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February 27, 2018

Dear Colleagues:

I am pleased to provide you with the New York State Assembly Ways and Means Committee's Economic and Revenue Report for 2018. This report continues our commitment to provide clear and accurate information to the public by offering overviews of the national and state economies, as well as the state's revenue forecast for State Fiscal Years (SFY) 2017-18 and 2018-19.

The committee staff forecasts that the state and national economies will continue to grow in 2018 and 2019. The pace of growth is expected to strengthen, however forecasting risks remain especially with respect to monetary policy, financial markets, and international economic growth.

The committee staff projects that total All Funds receipts will reach $165.461 billion in SFY 2017-18, which represents an increase of $9.089 billion, or 5.8 percent, from SFY 2016-17. The committee staff estimate is $904 million above the Executive's estimate for SFY 2017-18. The committee staff projects that All Funds receipts will total $164.458 billion in SFY 2018-19, a decrease of $1.003 billion, or 0.6 percent, over SFY 2017-18. The committee staff forecast is $1.252 billion higher than the Executive's forecast for SFY 2018-19. These differences are largely attributable to differences in economic projections and how this translates into tax receipts.

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

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

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

Sincerely,

Helene E. Weinstein

Helene E. Weinstein
Chair

NEW YORK STATE ECONOMIC AND REVENUE REPORT

FISCAL YEARS 2017-18 AND 2018-19

February 2018

CARL E. HEASTIE
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New York State Assembly

HELENE E. WEINSTEIN
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Assembly Ways and Means Committee

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Table of Contents

Economic Forecast Highlights

ECONOMIC FORECAST HIGHLIGHTS

United States

- The U.S. economy is in its tenth year of expansion. The economy grew 2.3 percent in 2017, after a weak 1.5 percent gain in 2016. With consumer and business spending supported by steadily improving fundamentals as well as the federal tax reform, the **national economy** is projected to grow 2.7 percent in 2018. As the expansion matures, the pace of national economic growth is expected to slow to 2.5 percent in 2019.

- **Personal consumption spending**, adjusted for inflation, grew an estimated 2.7 percent in 2017, following a 2.7 percent gain in 2016. In 2018, consumer spending is forecast to grow another 2.7 percent as tax cuts push personal income and employment higher. Personal consumption spending is projected to slow to 2.5 percent in 2019 as the impact of the tax cuts wanes, higher interest rates constrain vehicle and home sales, and energy prices rise.

- **Business investment spending** recovered in 2017 after declining in 2016. Business investment spending is forecast to accelerate 5.9 percent in 2018 and another 5.6 percent in 2019 supported by improving business sentiment and corporate profits. With global oil prices stabilizing after sharp declines in 2015 and 2016, overall business spending growth will also be supported by gains in spending on oilfield-related equipment and structures. Furthermore, corporate tax cuts will likely incentivize businesses to increase capital spending.

- **Total government spending** rose an estimated 0.1 percent in 2017, after increasing 0.8 percent in 2016. The slowdown in total government spending was attributable to more cuts to public infrastructure spending by state and local governments. Supported by higher state and local government spending and substantial increases in defense and nondefense spending, total government spending is projected to grow 1.0 percent in 2018 and 0.8 percent in 2019.

- **Global economic growth** improved in 2017, while the U.S. dollar weakened. As a result, U.S. exports are estimated to have grown 3.4 percent in 2017. With the U.S. dollar expected to depreciate further and the economies of our major trading partners expected to continue to grow in 2018 and 2019, U.S. exports are forecast to accelerate by 4.9 percent in 2018 and 4.5 percent in 2019. After growing an estimated 3.9 percent in 2017, U.S. imports are forecast to increase by 5.8 percent in 2018 and 5.4 percent in 2019, as U.S. economic growth strengthens.

- **Corporate profits** are estimated to have increased 6.0 percent in 2017, following a 2.1 percent decrease in 2016. Profit growth is concentrated in the domestic non-financial sector; growth has been slowing in the domestic financial sector and has begun to decelerate for rest-of-the-world corporations. Still, overall corporate profits remain near their historical highs and are forecast to grow 8.4 percent in 2018 and 4.7 percent in 2019.

- **Employment** is expected to grow throughout the forecast period by 1.6 percent in 2018, the same as in 2017. In 2019, employment growth is projected to slow to 1.5 percent as the labor market nears full employment. The negative impact of the retirement of baby-boomers is more than offset by workers entering the labor market as wages rise.

- After averaging near zero percent for five years, the **federal funds rate** has been rising since the conclusion of the Federal Reserve's December 2015 meeting. It averaged 1.0 percent in 2017, and is forecast to average 1.8 percent in 2018 and 2.7 percent in 2019. The 10-year Treasury rate averaged 2.3 percent in 2017, and is forecast to increase to 3.0 percent in 2018 and 3.6 percent in 2019 as short-term interest rates are expected to rise. The projected increase in federal budget deficits and the anticipated gradual reduction of the Federal Reserve's holdings of Treasury securities will also put upward pressure on Treasury yields.

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

National Forecast Comparisons

- The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth for 2018 is 2.7 percent. The staff's forecast is 0.1 percentage point above the Division of the Budget, and 0.1 percentage point below that of Moody's Economy.com and Blue Chip Consensus. The staff projection is the same as IHS Markit and Macroeconomic Advisers' forecasts.

U.S. Real GDP Forecast Comparison

	Actual 2016	Estimate 2017	Forecast 2018	Forecast 2019
Ways and Means	1.5	2.3	2.7	2.5
Division of the Budget	1.5	2.3	2.6	2.5
Blue Chip Consensus	1.5	2.2	2.8	2.4
Moody's Economy.com	1.5	2.3	2.8	2.2
Macroeconomic Advisers	1.5	2.3	2.7	2.7
IHS Markit	1.5	2.3	2.7	2.7

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, NYS FY 2019 Executive Budget Financial Plan (Updated for Governor's Amendments and Forecast Revisions), February 2018; Blue Chip Economic Indicators, February 2018; Moody's Economy.com, February 2018; Macroeconomic Advisers LLC, February 2018; IHS Markit, February 2018.

New York State

- The New York State economy has been benefitting from the continued recovery in the national economy. With the state unemployment rate approaching its natural rate, **total nonfarm employment growth** slowed to 1.4 percent in State Fiscal Year (SFY) 2016-17 after accelerating 1.9 percent in SFY 2015-16. As the state economy is expected to benefit from the recent federal tax reform, nonfarm employment growth in the state is forecast to grow 1.3 percent in both SFY 2017-18 and SFY 2018-19.

- **Wage growth** is expected to remain below the rates achieved leading up to the 2007-09 recession, partly due to the concentration of job gains in lower-paying sectors and restrained growth in variable wages. Nonetheless, rising minimum wage and tightening labor markets put upward pressure on overall wages. In addition, firms may distribute some of the benefits of the tax reform to their workers. Total wages in New York State are forecast to grow at 5.0 percent in SFY 2017-18 and 4.4 percent in SFY 2018-19.

- After growing 2.5 percent in SFY 2016-17, **variable wages** are expected to increase 13.5 percent in SFY 2017-18 amid strong revenue and profit growth. Variable wages are forecast to grow 3.9 percent in SFY 2018-19.

- The current economic climate and federal fiscal policies present particular challenges and **risks to the New York State forecast**. Wall Street and the financial markets play a central role in the state economy. Ongoing technological changes, outsourcing, as well as changes in the composition of Wall Street compensation (including bonuses) would have critical implications for the economic and fiscal health of the state.

State Forecast Comparisons

- The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth in SFY 2017-18 is 1.3 percent and is 0.1 percentage point below the Division of Budget's forecast. The staff's forecast for wage growth in SFY 2017-18 is 5.0 percent and is 1.5 percentage points above the Division of Budget's forecast.

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

	Actual SFY 2016-17	Estimate SFY 2017-18	Forecast SFY 2018-19
Employment			
Ways and Means	1.4	1.3	1.3
Division of the Budget	1.6	1.4	1.3
Wages			
Ways and Means	3.8	5.0	4.4
Division of the Budget	3.8	3.5	4.2

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of Budget, NYS FY 2019 Executive Budget Financial Plan (Updated for Governor's Amendments and Forecast Revisions), February 2018.

- The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth for SFY 2018-19 is 1.3 percent, and is the same as the forecast of the Division of Budget. The staff's forecast for wage growth in SFY 2018-19 is 4.4 percent and is 0.2 percentage point higher than the Division of Budget forecast.

Revenue Forecast Highlights

REVENUE FORECAST HIGHLIGHTS

All Funds Tax Receipts State Fiscal Year 2017-18

- **All Funds revenues** are estimated to total $165.461 billion in State Fiscal Year (SFY) 2017-18 with year-to-year growth of 5.8 percent or an increase of $9.089 billion.

- The Assembly Ways and Means Committee staff projection of **All Funds tax revenue** for SFY 2017-18 is $79.829 billion, representing an increase of 7.3 percent or $5.457 billion over the prior year.

- The majority of the increase in tax receipts is derived from the **Personal income tax (PIT),** which is estimated to increase by $4.182 billion or 8.8 percent over the prior year. The sharp increase in PIT collections is partially due to a shift in income from 2018 to take advantage of the deductibility of state income taxes from federal income in 2017.

- The committee staff's All Funds tax revenue estimate is $878 million above the Executive's estimates. In terms of overall state tax revenues, the largest difference is in PIT, which is $812 million above Executive estimates.

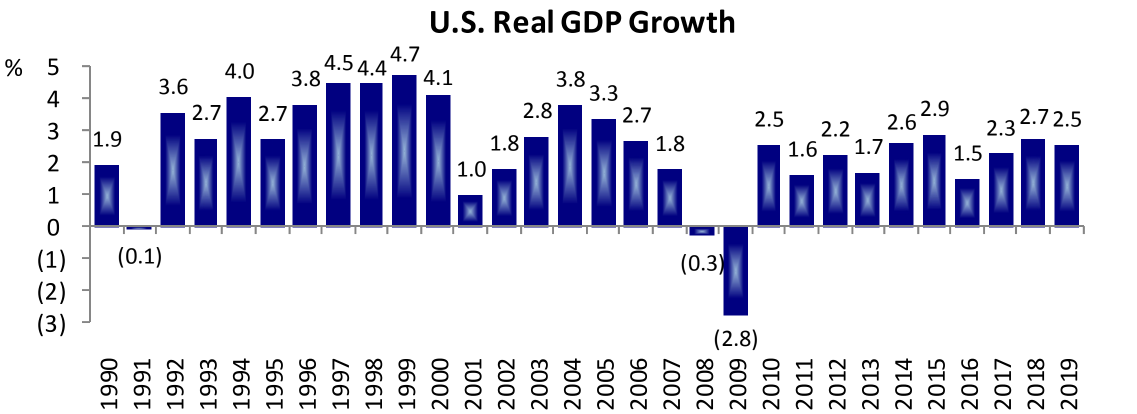
All Funds Tax Receipts State Fiscal Year 2018-19

- The committee staff expects **All Funds revenues** to decline 0.6 percent for a total of $164.458 billion in SFY 2018-19. **Gaming receipts** are forecast to increase by 2.3 percent, whereas all other **Miscellaneous Receipts** are forecast to increase by 0.3 percent.

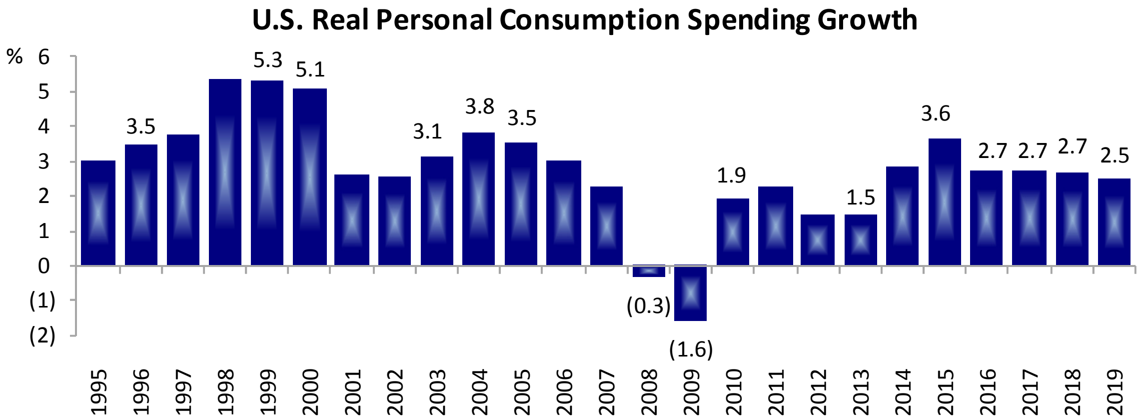
- The committee staff expects a 1.6 percent decline in **All Funds tax receipts** for SFY 2018-19, for a total of $78.565 billion, reflective of the previously mentioned shift in income from 2018 to 2017, as well as the Executive's proposal to permit the MTA to receive revenue from the Metropolitan Commuter Transportation Mobility Tax without governmental appropriation . The committee staff tax receipts forecast is $1.136 billion above the Executive's forecast. The Committee's PIT forecast is $770 million above the Executive's forecast.

U.S. Economic Forecast at a Glance

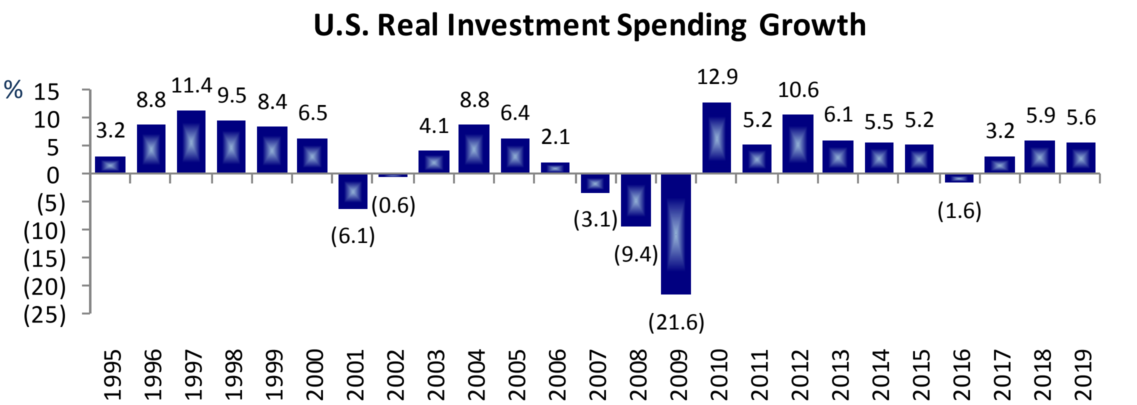
U.S. ECONOMIC FORECAST AT A GLANCE



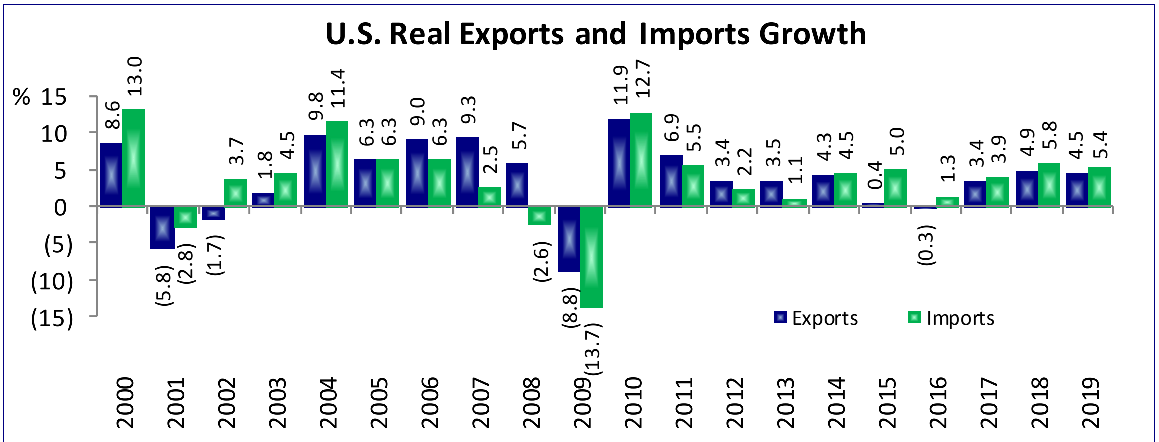
Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.



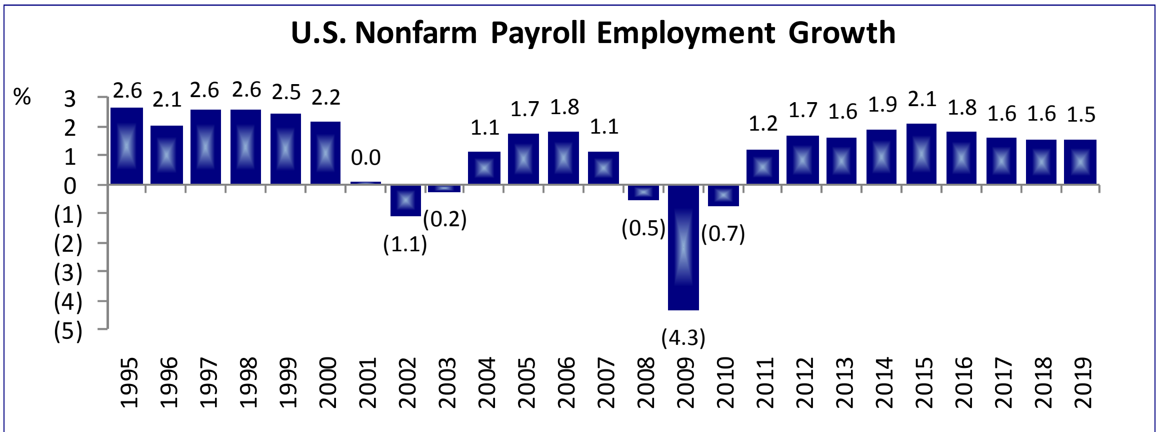
Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.



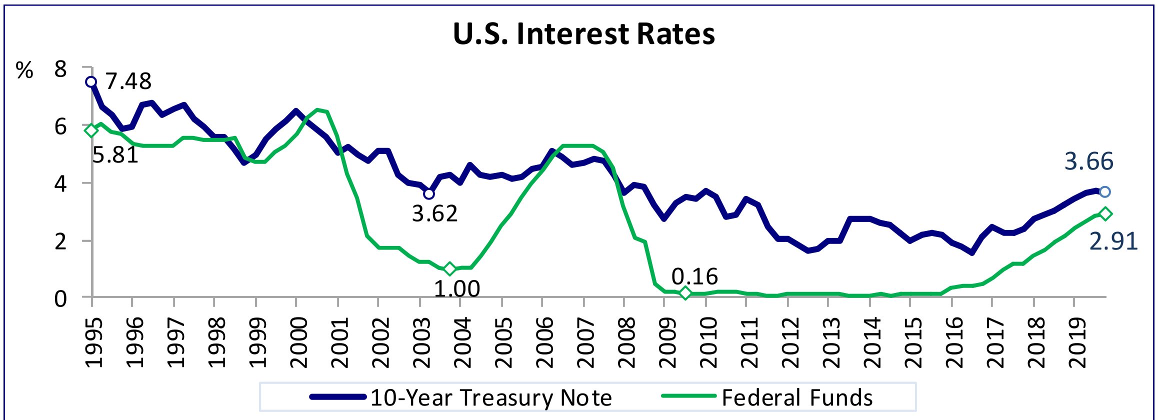
Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.



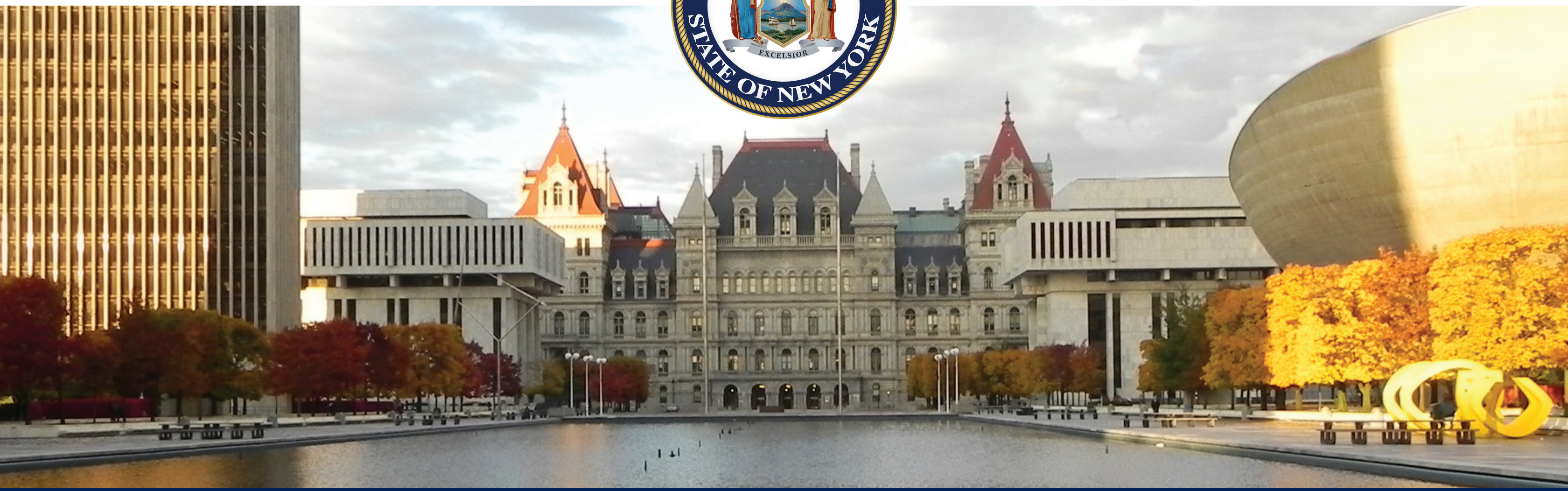
Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.



Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

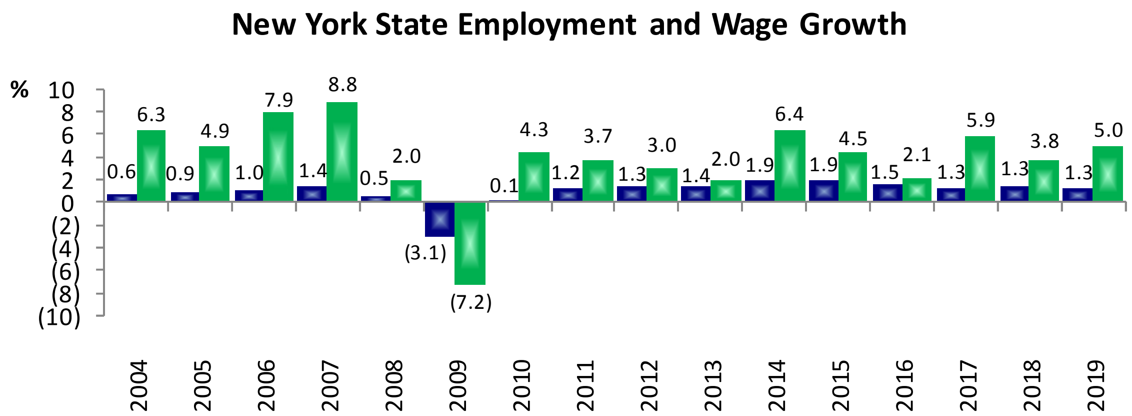


Note: Data are quarterly through 2019:Q4; the first forecast period is 2018:Q1.
Sources: Federal Reserve; NYS Assembly Ways and Means Committee staff.



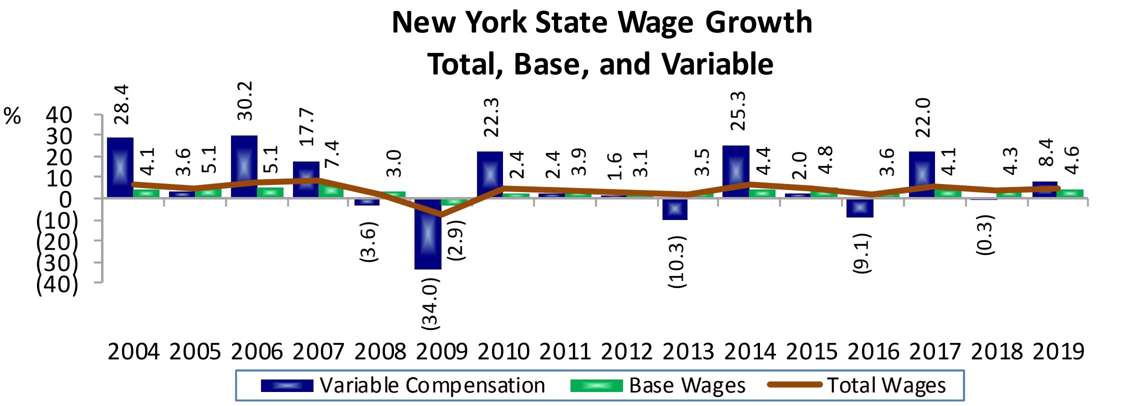
N.Y.S. Economic Forecast at a Glance

N.Y.S. ECONOMIC FORECAST AT A GLANCE



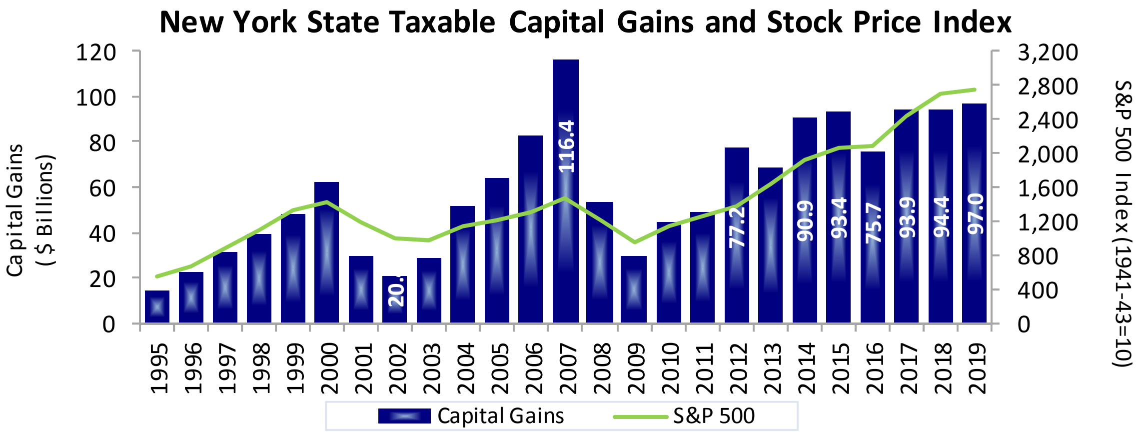
Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.

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



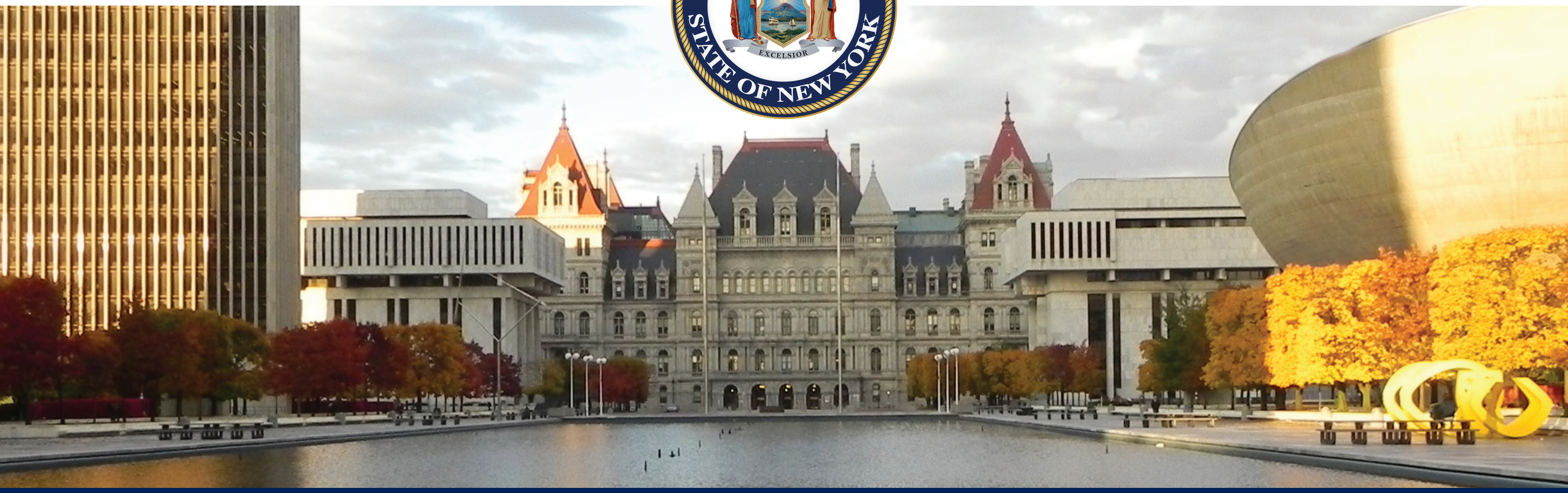
Note: Total wage data for 2017 are estimated; 2018 and 2019 are forecasts. Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and their levels sum to total wages.

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



Note: Data for 2016 are estimated; 2017, 2018, and 2019 are forecasts.

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



Revenue Forecast at a Glance

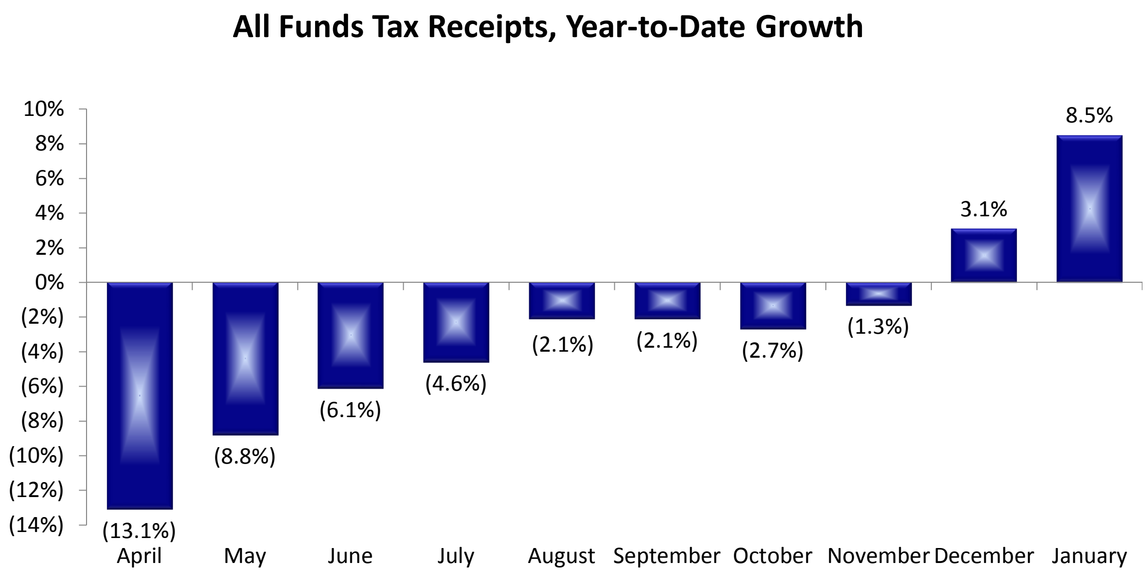
REVENUE FORECAST AT A GLANCE

SFY 2017-18 All Funds Estimate Summary ($ in Millions)	2016-17 Actual	2017-18 Estimate	Change	Growth	Diff. Exec.
Personal Income Tax	$47,565	$51,747	$4,182	8.8%	$812
User Taxes	16,212	16,734	522	3.2%	(19)
Business Taxes	6,979	7,444	465	6.7%	98
Other Taxes	3,617	3,904	287	7.9%	(13)
Total Tax Collections	**$74,372**	**$79,829**	**$5,457**	**7.3%**	**$878**
All Funds Miscellaneous Receipts	23,292	24,453	1,161	5.0%	(13)
Gaming	3,302	3,402	100	3.0%	39
Total w/Miscellaneous Receipts & Gaming	**$100,966**	**$107,684**	**$6,718**	**6.7%**	**$904**
Federal Funds	55,406	57,777	2,371	4.3%	-
Total All Funds Receipts	**$156,372**	**$165,461**	**$9,089**	**5.8%**	**$904**

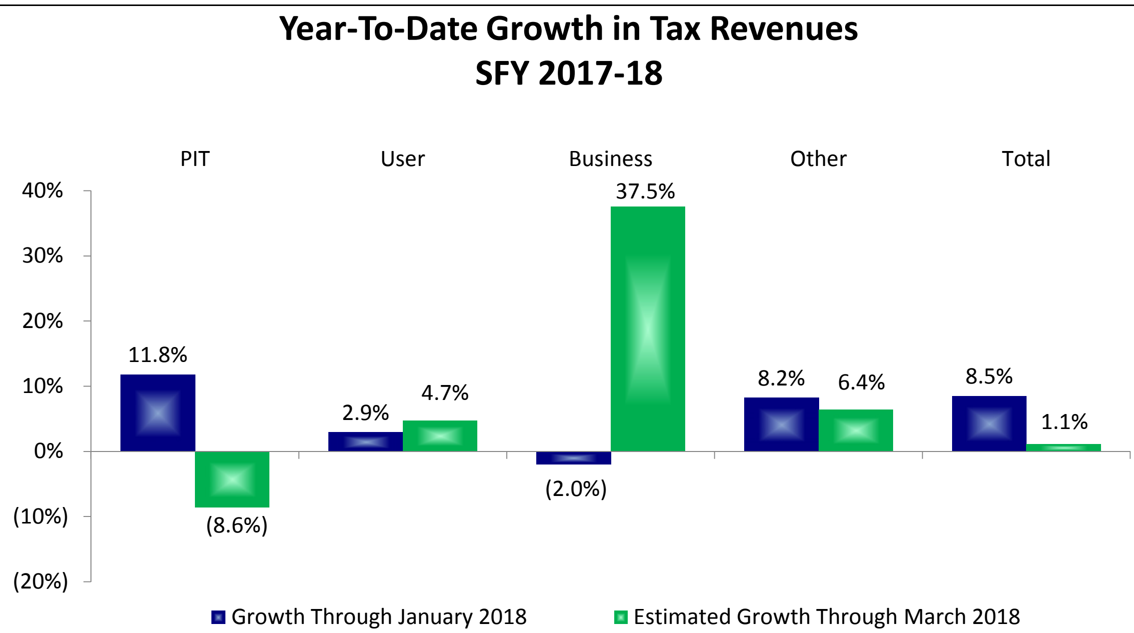
* Totals may not add up due to rounding

SFY 2018-19 All Funds Forecast Summary ($ in Millions)	**2017-18 Estimate**	**2018-19 Forecast**	**Change**	**Growth**	**Diff. Exec.**
Personal Income Tax	$51,747	50,014	($1,733)	-3.3%	$770
User Taxes	16,734	17,759	1,024	6.1%	95
Business Taxes	7,444	8,434	990	13.3%	176
Other Taxes	3,904	2,358	(1,546)	-39.6%	95
Total Tax Collections	**$79,829**	**$78,565**	**($1,265)**	**-1.6%**	**$1,136**
All Funds Miscellaneous Receipts	24,453	24,534	81	0.3%	1
Gaming	3,402	3,481	79	2.3%	115
Total w/Miscellaneous Receipts & Gaming	**$107,684**	**$106,580**	**($1,104)**	**-1.0%**	**$1,252**
Federal Funds	57,777	57,878	101	0.2%	-
Total All Funds Receipts	**$165,461**	**$164,458**	**($1,003)**	**-0.6%**	**$1,252**

* Totals may not add up due to rounding



Source: Office of the State Comptroller.



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

U.S. Economic Forecast Tables

U.S. ECONOMIC FORECAST TABLES

U.S. Economic Outlook (Percent Change)	Actual 2015	Actual 2016	Estimate 2017	Forecast 2018	Forecast 2019
Real GDP	2.9	1.5	2.3	2.7	2.5
Consumption	3.6	2.7	2.7	2.7	2.5
Investment	5.2	(1.6)	3.2	5.9	5.6
Exports	0.4	(0.3)	3.4	4.9	4.5
Imports	5.0	1.3	3.9	5.8	5.4
Government	1.4	0.8	0.1	1.0	0.8
Federal	(0.1)	0.0	0.2	0.3	0.4
State and Local	2.3	1.2	0.1	1.5	1.1
Personal Income	5.0	2.4	3.1	4.3	5.0
Wages & Salaries	5.1	2.9	3.1	4.4	4.9
Corporate Profits	(1.1)	(2.1)	6.0	8.4	4.7
Productivity	1.2	(0.0)	1.2	1.3	1.3
Employment	2.1	1.8	1.6	1.6	1.5
Unemployment Rate*	5.3	4.9	4.4	3.9	3.8
CPI-Urban	0.1	1.3	2.1	2.3	2.2
S&P 500 Stock Price	6.8	1.5	17.0	10.4	1.4
Treasury Bill Rate (3-month)*	0.1	0.3	0.9	1.8	2.7
Treasury Note Rate (10-year)*	2.1	1.8	2.3	3.0	3.6

* Annual average rate.

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

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

U.S. Employment by Sector
(Percent Change)

	Actual 2015	Actual 2016	Estimate 2017	Forecast 2018	Forecast 2019
Total	**2.1**	**1.8**	**1.6**	**1.6**	**1.5**
Professional Services	3.3	2.6	1.9	2.4	2.3
Construction	5.0	4.1	3.4	3.5	3.2
Real Estate, Rental, & Leasing	2.1	2.4	2.3	2.5	1.8
Other Services[1]	2.2	1.6	1.9	2.2	2.0
Education and Health Care[2]	2.7	2.8	2.4	2.0	2.2
Leisure & Hospitality	3.2	3.3	2.6	2.3	2.3
Management of Companies	1.8	1.7	2.2	1.4	1.4
Finance & Insurance	1.8	1.9	1.9	1.0	1.2
Transportation & Utilities[3]	4.2	2.7	2.8	2.6	2.2
Wholesale Trade	0.7	0.1	0.7	1.2	0.9
Manufacturing[4]	0.6	(1.0)	0.8	1.8	1.2
Federal	0.8	1.4	0.4	(0.2)	(0.2)
Government	0.7	0.9	0.4	0.2	0.4
State and Local	0.7	0.9	0.4	0.3	0.5
Retail Trade	1.6	1.4	0.2	0.3	0.5
Information	0.9	1.6	0.0	(1.1)	(0.9)

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

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

[3] Transportation, warehousing, and utilities.

[4] Including mining and logging.

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

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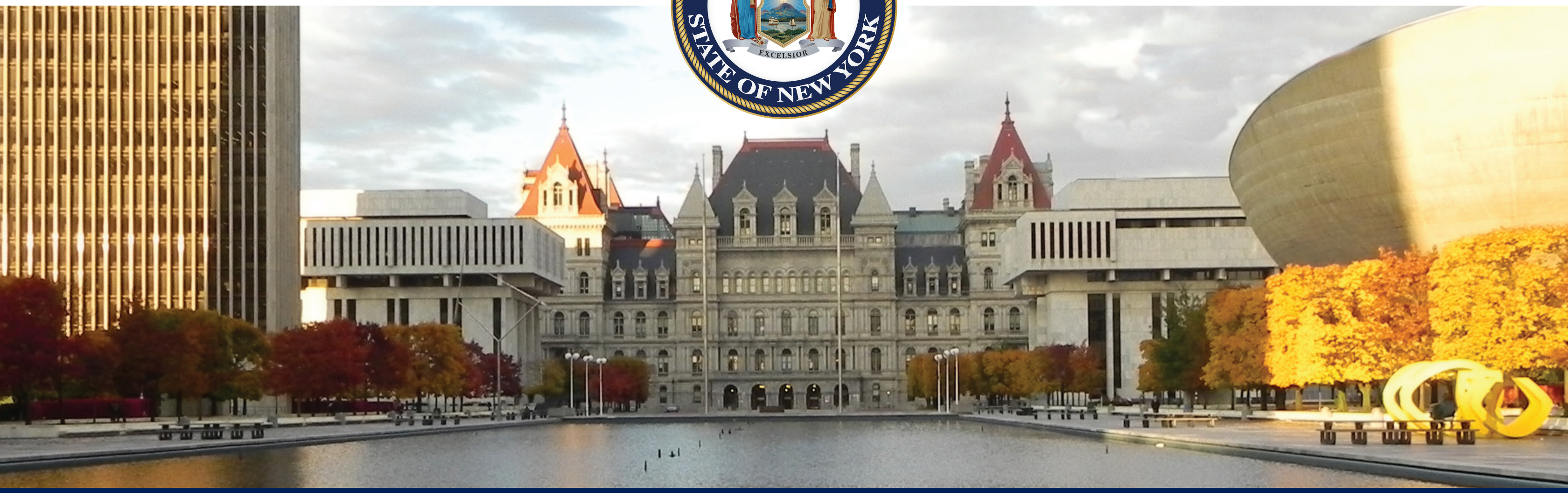


N.Y.S. Economic Forecast Tables

N.Y.S. ECONOMIC FORECAST TABLES

New York State Economic Outlook (Percent Change)	Actual 2015	Actual 2016	Estimate 2017	Forecast 2018	Forecast 2019
Employment	1.9	1.5	1.3	1.3	1.3
Personal Income	4.2	1.9	4.7	4.1	4.9
Total Wages	4.5	2.1	5.9	3.8	5.0
Base Wages	4.8	3.6	4.1	4.3	4.6
Variable Compensation	2.0	(9.1)	22.0	(0.3)	8.4
New York Area CPI	0.1	1.1	2.0	2.2	2.2

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

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

New York State Economic Outlook State Fiscal Year		Actual 2016-17	Forecast 2017-18	Forecast 2018-19	Forecast 2019-20
Employment	***Percent Change***	1.4	1.3	1.3	1.2
	Level (Thousands)	9,159.9	9,276.7	9,400.6	9,513.1
Personal Income	***Percent Change***	2.7	4.4	4.4	4.7
	Level (Billions)	1,174.6	1,226.5	1,280.6	1,340.8
Total Wages	***Percent Change***	3.8	5.0	4.4	4.7
	Level (Billions)	633.7	665.0	694.0	726.6
Base Wages	***Percent Change***	4.0	3.9	4.4	4.4
	Level (Billions)	565.5	587.7	613.7	640.8
Variable Compensation	***Percent Change***	2.5	13.5	3.9	6.8
	Level (Billions)	68.1	77.3	80.3	85.8
New York Area CPI	***Percent Change***	1.5	1.8	2.3	2.3
	Index Level (1982-84=100)	265.0	269.8	275.9	282.2

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

Sources: U.S. Bureau of Economic Analysis; NYS Department of Labor, QCEW; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

NYS Employment and Wage Growth by Sectors (Percent Change)								
	Employment				Wages			
	Recession 2009	Estimate 2017	Forecast 2018	Forecast 2019	Recession 2009	Estimate 2017	Forecast 2018	Forecast 2019
Total	**(3.1)**	**1.3**	**1.3**	**1.3**	**(7.2)**	**5.9**	**3.8**	**5.0**
Construction	(10.0)	3.1	4.4	3.9	(8.9)	5.1	6.2	6.3
Education & Health Care[1]	1.7	3.0	2.3	2.2	4.5	6.8	4.6	4.9
Leisure & Hospitality	(0.9)	2.8	2.4	2.4	(2.6)	7.3	4.2	4.6
Other Services[2]	(5.0)	2.1	1.9	1.7	(5.0)	6.4	3.9	3.6
Professional Services	(4.3)	1.9	2.0	1.9	(5.5)	6.8	3.0	4.3
Real Estate, Rental, & Leasing	(3.8)	1.8	1.9	1.4	(22.1)	8.7	2.4	6.1
Transport & Utilities[3]	(4.2)	1.5	1.5	1.0	(4.6)	6.6	4.4	4.8
Management of Companies	(0.7)	1.3	1.4	1.2	(10.8)	6.4	2.8	4.7
Information	(4.0)	0.8	0.3	0.3	(4.4)	2.0	2.5	3.4
Government	(0.2)	0.4	0.4	0.3	2.0	4.2	6.8	7.6
Finance & Insurance	(7.2)	(0.1)	0.6	0.6	(22.1)	8.7	2.4	6.1
Retail Trade	(3.8)	(0.2)	(0.2)	(0.3)	(4.9)	3.2	2.3	2.5
Wholesale Trade	(6.3)	(0.7)	0.6	0.6	(6.5)	5.2	1.4	2.9
Manufacturing[4]	(10.9)	(1.0)	(0.8)	(1.0)	(11.0)	2.8	1.4	1.7

Note: Industries are ranked by 2017 employment growth; rankings are based on two decimal places.

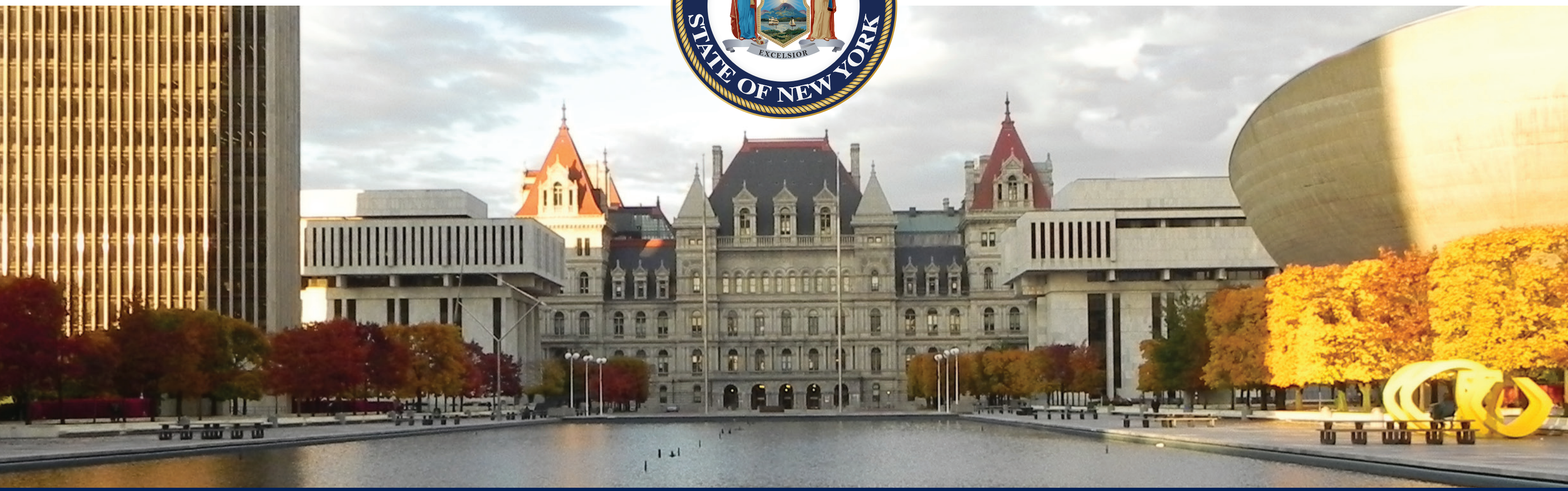
[1] Includes only private employment. Public education and health care employment is

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

[3] Transportation, warehousing, and utilities.

[4] Including mining.

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



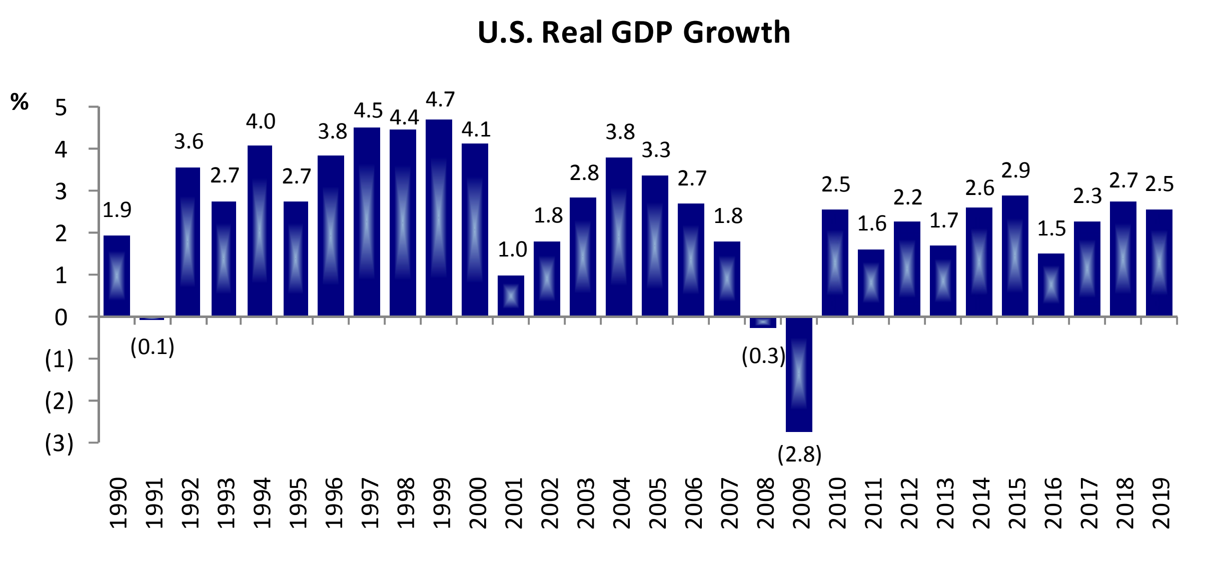
U.S. Economic Forecast Analysis

U.S. ECONOMIC FORECAST ANALYSIS

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

The U.S. economy is in its tenth year of expansion. Since the end of the last recession in June 2009, national output, as measured by inflation-adjusted Gross Domestic Product (GDP), has been growing on average by 2.2 percent per quarter on an annualized basis. However, this pace is relatively slow, compared with the 3.7 percent and 2.7 percent average quarterly growth rates seen during the 1990s and the 2000s, respectively.

After posting a relatively robust 2.9 percent in 2015, U.S. economic growth fell to 1.5 percent in 2016, the slowest yearly growth rate since 2009 (see Figure 1). Although consumer spending grew a solid 2.7 percent in 2016, corrections in inventory investment as well as declines in business spending on equipment and structures were large enough to soften the overall performance of the national economy. Due particularly to large declines in global oil prices, the energy sector in the U.S. was forced to slash production and capital spending on oil-field equipment and structures. Declining corporate profits and weak global demand for U.S. exports also contributed to the retreat in business capital spending.



Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 1

In 2017, the national economy grew 2.3 percent. The improvement was attributed in large part to continued gains in consumer spending and a strong turnaround in business spending on equipment and structures. It was also helped by U.S. net exports (exports minus imports) subtracting less from overall growth. The labor market remained healthy in 2017, with 181,000 jobs created on an average monthly basis and the rate of unemployment falling to 4.1 percent in December, the lowest rate since early 2001. As of December 2017, U.S. payroll employment increased by 17.7 million from the end of the Great Recession, roughly double the number of jobs lost during the Great Recession.

Consumer and broad labor market fundamentals remain positive

Fundamentals remain solid for consumer and business spending, supporting continued positive economic outlook for this year and the next. The Conference Board's leading economic indicator index for the national economy remains on a solid upward trend, pointing to further expansion into the near future. The positive outlook is also signaled by recent broad-based increases in both the manufacturing and nonmanufacturing activity indices compiled by the Institute for Supply Management. Although unemployment nears its natural rate, gains in employment remain steady. As the labor market tightens, wage gains appear to be strengthening. Helped by employment and income gains, consumer spending growth is spread across many sectors. Improving household financial positions have also been helping the consumer spending recovery. The household debt to disposable income ratio has steadily declined since the end of the 2007-2009 recession. With delinquency rates on consumer loans at the lowest level in 27 years, more banks have been reporting increased willingness to make loans to consumers. Therefore, improved financial conditions have provided households with opportunities to finance their spending with loans.

Business fundamentals and global economic outlook are also improving

With global oil prices stabilizing after sharp declines in 2015 and 2016, the U.S. energy sector has resumed spending on oilfield-related equipment and structures. Global semiconductor sales continue to reach new highs, signaling more gains in business spending on information-related equipment in the near future. Despite the recent softening in home sales and construction activity, housing demand will likely increase further as personal income and employment continue to improve. Increased optimism among homebuilders, falling rental vacancy rates, and less tightening in loan standards are all expected to support the continued recovery in residential investment activity. Business inventory corrections appear to be behind us, signaling factory orders and production will likely increase further in the coming months. Also, the continued recovery in consumer spending and the renewed pickup in global demand for U.S. exports will help boost business capital spending as businesses will see the need to upgrade their equipment to meet demand.

Recent data indicate that growth in the global economy is gaining momentum, with all the major economies expanding in unison for the first time in several years. In particular, due to stabilizing global commodity prices, economies that are dependent upon natural resources have seen improvement in their cash flow. As a result, global real GDP growth is projected to accelerate from a relatively low 2.6 percent in 2016 to near three percent in 2018 and 2019. This, combined with the recent downward trend in the U.S. dollar value, will help support global demand for U.S. exports.

Federal government spending has been mostly flat on a yearly average basis, but the Bipartisan Budget Act of 2018 will result in significant increases in national defense spending. In addition, improvement in state and local government finances helps to support gradual gains in state and local government spending. This trend will likely continue in the next few years with the public sector as a whole making a positive contribution to national economic growth.

The 2017 tax reform will have overall positive effects on the economy

The 2017 tax reform will increase after-tax income and decrease the effective costs of capital and thus increase consumer and business spending. But with the recovery maturing and the labor market approaching full employment, those positive effects on the economy will likely be limited. Furthermore, tax cuts are also expected to raise annual federal budget deficits to nearly $1 trillion in the coming years and thus, all else the same, result in an increase in Treasury yields and mortgage interest rates. Indeed, Treasury yields have been rising sharply of late. These rising interest rates may result in negative effect on consumer and business spending, let alone major corrections in financial markets. Overall, the staff estimates that due to the tax reform, economic growth for the nation will increase by an estimated 0.3 percentage points in 2018 and 0.5 percentage points in 2019 over the baseline forecast. The tax reform will also have a small but positive impact on the labor market over the next three years, raising the overall payroll employment growth by an estimated 0.1 percentage point in 2018 and 0.3 percentage points in 2019.

Weaknesses and Risks Remain

In the wake of the Great Recession, policymakers put in place various checks and controls that were designed to alert and hopefully stem future economic and financial excesses. Analysts and policy makers continue to evaluate the efficacy of those measures as some have blamed particular regulations for contributing to the slow recovery. Recently a few developments have emerged that point to potential excesses that could threaten the pace of the recovery.

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

In the housing market investors and lenders have been finding ways to adapt to post-crash government regulations that were designed to crack down on the excesses that contributed to the housing market meltdown. For example, investors have turned to 'drive by' appraisals, called broker price opinions (BPOs), as a quick, inexpensive way to value thousands of houses as part of a collateral offering. Although the use of BPOs was prohibited by Congress for properties for traditional mortgages after the housing crash, the ban does not apply to large investors buying thousands of houses. The inaccurate valuation based on BPOs could result in losses for both investors and lenders, destabilizing the credit market.[1]

As of December 2017, the S&P500 stock price index has increased 15.5 percent per month on an annualized monthly average basis from the Great Recession low in March 2009. This is compared with the 10-year bull market in the 1990s, when the S&P500 increased 17.4 percent per month on an annualized monthly average basis. That rally ended with a 56 percent crash. The price/earnings (P/E) ratio for the S&P500, which tends towards the high teens during normal times, has been hovering around 24 in recent months. In comparison, the P/E ratio was around 28 in the months preceding the start of the crash in 2000. There have been many contributing factors to the recent equity market rally. Persistently weak economic growth and various geopolitical crises have plagued many parts of the world since the 2007-2009 financial crisis, thereby making the U.S. financial market a safe haven for global investors. More importantly, the low interest rate environment that was premised on the need to deal with the financial crisis may have been extended for too long, overly fueling the equity markets rally.

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

The housing market recovery is restrained by supply and demand constraints

Despite various positive factors, housing market activity has failed to build a more solid, steady momentum as supply constraints, such as the shortage of buildable lots and skilled construction workers, persist. Also, rising student debt burdens and still relatively stringent loan conditions have been restraining potential first-time home buyers. As a result, as of the third quarter of 2017, the homeownership rate among householders aged under 35 fell to 35.6 percent, down by 7.7 percentage points compared with the prior peak.

Overall, the U.S. Economic Recovery Will Continue

The U.S. economy is projected to grow 2.7 percent in 2018, above the trend growth rate. As the expansion matures into its tenth year, the pace of national economic growth is expected to slow to 2.5 percent in 2019. As a consequence, despite the pickup in overall economic growth, the rate of payroll job gains in 2018 is forecast to stay at 1.6 percent, the same rate as in 2017. With labor market conditions expected to tighten in 2019, employment growth is forecast to slow to 1.5 percent in 2019.

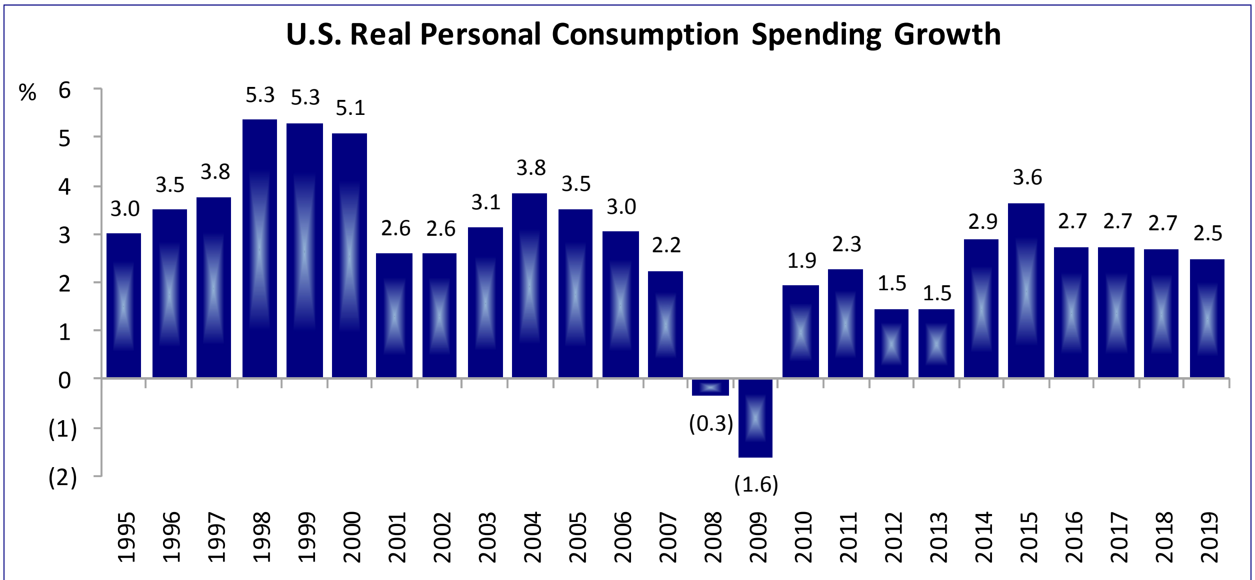
Consumer prices will advance faster

In 2016, with crude oil prices at 13-year lows and the prices of many other commodities at depressed levels, the rate of inflation as measured by the Consumer Price Index (CPI), remained well below the Federal Reserve's target rate of two percent. But commodity prices have been inching up, and oil and fuel prices have been rising, especially in the wake of the recent hurricanes. Also, wages and other labor costs have begun to rise faster as the labor market gets tighter. The recent downward trend in the U.S. dollar value will also likely put upward pressure on overall CPI. As a result, after rising 2.1 percent in 2017, the CPI is forecast to advance 2.3 percent in 2018 and 2.2 percent in 2019.

The Federal Reserve will continue rate hikes

Premised on improving labor market conditions and advances in consumer price inflation, the current forecast assumes that the Federal Reserve will continue to raise gradually the federal funds rate target range in 2018 and 2019, adjusting the pace of rate increases to economic and financial conditions at home and abroad. The current forecast assumes four 25 basis point hikes for 2018. It is assumed that although such policy changes will inevitably lead to speculation, the market responses will be orderly and restrained, with market participants adapting quickly to the changing environment. Barring unexpected increases in domestic and global uncertainties, which would put downward pressure on the yield on U.S. Treasury securities, the yield on ten-year Treasury securities is expected to rise in tandem with rising short-term rates. The projected increase in federal budget deficits from the 2017 tax reform and the resulting acceleration in total net Treasury debt issuance will also put upward pressure on the long-term yield. The gradual reduction of the Federal Reserve's holdings of long-term Treasury securities is another contributor to rising long-term yields. On an annual average basis, the ten-year yield is forecast to increase to 3.0 percent in 2018 and 3.6 percent in 2019.

Consumer Spending



Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 2

Consumer Key Points

- **Consumer spending growth is forecast to remain the main driver of overall economic growth;**
- **Consumer spending is supported by gains in employment and income as well as higher equity and home prices;**
- **With interest rates expected to rise, expenditures on durable goods, which have helped sustain consumption spending, will likely be more modest;**
- **Expected increases in energy prices will lead to more restrained consumer spending.**

Personal consumption spending growth continues to be an important factor driving overall economic growth as the fundamentals supporting consumer spending remain solid. In particular, higher equity and home prices have bolstered household wealth, and gains in employment have been robust. Consumers are also more optimistic about their financial and economic well-being. Though rising, still low interest rates have fostered higher spending on durable goods and services related to home purchases. Furthermore, banks have been more willing to lend to households, though lending standards remain more stringent than before the last recession. Hence, households are more likely to have access to credit as their credit-standing has improved.

In August 2017, hurricanes that hit Florida and Texas disrupted the normal pattern of consumer spending. However, vehicles sales rose dramatically in September and October as hurricane-afflicted households quickly replaced damaged vehicles, helping to minimize the effect of lost economic activities over the period. Not surprisingly, vehicle sales have since fallen from those robust levels. Prior to the hurricanes, spending on home furnishing and durable household equipment had been on a steep upward trend which became more pronounced afterward. However, hurricane-related distortions have lessened over time. Combined with a strong holiday shopping season, consumer spending is estimated to have increased 2.7 percent in 2017, the same as in 2016.

The recent tax reform and steady gains in income will positively contribute to consumer spending growth

The passage of the Tax Cuts and Jobs Act of 2017 (TCJA) only fortifies household spending as lower personal income tax rates and a higher child tax credit boost personal disposable income.[2] While most households are expected to spend their windfall from lower taxes, others will likely save it. But the TCJA will only have a modest impact on the savings rate as households saving rates are already low. In December 2017, the saving rate of households registered only 2.4 percent compared with 11.0 percent in December 2012. This low rate of saving suggests that consumer spending may be more sensitive to income changes because consumers cannot rely on savings to buffer any emergency or impulsive expenditure. In addition, the Bipartisan Budget Act of 2018 includes provisions that will positively impact household spending, particularly related to health care services.[3] Thus, helped also by steady gains in employment and income, consumer spending is projected to increase by 2.7 percent in 2018. It is forecast to slow to 2.5 percent in 2019 with rising interest rates expected to restrain spending on durables and rising energy and other commodity prices expected to dampen households' purchasing power (see Figure 2).

[2] See *The Tax Cuts and Job Act of 2017* (TCJA); Public Law 115-97, 115th Congress, December 22, 2017.

[3] See *The Bipartisan Budget Act of 2018*; Public Law 115-123, 115th Congress, February 9, 2018.

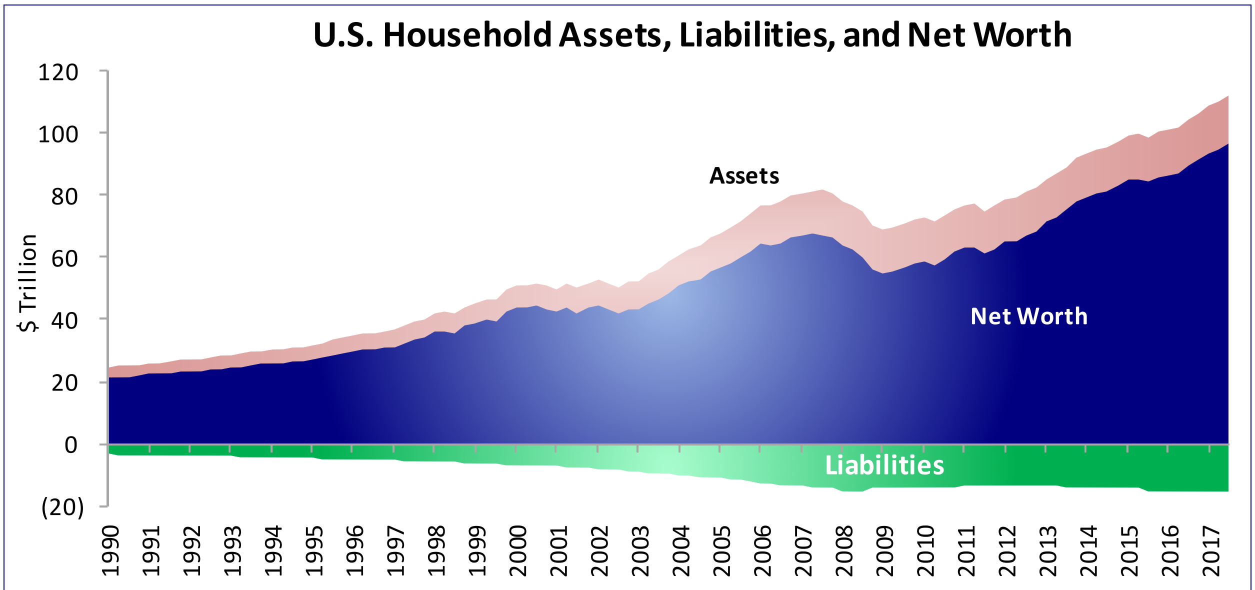
Rising energy prices and interest rates will restrain future spending growth

Higher energy prices lower disposable income as households have less to spend on other goods and services, although other forces such as the firming of wage growth partly mitigate such downward pressure on disposable income. Also, higher interest rates make home purchases, housing-related spending, and motor vehicle purchases more expensive. These factors will restrain consumer spending over the forecast period.

Households' overall finances have stabilized

Gains in equity and home prices have improved household balance sheets. As home prices have risen, households whose wealth is concentrated in their home, mainly the middle-class, have started to feel wealthier. Household net worth was $96.9 trillion in the third quarter of 2017, which is $29.2 trillion above its previous peak in the second quarter of 2007 (see Figure 3). The gains in financial assets, such as corporate equity, pension fund reserves, and mutual funds shares are primarily responsible for the significant increase in household net worth. Real estate holdings were only $2.4 trillion above the prior peak in the second quarter of 2016.[4] Recent unusual volatility in equity prices creates downside risks to consumer spending. If lower equity prices persists, then diminishing household wealth provides less support for consumer spending.

[4] See , Board of Governors of the Federal Reserve System, *Z.1 Financial Accounts of the United States*, *Third Quarter 2017*, December 7, 2017, http://www.federalreserve.gov/releases/z1/current/z1.pdf.



Note: Data are quarterly through 2017:Q3. Net worth equals assets minus liabilities.
Source: Federal Reserve.

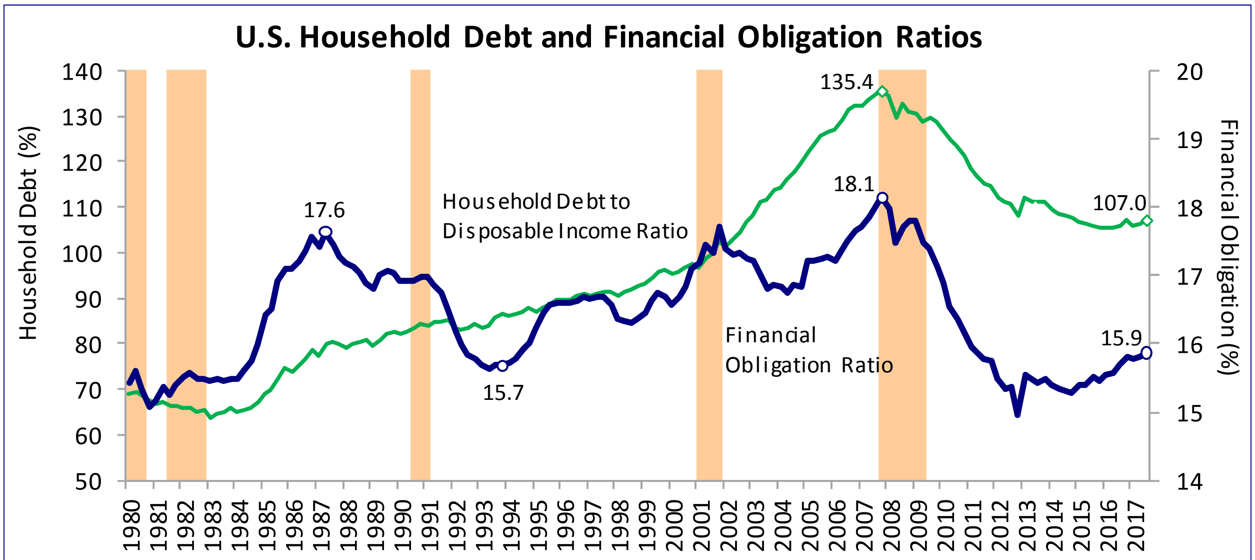
Figure 3

Meanwhile, households' debts have also risen but at a much slower pace than their assets. Total household liabilities were $1.5 trillion in the third quarter of 2017, an increase of $0.8 trillion from its previous peak in the third quarter of 2008. Household mortgages accounted for more than sixty percent of household liabilities in the third quarter of 2017. In the third quarter of 2017, consumer credit, which excludes mortgages, rose at an annual rate of 4.6 percent driven by credit card purchases, student loans, and motor vehicle loans. The average student debt rose 4.8 percent in 2017 from 2016 to $31,500, while auto loans rose by 4.4 percent in the third quarter of 2017 from the same period a year earlier.[5] Higher consumer debt can curb the amount of income available for spending on goods and services.

Households have been more comfortably able to manage their financial obligations out of their disposable income. Household debt-to-income ratio is still elevated but has stabilized and remains below its peak, supporting the better financial position of consumers (see Figure 4). While banks have been more willing to make consumer loans as households' credit-standing has improved, households' demand for certain consumer loans has been weak.[6] Households still face stringent loan standard and seems more selective about the type of debt they incur.

[5] See, Board of Governors of the Federal Reserve System, G.19 Consumer Credit November 2017, *Federal Reserve Statistical Release*, January 8, 2018, https://www.federalreserve.gov/releases/G19/current/g19.pdf; see also Federal Student Aid, Office of the U.S. Department of Education, *Federal Student Loan Portfolio*, National Student Loan Data System; https://studentaid.ed.gov/sa/about/data-center/student/portfolio.

[6] See *The January 2018 Senior Loan Officer Opinion Survey on Bank Lending Practices*, Federal Reserve Board, November 6, 2017, https://www.federalreserve.gov/data/sloos/201710/default.htm.



Note: Data are quarterly through 2017:Q3. The financial obligation ratio measures the percentage of household disposable income obligated to debt payment. Household debt ratio is total debt as a percentage of disposable income.
Source: Federal Reserve.

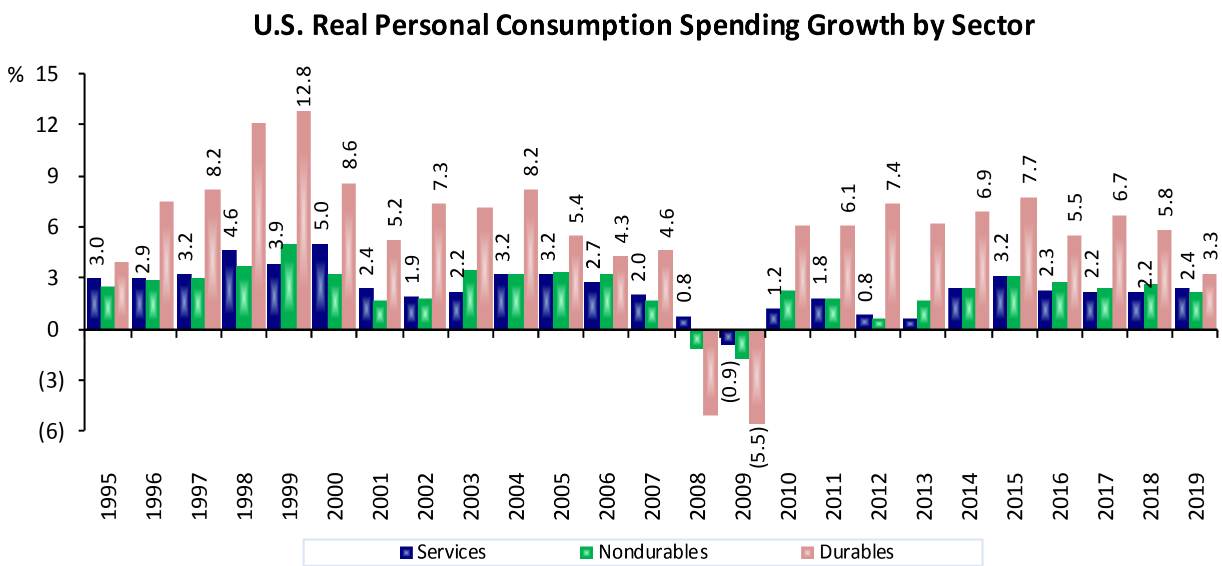
Figure 4

Overall consumer spending outlook

Spending on motor vehicles, a major component of durable goods, has been the impetus behind consumer spending growth over the past several years. Motor vehicles sales averaged more than 17.5 million units annualized in 2015 and 2016. In 2017, however, as interest rates continued to rise and pent-up demand for motor vehicles began dissipating, motor vehicles sales began falling to more sustainable levels led by declines in car sales, averaging 17.3 million units on an annualized basis, 1.6 percent lower than in 2016. Spending on furnishing and durable household equipment has also been strong, influenced somewhat by the hurricane replacement spending. Thus, spending on durable goods grew an estimated to 6.7 percent in 2017. With interest rates projected to increase, and vehicles sales to decelerate, spending on durable goods is forecast to slow to 5.8 percent in 2018 and to 3.3 percent in 2019 (see Figure 5).

Warmer weather in the first quarter of 2017 curtailed consumer spending as spending on utilities and clothing fell, but spending on these components rebounded in the rest of the year. Health care spending associated with the Affordable Care Act is expected to weaken as higher premiums discourage new entrants and current recipients from participating in the health care insurance market. Spending on nondurable goods grew an estimated 2.4 percent in

2017, and is projected to increase by 2.6 percent in 2018 and 2.2 percent in 2019. Spending on services grew an estimated 2.2 percent in 2017, and is predicted to grow another 2.2 percent in 2018 and 2.4 percent in 2019.



Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 5

Business Investment Spending

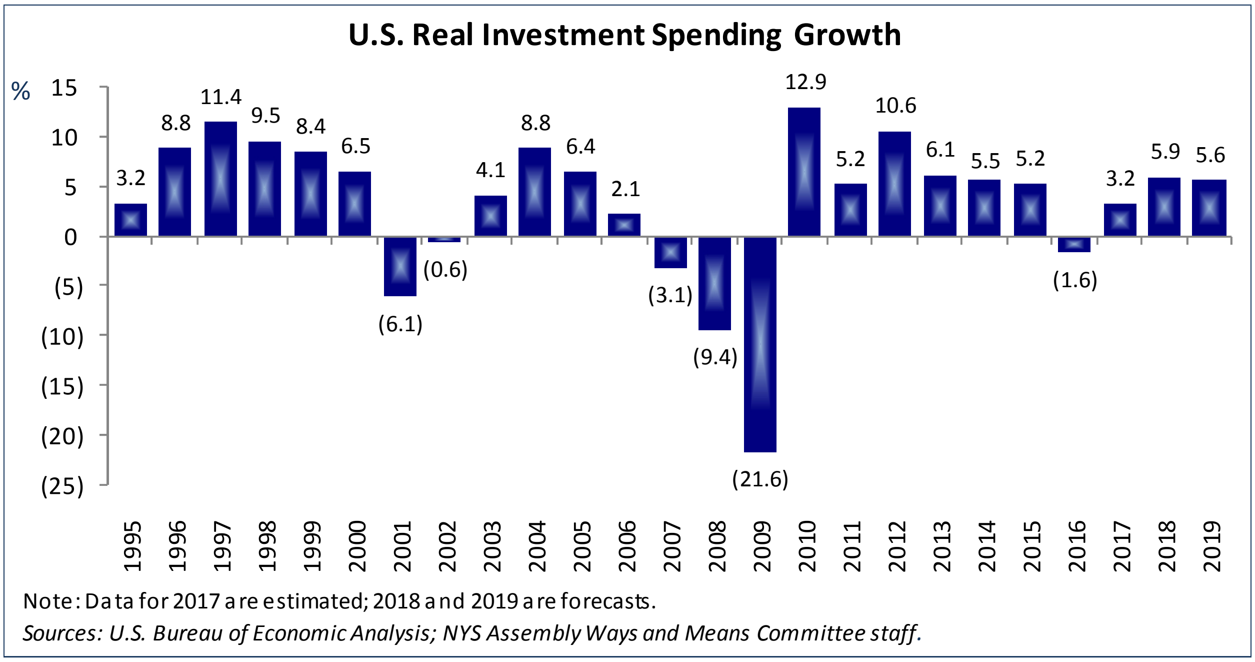


Figure 6

Investment Key Points

- **Business investment spending is expected to accelerate in 2018 and 2019 as corporate profits improve, overall economic fundamentals remain positive and fiscal policy is supportive;**
- **Spending on intellectual property products – such as software and R&D - is expected to remain strong over the forecast period.**

As of November 2017, new orders of nondefense capital goods excluding aircraft, a leading indicator of equipment investment spending, were cumulatively five percent higher than in the comparable period in 2016. The Institute for Supply Management (ISM) index as of January 2018 indicates economic activity has expanded for seventeen consecutive months in the manufacturing sector, while the overall economy grew for 105 consecutive months.

In the near term, business spending will be supported by steady growth in U.S. consumer demand. With global economies likely to expand and the U.S. dollar to weaken, global demand for U.S. goods will positively impact business spending. Moreover, even though the Federal Reserve is in a cycle of raising interest rates, the pace will be slower than in previous cycles, and with interest rates starting from zero, they are expected to remain low. Furthermore, the outlook for credit supply looks favorable, with a net share of nearly nine percent of banks reporting easing standards on commercial and industrial lending to large, middle-market and small firms. Additionally, more banks are reporting increasing the maximum size of their credit lines, and decreasing the spreads of their lending rates over cost of funds.

The favorable supply terms, however, stem from weaknesses on the demand side as banks chase a somewhat smaller pool of potential commercial borrowers. More banks are reporting weaker demand for commercial and industrial loans from small, middle-market and large firms, with reasons given including, among other things, a decrease in customers' needs to finance inventory, investments in plant and equipment, and mergers and acquisitions.[7]

As a result, overall business investment spending is forecast to accelerate 5.9 percent in 2018 and 5.6 percent in 2019 (see Figure 6).

Impact of Tax Cuts on Investment

The Tax Cuts and Jobs Act of 2017, contains several provisions that could boost investment spending.[8] All else the same, the reduction of the corporate tax rate from 35 to 21 percent would lead to an increase in after-tax profits.

The enacted tax reform changes how capital expenses are treated by allowing full expensing of capital investments – such as machinery and equipment – for the next five years. Previously, only 50 percent bonus depreciation of capital expenditures was allowed. Although the full-expensing provision phases out over the subsequent five-year timeframe, during the five year period when it is in effect the provision is expected to incentivize firms to increase capital spending.

A key business provision included in the tax reform, termed "deemed repatriation", offers a reduced effective tax rate on the repatriation of profits held by American companies abroad equal to 15.5 percent and eight percent if the profits are held in liquid (e.g., stocks and

[7] See *The October 2017 Senior Loan Officer Opinion Survey on Bank Lending Practices*, Federal Reserve Board, November 6, 2017, https://www.federalreserve.gov/data/sloos/201710/default.htm.
[8] See Quinlan, Tim, and Sarah House. *The Case for Stronger Cap-Ex*. Wells Fargo Media, 2018, *The Case for Stronger Cap-Ex*, www08.wellsfargomedia.com/assets/pdf/commercial/insights/economics/special-reports/equip-spend-20180110.pdf?https://www.wellsfargo.com/assets/pdf/commercial/insights/economics/special-reports/equip-spend-20180110.pdf.

bonds) and illiquid (e.g., real estate and equipment) assets, respectively. However, based on the historical examination of the impact of a similar provision offered under the Homeland Investment Act of 2004 which did not lead to a surge in capital spending, there is no consensus among analysts as to the final impact of this provision. [9]

In addition, the enacted tax reform caps the business interest deduction at 30 percent of earnings before interest, taxes, depreciation and amortization (EBITDA) for the first four years. In year five, the cap will be limited to 30 percent of earnings before interest and taxes (EBIT). This represents a departure from the previous law which permitted the unlimited deduction of interest expenses, and while the new measure supports tax receipts it may limit the ability to finance future investment spending via debt.

Nonresidential Investment

Nonresidential investment and residential construction spending are expected to increase over the forecast period. The nonresidential component is anticipated to post the strongest growth led by spending on business equipment and intellectual property products.

Intellectual property products, which account for about a quarter of total business investment spending, are projected to grow 5.0 percent in 2018 and 5.4 percent in 2019 bolstered by higher business spending on software and research and development. Equipment spending is forecast to increase 7.2 percent in 2018 and 7.0 percent in 2019 supported by spending on information–related equipment as global semiconductor sales continue to grow (see Figure 7).

Higher energy prices augur well for energy-related investments – for example in oil field equipment and structures – caused nearly 60 percent of all economic growth in 2017 and could lead to significant job gains in 2018.[10,11] Although the U.S. rig count is more than 50 percent below its highs in August 2008, they are 35 percent higher than they were last year. Increases in the rig count are supported by higher oil prices and rig operators maintaining positive cash

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[9] See Dharmapala, Dhammika, et al., *Watch What I Do, Not What I Say: The Unintended Consequences of the Homeland Investment Act,* NBER, 2009.

[10] See "Blue-Collar wages are surging. Can it last?" *The Economist*, November 14, 2017, www.economist.com/news/united-states/21731332-weaker-dollar-and-energy-boom-are-pushing-up-pay-blue-collar-wages-are-surging-can-it.

[11] See Slav, Irina. "Recovery? The oil and gas industry is hiring again." *USA Today*, November 2, 2017, www.usatoday.com/story/money/energy/2017/11/02/recovery-oil-and-gas-industry-hiring-again/819773001/.

flows. Lower costs, higher productivity, and hedging by producers who have sold future production for as much as $50 per barrel, have enabled them to maintain positive cash flows even in the face of relatively flat oil prices.[12] For this reason, the U.S. Energy Information Administration is forecasting 2018 U.S. crude production to reach a record-breaking 10.3 million barrels per day.

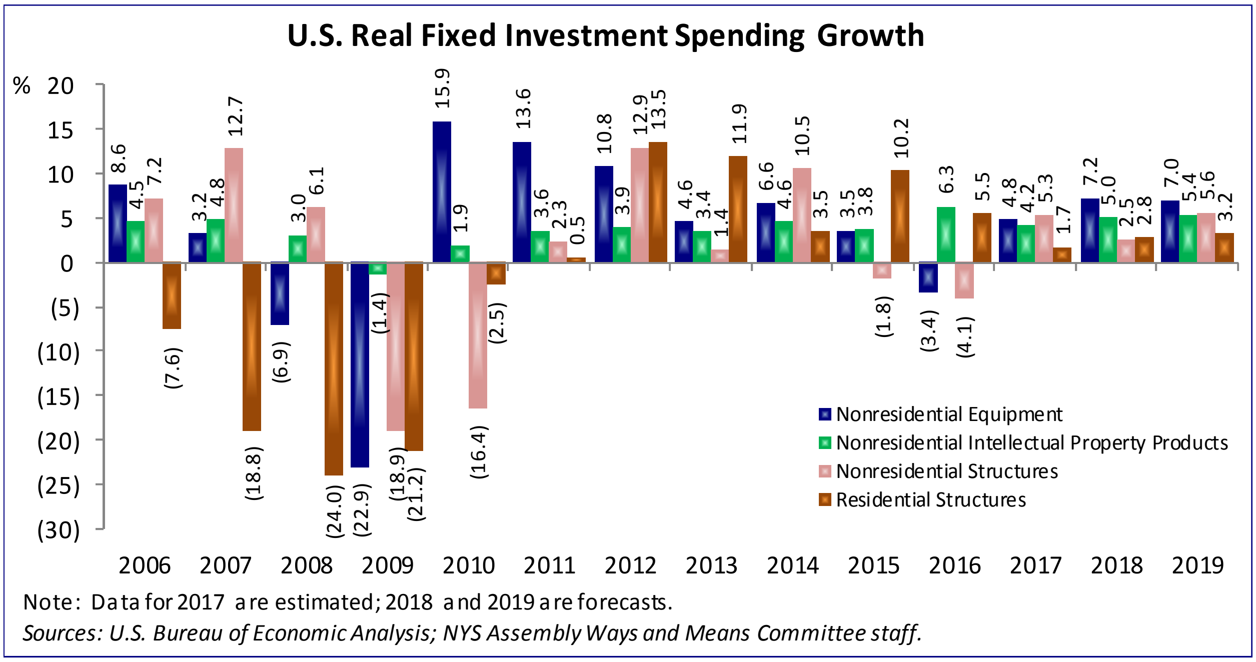


Figure 7

Business construction spending will be fueled by commercial construction, mainly from higher demand for warehouse space. As consumers make more online purchases, demand for warehouse space has risen. Industrial vacancy rates have had record-breaking declines fueling strong rent growth.[13] Retail property markets will continue to face headwinds from ecommerce, but as employment gains continue, demand for office space will remain healthy, supporting growth in commercial real estate.[14] Furthermore, businesses have generally faced

[12] See "U.S. crude oil production forecast expected to reach record high in 2018." *Today in Energy: US Energy Information Administration*, US Energy Information Administration, December 20, 2017, www.eia.gov/todayinenergy/detail.php?id=34212#.

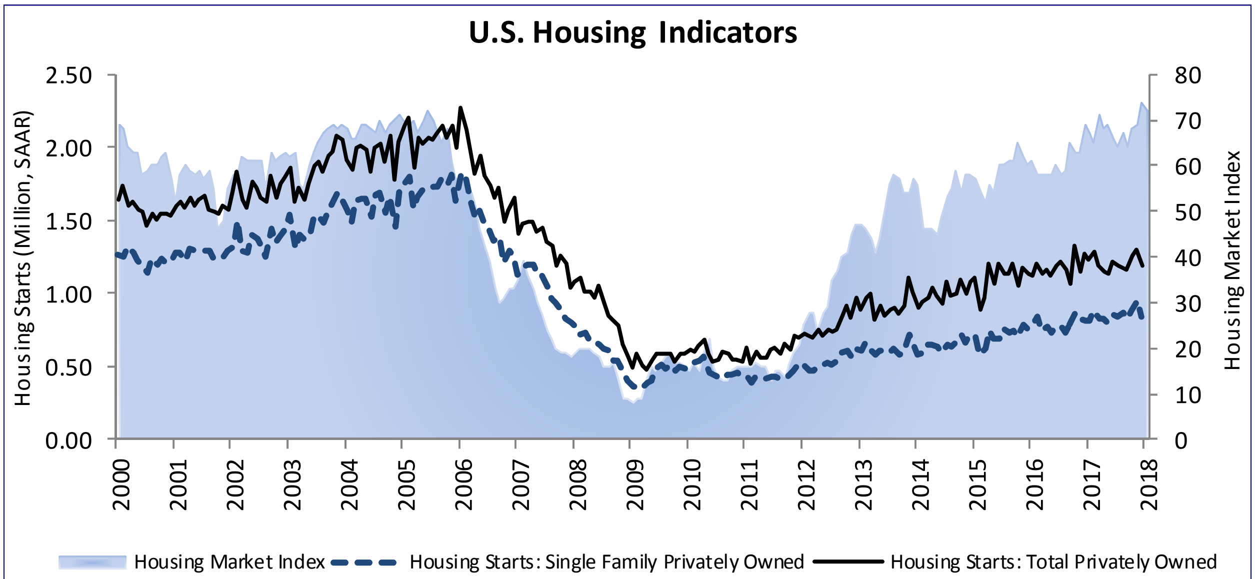
[13] See Cushman and Wakefield, "U.S. Industrial Vacancy Rate Continues Record-Breaking Decline," *Economic Trends*, March 2017, https://www.inddist.com/news/2017/04/us-industrial-vacancy-rate-continues-record-breaking-decline.

[14] See Revathi Greenwood and Rebecca Rockey, "Just Right…Goldilocks Economy Bodes Well for Property Demand," *Cushman and Wakefield Research U.S. Macro Forecast*, September 2017, http://www.cushmanwakefield.com/en/research-and-insight/2017/us-macro-fall-sept2017/.

slightly more accommodative lending standards from banks on commercial and industrial loans.[15] Hence, spending on nonresidential structures is forecast to increase 2.5 percent in 2018, and another 5.6 percent in 2019.

Residential Investment

Up until the third quarter of 2017, residential investment's quarterly contribution to private domestic investment was more than 25 percent, nearly eight percentage points higher than its 17-year low in 2011. Additionally, the Housing Market Index hit an 18-year high in December 2017, reflecting soaring builders' confidence in the wake of Congress's passage of changes to the tax code that benefit builders directly (see Figure 8). Total housing starts grew tepidly in 2017, but single-family housing starts grew a solid 8.4 percent. Single-family housing starts contribute more to job creation than multi-family housing starts.[16]



Note: Data are monthly through December 2017. Data are seasonally adjusted.
Sources: U.S. Census Bureau; National Association of Home Builders.

Figure 8

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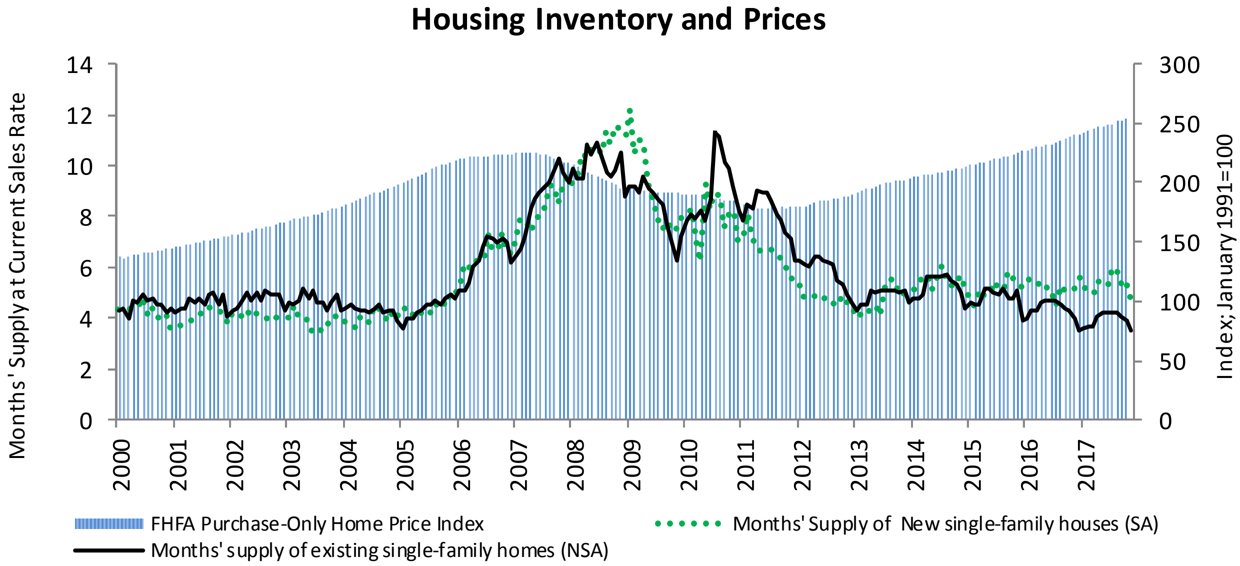
[15] See *The July 2017 Senior Loan Officer Opinion Survey on Bank Lending Practices*, Federal Reserve Board, July 31, 2017, https://www.federalreserve.gov/data/sloos/201708/default.htm.

[16] According to 1-year estimated impacts computed by the NAHB, for every 100 single-family homes constructed in a typical local area 394 local jobs are created; while for every 100 rental apartments constructed in a typical local area, 161 local jobs are created. See, *The Economic Impact of Home Building in a Typical Local Area: Income, Jobs, and Taxes Generated*. National Association of Home Builders, 2015, *The Economic Impact of Home Building in a Typical Local Area: Income, Jobs, and Taxes Generated*, www.nahb.org/~/media/Sites/NAHB/Economic%20studies/1-REPORT_local_20150318115955.ashx?la=en.

Despite the optimism, however, headwinds abound for the housing sector on the demand side. The capping of itemized deductions for state and local taxes (SALT) at $10,000 as well as mortgage interest payments for mortgages up to $750,000 threatens to destabilize the housing markets in the Northeast and California.[17]

Household formation, an important driver of residential investments, grew just 0.3 percent in the third quarter of 2017, its slowest pace in seven years. This might be due to several factors, including growing student loan debts which, coupled with slow wage growth, have discouraged young workers from buying a home and establishing new households. Higher rents have also made it difficult to save for a down payment on a new home. Nevertheless, household formation is expected to continue to grow modestly throughout the forecast period.



Note: Data are monthly through December 2017.
Sources: U.S. Federal Housing Financing Agency; National Association of Realtors; U.S. Census Bureau.

Figure 9

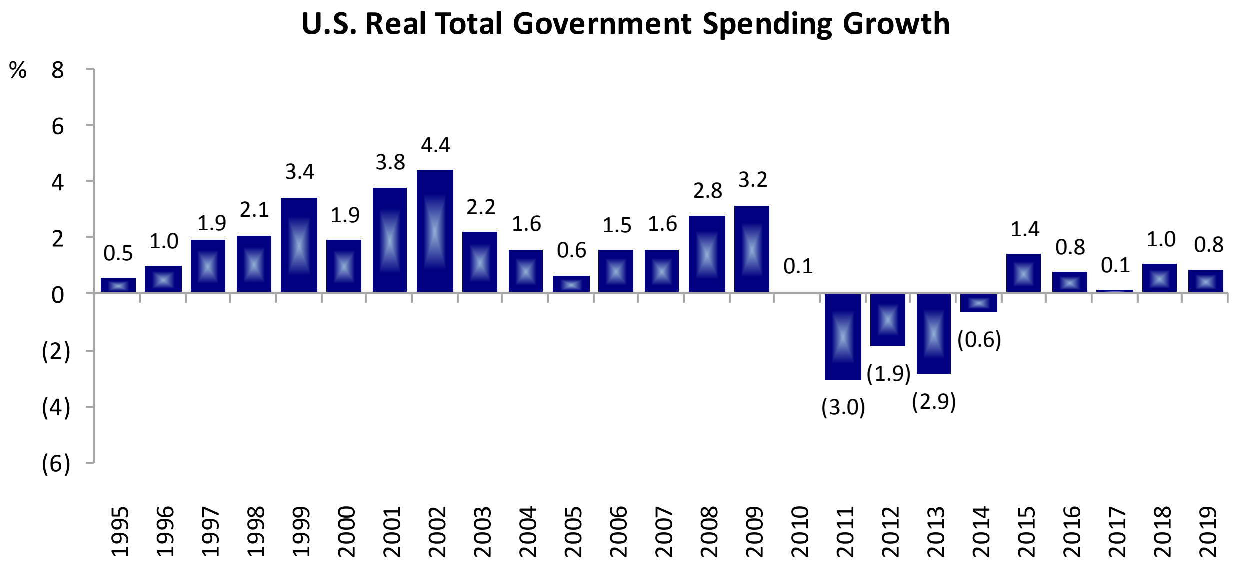
On the supply side, shortages in land, labor, and lumber have constrained investment in home building and contributed to a housing shortage. At the current sales rate, there is only 3.2 months' worth of inventory on hand – the lowest it has ever been since the series began (see Figure 9). This shortage, along with persistent demand gains, continues to put upward pressure on prices, especially in areas where prices have been rising rapidly.

[17] See Lash, Herbert. "Republican tax plan would hurt U.S. housing market -Brokers." *Reuters*, Reuters, November 2, 2017, www.reuters.com/article/usa-tax-realestate/republican-tax-plan-would-hurt-u-s-housing-market-brokers-idUSL2N1N81GZ.

Though banks’ lending standards for residential mortgage loans have eased, they remain fairly stringent compared to prior to the Great Recession. In addition, while borrowing costs remain historically low, they will eventually increase as the Federal Reserve continues to tighten monetary policy, putting further pressure on home buyers.

Despite recent weakening in some housing market trends, housing demand will likely increase further as the rate of household formation increases, and wages continue to improve with a tightening labor market. Residential construction spending is forecast to grow 2.8 percent in 2018 and 3.2 percent in 2019.

Government Spending



Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 10

Government Spending Key Points

- **Federal government spending will contribute to overall economic growth in 2018 and in 2019 as the lifting of budget caps leads to a substantial increase in defense and nondefense spending;**
- **State and local government spending is expected to support modest overall government spending growth over the forecast horizon, as slow revenue growth impacts states and local governments.**

Total government spending adjusted for inflation increased 0.8 percent in 2016, after growing 1.4 percent in 2015, driven by nondefense federal spending and state and local government spending. In 2017, total government spending is estimated to have increased 0.1 percent as defense spending turn positive and state and local government spending rose slightly. Supported mainly by higher state and local government spending, total government spending is projected to grow 1.0 percent in 2018, and 0.8 percent in 2019 as federal government spending contributes to growth after declining seven of the last eight years (see Figure 10).

The Tax Cuts and Jobs Act of 2017 (TCJA) is expected to lower revenues and increase the federal budget deficit by over $1 trillion over ten years.[18] This increase in the deficit implies higher interest payments over time. Therefore, the federal government will have less flexibility to address future fiscal crises.

Federal Government Spending

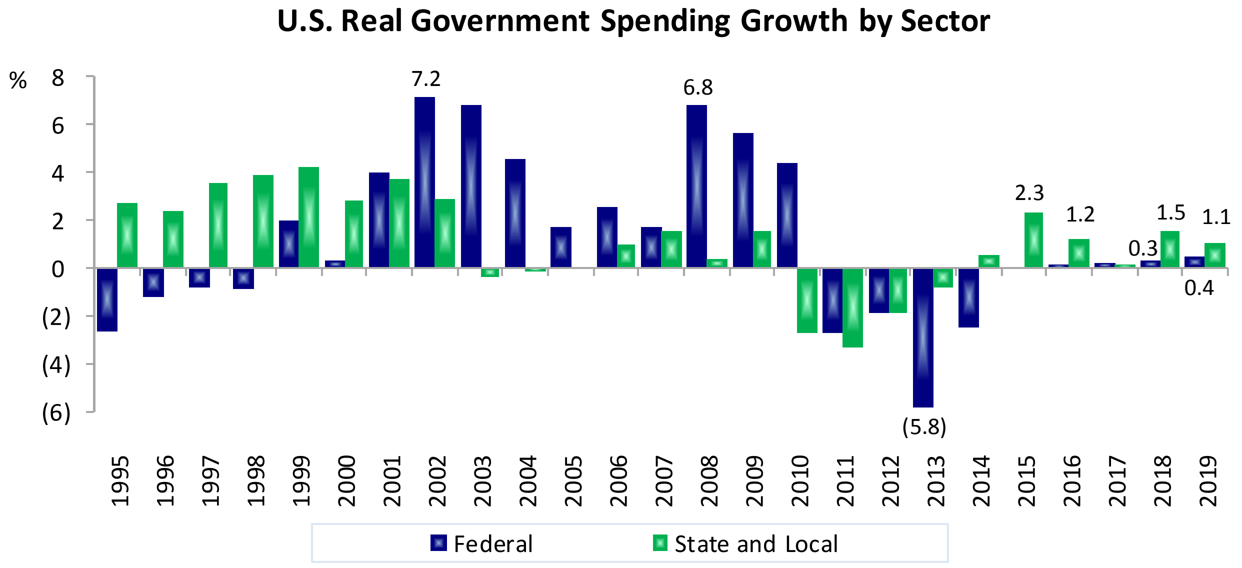
Adjusted for inflation, federal government spending was flat in 2016, following five years of decline. A decline in defense and nondefense spending led to a decrease in overall federal government spending in the first quarter of 2017. In the second quarter of 2017, federal government spending grew 1.9 percent as defense spending outweighed declines in nondefense spending particularly from a decrease in compensation and spending on structures. The cut in compensation partly reflects the decline in employment as a result of federal agencies hiring freeze. In the second half of 2017, defense and nondefense spending accelerated as appropriations increase for disaster relief, weapons, military compensation, and overseas missions. As a result, federal government spending rose an estimated 0.2 percent in 2017.

The Bipartisan Budget Act of 2018 (BBA) authorizes higher spending levels in federal fiscal years 2018 and 2019.[19] In particular, spending is anticipated to increase $40.7 billion in the second half of 2018, and by $161.5 billion in federal fiscal year 2019.[20] Defense and nondefense spending is set to rise substantially. Hence, federal government spending will be supported by increased spending in public investment, more aid for disaster relief, and continued efforts to combat terrorism. As a result, federal government spending is projected to increase 0.3 percent in 2018 and 0.4 percent in 2019.

[18] Staff of Joint Committee on Taxation, "Macro economic Analysis of the Conference Agreement For H.R.1, The Tax Cuts and Jobs Act," December 22, 2017, http//www.jct.gov/publications.html?func=startdown& id=505.

[19] The federal fiscal year is from October 1st of the current year through September 31st of the next year. The BBA includes $80 billion in defense spending for the current fiscal year and another $85 billion for 2019. Nondefense spending allocation includes $63 billion for the current fiscal year and $68 billion in the next. See The Bipartisan Budget Act of 2018; Public Law 115-123, 115th Congress, February 9, 2018.

[20] See *Bipartisan Budget Act of 2018, Cost Estimate*; Congressional Budget Office, February 8, 2018, http://www.cbo.gov/publication/53556.



Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 11

State and Local Government Spending

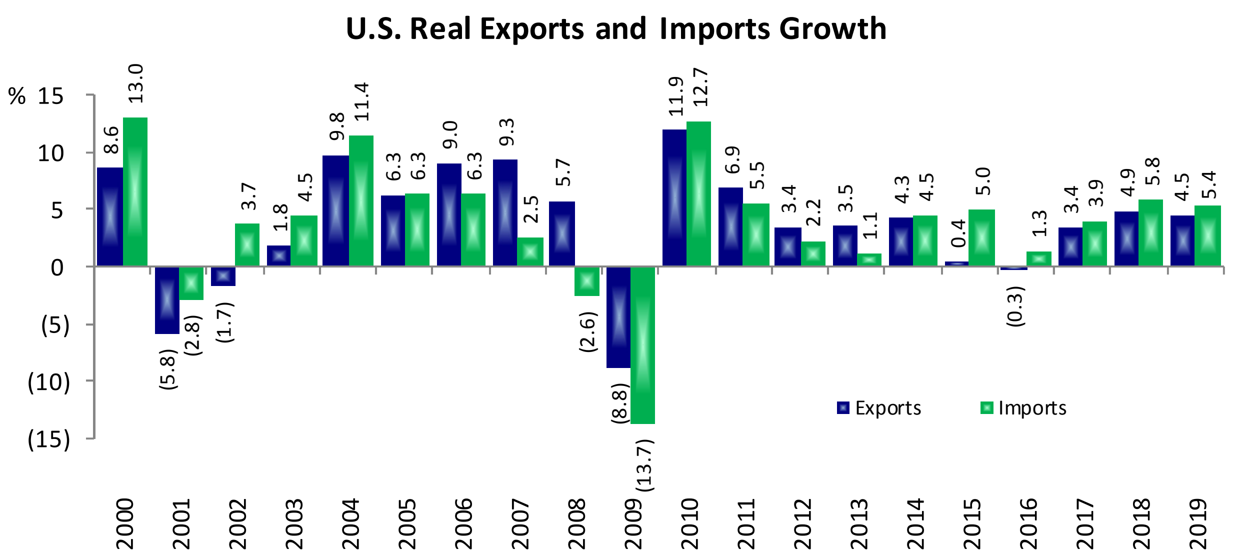
In the first quarter of 2017, spending by state and local governments rose 0.5 percent as compensation and spending on goods and services rose. State and local government spending fell in the second quarter primarily due to a decline in spending on buildings and infrastructure. Preliminary third quarter state revenue data suggest stronger personal income tax collections and modest growth in sales taxes.[21] As the decline in spending on structures moderated in the third quarter, state and local government spending rose. Nonetheless, state and local government spending continued to grow in the fourth quarter of the year as states affected by the hurricanes used federal funds for disaster relief and possibly dip into reserves to aid the recovery process. Overall, state and local government spending is estimated to have been flat in 2017.

As slow revenue growth continues to afflict many states, most state budgets will continue to prioritize core services such as K-12 education and health care. Oil-producing states that rely heavily on revenues from oil continue to face budgetary challenges from the recent declines in oil prices. Furthermore, states will continue to analyze the potential impact of the

[21] Lucy Dadayan, "Volatility in Income Tax, Continued Weakness in Sales Tax, Slower Growth in Property Tax," No. 109, December 2017, http://www.rockinst.org/pdf/government_finance/state_revenue_report/2017-12-15-srr_Q2_2017.pdf._108.pdf.

federal tax reform on tax collections. States may need to decouple from several federal tax provisions to maintain current revenue flows, whereas in other cases - e.g. under several business tax provisions – states will see an increase in receipts absent any legislative changes. Hence, spending pressures from pensions, health care, and education will continue to push state and local government spending upwards. Thus, state and local government spending is forecast to increase by 1.5 percent in 2018 and 1.1 percent in 2019 (see Figure 11).

Exports and Imports



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

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

Figure 12

Exports & Imports Key Points

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

Global growth and the value of the U.S. dollar are the two main factors that affect U.S. exports. As the economies of our trading partners grow faster, they will demand more U.S. exports. However, as the U.S. dollar gets stronger, demand for U.S. exports will fall as U.S. goods become more expensive to foreigners strong domestic demand, all else the same, supports continuing gains in import growth.

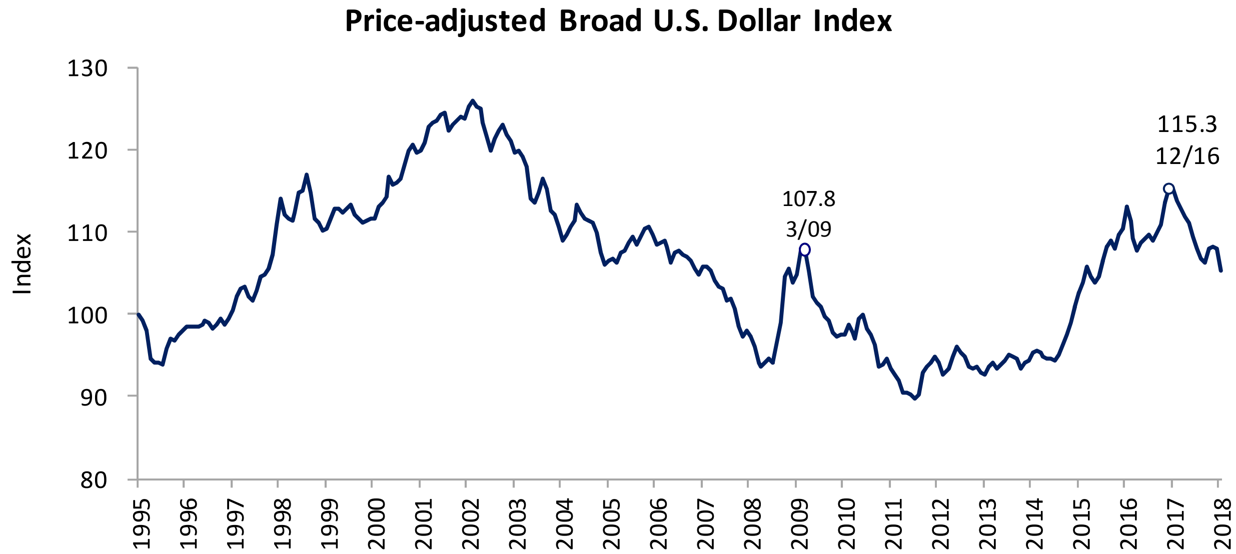
U.S. international trade has continued to recover since 2010. However, exports have been weak over the past few years due to a strong dollar and weak global growth. It is expected that this trend will subside somewhat, as global growth improves and the U.S. dollar weakens.

The world economy is expected to grow solidly throughout the forecast period

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

U.S. dollar depreciation is facilitating export growth

The U.S. dollar was been relatively strong in the past few years. In particular, as the Brexit vote raised considerable uncertainty regarding the U.K. economy and its impact on the rest of the world, the U.S. dollar started to appreciate sharply. As the uncertainty subsided, the U.S. dollar started to weaken (see Figure 13). This trend is expected to continue throughout the forecast period. The dollar fell by 0.6 percent in 2017, and is forecast to depreciate further throughout the forecast period.



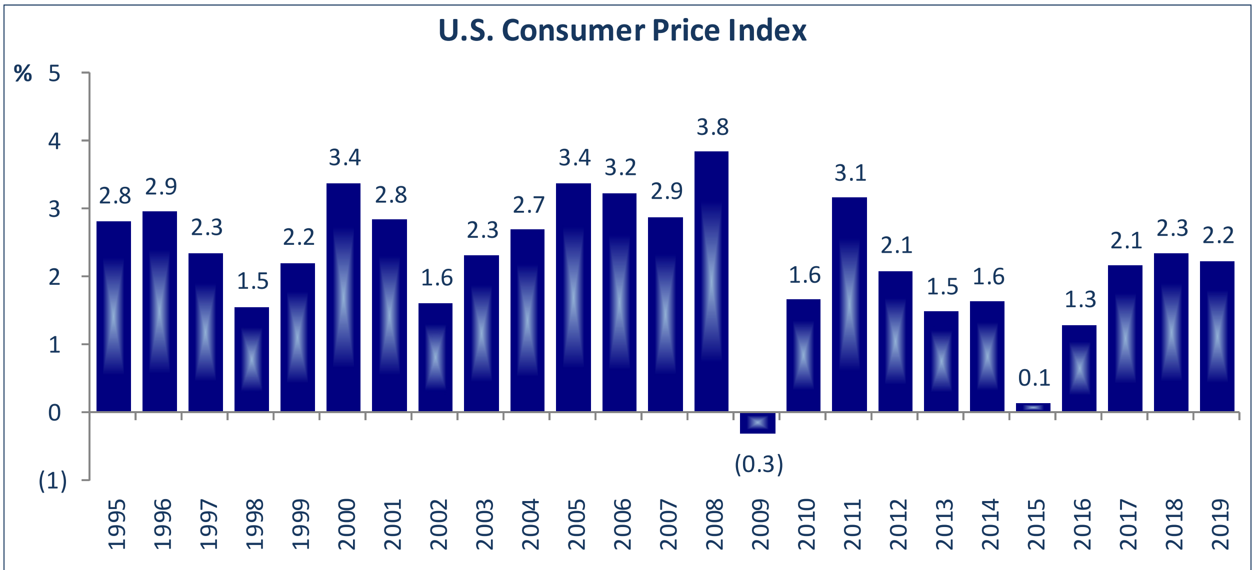
Note: Data are monthly through January 2018; January 1995=100.
Source: Federal Reserve.

Figure 13

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

Although both imports and exports are anticipated to grow throughout the forecast period, imports are expected to grow faster than exports. In 2017, exports are estimated to have grown by 3.4 percent, compared to 3.9 percent for imports. With global economic growth expected to improve and the U.S. dollar expected to depreciate further, U.S. exports growth is forecast to accelerate to 4.9 percent in 2018 and 4.5 percent in 2019. As U.S. economic growth is expected to improve, U.S. imports growth is also forecast to accelerate to 5.8 percent in 2018 and 5.4 percent in 2019 (see Figure 12). As imports growth is anticipated to continue to outpace exports growth, net exports (or exports minus imports) will continue to negatively impact overall economic growth.

Prices



Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Figure 14

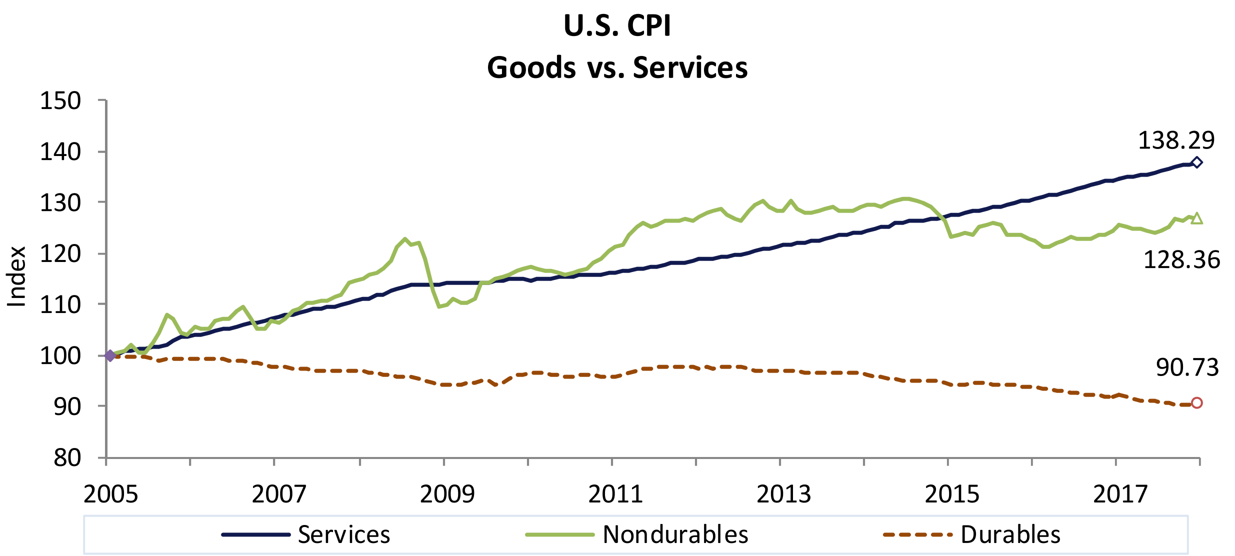
Prices Key Points

- **The energy prices, which rose following the hurricanes is expected to stabilize going into 2018;**
- **Overall, consumer prices are expected to advance moderately through 2019.**

Prior to the Great Recession the Consumer Price Index (CPI) grew at an average annual rate of 2.7 percent from 1991 to 2008. Following the Great Recession, the CPI grew on average 1.6 percent per year from 2009 to 2016. The slowdown is due to slower growth in the food component, a decline in the energy component, and a sharp slowdown in the medical care services and shelter components.

Recent price pressures are attributed to rising energy prices, primarily gasoline prices, reflecting the impact of Hurricane Harvey but they are expected to subside. Additionally, higher used car prices put pressure on overall prices. The Manheim Index, which is the indicator of pricing trends in the used vehicle market, pointed toward increases near the end of 2017. This is in response to the rising number of insurance claims filed following property damages due to the recent hurricanes, as replacement demand for used automobiles rose. A tightening labor market is placing upward pressure on wages resulting in the highest labor cost increases since 2008. Similarly, the recent downturn in the U.S. dollar value will likely lead to higher import prices. Also, recent inflation trends were positive for the fourth quarter of 2017. Overall, the consumer price index is forecast to increase 2.3 percent in 2018 and 2.2 percent in 2019 (see Figure 14).

The services component of the CPI, which accounts for 63.7 percent of total CPI, has been increasing at a steady pace. The nondurables component, which accounts for 27 percent of total CPI has been flat since 2015. The durable goods component has experienced a continuous downward trend. With this trend likely to remain in place, overall consumer price inflation is expected to stay low compared with the period prior to the Great Recession or with the earlier years of the current recovery.



Note: Data are seasonally adjusted. Data are monthly from January 2005 to January 2018. January 2005 = 100.
Source: U.S. Bureau of Labor Statistics.

Figure 15

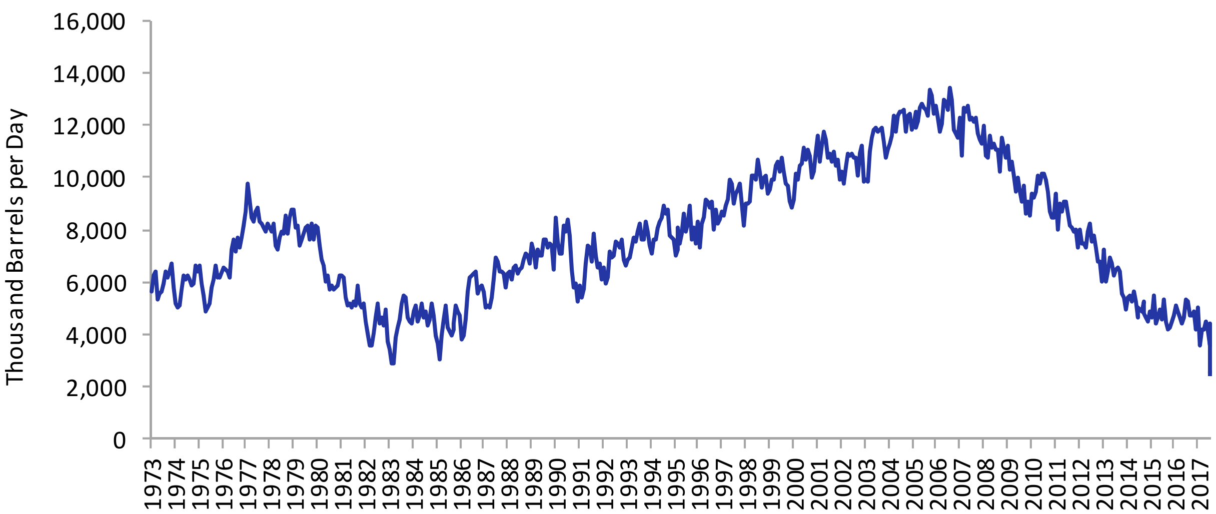
Energy Prices

Energy prices will remain one of the most volatile risk factors. Geopolitical considerations as well as weather conditions add uncertainty to future energy prices. Sudden changes in energy prices affect households both directly (such as gasoline and home heating oil prices) and indirectly (producers passing higher energy costs to consumers in the form of higher final product prices).

In August of 2017, Hurricane Harvey dealt a significant blow to the energy infrastructure of Texas and resulted in a spike in the costs of refined oil products like gasoline. Several factors affected the supply of crude oil. The production cuts implemented by the Organization of Petroleum Exporting Countries have led to a decline in production of 1.8 million barrels per day, placing upward pressure on crude oil prices as global supplies decline. U.S. crude oil stocks declined in the latter part of 2017 and continue to do so in 2018 despite record domestic production. This is due to rising exports. The recent extreme weather conditions have also led to increased oil supply draws. This places upward pressure on prices as domestic supplies contract.

According to the U.S. Energy Information Administration (EIA), U.S. crude oil production averaged an estimated 9.3 million barrels per day in 2017 and is forecast to average 10.6 million barrels per day in 2018. This would be the highest average production in U.S. history, surpassing the previous record of 9.6 million barrels per day in 1970. Rising oil production due to increases in drilling activity, rig efficiency, well-level productivity, and political unrest in countries that are large crude oil producers contributes to the continuing strength in overall U.S. production and consistently declining levels of imports (see Figure 16).

U.S. Net Imports of Crude Oil and Petroleum Products



Note: Data are monthly through October 2017.
Source: U.S. Energy Information Administration.

Figure 16

Equity Markets

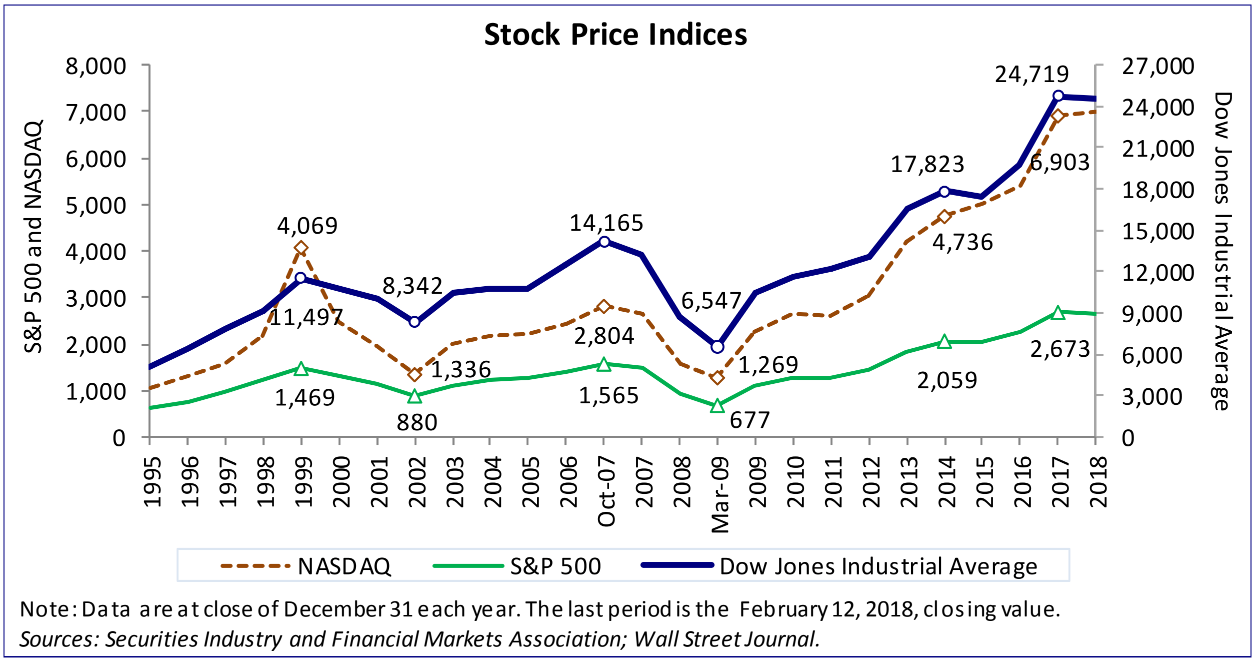
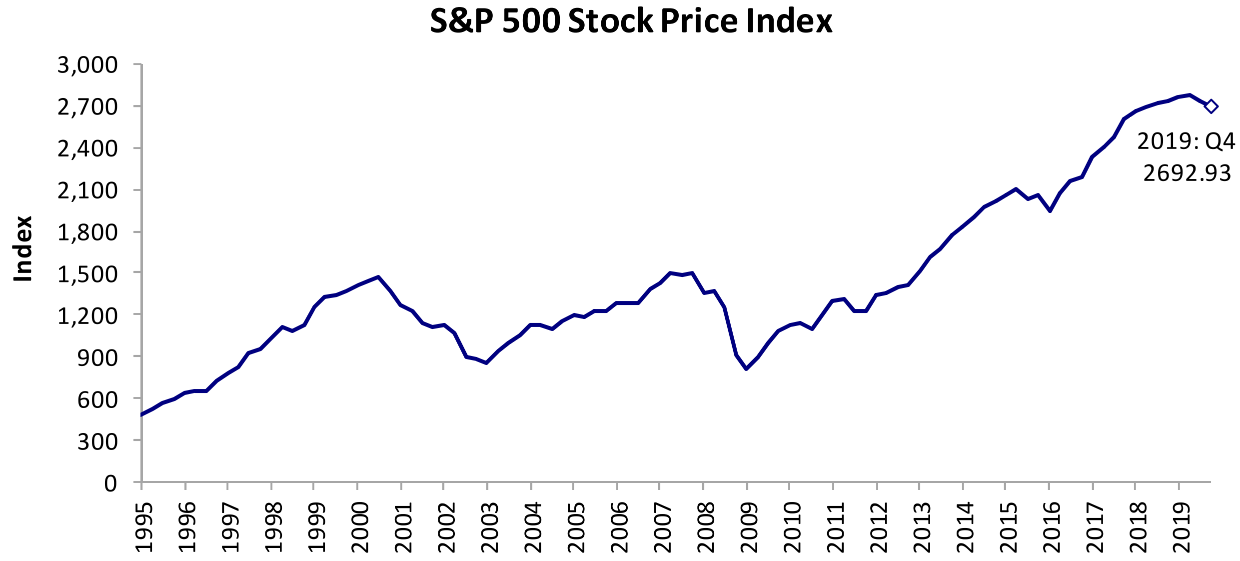


Figure 17

Equity Markets Key Points

- **Due to improving corporate profits and renewed investor confidence in anticipation of expansionary fiscal policies and less regulation, equity prices advanced strongly in 2017;**
- **Equity markets face several long term headwinds that will place downward pressure on stock valuation. These factors include rising interest rates, global uncertainty, and maturing economic growth.**

The S&P 500 Stock Price Index grew a mere 1.5 percent on an average annual basis in 2016 compared to 6.8 percent growth in 2015, as a result of increased uncertainty surrounding fiscal policy, global trends, and market expectations of continued interest rate hikes following the December 16, 2015 rate increase (see Figure 17).



Note: Data are quarterly through 2019:Q4; 2018 and 2019 are forecasts. Index 1941-1943=10.
Sources: Standard & Poor's; NYS Assembly Ways and Means Committee staff.

Figure 18

The stock market grew a strong 17.0 percent in 2017, supported by expectations of regulatory easing, rising corporate profits, and anticipation of corporate and personal income tax reform (see Figure 18). Despite the recent volatility in equity markets, caused by higher inflation expectations and rising interest rates, equity markets are expected to continue growing. S&P 500 growth is forecast to weaken over the forecast period to 10.4 percent in 2018, and 1.4 percent in 2019 with rising interest rates expected to dampen equity market gains and corporate profits growth expected to slow. It is expected that the Federal Reserve will implement four rate hikes in 2018.

As of December 2017, the S&P 500 stock price index has grown 15.5 percent on an annualized monthly average basis since the Great Recession, compared to the 17.4 percent during the 10-year bull market in the 1990's, which ended with a 56 percent crash. The price/earnings ratio (P/E) ratio for the S&P 500, which hovers around the high teens in normal times, has recently registered at 24. Prior to the crash in 2000, the P/E ratio was around 28. Much of this recent rally can be attributed to the combination of the U.S. financial market acting as a safe haven for global investors due to economic and geopolitical instability in many parts of the world, and the low interest rate environment that was premised on the need to deal with the financial crisis.

Corporate Profits

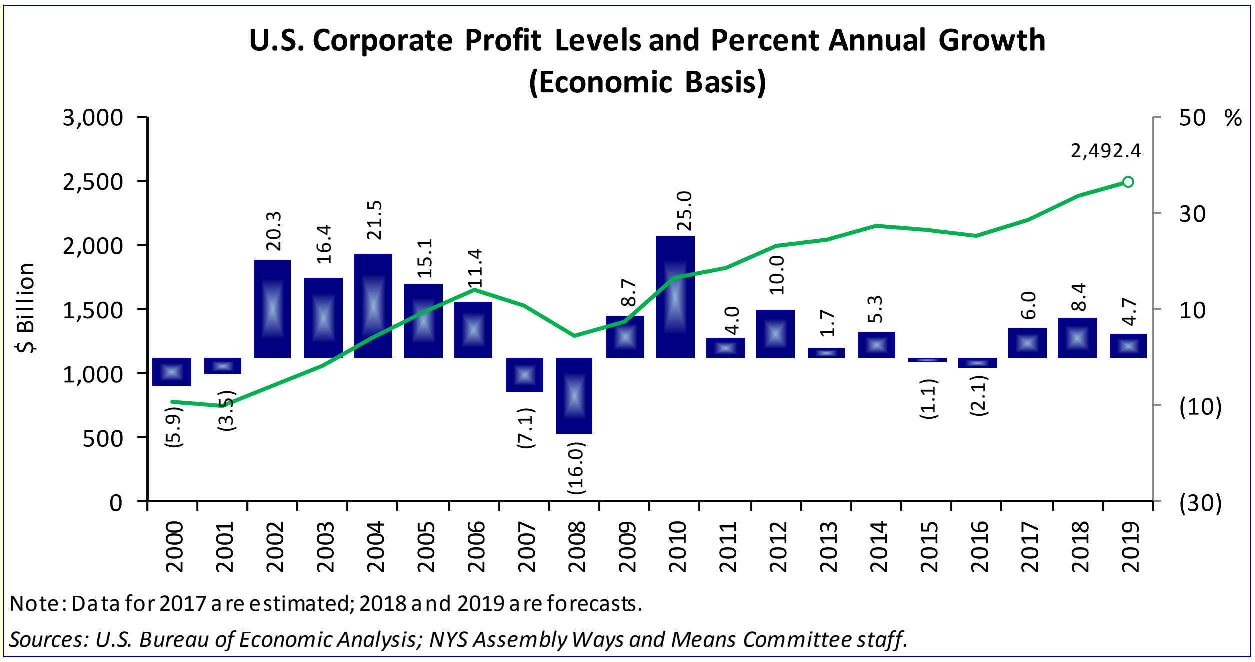


Figure 19

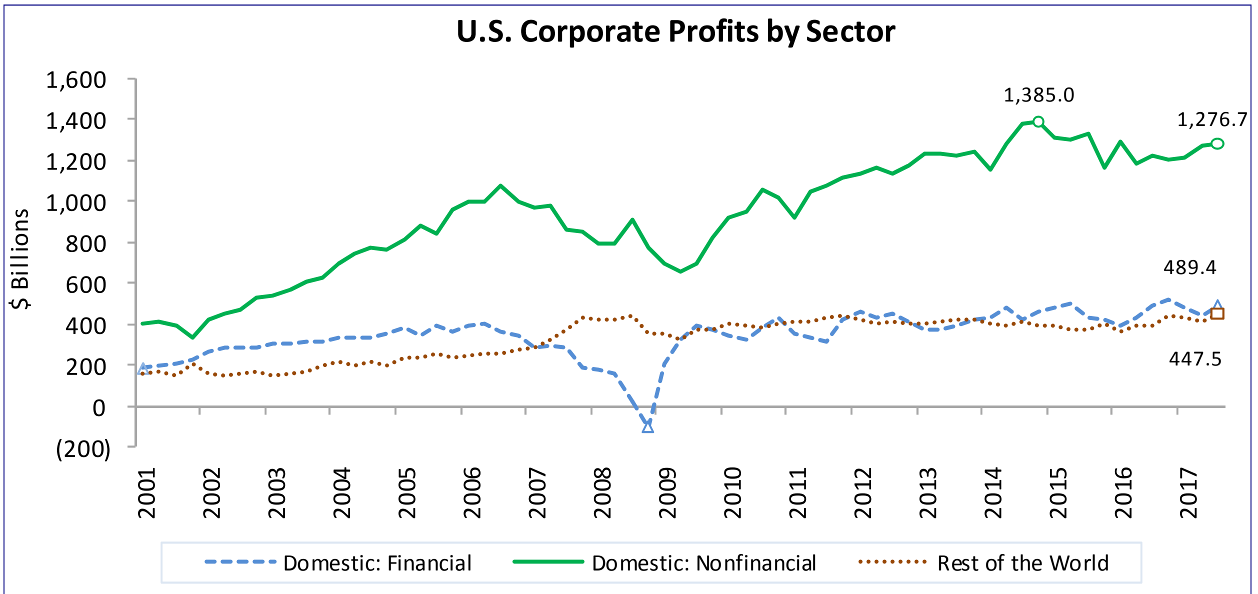
Corporate Profits Key Points

- **Profits have returned to growth, albeit at a modest pace, after two years of decline. A strengthening global economy in conjunction with a weaker U.S. dollar are among the factors explaining the rebound;**
- **Corporate profits' share of national income has been increasing over the last 30 years; this trend is not expected to change in the near future.**

U.S. businesses netted $2.21 trillion in profits in the third quarter of 2017, an increase of 4.3 percent following a rebound of 0.7 percent in the second quarter and a drop of 2.1 percent in the first quarter. Year over year, profits increased 5.3 percent in the third quarter.[22] On a yearly basis, corporate profits are estimated to have grown 6.0 percent in 2017, ending two years of decline (see Figure 19). Profit growth is expected to remain positive in 2018 and 2019.

[22] News Release, U.S. Bureau of Economic Analysis, December 21, 2017.

The return to growth owes much to the strengthening of economies around the world combined with the weakening of the U.S. dollar.[23] However, not all sectors have contributed equally to overall profit growth since the beginning of 2017 (see Figure 20). A rebound in the domestic non-financial sector, a sector that had been trending downward after peaking in the fourth quarter of 2014, is responsible for the current overall growth. In contrast, both the domestic financial and rest-of-the-world sectors experienced declines in 2017 after having exhibited no clear, sustained upward or downward trends following the Great Recession. Overall profits growth is likely to remain restrained in the near future as each sector responds to global and domestic events.



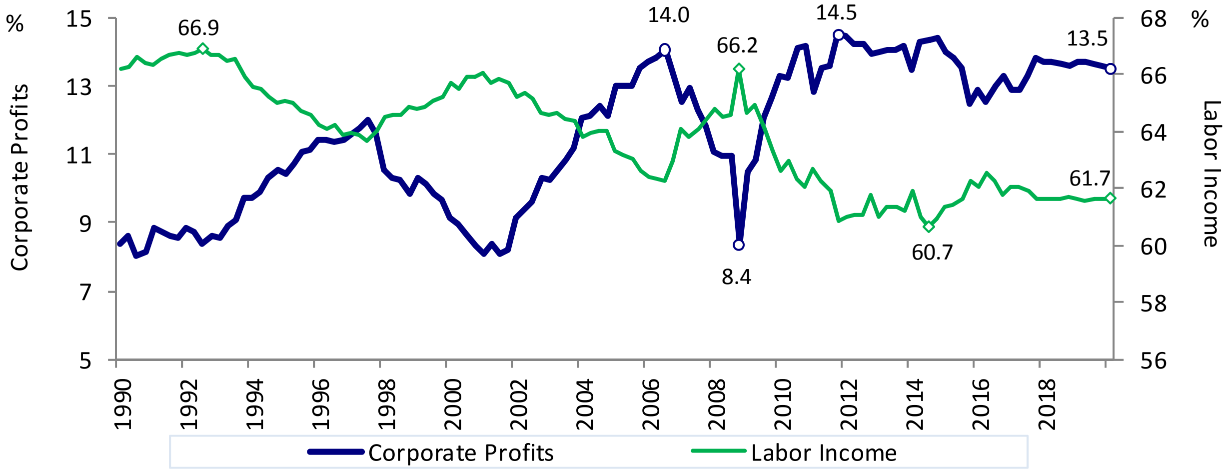
Note: Data are seasonally adjusted at an annual rate and are quarterly through 2017:Q3.
Source: Bureau of Economic Analysis.

Figure 20

The share of corporate profits in national income peaked at 14.5 percent in the fourth quarter of 2011, the highest on record, as it trended upward after 1990, quickly regaining ground after each recession (see Figure 21). That share still remains at a historic high, having only slightly declined after 2011. As of the third quarter of 2017, the share of corporate profits stood at 13.3 percent. The share of labor, in contrast, declined during the period; it stood at 61.9 percent in the third quarter of 2017, down from nearly 67 percent in the early 1990s. The small rebound of the share of labor since 2014 does not yet reflect the low unemployment and near full employment conditions in the economy.

[23] https://www.bloomberg.com/news/articles/2017-08-11/boost-from-abroad-gives-u-s-companies-best-quarter-since-2004.

Corporate Profit and Labor Income Shares in National Income



Note: Data are quarterly through 2020:Q1; the first forecast period is 2017:Q4.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 21

Employment

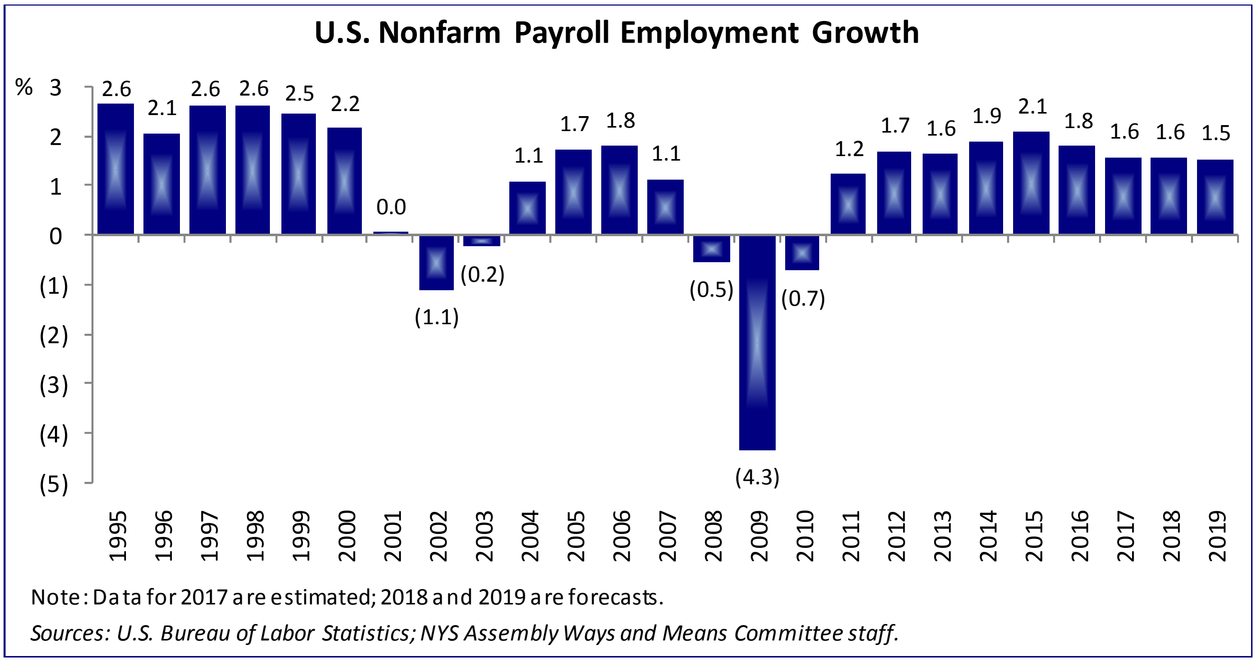


Figure 22

Employment Key Points

- **Employment is expected to grow at a steady pace throughout the forecast period as the labor market nears full employment;**
- **Employment growth would be slightly lower over the forecast horizon, were it not for a small positive impact from the recent federal tax policy changes.**

Employment grew 1.6 percent in 2017, following an increase of 1.8 percent in 2016. Monthly employment gains averaged 181,000 compared to 195,000 in 2016. The slowdown primarily reflects a labor market that is close to capacity. As the economy continues to expand, the labor market is expected to remain healthy but with an increasing number of baby-boomers leaving the workforce the pool of available workers is expected to shrink.

However, the recently enacted tax reforms are expected to soften the impact of retiring baby-boomers in 2018 and 2019 as employers are encouraged to increase their workforce. As a result, nonfarm payroll employment growth is projected to stay at 1.6 percent in 2018 before slowing to 1.5 percent in 2019 (see Figure 22). The underlying factors driving employment growth indicate that growth would slow over the forecast period were it not for the changes in federal fiscal policy. If the labor market was not near full employment, then the tax change impact would likely have a greater effect on employment.

Labor market is tightening

In January 2017, the unemployment rate was 4.1 percent, a rate which is currently below its natural rate.[24] As the unemployment rate has declined, suitable workers are increasingly more difficult to find, as evidenced by job openings outpacing hires and quit rates trending upwards. In addition, the retirement of baby-boomers has put downward pressure on labor force participation, but as the overall economy has improved, workers who had left the labor force have rejoined the labor market.[25] As a result, labor force participation has stabilized at around 63 percent in recent years (see Figure 23). Overall, the unemployment rate is expected to trend lower as the pool of workers available to work shrinks, contributing to slower employment gains and suggesting some upward pressure on wages over time.

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

[25] Since the first quarter of 2012, retirement accounted for eighty percent of workers leaving the workforce. However, labor force participation has been steadily falling for people with disabilities for more than fourteen years. Labor force participation among persons under age 55 has trended down since 2000. In addition, the participation rate of prime-age men continues to fall; currently fifteen percent of these men are not working compared to five percent fifty years ago. See Fujita, Shigeru, "On the Causes of Declines in the Labor Force Participation Rate," *Research Rap: Special Report*, Federal Reserve Bank of Philadelphia, February 6, 2014, https://www.philadelphiafed.org/results?sort=rel&start=0&text=on+the+causes+of+declines+in+labor+force. See Daniel Aaronson, Jonathon Davis, and Luojia Hu, " Explaining the decline in the U.S. labor force participation rate," *Chicago Fed Letter: Essays on Issues*, The Federal Reserve of Chicago, Number 296, March 2012, https://www.chicagofed.org/publications/chicago-fed-letter/2012/march-296. Bidder, Rhys, and Valletta, Rob, "Trend Growth: Where's Normal?" *Economic Letter*, Federal Reserve Bank of San Francisco, October 24, 2016, http://www.frbsf.org/economic-research/publications/economic-letter/2016/october/trend-job-growth-where-is-normal/. Wessel, "Men not at work," Brookings Institution, October 6, 2016, https://www.brookings.edu/research/men-not-at-work/. Michael Dotsey, Shigem Fujita, and Lena Rudanko, "Where is Everybody? The Shrinking Labor Force Participation Rate," Economic Insights, The Federal Reserve of Philadelphia, Research Department, Fourth Quarter 2017, http://www.philadelphiafed.org/research-and-data/publications/economic_insights/2017//94_where_is_everybody.pdf.

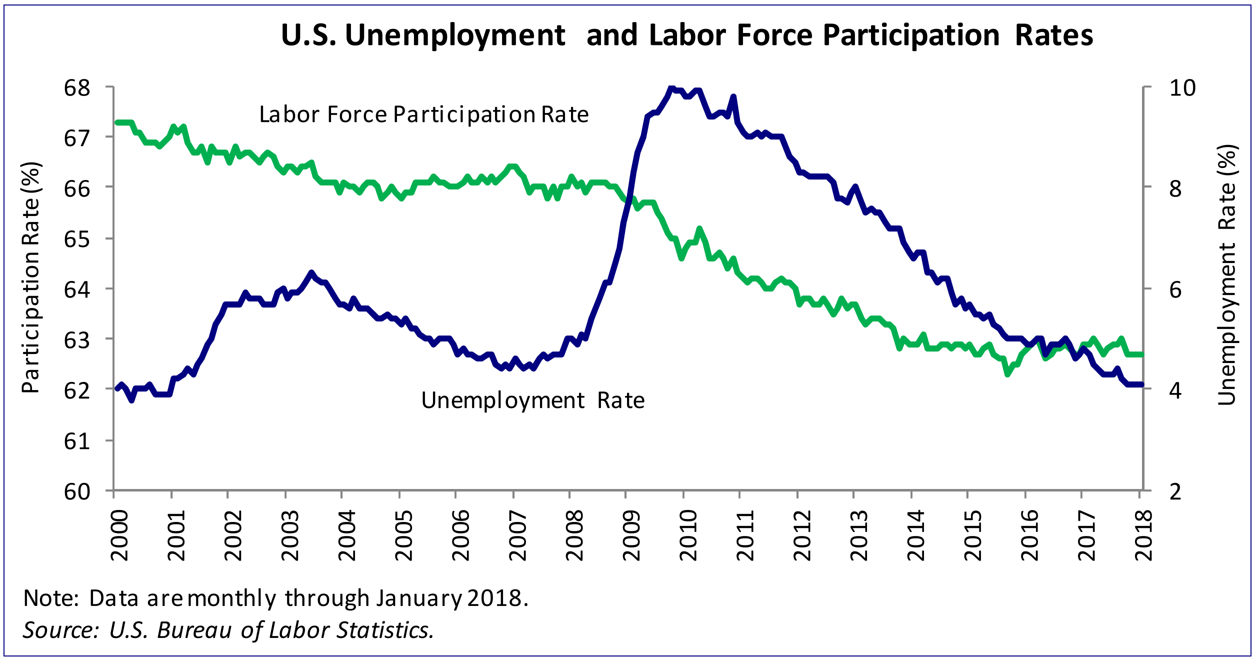


Figure 23

Sectoral allocation of jobs provides insights into future labor market

The slowdown in employment primarily reflects slower growth in the service-providing sector which accounts for more than 85 percent of nonfarm employment. Employment in major industries, such as professional and business services, leisure and hospitality, and education and health services, is projected to grow more slowly over the forecast period. The sluggish employment gains in retail trade over the forecast period are especially concerning as this industry played an important role in the labor market recovery after the Great Recession. The government sector, one of the largest service-providing sectors, has gained jobs but still remains below its prior peak. The two main industries of the goods-producing sector, construction and manufacturing, have been slow in job gains and remain below their January 2008 levels of employment.

Personal Income

Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 24

Personal Income Key Points

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

Personal income grew an estimated 3.1 percent in 2017, after increasing 2.4 percent in 2016, as all components of income increased. Over the forecast period, personal income is expected to continue to grow, as upward pressure on wages intensifies, interest rates increase, and proprietors' income rises. In addition, personal income is anticipated to be positively affected by the federal tax law changes passed in December 2017. Personal income is projected to grow 4.3 percent in 2018 and 5.0 percent in 2019 (see Figure 24).

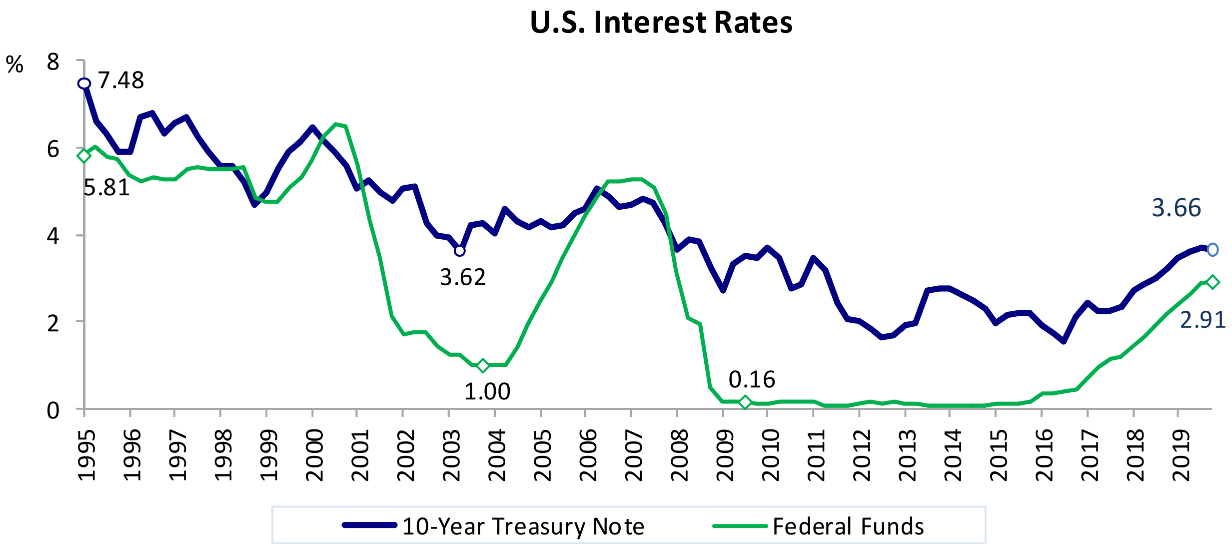
Wages and salaries, the largest component of personal income, are estimated to have increased 3.1 percent in 2017. The shrinking pool of available workers will continue to place upward pressure on wages. The aging of the U.S. population sees many experienced highly-paid workers exiting the labor force and being replaced by lower paid ones; however, the depressing impact on wages and salaries will likely be partly mitigated by more people joining the labor force. Hence, with the unemployment rate falling over the forecast period, employment growing steadily, and productivity rising, upward pressure on wages leads to a forecast of 4.4 percent increase in wages and salaries in 2018 and 4.9 percent in 2019.

Total personal transfer income, which includes various government social benefits, is expected to have grown 3.0 percent in 2017, as Social Security increased and Medicaid and Medicare coverage continued to expand. In addition, monthly Social Security benefits will increase two percent in 2018. As aging baby-boomers are added to Medicare and Social Security rolls, transfer payments will increase further. Personal transfer income is projected to increase 3.3 percent in 2018 and in 2019.

Dividend income grew an estimated 0.3 percent in 2017 as corporate profits rose after falling in 2016. Dividend income is projected to increase by 4.8 percent in 2018 and by another 7.1 percent in 2019 as corporate profits improve over the forecast period. The expected improvement in dividend income growth in 2018 and 2019 is attributed in part to corporations sharing some of the windfalls from lower corporate tax rates with shareholders.

In 2017, interest income is estimated to have grown 4.3 percent due to increases in interest rates. Interest income is forecast to increase by 4.4 percent in 2018 and 7.0 percent in 2019 as both short-term and long-term rates rise.

Monetary Policy



Note: Data are quarterly through 2019:Q4; the first forecast period is 2018:Q1.

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

Figure 25

Monetary Policy Key Points

- **The federal funds rate averaged 1.0 percent in 2017 and is forecast to average 1.8 percent in 2018 and 2.7 percent in 2019;**
- **On an annual average basis, the 10-year Treasury rate increased to 2.3 percent in 2017, and is forecast to rise further over the forecast period.**

The Federal Reserve held the federal funds target rate at the 0.0 to 0.25 percent range from December 16, 2008 until December 16, 2015, the lowest level on record. As the labor market conditions have been improving and inflation expectations firming, the Federal Reserve has since raised interest rates five times: in December 2015, December 2016, March 2017, June 2017, and December 2017; with the next rate hike expected in March 2018.

The Federal Reserve is expected to carefully monitor actual and expected inflation developments and labor market conditions for its monetary policy deliberations. The expectations are that economic conditions will evolve in a manner that will warrant gradual increases in the federal funds rate.

On an annual average basis, the 10-year Treasury rate increased to 2.3 percent in 2017, and is forecast to rise to 3.0 in 2018 and 3.6 in 2019. Barring unexpected increases in domestic and global uncertainties, which would depress yields on U.S. treasury securities, 10-year yields are expected to rise in tandem with rising short-term rates. The projected increase in the federal budget deficit due to the 2017 tax reform is expected to place upward pressure on long-term yields as total net treasury issuance accelerates. In addition, the Federal Reserve announced plans in October 2017 to gradually reduce its total asset holdings, which as of February 2018 were valued at $4.42 trillion. There are concerns surrounding this policy which are twofold. If the Federal Reserve reduces its asset holdings too quickly, it could potentially send stock and bond markets into disarray impacting the broader economy; if too slowly, the central bank will continue to be faced with a historically large balance sheet that could prohibit the effective use of monetary stimulus during the next economic downturn.

Risks to the Forecast

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

Equity markets, as well as the consumer and business outlook, improved following the 2016 election cycle with the expectation for fiscal stimulus and an easing of the regulatory environment. However, the current political gridlock and uncertainty related to a potential government shutdown could lead to a loss of consumer and business confidence. Such an outcome would have negative implications for consumer spending, business decisions on capital spending and hiring, as well as equity market performance.

In addition, unforeseeable risks such as abnormal weather and adverse geopolitical developments persist in the current economic environment. The stand-off at the Korean peninsula and any escalation beyond the current "war of words" will open a range of potential adverse shocks to the U.S. and international economies the least of which will be increased market volatility.

Federal Reserve actions on monetary policy are also adding uncertainty to the outlook. As the Federal Reserve is planning gradual reductions in its vast balance sheet, the timing of portfolio declines versus the planned interest rate increases adds an element of forecasting risk related to the federal funds rate as well as longer term Treasury rates.

The health of the global economy is also a concern. Although the economic outlook has recently improved for key U.S. trading partners, including China and the Eurozone, concerns tied to the geopolitical risks involving North Korea and Iran remain.

With Wall Street and the financial markets playing a central role in the economy of New York State, any adverse shocks to the U.S. economy will be felt across the state.

N.Y.S. Economic Forecast Analysis

NEW YORK STATE ECONOMIC FORECAST ANALYSIS

New York State is the third largest state economy in the United States (behind California and Texas), with a Gross Domestic Product of $1.5 trillion in 2016.[26] The state's total non-farm employment is almost nine million, spread over many sectors, with the highest concentrations in government, education and health, and finance and insurance.

Slow and steady expansion of the state economy continues

New York State employment has been growing steadily since the end of the Great Recession, and while employment growth is slightly slower than the national trend, total employment in the state is at a record-high level. Wages have also been growing steadily. Total wages in the state are poised to grow further in the forecast period as base wages grow along with employment. Much of the wage outlook for the state remains dependent upon the performance of the financial sector, where significant risks exist. Overall wage growth has not reached the rates seen in 2006 and 2007, as bonuses on Wall Street have been significantly restrained by various reforms and regulations since the Great Recession (see Figure 26).

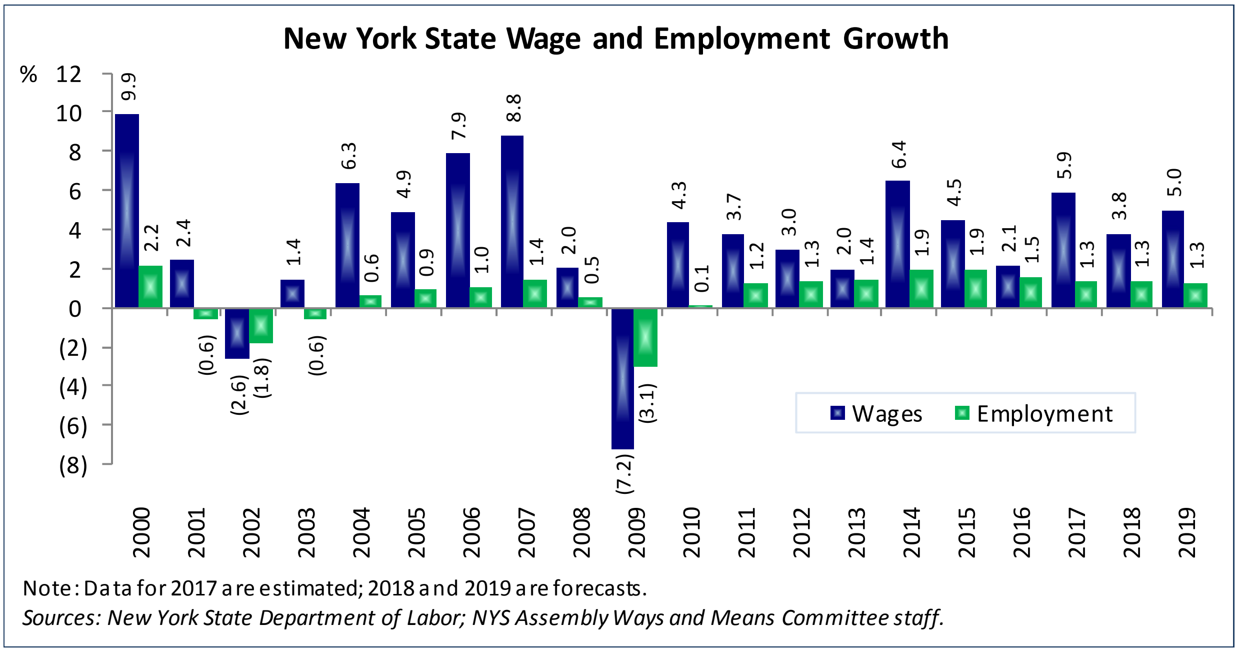


Figure 26

[26] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economic Accounts, http://www.bea.gov/regional/index.htm, (accessed: September 18, 2017).

Employment

The New York State economy has been benefitting from the continued recovery in the national economy. With the unemployment rate in the state approaching its natural rate, total nonfarm employment growth in the state is estimated to have slowed to 1.3 percent in 2017, after growing 1.9 percent in 2015 and 1.5 percent in 2016. As the state economy is expected to benefit from positive effects of recent tax reforms on the national economy, nonfarm employment growth in the state is forecast to grow 1.3 percent in 2018 and 2019.

Employment in all sectors, except manufacturing and retail trade, is expected to continue to grow throughout the forecast period. Employment in the retail trade sector has fallen for two consecutive years in 2016 and 2017. This is due in part to an increase in online sales in the past several years. Online sales accounted for less than five percent of total retail sales in the third quarter of 2011. This share increased to 9.1 percent in the third quarter of 2017.[27] As e-commerce sales are less labor intensive than those in physical stores, rising online sales have a net negative effect on retail trade employment. In addition, many retailers have either filed bankruptcy or closed their stores recently to stay competitive, while other retail chains are still saddled with debt. This trend is expected to continue, as a result, employment in this sector is expected to decline throughout the forecast period.

The construction sector has rebounded and grown strongly in the recent years due partly to rebuilding activities following Superstorm Sandy. Employment in this sector is expected to continue to grow solidly as it is projected that 7.2 million square feet of new office space will be completed in Manhattan in 2018 and an additional 5.6 million square feet in 2019.[28] In addition, several infrastructure projects are either underway or planned for the next several years. As a result, construction employment is estimated to have grown 3.1 percent in 2017. Employment in this sector is forecast to grow further by 4.4 percent in 2018 and another 3.9 percent in 2019 (see Table 1).

The education and health care sector, the largest in the state, is the only sector that gained employment during the last recession, and has continued to grow as aging baby boomers and new enrollees become insured under the Affordable Care Act and create more demand for health care services. Growth in that sector is expected to persist, albeit at a slower

[27] U.S. Census Bureau, "Quarterly E-Commerce Report," Third Quarter 2017, https://www.census.gov/retail/index.html (accessed: January 12, 2018).
[28] New York Building Congress, *"New York City Construction Outlook,"* September 19, 2017, https://www.buildingcongress.com/outlook/.

rate as many baby boomers are already insured. The education and health care sector is expected to have grown 3.0 percent in 2017, and is forecast to grow further by 2.3 percent in 2018 and 2.2 percent in 2019.

Having sustained heavy losses during the recession, the finance and insurance sector has been recovering slowly as technology, stricter regulations, and high operating costs have led firms to hire fewer employees. Employment in this sector is expected to grow slowly throughout the forecast period. Similarly, budget constraints at all levels of government continue to restrain government employment. As a result, government employment is forecast to be almost flat throughout the forecast period.

Table 1

New York State Nonfarm Employment by Sector (Percent Change)

	Recession 2009	Actual 2016	Estimated 2017	Forecast 2018	Forecast 2019
Total	**(3.1)**	**1.5**	**1.3**	**1.3**	**1.3**
Construction	(10.0)	3.7	3.1	4.4	3.9
Education & Health Care[1]	1.7	3.0	3.0	2.3	2.2
Leisure & Hospitality	(0.9)	1.9	2.8	2.4	2.4
Other Services[2]	(5.0)	2.1	2.1	1.9	1.7
Professional Services	(4.3)	1.7	1.9	2.0	1.9
Real Estate, Rental, & Leasing	(3.8)	1.7	1.8	1.9	1.4
Transportation & Utilities[3]	(4.2)	1.3	1.5	1.5	1.0
Management of Companies	(0.7)	(0.6)	1.3	1.4	1.2
Information	(4.0)	(0.0)	0.8	0.3	0.3
Government	(0.2)	0.4	0.4	0.4	0.3
Finance & Insurance	(7.2)	0.2	(0.1)	0.6	0.6
Retail Trade	(3.8)	(0.6)	(0.2)	(0.2)	(0.3)
Wholesale Trade	(6.3)	(0.9)	(0.7)	0.6	0.6
Manufacturing[4]	(10.9)	(1.2)	(1.0)	(0.8)	(1.0)

Note: Industries are ranked by 2017 employment growth; rankings are based on two decimal places.

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

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

[3] Transportation, warehousing, and utilities.

[4] Including mining.

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

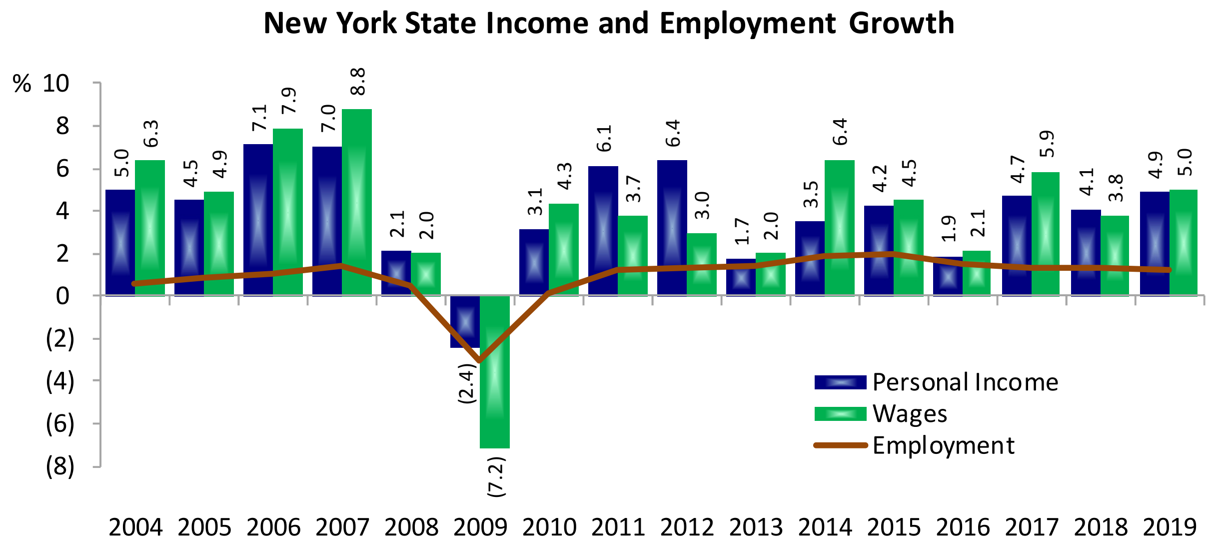
Personal Income and Wages

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

Much of New York State's variable compensation is concentrated in the financial sector, particularly the securities industry which accounted for 38.0 percent of total variable wages paid in the state in 2016. In 2007, before the Great Recession, the percentage of the state's total variable compensation paid in the securities industry was over 50 percent. Regardless of the drop in share, the securities industry continues to pay the largest share of variable wages in New York State compared to other sectors.

Personal income in New York State grew 1.9 percent in 2016, and is estimated to have grown faster at 4.7 percent in 2017 driven mainly by wage growth. Personal income is forecast to grow by another 4.1 percent in 2018 and 4.9 percent in 2019 (see Figure 27).

The other components of personal income are also growing. Dividend, interest and rental income, the second largest component of personal income at about 20 percent in 2016, is estimated to have grown 3.6 percent in 2017. With interest rates expected to rise and corporate profits to improve, dividend, interest and rental income is forecast to grow solidly throughout the forecast period. The expected increase in after-tax corporate profits due to the recent federal tax reform will also support stronger growth in dividend income in 2018 and in 2019, as corporations are likely to be under pressure to share the windfall with shareholders.

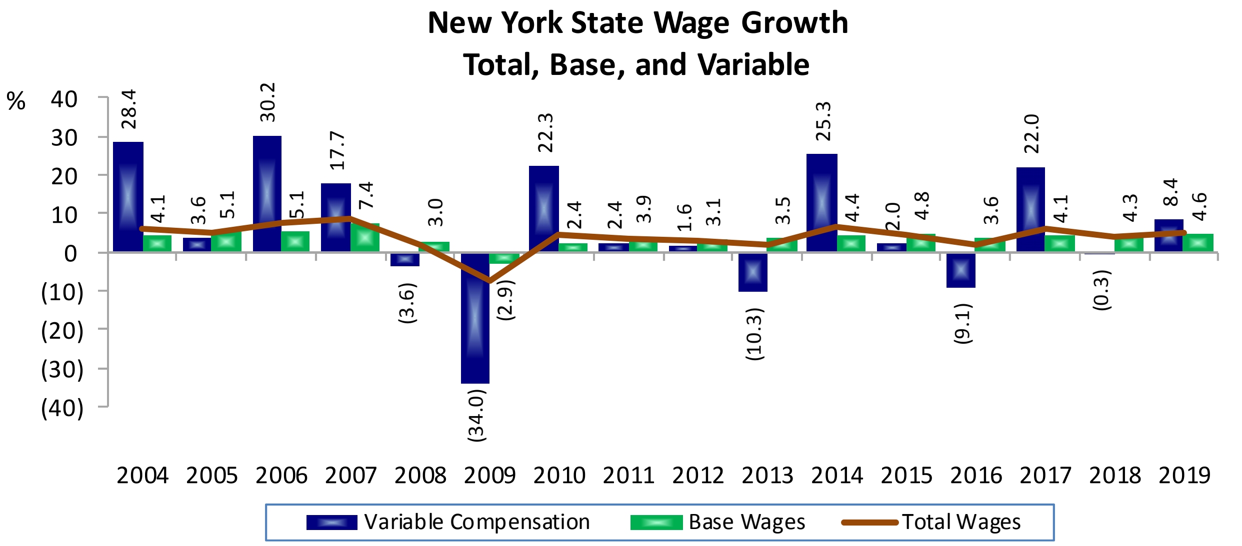


Note: Data for 2017 are estimated; 2018 and 2019 are forecasts.
Sources: NYS Department of Labor; U.S. Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 27

Wage growth rates continue to be below those achieved leading up to the Great Recession, partly due to job gains being concentrated in lower-paying sectors and variable wages growth being restrained. Rising minimum wage and tightening labor markets have put upward pressure on wages recently. In addition, firms may distribute some of the benefits of tax reforms to their workers. As a result, New York State wages are expected to grow solidly throughout the forecast period. After growing 2.1 percent in 2016, total wages in New York State are estimated to have grown 5.9 percent in 2017 and are forecast to grow further by 3.8 percent in 2018 and 5.0 percent in 2019.

Weak financial sector revenues led to a decline in variable wages in 2016. Variable wages rebounded strongly in 2017 as industry net revenues grew faster. In addition, tax reforms led some firms to pay out additional bonuses and to shift bonus payment into 2017. This led to a strong growth in variable wages in the fourth quarter of 2017. Thus variable wage are estimated to have grown solidly at 22.0 percent in 2017. Although financial sector revenues are expected to continue to grow steadily, variable wages are forecast to fall 0.3 percent in 2018 due to the unusually high level in 2017. Variable wages are forecast grow 8.4 percent in 2019. As employment grows steadily, even in those industries with relatively low average wages, base wages will continue on a slow but steady upward trend (see Figure 28).



Note: Total wage data for 2017 are estimated; 2018 and 2019 are forecasts. Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and their levels sum to total wages.
Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

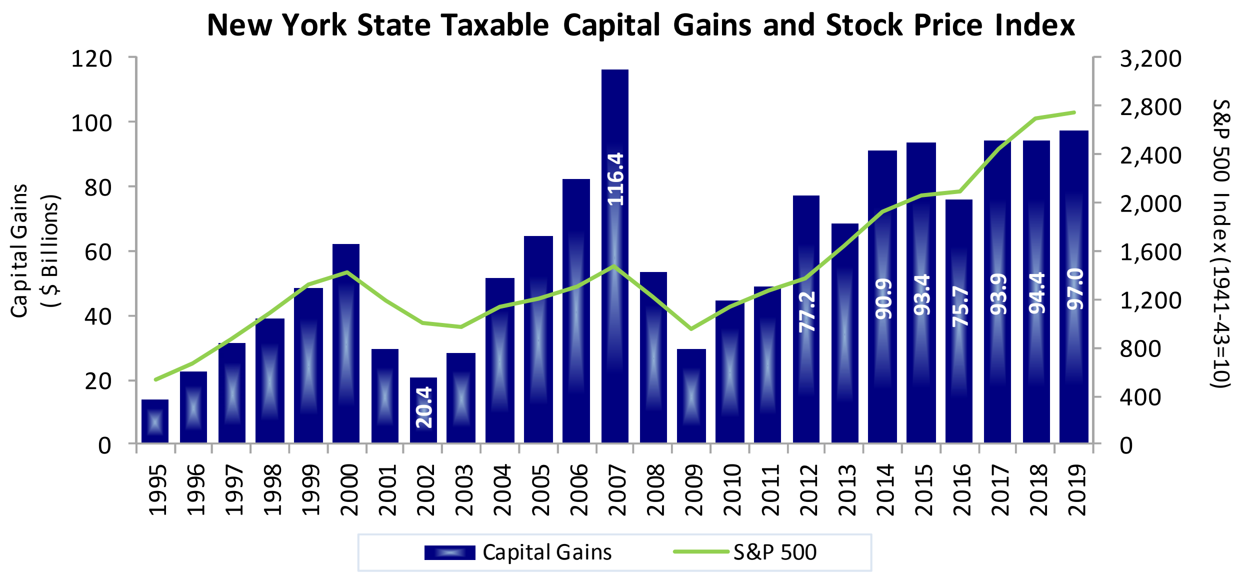
Figure 28

Capital Gains

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

In general, long term capital gains are subject to a lower tax rate than wages, while short-term gains are taxed like wages. Capital gains and the amount of taxes owed can vary significantly depending on not only economic conditions but the perceived impact of changes in tax laws. If households anticipate higher future tax rates on capital gains realizations, they have an incentive to exercise the option of taking gains in the year before the tax rates become effective. Conversely, if households expect lower rates, they have an incentive to delay realizing capital gains until after the rates are effective.

Capital gains are estimated to have fallen 19.0 percent to $75.7 billion in 2016 as overall economic growth and stock market gains slowed. The decline in capital gains in 2016 was also prompted by the anticipation of lower federal tax rates in 2017. However, the tax reform passed in December 2017 kept the tax rate on capital gains unchanged. But the tax reform package limits state and local tax (SALT) deductions from federal income to only $10,000 after tax year 2017. For many tax-filers who usually take advantage of the full deductibility of SALT, this tax change acts in part like a tax increase on income after 2017. Hence, capital gains are projected to have grown by 24.0 percent in 2017 (to $93.9 billion) as investors sold assets after waiting over two years to take advantage of higher equity prices. Also, it is likely that in anticipation of losing the full SALT deduction, they shifted the sale of some assets to 2017. To further maximize their gains as stock prices and home prices increase, investors are expected to continue to defer some gains into future years. As a result, capital gains are forecast to increase only 0.5 percent to $94.4 billion in 2018. In 2019, capital gains realization is anticipated to increase 2.8 percent to $97.0 billion as equity prices moderate and economic growth slows (see Figure 29).



Note: Data for 2016 are estimated; 2017, 2018, and 2019 are forecasts.

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

Figure 29

State Minimum Wage

The 2016-17 Budget enacted legislation that increases the minimum wage from $9 per hour to $15 per hour over several years. The scale of the increase will depend on the region where the business is located, and for New York City, the number of employees (see Table 2). Beginning at the end of 2017, employers of eleven or more employees in the City of New York, is required to pay an $11 per hour wage. By the end of 2019, the minimum wage will be $15. However, an employer in Long Island or Westchester will pay $15 per hour by the end of 2022.

Table 2

New York State Minimum Wage Increases Schedule*							
NYC (11 employees or more)		NYC (10 or less employees)		Long Island/ Westchester		Rest of State	
Date Increased	Min Wage	Date Increased	Min Wage	Date Increased	Min Wage	Date of Increase	Min Wage
2016	$9.00	2016	$9.00	2016	$9.00	2016	$9.00
2017	$11.00	2017	$10.50	2017	$10.00	2017	$9.70
2018	$13.00	2018	$12.00	2018	$11.00	2018	$10.40
2019	$15.00	2019	$13.50	2019	$12.00	2019	$11.10
		2020	$15.00	2020	$13.00	2020	$11.80
				2021	$14.00	2021**	$12.50
				2022	$15.00		

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

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

Finance and Insurance Sector

The outlook for the finance industry remains mixed. Trading revenue has been slow for the past several years. Initial public offering (IPO) activity was very weak in 2016 as the uncertainty caused by events such as the Brexit vote left companies wary of committing to equity fundraising. Global IPOs were down 31 percent in 2016 from 2015.[29] This is the slowest annual growth for global IPOs since 2012. However, the market rebounded strongly in 2017. Global IPOs totaled $179.3 billion in 2017, a jump of 35 percent over 2016.[30]

[29] Thomson Reuters Deals Intelligence, Global Equity Capital Markets Review, Full Year 2016, http://dmi.thomsonreuters.com/Content/Files/2016%20Global%20Equity%20Capital%20Markets.pdf.

[30] Thomson Reuters Deals Intelligence, Global Equity Capital Markets Review, Fiscal Year 2017, Htttp//dmi.thomsonreuters.com/Content/Files/4Q2017_Global_Equity_Caoital_Markets_Review.pdf.

Similarly, the worldwide merger and acquisition (M&A) activity was down 16 percent in 2016 compared to 2015.[31] The value of announced mergers and acquisitions worldwide totaled $3.6 trillion in 2017, a decline of 0.2 percent from 2016.[32]

Although the industry employment may be stagnant, it does not necessarily mean a decrease in compensation. Compensation can respond to increased revenues and profits, which may happen even without an increase in staff. Even keeping staff levels unchanged, higher incentive compensation may lead to an overall increase in wages paid within the industry. In addition, many changes have occurred as a result of the Great Recession, including changing compensation practices and stricter regulations. These changes have impacted the relationship between firms' profits and wage payouts, making it more difficult to accurately predict industry wages.

Real Estate Market

In the housing market, the state outperformed the nation during both the housing boom and the housing correction but has lagged the nation in recent years. During the housing boom, overall home prices in the state rose 64.8 percent from the first quarter of 2001 to the first quarter of 2007, compared to 53.0 percent for the nation (see Table 3). Home prices in the state fell at a much slower rate than in the nation during the housing correction. From the first quarter of 2007 to the second quarter of 2011, home prices fell 20.9 percent nationally, while home prices in the state declined 7.9 percent. The two metros that had the largest home price change during both the housing boom and bust were the New York-Jersey City-White Plains and Nassau-Suffolk areas.

[31] Thomson Reuters Deals Intelligence, Mergers and Acquisition Review, Full Year 2016, http://dmi.thomsonreuters.com/Content/Files/4Q2016_MA_Financial_Advisory_Review.pdf.

[32] Thomson Reuters Deals Intelligence, Mergers and Acquisition Review, Fiscal Year 2017, http://dmi.thomsonreuters.com/Content/Files/Global%20MNA_Financial_Advisor%202017.pdf.

Table 3

Home Price Change by New York State Metropolitan Area (Percent Change)			
	2001:Q1-2007:Q1	**2007:Q1-2011:Q2**	**2011:Q2-2017:Q3**
Buffalo-Cheektowaga-Niagara Falls	32.1	4.2	29.9
New York-Jersey City-White Plains	89.4	(17.5)	18.7
Nassau-Suffolk	84.5	(14.4)	17.4
Rochester	22.0	(0.3)	17.1
Syracuse	38.5	0.3	14.4
Albany-Schenectady-Troy	81.8	(5.6)	11.1
New York State	**64.8**	**(7.9)**	**17.3**
U.S.	**53.0**	**(20.9)**	**40.1**

Note: Data are seasonally adjusted. The FHFA Index presented herein may show different price changes from the S&P/Case-Shiller Index. This is because the two indices use different data. The FHFA Index is based on homes with conforming loans, which have a loan limit of $424,100 for single-family homes not in Alaska, Hawaii, Guam & U.S. Virgin Islands ($625,500 limit for single-family homes in Alaska, Hawaii, Guam & U.S. Virgin Islands). Therefore, the FHFA index does not reflect price changes for more expensive homes.

Source: Federal Housing Finance Agency (FHFA).

However, home prices in New York State have grown much slower than the national average in recent years. From the second quarter of 2011 to the third quarter of 2017, home prices grew 40.1 percent nationally, while home prices in New York State grew by only 17.3 percent.

Regionally, housing in upstate New York has long been more affordable than downstate. While most upstate metropolitan regions have been consistently ranked among the top fifty most affordable metros out of 238 metros nationwide, New York-Jersey City-White Plains has been ranked among the least affordable metros. In the fourth quarter of 2017, only 32.7 percent of homes sold in this area were affordable to families earning the area median income, compared to over 85 percent in Binghamton, Elmira, Watertown-Fort Drum, Utica-Rome, and Syracuse.[33]

[33] National Association of Home Builders, NAHB/Wells Fargo Housing Opportunity Index (HOI), http://www.nahb.org/en/research/housing-economics/housing-indexes/housing-opportunity-index.aspx (accessed: February 14, 2018).

NEW YORK STATE SECTORAL AND REGIONAL ANALYSIS

Sectoral Employment

New York State has experienced significant changes in its sectoral employment during the past several decades. Prior to the Great Recession, two sectors underwent significant changes: education and health care and manufacturing.

Education and health care employment has been steadily increasing even during recessions. As a result, the sector's share of total nonfarm payroll employment in New York State has risen. From 1980 to 2008, the share of education and health care employment grew from less than 10 percent to 17.8 percent, while its rank jumped from fourth to become the largest sector in the state. Both upstate and downstate shared equally in this gain.[34] This sector share increased to 19.6 percent and ranked first in 2016. In contrast, the manufacturing sector has been losing jobs for decades. In 1980, the manufacturing sector accounted for 17.1 percent of total New York State employment, the second largest share in the state behind the government sector. In 2008, this sector had dropped to seventh in rank and accounted for only 6.3 percent of total nonfarm employment. By 2016, share of manufacturing employment dropped to 4.9 percent of total nonfarm employment and ranked eighth. This was due to a structural shift in the economy and other economic factors.[35] As a result, education and health care has been the sector that contributed the most to New York State employment growth for the past few decades while manufacturing employment has been the biggest drag.

Leisure and hospitality sector employment has grown more rapidly than any other sector following the Great Recession and has become one of the main drivers of New York State employment growth in recent years. From 2009 to 2016, employment in this sector grew the fastest at 28.0 percent and contributed nearly one-quarter of all state's employment growth

[34] In downstate, the employment share of education and health care grew from 9.6 percent in 1980 to 18.4 percent in 2008. Its rank also rose from fourth to first. Similarly, this sector's upstate employment share grew from 9.7 percent in 1980 (ranked fourth) to 17.9 percent in 2008 (ranked second behind the government sector).

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

(see Table 4). As a result, the share of leisure and hospitality employment has increased from 8.5 percent and ranking fifth in 2008 to 9.9 percent and ranked fourth in 2016.

The gains in New York State employment during the current expansion have been mainly in lower paying sectors. From 2009 to 2016, four of the five sectors that contributed the most to overall state's employment growth were in sectors that had the lowest average wages (see Table 4).

Table 4

New York State Contribution to Employment Growth by Sector							
	1980-2000		2003-2008		2009-2016		Average Wage
	Level (Jobs)	Share (%)	Level (Jobs)	Share (%)	Level (Jobs)	Share (%)	2016 ($)
Total Employment Change	**1,351,944**	**100.0**	**370,540**	**100.0**	**816,599**	**100.0**	**68,054**
Education and Health[1]	622,628	**46.1**	132,339	**35.7**	238,908	**29.3**	50,663
Leisure and Hospitality	197,689	14.6	72,882	19.7	198,504	24.3	31,232
Administrative and Other Services[2]	257,328	19.0	39,464	10.7	120,066	14.7	44,091
Professional Services	231,993	17.2	79,606	21.5	97,092	11.9	108,921
Retail Trade	137,534	10.2	42,279	11.4	73,916	9.1	33,942
Construction	115,092	8.5	42,498	11.5	48,941	6.0	70,459
Transportation and Utilities[3]	17,616	1.3	13,772	3.7	21,859	2.7	58,573
Non Securities FIRE	22,920	1.7	(5,198)	(1.4)	17,283	2.1	104,456
Real Estate, Rental, & Leasing	56,951	4.2	7,116	1.9	14,422	1.8	69,727
Information	51,682	3.8	(13,227)	(3.6)	13,062	1.6	120,182
Finance & Insurance	77,859	5.8	20,814	5.6	10,927	1.3	215,336
Management	(8,024)	(0.6)	11,239	3.0	10,922	1.3	140,980
Wholesale Trade	(3,528)	(0.3)	606	0.2	6,969	0.9	82,805
Manufacturing[4]	(465,049)	(34.4)	(77,104)	(20.8)	(27,775)	(3.4)	64,346
Government	143,224	10.6	23,598	6.4	(70,335)	(8.6)	61,418

Note: Industries are ranked by 2016 employment share; rankings are based on two decimal places.
[1] Includes only private employment. Public education and health care employment is included in the government sector.
[2] Including administrative, support, and waste management services.
[3] Transportation, warehousing, and utilities.
[4] Including mining.
Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

Regional Employment

In 2016, the largest region by employment in the state was New York City. With over four million jobs, the New York City region accounted for over 45 percent of the state's total nonfarm employment. The smallest employment region was the North Country, with 146,200 nonfarm jobs. The two largest sectors across regions were education and health care and government, while in most regions management of companies and real estate, rental, and leasing were the smallest sectors.

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

Downstate regions were hit harder than upstate regions during the last recession. However, downstate has recovered faster than upstate. From 2009 to 2016, downstate gained 13.1 percent in nonfarm jobs with all regions gaining jobs. In contrast, upstate employment gained only 2.0 percent during this period, with three of seven regions experiencing job losses. The Southern Tier region lost the highest percentage of jobs from 2009 to 2016 (see Figure 30).

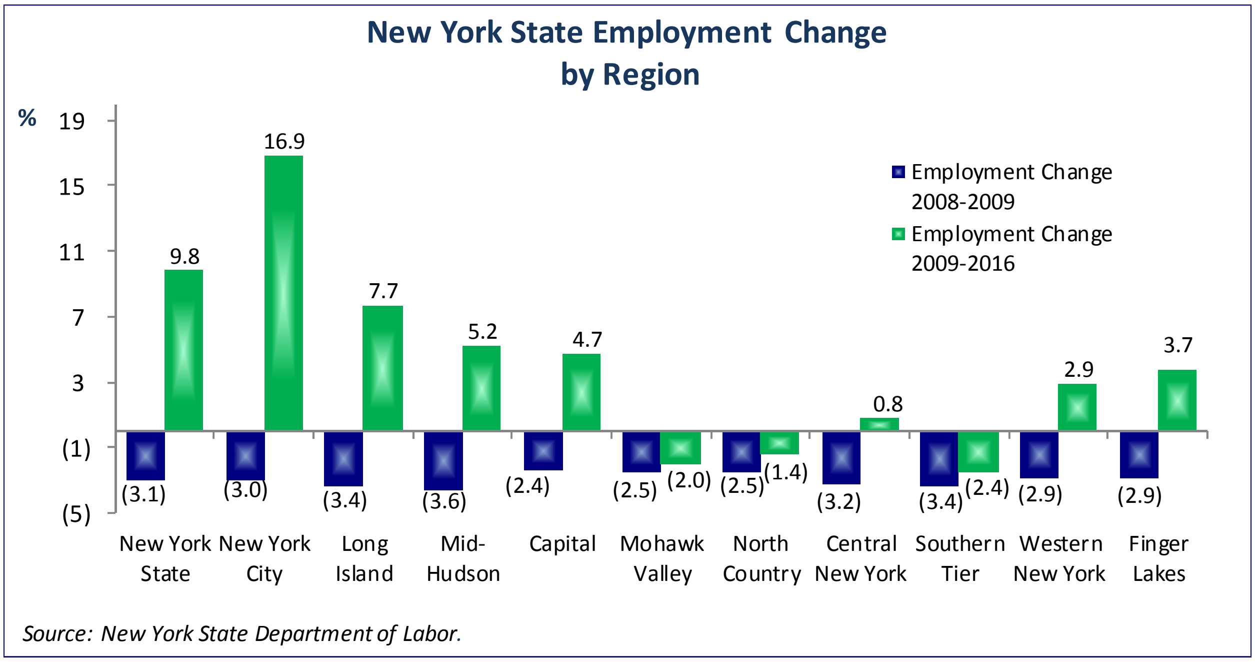


Figure 30

Only five regions (New York City, Long Island, Mid-Hudson, Capital, and Finger Lakes regions) have regained all the nonfarm jobs lost during the recession. In 2016, nonfarm employment in New York City was 13.4 percent above its pre-recession peak. In contrast, employment in the Southern Tier remained 5.7 percent below its previous peak. However, private nonfarm employment has surpassed its previous peak in six regions (New York City, Long Island, Mid-Hudson, Capital, Western New York and Finger Lakes regions) (see Figure 31).

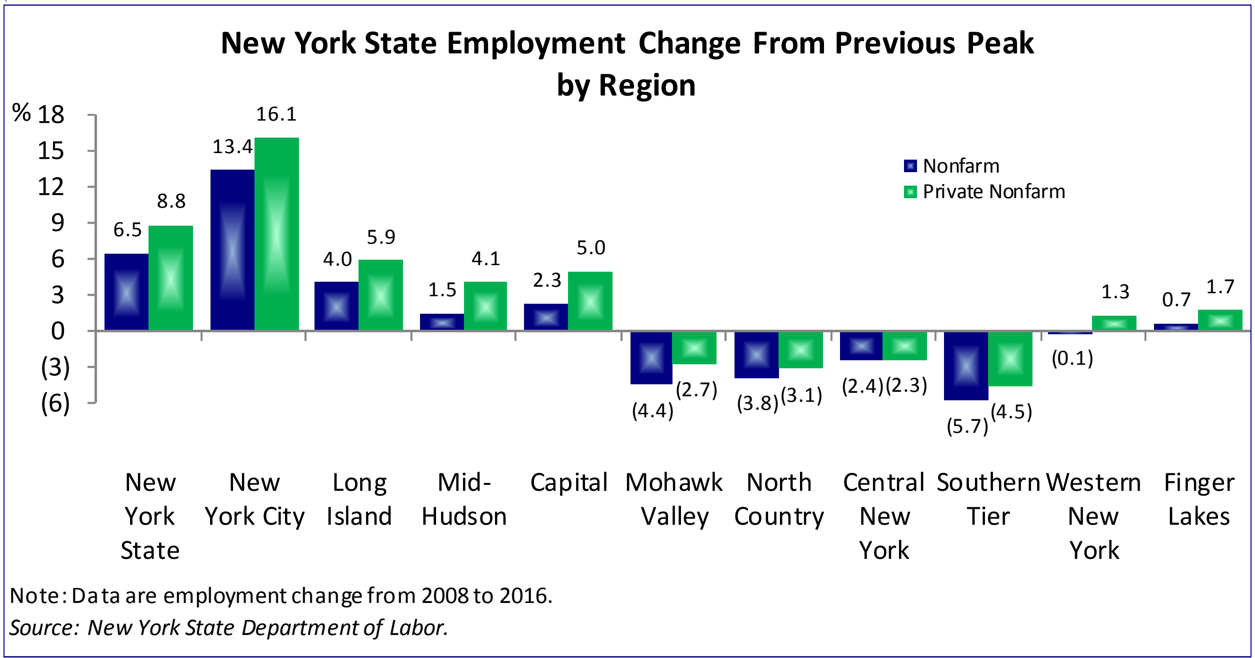
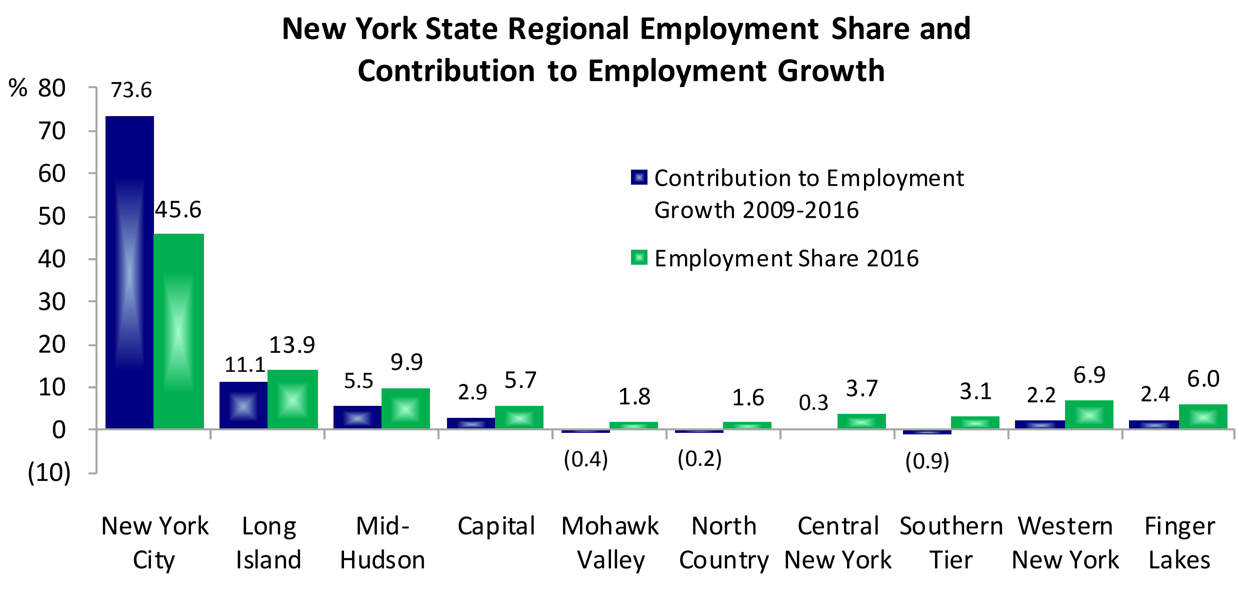


Figure 31

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

New York City has long been the main contributor to the state's employment growth and this trend has continued during the current expansion. While accounting for less than half of state's employment in 2016, New York City contributed almost three quarters of the state employment gains between 2009 and 2016. During this period, downstate accounted for more than 90 percent of state's employment growth, as regions in upstate continued to lose jobs (see Figure 32).

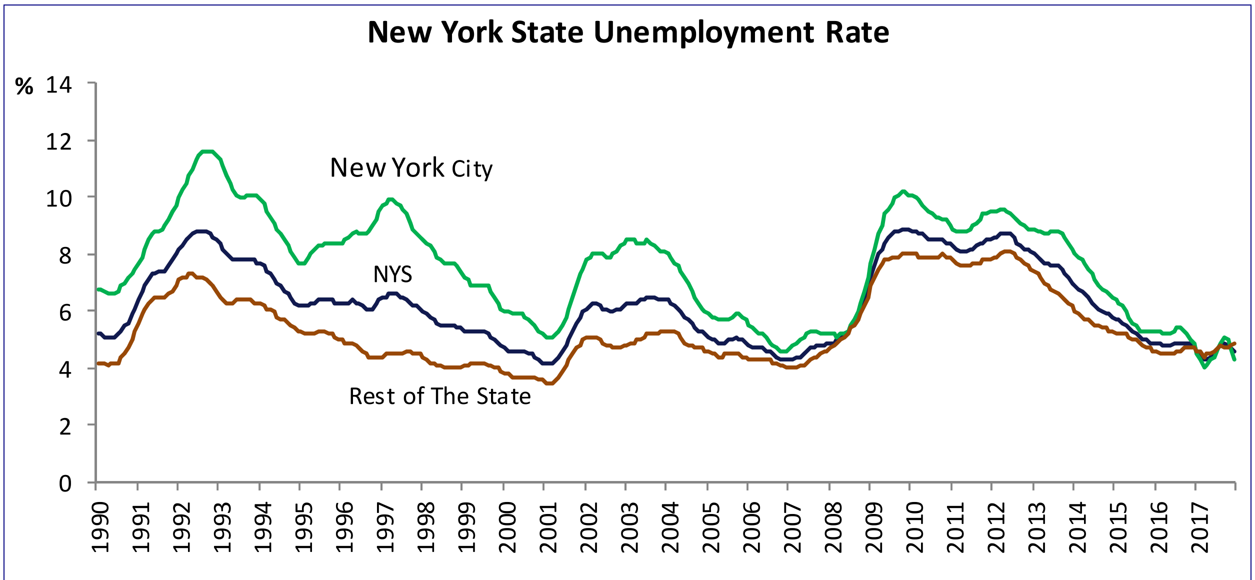


Source: New York State Department of Labor.

Figure 32

Regional Unemployment and Labor Force

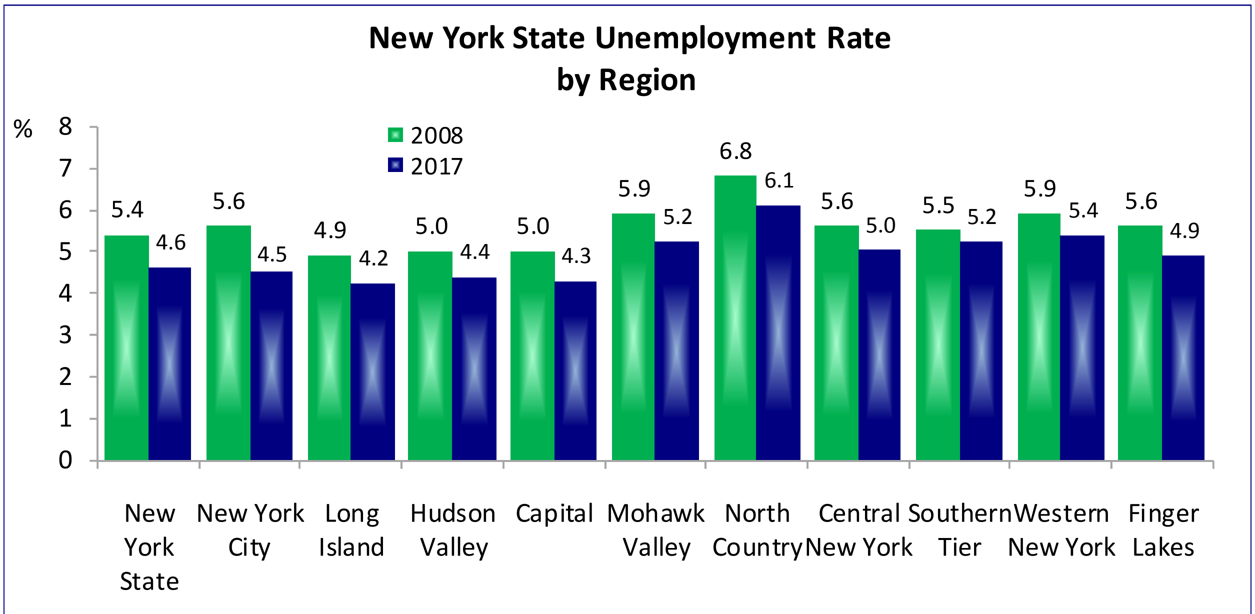
Historically, unemployment in New York City has consistently been higher than in the rest of the state. During the Great Recession, the unemployment rate in New York City reached 10.2 percent in October and November 2009, compared to 8.9 percent for the state as a whole and 8.0 for the rest of the state. As New York City gained jobs at a much higher rate than the rest of the state recently, its unemployment rate has fallen faster than that of the rest of the state. The unemployment rate in New York City was 4.3 percent in December 2017, compared with 4.9 percent for the rest of the state (see Figure 33).



Note: Data are monthly through December 2017. Data are seasonally adjusted.
Source: New York State Department of Labor.

Figure 33

Although some regions have continued to lose employment during the current expansion, the unemployment rate in all regions has fallen below levels reached during the previous peak (see Figure 34). This is due partly to the declining labor force in most regions in recent years.

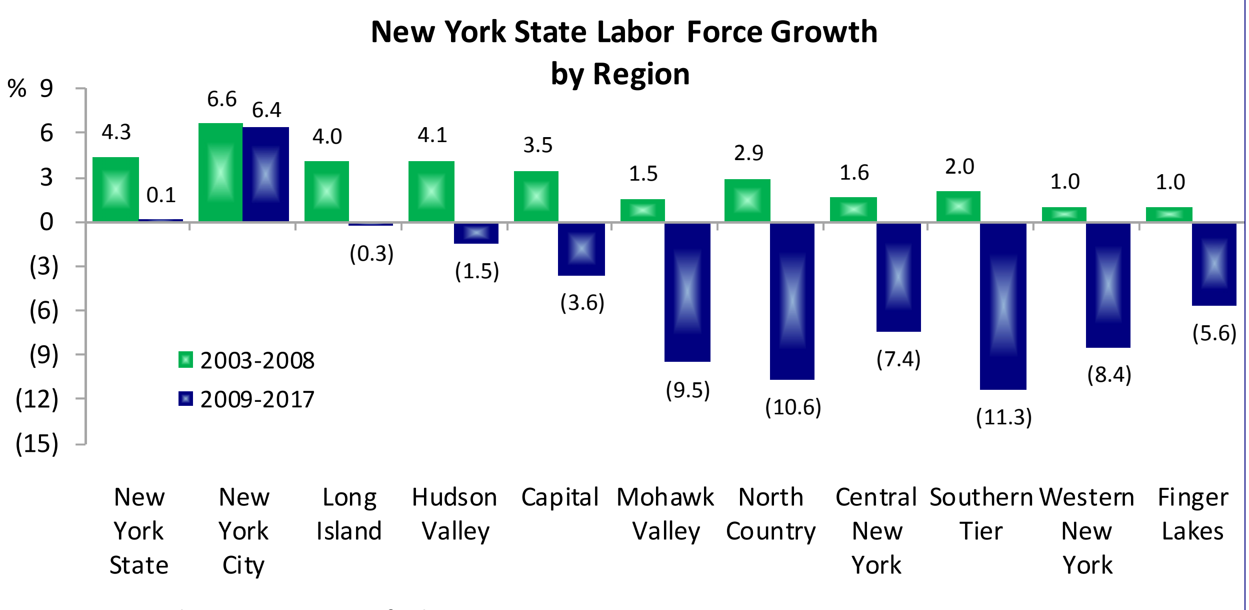


	New York State	New York City	Long Island	Hudson Valley	Capital	Mohawk Valley	North Country	Central New York	Southern Tier	Western New York	Finger Lakes
2008	5.4	5.6	4.9	5.0	5.0	5.9	6.8	5.6	5.5	5.9	5.6
2017	4.6	4.5	4.2	4.4	4.3	5.2	6.1	5.0	5.2	5.4	4.9

Source: New York State Department of Labor.

Figure 34

New York City added jobs at a much faster rate than the rest of the state, yet its unemployment rate fell only slightly faster. This may be due in part to an expanding labor force in the area. From 2009 to 2017, New York City labor force increased 6.4 percent. In contrast, the labor force declined in all other regions during this period. The Southern Tier region lost the most at 11.3 percent from 2009 to 2017, followed by the North Country region at 10.6 percent (see Figure 35).



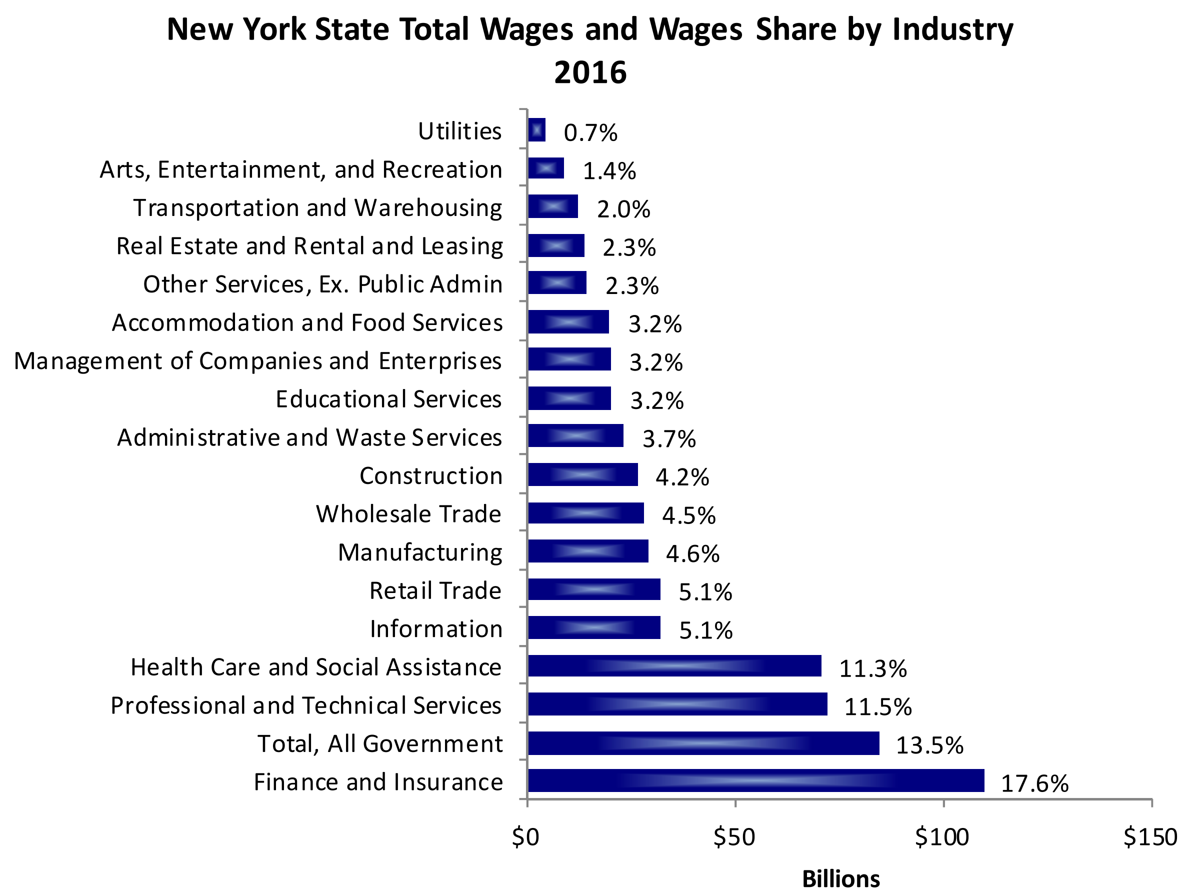
Source: New York State Department of Labor.

Figure 35

This decline in labor force is due to several factors, including aging population and out-migration. In many regions significant shares of the working age population have retired and there are not enough new workers to replace them. Out migration has also contributed to the shrinking of the labor force, especially in upstate regions (see section "New York's Changing Demographics.").

Sectoral Wages

The distribution of wages within the state is uneven across industries. In 2016, the finance and insurance sector accounted for 17.6 percent of wages in the state, while accounting for 5.6 percent of employment. The government sector had the second highest share of wages in the state in 2016 at 13.5 percent, but the highest share of employment at 15.0 percent (see Figure 36).



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

Figure 36

The average wage for nonfarm workers was $68,054 in 2016, an increase of 12.5 percent from $60,471 in 2008. Similarly, the average wage for the private sector in New York State rose 11.1 percent from $62,305 in 2008 to $69,227 in 2016. Average wages vary widely among sectors. As expected, average wages were generally higher for occupations that require more skills. In 2016, the five highest paying sectors in New York State were finance and insurance, management of companies, information, professional services, and wholesale trade. The lowest paying sectors were mostly in the services industry. The finance and insurance sector had the highest average wage of $215,336 in 2016, while the leisure and hospitality sector had an average pay of only $31,232 (see Table 5).

Table 5

New York State Average Wage by Sector

	Average Wage 2008 ($)	Average Wage 2016 ($)	Growth (%)
Nonfarm	**60,471**	**68,054**	**12.5**
Private	**62,305**	**69,227**	**11.1**
Finance & Insurance	207,410	215,336	3.8
Management of Companies	133,192	140,980	5.8
Information	88,260	120,182	36.2
Professional Services	88,234	108,921	23.4
Wholesale Trade	69,450	82,805	19.2
Construction	59,119	70,459	19.2
Real Estate, Rental, & Leasing	55,100	69,727	26.5
Manufacturing[4]	57,259	64,346	12.4
Government	51,421	61,418	19.4
Transportation & Utilities[3]	50,222	58,573	16.6
Education & Health Care[1]	43,407	50,663	16.7
Other Services[2]	37,712	44,091	16.9
Retail Trade	29,516	33,942	15.0
Leisure & Hospitality	26,385	31,232	18.4

Note: Industries are ranked by 2016 average wage.

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

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

[3] Transportation, warehousing, and utilities.

[4] Including mining.

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

Uneven industry distribution of wages and their contribution to state wages growth

The finance and insurance sector is the largest sector in the state in terms of wages. In 2016, it accounted for 17.6 percent of total wages in the state. The finance and insurance sector is particularly important downstate, accounting for 20.9 percent of total wages in 2016.

The education and health sector had the second highest share of wages upstate in 2016 at 18.3 percent (see Table 6).

Table 6

New York State Share of Nonfarm Wages by Sector	NYS			Downstate			Upstate		
	1980	2008	2016	1980	2008	2016	1980	2008	2016
Total Nonfarm Wage (Billion $)	**111.4**	**518.5**	**621.2**	**78.8**	**403.1**	**484.8**	**30.7**	**104.7**	**121.9**
Finance & Insurance	8.6	**21.4**	**17.6**	10.9	**25.8**	**20.9**	3.0	6.2	5.4
Education and Health[1]	7.9	12.8	14.6	8.2	12.1	14.0	7.7	16.3	18.3
Government	17.5	14.3	13.6	**16.7**	12.6	12.0	19.5	**22.3**	**21.3**
Professional Services	5.9	10.0	11.5	7.0	10.8	12.5	2.8	6.5	7.0
Administrative and Other Services[2]	4.7	5.5	6.0	5.4	5.4	5.9	3.0	5.3	5.2
Information	5.0	4.5	5.1	6.0	4.9	5.7	2.6	2.2	2.0
Retail Trade	6.6	5.1	5.1	6.4	4.6	4.7	7.1	7.1	6.9
Manufacturing[3]	**19.2**	5.9	4.7	13.8	3.5	2.6	**33.4**	15.8	13.3
Leisure and Hospitality	3.1	3.6	4.6	3.2	3.7	4.7	2.7	3.4	4.2
Wholesale Trade	7.1	4.7	4.5	7.8	4.3	4.0	4.4	4.4	4.3
Construction	3.5	4.1	4.2	3.3	3.9	4.1	3.8	4.4	4.5
Management	3.1	3.4	3.2	3.2	3.6	3.2	2.8	2.7	3.1
Transportation and Utilities[4]	4.9	2.6	2.6	5.5	2.5	2.6	3.6	3.3	3.1
Real Estate, Rental, & Leasing	1.5	2.0	2.2	1.9	2.3	2.5	0.5	0.9	1.1

Note: Industries are ranked by 2016 wage share.
[1] Includes only private employment. Public education and health care employment is included in the government sector.
[2] Including administrative, support, and waste management services.
[3] Including mining.
[4] Transportation, warehousing, and utilities.
Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

The financial industry compensation practices have undergone significant changes since the Great Recession by shifting from cash bonus and salary to long-term incentives like stock options. As a result, the average wage in this sector has remained almost flat after 2008. From 2008 to 2016, the finance and insurance sector average wage grew 3.8 percent, compared with a 24.1 percent gain from 2003 to 2008. Therefore, its contribution to state's wage growth has lessened.

The professional services and education and health care sectors have emerged as major drivers of state wage growth since the Great Recession. From 2009 to 2016, finance and insurance led the state in wage growth, accounting for 16.3 percent of total nonfarm wage growth in the state. It was followed by the professional services sector, which accounted for 16.2 percent of the state's total wage growth (see Table 7).

Table 7

New York State Contribution to Wage Growth by Sector	1980-2000 Level (Billion $)	1980-2000 Share (%)	2003-2008 Level (Billion $)	2003-2008 Share (%)	2009-2016 Level (Billion $)	2009-2016 Share (%)
Total	**272.7**	**100.0**	**130.0**	**100.0**	**140.2**	**100.0**
Finance & Insurance	64.2	**23.5**	46.9	**36.0**	22.9	**16.3**
Professional Services	30.2	11.1	16.1	12.4	22.8	16.2
Education and Health[1]	33.3	12.2	15.8	12.2	21.5	15.3
Administrative and Other Services[2]	15.3	5.6	7.0	5.4	10.1	7.2
Leisure and Hospitality	9.7	3.5	4.9	3.8	10.0	7.1
Information	15.6	5.7	3.8	2.9	9.7	6.9
Government	37.8	13.9	11.6	8.9	8.4	6.0
Construction	10.5	3.8	5.8	4.5	6.9	4.9
Retail Trade	13.1	4.8	4.5	3.5	6.6	4.7
Wholesale Trade	12.7	4.7	4.1	3.2	5.0	3.6
Management	9.1	3.3	4.6	3.5	4.3	3.1
Real Estate, Rental, & Leasing	5.6	2.0	2.6	2.0	4.1	2.9
Transportation and Utilities[3]	5.5	2.0	2.3	1.8	3.5	2.5
Manufacturing[4]	10.8	3.9	1.0	0.8	1.7	1.2

Note: Industries are ranked by 2009-2016 wage share; rankings are based on two decimal places.

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

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

[3] Transportation, warehousing, and utilities.

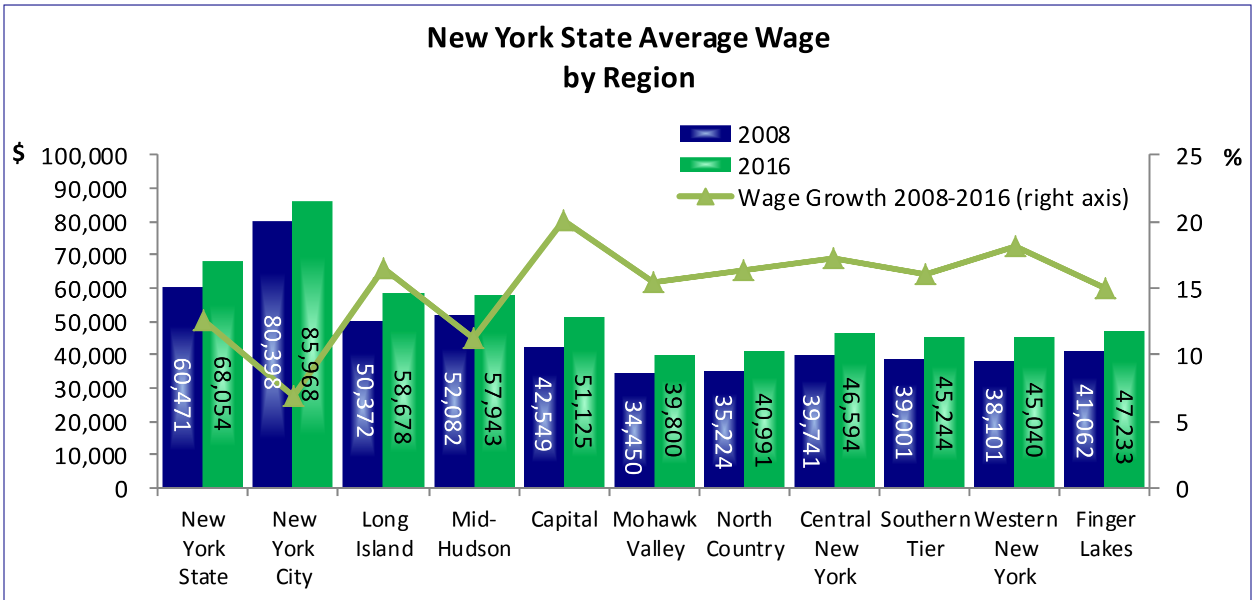
[4] Including mining.

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

Regional Wages

Annual average wages in New York City have always been the highest in the state due to the concentration of high-paying jobs in the finance and insurance and professional services sectors. Prior to the Great Recession, the average wage in New York City was over $80,000, more than double the average wage in most upstate regions (with the exception of the Capital and Finger Lakes regions). The average wage was highest in New York City at $85,968. The region with the lowest average wage in 2016 was the Mohawk Valley at $39,800 (see Figure 37).

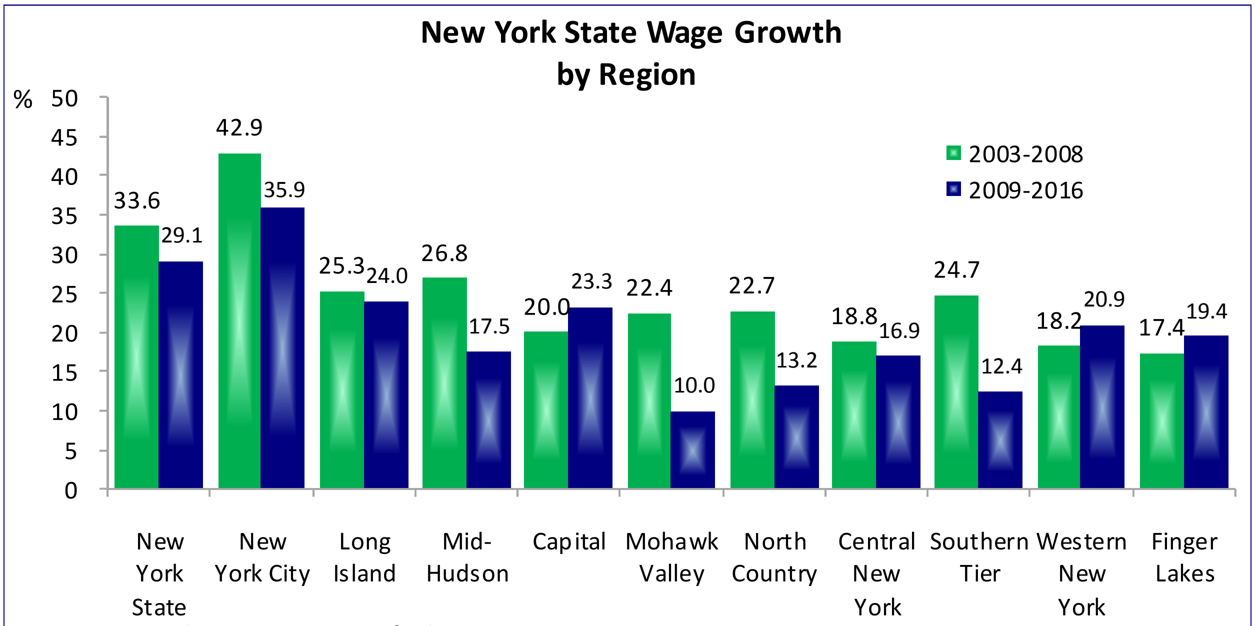
As wages in the finance and insurance sector, which account for the largest share of New York City wages, have been almost flat since the previous peak, wage growth in New York City has been slower than in other regions of New York State between 2008 and 2016. During this period, the average wage in New York City grew 6.9 percent, compared with 12.5 percent statewide.



Source: New York State Department of Labor.

Figure 37

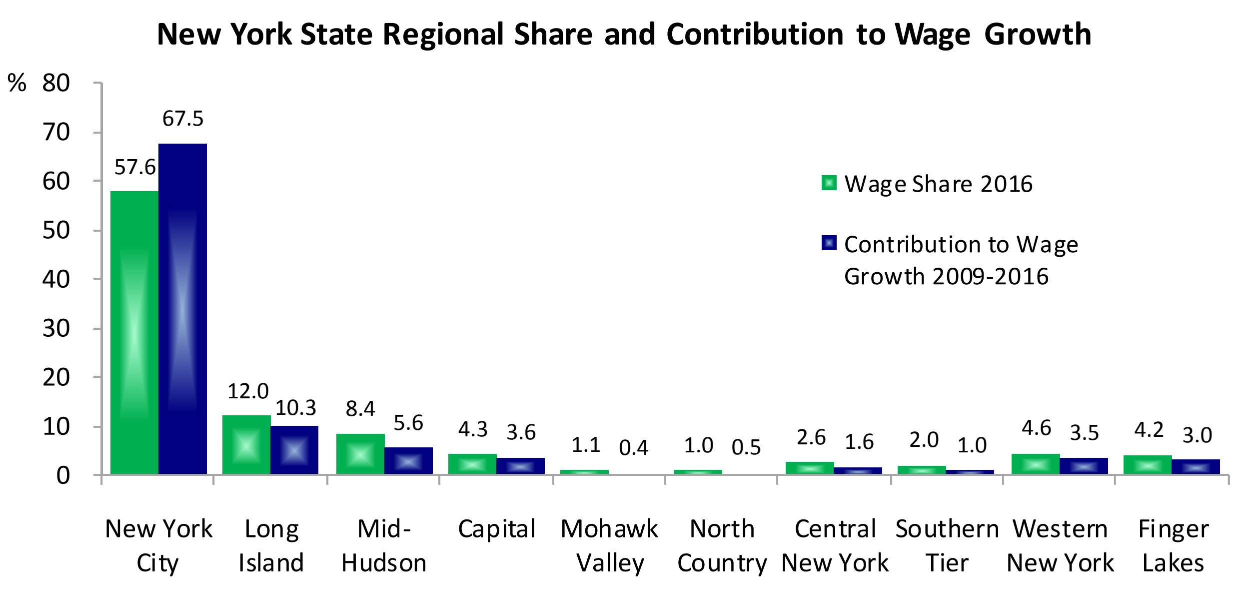
For most regions in the state, wage growth in the current recovery has been slower than in the previous recoveries (see Figure 38). This is due to the decline in employment in upstate regions and slow wage growth in the finance and insurance sector, one of the key industries in downstate regions.



Source: New York State Department of Labor.

Figure 38

While accounting for 57.6 percent of the state's wages in 2016, New York City has contributed over two-thirds of the state's wage gains between 2009 and 2016 (see Figure 39).



Source: New York State Department of Labor.

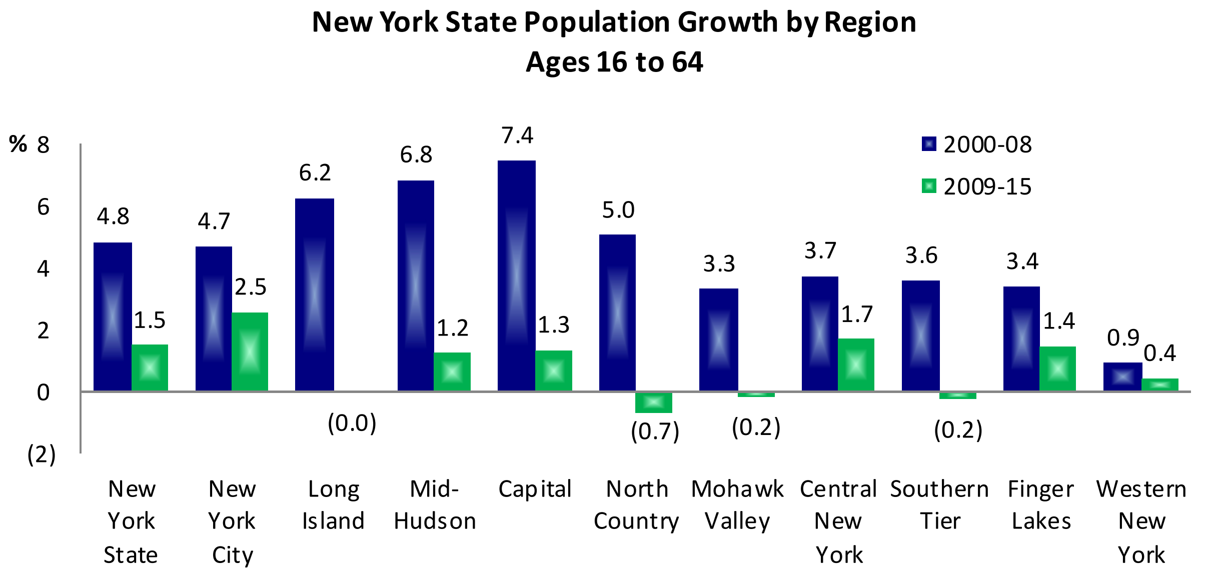
Figure 39

NEW YORK'S CHANGING DEMOGRAPHICS

New York's labor force has been shrinking since 2008, except in New York City. Several upstate regions have experienced a rapid decline in the workforce. This section investigates how changing demographics affect the size and composition of the workforce.

New York's Working-Age Population Growth Slowed after 2008

New York's population aged 16 to 64 years grew 4.8 percent from 2000 to 2008. After 2008, however, its growth slowed across the state, falling to zero in Long Island and even declining in the North Country, Mohawk Valley, and Southern Tier regions (see Figure 40).



Sources: 2000 Decennial Census and American Population Survey, U.S. Census Bureau.

Figure 40

The shrinking of this age group is first a consequence of the population's age composition, a composition shaped by the post-WW2 baby-boom.[36] By the second half of the 1960s, the first baby-boomers had entered the workforce. In the following decades, the number of workers saw their ranks swell then ebb in successive age groups, a phenomenon

[36] After the second world war, the U.S. birth rate jumped rapidly to reach nearly 27 births per 1,000 population in the late 1940s; the resulting baby boom comprises all individuals born between 1946 and 1964, by convention. The baby boom was followed by a bust when the birth rate dropped to below 15 births per 1,000 population by the end of the 1960s. The U.S. birth rate has fluctuated since and remains lower than ever today.

that continues today as the bulk of baby boomers has reached retirement age. Second, the shrinking of the 16 to 64 age group accelerates due to changing patterns of migration. Many New Yorkers have been leaving the state while, in recent years, fewer people have moved in from other states or from abroad to replace them.

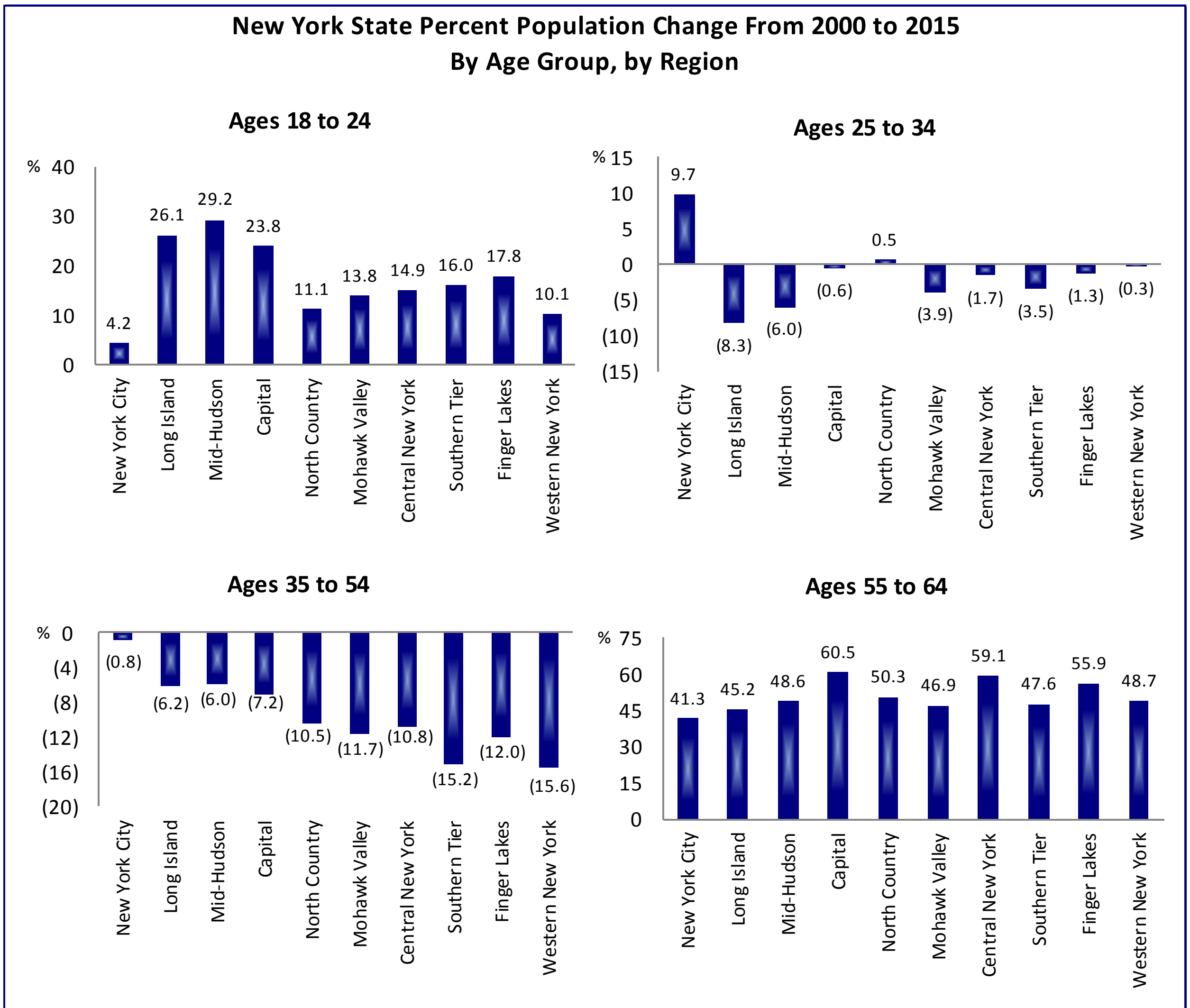
Many New Yorkers Have Been Aging Out of the Working-Age Population

Baby-boomers have reached retirement age

From 2000 to 2015, working age populations across all regions in New York experienced the effects of the aging of the baby boom generation. Starting in the early 2000s, the bulk of baby-boomers turned between 55 and 64 years of age. As a result, the number of individuals in that age group increased 40 to 60 percent (see Figure 41). At the same time, the number of individuals in the 35 to 54 age group dropped, except in New York City. Many of them belonged to the generation that followed the baby boom.

The 55 to 64 age group grew almost uniformly across all regions in the state, with the fastest growth rates observed in the Capital and Central New York regions. In contrast, change in the 35 to 54 age group was uneven across regions. Its size decreased across upstate, more acutely in areas north and west of the Hudson valley, shrinking almost 16 percent in the Southern Tier and Western New York regions. In New York City, however, the number of 35 to 54 year-olds remained roughly unchanged.

The 25 to 34 age group remained unchanged or shrank between 2000 and 2015 everywhere in the state except New York City. Long Island experienced a loss of eight percent for this age group. At the same time, the 18 to 24 age group grew across all regions, from four percent in New York City to 29 percent in the Hudson valley. These contrasting patterns of population growth across age groups strongly suggest that migration plays a significant role in shaping the dynamics of population change in New York's regions.



Source: 2000 Census and 2015 American Community Survey, 5-year sample, U.S. Census Bureau.

Figure 41

Upstate New York Is Not Attracting Enough New Residents to Replace Out-Movers

The most recent population estimates released by the Census Bureau indicate that New York's migratory balance is negative. The state population grew by about 367,000 between 2010 and 2016, attributable to natural increase (births minus deaths). Migration flows netted a loss of over 147,000 (see Table 8). Only in the Capital Region did the number of in-migrants surpass the number of out-migrants by a small margin. Furthermore, in all areas to the west of the Hudson Valley, out-migration was such that population declined.

Table 8

Estimates of the Components of Cumulative Population Change 2010 - 2016	2016 Population	Population Change	Natural Increase	Net Migration
New York State	19,745,289	367,179	546,619	(147,221)
New York City	8,537,673	362,711	401,943	(24,467)
Long Island	2,854,083	21,017	44,955	(18,764)
Mid-Hudson	2,327,931	37,088	57,332	(16,290)
Capital Region	1,085,386	6,187	7,113	909
North Country	420,493	(7,852)	9,472	(17,356)
Mohawk Valley	432,766	(9,959)	(98)	(9,187)
Central New York	782,441	(9,472)	9,610	(18,056)
Southern Tier	704,525	(15,706)	1,254	(16,104)
Finger Lakes	1,212,929	(4,114)	13,512	(17,023)
Western New York	1,387,062	(12,721)	1,526	(10,883)

Note: Data do not display a residual component that enters in the estimation procedure of population change. This residual comprises in particular U.S. citizens who emigrated and are difficult to count.
Source: Population Estimates, U.S. Census Bureau.

Upstate New Yorkers move out to other states; fewer are coming to replace them

Migratory flows between 2015 and 2016 show that all regions of the state are losing residents to domestic out-migration (see Figure 42). The North Country, for instance, lost over 15 people for every 1,000 of its population. For upstate areas west of the Capital Region, the losses remain at six per thousand or higher. At the same time, all regions receive an influx of immigrants from abroad, but at a rate that does not compensate for the domestic losses. New York City displays a different pattern, having experienced a strong outflow of movers to other parts of the country while benefitting from a strong influx of immigrants from abroad. Downstate, both Long Island and the Mid-Hudson regions experienced domestic deficits comparable to upstate without the positive effects of a comparable influx of international immigrants.

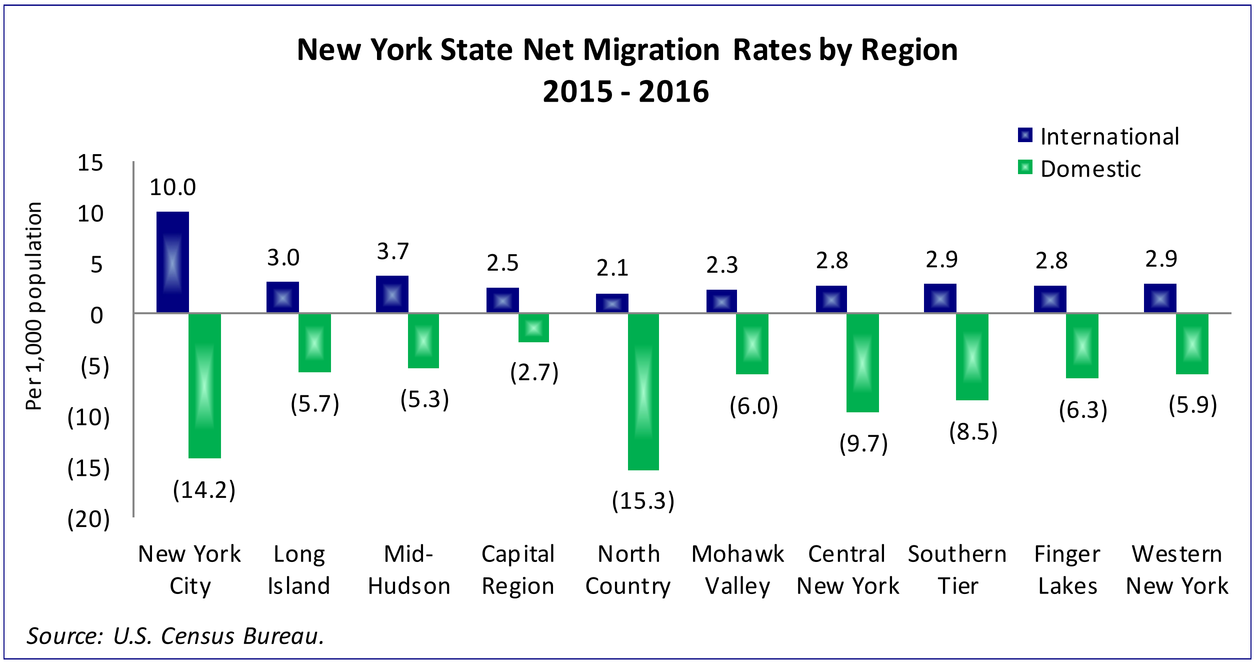


Figure 42

The outflow of New Yorkers to other areas of the country is not a new phenomenon. Historically a major port of entry to the North American continent, New York City received successive waves of immigrants. Many settled in the state, some for a time only, before pushing further west. But a new influx of immigrants always came to replace them. This dynamic seems to still exit for New York City. However, it appears to have stopped functioning for upstate New York. Upstate New Yorkers who are leaving are not being replaced in sufficient numbers. Furthermore, available information suggests that these new migration patterns are bound to persist.[37]

The Size and Composition of the Upstate Working-Age Population Are Changing

Overall, the age and educational attainment characteristics of newcomers to New York State do not differ markedly from those of out-movers. The majority of migrants are under 45 years of age, and the incoming contingent of individuals with ages between 18 and 44 tends to be larger than the out-going one.[38] Statewide, the number of newcomers does differ much from the number of out-movers in the under-18, 25-to-44, and 45-to-64 age groups. Newcomers aged 18-24, likely comprising many students, outweigh those who leave by one

[37] County Population Projections, Program on Applied Demographics, Cornell University.

[38] Migrants are defined as the individuals who moved out or in New York State during the year preceding the taking of the survey (ACS).

third, while the number of leavers ages 65 and older roughly outweigh newcomers by one-third (see Figure 43).

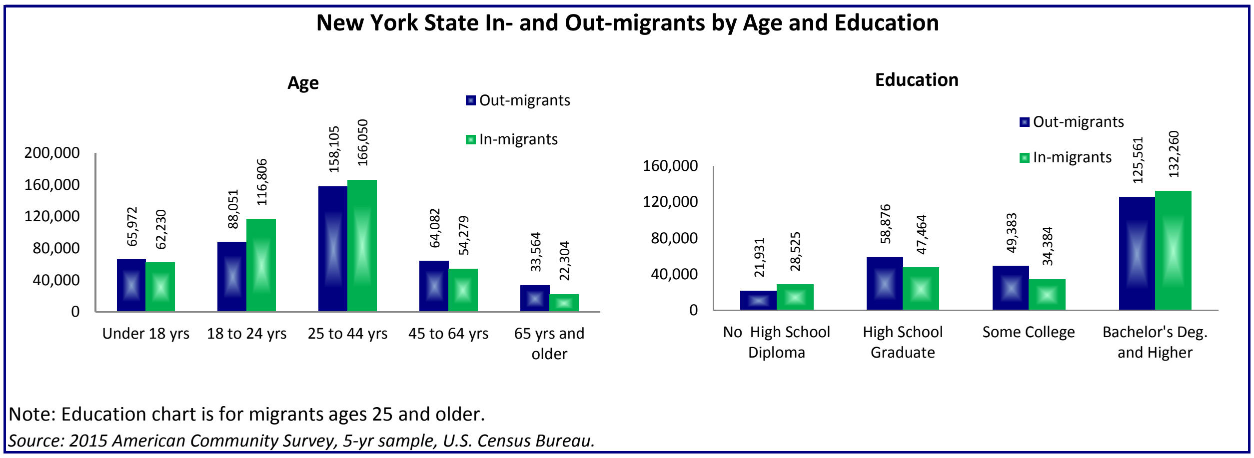
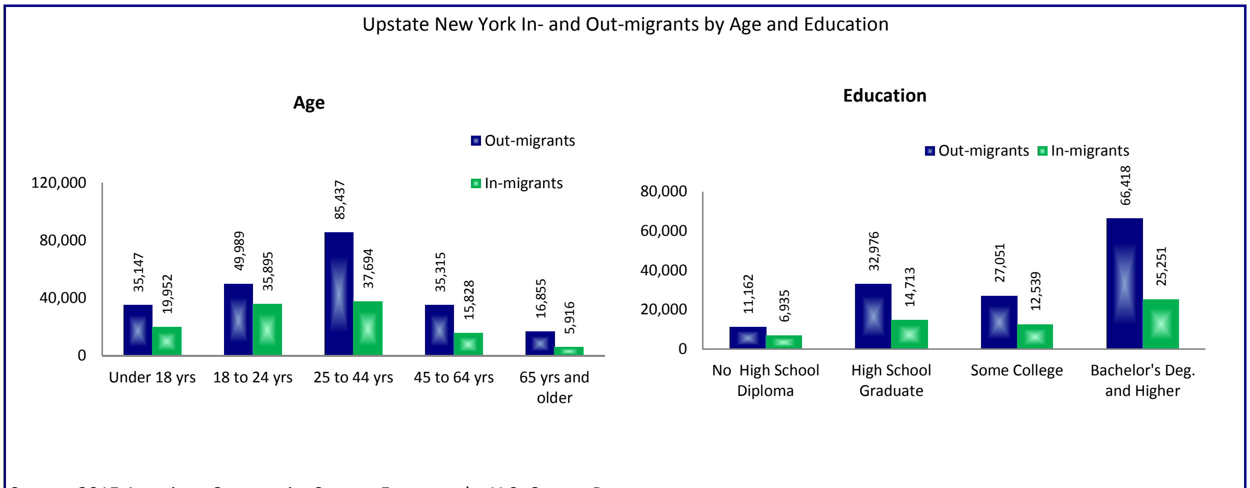


Figure 43

The distribution of in- and out-migrants according to levels of formal education does not indicate that New York as a whole is in crisis. The state is in deficit for individuals with a high school diploma or some college training, while in surplus for individuals with at least a four-year college degree or without a high school diploma. The larger proportion of the latter may be in part due to the weight of international migration in New York' migratory balance, to the extent that newcomers' average educational attainment is lower.

Upstate New York presents a different picture. Upstate regions are losing roughly two residents for each newcomer across age groups.[39] Critically, the loss is larger for the 25 to 44 and 45 to 64 age groups (see Figure 44). The implication is that the labor force is shrinking in large part because people are aging out of the workforce (i.e. the 45-64 age group) while many younger upstate residents are leaving the area without replacement.

[39] For current purposes, upstate New York includes all areas situated north and west of the Mid-Hudson and Capital regions, plus Ulster, Greene, and Columbia counties.



Source: 2015 American Community Survey, 5-yr sample, U.S. Census Bureau.

Figure 44

Of further concern is the expected change in the level of skills that can result as working-age residents leave and new people come. Educational attainment constitutes a good indicator for comparative purposes. In this respect, upstate New York is at a disadvantage as the area is losing over two and half times as many persons with four-year degrees as it is receiving from other states or from abroad.

Changes in the composition of the workforce may affect income. Overall, in-migrants' income tends to be lower than out-migrants'. Job search and better income prospects rank high among the reasons for moving. Many newcomers came to New York State in search of better-paying jobs and a higher income. Similarly, many New Yorkers leave New York State lured by the prospects of higher earnings elsewhere. [40]

[40] Annual income is for the 12 months preceding the time the survey. The questionnaire is submitted any time during the year. Depending on when migrants responded, annual income may combine income from the place of origin and the place of destination.

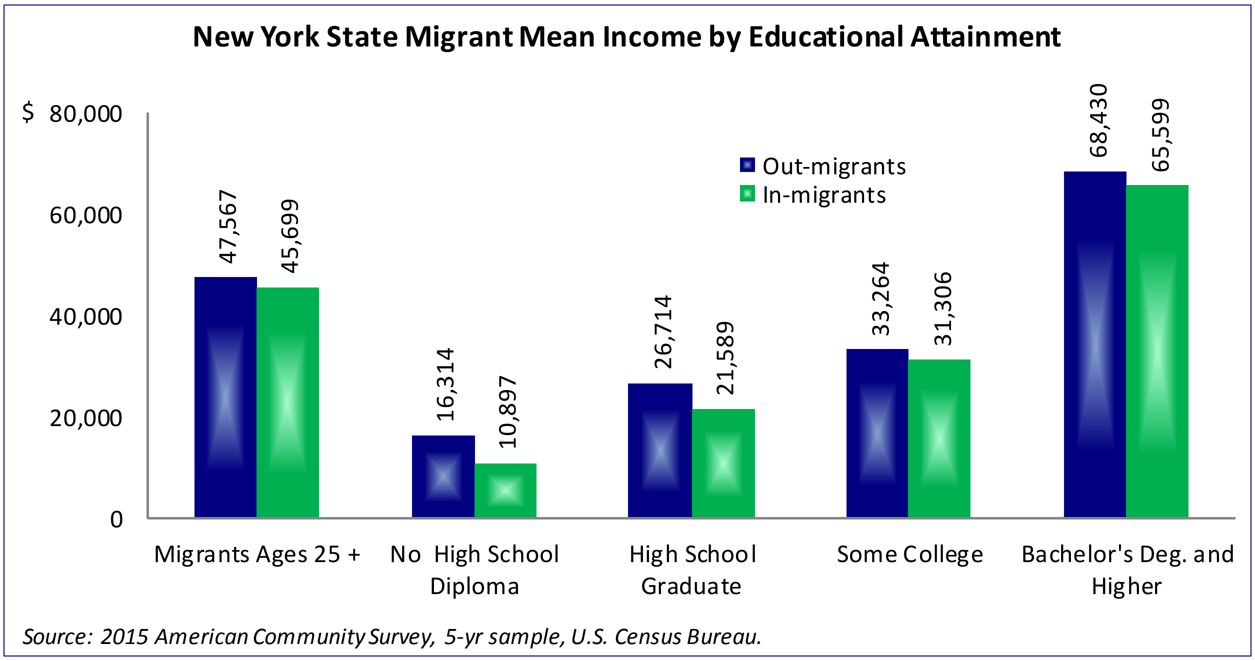


Figure 45

The income deficit resulting from the movement of people in and out of New York State is verified across all educational attainment levels although the difference in average incomes remains small (see Figure 45). Given the deeper working-age population losses incurred by upstate regions, one can expect a greater negative income impact resulting from these migration patterns. Indeed, the average income for in-migrants is significantly lower than that for out-migrants for the 25 to 44 and 45 to 64 age groups (see Figure 46).

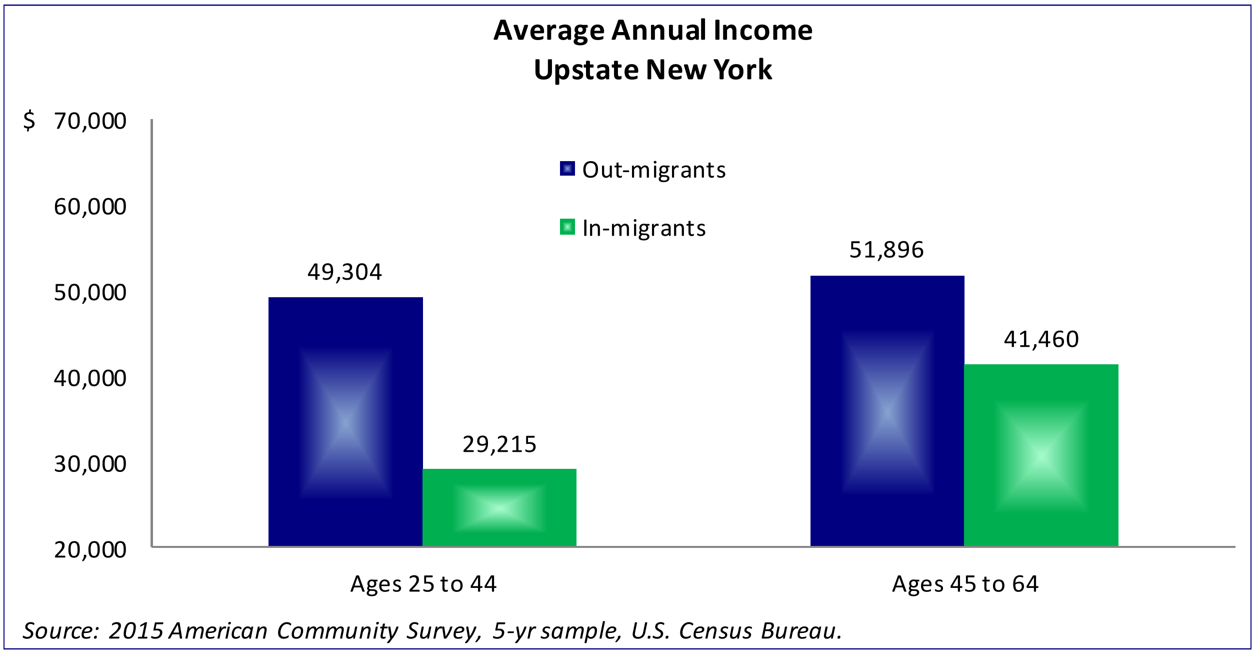


Figure 46

NEW YORK STATE REGIONAL SNAPSHOTS

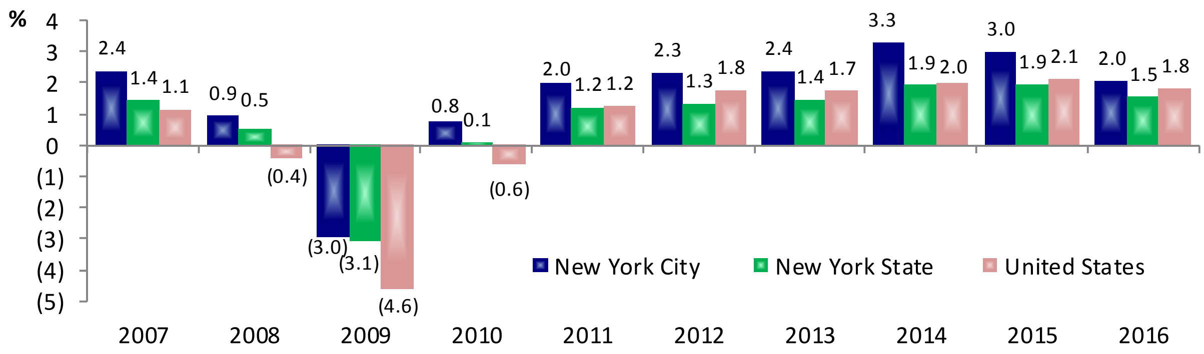
New York City

Key Economic Indicators 2016			
Employment (million)	4.165	Share of Personal Income (%)	46.6
Share of State Employment (%)	45.6	Per Capita Personal Income	$64,146
Unemployment Rate (12/2017) (%)	3.9	Population (million)	8.5
Total Wages (billion)	$358.0	Share of State Population (%)	43.2
Share of State Wages (%)	57.6	Population Growth (%)	(0.1)
Average Wage	$85,968	Persons in Poverty	1,585,155
Personal Income (billion)	$547.7	Poverty Rate (%)	18.6

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

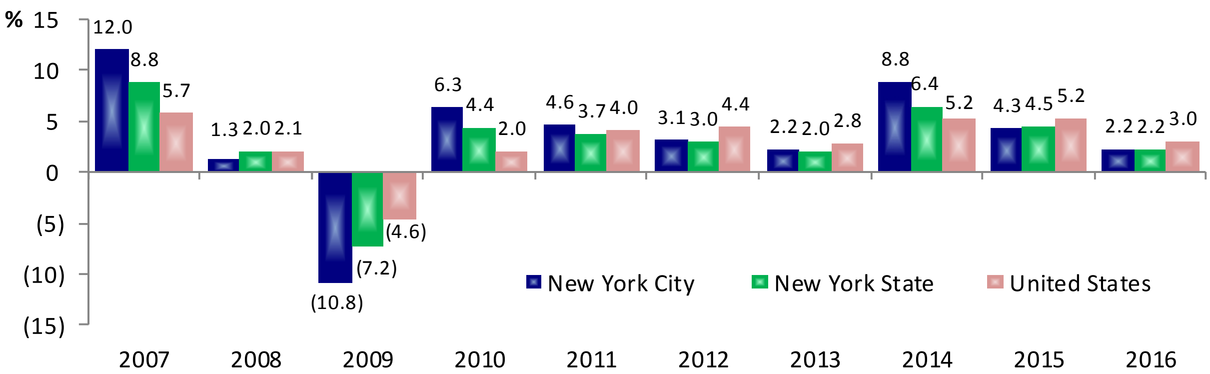
Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.

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



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

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



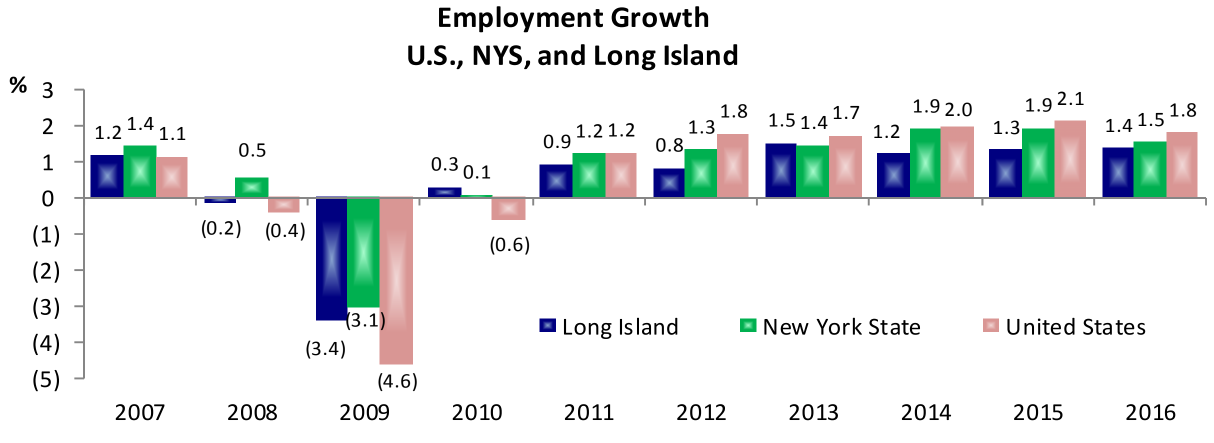
Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.

Long Island

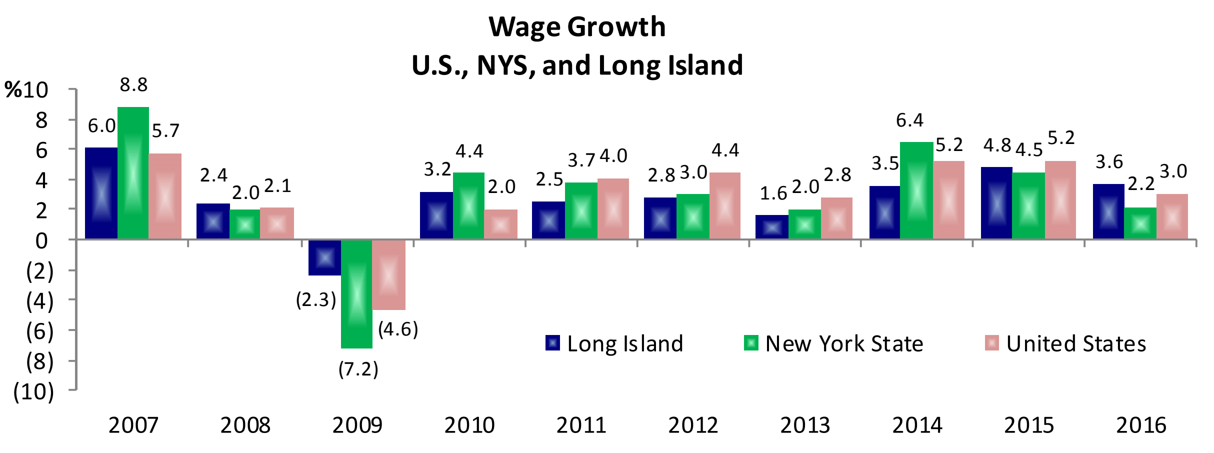
Key Economic Indicators 2016			
Employment (million)	1.270	Share of Personal Income (%)	16.9
Share of State Employment (%)	13.9	Per Capita Personal Income	$69,661
Unemployment Rate (12/2017) (%)	4.2	Population (million)	2.9
Total Wages (billion)	$74.5	Share of State Population (%)	14.5
Share of State Wages (%)	12.0	Population Growth (%)	(0.3)
Average Wage	$58,678	Persons in Poverty	193,533
Personal Income (billion)	$198.8	Poverty Rate (%)	6.8

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

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



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



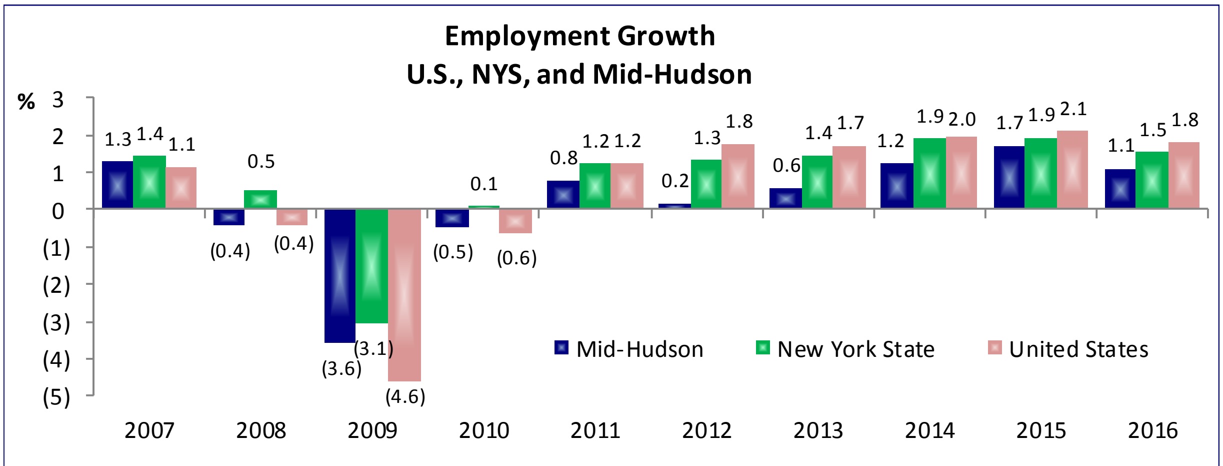
Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.

Mid-Hudson

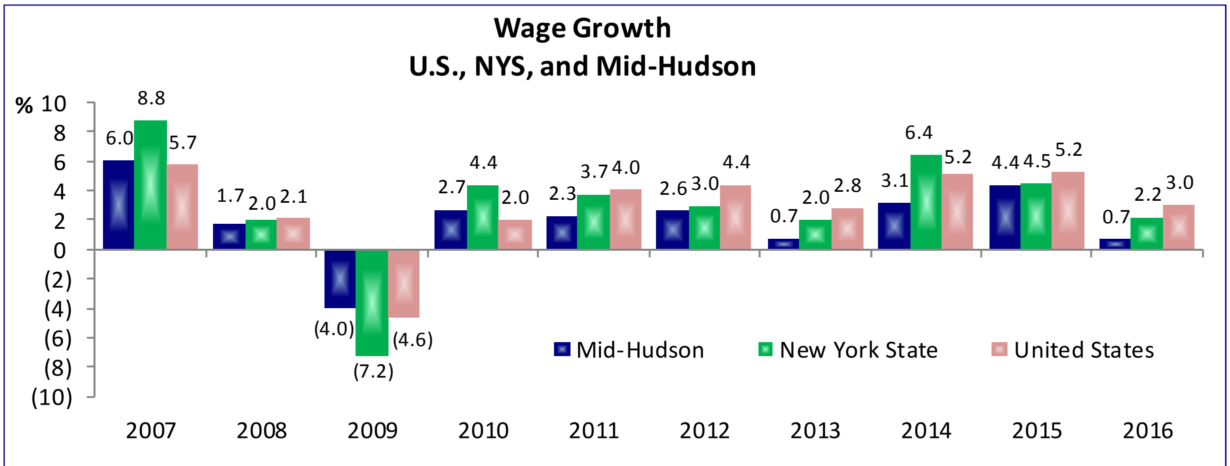
Key Economic Indicators 2016			
Employment (million)	0.903	Share of Personal Income (%)	13.6
Share of State Employment (%)	9.9	Per Capita Personal Income	$68,601
Unemployment Rate (12/2017) (%)	4.3	Population (million)	2.3
Total Wages (billion)	$52.3	Share of State Population (%)	11.8
Share of State Wages (%)	8.4	Population Growth (%)	(0.1)
Average Wage	$57,943	Persons in Poverty	255,698
Personal Income (billion)	$159.7	Poverty Rate (%)	11.0

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

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



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



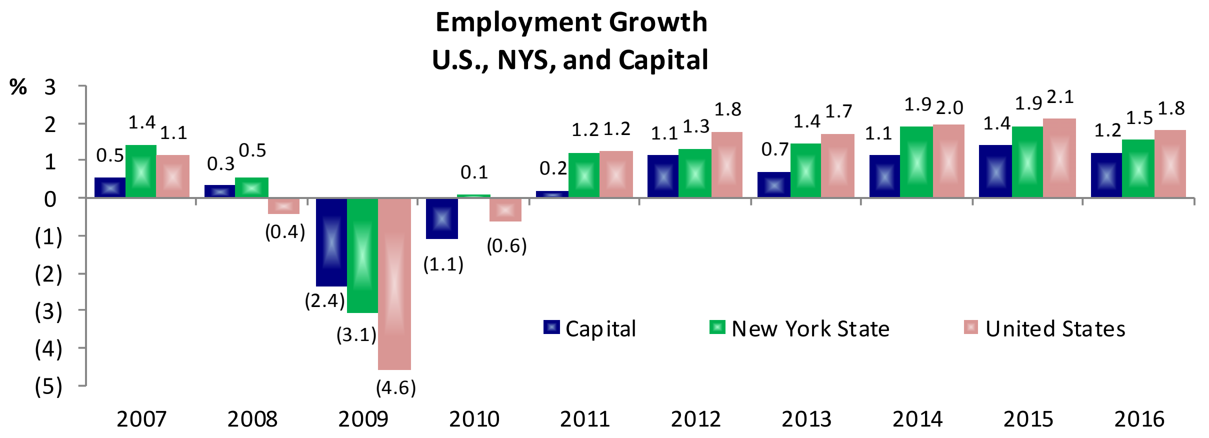
Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.

Capital District

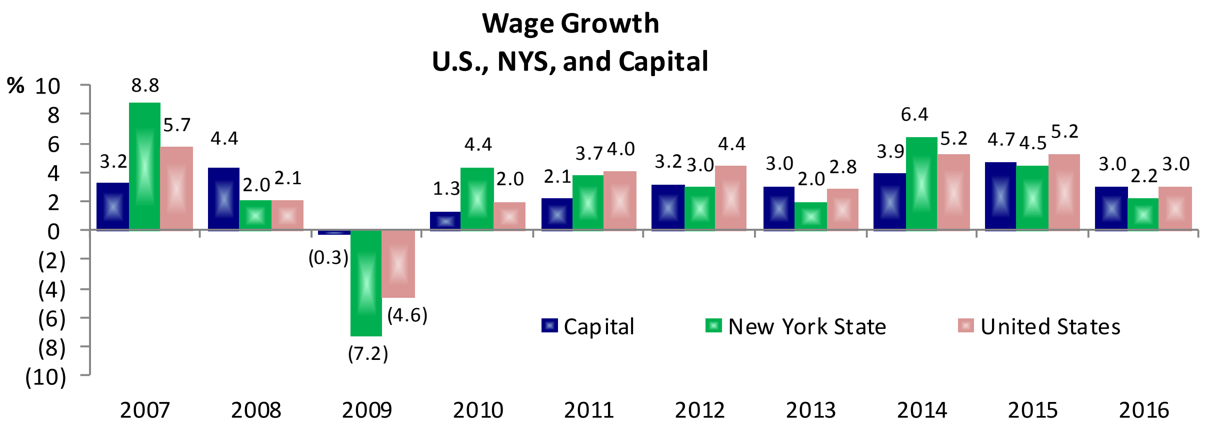
Key Economic Indicators 2016			
Employment (million)	0.519	Share of Personal Income (%)	4.8
Share of State Employment (%)	5.7	Per Capita Personal Income	$52,268
Unemployment Rate (12/2017) (%)	4.4	Population (million)	1.1
Total Wages (billion)	$26.5	Share of State Population (%)	5.5
Share of State Wages (%)	4.3	Population Growth (%)	(0.1)
Average Wage	$51,125	Persons in Poverty	113,570
Personal Income (billion)	$56.7	Poverty Rate (%)	10.5

Largest Employers (August 2016) *Albany Medical Center; Bechtel Marine Propulsion Corp.; Center For Disability Services; Ellis Hospital; General Electric Co.; GlobalFoundries; Hannaford Supermarkets; Price Chopper; St. Peter's Hospital; Wal-Mart Stores, Inc.*

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



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



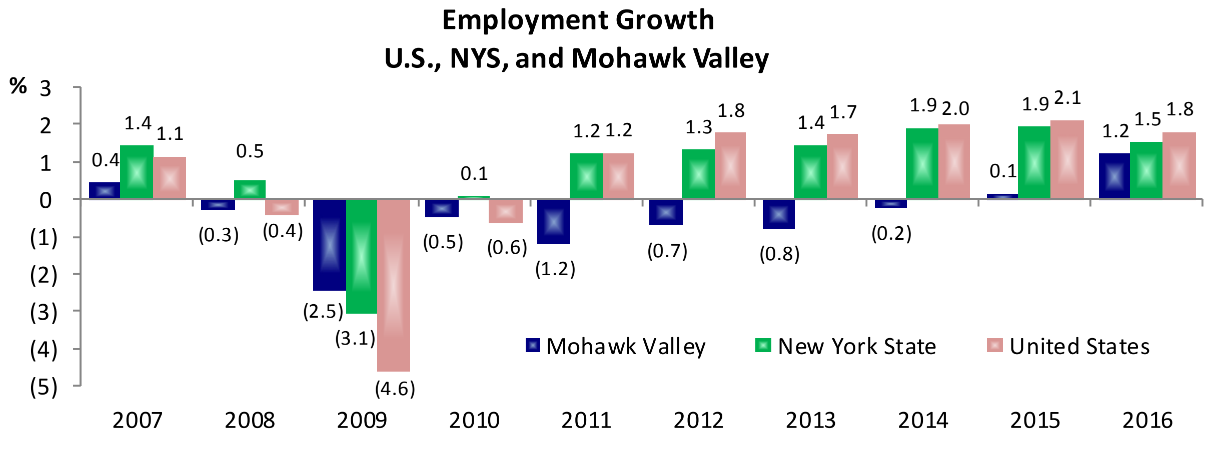
Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.

Mohawk Valley

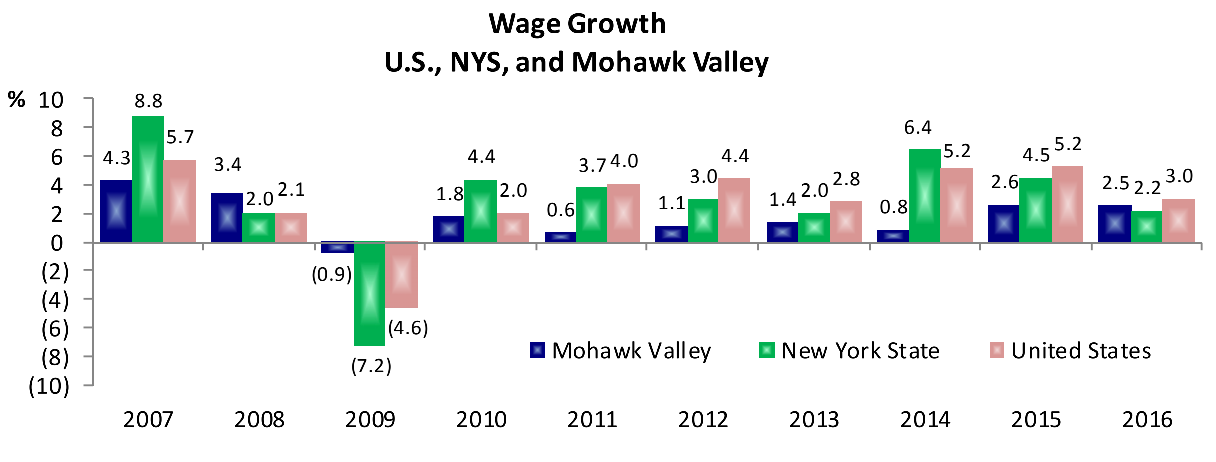
Key Economic Indicators 2016			
Employment (million)	0.166	Share of Personal Income (%)	1.5
Share of State Employment (%)	1.8	Per Capita Personal Income	$39,437
Unemployment Rate (12/2017) (%)	5.5	Population (million)	0.4
Total Wages (billion)	$6.6	Share of State Population (%)	2.2
Share of State Wages (%)	1.1	Population Growth (%)	(0.6)
Average Wage	$39,800	Persons in Poverty	67,274
Personal Income (billion)	$17.1	Poverty Rate (%)	15.5

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

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



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



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

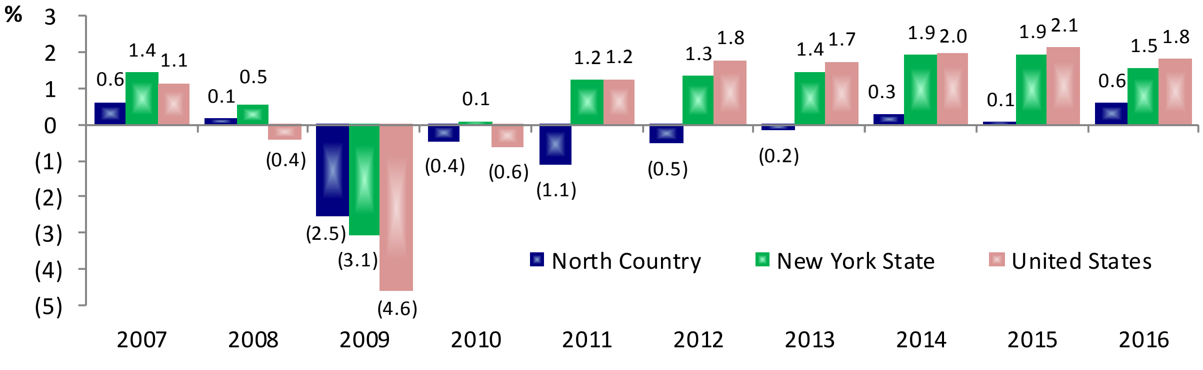
North Country

Key Economic Indicators 2016			
Employment (million)	0.146	Share of Personal Income (%)	1.4
Share of State Employment (%)	1.6	Per Capita Personal Income	$39,428
Unemployment Rate (12/2017) (%)	6.5	Population (million)	0.4
Total Wages (billion)	$6.0	Share of State Population (%)	2.1
Share of State Wages (%)	1.0	Population Growth (%)	(1.3)
Average Wage	$40,991	Persons in Poverty	61,352
Personal Income (billion)	$16.6	Poverty Rate (%)	14.6

Largest Employers (August 2016) *Canton-Potsdam Hospital; Claxton-Hepburn Medical Center; Champlain Valley Physicians Hospital Medical Center; International Paper Co.; Kinney Drugs; McDonald's; Price Chopper; Samaritan Medical Center; St. Lawrence University; Wal-Mart Stores, Inc.*

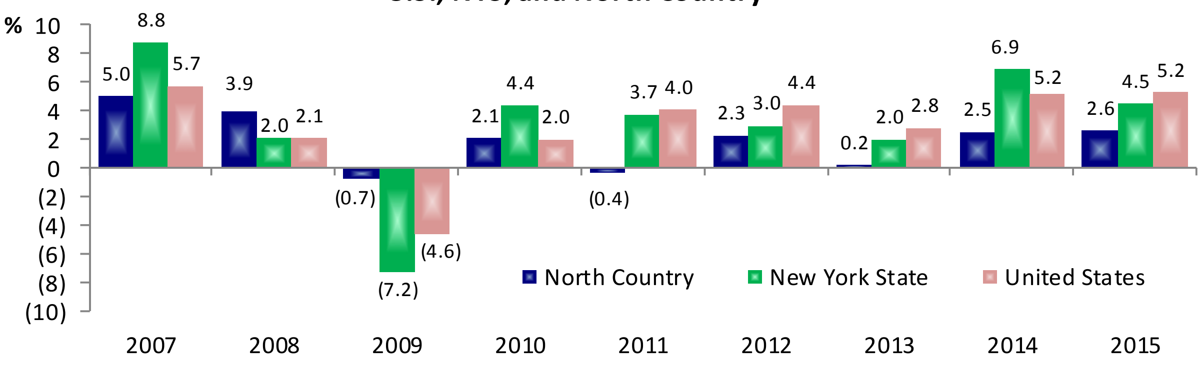
Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.

Employment Growth
U.S., NYS, and North Country



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

Wage Growth
U.S., NYS, and North Country



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

Central New York

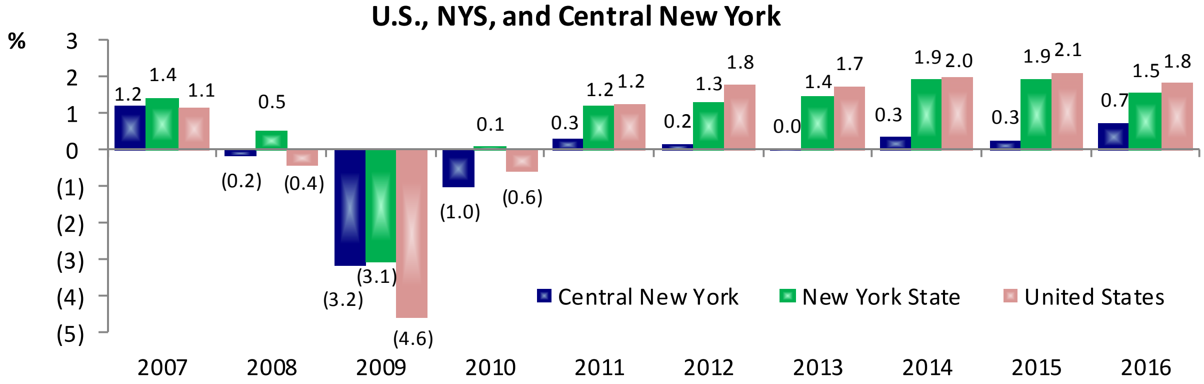
Key Economic Indicators 2016

Employment (million)	0.340	Share of Personal Income (%)	2.9
Share of State Employment (%)	3.7	Per Capita Personal Income	$43,936
Unemployment Rate (12/2017) (%)	5.2	Population (million)	0.8
Total Wages (billion)	$15.9	Share of State Population (%)	4.0
Share of State Wages (%)	2.6	Population Growth (%)	(0.6)
Average Wage	$46,594	Persons in Poverty	109,258
Personal Income (billion)	$34.4	Poverty Rate (%)	14.0

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

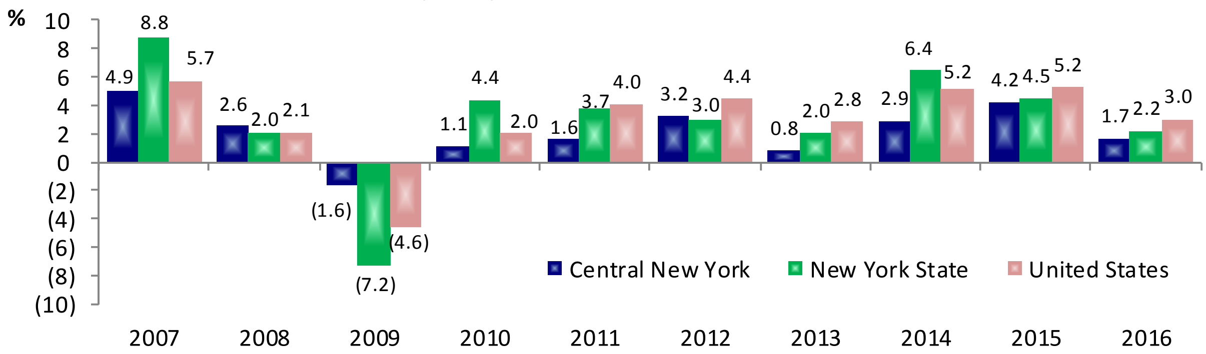
Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.

Employment Growth
U.S., NYS, and Central New York



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

Wage Growth
U.S., NYS, and Central New York



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

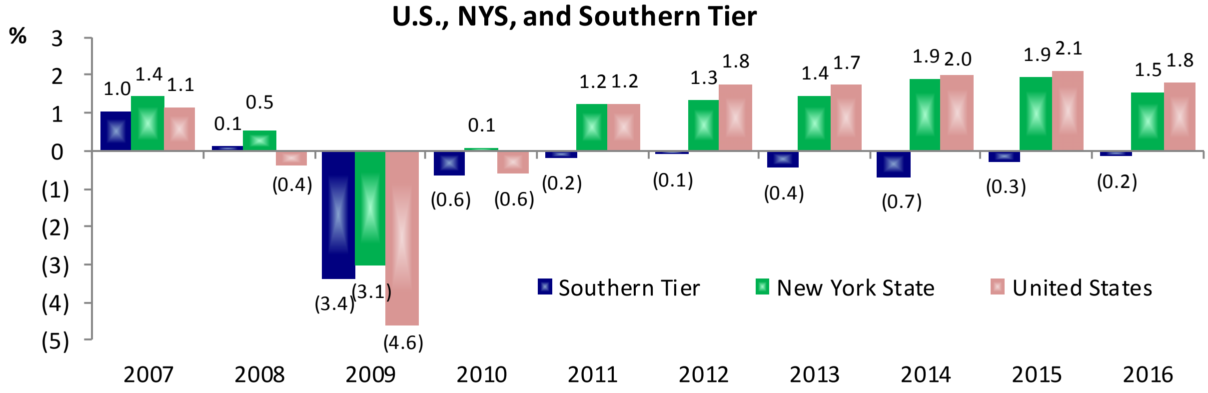
Southern Tier

Key Economic Indicators 2016			
Employment (million)	0.281	Share of Personal Income (%)	2.4
Share of State Employment (%)	3.1	Per Capita Personal Income	$39,798
Unemployment Rate (12/2017) (%)	5.4	Population (million)	0.7
Total Wages (billion)	$12.7	Share of State Population (%)	3.6
Share of State Wages (%)	2.0	Population Growth (%)	(0.7)
Average Wage	$45,244	Persons in Poverty	104,185
Personal Income (billion)	$28.0	Poverty Rate (%)	14.8

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

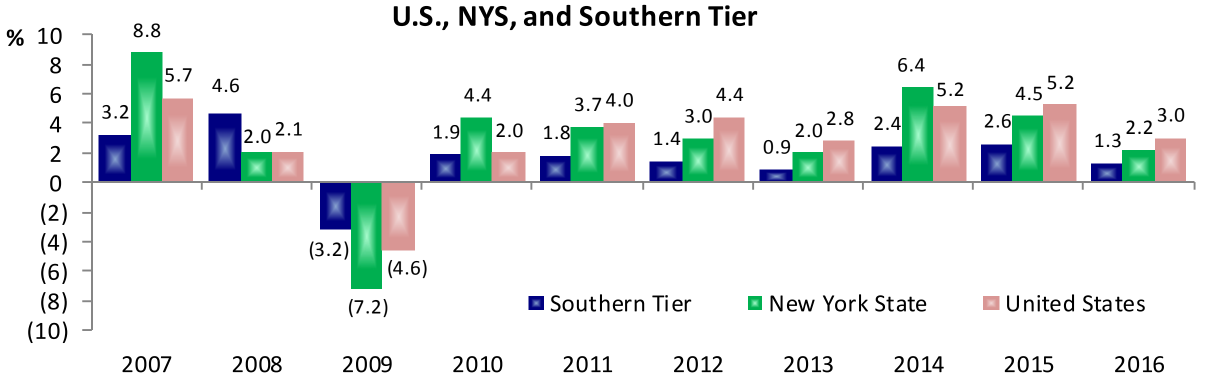
Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.

Employment Growth
U.S., NYS, and Southern Tier



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

Wage Growth
U.S., NYS, and Southern Tier



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

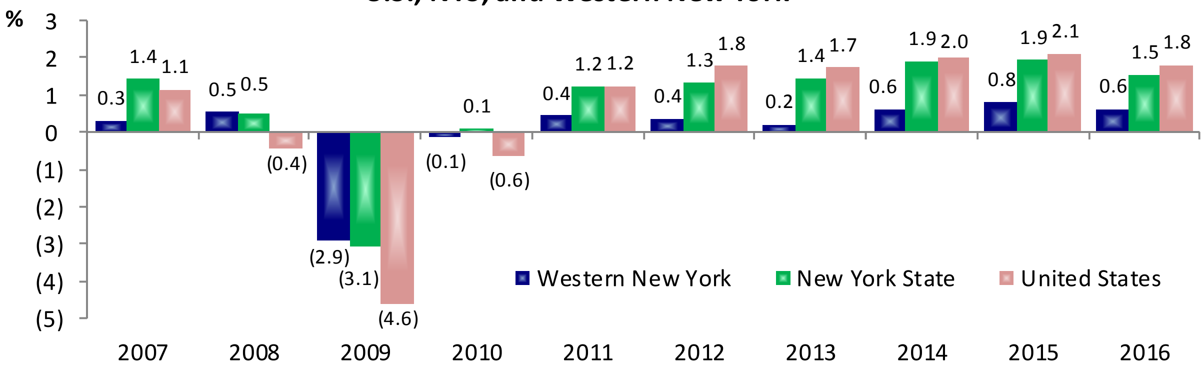
Western New York

Key Economic Indicators 2016			
Employment (million)	0.629	Share of Personal Income (%)	5.3
Share of State Employment (%)	6.9	Per Capita Personal Income	$44,655
Unemployment Rate (12/2017) (%)	5.6	Population (million)	1.4
Total Wages (billion)	$28.3	Share of State Population (%)	7.0
Share of State Wages (%)	4.6	Population Growth (%)	(0.3)
Average Wage	$45,040	Persons in Poverty	195,835
Personal Income (billion)	$61.9	Poverty Rate (%)	14.1

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

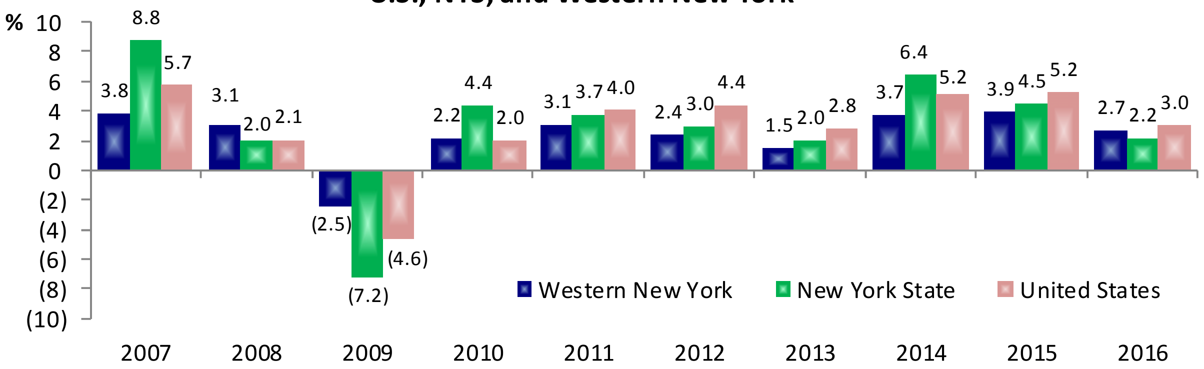
Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.

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



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

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



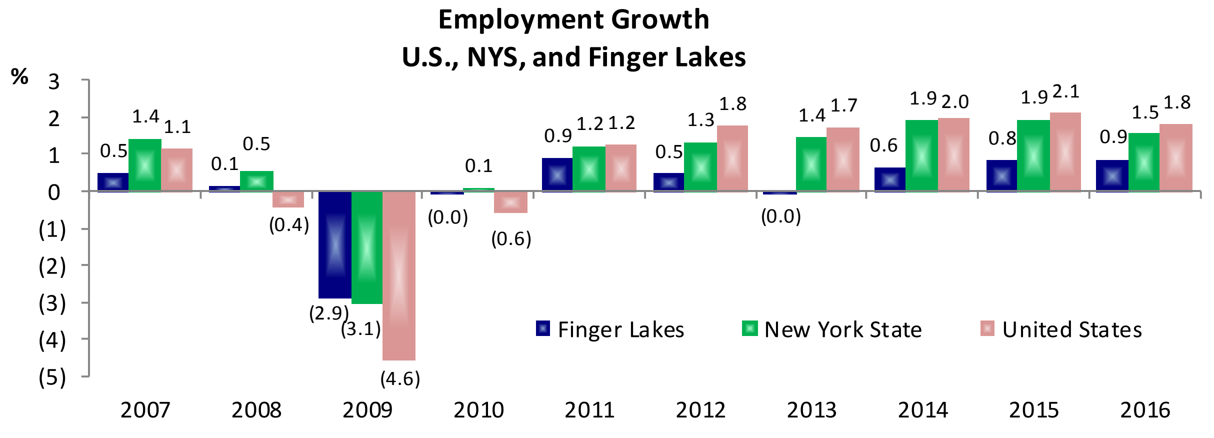
Sources: New York State Department of Labor, U.S. Bureau of Labor Statistics.

Finger Lakes

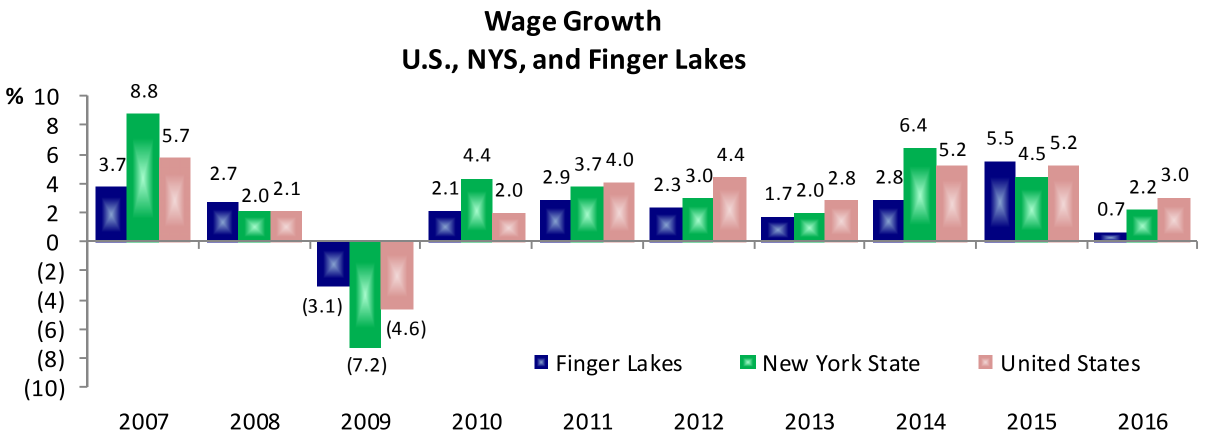
Key Economic Indicators 2016			
Employment (million)	0.547	Share of Personal Income (%)	4.7
Share of State Employment (%)	6.0	Per Capita Personal Income	$45,488
Unemployment Rate (12/2017) (%)	5.1	Population (million)	1.2
Total Wages (billion)	$25.8	Share of State Population (%)	6.1
Share of State Wages (%)	4.2	Population Growth (%)	(0.3)
Average Wage	$47,233	Persons in Poverty	158,093
Personal Income (billion)	$55.2	Poverty Rate (%)	13.0

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

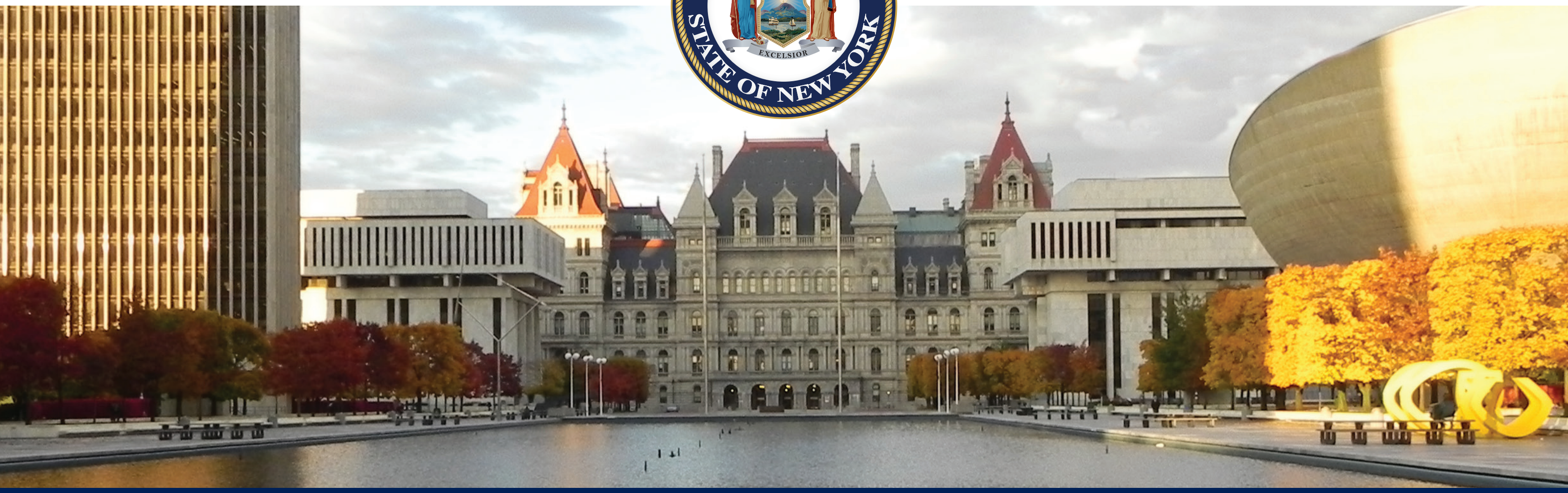
Sources: U.S. Census Bureau; New York State Department of Labor; U.S. Bureau of Economic Analysis.



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



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



Revenue Forecast

REVENUE FORECAST

Overview – Revenue Summary

State Fiscal Year 2017-18

All Funds Revenues

All Funds revenues are estimated to total $165.461 billion in State Fiscal Year (SFY) 2017-18 for an increase of 5.8 percent or $9.089 billion, largely attributable to increases in personal income tax receipts over last year.

All Funds Tax Receipts

The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for SFY 2017-18 is $79.829 billion, representing an increase of 7.3 percent or $5.457 billion over the prior year (see Table 9).

The sharp increase is partially attributed to taxpayers shifting income and tax payments to 2017 from 2018 to take advantage of the federal deductibility of state income taxes in tax year 2017. The December 2017 federal tax reform limits to $10,000 the combined state income and property taxes allowed to be deducted by taxpayers who itemize at the federal level.

The committee staff's All Funds tax revenue estimate is $878 million above the Executive's estimate. The largest difference between the committee staff estimates and the Executive's estimates is in personal income taxes with the committee estimate being $812 million above the Executive's closeout.

Table 9

SFY 2017-18 All Funds Estimate Summary ($ in Millions)	2016-17 Actual	2017-18 Estimate	Change	Growth	Diff. Exec.
Personal Income Tax	$47,565	$51,747	$4,182	8.8%	$812
User Taxes	16,212	16,734	522	3.2%	(19)
Business Taxes	6,979	7,444	465	6.7%	98
Other Taxes	3,617	3,904	287	7.9%	(13)
Total Tax Collections	**$74,372**	**$79,829**	**$5,457**	**7.3%**	**$878**
All Funds Miscellaneous Receipts	23,292	24,453	1,161	5.0%	(13)
Gaming	3,302	3,402	100	3.0%	39
Total w/Miscellaneous Receipts & Gaming	**$100,966**	**$107,684**	**$6,718**	**6.7%**	**$904**
Federal Funds	55,406	57,777	2,371	4.3%	-
Total All Funds Receipts	**$156,372**	**$165,461**	**$9,089**	**5.8%**	**$904**

* Totals may not add up due to rounding

Year-to-Date (YTD) Tax Analysis

The committee staff's tax revenue estimates for SFY 2017-18 are based on year-to-date collections and historical collections patterns. Through the first ten months of the fiscal year, All Funds tax revenues are up 8.5 percent (see Figure 47). Year-to-date personal income tax collections are up 11.8 percent as taxpayers accelerated estimated payments, as well as bonus payments, to tax year 2017 to benefit from the federal deductibility of state income taxes.

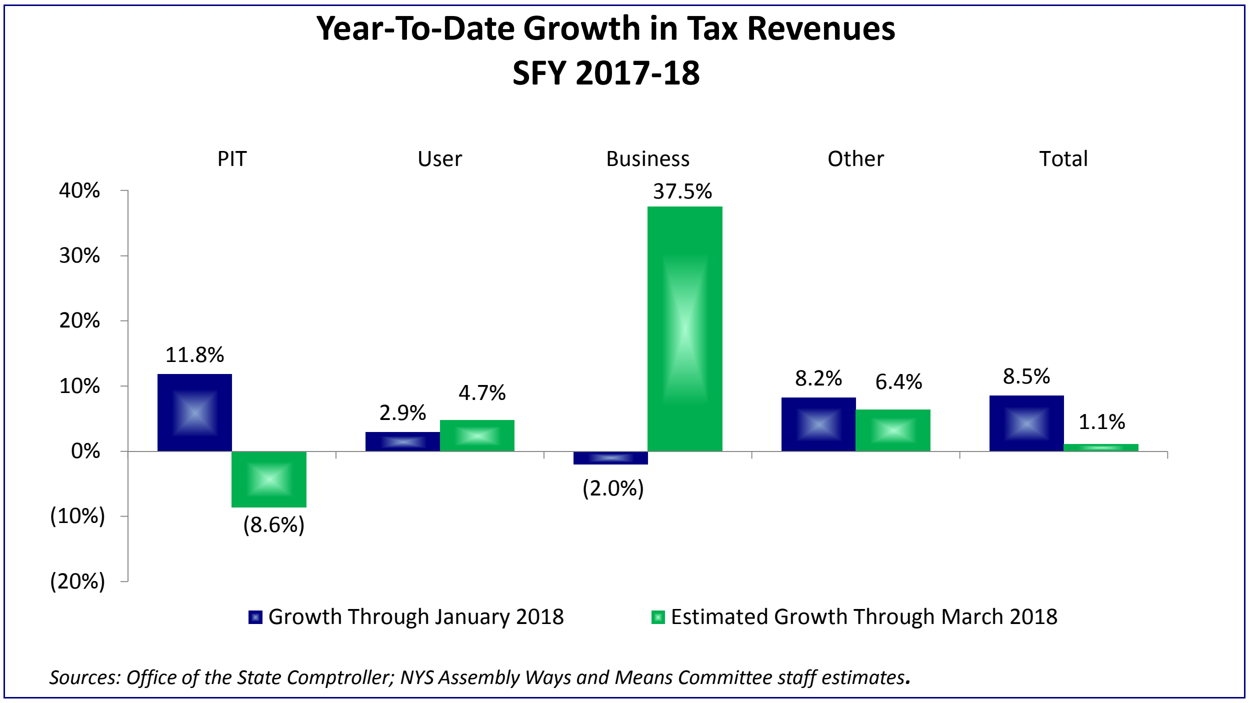


Figure 47

Collections are expected to increase, as the state fiscal year progresses, and return to more robust growth. Tax collections are expected to increase by 1.1 percent over the remainder of the fiscal year.

Personal Income Taxes

The NYS Assembly Ways and Means Committee staff estimates that PIT receipts will total $51.747 billion in SFY 2017-18, representing an increase of 8.8 percent or $4.182 billion above last year. Gross receipts are expected to increase 9.4 percent or $5.301 billion above SFY 2016-17, driven by 6.7 percent growth in withholding. Total refunds are anticipated to increase 12.5 percent or $1.119 billion.

Overall, net personal income taxes have totaled $45.261 billion year-to-date, an increase of 11.8 percent, and are estimated to decline by 8.6 percent in the remainder of the year to reach SFY 2017-18 estimates.

User Taxes

User taxes are estimated to total $16.734 billion in SFY 2017-18, an increase of 3.2 percent or $522 million. Sales tax revenue is estimated to increase by $642 million or 4.6 percent.

Through the first ten months of the fiscal year, sales tax revenues are up 4.5 percent. Collections over the remainder of the year are expected to increase by 5.4 percent. Cigarette tax receipts were down 4.8 percent year-to-date over the last year and are estimated to finish the year with a five percent decline.

Business Taxes

Business taxes have decreased 2.0 percent compared to the first ten months of last year, and growth of 37.5 percent is expected in the remainder of the fiscal year.

Overall, business taxes are estimated to post an increase of 6.7 percent or $465 million over SFY 2016-17 levels. Corporate franchise taxes are estimated to increase by $224 million or 7.1 percent. The committee staff accepts the Executive's assumptions with regard to audit collections as well as the impact of recent tax law changes.

Other Taxes

Through January, real estate transfer tax (RETT) receipts are flat over the same year-to-date period in SFY 2016-17. RETT collections are estimated to finish SFY 2017-18 with a total of $1.127 billion or an increase of 0.1 percent over the prior year. MTA payroll tax collections are estimated to register fiscal year growth of 5.3 percent.

Estate and gift collections have totaled $1.136 billion year-to-date, up 19.7 percent over last year. With an expected 19.6 percent increase in the remainder of the year, estate and gift tax revenues are expected to increase 19.7 percent or $215 million for the fiscal year.

Gaming

The committee staff anticipates overall fiscal year increase of 3.0 percent for a total of $3.402 billion. Lottery receipts are expected to grow 1.4 percent, while casino and interactive fantasy sports betting receipts are expected to complete their first full fiscal year, while the fourth casino opened in February.

Revenue Table, Current Fiscal Year 2017-18

Table 10

All Funds Collections SFY 2017-18
($ in Millions)

	2016-17 Actual	2017-18 Estimate	Change	Growth	Diff. Exec.
Personal Income Tax	**$47,565**	**$51,747**	**$4,182**	**8.8%**	**$812**
Gross Receipts	**56,517**	**61,818**	**5,301**	**9.4%**	**758**
Withholding	37,524	40,034	2,510	6.7%	575
Estimated Payments	14,972	17,802	2,830	18.9%	68
Vouchers	10,912	14,348	3,436	31.5%	70
IT 370s	4,060	3,454	(606)	-14.9%	(2)
Final Payments	2,588	2,431	(157)	-6.1%	(10)
Delinquencies	1,433	1,551	118	8.2%	125
Total Refunds	**8,952**	**10,071**	**1,119**	**12.5%**	**(54)**
Net Collections	**47,565**	**51,747**	**4,182**	**8.8%**	**812**
User Taxes and Fees	**16,212**	**16,734**	**522**	**3.2%**	**(19)**
Sales and Use Tax	13,869	14,511	642	4.6%	1
Motor Fuel Tax	519	516	(3)	-0.6%	1
Cigarette & Tobacco Tax	1,236	1,174	(62)	-5.0%	(3)
Highway Use Tax	138	95	(43)	-31.3%	(1)
Alcoholic Beverage Tax	258	258	0	0.0%	(4)
Medical Marihuana Excise Tax	1	1.8	0.8	80.0%	-
Auto Rental Tax	127	123	(4)	-3.0%	(10)
Taxi Surcharge	64	55	(9)	-13.6%	(4)
Business Taxes	**6,979**	**7,444**	**$465**	**6.7%**	**98**
Corporate Franchise Tax	3,166	3,390	224	7.1%	104
Utility Tax	720	740	20	2.8%	3
Insurance Tax	1,580	1,714	134	8.4%	(8)
Bank Tax	389	505	116	29.8%	0
Petroleum Business Tax	1,124	1,096	(28)	-2.5%	(1)
Other Taxes	**3,617**	**3,904**	**$287**	**7.9%**	**(13)**
Estate and Gift Tax	1,091	1,306	215	19.7%	(8)
Real Estate Transfer Tax	1,126	1,127	1	0.1%	(20)
Pari Mutuel Tax	16	16	(0)	-2.5%	1
Other Taxes	3	3	0	0.0%	-
MTA Payroll Tax	1,380	1,453	73	5.3%	15
Total All Funds Taxes	**$74,372**	**$79,829**	**$5,457**	**7.3%**	**$878**
All Funds Miscellaneous Receipts	23,292	24,453	1,161	5.0%	(13)
Gaming	3,302	3,402	100	3.0%	39
Total Taxes & Gaming & Miscellaneous Receipts	**$100,966**	**$107,684**	**$6,718**	**6.7%**	**$904**
Federal Funds	55,406	57,777	2,371	4.3%	0
Total All Funds Receipts	**$156,372**	**$165,461**	**$9,089**	**5.8%**	**$904**

* Totals may not add up due to rounding

State Fiscal Year 2018-19

Key economic indicators point to an ongoing but slow recovery. The committee staff is estimating GDP growth of 2.7 percent in 2018, followed by growth of 2.5 percent in 2019. (Please see the Economy section of this report for more details.)

All Funds Revenues

The committee staff expects a 0.6 percent decline in All Funds revenues for SFY 2018-19, reflecting lower PIT receipts due to the shift of income and taxes paid to 2017 following the enactment of the federal tax reform. In addition, receipts from the MTA payroll tax are not included in the other taxes category to remain consistent with the Executive proposal to directly provide those receipts to the MTA. Including estimates for miscellaneous receipts and federal grants, the total for SFY 2018-19 is forecast at $164.458 billion. The committee staff forecast is $1.252 billion above the Executive's forecast.

All Funds Tax Receipts

The committee staff expects a 1.6 percent decline in All Funds tax receipts in SFY 2018-19, for a total of $78.565 billion. The committee staff tax receipts forecast is $1.136 billion above the Executive's forecast. The committee's net personal income tax (PIT) forecast is $770 million above the Executive's PIT forecast.

Table 11

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

	2017-18 Estimate	2018-19 Forecast	Change	Growth	Diff. Exec.
Personal Income Tax	$51,747	50,014	($1,733)	-3.3%	$770
User Taxes	16,734	17,759	1,024	6.1%	95
Business Taxes	7,444	8,434	990	13.3%	176
Other Taxes	3,904	2,358	(1,546)	-39.6%	95
Total Tax Collections	**$79,829**	**$78,565**	**($1,265)**	**-1.6%**	**$1,136**
All Funds Miscellaneous Receipts	24,453	24,534	81	0.3%	1
Gaming	3,402	3,481	79	2.3%	115
Total w/Miscellaneous Receipts & Gaming	**$107,684**	**$106,580**	**($1,104)**	**-1.0%**	**$1,252**
Federal Funds	57,777	57,878	101	0.2%	-
Total All Funds Receipts	**$165,461**	**$164,458**	**($1,003)**	**-0.6%**	**$1,252**

* Totals may not add up due to rounding

Personal Income Taxes

Overall, personal income taxes, the largest component of all tax collections, are forecast to total $50.014 billion, which is $1.733 billion or 3.3 percent below the SFY 2017-18 estimates. Total New York State wages growth is forecast at 4.4 percent in SFY 2018-19, whereas variable wages (bonuses) are expected to register growth of 3.9 percent.

User Taxes

All Funds user taxes are forecast to total $17.759 billion, 6.1 percent above current year estimates, inclusive of the Executive's proposal to impose a surcharge on opioids. This forecast reflects staff projections that the economic recovery will continue with robust consumer spending growth.

Business Taxes

Business taxes are forecast to total $8.434 billion in SFY 2018-19, an increase of 13.3 percent from the current year closeout on an All Funds basis. The corporate franchise tax is expected to increase by 35.4 percent or $1.201 billion.

Other Taxes

Other taxes, which consist primarily of the estate tax, and real estate transfer taxes are forecast to decline by 39.6 percent in SFY 2018-19, to a level of $2.358 billion. As noted earlier, for comparison with the Executive purposes we are not including MTA payroll tax receipts in our forecast. (Please see the MTA Payroll Tax section for more details related to the receipts projected for SFY 2018-19.)

Gaming

Gaming receipts are forecast to increase 2.3 percent or $79 million in SFY 2018-19 for a total of $3.481 billion. Lottery receipts are expected to increase 1.1 percent and VLT facilities' education payments are expected to decline 3.2 percent. All four casinos will be open for the entire fiscal year and they are expected to remit $128 million to the state.

Revenue Table, Upcoming Fiscal Year 2018-19

Table 12

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

	2017-18 Estimate	2018-19 Forecast	Change	Growth	Diff. Exec.
Personal Income Tax	**$51,747**	**$50,014**	**($1,733)**	**-3.3%**	**$770**
Gross Receipts	**61,818**	**60,966**	**(852)**	**-1.4%**	**632**
Withholding	40,034	41,655	1,621	4.0%	341
Estimated Payments	17,802	15,220	(2,582)	-14.5%	299
Vouchers	14,348	12,858	(1,490)	-10.4%	129
IT 370s	3,454	2,362	(1,092)	-31.6%	170
Final Payments	2,431	2,625	194	8.0%	26
Delinquencies	1,551	1,466	(85)	-5.5%	(34)
Total Refunds	**10,071**	**10,952**	**881**	**8.7%**	**(138)**
Net Collections	**51,747**	**50,014**	**(1,733)**	**-3.3%**	**770**
User Taxes and Fees	**16,734**	**17,759**	**1,024**	**6.1%**	**95**
Sales and Use Tax	14,511	15,398	887	6.1%	132
Motor Fuel Tax	516	525	9	1.7%	13
Cigarette & Tobacco Tax	1,174	1,119	(55)	-4.7%	(33)
Highway Use Tax	95	144	50	52.3%	2
Opioid Epidemic Surcharge	NA	127	NA	NA	-
Alcoholic Beverage Tax	258	263	5	1.7%	(5)
Medical Marihuana Excise Tax	1.8	3	1.0	55.6%	1
Auto Rental Tax	123	129	5	4.3%	(9)
Taxi Surcharge	55	52	(3)	-6.1%	(7)
Business Taxes	**7,444**	**8,434**	**990**	**13.3%**	**176**
Corporate Franchise Tax	3,390	4,590	1,201	35.4%	189
Utility Tax	740	723	(18)	-2.4%	13
Insurance Tax	1,714	1,808	95	5.5%	(60)
Bank Tax	505	143	(362)	-71.7%	0
Petroleum Business Tax	1,096	1,170	74	6.8%	34
Other Taxes	**3,904**	**2,358**	**(1,546)**	**-39.6%**	**95**
Estate and Gift Tax	1,306	1,186	(119)	-9.1%	153
Real Estate Transfer Tax	1,127	1,153	27	2.4%	(59)
Pari Mutuel Tax	16	15	(0)	-1.3%	0
Other Taxes	3	3	0	0.0%	-
MTA Payroll Tax	1,453	0	(1,453)	-100.0%	-
Total All Funds Taxes	**$79,829**	**$78,565**	**-$1,265**	**-1.6%**	**1,136**
All Funds Miscellaneous Receipts	24,453	24,534	81	0.3%	1
Gaming	3,402	3,481	79	2.3%	115
Total Taxes & Gaming & Miscellaneous Receipts	**$107,684**	**$106,580**	**-$1,104**	**-1.0%**	**1,252**
Federal Funds	57,777	57,878	101	0.2%	0
Total All Funds Receipts	**$165,461**	**$164,458**	**($1,003)**	**-0.6%**	**1,252**

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

Risks to the Revenue Forecast

The current forecast for the economy and, therefore, revenues, is predicated on certain key assumptions related to fiscal and monetary policy, as well as global economic and geopolitical fundamentals as enunciated in the Economy part of this report. The federal tax reform of December 2017 implements a fundamental transformation of corporate taxation in the U.S. as well as of personal income taxes. The reform presents numerous challenges to the states related to conformity with key provisions, as explained later in this report under the Personal Income Tax section. The level of state tax receipts will critically depend on the way the economy responds to the overall tax reform.

EXECUTIVE ACTIONS IN RESPONSE TO THE FEDERAL TAX REFORM

The federal tax reform capped the total itemized deduction for State and Local Taxes (SALT) at $10,000. To address any potential adverse effects on state taxpayers the Executive proposes the following actions:

A. Employer Compensation Expense Tax (ECET) System

a. Employers can opt-in to the ECET with an annual October 1st deadline to participate;
b. The salary threshold over which the tax will apply is $40,000;
c. Three-year phase-in (beginning with January 1, 2019): employers will pay a tax on employee salaries; 1st year at 1.5 percent, 2nd year at three percent, 3rd year at five percent. Employers will be able to deduct the full amount of the tax from their federal taxes;
d. A new tax credit will be implemented corresponding in value to the compensation expense tax that would reduce the PIT tax on wages to ensure no declines in take-home pay;
e. Proposal is designed to be revenue neutral to the state.

B. Charitable Gifts Trust Fund

a. Proposes the creation of two state Charitable Gifts Trusts Funds to accept donations for the purpose of improving health care and education;
b. Taxpayers who itemize will be able to claim any donations as deductions for both federal and state tax purposes. In addition, the state will provide an 85 percent tax credit against the amount donated;
c. School districts and other local governments will be authorized to set up their own educational and health care charitable funds for accepting donations. In return, municipal governments are empowered to provide taxpayers up to a 95 percent credit of the value of the donation against their property taxes.

C. Decoupling from Federal Tax Code

a. Decouple the state from the $10,000 cap on state and local tax deductions and save taxpayers $441 million in potential additional state tax liability;

b. Decouple from other federal tax itemized deduction changes that would cost taxpayers $269 million in additional state liability;
c. Maintain the state standard deduction for single filers which avoids a potential state tax increase of $840 million.

D. Federal Deemed Repatriation

The federal tax reform's deemed repatriation provisions allow for the one-time inclusion of foreign income (inclusion of accumulated earnings and profits of foreign subsidiaries when the U.S. shareholders own at least 10 percent of the foreign subsidiary) as Subpart F income that is exempt under current New York law. However, the inclusion of such income involves certain deductions that would have allowed taxpayers to benefit from both the exclusion of the income and the deduction. The Executive proposes to add back to taxable income any deductions allowed under the federal tax reform provisions.

Executive Revenue Actions

EXECUTIVE REVENUE ACTIONS

Personal Income Tax Proposals

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

- The Executive proposes to amend residency requirements for taxpayers so that irrespective of intent to be a resident of the state for part of the year, the taxpayer would be deemed to be resident of the state as long as he or she has spent 184 days in the state.

- The Executive proposal maintains the current Empire State Child Credit by using the calculation for the credit that was effective before the federal tax reform of December 2017. The federal changes altered the refundability, eligible income ranges, and value of the child credit. The proposal eliminates the adverse fiscal impact that this component of federal tax reform would have on the state.

- The Executive proposes to link the three-year statute of limitations for amended tax returns to the date on which they are filed, not the date on which the original return was filed.

- The Executive proposes to require employers to file individual employee gross wages and withholding amounts on a quarterly basis instead of on an annual basis.

- The Executive proposes to give the state the ability to collect fixed and final tax debt from the unclaimed funds held by the state Comptroller without filing a warrant.

- The Executive proposes to allow the Department of Taxation and Finance to access data from other state agencies that list the recipients of child daycare subsidies.

- The Executive proposes to allow the Department of Taxation and Finance to appeal the decisions of the Tax Tribunal, similar to taxpayers with cases before the Tax Tribunal.

STAR Program Proposals

- The Executive proposes to limit the growth of the annual School Tax Relief (STAR) benefit from the current two percent to zero percent, thereby holding 2018-19 and all future STAR benefits at 2017-18 levels.

- The Executive proposes to require Enhanced STAR recipients to verify their adjusted gross income (AGI) through the Income Verification Program administered by the Department of Taxation and Finance in order to receive the Enhanced STAR benefit. Under current law, taxpayers may also provide such proof by bringing income documentation to their local assessor.

- The Executive proposes to make a variety of technical changes to the real property tax law. The proposals would: repeal obsolete property tax freeze credit provisions while maintaining the tax cap reporting requirements; remove out-of-date references; requires municipalities to receive county consent prior to offering partial payments of property taxes if the county prepares their tax bills or provides tax collection software; provides the county with sole authority to collect partial payments for municipalities if the county collects their taxes; clarify that married couples can only receive one STAR benefit; conform payment deadlines; and ratify the Tax Department's practice regarding the application of the Consumer Price Index to Enhanced STAR amounts for all school districts.

- The Executive proposes to eliminate the annual assessment of taxable state owned land and beginning in 2018 base the payment on the prior year payment amount which would be increased annually by the "allowable levy growth factor" used in the tax cap calculation.

- The Executive proposes to extend the current program providing state assessment ceilings on telecommunication property on private property for another four years. In addition, the proposal would provide for a phase-in of assessment changes.

- The Executive proposes to require parties to file a real property transfer form whenever a cooperative apartment is sold or whenever there is a transfer or acquisition of a controlling interest in an entity with an interest in real property.

- The Executive proposes to require owners of mobile home parks to file quarterly informational returns listing all residents of the mobile home park and any other information that the Department of Housing and Community Renewal may require.

Transportation and Economic Development Article VII

- The Executive proposes to recoup a portion of increases in real property tax collections for the MTA as a result of investments made by the MTA.

- The Executive proposes to create a new property tax benefit for privately owned forests and open space to encourage timber sales.

Business Tax Proposals

- The Executive proposes to extend the Hire-a-Veteran Tax Credit for two years. The credit available to employers is capped at $5,000 for each veteran hired and $15,000 for each disabled veteran that is hired. The credit would be extended through 2020.

- The Executive proposes to increase, by 50 percent, the amount of credit available to employers claiming the Youth Jobs Program Tax Credit. This proposal would also require employers to comply with increased reporting requirements related to the administration of the credit.

- The Executive proposes to defer the payment of any taxpayer's aggregate tax credits that are in excess of two million dollars. Such taxpayers would be able to claim the deferred credits over three years beginning in tax year 2021. The Film Production Tax Credit, the Post Production and Commercial Production Tax Credits, as well as the Youth Jobs and the Hire a Veteran Tax Credits would be exempt from the deferral program.

- The Executive proposes a new windfall profit fee on for-profit health care insurance companies at a rate of 14 percent of profits earned. The revenue would be dedicated to the Health Care Reform Act (HCRA).

Transportation and Economic Development Article VII

- The Executive proposes to modify the Brownfield Opportunity Area statute and to expand the pool of applicants eligible for brownfield tax credits.

Other Tax Proposals

- The Executive proposes to align the joint tax liability provisions of the additional Real Estate Transfer Tax (RETT), which is levied on residential sales in excess of one million dollars, to those of the basic RETT. Additionally, the proposals would extend the deadline to apply for a RETT refund from two to three years.

- The Executive proposes to establish a new basis for taxation of cigars by changing the definition of wholesale price to the amount shown on the invoice of a manufacturer or other person that sells to a distributor.

- The Executive proposes to tax vapor products at a rate of ten cents per fluid milliliter. The vaping products tax would be administered similarly to the taxes on tobacco products.

- The Executive proposes to place a tax on opioid prescription drugs at a rate of two cents per morphine milligram equivalent sold. The revenue raised would be dedicated to opioid addiction prevention, treatment, and recovery.

Transportation and Economic Development Article VII

- The Executive proposes to collect a $120 fee for the semi-annual inspection of certain for-profit for hire vehicles.

- The Executive proposes to charge companies that use the Department of Transportation right-of-way for fiber optic lines.

- The Executive proposes to create an on-line internet licensing course and to collect fees from students taking the course.

- The Executive proposes to redirect tax collections from the Metropolitan Mobility Payroll Tax to the MTA without state appropriation.

Consumption and Use Tax Proposals

- The Executive proposes to require internet marketplace providers to collect sales tax on behalf of third-party vendors. This proposal would also require out-of-state businesses which have no NYS nexus and sell at least five million dollars of goods to NYS customers, to inform these customers that they might owe use tax. Additionally, such businesses would be required to file an annual form with the Department of Taxation and Finance which states the aggregate amount of sales they made to customers in the state.

- The Executive proposes to simplify the taxation of prepared food by alleviating businesses that purchase prepared food from paying the sales tax on such products and then collect the sales tax again when it is resold. Under this proposal, food service businesses would be able to purchase all products that they resell tax free.

- The Executive proposes to collect sales tax from businesses that purchase energy from Energy Service Companies (ESCOs). Under current law, businesses are not charged sales tax on transmission fees when energy is purchased from an ESCO, however, they are charged sales tax when they purchase energy from a company that is not an ESCO.

- The Executive proposes to convert the veterinarian drug sales tax credit for livestock into a sales tax exemption for veterinarian and farmer livestock drug sales.

- The Executive proposes to alleviate minority share members of limited liability corporations (LLCs) or a member of limited partnership from liability for the entire sales tax debt of the LLC if they do not participate in the management of the company. The current statutory obligation is to hold all owners of the LLC equally responsible for the sales tax debt.

- The Executive proposes to increase the sales tax exemption for vending machines from $1.50 to $2 only for machines that have the option to collect payment from a credit or debit card. The entire sales tax exemption for vending machines would sunset on May 31, 2020.

- The Executive proposes to make technical changes to the local sales tax distribution laws to ensure conformity to the general provisions.

Gaming Tax Proposals

- The Executive proposes to allow NYRA to double their reserve fund and to allow NYRA tracks to race at night.

- The Executive proposes to allow horse breeding funds to be used for retired horse care.

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

- The Executive proposes to simplify the taxation and regulation of video lottery facilities and to modify the additional commission computation to align it with its original intent.

- The Executive proposes to eliminate an inter-gaming fund transfer to reduce governmental administration costs.

Table 13

TAX AND OTHER REVENUE ACTIONS ($ in Millions)	General Fund		All Funds	
	SFY 2018-19	SFY 2019-20	SFY 2018-19	SFY 2019-20
Responding to Federal Tax Reform				
Maintain 2017 Empire State Child Tax Credit Benefits	-	-	-	-
Tax Credit Proposals				
Enhance the NY Youth Jobs Program	-	-	-	-
Increase the Vending Machine Sales Tax Exemption	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**
Tax Reform and Simplification Proposals				
Close the Carried Interest Loophole	-	-	-	-
Impose an Internet Fairness Conformity Tax	75	150	80	159
Allow the Tax Department to Appeal Tax Appeals Tribunal Decisions	-	5	-	5
Clarify New York Residency Requirements for Tax Purposes	-	-	-	-
Discontinue the Energy Services Sales Tax Exemption	90	120	96	128
Provide Responsible Person Sales Tax Relief for Minority LLC Owners	-	-	-	-
Simplify Taxes on the Resale of Prepared Food	-	-	-	-
Convert the Veterinary Sales Tax Credit into an Exemption	-	-	-	-
Modify the Taxation of State-Owned Land	-	-	-	-
Subtotal	**165**	**275**	**176**	**292**
Tax Enforcement Proposals				
Provide for Expedited Processing of Child Care Tax Credit Payments Using State Data	-	5	-	5
Extend the Statute of Limitations on Amended Tax Returns	3	3	3	3
Provide for Employee Wage Reporting Consistency	-	-	-	-
Allow Warrantless Tax Debt to be Assessed Against Unclaimed Funds	3	3	3	3
Change Cigar Tax Enforcement	12	23	12	23
Provide for Consistency Within the Real Estate Transfer Tax	-	-	-	-
Subtotal	**18**	**34**	**18**	**34**
Tax Law Extender Proposals				
Extend the Hire a Vet Credit for Two Years	-	-	-	-
Extend Telecom Mass Property Assessments for Four Years	-	-	-	-
Subtotal	**-**	**-**	**-**	**-**
School Tax Relief (STAR) Program Proposals				
Maintain Basic and Enhanced Exemption Benefits at Existing Levels	49	95	-	-
Make Participation in the Income Verification Program (IVP) Mandatory	35	35	-	-
Require Manufactured Home Parcel Reporting	-	-	-	-
Require Filing of Real Property Transfer Reports	-	-	-	-
Subtotal	**85**	**130**		
Other Revenue Proposals				
Defer Business Related Tax-Credit Claims	82	278	82	278
Impose a Tax on Vapor Products	3	5	3	5
Establish an Opioid Epidemic Surcharge	-	-	127	171
Subtotal	**85**	**283**	**212**	**454**
Gaming Proposals				
Simplify Video Lottery Gaming (VLG) Tax Rates and Additional Commission Provisions	-	-	22	20
Extend Certain Tax Rates and Certain Simulcasting Provisions for One Year	-	-	-	-
Eliminate the Video Lottery Gaming Hold Harmless Transfer Provision	-	-	-	-
Allow Horse Breeding Funds to be used for Equine Aftercare	-	-	-	-
Amend Racing Operations Provisions	-	-	-	-
Subtotal	**-**	**-**	**22**	**20**
Fee Proposals				
Impose a Vehicle Safety Inspection Fee	3	3	3	3
Modernize Highway Right-of-Way Fees	-	-	15	30
Impose a Healthcare Insurance Windfall Profit Fee	-	-	140	140
Subtotal	**3**	**3**	**158**	**173**
Technical Amendments				
Amend the Local Sales Tax Statute for Technical Changes	-	-	-	-
Amend Real Property Tax Law for Various Technical Amendments	-	-	-	-
Subtotal	-	-	-	-
TOTAL REVENUE PROPOSALS	**356**	**725**	**586**	**973**

Tax Analysis

TAX ANALYSIS

Personal Income Tax

Table 14

Personal Income Tax Collections Forecasts by State Fiscal Year ($ in Millions)						
	2017-18			2018-19		
	WAM Estimate	Percent Growth	Diff. Exec	WAM Forecast	Percent Growth	Diff. Exec.
Personal Income Tax	**$51,747**	**8.8%**	**$812**	**$50,014**	**-3.3%**	**$770**
Gross Receipts	**61,818**	**9.4%**	**758**	**60,966**	**-1.4%**	**632**
Withholding	40,034	6.7%	575	41,655	4.0%	341
Estimated Payments	17,802	18.9%	68	15,220	-14.5%	299
Vouchers	14,348	31.5%	70	12,858	-10.4%	129
IT 370s	3,454	-14.9%	(2)	2,362	-31.6%	170
Final Payments	2,431	-6.1%	(10)	2,625	8.0%	26
Delinquencies	1,551	8.2%	125	1,466	-5.5%	(34)
Total Refunds	**10,071**	**12.5%**	**(54)**	**10,952**	**8.7%**	**(138)**
Prior Year Refunds	6,303	21.2%	(35)	6,583	4.4%	(116)
Current Refunds	1,750	0.0%	-	1,749	-0.1%	-
Advance Credit Payments	689	1.6%	-	1,247	81.0%	-
Previous Refunds	481	1.5%	(19)	500	4.0%	(22)
State/City Offsets	848	-0.4%	-	873	2.9%	-
Collections	**51,747**	**8.8%**	**812**	**50,014**	**-3.3%**	**770**
Transfers to STAR	(2,585)	-17.6%	**-**	(2,410)	-6.8%	-
Transfers to DRRF/RBTF	(12,937)	8.8%	(203)	(25,007)	93.3%	(385)
General Fund PIT Collections	**$36,225**	**11.3%**	**609**	**$22,597**	**-37.6%**	**$385**

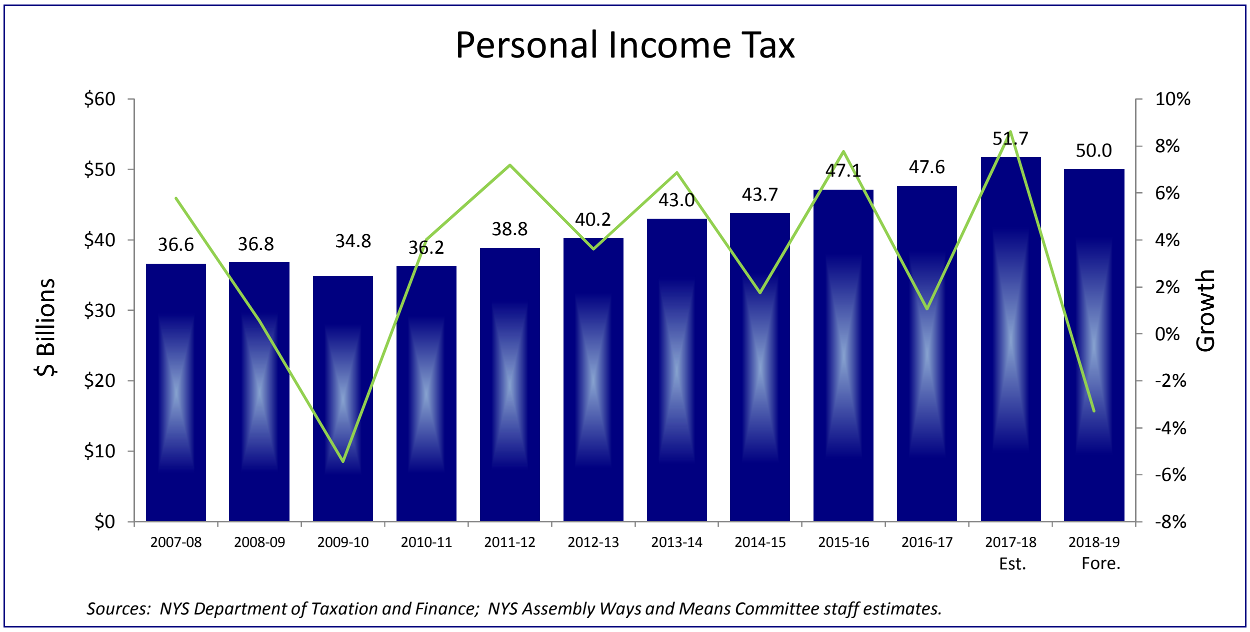


Figure 48

Article 22 of the Tax Law imposes a tax on the income of individuals, estates and trusts residing or located in New York State. Personal Income Tax (PIT) receipts contribute approximately 70 percent of all tax collections deposited into the General Fund. PIT receipts are received through employee withholdings, estimated tax payments, payments accompanying annual tax returns, late payments, and through audits and assessments. Withholding is the single largest component, comprising roughly 65 percent of gross PIT receipts.

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

For tax year 2017, the standard deductions and the income tax brackets are scheduled to increase in accordance to the Consumer Price Index inflation adjustment provisions enacted as part of the state's 2011 personal income tax reform. This will be the last year these items are increased for inflation. Table 15 provides a four year review of changes to the standard deductions.

Table 15

New York State Standard Deduction				
Filing Status	**2015**	**2016**	**2017**	**2018***
Single	$7,900	$7,950	$8,000	$8,000
Married Filing Jointly	$15,850	$15,950	$16,050	$16,050
Head of Household	$11,100	$11,150	$11,200	$11,200
*Beginning Tax Year 2018 the New York State Standard Deduction is no longer modified by a Cost of Living Adjustment (COLA).				

Taxpayers who itemize deductions on their federal returns may also itemize on their New York State returns if the aggregate of such deductions, minus state and local income taxes and certain other modifications, exceed the New York standard deduction. However, the availability of itemized deductions is limited for certain high income taxpayers. The high income deduction limitation begins at different levels depending upon ones taxable income. The 25 percent reduction begins to phase in after $100,000 of AGI for single filers, above $200,000 for married filers, and for incomes exceeding $250,000 for head of household filers. The 50 percent limitation on itemized deductions begins to phase in for all filers at $475,000.

For taxpayers whose NYAGI exceeds $1 million, itemized deductions are fully excluded, and only 50 percent of charitable contributions may be deducted for the purposes of calculating tax liability. For taxpayers with NYAGI over $10 million, the charitable contributions deduction is limited to 25 percent. The charitable deduction limitation of 25 percent for taxpayers with NYAGI over $10 million is set to expire on December 31, 2019.

The New York standard deduction or itemized deductions, in addition to exemptions claimed on New York taxes, are subtracted from NYAGI to arrive at New York taxable income. Taxable income is then multiplied by the appropriate tax rate. A taxpayer's tax rate is partially determined by their filing status which ranges from married filing jointly and head of household to single filers. The tax rate is then determined by the level of income.

Net Collections

Year-to-Date (YTD) Through January

Through January, net personal income tax collections are up 11.8 percent or $4.788 billion, with gross collections increasing by 12.0 percent or $5.691 billion year-to-date.

Table 16

Net Collections ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$45,261	11.8%	$51,747	8.8%	$50,935	$812
2018-19			$50,014	-3.3%	$49,244	$770

State Fiscal Year 2017-18

Net personal income tax collections are estimated to total $51.747 billion, which represents an increase of $4.182 billion or 8.8 percent above the prior fiscal year. Gross collections are expected to increase by 9.4 percent, while the committee staff anticipates an increase in refunds of 12.5 percent.

The committee staff's net PIT collections estimate is $812 million above the Executive Budget estimate.

State Fiscal Year 2018-19

Net personal income tax collections are forecast to total $50.014 billion, a decrease of $1.733 billion or 3.3 percent over SFY 2017-18 estimates. Gross collections are forecast to decrease by $852 million or a decline of 1.4 percent, with an increase in total refunds of $881 million or 8.7 percent. The committee's net collection forecast is $770 million above the Executive Budget forecast.

The extension of the 2011 personal income tax reform in the SFY 2016-17 Enacted Budget is projected to generate $1.192 billion in SFY 2018-19. Absent the reform, baseline net collections are projected to decrease 1.4 percent.

Withholding

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

YTD through January

Through January, withholding collections are up $2.901 billion or 10.0 percent compared to the prior year.

Table 17

Withholding ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$31,993	10.0%	$40,034	6.7%	$39,459	$575
2018-19			$41,655	4.0%	$41,314	$341

State Fiscal Year 2017-18

Committee staff estimates $40.034 billion in withholding collections, a growth of $2.510 billion or 6.7 percent above the prior fiscal year, with an expected decline of 4.6 percent over the last two months of the fiscal year. The committee estimate is $575 million above the Executive's estimate.

The PIT reform extension is expected to generate an additional $759 million in SFY 2017-18 withholding collections. After adjusting for additional revenues due to tax reform, baseline withholding collections are estimated to increase 5.1 percent for the entire fiscal year.

State Fiscal Year 2018-19

Withholding collections are projected to increase by 4.0 percent or $1.621 billion in SFY 2018-19, for a total of $41.655 billion. This forecast is $341 million above the Executive's forecast and is premised on stronger wage growth.

The PIT reform extension of 2016 is expected to generate an additional $171 million in withholding receipts. Baseline withholding collections are forecast to increase 5.6 percent. Total wage growth is projected at 4.4 percent. Base wages are forecast to increase by 4.4 percent with variable wages projected to increase by 3.9 percent.

Quarterly Estimated Payments (Vouchers)

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

YTD through January

Through January, estimated payments, excluding extensions, have increased 31.9 percent or $3.436 billion compared to the prior fiscal year. A portion of these payments are attributable to taxpayers shifting capital gains realizations into 2017 to take advantage of the uncapped SALT deduction before the $10,000 limit was implemented on January 1, 2018.

Table 18

Quarterly Estimated Payments
($ in Millions)

	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$14,192	31.9%	$14,348	31.5%	$14,278	$70
2018-19			$12,858	-10.4%	$12,729	$129

State Fiscal Year 2017-18

The committee staff's estimated payments, excluding extensions, total is $14.348 billion, an increase of 31.5 percent or $3.436 billion over SFY 2016-17. Estimated payment collections are expected to decline by 0.1 percent in the remainder of the fiscal year. The committee staff estimate is $70 million above the Executive's estimate.

Realized capital gains are expected to increase 24.4 percent in tax year 2017, following a decline of 19.0 percent in tax year 2016 (see Table 22). The decline of capital gains in tax year 2016 is attributed to lower realizations in anticipation of federal tax cuts in 2017.

The PIT reform extension of 2016 is expected to generate $1.480 billion in SFY 2017-18 estimated payments. Excluding the impact of these law changes, current year estimated payments are expected to increase 36.9 percent.

State Fiscal Year 2018-19

Estimated payment collections, excluding extensions, are projected to decrease 10.4 percent or $1.490 billion in SFY 2018-19 for a total of $12.858 billion. This estimate is $129 million above the Executive's forecast. Absent an additional $941 million from the high income rates first enacted in the 2011 tax reform, baseline estimated payment collections are projected to decrease 7.4 percent.

Refunds

YTD through January

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

Year-to-date, prior year refunds have increased by 15.1 percent, while previous year refunds have increased 1.6 percent. Total refunds, including State/City offsets, have increased 13.1 percent year-to-date relative to the same period of last fiscal year.

Table 19

Prior Year Refunds ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$6,525	15.1%	$6,303	21.2%	$6,338	($35)
2018-19			$6,583	4.4%	$6,699	($116)

Table 20

Previous Year Refunds ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$407	1.6%	$481	1.5%	$500	($19)
2018-19			$500	4.0%	$522	($22)

State Fiscal Year 2017-18

Committee staff anticipates that SFY 2017-18 will conclude with $6.303 billion in prior year refunds and $481 million in previous refund distributions. The Executive's estimate for prior year refunds is $35 million above the committee's estimate. The closeout for previous year refunds represents a 1.5 percent growth relative to the last fiscal year. The Executive's estimate is $19 million above the committee's estimate.

State Fiscal Year 2018-19

The committee staff projects a prior year refund total of $6.583 billion, an increase of 4.4 percent or $280 million over the SFY 2017-18 estimate.

Previous refunds are forecast to total $500 million, representing an increase of 4.0 percent or $19 million over SFY 2017-18.

Advance credit payments are expected to total $1.247 billion, due to the conversion of the School Tax Relief (STAR) program into a tax credit, and the property tax relief credit which is expected to cost $957 million in tax year 2018.

Total refunds are projected at $10.952 billion, an increase of 8.7 percent or $881 million over SFY 2017-18.

Fund Distribution

Table 21

Personal Income Tax Fund Distribution
($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	$36,225	$2,585	$12,937	-	$51,747
2018-19	$22,597	$2,410	$25,007	-	$50,014

The committee staff estimates General Fund personal income tax receipts of $36.225 billion in SFY 2017-18. In SFY 2018-19, General Fund collections are forecast to total $22.597 billion.

A statutory amount of 25 percent of net personal income tax collections is allocated to the Revenue Bond Tax Fund (RBTF). The estimated contribution to this fund in SFY 2017-18 is $12.937 billion, and $25.007 billion in SFY 2018-19 as the Executive proposes to increase the statutory amount to 50 percent.

The STAR fund consists of revenue that is used to reimburse school districts for STAR school property exemptions, as well as New York City for their STAR personal income tax rate reduction. The Executive estimates that the STAR program will cost $2.585 billion in SFY 2017-18 and $2.410 billion in SFY 2018-19 adjusted gross income (AGI)

Robust growth in realized capital gains along with moderate growth in wages, interest and dividend income, and business and partnership income, provided AGI growth of 8.7 percent in tax year 2014. AGI registered growth of 4.0 percent in 2015, and is expected to be followed by flat growth of 0.01 percent in 2016, 7.5 percent in 2017, and 3.7 percent in 2018.

Table 22

Components of AGI ($ in Millions)	Actual				Estimate		
	2012	2013	2014	2015	2016	2017	2018
NYSAGI							
Amount	$714,698	$714,046	$776,473	$807,775	$807,882	$868,215	$900,498
Percent Change	8.7%	(0.1%)	8.7%	4.0%	0.0%	7.5%	3.7%
Wages							
Amount	$515,645	$525,924	$558,857	$584,317	$596,976	$633,682	$659,106
Percent Change	3.2%	2.0%	6.3%	4.6%	2.2%	6.1%	4.0%
Net Capital Gains							
Amount	$77,248	$68,492	$90,918	$93,409	$75,708	$94,153	$94,843
Percent Change	58.3%	(11.3%)	32.7%	2.7%	(19.0%)	24.4%	0.7%
Interest, Dividends and Pensions							
Amount	$72,474	$72,998	$77,431	$77,721	$78,511	$80,787	$83,848
Percent Change	9.3%	0.7%	6.1%	0.4%	1.0%	2.9%	3.8%
Business and Partnership Income							
Amount	$84,363	$83,995	$89,448	$95,745	$100,400	$104,615	$109,635
Percent Change	13.8%	(0.4%)	6.5%	7.0%	4.9%	4.2%	4.8%
Other Income							
Amount	($35,031)	($37,362)	($40,182)	($43,418)	($43,713)	($45,022)	($46,934)
Percent Change	11.7%	6.7%	7.5%	8.1%	0.7%	3.0%	4.2%

Enacted Tax Relief for Families and Real Property Owners

The following is a brief review of legislation enacted to provide short-term tax relief to families and homeowners:

- SFY 2016-17 was the last year that the Family Tax Credit, enacted in 2013, and the Real Property Tax Credit, enacted in 2014, impacted the State Financial Plan.

- The Property Tax Relief Credit, enacted in 2015, provides an eligible taxpayer a tax credit based on a percentage of their STAR savings depending on their income.

- The STAR Conversion Credit changes the mechanism used to claim STAR from an exemption into a refundable personal income tax credit. It is estimated this tax credit will total $290 million in SFY 2018-19.

Table 23

Significant Family and Property Tax Relief Programs (in $ Millions)							
	SFY 2015	**SFY 2016**	**SFY 2017**	**SFY 2018**	**SFY 2019**	**SFY 2020**	**SFY 2021**
Enacted in 2013							
Family Tax Relief Credit	$410	$410	$410	$0	$0	$0	$0
Enacted in 2014							
Real Property Tax Freeze Credit	$375	$783	$342	$0	$0	$0	$0
Enacted in 2015							
Property Tax Relief Credit (STAR Rebate)	$0	$0	$414	$495	$957	$1,324	$0
Enacted in 2016							
STAR Conversion Credit	$0	$0	$98	$194	$290	$385	$479
Total ($ Millions)	**$785**	**$1,193**	**$1,264**	**$689**	**$1,247**	**$1,709**	**$479**

Federal Tax Reform, NYS Itemized Deductions, Composition of Income

Table 24

Tax Law Provision	Federal Tax Reform Pre-2018 Law	Tax Cuts and Jobs Act Enacted Law
Personal Income Tax Changes		
Individual Tax Rates	10%, 15%, 25%, 28%, 33%, 35%, 39.6%; Top rate starts at $426,700 (single), $453,350 (head of household), $480,050 (married).	10%, 12%, 22%, 24%, 32%, 35%, 37%; Top rate starts at $500,000 (single, head of household), $600,000 (married).
Standard Deduction	$6,500 (single), $13,000 (married), $9,550 (head of household); indexed for inflation.	$12,000 (single), $24,000 (married), $18,000 (head of household); indexed for inflation. (1)
Personal and Dependent Exemptions	$4,150; indexed for inflation.	Repealed (1)
Child and Family Tax Credits	$1,000 per child with phase-out starting at $110k for married couples. Refundable portion equals 15% of earnings over $3,000.	$2,000 per child with phase-out at $400k for married filers; plus $500 per non-child dependent . Refundable portion equals 15% of earnings over $2,500, but is capped at $1,400 per child. (1)
State and Local Tax Itemized Deduction	Real Estate, personal property, and either income or sales taxes are deductible.	Real estate, personal property, and either income or sales taxes up to $10,000 are deductible. Limit applies to single and married filers. (1)
Mortgage Interest Itemized Deduction	Interest payments on up to $1.1 million of debt are deductible; Applicable to principal and one other residence.	Deduction for interest payments on debt accrued after 2017 limited to debt up to $750,000; only applicable for debt on principal and one other residence. (1)
Medical Expense Itemized Deduction	Out-of-pocket medical expenses in excess of 10% of Adjusted Gross Income (AGI) are deductible.	Out of pocket medical expenses in excess of 7.5% of AGI are deductible in 2017 and 2018. For years after 2018, the deduction threshold is increased to 10%.
Overall Limit on Itemized Deduction	Itemized deduction value is reduced starting at AGI of $266,700 (single), $320,000 (married); Amount indexed for	Repealed (1)
Inflation Index	Consumer Price Index (CPI)	Chain-weighted Consumer Price Index (C-CPI)
Pass-through Income from Businesses	Taxed as ordinary income and subject to the same tax rates.	Business income receives a 20% deduction. The deduction limit formula is phased in above $157,000 for single filers and $315,000 for married filers. Pass-through business income is subject to a maximum rate of 29.6%. (1)
Individual Alternative Minimum Tax (PIT AMT)	AMT exemption is equal to $55,400 for single filers and $86,200 for married filers; exemption phases out beginning at $123,000 for single filers and $164,100 for married filers.	AMT exemption is equal to $70,300 for single filers and $109,400 for married filers; exemption phases out beginning at $500,000 for single filers and $1,000,000 for married filers. (1)
Estate Tax	Top rate of 40% on estates above $5.6 million, and $11.6 for married filers. Levels indexed to CPI.	Top rate of 40% on estates above $11.2 million, and $22.4 for married filers. Levels indexed to C-CPI. (1)
Affordable Care Act (ACA) Individual Mandate Tax	Individuals without adequate health insurance must pay a tax.	Repealed

(1) Provisions sunset and revert back to pre-reform law in 2026.

Source: The Urban-Brookings Tax Policy Center.

Itemized Deductions in New York State

State and Local Taxes (SALT)

The current federal tax code allows taxpayers to itemize deductions on their tax returns and deduct from their taxable incomes expenses like property taxes, income or sales taxes paid to local and state governments, mortgage interest paid, medical expenses, charitable contributions and a few other expenses. This deduction was uncapped prior to 2018, but following enactment of the Tax Cuts and Jobs Act (TCJA) it is limited to $10,000.

In 2015, the most recent year full data are available, 21.8 percent or 2.3 million NYS taxpayers reduced their federal taxable income by deducting tax payments made to state and local governments, and itemized deductions on their state taxes. The dollar value of all of these taxpayer's SALT deductions totaled $71.310 billion, and the average amount claimed was $31,376.

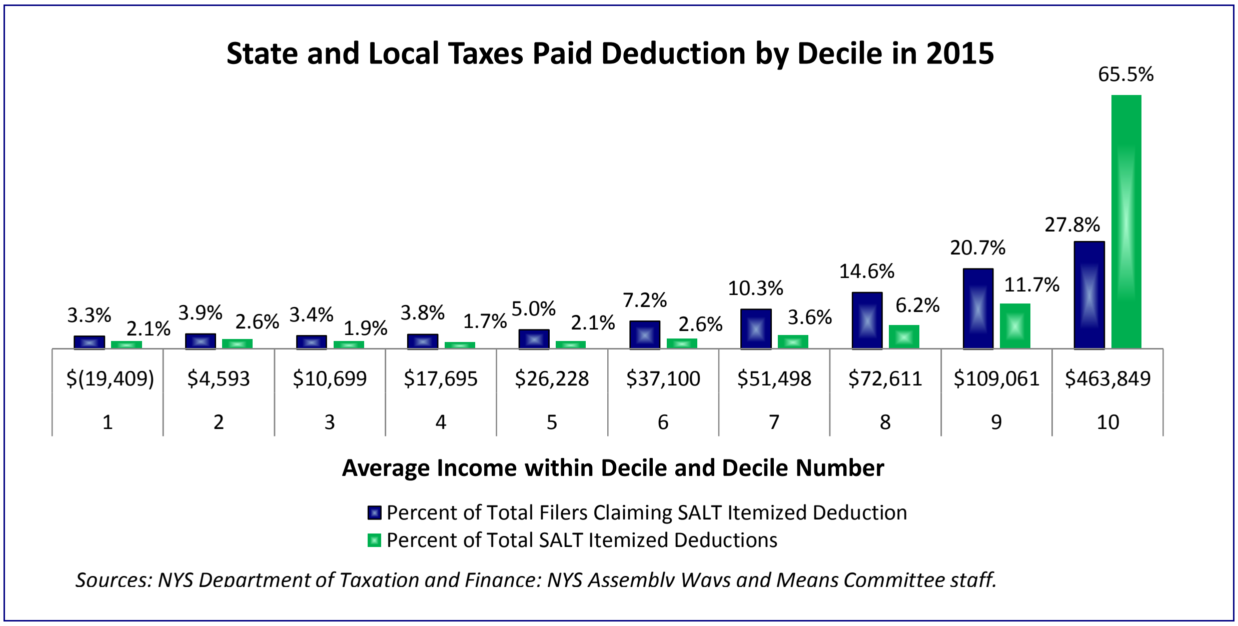


Figure 49

Figure 49 above segments taxpayers by adjusted gross income (AGI) deciles. It shows the percentage value of the total SALT deduction claimed within the decile, as well as the percent of total taxpayers that claimed the deduction by decile. Taxpayers in the bottom 90 percent of income earned, deciles 1-9, account for 72.2 percent of the total number of taxpayers that claimed the SALT deduction in 2015. However, they received only 34.5 percent of the total value of SALT deductions. The average SALT deduction claimed by this group was $14,990.

Taxpayers in the tenth income decile, with an average income of $463,849, represented 27.8 percent of total taxpayers claiming the deduction, while they accounted for 65.5 percent of the total value of SALT deductions. The average SALT deduction claimed by this group equaled $74,012.

Home Mortgage Interest Deduction

Taxpayers who elect to itemize deductions on their tax returns may also deduct the interest paid on the mortgage for their first and second homes.

In 2015, 16.3 percent or 1.7 million NYS taxpayers deducted home mortgage interest paid from their taxable incomes. The total value of the mortgage interest itemized deduction claimed in New York State totaled $21.983 billion, and the average amount deducted was $12,894. The next figure below shows by decile the distribution of taxpayers that utilized the home mortgage interest paid deduction in 2015.

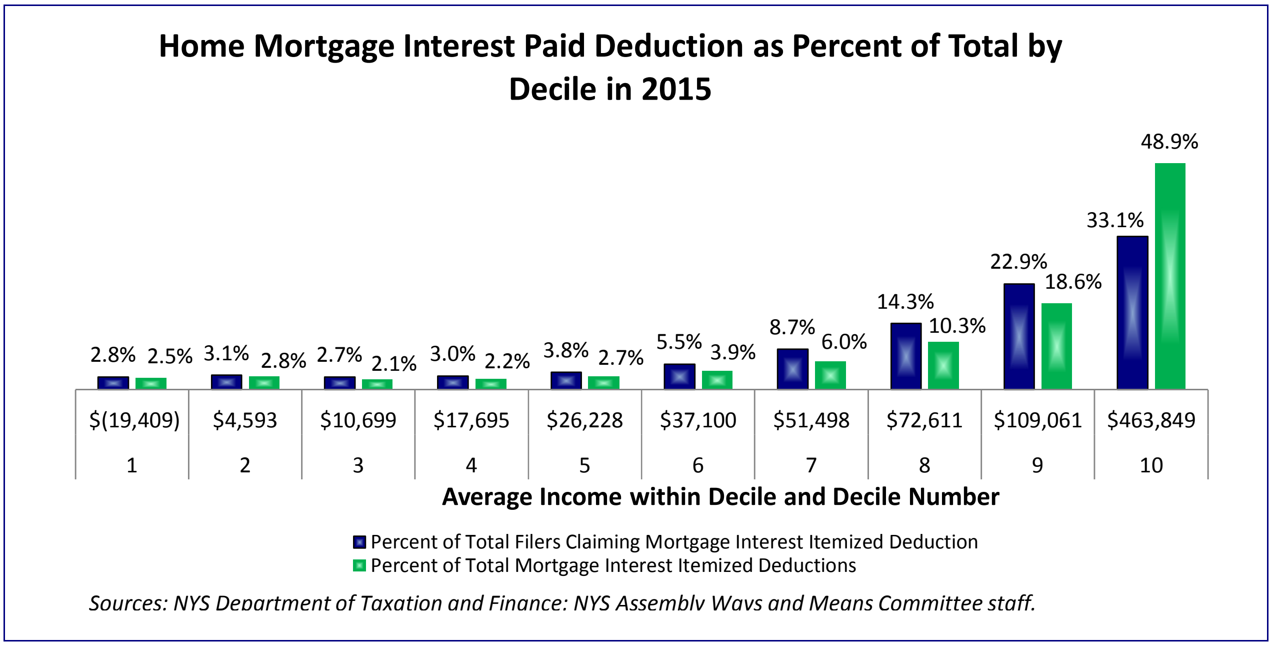


Figure 50

Taxpayers in the bottom 90 percent of income earned, deciles 1-9, account for 66.9 percent of the total number of taxpayers that claimed the home mortgage interest paid deduction. They deducted 51.1 percent of the total value of the mortgage interest paid deduction. The average amount deducted by this group was $9,854. Taxpayers in the tenth income decile, whose incomes averaged $463,849, represented 33.1 percent of total taxpayers claiming the mortgage interest paid deduction, while they accounted for 48.9 percent of the total claimed. The average home mortgage interest paid deduction claimed by this group equaled $19,040.

Medical and Dental Expenses Itemized Deduction

Taxpayers in New York State may elect to deduct medical and dental expenses from their taxable incomes if they itemize their deductions. Prior to the enactment of the TCJA, to use this deduction, medical and dental expenses must have exceeded 10 percent of the taxpayer's adjusted gross income; however, if the tax filer was born prior to January 2, 1952, qualified medical expenses must exceed 7.5 percent of adjusted gross income. The TCJA provisions that limit this deduction to 7.5 percent for all taxpayers will expire after 2018. In 2015, 3.6 percent or 372,197 taxpayers in New York State deducted medical and dental expenses from their taxable income. The total value of medical and dental expenses itemized deductions was $4.257 billion, and the average claimed was $11,438.

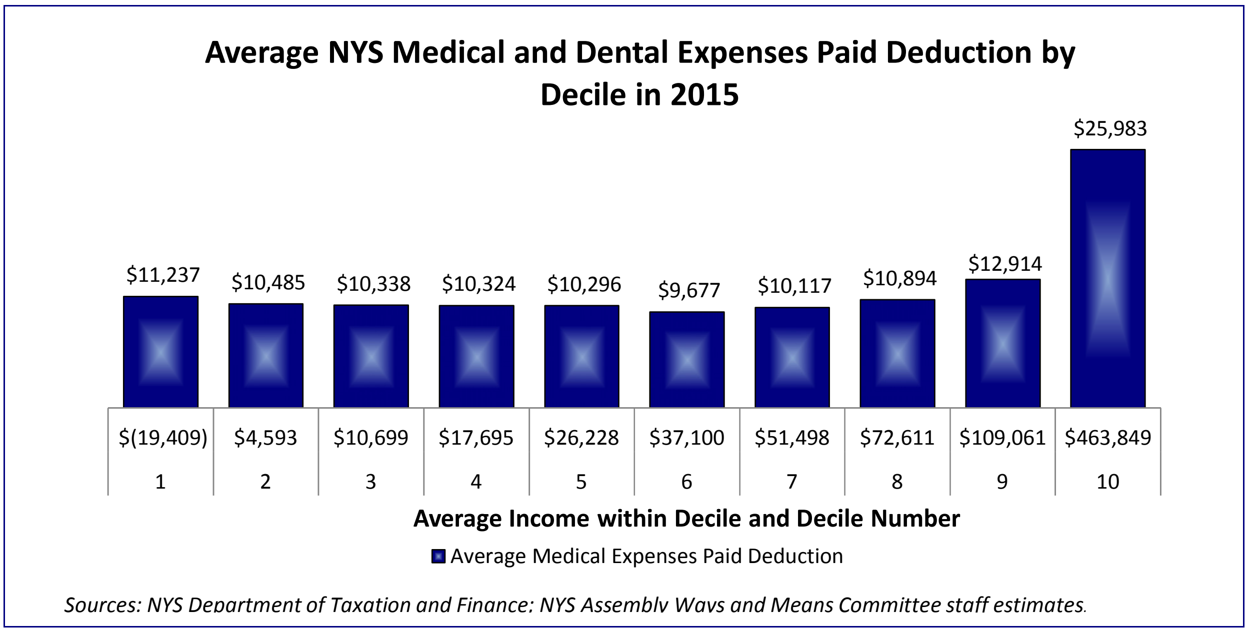
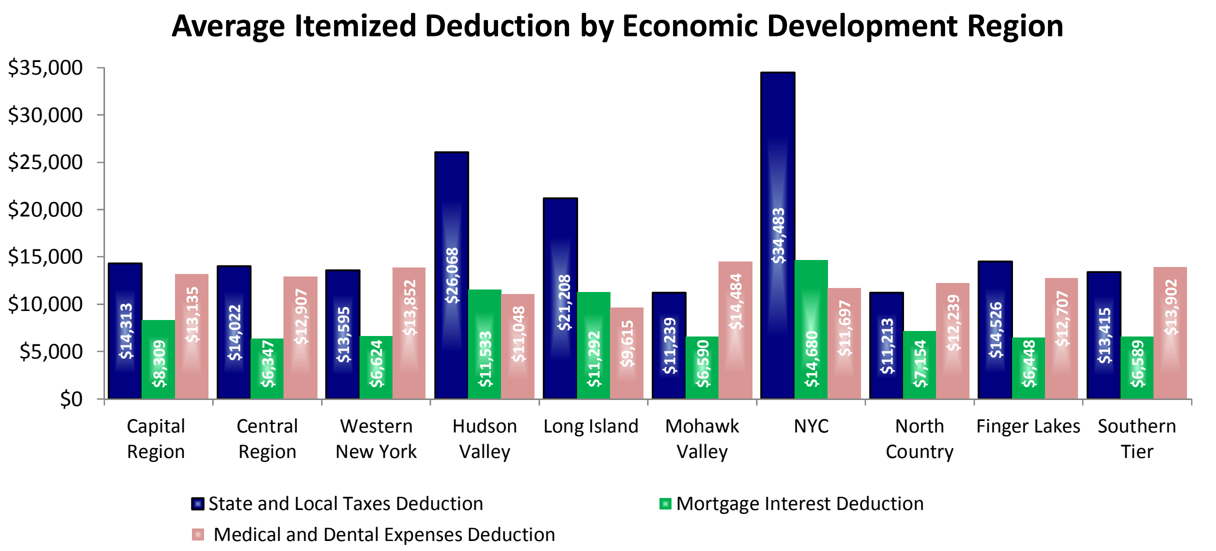


Figure 51

The distribution of the medical and dental expenses paid deduction is different than the other two deductions examined. The value of the deduction is more equally distributed across the income deciles. For example, taxpayers in the first nine deciles claimed 88.3 percent of the total medical deduction. The one item that does become apparent in the income decile analysis is that people in the top income decile claimed an average medical deduction of $25,983 or more than double the average claimed in any other income decile.

Regional Average Itemized Deductions

The following figure highlights the average state and local tax deduction, mortgage interest deduction, and medical and dental expense deduction by NYS economic development region in 2015.



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

Figure 52

New York City Residents:

- Claimed the highest average SALT deduction, at $34,483, and the highest average home mortgage interest paid deduction, at $14,680;
- Comprised 27.8 percent of the taxpayers claiming SALT and claimed 37.8 percent of the statewide total of the SALT deduction;
- For the home mortgage interest paid deduction, they comprised 24.4 percent of taxpayers claiming the deduction, but they claimed 37.5 percent of the total deduction.

Long Island and Hudson Valley Residents:

- Claimed an average SALT deduction of $23,090, and an average home mortgage interest deduction of $11,386;
- Comprised 39.2 percent of the taxpayers claiming SALT, and they claimed 28.9 percent of the statewide total of the SALT deduction;
- For the mortgage interest paid deduction, they comprised 40.2 percent of taxpayers claiming the deduction, and they claimed 35.5 percent of the value of the total deduction.

Distribution of Business Income by Decile

There are three main categories of business income:

- Sole proprietorship income (filed on Schedule C),
- Income earned from rental of real estate, royalties, partnerships, S-corporations, trusts and Real Estate Mortgage Investment Conduits (REMICs) (filed on Schedule E), and
- Farm income (filed on Schedule F).[41]

In the "Tax Cuts and Jobs Act" of 2017, individuals are allowed to deduct 20 percent of qualified flow–through business income from their taxable income. This deduction will likely not flow through to the state.

[41] Aggregate NYS farm income, as well as median farm income, has been negative for the past ten years. This is attributable to the high level of income deductions taken by farmers, in the form of expenses, as well as thin operating margins in the industry. This negative income trend in NYS is similar to that found at the national level.

In the next two figures taxpayers receiving different types of business income have been sorted into deciles by AGI:

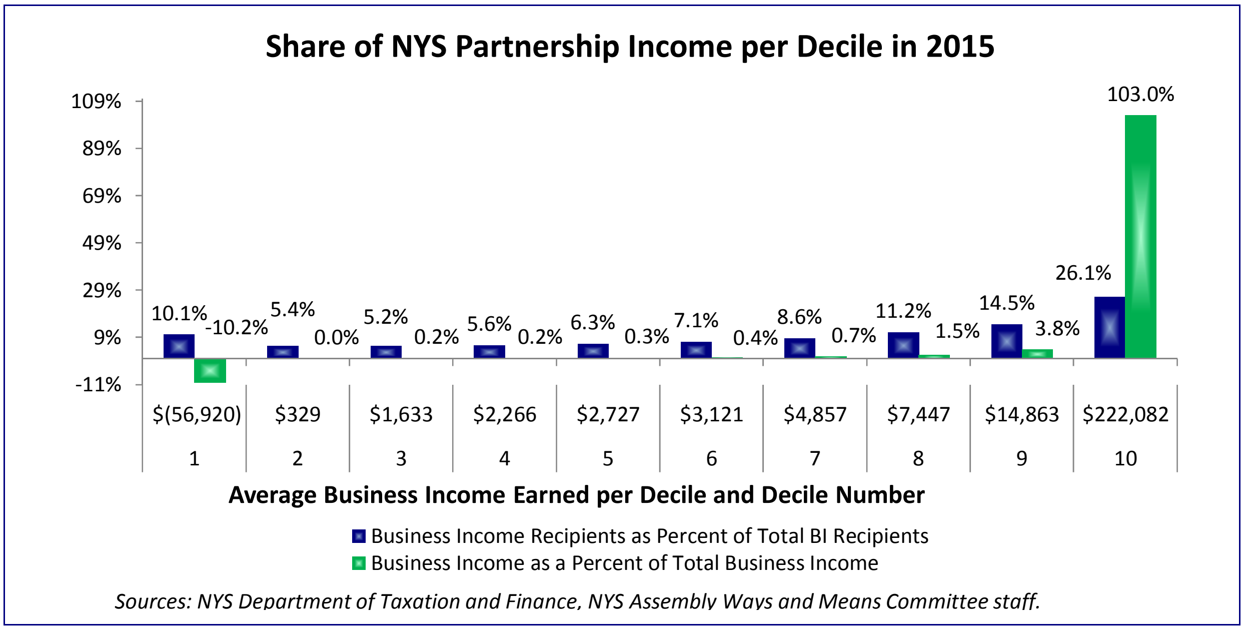


Figure 53

IRS Schedule E partnership income is earned from multiple sources like rental income, shares in S-corporations and from royalties. Taxpayers in the second through the ninth deciles only earned 6.5 percent of the business income, but they compromised 63.8 percent of the total number of people earning business income. People in the top decile, whose average total income was $463,849 in 2015, earned an average $222,082 from businesses that they partially owned. This group earned 93.5 percent of all business income, when losses are excluded.

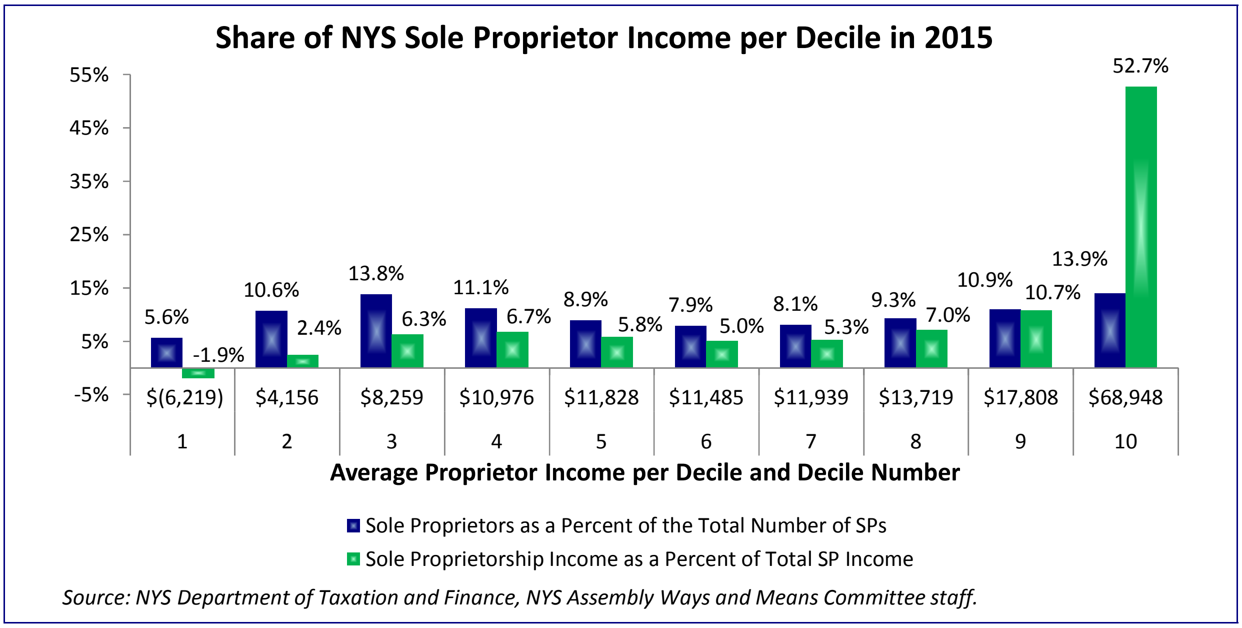
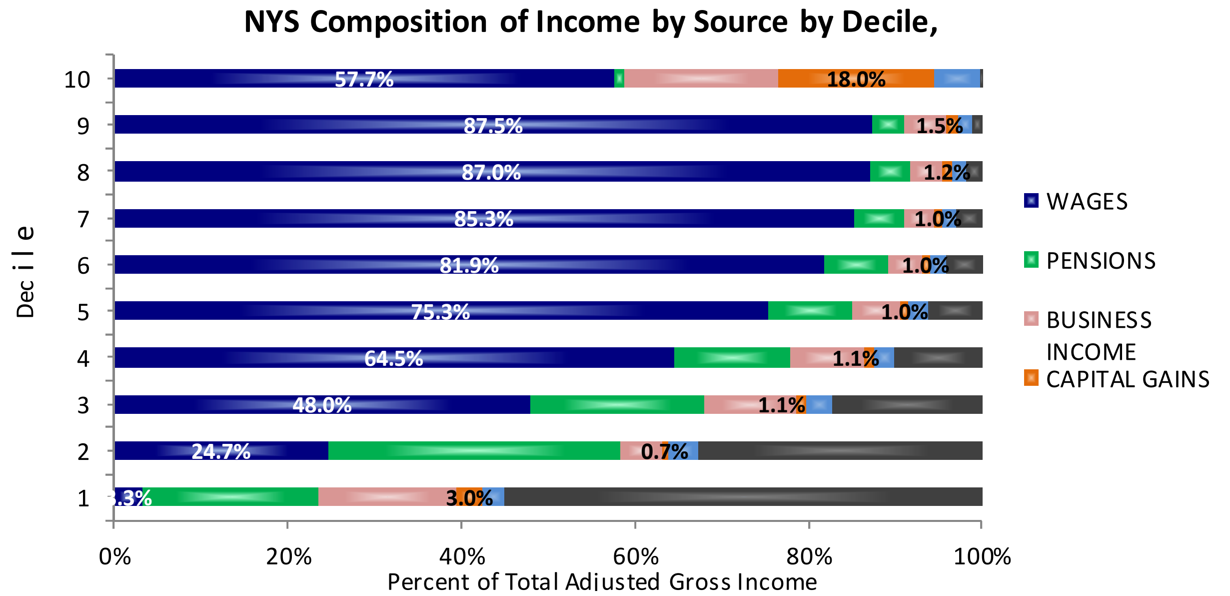


Figure 54

There were 1.5 million taxpayers, 14.2 percent of the total, which received income from businesses they completely owned. The average income, across all sole proprietors, was $18,141 in 2015. Excluding the top decile, the average sole proprietor income earned in each decile did not vary much. Business owners in the first five deciles represented fifty percent of sole proprietors, but they earned only 19.3 percent of total sole proprietor income. Taxpayers in the eighth decile, whose average total income was $72,611, earned on average $13,719 from their businesses. Those taxpayers in the top decile, averaging $463,849 in total income, averaged $68,948 from their businesses. Taxpayers in this decile accounted for 52.7 percent of total sole proprietorship income.

Composition of Income by Decile



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

Figure 55

Figure 55 provides an overview of the composition of taxpayer income by decile. Some key highlights:

- Across deciles, wages account for the largest share of income. However, the top decile (with an average income of $463,849) has the smallest share at 57.7 percent;
- Capital gains comprise a small share across deciles with the exception of the top decile where they account for 18 percent of income;
- Other income, with net operating losses the larger component of reported values, is the main component of income in the first two deciles;
- Pension income accounts for significant portions of overall income within the lower deciles.

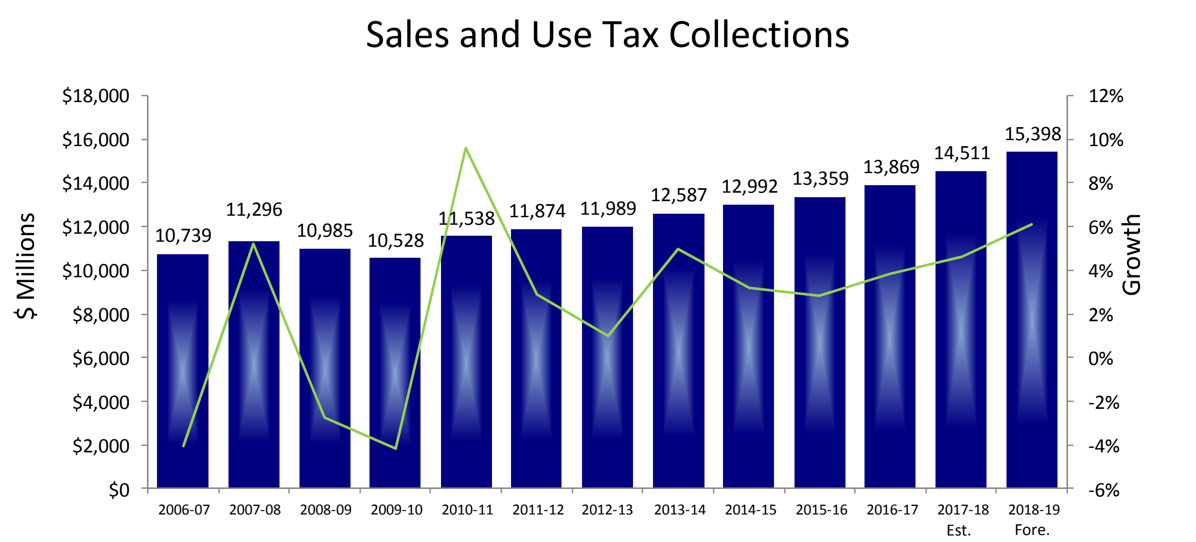
User Taxes and Fees

Table 25

User Tax Collections
Forecasts by State Fiscal Year
($ in Millions)

	SFY 2017-18	Growth	Diff. Exec.	SFY 2018-19	Growth	Diff. Exec.
User Taxes and Fees	**$16,734**	**3.2%**	**($19)**	**$17,759**	**6.1%**	**$95**
Sales and Use Tax	14,511	4.6%	1	15,398	6.1%	132
Motor Fuel Tax	516	-0.6%	1	525	1.7%	13
Cigarette Tax	1,174	(5.0%)	(3)	1,119	(4.7%)	(33)
Highway Use Tax	95	(31.3%)	(1)	144	52.3%	2
Opioid Epidemic Surcharge	NA	NA	NA	127		0
Alcoholic Beverage Tax	258	0.0%	(4)	263	1.7%	(5)
Medical Marihuana Excise Tax	1.8	-	0	3	55.6%	1
Auto Rental Tax	123	-3.0%	(10)	129	4.3%	(9)
Taxi Surcharge	55	(13.6%)	(4)	52	(6.1%)	(7)

Sales Tax



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

Figure 56

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

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

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

The Sales Tax Revenue Bond Fund (STBF) became effective April 1, 2013. One-quarter of the state's sales tax collections are directed to this fund. Once LGAC bonds are defeased or retired, collections from two percent of the state's four percent sales tax rate will be dedicated to the STBF. As with the LGAC, all receipts in excess of the STBF debt service requirements will be transferred to the General Fund.

Table 26

Sales Tax ($ in Millions)

	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$12,191	4.5%	$14,511	4.6%	$14,510	$1
2018-19			$15,398	6.1%	$15,266	$132

Table 27

Quarterly Sales Tax Growth

	2016 Q2	2016 Q3	2016 Q4	2017 Q1	2017 Q2	2017 Q3	2017 Q4
Western NY	(1.4%)	2.8%	(0.1%)	3.0%	3.2%	1.9%	4.2%
Finger Lakes	1.2%	0.6%	1.5%	4.5%	3.5%	5.7%	5.7%
Southern Tier	(1.1%)	2.5%	(1.5%)	5.5%	3.7%	2.6%	7.6%
Central NY	(1.7%)	(1.3%)	0.3%	3.1%	5.5%	2.1%	7.6%
Mohawk Valley	(1.8%)	2.7%	(0.3%)	4.4%	4.0%	1.8%	6.3%
North Country	0.3%	2.7%	3.1%	6.9%	2.2%	0.8%	5.0%
Capital Region	(1.2%)	2.1%	1.5%	3.0%	1.1%	1.7%	5.4%
Mid-Hudson	1.8%	3.2%	2.9%	3.0%	2.3%	3.4%	4.0%
NYC	1.8%	2.3%	(7.7%)	3.8%	3.1%	3.6%	6.9%
Long Island	(1.2%)	2.6%	3.5%	2.4%	4.2%	3.1%	3.5%

Note:.Growth rates shown represent the growth of the quarter over the same quarter in the previous year.

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

Regional sales tax collections for the second quarter of 2016 through the fourth quarter of 2017 are shown above. New York City accounts for the largest portion of collections each quarter, with approximately half of total collections coming from the city due to the city's high population and its popularity as a tourism destination. For all of calendar year 2017, growth in the city was positive and was strongest in the fourth calendar quarter.

After several quarters of declines, all of the upstate regions have shown positive growth for the past calendar year, with weak but positive growth in the third quarter of 2017 and significant growth across the board in the final quarter of 2017.

YTD through January

Statewide collections through January have increased by $524 million or 4.5 percent over SFY 2016-17, for a year-to-date total of $12.191 billion.

State Fiscal Year 2017-18

The committee staff estimates sales tax receipts will total $14.511 billion in SFY 2017-18, an increase of 4.6 percent, or $642 million, over SFY 2016-17. Growth of 5.4 percent is expected in the remaining two months of the fiscal year. The growth in revenue is driven by an expected growth of 2.7 percent in total consumption spending.

The committee staff's estimate is $1 million above the Executive's estimate.

State Fiscal Year 2018-19

The committee staff forecasts that sales tax receipts will total $15.398 billion, an increase of 6.1 percent, or $887 million, over SFY 2017-18 estimates. This growth is driven by continuing growth of 2.7 percent in total consumption. The Executive's forecast is $132 million below the committee's forecast.

Fund Distribution

Table 28

Sales Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	$6,785	$942	$6,785	-	$14,511
2018-19	$7,201	$996	$7,202	-	$15,398

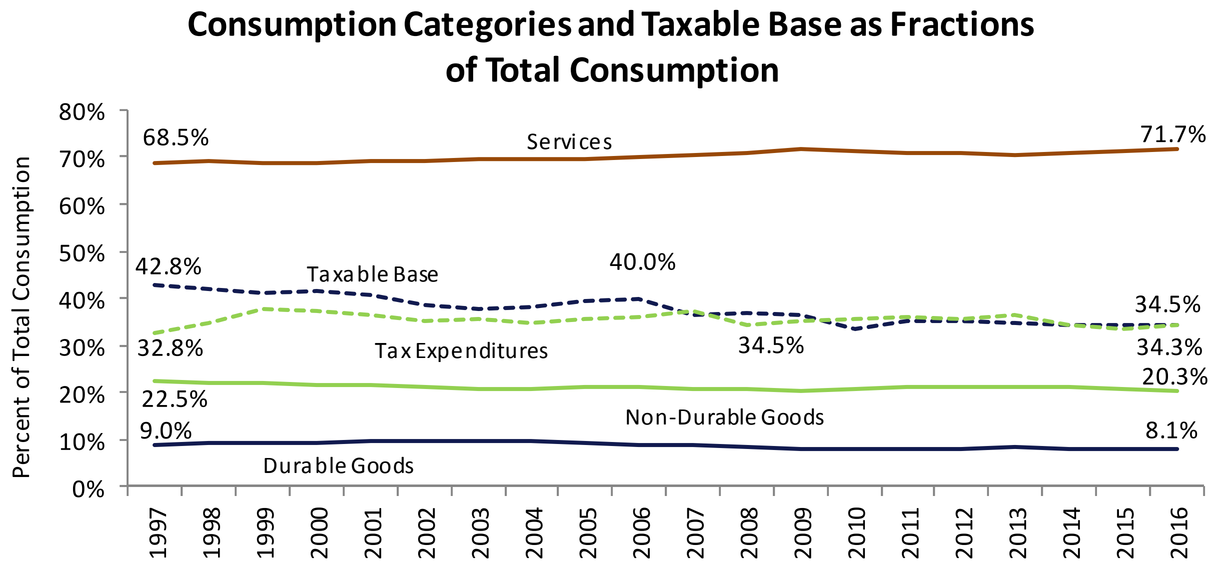
Metropolitan Commuter Transportation District and Upstate Sales Tax Trends

The New York State sales taxable base is composed primarily of tangible personal property, such as purchases of appliances or cars. While a small number of services are also subject to the tax, the majority of services and consumption is not.

In the past twenty years, total consumption spending in the state has increased by 124.6 percent. This increase is largely driven by spending on services, which has increased 135 percent from $282.5 billion in 1997 to $663.8 billion in 2016. By comparison, spending on durable goods has increased by 101.5 percent and spending on non-durable goods has increased by 102.1 percent over the same period.

Despite these increases in spending on goods, durable goods account for 8.1 percent of consumption spending in 2016, down from nine percent in 1997 while non-durable goods have fluctuated between 20 and 22.5 percent over that period. Services account for 71.7 percent of consumption spending in 2016, up from 68.5 percent in 1997. Over this period, the taxable base has fallen from 42.8 percent of total consumption to 34.5 percent.

The state taxable base consists of any purchases subject to sales tax that are not explicitly exempted. Some major exemptions are for certain food products (estimated to be $1.415 billion in SFY 2017), clothing and footwear ($900 million in SFY 2017), and precious metal bullion and coins ($404 million in SFY 2017). Over the study period, while the taxable base has declined as a share of total consumption, the share of consumption classified as a sales tax expenditure by the New York State Department of Taxation and Finance has increased slightly from 32.8 percent of total consumption to 34.5 percent of total consumption.

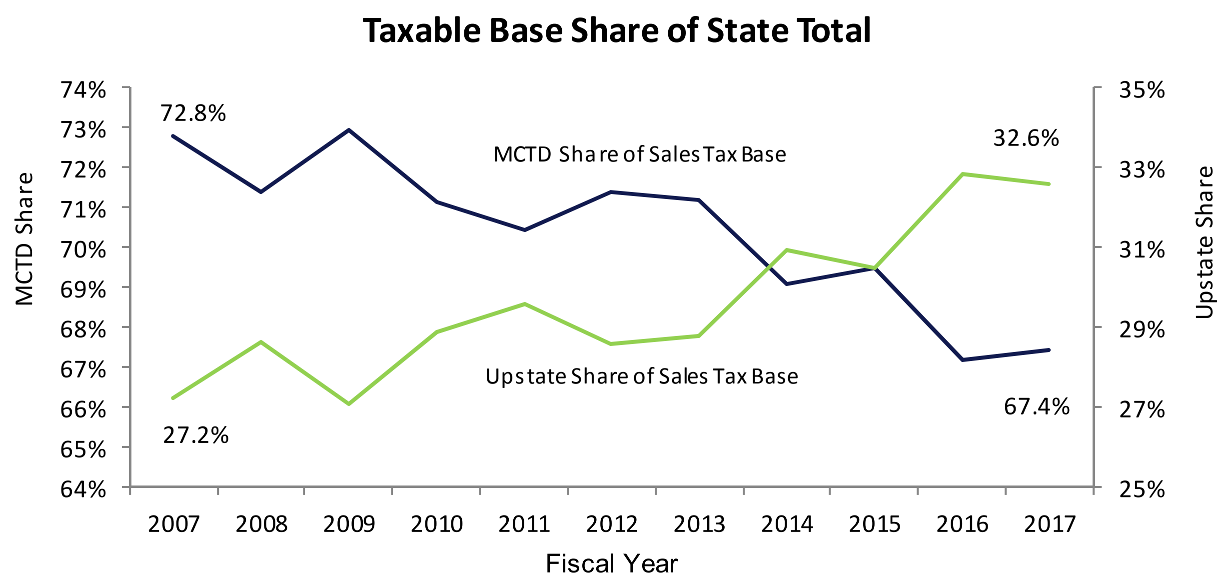


Source: Bureau of Economic Analysis; New York State Open Data; New York State Tax Expenditure Report; Ways and Means Committee staff.

Figure 57

While the level of the taxable base has increased by 25.4 percent in the past ten years, this growth has not been evenly distributed across the state. During this period, the upstate New York share of the taxable base has increased from 28.6 percent to 34.6 percent while the Metropolitan Commuter Transportation District (MCTD) share of the taxable base has decreased from 71.4 percent to 67.4 percent. [42]

[42] The MCTD contains the five boroughs of New York City and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester.



Source: New York State Open Data State and Local Sales Tax Distributions, Ways and Means Committee staff.

Figure 58

Taxable consumption is growing faster in rural upstate counties compared to the MCTD and upstate cities. If the counties containing the cities of Buffalo, Rochester, Syracuse, and Albany are excluded, the upstate taxable base share has increased from 14.7 percent to 19.9 percent while the share for those cities has decreased slightly. [43]

This is likely a result of a more rapid transition to a service-based economy in cities, while the more rural counties retain a more goods-based economy. Service sectors and exempt businesses like colleges, hospitals, theaters, and other entertainment tend to concentrate in cities. It is reasonable to conclude that most of the increase in spending in the MCTD and upstate cities goes into services, while the increase in the rural counties attributed to durable and non-durable goods. Therefore, the MCTD and upstate cities would have an increasing share of total consumption spending while losing share of the taxable base. This would indicate a trend toward a disproportionately regressive impact of the sales tax on rural counties.

Online Sales and Traditional Retail Outlets

The changes to the New York taxable base coincide with a national downward trend in the number of retail stores due in part to the rapid rise of online shopping. The decline in the brick and mortar retail stores comes during a period of high consumer confidence and growth

[43] The relevant counties are Erie, Monroe, Onondaga, and Albany, respectively.

in the economy, which would have otherwise been a boom to traditional retail outlets. Recent research points to additional problems that may plague traditional retail chains that are burdened with excessive debt that is due to mature in the short term. From 2019 to 2025, an average of $5 billion in retail borrowing is set to mature each year, up from $100 million in 2017 and $1.8 billion in 2018. Additionally, over the next five years, $1 trillion in high-yield debt across all industries will come due and this poses a risk to marginally profitable retailers. Retail outlets have managed to avoid significant debt coming due through refinancing. This refinancing has been made possible by low interest rates implemented by the Federal Reserve in the wake of the 2007-08 financial crisis.[44]

Jobs in rural New York counties are disproportionately biased towards retail when compared to jobs in the MCTD and the upstate cities. Data from the Bureau of Labor Statistics indicate that retail jobs account for between 12 and 24 percent of all jobs in rural upstate counties, while in upstate cities and the MCTD, retail accounts for between one and 18 percent of jobs. Indeed, some upstate counties are already feeling the impact on retail jobs as they see declines of as high as 25 percent in retail jobs from 2006 to 2016.[45] This could spell trouble for both future sales tax revenues and the economic stability of rural upstate counties; a decline in retail would hit harder exactly the part of the sales taxable base that has been growing for the past ten years.

[44] Source: www.bloomberg.com/graphics/2017-retail-debt/
[45] Ibidem.

Medical Marihuana Excise Tax

Pursuant to Article 20-B of the Tax Law, the state imposes an excise tax on medical marihuana which is prescribed for the treatment of a variety of conditions. Patients were first able to purchase medical marihuana in the state in January of 2016. In late March of 2017, the Department of Health expanded the Medical Marihuana program to include chronic pain as a qualifying condition. Upon the sale of the product from a New York State licensed dispensary to a patient or designated caregiver, a seven percent excise tax is levied and remitted by the dispensary. There are currently ten registered organizations authorized to manufacture and dispense medical marijuana. As of February 20, 2018, there are 1,469 registered practitioners and 45,350 certified patients in the New York State Medical Marihuana Program.

Of the revenues received from the state medical marihuana excise tax, 55 percent is dedicated, while the remainder is dedicated to the Medical Marihuana Trust Fund. The 55 percent dedicated funds are allocated in the following manner:

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

YTD Through January

Through January, Medical Marihuana Excise Tax collections have totaled $1.393 million. This is a 215.2 percent increase from the prior fiscal year. This is largely due to the broader medical conditions eligible for prescriptions including chronic pain and post-traumatic stress disorder (PTSD), as well as the addition of a variety of products including topicals, solid and semi-solid products (lozenges), and certain forms of ground plant material.

State Fiscal Year 2017-18

The committee staff estimates that revenues from the Medical Marihuana Excise Tax will total $1.8 million in SFY 2017-18. The committee staff's estimate is the same as the Executive's estimate.

State Fiscal Year 2018-19

For SFY 2018-19, the committee's staff forecasts collections of $2.8 million. The committee staff's forecast is $700,000 above the Executive's forecast.

Auto Rental Tax

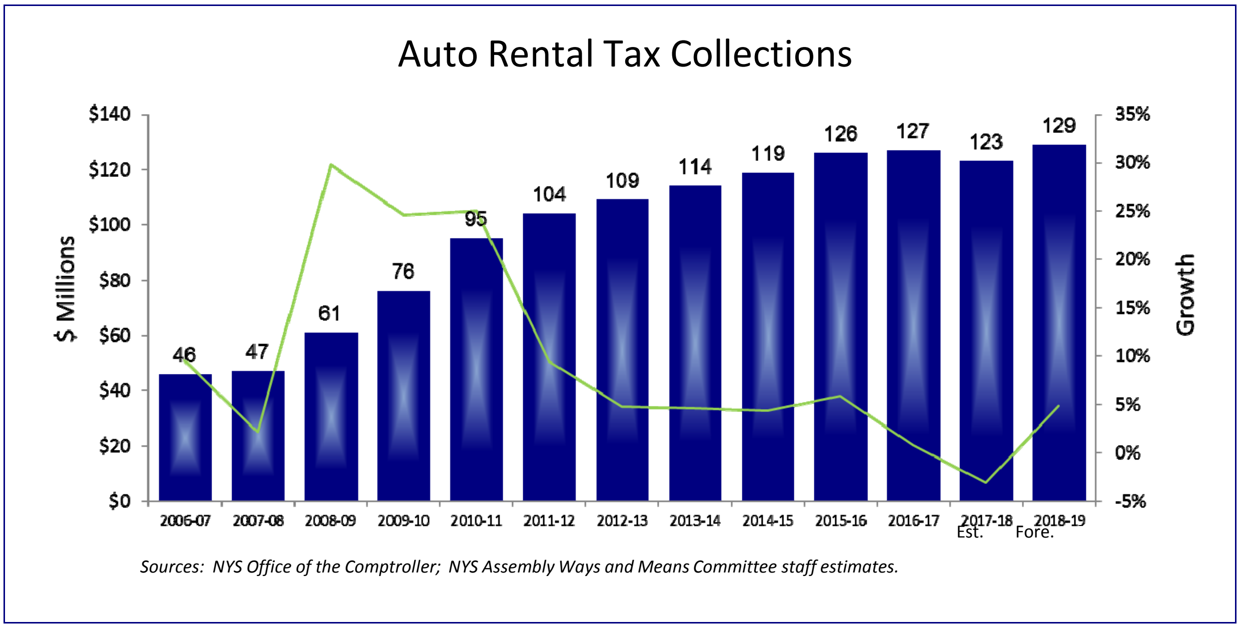


Figure 59

The auto rental tax, imposed by Article 28-A of the Tax Law, applies to the rental of any passenger car with a gross vehicle weight of 9,000 pounds or less that can seat a maximum of nine passengers. The statewide auto rental tax is imposed at a rate of six percent. There is an additional tax five percent tax imposed on auto rental sales made within the metropolitan commuter transportation district (MCTD). The taxes do not apply to leases of one year or more.

Table 29

Auto Rental Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$99	-13.0%	$123	-3.0%	$133	($10)
2018-19			$129	4.3%	$137	($9)

YTD through January

Through January, auto rental tax collections totaled $99 million, representing a decline of 13.0 percent.

State Fiscal Year 2017-18

The committee staff estimates auto rental tax collections will total $123 million in SFY 2017-18, representing a decline of 3.0 percent over SFY 2016-17. The committee estimate is $10 million below the Executive estimates.

State Fiscal Year 2018-19

The committee staff forecasts auto rental tax collections will total $129 million in SFY 2018-19. This is a growth of 4.3 percent or $5 million over SFY 2017-18 estimates. The committee forecast is $9 million below the Executive estimates.

Fund Distribution

Table 30

Auto Rental Tax Fund Distribution
($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	-	$44.5	-	$78.7	$123
2018-19	-	$46.9	-	$81.6	$129

Motor Fuel Tax

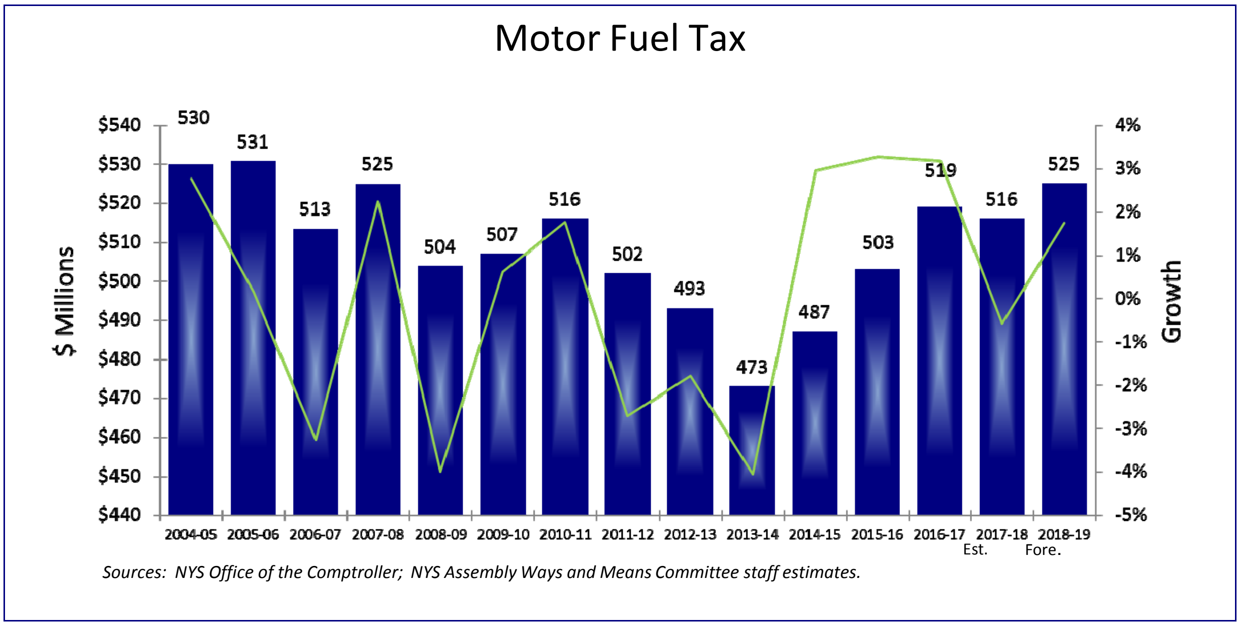


Figure 60

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

Table 31

Motor Fuel Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$435	(0.7%)	$516	-0.6%	$515	$1
2018-19			$525	1.7%	$512	$13

YTD through January

Through January, motor fuel tax collections have decreased 0.7 percent compared to last year, totaling $435 million.

State Fiscal Year 2017-18

The committee staff estimates that motor fuel tax collections will total $516 million in SFY 2017-18 or a decrease of 0.6 percent over SFY 2016-17. Gasoline collections are expected to decrease 1.5 percent this fiscal year, while diesel collections are expected to increase 5.2 percent. The Executive estimates $515 million in collections, $1 million below the committee's estimate.

State Fiscal Year 2018-19

Gasoline consumption is forecast to increase 1.8 percent in SFY 2018-19 and diesel consumption is forecast to increase 0.9 percent. These forecasts drive the committee's revenue forecast of $525 million in motor fuel tax receipts in SFY 2018-19, for growth of 1.7 percent over the previous year. The committee staff forecast is $13 million above the Executive forecast of $512 million.

Fund Distribution

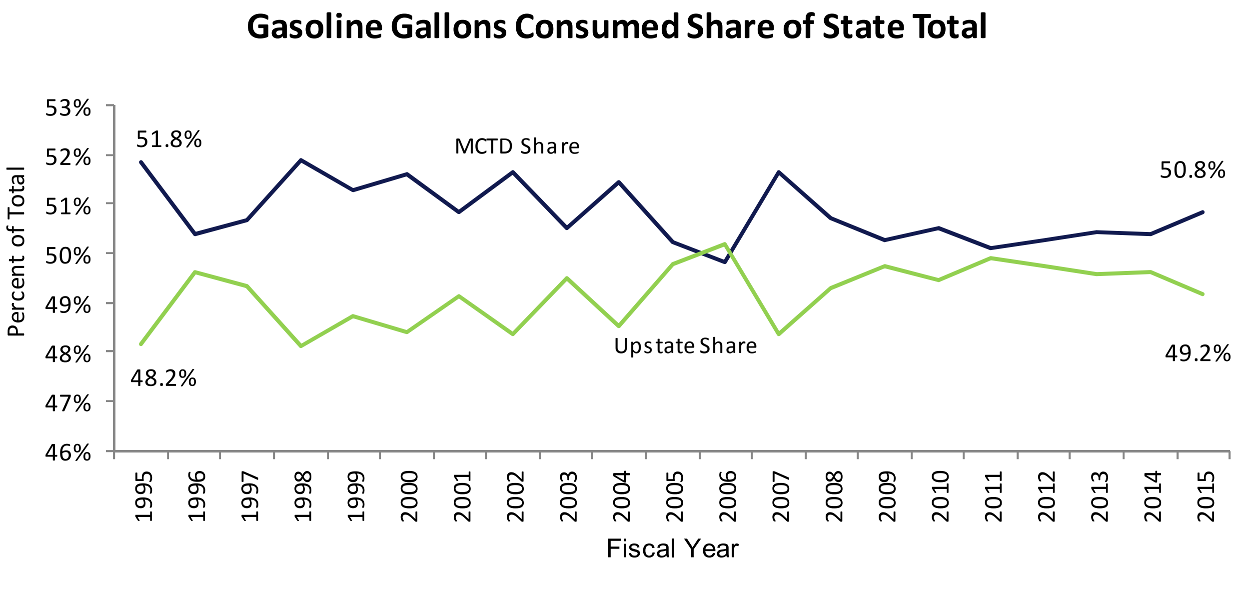
Table 32

Motor Fuel Tax Fund Distribution
($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	-	$108	-	$408	$516
2018-19	-	$110	-	$415	$525

Fuel Consumption Trends in Upstate New York Compared to the Metropolitan Commuter Transportation District

During the period from 1995 to 2015, the upstate share of total fuel gallons consumed in the state has increased, while the share consumed in the MCTD has decreased. [46]



Source: New York State Open Data; Ways and Means Committee staff.

Figure 61

From 1995 to 2015, population in upstate New York declined while the MCTD population increased. Therefore, the growing share of fuel purchased upstate cannot be a result of population changes. Over the study period, overall highway fuel efficiency, as measured by the Environmental Protection Agency (EPA), has increased by 19.5 percent while city fuel efficiency has only increased by 18.6 percent.[47] Upstate fuel consumption includes a greater percentage of highway miles driven than fuel consumption in the MCTD, so we would expect a decline in upstate share of fuel consumption due to increased efficiency of the miles driven. Therefore, changes in overall fuel efficiency do not necessarily explain the trend.

It is possible that trends in public transit usage in the MCTD explain the observed changes in fuel usage. Data on public transit use in the MCTD is limited to the time period from

[46] The MCTD contains the five boroughs of New York City and the counties of Rockland, Nassau, Suffolk, Orange, Putnam, Dutchess, and Westchester.

[47] Source: http://www.epa.gov/fuel-economy-trends/trends-report

2008 to the present. During that time, changes in public transit usage do not correlate with the decline in the MCTD share of fuel consumption. Therefore, it is reasonable to assume that changes in public transit usage are not responsible for the declining share of MCTD fuel consumption.

The EPA also collects data on vehicle types produced each year; these data may shed light on the observed trend. The EPA uses the following categories for vehicle types produced: cars, car-SUVs, truck-SUVs, pickups, and minivans/vans. Truck-SUVs, pickups, and minivans/vans are classified as trucks, while car-SUVs are classed as cars. From 1995 to 2015, fuel efficiency of cars increased 22.2 percent from 23.4 mpg to 28.6 mpg. Fuel efficiency for trucks increased 24.1 percent from 17 mpg to 21.1 mpg over the same period.

Given the restrictions on space and premium on parking within the MCTD, it is reasonable to assume that a larger than average percentage of vehicles in the MCTD are compact cars. Residents in the MCTD may also have a stronger preference for high fuel efficiency vehicles. Upstate New York does not have such restrictions, so a vehicle fleet closer to the national average is expected.

Over the study period, the national distribution of passenger vehicles produced has shifted significantly toward larger vehicles. In 1995, cars accounted for 62 percent of total vehicles produced. Car-SUVs and trucks accounted for 38 percent of total vehicles produced. By 2015, cars had fallen to 47.2 percent and car-SUVs and trucks had risen to 52.8 percent of total vehicles. SUVs accounted for a significant portion of this change, with car-SUVs growing from 1.5 percent of vehicles in 1995 to 10.2 percent in 2015 and truck-SUVs growing from 10.5 percent of vehicles in 1995 to 28.1 percent of vehicles in 2015. This increase in car-SUVs and trucks, with lower fuel economy than cars, would account for the observed trends in fuel consumption. The upstate vehicle fleet is similar to the national distribution of vehicles produced while the MCTD vehicle fleet is likely to be biased heavily toward cars and high-efficiency vehicles such as hybrids or electrics.

Given the expected lag between vehicle types produced and fuel gallons consumed, it is expected that this trend will continue for several years, even if trends in production reverse in coming years.

Highway Use Tax

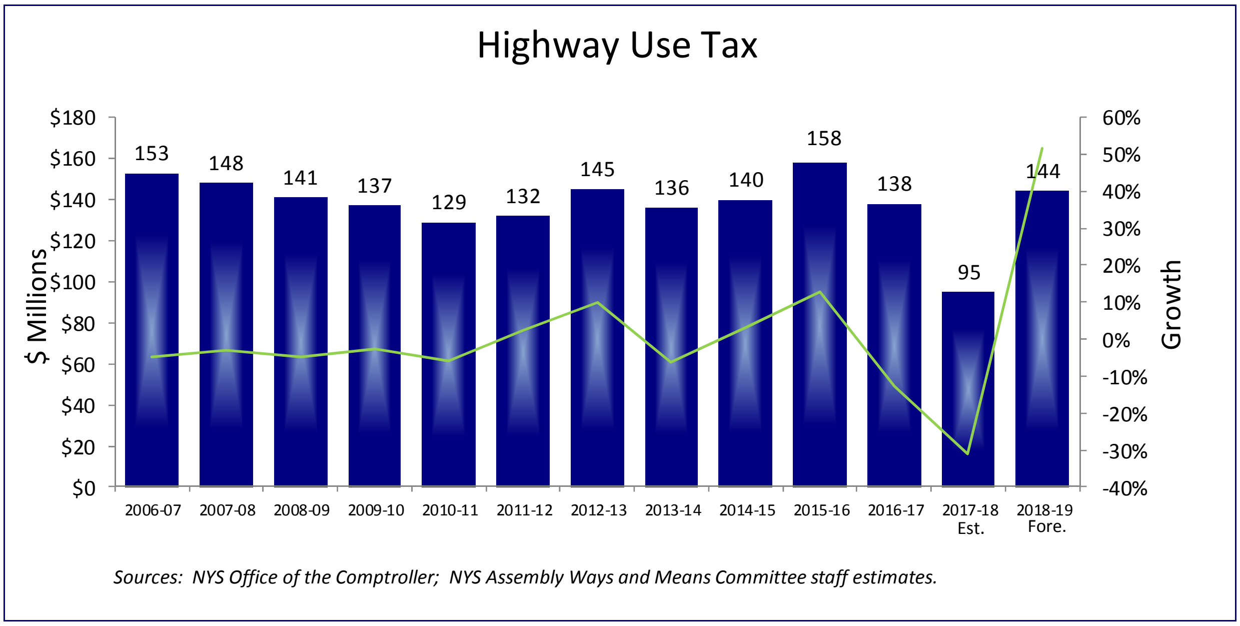


Figure 62

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

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

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

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

Table 33

Highway Use Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$74	(36.4%)	$95	(31.3%)	$96	($1)
2018-19			$144	52.3%	$142	$2

YTD through January

Through January, collections have decreased 36.4 percent to $74 million. This decline is the result of the $44.4 million settlement paid out in May 2017 as a result of the permit fee case. Excluding the impact of the settlement, collections have increased 0.7 percent to $120 million.

State Fiscal Year 2017-18

Collections are estimated to total $95 million, a decrease of 31.3 percent, or $43 million, compared to the previous fiscal year. Collections are expected to decrease 3.0 percent in the remainder of the fiscal year.

State Fiscal Year 2018-19

Highway use tax collections are expected to increase by 52.3 percent to $144 million in SFY 2018-19, an increase of $50 million and an underlying growth of 3.7 percent. This is $2 million greater than the Executive's forecast of $142 million. This increase represents a return to normal collection patterns.

Fund Distribution

Table 34

Highway Use Tax Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18		$2		$93	$95
2018-19	-	$3		$141	$144

Cigarette and Tobacco Taxes

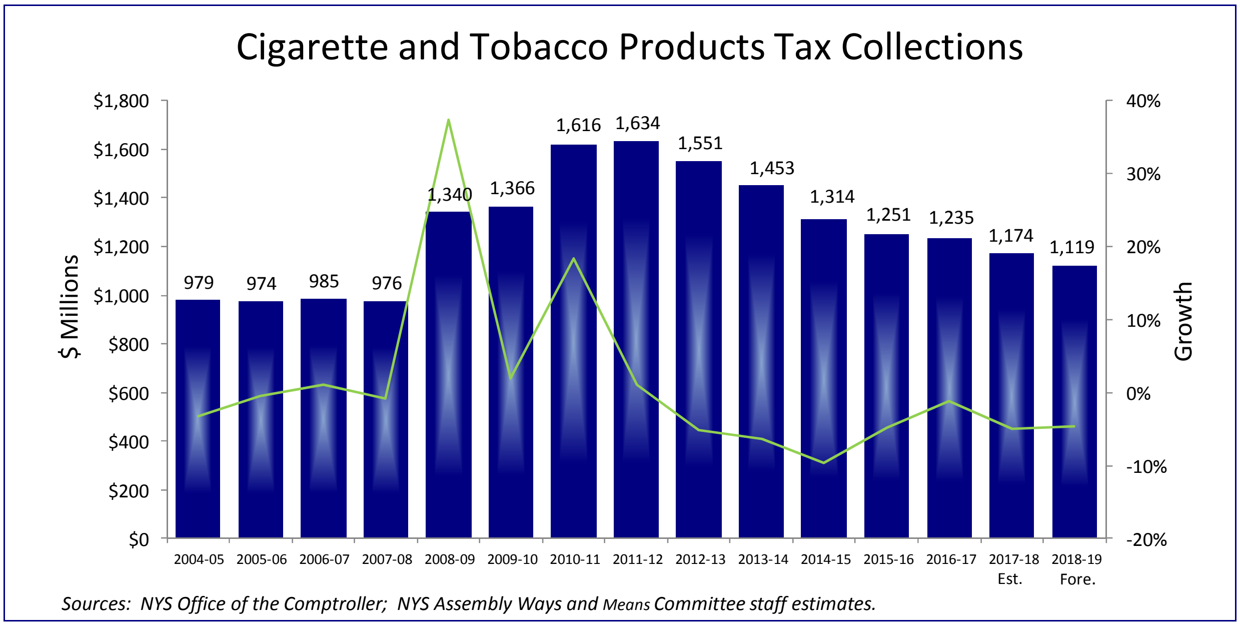


Figure 63

The state cigarette excise tax has been imposed by Article 20 of the Tax Law since 1939. This rate is currently $4.35 for a package of 20 cigarettes. The Commissioner of Taxation and Finance is authorized to make provisions for the sale of tax stamps and currently licenses agents to sell stamps for the payment of tax on cigarettes. The agent retains some of the revenues from the sale as commission according to guidelines established by the Tax Commissioner. The Commissioner is also authorized to prescribe a schedule of commissions, not exceeding five percent, to agents for buying and affixing stamps. The schedule shall be uniform with respect to the different types of stamps used, and may be on a graduated scale with respect to the number of stamps purchased. The city of New York applies an additional excise tax of $1.50 per package of 20 cigarettes.

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

Table 35

Cigarette and Tobacco Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$1,019	(4.8%)	$1,174	(5.0%)	$1,177	($3)
2018-19			$1,119	(4.7%)	$1,152	($33)

YTD through January

Through January, cigarette and tobacco products tax collections totaled $1.019 billion, or a decline of 4.8 percent over the same period in SFY 2017-18.

State Fiscal Year 2017-18

The committee staff estimates SFY 2017-18 collections for cigarette and tobacco taxes will total $1.174 billion, a decline of 5.0 percent. This estimate is based on year-to-date collections and historical collection patterns. Collections for the remainder of the fiscal year are expected to decline 6.4 percent. The committee estimate is $3 million below the Executive's SFY 2017-18 projections.

State Fiscal Year 2018-19

The committee's cigarette and tobacco forecast for SFY 2018-19 is $1.119 billion, a decline of 4.7 percent from SFY 2017-18. The forecast is $33 million below the Executive's estimates of $1.152 billion.

Fund Distribution

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

Table 36

Cigarette and Tobacco Taxes Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	$339	$835	-	-	$1,174
2018-19	$336	$783	-	-	$1,119

Electronic Cigarettes

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

Trends in Cigarette Consumption

The following provides an overview of the current tax treatment of cigarettes at the federal and state level, newly enacted legislation in NYC, as well as consumption trends across the state, as well as a comparison with other states.

Consumption of cigarettes has declined 77 percent since 1996. However, the impact of these declines on revenue collections was partially offset by tax increases. Every rate increase has resulted in double-digit declines in consumption, but also temporary double-digit increases in collections growth. New York City consumption of cigarettes for FY 2017 was 50.8 million packages, a decline of 10.7 percent from the prior year. Meanwhile, consumption of cigarettes for the rest of the state outside NYC only declined 3.8 percent, totaling 215.4 million packages, resulting in 266.1 million packages in total state consumption.

Cigarette tax collections have not increased since July of 2010, the date of the last tax increase, and the state has seen consistent declines in consumption ever since. This pattern of decreasing consumption, without an accompanying rate increase, is likely to result in declines in cigarette and tobacco tax collections in both SFY 2017-18 and SFY 2018-19.

Recently Enacted Legislation in New York City

Smoking kills about 28,000 adult New Yorkers every year and about 750,000 New York adults live with serious smoking-related illnesses.[48] In 2015, the latest year of available data, the smoking prevalence rate for New York State adults was 15.2 percent. However, there are significant regional differences. For example, Central New York has the highest smoking rate at 24.8 percent and Mid-Hudson has the lowest smoking rate at 12.9 percent. New York City has a smoking rate of 13 percent. To reduce smoking-related illnesses and deaths, New York City enacted the following measures on August 28, 2017:[49]

- Increased the minimum prices on tobacco:
  - Increases the minimum price floor of a pack of cigarettes from $10.50 to $13, as well as imposes price floors and additional taxes on tobacco products starting June 1, 2018.

[48] https://www.health.ny.gov/statistics/brfss/reports/docs/brfssbrief_smoking_1704.pdf

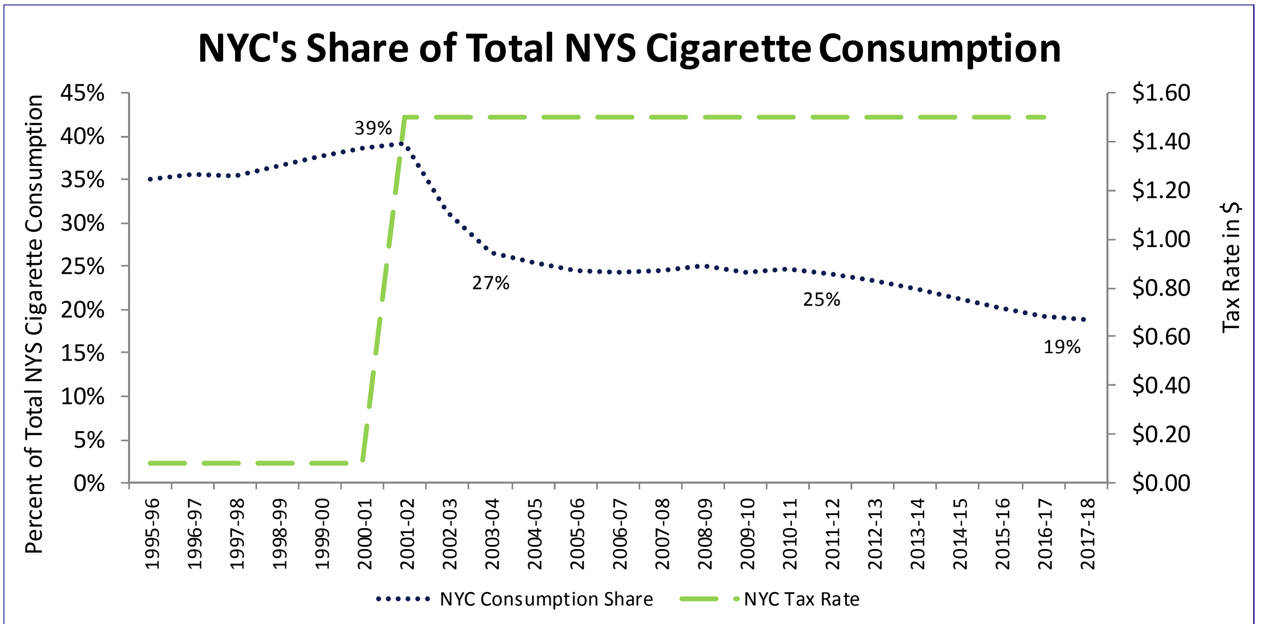
[49] http://www.nydailynews.com/new-york/de-blasio-signs-bill-hike-cigarette-pack-price-13-minimum-article-1.3449275

- Taxes on tobacco products, other than cigarettes, will be taxed at the rate of 10 percent of the price floor – the new tobacco tax is expected to generate additional revenue of $1 million annually fully dedicated to public housing.[50]
- Limited tobacco retail licenses:
  - Reduces the number of stores that can sell tobacco products by 50 percent.
- Created a retail license for e-cigarettes, and caps the number of these licenses.
- Smoking disclosure policy:
  - Requires owners of residential buildings to create a policy for smoking and requires them to disclose it to both current and prospective residents.
- Bans pharmacies from selling tobacco products:
  - Includes local shops and city chains – will take effect January 1, 2019.

Anticipated Impact of New Laws on Consumption and Tax Receipts

The chart below shows the relationship between NYC's tax rate and the share of cigarettes sold in New York City out of all cigarettes sold in the state. In April 2002, New York City increased its cigarette excise tax from $0.08 to $1.50. After the tax increase, consumption as a share of total NYS consumption declined 12 percentage points from 39 percent to 27 percent within three years. The next significant decline in NYC's share of total cigarettes sold occurred after the state increased the state tax from $2.75 to $4.35 in SFY 2010-2011. Seven years after the tax increase, New York City share of total state consumption has declined by six percentage points from 25 percent to 19 percent.

[50] http://legistar.council.nyc.gov/LegislationDetail.aspx?ID=3013584&GUID=2CF281E1-5407-4AB5-8340-E16098EF7F85&Options=ID|Text|&Search=tobacco



Sources: NYS Department of Taxation and Finance, Ways and Meanse Committee staff.

Figure 64

The purpose of the New York City minimum price increase is to lower consumption and achieve the goal of 160,000 fewer smokers, a decrease of 18 percent, by 2020 to a historically low smoking rate of 12 percent. Smoking rates in New York City have declined from 21.5 percent in 2002 to 14.3 percent in 2015.[51] This is part of a long term trend in the state. For example, New York State cigarette consumption has decreased 77.2 percent over the past 20 years.

The decline in cigarette consumption is a combination of fewer people smoking due to increased health awareness, increased taxes at the state and city level, as well as more people purchasing cigarettes illegally.[52] An unintended consequence of stricter distribution laws as well as tax increases has been the evasion of existing tax laws and the importation of untaxed cigarettes from other states. It is estimated that over 50 percent of all cigarettes sold in New York are smuggled in from another location.[53]

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[51] https://www1.nyc.gov/site/doh/about/press/pr2017/smoking-bills-nyc.page

[52] The New York City Health Department has spent $14 million in the last three fiscal years on public awareness campaigns that support cessation efforts and provide nicotine replacement therapy through the New York State Smokers' Quitline. Tobacco continues to be a leading contributor to preventable, premature death in New York City, killing an estimated 12,000 people annually.

[53] https://taxfoundation.org/cigarette-tax-cigarette-smuggling-2015/

In March 2000, the state increased the cigarette tax from $0.56 to $1.11. In the months leading up to the increase, consumption increased by 5.9 percent in December 1999, 18.3 percent in January 2000, and 25.6 percent in February 2000. After the increase, consumption dropped 47.2 percent. Following the advance purchasing prior to the implementation of a tax increase consumption drops precipitously, but tends to stabilize at lower levels as the responsiveness to the tax increase becomes more inelastic.

The Regressive Effect of Cigarette Taxation

According to the New York State Department of Health, in recent years, low-income smokers spent around a quarter of their income on cigarettes. Smokers who make less than $30,000 spent 11.6 percent of their income on cigarettes in 2003, but then increased to 23.6 percent following a 2010 tax increase in 2010. Based on average consumption, it is estimated that these smokers purchased 12 packs a week in 2003 and 11 packs a week in 2017.[54,55]

[54] Page 23 https://www.michigan.gov/documents/CigaretteandTobaccoTaxes2003_Oct2004_107256_7.pdf

[55] http://fairreporters.net/health/prices-of-cigarettes-by-state/

Alcoholic Beverage Control License Fees

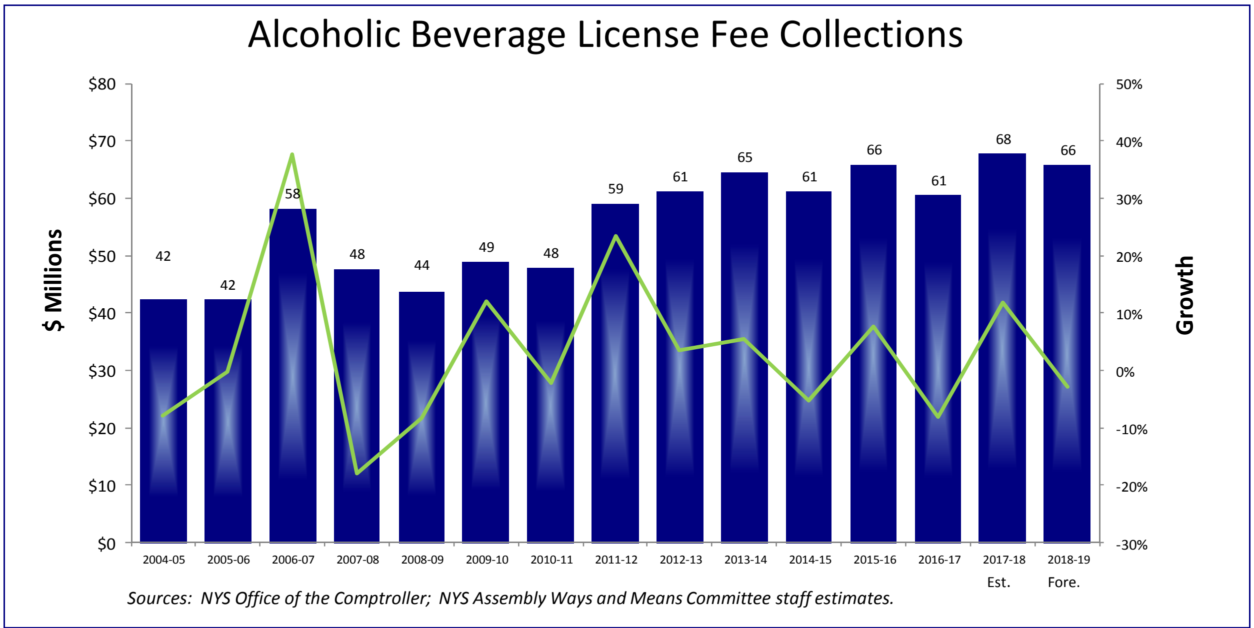


Figure 65

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

Table 37

Alcoholic Beverage Control License Fees ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$57	12.7%	$68	11.0%	$67	$1
2018-19			$66	(2.8%)	$66	($0)

YTD through January

Through January, Alcoholic Beverage Control License Fees collections are $57 million, a 12.7 percent increase over the same period in SFY 2016-17, reflecting a peak in the license renewal cycle.

State Fiscal Year 2017-18

The committee staff estimates revenues from Alcoholic Beverage Control License Fees will total $68 million in SFY 2017-18. This is a 11.8 percent increase from the previous year as more businesses are renewing their licenses. The committee staff's estimate is $1 million above the Executive's projections.

State Fiscal Year 2018-19

The committee staff forecasts collections of $65.8 million, or 2.8 percent less than SFY 2017-18 collections as fewer licenses are up for renewal. The committee's staff forecast is $0.2 million lower than the Executive's forecast.

Alcoholic Beverage Tax

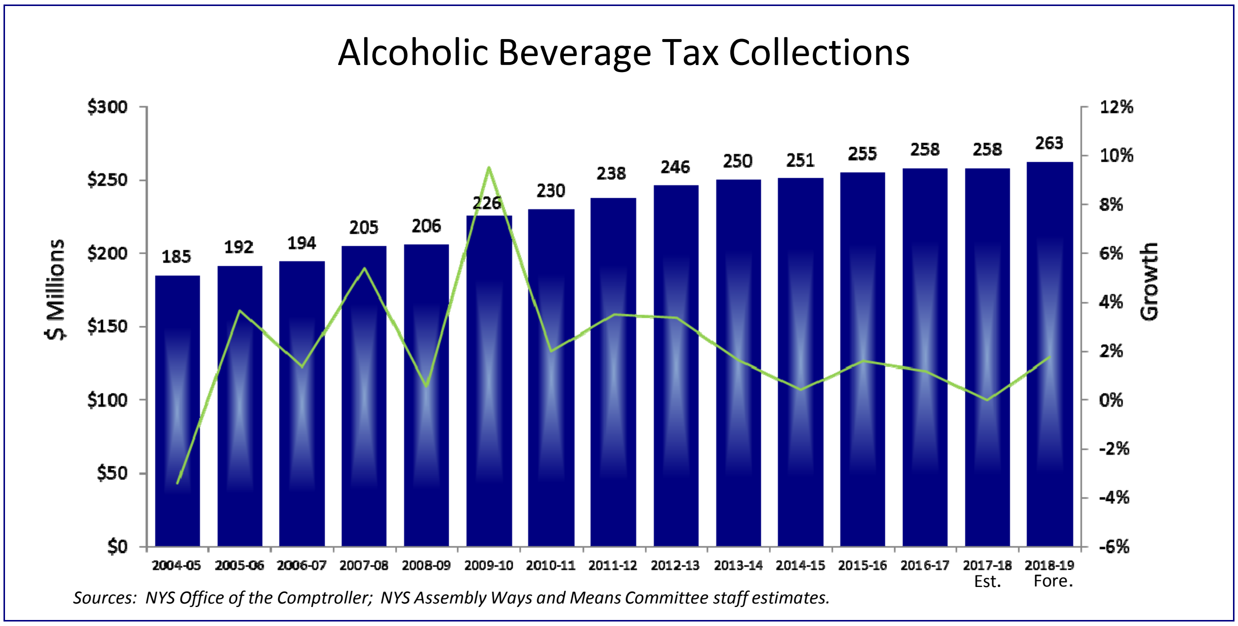


Figure 66

Article 18 of the New York State Tax Law levies a tax on alcoholic beverages at different rates based on the content of alcohol by volume and the type of beverage. The tax is imposed on the distributor or non-commercial importer of alcoholic beverages. Table 38 below illustrates the current state rates, as well as the alcoholic beverage taxes imposed by New York City.

Table 38

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

Table 39

Alcoholic Beverage Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$226	-0.5%	$258	0.0%	$262	($4)
2018-19			$263	1.7%	$267	($5)

YTD through January

Through January, Alcoholic Beverage Tax receipts stood at $226 million, a 0.5 percent decrease over the same period in SFY 2016-17. New York State's beer consumption, fiscal year-to-date, is 6.1 percent lower than the same period last year, while New York City has seen beer consumption this fiscal year decrease 8.6 percent. Total state liquor consumption is flat compared to the same period last year, while in New York City, liquor consumption is 0.1 percent greater than the same period last year. State consumption of natural sparkling wine is 4.7 percent greater than last year while consumption of artificial sparkling wine consumption has declined 9.4 percent. Consumption of still wine has increased 2.9 percent from last fiscal year.

State Fiscal Year 2017-18

The committee staff estimates receipts will total $258 million in SFY 2017-18, this represents no growth from the prior year. The committee staff's estimate is $4 million less than the Executive's projection.

State Fiscal Year 2018-19

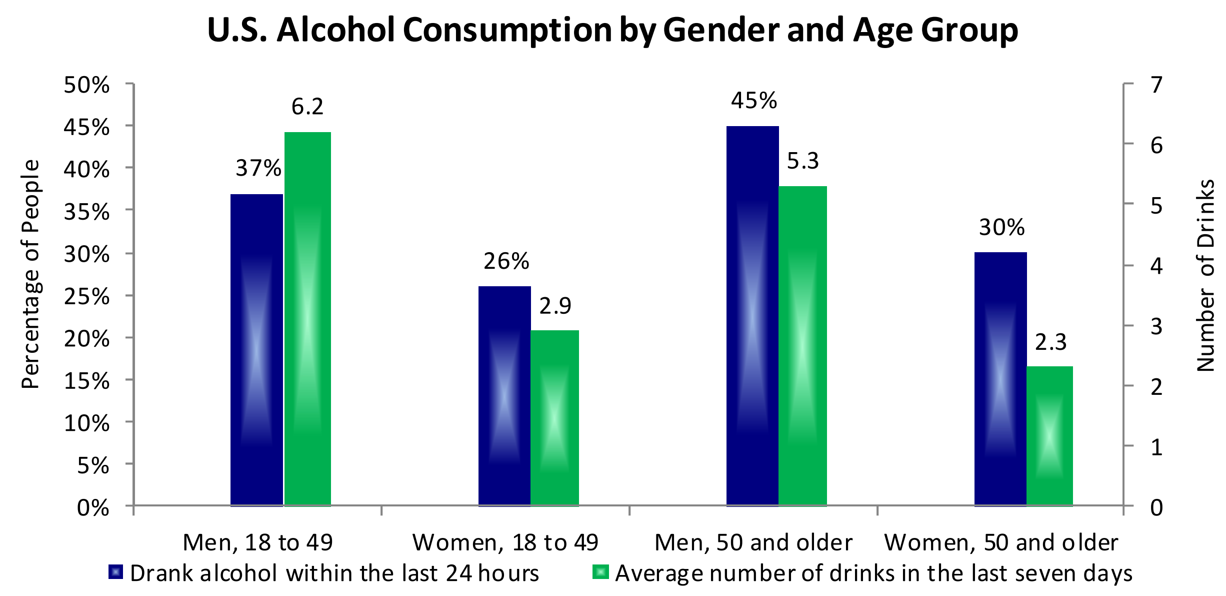
The committee staff forecasts collections in SFY 2018-19 of $263 million, or 1.7 percent over SFY 2017-18 collections. The committee's staff forecast is $4 million below the Executive's forecast.

A Review of Alcohol Beverage Consumption and Tax Collection Trends

Alcoholic beverage tax receipts contributed $257.7 million in SFY 2016-17 to total state collections and have been rising consistently since SFY 2004-05. In this section we provide a brief analysis of recent consumption patterns as well as implications for tax receipts growth.

Recent Consumption Trends, U.S. and NYS

According to a national Gallup's Consumption Habits Survey from 2001-2017, men, on average, reported a higher frequency of alcohol consumption than women in both age groups studied. Men aged 18-49 consumed the most alcohol of any group, and men of any age drink more than double the amount that women consume.[56]



Source: Gallup's Consumption Habits Survey 2001-2017.

Figure 67

Average weekly alcohol consumption in the U.S. has declined since 2003. In 2003, the average adult consumed 5.1 drinks per week whereas in 2017 this number was 4.1. Since 2003, the volume of alcohol consumption per person has decreased, whereas in the period leading up to 2003 weekly alcohol consumption per person was trending upward (see Figure 68).

[56] "Older Men Drink More Regularly, but Younger Men Drink More" *Gallup.com*, September 11, 2017.

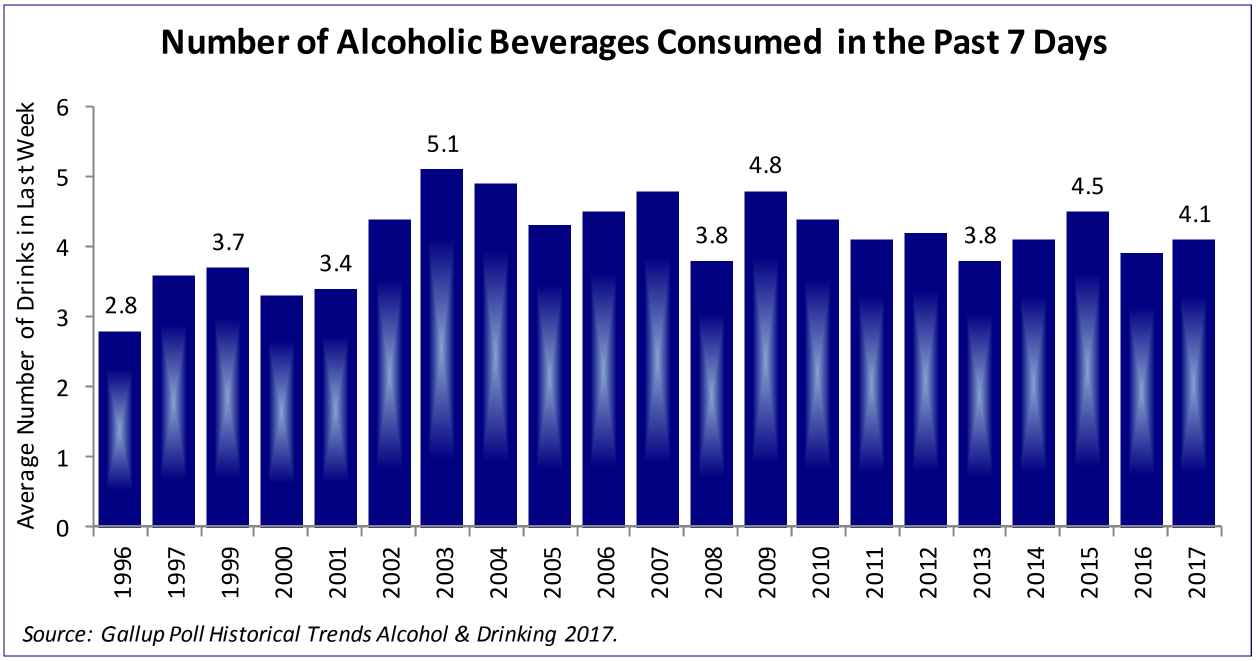


Figure 68

While the volume of alcohol consumption per person has been decreasing in recent years, the frequency of alcohol consumed has remained stable. According to the Gallup poll, the majority of American adults consume alcohol at least occasionally, with 62 percent of respondents saying they consumed alcohol in 2017. Year-to-year changes have not varied more than six percentage points in the past 10 years, and the 2017 share of Americans drinking alcohol nearly matches the 63 percent historical average in Gallup's trend dating back to 1939.[57]

Tax Collections and Types of Alcoholic Beverages Consumed

Since 2001, alcohol beverage tax collections have grown 2.5 percent on an average fiscal year basis; however, not all types of alcohol consumption have been contributing equally to collections growth.

In New York City, beer consumption has been flat whereas the consumption of hard liquor has grown 2.9 percent on an average fiscal year basis during the period SFY 2001-02 to SFY 2016-17. More tellingly, per capita beer consumption has steadily declined, whereas per capita hard liquor consumption has slowly increased. In SFY 2001-02, per capita beer consumption was 20 gallons, however by SFY 2016-17, per capita consumption had fallen to

[57] "Alcohol and Drinking." *Gallup.com*

17.9 gallons, an 11 percent decline. In contrast, per capita hard liquor consumption was 4.9 liters in SFY 2001-02 rising to 6.8 liters in SFY 2016-17, a 37 percent increase.

For the state as a whole, beer consumption was also flat, while hard liquor consumption grew 2.8 percent on an average fiscal year basis. Wine consumption grew 2.6 percent and natural sparkling wine consumption grew 4.9 percent; however, natural sparkling wine consumption contributes very little to the tax base for alcoholic beverages, accounting for only 0.5 percent of total collections for SFY 2016-17. The table below provides an overview of the various types of alcohol and their contribution to total collections.

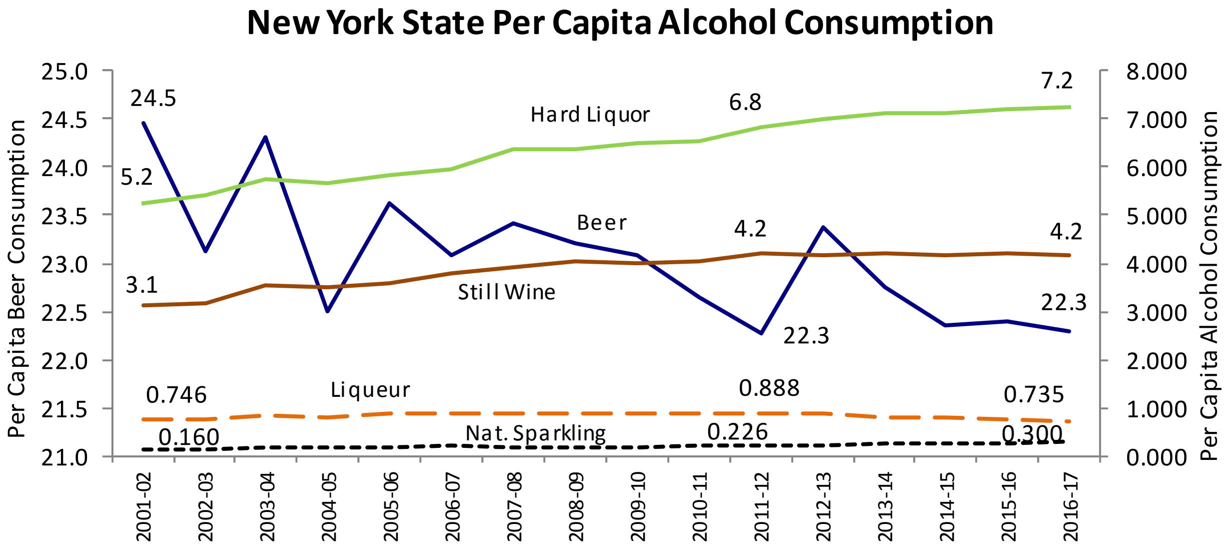
Table 40

Percentage Contribution by Alcohol Type

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Collections	$229.7	$238.3	$246.2	$251.8	$250.9	$254.6	$257.7
Beer	19.6%	18.8%	19.3%	18.5%	18.4%	18.2%	18.1%
Hard Liquor	68.9%	69.8%	69.9%	70.1%	70.7%	70.9%	71.2%
Liquor	3.7%	3.6%	3.4%	3.2%	3.1%	3.0%	2.9%
Wine	7.5%	7.6%	7.4%	7.3%	7.3%	7.3%	7.2%
Natural Sparkling Wine	0.4%	0.4%	0.4%	0.4%	0.5%	0.5%	0.5%

Note: Collections are in millions of dollars.
Sources: Office of Tax Policy Analysis; U.S. Census Bureau; NYS Assembly Ways and Means Committee staff.

Similar to trends in NYC, per capita beer consumption across the state has also been declining, whereas wine and hard liquor have steadily risen. Beer consumption per capita was 24.5 gallons in SFY 2001-02, but declined to 22.3 gallons by SFY 2016-17, a nine percent decrease. During the same period, hard liquor consumption rose from 5.2 liters to 7.2 liters, a 38 percent increase, and per capita wine consumption rose from 3.1 gallons to 4.2 gallons, a 33 percent increase.



Note: Beer and all wine consumption is measured in gallons, all else in liters.
Sources: Office of Tax Policy Analysis; U.S. Census Bureau; National Institute of Health; NYS Assembly Ways and Means

Figure 69

Despite recent weakness related to per capita consumption of beer, coupled with lower volumes of alcohol being consumed in general, alcoholic beverage tax receipts have continually increased in the past several fiscal years. The consistent gains in tax collections can be attributed to population growth. Gains in consumption in other areas, such as hard liquor, offset weakening per capita consumption in beer. Even if per capita beer consumption continues to decline, as long as hard liquor continues to grow at a steady rate, the state can expect alcoholic beverage tax collections to continue to rise as liquor is taxed at a significantly higher rate than beer (see Figure 75). However, should liquor consumption decline or population growth slow; the state would likely see a decrease in tax collections.

New York City Taxicab Surcharge

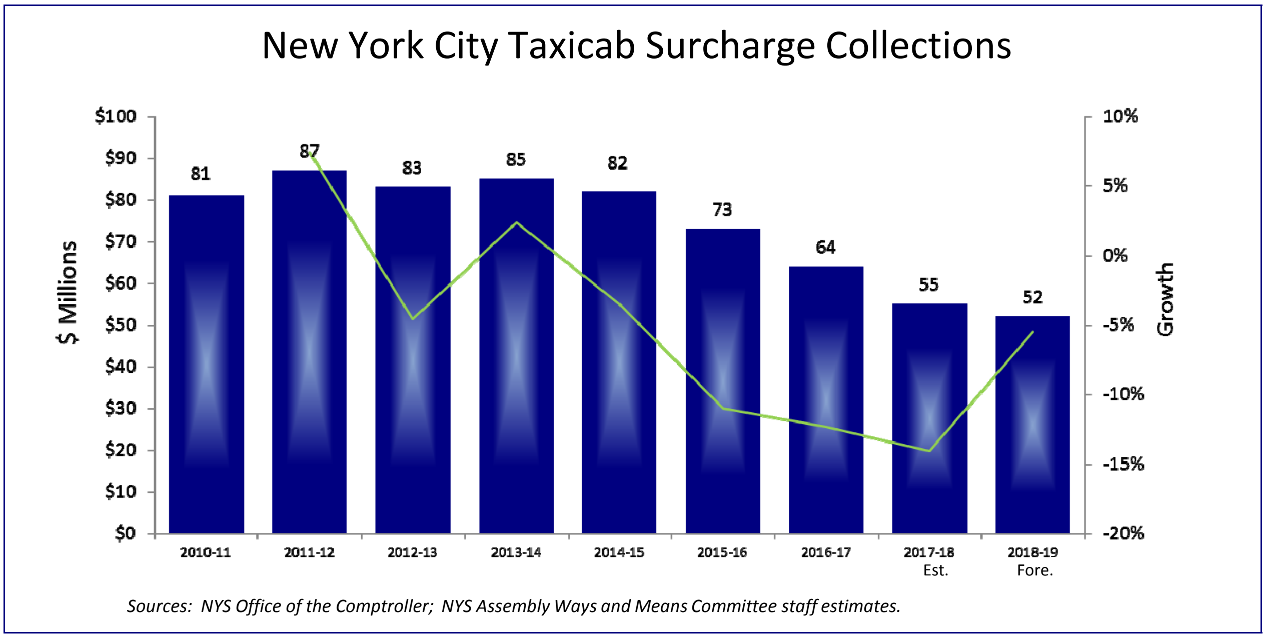


Figure 70

The Taxicab Surcharge is administered pursuant to the Article 29-A of the Tax Law. The law imposes a fifty-cents-per-trip tax on hail vehicle trips that begin in New York City and end anywhere in the Metropolitan Commuter Transportation District (MCTD). This tax was first imposed in April of 2010.

Table 41

New York City Taxicab Surcharge ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$55	(13.7%)	$55	(13.6%)	$59	($4)
2018-19			$52	(6.1%)	$59	($7)

YTD through January

Through January, taxicab surcharge collections have decreased 13.7 percent or $9 million compared to last fiscal year.

State Fiscal Year 2017-18

It is estimated that taxicab surcharge receipts will total $55 million in SFY 2017-18. This represents a 13.6 percent decline over SFY 2016-17. The continuing decline in taxicab trips is attributed to competition from transportation network companies which facilitate instantaneous internet based connectivity between passengers and providers. For the remainder of the fiscal year collections are expected to remain flat. The Executive's estimate for SFY 2017-18 is $59 million, $4 million above the committee's estimate.

State Fiscal Year 2018-19

Taxicab surcharge receipts are forecast to total $52 million in SFY 2018-19. This is a decrease of $3 million or 6.1 percent from the SFY 2017-18 estimate. The committee estimate is $7 million below the Executive's forecast of $59 million.

Business Taxes

Table 42

Business Taxes Forecasts by State Fiscal Year ($ in Millions)						
	SFY 2017-18	Growth	Diff. Exec.	SFY 2018-19	Growth	Diff. Exec.
Business Taxes	**$7,444**	**6.7%**	**$98**	**$8,434**	**13.3%**	**$176**
Corporate Franchise	3,390	7.1%	104	4,590	35.4%	189
Utility Tax	740	2.8%	3	723	(2.4%)	13
Insurance Tax	1,714	8.4%	(8)	1,808	5.5%	(60)
Bank Tax	505	29.8%	-	143	(71.7%)	-
Petroleum Business Tax	1,096	(2.5%)	(1)	1,170	6.8%	34

Corporate Franchise Tax

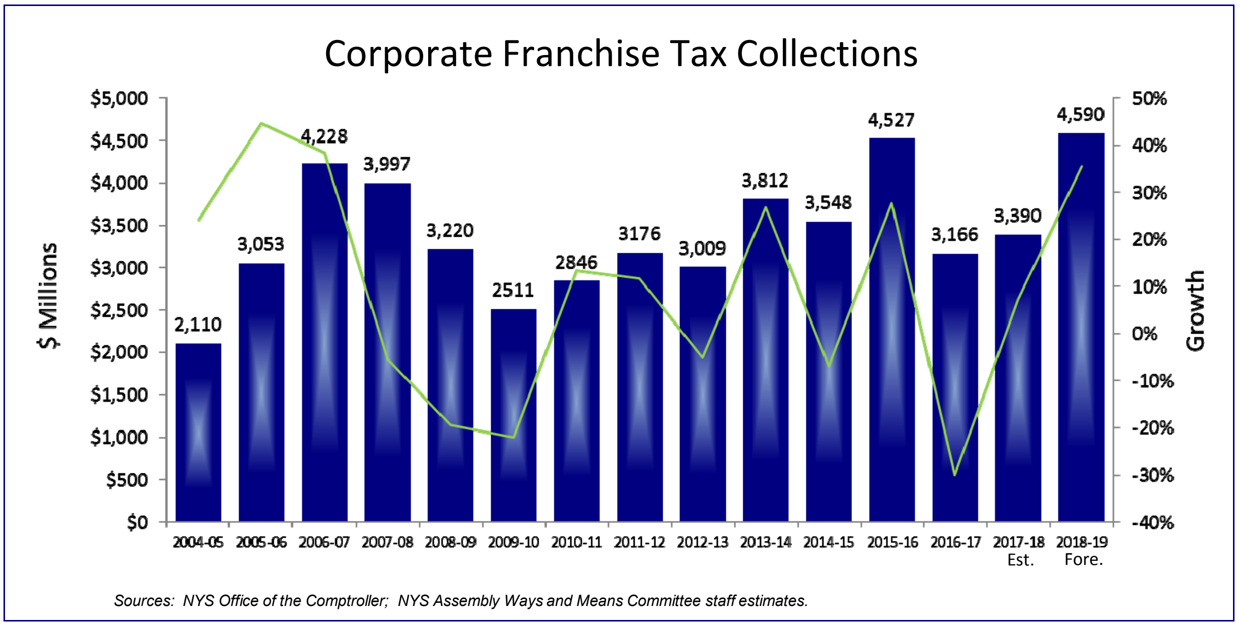


Figure 71

Taxes are imposed on every domestic or foreign corporation, under Article 9-A of the Tax Law, "for the privilege of exercising its corporate franchise, or of doing business, or of employing capital, or of owning or leasing property ... in a corporate or organized capacity, or of maintaining an office in this state".[58]

Table 43

Corporate Franchise Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$2,404	(8.6%)	$3,390	7.1%	$3,286	$104
2018-19			$4,590	35.4%	$4,401	$189

[58] Tax Law §209(1)

YTD through January

All Funds cumulative collections through January were $2.404 billion, down 8.6 percent or $225 million from prior year collections.

Audit collections through January totaled $629 million, an increase of $139 million or 28.3 percent compared to the first ten months of the previous fiscal year. Growth without audits is 17.0 percent below that of the prior fiscal year. A sharp increase in April's collections attributed to a substantial amount of late prepayment activity for tax year 2017 was more than offset by unusually low payments for the month of September.

State Fiscal Year 2017-18

Committee staff expects SFY 2017-18 corporate franchise tax collections to reach $3.390 billion, an increase of 7.1 percent or $224 million over the previous fiscal year. To reach this level, remaining collections are expected to increase by 83.8 percent above collections received over the same period in SFY 2016-17. Corporate profits are anticipated to increase by 7.9 percent above profits earned in the prior fiscal year. The committee estimate is $104 million above the Executive projection.

State Fiscal Year 2018-19

The committee staff forecasts corporate tax receipts to increase by 35.4 percent or $1.201 billion for a total of $4.590 billion in SFY 2018-19. This estimate is $189 million above the Executive's forecast of $4.401 billion and assumes positive effects resulting from the recently enacted federal tax reform, which is expected to lead to an increase in estimated payments during the next fiscal year.

Fund Distribution

All corporate franchise tax receipts are deposited into the General Fund except for the Metropolitan Commuter Transportation District (MCTD) surcharge, which is deposited into the Mass Transportation Operating Assistance Fund (MTOAF) Special Revenue Fund. In SFY 2017-18, the committee expects General Fund receipts to total $2.640 billion.

In SFY 2018-19, the committee staff forecasts an increase of 39.8 percent in the General Fund with collections of $3.691 billion.

Table 44

Corporate Franchise Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	$2,640	$750	-	-	$3,390
2018-19	$3,691	$899	-	-	$4,590

Bank Tax

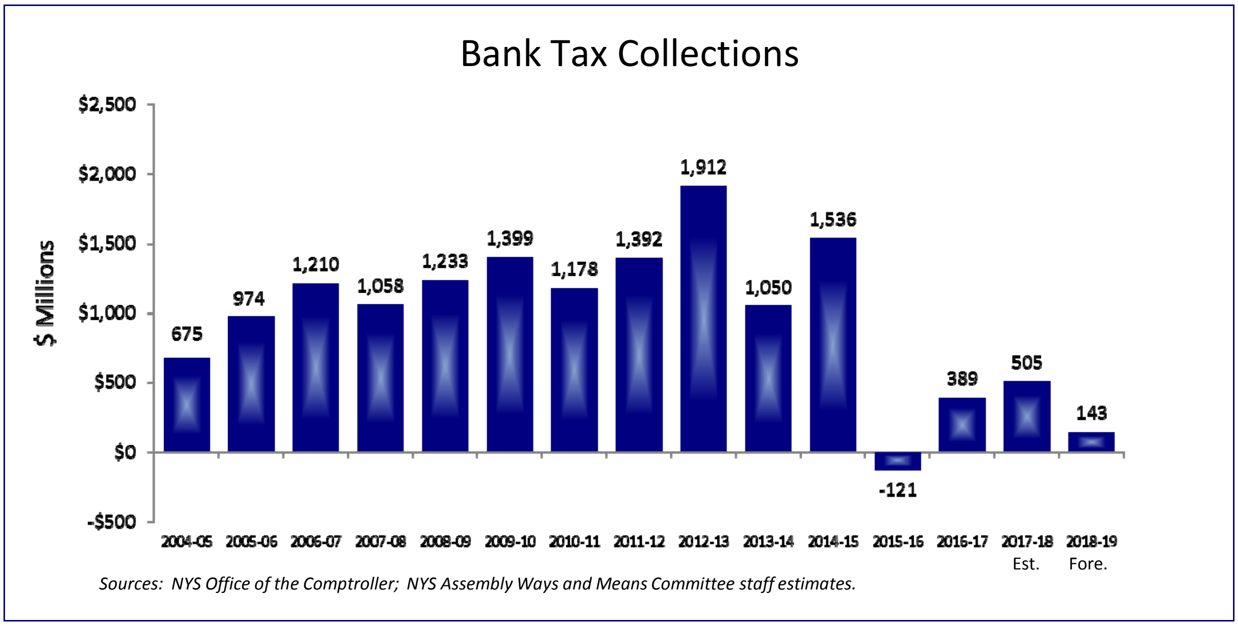


Figure 72

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

Table 45

Bank Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$433	17.6%	$505	29.8%	$505	$0
2018-19			$143	(71.7%)	$143	$0

YTD through January

Through January, bank tax collections totaled $433 million, an increase of $65 million over the prior fiscal year. A decline in audits through December of $17 million from the prior fiscal year has been more than offset by a decline in prior period adjustments of $126 million over the same period.

State Fiscal Year 2017-18

Committee staff expect bank tax collections to total $505 million this fiscal year, an increase of $116 million or 29.8 percent from the prior year. This estimate is the same as the Executive's estimate.

State Fiscal Year 2018-19

Committee staff expect bank collections to be $143 million in SFY 2018-19. This is the same as the Executive's forecast and reflects an anticipated decline in audit receipts.

Fund Distribution

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

In SFY 2017-18, the committee staff expect General Fund receipts of $445 million. In SFY 2018-19 the committee forecast General Fund receipts to total $122 million.

Table 46

Bank Tax Fund Distribution
($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	$445	$60	-	-	$505
2018-19	$122	$21	-	-	$143

Insurance Tax

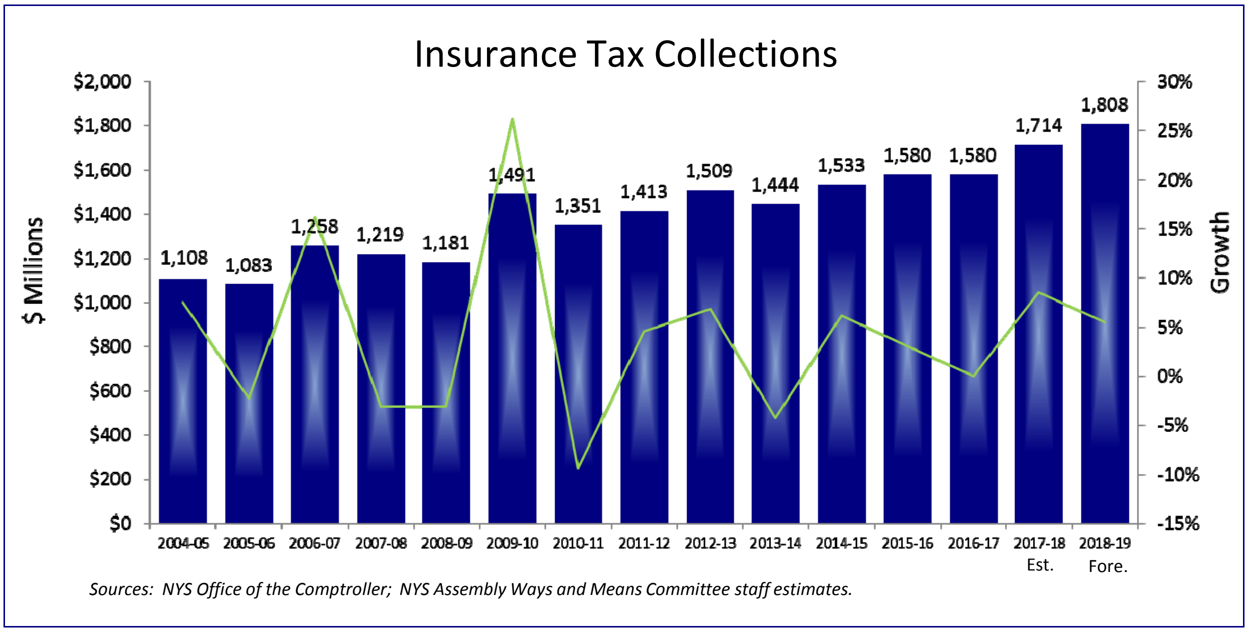


Figure 73

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

Table 47

Insurance Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$1,110	9.9%	$1,714	8.4%	$1,721	($8)
2018-19			$1,808	5.5%	$1,868	($60)

YTD through January

Through January, insurance tax collections are $1.110 billion, an increase of $100 million or 9.9 percent over the prior fiscal year.

State Fiscal Year 2017-18

Committee staff expect collections to total $1.714 billion in SFY 2017-18, an increase of $134 million or 8.4 percent over the prior fiscal year. Collections are expected to increase by 5.8 percent over the remainder of the fiscal year due to projected growth in tax liability, which will be partially offset by refunds as taxpayers continue to claim the tax credit for assessments paid to the Life Insurance Guaranty Corporation (LIGC). The committee staff estimate is $8 million below the Executive's estimate of $1.721 billion.

State Fiscal Year 2018-19

Committee staff forecasts insurance collections to total $1.808 billion in SFY 2018-19, an increase of $95 million or 5.5 percent above the current fiscal year. The committee expects that projected growth in insurance tax premiums combined with lower expected LIGC credit claims will contribute to growth above collections received in SFY 2017-18.

The Executive's estimate is $60 million above the committee staff's forecast.

Fund Distribution

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

In SFY 2017-18, the committee projects General Fund receipts to reach $1.532 billion. In SFY 2018-19 the committee staff projects the General Fund to increase $82 million to $1.614 billion.

Table 48

Insurance Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	$1,532	$181	-	-	$1,714
2018-19	$1,614	$194	-	-	$1,808

Corporate Utility Tax

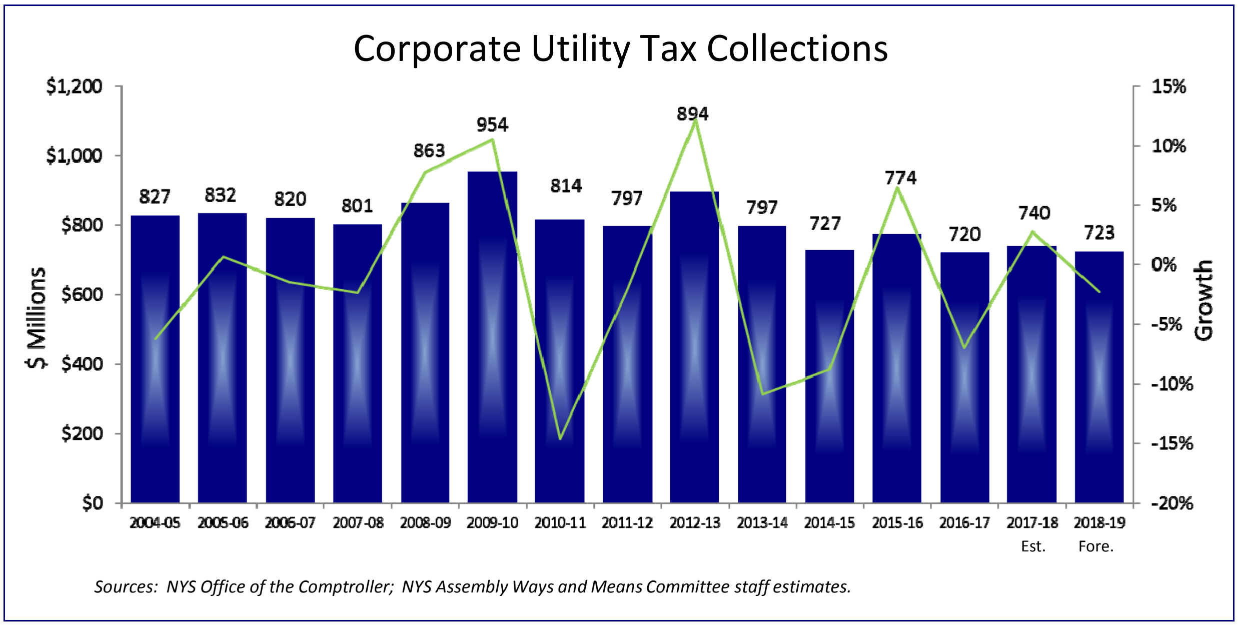


Figure 74

All transportation and transmission companies exercising their corporate franchise, doing business, employing capital, owning or leasing property in the state in a corporate or organized capacity, or maintaining an office in New York are subject to a franchise tax under Article 9 of the Tax Law.

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

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

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

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

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

3. interstate and international private telecommunication services.

Table 49

Corporate Utility Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$481	-2.5%	$740	2.8%	$737	$3
2018-19			$723	(2.4%)	$710	$13

YTD through January

Through January, cumulative utility tax collections are $481 million, a decrease of $12 million or 2.5 percent from the prior fiscal year. Tax year 2017 prepayments which were expected in the last month of the prior fiscal year and instead received in April 2017 were more than offset by a decline in telecommunications collections for the month of December.

State Fiscal Year 2017-18

Committee staff expect collections for SFY 2017-18 to be $740 million, an increase of 2.8 percent or $20 million from the previous fiscal year. To reach this estimate, collections over the remainder of the year will need to increase by 14.4 percent. Collection activity adjusted to exclude audit payments, law changes, and late prepayments is expected to decline by 1.3 percent over the last two months of SFY 2016-17. The committee's estimate is $3 million above the Executive's estimate and assumes tax year 2018 prepayments will be collected in March.

State Fiscal Year 2018-19

Committee staff expect utility tax collections to decrease by $18 million or 2.4 percent to a level of $723 million in SFY 2018-19. The Executive is expecting a decline of 3.7 percent to $710 million in collections next fiscal year.

Fund Distribution

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

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

For SFY 2017-18, the committee staff expect General Funds to total $568 million and Special Revenue Funds to be $159 million. Capital Projects Funds are estimated to total $14 million.

For SFY 2018-19, the committee staff expect General Funds to decrease to $550 million and Special Revenue Funds to remain $159 million. Capital Projects Funds are forecast to be $14 million.

Table 50

Corporate Utililty Tax Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	$568	$159	-	$14	$740
2018-19	$550	$159	-	$14	$723

Petroleum Business Tax

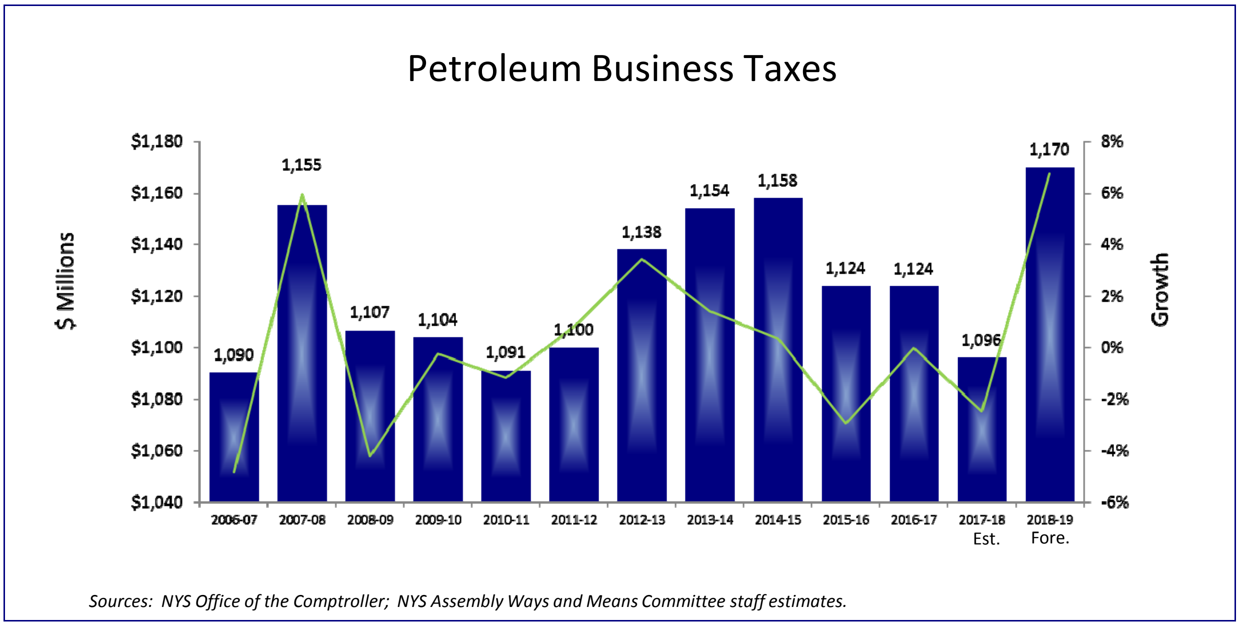


Figure 75

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

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

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

Table 51

Petroleum Business Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$917	(3.7%)	$1,096	(2.5%)	$1,097	($1)
2018-19			$1,170	6.8%	$1,136	$34

YTD through January

Through January, petroleum business tax (PBT) collections have decreased by $35 million or 3.7 percent over last fiscal year to a level of $917 million.

State Fiscal Year 2017-18

The committee staff expects collections for SFY 2017-18 to total $1.096 billion, a decrease of 2.5 percent or $28 million from the previous fiscal year. The committee staff expects collections for the remainder of the year to increase by 3.9 percent compared to SFY 2016-17. The increase is attributed to a rate increase of five percent that took effect in January 2018 coupled with flat growth in fuel consumption. The committee's estimate is $1 million below the Executive's estimate of $1.097 billion.

State Fiscal Year 2018-19

The committee staff forecasts PBT collections to increase by $74 million or 6.8 percent to a level of $1.170 billion in SFY 2018-19. The Executive is expecting $1.136 billion for the next fiscal year, an increase of 3.6 percent and $34 million below the committee forecast.

Fund Distribution

Table 52

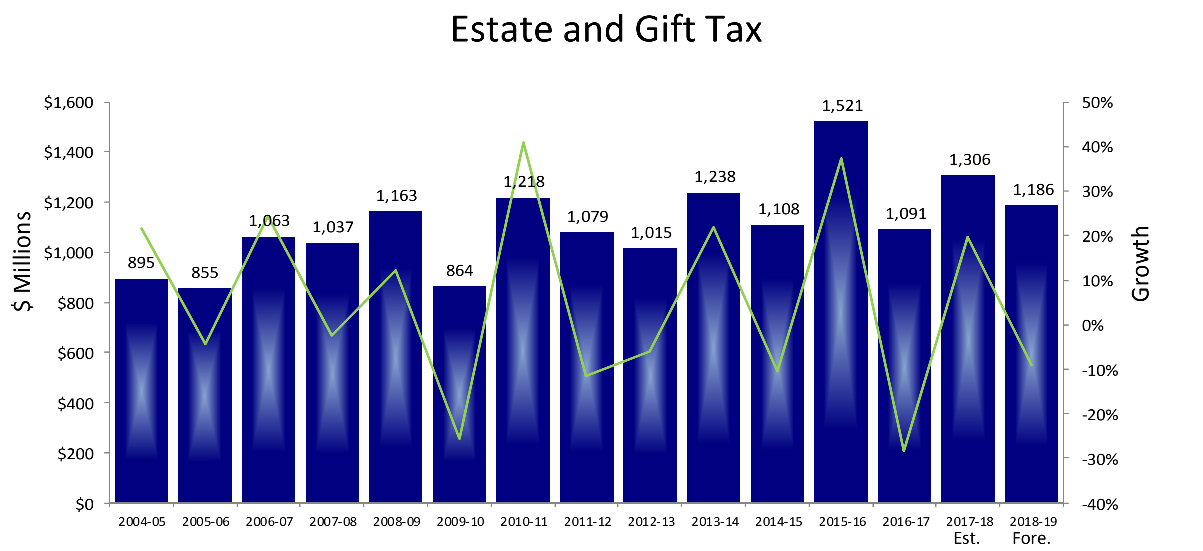
Petroleum Business Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	-	$482	-	$613	$1,096
2018-19	-	$514	-	$656	$1,170

Other Taxes

Table 53

Other Taxes Forecasts by State Fiscal Year ($ in Millions)						
	SFY 2017-18	Growth	Diff. Exec.	SFY 2018-19	Growth	Diff. Exec.
Other	**$3,904**	**7.9%**	**($13)**	**$2,358**	**-39.6%**	**$95**
Estate and Gift Tax	1,306	19.7%	(8)	1,186	-9.1%	153
Real Estate Transfer Tax	1,127	0.1%	(20)	1,153	2.4%	(59)
Pari Mutuel	16	-2.5%	1	15	(1.3%)	0
Other	3	0.0%	0	3	0.0%	0
Payroll Tax	1,453	5.3%	15	0	-100.0%	0

Estate Tax



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

Figure 76

Article 26 of the Tax Law imposes a tax on the transfer of deceased individual's property known as the estate tax for residents of the state.[59] A progressive estate tax rate is applied to an estate whose value exceeds the exemption level of $5.25 million. The rate starts at 3.06 percent for the first $0.5 million above the exemption level and gradually rises to 16 percent for estates whose value exceeds $10.1 million in excess of the exemption. The tax applies to non-charitable transfers made by people who own real estate or tangible personal property located in New York, as well as intangible property upon death. Nonresidents are subject to the tax if the transfer real estate or tangible personal property is located within the state. Estate taxes must be filed within nine months of the decedent's death.

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

Table 54

Estate and Gift Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$1,136	19.7%	$1,306	19.7%	$1,314	($8)
2018-19			$1,186	-9.1%	$1,033	$153

YTD through January

Through January, estate and gift tax collections are $1.136 billion, a 19.7 percent increase over the same period in SFY 2016-17.

State Fiscal Year 2017-18

The committee staff estimates collections will total $1.306 billion in SFY 2017-18. This reflects growth over SFY 2017-18 of 19.7 percent. The committee staff's estimate is $8 million below the Executive's SFY 2017-18 projections.

State Fiscal Year 2018-19

For SFY 2018-19, the committee staff forecasts collections of $1.186 billion, or 9.1 percent less than SFY 2017-18 collections. The committee's staff forecast is $153 million above the Executive's forecast.

Fund Distribution

Table 55

Estate and Gift Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	1,306	-	-	-	1,306
2018-19	1,186	-	-	-	1,186

Real Estate Transfer Tax (RETT)

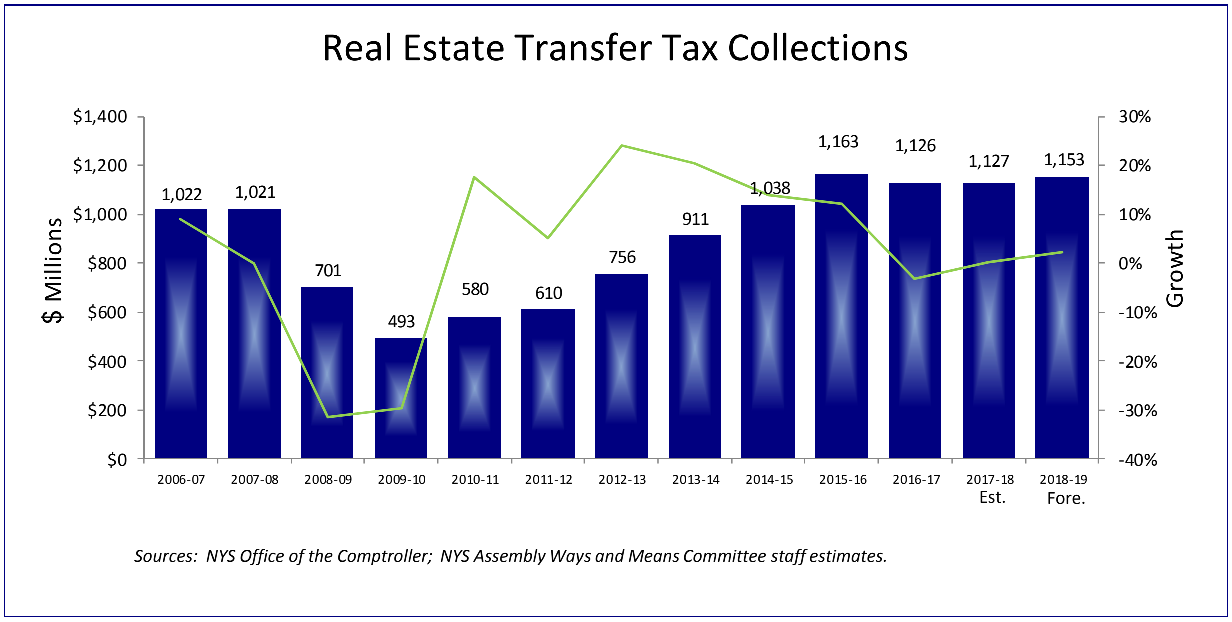


Figure 77

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

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

Table 56

Real Estate Transfer Tax ($ in Millions)	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$960	0.0%	$1,127	0.1%	$1,147	($20)
2018-19			$1,153	2.4%	$1,212	($59)

YTD through January

Through January, RETT collections are $960 million or flat compared to the same period in SFY 2016-17.

State Fiscal Year 2017-18

The committee staff estimates that RETT receipts will total $1.127 billion in SFY 2017-18, for growth of 0.1 percent over SFY 2016-17. The committee staff expects collections to increase by 0.3 percent in the remainder of the fiscal year.

The Executive estimates a total of $1.147 billion in collections, or $20 million below committee estimates.

State Fiscal Year 2018-19

The committee staff anticipates RETT receipts will total $1.153 billion in SFY 2018-19 for year-over-year increase of 2.4 percent or $27 million. The committee forecast is $59 million below the Executive's revenue forecast.

Fund Distribution

Table 57

Real Estate Transfer Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	-	-	$1,008	$119	$1,127
2018-19	-	-	$1,034	$119	$1,153

A statutory amount of $119 million is deposited into the Environmental Protection Fund from RETT collections, and the remaining is deposited into the Clean Water/Clean Air Fund (CW/CA) for Debt Service. When the CW/CA obligation is paid, the excess revenue is transferred to the General Fund.

Underlying Economic Conditions

In Manhattan, the average sales price in the fourth quarter of 2017 increased by 1.3 percent from the previous quarter and grew 23.3 percent over the previous year. The median sales prices decreased 6.8 percent from the previous quarter, but grew 0.9 percent from the last year. [60]

Between 2007 and 2016, the average sales price for Manhattan townhouses has increased 34.9 percent, from $4,658,155 to $6,282,665. Although there has been an increase over the decade, there was a nine percent decline from 2015 to 2016. [61] The average sales price of a Northern Manhattan townhouse increased 9.8 percent from last year but declined 2.9 percent from the previous quarter.

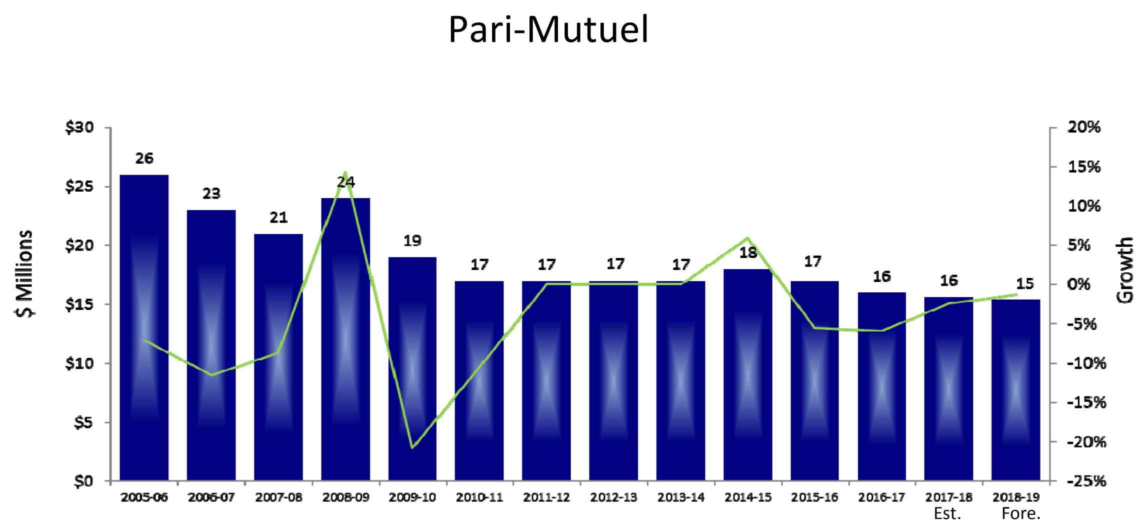
The real estate market is expected to continue to grow, albeit cautiously, during SFY 2017-18 and SFY 2018-19. The underlying economic fundamentals will remain positive over the forecast horizon. Equity markets, housing demand, employment growth and wages are expected to support continuing gains in the real estate market partially offset by downward

[60] Prudential Douglas Elliman Real Estate. (2018). Q4-Quarterly Survey of Manhattan Co-op, Condo & Townhouse Sales, https://www.elliman.com/pdf/b3999f445fd9f4af7b16d31af5adbfe455cd6fd6

[61] Prudential Douglas Elliman Real Estate. (2016). 2007-2016 Manhattan Townhouse Report, https://www.elliman.com/reports-and-guides/reports/new-york-city/2007-2016-manhattan-townhouse-report/8-803.

pressure on mortgage demand due to the expected increases in short and long term interest rates.

Pari-Mutuel



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

Figure 78

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

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

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

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

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

Table 58

Pari-Mutuel Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$14	(0.7%)	$16	-2.5%	$15	$1
2018-19			$15	(1.3%)	$15	$0

YTD through January

Through January, pari-mutuel tax receipts are currently $14 million, a 0.7 percent decrease over the same period in SFY 2016-17.

State Fiscal Year 2017-18

The committee staff estimates pari-mutuel receipts will total $16 million in SFY 2017-18. This is the same as the previous year. The committee staff's estimate is $1 million above the Executive's projections.

State Fiscal Year 2018-19

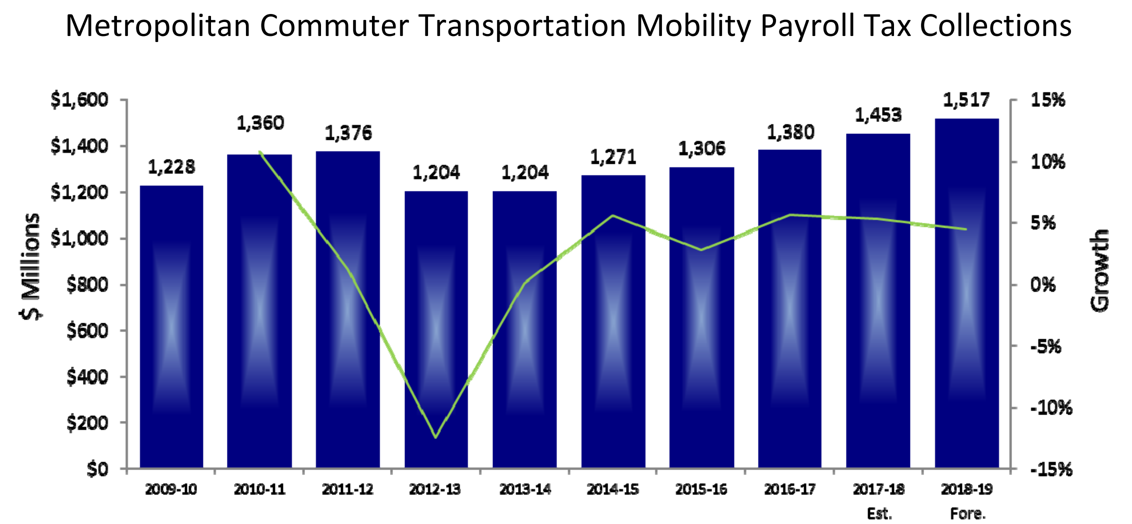
The committee staff forecast for SFY 2018-19 is $15 million, or $1 million below the SFY 2017-18 collections. The committee's forecast is the same as the Executive's forecast.

Fund Distribution

Table 59

Pari-mutuel Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	$16	-	-	-	$16
2018-19	$15	-	-	-	$15

MTA Payroll Tax



Note: The Executive budget proposal changes the allocation of this tax; collections from this tax will be zero for 2018-19.
Sources: NYS Office of the Comptroller; NYS Assembly Ways and Means Committee staff estimates.

Figure 79

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

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

Table 60

Metropolitan Commuter Transportation Mobility Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$1,166	5.5%	$1,453	5.3%	$1,438	$15
2018-19			$0	-100.0%	$0	$0

YTD through January

Through January, collections have increased by 5.5 percent to total $1.166 billion.

State Fiscal Year 2017-18

Committee staff expect collections for SFY 2017-18 to total $1.453 billion, an increase of 5.3 percent over the previous fiscal year. This is $15 million above the Executive's estimate. Committee staff expect collections for the remainder of the year to grow by 4.3 percent over the last fiscal year. This closeout is driven by the staff's projected growth of 5.0 percent in wages and 3.9 percent in sole proprietor income for SFY 2017-18.

State Fiscal Year 2018-19

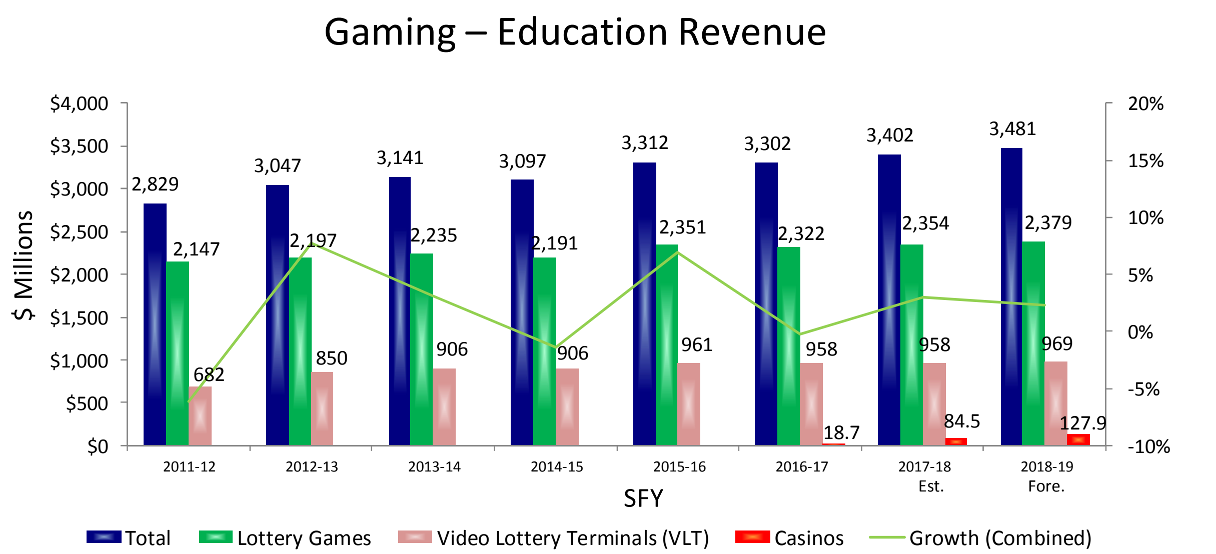
Committee staff forecasts collections to increase by $64 million or 4.4 percent to a level of $1.517 billion in SFY 2018-19. In SFY 2018-19, the committee staff forecasts growth of 4.4 percent in wages and 4.6 percent for sole proprietorship income. The Executive's budget proposal changes the allocation as that the tax will be sent by the state to the MTA without state appropriation; therefore, both the committee and the Executive estimate collections from this tax to be zero in terms of All Funds tax collections.

Fund Distribution

Table 61

Metropolitan Commuter Transportation Mobility Tax Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2017-18	-	1,453	-	-	1,453
2018-19	-	-	-	-	-

Gaming



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

Figure 80

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

In 2004, video lottery terminal (VLT) facilities began operating. Currently ten video lottery terminals (VLTs) facilities exist in New York State. These facilities contributed, exclusive of the casino funds transfer, $952.6 million in revenue to education during the last fiscal year. On average, VLTs contributed 45.59 percent of their Net Machine Income to education in SFY 2016-17.[62]

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

The law permitting the licensing, regulation and taxation of non-tribal casinos was enacted in 2013. There are currently three commercial gaming facilities in operation: Tioga Downs, del Lago Resort, and Rivers Casino and Resort, but Montreign Resort Casino is expected to open in March of 2018.

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

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

Table 62

Gaming ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2017-18	$2,172	6.7%	$3,402	3.0%	$3,362	$39
2018-19			$3,481	2.3%	$3,366	$115

YTD through January

Through January, gaming revenue totaled $2.450 billion, a 7.4 percent increase over the same period in SFY 2016-17.

State Fiscal Year 2017-18

The committee staff estimates total gaming receipts of $3.402 billion, an increase of 3.0 percent or $100 million over SFY 2016-17. The staff's estimate is $39 million higher than the Executive's estimate. Collections are expected to fall by 6.8 percent over the remainder of the fiscal year.

The committee staff estimates lottery games receipts will total $2.354 billion for an increase of 1.4 percent over SFY 2016-2017.

Revenue from the multi-state lottery games Mega Millions and Powerball is strongly correlated with the build-up of the jackpot level. Through January, Powerball revenue has risen 21 percent, or $21 million, for a total of $122 million. This is due to high Powerball jackpots in August and January. Revenue from Powerball sales is estimated to total $143 million in SFY 2017-18 representing an increase of 17 percent or $21 million over SFY 2016-17.

The committee estimates that VLT receipts will total $914 million, an increase of 0.5 percent over SFY 2016-17. However, the 2013 legislation enabling casinos stipulated VLT revenues not to fall below the level of collections for the 12-month period preceding the opening of a Nassau or Suffolk VLT facility or an opening of a casino. Therefore, the Commercial Gaming Revenue Fund, which contains tax revenues from casinos, makes a transfer to the State Lottery Fund to maintain revenue of $958.2 million annually.

The Committee estimates that casino receipts will total $84.5 million, an increase of 351 percent over SFY 2016-17. Casino tax collections began during the last four months of SFY 2016-17.

The committee estimates that the first full fiscal year's interactive fantasy sports tax receipts will total $4.9 million.

State Fiscal Year 2018-19

The committee staff projects that combined gaming revenue will total $3.481 billion in SFY 2018-19. This represents an increase of 2.3 percent or $79 million more than in SFY 2017-18. This estimate is $115 million above the Executive's forecast. The committee staff forecasts that lottery game revenue receipts will total $2.379 billion, an increase of 1.1 percent over SFY 2017-18. VLT receipts are expected to total $969 million, a increase of 1.1 percent from the prior year. Casino receipts are forecast to total $128 million, an increase of 51 percent over SFY 2017-18. This increase is due to the opening of the Montreign Resort Casino, which will be operational in March 2018 and is projected to add $60 million in revenue. Fantasy sports betting receipts are forecast to total $4.9 million, representing no change over SFY 2017-18.

Miscellaneous Receipts

Miscellaneous Receipts – All Funds

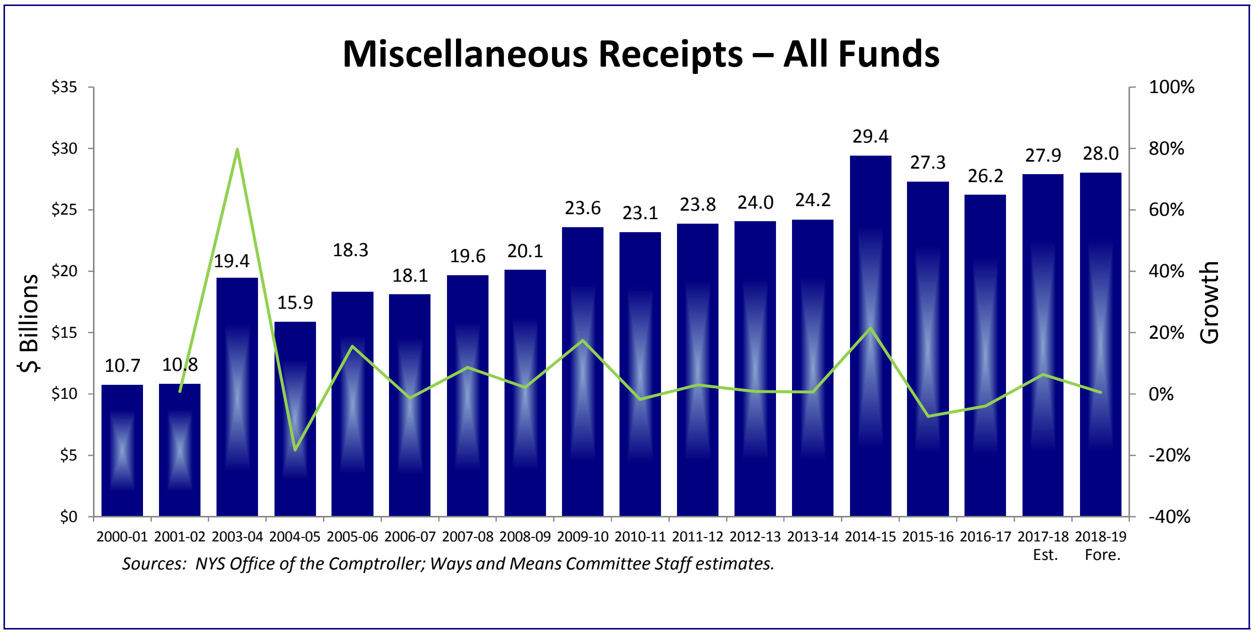


Figure 81

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

On an All Funds basis Miscellaneous Receipts are estimated to total $27.855 billion in SFY 2017-18 and $28.015 billion in SFY 2018-19.

Miscellaneous Receipts – General Fund

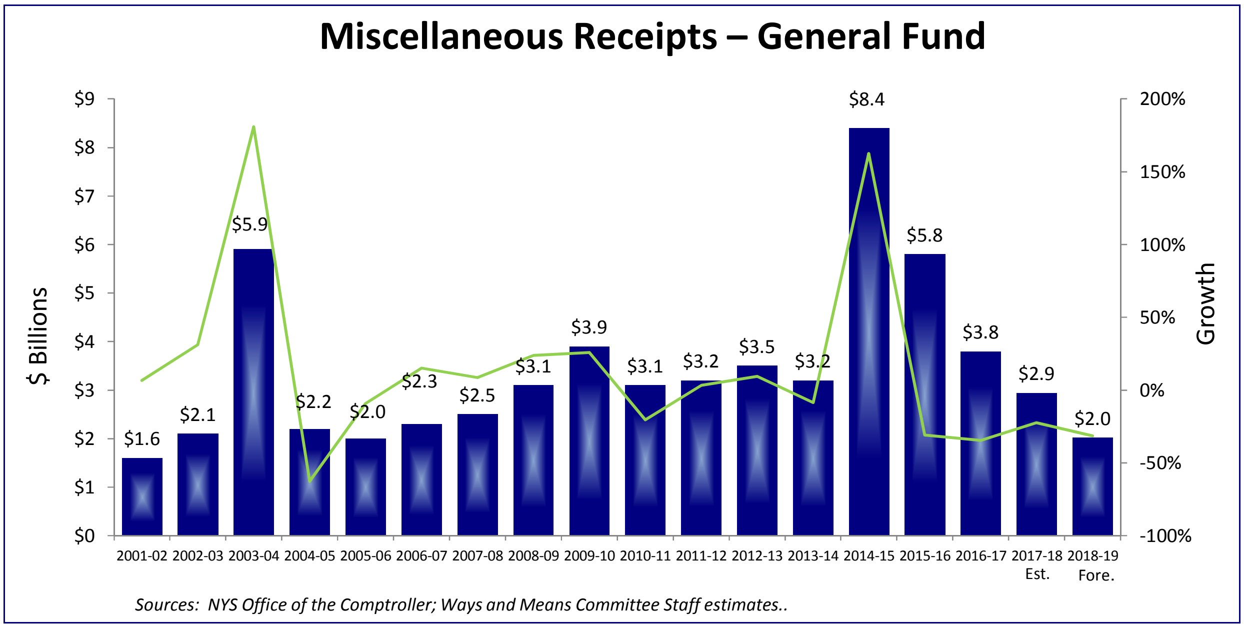


Figure 82

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

SFYs 2017-18 & 2018-19

General Fund Miscellaneous Receipts are estimated to total $2.945 billion in SFY 2017-18, followed by a total of $2.019 in SFY 2018-19.

Key Components

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

- licenses and fees;
- abandoned property;

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

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

Table 63

Miscellaneous Receipts - General Fund
($ in Millions)

	2016-17 Actual	2017-18 Estimated	2018-19 Projected	Change	Percent Change
Licenses, Fees	$644	$665	$670	$5	0.8%
Abandoned Property	438	450	450	0	-
Reimbursements	246	273	107	(166)	(60.8%)
Investment Income	24	30	10	(20)	(66.7%)
ABC License	61	68	66	(2)	(2.9%)
Motor Vehicles Fees	174	230	269	39	17.0%
Other Transactions	2,226	1,229	447	(782)	(63.6%)
Total	**$3,813**	**$2,945**	**$2,019**	**($926)**	**(31.4%)**

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

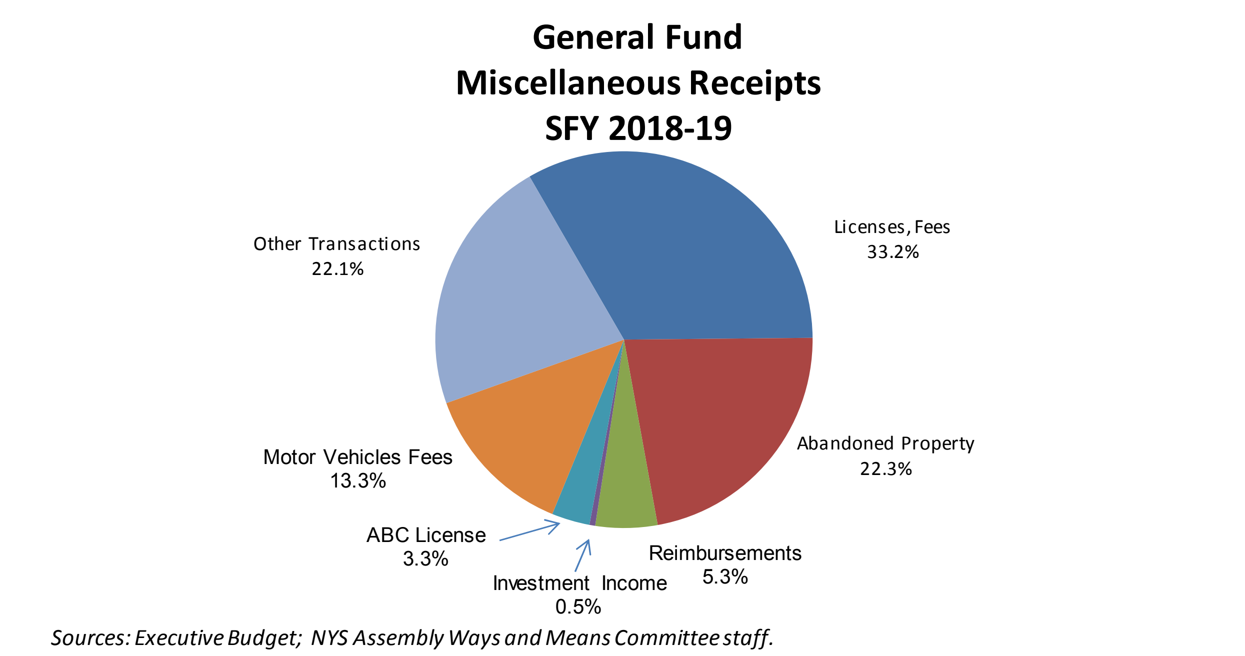


Figure 83

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

Miscellaneous Receipts – Special Revenue Funds

SFY 2017-18

The committee staff estimates Special Revenue funds to total $17.156 billion in SFY 2017-18, whereas Capital Projects are expected to total $7.284 billion and Debt Service is anticipated to receive $470 million in receipts.

SFY 2018-19

The committee staff estimates Special Revenue funds to total $17.828 billion in SFY 2018-19, with Capital Projects expected to total $7.704 billion and Debt Service is anticipated to receive $465 million in receipts.

Key Components

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

Health Care Reform Act (HCRA)

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

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

Medicaid

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

State University Income

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

Gaming

Sales of lottery tickets, Video Lottery Terminal (VLT) tax revenues, casino taxes and interactive fantasy sports tax revenues are used to support public education and Gaming Commission administrative operating costs.

Motor Vehicle Fees

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

Capital Projects

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

Debt Service

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

Industry Assessment and All Other

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