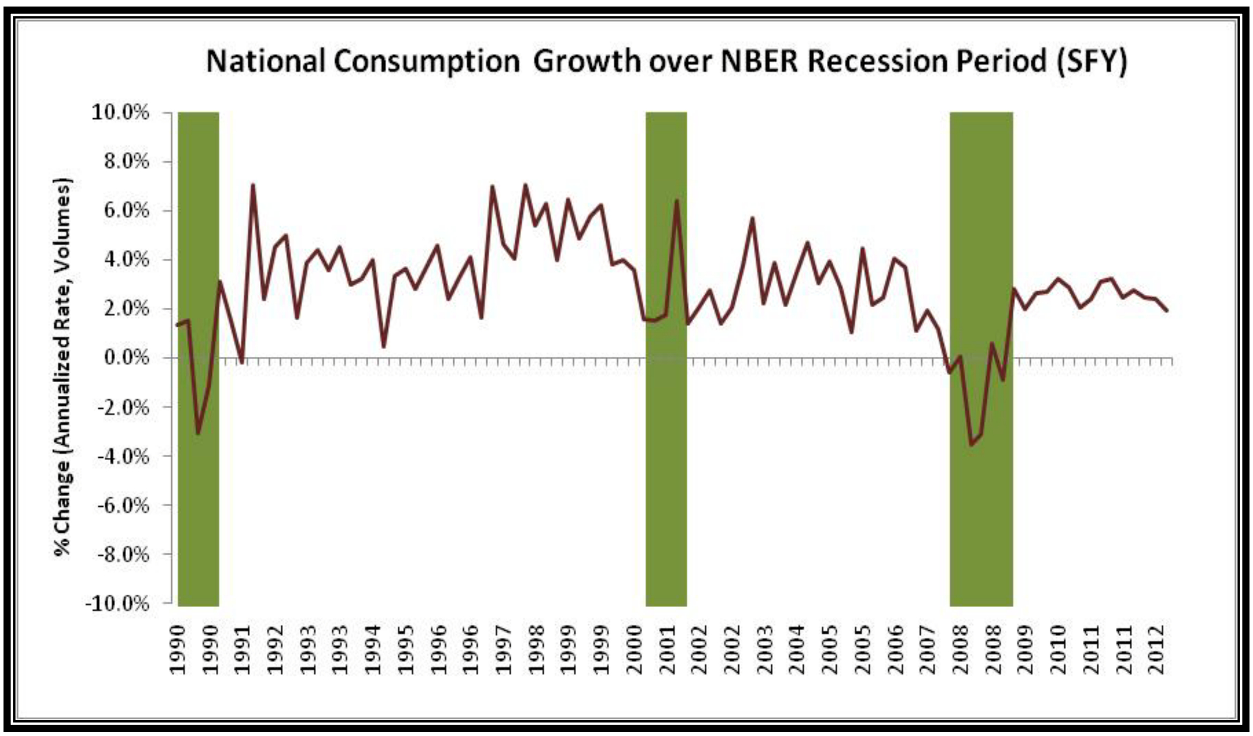
Growth in personal income is highly dependent upon growth in wages. Due to the decline in wages at both the national and state levels in 2009, personal income also declined. However, the decline in personal income was not as great as the decline in wages due to growth exhibited by the stock market. The decline in personal income in 2009 was 1.4 percent and 2.8 percent at the national and state levels, respectively. Similar to the trends in wages for 2010, personal income is projected to increase by 3.9 percent and 4.4 percent at the national and state levels, respectively.

CONSUMPTION AND INVESTMENT

CONSUMPTION

Figure 19 shows the pre- and post-recession national and state economies with corresponding movements in the consumption levels. As shown, the current recession period has had a more negative impact on consumption than the recessions of 1990 and 2001.

Figure 19

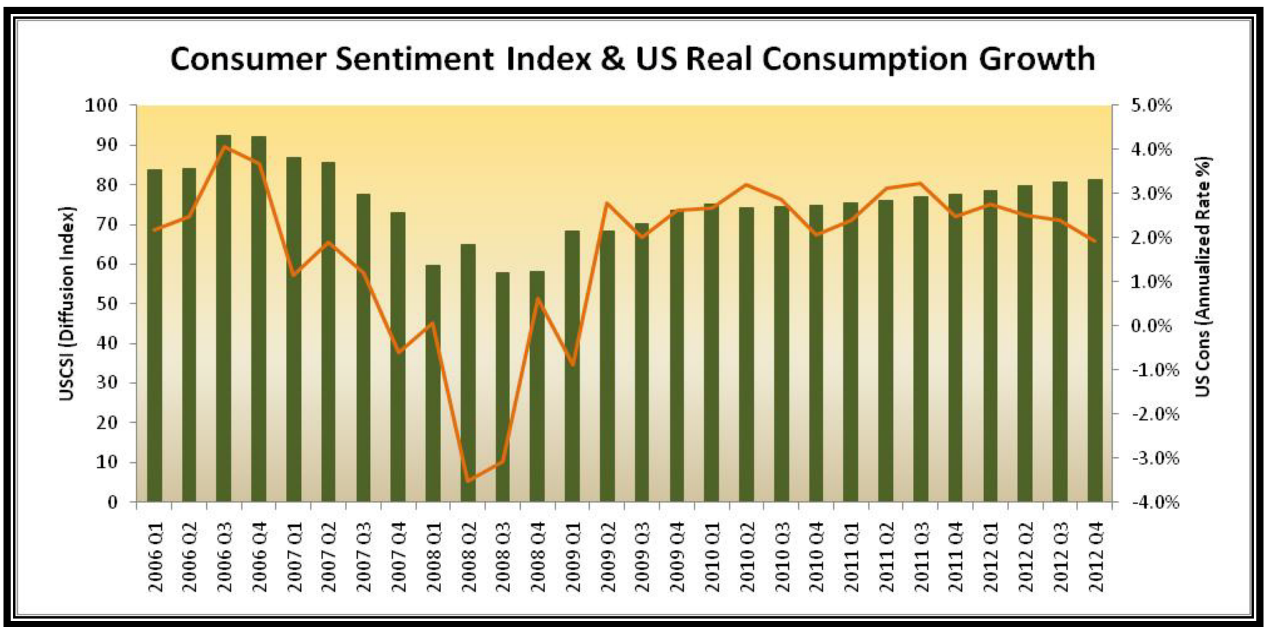


Source: IHS Global Insight

National consumption has decreased along with the corresponding recession periods. The U.S. economy appears to have exited 2009, recovering to the consumption growth of the pre-recession period. However, as opposed to the recovery from the 2001 recession where the consumer was the driving force behind the recovery, the consumer is now the weak link in the current recovery. Consumer spending is gradually increasing, but its future strength is still in doubt. Contributing to this doubt is, that the level of debt burdens, the depletion of household wealth, and the continued tightness in the credit markets. A projected improvement in the jobs market in 2010 will give consumers some extra help. The recovery in consumer markets is advancing with the real spending projected to surpass its late-2007 peak in the spring of 2010.

The weakness in the housing market undermined consumer confidence. This, along with the drop in wealth associated with falling home prices and a slowdown in job growth, caused consumers to retrench sharply. As shown in Figure 20, the change in consumer sentiment has a significant impact on the growth in consumption. In those periods of declining consumer sentiment, consumption has declined. Job losses, declining asset values, and tight credit conditions were prompting broad cutbacks in consumer spending with a drop of 0.6 percent in 2009 following a drop of 0.2 percent in 2008.

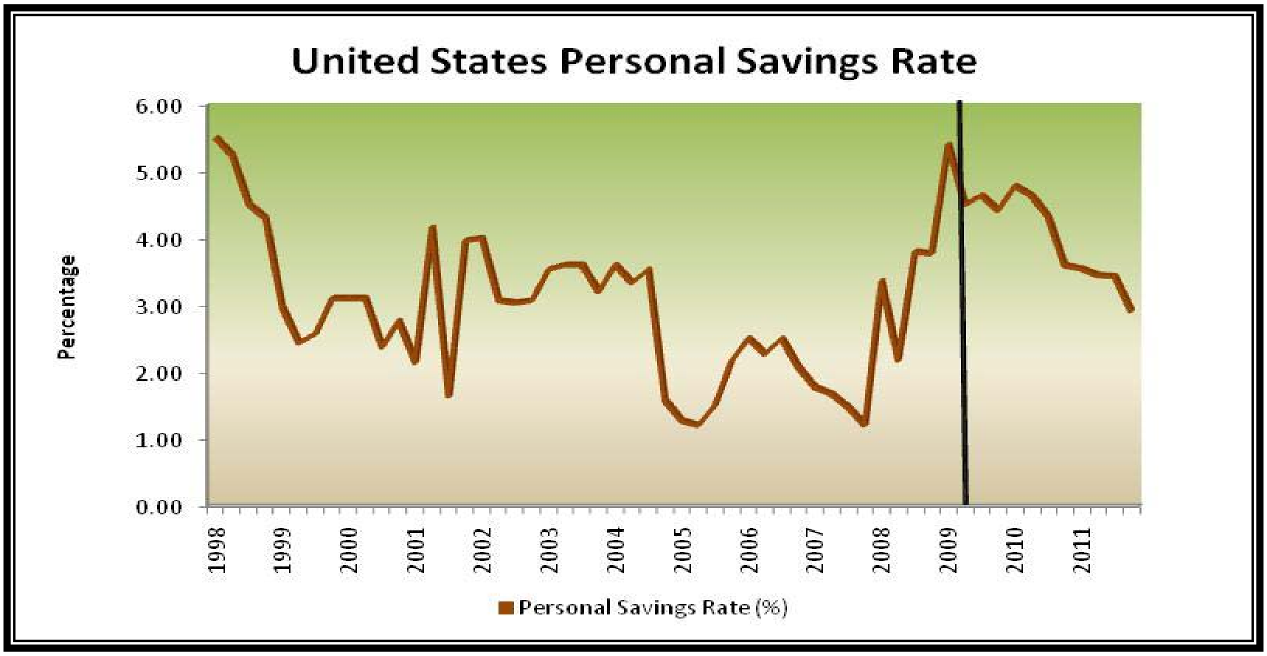
Figure 20



Source: IHS Global Insight

Households are spending cautiously in an effort to reduce debt burdens and rebuild retirement savings. They are still trying to reduce the use of credit for spending. As a result, the savings rate has grown much higher, increasing 4.5 percent following a savings rate of 1 percent in 2008. Income tax increases in 2011 could create substantial headwinds for consumer markets if households try to maintain their saving rates. Higher energy prices would reduce consumer purchasing power.

Figure 21

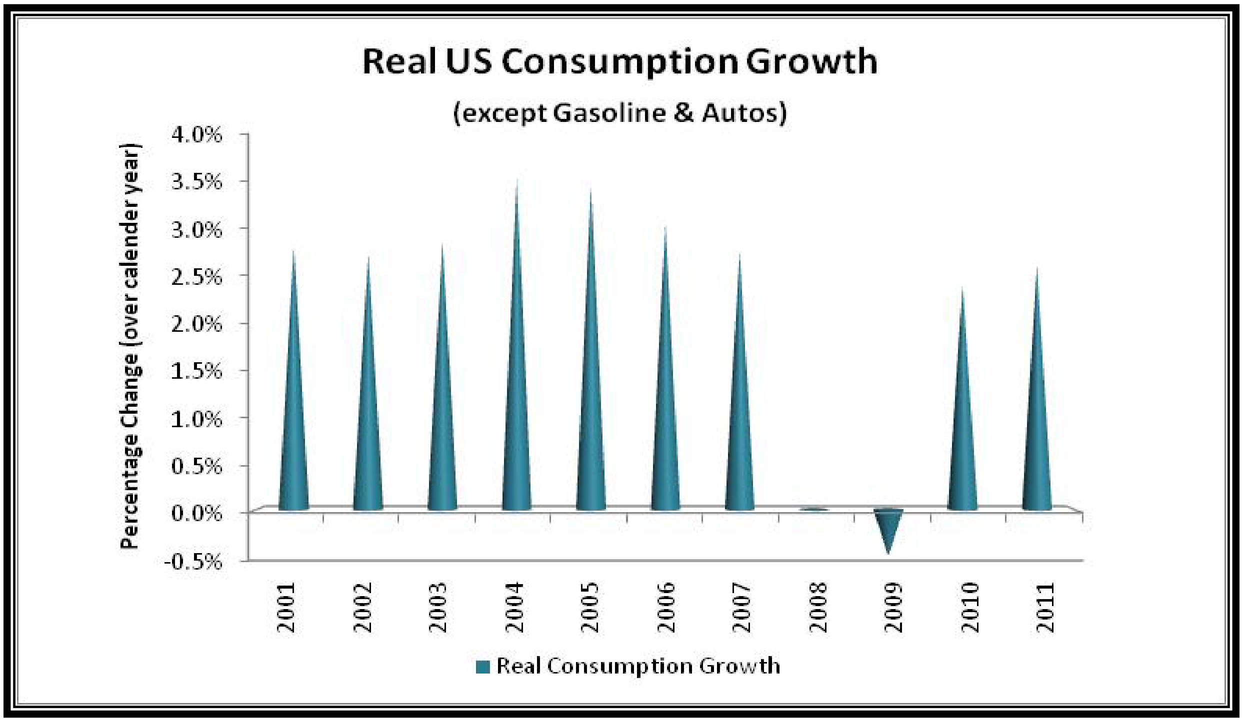


Source: IHS Global Insight

Even though the credit market is not tightening further, it still is more difficult to get credit than in the past. With the unemployment rate holding near 10 percent throughout 2010, households will continue to rebuild their savings and avoid taking on new debt. Consequently, the savings rate is projected to remain higher, depreciating to approximately 3 percent towards the end of next fiscal year. This higher savings rate is a result of households cushioning their standard of living as a result of the projected employment growth. However, as the economy improves, this reaction is projected to be temporary.

The 2009 holiday shopping season has ended on a high note as sales picked up in late December. Excluding new vehicles, consumer spending rose 2.7 percent in the fourth quarter of the calendar year, better than the 1.6 percent pace in the third. A similar growth rate of 2.5 percent is projected in the first quarter of 2010. An improvement in the jobs market will give consumers some extra help. Increased employment and wages will allow them to increase spending while maintaining a higher saving rate. Consumption fell 0.6 percent in the calendar year 2009, but a 2.4 percent increase is projected in 2010. Vehicle sales are also gradually improving despite the shock waves from Toyota's recall problems.

Figure 22

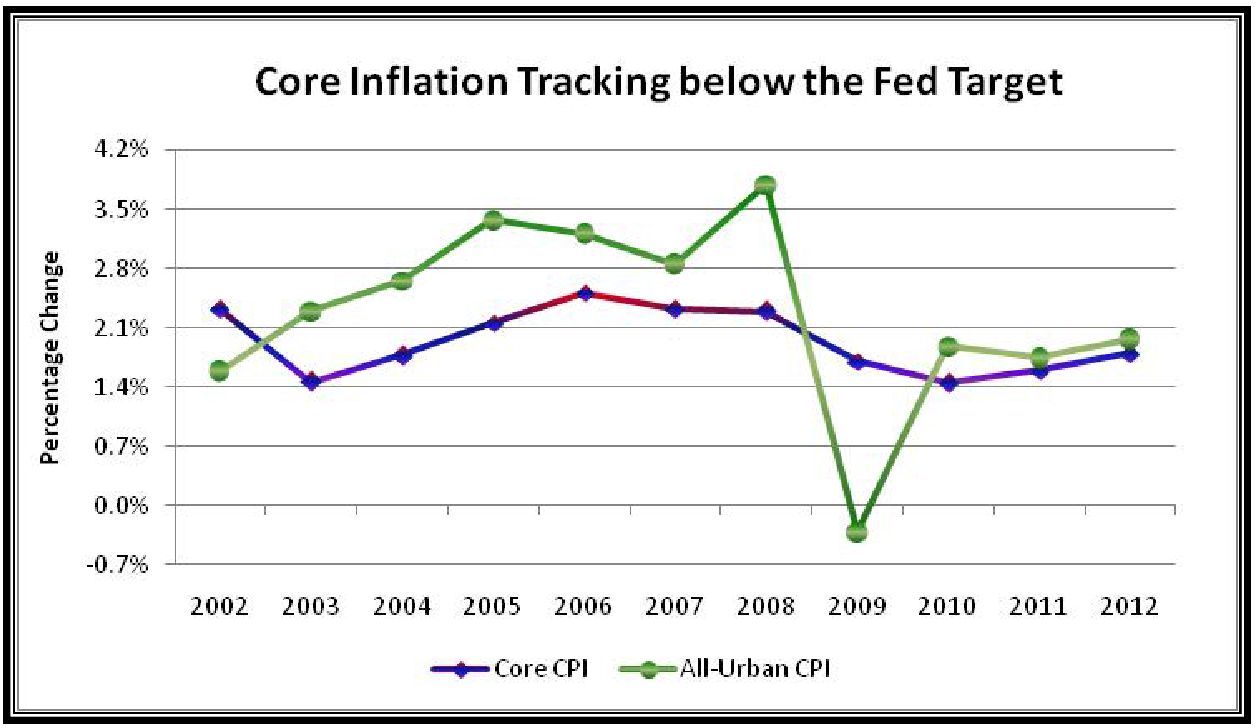


Source: IHS Global Insight

Consumer spending is showing gradual improvement across all categories. An expanding economy and a rising stock market are sparking renewed growth in consumer spending. With an upturn in employment on the horizon, real consumption is expected to increase by 2.4 percent throughout 2010, reaching a new peak this spring. The wealth effect, which has been a significant drag on discretionary spending in the current recession , is projected to improve. After falling by an unprecedented $17.5 trillion from the second quarter of 2007 to the first quarter of 2009, household net worth recovered by $6.3 trillion in the final three quarters of 2009, mostly due to gains in financial asset values. As household finances improve, pent-up demand for vehicles, consumer electronics, fashion apparel, and travel is being released. The pickup in home sales is also giving a temporary boost to the sales of home furnishings. After declines of 4.5 percent and 4 percent in 2008 and 2009, respectively, real spending on durable goods is projected to increase by 5.1 percent in 2010.

Consumer prices advanced 0.4 percent in November, reflecting rising costs for energy, medical care, and transportation. The 6.4 percent increase in gasoline prices helped lift the energy category to a 4.1 percent gain, which accounted for roughly half of the monthly increase in inflation. The 0.1 percent gain in food prices was negated by a similar decrease in the cost of rent. Excluding food and energy, core consumer prices were unchanged. This is a direct consequence of the decline in consumer demand brought on by high unemployment, shrinking household wealth, and the reduced use of credit. Core inflation (core consumer price index which excludes food & energy) is tracking 1.5 percent below the Federal Reserve's target rate of inflation.

Figure 23

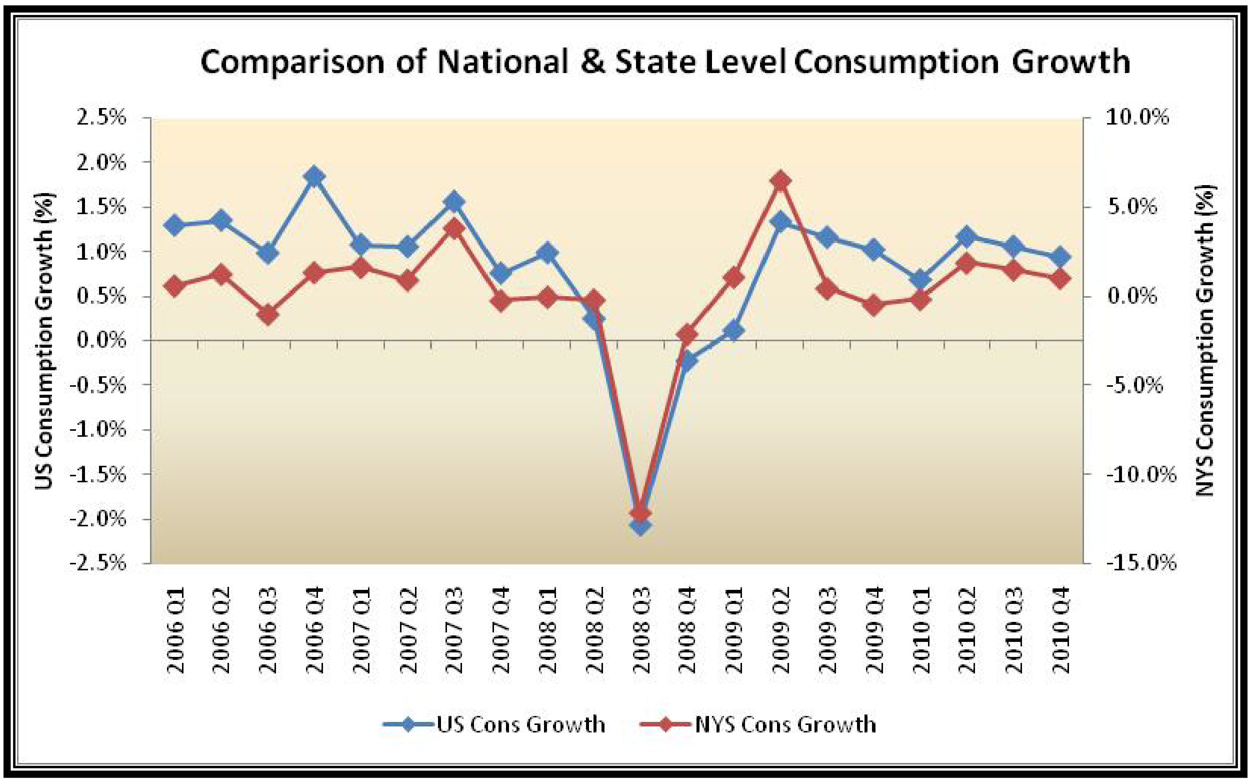


Source: IHS Global Insight

Even though the current economic growth is initially driven by the inventory cycle and government stimulus, there is some underlying sales growth which will persist beyond these factors. Exports are expected to improve and become one of the key drivers to economic growth. On the other hand, employment growth which is projected to increase from current fiscal quarter is expected to be another key driver in this regard. This kind of employment growth may underpin the growth rate of consumer spending. As shown in Figure 23, inflation is not an issue for next few years.

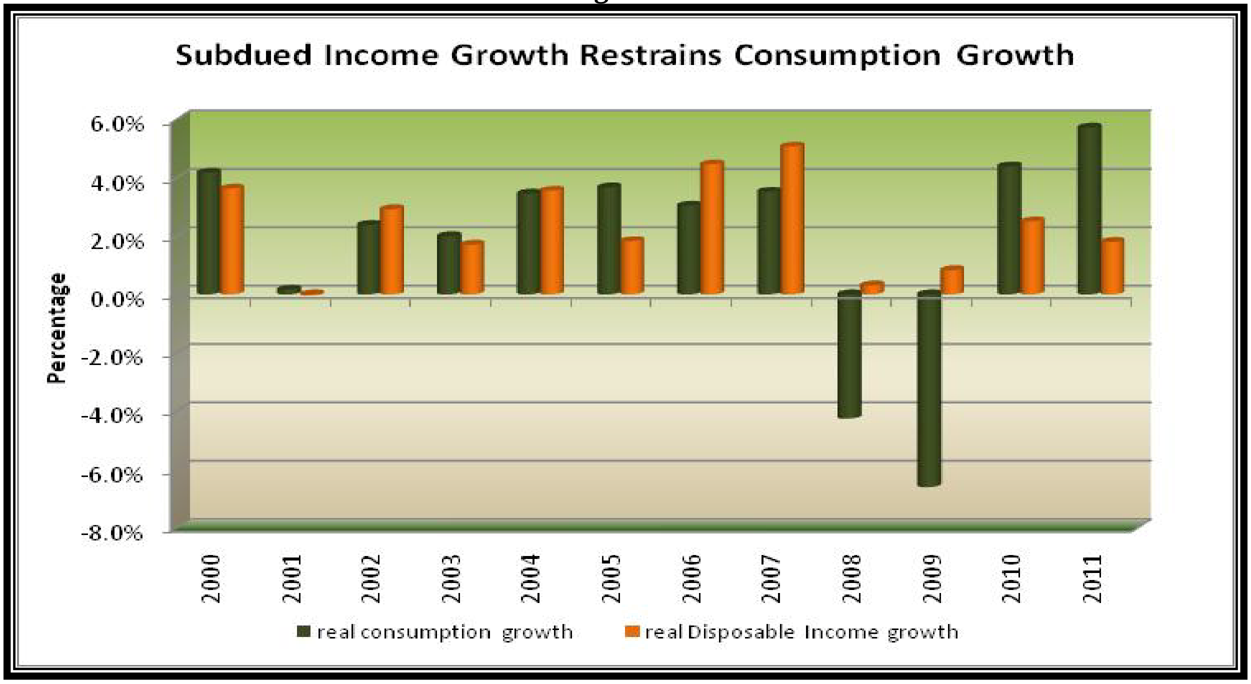
Figure 24 shows that the current recession has had a similar impact on consumption in New York as it has had on national consumption. Since New York's economy entered the recession later than the national economy and the housing market was not as severely impacted, consumption growth in New York outpaced national consumption growth in the first half of 2009. Taxable consumption in New York is projected to grow by approximately 4.4 percent in 2010, following a decline of 6.6 percent in 2009.

Figure 24



Source: IHS Global Insight and NYS Senate Finance Committee

Figure 25



Source: IHS Global Insight and NYS Senate Finance Committee

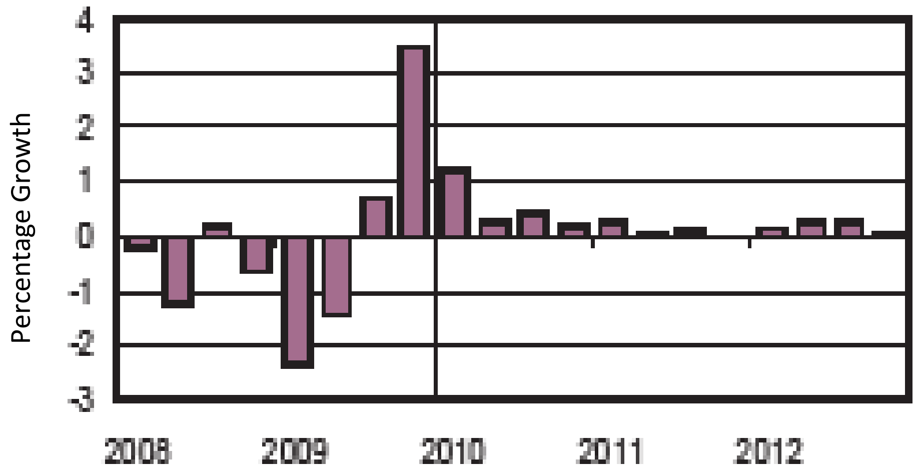
Real disposable income is projected to grow slower in 2010 compared to 2009. However, consumption growth is projected to grow at a faster rate than income growth. Some major reasons behind such subdued disposable income growth is the sluggish employment growth and downward wage pressure. Another reason is the expected increase in the federal income tax rate starting in 2011 as a result of the expiration of the Bush-tax-cuts to mitigate the huge fiscal deficit.

BUSINESS INVESTMENT

The economy exhibited strong growth at the end of 2009, real GDP increasing by 5.7 percent. As part of this growth, an estimated 3.4 percent came from a rapid slowdown in inventory decumulation, the rate at which firms decrease their inventory levels. In relation to this decumulation, history has shown that inventory investments are procyclical; as the business cycle turns downwards, inventories decrease and vice versa. While inventory corrections may not necessarily cause recessions, the scale of cutbacks in inventories often affects the magnitude or depth of an economic downturn. In the first half of 2009, businesses were looking to liquidate their stock of inventory as consumer demand was incredibly low. As a result of reducing inventory, manufacturers were hoping to cut their costs (e.g. costs of storage and depreciation).

Figure 26

Inventories' Contribution to GDP Growth (percentage points)



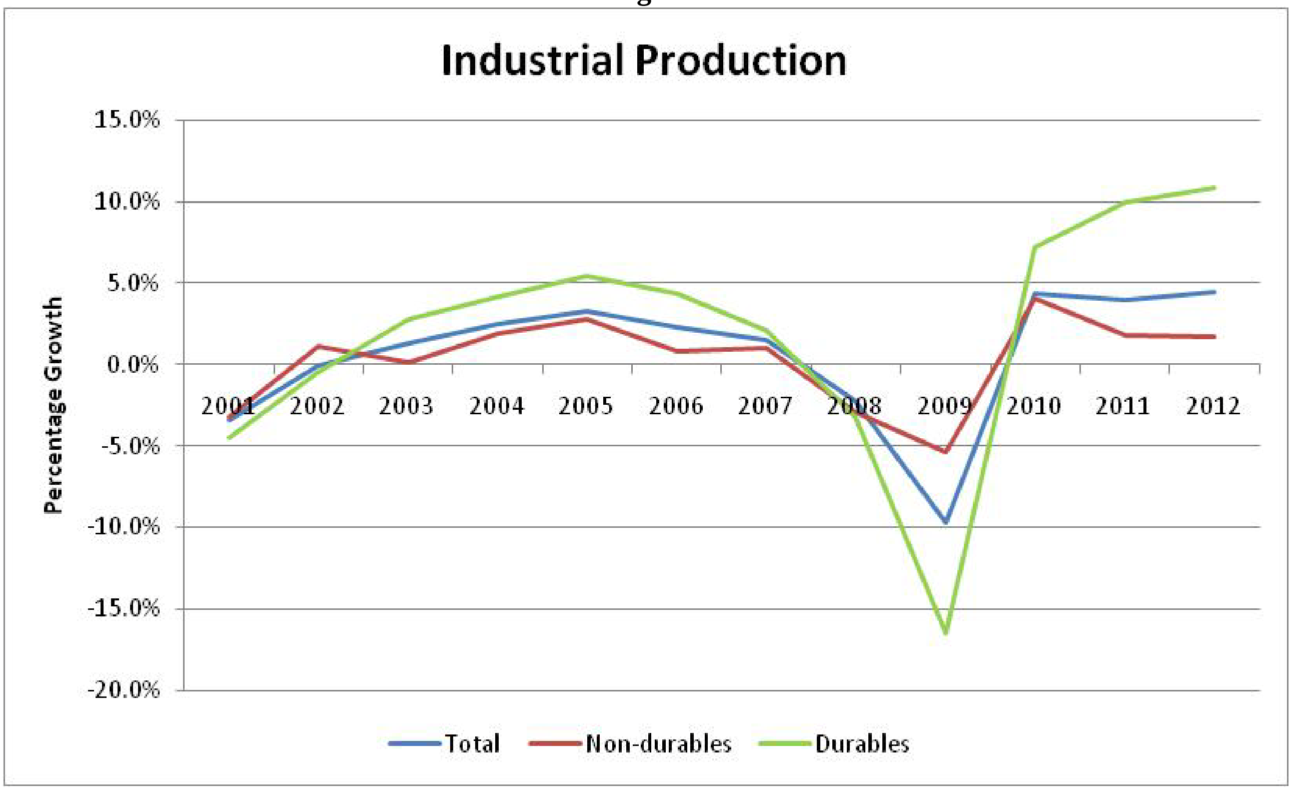
Source: IHS Global Insight

The recent positive contribution to the economic recovery given by the slowdown in inventory decumulation is not projected to continue into 2010. Figure 26 depicts the effect of the turn in the inventory cycle on quarterly GDP growth. The liquidation of inventories at the start of 2009 actually caused GDP to contract. These negative effects were offset in the second half of 2009 as inventory levels began to decline less drastically. The strong contribution to GDP growth in the fourth quarter of 2009 marked the end of the nation's largest inventory correction since the Great Depression.

The decline in consumption left many warehouses with vast quantities of unsold goods. In response, firms had little choice but to scale back production, in some instances shutting down entire factories. Industrial production levels declined 5.1 percent and 2.7 percent in the first and second quarters of 2009, respectively. In the second half of 2009, the rate at which firms were slashing inventory levels slowed dramatically and production began to increase. Industrial production grew at an annualized rate of 6.1 percent in the third quarter, the first quarterly increase since the first quarter of 2008.

With little inventory left to cut, firms must soon increase production, although the outlook for consumption growth is still projected to be slow. Industrial production is projected to grow at a rate of 4.3 percent through 2010, with the production of durable goods increasing by 7.2 percent.

Figure 27



Source: IHS Global Insight

Although production was increasing, inventories experienced a slight setback in December, decreasing 0.2 percent amid a robust sales period. This was a sign that manufacturers remained cautious about the strength of consumer demand in the short term. Despite this decline, economists believe further slashes to inventory levels are unlikely occur.

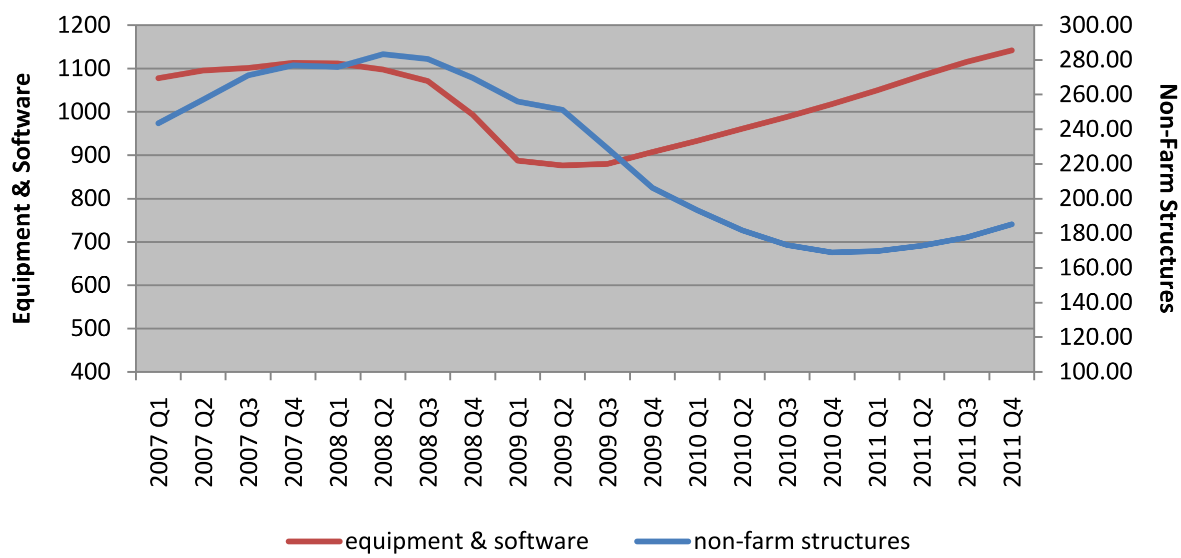
As job cuts mounted through 2009 and wages dropped, businesses began extracting more output from a diminished and less costly labor pool. Non-farm productivity, the measure of the share of output per combined labor hours, increased by 3.1 percent in 2009, the largest annual growth since 2001. In turn, unit labor costs declined 2.8 percent in the past year. With the projected increase in production as a result of the shortage of inventory, companies have little room for more cuts and must soon add to payroll to keep up with improving sales. However, productivity is anticipated to grow another 3.3 percent in 2010 as unemployment lingers. Any future declines in productivity are likely to be the result of increased labor hours, not a decline in output. According to the U.S. Department of Labor, labor hours increased in the fourth quarter for the first time since the second quarter of 2007.

The productivity gains realized from diminished labor costs have increased corporate cash flow. This improvement in corporate profits has allowed business investments to stabilize. Figure 28 below compares non-residential investment on equipment and software versus investment in non-farm structures . Slashes in inventory levels and employment, caused by diminished production, have left companies operating at less than full capacity. Firms are unlikely to expand capacity utilization in the near future as struggles in the commercial real estate market persist, a market that is still experiencing the effects of the credit/housing market bubble. The excess cash flow, therefore, is most likely to be directed towards spending on equipment and technology. Non-residential investment in equipment and software grew by 3 percent in the fourth quarter, mitigating the annual decline to 17 percent. Growth is projected through 2010 as investment in equipment and software increases by 8 percent, contributing an estimated 0.5 percent to GDP growth.

Figure 28

U.S. Non-Residential Investment

(Billions of $)



Lack of access to the capital markets continues to be an issue especially in commercial real estate and construction sectors. High risks of default continue to discourage banks from lending to small businesses. Due to these tight credit conditions, private non-residential investment in non-farm structures declined through 2009 at an estimated rate of 15 percent. As seen in the graph above, this investment is not expected to reach bottom soon, as investment in non-farm structures declines further through 2010 by 24 percent. Clearly, this will prove to be a significant deterrent to the pace of economic recovery going forward. Despite the strong outlook for equipment and software spending, total private non-residential investment is projected to decline 0.8 percent in 2010.

GOVERNMENT POLICIES AND SPENDING

In conjunction with the Federal Open Market Committee's aggressive stance on interest rates, the U.S. has implemented a number of more direct fiscal policies in an effort to restore growth to the nation's economy. The Troubled Assets Relief Program (TARP), initially enacted in the Fall of 2008, has helped to stabilize the financial markets, which at the start of 2009 were on the verge of a collapse. To date, the Treasury has recovered approximately two-thirds of the TARP capital investments provided to nineteen of the world's largest financial institutions, with Citigroup, Inc. repaying its remaining $20 billion in trust preferred securities in December. While the Treasury has begun to implement an exit strategy for the assistance given to the larger institutions, limited access to credit continues to persist for both consumers and businesses. A large number of small banks are still exposed to commercial loan failures. As a result, the TARP program has been extended through October 2010 as the Treasury plans to refocus funding to mitigate foreclosures, increase small business lending, and aid securitization markets for consumers, small businesses, and commercial mortgage loans. As of a February 10th, the U.S. Department of Treasury projects that the "impact of financial stabilization efforts on the deficit…will be less than $120 billion."[1]

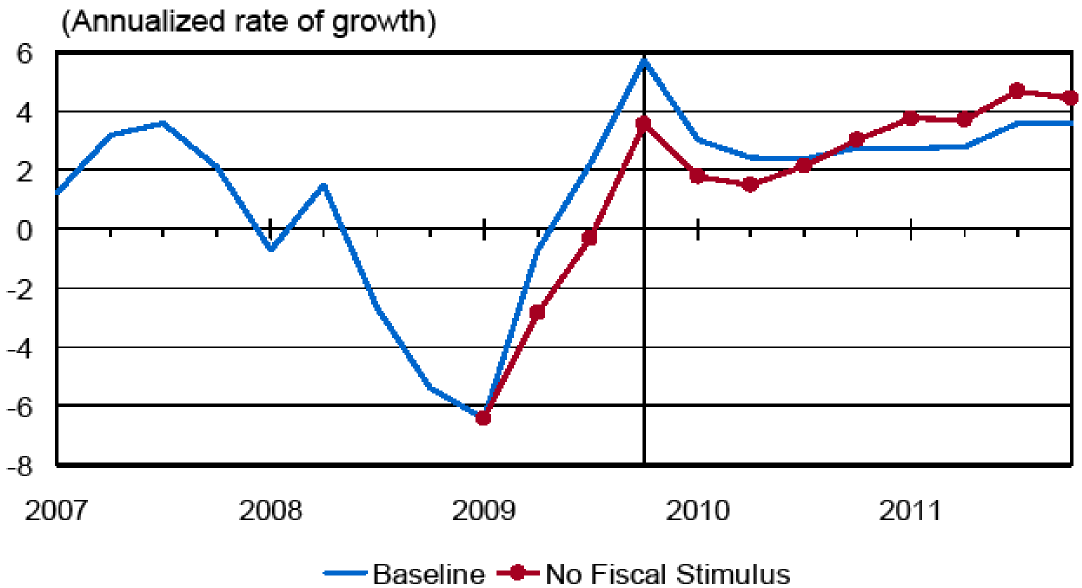
[1] < http://www.financialstability.gov/latest/pr_02102010.html>

Along with the TARP, the Federal government enacted the American Recovery and Reinvestment Act (ARRA). ARRA has provided a number of spending measures and tax cuts that have spurred consumer spending and promoted economic growth. The original stimulus package, valued at $787 billion over 10 years, is estimated to have added approximately 0.8 percentage points to 2009 GDP growth. The Congressional Budget Office estimates that $754.8 billion of the program's total value will be realized through the end of 2012[2]. The "cash for clunkers" program proved immensely successful as consumer spending on new automobiles increased quarter over quarter at a rate of 42 percent in the third quarter of 2009. A similar $300 million program subsidizing the purchase of home appliances is currently underway in early 2010.

The first-time home buyers' credit program contributed to fourth quarter annualized growth of 14 percent in existing home sales. The sudden drop in sales in the month of January is attributed to the credit program's initial expiration in December. A similar upwards spike is expected in the second quarter of 2010 as the program has been extended through April. The ARRA stimulus is expected to add 1.4 percentage points to GDP growth in the 2010, creating or saving nearly 2.5 million jobs since its inception. Figure 29 compares baseline annualized growth in quarterly GDP to growth with no stimulus. While the economy may have rebounded on its own, the impact of stimulus spending helped to accelerate the path of recovery. Going forward, additional spending will detract from GDP growth, a result of mounting deficit pressures.

[2] <http://www.cbo.gov/ftpdocs/99xx/doc9989/hr1conference.pdf>

Figure 29

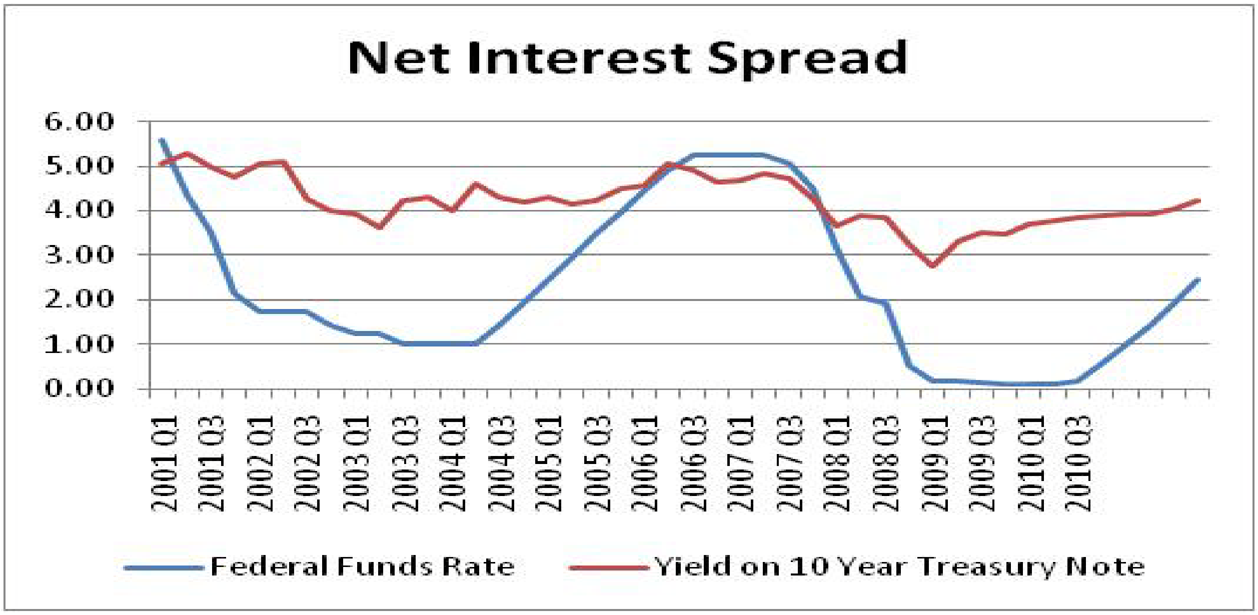


Source: IHS Global Insight

As firms' resource utilization remains low and inflation in the short term is a non-issue, the Federal Reserve Board is projected to maintain its low Federal Funds target rate of 0 to .25 percent. The Federal Funds rate is the rate which determines interbank lending, which, in turn, affects the rate banks will charge for loans to consumers and busineses. In the face of high inflation, the Federal Reserve will often be set the Federal Funds rate high in an attempt to discourage spending. With the current low inflation environment, the Fed will be allowed to focus on easing credit conditions in the hopes that businesses will soon be able to expand capacity, thus creating the need for increased hiring. The Federal Funds rate is not projected to be increased until the third quarter of 2010, increasing by only 5 basis points. By the end of 2010, the Federal Funds rate is projected to increase by 43 basis points, increasing to 0.55 percent.

In turn, bond yields are showing improvement, with 10-year Treasury notes currently yielding approximately 3.6 percent. These levels are not projected to change significantly in the next year. Figure 30 shows the net interest spread between the Federal Funds rate and the 10 year Treasury note yield.

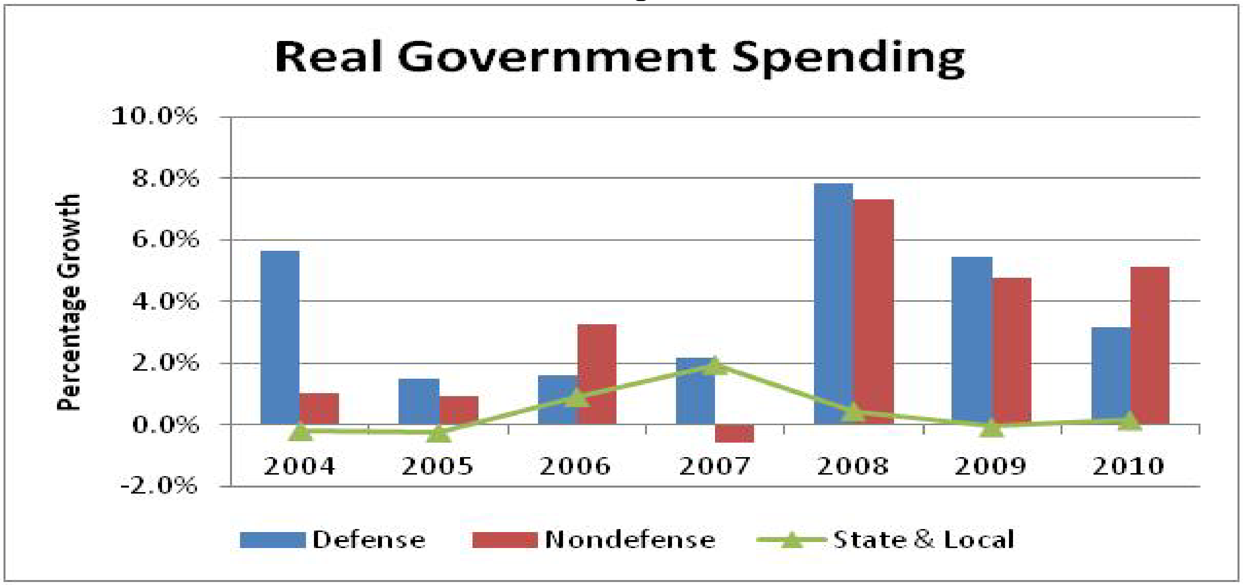
Figure 30



Source: IHS Global Insight

Total federal expenditures increased 5.2 percent in 2009 as the government expanded its fiscal policy measures in the face of a worsening recession and the refocused attention on the war in Afghanistan. The sharp increases in nondefense spending beginning in 2008 largely reflect the Federal government's attempt to restore stability to a struggling economy, primarily through the Troubled Asset Relief Program (TARP). However, the growth in defense spending outpaced the growth in nondefense spending in 2009 by approximately 70 basis points as the situation in Afghanistan worsened and the withdrawal of troops from Iraq slowed. In 2010, growth in non-defense spending is expected to outpace growth in defense spending. Much of the projected 5.1 percent increase in non-defense spending is attributed to ARRA stimulus funds.

Figure 30



Source: IHS Global Insight

At the close of the federal fiscal year 2009 in September, the U.S. posted a record deficit of $1.42 trillion, more than three times the previous year's record of $455 billion. The deficit for 2010 is projected to decline 3 percent to $1.37 trillion, although still considerably higher than previous levels. This decline is consistent with an anticipated rebound in current tax receipts as a result of the recovering economy and the sunset of the tax cuts enacted in 2001.

In 2001, the Bush administration enacted the Economic Growth and Tax Relief Reconciliation Act (EGTRRA) in an effort to stimulate the economy in the midst of a recession. EGTRRA provided income tax rate cuts along with a number of tax deductions and credits all designed to increase consumer spending. The tax cuts are scheduled to sunset in 2011 which would provide a much needed boost to federal tax revenues. Despite this, record high deficit levels are projected to persist. This will leave the Federal government with no other options but to raise taxes. These factors can severely limit the recovery in consumer demand.

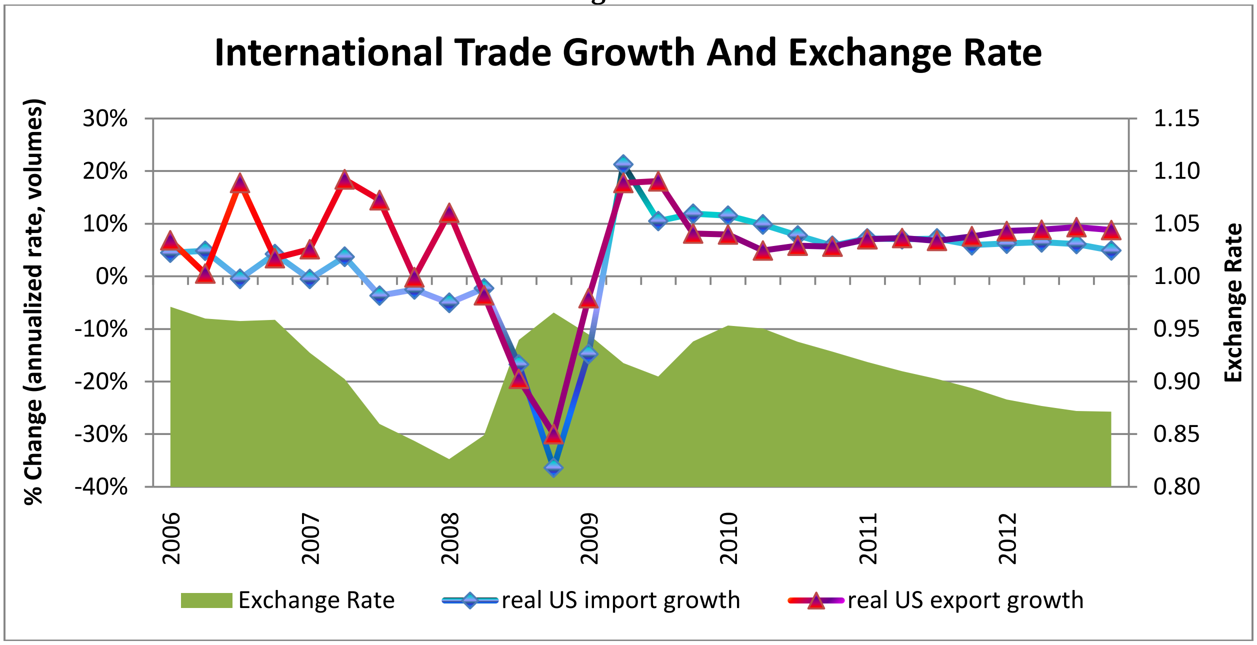
State and local government spending has been severely constrained by the recession. Expenditures at this level primarily rely on revenues generated by sales and income taxes. As the recession worsened, unemployment mounted and consumer spending declined resulting in significant revenue shortfalls at the state and local levels. Real state and local government purchases contracted at a rate of 0.1 percent in 2009. As governments face severe budget crises going forward, real purchases are expected to show minimal growth in 2010, increasing 0.2 percent.

THE GLOBAL ECONOMY

The world economy has emerged from recession and the recovery has begun. Foreign trade flows are bouncing back sharply. A turnaround in the Asian economies (spurred by China) and tentative signs of improvement in Europe are helping the outlook for exports, while an improving U.S. economy is pulling in more imports. Both exports and imports jumped at strong double digit annualized rates during the third quarter of 2009. Exports outpaced imports, so that trade was a positive contributor to GDP growth. Currently, 20 percent growth in real national exports is outpacing the 10 percent growth rate in real imports. That pattern is projected to reverse with the U.S. inventory cycle turning so quickly; imports increasing more than exports through 2010. However, exports are still projected to be a key driver to economic growth in next few years.

As shown in Figure 31, the value of the dollar has a significant impact upon the growth in exports and imports. When the dollar's value is high, goods produced in the US become more expensive for its trading partners. As a result, an appreciating dollar causes exports to decline. In turn, an appreciating dollar causes the price of imported goods to be lower; thus, increasing the number of imports into the US.

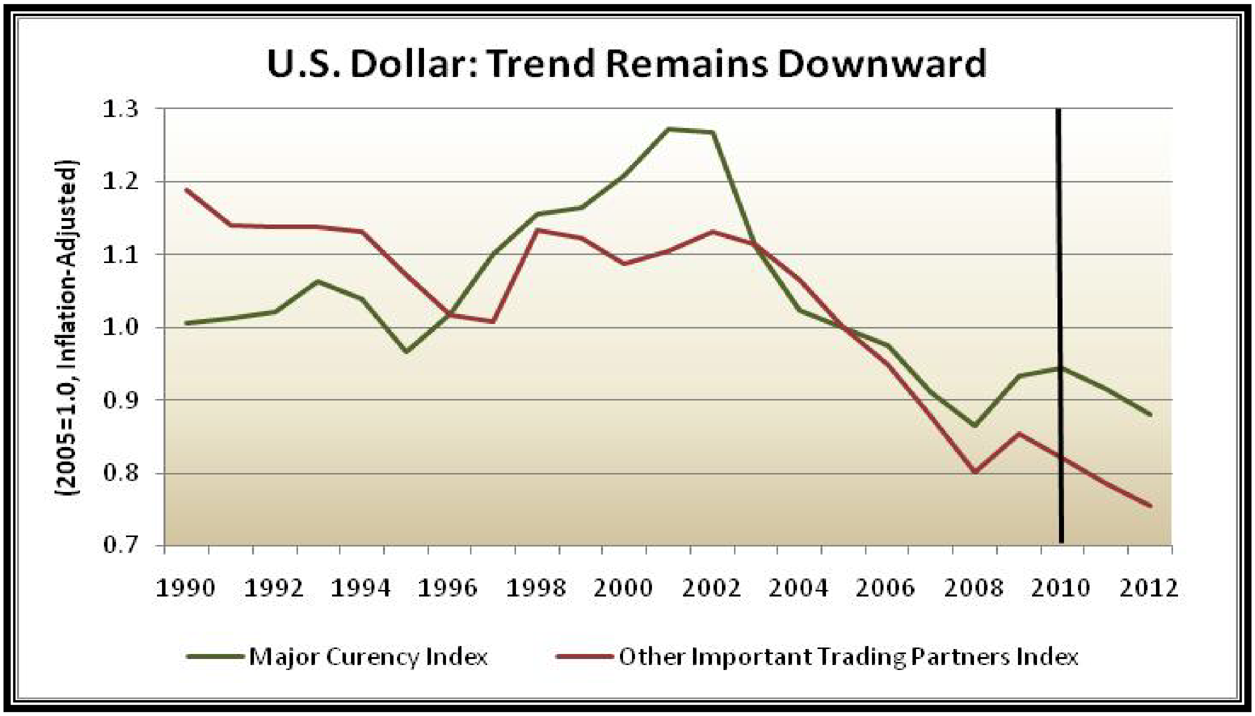
Figure 31



Source: IHS Global Insight and NYS Senate Finance Committee

The value of the dollar weakened for most of 2009, but finished the year on a stronger note, as the U.S. recovery appeared more robust than the recoveries in Europe and Japan. In the long-term, the dollar trend is still projected to depreciate, but more so against emerging-market currencies than against the euro or the yen, as shown in Figure 32. The reason behind the downward trend is due to the current international debt of the United States. The current-account deficit fell by more than one-third in 2009, from $706 billion to $432 billion, primarily because of a $203-billion plunge in the bill for imported oil. The deficit is projected to widen again in the calendar year 2010, increasing to $552 billion.

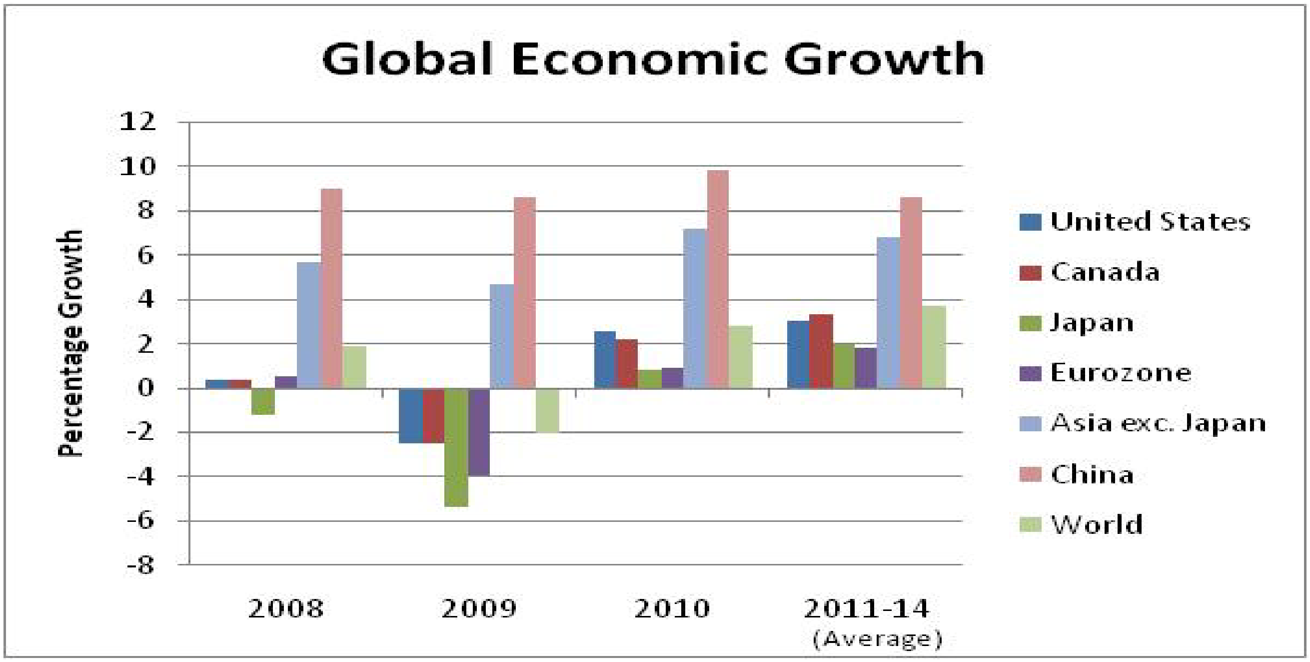
Figure 32



Source: IHS Global Insight and NYS Senate Finance Committee

Recent trends in foreign trade flows have had a significant impact on the nation's economic recovery. Surprisingly strong growth in exports has acted as a principle component to the business cycle's latest upswing. Emerging markets such as China and other Asian economies have recovered from the global recession much faster than the more developed nations and are currently leading the global expansion. As shown in Figure 33, as global GDP was contracting in 2009, China's economy and other Asian markets excluding Japan were increasing at rates of 8.6 and 4.7 percent respectively. As a result, their demand for imported goods has been increasing, translating into the expansion of U.S. exports.

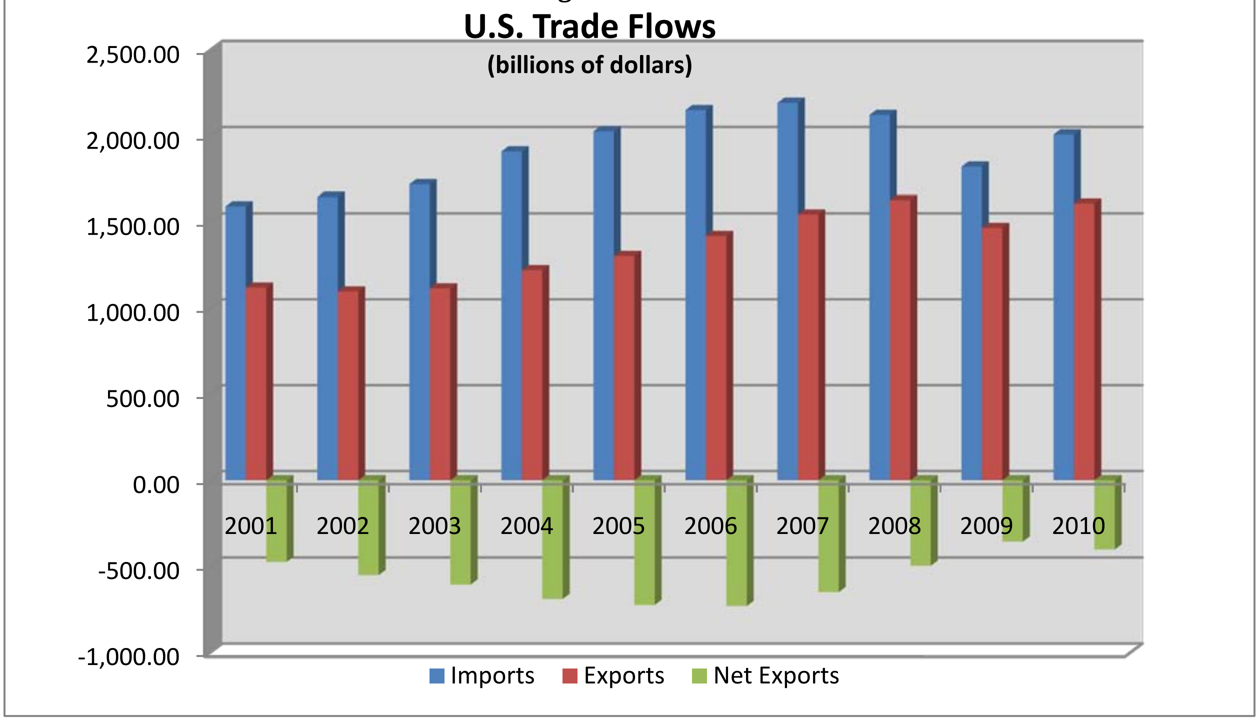
Figure 33



Source: IHS Global Insight

Net exports measure the difference between the amounts of exports less the amount of imports. When imports outpace exports, the nation is running a trade deficit; a trade surplus occurs when exports outpace imports. Over the last ten years, the U.S. has run an average trade deficit of $571 billion. The increased demand from emerging markets has translated into exports growth of 4.2 percent in both the third and fourth quarters of 2009, a rapid turnaround from 8.5 percent and 1.0 percent declines in the first half of the year. Despite a similar rebound in imports during this time, the U.S. actually posted a positive trade balance in the fourth quarter as exports outpaced imports. In an effort to maintain this positive contribution, the Obama administration has targeted a 100 percent increase in exports within the next five years. They estimate that in the process this will create approximately two million jobs in the U.S. While exports are expected to increase 9.6 percent in 2010, current projections do not foresee exports doubling their current levels until 2017, two years later than the President's planned projection.

Figure 34



On the other hand, imports are expected to increase by 10 percent in 2010, following a 14 percent decrease in the prior year. Much of this increase is the anticipated result of a swing in the inventory cycle and a stronger U.S. dollar. With the inventory decumulation coming to a halt, companies are preparing to expand their resources. At the same time, a disjointed Euro response to the debt crisis in Greece has fueled uncertainty in the financial markets, appreciating the dollar against the Euro. Investors cite a lack of detailed proposals from the European Union on alleviating Greece's debt as a deterrent to future investment growth. Potential collateral damage from less severe situations in Spain, Portugal, and Ireland has also contributed to a stronger dollar. As a result, the price on domestic goods in the U.S. will increase, making them more expensive in comparison to imported goods. Net exports are estimated to decrease 13 percent in 2010, further widening the trade deficit. The deficit had narrowed in 2009, with net exports increasing nearly 29 percent in 2009.

RISKS TO THE FORECAST

As with any forecast, there are unforeseen risks associated with forecasting the economy. Any "shock" to the various sectors of the economy, whether positive or negative, can have a significant impacts on the shape and pace of the economic recovery. For instance, while GDP posted higher than forecast growth in the fourth quarter, it is unlikely that this pace will continue. Many experts believe that while a double-dip recession is less likely than it had been a few months ago, a strong V-shaped recovery is equally unlikely. Growth is expected to slow down considerably as the turn in the inventory cycle is completed and many government stimulus programs sunset.

In the next few months, the U.S. Department of Treasury will allow many programs from their Financial Stability Plan to expire. The expiration of these programs is mainly tied to the belief that the largest financial institutions are once again self-sustainable. However, how the financial markets will react once TARP has ended is still unclear. As mentioned, the commercial real estate sector will continue to be a drag on the economy. Recent reports have revealed that a little less than 3000 small banks could significantly curtail lending due to commercial loan failures in 2010. These banks hold nearly 45 percent of the total $3.4 trillion commercial real estate debt in the U.S., representing a threat to the nation's recovery. Not only will this hurt businesses, it could further tighten credit standards for consumers, ultimately limiting future consumption.

For the current forecasts, inflation in the short-term is treated as a non-factor. If the Eurozone debt crisis worsens, the U.S. dollar can appreciate considerably. This can significantly deter growth in exports, a variable that serves as a key component to further GDP growth. Tensions with Iran could worsen in the future, not only creating a greater need for defense spending but inflating the price of oil.

In light of the possibility of inflation, the Fed must be cautious in how it sets future monetary policy. If interest rates are raised too soon, consumers will revert to saving more and spending less. If rates are raised too late, inflation could increase at detrimentally higher rates, boosting GDP in the short run but restricting economic growth over the long-run.

REVENUE OUTLOOK

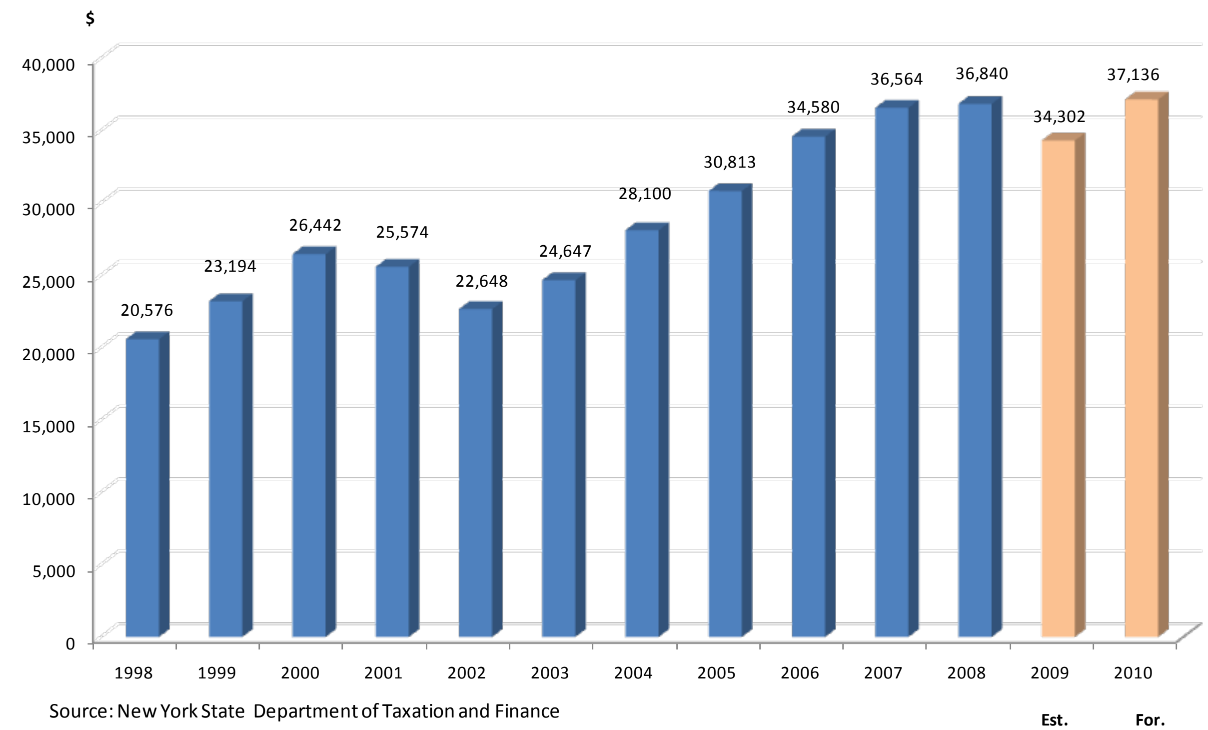
The Senate Finance Committee estimates gross General Fund tax collections in SFY 2009-10, excluding the STAR and debt service funds, to decrease by 5.7 percent to $49.0 billion. On an All Funds basis, gross collections are estimated to decrease by 2.9 percent to $58.6 billion in SFY 2009-10. These increases are primarily the result of the continued impact of the recession that is occurred at both the State and national levels.

In SFY 2010-11, the Senate Finance Committee projects that General Fund tax collections, excluding special revenue transactions, will increase by 6.8 percent to $52.3 billion. All Funds collections will increase by 8.4 percent to $63.5 billion. This increase reflects the recovery in the economy bolstered by proposed increases in tax revenues from the increase in the cigarette tax, tax on beverage syrup, and the authorization for the sales of wines in grocery stores.

PERSONAL INCOME TAX

New York State imposes a tax on income earned within the State by individuals, estates, and trusts. Personal Income Tax (PIT) receipts contribute over one half of all tax collections deposited into the General Fund. New York's definition of income closely follows federal rules, which include wages, salaries, capital gains, unemployment compensation, and interest and dividend income. Those components sum to federal adjusted gross income (FAGI). New York State adjusted gross income (NYSAGI) is calculated starting with this base, from which certain income items are then added or subtracted. The New York standard deduction or itemized deductions are subtracted from NYSAGI to arrive at New York State taxable income. Certain credits are then subtracted from the calculated tax to determine total personal income tax liability.

Figure 35
Personal Income Tax
(Millions of Dollars)



Source: New York State Department of Taxation and Finance

The personal income tax, which accounts for more than 60 percent of New York State tax revenue, is paid in a variety of ways: the withholding of wages and other income payments, the payment of estimated taxes, the payment of unpaid taxes through final returns, and the payment of overdue taxes known as delinquencies through assessments. Any overpayment of the personal income tax is refunded to the taxpayer. The manner of payment determines the income year to which the tax applies. For example, withholding is paid when the income is earned. Therefore, 2009 wages would be reflected in 2009 withholding. However, personal income tax payments made with final returns are associated with the preceding year's income. As a result, final payments made in 2009 are a reflection of income earned in 2008. The same pattern holds true for refunds.

All Funds net personal income tax receipts for SFY 2009-10 are estimated at $34,302 million, a drop of $2,538 million, or 6.9 percent, from SFY 2008-09. Gross receipts are estimated to decline by $3,194 million, or 8.4 percent from SFY 2008-09. This drop is largely attributable to a 28.9 percent decline in estimated payments, particularly a decline in extension payments related to tax year 2008.

All Funds net personal income tax receipts for SFY 2010-11 are projected to increase by 2,834 million, or 8.3 percent, to $37,136 million. Gross receipts are projected to increase by $4,290 million, or 10.5 percent, reflecting an increase in wage growth as well as the continued impact of the PIT surcharge enacted in SFY 2009-10.

General Fund receipts for SFY 2009-10 are estimated to be $22,307 million, $889 million lower than SFY 2008-09. General Fund receipts for SFY 2010-11 are projected at $24,644 million, an increase of $2,337 million from SFY 2009-10. This increase is a result of an increase in withholding taxes and estimated payments as a result of better economic conditions and the PIT surcharge.

Historically, Wall Street has accounted for large portion of New York State tax collections. In 2006 and 2007, Wall Street had contributed approximately 20 percent of New York State tax collections. However, the Federal government, which spent trillions of dollars to support the financial sector, has taken steps that restrict cash bonuses and defer compensation to future years in an effort to reduce excessive risk-taking and reward long term performance. Additionally, all of these measures will serve to constrain New York State personal income tax collections for the 2009-10 fiscal year.

Withholding

Employers are required to withhold an amount from their employees' paychecks, which is used as an offset at the end of the year toward the taxpayer's total liability. Withholding has a slight lag from the period in which it is withheld to the time the State receives the payment from the employer. However, withholding is closely correlated to the wages and salaries received during any given quarter of the year. As of part of the SFY 2009-10 Enacted Budget, the personal income tax rate was increased on New York's high income taxpayers. However, increased revenues from the higher tax rates have been offset by decreased revenues as a result of the continued increase in the unemployment and the lethargic recovery of the economy. For SFY 2009-10, withholding taxes are estimated to be $28,694 million, an increase of $1,008 million from SFY 2008-09. For SFY 2010-11, withholding is projected at $30,486 million, an increase of $1,792 million.

Estimated Payments

Individuals make estimated payments if the tax they will owe for the year is significantly more than the amount of tax being withheld from their wages. Individuals who have large amounts of non-wage income (self-employment income, interest, dividends, or capital gains) generally make these quarterly payments. Estimated tax payments are due on the 15th of April, June, September, and January.

Estimated payments are also made when a taxpayer files for an extension to file his annual return. When a taxpayer files for an extension, he is required to estimate his tax liability and, if payment is due, submit it with the extension. Estimated payments for SFY 2009-10 are estimated to be $9,020 million, a decrease of $3,670 million from SFY 2008-09. This decrease is consistent with the current economic conditions. Non-wage income, especially income earned by proprietors is projected to decline, resulting in the drop in estimated payments in SFY 2009-10. For SFY 2010-11, estimated payments are projected at $11,383 million. This increase is a result of the projected increase in personal income as a result of the recovering economy.

Final Returns

Final returns are due by April 15th of every year. The final return is essentially a reconciliation between a taxpayer's withholding and/or estimated payments and tax liability calculated on the total personal income received throughout the tax year. A payment is due when the combination of withholding and estimated payments results in an underpayment of the total tax liability.

For SFY 2009-10, personal income tax collections from final returns are estimated at $1,851 million, $835 million lower than collections in SFY 2008-09. This decrease is attributed to the decline in personal income growth from 2008. For SFY 2010-11, collections from final returns are projected to be $1,956 million, an increase of $105 million from SFY 2009-10.

Other Payments

These collections are comprised of delinquencies and filing fees required to be paid by the State's limited liability companies and limited liability partnerships. Delinquencies are the sum of payments due on overdue tax liability and any penalties and interest imposed on such past due liabilities. These are essentially collections received from Tax Department audits.

For SFY 2009-10, other payments are estimated at 1,252 million, an increase of $303 million from SFY 2008-09. This increase is attributable to the Penalty and Interest Discount (PAID) program currently being offered by the Tax Department to taxpayers with outstanding tax liabilities and the restructuring of the LLC filling fees that was enacted in SFY 2008-09. For SFY 2010-11, collections from other payments are projected at $1,282 million, an increase of $30 million over collections from SFY 2009-10.

Refunds

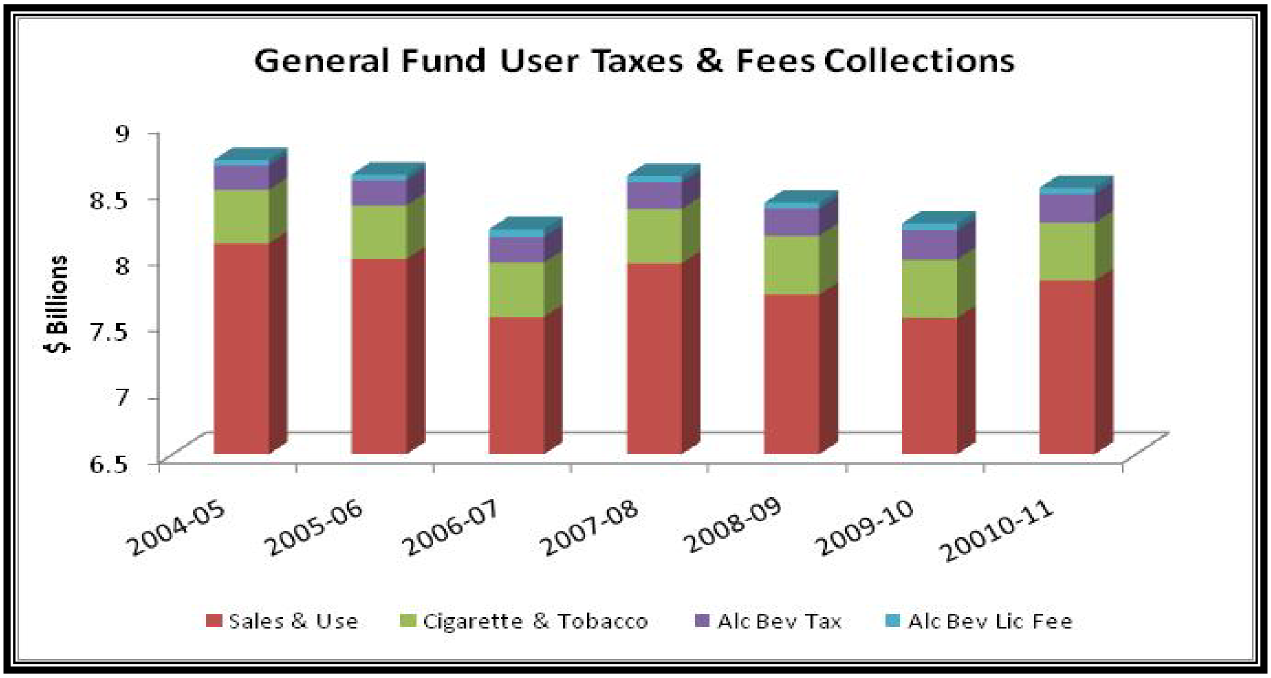
A refund occurs when a taxpayer overpays his personal income tax, either through over-withholding or remitting excess estimated payments. Similar to payments made with final returns, refunds are made as a result of filing an annual return.

For SFY 2009-10, refunds are estimated at $6,515 million, a decrease of $656 million from SFY 2008-09. This decrease is primarily due to the amount of refunds paid in the fourth quarter of the fiscal year. A specific amount of refunds is authorized to be issued to those taxpayers who file their returns early. Prior to SFY 2008-09, these refunds were set at $1.5 billion. In SFY 2008-09, the amount was increased to $1.75 billion. This resulted in a portion of refunds that historically had been paid in April of the next fiscal year to be paid in March. In addition, the amount of refunds to be paid in January through March of 2010 has been reduced to $1.25 billion, further reducing the amount of refunds being paid in the current fiscal year.

For SFY 2010-11, refunds are projected to be $7,971 million, an increase of $1,456 million from SFY 2009-10. This increase reflects the shift of refunds from SFY 2009-10 into SFY 2010-11, as mentioned above, as well as reflecting the decline in personal income for 2009.

USER TAXES

Figure 36



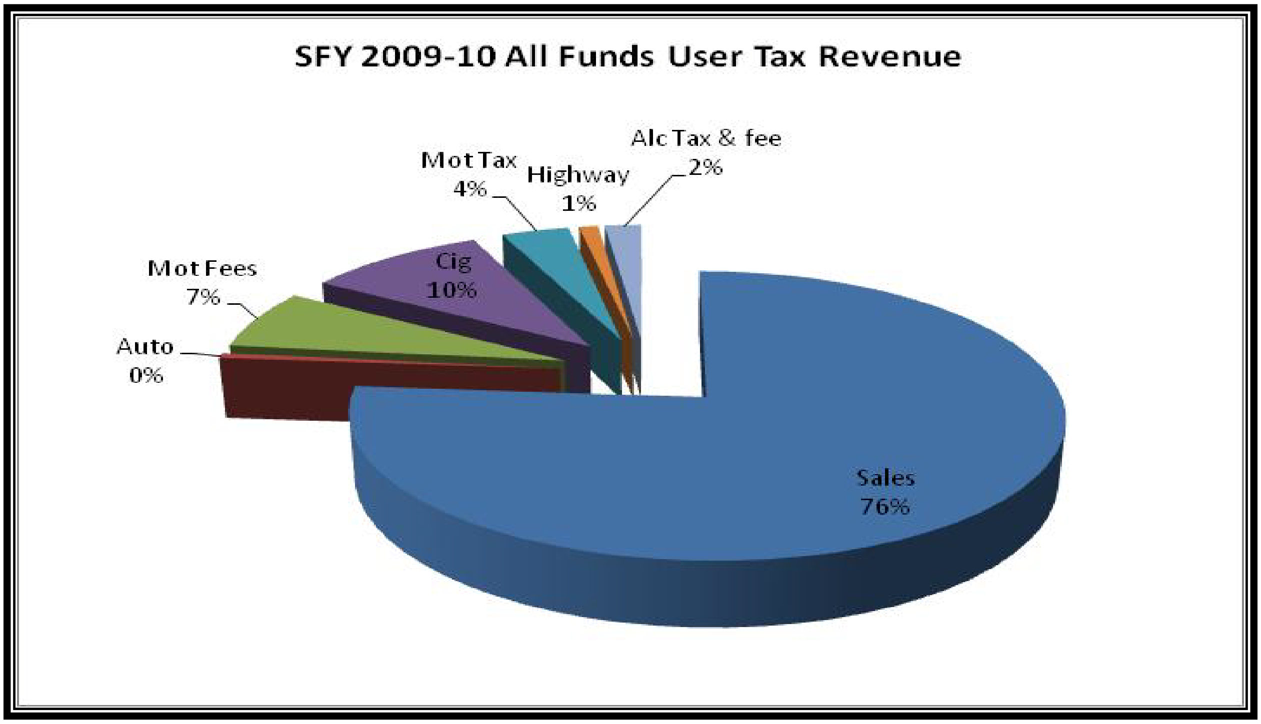
Collections of user taxes and fees follows a quarterly pattern, with larger collections realized in months at the conclusion of calendar quarters, this pattern of collections reflects the impact of quarterly taxpayers, especially in relation to the sales tax.

There are seven taxes that comprise this category:

- Sales & Use Tax,
- Cigarette & Tobacco Tax,
- Motor Fuel Tax,
- Motor Vehicle Fees,

- Alcoholic Beverage Tax & License Fees,
- Highway Use Tax,
- Auto Rental Tax, and
- Beverage Syrup & Soft Drink Tax

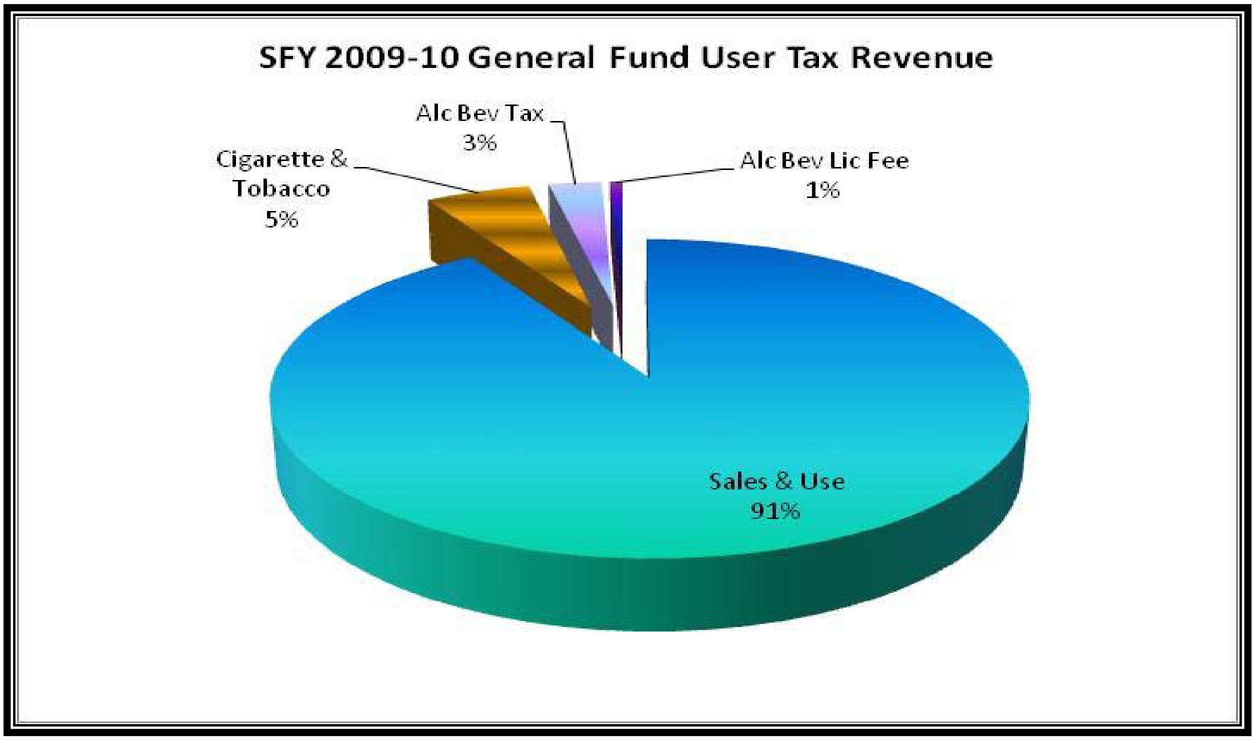
Figure 37



As shown in Figure 37, the sales and use tax dominates user tax collections. All funds user tax revenue shares are expected to remain the same in the next fiscal year with only two exceptions: a small decline in the share of sales tax revenue and an increase in the share of alcoholic beverage fees, due to the allowance of wine sales in grocery stores.

In comparison, general fund revenue from user taxes and fees are comprised of four of the above taxes. Similar to all funds, sales and use tax is the primary source of collections in this category.

Figure 38



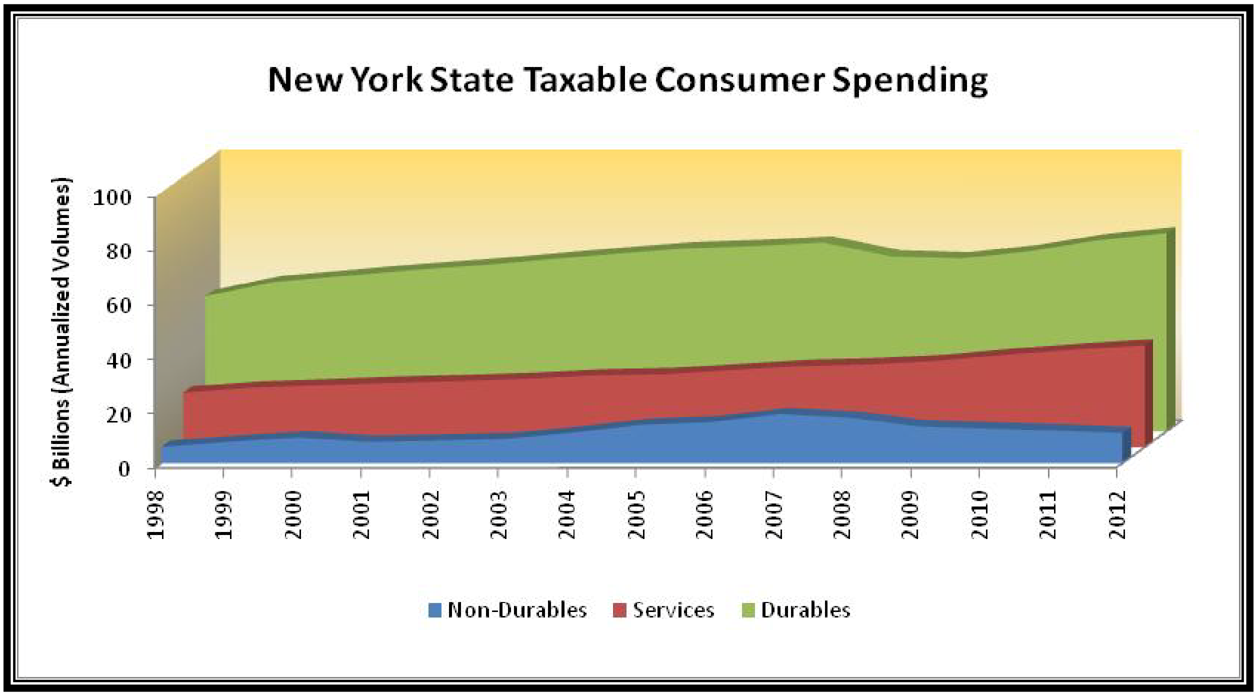
Sales Tax

Retail sales and tangible personal property are taxed under Article 28 of the Tax Law unless statutorily exempt. The sales tax is imposed upon receipts from the sales of tangible personal property, statutorily specified services, specified electricity gas, refrigeration and steam services, telephone service, food and beverages sold by restaurants and caterers, hotel occupancy and certain admission charges.

In New York State, the sales and compensating use tax was enacted in 1965 at the rate of 2 percent. The tax rate was subsequently increased to 3 percent in 1969, 4 percent in 1971, and to 4.25 percent in 2003. The last increase in the tax rate was a temporary increase of one quarter of one percent in order to address state budget deficits resulting from the economic recession in 2001. The sales tax rate reverted back to 4 percent in June 2005.

Sales tax collections are primarily impacted by any kind of change in the Tax Law, especially tax rate changes, and changes in economic activity such as income level, employment, stock prices. Consumer spending on durable goods holds the major share of New York State's overall consumer spending.

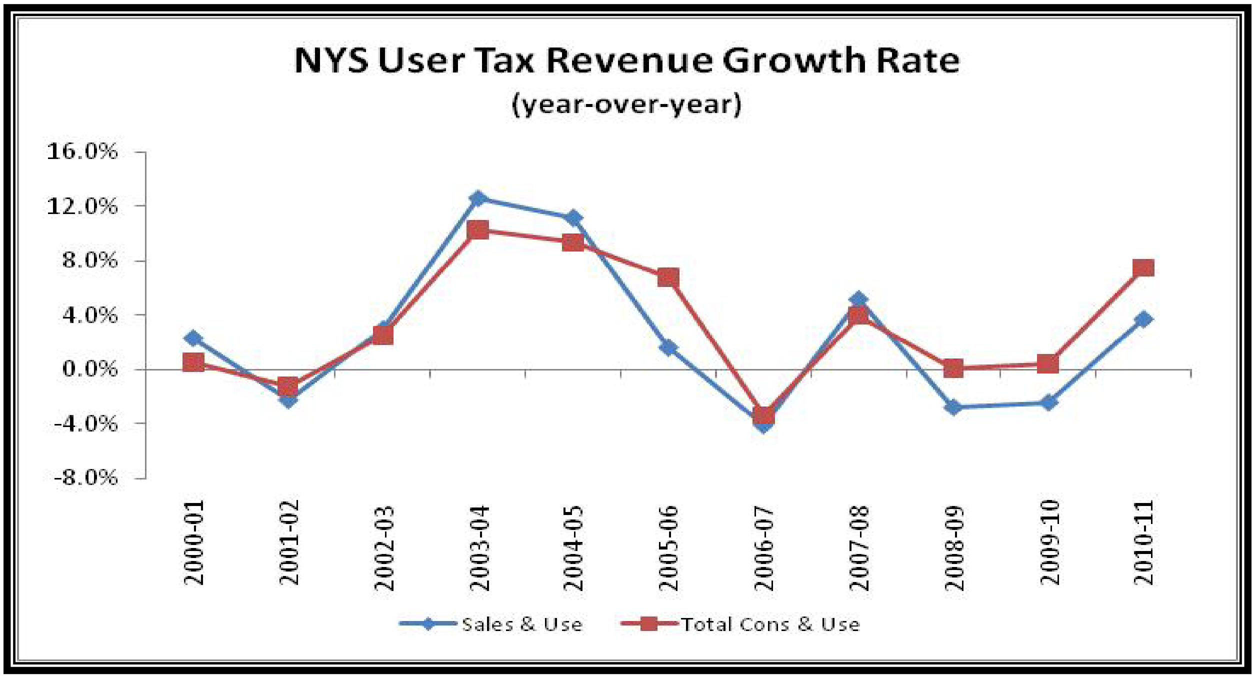
Figure 39



Source: IHS Global Insight and NYS Senate Finance Committee

The sales and use tax is the second largest revenue source for the State. As shown in Figure 39, changes in total User Tax revenues are primarily determined by the pattern of Sale Tax collections.

Figure 40



On an All Funds basis, sales and use tax collections are estimated to be $10.48 billion, a 4.6 percent decline from SFY 2008-09. General Fund collections are estimated to decline by 4.5 percent from $7.7 billion to $7.36 billion in SFY 2009-10. For SFY 2010-11, All Funds sales tax collections are projected to be $11.05 billion, an increase of 5.5 percent. On a General Fund basis, sales and use tax collections are projected to be $7.76 billion, a 5.4 percent increase from SFY 2009-10.

Cigarette & Tobacco Taxes

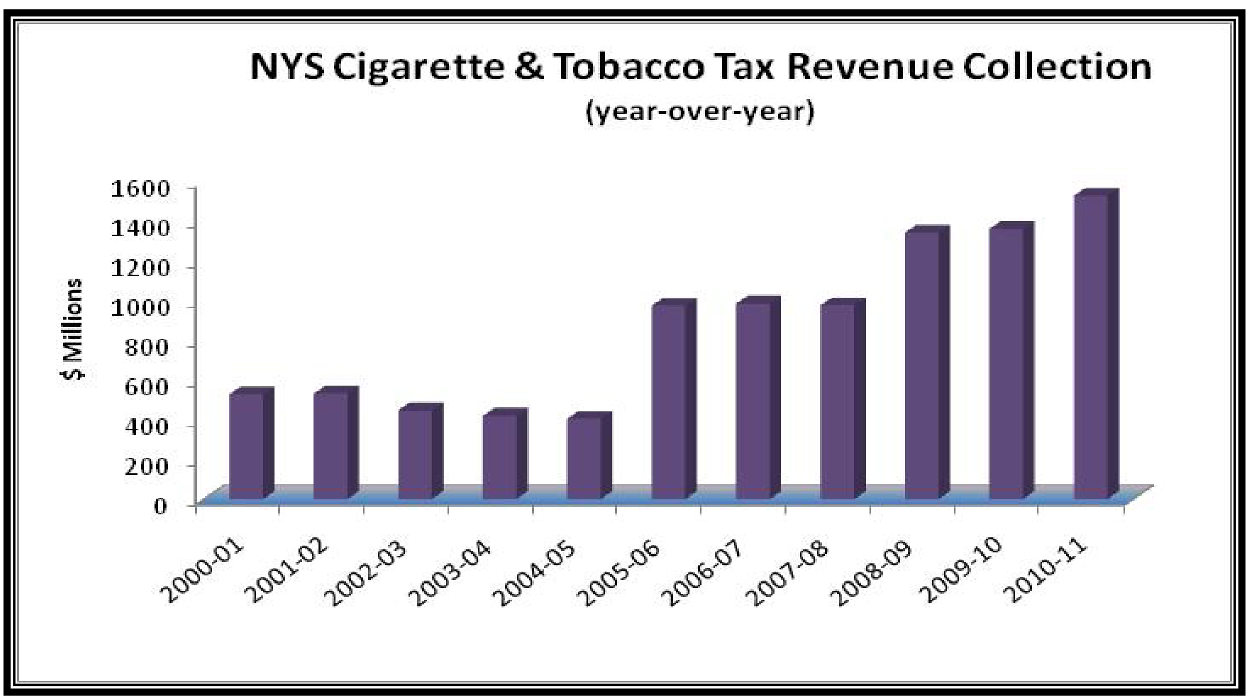
New York State imposes an excise tax on the sale or use of cigarettes within the State. Effective March 1, 2000, New York raised its tax by 55 cents to $1.11 per pack and effective April 3, 2002, by 39 cents to $1.50 per pack. On June 3, 2008, the State's tax was increased by $1.25 to $2.75 per pack. New York City levies a separate cigarette excise tax of $1.50 per pack.

The State also imposes an excise tax on other tobacco products, such as chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco. These products are taxed at a rate of 37 percent of their wholesale price except for snuff products, which are taxed at a rate of 96 cents per ounce. In the current fiscal year, tobacco tax rate has increased from 37 percent to 46 percent.

For SFY 2009-10, All Funds collections from cigarette and tobacco taxes are estimated to increase from $1.34 billion to $1.36 billion, an increase of 1.5 percent. On a General Fund basis, collections from these taxes are estimated to decline from $446 million in SFY 2008-09 to $441 million in SFY 2009-10, a decrease of 1.1 percent.

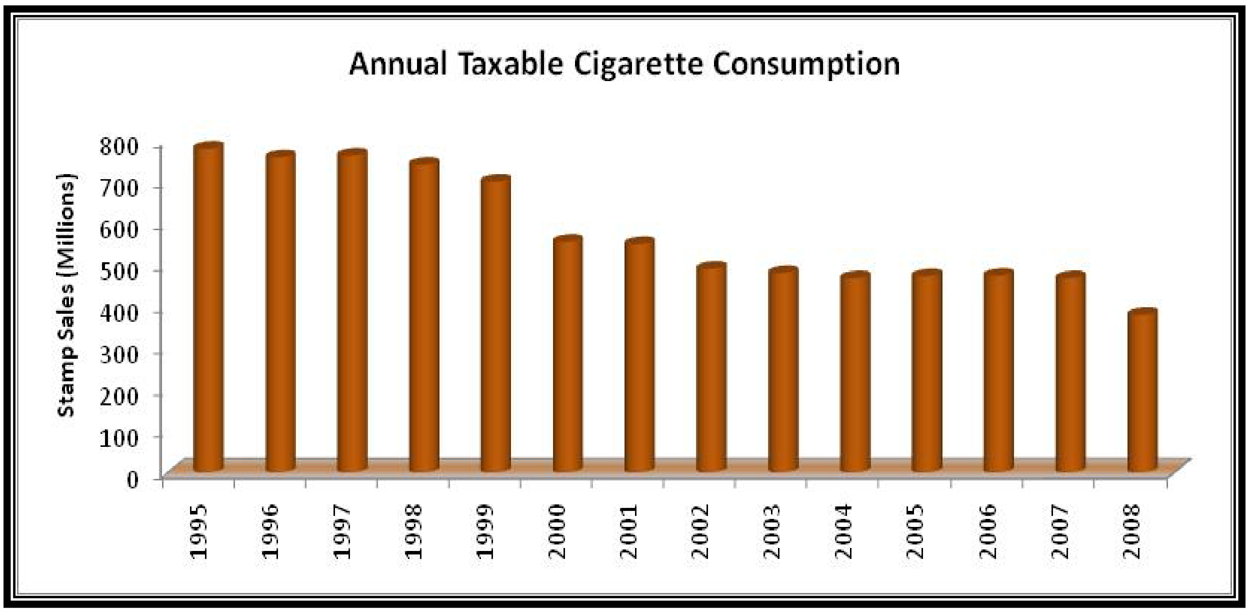
In SFY 2010-11, All Funds cigarette and tobacco tax collections are projected to increase to $1.53 billion, an increase of 12.3 percent. General Fund collections are projected to decrease to $438 million, a decrease of 0.7 percent. This increase in All Funds collections is due to the proposed one dollar per pack increase in the tax. The decline in General Fund collection is due to the proposed change in the Tax Law which would increase the share of cigarette tax collections being deposited into the Health Care Reform Act (HCRA) funds.

Figure 41



Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. As shown in Figure 42, although tax collections from cigarettes has been increasing, consumption has been declining, The increase in collections is primarily a result of the amount of the tax. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco. Declines in taxable consumption have also been exacerbated by evasion.

Figure 42



Motor Fuel Tax

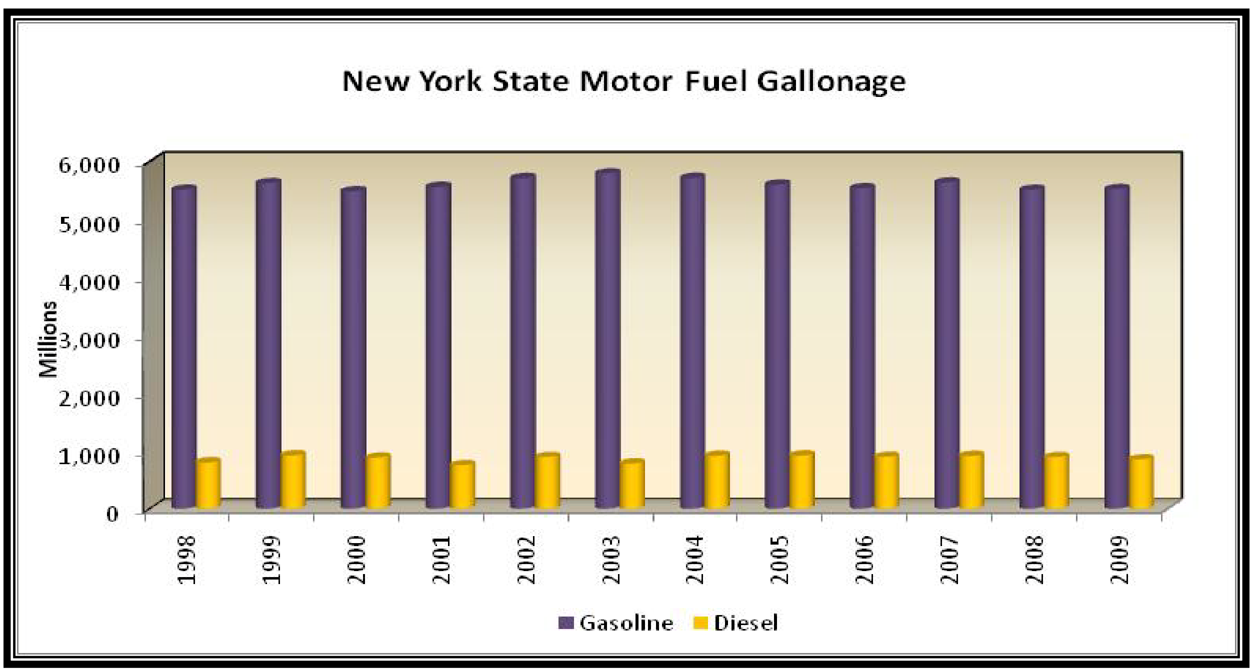
Motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. The motor fuel tax is levied primarily on fuel used in motor vehicles operating on the public highways of the State or on fuel used in recreational motorboats operating on the State's waterways.

A motor fuel tax of two cents per gallon was imposed on gasoline motor fuel in 1929. The tax on gasoline was increased to three cents in 1932, to four cents in 1937, to six cents in 1956, to seven cents in 1959 and to eight cents in 1972.

A motor fuel tax of two cents was imposed on diesel motor fuel in 1936. The tax on diesel fuel was increased to four cents in 1947, to six cents in 1956, to nine cents in 1959 and to ten cents in 1972. The tax on diesel fuel was reduced to eight cents in 1996.

Motor fuel tax collections are a function of the number of gallons of fuel imported into the State by distributors and any change in the relevant tax law. Gallonage is determined in large part by fuel prices, the amount of fuel held in inventories, the fuel efficiency of motor vehicles and overall state economic performance. Hence, fuel tax collections are an indirect function of fuel prices. The collections from the motor fuel tax do not fluctuate significantly from year to year since the number of gallons of fuel imported into the State does not fluctuate significantly, as shown in the Figure 43 below.

Figure 43



Source: New York State Department of Taxation & Finance

Taxable gasoline gallons declined slightly in SFY 2000-01 due in part to price increases, and increased in SFY 2001-02 due to price declines. In SFY2002-03 and SFY 2003-04, taxable gasoline gallons increased more slowly since the effect of the economic recovery was offset by high gasoline prices. In SFY 2004-05 and SFY 2005-06, taxable gasoline gallons declined 2.2 and 1.1 percent, respectively, due to a sharp increase in gasoline prices

For SFY 2009-10, collections from the motor fuel tax are estimated to be $508 million, a 0.8 percent increase from SFY 2008-09 collections. For SFY 2010-11, collections are projected to increase slightly to $516 million in SFY 2010-11, an increase of 1.5 percent. Currently, all motor fuel receipts are deposited into the Dedicated Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund.

Motor Vehicle Fees

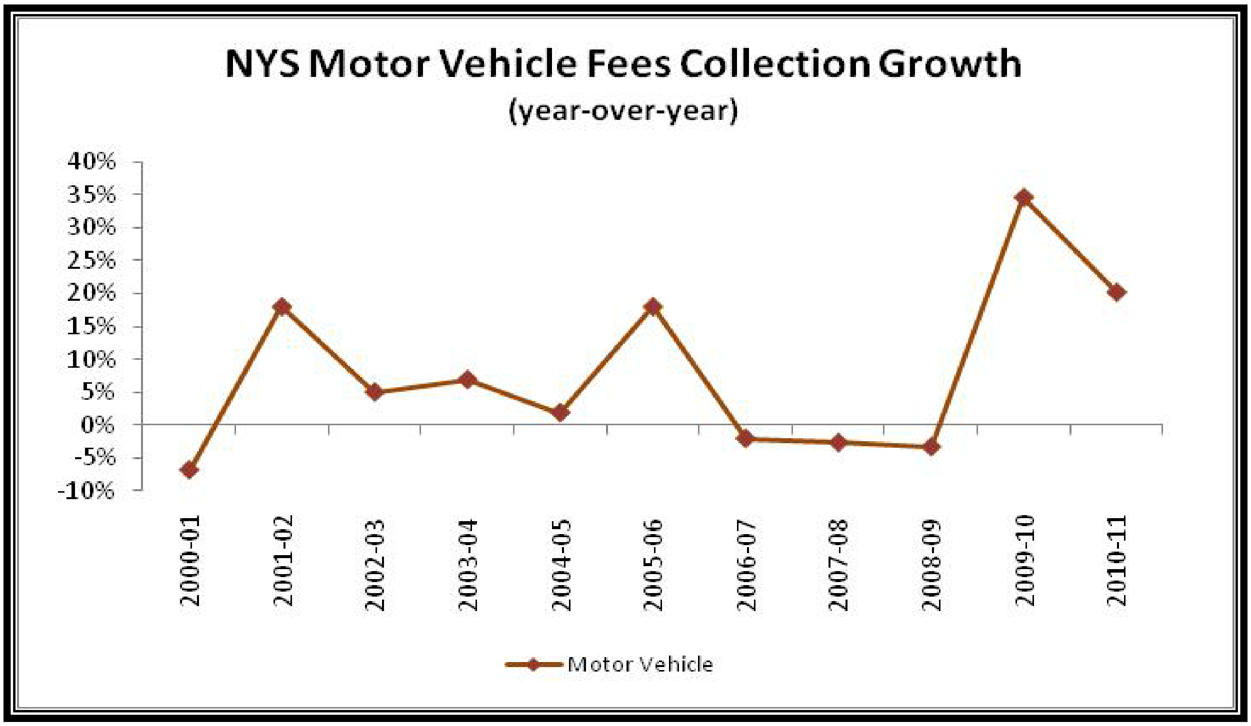
Motor vehicle fees are imposed under the Vehicle and Traffic Law. These fees include registrations for motor vehicles operated in the State, fees for drivers' licenses, and other fees such as: fees for inspection and emission stickers, repair shop certificates, and insurance civil penalties. Certain vehicles registered in New York are exempt from registration fees. The exemptions include: vehicles owned by the State or municipalities; passenger vehicles owned by consular offices, provided reciprocity is granted; and vehicles owned and used for the transportation of animals by societies for the prevention of cruelty to animals.

Most vehicle registration fees in New York are based on weight except for buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Vehicle registration and driver licensing fees are a function of the fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, the collections from motor vehicle fees are not significantly impacted by economic conditions. Collections from these fees are impacted more by changes in the fee or renewal schedules.

For SFY 2009-10, All Funds collections from motor vehicle fees are estimated to be $973 million, a 34.6 percent increase in collections from SFY 2008-09. This large increase is due to the increase in license and registration fees included in the SFY 2009-10 Enacted Budget as well as the imposition of license and registration fees within the MTA district.

For SFY 2010-11, All Funds collections from motor vehicle fees are projected to increase to $1.2 billion, a 20.1 percent increase. This increase is due to the full year impact of the license and fee increases enacted in SFY 2009-10.

Figure 43



Alcoholic Beverage Tax

New York State imposes excise taxes at various rates on liquor, beer, wine and specialty beverages. Overall, per capita consumption of taxed beverages and receipts has remained fairly constant in recent years with declines in one beverage class being offset with increases in others, due to shifts in consumer preferences. Currently, all receipts from the alcoholic beverage tax are deposited in the General Fund.

For SFY 2009-10, alcoholic beverage tax collections are estimated to be $222 million, a 7.8 percent increase from collections in SFY 2008-09. This increase is primarily due to the increase in the excise tax on wine and beer that was enacted as part of the SFY 2009-10 budget. For SFY 2010-11, collections are projected to decrease to $217 million, a 2.3 percent decline.

Alcoholic beverage tax revenue is a function of any kind tax law change, the general trend of sales and consumer price index of alcoholic beverages. In the current fiscal year, the tax rate on beer increased from 11 cents to 14 cents per gallon and the rate on wine increased from 18.9 cents to 30 cents per gallon.

Alcoholic Beverage 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. On an All Funds basis, alcoholic beverage license fee collections are estimated to be $52 million in SFY 2009-10, an 18.2 percent increase in collections from SFY 2008-09. For SFY 2010-11, All Funds collections are projected to increase to $298 million, a 473 percent increase from SFY 2009-10. This increase is due to the proposed legislation that would allow sale of wine in grocery stores with the payment of one-time franchise fee. The additional collections of $250 million would be deposited into the HCRA funds.

Auto Rental Tax:

The auto rental tax is imposed on vehicles rented by a resident or a nonresident, regardless of where the vehicle is registered. The tax does not apply to a car lease covering a period of one year or more. Receipts from the auto rental tax are influenced by the overall health of the economy, particularly general trend of consumer and business spending on travel.

Since June 1, 1990, the State has imposed a five percent tax on charges for the rental or use a passenger car with a gross vehicle. In June 2009, the rate was increased to six percent and a five percent tax was imposed on the rental of vehicles within the Metropolitan Commuter Transportation District.

Auto rental tax collections are estimated to increase from $61 million in SFY 2008-09 to $84 million in SFY 2009-10, an increase of 37.7 percent increase. This increase is a result of the increase in the rate from five percent to six percent as well as the imposition of an auto rental tax within the MTA district. Collections are projected to continue to increase to $105 million in SFY 2010-11, a 25 percent increase over SFY 2009-10 collections. This increase reflects the full year impact of the tax rate increases as well the economic recovery.

Highway Use Tax:

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. Highway use tax revenues are derived from three sources:

- the truck mileage tax,
- the fuel use tax, and
- registration fees.

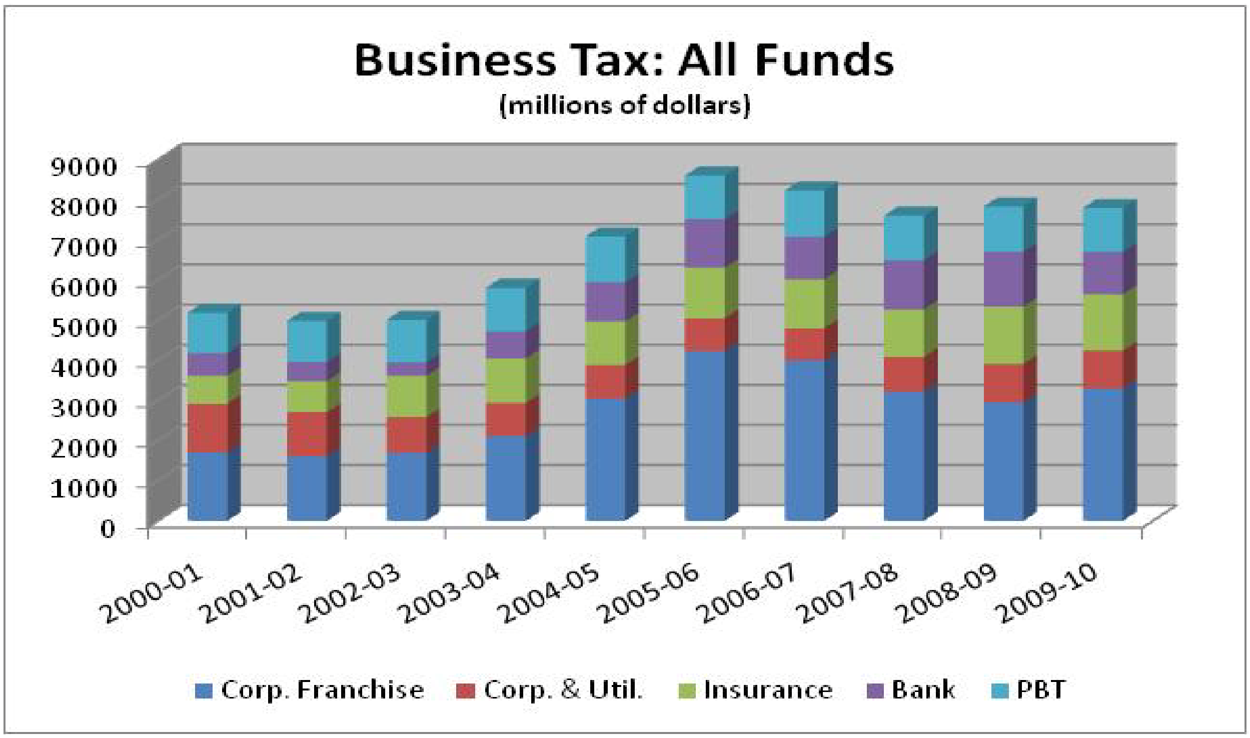
Currently, all highway use tax receipts are deposited to the Dedicated Highway and Bridge Trust Fund.

The truck mileage tax (TMT) is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or 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. In addition, a supplemental tax equal to the base truck mileage tax was imposed in 1990. Effective January 1, 1999, the supplemental tax was reduced by 50 percent, and effective April 1, 2001, the supplemental tax was reduced by an additional 20 percent of the remaining tax.

For SFY 2009-10, all funds collections from the highway use tax are estimated to be $141 million, the same as SFY 2008-09. In SFY 2010-11, highway use tax collections are projected to increase to $160 million, reflecting a 12.5 percent increase.

BUSINESS TAXES

Figure 44



Business taxes in New York are imposed on various aspects of a business' income. The corporate franchise tax and the bank tax are imposed on a business' entire net income; the corporate utility tax is imposed on the gross receipts of the business; and the insurance tax is imposed on premiums. The petroleum business tax is imposed on the gross receipts from the sale of various petroleum products by the business. However, any increase/decrease in liability for the petroleum business tax is pegged to an inflation index.

In addition, all businesses which are located within the Metropolitan Commuter Transportation District, except for those subject to the petroleum business tax, are subject to the Metropolitan Transportation Authority (MTA) surcharge. This surcharge is imposed at a rate of 17 percent of the filer's tax liability and is used to support mass transit systems in the New York City metropolitan area.

In March, calendar year filers are required to make a first installment payment based on the taxpayer's prior year liability. Filers then make estimated payments in June, September, and December based on projected liability for the current tax year. A final settlement is made in March, along with the next mandatory prepayment. As of January 1, 2010, the mandatory March prepayment has been increased from 30 percent to 40 percent of the taxpayer's prior year liability. Fluctuations in the estimated payments and final settlement account for most of the variation in tax collections from year to year. These payments are affected by changes in taxpayers' liability, which are driven by economic performance.

All funds business tax receipts are estimated to total $7.83 billion for SFY 2009-10. This represents a 3 percent increase over the $7.60 billion collected in SFY 2008-09. General Fund collections are expected to total to $5.67 billion for the current fiscal year, an increase of 2 percent from SFY 2008-09. Much of this growth is generated by the increase in the March prepayment from 30 percent to 40 percent of prior year liability and delays in refund payments under the bank and corporate franchise taxes.

For SFY 2010-11, All Funds business tax receipts are projected to decrease by 0.5 percent, totaling $7.79 billion. General Fund receipts are projected to increase to $5.75 billion, an increase of 1.4 percent. The decrease in collections is attributed to adjustments made from the March prepayment spin up and lower audit collections. Tax collections, excluding audits, are projected to increase as the financial markets continue to rebound with the help from Federal stimulus and the national economy begins to recover.

Corporate Franchise Tax

Levied by Articles 9-A and 13 of the New York Tax Law, the corporate franchise tax collects receipts from domestic and foreign corporations for the privilege of exercising their corporate franchise or doing business, employing capital, owning or leasing property, or maintaining an office in New York. Article 13 imposes a 9 percent tax on unrelated business income from not-for-profit organizations. The corporation franchise tax accounts for the most revenue of all business taxes, approximately 42 percent of business tax receipts.

Article 9-A consists of business entities that are classified as either C Corporations or S Corporations. According to the New York State Corporate Tax Statistical Report, C Corporations made up only 42 percent of the total number of Article 9-A filers, yet accounted for 97 percent of the tax liability. For C Corporations, the Tax Law mandates that the tax liability be calculated by using four different bases: entire net income (ENI), alternative minimum, allocated business and investment capital, and the fixed dollar minimum. Taxes are collected on whichever base yields the highest liability.

Unlike C Corporations, which have their tax liability determined at an entity level, S corporations have their tax liability determined at a member level. That is, the income of the S corporation is distributed to the members of the corporation who then pay the tax on such income under the personal income tax. However, S corporations are subject to the fixed dollar minimum tax under Article 9-A at rates stipulated in the Tax Law. These rates are based on the amount of the taxpayer's payroll which includes the salaries of the general executive officers.

For SFY 2009-10, All Funds receipts are estimated to total \$2.95 billion, a decline of 8.5 percent from SFY 2008-09. General Fund receipts are estimated to total \$2.49 billion, a decrease of 9.7 percent. The decrease is a result of a downturn in corporate profits and the loss of liability from for-profit health maintenance organizations, which are now required to file under the Insurance Tax.

For SFY 2010-11, All Funds receipts are projected to increase to $3.3 billion. The 12.1 percent increase over SFY 2009-10 reflects a rebound in corporate profits, which are forecast to increase in calendar year 2010 by nearly 13 percent. On a General Fund basis, receipts are projected to increase to $2.86 billion, increasing by 15 percent over the prior year.

Corporation and Utilities Tax

Specialized industries including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives are required to pay taxes and fees under Article 9 of the Tax Law. Historically, a majority of Article 9 revenues have been derived from public utilities and the transportation and telecommunications industries. However, due to regulatory and statutory changes over the last six years, the telecommunications industry has become the primary source of corporation and utilities tax revenues.

For SFY 2009-10, All Funds collections are estimated to total $964 million, an increase of 11.7 percent over SFY 2008-09. The year over year growth in collections is a result of increasing consumption of telecommunications services. General Fund receipts are estimated to total $735 million, an increase of 12.4 percent from prior fiscal year.

All Funds receipts are projected to decrease to $934 million in SFY 2010-11, a decline of 3.1 percent. General Fund receipts are projected to drop 2.9 percent to $714 million. Much of the difference is a result of an adjustment for the one-time cash flow in SFY 2009-10 from the increase in the March prepayment.

Insurance Tax

Article 33 of the Tax Law imposes taxes on insurance companies, insurance brokers, and certain insurers for the privilege of conducting business in the State. A premiums-based tax is levied on non-life insurers and independently procured insurance. Accident and health premiums received by non-life insurers are taxed at the rate of 1.75 percent and all other premiums received by non-life insurers are taxed at the rate of 2 percent. A $250 minimum tax applies to all non-life insurers.

The insurance tax on life insurance companies is imposed on two components. The first component is the highest of four alternative bases, similar to the corporate franchise tax. An additional eight-tenths of a cent rate applies to each dollar of subsidiary capital allocated to New York. The second component is an additional franchise tax on gross premiums, less returned premiums. The tax rate on premiums is 0.7 percent and applies to premiums written on risks located or resident in New York.

All funds insurance tax receipts are estimated to total $1.43 billion in SFY 2009-10, an increase of 20.7 percent over SFY 2008-09 receipts. This increase is attributable to the changing of the prepayment due in March from 30 to 40 percent of the previous year's tax liability and the inclusion of for-profit health maintenance organizations. Collections from these institutions were previously made under the Corporate Franchise Tax. General Fund receipts for SFY 2009-10 are estimated at $1.27 billion, an increase of 17.2 percent over the prior year.
All Funds collections are projected to total $1.41 billion in SFY 2010-11, a decrease of 1.3 percent from SFY 2009-10 collections. General Fund receipts are forecast to decrease to $1.27 billion, a 0.1 percent drop from the prior year.

Bank Tax

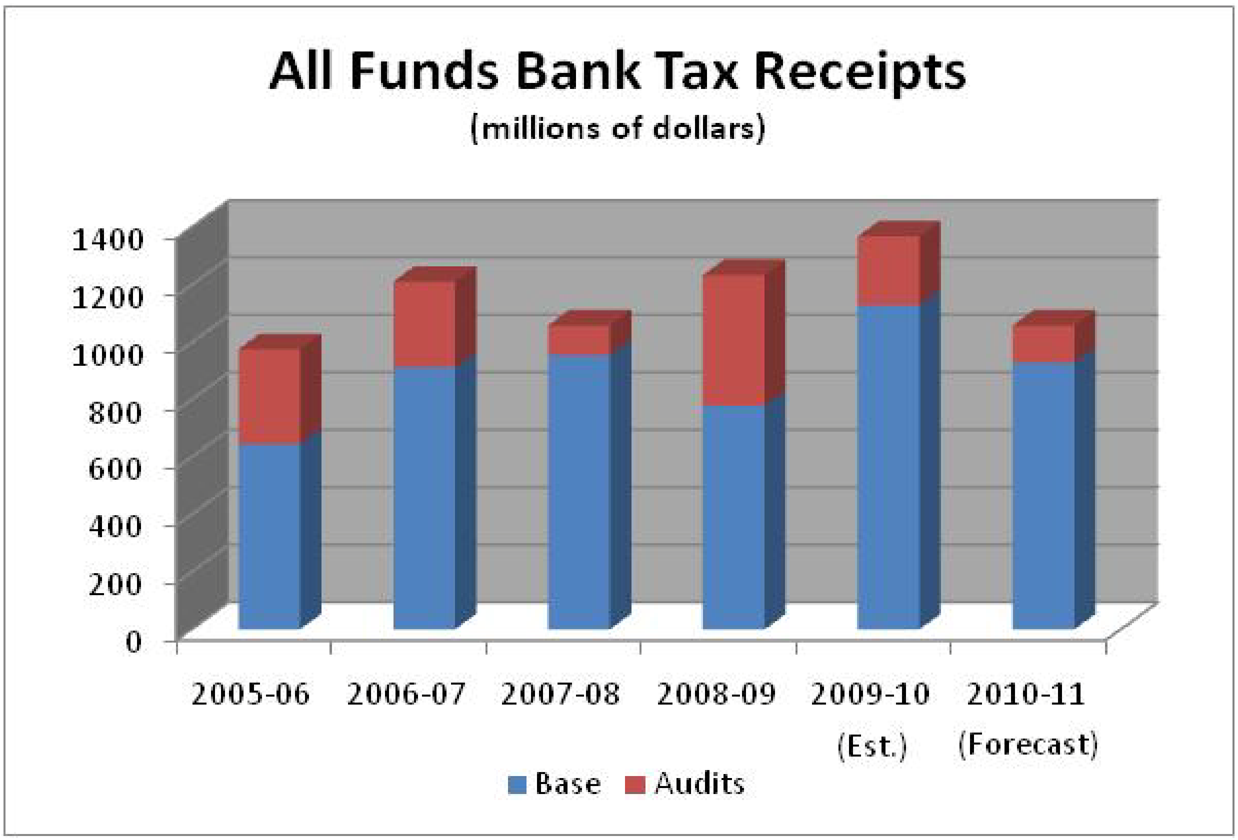
Bank tax revenues are collected under Article 32 of the Tax Law. The tax is imposed on banking corporations conducting business in New York State, broken down into three groups: clearinghouse, savings institutions, and other commercial banks. Similar to Article 9-A requirements, bank tax liability is computed under four alternative bases: alternative minimum, entire net income (ENI), asset base, and a fixed dollar minimum. Liability is collected on the highest of these bases.

For SFY 2009-10, All Funds receipts are estimated to total $1.37 billion, an increase of 10.9 percent over SFY 2008-09. General Fund receipts are estimated to amount $1.17 billion, an increase of 10.6 percent. While audits collections for this year are $216 million less than prior year, base collections have increased significantly. Base collections are estimated to be up nearly 45 percent from the previous fiscal year.

In SFY 2010-11, All Funds and General Fund receipts are projected to decline to $1.05 billion and $901 million, respectively. This represents a decline of approximately 23 percent for each. Much of this is a result of anticipated declines in audit collections, an adjustment for the increase in the March prepayment, and payment on delayed refunds from SFY 2009-10.

In recent years, changes in audit revenues have been relatively volatile. As shown in the Figure 45, All Funds bank tax collections over the past five years have varied significantly as a result of audits.

Figure 45



Petroleum Business Tax

Petroleum Business Taxes (PBT) are levied under Article 13-A of the Tax Law on petroleum related businesses based upon the quantity of various petroleum products imported for sale or use in the State. PBT rates are annually indexed on January 1st of each year to reflect the twelve month change in the Petroleum Producers Price Index ending the previous August 13th. Rates are limited to a maximum 5 percent increase or decrease per year.

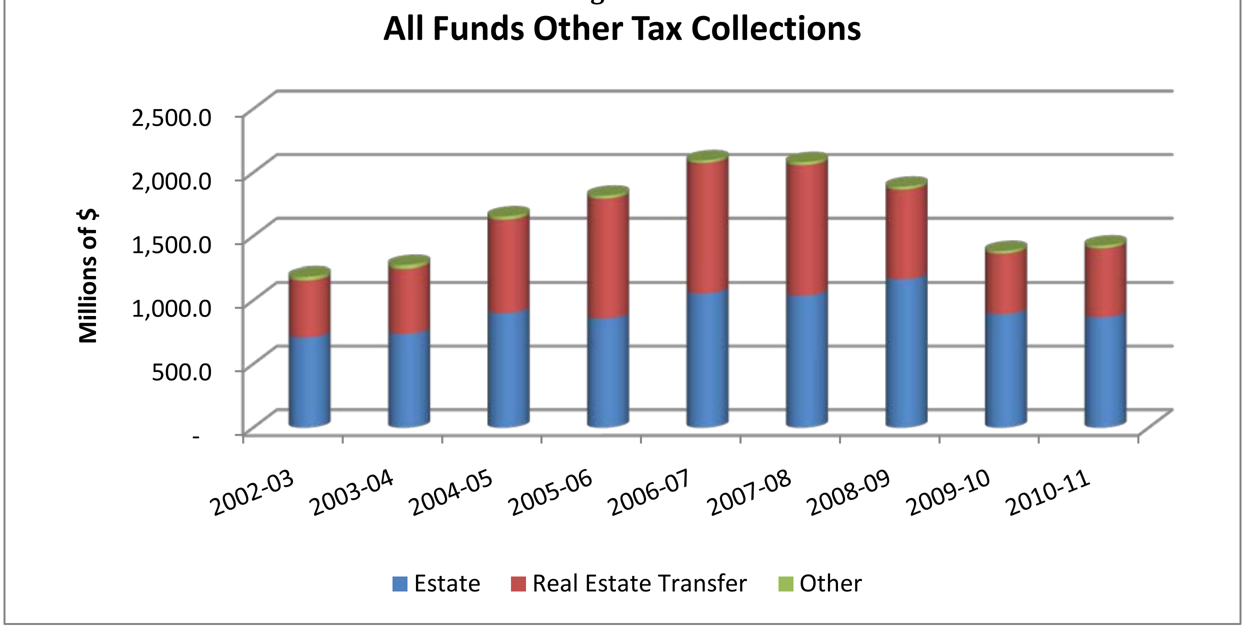
Base PBT collections are deposited into both the Mass Transportation Operating Assistance Fund and the Dedicated Funds Pool. All receipts collected from the supplemental tax and carrier tax are also deposited into the Dedicated Funds Pool, whose collections are then divided between the Highway and Bridge Trust Fund and the Dedicated Mass Transportation Trust Fund.

Petroleum Business Tax receipts are estimated to total $1.13 billion in SFY 2009-10, an increase of 2.1 percent over the prior fiscal year. The increase is attributed to a 5 percent increase in the PBT index on January 1, 2009. Receipts are projected to total $1.09 billion in SFY 2010-11, a 2.9 percent decrease from SFY 2009-10.

OTHER TAXES

Other taxes are comprised of the estate tax, real estate transfer taxes, pari-mutuel taxes and the boxing and wrestling exhibitions tax. As shown in Figure 46, the majority of the collections in this category are received from the estate tax and the real estate transfer tax.

Figure 46



Estate Tax

New York's estate taxes are not required to be remitted until nine months following a person's death. As a result, the amount of estate taxes paid in any particular month is not a reflection of the current economy, but the economy at the time of death. The estate tax revenue is a function of household's real net worth, indirectly to the stock index and any kind of tax law change, specifically related to credit exemption on the value of inherited estates. These collections are also a function of the size of the estates on which the taxes are paid.

Estate taxes are estimated to decline in SFY 2009-10 by 23.4 percent, to $891 million from SFY 2008-09. This reduction in collections is due to the decline in the stock market as well as the decline in home prices; primary factors impacting the value of one's estate. Estate taxes are projected to decrease by 2.7 percent in SFY 2010-11 to $867 million. This is a result of a projected increase in the stock market offset by the projected continued decline in average home prices over the first half of 2010.

Real estate transfer tax

Real estate transfer tax collections for SFY 2009-10 are estimated to be $472 million, down by $278 million. This reduction in collections is due to the decline in home prices and home sales. Real estate transfer tax collections for SFY 2010-11 are projected to be $531 million, increasing by 12.5 percent. This increase reflects the projected improvement in the housing market in the second half of the fiscal year.

APPENDIX

Methodology

The model and forecasting procedures have the following characteristics and considerations:

- the model is based on economic theory and tax revenue accounting relationships;
- tax variables are first seasonally adjusted to obtain consistency with other seasonally adjusted national and New York State data in modeling and forecasting processes, and are transformed back into non-seasonally adjusted variables to reflect the seasonality of tax collections;
- the New York State economy part of the model belongs to the system of Global Insight's Quarterly State Econometric Model. This system is composed of 51 state and D.C. models, which is further linked to Global Insight's national social and economic forecasting system;
- the Senate Finance Committee has access to the latest historical data and Global Insight's forecast of the U. S. economy each month.

Personal Income Tax

The forecast of withholding is based on independent variables, including wages and dummy variables reflecting law changes. More specifically, withholding is a function of intercept, total New York State wages, lagged withholding payment, a dummy variable capturing the 2009 tax rate hike effect, and an autoregressive lag. The model is estimated in log form, providing the ability to interpret the coefficients on the wage variables as elasticity.

The forecast of estimated payments is a function of intercept, lagged estimated payment, and the total liability. The forecast of total liability is derived from the NYSAGI components and a microsimulation model. The model is estimated in log form, reflecting the elasticity on the coefficients of the variables.

The forecast of extension payments is a function of the intercept, 2 lagged extension payments, and the total liability. This model is estimated in log form, reflecting the elasticity on the coefficients of the variables.

The forecast of final returns is a function of lagged final return and the total liability. This model is in log form, reflecting the elasticity on the coefficients of the variables.

The forecast of total refunds is a function of the withholding payment, the difference between total liability and the withholding payment, and a trend variable. This model is in log form, reflecting the elasticity on the coefficients of the variables.

User Taxes

The estimation and forecast methodology followed in this section is based on the historical trend analysis and the econometric models relevant to each category of User Taxes and Fees. The historical data on tax revenue collections are provided by the New York State Department of Taxation and Finance while the historical data on macroeconomic variables at national and state level are obtained from Global Insight. Some other historical data series have been used from Bureau of Labor Statistics.

Sales and Use tax, is highly dependent on consumer spending on goods and services which, in turn, are functions of disposable income, employment level, sales and price of light vehicles, consumer price index, S&P 500 Index and especially the Consumer Sentiment Index. Here, the national level consumer spending for durable goods, non-durable goods and services have been shared down to the state level to be use in the estimation model. In the estimation and projection process for this sub-category of tax revenue, seasonal dummy variables have been used to adjust for the seasonal variations in the consumer spending. Some other adjustments are made with respect to the tax law changes such as exclusion of cable television, clothing and footwear exemption, suspension of such tax exemption.

Taxable cigarette consumption is a function of retail cigarette prices and a long-term downward trend in consumption. Some adjustments have been made to incorporate the tax law changes in this category such as increase in the cigarette tax rate; the increase in the tax rate on tobacco products from 37 percent to 46 percent in this fiscal year; and also the imposition of 96 cents tax per ounce of stuff products. Another special adjustment has been made to the next fiscal year's projection due to the proposed legislation of increase in the cigarette tax rate by $1 per pack.

Motor fuel consumption is function of consumer price index of motor fuels and gasoline. Although, motor fuel gallonage follows historical trend and doesn't vary so much and hence, tax revenue from this category. It has some seasonal variations due to variations in vacation travels which is comparatively higher in summer and fall seasons. Hence adjustments have been made to take care of this small seasonality effect.

Motor Vehicle Fee does not follow any trend in its collections. Only variable whose trend pattern could explain very little of the variations in this revenue is the population between the age of 18 years and 65 years. This collection also depends on some revenue fund adjustments and the tax law changes such as increases in some fees in October 2005 and September in current fiscal year. These effects have been incorporated by using dummy variables.

Alcoholic beverage tax revenue follows a historical trend pattern and the consumer price index of alcoholic beverage products. Here also, some adjustments have been made to capture the effect due to changes in tax law like increase in the tax rate on beer in 1996, decrease in the tax rate on beer in 1996 and again increase in the tax rates on beer and wine in current fiscal year.

The alcoholic beverage control license fee has been estimated following its historical trend and with the adjustments made for the tax law changes such as increase in the license fees by 28 percent in 2002. The major change is due to the proposed legislation of allowing sale of wine in the grocery stores which is expected to increase the revenue from new registrations.

Auto-rental tax revenue collection estimation has been based on the historical trend and seasonal variation due to the pattern of payment of this tax. This tax is mostly paid in the first fiscal quarter every year and a minimum amount is paid in the fourth quarter. Another two adjustments are made with respect to change in rental price in 2008 and increase in the taxes in the current fiscal year.

The estimation process of revenue from the highway use tax is function of real imports and real gross domestic product of United States. Here the incorporated tax law adjustments are due to the imposition of truck-mileage tax to thruway miles from July 1990, reduction in this tax by 50 percent in 1999 and increase in the replacement fee to $15 in current fiscal year.

Business Taxes

Forecasts for business taxes are made through a combination of econometric tools and trending techniques. Out-year estimates are constructed through the use of econometric models. The purpose of these models is to capture dynamic historical patterns in the tax liability series. These patterns characterize how the data has fluctuated through time up until the present and are commonly influenced by time trends, seasonal effects, and autocorrelation. Autocorrelation refers to the momentum or persistence of a series over time. It measures the effects of lagged values on the current observation. Changes within the economy also have a significant impact on the trends in tax collections over time. The use of econometric models intends to capture the correlation between tax receipts and variations in a number of economic variables.

Corporation Franchise tax receipts are driven by changes in corporate profits. Corporation and Utility tax receipts are driven by growth in the demand for electricity and telecommunications services. Insurance tax receipts are affected by variations in housing starts. The net interest spread is used to explain changes in bank tax liability. The net interest spread measures the difference between the yield on 10-Year Treasury Notes and the Effective Federal Funds Rate. Petroleum Business tax receipts are affected by consumption of gasoline and the Producer Price Index for Refined Petroleum Products.

The baseline estimates constructed from the econometric models are then adjusted for changes in the Tax Law. For instance, revenue forecasts for SFY 2009-2010 were adjusted to account for the increase in prepayments made in March from 30 to 40 percent of the taxpayer's prior year liability. Other baseline adjustments include anticipated refunds and audit and compliance receipts.

As the fiscal year progresses, revisions are made to the initial forecasts using a number of trending techniques. Historical ratios of year to date collections to total fiscal year collections are applied to current fiscal year receipts. Trends in the growth rates of tax liability are also taken into account. Current year estimates are mainly driven by changes in the growth rates and ratios of the estimated payments on tax year liability and prior year adjustments made by calendar year filers.