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February 28, 2017

Dear Colleagues:

I am pleased to provide you with the New York State Assembly Ways and Means Committee's Economic and Revenue Report for 2017. 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) 2016-17 and 2017-18.

The committee staff forecasts that the state and national economies will continue to grow in 2017 and 2018. The pace of growth is expected to remain modest while forecasting risks remain high especially as it relates to domestic fiscal policies.

The committee staff projects that total All Funds receipts will reach $154.387 billion in SFY 2016-17, which represents an increase of $1.122 billion, or 0.7 percent, from SFY 2015-16. The committee staff estimate is $355 million above the Executive's estimate for SFY 2016-17. The Committee staff projects that All Funds receipts will total $161.440 billion in SFY 2017-18, an increase of $7.052 billion, or 4.6 percent, over SFY 2016-17. The committee staff forecast is $1.029 billion higher than the Executive's forecast for SFY 2017-18. 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

ECONOMIC AND REVENUE REPORT

FISCAL YEARS 2016-17 AND 2017-18

February 2017

CARL E. HEASTIE
Speaker
New York State Assembly

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

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Economic Forecast Highlights

ECONOMIC FORECAST HIGHLIGHTS

United States

- The U.S. economic recovery that began in June 2009 continues, driven by steady gains in consumer spending, employment, and personal income. With weaknesses in business capital spending and foreign demand for U.S. goods and services, **national economic growth** slowed to an estimated 1.6 percent in 2016, following a more robust 2.6 percent gain in 2015. The national economy is forecast to continue to grow in 2017 and 2018, supported by continued gains in consumer spending and modest improvement in business spending and foreign demand. The Ways and Means Committee outlook does not incorporate any assumptions related to the new administration's fiscal or other policies.

- Consumer spending was the primary driver of overall economic growth in 2015 and 2016, supported by low inflation, low interest rates, higher income and wealth, and gains in employment. **Personal consumption spending**, adjusted for inflation, grew an estimated 2.7 percent in 2016, following a 3.2 percent gain in 2015. In 2017 and 2018, consumer spending is anticipated to continue to grow but at a more measured pace as wage gains moderate, energy prices rise, higher interest rates constrain vehicle and home sales growth, and increased volatility in equity markets temper consumer confidence, resulting in more cautious spending.

- Large declines in nonresidential equipment and structure investment spending over the first half of 2016 led to a decline in overall business investment spending during 2016. It was the first yearly decline since 2009. As key fundamentals such as trends in global demand and energy prices are expected to be supportive of future growth and business sentiments are turning more optimistic in anticipation of business tax cuts and less regulation, **business investment spending** is expected to recover in 2017 and 2018.

- **Total government spending** increased an estimated 0.9 percent in 2016 as both federal and state and local government spending rose. In 2017 and 2018, higher spending by state and local governments will likely outpace further spending restrains by the federal government. As a result, total government spending is projected to grow in 2017 and 2018, but by only 0.5 percent and 0.3 percent, respectively.

- The pace of **global economic growth** remained slow in 2016, while the U.S. dollar remained strong. As a result, U.S. trade continued to slow. Exports are estimated to have grown by 0.4 percent in 2016. Similarly, imports are estimated to have grown by 1.1 percent. With the economies of our major trading partners expected to improve in 2017 and 2018, U.S. trade is also expected to rise. Exports are forecast to grow by 2.2 percent in 2017 and another 2.6 percent in 2018. Imports are forecast to increase by 4.2 percent in 2017 and 3.9 percent in 2018.

- **Corporate profits** are estimated to have declined 0.6 percent in 2016, following a 3.0 percent drop in 2015. The decline has mostly affected the domestic nonfinancial sector and is generally attributed to sluggish growth in the global economy, the strong dollar, low energy prices, a slowdown in productivity, and rising wages. Yet profit levels are currently near their historical highs and growth is expected to rebound in 2017.

- **Employment** is expected to grow throughout the forecast period but the pace will likely slow as the labor market nears full employment. The slowdown in employment growth is primarily attributable to the retirement of baby-boomers instead of a decline in demand for labor. However, rising wages encourage workers who were unemployed long term to rejoin the labor force partly offsetting the effect of retiring baby-boomers. Hence, nonfarm payroll employment grew 1.8 percent in 2016, and is projected to slow in 2017 and 2018.

- After averaging near zero percent for five years, the **federal funds rate** started rising at the conclusion of the Federal Reserve's December 2015 meeting, and averaged 0.4 percent in 2016. It is forecast to average 0.9 percent in 2017 and 1.7 percent in 2018. The ten-year Treasury rate continued to decline in 2016 averaging 1.8 percent, and is forecast to increase to 2.7 percent in 2017 and 3.1 percent in 2018 as short-term interest rates are expected to rise.

- In general, the pace of the recovery has been slower than expected, and the **risks to the economic outlook** remain mixed. Unforeseeable risks particularly adverse geopolitical developments persist in the current economic environment. Issues surrounding federal fiscal policy, specifically the scope of the expected personal and corporate tax reforms of the new Trump administration, introduce significant risks to the outlook. Adding to the risks to the outlook are uncertainty in the financial markets, Federal Reserve actions on monetary policies, conflicts in the Middle East, the potential for other nations to follow the United Kingdom in exiting the European Union, and the recent weakening in the economic growth outlook for both China and several emerging markets.

National Forecast Comparisons

- The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2017 is 2.3 percent, 0.7 percentage point higher than in 2016. The staff's forecast is 0.1 percentage point above the Division of the Budget's. It is equal to the Blue Chip Consensus, IHS Markit, and Macroeconomic Advisers' forecasts. It is 0.3 percentage point below Moody's Economy.com.

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

	Actual 2015	Estimate 2016	Forecast 2017	Forecast 2018
Ways and Means	2.6	1.6	2.3	2.2
Division of the Budget	2.6	1.6	2.2	2.4
Blue Chip Consensus	2.6	1.6	2.3	2.4
Moody's Economy.com	2.6	1.6	2.6	2.9
Macroeconomic Advisers	2.6	1.6	2.3	2.2
IHS Markit	2.6	1.6	2.3	2.7

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, FY 2018 Executive Budget Financial Plan, February 2017; Blue Chip Economic Indicators, February 2017; Moody's Economy.com, February 2017; Macroeconomic Advisers LLC, February 2017; IHS Markit, February 2017.

New York State

- The New York State economy has benefitted from the continued recovery in the national economy. **Total nonfarm employment in the state** grew 1.9 percent in State Fiscal Year (SFY) 2015-16. As unemployment in the state approaches its natural rate, nonfarm employment growth is forecast to slow. Nonfarm employment is expected to grow 1.5 percent in SFY 2016-17 and 1.3 percent in SFY 2017-18.

- **Wage growth rates** are expected to continue to be below those achieved 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 forecast to grow 3.8 percent in SFY 2016-17 and 4.5 percent in SFY 2017-18.

- After growing 0.6 percent in SFY 2015-16, **variable wages** growth are expected to slow to 0.4 percent in SFY 2016-17 amid lower revenue and profit growth, while **base wages** are expected to grow 4.2 percent. Variable wages are forecast to grow 5.0 percent in SFY 2017-18, compared to 4.4 percent for base wages.

- 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. Ongoing technology changes, outsourcing as well as changes in the composition of Wall Street compensation (including bonuses) 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 forecast for total nonfarm payroll employment growth in SFY 2017-18 is 1.3 percent and is equal to the Division of Budget's forecast. The staff's forecast for wage growth in SFY 2017-18 is 4.5 percent and is 0.3 percentage point above the Division of Budget's forecast.

New York State Economic Forecast Comparison
(Percent change from prior State Fiscal Year)

	Actual SFY 2015-16	Estimate SFY 2016-17	Forecast SFY 2017-18
Employment			
Ways and Means	1.9	1.5	1.3
Division of the Budget	1.9	1.5	1.3
Wages			
Ways and Means	4.2	3.8	4.5
Division of the Budget	4.3	3.8	4.2

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, FY 2018 Executive Budget Financial Plan, February 2017.

Revenue Forecast Highlights

REVENUE FORECAST HIGHLIGHTS

All Funds Tax Receipts State Fiscal Year 2016-17

- **All Funds revenues** are estimated to total $154.387 billion in State Fiscal Year (SFY) 2016-17 for year-to-year growth of 0.7 percent or an increase of $1.122 billion.

- The Assembly Ways and Means Committee staff projection of **All Funds tax revenue** for SFY 2016-17 is $75.325 billion, representing an increase of 0.9 percent or $652 million over the prior year.

- The majority of the increase in tax receipts is derived from **user taxes,** which are estimated to increase by $525 million or 3.3 percent. Also contributing to the year-over-year increase, **personal income tax (PIT)** receipts are estimated to increase by 1.0 percent or $477 million. **Business taxes** are expected to increase by $59 million or 0.8 percent. **Other taxes** are estimated to decrease by $411 million or 10.3 percent.

- The committee staff's All Funds tax revenue estimate is $352 million above the Executive's Budget. In terms of overall state tax revenues, the largest difference is in PIT, which is estimated to be $223 million above Executive estimates.

All Funds Tax Receipts State Fiscal Year 2017-18

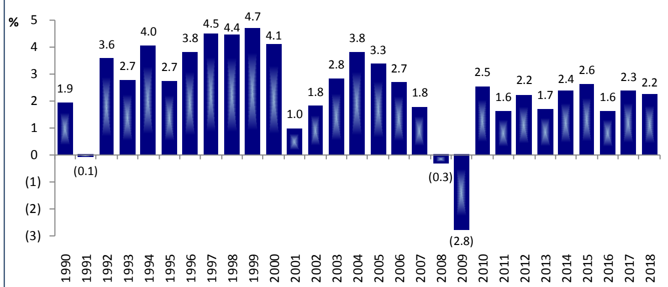
- The committee staff expects **All Funds revenues** to increase 4.6 percent for a total of $161.440 billion in SFY 2017-18. This estimate is $1.029 billion above the Executive's estimate. **Lottery receipts** are forecast to decline by 0.3 percent, whereas all other **Miscellaneous Receipts** are forecast to increase by 2.5 percent.

  The committee staff expects 6.8 percent growth in **All Funds tax receipts** for SFY 2017-18, for a total of $80.435 billion, reflecting a steady economic recovery. The committee staff tax receipts forecast is $901 million above the Executive's forecast. The Committee's PIT forecast is $563 million above the Division of the Budget's forecast.

U.S. Economic Forecast at a Glance

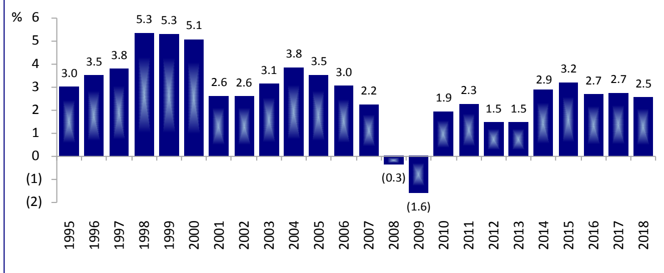
U.S. ECONOMIC FORECAST AT A GLANCE

U.S. Real GDP Growth



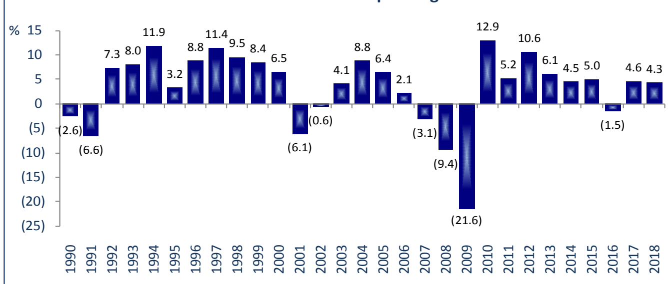
Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

U.S. Real Personal Consumption Spending Growth



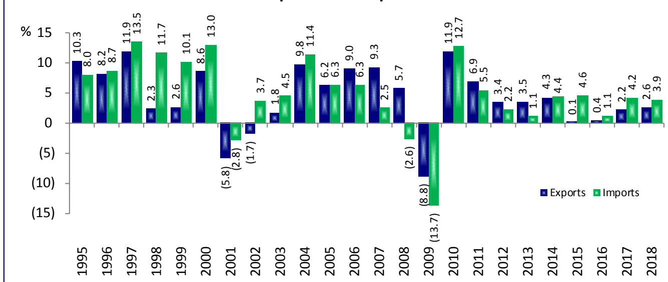
Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

U.S. Real Investment Spending Growth



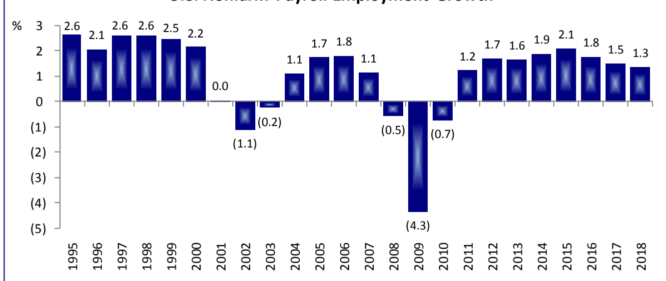
Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

U.S. Real Exports and Imports Growth



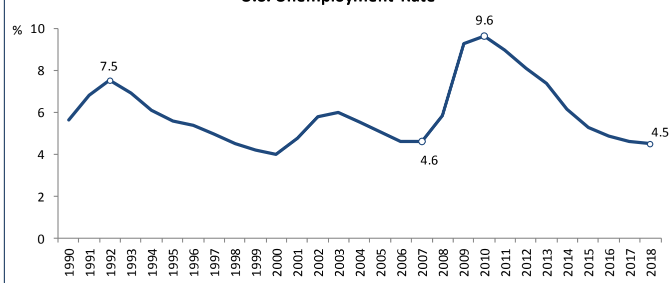
Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

U.S. Nonfarm Payroll Employment Growth



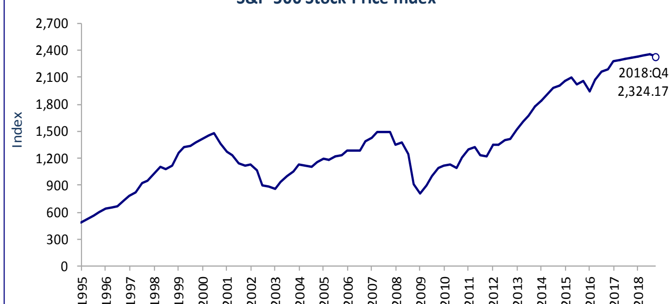
Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

U.S. Unemployment Rate



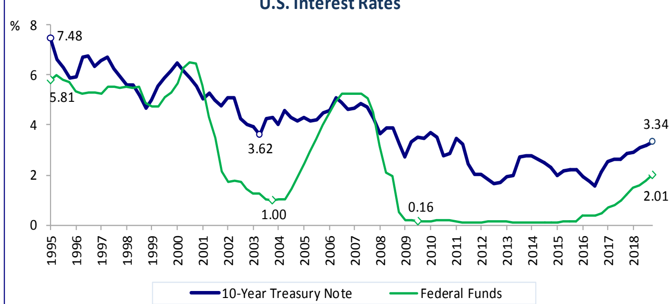
Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

S&P 500 Stock Price Index



Note: Data are quarterly through 2018:Q4; the first forecast period is 2017:Q1. Index 1941-1943=10.
Sources: Standard & Poor's; NYS Assembly Ways and Means Committee staff.

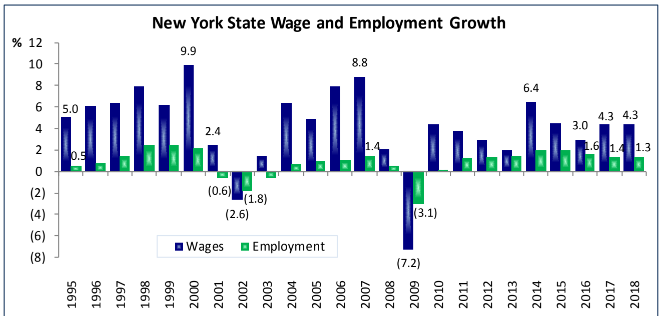
U.S. Interest Rates



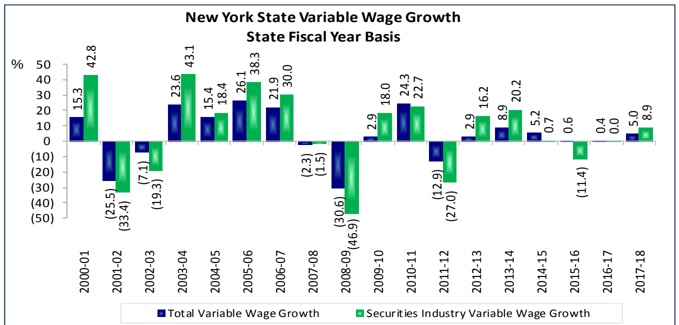
Note: Data are quarterly through 2018:Q4; the first forecast period is 2017:Q1.
Sources: Federal Reserve; NYS Assembly Ways and Means Committee staff.

N.Y.S. Economic Forecast at a Glance

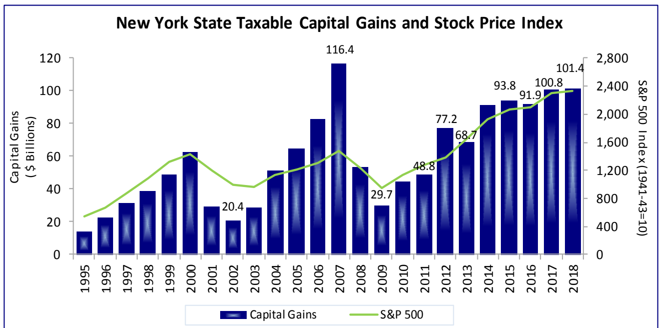
N.Y.S. ECONOMIC FORECAST AT A GLANCE



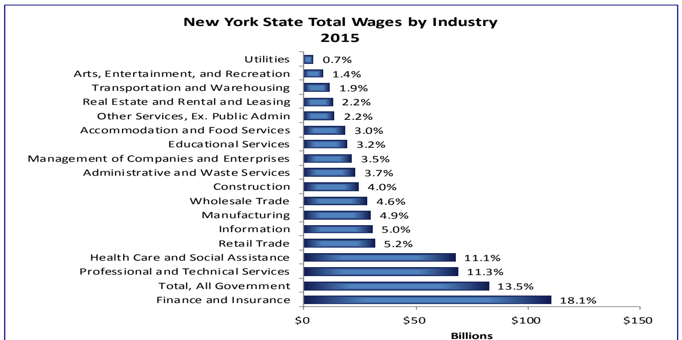
Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Source: New York State Department of Labor; NYS Assembly Ways and Means Committee staff.



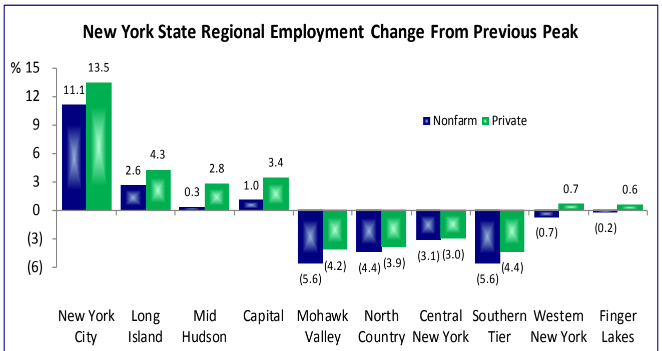
Note: Variable wages up to SFY 2016-17 are estimates; SFY 2017-18 are forecasts.
Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.



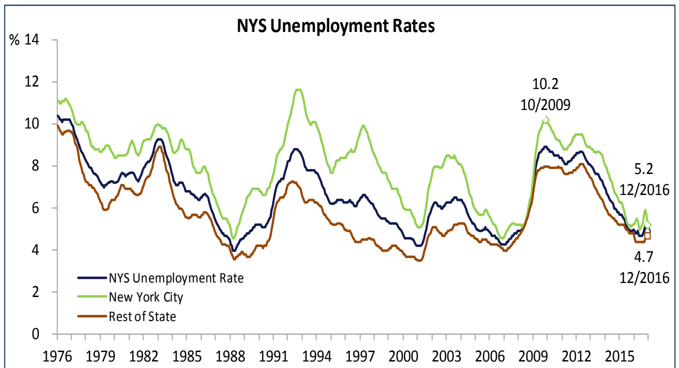
Note: Data for 2015 are estimated; 2016, 2017, and 2018 are forecasts.
Sources: Standard & Poors; NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committee staff.



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



Note: Data are employment change from 2008 to 2015.
Source: New York State Department of Labor.



Note: Data are monthly from January 1976 to December 2016. Data are seasonally adjusted.
Source: New York State Department of Labor.

Revenue Forecast at a Glance

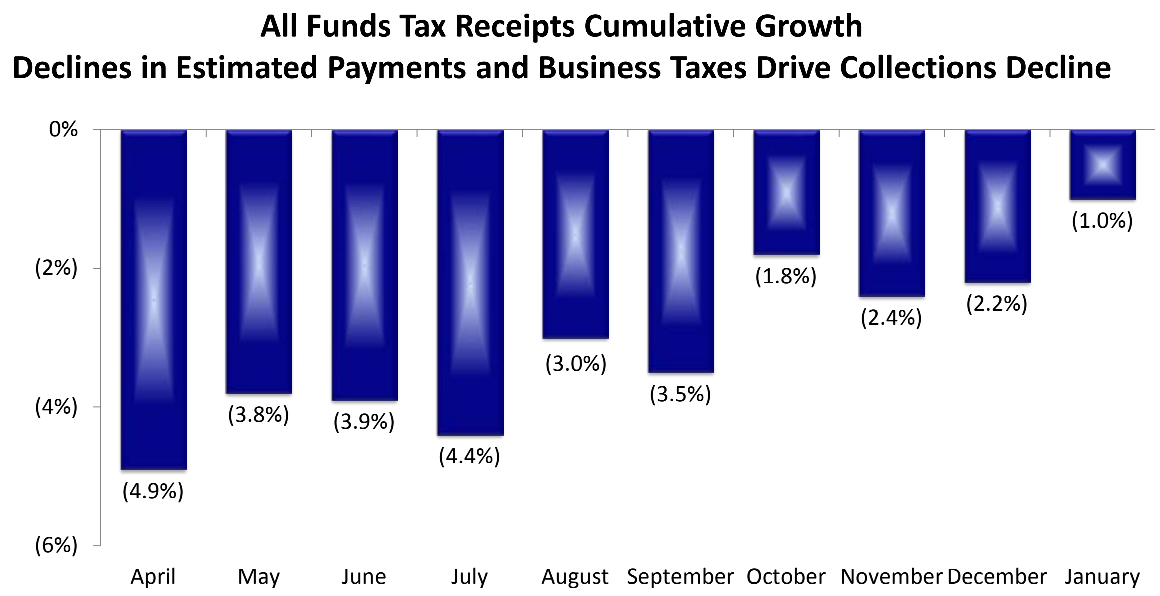
REVENUE FORECAST AT A GLANCE

SFY 2016-17 All Funds Estimate Summary ($ in Millions)	2015-16 Actual	2016-17 Estimate	Change	Growth	Diff. Exec.
Personal Income Tax	$47,055	$47,532	$477	1.0%	$223
User Taxes	15,725	16,250	525	3.3%	67
Business Taxes	7,884	7,943	59	0.8%	96
Other Taxes	4,010	3,599	(411)	-10.3%	(34)
Total Tax Collections	**$74,673**	**$75,325**	**$652**	**0.9%**	**$352**
All Funds Miscellaneous Receipts	23,956	22,903	(1,054)	-4.4%	8
Lottery	3,312	3,275	(37)	-1.1%	(5)
Total w/Miscellaneous Receipts & Lottery	**$101,941**	**$101,502**	**($439)**	**-0.4%**	**$355**
Federal Funds	51,324	52,885	1,561	3.0%	-
Total All Funds Receipts	**$153,265**	**$154,387**	**$1,122**	**0.7%**	**$355**

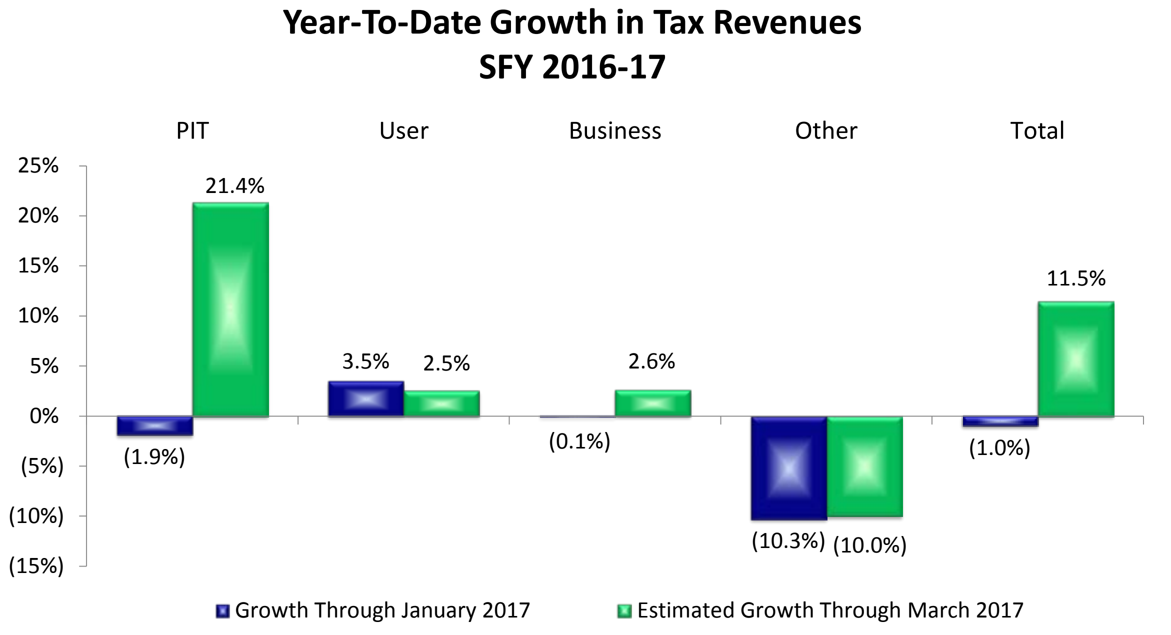
* Totals may not add up due to rounding

SFY 2017-18 All Funds Revenue Forecast Summary ($ in Millions)	2016-17 Estimate	2017-18 Forecast	Change	Growth	Diff. Exec.
Personal Income Tax	$47,532	51,246	$3,714	7.8%	$563
User Taxes	16,250	17,142	891	5.5%	144
Business Taxes	7,943	8,352	408	5.1%	99
Other Taxes	3,599	3,696	97	2.7%	96
Total Tax Collections	**$75,325**	**$80,435**	**$5,110**	**6.8%**	**$901**
All Funds Miscellaneous Receipts	22,903	23,474	572	2.5%	123
Lottery	3,275	3,265	(10)	-0.3%	6
Total w/Miscellaneous Receipts & Lottery	**$101,502**	**$107,175**	**$5,672**	**5.6%**	**$1,029**
Federal Funds	52,885	54,265	1,380	2.6%	-
Total All Funds Receipts	**$154,387**	**$161,440**	**$7,052**	**4.6%**	**$1,029**

* Totals may not add up due to rounding



Source: Office of the State Comptroller.



Sources: 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 2014	Actual 2015	Estimate 2016	Forecast 2017	Forecast 2018
Real GDP	2.4	2.6	1.6	2.3	2.2
Consumption	2.9	3.2	2.7	2.7	2.5
Investment	4.5	5.0	(1.5)	4.6	4.3
Exports	4.3	0.1	0.4	2.2	2.6
Imports	4.4	4.6	1.1	4.2	3.9
Government	(0.9)	1.8	0.9	0.5	0.3
Federal	(2.5)	(0.0)	0.6	0.1	(0.9)
State and Local	0.2	2.9	1.0	0.7	1.1
Personal Income	5.2	4.4	3.5	4.6	4.6
Wages & Salaries	5.1	5.1	4.2	4.8	4.7
Corporate Profits	5.9	(3.0)	(0.6)	6.3	5.0
Productivity	0.8	0.9	0.1	0.8	0.9
Employment	1.9	2.1	1.8	1.5	1.3
Unemployment Rate*	6.1	5.3	4.9	4.6	4.5
CPI-Urban	1.6	0.1	1.3	2.5	2.3
S&P 500 Stock Price	17.5	6.8	1.5	9.7	1.7
Treasury Bill Rate (3-month)*	0.0	0.1	0.3	0.8	1.6
Treasury Note Rate (10-year)*	2.5	2.1	1.8	2.7	3.1

* 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 2014	Actual 2015	Estimate 2016	Forecast 2017	Forecast 2018
Total	**1.9**	**2.1**	**1.8**	**1.5**	**1.3**
Construction	5.0	5.0	3.9	2.5	3.3
Other Services[1]	2.5	2.2	1.8	2.0	1.3
Professional Services	2.6	3.3	3.1	3.0	2.4
Leisure & Hospitality	3.1	3.1	3.0	2.1	2.0
Transportation & Utilities[2]	3.2	4.1	2.2	1.7	1.1
Real Estate, Rental, & Leasing	2.3	2.1	2.6	2.3	1.5
Wholesale Trade	1.4	0.7	0.2	0.8	0.6
Management of Companies	3.1	1.8	1.5	1.5	1.3
Retail Trade	1.9	1.6	1.4	1.0	0.8
Education and Health Care[3]	1.7	2.7	2.7	2.3	2.2
Manufacturing[4]	1.5	0.6	(0.9)	(0.3)	(0.1)
Finance & Insurance	0.7	1.8	1.8	1.6	1.1
Government	0.1	0.7	0.9	0.6	0.7
State and Local	0.3	0.7	0.8	0.6	0.8
Federal	(1.3)	0.8	1.5	0.9	0.2
Information	0.8	0.9	0.8	(0.0)	0.1

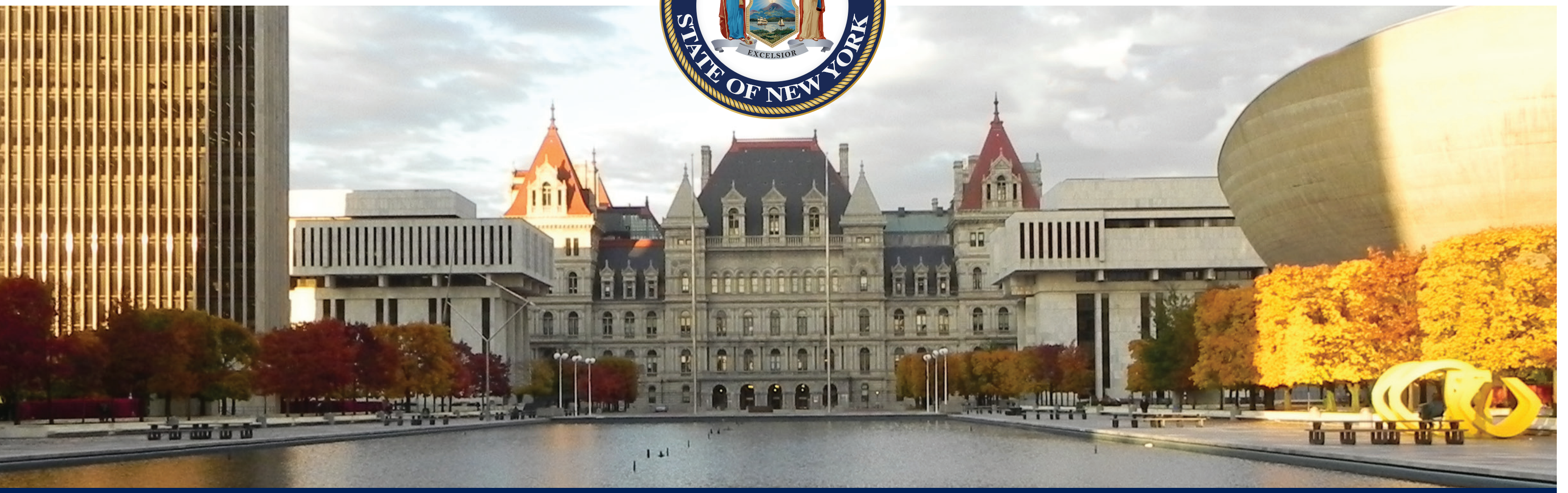
[1] Including administrative, support, and waste management services.

[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 2014	Actual 2015	Estimate 2016	Forecast 2017	Forecast 2018
Employment	1.9	1.9	1.6	1.4	1.3
Personal Income	4.2	3.8	2.9	4.8	4.6
Total Wages	6.4	4.5	3.0	4.3	4.3
Base Wages	4.3	4.8	4.0	4.4	4.3
Variable Compensation	25.6	2.0	(4.8)	3.4	5.0
New York Area CPI	1.3	0.1	1.1	2.4	2.2

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 2015-16	Estimate 2016-17	Forecast 2017-18	Forecast 2018-19
Employment	***Percent Change***	1.9	1.5	1.3	1.3
	Level	9,032.8	9,164.9	9,285.8	9,403.3
Personal Income	***Percent Change***	3.7	3.4	4.8	4.4
	Level	1,167.6	1,207.8	1,266.3	1,322.1
Total Wages	***Percent Change***	4.2	3.8	4.5	4.2
	Level	610.2	633.3	661.6	689.2
Base Wages	***Percent Change***	4.7	4.2	4.4	4.2
	Level	543.9	566.8	591.7	616.4
Variable Compensation	***Percent Change***	0.6	0.4	5.0	4.2
	Level	66.3	66.5	69.9	72.8
New York Area CPI	***Percent Change***	0.3	1.5	2.3	2.1
	Index Level (1982-84=100)	261.0	264.9	271.1	276.9

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 2015	Estimated 2016	Forecast 2017	Forecast 2018
Total	**(3.1)**	**1.9**	**1.6**	**1.4**	**1.3**
Construction	(10.0)	5.2	4.3	4.9	4.8
Education & Health Care[1]	1.7	2.5	3.0	2.5	2.1
Other Services[2]	(5.0)	2.5	2.1	2.0	1.9
Real Estate, Rental, & Leasing	(3.8)	2.3	2.1	1.9	1.7
Leisure & Hospitality	(0.9)	2.7	2.0	1.9	1.9
Professional Services	(4.3)	3.2	1.8	2.5	2.4
Transp. & Utilities[3]	(4.2)	3.5	1.7	1.7	1.4
Finance & Insurance	(7.2)	1.4	0.8	1.0	0.9
Government	(0.2)	0.3	0.5	0.2	0.2
Wholesale Trade	(6.3)	0.7	(0.0)	0.5	0.3
Management of Companies	(0.7)	0.6	(0.6)	0.7	0.6
Retail Trade	(3.8)	0.2	(0.6)	0.4	0.4
Information	(4.0)	0.5	(0.8)	(0.3)	(0.3)
Manufacturing[4]	(10.9)	0.4	(1.0)	(0.9)	(1.0)

Note: Industries are ranked by 2016 employment growth; rankings are based on two decimal places.

[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; NYS Assembly Ways and Means Committee staff.

New York State Wage Growth by Sector (Percent Change)					
	Recession 2009	Actual 2015	Estimated 2016	Forecast 2017	Forecast 2018
Total	**(7.2)**	**4.5**	**3.0**	**4.3**	**4.3**
Construction	(8.9)	9.1	10.2	7.5	6.6
Information	(4.4)	4.5	6.4	5.8	4.8
Leisure & Hospitality	(2.6)	6.6	5.7	5.2	5.7
Real Estate, Rental, & Leasing	(8.6)	7.6	5.5	6.2	6.0
Professional Services	(5.5)	6.2	5.3	6.4	6.0
Education & Health[1]	4.5	5.2	4.4	4.3	3.9
Transport & Utilities[2]	(4.6)	5.3	3.2	3.5	3.4
Government	2.0	3.0	3.1	3.3	3.1
Other Services[3]	(5.6)	9.1	2.9	4.2	4.5
Retail Trade	(4.9)	3.3	1.1	1.6	1.6
Wholesale Trade	(6.5)	5.1	0.5	2.8	2.7
Manufacturing[4]	(11.0)	6.1	0.1	1.0	1.4
Finance & Insurance	(22.1)	(0.0)	(0.7)	5.0	5.5
Management of Companies	(10.8)	4.7	(3.3)	4.0	3.6

Note: Industries are ranked by 2016 wage growth; rankings are based on two decimal places.

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

[2] Transportation, warehousing, and utilities.

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

[4] Including mining.

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

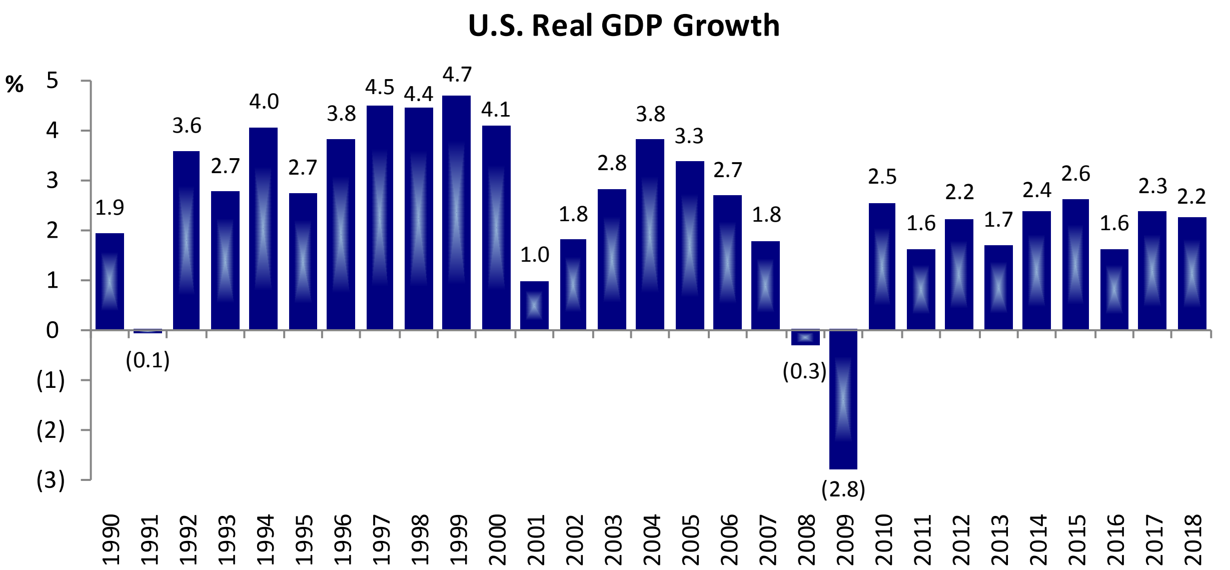
U.S. Economic Forecast Analysis

U.S. ECONOMIC FORECAST ANALYSIS

Economic recovery continues despite weakness in business spending and foreign demand

The U.S. economic recovery that began in June 2009 continues. Despite negative fallouts from a cold spell and port disruptions on the West Coast, the national economy grew 2.6 percent in 2015 (see **Figure 1**). The main growth driver was consumer spending, which increased 3.2 percent, the fastest yearly growth since 2009. This significant improvement in consumer spending growth was supported by robust growth in employment and income. Spending by the government made a big turnaround in 2015, increasing year over year for the first time in five years. With the exception of spending on commercial and industrial structures, business spending overall also made a positive contribution to national output growth. However, even with a sizable inventory buildup included, the rate of growth of business spending was the weakest since the recovery began in June 2009.

Global oil prices and other commodity prices plummeted starting from the fourth quarter of 2015, and even though prices have stabilized, many natural resources-dependent economies at home and abroad are still suffering losses. As a result, foreign demand for U.S. exports has suffered. The energy sector in the U.S. has also been forced to slash production and capital spending on oil-field equipment and structures. Weakening corporate profits, which declined on a yearly average basis in 2015 for the first time since 2008, also contributed to the recent retreat in business capital spending. These weaknesses, along with inventory corrections led to persistent weakening of the overall economic growth in the first half of 2016. Therefore, even with steady gains in consumer spending and signs of stabilizing in energy prices, U.S. economic growth slid to an estimated 1.6 percent in 2016.



Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.

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

Figure 1

Consumer and broad labor market fundamentals remain positive

The overall economic recovery is expected to continue in the next two years with various positive forces in play and fundamentals continuing to improve. Although likely to slow down as unemployment nears its natural rate, gains in employment remain steady. As the labor market gets tighter, wage income gains appear to be becoming stronger. Helped by employment and income gains, consumer spending growth remains robust, and lately it has become more broad-based. Also, the increased purchasing power from low fuel prices appears to have boosted household spending. Despite volatility in financial markets, improving financial positions have also been helping the recovery in 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 26 years, more banks have been reporting increased willingness to make loans to consumers. Therefore, improved financial conditions have provided households with opportunities to finance their spending with loans. In addition, lenders have become more willing to make loans.

Business fundamentals and state and local government finances are also improving

Despite monthly volatility, home sales are still on an upward trend. Housing demand will likely increase further as the tightening labor market puts upward pressure on wages. Increased optimism among homebuilders, increasing household formations, falling rental vacancy rates, and less tightening in loan standards are all expected to drive continued recovery in residential investment activity. Outside the residential sector, business inventory corrections appear to be behind us, signaling factory orders and production, which have lately turned around after a long slide, will likely increase further in the coming months. Also, the continued recovery in consumer spending, which accounts for about 70 percent of U.S. GDP, will likely help boost business capital spending as businesses will see the need to upgrade their equipment in order to meet demand. With oil and other commodity prices expected to be stabilizing, the U.S. energy sector will likely resume capital spending and economies that are dependent upon natural resources will likely be less strained in revenue and, thus, their demand for U.S. exports.

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 to support gradual gains 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

Income growth remains weak with job growth concentrated in lower-paying service sector industries, and productivity growth stays unusually low

Despite steady gains in jobs and the accompanying improvement in income, recent Census data showed that the median American household income in 2015, $56,516, was still 1.8 percent lower, after inflation, than its 2007 level and 2.4 percent below its 1999 level. One reason for this stagnant median household income is that most of the income gains in the nation since the end of the Great Recession accrued to affluent households.[1] Also, many of the jobs that have been created are concentrated in relatively low-paying service sectors. Roughly three out of every four jobs that were created between 2009 and 2016 earned less than the national annual average. Total employment in the service sector as a whole was 9.2 million jobs above the January 2008 level as of January 2017. This is in sharp contrast with the manufacturing and construction sectors that still had 2.1 million fewer jobs in that month, compared to the pre-recession peak level.[2] Slow productivity growth is another reason for

[1] Based on U.S. Census Bureau data from 2009-2015, fifty-seven percent of the income gains accrued to the top twenty percent of households.
[2] These two sectors were hit hardest during the last recession and make up the majority of the goods-producing sector.

relatively slow income growth. Labor productivity has grown at a mere 0.6 percent average annual rate since 2011, compared to 2.3 percent per year between 1947 and 2010.[3]

The housing market recovery is restrained by supply and demand constraints

In the housing market, despite various positive factors, activity has failed to build a more solid, steady momentum as supply constraints, such as the shortage of buildable lots and skilled construction workers, have started to be felt. In particular, the rate of unemployment among construction workers is below six percent, almost a record low level. The ratio of housing units under construction to residential construction workers has climbed to 0.4, a level close to the peak during last decade's housing boom.[4] Also, rising student debt burdens and stringent loan conditions have been restraining potential first-time home buyers.

Business capital spending has been weak

Weakening corporate profits are restraining business spending. In particular, corporate earnings in the banking and overall financial sector have been negatively impacted from low interest rates. Weak trends in labor force growth and an aging economic expansion are also contributing to weak equipment spending. Capital spending in the U.S. energy sector remains stymied by low global oil prices. Due to the loss of global competitiveness caused by a strong U.S. dollar, exporting industries also remain strained in capital spending. The U.S. non-petroleum trade deficit, which widened to an all-time high in the fourth quarter of 2016, is growing.

Yearly growth of business spending on equipment and software has noticeably slowed to 2.9 percent in the past three years from the more robust 9.1 percent 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.

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[3] One explanation for this phenomenon of falling labor productivity growth in the United States focuses on possible underestimation of the positive contributions of digital communications technology. But Chad Syverson argues that the productivity slowdown is not merely an artifact of bad measurement but instead likely reflects a real change in the rate of economic progress. For more details, see "Challenges to Mismeasurement Explanations for the U.S. Productivity Slowdown," NBER Working Paper, No. 21974, February 2016.
[4] Andres Carbacho-Burgos, "United States New Residential Construction (C20)," Moody's Analytics Economy.com, September 20, 2016.

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

The outlook for U.S. exports is rather dim in part because of a strong U.S. dollar, glonsl economic weakness, and many oil-dependent economies negatively impacted by low oil prices. Indeed, 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. Furthermore, with exports expected to grow slower than imports, U.S. net exports are forecast to continue to be a drag to overall economic growth.

Overall, the U.S. Economic Recovery Will Continue

The U.S. economy is projected to grow 2.3 percent in 2017, a rate near the trend growth rate. The pace of national economic growth is expected to remain relatively slow at 2.2 percent in 2018, with the recovery continuing into its ninth year. This forecast assumes no major disruptions to the U.S. or world economy of any major actions by the new federal administration. The economic performance of emerging market economies, especially China, is assumed to avoid major corrections in the financial as well as nonfinancial sectors at least in the next two years, although somewhat slower economic growth is factored into the current forecast. It is assumed that the Federal Reserve will gradually raise the federal funds rate target range in 2017 and 2018, adjusting the pace of rate hikes 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 market participants 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 1.5 percent in 2017 after growing 1.8 percent in 2016. With economic growth expected to continue further in 2018 but with labor market conditions expected to get tighter, employment growth is forecast to slow further to 1.3 percent in 2018.

Consumer prices will advance faster

With crude oil prices at thirteen year lows and the prices of many other commodities at depressed levels, inflation remains well below the Federal Reserve’s target rate of two percent.

But with commodity prices stabilizing, oil prices expected to start rising, and wages and other labor costs expected to increase as the labor market gets tighter, the Consumer Price Index (CPI) is forecast to advance 2.5 percent in 2017 after rising 1.3 percent in 2016. The CPI is forecast to gain another 2.3 percent in 2018.

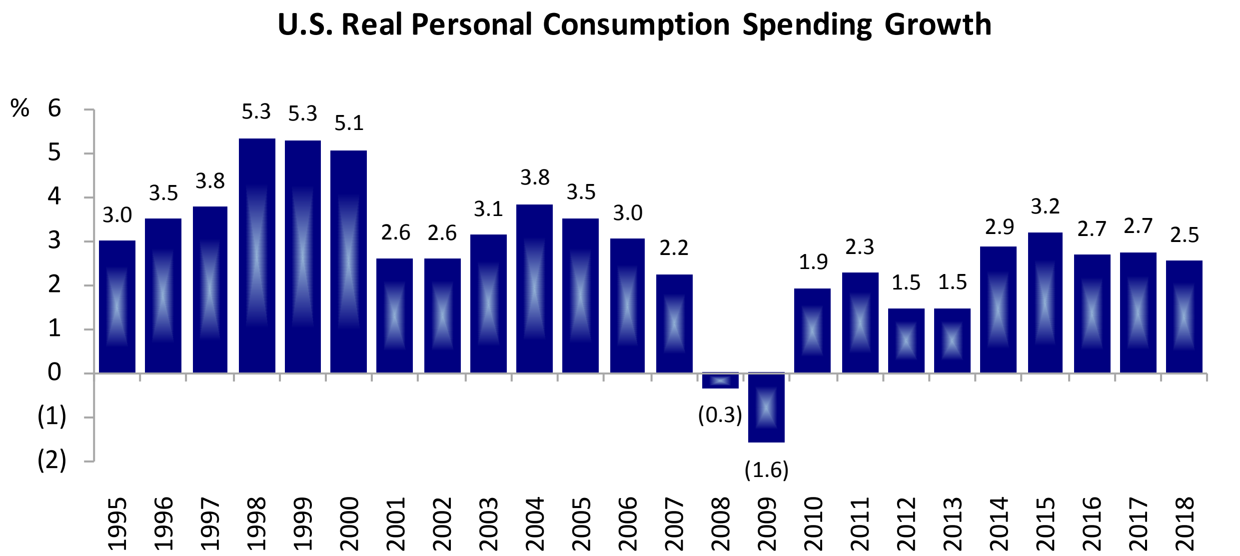
The Federal Reserve will continue rate hikes

With consumer price inflation expected to accelerate to mid two percent and labor market conditions improving further in 2017 and 2018, more interest rate hikes by the Federal Reserve are likely. Indeed, long-term Treasury yields and mortgage interest rates have already begun rising sharply, in anticipation of those hikes in short-term rates and increases in federal budget deficits by the new administration. The current forecast assumes three 25 basis point hikes in the federal funds target rate in 2017 and four more in 2018. The yield on 10-year Treasury securities is forecast to rise, on an annual average basis, to 2.7 percent in 2017 and further to 3.1 percent in 2018.

The current economic forecast does not incorporate potential effects of the new administration's policy changes

It is widely expected that the Trump presidency will bring about, among other changes, tax cuts, federal spending increases, and less industry regulations. Nonetheless, the economic forecast in this report does not incorporate those changes, as their specifics are not clear yet. Furthermore, although expectations on those changes have been positively impacting the equity market, effects on the economy and job growth are less certain. For example, tax cuts, ceteris paribus, will increase after-tax personal income and corporate earnings and thus consumer and business spending. At the same time, tax cuts will likely result in an increase in the federal budget deficit unless accompanied by commensurate spending cuts, and thus an increase in Treasury yields and mortgage interest rates. This may have a negative effect on consumer and business spending, let alone a major correction in the bond market. Increases in federal spending, especially infrastructure, will have stimulative effects on the economy, but with the labor market approaching full employment, the effects on the economy could be somewhat limited. Also, due to an implementation lag, most of the effect will likely occur in 2018 rather than in 2017.

Consumer Spending



Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 2

Consumer Key Points

- **Consumer spending growth is forecast to remain positive, albeit weakening over the forecast period;**
- **Consumer spending is helped by steady gains in employment and income as well as low energy prices and mortgage rates;**
- **With interest rates expected to rise, expenditures on durable goods which have sustained consumption spending will likely be more modest;**
- **Expected increases in energy prices will likely restrain consumer spending.**

Consumer spending remains the main driver of overall economic growth, contributing more than eighty percent to real GDP growth in 2015. Personal consumption spending, adjusted for inflation, grew by 3.2 percent in 2015, following growth of 2.9 percent in 2014. This was the strongest yearly growth in consumer spending since the Great Recession. Consumer spending was bolstered by low energy prices that boosted real personal disposable income and low interest rates that supported strong sales in motor vehicles. Consumer spending also benefited from higher household wealth buttressed by rising home and equity prices, gains in employment, and an improvement in household creditworthiness.

In 2016, these factors continued to support personal consumption spending, but growth was tempered by higher prices and slower growth in income and wealth. In addition, spending on health care moderated as the impact of the Affordable Care Act waned. Motor vehicle sales grew only 0.4 percent after strongly supporting consumer spending in the early years of the current recovery. Therefore, personal consumption spending grew an estimated 2.7 percent in 2016 (see **Figure 2**).

Despite consumer spending behavior changing since the Great Recession, the expectation was that consumer spending growth would be more robust given all the favorable factors in place, particularly persistently low interest rates and a low energy price environment. However, as income has risen the savings rate for households has increased and remains elevated compared to prior to the last recession. More importantly, the gains in income since the 2007-09 recession have been unequally distributed. The majority of gains in income have accrued to upper income households who are less likely to spend a proportionate amount of their income on goods and services as other income groups.[5] Furthermore, record student loan debt has hampered spending growth. In 2016, the average student loan was $30,100 compared to $18,200 in 2007.[6]

Rising energy prices and interest rates will restrain future spending growth

Over the forecast period, energy prices are anticipated to increase modestly. Higher energy prices put upward pressure not only on the prices of energy products but also indirectly on the prices of other goods and services adversely affecting consumer spending. In addition, long-term interest rates are expected to rise over this period resulting in more sustainable spending on motor vehicles and slower spending growth on other durables goods such as housing, and housing-related expenditures. Retiring baby-boomers who tend to be higher-paid workers, will be replaced by lower-paid employees, depressing wage growth and hence consumer spending. These factors will partly crowd-out upward pressure on wages as employment gains slow further and the unemployment rate reaches it natural rate; higher interest rates accelerating growth in interest income, thus increasing disposable income; and

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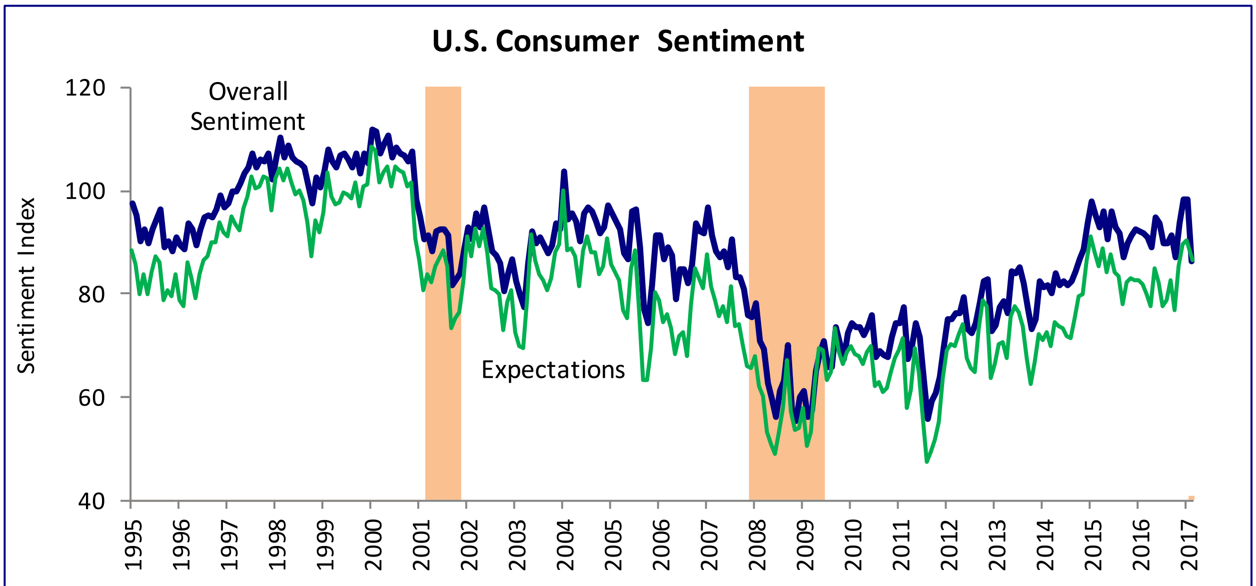
[5] See Emmanuel Saez, "Striking it Richer: The Evolution of Top Incomes in the United States," University of California-Berkeley, June 2015.

[6] Data are in federal fiscal year. See National Student Loan Data System, https://studentaid.ed.gov/about/data-center/student/portfolio.

reduced debt level of households is making more funds available for spending. While equity prices are expected to rise in 2017, stock market volatility will lead to moderate gains in 2018, contributing to slower growth in household wealth. Consequently, personal consumption spending is projected to grow another 2.7 percent in 2017 then slow to 2.5 percent in 2018.

Consumer sentiments also suggest restrained spending

In general, consumers remain optimistic about the economy as a whole (see **Figure 3**). Consumers' short term expectations about their finances and labor market conditions are favorable. Low mortgage rates have played a particularly important role in shaping consumers' outlook as they depend on these rates for buying homes. When consumers are more confident about their economic prospects they are more inclined to spend. However, when that confidence is shaken, especially by unanticipated events, consumers may curb their spending.

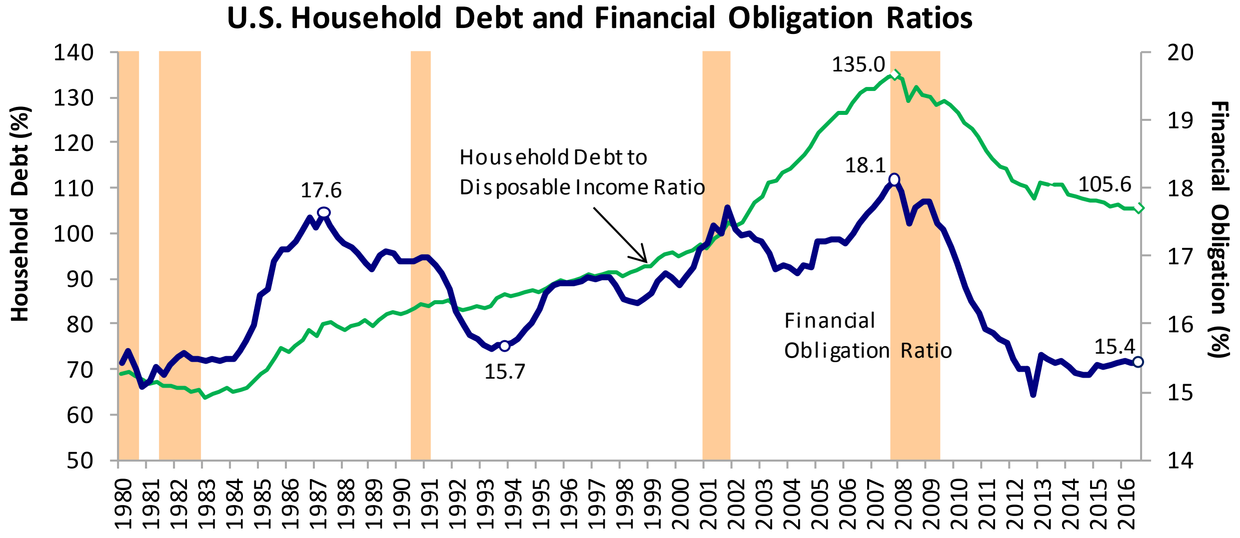


Note: Data are monthly through February 2017. Shaded areas represent recessions.
Source: Reuters/University of Michigan ICS.

Figure 3

Households' creditworthiness has improved

Households' creditworthiness has been improving as household debts have declined markedly from their peak in 2008 (see **Figure 4**). 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 households' debt falls, a smaller portion of their income is required to be set aside for debt payments, and thus households have more disposable income that can be spent or saved.

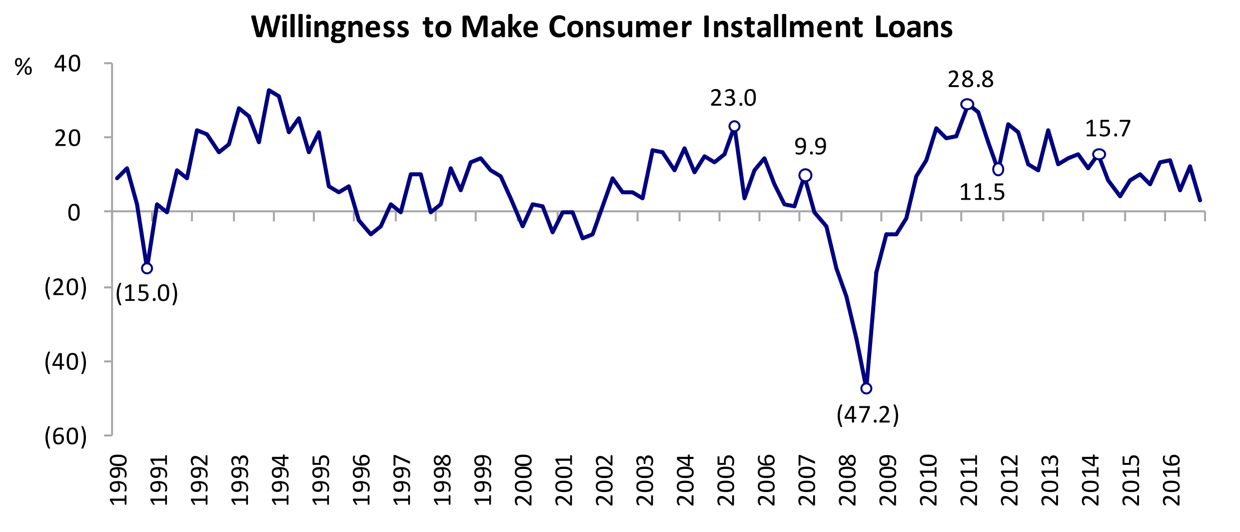


Note: Data are quarterly through 2016:Q3. The financial obligation ratio measures the percentage of household disposable income obligated to debt payment. Household debt ratio is total debt as a percentage of disposable income.
Source: Federal Reserve .

Figure 4

Banks have been more willing to lend

Banks have been more willing to lend to households as their creditworthiness has improved. Banks have facilitated lending to households by easing credit requirements compared to the period following the 2007-09 recession. The proportion of banks willing to make consumer loans to households has rebounded from the 2008 low (see **Figure 5**). As home mortgage loan terms have eased, the demand for all consumer loans such as auto loans and home loans has mostly risen. Hence, consumer spending will benefit from the continued easing of loan standards by banks.



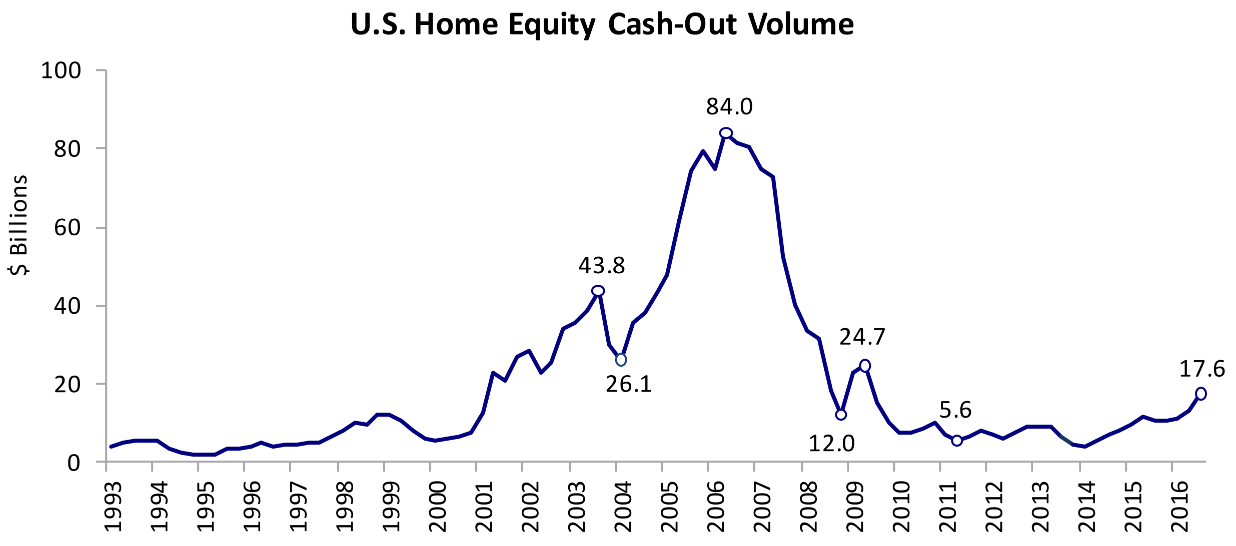
Note: Data are quarterly through 2017:Q1. Bank data were taken from a survey of approximately fifty to sixty-eight domestic banks and nineteen to twenty-eight U.S. branches and agencies of foreign banks. The percentage is the fraction of banks that reported increased willingness to make consumer installment loans from the previous three months.
Source: Federal Reserve.

Figure 5

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 increasing (see **Figure 6**). In the third quarter of 2016, of the homeowners who chose to refinance, only 8.9 percent withdrew cash. This mortgage equity withdrawal was equivalent to $17.6 billion, the highest level since the third quarter of 2009. Of the homeowners whose initial loans were a 30-year fixed rate mortgage, 64.7 percent kept a 30-year fixed rate, while 24.8 percent refinanced into a 15-year fixed term.[7] While lower home equity withdrawal provides less support for consumer spending, homeowners who are able to pay lower interest rates on home loans will likely have more funds that can be used to purchase other goods and services.

[7] See Freddie Mac, Cash-Out Refinance Report 3Q 2016, *Refinance Statistics*, December 2016, http://www.freddiemac.com/finance/refinance_report.html.

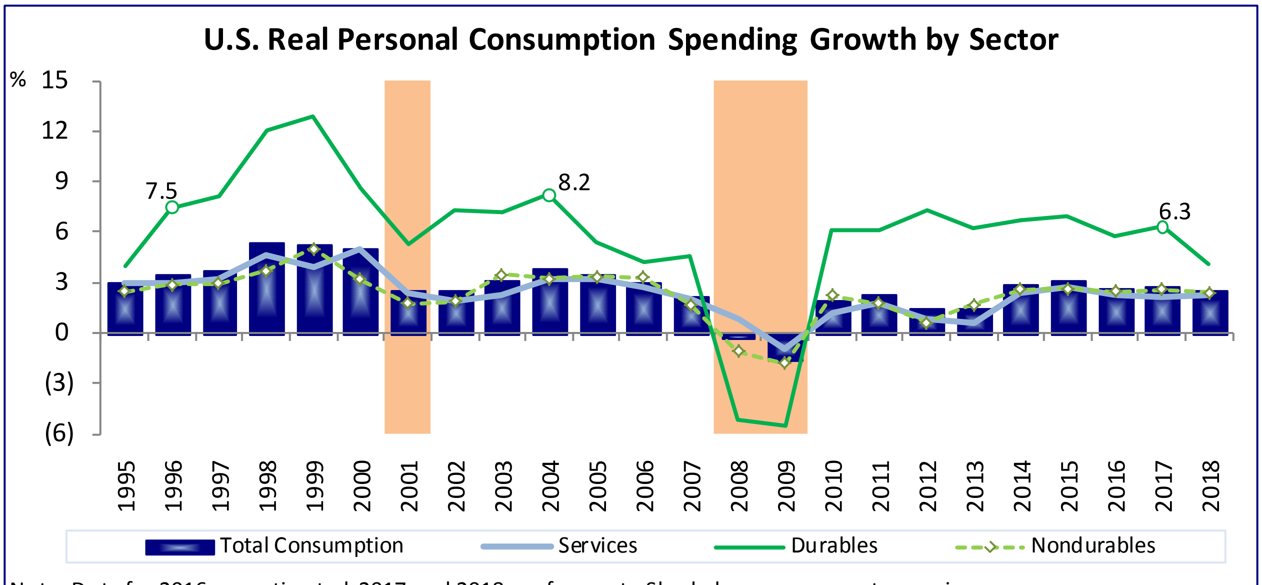


Note: Data are quarterly through 2016:Q3; 2015 and 2016 data are estimated. Total Home Equity Cashed Out is through the refinancing of prime, first-lien conventional mortgages.
Source: Freddie Mac Refinance Activities Report.

Figure 6

Overall consumer spending outlook

Motor vehicles sales, primarily due to sales in trucks and sports utility vehicles, have been the impetus behind the expansion in consumer spending since the end of the last recession. However, in 2016 sales tapered off growing only 0.4 percent compared to 5.7 percent in 2015 and 6.0 percent in 2014. Vehicle sales are expected to grow more slowly over the forecast period but at a faster pace than in 2016 as sales reach more sustainable levels. Spending on services and nondurable goods, which account for more than eighty percent of overall consumer spending, is anticipated to grow modestly. Health care spending associated with the Affordable Care Act is expected to weaken. However, improvement in household formation will support consumer spending. Spending on durables goods is forecast to grow 6.3 percent in 2017 and 4.1 percent in 2018. Spending on nondurable goods is projected to increase by 2.6 percent in 2017 and 2.4 percent in 2018, while spending on services is predicted to grow by 2.1 percent in 2017, and 2.2 percent in 2018 (see **Figure 7**).



Note: Data for 2016 are estimated; 2017 and 2018 are forecasts. Shaded areas represent recessions.

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

Figure 7

Business Investment Spending

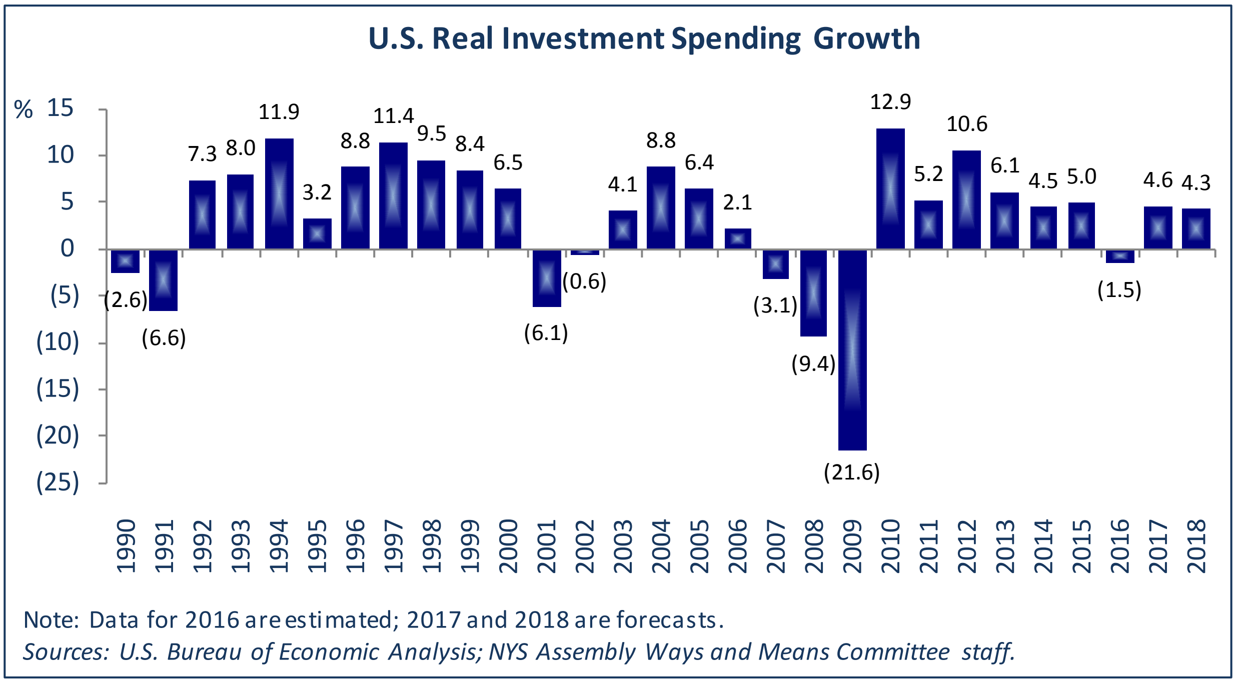


Figure 8

Investment Key Points

- **Large declines in equipment spending led to a decline of overall business investment spending during 2016;**
- **However, business investment spending is expected to recover in 2017 and 2018 as key fundamentals such as global demand trends and energy prices are expected to improve and business sentiments are turning more optimistic in anticipation of business tax cuts and less regulation;**
- **Spending on intellectual property products – which accounts for about a third of total business investment spending – is expected to remain strong through 2018.**

Since the fourth quarter of 2015 and through the first three quarters of 2016 investment spending continued to represent one of the main weaknesses in the U.S. economy. A combination of excess global capacity, slow economic recovery, low energy and commodity prices, and a strong dollar, led to three consecutive quarterly declines in total investment spending. As a result, overall investment spending remains well below historical rates and is estimated to have declined by 1.5 percent in 2016. It is expected to recover in 2017 with average growth of 4.6 percent (see **Figure 8**).

The share of investment spending on structures, both residential and nonresidential, in total investment spending, plummeted during the last recession and has not fully recovered. The share of investment spending on equipment has remained higher than before the last 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 surpassed its pre-recession level. The other categories of equipment spending have not shown the growth that transportation equipment has, and they remain close to, but below, their pre-recession levels.[8]

Although all major categories of investment spending are expected to post growth in 2017 and in 2018, the strongest growth during the forecast period, on average, is again expected to come from nonresidential equipment and structures and intellectual property products (see **Figure 9**). As the drags from low energy and commodity prices as well as a strong dollar dissipate, expenditures on equipment are expected to recover with projected growth of 2.4 percent in 2017 for an overall nonresidential equipment and structures growth of 3.6 percent.

[8] 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.

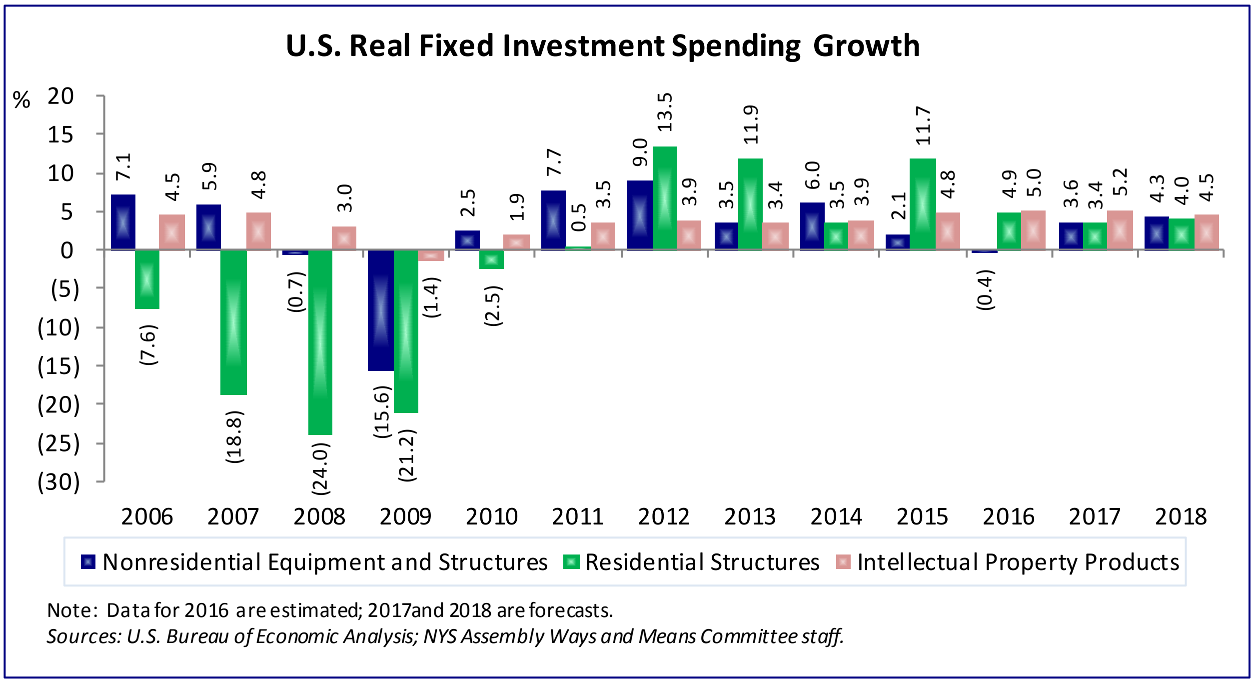


Figure 9

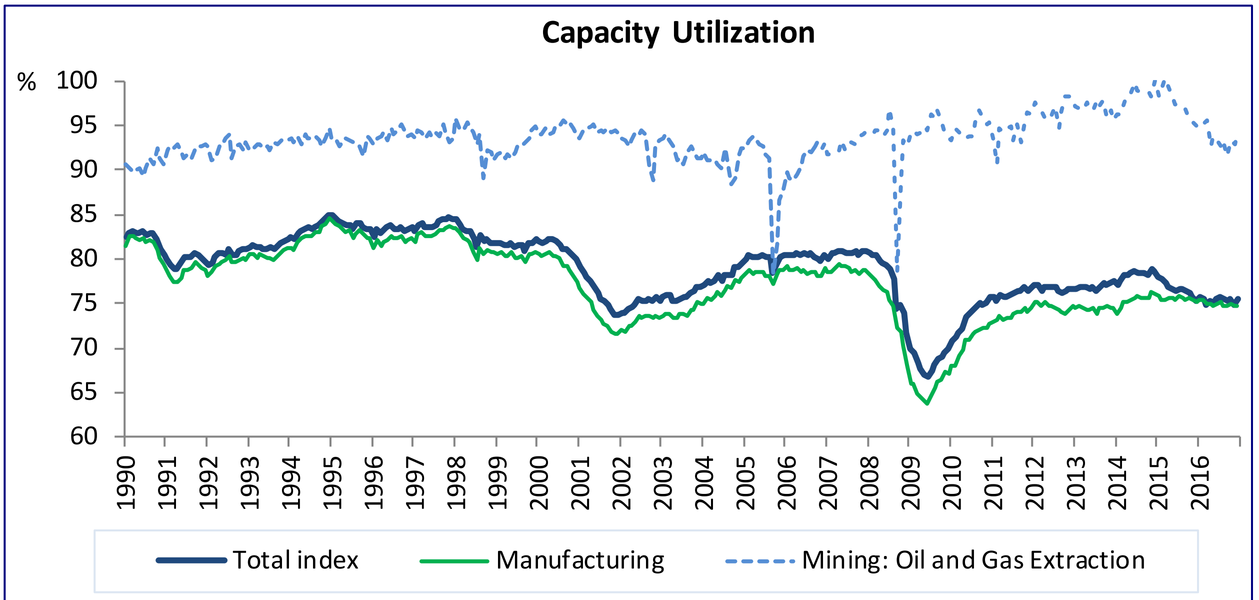
According to the January 2017 Federal Reserve survey of senior loan officers on bank lending practices, banks left their standards on commercial and industrial loans basically unchanged while tightening standards on commercial real estate loans over the fourth quarter of 2016.[9] With respect to loans to households, standards for residential real estate mortgage loans were little changed. The survey confirms that demand for most types of residential real estate loans strengthened over the fourth quarter.

Corporate profits posted large quarterly declines during 2015. Despite strong growth in the first quarter of 2016, second quarter growth, after inventory and depreciation adjustments, was negative. Overall corporate profits growth is estimated to have fallen 0.6 percent in 2016. It is estimated that corporate profits will rebound in 2017, growing 6.3 percent before growing further by 5.0 percent in 2018.

Lower oil prices have also had a significant negative 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 has yet to recover, even though as of February 3, 2017 the total rig count increased to 729 after the

[9] *The January 2017 Senior Loan Officer Opinion Survey on Bank Lending Practices*, Federal Reserve Board, February 6, 2017.

record low of 404 rigs during May of 2016.[10] The capacity utilization rate for oil and gas extraction stood at 94.1 percent as of December 2016 compared to 100 percent as of early 2015, consistent with the rise and collapse of oil prices over the same period (see **Figure 10**). The overall capacity utilization index has also not recovered to pre-recession levels and has been on a declining trend since the end of 2014, even though it appears to have stabilized, on average, in the recent months.



Note: Data are monthly through December 2016 and are seasonally adjusted.
Source: Federal Reserve.

Figure 10

As of December 2016, new orders of nondefense capital goods excluding aircraft, a leading indicator of equipment investment spending, posted month-over-month increases in six of the past seven months; however, they are still 3.5 percent below the 2015 highs, and still well below the pre-recession peak.

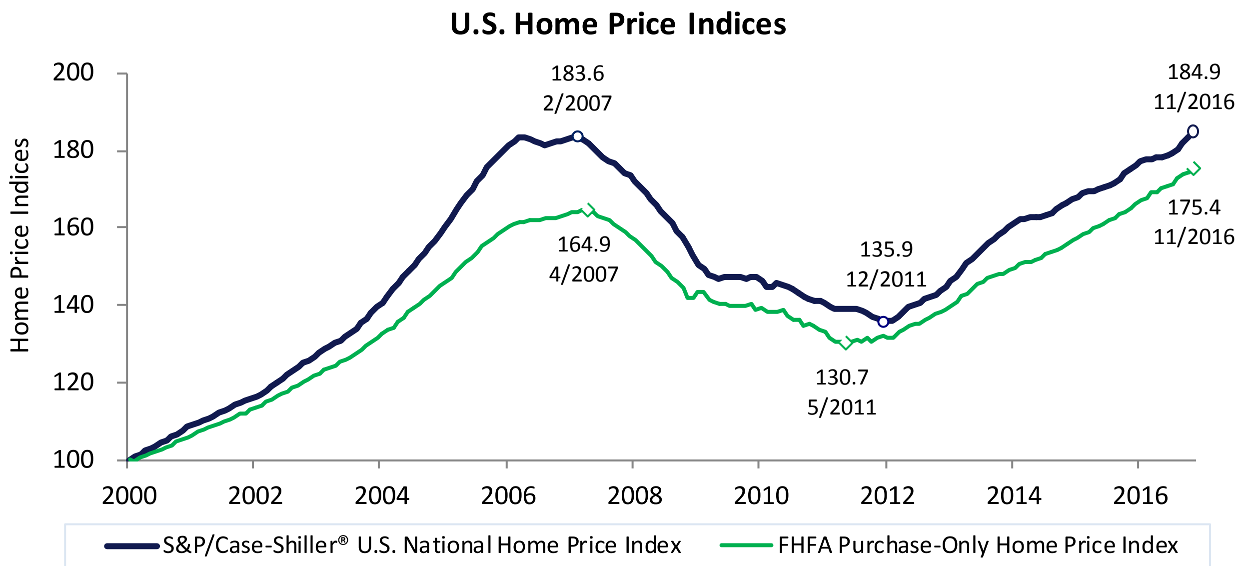
The Institute for Supply Management (ISM) index provides a positive picture as of the January 2017 release. Manufacturing sector activity increased in December for the fifth consecutive month while the overall economy expanded for the 92nd consecutive month. Eleven out of eighteen manufacturing industries reported growth in activity in December.

[10] Baker Hughes, "North America Rig Count", February 3, 2017.

Also of possible concern, with implications for the GDP growth rate, is the behavior of inventory investment. Even though inventories were a significant drag in GDP growth during the second quarter of 2016, they are expected to contribute to growth over the forecast horizon.

Residential Investment

After falling from its peak in 2005-06, the housing market showed signs of improvement in 2012 and has since gained steadily as consumers and investors took advantage of higher affordability. Both the Federal Housing Finance Agency House Price Index (FHFA) and the Case-Shiller House Price Index have gained steadily (see **Figure 11**). By the end of 2015 the FHFA House Price Index had already surpassed its previous peak in April 2007. However, the Case-Shiller House Price Index did not reach its previous peak until October 2016.



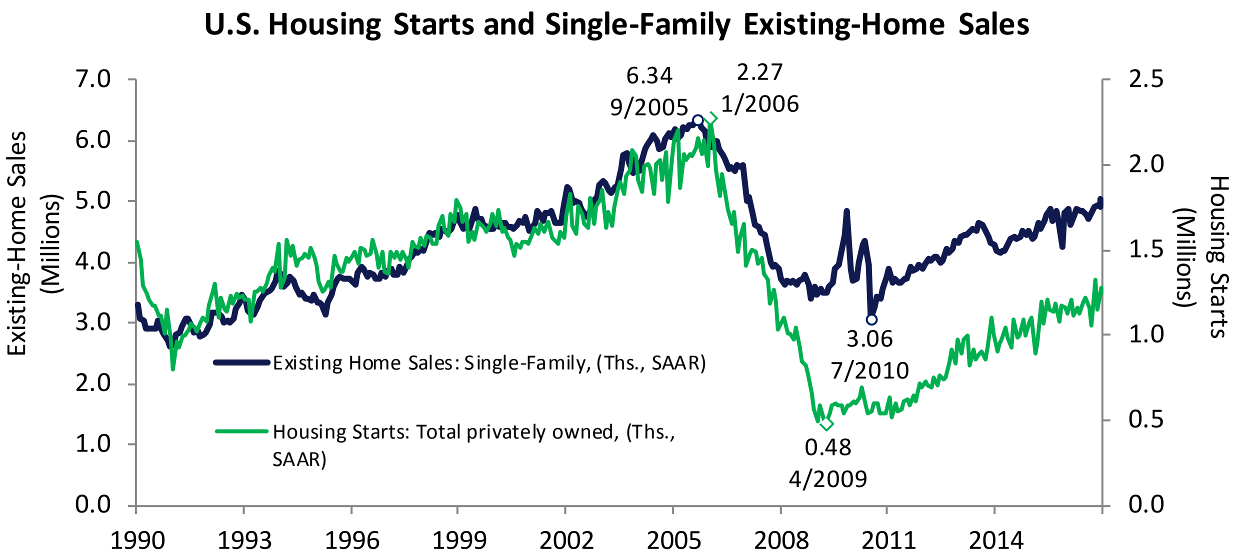
Note: Data are monthly through November 2016. Data are seasonally adjusted; January 2000=100.
Sources: Standard & Poor's; Federal Housing Finance Agency.

Figure 11

Housing starts grew strongly during 2015, especially for single-family homes, which have a much higher impact on jobs than multi-family construction.[11] After growing just 4.3 percent in 2014, single-family housing starts grew solidly at 10.5 percent in 2015.

[11] It is estimated that building an average single-family home creates 2.97 full-time equivalent jobs, compared to just 1.13 full-time equivalents for an average rental apartment.

After stagnating in 2014, both new- and existing-home sales rebounded strongly in 2015. New-home sales gained 14.2 percent in 2015. Despite a huge drop in existing home sales in November 2015 as a result of new federal rules that had delayed closings, existing-home sales gained 6.6 percent in 2015 (see **Figure 12**).



Note: Data are monthly from January 1990 to January 2017 and are seasonally adjusted at an annual rate (SAAR).
Sources: U.S. Census Bureau; National Association of Realtors.

Figure 12

Activity in the housing market continued to improve in 2016. Single-family housing starts grew 9.9 percent in 2016. Similarly, single-family existing-home sales rose by 4.3 percent in 2016, while single-family new home sales rose by 12.2 percent. Although home prices have reached the levels seen in the mid-2000s, sales and starts remain well below their pre-2007 level. The forecast calls for housing starts to register 8.9 percent growth in 2017 followed by 8.0 percent growth in 2018, supported by improving household formation, easing mortgage lending, and persistent gains in household incomes.

Many people lost their homes to foreclosure during the last recession, and a high debt burden has deterred people from buying a home. 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 69.2 percent in the second quarter of 2004, the homeownership rate

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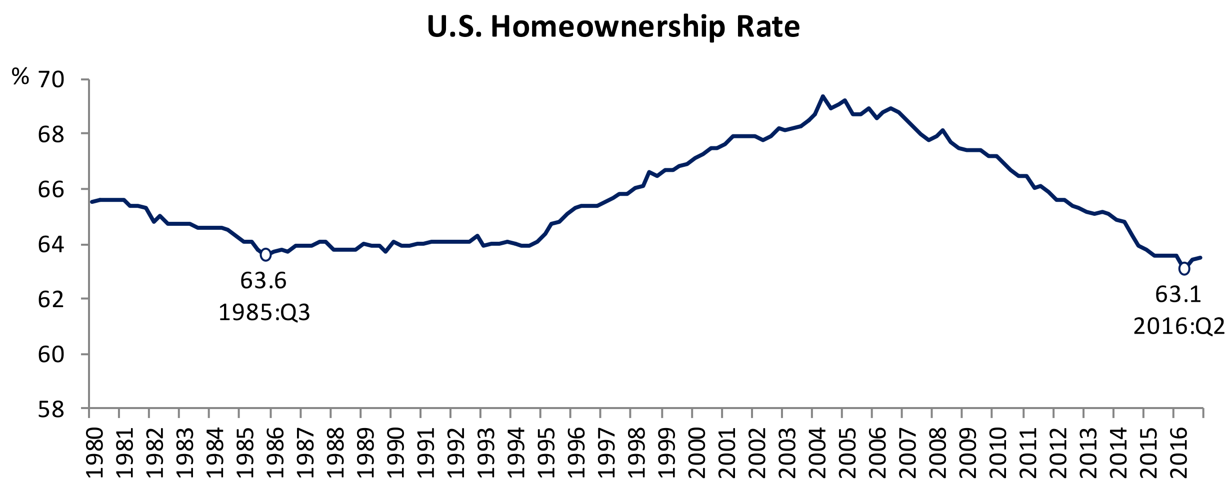
https://www.nahb.org/en/research/housing-economics/housings-economic-impact/impact-of-home-building-and-remodeling-on-the-u-s--economy.aspx fell to 63.1 percent in the second quarter of 2016, the lowest level since the early 1990s, before rebounding slightly to 63.5 percent in the fourth quarter of 2016 (see **Figure 13**).



Note: Data are seasonally adjusted. Data are quarterly from 1980:Q1 to 2016:Q4.
Source: U.S. Census Bureau.

Figure 13

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 2016. Similarly, the homeownership rate for the 35 to 44 age group dropped from 70.1 percent in the first quarter of 2005 to 58.7 percent in the fourth quarter of 2016, 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 and overall tepid economic recovery, 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.

Overall, housing affordability is again becoming an issue for consumers as low inventories and consistent demand gains continue to put upward pressure on prices. While borrowing costs remain historically low, they will eventually increase, putting further pressure on homebuyers absent any meaningful increase in supply.

Government Spending

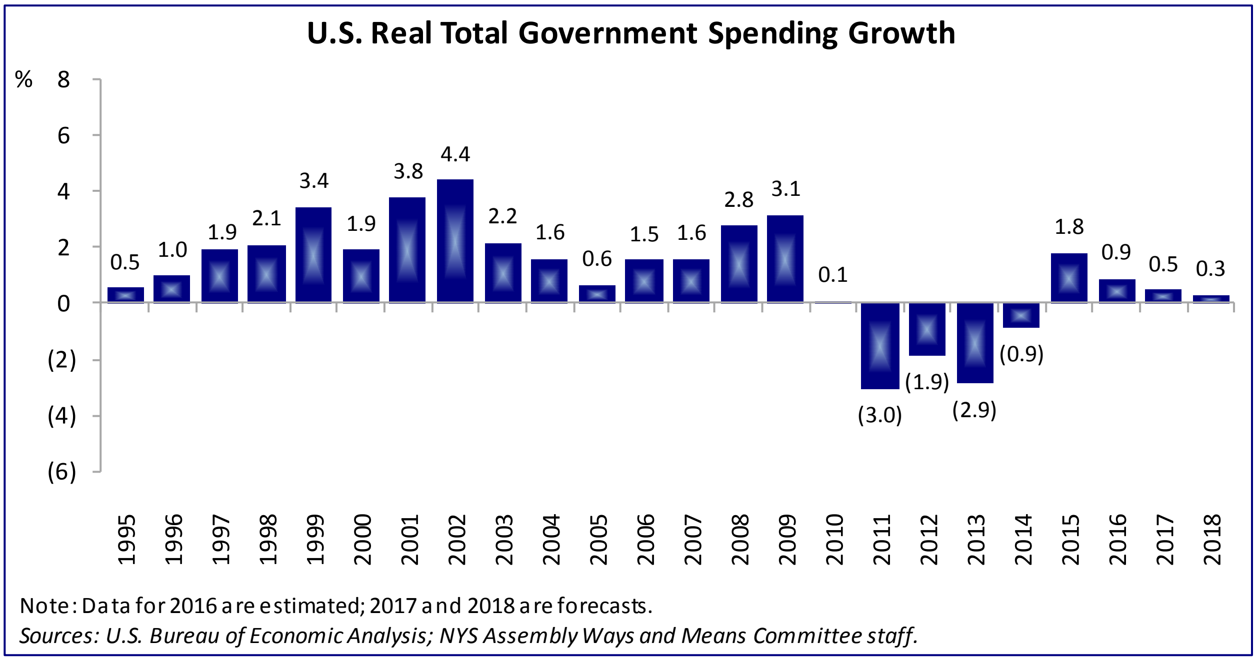


Figure 14

Government Spending Key Points

- **After posting growth in 2015 following four years of decline, total government spending is expected to continue to contribute positively to overall economic growth primarily due to higher spending by states and localities;**
- **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.**

Adjusted for inflation, total government spending rose 1.8 percent in 2015, following four consecutive years of decline. The increase in government spending in 2015 was due to higher spending by state and local governments, as spending by the federal government was unchanged from 2014. Total government spending increased an estimated 0.9 percent in 2016 as federal government spending rose due to higher appropriation levels passed by Congress in December 2015,[12] and state and local government spending also increased. In 2017 and 2018, total government spending growth is projected to slow to 0.5 percent and 0.3 percent,

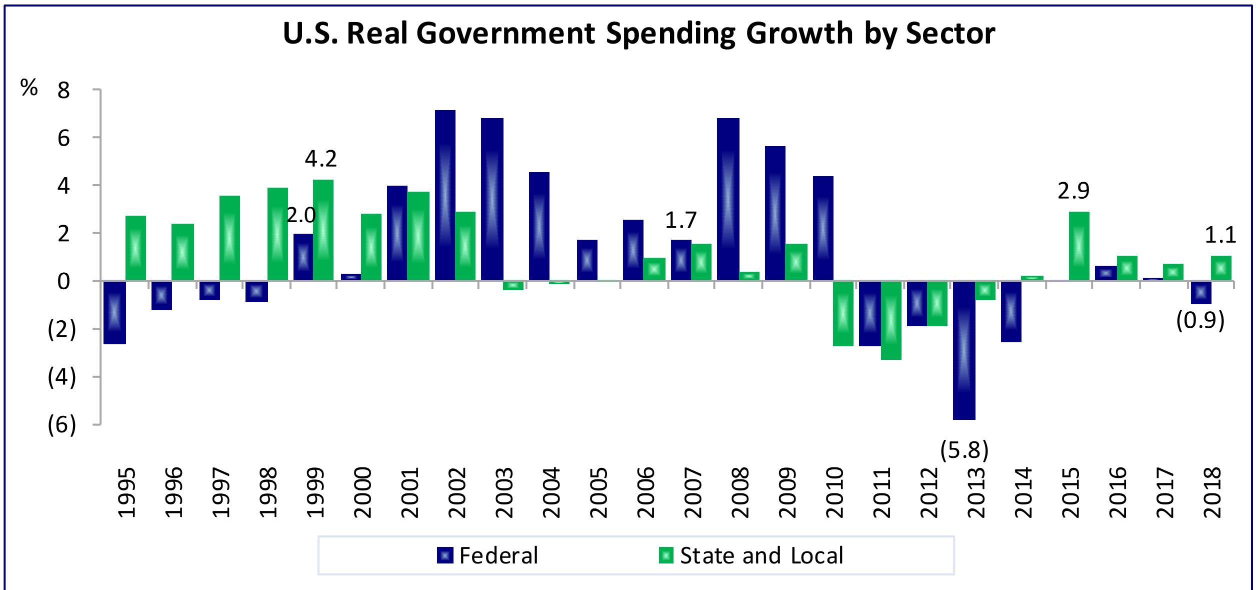
[12] See The Bipartisan Budget Control Act of 2015, Public Law 114-74, 114th Congress, November 2, 2015.

respectively, supported mainly by higher spending by state and local governments (see **Figure 14**).

Federal Government Spending

Federal government spending, adjusted for inflation, was flat in 2015, having declined in the prior four years as the federal government continued to rein in spending. In 2016, federal government spending is expected to remain nearly flat. Defense spending has fallen as the federal government reduced military compensation, cut spending on structures, and other goods and services. These defense spending cuts were offset by an increase in non-defense spending. In particular, coupled with spending increases for civilian personnel compensation from employment gains, public investment spending on infrastructure and equipment rose.

Current fiscal policies call for lower appropriation levels, signaling curtailed federal spending over the forecast period. Rising entitlement program and health care costs, continued efforts to combat terrorism, and higher interest payments associated with the national debt will mitigate the projected declines in spending by the federal government. Hence, as spending levels revert to sequestration caps, federal government spending growth is forecast to be flat in 2017 and decline 0.9 percent in 2018 (see **Figure 15)**.



Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 15

State and Local Government Spending

State and local government spending increased 2.9 percent in 2015, following a 0.2 percent increase in 2014. The increase in spending was supported by higher tax collections. As a result, state and local governments increased compensation to general government employees and appropriated more funds for public infrastructure spending on buildings, software, and research and development. State and local government spending on goods and services also grew strongly.

Tax receipts data through 2016 indicate that revenue growth has been lower than in 2015. This trend is expected to continue over the forecast period.[13] Personal income taxes were particularly affected by the deceleration in non-income wage growth as equity prices slowed. As slow revenue growth continues to afflict many states, most state budgets will continue to prioritize core services such as K-12 education and health care. Oil-producing states that rely heavily on revenues from oil continued to face budgetary challenges from the steep decline in oil prices. Therefore, state and local government spending growth slowed to an estimated 1.0 percent in 2016.

In general, state and local government tax collections will benefit from an improving economy but since states' budgets have to be balanced, the slowdown in revenue growth means continued restraint in spending. However, spending pressures from pensions, health care, and education demands will continue to push state and local government spending upwards. Despite these pressures, state and local government spending is forecast to increase by 0.7 percent in 2017 and 1.1 percent in 2018 (see **Figure 15**).

[13] Preliminary data for the second quarter of 2016 indicate that state tax revenue declined one percent from the same period in 2016. For the first quarter of 2016, revenues grew by only three percent compared to 5.4 percent in the first quarter of 2015. See Dadayan, Lucy and Donald J. Boyd, "Weak Stock Marker and Declines in Oil Prices Depressed State Tax Revenue," State Revenue Report, Number 104, September 2016, www.rockinst.org/p&f/government_finance/state_revenue_report/2016_09_21+SRR_104_final.pdf; and "Widespread Declines in State Tax Revenues in the Second Quarter of 2016," State Revenue Report, Number 105, November 2016, www.rockinst.org/p&f/government_finance/state_revenue_report/2016_11_30_SRR_105.pdf.

Exports and Imports

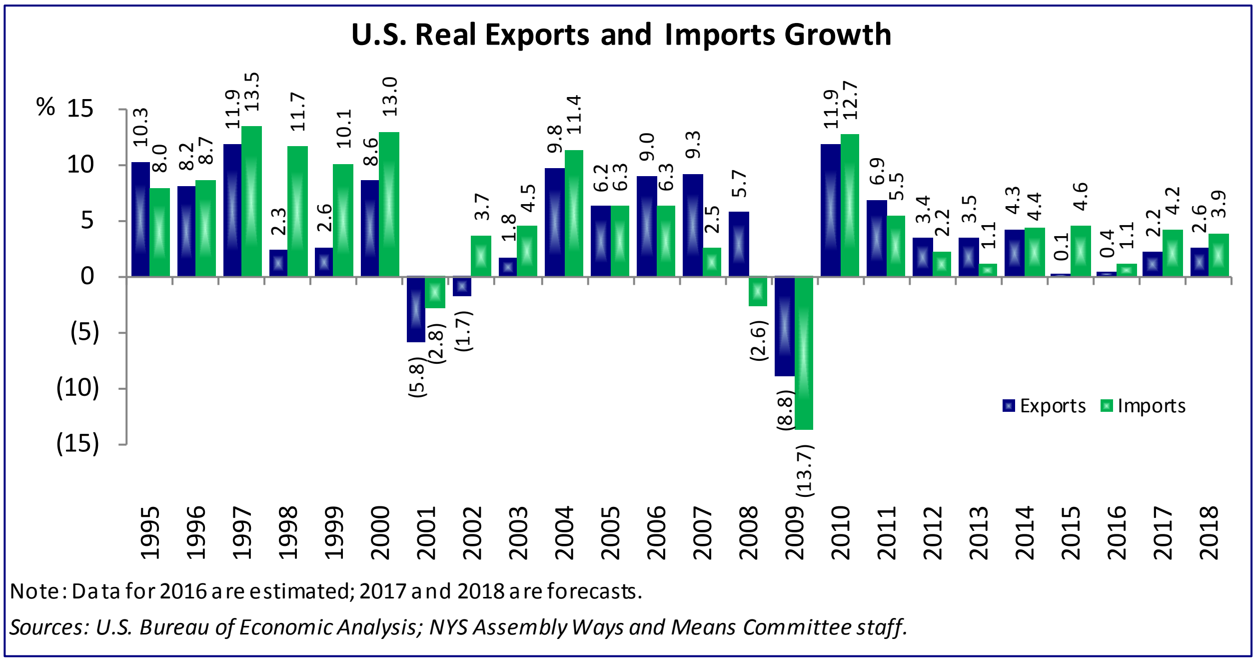


Figure 16

Exports & Imports Key Points

- **The world economy is facing considerable downside risks in 2017 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 2010. However, exports have been weak over the past few years due to a strong dollar value and weak global growth. It is expected that this trend will continue and net trade will be a drag on U.S. economic growth.

The world economy continues to grow, but global risks have risen

The world economy will continue to grow slowly in 2016 and 2017. Canada and Mexico, our two largest export destinations, are estimated to have grown 1.2 percent and 2.1 percent in 2016, respectively. After growing at an average of over ten percent per year in the prior decade, China's GDP growth slowed to below eight percent per year from 2012 to 2014 and slowed further to 6.7 percent in 2016. China's economy is expected to continue to grow slowly, growing 6.4 percent in 2017 and 6.0 percent in 2018, as Chinese authorities continue to rebalance the economy toward more domestic demand with less emphasis on investment and exports.

Amid low oil prices, countries that rely on oil revenues are facing big revenue shortfalls. As a result, a number of large nations, including Russia and Brazil, were in recession in 2015. Russia and Brazil remained in recession in 2016, but are expected to recover slightly in 2017, growing at 1.0 percent and 0.7 percent, respectively.[14]

On Thursday June 23rd, 2016, the U.K. voted to leave the European Union (EU), or Brexit. Although it is expected that it will take at least two years for the U.K. to actually leave the EU, the result rattled financial markets across the globe. The S&P 500 index fell 3.6 percent on June 24, 2016, the day after the vote, while the Dow Jones Industrial Average dropped 3.4 percent. Similarly, the British pound fell to its lowest levels in over 30 years following the vote. Financial markets have stabilized after the initial sell-off following the vote. However, as uncertainty rises and investors look for safe investments, the British pound will likely remain weak and the U.S. dollar will continue to be strong relative to the British pound and the Euro, which will have an adverse impact on U.S. exports. While the short-term impact of Brexit on U.S. and the world economy was limited, weakened investors' confidence has led to slower economic growth in the U.K. in the second half of 2016. As a result, the U.K. economy grew 2.0 percent in 2016, slower than previously expected. It is forecast that the U.K. economy will grow 1.4 percent in 2017 and 1.2 percent in 2018.

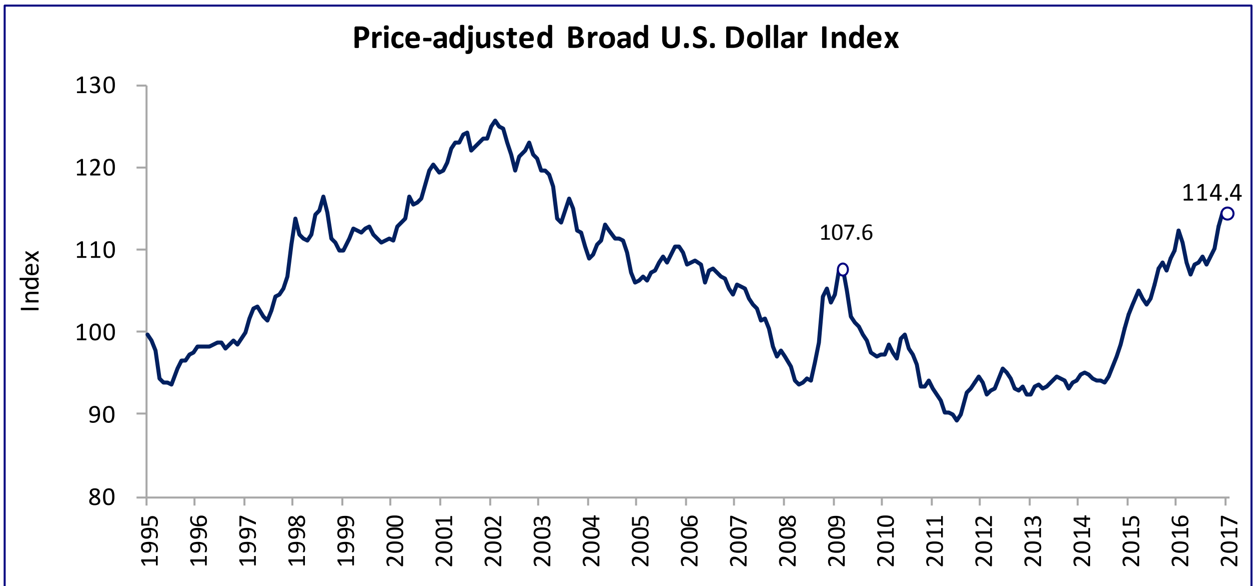
As global growth remained weak in 2016, U.S. exports also grew slowly in 2016. Exports are estimated to have grown by 0.4 percent in 2016, while imports are estimated to have grown by 1.1 percent (see **Figure 16**). Geopolitical tensions remain high both in the Middle East,

[14] All growth rates for other countries cited in this section are from the Blue Chip International Consensus Forecast, Blue Chip Indicators, Vol. 42, No. 2, February 10, 2017.

Eastern Europe and South East Asia. Although the outlook for global growth remains soft, the world economy is expected to continue to grow throughout the forecast period.

U.S. dollar appreciation is hampering export growth

As global risks rose during 2016, investors shifted their investment to dollar-denominated assets, which led to a continued appreciation of the U.S. dollar (see **Figure 17**). The dollar is estimated to have appreciated by 3.9 percent in 2016, and is forecast to appreciate further by 4.9 percent in 2017 before depreciating slightly in 2018.



Note: Data are monthly from January 1995 to January 2017; January 1997=100.
Source: 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 strong and the U.S. economy is forecast to outperform several major trading partners, U.S. exports are expected to grow slower than imports throughout the forecast period. Assuming no significant change in trade policies, exports are forecast to grow by 2.2 percent in 2017 and another 2.6 percent in 2018. Imports are forecast to increase by 4.2 percent in 2017 and another 3.9 percent in 2018.

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, accounting for more than half of U.S. total exports. Trade of these goods and supplies appears to be relatively less sensitive to changes in the value of the U.S. dollar.

Canada has been the largest destination for U.S. exports, accounting for eighteen percent of total U.S. exports in 2016. While Canada was also the largest supplier of U.S. imports for many years, it has been surpassed by China lately. In 2016, China accounted for over 20 percent of U.S. imports (see **Figure 18**).

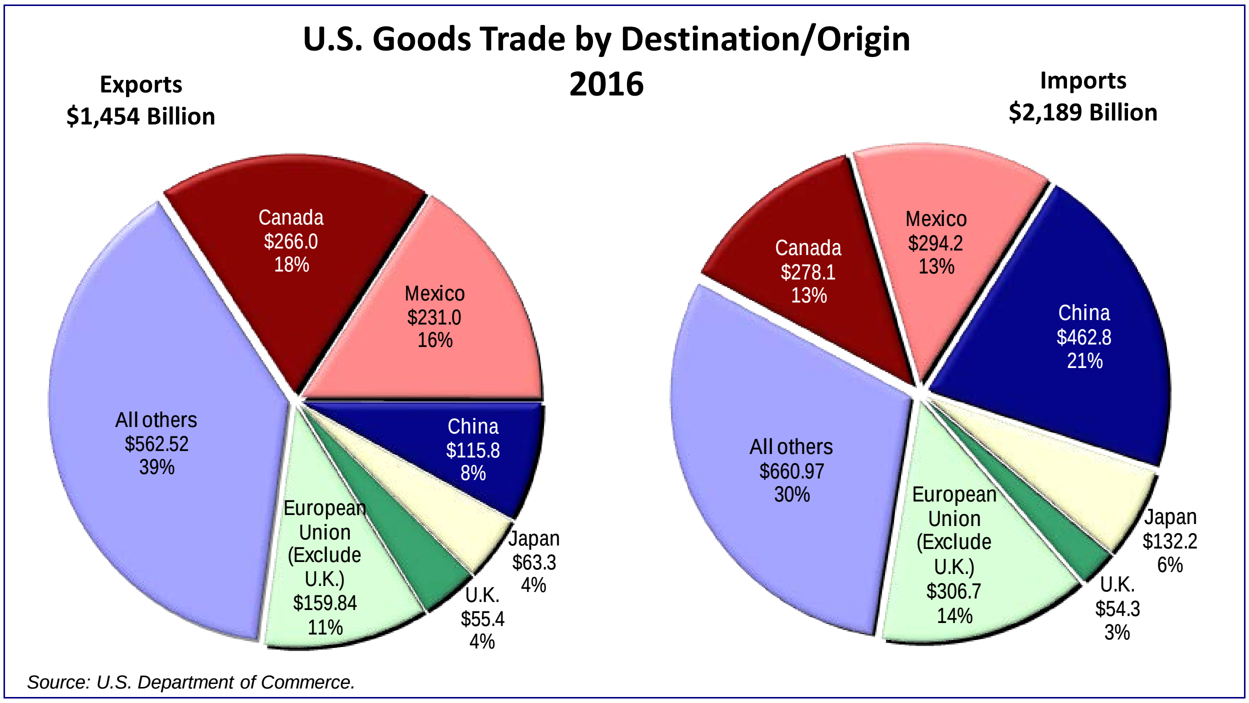
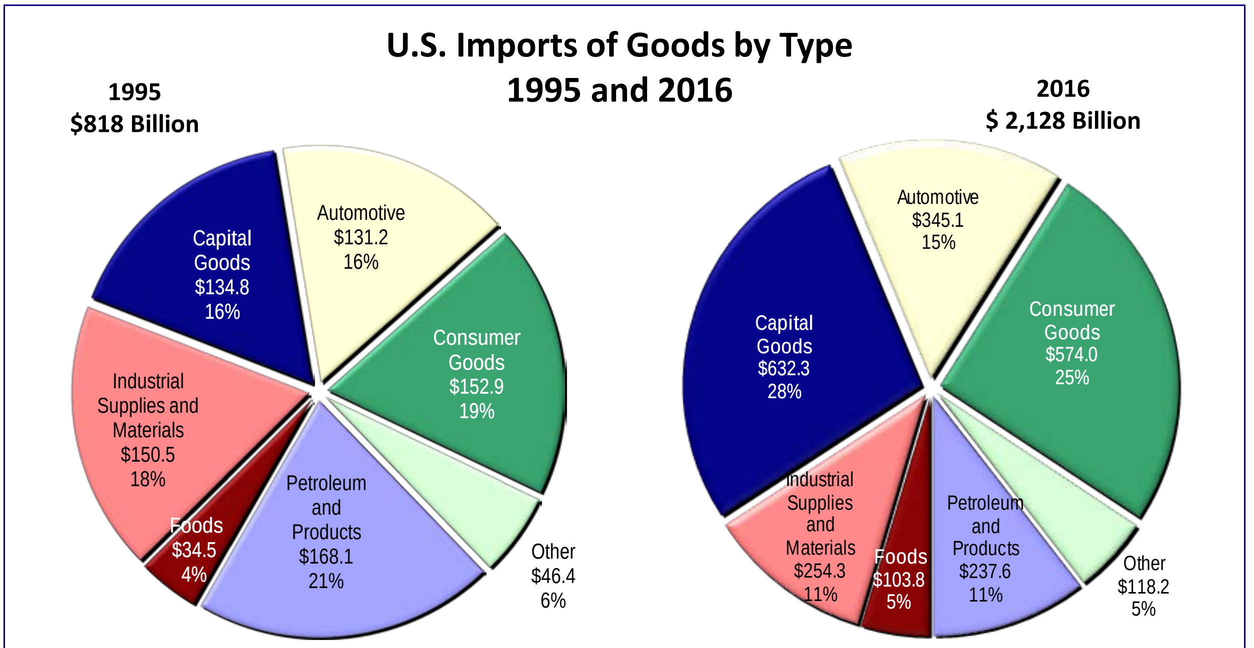


Figure 18

There have been significant changes in the U.S. trade pattern over the last twenty years. The U.S. has imported a significantly larger share of consumer and capital goods in recent years compared to 1995. Consumer goods accounted for 25 percent of U.S. total imports in 2016, compared to 19 percent in 1995. Similarly, imports of capital goods increased from 16 percent of total imports in 1995 to 28 percent in 2016. 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 11 percent in 2016 (see **Figure 19**), as the U.S. experienced an oil production boom.

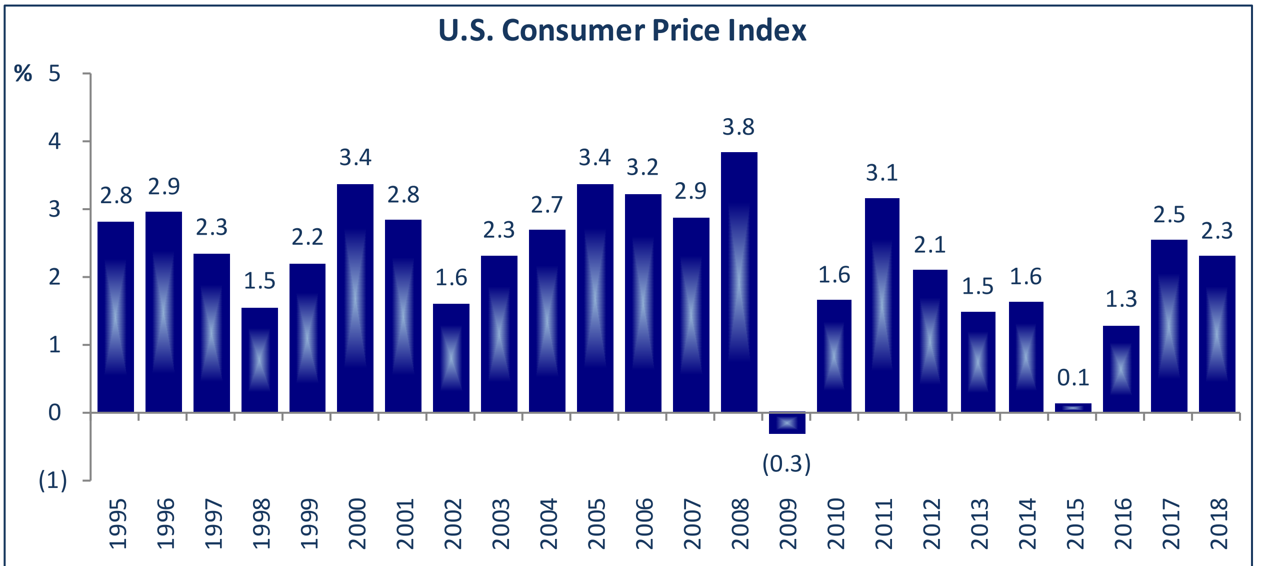


Note: Data are seasonally adjusted at annual rates.
Source: U.S. Bureau of Economic Analysis.

Figure 19

Rising domestic 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 the Organization of the Petroleum Exporting Countries (OPEC) and Canada fell drastically in 2015 compared to 2014. Imported goods from OPEC dropped $66.2 billion in 2015. As a result, the trade balance between U.S. and the OPEC has improved from a deficit of $50 billion in 2014 to a surplus of $6.6 billion in 2015. Similarly, the U.S. trade balance with Canada improved by $20.5 billion in 2015, compared to 2014. As oil prices remained low, this trend continued into 2016. In 2016, imported goods from OPEC fell $8.3 billion, while goods imported from Canada dropped $18.1 billion.

Prices



Note: Data for 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Figure 20

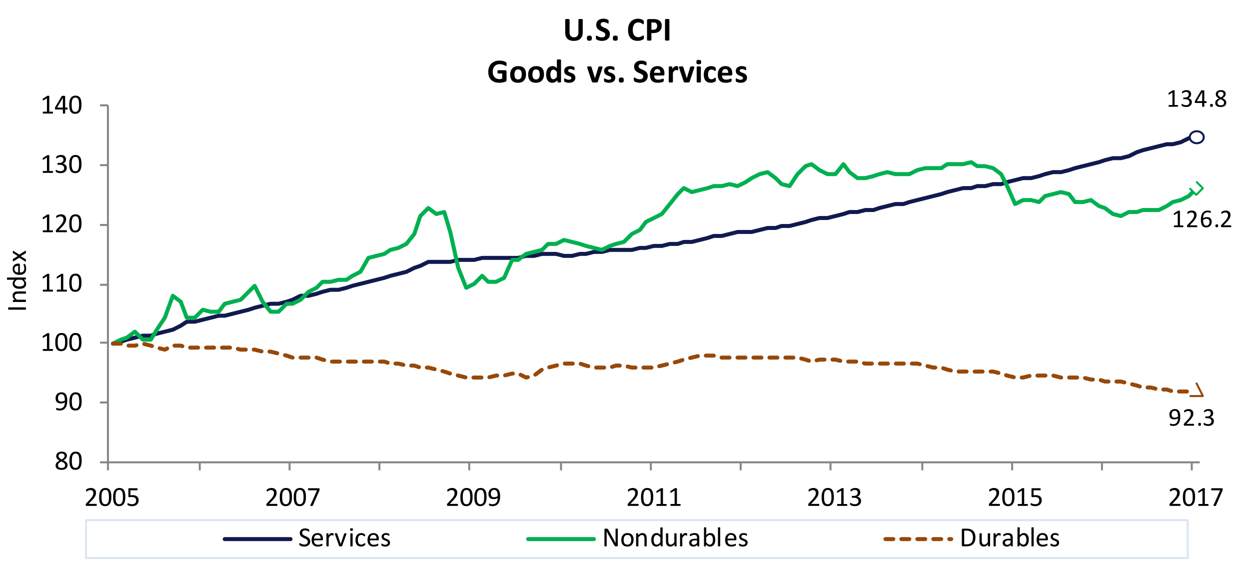
Prices Key Points

- **Prices are expected to increase at a faster rate over the forecast period as labor costs and energy prices rise.**

After being flat in 2015, the consumer price index (CPI) rose 1.3 percent in 2016 as inflationary pressures remained in check. The medical category posted the fastest price increases in 2015 and continued through 2016. Energy prices began to increase but remained low, import prices were low due to a strong dollar, and unit labor costs grew slowly as low productivity persisted.

Over the forecast period, energy prices are anticipated to grow after falling in the past five years. In addition, as the labor market approaches full employment there will be more upward pressure on labor costs. Indeed, unit labor costs have begun to rise, and have posted the fastest increase since the Great Recession in 2016. The Institute of Supply Management (ISM) price index posted its eleventh straight monthly advance in January 2017, after registering consecutive monthly declines for well over a year.[15] As a result, the consumer price index is projected to surpass two percent, the target rate set by the Federal Reserve, over the forecast horizon. In 2017, prices are forecast to increase 2.5 percent and another 2.3 percent in 2018 (see **Figure 20**).

In addition, recent trends in the components of CPI point to a faster advance in the overall CPI over the forecast period. In particular, the services component, which accounts for 63.7 percent of total CPI, has been increasing at a faster pace.[16] The nondurable component, which accounts for 27.0 percent, trended down from mid-2014 to early-2016 contributing to low CPI inflation over that period, but has started to accelerate (see **Figure 21**). The durable component has been on a long-term downward trend but its share is relatively small. The recent trends in the services and nondurable components are expected to continue, providing further support for the upward pressure on the overall CPI over the forecast horizon.



Note: Data are seasonally adjusted. Data are monthly from January 2005 to January 2017. January 2005 = 100.
Source: U.S. Bureau of Labor Statistics.

Figure 21

Higher prices have broad implications for the overall economy. Increases in price levels put upward pressure on wages. Consumers' spending decisions are also affected as their

[15]See January 2017 Manufacturing ISM Business Report, February 2017, https://www.instituteforsupplymanagement.org/ismreport/mfgrob.cfm?SSO=1.

[16] The share of each component of the CPI is as of December 2016.

purchasing power diminishes with higher prices. In addition, high inflation might affect the Fed's decision to increase interest rates.

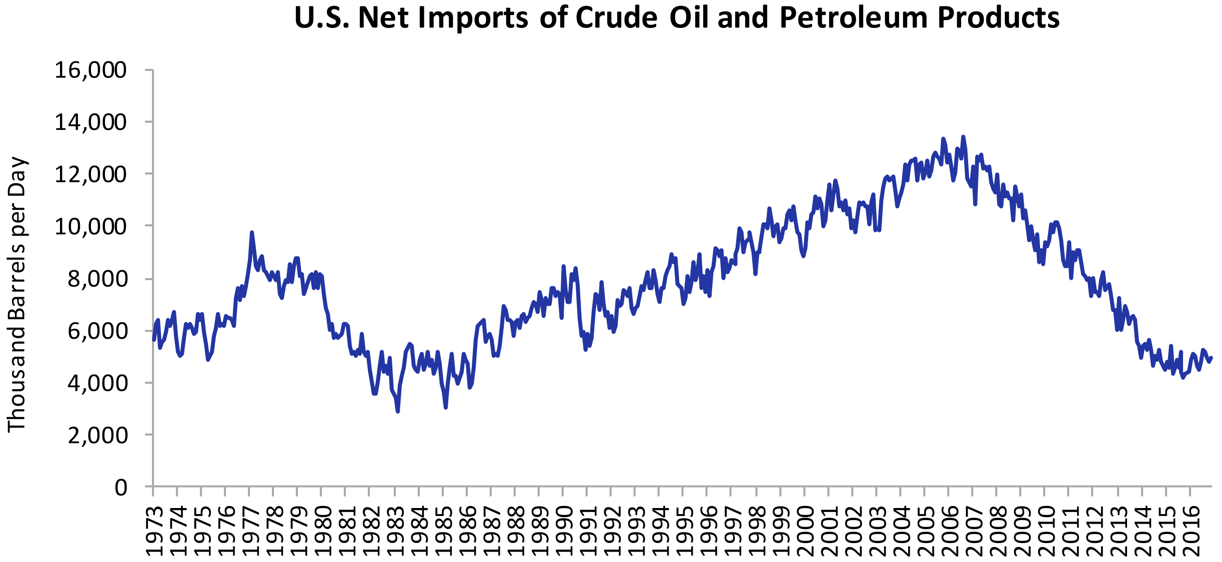
Energy Prices

Energy prices represent a critical issue for the U.S. economy, and remain one of the most volatile risk factors. Current geopolitical considerations, as well as weather conditions (such as the possibility of hurricanes or an exceptionally cold winter) 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 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).

During 2015 and early 2016, rising U.S. crude oil production and weaker-than-expected non-U.S. global demand contributed to downward pressure on oil prices, especially reduced demand from weaker-than-expected growth in China. In addition, rising U.S. oil production 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 level. This significant price drop resulted in reduced investment in and output of the domestic oil industry. Crude oil prices continued their downward slide into 2016, with oil slipping below $30 per barrel for the first time since December 2003. As the supply response began to be felt, oil prices reversed their slide and posted advances of over 60 percent by mid-2016 before settling down to a stable price range in the mid- to upper $40s thereafter. Prices topped $50 per barrel in October as OPEC announced their intention to curb output.

According to the U.S. Energy Information Administration (EIA), U.S. crude oil production averaged an estimated 8.9 million barrels per day in 2016 and is forecast to average 9.0 million barrels per day in 2017 and 9.5 million barrels per day in 2018. The forecast increases in production largely reflect increases in the offshore Gulf of Mexico production. Rising oil production due to increases in drilling activity, rig efficiency, and well-level productivity contributes to continuing strength in overall U.S. production. 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 sixty percent in 2005 to an estimated twenty-four percent in 2015, the lowest level since 1970.[17]



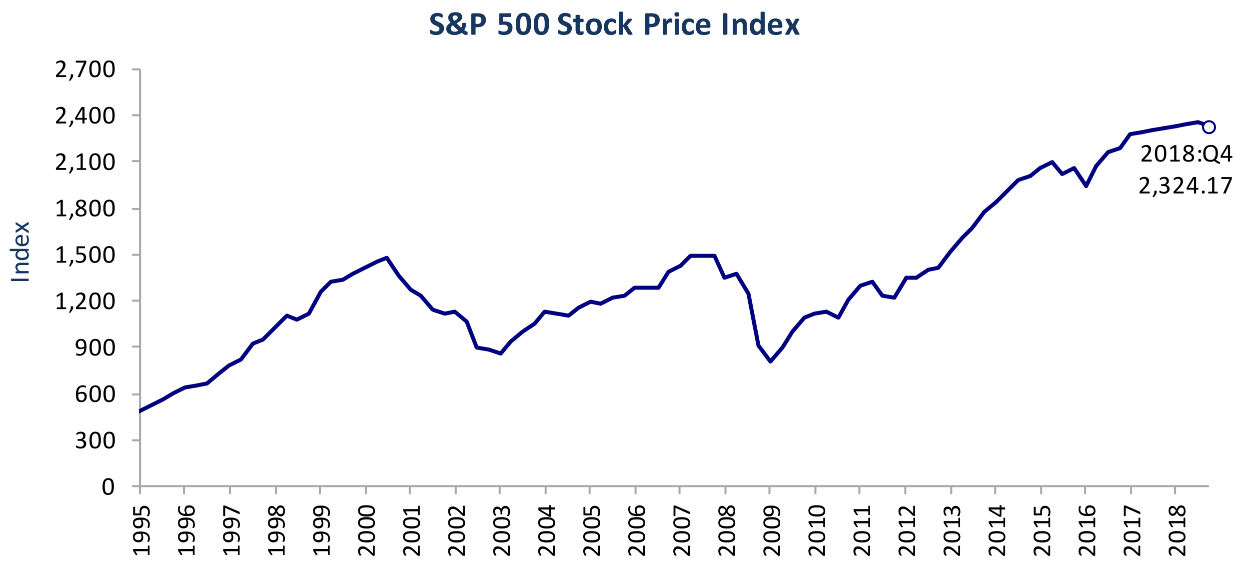
Note: Data are monthly through November 2016.
Source: U.S. Energy Information Administration.

Figure 22

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, but U.S. energy consumption has also been on the decline (see **Figure 22**). Soft economic growth, increased fuel efficiency, and increased use of renewable energy are all playing a role in lessening demand for oil in the U.S.

[17] 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, February 9, 2016, September 7, 2016, October 13, 2016, November 8, 2016, December 6, 2016, January 10, 2017, and February 7, 2017.

Equity Markets



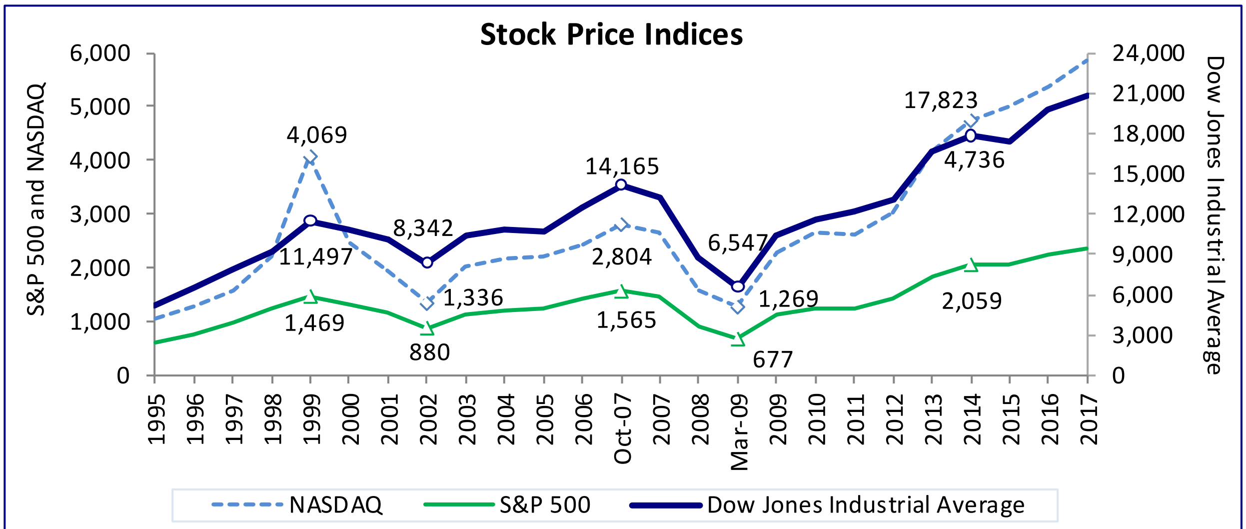
Note: Data are quarterly through 2018:Q4; the first forecast period is 2017:Q1. Index 1941-1943=10.
Sources: Standard & Poor's; NYS Assembly Ways and Means Committee staff.

Figure 23

Equity Markets Key Points

- **Due to renewed investor confidence in anticipation of expansionary fiscal policies and less regulation, equity prices are expected to advance 9.7 percent on an annual average basis in 2017;**
- **However, equity markets are still faced with several headwinds and uncertainty remains. Slowing economic growth in China as well as global economic uncertainty related to U.S. fiscal policy and the Federal Reserve's monetary policy will continue to pose significant downside risks to the stock market outlook in the long term.**

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 following the last recession, further supporting equity gains (see **Figure 23**).



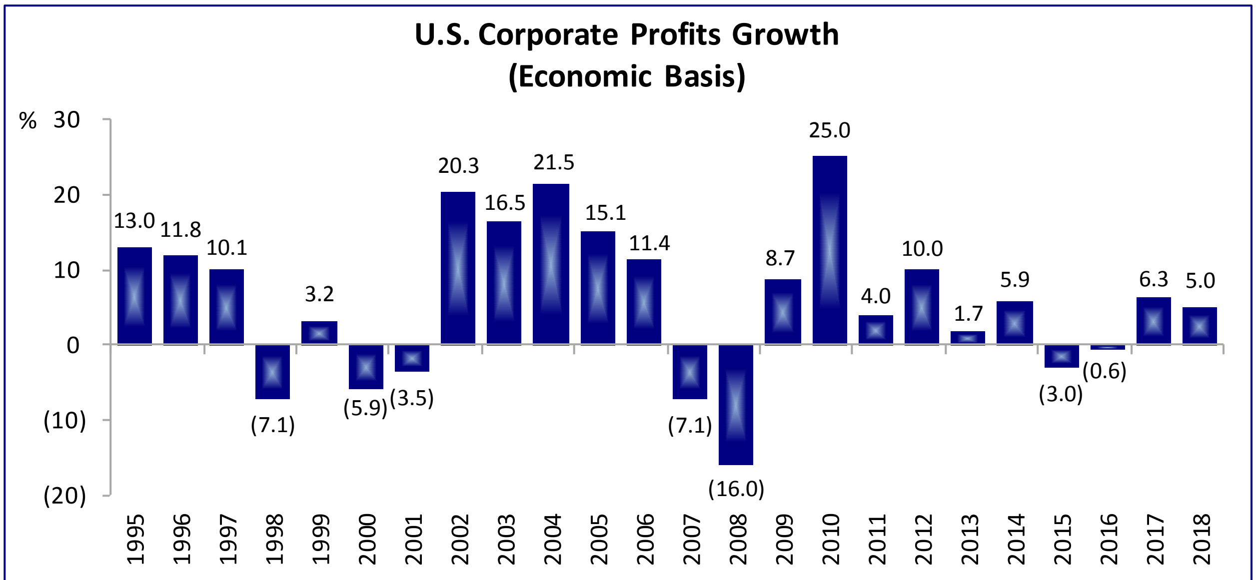
Note: Data are at close of December 31 each year unless otherwise indicated. The last period is the February 21, 2017, closing value.

Sources: Securities Industry and Financial Markets Association; Wall Street Journal.

Figure 24

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 (see **Figure 24**), a growth of 6.8 percent. The S&P 500 index was nearly flat in 2016, posting an 1.5 percent advance, due to increased uncertainties surrounding the U.K. decision to withdraw from the European Union, and market expectation of continued interest rate hikes following the December 16th 2015 rate increase. The stock market is expected to continue to grow, albeit at a much reduced rate in the longer term. The S&P 500 closed above 2,300 on February 9, 2017, following improved investor optimism after the presidential election which helped propel the market to a record high close of 2,365.4 on February 21, 2017 – a post-election 10.6 percent increase. The Dow Jones Industrial Average also set another record as it closed at 20,743 on the same date; it closed above 20,000 for the very first time on January 25, 2017. However, the combined effects of continued optimism related to potentially expansionary fiscal policies and overall pro-growth agendas from Washington juxtaposed against impending interest rate hikes, high price to earnings ratios, and global economic uncertainty will restrain growth of equity prices in the long term. Hence, growth in the Index is expected to be a respectable 9.7 percent in 2017 and to fall to a more modest 1.7 percent in 2018.

Corporate Profits



Note: Data for 2016 are estimated; 2017 and 2018 are forecast.

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

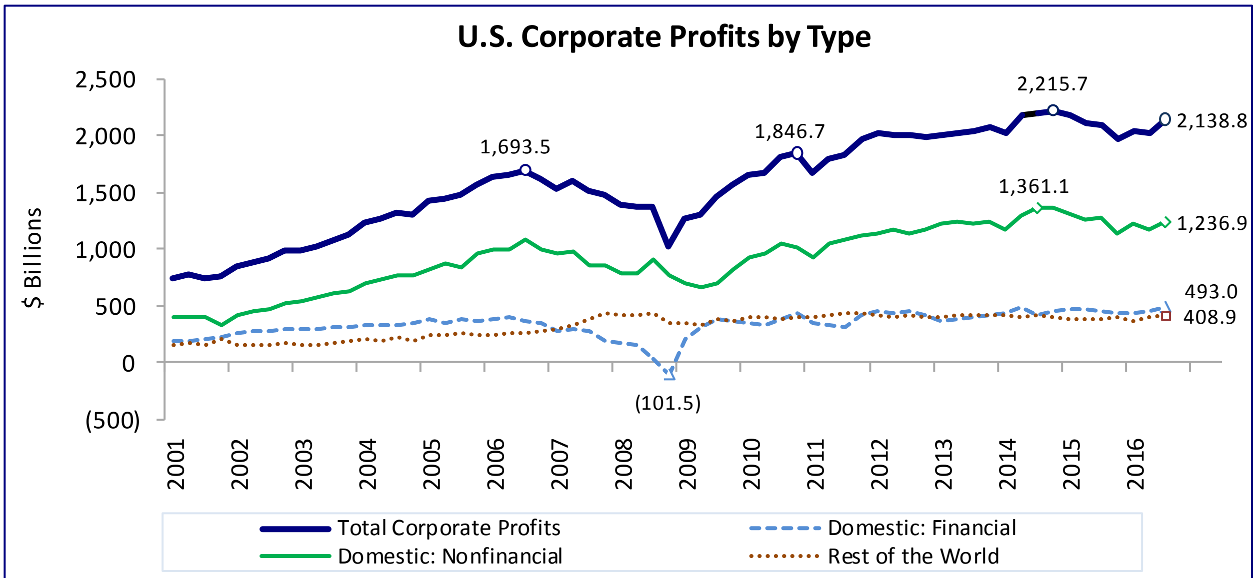
Figure 25

Corporate Profits Key Points

- **Profits are forecast to return to growth after two years of decline, albeit at a modest pace. Several factors combine to keep corporate profits growth in check, among which sluggish international economic growth, a stronger U.S. dollar, slowing productivity gains, and rising wages;**
- **Both the domestic and rest-of-the-world nonfinancial sectors have seen their profits drop after 2014, the largest impact overall being attributable to the domestic nonfinancial sector. Profits at domestic financial firms have risen during the same period;**
- **The respective shares of labor and capital in the distribution of national income remain largely unchanged with the share of corporate profits remaining historically high.**

Corporate profits registered an estimated 0.6 percent decline in 2016 (see **Figure 25**), extending a 3.0 percent drop in the previous year. Profits overall were recorded at over 2.1 trillion dollars in the third quarter of 2016. Corporate profits growth was moderate for several years following a brief acceleration in 2009-2010 and before ending negative. Profit growth is forecast to turn positive for 2017 and beyond, although it is expected to remain moderate.

The slowdown in corporate profit growth contrasts sharply with the period of growth leading up to the Great Recession when annual rates ranged between 10 and 20 percent. It is generally attributed to sluggish global growth, inertia in the energy sector, and a strong dollar. Other factors such as flagging productivity in the U.S., employment growth and the accompanying rise in wages are also cited.[18] These factors appear to have principally affected domestic nonfinancial firms, which represent the largest share of overall corporate profits (see **Figure 26**).



Note: Data is seasonally adjusted at an annual rate and is quarterly through 2016:Q3.
Source: Bureau of Economic Analysis.

Figure 26

[18] See Theo Francis and Kate Linebaugh, "U.S. Corporate Profits on Pace for Third Straight Decline." Wall Street Journal, April 28, 2016. Ben Levisohn, "Rising Wages Will Pressure Corporate Profits," Barron's, June 18, 2016.

Indeed, the decline in overall corporate profits from the third quarter of 2014 to the third quarter of 2016 was almost entirely due to the fall in the domestic nonfinancial sector, aided somewhat by a drop in the rest-of-the-world sector. Domestic financial firms recorded an increase in profits during the period (see **Figure 27**).

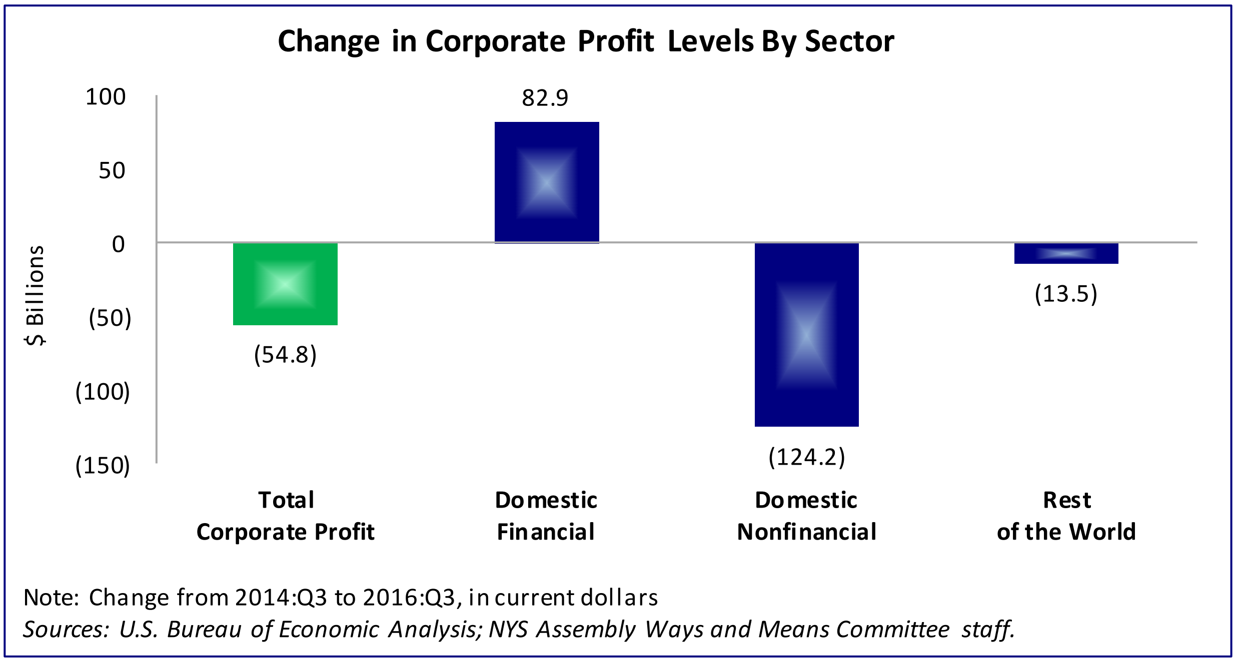


Figure 27

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 it began to trend upward in the 1990s. It is forecast to be 13.1 percent by the third quarter of 2018 (see **Figure 28**). 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. It is forecast to be 62.4 percent by the third quarter of 2018.

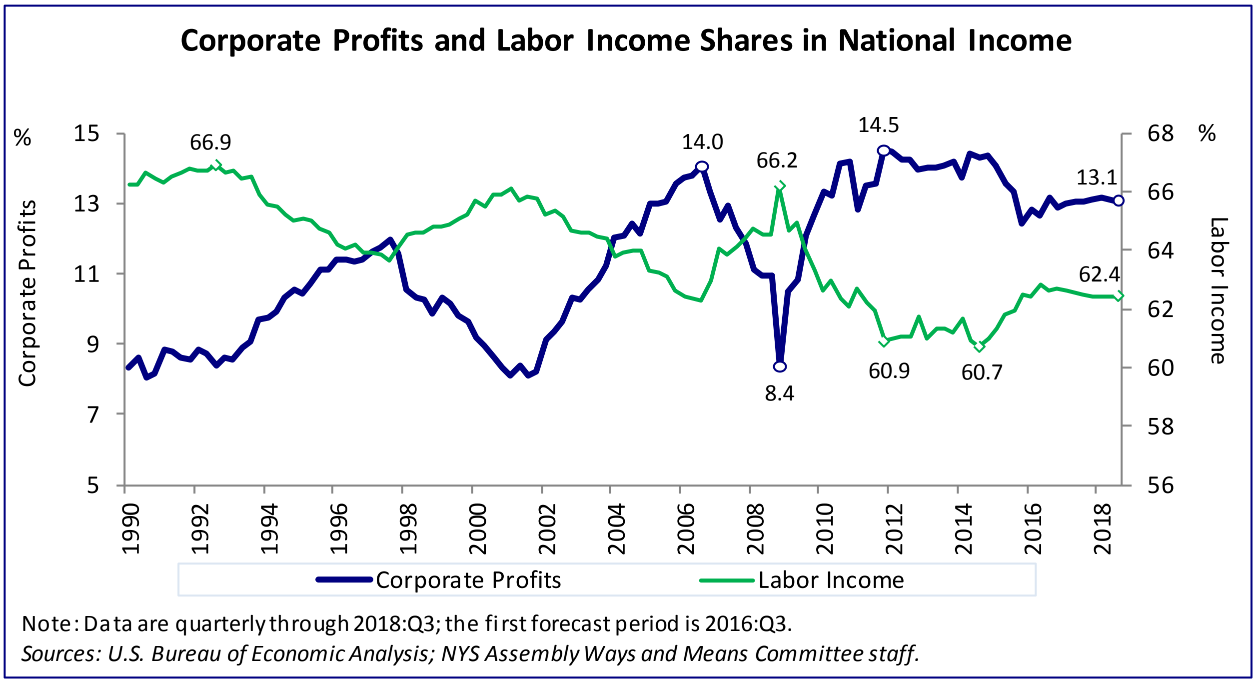


Figure 28

Corporate profit growth in recent decades is associated with transformations in the economy worldwide, including trends towards deregulation and privatization, a growing workforce and rising productivity, and increasing consumer demand fueled by accelerating urbanization and industrialization. These developments benefited primarily large corporations, many of them located in the U.S. Yet the global economy is undergoing transformations that will undermine the basis for profit growth in coming years, for example the aging of the workforce and increasing competition from new global players.[19] Companies may find it increasingly difficult to achieve the pace of profit growth observed until recently. Labor, on the other hand, may see its share of the national income begin to expand as the need for skilled workers increases.

[19] See Dobbs R., Koller T., and Ramaswamy S., "The Future and How to Survive It," Harvard Business Review, October 2015.

Employment

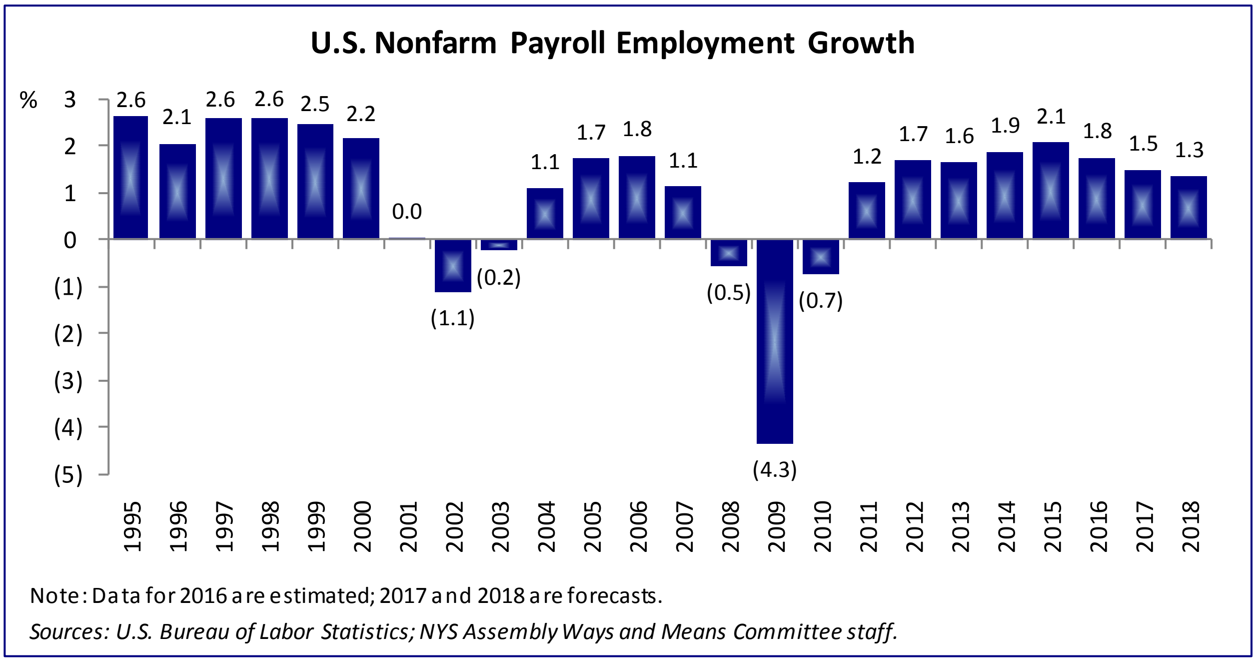


Figure 29

Employment Key Points

- **Employment is expected to grow throughout the forecast period but the pace will likely slow as the labor market nears full employment;**
- **Other market indicators also suggest weaker growth in employment. Despite the strong increase in job openings, the level of hiring has been slow to respond. In addition, the retiring of older workers will affect employment growth;**
- **Wages are expected to rise as the pool of unemployed workers declines.**

Nonfarm payroll employment has steadily risen since 2011 as the economic recovery from the 2007-2009 recession continues. In May 2014, employment surpassed its pre-recession peak. Employment reached 145.6 million in January 2017, adding 7.1 million more jobs since January 2008.

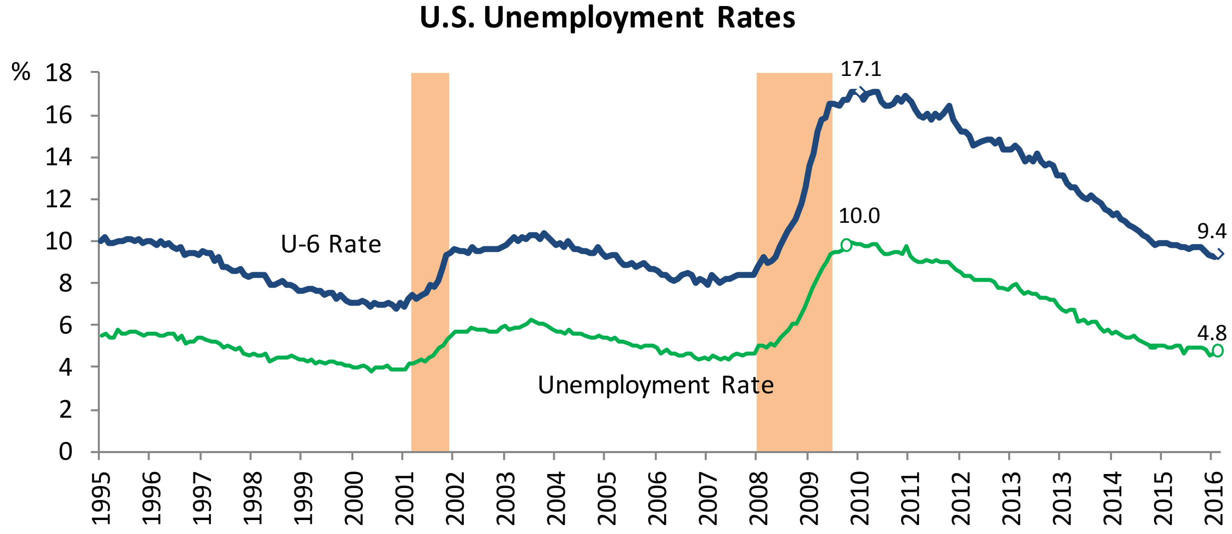
Employment grew 2.1 percent in 2015, following an increase of 1.9 percent in 2014, as the demand for labor rose. Employment is expected to continue to grow but at a slower pace. With demand expected to remain healthy, the slowdown in employment primarily reflects the growing retirement of baby-boomers. Furthermore, the shortage of skilled workers may influence employment growth. Hence, with the economy expected to grow more slowly than in 2015, nonfarm payroll employment grew 1.8 percent in 2016, and is projected to slow further to 1.5 percent in 2017 and 1.3 percent in 2018 (see **Figure 29**).

Labor market is tightening

Several indicators suggest that employers may find it increasingly difficult to fill positions in the future. The unemployment rate fell to 4.8 percent in January 2017 from a high of 10.0 percent in 2009 (see **Figure 30**). The decline is reflective of the demographic shift in the labor force, particularly the retirement of baby-boomers, putting downward pressure on labor force participation. Also, the decline in the unemployment rate indicates that people who had left the labor force, possibly after a long stint of being unemployed, have rejoined and may have even obtained jobs. However, the broader U-6 measure of unemployment rate still remains elevated after falling drastically from a high of 17.1 percent in April 2010.[20] This suggests that the labor market still has room to improve. Nevertheless, the unemployment rate is near its natural rate.[21]

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

[21] The Congressional Budget Office (CBO) expects the natural rate of unemployment to be 4.7 percent from 2018 through 2020. See CBO, "An Update of the Budget and Economic Outlook: 2016 to 2026," August, 2016; https://www.cbo.gov/publication/51908.

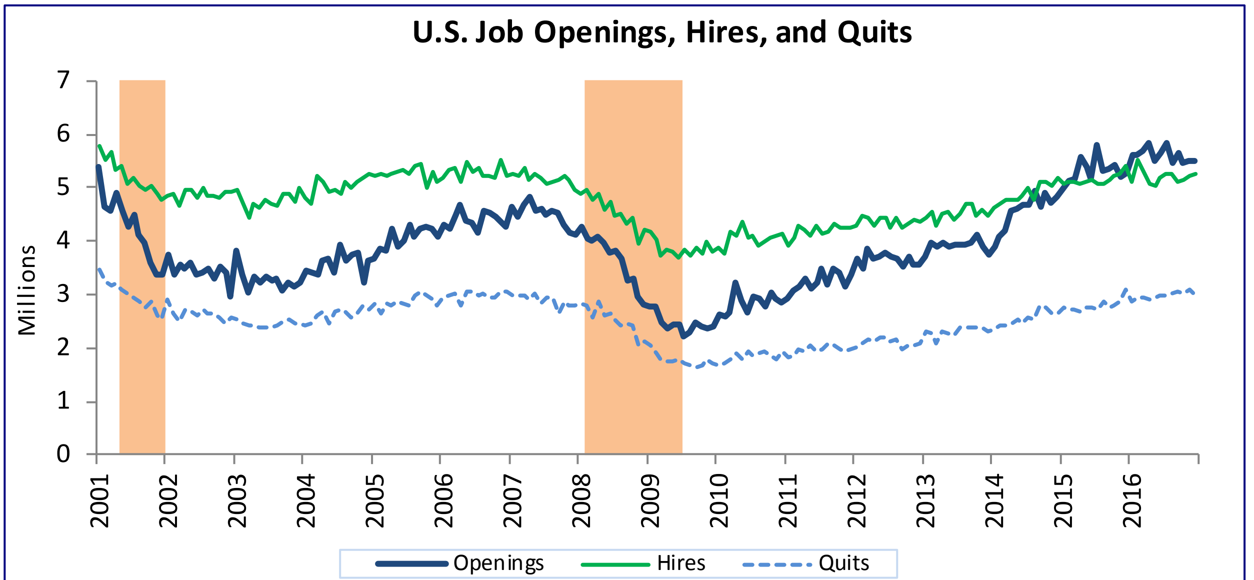


Note: The U-6 Rate includes all marginally attached workers plus total employed part-time for economic reasons. Data are monthly through January 2017. Shaded areas represent recessions.
Source: U.S Bureau of Labor Statistics.

Figure 30

Job openings exceed available hires

The number of job openings has surpassed the number of hires, a situation not seen in at least fifteen years according to the data available (see **Figure 31**). One rationale for the discrepancy between job openings and hires is that a mismatch exists between the skill set for the type of jobs that are available and that of workers in the employment pool. With the labor market near full employment, workers may feel more confident about employment prospects and be more willing to consider alternative employment opportunities. Indeed, this is suggested by the rising level of quits.



Note: Data are monthly through December 2016. Shaded areas represent recessions.
Source: U.S. Bureau of Labor Statistics.

Figure 31

Job openings remaining unfilled may also be a consequence of the diminishing size of the pool of potential employees. Although the population has kept growing, the proportion of people engaged in gainful employment has dropped, mainly due to the aging of the baby-boomers and an increase in the number of people who are classified as disabled.[22] Other groups in the population have been singled-out for their declining participation in the labor force particularly young people who delay entry into the workforce to study, and prime-age workers whose participation has been eroding for some time.

Labor force participation trends

People leaving the labor force due to retirement started to accelerate in 2010 as many workers had delayed exiting during the last recession. Since the first quarter of 2012, retirement accounted for eighty percent of workers leaving the workforce. However, labor force participation has been steadily falling for people with disabilities for more than fourteen years.[23] Labor force participation for those under age 55 has trended down since 2000. While

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[22] A person is defined as disabled or having a disability if the condition does not allow the person to participate in any kind of work for the next six months. These persons are not the same as recipients who receive Social Security disability benefits. See https://www.census.gov/prod/techdoc/cps/CPS_Manual_June2013.pdf.

[23] See Fujita, Shigeru, "On the Causes of Declines in the Labor Force Participation Rate," *Research Rap: Special Report*, Federal Reserve Bank of Philadelphia, February 6, 2014, https://www.philadelphiafed.org/results?sort=rel&start=0&text=on+the+causes+of+declines+in+labor+force. Also see, Daniel Aaronson, Jonathon Davis, and Luojia Hu, " Explaining the decline in the U.S. labor force participation

this phenomenon may partly reflect a decline in job opportunities for some people, the participation rate of younger workers has fallen as the relative value of school outweighed work. Recently, the trend for young workers has flattened, while for workers between ages 25 and 54 it has risen slightly. [24] In addition, the participation rate of prime-age men continues to fall; currently fifteen percent of these men are not working compared to five percent fifty years ago. [25]

Sectoral allocation of jobs provides insights into future labor market and wage growth

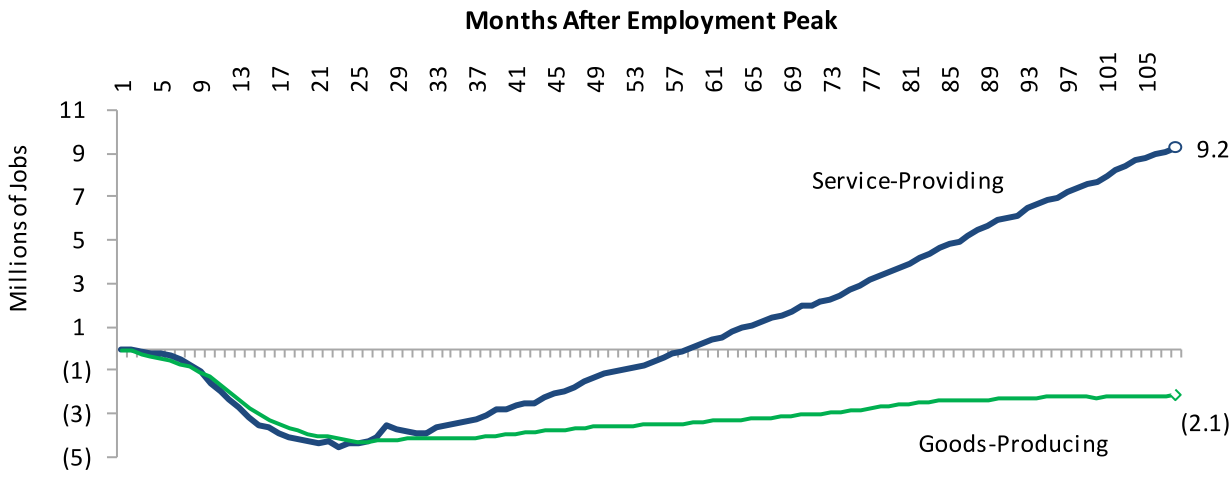
Sectoral job gains provide some insight into the economy's ability to absorb more people into the labor force. The service-providing sector continues to be the main driver of employment growth and has been persistently lagged by the goods-producing sector. Job gains in the two main industries of the goods-producing sector, construction and manufacturing, have been slow to recover and remain below their January 2008 levels of employment (see **Figure 32**). As of January 2017, construction employment remained down 667,000 jobs, despite some positive signs in the housing market. The manufacturing sector is still down 1.4 million jobs. The service-providing sector is 9.2 million jobs above its January 2008 level as its major sectors, professional and business services, leisure and hospitality, and education and health services industries, have had healthy employment growth. The government sector, one of the largest service-providing sectors, has gained jobs slowly and remains below its prior peak.

rate," *Chicago Fed Letter: Essays on Issues*, The Federal Reserve of Chicago, Number 296, March 2012, https://www.chicagofed.org/publications/chicago-fed-letter/2012/march-296.

[24] See Bidder, Rhys, and Valletta, Rob, "Trend Growth: Where's Normal?" *Economic Letter*, Federal Reserve Bank of San Francisco, October 24, 2016, http://www.frbsf.org/economic-research/publications/economic-letter/2016/october/trend-job-growth-where-is-normal/.

[25] See Wessel, "Men not at work," Brookings Institution, October 6, 2016, https://www.brookings.edu/research/men-not-at-work/.

U.S. Cumulative Employment Change by Sector

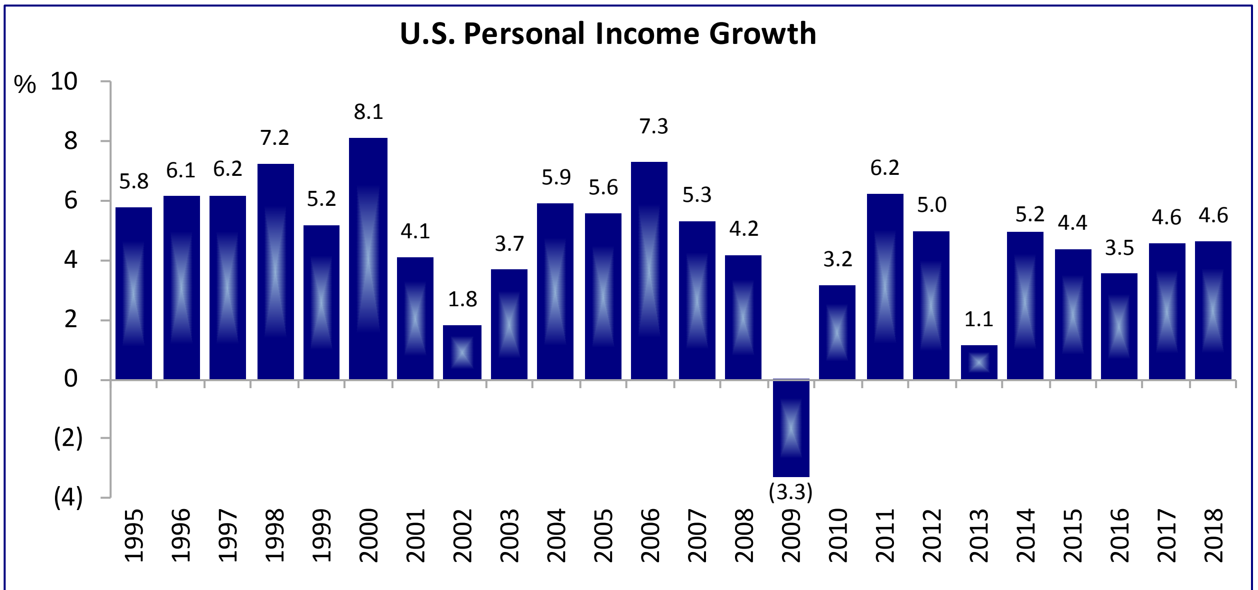


Note: Cumulative change is as compared to January 2008, the peak of total nonfarm employment prior to the Great Recession. Data are monthly through January 2017.
Source: U.S. Bureau of Labor Statistics.

Figure 32

The transformation of the labor market has had important implications for workers and current conditions will likely affect employers in significant ways. Typically, jobs in construction and manufacturing are relatively high-paying. The service-providing sector is more of a mixture of high and low paying jobs. After the recession, wages grew slowly partly because low-paying jobs in industries such as leisure and hospitality and retail trade recovered faster than typical high-wage industries. Also, the number of part-time workers has risen substantially. Wages also grew slowly as there was no pressure on employers to raise wages because of the large pool of unemployed workers. However, in the past year as higher wage industries have boosted employment levels, the gap between the number of part-time and full-time workers has shrank, and unemployment continues to fall towards its natural rate. As employers begin to compete for fewer workers, wages should increase; but structural changes due particularly to older workers – generally higher paid – leaving the labor force will impact wage growth.

Personal Income



Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 33

Personal Income Key Points

- **Personal income is expected to continue to grow as employment and wages increase;**
- **Growth in wages and salaries, the largest component of personal income, remains below pre-Great Recession rates.**

Personal income grew 4.4 percent in 2015, after increasing 5.2 percent in 2014, as increases in wages and salaries, transfer income, and rental income partly mitigated the slowdown in proprietors' income, interest income, and dividend income and the continued decline in unemployment insurance. Furthermore, in 2014, personal income growth benefited from the tapering of fiscal policies that had adversely affected growth in 2013.[26]

[26] Effective at the beginning of 2013, employees faced a higher Social Security payroll tax rate. 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.

Personal income growth slowed to an estimated 3.5 percent in 2016, as growth in transfer income, wages and salaries, and rental income decelerated, while dividend income fell. An improvement in economic growth in 2017 results in a forecasted growth in personal income of 4.6 percent. In 2018, as the economy continues to grow, upward pressure on wages, and higher interest rates, corporate profits, proprietors' income, and transfer income lead to a projected increase in personal income of another 4.6 percent (see **Figure 33**).

Wages and salaries, the largest component of personal income, grew 5.1 percent in 2015, the same rate as in 2014, as the private sector and government increased employment levels and wages. Since the recession labor market dynamics have changed. 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 being replaced by lower paid ones, over time. With lower unemployment rates over the forecast period, and employment growth slowing, upward pressure on wages led to an estimated 4.2 percent increase in wages and salaries in 2016, and are forecast to grow 4.8 percent in 2017 and 4.7 percent in 2018.

Total personal transfer payments, which include various government social benefits, grew 5.4 percent in 2015, as veterans' benefits increased, the decline in unemployment insurance significantly diminished, and Medicaid and Medicare coverage continued to expand. 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. Personal transfer income is projected to increase 3.6 percent in 2017 and 3.7 percent in 2018.

Dividend income fell in 2016 as corporate profits declined. Dividend income is projected to increase by 4.5 percent in 2017 and by another 5.1 percent in 2018 as corporate profits improve in the forecast period.

Eight years after interest rates began falling rates remain at record low levels depressing growth in interest income. Investors whose portfolios are concentrated on interest bearing assets have seen returns suffer. Interest income rose only 0.1 percent in 2015, after increasing 3.1 percent in 2014. Despite low interest rates, investors increased bond holdings in their portfolios as many sought safety from a volatile equity market and weak global economy.[27]

[27] See Securities Industry and Financial Markets Association (SIFMA), *U.S. Bond Market Issuance and Outstanding*, updated September, 16, 2016; http://www.sifma.org/research/statistics.aspx.

Higher bond holdings increase interest receipts, even though interest rates are low. In 2016, interest income grew an estimated 0.9 percent. Interest rates are expected to rise over the forecast period, though still at historical lows. Hence, interest income is forecast to increase by 4.5 percent in 2017 and 4.9 percent in 2018 as both short-term and long-term rates rise.

Monetary Policy

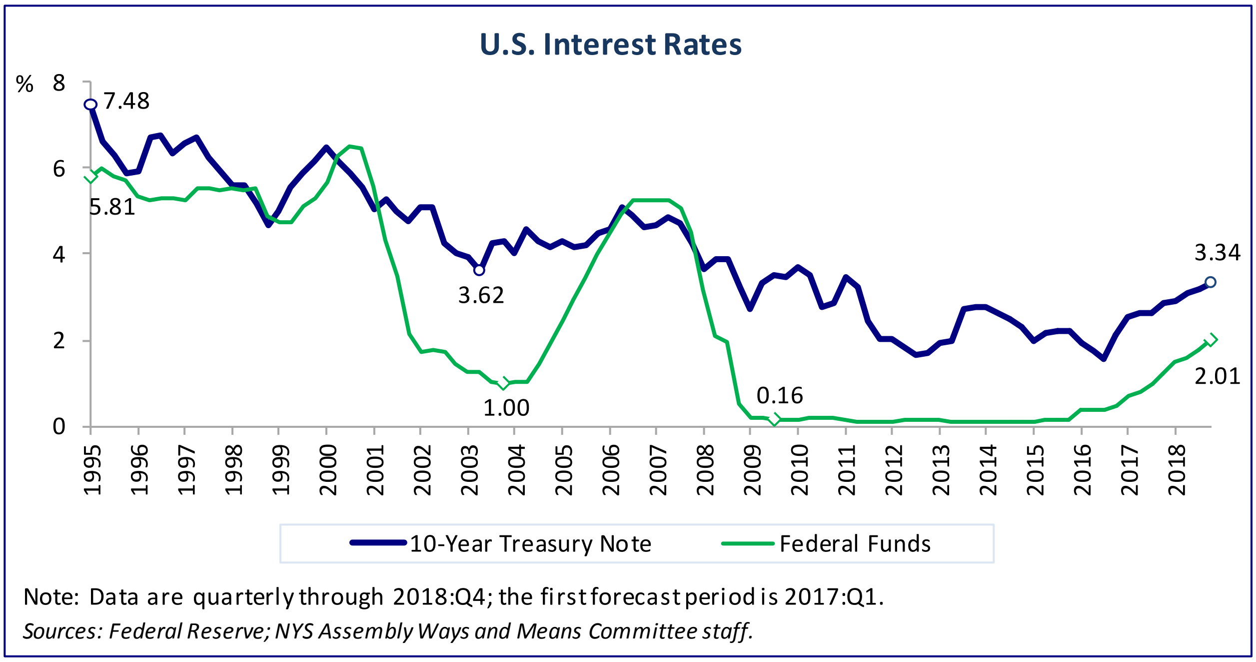


Figure 34

Monetary Policy Key Points

- **After averaging near zero percent for five years, the federal funds rate started rising at the conclusion of the December 2015 meeting, averaged 0.4 percent in 2016 and is forecast to average 0.9 percent in 2017 and 1.7 percent in 2018;**
- **The exit road for short-term interest rates is not likely to be smooth or even well defined, unlike the mid-1990s or 2000s experience; instead it is still expected to be "data dependent;"**
- **The ten year Treasury rate continued to decline into 2016, as additional international instabilities emerged – namely the U.K. decision to withdraw from the European Union. Consequently, on an annual average basis, the ten year Treasury rate was 1.8 percent in 2016 and is forecast to rise to 2.7 percent in 2017 and 3.1 percent in 2018 as short-term rates are expected to increase.**

The Federal Reserve held the federal funds target rate at 0.0 to 0.25 percent from December 16, 2008 until December 16, 2015, the lowest level on record. The Federal Reserve has since raised interest rates twice -- in December 2015 and again in December 2016.

The exit road for short-term interest rates is not likely to be as smooth or even well defined as the mid-1990s or 2000s experience. The exit policy is starting from a position of near-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.[28]

As the unemployment rate continues its gradual downward movement, and current and longer-term inflation expectations remain relatively stable, the current forecast assumes that the Federal Reserve will gradually increase interest rates with the federal funds rate forecast to average 0.9 percent in 2017 and 1.7 percent in 2018. Similarly, the three-month Treasury bill yield is forecast to average 0.8 percent in 2017 and 1.6 percent in 2018 (see **Figure 34**). Providing guidance for financial markets going forward, the Federal Reserve announced in December 2015 that their focus would be on the inflation target (as opposed to the unemployment target) and that upcoming interest rate hikes would be "data dependent" and would not follow a predetermined path.

In mid-2015, the federal funds rate was 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 and continued to decline in 2016, as additional international instabilities emerged – namely the U.K. decision to withdraw from the EU. Consequently, the 10-year Treasury rate averaged 1.8 percent in 2016 and is forecast to rise to 2.7 percent in 2017 and 3.1 percent in 2018 as short-term rates are expected to increase.

The weakening economic outlook in many countries and the increased volatility in financial markets around the world has caused a massive flight to safety as well as monetary easing by many countries. As a result, bond market investors have been increasingly willing to price themselves out of the systemic uncertainties, so much so that the long end of the yield curve was being pressed down to record low levels. The 10-year Treasury yield in the U.S. had been below 2 percent since early January 2015 until November 9, 2016, and short-term government yields in some European countries have fallen below zero. The 10-year Treasury had risen rather abruptly from sub-2 percent before the election to 2.6 percent by mid-December; it has since moderated back toward 2.5 percent thereafter.

[28] Wells Fargo Economic Group, Charlotte, NC, cited in Blue Chip International Consensus Forecasts, Blue Chip Economic Indicators, vol. 39, no. 9, September 10, 2014.

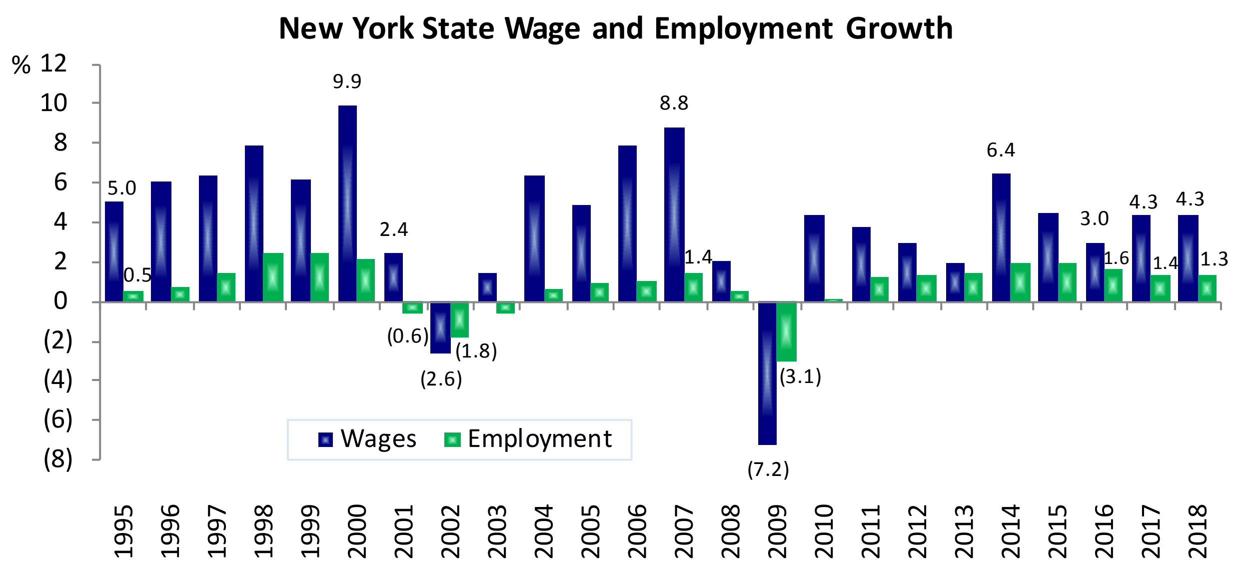
N.Y.S. Economic Forecast Analysis

NEW YORK STATE 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 2015.[29] 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

New York State employment has been growing steadily since 2010, and while employment growth is slightly slower than the national trend, total employment in the state is at a record-high level. Wages have also been growing steadily since 2010. Total wages in the state are poised to grow further in the forecast period as base wages grow along with employment.



Note: Data for 2016 are estimated; 2017 and 2018 are forecasts.

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

Figure 35

[29] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, http://www.bea.gov/regional/index.htm, (accessed: February 10, 2017).

The financial services industry and variable wages are critical for the fiscal health of the state

Much of the wage outlook for the state remains dependent upon the performance of the financial sector, where significant risks exist. Overall wage growth has not reached the rates seen in 2006 and 2007, as bonuses on Wall Street have been significantly restrained since the Great Recession. Both variable wages and base wages are expected to contribute to the continued growth in wages, with variable wages accounting for only 10.4 percent of total wages in 2016. Wages are estimated to have grown 3.0 percent in 2016 and expected to grow further by 4.3 percent each in 2017 and 2018 (see **Figure 35)**. As wages account for more than half of personal income, the growth pattern of wages will significantly impact personal income growth going forward. Personal income is estimated to have grown 2.9 percent in 2016 and is expected to grow further by 4.8 percent in 2017.

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 the construction sector, where employment losses in the state were much less as the housing market in New York fared better than in the nation. Between 2010 and 2016, New York State nonfarm employment grew at a slower rate than that of the nation for most years, but the disparity was much smaller than in the pre-recession period. 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, reaching its most recent peak at 8.9 percent in October 2009, compared to 10.0 percent nationwide. Since its peak, the state unemployment rate has been falling. As of December 2016, the unemployment rate in the state was 4.9 percent, compared to 4.7 percent nationwide.

As the economy improves, employment in both New York State and the nation is forecast to continue to grow. Total nonfarm employment in the state is estimated to have grown 1.6 percent in 2016, compared to 1.8 percent nationwide. Nonfarm employment growth is forecast to grow at 1.4 percent in 2017 and 1.3 percent in 2018, slightly slower than in the nation.

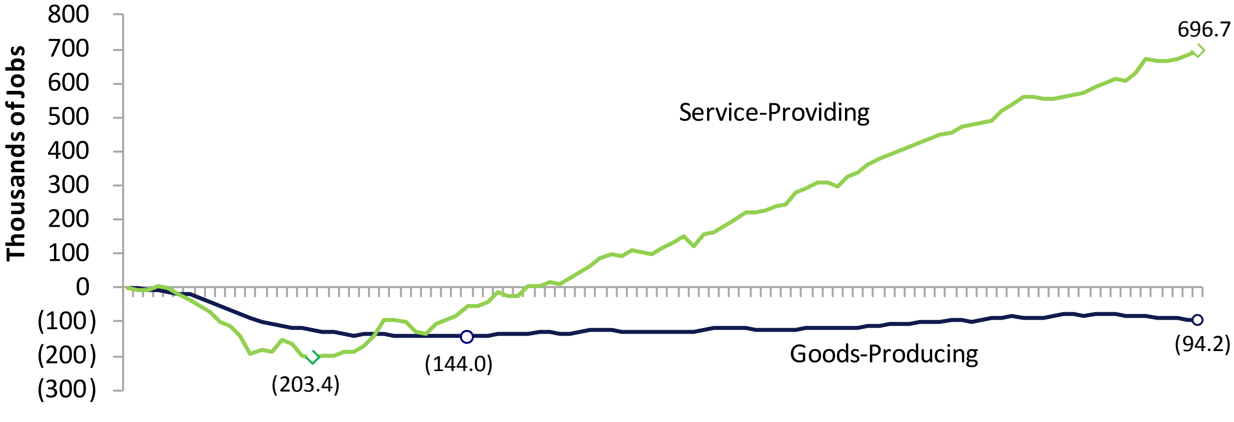
Employment gains have been concentrated in lower-paying jobs

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 2015, four of the six sectors that posted the fastest annual employment growth were the sectors that had the lowest average wages in the state. In addition, as of 2015, government and manufacturing sectors, with average wages over $60,000 had employment levels still below their previous peaks.

The service-providing sector has been leading the job gains

As in the nation, improvement in the state's labor market during the current expansion has been driven mainly by the service-providing sector. As of December 2016, service-providing employment was 696,700 above its pre-recession peak, while goods-producing employment remained 94,200 below its prior peak (see **Figure 36**).[30]

[30] 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.



Note: Data are monthly from April 2008 to December 2016.
Source: U.S. Bureau of Labor Statistics.

Figure 36

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 comprised 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 continued to lose jobs again since 2013. Manufacturing employment is expected to have fallen 1.0 percent in 2016 and will continue to decline throughout the forecast period.

Education and Health Care gained jobs during the recession

The education and health care sector was the only sector that gained employment during the last recession, and has continued to grow. This sector's growth is expected to persist, as aging baby boomers and more people become insured as a result of the Affordable Care Act create more demand for health care services, assuming no major changes to the current law. The education and health care sector grew 2.5 percent in 2015, and is estimated to have grown 3.0 percent in 2016. Employment in this sector is forecast to grow 2.5 percent in 2017 and by another 2.1 percent in 2018.[31]

Leisure and hospitality, construction and professional services stand out as growth top performers during the recovery

Employment in all sectors, except the manufacturing and government sectors, has continued to recover steadily since the recession ended in 2009. 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. As a result, 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 is estimated to have grown 2.0 percent in 2016 and is forecast to grow by 1.9 percent in each 2017 and 2018.

The professional services sector has also rebounded solidly 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 region that has benefited the most from this hiring is New York City, where several large professional services firms are based. From 2009 to 2015, the state added 86,200 jobs in this sector, of which 67,700 jobs were in the New York City region. The professional services sector will continue to grow throughout the forecast period, assuming no major changes to the current statute.

The construction sector has rebounded strongly since 2013. From 2013 to 2015, the state gained 33,500 jobs or 10.3 percent in this sector. Most of this gain 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 grew an estimated 4.3 percent in 2016, and is expected to grow further at 4.9 percent in 2017 and another 4.8 percent in 2018.

After suffering heavily during the recession, the finance and insurance sector rebounded slowly, as technology, stricter regulations, and high operating costs led firms to hire fewer

[31] The sector designated as education and health in this report includes only private employment. Based on data from New York State Department of Labor, as of December 2016, government education and health employment in New York State was 656,900, while private education and health employment was 2.0 million.

employees. Employment in this sector gained just 3.9 percent from 2010 to 2015, and remained 37,800 jobs below its peak in 2007. It is estimated that employment in this sector has continued to grow slowly, gaining 0.8 percent in 2016. Employment in this sector is forecast to grow 1.0 percent in 2017 and 0.9 percent in 2018.

Budget constraints at all levels of government restrained government employment following the last recession. As a result, government employment declined for six years in a row from 2009 to 2014. Employment started to rebound in 2015. Employment in this sector 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. Prior to the recession, two sectors underwent significant change: education and health care and manufacturing sectors.

Education and health care employment has been steadily increasing even during recessions. As a result, its share of total nonfarm payroll employment in New York State has risen. From 1980 to 2008, the share of education and health care employment grew from less than 10 percent to 17.8 percent. As a result, its rank jumped from fourth to become the largest sector in the State. 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 18.4 percent in 2008. Its rank also rose from fourth to first. Similarly, this sector's upstate employment share grew from 9.7 percent in 1980 (ranked fourth) to 17.9 percent in 2008 (ranked second behind the government sector).

Unlike the education and health care sector, the manufacturing sector has been losing jobs for decades. In 1980, the manufacturing sector accounted for 17.1 percent of total New York State employment, the second largest share in the state behind the government sector. By 2008, this sector dropped to seventh in rank and accounted for only 6.3 percent of total nonfarm employment. 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 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 2008, the sector ranked tenth and accounted for 4.0 percent of total employment. Likewise, manufacturing was the largest sector upstate in 1980, accounting for

24.5 percent of total employment; this share dropped to 11.4 percent in 2008 and ranked fourth.

The manufacturing sector regained employment briefly after the recession but has since continued to lose jobs and has become much less prevalent downstate. From 2008 to 2015, the share of manufacturing employment in downstate declined from 4.0 percent to 3.1 percent and its rank fell from tenth to twelfth. The share of manufacturing employment also declined upstate, but it continues to be one of the major sectors. Manufacturing employment upstate fell from 11.4 percent in 2008 to 10 percent in 2015, but it remained the fourth largest sector in upstate.

Leisure and Hospitality sector has become more prevalent after the recession

Leisure and hospitality sector employment has grown more rapidly than any other sector following the Great Recession. From 2009 to 2015, employment in this sector grew the fastest at 25.6 percent, followed by the other services sector, which grew 14.0 percent. As a result, the share of leisure and hospitality employment has increased from 8.5 percent and ranking fifth in 2008 to 9.9 percent and ranked fourth in 2015.

Regional Employment

In 2015, the largest region by employment in the state was New York City, with over four million jobs. It 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 education and health care and government, while in most regions the smallest sectors were the management of companies and real estate, rental, and leasing.

Downstate regions were the hardest hit during the recession but recovered quickly

Downstate regions were hit harder than upstate regions during 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 upstate. However, downstate has recovered faster than upstate. From 2009 to 2015, downstate gained 11.2 percent in nonfarm jobs with all regions gaining jobs. In contrast, upstate employment gained only 1.2 percent during this period, with three of seven regions experiencing job losses. The Mohawk Valley and Southern Tier regions lost the most jobs in percentage terms from 2009 to 2015 (see **Figure 37**).

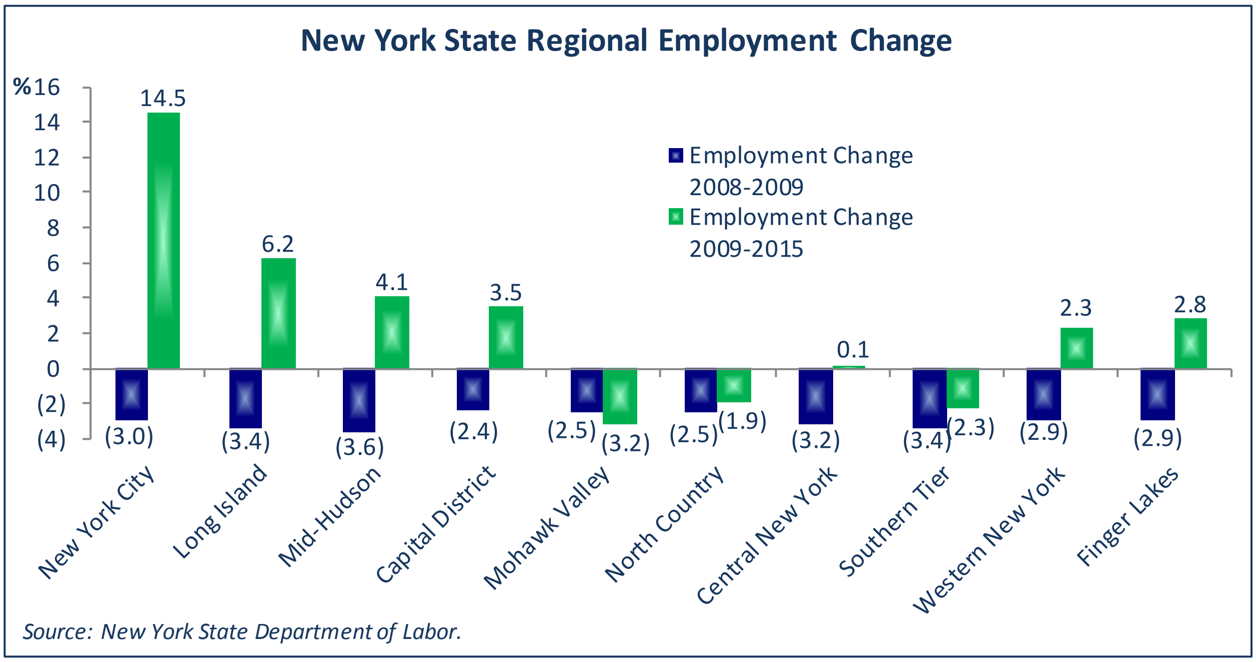
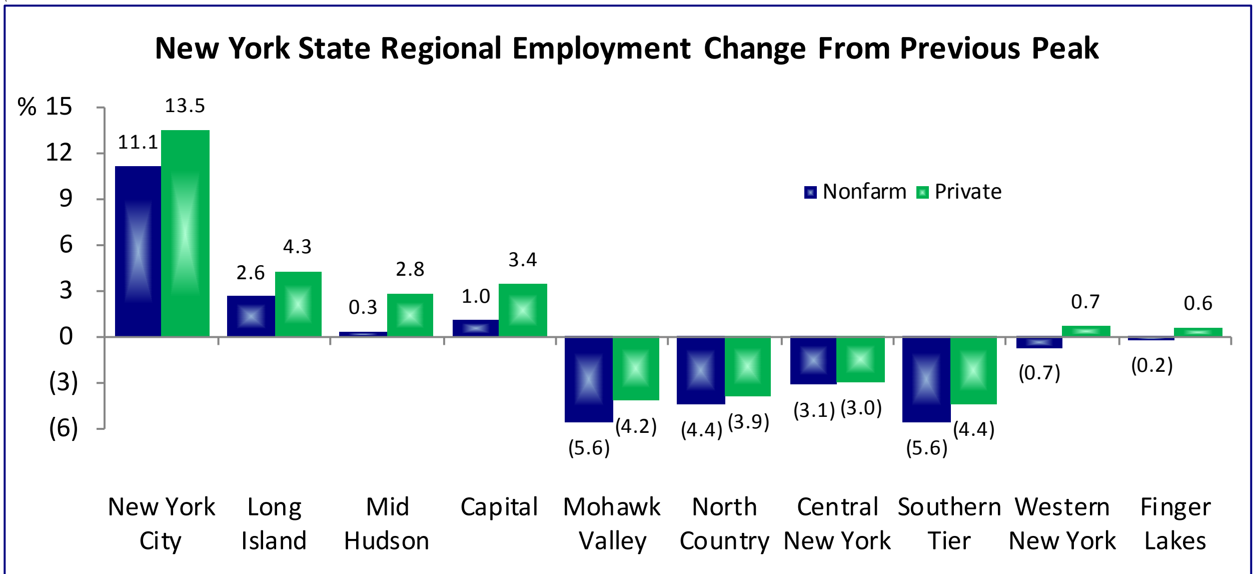


Figure 37

As a result, only four regions (New York City, Long Island, Mid-Hudson, and Capital regions) have regained all the nonfarm jobs lost during the recession, led by the New York City Region. In 2015, employment in the New York City region was 11.1 percent above its pre-recession peak. In contrast, employment in the Mohawk Valley and the Southern Tier Regions remained 5.6 percent below its previous peak. However, private employment has surpassed its previous peak in six regions (New York City, Long Island, Mid-Hudson, and Capital, Western New York and Finger Lakes regions) (see **Figure 38**).



Note: Data are employment change from 2008 to 2015.

Source: New York State Department of Labor.

Figure 38

During the Great Recession, one sector that lost the most jobs in both upstate and downstate was manufacturing; however, the share of manufacturing in total employment was greater upstate than 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 the retail trade sector.

The employment recovery in upstate New York has lagged downstate. From 2009 to 2015, downstate gained employment in almost all sectors, especially in the education and health care, leisure and hospitality, and other services sectors. In contrast, many sectors in upstate continued to lose jobs during this period. Although government employment in the state did not fall much during the last recession, due partly to fiscal stimulus funds from the federal government, employment in this sector has fallen through the recovery (see **Table 1**). This has been a significant drag to employment recovery upstate, where government employment accounts for almost 20 percent of employment, compared to about 14 percent downstate.[32]

[32] The region with the largest share of government employment is the North Country, where government employment accounted for 29.5 percent of total nonfarm employment in 2015, followed by the Mohawk Valley region at 23.8 percent.

Table 1

New York State Sectoral Employment Recovery by Region 2009-2015												
		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	**678.3**	**517.3**	**73.6**	**34.9**	**17.3**	**(5.4)**	**(2.9)**	**0.2**	**(6.6)**	**13.9**	**14.8**
Education & Health Care[1]	**186.5**	**119.1**	**25.9**	**16.2**	**6.5**	0.6	1.3	**3.5**	0.8	3.4	**7.0**
Leisure & Hospitality	181.4	116.6	22.0	15.2	6.4	**1.3**	**1.8**	3.3	**2.1**	**9.1**	4.5
Other Services[2]	102.7	65.3	13.4	10.8	1.6	0.0	(0.0)	(0.8)	1.9	(0.8)	5.2
Professional Services	86.2	67.7	8.1	2.6	0.6	(0.5)	0.0	1.2	0.1	(0.2)	3.6
Retail Trade	79.9	58.5	7.9	9.4	1.1	(0.6)	(0.4)	1.8	(0.5)	2.6	0.5
Construction	35.5	16.6	8.2	5.2	2.0	(0.4)	(1.0)	0.0	(0.7)	1.3	1.6
Transp. & Utilities[3]	18.2	9.8	3.2	0.8	0.8	(0.5)	(0.3)	0.5	0.4	1.1	0.2
Information	13.2	26.3	(6.7)	(3.5)	(1.2)	(0.7)	(0.2)	(0.8)	(0.2)	(1.0)	(1.0)
Management of Companies	11.8	9.5	(1.1)	(0.2)	(0.0)	0.1	(0.1)	(1.0)	0.6	2.6	(0.1)
Real Estate, Rental, & Leasing	11.2	9.4	1.0	0.8	0.3	(0.3)	(0.1)	(0.3)	0.3	0.5	0.3
Wholesale Trade	10.2	5.3	2.8	(0.3)	1.0	(0.3)	(0.1)	(0.4)	0.2	0.6	(0.8)
Finance & Insurance	4.5	9.9	0.8	(2.0)	(0.3)	(0.4)	(0.2)	(1.7)	(0.9)	0.6	0.1
Manufacturing[4]	(22.3)	(4.4)	(3.6)	(6.4)	4.7	(0.3)	(1.1)	(3.0)	(4.2)	0.1	(3.8)
Government	(75.7)	(11.5)	(12.1)	(16.4)	(7.4)	(3.7)	(2.6)	(2.6)	(6.7)	(7.6)	(3.9)

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.
Source: NYS Department of Labor.

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

Historically, the unemployment rate in New York City has consistently been higher than in 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 8.0 for the rest of the state. 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 that of the rest of the state during the recovery. The unemployment rate in New York City was 5.2 percent in December 2016, compared to 4.7 percent for the rest of state.

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 5.2 percent from December 2009 to December

2016. On the other hand, the labor force in the rest of state fell by 2.9 percent during this period.

Personal Income and Wages

Income, Wages, and the Financial Services Industry

Wages and personal income growth in New York State remains the central issue in the state economic and revenue outlook. Total wages, the largest component of New York State personal income, were $626.0 billion in 2016, accounting for 7.6 percent of total wages paid in the United States. 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 38.0 percent of total variable wages paid in the state in 2016. In 2007, 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, the securities industry continues to pay the largest share of variable wages in New York State compared to other sectors.

Personal Income and Wages Growth

Personal income in New York State is estimated to have grown 2.9 percent in 2016, and is forecast to grow 4.8 percent in 2017 and 4.6 percent in 2018 (see **Figure 39**). The increase in personal income will be driven mainly by the wage component, which generally accounted for over 50 percent of personal income. The other components of personal income are also growing. Dividend, interest and rental income, which comprised about 20 percent of personal income in 2015, is estimated to have grown 1.6 percent in 2016. With interest rates expected to rise and corporate profits to improve, dividend, interest and rental income is forecast to grow faster, at over five percent per year, in 2017 and 2018. Personal transfer receipts, about 16.9 percent of personal income, are expected to grow at around four percent per year throughout the forecast period.

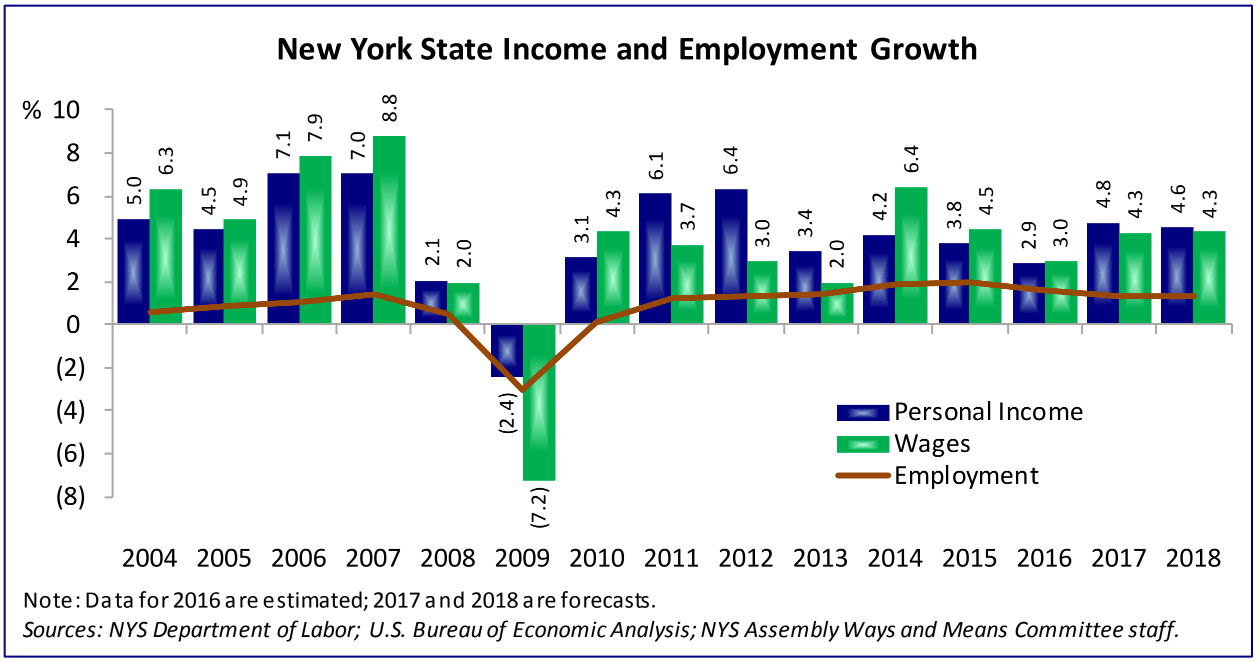
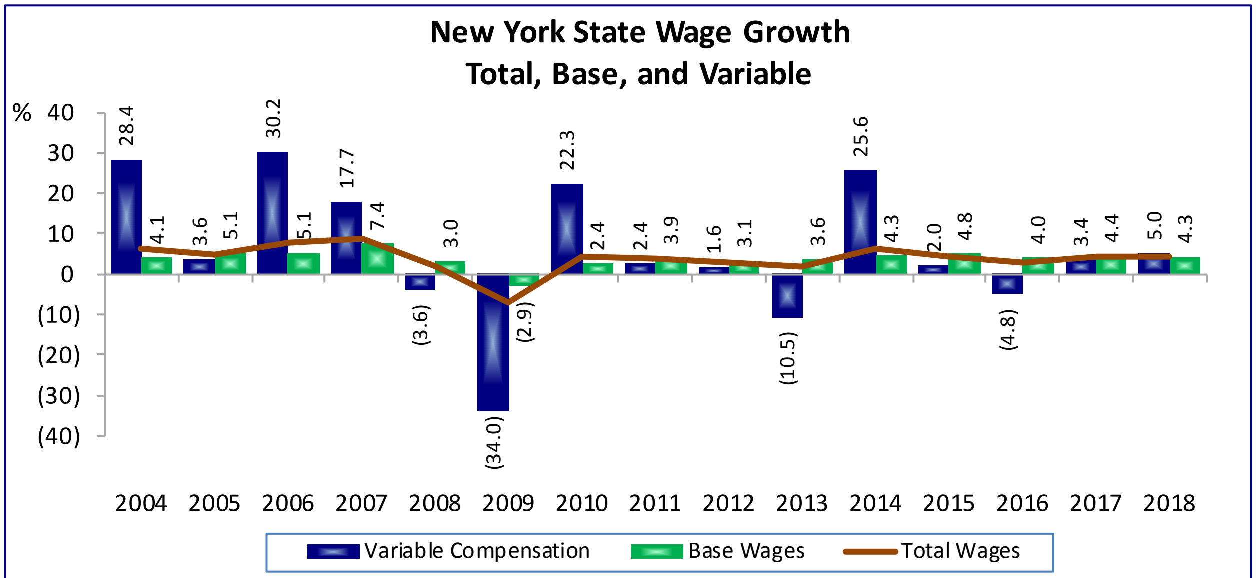


Figure 39

Wage growth rates continue to be below those achieved leading up to the 2007-09 recession, partly due to job gains being concentrated in lower-paying sectors and restrained growth in variable wages. Total wages in New York State are estimated to have grown 3.0 percent in 2016, and are forecast to grow by 4.3 percent each in 2017 and 2018.

Variable wages are estimated to have fallen 4.8 percent in 2016 due to lower financial firms revenues. Variable wages are forecast to recover in 2017 and 2018, growing 3.4 percent and 5.0 percent, respectively. Base wages are forecast to grow by 4.4 percent 2017 and another 4.3 percent in 2018, reflecting an expectation of continued steady growth in employment. As employment grows steadily, even in those industries with relatively low average wage, base wages will continue on a slow and steady upward trend (see **Figure 40**).



Note: Total wage data for 2016 are estimated; 2017 and 2018 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 40

Minimum Wage to Increase to $15

In 2016, there were over 3.7 million hourly workers in New York State, of which about 858,000 earned less than $10 per hour.[33] The 2016-17 Budget enacted legislation progressively increases the minimum wage from its current $9 per hour to $15 per hour depending on the region of the State and the number of employees (for businesses in New York City) (see **Table 2**).

It is estimated that a $1 increase in hourly wage from $10 to $11, other things being equal, would amount to an increase of about $1.8 billion in total annual wages in New York State.[34]

[33] This estimate is based on the Current Population Survey; Annual Social and Economic Supplement.

[34] This calculation is based on the assumption that each minimum wage workers works 40 hours a week.

Table 2 provides an overview of the scheduled minimum wage increases across regions.

Table 2

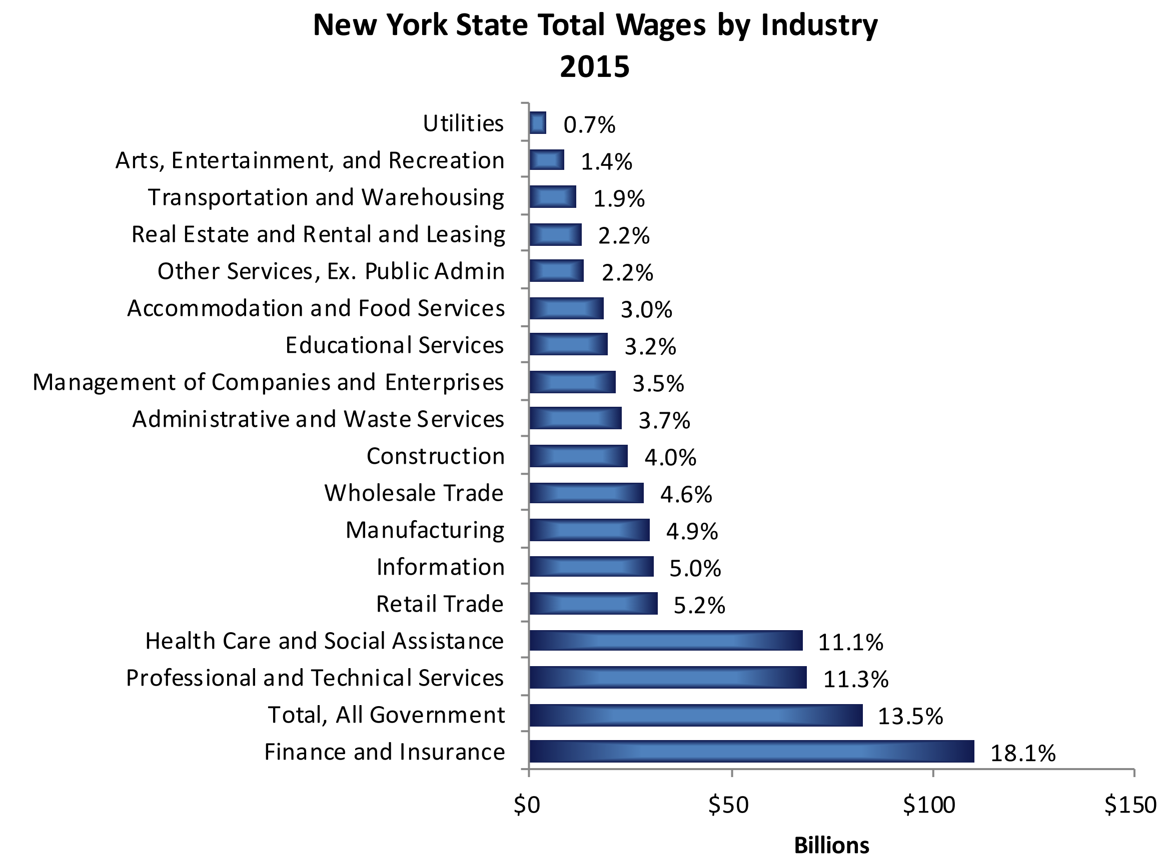
New York State Minimum Wage Increases Schedule*							
NYC (At least 11 employees)		NYC (Less than 11 employees)		Long Island/ Westchester		Rest of State	
Date of Increase	Min Wage	Date of Increase	Min Wage	Date of Increase	Min Wage	Date of Increase	Min Wage
2016	$9.00	2016	$9.00	2016	$9.00	2016	$9.00
2017	$11.00	2017	$10.50	2017	$10.00	2017	$9.70
2018	$13.00	2018	$12.00	2018	$11.00	2018	$10.40
2019	$15.00	2019	$13.50	2019	$12.00	2019	$11.10
		2020	$15.00	2020	$13.00	2020	$11.80
				2021	$14.00	2021**	$12.50
				2022	$15.00		

* All increases are effective 12/31 of each year.

** Increases will be determined by the Director of Division of the Budget based on various economic indices including the Consumer Price Index.

Uneven Industry Distribution of Wages

The distribution of wages within the state is uneven across industries. In 2015, the finance and insurance sector accounted for 18.1 percent of wages in the state, while accounting for 5.6 percent of employment. The government sector had the second highest share of wages in the state in 2015 at 13.5 percent, but the highest share of employment at 15.4 percent (see **Figure 41**).



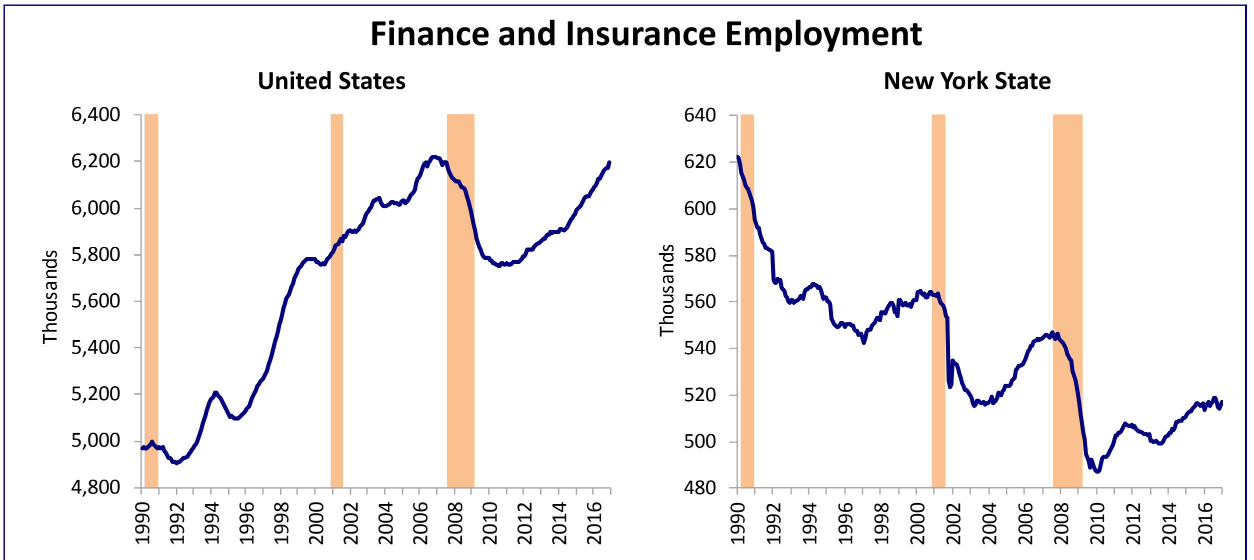
Note: Labels represent industry share of total state wages.
Source: New York State Department of Labor.

Figure 41

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 as the sector's employment is heavily concentrated in New York City. 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 finance and insurance industry employment has increased in the United States since late 2011, the industry's recovery has been much slower in the state as it continues to undergo restructuring (see **Figure 42**). Although employment continues to trend upward, the industry will not regain all the jobs lost as a result of the Great Recession during the forecast period.



Note: Seasonally adjusted data are monthly through December 2016. Shaded areas represent recessions.
Source: U.S. Bureau of Labor Statistics.

Figure 42

Finance and Insurance Sector Current Outlook

The outlook for the finance industry remains mixed. Profits and revenues, upon which bonus levels are traditionally based, will remain muted compared to pre-recession levels. Trading revenue has been slow for the past several years. Initial public offering (IPO) activity was very strong in 2014. However, global market volatility led to a significant drop in IPO activities in 2015. IPO volume in 2015 dropped twenty-five percent from 2014.[35] 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) activities. The value of announced mergers and acquisitions worldwide totaled $4.7 trillion in 2015, an increase of forty-two percent from 2014.[36]

As a result of global uncertainty, both IPO and M&A activities were slow in 2016. After the strongest year on record in 2015, M&A activity totaled $3.7 trillion in 2016, a 16 percent

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[35] Thomson Reuters Deals Intelligence, Global Equity Markets Review, Full Year 2015, http://dmi.thomsonreuters.com/Content/Files/4Q2015_Global_Equity_Capital_Markets_Review.pdf.
[36] Thomson Reuters Deals Intelligence, Mergers and Acquisition Review, Full Year 2015, http://dmi.thomsonreuters.com/Content/Files/4Q2015_Global_MandA_Financial_Advisory_Review.pdf.

decline from the same period in 2015.[37] Similarly, IPO activity fell 31 percent in 2016 to $131.1 billion, the slowest pace since 2012.[38]

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, the effects of the many structural changes that occurred as a result of the Great Recession, including changing compensation practices and stricter regulations, are still ongoing.

[37] Thomson Reuters Deals Intelligence, Mergers and Acquisition Review, Full Year 2016, http://dmi.thomsonreuters.com/Content/Files/4Q2016_MA_Financial_Advisory_Review.pdf
[38] Thomson Reuters Deals Intelligence, Global Equity Markets Review, 3rd Quarter 2016, Full Year http://dmi.thomsonreuters.com/Content/Files/4Q2016_Global_Equity_Capital_Markets.pdf

Real Estate Market

After outperforming the nation during both the housing boom and the housing correction, the State housing market has lagged the nation in recent years. During the housing boom, overall home prices in the state rose 64.9 percent from the first quarter of 2001 to the first quarter of 2007, compared to 53.1 percent for the nation (see **Table 3**). Home price increases in New York were driven largely by downstate and the Albany-Schenectady-Troy metro area, which saw home prices 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:Q2-2016:Q3
Buffalo-Cheektowaga-Niagara Falls	32.2	3.9	22.4
Rochester	22.1	(0.1)	12.2
New York-Jersey City-White Plains	89.5	(17.2)	11.2
Nassau-Suffolk	84.7	(14.0)	10.8
Albany-Schenectady-Troy	82.1	(5.5)	7.3
Syracuse	38.3	0.5	6.5
New York State	**64.9**	**(7.6)**	**10.8**
U.S.	**53.1**	**(20.8)**	**31.9**

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 20.8 percent nationally, while home prices in the state declined 7.6 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 17.2 percent and 14.0 percent, respectively. Upstate home prices were less affected by the real estate cycle than downstate. Prices in Buffalo-Cheektowaga-Niagara Falls and Syracuse continued to 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 2016, home prices grew 31.9 percent nationally, while home prices in New York State grew by only 10.8 percent. Prices in the Buffalo-Cheektowaga-Niagara Falls metropolitan area have been growing the fastest in the state during this period.

Slow home price growth, favorable mortgage interest rates, steady employment growth, and rising rents encouraged people to buy homes. After growing 7.0 percent in 2012, home sales in the state increased 13.6 percent to 108,367 in 2013.[39] 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 rebounded in 2015. Home sales grew 8.0 percent in 2015, compared to growth of 6.7 percent for the nation.

Both the national and state housing markets continued to improve in 2016. Existing-home sales in the state rose 10.0 percent in 2016, compared to 3.8 percent nationwide. However, 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 also higher than in the nation.[41]

Regionally, housing in upstate New York has long been more affordable than in downstate. While most upstate metropolitan regions were consistently ranked among the top fifty most affordable metros out of 229 metros nationwide, New York-White Plains-Wayne has been ranked among the least affordable metros. In the third quarter of 2016, only 35.8 percent of homes sold in this area were affordable to families earning the area median income, compared to over 85 percent in Binghamton, Utica-Rome, and Syracuse.[42]

Falling home prices have also reduced the housing cost burden for homeowners in the state. In 2012, 33.2 percent of homeowners across the state paid more than 30 percent of their income on housing. This share fell to 31.4 percent in 2013. However, a large disparity still exists across New York State. Between 2011 and 2015, downstate residents faced a much higher housing cost burden than those in upstate. The housing cost burden was highest in New York-Newark-Jersey City, where 39.2 percent of homeowners and 51.8 percent of renters paid more than 30 percent of their income on housing. The lowest burden for homeowners was in Elmira,

[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_2014_revised.pdf ?sfvrsn=0.
[40] Ibid.
[41] NYS Association of Realtors, “Monthly Report on the New York State Market,” NYS Association of Realtors, http://www.nysar.com/docs/default-source/members-pdfs/nysar_mmi_2016-11_media.pdf?sfvrsn=0
[42] Large metros are defined as areas with population of 500,000 or more. See National Association of Home Builders, NAHB/Wells Fargo Housing Opportunity Index (HOI), January 24, 2017.

where only 16.8 percent of homeowners paid more than 30 percent of their income on housing. In the state as a whole, 31.9 percent of all New York homeowners paid more than 30 percent of their income on housing between 2011 and 2015, while about half of all renters paid more than 30 percent of their income on housing, compared to 26.0 percent and 47.9 percent for the nation, respectively (see **Table 4**).

Table 4

Housing Cost Burden by New York State Metropolitan Area

	Owner 2011-2015		Renter 2011-2015		
	Owner-Occupied Housing Units Total	Percent with Housing Costs Over 30% of Household Income	Renter-Occupied Housing Units Total	Percent with Housing Costs Over 30% of Household Income	Housing Opportunity Index 2016:Q3
Metropolitan Statistical Area					
New York-Newark-Jersey City	2,203,676	39.2	2,551,151	51.8	35.8
Kingston	47,908	33.9	21,566	55.6	80.2
Glens Falls	36,421	26.6	14,604	48.5	N/A
Albany-Schenectady-Troy	224,922	23.2	121,066	45.4	80.8
Rochester	290,032	22.8	140,427	52.3	83.1
Utica-Rome	78,231	21.5	38,743	45.8	87.4
Syracuse	172,959	20.9	83,270	46.6	87.1
Ithaca	21,356	22.0	17,104	52.4	62.2
Binghamton	67,577	21.2	31,427	49.3	94.1
Buffalo-Cheektowaga-Niagara Falls	311,183	20.4	159,470	46.9	84.5
Elmira	24,286	16.8	10,881	49.4	77.9
Watertown-Fort Drum	24,610	23.5	19,696	39.9	77.1
New York State	**3,894,722**	**31.9**	**3,367,557**	**50.8**	**N/A**
United States	**74,712,091**	**26.0**	**42,214,214**	**47.9**	**61.4**

Note: The Housing Opportunity Index for New York-Newark-Jersey City was the Index for New York-White Plains-Wayne, NY-NJ.
Housing costs for homeowners include mortgage payment, real estate taxes, fire hazard and flood insurance, utilities, and fuels. The housing cost for renters is gross rent.
The Housing Opportunity Index is defined as the share of homes sold in the area that would have been affordable to a family earning the median income (i.e., the total monthly payment is less than 28 percent of the monthly median household income).
Sources: U.S. Census Bureau, 2011-2015 American Community Survey 5-Year Estimates; National Association of Home Builders.

After two years of solid leasing activity in 2013 and 2014, commercial real estate in New York City softened in 2015. Leasing activity in 2015 totaled 28.2 million square feet, a decline of 14.0 percent from 2014 as leasing in the downtown area slowed. Despite slow leasing activity, 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.[43]

The office market in the city remained healthy in 2016. New leasing activity totaled 26.3 million square feet. Overall asking rents continued to grow. Average asking rents increased from $71.58 per square foot in the fourth quarter of 2015 to $72.82 in the fourth quarter of 2016. The vacancy rate rose from 8.5 percent in the fourth quarter of 2015 to 9.3 in the fourth quarter of 2016, as more than two million square feet of office space were added into the market in 2016.[44]

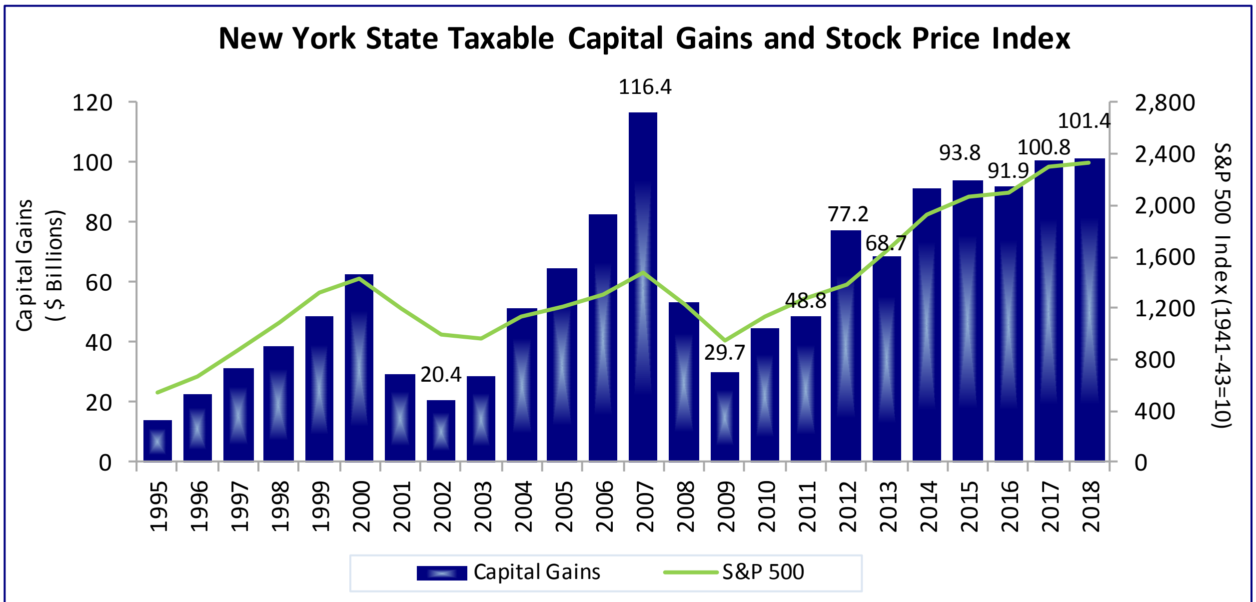
[43] Cushman & Wakefield, "MARKETBEAT Office Snapshot: Manhattan NY," Q4 2015.
[44] Cushman & Wakefield, "MARKETBEAT Office Snapshot: Manhattan NY," Q4 2016.

Capital Gains

The performance of the financial markets, the housing market, and the overall economy usually determines the extent to which capital gains or losses are realized. Gains are only realized when an asset is sold for more than the adjusted basis, the amount paid for the asset adjusted for factors such as depreciation and improvements in property. If the asset is sold for less than the adjusted basis, then the household incurs a capital loss. Households' assets may include their homes, other real estate, stocks, government and corporate bonds, mutual funds, and privately owned businesses. Households pay taxes on the difference between realized capital gains and losses. However, if capital losses exceed gains then households might be able to reduce their tax bill.

In general, long term capital gains are subject to a lower tax rate than wages, while short-term gains are taxed like wages. Capital gains and the amount of taxes owed can vary significantly depending on economic conditions and the perceived impact of changes in tax laws. In recent years, capital gains realizations have been mainly influenced by equity markets. Equity prices have grown significantly after plunging in 2008 and 2009, while the real estate market has recovered at a much slower pace. Capital gains were shifted from 2013 to 2012 as a result of an anticipated increase in capital gains taxes in 2013. In 2013, capital gains fell 11.1 percent as a consequence of the shift, though the effect was tempered somewhat by the resilient performance of equity markets. Historically, investors have capitalized on gains in anticipation of higher future tax rates.

In 2015 steady increases in home prices contributed more to capital gains than in the past few years. However, the performance of the stock market slowed in 2015. Thus, net capital gains grew an estimated 3.2 percent in 2015 to $93.8 billion. In 2016, capital gains fell a projected 2.0 percent to $91.9 billion as economic growth slowed, and the performance of the stock market was subdued. Furthermore, the anticipation of a cut in the federal tax rate on capital gains in 2017 may have deterred investors from selling capital assets in 2016. Capital gains are forecast to grow by 9.7 percent in 2017 to $100.8 billion (see **Figure 43**) with the overall economy and equity prices expected to grow more robustly. In 2018, capital gains are forecast to increase 0.5 percent to $101.4 billion.



Note: Data for 2015 are estimated; 2016, 2017, and 2018 are forecasts.

Sources: Standard & Poors; NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committee staff.

Figure 43

Risks to the Forecast

The pace of the recovery has been slower than expected, and the risks to the economic outlook remain mixed. Unforeseeable risks such as abnormal weather or adverse geopolitical developments persist in the current economic environment. Volatility in the financial markets, which was a significant factor in the Great Recession, continues to be of concern. Expected policy changes and reform at the federal level also add uncertainty to the forecast with an upside potential in the short term.

Federal Reserve actions on monetary policy are also adding uncertainty to the outlook. In particular, the transition to tighter U.S. monetary policy poses increased downside risks to both developing and advanced economies as the expected increases in interest rates come after having been kept artificially low for an extended period.

The health of the global economy is also a concern. Although the European debt crisis appears to have eased, issues still remain. The recent weakening in economic growth outlooks in both China and several emerging economies poses a significant downside risk 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, and other geopolitical issues. Furthermore, 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. Ongoing technology changes, outsourcing as well as changes in the composition of Wall Street compensation (including bonuses) would have critical implications for the economic and fiscal health of the state.

Revenue Forecast

REVENUE FORECAST

Overview – Revenue Summary

State Fiscal Year 2016-17

All Funds Revenues

All Funds revenues are estimated to total $154.387 billion in State Fiscal Year (SFY) 2016-17 for an increase of 0.7 percent or $1.122 billion, largely attributable to increases in withholding collections and sales tax receipts over last year.

All Funds Tax Receipts

The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for State Fiscal Year (SFY) 2016-17 is $75.325 billion, representing an increase of 0.9 percent or $652 million over the prior year (see **Table 5**).

Growth in withholding receipts combined with robust gains in sales tax collections is offset by large, yet anticipated, declines in estate and corporate tax collections.

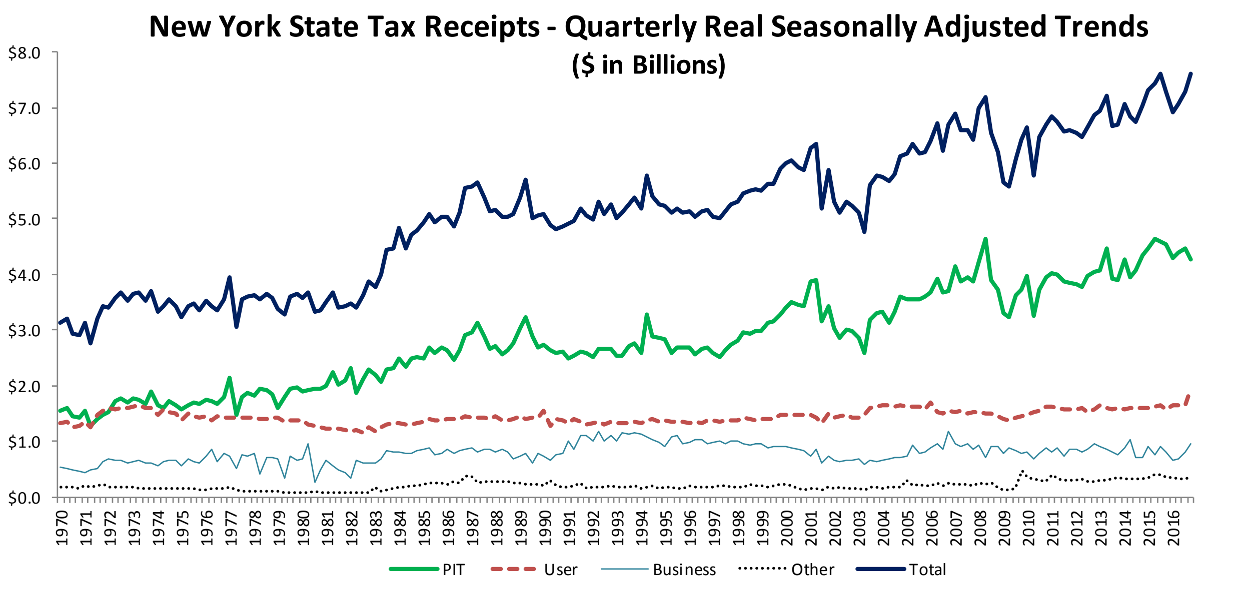
The committee staff's All Funds tax revenue estimate is $352 million above the Executive Budget's estimate. The largest difference between the committee staff estimates and the Executive's estimates is in personal income taxes with the committee estimate being $223 million above the Executive's closeout.

Table 5

SFY 2016-17 All Funds Estimate Summary ($ in Millions)					
	2015-16 Actual	2016-17 Estimate	Change	Growth	Diff. Exec.
Personal Income Tax	$47,055	$47,532	$477	1.0%	$223
User Taxes	15,725	16,250	525	3.3%	67
Business Taxes	7,884	7,943	59	0.8%	96
Other Taxes	4,010	3,599	(411)	-10.3%	(34)
Total Tax Collections	**$74,673**	**$75,325**	**$652**	**0.9%**	**$352**
All Funds Miscellaneous Receipts	23,956	22,903	(1,054)	-4.4%	8
Lottery	3,312	3,275	(37)	-1.1%	(5)
Total w/Miscellaneous Receipts & Lottery	**$101,941**	**$101,502**	**($439)**	**-0.4%**	**$355**
Federal Funds	51,324	52,885	1,561	3.0%	-
Total All Funds Receipts	**$153,265**	**$154,387**	**$1,122**	**0.7%**	**$355**

* Totals may not add up due to rounding

Historical Trends



Sources: NYS Department of Taxation and Finance; Bureau of Labor Statistics; NYS Assembly Ways and Meams Committee staff estimates.

Figure 44

Figure 44 provides an historical overview of tax receipts by major category in seasonally and inflation-adjusted dollars. One can easily identify the dramatic receipts' declines during the dot-com recession of 2000 and the Great Recession of 2008. The following outlines some key insights related to the above chart:

- Personal income tax collections are highly volatile and drive the overall volatility of tax receipts:
  - Capital gains, a significant underlying economic driver of personal income taxes, as well as variable compensation (bonuses) are mostly responsible for the volatility of the personal income tax;
  - Inflation-adjusted tax receipts were relatively flat during the 1990s reflecting large tax cuts;
  - Over the last 10 years real personal income tax receipts have exhibited, on average, an upward trend, a reflection of the 2011 Tax Reform that enacted higher top marginal income tax rates, and the faster income growth for those with high incomes.
- The recently enacted Corporate Tax reform combined with downward pressure on corporate profits and energy prices has restrained growth in business taxes.
- User taxes – with sales tax receipts being the largest component – are the most stable tax source and have been relatively flat in real terms over the last few years.

Year-to-Date (YTD) Tax Analysis

The committee staff's tax revenue estimates for SFY 2016-17 are based on year-to-date collections and historical collections patterns. Through the first ten months of the fiscal year, All Funds tax revenues are down 1.0 percent (see **Figure 45**). Year-to-date business tax collections are down 0.1 percent as the effects of the corporate tax reform and related tax reductions negatively impact receipts. Other taxes are down 10.3 percent due to large declines in the estate tax following abnormally high collections during the prior year.

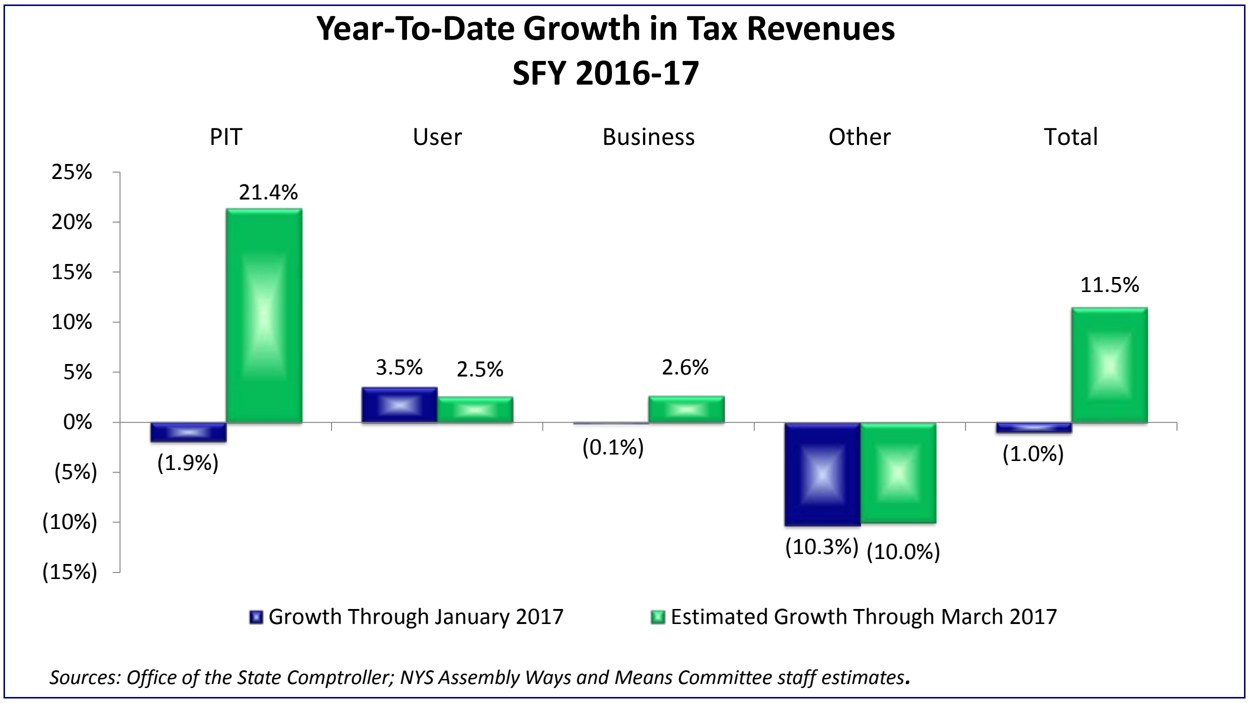


Figure 45

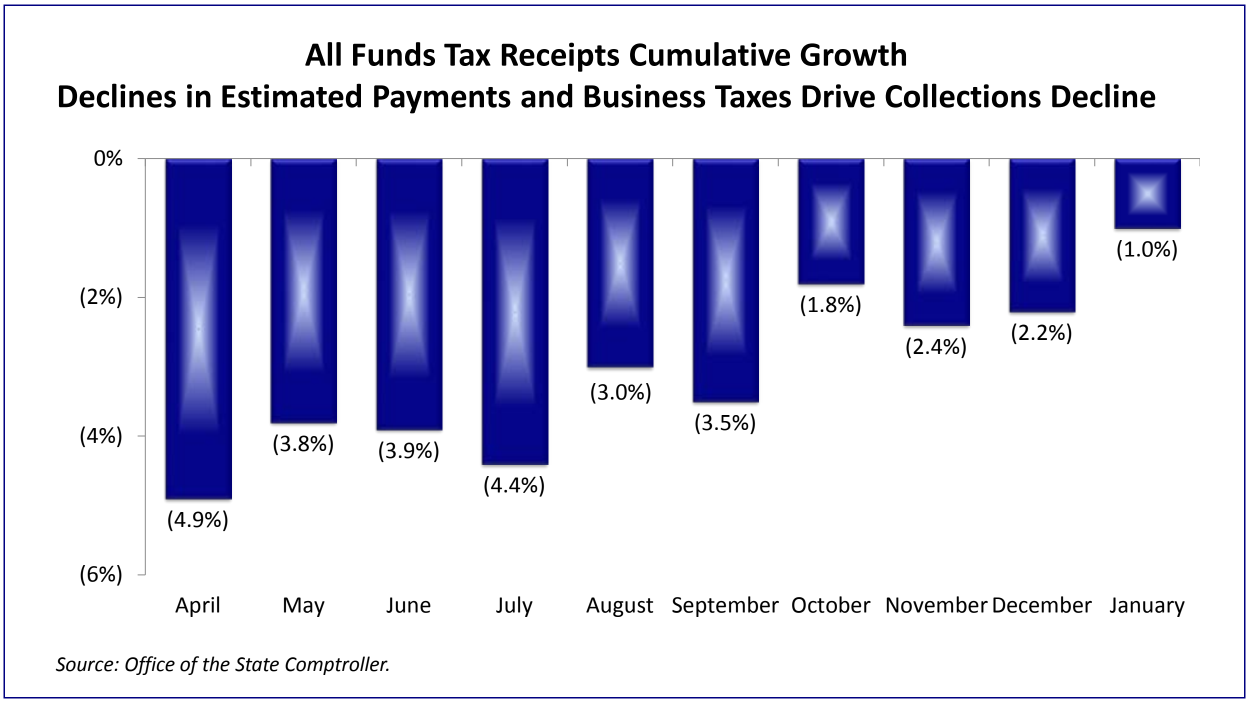


Figure 46

Collections are expected to increase, as the state fiscal year progresses, and return to growth. Tax collections are expected to increase by 11.5 percent over the remainder of the fiscal year.

Figure 46 shows the decreases in year-to-date growth in All Funds tax receipts during the course of the fiscal year. Except for the large decline in estimated payments, declines in business and other taxes were anticipated as the full impact of the Corporate Tax reform has been incorporated and as estate tax receipts return to a more normal collections pattern.

Personal Income Taxes

The NYS Assembly Ways and Means Committee staff estimates that PIT receipts will total $47.532 billion in SFY 2016-17, representing an increase of 1.0 percent or $477 million above last year. Gross receipts are expected to increase 0.2 percent or $102 million above SFY 2015-16, driven by 3.1 percent growth in withholding. Total refunds are anticipated to decline 3.9 percent or $375 million, primarily due to an expected decline in the administratively driven current refunds and lower previous year refunds.

Overall, net personal income taxes have totaled $40.473 billion year-to-date, a decline of 1.9 percent, and are estimated to increase by 21.4 percent in the remainder of the year to reach SFY 2016-17 estimates.

User Taxes

User taxes are estimated to total $16.250 billion in SFY 2016-17, an increase of 3.3 percent or $525 million. Sales tax revenue is estimated to increase by $546 million or 4.1 percent.

Through the first ten months of the fiscal year, sales tax revenues are up 4.1 percent. Collections over the remainder of the year are expected to increase by 4.1 percent. Cigarette tax receipts were flat year-to-date over the last year and are estimated to finish the year with an 11.6 percent decline.

Business Taxes

Business taxes have declined 0.1 percent compared to the first ten months of last year, and growth of 2.6 percent is expected in the remainder of the fiscal year. In addition, as energy prices have been low for the past year, petroleum business tax (PBT) rates have been lowered.

Overall, business taxes are estimated to post an increase of 0.8 percent or $59 million over SFY 2015-16 levels. Corporate franchise taxes are estimated to decline by $425 million or 9.4 percent. 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 down 2.0 percent or $20 million over the same year-to-date period in SFY 2015-16 as the real estate market in New York exhibits signs of weakness, with recent data pointing to a slowdown in the high-end condo market in New York City. RETT collections are estimated to finish SFY 2016-17 with a total of $1.137 billion or a decline of 2.2 percent over the prior year. MTA payroll tax collections are estimated to register fiscal year growth of 3.5 percent.

Estate and gift collections have totaled $949 million year-to-date, down 29.5 percent over last year. With an expected 19.1 percent decline in the remainder of the year, estate and gift tax revenues are expected to decline 28.3 percent or $430 million for the fiscal year.

Lottery

Through the first ten months of SFY 2016-17, total lottery revenues are down $69 million or 2.9 percent. The committee staff anticipates overall fiscal year decline of 1.1 percent for a total of $3.275 billion.

Revenue Table, Current Fiscal Year 2016-17

Table 6

All Funds Collections SFY 2016-17
($ in Millions)

	2015-16 Actual	2016-17 Estimate	Change	Growth	Diff. Exec.
Personal Income Tax	**$47,055**	**$47,532**	**$477**	**1.0%**	**$223**
Gross Receipts	**56,600**	**56,702**	**102**	**0.2%**	**178**
Withholding	36,549	37,677	1,128	3.1%	102
Estimated Payments	16,111	14,982	(1,129)	-7.0%	6
Vouchers	11,561	10,918	(643)	-5.6%	3
IT 370s	4,550	4,064	(486)	-10.7%	3
Final Payments	2,630	2,631	1	0.0%	16
Delinquencies	1,310	1,412	102	7.8%	54
Total Refunds	**9,545**	**9,170**	**(375)**	**-3.9%**	**(45)**
Net Collections	**47,055**	**47,532**	**477**	**1.0%**	**223**
User Taxes and Fees	**15,725**	**16,250**	**525**	**3.3%**	**67**
Sales and Use Tax	13,359	13,905	546	4.1%	44
Motor Fuel Tax	503	528	25	5.0%	22
Cigarette & Tobacco Tax	1,251	1,230	(21)	-1.7%	3
Highway Use Tax	158	137	(22)	-13.6%	(4)
Alcoholic Beverage Tax	255	259	4	1.6%	1
Medical Marihuana Excise Tax	0	0.5	0.5	-	0
Auto Rental Tax	126	128	2	1.2%	1
Taxi Surcharge	73	64	(9)	-12.2%	0
Business Taxes	**7,884**	**7,943**	**$59**	**0.8%**	**96**
Corporate Franchise Tax	4,527	4,102	(425)	-9.4%	(27)
Utility Tax	774	740	(34)	-4.4%	2
Insurance Tax	1,580	1,590	10	0.6%	88
Bank Tax	(121)	383	504	416.5%	0
Petroleum Business Tax	1,124	1,128	4	0.4%	33
Other Taxes	**4,010**	**3,599**	**($411)**	**-10.3%**	**(34)**
Estate and Gift Tax	1,521	1,091	(430)	-28.3%	(23)
Real Estate Transfer Tax	1,163	1,137	(26)	-2.2%	(1)
Pari Mutuel Tax	17	16	(1)	-5.9%	(1)
MTA Payroll Tax	1,306	1,352	46	3.5%	(9)
Total All Funds Taxes	**$74,673**	**$75,325**	**$652**	**0.9%**	**$352**
All Funds Miscellaneous Receipts	23,956	22,903	(1,054)	-4.4%	8
Lottery	3,312	3,275	(37)	-1.1%	(5)
Total Taxes & Lottery & Miscellaneous Receipts	**$101,941**	**$101,502**	**($439)**	**-0.4%**	**$355**
Federal Funds	51,324	52,885	1,561	3.0%	0
Total All Funds Receipts	**$153,265**	**$154,387**	**$1,122**	**0.7%**	**$355**

* Totals may not add up due to rounding

State Fiscal Year 2017-18

Key economic indicators point to an ongoing but slow recovery. The committee staff is estimating GDP growth of 1.6 percent in 2016, well below the 2.6 percent rate registered in 2015, followed by growth of 2.3 percent in 2017, as the economy regains momentum with several headwinds experienced over the last several quarters abating. (See the Economy section of report for more details.)

All Funds Revenues

The committee staff expects 4.6 percent growth in All Funds receipts for SFY 2017-18. The committee staff forecast is $1.029 billion above the Executive's forecast including estimates for miscellaneous receipts and federal grants, for a total of $161.440 billion.

All Funds Tax Receipts

The committee staff expects 6.8 percent growth in All Funds tax receipts in SFY 2017-18, for a total of $80.435 billion, reflecting the ongoing economic recovery. The committee staff tax receipts forecast is $901 million above the Executive's forecast. The committee's net personal income tax (PIT) forecast is $563 million above the Executive's PIT forecast.

Table 7

SFY 2017-18 All Funds Revenue Forecast Summary
($ in Millions)

	2016-17 Estimate	2017-18 Forecast	Change	Growth	Diff. Exec.
Personal Income Tax	$47,532	51,246	$3,714	7.8%	$563
User Taxes	16,250	17,142	891	5.5%	144
Business Taxes	7,943	8,352	408	5.1%	99
Other Taxes	3,599	3,696	97	2.7%	96
Total Tax Collections	**$75,325**	**$80,435**	**$5,110**	**6.8%**	**$901**
All Funds Miscellaneous Receipts	22,903	23,474	572	2.5%	123
Lottery	3,275	3,265	(10)	-0.3%	6
Total w/Miscellaneous Receipts & Lottery	**$101,502**	**$107,175**	**$5,672**	**5.6%**	**$1,029**
Federal Funds	52,885	54,265	1,380	2.6%	-
Total All Funds Receipts	**$154,387**	**$161,440**	**$7,052**	**4.6%**	**$1,029**

* Totals may not add up due to rounding

Personal Income Taxes

Overall, personal income taxes, the largest component of all tax collections, are forecast to total $51.246 billion, which is $3.714 billion or 7.8 percent over the SFY 2016-17 estimates. Total New York State wages growth is forecast at 4.5 percent in SFY 2017-18, whereas variable wages (bonuses) are expected to register growth of 5.0 percent.

User Taxes

All Funds user taxes are forecast to total $17.142 billion, 5.5 percent above current year estimates. This forecast reflects staff projections that the economic recovery will continue with robust consumer spending growth.

Business Taxes

Business taxes are forecast to total $8.352 billion in SFY 2017-18, which is an increase of 5.1 percent from the current year closeout on an All Funds basis. The corporate franchise tax is expected to increase by 13.7 percent or $563 million.

Other Taxes

Other taxes, which consist primarily of the estate tax, real estate transfer taxes, and the MTA payroll tax, are forecast to increase by 2.7 percent in SFY 2017-18, to a level of $3.696 billion. Estate tax receipts are expected to return to a consistent trend level following a sharp decline in the prior year.

Lottery

Lottery receipts are forecast to decline 0.3 percent or $10 million in SFY 2017-18 for a total of $3.265 billion.

Revenue Table, Upcoming Fiscal Year 2017-18

Table 8

All Funds Collections SFY 2017-18 ($ in Millions)					
	2016-17 Estimate	2017-18 Forecast	Change	Growth	Diff. Exec.
Personal Income Tax	**$47,532**	**$51,246**	**$3,714**	**7.8%**	**$563**
Gross Receipts	**56,702**	**61,227**	**4,525**	**8.0%**	**589**
Withholding	37,677	39,630	1,953	5.2%	271
Estimated Payments	14,982	17,286	2,304	15.4%	261
Vouchers	10,918	12,579	1,661	15.2%	200
IT 370s	4,064	4,707	643	15.8%	61
Final Payments	2,631	2,874	244	9.3%	38
Delinquencies	1,412	1,437	25	1.8%	19
Total Refunds	**9,170**	**9,981**	**811**	**8.8%**	**26**
Net Collections	**47,532**	**51,246**	**3,714**	**7.8%**	**563**
User Taxes and Fees	**16,250**	**17,142**	**891**	**5.5%**	**144**
Sales and Use Tax	13,905	14,837	932	6.7%	111
Motor Fuel Tax	528	533	5	1.0%	28
Cigarette & Tobacco Tax	1,230	1,210	(20)	-1.6%	8
Highway Use Tax	137	88	(48)	-35.5%	1
Alcoholic Beverage Tax	259	260	1	0.4%	(3)
Medical Marihuana Excise Tax	0.5	1	0.5	100.0%	0
Auto Rental Tax	128	134	6	5.0%	(0)
Taxi Surcharge	64	63	(1)	-2.2%	(1)
TNC Assessment	NA	16	NA	NA	0
Business Taxes	**7,943**	**8,352**	**408**	**5.1%**	**99**
Corporate Franchise Tax	4,102	4,666	563	13.7%	(21)
Utility Tax	740	733	(7)	-0.9%	1
Insurance Tax	1,590	1,652	63	3.9%	80
Bank Tax	383	190	(193)	-50.4%	0
Petroleum Business Tax	1,128	1,110	(18)	-1.6%	38
Other Taxes	**3,599**	**3,696**	**97**	**2.7%**	**96**
Estate and Gift Tax	1,091	1,060	(31)	-2.8%	111
Real Estate Transfer Tax	1,137	1,204	67	5.9%	(6)
Pari Mutuel Tax	16	16	0	0.0%	(1)
MTA Payroll Tax	1,352	1,413	61	4.5%	(8)
Total All Funds Taxes	**$75,325**	**$80,435**	**$5,110**	**6.8%**	**$901**
All Funds Miscellaneous Receipts	22,903	23,474	572	2.5%	123
Lottery	3,275	3,265	(10)	-0.3%	6
Total Taxes & Lottery & Miscellaneous Receipts	**$101,502**	**$107,175**	**$5,672**	**5.6%**	**$1,029**
Federal Funds	52,885	54,265	1,380	2.6%	0
Total All Funds Receipts	**$154,387**	**$161,440**	**$7,052**	**4.6%**	**$1,029**

* Totals may not add up due to rounding NA = Not Applicable

Risks to the Revenue Forecast

The current forecast for the economy and, therefore, revenues, is predicated on certain key assumptions related to fiscal and monetary policy, as well as global economic fundamentals as enunciated in the Economy part of this report. One of the key areas of uncertainty is with respect to federal fiscal policy. The President and the Congressional majorities are anticipated to enact legislation related to personal and corporate income tax reform, including measures to incentivize the repatriation of corporate profits, which will significantly impact the short and long-term economic outlook. However, as details are not currently available, our outlook does not incorporate any changes emanating from expected federal policies.

In addition, there are a number of other risks to this forecast. The euro-area economy is still growing slowly, while the true underlying growth rate in China remains highly uncertain. If growth in either area is even more sluggish than expected, the implications for the global economy will be negative, with slower growth in export and corporate profits adversely impacting the forecast. Although oil prices are expected to stabilize, continued tepid global growth could send oil prices lower, which could have a deleterious effect on both business hiring and investment, as well as on equity markets. If the Federal Reserve increases long term interest rates faster than anticipated, the impact on the domestic and global economies will also be negative. In addition, any developments that have an impact on credit and financial markets present risks to the forecast for revenue, wages, bonuses, and capital gains realization.

FISCAL POLICIES OF NEW FEDERAL ADMINISTRATION

While as of the writing of this report details are not available as to any legislative action at the Federal level with respect to personal and corporate income tax policy, both the President and the Congressional majorities have made public plans for broad-based income tax reform. In this section we provide an overview of the President's tax reform plan as communicated during the campaign, as well as the House Republicans' tax reform plan.[45] Analysts expect that the ultimate reform package, if and when enacted, will include components of those two plans.

Table 9

Federal Personal Income Tax Proposals				
Current Law		House Republican Plan	President's Plan	
Taxable Income Bracket (2017, MFJ)	Tax Rates	Tax Rates	Income Brackets (MFJ)	Tax Rates
$0 to $18,550	10%	12%	$0 to $105,000	12%
$18,550 to $75,300	15%	12%	$105,000 to $255,000	25%
$75,300 to $151,900	25%	25%	$255,000 and above	33%
$151,900 to $231,450	28%	25%		
$231,450 to $413,350	33%	33%		
$413,350 to $466,950	35%	33%		
$466,950 and above	39.6%	33%		

Personal Income Tax Changes – Highlights

President's Plan

- Consolidates the current seven brackets into three, with rates on ordinary income of 12 percent, 25 percent, and 33 percent.
- Capital gains: maintains current rates (0 percent, 15 percent and 20 percent) and repeals the 3.8 percent surcharge on net investment income.

[45] All data and key highlights are based on: "Details and Analysis of the 2016 House Republican Tax Reform Plan," Kyle Pomerleau, Tax Foundation, Fiscal Fact, July 2016; "An Analysis of Donald Trump's Revised Tax Plan," Tax Policy Center, Jim Nunns, Len Burman, Ben Page, Jeff Rohaly, and Joe Rosenberg, October 18, 2016; and "Details and Analysis of the Donald Trump Tax Reform Plan", Tax Foundation, Alan Cole, September 2016.

- Taxes carried interest as ordinary income.
- Increases the standard deduction (for married filing jointly goes up from $12,600 to $30,000).
- Eliminates the personal exemption.
- Introduces a phased-out deductibility for childcare costs.
- Caps itemized deductions.
- Eliminates the individual alternative minimum tax.

Congressional Republican Plan

- Consolidates the current seven brackets into three, with rates on ordinary income of 12 percent, 25 percent, and 33 percent.
- Capital gains: taxes capital gains as ordinary income but provides a 50 percent exclusion.
- Increases the standard deduction (for married filing jointly goes up from $12,600 to $24,000).
- Eliminates all itemized deductions other than the mortgage interest deduction and the charitable contribution deduction.
- Eliminates the personal exemption and creates a $500 non-refundable credit for dependents who are not children. The plan would increase the child tax credit from $1,000 to $1,500.
- Eliminates the individual alternative minimum tax.

Corporate Income Tax Changes – Highlights

President's Plan

- Reduces the corporate income tax rate from 35 percent to 15 percent. Pass-through entities (e.g. sole proprietors, partnerships, and S-corporations) can elect to be taxed at the 15 percent rate.

- Eliminates the corporate alternative minimum tax.

- Eliminates deductions and credits other than the research and development credit.

- Allows for a repatriation of deferred foreign profits at a tax rate of 10 percent for earnings held in cash and four percent for other earnings.

- Allows manufacturing firms in the U.S. to opt for either full expensing of capital investment or for the deductibility of interest paid.

Congressional Republican Plan

- Reduces the corporate income tax rate from 35 percent to 20 percent. A top rate of 25 percent is scheduled for business filers who file as pass-through entities.

- Eliminates the corporate alternative minimum tax.

- Allows capital investment costs to be fully and immediately deductible.

- Eliminates deductions and credits other than the research and development credit.

- Creates a destination-based tax system including a "border adjustment" whereby revenue from exports would not be taxable whereas the cost of imported goods will not be deductible.

- Restricts the deduction for net operating losses and allows them to be carried forward indefinitely, while indexed for inflation and the real return to capital.

- Allows for a repatriation of deferred foreign profits at a transition tax rate of 8.75 percent for cash and cash-equivalent profits and 3.5 percent on other profits.

Other Taxes

Both plans call for the elimination of the federal estate and gift tax.

Elimination of State and Local Tax Deduction

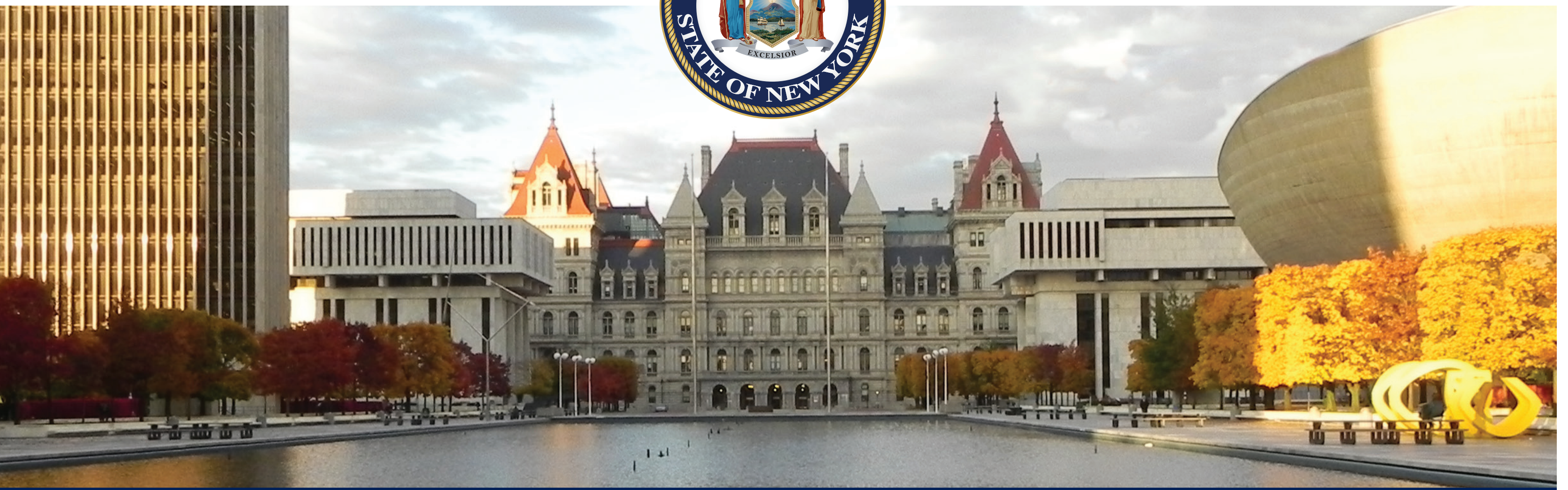
The potential elimination of the federal deduction of state and local taxes is part of the ongoing debate related to personal income tax reform. This deduction is the most widely used one among taxpayers who itemize their deductions at the federal level.

The elimination of the state and local tax deduction will have significant negative implications for New York taxpayers. In particular, it will increase New York taxpayers' federal tax liability by $14.8 billion (based on 2013 data), or an increase of more than 30 percent, for an average per taxpayer increase of tax liability of over $4,500.[46] New York's effective tax increase will account for the second highest share amongst all states after California out of the total tax increase in liability by all states.

Another critical consideration related to the elimination of the state and local tax deduction is that the increase in federal taxable income, and therefore federal taxes, will completely offset any benefits from the lower middle-income state tax rates enacted with the 2016 budget.

Finally, with New York being a net creditor to the federal government – New Yorkers pay in federal taxes more than they receive in benefits – the use of the state and local tax deduction is a critical instrument of balancing the state's contributions and benefits.[47]

[46] "Impact on New Yorkers of Federal Tax Proposals", April 2013, State of New York.
[47] Ibid.



Executive Revenue Actions

EXECUTIVE REVENUE ACTIONS

Personal Income Tax

- The Executive proposes to convert the STAR rate reduction for New York City (NYC) Personal Income Tax (PIT) into a New York State PIT credit. This proposal is expected to create administrative efficiencies for the State and NYC, in that it allows the State to provide tax benefits directly to NYC residents, instead of using NYC's taxation structure as a pass-through.

- The Executive proposes to extend the top PIT bracket for an additional three years. Currently, the top income tax bracket rate is 8.82 percent and is scheduled to expire for taxable years beginning after 2017. This proposal would extend the top bracket tax rate through 2020.

- The Executive proposes to make permanent the charitable deduction limitation for individuals with adjusted gross income of more than $10 million. These provisions are set to expire at the end of 2017.

- The Executive proposes to enhance the existing Child and Dependent Care Tax Credit (CDCC) for qualified taxpayers with New York Adjusted Gross Income (NYAGI) between $50,000 and $150,000. Under current law, the CDCC is a minimum of 20 percent and a maximum of 110 percent of the Federal Child and Dependent Care credit, depending on the taxpayer's NYAGI.

- The Executive proposes to expand the State's financial institution data match system for tax collection purposes. The proposal would allow the sharing of information relating to financial accounts for tax debtors with fixed and final tax debts, whether or not a warrant was issued.

- The Executive proposes to make permanent the authority of the Commissioner of Taxation and Finance to serve wage garnishments on individual tax debtors, and if necessary, on the employer of such tax debtors, without having to file a warrant. This proposal makes permanent a policy that would otherwise expire April 1, 2017.

- The Executive proposes to require all New York State S-corporations that are treated as such for federal tax purposes to also be treated as S-corporations for New York State tax purposes.

- The Executive proposes to close a loophole by imposing a tax on non-resident parties in a partnership who ultimately sell assets, and then classify the transaction as a sale of an intangible partnership interest. This proposal would characterize the transaction for both the seller and buyer as a sale of assets, which in turn would subject the non-resident seller to income tax.

- The Executive proposal clarifies that state taxes are due resulting from sales of partnerships shares, in instances where more than 50 percent of the partnership assets consist of co-op housing shares by a non-resident.

- The Executive proposes to authorize the State University of New York (SUNY) Chancellor, instead of the State Education Department, to certify and approve the disbursement of funds for veterans' homes operated by SUNY.

- The Executive proposes to amend the Tax Law to clarify that a single member limited liability company ("SMLLC") that is disregarded as an entity separate from its single member/owner for federal income tax purposes shall be treated as a disregarded SMLLC for purposes of determining whether its owner is eligible to claim any tax credit allowed by New York State.

- The Executive proposes to require tax clearances from the Department of Taxation and Finance to verify that new state employees do not have past-due state tax liabilities, and are in compliance with applicable tax return filing requirements.

- The Executive proposes to extend for one year, through June 30, 2018, the Physician's Excess Medical Malpractice Program. Participating practitioners would also be required to receive tax clearance in order to be eligible for state provided excess medical malpractice insurance coverage.

Consumption and Use Taxes

- The Executive proposes that providers of marketplaces where personal property is sold, including online marketplaces, be designated as "persons required to collect sales tax" when they facilitate sales of $100 million or more. Sellers that are using these marketplaces are relieved of their burden to collect and remit sales tax.

- The Executive proposes to close a sales tax loophole that allows related entities to avoid paying sales tax. This proposal also seeks to prevent the use of LLCs, partnerships, or trusts, from purchasing high-value items out of state by a non-resident entity and then bringing such items into the state to avoid taxation.

- The Executive proposes to clarify instances where delivery of gas and electric services are subject to the sales tax. Sales tax would be due on the delivery charges, only if delivered by the provider.

- The Executive proposes to amend the alcohol beverage control law by introducing a special license to sell alcoholic beverages at retail prices for consumption off the premises of a producer. The Taste-NY alcohol permit will be disallowed for stores on the NYS Thruway.

- The Executive proposes to amend the Alcohol Beverage Control Law to extend the option of serving alcoholic beverages in movie theaters, under certain circumstances.

- The Executive proposes to extend state regulations on tobacco products to vapor products, defined as the liquid or gel commonly used in e-cigarettes and similar devices, regardless of whether or not it contains nicotine. In addition, an excise tax on the sale or use of vapor products would be imposed at the rate of 10 cents per fluid milliliter.

- The Executive proposes to align the vehicle seizure provisions within the Tax Law by lowering the "presumption of sale" quantity from 25 to 10 cartons. Additionally, the Executive proposes to align the penalties for counterfeit tax stamps with the penalties for criminal possession of a forged instrument by reclassifying the counterfeiting of tax stamps as a class C felony.

- The Executive proposes to authorize the Department of Taxation and Finance to issue jeopardy assessments for the collection of the Cigarette and Tobacco Excise tax, allowing the tax to be assessed prior to the deadline to file a return.

- The Executive proposes to change the method of taxation on cigars from a percentage of the wholesale price to a tax of 45 cents per cigar.

- The Executive proposes to authorize and regulate Transportation Network Companies outside the city of New York. The proposal would also impose a new 5.5 percent assessment fee on such services when used in upstate New York.

Business Taxes

- The Executive proposes to expand the Excelsior Jobs Program (EJP) to extend all components of the program to existing life sciences companies, as well as extend the EJP for an additional three years, through 2029. New businesses would be eligible for a new credit equal to 15 percent of their research and development expenditures; this credit would be 20 percent for new small businesses. Additionally, a new refundable "angel investor" tax credit in the amount of 25 percent of each investment would become available to taxpayers that invest in life sciences companies.

- The Executive proposes to amend the Employee Training Incentive Credit Program to incentivize companies to include incumbent worker training as part of their expansion and retention projects. To accomplish this, the Executive proposes to eliminate the requirement that eligible training be provided to employees filling net new jobs, and allows such training to cover internship programs in life sciences and advanced technology. Also, the definition of significant capital investment needed for eligibility in the program would be amended to require a company to make a capital investment in new business processes or equipment at a ratio of ten dollars or more for every one dollar of tax credit allowed.

- The Executive proposes to extend the Empire State Film Production Credit for three additional tax years, from 2020 to 2022, and also would provide a continued $420 million annually in allocable tax credits for each of these three years.

- The Executive proposes to extend the Urban Youth Jobs Program for five years to 2022, and to rename the program as the New York Youth Jobs Program.

- The Executive proposes to extend the Alternative Fuels and Electric Vehicle Recharging Property Credit for five years, through tax year 2022.

- The Executive proposes to reform the Investment Tax Credit (ITC) by disallowing for credit consideration the production or distribution of electricity, natural gas, steam, or water delivered through pipes and mains, as well as costs incurred outside of New York State relating to films, recordings and commercials.

- The Executive proposes to establish the Excelsior Business Program (EBP), which would be available to start-up or early stage businesses conducting research and development or market testing for new products and services. Upon admission to the EBP, participants would be required to create and maintain at least one net new job for continued eligibility. Participants in the EBP that create at least five net new jobs would also be eligible to receive credit under the Excelsior Jobs Program. This program merges the current START-Up NY Program with the current Excelsior Jobs Program.

STAR Proposals

- The Executive proposes to make publicly available the names and addresses of applicants and recipients of the STAR credit. This proposal aligns the treatment of information that currently applies to STAR exemption applicants or recipients with STAR credit applicants or recipients.

- The Executive proposes a technical fix with respect to the adjustment of the STAR credit amount received by a tenant-stockholder of a cooperative apartment corporation. This proposal would provide a STAR credit amount as if the tenant stock-holder's property was assessed separately.

- The Executive proposes to limit the growth of the annual STAR benefit from the current two percent to zero percent, thereby holding 2017-18 STAR benefits at 2016-17 levels.

- The Executive proposes to require enhanced STAR recipients to verify proof, through the Income Verification Program, of their AGI to receive the enhanced STAR benefit. Under current law, taxpayers may provide such proof by bringing income documentation to their local assessor.

Gaming

- The Executive proposes to relieve the General Fund of responsibility to fund equine drug testing in horse racing; require horsemen to contribute to drug testing research and equipment; and broaden the field of potential New York equine lab testing providers.

- The Executive proposes to consolidate and update charitable gaming laws that provide for the conduct of bingo, bell jar sales, raffles, and other games of chance statewide.

- The Executive proposes to privatize the New York Racing Association; allow for night racing at Belmont Park; and provide for reduced race days at Aqueduct Racetrack.

- The Executive proposes to extend certain pari-mutuel tax rates and out-of-state simulcasting provisions for one year.

- The Executive proposes to extend the video lottery gaming (VLG) vendor's capital awards program for one year.

- The Executive proposes to extend the Monticello VLG vendor fee rate for one year.

- The Executive proposes to alter gaming aid distributions to municipalities from commercial casino gaming, tribal casinos, and video lottery gaming revenues.

- The Executive proposes to require any person who is receiving or has received public assistance within the previous ten years, and who wins a lottery prize of $600 or more, to reimburse the State from the full winnings, for all such public assistance benefits paid to such person during the previous ten years.

Other Taxes and Fees

- The Executive proposes to provide local government tax collectors the authority to collect property taxes in partial payments, unless the municipality has passed a resolution disallowing this method.

- The Executive proposes to extend existing oil and gas fees that are levied to recover certain costs from March 31, 2018 until March 31, 2021.

- The Executive proposes to impose the Real Estate Transfer Tax on the transfer of a real estate business interest. The proposal seeks to expand the term "conveyance" to include minority interests by LLCs, S-corps, non-publicly traded companies, and C-corps with fewer than 100 shareholders that own an interest in real property located in New York, and has a fair market value that equals or exceeds 50 percent of all assets of the entity.

- The Executive proposes to close the real estate transfer tax loophole that allows individuals to avoid paying the additional one percent tax on properties valued at one million dollars or more. The Executive would consider the sale of land as part of the overall real estate transaction even when purchased separately.

- The Executive proposes to require sellers to collect a surcharge on the sale of each prepaid wireless communications service or device sold within this state. The prepaid surcharge would be on the sale of each prepaid service or device at the rate of $0.60 cents per retail sale of $30 or less, and $1.20 per retail sale over $30. Municipalities would also be authorized to impose a $0.30 cent similar surcharge on the sale of each prepaid service or device.

Other Proposals

- The Executive proposes legislation to revive, and make additions to, the currently expired for new applicants, New York City real property tax exemption program known as 421-a. The proposed Affordable Housing Program would modify housing affordability requirements for buildings with more than 300 rental units, provide for average compensation for construction work undertaken on new buildings in the program, and extend the real property tax exemption to 35 years. This proposal would repeal the authority of the city of New York to enact laws that would implement and modify the program.

- The Executive proposes legislation that would require county-wide real property tax savings plans based on cost reductions such as shared services and the elimination of overhead. Plans would be submitted to the voters for approval.

- The Executive proposes to make permanent the distribution of revenues from the utility transportation and transmission taxes to the Dedicated Highway and Bridge Trust Fund and the Mass Transit Operating Assistance Fund.

- The Executive proposes to waive fees for a replacement non-driver identification card for crime victims whose cards are lost or destroyed as a result of the crime.

- The Executive proposes to increase the reinstatement fee from $25 to $100 for non-residents seeking to have their driving privileges restored.

- The Executive proposes to increase the certificate of title fee for motor vehicles from $50 to $75, and the duplicate certificate of title fee from $20 to $40.

- The Executive proposes to impose a $5 fee on non-driver's license identification cards, licenses, license renewals, and license amendments issued to comply with the Real ID Act of 2005.

Table 10

TAX AND OTHER REVENUE ACTIONS ($ in Millions)	General Fund		All Funds	
	SFY 2017-18	SFY 2018-19	SFY 2017-18	SFY 2018-19
Tax Credit Proposals				
Establish Life Sciences Tax Credits	-	-	-	-
Enhance the Child and Dependent Care Credit	-	-	-	-
Expand the Workforce Training Credit	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**
Tax Reform Proposals				
Create an Excelsior Business Program	-	-	-	-
Treat Disregarded Entities as A Single Taxpayer for Tax Credit Purposes	-	-	-	-
Require State S-Corporation Conformity with Federal Tax Returns	-	5	-	5
Reform the Investment Tax Credit	-	-	-	-
Modernize Sales Tax Collections for the Internet Economy	64	128	68	136
Authorize and Tax Transportation Network Companies Outside of New York City	12	23	16	32
Regulate and Tax Vapor Inhalation Products	3	5	3	5
Reform the Cigar Tax	12	23	12	23
Impose the Real Estate Transfer Tax on the Transfer of Real Estate Business Interests	4	5	4	5
Close the Co-operative Housing Sale Tax Loophole	10	10	10	10
Close the Non-Resident Asset Sale Loophole	10	10	10	10
Close the Sales Tax Related Entities Loophole	8	10	9	11
State and Local Sales Tax Statute Technical Amendments	-	-	-	-
Subtotal	**123**	**219**	**132**	**237**
Tax Enforcement Proposals				
Ensure Excess Medical Malpractice Coverage Holders Compliance with Sales Tax Obligations	1	2	1	2
Ensure All New State Employees are Compliant with State Tax Obligations	1	2	1	2
Bank Account Data Matching	5	15	5	15
Expand Jeopardy Assessments to the Cigarette and Tobacco Tax	-	-	2	2
Clarify the Amount of Untaxed Cigarettes Required to Seize a Motor Vehicle	-	-	1	1
Close the Real Estate Transfer Tax Loophole	2	2	2	2
Subtotal	**9**	**21**	**12**	**24**
Tax Law Extender Proposals				
Extend the Personal Income Tax (PIT) Top Bracket for Three Years	683	3,375	683	3,375
Make the High Income Charitable Contribution Deduction Limitation Permanent	-	70	-	70
Extend the Empire State Film and Post-Production Tax Credits for Three Years	-	-	-	-
Expand Employment Opportunities for Youth	-	-	-	-
Extend the Alternative Fuels Property and Electric Vehicle Charging Property Credit for Five Years	-	-	-	-
Permanently Extend Warrantless Wage Garnishment	15	15	15	15
Subtotal	**698**	**3,460**	**698**	**3,460**
School Tax Relief (STAR) Proposals				
Convert the NYC PIT Rate Reduction into a State PIT Credit				
Credit Portion	-	(340)	-	(340)
Spending Revision	277	352	-	-
Allow Taxpayers to Make Partial Real Property Tax Payments	-	-	-	-
Cap STAR Benefits	50	98	-	-
Make the Income Verification Program Mandatory	24	24	-	-
Intergovernmental Sharing of STAR Information	-	-	-	-
Co-op STAR Credit Technical Amendments	-	-	-	-
Subtotal	**351**	**134**	**-**	**(340)**
Gaming Proposals				
Reprivatize the New York Racing Association	-	-	-	-
Extend Tax Rates and Simulcasting Provisions for One Year	-	-	-	-
Extend Monticello Video Lottery Terminal Rates for One Year	-	-	(2)	-
Extend Video Lottery Gaming Vendor's Capital Awards for One Year	-	-	-	-
Alter Local Gaming Aid Distribution	-	-	-	-
Expand Lab Testing Providers for Horses	-	-	-	-
Reform the Charitable Gaming Laws	-	-	-	-
Subtotal	**-**	**-**	**(2)**	**-**
Fee Proposals				
Extend Fees for the Establishment of Oil and Gas Unit Production Values	-	-	-	-
Realign Production Costs for Realtor Identification Cards	-	-	0	-
Establish a Taste-NY Alcohol Permit	-	-	0	-
Establish a Motion Picture Theater Alcohol Permit	-	-	0	-
Apply the Public Safety Communications Surcharge to Prepaid Phones	3	11	7	26
Increase the Cap on Divisible Load Permits	-	-	1	1
Increase Title Fees	-	-	74	81
Implement REAL ID Licenses	-	-	7	16
Subtotal	**3**	**11**	**90**	**124**
TOTAL REVENUE PROPOSALS	**1,184**	**3,845**	**930**	**3,505**

Tax Analysis

TAX ANALYSIS

Personal Income Tax

Table 11

Personal Income Tax Collections Forecasts by State Fiscal Year ($ in Millions)						
	2016-17			2017-18		
	WAM Estimate	Percent Growth	Diff. Exec	WAM Forecast	Percent Growth	Diff. Exec.
Personal Income Tax	**$47,532**	**1.0%**	**$223**	**$51,246**	**7.8%**	**$563**
Gross Receipts	**56,702**	**0.2%**	**178**	**61,227**	**8.0%**	**589**
Withholding	37,677	3.1%	102	39,630	5.2%	271
Estimated Payments	14,982	-7.0%	6	17,286	15.4%	261
Vouchers	10,918	-5.6%	3	12,579	15.2%	200
IT 370s	4,064	-10.7%	3	4,707	15.8%	61
Final Payments	2,631	0.0%	16	2,874	9.3%	38
Delinquencies	1,412	7.8%	54	1,437	1.8%	19
Total Refunds	**9,170**	**-3.9%**	**(45)**	**9,981**	**8.8%**	**26**
Prior Year Refunds	5,197	1.3%	(38)	6,141	18.2%	(75)
Current Refunds	1,750	-31.4%	-	1,749	-0.1%	-
Advance Credit Payments	883	54.6%	-	647	-26.7%	-
Previous Refunds	491	-20.5%	(8)	571	16.2%	101
State/City Offsets	848	25.6%	-	873	2.9%	-
Collections	**47,532**	**1.0%**	**223**	**51,246**	**7.8%**	**563**
Transfers to STAR	(3,208)	-3.8%	**-**	(2,606)	-18.8%	-
Transfers to DRRF/RBTF	(11,883)	1.0%	(56)	(12,812)	7.8%	(141)
General Fund PIT Collections	**$32,441**	**1.5%**	**167**	**$35,829**	**10.4%**	**$423**

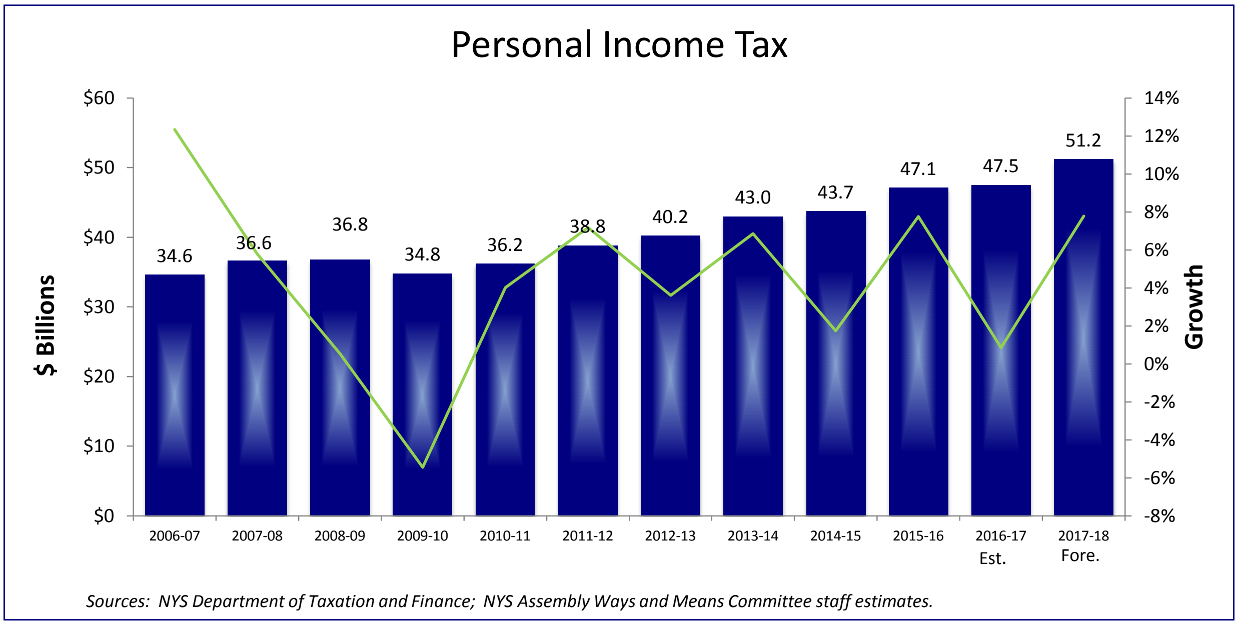


Figure 47

Article 22 of the Tax Law imposes a tax on the income of individuals, estates and trusts residing or located in New York State. Personal Income Tax (PIT) receipts contribute approximately 70 percent of all tax collections deposited into the General Fund. PIT receipts are received through employee withholdings, estimated tax payments, payments accompanying annual 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, as well as interest and dividend income. For residents these components equal the federal adjusted gross income. New York Adjusted Gross Income (AGI) is calculated starting with the federal AGI as a base and then modifying it with certain subtractions or additions as permitted or required by the state. Additions include tax-exempt bonds issued outside of New York. Social security benefits, 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 2016, the standard deductions are scheduled to increase in accordance to the Consumer Price Index 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 12

New York State Standard Deduction			
Filing Status	**2014**	**2015**	**2016**
Single	$7,800	$7,900	$7,950
Married Filing Jointly	$15,650	$15,850	$15,950
Head of Household	$10,950	$11,100	$11,150

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 charitable deduction limitation of 25 percent for taxpayers with NYAGI over $10 million is set to expire at the end of 2017.

The New York standard deduction or itemized deductions, in addition to exemptions claimed on New York taxes, are subtracted from NYAGI to arrive at New York taxable income. Taxable income is then multiplied by the appropriate tax rate. A taxpayer’s tax rate is partially determined by their filing status which ranges from married filing jointly and head of household to single filers. The tax rate is then determined by the level of income. There are currently eight tax brackets, and the tax rate is progressive. It increases gradually from four percent for married filers making less than $17,050 to 8.82 percent for married couples earning more than $2,141,300. Certain credits are then subtracted from the calculated tax to arrive at total tax liability.

Net Collections

Year-to-Date (YTD) Through January

Through January, net personal income tax collections are down 1.9 percent, with gross collections decreasing by 0.5 percent year-to-date.

Table 13

Net Collections ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$40,473	-1.9%	$47,532	1.0%	$47,309	$223
2017-18			$51,246	7.8%	$50,683	$563

State Fiscal Year 2016-17

Net personal income tax collections are estimated to total $47.532 billion, which represents an increase of $477 million or one percent above the prior fiscal year. Gross collections are expected to increase by 0.2 percent, while the committee staff anticipates a decrease in refunds of 3.9 percent.

The committee staff total PIT collections estimate is $223 million below the Executive Budget estimate.

State Fiscal Year 2017-18

Net personal income tax collections are forecasted to total $51.246 billion, an increase of $3.714 billion or 7.8 percent over SFY 2016-17 estimates. Gross collections are forecast to increase by $4.525 billion or eight percent, with an increase in total refunds of $811 million or 8.8 percent. Gains in gross collections are primarily attributed to stronger growth in withholding and estimated payments. The committee's net collection forecast is $563 million above the Executive Budget forecast.

The extension of the 2011 personal income tax reform in the SFY 2013-14 Enacted Budget is projected to generate $3.157 billion in total revenues in SFY 2017-18, inclusive of the Executive's proposed extension. Absent the reform, baseline net collections are projected to increase 6.2 percent.

Withholding

Employers are required to withhold an amount from employees' paychecks, which is used as a credit at the end of the year toward taxpayer liability. Withholding has a slight lag from the period in which it is withheld to the time the State receives the payment from the employer, but is closely correlated to wage and salaries received during any given quarter.

YTD through January

Through January, withholding collections are up $828 million or 2.9 percent compared to the prior year.

Table 14

Withholding ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$29,092	2.9%	$37,677	3.1%	$37,575	$102
2017-18			$39,630	5.2%	$39,359	$271

State Fiscal Year 2016-17

The committee staff expects $37.677 billion in withholding collections, or 3.1 percent above the prior fiscal year, with expected growth of 3.6 percent over the remaining two months of the fiscal year.

The PIT reform extension is expected to generate an additional $562 million in SFY 2016-17 withholding collections. After adjusting for additional revenues due to tax reform, baseline withholding collections are estimated to increase by 2.2 percent for the entire fiscal year.

State Fiscal Year 2017-18

Withholding collections are projected to increase by 5.2 percent or $1.953 billion in SFY 2017-18, for a total of $39.630 billion. This is $271 million above the Executive Budget forecast.

The PIT reform extension is expected to generate an additional $814 million in withholding receipts. Baseline withholding collections are forecast to increase 4.6 percent driven by a projected 4.5 percent increase in total wages. Base wages are forecast to increase by 4.4 percent with variable wages projected to increase by five percent.

Quarterly Estimated Payments (Vouchers)

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

YTD through January

Through January, estimated payments, excluding extensions filed on tax Form IT-370, collections have decreased 5.7 percent or $650 million compared to the prior fiscal year.

Table 15

Quarterly Estimated Payments ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$10,755	-5.7%	$10,918	-5.6%	$10,915	$3
2017-18			$12,579	15.2%	$12,379	$200

State Fiscal Year 2016-17

The committee staff projects an estimated payments closeout of $10.918 billion, a 5.6 percent or $643 million decrease from SFY 2015-16. Estimated payment collections are expected to increase 4.6 percent over the remaining two months of the fiscal year.

The PIT reform plus the itemized deduction limitation for high income taxpayers are expected to generate $1.510 billion in SFY 2016-17 estimated payments. Excluding the impact of these law changes, current year estimated payments are expected to decrease 6.5 percent over SFY 2015-16.

State Fiscal Year 2017-18

Estimated payment collections are projected to increase 15.2 percent or $1.661 billion in SFY 2017-18 for a total of $12.579 billion. This estimate is $200 million above the Executive Budget forecast. Absent an additional $1.561 billion from the rates first enacted in the 2011 tax reform and its proposed extension, baseline estimated payment collections are projected to increase by 17.1 percent.

Refunds

YTD through January

Prior year refunds have increased by 11.4 percent, while previous year refunds have decreased 16.9 percent year-to-date. Total refunds, including State/City offsets, have increased 8.6 percent year-to-date relative to the same period of last fiscal year.

Table 16

Prior Year Refunds ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$5,670	11.4%	$5,197	1.3%	$5,235	($38)
2017-18			$6,141	18.2%	$6,216	($75)

Table 17

Previous Year Refunds ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$400	-16.9%	$491	-20.5%	$499	($8)
2017-18			$571	16.2%	$470	$101

State Fiscal Year 2016-17

The committee staff anticipates that SFY 2016-17 will finish with $5.197 billion in prior year refunds and $491 million in previous refund distributions. The Executive Budget estimate for prior year refunds is $38 million above the committee's estimate. The closeout for previous year refunds represents a 20.5 percent decrease relative to the last fiscal year. The Executive's estimate is $8 million above the committee's estimate.

Family Tax Relief, Property Tax Freeze and Tax Relief Credits

Tax year 2016 marked the third and final year in which the state issued two 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.

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 $342 million in SFY 2016-17.

A new property tax relief credit was enacted in 2015 that applies to taxpayers living in a school district that complies with the state property tax cap and have an income of $275,000 or less. The credit will extend through tax year 2019. While in 2016 the checks were equal to $185 for eligible upstate taxpayers and $130 for eligible downstate taxpayers, beginning with 2017 the credit checks will be a percentage of a homeowner's STAR benefit, with higher incomes receiving a lower percentage benefit and lower incomes receiving a higher percentage benefit.

State Fiscal Year 2017-18

The committee staff projects a prior year refund total of $6.141 billion or an increase of 18.2 percent or $944 million over the SFY 2016-17 closeout.

Previous refunds are forecast to total $571 million, representing an increase of 16.2 percent or $80 million over SFY 2016-17.

Total refunds are projected to total $9.981 billion, an increase of 8.8 percent or $811 million over SFY 2016-17.

Fund Distribution

Table 18

Personal Income Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	$32,441	$3,208	$11,883	-	$47,532
2017-18	$35,829	$2,606	$12,812	-	$51,246

The committee staff estimates General Fund personal income tax receipts of $32.441 billion in SFY 2016-17. In SFY 2017-18, General Fund collections are forecast to total $35.829 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 2016-17 is $11.883 billion, and $12.812 billion in SFY 2017-18.

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 rate reduction. The Executive estimates that the STAR program will cost $3.208 billion this fiscal year and $2.606 billion in SFY 2017-18.

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 November 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 realization shift in anticipation of increased federal tax rates in 2013.

AGI is expected to have registered growth of 3.8 percent in 2015, followed by growth of 2.3 percent in 2016, 4.9 percent in 2017, and 3.9 percent in 2018.

Table 19

Components of AGI ($ in Millions)	Actual			Estimate		Forecast	
	2012	2013	2014	2015	2016	2017	2018
NYSAGI							
Amount	$714,698	$714,046	$776,473	$805,691	$824,581	$865,339	$898,658
Percent Change	8.7%	-0.1%	8.7%	3.8%	2.3%	4.9%	3.9%
Wages							
Amount	$515,645	$525,924	$558,857	$584,071	$601,501	$627,608	$654,885
Percent Change	3.2%	2.0%	6.3%	4.5%	3.0%	4.3%	4.3%
Net Capital Gains							
Amount	$77,248	$68,492	$90,918	$93,811	$91,965	$100,885	$101,442
Percent Change	58.3%	-11.3%	32.7%	3.2%	-2.0%	9.7%	0.6%
Interest, Dividends and Pensions							
Amount	$72,474	$72,998	$77,431	$78,178	$79,206	$82,275	$85,367
Percent Change	147.9%	0.7%	6.1%	1.0%	1.3%	3.9%	3.8%
Business and Partnership Income							
Amount	$84,363	$83,995	$89,448	$91,535	$95,725	$100,547	$104,967
Percent Change	13.8%	-0.4%	6.5%	2.3%	4.6%	5.0%	4.4%
Other Income							
Amount	($35,031)	($37,362)	($40,182)	($41,903)	($43,816)	($45,977)	($48,003)
Percent Change	11.7%	6.7%	7.5%	4.3%	4.6%	4.9%	4.4%

Recently Enacted Tax Relief for Families and Real Property Owners

Prior to reviewing the Executive's proposed legislation with respect to PIT, it is instructive to review recent legislation that was designed to provide short-term tax relief to families and homeowners:

1) The last year of the Family Tax Relief credit's implementation ($350 per family with children as outlined in this section);

2) The last year of the Real Property Tax Freeze credit's implementation (for those taxpayers residing in local jurisdictions that abide by the property tax cap plus they have submitted efficiency plans); and,

3) The first year of implementation of the Property Tax Relief Credit that is anticipated to increase in value through SFY 2019-20.

Table 20

Significant Family and Property Tax Relief Enacted (in $ Millions)							
	FY 2015	**FY 2016**	**FY 2017**	**FY 2018**	**FY 2019**	**FY 2020**	**FY 2021**
Enacted in 2013							
Family Tax Relief Credit	$410	$410	$410	$0	$0	$0	$0
Enacted in 2014							
Real Property Tax Freeze Credit	$375	$783	$342	$0	$0	$0	$0
Enacted in 2015							
Property Tax Relief Credit (STAR Rebate)	$0	$0	$414	$453	$957	$1,324	$0
Total ($ Millions)	**$785**	**$1,193**	**$1,166**	**$453**	**$957**	**$1,324**	**$0**

User Taxes and Fees

Table 21

User Tax Collections Forecasts by State Fiscal Year ($ in Millions)						
	SFY 2016-17	Growth	Diff. Exec.	SFY 2017-18	Growth	Diff. Exec.
User Taxes and Fees	**$16,250**	**3.3%**	**$67**	**$17,142**	**5.5%**	**$144**
Sales and Use Tax	13,905	4.1%	44	14,837	6.7%	111
Motor Fuel Tax	528	5.0%	22	533	1.0%	28
Cigarette Tax	1,230	-1.7%	3	1,210	-1.6%	8
Highway Use Tax	137	-13.6%	(4)	88	-35.5%	1
Alcoholic Beverage Tax	259	1.6%	1	260	0.4%	(3)
Medical Marihuana Excise Tax	0.5	-	0	1	100.0%	0
Auto Rental Tax	128	1.2%	1	134	5.0%	(0)
Taxi Surcharge	64	-12.2%	0	63	-2.2%	(1)
TNC Assessment	NA	NA	NA	16	NA	0

Sales Tax

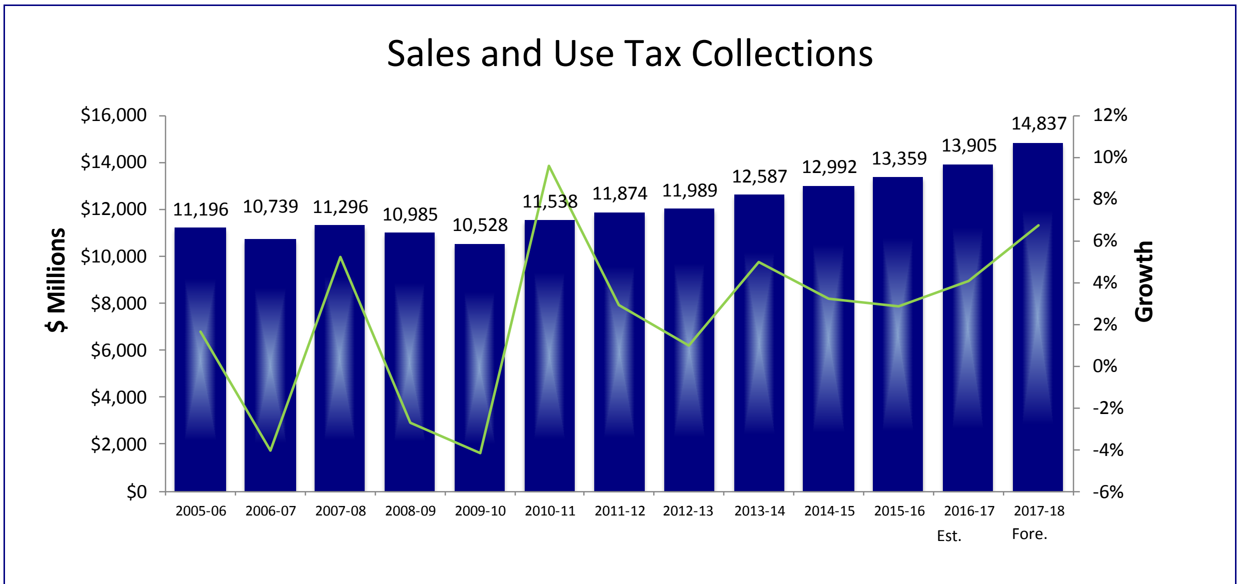


Figure 48

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. 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.

Sales tax collections are deposited into the General Fund, 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 for state expenses. 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
2016-17	$11,666	4.1%	$13,905	4.1%	$13,861	$44
2017-18			$14,837	6.7%	$14,726	$111

Table 23

Quarterly Sales Tax Growth							
	2015 Q2	2015 Q3	2015 Q4	2016 Q1	2016 Q2	2016 Q3	2016 Q4
Western NY	1.6%	0.4%	3.7%	0.1%	-1.6%	2.8%	-0.1%
Finger Lakes	0.6%	1.6%	2.3%	3.7%	1.1%	1.1%	1.5%
Southern Tier	-0.3%	-3.1%	-3.2%	1.2%	-1.1%	3.2%	-1.5%
Central NY	1.6%	-0.4%	-2.4%	-0.9%	-1.6%	-1.6%	0.3%
Mohawk Valley	2.9%	-3.8%	-1.4%	3.2%	-1.4%	2.7%	-0.3%
North Country	-1.6%	-2.9%	-3.3%	-1.9%	1.7%	1.5%	3.1%
Capital Region	3.5%	0.6%	1.2%	2.5%	-1.7%	2.2%	1.5%
Mid-Hudson	-0.5%	1.6%	1.8%	3.7%	1.9%	3.1%	2.9%
NYC	4.2%	5.9%	17.4%	2.9%	1.8%	2.3%	-7.7%
Long Island	0.8%	-0.6%	3.2%	2.9%	-1.1%	2.5%	3.5%

Note:.Growth rates shown represent the growth of the quarter over the same quarter in the previous year.
Sources: NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committee staff.

Regional collections for sales tax from last fiscal year through the present are shown above. New York City accounts for the largest portion of collections each quarter, with approximately half of total collections each quarter coming from the city. These large collections arise from the city's high population and its popularity as a tourism destination. In the first two quarters of the current fiscal year, sales tax revenue growth in New York City has remained positive, but the growth slowed from around five percent in Q2 and Q3 2015 to around two percent in Q2 and Q3 2016. In Q4 2016, revenue growth in New York City declined by over seven percent. This is due to an agreement with telecommunications companies that allowed them to remit lower sales tax instead of receiving state refunds due to them. This agreement cost the state an estimated $158 million in sales tax revenue, mostly in New York City, during SFY 2016-17.

Six of the ten regions showed collections declines in Q2 2016, however they returned to positive growth in Q3, except for Central New York. Western New York and the Mohawk Valley showed slight declines in Q4 2016, with Southern Tier sales tax revenue declining more severely at -1.5 percent. Apart from the city and the three regions above, the rest of the state experienced growth in sales tax revenue in Q4 2016.

YTD through January

Through January, sales tax receipts have increased by $458 million or 4.1 percent over SFY 2015-16, for a year-to-date total of $11.666 billion.

State Fiscal Year 2016-17

The committee staff estimates sales tax receipts will total $13.905 billion in SFY 2016-17, an increase of 4.1 percent, or $546 million, over SFY 2015-16. Growth of 4.1 percent is expected in the remaining two months of the fiscal year. The 4.1 percent growth in revenue correlates with expected growth of 2.8 percent in consumption spending, with spending on durable goods growing by 6.8 percent, spending on non-durable goods growing by 2.6 percent, and spending on services growing by 2.3 percent over SFY 2015-16.

The Executive estimates SFY 2016-17 sales tax receipts to be $13.861 billion, a 3.8 percent increase over SFY 2015-16. The committee staff's estimate is $44 million above the Executive's Budget estimate.

State Fiscal Year 2017-18

The committee staff forecasts that sales tax receipts will total $14.837 billion, an increase of 6.7 percent, or $932 million, over SFY 2016-17 estimates. This growth is driven by continuing growth in total consumption, as well as two proposals by the Executive that are estimated to add $77 million in revenue. The Executive forecasts sales tax receipts to total $14.726 billion in SFY 2017-18, an increase of $865 million, or 6.2 percent over SFY 2016-17. The committee staff's forecast is $111 million above the Executive's forecast.

Fund Distribution

Table 24

Sales Tax Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	$6,499	$906	$6,499	-	$13,905
2017-18	$6,943	$950	$6,944	-	$14,837

Medical Marihuana Excise Tax

Pursuant to Article 20-B of the Tax Law, the state imposes an excise tax 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. The companies selected by the Department of Health have opened dispensaries in the counties of Queens, Monroe, Warren, Orange, and Fulton, Nassau, Manhattan, Onondaga, Erie, Suffolk, Clinton, Albany, Ulster, Westchester, the Bronx and Broome.

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

- 22.5 percent is remitted to the counties in which a medical marihuana manufacturer is 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.

YTD Through January

Through January, Medical Marihuana Excise Tax collections have totaled $400,000. This is the first full fiscal year this tax has been collected.

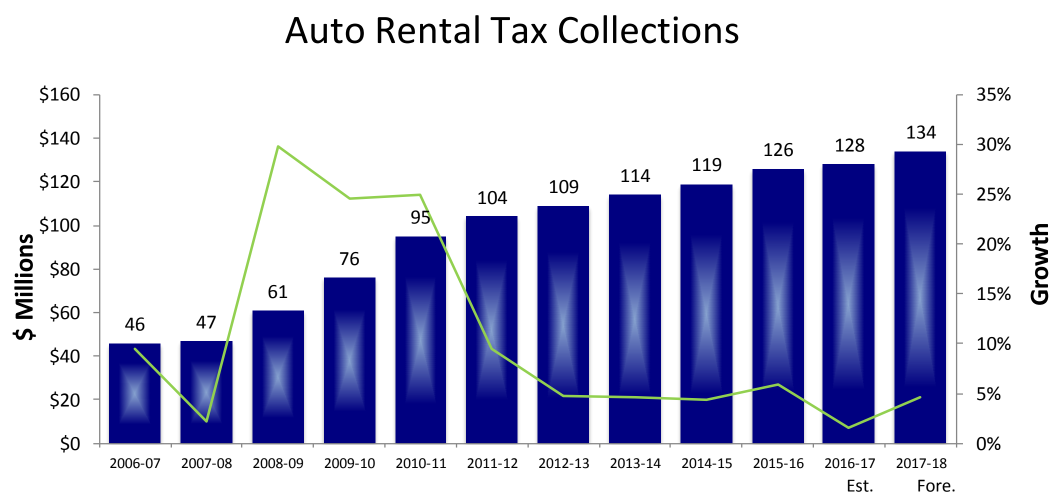
State Fiscal Year 2016-17

The committee staff estimates that revenues from the Medical Marihuana Excise Tax will total $500,000 in SFY 2016-17. The committee staff’s estimate is equal to the Executive’s estimate.

State Fiscal Year 2017-18

For SFY 2016-17, the committee's staff forecasts collections of $1 million. The committee staff's forecast is equal to the Executive's forecast.

Auto Rental Tax



Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.

Figure 49

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 25

Auto Rental Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$114	8.4%	$128	1.2%	$127	$1
2017-18			$134	5.0%	$134	($0)

YTD through January

Year-to-date, auto rental tax collections have increased 8.4 percent to $114 million compared to the same period in SFY 2015-16.

State Fiscal Year 2016-17

The committee staff estimates auto rental tax collections will total $128 million in SFY 2016-17, representing 1.2 percent growth over SFY 2015-16.

The Executive estimates that auto rental tax collections will total $127 million or $1 million below the committee staff's estimate.

State Fiscal Year 2017-18

The committee staff forecasts auto rental tax collections will total $134 million in SFY 2017-18. This is a growth of five percent or $6 million over SFY 2016-17 estimates.

The Executive forecasts a 5.5 percent growth with projected collections of $134 million, same as the committee's forecast.

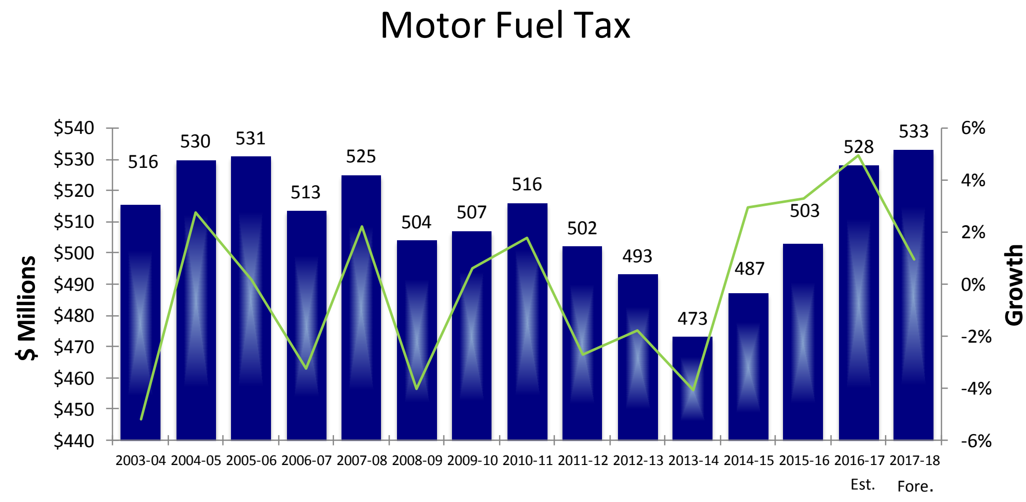
Fund Distribution

Table 26

Auto Rental Tax Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	-	$49.2	-	$78.3	$128
2017-18	-	$52.0	-	$81.9	$134

Motor Fuel Tax



Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.

Figure 50

Article 12-A of the Tax Law imposes an eight-cents-per-gallon tax on motor and diesel fuel upon importation into the state 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 27

Motor Fuel Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$438	4.5%	$528	5.0%	$506	$22
2017-18			$533	1.0%	$505	$28

YTD through January

Through January, motor fuel tax collections have increased 4.5 percent over last year, totaling $438 million.

State Fiscal Year 2016-17

The committee staff estimates that motor fuel tax collections will total $528 million in SFY 2016-17 reflecting an increase of five percent, or $25 million, over SFY 2015-16. Gasoline collections are expected to increase 3.3 percent this fiscal year, while diesel collections are expected to increase 12.9 percent. This expected growth is reflected in strong collections year-to-date, with significant growth during the summer months, but a slight slow-down in October, November, and December. The Executive estimates $506 million in collections, $22 million below the committee's estimate.

State Fiscal Year 2017-18

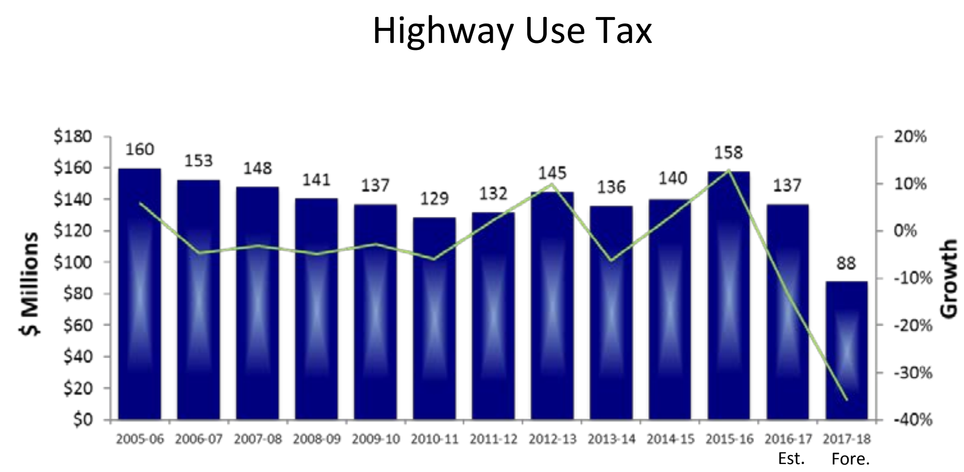
Gasoline consumption is forecast to increase 0.2 percent in SFY 2017-18 and diesel consumption is forecast to decrease 0.7 percent. These forecasts drives the committee's revenue forecast of $533 million in motor fuel tax receipts in SFY 2017-18, an increase of $5 million over the previous year and a growth of one percent. The committee staff forecast is $28 million above the Executive forecast of $505 million.

Fund Distribution

Table 28

Motor Fuel Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	-	$111	-	$417	$528
2017-18	-	$112	-	$421	$533

Highway Use Tax



Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.

Figure 51

Articles 21 and 21-A of the Tax Law impose a Highway Use Tax (HUT) on truck mileage and fuel use, respectively, for the privilege of operating a commercial vehicle on public highways. Additionally, there is a de minimus permit fee collected from taxpayers required to pay the 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 determined according to the gross, laden or unladen weight.

Highway use permits are mandatory for owners of vehicles subject to the HUT. Beginning December 1, 2013, vehicles subject to the HUT are required to display a decal indicating ownership of a highway use permit. The fee for the registration and decal combined is $1.50. This change was made after a 2015 New York Supreme Court case ruled the previous $19 combined fee unconstitutional.

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 in its home jurisdiction all fuel taxes owed to IFTA members; 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 dedicated to the Dedicated Highway and Bridge Trust Fund.

Table 29

Highway Use Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$119	-13.5%	$137	-13.6%	$140	($4)
2017-18			$88	-35.5%	$87	$1

YTD through January

Through January, HUT collections have decreased 13.5 percent to $119 million.

State Fiscal Year 2016-17

Collections from the highway use tax for SFY 2016-17 are estimated to total $137 million, a decrease of 13.6 percent, or $22 million, compared to last fiscal year. Collections are expected to decline 14.5 percent in the remainder of the fiscal year compared to last fiscal year. This decline is due to two factors: SFY 2015-16 had exceptionally high collections due to a three-year cycle in permit fees and the decrease of the permit fee from $19 to $1.50.

State Fiscal Year 2017-18

Highway use tax collections are forecasted to decrease by 35.5 percent to $88 million in SFY 2017-18, a decrease of $48 million. This is $1 million more than the Executive’s forecast of $87 million. This decline is due to the expected payment of a $53 million settlement related to the 2015 highway use permit fee case.

Fund Distribution

Table 30

Highway Use Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	-	-	-	$135	$137
2017-18	-	-	-	$87	$88

Cigarette and Tobacco Taxes

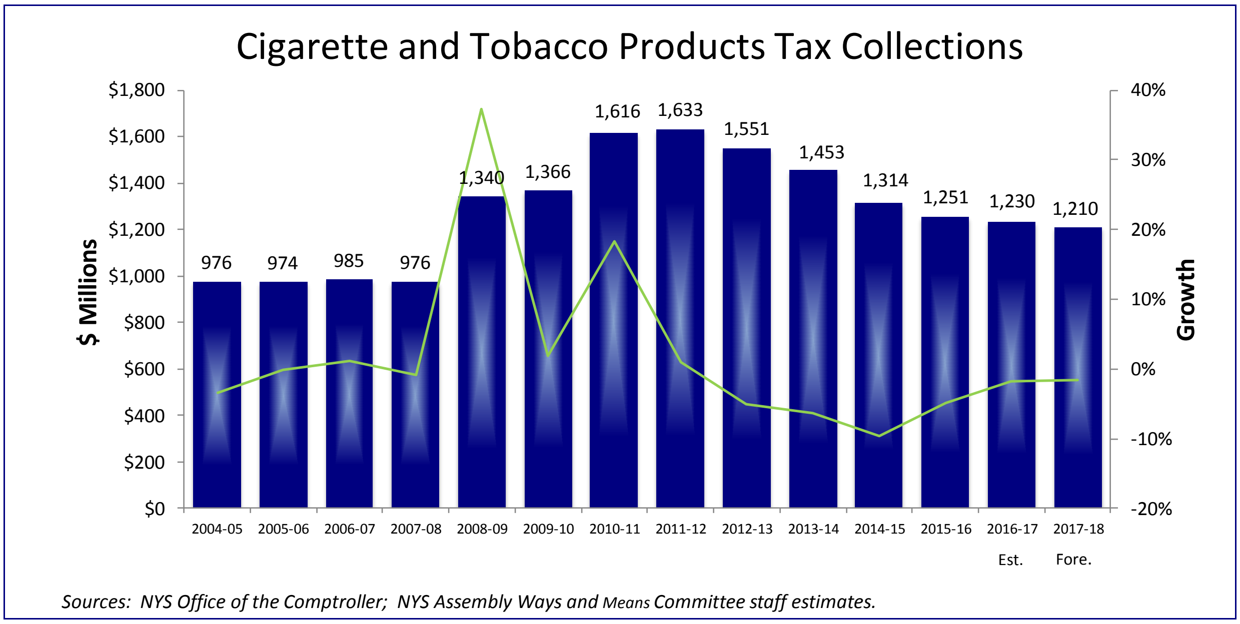


Figure 52

The cigarette excise tax of New York State has been imposed by Article 20 of the Tax Law since 1939. The state tax rate is currently $4.35 for a package of 20 cigarettes. The Commissioner of Taxation and Finance is authorized to make provisions for the sale of tax 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 city of New York applies an additional excise tax of $1.50 per package of 20 cigarettes.

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 which offsets state Medicaid spending.

Table 31

Cigarette and Tobacco Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$1,071	0.0%	$1,230	-1.7%	$1,227	$3
2017-18			$1,210	-1.6%	$1,202	$8

YTD through January

Year-to-date cigarette and tobacco products tax collections totaled $1.071 billion, or flat growth over the same period in SFY 2015-16.

State Fiscal Year 2016-17

The committee staff estimates SFY 2016-17 collections for cigarette and tobacco taxes will total $1.230 billion, a decline of 1.7 percent. This estimate is based on year-to-date collections and historical collection patterns. Collections for the remainder of the fiscal year are expected to decline 11.6 percent.

The Executive estimates that SFY 2016-17 cigarette and tobacco tax collections will total $1.227 billion, reflecting a decline of 1.9 percent. The committee estimate is $3 million above the Executive's SFY 2016-17 projections.

State Fiscal Year 2017-18

The committee's cigarette and tobacco forecast for SFY 2017-18 is $1.210 billion, a decline of 1.6 percent from SFY 2016-17. The forecast is $8 million above the Executive's estimates.

Fund Distribution

Table 32

Cigarette and Tobacco Taxes Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	$346	$884	-	-	$1,230
2017-18	$350	$860	-	-	$1,210

Cigarette Consumption

Consumption of cigarettes has declined 76 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 temporary 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. 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 2016-17 and SFY 2017-18.

Electronic Cigarettes

As electronic cigarettes and vapor products have become widely available in the marketplace, they are being taxed and regulated by different states and jurisdictions. The Executive has proposed a new excise tax on the sale of vapor products at the rate of $0.10 per fluid milliliter. The taxing of vapor products takes on different forms, with some states taxing based on a percentage of wholesale purchase price, while others tax based on milliliters of consumable product.

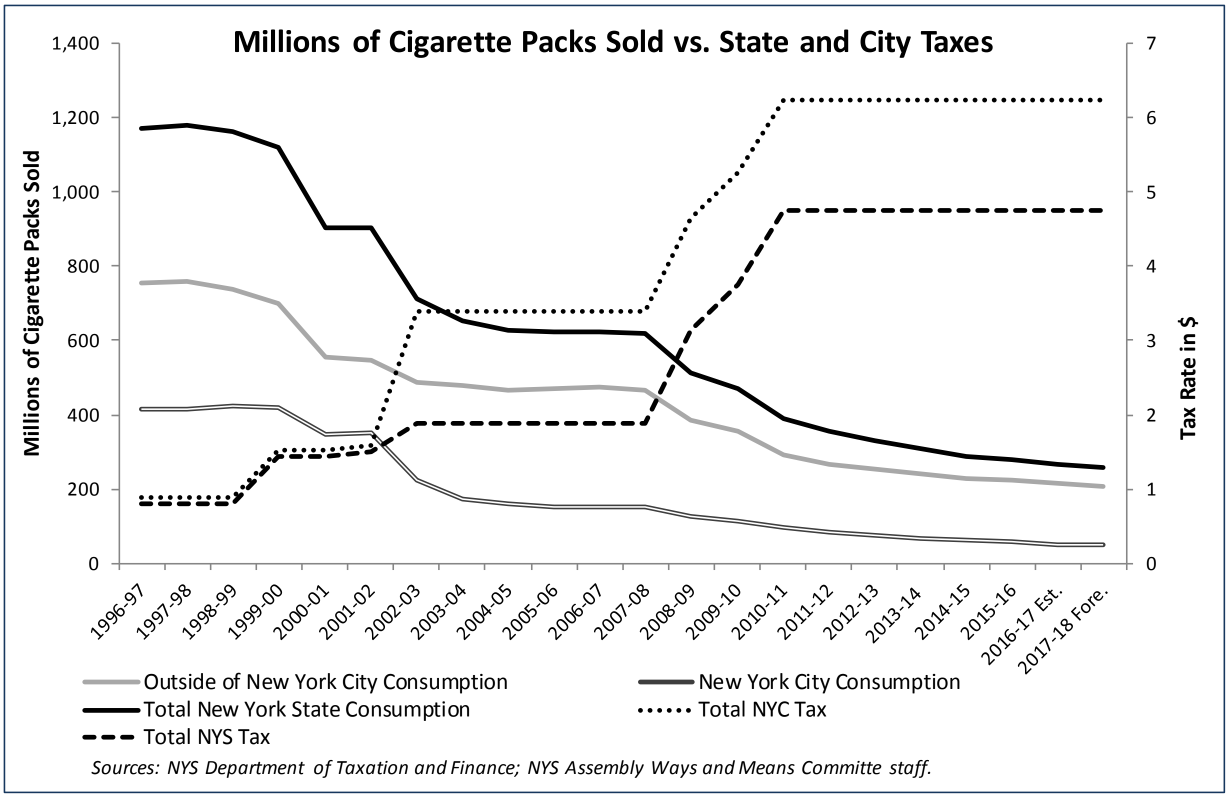
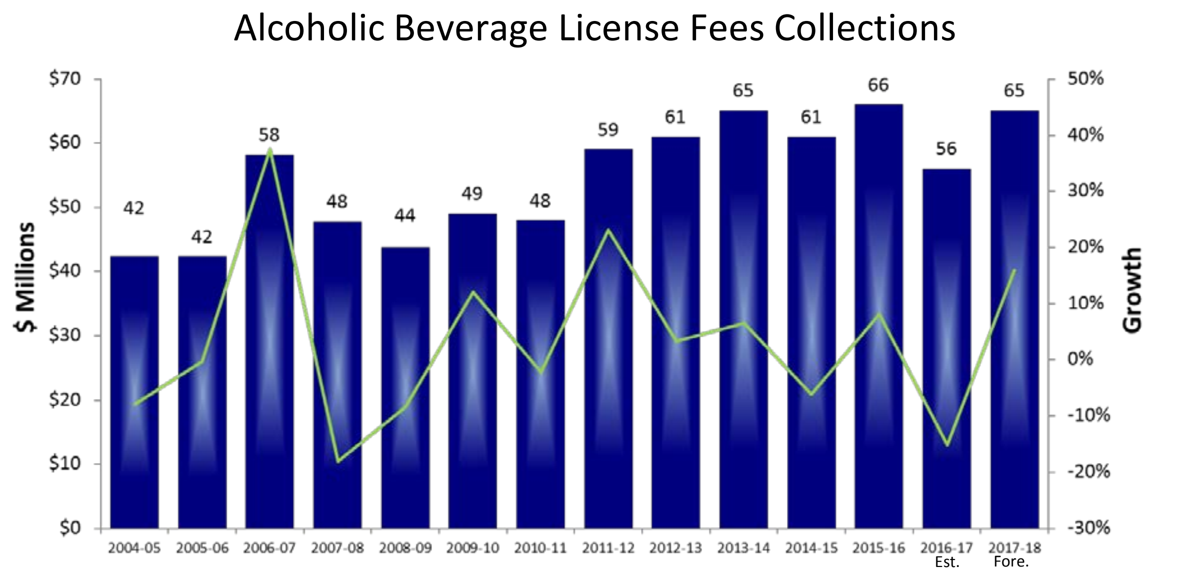

Millions of Cigarette Packs Sold vs. State and City Taxes
Millions of Cigarette Packs Sold
Tax Rate in $
1,400
1,200
1,000
800
600
400
200
0
7
6
5
4
3
2
1
0
1996-97
1997-98
1998-99
1999-00
2000-01
2001-02
2002-03
2003-04
2004-05
2005-06
2006-07
2007-08
2008-09
2009-10
2010-11
2011-12
2012-13
2013-14
2014-15
2015-16
2016-17 Est.
2017-18 Fore.
Outside of New York City Consumption
New York City Consumption
Total New York State Consumption
Total NYC Tax
Total NYS Tax
Sources: NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committe staff.

Figure 53

Alcoholic Beverage Control License Fees



Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.

Figure 54

The New York State Alcoholic Beverage Control Law imposes permit fees on licenses for alcohol manufactures like distillers, brewers, wineries, as well as wholesalers and retailers. License fees vary according to three major factors: (1) the type of license which is issued; (2) population of the establishment's location – for retail licenses; and (3) the class of beverage for which the license is issued, namely liquor, beer, and wine. The State Liquor Authority oversees nearly 70,000 licenses and permits statewide each year. The most expensive licenses are for distillers.

On September 7, 2016 the state enacted a new law allowing on-premises license holders to sell and serve alcoholic beverages starting at 10 a.m. on Sundays. Prior to the new law, alcoholic beverages could not be served for on-premises consumption until noon on Sundays.

Table 33

Alcoholic Beverage Control License Fees ($ in Millions)	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$50	-11.0%	$56	-15.8%	$59	($4)
2017-18			$65	17.1%	$65	$0

YTD through January

Year-to-date, Alcoholic Beverage Control License Fees collections are $50.2 million, a decrease of 11.0 percent over the same period last year.

State Fiscal Year 2016-17

The committee staff estimates revenues from Alcoholic Beverage Control License Fees to total $56 million in SFY 2016-17, or 15.8 percent below the previous year. The Executive Budget estimates collections to be $59 million for the fiscal year.

State Fiscal Year 2017-18

For SFY 2017-18, the committee staff forecasts collections of $65 million, the same as the Executive Budget's estimates.

Alcoholic Beverage Tax

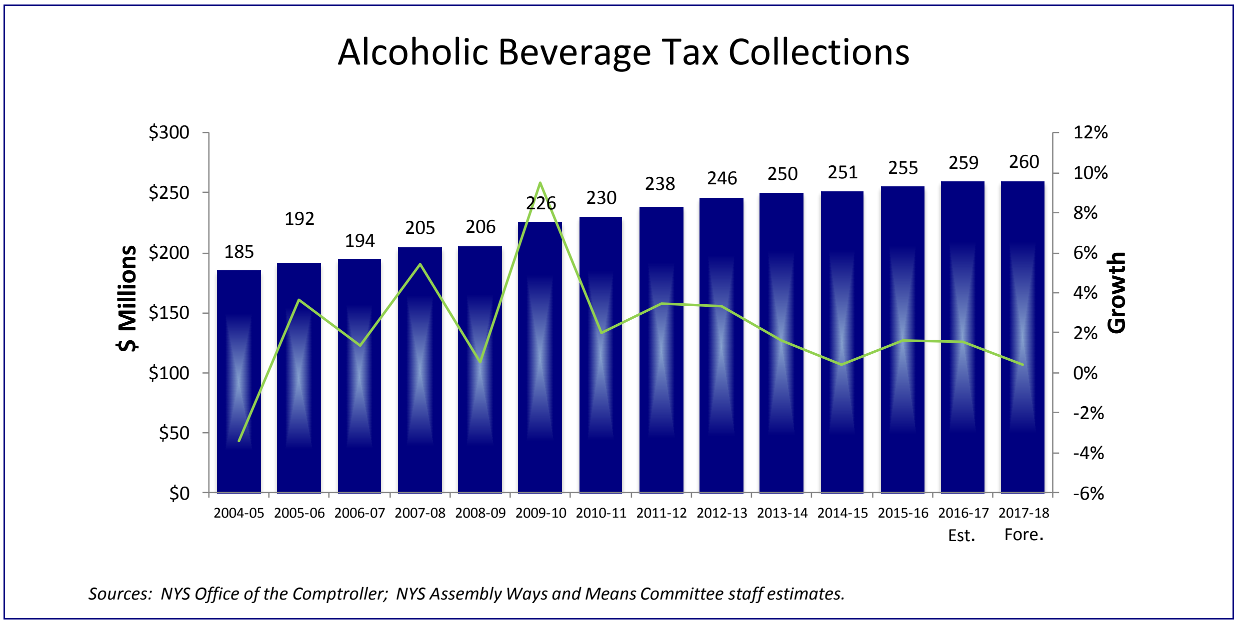


Figure 55

Article 18 of the New York State Tax Law levies a tax on alcoholic beverages at different rates based on the content of alcohol by volume. The tax is imposed on the distributor or non-commercial importer of alcoholic beverages. Table 34 below illustrates the current state rates, as well as the alcoholic beverage taxes imposed by New York City.

Table 34

New York State and New York City Alcoholic Beverage Tax Rates (dollars per unit of measure)		
	New York State	New York City
Beer and other similar fermented malt beverages	$0.14 per gallon	$0.12 per gallon
Cider	0.0379 per gallon	None
Natural and Artificially carbonated sparkling wine	0.30 per gallon	None
Still wine, including wine coolers	0.30 per gallon	None
Liquor containing more than 24 percent alcohol by volume	1.70 per liter	0.264 per liter
Liquor containing more than 2 percent but not more than 24 percent alcohol by volume	0.67 per liter	None
Liquor containing 2 percent or less alcohol by volume	0.01 per liter	None

Table 35

Alcoholic Beverage Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$227	1.5%	$259	1.6%	$258	$1
2017-18			$260	0.4%	$263	($3)

YTD through January

Through January, Alcoholic Beverage Tax receipts have increased by 1.5 percent or three million dollars above the same period in SFY 2015-16 for a year-to-date total of $227 million.

State Fiscal Year 2016-17

The committee staff estimates Alcoholic Beverage Tax receipts will total $259 million in SFY 2016-17. The committee staff's estimate reflects growth over SFY 2015-16 of 1.6 percent. The committee staff's estimate is $1 million above the Executive's SFY 2016-17 projections.

State Fiscal Year 2017-18

The committee staff forecasts alcoholic beverage tax collections in SFY 2017-18 of $260 million, or 0.4 percent over SFY 2016-17 collections. The committee's staff forecast is $3 million below the Executive's forecast.

Taxicab Surcharge

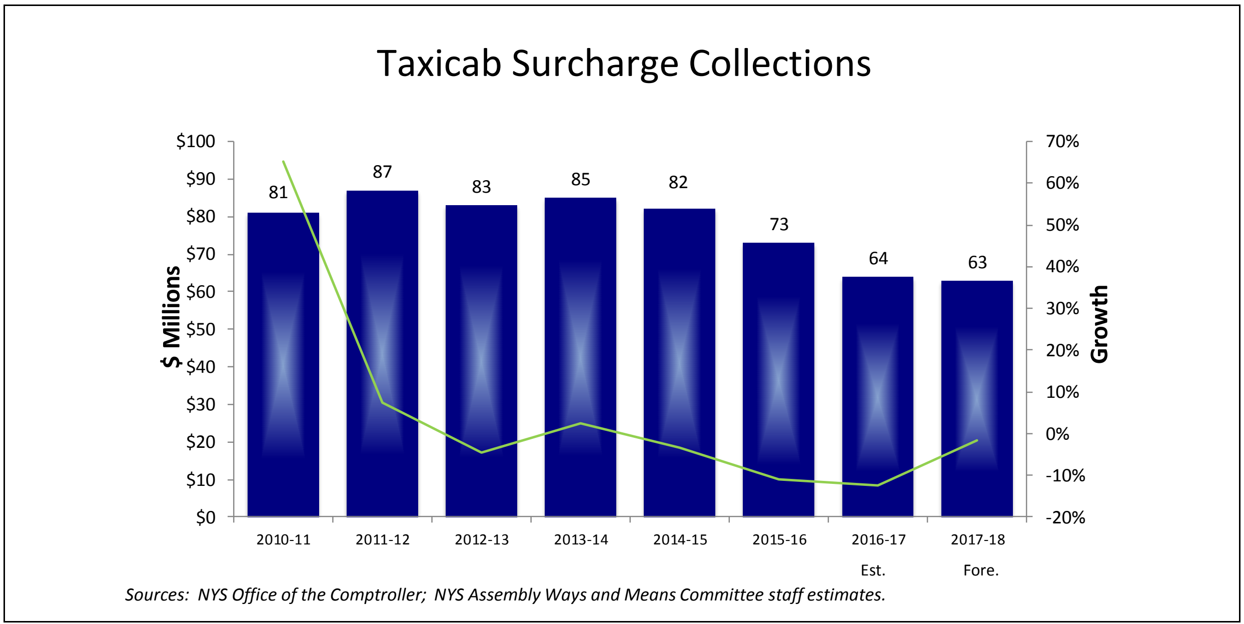


Figure 56

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 36

Taxicab Surcharge ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$63	-11.7%	$64	-12.2%	$64	$0
2017-18			$63	-2.2%	$64	($1)

YTD through January

Through January, taxicab surcharge collections have decreased 11.7 percent or $8 million when compared to the same period in SFY 2015-16.

State Fiscal Year 2016-17

It is estimated that taxicab surcharge receipts will total $64 million in SFY 2016-17. This represents a 12 percent decrease or $9 million decline over SFY 2015-16. The decline is attributed to the growth of a new generation of for-hire vehicles and transportation network companies which have changed the competitive landscape. For the remainder of the fiscal year collections are expected to decline 38.5 percent.

The Executive's estimate for SFY 2016-17 is $64 million, same as the committee's estimate.

State Fiscal Year 2017-18

Taxicab surcharge receipts are forecast to total $63 million in SFY 2017-18 for a decrease of $1 million or 2.2 percent; this is $1 million below the Executive's forecast.

Business Taxes

Table 37

Business Taxes Forecasts by State Fiscal Year ($ in Millions)	SFY 2016-17	Growth	Diff. Exec.	SFY 2017-18	Growth	Diff. Exec.
Business Taxes	**$7,943**	**0.8%**	**$96**	**$8,352**	**5.1%**	**$99**
Corporate Franchise	4,102	-9.4%	(27)	4,666	13.7%	(21)
Utility Tax	740	-4.4%	2	733	-0.9%	1
Insurance Tax	1,590	0.6%	88	1,652	3.9%	80
Bank Tax	383	416.5%	-	190	-50.4%	-
Petroleum Business Tax	1,128	0.4%	33	1,110	-1.6%	38

Corporate Franchise Tax

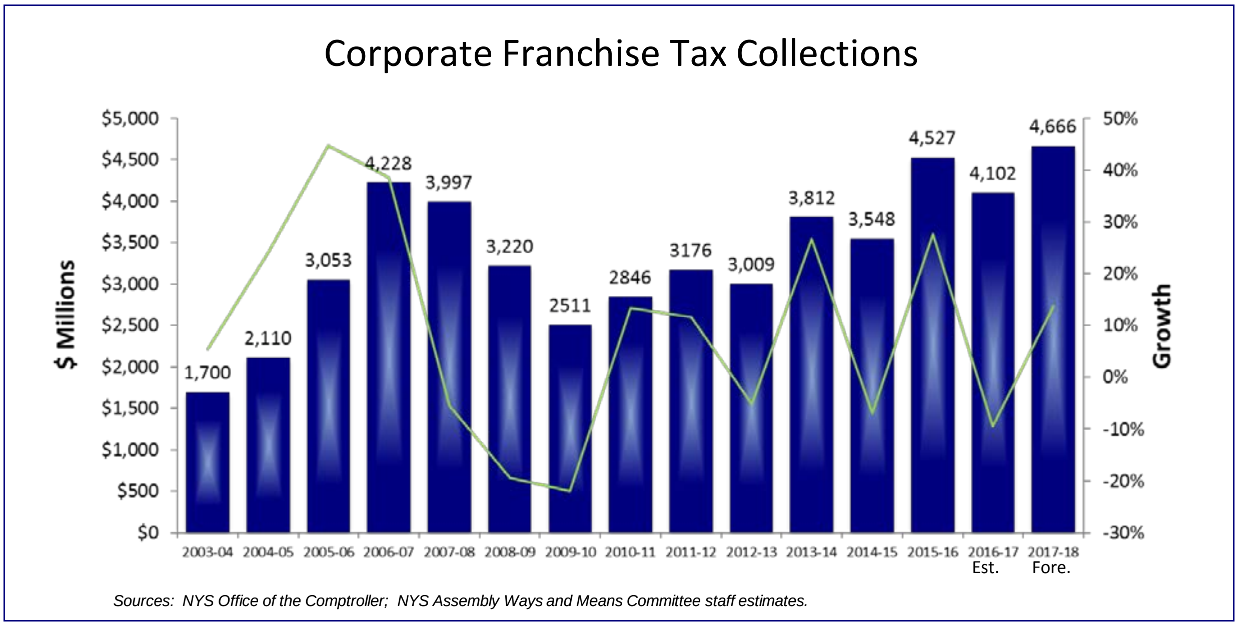


Figure 57

Article 9-A 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..."[48] The 2014-15 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 was expanded to include deriving receipts in the state, at least $1 million, even if no physical presence or fulfillment service exists;
  - Eliminated the exemption of income from subsidiary capital and 50 percent of dividends from non-subsidiaries;
- **Tax Bases and Rates**
  - Eliminated Article 9-A alternative minimum tax (AMT) and all Article 32 tax bases;
  - Separate tax on subsidiary capital was eliminated and the capital base tax is phased out through 2021;

[48] Tax Law §209(1)

- Increased the top fixed dollar minimum tax to $200,000 from $5,000;
- Reduced the top rate tax 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**
  - Made subsidiaries and affiliates more likely to be combinable into one taxable company by tightening current ownership requirements to more than 50 percent;
- **Net Operating Losses (NOLs)**
  - Conformed to 20-year federal carry forward and allow a three year carryback;
  - Repealed strict federal NOL conformity rules by allowing taxpayer to fully apply NOL irrespective of federal NOL amount or source year.

Table 38

Corporate Franchise Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$2,630	-16.1%	$4,102	-9.4%	$4,129	($27)
2017-18			$4,666	13.7%	$4,687	($21)

YTD through January

All Funds cumulative collections through January were $2.630 billion, down 16.1 percent or $506 million from prior year collections.

Audit collections through January totaled $471 million, a decrease of $106 million or 18.4 percent compared to the first ten months of the previous fiscal year. Growth without audits is 15.7 percent below that of the prior fiscal year. Refunds for the first ten months of this fiscal year were $871 million, a decrease of $211 million from the same period in SFY 2015-16.

State Fiscal Year 2016-17

The committee staff expects SFY 2016-17 corporate franchise tax collections to reach $4.102 billion, a decrease of 9.4 percent or $425 million from the previous fiscal year. To reach this level, remaining collections are expected to increase by 5.9 percent above collections received in the last two months of SFY 2015-16.

The Executive is projecting collections for this fiscal year to total $4.129 billion, a decrease of 8.8 percent, and $27 million above committee estimates. Collections would have to increase by 7.8 percent for the remainder of the year for the Executive to reach this estimate.

State Fiscal Year 2017-18

The committee staff forecasts corporate tax receipts to increase by 13.7 percent or $563 million for a total of $4.666 billion. The SFY 2017-18 forecast is $21 million below the Executive's forecast of $4.687 billion. The increase in receipts is attributed to projected growth in corporate profits of two percent, which will be subject to a stabilized post-reform tax rate.

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 2016-17, the committee expects General Fund receipts to total $3.312 billion.

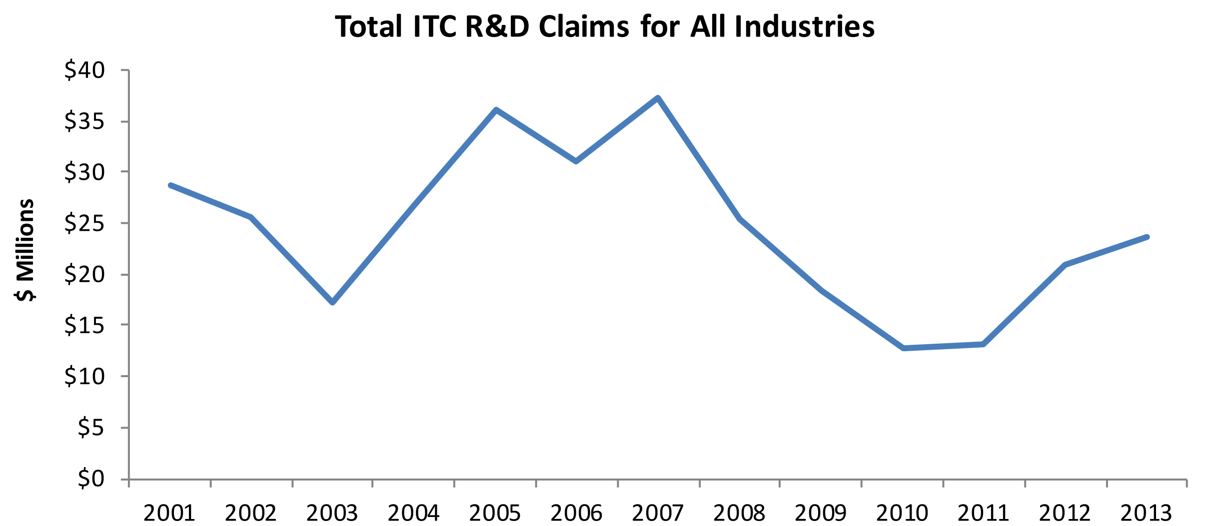
In SFY 2017-18, the committee staff expects an increase of 15.0 percent in the General Fund with collections of $3.810 billion.

Table 39

Corporate Franchise Tax Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	$3,312	$790	-	-	$4,102
2017-18	$3,810	$856	-	-	$4,666

Focus Issue - Investment Tax Credit Expenditures



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

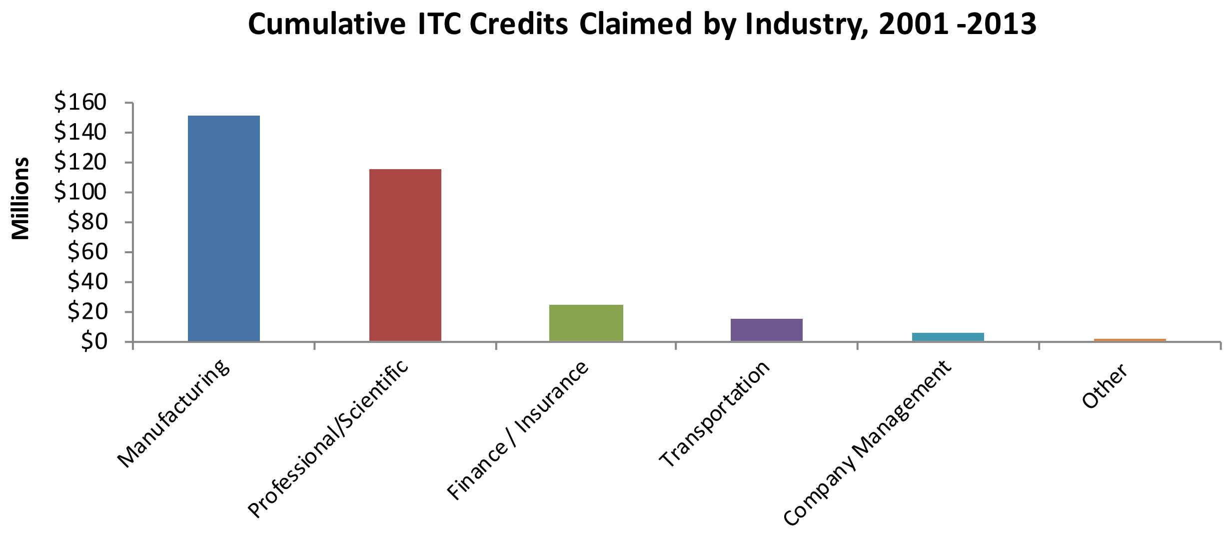
Figure 58

The Investment Tax Credit (ITC) was enacted in 1969 and is the longest-running tax credit currently offered to business taxpayers filing under Article 9-A of the Tax Law. This tax credit was designed to incentivize businesses to invest and, therefore, stimulate the state economy through new jobs and wage growth. The current credit schedule is as follows:

- five percent of the first $350 million of the investment base; and
- four percent of any amount above $350 million.

Taxpayers who invest in qualifying research and development (R&D) property may opt to claim a nine percent credit based upon the investment costs of such property.

Since 2001, over $317 million in ITC R&D credits have been awarded; as expected the largest beneficiary has been the manufacturing industry with $152 million in total ITC tax credits claimed over the 13 year period.



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

Figure 59

The greatest amount of total ITC credits awarded for a single tax year to date is $37 million in 2007; with 103 taxpayers claiming the credit for that year, this equates to an average taxpayer benefit of $359,000 among those who claimed the ITC credit in 2007.

Following the peak in 2007, we observe a decline in ITC credit claims, reaching a low in 2010; $13 million in ITC credits were claimed by taxpayers in that year. As the country was struggling to recover from the Great Recession, which lasted from December 2007 through June 2009, it seems quite reasonable to assume businesses experienced a loss of profits, thereby lowering their taxable income and usage of the credit, because the credit is non-refundable for all except new businesses.

The amount of ITC credit earned for new qualifying investments each year has varied between 2001 and 2013; with an average of $113 million over the time span, the lowest level of ITC credits earned was $68 million in 2004 before reaching a period high of $157 million in the following year.

Due to the lack of refundability, many companies cannot utilize the entire benefit accrued. The portion of the total ITC that has been held ("carried over") for future tax returns use has declined somewhat over this time period; in 2001, $1.555 billion in ITC credits were carried over; the level of unused ITC credits continued to decline through 2007, when it reached a level of $1.147 billion, the lowest amount observed for the entire period. Since then, the level of unused ITC credits has remained relatively stable, with the total 2013 amount of $1.206 billion reflecting a modest increase since 2007.

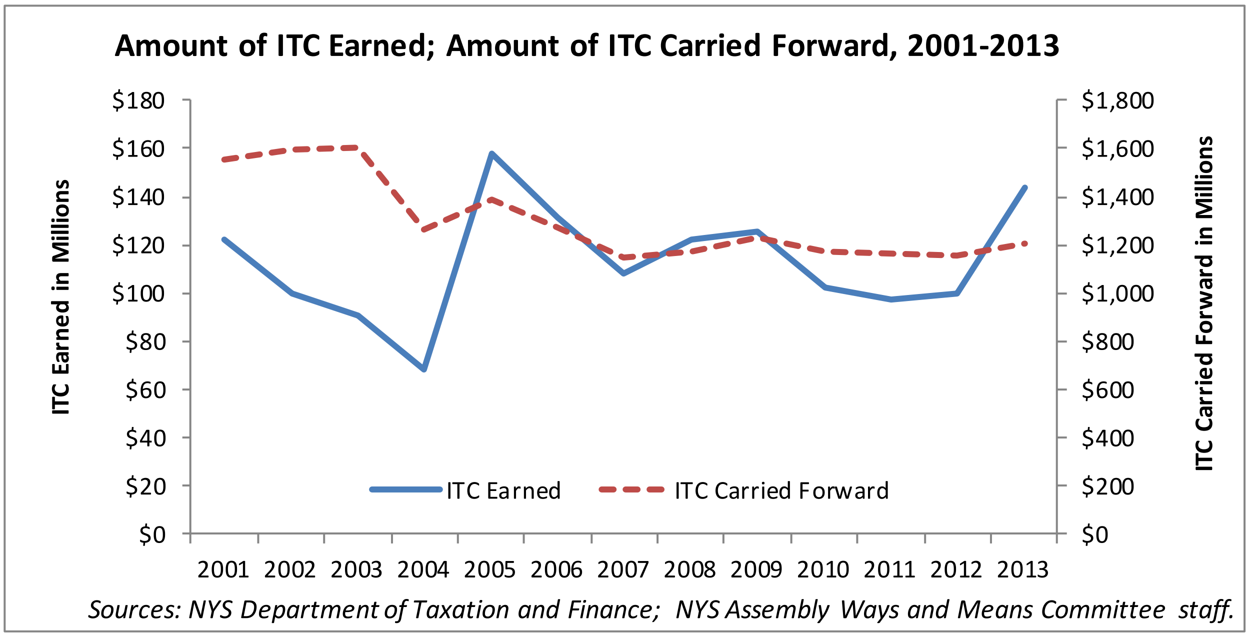
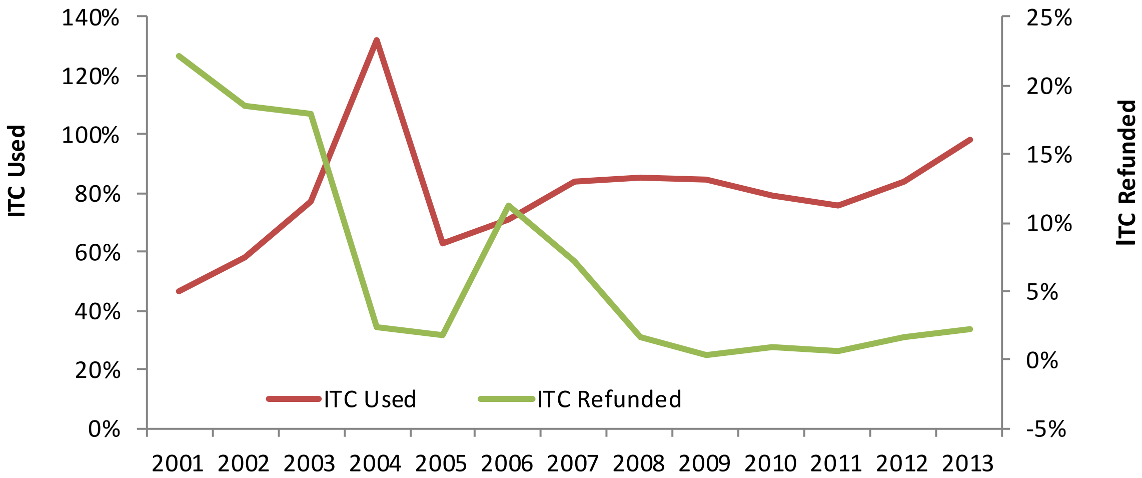


Figure 60

Figure 61 illustrates both the percent of ITC credits earned each year and used by the taxpayers against their total liability; the percent of the credit refunded back to qualified new business taxpayers is displayed as well. Refunds have been a much smaller component of ITC activity in recent years than they had been in the past. For the period of 2008 through 2013, an average of 1.2 percent of the earned ITC credit was refunded, in contrast with an average refund percent of 11.6 for the years 2001 – 2007.

While the percent of earned ITC that was used has been relatively steady, a clear outlier can be found in 2004; 132.4 percent of the ITC credit earned that year was used against tax liabilities. This shows that businesses were successful, because tax liabilities were higher and companies were able to take advantage of non-refundable credits carried forward.

Percent of Earned ITC Used; Percent of Earned ITC Refunded, 2001-2013



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

Figure 61

Bank Tax

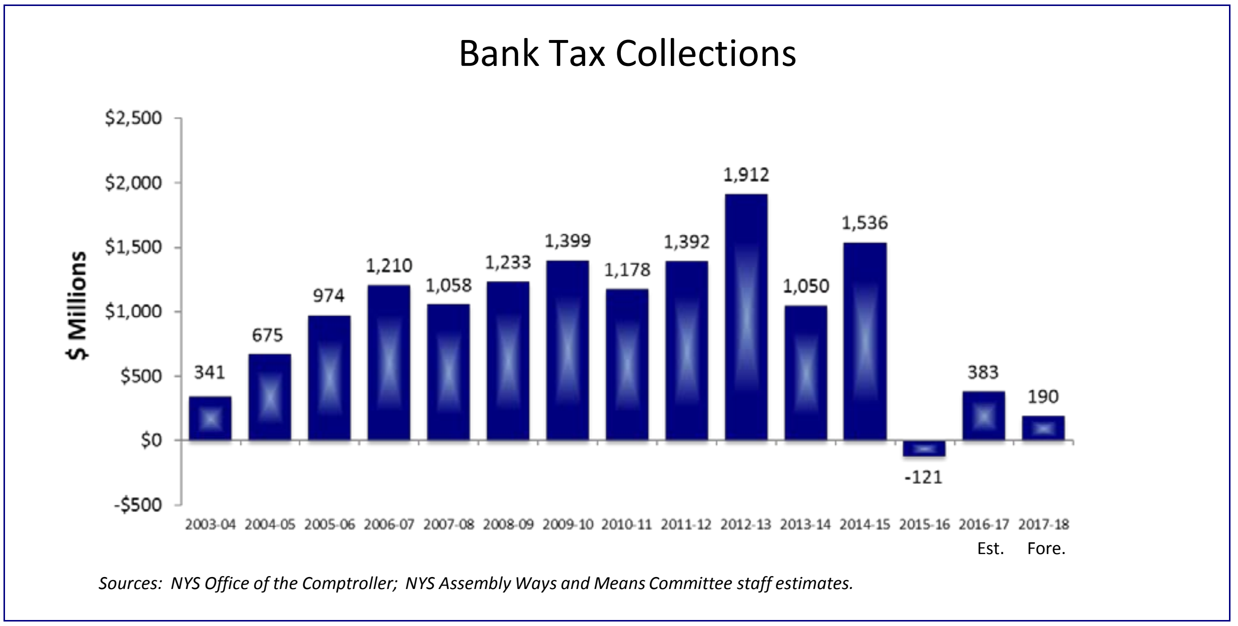


Figure 62

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 section for more details about corporate tax reform. Current collections from this tax arise from tax years prior to corporate tax reform.

Table 40

Bank Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$368	637.1%	$383	416.5%	$383	$0
2017-18			$190	-50.4%	$190	$0

YTD through January

Through January, bank tax collections totaled $368 million, an increase of $436 from the prior fiscal year.

State Fiscal Year 2016-17

The committee staff expects bank tax collections to total $383 million this fiscal year, an increase of $504 million from the prior year. This estimate is the same as the Executive estimate. According to the Executive, the increase stems from prior year adjustments. Audit receipts are estimated to increase to $464 million, an increase of $197 million from SFY 2015-16.

State Fiscal Year 2017-18

The committee staff expects bank collections to be $190 million in SFY 2017-18. This is the same as the Executive's forecast and reflects the Executive's expectation that audits will decline from SFY 2016-17 to a level of $213 million, a decrease of $251 million or 54.1 percent below the current fiscal year.

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).

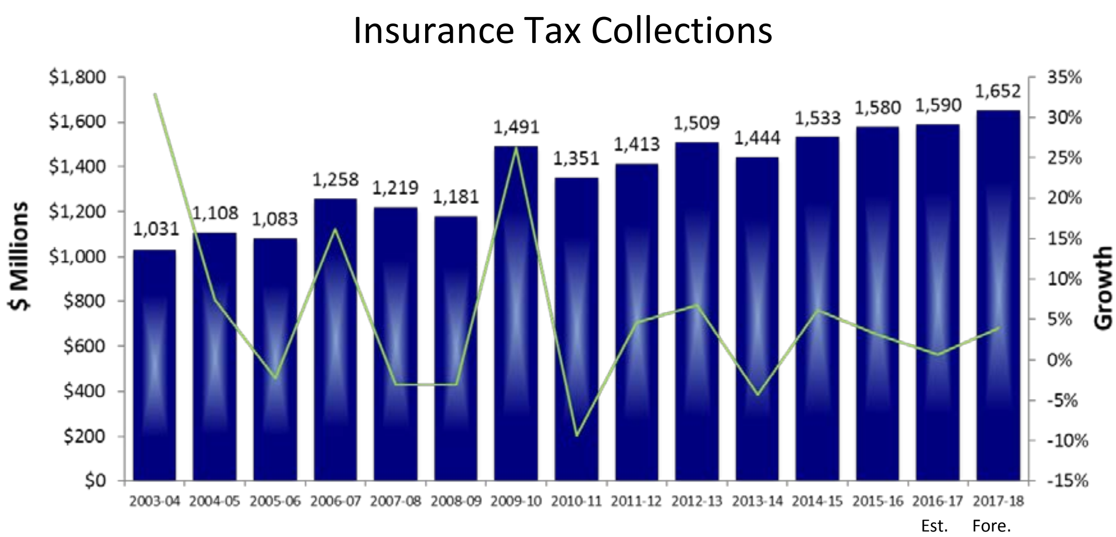
In SFY 2016-17, the committee staff expects General Fund receipts of $323 million. In SFY 2017-18 the committee expects General Fund receipts to total $162 million.

Table 41

Bank Tax Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	$323	$60	-	-	$383
2017-18	$162	$28	-	-	$190

Insurance Tax



Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.

Figure 63

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

Table 42

Insurance Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$1,010	7.3%	$1,590	0.6%	$1,502	$88
2017-18			$1,652	3.9%	$1,572	$80

YTD through January

Year-to-date insurance tax collections are $1.010 billion, an increase of $69 million or 7.3 percent over the prior fiscal year.

State Fiscal Year 2016-17

The committee staff expects collections to total $1.590 billion in SFY 2016-17, an increase of $10 million or 0.6 percent over the prior fiscal year. Collections are expected to decline by 9.3 percent over the last two months of the fiscal year as taxpayers are expected to lower their estimated payments due to the first full year impact of the tax credit for assessments paid to the Life Insurance Guaranty Corporation (LIGC).

The committee staff estimate is $88 million above the Executive's estimate of $1.502 billion.

State Fiscal Year 2017-18

The committee staff forecasts insurance collections to total $1.652 billion in SFY 2017-18, an increase of $63 million or 3.9 percent from the current fiscal year. The committee expects that projected growth in insurance tax premiums of two percent combined with lower expected LIGC credit claims will contribute to growth above collections received in SFY 2016-17.

The Executive is forecasting collections to be $1.572 billion in SFY 2017-18, an increase of 4.7 percent or $70 million. This estimate is $80 million below 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 2016-17, the committee projects General Fund receipts to reach $1.425 billion. In SFY 2017-18 the committee staff projects the General Fund to increase $54 million to $1.479 billion.

Table 43

Insurance Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	$1,425	$165	-	-	$1,590
2017-18	$1,479	$173	-	-	$1,652

Corporate Utility Tax

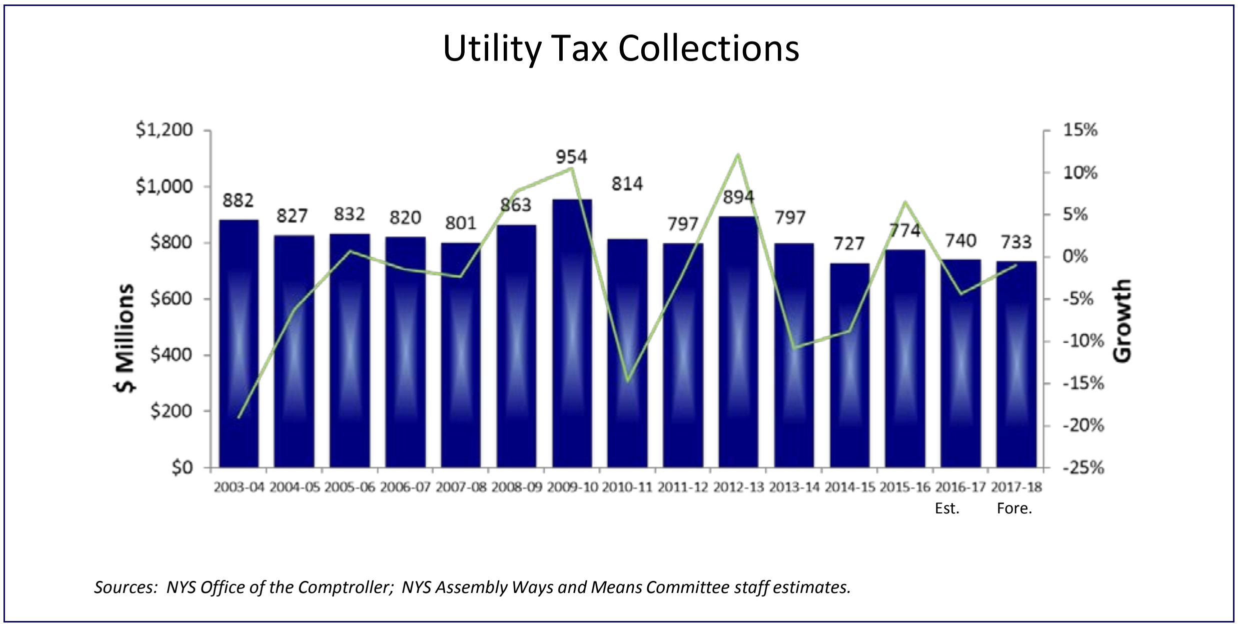


Figure 64

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 under Article 9 of the Tax Law.

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 are 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.

Table 44

Utility Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$493	-1.5%	$740	-4.4%	$738	$2
2017-18			$733	-0.9%	$732	$1

YTD through January

Through January, cumulative utility tax collections are $493 million, a decrease of $7 million or 1.5 percent from the prior fiscal year.

State Fiscal Year 2016-17

The committee staff expects collections for SFY 2016-17 to be $740 million, a decrease of 4.4 percent or $34 million from the previous fiscal year. To reach this estimate, collections over the remainder of the year will need to decrease by 9.8 percent. In SFY 2015-16 several telecommunication audit cases were finalized. This is not expected to recur in SFY 2016-17, therefore the state cannot expect additional revenue from this source. The committee's estimate is $2 million above the Executive's estimate of $738 million.

State Fiscal Year 2017-18

The committee staff expects utility tax collections to decrease by $7 million or 0.9 percent to a level of $733 million in SFY 2017-18. The Executive is expecting $732 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 2016-17, the committee staff expects General Funds to total $569 million and Special Revenue Funds for SFY 2016-17 to be $156 million. Capital Projects Funds are estimated to total $14 million.

For SFY 2017-18, the committee staff expects General Funds to decrease to $560 million and expects Special Revenue Funds for SFY 2017-18 to increase to $159 million. Capital Projects Funds are forecast to be $14 million.

Table 45

Corporate Utililty Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	$569	$156	-	$14	$740
2017-18	$560	$159	-	$14	$733

Petroleum Business Tax

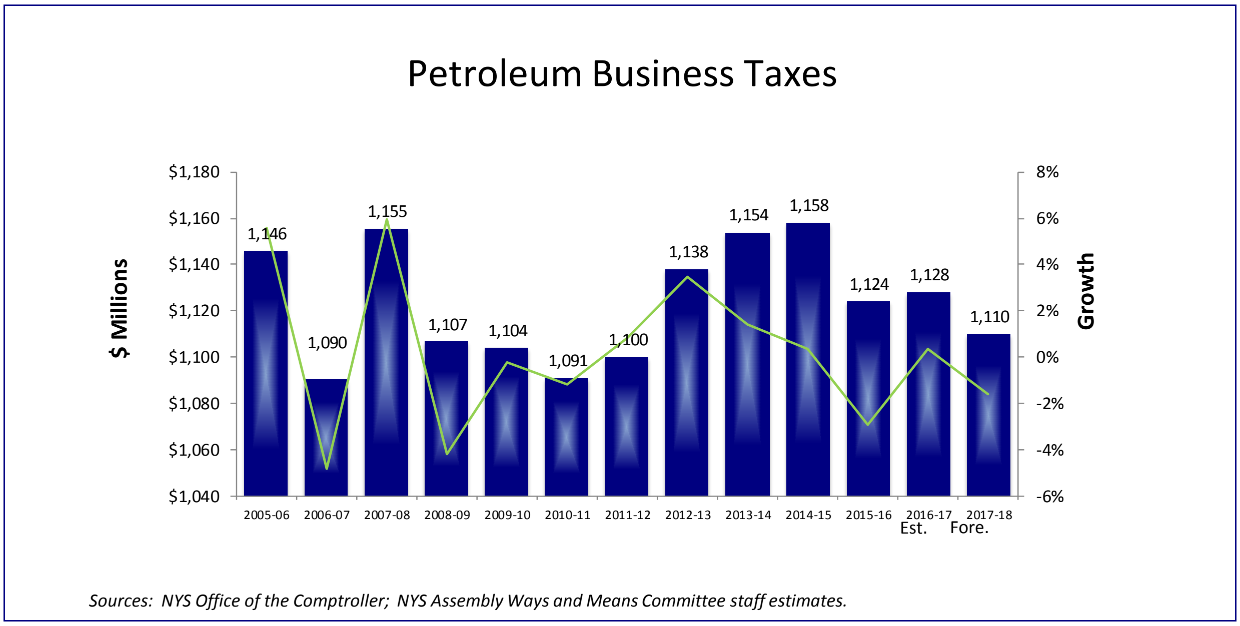


Figure 65

Article 13-A of the Tax Law imposes the Petroleum Business Tax 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.

Petroleum Business Tax 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.

The Petroleum Business Tax 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 a dedicated funds pool. The supplemental tax and the tax on carriers are deposited entirely into that 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 46

Petroleum Business Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$953	0.4%	$1,128	0.4%	$1,095	$33
2017-18			$1,110	-1.6%	$1,072	$38

YTD through January

Through January, petroleum business tax (PBT) collections have increased by $4 million or 0.4 percent over last fiscal year to a level of $953 million.

State Fiscal Year 2016-17

The committee staff expects collections for SFY 2016-17 to total $1.128 billion, an increase of 0.4 percent or $4 million from the previous fiscal year. The committee staff expects collections for the remainder of the year to increase by 0.3 percent compared to SFY 2015-16. The growth slowdown can be attributed to PBT rates declining by five percent starting in January 2016 and a further five percent decline effective January 2017; however, the tax rate decrease is offset by strong growth in consumption of petroleum products this year. The committee's estimate is $33 million above the Executive's estimate of $1.095 billion.

State Fiscal Year 2017-18

The committee staff forecasts PBT collections to decrease by $18 million or 1.6 percent to a level of $1.110 billion in SFY 2017-18. The Executive is expecting $1.072 billion for the next fiscal year, a decrease of 2.1 percent and $38 million below the committee forecast.

Fund Distribution

Table 47

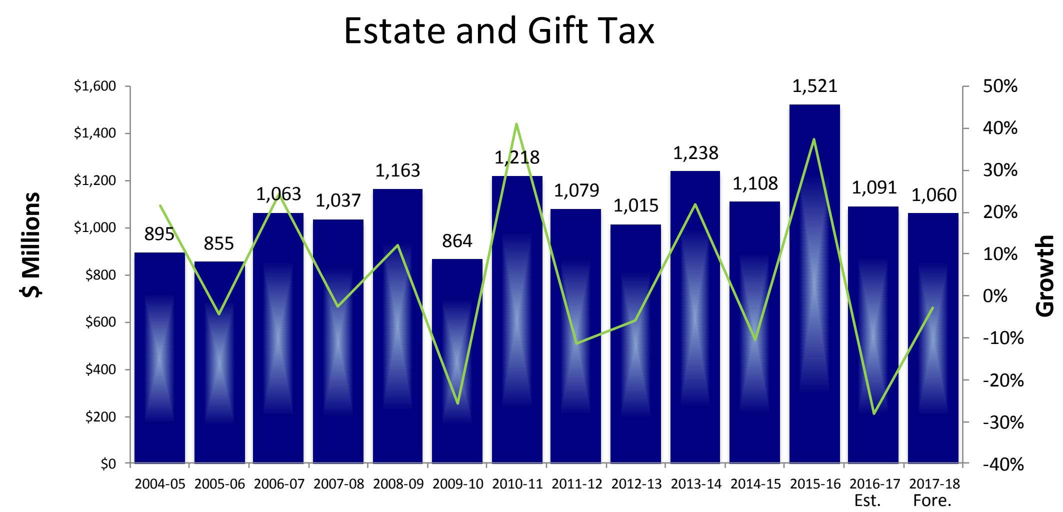
Petroleum Business Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	-	$501	-	$628	$1,128
2017-18	-	$491	-	$619	$1,110

Other Taxes

Table 48

Other Taxes Forecasts by State Fiscal Year ($ in Millions)	SFY 2016-17	Growth	Diff. Exec.	SFY 2017-18	Growth	Diff. Exec.
Other	**$3,599**	**-10.3%**	**($34)**	**$3,696**	**2.7%**	**$96**
Estate and Gift Tax	1,091	-28.3%	(23)	1,060	-2.8%	111
Real Estate Transfer Tax	1,137	-2.2%	(1)	1,204	5.9%	(6)
Pari Mutuel	16	-5.9%	(1)	16	0.0%	(1)
Payroll Tax	1,352	3.5%	(9)	1,413	4.5%	(8)

Estate Tax



Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.

Figure 66

Article 26 of the Tax Law imposes a tax on the transfer of property upon death known as the estate tax.[49] The tax applies to non-charitable transfers made by people who own real estate or tangible personal property located in New York upon death. Estate taxes must be filed within nine months of the decedent's death.

Table 49

Estate and Gift Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$949	-29.5%	$1,091	-28.3%	$1,114	($23)
2017-18			$1,060	-2.8%	$949	$111

[49] For definition see Tax Law, Article 26, Part 1 §951-A

YTD through January

Through January, estate tax collections totaled $949 million. Year-to-date collections declined 29.5 percent over the same period in SFY 2015-16.

State Fiscal Year 2016-17

Based on year-to-date collections, as well as historical collection patterns, the committee staff estimates that collections from the estate tax will total $1.091 billion in SFY 2016-17; this represents a decline of 28.3 percent over the prior year. The committee staff expects rest of year collections to decline by 19.1 percent.

The Executive Budget estimates that estate tax receipts will total $1.114 billion, a decline of 26.8 percent over SFY 2015-16. The Executive's current fiscal year estimate is $23 million above the committee's estimate.

State Fiscal Year 2017-18

The committee staff forecasts collections to total $1.060 billion in SFY 2017-18, a 2.8 percent decline over the current fiscal year. The Executive projects that estate tax collections will total $949 million, representing a decline of 14.8 percent. The committee's estate tax revenue forecast is $111 million higher than the Executive's.

Fund Distribution

Table 50

Estate and Gift Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	1,091	-	-	-	1,091
2017-18	1,060	-	-	-	1,060

Real Estate Transfer Tax (RETT)

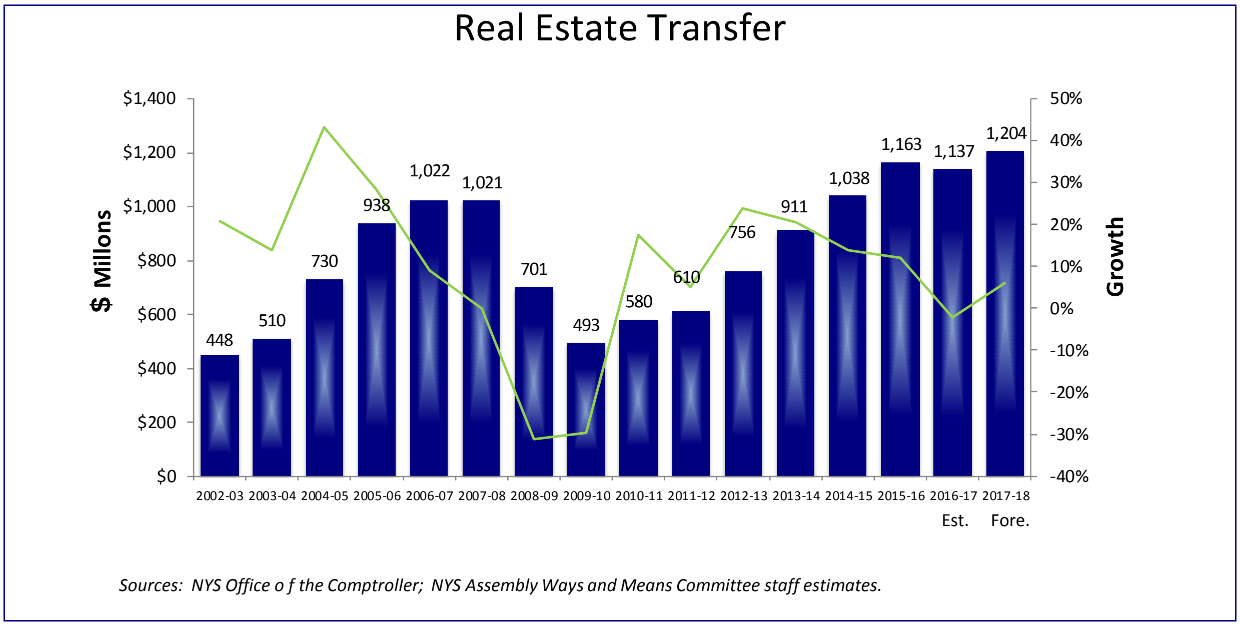


Figure 67

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

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 of total receipts, while Long Island accounts for around 15 percent of overall tax receipts.

Table 51

Real Estate Transfer Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$960	-2.0%	$1,137	-2.2%	$1,138	($1)
2017-18			$1,204	5.9%	$1,210	($6)

YTD through January

Through January, RETT collections are $960 million or a decrease of two percent compared to the same period in SFY 2015-16.

State Fiscal Year 2016-17

The committee staff estimates that RETT receipts will total $1.137 billion in SFY 2016-17, for negative growth of 2.2 percent over SFY 2015-16. The committee staff expects collections to decline by 3.5 percent in the remainder of the fiscal year.

The Executive estimates a total of $1.138 billion in collections, or $1 million above committee estimates.

State Fiscal Year 2017-18

The committee staff anticipates RETT receipts will total $1.204 billion in SFY 2017-18 for year-over-year increase of 5.9 percent or $67 million. The committee forecast is $6 million below the Executive's revenue forecast.

Fund Distribution

Table 52

Real Estate Transfer Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	-	-	$1,018	$119	$1,137
2017-18	-	-	$1,085	$119	$1,204

A statutory amount of $119 million is deposited into the Environmental Protection Fund from RETT collections, 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

In 2015, New York City boasted strong growth in real estate and commercial markets. The potential expiration of New York City's 421-a program spurred a surge in building permits and housing starts in 2015. This contributed to the increase in the number of real estate transfers in the New York City housing market.

Although below past performance 2016 ended on a positive note. In Manhattan, the average sales price year-to-date through December increased by 12.7 percent and 3.2 percent over the previous quarter. The median sales prices for new developments increased 44 percent from last year, but declined 26 percent from the previous quarter. [50]

Over the past decade, the average sales price for Manhattan townhouses has increased 34.9 percent, from $4,658,155 to $6,282,665 between 2007 and 2016. Although there has been an increase over the decade, there has also been a nine percent decline since 2015. [51]

[50] Prudential Douglas Elliman Real Estate. (2016). 4Q- Quarterly Survey of Manhattan Co-op & Condo Sales, https://www.elliman.com/reports-and-guides/reports/new-york-city/4q-2016-manhattan-sales/1-776.
[51] Prudential Douglas Elliman Real Estate. (2016). 2007-2016 Manhattan Townhouse Report, https://www.elliman.com/reports-and-guides/reports/new-york-city/2007-2016-manhattan-townhouse-report/8-803.

The real estate market is expected to continue to grow, albeit cautiously during SFY 2017-18. The underlying economic fundamentals will remain positive over the forecast horizon. The equity markets, housing demand, employment growth and wages are expected to support continuing gains in the real estate markets partially offset by downward pressure on mortgage demand due to the expected increases in short and long term interest rates.

Pari-Mutuel

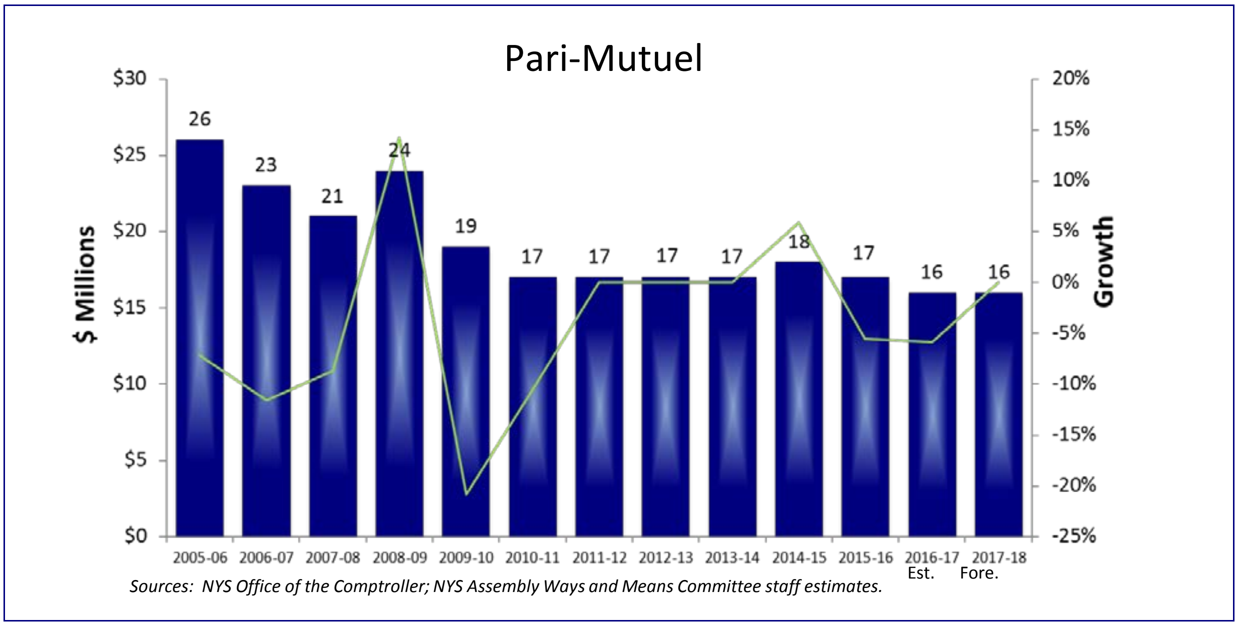


Figure 68

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 53

Pari-Mutuel Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$14	-8.7%	$16	-5.9%	$17	($1)
2017-18			$16	0.0%	$17	($1)

YTD through January

Through January, pari-mutuel tax receipts have decreased by 8.7 percent or $1 million over the same period in SFY 2015-16 for a year-to-date total of $14 million.

State Fiscal Year 2016-17

The committee staff estimates pari-mutuel receipts will total $16 million in SFY 2016-17, which is a decline of 59 percent or $1 million. The committee staff's estimate is $1 million below the Executive's projections.

State Fiscal Year 2017-18

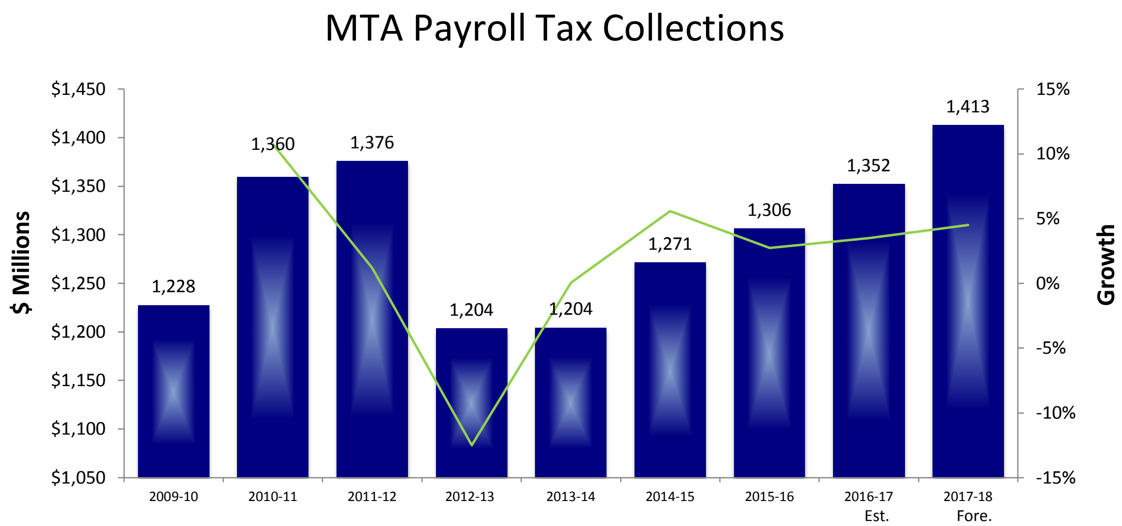
The committee staff forecast for SFY 2017-18 is $16 million, representing no growth over SFY 2016-17. The committee's forecast is $1 million below the Executive Budget forecast.

Fund Distribution

Table 54

Pari-mutuel Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2016-17	$16	-	-	-	$16
2017-18	$16	-	-	-	$16

MTA Payroll Tax



Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.

Figure 69

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, and proprietors earning $50,000 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 55

Metropolitan Commuter Transportation Mobility Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$1,105	6.6%	$1,352	3.5%	$1,361	($9)
2017-18			$1,413	4.5%	$1,421	($8)

YTD through January

Through January, MTA payroll tax collections have increased to $1.105 billion or 6.6 percent.

State Fiscal Year 2016-17

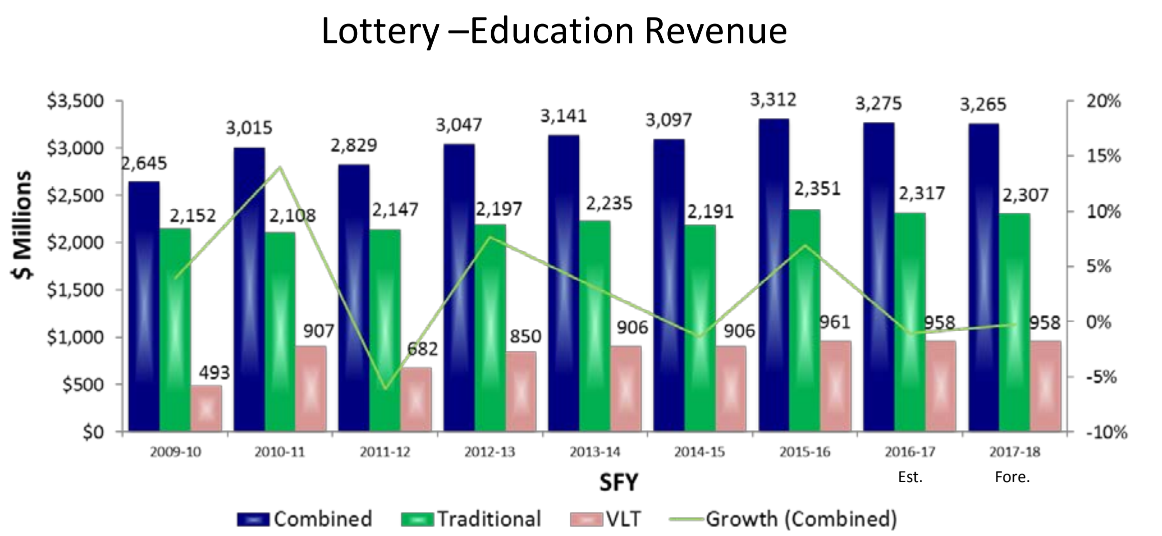
The committee staff expects collections for SFY 2016-17 to total $1.352 billion, an increase of 3.5 percent over the previous fiscal year. This is $9 million below the Executive's estimate. The committee staff expects collections for the remainder of the year to be 8.4 percent lower than the last fiscal year. This closeout is driven by the staff's projected growth in wages and sole proprietor income of 3.8 percent and 4.3 percent, respectively, for SFY 2016-17.

State Fiscal Year 2017-18

The committee staff forecasts MTA Payroll tax collections to increase by $61 million or 4.5 percent to a level of $1.413 billion in SFY 2017-18. In SFY 2017-18, the committee staff forecasts growth of 4.5 percent in wages and 4.9 percent for sole proprietorship income.

The Executive is expecting collections of $1.421 billion for the next fiscal year, or $8 million above the committee estimates.

Lottery



Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.
Note: 2010-11 VLT includes One-time licensing fee of $380 million.

Figure 70

The New York State Lottery was established by a Constitutional Amendment in 1966 for the express purpose of raising revenues for education. The Lottery currently operates daily games, jackpot games, and instant scratch-off games. A predetermined percentage of sales from each game are dedicated to fund education. Depending on the type of traditional lottery game, between 10 to 45 percent of sales are dedicated to education funding. Daily games contribute an average of 33 percent, jackpot games contribute an average of 35 percent, and instant scratch-off games contribute an average of 15 percent.

In 2004, video lottery terminal (VLT) facilities began operating. Currently eight video lottery terminals (VLTs) facilities exist in New York State. These facilities and the former Tioga VLT facility which opened as a casino on December 2, 2016, contributed $961.1 million in revenue to education last fiscal year. On average, VLTs contributed 45.59 percent of their Net Machine Income to education in SFY 2015-16.[52]

[52] https://www.gaming.ny.gov/pdf/finance/web%20site%20report%20-%20Statewide%20Totals.pdf

Table 56

Lottery ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2016-17	$2,281	-2.9%	$3,275	-1.1%	$3,280	($5)
2017-18			$3,265	-0.3%	$3,259	$6

YTD through January

Through January, combined lottery (traditional and video lottery terminals) revenue is $2.281 billion, a decline of 2.9 percent compared to the same period in SFY 2015-16.

State Fiscal Year 2016-17

The committee staff estimates total lottery receipts will total $3.275 billion, a decrease of 1.1 percent or $37 million over SFY 2015-16. The staff's estimate is $5 million below the Executive's Budget estimate.

The committee staff estimates traditional lottery receipts will total $2.317 billion for a decrease of 4.2 percent over SFY 2015-2016.

Revenue from the multi-state lottery games Mega Millions and Powerball is strongly correlated with the build-up of the jackpot level. Through January, Powerball revenue has experienced a decline of 30.1 percent, or $43.5 million, for a total of $101 million. Revenue from Powerball sales is estimated to total $125.7 million in SFY 2016-17 representing a decline of 22.2 percent or $38.8 million over SFY 2015-16. The reason behind the year-over-year decline stems from SFY 2015-16 having a record high jackpot in January of 2016 which accounted for approximately 50 percent of Powerball receipts.

The committee estimates that VLT receipts will total $958.2 million, a decrease of 0.3 percent.

State Fiscal Year 2017-18

The committee staff projects that combined Lottery revenue will total $3.265 billion in SFY 2017-18. This represents a decrease in receipts of 0.3 percent or $10 million over SFY 2016-17. This estimate is $6 million above the Executive Budget forecast. The committee staff forecasts that traditional lottery revenue receipts will total $2.307 billion, a decrease of 0.4 percent over SFY 2016-17. VLT receipts are expected to total $958.2 million, representing no change over SFY 2016-17.

The modest decline in traditional lottery receipts reflects declines in daily and instant games offset by jackpot games such as Mega Millions and Powerball returning to normal trends.

Miscellaneous Receipts

Miscellaneous Receipts – All Funds

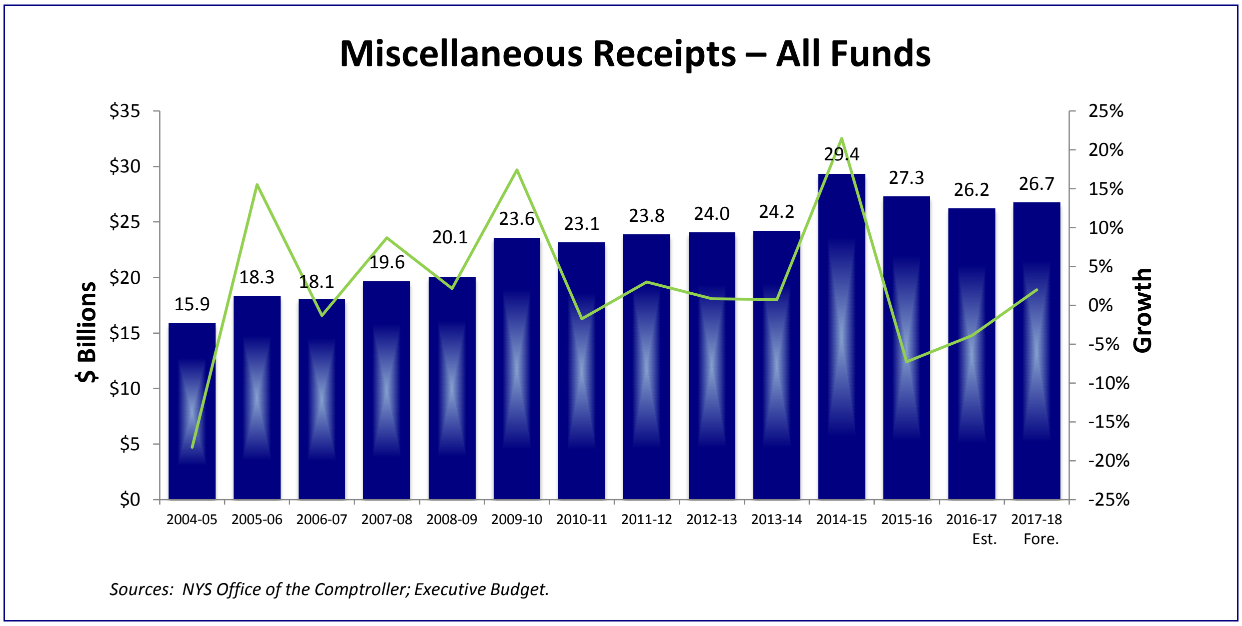


Figure 71

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 $26.178 billion in SFY 2016-17 and $26.739 billion in SFY 2017-18.

Miscellaneous Receipts – General Fund

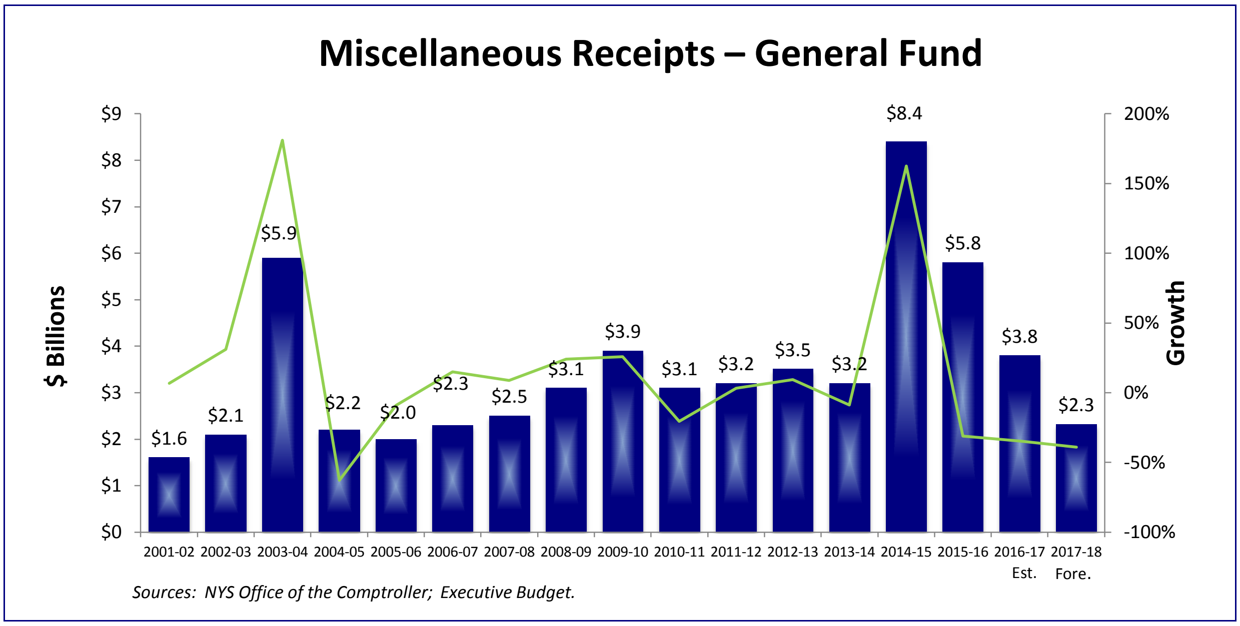


Figure 72

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 2016-17

General Fund Miscellaneous Receipts are estimated to total $3.797 billion in SFY 2016-17, a sharp decline from SFYs 2014-15 and 2015-16 levels that reflected unprecedented collections due to monetary settlements from various financial institutions.

SFY 2017-18

General Fund Miscellaneous Receipts are expected to total $2.318 billion for SFY 2017-18.

Key Components

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

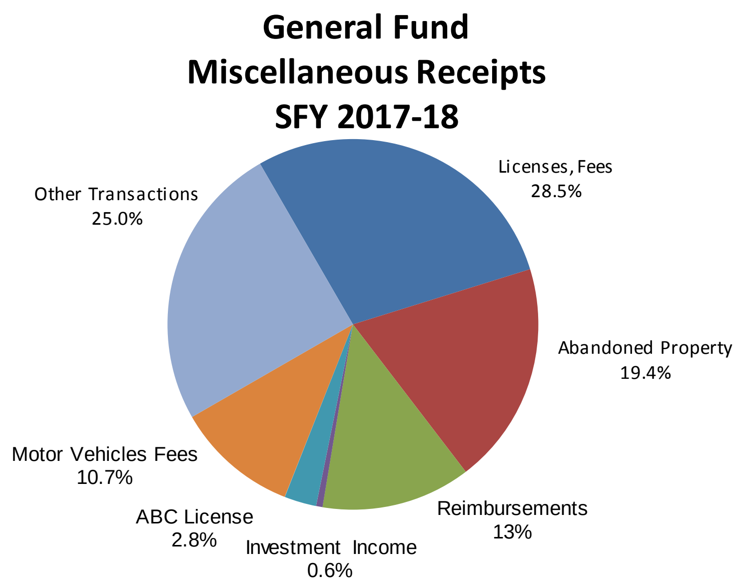
- licenses and fees;
- abandoned property;
- reimbursements;
- investment income;
- Alcoholic Beverage Control (ABC) License Fees; and
- Motor Vehicle Fees.

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

Table 57

Miscellaneous Receipts - General Fund ($ in Millions)	2015-16 Actual	2016-17 Estimated	2017-18 Projected	Change	Percent Change
Licenses, Fees	$630	$619	$661	$42	6.8%
Abandoned Property	527	435	450	15	3.4%
Reimbursements	232	263	302	39	14.8%
Investment Income	13	20	13	(7)	(35.0%)
ABC License	66	56	65	9	16.7%
Motor Vehicles Fees	194	179	248	69	38.5%
Other Transactions	4,180	2,225	579	(1,646)	(74.0%)
Total	**$5,842**	**$3,797**	**$2,318**	**($1,479)**	**(38.9%)**

Sources: Executive Budget; NYS Assembly Ways and Means Committee staff.



Sources: Executive Budget; NYS Assembly Ways and Means Committee staff.

Figure 73

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 2016-17

The committee staff estimates Special Revenue funds to total $17.056 billion in SFY 2016-17, whereas Capital Projects are expected to total $4.836 billion and Debt Service is anticipated to receive $489 million in receipts.

SFY 2017-18

The committee staff estimates Special Revenue funds to total $16.662 billion in SFY 2017-18, with Capital Projects expected to total $7.300 billion and Debt Service is anticipated to receive $459 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.

<u>Medicaid</u>

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.