NEW YORK STATE
ECONOMIC AND REVENUE REVIEW
SFY 2011-12

GLOBAL INSIGHT

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Executive Summary

In conjunction with IHS Global Insight, the Senate Finance Committee reviewed and analyzed the economic and revenue projections contained within the Executive Budget for SFY 2011-12. Based upon IHS Global Insight's February economic forecast, the Senate Finance Committee projects $438 million in General Fund revenues (inclusive of miscellaneous receipts and transfers) above the Executive Budget forecast for SFY 2011-12. This amount is reduced by the estimate for the remainder of SFY 2010-11, which is $23 million less than the Executive estimate. Therefore, the two year General Fund receipts forecast is $415 million above the Executive forecast.

The General Fund is not the only fund of the State that receives tax revenues. New York has a variety of tax revenues that are divided among the General fund, special revenue funds, capital projects funds, and debt service funds. The revenues deposited into these other funds are then utilized for targeted spending purposes. In addition, certain tax revenues (e.g. petroleum business taxes and real estate transfer taxes) are exclusively deposited into 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 $422 million above the Executive for SFY 2011-12. This amount is reduced by the estimate of tax revenues for the remainder of the 2010-11 fiscal year which is $66 million below the Executive estimate. This results in a two year All Funds tax revenue forecast that is $356 million above the Executive projection.

The economy at the national level is measured by the Gross Domestic Product, which is essentially the total amount 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 on these sectors change from year to year. Economic growth is not only dependent upon growth in the each of these sectors of the economy but, how each sector impacts growth in the other sectors.

Although the economy was recovering from the Great Recession, economic growth was slow. Real Gross Domestic Product (GDP) grew by 2.9 percent in 2010, up from the 2.6 percent decline of 2009. Although it benefitted from the first time homebuyer’s tax credit, signs of recovery in the housing market expired with the tax credit. State and local governments, whose spending was supported by the American Recovery and Reinvestment Act, were enacting tax increases and spending cuts in order to balance their budgets. With job losses mounting, consumer confidence was still down and, as a result, consumers continued to constrain their spending.

However, there were positive aspects in the economy in 2010. Businesses, after a significant decumulation in inventories in 2009, were increasing production once again and corporate profits were starting to grow. With this extra cash on their balance sheets, businesses increased their capital spending, primarily on equipment and software.

The start of 2011 is showing further economic growth as initial claims for unemployment insurance are continuing to decrease. As the employment picture brightens, the consumer is gaining more confidence in the economy and has increased his spending. The economy, as a whole, is projected to maintain moderate growth throughout the year. Real GDP for the whole of 2011 is expected to grow at a rate of 3.2 percent.

At the state level, the economy is measured by the Gross State Product. The state economy, unlike the national one, has two major sectors – consumer and business – with government taking a more supporting role. With the recession significantly impacting the financial markets, the New York economy was more adversely affected; exhibiting a slower recovery from the recession than the nation as a whole. Total real GSP grew by 2.1 percent in 2010; economic growth being constrained by the impact of the imposition of $14 billion in new taxes and fees enacted by the previous administration and the Democrat controlled Senate in the past two years. Economic growth in New York is projected to continue to lag national economic growth in 2011; growing by 2.8 percent as compared to 3.2 percent at the national level.

With the economic recovery, wages and personal income at both the national and state level have shown growth in 2010. New York's wage growth occurring mainly as a result of increased bonuses paid to the financial services industry in the first quarter of the year. Wages at the national and state level grew by 2.1 percent and 4.6 percent, respectively, while personal income grew by 3.0 percent and 4.1 percent, respectively. Growth in personal income in 2011 is projected to continue to grow at both the national and state levels as a result of the continued recovery in the economy, both growing by 5.2 percent.

As outlined in the following tables, total All Funds tax collections are estimated at $60.73 billion in SFY 2010-11. This estimate is $66 million below the Executive Budget forecast. For

SFY 2011-12, All Funds tax revenues are expected to increase by $4.48 billion to $65.21 billion or $422 million above the Executive's projections.

Estimates for the remainder of the current fiscal year show the decline in bonus payments to the financial services industry that are paid in the fourth quarter and the return to the previously established schedule of refund payments for taxpayers filing their returns early. IHS Global Insight's forecast of the overall national economy in 2011 is stronger than the economic forecast presented by the Executive. This is especially apparent in personal income growth which factors into the State's personal income tax collections. The forecast for the State economy in 2011 appears to be stronger than that of the Executive as well.

Although the forecast exhibits stronger revenue growth for the upcoming fiscal year based on the projection of stronger economic growth, there are both upside and downside risks associated with the forecast, as with any forecast. The housing market, with its continued decline in home prices and weak home sales, as well as the potential for the recovery to remain a "jobless" recovery can have a negative impact on the State's revenues. On the positive side, increased investment by businesses and stronger consumer confidence would have a positive impact on sales tax and personal income tax receipts. Additional revenues realized by the State should support the State's reserve funds or be used to support state and local tax relief.

SFY 2010-11 General Fund Tax Collections

(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**23,593**	**23,624**	**(31)**
Withholding	30,721	30,776	(55)
Estimated Payments	9,752	9,751	1
Final Returns	2,021	1,967	54
Other Payments	1,023	1,091	(68)
Gross Collections	43,517	43,585	(68)
Refunds	(7,660)	(7,686)	26
STAR	(3,300)	(3,300)	0
RBTF	(8,964)	(8,975)	11
User Taxes and Fees	**8,750**	**8,775**	**(25)**
Sales and Use	8,036	8,063	(27)
Cigarette/Tobacco	486	484	2
Alcoholic Beverage	228	228	0
Business Taxes	**5,619**	**5,664**	**(45)**
Corporate Franchise	2,777	2,848	(71)
Corporate Utilities	636	634	2
Insurance	1,193	1,191	2
Bank Tax	1,013	991	22
Other Taxes	**1,196**	**1,099**	**97**
Estate and Gift	1,178	1,081	97
Pari-mutuel Taxes	17	17	0
Other	1	1	0
Total General Fund Taxes	**39,158**	**39,162**	**(4)**
Miscellaneous Receipts	3,082	3,144	(2)
Transfers	11,892	11,909	(17)
Total General Fund Receipts	**54,372**	**54,192**	**(23)**

SFY 2011-12 General Fund Tax Collections

(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**26,011**	**25,589**	**422**
Withholding	32,072	31,802	270
Estimated Payments	11,042	10,925	117
Final Returns	2,218	2,190	28
Other Payments	991	1,104	(113)
Gross Collections	46,323	46,021	302
Refunds	(7,251)	(7,512)	261
STAR	(3,293)	(3,293)	0
RBTF	(9,768)	(9,628)	(141)
User Taxes and Fees	**9,313**	**9,153**	**160**
Sales and Use	8,572	8,406	166
Cigarette/Tobacco	518	514	4
Alcoholic Beverage	223	233	(10)
Business Taxes	**5,992**	**6,251**	**(259)**
Corporate Franchise	2,958	3,157	(199)
Corporate Utilities	639	681	(42)
Insurance	1,312	1,266	46
Bank Tax	1,083	1,147	(64)
Other Taxes	**994**	**1,030**	**(36)**
Estate and Gift	978	1,015	(37)
Pari-mutuel Taxes	15	14	1
Other	1	1	0
Total General Fund Taxes	**42,310**	**42,023**	**287**
Miscellaneous Receipts	3,146	3,148	(2)
Transfers	11,985	11,832	153
Total General Fund Receipts	**57,441**	**57,003**	**438**

SFY 2010-11 All Funds Tax Collections

(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**35,857**	**35,899**	**(42)**
Withholding	30,721	30,776	(55)
Estimated Payments	9,752	9,751	1
Final Returns	2,021	1,967	54
Other Payments	1,023	1,091	(68)
Gross Collections	43,517	43,585	(68)
Refunds	(7,660)	(7,686)	26
User Taxes and Fees	**14,145**	**14,183**	**(38)**
Sales and Use	11,474	11,513	(39)
Auto Rental Tax	97	95	2
Cigarette/Tobacco	1,623	1,621	2
Motor Fuel Tax	511	516	(5)
Highway Use Tax	131	129	2
Alcoholic Beverage	228	228	0
MTA Taxicab	81	81	0
Business Taxes	**7,599**	**7,673**	**(74)**
Corporate Franchise	3,159	3,270	(111)
Corporate Utilities	814	836	(22)
Insurance	1,331	1,308	23
Bank Tax	1,218	1,184	34
Petroleum Business	1,077	1,075	2
Other Taxes	**1,765**	**1,665**	**100**
Real Estate Transfer	569	566	3
Estate and Gift	1,178	1,081	97
Pari-mutuel Taxes	17	17	0
Other	1	1	0
Payroll Tax	**1,360**	**1,372**	**(12)**
Total All Funds Taxes	**60,726**	**60,792**	**(66)**

SFY 2011-12 All Funds Tax Collections

(Millions of Dollars)

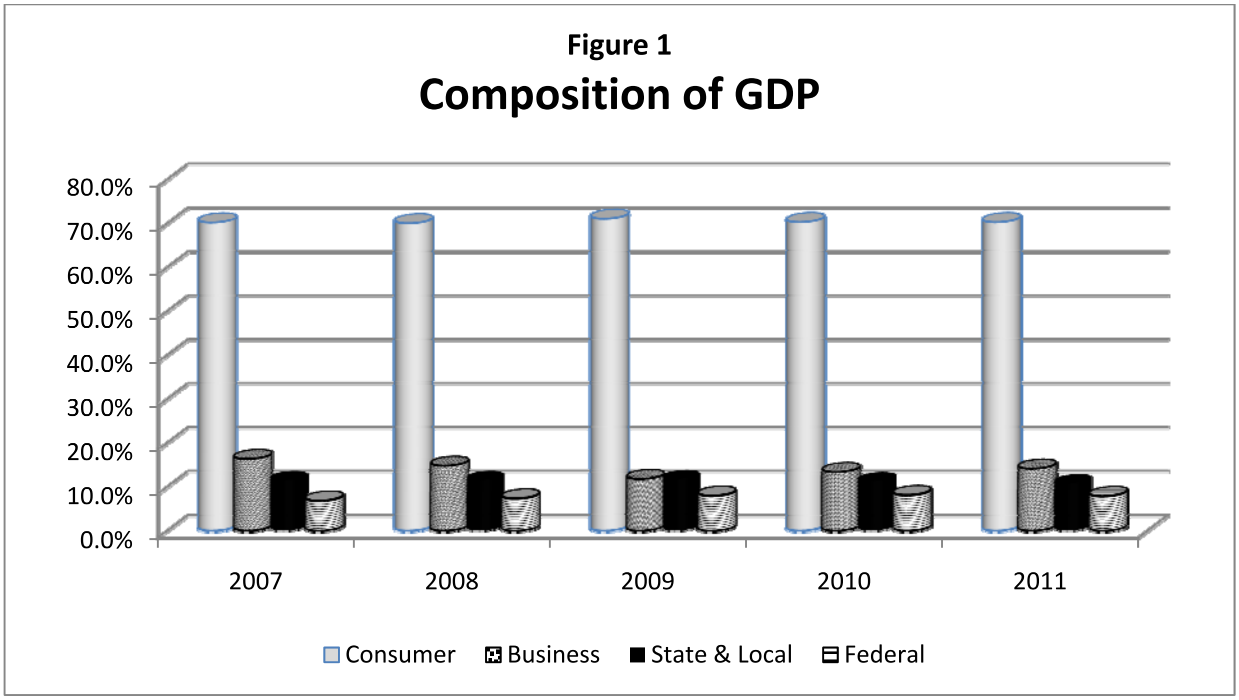
	Senate Finance	Executive Budget	Variance
Personal Income Tax	**39,072**	**38,509**	**563**
Withholding	32,072	31,802	270
Estimated Payments	11,042	10,925	117
Final Returns	2,218	2,190	28
Other Payments	991	1,104	(113)
Gross Collections	46,323	46,021	302
Refunds	(7,251)	(7,512)	261
User Taxes and Fees	**15,042**	**14,810**	**232**
Sales and Use	12,186	11,950	0
Auto Rental Tax	104	102	2
Cigarette/Tobacco	1,799	1,786	13
Motor Fuel Tax	516	518	(2)
Highway Use Tax	128	140	(12)
Alcoholic Beverage	223	233	(10)
MTA Taxicab	86	81	5
Business Taxes	**8,076**	**8,378**	**(302)**
Corporate Franchise	3,407	3,636	(229)
Corporate Utilities	837	892	(55)
Insurance	1,443	1,392	51
Bank Tax	1,267	1,342	(75)
Petroleum Business	1,122	1,116	6
Other Taxes	**1,584**	**1,650**	**(66)**
Real Estate Transfer	590	620	(37)
Estate and Gift	978	1,015	(30)
Pari-mutuel Taxes	15	14	1
Other	1	1	0
Payroll Tax	**1,432**	**1,437**	**(5)**
Total All Funds Taxes	**65,206**	**64,784**	**422**

The National Economy

The national economy as a whole is measured by the Gross Domestic Product (GDP). GDP is 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 make their spending and policy decisions. 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.

Figure one shows how much each sector contributed to the national economy from the beginning of the recession through the current recovery. As shown, the consumer is the biggest contributor to the economy and his contribution to GDP changes little over the six year period.

Business is the second largest contributor to the economy. Even though its share pales in comparison to the consumer, the business sector is as important a contributor to the economy as it drives employment and wages which, in turn, spur consumer spending.



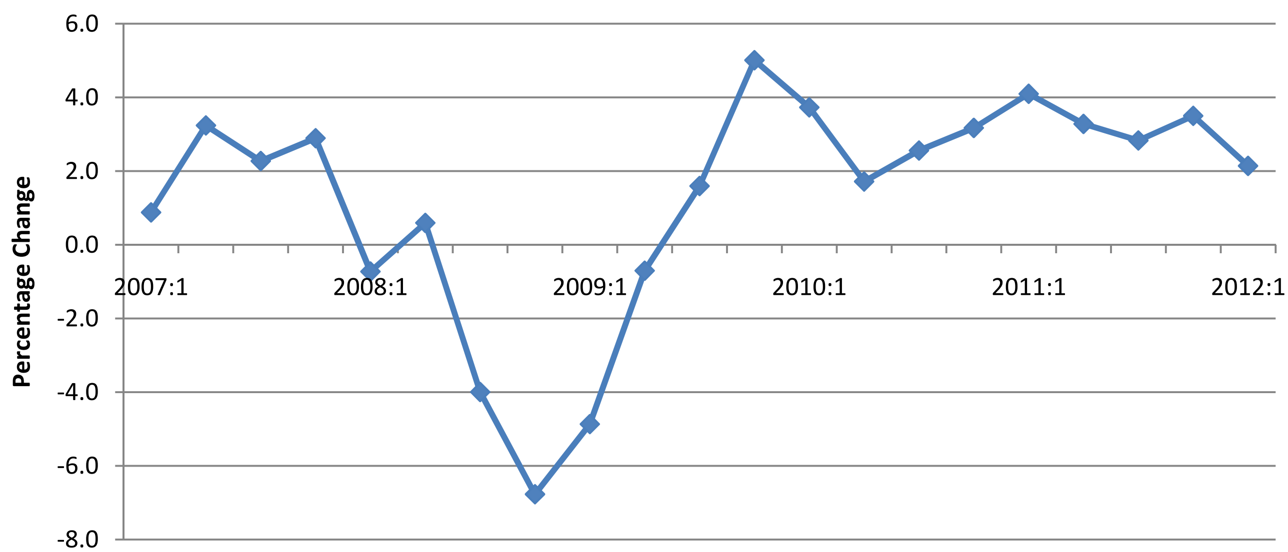
Government, through its own spending habits, also plays a significant part in the economy; state and local government spending contributing more to GDP than Federal spending. The Federal government's role expanded throughout the recession as both monetary and fiscal policies were employed to spur economic growth. However, the contribution to GDP by state and local governments declined as the recession took its toll on tax revenues.

Review of 2010

The longest economic downturn since the Great Depression, now considered the Great Recession, officially ended in June 2009. However, the economic recovery has been extremely slow. Buoyed by the American Recovery and Reinvestment Act (ARRA) that was enacted in the first quarter of 2009, the economy began exhibiting positive growth. As shown in figure two, strong growth occurred in the second half of 2009 as the fiscal stimulus from ARRA made its way through the economy. As the provisions of ARRA expired, economic growth slowed.

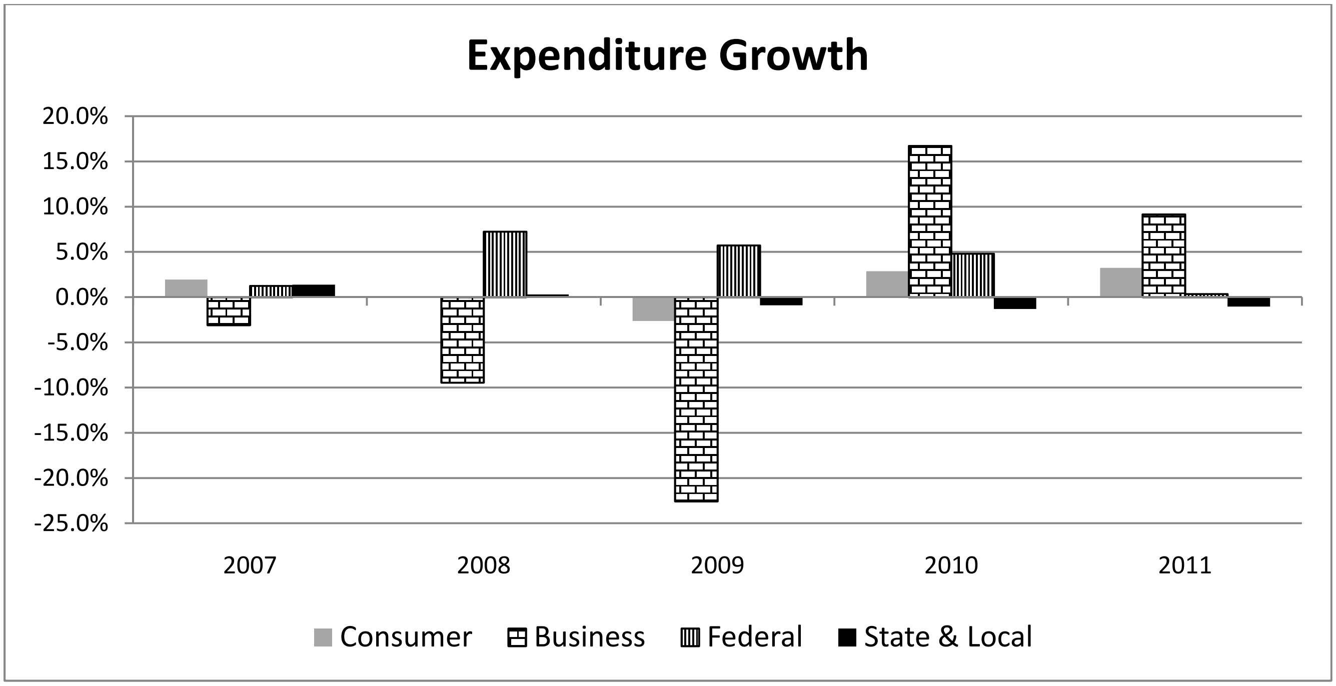
In addition, the solvency of some foreign economies became questionable, causing shockwaves in the financial markets. For all of 2010, the national economy, as measured by real GDP, grew by 2.9 percent.

Figure 2
Real GDP Growth



By employing both monetary and fiscal policy throughout the recession, the Federal government contributed to the economic recovery. With its monetary policies of maintaining the Federal funds rate at close to zero percent and its injection of liquidity into the financial markets with the Troubled Asset Relief Program (TARP), the Federal government served to loosen the credit markets; keeping interest rates on loans low and financial institutions solvent.

Under the American Recovery and Reinvestment Act (ARRA), the federal government increased its spending on state and local governments to provide them with budget relief. In addition, tax cuts were enacted in order to put money in the hands of consumers and businesses to increase their spending. As shown in figure three, the Federal government was the only sector to increase its spending during the recession.



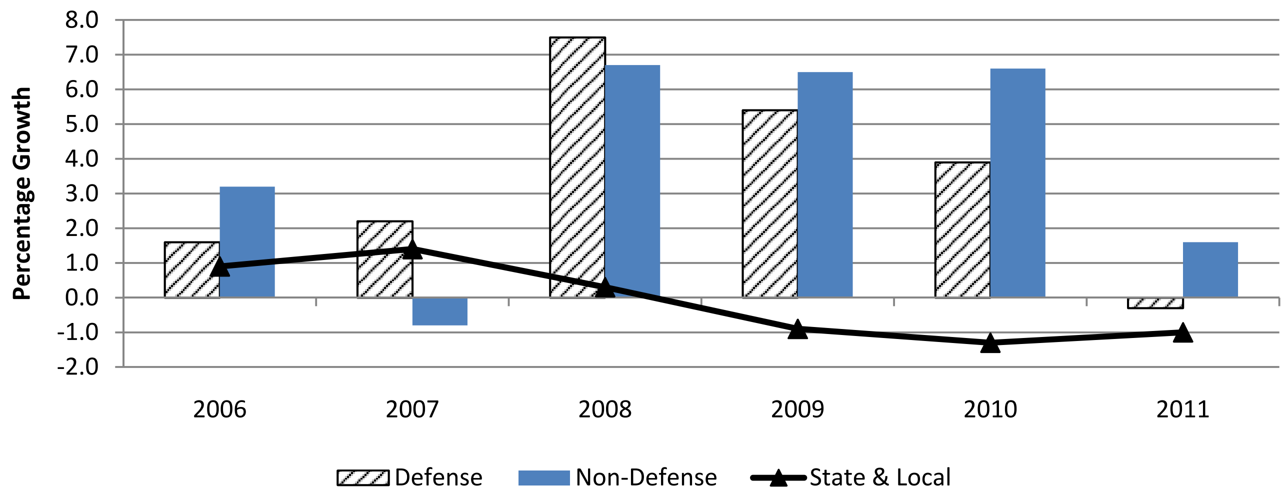
GOVERNMENT SPENDING AND INTERVENTION

Depending upon the state of the economy, the amount that government contributes to GDP varies widely. As mentioned above, the Federal government contributed to the economic recovery. With the buildup of troops to employ the “surge” in Iraq and the focus shifting to Afghanistan, defense spending grew significantly in 2008, increasing by 7.5 percent. Over the next two years, defense spending continued to grow but, at slower rates than in 2008.

Prior to the recession, non-defense spending had declined. However, as the recession hit and the financial markets collapsed, non-defense spending grew as a result of increased spending on Social Security and healthcare as well as the employment of fiscal policy through the Troubled Asset Relief Program (TARP). TARP authorized the Federal government to purchase assets and securities of the county's financial institutions in order to maintain their solvency. With the continued impact of the recession in 2009, spending on entitlement programs continued to contribute to increased spending. In addition, the American Recovery and Reinvestment Act (ARRA) was enacted which primarily provided additional funding to state and local governments although some fiscal relief was given to businesses and consumers. As a result, non-defense spending grew by 6.5 percent.

Figure 4

Real Government Spending



With the slow economic recovery in 2010 – the housing market was still depressed and jobs were still being lost – non-defense spending continued to grow at the same pace as it had in the past two years. In addition, some of the provisions from ARRA were extended, primarily relief for state and local governments.

Although spending by state and local governments accounts for a larger share of GDP, its contribution to economic growth varies widely due to resources being more limited than those at the federal level. The primary limitation is that state and local governments cannot deficit spend like the federal government. State and local government spending is dependent on the economic growth which is manifested through the amount of tax revenues collected. However, there is a lag in the collection of some state tax revenues, especially in relation to the filing of personal income tax returns. As a result, even though the economy slowed down in 2007, state and local government spending increased by 1.4 percent. As the recession deepened in 2008, tax collections were negatively impacted and spending only grew by 0.3 percent. By 2009, state and local governments realized significant declines in their revenues. Even with the fiscal relief provided by the Federal government under ARRA, spending decreased by approximately one percent.

With the economy slowly recovering in 2010, state and local governments were not realizing significant growth in their revenues. With the expiration of the ARRA provisions that boosted their spending, state and local governments were now relying on tax increases as well as spending decreases to balance their budgets. As a result, spending declined by another 1.3 percent in 2010.

Along with government spending impacting economic growth, government policies are used to attempt to influence the overall economy, whether it be to stimulate spending or to control inflation. Although the economy is cyclical in nature, the government tries to ensure that the economy does not expand too quickly – thus causing inflation to spin out of control – or to slow down too quickly – thus causing a recession. There are two mechanisms by which government intervenes in the economy – fiscal policy and monetary policy.

Fiscal policy entails directing the economy through tax policy or through government spending. When the Federal government, or state and local governments, lower taxes, more money is put into the hands of the consumer and business to spend as they wish. During the most recent recession, the federal government used a combination of tax cuts and government spending through ARRA to administer fiscal policy. In 2010, the federal government continued using fiscal policy by extending the homebuyer's tax credit and extending the enhanced reimbursements received by states through the Federal Medical Assistance Percentages (FMAP). At the end of 2010, the tax cuts that were enacted as part of the Economic Growth and Tax Relief Reconciliation Act under the Bush Administration were extended for two more years.

Monetary policy, under the control of the Federal Reserve Board, entails the manipulation of interest rates which impacts the money supply. One of the ways that the Fed manipulates rates is through the interest rate on Federal Funds which is the rate used when banks loan money to each other. The Fed Funds rate then becomes a basis upon which banks then set their own loan rates such as mortgage rates and personal loan rates. When the economy is slow, the Fed will decrease interest rates to reduce the cost of capital in order to spur spending by consumers and businesses; thus boosting the economy. However, if the Fed thinks the economy is growing at too fast a pace and inflation is too high, it will increase interest rates to slow down spending and encourage saving.

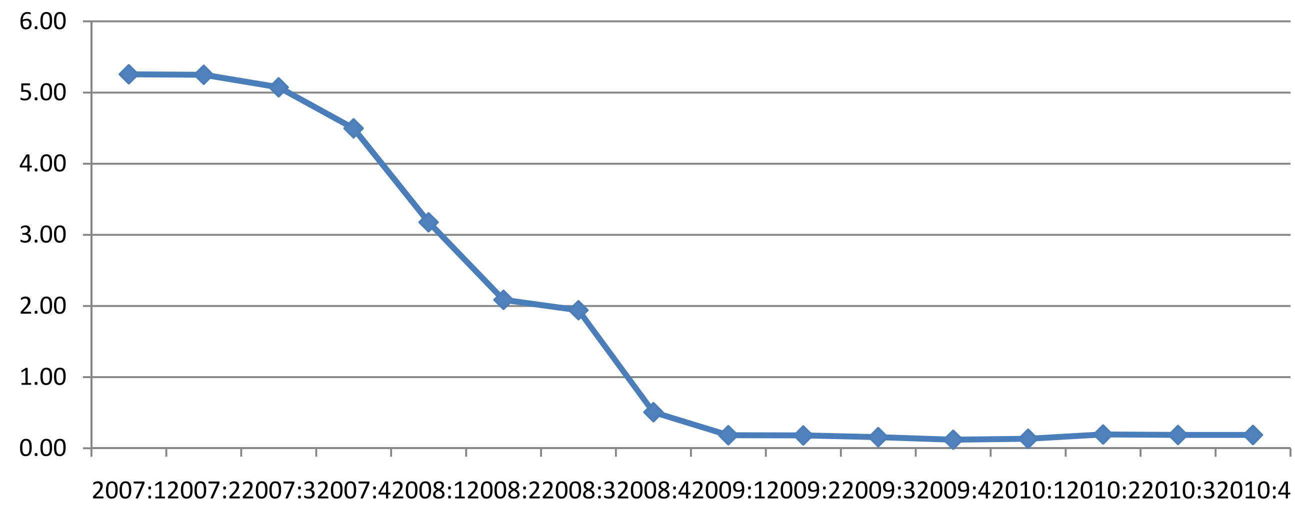
During the recession of 2001, the Fed reduced the Federal Funds rate to one percent in order to spur economic growth. Over the course of the next seven years, the Fed gradually increased rates as the economy recovered and the economic expansion took hold.

At the beginning of 2007, the Federal Reserve had taken a wait and see attitude with regards to interest rates. The economy slowed, but not significantly, and it seemed that inflation was in check. As a result, the Federal Funds rate was maintained at 5.25 percent through the first half of the year. However, as the problems with the subprime mortgage market continued to mount during the summer and the financial markets became increasingly volatile, the Federal Reserve reversed its policy and reduced interest rates.

As the recession deepened, inflation was no longer an issue for the Fed. Instead, its concern was calming investors' fears and loosening the credit markets to allow money to flow through the economy. As shown in Figure 5, the Federal Reserve reduced the Fed Funds rate by approximately 400 basis points over the course of 2008.

Figure 5

Federal Funds Rate



By the beginning of 2009, the Federal Reserve set its Fed Funds rate within the range of zero and 0.25 percent. With the slow economic recovery, the Fed has maintained this range throughout 2009 and 2010.

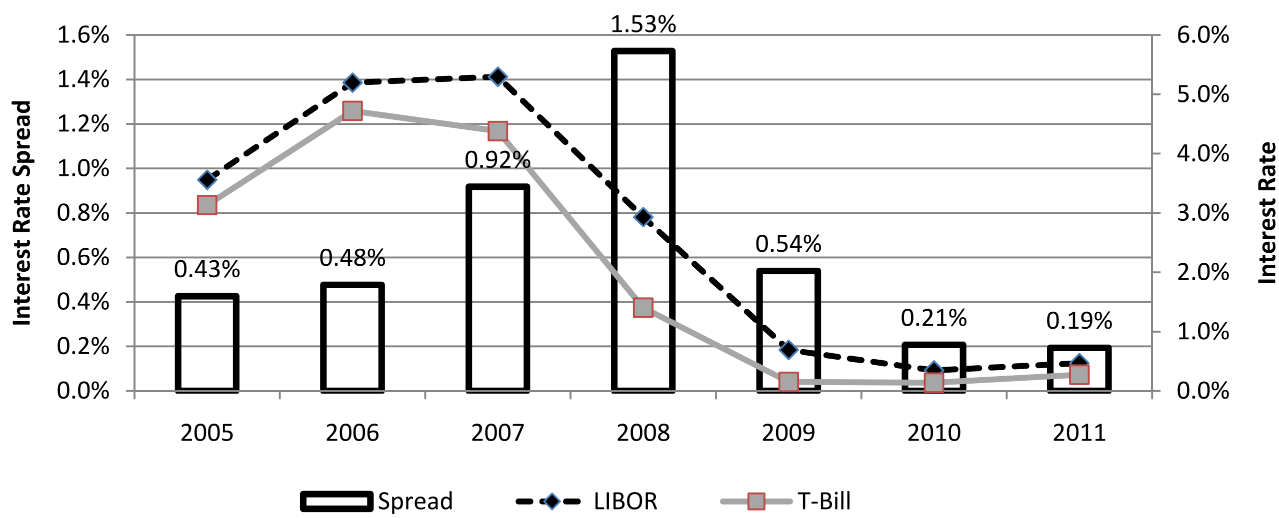
Along with reducing the federal funds rate, the federal government used monetary policy through what has been called Quantitative Easing. This program, also known as the Troubled Asset Relief Program (TARP), allowed the U.S. Treasury to purchase mortgage backed securities from various financial institutions across the country. The securities that were purchased were bonds backed by mortgages or assets that became illiquid as a result of the collapse of the subprime mortgage market. By purchasing these securities, the Treasury provided liquidity, in the form of money supply, into the marketplace as well as improving the bottom line of the financial institutions. Due to the hesitancy to give out loans on the part of banks, increased liquidity allowed financial institutions the ability to make new loans to spur spending growth. The Federal Reserve also purchased Treasury bonds to inject additional money supply into the market and to keep interest rates low.

FINANCIAL MARKETS

With the bursting of the housing market bubble and the crisis in the subprime mortgage market, the financial markets were significantly impacted. Not only did financial institutions curtail their lending to businesses and consumers, they curtailed their lending to other banks. Prior to the credit crisis, the London Interbank Offered Rate (LIBOR), the rate at which banks loan money to each other, did not deviate significantly from the interest rate on treasury bills; LIBOR rates ranged from 20 to 50 basis points higher. As the credit crisis took hold, the spread between these interest rates widened. Banks were less likely to loan money to other banks and, if they did, charged more in interest to do so. As the Federal government implemented the TARP program to buy assets of troubled financial institutions, the spread narrowed once again, as shown in Figure 6.

Figure 6

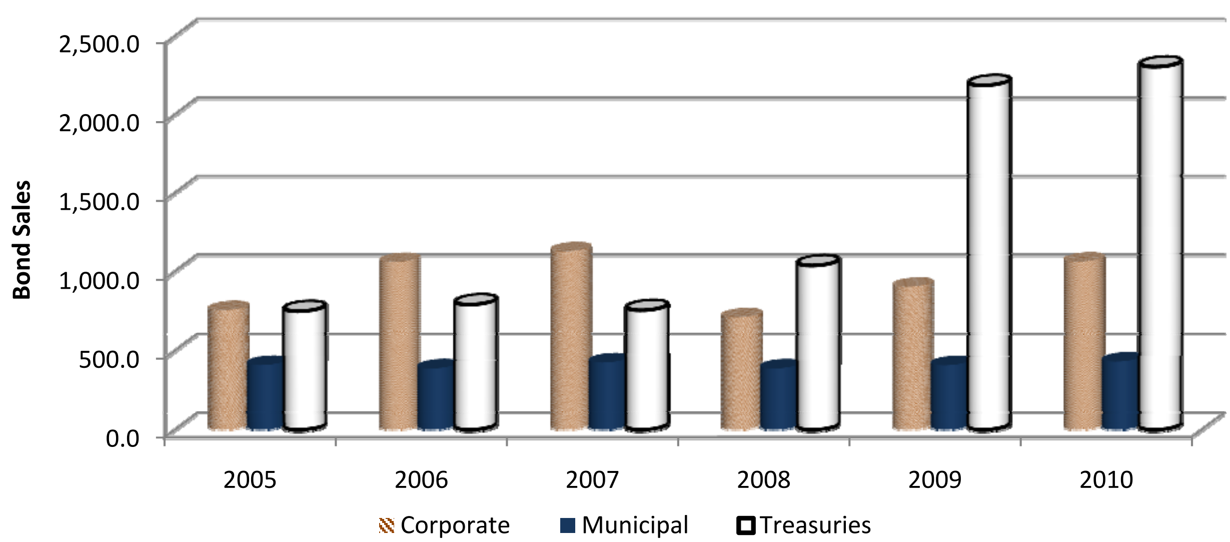
Interest Rate Spread



Investors preferred to buy safe assets such as Treasury bills and bonds. Buyers of municipal and corporate bonds purchased only highly rated bonds; imposing high premiums on the lower rated ones. With the "flight to safety" during the credit crisis, investors increased their purchases of treasury bonds while the amount of corporate and municipal bonds being sold declined. The Federal Reserve's policy of quantitative easing also caused the issuance of treasuries to grow exponentially, as shown in Figure 7. With the creation of the Build America Bond program to allow municipalities wider access to the bond markets, municipal bond issuances grew in 2009 and 2010.

Figure 7

Bond Issuances

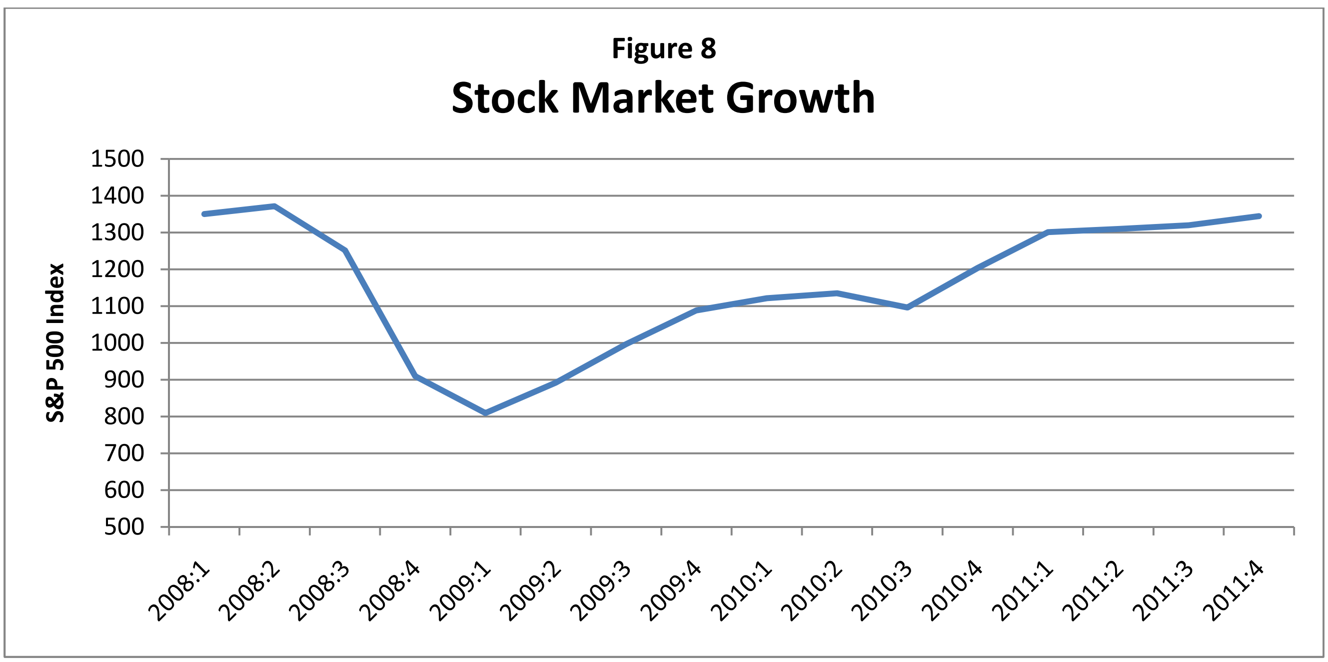


Source: SIFMA

The equities markets were negatively impacted by the recession as well as well as the bond markets. By the end of 2008, the S&P 500 declined by approximately 600 points from its peak in 2007. During the first quarter of 2009, the stock market continued to decline; the S&P

500 falling by an additional 100 points. As the financial market crisis waned and the recession came to an end, the stock market started to increase in value. With uncertainty surrounding the economic recovery, growth in the stock market was equally uncertain. By the end of 2009, the S&P 500 gained 179 points.

As the recovery continued into 2010, the stock market continued to grow, increasing by approximately 21 percent. However, the stock market maintained its previous volatility as concern over debt levels in certain European countries came to the forefront.

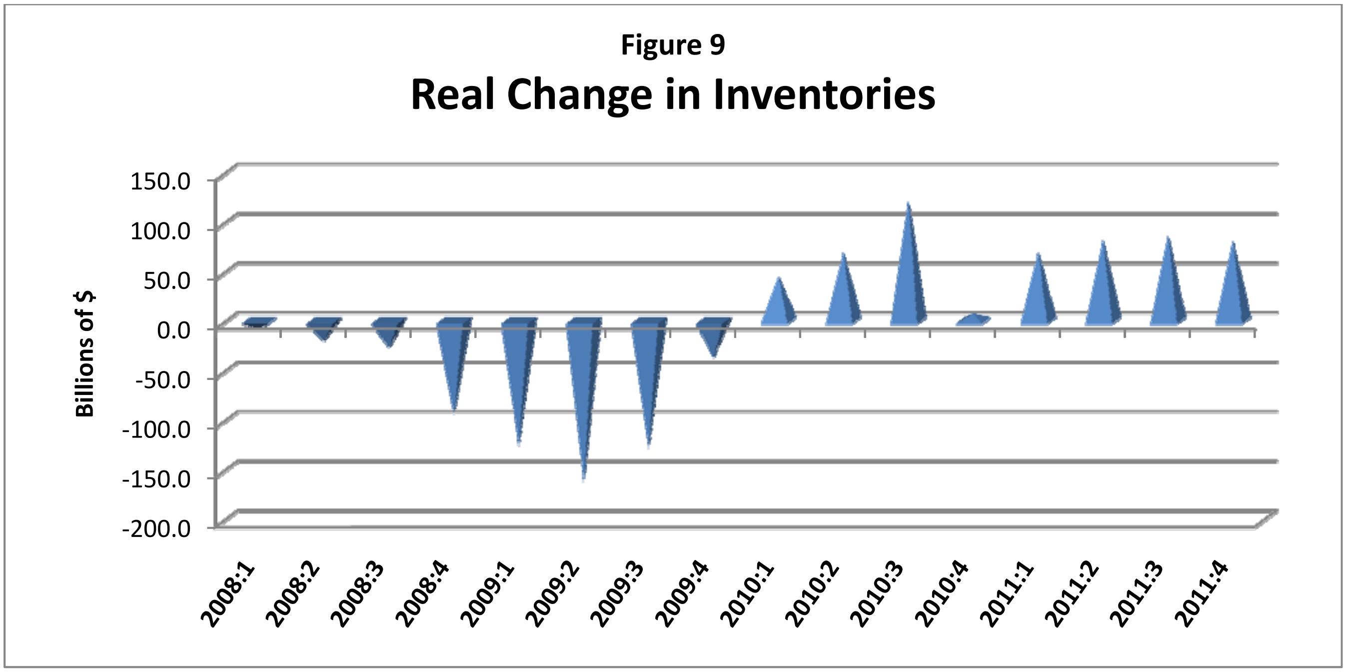


BUSINESS

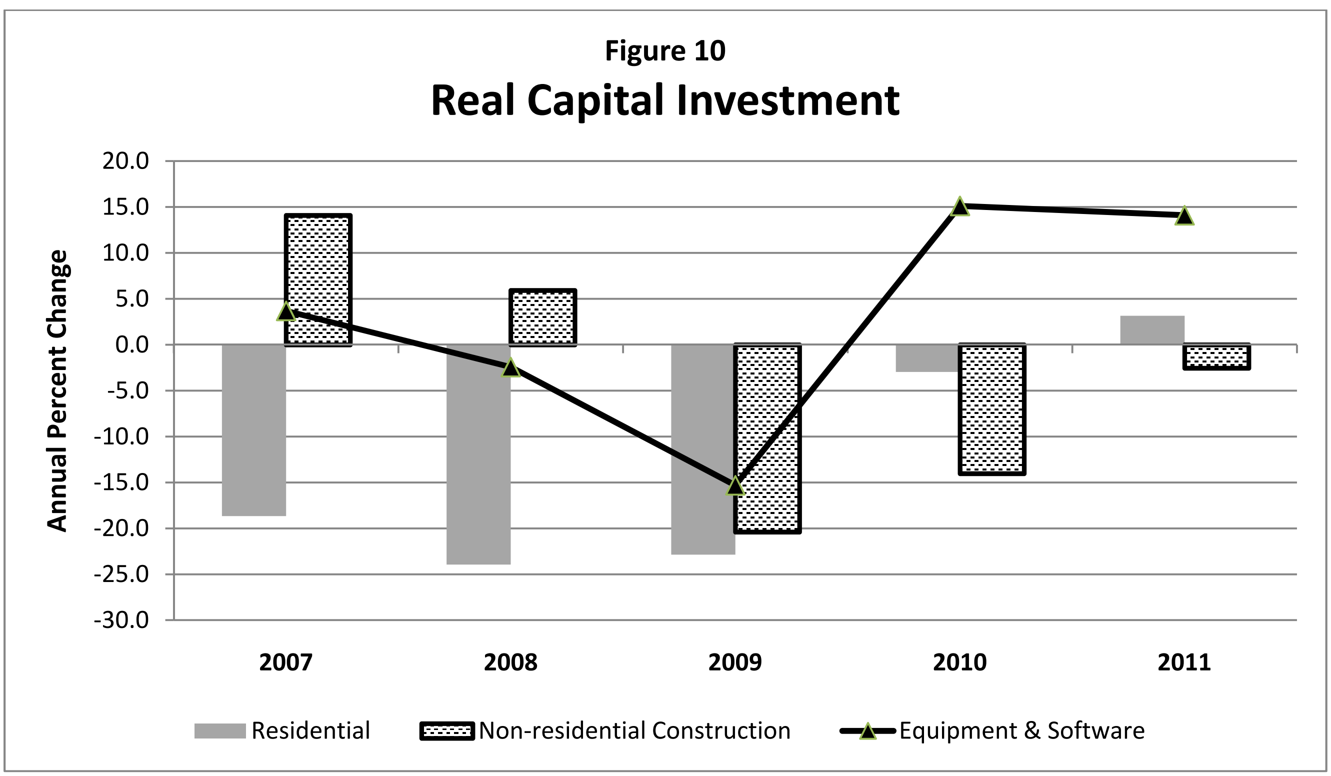
The focal point of the decline in business spending during the past recession was not only the impact on the financial markets as a result of the credit crisis but, also the large inventory decumulation that took place. With the economy slowing down in 2007, businesses sensed that they did not need to increase their inventories at the same pace as they had in the previous years. As the recession deepened in 2008, decreased household wealth and the very real prospect of unemployment caused the consumer to tighten up his purse strings and decrease consumption. With no demand for their goods and services, businesses found that they needed to expend their current inventories and decreased production.

By the time the recession ended in June 2009, inventory decumulation had reached its highest levels; inventories declining by almost $162 billion. Even though the economy was exhibiting signs of recovery in the second half of 2009, businesses remained skeptical and were not increasing their inventories.

By 2010, businesses realized that they would have to rebuild some of their inventories as the economy started to grow again. As a result, decumulation turned into inventory accumulation. However, businesses were still cautious; rebuilding their inventories at a slower rate.



With decreasing inventories and a tight credit market, businesses saw no reason to make any capital investments. In addition, the housing market downturn served to depress any residential fixed investment. As shown in figure 10, there was no growth in any sector of capital investment in 2009.

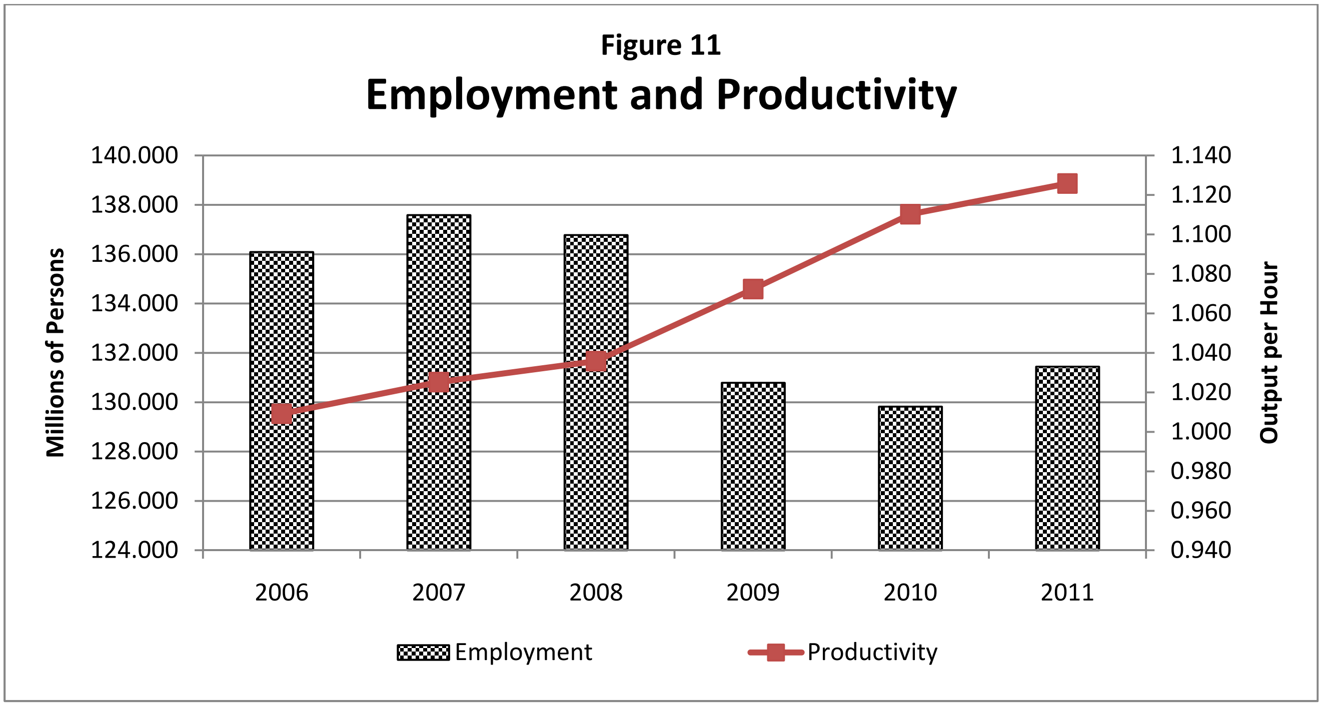


Equipment and software purchases by businesses comprises a majority of the investment spending due the changes in technology and the shorter useful life of equipment. Although businesses do need to maintain and renovate their facilities, capital investments in facilities have a much longer life.

Similar to the previous recession, businesses postponed their capital spending. With the inventory decumulation, businesses could maintain their production with their current equipment. In 2010, when market conditions indicated that inventories needed to be restored, businesses realized that they could not do so without making an investment in their equipment. As a result, equipment and software spending increased by approximately 15 percent.

As previously stated, facilities and their associated capital improvements have a much longer useful life than equipment. Prior to the recession, when businesses were expanding, they had a need for additional facility space as well as renovations to their operations. As consumer demand for their goods and services declined and the workforce shrunk, there was no need for expanded facilities. Although interest rates were still low in 2010, the economy had not recovered enough to warrant additional investment in structures; resulting in an additional decline of 14 percent.

As capital investment by businesses declined, so did their investment in labor. With the declining inventories, there was no need for the labor to produce these inventories. Therefore, businesses started to reduce their workforce. Even when the need for inventories returned, businesses, while investing in equipment, utilized their existing employees. As shown in the figure 11, employment decreased significantly in 2009 but productivity increased. The economy continued to shed jobs into 2010. However, businesses were still getting increased productivity from their workers.

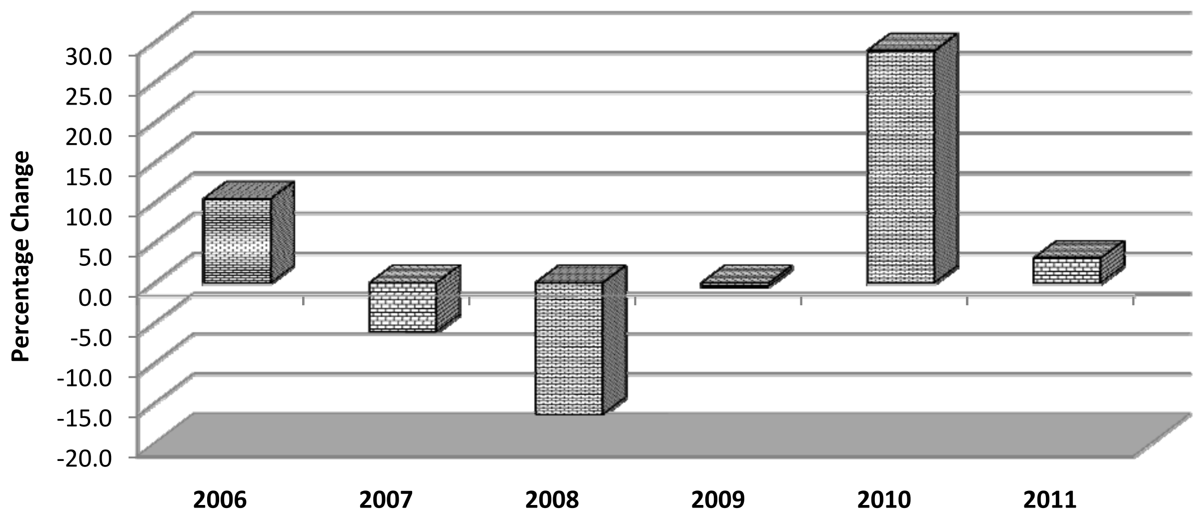


The severe economic downturn also impacted business' bottom line. Corporate profits showed double digit declines in 2008. While this decline is attributable to all businesses, the financial markets realized the biggest decline due to the large decline in the stock market and the impact of the subprime mortgage collapse.

In 2009, corporate profits fared no better. While not the double digit decline of the previous year, corporate profits still declined by 0.4 percent. As the financial markets were the drivers of overall corporate profit decline in 2008, their profits were an offsetting factor in 2009. The growth in the stock market and the infusion of federal funds in the form of the TARP positively impacted their bottom lines.

Figure 12

Corporate Profit Growth

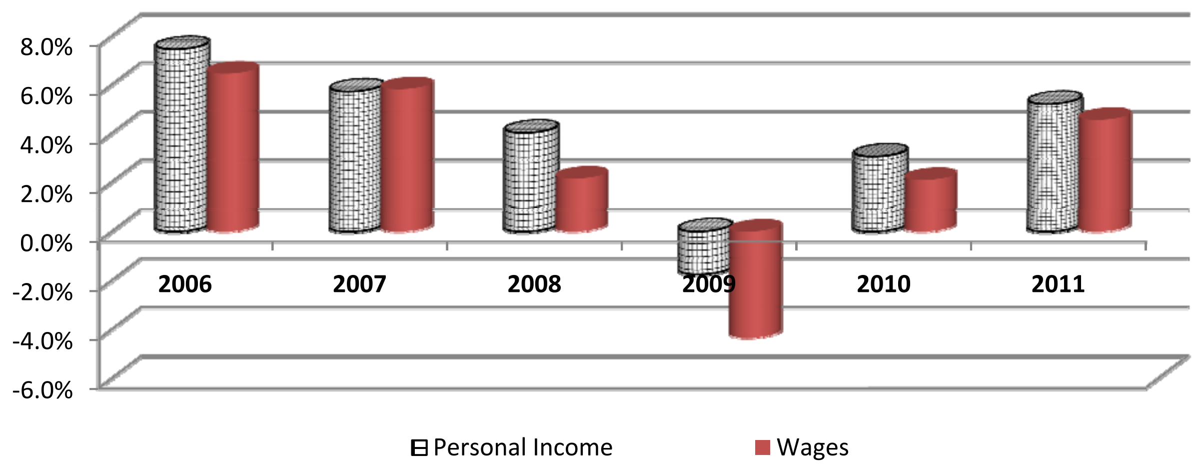


As the recession ended and the economy began to recover, businesses became more profitable. In addition, since businesses were realizing increased productivity with less workers, their profits increased significantly in 2010; corporate profits increased by approximately 29 percent.

THE CONSUMER

In 2009, the consumer saw both his wages and income decline. Even though businesses were still not willing to increase employment, wages grew in 2010; increasing by 2.1 percent. Personal income fared better, growing by three percent, benefitting from stronger growth in proprietor's income.

Figure 13
Wage and Income Growth



As previously stated, the consumer is the most significant contributor to economic growth. During the previous recovery, it was the consumer that drove economic growth as business held close control over its spending. However, as consumers realized a precipitous drop in their household wealth as a result of job losses and declining home values, they were the ones keeping tight control over their household budgets; decreasing their spending on all components of consumption.

As shown in Figure 14, the recession negatively impacted all sectors of consumption with the most emphasis on consumption of durable goods as a result of the housing market crisis. The consumption of these goods was also impacted by the tight credit conditions as most of these goods are bought with some form of credit.

Figure 14

Real Consumption Growth

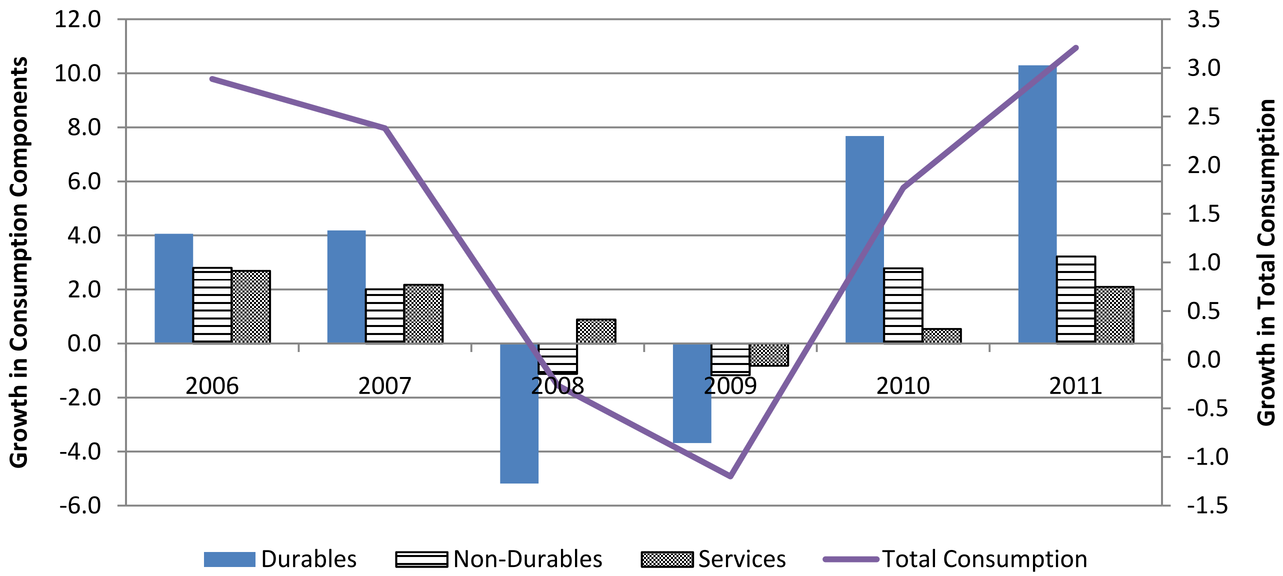
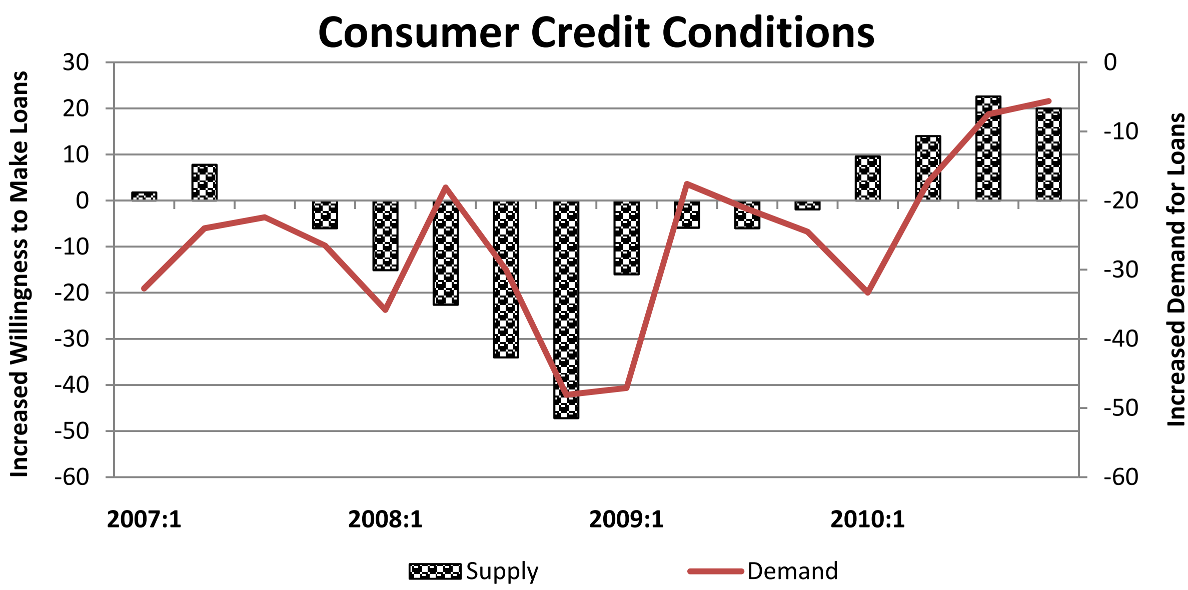


Figure 15 illustrates that during the course of the recession, banks were not willing to make loans to consumers. As the economy recovered, more and more financial institutions were willing to loosen their credit standards and make more loans. However, with the mortgage crisis and the reduced personal income, consumers were also not willing to take on additional debt. Even as more banks were willing to lend in 2010, demand for consumer credit remained negative.

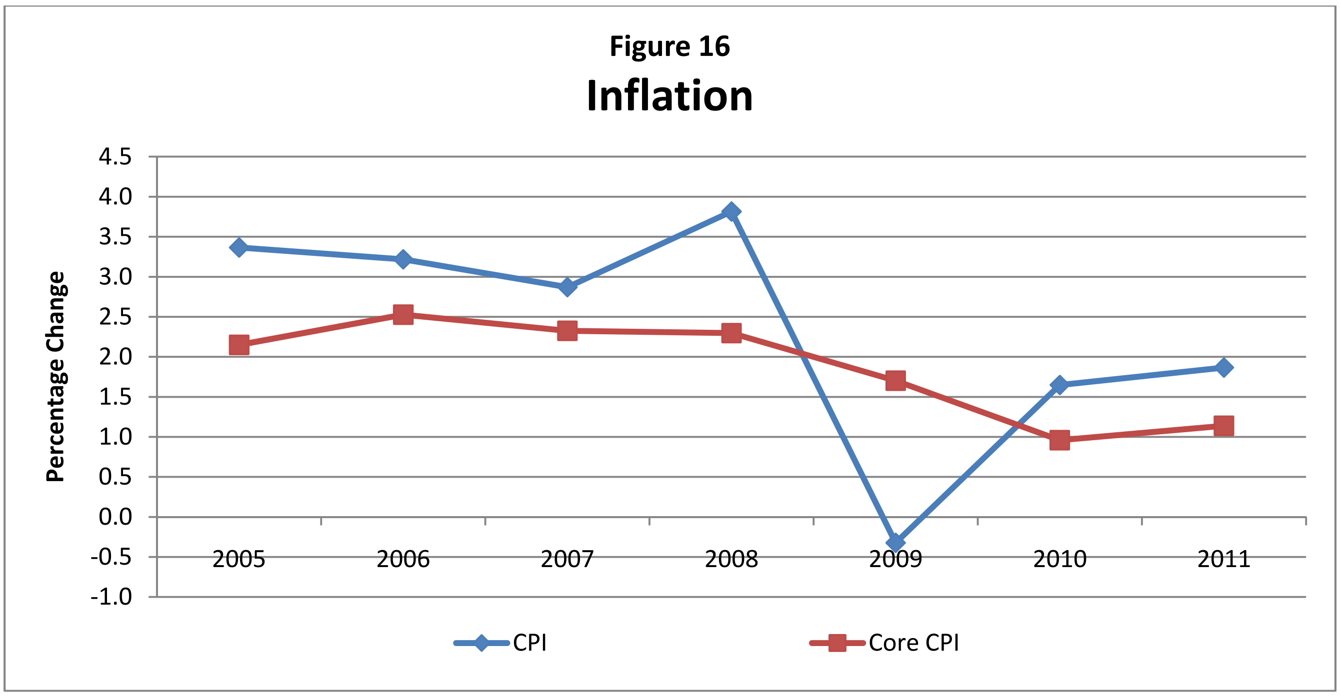
Figure 15



Source: Federal Reserve Board, Senior Loan Officer Opinion Survery

With the enactment of the American Recovery and Reinvestment Act, the federal government put created temporary tax incentives to stimulate consumer spending. The Making Work Pay credit, along with the first time homebuyer's tax credit and the sales tax deduction for new vehicles, restrained the drop in consumption in 2009. As the homebuyer's tax credit was extended into 2010 and the other provisions of ARRA were realized in consumers' annual personal income tax returns, consumption was positively impacted, especially the consumption of durable goods.

With the economic downturn, inflation, as measured by changes in the Consumer Price Index (CPI), was not an issue. With the lack of spending by both consumers and businesses, there was no upwards pressure on prices. In 2009, the economy exhibited deflation as the CPI declined by 0.3 percent. Historically, the core inflation rate trends lower than the inflation rate due to fluctuations in food and energy prices. Due to declines in oil prices in 2009 which held the inflation rate to below zero, the core inflation rate increased by 1.7 percent. Although oil prices began to climb again in 2010, businesses were wary about passing on any of their cost increases to the consumer. As a result, inflation increased by 1.6 percent; core inflation increasing by one percent.



The Consumer Price Index increased by 3.4 percent in 2005, evidenced more by the price spikes immediately following the hurricanes rather than overall price increases. The Federal Reserve had been observing these price increases and, as such, started to increase interest rates. As shown in figure 16, the core inflation rate, had only increased by 2.2 percent at the end of 2005. Inflation continued to fluctuate in 2006, declining in the fourth quarter as a result of a decline in energy prices. These price declines were short lived and inflation continued in 2007;

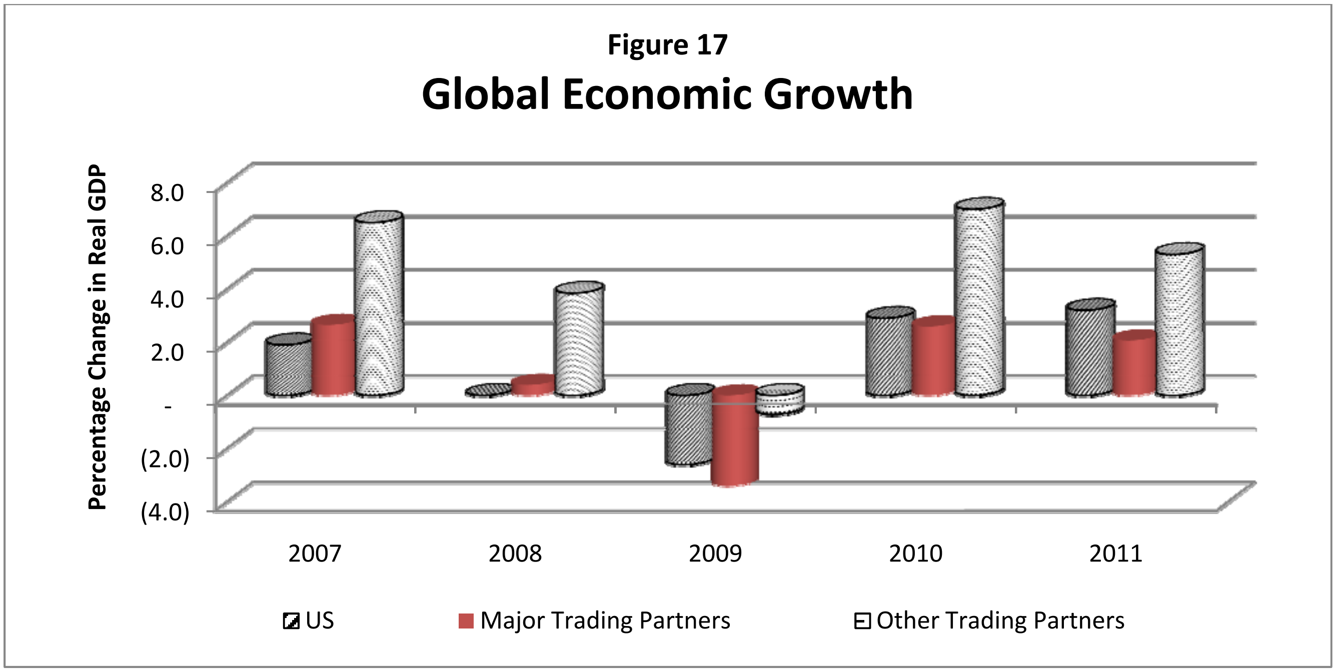
increasing by 2.9 percent. However, as the figure shows, core CPI fluctuated slightly from the 2 percent mark; the standard by which the Federal Reserve measures inflation.

THE GLOBAL ECONOMY

Although it is not a major component of the national economy as measured by GDP, the global economy does have a significant impact. This impact is reflected not only in relation to the value of the dollar compared to other currencies but with the strengths or weaknesses of other national economies. This impact is primarily reflected in the amount of imports and exports into and out of the United States but, more recently, has been reflected in changes in the financial markets.

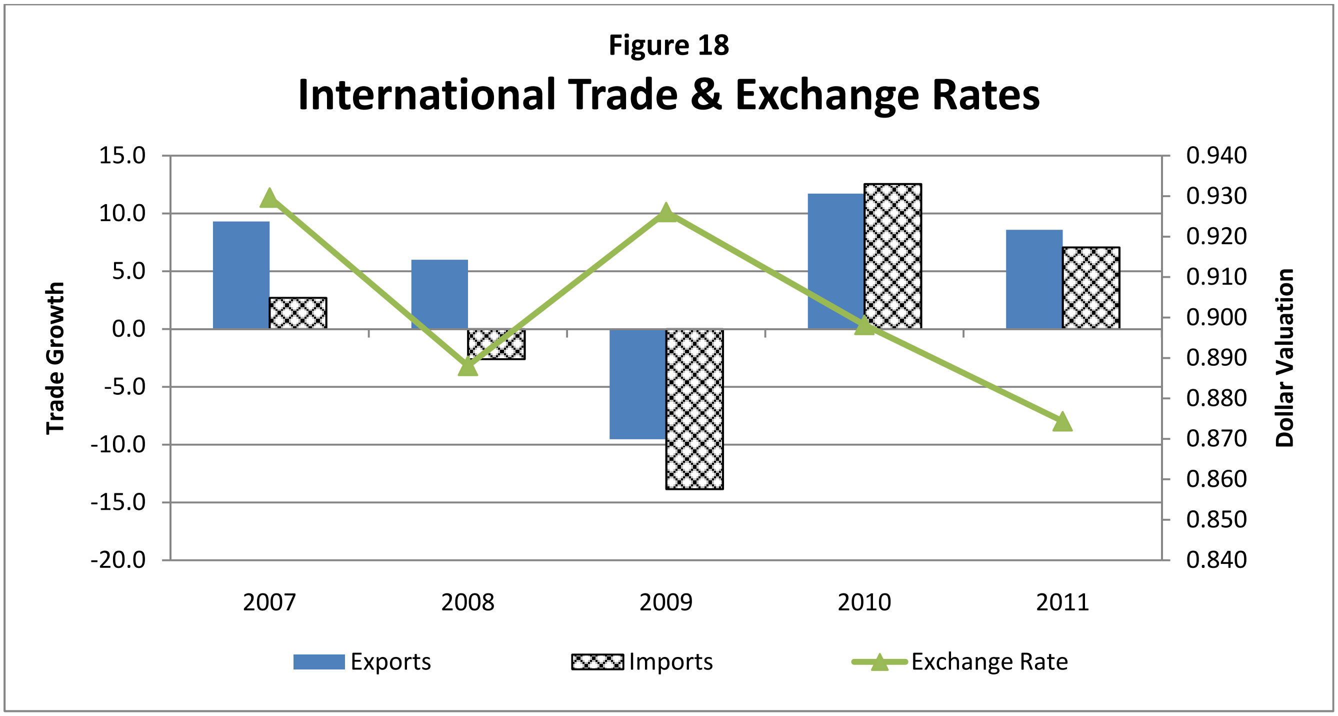
When other national economies are strong, the demand not only increases for their own domestic goods but, for imported goods as well. This increases the amount of U.S. exports. Another result of economic strength in other countries is increased competition for resources. Prices for these resources increase; thus, fueling inflation. This has especially been shown in relation to oil prices. China, for example, has an increasingly stronger economy whose demand for energy has grown significantly. That demand causes large increases in oil prices as the world supply of oil is increasingly limited.

As shown in figure 17, growth in the national economy started to lag the growth in the economies of our trading partners prior to the start of the recession. As the recession deepened, the economies in these other countries declined as well although they were still showing economic growth. By 2009, the global economies were all in decline. Once the recession ended and the recovery began, the global economies expanded once again. Since the impact of the recession was much less severe on emerging markets (other trading partners), their economies recovered at a much stronger rate in 2010.



The value of a nation's currency also helps or hinders export and import growth. When the value of the currency increases, the price of domestic goods increases; making them more expensive compared to imported goods. Conversely, when the value of the currency declines, domestic goods become less expensive. When the value of a currency declines, that nation also becomes more attractive to foreign travelers. Not only are the goods less expensive but services, such as hotel rooms, are less expensive as well.

As the global recession impacted the global financial markets, dollar denominated assets became a safe haven for the world's investors in 2009. In addition, long term interest rates in the US were higher than interest rates in its major trading partners. These factors increased the demand for the dollar causing it to appreciate. With less volatility in the financial markets and global economic growth, especially in the emerging markets, the dollar depreciated again in 2010.



Both US exports and imports declined in 2009, declining by 9.5 percent and 13.5 percent, respectively. The larger decline in imports was due not only to decreased consumer demand but also to the inventory decumulation by businesses.

In 2010, both exports and imports grew as the economy recovered, increasing by 11.7 percent and 12.6 percent, respectively. Although exports benefitted from the dollar depreciation, the growth in imports was attributable to the growth in inventories.

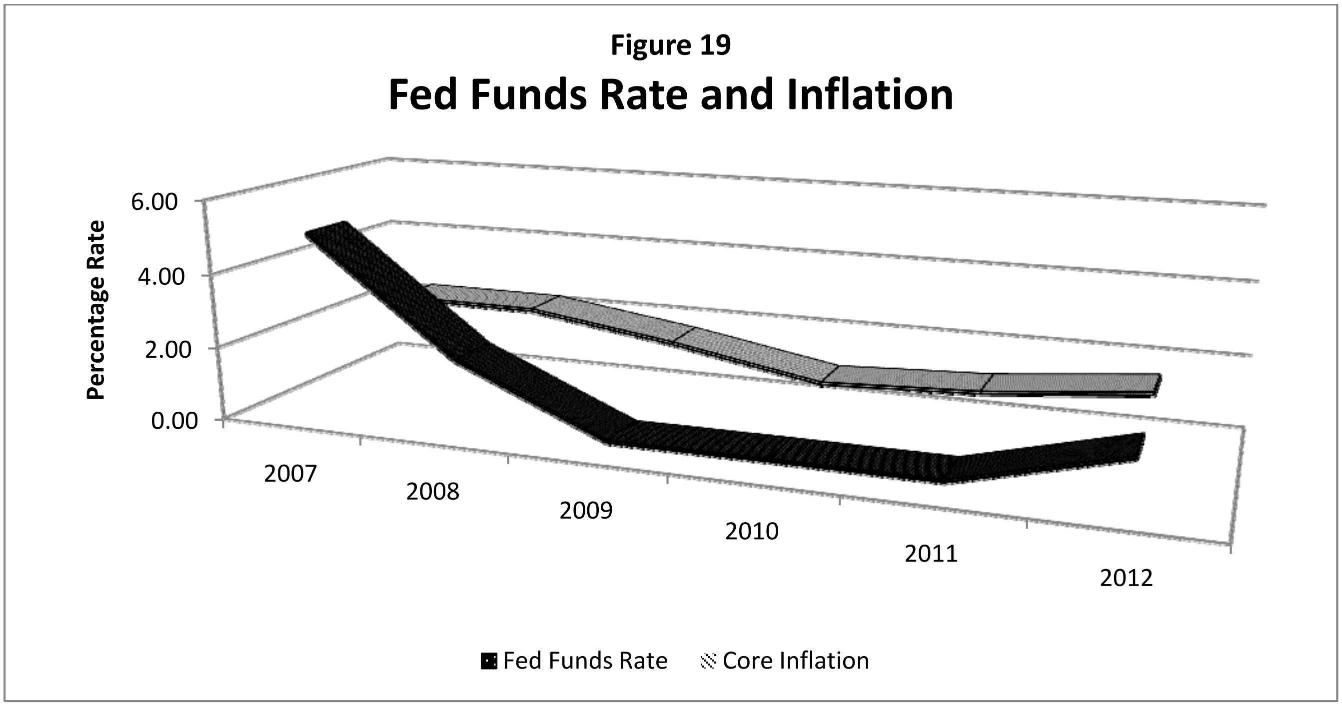
<u>Outlook for 2011</u>

As 2011 began, the economic recovery seemed to be taking hold. Initial claims for unemployment insurance were decreasing during the final quarter of 2010 and continued to do so. Although weekly claims were still showing some volatility, initial claims maintained their downward trend. In turn, the consumer regained some confidence. The consumer was loosening his purse strings by the end of 2010, increasing his holiday sales. The stock market continued its upward trend although the political unrest in North Africa has caused some concern. As a result of these positive indicators, real GDP is projected to grow by 3.2 percent in 2011.

The Federal government is still utilizing fiscal and monetary policy to sustain this recovery. At the end of 2010, the Bush era tax cuts (tax cuts that were enacted as part of the Economic Growth and Tax Reconciliation and Relief Act and the Jobs and Growth Tax Relief Reconciliation Act) were extended along with a decrease in the payroll tax. In addition, the US Treasury will employ another round of quantitative easing (currently called QE2) by which it will purchase up to $600 billion in long term treasuries. QE2 is projected to maintain low yields on treasuries which would, in turn, decrease interest rates on consumer loans and mortgages that are tied to those yields.

The Federal Reserve is projected to maintain the Fed Funds rate at its current levels; an increase not expected until the first quarter of 2012. Inflation is not a concern of the Fed for

2011. The core inflation rate is projected to be 1.1 percent for 2011, below the two percent benchmark that the Federal Reserve uses.

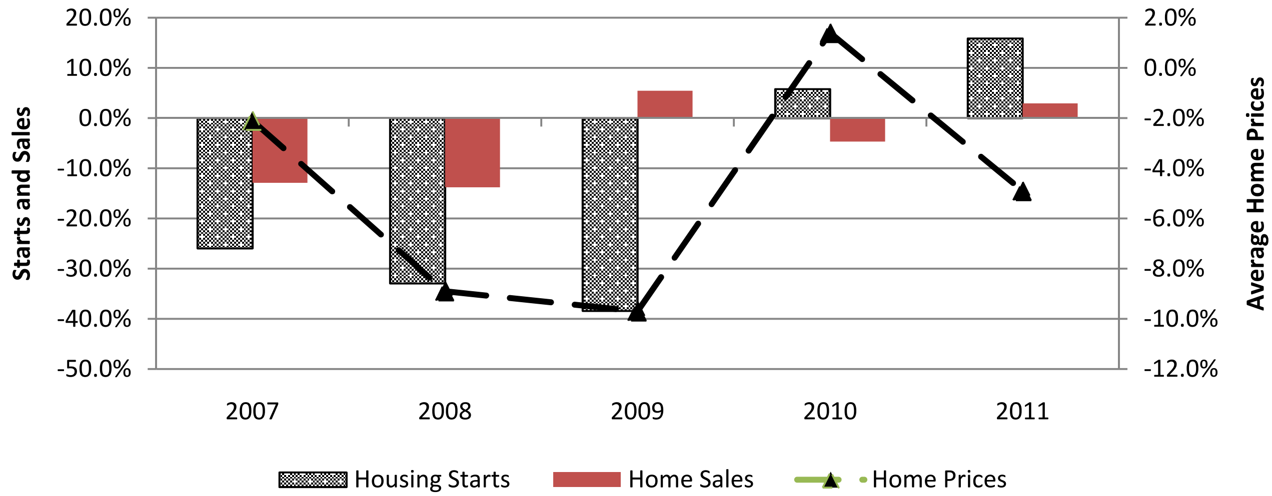


With the Fed maintaining its current interest rate policy as well as the use of QE2, mortgage rates are projected to stay low; the 30 year fixed rate projected to stay below five percent. However, the housing market is not projected to be in recovery in 2011. As shown in Figure 20, the housing market benefitted from the first time homebuyer's tax credit that was in effect from 2009 through the first quarter of the 2010. Once this tax credit expired, home sales declined. With the continued low interest rate environment, both housing starts and existing home sales are projected to grow, increasing by 15.9 percent and 2.9 percent, respectively.

Although the average home price did increase in 2010, this increase coincided with the tax credit. Once the tax credit expired, home prices fell, once again. Home prices are projected to remain depressed, declining by 4.9 percent in 2011.

Figure 20

Housing Market Growth



As businesses continue to accumulate inventories in 2011 in response to the continued economic recovery, capital investment will continue to grow by 9.2 percent. This growth is mainly attributable to the continued growth in spending on equipment and software as businesses take advantage of the bonus depreciation rules that were extended at the end of 2010. With the growth in projected housing starts and home sales, residential investment is projected to grow by 3.2 percent after five years of declining investment. Limiting total investment growth is non-residential fixed investment which is projected to decline by 2.5 percent.

With productivity growth flattening out, businesses will find that they need to increase their investment in the labor market. Employment growth is projected to return in 2011, increasing by 1.25 percent. This increase in employment will, in turn, reduce the unemployment rate from 9.6 percent in 2010 to 9.0 percent in 2011. Along with this employment growth, wage growth is projected to continue, grow at a stronger rate of 4.6 percent.

The consumer will once again take the leading role with spending growth in 2011. With increased employment and wages, as well as the benefit of the decreased taxes from the reduction in the payroll tax, the consumer has more money in his pocket for which to spend. Personal income is projected to grow by 5.2 percent, resulting from strong growth in proprietor's income combined with the strong wage growth.

With more banks willing to make consumers loans as well as some positive signs in the housing market, consumer spending on durable goods continues to outpace spending on non-durables and services. Consumption of all goods and services are projected to increase by 3.2 percent for all of 2011.

Risks to the Forecast

The housing market continues to be a risk for the economy. Home sales are still weak and there is a large supply of homes on the market. This combined with the continued decline in home prices erodes the consumer's household wealth as well as consumer confidence, negatively impacting consumption.

With the risk for decreased consumption, businesses would have less demand for their goods and services, reducing their profits. Without these profits, businesses would be unable to increase their investments in capital goods as well as in their labor force.

Another risk to the forecast is the political conflicts in Africa and the debt crises in certain European countries. The political conflicts could impact oil supply, putting upward pressure on oil prices. Increases in oil prices and their impact on the costs of producing and transporting goods as well as the impact on the consumer's discretionary spending are a major concern. If inflation as a result of increased oil prices goes beyond the Fed's targeted rate, the Fed may be forced to increase interest rates before 2012 to fend off inflation at the expense of spurring economic growth.

As a result of the debt crises in the Eurozone, those countries impacted may have to adhere to fiscal austerity measures which could impact their economic growth. With the uncertainty, the financial markets would be impacted as investors turn to U.S. Treasury securities and away from the equities markets.

With the increased demand for U.S. treasuries, the value of the dollar would increase. This appreciation in the dollar would have a negative impact on the nation's exports. With the dollar depreciation in 2010 as well as the recovering economy, the nation realized export growth. By making the price of the nation's goods and services more expensive in relation to other currencies would cause the amount of exports to decline.

A depreciating currency also increases domestic tourism since foreign travelers realize increased buying power in relation to their own currency. However, a weaker currency lowers the demand for domestic investment. Foreign investors then require a higher rate of return (e.g. higher interest rates) to be compensated for the lower value of their investment. A further depreciation in the dollar accompanied by the projected decrease in interest rates by the Federal Reserve could reduce this foreign investment.

United States Economic Outlook

(Dollar Figures in Billions of Dollars)

	2010	2011	2012	2013
GDP	$14,660	$15,331	$15,972	$16,715
Percent Change	3.8	4.6	4.2	4.6
Real GDP	$13,249	$13,677	$14,701	$14,501
Percent Change	2.9	3.2	2.9	3.1
Consumption Expenditures	$9,316	$9,615	$9,863	$10,048
2005 Dollars, Percent Change	1.8	3.2	2.6	1.9
Government Expenditures	$2,570	$2,558	$2,522	$2,512
2005 Dollars, Percent Change	1.1	(0.5)	(1.4)	(0.4)
Investment Expenditures	$1,769	$1,931	$2,097	$2,295
2005 Dollars, Percent Change	16.7	9.2	8.6	9.4
Change in Inventories	$60	$79	$48	$44
2005 Dollars, Percent Change	153.4	31.2	(39.6)	(8.4)
Exports	$1,665	$1,809	$1,967	$2,135
2005 Dollars, Percent Change	11.7	8.6	8.7	8.7
Imports	$2,087	$2,234	$2,359	$2,452
2005 Dollars, Percent Change	12.6	7.1	5.6	3.9
CPI - All Urban, Percent Change	1.6	1.9	1.7	1.9
CPI - Core, Percent Change	1.0	1.1	1.6	1.8
Pretax Corporate Profits	$1,622	$1,672	$1,682	$1,735
Percent Change	28.9	3.1	0.6	3.2
After-tax Corporate Profits	$1,382	$1,194	$1,231	$1,456
Percent Change	30.2	(13.6)	3.1	18.3
Personal Income	$12,545	$13,198	$13,634	$14,260
Percent Change	3.0	5.2	3.3	4.6
Wages and Salaries	$6,405	$6,696	$7,027	$7,365
Percent Change	2.1	4.6	4.9	4.8
Nonagricultural Employment, Millions	129	131	134	137
Percent Change, Seasonally Adjusted	(0.7)	1.3	2.0	2.0
Unemployment Rate	9.6	9.0	8.5	7.8
Interest Rates				
T-Bill Rate, 3-Month	0.14	0.27	1.44	3.39
T-Note Rate, 10-Year	3.21	3.42	3.63	4.63
T-Bond Rate, 30-Year	4.25	4.61	4.68	5.03
Standard and Poor's 500 Stock Index				
Percent Change	20.3	15.8	6.6	5.7

Source: IHS Global Insight US Macroeconomic Forecast: February 2011

The New York Economy

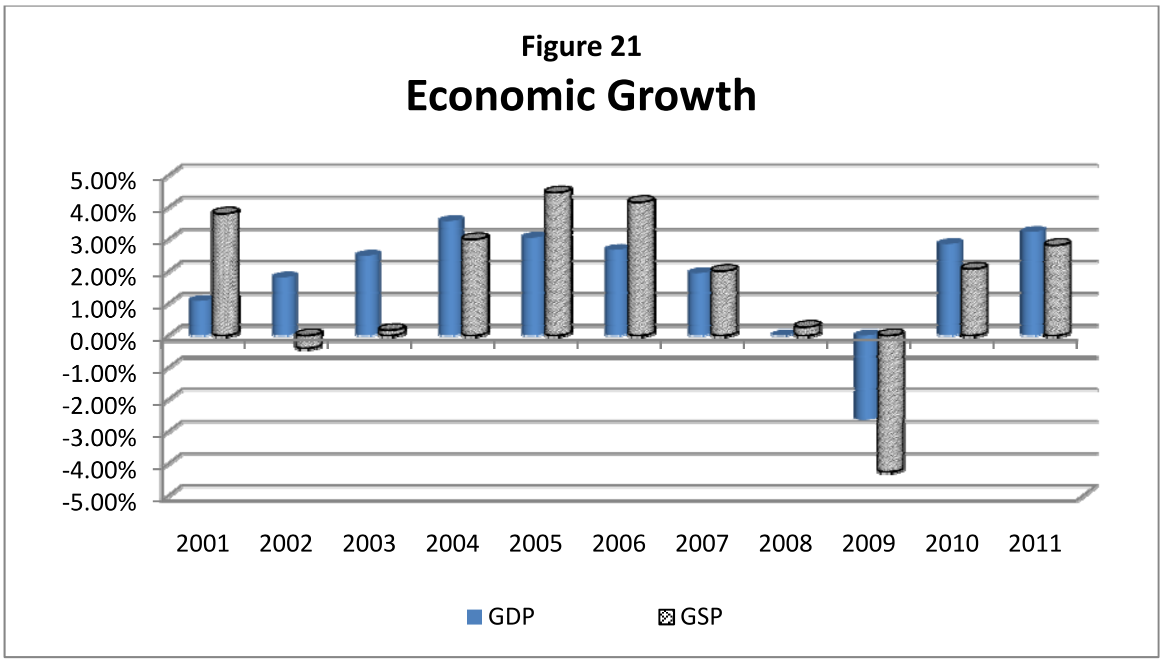
The New York economy is measured by Gross State Product (GSP) and, unlike at the national level, is primarily composed of two sectors: business and the consumer. State government plays a lesser role in the New York economy than the Federal government plays in the national economy. State government adds to growth through its spending and its impact on businesses and the consumer through its tax policy.

Because of New York City's position as the financial capital, the housing recession and the collapse of the subprime market have had a significant impact on Wall Street financial institutions, particularly those dealing in mortgage backed investment instruments. The poor performance of these institutions had repercussions throughout the New York economy.

As shown in the following chart, the New York economy took longer to recover from the recession of 2001 and, as a result, GSP growth lagged GDP growth during the recovery. However, as the economy strengthened, GSP growth outpaced that of GDP due primarily to strong stock market performance and corporate profit growth.

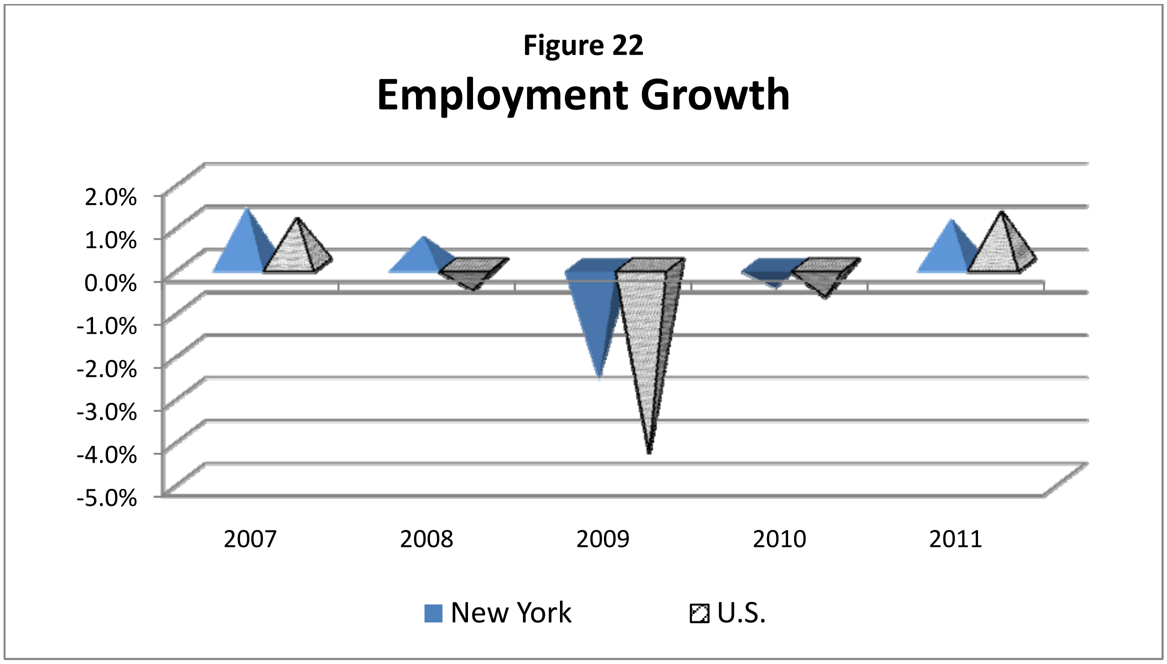
As the fallout from the subprime market took its toll on the financial services industry, the New York State economy experienced a similar slowdown in growth as the national economy during 2007.

As the recession deepened in 2008, the New York economy exhibited growth of 0.26 percent where the national economy did not grow at all. However, as corporate profits continued to decline in 2009 and the stock market was still showing volatility, the New York economy declined by 4.3 percent. New York's economy recovered in 2010, however, at a slower pace than the nation.



EMPLOYMENT

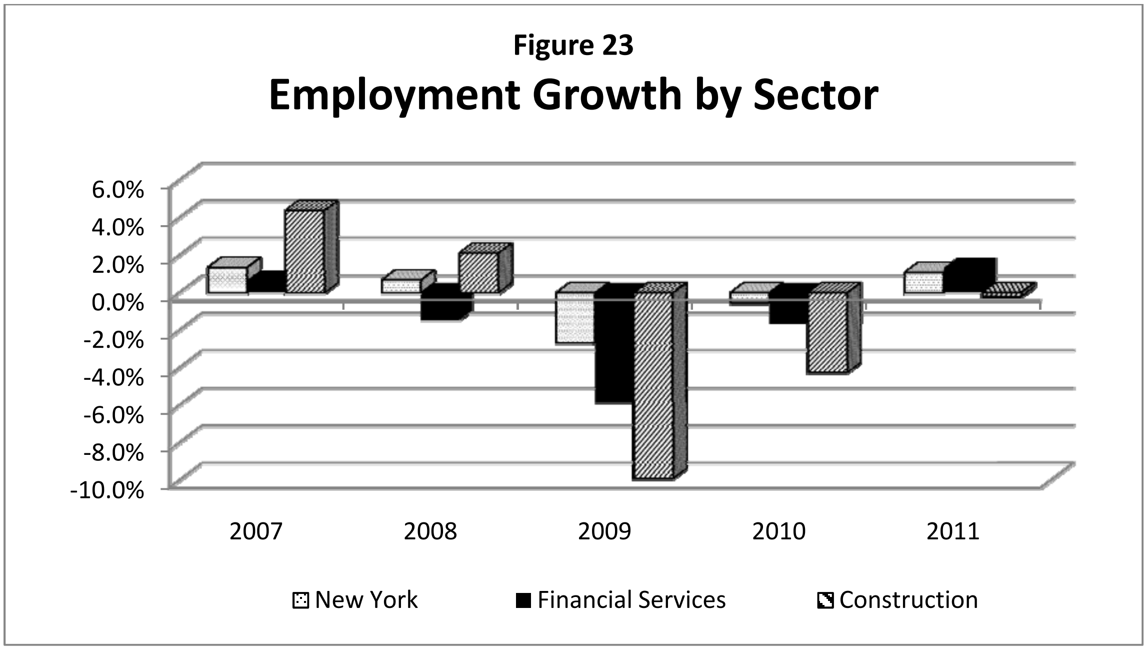
In 2008, employment in the State as a whole grew by 0.7 percent whereas employment began to decline at the national level, decreasing by 0.6 percent. Although employment declined in 2009, decreasing by 2.7 percent, the decline was not as severe as the 4.4 percent decline in national employment. New York fared slightly better than the nation as a whole in 2010. New York employment decreased by 0.5 percent; national employment decreased by 0.7 percent.



Similar to the national economy, the continued recovery is projected to have a positive impact on employment in New York; employment is projected to increase by 1.1 percent in 2011. Most industries are projected to have job growth with the exception of the construction industry which will still be impacted by the depressed housing market. In turn, the unemployment rate in New York is projected to decrease to 7.8 percent; down from 8.4 percent in 2010.

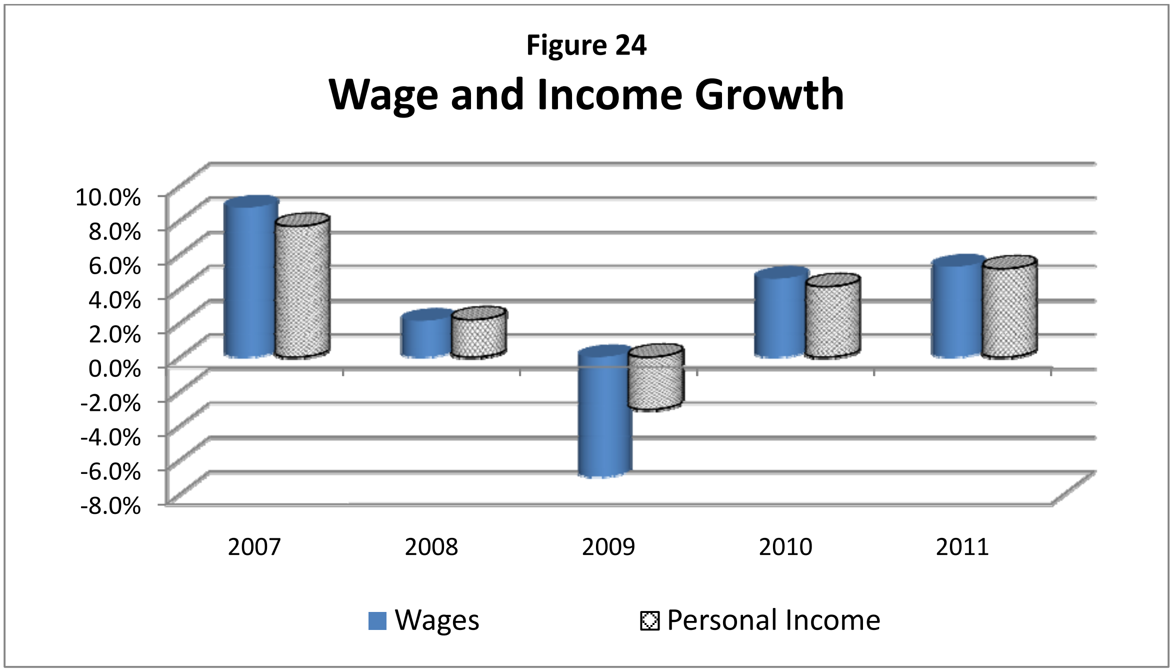
Profits earned by Wall Street firms, as reported by the Securities Industry and Financial Markets Association, realized significant growth during the economic expansion of the last decade. The decline in employment that had occurred during the recession of 2001 turned into employment growth for the financial industry. However, as the economy began to slow in 2007, so did the profits of these firms; employment growth slowed as well. As the credit crisis hit in

2008, the financial institutions began realizing significant losses. With these revenue losses, employment in the financial activities sector started to decline, declining by 1.5 percent in 2008. In the next two years, this sector continued to lose jobs; employment declining by 5.8 percent and 1.6 percent, respectively.



WAGES

The payment of year end bonuses by the financial services industry plays an important part in New York's wage and income growth. Due to the timing delay of Wall Street bonuses which are usually paid in the first quarter of the succeeding year, wage growth in New York is influenced by the performance of the industry in the previous year. Although the financial markets recorded large revenue losses in 2008 and bonuses that year declined by forty-seven percent, wages did not exhibit large declines until 2009 due to the timing of the bonus payments. Similarly, wage growth in 2010 reflected not only the economic recovery but also the increase in bonuses from 2009. Wage growth is projected to continue into 2011, increasing by 5.3 percent, due to the continued economic recovery.

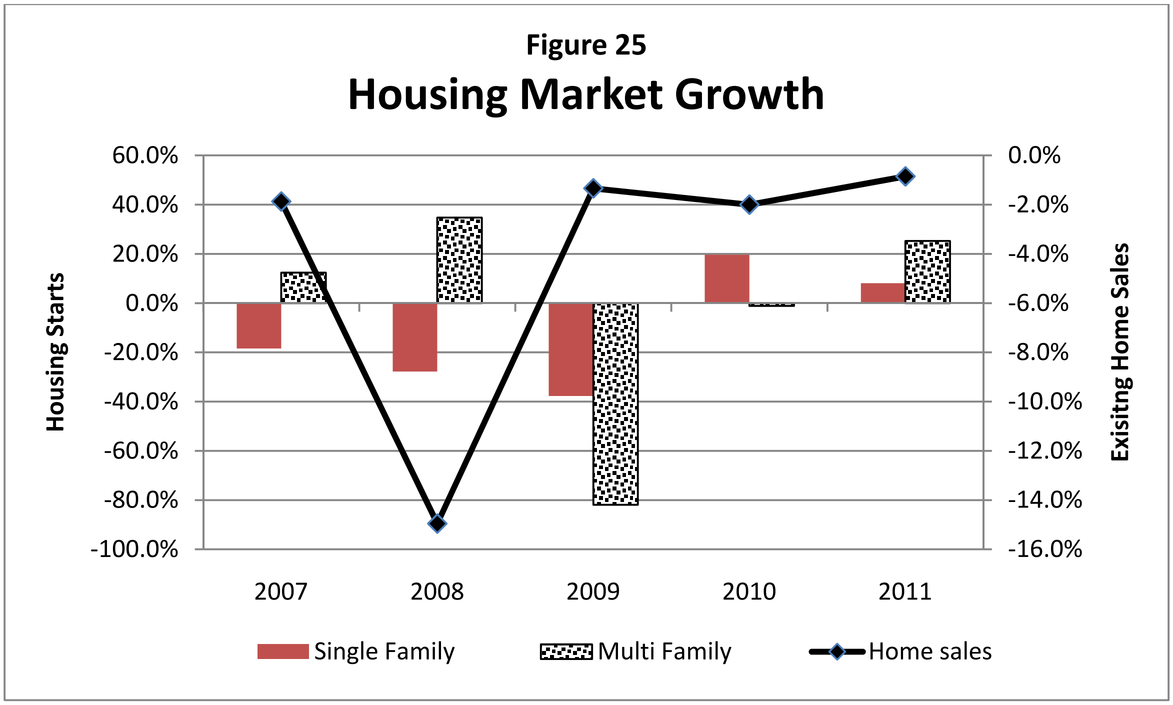


HOUSING MARKET

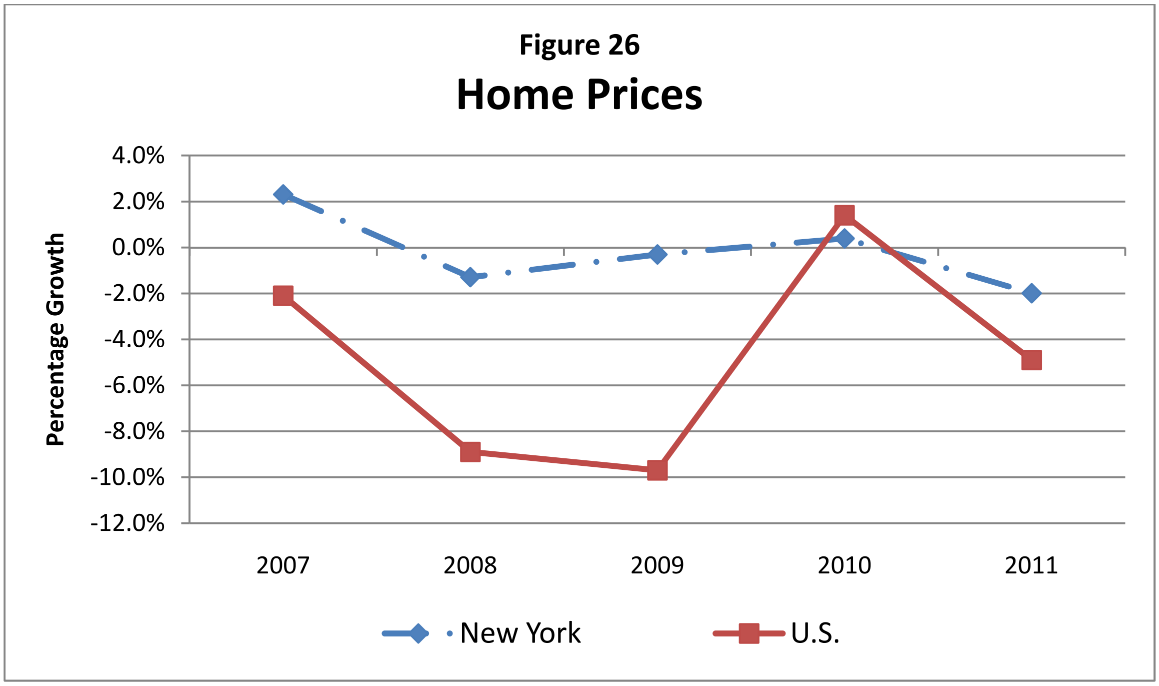
The downturn in the housing market had a different impact in New York than it did on the nation as a whole. While the State realized declines in both housing starts and home sales since 2006, New York's housing market did not benefit from the first time homebuyer's tax credit. Home sales continued to decline in 2009 and 2010.

Although total housing starts declined in 2006 and 2007, they increased by over ten percent in 2008. This increase was primarily the result of a large increase in the number of multi-family housing starts which offset the decline in single family housing starts for that year. However, that growth was not sustained in 2009, housing starts plummeted by over 70 percent.

Similar to the experience at the national level, housing starts rebounded in 2010, increasing by 10.1 percent.



Average home prices, on the other, did not decline as significantly as they did at the national level. Average home prices were still increasing in 2007 and began to decline in 2008 but only by 1.3 percent. In 2009, the average home price was relatively flat, decreasing by only 0.3 percent. With the improved economy in 2010, housing prices increased by 0.4 percent, essentially offsetting the 2009 decline.



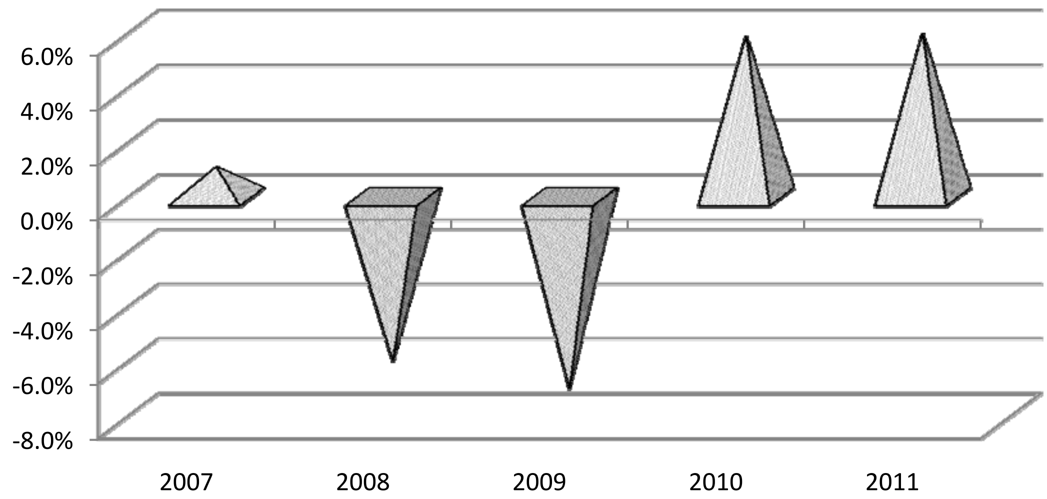
For 2011, both home prices and housing starts are projected to follow the national trend. Housing starts are projected to grow by 15.2 percent and home prices are projected to decline by two percent. However, existing home sales are projected to continue to decline in 2011, decreasing by 0.9 percent.

CONSUMPTION

Consumption in New York, as measured by retail sales, grew by 5.9 percent in 2010. With both increased wage and personal income growth, consumers had more money to spend. This growth was also buoyed by the depreciation in the value of the dollar during the year. At the national level, tourism spending increased by 11 percent in 2010 as foreign travelers realized greater buying power as a result of the cheaper U.S. dollar.

Figure 27

Real Retail Sales Growth



Retail sales are projected to continue to grow in 2011 by 6.0 percent. This growth is a reflection of the projected growth in personal income as well as employment growth. As the dollar continues to depreciate, tourism spending is also projected to continue to grow.

New York State Economic Outlook

Calendar Year

(Dollar Figures in Billions of Dollars)

	2010	2011	2012	2013
Gross State Product	**$1,130**	**$1,180**	**$1,228**	**$1,281**
Percent Change	3.4	4.5	4.0	4.3
Real Gross State Product	**$1,001**	**$1,031**	**$1,059**	**$1,087**
Percent Change	2.0	3.1	2.7	2.7
Nonagricultural Employment, Thousands	**8,512**	**8,604**	**8,767**	**8,910**
Percent Change	(05)	1.1	1.9	1.6
Unemployment Rate	**8.4**	**7.8**	**7.3**	**6.8**
Personal Income	**$945**	**$994**	**$1,032**	**$1,079**
Percent Change	4.1	5.2	3.8	4.5
Wages and Salaries	**$520**	**$548**	**$578**	**$605**
Percent Change	4.6	5.3	5.5	4.7
Retail Sales	**$225**	**$242**	**$258**	**$270**
Percent Change	7.7	7.5	6.4	4.7
Housing Starts, Thousands	**15.9**	**18.3**	**27.2**	**34.9**

Source: IHS Global Insight New York State Economic Forecast, February 2011

New York State Economic Outlook

Fiscal Year

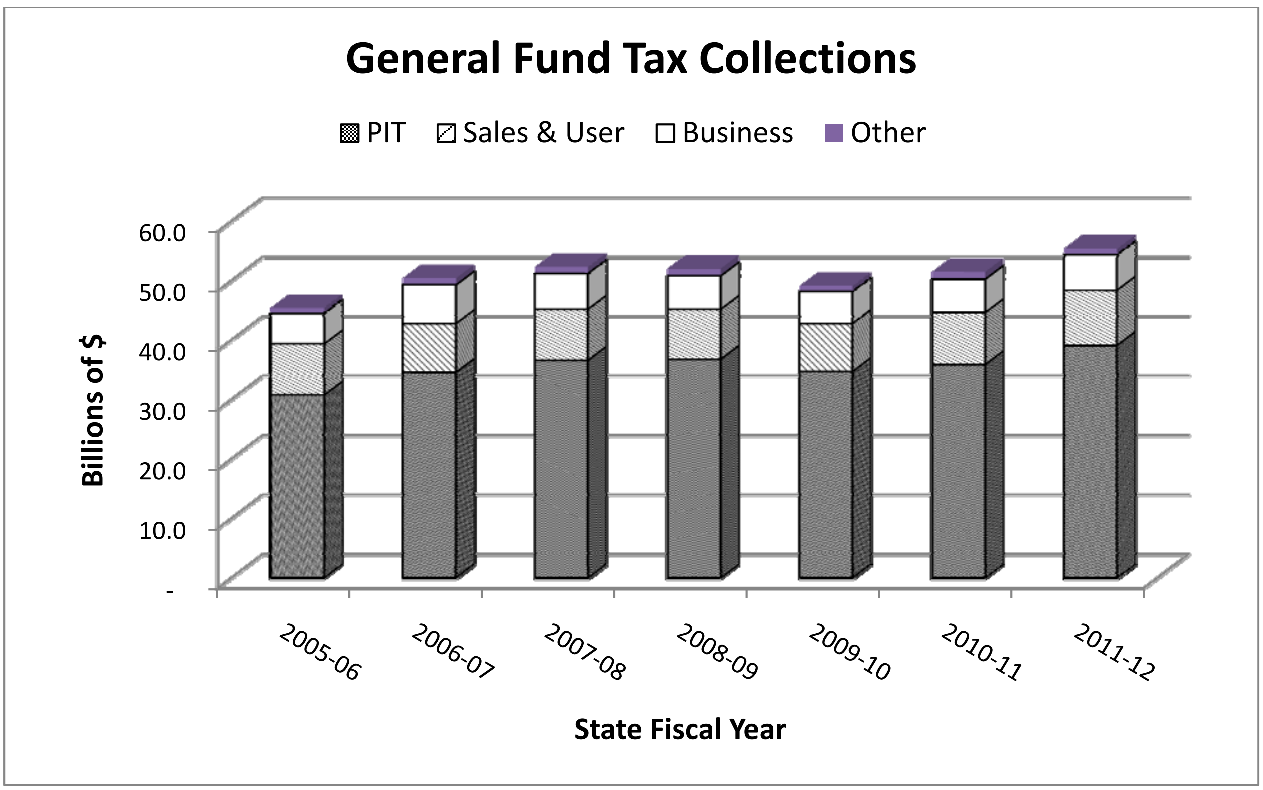
(Dollar Figures in Billions of Dollars)

	2010-11	2011-12	2012-13	2013-14
Gross State Product	**$1,099**	**$1,142**	**$1,192**	**$1,241**
Percent Change	-1.3	3.9	4.4	4.1
Real Gross State Product	**$984**	**$1,007**	**$1,038**	**$1,066**
Percent Change	-2.8	2.4	3.1	2.6
Nonagricultural Employment, Thousands	**8,521**	**8,524**	**8,647**	**8,805**
Percent Change	-2,6	0.0	1.4	1.8
Unemployment Rate	**8.7**	**8.2**	**7.7**	**7.2**
Personal Income	**$919**	**$958**	**$1,003**	**$1,044**
Percent Change	-0.4	4.2	4.8	4.1
Wages and Salaries	**$505**	**$528**	**$558**	**$586**
Percent Change	-2.6	4.5	5.3	5.4
Retail Sales	**$213**	**$229**	**$246**	**$261**
Percent Change	-1.7	7.6	7.2	6.1
Housing Starts, Thousands	**14.8**	**16.3**	**19.8**	**29.7**

Source: IHS Global Insight New York State Economic Forecast, February 2011

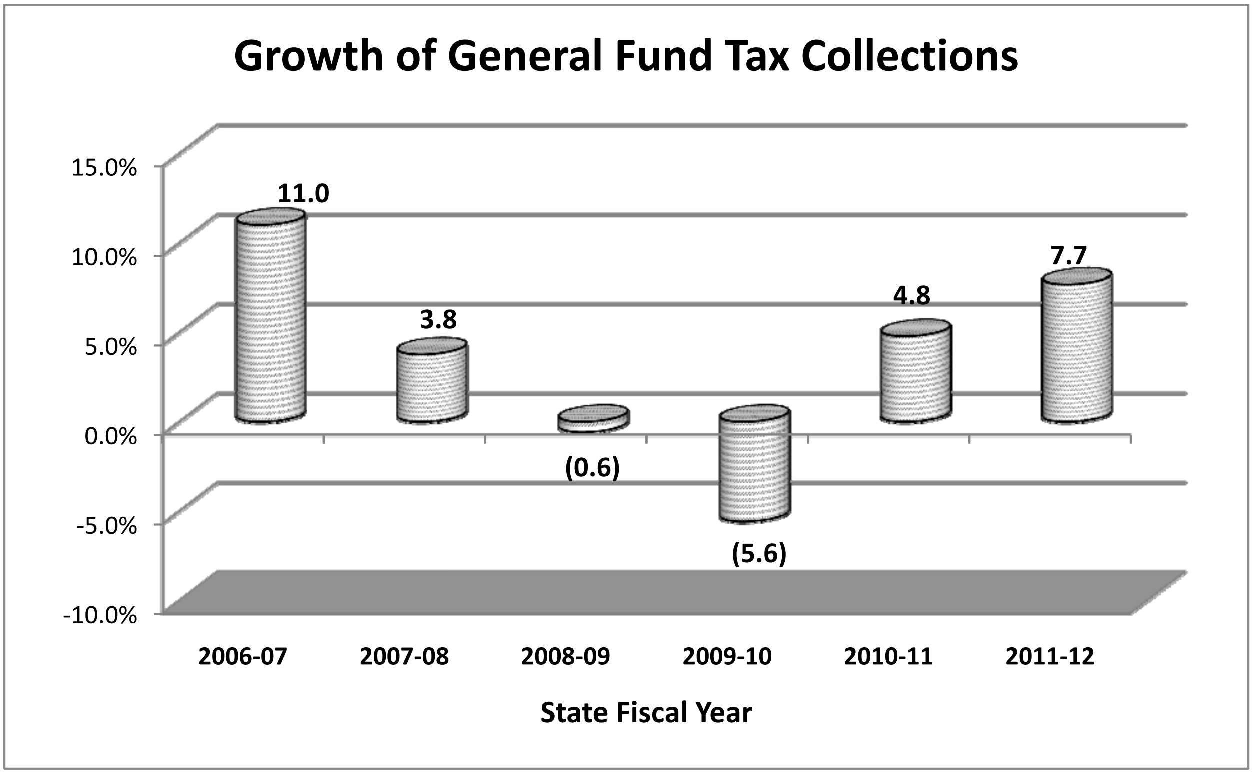
Revenue Outlook

The New York State Senate Finance Committee generates its revenue estimates using IHS Global Insight's forecasts of national and state economic growth. The economic data is utilized in the New York State Tax Revenue and Economy Model (NYSTREM) – an econometric model developed and operated by IHS Global Insight – to generate the Committee's independent revenue estimates. As summarized in the Appendix of this report, NYSTREM is designed to capture historical and the latest forecast information on the US economy, the New York State economy, and New York State tax revenues and use that information to generate a forecast for each State tax revenue stream.

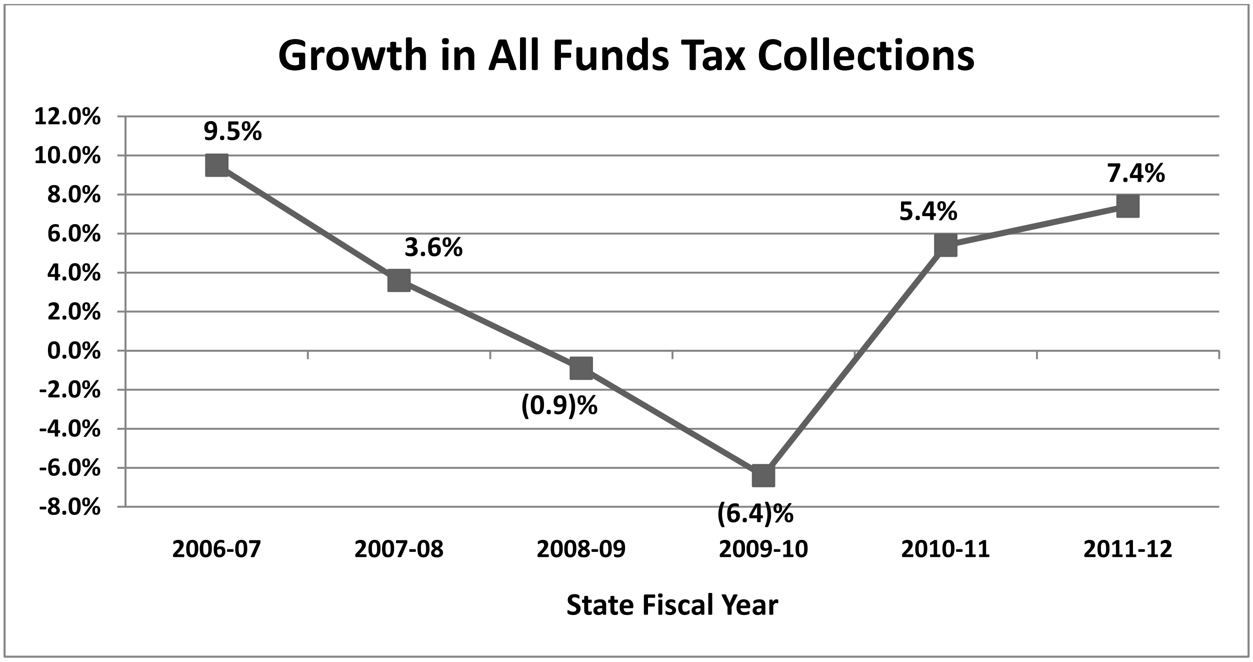


Using the NYSTREM model, the Senate Finance Committee expects gross General Fund tax collections in SFY 2010-11, excluding the STAR and debt service funds, to increase by 4.8

percent to $51.5 billion. On an All Funds basis, gross collections are expected to increase by 5.4 percent to $60.7 billion in SFY 2010-11. These increases are primarily the result of stronger economic growth as the economic recovery took hold.



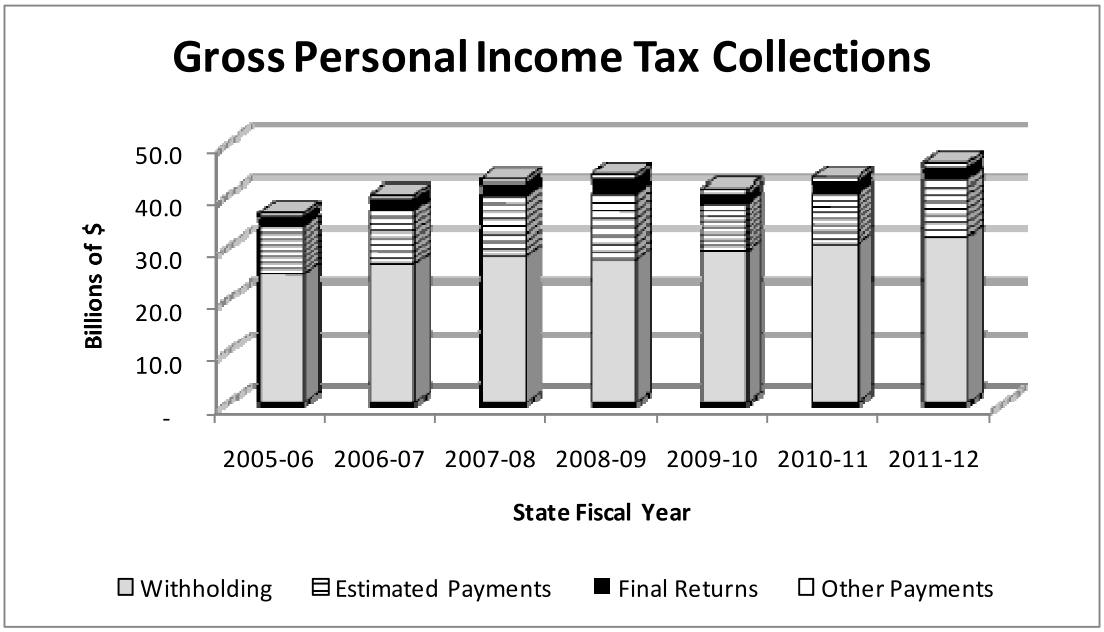
In SFY 2011-12, the Senate Finance Committee projects that General Fund tax collections, excluding special revenue transactions, will increase by 7.7 percent to $55.4 billion. All Funds collections will increase by 6.7 percent to $64.8 billion. This increase reflects the continued recovery in the economy as well as the full year impact of tax law changes that were enacted in SFY 2010-11.



Personal Income Tax

Personal income tax collections account for over half of all New York tax collections and over two thirds of General Fund tax collections (net of reserves). The personal income tax is imposed on the various types of income a person may receive (e.g. wages, interest income, dividends, and capital gains). In addition, the personal income tax is imposed on the income of New York's small businesses, such as sole proprietorships, partnerships, and limited liability companies. This income is subsequently offset by certain deductions as enumerated in either the Internal Revenue Code or the New York State Tax Law. For SFY 2010-11, total General Fund personal income tax collections, net of $12.3 billion in reserve transactions, are estimated to increase by 3.4 percent. This increase reflects wage and personal income growth in 2010 as well as the impact of the temporary rate increase on high income taxpayers in the State.

In SFY 2011-12, total personal income tax collections, net of $13.1 billion in deposits to the reserve funds, are projected to increase by 9.0 percent to $39.1 billion. This increase is a result of continued growth in the economy enhanced by tax law changes enacted in SFY 2010-11.



PIT Components

The withholding tax and estimated payments are methods by which the taxpayer can equalize his personal income tax payments over the course of the tax year as opposed to being liable for one, lump sum payment. When a person receives income, primarily wages, the appropriate tax is withheld and remitted to the State at that specific point in time. Withholding tax collections in the current fiscal year are estimated to increase by 4.3 percent to $30.7 billion. This increase is due to the wage growth that occurred throughout 2010.

The increase in withholding due to wage growth is offset by the decline in Wall Street bonuses. Withholding collections in the fourth quarter of the fiscal year have historically accounted for over thirty percent of total withholding for the year. This is due to the payment of bonuses by the financial services industry for their performance in the previous calendar year. However, due to the public backlash over bonuses being paid to financial companies who received government support through the TARP, many businesses in the industry changed the method by which bonus compensation is paid; tying such compensation to long term performance of the company. A larger percentage of bonus compensation is being paid with stock options by which the recipient must hold the stock for a specified number of years to exercise the options. Other companies have changed their pay structures to incorporate into wages what they would have paid their employees in bonuses. As these new compensation structures are implemented, the level of withholding throughout the year is likely to change.

Withholding collections in SFY 2011-12 are projected to increase by 4.4 percent resulting from the projected increase in employment and wage growth offset by the expiration of the temporary rate increase on high income taxpayers at the end of 2011.

Another method by which the State collects the personal income tax throughout the tax year is through estimated payments. These payments are made when a taxpayer does not pay the income tax through withholding and/or has a significant amount of non-wage income not subject to withholding but subject to the personal income tax. These payments are made quarterly throughout the fiscal year. Estimated tax payments are also made when a taxpayer requests an extension for the submission of his annual return. These collections are the most volatile portion of the personal income tax due to the fact that a taxpayer must “forecast” his tax liability for the year.

The most common form of income paid through estimated tax payments is capital gains, which are incurred through the sale of an asset. Most people associate capital gains with the stock market. However, as a result of the significant growth in the housing market, the real estate market was a major contributor to capital gains realizations during the economic expansion. As the housing market declined, there was less speculation in real estate by investors which decreased its contributions to capital gains realizations.

Another contributor to the strength or weakness of estimated payment growth is proprietor's income. This type of income includes all the self-employed businesses who earn their money through their business profits and not through the traditional withholding of wages. As the economy is projected to improve, proprietor's income is improving as well.

As a result of growth in proprietors' income of 2.8 percent and growth in the stock market of 20.3 percent, estimated tax payments are forecasted to be 8.0 percent higher in SFY 2010-11; an increase of approximately $723 million. In SFY 2010-11, estimated payments are projected to increase by 13.2 percent, to $11.0 billion. This increase reflects personal income growth in 2010 that is reflected in the extension payments that taxpayers remit as well as growth in the stock market and proprietors' income of 15.8 percent and 6.0 percent, respectively.

Third, the personal income tax is collected through the annual returns taxpayers must file. The annual return is essentially a reconciliation of a taxpayer's taxable income (gross income less deductions) and taxes paid through withholding or estimated payments throughout the preceding calendar year. As such, additional tax liability due or refunds are considered the "settlement" of a taxpayer's personal income tax. Payments made through the filing of annual returns are estimated to increase by 7.7 percent in SFY 2010-11. Since final return payments are based on a taxpayer's income for the previous calendar year, this increase is primarily the result of the imposition of the temporary rate increase that was enacted in SFY 2009-10. In SFY 2011-12, collections from final returns are projected to increase by 9.7 percent, to $2.2 billion. This increase is due to the strong stock market performance as well as personal income growth in 2010.

The amount of refunds to be paid to taxpayers is estimated to be 14.3 percent higher in SFY 2010-11 and 5.3 percent lower in SFY 2011-12. The increase in refunds in SFY 2010-11 is not only attributable to the decline in personal income that occurred in 2009 but, the delay in the amount of refunds paid in the fourth quarter of SFY 2009-10. The amount of refunds paid in the final quarter of the fiscal year is often constrained in order to maintain cash flow between fiscal years. Due to the advent of electronic filing, there are a larger amount of refunds claimed in the January to March period. In order to ensure that taxpayers receive their refunds in a timely manner, the amount of refunds to be issued was increased to $1.75 billion in SFY 2008-09. To deal with a cash flow crisis in SFY 2009-10, the amount of refunds paid in the fourth quarter was reduced to $1.25 billion; postponing the payment of $500 million in refunds into SFY 2010-11. The amount of refunds to be paid in the fourth quarter of SFY 2010-11 was reinstated at the $1.75 billion level.

For SFY 2011-12, the decline in refunds is due to the return to the refund payment schedule in the fourth quarter, as stated above, as well as personal income growth in 2010. This decline in refunds is also attributable to the deferral of certain tax credits that was enacted as part of the SFY 2010-11 budget.

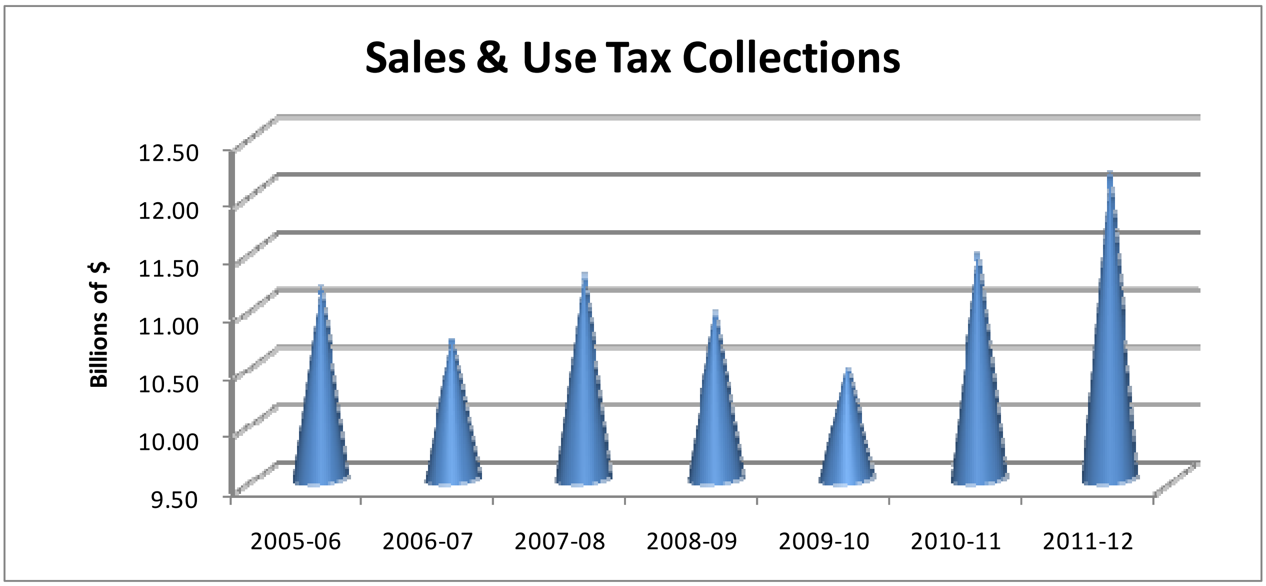
Lastly, personal income tax collections are composed of assessments imposed upon taxpayers as a result of the audit process and filing fees imposed on limited liability companies. Assessments not only consist of any overdue taxes but the interest and penalties imposed upon such liability. Other collections are estimated to decrease by 2.1 percent to $1.02 billion in SFY 2010-11. In SFY 2011-12, other payments are projected to continue to decrease by 3.1 percent, to $991 million. This projected decrease reflects decreased audit receipts.

A portion of income tax collections are deposited to a special revenue fund and a debt service fund. The STAR reserve is a special revenue fund that receives a portion of personal income tax collections to reimburse school districts for the reduction in their property tax collections as a result of the STAR program.

The Revenue Bond Tax Fund (RBTF) is a debt service fund into which twenty-five percent of personal income tax receipts (net of refunds and the STAR deposit) are deposited. This fund is used to pay the debt service on the State's PIT revenue bonds. Any funds in excess of the required debt service payments are transferred back to the General Fund. Deposits to the RBTF are estimated to increase by 3.2 percent in SFY 2010-11. This increase is reflective of the increase in personal income tax collections during the year. Deposits into the RBTF are projected to be 9.0 percent higher in SFY 2011-12. This increase is due to higher projected personal income tax receipts as a result of personal income and wage growth.

User Taxes and Fees

User taxes, also known as consumption taxes, are what their name implies - taxes on the use or consumption of different items in the State. These taxes consist of the sales and use tax, the auto rental tax, the cigarette tax, the motor fuel tax, alcoholic beverage taxes, the highway use tax and the MTA taxicab surcharge. Some of these taxes are only deposited to the General Fund; some are deposited only to special revenue funds; while others are deposited to a combination of funds.



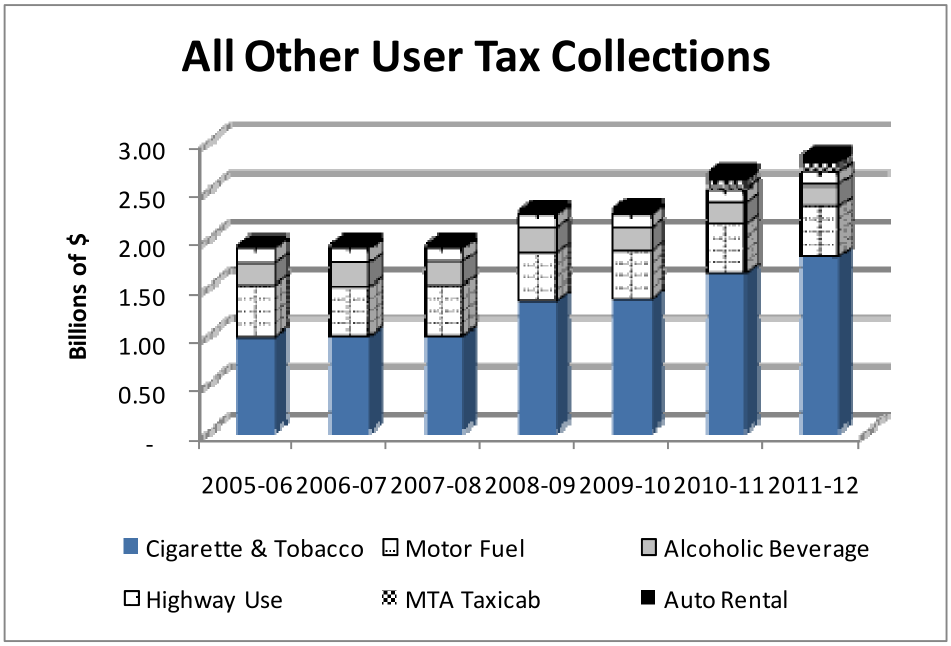
Sales and use tax collections comprise a large portion of the tax collections in this category. Receipts from this tax are deposited into the General Fund, a Special Revenue fund (the Metropolitan Transportation Operating Account), and a debt service fund (the Local Government Assistance Tax Fund). In SFY 2010-11, General Fund receipts are estimated to increase by 8.5 percent, to $8.04 billion. Although there was consumption growth in 2010, the increase in collections is also due to the elimination of the sales tax exemption on clothing. On an All Funds basis, sales and use tax collections are estimated to increase by 9.0 percent to $11.5

billion in SFY 2010-11. All Funds collections are increasing more than General Fund collections because there is stronger sales growth in the Metropolitan Commuter Transportation District.

In SFY 2011-12, General Fund receipts are projected to increase by 6.7 percent to $8.6 billion due to increased income and consumption growth, slightly offset by the partial reinstatement of the sales tax exemption on clothing. All Funds sales and use tax receipts are projected to increase by 6.2 percent; again reflecting the effect of wage and consumption growth.

Receipts from the cigarette tax are deposited to the General Fund and the HCRA funds while receipts from the tobacco tax are deposited solely to the General Fund. General Fund collections for cigarette and tobacco taxes are estimated to increase by 6.6 percent in SFY 2010-11. This increase is the result of the increase in the tax rate on cigarettes from $2.75 per pack to $4.35 per pack and the increase in the tax on tobacco products that took effect in July 2010. All Funds collections for SFY 2010-11 are estimated to increase by 19 percent. This increase reflects the increase in the tax rates as well as the increased deposit of cigarette taxes to the HCRA funds.

In SFY 2011-12, General Fund cigarette and tobacco tax collections are projected to continue to increase by 6.6 percent. This increase is due to the full year impact of the rate increase. All Funds cigarette and tobacco tax collections are projected to increase by 10.8 percent in SFY 2011-12. This increase is due not only to the full year impact of the rate increases but also from $130 million in projected revenues from the collection of cigarette taxes on Native American reservation sales.

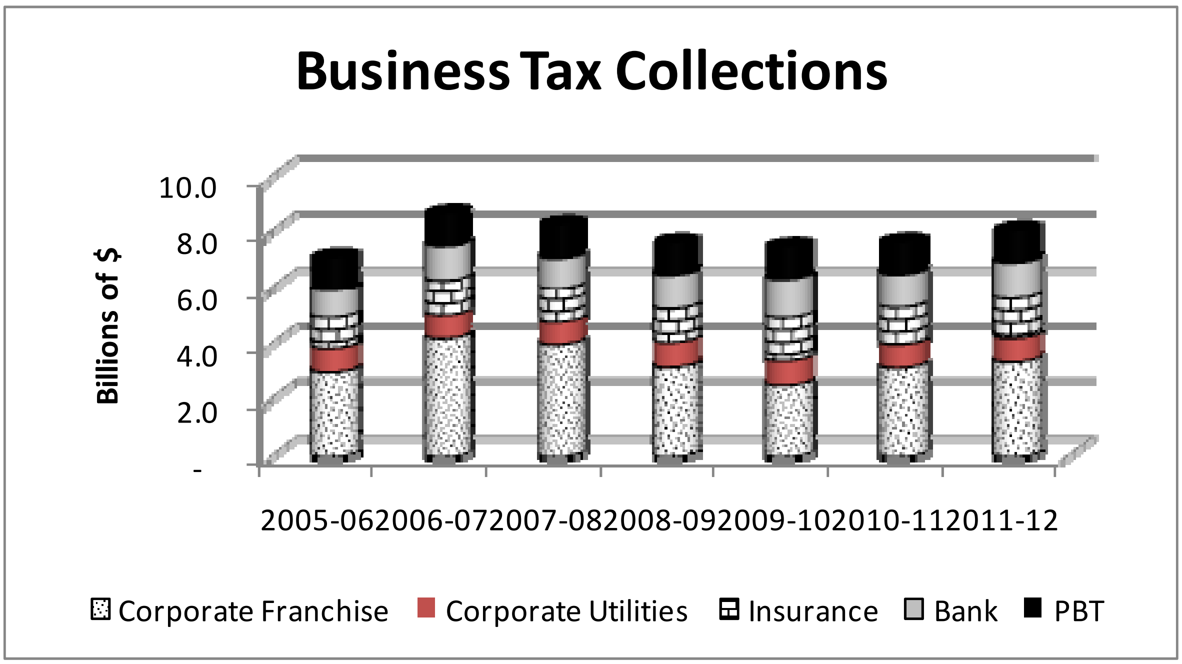


The only other user tax that is deposited to the General Fund is the Alcoholic Beverage Tax which is estimated to increase by 0.9 percent to $228 million in SFY 2010-11. In SFY 2011-12, these tax collections are projected to decrease by 2.2 percent, to $223 million.

All Funds collections of the remaining user taxes are estimated to increase by 9.3 percent to $1.05 billion in SFY 2010-11. This increase reflects the full year impact of the imposition of the taxicab surcharge and the auto rental tax in the Metropolitan Commuter Transportation District (MCTD) that was enacted in the MTA bailout plan in SFY 2009-10. For SFY 2011-12, collections from these other taxes are projected to increase by 0.4 percent, increasing to $1.053 billion. This increase is due to increased collections from the MCTD taxes offset by a decrease in the highway use tax.

Business Taxes

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.

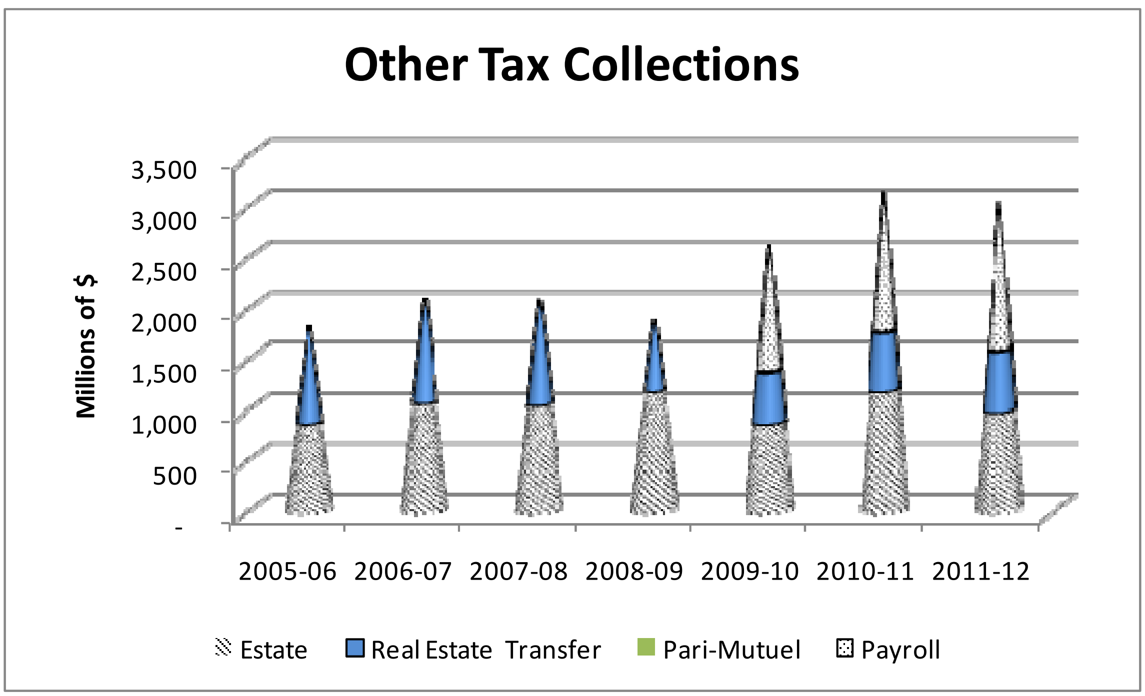


General Fund business tax collections are estimated to increase by 4.6 percent to $5.6 billion in SFY 2010-11. This increase is due to significant corporate profit growth offset by the increase in the March prepayment from thirty to forty percent in March 2009 as well as the delay of refunds from SFY 2009-10 to SFY 2010-11. On an All Funds basis, business taxes are estimated to increase by 1.9 percent to $7.6 billion. This increase is due to the factors enumerated above. This increase is offset by a decrease in collections from the petroleum business tax as a result of the five percent decrease in the tax rate due to decline in the Producer Price Index.

General Fund and All Funds business taxes in SFY 2011-12 are projected to increase by 6.6 percent to $5.99 billion and by 6.3 percent to $8.08 billion, respectively. This increase primarily reflects the continued growth in the economy as well as the reduction in corporate refunds due to the deferral of certain tax credits that was enacted in SFY 2011-12.

Other Taxes

Other taxes consist of the estate tax, the real estate transfer tax, the pari-mutuel tax, the boxing and wrestling exhibitions tax and the MTA payroll tax. Both the real estate transfer tax and the MTA payroll tax are deposited solely to special revenue funds while the remainder of the taxes are deposited solely to the General Fund.



General Fund receipts of these taxes are estimated to increase by 35.0 percent to $1.2 billion in SFY 2010-11. This increase is primarily due to an unusual number of super large estates settled in the current fiscal year. In SFY 2011-12, General Fund receipts are projected to decrease by 16.9 percent to $994 million; reflecting a return to historic levels in the number of super large estates as well as the continued decline in the housing market.

All Funds collections of other taxes are estimated to increase by 19.9 percent to $3.1 billion in SFY 2010-11 and are projected to decrease by 3.5 percent to $3.02 billion in SFY 2011-12. The increase in the current fiscal year is attributable to the large increase in estate tax collections, as mentioned above, as well as the full year impact of the MTA payroll tax that was enacted as part of the MTA bailout plan in SFY 2009-10. In turn, the decrease in collections in SFY 2011-12 reflects the decrease in estate tax collections. This decrease is offset by an increase in the MTA payroll tax due to projected wage growth and a projected increase in real estate transfer tax collections.

APPENDIX

THE NEW YORK STATE TAX REVENUE AND ECONOMY MODEL

Technical Characteristics

This report represents a continuation of the long-standing relationship between the Senate Finance Committee and IHS Global Insight. Prior to 1995, IHS Global Insight (formerly WEFA) produced both the economic and revenue forecasts and issued a final report to the Senate Finance Committee. Under a relationship now in its ninth year, IHS Global Insight continues to produce the economic and tax revenue forecasts using the New York State Tax and Revenue Model (NYSTREM) and serves in an advisory capacity to the Senate Finance Committee in the development of revenue forecasts.

The New York State Tax Revenue and Economy Model (NYSTREM) was developed for the New York State Senate by IHS Global Insight to provide forecasts of quarterly tax revenues, by tax category, on a timely basis with the greatest accuracy possible. The model captures the latest historical and forecast information of the U.S. economy, the New York State economy, and New York State tax revenues.

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 IHS Global Insight's Quarterly State Econometric Model. This system is composed of 51 state and D.C. models, which is further linked to IHS Global Insight's national social and economic forecasting system;
- all of the expertise of the IHS Global Insight Regional Economics Group is embedded in the modeling and forecasting processes;
- the Senate Finance Committee has access to the latest historical data and IHS Global Insight's forecast of the U. S. economy each month; and
- NYSTREM is implemented in AREMOS, IHS Global Insight's proprietary, state-of-the-art, econometric, PC-based software, providing the New York Senate Finance Committee with the ability to carry out simulations of the model as needed.

Equations in the model were estimated with the most appropriate methods that econometrics theory suggests based on the availability and characteristics of the data. Because state tax revenue is determined by the state, as well as the national economy, many U.S. and New York State economic and social variables must be used to provide an explanation of New York State tax revenue. Therefore, besides forecasting New York State's tax revenue, NYSTREM also forecasts the State's following variables:

- 2-digit manufacturing (26 components) and 1-digit non-manufacturing employment (16 components);
- 14 components of real income;
- 15 components of nominal income;
- 7 components of population by age;
- 18 components of net migration by age;
- 8 components of household by age and sex of head;
- 2 components of retail sales;
- housing starts, sales and prices;
- passenger motor vehicle registration;
- pari-mutuel racing attendance;
- total retail sales; and
- alcoholic beverage sales volume.

Global Insight needs to process hundreds of endogenous and exogenous data series for estimating equations in the model and producing the forecasts.