New York State Senate Majority

Finance Committee

economic and revenue review

FY 2016

IHS GLOBAL INSIGHT

Senator Dean G. Skelos
Temporary President of the Senate
Majority Leader
Coalition Leader

Senator Jeffrey D. Klein
Independent Democratic Conference Leader
Coalition Leader

Senator John A. DeFrancisco
Chairman, Finance Committee

Robert F. Mujica
Chief of Staff
Secretary to the Finance Committee

FEBRUARY 2015

NEW YORK STATE SENATE

NEW YORK STATE ECONOMIC AND REVENUE REVIEW

FISCAL YEAR 2015-16

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In conjunction with:
IHS GLOBAL INSIGHT

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Executive Summary

In conjunction with IHS Global Insight, the Senate Finance Committee reviewed and analyzed the economic and revenue projections contained within the Executive Budget for FY 2016. Based upon IHS Global Insight's February economic forecast, the Senate Finance Committee projects All Funds tax revenues to be $278 million above the Executive for FY 2016. This amount is enhanced by the estimate of tax revenues for the remainder of the FY 2015 which is $28 million above the Executive estimate. This results in a two year All Funds tax revenue forecast that is $306 million above the Executive projection.

The Senate Finance Committee projects $180 million in General Fund revenues (inclusive of miscellaneous receipts and transfers) above the Executive Budget forecast for FY 2016. This amount is reduced by the estimate for the remainder of FY 2015, which is $13 million below the Executive estimate. Therefore, the two year General Fund receipts forecast is $167 million above the Executive forecast.

The major influence on the national economy currently, is the steep drop in oil prices. Oil prices have plummeted from a peak of $109 a barrel in 2013, to $64 a barrel in December 2014, for an average of $100 a barrel in 2014. So far prices have continued to drop into 2015 and are expected to average $47 a barrel for the year. While the effects on the economy due to this price drop have been mostly positive, there are some negative effects which are projected to hinder economic growth, slightly.

Economic growth improved in 2014, as compared to 2013, due in large part to strong growth in personal income. However, unlike the projected acceleration in national economic growth, economic growth in New York improved at a slower rate, increasing 1.7 percent in 2014. This is primarily due to slower growth in the financial markets, in first half of the year, as well as employment growing at less than the national rate.

This growth is projected to continue into 2015, with economic growth projected to increase 2.3 percent. While this growth is still slower than national economic growth, which is projected to increase by 3.0 percent, the gap between the state and nation is closing. This can partially be explained by New York's strong real estate market, particularly in New York City.

As outlined in the following tables, total All Funds tax collections are estimated at $70.5 billion in FY 2015. This estimate is $28 million above the Executive Budget forecast. For FY 2016, All Funds tax revenues are expected to increase by $4.2 billion to $74.7 billion or $278 million above the Executive's projections.

Estimates for the remainder of the current fiscal year reflect strong personal income tax collections due to strong wage and salary growth in 2014. These estimates also reflect strong sales tax and real estate tax collections resulting from a large increase in disposable income and the stronger housing market. IHS Global Insight's forecast of the overall national economy in 2015 is similar to the economic forecast presented by the Executive, with stronger wage and corporate profit growth. The forecast for the State economy in 2015 is slightly weaker than the economic forecast presented by the Executive.

Although the forecast exhibits stronger revenue growth for the upcoming fiscal year based on the projection of stronger economic growth, there are both upside and downside risks associated with the forecast, as with any forecast. As stated above, the price of oil has dropped significantly since 2014 and is projected to continue to decrease through the first half of 2015, any actions on part of Organization of the Petroleum Exporting Countries (OPEC) to decrease production sooner would have a significant impact on not only consumers discretionary income, but could increase inflation sooner than expected.

On the positive side, increased employment and wage growth as a result of a more optimistic business outlook would have a positive impact on the State's personal income and sales tax revenues. 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 2015 General Fund Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**29,477**	**29,486**	**(9)**
Withholding	35,019	34,999	20
Estimated Payments	13,728	13,733	(5)
Final Returns	2,167	2,176	(10)
Other Payments	1,261	1,281	(20)
Gross Collections	52,175	52,189	(15)
Refunds	(8,374)	(8,376)	2
STAR	(3,374)	(3,374)	0
RBTF	(10,950)	(10,953)	3
User Taxes and Fees	**6,726**	**6,700**	**26**
Sales and Use	6,148	6,130	18
Cigarette / Tobacco	324	319	5
Alcoholic Beverage	254	251	3
Business Taxes	**5,583**	**5,576**	**7**
Corporate Franchise	2,382	2,428	(46)
Corporate Utilities	596	590	6
Insurance	1,369	1,370	(1)
Bank Tax	1,236	1,188	48
Other Taxes	**1,139**	**1,188**	**(49)**
Estate and Gift	1,120	1,169	(49)
Pari-mutuel Taxes	18	18	(0)
Other	1	1	0
Total General Fund Taxes	**42,924**	**42,950**	**(25)**
Miscellaneous Receipts	8,874	8,874	0
Transfers	16,902	16,889	13
Total General Fund Receipts	**68,700**	**68,713**	**(13)**

FY 2016 General Fund Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**31,965**	**31,844**	**120**
Withholding	37,478	37,290	188
Estimated Payments	14,763	14,996	(233)
Final Returns	2,353	2,378	(25)
Other Payments	1,344	1,340	4
Gross Collections	55,939	56,004	(65)
Refunds	(9,065)	(9,237)	172
STAR	(3,231)	(3,231)	0
RBTF	(11,678)	(11,692)	14
User Taxes and Fees	**6,986**	**7,009**	**(22)**
Sales and Use	6,366	6,385	(19)
Cigarette / Tobacco	367	368	(1)
Alcoholic Beverage	254	256	(2)
Business Taxes	**5,979**	**5,894**	**85**
Corporate Franchise	3,978	3,880	98
Corporate Utilities	594	619	(25)
Insurance	1,446	1,433	13
Bank Tax	(38)	(38)	0
Other Taxes	**1,151**	**1,124**	**27**
Estate and Gift	1,133	1,105	28
Pari-mutuel Taxes	17	18	(1)
Other	1	1	0
Total General Fund Taxes	**46,080**	**45,871**	**210**
Miscellaneous Receipts	2,925	2,925	(0)
Transfers	17,263	17,293	(30)
Total General Fund Receipts	**66,269**	**66,089**	**180**

FY 2015 All Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**43,800**	**43,813**	**(13)**
Withholding	35,019	34,999	20
Estimated Payments	13,728	13,733	(5)
Final Returns	2,167	2,176	(10)
Other Payments	1,261	1,281	(20)
Gross Collections	52,175	52,189	(15)
Refunds	(8,374)	(8,376)	2
User Taxes and Fees	**15,515**	**15,454**	**61**
Sales and Use	13,133	13,094	39
Cigarette / Tobacco	1,303	1,282	21
Alcoholic Beverage	254	251	3
Motor Fuel Tax	484	487	(3)
Highway Use Tax	137	136	1
Auto Rental	120	119	1
MTA Taxicab	84	85	(1)
Business Taxes	**7,794**	**7,777**	**17**
Corporate Franchise	2,912	2,967	(55)
Corporate Utilities	781	773	8
Insurance	1,523	1,524	(1)
Bank Tax	1,428	1,373	55
Petroleum Business	1,150	1,140	10
Other Taxes	**2,158**	**2,208**	**(50)**
Real Estate Transfer	1,019	1,020	(1)
Estate and Gift	1,120	1,169	(49)
Pari-mutuel Taxes	18	18	(0)
Other	1	1	0
Payroll Tax	**1,274**	**1,260**	**14**
Total All Funds Taxes	**70,540**	**70,512**	**28**

FY 2016 All Funds Tax Collections
(Millions of Dollars)

	Senate Finance	Executive Budget	Variance
Personal Income Tax	**46,874**	**46,767**	**107**
Withholding	37,478	37,290	188
Estimated Payments	14,763	14,996	(233)
Final Returns	2,353	2,378	(25)
Other Payments	1,344	1,340	4
Gross Collections	55,939	56,004	(66)
Refunds	(9,065)	(9,237)	172
User Taxes and Fees	**15,990**	**16,040**	**(50)**
Sales and Use	13,622	13,663	(41)
Cigarette / Tobacco	1,279	1,283	(4)
Alcoholic Beverage	254	256	(2)
Motor Fuel Tax	479	484	(5)
Highway Use Tax	146	145	1
Auto Rental	125	124	1
MTA Taxicab	85	85	0
Business Taxes	**8,271**	**8,143**	**128**
Corporate Franchise	4,766	4,649	117
Corporate Utilities	772	805	(33)
Insurance	1,618	1,604	14
Bank Tax	(10)	(10)	0
Petroleum Business	1,125	1,095	30
Other Taxes	**2,243**	**2,161**	**82**
Real Estate Transfer	1,092	1,037	55
Estate and Gift	1,133	1,105	28
Pari-mutuel Taxes	17	18	(1)
Other	1	1	0
Payroll Tax	**1,349**	**1,337**	**12**
Total All Funds Taxes	**74,726**	**74,448**	**278**

United States Economic Outlook

(Dollar Figures in Billions of Dollars)

	2014	2015	2016	2017
GDP	$17,421	$18,202	$19,042	$19,956
Percent Change	3.9%	4.5%	4.6%	4.8%
Real GDP	$16,090	$16,573	$17,026	$17,511
Percent Change	2.4%	3.0%	2.7%	2.8%
Consumption Expenditures	$10,968	$11,365	$11,738	$12,074
2009 Dollars, Percent Change	2.5%	3.6%	3.3%	2.9%
Government Expenditures	$2,889	$2,917	$2,933	$2,943
2009 Dollars, Percent Change	-0.2%	1.0%	0.5%	0.4%
Investment Expenditures	$2,608	$2,761	$2,949	3143.96
2009 Dollars, Percent Change	5.2%	5.9%	6.8%	6.6%
Change in Inventories	$2,179	$2,259	$2,311	$2,358
2009 Dollars, Percent Change	3.8%	3.7%	2.3%	2.0%
Exports	$2,083	$2,191	$2,290	2380.76
2009 Dollars, Percent Change	3.1%	5.2%	4.5%	4.0%
Imports	$2,535	$2,631	$2,645	$2,730
2009 Dollars, Percent Change	3.9%	3.8%	0.5%	3.2%
CPI - All Urban, Percent Change	1.6%	-0.7%	2.4%	2.7%
CPI - Core, Percent Change	1.8%	1.6%	2.1%	2.1%
Pretax Corporate Profits	$2,094	$2,277	$2,365	$2,278
Percent Change	-0.6%	8.7%	3.9%	-3.7%
After-tax Corporate Profits	$1,822	$1,885	$1,937	1848.56
Percent Change	3.5%	3.4%	2.8%	-4.6%
Personal Income	$14,717	$15,313	$16,062	$16,974
Percent Change	3.9%	4.1%	4.9%	5.7%
Wages and Salaries	$7,432	$7,770	$8,175	$8,605
Percent Change	4.3%	4.5%	5.2%	5.3%
Nonagricultural Employment, Millions	$139	$142	$145	$147
Percent Change, Seasonally Adjusted	1.9%	2.2%	1.9%	1.4%
Unemployment Rate	6.2%	5.9%	6.4%	6.7%
Interest Rates				
T-Bill Rate, 3 Month	0.03%	0.38%	1.6%	3.20%
T-Note Rate, 10 Year	2.54%	2.25%	3.4%	3.94%
T-Bond Rate, 30 Year	3.34%	4.17%	5.1%	4.64%
Standard and Poor's 500 Stock Index				
Percent Change	17.5%	8.5%	4.3%	3.1%

Source: HIS Global Insight US Macroeconomic Forecast: February 2015

The National Economy

After years of uncertainty in the economy due to unforeseen natural events and doubt of the direction of fiscal and monetary policy from the Federal government, outlook has improved tremendously. There has been significantly less uncertainty surrounding fiscal policy from the federal government. The federal budget deficit has decreased from 4.1% of GDP in 2013 to 2.8% in 2014 and little change is expected into 2015, which is good news for the economy. The major influence on the national economy now, is the steep drop in oil prices.

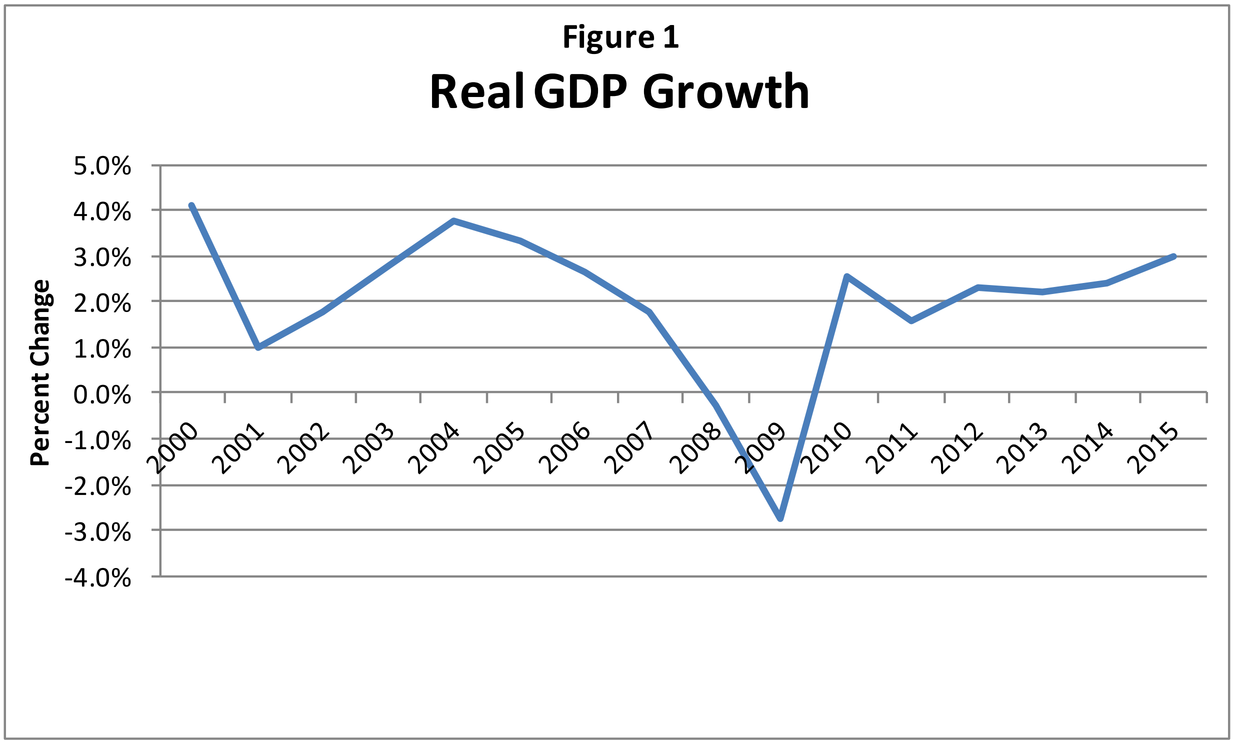
Oil prices have plummeted from a peak of $109 a barrel in 2013, to $64 a barrel in December 2014, for an average of $100 a barrel in 2014. So far prices have continued to drop into 2015 and are expected to average $47 a barrel for the year. Historically, the Organization of the Petroleum Exporting Countries (OPEC) has responded to decreasing oil prices by lowering production in order to decrease the supply, but OPEC has responded differently this past year. OPEC has chosen not to constrain the supply of oil and is currently producing 48 million barrels of oil a day, above the normal production by about 4 million barrels, so prices have been and will continue to drop. Regardless of OPEC, how fast the US oil production increases over the year could help to prevent a large spike in prices should OPEC change course and decrease production.

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 a variety 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 participation in the labor market, investments in capital, and the resulting productivity from the former two. 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 others decline or remain 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 or not the consumer is an individual or a business.



Real GDP growth is projected to continue to accelerate, growing by 3.0 percent in 2015. This increase is driven by consumer spending, which is estimated to grow by 3.6%, due to an increase in personal income and potentially due to the drop in oil prices. Consumer spending on gasoline has dropped significantly in 2014 and that is expected to continue well into 2015, but how much this drop has caused increase spending on other goods is unknown. On the other hand, this economic growth is hindered by the appreciating dollar, which is reducing exports, as U.S. goods become more expensive in other countries.

LABOR MARKET

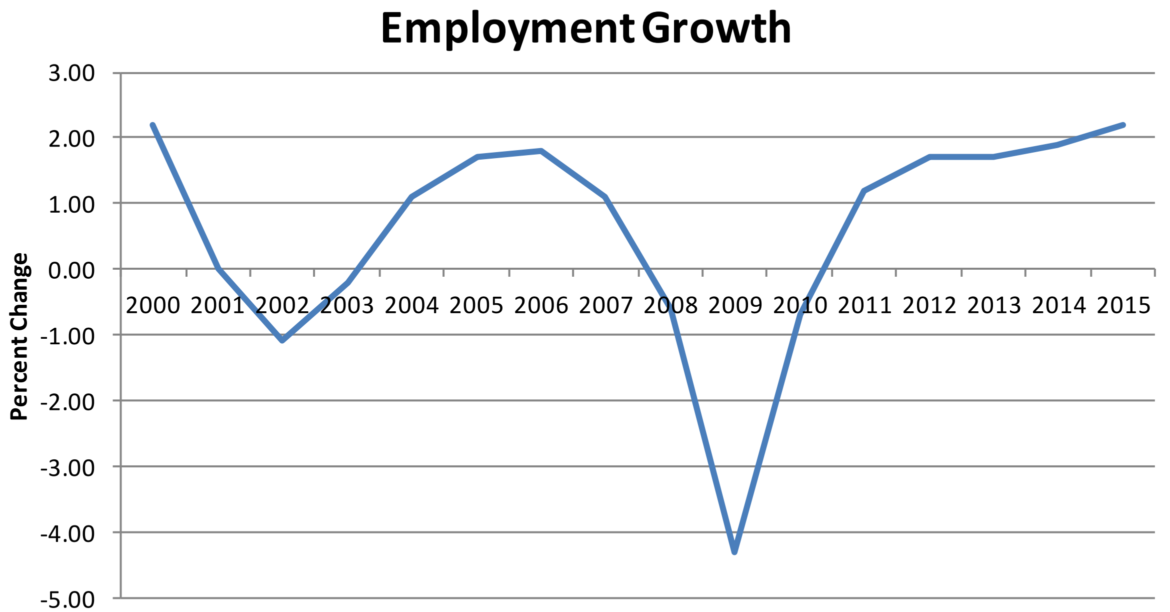
As stated above, one of the factors that contribute to an expanding economy is a strong labor market. While there is always some level of unemployment in any economy (the full employment unemployment rate varies between four and six percent), the economy needs a labor force that is able, available and 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.

This results in a reduction in the need for additional employment and the possibility of layoffs. Over the last few years, similar to the previous recoveries, employment growth has remained at less than two percent. Employment grew, in nearly every industry, by 1.9 percent in 2014. Employment growth is expected to grow even more in 2015, by 2.2 percent.

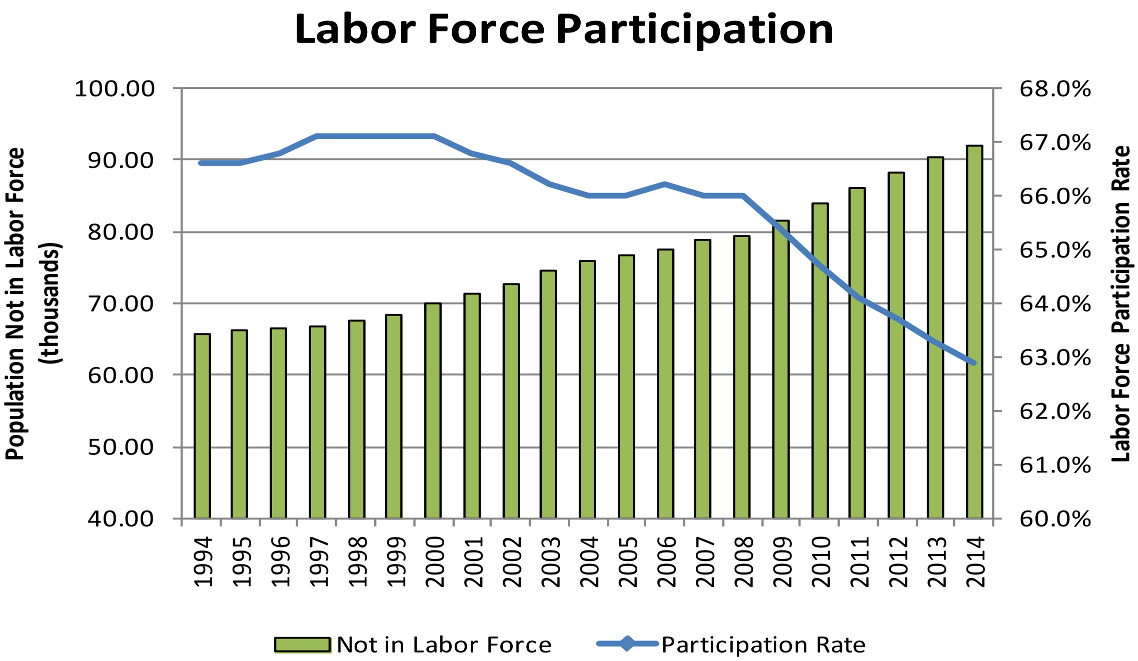
Figure 2



Labor Force Participation

The labor force is the total employed and unemployed population. The labor force participation rate is the labor force as a percentage of the civilian population. As a result, the unemployment rate does not encompass the segment of the population that is not counted as part of the labor force. This segment of the population would include retirees, students, workers who are underemployed, and those workers who are no longer seeking a job and have dropped out of the labor market altogether. Figure three shows the average annual population aged 16 and over not in the labor force as compared to the average annual labor market participation rate. As shown, the labor market participation rate has been declining since the Great Recession began at the end of 2007. Similarly, the population that is not in the labor force has steadily increased.

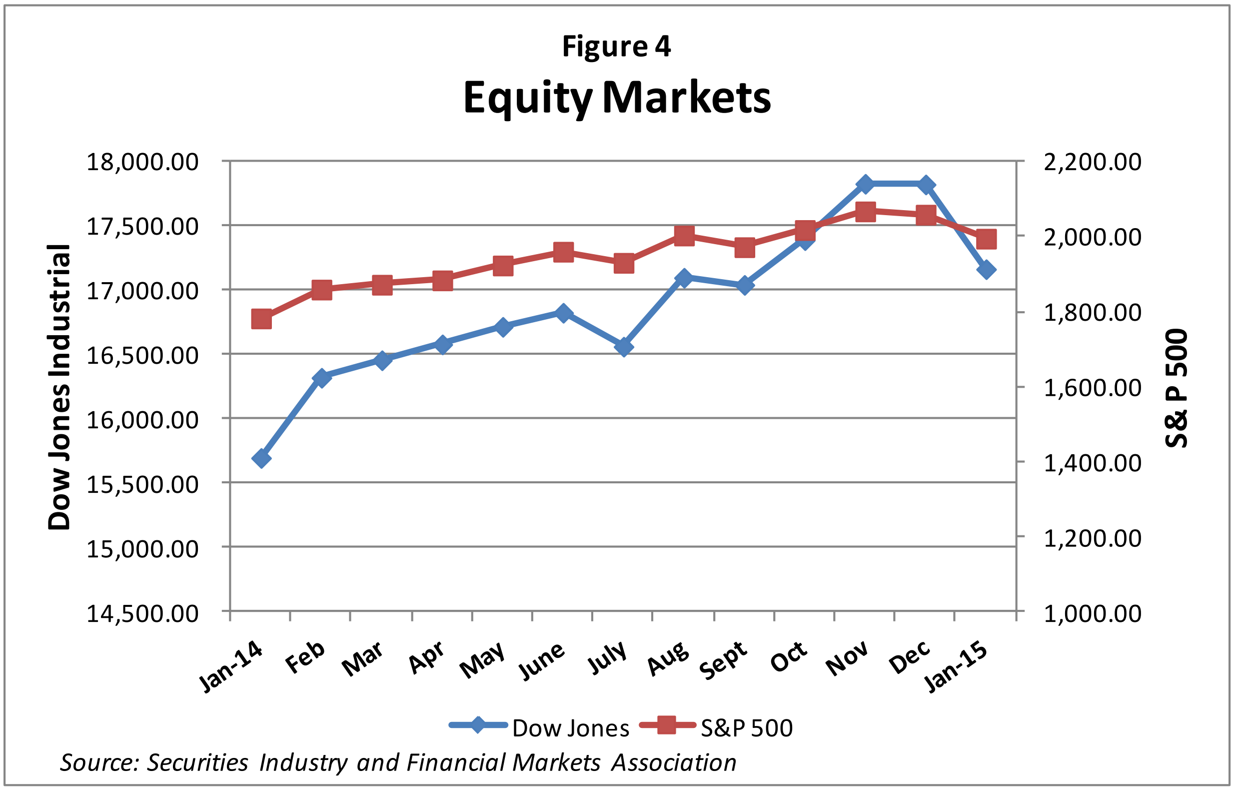
Figure 3



Source: U.S. Bureau of Labor Statistics

When looking at the labor force participation rate based on age, one would assume the increase in the population not in the labor force would be caused by a larger decline in the participation rate for the "baby boomer" generation – the population aged 55 and older – due to retirements. Similarly, the number of baby boomers not in the labor force should naturally increase as more retire. However, over the past ten years, while the population not in the labor force has increased, labor force participation for baby boomers has also increased. The increase in the population not in the labor force has been caused by an increase of those aged 25 to 54. In addition, those aged 25 to 54 saw a decline in their participation rate as well.

FINANCIAL MARKETS



The stock market, as shown in figure four, began 2014 weak due to continuing concerns with emerging markets and weaker manufacturing results in China. While the S&P dipped in July due to uncertainty as to whether the Feds were going to increase interest rates, this was only temporary. Through all this uncertainty, the S&P ended 2014 at an all-time high for the month at 2,058 points. The average for the entire year of 2014 was 1,930 points, an increase of 288 points or 17.5 percent from 2013.

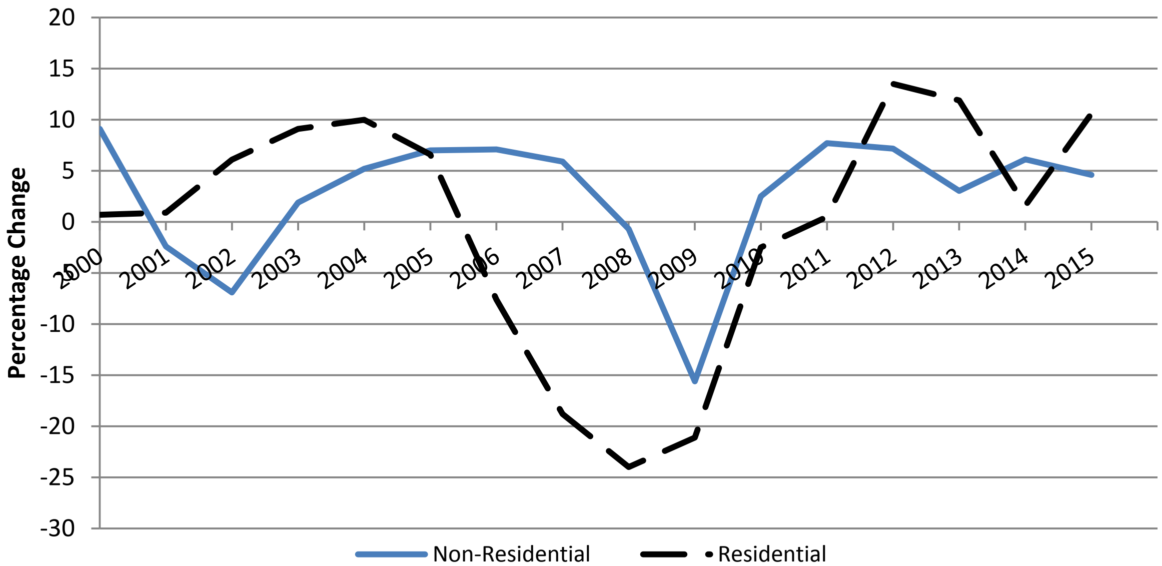
While 2014 ended on an all-time high, January did not fare as well, dropping over 60 points. The decrease represented in January of this year represents a long list of factors that are affecting the market, from the drop in oil prices, which is decreasing energy stock prices; the rising dollar, and weakness in the global economy. Even with these risks, the S&P is still expected to increase by 165 points or 8.5 percent.

CAPITAL INVESTMENT

The other area that requires consistent growth in order to transition an economy from the recovery stage to expansion is capital investment – both non-residential and residential. When a business makes capital investments, whether in its facility or its equipment, it is usually doing so to increase its output and remain competitive in the marketplace. This, in turn, leads to increased jobs and increased profits for the company. Residential investment, whether the construction of a new home or an addition to an existing home, provides additional construction jobs and increased consumption of durable goods.

Figure 5

Fixed Investment



Source: U.S. Bureau of Economic Analusis, IHS Global Insight

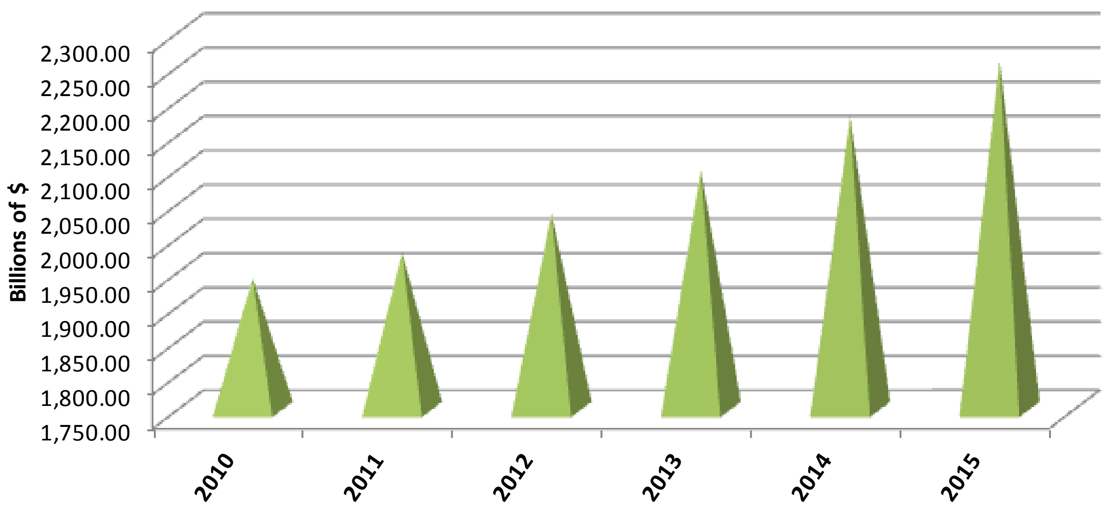
Non-residential fixed investments are projected to increase 4.6 percent in 2015, which is a slowing of the growth we have experienced the last few years. The steep decline in oil prices have resulted in slightly less investment in equipment for energy production. While on the other hand, residential fixed investment is projected to increase by 10.6 percent in 2015 as a result of the steep decline in oil prices.

Inventories

During the recession, businesses went through a period of inventory decumulation since consumer demand for their goods and services declined dramatically. During the recovery, businesses were hesitant to make significant expenditures or to ramp up production even though their profits were growing. After several years of slow growth and the intermittent decumulation, when the economy started to grow again, businesses found themselves with depleted inventories and, as a result, needed to ramp up production.

Figure 6

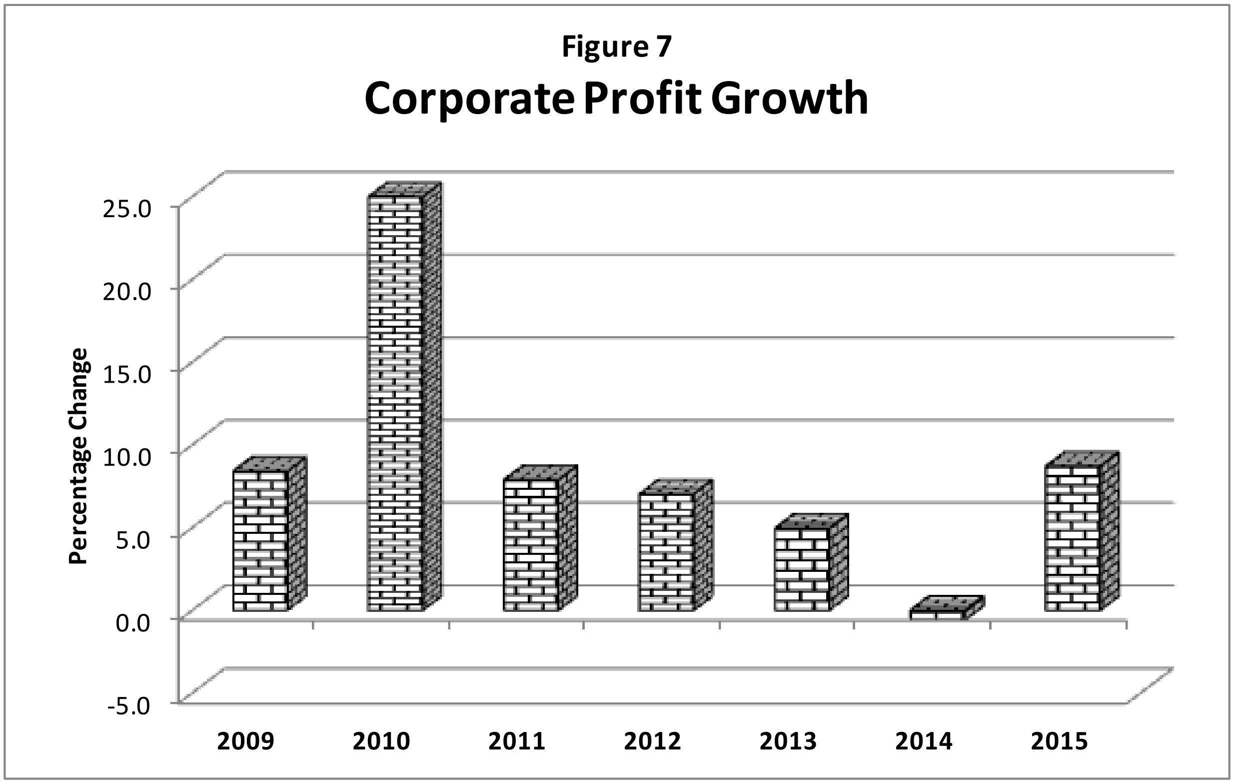
Change in Inventories



Inventory growth rebounded in 2013 as farmers replenished their stocks, after decumulations during the Midwestern draught. However, the largest inventory accumulation was realized in the non-farm sector, especially in wholesale trade. The reason for this large inventory accumulation in the latter part of the year was unclear.

Due to an increase in consumer spending in 2014 and 2015, inventories are continuing to be built up, specifically in non-durable goods, increasing by 3.8 percent and 3.7 percent, respectively. This increase in inventories may be partially due to the labor dispute at the ports in California which has disrupted the flow of imports and exports.

Corporate Profits



Corporate profit growth, as shown in figure seven, is the change in business' economic profits. Economic profits are defined as before tax profits adjusted by the inventory valuation adjustment and the capital consumption adjustment. The capital consumption adjustment reconciles the depreciation a business claims for tax purposes with the depreciation associated with the use of the capital equipment for production of the business' goods during the year. This adjustment fluctuated in recent years due to bonus depreciation.

As machinery is used during the course of production, the value of that machinery diminishes as a result of that use. Businesses are allowed to claim such diminished value, or depreciation, as an expense, reducing their income for tax purposes. The amount of depreciation a business can claim as an expense depends upon the type of machinery.

In order to induce businesses to increase their capital investments, especially in times of economic weakness, bonus depreciation was used as a fiscal policy tool. When the business purchased a new piece of machinery and put it into production, the business was allowed to deduct an additional depreciation expense in the year of purchase, essentially accelerating the depreciation expense into the first year.

Prior to 2012, businesses were allowed to claim 100 percent of the cost of machinery as bonus depreciation. The amount of bonus depreciation was then reduced to fifty percent in 2012. As bonus depreciation was reduced, the impact of the capital consumption adjustment decreased corporate profits since businesses were no longer allowed to claim the full depreciation as an expense. Growth in corporate profits continued in 2012, but, at a slower pace of 7.0 percent due to the larger capital consumption adjustment.

Although the stock market grew to record levels in 2013, there was still volatility in the market due to the uncertainty coming out of Washington. In addition, the slow economic growth served to dampen corporate profits as well. Corporate profits increased at a slower rate than in previous years, increasing by 5.0 percent.

The financial markets can have a large impact on overall corporate profits and if they struggle, overall corporate profits can decrease. The financial sector struggled in 2014, which resulted in a decrease in corporate profit growth of 0.6 percent. The outlook looks much better in 2015, which should see corporate profits rebound to a growth rate of 8.7 percent.

GOVERNMENT

FISCAL POLICY

Government policies are employed in an attempt to influence the overall economy, whether it be to stimulate spending or to control inflation. Although the economy is cyclical in nature, the government tries to ensure that the economy does not expand too quickly –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 entails directing the economy through tax policy or through government spending. When the Federal government, or state and local governments, lower taxes, more money is left in the hands of consumers and businesses to spend as they wish.

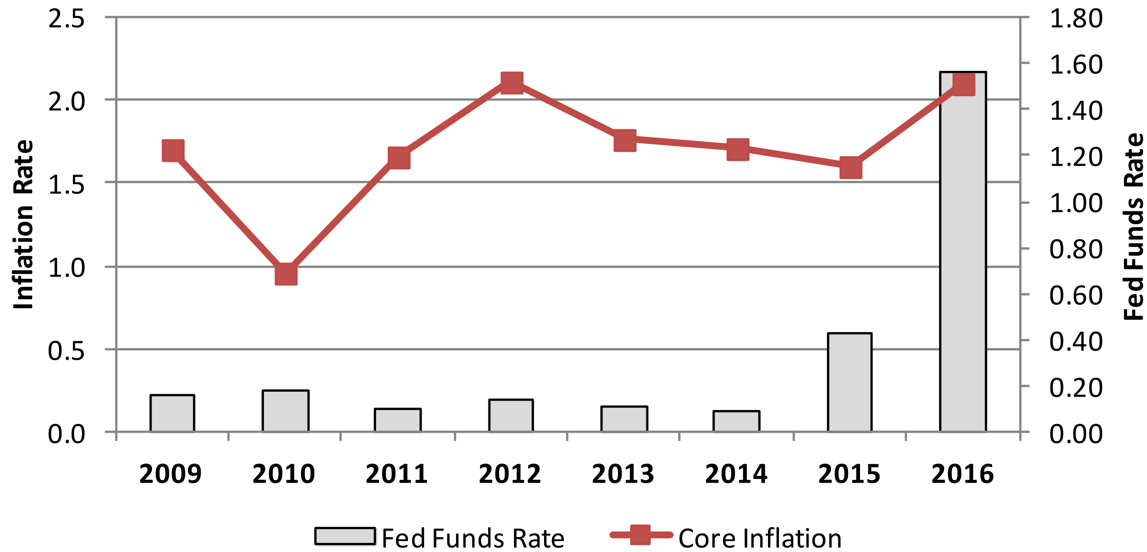
For 2014, federal government spending decreased by 1.9 percent which was attributable to the continued decrease in defense spending. But this decrease in government spending we have experienced over the last few years is expected to end. It is anticipated that defense spending will increase in 2015 as the US is expected to send more troops to Iraq and Syria to combat Islamic State militants.

MONETARY POLICY

Monetary policy, under the control of the Federal Reserve Board, involves the manipulation of interest rates and the money supply. One of the ways that the Fed manipulates rates is through the interest rate on Federal Funds which is the rate used when banks loan money to each other. The Fed Funds rate then becomes a basis upon which banks 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 down spending and encourage saving.

Figure 8

Fed Funds Rate and Inflation



At the December 2012 meeting of the Federal Open Market Committee, the Fed stated that it would maintain interest rates at the current level until the unemployment rate fell to 6.5 percent, this was due to the continued low inflation rate. As a result, the Fed Funds rate stayed below 0.25 percent through 2014.

While core inflation is expected to remain low in 2015, this is primarily due to low oil prices, so it is expected that the Feds will increase rates to 0.43 percent and again to 1.56 percent in 2016, when core inflation is expected to be 2.1 percent. The increase in the rates assumes that inflation does not fall lower than projections, if that happens, rates may not be increased.

GLOBAL ECONOMY

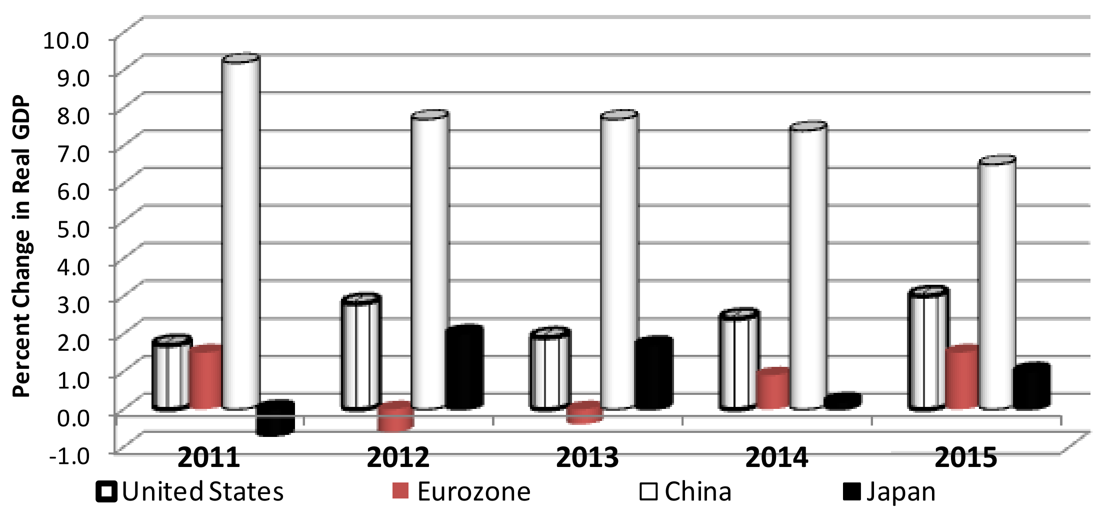
Any changes in the global economy can have a significant impact on the national economy even though trade is not a major contributor to overall national economic growth, as measured by GDP. This is due to the increased participation of both businesses and investors in the economies of countries around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

As shown in figure nine, the United States was not the only country to experience slow economic growth after the end of the recession. The natural disasters in March 2011 pushed Japan's economy into another recession. However, the rebuilding effort spurred economic growth of 2.0 percent in 2012. Continued unrest in the Eurozone caused it to slip back into recession at the end of 2011 and the economy remained in recession throughout 2012. China, although exhibiting economic growth of over eight percent, experienced a slowdown in its economy as it faced the deflation of its own housing market bubble.

The Eurozone is finally experiencing economic growth after two years of recession, this is due to the growth in the German economy. Greece, while remaining in the Eurozone, is still struggling to regain economic growth. With the end of increased activity due to the rebuilding effort, Japan's economy realized slightly weaker economic growth in both 2013 and 2014, but is rebounding in 2015. China, on the other hand, continued strong growth into 2014, increasing by 7.4 percent. This growth is projected to slow in 2015, growing only 6.5 percent.

Figure 9

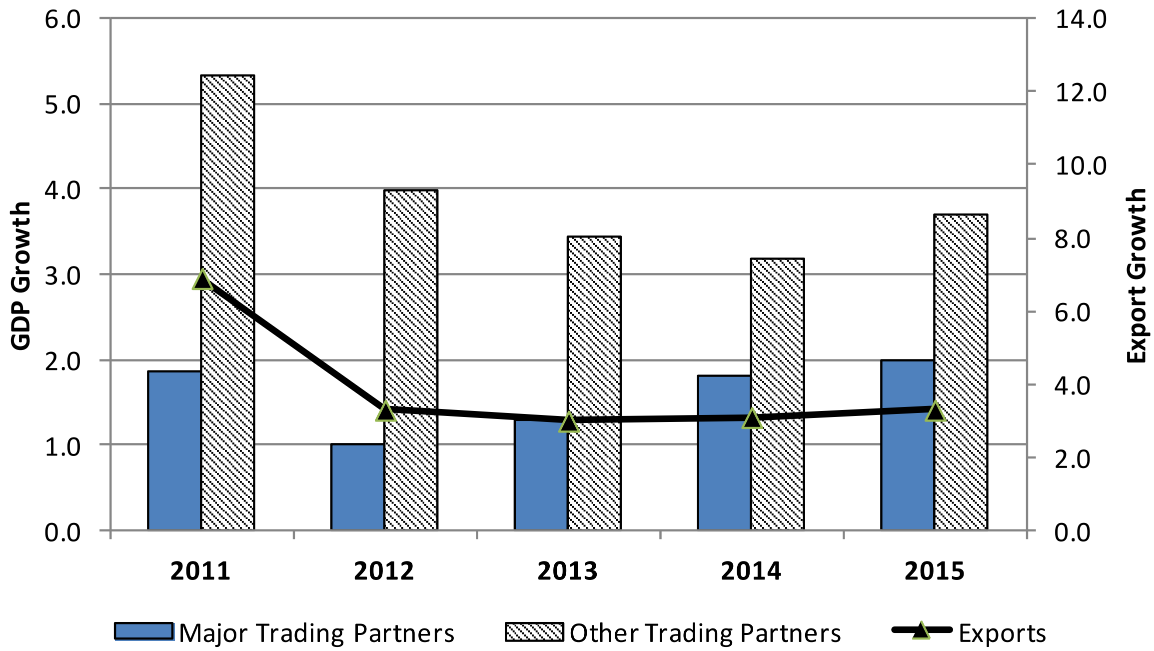
Global Economic Growth



The strength of any nation's economy will have an impact not only on the demand for their domestic goods but, on the demand for other countries' goods as well. In addition, as the supply of business inputs has become more globalized, a change in business spending and production in one country can impact business production in another. As the global economy came out of the recession in 2009, products and services exported out of the United States grew by over eleven percent in 2010. However, as global economic growth slowed, so too did export growth. The projected growth in the global economy is projected to provide modest export growth in 2015, increasing to 3.3 percent.

Figure 10

Exports and Global Economic Growth



The value of a nation's currency also helps or hinders export and import growth. When the value of the currency increases, the price of domestic goods increases; making them more expensive compared to imported goods. Conversely, when the value of the currency declines, domestic goods become less expensive.

As the volatility in the financial markets abated and global economic growth returned in 2010, especially in the emerging markets, the dollar depreciated. In addition, as the Federal Reserve employed the monetary policy of quantitative easing, it increased the U.S. money supply which, in turn, also caused the dollar to depreciate. However, as the sovereign debt crisis spread through the Eurozone in 2011, dollar denominated assets were once again in demand. In addition, long term interest rates in the US were higher than interest rates in its major trading partners increasing the demand for the dollar and causing it to appreciate.

In 2015, the dollar is projected to continue to appreciate. It is projected to increase in value by 18 percent, against major trading partners currencies, in just one year. The appreciating dollar is expected to have a profound effect on the economy over the next year including; lowering of the core CPI, significant import gains, and low consumer price increases.

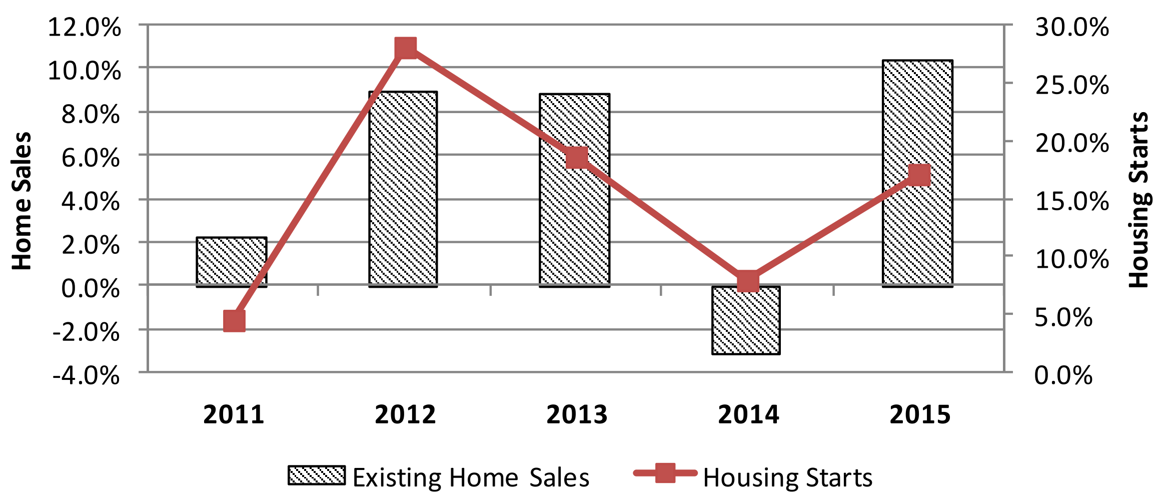
Although the dollar appreciation will make U.S. products more expensive in other countries, the projected global economic growth, especially in the Eurozone and Japan, will support stronger growth in 2015, expecting to be enough to offset declines in exports.

HOUSING MARKET

Prior to the recession, as interest rates started to rise and the economy began to slow, the housing bubble began to deflate. Then, with the collapse of the subprime mortgage market in 2008, all aspects of the housing market experienced significant declines. As part of the American Recovery and Reinvestment Act of 2009, a first time homebuyer's tax credit was enacted and was in effect until the first quarter of 2010. This tax credit was able to spur growth in home sales, however, that growth was short lived. Once the tax credit expired, home sales declined in 2010. In 2011, mortgage rates remained at historical lows and sales of existing homes grew, but only by two percent. Since then, the housing market has been experiencing strong growth. There was a decline in existing home sales in 2014, however this was offset by two years of strong growth in housing starts.

Figure 11

Housing Market Growth



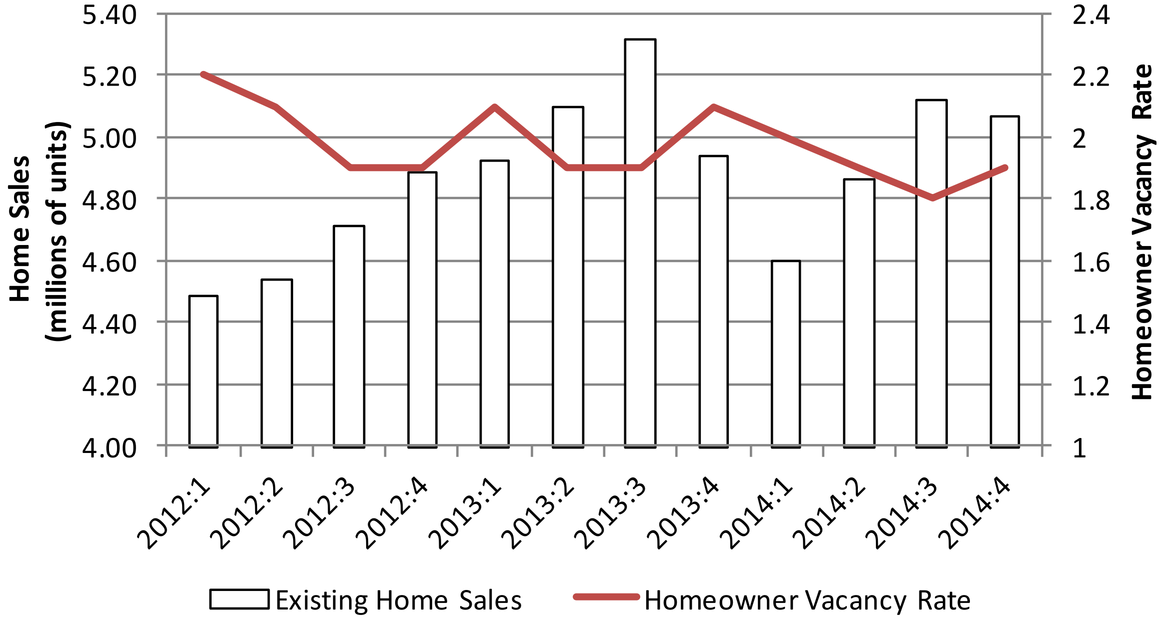
Throughout 2012, existing home sales continued to exhibit growth, causing the homeowner vacancy rate to continue to decline. Strong growth in 2013 was hampered by the expiration of the payroll tax reduction, the federal government shutdown, increasing interest rates, and adverse weather conditions, resulting in an increase in the vacancy rate once again.

Many homebuyers felt constrained by high interest rates in the first two quarters of 2014, which resulted in sluggish sales, but picked back up in the last quarters, as rates decreased and making homes more affordable. In addition, the lack of growth in the number of new household formations has caused slow growth in home sales, which is caused by an ageing population and slow wage growth. According to the Census Bureau, the number of household formations are expected to increase in late 2014 and into 2015 partially as a result of increased immigration, which could help boost home sales.

With the economy projected to continue to strengthen in 2015, the steady job growth predicted, and the projected decrease in mortgage rates will cause growth in the housing market. Existing homes sales are project to increase to 5.43 million units in 2015, up from 4.92 million units in 2014.

Figure 12

Existing Home Sales

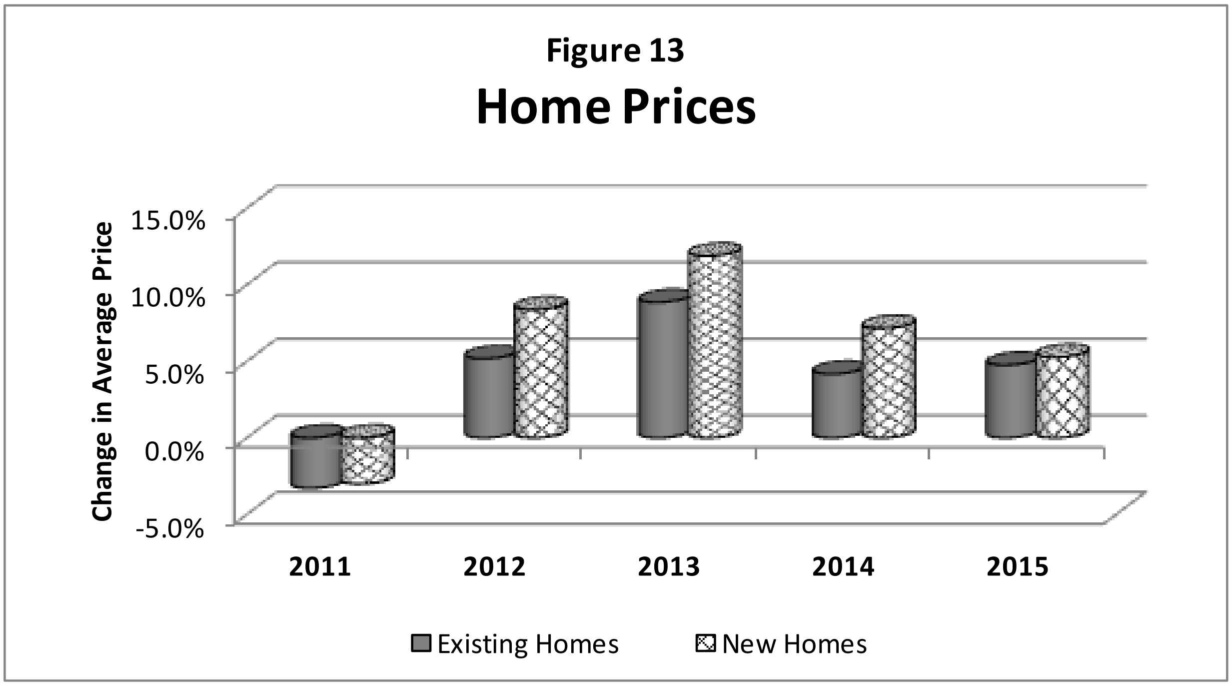


Source: U.S. Census Bureau, IHS Global Insight

Trends in home prices are a better indicator of the health of the housing market than homes sales. The trends in home prices can indicate what is in store for home sales. Robust home prices encourage homeowners to list their homes for sale, leading to a larger inventory and more sales.

As mortgage rates began to rise over the course of 2013, the demand for housing grew as people sought to take advantage of the lower rates. This increased demand pushed home prices higher, increasing by 8.9 percent and 11.3 percent for existing homes and new homes, respectively.

After a few years of large fluctuations in homes prices, they have finally stabilized, which is expected to encourage homeowners to list their homes for sale, as the risk is minimized. The price of existing homes is projected to increase by 4.7 percent in 2015.

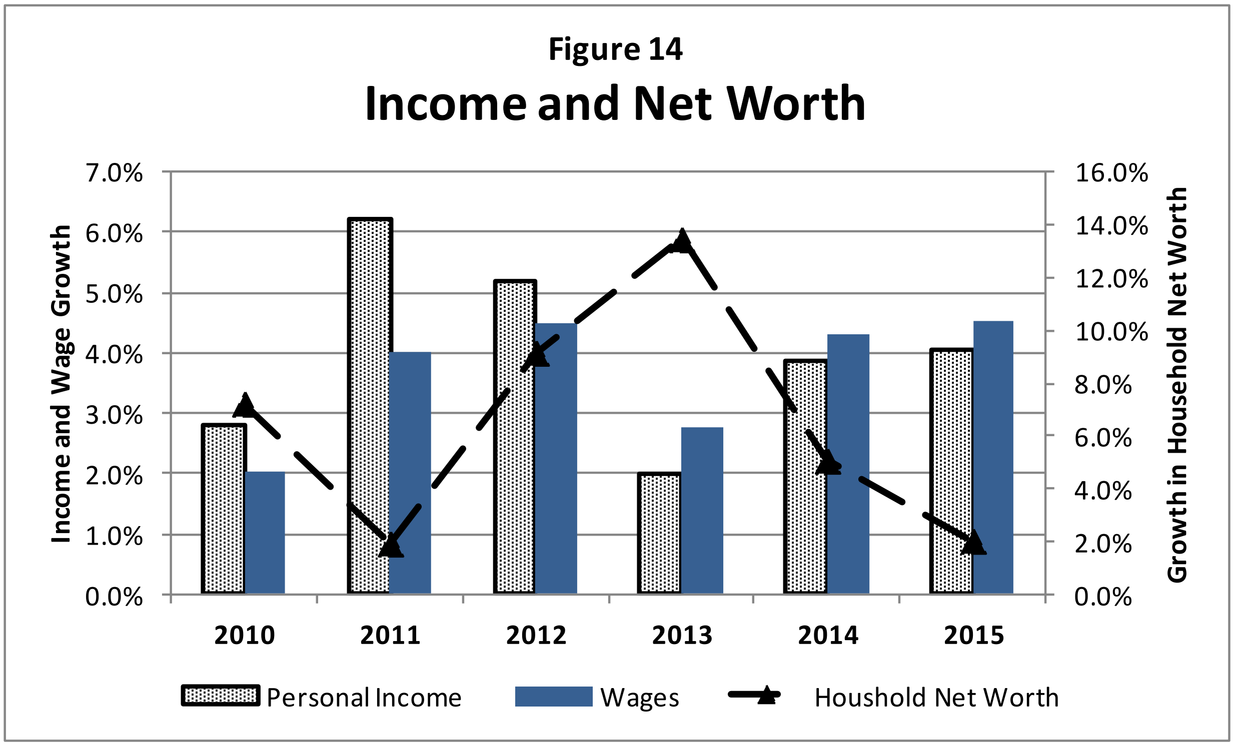


CONSUMER SPENDING

The beginning of the report stated that in order for an economy to expand, it requires consistent growth in the labor market and the capital market. 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, his 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.

After large job losses in 2009 and into the 2010, the labor market strengthened in 2012, increasing wages 4.3 percent from 2011. Personal income growth in 2012 also benefitted from approximately $26.4 billion in special dividends being paid in December of 2012 ahead of the new Medicare tax on investments that went into effect on January 1, 2013 and increased capital gains realizations in anticipation of the potential expiration of the Bush era tax cuts.

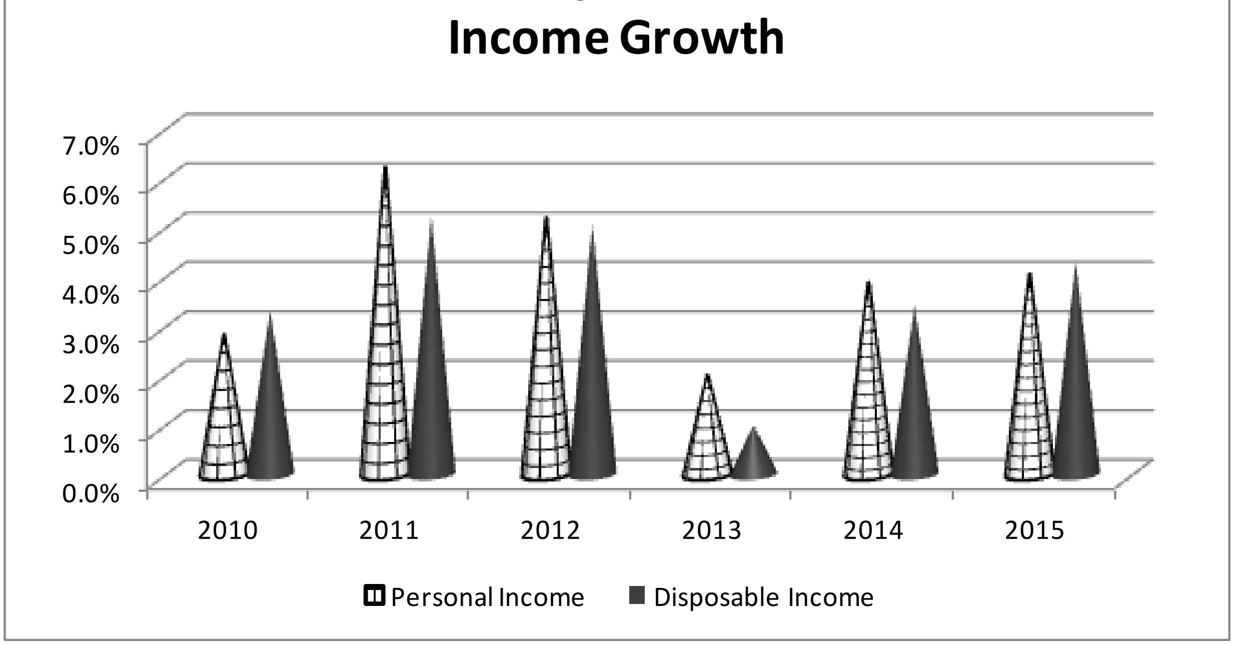
Employment growth continued in 2013 but, at a slightly slower pace than in 2012. This slower employment growth resulted in slower wage growth; wage growth increasing by 3.0 percent. Personal income growth slowed as well, increasing by 2.8 percent. Along with the slower wage growth, personal income growth was impacted by the “spin up” of dividends and capital gains into 2012.



With the strengthening of the economy, the labor market continued to expand in 2014, increasing by an estimated 1.9 percent. With this increase in employment, wage growth accelerated by 4.3 percent, while personal income grew at a rate of 4.0 percent.

The economy is continuing to strengthen into 2015, as the labor market continues to expand. Employment is expected to increase at a slightly faster pace than 2014, leading to a slightly faster wage growth of 4.5 percent. Along with this faster employment and wage growth is a stronger personal income growth of 4.1 percent.

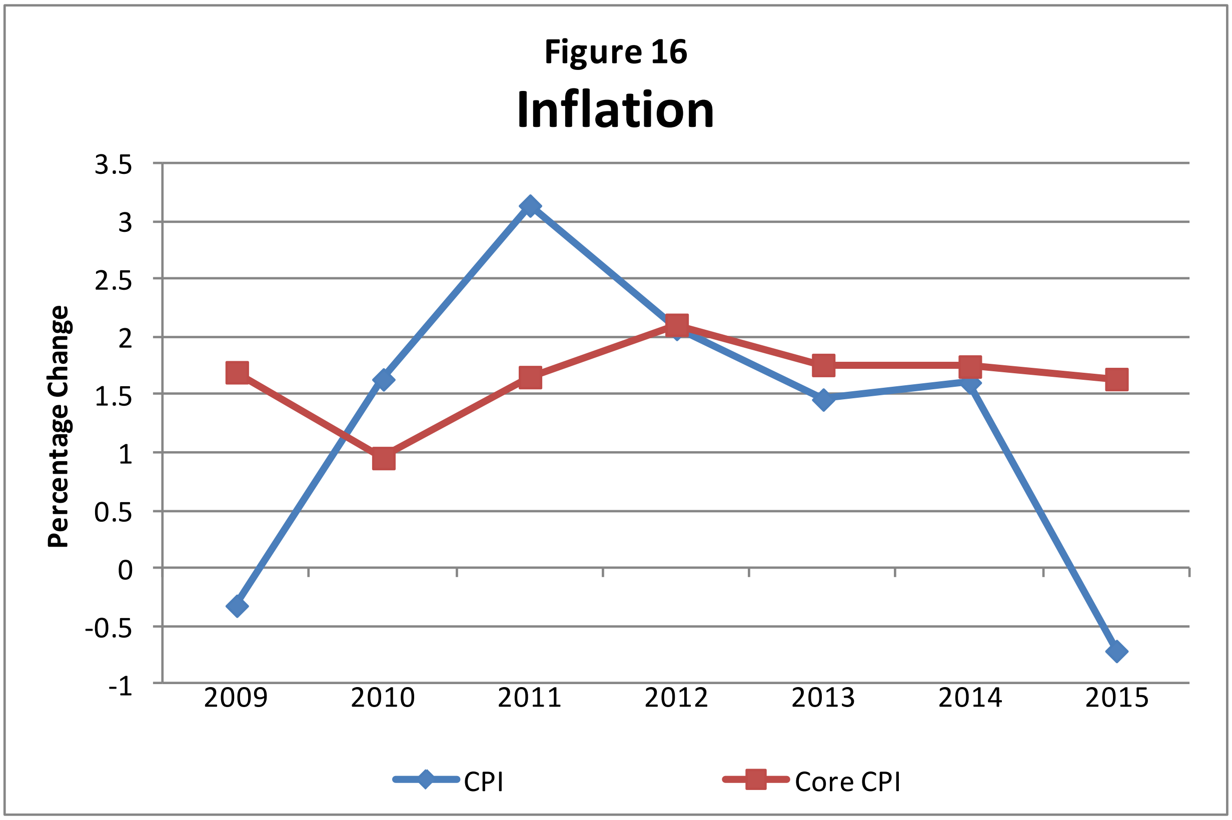
Figure 15



Personal income, also known as a person's gross income, is the total amount of wages and property income received by the consumer. However, the actual amount the consumer has available to spend in the economy is his disposable income – his personal income less tax payments. Due to the temporary nature of tax benefits since 2010, the amount of the consumer's disposable income has fluctuated. As shown in figure 22, the growth in disposable income mirrored personal income growth in 2010 and 2012. In 2011 and 2013, disposable income growth lagged personal income growth primarily as a result of the expiration of tax credits in 2011 and the expiration of emergency unemployment benefits in 2013.

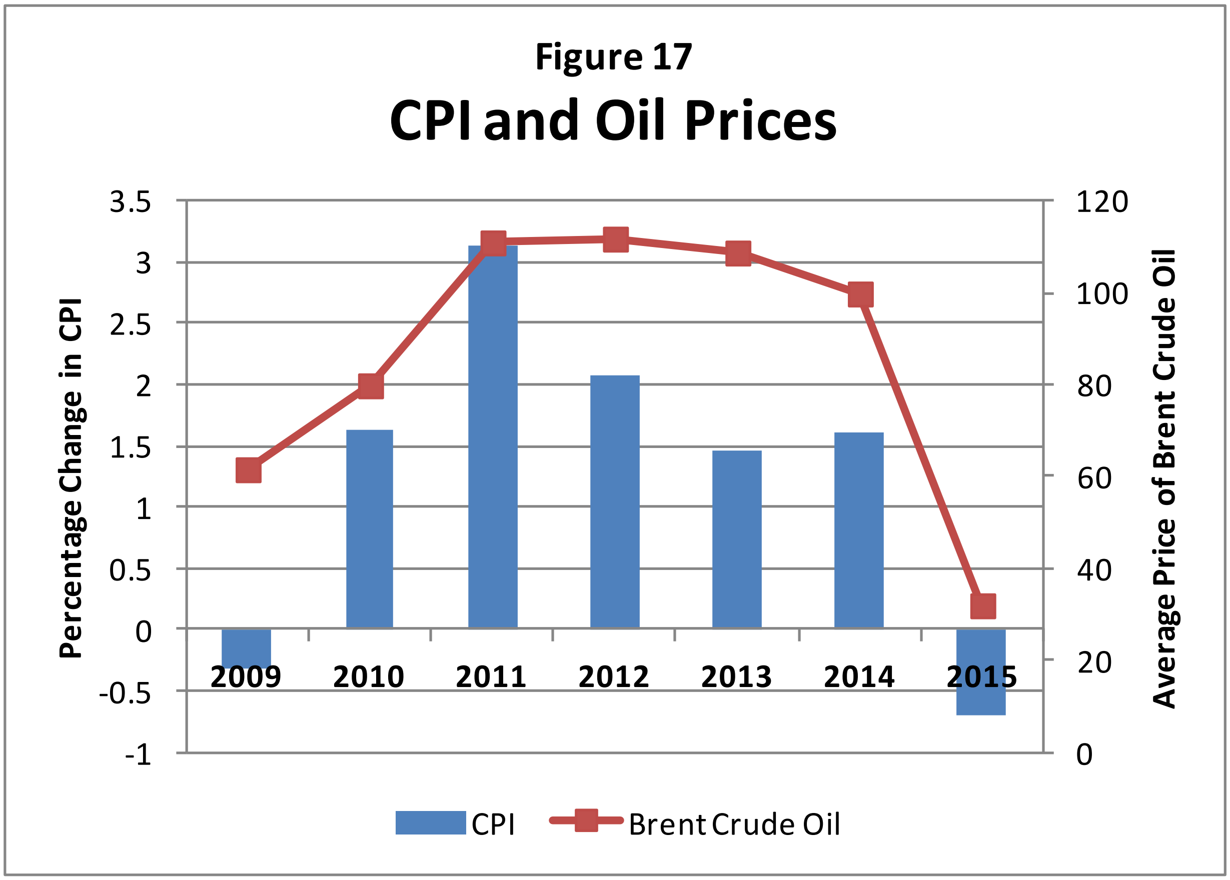
Although the emergency unemployment benefits expired at the end of 2013, it did not have a significant impact on disposable income growth in 2014, due to the offsetting positive effect the huge drop in oil prices had on disposable income. As a result, disposable income is estimated to have grown by 3.4 percent as compared to personal income growth of 3.9 percent. The drop in the price of oil will continue to have a positive effect on disposable, with disposable income increasing at a faster pace than personal income in 2015, 4.3 percent and 4.1 percent, respectively.

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 theses 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 the cost of energy in the production process into account when pricing their goods.



During the global recession in 2009, there was a period of deflation, as shown in figure 16. However, when excluding food and energy prices, core inflation decreased but, was still positive during the same time period. This difference between the two indices was due to a large decrease in oil prices which are excluded in the calculation of core inflation. We are predicting a similar period of deflation in 2015, with CPI dropping by 0.7% which is solely caused by the significant drop in oil prices, which are not expected to last past 2015. As mentioned above, income and wages are a major factor influencing consumption, the estimated deflation of 0.7 percent in 2015 is driving the increase in consumption as well.

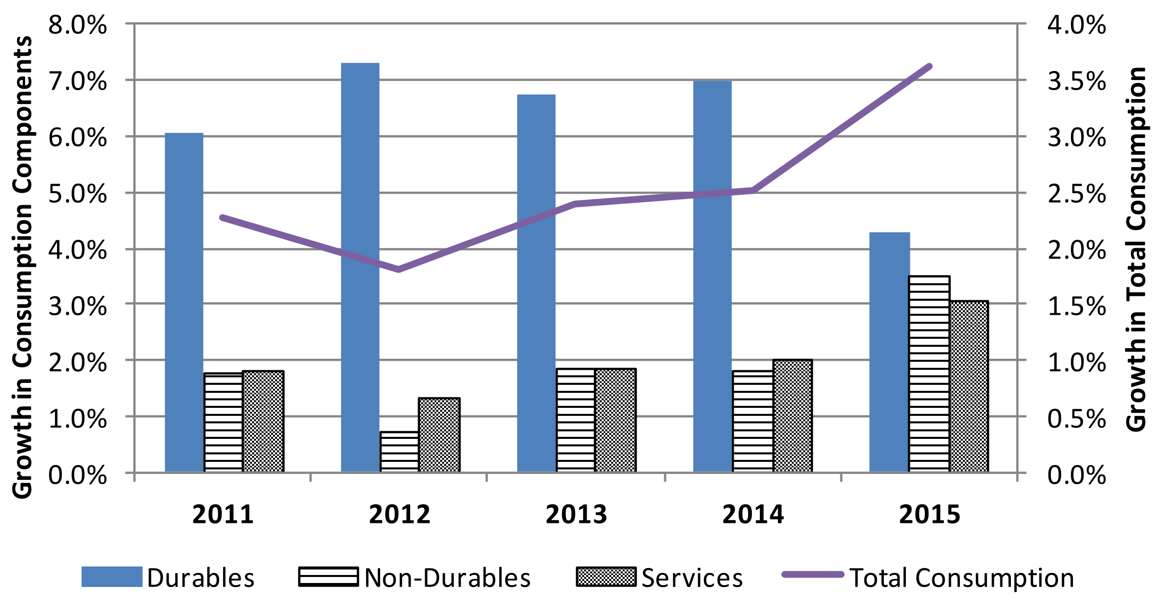
Figure 17 shows the relationship between the inflation rate and oil prices. As mentioned above, oil prices decreased significantly in 2009 which, in turn, caused a drop in the Consumer Price Index, the measure of inflation. With the subsequent rise in oil prices during the recovery, inflation also rose. Oil prices have been steadily decreasing since the end of 2014 and are expected to continue to decrease through 2015, causing another drop in the Consumer Price Index, though this drop in oil prices is not expected to last past 2015.



Oil prices are not the only factor that causes significant, and sometimes, erratic, inflation growth. Food prices, especially farm products, fluctuate year to year, especially due to weather impact on crops.

Figure 18

Real Consumption Growth



The consumption of services accounts for approximately two thirds 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. As a result, growth in these components as well as services drive consumption growth.

With estimated wage and income growth as well as continued low inflation, consumption grew slightly in 2014, increasing by 2.5 percent. With strong growth in cars and light truck sales, the consumption of durables continued to grow at a rate of 7.0 percent. This growth was augmented by increased growth in the consumption of both non-durables and services as well.

With continued projected wage and income growth as well as deflation, consumption growth is projected to accelerate significantly in 2015, increasing by 3.6 percent. The strong dollar is expected to help keep consumer prices low, which will help to drive this growth. Growth in durable goods is projected to grow, but at a slower rate than in previous years due to a slowing in auto sales. Slowing in durable goods growth is expected to be offset by strong growth in both services and non-durable goods. Even with strong consumption growth, it is still slower than the growth in disposable income, so consumers savings from gasoline are not expected to be spent elsewhere.

RISKS TO THE FORECAST

While the price of crude oil is projected to continue to decrease through the first half of 2015, any actions on part of OPEC to decrease production sooner would have a significant impact on not only consumers discretionary income, but could increase inflation sooner than expected. Countries such as Russia, Iran and Venezuela cannot maintain these low prices for much longer as their country's budgets are heavily dependent on oil revenue and may pressure OPEC to increase prices sooner.

While not very likely, and the economic impact not being very large, if the price of oil were to decrease lower than current projections, US producers may find it uneconomical to continue producing oil at some of their high production cost facilities. However, these declines would be offset by increased consumer spending.

A more robust than expected stock market could strengthen consumer confidence and increase the growth of consumption, put upward pressure on the housing market and increase exports. An increase in consumer spending and exports would cause businesses to further expand, positively affecting both wages and employment. While a weakening stock market could have the opposite effect.

It is expected that the Feds will increase interest rates in the middle of the year, but factors such as Greece leaving the Eurozone, core inflation decreasing greater than projections, and oil prices having a negative effect on domestic investment all risk the possibility that interest rates will not be increased until end of the year.

The International Longshore and Warehouse Union and the Pacific Maritime Association labor dispute affected ports in California, the second largest exporter in the country. This dispute caused backlogs in imports and exports that is expected to take three months to correct. If activity at the ports are able to return to normalcy faster than three months, consumption would increase, inventories would decrease, and exports would increase, all positive influences on the national economy.

Although the economy of the Eurozone and our other trading partners is improving, if global economic growth improves at a faster rate, there is the potential that their currency appreciates as well. This would slow the rate at which the dollar is expected to appreciate, resulting in an increase in exports.

New York State Economic Outlook

Calendar Year

(Dollar Figures in Billions of Dollars)

	2014	2015	2016	2017
Gross State Product	$1,354	$1,412	$1,471	$1,529
Percent Change	3.3%	4.3%	4.2%	3.9%
Real Gross State Product	$1,247	$1,277	$1,306	$1,331
Percent Change	1.7%	2.4%	2.3%	1.9%
Nonagricultural Employment, Thousands	9,021	9,137	$9,239	9289.06
Percent Change	1.2%	1.3%	1.1%	0.5%
Unemployment Rate	6.4%	5.7%	5.5%	5.2%
Personal Income	$1,111	$1,148	$1,195	$1,254
Percent Change	3.8%	3.4%	4.1%	4.9%
Wages and Salaries	$592	$613	$640	$667
Percent Change	4.7%	3.5%	4.5%	4.3%
Retail Sales	$268	$273	$285	$299
Percent Change	3.8%	1.6%	4.5%	4.7%
Housing Starts, Thousands	34.9	34.7	32.5	30.8

Source: HIS Global Insight US Macroeconomic Forecast: February 2015

New York State Economic Outlook

State Fiscal Year

(Dollar Figures in Billions of Dollars)

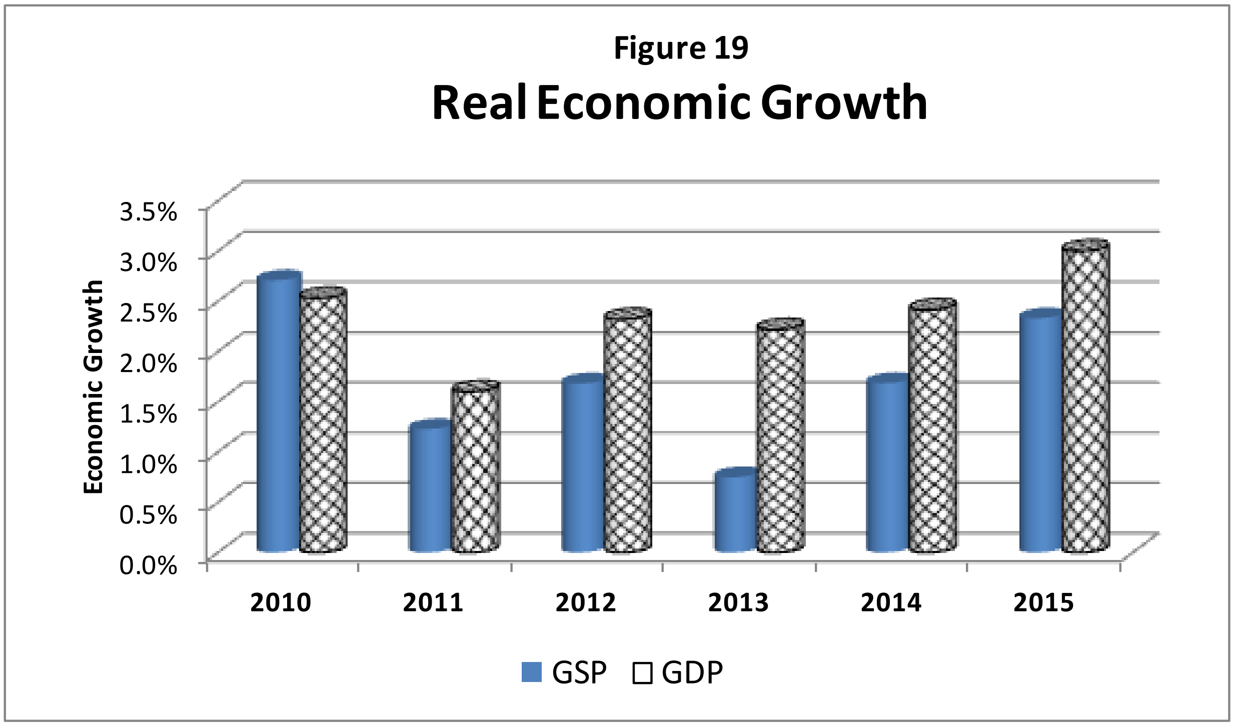
	2014	2015	2016	2017
Gross State Product	$1,321	$1,369	$1,428	$1,486
Percent Change	2.6%	3.6%	4.3%	4.1%
Real Gross State Product	$1,233	$1,255	$1,285	$1,313
Percent Change	1.2%	1.8%	2.3%	2.2%
Nonagricultural Employment, Thousands	8,944	9,049	$9,164	9258.56
Percent Change	1.4%	1.2%	1.3%	1.0%
Unemployment Rate	7.4%	6.2%	5.7%	5.4%
Personal Income	$1,081	$1,121	$1,158	$1,209
Percent Change	1.6%	3.7%	3.4%	4.4%
Wages and Salaries	$574	$596	$619	$646
Percent Change	3.2%	3.8%	4.0%	4.4%
Retail Sales	$260	$270	$276	$288
Percent Change	2.9%	3.7%	2.1%	4.6%
Housing Starts, Thousands	29.1	35.3	33.5	32.3

Source: HIS Global Insight US Macroeconomic Forecast: February 2015

The New York Economy

Gross Domestic Product is the total amount of 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 other states. The output 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 drilling domestically, 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.



In 2013, even with the significant growth in the stock market, despite the volatility from the debt ceiling impasse and emerging market concerns, and as well as the rebuilding effort from Super Storm Sandy, economic growth was not bolstered, only increasing 0.3 percent as compared to 2.2 percent growth in GDP.

Economic growth improved in 2014, as compared to 2013, due in large part to strong growth in personal income. However, unlike the projected acceleration in national economic growth, economic growth in new york still improved, increasing 1.7 percent in 2014. This is primarily due to slower growth in the financial markets as well as employment growing at less than the national rate.

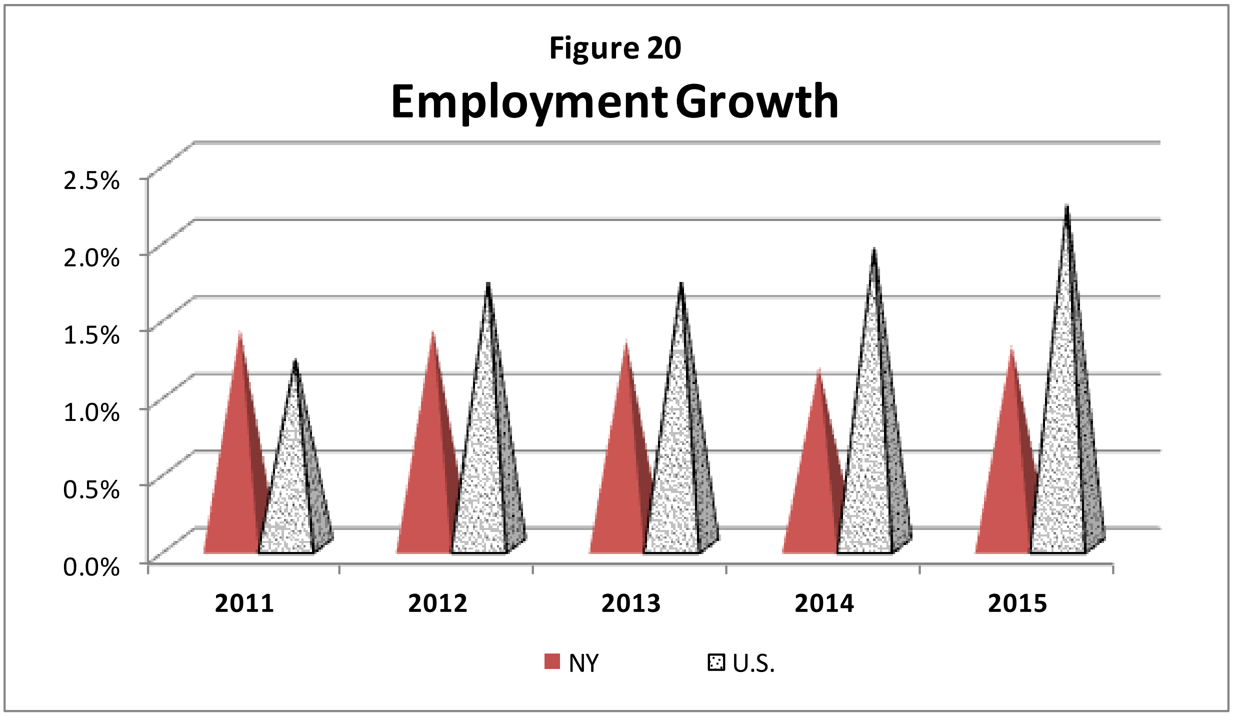
This growth is projected to continue into 2015, with economic growth projected to increase 2.3 percent. While this growth is still slower than national economic growth, which is projected to increase by, 3.0 percent, the gap between the state and nation is not as wide. This can partially be explained by new york's strong real estate market, particularly in new york city.

LABOR MARKET

Since 2012, job growth in New York has been outpaced by national job growth. In 2012 national employment increased by 1.7 percent whereas job growth in New York remained the same at 1.4 percent. In 2013, national job growth continued at approximately the same pace, growing by 1.6 percent. Conversely, New York's job growth slowed, increasing by only 1.1 percent.

In 2014, national job growth continued to outpace job growth in New York. National employment grew at a rate of 1.9 percent while New York employment increased by 1.2 percent.

This same trend is expected to continue in 2015, with national job growth outpacing New York job growth. National employment is projected to increase by 2.2 percent, while New York's employment is projected to increase by 1.3 percent, slightly stronger growth than in 2014.



In 2011, the financial services industry was growing and jobs that were once lost, were again being created. However, this job creation was realized primarily in the first half of the year. As market volatility continued in the second half of the year and the profits of Wall Street firms diminished, hiring was put on hold.

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.

With volatility in the bond market sector and restrained growth in profits, the financial services industry shed jobs in 2013, decreasing employment by 0.4 percent. This decrease in jobs continued in 2014, decreasing by 0.1 percent and is projected to continue to decrease at the same rate in 2015.

The other industry that was significantly impacted by the economic downturn was the construction industry. With the decline in the housing market and tight credit conditions, the construction industry started to realize significant declines in employment, decreasing by almost ten percent in 2009. Although the housing market did recover and in 2011, the large growth in multi-family housing starts, resulted in gains in construction jobs through 2014. None the less, those multi-family housing starts are projected to decrease in 2015, resulting in fewer construction jobs.

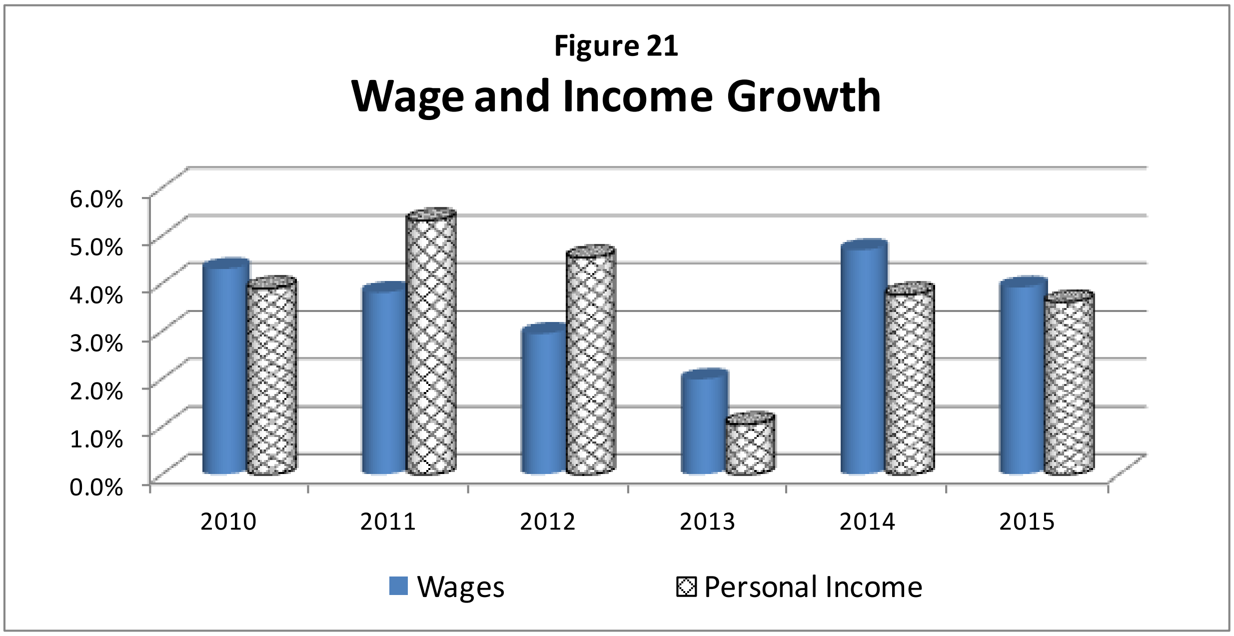
Employment in the manufacturing sector is not only influenced by the demand for goods domestically but, the demand for goods globally. The strength of the global economy as well as the value of the dollar as compared to other currencies impacts the manufacturing sector.

Similar to the construction industry, manufacturing employment suffered significant declines at the end of the recession. With the housing market still depressed and credit markets tight, there was little demand for durable goods. In addition, with little job growth, consumers had limited discretionary spending.

Even as the economy started to strengthen in 2011 and 2012, manufacturing employment in New York did not, only increasing by 0.4 percent over the two years. The manufacturing sector continued to struggle in 2013, employment decreasing by 0.9 percent. Even with stronger economic growth, especially at the national level, manufacturing employment continued to decrease in 2014, by 1.7 percent. The outlook is not looking much better for 2015 as employment is projected to remain flat.

The only industries that experienced employment growth in 2014 and are expected to show growth in 2015 are professional and business services; and leisure and hospitality. Leisure and hospitality is experiencing solid growth, increasing employment by 2.2 percent in 2014 and is expected to grow by 2.8 percent in 2015. While this is solid growth, these jobs tend to be unstable and low paying.

WAGES AND INCOME



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

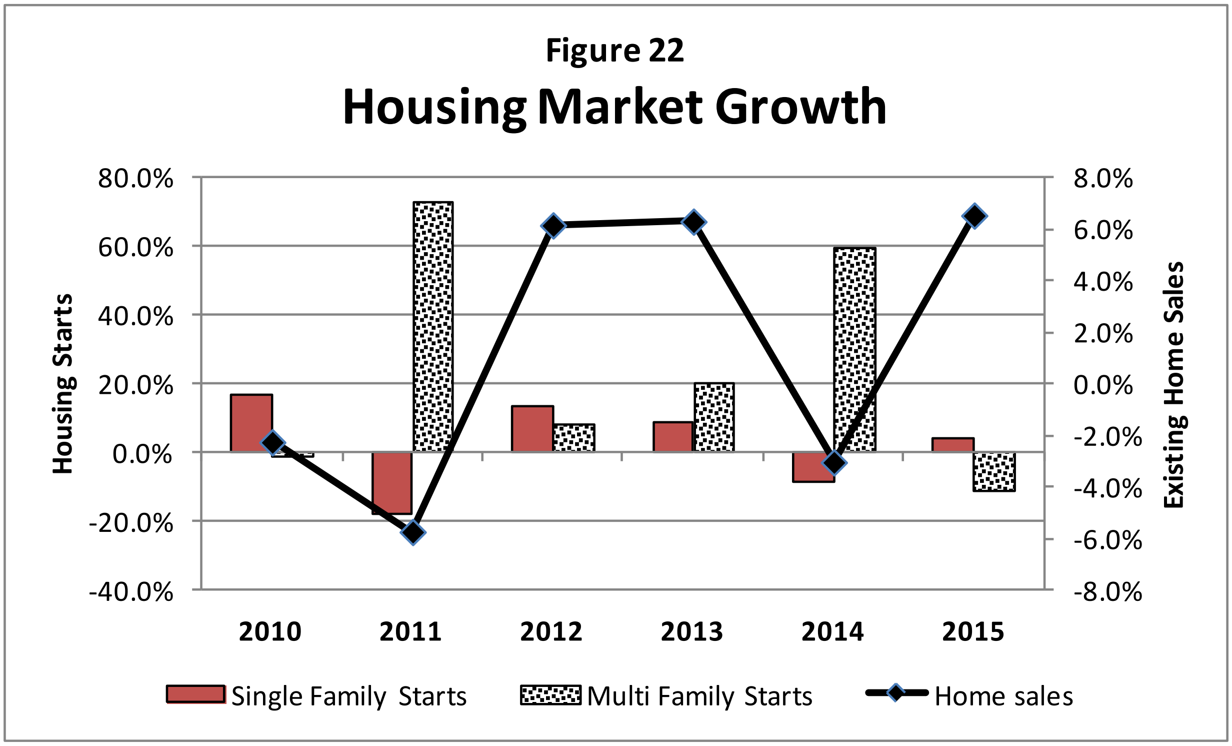
Due to the public and political backlash over the payment of large bonuses during the financial market crisis and the subsequent bailout by the Federal government, there was a change in the method by which bonuses were paid. A larger percentage of bonus compensation is being paid with stock options by 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 3.9 percent.

Due to the slowdown in employment growth in 2013 and the spin-up of dividend income and capital gains realizations into 2012, wage and personal income growth slowed in 2013, increasing by 3.0 percent and 2.0 percent, respectively.

Although employment growth was only 1.2 percent, both wage growth and personal income growth increased at a faster rate in 2014 as compared to 2013. This was the result of the one year impact of the spin-up in bonus payments and capital gains realizations resulting from anticipated federal tax law changes as well as growth in proprietors' income.

While growth in personal income tends to closely coincide with wage growth, the projected growth in 2015 is also partially due to the large drop in the price of oil, leading consumers to spend less on gasoline, partially offset by the slowing in employment growth.

HOUSING MARKET



After significant growth in 2012 and 2013, the housing market declined statewide by 3.0 percent in 2014. In relation to housing starts, multi-family housing once again exhibited the most growth; over 25,000 starts occurred in 2014. However, single family housing starts declined from 2013 and remained at the 2012 level of 9,700. Growth in single family starts is projected to return in 2015, increasing at a rate of 4.2 percent. In 2015, multi-family starts are expected to be unable to continue the growth of the previous year and is projected to decrease by 11.0 percent.

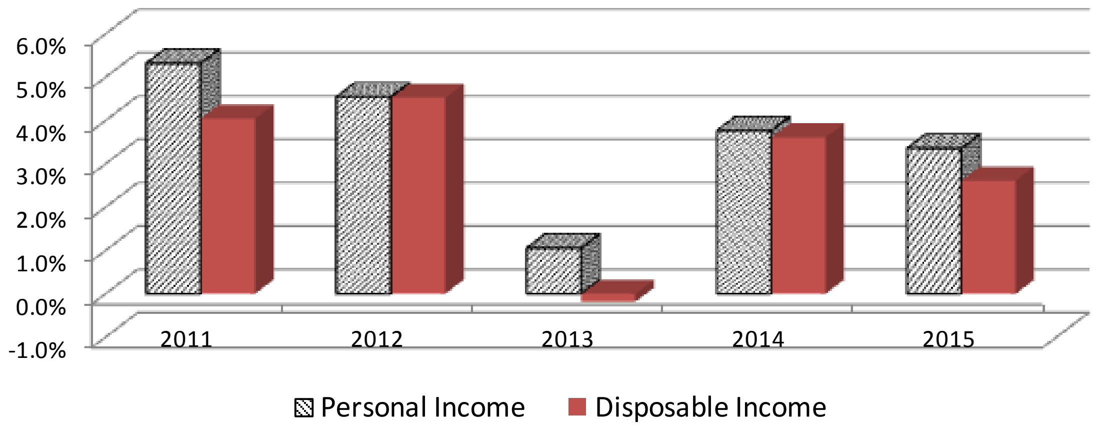
New York City on the other hand, experienced significant growth in both single family and multi family housing starts in 2014. Single family starts increased by 20.9 percent and multi family increased by 78.9 percent. While growth slows in 2015, the city will still have nearly 700 single family starts and over 18,000 multi-family starts.

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 the consumer 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.

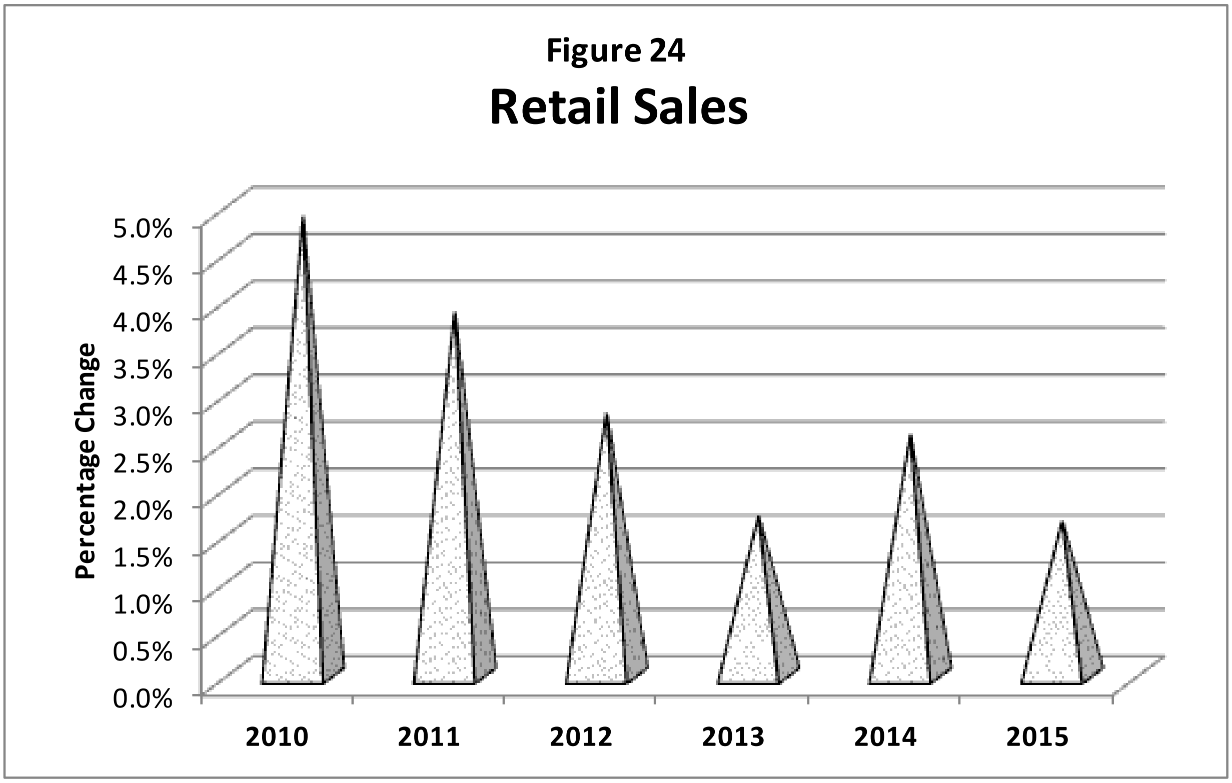
Figure 23
Comparison of Income Growth



As shown in figure 23, in 2011, disposable income growth lagged behind personal income growth due to the expiration of the Making Work Pay tax credit. As the impact of the elimination of this tax credit went away, the disparity between personal income and disposable income growth narrowed in 2012. Also mitigating this disparity was the reduction in New York personal income tax rates enacted at the end of 2011. Yet in 2013, imposition of Medicare taxes had an impact on disposable income.

While tax changes impact the level of disposable income going forward, their impact on growth is only realized in one year. In addition, as the price of oil has declined, consumers are spending less on gasoline. As a result, disposable income growth narrowed in 2014.

Even though personal income is estimated to increase in 2015, the growth will not be as strong as in 2014, only increasing by 3.4 percent, due to slowing employment and wage growth. The gap between personal income and disposable income has widened as well, the low oil prices and savings on gasoline is projected to be short lived, with prices increasing in mid-2015.



Similar to consumption growth at the national level, retail sales rebounded in 2010 as both wages and personal income grew. These sales also benefitted from the large increase in financial sector bonuses in the first quarter of the year as well as the payroll tax reduction which helped boost the overall disposable income of consumers.

In 2013, with the impact of the expiration of the payroll tax reduction and the imposition of the new Medicare taxes, disposable income growth declined. Offsetting this decline was the growth in 2012 bonus payments which resulted in retail sales growth of 2.3 percent.

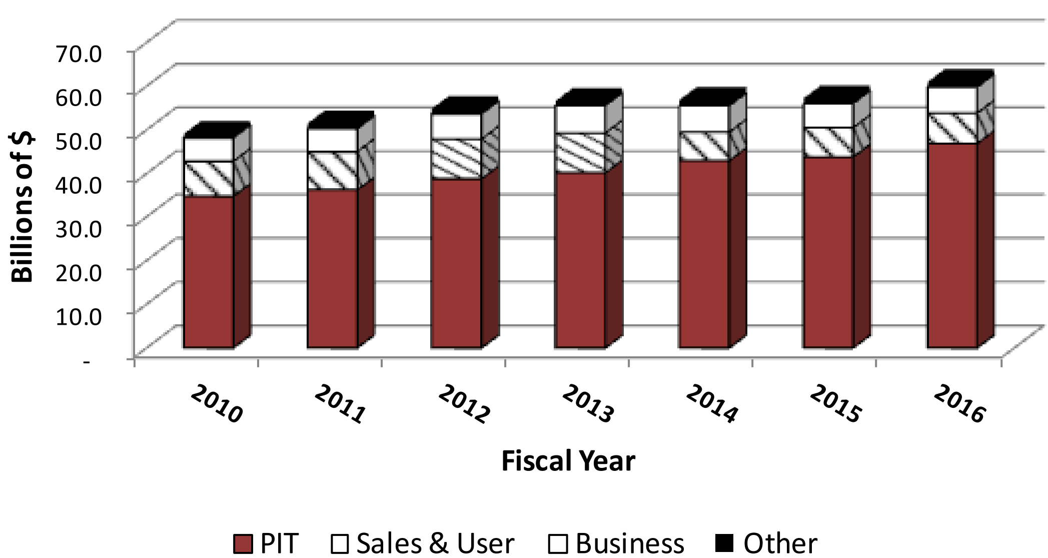
With income growing in 2014 as well as stronger economic growth, retail sales grew by 2.6 percent, similar to consumption growth at the national level. But for 2015, retail sales are not expected to keep pace with consumption growth at the national level, only increasing by 1.7 percent. While consumers are saving money from the low gasoline prices, it is not translating into immediately increased retail sales.

Revenue Outlook

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

Figure 25

General Fund Tax Collections

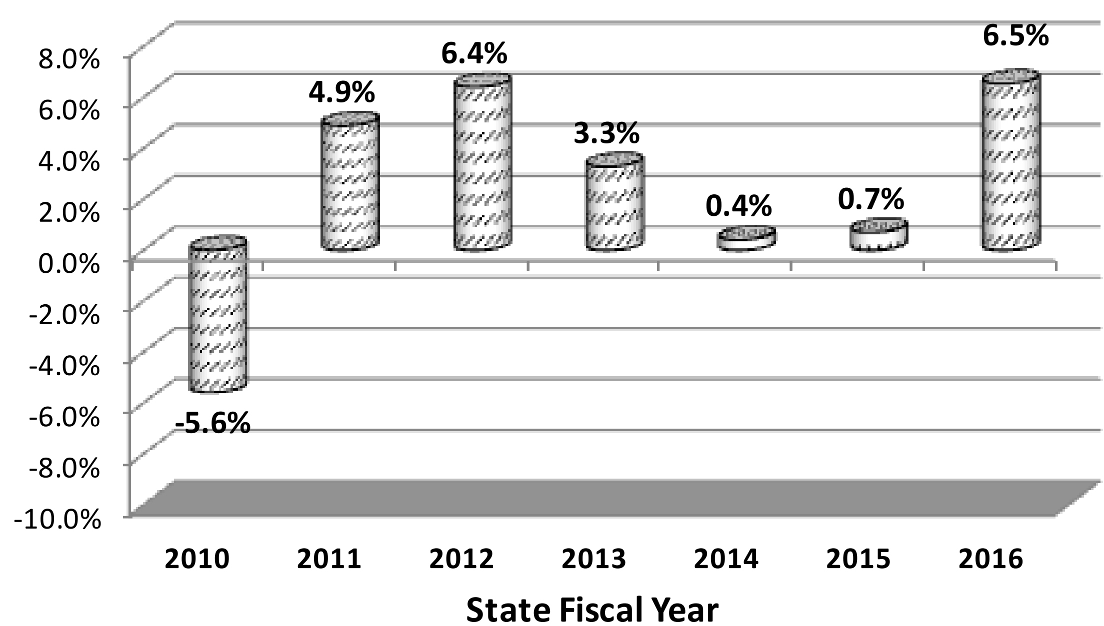


Using the NYSTREM model, the Senate Finance Committee estimates gross General Fund tax collections in FY 2015, excluding the deposits to the STAR and Revenue Bond

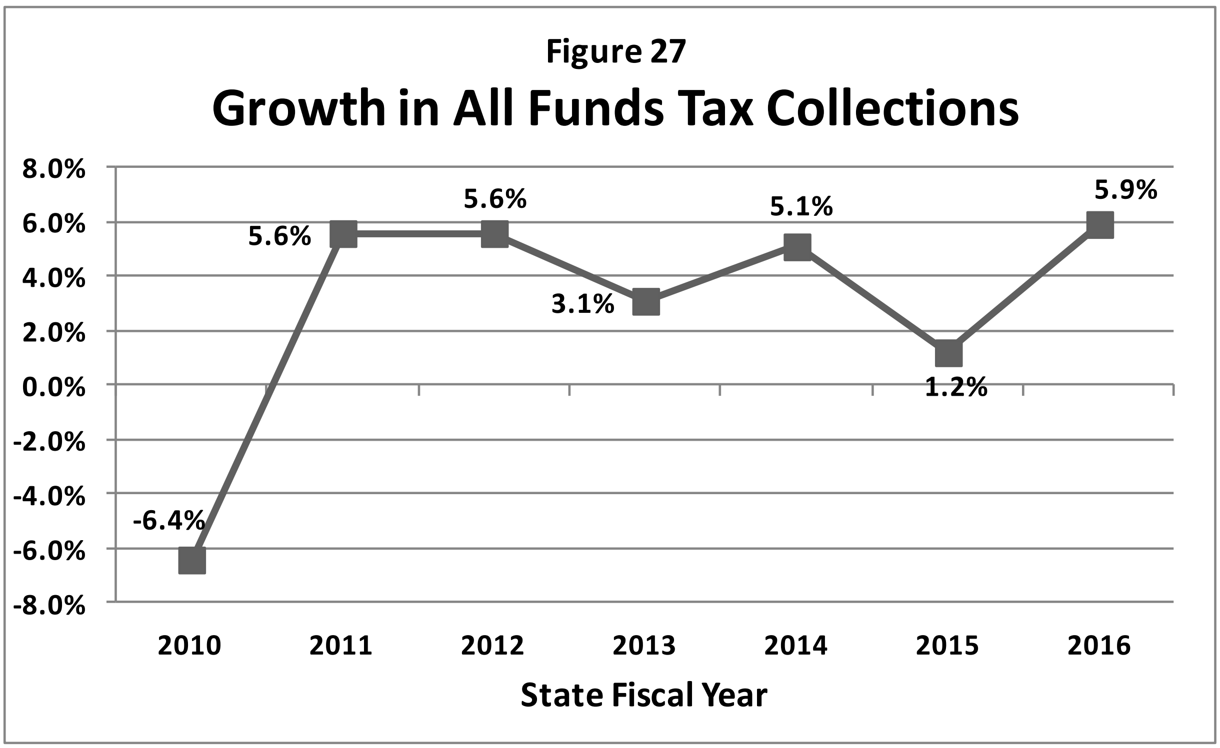
Tax Fund, will increase by 0.7 percent to $57.2 billion. All Funds collections are expected to increase by 1.2 percent to $70.5 billion in FY 2015. This increase is driven by personal income tax receipts which saw strong growth in withholding, a result of increased wages, and growth in sales and use taxes due to an increase in consumer spending. This growth was partially offset by a steep decline in estimated payments due to the inflated amount of extension payments that the State saw in FY 2014 as a result of the spin-up of capital gains realizations on personal income tax returns for the 2012 tax year; and a steep decline in corporate franchise tax receipts as a result of reduced audits and an increase in refunds due to the first year of the repayment of the deferred credits from 2010-2012.

Figure 26

Growth of General Fund Tax Collections



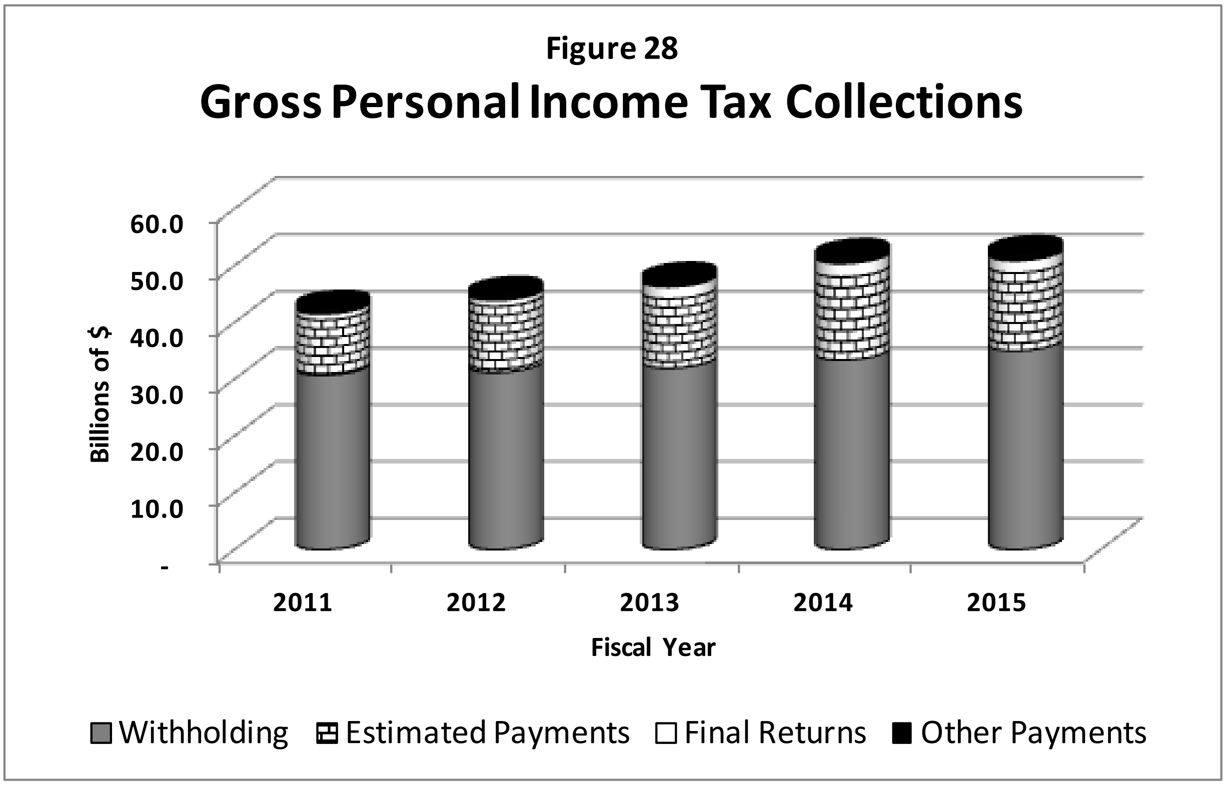
In FY 2016, the Senate Finance Committee projects that General Fund tax collections, excluding special revenue transactions, will increase by 6.5 percent to $61.0 billion. All Funds collections will increase by 5.9 percent to $74.7 billion. This increase reflects continued projected growth in the economy, offset by a reduction in receipts as a result of tax credits given to homeowners, manufacturers and the continued repayment of deferred tax credits.



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 2015, total General Fund personal income tax collections, net of $14.3 billion in reserve transactions, are estimated to increase by 2.0 percent to $43.8 billion. This increase reflects strong growth in withholding, a result of wage and employment growth. But this increase in withholding was offset by a sharp decline in estimated payments from those realized in FY 2014 as a result of the spin-up of capital gains realizations on personal income tax returns for the 2012 tax year.

In FY 2016, total personal income tax collections, net of $14.9 billion in deposits to the reserve funds, are projected to increase by 7.0 percent to $46.9 billion. This increase is a result of the projected wage and personal income growth in 2015, closure of a resident trust loophole in FY 2014 and the FY 2015 Executive Budget proposal to eliminate the NYC STAR reduced rate for taxpayers with incomes over $500,000. The increase to the personal income tax collections is partially offset by legislation enacted in FY 2013 and FY 2014 that will reduce personal income tax collections. This legislation includes the small business tax exemption, Family Tax Relief Credit, Real Property Tax Freeze Credit, Manufacturers Real Property Tax Credit and START-UP NY.



PIT Components

Withholding and estimated payments are methods by which the taxpayer can equalize his personal income tax payments over the course of the tax year as opposed to being liable for one, lump sum payment. When a person receives income, primarily wages, the appropriate tax is withheld and remitted to the State at the time the income is received. Withholding tax collections in the current fiscal year are estimated to increase by 4.9 percent to $35.0 billion.

Withholding collections in the fourth quarter of the fiscal year historically have accounted for over thirty percent of total withholding for the year. This is due to the payment of bonuses by the financial services industry for their performance in the previous calendar year. In addition, the compensation structure of financial services employees has changed since the public backlash over bonuses being paid to financial companies who 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 by which 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.

Bonus payments have remained flat from FY 2014 to the current fiscal year. Even without growth in bonus payments, increased wages resulted in the continued growth in collections. Withholding collections in FY 2016 are projected to increase by 7.0 percent to $37.5 billion, resulting from the projected increase in employment and wage growth; and an additional payroll day due to the leap year. This growth will be partially offset by inflation adjustments to the withholding tax tables.

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" his 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. As the housing market declined, there has been less speculation in real estate by investors which decreased its contribution to capital gains realizations.

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

Estimated tax payments are estimated to be 6.4 percent lower in FY 2015; a decrease of approximately $909 million. This decrease reflects a sharp decrease in the amount of estimated payments paid with taxpayers' requests for extensions to file their annual tax returns. As stated previously, this year-to-year decrease in extensions is a result of the inflated amount of extension payments that the State saw in FY 2014 as a result of the spin-up of capital gains realizations on personal income tax returns for the 2012 tax year. This decrease was partially offset by growth in estimated tax payments reflecting growth in growth in proprietors' income in 2014.

In FY 2016, estimated payments are projected to increase by 7.7 percent, to $14.8 billion. This increase primarily reflects strong continued growth in proprietors' income into 2015 and strong growth in the market.

The personal income tax is also collected through the annual returns taxpayers must file. The annual return is essentially a reconciliation of a taxpayer's taxable income (gross income less deductions) and taxes paid through withholding or estimated payments throughout the preceding calendar year. As such, additional tax liability due or refunds are considered the "settlement" of a taxpayer's personal income tax. Payments made through the filing of annual returns are estimated to decrease by 9.5 percent in FY 2015. Since final return payments are based on a taxpayer's income for the previous calendar year, this year-to-year decrease is primarily due to the inflated growth in FY 2014 resulting from strong personal income growth in 2012. In FY 2016, collections from final returns are projected to increase by 8.6 percent, to $2.4 billion. This increase is a result of the increased personal income growth in 2015.

The amount of refunds to be paid to taxpayers is estimated to be 2.8 percent lower in FY 2015. The decrease in refunds is primarily due to the planned decrease in the amount of current year refunds paid in the fourth quarter of the current fiscal 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 to 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. A onetime increase to this cap was imposed in FY 2014 in response to strong estimated tax payments. In the current fiscal year, the amount of refunds decreased by $240 million, to $8.4 billion. This decrease is partially attributed to the decrease in the current year refund cap from the one-time increase of $2.08 billion in FY 2014 back to $1.75 billion, and a decrease in prior-year refunds. These decreases to refunds are partially offset by an increase in current year refunds resulting from the pre-payment of Family Relief Tax Credit and Property Tax Freeze Credit mailed in the fall of 2014, which are being accounted for separately from the current year cap.

For FY 2016, refunds are projected to increase by $691 million, to $9.1 billion. The increase in refunds is due to full implementation of the Property Tax Freeze Credit and an expected increase in prior year refunds, as the cap on current year refunds was lowered in FY 2015, which reduced prior year refunds in FY 2015.

Lastly, personal income tax collections are composed of assessments imposed upon taxpayers as a result of the audit process and filing fees imposed on limited liability companies. Assessments not only consist of any overdue taxes but the interest and penalties imposed upon such liability. Other collections are estimated to increase by 7.3 percent to $1.26 billion in FY 2015. In FY 2016, other payments are projected to continue to increase by 6.6 percent, to $1.34 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.

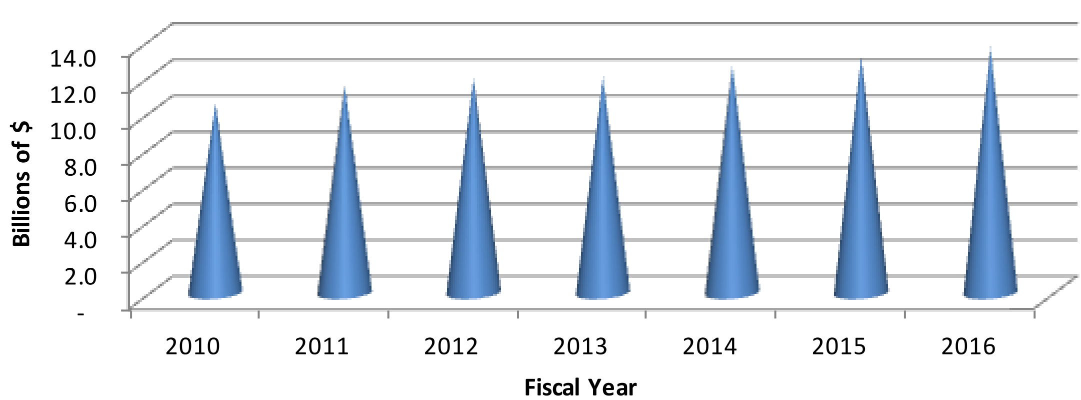
The Revenue Bond Tax Fund (RBTF) is a debt service fund into which twenty-five percent of personal income tax receipts (net of refunds and the STAR deposit) are deposited. This fund is used to pay the debt service on the State's PIT revenue bonds. Any funds in excess of the required debt service payments are transferred back to the General Fund. Deposits to the RBTF are estimated to increase by 2.0 percent in FY 2015, reflecting the projected growth in personal income tax collections during the year. Deposits into the RBTF are projected to be 6.6 percent higher in FY 2016. This increase is due to higher projected personal income tax receipts as a result of personal income and wage growth.

User Taxes and Fees

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

Figure 29

Sales & Use Tax Collections

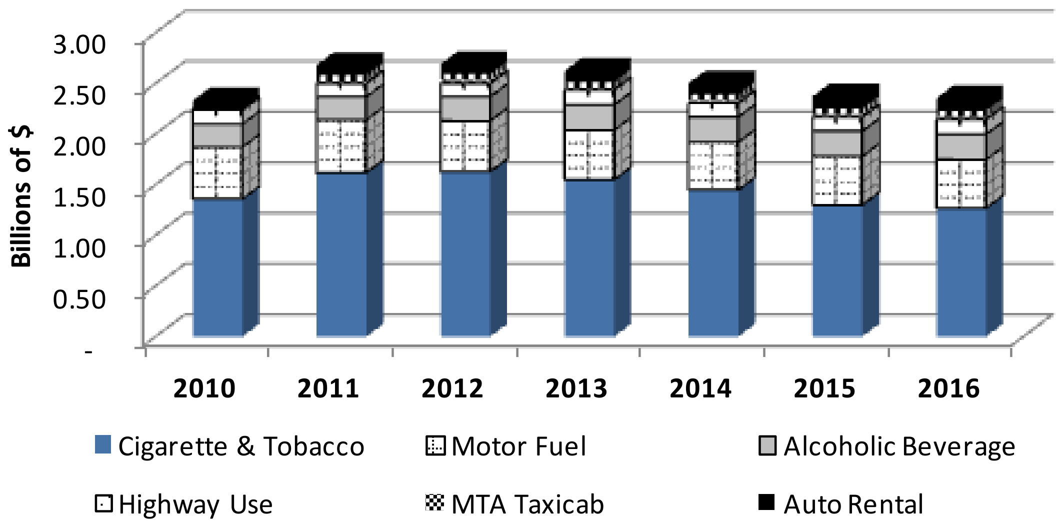


Sales and use tax collections comprise a large portion of the tax collections in this category. Receipts from this tax are deposited into the General Fund, a Special Revenue fund (the Metropolitan Transportation Operating Account), and two Debt Service Funds (the Local Government Assistance Tax Fund and Sales Tax Revenue Bond Tax Fund). In FY 2015, General Fund receipts are estimated to increase by 4.5 percent, to $6.1 billion. On an All Funds basis, sales and use tax collections are estimated to increase by 4.3 percent to $13.1 billion in FY 2015. The increase in collections reflect growth in consumption as well as income growth.

In FY 2016, General Fund receipts are projected to increase by 3.5 percent to $6.4 billion. All Funds sales and use tax receipts are projected to increase by 3.7 percent to $13.6 billion. This increase in collections reflect the projected continued consumption and income growth for 2015.

Figure 30

All Other Use Tax Collections



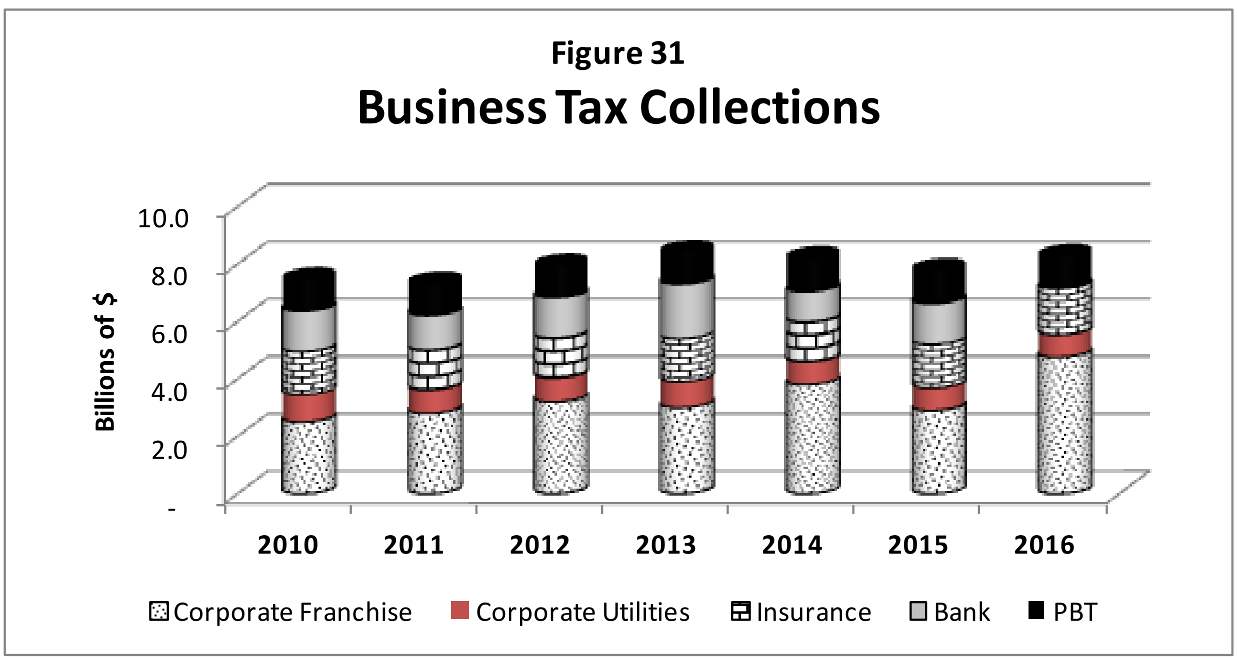
Receipts from the cigarette tax are deposited to the General Fund and the HCRA funds while receipts from the tobacco tax are deposited solely to the General Fund. General Fund collections for cigarette and tobacco taxes in FY 2015 are estimated to decrease by 23.9 percent primarily due to a large amount of refunds paid due to a court case that changed the method by which the tobacco tax is administered. All Funds collections for FY 2015 are estimated to decrease by 10.4 percent.

In FY 2016, General Fund cigarette and tobacco tax collections are projected to increase by 13.3 percent. This decrease reflects the absence of the increased refunds and the new administration of the tobacco tax. All Funds cigarette and tobacco tax collections are projected to decrease by 1.8 percent in FY 2016, reflecting the continued decline in consumption.

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 $254 million in FY 2015. In FY 2016, these tax collections are projected to remain flat at $254 million.

All Funds collections of the remaining user taxes are estimated to increase by 2.0 percent to $825 million in FY 2015. For FY 2016, collections from these other taxes are projected to increase by 1.2 percent, increasing to $835 million.

Business Taxes



Business taxes in New York are imposed on various aspects of a business' income. The corporate franchise tax and the bank tax are imposed on a business' 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 decline by 7.7 percent to $5.6 billion in FY 2015. This decline is due to the decrease in audit collections under the corporate franchise tax, corporate franchise tax reductions for qualified NY manufacturers, and the first year of the repayment of the deferred credits from 2010-2012. These decreases are partially offset by a large increase in bank audits, and growth in the insurance tax. On an All Funds basis, business taxes are estimated to decrease by 5.6 percent to $7.8 billion. This decrease is due to a the factors stated above and a decrease in collections from the petroleum business tax as a result of the 0.8 percent indexing decrease in the tax rate which occurred in January 2014.

General Fund business tax collections are estimated to increase by 7.1 percent to $6.0 billion in FY 2016. This increase is attributable to lower refunds being paid out due to the deferred credits and an increase in audits, partially offset by tax reductions for manufacturers. On an All Funds basis, business taxes are estimated to increase by 6.1

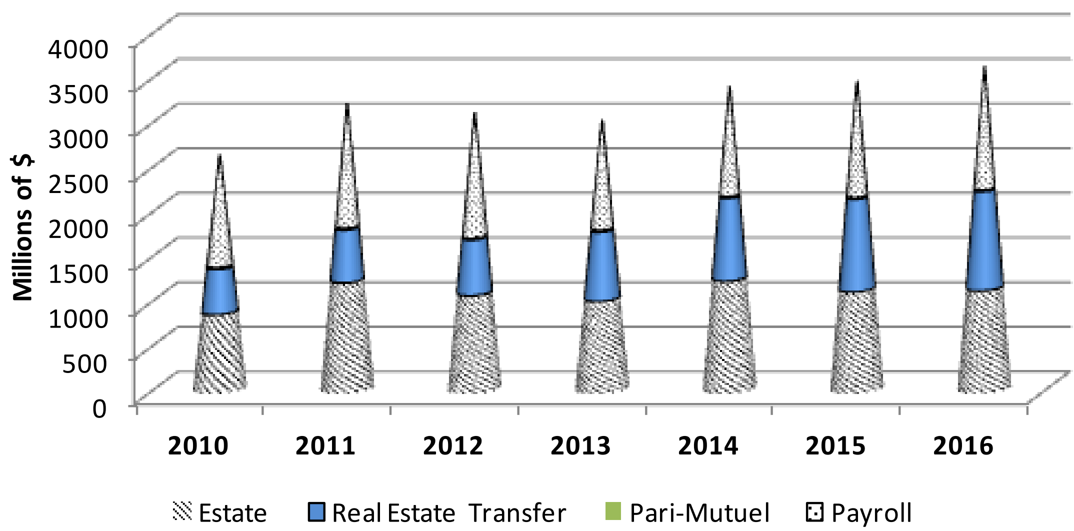
percent to $8.3 billion. This increase is due to a the factors stated above and is partially offset by a decrease in collections from the petroleum business tax as a result of the 3.2 percent indexing decrease in the tax rate which occurred in January 2015 and the estimated 5.0 percent indexing decrease in the tax rate that will take effect in January 2016. Effective January 1, 2015, the bank tax is merged with the corporate franchise tax. All banks will now be taxed under the corporate franchise tax. General Fund and All Fund collections for the bank tax is estimated to be negative due to refunds being paid for prior year tax liabilities.

Other Taxes

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

Figure 32

Other Tax Collections



General Fund receipts of these taxes are estimated to decrease by 9.4 percent to $1.14 billion in FY 2015. 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. The first increase to this scheduled estate tax exclusion took effect for decedents dying after April 1, 2014. This decrease in receipts is primarily due to a decrease in the number of extra large and super large estates settled in the current fiscal–year and partially due to the increase in the estate tax exclusion amount. In FY 2016, General Fund receipts are projected to increase by 1.1 percent to $1.15 billion; due to increased household wealth, which is partially offset by continued increase to the estate tax exclusion

All Funds collections of other taxes are estimated to increase by 2.3 percent to $3.4 billion in FY 2015 and are projected to increase by 4.7 percent to $3.6 billion in FY 2016. The increase in the current fiscal year is attributable to strong real estate transfer tax and MTA payroll tax collections. The increase in other tax collections in FY 2016 is due to increased collections from the MTA payroll tax as a result of projected wage growth and increased real estate transfer tax collections due to continued growth in the housing market.

APPENDIX

THE NEW YORK STATE TAX REVENUE AND ECONOMY MODEL

Technical Characteristics

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

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

The model and forecasting procedures have the following characteristics and considerations:

- the model is based on economic theory and tax revenue accounting relationships;

- tax variables are first seasonally adjusted to obtain consistency with other seasonally adjusted national and New York State data in modeling and forecasting processes, and are transformed back into non-seasonally adjusted variables to reflect the seasonality of tax collections;
- the New York State economy part of the model belongs to the system of IHS Global Insight's Quarterly State Econometric Model. This system is composed of 51 state and D.C. models, which is further linked to IHS Global Insight's national social and economic forecasting system;
- all of the expertise of the IHS Global Insight Regional Economics Group is embedded in the modeling and forecasting processes;
- the Senate Finance Committee has access to the latest historical data and IHS Global Insight's forecast of the U. S. economy each month; and
- NYSTREM is implemented in EVIEWS, IHS's, state-of-the-art, econometric, PC-based software, providing the New York Senate Finance Committee with the ability to carry out simulations of the model as needed.

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

- 2-digit manufacturing (26 components) and 1-digit non-manufacturing employment (29 components);
- 13 components of real income;
- 15 components of nominal income;
- 25 components of population by age;
- 1 component of net migration by age;
- 8 components of household by age and sex of head;
- 2 components of retail sales;
- housing starts, sales and prices;
- passenger motor vehicle registration; and
- total retail sales.

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