NEW YORK STATE SENATE MINORITY

FINANCE COMMITTEE

ECONOMIC AND REVENUE REVIEW

FY 2020

SENATOR JOHN J. FLANAGAN
Republican Minority Leader

SENATOR JAMES L. SEWARD
Ranking Member of the Finance Committee

SHAWN MACKINNON
Director of Minority Finance Committee

FEBRUARY 2019

NEW YORK STATE ECONOMIC AND REVENUE REVIEW

FISCAL YEAR 2020

Senator John J. Flanagan
Republican Minority Leader

Senator James L. Seward
Ranking Member of the Finance Committee

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Deputy Director of Minority Finance Committee

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FEBRUARY 2019

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Executive Summary

Pursuant to section twenty-three of the State Finance Law, the Senate Republican Minority Finance Committee reviewed and analyzed the economic and revenue projections contained within the Executive Budget for FY 2020. Based upon staff analysis, the Senate Republican Minority Finance Committee projects All Funds tax revenues to be $267 million below the Executive for FY 2020. This amount is largely offset by the estimate of tax revenues for the remainder of the FY 2019, which is $261 million above the amended Executive estimate. This results in a two year All Funds tax revenue forecast that is $6 million below the Executive projection.

The Senate Republican Minority Finance Committee projects $145 million in General Fund revenues (inclusive of miscellaneous receipts and transfers) below the Executive Budget forecast for FY 2020. This amount is more than offset by the estimate for the remainder of FY 2019, which is $163 million above the Executive estimate.

Currently, economic indicators point to slower growth in 2019 than what has been experienced over the last several years. This includes slower growth in GDP, consumption, wages, and employment. This slow down can be attributed to uncertainty in the stock market, lingering trade tensions between the United States and China, and concern over rising interest rates.

The FY 2019 Enacted Budget forecast overestimated PIT receipts, which ultimately resulted in the Division of Budget re-estimating their FY 2019 forecast downward by roughly $2.5 billion as part of the 30 Day Amendments to the FY 2020 Executive Budget. As a result, the Senate Minority's forecast for FY 2020 reflects a more conservative approach to reduce the chance that a similar situation occurs next year.

Although the forecast exhibits weaker revenue growth compared to the Executive for the upcoming fiscal year based on the projection of slower economic growth, there are both upside and downside risks associated with the forecast, as with any forecast.

The United Kingdom's scheduled departure from the European Union (commonly known as Brexit) and continuing trade tensions between the United States and China have created additional uncertainty in the global economy heading into 2019. While the initial impact of the Tax Cuts and Jobs Act seems to have been largely positive, especially for businesses, it is still unknown what the long term effect of the tax cuts will be on the economy. As a result of volatility in the fourth quarter of 2018, the stock market had it's worst year since 2008.

On the positive side, if employment and wage growth exceed expectations, it would have a positive impact on the State's personal income and sales tax revenues. Any additional revenues realized by the State should support the State's reserve funds or be used to support taxpayer relief to make New York more competitive for job creation and more affordable for families.

FY 2019 General Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**21,451**	**21,367**	**84**
Gross Collections	58,973	58,806	167
Refunds	(11,223)	(11,223)	0
STAR	(2,424)	(2,424)	0
RBTF	(23,876)	(23,792)	(84)
User Taxes and Fees	**7,686**	**7,709**	**(23)**
Sales and Use	7,096	7,120	(24)
Cigarette / Tobacco	327	327	(0)
Alcoholic Beverage	263	262	1
Business Taxes	**5,498**	**5,396**	**102**
Corporate Franchise	3,285	3,157	128
Corporate Utilities	495	515	(20)
Insurance	1,617	1,622	(5)
Bank Tax	102	102	0
Other Taxes	**1,074**	**1,074**	**0**
Estate and Gift	1,056	1,056	0
Pari-mutuel Taxes	15	15	0
Other	3	3	0
Total General Fund Taxes	**35,709**	**35,546**	**163**

Note: totals may not add due to rounding

FY 2020 General Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**23,475**	**23,699**	**(224)**
Gross Collections	62,946	63,394	(448)
Refunds	(11,624)	(11,624)	0
STAR	(2,186)	(2,186)	0
RBTF	(25,661)	(25,885)	224
User Taxes and Fees	**8,153**	**8,119**	**34**
Sales and Use	7,573	7,542	31
Cigarette / Tobacco	314	312	2
Alcoholic Beverage	267	265	2
Business Taxes	**6,208**	**6,163**	**45**
Corporate Franchise	3,629	3,510	119
Corporate Utilities	506	537	(31)
Insurance	2,013	2,056	(43)
Bank Tax	60	60	0
Other Taxes	**1,092**	**1,092**	**0**
Estate and Gift	1,074	1,074	0
Pari-mutuel Taxes	15	15	0
Other	3	3	0
Total General Fund Taxes	**38,928**	**39,073**	**(145)**

Note: totals may not add due to rounding

FY 2019 All Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**47,750**	**47,583**	**167**
Withholding	40,940	40,721	219
Estimated Payments	13,984	13,956	28
Final Returns	2,651	2,629	22
Other Payments	1,398	1,500	(102)
Gross Collections	58,973	58,806	167
Refunds	(11,223)	(11,223)	0
User Taxes and Fees	**17,395**	**17,445**	**(50)**
Sales and Use	15,160	15,212	(52)
Cigarette / Tobacco	1,111	1,112	(1)
Vapor Excise Tax	0	0	0
Alcoholic Beverage	263	262	1
Motor Fuel Tax	525	531	(6)
Highway Use Tax	147	144	3
Auto Rental	134	130	4
MTA Taxicab	51	50	1
Medical Marijuana	4	4	0
Business Taxes	**7,869**	**7,744**	**125**
Corporate Franchise	4,138	3,977	161
Corporate Utilities	658	685	(27)
Insurance	1,811	1,816	(5)
Bank Tax	123	123	0
Petroleum Business	1,139	1,143	(4)
Other Taxes	**2,223**	**2,204**	**19**
Real Estate Transfer	1,149	1,130	19
Estate and Gift	1,056	1,056	0
Pari-mutuel Taxes	15	15	0
Other	3	3	(0)
Total All Funds Taxes	**75,237**	**74,976**	**261**

Note: totals may not add due to rounding

FY 2020 All Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**51,322**	**51,770**	**(448)**
Withholding	42,742	42,510	232
Estimated Payments	16,025	16,572	(547)
Final Returns	2,680	2,748	(68)
Other Payments	1,499	1,564	(65)
Gross Collections	62,946	63,394	(448)
Refunds	(11,624)	(11,624)	0
User Taxes and Fees	**18,284**	**18,186**	**98**
Sales and Use	16,173	16,107	66
Cigarette / Tobacco	1,054	1,048	6
Vapor Excise Tax	10	10	0
Alcoholic Beverage	267	265	2
Motor Fuel Tax	526	515	11
Highway Use Tax	156	142	14
Auto Rental	95	95	0
MTA Taxicab*	0	0	0
Medical Marijuana	4	4	0
Business Taxes	**8,662**	**8,611**	**51**
Corporate Franchise	4,510	4,362	148
Corporate Utilities	669	710	(41)
Insurance	2,259	2,307	(48)
Bank Tax	71	71	0
Petroleum Business	1,153	1,161	(8)
Other Taxes	**2,274**	**2,242**	**32**
Real Estate Transfer	1,180	1,148	32
Estate and Gift	1,074	1,074	0
Pari-mutuel Taxes	15	15	0
Other	3	3	0
Employer Compensation	2	2	
Total All Funds Taxes	**80,542**	**80,809**	**(267)**

*The Executive Budget proposes to move this tax off budget.

Note: totals may not add due to rounding

United States Economic Outlook

(Dollar Figures in Billions of Dollars)

	2018	2019	2020
Real GDP	$18,572	$19,073	$19,283
Percent Change	2.9%	2.7%	1.1%
Consumption Expenditures	$12,900	$13,256	$13,367
Percent Change	2.7%	2.8%	0.8%
Government Expenditures	$3,182	$3,323	$3,399
Percent Change	1.7%	4.4%	2.3%
Investment Expenditures	$3,326	$3,478	$3,562
Percent Change	5.4%	4.6%	2.4%
Exports	$2,548	$2,598	$2,743
Percent Change	4.0%	2.0%	5.6%
Imports	$3,467	$3,679	$3,843
Percent Change	4.8%	6.1%	4.5%
CPI - Percent Change	2.4%	2.1%	2.2%
Personal Income			
Percent Change	4.4%	4.0%	4.3%
Wages and Salaries			
Percent Change	4.4%	4.1%	4.2%
Nonagricultural Employment, Millions	149.1	151.5	152.3
Percent Change, Seasonally Adjusted	1.7%	1.6%	0.6%
Unemployment Rate	3.9%	3.6%	3.7%
Interest Rates			
T-Bill Rate, 3 Month	0.9%	1.8%	2.6%
T-Note Rate, 10 Year	2.9%	3.1%	3.4%

Source: Moody's Analytics, Senate Finance Staff

The National Economy

Currently, economic indicators point to slower growth in 2019 than what has been experienced over the last several years. This includes slower growth in GDP, consumption, wages, and employment. This slow down can be attributed to uncertainty in the stock market, lingering trade tensions between the United States and China, and concern over rising interest rates.

While the election of President Trump created economic uncertainty; through the first two years of his administration, there was a positive economic impact from tax cuts and regulatory reform, resulting in strong consumer and business confidence. At the same time, trade tensions with China, and the renegotiation of NAFTA have created additional uncertainty that could have a negative impact on US economic growth and on global economic conditions.

It is expected that the Fed will increase interest rates two times this year, however Federal Reserve Chairman Powell indicated in January that these hikes could be put on hold or be reversed if inflation begins to slow due to a reversal of growth in the labor market or if there is any other shock to the economy. Increasing the interest rates too soon could lead to reduced consumer spending, which has been a major factor in economic growth.

ECONOMIC GROWTH

The size of a country's economy is measured by its Gross Domestic Product (GDP), the total amount of output of goods and services produced in the country. The percentage change in GDP shows whether the economy is growing or contracting as well as whether the economy is going into recession, in recovery, or expanding.

Although varieties of factors are used to determine when an economy goes into recession, the most simplistic explanation is a decline in GDP for at least two consecutive quarters. When GDP turns positive, the economy is considered to be in recovery. As the economy becomes stronger and grows at a faster pace, usually in excess of its long term trend growth rate, it is then in the expansion phase.

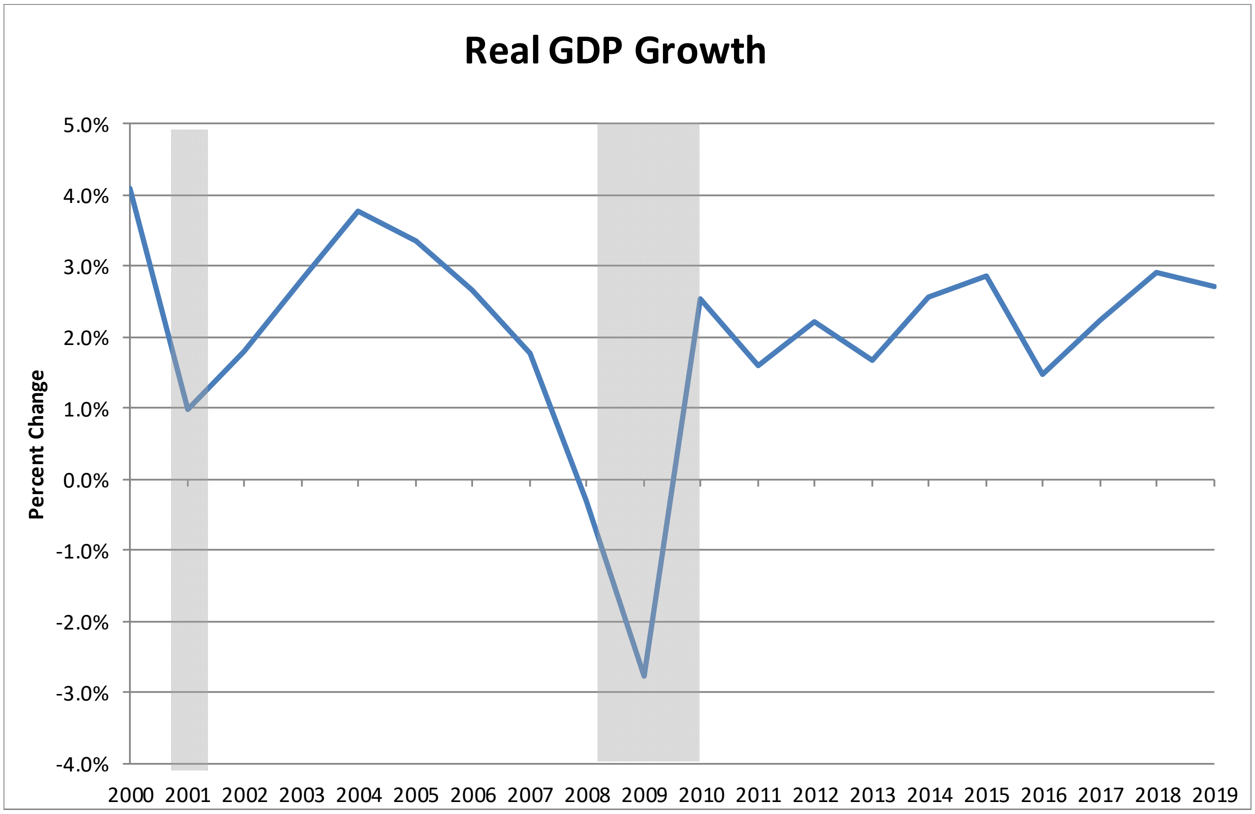
The main factors driving economic growth are the result of productivity from participation in the labor market and investments in capital. When an economy is in the recovery phase, these factors are either not growing at the same rate or one may be growing while the other is in decline or is stagnant. The speed by which an economy transitions from the recovery phase to the expansion phase depends on all of these factors working efficiently and growing in tandem. Of importance in achieving this growth is consumption; whether the consumer is an individual or a business.

In order to effectively evaluate the economic output of goods and services produced in the country from year to year, the effects of price changes or inflation needs to be removed.

This allows one to determine if fluctuations in the economy are caused by changes in prices or actual output.

The recovery and expansion phases from the last two recessions are shown in the chart below (the recessions are represented by the shaded areas). While the economic expansion after the Great Recession has been weaker than previous recoveries, however 2018 marked the ninth year of economic expansion, and if the expansion continues through July 2019, this will be the longest economic expansion that the United States has experienced in the last century.

In 2018, US GDP grew by 2.9 percent, which was stronger growth than has been experienced in recent years. GDP growth is expected to continue in 2019, albeit at a lower rate of 2.7 percent.

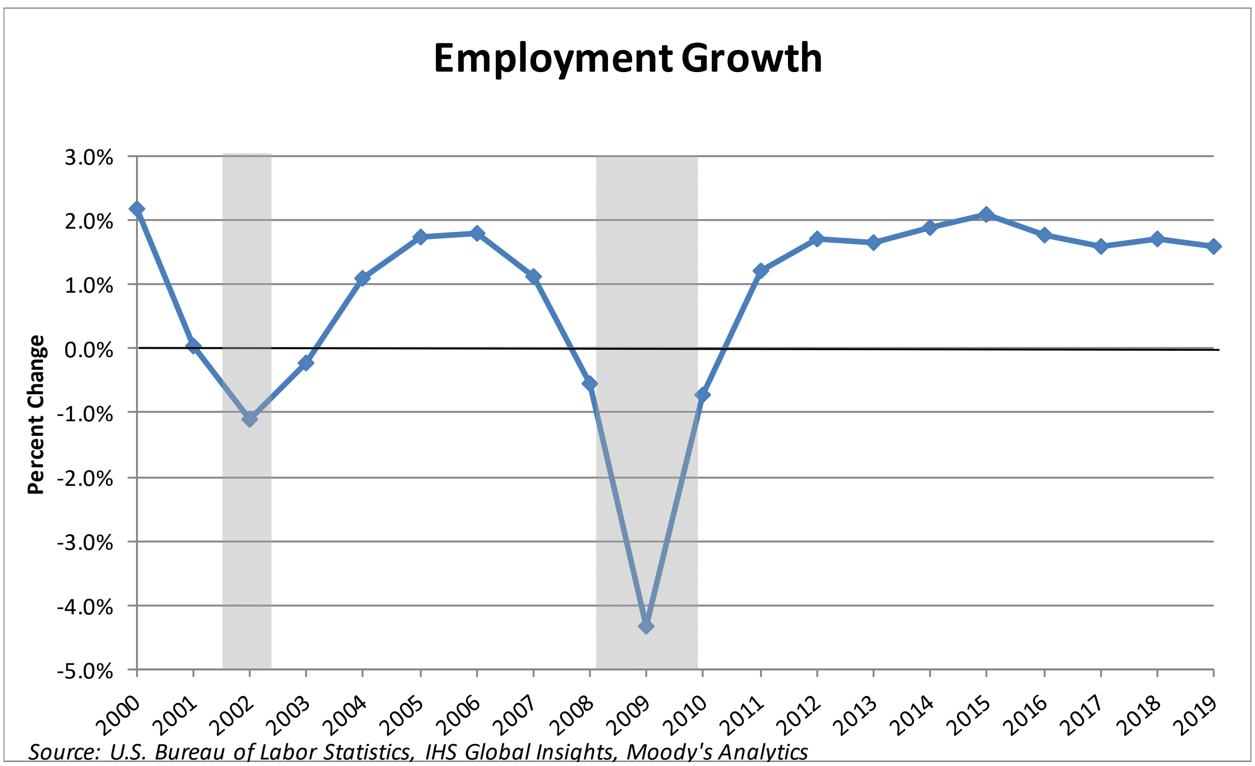


LABOR MARKET

As stated above, one of the factors that contribute to an expanding economy is a strong labor market. While there is always some level of unemployment in any economy (the full employment unemployment rate varies between four and six percent), the economy needs a labor force that is able, available and willing to find employment. Growth in the labor market serves two purposes in the economy. First, wages and salaries earned by workers fuel consumption. Second, the productivity of the workforce increases output, allowing businesses to expand.

Employment Growth

When an economy contracts and goes into recession, either consumers are reducing their demand for goods and services, businesses are not expanding, or a combination of both is occurring. This results in a reduction in the need for additional employment and the possibility of layoffs. Over the last few years, we have seen solid job growth, which is projected to continue in 2019.



The recovery and expansion phases from the last two recessions are shown below (the recessions are represented by the shaded areas). The initial recovery from the Great Recession was a jobless recovery, with employment growth not returning until 2011. Since

2011, employment has grown at a rate of 1.6 percent to 2.1 percent annually, and is expected to continue in 2019, with projected employment growth of 1.6 percent.

GOVERNMENT

Government policies are employed in an attempt to influence the overall economy, whether it is to stimulate spending or to control inflation. Although the economy is cyclical in nature, the government tries to ensure that the economy does not expand too quickly causing inflation to spin out of control or to slow down too quickly resulting in a recession. There are two mechanisms by which government intervenes in the economy fiscal policy and monetary policy.

FISCAL POLICY

Fiscal policy entails directing the economy through tax policy or through government spending. When Federal, state or local governments lower taxes, more money is left in the hands of consumers and businesses to spend as they wish.

The Protecting Americans from Tax Hikes Act of 2015 gave taxpayers more certainty in the tax code, by eliminating the continued practice of extending tax credits, by making certain tax credits such as the child tax credit and earned income tax credit permanent. In addition, Congress also lifted the 40-year ban on US crude oil exports.

In December of 2017, President Trump signed the Tax Cuts and Jobs Act. This Act is arguably the largest change to the Internal Revenue Code in decades. The Act makes significant cuts to both individual and business taxes.

For individuals, the standard deduction is roughly doubled to $12,000 for single filers and $24,000 for married joint filers. However, the personal and dependent exemption, which is currently $4,050 each, is eliminated. The prior number of tax brackets is retained, however the brackets themselves and the rates are modified. These provisions sunset at the end of 2025. It should be noted that these provisions will likely be extended, and that the sunset was included so that the bill would comply with the Byrd Rule, which states that measures passed via the Reconciliation process may add no more than $1.5 trillion to the national debt over a ten-year period. The Alternative Minimum Tax (AMT) is amended to increase the exception from its current level of $86,200 to $109,400, and raises the phase-out threshold of the tax to one million dollars. The dependent exemption is eliminated in exchange for enhancements to the Child Tax Credit, the maximum value of which would be increased from $1,000 to $2,000, with the first $1,400 being refundable, and is further enhanced by increasing the income limits at which the credit phases out. The Act also creates a new $500 credit for non-child dependents. In addition to the lower income tax rates there are be several significant changes made to tax credits and deductions in the Act. The Act eliminates or modifies most itemized deductions. Some of the most notable actions include:

- The home mortgage interest deduction is modified to be capped at $750,000 for principal on new mortgages;
- the deduction for charitable contributions is retained;
- the medical expenses deduction threshold is lowered from 10% to 7.5% in 2018 before reverting to 10% thereafter;
- the most notable exemption that would be modified is the state and local tax deduction (SALT), which under this bill is capped at a combined value of $10,000 for property taxes and a taxpayer's choice of income or sales tax. The elimination of this deduction is most likely to impact taxpayers in high tax states.

The Act also makes significant changes to business taxes. The corporate tax rate is reduced from 35% to 21%; the Corporate AMT is eliminated; a new 20% deduction for pass through business income is created, which, is limited to the greater of (i) 50%of wage income or (ii) 25% of wage income and 2.5% of the cost of tangible depreciable property. These limitations do not apply for joint incomes below $315,000; The Act allows businesses to immediately write off (expense) the cost of new investments in depreciable assets until 2023, and then phase out the provisions for the next five years; the small business depreciation deduction is expanded from $500,000 to $1,000,000 and increase the phase-out from $2 million to $2.5 million. The tax treatment of interest is modified; currently businesses can fully deduct interest, under the Act interest deductions are capped at 30% of earnings before interest, taxes, depreciation and amortization for the first four years, with the cap moving to 30% of earnings before interest and taxes thereafter. The provisions of the tax code dealing with net operating losses are modified, under the prior treatment, net operating losses could be carried back two years or forward twenty years, with no limit on taxable income. Under the Act, net operating loss carrybacks are eliminated, while providing indefinite net operating loss carryforwards, which is limited to 80% of taxable income. Additionally, the Act allows businesses with up to $25 million in income to use the cash method of accounting, up from the prior limit of $5 million, and makes several changes in an attempt to repatriate revenue that is currently being held overseas.

MONETARY POLICY

Under the control of the Federal Reserve Board (Fed), monetary policy involves actions that are intended to adjust the supply of money that is available in the U.S. economy. The goal of the Feds in adjusting the money supply is to maximize employment, maintain stable prices, and moderate long-term interest rates. The Feds have three main monetary policy tools, the discount rate, reserve requirements, and open market operations, which includes manipulating interest rates.

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

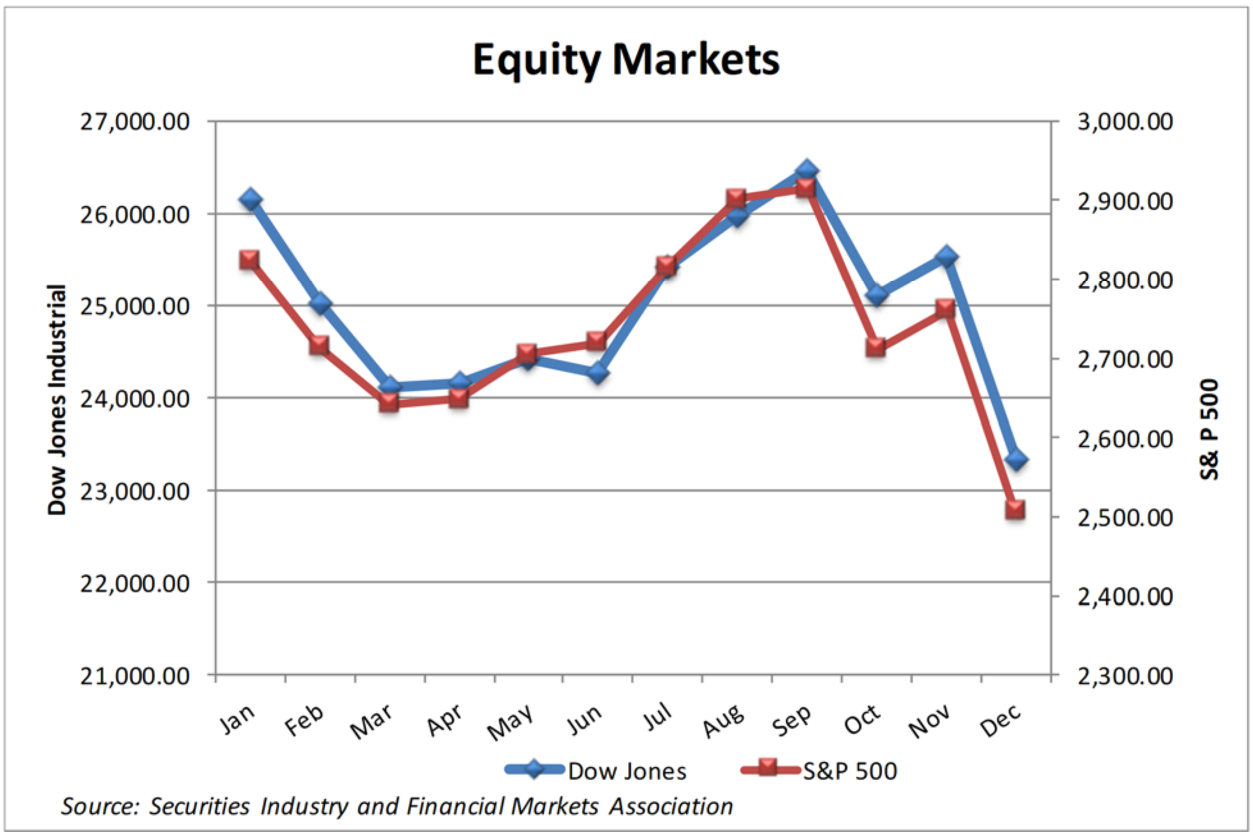
At the December 2015 meeting of the Federal Open Market Committee, it was announced that the Fed Funds rate will be increased to a target of 0.25-0.50 percent. This put an end to seven years of near zero rates and was the first time the Fed increased rates in nearly a decade. These rates were initially expected to be increased gradually, with four 25-basis point increases in 2016. However, due to weak economic growth in beginning of the year, concerns surrounding the global economy and market volatility, rates were only increased once in 2016, in December by 0.25 percent to a target of 0.50-0.75 percent; this was the second increase in more than 10 years (June 2006). In 2017, the Feds raised interest rates three times, ending the year with a rate of 1.25-1.5 percent.

Due to positive economic activity in the past few years, there are expected to be two rate increases in 2019. While rates are projected to increase over the next few years, they are projected to be substantially lower than the recent high of 5.25% in 2006. However, the Fed plans could be put on hold or even reversed if inflation begins to slow, if growth in the labor market is reversed or if there is any shock to the economy.

Since the Fed Funds rate is the rate used when banks loan money to each other and is the basis upon which banks set their own loan rates such as mortgage rates and personal loan rates, the increase to the rate will translate to higher returns on savings products and a higher cost to borrow for consumers.

FINANCIAL MARKETS

The election of Donald Trump was a boost to the stock market, as were the cuts to business regulations and taxes under his administration. The S&P grew 17 percent in 2017 and on January 26, 2018 the Dow Jones Industrial Average reached a record high of 26,616.71



points. Since the 2016 election, the Dow Jones has hit over 95 new record highs. However in the fourth quarter of 2018, the Dow Jones fell over 10 percent in December. So far in the first quarter, the Dow Jones has experienced strong growth, and has fully recovered from the December drop.

GLOBAL ECONOMY

Any changes in the global economy can have a significant impact on the national economy even though trade is not a major contributor to overall national economic growth, as measured by GDP. This is due to increased participation of both businesses and investors in the economies of countries around the world. In the past couple of years, various international events, such as the debt crisis in the Eurozone and the slowdown in China, created uncertainty in the economy, especially in the financial markets. The impact of these changes is reflected not only in relation to the value of the dollar in comparison to other currencies, but with the strengths or weaknesses of other national economies, which primarily affects the amount of imports and exports into and out of the United States.

In mid-2016, the United Kingdom's referendum to leave the Eurozone was unexpectedly approved, which caused stock markets to collapse globally, as a result of the unprecedented move. While this move created significant uncertainty, to date, the effects on the markets were short lived and the effects on the Eurozone's growth were nonexistent. This could change as "Brexit" is finalized in 2019, creating additional uncertainty in the global economy.

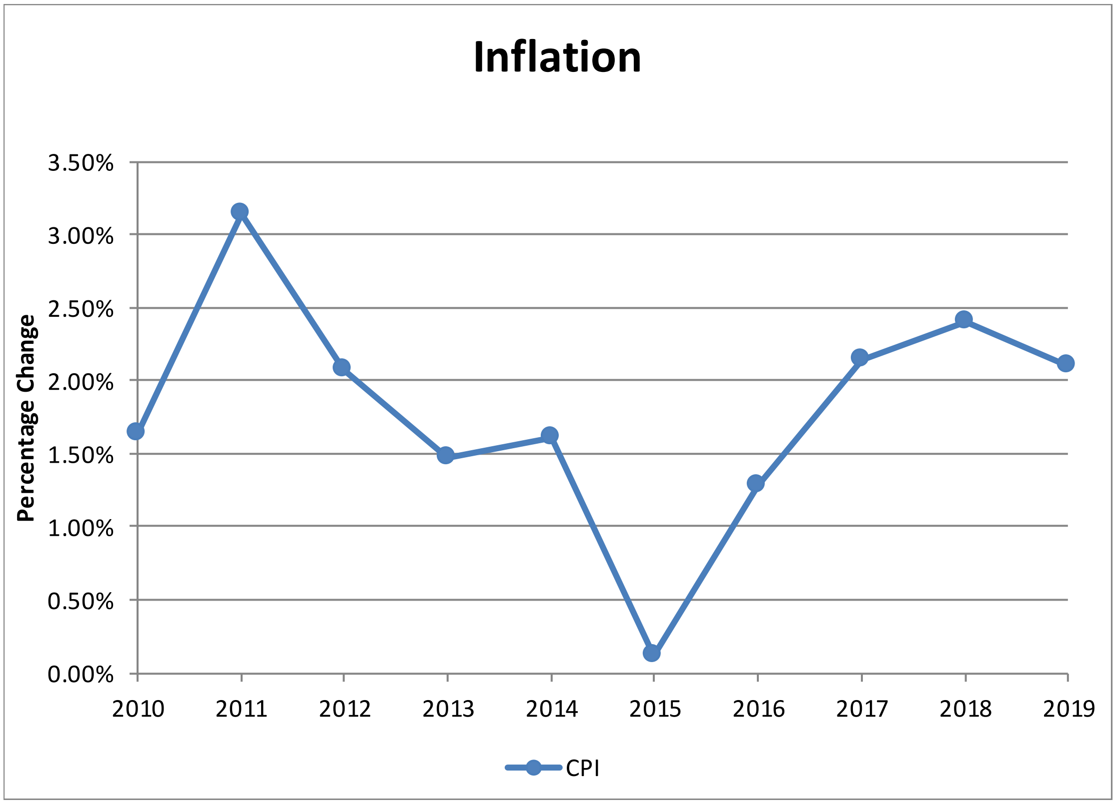
In the past several days, tensions have substantially increased between India and Pakistan over Kashmir. If this conflict between two nuclear armed countries continues to escalate, it could have a significant impact on the global economy.

CONSUMER SPENDING

As the beginning of the report stated that in order for an economy to expand, consistent growth in the labor market and the capital market is required. Of importance in achieving this growth is consumption; whether or not the consumer is an individual or a business. Consumption of goods and services allows businesses to remain in operation, create jobs, and make capital investments. For the individual consumer, wages and property income (i.e. net worth) as well as the price of goods and services control his level of consumption in the economy.

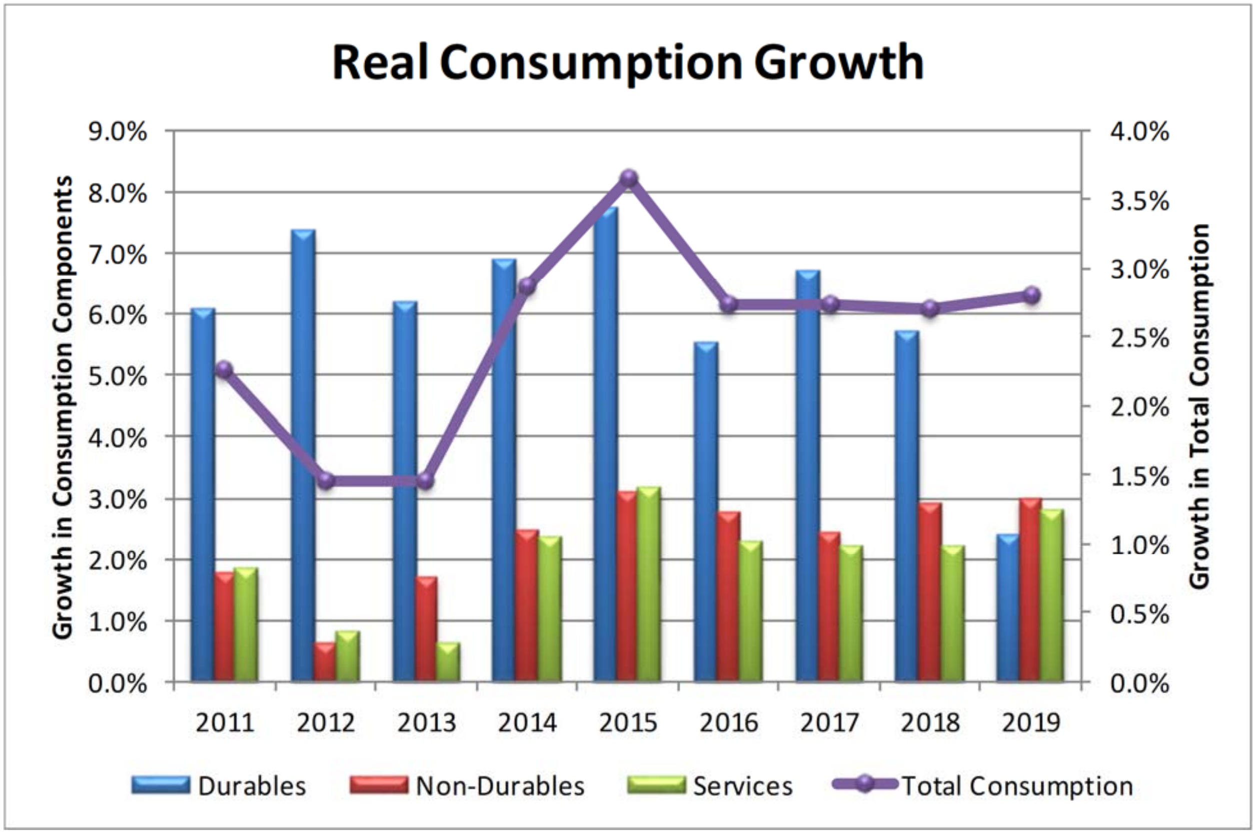
INFLATION

While income and wages are a major factor influencing consumption, the rate at which prices are increasing, also known as inflation, is a significant influence. This is especially true in relation to the prices of necessities, such as food and energy. Increases in the prices of these goods limits the amount of money a consumer has for discretionary spending. In addition, increases in energy costs impacts the price of finished goods as businesses take energy costs in the production process into account when pricing their goods. Core inflation, which excludes food and energy prices, which tends to be very volatile, is generally a better indicator of long-term price changes.



CONSUMPTION

The consumption of services accounts for approximately two thirds of all consumption expenditures. Services include not only personal services, restaurant meals and travel, but also include a consumer's housing expenses, utility expenses, and health care.



The next largest component of consumption is the consumption of non-durables, comprising approximately 22 percent of total consumption. The main components of non-durable goods are clothing, food, and fuel. Growth in these components as well as services drive consumption growth.

With strong employment growth, relatively low oil prices, low interest rates, and rising disposable income, consumption grew by 2.7 percent in 2018 and is projected to rise by 2.8 percent in 2019.

New York State Economic Outlook

Calendar Year

	2018	2019	2020
Nonagricultural Employment, Thousands			
Percent Change	1.1%	1.2%	0.3%
Personal Income			
Percent Change	4.6%	3.5%	4.3%
Wages and Salaries			
Percent Change	4.3%	3.4%	3.4%

Source: Moody's Analytics: February 2018, Finance Staff

New York State Economic Outlook

State Fiscal Year Ending

	2019	2020
Nonagricultural Employment, Thousands		
Percent Change	1.1%	1.0%
Personal Income		
Percent Change	4.3%	3.7%
Wages and Salaries		
Percent Change	4.1%	3.4%

Source: Moody's Analytics: February 2018, Finance Staff

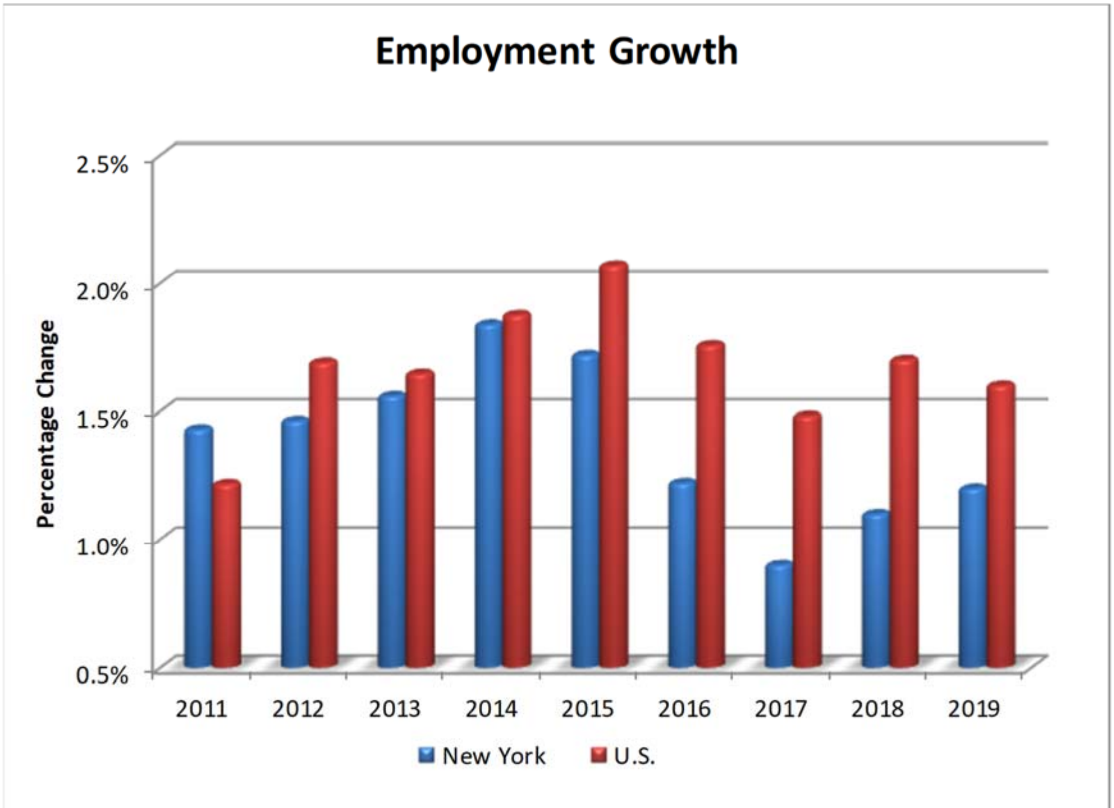
The New York Economy

Gross Domestic Product is the total output of goods and services produced in the country. Similarly, Gross State Product (GSP) is the output of the various industries within a state since products made in the state are utilized and consumed both in the state as well as in other states. The outputs of all these industries are then combined to determine the aggregate GSP.

Most factors that impact the national economy also impact the New York economy. The changes in some of these factors may have only a small impact on the New York economy while others will have a significant impact. For example, interruptions in oil supplies from the Middle East may result in increased domestic drilling, resulting in job and revenue growth in states such as Texas or Alaska. However, in New York the impact on oil prices will affect the level of the New York consumer's discretionary income, impacting consumption within the State. With New York City's position as the financial capital, events that impact the financial markets have a significant impact on the New York economy.

LABOR MARKET

As a result of the economic downturn in 2008, many Wall Street jobs were lost and even though the profits of the Wall Street firms increased significantly in 2012, this did not translate into a significant increase in jobs. With the continued volatility in the financial markets, employment in the financial services industry remained flat.



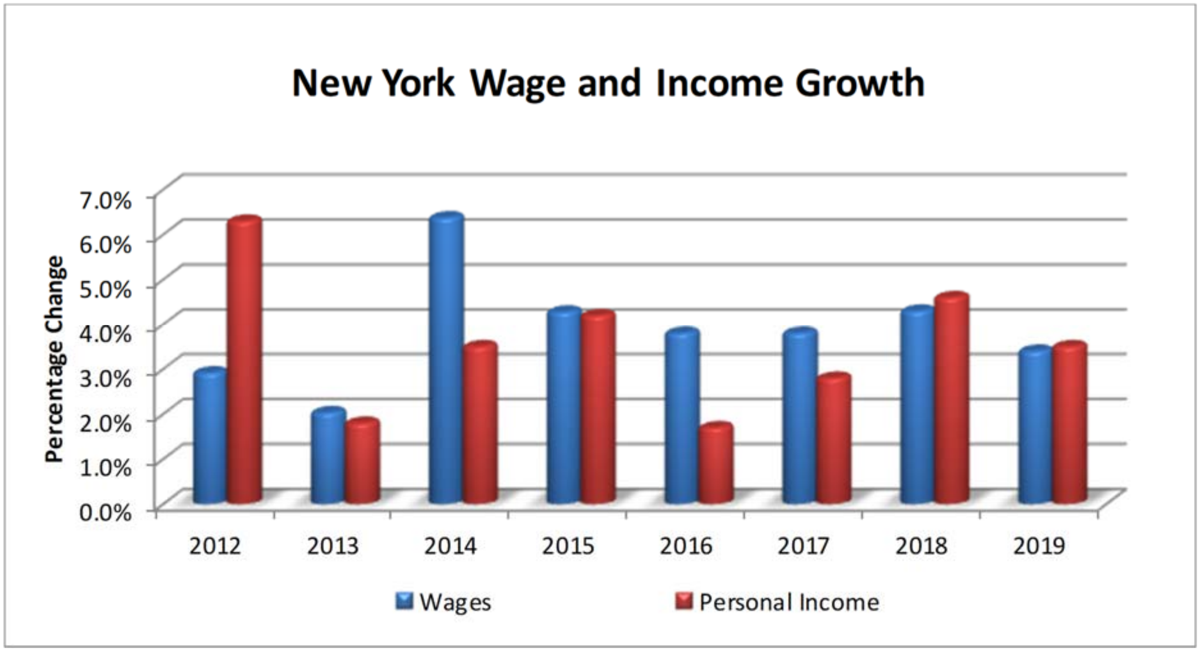
The other industry that was significantly impacted by the economic downturn was the construction industry. After the housing market recovered in 2011, the robust growth in multi-family housing starts resulted in annual gains in construction jobs through 2016.

Even as the economy has strengthen, manufacturing employment in New York has not, declining for multiple times in the last several years. Even with stronger economic growth, especially at the national level, manufacturing employment decreased by 3.3 percent in 2017, the largest annual decline since 2010.

Since the Great Recession, New York has experienced employment growth, albeit at a slower rate than the United States as a whole. This trend is projected to continue in 2019, with New York employment growth projected to grow 1.2 percent, compared to 1.6 percent for the United States.

WAGES AND INCOME

Prior to 2011, the payment of year-end bonuses by the financial services industry played an important role in New York's wage and income growth. Due to the timing of the payment of Wall Street bonuses, usually paid in the first quarter of the succeeding year, wage growth in New York was influenced by the performance of the industry in the previous year. Due to the public and political backlash over the payment of large bonuses during the financial market crisis and the subsequent bailout by the Federal government, there was a change in the method by which bonuses were paid. A larger percentage of bonus compensation is being paid with stock options by which the recipient must hold the stock for a specified number of years to exercise the options. As a result, wage growth was negatively impacted by these changes in 2011, increasing by 3.8 percent, slower than the 4.3 percent growth in wages from the prior year. However, this change in bonus payments also had the positive impact of reducing wage and income volatility.



CONSUMPTION

Consumption, as a component of the Gross Domestic Product, is comprised of the consumption of goods as well as services, including housing, health care, and utilities. While not a perfect proxy for consumption at the national level, the change in the amount of retail sales in New York reflects how the changes in the economy have impacted the consumer's spending behavior.

Similar to consumers at the national level, over the last few years the New York consumer was realizing fluctuations in his disposable income due to fiscal policy actions of the federal government. In addition, the fluctuations were also the result of fiscal policy actions of the state government as well.

FY 2019 General Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**21,451**	**21,367**	**84**
Gross Collections	58,973	58,806	167
Refunds	(11,223)	(11,223)	0
STAR	(2,424)	(2,424)	0
RBTF	(23,876)	(23,792)	(84)
User Taxes and Fees	**7,686**	**7,709**	**(23)**
Sales and Use	7,096	7,120	(24)
Cigarette / Tobacco	327	327	(0)
Alcoholic Beverage	263	262	1
Business Taxes	**5,498**	**5,396**	**102**
Corporate Franchise	3,285	3,157	128
Corporate Utilities	495	515	(20)
Insurance	1,617	1,622	(5)
Bank Tax	102	102	0
Other Taxes	**1,074**	**1,074**	**0**
Estate and Gift	1,056	1,056	0
Pari-mutuel Taxes	15	15	0
Other	3	3	0
Total General Fund Taxes	**35,709**	**35,546**	**163**

Note: totals may not add due to rounding

FY 2020 General Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**23,475**	**23,699**	**(224)**
Gross Collections	62,946	63,394	(448)
Refunds	(11,624)	(11,624)	0
STAR	(2,186)	(2,186)	0
RBTF	(25,661)	(25,885)	224
User Taxes and Fees	**8,153**	**8,119**	**34**
Sales and Use	7,573	7,542	31
Cigarette / Tobacco	314	312	2
Alcoholic Beverage	267	265	2
Business Taxes	**6,208**	**6,163**	**45**
Corporate Franchise	3,629	3,510	119
Corporate Utilities	506	537	(31)
Insurance	2,013	2,056	(43)
Bank Tax	60	60	0
Other Taxes	**1,092**	**1,092**	**0**
Estate and Gift	1,074	1,074	0
Pari-mutuel Taxes	15	15	0
Other	3	3	0
Total General Fund Taxes	**38,928**	**39,073**	**(145)**

Note: totals may not add due to rounding

FY 2019 All Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**47,750**	**47,583**	**167**
Withholding	40,940	40,721	219
Estimated Payments	13,984	13,956	28
Final Returns	2,651	2,629	22
Other Payments	1,398	1,500	(102)
Gross Collections	58,973	58,806	167
Refunds	(11,223)	(11,223)	0
User Taxes and Fees	**17,395**	**17,445**	**(50)**
Sales and Use	15,160	15,212	(52)
Cigarette / Tobacco	1,111	1,112	(1)
Vapor Excise Tax	0	0	0
Alcoholic Beverage	263	262	1
Motor Fuel Tax	525	531	(6)
Highway Use Tax	147	144	3
Auto Rental	134	130	4
MTA Taxicab	51	50	1
Medical Marijuana	4	4	0
Business Taxes	**7,869**	**7,744**	**125**
Corporate Franchise	4,138	3,977	161
Corporate Utilities	658	685	(27)
Insurance	1,811	1,816	(5)
Bank Tax	123	123	0
Petroleum Business	1,139	1,143	(4)
Other Taxes	**2,223**	**2,204**	**19**
Real Estate Transfer	1,149	1,130	19
Estate and Gift	1,056	1,056	0
Pari-mutuel Taxes	15	15	0
Other	3	3	(0)
Total All Funds Taxes	**75,237**	**74,976**	**261**

Note: totals may not add due to rounding

FY 2020 All Funds Tax Collections
(Millions of Dollars)

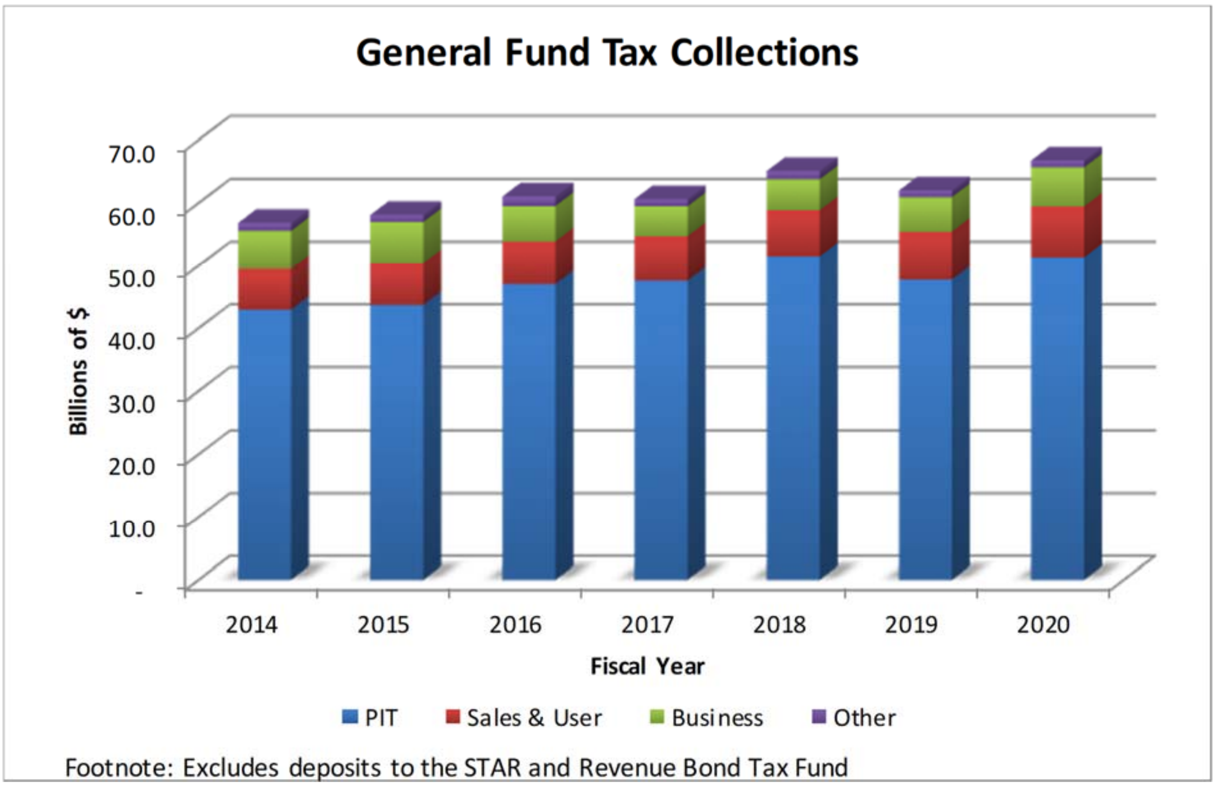
	Senate Finance	Executive Budget	Variance
Personal Income Tax	**51,322**	**51,770**	**(448)**
Withholding	42,742	42,510	232
Estimated Payments	16,025	16,572	(547)
Final Returns	2,680	2,748	(68)
Other Payments	1,499	1,564	(65)
Gross Collections	62,946	63,394	(448)
Refunds	(11,624)	(11,624)	0
User Taxes and Fees	**18,284**	**18,186**	**98**
Sales and Use	16,173	16,107	66
Cigarette / Tobacco	1,054	1,048	6
Vapor Excise Tax	10	10	0
Alcoholic Beverage	267	265	2
Motor Fuel Tax	526	515	11
Highway Use Tax	156	142	14
Auto Rental	95	95	0
MTA Taxicab*	0	0	0
Medical Marijuana	4	4	0
Business Taxes	**8,662**	**8,611**	**51**
Corporate Franchise	4,510	4,362	148
Corporate Utilities	669	710	(41)
Insurance	2,259	2,307	(48)
Bank Tax	71	71	0
Petroleum Business	1,153	1,161	(8)
Other Taxes	**2,274**	**2,242**	**32**
Real Estate Transfer	1,180	1,148	32
Estate and Gift	1,074	1,074	0
Pari-mutuel Taxes	15	15	0
Other	3	3	0
Employer Compensation	2	2	
Total All Funds Taxes	**80,542**	**80,809**	**(267)**

*The Executive Budget proposes to move this tax off budget.

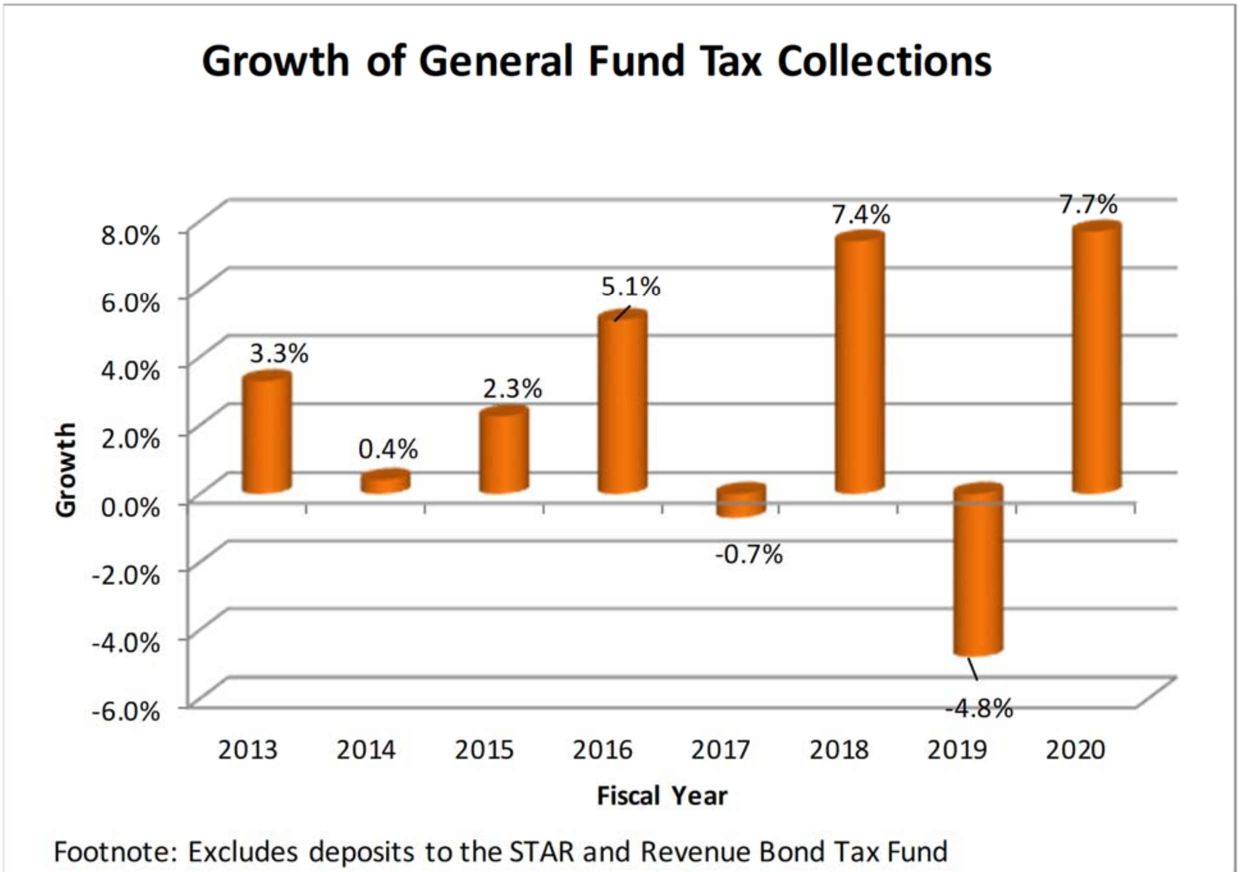
Note: totals may not add due to rounding

Revenue Outlook

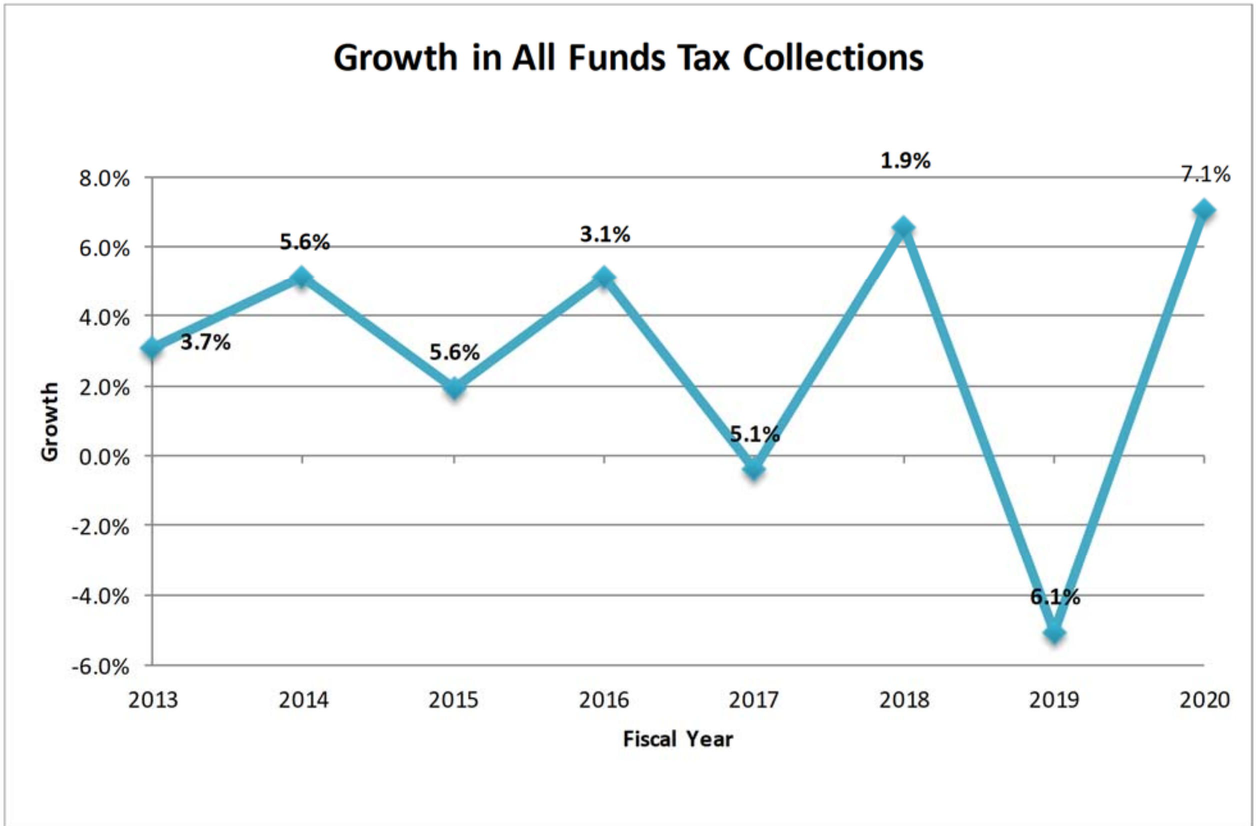
The New York State Senate Republican Minority Finance Committee generates its revenue estimates using forecasts of national and state economic growth. The economic data is utilized to generate the Committee's independent revenue estimates.



Using staff analysis, the Committee estimates gross General Fund tax collections in FY 2019, excluding the deposits to the STAR and Revenue Bond Tax Fund will decrease by 4.8 percent to $62.0 billion. All Funds collections will decrease by 5.1 percent to $75.2 billion. This decrease reflects a sharp and sudden decline in estimated payments partially offset by strong withholding receipts in the final quarter of the year, as well as growth in sales and use taxes and strong growth in corporate franchise tax receipts.



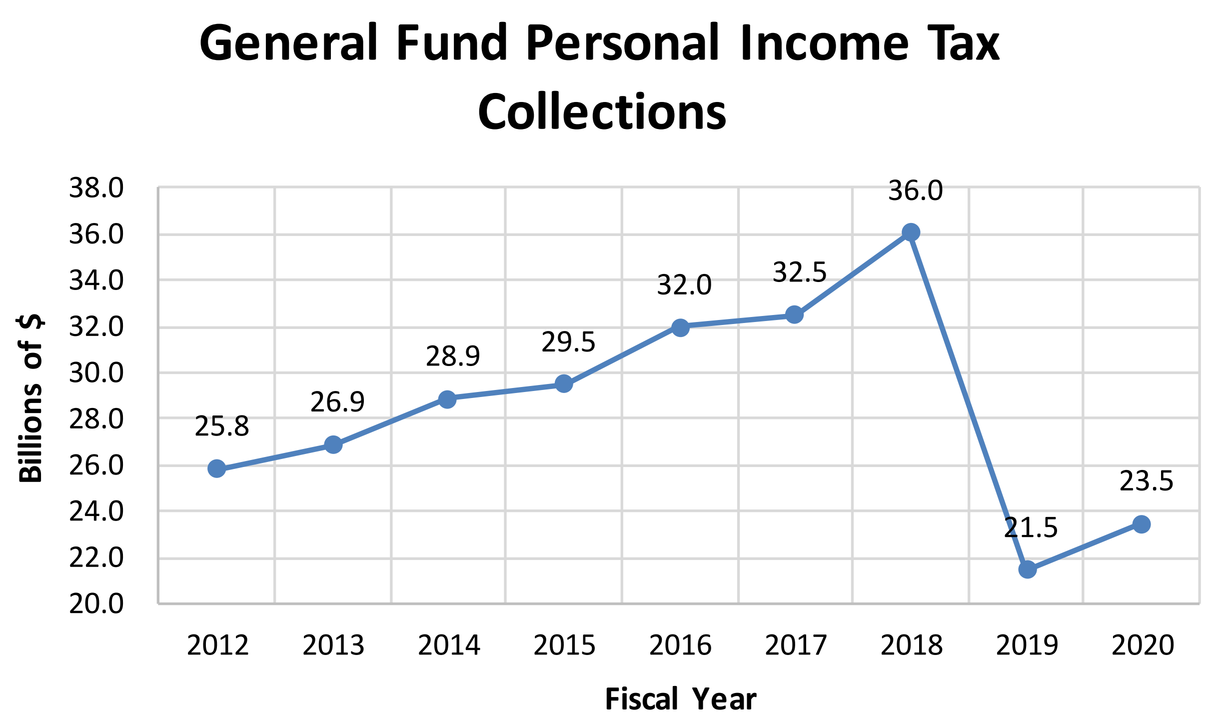
In FY 2020, the Senate Republican Minority Finance Committee projects that General Fund tax collections, excluding deposits to the STAR and Revenue Bond Tax Fund, will increase by 7.7 percent to $66.8 billion. All Funds collections will increase by 7.1 percent to $80.5 billion. This increase reflects a timing shift in personal income tax receipts from FY 2019 into FY 2020 and continued growth in Corporate Franchise taxes.



Personal Income Tax

Personal income tax collections account for over half of all New York tax collections and over two thirds of General Fund tax collections (net of reserves). The personal income tax is imposed on all types of income a person may receive (e.g. wages, interest income, dividends, and capital gains). In addition, the personal income tax is imposed on the income of New York's small businesses, such as sole proprietorships, partnerships, and limited liability companies. This income is subsequently offset by certain deductions as enumerated in either the Internal Revenue Code or the New York State Tax Law. For FY 2019, total General Fund personal income tax collections, net of $26.3 billion in reserve transactions, are estimated to decrease by 40.5 percent to $21.5 billion. This decrease reflects a doubling of the set aside for the RBTF and a timing shift in personal income tax receipts from FY 2019 into FY 2020.

In FY 2020, total personal income tax collections, net of $25.7 billion in deposits to the reserve funds, are projected to increase by 9.4 percent to $23.5 billion. This increase is a result of a timing shift in personal income tax receipts from FY 2019 into FY 2020 and by continued wage and personal income growth.

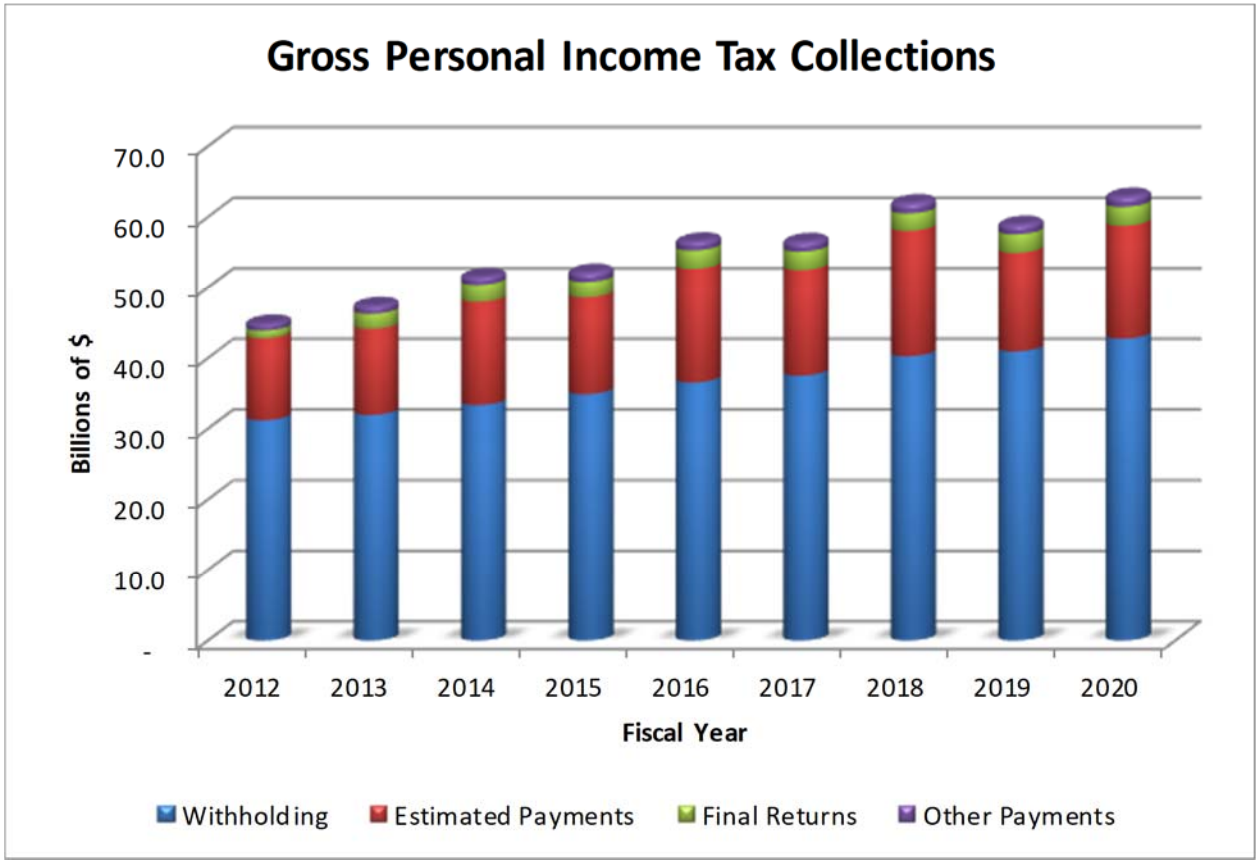


2019 and 2020 Collections reflect a doubling of the revenue bond tax fund dedication.

PIT Components

Withholding and estimated payments are methods by which the taxpayer can equalize personal income tax payments over the course of the tax year as opposed to being liable for one lump sum payment. When a person receives income, primarily wages, the appropriate tax is withheld and remitted to the State at the time the income is received. Withholding collections in the current fiscal year are estimated to increase by 1.7 percent to $40.9 billion, resulting from an increase in employment and wage growth and strong February receipts.

Withholding collections in the fourth quarter of the fiscal year historically have accounted for over thirty percent of total withholding for the year, as a result of the payment of performance bonuses by the financial services industry in the previous calendar year. However, the compensation structure of financial services employees has changed since the public backlash over bonuses paid to financial companies that had received government support through the TARP. Many businesses in the industry have changed the method by which bonus compensation is paid by either: paying bonuses in the form of stock options where the recipient must hold the stock for a specified number of years to exercise the options; or incorporating into wages what they would have paid their employees in bonuses.



Another method by which the State collects the personal income tax throughout the tax year is through estimated payments. These payments are made when a taxpayer does not pay the income tax through withholding, such as a self-employed individual, and/or has a significant amount of non-wage income not subject to withholding but subject to the personal income tax. These payments are made quarterly throughout the fiscal year. These collections are the most volatile portion of the personal income tax due to the fact that a taxpayer must "forecast" their tax liability for the year.

Estimated tax payments are also made when a taxpayer requests an extension for the submission of their annual return. Upon the request of the extension, the taxpayer estimates what their final tax liability will be for the previous tax year and remits the estimated tax, net of any withholding or previous estimated tax payments.

The most common form of income that is paid through estimated tax payments is capital gains, which are incurred through the sale of an asset. Most people associate capital gains with the stock market. However, as a result of the significant growth in the housing market, the real estate market had been a major contributor to capital gains realizations during the economic expansion.

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

Estimated tax payments in the current fiscal year are estimated to decrease by 21.4 percent to $14 billion. This reflects a substantial downturn in the market at the end of 2018. As a result estimated payments for December and January we substantially lower than estimated.

In FY 2020, estimated payments are projected to increase by 14.6 percent, to $16 billion over an artificially low prior year. However, collections are still projected to be $1.8 billion less that FY 2018.

The personal income tax is also collected through annual returns taxpayers must file. The annual return is essentially a reconciliation of a taxpayer's taxable income (gross income less deductions) and taxes paid through withholding or estimated payments throughout the preceding calendar year. As such, additional tax liability due or refunds are considered the "settlement" of a taxpayer's personal income tax. Payments made through the filing of annual returns are estimated to increase 7 percent in FY 2019. In FY 2020, collections from final returns are projected to increase by 1.1 percent, to $2.7 billion.

The amount of refunds to be paid to taxpayers is estimated to be 6.5 percent higher in FY 2019 than in the prior year. The amount of refunds paid in the final quarter of the fiscal year is constrained in order to maintain cash flow between fiscal years. Due to the advent of electronic filing, there have been a larger amount of refunds being claimed in the January through March period. In order to ensure that taxpayers receive their refunds in a timely manner, the amount of refunds to be issued was capped at $1.75 billion in FY 2019. For FY 2020, refunds are projected to increase by 3.6 percent, to $11.6 billion.

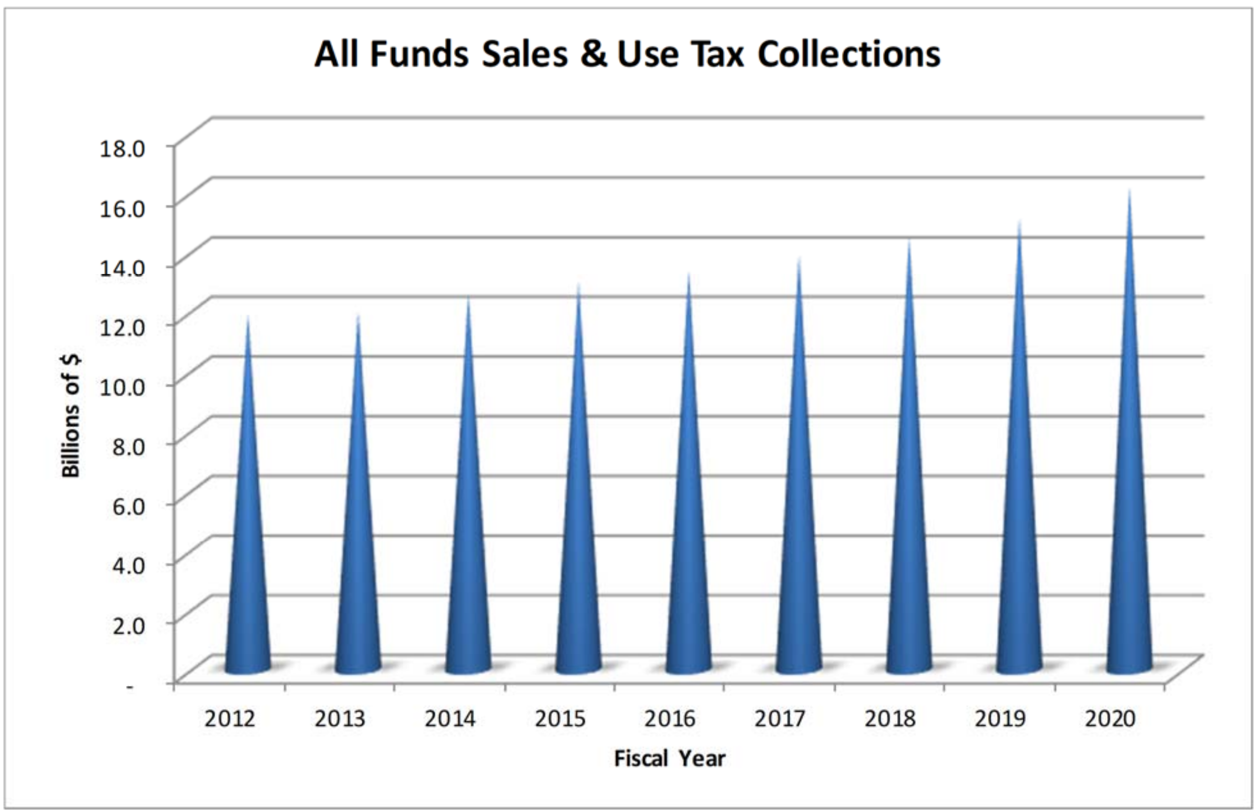
Lastly, personal income tax collections are composed of assessments imposed upon taxpayers as a result of the audit process and filing fees imposed on limited liability companies. Assessments consist of any overdue taxes and the interest and penalties imposed upon such liability. Other collections are estimated to decline 7.2 percent to 1.4 billion in FY 2019. In FY 2020, other payments are projected to increase by 7.2 percent, to $1.5 billion.

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

The Revenue Bond Tax Fund (RBTF) is a debt service fund into which fifty percent of personal income tax receipts (net of refunds and the STAR deposit) are deposited. This fund is used to pay the debt service on the State's PIT revenue bonds. Any funds in excess of the required debt service payments are transferred back to the General Fund. Deposits to the RBTF are estimated to increase by 85.4 percent in FY 2019, reflecting last year's legislation that doubled the rate at which funds are deposited into the RBTF from 25 percent to 50 percent. Deposits into the RBTF are projected to increase by 7.5 percent FY 2020.

User Taxes and Fees

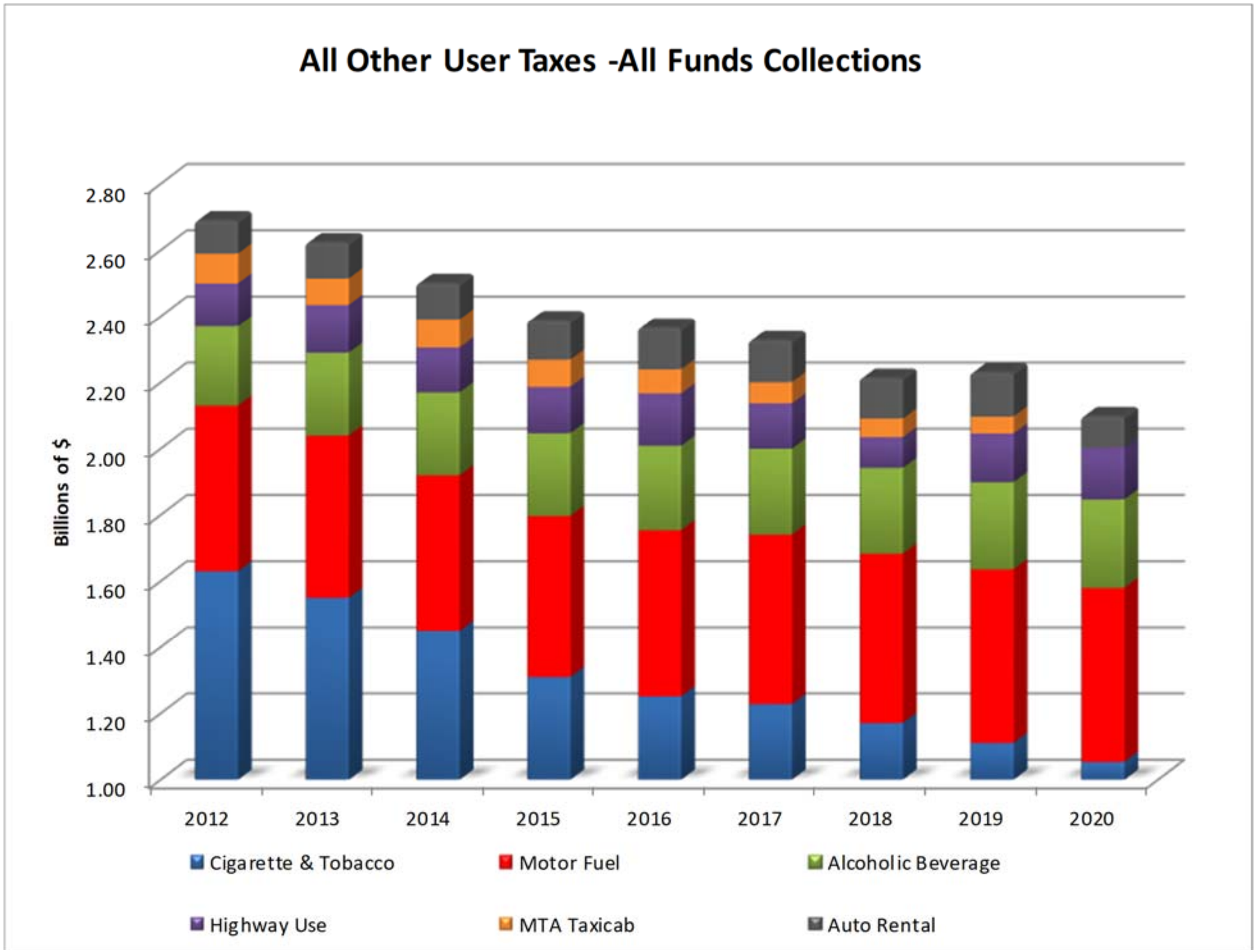
User taxes, also known as consumption taxes, are what their name implies - taxes on the use or consumption of different items in the State. These taxes consist of the sales and use tax, the auto rental tax, the cigarette tax, the motor fuel tax, alcoholic beverage taxes, the highway use tax, the MTA taxicab surcharge, the proposed vapor excise tax and the medical marihuana excise tax. Some of these taxes are only deposited to the General Fund; some are deposited only to Special Revenue Funds; some are partially deposited into Debt Service Funds; while others are deposited to a combination of funds.



Sales and use tax collections comprise a large portion of the tax collections in this category. Receipts from this tax are deposited into the General Fund, a Special Revenue fund (the Metropolitan Transportation Operating Account), and two Debt Service Funds (the Local Government Assistance Tax Fund and Sales Tax Revenue Bond Tax Fund). In FY 2019, General Fund receipts are estimated to increase by 4.7 percent to $7.1 billion.

On an All Funds basis, sales and use tax collections are estimated to increase by 4.6 percent to $15.2 billion in FY 2019. The increase in collections reflects growth in consumption as well as income growth.

In FY 2020, General Fund sales and use tax receipts are projected to increase by 6.7 percent to $7.6 billion. All Funds sales and use tax receipts are projected to increase by 6.7 percent to $16.2 billion. This increase in collections reflects an Executive proposal to collect from Internet marketplace providers and collection of sales from out of state vendors due to the *Wayfair v. South Dakota* decision.



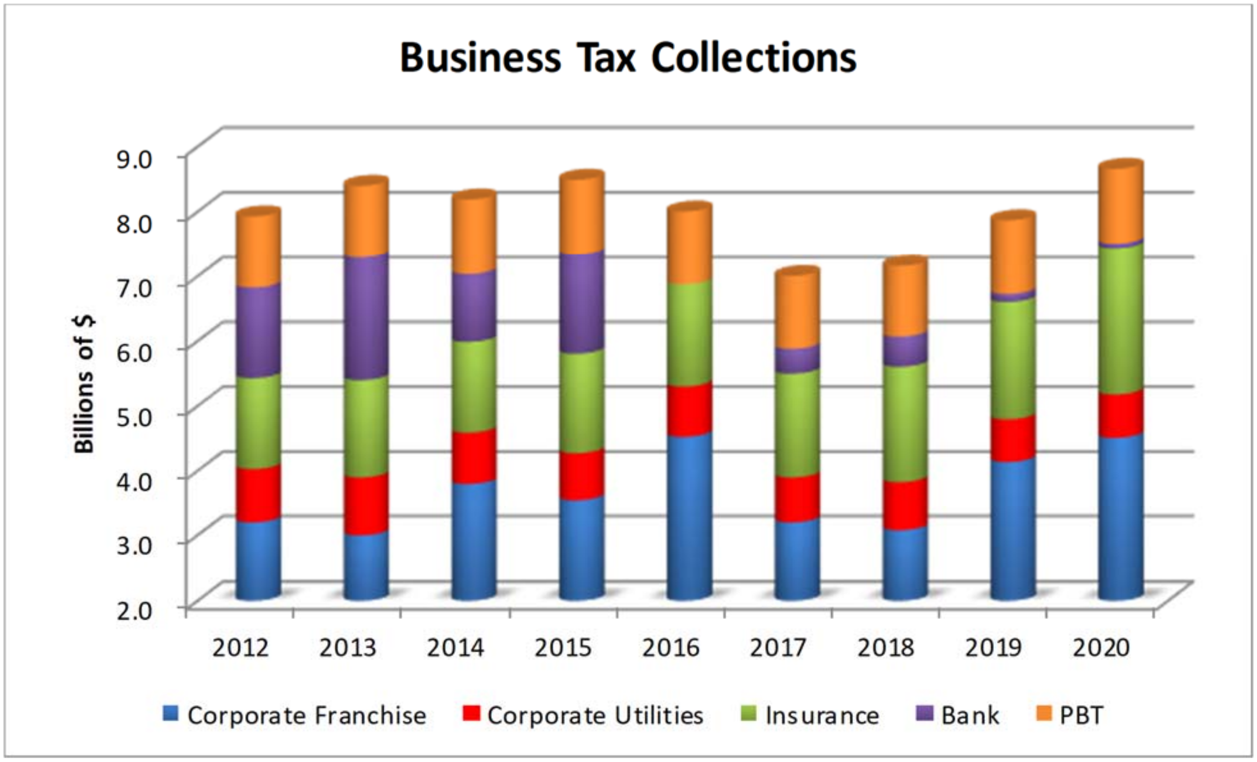
Receipts from the cigarette tax are deposited to the General Fund and the HCRA funds while receipts from the tobacco tax are deposited solely to the General Fund. General Fund collections for cigarette and tobacco taxes in FY 2019 are estimated to decrease by 4.4 percent to $327 million. All Funds collections for FY 2018 are estimated to decrease by 5.1 percent to $1.11 billion.

In FY 2019, General Fund cigarette and tobacco tax collections are projected to decrease by 4 percent to $314 million. All Funds cigarette and tobacco tax collections are projected to decrease by 5.1 percent to $1.05 billion in FY 2020, reflecting the continued decline in taxable consumption and an Executive proposal to increase the smoking age to 21.

The only other user tax that is deposited to the General Fund is the alcoholic beverage tax, which is estimated to increase by 1.5 percent to $263 million in FY 2019. In FY 2020, these tax collections are projected to increase by 1.5 percent to $267 million.

All Funds collections of the remaining user taxes are estimated to increase by 9.3 percent to $857 million in FY 2019. For FY 2020, collections from these other taxes are projected to decrease by 9.3 percent, to $777 million.

Business Taxes



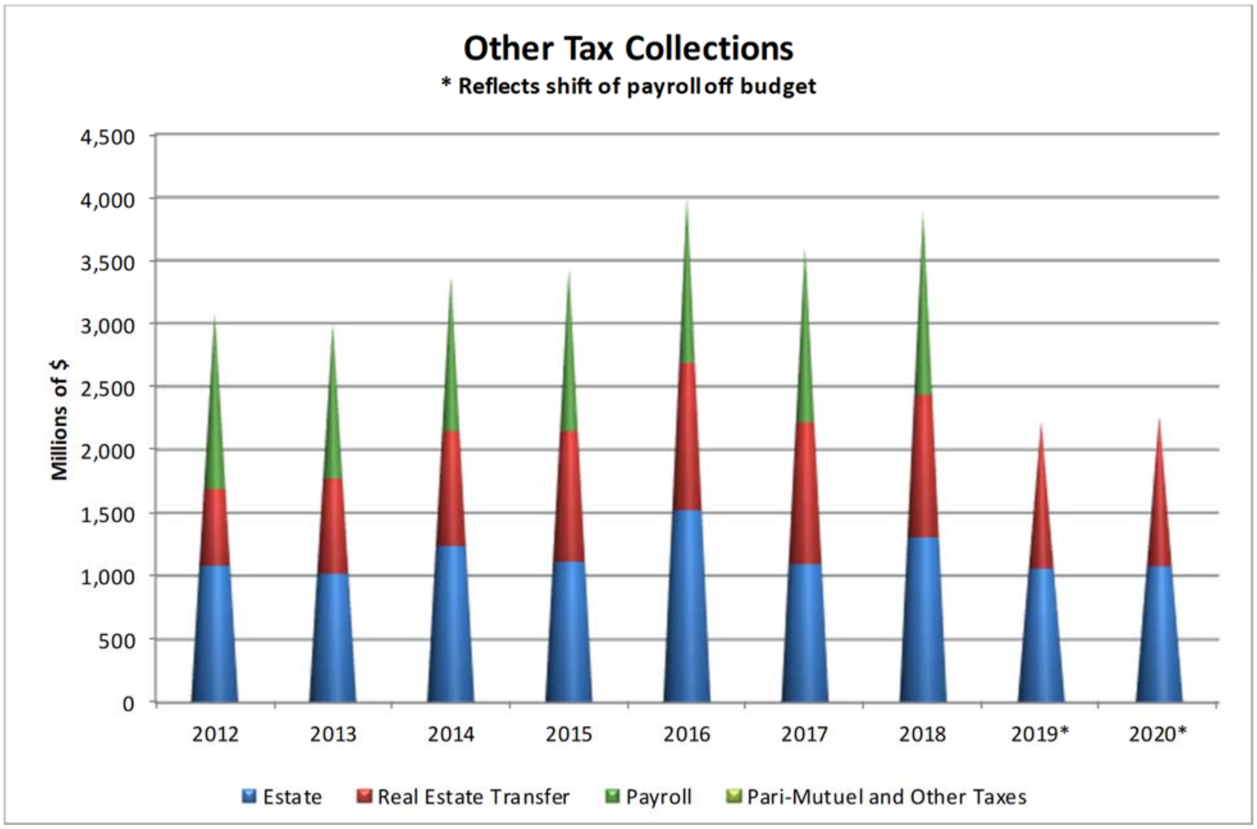
Business taxes in New York are imposed on various aspects of a business' income. The corporate franchise tax is imposed on a business' net income; the corporate utility tax is imposed on the gross receipts of the business; and the insurance tax is imposed on premiums. The petroleum business tax is imposed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

General Fund business tax collections are estimated to increase by 11.8 percent to $5.5 billion in FY 2019 On an All Funds basis, business taxes are estimated to increase by 7.9 percent to $7.9 billion in FY 2019.

General Fund business tax collections are estimated to increase by 12.9 percent to $6.2 billion in FY 2020. This increase is attributable to strong growth in corporate profits and and a tax windfall for New York State due to tax changes at the Federal level. On an All Funds basis, business taxes are estimated to increase by 10.1 percent to $8.7 billion, due to the factors stated above.

Other Taxes

Other taxes consist of the estate tax, the real estate transfer tax, the pari-mutuel tax, and the boxing and wrestling exhibitions tax. The real estate transfer tax is deposited solely to special revenue fund while the remainders of the taxes are deposited solely to the General Fund.



General Fund receipts of these taxes are estimated to increase by 18.8 percent to $1.08 billion in FY 2019. The FY 2015 Enacted Budget reformed the Estate Tax by phasing in higher exclusion amounts so that by 2019 the State exclusion amount will equal the Federal exclusion amount that was in place when the reform was enacted. In FY 2020, General Fund receipts are projected to increase by 1.7 percent to $1.1 billion.

All Funds collections of other taxes are estimated to decrease by 9.3 percent to $2.22 billion in FY 2019 and are projected to increase by 2.2 percent to $2.27 billion in FY 2020. The decrease in the current fiscal year is attributable to weak real estate transfer tax receipts.