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February 24, 2016

Dear Colleagues:

I am pleased to provide you with the New York State Assembly Ways and Means Committee's Economic and Revenue Report for 2016. This report continues our commitment to provide clear and accurate information to the public by offering overviews of the national and state economies, as well as the state's revenue forecast for State Fiscal Years (SFY) 2015-16 and 2016-17.

The committee staff forecasts state and national employment and personal income will continue to grow in 2016 and 2017. However, the pace of growth is expected to remain modest in the midst of economic and financial uncertainties at home and abroad. In particular, income growth in the State will likely remain below historical trends due, in part, to the curtailing of bonus wages on Wall Street compared to the period leading up to the Great Recession.

The committee staff projects that total All Funds receipts will reach $153.915 billion in SFY 2015-16, which represents an increase of $4.806 billion, or 3.2 percent, from SFY 2014-15. The committee staff estimate is $171 million above the Executive's estimate for SFY 2015-16. The Committee staff projects that All Funds receipts will total $153.469 billion in SFY 2016-17, a decline of $445 million, or 0.3 percent, over SFY 2015-16. The committee staff forecast is $552 million higher than the Executive's forecast for SFY 2016-17. These differences are largely attributable to differences in economic projections and how this translates into tax receipts.

The assessments and projections presented in this report are reviewed by an independent panel of economists. Assembly Speaker Carl Heastie and I would like to express our appreciation to the members of our Board of Economic Advisors. Their dedication and expertise continue to be an invaluable resource to refine and improve our forecasts. While the Board has served to make the work of our staff the best in the State, they are not responsible for the numbers or views expressed in this document.

I wish to acknowledge the dedicated and talented staff of the Assembly Ways and Means Committee and the many hours of work that went into producing this report. They play a vital role in our State's budget process.

As we continue our efforts toward enacting an on-time budget that is fair and equitable for all New Yorkers, I look forward to working with each of you.

Sincerely

Herman D. Farrell, Jr.
Chairman

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ECONOMIC AND REVENUE REPORT

FISCAL YEARS 2015-16 AND 2016-17

February 2016

CARL E. HEASTIE
Speaker
New York State Assembly

HERMAN D. FARRELL, JR.
Chairman
Assembly Ways and Means Committee

Prepared by the
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ECONOMIC FORECAST HIGHLIGHTS

United States

- **U.S. Real GDP** grew 2.4 percent in 2015, supported by steady gains in employment and income. But national economic growth is forecast to slow to 2.1 percent in both 2016 and 2017 with global economic and financial uncertainties weighing on households and businesses alike, assuming no major disruptions to the U.S and international economies.

- **Personal consumption spending** grew 3.1 percent in 2015. With consumers being more cautious spenders and employment and wages growing at a slower pace, consumer spending is projected to slow to 2.7 percent in 2016 and 2.4 percent in 2017.

- **Business capital spending** has recently weakened and various monthly indicators point to continued softening in 2016 and 2017. The unusually strong inventory buildup seen in the first half of 2015 will likely be unsustainable as the current inventory level is rather high relative to the recent pace of sales.

- As economic growth in several of U.S. major trading partners remained weak and U.S. dollar values remained high in 2015, U.S. **exports** grew only 1.1 percent. With the economies of our major trading partners expected to improve in 2016, U.S. exports growth will rise to 1.7 percent in 2016 and 3.3 percent in 2017. **Imports** are forecast to increase by 3.3 percent in 2016 and another 4.4 percent in 2017.

- Following four consecutive years of decline, **total government spending** increased 0.8 percent in 2015 with continued growth in state and local government spending mitigating declines in federal government spending. Total government spending is forecast to increase 1.6 percent in 2016 as federal government spending rises due to appropriations passed by Congress in December 2015. In 2017, as spending cuts by the federal government are outweighed by higher spending by state and local governments, total government spending growth is projected to slow to 0.5 percent.

- **Employment** is expected to continue to grow throughout the forecast period. Employment grew 2.1 percent in 2015, and is forecast to slow to 1.7 percent in 2016 as the rate of unemployment nears the natural rate of unemployment. Employment is forecast to slow further to 1.3 percent in 2017.

- After averaging near zero percent in the past five years, **the federal funds rate** started rising at the conclusion of the Federal Reserve's December 2015 meeting, and is forecast to gradually increase, averaging 0.5 percent in 2016 and 1.5 percent in 2017.

- In general, the pace of the recovery has been slower than expected, and the **risks to the economic outlook** remain on the downside. Unforeseeable risks such as severe weather or adverse geopolitical developments persist in the current economic environment. In addition to unanticipated risks, problems that were central to the last recession continue—although with less severity. These issues include uncertainty in the financial markets, slow growth in the single-family housing market, and a tepid growth in wages and other labor market indicators. If these areas were to worsen, the impact on the outlook would be significant, because these factors are crucial to consumer spending growth, which is the main driver of economic growth.

National Forecast Comparisons

- The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2016 is 2.1 percent. The staff's forecast is 0.1 percentage point above the Division of the Budget (DOB), equal to the Blue Chip's forecast, 0.7 percentage point below Moody's Economy.com, 0.2 percentage point above Macroeconomic Advisers, and 0.3 percentage point below IHS Global Insight.

U.S. Real GDP Forecast Comparison
(Percent Change)

	Actual 2014	Estimate 2015	Forecast 2016	Forecast 2017
Ways and Means	2.4	2.4	2.1	2.1
Division of the Budget	2.4	2.4	2.0	2.4
Blue Chip Consensus	2.4	N/A	2.1	2.4
Moody's Economy.com	2.4	2.4	2.8	2.9
Macroeconomic Advisers	2.4	2.4	1.9	2.1
IHS Global Insight	2.4	2.4	2.4	2.8

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, FY 2017 Executive Financial Plan, February 2016; Blue Chip Economic Indicators, February 2016; Moody's Economy.com, January 2016; Macroeconomic Advisers LLC, February 2016; IHS Global Insight, February 2016.

New York State

- The New York State economy has benefitted from the continued recovery in the national economy. After experiencing 1.9 percent growth in SFY 2014-15, **total nonfarm employment** in the state is estimated to have grown 1.8 percent in SFY 2015-16. As the rate of unemployment in the state approaches its natural rate, nonfarm employment growth is forecast to slow to 1.5 percent in SFY 2016-17.

- **Wage growth** rates remain below those achieved in the years leading up to the 2007-09 recession, partly due to the concentration of job gains in lower-paying sectors and restrained growth in variable wages. Total wages in New York State are estimated to have grown 3.8 percent in SFY 2015-2016 and are forecast to grow 4.7 percent in SFY 2016-17.

- **Variable wage** growth is not forecast to reach the high levels attained in 2006 and 2007, when securities industry firms experienced huge profits and bestowed large bonuses on employees. After declining an estimated 0.9 percent in SFY 2015-2016, variable wages are forecast to grow 7.2 percent in SFY 2016-17. As employment grows steadily, even in those industries with relatively lower average wage, base wages will continue on a slow and steady upward trend. After growing an estimated 4.4 percent in SFY 2015-16, base wages are forecast to grow by another 4.4 percent in SFY 2016-17.

- The current economic climate presents particular challenges and **risks to the New York State forecast**. Wall Street and the financial markets play a central role in the state economy. Drastic cuts to or changes in the composition of Wall Street compensation (including bonuses) and the resulting reductions in Wall Street tax revenues would have critical implications for the economic and fiscal health of the state.

State Forecast Comparisons

- The NYS Assembly Ways and Means Committee staff's estimate for total nonfarm payroll employment growth in SFY 2015-16 is 1.8 percent and is 0.1 percentage point above the DOB estimate. The staff's estimate for wage growth in SFY 2015-16 is 3.8 percent and is 0.2 percentage point below the DOB estimate.

New York State Economic Forecast Comparison (Percent change from prior State Fiscal Year)			
	Actual SFY 2014-15	**Estimate SFY 2015-16**	**Forecast SFY 2016-17**
Employment			
Ways and Means	1.9	1.8	1.5
Division of the Budget	1.9	1.7	1.3
Wages			
Ways and Means	4.5	3.8	4.7
Division of the Budget	4.4	4.0	4.3

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, FY 2017 Executive Budget Financial Plan, February 2016.

Revenue Forecast Highlights

REVENUE FORECAST HIGHLIGHTS

All Funds Tax Receipts State Fiscal Year 2015-16

- **All Funds revenues** are estimated to total $153.915 billion in State Fiscal Year (SFY) 2015-16 for growth of 3.2 percent or a year-to-year increase of $4.806 billion.

- The Assembly Ways and Means Committee staff projection of **All Funds tax revenue** for SFY 2015-16 is $75.257 billion, representing an increase of 5.9 percent or $4.223 billion over the prior year.

- The majority of the increase in tax receipts is derived from the **personal income tax (PIT)**, which is estimated to increase by $3.437 billion or 7.9 percent. Also contributing to the year-over-year increase, **user taxes** are estimated to increase by 1.9 percent or $286 million. **Business taxes** are expected to decrease by $31 million or 0.4 percent. **Other taxes** are estimated to increase by $532 million or 15.5 percent.

- The committee staff's All Funds tax revenue estimate is $174 million above the Executive's Budget. In terms of overall state tax revenues, the largest difference is in business taxes, which are estimated to be $67 million above Executive estimates.

All Funds Tax Receipts State Fiscal Year 2016-17

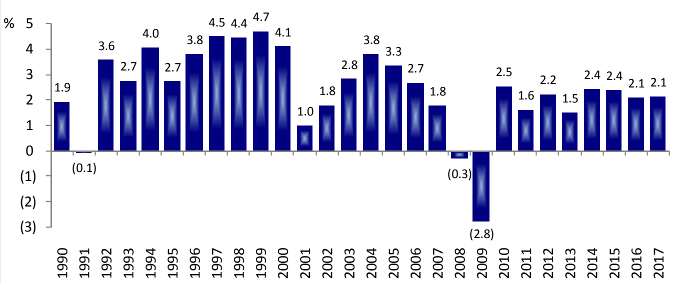
- The committee staff expects **All Funds revenues** to decline 0.3 percent for a total of $153.469 billion in SFY 2016-17. This estimate is $552 million above the Executive's estimate. **Lottery receipts** are forecast to decline by one percent, whereas all other **Miscellaneous Receipts** are forecast to decline by 8.8 percent.

- The committee staff expects 3.7 percent growth in **All Funds tax receipts** for SFY 2016-17, for a total of $78.074 billion, reflecting a steady albeit modest economic recovery. The committee staff forecast is $449 million above the Executive's forecast. The Committee's PIT forecast is $335 million above the Division of the Budget's forecast.

U.S. Economic Forecast at a Glance

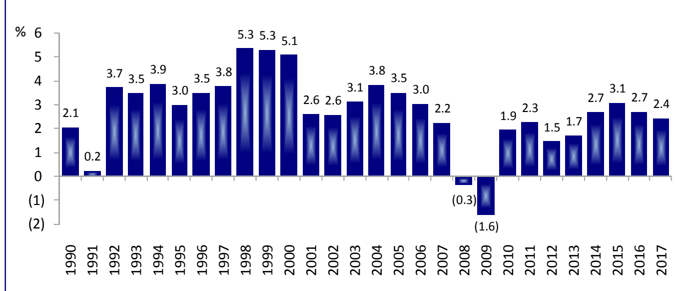
U.S. ECONOMIC FORECAST AT A GLANCE

U.S. Real GDP Growth



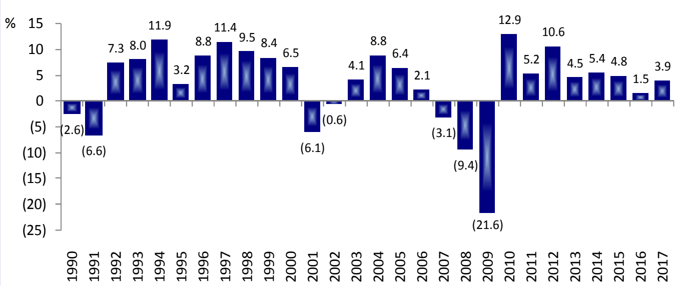
Note: Data for 2015 are estimated; 2016 and 2017 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

U.S. Real Personal Consumption Spending Growth



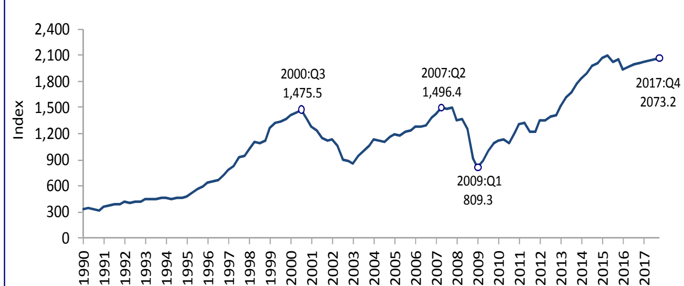
Note: Data for 2015 are estimated; 2016 and 2017 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

U.S. Real Investment Spending Growth



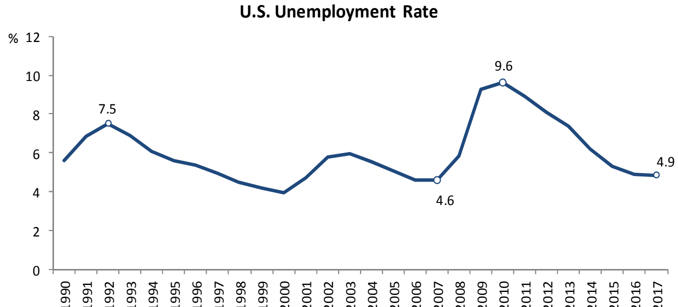
Note: Data for 2015 are estimated; 2016 and 2017 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

S&P 500 Stock Price Index



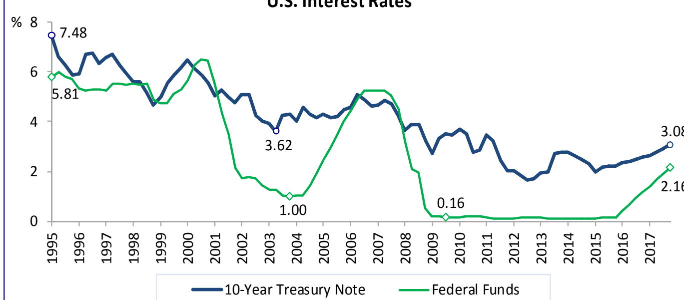
Note: Data are quarterly through 2017:Q4; the first forecast period is 2016:Q1. Index 1941-1943=10.
Sources: Standard & Poor's; NYS Assembly Ways and Means Committee staff.

U.S. Unemployment Rate



Note: Data for 2015 are estimated; 2016 and 2017 are forecasts.
Sources: U.S. Bureau of Labor Staistics; NYS Assembly Ways and Means Committee staff.

U.S. Interest Rates

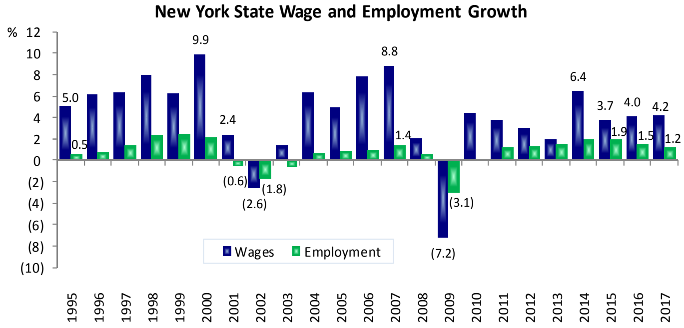


Note: Data are quarterly through 2017:Q4; the first forecast period is 2016:Q1.
Sources: Federal Reserve; NYS Assembly Ways and Means Committee staff.

N.Y.S. Economic Forecast at a Glance

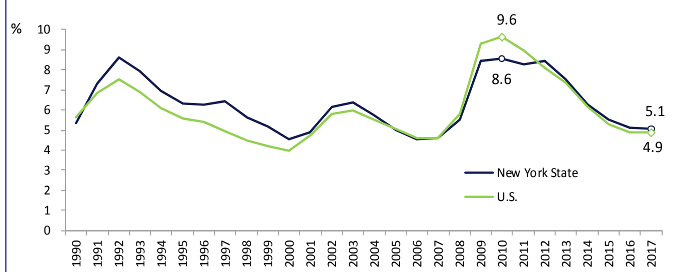
N.Y.S. ECONOMIC FORECAST AT A GLANCE

New York State Wage and Employment Growth



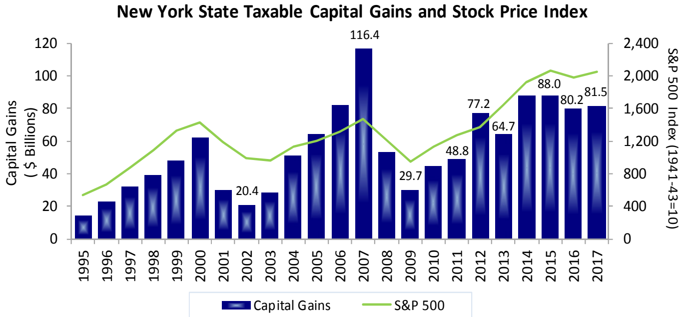
Source: New York State Department of Labor; NYS Assembly Ways and Means Committee staff.

Unemployment Rate
U.S. and New York State



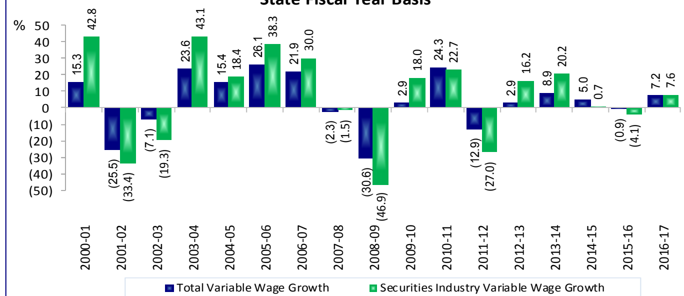
Note: Data for 2015 are estimated. Data for 2016 and 2017 are forecasts.
Source: U.S. Bureau of Labor Statistics.

New York State Taxable Capital Gains and Stock Price Index



Note: Data for 2014 are estimated; 2015, 2016, and 2017 are forecasts.
Sources: Standard & Poors; NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committee staff.

New York State Variable Wage Growth
State Fiscal Year Basis



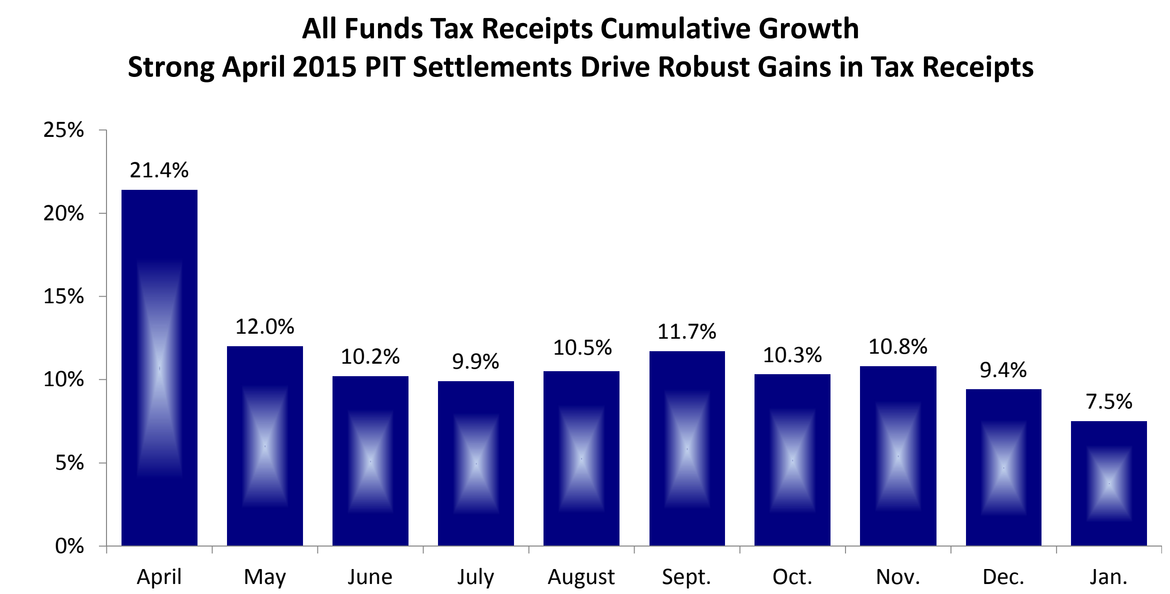
Note: Variable wages up to SFY 2014-15 are estimates; SFY 2015-16 and 2016-17 are forecasts.
Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

Revenue Forecast at a Glance

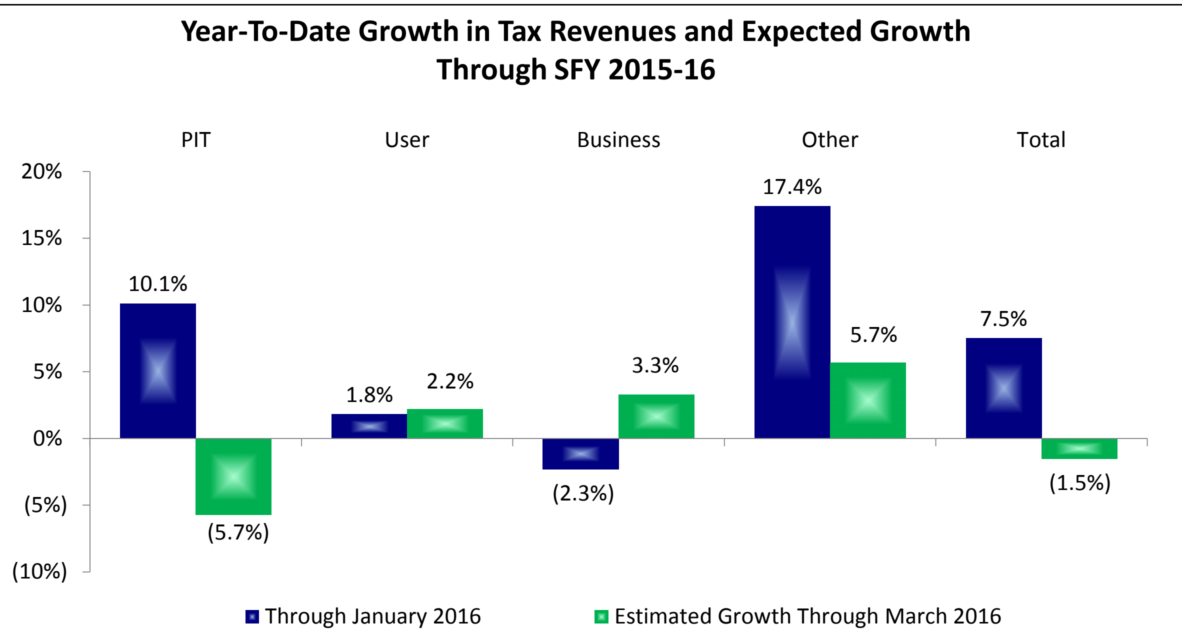
REVENUE FORECAST AT A GLANCE

SFY 2015-16 All Funds Forecast Summary ($ in Millions)					
	2014-15 Actual	2015-16 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$43,709	$47,146	$3,437	7.9%	$53
User Taxes	15,384	15,670	286	1.9%	30
Business Taxes	8,504	8,473	(31)	-0.4%	67
Other	3,437	3,969	532	15.5%	25
Total Tax Collections	**$71,034**	**$75,257**	**$4,223**	**5.9%**	**174**
All Funds Misc Rpts	26,341	23,046	(3,295)	-12.5%	14
Lottery	3,097	3,283	186	6.0%	(18)
Total w/Misc Rpts & Lottery	**$100,472**	**$101,587**	**$1,114**	**1.1%**	**$171**
Federal Funds	48,636	52,328	3,692	7.6%	-
Total All Funds Receipts	**$149,108**	**$153,915**	**$4,806**	**3.2%**	**$171**
* Totals may not add up due to rounding					

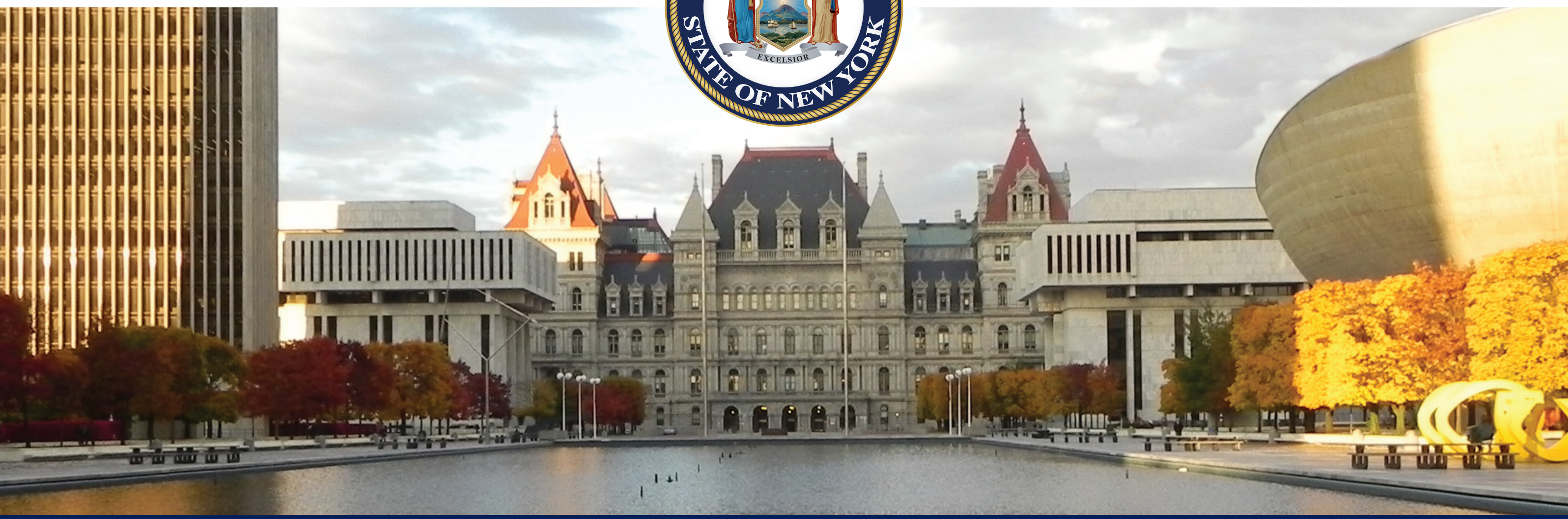
SFY 2016-17 All Funds Revenue Forecast Summary ($ in Millions)					
	2015-16 Estimate	2016-17 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$47,146	50,295	$3,150	6.7%	335
User Taxes	15,670	16,153	483	3.1%	18
Business Taxes	8,473	8,083	(390)	-4.6%	65
Other	3,969	3,543	(426)	-10.7%	31
Total Tax Collections	**75,257**	**78,074**	**2,817**	**3.7%**	**449**
All Funds Misc Rpts	23,046	21,011	(2,035)	-8.8%	41
Lottery	3,283	3,251	(32)	-1.0%	62
Total w/Misc Rpts & Lottery	**$101,587**	**102,336**	**750**	**0.7%**	**$552**
Federal Funds	52,328	51,133	(1,195)	-2.3%	-
Total All Funds Receipts	**$153,915**	**$153,469**	**($445)**	**-0.3%**	**$552**
* Totals may not add up due to rounding					



Source: Office of the State Comptroller.



Source: Office of the State Comptroller, NYS Assembly Ways and Means Committee staff estimates.



U.S. Economic Forecast Tables

U.S. ECONOMIC FORECAST TABLES

U.S. Economic Outlook (Percent Change)	Actual 2013	Actual 2014	Estimate 2015	Forecast 2016	Forecast 2017
Real GDP	1.5	2.4	2.4	2.1	2.1
Consumption	1.7	2.7	3.1	2.7	2.4
Investment	4.5	5.4	4.8	1.5	3.9
Exports	2.8	3.4	1.1	1.7	3.3
Imports	1.1	3.8	5.0	3.3	4.4
Government	(2.9)	(0.6)	0.8	1.6	0.5
Federal	(5.7)	(2.4)	(0.3)	1.7	(0.5)
State and Local	(1.0)	0.6	1.4	1.6	1.2
Personal Income	1.1	4.4	4.5	4.2	4.0
Wages & Salaries	2.7	5.1	4.8	4.6	4.0
Transfer Income	13.2	4.2	13.2		
Corporate Profits	2.0	1.7	(3.3)	(1.6)	1.3
Productivity	(0.0)	0.7	0.6	1.2	1.9
Employment	1.6	1.9	2.1	1.7	1.3
Unemployment Rate*	7.4	6.2	5.3	4.9	4.9
CPI-Urban	1.5	1.6	0.1	1.2	2.2
S&P 500 Stock Price	19.1	17.5	6.8	(4.2)	3.9
Treasury Bill Rate (3-month)*	0.1	0.0	0.1	0.5	1.4
Treasury Note Rate (10-year)*	2.4	2.5	2.1	2.1	2.5

* Annual average rate.

Note: Personal income and corporate profits growth rates are based on nominal values.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

U.S. Employment by Sector (Percent Change)	Actual 2013	Actual 2014	Estimate 2015	Forecast 2016	Forecast 2017
Total	**1.6**	**1.9**	**2.1**	**1.7**	**1.3**
Construction	3.7	5.0	4.8	4.3	3.4
Other Services[1]	2.5	2.5	2.3	2.1	1.4
Professional Services	2.9	2.6	3.4	2.9	1.7
Leisure & Hospitality	3.5	3.1	2.9	2.8	2.0
Transportation & Utilities[2]	1.6	3.2	3.7	1.3	0.8
Real Estate, Rental, & Leasing	2.3	2.3	2.0	1.9	1.1
Wholesale Trade	1.2	1.4	1.1	1.1	1.0
Management of Companies	3.9	3.1	2.2	2.2	1.3
Retail Trade	1.6	1.9	1.9	1.6	1.1
Education and Health Care[3]	1.5	1.7	2.9	2.8	2.2
Manufacturing[4]	0.8	1.5	0.5	(0.4)	(0.6)
Finance & Insurance	1.0	0.7	1.8	1.2	0.4
Government	(0.3)	0.1	0.6	0.3	0.6
State and Local	(0.1)	0.3	0.6	0.3	0.6
Federal	(1.8)	(1.3)	0.7	0.4	0.1
Information	1.1	0.8	0.9	0.6	0.4

[1] Including administrative, support, and waste management services.

[2] Transportation, warehousing, and utilities.

[3] Includes only private employment. Public education and health care employment is included in the government sector.

[4] Including mining and logging.

Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

N.Y.S. Economic Forecast Tables

N.Y.S. ECONOMIC FORECAST TABLES

New York State Economic Outlook (Percent Change)	Actual 2013	Actual 2014	Estimate 2015	Forecast 2016	Forecast 2017
Employment	1.4	1.9	1.9	1.5	1.2
Personal Income	(0.2)	4.0	3.9	4.1	4.2
Total Wages	2.0	6.4	3.7	4.0	4.2
Base Wages	3.6	4.4	4.4	4.4	4.0
Variable Compensation	(10.5)	25.4	(1.7)	1.4	6.0
New York Area CPI	1.7	1.3	0.1	1.0	1.9

Note: Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and sum to total wages. New York area CPI is based on the New York-Northern NJ-Long Island, NY-NJ-CT-PA CPI-U series from the U.S. Bureau of Labor Statistics.
Sources: U.S. Bureau of Economic Analysis; NYS Department of Labor; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

New York State Economic Outlook State Fiscal Year		Actual 2014-15	Estimate 2015-16	Forecast 2016-17	Forecast 2017-18
Employment	***Percent Change***	1.9	1.8	1.5	1.1
	Level	8,861.7	9,020.9	9,151.9	9,254.5
Personal Income	***Percent Change***	3.6	3.9	4.5	3.8
	Level	1,081.3	1,123.2	1,174.1	1,218.5
Total Wages	***Percent Change***	4.5	3.8	4.7	3.6
	Level	585.5	607.8	636.4	659.5
Base Wages	***Percent Change***	4.4	4.4	4.4	3.8
	Level	519.7	542.7	566.6	588.1
Variable Compensation	***Percent Change***	5.0	(0.9)	7.2	2.2
	Level	65.8	65.2	69.9	71.4
New York Area CPI	***Percent Change***	0.9	0.4	1.2	1.9
	Index Level (1982-84=100)	260.1	261.1	264.1	269.1

Note: Employment level is in thousands; wage and personal income levels are in billions of dollars.
Sources: U.S. Bureau of Economic Analysis; NYS Department of Labor, QCEW; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

New York State Nonfarm Employment by Sector (Percent Change)					
	Recession 2009	Actual 2014	Estimated 2015	Forecast 2016	Forecast 2017
Total	**(3.1)**	**1.9**	**1.9**	**1.5**	**1.2**
Construction	(10.0)	4.9	5.5	4.3	3.0
Transp. & Utilities[1]	(4.2)	3.8	3.5	2.0	1.5
Professional Services	(4.3)	2.5	3.2	2.7	2.3
Leisure & Hospitality	(0.9)	4.1	3.1	2.7	1.9
Education & Health Care[2]	1.7	2.2	2.5	2.4	2.0
Other Services[3]	(5.0)	1.9	2.3	1.9	1.8
Real Estate, Rental, & Leasing	(3.8)	2.4	2.0	2.1	1.6
Finance & Insurance	(7.2)	1.5	1.4	0.0	0.4
Management of Companies	(0.7)	2.5	1.1	1.5	1.1
Retail Trade	(3.8)	1.7	1.0	1.2	0.8
Wholesale Trade	(6.3)	0.7	0.8	0.6	0.5
Information	(4.0)	1.5	0.2	0.3	0.3
Government	(0.2)	(0.1)	0.1	0.1	0.1
Manufacturing[4]	(10.9)	(0.7)	(0.2)	(1.2)	(1.5)

Note: Industries are ranked by 2015 employment growth; rankings are based on two decimal places.

[1] Transportation, warehousing, and utilities.

[2] Includes only private employment. Public education and health care employment is included in the government sector.

[3] Including administrative, support, and waste management services.

[4] Including mining.

Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

New York State Wage Growth by Sector (Percent Change)					
	Recession 2009	Actual 2014	Estimated 2015	Forecast 2016	Forecast 2017
Total	**(7.2)**	**6.4**	**3.7**	**4.0**	**4.2**
Construction	(8.9)	7.9	7.5	8.3	6.0
Other Services[1]	(5.6)	4.5	7.0	6.1	5.0
Real Estate, Rental, & Leasing	(8.6)	8.7	7.0	6.9	6.0
Professional Services	(5.5)	8.0	5.7	5.9	4.9
Leisure & Hospitality	(2.6)	8.5	4.8	5.9	5.4
Education & Health[2]	4.5	4.6	4.0	4.5	3.9
Transport & Utilities[3]	(4.6)	5.9	3.8	3.8	3.4
Information	(4.4)	9.4	3.2	5.2	4.1
Management of Companies	(10.8)	3.2	3.0	3.5	4.3
Retail Trade	(4.9)	4.9	3.0	4.0	3.9
Government	2.0	2.6	2.4	1.9	2.3
Wholesale Trade	(6.5)	4.3	2.4	4.8	4.9
Finance & Insurance	(22.1)	11.9	2.0	2.3	5.1
Manufacturing[4]	(11.0)	0.6	1.8	1.0	1.4

Note: Industries are ranked by 2015 wage growth; rankings are based on two decimal places.

[1] Including administrative, support, and waste management services.

[2] Includes only private employment. Public education and health care employment is included in the government sector.

[3] Transportation, warehousing, and utilities.

[4] Including mining.

Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff.

U.S. Economic Forecast Analysis

U.S. ECONOMIC FORECAST ANALYSIS

Positive Signs Support Future Economic Growth

Economic growth is expected to continue

The U.S. economic recovery that began in June 2009 continues despite global economic and financial volatility. The U.S. economy grew 2.4 percent in 2014 following a mere 1.5 percent gain in 2013 (see Figure 1). While the relatively weak performance in 2013 was largely attributed to the withdrawal of various fiscal stimulus programs that had been put in place in earlier years, the improvement in economic growth in 2014 was helped most by healthy gains in consumer spending and less drag from the public sector. Despite negative fallouts from another cold spell and port disruptions on the West Coast in early 2015, the national economy grew another 2.4 percent in 2015. Household spending was the main driver of growth.

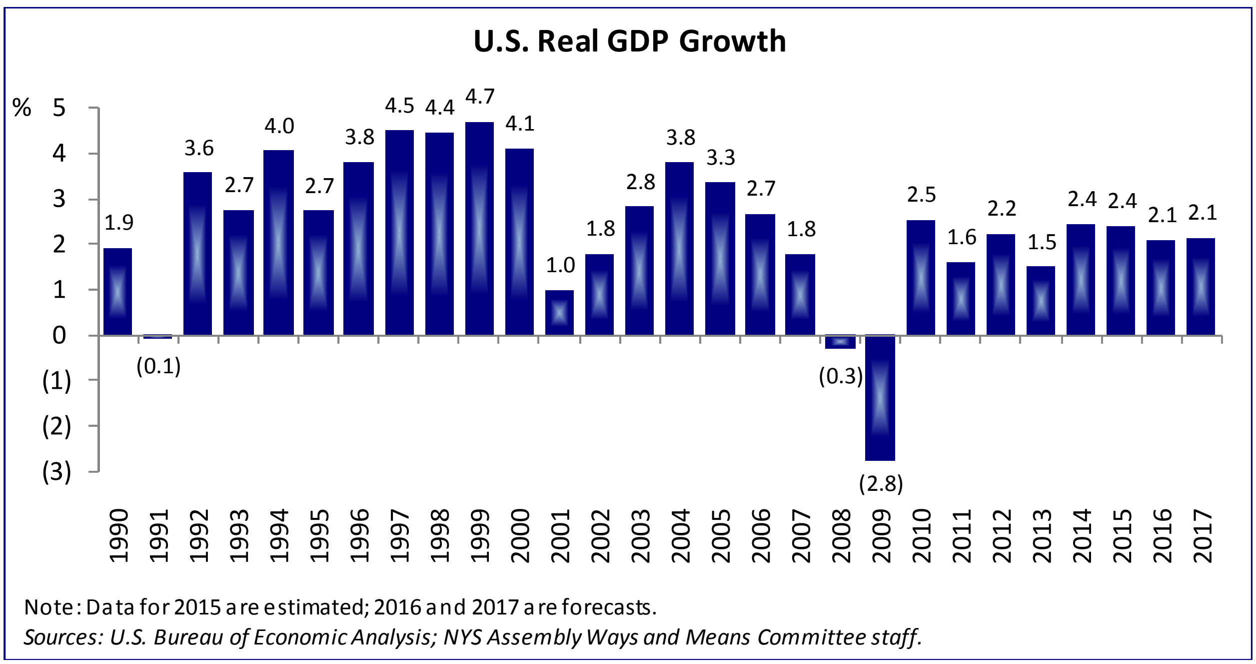


Figure 1

Consumer and broad labor market fundamentals will support the recovery

The ongoing economic recovery will likely continue with the labor and housing markets continuing to improve. Steady gains in employment and the accompanying increase in household income have aided the robust recovery in personal consumption spending. The unemployment rate dropped to 4.9 percent in January, the lowest rate since 2007. Despite recent volatility in financial markets, improving financial positions also have positively impacted household spending. The household debt to disposable income ratio has steadily declined since the end of the 2007-2009 recession. With the delinquency rates on consumer loans at the lowest level in 25 years, more banks have been reporting increased willingness to make loans to consumers. The improved financial positions have provided households with opportunities to finance their spending with loans. Even mortgage equity withdrawals (MEW) appear to have started increasing again in the last few months. During the housing boom years before the 2007-2009 recession, the cash flow from MEW had increased sharply, fueling consumer spending growth.

Housing market fundamentals and state and local government finances are improving

Home sales and construction experienced robust gains in recent months. Recharged sentiments among homebuilders, increasing household formations, falling rental vacancy rates, and less tightening in loan standards are all expected to drive continued recovery in residential construction activity. The federal government continues to tighten its expenditures, though at an increasingly slower rate, but recent improvement in state and local government finances has been helping support gradual gain in state and local government spending. This trend will likely continue in the next few years with the public sector as a whole making a positive contribution to national economic growth.

However, Several Weaknesses Remain

Job growth is concentrated in part-time jobs and the service-providing sectors

Despite steady gains in jobs and the accompanying improvement in income, recent Census data show that in 2014, the median American household income, $53,657, was still 6.5 percent lower (adjusted for inflation) than its 2007 level and 7.2 percent below its 1999 level. Data on wages in the current year do not indicate any meaningful improvement in those trends. In fact, income growth following the Great Recession has accrued primarily to the most affluent households in the U.S., with most households still waiting to see the benefits of recovery in terms of income.[1]

There is also some disconnect between jobs data and household incomes. One reason for this disconnect is that many of the jobs that have been created are part-time in nature. Although full-time jobs are being created at a faster pace lately, according to the Current Population Survey, the number of full-time workers and their share in 2014 still remained well below 2007 levels. At the same time, the number of Americans working part-time, even though they would prefer fulltime employment, more than doubled jumping from 2.9 million to 5.9 million.

Another reason for the disconnect between jobs and incomes is that many of the recent jobs created have been concentrated in relatively lower-paying service-providing sectors. Total employment in the manufacturing and construction sectors (the two sectors that were hit hardest during the recent recession) was still 2.2 million jobs below the January 2008 level as of January 2016.[2] This is in sharp contrast with the service-providing sector that had 7.1 million more jobs in that month, compared to the pre-recession peak level (see Figure 2). Also, although the rate of unemployment has been trending downward, the significant number of people who have dropped out of the labor force (so-called discouraged workers) has been an important contributor to the declining unemployment rate. This may help explain why the seemingly improving labor market conditions have not resulted in more meaningful gains in household income.

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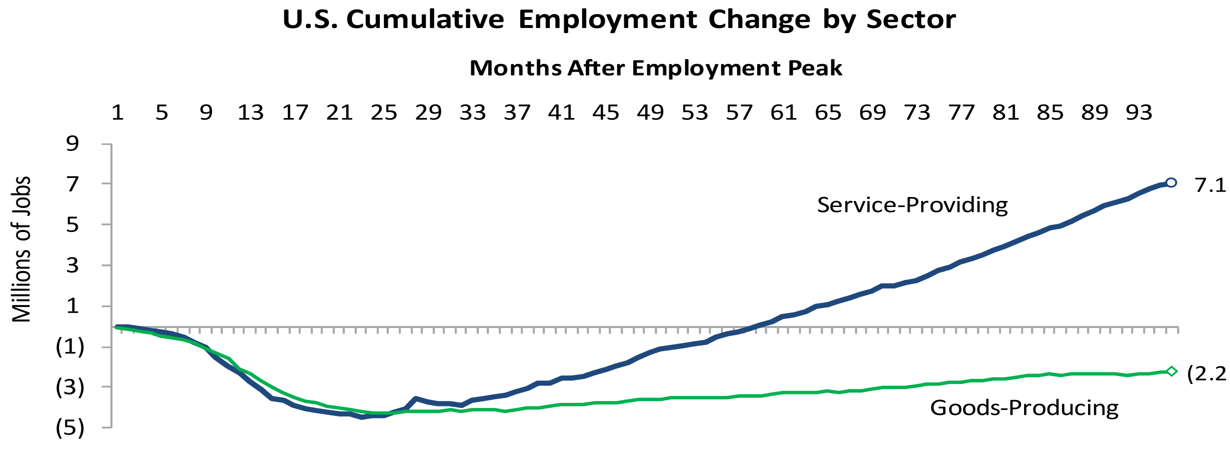
[1] Saez, Emmanuel, "U.S. income inequality persists amid overall growth in 2014," Washington Center for Equitable Growth, June 19, 2013, http://equitablegrowth.org/u-s-income-inequality-persists-amid-overall-growth-2014/.

[2] The goods-producing sector includes manufacturing, construction, and mining and logging. The mining and logging industry is relatively small, employing less than a million jobs as a whole. Nonetheless, in the midst of the recent oil boom, industry employment grew rapidly, with a 38.1 percent jump between October 2009 and December 2014. Since oil prices started plummeting in December 2014, the industry has lost more than 14 percent of its payroll jobs.



Note: Cumulative change is as compared to January 2008, the peak of total nonfarm employment prior to the Great Recession. Data are monthly through January 2016.
Source: U.S. Bureau of Labor Statistics.

Figure 2

Consumer spending growth is largely fueled by auto sales and other durable goods

It appears that since the Great Recession consumers have become more frugal and more rationally forward-looking in their purchase decisions. One indication is that the bulk of the savings from recent low gasoline and other fuel prices appears to have been saved and/or used to pay down debt, rather than spent on other household items. In the housing market, despite various positive factors such as record-low interest rates, steadily improving employment conditions, and advances in household formations, activity has failed to build more solid, steady momentum. In addition to supply constraints such as the shortage of buildable lots, rising student debt burdens and still stringent loan conditions have been restraining potential first-time home buyers.

Business capital spending has softened

Business capital spending growth has slowed and various monthly indicators point to continued softening, if not downright decline, in the coming months. Although fluctuating month to month, factory orders have been on a downward trend. The rate of capacity utilization has also been weakening; in particular, energy-related industries have suffered from plummeting energy prices while exporting industries struggle due to the loss of global competitiveness caused by a strong U.S. dollar. The unusually strong inventory buildup seen in the first half of 2015 is being reversed as it turns out to be unsustainable with the current inventory level high relative to the recent pace of sales. As firms draw down their unintended inventory levels in the coming months, factory orders and production will likely be cut down, negatively impacting overall economic growth in the short run.

The yearly growth of business spending on equipment and software has slowed to 4.4 percent in the past two years from the more robust 8.9 percent yearly gain seen in the earlier years of the current recovery. While it appears that the pace of U.S. firms substituting capital for labor has slowed in the past two years, the decelerating pace of business spending on equipment and software is worrisome as it negatively impacts not only short-term economic growth but, more importantly, the growth of productivity in the longer run.

Global risks remain elevated and will continue to adversely affect the U.S. outlook

In addition to a strong U.S. dollar, economic weakness in China and many oil-dependent economies negatively impacted by low oil prices contributes to a rather dim outlook for U.S. exports. U.S. economic performance is far from immune from economic disruptions and financial instabilities in other parts of the world due to increasing global interconnectedness. As of December 2015, according to the Institute for Supply Management, new export orders have been in contraction territory for six out of the past seven months.

With positives outweighing negatives, the U.S. economic recovery will continue

The U.S. economy is projected to grow 2.1 percent in 2016, a rate below the trend growth rate. The pace of national economic growth is expected to remain slow at 2.1 percent in 2017, with the recovery continuing into its eighth year and labor market conditions tightening. This forecast assumes no major disruption to the U.S or world economy. The economic performance of emerging market economies, especially China, is assumed to avoid major corrections in the next two years, although somewhat slower economic growth is factored into the current forecast. It is assumed that the Federal Reserve will remain on the path of rewinding its accommodative monetary policy during 2016 gradually raising the federal funds rate target range, but the pace of rate hikes will be cautious, ready to be adjusted to economic and financial conditions at home and abroad. It is further assumed, that although such policy changes will inevitably lead to speculations, the market responses will be orderly and restrained, with borrowers adapting quickly to the changing environment.

U.S. firms continue to look for ways to economize on costs, reflecting overall structural changes in the globally competitive economy. Thus, the pace of recovery in U.S. payroll employment is likely to remain relatively slow compared to the pace of growth in earlier years.

Also, as the rate of unemployment has come down close to the natural rate, the rate of payroll job gains is forecast to slow to an annualized rate of 1.7 percent in 2016 after growing 2.1 percent in 2015. With economic growth expected to continue further in 2017 but labor market conditions expected to get tighter, employment growth is forecast to slow further to 1.3 percent in 2017.

Inflation remains well below the Federal Reserve's target rate of two percent. Crude oil prices are at twelve year lows and the prices of many other commodities remain on a downward trend. In addition, the lack of more robust advances in labor costs indicates that inflationary pressures from the labor market are minimal. These inflation-stabilizing forces will largely remain in place in the next two years, helping to keep inflationary pressures in check. The Consumer Price Index (CPI) is forecast to advance 1.2 percent in 2016 after rising an estimated 0.1 percent in 2015. With the prices of oil and other commodities expected to advance upward, the CPI is forecast to gain another 2.2 percent in 2017.

Consumer Spending

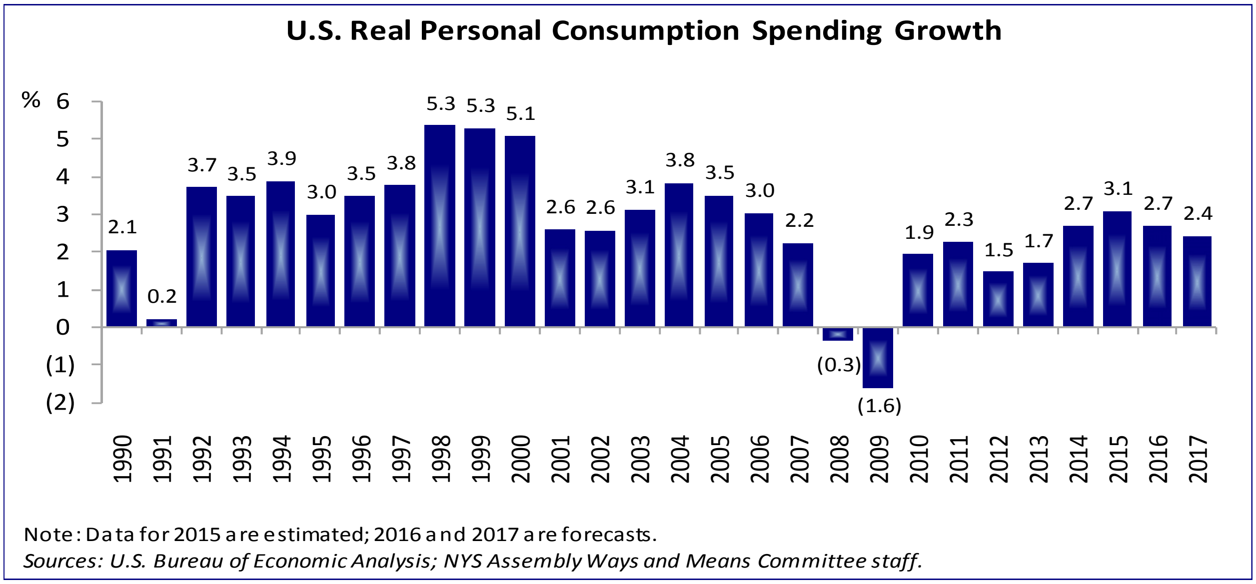


Figure 3

Consumer Key Points

- **Consumer spending growth is forecast to remain positive, but below pre-recession rates;**
- **Consumer spending is helped by low energy prices;**
- **With interest rates expected to rise, expenditures on durable goods, which have sustained consumption spending, will likely be negatively impacted;**
- **Since the Great Recession, consumers have become more cautious spenders.**

Personal consumption spending, adjusted for inflation, grew by 2.7 percent in 2014, following growth of 1.7 percent in 2013. As the impact of tax policies that became effective in 2013 abated, consumer spending was supported by strong sales in motor vehicles, low interest rates, higher household wealth, steady gains in employment, improvement in household creditworthiness, low energy prices, and low inflation. Despite so many favorable factors, consumer spending growth remained below growth rates that were in place prior to the Great Recession.

Low energy prices have supported consumer spending…

Energy prices were significantly lower in 2015 than 2014. Since the amount of energy purchased by households is fairly fixed, lower energy prices increase the purchasing power of households through higher real disposable income. The savings from paying less on energy products allow consumers to spend on other goods and services or to save. In general, consumers have spent these savings. However, this time around, consumers were much slower to spend and saved some of the windfall from the lower energy prices. Consumers also used some of the windfall to continue to pay down debt. This change provides some evidence that consumers' experience from the 2007-09 recession has impacted their spending patterns, whereby consumers have become more cautious about their spending.

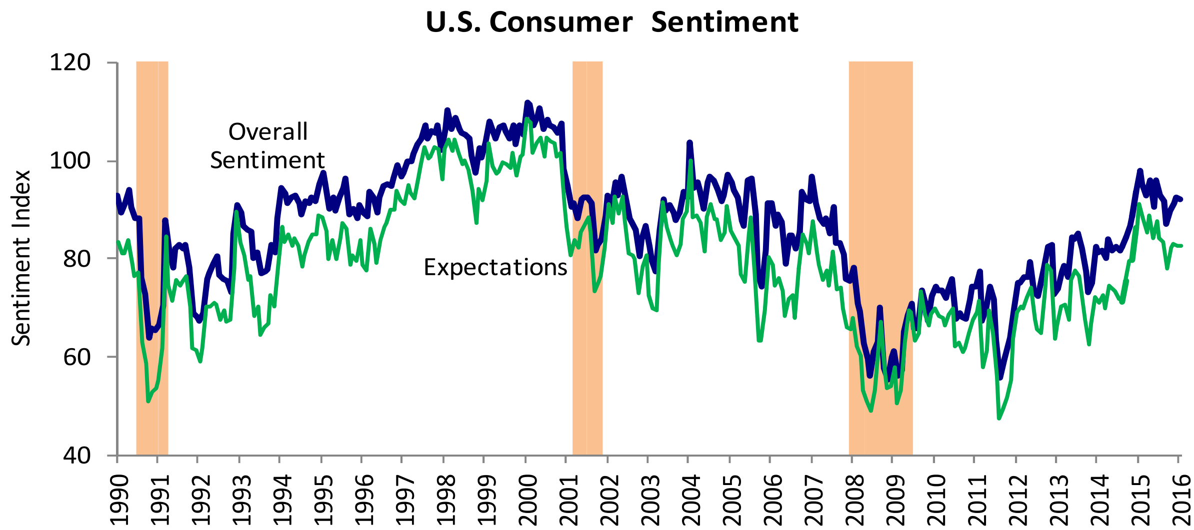
As energy prices remained low, as households' creditworthiness improved, and as credit conditions became more accommodating, consumer spending benefitted. Consumption spending was facilitated by continued growth in employment, a stable housing market, and higher household wealth. As a result, personal consumption spending grew an estimated 3.1 percent in 2015 (see Figure 3).

…however, rebounding energy prices and interest rates will restrain future spending growth

Energy prices are anticipated to continue to fall in 2016 and moderately increase in 2017, while long-term interest rates are expected to rise over the forecast period. Short term, higher interest rates will temper the purchases of durable goods such as motor vehicles and housing. Higher energy prices will adversely affect consumer spending as overall price levels rises. Furthermore, consumer spending will be hampered by slower employment and wage growth. However, higher interest rates will accelerate interest income, thus increasing disposable income. In addition, households have significantly reduced their debt, even though debt levels remain relatively high by historical standards, and delinquency rates are at historic lows, implying more funds are available for spending. Consequently, personal consumption spending is projected to slow to 2.7 percent in 2016 and 2.4 percent in 2017.

Consumer sentiments point to continued thriftiness

Consumers seem uncertain about the future economic outlook and have gauged their spending accordingly (see Figure 4). In general, when consumers feel more optimistic about the economy, their finances, and job outlook, they are more inclined to spend. Of late, given their cautious demeanor, any uncertainty consumers perceive that might affect their economic well-being tends to result in more thriftiness.

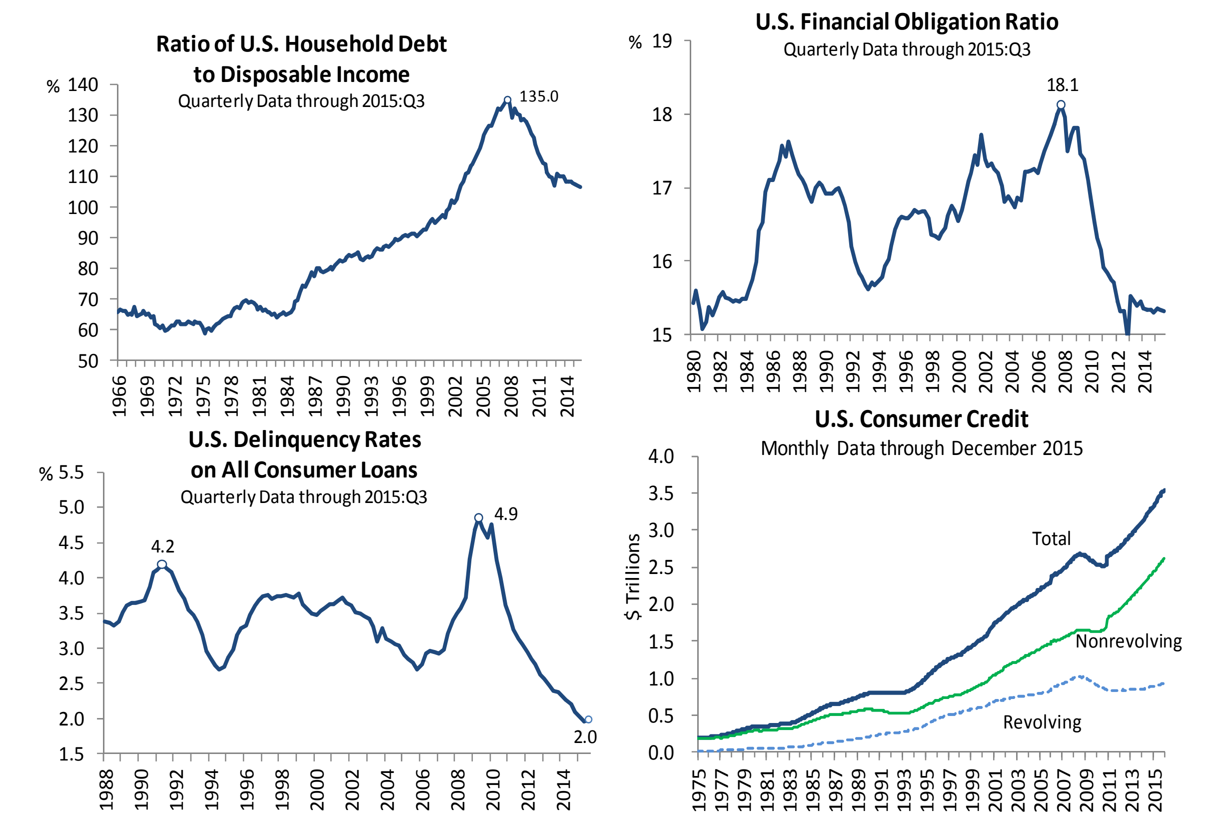


Note: Data are monthly through January 2016. Shaded areas represent recessions.
Source: Reuters/University of Michigan ICS.

Figure 4

Households' creditworthiness has improved

Households' creditworthiness has improved as household debts have declined markedly from their peak in 2008 (see Figure 5). The financial obligation ratio has fallen sharply, indicating that the risk is significantly lower that households will be unable to meet their financial obligations, increasing the probability that they will be approved for new loans or lines of credit. Delinquency rates are also at historical lows. As household debt falls, less disposable income is required to be set aside for debt payments. In addition, the growth in consumer credit has been driven mainly by non-revolving credit such as auto loans, student loans, and home mortgages. While credit card debt has increased in the past few months, households seem to be less willing to rely on credit cards to make purchases.



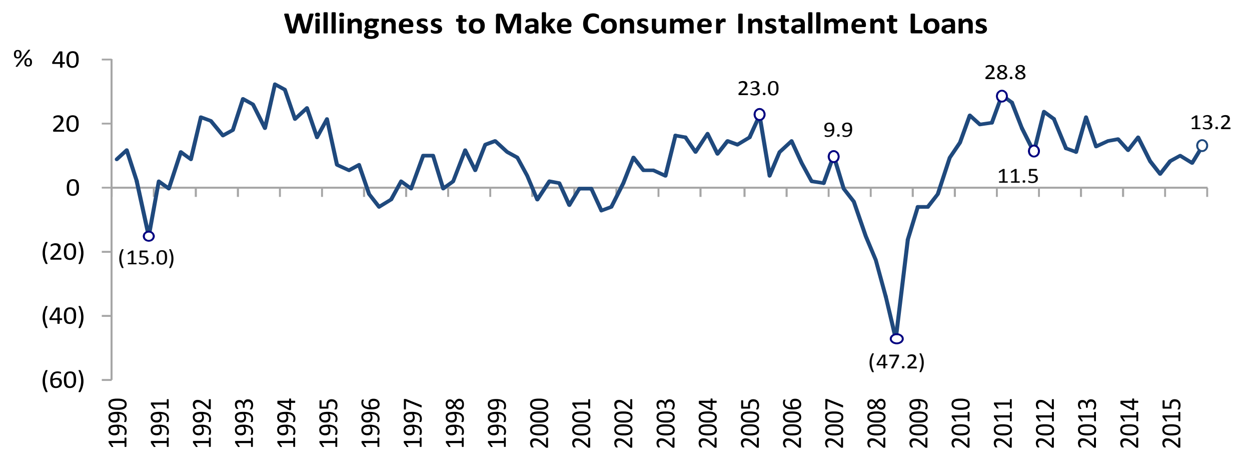
Note: The U.S. financial obligation ratio measures the percentage of household disposable income obligated to debt payments. U.S. Delinquent loans are those past due thirty days or more and still accruing interest as well as those in nonaccrual status. They are measured as a percentage of end-of-period loans.

Sources: Federal Reserve; U.S. Bureau of Economic Analysis.

Figure 5

Banks are more willing to lend

Banks have eased credit requirements and have been more willing to lend to households as creditworthiness has improved. The proportion of banks willing to make consumer loans to households has rebounded from the 2008 low. However, banks' willingness to make loans was weaker in 2015 than in 2014 (see Figure 6). As loan terms have eased, the demand for all consumer loans such as auto loans and home loans has risen, although households' demand for credit cards has been less responsive.



Note: Data are quarterly through 2016:Q1. Bank data were taken from a survey of approximately fifty to sixty-eight domestic banks and nineteen to twenty-eight U.S. branches and agencies of foreign banks. The percentage is the fraction of banks that reported increased willingness to make consumer installment loans from the previous three months.
Source: Federal Reserve.

Figure 6

Home equity cash-out trends have stabilized

Many homeowners continue to refinance but are choosing shorter loan terms instead of making home equity withdrawals with interest rates still low by historical standards and home prices slowly increasing (see Figure 7). In the third quarter of 2015, of the homeowners who chose to refinance, only 10.6 percent withdrew cash. This mortgage equity withdrawal was equivalent to $12.2 billion, the highest level since the second quarter of 2009 of $24.7 billion. Of the homeowners whose initial loans were a 30-year fixed rate mortgage, 56.4 percent kept a 30-year fixed rate, while 29.3 percent refinance into a 15-year fixed term.[3] While lower home equity withdrawal provides little support for consumer spending, homeowners who are able to pay lower interest rates on home loans will have more funds that can be used to purchase other goods and services.

[3] See Freddie Mac, The Freddie Mac 2015 Q3 Refinance Report, Refinance Statistics, December 2015, http://www.freddiemac.com/finance/refinance_report.html.

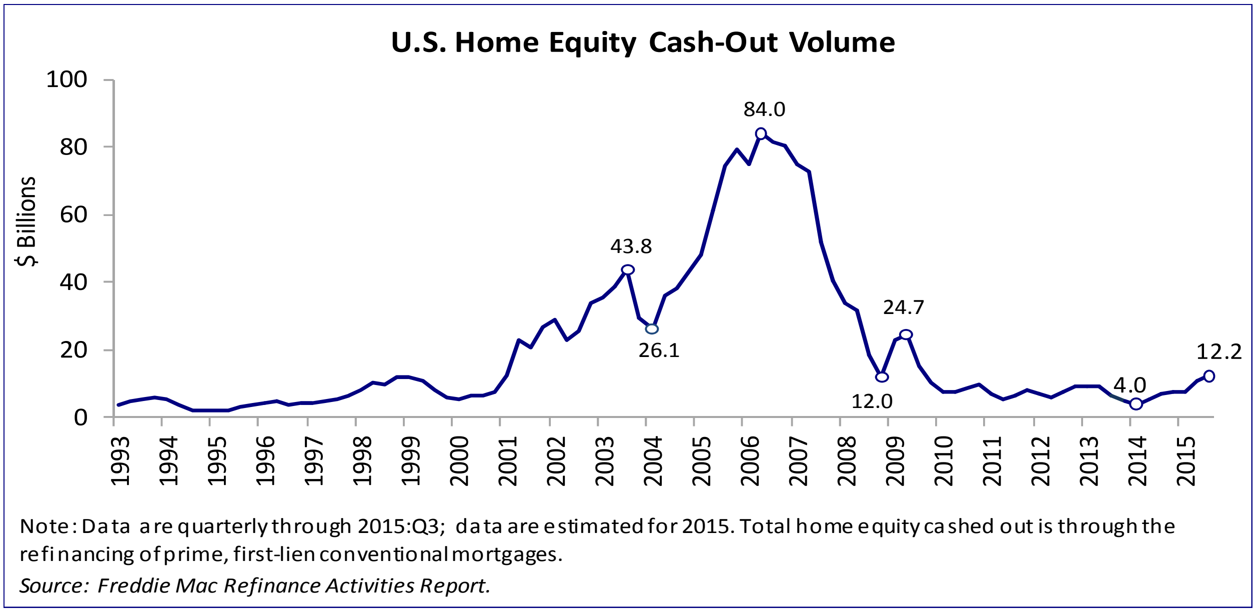


Figure 7

Consumer spending on durable goods, supported by record low interest rates

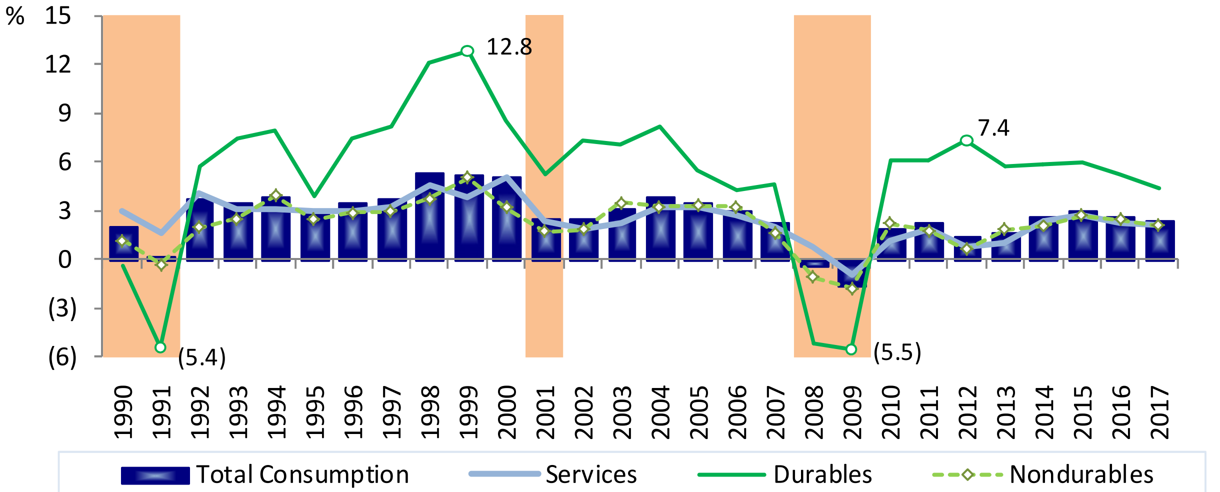
Personal consumer spending continues to be fueled by durable good purchases, particularly spending on motor vehicles, as interest rate and energy prices have remained low. In 2015, vehicle sales increased by 5.4 percent compared to 2014, driven primarily by sales of trucks and sports utility vehicles. Even though the pace of sales has slowed, spending on motor vehicles is anticipated to contribute further to consumer spending growth. In addition, with the housing market on better footing, spending on related furniture and household equipment continues to climb steadily.

Spending on nondurable goods and services, which makes up more than eighty percent of total consumer spending, has been modest. Spending on health care services has been a reflection of an aging population and the implementation of the Affordable Care Act, while spending on services related to housing has been moderate. These two components accounted for more than fifty percent of spending on consumer services in 2013 and 2014. Housing market activities are expected to be aided by household formation. Spending on services has also been impacted by low energy prices, especially those related to household utilities. Low energy prices allow consumers to spend more on other goods and services as they have higher real disposable income.

Overall consumer spending outlook

Over the forecast period, consumer spending is projected to slow as consumers rein in spending on motor vehicles, services, and nondurable goods (see Figure 8). The expected slowdown in employment and wage growth along with higher interest rates will be contributing factors. As a result, spending on durable goods is forecast to grow 5.3 percent in 2016 and 4.4 percent in 2017. Spending on nondurable goods is projected to increase by 2.5 percent in 2016 and 2.1 percent in 2017, while spending on services is projected to grow by 2.3 percent and 2.1 percent in 2017.

U.S. Real Personal Consumption Spending Growth by Sector

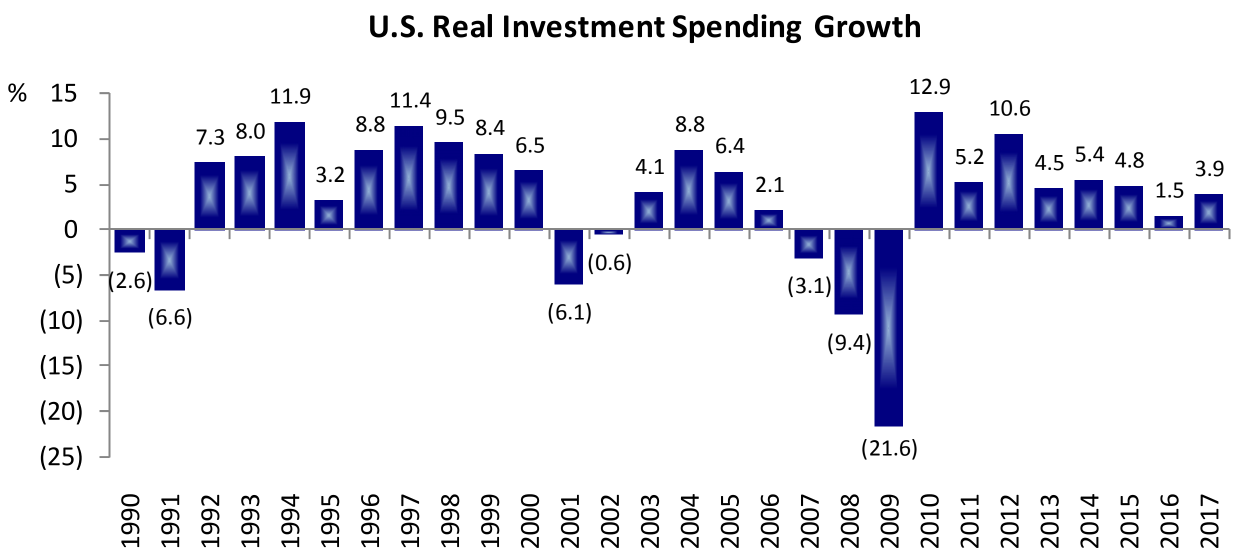


Note: Data for 2015 are estimated; 2016 and 2017 are forecasts. Shaded areas represent recessions.

Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 8

Business Investment Spending



Note: Data for 2015 are estimated; 2016 and 2017 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 9

Investment Key Points

- **Through the recovery, investment spending has been weak and is expected to remain subdued through the forecast horizon;**
- **Business investment is expected to continue to face headwinds as global demand is projected to remain weak;**
- **Residential structures investment is expect to be the strongest category, among the various investment components, on the strength of a recovering housing market.**

Some of the categories of investment spending, particularly nonresidential structures such as buildings, have been underperforming since the 2007-09 recession, and there is a seeming lack of positive influences helping the outlook in other investment categories. As a result, investment spending will remain below historical rates and is expected to grow only 1.5 percent in 2016 and slightly recover in 2017 with annual average growth of 3.9 percent (see Figure 9).

The share of spending on structures, both residential and nonresidential as part of investment spending, plummeted during the last recession and has not recovered. The share of investment spending for equipment has remained higher than before the previous recession, as equipment spending rebounded much quicker than the other categories. Within the equipment category, transportation equipment spending fell the most during the 2007-09 recession, but rebounded quite strongly and has since surpassed its pre-recession level. The other categories of equipment spending have not shown the growth of transportation, and they remain close to, but below, their pre-recession levels.[4]

The strongest growth in investment during the forecast period is expected to come from residential structures, which should improve as the housing market continues to gain strength (see Figure 10). Equipment investment spending will be supported by businesses investing in new capital to meet rising demand as the broader economy continues to expand.

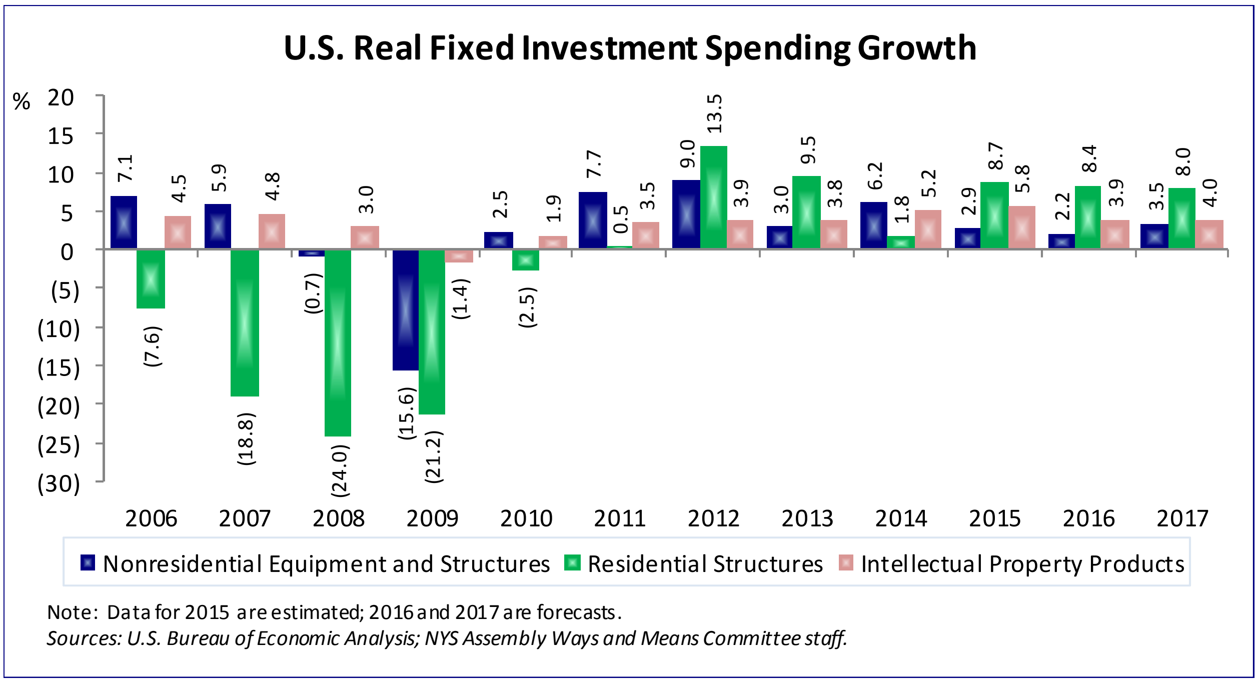


Figure 10

The banking system will support investments as banks are reporting that lending standards are continuing to ease for commercial and industrial loans. In addition, demand for commercial and industrial loans was reported as to have remained "about unchanged" during

[4] Equipment investment consists of: information processing equipment, industrial equipment, transportation equipment, and other (consisting primarily of furniture and fixtures, agricultural machinery, construction machinery, mining and oilfield machinery, service industry machinery, and electrical equipment not elsewhere classified) equipment.

the third quarter of 2015.[5] Commercial and industrial loans recovered after the 2007-09 recession and are currently at an all-time high.

Despite a better lending environment, other factors indicate that corporations might not be investing as they have in past expansions. Slower growth in corporate profits leaves companies with less cash to spend. During earlier recoveries, corporations were investing much more than the cash they had on hand, as evidenced by the positive financing gap. During the current expansion, the corporate financing gap has been mostly negative, indicating that corporations are still cautious about investing out of their profits.

Lower oil prices have also had a somewhat dramatic effect on investment. North American shale oil production has been significantly curtailed. The rig count, which signifies new exploration and development of oil and gas wells, plunged sharply in 2014 and 2015 and has yet to recover. With oil prices on a downward slide, small to medium-scale oil companies are threatened with bankruptcy. Mining spending, excluding oil and gas extraction, is also not doing well in terms of investment. The capacity utilization rate of this category is much lower than it was in 2008 (see Figure 11). The overall capacity utilization index has also not recovered to pre-recession territory and has been on a declining trend since mid-2015.

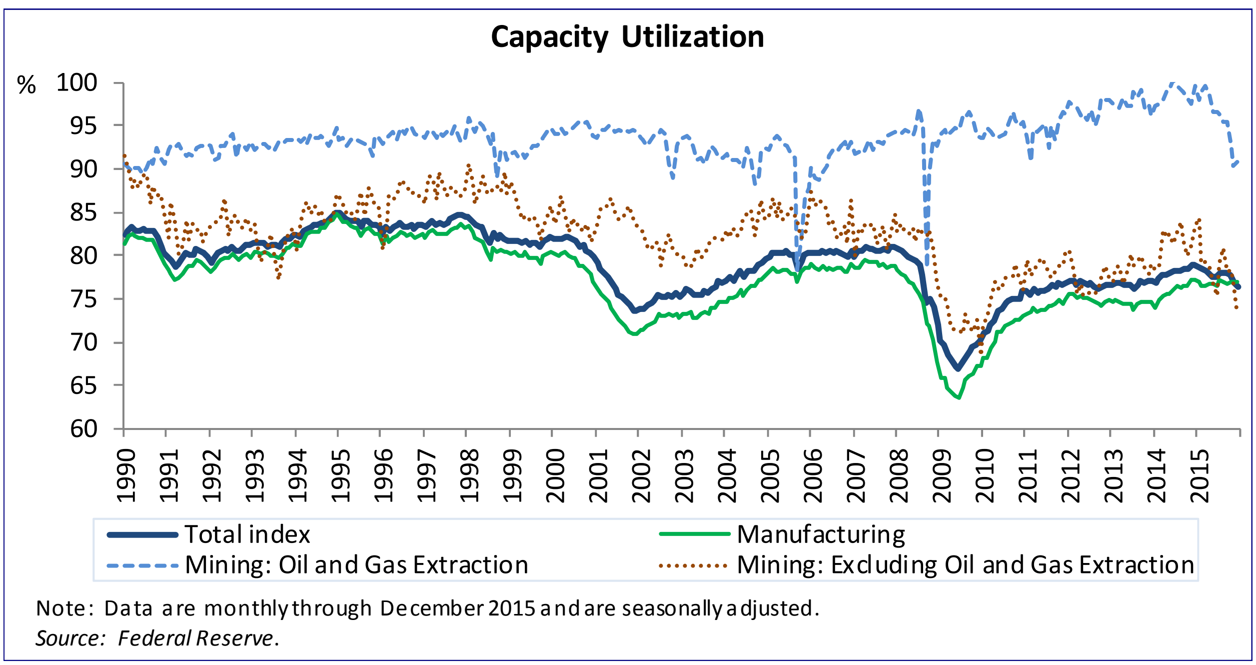


Figure 11

[5] The October 2015 Senior Loan Officer Opinion Survey on Bank Lending Practices. The Federal Reserve Board.

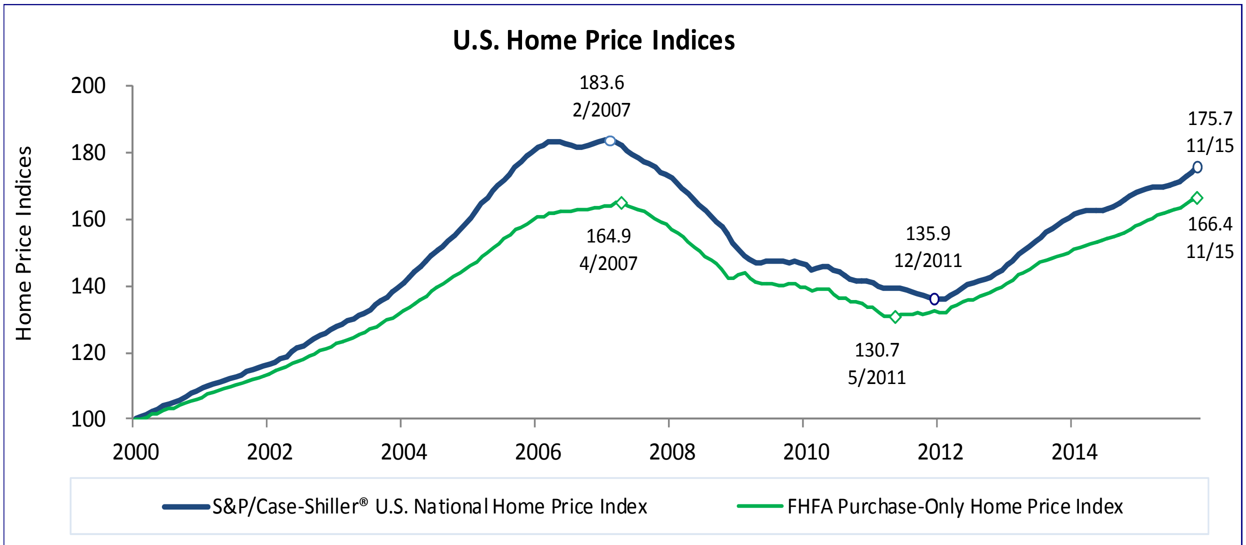
New orders of nondefense capital goods, also a leading indicator of equipment investment spending, have shown a mixed outlook in recent months. Nondefense capital goods new orders declined 15.0 percent in December 2015, following an 8.1 percent decline in November. Excluding aircraft, new orders declined 4.3 percent in December 2015 following a 1.1 percent decline in November. Overall, nondefense capital goods new orders declined 11 percent in 2015 over 2014.

The Institute for Supply Management (ISM) index provides a mixed picture as of the December 2015 release. Manufacturing sector activity declined for the second consecutive month in December even though the overall economy expanded for the seventy-ninth consecutive month, underscoring the divergent fortunes of the manufacturing sector versus the rest of the economy. Ten out of eighteen manufacturing industries reported contractions in activity in December, similar to the November results.

Also of concern, with implications for the gross domestic product (GDP) growth rate, is the inventory build-up posted during 2015. Record change in private inventories was over $100 billion in both the first and second quarters of 2015. A slowdown in inventory accumulation in the second half of the year restrained overall GDP growth in 2015. However, the inventory-to-sales ratio remains elevated and poses a significant risk to GDP growth in 2016.

Residential Investment

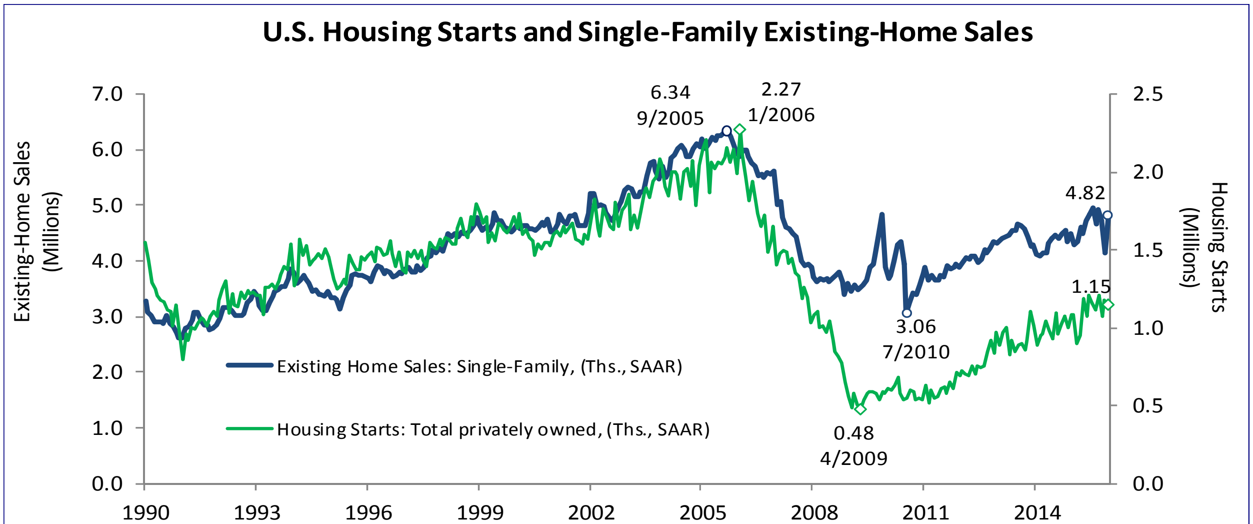
After falling from its peak in 2005-06, the housing market showed signs of improvement in 2012 and gained steadily in 2013 as consumers and investors took advantage of high affordability in anticipation of rising mortgage rates. From January 2012 to January 2014, the FHFA House Price Index gained 14.2 percent. Similarly, the Case-Shiller House Price Index gained 18.9 percent (see Figure 12).



Note: Data are monthly through November 2015. Data are seasonally adjusted; January 2000=100.
Sources: Standard & Poor's; Federal Housing Finance Agency.

Figure 12

Housing starts also grew strongly during this period. Starts grew almost 30 percent in 2012 and more than 18 percent in 2013 to an annual average of 929,700 homes, a growth driven mainly by multi-family construction. After years of stagnant sales, both new- and existing-home sales have also been on an upward trend. New-home sales gained over 40 percent from 2011 to 2013, while existing-home sales gained almost 20 percent during this period (see Figure 13).

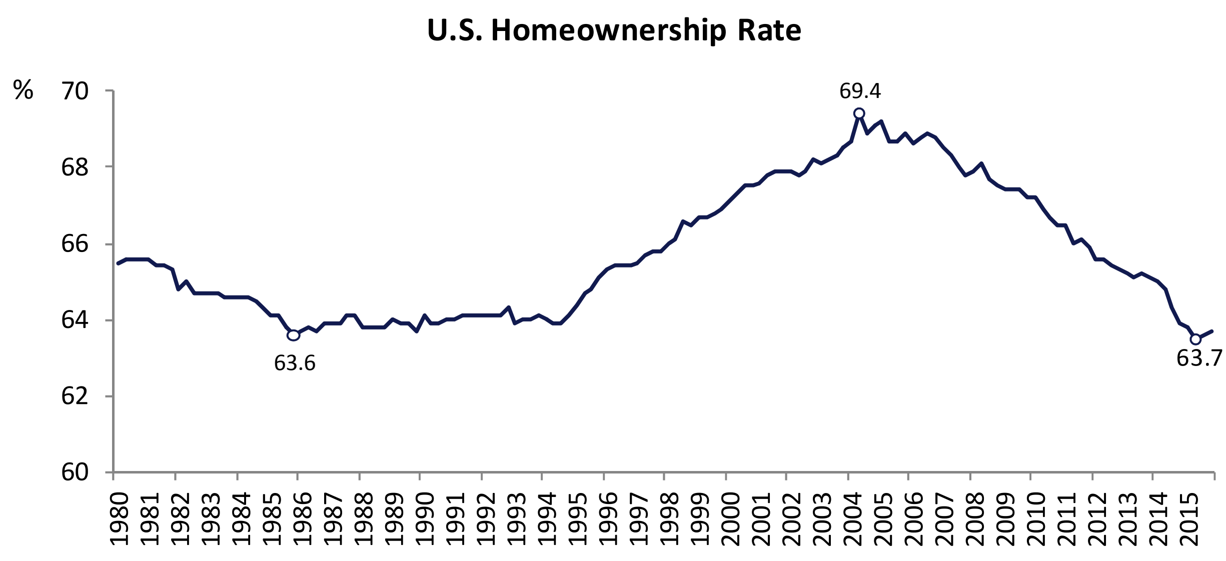


Note: Data are monthly from January 1990 to December 2015 and are seasonally adjusted at an annual rate (SAAR).
Sources: U.S. Census Bureau; National Association of Realtors.

Figure 13

Housing starts grew 8.4 percent in 2014, while both new- and existing-home sales were nearly flat. Activities in the housing market improved in 2015. Housing starts grew 10.6 percent in 2015, while existing-home sales rose by 6.7 percent in 2015. Despite the improvement, the housing market remains fragile. Although home prices have almost reached the levels seen in the mid-2000s, sales and starts remain well below pre-2007 levels.

Many people lost their homes to foreclosure during the last recession, and high debt burdens have deterred people from buying homes. As a result, the homeownership rate in the U.S. has been declining since the collapse of the housing market. After rising steadily from the mid-1990s to its peak of 69.4 percent in the second quarter of 2004, the homeownership rate has been falling. It fell to 63.5 percent in the second quarter of 2015, the lowest level since 1980 (see Figure 14). The homeownership rate has since rebounded slightly to 63.8 in the fourth quarter of 2015.



Note: Data are seasonally adjusted. Data are quarterly from 1980:Q1 to 2015:Q4.
Source: U.S. Census Bureau.

Figure 14

This decline was more notable among younger people. The homeownership rate for people under 35 years of age fell from 43.6 percent in the second quarter of 2004 to 34.7 percent in the fourth quarter of 2015. Similarly, the homeownership rate for the 35 to 44 years age group dropped from 70.1 percent in the first quarter of 2005 to 59.3 percent in the fourth quarter of 2015, while homeownership among seniors has remained relative stable since

1994. This is due to several factors including growing student loan debts coupled with slow wage growth, which have discouraged young workers from buying a home and establishing new households. Higher rents have also made it difficult to save for a down payment on a new home.

In addition, fewer young adults are married or have children, as compared to two or three decades ago. As a result, the share of first-time home buyers dropped from its recent peak of 50 percent in 2010 to below the historical norm of 40 percent for 2011 to 2014 and into 2015.[6] Similarly, household formation has declined from its long-term average. From 1997 to 2007, an average of almost 1.5 million households were formed per year.[7] The rate fell to an average of 509,000 during the recession (2008 to 2010) and recovered to over one million households in 2011 through 2013, before falling to 770,000 households in 2014.[8] Household formation rebounded strongly to 1.4 million in 2015. If these trends deteriorate, they will likely have a negative impact on housing demand, and the recovery of the housing market.

Although housing affordability will likely continue to fall as mortgage rates are expected to rise, the housing market outlook remains cautiously optimistic. Activities in the housing market are expected to continue to improve, supported by household formation and continued economic recovery. However, the speed of improvement will rely heavily on income growth. While housing starts are expected to rise, they will remain below their previous peak of 2.1 million throughout the forecast period.

[6] National Association of Realtors, "Profile of Homebuyers and Sellers," 2013 and 2014.
[7] Timothy Dunne, "Household Formation and the Great Recession," Economic Commentary, The Federal Reserve Bank of Cleveland, August 23, 2012, http://www.clevelandfed.org/research/commentary/2012/2012-12.cfm.
[8] U.S. Census Bureau, People and Households - Data by Subject, Families and Living Arrangements Main, Table HH 1. Households, by Type: 1940 to Present, https://www.census.gov/hhes/families/data/households.html (accessed: January 12, 2016).

Government Spending

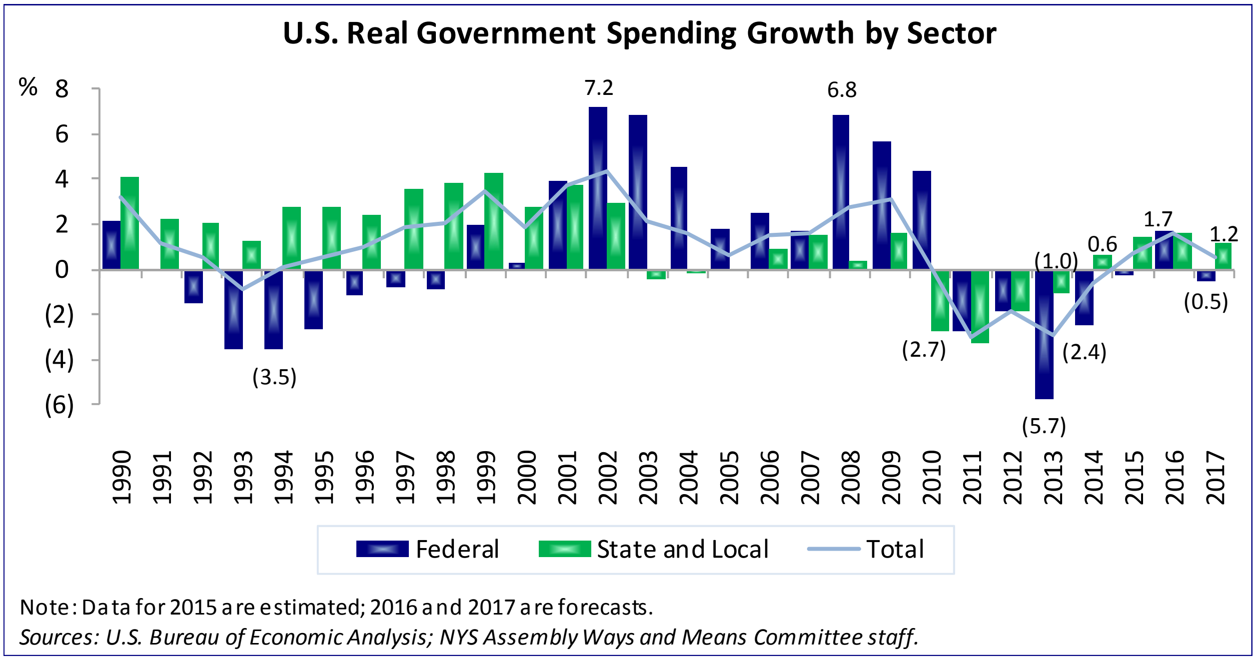


Figure 15

Government Spending Key Points

- **Government spending will contribute positively to overall economic growth in 2016, after declining for four consecutive years;**
- **The rising costs of entitlement programs and healthcare, the expansion of health insurance coverage, and higher interest payments associated with the national debt, have partly mitigated declines in spending by the federal government;**
- **State and local government tax collections will benefit from an improving economy, particularly as personal income and home prices increase.**

Adjusted for inflation, total government spending declined 0.6 percent in 2014, following a decrease of 2.9 percent in 2013. The decline in government spending in 2014 was attributable mainly to spending cuts at the federal level as the federal government reduced military personnel, curtailed compensation for nondefense staffers, decreased defense spending on goods and services, and restrained public investment spending such as infrastructure spending.

Following four consecutive years of decline, total government spending increased 0.8 percent in 2015 as state and local government spending growth mitigated cuts in federal government spending. Total government spending is forecast to increase 1.6 percent in 2016 as federal government spending rises due to higher appropriation levels passed by Congress in December 2015.[9] In 2017, as spending cuts by the federal government are outweighed by higher spending by state and local government, total government spending growth is projected to slow to 0.5 percent (see Figure 15).

Federal Government Spending

Federal government spending, adjusted for inflation, fell 2.4 percent in 2014, following a decline of 5.7 percent in 2013. Although spending cuts associated with a policy of sequestration were modest in 2014, the expansion of Medicaid under the Affordable Care Act partly mitigated the impact of other sequestration reductions.[10] Much of the decrease in federal government spending was attributed to a reduction in defense spending, where compensation was reduced as the federal government cut military personnel. Furthermore, spending on goods and services, structures, research and development, and equipment fell. On the nondefense side, the decline in the compensation of federal civilian workers and spending on research and development were outweighed by increased expenditures in other nondefense areas.

In 2015, the federal government continued to rein in spending but at a higher spending level than mandated by the Budget Control Act (BCA) of 2011. As a result, federal government spending decreased by 0.3 percent. The rising costs of entitlement programs and healthcare, the expansion of health insurance coverage, and higher interest payments associated with the national debt have partly mitigated declines in spending by the federal government. The federal government labor force expanded on average in 2015 compared to 2014. Furthermore, increases in spending levels beyond BCA for 2016 imply a projected rise of 1.7 percent in 2016.

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[9] See The Bipartisan Budget Control Act of 2015, Public Law 114-74, 114th Congress, November 2, 2015.

[10] States were allowed to decide whether to expand eligibility for Medicaid to low income, non-elderly adults who meet 138 percent federal poverty guidelines. See, The Patient Protection and Affordable Care Act, Public Law 111-148, 111th Congress, March 23, 2010. Part of the debt ceiling agreement was the creation of a "Supercommittee," or the Joint Select Committee of Congress, that included six democrats and six republicans from the House and Senate. The committee was charged with reducing the deficit by $1.2 trillion to $1.5 trillion by November 23, 2011. The committee failed to agree to a deficit reduction by the deadline; hence, automatic spending cuts (or sequestration) were triggered totaling $1.2 trillion split evenly between defense and nondefense spending. Cuts in spending for nondefense are mostly limited to discretionary spending. See The Budget Control Act of 2011, Public Law 112-25, 112th Congress, August 2, 2011.

As spending levels revert to sequestration caps, federal government spending growth is forecast to decline by 0.5 percent in 2017 (see Figure 15).

Interest rates are set to increase over the forecast period implying that interest payments made by the government will increase. Furthermore, continued efforts to counter terrorism imply more defense spending. However, mandatory spending for Social Security and Medicare will continue to expand with the aging of the population, and Medicaid payments rise as more people join the rolls and the Affordable Care Act becomes embedded in the health care system.

Although the federal government has enacted measures to improve fiscal balance over the past few years, large federal deficits remain. In fiscal year 2015, the budget deficit further exacerbated the $18 trillion national debt. The federal government is expected to continue to accrue more budget shortfalls in the future, as spending exceeds revenues, raising concerns about federal spending on interest payments and the impact on economic growth. As more federal funds are dedicated towards interest payments, the federal government has less flexibility to address fiscal crises.

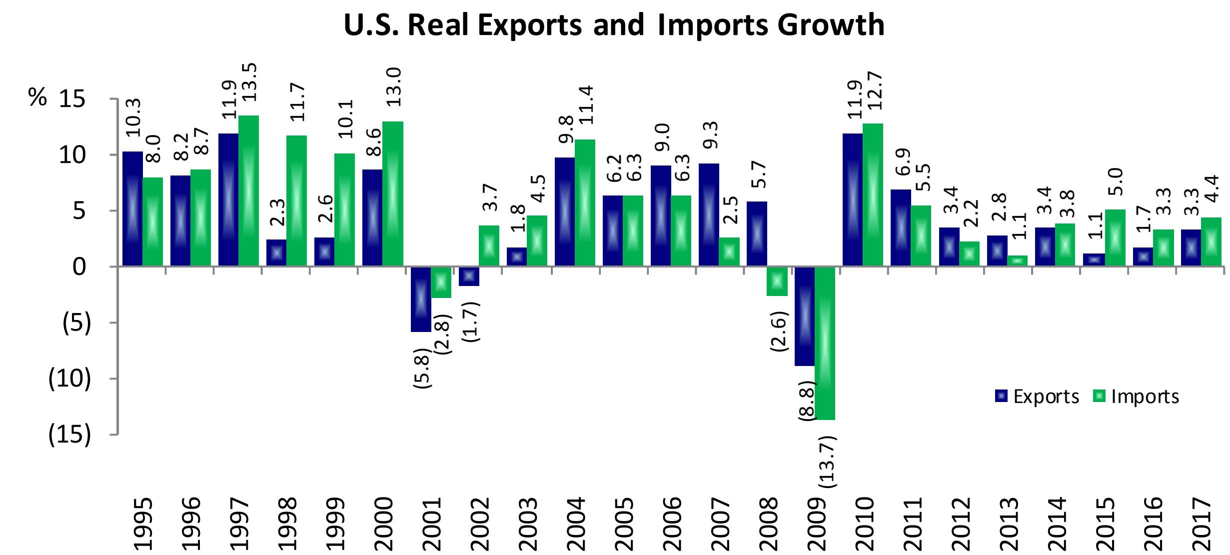
State and Local Government Spending

Spending at the state and local levels of government grew 0.6 percent in 2014, after falling in the previous four years. State and local governments prioritized replenishing reserve funds that had proven to be insufficient during the Great Recession. Instead of introducing new spending initiatives, policymakers continued to keep budgets lean while coping with the effects of a slow economic recovery that produced lower revenues compared to past recoveries. While many state and local revenue sources have experienced robust growth, the slow economic recovery continues to restrain sales tax collection as consumers remain cautious. Property taxes have suffered because of the slow housing market recovery, and personal income taxes growth remains tied to slow wage growth.

As slow revenue growth continues to affect many states, most states' budgets will continue to prioritize core services such as K-12 education and health care. State and local governments have been hiring, albeit slowly, which bodes well for overall wages. Infrastructure spending contributed to a strong second quarter in 2015, as projects were delayed due to weather-related issues in the first quarter. Oil-producing states that rely heavily on revenues from oil face budgetary challenges from the steep decline in oil prices. Therefore, state and local government spending grew 1.4 percent in 2015.

In general, state and local government tax collections will benefit from an improving economy, particularly as personal income and home prices increases. Spending pressures from pensions, health care, and education demands will continue to put upward pressure on state and local government spending. Despite these pressures, state and local government spending is forecast to increase by 1.6 percent in 2016 (see Figure 15). The slowdown in economic growth in 2017 suggests state and local government will experience lower revenues. Since states are not allowed to run deficits, lower revenues point towards restrained spending, higher taxes, or a combination of both. State and local government spending is projected to grow 1.2 percent in 2017.

Exports and Imports



Note: Data for 2015 are estimated; 2016 and 2017 are forecasts.

Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 16

Exports & Imports Key Points

- **The world economy is facing considerable downside risks in 2016 as economic growth for many countries is forecast to remain slow;**
- **Although the world economy and U.S. trade are anticipated to grow throughout the forecast period, U.S. net exports will continue to be a drag to national economic growth.**

Recent trends in U.S. trade

U.S. trade has continued to recover since the last recession as both exports and imports have grown every year since 2010. Canada and Mexico's economies, our two largest exports destinations, grew 2.4 percent and 2.1 percent in 2014, respectively. After growing at an average of over 10 percent in the prior decade, China's GDP growth slowed to 7.7 percent in 2012 and 2013 and slowed further to 7.3 percent in 2014.[11] China's economy grew an estimated 6.9 percent in 2015, the weakest expansion since 1990. Economic growth in China is

[11] World Bank, World Development Indicators Database, http://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG as of January 23, 2015.

expected to slow down further to 6.4 percent in 2016, as Chinese authorities seek to rebalance the economy toward more domestic demand with less emphasis on exports.

World economy continues to grow, but global risks have risen

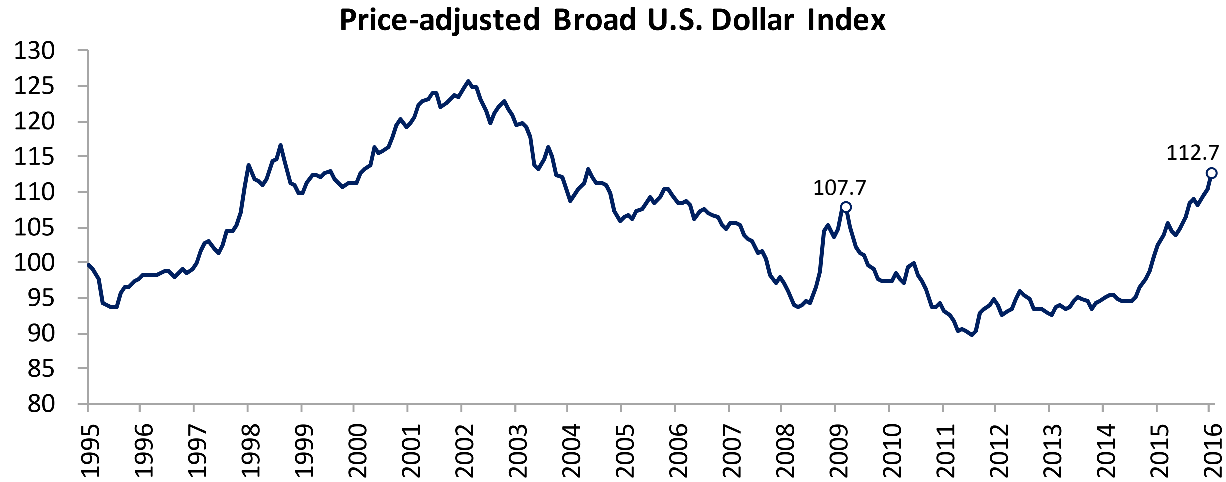
The world economy continued to grow slowly in 2015. Amid low oil prices, countries that rely on oil revenues such as Russia, Saudi Arabia, Canada, and Mexico are facing large revenue shortfalls. In Canada, the largest U.S. trading partner, economic growth declined for five consecutive months before turning positive in June.[12] It is estimated that Canada's economy grew by 1.3 percent in 2015. In addition, a number of large nations, including Russia and Brazil, are estimated to have been in recession in 2015. As global risks have risen, investors have shifted their investment to dollar-denominated assets, which led to a rapid appreciation of the U.S. dollar in 2015. As a result, U.S. exports remained weak in 2015. Exports grew by 1.1 percent in 2015, while imports grew by five percent.

Geopolitical tensions remain high. Over a year after the Crimean annexation, tensions between Russia and Western nations continue to linger and weigh heavily on the world economy. Further sanctions by Europe and the U.S. and any retaliation by Russia could have adverse impacts on trade and corporate sentiments around the globe. The continuing threat and presence of the Islamic State in Iraq and Syria in the Middle East poses significant downside risks to global growth. Although the outlook for global growth remains soft, it is expected that the world economy will continue to grow throughout the forecast period.

U.S. dollar appreciation is hampering export growth

Since appreciating sharply in 2009 as investors moved money toward the safe-haven of the U.S. currency amid a global recession, the U.S. dollar value has remained low. In 2015, many global risks were present. The Greek debt crisis resurfaced in early 2015, causing the euro to fall to its lowest level in almost 12 years on March 13, 2015. The weak Japanese economy also caused the yen to slide in June 2015 to the lowest level since 2002. In addition, in an attempt to stimulate exports, China devalued its currency for three days in August 2015, which shook stock markets and investors' confidence around the globe. As a result, investors shifted capital to dollar-denominated assets, which caused the dollar to appreciate sharply in 2015 (see Figure 17). The dollar appreciated by 10.7 percent in 2015 and is expected to remain strong in 2016.

[12] Statistics Canada, "Gross domestic product, income and expenditure, second quarter 2015", *The Daily*, released on September 11, 2015, http://www.statcan.gc.ca/daily-quotidien/150901/dq150901a-eng.htm.



Note: Data are monthly from January 1995 to January 2016; January 1997=100.
Sources: Federal Reserve.

Figure 17

U.S. net exports will continue to be a drag on national growth

Although the world economy and U.S. trade are anticipated to grow throughout the forecast period, U.S. net exports will continue to be a drag to national economic growth. As the U.S. dollar is expected to remain high and the U.S. economy is forecast to outperform several major trading partners, exports are expected to grow slower than imports throughout the forecast period. Exports are forecast to grow by 1.7 percent in 2016 and another 3.3 percent in 2017. Imports are forecast to increase by 3.3 percent in 2016 and another 4.4 percent in 2017 (see Figure 16).

Details of U.S. Trade

Since 1995, industrial supplies and high value-added capital goods such as aircrafts and computers have been the major categories of goods exported by the U.S. In 2015, industrial supplies and capital goods accounted for 56 percent of total exports (see Figure 18). Trade of these goods and supplies appears to be relatively less sensitive to changes in the value of the U.S. dollar.

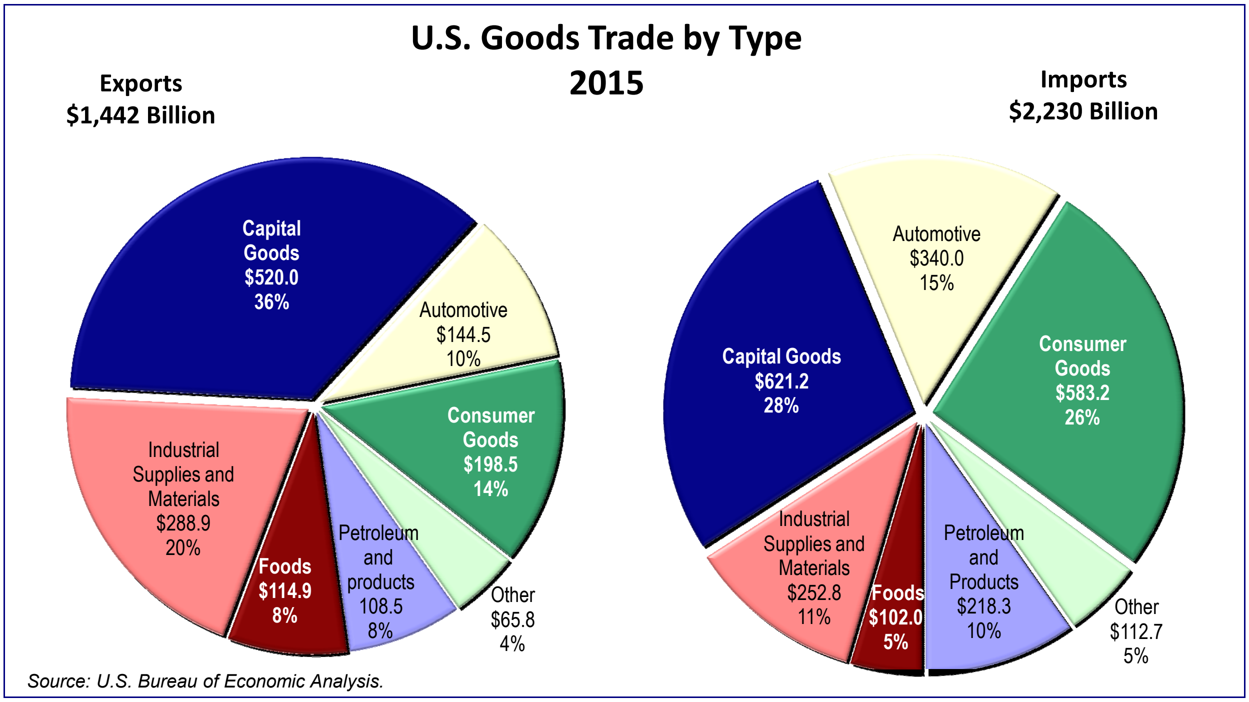


Figure 18

There have been significant changes in U.S. trade patterns. The U.S. has imported a significantly larger share of consumer and capital goods in recent years compared to 1995. Consumer goods accounted for 26 percent of U.S. total imports in 2015 compared to 19 percent in 1995. Similarly, imports of capital goods increased from 16 percent of total imports in 1995 to 28 percent in 2015. In contrast, U.S. imports of petroleum and products as a percentage of total imports dropped during this period. In 1995, U.S. imports of petroleum accounted for 21 percent of total U.S. imports; this share fell to 10 percent in 2015 (see Figure 19), as the U.S. experienced an oil production boom since the Great Recession.

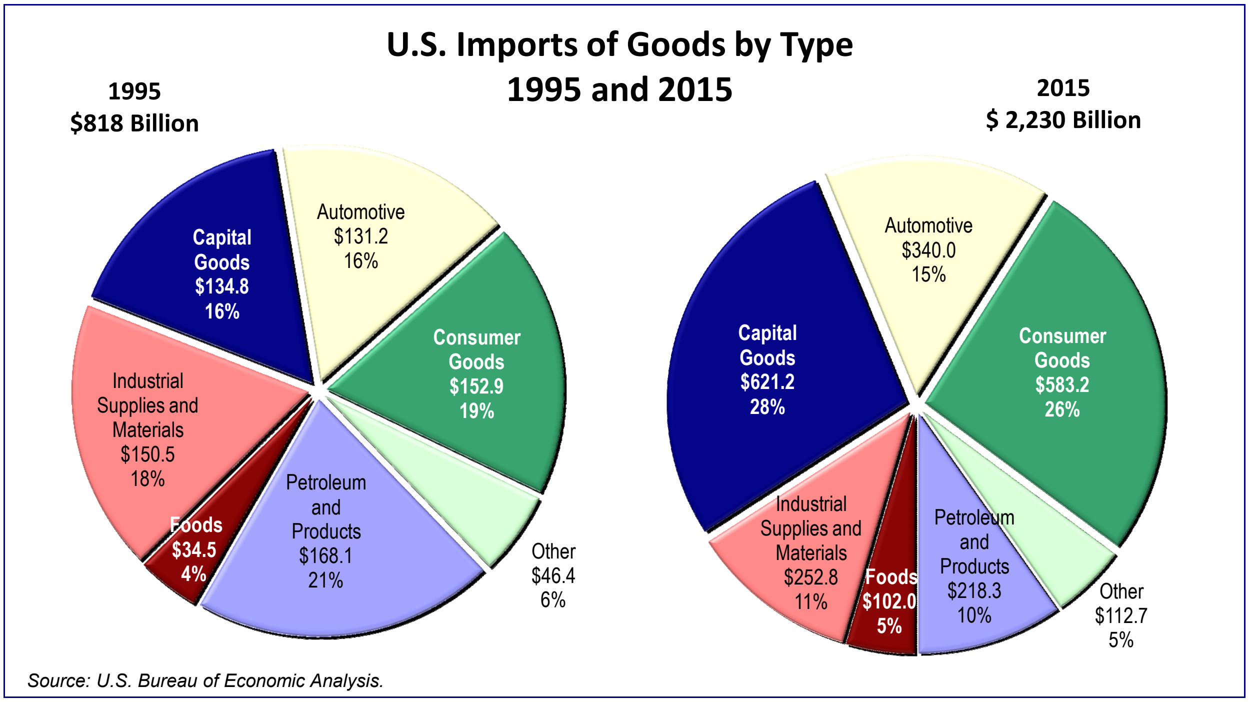
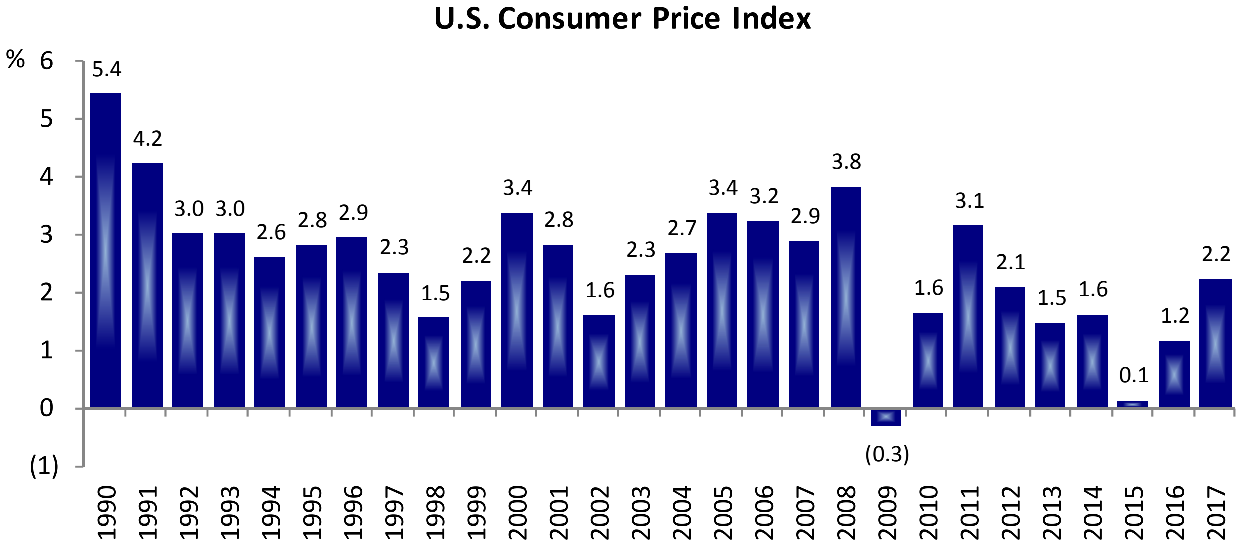


Figure 19

Rising crude oil production and falling oil prices have led to an improved trade balance between the U.S. and its oil supplying countries. Imported goods from OPEC and Canada fell drastically in 2015, compared to the same period in 2014. Imported goods from OPEC dropped $66.2 billion in 2015, leading to a trade balance improvement of over $55 billion. Similarly, the U.S. trade balance with Canada has improved by more than $20 billion in 2015.

Prices



Note: Data for 2015 are estimated; 2016 and 2017 are forecasts.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Figure 20

Prices Key Points

- **Relatively slow growth in unit labor costs will restrain inflation outweighing the upward pressure from the expanding economy;**
- **Also, a combination of a strong dollar, low energy prices and less reliance on oil, plus a vigilant Federal Reserve is projected to contain price increases during the forecast horizon.**

Overall Consumer Price Index (CPI) growth remains close to zero on a monthly basis. Although some categories of the CPI show faster growth from month to month, overall prices remain in check. After remaining almost flat in 2015, prices are forecast to accelerate 1.2 percent in 2016 and 2.2 percent in 2017 (see Figure 20).

Low inflation has broad implications for the overall economy, including reduced pressure on wage growth, consumer purchasing power and spending decisions, and the Fed's decision to keep interest rates low. However, there are several factors in the forecast period that will keep inflationary pressures in check. While slack in the labor market has lessened, the increase in employment has not been accompanied by a strong increase in wages, offering little upward pressure on prices. Relatively slow growth in unit labor costs will restrain inflation outweighing the upward pressure from the expanding economy. In addition, the strong dollar has led to low import prices, helping keep the overall price level low.

Along with consumers, businesses are benefitting from a low price environment, allowing them to avoid price hikes for their goods and services. The ISM prices index was 33.5 percent in January 2016. This was the fifteenth consecutive month that the index indicated lower raw material prices.[13] In addition, commodity price growth has been muted. This is partially due to the slowdown in the Chinese economy, a large importer of raw materials, as well as a global commodity price deflation following a period of significant monetary accommodation.[14]

After the 2007-09 recession, the economy experienced strong productivity growth, another factor that helped keep prices down as corporations were able to earn profits without raising prices. Recently, though, productivity growth has slowed (see Figure 21). After growing over three percent in 2009 and 2010, productivity barely grew in 2011 and growth has remained at or below one percent since then. Low productivity may help explain why wage growth remains weak, although employment has improved.

[13] https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm.
[14] http://www.sltrib.com/home/3028142-155/the-bottom-hasnt-been-hit-in.

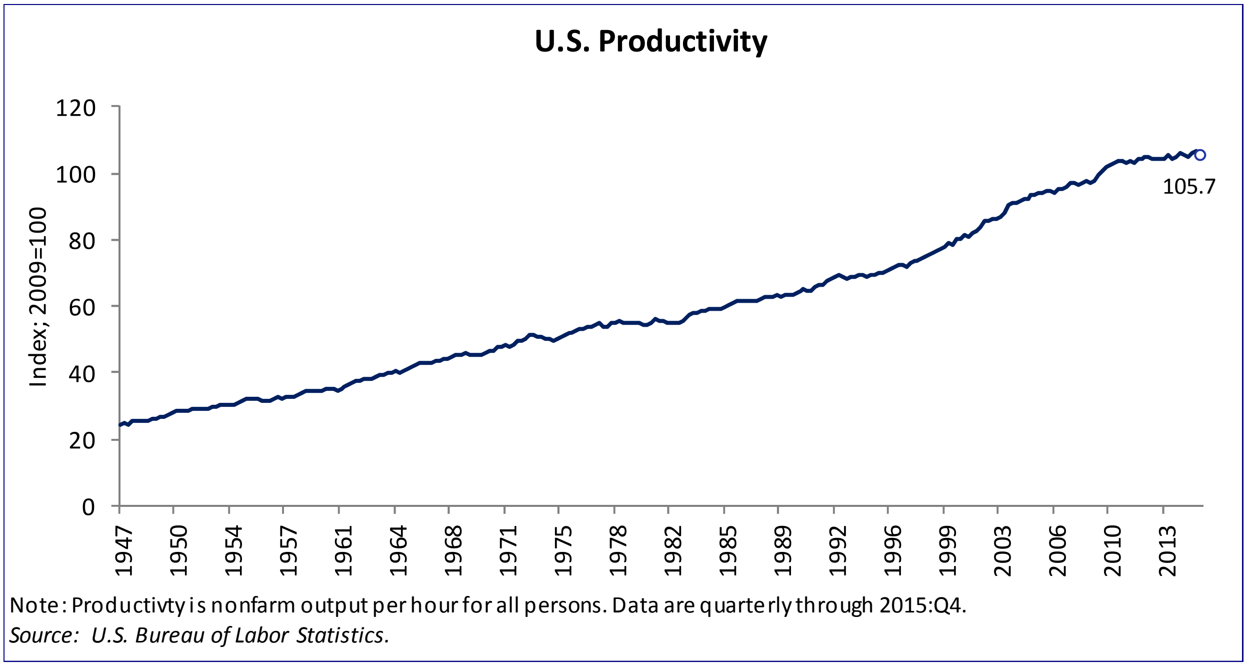


Figure 21

The category with the largest decrease in prices in 2015 is energy, driven by a large drop in fuel prices. However, there have been price increases on certain items. The medical category is posting the fastest price increases. Categories that strongly affect daily spending have shown increases that have been felt by consumers. For example, shelter costs, which include rent, can have a large effect on income available to spend on other goods and services, and have been increasing at a faster rate than the CPI. In addition, food prices have increased recently, especially meat prices.

Energy Prices

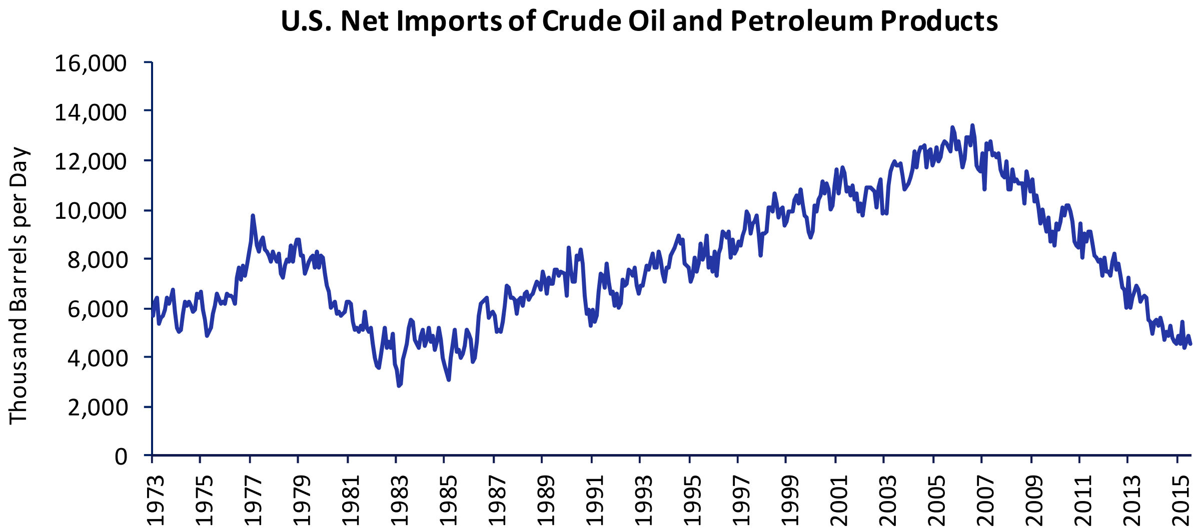
Energy prices represent a critical issue for the U.S. economy, and remain one of the most volatile risk factors for the health of the economy. Current geopolitical considerations, as well as weather conditions add uncertainty to future energy prices, including prices of oil, gasoline, and natural gas. Sudden changes in energy prices affect households both directly (such as changing gasoline and home heating oil prices) and indirectly (i.e., producers passing higher energy costs to consumers in the form of higher final product prices).

Until the fourth quarter of 2014, oil prices remained at high levels when compared to historical values; although oil prices in mid-2014 were below the 2008 level and by year end had fallen by roughly fifty percent. However, during the most recent period, rising U.S. crude oil production and weaker-than-expected non-U.S. global demand have contributed to downward pressure on oil prices, especially reduced demand from weaker-than-expected growth in China. In addition, rising U.S. oil production had helped to offset supply disruptions in other parts of the world -- that is until domestic output levels fell in response to the rapid drop in price in 2015, which fell by over 50 percent compared to the year ago period.[15] Crude oil prices have continued their downward slide into 2016, with oil slipping below $30 per barrel for the first time since December 2003.

According to the U.S. Energy Information Administration (EIA), in response to weaker global oil demand and subsequent price declines, total U.S. crude oil production is forecast to continue to decrease through mid-2016 before growth resumes late in 2016. U.S. crude oil production is estimated to have averaged 9.4 million barrels per day in 2015 and is forecast to average 8.7 million barrels per day in 2016 and 8.5 million barrels per day in 2017. Growth in domestic liquids production has contributed to a significant decline in petroleum imports. The share of total U.S. petroleum and other liquids consumption met by net imports fell from 60 percent in 2005 to an estimated 27 percent in 2014 (see Figure 22). As of January 2016, the EIA expected the net import share to decline to 20 percent in 2016, which would be the lowest level since 1968.[16]

[15] Keith Johnson and Russell Gold, "U.S. Oil Notches Record Growth," Wall Street Journal, updated June 12, 2013, Business Section, http://online.wsj.com. Also see: U.S. Energy Information Administration, Petroleum & Other Liquids, "Weak Demand, Plentiful Supply Drive Recent Decline In Oil Prices," This Week in Petroleum, September 24, 2014, http://www.eia.gov/petroleum/weekly/archive/2014/140924/includes/analysis_print.cfm.

[16] U.S. Energy Information Administration, Short-Term Energy Outlook, September 9, 2014, November 12, 2014, December 9, 2014, January 13, 2015, September 9, 2015, January 12, 2016, and February 9, 2016.

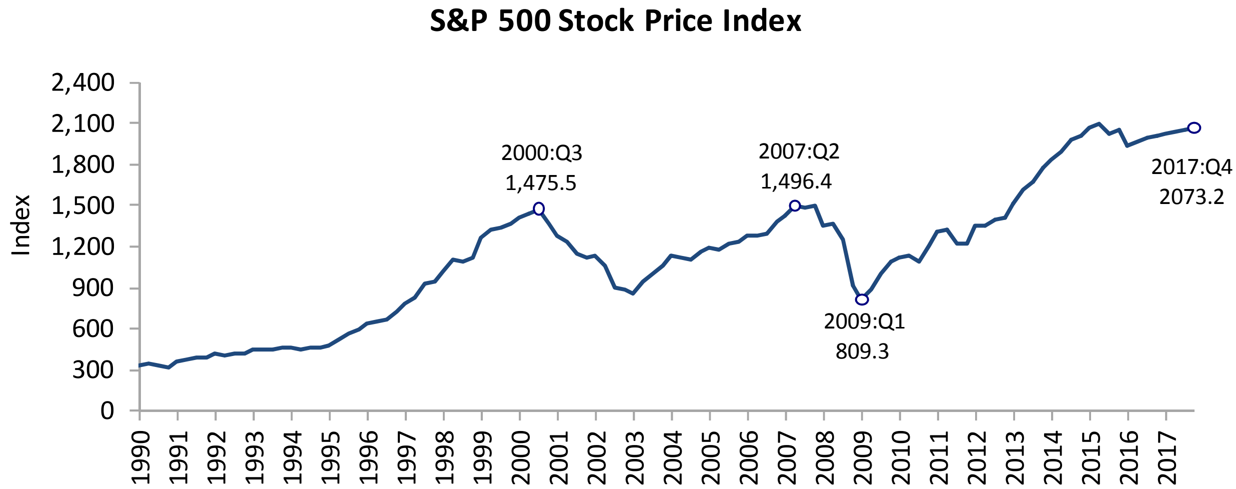


Note: Data are monthly through November 2015.
Source: U.S. Energy Information Administration.

Figure 22

Thus, U.S. reliance on foreign imports to meet demand has been declining since 2005. Not only has U.S. oil production been increasing over this period up until 2015, but U.S. energy consumption has also been on the decline. Soft economic growth, reduced demand from relatively higher prices until very recently, increased fuel efficiency, and increased use of renewable energy may all be playing a role in lessening demand for oil in the U.S.

Equity Markets



Note: Data are quarterly through 2017:Q4; the first forecast period is 2016:Q1. Index 1941-1943=10.
Sources: Standard & Poor's; NYS Assembly Ways and Means Committee staff.

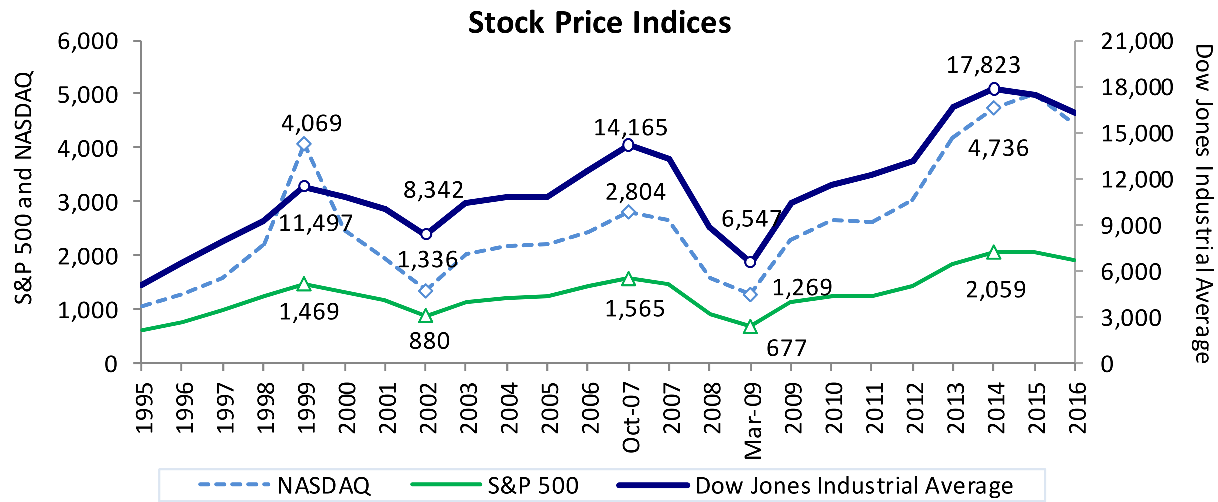
Figure 23

Equity Markets Key Points

- **The combined effects of higher interest rates, high price to earnings ratios, and diminished investors' confidence will restrain the rate of growth of equity prices;**
- **Equity markets are faced with several headwinds and high uncertainty remains;**
- **Recent challenges to the health of the domestic and global economic recovery – slowing economic growth in China; weakening corporate earnings; uncertainty related to U.S. fiscal policy; and the Federal Reserve's monetary policy – pose significant downside risks to the stock market outlook.**

The stock market rebounded strongly after plunging to its Great Recession trough. Lower interest rates and improving economic conditions helped boost equity markets as investors moved into riskier domestic and international investments that yielded higher returns. In addition, corporate profits posted gains for six consecutive years, further supporting equity gains.

The market grew rapidly since March 2009, and by the end of 2009 the S&P 500 Stock Price Index (S&P 500) had increased almost 50 percent. Stock prices continued to rise moderately after 2009, while corporate profits increased strongly. By the end of 2010, corporate profits had already surpassed their pre-recession level. In addition, the S&P 500 price to earnings ratio (P/E ratio) had come down to below what it was during most of 1991 through 2010, signaling that equities were a good investment. Despite several corrections and setbacks as a result of global events that raised uncertainty, the market continued to gain steadily. All stock market indices surpassed their previous peak in mid-2013 (see Figure 24), subsequently pushing the P/E ratio up in the second half of 2013.



Note: Data are at close of December 31 each year unless otherwise indicated. The last period is the February 16, 2016, closing value.
Sources: Securities Industry and Financial Markets Association; Wall Street Journal.

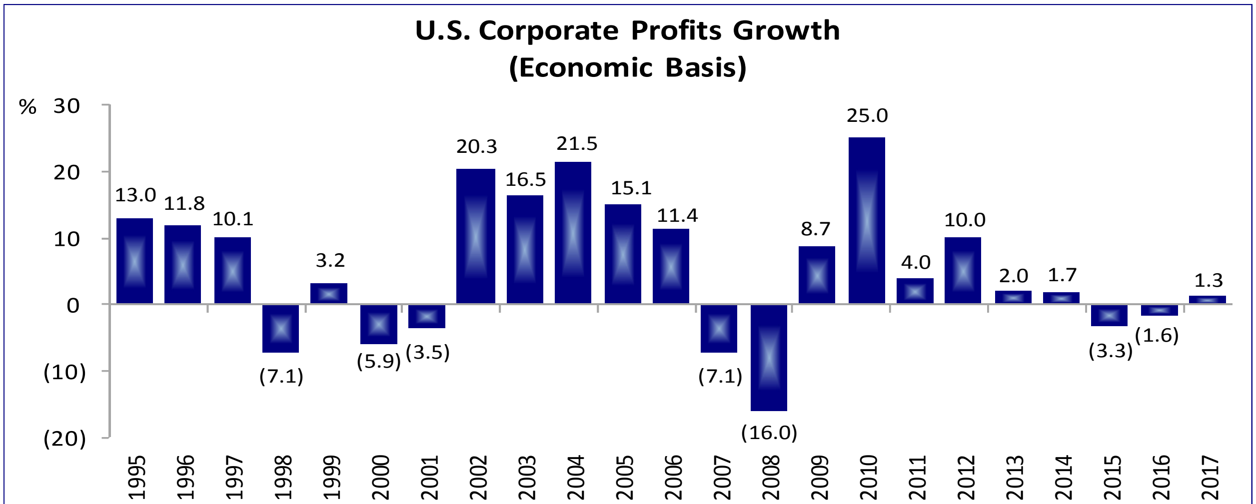
Figure 24

The stock market is expected to decline in 2016, then improve throughout the rest of the forecast period (see Figure 23). The S&P 500 hit an all-time high close of 2,130.8 on May 21, 2015. However, due to concerns about both the health of the recovery in the U.S. and the global economy, especially regarding economic growth in China, the S&P 500 experienced large fluctuations in the second half of 2015 and averaged 2,061.2 for the year, a growth of 6.8 percent. With interest rates expected to rise, more funds may flow from equity markets to bonds resulting in reduced demand and downward pressure on equity prices. However, the S&P 500 will continue to grow, albeit at a much reduced rate in the longer term. The combined effects of impending interest rate hikes, high price to earnings ratios, and diminished investors' confidence will restrain the rate of growth of equity prices. Hence, the Index is forecast to decline by 4.2 percent in 2016 and to grow 3.9 percent in 2017 as U.S. corporations are expected to be more profitable than foreign companies.

Looking forward, however, the market is facing several headwinds and high uncertainty remains. Recent challenges to and questions regarding the health of the domestic and global recovery – the slowdown of economic growth in China; slowing corporate earnings; uncertainty related to U.S. fiscal policy; and the Federal Reserve's monetary policy – pose significant downside risks to the stock market outlook.[17]

[17] The Federal Reserve's economic projections suggest the central bank expects an exit from the current expansionary monetary policy, with unemployment falling to its estimate of full employment and inflation eventually rising to its two percent target. Both the Fed and financial markets may be surprised at how aggressively the central bank will ultimately be in normalizing interest rates if the central bank wants to flawlessly dismount from monetary easing and stick the landing. (Fed Expects Nearly Perfect Exit From Expansionary Policy, Yellen Trying Her Best To Stick The Landing, Dismal Scientist®, by Ryan Sweet, September 22, 2015.)

Corporate Profits



Note: Data for 2015 are estimated; 2016 and 2017 are forecast.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 25

Corporate Profits Key Points

- **Rising wages in certain sectors, a stronger U.S. dollar, slowing productivity gains, and sluggish international economic growth combine for weak growth in corporate profits;**
- **The imbalance in the allocation of income and wealth, as reflected in the national income shares accruing to labor and capital, remains.**

Corporate profits are estimated to have fallen 3.3 percent to $2.0 trillion in 2015, the first yearly decline since the last recession (see Figure 25). This drop follows increases of 1.7 percent in 2014 and 2.0 percent in 2013. Growth was negative across the board in the first quarter of 2015. Profits at domestic non-financial and U.S. firms abroad slowed in the third quarter of 2015 after a jump in the second quarter. Only financial institutions showed profit growth in the third quarter. The fall in profits partly reflected a fall in productivity at domestic firms, the decline in overall economic growth in the U.S., and the persistence of global economic weakness.

Following the 2009 trough, profits at U.S. firms rapidly resumed their growth. However, the pace of growth moderated after peaking in 2010, remaining consistently below 2.0 percent after 2012. This is in contrast to the double-digit yearly growth during the 5-year period leading to the Great Recession. Overall corporate profits growth is expected to remain subdued in the near future: they are forecast to fall 1.6 percent in 2016, and rise 1.3 percent in 2017.

Corporate profits' share of national income peaked at 14.5 percent in the fourth quarter of 2011, the highest on record. That share remains at a historic high after beginning to trend upward in the 1990s. It is forecast to be 11.9 percent by the end of 2017 (see Figure 26). In contrast, the share allocated to labor dropped to 60.9 percent in the last quarter of 2011, down from 66.9 percent in 1992. The labor share is forecast to be 63 percent by the fourth quarter of 2017.

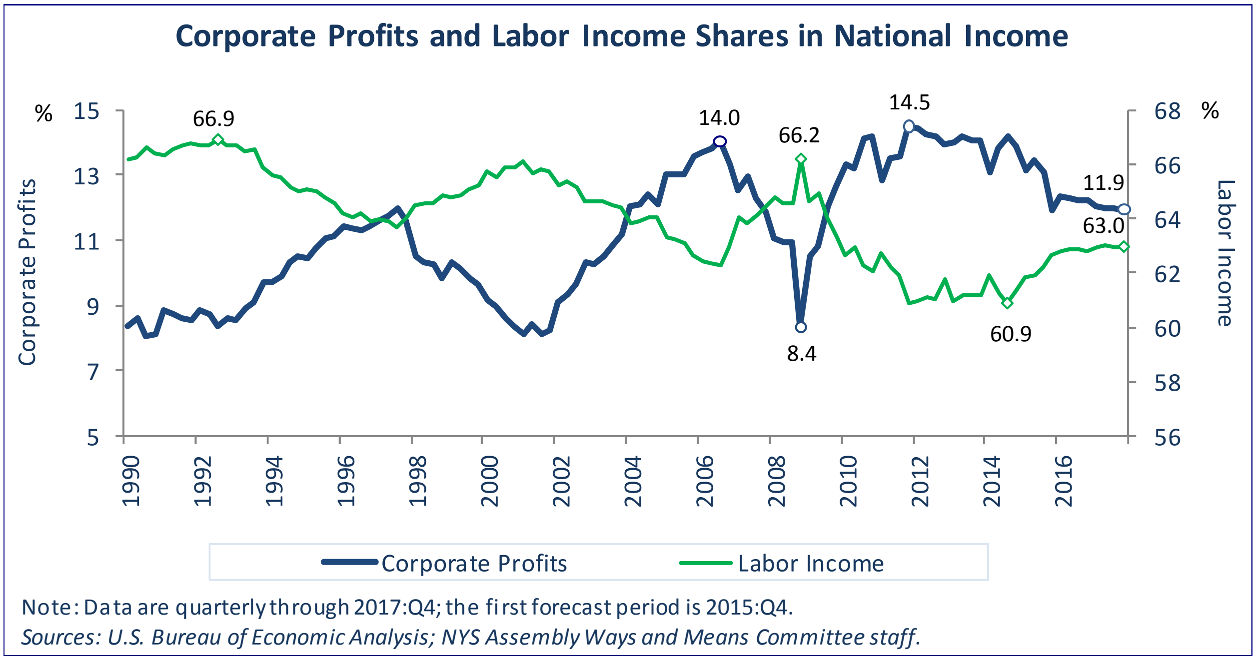


Figure 26

Rising profits are regarded as a sign of economic efficiency. Long-term trends have reinforced the expectation that, notwithstanding cyclical setbacks, the economy is well geared to compensate successful companies. Yet, some U.S. companies have recently found it more challenging to maintain these levels of profitability, due in part to rising wages in certain sectors, a stronger U.S. dollar, and/or sluggish growth amongst economic partners. Beyond those obstacles, however, the persistent imbalance in the allocation of income and wealth, of which the trends in the respective shares accruing to capital and labor are an indication, has been called into question for its possible impact on the economy.[18]

Employment

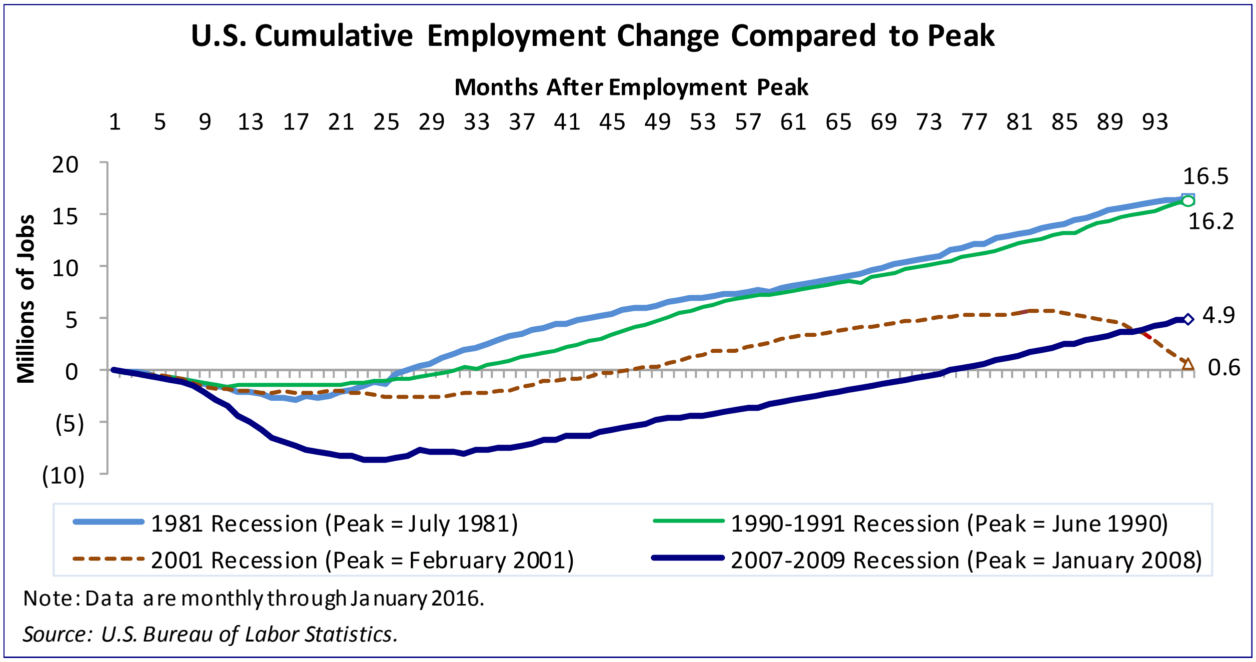


Figure 27

Employment Key Points

- **Employment is expected to grow throughout the forecast period at a steady, albeit modest pace;**
- **Despite the strong increase in job openings, the level of hiring has been slow to respond due to the shortage of skilled labor and employers being increasingly cautious about adding new employees;**

[18] See Cingano, F. (2014), "Trends in Income Inequality and its Impact on Economic Growth", OECD Social, Employment and Migration Working Papers, No. 163, OECD Publishing, http://dx.doi.org/10.1787/5jxrjncwxv6j-en; Saez, Emmanuel, Gabriel Zucman, "Wealth Inequality in the United States Since 1913: Evidence From Capitalized Income Data", NBER, October 2014; Giles Chris, "IMF warns on threat of income inequality," Financial Times, January 19, 2014; and Ostry, Jonathan D., Andrew Berg, Charalambos G. Tsangarides. "Redistribution, Inequality, and Growth", International Monetary Fund, April 2014.

- **The labor force participation rate remains at historically low levels;**
- **The recovery in employment has not been shared evenly across all sectors, and remains concentrated in low paying jobs with a high-level of part-time jobs.**

Total nonfarm payroll employment finally surpassed its pre-recession peak in May 2014, taking over five years to fully recover. This is much longer than the time the return to peak level employment had taken in earlier recoveries (see Figure 27). As of January 2016, total nonfarm employment in the United States was 143.3 million, 4.9 million above the peak level in January 2008.

Employment is expected to grow throughout the forecast period at a steady, albeit modest pace. After growing 2.1 percent in 2015, growth is expected to be 1.7 percent in 2016. Employment is forecast to grow another 1.3 percent in 2017. This represents only slightly healthier growth compared to the post 2007-09 recession period, and still below the growth rates during the late 1990s (see Figure 28).

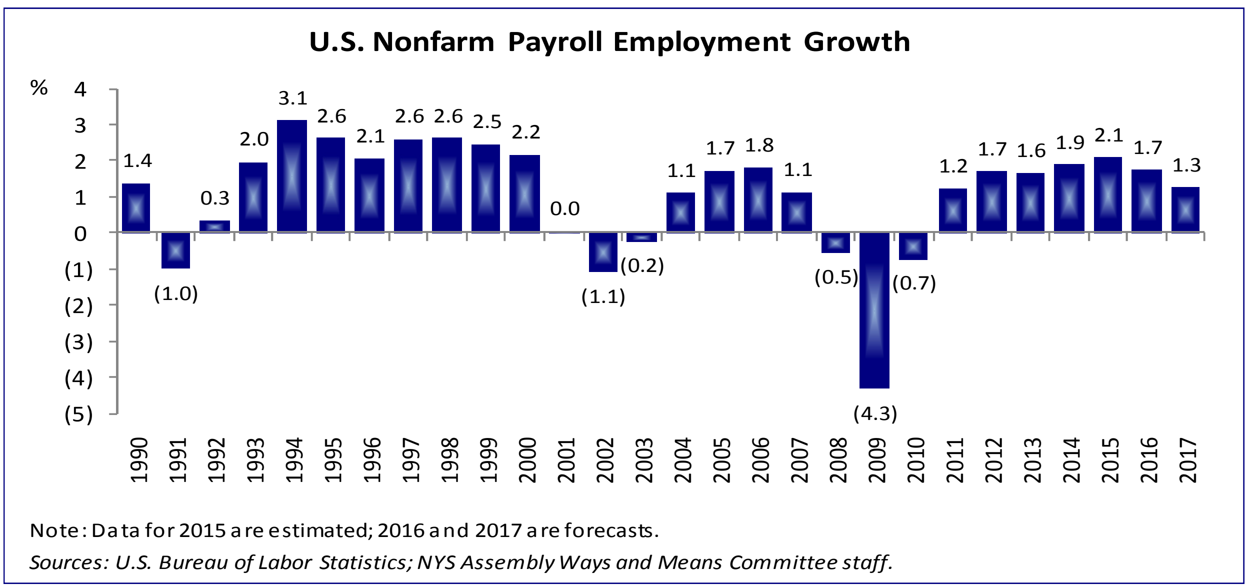


Figure 28

Furthermore, labor market indicators suggest weaker growth in employment. Despite the strong increase in job openings, the level of hiring (additions to the payroll during the month) has been slow to respond due to the shortage of skilled labor and employers increasingly cautious about adding new employees (see Figure 29).

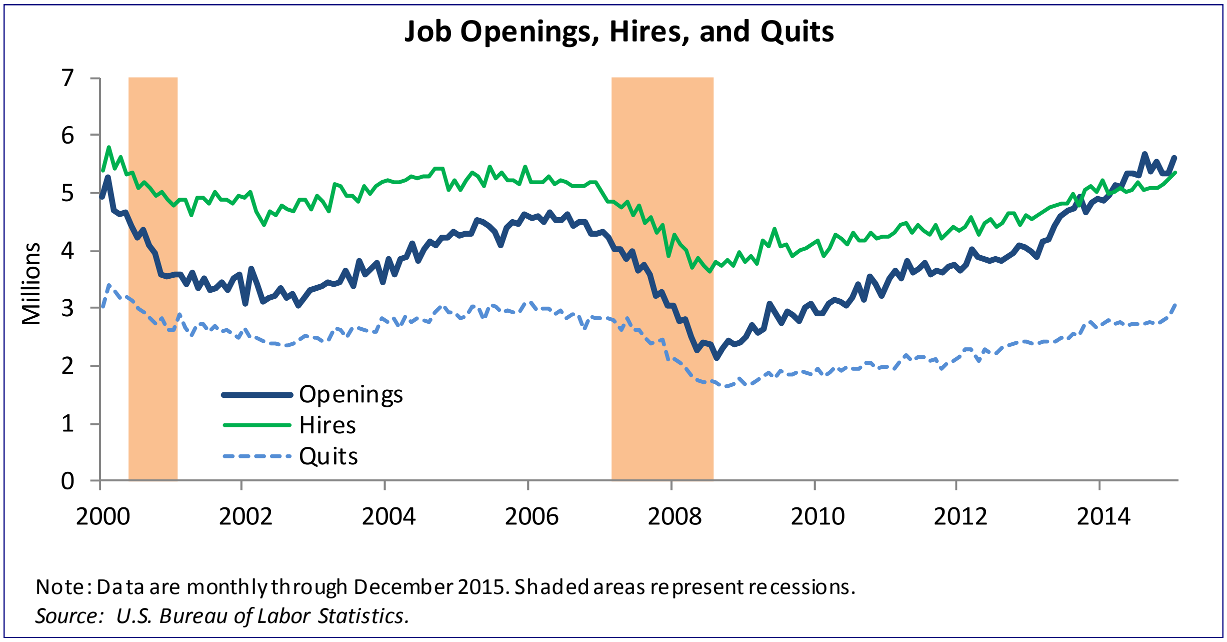


Figure 29

Several unemployment measures have long indicated that the labor market still has room to recover. The unemployment rate has fallen to 4.9 percent from a high of 10.0 percent in 2009. Although pre-recession rates were in the mid-four percent range, the current rate indicates that the labor market is on much healthier footing than the years following the 2007-09 recession (see Figure 30). The broader U-6 measure of unemployment also remains elevated compared to pre-recession levels, but has improved greatly after setting a high of 17.1 percent in April 2010.[19]

[19] The U-6 measure is total unemployed, plus all marginally attached workers, plus total employed part-time for economic reasons.

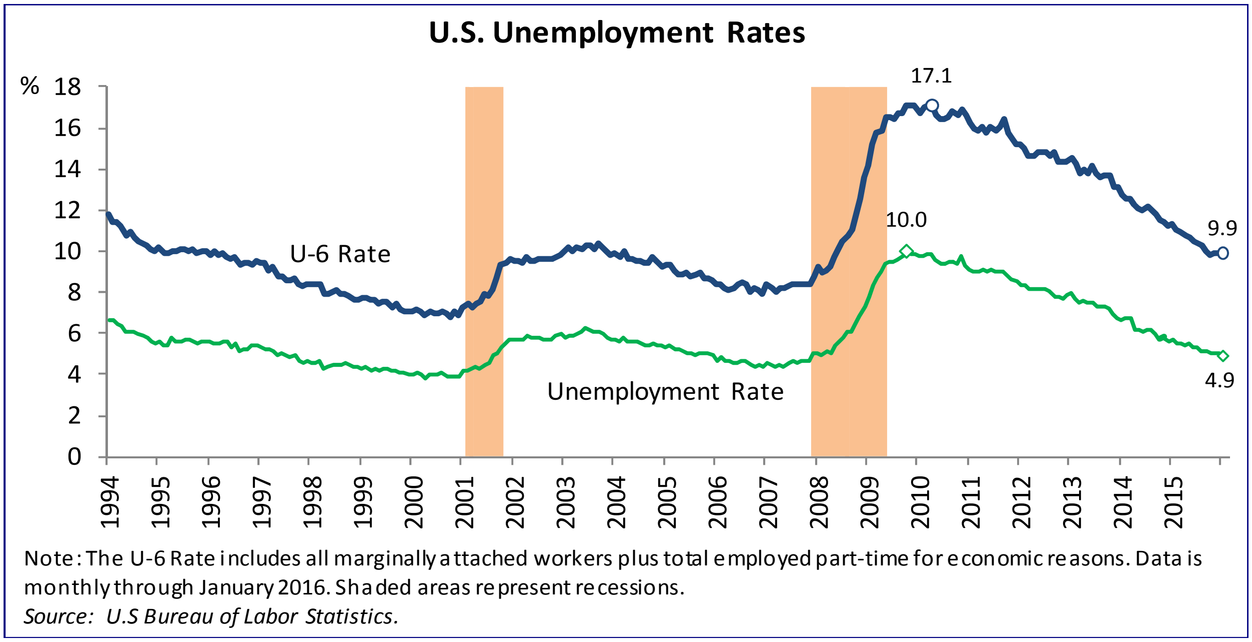


Figure 30

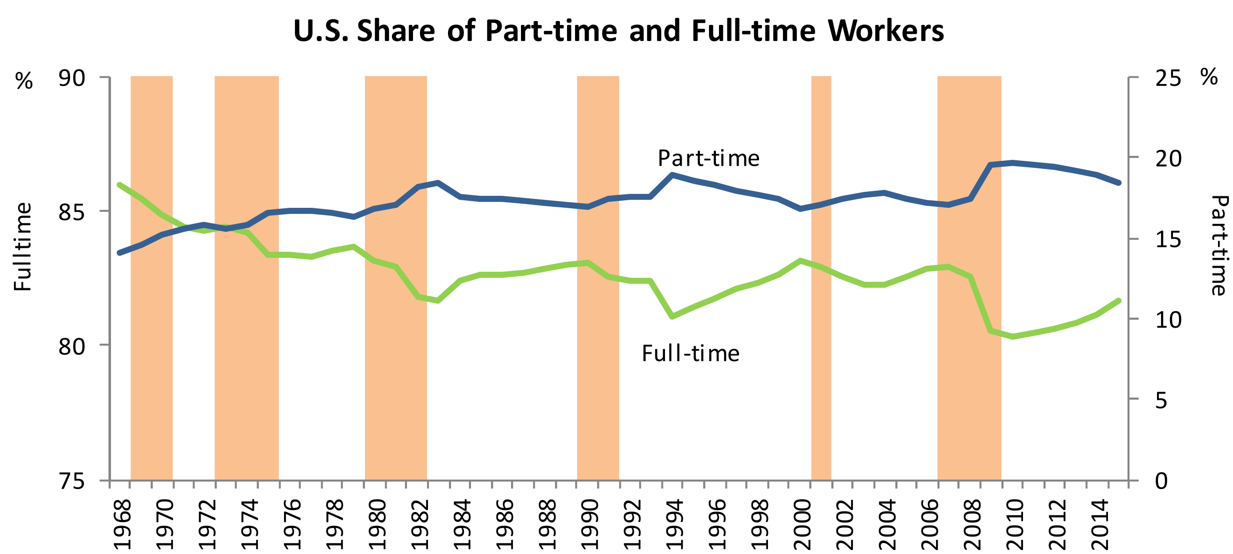
The unemployment rate has been responding to the dynamics of the labor force which may be both structural and cyclical. The labor force participation rate continues to trend downward, which is worrisome as it may indicate that even though hiring is solid, discouraged workers may not be attracted back into the labor market.[20] The level of discouraged workers has yet to return to the low levels seen before the 2007-09 recession. As the economy continues to improve and hiring continues, some of these discouraged workers may reenter the labor force, which would contribute to an increase in the labor force participation rate.

The recovery in employment has also not been shared evenly across all sectors. Most of the jobs gained during the recovery have been in the private sector, particularly in the private service-providing sector. Service sector jobs have been increasing since January 2010, and have increased by 11.5 million jobs through January 2016. Goods-producing jobs have been increasing since April 2010, but have only added 2.0 million jobs. As a result, the share of private service sector jobs in the economy has continued to outpace goods-producing jobs, with negative implications for wage growth.

The distribution of job growth has broad implications for the economy. The employment recovery remains concentrated in low paying jobs. In addition, part-time employment increased markedly as employers shifted somewhat from full-time workers. Since 2010, at its peak, the

[20] Wells Fargo Economic Group, "Time to Worry Again About Falling Labor Force Participation?" July 13, 2015.

share of part-time workers has been falling but remains elevated by historical standards. Although the share of full-time workers has posted gains since falling during the Great Recession, its share remains below the historical average (see Figure 31). As had been the case in previous years, employment growth in 2015 was still concentrated in the service sector. As of December 2015, the service sector had 7.1 million jobs more than in January 2008, the prerecession peak. The goods-producing sector was still 2.3 million below the January 2008 level.



Note: Data are annual through 2015. Shaded areas indicate recessions.
Source: U.S. Bureau of Labor Statistics.

Figure 31

Government employment, which is included in the service sector, fell for four years in a row from 2010 to 2013. Historically, the only other times government employment fell was from 1944 to 1947 and in 1981 and 1982. The sector has yet to show sustained growth, and federal government employment continues to struggle, while state and local government employment has grown slightly. Therefore, total growth in government employment will continue to be anemic.

Job growth in the goods-producing sector continues to lag the service-providing sector. The two major categories in the goods-producing sector, construction and manufacturing, both remain well below their January 2008 levels of employment. As of January 2016, construction employment remained down 861,000 jobs, and despite some positive signs in the housing market, the outlook remains weak as residential construction activity has failed to grow strongly enough to lead to significant job gains. The manufacturing sector is down 1.4 million jobs. However, after declining for decades, manufacturing employment has shown growth in the durable goods sector. Manufacturing has been helped by lower energy costs as well as rising wages in countries that are generally used for offshore manufacture of products sold in the United States. The sector has been helped by the addition of jobs for transportation equipment manufacturing and machinery manufacturing. Growth in manufacturing employment as a whole remains relatively tepid, however, and is expected to fall 0.5 percent in 2016 and by another 0.6 percent in 2017.

Although employment gains have been broad based, some industries have fallen behind. The mining industry, which had rebounded very strongly after the 2007-09 recession, has been losing jobs since October 2014 as the industry responded to lower energy prices. The industry cut 143,500 jobs in 2015, and further job cuts are expected through the forecast period.

The distribution of job gains has implications for wage growth and, hence, personal income growth. Throughout the recovery, the fastest growth had been in industries that had relatively low wages. While some of that seemed to abate in 2014, there are still several sectors with fast growth that pay a lower average wage than the overall average.

Personal Income

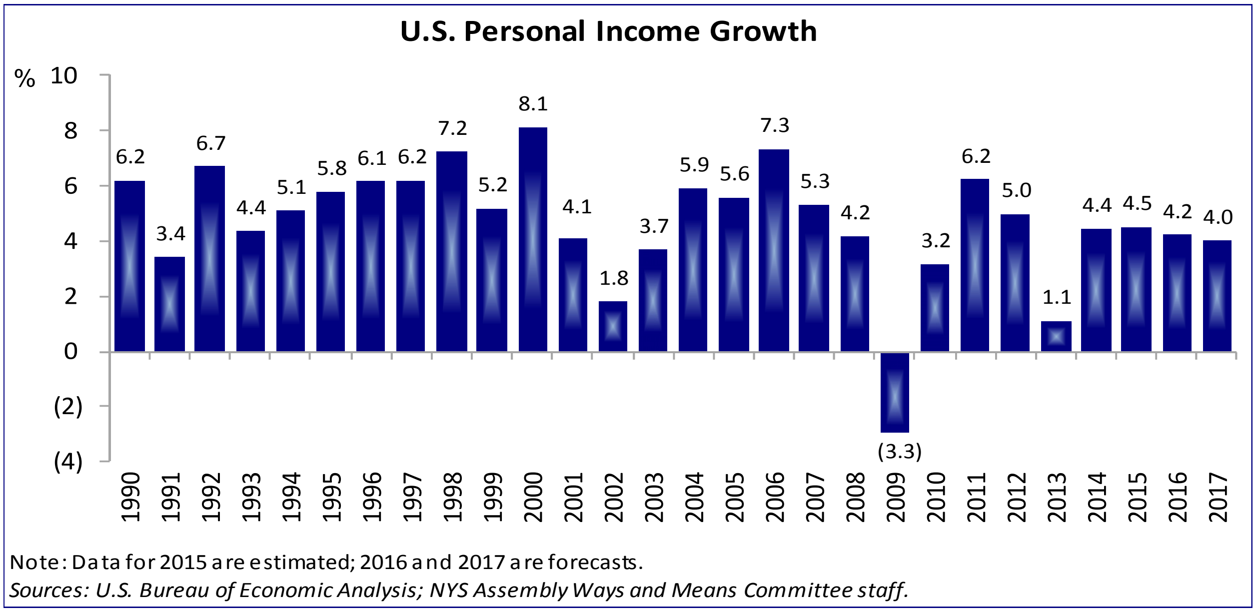


Figure 32

Personal Income Key Points

- **Restrictive fiscal policies contributed to weak 1.1 percent growth in personal income in 2013; however, personal income growth has since recovered;**
- **Growth in wages and salaries, the largest component of personal income, remains below pre-Great Recession rates as job gains have been concentrated in low-paying jobs throughout the expansion.**

Personal income grew by 4.4 percent in 2014, after increasing only 1.1 percent in 2013. Growth in personal income benefited from the tapering of fiscal policies that adversely affected personal income growth in 2013. In particular, higher taxes on unearned income became effective in 2013, high income earners faced a higher income tax rate, and employees faced a higher Social Security payroll tax rate.[21]

[21] Effective at the beginning of 2013, for individuals earning over the $400,000-$450,000 threshold, the marginal tax rate increased from 35 percent (2003-2012 marginal tax rate) to 39.6 percent. In addition, taxes on dividend income rose from 15 percent to 20 percent. See, The American Tax Relief Act of 2012, Public Law 112-240, 112th Congress, January 2, 2013.

As profits have fallen, firms have borrowed to pay out dividends as interest rates have remained low. Rents have also been higher. Furthermore, the labor market averaged 221,000 jobs each month in 2015. As more people are buying health care insurance with assistance from the federal government, transfer income has grown at a robust rate. Sole proprietorships earned more income in 2015 though at a slower pace than in 2014. Hence, personal income grew 4.5 percent in 2015 (see Figure 32).

In 2016, personal income is projected to grow another 4.2 percent as receipts on assets, transfer income, employee compensation, proprietors' income, and rental income increase. Economic growth is anticipated to slow down in 2017, weighing on employment and wages. Thus, personal income is projected to increase at a slower four percent in 2017.

Growth in wages and salaries, the largest component of personal income, rose 5.1 percent in 2014 from 2.7 percent in 2013, as the private sector, and to some extent government, increased employment levels and wages. While average hourly wages increased in 2015, average weekly hours worked were flat. Wages and salaries grew by 4.8 percent in 2015.

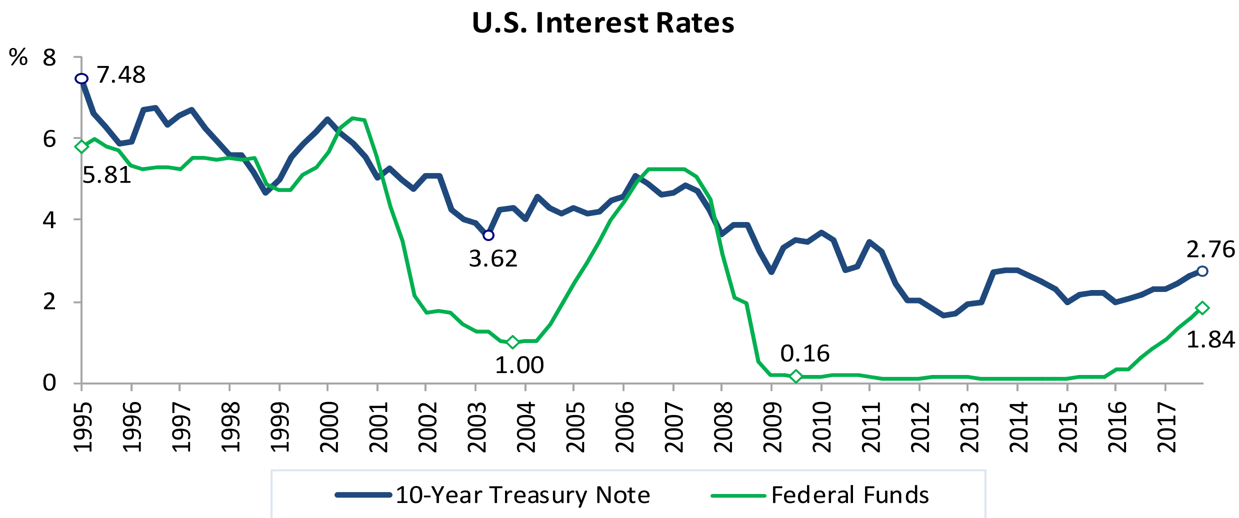
Growth rates for wages and salaries remain below prerecession rates as employers have had little pressure to increase wages in a low inflation and low interest rate environment. Furthermore, labor market dynamics may have changed, as employers are cautious about the extent to which they expand their workforce and payroll as well as the make-up of their labor force, namely capital intensive versus labor intensive, or part-time versus full-time. In addition, the aging of the U.S. population will see many experienced high-paid workers exiting the labor force gradually being replaced by lower paid workers. With lower unemployment rates over the forecast period, and employment growth anticipated to slow, upward pressure on wages lends to a projected 4.6 percent increase in wages and salaries in 2016. In 2017, wages and salaries are forecast to grow four percent as employment gains continue to moderate.

Total personal transfer payments, which include various government social benefits, grew 4.2 percent in 2014, primarily due to a 10.8 percent increase in Medicaid as part of the expansion of coverage to adults who cannot afford health care premiums under the Affordable Care Act. In 2015, personal transfer income grew 5.3 percent through the continued expansion of Medicaid coverage. As more people take advantage of health care benefits, and the aging Baby Boomers are added to Medicare and Social Security rolls, transfer payments will further increase. Furthermore, in the first quarter of 2015, a 1.7 percent cost of living adjustment was assessed to more than 58 million beneficiaries' payments. Personal transfer income is projected to increase 4.6 percent in 2016 and by another 4.4 percent in 2017.

Dividend income rose 3.4 percent in 2014 as the impact of the shift from corporations shifting dividend payouts into 2012, in anticipation of the dividend income tax hike that went into effect at the beginning of 2013, dissipated. In 2015, dividend income grew an estimated 6.5 percent as corporations borrowed money given low interest rates to dole out dividends. Despite further declines in profits, dividend income is projected to increase by 2.8 percent in 2016 and by another 2.9 percent in 2017 as corporate profits grow.

Seven years after interest rates began falling, as the Federal Reserve implemented monetary policies to stave further declines in the economy, interest rates remain at record low rates negatively affecting interest income. Investors whose portfolios are concentrated on interest bearing assets have seen returns suffer. Interest income increased 2.4 percent in 2014, after falling 1.4 percent in 2013, as long term interest rate rose. In 2015, with long-term interest rates staying lower than in 2014, interest income growth slowed to 0.8 percent. Despite low interest rates, investors increased bond holdings in their portfolios as many seek safety from a volatile equity market and weak global economy. Higher holdings increase interest receipts, even though interest rates are low. Hence, interest income is forecast to increase by 1.5 percent in 2016, and 3.7 percent in 2017 as both short-term and long-term rates begin to rise.

Monetary Policy



Note: Data are quarterly through 2017:Q4; the first forecast period is 2016:Q1.

Sources: Federal Reserve; NYS Assembly Ways and Means Committee staff.

Figure 33

Monetary Policy Key Points

- **After averaging near zero percent in the past five years, the federal funds rate started rising at the conclusion of the December 2015 meeting, and is expected to average 0.5 percent in 2016 and 1.5 percent in 2017;**
- **The exit road for short-term interest rates is not likely to be smooth or even well defined, like the mid-1990s or 2000s experience; it will instead be "data dependent."**

The Federal Reserve had held the federal funds target rate at 0.0 to 0.25 percent since December 16, 2008, the lowest level for the longest duration on record. As a result, the federal funds rate, which averaged 5.0 percent in 2006 and 2007, averaged only 0.2 percent in 2009 and 2010, and fell to 0.1 percent in each year from 2011 through 2015.

In December 2012, the Federal Reserve announced that they would link future rate changes to the threshold levels of unemployment and inflation.[22] In July 2013, the Federal Reserve indicated that it would start winding down the $85 billion per month bond-buying

[22] The Federal Reserve will hold the rate unchanged until the unemployment rate falls to 6.5 percent or inflation is forecast to reach 2.5 percent. See Board of Governors of the Federal Reserve System and the Federal Open Market Committee, minutes of the Committee meeting held on December 11-12, 2012, release date January 3, 2013.

Reserve indicated that it would start winding down the $85 billion per month bond-buying program (QE3), which had been in place since September 2012.[23] However, at the December 2013 and January 2014 meetings, the Federal Reserve decided to modestly scale back the pace of its asset purchase targets and continued to do so thereafter. The Federal Reserve announced the final reduction in QE3 in October 2014.

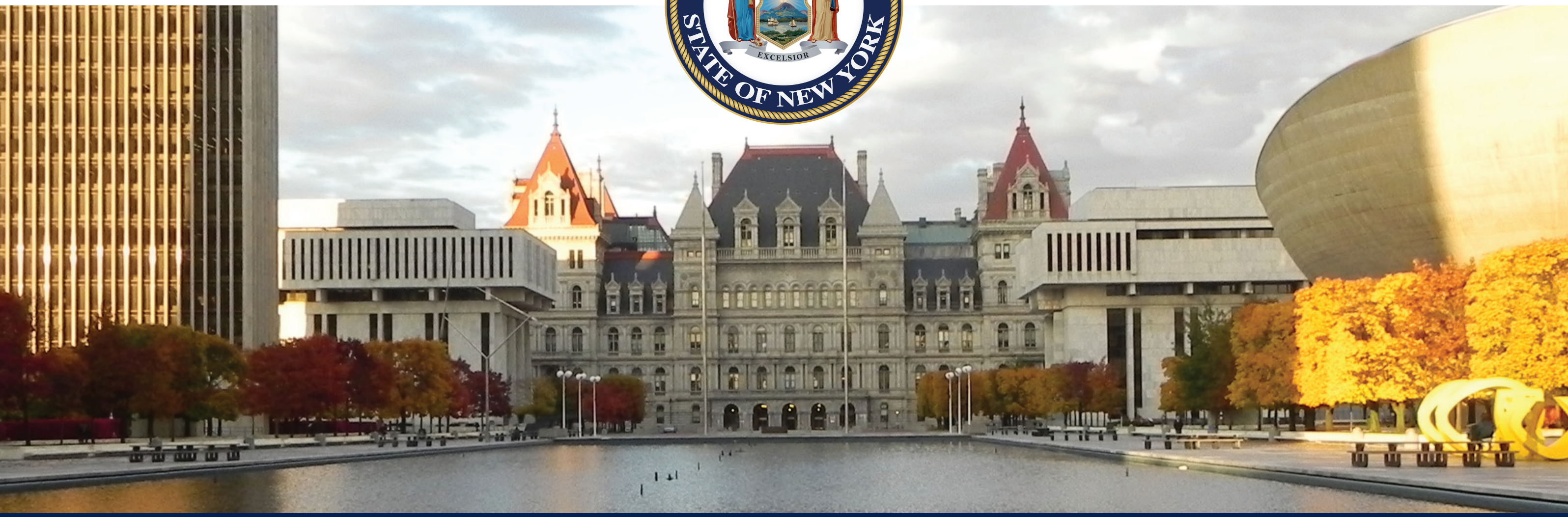
The exit road for short-term interest rates is not likely to be smooth or even well defined, like the mid-1990s or 2000s experience. The exit policy is starting from a position of zero interest rates and a set of financial assets priced off very low Treasury benchmark yields for several years running. Prominent analysts suspect that the upward move in the federal funds rate is likely to reflect a more “stop and go” path than a smooth, upward drift.[24]

As the unemployment rate continues its gradual downward movement, and current and longer-term inflation expectations remain stable, the current forecast assumes that the Federal Reserve will gradually increase interest rates with the federal funds rate averaging 0.5 percent in 2016 and 1.5 percent in 2017. Similarly, the three-month Treasury bill yield is forecast to average 0.5 percent in 2016 and 1.4 percent in 2017. Providing guidance for financial markets going forward, the Federal Reserve announced in December 2015 that their focus would be on their inflation target (as opposed to their unemployment target) and that upcoming interest rate hikes would be “data dependent” and would not follow a predetermined path.

The global recession and the European debt crisis that emerged in late 2009 caused investors to shift investments to U.S. Treasury securities, which put downward pressure on bond yields. The 10-year Treasury rate, which averaged almost five percent in 2006, averaged below four percent between 2008 and 2010. Additional domestic demand for long-term U.S. Treasuries under the quantitative easing policies continued to help maintain low long-term interest rates. As a result, Treasury security yields remained low in 2011, 2012, and 2013. The 10-year Treasury rate averaged 2.8 percent in 2011 and fell further to 1.8 percent in 2012; it rose to 2.4 percent in 2013. The 10-year Treasury rate averaged 2.5 percent in 2014 (see Figure 33).

[23] The program originally included the Federal Reserve buying mortgage-backed securities at a pace of $40 billion per month and longer-term Treasury securities at a pace of $45 billion per month.
[24] Wells Fargo Economic Group, Charlotte, NC, cited in Blue Chip International Consensus Forecasts, Blue Chip Economic Indicators, vol. 39, no. 9, September 10, 2014.

In mid-2015, the federal funds rate had been expected to increase, thus putting upward pressure on long-term interest rates. However, increased investor demand for U.S. securities due to global instabilities continued. As such, the 10-year Treasury rate stayed low at 2.1 percent on a yearly average basis in 2015. It is forecast to be 2.1 percent in 2016 and 2.5 percent in 2017 as short-term rates are expected to increase.



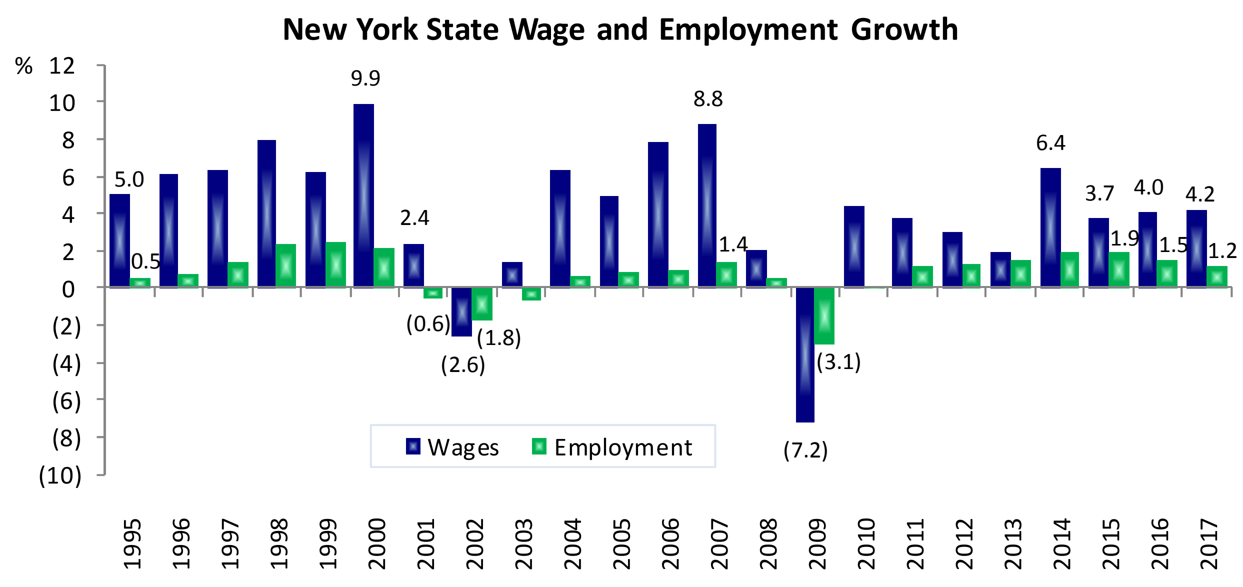
N.Y.S. Economic Forecast Analysis

N.Y.S. ECONOMIC FORECAST ANALYSIS

New York State is the third largest state economy in the United States (behind California and Texas), with a Gross Domestic Product of $1.4 trillion in 2014.[25] The state's total non-farm employment is over eight million, spread over many sectors, with the highest concentrations in government, education and health, and finance and insurance.

Slow and steady expansion of the state economy

Along with the national economy, New York State's economy continues a slow, but steady, expansion. Employment has been growing steadily since 2010, and while employment growth is slightly slower than employment growth for the nation, private employment in the state is at a record-high level.[26] Wages have also been growing steadily since 2010. Despite growing slightly slower than in the nation in recent years, total wages in the state are poised to grow further in the forecast period as base wages grow along with employment, and variable wages respond to some positive factors in the finance industry (see Figure 34).



Source: New York State Department of Labor; NYS Assembly Ways and Means Committee staff.

[25] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, http://www.bea.gov/regional/index.htm, (accessed: October 6, 2015).
[26] As measured by the U.S. Department of Labor, Bureau of Labor Statistics, Current Employment Statistics Survey, http://www.bls.gov/sae/ (accessed: October 6, 2015).

Figure 34

The Financial Services industry and variable wages are critical for the fiscal health of the state

Wage growth has not reached the rates seen in 2006 and 2007 due largely to bonuses on Wall Street being significantly restrained since the Great Recession. Both variable wages and base wages are expected to contribute to the continued growth in wages. Although variable wages accounted for only 11.6 percent of total wages in 2014, this contribution is important to total wage growth. Much of the wage outlook for the state remains dependent upon the performance of the financial sector, where significant risks exist. Personal income is estimated to have grown 3.9 percent in 2015 and is forecast to grow further by 4.1 percent in 2016. As wages account for about half of personal income, the growth pattern of wages will significantly impact personal income growth going forward.

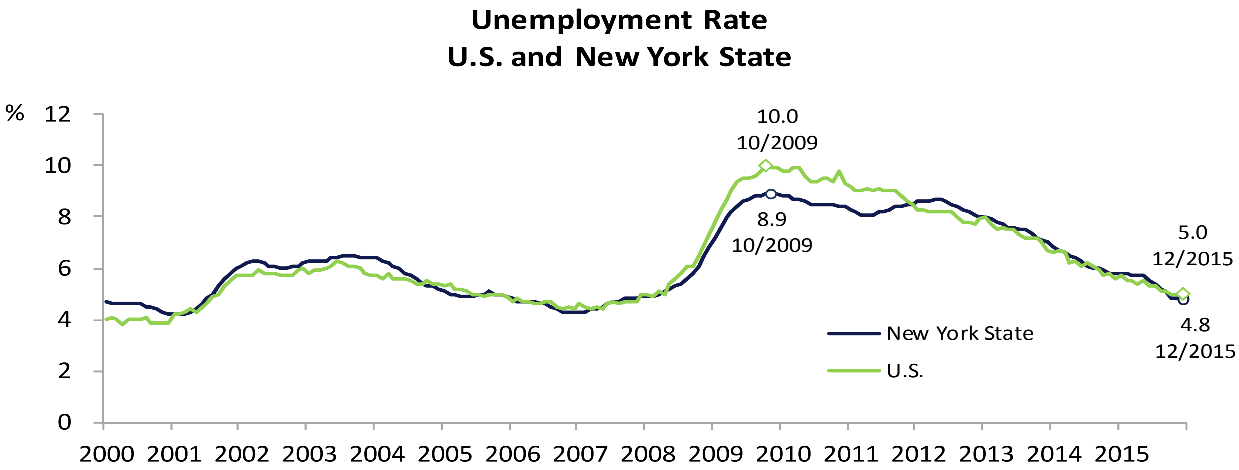
Employment

The state has outperformed the Nation in terms of employment during the recession

New York State employment outperformed that of the nation four years in a row from 2007 to 2010. During this period, state employment growth surpassed the nation's in most sectors, especially in construction, where employment losses in the state were much less than in the nation as the housing market in New York fared better than in the nation. Between 2010 and 2014, New York State nonfarm employment grew at a slower rate than that of the nation, but the disparity was much smaller than in the pre-recession period.

New York State employment grew at the same rate as the nation in 2011. Nonfarm employment in the state started to grow slower than in the nation once again in 2012. As the state lost a substantially smaller percentage of jobs than the nation, total nonfarm payroll employment in the state surpassed its previous peak in late 2012. The nation did not fully regain its employment loss until mid-2014.

The unemployment rate in New York State rose less than in the rest of the nation during the Great Recession. The state unemployment rate reached its most recent peak at 8.9 percent in October 2009, compared to 10 percent nationwide. Since its peak, the unemployment rate has been falling. As of December 2015, the unemployment rate in the state was 4.8 percent, compared to the national rate of five percent (see Figure 35).



Note: Data are monthly from January 2000 to December 2015. Data are sasonally adjusted.
Source: U.S. Bureau of Labor Statistics.

Figure 35

As the economy improves, employment in both New York State and the nation is forecast to grow. Total nonfarm employment in the state is estimated to have grown 1.9 percent in 2015, compared to 2.1 percent nationwide. Nonfarm employment growth is forecast to grow at 1.5 percent in 2016 and 1.2 percent in 2017, while national employment growth is forecast to grow 1.7 percent in 2016 and 1.3 percent in 2017.

Employment gains have been concentrated in lower paying jobs

Unlike previous recoveries, when employment growth was relatively balanced among low- and high-paying sectors, the gains in employment during the current recovery have been mainly in lower-paying sectors. From 2009 to 2014, four of the five sectors that posted the fastest annual employment growth were the sectors that had the lowest average wages in the state. In addition, two sectors, government and manufacturing, with average wage over $55,000 continued to lose jobs.

Service-providing sector has been leading the job gains

As with national trends, improvement in the state's labor market during the current expansion has been driven mainly by the service-providing sector. As of December 2015, the ninety-second month since the previous employment peak, service-providing employment was

580,500 above its pre-recession peak, while goods-producing employment remained 81,300 below its prior peak (see Figure 36).[27]

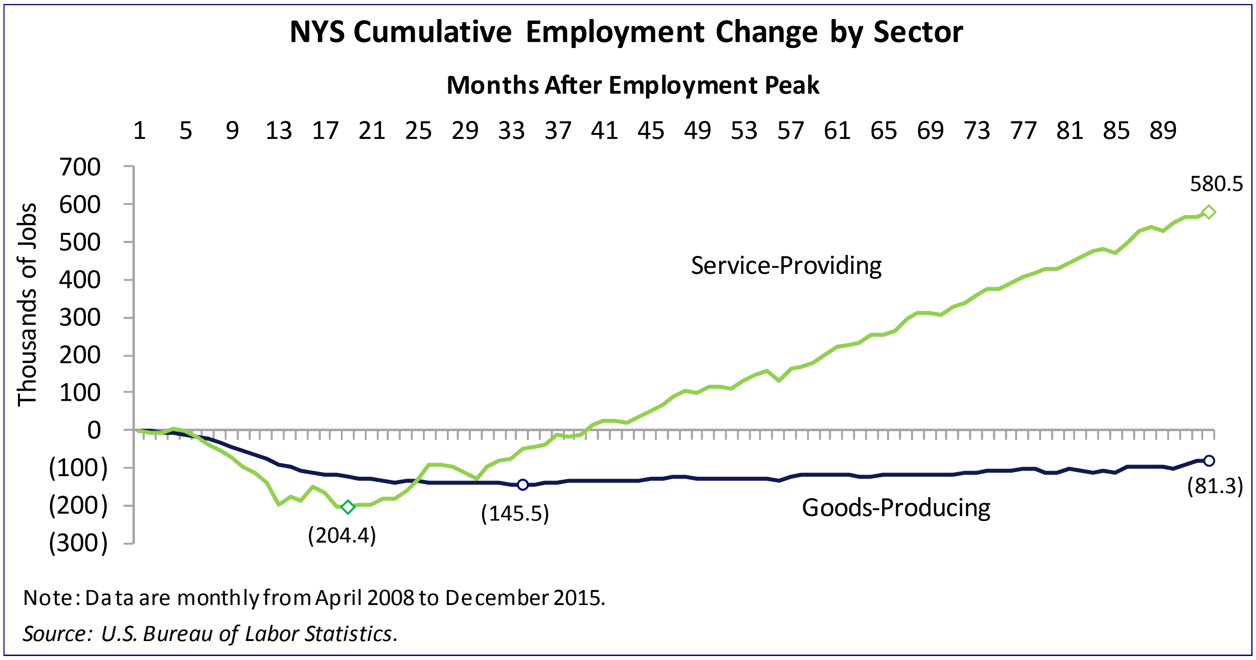


Figure 36

The state's competitive employment position

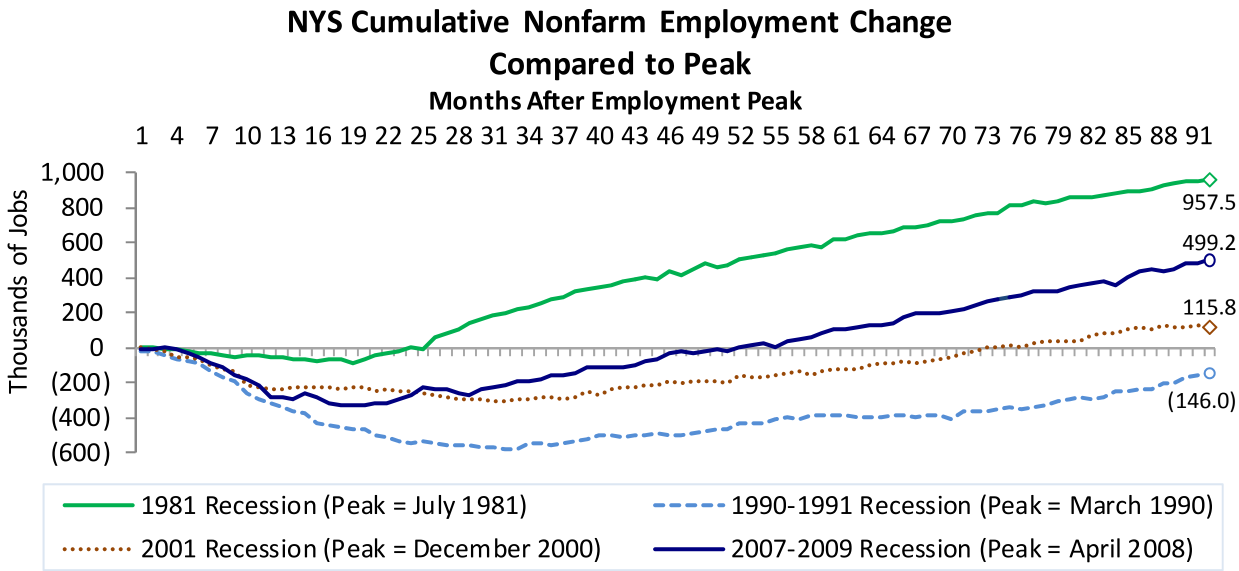
During the 2007-09 recession, New York's economy performed better than most states, including other large states. As employment in several states that lost a significantly higher percentage of jobs than New York during the Great Recession has grown faster in recent years, the state has fallen in rank; New York State employment growth ranked eighteenth in 2014. In 2015, employment in the state grew 1.6 percent and ranked twenty-second.

The state quickly recovered the jobs lost during the Great Recession

New York's economy also performed better during the 2007-09 recession than previous recessions. In terms of employment loss, the 2007-09 recession was milder in New York State than the two immediately preceding recessions. Although nonfarm employment loss was higher during the 2007-09 recession than during the 2001 recession, the employment recovery was much faster after the Great Recession (see Figure 37). As of December 2015, 92 months

[27] The service-providing sector accounted for 91.2 percent of New York State total nonfarm employment in 2014. This percentage was 89.6 percent during the 2007 recession, and 84.0 percent in 1990.

after the employment peak, employment in the state was 5.7 percent above its pre-recession peak. In contrast, 92 months after the 1990-91 recession, employment in the state remained at 146,000 jobs or 1.8 percent below its previous peak. At the end of the same period following the 2001-02 recession, the state's employment rose above its pre-recession peak level but only by 115,800 jobs or 1.3 percent.



Note: Data are monthly from April 2008 to December 2015.
Source: U.S. Bureau of Labor Statistics.

Figure 37

Sectoral Employment

All sectors, with the exception of education and health care, lost jobs during the last recession, led by the manufacturing sector. From 2008 to 2010, the manufacturing sector lost 14.3 percent or 76,850 jobs, which was about 30 percent of the state's total nonfarm job loss. Manufacturing employment rebounded in 2011, growing 0.2 percent due to growth in the durable goods industry. This gain was temporary as employment in the sector was flat in 2012, and started to fall again in 2013. The manufacturing sector lost 0.7 percent in 2014 and is estimated to have fallen another 0.2 percent in 2015. It is forecast that manufacturing employment will continue to decline throughout the forecast period.

Education and Health Care was the only sector that gained jobs during the recession

The education and health care sector was the only sector that gained employment during the last recession, and it has continued to grow. This sector's growth is expected to persist, as aging baby boomers and more people who become insured as a result of The Affordable Care Act will likely create more demand for health care services. The education and health care sector grew 2.2 percent in 2014, and is estimated to have grown further by 2.5 percent in 2015. Employment in this sector is forecast to grow 2.4 percent in 2016 and another 2.0 percent in 2017.[28]

Other than Manufacturing and Government all sectors have experienced job growth during the recovery

Employment in all sectors, except manufacturing and government, has continued to recover steadily since the recession ended in 2009 with three sectors growing robustly: leisure and hospitality, construction, and professional services. The leisure and hospitality sector benefited from the increasing number of visitors to the state, due partly to the weak dollar. After falling 9.5 percent in 2009, the number of international visitors to New York City increased by 33.7 percent from 8.6 million in 2009 to 11.5 million in 2013. Similarly, the number of domestic visitors to New York City increased 15.7 percent from 37 million visitors in 2009 to 42.8 million in visitors in 2013.[29] While leisure and hospitality employment grew the fastest among all sectors for four years in a row from 2010 to 2013, this sector grew slower in recent years as the U.S. dollar gained strength. Employment in this sector grew 4.1 percent in 2014 and is estimated to have grown another 3.1 percent in 2015. It is forecast that leisure and hospitality employment will grow by 2.7 percent in 2016 and another 1.9 percent in 2017.

The professional services sector has also rebounded strongly during the current recovery as accounting and consulting firms have increased hiring in response to higher demand due to the global recovery and new laws and regulations such as the Dodd-Frank Wall Street Reform and Consumer Protection Act. The New York City region has benefited the most from this hiring, where several large professional services firms are based. From the second quarter of 2009 to the second quarter of 2015, the state added 82,800 jobs in this sector, of which 63,400 jobs were in the New York City region. The professional services sector will likely continue to grow throughout the forecast period.

The construction sector also rebounded strongly since 2013. The state gained 12,300 jobs or 3.9 percent in this sector in 2013 and another 4.9 percent in 2014. Most of this gain

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[28] The sector designated as education and health in this report includes only private employment. Based on the data from New York State Department of Labor, as of December 2015, government education and health employment in New York State was 657,600, while private education and health employment was 1.9 million.

[29] NYC & Company Research Analytics, The Official Guide, NYC Statistics, 2006–2013, NYC & Company, Inc., http://www.nycgo.com/articles/nyc-statistics-page.

occurred in the New York City and Long Island regions, which were rebuilding from Superstorm Sandy that destroyed thousands of home and structures in 2012. As rebuilding activities continue and the housing market recovers, employment in this sector is estimated to have grown 5.5 percent in 2015, and is expected to grow at 4.3 percent in 2016 and another 3.0 percent in 2017.

The finance and insurance sector suffered heavily during the recession. From 2007 to 2010, the sector lost 10.5 percent, or 56,980 jobs. The sector rebounded slowly, as technology, stricter regulations, and high operating costs led firms to hire fewer employees. Thus, employment in this sector gained just 3.9 percent from 2010 to 2015, and remained 37,600 jobs below its peak in 2007. It is expected that employment in this sector will be flat in 2016 and 2017.

Budget constraints at all levels of government continue to put pressure on government employment. As a result, government employment declined six years in a row from 2009 to 2014. Employment is estimated to have rebounded in 2015. This is the first time since 1991, (when government employment fell seven years in a row) that employment in this sector fell for more than two consecutive years. Government employment is expected to continue to recover slowly throughout the forecast period.

Structural changes in the composition of state employment

New York State has seen significant changes in its sectoral employment during the past several decades. Education and health care employment has been steadily increasing even during recessions. As this sector has continued to grow while others contracted, its share of total nonfarm payroll employment in New York State has risen. In 1980, education and health care employment ranked fourth among all sectors in the state and accounted for less than 10 percent; this sector's share jumped to 19.2 percent and ranked first in 2014.[30] Both upstate and downstate shared equally in this gain. Downstate, the employment share of education and health care grew from 9.6 percent in 1980 to 19.8 percent in 2014. Its rank jumped from fourth to first. Similarly, this sector's upstate employment share grew from 9.7 percent in 1980 (ranked fourth) to 18.5 percent in 2014 (ranked second behind the government sector).[31]

The manufacturing sector has also undergone significant changes. Unlike the education and health care sector, the manufacturing sector has been losing jobs for the past few decades.

[30] In the U.S., this share rose from less than 10 percent in 1980 to 15.4 percent in 2014.
[31] Downstate New York includes the New York, Long Island, and Mid-Hudson regions.

In 1980, the manufacturing sector accounted for 17.1 percent of total New York State employment, the second largest employment share in the state behind the government sector. By 2014, this sector dropped to eighth in rank and accounted for only 5.2 percent of total nonfarm employment.[32] This was due to a structural shift in the economy and other economic factors. The manufacturing sector has become less vital to the downstate economy compared to upstate, in terms of both the number of jobs and share of total employment. In 1980, manufacturing was the second largest sector downstate, accounting for 13.9 percent of total employment. In 2014, the sector ranked eleventh and accounted for 3.2 percent of total employment downstate. Likewise, manufacturing was the largest sector upstate in 1980, accounting for 24.5 percent of total employment; this share dropped to 10.1 percent in 2014 and ranked fourth.

Scientific knowledge and new technologies are one of the major forces for economic growth. Employment in scientific research and development is one of the indicators for the competitiveness of the economy. Employment in scientific research and development in New York State follows a trend similar to that in the nation. Prior to the recession, the state had a higher ratio of scientific research and development employment to total employment than the national average. During the recession, this ratio fell below the national level. Scientific research and development employment both in the state and the nation increased following the recession but has declined in the recent years. As of 2014, the ratio of scientific research and development employment in the state was five jobs per 1000 private sector jobs, which is about the same as in the nation (see Figure 38).

[32] In the U.S. the share of manufacturing employment fell from 20.7 percent in 1980 to 8.8 percent in 2014.

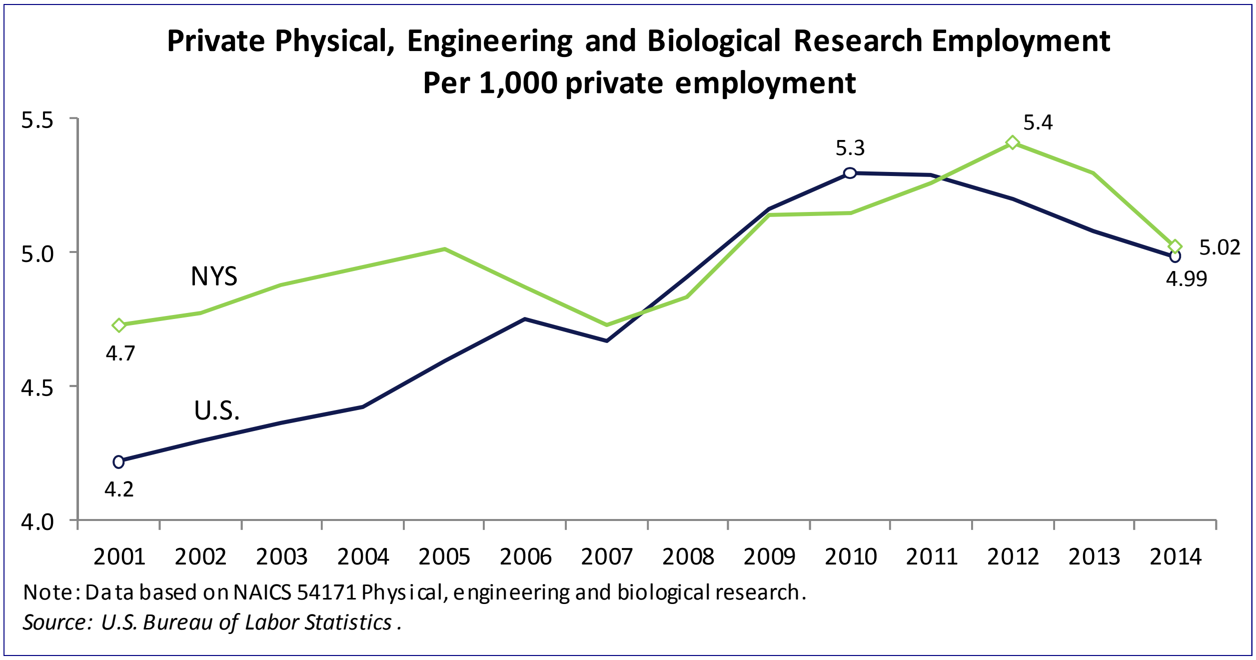


Figure 38

Regional Employment

In 2014, the largest region by employment in the state was New York City. With an employment of almost four million, the New York City region accounted for over 40 percent of the state's total nonfarm employment. The smallest employment region was the North Country, with 145,300 nonfarm jobs. The two largest sectors across regions were the education and health care sector and the government sector, while in most regions the smallest sectors were the management of companies sector and the real estate, rental, and leasing sector.

Downstate regions were hit harder during the recession compared to Upstate

Downstate regions were hit harder than upstate regions in the 2007-09 recession. On an annual basis, downstate lost 3.2 percent of its nonfarm employment or 182,600 jobs, compared to a loss of 2.8 percent or 75,200 jobs in upstate. However, downstate has recovered faster than upstate. From 2009 to 2014, downstate gained 8.5 percent in nonfarm jobs with all regions gaining jobs. In contrast, upstate employment remained flat during this period, with four of seven regions experiencing job loss. The Mohawk Valley and Southern Tier regions lost the most jobs in percentage terms from 2009 to 2014 (see Figure 39).

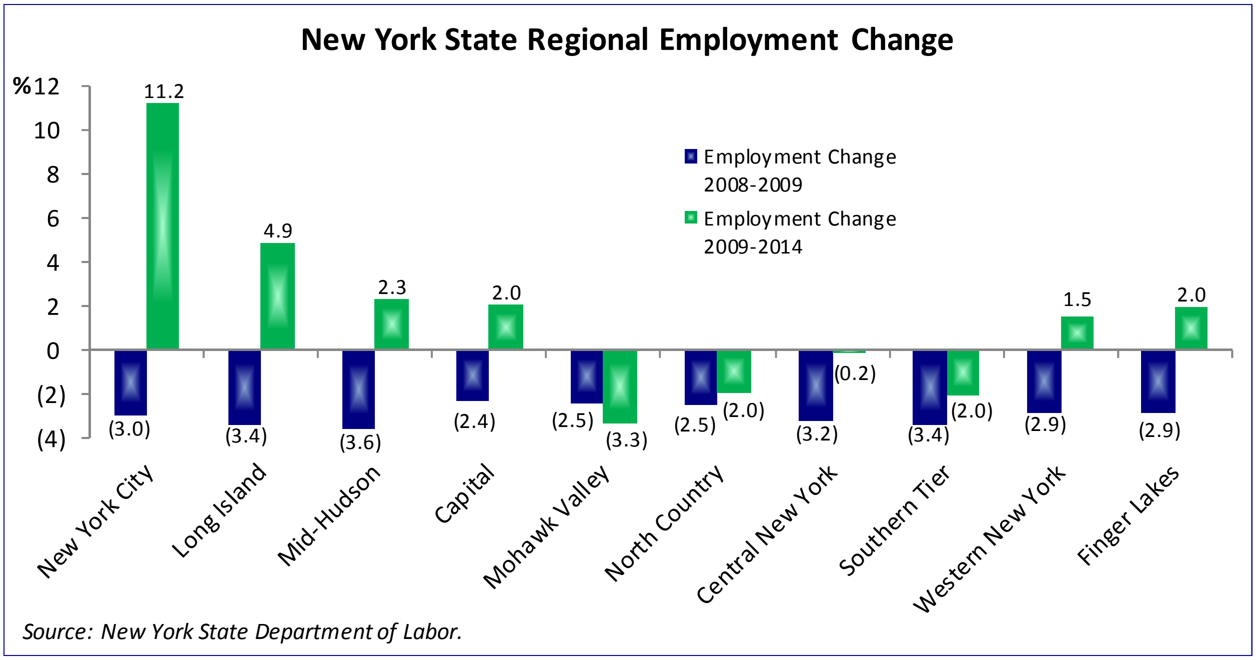


Figure 39

During the Great Recession, one sector that lost the most jobs in both upstate and downstate was manufacturing; however, manufacturing accounted for a larger proportion of total upstate employment than that of downstate. Downstate also lost a significant number of jobs in the finance and insurance sector and the construction sector, while upstate experienced large employment losses in the other services sector and retail trade (see Table 1).

Table 1

New York State Sectoral Employment Loss by Region 2008-2009											
		Downstate			**Upstate**						
	NYS	**New York City**	**Long Island**	**Mid-Hudson**	**Capital**	**Mohawk Valley**	**North Country**	**Central New York**	**Southern Tier**	**Western New York**	**Finger Lakes**
Total Nonfarm	**(261.6)**	**(109.0)**	**(41.7)**	**(31.9)**	**(12.0)**	**(4.3)**	**(3.8)**	**(11.1)**	**(10.0)**	**(18.2)**	**(15.8)**
Manufacturing[1]	**(72.0)**	(13.7)	(6.4)	(5.4)	**(2.9)**	**(1.8)**	**(1.7)**	**(4.2)**	**(5.1)**	**(9.3)**	**(7.7)**
Finance & Insurance	(65.4)	**(27.5)**	(4.5)	(2.1)	(0.5)	(0.4)	(0.1)	(0.7)	(0.3)	(1.3)	(0.6)
Other Services[2]	(49.7)	(12.9)	(7.7)	(4.1)	(2.5)	(0.9)	(0.8)	(1.8)	(1.0)	(2.6)	(2.5)
Construction	(45.6)	(11.5)	(7.9)	**(7.8)**	(1.4)	(0.4)	(0.4)	(1.1)	(0.5)	(1.6)	(1.6)
Professional Services	(44.3)	(18.8)	(2.9)	(1.6)	(0.6)	0.2	(0.2)	(0.3)	(0.4)	(0.4)	(0.5)
Retail Trade	(42.3)	(8.7)	**(8.7)**	(5.6)	(2.5)	(0.7)	(0.4)	(1.8)	(1.3)	(1.8)	(2.2)
Wholesale Trade	(29.3)	(9.2)	(4.4)	(2.0)	(0.4)	(0.1)	(0.2)	(0.4)	(0.5)	(2.1)	(0.9)
Information	(20.5)	(8.5)	0.5	(2.0)	(0.3)	(0.2)	(0.1)	(0.5)	(0.3)	(0.3)	(0.5)
Transp. & Utilities[3]	(15.8)	(4.5)	(2.0)	(0.8)	(0.1)	(0.4)	(0.2)	(0.7)	(0.4)	(1.8)	(0.6)
Real Estate, Rental, & Leas	(10.4)	(3.7)	(0.9)	(0.7)	(0.5)	(0.1)	(0.0)	(0.3)	(0.2)	(0.1)	(0.2)
Leisure & Hospitality	(7.2)	(1.7)	(1.4)	(1.3)	(0.4)	0.0	(0.3)	(0.0)	(0.3)	(0.1)	(0.0)
Government	(5.2)	(1.7)	(0.1)	(1.0)	(0.6)	(0.6)	0.0	0.2	0.4	(0.2)	0.1
Management of Companie	(3.0)	(1.8)	0.2	(0.2)	(0.5)	(0.1)	0.0	0.3	(0.3)	1.3	(0.2)
Education & Health Care[4]	38.4	12.9	3.6	2.5	1.0	0.9	0.3	0.2	0.2	2.1	1.7

Note: Data in thousands.
[1] Including mining.
[2] Including administrative, support, and waste management services.
[3] Transportation, warehousing, and utilities.
[4] Includes only private employment. Public education and health care employment is included in the government sector.
Sources: NYS Department of Labor.

During the recovery, Downstate regions have led in terms of job gains

The employment recovery in upstate has lagged downstate due to a slower recovery in many large sectors. From 2009 to 2014, downstate gained employment in almost all sectors, especially in the leisure and hospitality, education and health care, and retail trade sectors. In contrast, upstate experienced almost no job gain during this period as it continued to lose jobs in many sectors. Although government employment in the state did not fall much during the recession, due partly to fiscal stimulus funds from the federal government, employment in this sector has fallen through the recovery (see Table 2). This has been a significant drag to the employment recovery upstate, where government employment accounts for almost 20 percent of employment, compared to about 14 percent downstate.[33]

[33] The regions with the largest share of government employment are the North Country, where government employment accounted for 29.6 percent of nonfarm employment in 2013, followed by the Mohawk Valley region at 24 percent.

Table 2

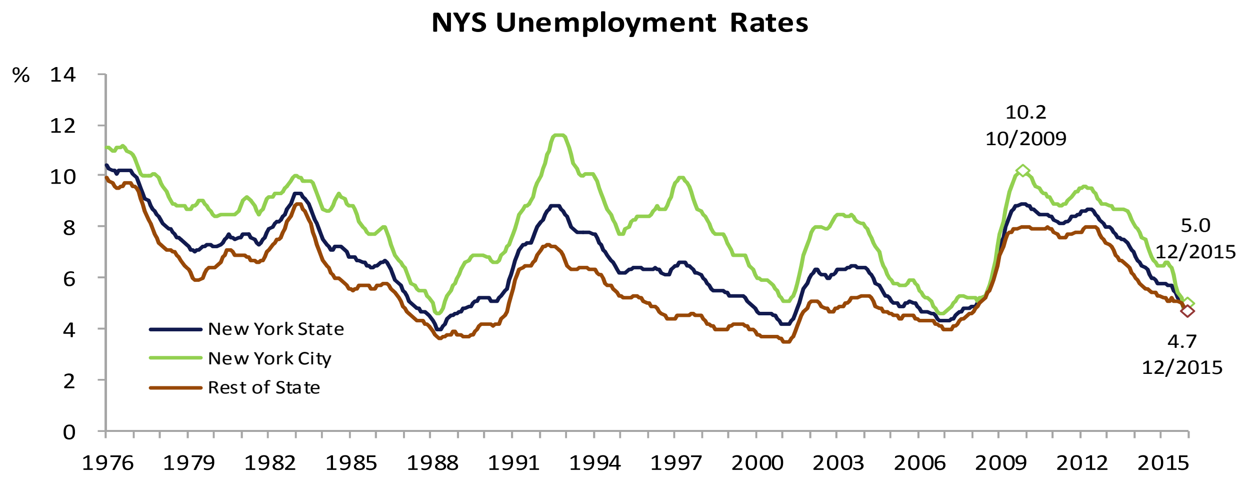
New York State Sectoral Employment Recovery by Region 2009-2014

	NYS	Downstate: New York City	Downstate: Long Island	Downstate: Mid-Hudson	Upstate: Capital	Upstate: Mohawk Valley	Upstate: North Country	Upstate: Central New York	Upstate: Southern Tier	Upstate: Western New York	Upstate: Finger Lakes
Total Nonfarm	**507.7**	**398.7**	**57.3**	**19.8**	**10.2**	**(5.7)**	**(2.9)**	**(0.6)**	**(5.8)**	**9.0**	**10.4**
Leisure & Hospitality	157.6	99.1	19.9	14.0	5.4	1.2	1.8	2.7	2.2	7.9	4.2
Education & Health Care[1]	143.6	95.9	18.8	9.6	5.3	0.1	0.8	3.1	(0.7)	2.6	5.7
Other Services[2]	82.6	49.9	11.4	8.9	0.7	0.1	0.2	(0.3)	2.3	(0.9)	4.4
Retail Trade	77.7	58.2	7.4	8.8	1.2	(0.4)	(0.2)	1.5	(0.4)	2.2	0.1
Professional Services	66.0	50.0	7.6	1.8	0.2	(0.6)	0.0	1.4	0.2	(0.3)	3.7
Construction	17.9	7.0	5.6	1.7	1.1	(0.4)	(1.1)	(0.0)	(0.4)	0.6	1.4
Information	11.9	21.2	(5.0)	(3.1)	(1.1)	(0.7)	(0.2)	(0.6)	0.3	(0.7)	(1.1)
Management of Companies	10.9	8.4	(0.8)	0.6	(0.1)	0.1	0.0	(1.0)	0.5	2.5	(0.3)
Transp. & Utilities[3]	8.8	3.6	2.3	(0.4)	0.4	(0.5)	(0.4)	0.6	0.4	0.5	0.3
Wholesale Trade	7.9	4.3	2.4	(0.4)	0.8	(0.3)	(0.1)	(0.4)	0.2	0.4	(0.6)
Real Estate, Rental, & Leasing	6.9	6.3	0.9	0.2	0.2	(0.2)	(0.1)	(0.4)	0.2	0.4	0.2
Finance & Insurance	1.6	7.5	0.8	(1.5)	(0.4)	(0.3)	(0.3)	(1.5)	(0.9)	(0.2)	0.0
Manufacturing[4]	(24.3)	(5.9)	(3.1)	(6.3)	3.4	(0.5)	(1.1)	(3.1)	(4.0)	0.7	(4.3)
Government	(79.1)	(15.4)	(12.7)	(15.7)	(7.5)	(3.5)	(2.4)	(3.1)	(6.0)	(7.7)	(4.0)

Note: Data in thousands.
[1] Includes only private employment. Public education and health care employment is included in the government sector.
[2] Including administrative, support, and waste management services.
[3] Transportation, warehousing, and utilities.
[4] Including mining.
Sources: NYS Department of Labor.

The City's rate of unemployment has been consistently above that of the rest of the state until recently, partly a result of an expanding labor force in the City

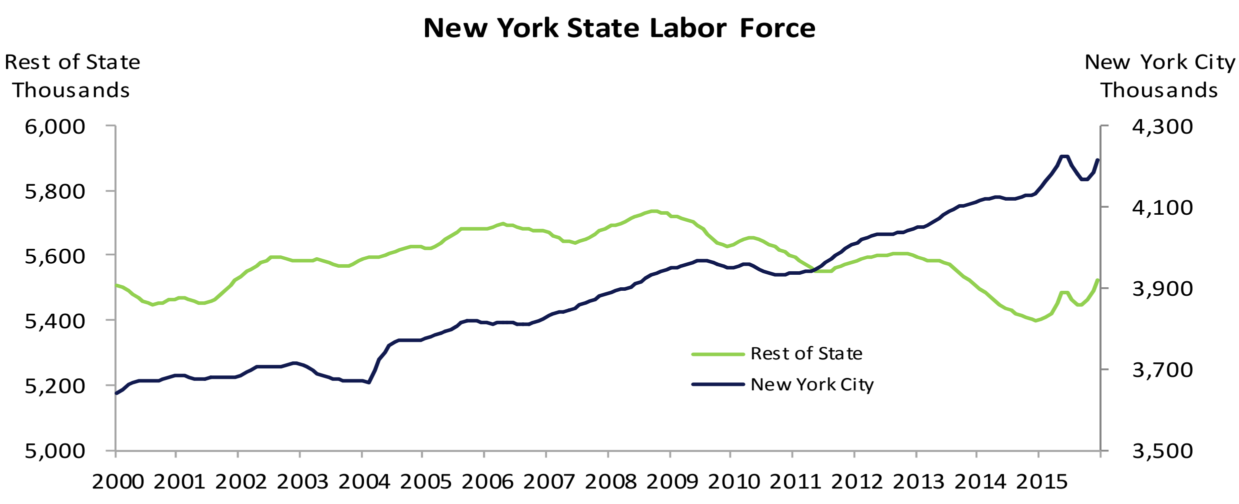
Historically, the unemployment rate in New York City has consistently been higher than the rest of the state. During the Great Recession, unemployment in New York City reached 10.2 percent in October and November 2009, compared to 8.9 percent for the state as a whole and eight percent for the rest of the state (see Figure 40). As New York City has gained jobs at a much higher rate than the rest of the state, its unemployment rate has fallen faster than the rest of the state during the recovery. The unemployment rate in New York City was five percent in December 2015, compared to 4.7 percent in the rest of state.



Note: Data are monthly from January 1976 to December 2015. Data are sasonally adjusted.
Source: New York State Department of Labor.

Figure 40

Despite adding jobs at a much faster rate than the rest of the state, the New York City unemployment rate has fallen only slightly faster. This may be due in part to a rising labor force in the area. New York City labor force increased 6.8 percent from December 2009 to December 2015. On the other hand, the labor force in the rest of state fell by 1.9 percent during this period (see Figure 41).



Note: Data are monthly from January 2000 to December 2015. Data are sasonally adjusted.
Source: New York State Department of Labor.

Figure 41

Personal Income and Wages

Income, Wages, and the Financial Services Industry

Wages and personal income growth in New York State remain the central issue in the state economic and revenue outlook. The largest component of New York State personal income, wages, totaled $603.5 billion, and accounted for 7.7 percent of total wages paid in the United States in 2015. The state has typically benefitted from strong growth in variable wages (bonuses) in the financial sector, as increases in variable compensation help drive wage growth in the state, leading to increases in personal income. Most recently, steady employment growth has contributed to steady growth in base wages.

Much of New York State variable compensation is concentrated in the financial sector, particularly the securities industry, which accounted for 43.3 percent of the total variable wages paid in the state in 2015. Before the Great Recession, the percentage of the state's total variable compensation paid in the securities industry was over 50 percent. Regardless of the drop in share, however, the securities industry continues to pay the largest share of variable wages in New York State compared to other sectors.

The financial sector continues to undergo structural changes that lead to long-term changes in compensation practices. One of the major changes resulting from the financial crisis is an expansion of bonus payouts in the form of stock options, rather than compensation in cash. However, the exact breakout between stock and cash is not available, nor is information on how much cash may be deferred. In addition, the timing and the amount of gains realized is not clear.

While personal income growth may be spurred by more or better paying jobs, in New York State the presence of high wage growth, even in the absence of strong employment growth, is a factor in driving personal income growth. Personal income and wages have historically grown at much higher rates than employment, and this trend is expected to continue throughout the forecast period (see Figure 42).

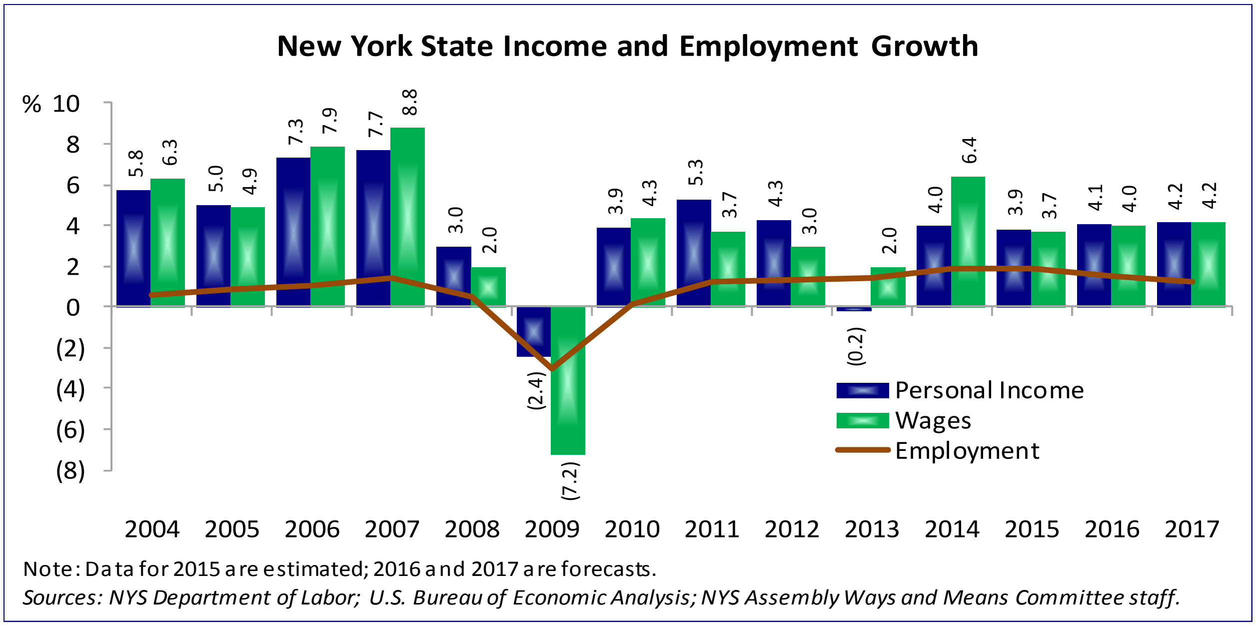


Figure 42

Personal Income and Wages Growth

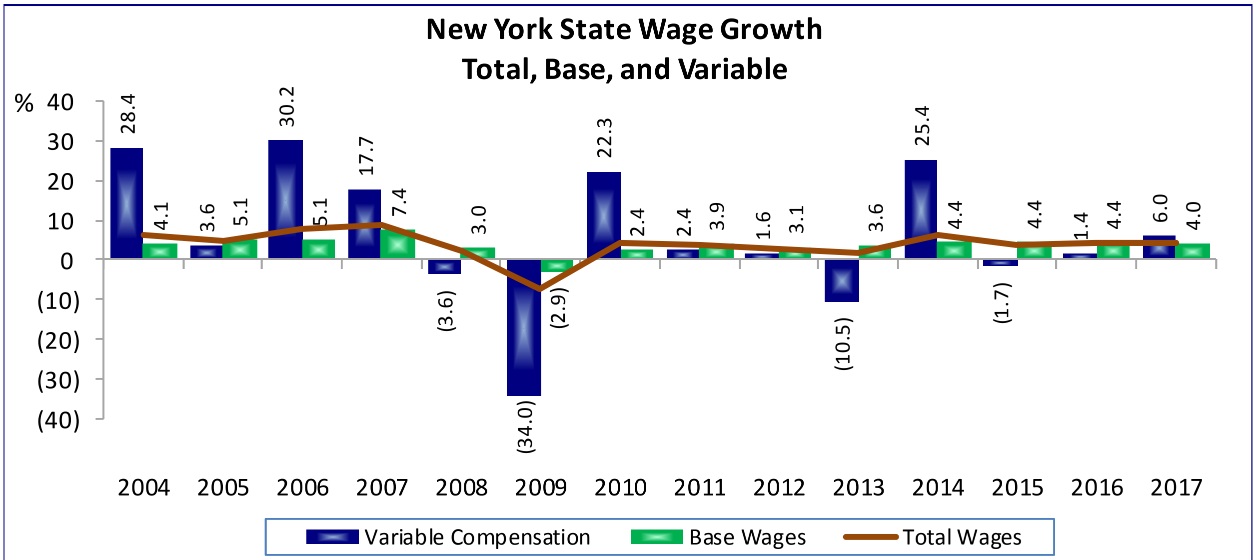
Personal income in New York State is estimated to have grown 3.9 percent in 2015, and is forecast to grow 4.1 percent in 2016 and 4.2 percent in 2017. The increase in personal income will be driven mainly by wage growth. Dividend, interest and rental income comprises about 19.4 percent of personal income in New York State in 2015. Personal transfer receipts also comprise about 17 percent of personal income, a share that has fluctuated only slightly over the past ten years. State unemployment insurance compensation increased markedly, until the first quarter of 2010, when unemployment insurance payments started to decrease as employment in the state expanded. The largest portion of state transfer payments is Medicaid, followed by Social Security, and Medicare. All three of these components have experienced a steady upward trend before and after the Great Recession. [34]

Wage growth in recent years has been solid, aided by a return to positive growth in variable compensation. However, wage growth rates continue to be below those achieved leading up to the 2007-09 recession, partly due to current recovery growth being concentrated in lower-paying jobs overall and restrained growth in variable wages. Therefore, whereas

[34] Transfer payments data are from the U.S. Bureau of Economic Analysis. They include payments by government and businesses to individuals such as medical benefits, retirement and disability insurance benefits and unemployment insurance benefits.

employment has returned, wage growth remains restrained. Total wages in New York State grew an estimated 3.7 percent in 2015, and are forecast to grow 4.0 percent in 2016 and 4.2 percent in 2017.

In 2016 and 2017, variable wage growth is not forecast to reach the high levels attained in 2006 and 2007, when securities industry firms experienced huge profits and bestowed large bonuses on employees. Variable wage growth is estimated to have fallen slightly in 2015. Variable wages are forecast to grow by 1.4 percent in 2016 and 6.0 percent in 2017. Base wages are forecast to grow 4.4 percent 2016 and four percent in 2017, reflecting an expectation of continued steady growth in employment. As employment grows steadily, even in those industries with a relatively lower average wage, base wages will continue on a slow and steady upward trend (see Figure 43).



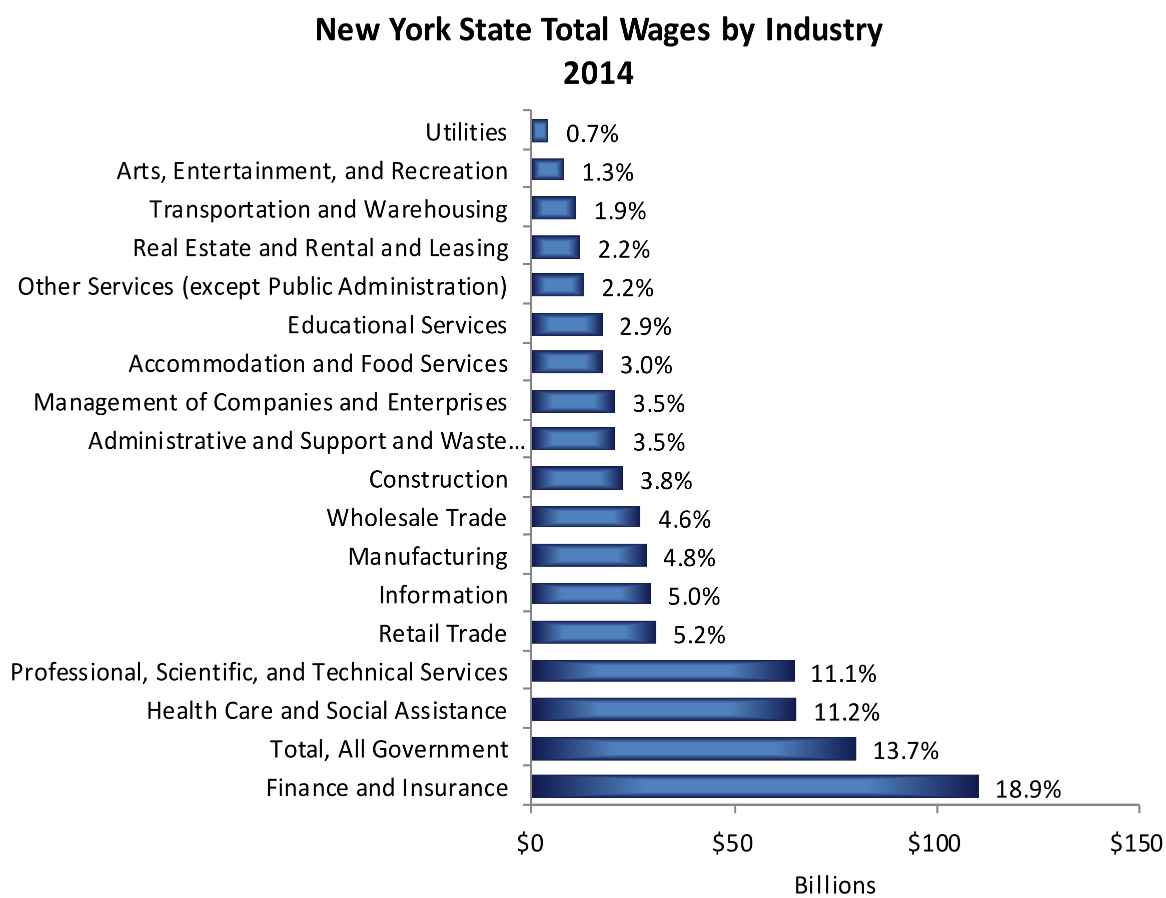
Note: Total wage data for 2015 are estimated; 2016 and 2017 are forecasts. Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and their levels sum to total wages.
Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

Figure 43

Uneven Industry Distribution of Wages

The distribution of wages within the state is uneven across industries. In 2014, the finance and insurance sector accounted for 19 percent of wages in the state, while accounting for 5.7 percent of employment. The government sector had the second highest share of wages in the state in 2014 at 13.7 percent, but the highest share of employment at 15.4 percent (see

Figure 44). Going forward, the sectors that account for the highest share of wages are exposed to higher risks as a result of current economic conditions.



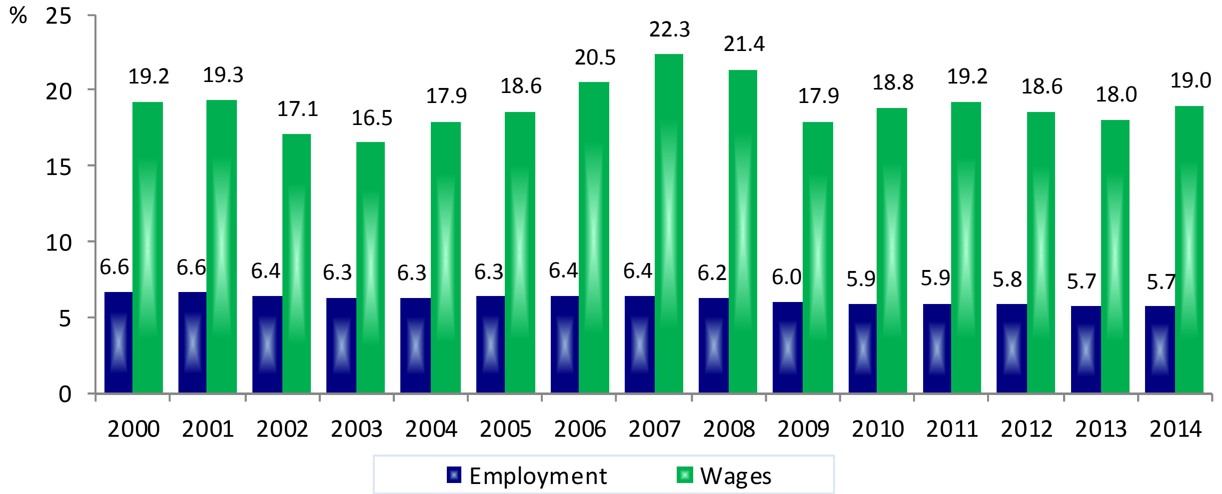
Note: Labels represent industry share of total State wages.
Source: New York State Department of Labor.

Figure 44

Importance of the Finance and Insurance Sector

The finance and insurance sector is important to the overall economic and fiscal health of the New York State economy, especially downstate where the sector's employment is heavily concentrated. The performance of the finance and insurance sector has a considerable impact on state tax revenues, as it comprises a significant portion of total wages in the state. While the sector accounted for 5.7 percent of total state nonfarm payroll employment in 2014, the industry comprised 19 percent of total state nonfarm payroll wages (see Figure 45). However, finance and insurance employment as a share of total employment has been slowly declining, while the share of wages has fluctuated over time. The share of wages reached 22.3 percent in

2007 as the securities industry revenues and profits were exceptional, and massive bonuses were paid to workers. As the landscape of the industry changed, and bonuses were curtailed, that share has fallen to under 20 percent – still a significant share of state wages.

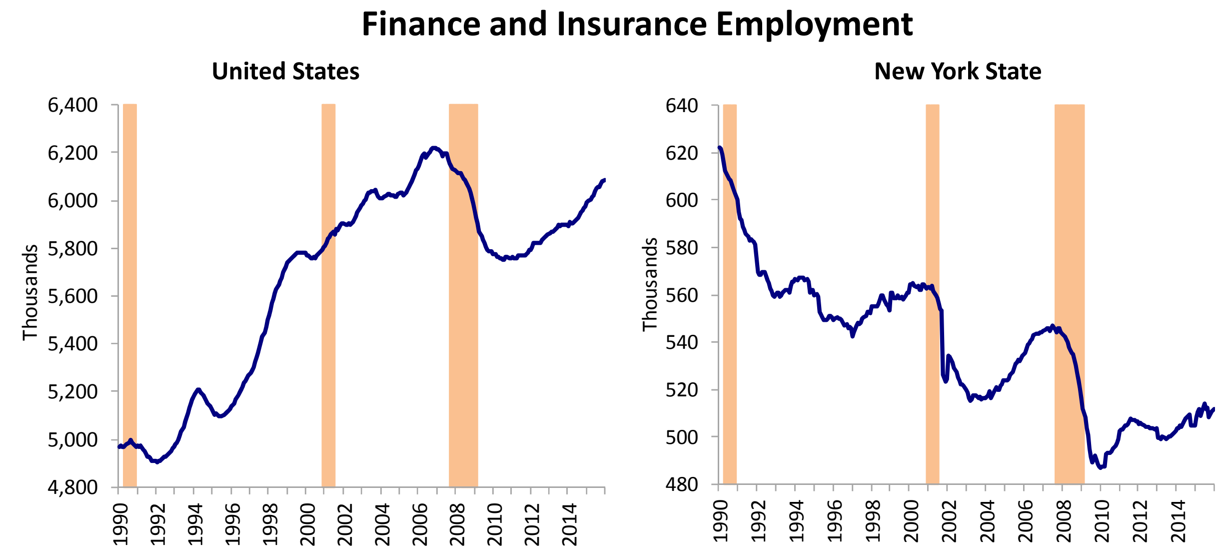


Source: NYS Department of Labor.

Figure 45

While finance and insurance industry employment has increased in the United States since late 2011, the state's industry recovery was only short-lived and has remained relatively flat since 2011 as the industry continued to undergo restructuring (see Figure 46). Although employment seems to have recently stabilized, the industry is unlikely to regain all the jobs lost as a result of the Great Recession during the forecast period. Wall Street firms have reduced their front office head count by over 20 percent since 2011.[35]

[35] Popper, Nathaniel, "Empty Floor at Goldman Puts Change on Display," DealB%k, New York Times, September 21, 2015, http://www.nytimes.com/2015/09/22/business/dealbook/empty-floor-at-goldman-puts-change-on-display.html?emc=edit_dlbkam_20150922&nl=business&nlid=43439216&ref=dealbook&_r=0.



Note: Seasonally adjusted data are monthly through December 2015. Shaded areas represent recessions.
Source: U.S. Bureau of Labor Statistics.

Figure 46

Finance and Insurance Sector Current Outlook

The outlook for the finance industry remains mixed. Profits and revenues, upon which bonus levels were traditionally based, will remain muted compared to pre-recession levels. Trading revenue has slowed over a period of several years. Initial public offering (IPO) activity was very strong in 2014 and this trend continued into the first half of 2015. However, global market volatility led to a significant drop in IPO activities in the third quarter of 2015. IPO volume and proceeds declined forty percent in the third quarter of 2015 from the second quarter.[36] Despite a strong rebound in the fourth quarter of 2015, IPO volume in 2015 dropped twenty-five percent from 2014.[37] On the upside, mergers and acquisition (M&A) activity was solid in 2015. The strong dollar has led to an increase in "outbound" M&A (domestic companies acquiring international companies). The value of worldwide announced mergers and acquisitions totaled $4.7 trillion in 2015, an increase of forty-two percent from 2014.[38]

[36] PWC, "Global Market Volatility Slows IPO Market, According to PWC's Deals Practice," New York, October 6, 2015, http://www.pwc.com/us/en/press-releases/2015/q3-2015-ipo-watch-press-release.html.
[37] Thomson Reuters Deals Intelligence, Global Equity Markets Review, Full Year 2015, http://dmi.thomsonreuters.com/Content/Files/4Q2015_Global_Equity_Capital_Markets_Review.pdf.
[38] Thomson Reuters Deals Intelligence, Mergers and Acquisition Review, Full Year 2015, http://dmi.thomsonreuters.com/Content/Files/4Q2015_Global_MandA_Financial_Advisory_Review.pdf.

Although employment may be stagnant it does not necessarily mean that compensation will fall. Compensation can respond to increased revenues and profits, which may happen even without an increase in staff. Even keeping staff levels unchanged, higher incentive compensation may lead to an overall increase in wages paid within the industry. In addition, many changes that occurred as a result of the Great Recession, including changing compensation practices and stricter regulations are still ongoing.

Real Estate Market

The New York State housing market outperformed the nation during both the housing boom and the housing correction. During the housing boom, home prices in the state rose 65.2 percent from the first quarter of 2001 to the first quarter of 2007, compared to 53.2 percent for the nation (see Table 3). Home price increases in New York were driven largely by downstate and Albany-Schenectady-Troy metro home prices, which almost doubled during this period.

Table 3

Home Price Change by New York State Metropolitan Area (Percent Change)

	2001:Q1-2007:Q1	2007:Q1-2011:Q2	2011:Q2-2015:Q3
Buffalo-Niagara Falls	32.3	4.0	16.1
Rochester	22.2	0.1	9.1
New York-Jersey City-White Plains	89.5	(16.7)	8.3
Nassau-Suffolk	84.9	(13.3)	6.5
Syracuse	38.4	0.7	5.1
Albany-Schenectady-Troy	82.2	(5.2)	2.6
New York State	**65.2**	**(7.3)**	**7.8**
U.S.	**53.2**	**(20.7)**	**24.7**

Note: Data are seasonally adjusted. The FHFA Index presented herein may show different price changes from the S&P/Case-Shiller Index. This is because the two indices use different data. The FHFA Index is based on homes with conforming loans, which have a loan limit of $417,000 for single-family homes. Therefore, the FHFA index does not reflect price changes for more expensive homes.

Source: Federal Housing Finance Agency (FHFA).

Home prices in the state fell at a much slower rate than the nation during the housing correction. From the first quarter of 2007 to the second quarter of 2011, home prices fell 20.7 percent nationally, while home prices in the state declined 7.3 percent. The two metros that had the largest home price depreciation in New York State were the New York-Jersey City-White Plains and Nassau-Suffolk areas, where prices dropped by 16.7 percent and 13.3 percent, respectively. Upstate home prices were less affected by the real estate cycle than downstate. Prices in Buffalo-Niagara Falls, Syracuse, and Rochester continued to modestly appreciate during the housing downturn.

During the recovery, however, home prices in New York State grew much slower than the national average. From the second quarter of 2011 to the third quarter of 2015, home prices grew 24.7 percent nationally, while home prices in New York State grew by only 7.8 percent. Prices in Buffalo-Cheektowaga-Niagara Falls metropolitan area have been growing the fastest in the state during the recovery.

Despite slow home price growth, home sales in the state were strong in 2013 as in the nation. Favorable mortgage interest rates, steady employment growth, and rising rents encouraged people to buy homes. After growing seven percent in 2012, home sales in the state increased 12.6 percent in 2013.[39] Higher sales pushed housing inventory in the state to fall from 9.9 months in 2012 to 7.8 months in 2013, compared to less than five months for the nation.

Activities in the housing market slowed in 2014, as occurred nationwide. Closed sales dropped by 1.3 percent in 2014. Similarly, pending sales and new listings were almost flat during this period.[40] The housing market in the state remained soft in 2015. After growing almost 13 percent in 2014, home sales grew eight percent in 2015, compared to growth of 6.7 percent for the nation. It takes much longer for a seller to sell a home in New York State than the national average. In addition, the supply of homes in the state is much higher than in the nation (see Table 4).

[39] NYS Association of Realtors, "Annual Report on the New York State Market," NYS Association of Realtors, http://www.nysar.com/docs/members-pdfs/nysar_ann_ public_2013_revised.pdf ?sfvrsn=0.
[40] NYS Association of Realtors, "Annual Report on the New York State Market," NYS Association of Realtors, http://www.nysar.com/docs/members-pdfs/nysar_ann_ public_2014_revised.pdf ?sfvrsn=0.

Table 4

U.S. and New York State Housing Market Activities Percent Change From Previous Year		
	United States	New York State
Existing Home Sales (2015)	6.7	8.0
Median Sale Price of Existing Home Sales (December 2015)		
Level	$224,537	$240,700
Change	6.9	7.0
Pending Home Sales (December 2015)	0.1	16.3
Days on Market (December 2015)[1]	58	97
Month Supply of Existing Home Sales (December 2015)[2]	3.9	8.1
1-Unit Structures Building Permits (2015)	6.8	9.8

Note: [1] Data are in days. [2] Data are in months.
Source: New York State Association of Realtors; US. Bureau of the Census; National Association of Realtors.

Although the percentage of mortgage holders in New York State who owe more than their house is worth (negative equity) has remained lower than the nation, the state's ranking has been deteriorating. In addition, the share has declined slower in the state than in the nation. In 2008, negative equity in the state was 4.7 percent, the lowest in nation, compared to 19.8 percent nationwide. This rate fell slightly to four percent in the third quarter of 2015, the tenth lowest in the nation, compared to 8.1 percent in the nation. [41]

The state has also seen increasing foreclosure activities in recent years, with filings in New York increasing in 2013 and 2014, while they declined nationwide.[42] This trend continued into 2015 where foreclosure starts in New York increased 24 percent from a year ago, compared to a decline of three percent for the nation.[43]

The commercial real estate market was strong following the recession. Activities increased sharply in 2013, when overall leasing totaled nearly 26 million square feet, a 10.5 percent increase from 2012.[44] However, as almost four million square feet of new office

[41] Corelogic, "Corelogic's Negative Equity Data Updates," Corelogic, as of September 25, 2015.
[42] RealtyTrac Staff, "1.4 million U.S. Properties with Foreclosure Filings in 2013, Down 26 percent to Lowest Annual Total Since 2007," RealtyTrac, January 13, 2014, http://www.realtytrac.com/content/foreclosure-market-report/2012-year-end-us-foreclosure-report-7963 and RealtyTrac Staff, "1.1 million U.S. properties with foreclosure filing in 2014, down 18 percent from 2013 to the lowest level since 2006," RealtyTrac, January 14, 2015.
[43] RealtyTrac Staff, "Nearly 1.1 Million U.S. Properties with Foreclosure Filing in 2015, Down 3 Percent From 2014 to Nine-Year Low," RealtyTrac, January 12, 2016, http://www.realtytrac.com/news/foreclosure-trends/realtytrac-2015-year-end-u-s-foreclosure-market-report/.
[44] Cushman & Wakefield, "MarketBeat Office Snapshot: Manhattan NY," Q4 2013.

space became available during the year, the overall vacancy rate in Manhattan rose from 9.4 percent in the fourth quarter of 2012 to 11 percent in the fourth quarter of 2013. Leasing activities continued to be strong in 2014, increased by 27.8 percent from 2013 to 32.8 million square feet, the highest level in more than fifteen years. As a result, the overall vacancy rate declined from 11.0 percent in 2013 to 9.3 percent in 2014. [45]

After a solid two years of leasing activity, commercial real estate in the City has softened in 2015. Leasing activity in 2015 totaled 28.2 million square feet, a decline of 14 percent from 2014. This is due mainly to slow leasing activity in the downtown area. Despite slow leasing activity, the overall vacancy rate has continued to fall. The overall vacancy rate fell from 9.3 percent in 2014 to 8.5 percent in 2015, while the direct asking rate increased from $67.70 per square foot per year to $71.58.[46]

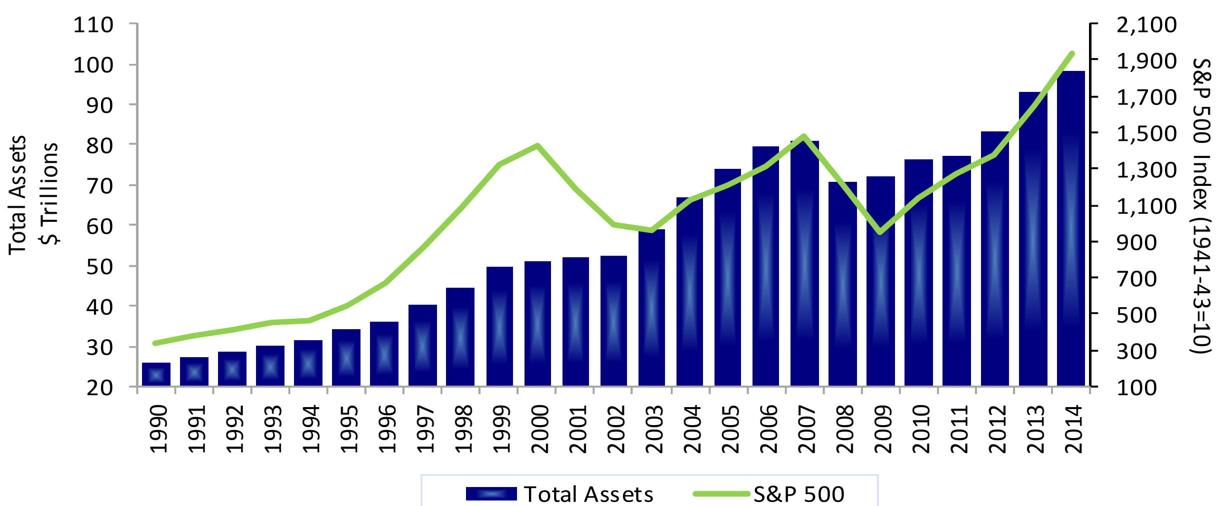
Looking ahead, the office market will likely continue to improve as the City continues to add jobs at a healthy pace. Employment in the key office-using industries, such as professional services, is expected to recover moderately.

[45] Cushman & Wakefield, “MarketBeat Office Snapshot: Manhattan NY,” Q4 2014.
[46] Cushman & Wakefield, “MarketBeat Office Snapshot: Manhattan NY,” Q4 2015.

Capital Gains

The performance of the financial markets usually determines the extent to which capital gains are realized, since capital gains are only realized when the sale price of assets exceeds the purchase price. In recent years, capital gains realizations have been mainly influenced by equity markets (see Figure 47). In 2014, non-financial assets accounted for only thirty percent of total assets, down from over thirty-eight percent in the 1980s.[47] While equity prices have grown significantly after plunging in 2008 and 2009, the real estate market has yet to surpass its pre-crisis peak due to the slow pace of home prices recovery.

Total Assets Held by U.S. Households and Stock Price Index



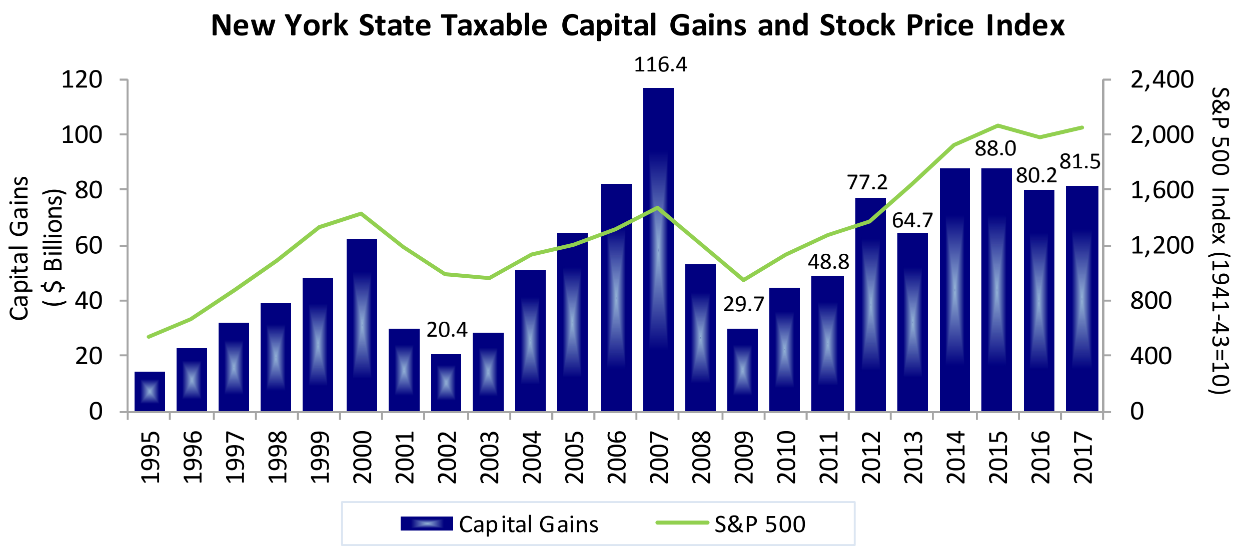
Sources: Federal Reserve; Standard & Poors.

Figure 47

Capital gains were shifted from 2013 to 2012 as a result of an anticipated increase in capital gains taxes in 2013. Therefore, in 2013, capital gains fell 16.3 percent to $64.7 billion as a consequence of the shift, which was tempered somewhat by the resilient performance of equity markets (see Figure 48). Historically, investors capitalized on gains in anticipation of higher future tax rates. In addition, corporate equity prices and mutual fund share prices grew

[47] Financial assets include deposits such as checkable deposits and currency and money market fund shares; credit market instruments such as Treasury securities, municipal securities; corporate and foreign bonds; corporate equities; mutual funds shares; security credit; life insurance reserves; pension entitlements; and equity in incorporate business. Nonfinancial assets include real estate, equipment, intellectual property products, and consumer durable goods.

strongly. Hence, taxable capital gains are estimated to have grown 35.2 percent to $87.5 billion in 2014, reflective of higher equity prices and the tapering of the shift.



Note: Data for 2014 are estimated; 2015, 2016, and 2017 are forecasts.
Sources: Standard & Poors; NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committee staff.

Figure 48

In 2015 and in 2016, steady increases in home prices will likely contribute more to capital gains than in the past few years. However, the performance of the stock market slowed in 2015 and is expected to fall in 2016. Against this backdrop, net capital gains are projected to have grown 0.6 percent to $88.0 billion in 2015. Capital gains realizations are projected to decline by 8.8 percent to $80.2 billion in 2016, and then increase 1.5 percent to $81.5 billion in 2017.

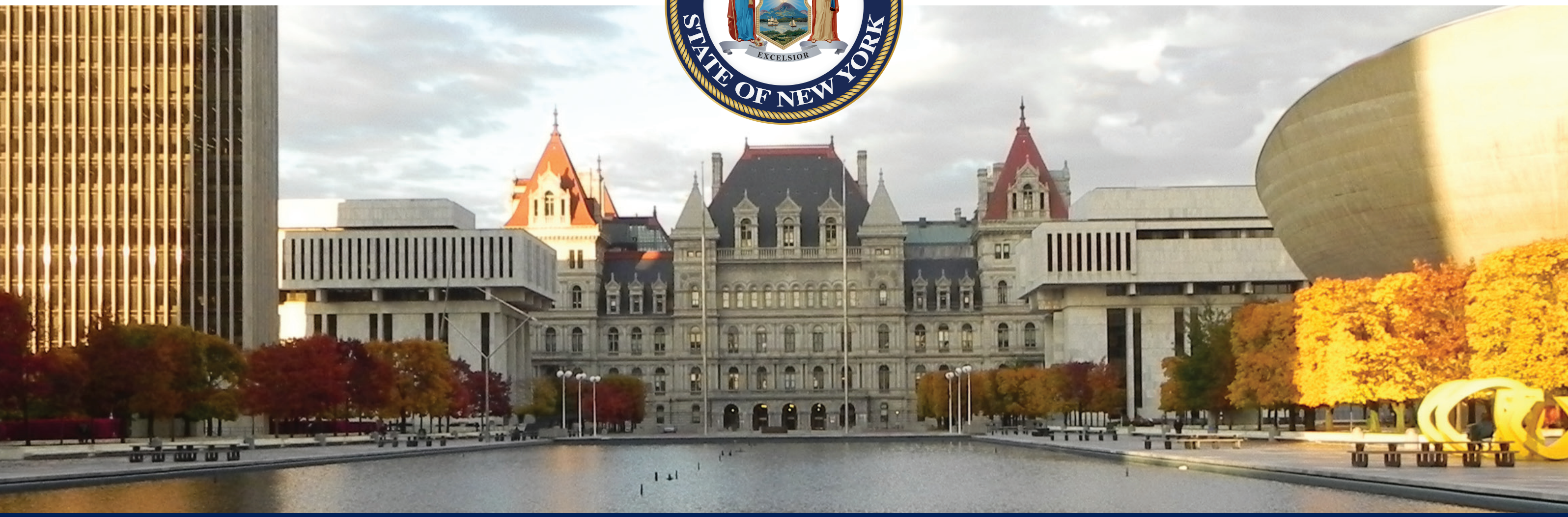
RISKS TO THE FORECAST

In general, the pace of the recovery has been slower than expected, and the risks to the economic outlook remain on the downside. Unforeseeable risks such as abnormal weather or adverse geopolitical developments persist in the current economic environment. In addition to unanticipated risks, problems that were central to the last recession continue—although with less severity. These issues include lack of stronger growth in the single-family housing market, weakness in key business sectors, uncertainty in the financial markets, and lack of robust growth in wages and other labor market indicators. If these areas were to worsen the impact on the outlook would be significant, because these factors are crucial to consumer spending growth, which is the main driver of economic growth currently.

Government policies also add uncertainty to the forecast. Issues surrounding federal fiscal policy and future deficit increases present a downside risk to the economy. In addition, potential political developments could impose uncertainty into the economic outlook. Federal Reserve actions on monetary policy are also adding uncertainty to the outlook. In particular, a bumpy exit from Quantitative Easing and the transition to tighter U.S. monetary policy pose increased downside risk to both developing and advanced economies. Also, there is some element of uncertainty introduced by the expected increases in interest rates after having been kept artificially low for such an extended period.

The health of the global economy is also of concern. Although the debt crisis in Europe appears to have eased, issues still remain, including the move to negative interest rates in much of Europe not having the desired effects. Also, sluggish European economic activity, and the recent weakening in economic growth outlooks in both China and several emerging economies poses significant downside risks to the economic outlook for the U.S. and world economies. If the global economy were not to continue to recover as assumed, the ability of the United States economy to grow would be impacted. In addition to global economic growth, other global issues add uncertainty to the outlook, including unrest in the Middle East, political schisms opening in Europe following the migrant crisis, and other geopolitical issues. Furthermore, the extreme volatility in oil prices adds further risk to the forecast.

The current economic climate presents particular challenges and risks to the New York State forecast. Wall Street and the financial markets play a central role in the state economy, and drastic cuts to or changes in the composition of Wall Street compensation (including bonuses) and the resulting reductions in Wall Street tax revenues would have critical implications for the economic and fiscal health of the state. However, faster-than-expected growth for Wall Street activities offers some upside potential for the forecast.



Revenue Forecast

REVENUE FORECAST

Overview – Revenue Summary

State Fiscal Year 2015-16

All Funds Revenues

All Funds revenues are estimated to total $153.915 billion in State Fiscal Year (SFY) 2015-16 for growth of 3.2 percent or a year-to-year increase of $4.806 billion largely attributable to strong personal income tax collections.

All Funds Tax Receipts

The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for SFY 2015-16 is $75.257 billion, representing an increase of 5.9 percent or $4.223 billion over the prior year. (See Table 5.)

The majority of the increase in tax receipts is in the personal income tax (PIT), which is estimated to increase by $3.437 billion or 7.9 percent. Also contributing to the year-over-year increase are user taxes which are estimated to increase by 1.9 percent or $286 million. Business taxes are expected to decrease by $31 million or 0.4 percent. Other taxes are estimated to increase by $532 million or 15.5 percent. Lottery receipts are estimated to total $3.283 billion, an increase of $186 million or six percent, while all other Miscellaneous Receipts are estimated to reach $23.046 billion, a decrease of $3.295 billion or 12.5 percent as receipts return to a trend collection pattern following the sharp increase in SFY 2014-15 due to financial settlements.

The committee staff's All Funds tax revenue estimate is $174 million above the Executive's revenue estimate. In terms of specific state tax revenues, the largest difference is in business taxes, which are estimated to be $67 million above Executive estimates.

Table 5

SFY 2015-16 All Funds Forecast Summary ($ in Millions)	2014-15 Actual	2015-16 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$43,709	$47,146	$3,437	7.9%	$53
User Taxes	15,384	15,670	286	1.9%	30
Business Taxes	8,504	8,473	(31)	-0.4%	67
Other	3,437	3,969	532	15.5%	25
Total Tax Collections	**$71,034**	**$75,257**	**$4,223**	**5.9%**	**174**
All Funds Misc Rpts	26,341	23,046	(3,295)	-12.5%	14
Lottery	3,097	3,283	186	6.0%	(18)
Total w/Misc Rpts & Lottery	**$100,472**	**$101,587**	**$1,114**	**1.1%**	**$171**
Federal Funds	48,636	52,328	3,692	7.6%	-
Total All Funds Receipts	**$149,108**	**$153,915**	**$4,806**	**3.2%**	**$171**

* Totals may not add up due to rounding

Since 2009, the state has enacted significant tax law changes to stabilize the financial plan, as well as to provide tax relief to middle class families. These actions include: the 2009 tax surcharge for high-income earners, the December 2011 personal income tax (PIT) tax reform and the extension of the reform's key provisions with the 2013 budget. In addition, the 2014 and 2015 budgets included substantial tax relief for property taxpayers, as well as corporate and estate tax reforms.

Absent various tax law changes, SFY 2015-16 tax revenues would have been $3.5 billion lower than estimated. This total represents the *net* impact of various Legislative changes that increase receipts such as the personal income tax reform, closing of personal and corporate income tax loopholes, deductions limitations versus changes that reduce receipts such as corporate tax reform and property tax relief.

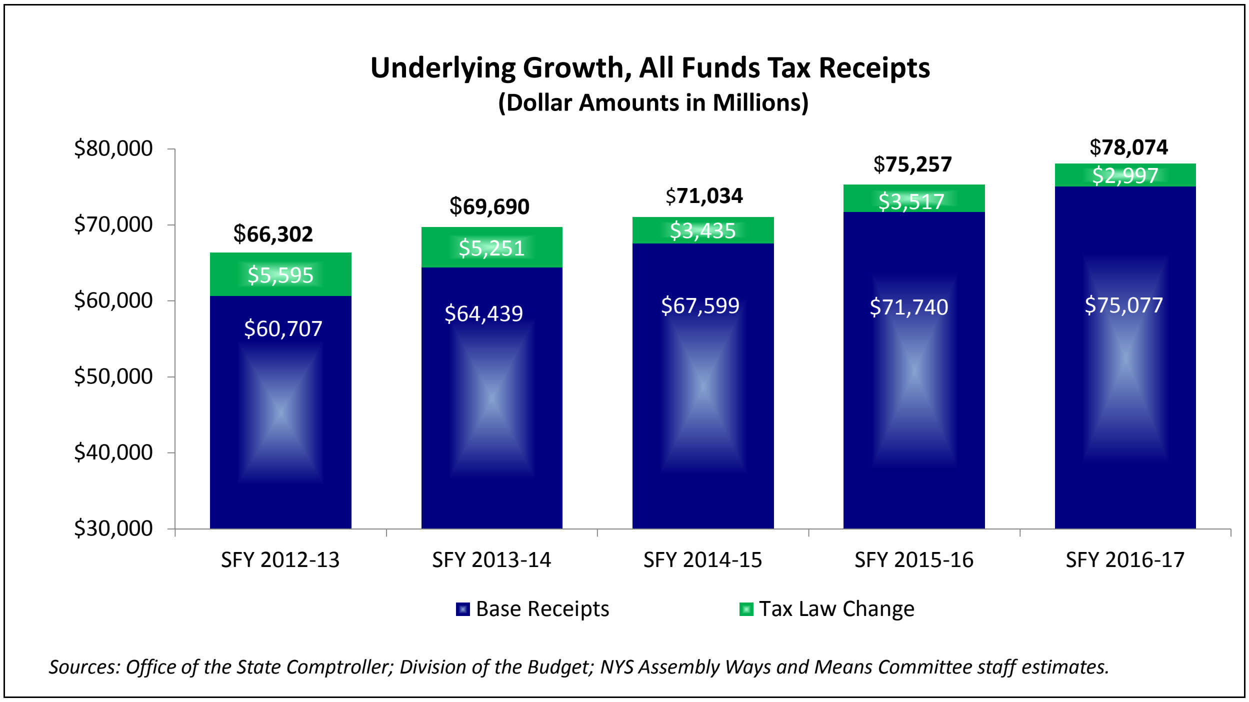
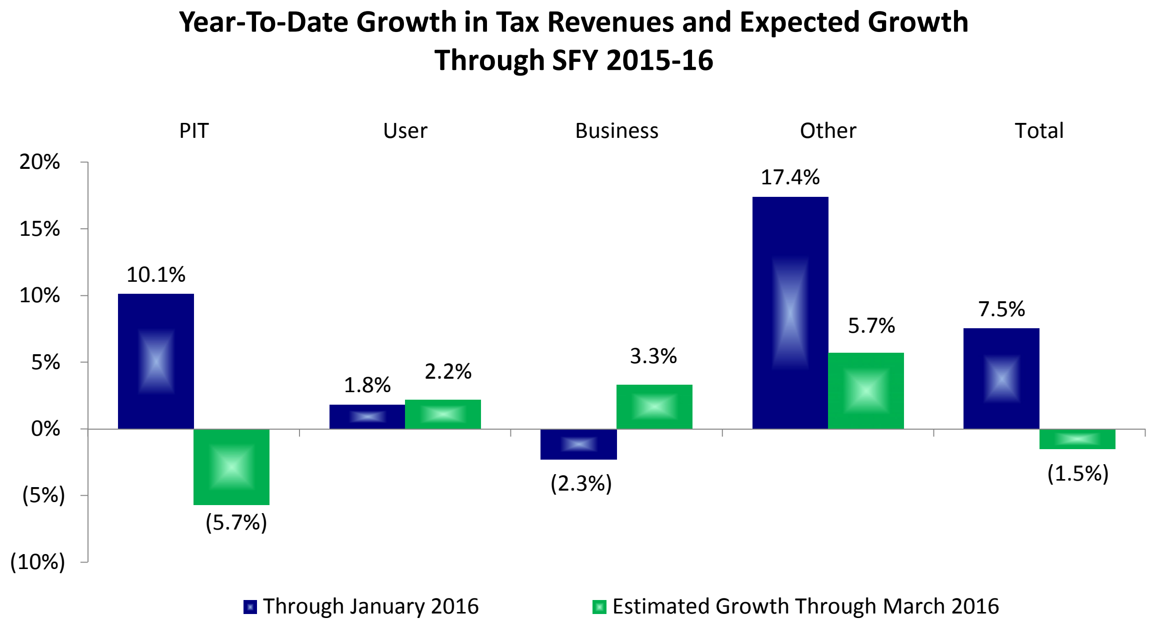


Figure 49

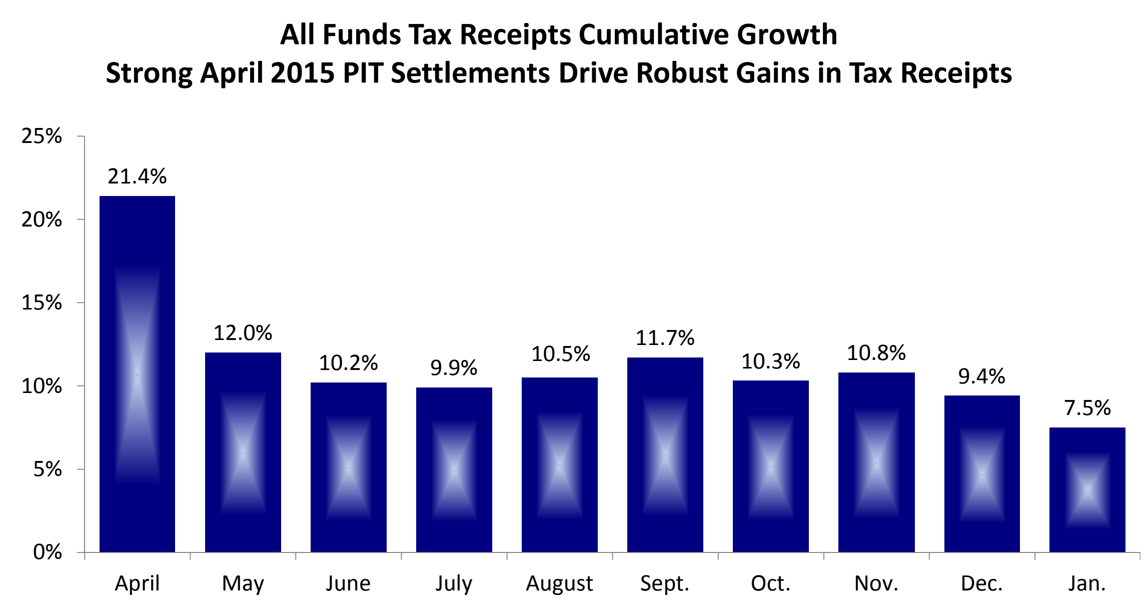
Year-to-Date (YTD) Tax Analysis

The committee staff's tax revenue estimates for SFY 2015-16 are based on year-to-date collections and historical collections patterns. Through the first ten months of the current fiscal year, All Funds tax revenues are up 7.5 percent (see Figure 50). This is largely attributable to the large increase in PIT settlements in April 2015. This is a reflection of the large decline in April 2014 extensions as taxpayers shifted capital gains income to 2012 in anticipation of higher federal income tax rates in 2013.



Source: Office of the State Comptroller, NYS Assembly Ways and Means Committee staff estimates.

Figure 50



Source: Office of the State Comptroller.

Figure 51

Supporting the PIT extension payments increase is withholding year-to-date growth of 4.2 percent. Capital gains, a key driver of estimated payments, are expected to have increased by 0.6 percent in 2015. User taxes are up 1.8 percent. Overall tax collections growth is expected to decelerate as the year concludes. Tax collections are expected to decrease by 1.5 percent over the last two months of the fiscal year.

Figure 51 shows the robust year-to-date growth in All Funds tax receipts, although the sharp increase in the April 2015 PIT settlements is expected to dissipate further.

Personal Income Taxes

The committee staff estimates that PIT receipts will total $47.146 billion in SFY 2015-16, representing growth of 7.9 percent or $3.437 billion over last year. Gross receipts are expected to increase by 8.7 percent driven by a significant increase in extension payments. Withholding is estimated to increase by $1.814 billion or 5.2 percent. Total refunds are anticipated to increase 12.7 percent or $1.086 billion.

Overall, net personal income taxes have totaled $41.242 billion year-to-date, an increase of 10.1 percent, and are estimated to decrease by 5.7 percent in the last two months of the year to reach SFY 2015-16 estimates.

Significant downside risks remain in the staff's PIT forecast. Bonus payments are typically volatile from year-to-year. If bonuses are lower, net personal income tax collections will be lower.

User Taxes

User taxes are estimated to total $15.670 billion in SFY 2015-16, an increase of 1.9 percent or $286 million. Sales tax revenue is estimated to increase by $340 million or 2.6 percent in SFY 2015-16.

Through the first ten months of the fiscal year, sales tax revenues are up 2.6 percent. Collections over the remainder of the year are expected to increase by 2.8 percent. Cigarette tax receipts experienced a 6.2 percent decline through the first ten months of the year and are estimated to finish the year with a 6.2 percent decline.

Business Taxes

Through the first ten months of the fiscal year, business taxes have decreased 2.3 percent and an increase of 3.3 percent is expected in the remainder of the fiscal year. Corporate tax receipts, which include bank tax receipts, have increased by 63.5 percent year-to-date while the petroleum business tax (PBT) has declined by 3.6 percent as PBT rates were reduced due to declining oil prices. (See Table 6.)

Overall, business taxes are estimated to post a decline of 0.4 percent or $31 million below SFY 2014-15. The committee staff accepts the Executive's assumptions with regard to audit collections, as well as the impact of recent tax law changes.

Other Taxes

Through January, real estate transfer tax (RETT) receipts are up 12.3 percent or $107 million over the same year-to-date period in SFY 2014-15 as the real estate market in New York, especially in New York City, continues to experience solid gains. Thus, RETT collections are estimated to finish SFY 2015-16 with growth of 12.2 percent or $127 million over SFY 2014-15. MTA payroll tax collections are estimated to have fiscal year growth of 2.6 percent.

Estate and gift taxes collections are at $1.346 billion year-to-date, up 37.7 percent over the same period last year following collections from several large estates. With an expected 2.3 percent increase in the next two months, estate and gift tax revenues are expected to increase 33.5 percent for the full fiscal year.

Lottery

Through the first ten months of SFY 2015-16, total lottery revenues are up $137 million or 6.2 percent. The committee staff anticipates an overall fiscal year increase of 6.0 percent for a total of $3.283 billion.

General Fund Receipts 2015-16

The committee staff estimates that General Fund taxes, before transfers, will generate $46.581 billion, reflecting a gain of 6.9 percent or $3.012 billion over SFY 2014-15. When including transfers, miscellaneous receipts and federal grants, General Fund receipts are estimated to be $70.447 billion, representing growth of $2.526 billion or 3.7 percent. This estimate is $153 million above the Executive's Budget estimate.

Revenue Table, Current Fiscal Year 2015-16

Table 6

All Funds Collections SFY 2015-16
($ in Millions)

	2014-15 Actual	2015-16 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$43,709**	**$47,146**	**$3,437**	**7.9%**	**$53**
Gross Receipts	**52,248**	**56,771**	**4,523**	**8.7%**	**52**
Withholding	34,907	36,721	1,814	5.2%	15
Estimated Payments	13,743	16,105	2,362	17.2%	17
Vouchers	10,367	11,565	1,198	11.6%	20
IT 370s	3,376	4,541	1,164	34.5%	(3)
Final Payments	2,206	2,640	434	19.7%	7
Delinquencies	1,392	1,305	(88)	-6.3%	13
Total Refunds	**8,539**	**9,625**	**1,086**	**12.7%**	**(1)**
Net Collections	**43,709**	**47,146**	**3,437**	**7.9%**	**53**
User Taxes and Fees	**15,384**	**15,670**	**286**	**1.9%**	**30**
Sales and Use Tax	12,991	13,331	340	2.6%	13
Motor Fuel Tax	487	491	4	0.8%	-
Cigarette Tax	1,314	1,232	(82)	-6.2%	8
Highway Use	140	157	17	11.8%	3
Alcoholic Beverage Tax	251	258	7	2.7%	4
Medical Marihuana		1	1		-
Auto Rental Tax	119	127	8	6.7%	1
Taxi Surcharge	82	74	(8)	-10.0%	2
Business Taxes	**8,504**	**8,473**	**(31)**	**-0.4%**	**67**
Corporate Franchise	3,548	5,131	1,583	44.6%	62
Utility Tax	728	769	41	5.6%	2
Insurance Tax	1,533	1,554	21	1.4%	(3)
Bank Tax	1,536	(92)	(1,628)	-106.0%	-
Petroleum Business Tax	1,159	1,112	(47)	-4.0%	7
Other Taxes	**3,437**	**3,969**	**532**	**15.5%**	**25**
Estate and Gift	1,109	1,480	372	33.5%	34
Real Estate Transfer	1,038	1,165	127	12.2%	18
Pari Mutuel	18	17	(1)	-6.1%	(1)
Payroll Tax	1,271	1,304	33	2.6%	(27)
Total All Funds Taxes	**71,034**	**75,257**	**4,223**	**5.9%**	**174**
All Funds Misc. Receipts	26,341	23,046	(3,295)	-12.5%	14
Lottery	3,097	3,283	186	6.0%	(18)
Total Taxes with Lottery & Misc. Receipts	**100,472**	**101,587**	**1,114**	**1.1%**	**171**
Federal Funds	48,636	52,328	3,692	7.6%	-
Total All Funds Receipts	**$149,108**	**$153,915**	**$4,806**	**3.2%**	**$171**

* Totals may not add up due to rounding

State Fiscal Year 2016-17

Key economic indicators point to an ongoing albeit slow recovery. The committee staff predicts that Gross Domestic Product (GDP) will register growth of 2.1 percent in 2016, below the 2.4 percent rate in 2015. In addition, job gains are expected to continue at a modest pace.

All Funds Revenues

The committee staff expects All Funds revenue to contract 0.3 percent for a total of $153.469 billion in SFY 2016-17. This is $552 million above the Executive's revenue estimate. Lottery receipts are forecast to decline by one percent whereas all other Miscellaneous Receipts are forecast to decline by 8.8 percent.

All Funds Tax Receipts

The committee staff expects 3.7 percent growth in All Funds tax receipts in SFY 2016-17, for a total of $78.074 billion, reflecting the ongoing economic recovery. The committee staff forecast is $449 million above the Executive's Budget forecast. The committee's net personal income tax (PIT) forecast is $335 million above the Executive's PIT forecast. (See Table 7.)

Table 7

SFY 2016-17 All Funds Revenue Forecast Summary
($ in Millions)

	2015-16 Estimate	2016-17 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$47,146	50,295	$3,150	6.7%	$335
User Taxes	15,670	16,153	483	3.1%	18
Business Taxes	8,473	8,083	(390)	-4.6%	65
Other	3,969	3,543	(426)	-10.7%	31
Total Tax Collections	**75,257**	**78,074**	**2,817**	**3.7%**	**449**
All Funds Misc Rpts	23,046	21,011	(2,035)	-8.8%	41
Lottery	3,283	3,251	(32)	-1.0%	62
Total w/Misc Rpts & Lottery	**$101,587**	**102,336**	**750**	**0.7%**	**$552**
Federal Funds	52,328	51,133	(1,195)	-2.3%	-
Total All Funds Receipts	**$153,915**	**$153,469**	**($445)**	**-0.3%**	**$552**

* Totals may not add up due to rounding

Personal Income Taxes

Overall, personal income taxes, the largest component of tax collections, are forecast to total $50.295 billion, which is $3.150 billion or 6.7 percent above the SFY 2015-16 estimates. Withholding growth is forecast at 5.6 percent as wages in SFY 2016-17 are expected to register growth of 4.7 percent.

User Taxes

All Funds user taxes are forecast to total $16.153 billion, 3.1 percent above the current year estimates. This forecast reflects staff projections that the economic recovery will continue and consumer spending growth will remain relatively strong.

Business Taxes

Business taxes are forecast to total $8.083 billion in SFY 2016-17, which is a decline of 4.6 percent from the current year closeout on an All Funds basis. The corporate franchise tax is expected to decline by 11.3 percent or $580 million. This reflects a return to trend growth following the merger of the corporate and the bank tax, as well as the impact of corporate reform.

Other Taxes

Other taxes, which consist primarily of the estate tax, real estate transfer tax, and the MTA payroll tax, are forecast to decrease by 10.7 percent in SFY 2016-17, to a level of $3.543 billion. The decline is attributed to a 32.8 percent decline in the estate tax following the sharp increase in SFY 2015-16.

Lottery

Lottery receipts are forecast to decline one percent or $32 million in SFY 2016-17 to a total of $3.251 billion.

General Fund Receipts 2016-17

In SFY 2016-17, the committee staff forecasts that General Fund taxes will be $48.515 billion, an increase of $1.935 billion or 4.2 percent from the prior year. This estimate is $422 million above the Executive's estimate. When including transfers, miscellaneous receipts and federal grants, General Fund receipts are forecast to be $69.212 billion, representing a decline of $1.235 billion or 1.8 percent from the SFY 2015-16 estimates. This forecast is $429 million above the Executive's estimate.

Revenue Table, Upcoming Fiscal Year 2016-17

Table 8

All Funds Collections SFY 2016-17 ($ in Millions)	2015-16 Estimate	2016-17 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$47,146**	**$50,295**	**$3,150**	**6.7%**	**$335**
Gross Receipts	**56,771**	**59,570**	**2,800**	**4.9%**	**376**
Withholding	36,721	38,777	2,056	5.6%	252
Estimated Payments	16,105	16,660	555	3.4%	69
Vouchers	11,565	12,075	510	4.4%	30
IT 370s	4,541	4,585	45	1.0%	39
Final Payments	2,640	2,761	121	4.6%	41
Delinquencies	1,305	1,372	68	5.2%	14
Total Refunds	**9,625**	**9,275**	**(350)**	**-3.6%**	**41**
Net Collections	**47,146**	**50,295**	**3,150**	**6.7%**	**335**
User Taxes and Fees	**15,670**	**16,153**	**483**	**3.1%**	**18**
Sales and Use Tax	13,331	13,876	545	4.1%	(1)
Motor Fuel Tax	491	495	4	0.9%	7
Cigarette Tax	1,232	1,227	(5)	-0.4%	1
Highway Use	157	84	(73)	-46.4%	0
Alcoholic Beverage Tax	258	264	6	2.5%	6
Medical Marihuana	1	4	3	300.0%	-
Auto Rental Tax	127	130	3	2.4%	2
Taxi Surcharge	74	72	(2)	-2.0%	2
Business Taxes	**8,473**	**8,083**	**(390)**	**-4.6%**	**65**
Corporate Franchise	5,131	4,551	(580)	-11.3%	64
Utility Tax	769	766	(3)	-0.4%	4
Insurance Tax	1,554	1,480	(74)	-4.8%	(5)
Bank Tax	(92)	203	295	-320.7%	-
Petroleum Business Tax	1,112	1,084	(28)	-2.5%	2
Other Taxes	**3,969**	**3,543**	**(426)**	**-10.7%**	**31**
Estate and Gift	1,480	994	(486)	-32.8%	29
Real Estate Transfer	1,165	1,162	(3)	-0.3%	24
Pari Mutuel	17	18	1	5.9%	-
Payroll Tax	1,304	1,366	62	4.7%	(22)
Total All Funds Taxes	**75,257**	**78,074**	**2,817**	**3.7%**	**449**
All Funds Misc. Receipts	23,046	21,011	(2,035)	-8.8%	41
Lottery	3,283	3,251	(32)	-1.0%	62
Total Taxes with Lottery & Misc. Receipts	**101,587**	**102,336**	**750**	**0.7%**	**552**
Federal Funds	52,328	51,133	(1,195)	-2.3%	-
Total All Funds Receipts	**$153,915**	**$153,469**	**($445)**	**-0.3%**	**$552**

* Totals may not add up due to rounding

Risks to the Revenue Forecast

With economic uncertainty and weaknesses manifesting on a series of fronts – such as tepid growth in the housing sector, financial and fiscal policy uncertainty, and weakness in a variety of business investment indicators - the national and state recoveries remain fragile. While all tax revenues would suffer if the economic recovery slows, or if the economy enters a recession, personal income tax receipts tied to the Wall Street bonus season are particularly vulnerable. Although the committee staff estimates that variable wages will increase by 7.2 percent in SFY 2016-17, the actual rate could be lower as financial firms continue to lower their "set-aside" for compensation.

As mentioned in the risks to the overall economy section, the balance of global and domestic economic trends point to a growing probability of a national recession. While our baseline revenue forecast calls for continuing growth in tax receipts, the possibility of a severe slowdown in revenues needs to be evaluated. During the Great Recession, net PIT receipts barely increased by 0.8 percent in SFY 2008-09 while withholding declined by 2.7 percent or a loss of $754 million over SFY 2007-08. Sales tax receipts declined by 2.8 percent or a loss of $311 million over the same period; whereas corporate tax receipts, a highly volatile tax source, declined by 19.4 percent or a loss of $777 million.

Executive Revenue Actions

EXECUTIVE REVENUE ACTIONS

Personal Income Taxes

- The Executive proposes a **non-refundable tax credit** equal to 75 percent of the amount donated to **educational entities**. Additionally, this proposal would provide for scholarships for students from families earning less than $250,000 annually, and would also create a credit with a cap of $200 for teachers that purchase instructional materials and supplies. The Executive also proposes a family choice credit for tuition expenses to both public and non-public schools worth up to $500 for taxpayers earning less than $60,000 annually.

- The Executive proposes to **reduce taxation for small businesses** filing under the personal income tax by allowing them to subtract 15 percent of their business income from their federal adjusted gross income for New York State and New York City taxation purposes. In addition, it will expand the definition of businesses eligible for the small business deduction to include LLCs, partnerships or S corporations. The proposal would also reduce the entire net income tax rate from 6.5 percent to four percent for small corporate franchise tax filers.

- The Executive proposes to make permanent the **Earned Income Tax Credit** provisions that apply to **non-custodial parents**.

- The Executive proposes to extend the **credit for companies who provide transportation to individuals with disabilities** for six years. The credit is available to businesses that incur costs for upgrades to make the vehicle accessible to people with disabilities or that purchase certain new taxicab or livery service vehicles that are accessible to those with disabilities. The credit is limited to $10,000 per vehicle.

- The Executive proposes to enhance **tax preparer compliance** by increasing requirements and penalties, as well as making the **electronic filing mandate** of 2008 permanent. This proposal would also make permanent the ability of the Commissioner to require vendors that are not compliant with the tax law to maintain segregated accounts for sales tax collections.

- The Executive proposes to make permanent the **provisions** requiring taxpayers to disclose certain transactions related to **sheltering income** from taxation.

- The Executive proposes to allow a non-refundable **tax credit for the NYS Thruway tolls** paid by qualifying taxpayers through individual or business E-Z Pass accounts for tax years 2016, 2017 and 2018.

School Tax Relief (STAR)

- The Executive proposes to gradually **convert the School Tax Relief (STAR)** program from a real property tax exemption benefit, **to a Personal Income Tax (PIT)** credit. Enactment of this proposal would close the existing STAR exemption program to new applicants. Current recipients of STAR exemptions would be permitted to keep their exemptions as long as they continue to own their current homes, but they could choose to receive a PIT credit instead.

- The Executive proposes to **convert the New York City STAR Credit** used to offset the NYC PIT **into a New York State PIT credit**.

- The Executive proposes to **eliminate the growth of Basic and Enhanced STAR benefits** beginning with the 2016-2017 school year. Under current law, STAR savings may grow up to two percent.

- The Executive proposes to make participation in the **STAR Income Verification Program** (IVP) mandatory for senior citizens wishing to receive the Enhanced STAR benefit or the senior citizens exemption.

- The Executive proposes to make it possible for seniors who qualify for the **Enhanced STAR exemption** or the **Senior Citizens Exemption** to receive an **extension to the filing deadline** if they failed to timely file their exemption renewal applications due to hardship or any other good cause.

- The Executive proposes to allow the Commissioner of Taxation and Finance to directly **reimburse a STAR-eligible property owner** when the property owner did not receive the STAR tax savings to which he or she was entitled due to an administrative error.

- The Executive proposes language that would provide a uniform timeframe for **administering the STAR recoupment program**.

Consumption and Use Taxes

- The Executive proposes to **expand jeopardy assessments to the cigarette and tobacco tax**. This proposal would allow the assessment of excise tax on cigarette and tobacco products prior to either the filing of a return or prior to the deadline to file a return should collection of the excise tax be jeopardized by delay. The taxpayer would be required to pay the assessment upon notice.

- The Executive proposes to **simplify the taxation of remarketed rooms**. Currently, room remarketers are required to collect state and local sales tax as well as New York City's hotel room occupancy tax on hotel room occupancies they sell. However, room remarketers are eligible to receive a credit or refund against taxes paid on resold rooms. This proposal would exempt room remarketers from paying sales tax on hotel rooms purchased from hotel operators if resold.

- The Executive proposes to **amend state and local tax law for consistency with federal tax regulations on aviation fuel**. Petroleum business tax revenues received from the sale of aviation fuel would be deposited into an aviation purpose account. Monies from such account would be dedicated to airport improvement projects. The sale of fuel for the use of commercial and general aviation aircraft would not be subject to the prepayment of sales tax required for motor fuels. Additionally, fuel used for the purpose of commercial and general aviation aircraft would be exempt from the local sales tax.

- The Executive proposes to **extend for five years the current tax exemptions on the alternative fuels** E85, CNG, hydrogen, and B20, which are set to expire on September 1, 2016. This proposal would extend the alternative fuel exemptions from motor fuel taxes, petroleum business taxes, fuel use taxes, and state and local sales and compensating use taxes.

- The Executive proposes to **reduce the highway use tax registration/decal fee** from $19 to $1.50, effective April 1, 2016.

- The Executive proposes language that would **clarify that secrecy provisions related to the medical marihuana legislation** do not prevent the Department of Taxation and Finance from reporting information necessary to distribute tax receipts.

- **Transportation and Economic Development Article VII:** The Executive proposes to **license and regulate professional mixed martial arts** in the state of New York. Gross receipts from ticket sales would be taxed at a rate of 8.5 percent. The sum of gross receipts from broadcasting rights and gross receipts from digital streaming over the internet would be taxed at a rate of three percent, not to exceed $50,000 for any match or exhibition.

Business Taxes

- The Executive proposes **technical corrections to the state and New York City corporate tax**. The proposal would correct cross-references in the Tax Law that were not addressed in corporate tax reform as well as correct typographical errors in Article 9-A.

- The Executive proposes to **extend the beer production credit** under the corporate franchise tax and the personal income tax to include cider, wine, and liquor production. This proposal would also **extend the sales and use tax exemption on items used during a tasting** held by a producer of alcoholic beverages.

- The Executive proposes to **extend the sunset dates for the corporate and personal income tax credits for purchasing bioheat** until January 1, 2020. This proposal would also change the minimum biodiesel fuel qualification for the corporate and personal income tax credits to at least six percent biodiesel per gallon. By implementing a minimum biodiesel percentage, the bill would exclude from the credit heating fuels that are already commonly available.

- The Executive proposes to authorize any **unawarded Excelsior tax credits** remaining at the end of 2024 to be allocated in taxable years 2025–2029. However, the aggregate statutory cap may not be exceeded, and no tax credits may be allowed for taxable years beginning on or after January 1, 2030.

- The Executive proposes to **extend the Hire-a-Veteran credit** for an additional two years through tax year 2018.

- The Executive proposes to **increase the aggregate amount of low-income housing tax credits** the Commissioner of Housing and Community Renewal may allocate annually from $64 million to $104 million, in $8 million increments annually for the next five fiscal years.

- The Executive proposes to **extend the Empire State Commercial Production Tax Credit** for two years through tax year 2018. Statewide, up to $7 million in credits are available annually through the program to encourage qualified production companies to produce commercials in the state. The credit will be allocated as follows: $3 million for companies producing commercials downstate; $3 million upstate; and an additional $1 million for companies that demonstrate incremental growth in commercial production.

- **ELFA Article VII:** The Executive proposes to authorize **additional tax credits** to be allocated in 2016 and 2017 to employers participating in the **Urban Youth Jobs program** and expand the program statewide. Under this proposal, $50 million will be allocated in each of 2016 and 2017, of which $10 million in each year may be allocated anywhere in the state outside current law localities.

Other Revenue Proposals

- The Executive proposes to **conform certain New York City and New York State tax filing deadlines** to those at the federal level.

- The Executive proposes to **bring domicile determination for estate taxes in line with that for the personal income tax**. This proposal would prohibit charitable contributions and activities from being considered when determining domicile.

- The Executive proposes to provide **permanent property tax benefits to structures used for anaerobic digestion of agricultural waste that generate electricity**.

- The Executive proposes to **remove restriction for Morrisville College to be a single equine lab testing provider** and modify requirements for horsemen to contribute to equine steroid testing. The Gaming Commission would have the discretion to determine a laboratory suitable for testing, and would no longer be limited to a state university within the state with an approved equine science program.

- The Executive proposes to **increase Video Lottery Terminal purse enhancements** from 1 to 1.6 percent and the racing regulatory fee 0.5 to 0.6 percent.

- The Executive proposes to **adjust timing of reimbursement to the Gaming Commission of per diem costs for harness racing judges and starters**. The Gaming Commission would be required to notify a licensed racing corporation of the per diem costs for a harness racing associate judge and starter within sixty days of the end of each month when actual costs are known, rather than at the beginning of such month.

- The Executive proposes to provide an **additional commission for certain video lottery terminal facilities**. An additional commission would be provided to video lottery terminal facilities located in a county within a region where a gaming facility is operating in a county within a neighboring region. A video lottery terminal facility, following one year of operation of a licensed gaming facility, would be subject to a blended tax rate comparable to a licensed gaming facility.

- The Executive proposes to **extend for one year the Monticello video lottery terminal** facility eligibility for a higher commission rate in exchange for opting out of the capital awards program.

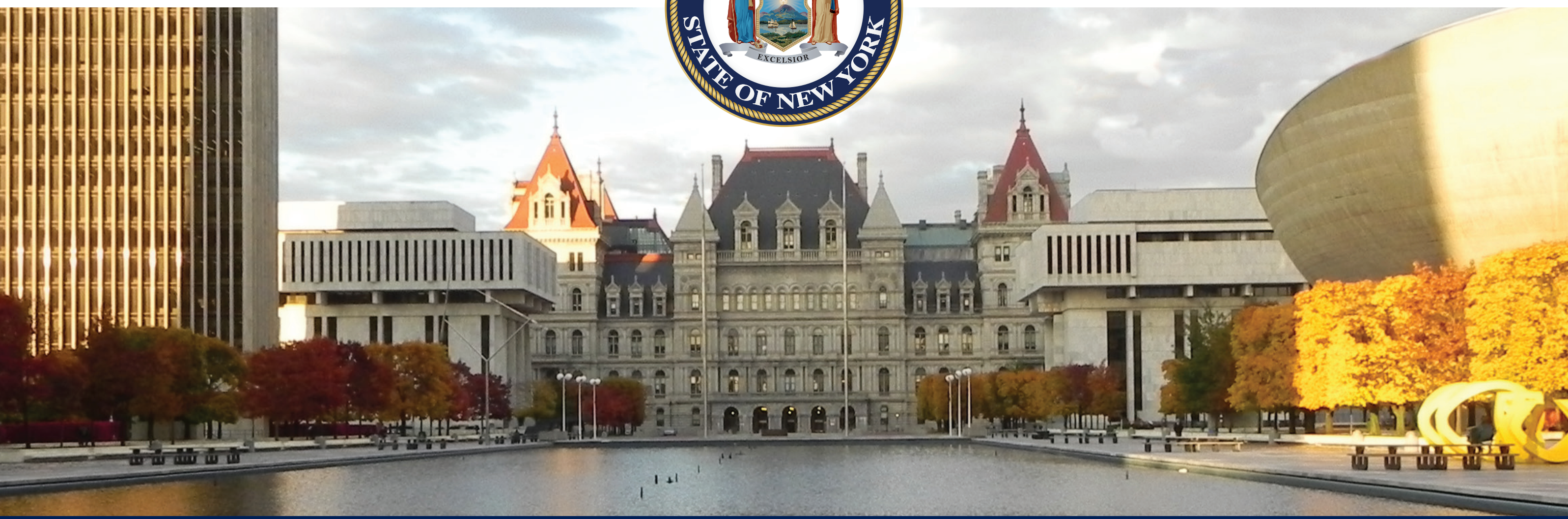
- The Executive proposes to **extend certain racing and pari-mutuel wagering tax rates** and simulcasting provisions for one year.

- The Executive proposes to **extend the Video Lottery Gaming (VLG) vendor's capital awards**. The deadline to receive approval for capital projects to be reimbursed and the deadline to complete such projects would be extended for an additional year.

- The Executive proposes **technical amendments to the Upstate New York Gaming and Economic Development Act** with respect to payments made by a gaming facility to municipalities and video lottery terminal facilities. Under this proposal, the host county and host municipality would receive community payments from the revenue generated from such gaming facility located in the host communities. Video lottery terminal facilities located in the same region as a licensed gaming facility will only receive additional commission from the gaming facility so long as it is open and operational.

Table 9

TAX AND OTHER REVENUE ACTIONS ($ in Millions)				
	All Funds			
	2016-17	2017-18	2018-19	2019-20
Personal Income Tax - Total	**$18**	**($556)**	**($1,009)**	**($1,108)**
Education Tax Credits	$0	$0	($150)	($150)
Establish Thruway Toll Tax Credits	$0	($113)	($113)	($114)
Personal Income Tax Cut for Small Businesses	$0	($276)	($276)	($276)
Extend the Clean Heating Fuel Credit for Three Years	$0	$0	($1)	($1)
Extend the Credit for Companies who Provide Transportation to Individuals with Disabilities for Six Years	$0	$0	($5)	($5)
Permanently Extend the Non-Custodial Earned Income Tax Credit	$0	$0	($4)	($4)
Permanently Extend the Shelter Reporting Requirements	$18	$18	$18	$18
STAR Recoupment Provisions	$0	$0	$0	$0
Convert STAR Benefit into a PIT Tax Credit (Credit Portion)	$0	($98)	($194)	($290)
Convert NYC PIT STAR Credit into a State PIT Credit (Credit Portion)	$0	($87)	($284)	($286)
Consumption Taxes - Total	**($61)**	**($9)**	**($20)**	**($9)**
Alcohol Beverage Tax Tasting Exemptions	($1)	($1)	($1)	($1)
Taxation of Remarketed Rooms	$0	$0	$0	$0
Expand Jeopardy Assessments to Cigarette and Tobacco Tax	$0	$0	$0	$0
Reduce Highway Use Registration/Decal Fee	($59)	($6)	($17)	($6)
Extend the Alternative Fuels Tax Exemption for Five Years	($1)	($2)	($2)	($2)
Amend State and Local Tax Law for Consistency with Federal Tax Regulations on Aviation Fuel	$0	$0	$0	$0
Business Taxes - Total	**($1)**	**($64)**	**($116)**	**($94)**
Alcohol Beverage Production Credit	$0	($2)	($2)	($2)
Enhance the Urban Youth Opportunity Program Tax Credit	$0	($30)	($30)	$0
Corporate Tax Cut for Small Businesses	$0	($22)	($22)	($22)
Extend Empire State Commercial Production Credit for Two Years	$0	$0	($7)	($7)
Authorize Additional Credits of $8 million for Low Income Housing Credit for Each of the Next Five Fiscal Years	$0	($8)	($16)	($24)
Extend the Hire-A-Vet Credit for Two Years	$0	$0	($37)	($37)
Extend the Alternative Fuels Tax Exemption for Five Years	($1)	($2)	($2)	($2)
Extend the Excelsior Jobs Program for Five Years	$0	$0	$0	$0
Amend State & NYC Corporate Tax Reform Statutes for Technical Amendments	$0	$0	$0	$0
Conform to New Federal Tax Filing Dates	$0	$0	$0	$0
Other Revenue Actions - Total	**$6**	**$27**	**$27**	**$27**
Make Permanent and Update Certain Modernization Provisions of the Tax Law	$0	$0	$0	$0
Extend Tax Preparer E-File Failure Penalties	$0	$0	$0	$0
Authorize Combative Sports	$1	$1	$1	$1
Eliminate Charitable Giving as a Factor in Determining Domicile for Estate Tax	$0	$0	$0	$0
Reporting Provisions for Medical Marihuana	$0	$0	$0	$0
Extend Certain Tax Rates and Simucalsting Provisions for One Year	$0	$0	$0	$0
Extend Video Lottery Gaming Vendor's Capital Awards Program for One Year	$0	$0	$0	$0
Extend Monticello VLT Rates for One Year	($3)	$0	$0	$0
Amend Upstate NY Gaming and Economic Development Act for Technical Changes	$0	$0	$0	$0
Provide for an Additional Commission for Certain VLT Facilities	$0	$0	$0	$0
Increase Purse Surcharge from 1.0% to 1.6% and Regulatory Fee from 0.5% to 0.6%	$2	$2	$2	$2
Adjust Timing of Reimbursement to Gaming Commission of Per Diem Costs for Harness Racing Judge and Starter	$0	$0	$0	$0
Remove Restriction for a Single Lab Testing Provider	$0	$0	$0	$0
Permanently Extend Waste Tire Fee	$6	$24	$24	$24
Redirect DMV Funds to Dedicated Highway and Bridge Trust Fund	$0	$0	$0	$0
Total All Funds	**($38)**	**($602)**	**($1,118)**	**($1,184)**



Tax Analysis

TAX ANALYSIS

Personal Income Tax

Table 10

Personal Income Tax Collections Forecasts by State Fiscal Year ($ in Millions)						
	2015-16			2016-17		
	WAM Estimate	Percent Growth	Diff. Exec	WAM Forecast	Percent Growth	Diff. Exec.
Personal Income Tax	**$47,146**	**7.9%**	**$53**	**$50,295**	**6.7%**	**$335**
Gross Receipts	**56,771**	**8.7%**	**52**	**59,570**	**4.9%**	**376**
Withholding	36,721	5.2%	15	38,777	5.6%	252
Estimated Payments	16,105	17.2%	17	16,660	3.4%	69
Vouchers	11,565	11.6%	20	12,075	4.4%	30
IT 370s	4,541	34.5%	(3)	4,585	1.0%	39
Final Payments	2,640	19.7%	7	2,761	4.6%	41
Delinquencies	1,305	-6.3%	13	1,372	5.2%	14
Total Refunds	**9,625**	**12.7%**	**(1)**	**9,275**	**-3.6%**	**41**
Prior Year Refunds	5,150	3.8%	10	5,371	4.3%	49
Current Refunds	2,550	30.8%	-	1,750	-31.4%	-
Advance Credit Payments	600		-	756	26.0%	-
Previous Refunds	637	39.1%	(11)	710	11.5%	(8)
State/City Offsets	688	16.5%	-	688	0.0%	-
Collections	**47,146**	**7.9%**	**53**	**50,295**	**6.7%**	**335**
Transfers to STAR	(3,337)	1.2%	**-**	(3,228)	-3.3%	-
Transfers to DRRF/RBTF	(11,773)	7.7%	-	(12,490)	6.1%	-
General Fund PIT Collections	**32,036**	**8.7%**	**53**	**$34,577**	**7.9%**	**$335**

Article 22 of the Tax Law imposes a tax on the New York income of individuals, estates and trusts. Personal Income Tax (PIT) receipts contribute over 60 percent of all tax collections deposited into the General Fund. PIT receipts are received through employee withholdings, estimated tax payments, payments accompanying tax returns, late payments, and through audits and assessments. Withholding is the single largest component, comprising roughly 65 percent of gross PIT receipts.

New York's definition of income closely follows federal rules, which include wages, salaries, capital gains, unemployment compensation, and interest and dividend income. These components equal the federal adjusted gross income. New York Adjusted Gross Income (NYAGI) is calculated starting with the federal AGI as a base and then modified by certain subtractions or additions as permitted or required by the state. Additions include tax-exempt bonds issued outside of New York, while social security benefits and pension and annuity income are generally excluded. A taxpayer's AGI is then reduced by subtracting the New York standard deduction, which varies according to the taxpayer's filing status, or New York itemized deductions.

For tax year 2015, the standard deduction is scheduled to increase in accordance to the Consumer Price Index (CPI) inflation adjustment provisions enacted as part of the state's 2011 personal income tax reform. The table below provides a three year review of changes in the standard deductions.

Table 11

New York State Standard Deduction			
Filing Status	**2013**	**2014**	**2015**
Single	$7,700	$7,800	$7,900
Married Filing Jointly	$15,400	$15,650	$15,850
Head of Household	$10,800	$10,950	$11,100

Taxpayers who itemize deductions on their federal returns may also itemize on their New York State returns if the aggregate of such deductions, minus state and local income taxes and certain other modifications, exceed the New York standard deduction. However, the availability of itemized deductions is limited for certain high income taxpayers. For taxpayers whose NYAGI exceeds $1 million, itemized deductions are fully excluded and only 50 percent of charitable contributions may be deducted for the purposes of calculating tax liability. For taxpayers with NYAGI over $10 million, the charitable contributions deduction is limited to 25 percent.

The New York standard deduction or itemized deductions, in addition to exemptions claimed on New York taxes, are subtracted from the federal definition of income to arrive at New York taxable income. Certain credits are then subtracted from the calculated tax to arrive at total tax liability.

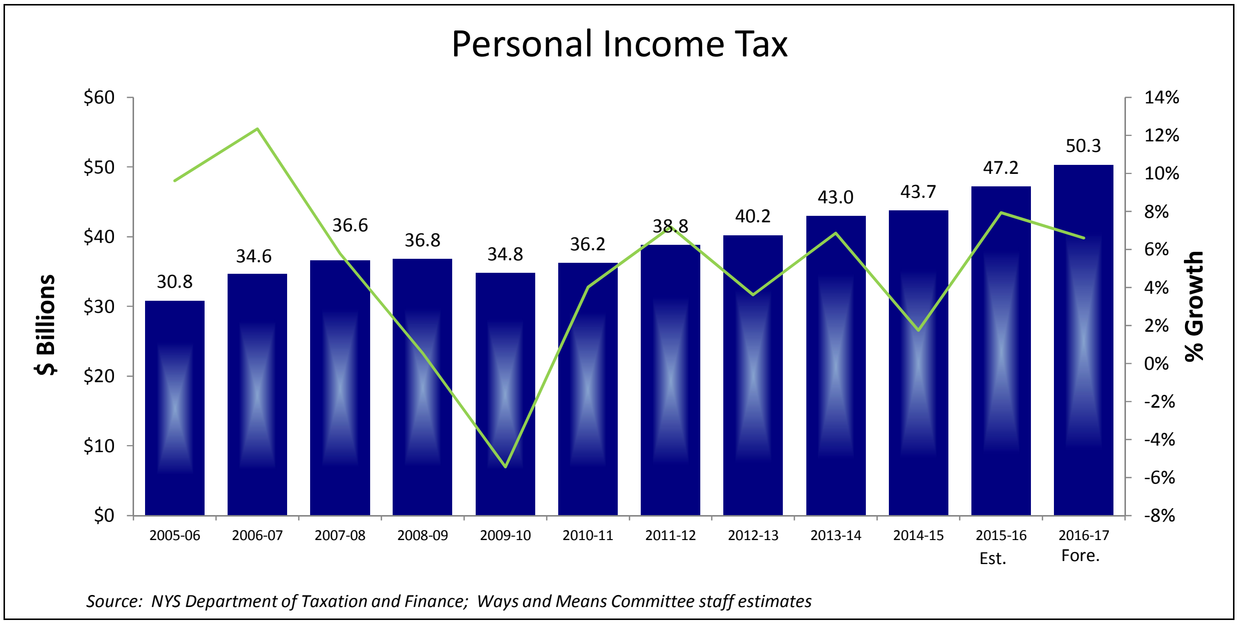


Figure 52

Net Collections

Year-to-Date (YTD) Through January 2016

Through the first ten months of the fiscal year, net personal income tax collections are up 10.1 percent, with gross collections increasing by 8.9 percent year-to-date.

There was a significant increase in extension payments made in SFY 2015-16. Approximately 97 percent of revenues from extensions are accounted for in April. Through January, extension payments are up $1.164 billion, an increase of 34.7 percent compared to the first ten months of SFY 2014-2015.

Healthy wage growth and economic activity have resulted in robust gains in withholding and estimated payment voucher collections, with year-to-date growth of 4.2 percent and 11.6 percent, respectively.

Table 12

Net Collections ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$41,242	10.1%	$47,146	7.9%	$47,093	$53
2016-17			$50,295	6.7%	$49,960	$335

State Fiscal Year 2015-16

Total PIT collections are estimated to total $47.146 billion, which represents an increase of $3.437 billion or 7.9 percent above the prior fiscal year. Gross collections are expected to increase by 8.7 percent, while the committee staff anticipates an increase in refunds of 12.7 percent. The committee staff total PIT collections estimate is $53 million above the Executive's Budget estimate.

State Fiscal Year 2016-17

Net PIT collections are forecasted to total $50.295 billion, an increase of $3.150 billion or 6.7 percent over SFY 2015-16 estimates. Gross collections are forecast to increase by $2.800 billion or 4.9 percent, with a decline in total refunds of $350 million or 3.6 percent. Gains in gross collections are primarily attributed to stronger growth in withholding as wage growth remains strong. The committee's net collections forecast is $335 million above the Executive's Budget forecast.

The income tax reform is projected to generate $3.130 billion in total revenues. Absent the reform, baseline net collections are projected to increase 4.9 percent.

Withholding

YTD through January

Through the first ten months of the state fiscal year, withholding collections are up $1.147 billion or 4.2 percent compared to the prior year.

Table 13

Withholding ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$28,264	4.2%	$36,721	5.2%	$36,706	$15
2016-17			$38,777	5.6%	$38,525	$252

State Fiscal Year 2015-16

The committee staff expects $36.721 billion in withholding collections, or 5.2 percent above the prior fiscal year, with growth of 8.6 percent needed over the remaining two months of the year.

The 2011 PIT reform is expected to generate an additional $314 million in SFY 2015-16 withholding collections. After adjusting for additional revenues due to tax reform, baseline withholding collections are estimated to increase by 3.6 percent.

State Fiscal Year 2016-17

Withholding collections are projected to increase by 5.6 percent in SFY 2016-17, for a total of $38.777 billion. This is $252 million above the Executive's Budget forecast.

The PIT reform extension is expected to generate an additional $1.104 billion. Baseline withholding collections are forecast to increase 3.5 percent driven by a projected 4.7 percent increase in total wages. Base wages are forecast to increase by 4.4 percent with variable wages projected to increase by 7.2 percent.

Quarterly Estimated Payments (Vouchers)

YTD through January

Through January, voucher collections have increased 11.6 percent compared to the prior fiscal year.

Table 14

Quarterly Estimated Payments ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$11,405	11.6%	$11,565	11.6%	$11,545	$20
2016-17			$12,075	4.4%	$12,045	$30

State Fiscal Year 2015-16

The committee staff estimates a vouchers' closeout of $11.565 billion, or a 11.6 percent increase over SFY 2014-15.

The PIT reform plus the itemized deduction limitation (IDL) are expected to generate $1.383 billion in SFY 2015-16 estimated payments. Excluding the impact of these law changes, current year voucher payments are expected to increase 12.1 percent over SFY 2014-15.

State Fiscal Year 2016-17

Vouchers are projected to increase 4.4 percent in SFY 2016-17 for a total of $12.075 billion. This is $30 million above the Executive's Budget forecast. Absent an additional $1.480 billion due to tax reform, baseline voucher collections are projected to increase by 4.1 percent.

Refunds

YTD through January

Prior year refunds have decreased by 4.8 percent, while previous year refunds have increased 41.5 percent. Net total refunds, including State/City offsets, have increased 1.5 percent year-to-date relative to the same period of last fiscal year.

Table 15

Prior Year Refunds ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$5,091	-4.8%	$5,150	3.8%	$5,140	$10
2016-17			$5,371	4.3%	$5,322	$49

Table 16

Previous Year Refunds ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$482	41.5%	$637	39.1%	$648	($11)
2016-17			$710	11.5%	$718	($8)

State Fiscal Year 2015-16

The committee staff anticipates that SFY 2015-16 will finish with $5.150 billion in prior year refunds and $637 million in previous refund distributions. The Executive's Budget estimate for prior year refunds is $10 million below the committee's. The previous year refund closeout represents a 39.1 percent increase relative to the last fiscal year. The Executive's estimate is $11 million greater the committee's estimate.

Family Tax Relief and Property Tax Freeze Credits

Tax year 2015 marks the second year in which the state will be issuing two new temporary tax credits to eligible taxpayers. Part CC of Chapter 50 of the Laws of 2013 established the family tax relief credit. The refundable credit is worth $350 and is provided to all resident taxpayers claiming at least one dependent under the age of 17 and with NYAGI between $40,000 and $350,000. For tax year 2015, the state will not automatically determine eligibility and mail the checks to families in the fall, as it did last year. Instead, taxpayers will have to file a credit claim form when they file their taxes.

Part FF of Chapter 59 of the Laws of 2014 established a real property tax freeze credit for eligible School Tax Relief (STAR) recipients. For tax year 2015, the credit shall be issued to taxpayers residing in taxing jurisdictions that maintain real property tax levy growth at or below the state mandated property tax cap limit and have also submitted plans for achieving fiscal efficiencies. The property tax freeze credit is estimated to cost the state $783 million in SFY 2015-16.

State Fiscal Year 2016-17

The committee staff projects a prior year refund total of $5.371 billion, or an increase of 4.3 percent over the SFY 2015-16 closeout.

Previous refunds are forecast to total $710 million, representing an increase of 11.5 percent over SFY 2015-16.

Fund Distribution

Table 17

Personal Income Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	$32,036	$3,337	$11,773	$0	$47,146
2016-17	$34,577	$3,228	$12,490	$0	$50,295

The committee staff estimates General Fund personal income tax receipts of $32.036 billion in SFY 2015-16. In SFY 2016-17, General Fund collections are forecast to total $34.577 billion.

A statutory amount of 25 percent of net personal income tax collections is allocated to the Revenue Bond Tax Fund (RBTF). The estimated contribution to this fund in SFY 2015-16 is $11.773 billion, and $12.490 billion in SFY 2016-17.

The STAR fund consists of revenue that is used to reimburse school districts for STAR school property exemptions, as well as New York City for their STAR personal income tax credits. The Executive estimates that the STAR program will cost $3.337 billion this fiscal year and $3.228 for SFY 2016-17.

Executive Budget Proposals

- Education tax credit creation;
- Non-custodial Earned Income Tax Credit permanent extension;
- Extending the Clean Heating Fuel Credit;
- Establishing Thruway toll credits;
- Enhancing the Urban Youth Jobs Program Credit;
- Increasing income deductions for small businesses;
- Permanent extension of tax shelter reporting;
- Extension of the Hire a Veteran Credit;
- Extension of the credit for companies that provide transportation to people with disabilities;
- Extension of the tax credit for commercial productions; and,
- Conforming to new federal tax filing dates.

Adjusted Gross Income (AGI)

Income and Liability

While the national recession officially ended in June 2009, the New York State Department of Labor has determined that the state did not enter a recovery until December 2009, with the components of AGI not showing a rebound in growth until 2010. However, AGI growth remained stagnant in 2013, largely as a result of a capital gains shift in anticipation of increased federal tax rates in 2013.

AGI is expected to have registered robust growth of 8.8 percent in 2014, followed by growth of 3.3 percent and 2.6 percent in 2015 and 2016, respectively. In 2017, AGI is expected to grow by 2.4 percent.

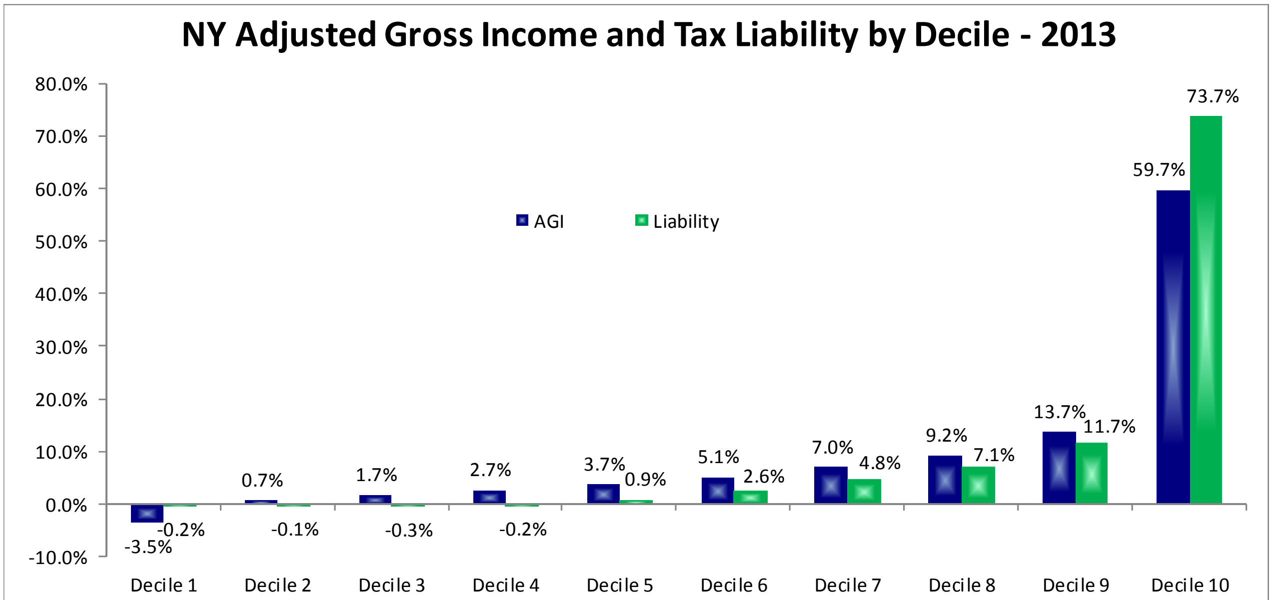
Table 18

Components of AGI ($ in Millions)	Actual		Estimate		Forecast	
	2012	2013	2014	2015	2016	2017
NYSAGI						
Amount	$714,698	$714,046	$776,632	$802,580	$823,101	$842,789
Percent Change	8.7%	-0.1%	8.8%	3.3%	2.6%	2.4%
Wages						
Amount	$515,645	$525,924	$559,681	$580,546	$604,181	$626,707
Percent Change	3.2%	2.0%	6.4%	3.7%	4.1%	3.7%
Net Capital Gains						
Amount	$77,248	$64,690	$87,480	$88,000	$80,230	$81,470
Percent Change	58.3%	-16.3%	35.2%	0.6%	-8.8%	1.5%
Interest, Dividends and Pensions						
Amount	$33,433	$32,604	$33,892	$35,192	$36,679	$38,110
Percent Change	14.3%	-2.5%	4.0%	3.8%	4.2%	3.9%
Business and Partnership Income						
Amount	$84,363	$83,995	$87,899	$92,061	$96,570	$100,961
Percent Change	13.8%	-0.4%	4.6%	4.7%	4.9%	4.5%
Other Income						
Amount	($35,031)	($37,362)	($38,396)	($39,371)	($40,667)	($41,867)
Percent Change	11.7%	6.7%	2.8%	2.5%	3.3%	3.0%

Who Pays the NYS Personal Income Tax?

Distribution of Liability and Adjusted Gross Income

The state's personal income tax has a progressive structure, meaning higher income individuals pay a higher proportion of their income in taxes. According to 2013 data from the Department of Taxation and Finance, latest available, the top 10 percent of New York taxpayers earned 59.7 percent of income and paid 73.7 percent of total liability, while the bottom four deciles were net recipients of income taxes.



Source: NYS Department of Taxation and Finance; Ways and Means Committee Staff Estimates.

Figure 53

The progressivity of the personal income tax is negated when incorporating the incidence of the sales and property taxes that tend to exhibit regressive tax structures. Considering the entire state tax paid, the top one percent of income earners have an effective tax rate (ratio of taxes paid over income) of 8.1 percent compared to a rate of 12 percent for the middle 20 percent. The lowest income quintile of New Yorkers pay an overall tax rate that is 10.4 percent which is over two percentage points higher than the overall state effective tax paid by the top one percent.[48]

[48] "*Who Pays? A distributional analysis of the tax systems in all 50 states*", Institute on Taxation & Economic Policy, January 2015.

Recent Income Trends of High-Income Taxpayers

In this section, we provide a more in-depth analysis of the recent growth patterns in the number and income levels of high-income PIT taxpayers compared to other income groups.

Number of Taxpayers by Adjusted Gross Income (AGI) Group

The table and chart below review the number of taxpayers and respective growth rates for different income groups since 2010. Consistent with national trends over the last three decades the growth in the number of high-income taxpayers has far exceeded that of other income groups. Whereas the compound average growth rate for those with AGI less than $250,000 was 1.4 percent for the period 2010 to 2015, the growth of the numbers of millionaires averaged 6.5 percent over the same period.

Table 19

Number of Taxpayers by Income Group						
New York AGI Classes	**2010**	**2011**	**2012**	**2013**	**2014 (Est.)**	**2015 (Est.)**
Up to $250,000	9,415,673	9,548,906	9,613,855	9,755,019	9,902,349	10,081,575
$250,000 to $500,000	174,136	186,867	197,979	212,630	240,495	251,782
$500,000 to $1,000,000	62,741	67,871	73,406	76,976	86,161	89,921
$1,000,000 to $10,000,000	40,715	43,488	48,795	46,794	53,498	55,719
Over $10,000,000	1,953	2,041	2,668	2,217	2,686	2,773
All under $1,000,000	9,652,550	9,803,644	9,885,240	10,044,625	10,229,005	10,423,279
All over $1,000,000	42,668	45,529	51,463	49,011	56,184	58,492
Total	9,695,218	9,849,174	9,936,703	10,093,636	10,285,189	10,481,771

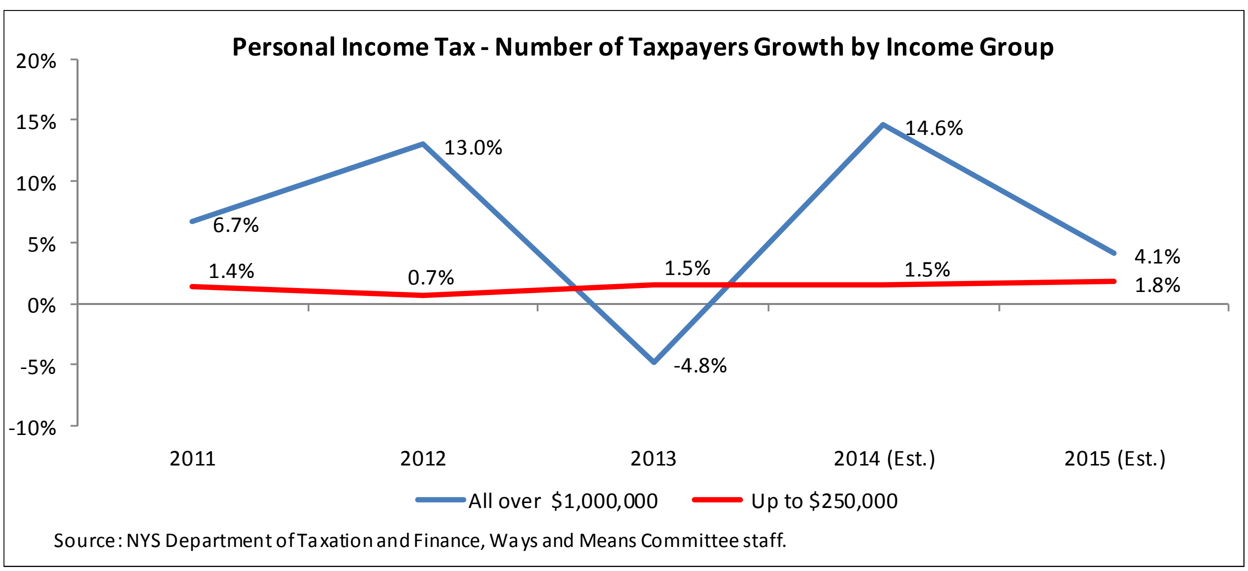


Figure 54

The growth rate of taxpayers earning over $1 million in AGI declined in 2013 due to a change in taxpayer behavior in response to an anticipated federal tax increase. Many high income taxpayers realized capital gains or bonus income in 2012 as federal tax rates were scheduled to increase in 2013, artificially reducing the number of taxpayers over the $1 million threshold. Correspondingly, the growth in the number of taxpayers in 2014 shows a sharp increase.

AGI by Income Group

The table and figure below review the AGI earned and respective growth rates for different income groups since 2010. Whereas the AGI's compound growth rate for those with income over $1 million has increased by an average of 7.6 percent for the period 2010 to 2015, that of those with income less than $250,000 registered growth of 2.6 percent.

Table 20

NY Adjusted Gross Income (AGI) by Income Group, in $ Billions						
	2010	**2011**	**2012**	**2013**	**2014 (Est.)**	**2015 (Est.)**
Up to $250,000	$386.0	$393.0	$400.9	$413.1	$425.6	$437.9
$250,000 to $500,000	58.8	63.3	66.8	72.1	$81.4	$85.3
$500,000 to $1,000,000	43.0	46.4	50.3	52.6	$58.9	$61.5
$1,000,000 to $10,000,000	91.7	97.9	112.0	106.3	$121.7	$126.7
Over $10,000,000	59.4	56.7	84.7	70.0	$89.0	$91.1
All under $1,000,000	487.8	502.7	518.0	537.7	566.0	584.7
All over $1,000,000	151.1	154.6	196.7	176.3	210.7	217.9
Total	$638.9	$657.3	$714.7	$714.0	$776.6	$802.6

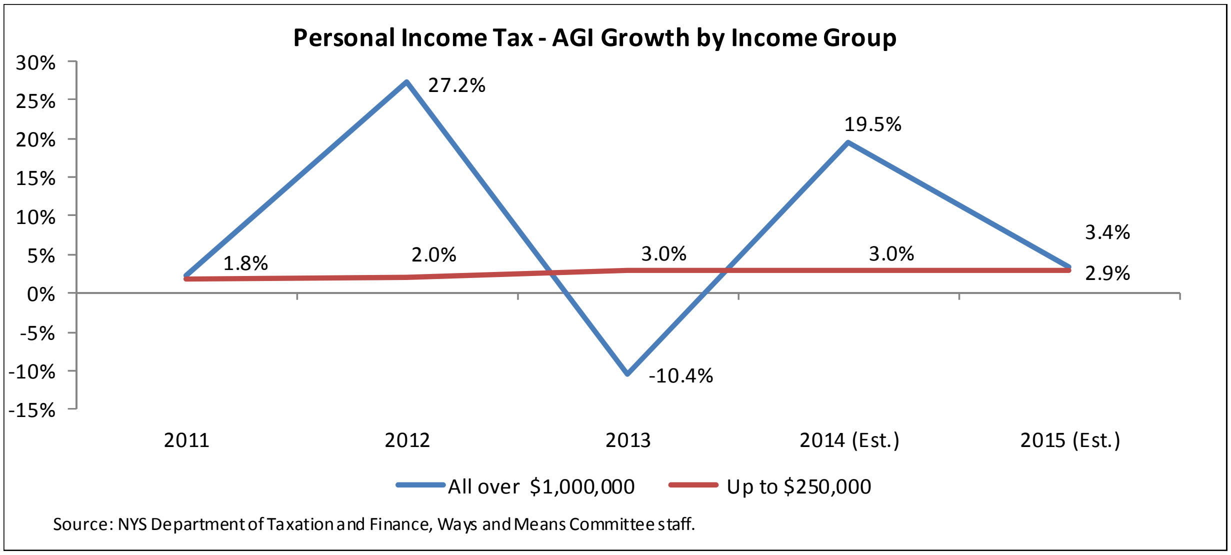


Figure 55

The sharp AGI growth decline in 2013 for those with income over $1 million is, again, attributed to the shift of income to 2012 due to the anticipated higher federal tax rates in 2013. For those with income over $10 million the compound average growth was even higher at 8.9 percent.

The higher growth rates for the upper-income groups had an impact on the respective shares of AGI by income group. As the chart below shows, the over $1 million in AGI group accounted for 23.7 percent of total AGI in 2010 with the share increasing to an estimated 27.1 percent in 2015. During the same time period the income share of those under $250,000 in AGI declined from 60.4 percent in 2010 to an estimated 54.6 percent in 2015, whereas the share of those with income over $10 million increased from 9.3 percent in 2010 to an estimated 11.4 percent in 2015.

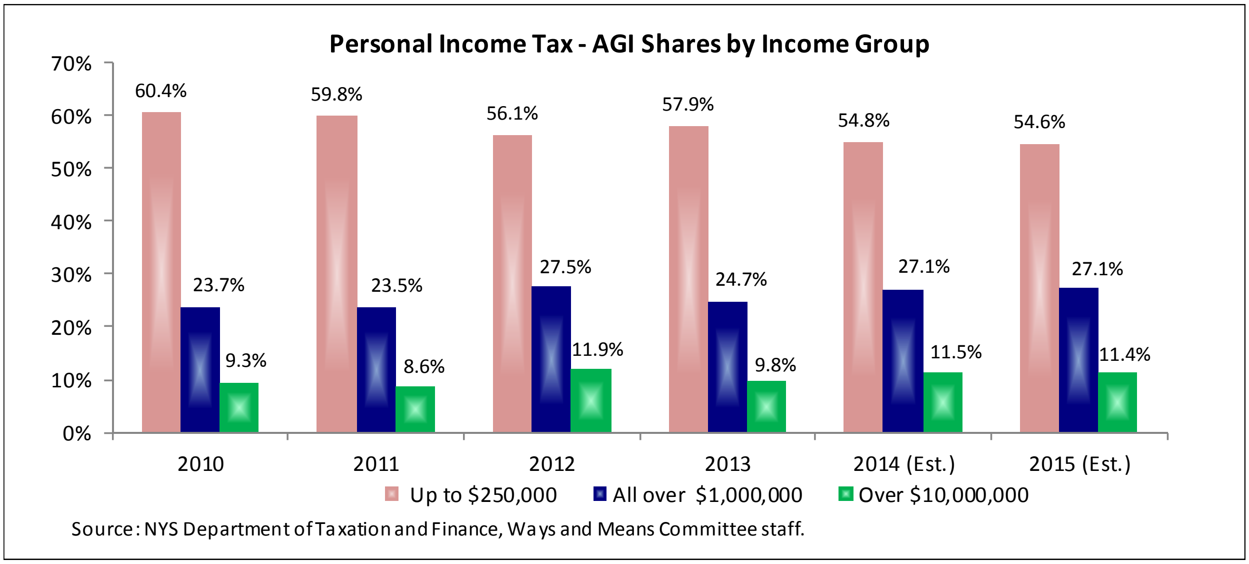


Figure 56

Small Businesses in New York State

Definitions of Small Business in NYS

There are three definitions of small businesses in state law. Economic Development Law classifies businesses based on the number of employees. If the business has 100 employees or less it qualifies as a small business, and a business with 25 employees or less is considered a micro-business. Businesses that meet these definitions are eligible for specifically designed and targeted loan and grant programs.

Prior to tax year 2016 small businesses were eligible for a lower corporate tax rate. Under Tax Law, for a small business to benefit from that lower corporate tax rate it has to meet the employee test and have not more than $390,000 in entire net income (ENI), paid-in-capital cannot exceed one million dollars, and the business cannot be part of an affiliated group that would not be considered small on a combined basis. The Executive Budget proposal incorporates a provision that would lower the tax rate for small businesses effective with tax year 2016. When the Corporate Tax Reform of 2014 lowered the tax rate to 6.5 percent for all businesses, small businesses lost that competitive advantage.

Generally, a business cannot have more than 500 employees to be considered a small business by the federal government. However, the Small Business Administration (SBA) uses a North American Industry Classification System (NAICS) analysis to determine how many employees or annual receipts a business can have to be considered a small business. The limits for the employment test vary from as high as 1,500 employees for petroleum distilleries and as low as 50 for fuel dealers. The receipts test is also highly variable; for example, the lowest limit is $0.75 million for agricultural crop businesses and the upper limit is $38.5 million for a few categories including military and aerospace equipment. The federal small business definition is used in the selection of firms that conduct business with the federal government. Additionally, these firms also qualify for subsidized financing from the SBA.

The Current State of Small Businesses in New York State

Firm Distribution

In 2012, there were 450,189 firms in New York State.[49] 65.6 percent or 295,452 of these businesses had fewer than five employees. 80 percent of all firms had fewer than 10 employees, and 91.7 percent or 412,691 of the state's firms are considered micro-businesses according to state Economic Development law. There were 438,396 firms, or 97.4 percent of the total, with fewer than 100 employees in 2012. Only 1.7 percent of all firms in the state had between 100 and 499 employees, and only one percent, or 4,336 firms, are generally not considered small businesses by the federal government.

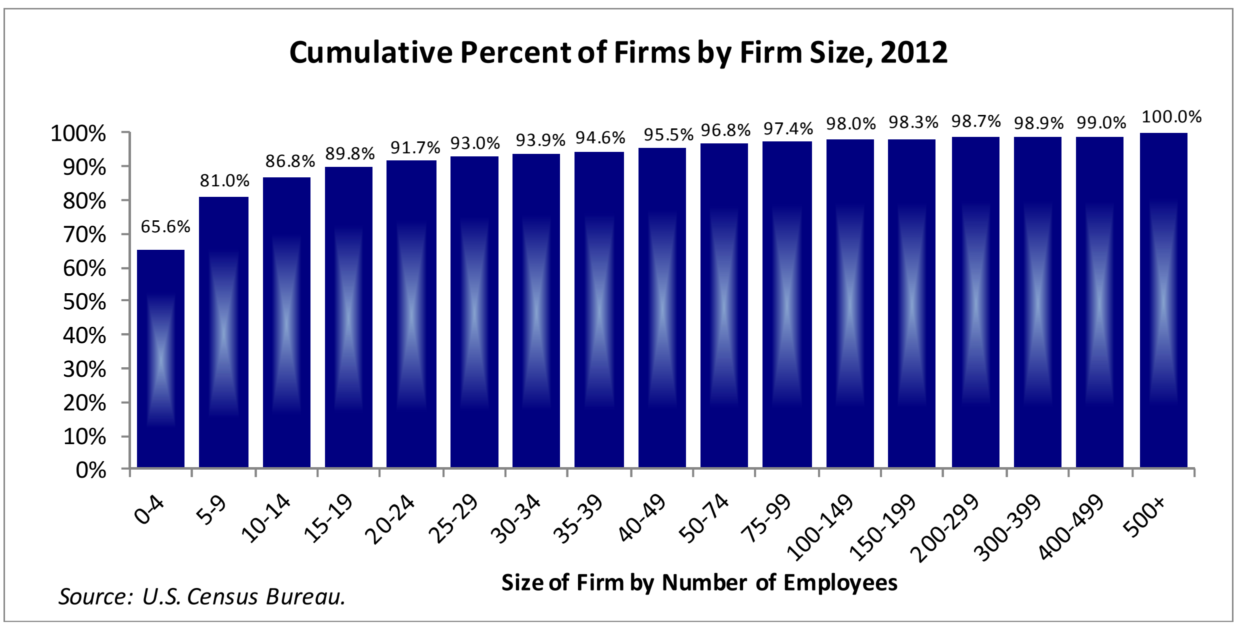


Figure 57

Employee Distribution

[49] The most current data available come from the US Census Bureau. http://www.census.gov/econ/susb/

The distribution of employees is very different than the one for the number of firms. In 2012, there were 7,556,521 employees in New York State. Only 6.4 percent of them worked at firms with less than five employees. Micro-businesses employed 1.6 million people, which is equivalent to 21.8 percent of the workforce. Small businesses, according to New York law, employed 36.2 percent or 2.7 million people while 14.8 percent of New York's workforce worked at firms that employed between 100 and 499 employees. Firms with fewer than 500 employees employed 3.6 million people which is only 51.1 percent of the total workforce. Large businesses, while they only represent one percent of all firms, employed 48.9 percent of New Yorkers.

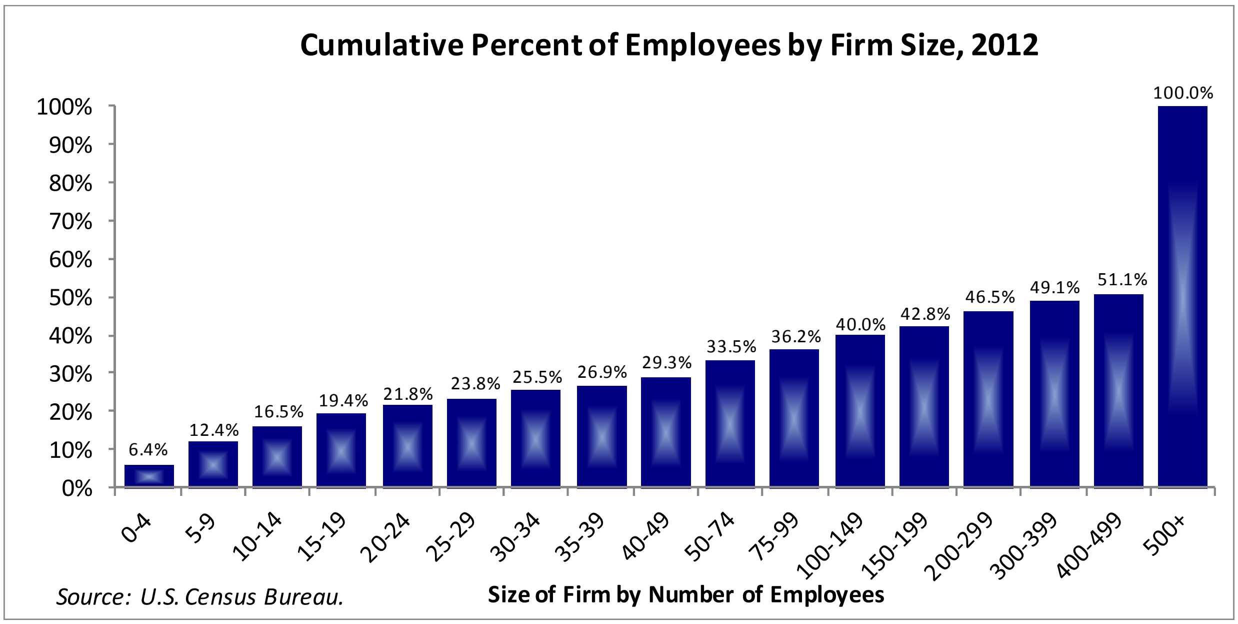


Figure 58

Payroll Distribution

The US Census reported that New Yorkers were paid $451.8 billion in 2012. Of this total, 4.6 percent went to employees at firms with less than five employees. Their average salary was $42,515. Of the annual payroll 15.3 percent went to people employed by micro-businesses, whose average salary was $45,064. State defined small businesses account for 97.4 percent of all firms, 36.2 percent of all employment, but only 27.6 percent of all payrolls in the state. The average salary for these employees was $55,093. Firms with fewer than 500 employees distributed 41.7 percent of the payroll, and their average salary was $56,179. The state's 4,336 large businesses distributed 58.3 percent of the payroll to 48.9 percent of the workforce. Their average annual salary was $71,280. (See Figure 59.)

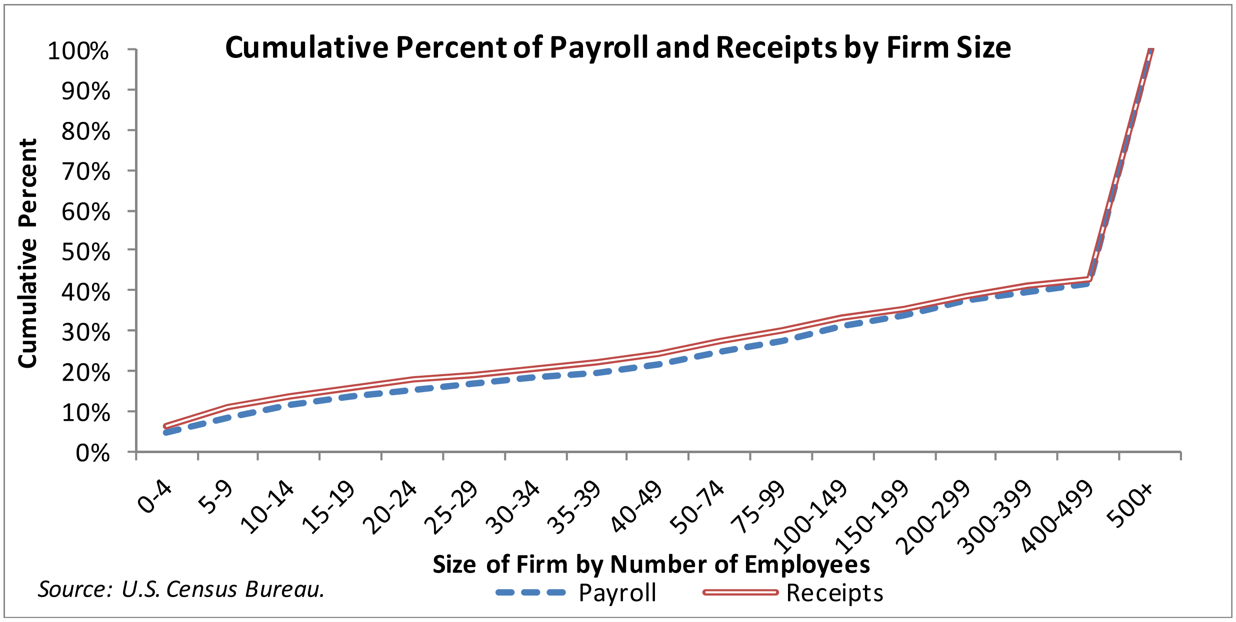

Cumulative Percent of Payroll and Receipts by Firm Size
Cumulative Percent
100%
90%
80%
70%
60%
50%
40%
30%
20%
10%
0%
0-4
5-9
10-14
15-19
20-24
25-29
30-34
35-39
40-49
50-74
75-99
100-149
150-199
200-299
300-399
400-499
500+
Size of Firm by Number of Employees
Source: U.S. Census Bureau.
Payroll
Receipts

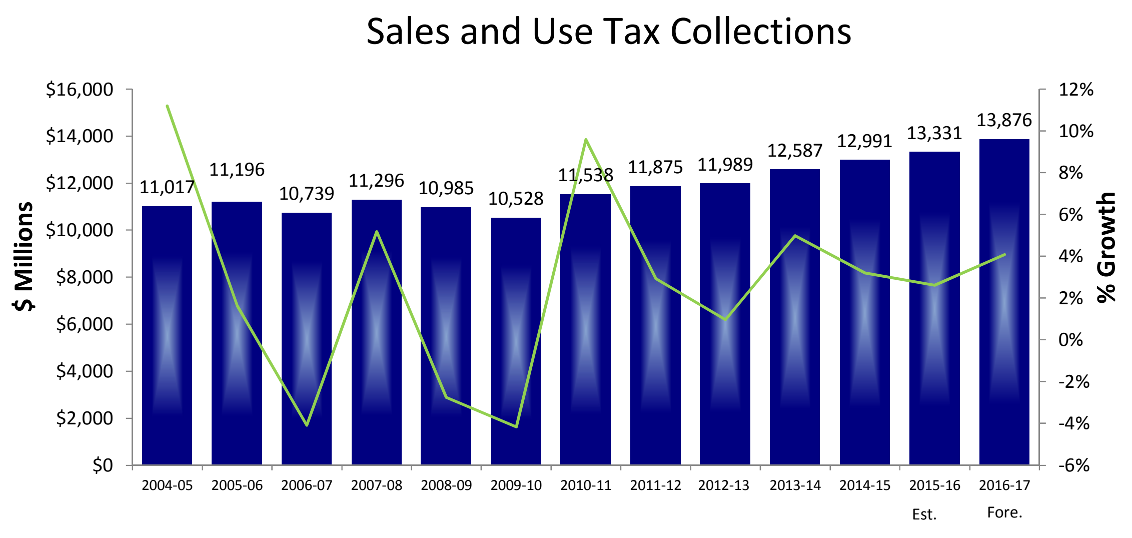
Figure 59

User Taxes and Fees

Table 21

User Tax Collections Forecasts by State Fiscal Year ($ in Millions)						
	SFY 2015-16	Growth	Diff. Exec.	SFY 2016-17	Growth	Diff. Exec.
User Taxes and Fees	**$15,670**	**1.9%**	**30**	**$16,153**	**3.1%**	**18**
Sales and Use Tax	13,331	2.6%	13	13,876	4.1%	(1)
Motor Fuel Tax	491	0.8%	0	495	0.9%	7
Cigarette Tax	1,232	-6.2%	8	1,227	-0.4%	1
Highway Use	157	11.8%	3	84	-46.4%	0
Alcoholic Beverage Tax	258	2.7%	4	264	2.5%	6
Medical Marihuana	1		0	4	300.0%	0
Auto Rental Tax	127	6.7%	1	130	2.4%	2
Taxi Surcharge	74	-10.3%	2	72	-2.0%	2

Sales Tax



Source: NYS Comptroller; Ways and Means Committee Staff estimates.

Figure 60

The sales and compensating use tax, imposed by Article 28 of the tax law, is a four percent broad-based consumption tax levied on the sale of tangible personal property, excluding items such as food, medicine, products used in manufacturing, and items purchased for resale. A limited number of services such as cleaning, parking, and interior design are also subject to this tax. Certain non-profit and charitable organizations are exempt from paying sales tax on purchases. Sales taxes are generally paid to and collected by the vendor at the time of purchase. Vendors remit sales tax collections annually, quarterly or monthly depending upon their level of taxable sales. Some vendors are required to remit their sales tax liability electronically to the state.

All funds sales tax collections are deposited into the General Fund and the Local Government Assistance Tax Fund, the Mass Transportation Operating Assistance Fund (MTOAF), and the Sales Tax Revenue Bond Fund (STBF). In 1981, the MTOAF was created to help finance the state's public transportation system. A portion of the MTOAF revenue is derived from a separate sales tax rate of three-eighths of one percent that is imposed in the Metropolitan Commuter Transportation District (MCTD). The MCTD encompasses all of the counties served by the Metropolitan Transportation Authority: counties in the City of New York – Manhattan, Bronx, Queens, Kings, and Richmond – and the counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester.

Receipts from one percentage point of the four percent state sales tax are dedicated to the Local Government Assistance Corporation (LGAC), which was created in 1990 to eliminate annual spring borrowing. Once the LGAC debt service obligations are paid, excess revenues are transferred back to the General Fund.

The Sales Tax Revenue Bond Fund (STBF) became effective at the beginning of SFY 2013-14. One-quarter of the state's sales tax collections are directed to this fund. Once LGAC bonds are defeased or retired, collections from two percent of the state's four percent sales tax rate will be dedicated to the STBF. As with the LGAC, all receipts in excess of the STBF debt service requirements will be transferred to the General Fund.

Table 22

Sales Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$11,208	2.6%	$13,331	2.6%	$13,318	$13
2016-17			$13,876	4.1%	$13,877	($1)

YTD through January

Through January, All Funds sales tax receipts have increased by $281 million or 2.6 percent over SFY 2014-15, for a year-to-date total of $11.208 billion.

State Fiscal Year 2015-16

The committee staff estimates sales tax receipts to total $13.331 billion in SFY 2015-16, an increase of 2.6 percent over SFY 2014-15. Growth of 2.8 percent is expected in the remaining two months of the fiscal year. The Executive's Budget estimates SFY 2015-16 sales tax receipts to be $13.318 billion, a 2.5 percent increase over SFY 2014-15. The committee staff's estimate is $13 million above the Executive's Budget estimate.

State Fiscal Year 2016-17

The committee staff forecasts that sales tax receipts will total $13.876 billion, an increase of 4.1 percent over SFY 2015-16 estimates. The Executive's Budget forecasts sales tax receipts to total $13.877 billion in SFY 2016-17, an increase of $559 million, or 4.2 percent over SFY 2015-16. The committee staff's forecast is $1 million below the Executive's forecast.

Sales Tax Fund Distribution

Table 23

Sales Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	6,226	879	6,226	-	13,331
2016-17	6,482	911	6,482	-	13,876

Executive Budget Proposals

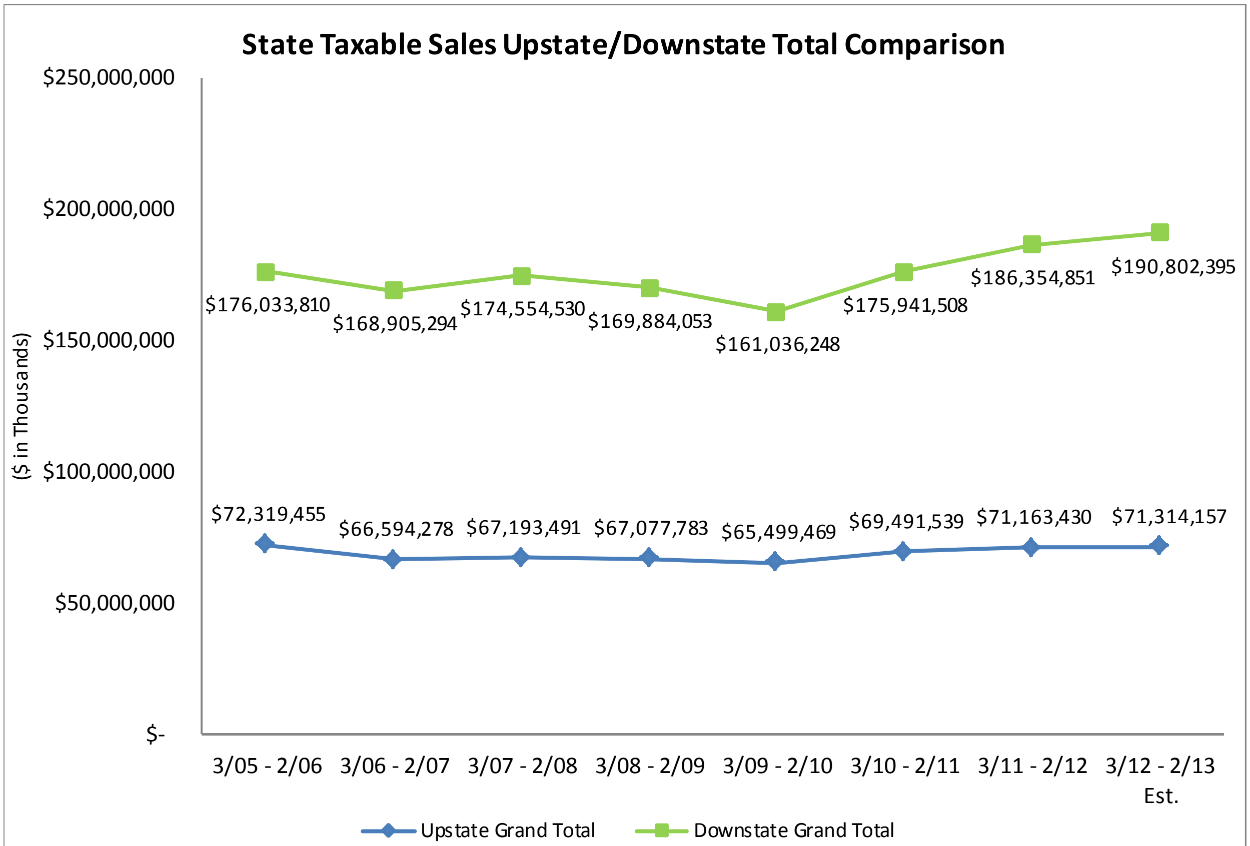
- The Executive proposes to expand the sales and use tax exemption on items used during a tasting held by a producer of alcoholic beverages;
- The Executive proposes to simplify the taxation of remarketed rooms; and,
- The Executive proposes to amend state and local tax law for consistency with federal tax regulations on aviation fuel.

Regional Analysis of Sales Taxable Base

The New York State Department of Taxation and Finance produces annual sales tax statistical reports of taxable sales by county and industry classification. The industry sectors are broken down according to the North American Industry Classification System (NAICS). Generally, the largest industry sectors, by taxable sales, conducting business in New York are utilities (excluding residential energy), manufacturing, wholesale trade, retail trade, and accommodation and food services. Retail trade represents a broad range of sub-categories with the largest sectors being motor vehicles and parts, building materials and garden equipment, clothing (excluding local sales), and general merchandise.

Using the statistical reports of taxable sales by county and industry, and aggregating county data into Empire State Development regions, offers a better understanding of regional differences among industry sectors as a percent of total taxable sales, but also provides the opportunity to draw trend comparisons between upstate and downstate New York over time. Upstate New York consists of the Western New York, Finger Lakes, Southern Tier, Central New York, Mohawk, North Country, and Capital District regions. Downstate New York is comprised of the Mid-Hudson, New York City, and Long Island regions.

Comparison of Upstate/Downstate New York Total State Taxable Sales



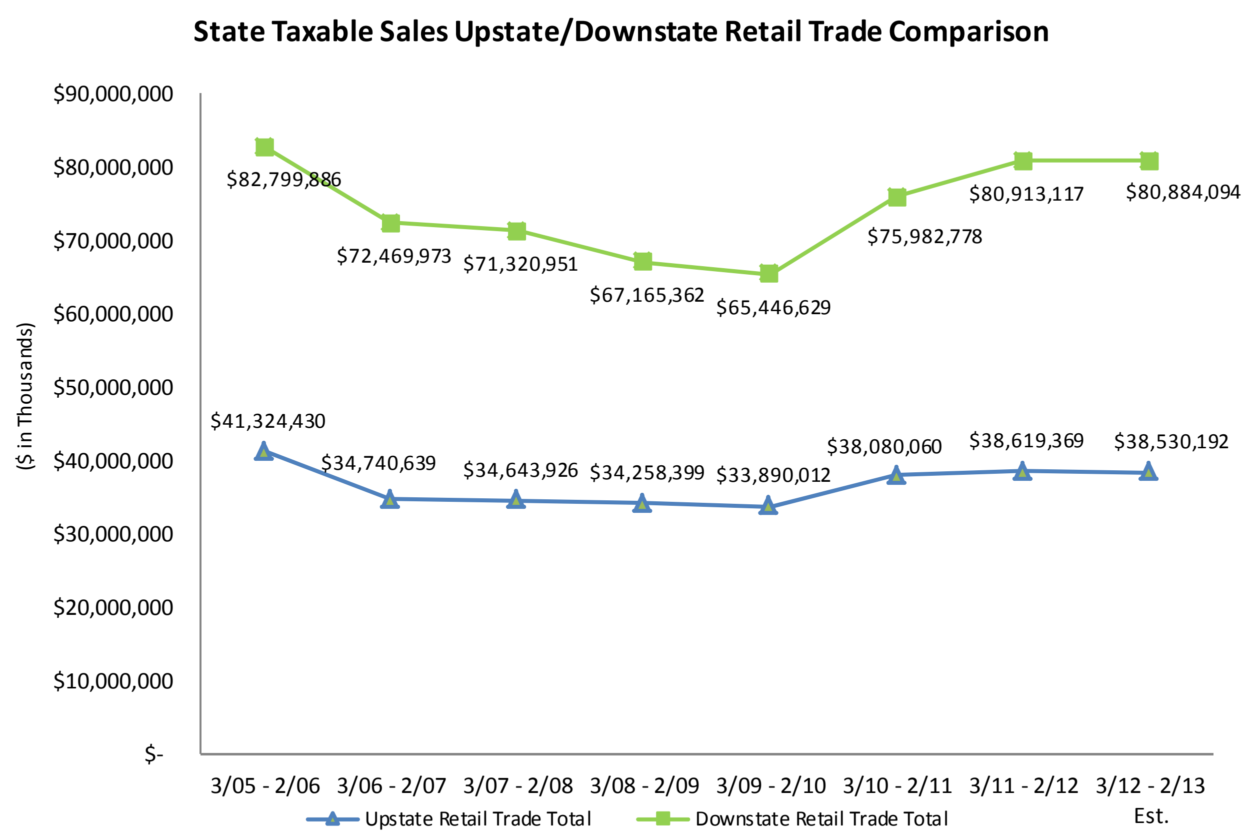
Source: NYS Department of Taxation and Finance.

Figure 61

Figure 61 provides a comparison of upstate and downstate New York total state taxable sales for all industries over time. During the Great Recession downstate taxable sales decreased by 7.7 percent, or $13.5 billion, while the upstate trend remained relatively flat.

Since the end of the recession in June 2009, taxable sales in the downstate region increased 21.4 percent, or $24.6 billion as of the selling period for March 2012 to February 2013, while taxable sales in the upstate region have increased by 12.6 percent or $6.3 billion over the same period.[50]

Comparison of Upstate/Downstate New York State Taxable Sales in the Retail Trade Industry



Source: NYS Department of Taxation and Finance.

Figure 62

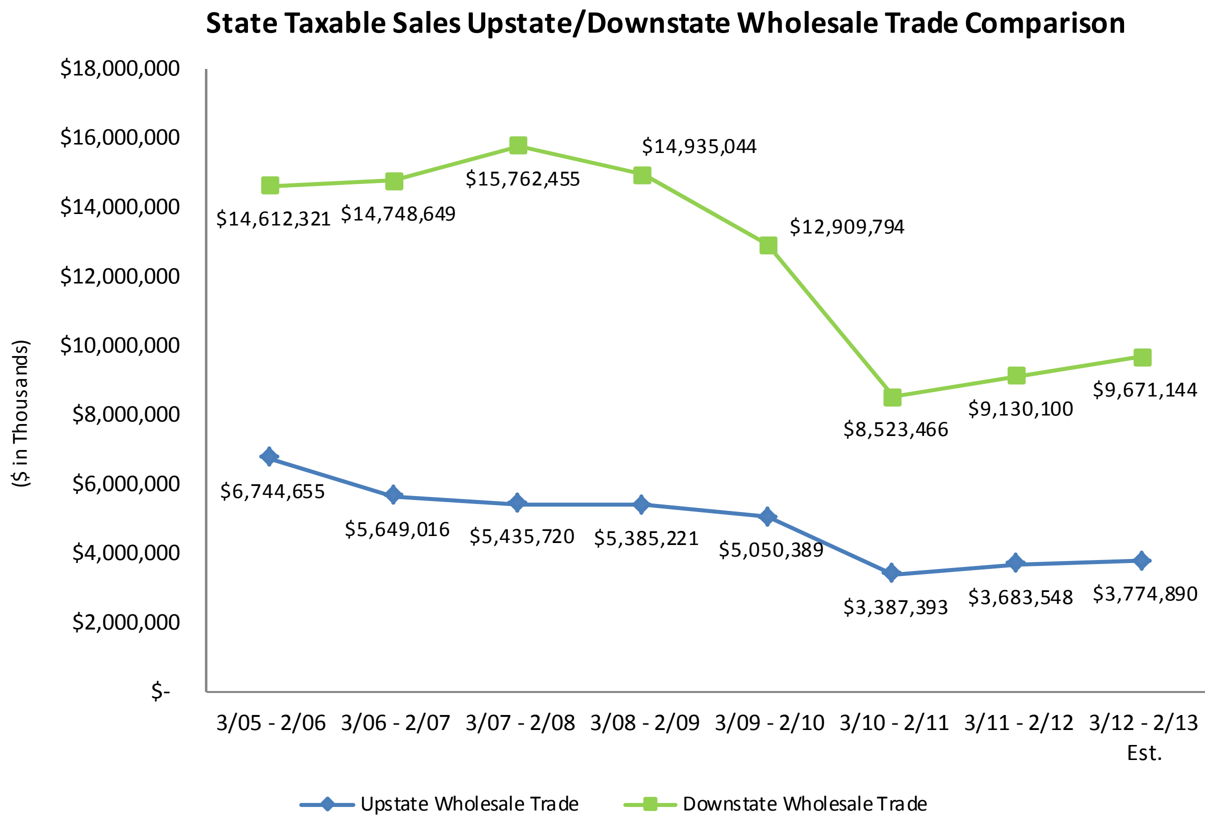
The chart above highlights the trend in state taxable sales in the retail trade industry. Taxable sales in the retail trade industry are generated primarily in the areas of motor vehicles and parts, building materials and garden equipment, clothing, and general merchandise; however, this varies across counties and regions.

[50] The selling period 3/12-2/13 represents the latest data available from the Department of Taxation and Finance https://www.tax.ny.gov/research/stats/statistics/sales_tax_statistical_reports_open_data.htm.

Downstate New York taxable sales decreased by 8.2 percent, or $5.9 billion during the recession; this decline was driven primarily by the Mid-Hudson and the Long Island regions. New York City taxable sales in retail trade decreased 7.1 percent during the same period.

In upstate New York, taxable sales decreased by 2.2 percent, or $753.9 million during the recession. The regions that experienced the largest declines were the Capital, Central, and Mohawk Valley regions, with decreases of three, 3.7, and 4.4 percent, respectively, during the same period.

Comparison of Upstate/Downstate State Taxable Sales in the Wholesale Trade Industry



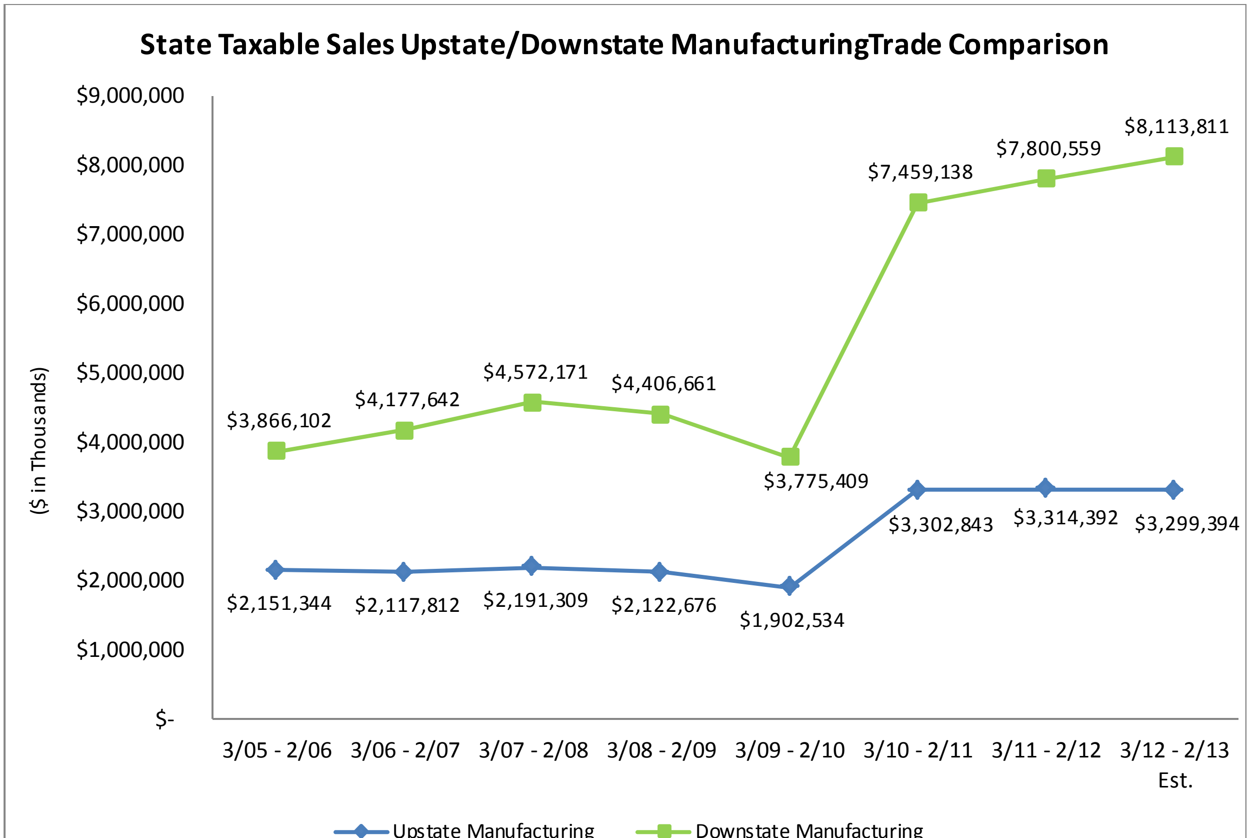
Source: NYS Department of Taxation and Finance.

Figure 63

Both upstate and downstate New York experienced declines in state taxable sales in the wholesale trade industry. However, downstate experienced significantly larger declines (Figure 63). By the end of the recession downstate state taxable sales in the wholesale trade industry had decreased by 18.1 percent, or $2.9 billion, while upstate taxable sales had decreased by 7.1 percent, or $385.3 million.

This decline is partially a result of legislation that became effective June 1, 2009 (Part P-1 of Chapter 57 of the Laws of 2009) which expanded the definition of how an out-of-state affiliate must register as a vendor for sales tax purposes. The change affected how out-of-state affiliates were represented based on their in-state affiliations and registered under NAICS reporting standards.

Comparison of Upstate/Downstate State Taxable Sales in the Manufacturing Industry

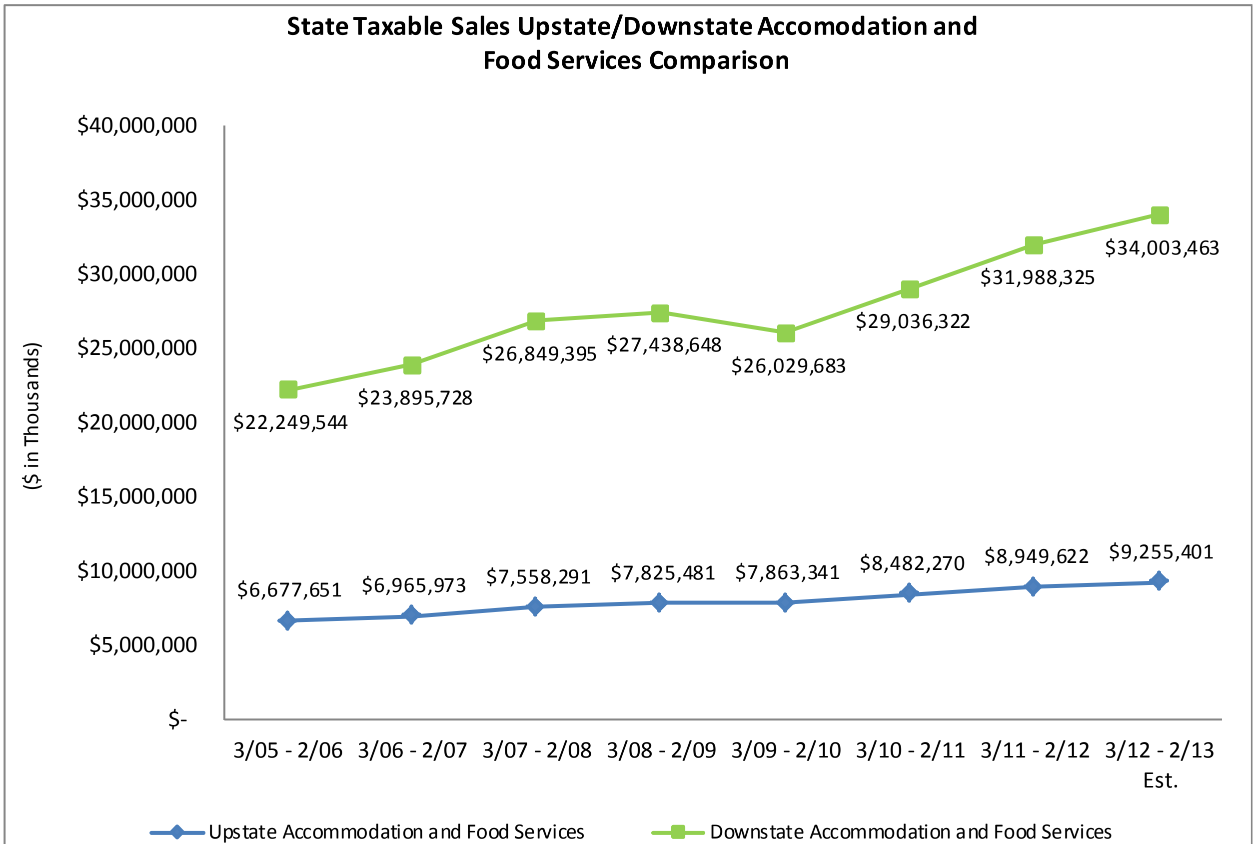


Source: NYS Department of Taxation and Finance.

Figure 64

State taxable sales in the manufacturing industry were not immune to the effects of the recession (Figure 64). Similar to the trends in the retail and wholesale trade industries, the effects were more pronounced downstate than in upstate. During the recession taxable sales in the downstate manufacturing industry declined by 17.4 percent or $796.8 million, while upstate taxable sales decreased by 13.2 percent or $288.8 million.

Comparison of Upstate/Downstate State Taxable Sales in the Accommodations and Foods Services Industry



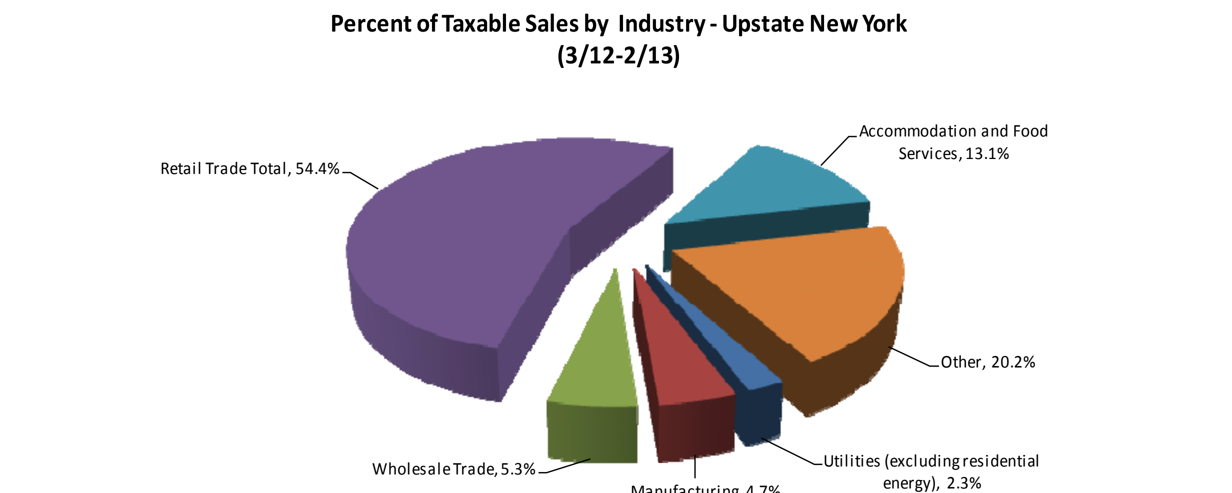
Source: NYS Department of Taxation and Finance.

Figure 65

Downstate New York experienced consistent growth prior to the mid-point of the recession where taxable sales decreased 5.1 percent. Overall, during the recession, downstate taxable sales in the accommodation and food services industry declined 3.1 percent or $820 million. The decrease was driven primarily by the New York City region, which witnessed a decline of 4.4 percent, highlighting the importance of tourism and the cyclical nature of the industry.

Upstate New York has witnessed consistent growth in taxable sales in the accommodation and food services industry since the March 2005 – February 2006 selling period. Total growth for the period March 2005 – February 2006 to March 2012 – February 2013 was 38.6 percent. During the recession upstate taxable sales in the accommodation and food services industry grew by four percent or $305 million. The upstate New York regions to experience the largest growth were the Western New York and Southern Tier regions with growth of 7.4 and 6.3 percent, respectively.

Upstate Shares of Taxable Sales for Major Industries



Source: NYS Department of Taxation and Finance.

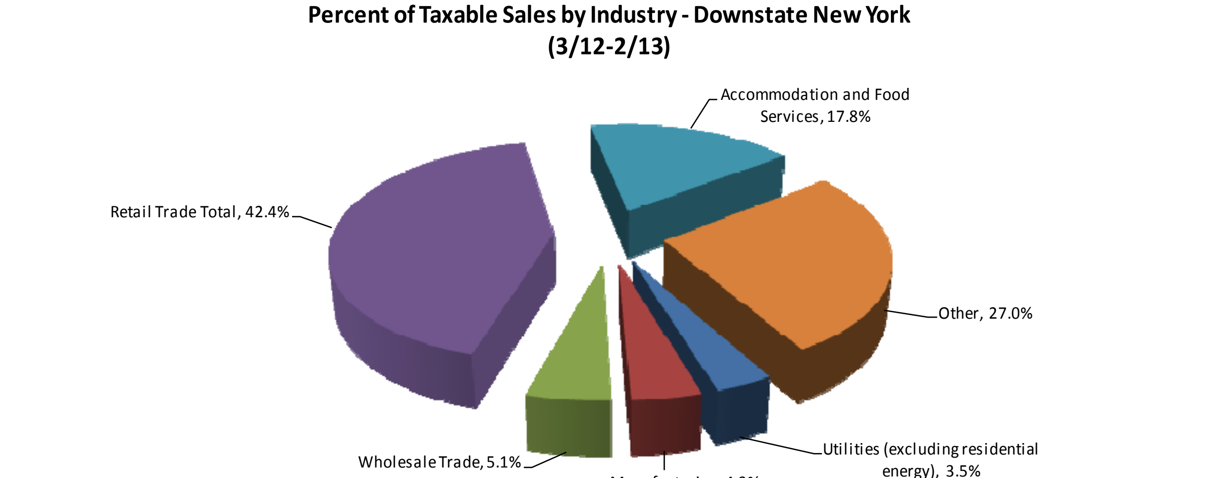
Figure 66

The chart above reviews taxable sales as a percent of total taxable sales in upstate New York for the selling period March 2012 – February 2013 by industry. The retail trade industry represents more than half of total taxable sales, at 54 percent. Across all regions in upstate New York, retail trade industry taxable sales share was highest in the North Country at 59.4 percent and lowest in the Finger Lakes region at 52.6 percent.

The accommodation and food services industry is the second largest single industry in terms of taxable sales as a percent of total taxable sales in upstate New York, at 13.1 percent. Across all regions of upstate New York, the accommodation and food services industry share was highest in the Western New York region at 14.4 percent and lowest in the Finger Lakes and Southern Tier regions at 12.2 percent.

For the selling period March 2012 – February 2013, the wholesale trade, manufacturing, and utilities (excluding residential energy) industries represented 5.3, 4.7, and 2.3 percent of the total respectively, accounting for a combined 12.3 percent of total state taxable sales. The category “Other” which accounts for 20.2 percent of total state taxable sales consists of the following industries: construction, information, professional and technical, administrative services, health care, arts and entertainment, other services (repair, laundry, etc.), agriculture, mining, transportation, education, and government, and those unclassified.

Downstate Shares of Taxable Sales for Major Industries



Source: NYS Department of Taxation and Finance.

Figure 67

The chart above reviews taxable sales as a percent of total taxable sales in downstate New York for the selling period March 2012 – February 2013 by industry. The retail trade industry represents just under half of total taxable sales at 42.4 percent, 12.0 percentage points less than upstate New York for the same period. In the Mid-Hudson and Long Island regions, the retail trade industry accounted for 52.3 and 53.9 percent of total state taxable sales, respectively. New York City taxable sales in the retail trade industry accounted for 35.5 percent of total taxable sales within the region.

The accommodation and food services industry is the second largest single industry with respect to taxable sales as a percent of total taxable sales in downstate New York, at 17.8 percent. Across all regions of downstate New York, New York City accommodations and foods services accounted for the largest share within the New York City region at 21.8 percent, whereas accommodation and food services in the Mid-Hudson and Long Island regions accounted for 11.4 and 11.7 percent of total taxable sales, respectively.

For the selling period March 2012 – February 2013, the wholesale trade, manufacturing, and utilities (excluding residential energy) industries represented 5.1, 4.3, and 3.5 percent of the total respectively, accounting for a combined 12.9 percent of total state taxable sales.

Medical Marihuana Excise Tax

Pursuant to Article 20-B of the Tax Law there is a state excise tax imposed on medical marihuana which is prescribed for the treatment of a variety of conditions. Upon the sale of the product from a New York State licensed dispensary to a patient or designated caregiver, a seven percent excise tax is levied and remitted by the dispensary. Statute limits the number of medical marihuana manufacturers in NYS to five, which are located in Queens, Monroe, Warren, Orange, and Fulton counties.

Of the revenues received from the state medical marihuana excise tax, 55 percent are dedicated, while the remainder is appropriated on a discretionary basis annually. The 55 percent dedicated funds are appropriated as following:

- 22.5 percent is remitted to the counties in which there is a medical marihuana manufacturer based, in proportion to the gross sales in each county;
- 22.5 percent is remitted to the counties in which the medical marihuana was dispensed, in proportion to the gross sales in each county;
- five percent is remitted to the Office of Alcoholism and Substance Abuse Services for the purposes of drug abuse prevention, counseling, and treatment services; and,
- five percent is remitted to the Division of Criminal Justice Services to provide discretionary grants to state and local law enforcement agencies.

State Fiscal Year 2015-16

The committee staff estimates revenues from the Medical Marihuana Excise Tax to total $1 million in SFY 2015-16. The committee staff’s estimate is equal to the Executive Budget estimate.

State Fiscal Year 2016-17

For SFY 2016-17, the committee staff forecasts collections of $4 million, for an increase in receipts of $3 million over SFY 2015-16 estimates. The committee staff’s forecast is equal to the Executive Budget forecast.

Executive Budget Proposals

The Executive proposes language that would allow the Department of Taxation and Finance to report information necessary to distribute receipts from the excise tax.

Auto Rental Tax

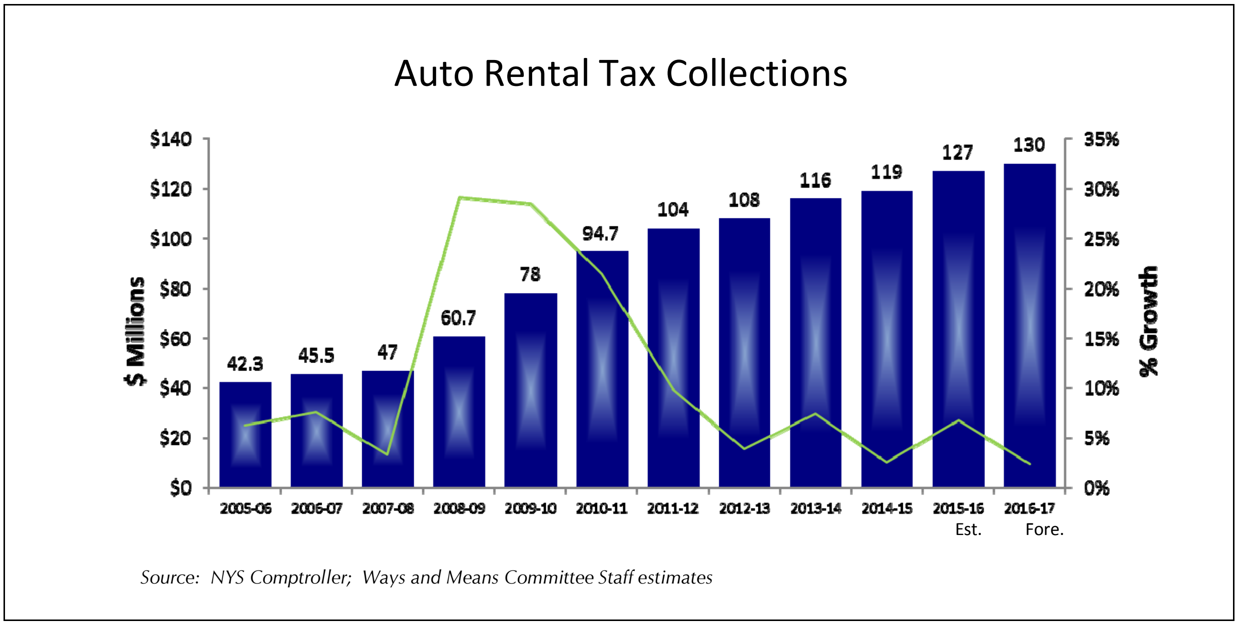


Figure 68

The auto rental tax, imposed by Article 28-A of the Tax Law, applies to the rental of any passenger car with a gross vehicle weight of 9,000 pounds or less that can seat a maximum of nine passengers. The statewide auto rental tax is imposed at a rate of six percent. The tax does not apply to leases of one year or more.

Table 24

Auto Rental Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$105	5.5%	$127	6.7%	$126	$1
2016-17			$130	2.4%	$128	$2

YTD through January

Year-to-date, auto rental tax collections have increased 5.5 percent to $105 million on an All Funds basis compared to the same period in SFY 2014-15.

State Fiscal Year 2015-16

The committee staff estimates auto rental tax collections to total $127 million in SFY 2015-16, an increase of $8 million or 6.7 percent over SFY 2014-15. The Executive's Budget estimates SFY 2015-16 All Funds auto rental tax collections to total $126 million or $1 million less than the committee staff estimate.

State Fiscal Year 2016-17

The committee staff forecasts auto rental tax collections to total $130 million or 2.4 percent over SFY 2015-16 estimates. The Executive forecasts an 1.6 percent growth with projected collections of $128 million. The committee staff's forecast is $2 million above the Executive's.

Underlying Economic Conditions

Auto rental tax collections follow the pattern of general spending on leisure and business travel. Robust tourism growth trends in the national and state economies account for the growth in auto rental tax collections.

Fund Distribution

Table 25

Auto Rental Tax Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16		47		80	127
2016-17	-	49	-	81	130

Executive Budget Proposals

The Executive did not propose any legislative changes that would impact auto rental tax revenues.

Motor Fuel Tax

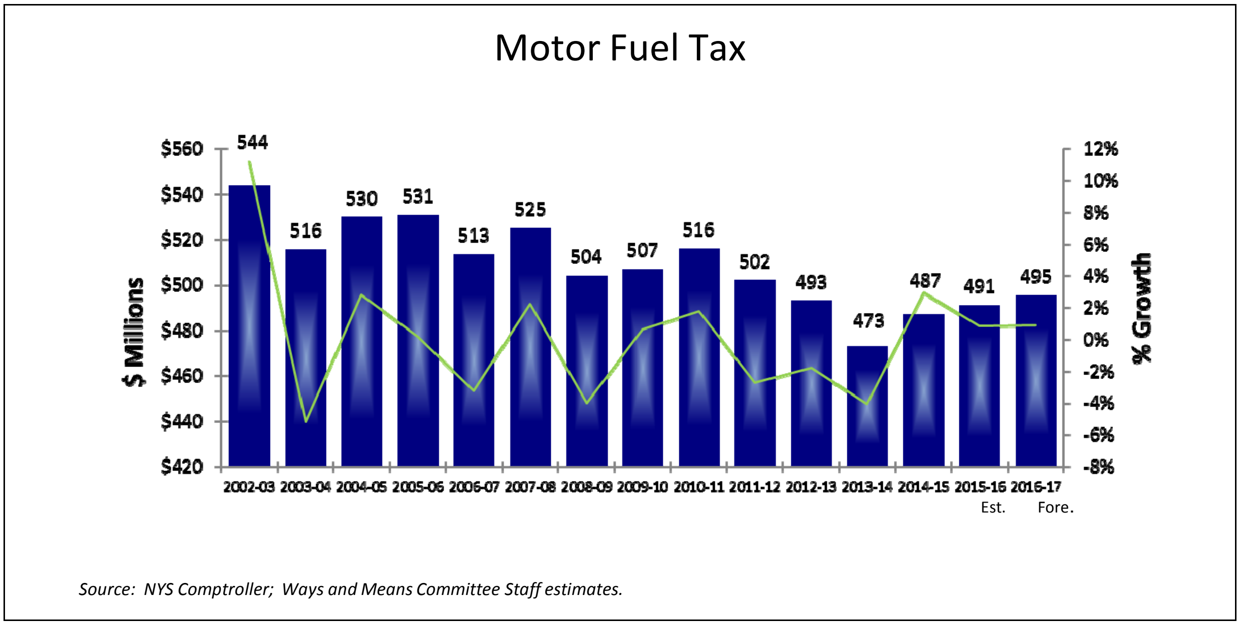


Figure 69

Article 12-A of the Tax Law imposes an eight-cents-per-gallon tax on diesel fuel. Motor fuel and gasoline are taxed at the same eight cents per gallon upon importation or production within New York State. The motor fuel tax has three components: regular tax of four cents per gallon, additional tax of three cents per gallon, and supplemental tax of one cent per gallon. Motor fuel receipts are split between the Dedicated Highway and Bridge Trust Fund (81.5 percent) and the Dedicated Mass Transportation Trust Fund (18.5 percent). Diesel receipts are split between the Dedicated Highway and Bridge Trust fund (63 percent) and the Dedicated Mass Transportation Trust Fund (37 percent).

Table 26

Motor Fuel Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$419	1.1%	$491	0.8%	$491	$0
2016-17			$495	0.9%	$488	$7

YTD through January

Through January, motor fuel tax collections have increased 1.1 percent over last year totaling $419 million.

State Fiscal Year 2015-16

The committee staff estimates that motor fuel tax collections will reach $491 million in SFY 2015-16 reflecting a slight increase of 0.8 percent. Gasoline consumption is expected to increase 0.6 percent this fiscal year, while diesel consumption is expected to increase 2.7 percent. In the remainder of the fiscal year, motor fuel tax collections are expected to decrease one percent over the prior year. The Executive forecasts $491 million in collections, equal to the committee's estimate.

State Fiscal Year 2016-17

Gasoline consumption is forecast to increase one percent in SFY 2016-17 and diesel consumption is forecast to increase 1.6 percent. This forecast drives the committee's forecast of $495 million in motor fuel tax receipts in SFY 2016-17. The committee staff forecast is $7 million above the Executive forecast.

Fund Distribution

Table 27

Motor Fuel Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	-	103		388	491
2016-17	-	104	-	392	495

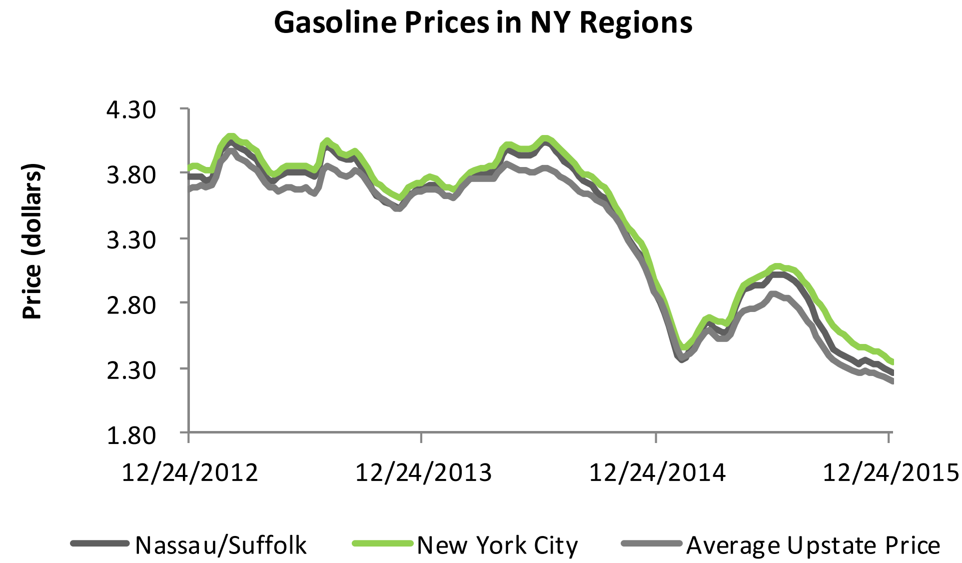
Executive Budget Proposals

- Extend alternative fuels tax exemptions until September 1, 2021.

Gasoline Price Patterns by Region

New York State levies several taxes on gasoline and diesel with significant revenue implications. Therefore, understanding price and use trends for gasoline and diesel is useful in forecasting future revenue. This analysis is focused on trends in gasoline prices as well as comparisons between the upstate and downstate regions. The upstate region includes the major metropolitan areas of Albany/Schenectady/Troy, Binghamton, Buffalo/Niagara Falls, Rochester, Syracuse, and Utica/Rome. Downstate regions are Nassau/Suffolk and New York City. Our analysis begins with 2012 data, the first period where consistent price data for each major metropolitan area are available.

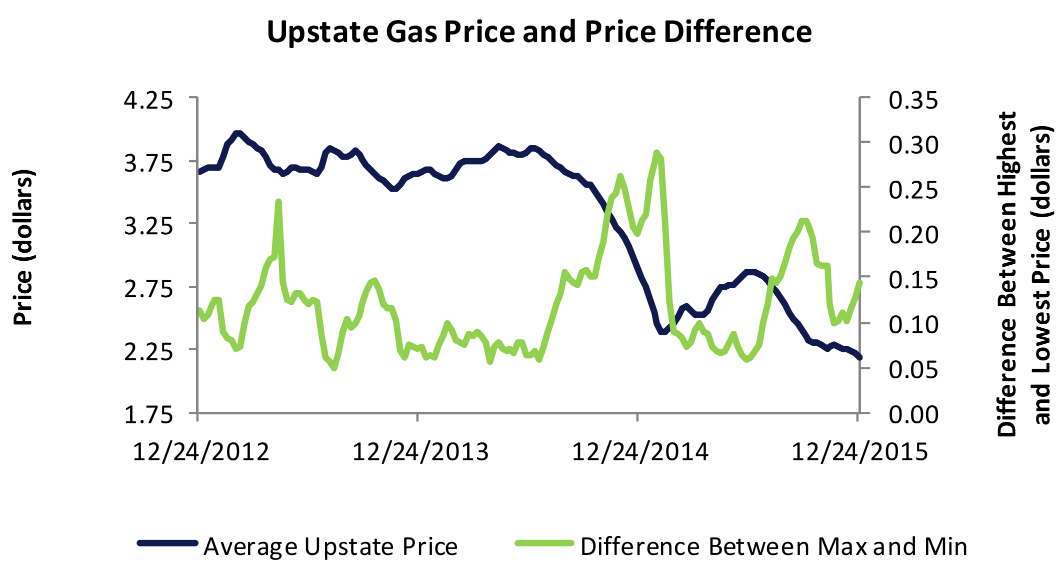
Gasoline prices for Nassau/Suffolk and New York City are consistently higher than the average price in upstate New York. As can be seen in Figure 70, the New York City gasoline price is $.15 to $.25 higher than the upstate average, with Nassau/Suffolk $.05 or less below New York City prices.



Source: New York State Energy and Research Development Authority.

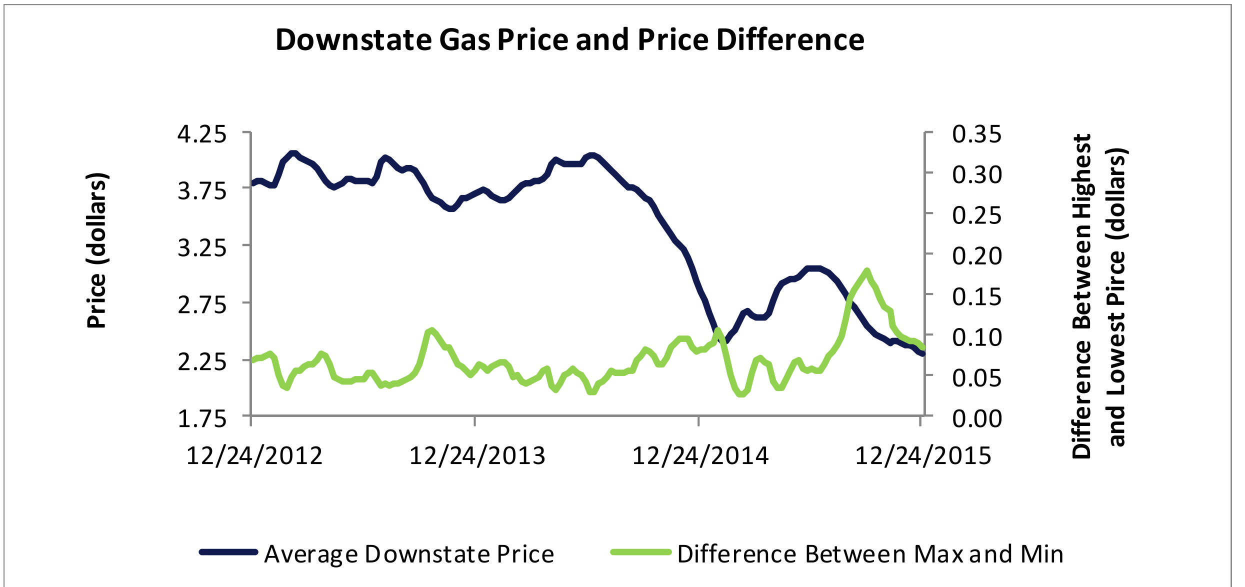
Figure 70

We also investigated how gasoline prices in each region behave during periods of change in the average gasoline price. In both upstate and downstate New York, periods of decline in the average gasoline price have corresponded to periods of increased variation in gasoline prices in individual metropolitan areas where the spread between the highest and the lowest price has substantially increased.



Source: New York State Energy and Research Development Authority.

Figure 71



Source: New York State Energy Research and Development Authority.

Figure 72

Such variability is reflective of the local markets' competitive dynamics as they respond to the changing spot and future oil and gasoline prices.

Highway Use Tax

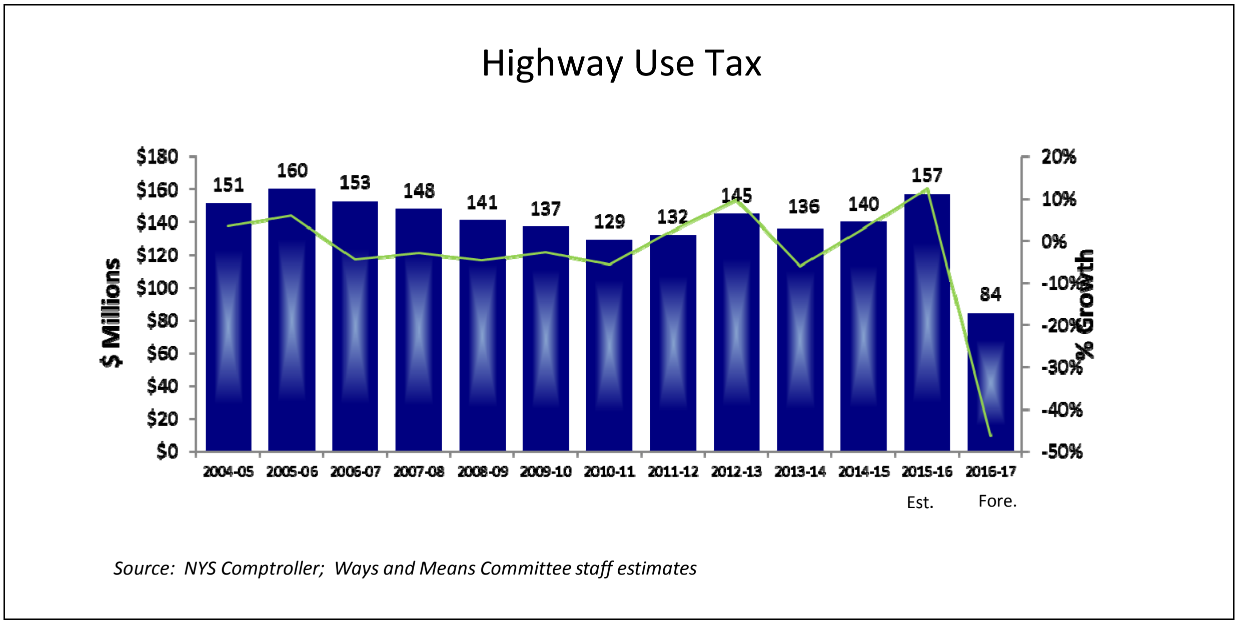


Figure 73

Articles 21 and 21-A of the Tax Law impose a Highway Use Tax (HUT) for the privilege of operating a commercial vehicle on public highways. Revenues are derived from three sources: the truck mileage tax (TMT), highway use permit fees, and the fuel use tax.

The truck mileage tax is levied on commercial vehicles having a loaded gross weight of more than 18,000 pounds, or an unloaded weight over 8,000 pounds for trucks and 4,000 pounds for tractors. The tax is calculated by multiplying the number of miles operated on New York State public highways, excluding miles on state Thruways by the appropriate graduated rate. Rates are indexed according to the gross, laden or unladen weight.

Highway use permits are mandatory for owners of vehicles subject to the HUT. The permits are triennial at a cost of $15 for an initial permit and $15 for reregistration. Beginning December 1, 2013, vehicles subject to HUT are required to display a decal, costing $4, representing the ownership of a highway use permit.

The fuel use tax applies to commercial vehicles that purchase fuel outside New York State but consume the fuel while traveling on New York highways. The International Fuel Tax Agreement (IFTA) is used to simplify fuel use reporting for motor carriers. A carrier will report and pay its home jurisdiction all fuel taxes owed to IFTA members; the IFTA then distributes the payments to its members' jurisdictions. The aggregate fuel use tax rate is the sum of the motor fuel tax rate and the sales tax rate. The sales tax rate has two components: the state sales tax rate, four percent, and the lowest county sales tax rate at the time, currently three percent. The sales tax rates are applied to the capped price of $2 per gallon. All HUT receipts are earmarked to the Dedicated Highway and Bridge Trust Fund.

Table 28

Highway Use Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$138	14.9%	$157	11.8%	$154	$3
2016-17			$84	-46.4%	$84	$0

YTD through January

Through January, HUT collections have increased 14.9 percent to $138 million.

State Fiscal Year 2015-16

Collections from the highway use tax for SFY 2015-16 are estimated at $157 million or an increase of 11.8 percent. The Executive is expecting $154 million in HUT collections for SFY 2015-16, $3 million less than the committee staff estimate.

State Fiscal Year 2016-17

Highway use tax collections are forecasted to decrease by 46.4 percent to $84 million in SFY 2016-17 consistent with the Executive's forecast. The decline is attributed to the reduction of the highway use tax registration/decal fee from $19 to $1.50 following a recent court case and the expected settlement payments by the state.

Fund Distribution

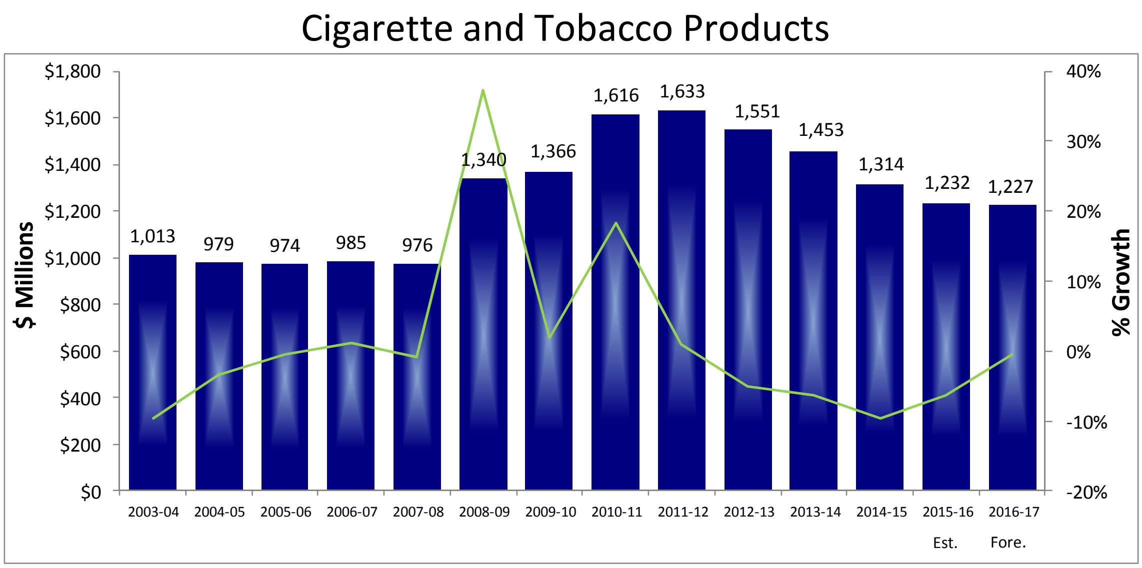
Table 29

Highway Use Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16				157	157
2016-17	-	-	-	84	84

Executive Budget Proposals

- The Executive proposes to reduce the registration and decal fee from $19 to $1.50 in accordance with a recent court case.

Cigarette and Tobacco Taxes



Source: NYS Comptroller; Ways and Means Committee Staff estimates.

Figure 74

The Commissioner of Taxation is authorized to make provisions for the sale of stamps and may license agents to sell stamps for the payment of tax on cigarettes. The agent may retain some of the revenues from the sale as commission according to guidelines established by the Tax Commissioner. The Commissioner is also authorized to prescribe a schedule of commissions, not exceeding five percent, to agents for buying and affixing stamps. The schedule shall be uniform with respect to the different types of stamps used, and may be on a graduated scale with respect to the number of stamps purchased.

The state also imposes a tax on tobacco products at a rate of 75 percent of the wholesale price of cigars and tobacco products other than little cigars and snuff. Little cigars are taxed at the same rate as cigarettes, $4.35 for a package of 20. One package of snuff which weighs an ounce or less is taxed at $2 per container, for packages weighing more than one ounce a proportional amount is levied on the snuff in excess of one ounce.

Currently, 76 percent of cigarette and tobacco taxes are distributed to the Health Care Reform Act (HCRA) revenue pool.

Table 30

Cigarette and Tobacco Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$1,071	-6.2%	$1,232	-6.2%	$1,224	$8
2016-17			$1,227	-0.4%	$1,226	$1

YTD through January

Year-to-date cigarette and tobacco products tax collections totaled $1.071 billion, or a decline of 6.2 percent over the same period in SFY 2014-15.

State Fiscal Year 2015-16

The committee staff estimates SFY 2015-16 collections for cigarette and tobacco taxes to be $1.232 billion, a decline of 6.2 percent. This estimate is based on year-to-date collections and historical collection patterns. The expected growth rate for the remainder of the fiscal year is negative 6.2 percent. Cigarette consumption is expected to decline 3.4 percent for the entire year. The Executive estimates that SFY 2015-16 cigarette and tobacco tax collections will total $1.224 billion, reflecting negative growth of 6.8 percent. The committee staff estimate is $8 million above the Executive's.

State Fiscal Year 2016-17

The committee staff's cigarette and tobacco forecast for SFY 2016-17 is $1.227 billion, a decline of 0.4 percent from SFY 2015-16 estimates. The Executive forecasts a slight increase of 0.2 percent, for collections of $1.226 billion, $1 million below the committee's forecast.

Fund Distribution

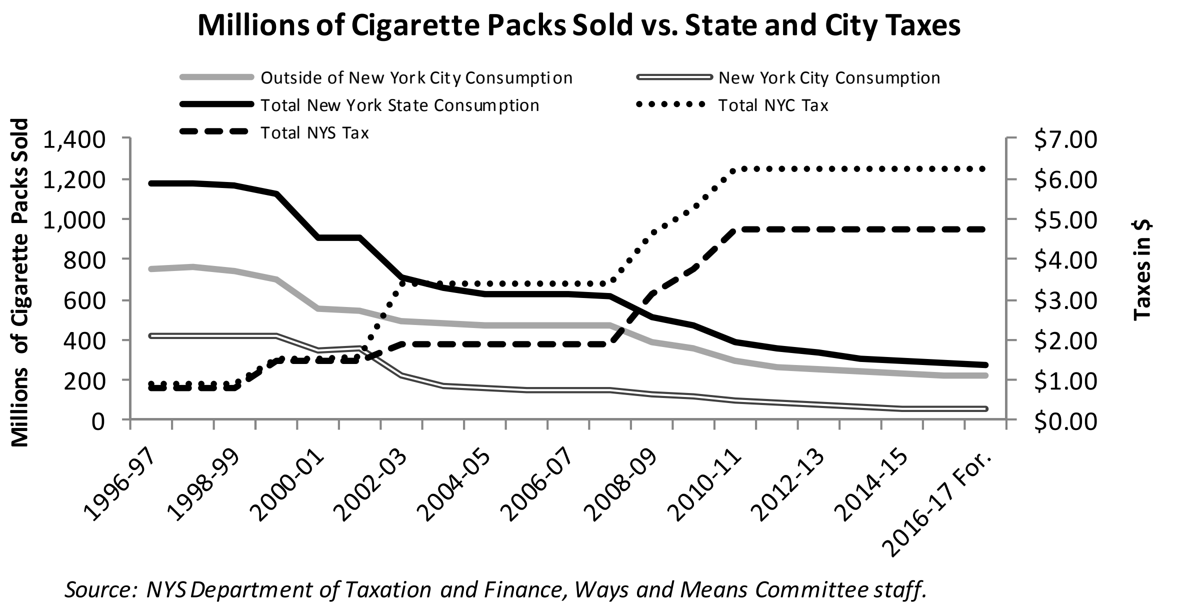
Table 31

Cigarette and Tobacco Taxes Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	309	923			1,232
2016-17	348	879	-	-	1,227

Cigarette Consumption

Consumption of cigarettes has declined 75 percent since 1996. However, the impact of these declines on revenue collections was partially offset by a tax rate increase in 2010. Every rate increase has resulted in double-digit declines in consumption, but also in double-digit increases in collections growth.

Cigarette taxes have not increased since July of 2010 and the state has seen consistent declines in consumption ever since, as tax increases are not the only factor in decreasing consumption. This pattern of decreasing consumption, without an accompanying rate increase, is likely to result in declines in cigarette and tobacco tax collections in both SFY 2015-16 and SFY 2016-17.



Source: NYS Department of Taxation and Finance, Ways and Means Committee staff.

Figure 75

Executive Budget Proposals

- The Executive proposes to expand jeopardy assessments to the Cigarette and Tobacco Tax. This proposal would allow the assessment of excise tax on cigarette and tobacco products prior to either the filing of a return or prior to the deadline to file a return, should collection of the excise tax be jeopardized by delay. The taxpayer would be required to pay the assessment upon notice.

Alcoholic Beverage Control License Fees

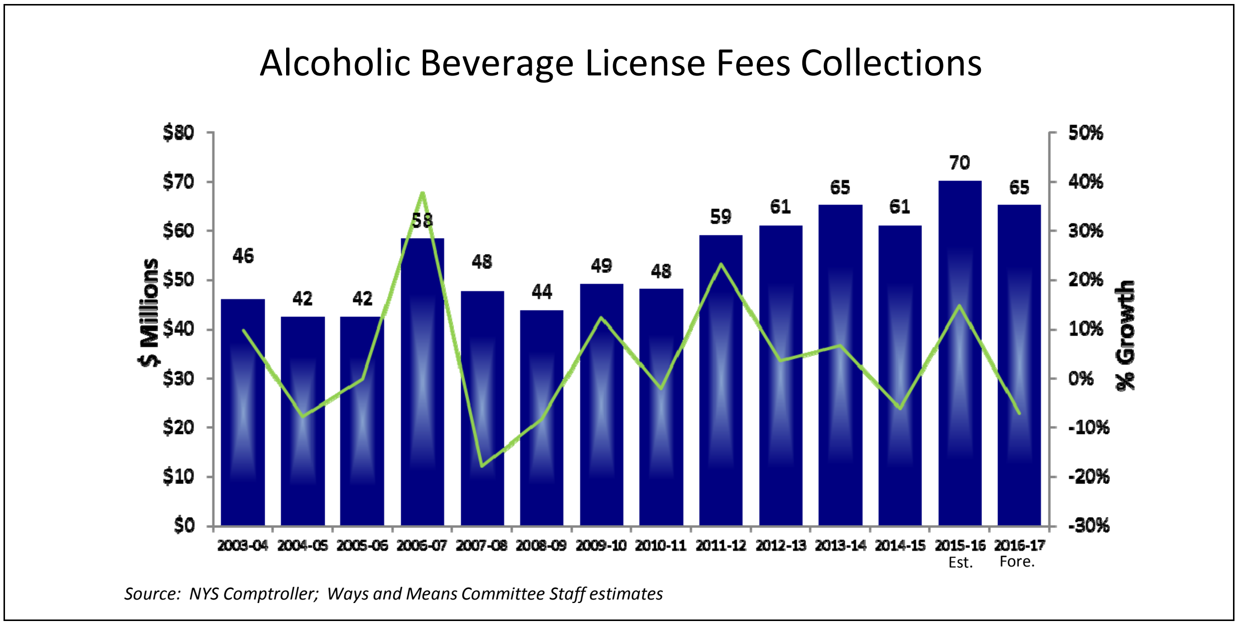


Figure 76

Pursuant to Articles 4, 4-A, 5, and 6 of the Alcoholic Beverage Control Law impose fees for licenses on distillers, brewers, wineries, cideries, wholesalers, retailers, and others who sell alcoholic beverages in New York State. The State Liquor Authority is responsible for administration of these laws.

License fees vary according to three major factors:

a) the type of license which is issued;
b) population of the establishment's location – for retail licenses; and,
c) the class of beverage for which the license is issued, namely liquor, beer, wine, etc.

The most expensive licenses are for distillers, which can cost $12,000 annually. There are approximately 48,000 retail outlets in the state and in the most densely populated areas liquor vendors are charged $1,366 annually, but a grocery store selling beer in a rural area of the state is only charged $110 annually.

Table 32

Alcoholic Beverage Control License Fees ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$56	10.8%	$70	13.6%	$66	$4
2016-17			$65	-6.5%	$63	$2

YTD through January

Year-to-date, Alcoholic Beverage Control License Fees collections are $56 million, an increase of 10.8 percent over the same period last year.

State Fiscal Year 2015-16

The committee staff estimates revenues from Alcoholic Beverage Control License Fees to total $70 million in SFY 2015-16, or 13.6 percent above the previous year. The Executive estimates collections to be $66 million for the fiscal year, or $4 million below staff estimates.

State Fiscal Year 2016-17

For SFY 2016-17, the committee staff forecasts collections of $65 million, for a decrease in growth of 6.5 percent over SFY 2015-16 estimates. The Executive forecasts collections of $63 million, or $2 million below staff estimates.

Executive Budget Proposals

The Executive did not propose any legislative changes that would impact revenues from the Alcoholic Beverage Control License Fees.

Alcoholic Beverage Tax

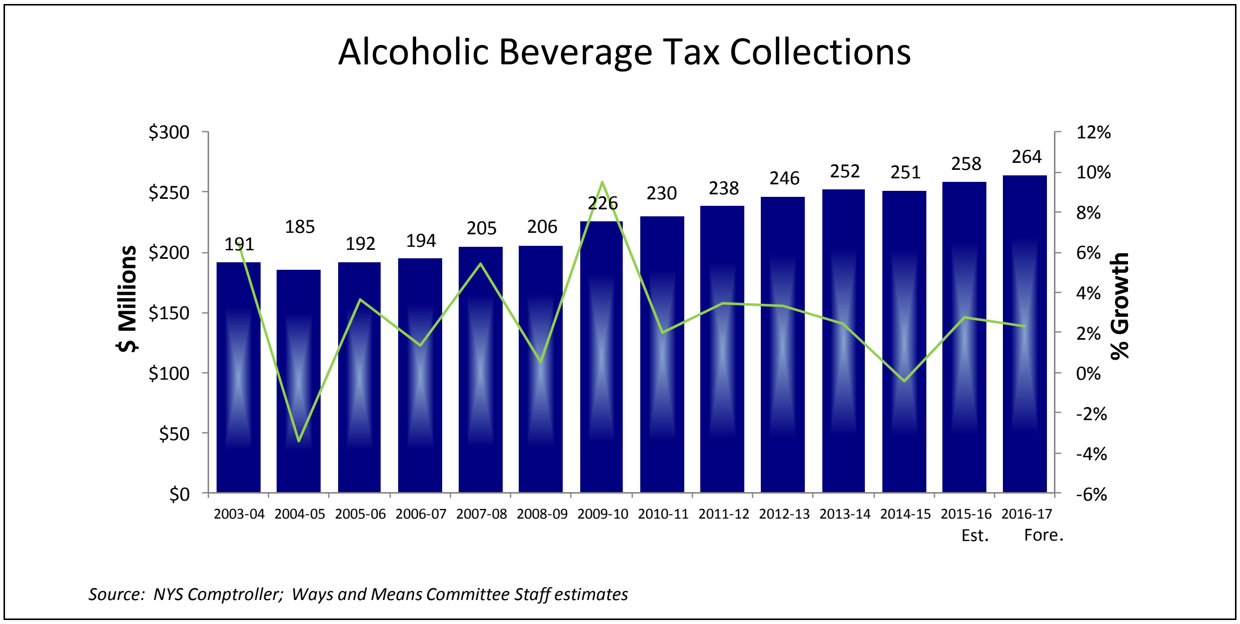


Figure 77

Pursuant to Article 18 of the New York State Tax Law, New York imposes a tax on alcoholic beverages at different rates based on their content of alcohol by volume. The tax is imposed on the distributor or non-commercial importer of alcoholic beverages. The following table describes the current rates.

Table 33

New York State Alcoholic Beverage Tax Rates (dollars per unit of measure)	
Liquor over 24 percent alcohol	1.70 per liter
All other liquor with more than 2 percent alcohol	0.67 per liter
Natural sparkling wine	0.0792 per liter
Artificially carbonated sparkling wine	0.0792 per liter
Still wine	0.0792 per liter
Beer with 0.5 percent or more alcohol	0.14 per gallon
Liquor with not more than 2 percent alcohol	0.01 per liter

Table 34

Alcoholic Beverage Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$224	1.8%	$258	2.7%	$254	$4
2016-17			$264	2.5%	$258	$6

YTD through January

Year-to-date, alcoholic beverage tax collections have increased 1.8 percent for collections of $224 million.

State Fiscal Year 2015-16

The committee staff estimates SFY 2015-16 alcoholic beverage tax collections to total $258 million, or 2.7 percent growth over SFY 2014-15. The Executive's Budget estimates SFY 2015-16 alcoholic beverage tax revenues to be $254 million.

State Fiscal Year 2016-17

The committee staff forecasts alcoholic beverage tax collections in SFY 2016-17 to be $264 million, or 2.5 percent over SFY 2015-16 collections. The Executive's Budget forecasts collections of $258 million, $6 million below committee estimates.

Seasonal Alcohol Consumption Patterns

Alcohol consumption patterns display seasonal trends. On average, people purchase the least amount of all types of alcohol in the month of January. This is reflective of the peak during the December holiday season. Consumption rises through the spring and it peaks again in June. The most pronounced increase in monthly consumption is in sparkling wine. The conclusion of another school year and its accompanying graduation celebrations, as well as the start of summer, entice people to consume sparkling wines. Beer consumption peaks in the summer, but as temperatures decrease, so does beer consumption. The arrival of Thanksgiving and the end of the year holidays are accompanied with increased alcohol consumption, and again sparkling wine shows the most seasonal variation. NYS tax receipts are greatest in January when distributors have to remit tax payments for sales made in the previous month.

Executive Budget Proposals

The Executive did not propose any legislative changes that would impact Alcoholic Beverage Tax revenues.

Taxicab Surcharge

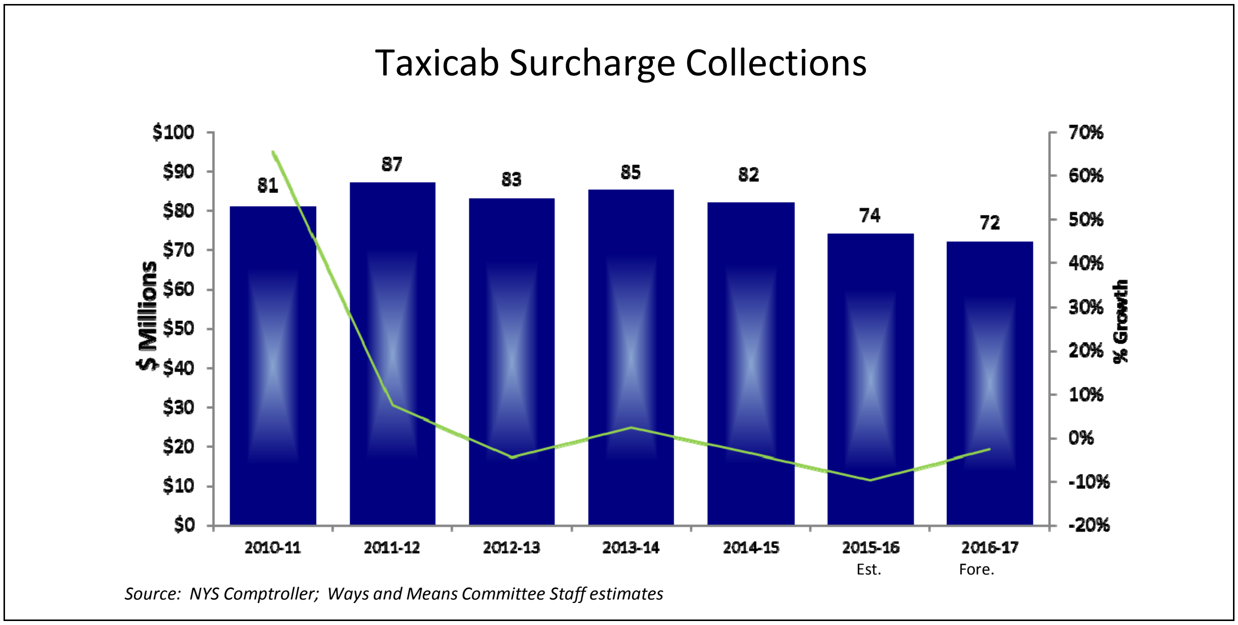


Figure 78

The Taxicab Surcharge is administered pursuant to the Article 29-A of the Tax Law. The law imposes a fifty-cents-per-trip tax on Hail vehicle trips that begin in New York City and end anywhere in the Metropolitan Commuter Transportation District (MCTD).

Table 35

Taxicab Surcharge ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$72	-11.7%	$74	-10.0%	$72	$2
2016-17			$72	-2.0%	$70	$2

YTD through January

Through January, taxicab surcharge collections have decreased 11.7 percent or $10 million when compared to the same period in SFY 2014-15.

State Fiscal Year 2015-16

It is estimated that taxicab surcharge receipts will total $74 million in SFY 2015-16. This represents a 10.0 percent decrease from SFY 2014-15. The decline may be attributed to the growth of new generation for-hire vehicles and the changing competitive landscape. This competition has reduced taxi ridership in the MCTD and surrounding communities, which represent a large percentage of where the tax is collected. The Executive's estimate for SFY 2015-16 is $72 million, $2 million less than staff's estimate.

State Fiscal Year 2016-17

The committee staff anticipates taxicab surcharge receipts will total $72 million in SFY 2016-17 for a decrease of two percent. The staff's projection is $2 million above the Executive's.

Executive Budget Proposals

The Executive did not propose any legislative changes that would impact taxicab surcharge collections revenue.

Business Taxes

Table 36

Business Taxes Forecasts by State Fiscal Year ($ in Millions)						
	SFY 2015-16	Growth	Diff. Exec.	SFY 2016-17	Growth	Diff. Exec.
Business Taxes	**$8,473**	**-0.4%**	**67**	**$8,083**	**-4.6%**	**65**
Corporate Franchise	5,131	44.6%	62	4,551	-11.3%	64
Utility Tax	769	5.6%	2	766	-0.4%	4
Insurance Tax	1,554	1.4%	(3)	1,480	-4.8%	(5)
Bank Tax	(92)	-106.0%	-	203	-320.7%	-
Petroleum Business Tax	1,112	-4.0%	7	1,084	-2.5%	2

Corporate Franchise Tax

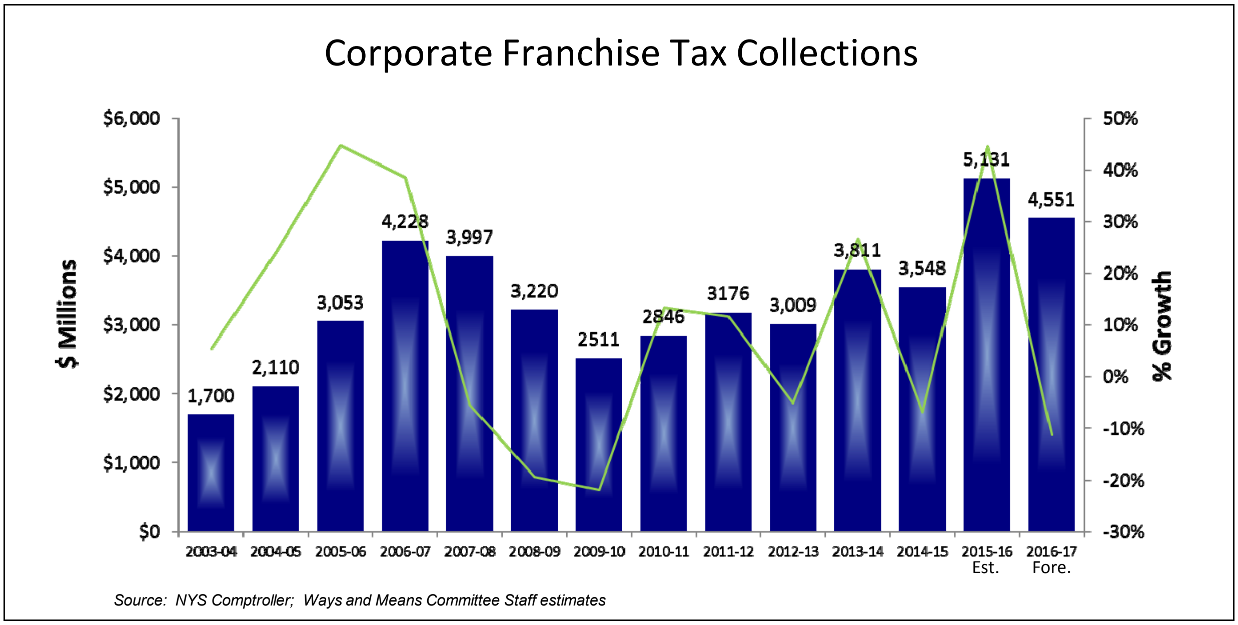


Figure 79

Article 9-A franchise taxes are imposed on every domestic or foreign corporation "for the privilege of exercising its corporate franchise, or of doing business, or of employing capital, or of owning or leasing property .. in a corporate or organized capacity, or of maintaining an office in this state..." (Tax Law §209.1). The 2014 Budget enacted key reforms to the Corporate Franchise tax. The following outlines some key highlights:

- **Unification of Article 32 (Bank Tax) payers with Article 9-A (Corporate Tax)**
- **Nexus and Income Definitions**
  - Economic nexus is expanded to include deriving receipts in the state (at least $1 million) even if no physical presence or fulfillment service exists;
  - Eliminates current exemption of income from subsidiary capital and 50 percent of dividends from non-subsidiaries;
- **Tax Bases and Rates**
  - Eliminates Article 9-A alternative minimum tax (AMT) and all Article 32 tax bases;
  - Separate tax on subsidiary capital is eliminated and Capital Base Tax is phased out through 2021;
  - Increases the top Fixed Dollar Minimum to $200,000 from $5,000;
  - Reduces the top rate from 7.1 percent to 6.5 percent effective January 1, 2016;

- **Apportionment/Sourcing**
  - Financial institutions may elect to either identify source of income based on customer location or elect to treat eight percent of all taxable financial income as net income.
- **Combined Reporting**
  - Makes subsidiaries and affiliates more likely to be combinable (taxable) by tightening current ownership requirements (more than 50 percent);
- **Net Operating Losses (NOLs)**
  - Conform to 20-year federal carry forward and allow a three year carryback;
  - Repeals strict federal NOL conformity rules by allowing taxpayer to fully apply NOL irrespective of federal NOL amount or source year.

Table 37

Corporate Franchise Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$3,136	63.5%	$5,131	44.6%	$5,069	$62
2016-17			$4,551	-11.3%	$4,487	$64

YTD through January

All Funds cumulative collections through January were $3.136 billion, up 63.5 percent from prior year collections.

Audit collections through January total $577 million, an increase of $81 million compared to the ten months of the previous fiscal year. Underlying growth, i.e. collections without audits, is 79.9 percent above that of the prior fiscal year. Refunds for the first ten months of this fiscal year were $1.082 billion, an increase of $210 million from the same period for SFY 2014-15.

State Fiscal Year 2015-16

The committee staff expects SFY 2015-16 corporate franchise tax collections to reach $5.131 billion, an increase of 44.6 percent or $1.583 billion over the previous fiscal year. To reach this level, remaining collections are expected to increase by 22.4 percent over the final two months of SFY 2014-15.

The Executive is projecting collections for this fiscal year to total $5.069 billion, an increase of 42.9 percent, and $62 million below committee estimates. Collections would have to increase by 18.6 percent for the remainder of the year for the Executive to reach this estimate.

State Fiscal Year 2016-17

The committee staff forecasts corporate tax receipts to decrease by 11.3 percent or $580 million for a total of $4.551 billion. The staff's SFY 2016-17 forecast is $64 million above the Executive's forecast of $4.487 billion. The decline in receipts is attributed to the decrease in the net income tax rate to 6.5 percent from 7.1 percent as well as the beginning of the capital tax base phase-out, both of which are effective as of tax year 2016. The Executive also notes that prior period adjustments for tax year 2015 are expected to be applied towards liability for the 2016 tax year. Additionally, as taxpayers become more familiar with the new tax code, estimated payments for tax year 2016 and beyond will more closely reflect estimated liability.

Fund Distribution

All corporate franchise tax receipts are deposited into the General Fund except for the Metropolitan Commuter Transportation District (MCTD) surcharge, which is deposited into the Mass Transportation Operating Assistance Fund (MTOAF) Special Revenue Fund. In SFY 2015-16, the committee expects General Fund receipts to total $4.378 billion.

In SFY 2016-17, the committee staff expects a decline of 14.2 percent in the General Fund with collections of $3.756 billion.

Table 38

Corporate Franchise Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	4,378	753	-	-	5,131
2016-17	3,756	795	-	-	4,551

Executive Budget Proposals

- Enhance the Urban Youth Jobs Tax Credit;
- Authorize an additional $8 million for Low-Income Housing credits for each of the next five fiscal years;
- Extend the Hire-A-Vet Credit for two years;
- Extend the Empire State Commercial Production Tax Credit for two years;
- Extend the Credit for Companies who Provide Transportation to Individuals with Disabilities for six years;
- Extend the Clean Heating Fuel Credit for three years;
- Extend the Excelsior Jobs Program for five years;
- Amend the state and New York City corporate tax reform statutes for technical amendments;
- Conform to new federal tax filing dates;
- Provide a corporate and personal income tax small business tax cut;
- Establish Thruway toll tax credits;
- Establish additional alcohol beverage tasting exemptions and production credits; and,
- Establish Education credits.

Bank Tax

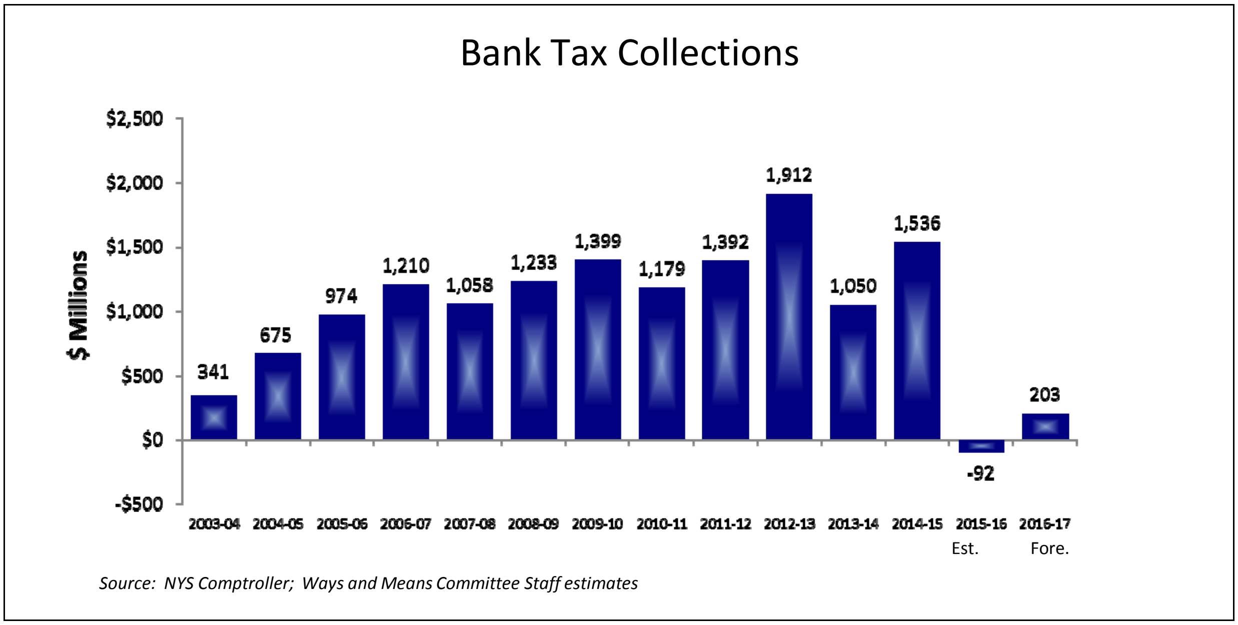


Figure 80

As of January 1, 2015 the Bank Tax has been merged with the Corporate Tax pursuant to the 2014 corporate tax reform. Please see the Corporate Franchise Tax introductory comments for more details.

Table 39

Bank Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	($69)	-105.2%	($92)	-106.0%	($92)	$0
2016-17			$203	-320.7%	$203	$0

YTD through January

Through January, bank tax collections declined by $1.374 billion or 105.2 percent from the prior fiscal year. The Executive expects audit receipts to decline by $525 million in SFY 2015-16, a decrease attributed to several large bank tax audits from SFY 2014-15 not expected to be repeated in this fiscal year.

State Fiscal Year 2015-16

The committee staff expects bank tax collections to be negative $92 million this fiscal year, a decrease of $1.628 billion or 106 percent from last year, same as the Executive estimate.

State Fiscal Year 2016-17

The committee staff expects bank collections to be $203 million in SFY 2016-17. This is the same as the Executive's forecast and reflects the merging of the corporate and bank taxes. As a consequence of the discontinuation of the bank tax, the Executive expects audits to be the only activity for tax year 2015.

Fund Distribution

All bank tax receipts are deposited into the General Fund except for the Metropolitan Commuter Transportation District (MCTD) surcharge, which is deposited into the Metropolitan Transportation Operating Assistance Fund (MTOAF).

In SFY 2015-16, the committee staff expects General Fund receipts of negative $100 million. In SFY 2016-17 the committee expects General Fund to total $173 million.

Table 40

Bank Tax Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	(100)	8	-	-	(92)
2016-17	173	30	-	-	203

Insurance Tax

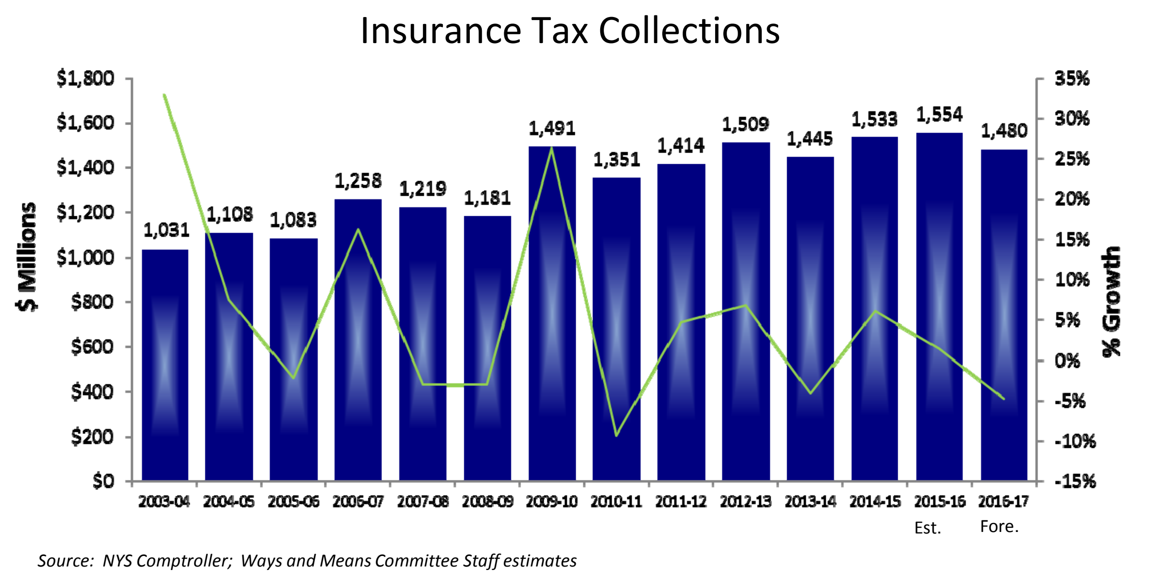


Figure 81

Insurance companies in New York State are taxed by two separate taxing bodies, the Tax Department and the Insurance Department. Pursuant to Article 33 of the Tax Law, the Tax Department imposes income and or premiums taxes on insurance companies. The Insurance Department imposes taxes on insurance companies pursuant to Articles 11 and 21 of the Insurance Law.

Table 41

Insurance Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$941	4.6%	$1,554	1.4%	$1,557	($3)
2016-17			$1,480	-4.8%	$1,484	($5)

YTD through January

Year-to-date insurance tax collections are $941 million, an increase of $41 million or 4.6 percent over the prior fiscal year.

State Fiscal Year 2015-16

The committee staff expects collections to total $1.554 billion in SFY 2015-16, an increase of $21 million or 1.4 percent over the prior fiscal year. This is $3 million below the Executive's estimate of $1.557 billion. The committee staff expects collections to decrease by 3.3 percent over the last two months of the fiscal year.

State Fiscal Year 2016-17

The committee staff forecasts insurance collections to total $1.480 billion in SFY 2016-17, a decrease of $74 million or 4.8 percent from the current fiscal year. The Executive is forecasting collections to be $1.484 billion in SFY 2016-17, a decrease of 4.7 percent or $73 million. This estimate is $5 million above the committee staff forecast.

Fund Distribution

All insurance tax receipts are deposited into the General Fund except for the Metropolitan Commuter Transportation District (MCTD) surcharge, which is deposited into the Metropolitan Transportation Operating Assistance Fund (MTOAF).

In SFY 2015-16, the committee projects General Fund receipts to reach $1.385 billion. In SFY 2016-17 the committee staff projects the General Fund to decrease $68 million to $1.317 billion.

Table 42

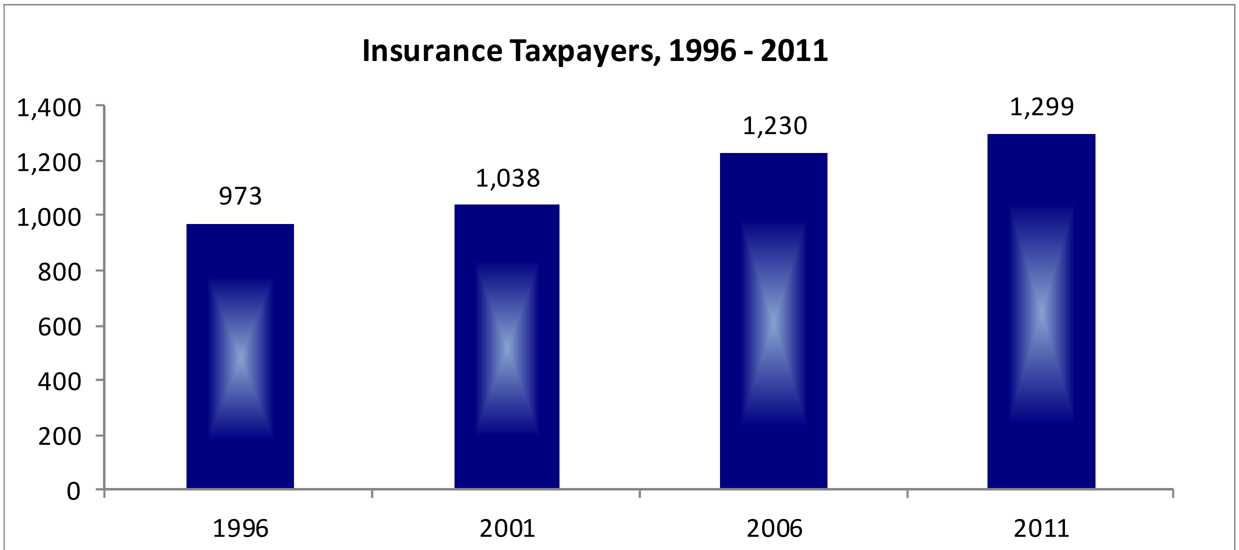
Insurance Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	1,385	169	-	-	1,554
2016-17	1,317	163	-	-	1,480

Insurance Taxpayer Profile – a Primer

The Insurance Tax is imposed by Article 33 of the New York State Tax Law and is payable by a variety of businesses within the insurance industry, resulting in a diverse taxpayer portfolio. As of 2011, latest complete data available, Article 33 taxpayer records included firms from the following insurance sub-industries:

- Life Insurance
- Accident & Health Insurance
- Property & Casualty Insurance
- Title Insurance
- Mortgage Guaranty Insurance
- Lloyd's and Reciprocals
- Savings Bank Life Insurance
- Financial Guaranty

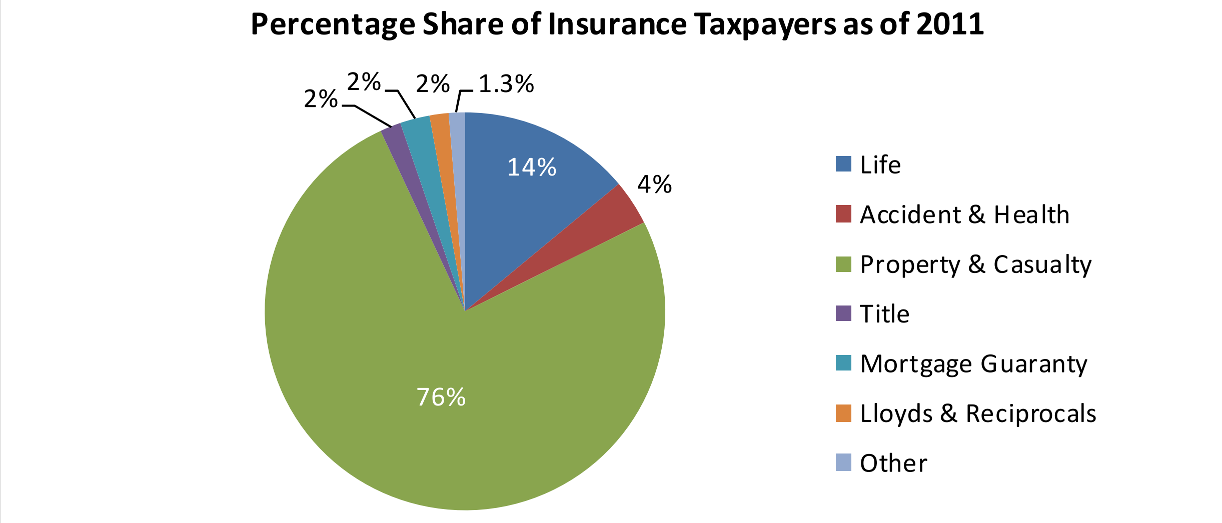
Upon examining Department of Taxation and Finance records, we find that a total of 1,299 taxpayers filed under Article 33 in 2011 (the most recent year for which detailed data are available); this was an increase of six percent above the 1,230 taxpayers recorded for 2006 and 33 percent above the 973 insurers on record for 1996, the earliest year included in this study. The majority of this increase was achieved in property and casualty insurance tax returns, which saw a net gain of 276 filers over the 15-year period (See Figure 82).



Source: NYS Department of Taxation and Finance; Ways and Means Committee staff.

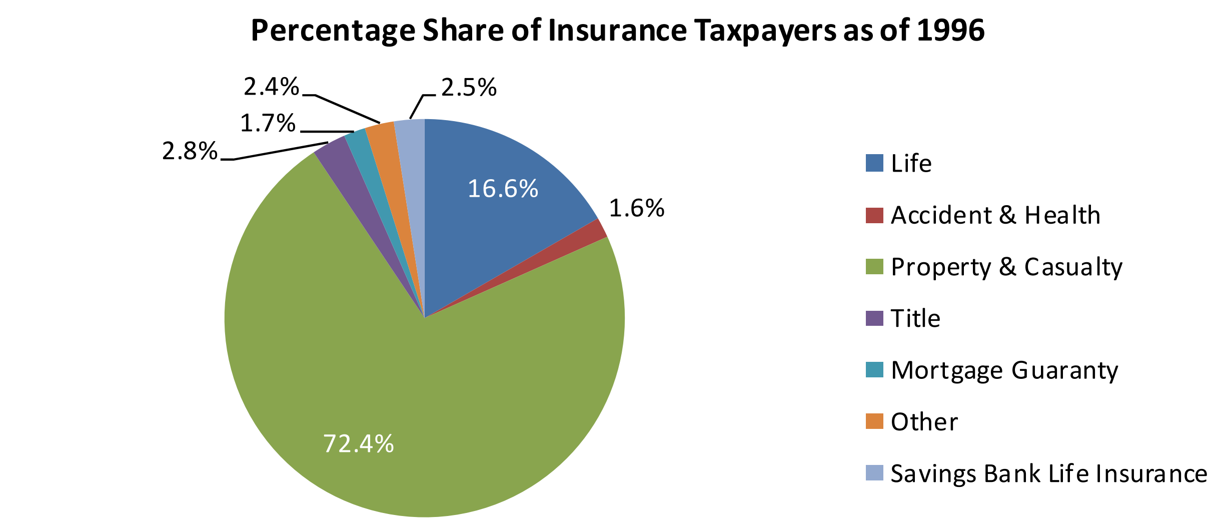
Figure 82

As the chart below illustrates, property and casualty insurers represent the clear majority of taxpayers, accounting for 75 percent of the total. With life and accident & health insurers accounting for 14 percent and four percent, respectively, these three groups combined to form 93 percent of all insurance taxpayers that filed for the 2011 tax year. We also find that this structure of the insurance taxpayer portfolio appears to have remained largely consistent over the years covered in this study. For instance, in 1996 (Figure 84) property and casualty insurers represented 72 percent of the market while life insurance companies accounted for an additional 16.6 percent.



Source: NYS Department of Taxation and Finance; Ways and Means Committee staff.

Figure 83



Source: NYS Department of Taxation and Finance; Ways and Means Committee staff.

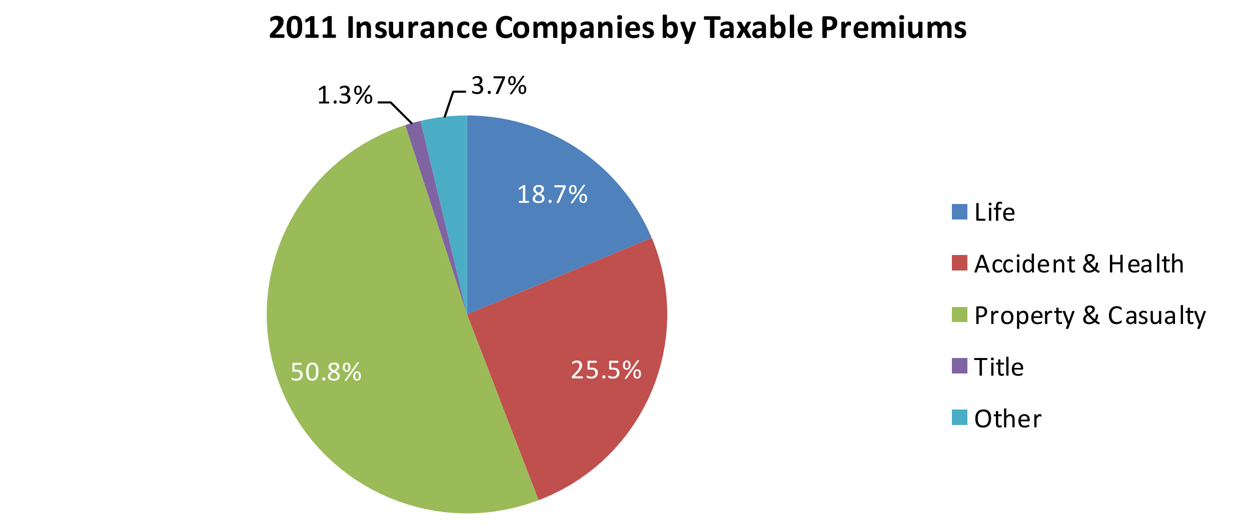
Figure 84

When examining taxable premiums we gain further insights into how much each insurance sub-industry contributes to Article 33 revenue. The following provides some key highlights:

- There was an estimated $1.170 billion in taxable premiums among all 2011 insurers;
- The accident and health segment contributed approximately $302 million or 26 percent;

- Property and casualty insurers represented 52 percent of the premium share with $602 million;
- Life insurers comprised an additional $222 million, or 19 percent, of the total.

While accident and health insurers represent only four percent of Article 33 taxpayers, they contributed 25.5 percent in revenues. Therefore, any factors that would cause these companies to alter their economic nexus in New York State would potentially have a disproportionate impact on tax revenue.



Source: NYS Department of Taxation and Finance; Ways and Means Committee staff.

Figure 85

In 2011, life, accident and health, and property and casualty insurers combined for 97 percent of all insurance premiums, or $1.126 billion.

Insurance Premiums, 1996 – 2011

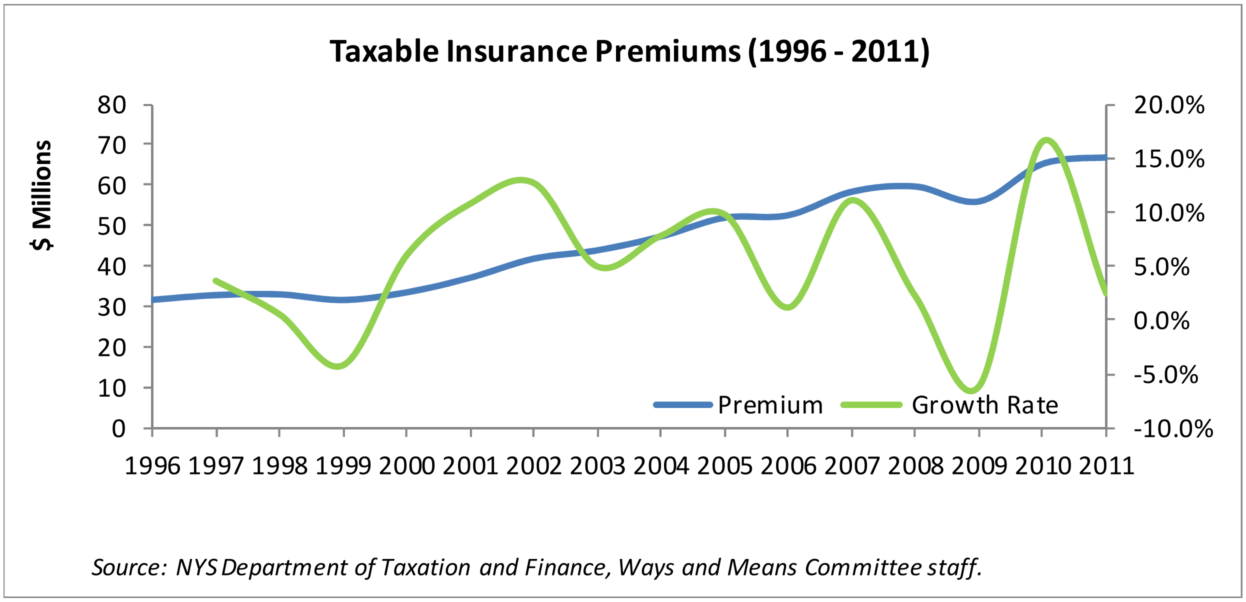


Figure 86

Figure 86 illustrates the behavior of taxable insurance premiums over the years 1996 through 2011; the series exhibits a predominantly upward trend - a small decline during the Great Recession notwithstanding. The financial crisis that precipitated the Great Recession had a disastrous effect on high-profile corporations within the industry, the most notable of which was American Insurance Group (AIG). Nevertheless, the insurance industry as a whole was able to emerge from this crisis "relatively unscathed".[51] As of the latest insurance industry analysis the amount of excess capital held by insurers is "sizable" ensuring adequate reserves to fend off future industry downturns.[52]

[51] Standard and Poor Capital IQ (2015). Industry Surveys: Insurance.
[52] Standard and Poor Capital IQ (2015). Industry Surveys: Insurance.

Net Operating Losses

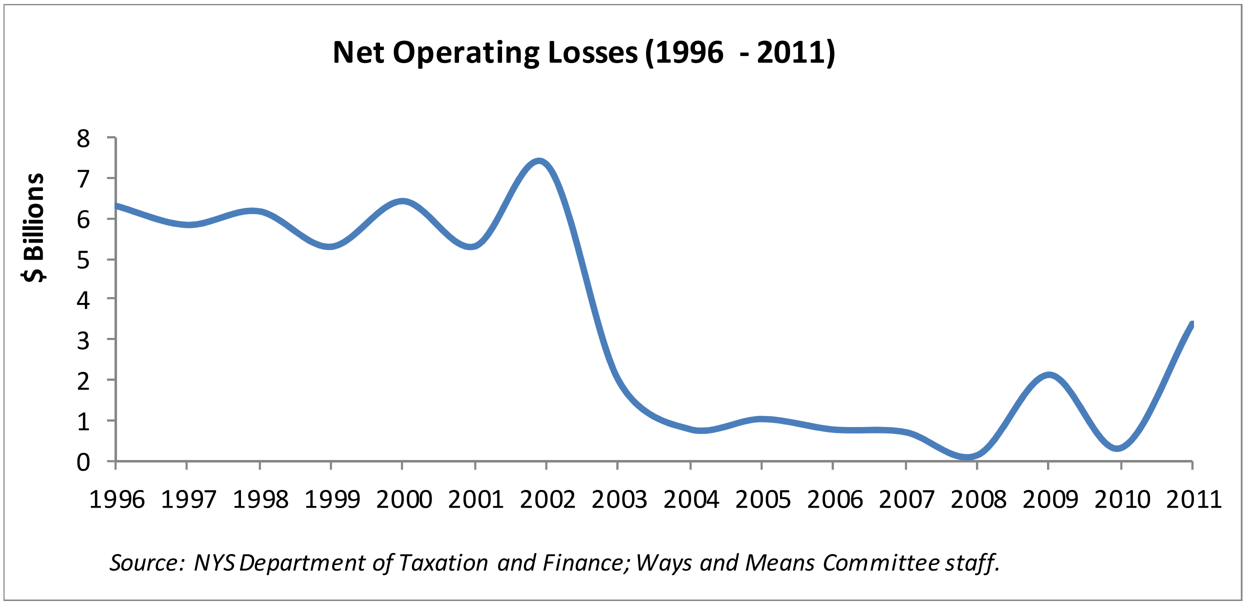


Figure 87

Insurers claimed $3.387 billion in Net Operating Losses (NOL) for tax year 2011, as opposed to tax year 2005, in which total NOL claims made by insurance companies amounted to $1.033 billion. We also notice a substantial disparity between the losses claimed in the era preceding the 2001 recession and September 11 terrorist attacks and those reported since, as suggested by the break in the trend illustrated in the chart above. Starting at $6.306 billion for tax year 1996 and reaching a zenith of $7.337 billion in 2002, the ensuing years saw more modest losses, with $2.015 billion reported for 2003 before bottoming out in 2008 at $135 million claimed. As NOL credits may be carried over to reduce a corporation's tax liability, these claims are not likely to reflect same-year losses; for instance, it is quite possible that the relatively large total claimed in 2011 was actually incurred during the economic downturn, which reached its nadir in 2009.

Executive Budget Proposals

- Extend the Hire-a-Vet tax credit for two years;
- Extend the Excelsior Jobs Program for five years;
- Authorize additional credits for the Low-Income Housing credit;
- Permanently extend tax shelter reporting requirements; and,
- Conform to new federal tax filing dates.

Corporate Utility Tax

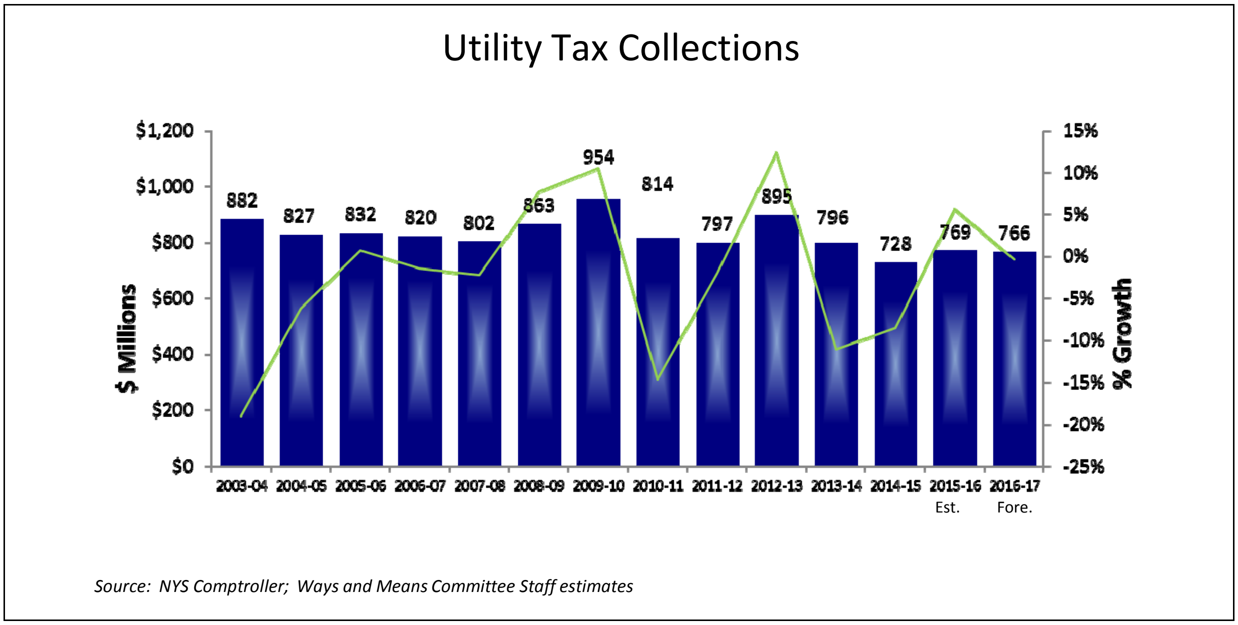


Figure 88

All transportation or transmission companies exercising their corporate franchise, doing business, employing capital, owning or leasing property in the state in a corporate or organized capacity, or maintaining an office in New York are subject to a franchise tax.

Transportation or transmission companies pay a tax of the greater of:

1. $75;
2. 1.5 mills per dollar of net value of issued capital stock; or,
3. if dividends paid on the par value of any stock during any calendar year amount to six percent or more, 0.375 mills per dollar for each 1 percent of dividends paid, computed at par value of the stock.

The excise tax on the sale of telecommunication services is imposed at the rate of 2.5 percent of gross receipts from:

1. intrastate telecommunication services;
2. interstate and international telecommunication services (other than interstate and international private telecommunication services) that originate or

terminate in New York State and that are charged to a service address in New York State; and,

3. interstate and international private telecommunication services (Ch. 60, Sec. 186-e).

Table 43

Utility Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$501	4.9%	$769	5.6%	$767	$2
2016-17			$766	-0.4%	$762	$4

YTD through January

Through January, cumulative utility tax collections are $501 million, an increase of $23 million or 4.9 percent from the prior fiscal year.

State Fiscal Year 2015-16

The committee staff expects collections for SFY 2015-16 to be $769 million, an increase of 5.6 percent or $41 million over the previous fiscal year. This is $2 million above the Executive's estimate. To reach this estimate, collections over the remainder of the year will need to increase by 6.9 percent over the last two months of the prior fiscal year.

State Fiscal Year 2016-17

The committee staff expects utility tax collections to decrease by $3 million or 0.4 percent to a level of $766 million in SFY 2016-17. The Executive is expecting $762 million for the next fiscal year.

Fund Distribution

Eighty percent of the tax receipts from tax sections 183 and 184 are deposited into the Mass Transportation Operating Assistance Fund (MTOAF) and the remainder is deposited into the Dedicated Highway Bridge and Trust Fund (DHBTF).

The Metropolitan Commuter Transportation District (MCTD) surcharge of 17 percent on a company's liability attributable to the MCTD is deposited into the MTOAF.

For SFY 2015-16, the committee staff expects General Funds to total $590 million. The committee staff expects Special Revenue Funds for SFY 2015-16 at $164 million, while Capital Projects Funds are estimated to total $14 million.

For SFY 2016-17, the committee staff expects General Funds to decrease to $582 million. The committee staff expects Special Revenue Funds for SFY 2016-17 to increase to $169 million, while Capital Projects Funds are forecast to be $15 million.

Table 44

Corporate Utililty Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	590	164	-	14	769
2016-17	582	169	-	15	766

Executive Budget Proposals

- Extend the Clean Heating Fuel credit for three years;
- Permanently extend tax shelter reporting requirements; and,
- Conform to new federal tax filing dates.

Petroleum Business Tax

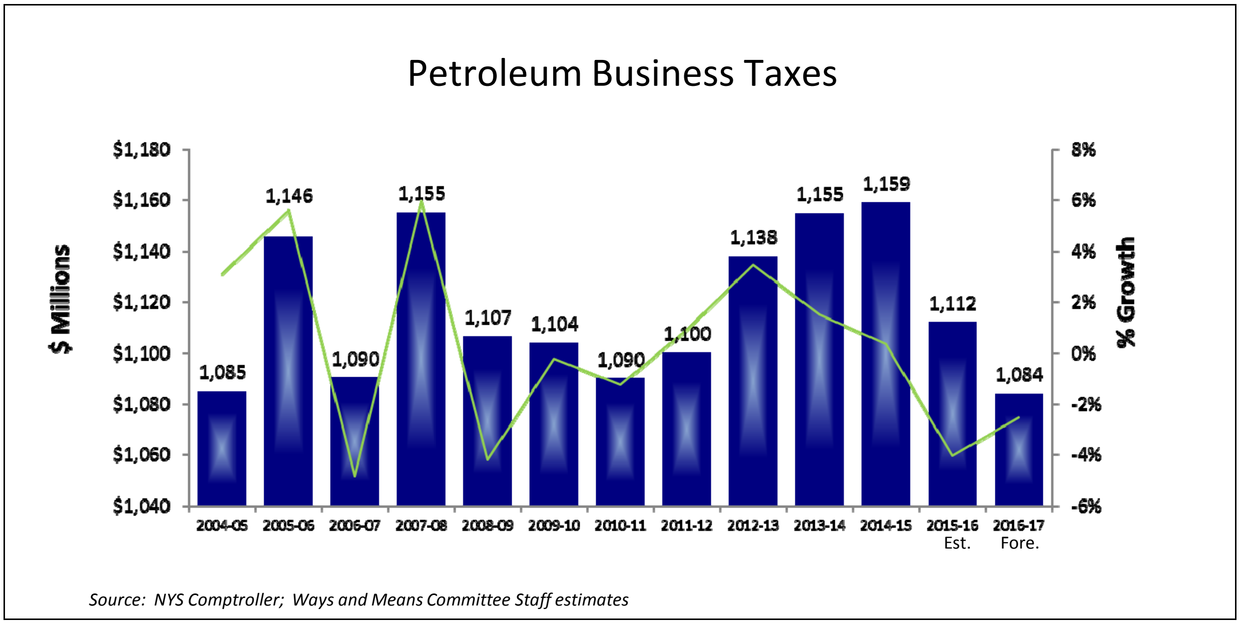


Figure 89

Article 13-A of the Tax Law imposes the Petroleum Business Tax (PBT) on every petroleum business for the privilege of engaging in business, employing capital, owning or leasing property, or maintaining an office in the state. Gasoline is subject to tax at the time it is imported, while diesel is taxable upon the first sale. The Petroleum Business Tax also applies to the fuel that motor carriers purchase outside of New York State, but consume within the state.

PBT rates are subject to annual adjustments on the first of January each year to reflect the change in the Producer Price Index (PPI) for refined petroleum products for the twelve months ending August 31 of the immediately preceding year. The Petroleum PPI is published by the Bureau of Labor Statistics. The rates of tax are rounded to the nearest tenth of one cent and limited to a five percent annual change.

PBT consists of a base tax, a supplemental tax, and a tax on carriers. All revenues from the base tax are dedicated as follows: 19.7 percent to the Mass Transportation Operating Assistance Fund; and 80.3 percent to the Dedicated Funds Pool. The supplemental tax and the tax on carriers are deposited entirely into the Dedicated Funds Pool. The Dedicated Funds Pool is split between the Dedicated Mass Transportation Trust Fund, 37 percent, and the Dedicated Highway and Bridge Trust Fund, 63 percent.

Table 45

Petroleum Business Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$949	-3.6%	$1,112	-4.0%	$1,105	$7
2016-17			$1,084	-2.5%	$1,082	$2

YTD through January

Through January, petroleum business tax (PBT) collections have decreased by $36 million or 3.6 percent to a level of $949 million.

State Fiscal Year 2015-16

The committee staff expects collections for SFY 2015-16 to total $1.112 billion, a decrease of four percent or $47 million from the previous fiscal year. This is $7 million above the Executive's estimate. The committee staff expects collections for the remainder of the year to decline by 6.5 percent. The growth slowdown can be attributed to PBT rates being lowered by 3.2 percent starting January 2015 and a further five percent decline in January 2016.

State Fiscal Year 2016-17

The committee staff forecasts PBT collections to decrease by $28 million or 2.5 percent to a level of $1.084 billion in SFY 2016-17. The Executive is expecting $1.082 billion for the next fiscal year, a decrease of 2.1 percent.

Fund Distribution

Table 46

Petroleum Business Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16		494		618	1,112
2016-17	-	482		602	1,084

Executive Budget Proposals

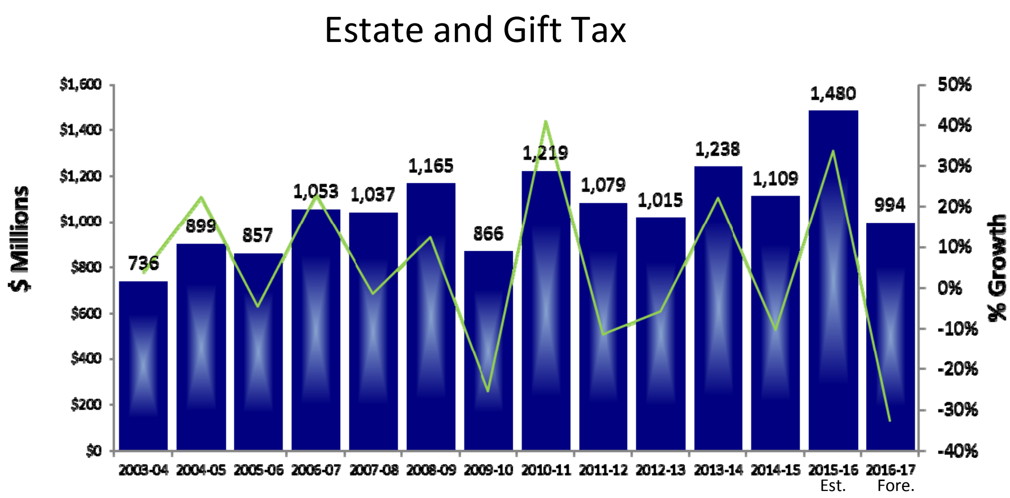
- Extend alternative fuels tax exemption until September 1, 2021; and,
- Amend state and local tax law for consistency with federal tax regulations on aviation fuel.

Other Taxes

Table 47

Other Taxes Forecasts by State Fiscal Year ($ in Millions)						
	SFY 2015-16	Growth	Diff. Exec.	SFY 2016-17	Growth	Diff. Exec.
Other	**$3,969**	**15.5%**	**25**	**$3,543**	**-10.7%**	**31**
Estate and Gift	1,480	33.5%	34	994	-32.8%	29
Real Estate Transfer	1,165	12.2%	18	1,162	-0.3%	24
Pari Mutuel	17	-6.1%	(1)	18	5.9%	0
Payroll Tax	1,304	2.6%	(27)	1,366	4.7%	(22)

Estate Tax



Source: NYS Comptroller; Ways and Means Committee Staff estimates

Figure 90

Article 26 of the Tax Law imposes a tax on the transfer of property upon death. Commonly known as the estate tax, Article 26 imposes a graduated rate structure on the value of estates in excess of one million dollars. The tax applies to New York residents and nonresidents who own real estate or tangible personal property located in New York. All of the receipts from this tax are deposited into the General Fund. Estate taxes must be filed and payments made within nine months of the decedent's death.

In 1997, legislation was enacted which phased in a reduction of New York's Estate Tax making the tax liability equal to the federal credit for state estate taxes paid. New York automatically paralleled state law to the unified credit provisions specified in federal law but capped the maximum credit at $1 million. However, the federal Economic Growth and Tax Relief Reconciliation Act of 2001 repealed the credit for state estate taxes. In order to avoid a massive loss of revenues at a time of fiscal pressure, New York amended the state law such that New York's Estate Tax is equal to the federal credit as it existed in 1998. Therefore New York is not affected by the 2012 Federal Taxpayer Relief Act, passed in 2013 to avoid the "fiscal cliff", which made permanent the federal estate tax exemption of $5 million while indexing said exemption to inflation.

Table 48

Estate and Gift Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$1,346	37.7%	$1,480	33.5%	$1,446	$34
2016-17			$994	-32.8%	$965	$29

YTD through January

Through January, estate tax collections totaled $1.346 billion. Year-to-date growth stood at 37.7 percent over the same period in SFY 2014-15.

State Fiscal Year 2015-16

Based on collections through the first ten months of the fiscal year, as well as historical collection patterns, the committee staff estimates that collections from the estate tax will total $1.480 billion in SFY 2015-16; this represents an increase of 33.5 percent over the prior year. The committee staff's closeout estimate is $34 million above the Executive's.

State Fiscal Year 2016-17

The committee staff forecasts a 32.8 percent decline in estate tax revenue collections to a total of $994 million as receipts return to normal levels. The Executive projects that estate tax collections will total $965 million in SFY 2016-17, representing a decline in growth of $481 million or 33.3 percent.

Fund Distribution

Table 49

Estate and Gift Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	1,480	-	-	-	1,480
2016-17	994	-	-	-	994

Executive Budget Proposals

- Remove charitable contributions and charitable activities from consideration in determining domicile.

Real Estate Transfer Tax (RETT)

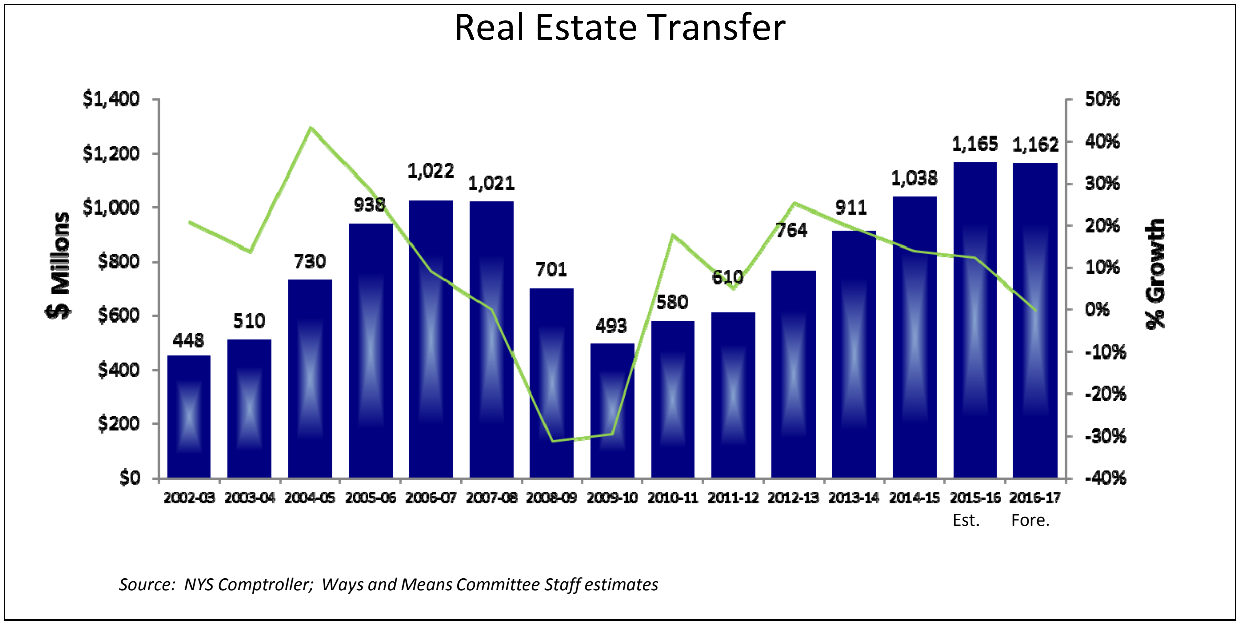


Figure 91

The real property transfer tax is administered pursuant to Article 31 of the New York State Tax Law and is levied on real property transfers where the value of the interest conveyed exceeds $500. The tax is paid by the grantor and is imposed on the conveyance of real property either by deed or economic interest at a rate of $2 for each $500 or fraction thereof of net consideration. An additional tax of one percent is applied to residential transfers when consideration is over $1 million; this additional tax is commonly called the mansion tax. This additional tax is paid by the grantee.

Real estate transfer tax (RETT) receipts rely strongly on the climate of the housing market in New York State, and especially in New York City. Historically, New York City accounts for over 50 percent, while Long Island accounts for around 15 percent, of overall tax receipts.

Table 50

Real Estate Transfer Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$979	12.3%	$1,165	12.2%	$1,147	$18
2016-17			$1,162	-0.3%	$1,138	$24

YTD through January

Through January, RETT collections have increased 12.3 percent or $107 million compared to the same period in SFY 2014-15.

State Fiscal Year 2015-16

The committee staff estimates that RETT receipts will total $1.165 billion in SFY 2015-16 for growth of 12.2 percent growth over SFY 2014-15. The Executive's Budget estimates a total of $1.147 billion, $18 million below committee estimates.

State Fiscal Year 2016-17

The committee staff anticipates RETT receipts will total $1.162 billion in SFY 2016-17 for year-over-year decline of 0.3 percent. The committee staff's projection is $24 million above the Executive's.

Fund Distribution

Table 51

Real Estate Transfer Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16		-	1,046	119	1,165
2016-17	-	-	1043	119	1,162

A total of $119.0 million is deposited into the Environmental Protection Fund and the remaining is deposited into the Clean Water/Clean Air Fund (CW/CA) for Debt Service. When the CW/CA obligation is paid, the excess revenue is transferred to the General Fund.

Underlying Economic Conditions

A strong city economy helped bolster demand for Manhattan commercial real estate market in 2015. The potential expiration of New York's 421-a program spurred a surge in building permits and housing starts in the second quarter of 2015, which also contributed to the growth in the New York City housing market. Moreover, the increases in transactions (properties being purchased) were accelerated by the market reaction to the expectation that the Federal Reserve will begin to increase short-term interest rates by the end of 2015.

In Manhattan, the median sales price rose by 17.3 percent, to $1,150,000 from $980,000 in the fourth quarter.[53] The average sales price followed the same pattern rising 12 percent to a new record of $1,948,221. Similarly, the condominium market has showed double-digit year-over-year gains. The number of condominium sales increased in the fourth quarter of calendar year 2014 to 2015 from 1,115 sales to 1,434, representing growth of 29 percent.[54]

Executive Budget Proposals

The Executive did not propose any legislative changes that would impact the real estate transfer tax.

[53] Prudential Douglas Elliman Real Estate. (2015). 4Q- Quarterly Survey of Manhattan Co-op & Condo Sales, http://www.elliman.com/reports-and-guides/reports/new-york-city/3q-2015-manhattan-sales/1-634.
[54] Ibid.

Pari-mutuel

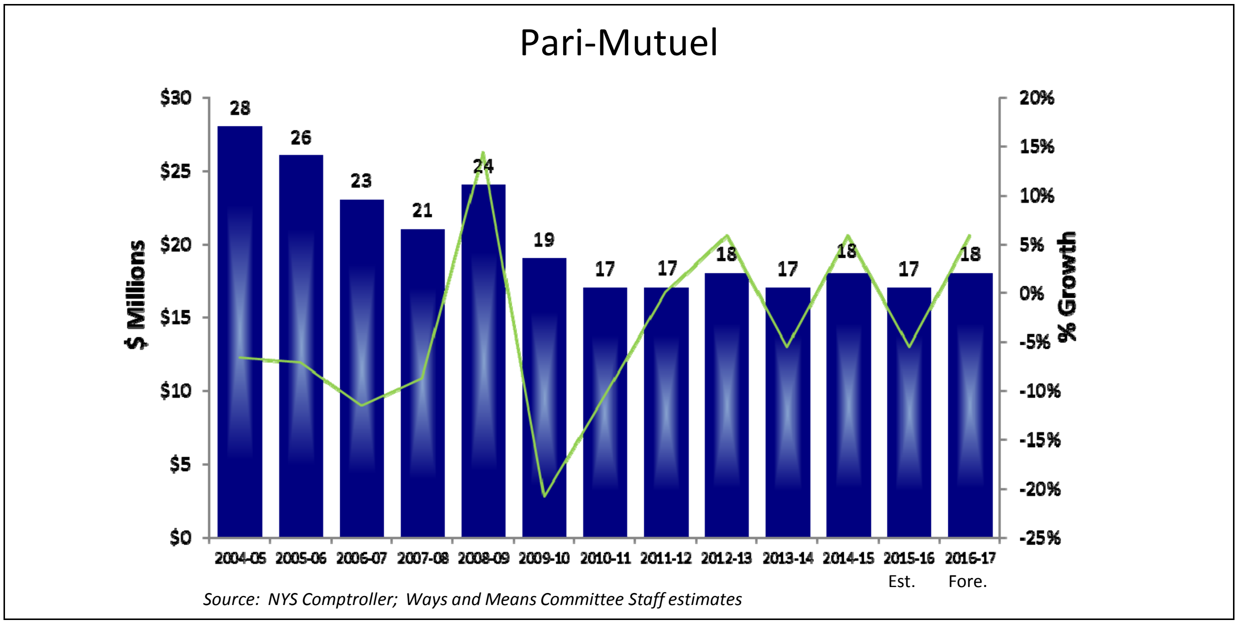


Figure 92

Under the Racing, Pari-Mutuel Wagering and Breeding Law, a tax is imposed on pari-mutuel bets placed at racetracks, simulcast theaters and Off-Track Betting (OTB) facilities. For-profit and not-for-profit racing associations, as well as OTB corporations, are taxed a percentage of their total betting pools for the privilege of conducting pari-mutuel wagering. All of the receipts are deposited into the General Fund.

Table 52

Pari-Mutuel Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$15	-5.7%	$17	-6.1%	$18	($1)
2016-17			$18	5.9%	$18	$0

YTD through January

Through January, pari-mutuel tax receipts have decreased by 5.7 percent or $1.0 million over the same period in SFY 2014-15 for a year-to-date total of $15 million.

State Fiscal Year 2015-16

The committee staff estimates pari-mutuel receipts will total $17 million in SFY 2015-16, representing a decline in growth of $1 million or 6.1 percent; this estimate is $1 million below the Executive's Budget estimate for SFY 2015-16 of $18 million.

State Fiscal Year 2016-17

The committee staff forecast for SFY 2016-17 is $18 million, representing growth over SFY 2015-16 of 5.9 percent. The committee's forecast mirrors the Executive's Budget forecast for SFY 2016-17.

Fund Distribution

Table 53

Pari-mutuel Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2015-16	17	-	-	-	17
2016-17	18	-	-	-	18

Executive Budget Proposals

- The Executive proposes to remove restrictions for Morrisville College to be a single laboratory responsible for steroid testing, and to modify requirements for the NYS Thoroughbred Horsemen Association to contribute to equine steroid testing and research;
- The Executive proposes to increase Video Lottery Terminal purse enhancements from 1.0 to 1.6 percent and the racing regulatory fee from 0.5 to 0.6 percent;
- The Executive proposes to adjust the timing of reimbursement to the Gaming Commission of per diem costs for harness racing judges and starters; and,

- The Executive proposes to extend certain tax rates and simulcasting provisions for one year.

MTA Payroll Tax

Article 23 of the Tax Law levies a payroll tax percent on all employers, including the self-employed, within the Metropolitan Commuter Transportation District (MCTD). The MCTD includes New York City as well as Nassau, Suffolk, Westchester, Rockland, Orange, Dutchess, and Putnam counties. The revenues from this tax are deposited into the Mass Transportation Operating Assistance Fund (MTOAF) for the benefit of the Metropolitan Transportation Authority (MTA). Exemptions to the MTA Payroll Tax include: an employer that is an agency or instrumentality of the United States; the United Nations; an interstate or international agency or public corporation; all elementary and secondary schools, effective April 2012; and proprietors earning $50,000 or less, effective December 2012, formerly $10,000 or less.

Upon enactment in 2009, the payroll tax levy was 0.34 percent on all employers. In December 2011, a progressive rate structure was enacted which provided tax relief. Quarterly payrolls under $312,500 are exempt, $312,500 to $375,000 are taxed at 0.11 percent, $375,000 to $437,500 are taxed at 0.23 percent, and quarterly payrolls over $437,500 are taxed at 0.34 percent. Firms with payrolls under contract from Professional Employer Organizations (PEOs) pay the MTA Payroll Tax through the PEO based on the size of their payroll and not the size of the PEOs payroll.

Table 54

Metropolitan Commuter Transportation Mobility Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$1,036	2.4%	$1,304	2.6%	$1,331	($27)
2016-17			$1,366	4.7%	$1,388	($22)

YTD through January

Through January, MTA payroll tax collections have increased by $25 million or 2.4 percent. This rate of growth is consistent with the committee staff's estimate for wage growth.

State Fiscal Year 2015-16

The committee staff expects collections for SFY 2015-16 to total $1.304 billion, an increase of 2.6 percent over the previous fiscal year. This is $27 million below the Executive's estimate. The committee staff expects collections for the remainder of the year to be 3.2 percent higher than last fiscal year. This closeout is driven by the staff's projected growth in wages and sole proprietor income.

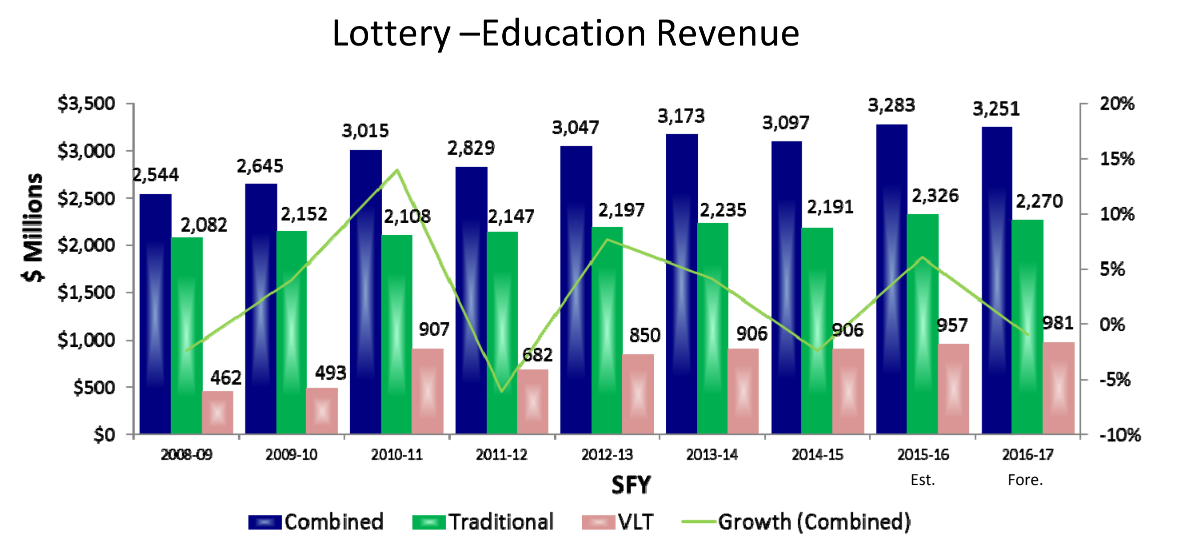
State Fiscal Year 2016-17

The committee staff forecasts MTA Payroll tax collections to increase by $62 million or 4.7 percent to a level of $1.366 billion in SFY 2016-17. The Executive is expecting $1.388 billion for the next fiscal year, an increase of 4.3 percent.

Executive Budget Proposals

The Executive did not propose any legislative changes that would impact the MTA payroll tax.

Lottery



Source: NYS Comptroller; Ways and Means Committee Staff estimates.
Note: 2010-11 VLT includes One-time licensing fee of $380 million.

Figure 93

The New York State Lottery was established via Constitutional Amendment in 1976 for the express purpose of raising revenues for education. The Lottery is currently comprised of Instant Games, Daily Numbers, Win 4, Pick 10, Take 5, Quick Draw, Lotto, Mega Millions, Instant Win, Powerball, Cash 4 Life and Video Lottery Terminals (VLTs). Lottery Games are sold by approximately 16,718 licensed retailers throughout the state. A percentage of sales from each game are dedicated to fund education. Most games dedicate between 15 and 45 percent of sales to education. There are currently nine VLT facilities in New York State. Similar to Lottery games a percentage of the net sales (wagers) are dedicated to education, VLTs dedicate between three and four percent of the sales to education. Exempting VLTs, 15 percent of Lottery sales are placed into a special revenue account to cover the administrative costs of the Division of Lottery (Division). Depending on the revenue generated by individual facilities, between three and four percent of VLT sales are used for administrative expenses.

Table 55

Lottery ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2015-16	$2,350	6.2%	$3,283	6.0%	$3,301	($18)
2016-17			$3,251	-1.0%	$3,189	$62

YTD through January

Through January, combined Lottery (Traditional and Video Lottery) revenue has increased by $137 million or 6.2 percent when compared to the same period in SFY 2014-15.

State Fiscal Year 2015-16

The committee staff estimates Lottery receipts will total $3.283 billion for an increase of 6.0 percent or $186 million over SFY 2014-15. The staff's estimate is $18 million below the Executive's Budget estimate.

The committee staff estimates traditional lottery receipts will total $2.326 billion for an increase of 6.2 percent over SFY 2014-15, while VLT receipts will total $957 million for an increase of 5.6 percent. As for traditional lottery, the games experiencing significant year-to-date growth are: Lotto, Win 4, and Quick Draw, at 16.8, 6.3, and 11.5 percent, respectively. Instant Scratch-off games have experienced a year-to-date growth of 4.4 percent.

Revenue from the multi-state lottery game Mega Millions is strongly correlated with the build-up of the jackpot level. There have been five winning drawings year-to-date in SFY 2015-16. The largest winning jackpot level was $260 million in June 2015. Year-to-date in SFY 2015-16 the average jackpot level is $177 million. Total receipts from the Mega Millions game are expected to equal $90.6 million in SFY 2015-16.

Similar to Mega Millions, revenue from the multi-state lottery game Powerball is heavily reliant on jackpot levels. In SFY 2015-16 there has been nine winning drawings, with the largest reaching a world record of $1.5 billion on January 13, 2016. Year-to-date, through January, Powerball revenue has experienced a year-over-year growth of 82 percent, or $66 million, for a total of $146 million. Revenue from Powerball sales is estimated to total $159 million in SFY 2015-16.

In June 2014 the Division of Lottery retired the traditional lottery game Sweet Millions. Sweet Millions which was introduced in SFY 2009-10 was host to average annual revenue of $16 million. To replace Sweet Millions the Division of Lottery introduced Cash 4 Life, a traditional lottery game where the player attempts to match five numbers selected from one through sixty. Through January, year-to-date revenue from the Cash 4 Life game totals $29 million, with average weekly revenues of $0.6 million. The committee staff anticipates Cash 4 Life receipts to total $34 million in SFY 2015-16.

Video Lottery Terminal receipts are expected to grow by 5.6 percent, or 51 million in SFY 2015-16. Of the nine operating Video Lottery Terminal facilities, all but Vernon Downs have experienced year-to-date growth. Year-to-date growth of Net Machine Income (NMI) at Vernon Downs Casino & Hotel has declined by 5.7 percent. Batavia Downs Gaming and Finger Lakes Gaming & Race track have experienced the largest year-to-date growth at 9.9 and 4.7 percent respectively. The growth at Batavia Downs Gaming is likely attributable to recent renovation and expansion efforts that offered a new sports bar, three new restaurants, and an expanded gaming floor with the addition of 91 new video lottery terminals.

State Fiscal Year 2016-17

The committee staff projects that combined Lottery (Traditional and Video Lottery) revenue will total $3.251 billion in SFY 2016-17. This represents a decrease in receipts of 1.0 percent or $32 million over SFY 2015-16. The staff's estimate is $62 million above the Executive's estimate. The staff anticipates that traditional lottery revenue receipts will total $2.270 billion, a decrease of 2.4 percent over SFY 2015-16. The staff anticipates that VLT receipts will total $981 million, an increase of 2.5 percent over SFY 2015-16.

Traditional lottery receipts in SFY 2016-17 are expected to be mixed with the only games to experience any significant growth being Quick Draw, with a growth of 6.9 percent, and Instant Scratch-off games, with a growth of 7.9 percent. Multi-state lottery games such as Mega Millions and Powerball are expected to return to normal levels. The large decrease in Powerball receipts is a result of the historically large jackpot build up at the end of SFY 2015-16.

Video Lottery Terminal revenue receipts are likely to continue a pattern of modest growth. Legislation in the Executive SFY 2015-16 Budget allowed expanded forms of gaming permissible at existing video lottery terminal facilities, which when fully implemented will contribute to a growth in receipts.

Executive Budget Proposals

- The Executive proposes to provide an additional commission for certain Video Lottery Terminal facilities. An additional commission would be provided to Video Lottery Terminal facilities located in a county within a region where a gaming facility is operating in a county within a neighboring region. A Video Lottery Terminal facility, following one year of operation of a licensed gaming facility, would be subject to a blended tax rate comparable to a licensed gaming facility;

- The Executive proposes to extend the Monticello Video Lottery Terminal rates for one year. The Monticello Video Lottery Terminal facilities eligibility for a higher commission rate in exchange for opting out of the capital awards program would be extended for an additional year;

- The Executive proposes to extend the Video Lottery Gaming (VLG) vendor's capital awards program for one year. The deadline to receive approval for capital projects to be reimbursed and the deadline to complete such projects would be extended for an additional year;

- The Executive proposes to make technical amendments to the Upstate New York Gaming and Economic Development Act with respect to payments made by a gaming facility to municipalities and video lottery terminal facilities. The host county and host municipality are to receive community payments from the revenue generated from such gaming facility located in the host municipality and county. Video lottery terminal facilities located in the same region as a licensed gaming facility will only receive additional commission from the gaming facility so long as it is open and operational.

Miscellaneous Receipts

Miscellaneous Receipts – All Funds

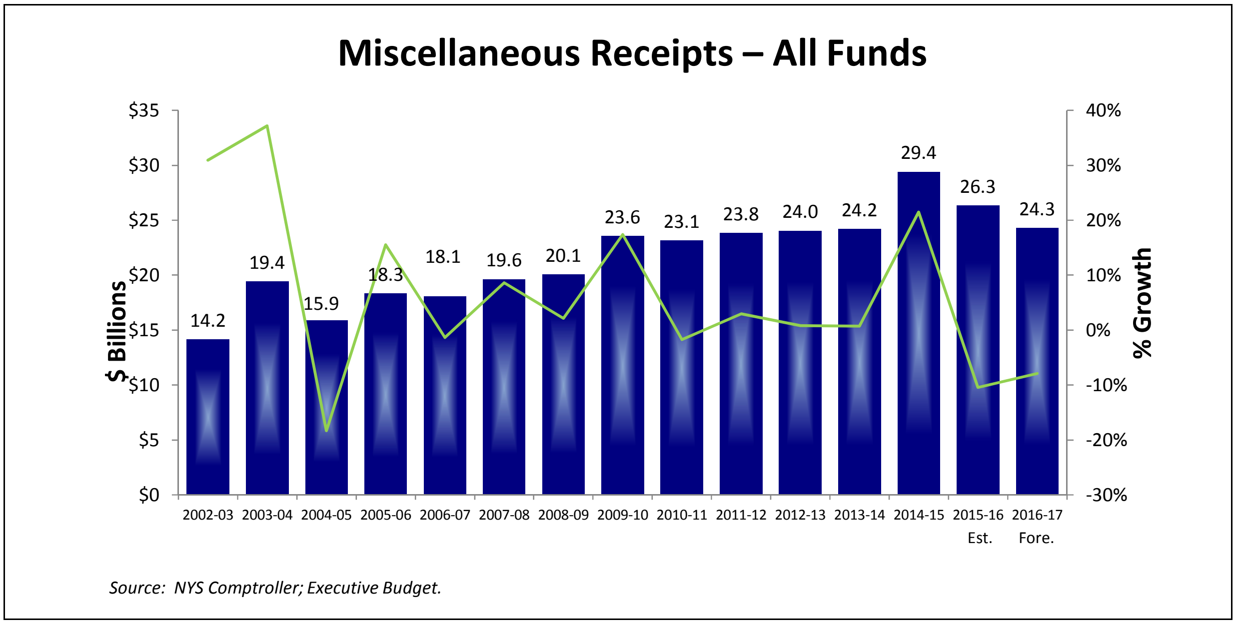


Figure 94

All Funds Miscellaneous Receipts consist of moneys received from Health Care Reform Act (HCRA) financing sources, State University of New York (SUNY) tuition and patient income, lottery receipts for education, assessments on regulated industries, motor vehicles fees and a variety of fees and licenses.

On an All Funds basis Miscellaneous Receipts are estimated to total $26.3 billion in SFY 2015-16 and $24.3 billion in SFY 2016-17.

Miscellaneous Receipts – General Fund

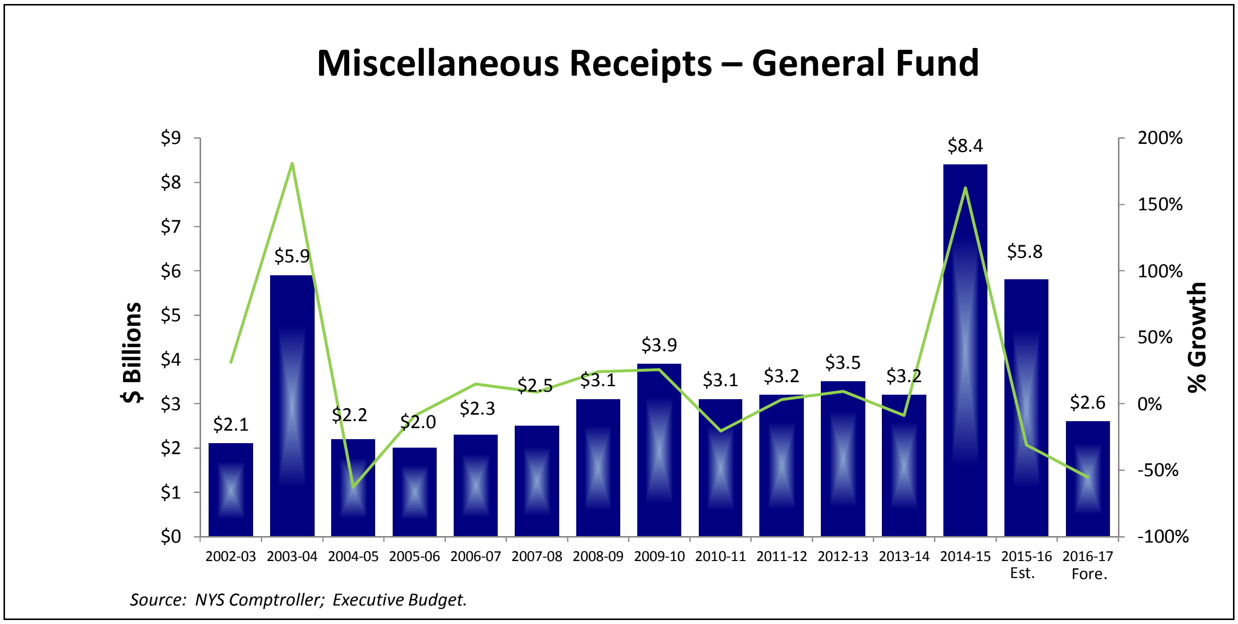


Figure 95

General Fund collections are more volatile as a result of one-time deposits and settlements. SFY 2003-04 witnessed a sizable increase in collections due to the securitization of tobacco bonds which totaled $4.2 billion. The bonds were backed by future Personal Income Tax receipts and were meant to ensure that there would be no decrease in funds available for the Health Care Reform Act (HCRA).

SFY 2009-10 saw multiple revenue sources contributing to its sharp increase. The Executive's SFY 2009-10 Mid-Year update cited higher indirect cost reimbursements, higher 18-a utility collections, revenue from legal settlements, higher workers' compensation surplus revenue remittance, and positive changes to transfers as the cause of higher collections.

SFY 2015-16

General Fund Miscellaneous Receipts are estimated to total $5.825 billion in SFY 2015-16. Since the beginning of SFY 2014-15 the state has received a total of $8.5 billion in monetary settlements from a variety of banks and other financial institutions. SFY 2015-16 is expected to account for $3.6 billion in settlements.

SFY 2016-17

General Fund Miscellaneous Receipts are expected to total $2.649 billion for SFY 2016-17.

Key Components

General Fund Miscellaneous Receipts contains revenues from a multitude of sources. They include:

- licenses and fees;
- abandoned property;
- reimbursements;
- investment income;
- Alcoholic Beverage Control (ABC) License; and
- Motor Vehicle Fees.

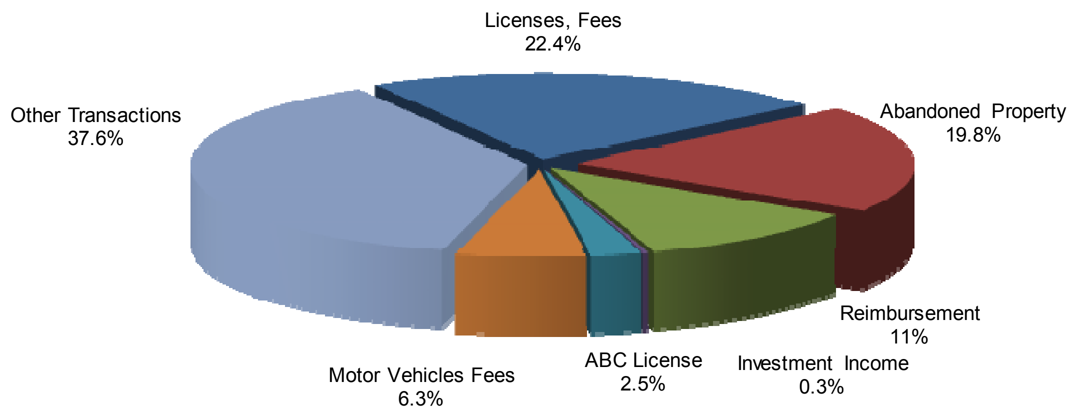
Other transactions include but are not limited to: temporary utility assessment, settlements, medical provider assessment, Medicaid sales tax intercept payments, settlement proceeds from District Attorney's offices, Bottle Bill proceeds, bond issuance charges, State of New York Mortgage Authority supplemental wireless surcharge, New York Power Authority, civil recoveries, short term interest on bank accounts, Housing Finance Agency, and released State Insurance Fund Reserves.

Table 56

Miscellaneous Receipts - General Fund ($ in Millions)	2014-15 Actual	2015-16 Estimated	2016-17 Projected	Change	Percent Change
Licenses, Fees	$589	$624	$595	($29)	(4.6%)
Abandoned Property	652	525	525	0	-
Reimbursements	266	239	293	54	22.6%
Investment Income	4	10	7	(3)	(30.0%)
ABC License	61	70	65	(5)	(7.1%)
Motor Vehicles Fees	191	171	166	(5)	(2.9%)
Other Transactions	6,648	4,186	998	(3,188)	(76.2%)
Total	**$8,411**	**$5,825**	**$2,649**	**($3,176)**	**(54.5%)**

Source: Executive Budget; Ways and Means Committee Staff.

General Fund
Miscellaneous Receipts
SFY 2016-17



Source: Executive Budget; Ways and Means Committee Staff.

Figure 96

General Fund Miscellaneous Receipts consist of income derived annually from abandoned property, investment earnings, fees, licenses, fines, surcharges, patient income, motor vehicles fees and reimbursement income. In addition, Miscellaneous Receipts typically include certain non-recurring revenue actions.

Miscellaneous Receipts – Special Revenue Funds

SFY 2015-16

The committee staff estimates Special Revenue funds to total $15.425 billion in SFY 2015-16, whereas Capital Projects are expected to total $4.591 billion and Debt Service anticipated to receive $488 million in receipts.

SFY 2016-17

The committee staff estimates Special Revenue funds to total $15.753 billion in SFY 2016-17, with Capital Projects expected to total $5.405 billion and Debt Service anticipated to receive $455 million in receipts.

Key Components

State Funds Miscellaneous Receipts consist of Special Revenue Funds, Capital Projects, and Debt Services. Special Revenue is comprised of the following:

Health Care Reform Act (HCRA)

Receipts include surcharges, assessments on hospitals and assessments on certain insurance providers, a portion of cigarette tax revenues, and other dedicated proceeds.

HCRA receipts are used to finance New York's Medicaid program, Family Health Plus, workforce recruitment and retention, the Elderly Pharmaceutical Insurance Coverage, Child Health Plus, Graduate Medical Education, AIDS programs, and other public health initiatives.

Medicaid

State Medicaid costs are financed by the General Fund and other various Special Revenue funds. The key contributions are partially-reimbursable assessments amounting to 9 percent on nursing home revenues and 0.75 percent on hospital and home care revenues.

State University Income

Receipts into the State University Income Fund are from the operation of SUNY from tuition, patient revenue, and user fees. Tuition is sourced from the sixty-four SUNY campuses while patient revenues come from SUNY's teaching hospitals at Brooklyn, Stony Brook, Syracuse, as well as the Long Island Veterans' Home. SUNY user fees, interest earning, and fringe benefits account for the remaining collections

Lottery

Sale of lottery tickets and Video Lottery Terminals (VLTs) are used to support public education and Lottery administrative operating costs.

Motor Vehicle Fees

Motor vehicle fees are derived from a list of fees imposed by the Vehicle Traffic Law. License fees, registration revenue, inspection fees, emission stickers, repair shop certificates, as well as insurance civil penalties all contribute. Motor Vehicle Fee revenues are dedicated to various trust funds which cover infrastructure funding and administrative costs.

Capital Projects

Capital Projects spending is funded from two sources: authority bond proceeds which support spending financed through Public Authority Bonds; and Miscellaneous Receipts which finance state pay-as-you-go spending to support the State Capital Plan.

Debt Service

Miscellaneous Receipts in the Debt Service Fund are comprised of Mental Hygiene service providers that receive payments from Medicare and insurance companies; dormitory room rental fees and associated fees from SUNY students; and from patient care revenues of hospitals and certain veterans' homes from payments of Medicaid, Medicare, insurance, and individuals.

Industry Assessment and All Other

Receipts comprising Industry Assessments and All Other are from reimbursements of regulated industries to fund the administrative costs of the state agencies. Receipts may consist of fees, licenses, and assessments. The Department of Financial Services, Public Services Commission, and the Workers' Compensation Board are all fully funding by assessments of their respective regulated industry. The following agencies account for the largest collections in this category: Health; Environmental Conservation; Tribal State Compact; State Police; Higher Education Service Corporation; Education; City University of New York (CUNY); Children and Family Services; Homeland Security and Emergency Services.