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ALBANY

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February 27, 2019

Dear Colleagues:

I am pleased to provide you with the New York State Assembly Ways and Means Committee's Economic and Revenue Report for 2019. 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) 2018-19 and 2019-20.

The Committee staff forecasts that the state and national economies will continue to grow in 2019 and 2020, however pace of growth is expected to slow. Forecasting risks remain high, especially with respect to federal tax policy, financial market volatility, rising federal budget deficits, and slowing international economic growth.

The Committee staff projects that total All Funds receipts will reach $169.374 billion in SFY 2018-19, which represents an increase of $5.358 billion, or 3.3 percent, from SFY 2017-18. The Committee staff estimate is $174 million above the Executive's estimate for SFY 2018-19. The Committee staff projects that All Funds receipts will total $173.140 billion in SFY 2019-20, an increase of $3.766 billion, or 2.2 percent, over SFY 2018-19. The Committee staff forecast is $762 million higher than the Executive's forecast for SFY 2019-20. 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,

Helene E. Weinstein

HELENE E. WEINSTEIN

# NEW YORK STATE ECONOMIC AND REVENUE REPORT

**FISCAL YEARS 2018-19 AND 2019-20**

February 2019

**CARL E. HEASTIE**
Speaker
New York State Assembly

**HELENE E. WEINSTEIN**
Chair
Assembly Ways and Means Committee

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# ECONOMIC FORECAST HIGHLIGHTS

## United States

- The U.S. economy is in its eleventh year of expansion. It grew 2.2 percent in 2017, after a weak 1.6 percent gain in 2016. With consumer and business spending supported by steadily improving fundamentals, the **national economy** grew an estimated 2.9 percent in 2018. As the expansion matures, the pace of national economic growth is expected to slow to 2.5 percent in 2019, and further to 1.9 percent in 2020.

- With employment and income gains remaining healthy, **personal consumption spending**, adjusted for inflation, grew an estimated 2.7 percent in 2018, following a 2.5 percent gain in 2017. In 2019, consumer spending is forecast to grow another 2.6 percent, then continue to slow to 2.1 percent in 2020 as the impact of federal tax cuts wanes, higher interest rates constrain vehicle and home sales, and increasing prices of consumer goods and services erode consumer purchasing power.

- Supported by improving business sentiment and growth in national output and corporate earnings, **business investment spending** grew an estimated 5.8 percent in 2018 after increasing 4.8 percent in 2017. However, as national output growth is expected to slow and rising interest rates, recent financial volatility and trade policy uncertainty pose risks to the business investment climate, business investment spending growth is forecast to slow to 4.3 percent in 2019 and 3.2 percent in 2020.

- **Total government spending** grew an estimated 1.7 percent in 2018, after falling 0.1 percent in 2017, as state and local government spending growth turned positive and federal government spending accelerated following the lifting of sequestration spending caps. Supported by substantial increases in defense and nondefense spending, total government spending is projected to grow 2.3 percent in 2019, and then slow to 0.7 percent in 2020 as spending increases moderate at the federal level.

- As global economic growth improved, U.S. **exports** growth jumped to an estimated 4.1 percent in 2018, from a modest 3.0 percent in 2017. However, with global economic growth expected to slow and trade tensions continuing, U.S. exports are forecast to slow to growth of 3.5 percent in 2019 before improving to growth of 4.3 percent in 2020. With the U.S. dollar expected to appreciate and the U.S. economy expected to grow faster than its trading partners, U.S. imports are forecast to increase 5.4 percent in 2019 after growing an estimated 4.9 percent in 2018. As U.S. economic growth is expected to slow further in 2020, U.S. imports growth should also slow in 2020.

- **Corporate profits** are estimated to have grown 8.2 percent in 2018 and are expected to grow 6.7 percent in 2019. For the past two years, profits have increased steadily, albeit at a slower rate than during the previous recovery. Still, corporate profits currently stand near their historic high, although growth has been concentrated primarily in the domestic nonfinancial sector.

- Nonfarm payroll **employment** grew 1.6 percent in 2018, the same as in 2017, as economic growth continued. With the labor market operating at full employment and economic growth expected to slow, employment growth is forecast to slow to 1.5 percent in 2019 and further to 1.1 percent in 2020.

- After averaging near zero percent for five years, the **federal funds rate** has been rising since the conclusion of the Federal Reserve's December 2015 meeting. It increased to 2.4 percent in January 2019, and is forecast to average 2.5 percent in 2019 and 3.0 percent in 2020. The **10-year Treasury yield** increased to 2.8 percent in December 2018, and is forecast to increase on a yearly average basis to 2.9 percent in 2019 and 3.2 percent in 2020 in tandem with rising short-term interest rates. The projected increase in federal budget deficits and the anticipated gradual reduction of the Federal Reserve's holdings of Treasury securities will also put upward pressure on Treasury yields.

- With the economic expansion maturing and interest rates rising, there are increasing **risks to the economic outlook**. As seen in the recent volatile movements in the financial market, investors as well as federal policy makers are trying to read the undercurrent of the economy and ready themselves to quickly realign their positions, running the risk of overreacting. In addition, risks to the outlook include international trade tensions and the economic growth outlook for China and several other emerging markets. Unforeseeable risks, particularly adverse global geopolitical developments, persist in the current economic environment.

## National Forecast Comparisons

- The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth for 2019 is 2.5 percent. The staff's forecast is the same as the Blue Chip Consensus forecast. It is 0.1 percentage point above the Division of Budget and IHS Markit, and 0.2 percentage point below Moody's Economy.com.

**U.S. Real GDP Forecast Comparison**

| | Actual 2017 | Estimate 2018 | Forecast 2019 | Forecast 2020 |
|---|---|---|---|---|
| Ways and Means | 2.2 | 2.9 | 2.5 | 1.9 |
| Division of the Budget | 2.2 | 2.9 | 2.4 | 2.1 |
| Blue Chip Consensus | N/A | 2.9 | 2.5 | 1.8 |
| Moody's Economy.com | 2.2 | 2.9 | 2.7 | 1.1 |
| IHS Markit | 2.2 | 2.9 | 2.4 | 2.0 |

*Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, NYS FY 2020 Executive Budget Financial Plan - Updated for Governor's Amendments and Forecast Revisions, February 2019; Blue Chip Economic Indicators, February 2019; Moody's Economy.com, February 2019; IHS Markit, February, 2019.*

## New York State

- The New York State economy has been benefitting from the continued recovery in the national economy. **Total nonfarm employment** grew 1.4 percent in State Fiscal Year (SFY) 2017-18, and in December 2018 the unemployment rate in the State was 3.9 percent, the lowest rate recorded. With the State unemployment rate below its natural rate, nonfarm employment growth in the State is forecast to slow to 1.2 percent in SFY 2019-20, following growth of 1.5 percent in SFY 2018-19.

- **Wage growth** is expected to remain below the rates achieved in the period leading up to the 2007-09 recession, due partly to the concentration of job gains in lower-paying sectors and restrained growth in variable wages. Nonetheless, rising minimum wages and tightening labor markets put upward pressure on overall wages. In addition, firms that benefitted from federal tax reform may distribute some of these benefits to their workers. Total wages in New York State are forecast to slow to growth of 3.3 percent in SFY 2018-19 and 4.1 percent in SFY 2019-20, after accelerating at 4.7 percent in SFY 2017-18.

- After growing 8.0 percent in SFY 2017-18 amid strong revenue and profit growth on Wall Street, **variable wages** are estimated to fall by 4.5 percent in SFY 2018-19. Variable wages are forecast to recover in SFY 2019-20, growing 3.9 percent.

- The current economic climate and federal fiscal policies present 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 technological 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 2018-19 is 1.5 percent and is 0.3 percentage point above the Division of Budget's forecast. The staff's forecast for wage growth in SFY 2018-19 is 3.3 percent and is 0.1 percentage point above the Division of Budget's forecast.

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

| | Actual SFY 2017-18 | Estimate SFY 2018-19 | Forecast SFY 2019-20 |
|---|---|---|---|
| **Employment** | | | |
| Ways and Means | 1.4 | 1.5 | 1.2 |
| Division of the Budget | 1.3 | 1.2 | 1.1 |
| **Wages** | | | |
| Ways and Means | 4.7 | 3.3 | 4.1 |
| Division of the Budget | 4.7 | 3.2 | 3.8 |

*Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, NYS FY 2020 Executive Budget Financial Plan - Updated Governor's Amendments and Forecast Revisions, February 2019.*

# REVENUE FORECAST HIGHLIGHTS

## All Funds Tax Receipts State Fiscal Year 2018-19

- **All Funds revenues** are estimated to total $169.374 billion in State Fiscal Year (SFY) 2018-19 with year-to-year growth of 3.3 percent, or an increase of $5.358 billion.

- The Assembly Ways and Means Committee staff projection of **All Funds tax revenue** for SFY 2018-19 is $75.116 billion, representing an decrease of 3.5 percent, or $2.712 billion, from the prior year.

- The decrease in tax receipts in primarily related to a $3.836 billion reduction in **Personal Income Tax (PIT) collections,** which is the result of changes in the timing of taxpayer payments, in response to the federal Tax Cuts and Jobs Act.

- The decreases in personal income tax receipts is partially offset by increases in **Business Tax and Sales Tax** collections, which are projected to increase by $595 million and $713 million respectively.

- The Committee staff's All Funds revenue estimate is $174 million above the Executive's estimates. In terms of overall state tax revenues, the largest difference is in PIT, which is estimated to be $82 million above Executive estimates.

## All Funds Tax Receipts State Fiscal Year 2019-20

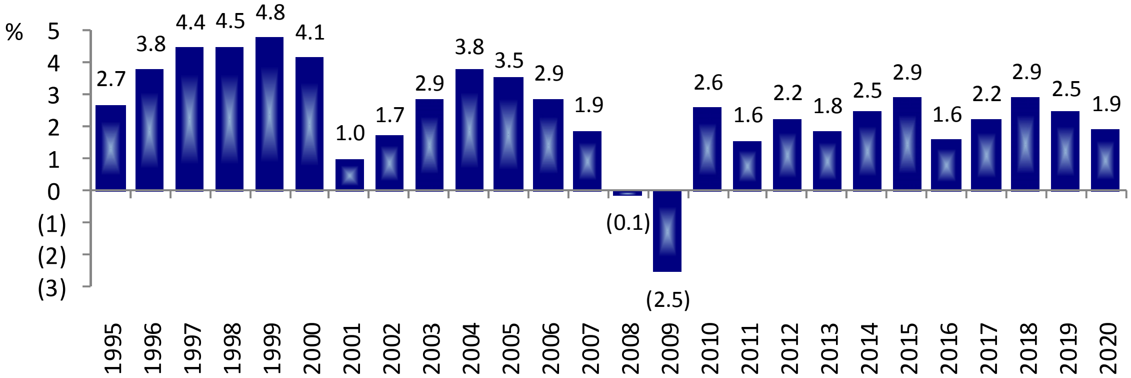
- The Committee staff expects **All Funds revenues** to increase by 2.2 percent, for a total of $173.140 billion in SFY 2019-20, primarily related to a $4.614 billion, or 9.7 percent, increase in **PIT collections,** as some taxpayers shift estimated payments that were expected in SFY 2018-19 into SFY 2019-20.

- The Committee staff expects an 8.5 percent increase in **All Funds tax receipts** for SFY 2019-20, for a total of $81.502 billion.

- The Committee's All Funds revenue forecast is $762 billion above the Executive's estimates, predominately related to a $510 million positive variance in personal income tax collections.

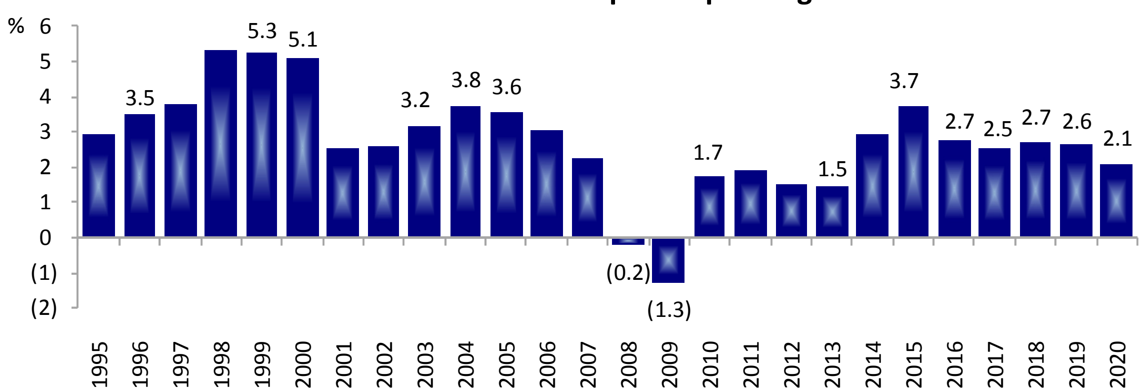
# U.S. ECONOMIC FORECAST AT A GLANCE

**U.S. Real GDP Growth**



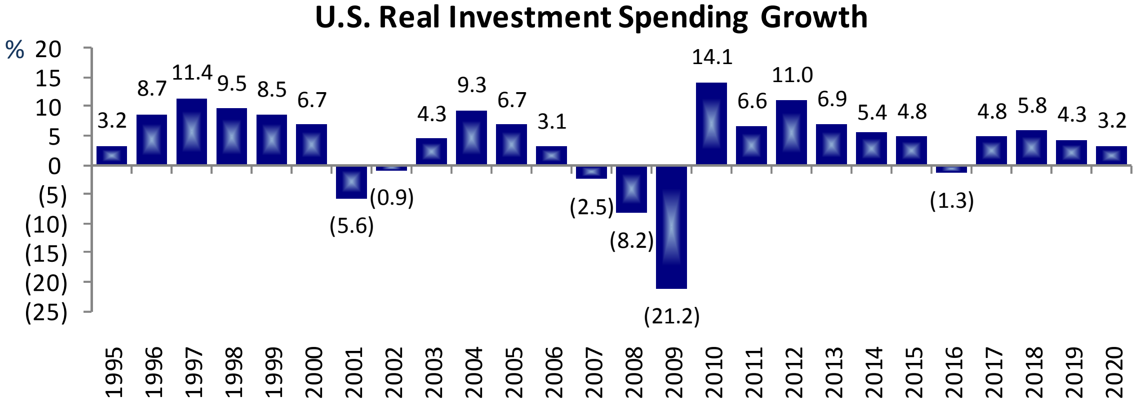

Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.
*Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.*

**U.S. Real Personal Consumption Spending Growth**



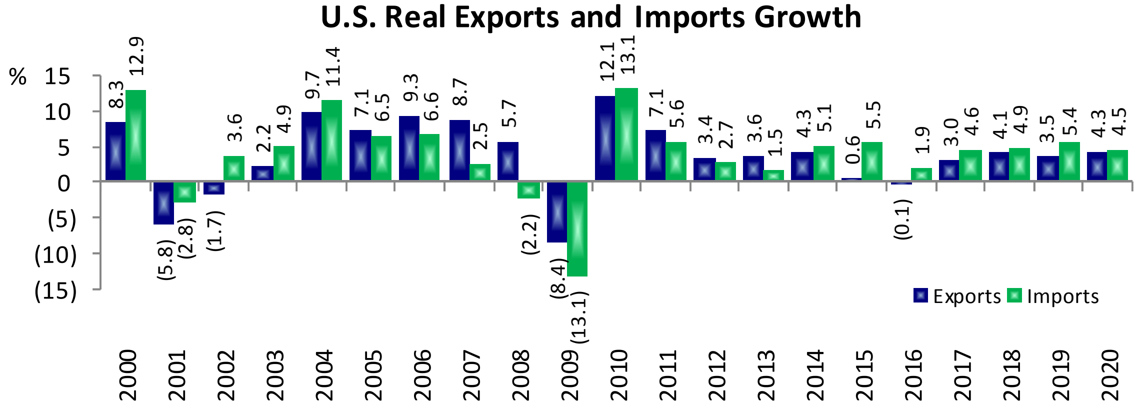

Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.
*Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.*

**U.S. Real Investment Spending Growth**




Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.
*Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.*

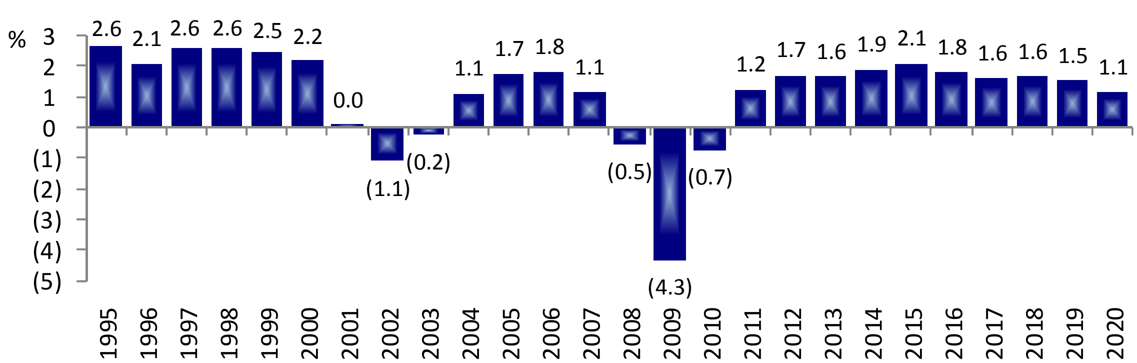
## U.S. Real Exports and Imports Growth




Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.

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

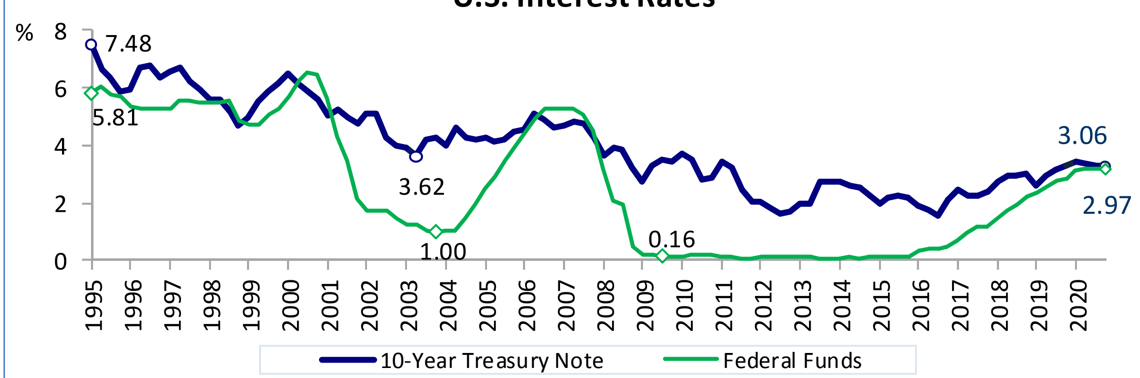
## U.S. Nonfarm Payroll Employment Growth




Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.

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

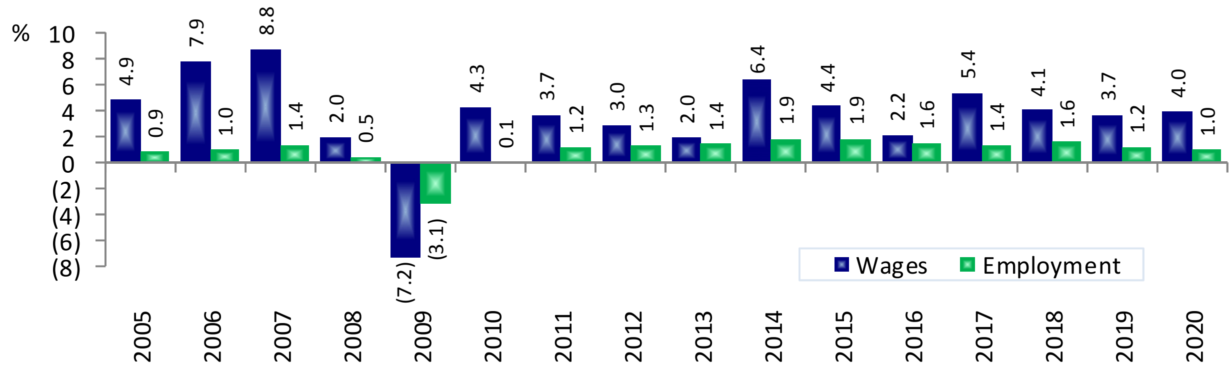
## U.S. Interest Rates



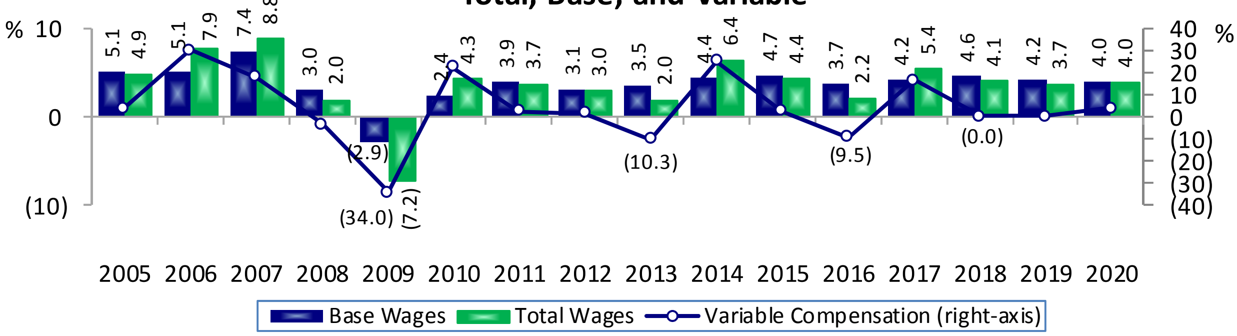

Note: Data are quarterly through 2020:Q4; the first forecast period is 2019:Q1.

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

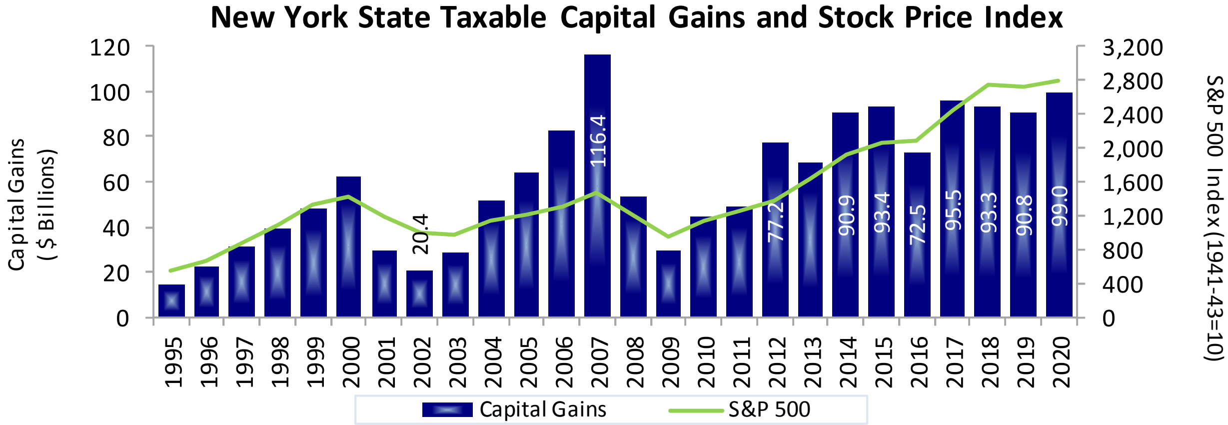
# N.Y.S. ECONOMIC FORECAST AT A GLANCE




Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.
*Sources: New York State Department of Labor; NYS Assembly Ways and Means Committee staff.*




Note: Total wage data for 2018 are estimated; 2019 and 2020 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.*




Note: Data for 2017 are estimated; 2018, 2019, and 2020 are forecasts.
*Sources: Standard & Poors; NYS Department of Taxation and Finance; NYS Assembly Ways and Means Committee staff.*

# REVENUE FORECAST AT A GLANCE

| SFY 2018-19 All Funds Estimate Summary ($ in Millions) | 2017-18 Actual | 2018-19 Estimate | Change | Growth | Diff. Exec. |
|---|---|---|---|---|---|
| Personal Income Tax | $51,501 | $47,665 | ($3,836) | (7.4%) | $82 |
| User Taxes | 16,711 | 17,425 | 713 | 4.3% | (20) |
| Business Taxes | 7,164 | 7,759 | 595 | 8.3% | 15 |
| Other Taxes | 2,451 | 2,266 | (185) | (7.6%) | 62 |
| **Total Tax Collections** | **$77,828** | **$75,116** | **($2,712)** | (3.5%) | **$140** |
| All Funds Miscellaneous Receipts | 23,809 | 27,733 | 3,924 | 16.5% | 33 |
| Gaming | 3,437 | 3,647 | 209 | 6.1% | 2 |
| **Total w/Miscellaneous Receipts & Gaming** | **$105,074** | **$106,495** | **$1,421** | 1.4% | **$174** |
| Federal Funds | 58,942 | 62,879 | 3,937 | 6.7% | - |
| **Total All Funds Receipts** | **$164,016** | **$169,374** | **$5,358** | 3.3% | **$174** |

* Totals may not add up due to rounding
**MTA payroll tax collections are excluded, as these revenues are now directly provided to the MTA.

| SFY 2019-20 All Funds Forecast Summary ($ in Millions) | 2018-19 Estimate | 2019-20 Forecast | Change | Growth | Diff. Exec. |
|---|---|---|---|---|---|
| Personal Income Tax | $47,665 | 52,280 | $4,614 | 9.7% | $510 |
| User Taxes | 17,425 | 18,241 | 816 | 4.7% | 55 |
| Business Taxes | 7,759 | 8,686 | 926 | 11.9% | 75 |
| Other Taxes | 2,266 | 2,296 | 30 | 1.3% | 54 |
| **Total Tax Collections** | **$75,116** | **$81,502** | **$6,387** | **8.5%** | **$693** |
| All Funds Miscellaneous Receipts | 27,733 | 24,303 | (3,430) | (12.4%) | 74 |
| Gaming | 3,647 | 3,563 | (84) | (2.3%) | (5) |
| **Total w/Miscellaneous Receipts & Gaming** | **$106,495** | **$109,368** | **$2,873** | **2.7%** | **$762** |
| Federal Funds | 62,879 | 63,772 | 893 | 1.4% | - |
| **Total All Funds Receipts** | **$169,374** | **$173,140** | **$3,766** | **2.2%** | **$762** |

* Totals may not add up due to rounding.

# U.S. ECONOMIC FORECAST TABLE

| U.S. Economic Outlook (Percent Change) | Actual 2016 | Actual 2017 | Estimate 2018 | Forecast 2019 | Forecast 2020 |
|---|---|---|---|---|---|
| Real GDP | 1.6 | 2.2 | 2.9 | 2.5 | 1.9 |
| Consumption | 2.7 | 2.5 | 2.7 | 2.6 | 2.1 |
| Investment | (1.3) | 4.8 | 5.8 | 4.3 | 3.2 |
| Exports | (0.1) | 3.0 | 4.1 | 3.5 | 4.3 |
| Imports | 1.9 | 4.6 | 4.9 | 5.4 | 4.5 |
| Government | 1.4 | (0.1) | 1.7 | 2.3 | 0.7 |
| Federal | 0.4 | 0.7 | 3.0 | 3.9 | 0.2 |
| State and Local | 2.0 | (0.5) | 0.9 | 1.3 | 1.1 |
| Personal Income | 2.6 | 4.4 | 4.4 | 4.4 | 4.3 |
| Wages & Salaries | 2.9 | 4.6 | 4.4 | 4.4 | 4.4 |
| Corporate Profits | (1.1) | 3.2 | 8.2 | 6.7 | 2.0 |
| Productivity | 0.1 | 1.1 | 1.3 | 1.3 | 0.9 |
| Employment | 1.8 | 1.6 | 1.6 | 1.5 | 1.1 |
| Unemployment Rate* | 4.9 | 4.4 | 3.9 | 3.6 | 3.7 |
| CPI-Urban | 1.3 | 2.1 | 2.4 | 2.1 | 2.4 |
| S&P 500 Stock Price | 1.5 | 17.0 | 12.1 | (1.2) | 3.3 |
| Treasury Bill Rate (3-month)* | 0.3 | 0.9 | 2.0 | 2.5 | 3.0 |
| Treasury Note Rate (10-year)* | 1.8 | 2.3 | 2.9 | 2.9 | 3.2 |

* 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.*

# N.Y.S. ECONOMIC FORECAST TABLES

| New York State Economic Outlook (Percent Change) | Actual 2016 | Actual 2017 | Estimate 2018 | Forecast 2019 | Forecast 2020 |
|---|---|---|---|---|---|
| Employment | 1.6 | 1.4 | 1.6 | 1.2 | 1.0 |
| Personal Income | 3.1 | 6.2 | 4.6 | 4.2 | 4.3 |
| Total Wages | 2.2 | 5.4 | 4.1 | 3.7 | 4.0 |
| Base Wages | 3.7 | 4.2 | 4.6 | 4.2 | 4.0 |
| Variable Compensation | (9.5) | 16.6 | (0.0) | 0.2 | 3.6 |
| New York Area CPI | 1.1 | 2.0 | 2.2 | 2.0 | 2.3 |

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 2017-18 | Forecast 2018-19 | Forecast 2019-20 | Forecast 2020-21 |
|---|---|---|---|---|---|
| Employment | ***Percent Change*** | 1.4 | 1.5 | 1.2 | 0.9 |
| | Level (Thousands) | 9,288.5 | 9,425.2 | 9,542.3 | 9,632.8 |
| Personal Income | ***Percent Change*** | 5.8 | 4.1 | 4.4 | 4.3 |
| | Level (Billions) | 1,281.9 | 1,334.2 | 1,392.2 | 1,452.1 |
| Total Wages | ***Percent Change*** | 4.7 | 3.3 | 4.1 | 4.1 |
| | Level (Billions) | 664.1 | 685.8 | 713.6 | 742.5 |
| Base Wages | ***Percent Change*** | 4.3 | 4.2 | 4.1 | 4.2 |
| | Level (Billions) | 589.5 | 614.5 | 639.5 | 666.5 |
| Variable Compensation | ***Percent Change*** | 8.0 | (4.5) | 3.9 | 2.6 |
| | Level (Billions) | 74.6 | 71.3 | 74.1 | 76.0 |
| New York Area CPI | ***Percent Change*** | 1.8 | 2.1 | 2.1 | 2.3 |
| | Index Level (1982-84=100) | 269.9 | 275.6 | 281.3 | 287.7 |

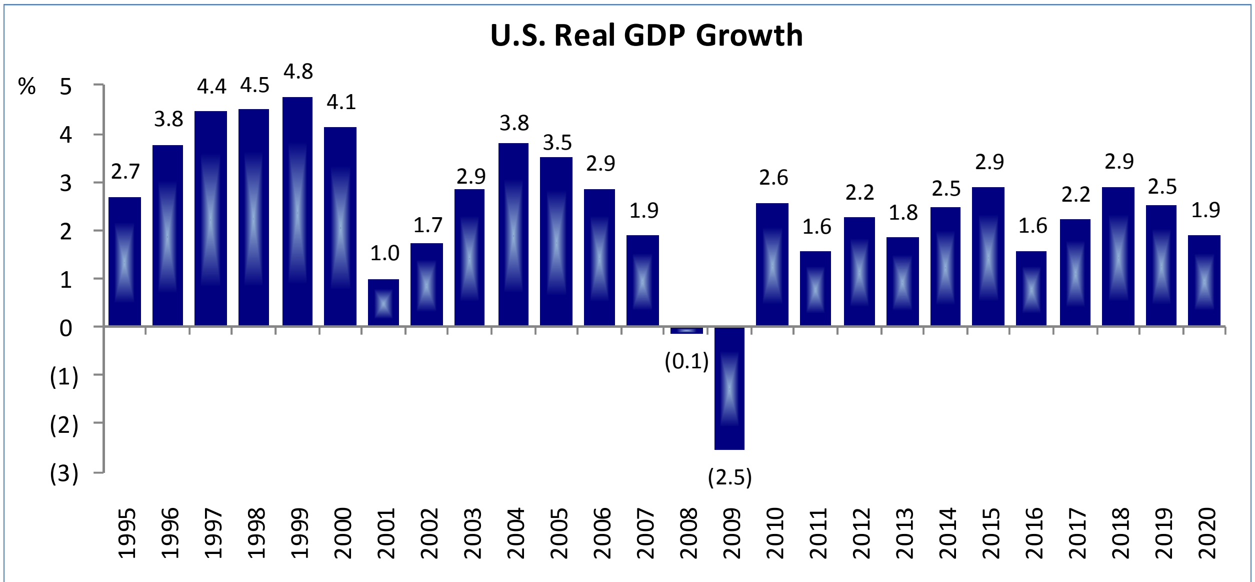
Note: Employment level is in thousands; wage and personal income levels are in billions of dollars.

*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.*

# U.S. ECONOMIC FORECAST ANALYSIS

## *Economic recovery continues, supported by solid gains in consumer and business spending*

The U.S. economy is in its eleventh year of expansion with many economic indicators reaching record levels. Since the end of the last recession in June 2009, national output, as measured by inflation-adjusted Gross Domestic Product (GDP), has been growing on average 2.3 percent per quarter on an annualized basis. As of December 2018, the number of U.S. payroll jobs has increased by more than 20.5 million from the end of the Great Recession, well more than double the number of jobs lost during the Great Recession.



Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.
*Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.*

**Figure 1**

In 2018, the pace of national economic growth jumped to an estimated 2.9 percent after remaining sluggish in the prior two years. The improvement was attributed in large part to continued gains in both consumer and business spending. In particular, as oil prices steadily recovered from the twelve-year lows of 2016, capital spending on oil-field equipment and structures increased sharply. In addition, global demand for U.S. exports continued to strengthen in 2018 and as a result U.S. net exports (exports minus imports), although still negative, subtracted less from overall national economic growth. With budget sequestration spending caps lifted, federal government spending also posted strong growth in 2018. Residential construction activity and inventory investment spending were two weak spots.

Consumer price inflation increased to 2.4 percent in 2018, the fastest yearly rate since 2011. In response, the Federal Reserve raised the target interest rate range for the federal funds market four times in 2018, leading interest rates in the rest of the credit market to higher levels. On a yearly average basis, the yield on three-month T-bills was 2.0 percent in 2018, up from 0.9 percent in 2017. The yield on ten-year Treasury securities rose to 2.9 percent in 2018 from 2.3 percent in 2017.

### *Consumer and broad labor market fundamentals remain positive*

Although risks have risen lately both at home and abroad, fundamentals remain solid for consumer and business spending, supporting a continued positive economic outlook for this year and the next. The Conference Board's Leading Economic Indicator Index for the national economy is on an upward trend, pointing to further expansion in the near future. The positive outlook is also signaled by both the manufacturing and nonmanufacturing activity indices compiled by the Institute for Supply Management.

Gains in employment remain healthy and steady. With unemployment below its natural rate, the labor market is tight and wage gains are strengthening. The latest data from the U.S. Census Bureau indicate that household income continued to rise in 2017, following the uptick that began in 2015.[1] Median household income for the U.S. rose to $61,372, surpassing the previous high of $60,062 reached in 1999 (as adjusted for inflation).[2] Also, the gains in income were more broad-based in 2017 than in prior years, although the degree of income inequality increased in 2017.

Helped by employment and income gains as well as the federal tax cuts enacted in December 2017, consumer spending growth is spread across many sectors. Continued gains in net worth and improving household financial positions have also been helping consumer spending recovery. For example, the household debt to disposable income ratio has steadily declined since the end of the 2007-2009 recession. With delinquency rates on consumer loans at the lowest levels in 28 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. Consumers are also saving a historically high

[1] Income and Poverty in the United States: 2017, Current Population Reports, U.S. Census Bureau, Sept. 2018.

[2] New York's median income was $62,447 in 2017. The State had caught up with the previous 1999 peak by 2015. So far, growth has primarily benefited the higher income categories.

percentage of their after-tax income, about seven percent, which provides a precautionary buffer against any future economic downturn.

### *Business fundamentals are also robust*

The continued recovery in consumer spending will help support business capital spending as it will prompt businesses to upgrade their equipment to meet demand. Business inventories appear to have been scaled down enough to signal more pickup in factory orders and production in the coming months.

Although crude oil prices have retreated lately, they are still well above the twelve-year lows seen in 2016, supporting the U.S. energy sector investment in oilfield equipment and structures. Despite the recent weakening in home sales and construction spending, housing demand will likely stabilize this year and support residential construction activity as personal income and employment growth continues. In addition, falling rental vacancy rates and loosening loan standards are also expected to help stabilize residential investment spending this year.

Two consecutive years of solid gains in corporate earnings in 2017 and 2018 help businesses with cash flow in capital spending plans. In addition, the tax cuts and accelerated expensing treatments permitted under the Tax Cuts and Jobs Act of 2017 provide businesses with incentives for more capital spending.

### *Public spending growth is strong*

With budget sequestration spending caps lifted, federal government spending posted strong growth in 2018. In addition, improvement in state and local government finances supports gradual gains in spending. This trend will likely continue in the next year with the public sector as a whole making a positive contribution to national economic growth.

### *The Federal Reserve will be on hold before resuming rate hikes*

Given the volatility in the financial market, the Federal Reserve appears to be on hold for now, adjusting the pace of rate increase to economic and financial conditions at home and abroad. However, premised on robust labor market conditions and firming inflation expectations, the current forecast assumes that the Federal Reserve is not done with rate hikes during the current cycle – two 25 basis point increases in 2019 and one more in 2020. It is assumed that although such policy changes will inevitably lead to speculation, the market responses will be orderly and restrained.

## Weaknesses and Risks Persist

As the economic recovery continues and matures, profitable investment opportunities become scarce, financing costs rise, and the price of potential policy mistakes increases. As seen in the recent volatile movements in the equity market, investors are trying to read the undercurrent in the market and ready themselves to quickly realign their positions to the changing landscape of opportunities and costs. Monetary policies have been diverging across central banks, as many countries, faced with different economic conditions, are unable to match the recent rate increases in the U.S. The resulting increase in interest rate differentials across borders is causing currency depreciation in, and capital flight from, countries with lower interest rates. Consequently, global economic and financial stability is increasingly at risk.

Rising interest rates are straining the cash flow of an increasing number of businesses, especially highly-indebted companies in the energy sector which have borrowed heavily to finance their spending on oil-field equipment and structures. Given that the recovery seen in equipment and structure investment in the past two years has been led largely by the energy sector, the outlook for business spending on equipment and structures is less certain.

Trade tensions continue, hurting not only U.S. trade partners but U.S. exporters and consumers. The economic outlook for China and other major trade partners of the U.S. has been revised down as their export industries lose competitiveness. While the benefits of U.S. tariffs intended for U.S. manufacturers may not be realized in the short term, the losses to U.S. consumers and businesses that are dependent on foreign imports are more immediate. For example, automakers appear to be passing on some of the rising costs of imported steel and aluminum products.

Although household debt is rising, it appears to be manageable when viewed relative to household income. However, student debt is worrisome not only because of the pace at which it has been increasing but also because of the total amount outstanding. In the third quarter of 2018, student debt outstanding was more than $1.4 trillion, exceeding the current value of car loans outstanding or the total subprime mortgages that were outstanding in 2006. Student loans present unique risks to lenders because of the lack of collaterals unlike home mortgage or car loans. Student loans also present unique challenges to borrowers because schooling often fails to deliver the earnings expected of the earned degrees as a result of degree inflation.

Consequently, lenders attach stringent conditions to their loans, and individuals cannot afford or must defer major purchases, such as a home, that usually come with after-college employment. The result is weaker overall consumer spending growth.

In the housing market, investors and lenders have been finding ways to adapt to the post-crash government regulations that were designed to crack down on the excesses that had contributed to the housing market meltdown. For example, investors have turned to 'drive by' appraisals, called broker price opinions (BPOs), as a quick, inexpensive way to value thousands of houses as part of a collateral offering. Although the use of BPOs was prohibited by Congress for properties with traditional mortgages after the housing crash, the ban does not apply to large investors buying thousands of houses. The inaccurate valuation based on BPOs could result in losses for both investors and lenders, destabilizing the credit market.[3]

Also, housing market recovery has failed to build a more solid, steady momentum as supply constraints, such as the shortage of buildable lots and skilled construction workers, persist. As of November 2018, housing starts were still 45 percent below the pre-recession peak. Rising student debt burdens and still relatively strict loan conditions have also been restraining potential first-time home buyers. As a result, in the second quarter of 2018, the homeownership rate among householders aged under 35 rose modestly to 36.5 percent, but was still down by 8.1 percentage points compared with its pre-recession peak.

Throughout the current recovery, household spending on automobiles has been one of the main growth drivers, due in part to aggressive marketing by auto dealers armed with low-cost financing. As early as 2015, reports of subprime auto loans started surfacing. Should borrowers become delinquent, the lenders would suffer loan losses with ripple effects on financial markets.

The equity market has gone through a correction after a decade-long rally, as investors are increasingly concerned over rising interest rates, the uncertainty caused by trade tensions, and threats of a potential recession. Many factors have contributed to the long rally. Persistently weak economic growth and various geopolitical crises have plagued many parts of the world since the 2007-2009 financial crisis, thereby making the U.S. financial market a safe

[3] "Sometimes the [appraisal] process is outsourced to India, where companies charge real estate agents a few dollars to come up with U.S. home values by consulting Google Earth and real estate websites," See Ryan Dezember and Rudegear, "Investors Turn to 'Drive By' Home Appraisals, Adding Risk," The Wall Street Journal, Section A, January 22, 2018.

haven for global investors. To a certain extent, the low interest rate environment that was premised on the need to deal with the financial crisis may have been extended for too long, overly fueling the equity market rally. Lately, renewed investor confidence from the corporate tax cuts and less regulation put in place in December 2017 has helped boost the equity market. As a result, the S&P500 stock price index increased 15.2 percent on an annualized monthly average basis from the Great Recession low in March 2009 to the recent high in September 2018. Compare that with the 10-year bull market in the 1990s, when the S&P500 increased 17.4 percent on an annualized monthly average basis. The 1990 rally ended with a 56 percent crash. The price/earnings (P/E) ratio for the S&P500, which tends towards the high teens during normal times, hovered around 25 before a correction began in October. In comparison, the P/E ratio was around 28 in the months preceding the start of the crash in 2000. Should the recent equity market volatility continue it would lead to a loss of consumer and business confidence, negatively impacting consumer spending and business decisions on capital spending and hiring.

With the recovery maturing and the labor market in full employment, the potential positive effects of the tax reform of 2017 on the economy will likely be limited. Furthermore, the tax reform is also expected to raise annual federal budget deficits to nearly $1 trillion in the coming years and thus, all else the same, put upward pressure on Treasury yields and mortgage interest rates. These rising interest rates imply higher interest payments on public debt, limiting the federal government's ability to respond to future economic crisis. The rising interest rates may also result in negative effects on consumer and business spending, let alone major corrections in financial markets.

## Overall, the U.S. Economic Recovery Will Continue

Against this backdrop of positive fundamentals driving the economy and negative factors and risks restraining it, the Committee staff estimates the U.S. economy to have grown 2.9 percent in 2018 led by robust growth in consumer and business spending. As the expansion matures into its eleventh year, the pace of national economic growth is expected to slow to 2.5 percent in 2019. With overall economic growth expected to slow and labor market conditions expected to tighten further, the rate of payroll job gains is forecast to slow to 1.5 percent in 2019.

### *Consumer prices will advance faster*

Although the prices of crude oil and other commodities have been declining in recent months, the prices paid by consumers for services have increased by about three percent over the same period a year ago. Also, import prices have been on an upward trend since February

2016, and with the labor market getting tighter, wages and other labor costs have been rising faster, putting upward pressure on the general price level. As a result, the rate of overall inflation as measured by the Consumer Price Index (CPI) has been advancing above the Federal Reserve's target rate of two percent. After rising 2.4 percent in 2018, the CPI is forecast to increase 2.1 percent in 2019 and 2.4 percent in 2020.

### *Interest rates will rise further*

Barring unexpected increases in domestic and global uncertainties, which would put downward pressure on the yield on U.S. Treasury securities, the yield on ten-year Treasury securities is expected to rise in tandem with rising short-term rates. The projected increase in federal budget deficits from the 2017 tax reform and the resulting acceleration in total net Treasury debt issuance will also put upward pressure on the long-term yield. The gradual reduction of the Federal Reserve's holdings of long-term Treasury securities is another contributor to rising long-term yields. On a yearly average basis, the ten-year yield is forecast to increase to 3.2 percent in 2020, after increasing to 2.9 percent in 2018 and 2019.

## Consumer Spending

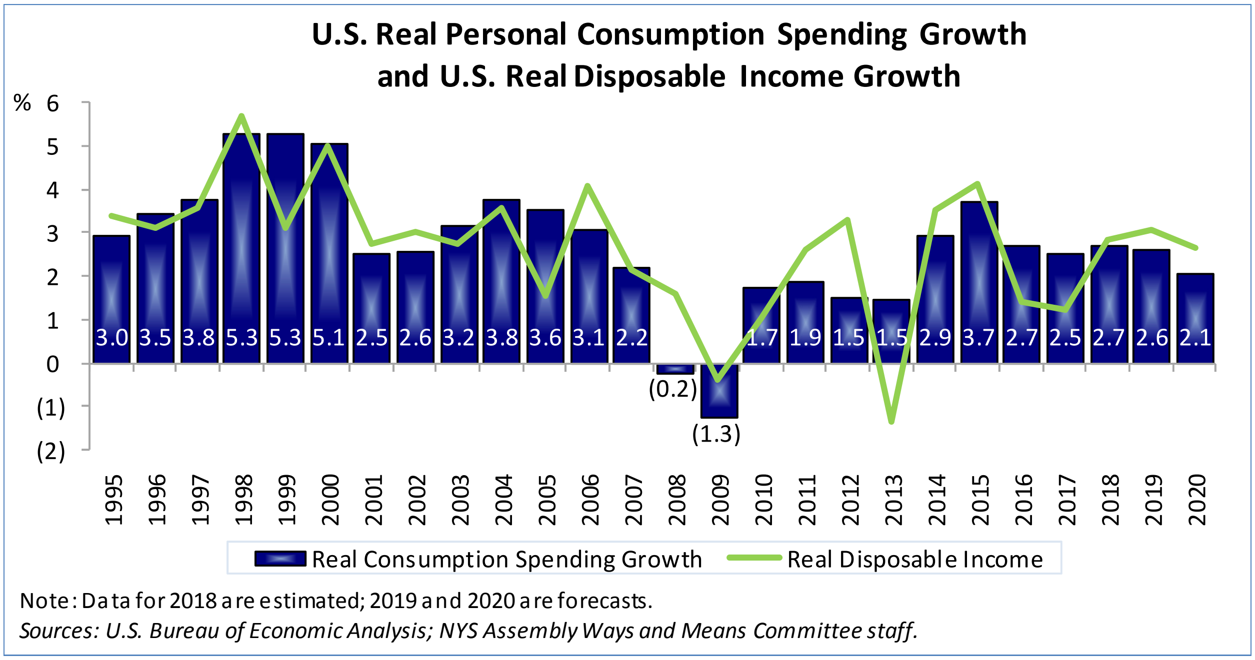



**Figure 2**

### Key Points

- **Consumer spending growth will continue to contribute to the ongoing economic expansion;**
- **Consumer spending is supported by gains in employment, income, and net worth as well as tax cuts;**
- **With interest rates expected to continue to rise, expenditures on durable goods will likely grow at a more modest rate;**
- **Expected increases in the price of consumer goods and services will lead to more restrained consumer spending over the forecast horizon.**

After growing 2.5 percent in 2017, personal consumption spending adjusted for inflation grew an estimated 2.7 percent in 2018. The improvement was helped by not only steady gains in employment and wages but also the cuts in personal income taxes that went into effect on January 1, 2018.[4] In addition, growth in consumer spending was supported by gains in equity

[4] The passage of the Tax Cuts and Jobs Act of 2017 (TCJA) lowered personal income tax rates and increased the child tax credit. See *the Tax Cuts and Job Act of 2017* (TCJA); Public Law 115-97, 115th Congress, December 22, 2017.

prices and household wealth, easier access to credit, and consumers' optimism on their financial and economic well-being.

The outlook for consumer spending remains cautiously optimistic in 2019 supported by many of its fundamentals. Households are expected to get a boost in disposable income from lower gasoline prices, though prices on non-energy products are expected to rise. However, expected lower equity prices as volatility increases in the stock markets will adversely impact households' balance sheets. Overall, consumer spending is projected to increase 2.6 percent in 2019, then slow to 2.1 percent growth in 2020 (see Figure 2). Slower growth in 2020 is partly attributed to the impact of tax cuts diminishing and the effect of rising interest rates getting more pronounced.

### *Higher disposable income will support consumer spending*

While real disposable income growth is expected to keep pace with consumer spending growth, higher consumer prices will restrain consumer spending power. Wages have been rising steadily as employers compete for workers in a tight labor market. Lower personal income tax rates have been helping disposable income. In addition, households have been saving at rates not seen since the late 1990s, which averaged 6.6 percent in the first eleven months of 2018. A higher savings rate provides a buffer for future consumer spending in case of an economic downturn.

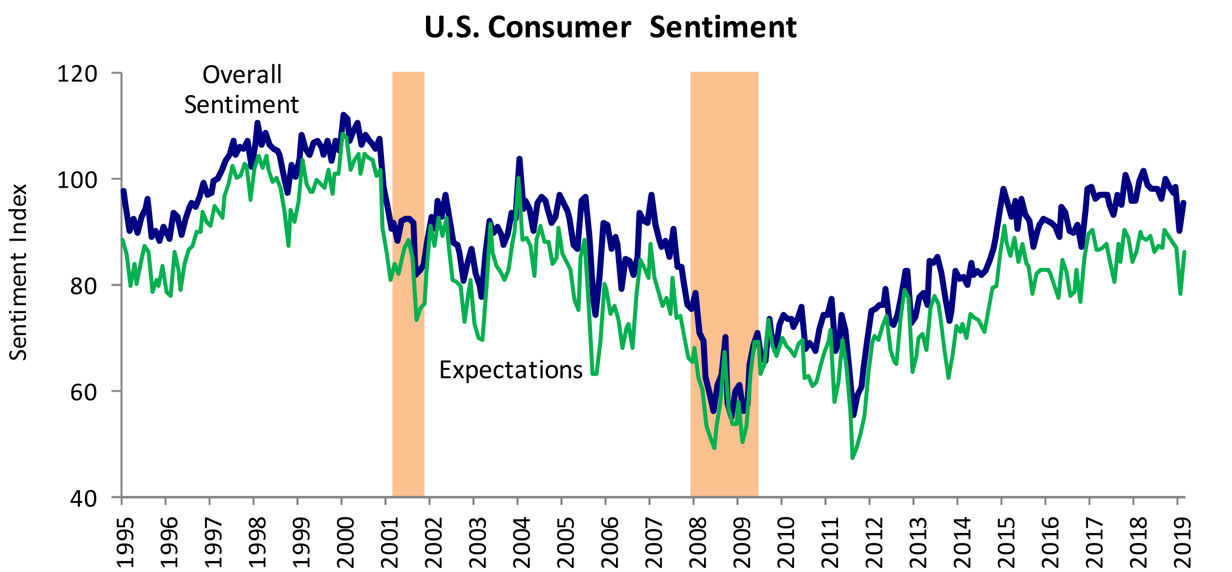
### *Recent data on new orders point to further gains in consumer spending*

New orders on consumer goods, a leading indicator of personal consumption spending, have been trending upwards since February 2016 surpassing its previous peak in September 2018. This suggests more gains in consumer spending in the coming months. This trend is underpinned by solid retail and food services sales. On average, retail and food services sales, excluding motor vehicles and parts, rose 5.5 percent in 2018, compared to 2017.[5]

[5] Total retail and food services sales grew 4.9 percent in 2018. Excluding gasoline station sales and motor vehicles and parts sales, retail and food services sales rose 4.6 percent. See U.S. Census Bureau, *Advance Monthly Retail Trade Report*, February 14, 2019, https://www.census.gov/retail/index.html.

### *Consumer sentiment suggests higher consumer spending*

Consumers' sentiment has been negatively impacted by rising prices, the impact of tariffs, volatility in equity markets, rising interest rates, and more recently the partial federal government shutdown. However, mid-February results of consumer sentiment suggest that households had a more favorable view of their financial situation as inflation expectations fell dramatically and the uncertainty of a second government shutdown dissipated (see Figure 3).[6] Hence, optimism among consumers supports a positive outlook for consumer spending.



Note: Data are monthly through February 2019. February data are preliminary. Shaded areas represent recessions.
*Source: Reuters/University of Michigan ICS.*

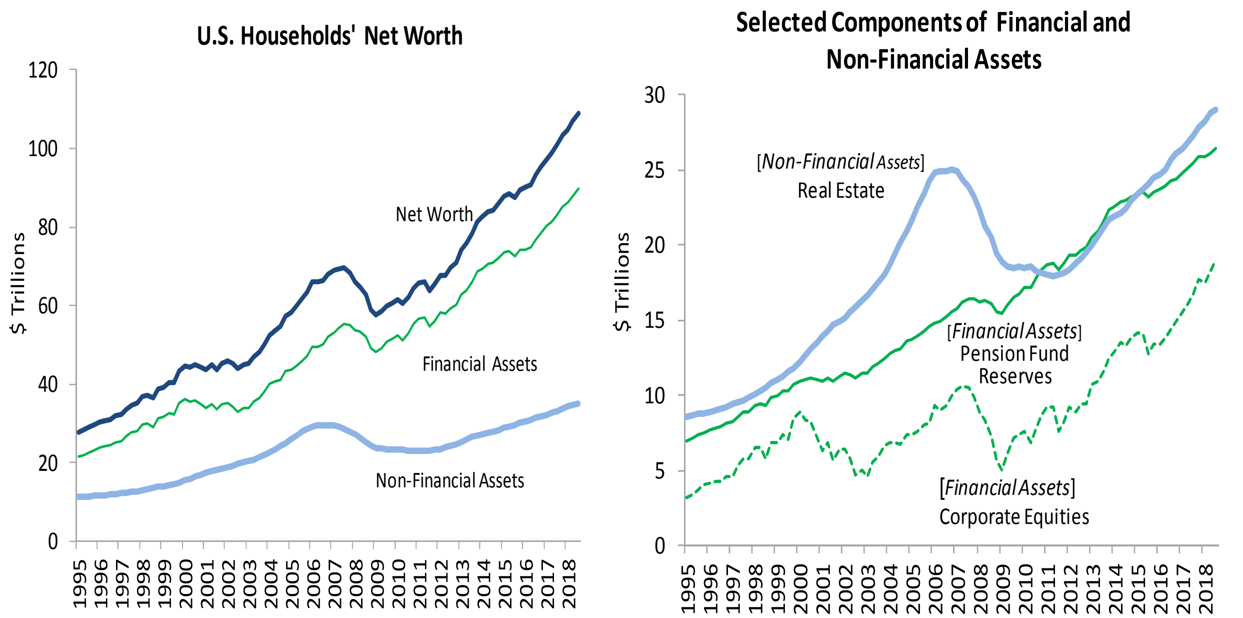
**Figure 3**

### *Household wealth has been increasing but at a slower pace*

Household net worth was $109.0 trillion in the third quarter of 2018, which was $39.6 trillion above its previous peak in the third quarter of 2007 and an increase of more than eighty-eighty percent since its lowest point in the first quarter of 2009 during the Great Recession (see Figure 4). The gains in financial assets, such as corporate equity, pension fund reserves, and mutual funds shares were primarily responsible for the significant increase in household net worth. Real estate holdings were $4.0 trillion above the prior peak in the fourth

[6] See Richard Curtin, *Surveys of Consumers: Preliminary Results for February 2019*, University of Michigan, February 15, 2019, http://www.sca.isr.umich.edu/.

quarter of 2006.[7] But rising interest rates and increasing equity market volatility create downside risks to household net worth, and thus consumer spending.




Note: Data are quarterly through 2018:Q3.
*Source: Federal Reserve.*

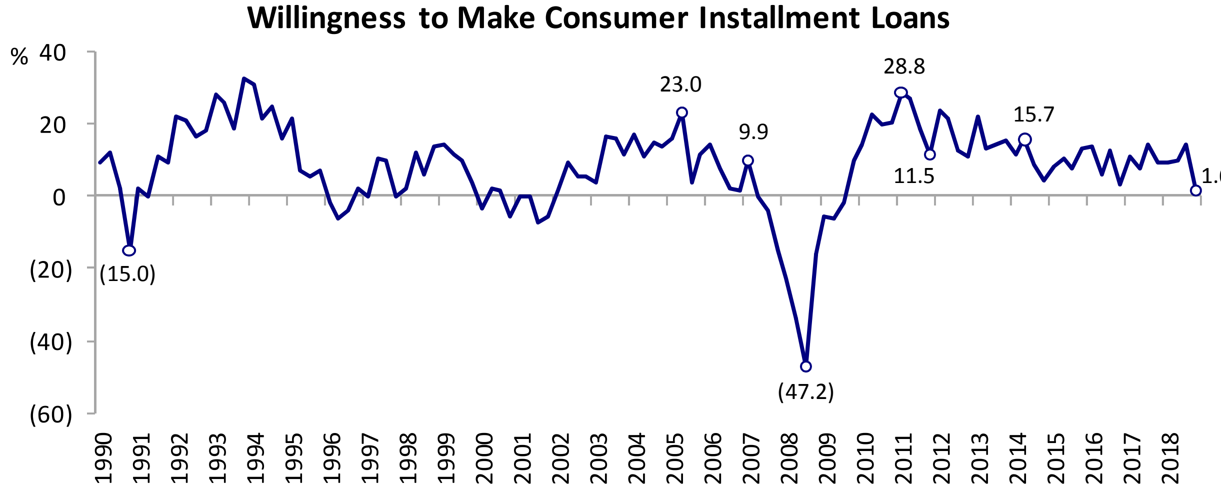
**Figure 4**

## *Banks have been more willing to lend*

Banks have been more willing to make consumer loans as households' credit-standing has improved (see Figure 5). However, households' demand for consumer loans has been weak.[8] Many households still face stringent loan standards and seem more selective about the type of debt they incur.

[7] See , Board of Governors of the Federal Reserve System, *Z.1 Financial Accounts of the United States*, *Third Quarter 2018*, December, 2018, http://www.federalreserve.gov/releases/z1/current/z1.pdf.

[8] See *The January 2019 Senior Loan Officer Opinion Survey on Bank Lending Practices*, Federal Reserve Board, February 4, 2019, https://www.federalreserve.gov/data/sloos/201901/default.htm.



Note: Data are quarterly through 2019:Q1. Bank data was taken from a survey of approximately fifty to seventy-two 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**

### *Households' overall finances have improved*

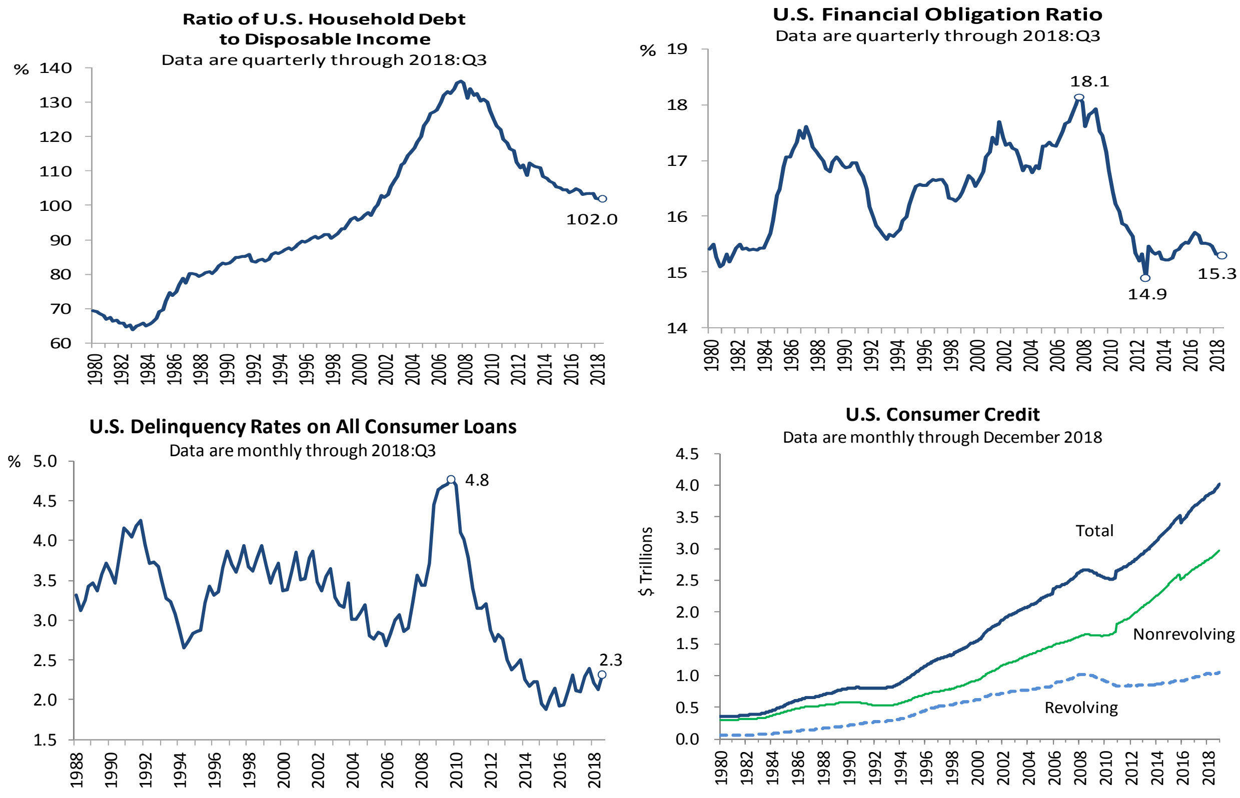
Though households' financial obligations are rising, their ratio to income remains at historic lows as income has increased at a faster pace. In the third quarter of 2018, households used about fifteen percent of their disposable income to make debt payments. Also, the debt-to-income ratio has stabilized at levels well below the prerecession peak (see Figure 6). Similarly, historically low delinquency rates, though increasing, suggest households are more financially secure. As a result of this improvement in households' financial position, banks have been more willing to lend and household demand for loans has been increasing.

Higher consumer debt can curb the amount of income available for spending on goods and services. Total student loans outstanding were over $1.4 trillion in the third quarter of 2018, with an average loan of $33,500, while total motor vehicle loans outstanding were $1.1 trillion.[9,10] In 2008, total outstanding loans for student and motor vehicle loans averaged $0.7 trillion and $0.9 trillion, respectively. Credit card debt and other revolving plans were

[9]Student loans include those originated under the Federal Family Education Loan Program and the Direct Loan Program; and Perkins loans. See Federal Student Aid, An Office of the Department of Education, *Federal Student Aid Portfolio Summary*, National Student Loan Data System, September 2018, https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

[10]Federal Reserve, Consumer Credit – G.19, *Statistical Release*, January 8, 2019, https://www.federalreserve.gov/releases/G19/current/g19.pdf.

$1.0 trillion in December 2018, compared to an average of $0.3 trillion in 2008.[11] The level of student debt is particularly worrisome because the responsibility of payments is significant and many individuals delay or forego other purchases such as a home, stymieing consumer spending.




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

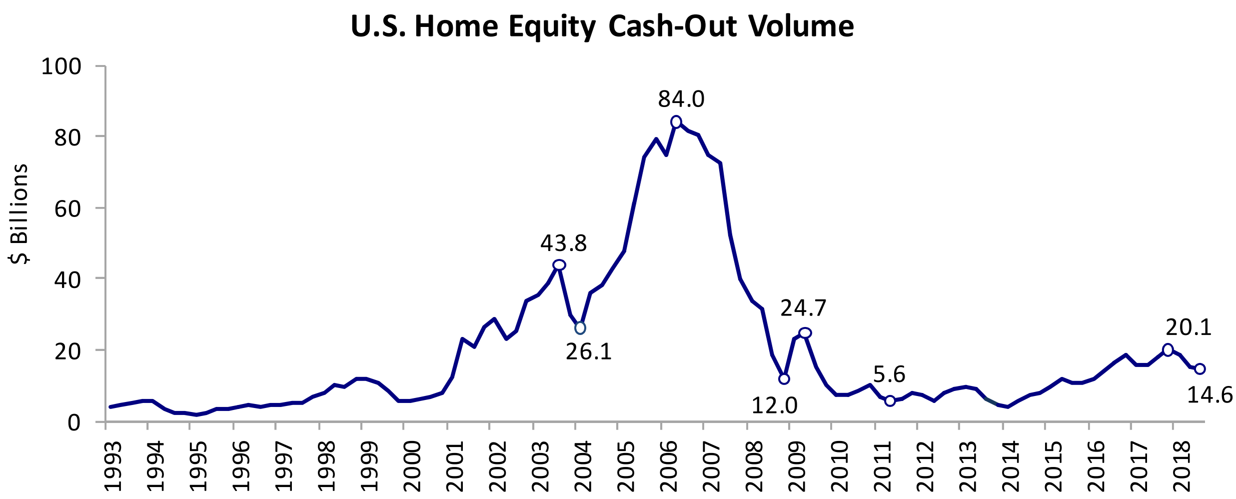
**Figure 6**

## *Home equity cash-out is more measured*

Many households have built up equity in their home as home prices have increased. However, home equity cash withdrawals have remained low as households choose to refinance primarily to lock in lower interest rates on their existing home loans or reduce the length of their mortgages. In the third quarter of 2018, of the homeowners who initially had 30-year

[11] Federal Reserve, *Consumer Credit – G.19, Statistical Release, February 7, 2019,* https://www.federalreserve.gov/releases/g19/current/.

mortgages and refinanced their home loan, 75 percent kept the length of payments at 30 years, 18 percent lowered the number of years to fifteen, and 7 percent to twenty years. Of all homeowners who refinanced home loans, 22.6 percent took out cash. While the fraction of homeowners who cashed-out equity has risen from its lowest rate in the third quarter of 2012, the amount of cash being taken out remains relatively low compared to the peak of $84.0 billion in the second quarter of 2006 (see Figure 7).[12] Lower home equity withdrawals inhibit consumer spending growth now, but the resulting equity building can act as a spending buffer against an economic downturn.



Note: Data is quarterly through 2018:Q3. Data for 2018 are estimated. Total Home Equity Cashed Out is through the refinancing of prime, first-lien conventional mortgages.
*Source: Freddie Mac Refinance Activities Report.*

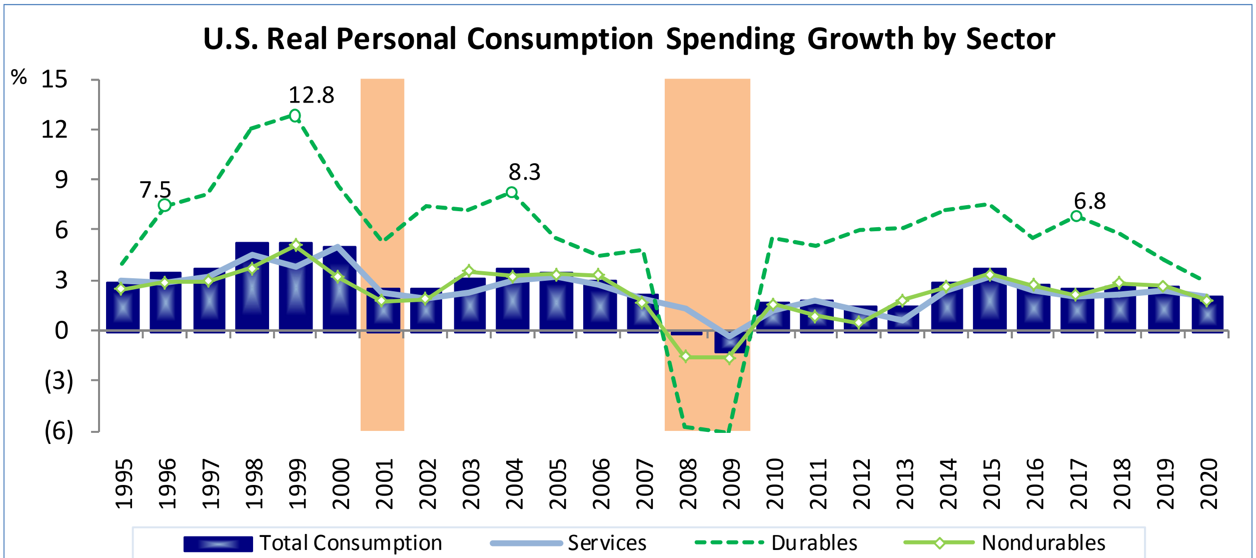
**Figure 7**

## *Overall consumer spending outlook*

Spending on motor vehicles and parts surged in the fourth quarter of 2017 as a result of hurricane-afflicted victims replacing damaged vehicles. Since then, the sales of trucks have tapered off while car sales continue to decline. With the slowdown in motor vehicles sales, spending on durables goods has been helped by spending on recreational goods and vehicles and other durable goods, including telephone and related communication equipment. Thus, spending on durable goods grew an estimated 5.7 percent in 2018. Higher interest rates tend to curtail durable goods spending on motor vehicles, housing, and housing-related purchases as

[12] See Freddie Mac, *Quarterly Refinance Statistics 3Q:2018*, Economic and Housing Research, November 14, 2018, http://www.freddiemac.com/research/datasets/refinance-stats/index.html.

the cost of financing increases.[13] As a result, spending on durable goods is forecast to slow to 4.2 percent in 2019 and 2.9 percent in 2020 (see Figure 8).



Note: Data for 2018 are estimated; 2019 and 2020 are forecasts. Shaded areas represent recessions.
*Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.*

**Figure 8**

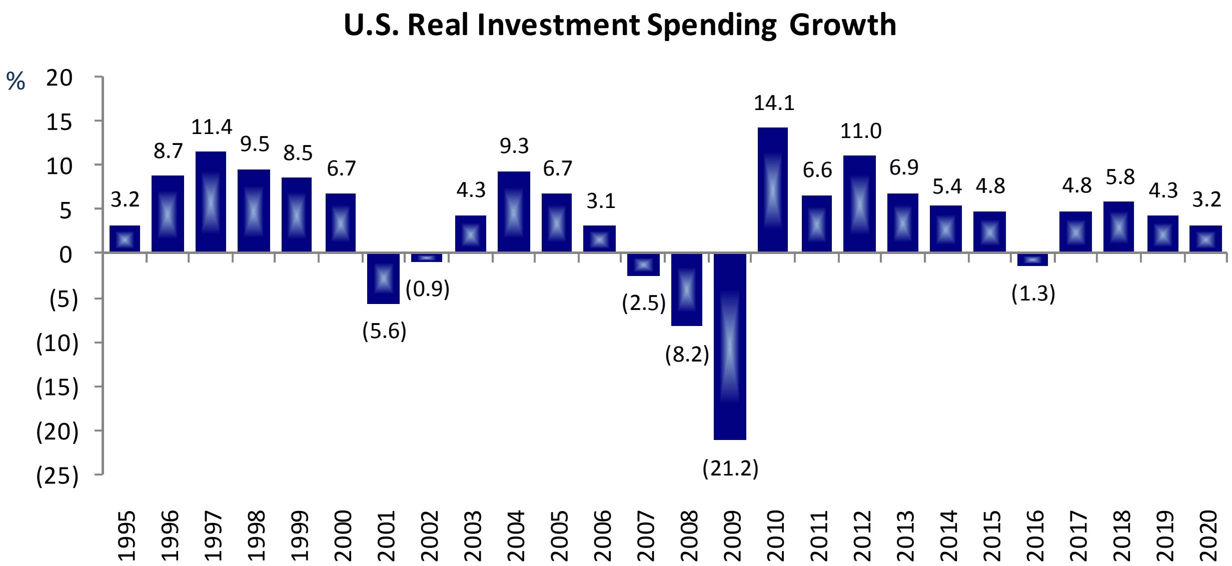
The other two major components of personal consumption spending, services and nondurable goods, accounted for more than eighty percent of total consumer spending in 2017. Growth of spending on these two components has been lackluster. In the first quarter of 2018, spending on services and nondurables was weak, retreating from a surge in the fourth quarter of 2017. While spending has since rebounded, spending on services will face headwinds over the forecast period. Healthcare spending will be negatively impacted by the provisions in the Tax Cuts and Jobs Act of 2017 (TCJA) that result in increased insurance premiums, a reduced number of people buying health insurance, and possible cuts to entitlement spending.[14] Spending on food services and accommodation showed some strength in the second quarter of 2018 but has since abated. Spending on nondurable goods seems more promising, particularly for the households that spend a higher share of their income on necessities. The boost in

[13] As of January 17, 2019, the 30-year fixed rate mortgage interest rate was 4.45 percent. See Freddie Mac, *Primary Mortgage Survey*, January 17, 2019, http://www.freddiemac.com/pmms/.

[14] The TCJA repealed the individual mandate. Since the TCJA was funded by deficit, policymakers will have to reduce other programs overtime as asserted by another law in 2010. Social Security and unemployment benefits are exempted. See *The Tax Relief, Unemployment Insurance Reauthorization and Job Creation Act of 2010*; Public Law 111-312, 111th Congress, December 2010.

disposable income from tax cuts will encourage more purchases of food and beverage for at home consumption and clothing and footwear. Therefore, spending on nondurable goods is estimated to have grown 2.8 percent in 2018, and is projected to increase by 2.6 percent in 2019 and 1.8 percent in 2020. Spending on services is estimated to have increased 2.2 percent in 2018, and is predicted to grow another 2.3 percent in 2019 and 2.0 percent in 2020.

## Business Investment Spending




Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.

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

**Figure 9**

## Key Points

- **Although growth in business investment spending is tempered by the recent financial volatility and trade policy uncertainty, recovery is expected to continue in 2019 as overall economic fundamentals remain positive and fiscal policy is supportive;**
- **Spending on intellectual property products – such as software and R&D - is expected to remain strong over the forecast period.**

In the near term, business spending will continue to be supported by growth in demand for U.S. goods and services at home and abroad. However, as overall economic growth is expected to slow this year and next, so is business capital spending. In addition, tariffs levied by and against the U.S. as part of ongoing trade disputes are disrupting supply chains and spoiling business expansion plans.[15] The recent equity market volatility and rising risk premium (the spread between yields on corporate and Treasury securities) are also taxing on business

[15] See Singh, R. (n.d.). As Trump's tariffs bite, small U.S. manufacturers begin to tap the brakes. Retrieved October 10, 2018, from https://www.reuters.com/article/us-usa-trade-tariffs/as-trumps-tariffs-bite-small-u-s-manufacturers-begin-to-tap-the-brakes-idUSKBN1I5108

confidence and entrepreneurial risk-taking, negatively impacting business decisions on capital spending. Recent declines in domestic oil prices are weighing on the near-term outlook for business spending on oil-field mining equipment and structures.

Although the 2017 Tax Cuts and Jobs Act (TCJA) is intended to incentivize businesses to increase capital spending, the Fed's recent cycle of interest rate hikes, although it may be on hold for now, tempers business investment spending growth. Not only do firms face rising financing costs, but they use the windfall from the tax cuts to make interest payments and pay down the debt accumulated during the Fed's era of quantitative easing.[16] Moreover, a post-TCJA survey of business executives published by the Federal Reserve Bank of Atlanta revealed that as much as 75 percent of respondents did not intend to make any changes to investment plans in either 2018 or 2019.[17] In fact, data on the S&P 500 firms indicate that stock buybacks made up a larger share of cash spending than capital expenditures, a feat accomplished only once in the last twenty years.

Growth in business capital spending (other than inventory investment spending) appears to have peaked in 2018. After increasing 4.8 percent in 2017, its growth accelerated to an estimated 5.2 percent last year but will likely slow to 4.0 percent in 2019 and further down to 3.3 percent in 2020 (see Figure 9).

## Nonresidential Investment

Nonresidential investment spending is expected to continue to increase over the forecast period. But its growth appears to have peaked at an estimated 6.9 percent in 2018, following 5.3 percent in 2017. With national output growth expected to slow this year and next, the pace of growth in nonresidential business capital spending is also likely to slow to 5.1 percent in 2019 and further to 3.8 percent in 2020. Nonresidential investment spending is projected to be led by spending on business equipment and intellectual property products.

Bolstered by higher business spending on software and research and development, spending on intellectual property products, which accounts for about a third of total

[16] See Egan, M. (n.d.). "Problem with rising rates: Corporate America has binged on debt," Retrieved October 25, 2018, from https://money.cnn.com/2018/02/26/investing/corporate-debt-rising-rates/index.html.

[17] See Nicolaci Da Costa, P. "Trump claimed the tax bill would lead to a huge boost in business spending — but there's no sign of it yet," Retrieved October 25, 2018, from https://www.businessinsider.com/tax-cuts-fail-to-boost-corporate-investment-plans-fed-survey-shows-2018-3.

nonresidential business investment, increased an estimated 7.2 percent in 2018. Its growth is projected to slow to 6.6 percent in 2019 and 4.7 percent in 2020. Spending on equipment, which accounts for about 47 percent of total nonresidential business investment, is also forecast to slow to 5.2 percent in 2019 and 4.0 in 2020, after two consecutive years of strong growth fueled largely by a boom in information-processing equipment (see Figure 10).

As oil prices recovered fast in the last two years from their twelve-year lows in 2016, spending on mining equipment and structures increased sharply. Without that boom, according to one estimate, overall business capital spending growth would have been about five percent lower year-over-year.[18] However, the recent declines in domestic oil prices are weighing on the near-term outlook for business investment spending. Rising interest rates also pose a major risk to oil exploration and production companies, which utilized cheap credit during the period of quantitative easing. Although the sector has made technological improvements and boosted operational efficiency, such gains will likely be significantly outweighed by rising interest expenses, which currently comprise between 25 to 33 percent of the total cash cost of most firms.[19] Furthermore, even with technological improvements, only five of the top twenty oil exploration and production firms generated positive free cash flows in the first half of 2018, suggesting that the U.S. energy sector remains particularly vulnerable to rising interests as well as any further declines in oil prices.[20]

Retail property markets will continue to face headwinds from ecommerce. But as consumers make more online purchases, demand for warehouse space has risen. As employment gains continue, demand for office space will remain healthy, supporting growth in commercial real estate. Furthermore, businesses have generally benefited from slightly more accommodative lending standards from banks on commercial and industrial loans.[21] Overall, after increasing an estimated 5.4 percent in 2018, spending on nonresidential structures is forecast to slow to growth of 2.5 percent in 2019 and further to 1.8 percent in 2020.

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[18] See Bostic, R. (2018, June 18). The Path to Economic Resilience. Retrieved October 26, 2018, from https://www.frbatlanta.org/news/speeches/2018/06/18-bostic-path-to-economic-resilience.

[19] See Azar, A. (2017, May). Reserve Base Lending and the Outlook for Shale Oil and Gas Finance(Rep.). Retrieved October 26, 2018, from Columbia SIPA Center on Global Energy Policy website: https://energypolicy.columbia.edu/sites/default/files/CGEPReserveBaseLendingAndTheOutlookForShaleOilAndGasFinance.pdf.

[20] See McLean, B. (2018, September 1). The Next Financial Crisis Lurks Underground. Retrieved October 26, 2018, from https://www.nytimes.com/2018/09/01/opinion/the-next-financial-crisis-lurks-underground.html.

[21] See Dunsmuir, L. (2018, August 6). *U.S. banks further eased business loan standards in Q2 2018*. Retrieved November 2, 2018, from https://www.reuters.com/article/us-usa-fed-credit/u-s-banks-further-eased-business-loan-standards-in-q2-2018-idUSKBN1KR1XZ.

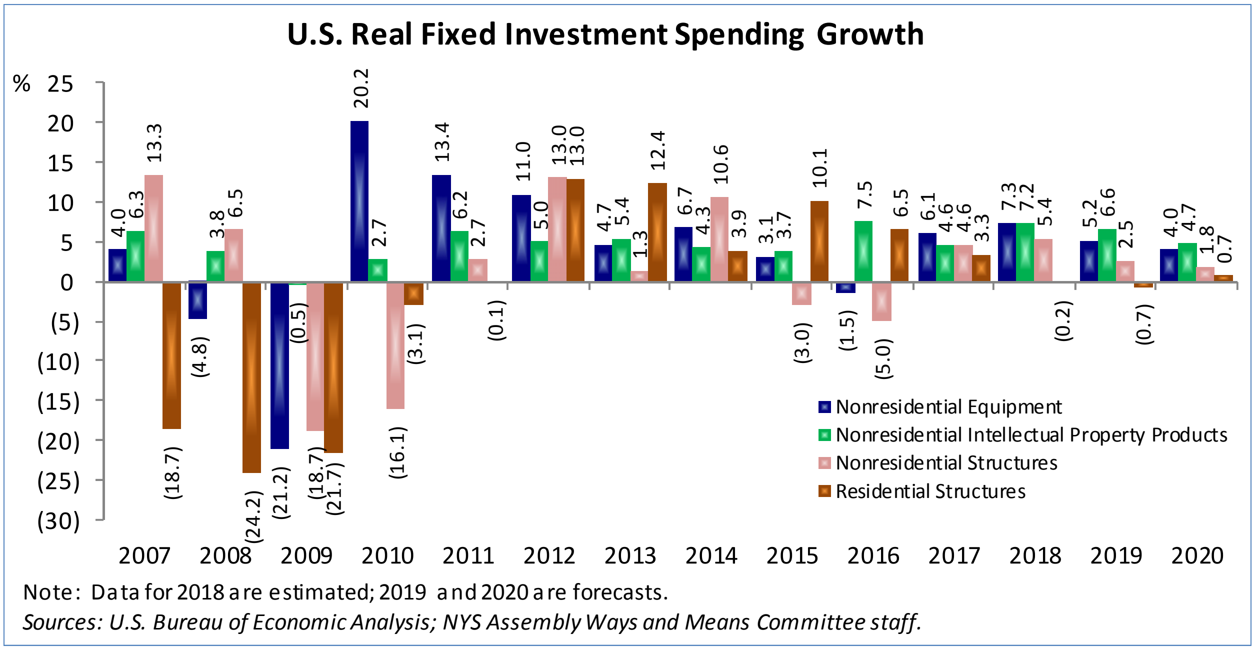



**Figure 10**

## Residential Investment

Rising mortgage rates, tariffs, and a persistent shortage of labor in the construction industry have been negatively impacting the housing market on both the demand and supply sides. In December 2018, new home sales plunged to levels not seen since December 2016, as mortgage rates hit a seven year high. Housing starts have weakened lately after reaching the highest levels in at least 10 years in January 2018. As a result, residential investment spending declined an estimated 0.2 percent in 2018, following six consecutive years of growth from 2012 through 2017.

As unemployment remains low, wages improve and economic growth continues, however, there are still positive signs for the housing market. Despite the recent softening, total housing starts are still over four percent higher on average year-over-year than in the comparable period in 2017. In addition, falling rental vacancy rates and loosening loan standards are also expected to help stabilize residential investment spending this year and next. All in all, residential investment spending is forecast to recover by 0.7 percent in 2020 after declining 0.7 percent in 2019.

## Government Spending

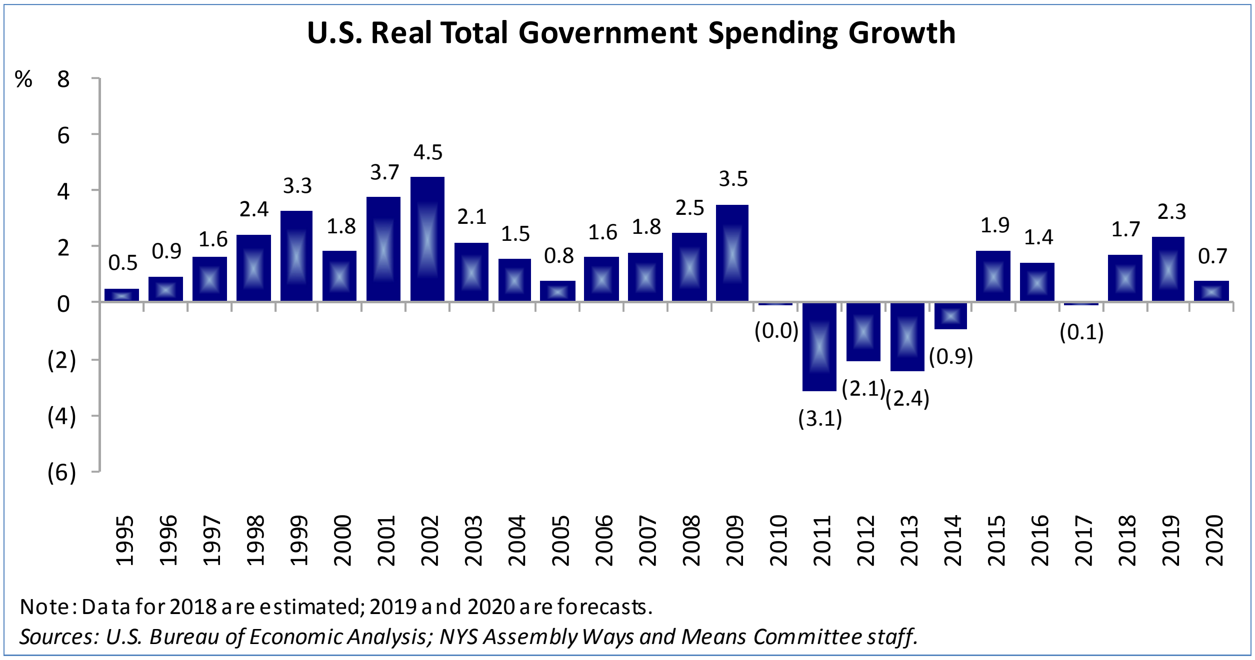



**Figure 11**

### Key Points

- **Government spending will contribute to overall economic growth over the forecast period;**
- **Federal government spending, both defense and nondefense, is expected to accelerate as policymakers lift budget sequestration spending caps;**
- **Higher revenue streams will allow state and local governments to respond to mounting demands for increased spending, especially for mandatory spending on health care, pensions, and education.**

Total government spending, adjusted for inflation, declined in 2017 after growing the previous two years. The decrease stemmed from a contraction in state and local government spending, which had been the driver of total government spending in 2015 and 2016. In 2018, total government spending grew an estimated 1.7 percent as federal government spending growth accelerated, and state and local government spending increased moderately. Over the forecast period, total government spending will be supported by higher spending at all levels of government. Growth is projected to be 2.3 percent in 2019, propped up by higher nondefense and defense spending; it will then slow to 0.7 percent in 2020, due mainly to more subdued federal government spending (see Figure 11).

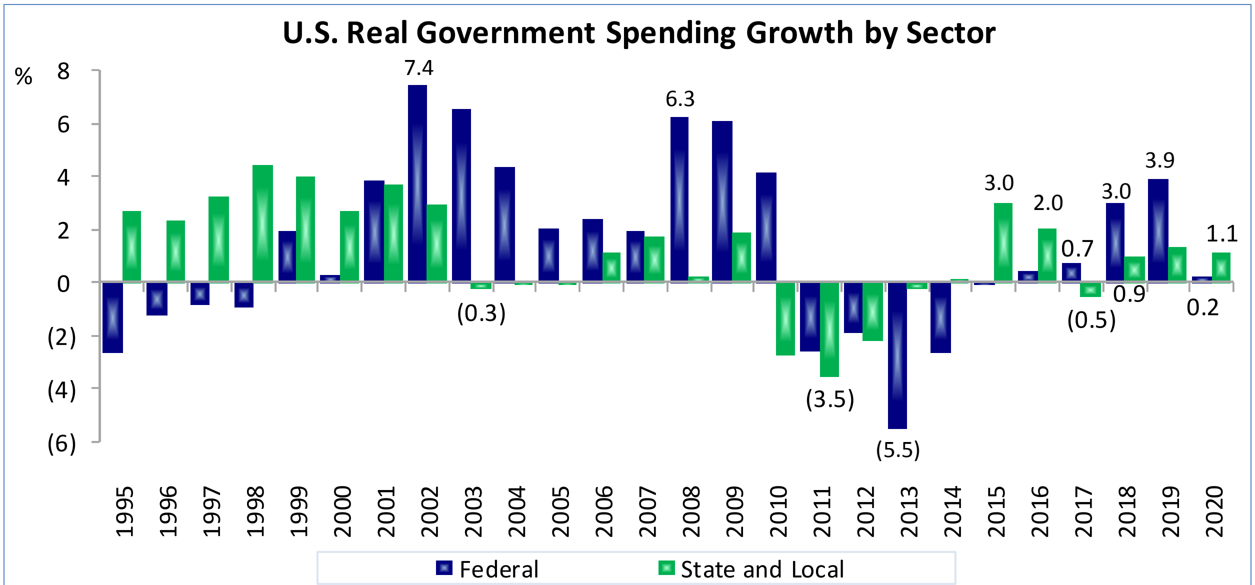
Risks to the government spending forecast are associated mainly with political gridlock. A limited shutdown of the federal government took place from December 22, 2018 through January 25, 2019 and resulted in approximately 800,000 federal government civilian workers being furloughed, though some were working without pay. The loss to economic growth from the shutdown is mainly from the delayed compensation to furloughed workers. Hence, the impact on the economy is anticipated to be small and likely contained to the first quarter of 2019. In addition, the expiration of debt ceiling in March 2019 is impending. Expenditures related to emergency management, disaster relief, and overseas contingency remain a constant risk.

## Federal Government Spending

Federal government spending increased an estimated 3.0 percent in 2018, following an anemic 0.7 percent gain in 2017. The Bipartisan Budget Act of 2018 (BBA) authorized higher spending levels in federal fiscal years 2018 and 2019. The growth in federal government spending in 2018 was largely related to higher defense and nondefense investment spending on equipment and software. It was helped by growth in military personnel compensation and nondefense spending on goods and services (see Figure 12).

Federal government outlays are projected to increase by $161.5 billion in federal fiscal year 2019.[22] Defense and nondefense spending is set to rise substantially for consumption and public infrastructure investment. Federal spending will also grow further with spending on aid for disaster relief and continued efforts to combat terrorism, abated somewhat by the partial government shutdown. Federal government spending is projected to increase 3.9 percent in 2019. In 2020, federal government spending is forecast to grow only 0.2 percent, reflecting the BBA's reduction in sequestration spending caps.

[22] See The Bipartisan Budget Act of 2018; Public Law 115-123, 115th Congress, February 9, 2018, and *Bipartisan Budget Act of 2018, Cost Estimate*; Congressional Budget Office, February 8, 2018, http://www.cbo.gov/publication/53556.




Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.
*Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.*

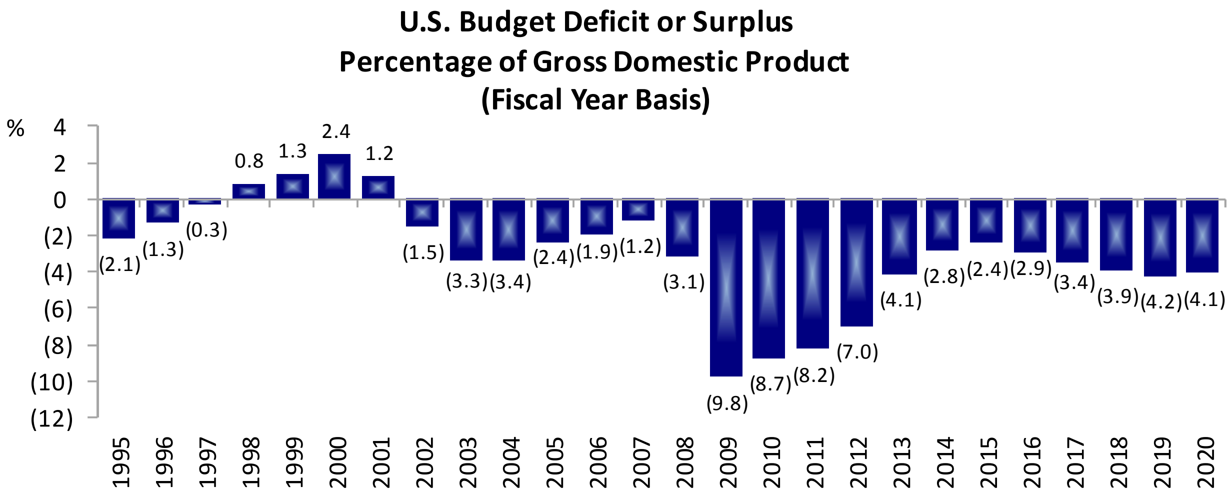
**Figure 12**

The federal government has persistently amassed budget deficits. In federal fiscal year 2018, the total national debt accumulated was more than $21 trillion. The federal government is expected to accrue further debt in the future, raising concerns about federal spending on interest payments and the impact on economic growth over time. As more federal funds are steered toward interest payments, the federal government has less flexibility to address fiscal crises.

The federal deficit in federal fiscal year 2018 was $779 billion or 3.9 percent of GDP, up from 3.4 percent in fiscal year 2017 (see Figure 13).[23] The increase in the budget gap was directly related to the BBA that lowered corporate tax rate and lifted spending caps. The budget deficit is projected to be $897 billion in federal fiscal year 2019 or 4.2 percent of GDP.[24]

[23] See U.S. Department of Treasury, Financial Management Service, *Final Monthly Treasury Statement of Receipts and Outlays of the United States Government for Fiscal Year 2018 through September 30, 2018, and Other Periods,* September 2018, http://fms.treas.gov/mts/mts0918.pdf.

[24] Congressional Budget Office, The Budget and Economic Outlook, 2019 to 2029, January 2019, https://www.cbo.gov/publication/54918.




Note: Data for fiscal years 2019 and 2020 are estimates. The federal fiscal year starts October 1 and ends September 30 of the next calendar year. Therefore, fiscal year 2019 is from October 1, 2018, through September 30, 2019. The Congressional Budget Office assumes current laws.

*Source: Congressional Budget Office*

**Figure 13**

## State and Local Government Spending

Preliminary state revenue data for the first two quarters of 2018 suggest stronger state tax collections than over the same period in 2017.[25] The increase was broad-based, boosted by strong gains in personal income tax collections, higher corporate taxes, and increases in sales tax collections. Meanwhile, higher home prices signify solid property tax collections for local governments. Consequently, state and local government spending rebounded by an estimated 0.9 percent in 2018, after declining 0.5 percent in 2017 as the uncertainties surrounding federal government transfers led state and local officials to rein in spending.

Eleven years into the current economic expansion, most state budgets continue to prioritize core services such as K-12 education and health care. In 2018, states reduced their workforce, while employment at the local level of government kept rising gradually. Pressures from mandatory spending on pensions, health care, and education will continue to push state and local government spending upwards, while crowding out other expenditures. Therefore, state and local government spending is forecast to increase by 1.3 percent in 2019 (see Figure

[25] Lucy Dadayan, "Robust State and Local Revenue Growth in the Fourth Quarter of 2017; Federal Tax Cuts Cloud Horizon – Fourth Quarter 2017," *State Revenue Report*, Rockefeller Institute of Government, May 2018; http://rockinst.org/wp-content/uploads/2018/04/4-30-18-SRR-111.pdf.

12). In 2020, state and local governments will likely face slower revenue growth, which will restrain spending. However, since overall economic growth is expected to slow, the demand for goods and services provided by states and their localities will increase. Therefore, state and local government spending is projected to grow another 1.1 percent in 2020.

## Exports and Imports

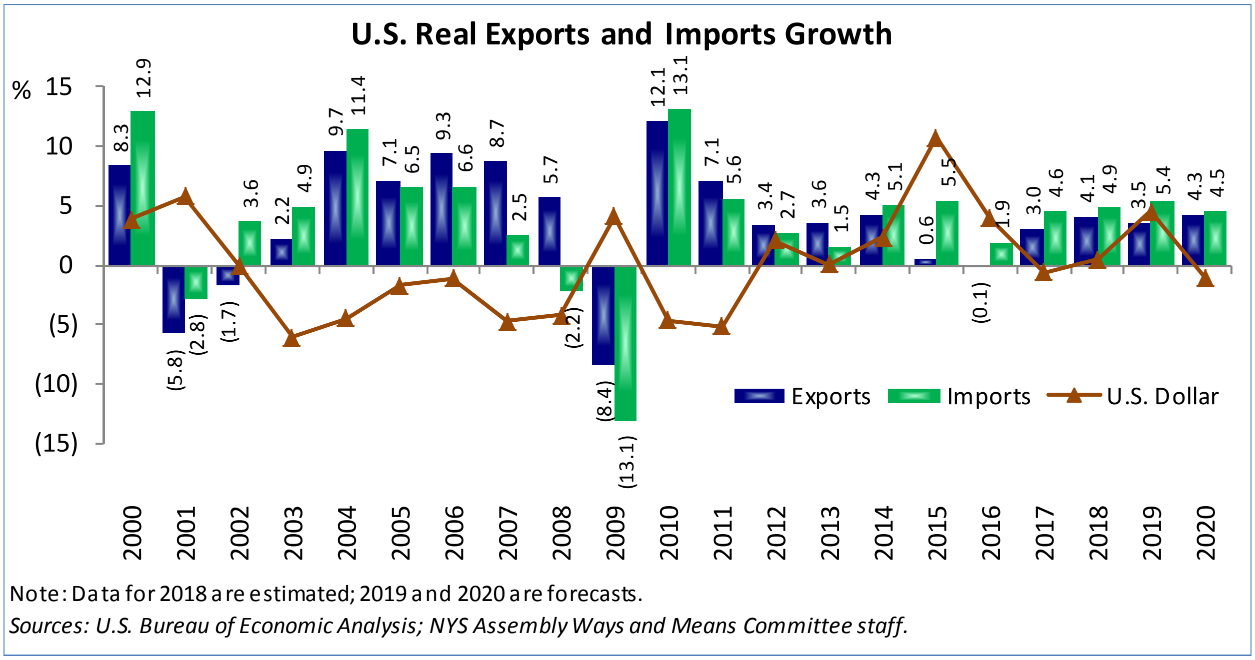



**Figure 14**

### Key Point

- **Although the world economy and U.S. trade are expected to grow throughout the forecast period, U.S. trade deficit will continue to be a drag on national economic growth.**

Global growth and the value of the U.S. dollar are the two main factors that affect U.S. exports. As the economies of our trading partners expand, their demand for U.S. exports will increase. If the U.S. dollar gets stronger, demand for U.S. exports will fall as U.S. goods become more expensive to foreigners. In addition, strong domestic demand in the U.S., all else the same, supports continuing gains in U.S. imports.

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

After slow growth in 2016, the global economy improved in 2017 and in 2018. Higher oil prices led to an improvement in the economic growth of oil exporting countries, especially Canada, the U.S. largest trading partner. In addition, the initial uncertainty and nervousness of investors created by Brexit abated after a while. Although geopolitical tensions remain high, the economies of the major trading partners are expected to continue to grow solidly in 2019 and 2020.

### *U.S. dollar appreciation is hampering export growth*

The U.S. dollar has been relatively strong in the past few years. In particular, as the Brexit vote raised considerable uncertainty regarding its impact on the U.K. economy and the rest of the world, the U.S. dollar appreciated sharply in 2015 and 2016. As the uncertainty subsided, the U.S. dollar weakened in 2017 (see Figure 15). The dollar has strengthened for the past few quarters and is forecast to remain strong as the Fed is expected to further tighten monetary policy and raise interest rates. In addition, relatively strong U.S. economic growth and the tariffs will contribute to lift the dollar value. The dollar is estimated to have gained 0.5 percent in 2018. It is forecast to appreciate 4.5 percent in 2019 before falling in 2020 (see Figure 15).

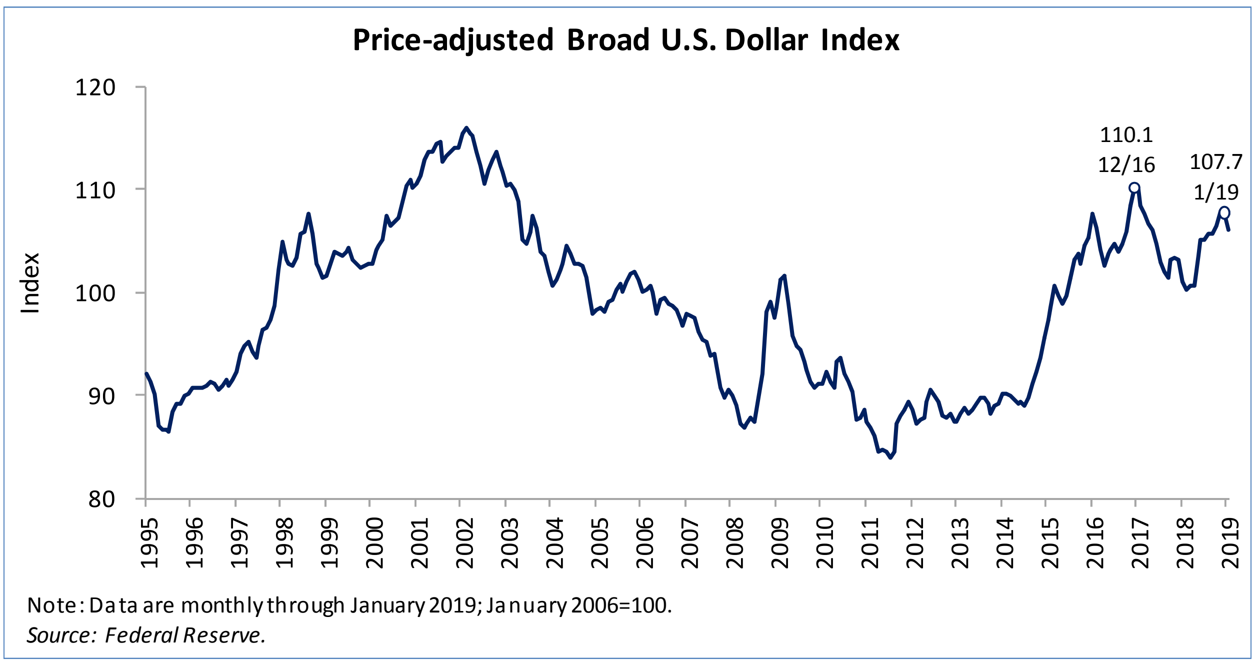



**Figure 15**

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

Imports and exports are anticipated to grow throughout the forecast period. In 2018, exports are estimated to have grown by 4.1 percent, and imports by 4.9 percent. With global economic growth expected to continue to grow and the U.S. dollar expected to appreciate further, imports will grow faster than exports in 2019 and 2020. U.S. exports growth is forecast to slow to 3.5 percent in 2019 and accelerate to 4.3 percent in 2020. Imports growth is forecast to accelerate to 5.4 percent in 2019 and slow to 4.5 percent in 2020 (see Figure 14). As imports growth is anticipated to continue to outpace exports growth, net exports (exports minus imports) will continue to be a drag on overall economic growth.

### *Potential impact of tariffs on the U.S. trade*

In order to help certain domestic industries, the current administration has announced several rounds of tariffs on imports. This policy presents one of the biggest risks to U.S. trade.

Starting with a 25 percent tariff on steel and 10 percent tariff on aluminum, the list of tariffs on U.S. imports has grown to include various types of goods from several countries (see Table 1). The bulk of tariffs is directed at Chinese imports. The administration has already imposed tariffs on $250 million worth of imports from China and threatens to extend those tariffs to affect $500 million worth or more. However, the effects of the policy are not yet noticeable. Indeed, in 2017, U.S. imported $505.5 billion worth of goods from China. U.S. imports from China totaled $447 billion during the first ten months of 2018, an increase of 8.3 percent from the same period in 2017.

**Table 1**

| List of Tariffs on U.S. Imports | | | |
|---|---|---|---|
| **Products** | **Rates (%)** | **Effective Date** | **Countries** |
| Steel | 25 | 6/1/2018 | All countries of origin except South Korea, Brazil, and Argentina (agreed to quotas); and Australia (exempted).<br>No tariff could be imposed against Canada |
| | 50 | 8/13/2018 | Turkey (Steel articles covered by Section 232) |
| Aluminum | 10 | 6/1/2018 | All countries of origin except Argentina (agreed to quota); Australia (exempted); and South Africa (for certain products).<br>No tariff could be imposed against Canada and Mexico for at least 60 days from end of September. |
| 818 Chinese Goods worth $34 billion | 25 | 7/6/2018 | China |
| 284 Chinese Goods worth $16 billion | 25 | 8/23/2018 | China |
| Chinese Goods worth $200 billion | 10<br>25 | 9/24/2018<br>3/01/2019 | China |
| Autos and Automotive Parts | TBD | TBD | TBD |
| Note: Data as of February 25, 2019.<br>*Sources: The Office of the United States Trade Representative, Crowell & Moring LLP* | | | |

As a response to U.S. trade policy, other countries also announced new tariffs or their intentions to enact tariffs on various U.S. export goods (see Table 2).

**Table 2**

| List of Retaliatory Tariffs on U.S. Goods | | | |
|---|---|---|---|
| **Countries** | **Rates (%)** | **Effective Date** | **Products** |
| Canada | 10<br>25 | 7/1/2018<br>7/1/2018 | Various consumer goods.<br>Iron, stainless steel, alloy, aluminum. |
| European Union | 10, 25, 35, 50 mostly 25% | 6/22/2018 | Agricultural products, consumer goods, iron & products |
| Mexico | 7-25 mostly 25%<br>10-15 | 6/25/2018<br>7/5/2018 | Meats, agricultural products, steels, aluminum.<br>Agricultural products (mostly ham & cheese). |
| China | 25<br>25<br>10-25 | 7/6/2018<br>8/23/2018<br>9/24/2018 | Foods, agricultural products, motor vehicles.<br>Petroleum products, chemicals.<br>$60 billion in imports goods from U.S. |
| India | 25<br>10<br>5-100<br>50 | 6/21/2018 | Steel products.<br>Aliminum.<br>Agricultural products, foods.<br>Vehicles. |
| Japan | TBD | TBD | Up to $1.91 billion of imports from U.S. |
| Russia | Additional Tariffs of 25, 30, 35, or 40% | 8/6/2018 | Fiber optics and equipment for road construction, the oil and gas industries and metal processing and mining and other selected U.S. products. |
| Turkey | 5-40 | 6/21/2018 | Foods, agricultural products, petroleum products, steel products (above quota), vehicles. |

Note: Data as of February 15, 2019.
*Sources: Canada Department of Finance, World Trade Organization, Crowell & Moring LLP.*

The exact impact of tariffs on U.S. trade and the overall economy is uncertain. However, it is possible that importers will pass some or all of the tariffs on to consumers, thus raising the prices of imports and the overall price level. Even products that are made domestically might be impacted by these tariffs, as manufacturers could pay more for imported materials. Tariffs could also affect wages. According to the U.S. International Trade Commission, export-intensive industries pay higher wages on average than industries that are not.[26] In addition, several U.S. manufacturers have announced their plans to shift more production overseas in order to avoid having to raise prices in response to the retaliatory tariffs. Thus, any policy that affects foreign trade could have a negative impact on employment and wages in the U.S.

The retaliatory tariffs could lift U.S. exports in the short-run, as foreign importers try to stock up the products in order to avoid tariffs. In the long-run, however, the retaliatory tariffs

[26] David Riker, "Export-Intensive Industries Pay More on Average: An Update," April 20, 2015, https://www.usitc.gov/publications/332/ec201504a.pdf

would likely reduce U.S. exports, as they become more expensive. Moreover, should these trade tensions worsen, it could have significant negative impacts on the U.S. economy as well as the global economy.

## Employment

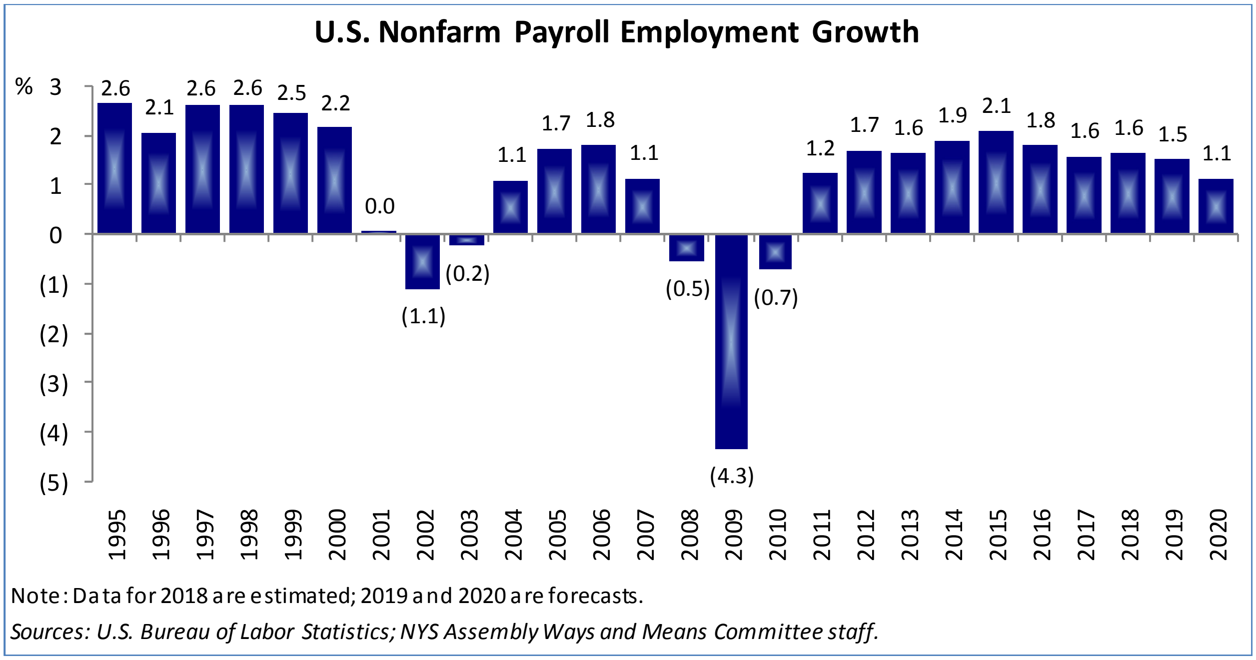



**Figure 16**

## Key Point

- **Employment growth is forecast to slow as the labor market is at full employment and the economic expansion matures.**

The labor market continued to improve in 2018, growing 1.6 percent, the same as in 2017 (see Figure 16). Monthly employment gains averaged 220,000 in 2018 compared to 182,000 in 2017. The gains in employment were broad-based. In the service-providing sector, professional and business services, health and education, and leisure and hospitality industries had the largest increases, while in the goods-producing sector, manufacturing, construction, and mining and logging industries gained more than in 2017.

The recent trend in the labor market suggests that employment will continue to increase over the forecast period, though at a slower pace. In particular, job openings, hires, and quit levels are at historic highs, with the gap between job openings and hires widening as the number of openings rises. While some employers are having difficulty finding suitable workers, they are anxious to keep the ones they have. Workers are clearly more confident about leaving a job and finding another.

Rising wages, reflective of a tight labor market, have encouraged people who have been on the sideline to enter the labor force. The Employment Cost Index, which measures overall compensation paid by businesses, has been steadily rising. With the unemployment rate below its natural rate, [27] there is less slack in the labor market. Hence, as the labor supply dwindles, employment growth is forecast to slow to 1.5 percent in 2019 and further down to 1.1 percent in 2020.

### *The very tight labor market*

In January 2019, the unemployment rate was 4.0 percent and is expected to fall over the forecast period.[28] The low unemployment rate can be partly attributed to baby-boomers aging out of the labor force. As a group, older workers also tend to have lower rates of unemployment. Furthermore, a more educated worker will less likely be unemployed than a less educated worker. Consequently, the rising educational attainment of the U.S. labor force is associated with a lower rate of unemployment.

Underemployment, referring to the workers who are marginally attached to the labor force and those working part-time for economic purposes, reached its lowest pre-recession rate in August 2018. The employment-to-population ratio, rose in 2018, reaching a post-recession high of 60.6 percent in October. The labor force participation rate is no longer declining and has remained at about 63 percent (see Figure 17). These are all factors consistent with slower employment growth in the coming months.

In addition, initial and continuing unemployment insurance claims have been steadily declining since peaking in 2009, reaching levels in September 2018 not seen since the early 1970s. This suggests that employees who were unemployed have either found jobs or left the labor force. More importantly, lower unemployment claims may also be confirmation of a tightening labor market.

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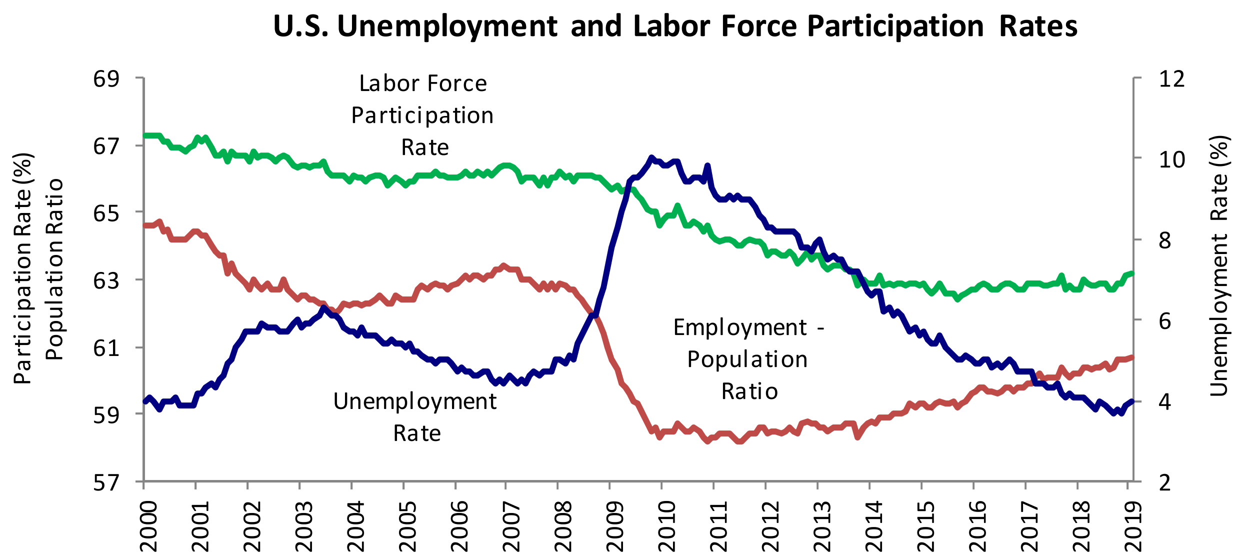
[27] The Congressional Budget Office (CBO) estimates the natural rate of unemployment to be 4.7 percent from 2018 through 2020. See CBO, "An Update of the Budget and Economic Outlook: 2016 to 2026," August, 2016, https://www.cbo.gov/publication/51908.

[28] The uptick in the unemployment rate in January 2019 was attributable to partial federal government shutdown that resulted in federal employees being furloughed. See Bureau of Labor Statistics, "The Employment Situation – January 2019, News Release, U.S. Department of Labor, February 1, 2019; https://www.dls.gov/news.release/empsit.nro.htm.



Note: Data are monthly through January 2019.
*Source: U.S. Bureau of Labor Statistics.*

**Figure 17**

### *Sectoral allocation of jobs provides insights into future labor market*

The slowdown in employment primarily reflects slower growth in the service-providing sector which accounts for more than eighty-five percent of nonfarm employment. Employment in major industries, such as professional and business services, leisure and hospitality, and education and health services, is projected to grow more slowly over the forecast period. The retail trade sector played an important role in the labor market recovery following the Great Recession. However, employment gains have slowed and are expected to slow further as consumers move increasingly to on-line shopping. The government sector, one of the largest service-providing sectors, has gained jobs but still remains below its prior peak. Job gains in this sector are attributed to state and local government. After declining an estimated 0.3 percent in 2018, federal government employment is expected to increase 0.3 percent in 2019. It is forecast to grow in 2020, partly due to Census-related temporary hiring. The two main industries in the goods-producing sector, construction and manufacturing, have been slow to gain jobs. Although below their January 2008 levels, employment in these industries is expected to continue to post steady gains over the forecast period.

In the service-providing sector, professional services employment is projected to grow 2.6 percent in 2019 and 1.8 percent in 2020. Education and healthcare employment is forecast to rise 2.0 percent in 2019, then 1.7 percent in 2020. Job gains in the leisure and hospitality industry is predicted to grow 1.6 percent in 2019, slowing in 2020 to 1.0 percent. Meanwhile, in the goods-producing sector, construction employment is projected to increase 3.1 percent in 2019 and 2.1 percent in 2020. Manufacturing employment is forecast to grow 1.8 percent in 2019 and 1.3 percent in 2020.

**Table 3**

**U.S. Employment by Sector**
**(Percent Change)**

| | Actual 2016 | Actual 2017 | Estimate 2018 | Forecast 2019 | Forecast 2020 |
|---|---|---|---|---|---|
| **Total** | **1.8** | **1.6** | **1.6** | **1.5** | **1.1** |
| Professional Services | 2.6 | 1.9 | 2.6 | 2.6 | 1.8 |
| Construction | 4.1 | 3.4 | 4.0 | 3.1 | 3.1 |
| Real Estate, Rental, & Leasing | 2.4 | 2.3 | 2.9 | 2.2 | 2.2 |
| Other Services[1] | 1.6 | 1.9 | 2.3 | 1.9 | 1.4 |
| Education and Health Care[2] | 2.8 | 2.4 | 2.0 | 2.0 | 1.7 |
| Leisure & Hospitality | 3.3 | 2.6 | 1.8 | 1.6 | 1.0 |
| Management of Companies | 1.7 | 2.2 | 1.5 | 1.4 | 1.2 |
| Finance & Insurance | 1.9 | 1.9 | 0.9 | 0.7 | 0.6 |
| Transportation & Utilities[3] | 2.7 | 2.8 | 2.9 | 2.7 | 1.7 |
| Wholesale Trade | 0.1 | 0.7 | 1.4 | 1.1 | 0.5 |
| Manufacturing[4] | (1.0) | 0.8 | 2.5 | 1.8 | 1.3 |
| Government | 0.9 | 0.4 | 0.2 | 0.5 | 0.7 |
| Federal | 1.4 | 0.4 | (0.3) | 0.3 | 2.0 |
| State and Local | 0.9 | 0.4 | 0.2 | 0.5 | 0.5 |
| Retail Trade | 1.4 | 0.2 | 0.4 | 0.3 | 0.2 |
| Information | 1.6 | (0.0) | (1.0) | (0.4) | (0.4) |

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

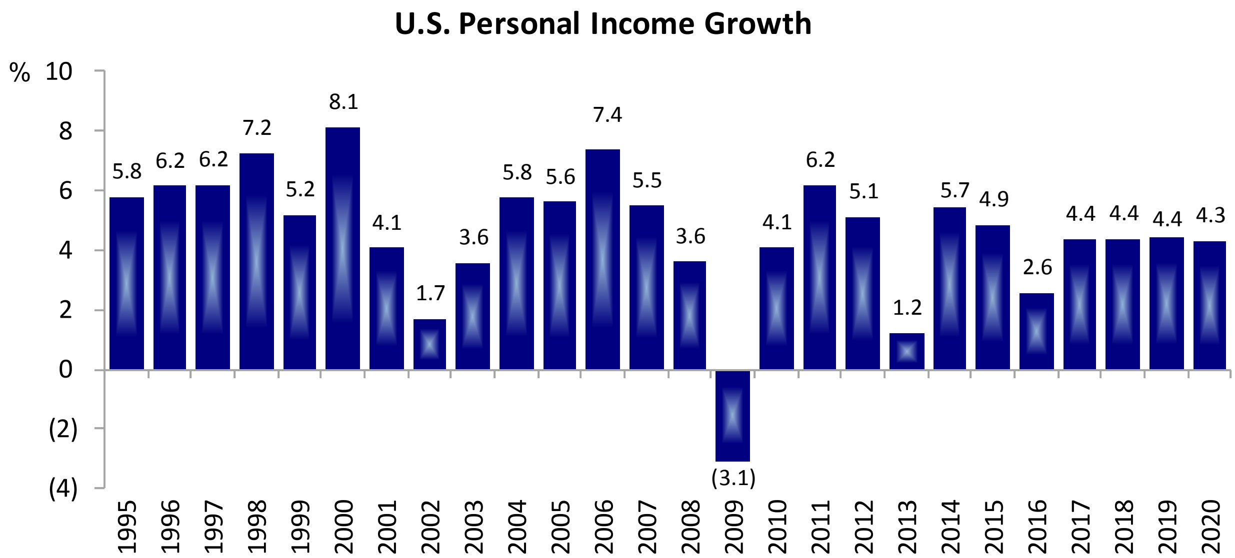
[2] Includes only private employment. Public education and health care employment is included in the government sector.

[3] Transportation, warehousing, and utilities.

[4] Including mining and logging.

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

## Personal Income




Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.
*Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.*

**Figure 18**

## Key Points

- **Personal income is expected to grow further 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 an estimated 4.4 percent in 2018, the same rate as in 2017. With the labor market operating at full-employment, upward pressure on wages is expected to intensify. In addition, the Federal Reserve is anticipated to continue interest rate hikes over the forecast period. Hence, personal income is projected to grow another 4.4 percent in 2019, but growth is forecast to slow slightly to 4.3 percent in 2020 as overall economic growth weakens (see Figure 18).

Wages and salaries, the largest component of personal income, are estimated to have increased 4.4 percent in 2018, following growth of 4.6 percent in 2017. The outlook for wages and salaries will be impacted by two competing forces. As employers compete for the shrinking pool of available workers, it becomes increasingly difficult to find skilled workers. Thus, employers have been under pressure to offer higher wages. However, due to the retirement of baby-boomers, many experienced highly-paid workers are exiting the labor force and being replaced by lower-paid ones. This is resulting in downward pressure on wages and salaries. Given these two competing forces, growth in wages and salaries is forecast to remain steady at 4.4 percent in 2019 and 2020.

Total personal transfer income, which includes various government social benefits, grew an estimated 4.2 percent in 2018, as transfers to recipients of Social Security, Medicaid, Medicare, and veterans' benefits rose. In addition, monthly Social Security benefits rose by two percent in 2018. As aging baby-boomers are added to the Medicare and Social Security rolls, transfer payments will increase further. However, with fewer people signing up for health care benefits under the Affordable Care Act, Medicaid spending will likely slow. Personal transfer income is projected to increase 4.2 percent in 2019 and 3.5 percent in 2020.

Following a 3.1 percent increase in 2017, dividend income is estimated to have grown 3.4 percent in 2018 as corporate profits rose. Corporations, flush with cash due to the repatriation of money from abroad as well as lower corporate tax rates, have been sharing some of their windfalls with shareholders. Dividend income is projected to grow by 3.5 percent in 2019, but slow to 3.1 percent in 2020 as corporate profit growth decelerates as a result of higher wages, rising interest rates and slower economic growth.

In 2018, interest income grew an estimated 6.1 percent due to increases in interest rates. Interest income is forecast to increase by 6.5 percent in 2019 and 7.1 percent in 2020 with increases in both short-term and long-term rates expected to continue.

## Corporate Profits

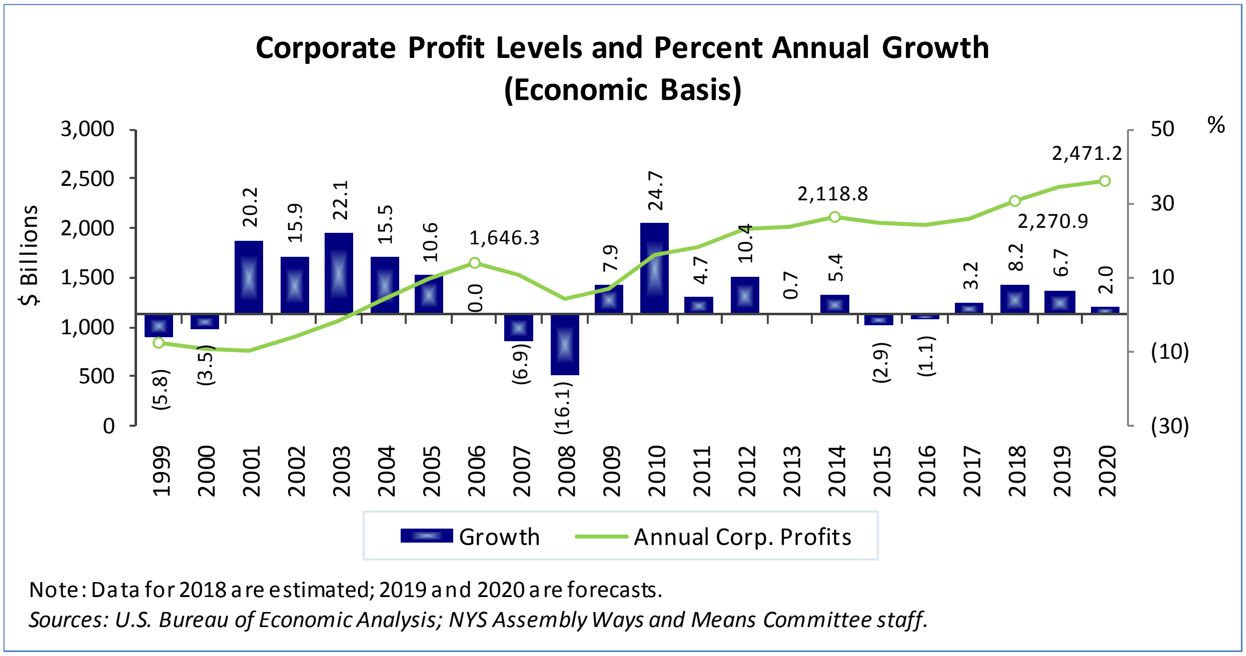



**Figure 19**

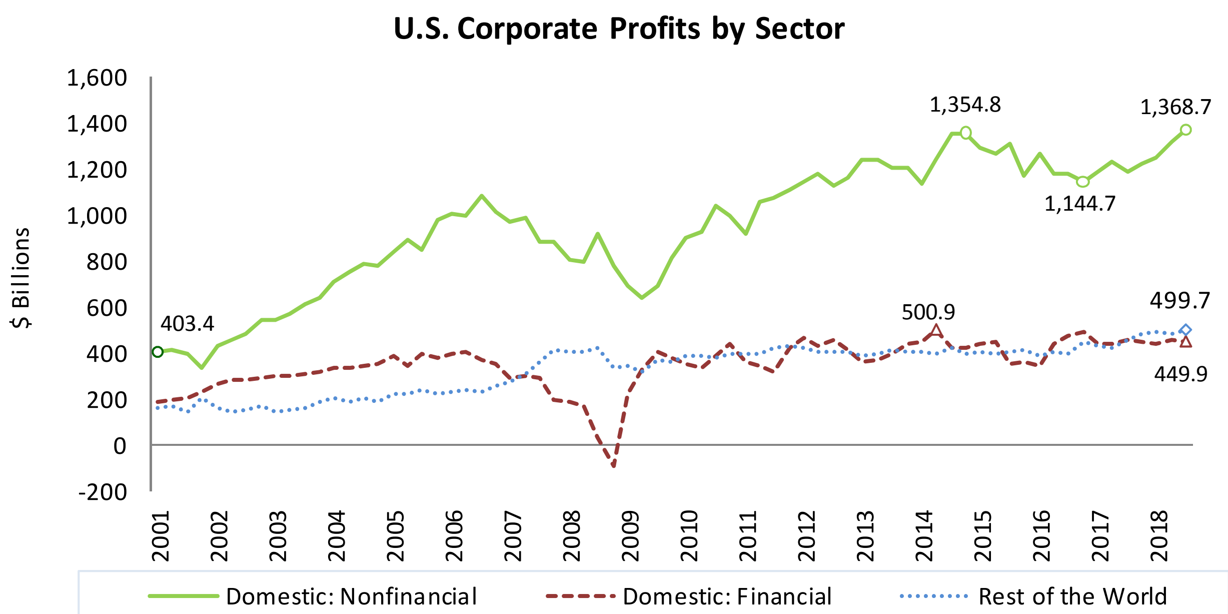
### Key Points

- **Corporate profits increased by an estimated 8.2 percent in 2018, after declining in 2015 and 2016. They are forecast to grow 6.7 percent in 2019. Both economic growth and tax cuts combine to boost corporate profits;**
- **Corporate profits' share of national income has been increasing over the last 30 years; this trend contributes to shape the income distribution.**

U.S. businesses netted $2.32 trillion in profits in the third quarter of 2018, an increase of 3.4 percent over the previous quarter and 10.3 percent over the same quarter the prior year. On a yearly basis, corporate profits are estimated to have grown 8.2 percent in 2018 and are expected to grow 6.7 percent in 2019, an acceleration over the 2013-2017 period (see Figure 19). Profit growth is expected to slow but remain positive in 2020.

Two factors are generally thought to have fueled the recent growth of corporate profits. The first factor is economic growth. Major indicators point to continued economic growth in coming months, although tensions in global trade and international relations may undermine profits. Second, businesses have benefitted from the direct effects of the tax cut and other provisions of the Tax Cuts and Jobs Act of 2017, although their impact on corporate profit growth may vary across industrial sectors.[29]

Domestic nonfinancial corporations have performed better than domestic financial corporations or corporations operating abroad (see Figure 20). Coming out of a slump between 2014 and early 2017, the domestic nonfinancial sector has performed better than the other two sectors, progressing 66.2 percent in the third quarter of 2018, while the financial sector shrank 7.8 percent and the rest of the world grew 17.6 percent.

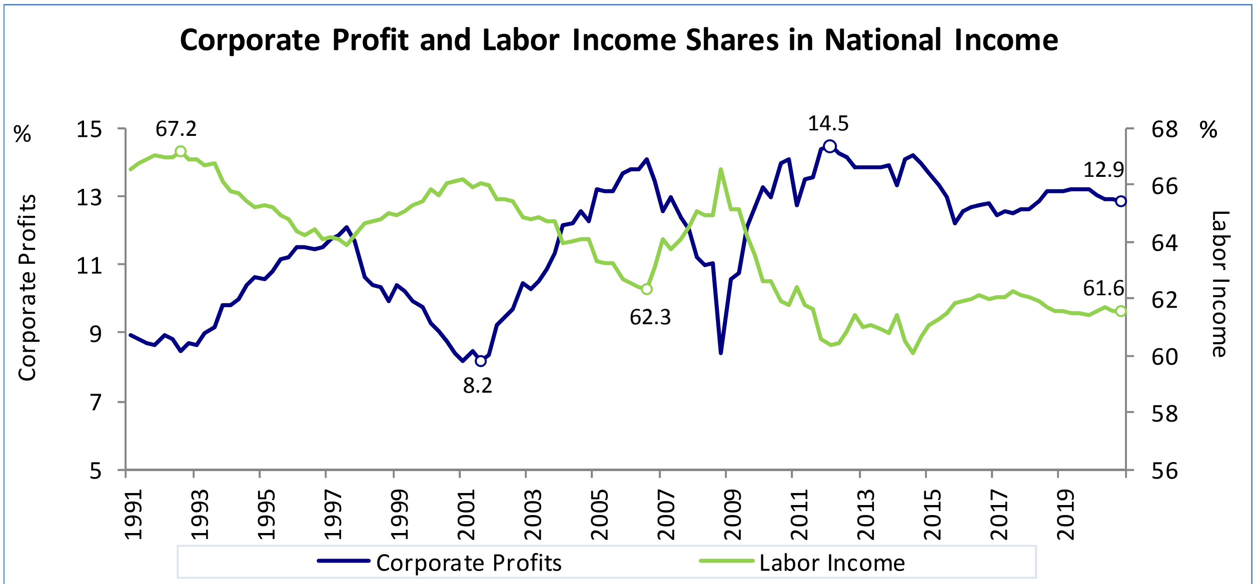


Note: Data are quarterly through 2018:Q3 and seasonally adjusted at an annual rate.
*Source: Bureau of Economic Analysis.*

**Figure 20**

The share of corporate profits in national income peaked at 14.5 percent in the first quarter of 2012, the highest on record, as it trended upward after 1990, quickly regaining ground after each recession (see Figure 21). That share still remains at a historic high, having only slightly declined after 2011. As of the third quarter of 2018, the share of corporate profits was 13.1 percent. It is expected to increase further in the forecast period. The share of labor, in contrast, declined during the period; it was 61.6 percent in the third quarter of 2018, down from over 67 percent in the early 1990s. The labor share is expected to continue to decline.

[29] C. Marr, B. Duke, and C. Huang, "New Law Is Fundamentally Flawed and Will Require Basic Restructuring," Center on Budget and Policy Priorities, Aug. 2018; B. Pizzola, R Caroll, and J. Mackie, "Analyzing the revenue effects for businesses and key industries under the Tax Cuts and Jobs Act," Ernst and Young, LLP, 2018, May 2018.




Note: Data are quarterly through 2020:Q4; the first forecast period is 2018:Q4.
*Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.*

**Figure 21**

Along with the growth of corporate profits, and in spite of some fluctuations, the major indicators consistently point to a steady increase in production and income. Yet the respective trends in the shares of capital and labor in the economy suggest that the conditions for a more balanced allocation of the national income are not yet present. For instance, companies have been repurchasing their own stock at an accelerated pace in 2018. Evidence indicates that while stock buy-backs immediately benefit corporate executives,[30] along with the minority of shareholders who own most of the stock value,[31] they may do less for smaller stakeholders, and little for the general economy.[32] Beyond the periodic impact of tax policy,[33] the persistence of such practices in corporate governance will contribute to maintaining the current dynamics in the distribution of income.

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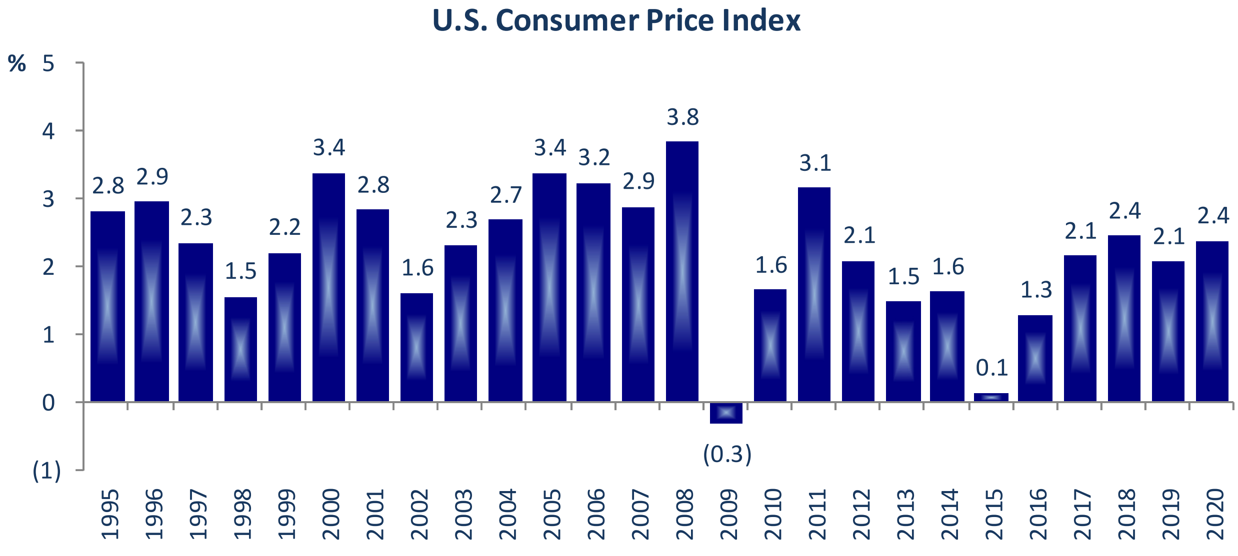
[30] "Stock Buybacks and Corporate Cashouts," Commissioner Robert J. Jackson Jr., U.S. Securities and Exchange Commission, Washington D.C., June 11, 2018. https://www.sec.gov/news/speech-jackson-061118.

[31] The richest 10 percent of households controlled 84 percent of the total value of stocks in 2016; in "Household Wealth Trends in the United States, 1962 to 2016: Has Middle Class Wealth Recovered?" Edward N. Wolff, Working Paper No. 24085, National Bureau of Economic Research, November 2017.

[32] Irene Tung and Katy Milani, "Curbing Stock Buybacks: A Crucial Step to Raising Workers Pay and Reducing Inequality; An Analysis of Three Industries-Restaurant, Retail, and Food Manufacturing," Roosevelt Institute, July 2018.

[33] Suresh Nallareddy, Ethan Rouen, and Juan Carlos Suarez Serrato, "Do Corporate Tax Cuts Increase Income Inequality?" National Bureau of Economic Research, Working Paper 24598, December 2018.

## Prices




Note: Data for 2019 and 2020 are forecasts.
*Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.*

**Figure 22**

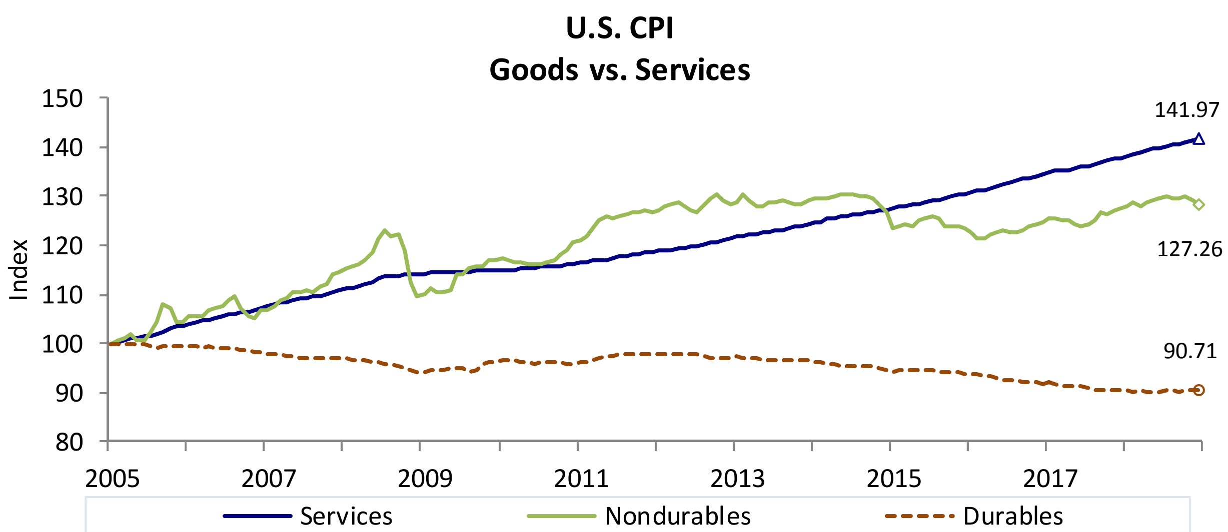
### Key Points

- **Consumer prices are expected to advance moderately through 2020;**
- **Energy prices had increased sharply for the past two year up to the first week of October 2018, but they have since declined sharply.**

From 1991 to 2008, the Consumer Price Index (CPI) grew at an average annual rate of 2.7 percent. Following the Great Recession and until 2017, the CPI grew on average 1.7 percent per year. This downshift in overall CPI inflation was due to slower growth in the prices of food, medical care services, and shelter and a decline in energy prices.

Energy prices pushed consumer prices higher in 2018 until they began to fall sharply after the first week of October. Rising rents and housing prices also pushed overall consumer prices up. A tightening labor market and rising wages are driving the highest labor cost increase since 2008. The imposition of tariffs on import goods is also putting upward pressure on overall prices as importers pass higher costs on to consumers. Overall, the CPI is forecast to increase 2.1 percent in 2019 and 2.4 percent in 2020, after growing 2.4 percent in 2018 (see Figure 23).

The services component of the CPI, which accounts for 63.7 percent of total CPI, has been increasing at a steady pace. The nondurable goods component, which accounts for 27 percent of total CPI, has been on an upward trend since 2016. The durable goods component has been on a long-term downward trend. With these trends likely to remain in place, overall consumer price inflation is expected to remain elevated in the next two years.




Note: Data are seasonally adjusted. Data are monthly from January 2005 to January 2019. January 2005 = 100.

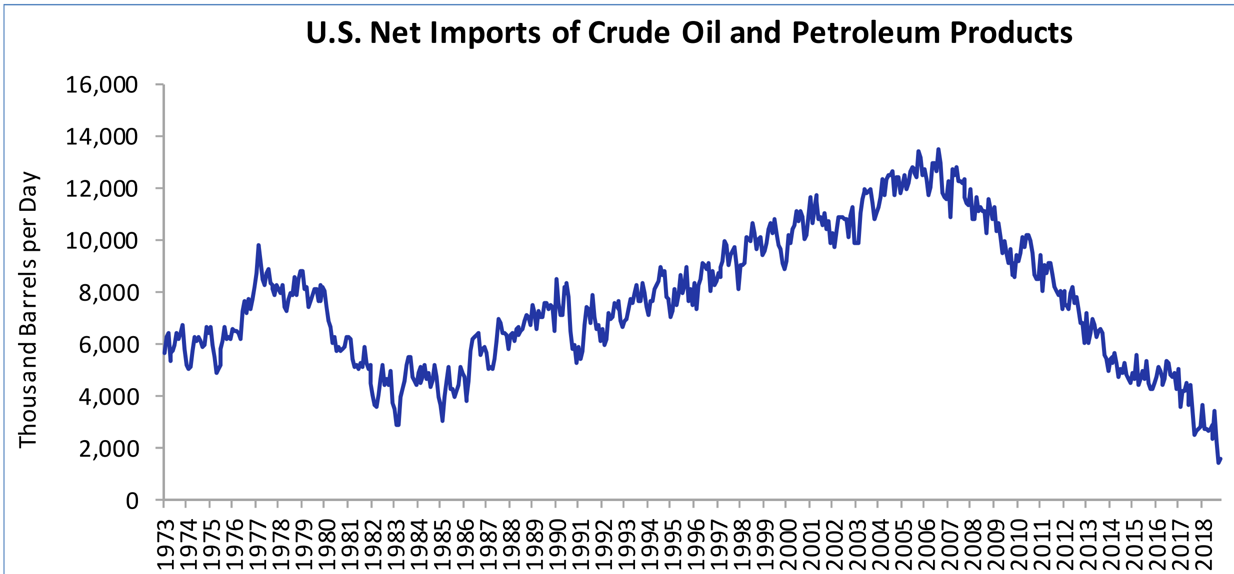
**Figure 23**

### *Energy Prices*

Energy prices will remain one of the most volatile risk factors. Geopolitical considerations as well as weather conditions add uncertainty to future energy prices. Sudden changes in energy prices affect households both directly, when they purchase gasoline or home heating oil, and indirectly, when producers pass higher energy costs to consumers.

Up until the first week of October, oil prices were trending upward. However, prices have dropped precipitously since then and are lower now than they were in 2018 despite an increase in prices at the beginning of 2019. Several factors have contributed to the recent movements of oil prices. Instability in countries such as Venezuela as well as adherence to the production cuts implemented by the Organization of Petroleum Exporting Countries (OPEC) in January of 2017 has placed upward pressure on crude oil prices as global supplies decline. However, pressure to contain oil prices and concerns over choking supply arising from U.S. oil sanctions on Iran have prompted OPEC and ten allies to reduce compliance with their cuts and increase output in the months ahead.[34] Also, the sanctions have not effectively constrained global supply as expected, because several countries have been granted waivers. In addition, the U.S. crude oil inventory has been rising since the first week of October, reversing the prior downward trend. Lastly, the oil market has responded to the weakening outlook for global economic growth, causing oil demand to weaken as a result.

According to the U.S. Energy Information Administration (EIA), U.S. daily crude oil production averaged an estimated 10.9 million barrels in 2018 and is forecast to average 12.4 million barrels in 2019 and 13.2 million barrels in 2020.[35] The 2018 production was the highest production in U.S. history, surpassing the previous record of 9.6 million barrels per day in 1970. Rising domestic oil production resulting from increases in drilling activity, rig efficiency, well-level productivity, and political unrest in crude oil producing countries contributes to reduce U.S. net imports of crude oil and petroleum products (see Figure 24).




Note: Data are monthly through November 2018.
*Source: U.S. Energy Information Administration.*

**Figure 24**

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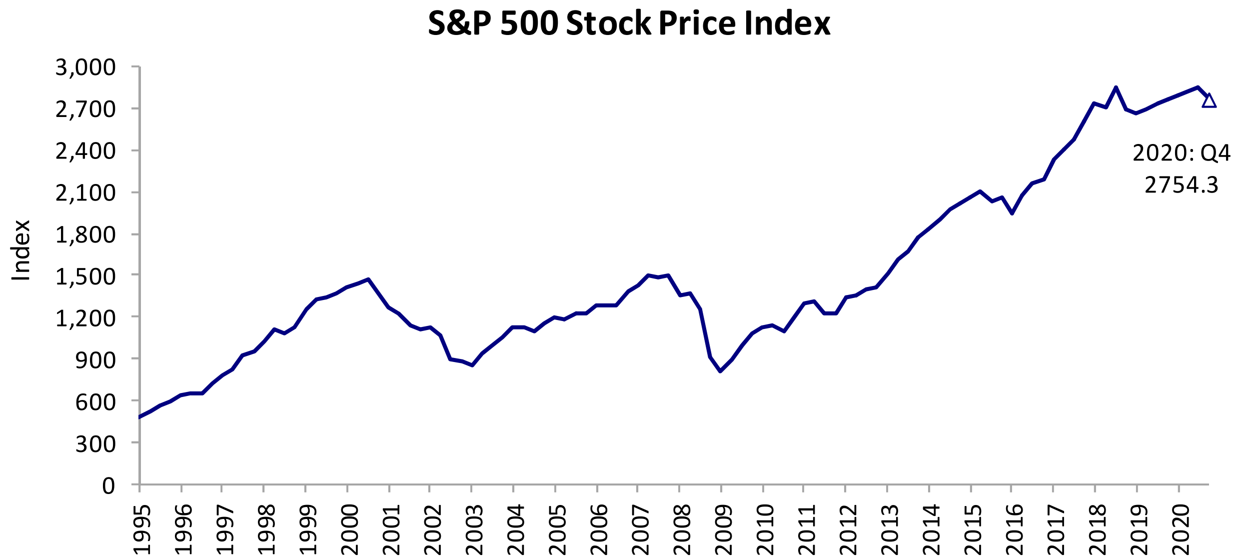
[34] Wang, Herman, and Eklavya Gupte, "OPEC Crude Oil Production Rises to 32.89 Mil b/d in Aug as Cuts Unwind: Platts Survey." *OPEC Crude Oil Production Rises to 32.89 Mil b/d in Aug as Cuts Unwind: Platts Survey I S&P Global Platts*, 6 Sept. 2018, www.spgolbal.com/platts/en/market-insights/latest-news/oil/090618-opec-crude-oil-production-rises-to-3289-mil-bd-in-aug-as-cuts-unwind-platts-survey.

[35] "U.S. Energy Information Administration - EIA - Independent Statistics and Analysis," *Short-Term Energy Outlook - U.S. Energy Information Administration (EIA)*, 10 Oct. 2018, www.eia.gov/outlooks/steo/.

## Equity Markets




Note: Data are quarterly through 2020:Q1; 2019 and 2020 are forecasts. Index 1941-1943=10.
*Sources: Standard & Poor's; NYS Assembly Ways and Means Committee staff.*

**Figure 25**

## Key Point

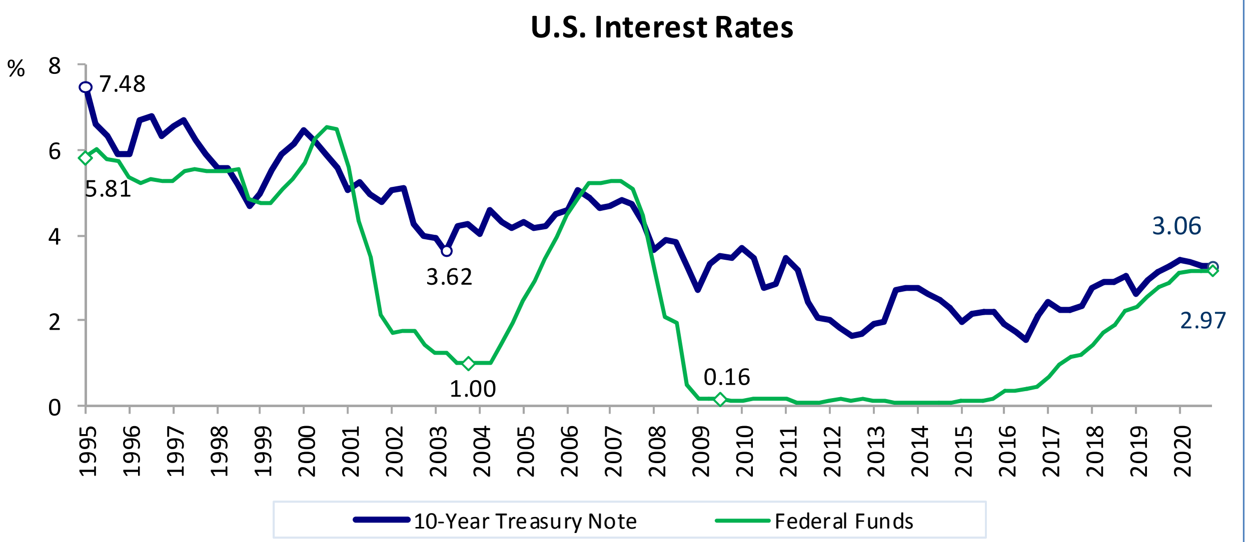
- **Equity markets face several headwinds, including rising interest rates, the uncertainty caused by trade tensions, and a maturing economic expansion.**

During the 10-year bull market in the 1990's, the S&P 500 stock price index had risen 17.4 percent on an annualized monthly average basis prior to the crash in 2000, when the price/earnings ratio (P/E) ratio, which hovers around the high teens in normal times, reached 28. The bull market ended with a 56 percent crash. The 2003-2007 bull market ended with a 51 percent crash after gaining 13.9 percent on an annualized monthly average basis (see Figure 25).

As of September 2018, the S&P 500 stock price index had grown 15.2 percent on an annualized monthly average basis from the Great Recession low, and the P/E ratio hovered around 25. The index has since gone through a correction, falling 11.5 percent from September to December 2018, as investors have grown weary of rising interest rates, threats of a potential recession, slowing profits, and mounting conflicts in international trade.

With market volatility likely to persist, the yearly average level of the S&P 500 is forecast to be 1.2 percent lower in 2019 than in 2018, before increasing 3.3 percent in 2020.

## Monetary Policy




Note: Data are quarterly through 2020:Q4; the first forecast period is 2019:Q1.
*Sources: Federal Reserve; NYS Assembly Ways and Means Committee staff.*

**Figure 26**

## Key Points

- **The federal funds rate increased to 2.3 percent in December 2018 and is forecast to average 2.5 percent in 2019 and 3.0 percent in 2020;**
- **On an annual average basis, the 10-year Treasury yield is forecast to increase to 2.9 percent in 2019 and 3.2 percent in 2020.**

From December 16, 2008 until December 16, 2015, the Federal Reserve held the federal funds target rate at the 0.0 to 0.25 percent range, the lowest level on record. As labor market conditions have improved and inflation expectations have firmed, the Federal Reserve has raised interest rates nine times since December 2015.

Given the volatility in the financial market, the Federal Reserve appears to be on hold for now, adjusting the pace of rate increase to economic and financial conditions at home and abroad. However, premised on robust employment growth and firming inflation expectations, the current forecast assumes that the Federal Reserve is not done with rate hikes during the current cycle – two 25 basis point increases in 2019 and one more in 2020. It is assumed that although such policy changes will inevitably lead to speculation, the market responses will be orderly and restrained.

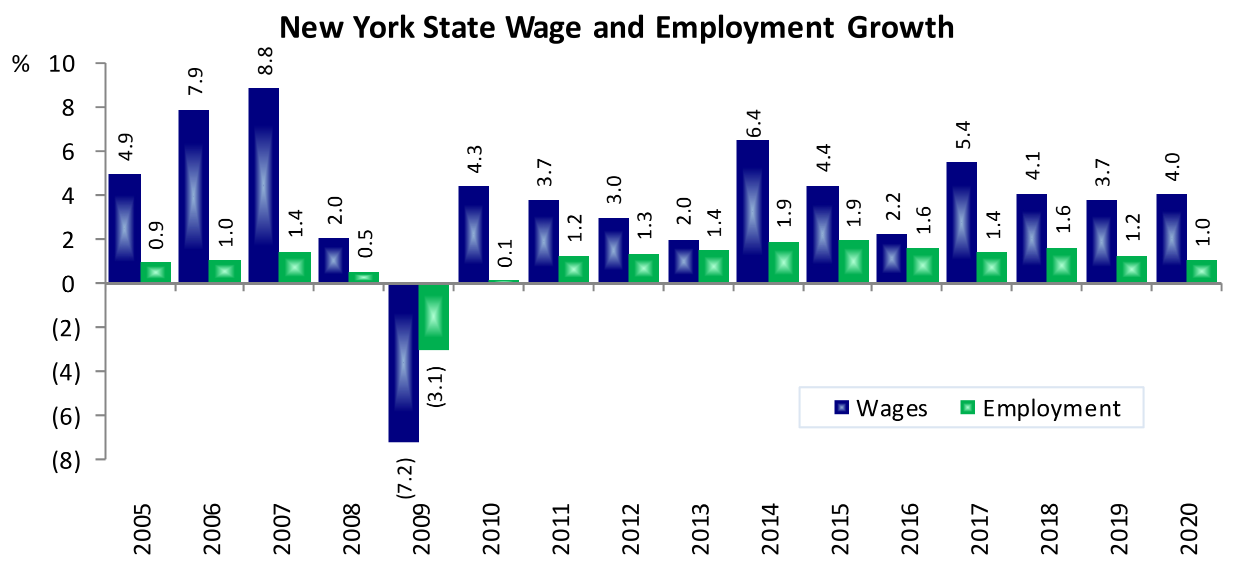
On an annual average basis, the 10-year Treasury rate increased to 2.9 percent in 2018, and is forecast to remain at 2.9 percent in 2019 and rise to 3.2 percent in 2020. Barring unexpected increases in domestic and global uncertainties, which would depress yields on U.S. Treasury securities, 10-year Treasury yields are expected to rise in tandem with rising short-term interest rates. The projected increase in the federal budget deficit due to the tax reform in 2017 is expected to place upward pressure on long-term yields as total net Treasury issuance accelerates. In addition, the Federal Reserve announced plans in October 2017 to gradually reduce its total asset holdings, which as of February 2019 were valued at $3.83 trillion. There are concerns surrounding this policy, which are twofold. If the Federal Reserve reduces its asset holdings too quickly, it could potentially send stock and bond markets into disarray and impact the broader economy negatively; if too slowly, the central bank will continue to be faced with a historically large balance sheet that could prohibit the effective use of monetary stimulus during the next economic downturn.

# NEW YORK STATE ECONOMIC FORECAST ANALYSIS

New York is the third largest State economy in the United States (behind California and Texas), with a Gross Domestic Product of $1.5 trillion in 2017.[36] The State's total non-farm employment is 9.2 million, spread over all sectors, with the highest concentrations in government, education and health, and finance and insurance.

## *Slow and steady expansion of the State economy continues*

New York State employment has been growing steadily since the end of the Great Recession, 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. Total wages in the State are poised to grow further in the forecast period as base wages grow along with employment. 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 by various reforms and regulations since the Great Recession (see Figure 27).



Note: Data for 2018 are estimated; 2019 and 2020 are forecasts.
*Sources: New York State Department of Labor; NYS Assembly Ways and Means Committee staff.*

**Figure 27**

[36] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, http://www.bea.gov/regional/index.htm, (accessed: September 18, 2018).

## Employment

The New York State economy has benefitted from the continued recovery in the national economy. With the unemployment rate approaching its natural rate, total nonfarm employment growth in the State slowed to 1.4 percent in 2017, after growing 1.9 percent in 2015 and 1.6 percent in 2016. Although employment growth is estimated to have grown faster at 1.6 percent in 2018, the improvement is somewhat artificial as it is attributable largely to a change in the way data on the State's local government sector employment is compiled and reported. With national and State economic expansion maturing and the labor market continuing to tighten, employment growth is forecast to slow to 1.2 percent in 2019 and 1.0 percent in 2020.

Employment growth is expected to continue in all sectors, except manufacturing, information, and retail trade, throughout the forecast period. Employment in the retail trade sector has fallen for three consecutive years from 2016 to 2018. This is due in part to the increase in online sales in the past several years. Online sales accounted for less than five percent of total retail sales in the third quarter of 2011. This share increased to 9.8 percent in the third quarter of 2018.[37] E-commerce is less labor intensive than physical store retailing, and rising online sales have a net negative effect on retail trade employment. In addition, many retailers have either filed bankruptcy or closed stores recently to stay competitive, while other retail chains remain saddled with debt. This trend is expected to continue; as a result, employment in this sector is expected to decline throughout the forecast period.

The construction sector has rebounded and grown strongly in recent years due partly to rebuilding activities following Superstorm Sandy. Employment in this sector is expected to continue to grow solidly as it is estimated that 7.2 million square feet of new office space have been built in Manhattan in 2018 and 5.6 million square feet will be added in 2019.[38] In addition, several infrastructure projects are either underway or planned for the next several years. As a result, after growing 2.9 percent in 2017, employment in the construction sector is estimated to have grown further by 4.4 percent in 2018, and forecast to grow by 4.1 percent in 2019 and 3.0 percent in 2020 (see Table 4).

[37] U.S. Census Bureau, "Quarterly E-Commerce Report," Third Quarter 2018, https://www.census.gov/retail/index.html (accessed: January 22, 2019).

[38] New York Building Congress, "*New York City Construction Outlook,*" September 19, 2017, https://www.buildingcongress.com/outlook/.

The education and health care sector, the largest in the State, is the only sector that gained employment during the last recession. In particular, employment in health has continued to grow as aging baby boomers and new enrollees become insured under the Affordable Care Act and create more demand for health care services. Growth in that sector is expected to persist, albeit at a slower rate as many baby boomers are already insured. The education and health care sector is estimated to have grown 3.2 percent in 2018, and is forecast to grow further by 2.5 percent in 2019 and 2.1 percent in 2020.

Despite the heavy losses sustained during the Great Recession, recovery in the finance and insurance sector has been slow as technology, stricter regulations, and high operating costs have led firms to hire fewer employees. Employment in this sector is expected to continue to grow slowly throughout the forecast period.

**Table 4**

**New York State Nonfarm Employment by Sector (Percent Change)**

| | Recession 2009 | Actual 2017 | Estimated 2018 | Forecast 2019 | Forecast 2020 |
|---|---|---|---|---|---|
| **Total** | **(3.1)** | **1.4** | **1.6** | **1.2** | **1.0** |
| Construction | (10.0) | 2.9 | 4.4 | 4.1 | 3.0 |
| Education & Health Care[1] | 1.7 | 3.2 | 3.2 | 2.5 | 2.1 |
| Leisure & Hospitality | (0.9) | 3.3 | 2.5 | 2.0 | 1.6 |
| Government | (0.2) | 0.3 | 2.5 | 0.5 | 0.3 |
| Other Services[2] | (5.0) | 2.6 | 2.4 | 1.7 | 1.3 |
| Transportation & Utilities[3] | (4.2) | 2.4 | 2.0 | 1.3 | 0.9 |
| Real Estate, Rental, & Leasing | (3.8) | 2.5 | 1.7 | 1.1 | 0.8 |
| Information | (4.0) | 1.4 | 1.7 | (0.7) | 0.3 |
| Management of Companies | (0.7) | 1.6 | 1.6 | 1.1 | 0.8 |
| Professional Services | (4.3) | 1.9 | 1.2 | 1.4 | 1.1 |
| Finance & Insurance | (7.2) | 0.3 | 0.7 | 0.3 | 0.3 |
| Retail Trade | (3.8) | (0.1) | (0.2) | (0.3) | (0.3) |
| Manufacturing[4] | (10.9) | (0.8) | (0.4) | (0.5) | (0.6) |
| Wholesale Trade | (6.3) | 0.0 | (1.1) | 0.6 | 0.3 |

Note: Industries are ranked by 2018 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.*

## Personal Income and Wages

Wages account for about 52 percent of New York State's personal income and their growth is key to the State's fiscal outlook. The State has typically benefitted from strong growth in variable wages (bonuses) in the financial sector, as their increases help drive total wage growth. Recently, steady employment growth has contributed to steady growth in base wages.

Much of New York State's variable compensation is concentrated in the financial sector, particularly the securities industry which accounted for 42.8 percent of the total variable wages paid in the State in 2017. In 2007, before the Great Recession, the percentage of the State's total variable compensation paid in the securities industry was over 50 percent. The securities industry still pays the largest share of variable wages in New York State compared to other sectors.

Personal income in New York State grew 6.2 percent in 2017, and is estimated to have grown by 4.6 percent in 2018 driven mainly by wage growth. Personal income is forecast to grow by another 4.2 percent in 2019 and 4.3 percent in 2020 (see Figure 28).

The other components of personal income are also growing. Dividend, interest and rental income, the second largest component of personal income at about 20 percent, grew 5.5 percent in 2017. With interest rates expected to rise and corporate profits to improve, dividend, interest and rental income is forecast to grow solidly throughout the forecast period. The expected increase in after-tax corporate profits due to the recent federal tax reform will also support stronger growth in dividend income, as corporations are likely to be under pressure to share the windfall with shareholders.

Transfer income, which is the sum of government social benefits and net current transfer receipts from business, grew 10.1 percent in 2017, as medical benefits' transfer rose significantly. New York State transfer income is estimated to have grown by 5.4 percent in 2018, as the cost-of-living adjustment for Social Security benefits increased by 2 percent and more baby boomers entered retirement age. Personal transfer income is forecast to grow 4.3 percent in 2019 and another 3.9 percent in 2020, as fewer people enroll for health insurance coverage under the Affordable Care Act due to federal changes.

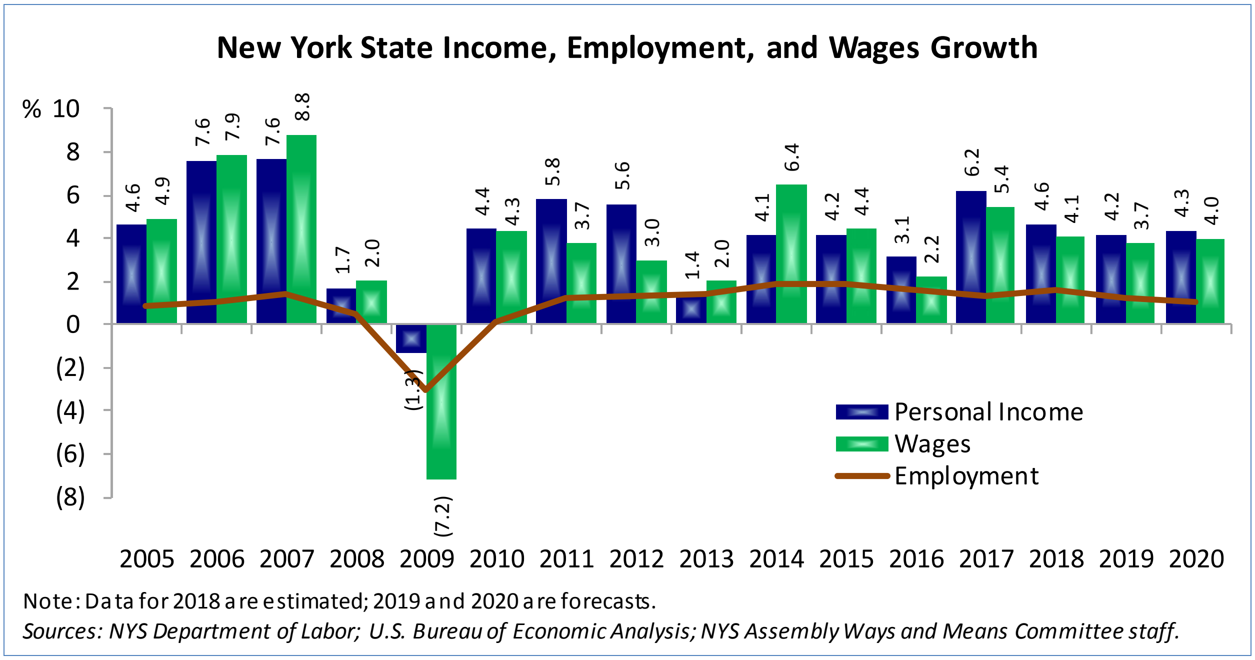
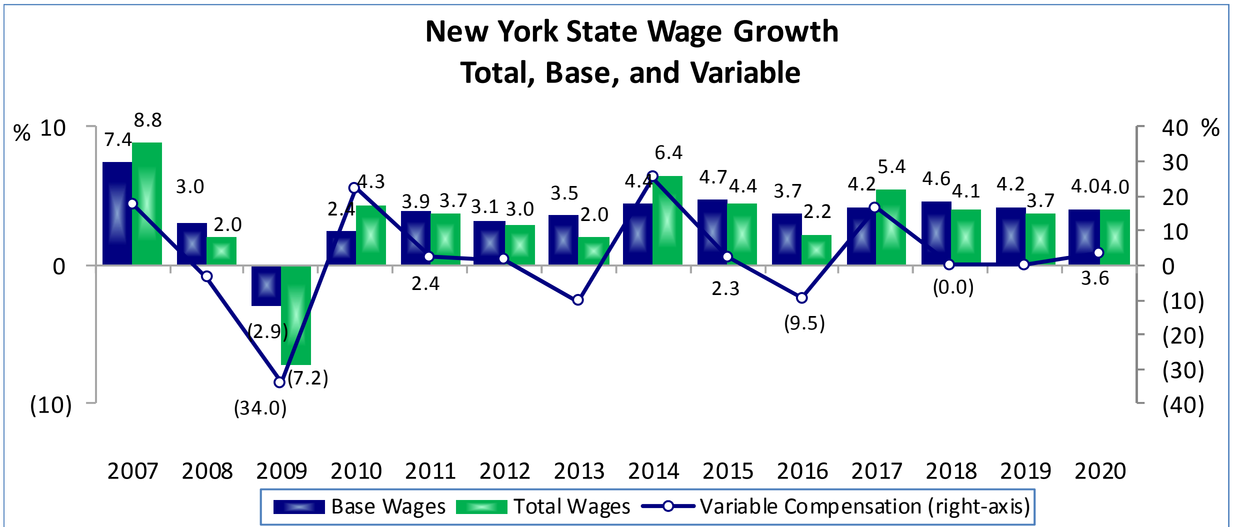



**Figure 28**

Wage growth rates continue to be below those achieved leading up to the Great Recession, partly due to job gains being concentrated in lower-paying sectors and variable wages growth being restrained. However, rising minimum wages and tightening labor markets have put upward pressure on wages. As a result, New York State wages are expected to grow solidly throughout the forecast period. After growing 5.4 percent in 2017, total wages are estimated to have grown 4.1 percent in 2018, and are forecast to grow further by 3.7 percent in 2019, and another 4.0 percent in 2020 as overall economic growth is expected to slow and revenues and profits on Wall Street to weaken.

As employment grows steadily, base wages will continue to rise, even in those industries with relatively low average wages (see Figure 29). They are forecast to grow 4.2 percent in 2019 and 4.0 percent 2020. In the financial sector, weak revenues led to a decline in variable wages in 2016. Variable wages rebounded strongly in 2017 as the industry's net revenues grew faster. In addition, tax reforms led some firms to pay out additional bonuses and to shift bonus payments into 2017. This, along with taxpayers who sought to mitigate the impacts of federal tax reform by prepaying tax liabilities, led to strong growth in variable wages in the fourth quarter of 2017. Thus, variable wages grew a strong 16.6 percent in 2017. Although financial sector revenues are expected to continue to grow steadily, variable wages growth is estimated to have been flat in 2018 due to the unusually high level in 2017. Variable wages are forecast to grow 0.2 percent in 2019 and another 3.6 percent in 2020.




Note: Total wage data for 2018 are estimated; 2019 and 2020 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.*

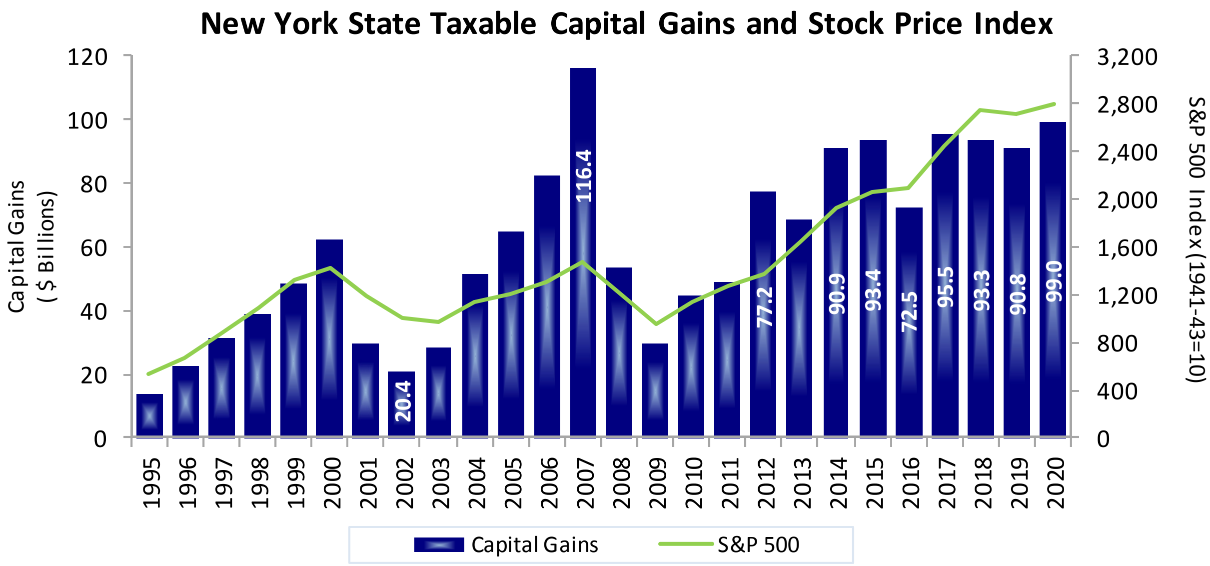
**Figure 29**

## Capital Gains

Capital gains are contingent upon the performance of the financial and housing markets and the overall economy generally. Gains are only realized when an asset is sold for more than its acquisition cost. Households' assets may include their homes, other real estate, stocks, government and corporate bonds, mutual funds, and privately owned businesses. Upon selling an asset, households may be liable to pay taxes on realized gains or, conversely, they may be entitled to a tax deduction in case of a capital loss. Consequently, they may choose to advance or delay the disposition of an asset depending on the economic outlook or announced change in the tax environment. For example, if households anticipate higher future tax rates on capital gains realizations, they have an incentive to exercise the option of taking gains in the year before the higher tax rates become effective. Conversely, if households expect lower rates in the future, they have an incentive to delay realizing capital gains until after the rates are effective.

Capital gains are estimated to have increased 31.7 percent to $95.5 billion in 2017, following a decline of 22.4 percent in 2016. The strength in capital gains in 2017 stems partly from investors' erroneous anticipation of lower federal tax rates on capital gains in 2017 and the resulting delay of asset sales until 2017. Also, in anticipation of losing the full SALT deduction, many tax filers shifted the sale of some assets to 2017.

To further maximize their gains as stock prices and home prices increase, investors likely continued to defer some gains into future years. But, increased equity market volatility will likely dampen gains in the forecast period. At the end of the fourth quarter of 2018, equity prices dropped 13.5 percent compared to the end of the third quarter due to increased volatility. As a result, capital gains are estimated to have fallen 2.3 percent to $93.3 billion in 2018. Realized capital gains growth is anticipated to decline 2.6 percent to $90.8 billion in 2019, as economic growth slows and the yearly average level of the equity price is expected to remain low (see Figure 30). Capital gains are projected to increase 9.0 percent to $99.0 billion in 2020 as equity prices moderately increase.




Note: Data for 2017 are estimated; 2018, 2019 and 2020 are forecasts.

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

**Figure 30**

## Finance and Insurance Sector

Finance and Insurance is a significant sector in the New York State economy. While representing only 5.5 percent of State employment, the sector accounted for over 18 percent of wages and more than half of variable wages in 2017. Finance and insurance employment has been on a downward trend for the past few decades. Employment fell sharply during the Great Recession, and remains well below its previous peak (see Figure 31). This is due in part to structural changes such as automation in the industry and the migration of many activities to other states.

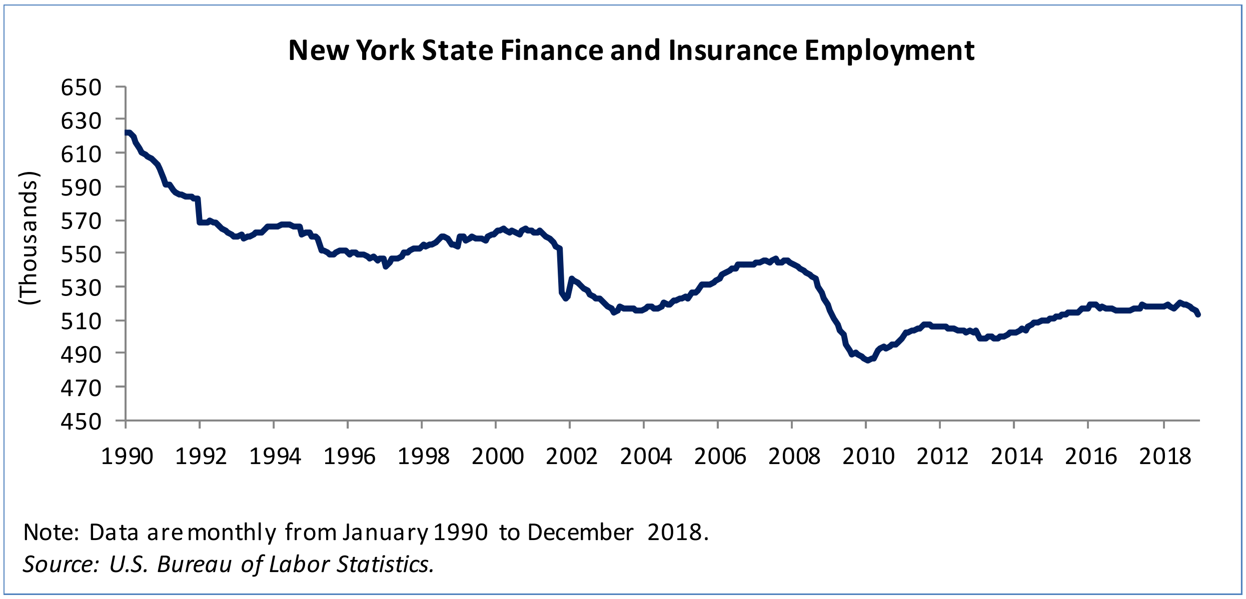



**Figure 31**

The outlook for the finance industry remains mixed. After two consecutive years of weak performance, financial activities rebounded strongly in 2018. Initial public offering (IPO) activity was very weak in 2016 as the uncertainty caused by events, such as the Brexit vote, left companies wary of committing to equity fundraising. Global IPOs totaled $179.3 billion in 2017,[39] a jump of 35 percent over 2016. In 2018, global IPOs increased 11 percent from 2017 to a total of 200.2 billion, the highest since 2014.[40]

39 Thomson Reuters Deals Intelligence, Global Equity Capital Markets Review, Full Year 2017.

40 Thomson Reuters Deals Intelligence, Global Equity Capital Markets Review, Full Year 2018.

After a recent peak in 2015, the worldwide merger and acquisition (M&A) activity declined both in 2016 and in 2017.[41] Worldwide M&A activities rebounded strongly in 2018: worldwide, announced M&A totaled $4.0 trillion, an increase of 19.2 percent from 2017.[42]

Stagnation of employment does not necessarily mean a decrease in compensation for the finance and insurance industry. Increases in wages paid within the industry can be prompted by rising revenues and profits or upgraded incentive pay policies and may happen without change in staffing. In addition, many changes have occurred as a result of the Great Recession, including changing compensation practices and stricter regulations. These changes have impacted the relationship between firms' profits and wage payouts, making it more difficult to accurately predict wages in that industry.

[41] Thomson Reuters Deals Intelligence, Mergers and Acquisition Review, Full Year 2017.

[42] Thomson Reuters Deals Intelligence, Mergers and Acquisition Review, Full Year 2018.

## Real Estate Market

In the housing market, New York State outperformed the nation during both the housing boom and correction but has lagged the nation in recent years. During the housing boom, overall home prices in the State rose 64.6 percent from the first quarter of 2001 to the first quarter of 2007, compared to 53.0 percent for the nation (see Table 5). Home prices in the State fell at a much slower rate than in the nation during the housing correction. From the first quarter of 2007 to the second quarter of 2011, home prices fell 21.0 percent nationally, while home prices in the State declined 8.0 percent. The two metropolitan areas that had the largest home price change during both the housing boom and bust were New York-Jersey City-White Plains and Nassau-Suffolk.

**Table 5**

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

| | 2001:Q1-2007:Q1 | 2007:Q1-2011:Q2 | 2011:Q2-2018:Q3 |
|---|---|---|---|
| Buffalo-Cheektowaga-Niagara Falls | 31.7 | 4.3 | 37.7 |
| Nassau-Suffolk | 84.5 | (14.6) | 26.5 |
| New York-Jersey City-White Plains | 89.4 | (17.6) | 22.6 |
| Rochester | 22.2 | (0.2) | 24.7 |
| Syracuse | 38.2 | 0.3 | 17.0 |
| Albany-Schenectady-Troy | 82.1 | (5.6) | 13.7 |
| **New York State** | **64.6** | **(8.0)** | **24.2** |
| **U.S.** | **53.0** | **(21.0)** | **48.5** |

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 limit of $424,100 for single-family homes in the U.S. except in not in Alaska, Hawaii, Guam & U.S. Virgin Islands, where the limit is $625,500. Therefore, the FHFA index does not reflect price changes for more expensive homes.

*Source: Federal Housing Finance Agency (FHFA).*

However, home prices in New York State have grown much slower than the national average in recent years. From the second quarter of 2011 to the third quarter of 2018, home prices grew 48.5 percent nationally, while home prices in New York State grew by only 24.2 percent.

Regionally, housing in upstate New York has long been more affordable than downstate.[43] While most upstate metropolitan regions have consistently ranked among the top fifty most affordable out of 237 nationwide, New York-Jersey City-White Plains has ranked among the least affordable metro areas. In the fourth quarter of 2018, only 29.9 percent of homes sold in this area were affordable to families earning the area's median income, compared to over 85 percent in Elmira, Binghamton, Syracuse, and Utica-Rome. Although home prices in Buffalo-Cheektowaga-Niagara Falls have appreciated the fastest in recent years, housing remains very affordable. In the fourth quarter of 2018, 81.7 percent of homes sold in Buffalo-Cheektowaga-Niagara Falls were affordable to families earning the area's median income.[44]

Slow home price growth has reduced the housing cost burden for homeowners in New York 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 27.5 percent in 2017. However, a large disparity still exists across New York State. Between 2012 and 2017, 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 36.4 percent of homeowners and 51.5 percent of renters paid more than 30 percent of their income on housing. The lowest burden for homeowners was in Elmira, where only 16.4 percent of homeowners paid more than 30 percent of their income on housing. In the State as a whole, 29.6 percent of all New York homeowners paid more than 30 percent of their income on housing between 2012 and 2016, while about half of all renters did, compared to 23.7 percent and 46.8 percent for the nation, respectively (see Table 6).

Under the new tax law that took effect in 2018, mortgage interest deductions are capped at $750,000 for couples filing jointly and $375,000 for married taxpayers filing separate returns. Deduction caps were $1 million and $500,000, respectively, under the previous tax law. In addition, the deductibility of the real estate tax is capped at $10,000. This will negatively affect the individuals who live in areas with high home prices or high property taxes. As these homeowners can deduct less of their housing expenses on their tax return, owning a home will become more costly. As a result, those federal tax law changes appear to have an adverse impact on the housing market in the State.

[43] A home is considered affordable if it accounts for 28 percent or less of a household's income. Housing expenses include principal, interest, estimated property taxes, and property insurance.
[44] National Association of Home Builders, NAHB/Wells Fargo Housing Opportunity Index (HOI), http://www.nahb.org/en/research/housing-economics/housing-indexes/housing-opportunity-index.aspx (accessed: February 15, 2019).

**Table 6**

| Housing Cost Burden by New York State Metropolitan Area | | | | | |
|---|---|---|---|---|---|
| | Owner 2013-2017 | | Renter 2013-2017 | | |
| | 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 2018:Q4 |
| **Metropolitan Statistical Area** | | | | | |
| New York-Newark-Jersey City | 2,246,746 | 36.4 | 2,543,103 | 51.5 | 29.9 |
| Kingston | 48,343 | 31.2 | 21,319 | 54.7 | 70.8 |
| Glens Falls | 37,036 | 24.3 | 14,201 | 48.0 | 78.9 |
| Albany-Schenectady-Troy | 224,766 | 21.2 | 124,559 | 45.1 | 78.0 |
| Rochester | 289,529 | 20.9 | 141,798 | 51.3 | 77.0 |
| Watertown-Fort Drum | 24,012 | 20.8 | 19,194 | 41.6 | 79.1 |
| Ithaca | 21,630 | 20.5 | 17,356 | 54.8 | 76.5 |
| Binghamton | 67,191 | 20.0 | 31,626 | 49.2 | 91.1 |
| Utica-Rome | 78,324 | 19.9 | 37,335 | 44.2 | 87.2 |
| Buffalo-Cheektowaga-Niagara Falls | 314,100 | 19.2 | 160,249 | 46.3 | 81.7 |
| Syracuse | 173,893 | 18.9 | 84,135 | 45.6 | 87.7 |
| Elmira | 23,609 | 16.4 | 11,055 | 50.4 | 92.7 |
| **New York State** | **3,942,483** | **29.6** | **3,360,227** | **50.4** | **N/A** |
| **United States** | **75,833,135** | **23.7** | **42,992,786** | **46.8** | **56.6** |

Note: The Housing Opportunity Index for New York-Newark-Jersey City was the Index for New York-Jersey City-White Plains, 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, 2013-2017 American Community Survey 5-Year Estimates; National Association of Home Builders.*

Activities in the office market in New York City were strong in 2017. New leasing activity totaled 30.5 million square feet, an increase of 16.0 percent from 2016. This was the second highest level seen in 17 years.[45] Leasing activities remained solid in 2018, with new leasing reaching a historic high of 35.9 million square feet, an increase of 17.7 percent from 2017. However, overall asking rents remained flat while vacancy rates increased slightly, as over four million square feet of office space were added into the market in 2018.[46]

[45] Cushman & Wakefield, "MARKETBEAT Office Snapshot: Manhattan NY," Q4 2017.
[46] Cushman & Wakefield, "MARKETBEAT Office Snapshot: Manhattan NY," Q4 2018.

## RISKS TO THE FORECAST

Recent domestic and international developments pose a diverse set of risks to the staff's economic forecast, and thus, receipts outlook. While the underlying economic fundamentals both at home and abroad remain strong, significant downside risks remain.

With the Federal Reserve expected to continue rate hikes, its actions on monetary policy and the market reactions to them pose a major risk to the outlook. As seen in the recent volatile movements in the equity market, investors may hastily realign their positions to the changing landscape of opportunities and costs. Should market volatility continue, it could lead to a loss of consumer and business confidence, negatively impacting consumer spending and business decisions on capital spending and hiring.

As many countries, faced with different economic conditions, are unable to match the recent rate increases in the U.S., monetary policies have been diverging across central banks. The resulting increase in interest rate differentials across borders is causing currency depreciation in, and capital flight from, countries with lower interest rates. Consequently, global economic and financial stability is increasingly at risk.

Unlike what happened in the late stages of prior economic recoveries, federal budget deficits are rising, due in part to the 2017 federal tax reform. The increasing budget deficits put upward pressure on Treasury yields and mortgage interest rates. Higher interest rates imply higher interest payments on public debt, limiting the federal government's ability to respond to future economic crisis. Higher interest rates may also result in negative effects on consumer and business spending. The cash flow of an increasing number of businesses has already been strained by rising interest rates, especially among highly-indebted companies in the energy sector which have borrowed heavily to finance their spending on oil-field equipment and structures.

Trade tensions continue, hurting not only U.S. trade partners but U.S. exporters and consumers. The economic outlook for China and other major trade partners of the U.S. has been revised down as their export industries lose competitiveness. While the benefits of U.S. tariffs intended for U.S. manufacturers may not be realized in the short term, the losses to U.S. consumers and businesses that are dependent on foreign imports are more immediate as they face higher prices.

With Wall Street and the financial markets playing a central role in the State's economy, any adverse shocks to the U.S. economy as well as any further continuation of market volatility will be felt across the State of New York. Also, taxpayers' response to the 2017 federal tax reform, especially the loss of the full state and local tax deduction, presents a particular risk to the New York State economy and revenue stream.

# NEW YORK STATE INDUSTRIAL AND REGIONAL ANALYSIS

## Employment by Industry

New York State has seen the industrial composition of its employment deeply transformed in the past several decades. In particular, sectors such as health and education have exploded, while manufacturing receded. The leisure and hospitality sector has experienced the fastest growth in employment following the Great Recession. These changes continue today, with variations across the State.

Education and health care employment has been steadily increasing even during recessionary periods. As a result, the sector's share of New York State total nonfarm payroll employment has jumped up. From 1980 to 2008, the share of education and health care employment grew from less than 10 percent to 17.8 percent, the sector becoming the largest in the State. Both upstate and downstate shared equally in this gain.[47] This sector share further increased to 19.9 percent and ranked first in 2017. In contrast, the manufacturing sector has been losing jobs for decades, due to a structural shift in the economy and other economic factors. In 1980, the manufacturing sector accounted for 17.1 percent of total New York State employment, the second largest share behind the government sector. By 2008, this sector had dropped to seventh in rank and accounted for only 6.3 percent of the State's employment. By 2017, the share dropped to 4.8 percent and ranked eighth (see Figure 32).[48] As a result, the education and health care industry has contributed the most to New York State employment growth for the past few decades while manufacturing has been the biggest drag.

Leisure and hospitality employment has grown more rapidly following the Great Recession than any other sector and has become one of the main drivers of New York State's employment growth in recent years. From 2009 to 2017, employment in this sector grew the fastest, 32.3 percent, and contributed nearly one-quarter of New York State's employment

[47] 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).

[48] The manufacturing sector has become less vital to the downstate economy compared to upstate, in terms of both the number of jobs and share of total employment. In 1980, manufacturing was the second largest sector in downstate, accounting for 13.9 percent of downstate total employment. In 2008, the sector ranked tenth, accounting for 4.0 percent of the downstate total employment. Likewise, manufacturing was the largest sector upstate in 1980, accounting for 24.5 percent of upstate total employment; this share dropped to 11.4 percent in 2008 and ranked fourth.

growth. As a result, the share of leisure and hospitality employment increased from 8.3 percent in 2008 to 10.1 percent in 2017, with the sector's rank moving up from sixth to third.

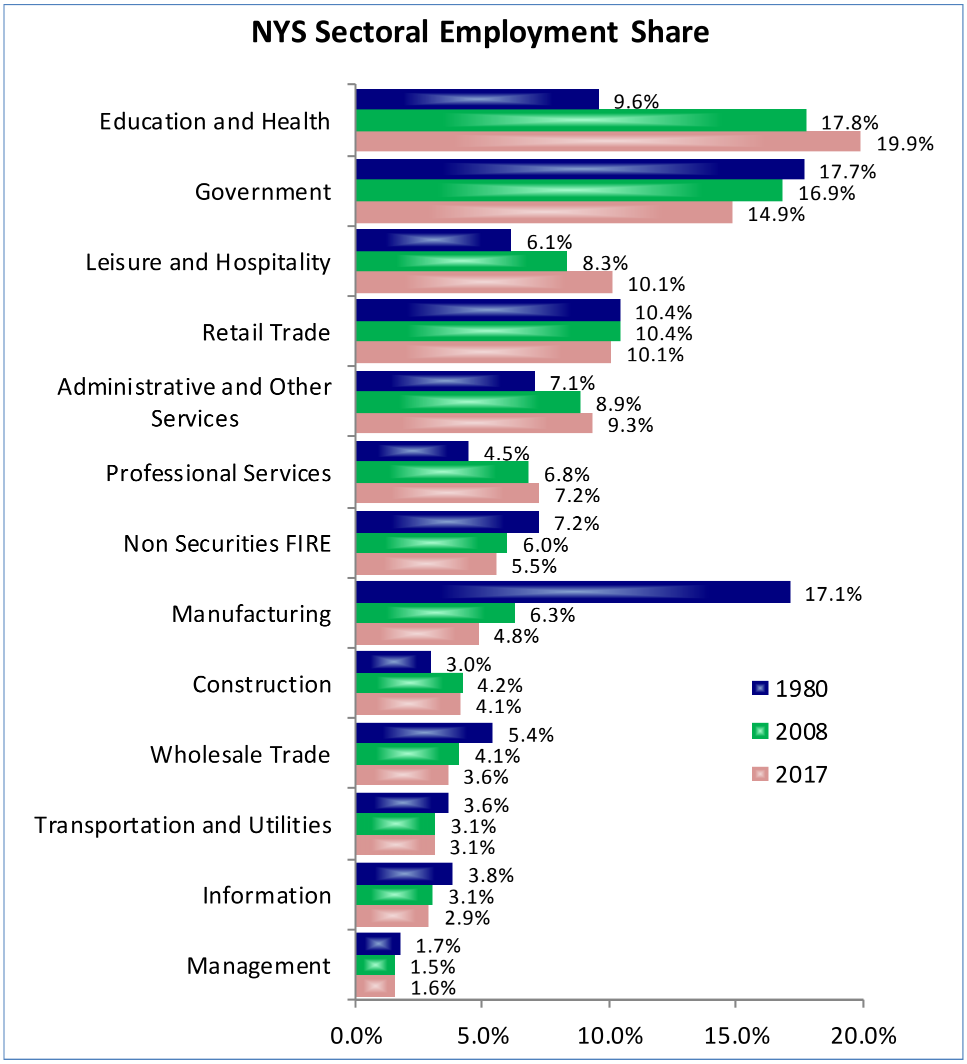



**Figure 32**

The gains in New York State employment during the current expansion have been mainly in lower paying sectors. From 2009 to 2017, four of the five sectors that contributed the most to State's employment growth had the lowest average wages (see Table 7). Thus, nearly eighty percent of all the jobs created in New York State between 2009 and 2017 were in education and health, leisure and hospitality, administration and other services, and retail trade sectors.

**Table 7**

**New York State Contribution to Employment Growth by Sector**

| | 1980-2000 | | 2003-2008 | | 2009-2017 | | Average Wage |
|---|---|---|---|---|---|---|---|
| | Level (Jobs) | Share (%) | Level (Jobs) | Share (%) | Level (Jobs) | Share (%) | 2017 ($) |
| **Total Employment Change** | **1,351,944** | **100.0** | **370,540** | **100.0** | **938,265** | **100.0** | **70,601** |
| Education and Health[1] | 622,628 | **46.1** | 132,339 | **35.7** | 296,229 | **31.6** | 51,954 |
| Leisure and Hospitality | 197,689 | 14.6 | 72,882 | 19.7 | 228,758 | 24.4 | 32,386 |
| Administrative and Other Services[2] | 257,328 | 19.0 | 39,464 | 10.7 | 141,870 | 15.1 | 46,243 |
| Professional Services | 231,993 | 17.2 | 79,606 | 21.5 | 109,851 | 11.7 | 111,723 |
| Retail Trade | 137,534 | 10.2 | 42,279 | 11.4 | 72,574 | 7.7 | 35,161 |
| Construction | 115,092 | 8.5 | 42,498 | 11.5 | 59,799 | 6.4 | 71,694 |
| Transportation and Utilities[3] | 17,616 | 1.3 | 13,772 | 3.7 | 28,487 | 3.0 | 60,117 |
| Real Estate, Rental, & Leasing | 56,951 | 4.2 | 7,116 | 1.9 | 19,275 | 2.1 | 71,978 |
| Information | 51,682 | 3.8 | (13,227) | (3.6) | 16,867 | 1.8 | 119,630 |
| Management | (8,024) | (0.6) | 11,239 | 3.0 | 13,119 | 1.4 | 147,357 |
| Finance & Insurance | 77,859 | 5.8 | 20,814 | 5.6 | 12,395 | 1.3 | 235,940 |
| Securities Industry | 113,845 | 8.4 | 31,766 | 8.6 | 7,639 | 0.8 | 404,097 |
| Wholesale Trade | (3,528) | (0.3) | 606 | 0.2 | 7,041 | 0.8 | 84,533 |
| Manufacturing[4] | (465,049) | (34.4) | (77,104) | (20.8) | (31,346) | (3.3) | 65,906 |
| Government | 143,224 | 10.6 | 23,598 | 6.4 | (66,765) | (7.1) | 62,814 |

Note: Industries are ranked by 2009-2017 share; 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.

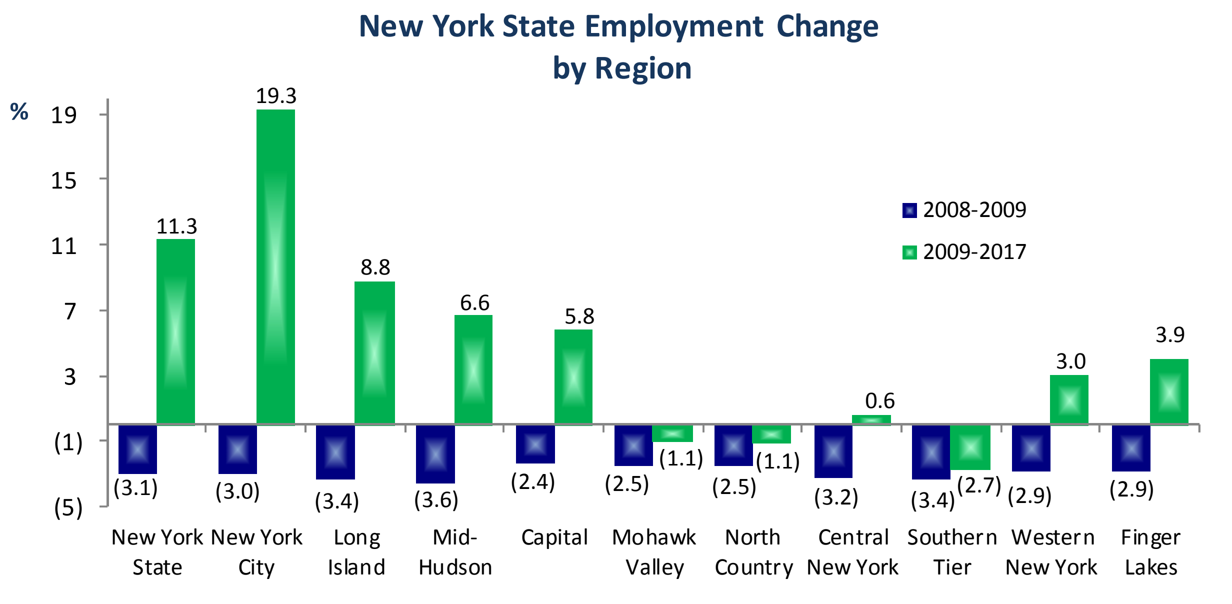
*Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.*

## Employment by Region

In 2017, the largest region by employment in the State was New York City. With over four million jobs, New York City accounted for over 45 percent of the State's total nonfarm employment. The smallest employment region was the North Country, with 146,600 nonfarm jobs. Across regions, most jobs are concentrated in education, health, and government, while the smallest numbers are found in management of companies, real estate, rental, and leasing industries.

*Downstate regions were hit harder during the recession but recovered quicker*

Downstate regions were hit harder than upstate regions during the last recession. However, downstate has recovered faster than upstate. From 2009 to 2017, downstate gained 11.5 percent in nonfarm jobs with all regions gaining jobs. In contrast, upstate employment gained only 2.3 percent during this period, with three of seven regions experiencing job losses. The Southern Tier region lost the highest percentage of jobs, 2.7 percent, from 2009 to 2017 (see Figure 33).



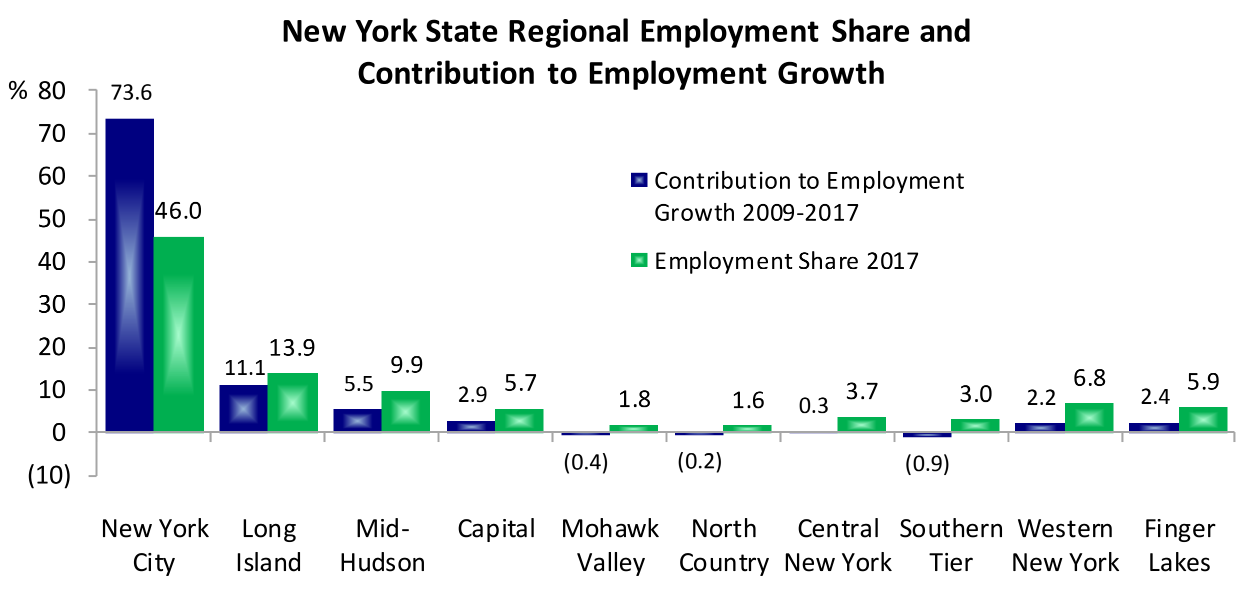

*Source: New York State Department of Labor.*

**Figure 33**

Six regions (New York City, Long Island, Mid-Hudson, Capital, Western New York, and Finger Lakes regions) regained the nonfarm private jobs lost during the recession and surpassed pre-recession levels. In 2017, nonfarm employment in New York City was 15.7 percent above its pre-recession peak. In contrast, employment in the Southern Tier remained 6.0 percent below its previous peak.

*New York City continues to contribute the most to the State's employment growth*

New York City has long been the main contributor to the State's employment growth and this trend has continued during the current expansion. While accounting for less than half of the State's employment in 2017, New York City contributed almost three quarters of the State's employment gains between 2009 and 2017. During this period, downstate accounted for more than 90 percent of State's employment growth, while upstate regions continued to lose jobs (see Figure 34).

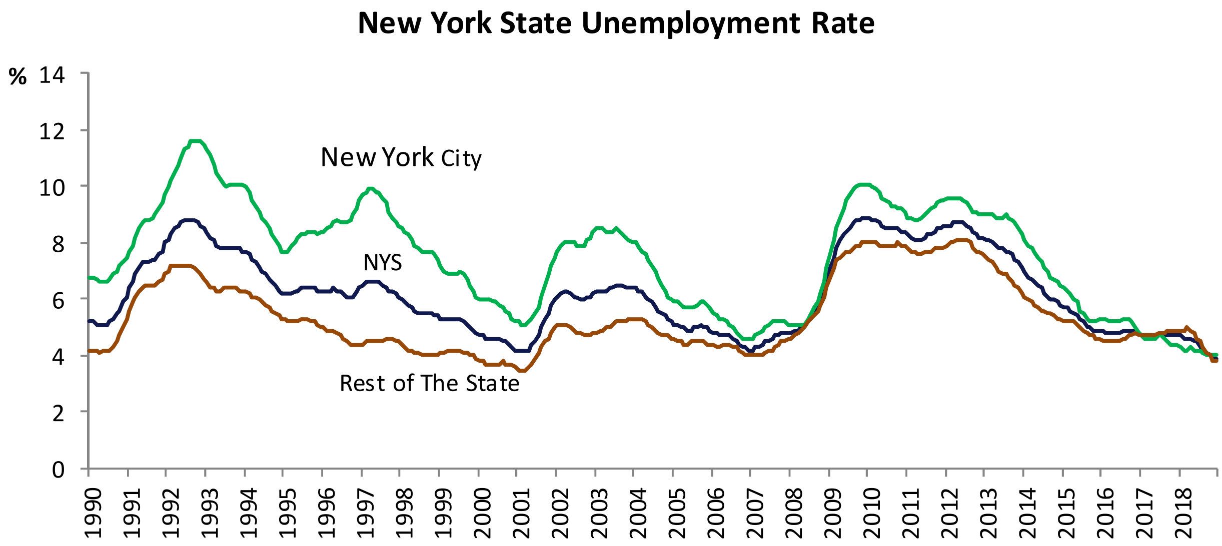


Source: New York State Department of Labor.

**Figure 34**

## *Regional Unemployment and Labor Force*

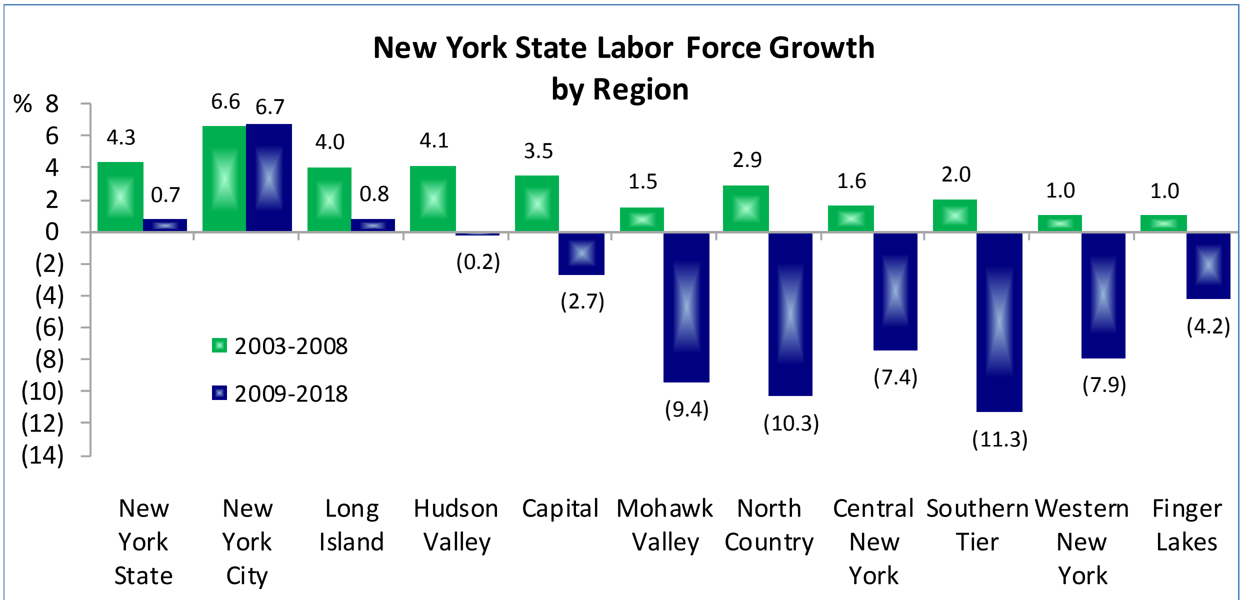
Historically, unemployment in New York City has consistently been higher than in the rest of the State. During the Great Recession, the unemployment rate in New York City reached 10.2 percent in October and November 2009, compared to 8.9 percent for the State as a whole and 8.0 for the rest of the State. As New York City gained jobs at a much faster rate than the rest of the State in recent years, its unemployment rate has fallen rapidly. In December 2018, the unemployment rate in New York City was 4.0 percent, compared to 3.8 percent for the rest of the State (see Figure 35).




Note: Data are monthly through December 2018. Data are seasonally adjusted.
*Source: New York State Department of Labor.*

**Figure 35**

The fact that New York City's unemployment remains higher than the rest of the State is due in part to an expanding labor force in the area. From 2009 to 2018, New York City's labor force increased 6.7 percent. In contrast, the labor force declined in all upstate regions during this period. The Southern Tier region lost the most at 11.3 percent from 2009 to 2018, followed by the North Country region at 10.3 percent (see Figure 36).




*Source: New York State Department of Labor.*

**Figure 36**

This decline in the labor force is due to several factors, including the aging of the population and out-migration. In many regions significant shares of the working population have retired with not enough new workers to replace them. Out-migration has also contributed to the shrinking of the labor force, especially in upstate regions.

## Wages by Industry

Contributions to the total amount of wages paid in New York State vary greatly across industries. In 2017, the finance and insurance sector accounted for 18.3 percent of total wages in the State. Government was second, with 13.4 percent, then professional and technical services, 11.5 percent, and health care and social assistance, 11.4 percent. The remaining industries distributed 45.4 percent of the wages. Both the finance and insurance sector and government saw their shares shrink between 2008 and 2017, so did the manufacturing and health care and social assistance sectors (see Figure 37).

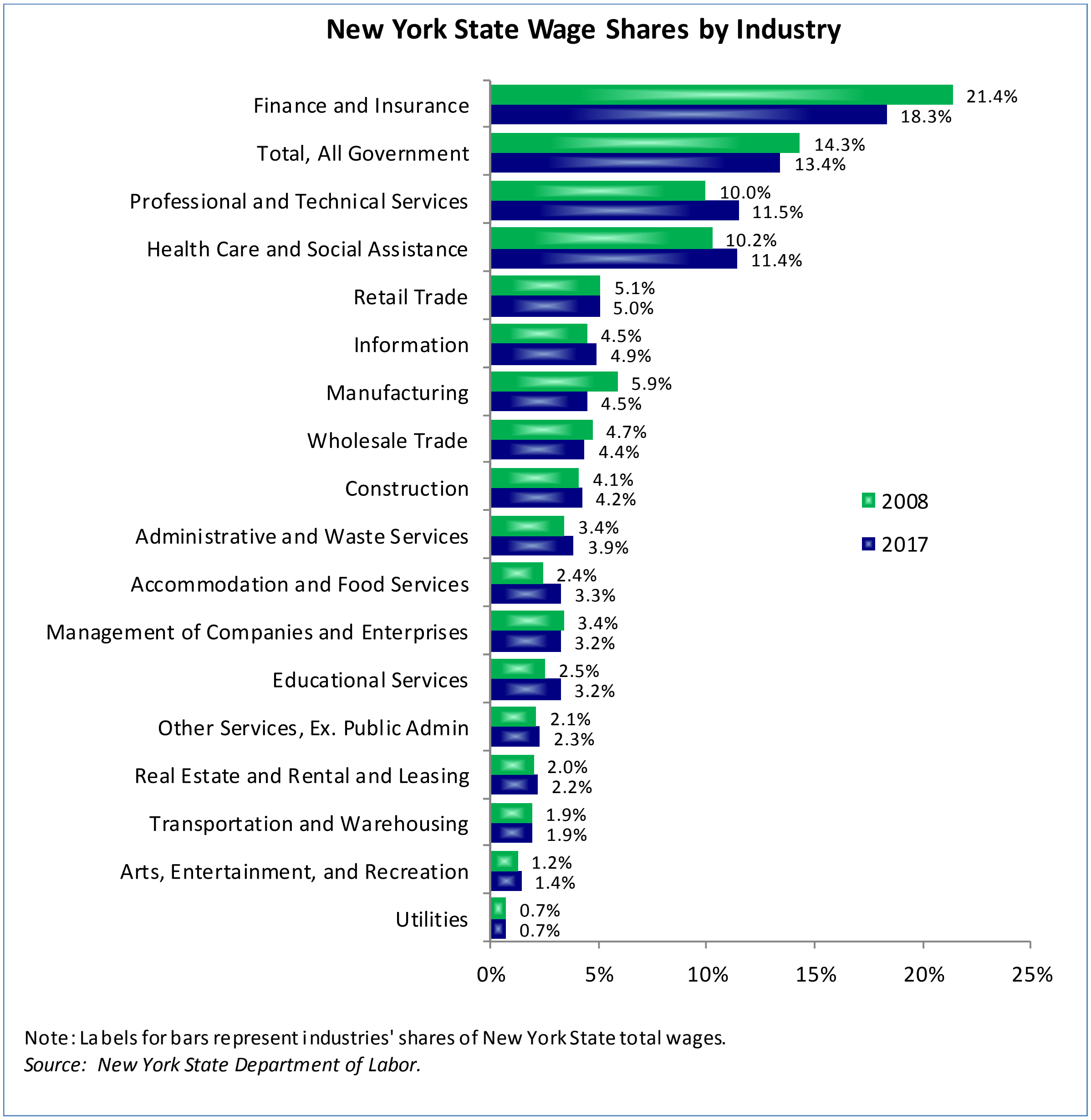



**Figure 37**

The average wage for nonfarm workers in New York State was $70,601 in 2017, an increase of 16.8 percent from $60,471 in 2008. At the same time, the average wage for the private sector in New York State rose 15.5 percent from $62,305 to $71,960. Average wages vary widely among sectors. In 2017, the five highest paying sectors in New York State were finance and insurance, management of companies, information, professional services, and wholesale trade. The lowest paying sectors were mostly in the services industry. The finance and insurance sector had the highest average wage of $235,940 in 2017, while the leisure and hospitality sector had an average pay of only $32,386 (see Table 8).

**Table 8**

**New York State Average Wage by Sector**

| | Average Wage | | Growth |
|---|---|---|---|
| | 2008 ($) | 2017 ($) | (%) |
| **Nonfarm** | **60,471** | **70,601** | **16.8** |
| **Private** | **62,305** | **71,960** | **15.5** |
| Finance & Insurance | 207,410 | 235,940 | 13.8 |
| Management of Companies | 133,192 | 147,357 | 10.6 |
| Information | 88,260 | 119,630 | 35.5 |
| Professional Services | 88,234 | 111,723 | 26.6 |
| Wholesale Trade | 69,450 | 84,533 | 21.7 |
| Real Estate, Rental, & Leasing | 55,100 | 71,978 | 30.6 |
| Construction | 59,119 | 71,694 | 21.3 |
| Manufacturing[1] | 57,259 | 65,906 | 15.1 |
| Government | 51,421 | 62,814 | 22.2 |
| Transportation & Utilities[2] | 50,222 | 60,117 | 19.7 |
| Education & Health Care[3] | 43,407 | 51,954 | 19.7 |
| Other Services[4] | 37,712 | 46,243 | 22.6 |
| Retail Trade | 29,516 | 35,161 | 19.1 |
| Leisure & Hospitality | 26,385 | 32,386 | 22.7 |

Note: Industries are ranked by 2017 average wage.

[1] Including mining.

[2] Transportation, warehousing, and utilities.

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

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

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

## Uneven industry distribution of wages across the State

The finance and insurance sector is particularly important downstate, accounting for 21.8 percent of total wages in 2017. Upstate, the government sector is the largest wage-paying sector, accounting for 21.3 percent of total nonfarm wages in 2017. The education and health sector had the second highest share of upstate wages at 18.5 percent (see Table 9).

**Table 9**

**New York State Share of Nonfarm Wages by Sector**

| | NYS | | | Downstate | | | Upstate | | |
|---|---|---|---|---|---|---|---|---|---|
| | **1980** | **2008** | **2017** | **1980** | **2008** | **2017** | **1980** | **2008** | **2017** |
| **Total Nonfarm Wage (Billion $)** | **111.4** | **518.5** | **621.2** | **78.8** | **403.1** | **484.8** | **30.7** | **104.7** | **121.9** |
| Finance & Insurance | 8.6 | **21.4** | **18.4** | 10.9 | **25.8** | **21.8** | 3.0 | 6.2 | 5.4 |
| Education and Health[1] | 7.9 | 12.8 | 14.7 | 8.2 | 12.1 | 14.1 | 7.7 | 16.3 | 18.5 |
| Government | 17.5 | 14.3 | 13.2 | **16.7** | 12.6 | 11.6 | 19.5 | **22.3** | **21.3** |
| Professional Services | 5.9 | 10.0 | 11.5 | 7.0 | 10.8 | 12.4 | 2.8 | 6.5 | 7.1 |
| Administrative and Other Services[2] | 4.7 | 5.5 | 6.1 | 5.4 | 5.4 | 6.1 | 3.0 | 5.3 | 5.3 |
| Retail Trade | 6.6 | 5.1 | 5.0 | 6.4 | 4.6 | 4.7 | 7.1 | 7.1 | 6.8 |
| Information | 5.0 | 4.5 | 4.9 | 6.0 | 4.9 | 5.5 | 2.6 | 2.2 | 1.9 |
| Leisure and Hospitality | 3.1 | 3.6 | 4.7 | 3.2 | 3.7 | 4.8 | 2.7 | 3.4 | 4.4 |
| Manufacturing[3] | **19.2** | 5.9 | 4.5 | 13.8 | 3.5 | 2.5 | **33.4** | 15.8 | 13.2 |
| Wholesale Trade | 7.1 | 4.7 | 4.4 | 7.8 | 4.3 | 3.9 | 4.4 | 4.4 | 4.2 |
| Construction | 3.5 | 4.1 | 4.2 | 3.3 | 3.9 | 4.1 | 3.8 | 4.4 | 4.5 |
| Management | 3.1 | 3.4 | 3.2 | 3.2 | 3.6 | 3.3 | 2.8 | 2.7 | 3.0 |
| Transportation and Utilities[4] | 4.9 | 2.6 | 2.6 | 5.5 | 2.5 | 2.5 | 3.6 | 3.3 | 3.2 |
| Real Estate, Rental, & Leasing | 1.5 | 2.0 | 2.2 | 1.9 | 2.3 | 2.5 | 0.5 | 0.9 | 1.1 |

Note: Industries are ranked by NYS 2017 wage share.

[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] Including mining.

[4] Transportation, warehousing, and utilities.

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

The financial industry compensation practices have undergone significant changes since the Great Recession, in particular, shifting from cash bonus and salary to long-term incentives, such as stock options. As a result, the average wage in this sector has grown slowly after 2008. From 2008 to 2017, the finance and insurance sector average wage grew 13.6 percent, compared with a 51.5 percent gain from 2001 to 2008. Therefore, its contribution to State's wage growth has lessened.

The professional services and education and health care sectors have emerged as major drivers of wage growth in New York State since the Great Recession. From 2009 to 2017, finance and insurance led wage growth, accounting for 19.6 percent of total nonfarm wage growth. It was followed by the education and health sector, which accounted for 15.6 percent of total wage gains (see Table 10).

**Table 10**

**New York State Contribution to Wage Growth by Sector**

| | 1980-2000 | | 2001-2008 | | 2009-2017 | |
|---|---|---|---|---|---|---|
| | Level (Billion $) | Share (%) | Level (Billion $) | Share (%) | Level (Billion $) | Share (%) |
| **Total** | **272.7** | **100.0** | **125.0** | **100.0** | **172.0** | **100.0** |
| Finance & Insurance | 64.2 | **23.5** | 35.0 | **28.0** | 33.7 | **19.6** |
| Education and Health[1] | 33.3 | 12.2 | 21.3 | 17.1 | 26.8 | 15.6 |
| Professional Services | 30.2 | 11.1 | 14.8 | 11.8 | 26.0 | 15.1 |
| Securities Industry | 45.8 | 16.8 | 27.3 | 21.9 | 22.7 | 13.2 |
| Administrative and Other Services[2] | 15.3 | 5.6 | 7.6 | 6.1 | 12.9 | 7.5 |
| Leisure and Hospitality | 9.7 | 3.5 | 5.6 | 4.5 | 12.0 | 7.0 |
| Government | 37.8 | 13.9 | 15.3 | 12.2 | 10.5 | 6.1 |
| Information | 15.6 | 5.7 | 1.3 | 1.0 | 10.0 | 5.8 |
| Construction | 10.5 | 3.8 | 5.9 | 4.7 | 8.1 | 4.7 |
| Retail Trade | 13.1 | 4.8 | 5.4 | 4.3 | 7.7 | 4.5 |
| Wholesale Trade | 12.7 | 4.7 | 3.7 | 3.0 | 5.6 | 3.3 |
| Management | 9.1 | 3.3 | 5.2 | 4.1 | 5.5 | 3.2 |
| Real Estate, Rental, & Leasing | 5.6 | 2.0 | 2.7 | 2.2 | 4.9 | 2.8 |
| Transportation and Utilities[3] | 5.5 | 2.0 | 2.3 | 1.8 | 4.3 | 2.5 |
| Manufacturing[4] | 10.8 | 3.9 | (0.6) | (0.4) | 2.1 | 1.2 |

Note: Industries are ranked by 2009-2017 share; 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.*

## Wages by Region

Annual average wages in New York City have always been the highest in the State due to the concentration of high-paying jobs in the finance and insurance and professional services sectors. Prior to the Great Recession, the average wage in New York City was over $80,000, more than double the average wage in most upstate regions (with the exception of the Capital and Finger Lakes regions). In 2017, the average wage was highest in New York City at $89,731. The region with the lowest average wage in 2017 was the Mohawk Valley at $40,873 (see Figure 38).

As wages in the finance and insurance sector, which account for the largest share of New York City wages, have been growing slowly since the previous peak, wage growth in New York City has been slower than in other regions between 2008 and 2017. During this period, the average wage in New York City grew 11.6 percent, compared with 16.8 percent statewide.

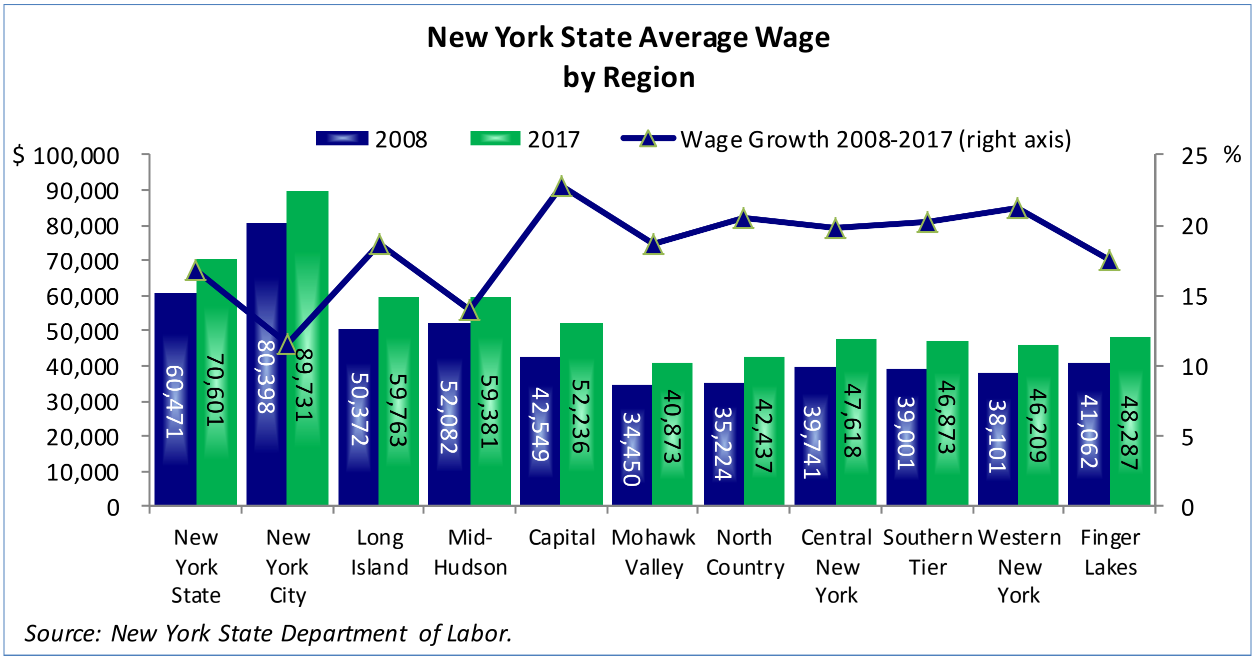
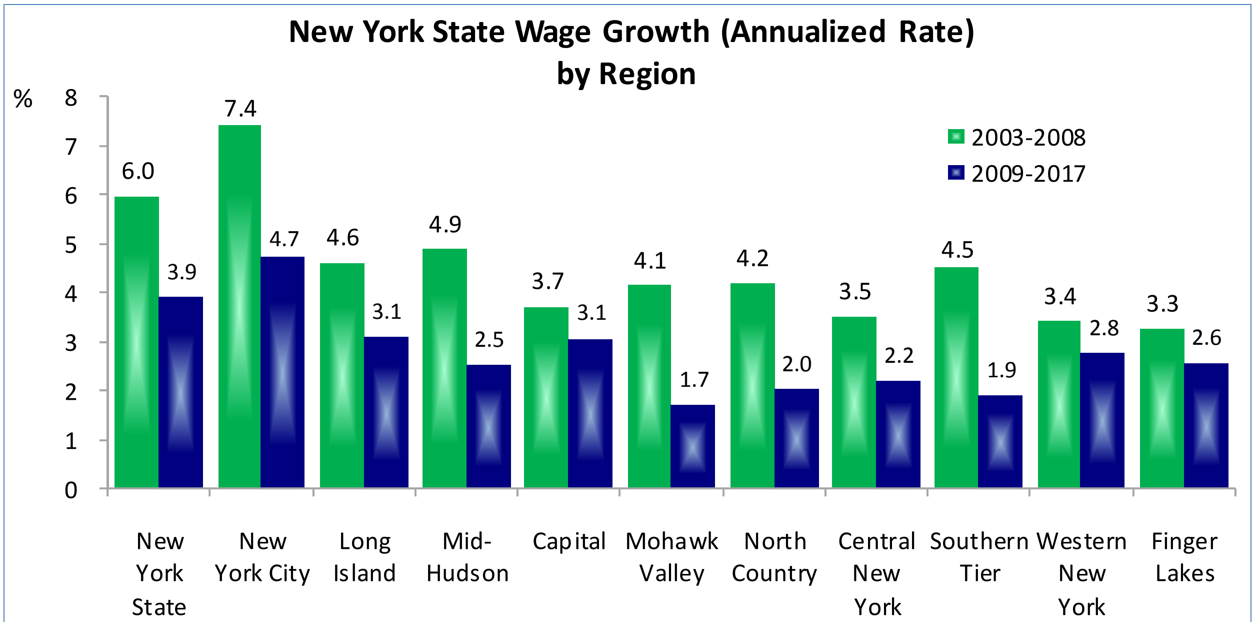



**Figure 38**

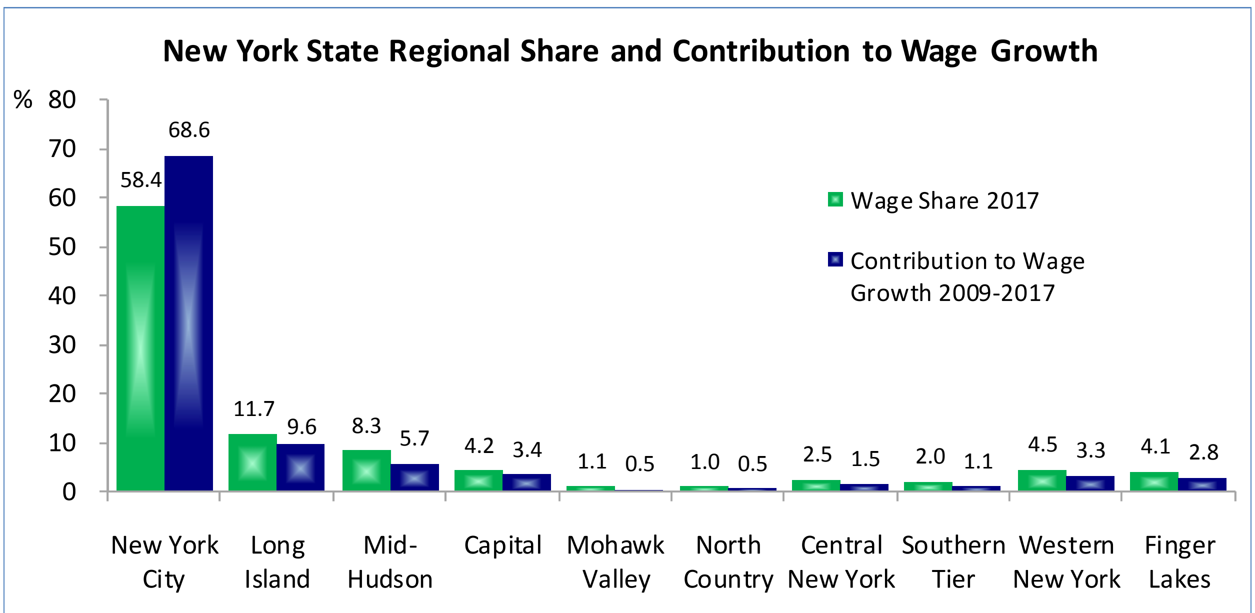
Wage growth in the current recovery has been slower than in the previous recovery in all regions (see Figure 39). This is due to the decline in employment in upstate regions and slow wage growth in the finance and insurance sector, one of the key industries in downstate regions. From 2009 to 2017, wages in the State grew on average at a rate of 3.9 percent per year, compared to 6.0 percent per year during the previous recovery.



*Source: New York State Department of Labor.*

**Figure 39**

While accounting for 58.4 percent of the State's wages in 2017, New York City has contributed over two-thirds of the State's wage growth between 2009 and 2017 (see Figure 40).

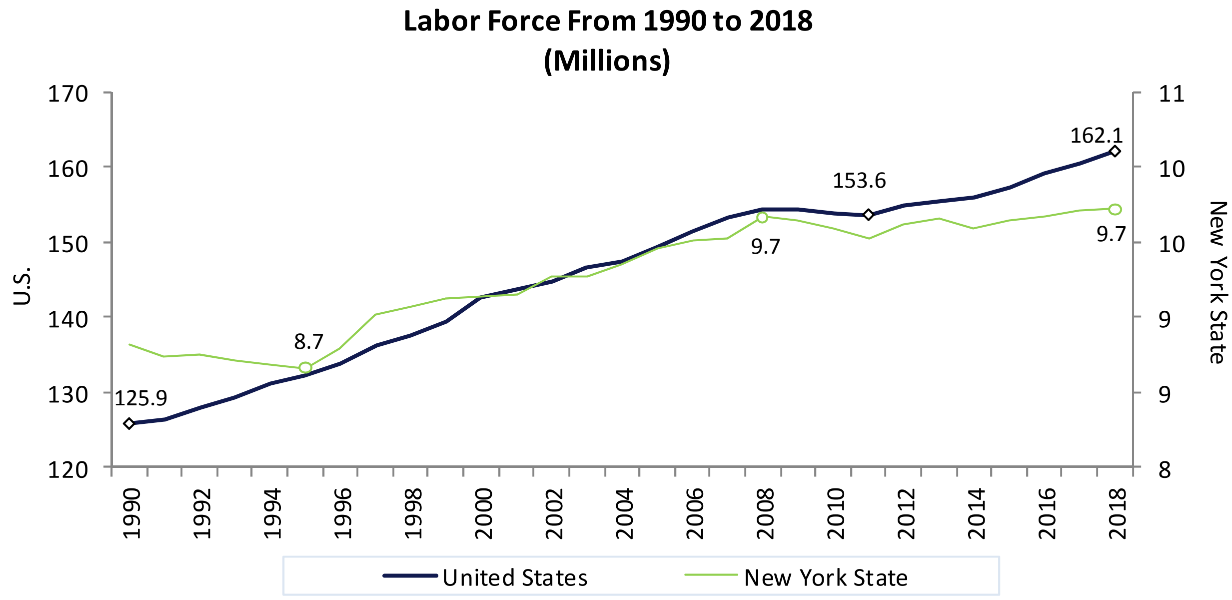


*Source: New York State Department of Labor.*

**Figure 40**

## NEW YORK STATE WORKFORCE TRENDS

From 2011 to 2018, the U.S. added 8.5 million workers to its labor force[49] for a total of 162.1 million (see Figure 41). In New York State, however, the labor force has all but stopped growing after peaking at 9.7 million in 2008. By 2018, it counted only 53,000 more workers than in 2009.




*Source: Labor Force Statistics, U.S. Department of Labor.*

**Figure 41**

The growth of the labor force slowed in the aftermath of the Great Recession (see Figure 42). The U.S. labor force grew an average 0.5 percent annually from 2009 to 2017; less than half the pace of growth during the two previous recoveries. Indeed, compared to previous recoveries, labor force growth in the current expansion period is distinctly weak. In New York State, the total number or workers has barely changed. However, different trends emerged in areas across the State: while the labor force shrank by 1.0 percent annually in several upstate regions, it grew on average 0.8 percent annually in New York City, at nearly twice the pace of the U.S.

[49] The labor force comprises workers, i.e. employed people and those looking for employment. Individuals who may be engaged in productive activities outside of the labor market (e.g. caregivers at home) are not included in the labor force.

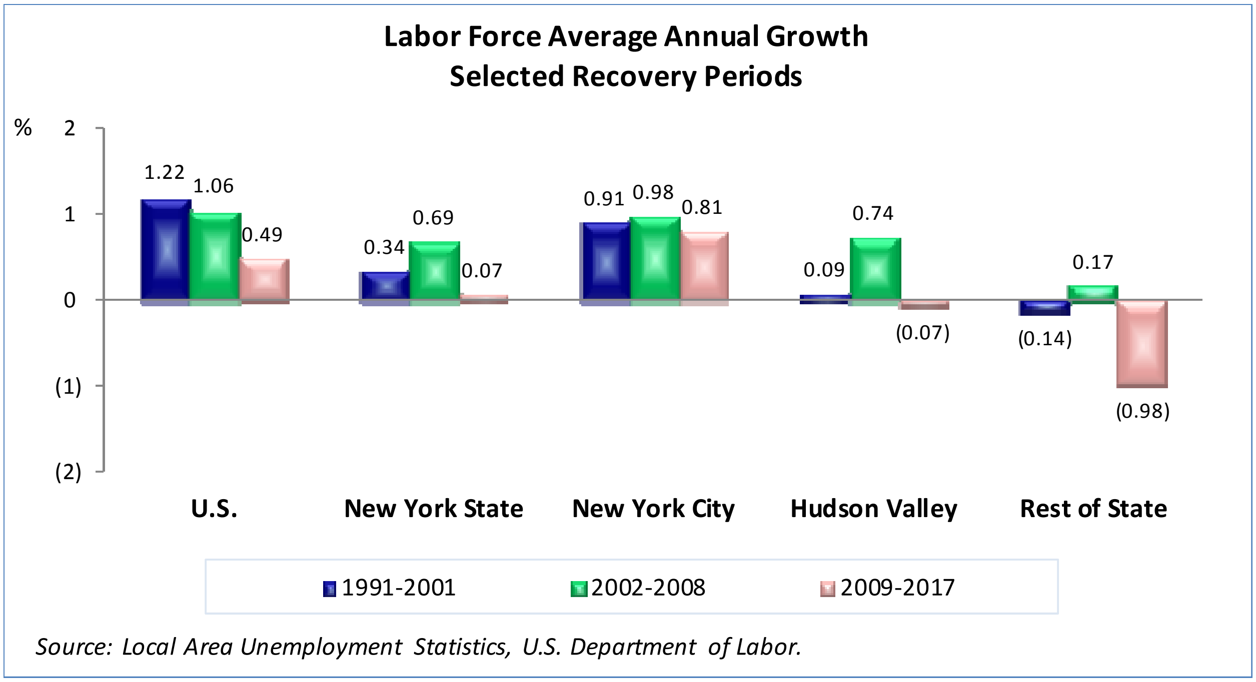



**Figure 42**

Slower labor force growth has been attributed to reduced participation, itself the result of a variety of factors such as the retirement of baby-boomers, young adults delaying entry in the workforce, and a rising incidence of disabilities. For New York State, immigration patterns also need to be considered. This section examines the extent to which these factors affect the State's regions.

## New York City and the Rest of the State

In 2017, 4.2 million of New York's workforce (43.5 percent) resided in New York City (see Table 11). Outside of New York City, about 3.2 million (32.8 percent) were concentrated in the Hudson Valley,[50] and 3.3 million (23.7 percent) were dispersed across the rest of the State, which comprises the large cities of Buffalo, Rochester, and Syracuse.

[50] In this section, the Hudson Valley area includes Long Island, the Mid-Hudson, and Capital regions and is separated from Rest of State areas, the regions situated north and west of the counties bordering the Hudson River up to Warren County.

**Table 11**

| Labor Force in 2017 (Thousands) | 2017 | Share of State Total | Change from 2009 | Percent Annual Change |
|---|---|---|---|---|
| U.S. | 160,313.6 | 6.1* | 6,125.1 | 0.5 |
| New York State | 9,704.7 | 100.0 | 57.2 | 0.1 |
| New York City | 4,224.5 | 43.5 | 263.7 | 0.8 |
| Bronx | 621.6 | 6.4 | 87.8 | 1.9 |
| Brooklyn | 1,245.9 | 12.8 | 126.1 | 1.3 |
| Manhattan | 939.7 | 9.7 | 8.1 | 0.1 |
| Queens | 1,190.3 | 12.3 | 60.9 | 0.7 |
| Staten Island | 226.9 | 2.3 | (19.2) | (1.0) |
| Hudson Valley | 3,180.5 | 32.8 | (17.6) | (0.1) |
| Long Island | 1,490.7 | 15.4 | 5.9 | 0.0 |
| Mid-Hudson | 1,139.7 | 11.7 | (7.4) | (0.1) |
| Capital Region | 550.1 | 5.7 | (16.0) | (0.4) |
| Rest of State | 2,299.7 | 23.7 | (188.9) | (1.0) |
| North Country | 174.4 | 1.8 | (18.8) | (1.3) |
| Mohawk Valley | 193.5 | 2.0 | (18.6) | (1.1) |
| Central New York | 367.1 | 3.8 | (28.6) | (0.9) |
| Southern Tier | 316.4 | 3.3 | (39.4) | (1.5) |
| Finger Lakes | 588.2 | 6.1 | (27.9) | (0.6) |
| Western New York | 660.2 | 6.8 | (55.7) | (1.0) |

* New York State's share of U.S. population

*Source: Local Area Unemployment Statistics, Bureau of Labor Statistics, U.S. Department of Labor; Economic Data, Federal Reserve Bank of St Louis.*

In New York State, the growth of the labor force dropped to near zero (0.1 percent). Across the State, however, regions vary greatly. New York City added about 263,000 workers from 2009 to 2017 at a rate of 0.8 percent annually, nearly twice the national rate. Elsewhere in the State, growth was absent or negative. The average number of workers decreased everywhere upstate, including in the Hudson Valley with a loss of 17,600, an area which had shown vigorous growth in the previous recovery. Excluding the Hudson Valley, the rest of upstate New York lost about 189,000 workers or an average of 1.0 percent annually.

In New York City, growth was faster than in the nation. However, the labor force grew very unevenly across boroughs. It expanded most in the Bronx, 1.9 percent annually, followed by Brooklyn, 1.3 percent, and Queens, 0.7 percent; growth was nearly absent in Manhattan, and Staten Island lost about 19,000 workers.

## Declining Labor Force Participation

One reason for the slow growth of the labor force is that the proportion of people ages 16 and older who are in the labor force has decreased. For the U.S., participation dropped from 65.0 to 63.4 percent from 2009 to 2017 (see Figure 43). For New York State, participation initially rose from 63.4 percent to 63.8 percent then fell back down to 63.2 percent.

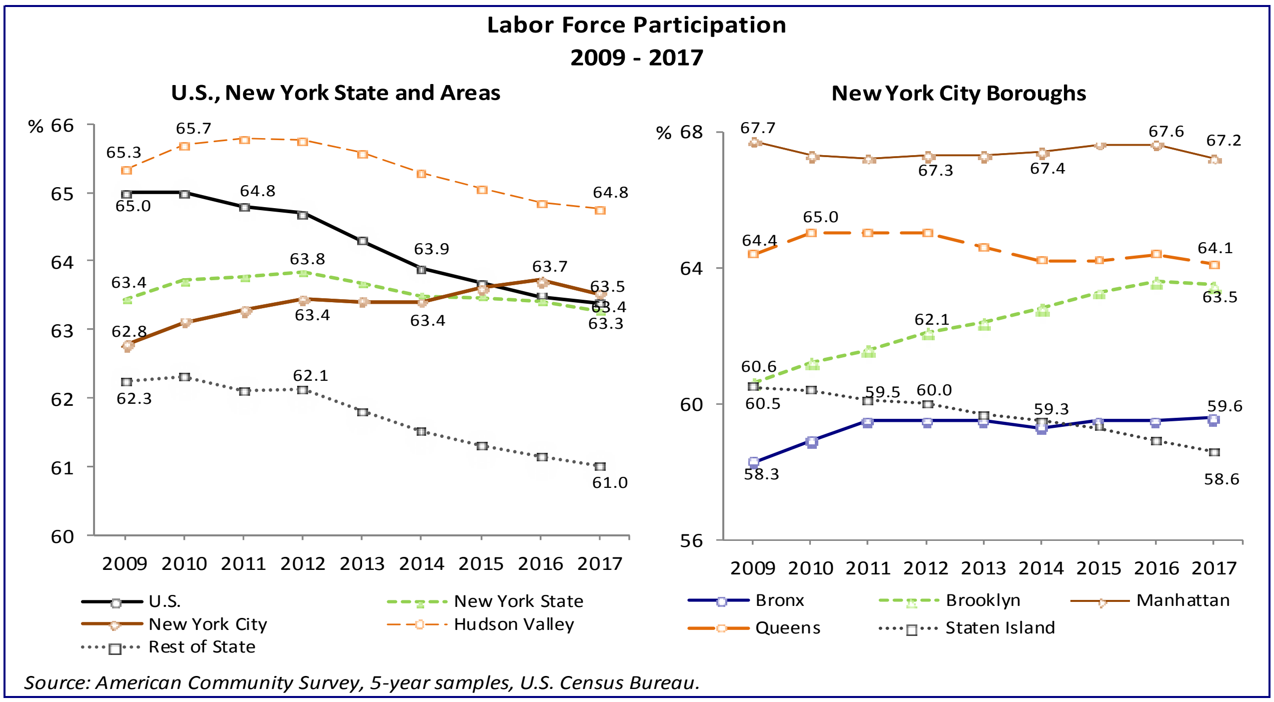



**Figure 43**

Across New York State, labor force participation is higher in the Hudson Valley than in any of the other areas, 64.8 percent in 2017. Rest of State areas saw labor force participation decline every year except in 2012; by 2017, it had dropped significantly to 61.0 percent, down from 62.3 percent in 2009.

In New York City, labor force participation rose almost every year after 2008. Brooklyn saw a jump from 60.5 percent to 63.5 percent from 2009 to 2017. Bronx experienced the highest participation rate: 67.2; Queens, and Manhattan ended the period with participation rates little different from 2009, (64.1 percent and 59.6 percent respectively). Participation in Staten Island declined from 60.5 percent in 2009 to 59.6 percent in 2017. In sum, New York City's labor force is buoyed by increased participation in Brooklyn and, to a lesser extent, in Bronx.

### Baby boomers are retiring

Various factors are thought to influence national labor force participation.[51] One reason for the drop in labor force participation is that baby boomers are retiring.[52] By 2010, the first wave of the baby-boom generation (people born roughly between 1946 and 1964) had reached retirement age. It is presently estimated that 10,000 baby boomers in the U.S. turn 65 every day.[53] Consequently, while not all workers retire at 65, the number of boomers leaving the workforce is rising.

The impact of the aging of the baby boomers can be observed today in the age distribution of the workforce (see Figure 44). For New York State, while the number of workers below the age of 44 dropped slightly, the older age groups have expanded. The proportion of older workers in the labor force has increased over time, as has the number of workers who are aging out of the workforce. The baby boom was succeeded by a period of low birth rate. Consequently, the generation that followed is not supplying enough workers to replace those who are leaving. The extraordinary difference in the relative size of each generation tends to amplify the effect on the age distribution of the workforce.

[51] Ananth Seshadri, "A Meta-Analysis of the Decline in the Labor Force Participation Rate," Institute for Social Research, University of Michigan, 2018.

[52] https://www.bls.gov/opub/ted/2017/labor-force-participation-rates-projected-to-decline-in-the-coming-decade.htm.

[53] http://www.pewresearch.org/fact-tank/2010/12/29/baby-boomers-retire/.

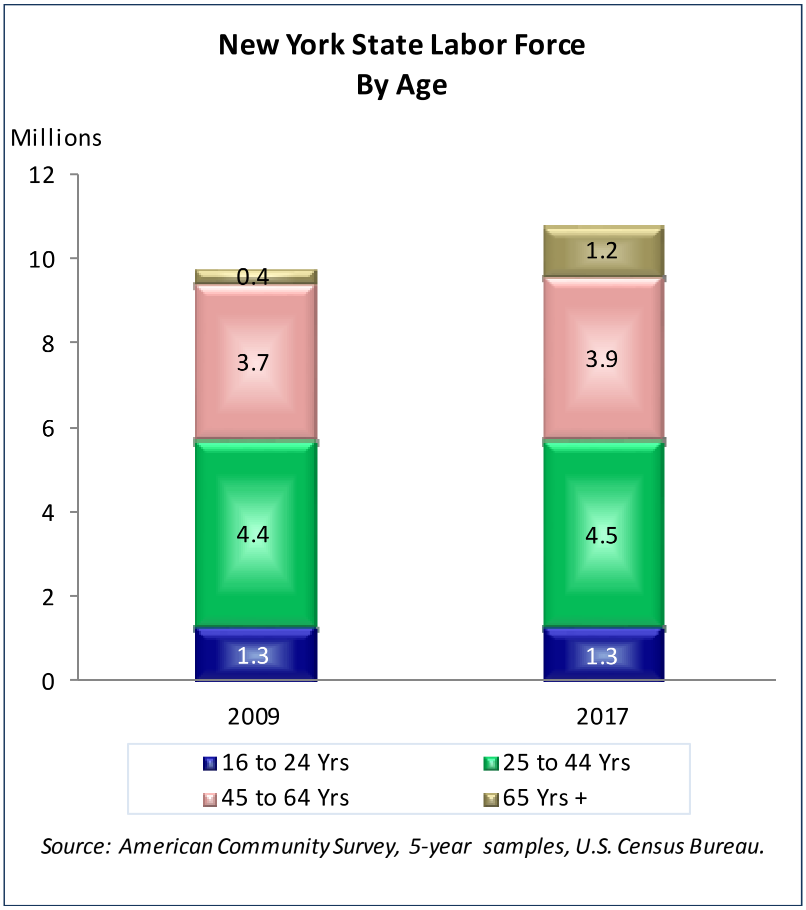



**Figure 44**

It is noticeable that the number of workers ages 65 and older has risen rapidly. Yet, their increasing participation is not sufficient to offset the losses due to massive retirement. In sum, the coming of age of baby-boomers has been a factor in depressing labor force participation in recent years and will continue to do so for some time.

Table 12 details the changes in the age composition of the labor force across New York State areas and compares those changes to changes in the U.S. from 2009 to 2017. While patterns of change are similar across areas, the number of New York workers over the age of 65 has increased much more rapidly than in the nation. The under-45 age group has seen relatively little change except in Rest of State and, to a lesser extent, in the Hudson Valley, which have experienced sizeable declines. Almost all of the State's decrease in the 16 to 24 age group occurred in Rest of State areas, and over half of the decrease in the 25 to 44 age group was in the Hudson Valley.

**Table 12**

| Cummulative Number of Workers Added to the Workforce From 2009 to 2017 (Thousands) By Age Group | | | | | |
|---|---|---|---|---|---|
| | 16 and Older | 16 to 24 Years | 25 to 44 Years | 45 to 64 Years | 65 and Older |
| U.S. | 8859.1 | (378.2) | 1282.4 | 5222.1 | 2660.6 |
| New York State | 361.4 | (30.1) | 7.8 | 213.9 | 861.2 |
| New York City | 263.3 | (1.7) | 93.3 | 105.5 | 331.2 |
| Hudson Valley | 91.9 | 0.4 | (51.7) | 78.2 | 313.7 |
| Rest of State | 6.2 | (28.8) | (33.8) | 30.3 | 216.3 |
| | | | Percent Added | | |
| U.S. | 5.8 | (1.6) | 1.9 | 9.4 | 46.9 |
| New York State | 3.7 | (2.3) | 0.2 | 5.8 | 225.9 |
| New York City | 6.3 | (0.4) | 4.3 | 7.5 | 243.1 |
| Hudson Valley | 2.9 | 0.1 | (4.0) | 6.0 | 209.1 |
| Rest of State | 0.3 | (7.0) | (3.4) | 3.1 | 227.8 |

*Source: American Community Survey, 5-year samples, U.S. Census Bureau.*

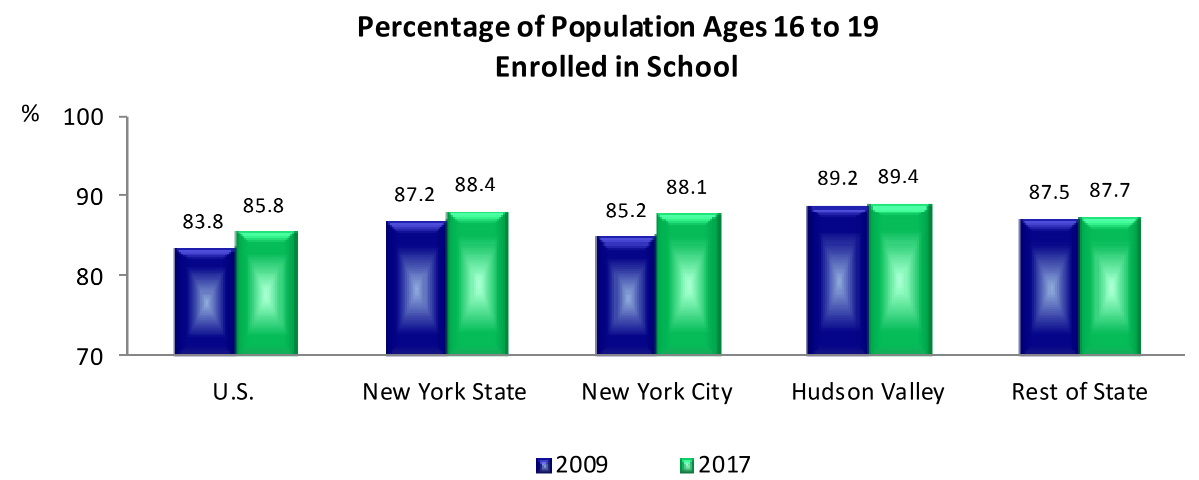
## More people decide delay for entry in the labor force to study

A second reason for the drop in labor force participation is that the number of people who, after turning 16, choose to delay or forego employment has been rising. Following the Great Recession and the dramatic losses incurred by certain segments of the workforce, it has become clear that people with formal training or academic degrees fared better in the workplace. In such a context, people contemplating their prospects in the labor market are more likely to decide to stay in, or return to school for a post-secondary degree before joining the workforce. This is reflected for instance in the decline of the high school dropout rate in recent years and historically-high completion rates.[54] Delayed entry in the labor force is also associated with rising school enrollment rates among people ages 16 to 19.

The proportion of individuals ages 16 to 19 enrolled in school increased between 2009 and 2017 in the nation and in New York State, although this increase was limited to New York

[54] National Center for Education Statistics: “Trends in High School Dropout and Completion Rates in the United States” https://nces.ed.gov/programs/dropout/ind_03.asp

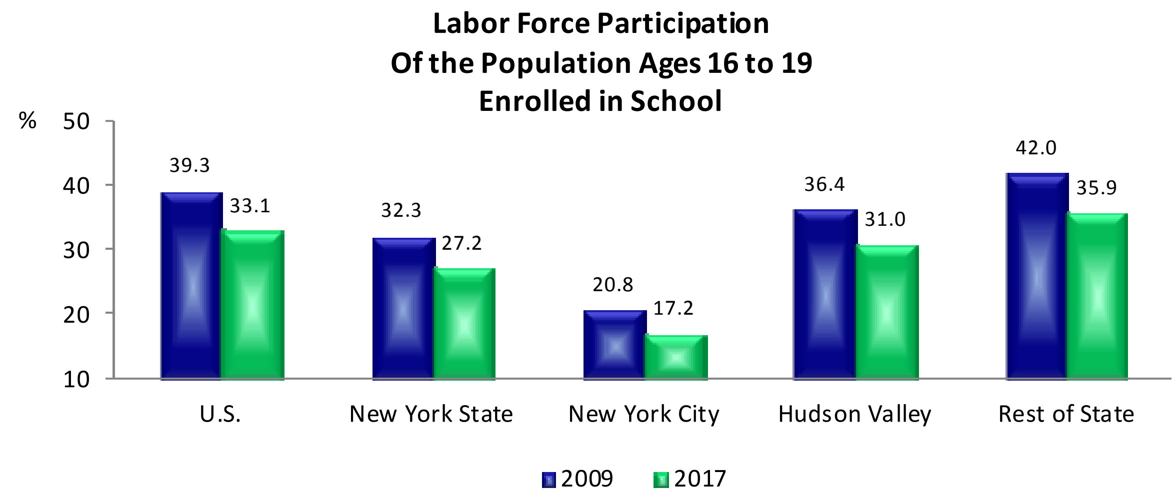
City (see Figure 45). For the City, the enrollment rate jumped from 85.2 to 88.1 percent. Neither the Hudson Valley nor Rest of State, where the proportions of young people enrolled in school are already higher than in the State or the nation, registered any significant increases.




*Source: American Community Survey, 5-year samples, U.S. Census Bureau.*

**Figure 45**

It may be that more young people chose to finish high school and go on to acquire a post-secondary degree expected to facilitate access to the labor market. Delayed entry in the workforce could also be imposed on new entrants because, in times of recession, fewer jobs are available to younger workers who may then be competing with older ones. That would help explain that the labor force participation of people ages 16-19 dropped between 2009 and 2017 in all areas (see Figure 46). For New York State, participation fell about 5 percentage points from 32.3 percent to 27.2 percent; it fell even more in Rest of State areas, 42.0 percent to 36.9 percent.




*Source: American Community Survey, 5-year samples, U.S. Census Bureau.*

**Figure 46**

Therefore, to the extent that that young people delayed entry in the labor force or otherwise withheld their participation, they contributed to the decline of overall labor force participation, a phenomenon that affected the entire country.

## Disability among working-age people is rising

The incidence of disabilities among working-age people may also have contributed to depressing labor force participation. The Congressional Budget Office indicated that being ill or disabled was the first self-reported reason for nonparticipation in the labor force for working-aged men. The proportion of men reporting sick or disabled is higher now than in 1990 and has been picking up in recent years after having declined during the Great Recession.[55] For women, being ill or disabled was the second reason given for nonparticipation. Caregiving was the first reason, and the proportion of women declaring nonparticipation for caregiving has risen during this recovery period, which may also be an effect of rising disability or increased need for eldercare at home.

[55] Congressional Budget Office, "Factors Affecting the Labor Force Participation of People Ages 25 to 54," February 2018. Please note that in household surveys disability status may be attributed independently from any official/administrative determination, as for Social Security recipients, for instance.

**Table 13**

**Persons Ages 18 to 64**
**Not in the Labor Force and With Disability**
**2017**
**(Thousands)**

| | Total Not In Labor Force | Persons With Disability: With Disability | Percent Disabled | Change From 2012 | Percent Change |
|---|---|---|---|---|---|
| U.S. | 45,342.3 | 11,880.3 | 26.2 | 835.0 | 7.6 |
| New York State | 2,936.7 | 661.6 | 22.5 | 26.0 | 4.1 |
| New York City | 1,375.4 | 273.2 | 19.9 | 7.6 | 2.9 |
| Hudson Valley | 820.4 | 169.8 | 20.7 | 7.5 | 4.6 |
| Rest of State | 741.0 | 218.7 | 29.5 | 10.9 | 5.2 |

*Source: American Community Survey, 5-year samples, U.S. Census Bureau.*

In 2017, the proportion of people ages 18 to 64 separated from the labor force due to a disability was smaller in New York State than in the U.S., respectively 22.6 percent and 26.2 percent of the non-working populations (see Table 13). The number of disabled non-workers in Rest of State areas was disproportionately large, representing 29.5 percent of the non-working population ages 18-64 years old, compared to 19.9 percent in New York City or 20.7 percent in the Hudson Valley. The relatively larger size of the disabled working-age population in those areas may have a variety of causes, including the fact that the workforce is somewhat older than in downstate areas and New York City in particular.

The number of persons not in the labor force who are disabled rose from 2012 to 2017 in all areas. Nationwide, this number increased 7.6 percent, compared to 4.1 percent for New York State (an increase of 2.9 percent in New York City; an increase of 5.2 percent in the Rest of the State). Disability depresses labor force participation and these trends likely contributed disproportionately to reduce the number of workers in those areas.

## Current Migratory Patterns

As for the whole country, the development of the workforce in New York has been historically contingent on migration. Migration continues to affect the State’s labor force size and composition. For several decades, New York experienced two distinct migratory patterns. In New York City, new persons arrive each year from various parts of the country and the world, offsetting the losses to out-migration. In upstate areas, on the other hand, out-migrants are not being replaced by a sufficient number of newcomers.

Recent numbers confirm these patterns. From 2010 to 2017, about 471,300 residents were added to New York's population, or 2.4 percent (see Table 14). This increase resulted from a natural increase (births minus deaths) of 625,500, and a negative migratory balance of 152,500. The State received 869,500 immigrants from abroad.

Nearly two thirds of those who left the State, or about 640,000, departed from New York City during the period. However, the City had almost the same number of newcomers, leaving it with a loss of only 15,300. Ultimately, the City's population grew 5.5 percent. Across boroughs, high rates of out-migration were observed in Bronx, Brooklyn, Queens, and Manhattan, but these losses were mitigated by the influx of immigrants; in Queens and Manhattan, the migratory balance was positive.

The Hudson Valley gained 89,500 residents between 2010 and 2017, notwithstanding a negative migratory balance of 34,400. With rates of natural increase only slightly lower than average, the Hudson Valley occupies the middle ground in the State and its population is nearly stagnating.

The Rest of State area, the regions situated north and west of the Hudson Valley, lost population. Both low natural increase rates and significantly lower than average net migration rates contributed to population losses across all regions. The only upstate exception was Western New York where migration losses were comparatively smaller. The population dynamic of upstate areas is characterized by two salient, related facts: first, in contrast to the City, upstate New York loses people to other states without recouping the losses through foreign immigration; second, natural increases are low, a combined result of an aging population and a low number of immigrants, who tend to be younger.

## Table 14

**Cummulative Estimates of the Components of Population Change from 2010 to 2017**
**(Thousands)**
**New York State and Selected Areas**

| | 2017 Population | Change * from 2010 | Natural Increase | Net Migration: Total | Net Migration: International | Net Migration: Domestic |
|---|---|---|---|---|---|---|
| New York State | 19,798.2 | 471.3 | 625.5 | (152.5) | 869.6 | (1,022.1) |
| New York City | 8,560.1 | 447.7 | 462.7 | (15.3) | 624.3 | (639.6) |
| Bronx | 1,455.8 | 86.4 | 87.3 | (1.9) | 128.1 | (129.9) |
| Brooklyn | 2,635.1 | 144.1 | 185.4 | (40.8) | 169.6 | (210.4) |
| Manhattan | 1,653.9 | 78.5 | 61.6 | 17.2 | 121.2 | (104.0) |
| Queens | 2,339.3 | 128.0 | 115.1 | 12.6 | 195.3 | (182.8) |
| Staten Island | 475.9 | 10.7 | 13.3 | (2.4) | 10.1 | (12.5) |
| Hudson Valley | 6,276.7 | 89.5 | 125.5 | (34.5) | 151.2 | (185.7) |
| Long Island | 2,860.7 | 29.4 | 52.1 | (22.0) | 67.7 | (89.6) |
| Mid-Hudson | 2,329.6 | 50.3 | 66.1 | (15.5) | 63.9 | (79.4) |
| Capital Region | 1,086.4 | 9.8 | 7.3 | 3.0 | 19.7 | (16.7) |
| Rest of State | 4,961.5 | (65.9) | 37.3 | (102.7) | 94.1 | (196.8) |
| North Country | 424.7 | (7.9) | 10.9 | (19.0) | 6.7 | (25.7) |
| Mohawk Valley | 435.0 | (10.1) | (0.4) | (9.6) | 7.3 | (16.9) |
| Central New York | 785.9 | (11.7) | 10.3 | (22.0) | 15.2 | (37.1) |
| Southern Tier | 707.9 | (20.4) | 0.4 | (20.9) | 13.2 | (34.1) |
| Finger Lakes | 1,214.9 | (4.2) | 14.8 | (18.8) | 22.9 | (41.7) |
| Western New York | 1,393.1 | (9.6) | 1.6 | (10.6) | 28.4 | (39.0) |

** Total population change includes a residual associated in part with the computation of estimates from multisource data.*

*Source: Population Estimates, U.S. Census Bureau.*

# NEW YORK STATE REGIONAL SNAPSHOTS

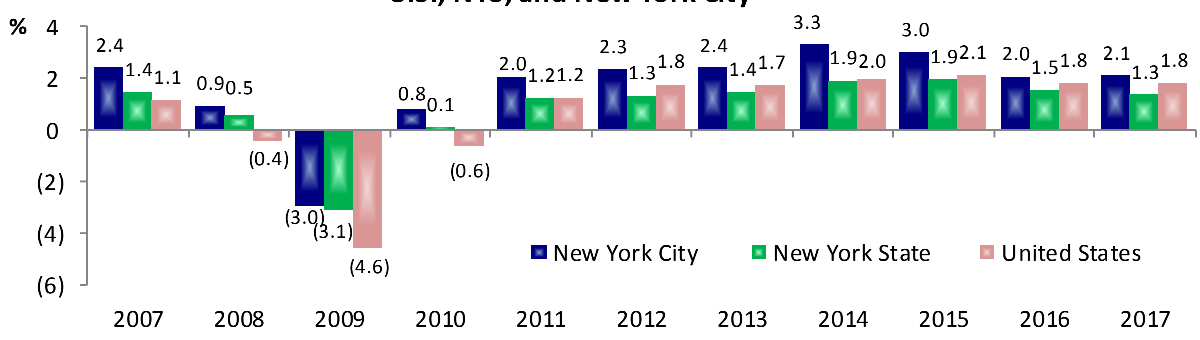
## New York City

| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) ............................ | 4.251 | Share of State Personal Income (%) ......... | 47.7 |
| Share of State Employment (%) .............. | 46.0 | Per Capita Personal Income ................... | $70,879 |
| Unemployment Rate (9/2018) (%) ........... | 4.0 | Population (million) .............................. | 8.6 |
| Total Wages (billion) ............................. | $381.4 | Share of State Population (%) ................. | 43.4 |
| Share of State Wages (%) ...................... | 58.4 | Population Growth ( %) ......................... | 0.1 |
| Average Wage .................................... | $89,731 | Persons in Poverty .............................. | 1,523,156 |
| Personal Income (billion) ....................... | $611.2 | Poverty Rate (%) ................................. | 17.7 |

Largest Employers (August 2016): *American Airlines; Columbia University; JP Morgan Chase Bank; Memorial Sloan Kettering Cancer Center; Morgan Stanley Children's Hospital; Mount Sinai Hospital; New York-Presbyterian University Hospital; Nielsen Company; Northwell Health, Inc.; Verizon*

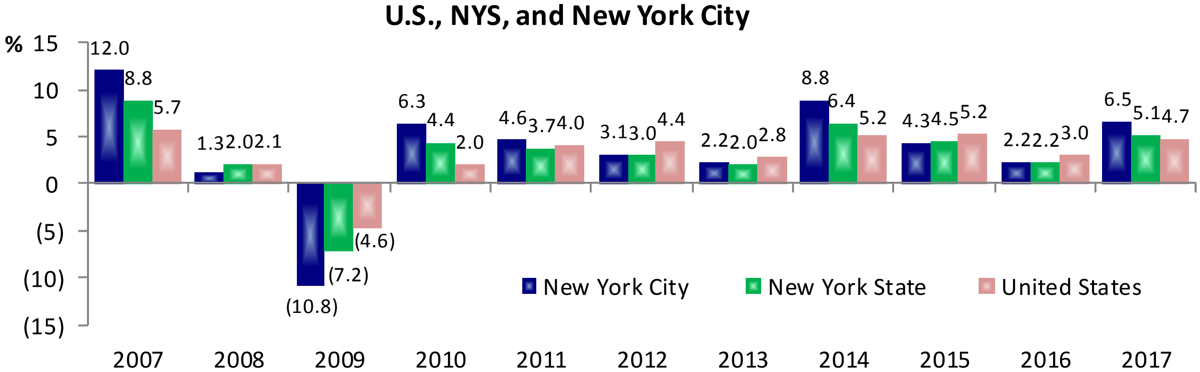
*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*

**Employment Growth**
**U.S., NYS, and New York City**




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

**Wage Growth**
**U.S., NYS, and New York City**



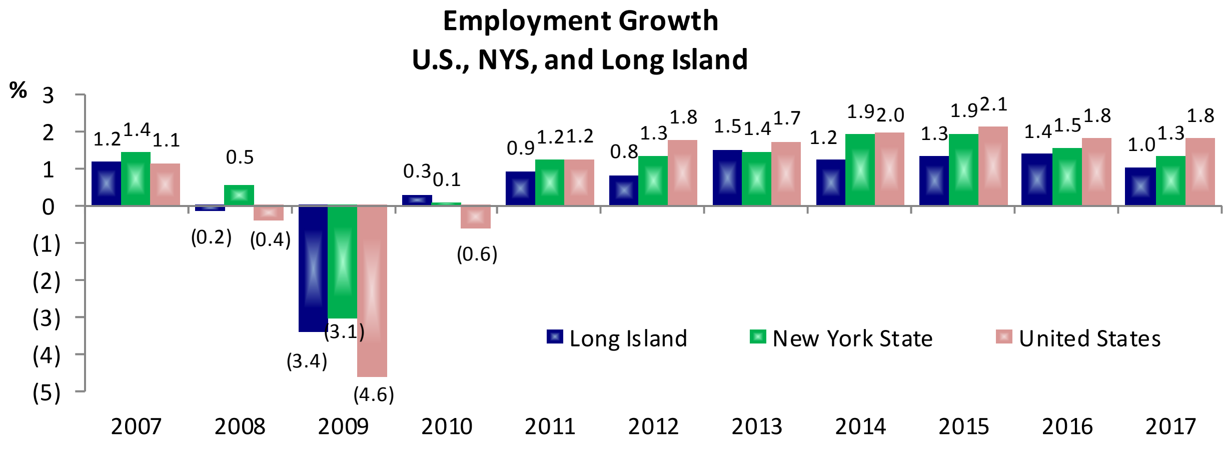

*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

## Long Island

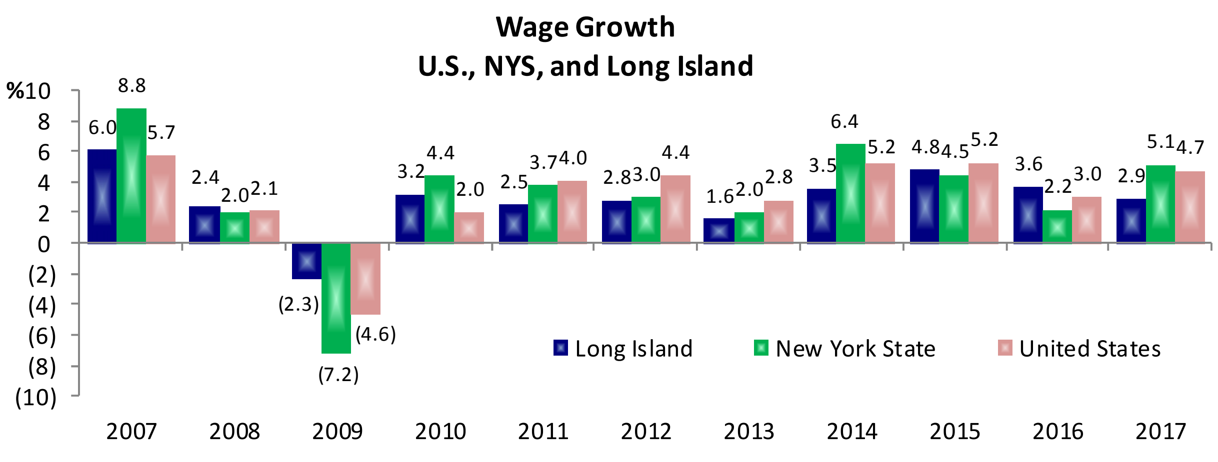
| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) | 1.283 | Share of State Personal Income (%) | 16.7 |
| Share of State Employment (%) | 13.9 | Per Capita Personal Income | $74,851 |
| Unemployment Rate (9/2018) (%) | 3.3 | Population (million) | 2.9 |
| Total Wages (billion) | $76.7 | Share of State Population (%) | 14.5 |
| Share of State Wages (%) | 11.7 | Population Growth (%) | 0.1 |
| Average Wage | $59,763 | Persons in Poverty | 185,394 |
| Personal Income (billion) | $214.3 | Poverty Rate (%) | 6.5 |

Largest Employers (August 2016): *Broadridge Financial Solutions, Inc.; Good Samaritan Hospital Medical Center; Hofstra University; Home Depot; King Kullen; Northwell Health, Inc.; Prestige Employee Administrators; ProHEALTH Care, Inc.; Stop & Shop Supermarkets; Winthrop-University Hospital*

*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

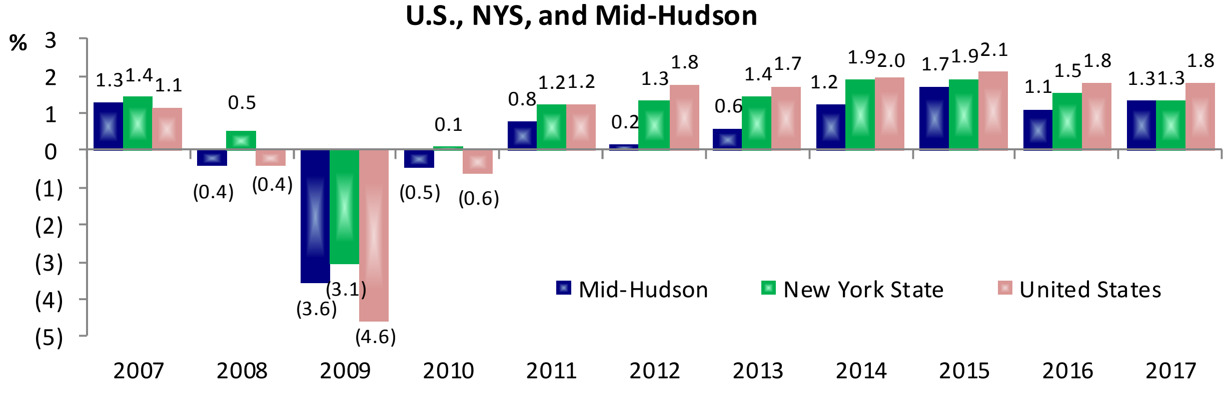
## Mid-Hudson

| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) | 0.915 | Share of State Personal Income (%) | 13.4 |
| Share of State Employment (%) | 9.9 | Per Capita Personal Income | $73,568 |
| Unemployment Rate (9/2018) (%) | 3.5 | Population (million) | 2.3 |
| Total Wages (billion) | $54.3 | Share of State Population (%) | 11.8 |
| Share of State Wages (%) | 8.3 | Population Growth (%) | 0.3 |
| Average Wage | $59,381 | Persons in Poverty | 232,573 |
| Personal Income (billion) | $172.2 | Poverty Rate (%) | 9.9 |

Largest Employers (August 2016): *Crystal Run Healthcare; Home Depot; IBM Corp.; Nyack Hospital; Orange Regional Medical Center; Regeneron Pharmaceuticals, Inc; ShopRite Supermarkets; Stop & Shop Supermarkets; Wal-Mart Stores, Inc.; Westchester Medical Center*

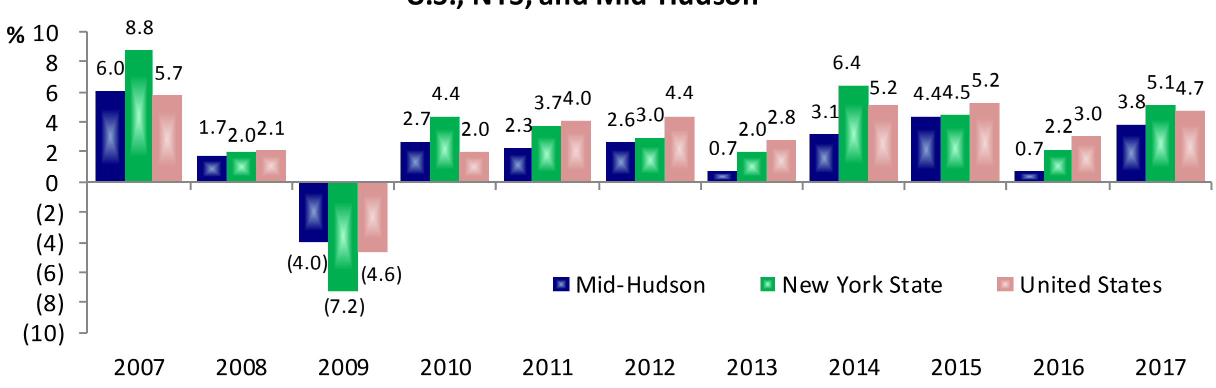
*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*

**Employment Growth**
**U.S., NYS, and Mid-Hudson**




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

**Wage Growth**
**U.S., NYS, and Mid-Hudson**




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

# Capital District

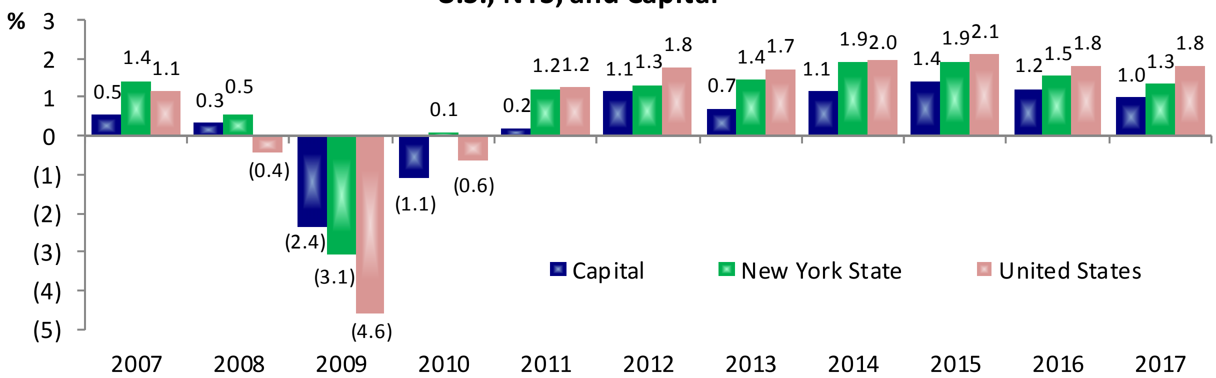
## Key Economic Indicators 2017

| | | | |
|---|---|---|---|
| Employment (million) | 0.524 | Share of State Personal Income (%) | 4.6 |
| Share of State Employment (%) | 5.7 | Per Capita Personal Income | $54,513 |
| Unemployment Rate (9/2018) (%) | 3.4 | Population (million) | 1.1 |
| Total Wages (billion) | $27.4 | Share of State Population (%) | 5.5 |
| Share of State Wages (%) | 4.2 | Population Growth (%) | 0.3 |
| Average Wage | $52,236 | Persons in Poverty | 110,011 |
| Personal Income (billion) | $59.4 | Poverty Rate (%) | 10.1 |

Largest Employers (August 2016): *Albany Medical Center Hospital; Bechtel Marine Propulsion Corp.; Ellis Hospital; General Electric Co.; Glens Falls Hospital; Hannaford Supermarkets; Price Chopper; Rensselaer Polytechnic Institute; St. Peter's Hospital; Walmart*

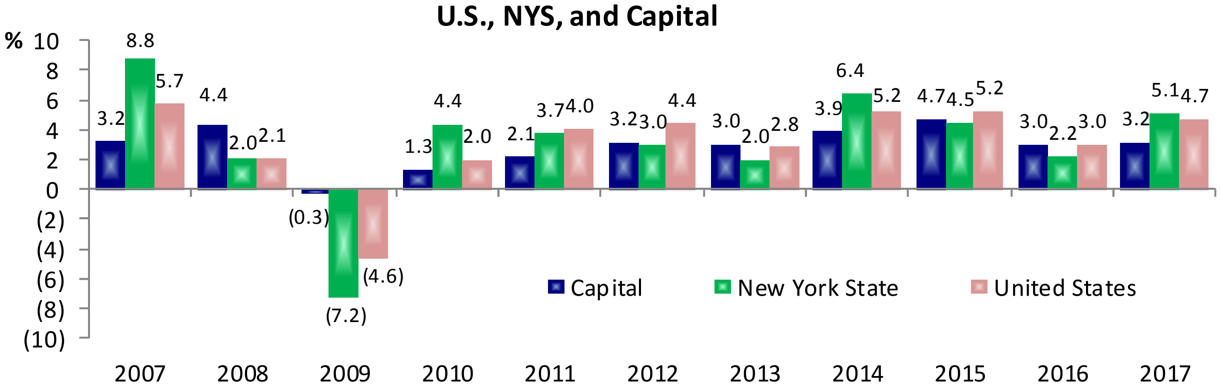
*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*

**Employment Growth**
**U.S., NYS, and Capital**




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

**Wage Growth**
**U.S., NYS, and Capital**



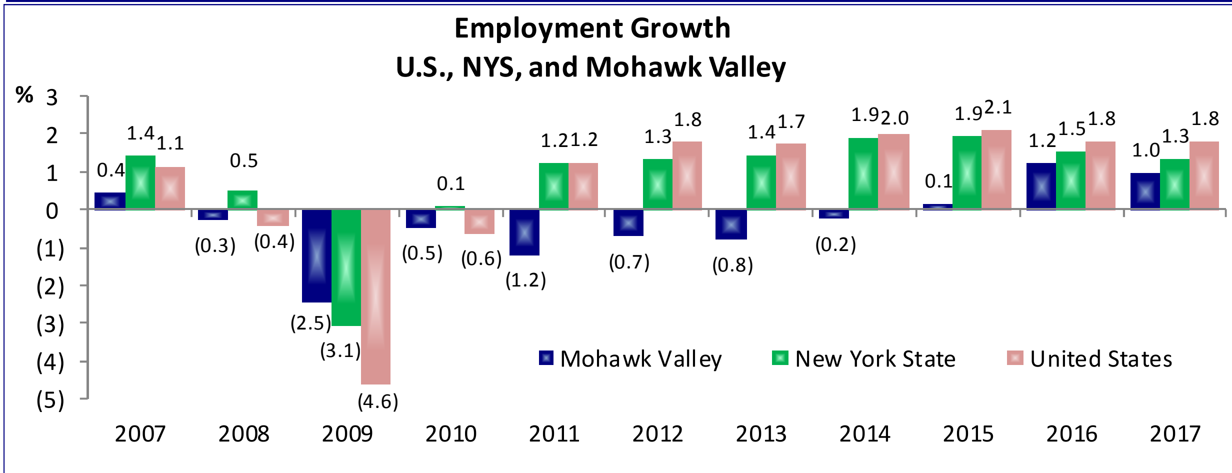

*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

# Mohawk Valley

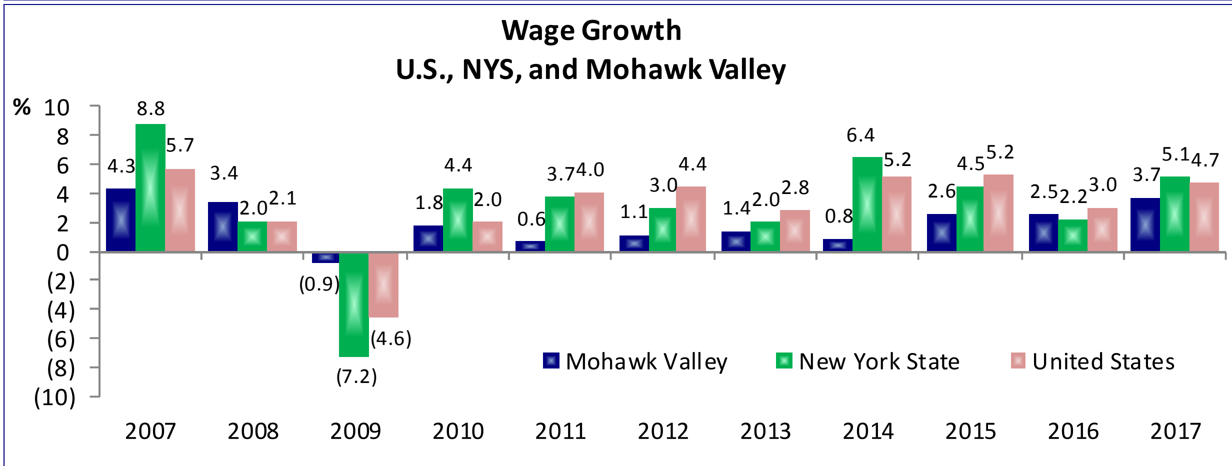
| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) | 0.168 | Share of State Personal Income (%) | 1.4 |
| Share of State Employment (%) | 1.8 | Per Capita Personal Income | $42,176 |
| Unemployment Rate (9/2018) (%) | 3.9 | Population (million) | 0.4 |
| Total Wages (billion) | $6.9 | Share of State Population (%) | 2.2 |
| Share of State Wages (%) | 1.1 | Population Growth (%) | (0.0) |
| Average Wage | $40,873 | Persons in Poverty | 65,487 |
| Personal Income (billion) | $18.2 | Poverty Rate (%) | 15.1 |

Largest Employers (August 2016): A. O. Fox Hospital; Bassett Healthcare Network; Faxton-St Luke's Healthcare; Hannaford supermarket; Metropolitan Life Insurance Co.; Price Chopper; St. Elizabeth Medical Center ; St. Mary's Hospital; Utica National Insurance Group; Wal-Mart Stores, Inc.

*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*



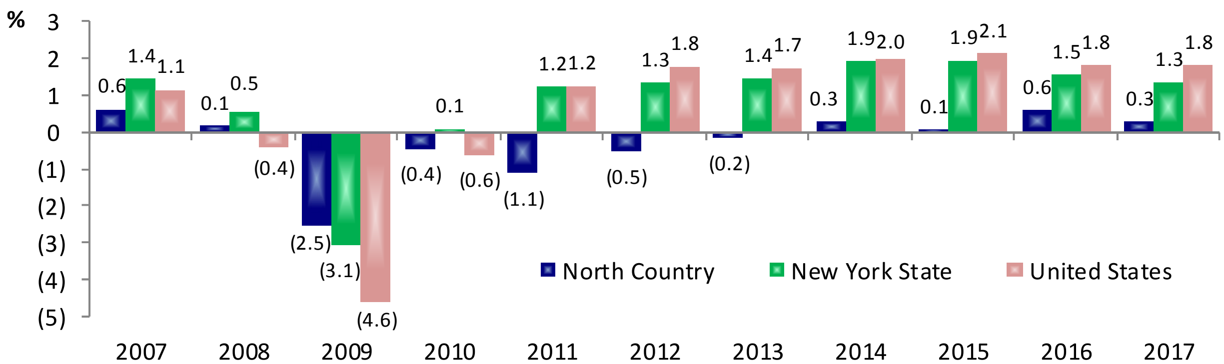

*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

## North Country

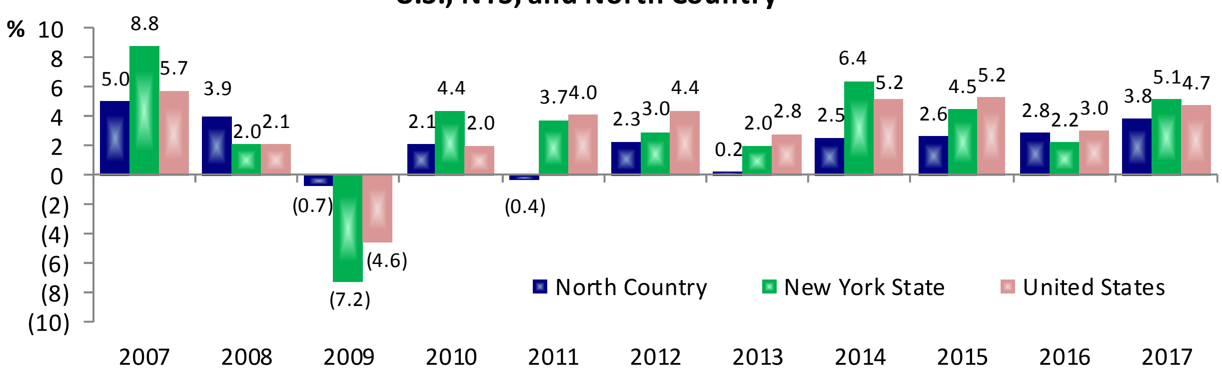
| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) | 0.147 | Share of State Personal Income (%) | 1.3 |
| Share of State Employment (%) | 1.6 | Per Capita Personal Income | $41,069 |
| Unemployment Rate (9/2018) (%) | 4.0 | Population (million) | 0.4 |
| Total Wages (billion) | $6.2 | Share of State Population (%) | 2.1 |
| Share of State Wages (%) | 1.0 | Population Growth (%) | (0.1) |
| Average Wage | $42,437 | Persons in Poverty | 60,322 |
| Personal Income (billion) | $17.3 | Poverty Rate (%) | 14.3 |

Largest Employers (August 2016): *Canton-Potsdam Hospital; Champlain Valley Physicians Hospital Medical Center; Clarkson University; Claxton-Hepburn Medical Center; Kinney Drugs; Price Chopper; St. Lawrence University; Samaritan Medical Center; Walmart*

*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*



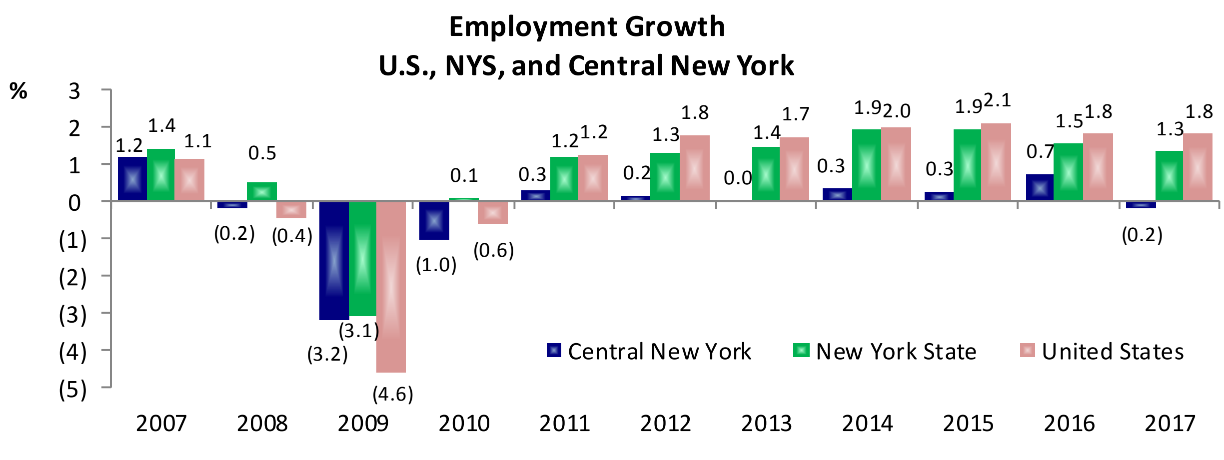

*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

# Central New York

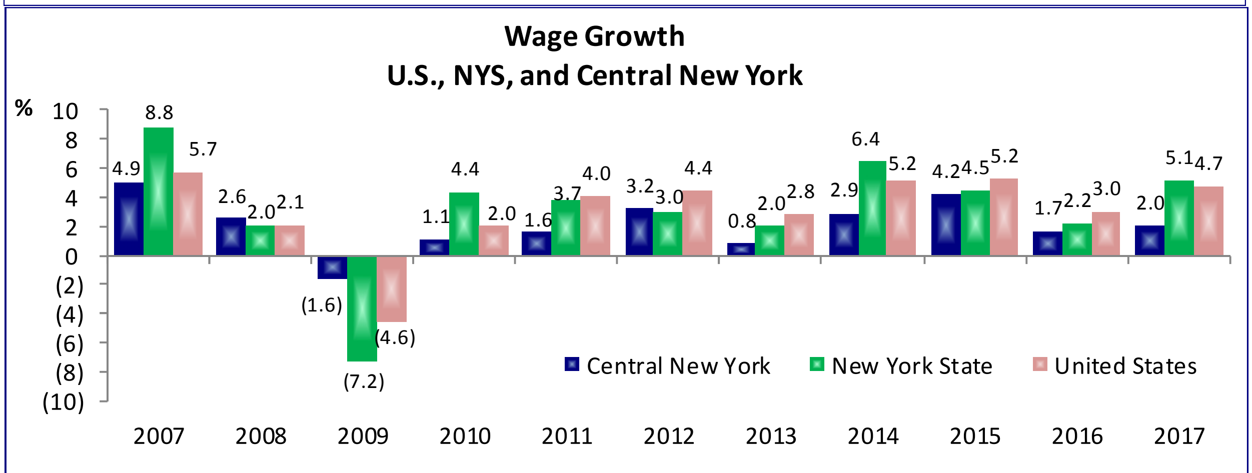
| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) | 0.340 | Share of State Personal Income (%) | 2.8 |
| Share of State Employment (%) | 3.7 | Per Capita Personal Income | $46,171 |
| Unemployment Rate (9/2018) (%) | 3.7 | Population (million) | 0.8 |
| Total Wages (billion) | $16.2 | Share of State Population (%) | 3.9 |
| Share of State Wages (%) | 2.5 | Population Growth (%) | (0.3) |
| Average Wage | $47,618 | Persons in Poverty | 103,454 |
| Personal Income (billion) | $36.0 | Poverty Rate (%) | 13.3 |

Largest Employers (August 2016): *Crouse Hospital; Lockheed Martin Corp.; Loretto Health and Rehabilitation Center; National Grid; Price Chopper; Syracuse University; Tops Friendly Markets; Wal-Mart Stores, Inc.; Wegmans Food Markets*

*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*



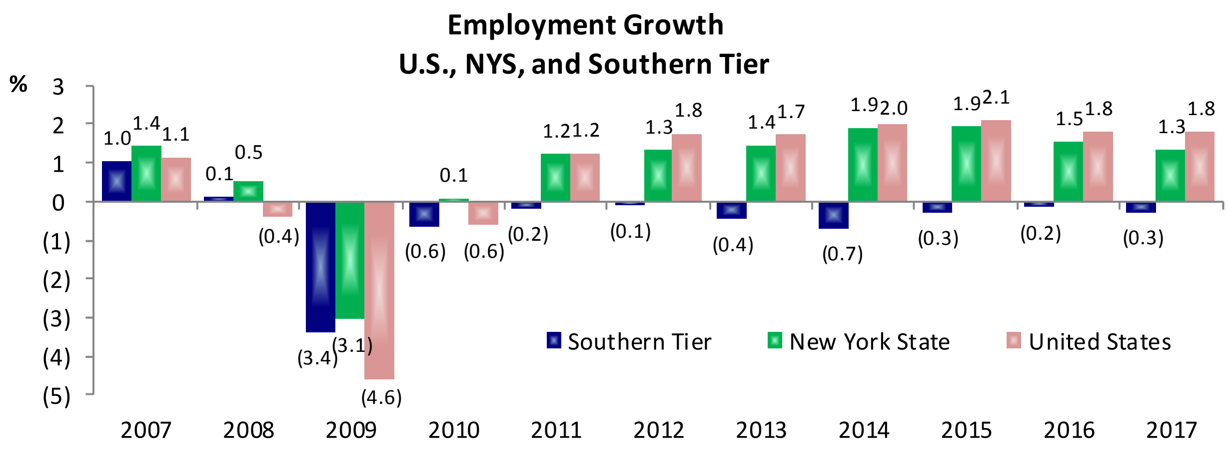

*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

# Southern Tier

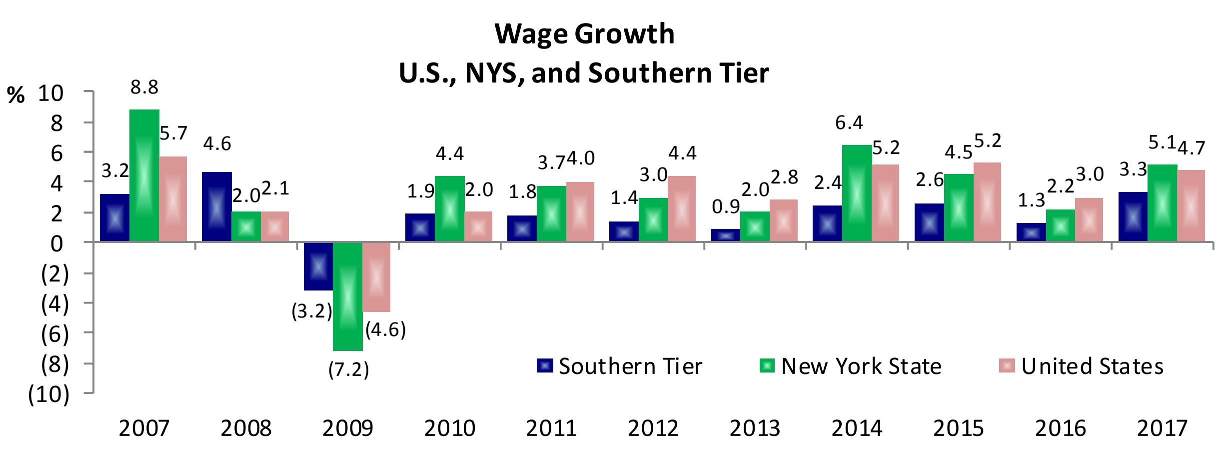
| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) ............................ | 0.280 | Share of State Personal Income (%) ......... | 2.3 |
| Share of State Employment (%) .............. | 3.0 | Per Capita Personal Income .................... | $42,335 |
| Unemployment Rate (9/2018) (%) .......... | 3.9 | Population (million) .............................. | 0.7 |
| Total Wages (billion) ............................ | $13.1 | Share of State Population (%) ................. | 3.5 |
| Share of State Wages (%) ...................... | 2.0 | Population Growth (%) .......................... | (0.5) |
| Average Wage .................................... | $46,873 | Persons in Poverty .............................. | 101,699 |
| Personal Income (billion) ....................... | $29.6 | Poverty Rate (%) ................................. | 14.5 |

Largest Employers (August 2016): *Amphenol Aerospace; Arnot Ogden Medical Center; BAE Systems Inc.; Cornell University; Ithaca College; Lockheed Martin Corp.; Lourdes Hospital; United Health Services; Wal-Mart Stores, Inc.; Wegmans Food Markets*

*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

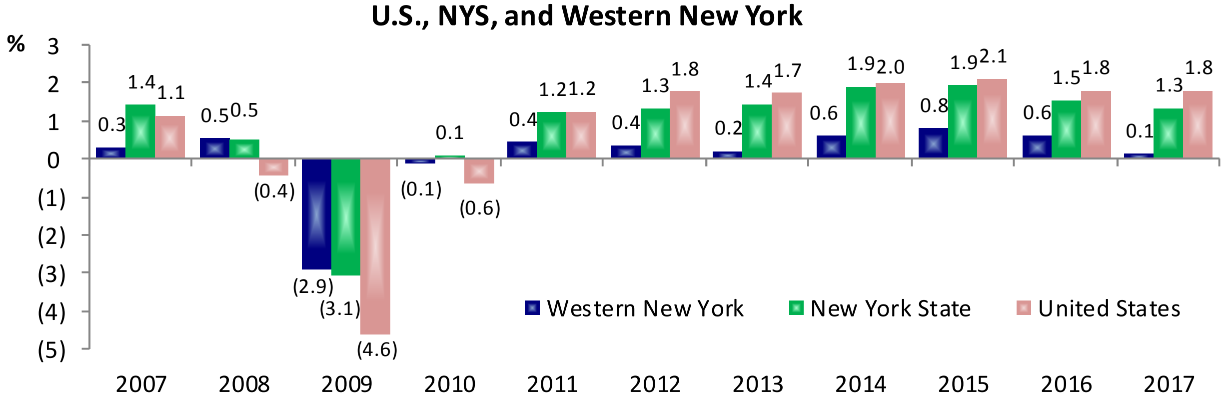
# Western New York

| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) | 0.630 | Share of State Personal Income (%) | 5.0 |
| Share of State Employment (%) | 6.8 | Per Capita Personal Income | $46,485 |
| Unemployment Rate (9/2018) (%) | 3.9 | Population (million) | 1.4 |
| Total Wages (billion) | $29.1 | Share of State Population (%) | 7.0 |
| Share of State Wages (%) | 4.5 | Population Growth (%) | 0.1 |
| Average Wage | $46,209 | Persons in Poverty | 197,083 |
| Personal Income (billion) | $64.6 | Poverty Rate (%) | 14.2 |

Largest Employers (August 2016): *BlueCross BlueShield of Western New York; Computer Task Group, Inc.; General Motors; Kaleida Health; M&T Bank Corp.; Mercy Hospital of Buffalo; People Inc.; Tops Friendly Markets; Wal-Mart Stores, Inc.; Wegmans Food Markets*

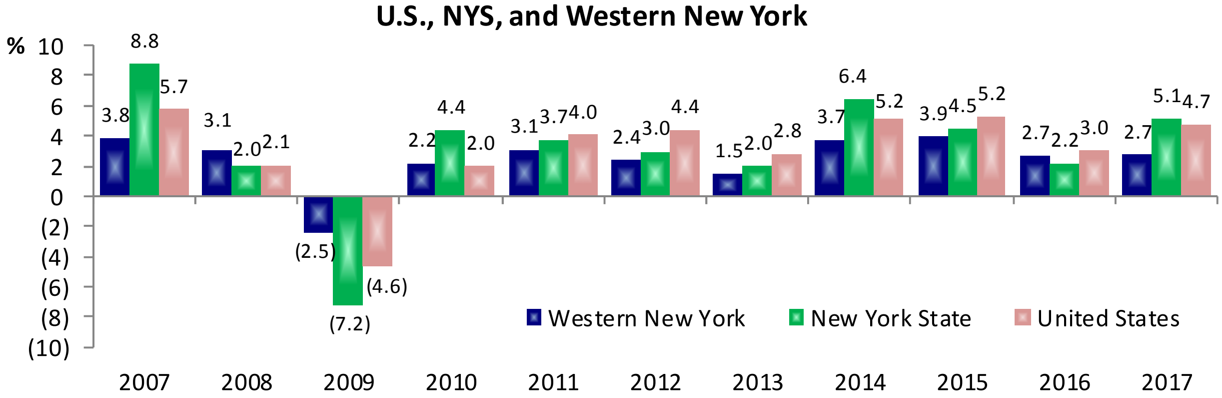
*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*

**Employment Growth**
**U.S., NYS, and Western New York**




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

**Wage Growth**
**U.S., NYS, and Western New York**




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

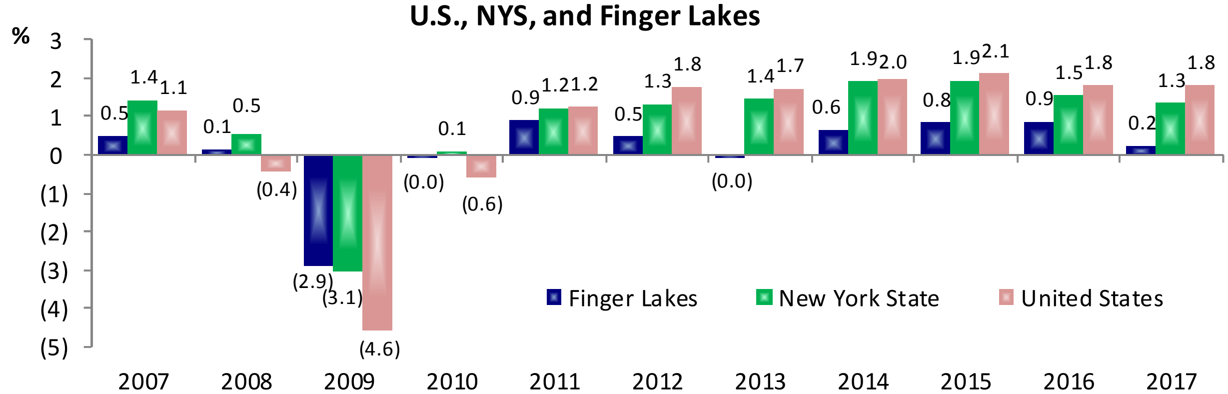
# Finger Lakes

| Key Economic Indicators 2017 | | | |
|---|---|---|---|
| Employment (million) | 0.548 | Share of State Personal Income (%) | 4.5 |
| Share of State Employment (%) | 5.9 | Per Capita Personal Income | $48,124 |
| Unemployment Rate (9/2018) (%) | 3.6 | Population (million) | 1.2 |
| Total Wages (billion) | $26.5 | Share of State Population (%) | 6.1 |
| Share of State Wages (%) | 4.1 | Population Growth (%) | (0.1) |
| Average Wage | $48,287 | Persons in Poverty | 156,399 |
| Personal Income (billion) | $58.3 | Poverty Rate (%) | 12.9 |

Largest Employers (August 2016): *Carestream Health, Inc.; Rochester General Hospital; Rochester Institute of Technology; Sutherland Global Services; Tops Friendly Markets; Unity Hospital of Rochester; University of Rochester/Medical Center; Wal-Mart Stores, Inc.; Wegmans Food Markets; Xerox*

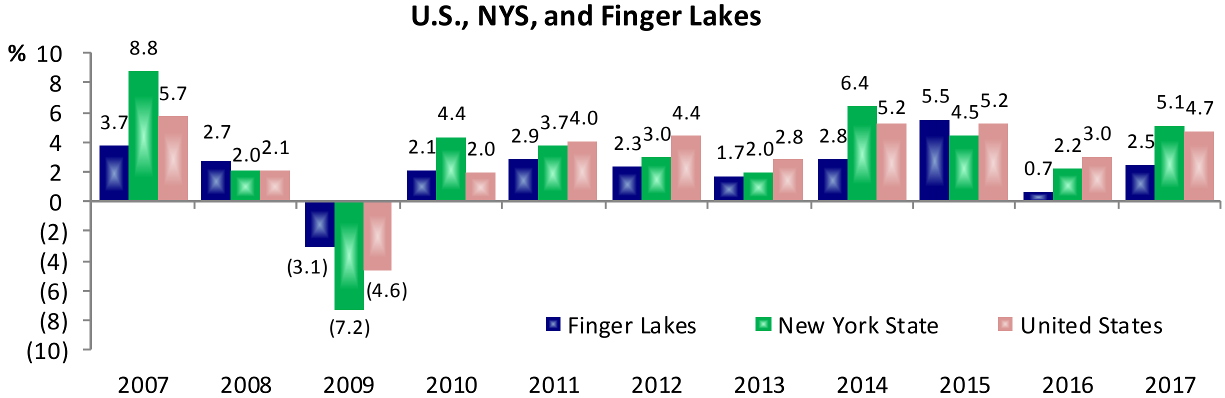
*Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.*

**Employment Growth**
**U.S., NYS, and Finger Lakes**




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

**Wage Growth**
**U.S., NYS, and Finger Lakes**




*Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.*

# REVENUE FORECAST

## Overview – Revenue Summary

## State Fiscal Year 2018-19

### *All Funds Revenues*

All Funds revenues are estimated to total $169.374 billion in State Fiscal Year (SFY) 2018-19, an increase of 3.3 percent, or $5.358 billion, largely attributable to an increase in business tax, sales tax and miscellaneous receipts over last year.

### *All Funds Tax Receipts*

The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for SFY 2018-19 is $75.116 billion, representing a decrease of 3.5 percent or $2.712 billion from the prior year (see Table 15).

The Committee staff's All Funds tax revenue estimate is $140 million above the Executive's estimate. This variance is related to higher revenue estimates in personal income tax, business taxes and other taxes, partially offset by lower collections in user taxes.

**Table 15**

**SFY 2018-19 All Funds Estimate Summary**
**($ in Millions)**

| | 2017-18 Actual | 2018-19 Estimate | Change | Growth | Diff. Exec. |
|---|---|---|---|---|---|
| Personal Income Tax | $51,501 | $47,665 | ($3,836) | (7.4%) | $82 |
| User Taxes | 16,711 | 17,425 | 713 | 4.3% | (20) |
| Business Taxes | 7,164 | 7,759 | 595 | 8.3% | 15 |
| Other Taxes | 2,451 | 2,266 | (185) | (7.6%) | 62 |
| **Total Tax Collections** | **$77,828** | **$75,116** | **($2,712)** | (3.5%) | **$140** |
| All Funds Miscellaneous Receipts | 23,809 | 27,733 | 3,924 | 16.5% | 33 |
| Gaming | 3,437 | 3,647 | 209 | 6.1% | 2 |
| **Total w/Miscellaneous Receipts & Gaming** | **$105,074** | **$106,495** | **$1,421** | 1.4% | **$174** |
| Federal Funds | 58,942 | 62,879 | 3,937 | 6.7% | - |
| **Total All Funds Receipts** | **$164,016** | **$169,374** | **$5,358** | 3.3% | **$174** |

* Totals may not add up due to rounding
**MTA payroll tax collections are excluded, as these revenues are now directly provided to the MTA.

Personal Income Taxes

The NYS Assembly Ways and Means Committee staff estimates that PIT receipts will total $47.665 billion in SFY 2018-19, representing a decrease of 7.4 percent or $3.836 billion, below last year. Gross receipts are expected to decrease by 5.1 percent or $3.193 billion from SFY 2017-18, driven by a 27.2 percent decrease in current year estimated payments. Total refunds are anticipated to increase 6.1 percent, or $643 million.

This annual decrease can be attributed to changes in taxpayer behavior related to the enactment of the Federal Tax Cuts and Jobs Act, which limited the federal deductibility of state and local taxes (SALT). Some taxpayers shifted income and tax payments to 2017 from 2018 to take advantage of the federal deductibility of state income taxes in tax year 2017. The limitation on SALT deductions has also decreased the incentive to pay traditionally larger, estimated payments at the close of the calendar year, which will result in these payments being collected in the next fiscal year. It is currently unclear how these, or other behavioral changes, will impact future collections.

User Taxes

User taxes are estimated to total $17.425 billion in SFY 2018-19, an increase of 4.3 percent, or $713 million. Sales tax revenue is estimated to increase by $689 million, or 4.8 percent.

Business Taxes

Overall, business taxes are estimated to increase by 8.3 percent, or $595 million over SFY 2017-18 levels. Corporate franchise taxes are estimated to increase by $902 million, or 29.3 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

Other taxes are estimated to total $2.266 billion, a decrease of $185 million, or 7.6 percent from SFY 2017-18 levels. This decrease reflects a $213 million, or 16.3 percent reduction in estate and gift tax collections.

Real estate transfer tax receipts are estimated to total $1.153 billion, an increase of $28 million, or 2.5 percent, from SFY 2017-18.

It should be noted that receipts from the Metropolitan Transportation Authority (MTA) payroll tax are no longer included in the “other taxes” category to remain consistent with the provisions included in the SFY 2018-19 enacted budget, which directly provide those receipts to the MTA.

Gaming

The Committee staff anticipates an overall fiscal year increase of $273 million, or 8.1 percent, for a total of $3.647 billion, predominantly related to a 11 percent increase in lottery receipts and a 24.6 percent increase in casino receipts, as the State’s fourth casino completes its first full year of operation.

## Revenue Table, Current Fiscal Year 2018-19

**Table 16**

**All Funds Collections SFY 2018-19**
**($ in Millions)**

| | 2017-18 Actual | 2018-19 Estimate | Change | Growth | Diff. Exec. |
|---|---|---|---|---|---|
| **Personal Income Tax** | **51,501** | **47,665** | **(3,836)** | **(7.4%)** | **$82** |
| **Gross Receipts** | **62,035** | **58,842** | **(3,193)** | **(5.1%)** | **36** |
| Withholding | 40,269 | 40,841 | 572 | 1.4% | 120 |
| Estimated Payments | 17,781 | 13,956 | (3,825) | (21.5%) | (0) |
| Vouchers | 14,329 | 10,434 | (3,895) | (27.2%) | 5 |
| IT 370s | 3,452 | 3,522 | 70 | 2.0% | (5) |
| Final Payments | 2,478 | 2,620 | 142 | 5.7% | (9) |
| Delinquencies | 1,507 | 1,426 | (81) | (5.4%) | (74) |
| **Total Refunds** | **10,534** | **11,177** | **643** | **6.1%** | **(46)** |
| **Net Collections** | **51,501** | **47,665** | **(3,836)** | **(7.4%)** | **82** |
| **User Taxes and Fees** | **16,711** | **17,425** | **713** | **4.3%** | **(20)** |
| Sales and Use Tax | 14,495 | 15,184 | 689 | 4.8% | (28) |
| Motor Fuel Tax | 513 | 529 | 17 | 3.3% | (2) |
| Cigarette & Tobacco Tax | 1,171 | 1,113 | (58) | (5.0%) | 1 |
| Highway Use Tax | 93 | 149 | 56 | 60.5% | 5 |
| Alcoholic Beverage Tax | 259 | 263 | 4 | 1.4% | 1 |
| Medical Marihuana Excise Tax | 2 | 4 | 2 | 112.5% | (0) |
| Auto Rental Tax | 123 | 132 | 9 | 7.2% | 2 |
| Taxi Surcharge | 56 | 51 | (5) | (9.5%) | 1 |
| **Business Taxes** | **7,164** | **7,759** | **$595** | **8.3%** | **15** |
| Corporate Franchise Tax | 3,080 | 3,982 | 902 | 29.3% | 5 |
| Utility Tax | 748 | 686 | (62) | (8.3%) | 1 |
| Insurance Tax | 1,777 | 1,818 | 41 | 2.3% | 2 |
| Bank Tax | 467 | 123 | (344) | (73.7%) | 0 |
| Petroleum Business Tax | 1,092 | 1,151 | 59 | 5.4% | 8 |
| **Other Taxes** | **2,451** | **2,266** | **($185)** | **(7.6%)** | **62** |
| Estate and Gift Tax | 1,308 | 1,095 | (213) | (16.3%) | 39 |
| Real Estate Transfer Tax | 1,125 | 1,153 | 28 | 2.5% | 23 |
| Pari Mutuel Tax | 15 | 15 | (0) | (2.6%) | - |
| Other Taxes | 3 | 3 | 0 | 0.0% | - |
| **Total All Funds Taxes** | **$77,828** | **$75,116** | **($2,712)** | **(3.5%)** | **$140** |
| All Funds Miscellaneous Receipts | 23,873 | 27,733 | 3,860 | 16.2% | 33 |
| Gaming | 3,374 | 3,647 | 273 | 8.1% | 2 |
| **Total Taxes & Gaming & Miscellaneous Receipts** | **$105,075** | **$106,495** | **$1,421** | **1.4%** | **$174** |
| Federal Funds | 58,942 | 62,879 | 3,937 | 6.7% | 0 |
| **Total All Funds Receipts** | **$164,017** | **$169,374** | **$5,358** | **3.3%** | **$174** |

* Totals may not add up due to rounding

**MTA payroll tax collections are excluded, as these revenues are now directly provided to the MTA.

## State Fiscal Year 2019-20

Key economic indicators point to an ongoing but slow recovery. The Committee staff is estimating a GDP growth of 2.5 percent in 2019, followed by a growth of 1.9 percent in 2020. (See the Economy section of report for more details.)

### *All Funds Revenues*

The Committee staff expects a 2.2 percent increase in All Funds revenues for SFY 2019-20, including a $4.614 billion, or 9.7 percent, increase in PIT receipts and growth in user taxes and business taxes.

Including estimates for miscellaneous receipts and federal grants, the total receipts for SFY 2019-20 are forecast at $173.140 billion. The Committee staff forecast is $762 million above the Executive's forecast.

### *All Funds Tax Receipts*

The Committee staff expects an 8.5 percent increase in All Funds tax receipts in SFY 2019-20, for a total of $81.502 billion. The Committee staff tax receipts forecast is $693 million above the Executive's forecast. The Committee's net personal income tax (PIT) forecast is $510 million above the Executive's PIT forecast.

**Table 17**

**SFY 2019-20 All Funds Forecast Summary**
**($ in Millions)**

| | 2018-19 Estimate | 2019-20 Forecast | Change | Growth | Diff. Exec. |
|---|---|---|---|---|---|
| Personal Income Tax | $47,665 | 52,280 | $4,614 | 9.7% | $510 |
| User Taxes | 17,425 | 18,241 | 816 | 4.7% | 55 |
| Business Taxes | 7,759 | 8,686 | 926 | 11.9% | 75 |
| Other Taxes | 2,266 | 2,296 | 30 | 1.3% | 54 |
| **Total Tax Collections** | **$75,116** | **$81,502** | **$6,387** | **8.5%** | **$693** |
| All Funds Miscellaneous Receipts | 27,733 | 24,303 | (3,430) | (12.4%) | 74 |
| Gaming | 3,647 | 3,563 | (84) | (2.3%) | (5) |
| **Total w/Miscellaneous Receipts & Gaming** | **$106,495** | **$109,368** | **$2,873** | **2.7%** | **$762** |
| Federal Funds | 62,879 | 63,772 | 893 | 1.4% | - |
| **Total All Funds Receipts** | **$169,374** | **$173,140** | **$3,766** | **2.2%** | **$762** |

* 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 $52.280 billion, which is $4.614 billion, or 9.7 percent, above the SFY 2018-19 estimates. Total New York State wage growth is forecast at 4.1 percent in SFY 2019-20, and variable wages (bonuses) are expected to register growth of 3.9 percent.

The Committee's forecast reflects the shifting of certain estimated payments from SFY 2018-19 into SFY 2019-20, as a result of taxpayer response to the Federal Tax Cuts and Jobs Act.

User Taxes

All Funds user taxes are forecast to total $18.241 billion, 4.7 percent above current year estimates. This forecast reflects the staff projections that healthy consumer spending growth will continue to contribute to the ongoing economic recovery.

Business Taxes

Business taxes are forecast to total $8.686 billion in SFY 2019-20, which is an increase of 11.9 percent from the current year closeout on an All Funds basis. The corporate franchise tax is expected to increase by 10.2 percent, or $407 million from prior year levels.

Other Taxes

Other taxes, which consist primarily of the estate tax and real estate transfer taxes, are forecast to increase by 1.3 percent in SFY 2019-20, to a level of $2.296 billion.

Gaming

Gaming receipts are forecast to decline 2.3 percent, or $84 million, in SFY 2019-20 for a total of $3.563 billion. Lottery receipts are expected to decline by 4.8 percent and casino revenues are projected to increase by 24.9 percent, to $171 million.

## Revenue Table, Upcoming Fiscal Year 2019-20

**Table 18**

| All Funds Collections SFY 2019-20 ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | 2018-19 Estimate | 2019-20 Forecast | Change | Growth | Diff. Exec. |
| **Personal Income Tax** | **$47,665** | **$52,280** | **$4,614** | **9.7%** | **$510** |
| **Gross Receipts** | **58,842** | **63,878** | **5,035** | **8.6%** | **484** |
| Withholding | 40,841 | 42,847 | 2,006 | 4.9% | 337 |
| Estimated Payments | 13,956 | 16,694 | 2,738 | 19.6% | 122 |
| Vouchers | 10,434 | 10,993 | 559 | 5.4% | 37 |
| IT 370s | 3,522 | 5,701 | 2,179 | 61.9% | 85 |
| Final Payments | 2,620 | 2,812 | 193 | 7.3% | 64 |
| Delinquencies | 1,426 | 1,525 | 99 | 7.0% | (39) |
| **Total Refunds** | **11,177** | **11,598** | **421** | **3.8%** | **(26)** |
| **Net Collections** | **47,665** | **52,280** | **4,614** | **9.7%** | **510** |
| **User Taxes and Fees** | **17,425** | **18,241** | **816** | **4.7%** | **55** |
| Sales and Use Tax | 15,184 | 16,147 | 962 | 6.3% | 40 |
| Motor Fuel Tax | 529 | 525 | (5) | (0.9%) | 10 |
| Cigarette & Tobacco Tax | 1,113 | 1,047 | (66) | (5.9%) | (1) |
| Highway Use Tax | 149 | 146 | (4) | (2.4%) | 4 |
| Alcoholic Beverage Tax | 263 | 267 | 5 | 1.8% | 2 |
| Medical Marihuana Excise Tax | 3.8 | 8 | 4.3 | 113.0% | 4 |
| Auto Rental Tax** | 132 | 91 | (41) | (30.7%) | (4) |
| Taxi Surcharge** | 51 | 0 | (51) | (100.0%) | - |
| **Business Taxes** | **7,759** | **8,686** | **926** | **11.9%** | **75** |
| Corporate Franchise Tax | 3,982 | 4,389 | 407 | 10.2% | 27 |
| Utility Tax | 686 | 714 | 28 | 4.1% | 4 |
| Insurance Tax | 1,818 | 2,323 | 505 | 27.8% | 16 |
| Bank Tax | 123 | 71 | (52) | (42.3%) | 0 |
| Petroleum Business Tax | 1,151 | 1,188 | 37 | 3.2% | 27 |
| **Other Taxes** | **2,266** | **2,296** | **30** | **1.3%** | **54** |
| Estate and Gift Tax | 1,095 | 1,102 | 7 | 0.7% | 28 |
| Real Estate Transfer Tax | 1,153 | 1,174 | 21 | 1.8% | 26 |
| Pari Mutuel Tax | 15 | 15 | 0 | 0.0% | - |
| Other Taxes | 3 | 3 | 0 | 0.0% | - |
| **Total All Funds Taxes** | **$75,116** | **$81,502** | **$6,387** | **8.5%** | **$693** |
| All Funds Miscellaneous Receipts** | 27,733 | 24,303 | (3,430) | (12.4%) | 74 |
| Gaming | 3,647 | 3,563 | (84) | (2.3%) | (5) |
| **Total Taxes & Gaming & Miscellaneous Receipts** | **$106,495** | **$109,368** | **$2,873** | **2.7%** | **$762** |
| Federal Funds | 62,879 | 63,772 | 893 | 1.4% | 0 |
| **Total All Funds Receipts** | **$169,374** | **$173,140** | **$3,766** | **2.2%** | **$762** |

* Totals may not add up due to rounding

**Reflect Executive proposal to provide certain revenues directly to the MTA.

## 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 and geopolitical fundamentals as enunciated in the Economy section of this report.

The federal tax reform of December 2017 implements a fundamental transformation of corporate taxation in the U.S. as well as of personal income taxes, and thus presents numerous challenges to the states related to conformity with key provisions. The State has also experienced some changes in taxpayer behavior as a result of the federal tax reform, especially those related to the limitation on SALT deductions. The Committee's forecast assumes that the recent changes in the timing of collections will stabilize. However, it is currently unclear how these, or other, behavioral changes will impact future collections.

# EXECUTIVE REVENUE ACTIONS

## Personal Income Tax Proposals

- **Extend Higher Income Personal Income Tax Rates:** The Executive proposes to maintain the 8.82 percent personal income tax rate for individuals in the top tax bracket for another five years, through taxable year 2024. The current rates are scheduled to expire at the end of 2019.

- **Extend Personal Income Tax Limitation on Charitable Contributions:** The Executive proposes to extend the personal income tax limitation on charitable contribution deductions for taxpayers with incomes above $10 million, for an additional five years, through taxable year 2024. This action would maintain the current State deduction limit for these taxpayers, which is 25 percent of the federal deduction.

- **Carried Interest Loophole:** The Executive proposes to close the carried interest tax loophole and tax the carried interest income of hedge fund and private equity investors as ordinary income. In addition to characterizing carried interest as earned income for non-residents (instead of capital gains), this proposal would subject these earnings to a 17 percent fee until the federal government also treats carried interest as ordinary income for all taxpayers. This provision would take effect only when the states of Connecticut, Massachusetts, New Jersey and Pennsylvania enact legislation with a similar effect.

- **Include Certain Gambling Winnings in Nonresident Income:** The Executive proposes to impose the personal income tax on nonresidents' gambling winnings in excess of $5,000 from New York casinos and racetracks, and require withholding on such winnings when they would otherwise be subject to federal tax withholding.

- **Extend Electronic Filing and Payment Mandate:** The Executive proposes to consolidate electronic filing and payment mandates into a uniform threshold filing requirement imposed on tax preparers and making such requirement permanent.

- **Extend the Clean Heating Fuel Credit:** The Executive proposes to extend the current clean heating fuel credit, until January 1, 2023, allowing taxpayers to claim a personal income tax credit for purchasing bio-heating fuel for residential purposes.

- **Tax Shelter and Tax Preparer Penalties:** The Executive proposes to make permanent the current tax shelter reporting and penalty provisions and modify the penalties for tax preparers who do not sign returns or who take unreasonable positions on returns, and to allow penalties to be imposed on unregistered tax preparers.

- **New York City Enhanced Real Property Tax Circuit Breaker Credit:** The Executive proposes to make a technical amendment to clarify the calculation of the Enhanced Real Property Tax Circuit Breaker Credit applicable to New York City.

## School Tax Relief (STAR) Proposals

- **Cap Annual Growth of STAR Exemption Benefits:** The Executive proposes to reduce the allowable annual growth of the STAR exemption, from the current two percent rate to zero percent, thereby holding SFY 2019-20 and all future STAR exemption benefits at SFY 2018-19 levels. For purposes of the STAR credit, the Executive would continue the current two percent allowable annual growth rate.

- **Lower Basic STAR Exemption Income Limit to $250,000:** The Executive proposes to lower the income limit for the Basic STAR exemption from $500,000 to $250,000, beginning with the 2019-20 school year. For purposes of the STAR credit, the current $500,000 income limit would remain.

- **STAR Oversight and Enforcement:** The Executive advances a variety of proposals to improve STAR program oversight and enforcement, including authorizing the Tax Department to review residency and age eligibility; to extend current penalties for fraudulent activity to the STAR credit program; and to allow for recoupment if a recipient receives both a STAR exemption and a STAR credit.

- **Disclosure of STAR-related information to Assessors:** The Executive proposes to allow the Commissioner of Taxation and Finance to disclose certain STAR-related information to local assessors to assist with eligibility determinations.

- **Clarify STAR Check Tax Bill Notices:** The Executive proposal would modify the notice that appears on the school tax bills of recipients of the STAR credit program, to clarify the timing of payments under the program.

- **Improve the STAR Administrative Process:** The Executive proposes to establish a good cause restoration process for late initial Enhanced STAR applications and to eliminate the $500 renunciation fee if the renunciation occurs before the levy of school taxes or a person voluntarily enrolls in the STAR credit program.

- **Disclosure of Information on Cooperative Housing Corporation Information Returns:** The Executive proposes to allow the Department of Taxation and Finance to share certain information reported by cooperative housing corporations with local assessors for real property tax administration purposes.

- **Require Mobile Home Park Reporting:** The Executive proposes to require manufactured home park owners to submit quarterly registration statements electronically to the Department of Taxation and Finance. This would replace current annual reporting to the Division of Housing and Community Renewal.

## Property Tax Proposals

- **Make the Property Tax Cap Permanent:** The Executive proposes to make permanent the two percent cap on local and school property taxes. The cap was last extended in 2015, and is scheduled to expire on June 16, 2020.

- **Allow an Exemption for Qualified Energy Systems:** The Executive proposes to exempt specified energy systems from local taxation, special ad valorem levies and special assessments if they are located on land owned or controlled by the State and the owner of such system has a contract to sell energy to the State.

- **Modify Equalization Rate Apportionment:** The Executive proposal would provide school districts the option to apportion school taxes using average property values over a three or five year period; allow the Department Taxation and Finance to certify the local level of assessment as the final equalization rate; and clarify that an assessor must notify local officials when the tentative equalization rate differs from the level of assessment by five percent or more.

- **Modify Property Tax Administration:** The Executive proposes a variety of changes to modify property tax administration, including proposals to:

    - allow local governments to provide real property tax assessment relief when a State disaster emergency is declared by the Governor, without further legislative action;

    - allow a county, upon agreement with an included municipality, to appoint the members of the municipality’s board of assessment review;

- allow the Tax Department to approve assessor and county director training courses for credit without requiring the State to pay for the expenses of attendees;

- allow the Tax Department to send certain statutory notices by email and/or website posting; and

- require electric generating facilities to report inventory, revenue and expense data to the Tax Department annually.

## Sales Tax Proposals:

- **Sales Tax on Marketplace Providers:** The Executive proposes to require marketplace providers to collect sales tax on taxable sales of tangible personal property that they facilitate. A marketplace provider would be required to meet all the requirements of other vendors that are registered in the State. In most instances, it would be the responsibility of the marketplace provider to collect any sales tax liability on behalf of the marketplace seller.

- **Discontinue the Energy Services Sales Tax Exemption:** The Executive proposes to eliminate the sales tax exemption on the non-residential transmission and distribution of gas or electricity when purchased from an energy service company.

- **Extend Dodd-Frank Protection Act Related Sales Tax Exemptions:** The Executive proposes to extend, for two years, the sales tax exemption provided to financial institutions that are required under federal law to create subsidiaries and then transfer the property or services to those subsidiaries without the transfer being considered a taxable sale.

- **Extend Delinquent Sales Tax Vendors Management:** The Executive proposes to make permanent certain provisions concerning the segregated sales tax account program.

- **Opioid Excise Tax:** Establish a new excise tax on the sale of opioids in the State, which would supplement the Opioid Stewardship Act which was enacted as part of the SFY 2018-19 budget.

## Business Tax Proposals

- **Exclude Government Grants from State Corporate Taxation:** In response to recent federal tax law changes, the Executive proposes to decouple New York State from the federal requirement that contributions made by a governmental entity or civic group to the capital fund of a corporation be included in the State's definition of taxable net income.

- **Decouple from Federal Definitions related to the New York Manufacturing Test:** In response to recent federal tax law changes, the Executive proposes to decouple New York State law from the federal standard for determining the amount of property a manufacturer has in the State. This calculation is used to determine if a manufacturer is eligible for corporate tax reductions and other tax credits.

- **Sourcing Rule for Global Intangible Low Tax Income (GILTI) Apportionment:** The Executive proposes to codify a receipts factor rule for the net amount of GILTI included in business tax income, also related to recent federal tax law changes.

- **Extend the Workers with Disabilities Tax Credit:** The Executive proposes to extend the expiration date for corporate and personal income tax credits for those employing individuals with developmental disabilities from January 1, 2020 until January 1, 2023.

- **Expand the Employee Training Incentive Program (ETIP) Credit:** The Executive proposes to extend the current ETIP credit for New York businesses by including in-house training, software development and renewable or clean energy internships as part of eligible training activities.

- **Create the New York State Employer-Provided Child Care Credit:** The Executive proposes to create a new credit, equal to 100 percent of the federal credit, for employers who provide child and dependent care facilities to their employees.

- **Modify the Farm Workforce Retention Credit:** The Executive proposes to expand the farm workforce retention credit to include the types of farming activities that are currently eligible for the farmer school tax credit, such as cider production and Christmas tree farming. In addition, the Executive proposal would authorize the credit for farm cideries and farm wineries.

- **Extend the Clean Heating Fuel Credit:** The Executive proposes to extend the sunset dates for corporate and personal income tax credits related to purchasing bio-heating fuel for residential purposes, until January 1, 2023.

- **Expand the Current Historic Rehabilitation Credit:** The Executive proposal would allow the credit for rehabilitation of historic properties to be claimed for qualified rehabilitation projects undertaken within a State park, State historic site, or other land owned by the State, that is under the jurisdiction of and leased to private entities by the Office of Parks, Recreation and Historic Preservation, regardless of the census tract location of the rehabilitation project.

- **Employer Recovery Hiring Tax Credit:** The Executive proposes to create a new credit for employers of up to $2,000 for each person hired who is in recovery from a substance abuse disorder.

## Other Tax Proposals

- **Gift Addback Rule and Qualified Terminable Interest Property (QTIP) Trust:** The Executive proposes to extend, to January 1, 2026, the requirement that gifts that are taxable for federal gift tax purposes and that are made within three years of death, are taxable for State purposes. The Executive would also require a binding New York State QTIP election be made on State estate tax returns, to ensure these assets are calculated for estate tax purposes.

- **Auto Rental Surcharge:** The Executive proposes to expand the current five percent special supplemental auto rental surcharge from the Metropolitan Commuter Transportation District (MCTD) to the rest of the State. Such funds would support the Public Transportation Systems Operating Assistance Fund and support upstate transit needs.

- **License Fees on Certain Co-Ops:** The Executive proposes to eliminate a ten-dollar annual fee paid by cooperative corporations and rural electric cooperatives.

- **Technical Corrections:** The Executive proposes to make a variety of technical corrections to provisions of the Tax Law and the New York City Administrative Code.

## Gaming Proposals

- **Simplify Video Lottery Gaming (VLG) Rates and Eliminate Additional Commission Provisions:** The Executive proposes to simplify the current VLG distribution structure and eliminate the additional commission provisions, instead offering an additional rate to reflect loss in commission for impacted facilities.

- **Gaming Commission Employment Restrictions:** The Executive proposes to allow a waiver from the Gaming Commission hiring restrictions for individuals who have received an occupational license from the Commission in the three years prior to appointment.

- **Extend Certain Tax Rates And Simulcasting Provisions:** The Executive proposes to extend the current pari-mutuel tax rate structure and other racing-related provisions for five years.

- **Impose a Statutory Cap on Casino Free Play:** The Executive proposes to establish a statutory 19 percent cap on the free play allowance for casinos until SFY 2023.

- **Retired Racehorse Aftercare:** The Executive proposal would permit breeding funds to support and promote the ongoing aftercare of retired racehorses.

- **Modify Off-Track Betting (OTB):** The Executive proposes to allow an OTB to contract with another OTB to operate it's off track betting operations; require OTBs to maintain financial records; allow an OTB internal auditor to review expenses and report to the OTB Board; and allow Capital OTB to broadcast televised races at Rivers Casino.

- **Mid-Atlantic Drug Compact:** The Executive proposes to authorize the Gaming Commission to enter into the Mid-Atlantic Drug Compact.

- **Equine Drug Testing:** The Executive proposes to extend the Equine Drug Testing Advisory Committee for an additional year, and remove the Morrisville equine drug lab restriction.

- **Occupational Licensing for Casino Employees:** The Executive proposes to remove the automatic employment bar on felony convictions and reduce background investigations for non-key casino employees and vendors, unless a more in-depth investigation is warranted.

- **Technical Changes to Gaming Provisions:** The Executive proposes to clarify the scope of the Gaming Inspector General; allow qualified non-Gaming Commission employees to be appointed to the Thoroughbred Breeding Fund; clarify that Cornell's Zweig Fund can accept gifts from donors and indemnify its board of directors; and expand the allowable use of the lapsed prize fund.

## Tobacco Proposals

- **Comprehensive Tobacco Policy:** The Executive proposes to:
    - raise the minimum age to purchase tobacco products from 18 to 21;
    - prohibit the sale of tobacco products in all pharmacies;
    - prohibit the acceptance of price reduction instruments for both tobacco products and e-cigarettes;
    - prohibit the display of tobacco products or e-cigarettes in stores except under specific circumstances;
    - allow the Department of Health to prohibit or restrict the sale or distribution of e-cigarettes or vapor products that have a flavor intended to appeal to minors;
    - prohibit smoking inside and on the grounds of all hospitals licensed or operated by the Office of Mental Health;
    - require that e-cigarettes be sold only through licensed dealers; and
    - impose a 20 percent tax on the retail sale of vapor products.

## Cannabis Proposals

- **Adult-Use Cannabis Oversight:** The Executive proposes to establish a regulated adult-use cannabis program and create a new Office of Cannabis Management (OCM), located within the Division of Alcohol Beverage Control, which would be responsible for licensing and regulation for the production, distribution and retail sale of adult-use cannabis, medical cannabis and hemp cannabis. The proposal would also provide for testing, packaging and labeling of cannabis and cannabis products.

- **Social Equity Programs:** The Executive proposal would provide social equity licensing opportunities by assisting market entry for disadvantaged applicants through technical assistance, mentorship and access to capital.

- **Criminal Justice Proposals:** The Executive would modify, and in some cases reduce, existing penalties under the Penal Law, and also amend the Vehicle and Traffic Law to increase penalties for driving under the influence of both alcohol and drugs.

- **Medical Marijuana Program:** The Executive proposal would transfer administration of the existing medical marijuana program, from the Department of Health to the OCM, and authorize a continued expansion of the program to include additional conditions to allow cannabis research opportunities.

- **Hemp Cannabis Program:** The Executive proposes to establish a regulatory framework to regulate the licensing, cultivation, processing, extracting and distribution of hemp cannabis. Hemp grown and used for industrial or food purposes would continue to be regulated by the Department of Agriculture and Markets.

- **Local Option:** The Executive proposal would allow counties and cities with populations in excess of 100,000 to opt out of having adult use cannabis businesses in their municipalities.

- **Cannabis Tax:** The Executive establishes a three tier tax structure, including:

  - a tax on the cultivation of cannabis at the rate of $1 per dry weight gram of cannabis flower and $0.25 per dry weight gram of non-flower cannabis;

  - a tax on the sale by a wholesaler to a retail dispensary at the rate of 20 percent of the invoice price, which would be deposited in the New York State Cannabis Revenue Fund; and

  - a tax on the same sale by a wholesaler to a retail dispensary at the rate of 2 percent of the invoice price, which would be remitted to the county in which the retail dispensary is located.

- **New York State Cannabis Revenue Fund:** The Executive proposal would deposit revenues from State cannabis taxes in the New York State Cannabis Revenue Fund which would be expended for the following purposes: administration of the regulated cannabis program; data gathering; monitoring and reporting; the operations of the

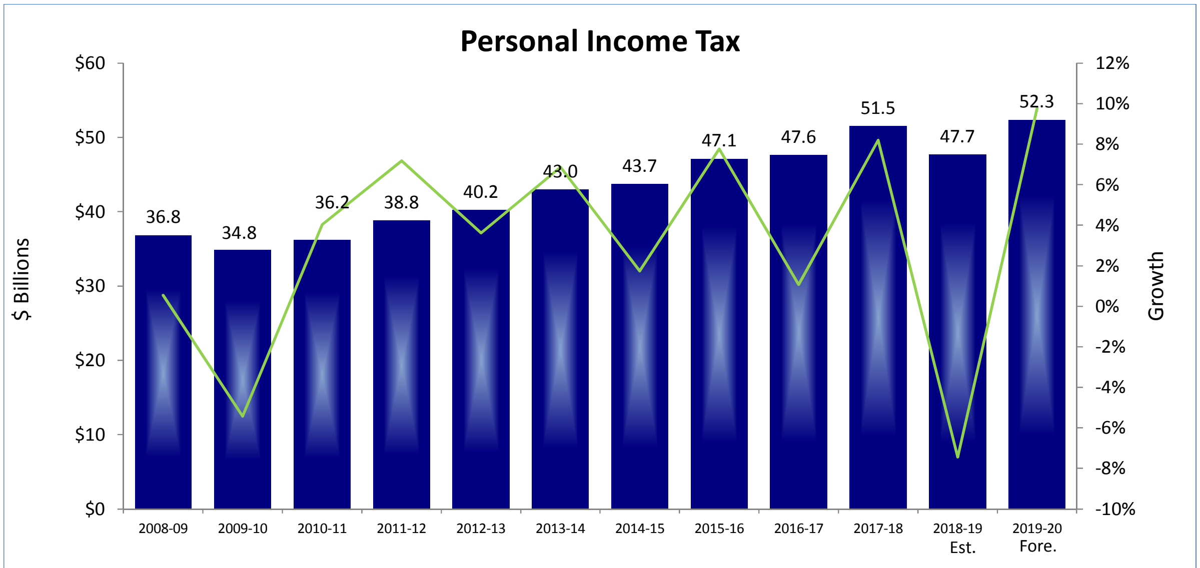
Governor's Traffic Safety Committee; small business development and loans; substance abuse services; harm reduction; mental health treatment and prevention; public health education and intervention; research on cannabis uses and applications; program evaluation; and other purposes identified by the Director of the Office of Cannabis Management.

# TAX ANALYSIS

## Personal Income Tax

Table 19

| Personal Income Tax Collections<br>Forecasts by State Fiscal Year<br>($ in Millions) | 2018-19<br>WAM<br>Estimate | Percent<br>Growth | Diff.<br>Exec | 2019-20<br>WAM<br>Forecast | Percent<br>Growth | Diff.<br>Exec. |
|---|---|---|---|---|---|---|
| **Personal Income Tax** | **$47,665** | (7.4%) | **$82** | **$52,280** | **9.7%** | **$510** |
| **Gross Receipts** | **58,842** | (5.1%) | **36** | **63,878** | **8.6%** | **484** |
| Withholding | 40,841 | 1.4% | 120 | 42,847 | 4.9% | 337 |
| Estimated Payments | 13,956 | (21.5%) | (0) | 16,694 | 19.6% | 122 |
| Vouchers | 10,434 | (27.2%) | 5 | 10,993 | 5.4% | 37 |
| IT 370s | 3,522 | 2.0% | (5) | 5,701 | 61.9% | 85 |
| Final Payments | 2,620 | 5.7% | (9) | 2,812 | 7.3% | 64 |
| Delinquencies | 1,426 | (5.4%) | (74) | 1,525 | 7.0% | (39) |
| **Total Refunds** | **11,177** | **6.1%** | **(46)** | **11,598** | **3.8%** | **(26)** |
| Prior Year Refunds | 6,062 | (3.7%) | (18) | 6,353 | 4.8% | 25 |
| Current Refunds | 2,250 | 0.0% | - | 1,750 | (22.2%) | - |
| Advance Credit Payments | 1,094 | 79.3% | - | 1,894 | 73.1% | - |
| Previous Refunds | 623 | 18.2% | (3) | 602 | (3.3%) | (51) |
| State/City Offsets | 1,148 | 34.1% | (25) | 999 | (13.0%) | - |
| **Collections** | **47,665** | (7.4%) | **82** | **52,280** | 9.7% | **510** |
| Transfers to STAR | (2,424) | (6.4%) | **-** | (2,186) | (9.8%) | - |
| Transfers to DRRF/RBTF | (23,833) | 85.1% | (41) | (26,140) | 9.7% | (255) |
| **General Fund PIT Collections** | **$21,409** | (40.6%) | **42** | **$23,954** | **11.9%** | **$255** |



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

**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 approximately 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 (AGI). AGI is calculated starting with the federal AGI as a base and then modifying it with certain subtractions or additions as permitted or required under State law. 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.

Taxpayers may itemize their deductions 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. The high income deduction limitation begins at different levels depending upon ones' taxable income. A 25 percent reduction begins to phase in after $100,000 of AGI for single filers, above $200,000 for married filers, and for incomes exceeding $250,000 for head of household filers. A 50 percent limitation on itemized deductions begins to phase in for all filers at $475,000.

For New York taxpayers whose AGI 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 AGI over $10 million, the charitable contributions deduction is limited to 25 percent.

Either the State 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. The tax rate is then determined by the level of income.

## Net Collections

### *Year-to-Date (YTD) Through January*

Through January 2019, net personal income tax collections are down 7.5 percent or $3.397 billion, with gross collections decreasing by 6.4 percent or $3.388 billion year-to-date.

**Table 20**

| Net Collections ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $42,155 | (7.5%) | $47,665 | (7.4%) | $47,583 | $82 |
| 2019-20 | | | $52,280 | 9.7% | $51,770 | $510 |

### *State Fiscal Year 2018-19*

Net personal income tax collections are estimated to total $47.665 billion, which represents a decrease of $3.826 billion or 7.4 percent from the prior fiscal year. Gross collections are expected to decrease by 5.1 percent, while the Committee staff anticipates a 6.1 percent increase in refunds.

The Committee staff's net PIT collections estimate is $82 million above the Executive Budget estimate.

### *State Fiscal Year 2019-20*

Net personal income tax collections are forecast to total $52.280 billion, an increase of $4.614 billion or 9.7 percent over SFY 2018-19 estimates. Gross collections are forecast to increase by $5.035 billion, an increase of 8.6 percent, with an increase in total refunds of $421 million, or 3.8 percent. The Committee's net collection forecast is $510 million above the Executive Budget forecast.

## Withholding

Employers are required to withhold an amount from employees' paychecks, which is used at the end of the year to help settle 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 $414 million or 1.3 percent compared to the prior year.

**Table 21**

| Withholding ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $32,407 | 1.3% | $40,841 | 1.4% | $40,721 | $120 |
| 2019-20 | | | $42,847 | 4.9% | $42,510 | $337 |

### *State Fiscal Year 2018-19*

Committee staff estimates $40.841 billion in withholding collections, a growth of $572 million, or 1.4 percent, above the prior fiscal year. The Committee estimate is $120 million above the Executive's estimate.

### *State Fiscal Year 2019-20*

Withholding collections are projected to increase by 4.9 percent or $2.006 billion in SFY 2019-20, for a total of $42.847 billion. This forecast is $337 million above the Executive's forecast, and is premised on continued wage growth.

Total wage growth is projected at 4.1 percent. Base wages are forecast to increase by 4.1 percent with variable wages projected to increase by 3.9 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, have decreased by 27.5 percent, or $3.905 billion compared to the prior fiscal year.

**Table 22**

| Quarterly Estimated Payments ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $10,286 | (27.5%) | $10,434 | (27.2%) | $10,429 | $5 |
| 2019-20 | | | $10,993 | 5.4% | $10,956 | $37 |

### *State Fiscal Year 2018-19*

The Committee staff's estimated payments, excluding extensions, total is $10.434 billion, a decrease of 27.2 percent, or $3.895 billion, from SFY 2017-18. The Committee staff estimate is $5 million above the Executive's estimate.

A large portion of this decrease is attributable to changes in taxpayer behavior related to the recently enacted Federal Tax Cuts and Jobs Act, which implemented a $10,000 annual limit on the federal deductibility of state and local taxes. This change has led many taxpayers to shift capital gains realization and other income payments out of SFY 2018-19 and into both SFY 2017-18 and SFY 2019-20. The Committee staff estimates that over $1.4 billion is estimated payments which were expected in December 2018 and January 2019 have been shifted from SFY 2018-19 into SFY 2019-20.

### *State Fiscal Year 2019-20*

Estimated payment collections, excluding extensions, are projected to increase 5.4 percent, or $559 million, in SFY 2019-20, for a total of $10.993 billion. This estimate is $37 million above the Executive's forecast.

Realized capital gains are expected to increase 9.0 percent in tax year 2019, following a projected decrease of 2.5 percent in tax year 2018 (see Table 28).

## Refunds

### *YTD through January*

Prior year refunds are refunds issued by the State between April 1st and January 31st. These refunds are associated with the most recently completed calendar year liability. Previous year refunds are refunds issued for liability years prior to the year most recently completed. This component, like delinquencies, cannot be specifically connected to a particular liability year.

Year-to-date, prior year refunds have decreased by 3.7 percent, while previous year refunds have increased 20.7 percent. Total refunds, including State/City offsets, have increased 6.1 percent year-to-date relative to the same period of last fiscal year.

**Table 23**

| Prior Year Refunds - 2017 Tax Year ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $6,005 | (3.7%) | $6,062 | (3.7%) | $6,080 | ($18) |
| 2019-20 | | | $6,353 | 4.8% | $6,328 | $25 |

**Table 24**

| Previous Year Refunds - Before the 2017 Tax Year ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $491 | 20.7% | $623 | 18.2% | $626 | ($3) |
| 2019-20 | | | $602 | (3.3%) | $653 | ($51) |

### *State Fiscal Year 2018-19*

Committee staff anticipates that SFY 2018-19 will conclude with $6.062 billion in prior year refunds and $623 million in previous refund distributions. The Committee's estimate for prior year refunds is $18 million below the Executive's estimate, and reflects a 3.7 percent decrease from SFY 2017-18.

The closeout for previous year refunds represents an 18.2 percent growth relative to the last fiscal year. The Executive's estimate is $3 million above the Committee's estimate.

Total refunds are projected at $11.177 billion, an increase of 6.1 percent, or $643 million, over SFY 2018-19.

### *State Fiscal Year 2019-20*

The Committee staff projects a prior year refund total of $6.353 billion, an increase of 4.8 percent, or $291 million, over the SFY 2018-19 estimates.

Previous refunds are forecast to total $602 million, representing a decrease of 3.3 percent or $20 million from SFY 2018-19.

Advance credit payments are expected to total $1.894 billion, due to the conversion of the School Tax Relief (STAR) program into a tax credit, and the property tax relief credit which is expected to cost $1.324 billion in SFY 2019-20.

Total refunds are projected at $11.598 billion, an increase of 3.8 percent, or $421 million, over SFY 2018-19.

## Fund Distribution

**Table 25**

| Personal Income Tax Fund Distribution ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
| 2018-19 | $21,409 | $2,424 | $23,833 | - | $47,665 |
| 2019-20 | $23,954 | $2,186 | $26,140 | - | $52,280 |

The Committee staff estimates General Fund personal income tax receipts of $21.409 billion in SFY 2018-19. In SFY 2019-20, General Fund collections are forecast to total $23.954 billion.

A statutory amount of 50 percent of net personal income tax collections is allocated to the Revenue Bond Tax Fund (RBTF). The estimated contribution to this fund in SFY 2018-19 is $23.833 billion, and $26.140 billion in SFY 2019-20. The SFY 2018-19 budget increased this amount from 25 percent to 50 percent.

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 $2.424 billion in SFY 2018-19 and $2.186 billion in SFY 2019-20 adjusted gross income (AGI).

Robust growth in realized capital gains along with moderate growth in wages, interest and dividend income, and business and partnership income, provided AGI growth of 4.0 percent in tax year 2015. AGI registered a decrease of 1.7 percent in 2016, and is expected to be followed by growth of 8.3 percent in 2017, 3.1 percent in 2018, 3.2 percent in 2019, and 4.9 percent in 2020.

**Table 26**

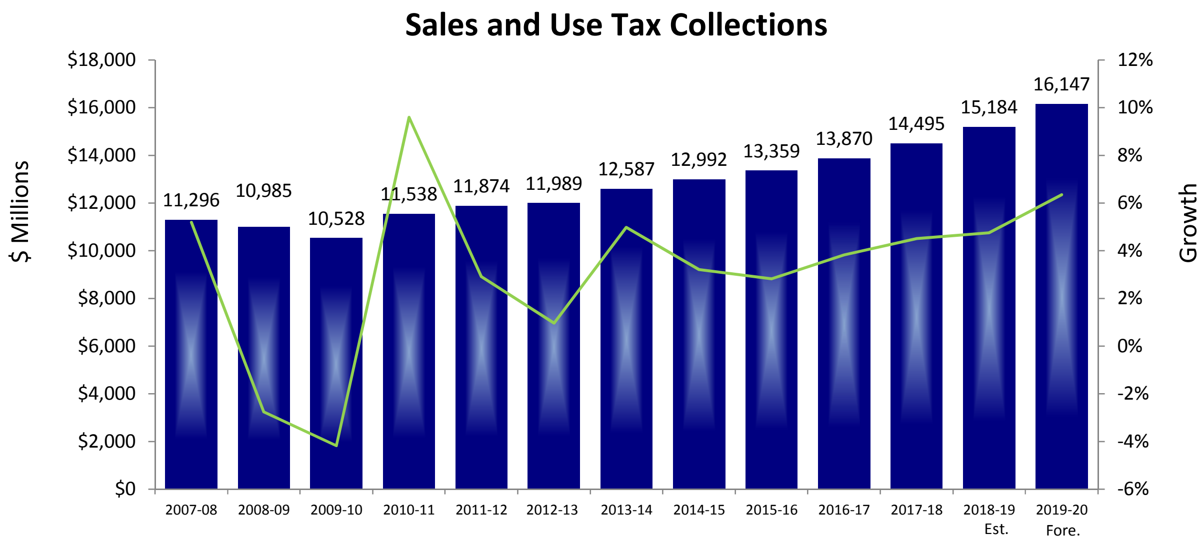
| Components of Personal Income TaxAGI ($ in Millions) | Actual | | Estimate | | Forecast | |
|---|---|---|---|---|---|---|
| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 |
| **NYSAGI** | | | | | | |
| *Amount* | $807,775 | $794,105 | $860,347 | $886,792 | $915,584 | $960,251 |
| *Percent Change* | | (1.7%) | 8.3% | 3.1% | 3.2% | 4.9% |
| **Wages** | | | | | | |
| *Amount* | $584,317 | $592,135 | $624,559 | $648,473 | $673,685 | $703,095 |
| *Percent Change* | | 1.3% | 5.5% | 3.8% | 3.9% | 4.4% |
| **Net Capital Gains** | | | | | | |
| *Amount* | $93,409 | $72,465 | $95,496 | $93,073 | $90,736 | $99,277 |
| *Percent Change* | | (22.4%) | 31.8% | (2.5%) | (2.5%) | 9.4% |
| **Interest, Dividends and Pensions** | | | | | | |
| *Amount* | $77,721 | $79,830 | $82,641 | $85,480 | $88,581 | $92,367 |
| *Percent Change* | | 2.7% | 3.5% | 3.4% | 3.6% | 4.3% |
| **Business and Partnership Income** | | | | | | |
| *Amount* | $95,745 | $94,548 | $104,718 | $109,374 | $114,884 | $120,625 |
| *Percent Change* | | (1.3%) | 10.8% | 4.4% | 5.0% | 5.0% |
| **Other Income** | | | | | | |
| *Amount* | ($43,418) | ($44,873) | ($47,066) | ($49,607) | ($52,303) | ($55,113) |
| *Percent Change* | | 3.4% | 4.9% | 5.4% | 5.4% | 5.4% |

## User Taxes and Fees

**Table 27**

| User Tax Collections<br>Forecasts by State Fiscal Year<br>($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | SFY 2018-19 | Growth | Diff. Exec. | SFY 2019-20 | Growth | Diff. Exec. |
| **User Taxes and Fees** | **$17,425** | **4.3%** | **($20)** | **$18,241** | **4.7%** | **$55** |
| Sales and Use Tax | 15,184 | 4.8% | (28) | 16,147 | 6.3% | 40 |
| Motor Fuel Tax | 529 | 3.3% | (2) | 525 | (0.9%) | 10 |
| Cigarette Tax | 1,113 | (5.0%) | 1 | 1,047 | (5.9%) | (1) |
| Highway Use Tax | 149 | 60.5% | 5 | 146 | (2.4%) | 4 |
| Alcoholic Beverage Tax | 263 | 1.4% | 1 | 267 | 1.8% | 2 |
| Medical Marihuana Excise Tax | 3.8 | - | (0) | 8 | 113.0% | 4 |
| Auto Rental Tax | 132 | 7.2% | 2 | 91 | (30.7%) | (4) |
| Taxi Surcharge | 51 | (9.5%) | 1 | 0 | (100.0%) | 0 |

## Sales Tax




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

**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. Vendors are required to remit their sales tax liability electronically to the State if they are able.

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.

**Table 28**

| Sales Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $12,643 | 3.7% | $15,184 | 4.8% | $15,212 | ($28) |
| 2019-20 | | | $16,147 | 6.3% | $16,107 | $40 |

The Sales Tax Revenue Bond Fund (STBF) became effective April 1, 2013. One-quarter of the State's sales tax collections are directed to this fund. Once LGAC bonds are deceased 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 29**

| Quarterly Sales Tax Growth | | | | | | | |
|---|---|---|---|---|---|---|---|
| | 2017 Q2 | 2017 Q3 | 2017 Q4 | 2018 Q1 | 2018 Q2 | 2018 Q3 | 2019 Q4 |
| Western NY | 3.2% | 1.9% | 4.2% | 1.9% | 7.0% | 5.6% | 4.7% |
| Finger Lakes | 3.5% | 5.7% | 5.7% | 1.9% | 4.2% | 4.9% | 3.7% |
| Southern Tier | 3.7% | 2.6% | 7.6% | 2.7% | 8.9% | 10.3% | 5.4% |
| Central NY | 5.5% | 2.1% | 7.6% | 1.9% | 7.5% | 9.0% | 1.6% |
| Mohawk Valley | 4.0% | 1.8% | 6.3% | 3.6% | 6.9% | 6.6% | 5.7% |
| North Country | 2.2% | 0.8% | 5.0% | 1.7% | 8.8% | 8.3% | 4.7% |
| Capital Region | 1.1% | 1.7% | 5.4% | 3.0% | 8.0% | 5.2% | 3.8% |
| Mid-Hudson | 2.3% | 3.4% | 4.0% | 4.1% | 7.5% | 5.3% | 3.5% |
| NYC | 3.1% | 3.6% | 6.9% | 6.0% | 7.9% | 6.4% | 2.7% |
| Long Island | 4.2% | 3.1% | 3.5% | 5.3% | 5.6% | 4.4% | 2.9% |

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 sales tax collections for the first quarter of 2017 through the third quarter of 2018 are shown above. New York City accounts for the largest portion of collections each quarter, with approximately half of total collections coming from the city due to the high population and popularity as a tourism destination. For all of calendar year 2017, growth in the city was positive and remained strong through all of 2018.

The first quarter of calendar year 2018 began with weak growth upstate compared to the previous quarter. The remainder of the calendar year show exceptional growth in sales tax collections, with the most regions above five percent growth and several regions exceeding eight percent growth.

### *YTD through January*

Statewide collections through January have increased by 3.7 percent over SFY 2017-18, for a year-to-date total of $12,643 billion.

### *State Fiscal Year 2018-19*

The Committee staff estimates sales tax receipts will total $15.184 billion in SFY 2018-19, an increase of 4.8 percent, or $698 million, over SFY 2017-18. Growth of 10.3 percent is expected in the remaining two months of the fiscal year. The growth in revenue is driven by expected growth in total consumption spending in the second half of the fiscal year and by strong increases in prices of non-durable goods in the first half of the fiscal year.

The Committee staff's estimate is $28 million below the Executive's estimate.

### *State Fiscal Year 2019-20*

The Committee staff forecasts that sales tax receipts will total $16,147 billion, an increase of 6.3 percent, over SFY 2018-19 estimates. This growth is driven by continuing growth of 2.4 percent in total consumption. The Executive's forecast is 40 million above the below the Committee's forecast.

## Fund Distribution

**Table 30**

**Sales Tax Fund Distribution**
**($ in Millions)**

| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
|---|---|---|---|---|---|
| 2018-19 | $7,107 | $970 | $7,107 | - | $15,184 |
| 2019-20 | $7,561 | $1,026 | $7,561 | - | $16,147 |

## 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. Patients were first able to purchase medical marihuana in the State in January of 2016. In mid-June of 2018, the Department of Health expanded the Medical Marihuana program to include opioid use as a qualifying condition. 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. There are currently ten registered organizations authorized to manufacture and dispense medical marijuana. As of February 19, 2019, there are 2,201 registered practitioners and 90,954 certified patients in the New York State Medical Marihuana Program.

Of the revenues received from the State medical marihuana excise tax, 45 percent is dedicated to the Medical Marihuana Trust Fund and the remaining 55 percent is 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 $3.111 million, a 61.3 percent increase from the same period of SFY 2017-18. This increase is largely due to the broader medical conditions that are eligible for Medical Marihuana prescriptions, including, post-traumatic stress disorder (PTSD), substance use disorder, and as an alternative to opioid treatment.

### *State Fiscal Year 2018-19*

The Committee staff estimates that revenues from the Medical Marihuana Excise Tax will total $3.8 million in SFY 2018-19, a 113 percent increase from SFY 2017-18. The Committee staff's estimate is $0.2 million below the Executive's forecast.

### *State Fiscal Year 2019-20*

For SFY 2019-20, the Committee's staff forecasts collections of $8.1 million, a 113 percent increase from SFY 2018-19 estimates. The Committee staff's forecast is $4.1 million above the Executive's forecast.

## Auto Rental Tax

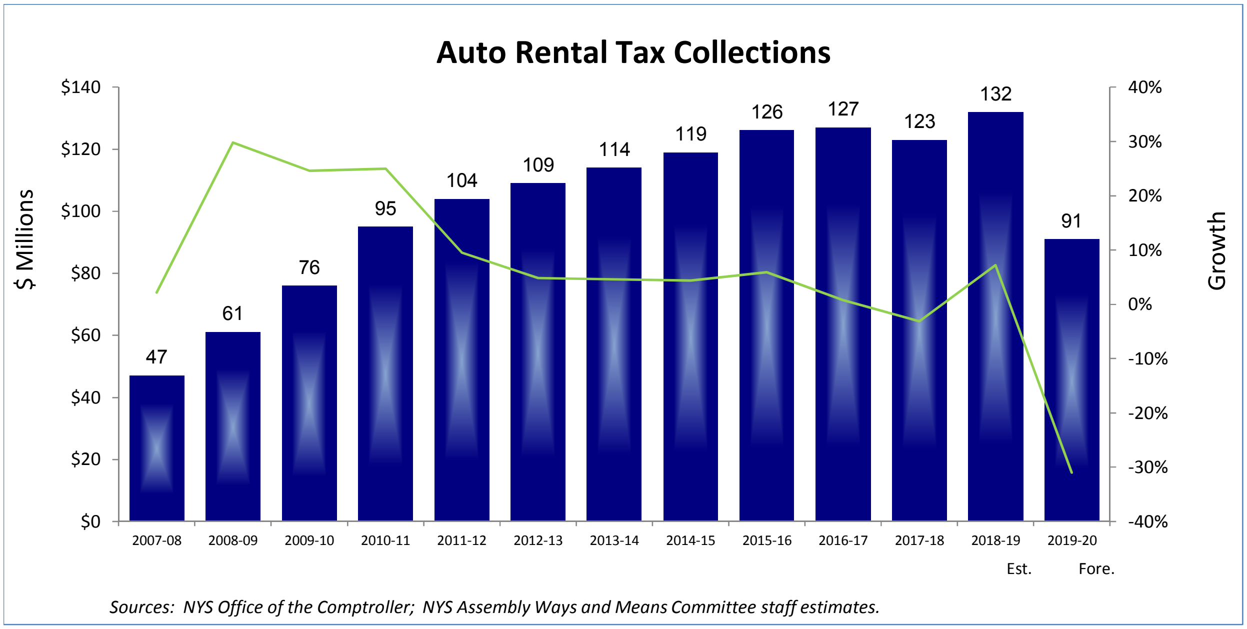



**Figure 49**

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. There is an additional five percent tax imposed on auto rental sales made within the metropolitan commuter transportation district (MCTD). The taxes do not apply to leases of one year or more.

**Table 31**

| Auto Rental Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $107 | 11.5% | $132 | 7.2% | $130 | $2 |
| 2019-20 | | | $91 | -30.7% | $95 | ($4) |

### YTD through January

Year-to-date, auto rental tax collections are $107.4 million representing an increase of 11.5 percent compared to the same period in SFY 2017-18.

### State Fiscal Year 2018-19

The Committee staff estimates auto rental tax collections will total $132 million in SFY 2018-19, representing an increase of 8.1 percent over SFY 2017-18. The Committee estimate is $2 million above the Executive estimates.

### State Fiscal Year 2019-20

The Committee staff forecasts auto rental tax collections will total $91 million in SFY 2019-20. This is a decline of 30.7 percent or $41 million over SFY 2018-19 estimates. The Committee forecast is $4 million below the Executive estimates.

To maintain comparability these estimates reflect the Executive Budget proposal to remit the supplement auto rental tax on passenger cars in the Metropolitan Commuter Transportation District (MCTD), directly to the MTA and to expand the current five percent special supplemental auto rental surcharge from the MCTD to the remainder of the State.

## Fund Distribution

**Table 32**

**Auto Rental Tax Fund Distribution ($ in Millions)**

| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
|---|---|---|---|---|---|
| 2018-19 | - | $49.7 | - | $82.2 | $132 |
| 2019-20 | - | $10.6 | - | $80.8 | $91 |

## Motor Fuel Tax

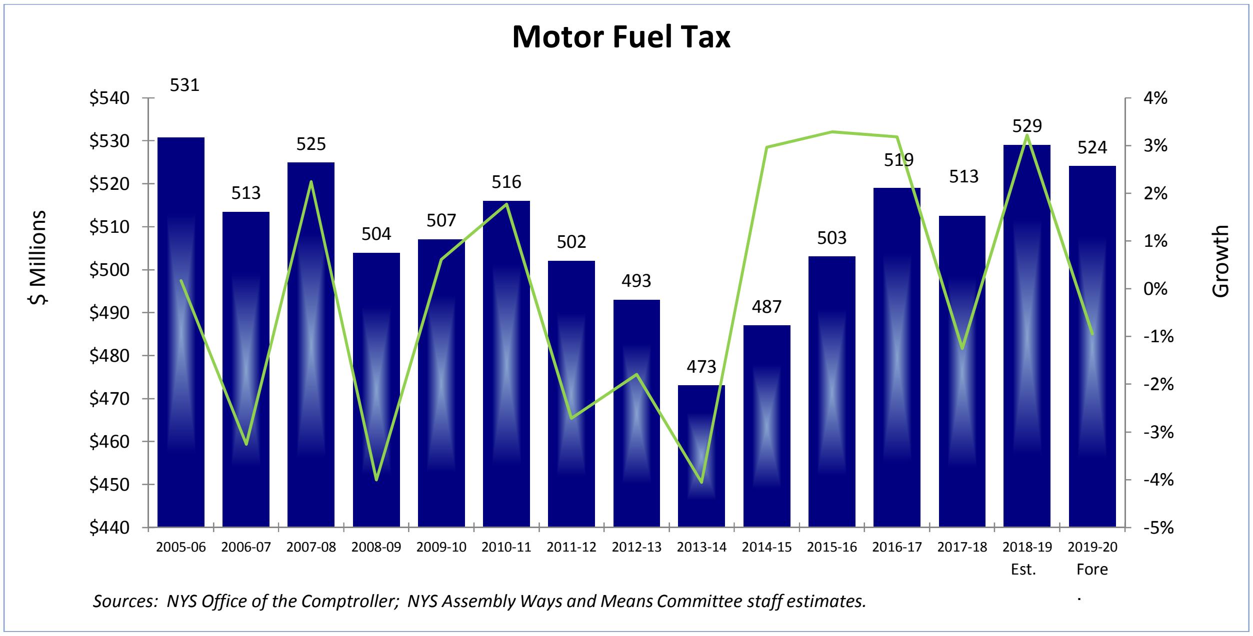



**Figure 50**

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: a regular tax of four cents per gallon, and additional tax of three cents per gallon, and a 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 33**

| Motor Fuel Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $448 | 3.0% | $529 | 3.3% | $531 | ($2) |
| 2019-20 | | | $525 | (0.9%) | $515 | $10 |

### *YTD through January*

Through January, motor fuel tax collections have increased 2.9 percent compared to last year, totaling $527 million.

### *State Fiscal Year 2018-19*

The Committee staff estimates that motor fuel tax collections will total $530 million in SFY 2018-19 or an increase of 3.3 percent over SFY 2017-18. Gasoline collections are expected to increase 4.8 percent this fiscal year, while diesel collections are expected to decrease 8.1 percent. The Executive estimates $531 million in collections, $2 million above the Committee's estimate.

### *State Fiscal Year 2019-20*

Gasoline collections are forecast to decrease 2.8 percent in SFY 2019-20 and diesel collections are is forecast to increase 5.5 percent. These forecasts are the basis for the Committee's revenue forecast of $525 million in motor fuel tax receipts in SFY 2019-20, which is a decline of 0.9 percent from the previous year. The Committee staff forecast is $10 million above the Executive forecast of $515 million.

## Fund Distribution

**Table 34**

**Motor Fuel Tax Fund Distribution ($ in Millions)**

| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
|---|---|---|---|---|---|
| 2018-19 | - | $111 | - | $419 | $529 |
| 2019-20 | - | $110 | - | $415 | $525 |

## Highway Use Tax

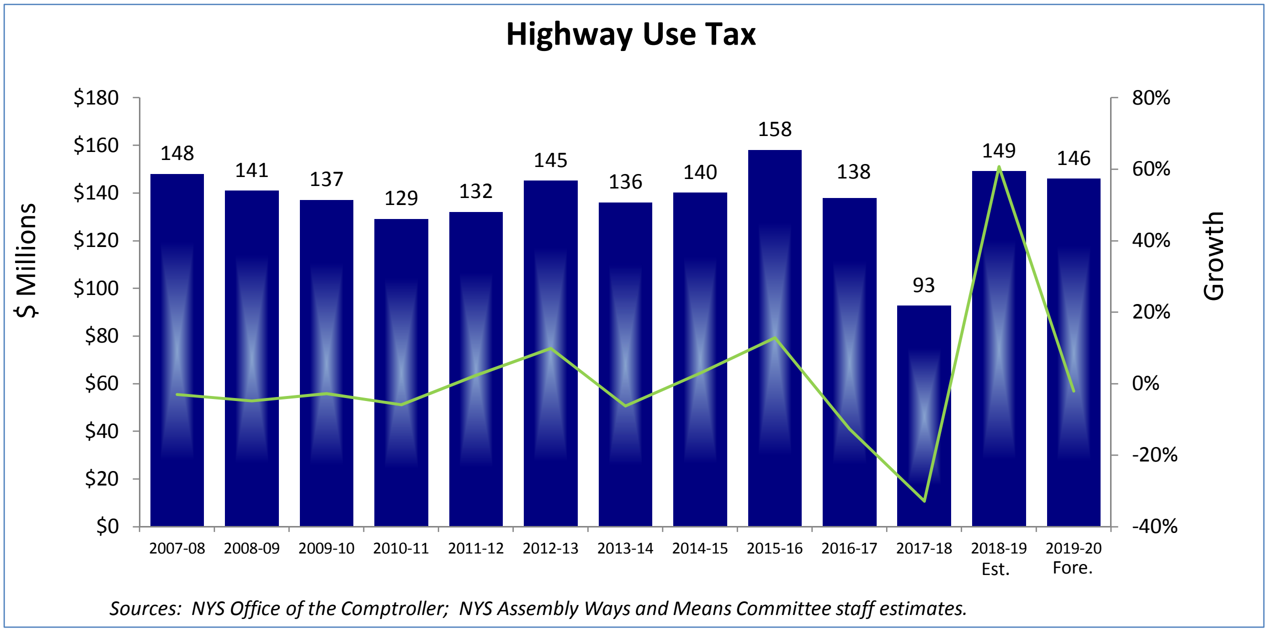



**Figure 51**

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 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, due every three years, 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 35**

| Highway Use Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $127 | 6.5% | $149 | 60.5% | $144 | $5 |
| 2019-20 | | | $146 | (2.4%) | $142 | $4 |

### *YTD through January*

Through January, collections have increased 6.5 percent to $127 million. This is a $8 million difference compared to last fiscal year.

### *State Fiscal Year 2018-19*

Collections are estimated to total $149 million, a growth of 60.5 percent, compared to the previous fiscal year. This year-to-year increase is predominately related to a large settlement paid out in May 2017. The underlying increase in collections this fiscal year is a result of strong growth in truck mileage tax collections and the fact that a larger than normal number of highway use tax permits will be renewed in the second half of the fiscal year. The Committee's estimates are $5 million higher than the Executive's estimate of $144 million.

### *State Fiscal Year 2019-20*

Highway use tax collections are expected to decrease by 2.4 percent to $146 million in SFY 2019-20, a decrease of $4 million. This is $3 million greater than the Executive's forecast of

$142 million. This decrease represents a return to normal collection patterns from the increased collections seen in permit renewal years.

## Fund Distribution

**Table 36**

| Highway Use Tax Fund Distribution ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
| 2018-19 | $0 | (2) | $0 | $151 | $149 |
| 2019-20 | - | $0 | | $146 | $146 |

## Cigarette and Tobacco Taxes

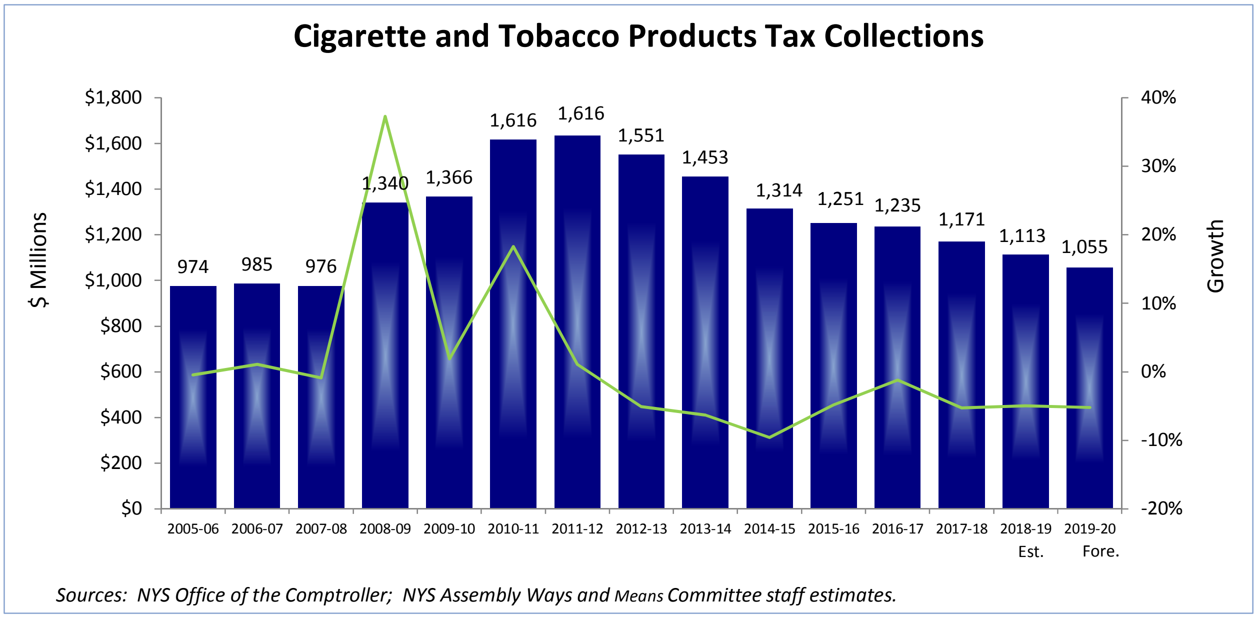



**Figure 52**

The State cigarette excise tax has been imposed by Article 20 of the Tax Law since 1939. This 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 currently licenses agents to sell stamps for the payment of tax on cigarettes. The agent retains 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.

**Table 37**

| Cigarette and Tobacco Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $967 | (5.2%) | $1,113 | (5.0%) | $1,112 | $1 |
| 2019-20 | | | $1,047 | (5.9%) | $1,048 | ($1) |

### *YTD through January*

Through January, cigarette and tobacco products tax collections totaled $967 million, or a decline of 5.2 percent from the same period in SFY 2017-18.

### *State Fiscal Year 2018-19*

The Committee staff estimates SFY 2018-19 collections for cigarette and tobacco taxes will total $1.113 billion, a decline of 4.9 percent. This estimate is based on year-to-date collections and historical collection patterns. The Committee's estimate is $1 million above the Executive's SFY 2018-19 projections.

### *State Fiscal Year 2019-20*

The Committee's cigarette and tobacco forecast for SFY 2019-20 is $1.05 billion, a decline of 5.9 percent from SFY 2018-19. The Committee's forecast is $1 million below the Executive's estimates of $1.048 billion.

## Fund Distribution

Approximately 70 percent of cigarette and tobacco taxes are distributed to the Health Care Reform Act (HCRA) revenue pool which offsets State Medicaid spending.

**Table 38**

| Cigarette and Tobacco Taxes Fund Distribution ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
| 2018-19 | $327 | $786 | - | - | $1,113 |
| 2019-20 | $312 | $735 | - | - | $1,047 |

## Alcoholic Beverage Control License Fees

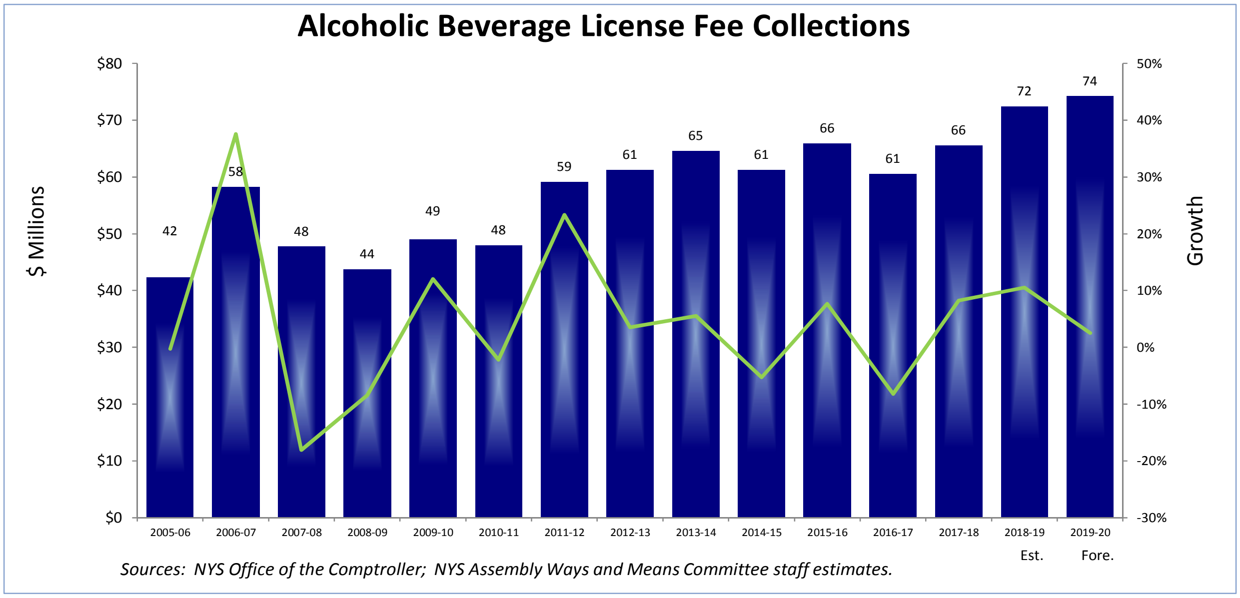



**Figure 53**

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) the population of the locality where the establishment is located (for retail licenses only); 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 a new law took effect allowing holders of on premise consumption licenses to serve alcoholic beverages starting at 10 a.m. on Sundays. Prior to the law, alcoholic beverages could not be served for on-premises consumption until noon on Sundays.

**Table 39**

| Alcoholic Beverage Control License Fees ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $63 | 10.6% | $72 | 10.5% | $66 | $6 |
| 2019-20 | | | $74 | 2.5% | $66 | $8 |

### *YTD through January*

Year-to-date, Alcoholic Beverage Control License Fees collections are $63 million, a 10.6 percent increase over the same period in SFY 2017-18.

### *State Fiscal Year 2018-19*

The Committee staff estimates revenues from Alcoholic Beverage Control License Fees will total $72 million in SFY 2018-19. This is a 10.5 percent increase from the previous year as more businesses are renewing their licenses. The Committee staff's estimate is $6 million above the Executive's projections.

### *State Fiscal Year 2019-20*

The Committee staff forecasts collections of $74 million, an increase of 2.5 percent from SFY 2018-19 collections as more licenses are up for renewal. The Committee's staff forecast is $8 million higher than the Executive's forecast.

## Alcoholic Beverage Tax

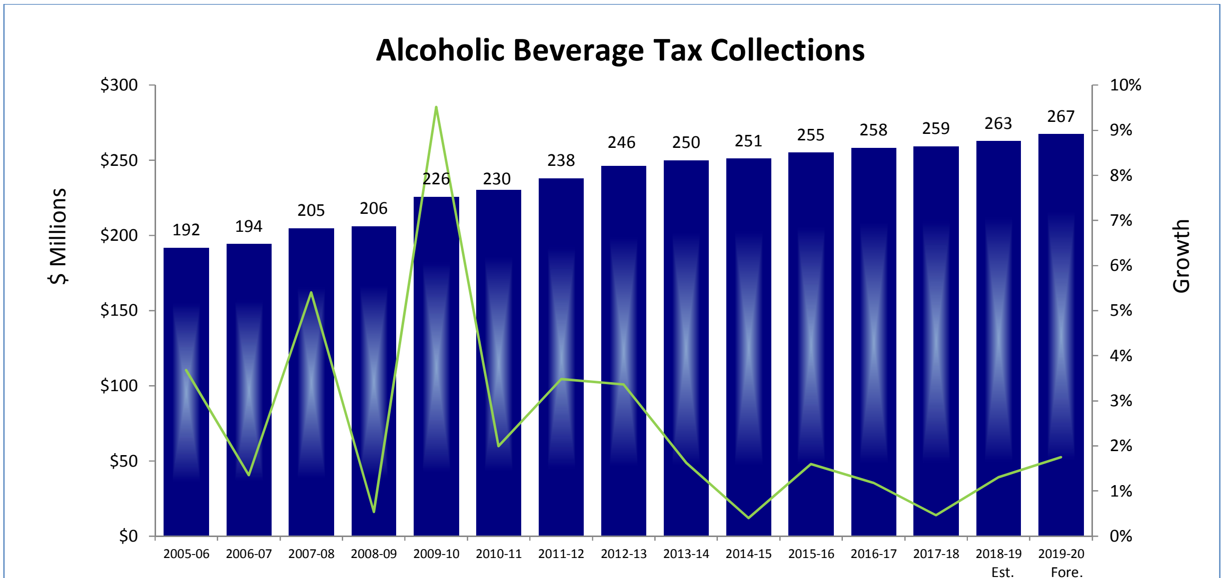



**Figure 54**

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 and the type of beverage. The tax is imposed on the distributor or non-commercial importer of alcoholic beverages. Table 40 below illustrates the current State rates, as well as the alcoholic beverage taxes imposed by New York City.

**Table 40**

**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 41**

| Alcoholic Beverage Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $230 | 1.8% | $263 | 1.4% | $262 | $1 |
| 2019-20 | | | $267 | 1.8% | $265 | $2 |

### *YTD through January*

Year-to-date, Alcoholic Beverage Tax receipts are currently $230.2 million, a 1.8 percent increase over the same period in SFY 2017-18. New York State's beer consumption, fiscal year to date, is 1.6 percent lower than the same period last year, while New York City has seen beer consumption this fiscal year decrease 6.1 percent. Total State liquor consumption is 3.4 percent higher than the same period last year, while in New York City, liquor consumption is 1.0 percent greater than the same period last year. State consumption of natural sparkling wine is 8.1 percent lower than last year while consumption of artificial sparkling wine consumption has increased 22.1 percent. Consumption of still wine has decreased 3.6 percent from last fiscal year.

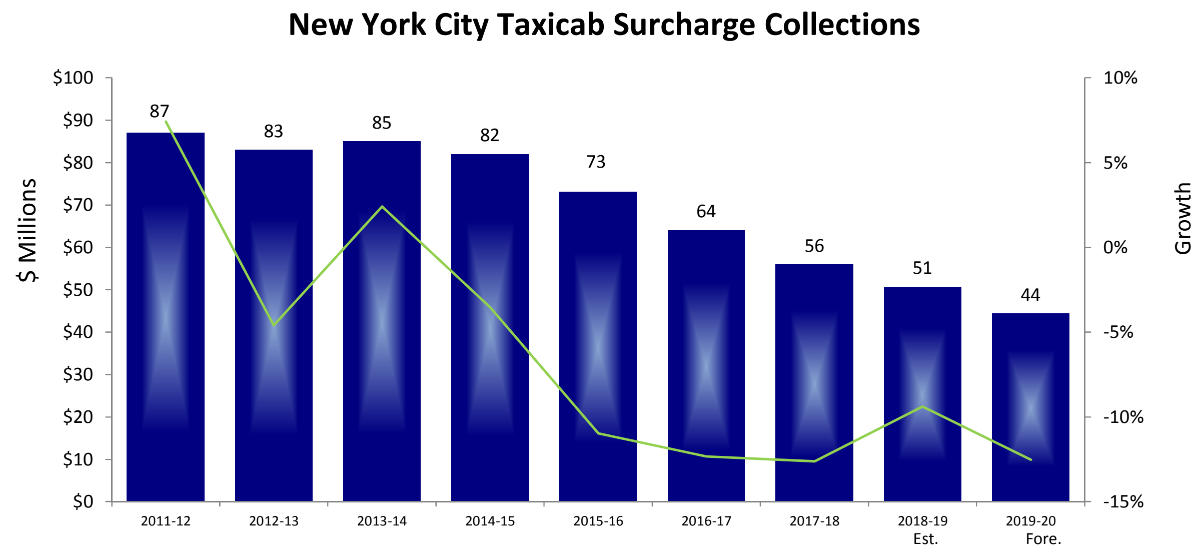
### *State Fiscal Year 2018-19*

The Committee staff estimates Alcoholic Beverage Tax receipts will total $263 million in SFY 2018-19 for growth of 1.4 percent. The Committee staff's estimate is $1 million more than the Executive's projection.

### *State Fiscal Year 2019-20*

The Committee staff forecasts Alcoholic Beverage tax collections in SFY 2019-20 of $267 million, or 1.8 percent over SFY 2018-19 collections. The Committee's staff forecast is $2 million above the Executive's forecast.

## New York City Taxicab Surcharge



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

**Figure 55**

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). This tax was first imposed in April of 2010.

**Table 42**

| New York City Taxicab Surcharge ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $50 | (8.9%) | $51 | (9.5%) | $50 | $1 |
| 2019-20 | | | $0 | (100.0%) | $0 | $0 |

### *YTD through January*

Through January, taxicab surcharge collections have decreased 8.9 percent or $4.9 million compared to the same period of last fiscal year.

### *State Fiscal Year 2018-19*

It is estimated that taxicab surcharge receipts will total $51 million in SFY 2018-19, which represents a 9.4 percent decline from SFY 2017-18. The continuing decline in taxicab trips is attributed to competition from transportation network companies which facilitate instantaneous internet based connectivity between passengers and providers. For the remainder of the fiscal year collections are expected to remain flat. The Executive's estimate for SFY 2018-19 is $50 million, $1 million below the Committee's estimate.

### *State Fiscal Year 2019-20*

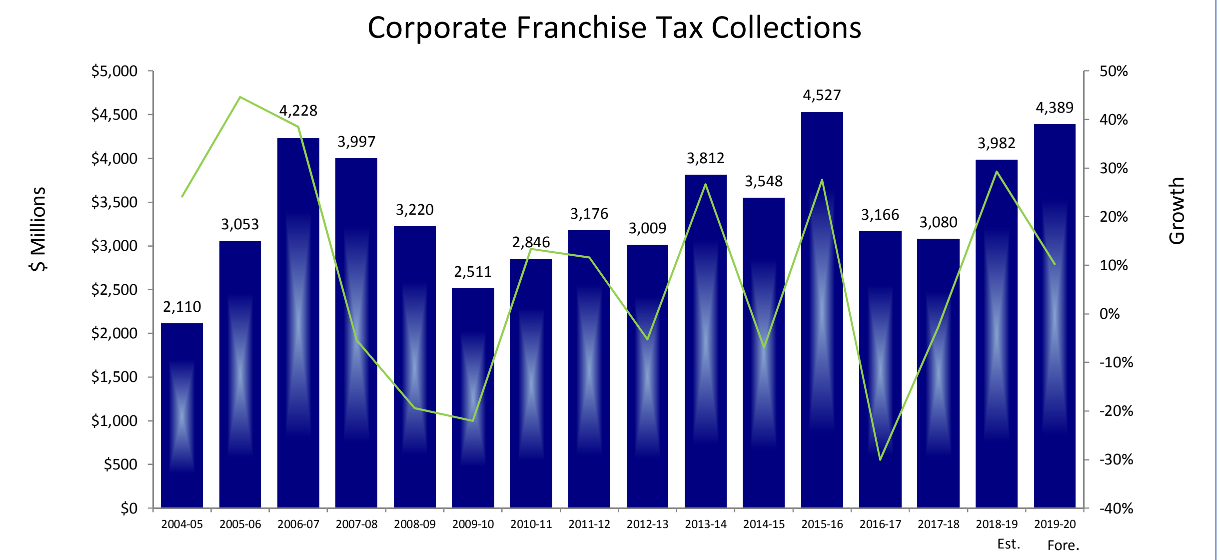
Taxicab surcharge receipts are forecast to total $44 million in SFY 2019-20. This is a decrease of $6 million, or 12.6 percent, from the SFY 2018-19 estimate. The Executive Budget proposal changes the allocation of these tax receipts to send them directly to the MTA, without State appropriation; therefore, both the Committee and Executive estimate collections from this tax to be zero in terms of All Funds collections.

## Business Taxes

**Table 43**

| Business Taxes<br>Forecasts by State Fiscal Year<br>($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | SFY 2018-19 | Growth | Diff. Exec. | SFY 2019-20 | Growth | Diff. Exec. |
| **Business Taxes** | **$7,759** | **8.3%** | **$15** | **$8,686** | **11.9%** | **$75** |
| Corporate Franchise | 3,982 | 29.3% | 5 | 4,389 | 10.2% | 27 |
| Utility Tax | 686 | (8.3%) | 1 | 714 | 4.1% | 4 |
| Insurance Tax | 1,818 | 2.3% | 2 | 2,323 | 27.8% | 16 |
| Bank Tax | 123 | (73.7%) | - | 71 | (42.3%) | - |
| Petroleum Business Tax | 1,151 | 5.4% | 8 | 1,188 | 3.2% | 27 |

## Corporate Franchise Tax



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

**Figure 56**

Taxes are imposed on every domestic or foreign corporation, under Article 9-A of the Tax Law, "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".

**Table 44**

| Corporate Franchise Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $3,246 | 35.0% | $3,982 | 29.3% | $3,977 | $5 |
| 2019-20 | | | $4,389 | 10.2% | $4,362 | $27 |

### *YTD through January*

All Funds cumulative collections through January were $3.246 billion, an increase of 35 percent, or $842 million, from prior year collections.

Audit collections through January totaled $406 million, a decrease of $223 million or 35 percent compared to the previous fiscal year. Growth without audits is 60 percent above that of the prior fiscal year. Sharp increases in collections for the months of June, July, September, and December contribute to the strength of current collections.

### *State Fiscal Year 2018-19*

Committee staff expects SFY 2018-19 corporate franchise tax collections to reach $3.982 billion, an increase of 29.3 percent, or $902 million, above the previous fiscal year. To reach this level, remaining collections are expected to increase by 8.9 percent above collections received over the same period in SFY 2017-18. The Committee estimate is $5 million above the Executive projection and assumes positive effects resulting from the recently enacted federal tax reform, which is expected to lead to an increase in estimated corporate tax payments.

### *State Fiscal Year 2019-20*

The Committee staff forecasts corporate tax receipts to increase by 10.2 percent or $407 million for a total of $4.389 billion in SFY 2019-20. This estimate is $27 million above the Executive's forecast of $4.362 billion.

## Fund Distribution

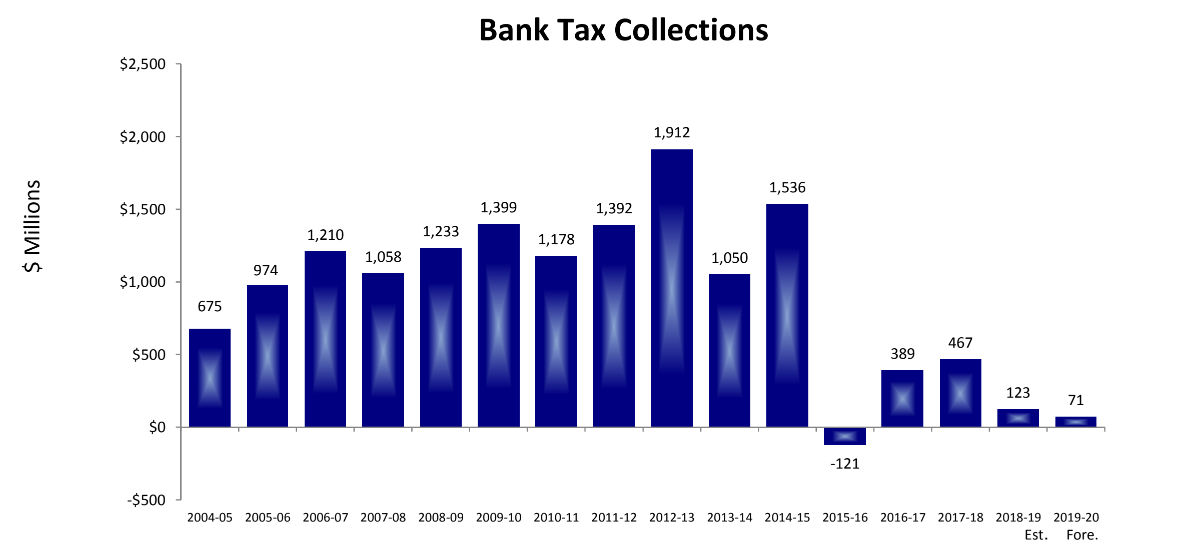
All corporate franchise tax receipts are deposited into the General Fund except for the Metropolitan Commuter Transportation District (MCTD) surcharge, which is deposited into the Mass Transportation Operating Assistance Fund (MTOAF) Special Revenue Fund. In SFY 2018-19, the Committee expects General Fund receipts to total $3.161 billion.

In SFY 2019-20, the Committee staff forecasts an increase of 11.7 percent in the General Fund with collections of $3.532 billion.

**Table 45**

| Corporate Franchise Tax Fund Distribution ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
| 2018-19 | $3,161 | $821 | - | - | $3,982 |
| 2019-20 | $3,532 | $857 | - | - | $4,389 |

## Bank Tax




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

**Figure 57**

As of January 1, 2015 the Bank Tax has been merged with the Corporate Tax pursuant to the 2014 corporate tax reform. Current collections from this tax arise from audits and other related activity tax years prior to corporate tax reform.

**Table 46**

| Bank Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $79 | (81.7%) | $123 | (73.7%) | $123 | $0 |
| 2019-20 | | | $71 | (42.3%) | $71 | $0 |

### *YTD through January*

Through January, bank tax collections totaled $79 million, a decrease of $353 million over the prior fiscal year. A decline in audits through January of $363 million from the prior fiscal year and a decrease in prior period adjustments of $96 million over the same period contribute to this decline.

### *State Fiscal Year 2018-19*

Committee staff expects bank tax collections to total $123 million this fiscal year, a decrease of $344 million or 73.7 percent from the prior year. This estimate is the same as the Executive estimate.

### *State Fiscal Year 2019-20*

Committee staff expects bank collections to be $71 million in SFY 2019-20. This is the same as the Executive's forecast and reflects an anticipated decline in audit receipts.

## 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 2018-19, the Committee staff expect General Fund receipts of $102 million. In SFY 2019-20 the Committee forecast General Fund receipts to total $60 million.

**Table 47**

**Bank Tax Fund Distribution ($ in Millions)**

| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
|---|---|---|---|---|---|
| 2018-19 | $102 | $21 | - | - | $123 |
| 2019-20 | $60 | $11 | - | - | $71 |

# Insurance Tax

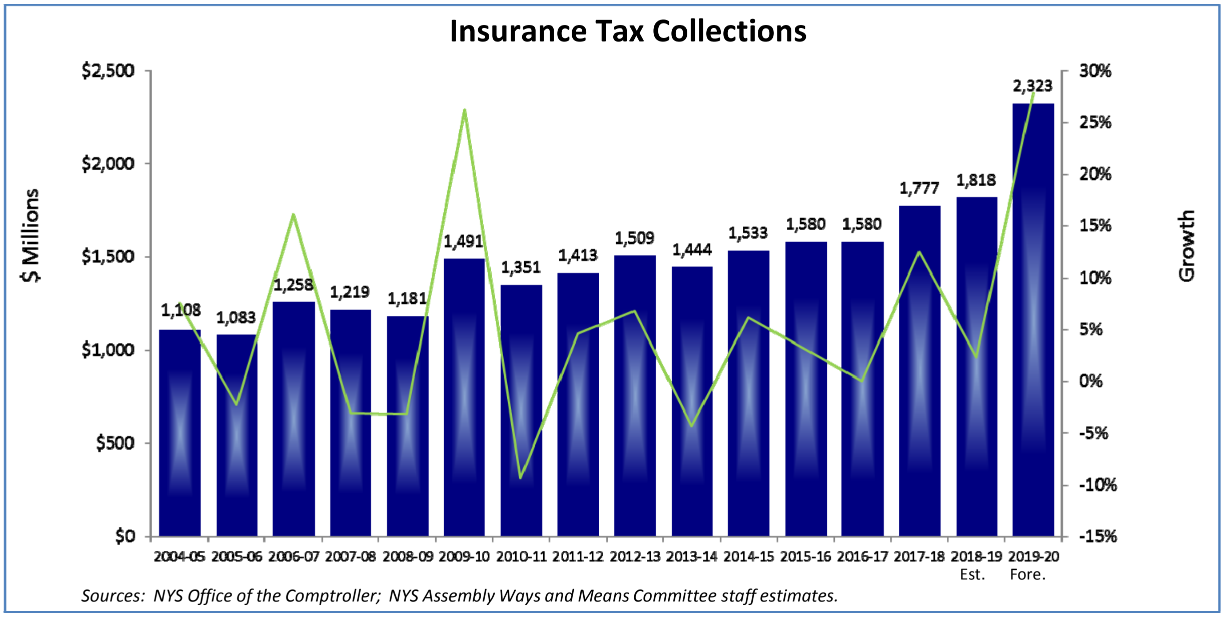



**Figure 58**

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

**Table 48**

| Insurance Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $1,129 | 1.7% | $1,818 | 2.3% | $1,816 | $2 |
| 2019-20 | | | $2,323 | 27.8% | $2,307 | $16 |

### *YTD through January*

Year-to-date insurance tax collections are $1.129 billion, an increase of $18.8 million, or 1.7 percent, over the prior fiscal year.

### *State Fiscal Year 2018-19*

Committee staff expects collections to total $1.818 billion in SFY 2018-19, an increase of $41 million or 2.3 percent over the prior fiscal year. Collections are expected to increase by 3.3 percent over the remainder of the fiscal year. The Committee expects that projected growth in insurance tax premiums combined with lower expected Life Insurance Guaranty Corporation credit claims will contribute to growth above collections received in SFY 2017-18. The Committee staff estimate is $2 million above the Executive's estimate of $1.816 billion.

### *State Fiscal Year 2019-20*

Committee staff forecasts insurance collections to total $2.323 billion in SFY 2019-20, an increase of $505 million or 27.8 percent above the current fiscal year. This growth comes from a series of expected payments due to a non-profit insurance company becoming for-profit. These payment are expected to amount to approximately $308 million. The Executive is forecasting collections to be $2.307 billion in SFY 2019-20, an increase of 27 percent or $491 million. This estimate is $16 million below the Committee staff's 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 2018-19, the Committee projects General Fund receipts to reach $1.623 billion. In SFY 2019-20 the Committee staff projects the General Fund to increase $447 million to $2.070 billion.

**Table 49**

| Insurance Tax Fund Distribution ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
| 2018-19 | $1,624 | $194 | - | - | $1,818 |
| 2019-20 | $2,070 | $253 | - | - | $2,323 |

## Corporate Utility Tax

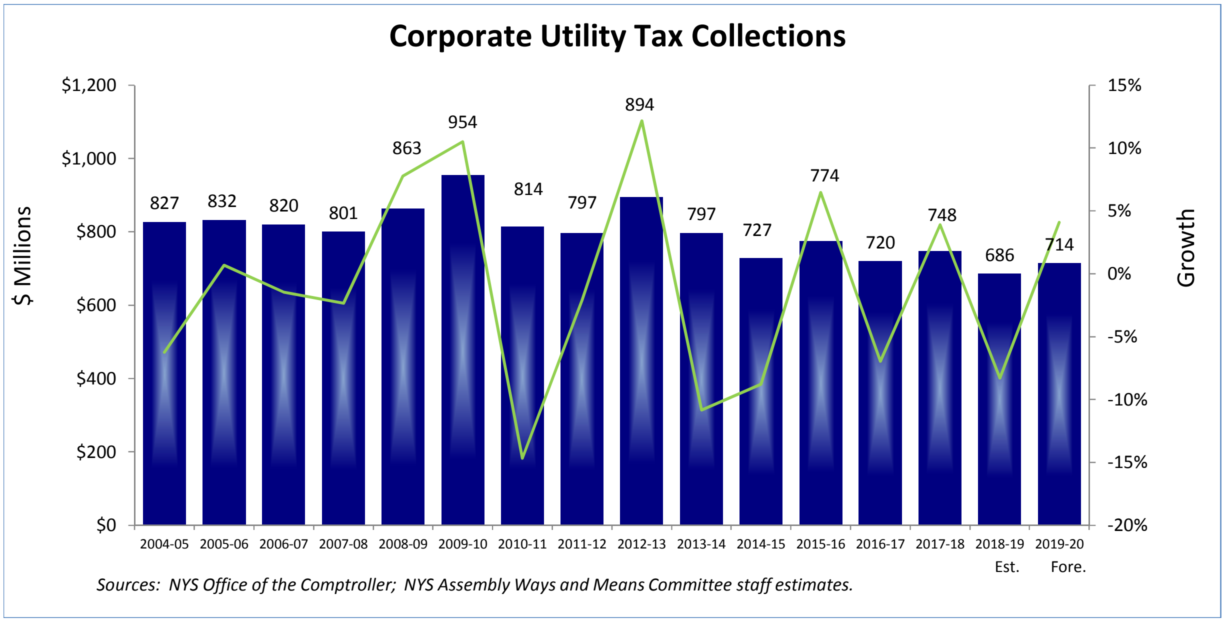



**Figure 59**

All transportation and 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 and 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 50**

| Corporate Utility Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $418 | (12.9%) | $686 | (8.3%) | $685 | $1 |
| 2019-20 | | | $714 | 4.1% | $710 | $4 |

### *YTD through January*

Through January, cumulative utility tax collections are $418 million, a decrease of $62 million, or 12.9 percent, from the prior fiscal year. This decline is the result of late tax year 2017 prepayments which were expected in the last month of FY17 and instead were received in April 2017.

### *State Fiscal Year 2018-19*

Committee staff expects collections for SFY 2018-19 to be $686 million, a decrease of 8.3 percent or $62 million from the previous fiscal year. To reach this estimate, collections over the remainder of the year will need to be flat. Adjusted to exclude audit payments, law changes and late prepayments, collections will need to increase by 6.1 percent for the remainder of the year. The Committee's estimate is $1 million above the Executive's estimate of $685 million.

### *State Fiscal Year 2019-20*

Committee staff expects utility tax collections to increase by $28 million or 4.1 percent to a level of $714 million in SFY 2019-20. The Executive is expecting an increase of 3.6 percent to $710 million in collections next fiscal year. The Committee estimate is $4 million higher than the Executive's forecast.

## 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 2018-19, the Committee staff expect General Funds to total $516 million and Special Revenue Funds to be $156 million. Capital Projects Funds are estimated to total $14 million.

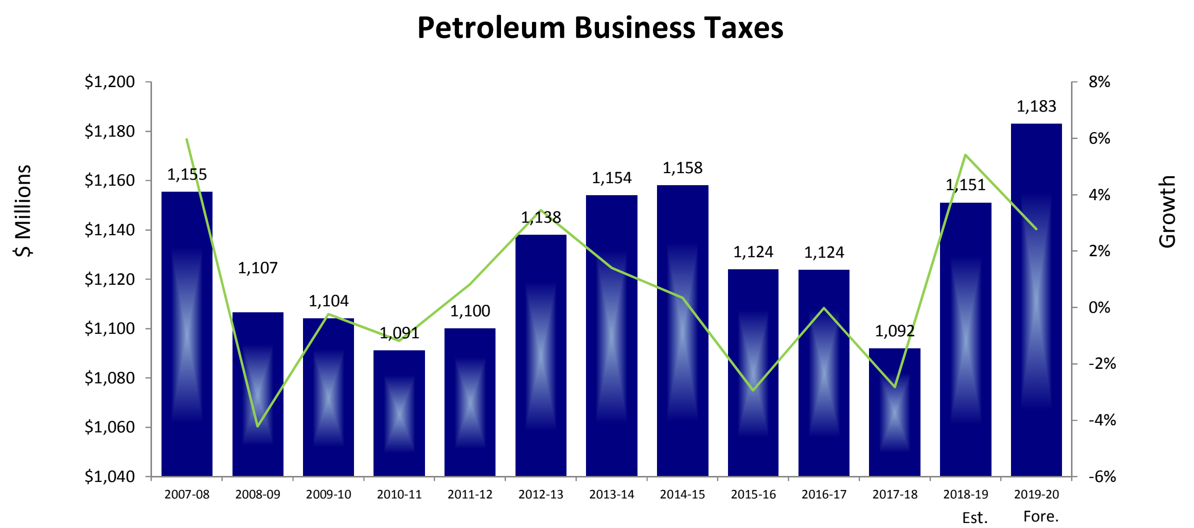
For SFY 2019-20, the Committee staff expect General Funds to increase to $540 million and Special Revenue Funds to increase to $160 million. Capital Projects Funds are forecast to be $14 million.

**Table 51**

**Corporate Utililty Tax Fund Distribution**
**($ in Millions)**

| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
|---|---|---|---|---|---|
| 2018-19 | $516 | $156 | - | $14 | $686 |
| 2019-20 | $540 | $160 | - | $14 | $714 |

## Petroleum Business Tax



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

**Figure 60**

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 52**

| Petroleum Business Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $972 | 5.9% | $1,151 | 5.4% | $1,143 | $8 |
| 2019-20 | | | $1,188 | 3.2% | $1,161 | $27 |

### *YTD through January*

Through January, petroleum business tax (PBT) collections totaled $972 million, an increase of 5.9 percent over the same period of last fiscal year.

### *State Fiscal Year 2018-19*

The Committee staff expects collections for SFY 2018-19 to total $1.151 billion, an increase of 5.4 percent, or $59 million, from the previous fiscal year. The Committee staff expects collections for the remainder of the year to increase by 5.5 percent compared to SFY 2017-18. The increase is attributed to a rate increase of five percent that took effect in January 2018 and an additional increase of five percent to take effect in January 2019 coupled with growth in fuel consumption. The Committee's estimate is $8 million above the Executive's estimate of $1.188 billion.

### *State Fiscal Year 2019-20*

The Committee staff forecasts PBT collections to increase by $37 million, or 3.2 percent, to a level of $1.188 billion in SFY 2019-20. The Executive is expecting $1.161 billion for the next fiscal year.

The Committee staff's estimates are $27 million dollars above the Executive's estimates of $1,161 million.

## Fund Distribution

**Table 53**

| Petroleum Business Tax Fund Distribution ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
| 2018-19 | - | $506 | - | $646 | $1,151 |
| 2019-20 | - | $522 | - | $666 | $1,188 |

## Other Taxes

**Table 54**

| Other Taxes<br>Forecasts by State Fiscal Year<br>($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | **SFY 2018-19** | **Growth** | **Diff. Exec.** | **SFY 2019-20** | **Growth** | **Diff. Exec.** |
| **Other** | **$2,266** | (7.6%) | **$62** | **$2,296** | **1.3%** | **$54** |
| Estate and Gift Tax | 1,095 | (16.3%) | 39 | 1,102 | 0.7% | 28 |
| Real Estate Transfer Tax | 1,153 | 2.5% | 23 | 1,174 | 1.8% | 26 |
| Pari Mutuel | 15 | (2.6%) | 0 | 15 | 0.0% | 0 |
| Other | 3 | 0.0% | 0 | 3 | 0.0% | 0 |

## Estate Tax

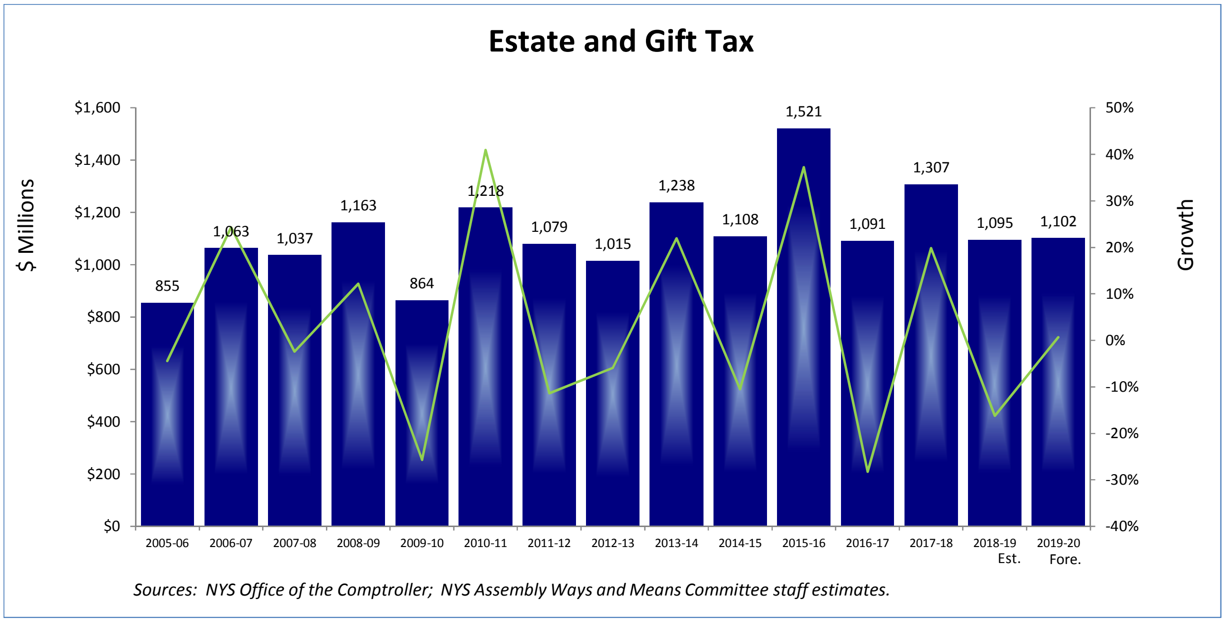



**Figure 61**

Article 26 of the Tax Law imposes a tax on the transfer of deceased individual's property known as the estate tax for residents of the State. The estate tax is applied to an estate whose value exceeds an exemption level of $5.25 million for single filers and $10.5 million for couples. The tax applies to non-charitable transfers made by people who own real estate or tangible personal property located in New York, as well as intangible property upon death. Nonresidents are subject to the tax if the transfer real estate or tangible personal property is located within the State. Estate taxes must be filed within nine months of the decedent's death.

**Table 55**

| Estate and Gift Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $958 | (15.7%) | $1,095 | (16.3%) | $1,056 | $39 |
| 2019-20 | | | $1,102 | 0.7% | $1,074 | $28 |

*YTD through January*

Year-to-date, Estate and Gift tax collections are $958 million, a 15.7 percent decrease from the same period in SFY 2017-18.

*State Fiscal Year 2018-19*

The Committee staff estimates Estate and Gift tax collections will total $1.095 billion in SFY 2018-19. This reflects a 16.3 percent decline from SFY 2017-18. The Committee staff's estimate is $39 million above the Executive's SFY 2018-19 projections.

*State Fiscal Year 2019-20*

For SFY 2019-20, the Committee staff forecasts Estate and Gift tax collections of $1.102 billion, or 0.7 percent, more than SFY 2018-19 collections. The Committee's staff forecast is $28 million greater than the Executive's forecast.

## Fund Distribution

**Table 56**

| Estate and Gift Tax Fund Distribution ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
| 2018-19 | 1,095 | - | - | - | 1,095 |
| 2019-20 | 1,102 | - | - | - | 1,102 |

## Real Estate Transfer Tax (RETT)

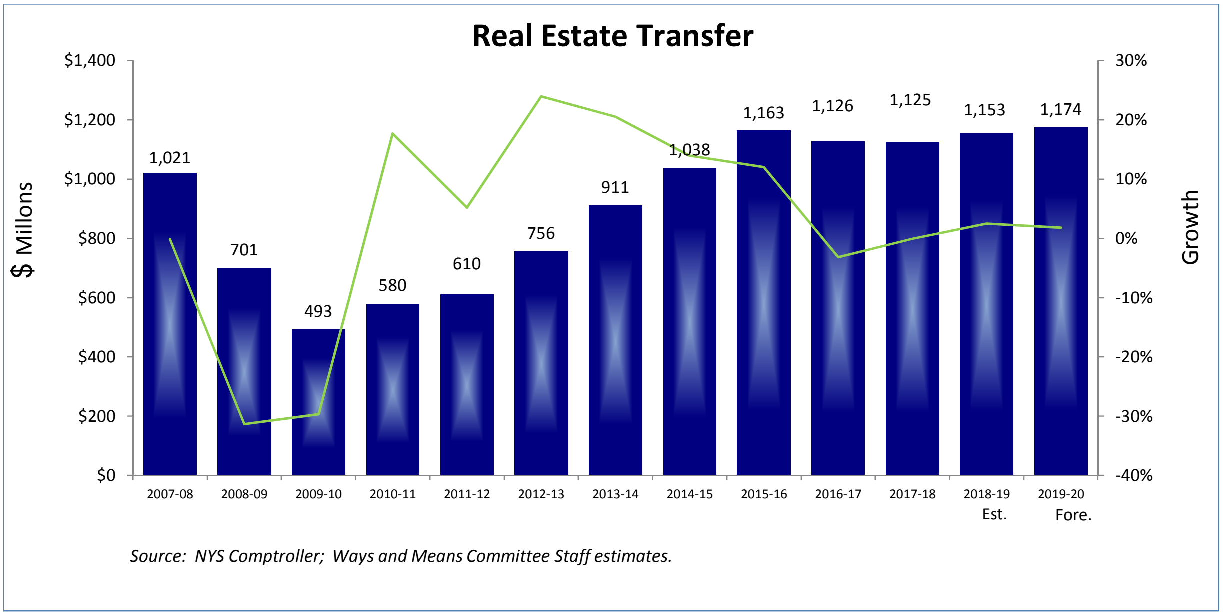



**Figure 62**

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 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 RETT tax receipts.

**Table 57**

| Real Estate Transfer Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $977 | 1.8% | $1,153 | 2.5% | $1,130 | $23 |
| 2019-20 | | | $1,174 | 1.8% | $1,148 | $26 |

### *YTD through January*

Through January, RETT collections are $977 million, which is 1.8 percent above the same period in SFY 2017-18.

### *State Fiscal Year 2018-19*

The Committee staff estimates that RETT receipts will total $1.153 billion in SFY 2018-19, for growth of 2.5 percent over SFY 2017-18. The Committee staff expects collections to increase by 6.5 percent in the remainder of the fiscal year.

The Executive estimates a total of $1.130 billion in collections, which is $23 million below the Committee's estimates.

### *State Fiscal Year 2019-20*

The Committee staff anticipates RETT receipts will total $1.174 billion in SFY 2019-20 for year-over-year increase of 1.8 percent or $21 million. The Committee forecast is $26 million above the Executive's revenue forecast.

## Fund Distribution

**Table 58**

| Real Estate Transfer Tax Fund Distribution ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
| 2018-19 | - | - | $1,034 | $119 | $1,153 |
| 2019-20 | - | - | $1,055 | $119 | $1,174 |

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.

## Pari-Mutuel

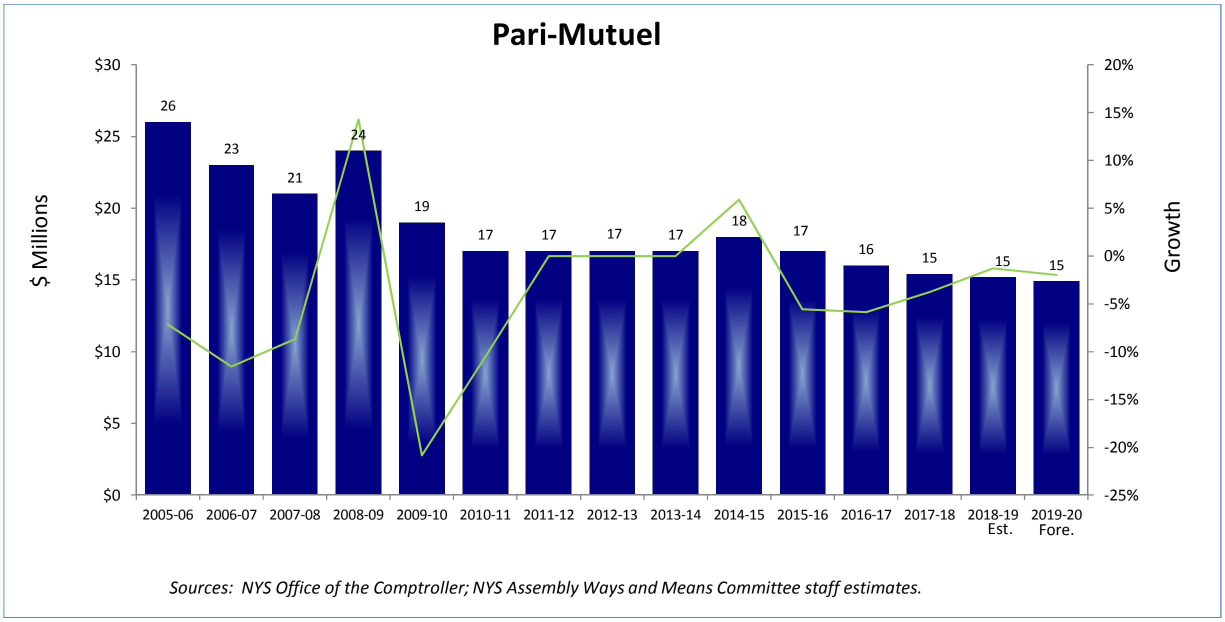



**Figure 63**

Under the Racing, Pari-Mutuel Wagering and Breeding Law, a tax is imposed on horseracing pari-mutuel bets placed at racetracks, simulcast theaters and Off-Track Betting (OTB) facilities. Pari-mutuel betting, also known as pool betting, is a unique form of betting. Instead of placing wagers against a bookmaker, you place wagers against other bettors who have placed wagers on the same event.

Horse racing businesses that are authorized to conduct pari-mutuel betting must deposit net betting revenue into a pari-mutuel pool. These pools are taxed at rates between 14 and 20 percent for regular on-track bets, 16 percent and 22 percent for multiple on-track bets, 20 percent and 30 percent for exotic on-track bets, 20 percent and 36 percent for super exotic on-track bets, while the breaks are taxed at 55 percent. The breaks are the odd cents or dollars in a payoff, over a scaled rounded value. For example, for a payoff of $1.67, the break would be two cents, but for a payoff of $270 the break would be $20.

In addition to the pool taxes, businesses must pay a tax on the amount that is retained by the business. These rates vary based on the type of bet the revenue originated from. The rates are as follows: 1 percent for revenue from regular bets, 1.5 percent for multiple bets, 6.75 percent for exotic bets, and 7.75 percent for super exotic bets. The above rates will be increased by 0.25 percent on all on-track bets for racing corporations that did not expend at least 0.5 percent of its on-track bets during the following calendar year for enhancements, repairs, structures and equipment used in its operations.

These businesses will receive a credit against the tax imposed in an amount equal to 0.4 percent of total daily pools resulting from the simulcasting of events assuming that 60 percent of the credit be used for increasing purses for overnight races conducted by such organizations.

The horse racing business must also pay the Gaming Commission a regulatory fee of 0.6 percent of the total daily on-track pari-mutuel pools.

**Table 59**

| Pari-Mutuel Tax ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $14 | 0.7% | $15 | (2.6%) | $15 | $0 |
| 2019-20 | | | $15 | 0.0% | $15 | $0 |

### *YTD through January*

Year-to-date, pari-mutuel tax receipts are currently $14 million, a 0.7 percent increase over the same period in SFY 2017-18.

### *State Fiscal Year 2018-19*

The Committee staff estimates pari-mutuel receipts will total $15 million in SFY 2018-19. This is the same as the previous year. The Committee staff's estimate is the same as the Executive's projections.

### *State Fiscal Year 2019-20*

The Committee staff forecast for SFY 2018-19 is $15 million, the same as SFY 2019-20 collections. The Committee's forecast is the same as the Executive's forecast.

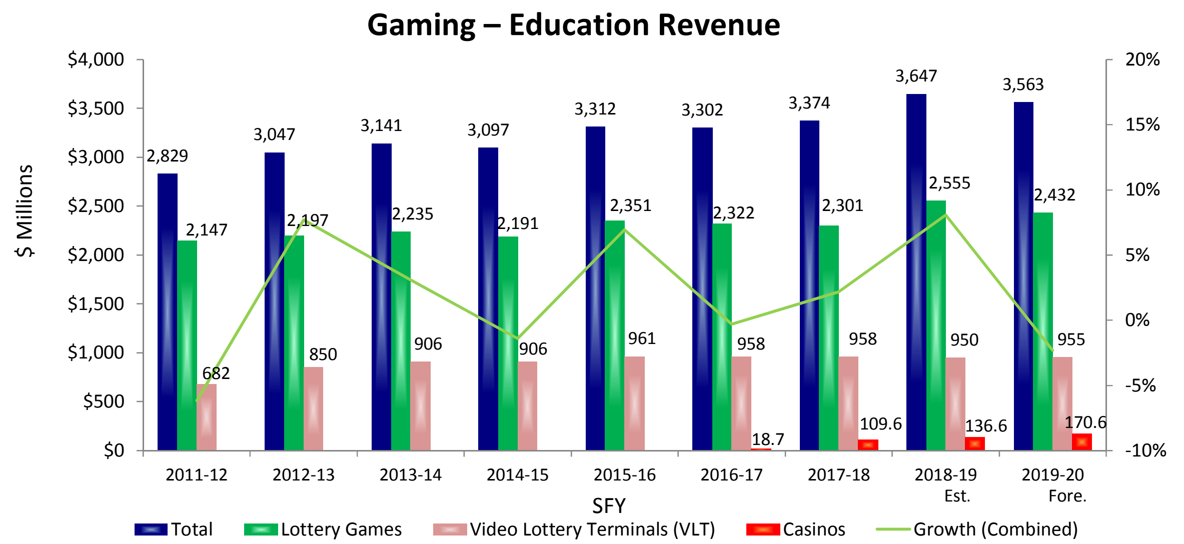
## Fund Distribution

**Table 60**

**Pari-Mutuel Fund Distribution ($ in Millions)**

| | General Fund | Special Revenue | Debt Service | Capital Projects | All Funds |
|---|---|---|---|---|---|
| 2018-19 | $15 | - | - | - | $15 |
| 2019-20 | $15 | - | - | - | $15 |

## Gaming




*Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.*
Note: Interactive fantasy sports tax collections are included in the total.

**Figure 64**

The New York State Lottery was established by a Constitutional Amendment in 1966 for the express purpose of raising revenues for education. The New York State Gaming Commission currently operates a number of lottery games like 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 the 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.

Video lottery terminal (VLT) facilities began operating in New York State in 2004, and ten video lottery terminals (VLTs) facilities exist today. These facilities contributed $958 million in revenue to education last fiscal year. On average, VLTs contributed 45.52 percent of their Net Machine Income to education in SFY 2017-18.[56]

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

The law permitting the licensing, regulation and taxation of non-tribal casinos was enacted in 2013. There are currently four commercial gaming facilities in operation: Tioga Downs, del Lago Resort, Rivers Casino and Resort, and Resorts World.

All commercial casinos must pay a tax of ten percent on the gross table game revenue, but the tax rate varies for revenue from electronic table games (ETGs) and slot machines based on the region in which the casino is located. The tax rates on these receipts are as follows: 39 percent at Resorts World; 45 percent at Rivers; and 37 percent on Del Lago and Tioga. This tax is distributed in the following manner: 80 percent to education and property tax relief, ten percent split equally between the host municipality and the host county, and ten percent split among non-host counties within the region on a per capita basis. Facilities must also pay an annual license fee of $500 for each slot machine and table game that the Gaming Commission approves for use at the facility.

Legislation to permit, regulate and tax interactive fantasy sports was enacted in 2016. The tax is a 15 percent rate on gross revenue, as well as an additional 0.5 percent tax that is not to exceed $50,000 dollars annually

**Table 61**

| Gaming ($ in Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Year To Date | YTD Growth | Closeout/ Forecast | Growth | Executive | Difference |
| 2018-19 | $2,585 | 5.4% | $3,647 | 8.1% | $3,645 | $2 |
| 2019-20 | | | $3,563 | (2.3%) | $3,568 | ($5) |

*YTD through January*

Year-to-date, gaming revenue totaled $2.585 billion, a 5.4 percent increase over the same period in SFY 2017-18.

### *State Fiscal Year 2018-19*

The Committee staff estimates total gaming receipts of $3.647 billion, an increase of 8.1 percent or $273 million over SFY 2017-18. The staff's estimate is $2 million higher than the Executive's estimate. This large increase can be attributed to a large increase in Mega Millions collections as well as general strength in most games. Total collections are expected to grow by 15.1 percent over the remainder of the fiscal year.

The Committee staff estimates lottery games receipts will total $2.555 billion for an increase of 11.0 percent over SFY 2017-2018.

Revenue from the multi-state lottery games Mega Millions and Powerball are strongly correlated with the build-up of the jackpot level. Through January, Mega Millions revenue has risen 85 percent, or $72 million, for a total of $156 million. This is due to high Mega Millions jackpots in April, July, and October.

The Committee estimates that VLT receipts will total $950 million, a decline of 0.9 percent over SFY 2017-18. The decrease is explained by the repeal of provisions that stipulated that VLT revenues not to fall below the level of collections for the 12 month period preceding the opening of a Nassau or Suffolk VLT facility or an opening of a casino.

The Committee estimates that casino receipts will total $137 million, an increase of 25 percent over SFY 2017-18. This increase is due to general strength in casino revenues as well as the new Resorts World Catskill facility being fully operational.

The Committee estimates that interactive fantasy sports tax receipts will total $5.0 million, an increase of 4.2 percent over SFY 2017-18.

### *State Fiscal Year 2019-20*

The Committee staff projects that combined gaming revenue will total $3.563 billion in SFY 2019-20. This represents a decline of 2.3 percent, or $84 million, from in SFY 2018-19. This estimate is $5 million below the Executive's forecast. The Committee staff forecasts that lottery game revenue receipts will total $2.432 billion, a decrease of 4.8 percent over SFY 2018-19. VLT receipts are expected to total $955 million, an increase of 0.5 percent from the prior year. Casino receipts are forecast to total $171 million, an increase of 25 percent over SFY 2019-20.

Fantasy sports betting receipts are forecast to total $5 million, the same as the previous fiscal year.

# Miscellaneous Receipts

## Miscellaneous Receipts – All Funds

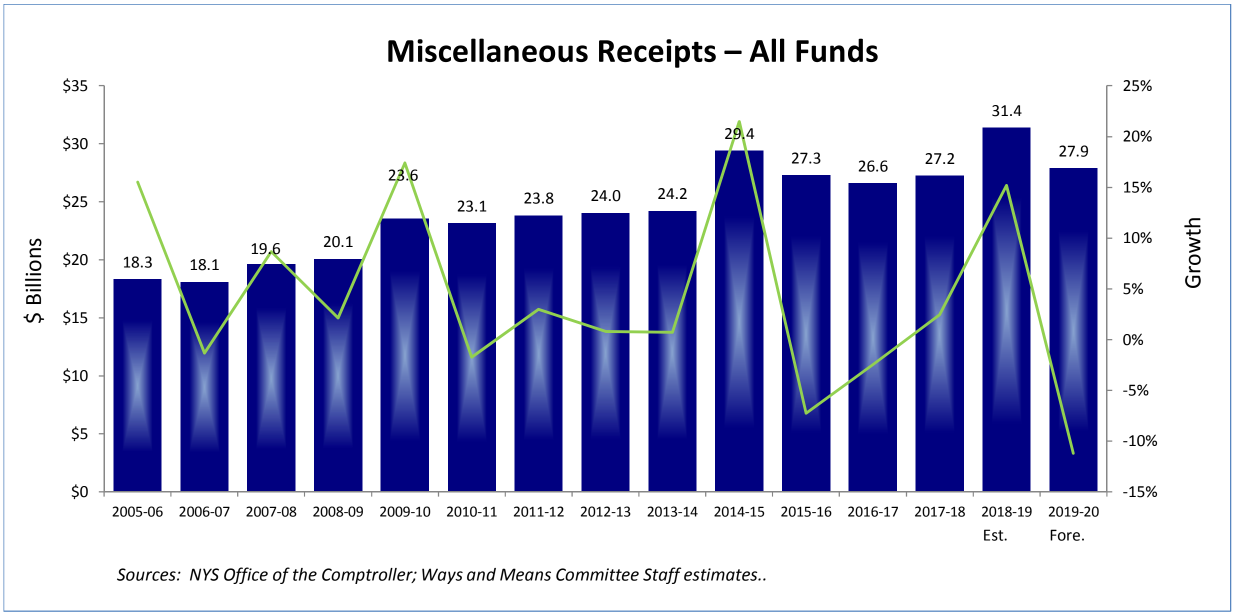



**Figure 65**

All Funds Miscellaneous Receipts consist of monies 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 $31.38 billion in SFY 2018-19 and $27.865 billion in SFY 2019-20.

## Miscellaneous Receipts – General Fund

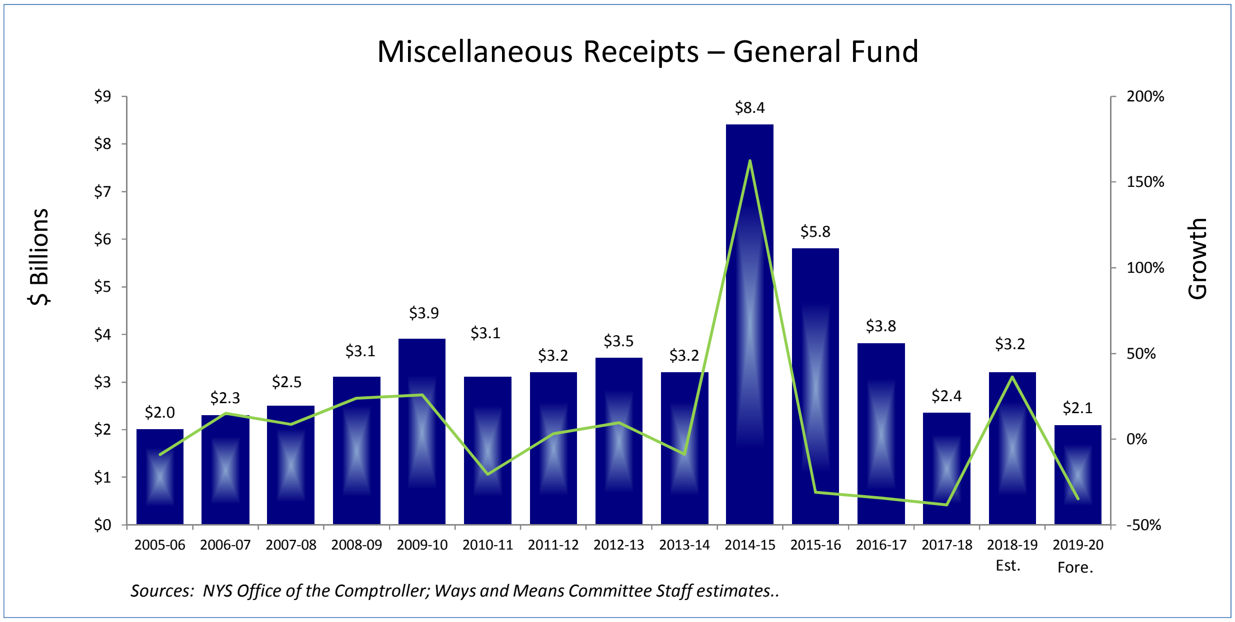



**Figure 66**

General Fund collections are more volatile as a result of one-time deposits and settlements which peaked in SFY 2014-15 and have gradually decreased.

### *SFYs 2018-19 & 2019-20*

General Fund Miscellaneous Receipts are estimated to total $3.206 billion in SFY 2018-19 and $2.094 billion in SFY 2019-20.

## Key Components

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

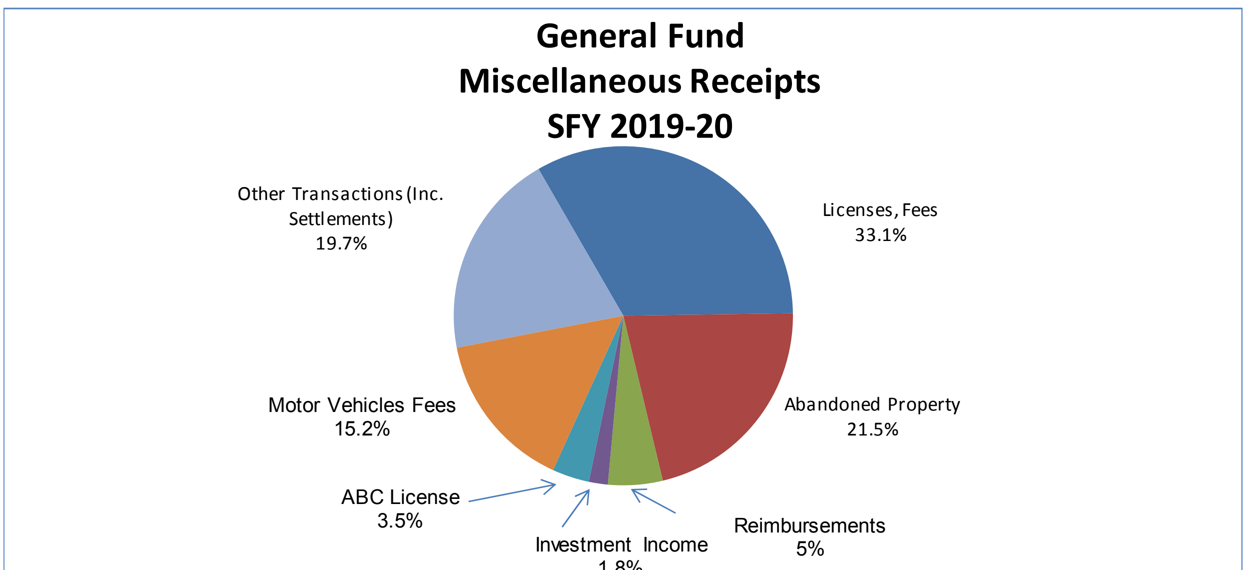
- licenses and fees;
- abandoned property;
- reimbursements;
- investment income;
- Alcoholic Beverage Control (ABC) License Fees; and
- Motor Vehicle Fees.

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 State regulatory agencies and 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 62**

| Miscellaneous Receipts - General Fund ($ in Millions) | | | | | |
|---|---|---|---|---|---|
| | **2017-18 Actual** | **2018-19 Estimated** | **2019-20 Projected** | **Change** | **Percent Change** |
| Licenses, Fees | 669 | 670 | 693 | 23 | 3.4% |
| Abandoned Property | 460 | 450 | 450 | 0 | - |
| Reimbursements | 275 | 107 | 109 | 2 | 1.9% |
| Investment Income | 60 | 90 | 38 | (52) | (57.8%) |
| ABC License | 66 | 72 | 74 | 2 | 2.2% |
| Motor Vehicles Fees | 252 | 274 | 318 | 44 | 16.1% |
| Other Transactions (Inc. Settlements) | 1,348 | 1,543 | 412 | (1,131) | (73.3%) |
| **Total** | **$3,130** | **$3,206** | **$2,094** | **($1,112)** | **(34.7%)** |

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



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

**Figure 67**

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 2018-19*

The Committee staff estimates Special Revenue funds to total $19.076 billion in SFY 2018-19, whereas Capital Projects are expected to total $7.348 billion and Debt Service is anticipated to receive $498 million in receipts.

### *SFY 2019-20*

The Committee staff estimates Special Revenue funds to total $17.582 billion in SFY 2019-20, with Capital Projects expected to total $6.708 billion and Debt Service is anticipated to receive $394 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 to nursing home, 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 Assessments 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 funded 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.