THE ASSEMBLY
STATE OF NEW YORK
ALBANY

CHAIRMAN
Ways and Means Committee

COMMITTEES
Rules

Black, Puerto Rican, Hispanic and Asian
Legislative Caucus

HERMAN D. FARRELL, JR.
Assemblyman 71st District

Room 923
Legislative Office Building
Albany, New York 12248
(518) 455-5491
(518) 455-5776 FAX

February 25, 2014

Dear Colleagues:

I am providing you with the NYS Assembly Ways and Means Committee *Revenue and Fiscal Outlook* for State Fiscal Year (SFY) 2013-14 and 2014-15. This report is part of our commitment to presenting clear and accurate information to the public. It provides an overview of the national and State economies, as well as an analysis of the Committee staff revenue forecast.

The Committee staff projects that total All Funds receipts will reach $140.688 billion in SFY 2013-14, which represents an increase of $7.513 billion, or 5.6 percent, from SFY 2012-13. The Committee staff estimate is $82 million below the Executive's estimate for SFY 2013-14.

The Committee staff projects that All Funds receipts will total $142.311 billion in SFY 2014-15, an increase of $1.623 billion, or 1.2 percent, over SFY 2013-14. The Committee staff forecast is $410 million higher than the Executive's forecast for SFY 2014-15. This difference is largely attributable to differences in economic projections and how this translates into receipts.

The Committee staff's economic and revenue projections are reviewed by an independent panel of professional economists drawn from major financial corporations, prestigious universities, and private forecasters from across the State. Assembly Speaker Sheldon Silver and I would like to express our appreciation to all of the members of our Board of Economic Advisors. Their dedication and expert judgment have been invaluable in helping the Ways and Means Committee staff refine and improve this forecast. They have served to make the work of the staff the best in the State. Of course, they are not responsible for either the numbers or any of the views expressed in this document.

I wish to acknowledge the fine work done by the talented Ways and Means Committee staff. Their forecasts are integral to the budget process. The Speaker and I look forward to working with each of you to achieve our goal of crafting a fair budget for all New York families during this challenging time.

Sincerely

Herman D. Farrell, Jr.
Chairman

NEW YORK STATE REVENUE AND FISCAL OUTLOOK

FISCAL YEAR 2013-14 AND 2014-15

February 2014

SHELDON SILVER
Speaker
New York State Assembly

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

Prepared by the
Assembly Ways and Means Committee Staff

Matthew A. Howard
Secretary to the Committee

Steven A. Pleydle
Deputy Secretary to the Committee

Michael J. Johnson
Counsel to the Committee

Anthony A. Rodolakis, Ph.D.
Deputy Director for Fiscal Studies
Director of Tax Study

Philip A. Fields
Deputy Director for Fiscal Studies

Minoru Hata
Counsel to Fiscal Staff

TABLE OF CONTENTS

EXECUTIVE SUMMARY 1
FISCAL OUTLOOK 5
ECONOMIC OUTLOOK 11
TAX ANALYSIS
- Overall Trends 29
- Personal Income Tax 37
- Sales and User Taxes 61
  - Sales Tax 62
  - Auto Rental 70
  - Motor Fuel Taxes 72
  - Highway Use Tax 75
  - Cigarette and Tobacco Taxes 77
  - Alcoholic Beverage Control License Fees 80
  - Alcoholic Beverage Tax 82
- Business Taxes 85
  - Corporate Franchise 86
  - Bank Tax 92
  - Insurance Tax 96
  - Corporate Utility Tax 99
  - Petroleum Business Tax 103
- Other Taxes 107
  - Estate and Gift 108
  - Real Estate Transfer Tax 111
  - Pari-mutuel 115
  - Metropolitan Commuter Transportation Mobility Tax 118
- Lottery 121
- Miscellaneous Receipts 125
- Federal Funds 131
- Executive Tax Proposals 133
- Property Tax Relief 137
- Tax Structure and Reform 149

FINANCIAL PLAN HIGHLIGHTS 159
CAPITAL AND DEBT 219

Executive Summary

The Assembly Ways and Means Committee (WAM) staff forecasts moderate growth in revenues consistent with modest growth in the economy:

- In State Fiscal Year (SFY) 2013-14 State funds taxes are estimated to increase by 4.6 percent or $3.0 billion; when including Miscellaneous Receipts and Federal grants All Funds receipts are estimated to increase by 5.6 percent or $7.5 billion; and,

- In SFY 2014-15 State funds taxes are forecast to increase by 2.6 percent or $1.8 billion as the economy maintains its current growth momentum. However, as Federal funds decrease, All Funds receipts are forecast to increase 1.2 percent or $1.6 billion.

The two-year WAM staff projections show no significant difference from the Executive forecast:

- For SFY 2013-14 the staff forecast for All Funds receipts is $82 million below the Executive's forecast; and,

- For SFY 2014-15 the staff forecast is $410 million above the Executive's forecast.

Economic and revenue forecasts risks remain:

- The U.S. and State economic outlook is premised on the expected outlook for fiscal and monetary policies and the influence of international affairs;

- The global outlook remains a key risk for forecasters as emerging markets continue to have external pressures; and,

- If the sluggish economic recovery accelerates and finally enters a long-term sustainable path, then the relevant tax sources will experience more robust gains.

Year-to-Date Collections through January show moderate increase:

- Through January, All Funds receipts totaled $114.875 billion, an increase of $5.601 billion or 5.1 percent over the prior fiscal year;

- All Funds tax collections were $58.323 billion representing growth of 4.2 percent or $2.374 billion over the prior fiscal year; and,

- Miscellaneous receipts totaled $19.835 billion for growth of 4.6 percent or $873 million, while Federal Funds receipts registered growth of 6.8 percent or $2.354 billion to reach $36.718 billion.

All Funds Revenue Estimates for SFY 2013-14 continue the current growth trend:

- All Funds tax collections are estimated to total $69.347 billion in SFY 2013-14, representing growth of 4.6 percent or $3.045 billion over the prior fiscal year; and,

- This estimate is $66 million below the Executive estimate.

All Funds Tax Revenue Forecasts for SFY 2014-15 call for underlying trend rate growth levels:

- All Funds tax collections are estimated to total $71.182 billion in SFY 2014-15, representing growth of 2.6 percent or $1.835 billion over the prior fiscal year;

- This estimate is $388 million above the Executive estimate; and,

- Including Miscellaneous Receipts and Federal Funds, total revenue collections are estimated to total $142.311 billion for growth of 1.2 percent or $1.623 billion over the prior fiscal year. This estimate is $410 million above the Executive estimate.

The Executive Budget contains $2.5 billion in tax cuts:

- For SFY 2014-15 the Executive proposes tax reductions totaling $294 million and when fully phased-in will reduce taxes by 2.5 billion. The proposals include real property tax relief personal income tax credits, corporate tax reform, as well as reductions in the estate tax; and,

- The Multi-year Financial Plan submitted with the budget proposes to continue the two percent spending benchmark in order to implement the tax proposals.

Temporary revenues help support the State's balanced General Fund Budget in SFY 2014-15:

- The Executive is proposing non-recurring actions totaling more than $1.2 billion, such as utilizing available recoveries, reserves, debt management, negotiating funding agreements with public authorities, and other transactions;

- The Personal Income Tax (PIT) reform surcharge is estimated to add $2.3 billion in revenue support; and,

- The State Insurance Fund (SIF) was authorized in the SFY 2013-14 Budget to provide $1 billion in SFY 2014-15, an increase of $500 million.

Federal funds are estimated to decrease 2.8 percent, but still include $5 billion in extraordinary aid:

- The Executive Budget projects to receive $45.8 billion in Federal aid in SFY 2014-15. Lower federal aid of $1.7 billion consists of $1.9 billion increase in Medicaid and $3.6 billion decrease in All Other grants with education being flat; and,

- The annual increase in spending includes $2.4 billion in Federal Superstorm Sandy funding and $2.6 billion pursuant to the Affordable Care Act.

Action taken with this Budget will balance the General fund for the current year and through the end of the 5-year plan:

- The State faces current service budget gaps of $1.7 billion in SFY 2014-15, $2.9 billion in SFY 2015-16, $2.9 billion in SFY 2016-17, and $3.9 billion in 2017-18; and,

- The estimated gaps, reflect the short-term impact of the economy on State tax receipts and economically-sensitive programs.

The Executive Budget continues spending limitations in the area of Education and Health Care:

- The Executive is proposing to continue limits on the annual growth rates for major programs, including Medicaid and School Aid. The target growth rate for Medicaid will be the long-term average change in the medical component of the Consumer Price Index. The targeted growth rate for School Aid will be based on the annual change in New York State personal income; and,

- With the proposed spending limitations and other spending reductions, as well as proposed revenue actions, out-year budget surpluses are projected to be $155 million in SFY 2015-16, $165 million in SFY 2016-17, and $173 million in SFY 2017-18.

The Executive proposes to extend HCRA until March 31, 2017, with the fund remaining in balance and not needing support from the General Fund:

- HCRA is anticipated to receive $5.5 billion, an increase of $191 million above SFY 2013-14; and,

- All receipts in HCRA, except cigarette tax and All Other receipts, are projected to show modest growth in SFY 2014-15.

The State's debt outstanding remains critically close to the maximum level of allowable debt:

- State-related debt outstanding is projected to total $57.1 billion in SFY 2014-15, an increase of $1.5 billion or 2.8 percent from SFY 2013-14;

- Over the period of the Financial Plan, State-related debt outstanding is projected to increase from $55.6 billion in SFY 2013-14 to $59.4 billion in SFY 2017-18, or an average increase of 1.4 percent annually; and,

- Overall, debt affordability measures from SFY 2013-14 through SFY 2018-19 shows that State-supported debt outstanding is projected to remain four percent below the statutory debt cap over the Plan period.

The Rainy Day Funds of $1.7 billion remain at last year's level, only 2.6 percent of the General Fund:

- Funds from the Tax Stabilization Reserve Fund (TRSF) may be borrowed by the General Fund temporarily and repaid within the same fiscal year. They may also be borrowed to cover an operating deficit at year-end. These loans must be repaid within six years in no less than three annual installments; and,

- Cash assets of the TSRF are routinely loaned to the Local Assistance Account or the State Purposes Account during the fiscal year, but repaid in full by March 31 of any fiscal year.

The Financial Plan presented on a Generally Accepted Accounting Principles (GAAP) basis continues to show short term deficits:

- In SFY 2013-14, the Executive estimates an Operating Deficit of $1.1 billion, increasing the Accumulated Deficit from $739 million to $1.8 billion; and,

- For the upcoming fiscal year the Executive anticipates an Operating Deficit of $192 million for SFY 2014-15, increasing the Accumulated Deficit to $2 billion.

Fiscal Outlook

Fiscal Outlook

With global and national economic activity getting stronger in 2013 the State is heading toward a sustained expansion with growth in revenues converging with the rate of growth in spending. This will lead to a balanced budget this year and the ability to sustain the budget throughout the 5-year Financial Plan.

With a more stable fiscal picture the administration proposes a fiscal plan which, assuming the continuation of current economic trends, could lead to a long term budgetary surplus. The proposed plan would reduce the incremental cost in current services budgets in order to reduce state taxes.

Revenue

Through January, All Governmental Funds Receipts totaled $114.875 billion, an increase of $5.6 billion, which is 5.1 percent above the first ten months of the prior fiscal year. All Funds tax collections were $58.323 billion, representing growth of 4.2 percent over the prior fiscal year, or $2.374 billion. Miscellaneous receipts are $19.835 billion, 4.6 percent above collections from a year ago, and $152 million below financial plan projections. Federal funds totaled $36.718 billion, an increase of $2.4 billion or 6.8 percent above collections from a year ago, $342 million above financial plan projections.

State Fiscal Year (SFY) 2013-14 Tax Revenue Estimates

The combination of an ongoing economic recovery, extension of the tax reforms of 2011, and large settlement payments in the spring of 2013, has led to a year-to-date growth in All Funds tax receipts of 4.2 percent.

The Ways and Means Committee staff's All Funds tax revenue estimate for SFY 2013-14 is $69.347 billion, representing an increase of 4.6 percent or $3.045 billion over the prior year. Including miscellaneous receipts and lottery, the total is $93.182 billion, an increase of $2.850 billion or 3.2 percent.

The Committee staff's All Funds tax revenue estimate is $66 million below the Executive's estimate. In terms of overall State tax revenues, the largest difference between the Committee staff estimates and the Executive estimate is in business taxes, which are $90 million below Executive estimates.

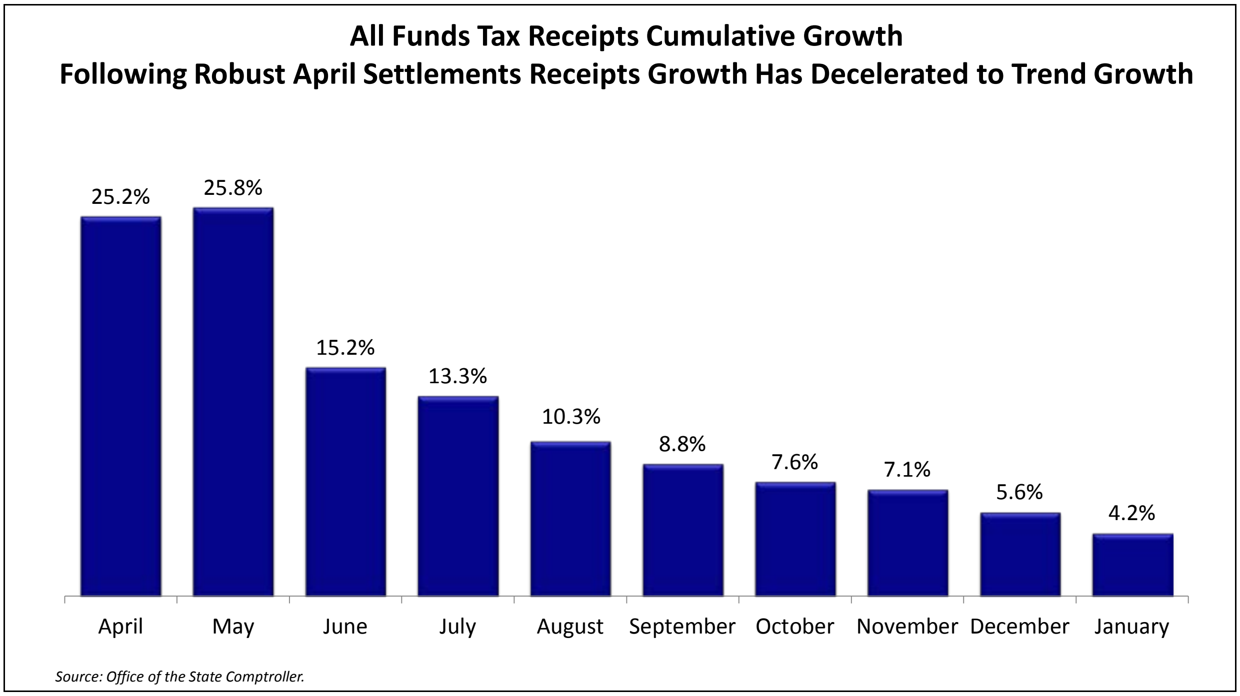


Figure 1

Table 1

SFY 2013-14 All Funds Forecast Summary ($ in Millions)	2012-13 Actual	2013-14 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$40,227	$42,790	$2,563	6.4%	($56)
User Taxes	14,615	15,158	542	3.7%	50
Business Taxes	8,465	8,096	(369)	-4.4%	(90)
Other	2,995	3,303	308	10.3%	29
Total Tax Collections	**$66,302**	**$69,347**	**$3,045**	**4.6%**	**(66)**
All Funds Misc Rpts	20,956	20,697	(259)	-1.2%	19
Lottery	3,074	3,138	64	2.1%	(34)
Total w/Misc Rpts & Lottery	**$90,332**	**$93,182**	**$2,850**	**3.2%**	**($82)**
Federal Funds	42,843	47,506	4,663	10.9%	-
Total All Funds Receipts	**$133,175**	**$140,688**	**$7,513**	**5.6%**	**($82)**

Table 2

SFY 2014-15 All Funds Forecast Summary ($ in Millions)	2013-14 Estimate	2014-15 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$42,790	44,328	$1,538	3.6%	197
User Taxes	15,158	15,470	312	2.1%	(10)
Business Taxes	8,096	7,940	(156)	-1.9%	87
Other	3,303	3,444	141	4.3%	114
Total w/Payroll Tax	**69,347**	**71,182**	**1,835**	**2.6%**	**388**
All Funds Misc Rpts	20,697	22,175	1,479	7.1%	24
Lottery	3,138	3,161	24	0.8%	(3)
Total w/Misc Rpts & Lottery	**$93,182**	**96,519**	**3,337**	**3.6%**	**$410**
Federal Funds	47,506	45,792	(1,714)	-3.6%	-
Total All Funds Receipts	**$140,688**	**$142,311**	**$1,623**	**1.2%**	**$410**

The personal income tax (PIT) tax law changes enacted in 2009 as well as the December 2011 Tax Reform and its extension continue to provide substantial support to the underlying revenue collections. For example, absent the December 2011 reform and its extension, SFY 2013-14 PIT tax revenues would have been lower by $2.236 billion and $2.317 billion in SFY 2014-15.

Tax collections are expected to increase by 6.5 percent over the last two months of the fiscal year. PIT collections, the largest component of tax receipts, will need growth of 14.0 percent to reach the Committee staff estimates for SFY 2013-14, while the Executive’s estimate will require growth of 15.2 percent for the rest of the fiscal year.

SFY 2014-15 Forecast

Key economic indicators, such as the real Gross Domestic Product (GDP) and New York State employment and wage growth, point to a recovery that is slowly accelerating its momentum to reach trend level growth. The Committee staff is predicting GDP growth of 2.7 percent in 2014, followed by growth of 3.1 percent in 2015. In addition, job growth is expected to remain sluggish through 2014 with a growth rate of 1.7 percent. Higher job gains are necessary to reduce the number of the long-term unemployed as well as increase the labor-force participation rate. The Committee staff forecasts All Funds tax receipts to total $71.182 billion in SFY 2014-15 or 2.6 percent growth, a gain of $1.835 billion over SFY 2013-14.

The growth is attributed primarily to PIT receipts that are expected to be $1.538 million above the SFY 2013-14 estimates. Overall, the Committee’s forecast is $410 million above the Executive’s forecast, inclusive of miscellaneous receipts and lottery.

Spending

The Governor proposes an All Funds Budget of $142.1 billion for SFY 2014-15, $1.3 billion higher than the estimated $140.9 billion in spending for SFY 2013-14 representing an increase of 0.9 percent. Federal funds are forecast to decrease by 3.6 percent in SFY 2014-15, as the State is estimated to receive less Federal assistance related to Superstorm Sandy than in SFY 2013-14. The Executive's current budget submission incorporates a State Funds growth of 2.3 percent.

Table 3

Size of Budget
($ in Millions)

	2013-14	2014-15	Difference	Percent
General Funds	$61,460	$63,563	$2,103	3.4%
State Operating Funds	$90,498	$92,027	$1,529	1.7%
State Funds	$96,624	$98,874	$2,250	2.3%
All Funds	$135,350	$137,168	$1,818	1.3%
All Funds Adjusted*	$140,865	$142,141	$1,276	0.9%

Note: All Funds Adjusted includes extraordinary federal aid associated with Hurricane Sandy and the Affordable Care Act.

Disbursements through January 2014

General Fund spending through January 2014 was $38.0 billion, excluding transfers, which is $226 million below the Financial Plan. This is primarily a result of lower than expected spending in Local Assistance Grants of $113.7 million and in departmental operations of $83.7 million.

All Funds spending through January 2014 was $108.1 billion which is $58.5 million above the Financial Plan. This is primarily a result of higher than expected spending in Local Assistance Grants of $368 million, offset by lower than expected spending in Capital Projects of $323.3 million.

All Funds Disbursements

SFY 2014-15 will be the second time over the last four years that the State will receive extraordinary financial assistance from the Federal government. It is estimated that the State will receive $2.4 billion for Superstorm Sandy relief and $2.6 billion for the Affordable Care Act. Previously, the State received over $10 billion in Federal stimulus aid following the financial implosion and the onset of the Great Recession.

General Fund Disbursements

The General Fund is the primary operating fund of the State. It accounts for all financial plan transactions that are not earmarked for a particular fund, program or activity specifically required by law. General Fund spending is projected to total $63.6 billion in SFY 2014-15, an increase of $2.1 billion or 3.4 percent over SFY 2013-14. Education, with a share of 32 percent, accounts for the largest component of outlays with Medicaid second with a share of 18 percent.

Economic Outlook

Economic Outlook

National and Global Economic Outlook

The accuracy of the overall State fiscal outlook depends critically on the underlying economic fundamentals and any large deviations from those assumptions could threaten the viability of current projections as well as the efficacy of any fiscal measures. However, the outlook is also subject to upside risks as the housing market's recovery could accelerate above expectations, while consumer and business spending – especially in durable goods – will also benefit from a credible long-term federal budget agreement.

In the broader global economic outlook there are signs that the European Union sovereign debt crisis is contained, although significant slowdowns continue to plague most Euro-zone nations. However, worrisome signs are accumulating with respect to economic growth in China and the financial health of emerging countries.

The revenue forecast also contains specific transaction risks such as the receipt of certain payments from public authorities; non-anticipated miscellaneous receipts; and cost-savings measures.

With Federal action still in doubt, any reduction of Federal aid, related to sequestration from the Budget Control Act of 2011, would adversely impact the proposed Financial Plan.

U.S. Economy

Current Trends

Almost five years after the Great Recession officially ended on July 2009, the U.S. economy continues on a steady, albeit tentative, path of economic recovery. Following a robust 4.1 percent growth in the third quarter of 2013 the U.S. economy registered a 2.7 percent increase in the fourth quarter and is expected to increase by 1.8 percent in the first quarter of 2014. The anticipated slowdown is partially due to the inventory buildup during the end of last year that is subtracting from growth during the early months of 2014.

Recent reports on the current state of the economy have renewed concerns over the strength of the recovery and a possible return to its sluggish growth path. January retail sales declined by 0.4 percent, with downward revisions for the previous two months, while factory orders were down 1.5 percent in December with durable goods orders down 4.2 percent. As further explained in our risks to the forecast section, substantial downside risks remain with important implications for the fiscal health of the State.

Figure 2 provides an overview of the quarterly real GDP growth rates since the first quarter of 2011 together with the Committee's preliminary estimate for the current quarter. On average and through the middle of last year, growth had remained below historical trend patterns underlying the significant headwinds the economy faced and are still threatening the long-term sustainability of the recovery as explained further below.

Source: U.S. Bureau of the Census; NYS Assembly Ways and Means Committee staff

Figure 2

The Conference Board's Leading Economic Index (LEI) for the U.S. increased 0.3 percent in January to 99.5, following no change in December and a 0.9 percent increase in November. The increase was premised on strength from the financial components of the index; however, the Board expressed concerns related to expectations on business conditions and residential construction.

U.S. employment growth had gained momentum towards the end of last year; however, the last two monthly readings held a surprise as the December and January job gains - at 75,000 and 113,000, respectively - were below expectations rekindling economists' fears as to the strength of the economic recovery. Even more ominously, while the unemployment rate declined slightly to 6.6 percent, the decrease is attributed to the historically low labor force participation rate that stands at a 35-year record low at 63.0 percent.

The chart below provides an overview of the labor force participation rate since the end of World War II. Changing social and economic trends led to a rapid increase in the labor force participation through the 1960s, stabilizing throughout the 1980s and 1990s, reaching a peak of 67.3 percent in early 2000. The labor force participation rate started a noticeable downward trend in the early 2000s with a significant acceleration since the onset of the recession in SFY 2007-08. Recent research points to a variety of, primarily, cyclical and policy factors that hold the participation rate at historically low levels, in addition to long-term demographic factors, such as the age structure of the workforce, increasing education involvement, more working adults receiving disability benefits, etc.[1,2,3]

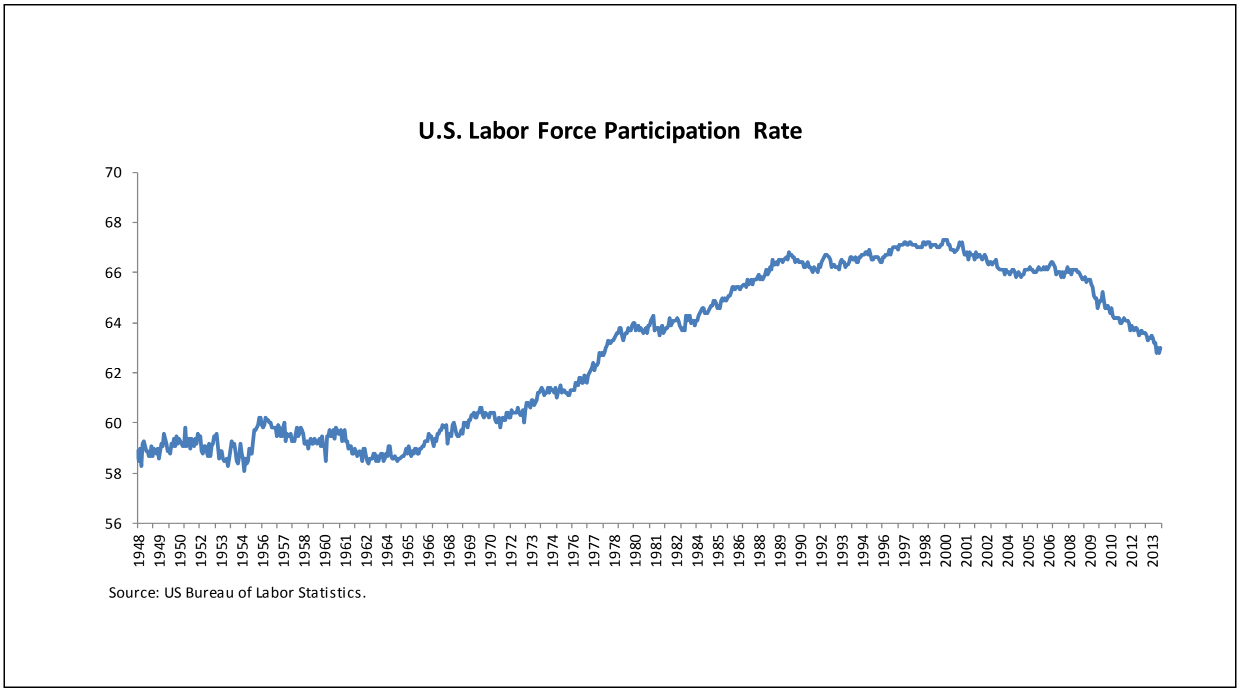


Figure 3

The decline in the labor force participation rate has occurred in conjunction with a sharp increase in the number of long-term unemployed in the U.S. (See Chart below.)

[1] "*Labor force participation and monetary policy in the wake of the Great Recession*," C. J. Erceg and A.T. Levin, 2013, CEPR Discussion Paper.
[2] "*Explaining the decline in the U.S. labor force participation rate*," D. Aaronson and J. Davis, Chicago Fed Letter, The Federal Reserve Bank of Chicago, March 2012.
[3] "*Outlook Commentary*," Macroeconomic Advisers, January 9, 2014.

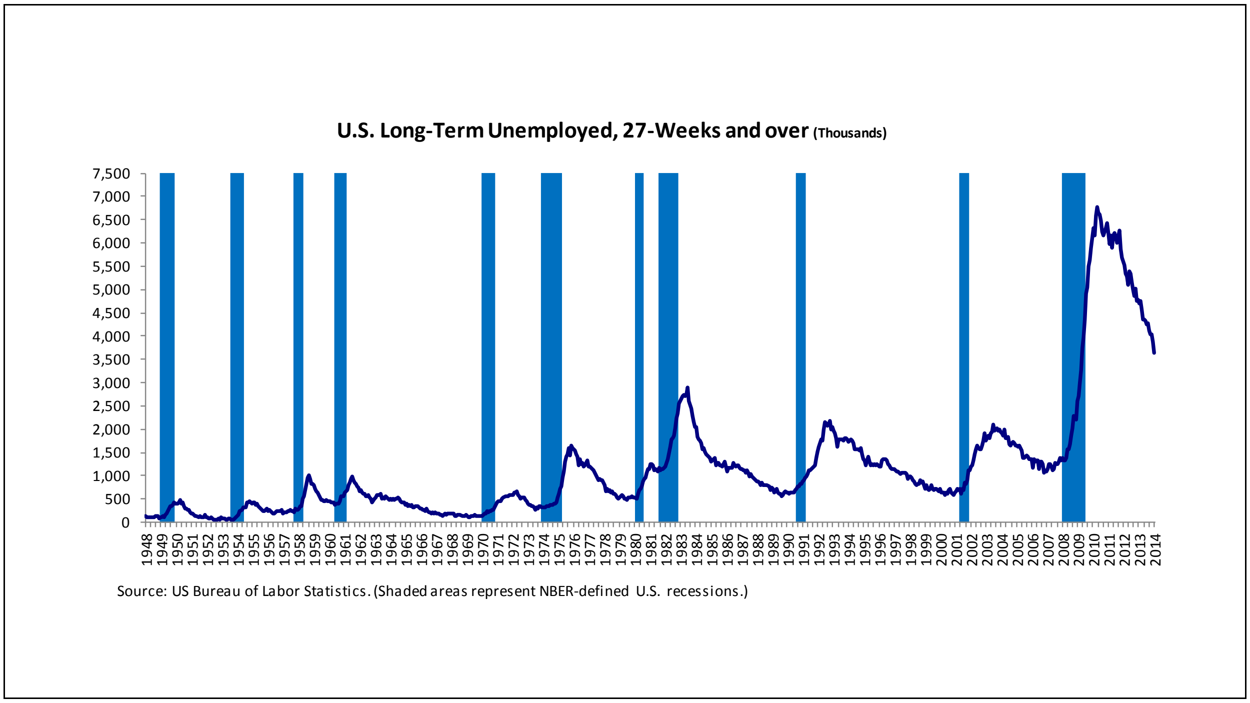


Figure 4

While during and after past recessions short-term increases in the number of long-term unemployed returned to pre-recession levels, two worrisome events have occurred during and after the current recession: a) the number of long-term unemployed increased to record high levels, and b) almost five years after the end of the recession, the number of long-term unemployed still remains well above the previous peak from the early 1980s. Economists have speculated as to the long-term implications of this trend with key questions remaining open to examination. For example, is the U.S. economy faced with a “European-style” long-term structural unemployment problem? What are the implications for the mix of appropriate fiscal and monetary policy, when that monetary policy cannot address structural employment problems?

World Economy

As the U.S. and State economies are linked to the global markets, an understanding of the current and future global economic trends is important in determining the risks in our U.S. and State economic outlooks, and corresponding risks to tax revenues.

Table 4

Global Economic Indicators				
	GDP		Consumer Prices	
	2013	**2014**	**2013**	**2014**
Brazil	2.6%	2.3%	6.2%	5.8%
China	7.6	7.7	2.6	3.0
Japan	1.9	1.8	0.2	2.3
Britain	1.4	2.3	2.6	1.8
Canada	1.7	2.7	1.0	1.5
Euro Area	-0.4	0.9	1.4	1.1
France	0.0	0.5	1.0	1.3
Germany	0.6	2.0	1.6	1.5
Italy	-1.8	0.4	1.3	1.0
Mexico	1.1	3.3	3.8	3.8

Source: Goldman Sachs Global Investment Research.

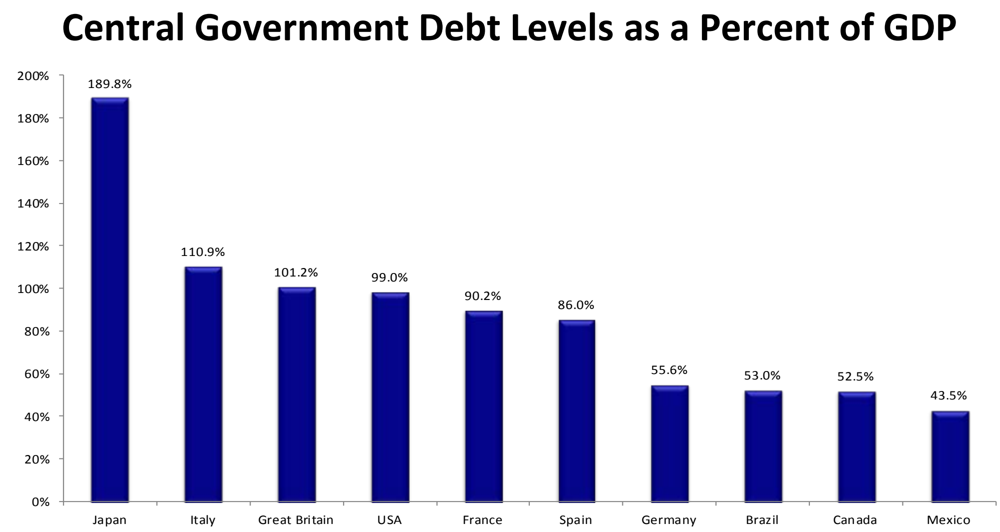
As the table above indicates, while inflationary pressures are well contained, most U.S. major trading partners experienced sluggish to negative growth in 2013. The Euro-area's GDP has declined by 1.5 percent from its peak in the third quarter of 2011 to its trough in the first quarter of 2013, registering an average decline of 0.4 percent during 2013. For 2014 the outlook promises to be slightly more optimistic with the Euro-area registering growth of 0.9 percent, still well below the growth levels needed for robust employment gains, while Britain's economic growth is expected to accelerate more robustly at 2.3 percent. Following the hype related to emerging markets' growth over the last few years, most major forecasters are revising down their outlooks as the financial conditions in nations such Brazil, India, and Turkey remain fragile with large currency depreciations.

Overall, the trade-weighted foreign GDP is expected to increase by 3.0 percent in 2014, followed by growth of 3.2 percent in 2015.[4]

Debt

Since the onset of the Great Recession in the U.S. and across many global economies, the problem of excessive public debt has come to the forefront of economic discussions. (See Chart below.) Sovereign debt problems in several European economies threatened the survival of the Euro only two years ago, and the threat of a financial collapse is still present as the debt levels remain significantly higher when compared to historical trends during peace times. As the Congressional Budget Office mentions in reference to the U.S. debt outlook: "such large and growing federal debt could have serious negative consequences, including restraining economic growth in the long term, giving policymakers less flexibility to respond to unexpected challenges, and eventually increasing the risk of a fiscal crisis."[5]

[4] "*International Watch*", Macroeconomic Advisers, February 6, 2014.
[5] "*The Budget and Economic Outlook: 2014 to 2024*", Congressional Budget Office, February 2014.



Source: Federal Reserve Board

Figure 5

Currency Markets

Exchange rate movements are, to a large extent, determined by the monetary policies pursued by the respective central banks. As the Federal Reserve proceeds with its tapering of monetary easing, emerging markets' currencies come under downward pressure. When combined with political unrest, currency pressures become even more intense with adverse implications for the financial markets.

The Euro is expected to retain its strength against the U.S. dollar, despite higher U.S. interest rates in the horizon, as the European Central Bank's balance sheet is much more restricted.

Equity Markets

Equity markets posted solid gains in 2013 across regions, with Japan registering growth of 56.7 percent, Great Britain growth of 14.4 percent, Germany growth of 25.5 percent and Canada growth of 9.6 percent.[6] However, so far this year equity markets have been weaker, a reflection of global concerns with emerging market economies' ability to attract investment and sustain growth in the face of monetary restraint in the U.S.

[6] "*International Watch*", Macroeconomic Advisers, February 6, 2014.

Future Indicators

Table 5 provides an overview of the Committee Staff's forecasts for key economic variables.

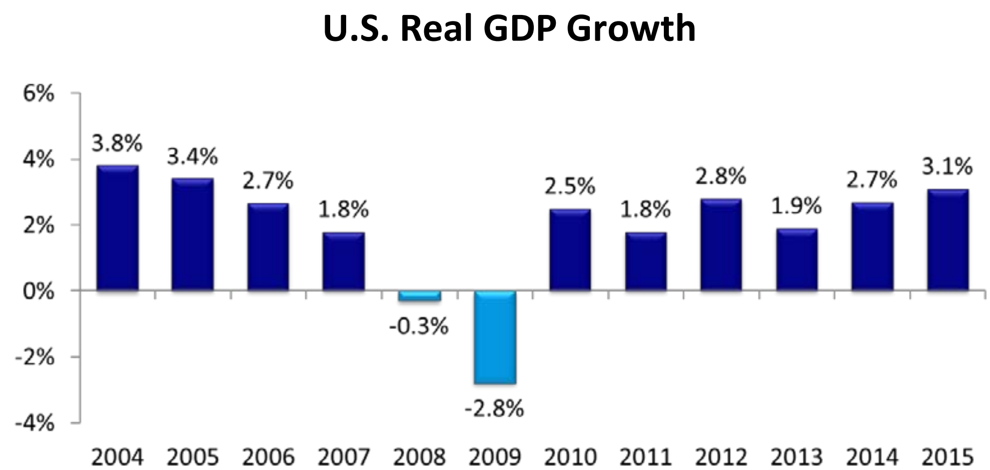
Table 5

Key Economic Forecast Variables (Percent Change)				
	Actual 2012	Estimate 2013	Forecast 2014	Forecast 2015
US Variables				
Real GDP	2.8	1.9	2.7	3.1
Personal Income	4.2	2.8	4.3	4.9
Corporate Profits	7.0	4.3	5.9	5.6
Employment	1.7	1.7	1.7	1.9
S&P 500	8.7	19.1	12.1	3.6
Treasury Bill Rate (3 month)*	0.1	0.1	0.1	0.3
Treasury Note Rate (10-year)*	1.8	2.4	3.0	3.4
NYS Variables				
Employment	1.3	1.1	1.2	1.3
Wages	3.0	1.6	4.6	4.7

*Annual Average Rate

Source: NYS Assembly Ways and Means Committee Staff

Following four years of below-trend real GDP growth, a more robust recovery is forecast for 2014 with real GDP growth reaching 2.7 percent, followed by 3.1 percent growth in 2015.



Source: U.S. Bureau of the Census; Ways and Means Committee Staff

Figure 6

Since the end of the recession, consumption expenditures have experienced positive, albeit tepid, growth compared to recent history. However, consumption growth has slowly returned to near-trend levels. Consumption is expected to increase by 2.7 percent in 2014 following growth of 2.0 percent in 2013 with a more robust 3.0 percent growth in 2015.

The housing sector is faced with more favorable conditions compared to the recent past. Tighter lending standards, high vacancy rates, and declining home prices had battered the sector during the depth of the Great Recession and through the early parts of the recovery. However, over the last few quarters pricing gains have firmed while vacancy rates are returning to more normal levels. Home prices, as measured by the S&P/Case Shiller index registered a 6.9 percent increase in December 2013 over December 2012, with price gains expected to continue in 2014.

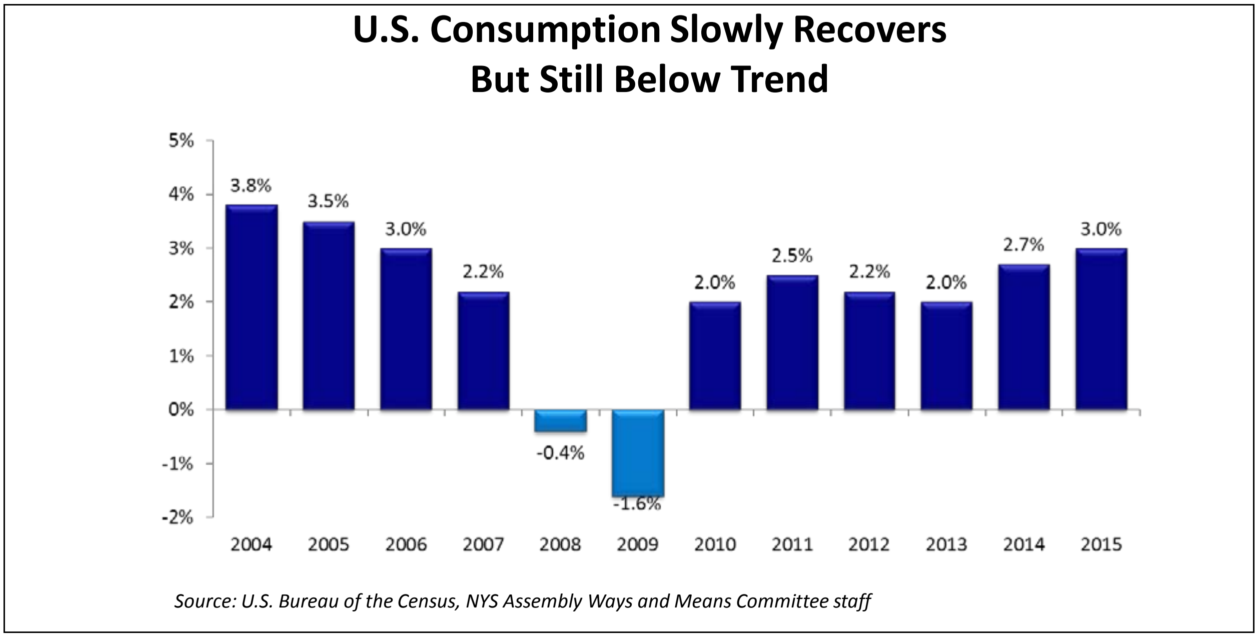


Figure 7

Business investment growth is also expected to pick up steam in 2014 with residential investment expected to register its third consecutive year of double-digit growth, buoyed by low interest rates and steady job gains. Growth in 2015 is expected to accelerate further with residential investment posting a 19.2 percent rate, following growth of 12.1 percent in 2014. Overall, business investment is expected to increase by 5.6 percent in 2014, following growth of 5.2 percent in 2013, with a further 7.6 percent growth in 2015.

A more in-depth examination of investment reveals further insights as to the changing macroeconomic structure in the U.S. The chart below shows the share of real private domestic investment in non-residential structures to overall GDP. The share exhibits a downward trend since it peaked during the early 1980s. Real private investment, correlated with structures and goods with higher average durability, plays a smaller role in the overall GDP compared to a few decades ago. As the production structure mix changes - i.e. with long-term capital-intensive productive capacity becoming a smaller part of the U.S. economy - the underlying long-term productive capacity of the economy and its ability to generate sustained employment gains will continue to come into question.

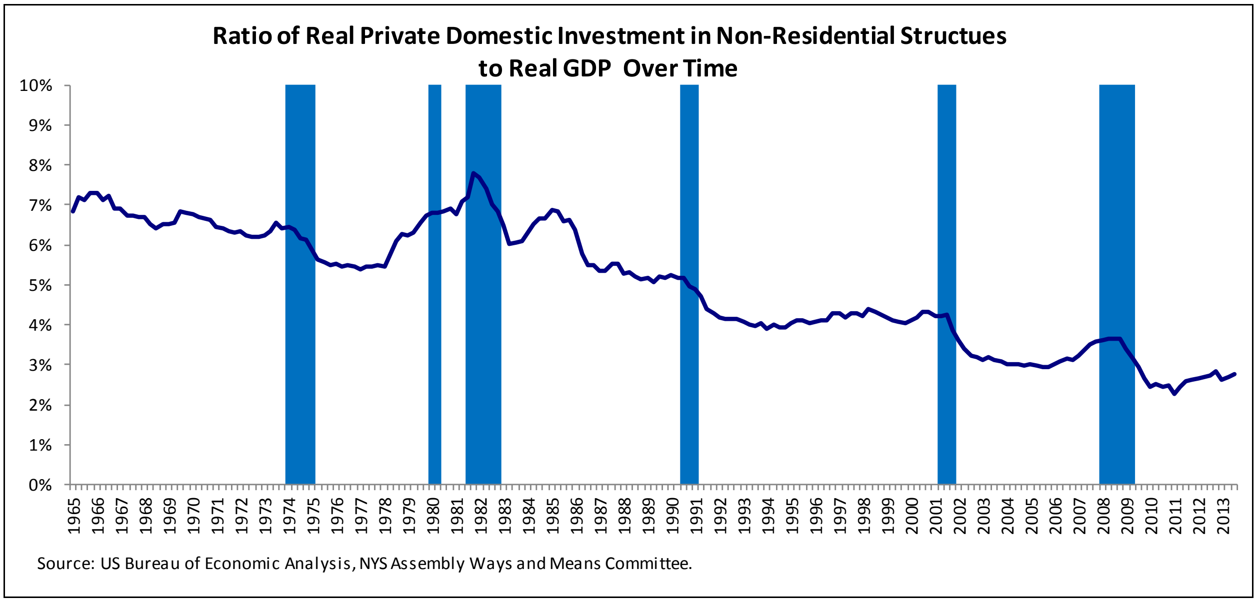


Figure 8

Federal government spending will remain a drag on GDP growth as it is expected to continue its declines through 2014 and 2015. State and local government spending is expected to post a mild 0.4 percent increase in 2014 following four consecutive declines.

Financial conditions have improved with equity markets registering strong growth during 2013. The S&P 500 registered average growth of 19.1 percent in 2013 and is forecast to experience positive growth, yet less pronounced, in 2014 and 2015 with rates of 12.1 and 3.6 percent, respectively.

The Federal Reserve has stated that it plans to begin tapering its debt purchases under Quantitative Easing 3 and with long-term rates and mortgage rates on an upward path, the threat of an interest rate induced economic slowdown has to be balanced against the underlying strength of overall economic fundamentals.

The Federal Reserve is expected to maintain its federal funds rate target at near-zero levels through 2014 with the first increases over the 0.1 percent range not expected until the first quarter of 2015. The Committee staff forecast for the federal funds rate in 2014 is consistent with that of other private forecasters at historically low levels.

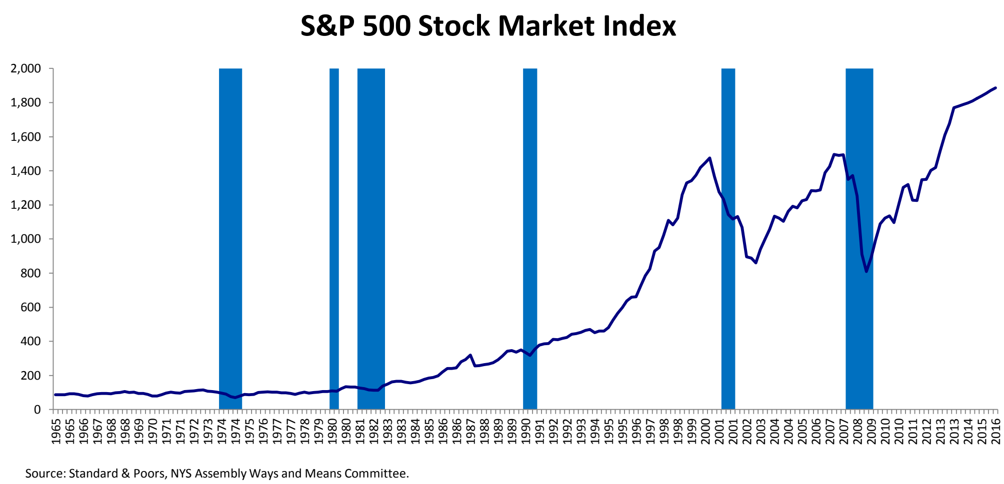


Figure 9

New York State Economic Trends

Current Trends

The New York State's Department of Labor has constructed a Coincident Index – similar to the Conference Board's indices – that provides a summary view of economic conditions in the State based on current data on employment, hours worked in the manufacturing sector, sales tax receipts, and the unemployment rate. The Coincident Index registered a 1.1 percent annualized decline in December 2013, following a 0.2 percent decline in November. For the entire year, the index has registered an increase of 1.5 percent. (See Figure 10 below.)

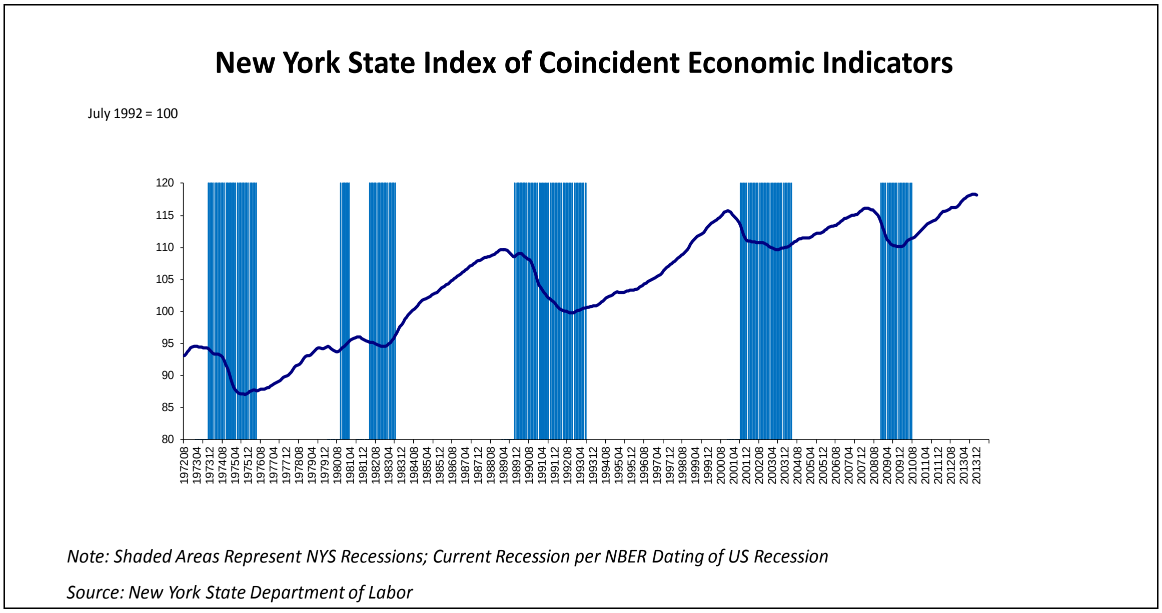


Figure 10

New York State's rate of unemployment fell to 7.1 percent in December 2013, down from 7.4 percent in November, its lowest level since January 2009. New York City registered an unemployment rate of 8.1 percent compared to a 6.3 percent rate for the rest of the State.

While New York's labor force participation also experienced declines following the onset of the Great Recession, the rate of decline has been less pronounced when compared to that for the nation as a whole. In addition, the long-term trend has been relatively flat averaging 62.4 percent since the early 1990s. New York's labor force participation rate stood at 61.4 percent as of 2012, slightly higher than the 61.3 percent rate registered in 2013.

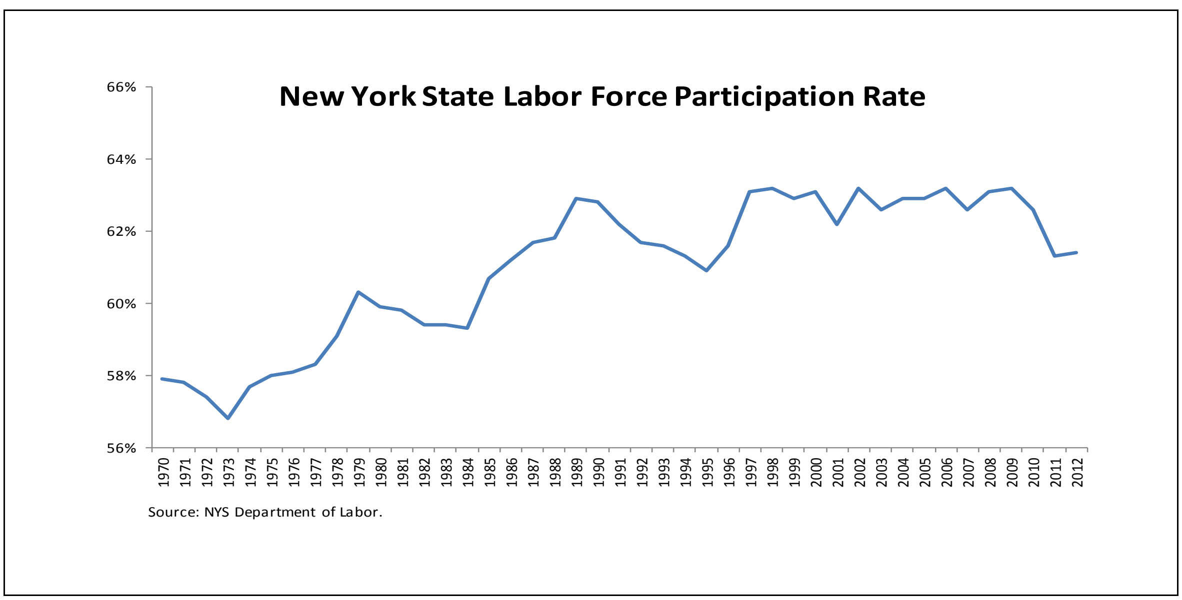


Figure 11

New York wages, the key driver for the State's personal income tax collections as well as for sales tax receipts, are estimated to have declined by 0.8 percent during the fourth quarter of 2013, due to an anticipated 19.9 percent decline in the variable, or bonus, component, a reflection of its unprecedented increase in the fourth quarter of 2012 as taxpayers expected higher Federal income tax rates in 2013.

Future Indicators

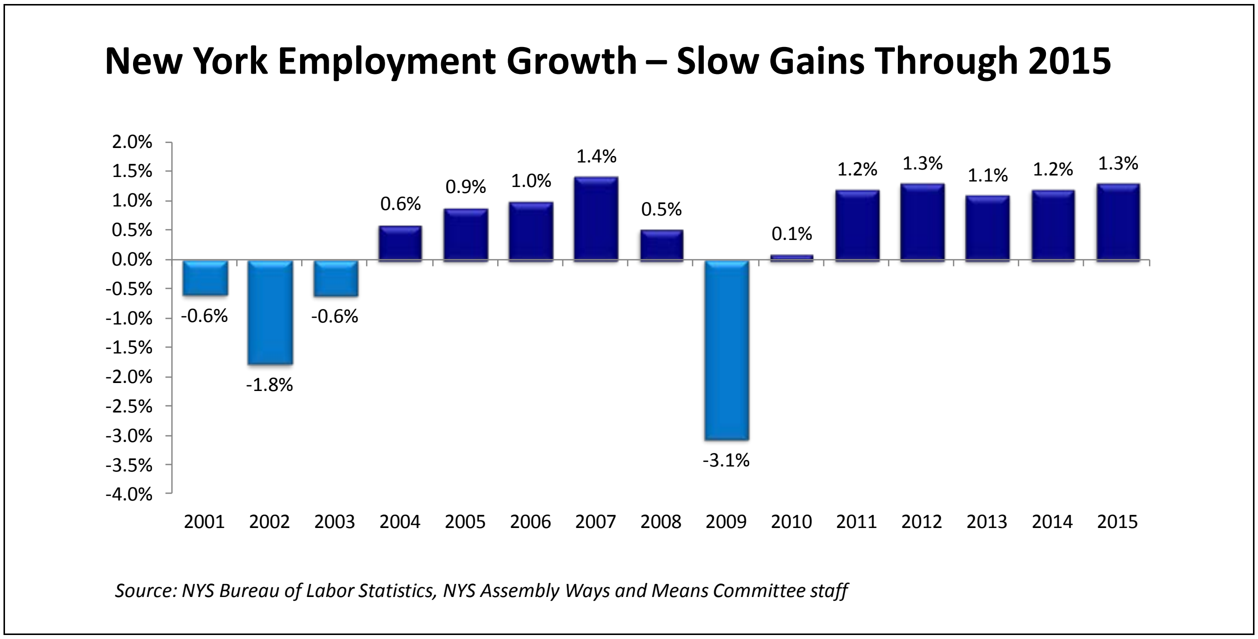


Figure 12

New York State employment growth has recovered since the 2009 lows and is forecast to increase by 1.2 percent in 2014 followed by growth of 1.3 percent in 2015.

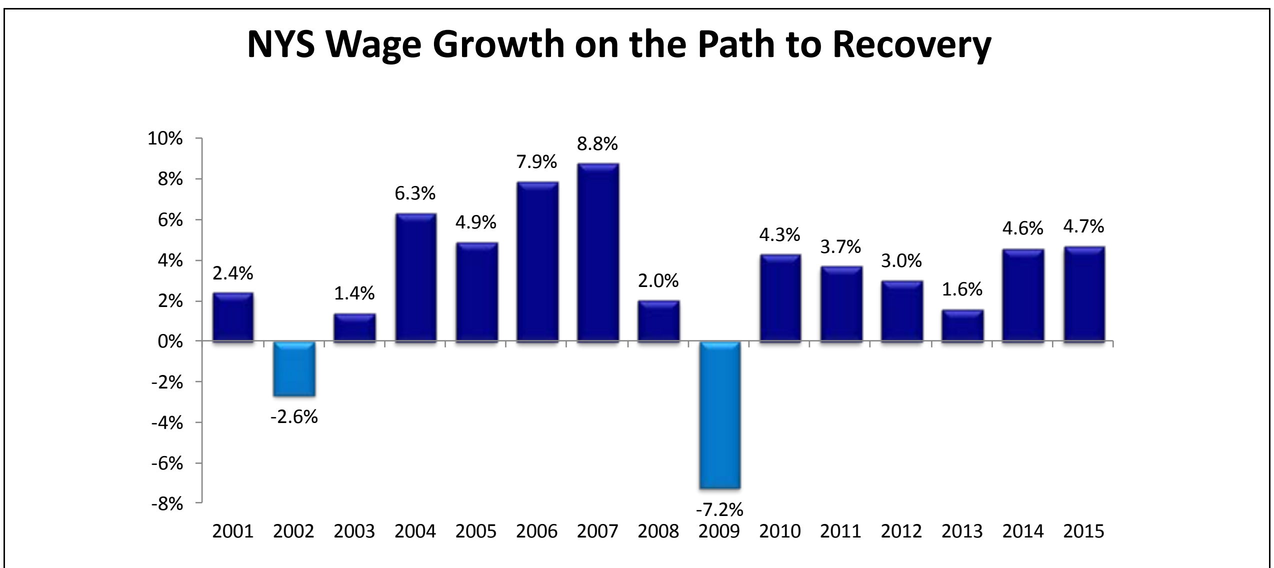
Key to tax receipts' trends is the health of the financial services industry, and other high paying industries, in terms of both employment and wages growth. As documented in the Committee's *Economic Report*, of the nine industry classifications that experienced positive job growth in 2013, only two – Management of Companies and Professional Services – pay relatively high average wages. The bottom five industries in terms of average wages account for 51.2 percent of total State employment but only for 31.8 percent of total wages and are expected to continue experiencing job gains through 2015. Of the top three average wage paying industries – Finance and Insurance, Management of Companies, and Information – only Management of Companies is expected to experience job gains through 2015.

Table 6

NYS Industry Share of Employment and Wages, 2012			
Industry	**Average Wage ($)**	**Share of Total Wages (%)**	**Share of Total Employment (%)**
Finance and Insurance	200,579	18.6	5.8
Management of Companies	144,483	3.6	1.6
Information	100,393	4.8	3.0
Professional Services	96,191	10.7	7.0
Wholesale Trade	77,820	4.8	3.9
Construction	62,396	3.6	3.7
Manufacturing	61,038	5.3	5.4
Real Estate, Rental, & Leasing	59,519	2.0	2.1
Government	56,246	14.4	16.1
Transportation and Utilities	54,325	2.6	3.0
Health and Education	46,893	14.2	19.1
Other Services	39,895	5.7	9.0
Retail Trade	30,726	5.2	10.7
Leisure and Hospitality	27,704	4.1	9.4

Source: New York State Department of Labor, QCEW, NYS Assembly Ways and Means Committee staff.

The underlying strength of the State's income tax receipts stream is conditional on a speedy recovery of wage growth in the high-paying sectors such as financial activities especially since employment gains are expected to remain subdued with minimal gains in that sector.



Source: NYS Bureau of Labor Statistics, NYS Assembly Ways and Means Committee staff

Figure 13

The Committee Staff is forecasting total bonus growth of 6.8 percent during the first quarter of 2014, following a 19.9 percent decline in the fourth quarter of 2013, a reflection of the payment shift that occurred during the fourth quarter of 2012. The chart below reviews the recent history and the Committee's current forecast for State bonuses through 2015. Variable wages are estimated to have decreased by 11.3 percent in 2013, and will be followed by growth of 9.3 percent in 2014 and 7.8 percent in 2015.

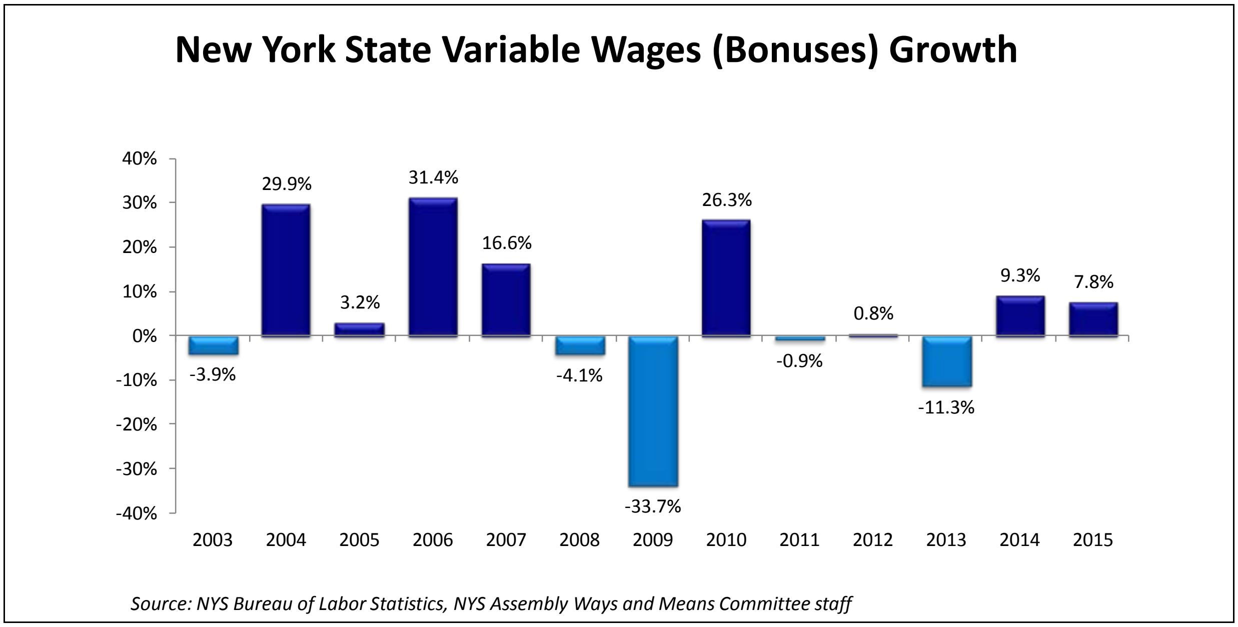


Figure 14

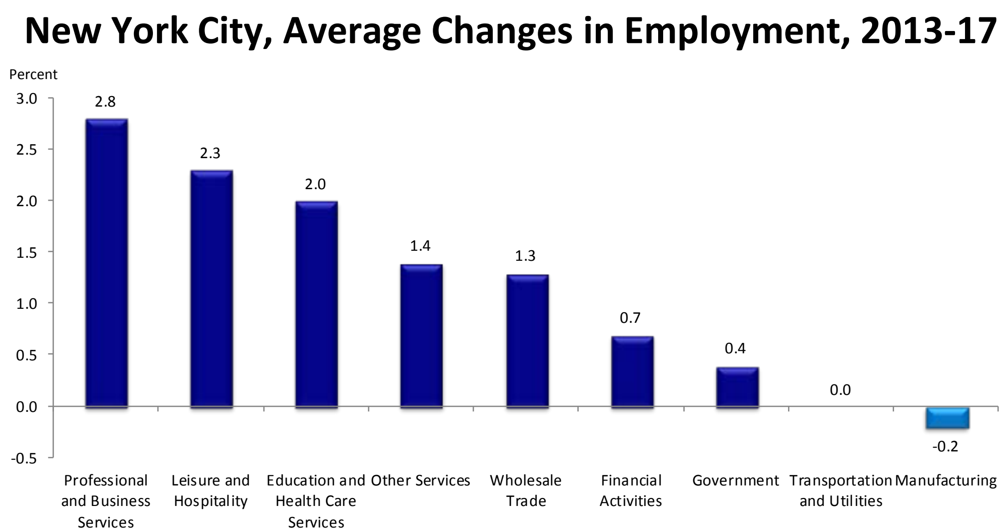
Capital gains activity is a critical component in determining the State's personal income tax liability. Payments from high-income individuals that realize a significant amount of capital gains account for much of the estimated payments, or vouchers, component of personal income tax collections.

Capital gains represent the increase in the value of an asset over time. Such gains usually occur from increases in the value of stocks, bonds or real estate. When taxpayers sell their assets and realize the gain, it becomes a taxable event. Investor behavior is influenced by many things such as tax law changes and market expectations. Consequently, it is difficult to predict when investors will realize their gain.

The Committee staff estimates net capital gains declined by 15.8 percent in 2013, and will be followed by growth of 13.3 percent in 2014 and 9.0 percent in 2015.

New York City Economic Trends

New York City was one of the few major metropolitan areas that were quick to recover the job losses experienced during the Great Recession, with construction and the leisure and hospitality sectors leading in terms of job gains. According to the Independent Budget Office (IBO), the City has added 312,000 jobs and has gained more than double the jobs lost during the 2008 to 2009 financial crisis. The IBO is forecasting additional job gains, albeit at a slower pace, adding another 67,300 jobs in 2014 and an average of 68,400 jobs per year from 2015 through 2017.[7] Professional and Business services are expected to lead in terms of job gains at 2.8 percent during the period 2013 to 2017 followed by Leisure and Hospitality at 2.3 percent and Education and Health Care services at 2.0 percent.



Source: New York City Independent Budget Office.

Figure 15

Tourism, a significant driver of New York City jobs, continues its strong performance with hotel price increases, as of November 2013, at 4.0 percent over the same period last year. Occupancy rates stood at 88.1 percent in November 2013 compared to 87.2 percent as of October 2012.[8] Air-travel volume, an important leading indicator for the overall health of the hospitality and tourism industries, registered new highs in 2013. According to the Port Authority of New York and New Jersey, "commercial airports set an all-time record in 2013 with an estimated 111.6 million total passengers, surpassing the previous mark set in 2007 by more than 1.5 million passengers."[9]

[7] *"Fiscal Outlook,"* New York City Independent Budget Office, December 2013.
[8] "*Economic Snapshot*," New York City Economic Development Corporation, January 2014.
[9] The Port Authority of New York and New Jersey, Press Release, January 13, 2014.

However, significant downside risks remain as the financial services industry adjusts to recent Federal regulations (e.g. Volcker rule) as well as the anticipated interest rate increases, expected following the tapering of the recent monetary easing, that will increase interest expenses for banks.

Risks to the Forecast

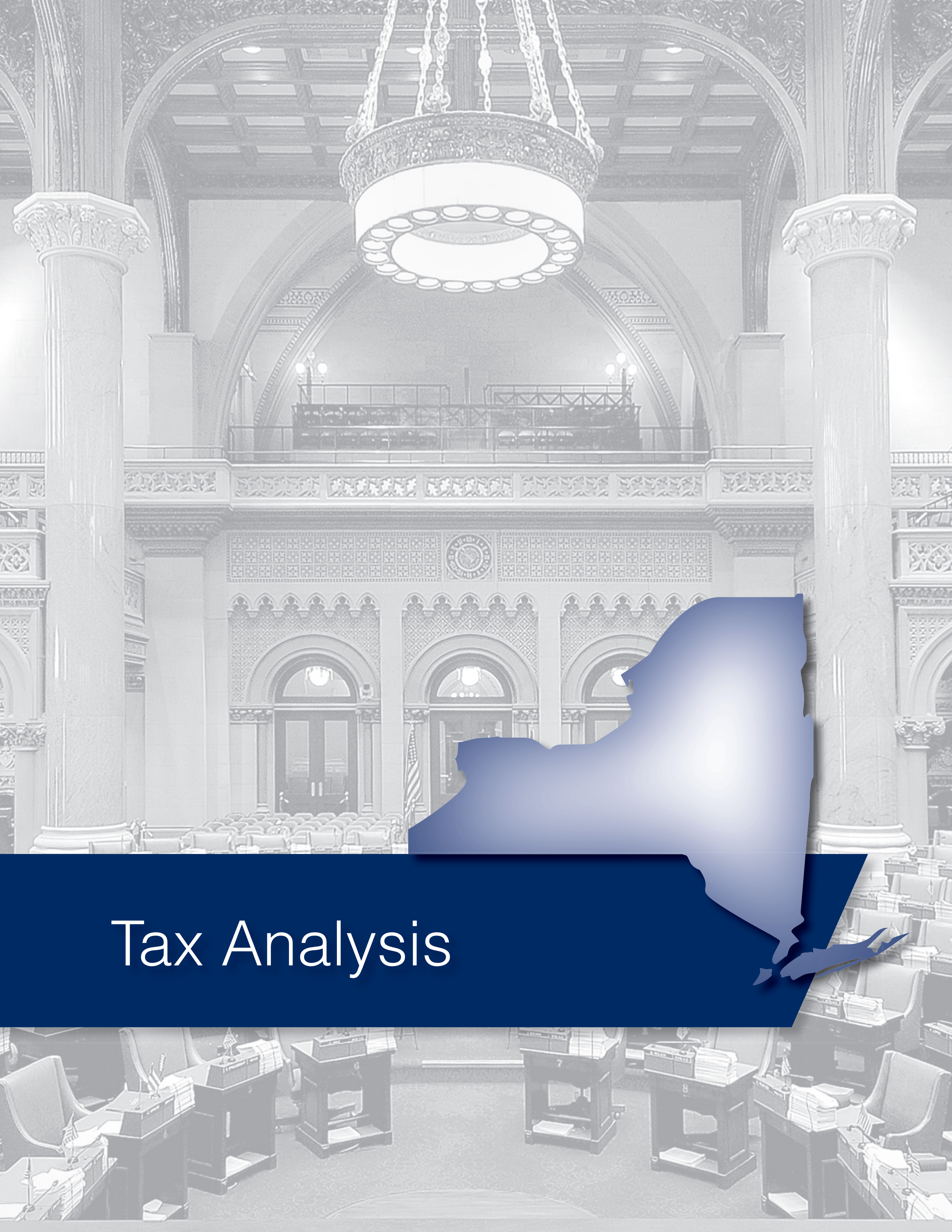
The U.S. and State economic outlook is premised on certain fundamental assumptions related to consumer and business behavior as well as the expected outlook for fiscal and monetary policies and the international outlook. In addition to these "known" parameters that economists can quantify, the economic outlook depends on a variety of "unknown" and not-quantifiable factors that could affect economic performance.

Political uncertainty continues to be one of the key factors restraining business and consumer confidence. Irrespective of the precise make-up of Federal fiscal policy, recent efforts by the Administration and Congress to achieve some fiscal permanency is expected to provide the security and planning confidence on the part of businesses needed for long-term investment projects.

As the economic recovery matures, at least in terms of duration, specific sectors, such as the equity markets, are showing spectacular gains whereas analysts continue to debate the causes of a slow job recovery. With the current bull equity market having just finished its 59th month, and with the average post- World War II bull market at a little over 57 months, caution needs to be exercised as the economic recovery enters a new phase and corrections may materialize that could reverse current employment and output gains.

The international scene remains a key risk for forecasters. As of the end of 2013, the Euro-zone exhibited flat growth, compared to a decline in 2012. According to the latest forecasts, the area is expected to experience positive growth, yet less than two percent. The main driver for growth in the Euro-zone (group of 17 countries that have adopted the Euro as their currency, compared to the 28-member overall European Union), thus the key risk to the outlook, is Germany which is expected to experience tepid growth in 2014, while Italy and Spain are also expected to experience small gains. However, debt burdens - especially in the periphery nations of Greece, Ireland, Italy, and Portugal as well as Belgium, France, Spain and the U.K. - will remain a threat to the financial stability of the entire area and its currency, the Euro.

Financial instability in Europe combined with a growth slowdown in China will restrain U.S. export growth, thus, adding elements of risk to the staff's overall U.S. GDP outlook. In addition, the ever-present Middle-East dynamics as well as renewed threats at the Korean peninsula and Iran's efforts to develop nuclear capabilities provide additional layers of forecasting risks as they relate to national security and energy prices.



Tax Analysis

Tax Analysis

Overall Trends

While the U.S. recession ended in June 2009 – as officially measured by the National Bureau of Economic Research – the State recession lasted through November 2009, according to the New York State Department of Labor. As the chart below shows, All Funds revenue growth plunged during 2008 and 2009 with a growth recovery in 2010 and 2011 following State tax revenue actions that boosted receipts. The chart below reviews the year-over-year quarterly growth in All Funds receipts. The notable variability highlights the importance of legislative changes on receipts. For example, the large growth spike as of the second quarter of 2013 is explained by the large settlements realized under the Personal Income Tax, in response to taxpayers realizing higher income during 2012 to avoid higher Federal income tax levels effective in 2013.

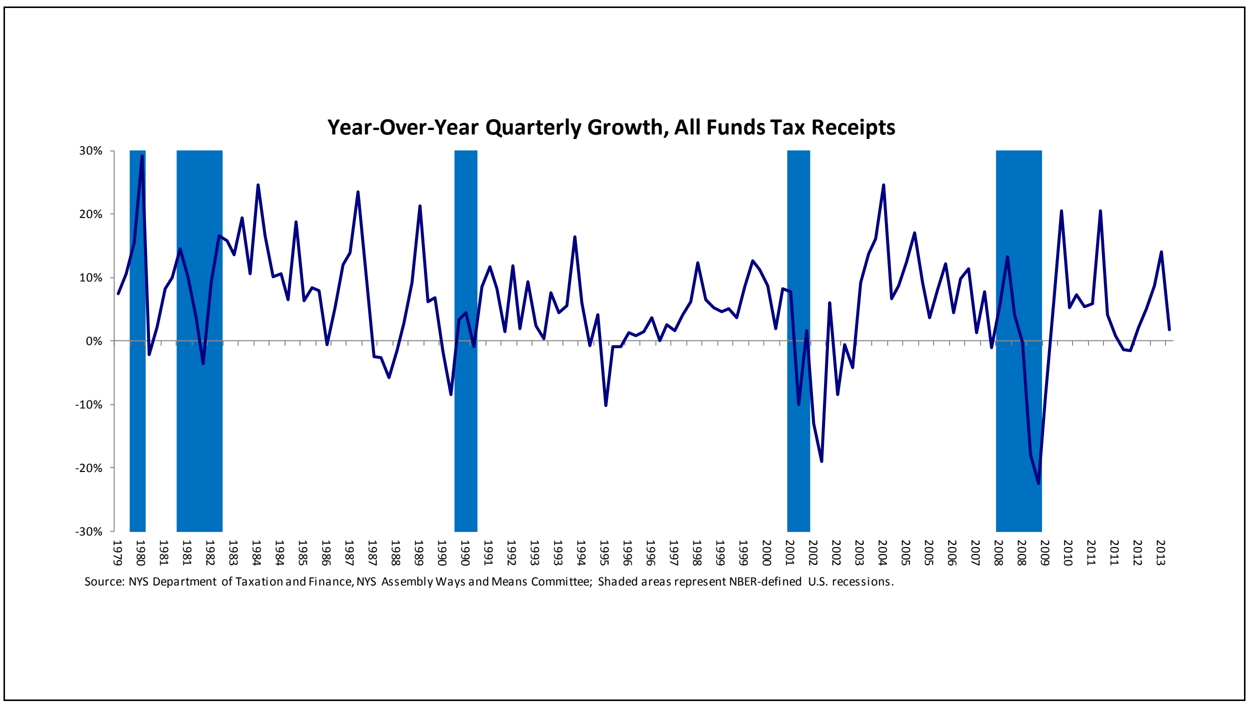


Figure 16

The chart below analyzes, by major tax source, the behavior of receipts after accounting for inflation as well as after smoothing, via moving averages, to better identify current trend patterns. Since the second quarter of 2010, all major tax sources have recovered with average growth of 3.8 percent through the fourth quarter of 2013, still below the 6.1 percent All Funds average receipts growth for the relevant period following the recession of the early 2000s.

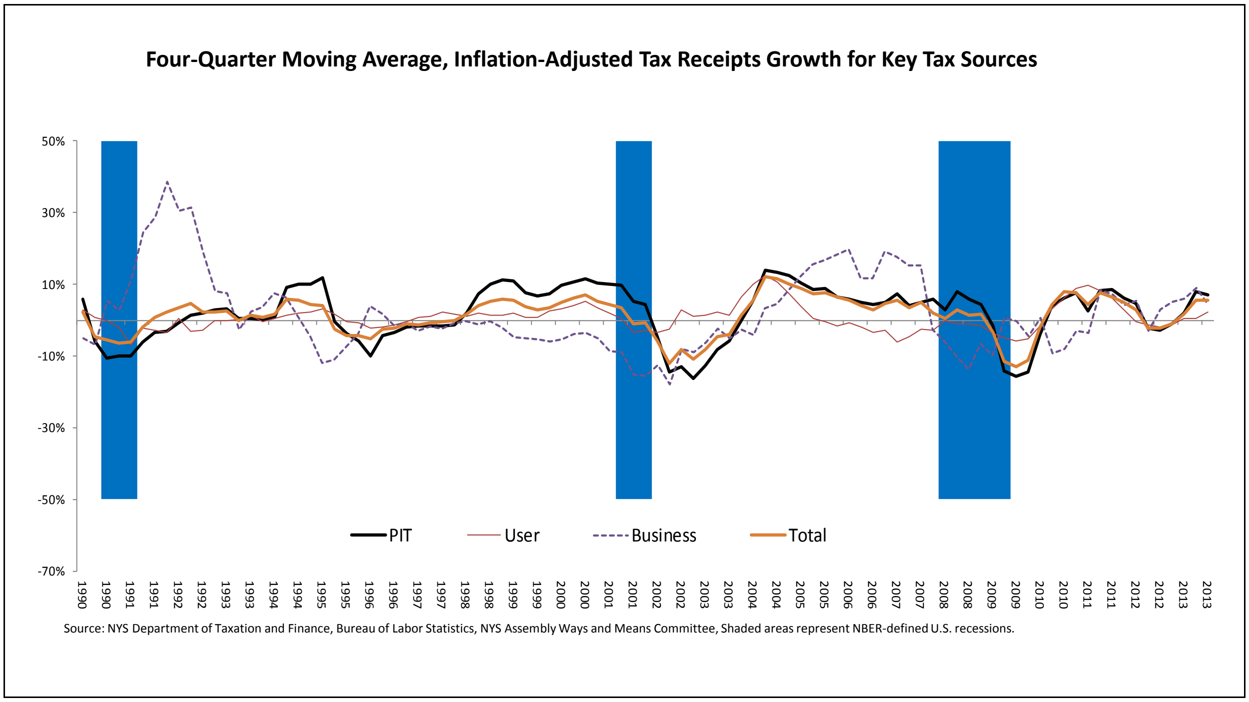


Figure 17

The slow, compared to history, revenue recovery is more easily seen once we compare quarterly growth patterns following the onset of a recession. The chart below indexes for the last four recessions (1970s, 1980s, 1990s, and early 2000s) the quarterly revenue performance of total seasonally-adjusted tax receipts for 24 quarters following the end of the recession. Eighteen quarters after the end of the recession, receipts growth during the current recovery is still well below the growth patterns established in the early 2000s and 1980s. Revenue productivity will continue to lag behind the levels achieved during the late 1990s and 2000s when considering the consistent expansion of targeted tax credits, especially when not accompanied by sunset dates. For example, while as of 1994 only nine business credits were available for a cost of $200 million, as of 2013 the number of credits had jumped to 50 at a cost of $1.7 billion.[1]

[1] “*New York State Business Tax Credits: Analysis and Evaluation*,” A Report Prepared for the NYS Tax Reform and Fairness Commission, H. Carl McCall and Peter J. Solomon, Prepared by Marilyn M. Rubin and Donald J. Boyd, November 2013.

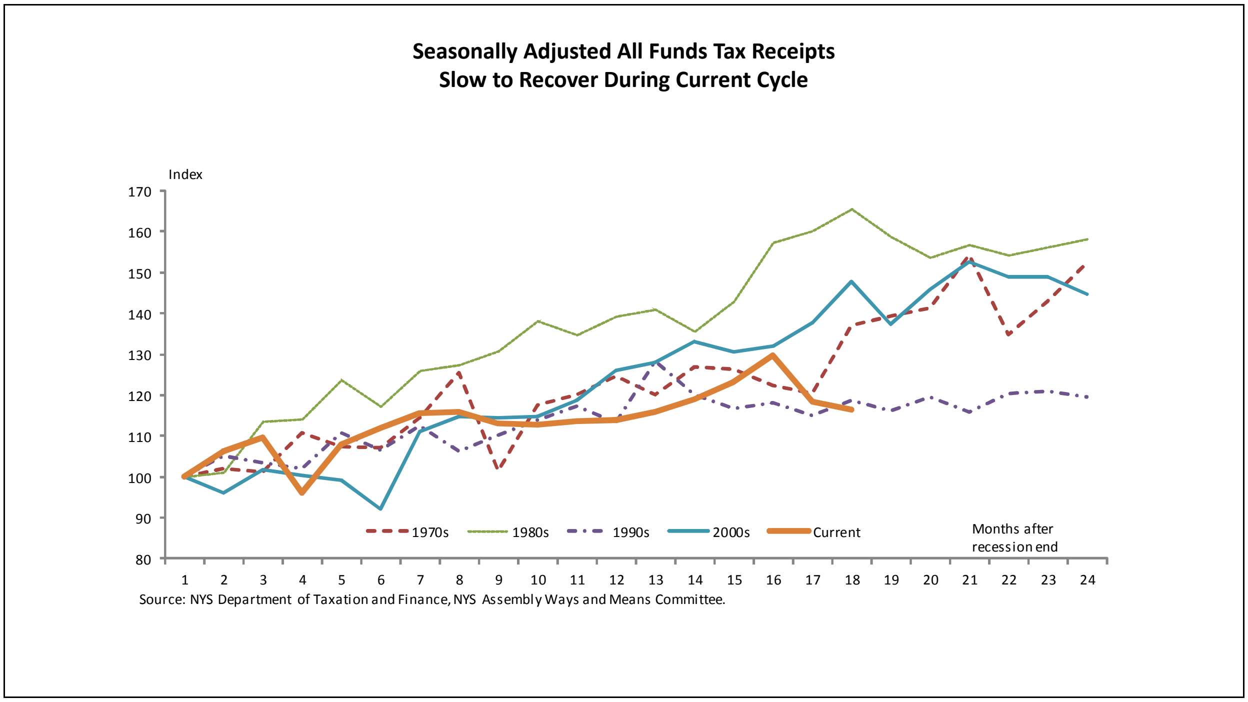


Figure 18

SFY 2013-14

Personal Income Taxes

The NYS Assembly Ways and Means Committee staff estimates that PIT receipts will total \$42.790 billion in SFY 2013-14, representing growth of 6.4 percent or \$2.563 billion over last year. Gross receipts are expected to increase by 8.3 percent or \$3.914 billion over SFY 2012-13, driven by growth in estimated payments. Withholding is estimated to increase by \$1.170 million or 3.7 percent.

Reducing net receipts, total refunds are anticipated to increase 18.7 percent or \$1.351 billion, primarily due to the anticipated increase in prior year refunds.

Overall, net personal income taxes have totaled \$37.242 billion year-to-date, an increase of 5.3 percent, and are estimated to increase by 14.0 percent to reach the 2013-14 level of anticipated collections. Receipts will have to increase by 15.2 percent to reach the Executive's estimates.

User Taxes

User taxes are estimated to total \$15.158 billion in SFY 2013-14, an increase of 3.7 percent or \$542 million. Sales tax revenue is estimated to increase by \$624 million or 5.2 percent reflecting strength in the tourism industry, motor vehicle sales, as well as growth in construction and other expenditures related to rebuilding after Hurricane Sandy.

Through the first ten months of the fiscal year, sales tax revenues are up 5.7 percent. Collections over the last two months of the year are expected to increase by 2.7 percent.

Business Taxes

Through the first ten months of the fiscal year, business taxes have declined 5.2 percent over the prior year, and a further decline of 2.6 percent is expected in the last two months of the fiscal year. Sharp declines in bank tax receipts are responsible for the negative outlook, a reflection of weakness in underlying liability and large audit collections in the previous fiscal year. Corporate tax receipts posted year-to-date growth of 16.8 percent.

Business taxes are estimated to decline by 4.4 percent or $369 million in SFY 2013-14 over SFY 2012-13. Corporate franchise taxes are estimated to increase by $584 million or 19.4 percent, while bank and utility tax collections are expected to register declines of $818 million and $98 million, respectively. The Committee staff estimate accepts the Executive's audit collections assumptions as well as the impact of recent tax law changes.

Other Taxes

Through January, real estate transfer tax (RETT) receipts are up 18 percent or $118 million over the same year-to-date period in SFY 2012-13. RETT collections are estimated to finish SFY 2013-14 with growth of 15.7 percent or $119 million over SFY 2012-13. MTA payroll tax collections are estimated to register fiscal year growth of 1.8 percent.

Estate and gift taxes are at $1.077 billion year-to-date through January. Estate and gift tax revenues are expected to increase by 16.8 percent to $1.184 billion for the full fiscal year. Overall, other tax collections are estimated to increase 10.3 percent or $308 million from SFY 2012-13.

Lottery

Through the first ten months of SFY 2013-14, total lottery revenues are up $92 million or 4.2 percent to $2.288 billion. Year-end receipts are expected to total $3.138 billion, $34 million below the Executive's estimate.

SFY 2014-15

Personal Income Taxes

Overall, personal income taxes, the largest component of tax collections, are forecast to total $44.328 billion, which is $1.538 billion or 3.6 percent above the SFY 2013-14 estimates. Total New York State wages growth is expected to accelerate from 1.6 percent growth in 2013 to 4.6 percent in calendar year 2014, whereas capital gains are expected to increase by

13.3 percent. The critical bonus component of wages is expected to have declined by 5.0 percent in SFY 2013-14, and will be followed by growth of 9.4 percent in SFY 2014-15.

User Taxes

All Funds user taxes are forecast to total $15.470 billion, 2.1 percent above the current fiscal year estimates. This forecast reflects a strengthening economic recovery with consumer spending growth of 2.7 percent in 2014, followed by growth of 3.0 percent in 2014, moderated by consistent declines in cigarette tax receipts.

Business Taxes

Business taxes are forecast to total $7.940 billion in SFY 2014-15, a decline of 1.9 percent from the current year closeout on an All Funds basis. Corporate tax receipts are forecast to register a loss of $671 million as the State pays back deferred tax credits to businesses. Bank tax receipts are forecast to rebound with growth of 35.8 percent a gain of $391 million, as underlying liability returns to trend growth.

Other Taxes

Other taxes, which consist primarily of estate tax, real estate transfer taxes, and the MTA payroll tax, are forecast to increase by 4.3 percent in SFY 2014-15, to a level of $3.444 billion. The growth in other taxes reflects strong growth in the estate and gift tax combined with an expected 6.0 percent growth in the MTA payroll tax.

Lottery

Lottery receipts are forecast to increase 0.8 percent or $24 million in SFY 2014-15 to $3.161 billion.

Revenue Forecast Risks

Short-term revenue projections incorporate the overall economic forecast risks outlined in previous sections. If the current, sluggish economic recovery pace accelerates and finally enters a long-term sustainable path, then the relevant tax sources will experience more robust gains. However, any economic growth reversals with the economy falling even into a mild recession will translate into revenue losses across tax sources.

The long-term profile of the State's tax revenues depends on the precise structure of the tax system as well as its long-term economic and demographic prospects. In particular, recent trends in labor force participation and the overall aging of the U.S. population have raised concerns related to the long-term health of states' tax revenues. According to a recent study by the Federal Reserve Bank of Kansas City, by 2030 almost 19 percent of the U.S. population will be 65 or older, compared to 13 percent today.[2] As the labor force participation declines, in combination with an aging population that generates and spends less output and income, tax receipts from key revenue sources such as income and sales taxes are expected to decline.

Based on assumptions on future population growth by state and by demographic group, the authors project that during the period 2011 to 2030, the impact of an aging population, holding all other relevant factors constant (such as income growth, tax structures, and other variables), will reduce income tax revenues per capita by 2.4 percent across all states. States with a higher reliance on the personal income tax will be more exposed to the adverse effects of an aging population, with New York projected to experience a per capita decline in individual income tax revenue of around five percent during 2011 to 2030.

While such results heavily rely on the accuracy of the underlying demographic projections, as New York considers future changes in fiscal policy, long-term population and aging trends have to be part of policy makers' considerations.

[2] "*The Impact of an Aging U.S. Population on State Tax Revenue*," Alison Felix and Kate Watkins, Federal Reserve Bank of Kansas City, Economic Review Articles, Fourth Quarter 2013.

Table 7

All Funds Collections SFY 2013-14 ($ in Millions)	2012-13 Actual	2013-14 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$40,227**	**$42,790**	**$2,563**	**6.4%**	**($56)**
Gross Receipts	**47,443**	**51,357**	**3,914**	**8.3%**	**(125)**
Withholding	31,958	33,128	1,170	3.7%	(32)
Estimated Payments	12,193	14,650	2,457	20.1%	(77)
Vouchers	9,001	9,464	463	5.1%	(84)
IT 370s	3,192	5,186	1,994	62.5%	7
Final Payments	2,148	2,369	221	10.3%	(9)
Delinquencies	1,144	1,210	66	5.8%	(7)
Total Refunds	**7,216**	**8,567**	**1,351**	**18.7%**	**(69)**
Collections	**40,227**	**42,790**	**2,563**	**6.4%**	**(56)**
User Taxes and Fees	**14,615**	**15,158**	**542**	**3.7%**	**50**
Sales and Use Tax	11,989	12,613	624	5.2%	18
Motor Fuel Tax	492	477	(15)	-3.1%	(23)
Cigarette Tax	1,551	1,462	(89)	-5.7%	41
Highway Use	145	141	(4)	-2.8%	1
Alcoholic Beverage Tax	246	257	11	4.3%	6
Auto Rental Tax	109	115	6	5.5%	1
Taxi Surcharge	83	93	10	12.0%	7
Business Taxes	**8,465**	**8,096**	**(369)**	**-4.4%**	**(90)**
Corporate Franchise	3,009	3,593	584	19.4%	32
Utility Tax	895	797	(98)	-10.9%	3
Insurance Tax	1,509	1,441	(68)	-4.5%	(16)
Bank Tax	1,912	1,094	(818)	-42.8%	(95)
Petroleum Business Tax	1,140	1,171	31	2.7%	(14)
Other	**2,995**	**3,303**	**308**	**10.3%**	**29**
Estate and Gift	1,014	1,184	170	16.8%	(36)
Real Estate Transfer	756	875	119	15.7%	60
Pari Mutuel	18	17	(1)	-5.6%	-
Payroll Tax	1,205	1,226	21	1.8%	4
Total Taxes	**66,302**	**69,347**	**3,045**	**4.6%**	**(66)**
All Fund Misc Receipts	20,956	20,697	(259)	-1.2%	19
Lottery	3,074	3,138	64	2.1%	(34)
Total Taxes with Lottery & Misc. Receipts	**90,332**	**93,182**	**2,850**	**3.2%**	**(82)**
Federal Funds	42,843	47,506	4,663	10.9%	-
Total All Funds Receipts	**$133,175**	**$140,688**	**$7,513**	**5.6%**	**(82)**

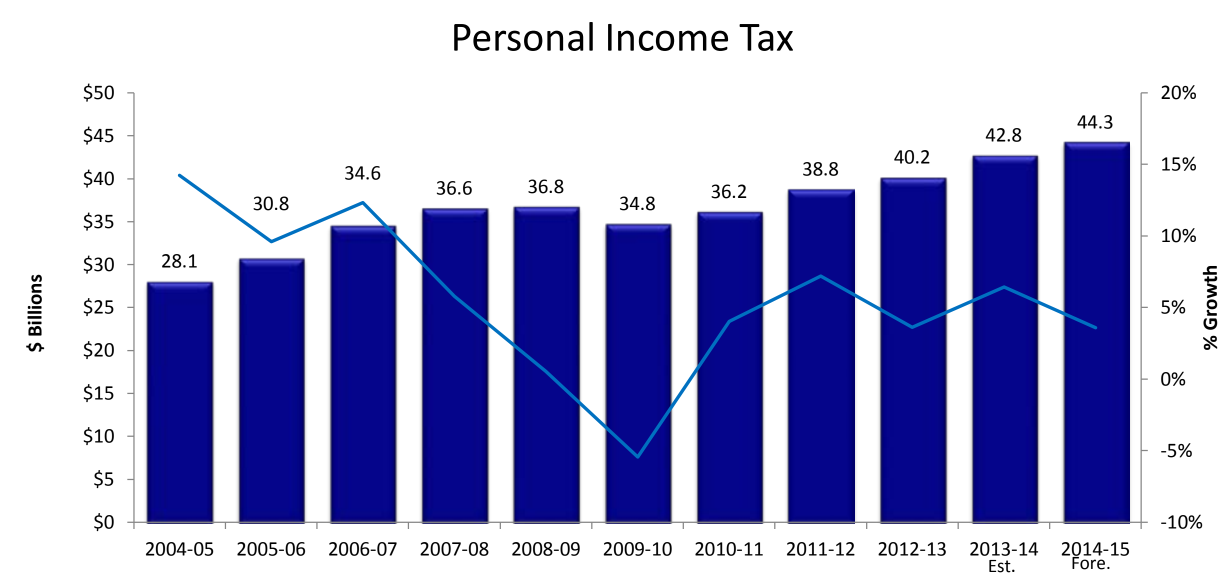
Table 8

All Funds Collections SFY 2014-15 ($ in Millions)	2013-14 Estimate	2014-15 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$42,790**	**$44,328**	**$1,538**	**3.6%**	**$197**
Gross Receipts	**51,357**	**53,059**	**1,702**	**3.3%**	**159**
Withholding	33,128	35,150	2,022	6.1%	101
Estimated Payments	14,650	14,319	(331)	-2.3%	45
Vouchers	9,464	10,174	710	7.5%	59
IT 370s	5,186	4,145	(1,041)	-20.1%	(14)
Final Payments	2,369	2,325	(44)	-1.9%	9
Delinquencies	1,210	1,265	55	4.5%	4
Total Refunds	**8,567**	**8,731**	**164**	**1.9%**	**(38)**
Collections	**42,790**	**44,328**	**1,538**	**3.6%**	**197**
User Taxes and Fees	**15,158**	**15,470**	**312**	**2.1%**	**(10)**
Sales and Use Tax	12,613	12,977	364	2.9%	(11)
Motor Fuel Tax	477	489	12	2.4%	(13)
Cigarette Tax	1,462	1,381	(81)	-5.5%	7
Highway Use	141	142	1	0.7%	1
Alcoholic Beverage Tax	257	265	9	3.4%	9
Auto Rental Tax	115	116	1	0.9%	(3)
Taxi Surcharge	93	100	7	7.5%	-
Business Taxes	**8,096**	**7,940**	**(156)**	**-1.9%**	**87**
Corporate Franchise	3,593	2,922	(671)	-18.7%	11
Utility Tax	797	820	23	2.8%	6
Insurance Tax	1,441	1,551	110	7.6%	10
Bank Tax	1,094	1,485	391	35.8%	67
Petroleum Business Tax	1,171	1,162	(9)	-0.8%	(7)
Other	**3,303**	**3,444**	**141**	**4.3%**	**114**
Estate and Gift	1,184	1,228	44	3.7%	53
Real Estate Transfer	875	899	24	2.7%	44
Pari Mutuel	17	17	0	0.0%	-
Payroll Tax	1,226	1,300	74	6.0%	17
Total All Funds Taxes	**69,347**	**71,182**	**1,835**	**2.6%**	**388**
All Funds Misc Receipts	20,697	22,175	1,479	7.1%	24
Lottery	3,138	3,161	24	0.8%	(3)
Total Taxes with Lottery & Misc. Receipts	**93,182**	**96,519**	**3,337**	**3.6%**	**410**
Federal Funds	47,506	45,792	(1,714)	-3.6%	-
Total All Funds Receipts	**$140,688**	**$142,311**	**$1,623**	**1.2%**	**410**

Personal Income Tax

Table 9

Personal Income Tax Collections Forecasts by State Fiscal Year ($ in Millions)	2013-14 WAM Estimate	Percent Growth	Diff. Exec	2014-15 WAM Forecast	Percent Growth	Diff. Exec.
Personal Income Tax	**$42,790**	**6.4%**	**($56)**	**$44,328**	**3.6%**	**$197**
Gross Receipts	**51,357**	**8.3%**	**(125)**	**53,059**	**3.3%**	**159**
Withholding	33,128	3.7%	(32)	35,150	6.1%	101
Estimated Payments	14,650	20.1%	(77)	14,319	-2.3%	45
Vouchers	9,464	5.1%	(84)	10,174	7.5%	59
IT 370s	5,186	62.5%	7	4,145	-20.1%	(14)
Final Payments	2,369	10.3%	(9)	2,325	-1.9%	9
Delinquencies	1,210	5.8%	(7)	1,265	4.5%	4
Total Refunds	**8,567**	**18.7%**	**(69)**	**8,731**	**1.9%**	**(38)**
Prior Year Refunds	5,371	17.6%	2	5,151	-4.1%	9
Current Refunds	2,060	17.7%	-	1,750	-15.0%	-
Advance Credit Payments	-	-	-	810	-	-
Previous Refunds	495	-15.8%	(71)	522	5.5%	(47)
State/City Offsets	641	107.4%	-	498	-22.3%	-
Collections	**42,790**	**6.4%**	**(56)**	**44,328**	**3.6%**	**197**
Transfers to STAR	(3,389)	3.1%	**-**	(3,429)	1.2%	-
Transfers to DRRF/RBTF	(10,712)	6.5%	-	(11,033)	3.0%	-
General Fund PIT Collections	**28,689**	**6.7%**	**(56)**	**$29,866**	**4.1%**	**$197**



Source: NYS Department of Taxation and Finance; Ways and Means Committee Staff estimates

Figure 19

Article 22 of the Tax Law imposes a tax on the New York income of individuals, estates and trusts. Personal Income Tax (PIT) receipts contribute over one-half of all tax collections deposited into the General Fund. PIT receipts are received through employee withholdings, estimated tax payments, payments accompanying tax returns, late payments, and through audits and assessments. Withholding is the single largest component, comprising roughly 80 percent of gross PIT receipts.

New York's definition of income closely follows Federal rules, which include wages, salaries, capital gains, unemployment compensation, and interest and dividend income. These components equal the federal adjusted gross income. New York Adjusted Gross Income (NYAGI) is calculated starting with the Federal AGI as a base and then modified by certain subtractions or additions as permitted or required by the State. Additions include tax-exempt bonds issued outside of New York, while social security benefits and 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 2014, the standard deduction is scheduled to increase in accordance to the CPI inflation adjustment provisions enacted as part of the State's 2011 personal income tax reform. The table below provides a breakdown of the standard deduction by filing status as well as a comparison to the 2013 tax year value.

Table 10

New York State Standard Deduction			
Filing Status	**2012**	**2013**	**2014**
Single	$7,500	$7,700	$7,800
Married Filing Jointly	$15,000	$15,400	$15,650
Head of Household	$10,500	$10,800	$10,950

Taxpayers who itemized deductions on their Federal returns may also itemize on their New York State returns if the aggregate of such deductions, minus state and local income taxes and certain other modifications, exceed the New York standard deduction. However, the availability of itemized deductions is limited for certain high income taxpayers. For taxpayers whose NYAGI exceeds $1 million, itemized deductions are fully excluded and only 50 percent of charitable contributions may be deducted for the purposes of calculating tax liability. For taxpayers with NYAGI over $10 million, the charitable contributions deduction is limited to 25 percent.

The New York standard deduction or itemized deductions, in addition to exemptions claimed on New York taxes, are subtracted from the federal definition of income to arrive at New York taxable income. Certain credits are then subtracted from the calculated tax to arrive at total tax liability.

Net Collections

Compared to the prior fiscal year, net collections have increased by 5.3 percent through January, with gross receipts increasing by 7.1 percent. Collections have been offset by a year-to-date increase of 18.9 percent in refunds.

Historically, approximately 97 percent of revenues from extension payments are accounted for in April, and approximately 99.5 percent of these revenues will be collected through the first three quarters of the fiscal year. Through January, extension payments are up 62.5 percent compared to the prior year-to-date collections. This equates to approximately $1.986 billion more in tax revenues.

Table 11

Net Collections ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$37,242	5.3%	$42,790	6.4%	$42,846	($56)
2014-15			$44,328	3.6%	$44,131	$197

SFY 2013-14

The Committee staff estimates that All Funds personal income tax collections will total $42.790 billion in SFY 2013-14. This equates to an increase of $2.563 billion or 6.4 percent above All Funds collections in SFY 2012-13. Gross receipts are expected to increase by 8.3 percent, while an anticipated overall increase in gross refunds of 18.7 percent will suppress net collections growth. The Committee staff closeout is $56 million below the Executive Budget estimate.

Since the Mid-Year report, the Division of Budget has authorized an additional $310 million in current year refunds. This increase is an advanced payment on refunds that would have otherwise been issued in SFY 2014-15. Absent this spin-up, gross disbursements would increase by 14.4 percent, with net collections increasing 7.1 percent.

SFY 2014-15

PIT collections are forecast to total $44.328 billion, an increase of $1.538 billion, or 3.6 percent, over the staff's SFY 2013-14 estimates. Gross receipts are forecast to increase by $1.702 billion or 3.3 percent, primarily attributed to a 6.1 percent gain in withholding collections. Extension payments are expected to decline 20.1 percent compared to record high collections in 2013-14. Refunds are projected to increase by $164 million or 1.9 percent. The Committee staff forecast is $197 million above the Executive Budget forecast.

Gross refunds are forecast to total to $8.731 billion in SFY 2014-15. This includes new disbursements of $810 million associated with the Family Tax Relief Credit that was enacted in the SFY 2013-14 Budget and the Executive's proposed Two-Year Property Tax Freeze Credit. These credits are scheduled to be allocated to taxpayers in the fall of 2014, resulting in a loss of revenues for the fiscal year. Absent these new credits, gross disbursements would decrease 7.5 percent in SFY 2014-15 with net collections increasing by 5.5 percent.

The personal income tax reform and its extension is projected to generate $2.317 billion in total revenues, with $468 million coming from the extension in the SFY 2013-14 Enacted Budget. Adjusting for the impact of PIT reform, baseline net collections are projected to increase 3.6 percent.

Withholding

Withholding has increased by 0.8 percent over last year on a cumulative basis through January. Withholding growth has remained relatively stable through the fiscal year, with quarterly growth slowing to 2.1 percent in the October through December period, a result of the advanced bonus payments realized during the last quarter of 2012 as explained before.

Table 12

Withholding ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$25,901	0.8%	$33,128	3.7%	$33,160	($32)
2014-15			$35,150	6.1%	$35,049	$101

SFY 2013-14

The Committee staff estimates 2.6 percent total SFY wage growth in SFY 2013-14. As a result, withholding collections are expected to finish with $33.128 billion, a 3.7 percent increase over the prior fiscal year. The January through March period typically accounts for approximately 33 percent of fiscal year withholding collections due to the realization of bonus payouts. The Committee staff anticipates fourth quarter fiscal year variable wages to increase 6.8 percent compared to the prior year, which will contribute to a 15.3 percent increase in withholding collections needed to reach the closeout estimate. The Committee estimate is $32 million less than the Executive's.

The 2011 PIT reform plus itemized deductions limitations (IDL) is expected to generate $385 million in SFY 2013-14 withholding collections. Adjusting for the tax reform impact, baseline withholding receipts are estimated to increase 4.3 percent.

SFY 2014-15

The Committee Staff projects withholding collections of $35.150 billion in SFY 2014-15, an increase of 6.1 percent over the prior fiscal year. The withholding forecast is driven by a projected 4.6 percent increase in total State wages, with variable wages increasing 9.4 percent.

The Committee forecast is $101 million above the Executive's.

Quarterly Estimated Payments (Vouchers)

Vouchers have exhibited consistent growth year-to-date, increasing by 5.2 percent through the first ten months of the fiscal year.

Table 13

Quarterly Estimated Payments ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$9,325	5.2%	$9,464	5.1%	$9,548	($84)
2014-15			$10,174	7.5%	$10,115	$59

SFY 2013-14

In general, estimated payments are paid by taxpayers whose final tax liability for the taxable year is significantly higher than the amount of tax being withheld from wages. This is driven by a large share of income derived from non-wage sources, such as capital gains, interest or dividends.

Despite a setback in capital gains in 2013, due to realizations being shifted to 2012, estimated payments have maintained higher-than-expected growth through the fiscal year. The Committee staff estimates capital gains to have decreased 15.8 percent in 2013. Much of the decline is attributable to a shift in capital gains into the final quarter of calendar year 2012, as taxpayers were looking to take advantage of lower rates in advance of higher Federal income tax rates in 2013. As a result, the Executive Budget has increased the closeout estimate by $830 million since the Mid-Year report.

The Committee staff estimates that voucher collections for SFY 2013-14 will total $9.464 billion, which represents an increase of 5.1 percent or $463 million over SFY 2012-13. A decrease of 0.4 percent will be needed over the final two months of the fiscal year.

An estimated $1.270 billion of SFY 2013-14 vouchers collections are associated with the PIT reform, approximately $79 million less than what was generated in SFY 2012-13. Absent this impact, baseline vouchers collections are estimated to increase 7.1 percent.

The Committee estimate is $84 million below the Executive estimate.

<u>SFY 2014-15</u>

The Ways and Means Committee staff forecasts voucher collections to total $10.174 billion in SFY 2014-15, which equates to an increase of $710 million or 7.5 percent over the SFY 2013-14 closeout.

Following a decline in 2013, capital gains are projected to increase 13.3 percent through the 2014 tax year, helping to drive robust estimated payments growth.

The December 2011 PIT reform is projected to generate an additional $1.362 billion through SFY 2014-15. Absent this impact, baseline voucher collections are forecasted to increase by 7.5 percent.

The Committee forecast is $59 million above the Executive.

Refunds

Through January, prior year refunds have increased by 17.5 percent. Previous year refunds are showing a year-to-date decline of 19.4 compared to this point in the prior fiscal year.

Table 14

Prior Year Refunds ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$5,277	17.5%	$5,371	17.6%	$5,369	$2
2014-15			$5,151	-4.1%	$5,142	$9

Table 15

Previous Year Refunds ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$440	-19.4%	$495	-15.8%	$566	($71)
2014-15			$522	5.5%	$569	($47)

SFY 2013-14

The Committee staff anticipates that SFY 2013-14 will finish with $5.371 billion in prior year refunds and $495 million in previous refund distributions. This is equivalent to a 17.6 percent increase in prior year refunds for the SFY and will require 20.4 percent growth over the remaining two months. The Committee's estimate is $2 million above the Executive Budget closeout.

Approximately 50 percent of prior year refunds are issued in the first month of the fiscal year. April of 2013 witnessed a substantial increase of 18.8 percent in refunds, or an additional loss of revenues of $483 million, compared to the prior fiscal year. An administrative issue with the processing of tax returns in May resulted in a delay in the issuance of additional refunds, distorting monthly trends. However, since that time, prior year refunds have shown steady increases month-to-month over SFY 2012-13. This has offset many of the substantial gains realized in the collections of extension payments and vouchers.

This sudden increase in refunds is consistent with the Committee Staff's liability estimate for 2012, which is expected to have increased by only 1.3 percent compared to tax year 2011. The previous year refund closeout estimate of $495 million represents a 15.8 percent decrease relative to the last fiscal year, and previous refunds in the last two months of the State Fiscal Year are projected to increase 31.0 percent to meet the closeout.

SFY 2014-15

The Committee staff projects a prior year refund total of $5.151 billion for SFY 2014-15, a decrease of 4.1 percent over SFY 2013-14 estimates. Prior year refunds are typically inversely related to the refunds paid from the year before. Therefore, strong growth in SFY 2013-14 is projected to result in fewer refunds issued in SFY 2014-15.

Previous year refunds are forecast to increase by 5.5 percent compared to the prior year for a total of $522 million in SFY 2014-15.

Committee staff total refunds are $38 million less than the Executive forecast.

Fund Distribution

Table 16

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	$28,689	$3,389	$10,712	$0	$42,790
2014-15	$29,866	$3,429	$11,033	$0	$44,328

The Committee staff estimates General Fund personal income tax receipts of $28.689 billion in SFY 2013-14. In SFY 2014-15, General Fund collections are forecast to total $29.866 billion.

A statutory amount of 25 percent of net personal income tax collections is allocated toward the Revenue Bond Tax Fund (RBTF). The estimated contribution for SFY 2013-14 is $10.712 billion while the Committee staff's SFY 2014-15 RBTF forecast is $11.033 billion consistent with the Executive estimates.

The STAR Fund consists of revenue that is used to reimburse school districts for state-provided school property tax exemptions, as well as New York City personal income tax rate reductions, resulting from the School Tax Relief program. The Executive estimates a SFY 2013-14 STAR Fund total of $3.389 billion. The Executive's SFY 2014-15 STAR Fund amount is forecast to increase 1.2 percent, for a total of $3.429 billion.

Adjusted Gross Income

<u>Income and Liability</u>

New York Adjusted Gross Income (NYAGI) grew rapidly following the 2001 recession increasing by a total of 57.5 percent between 2002 and 2007. Income in New York State, as defined by NYAGI, reached a historical peak in 2007, totaling $724.6 billion. The increase was highlighted by a rise in capital gains which increased from 4.4 percent of total NYAGI in 2002 to 16.1 percent of total NYSAGI in 2007, growing by a total of $96.0 billion or 470.8 percent. For 2014 the share of capital gains to NYAGI is estimated to be 9.7 percent.

Table 17

Components of AGI ($ in Millions)	Actual		Estimate		Forecast	
	2010	2011	2012	2013	2014	2015
NYSAGI						
Amount	$638,855	$657,298	$703,712	$706,268	$745,978	$786,074
Percent Change	7.1%	2.9%	7.1%	0.4%	5.6%	5.4%
Wages						
Amount	$482,433	$499,425	$514,472	$523,092	$547,625	$573,632
Percent Change	4.0%	3.5%	3.0%	1.7%	4.7%	4.7%
Net Capital Gains						
Amount	$44,669	$48,800	$75,700	$63,740	$72,210	$78,730
Percent Change	50.5%	9.2%	55.1%	-15.8%	13.3%	9.0%
Interest, Dividends and Pensions						
Amount	$65,783	$66,292	$68,432	$70,149	$73,025	$76,109
Percent Change	6.9%	0.8%	3.2%	2.5%	4.1%	4.2%
Business and Partnership Income						
Amount	$74,368	$74,148	$77,241	$82,026	$86,851	$92,521
Percent Change	4.1%	-0.3%	4.2%	6.2%	5.9%	6.5%
Other Income						
Amount	($28,397)	($31,367)	($32,169)	($32,798)	($33,830)	($35,070)
Percent Change	-5.7%	10.5%	2.6%	2.0%	3.1%	3.7%

AGI is estimated to have increased by only 0.4 percent in 2013, as a result of an estimated $13.5 billion in capital gains that shifted from 2013Q1 in to 2012Q4 in anticipation of increased federal tax rates in 2013. NYAGI is projected to increase 5.6 percent in 2014, with capital gains increasing by 13.3 percent or $8.5 billion over 2013.

Underlying Trends in Wages and Bonus Income

The Committee staff's SFY 2013-14 withholding estimate is driven by estimated wage growth of 2.6 percent. Through the first half of the State fiscal year, withholding collections had shown consistent growth compared to the prior year, with 3.6 percent and 3.5 percent increases in the first and second quarters, respectively.

Collections growth through the third quarter of the fiscal year slowed to 2.1 percent. In December 2012, Congress deliberated over the approaching expiration of the Bush tax cuts, which had previously been extended for two years under the "Tax Relief, Unemployment Insurance Reauthorization, and Job Creation Act of 2010." In light of the uncertainty surrounding the looming "fiscal cliff," taxpayers sought to take advantage of incentives in the current tax law. This resulted in certain economic activity being shifted from 2013 into 2012, including bonus compensation which is largely reflected in variable wages.

Since variable wages are largely earned by high income taxpayers, they are typically withheld at a higher average rate than base wages and are therefore more important for collections on a dollar-to-dollar basis. The share of variable wages, relative to total wages, in New York has been trending upward since the mid-1970s. This increased share of variable wages or "bonuses" has made wages, and therefore revenue, more difficult to predict as well as more volatile.

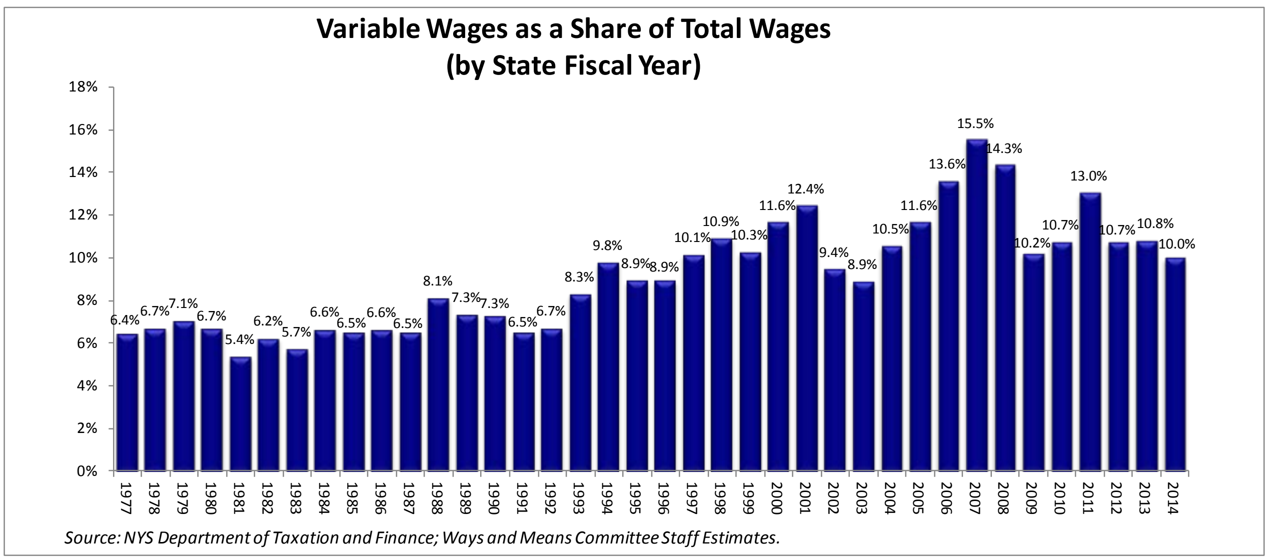


Figure 20

However, as taxpayers took advantage of lower tax rates, a sizable portion of variable wages shifted from 2013 into 2012. The Committee staff estimates that variable wages increased by 47.4 percent in the fourth quarter of 2012. This presents a level of uncertainty to the withholding closeout, as expected cash flows must be adjusted accordingly. As variable wages shifted into calendar year 2012, withholding revenues tied to these wages were collected in the first few days of January 2013. This has distorted monthly growth for January 2014. After a significant setback in the first week of the month, January withholding collections have been steadily improving, however they have yet to approach growth levels realized in the first half of the fiscal year. January collections are 10.1 percent less than the prior year. The Committee staff estimates total wage growth of 4.7 percent in the first quarter of 2014, with variable wages increasing 6.8 percent.

An additional uncertainty to the forecast stems from the effect of the fiscal cliff on the timing of capital gains. During calendar year 2012, the Committee staff estimates capital gains of $75.7 billion, an increase of 55.1 percent over the prior fiscal year. Approximately $13.5 billion of this total can be attributed to a shift from 2013 into 2012. The ensuing estimate for 2013 is therefore significantly less. Capital gains are estimated to amount to $63.7 billion in 2013, a decrease of 15.8 percent over 2012 estimates. This has led to a decline in 2013 tax liability of 1.1 percent. Capital gains serve as one of the two key exogenous variables of the voucher's estimation within the settlement forecast model, along with property income. Despite the drop in capital gains, voucher collections have shown relatively stable growth through the year. At the same time gross refunds have increased 18.9 percent year-to-date which is consistent with staff estimates. Capital gains are projected to rebound in 2014, with growth of 13.3 percent or $8.5 billion over 2013 estimates.

Extension payments, otherwise known as IT-370s, have similarly been distorted by the fiscal cliff. IT-370s are payments sent with a request for extension of time to file a final return and are tied to tax liability from the previous calendar year. Over 90 percent of extension payments are collected in the first quarter of the fiscal year. With a spin-up in bonus payments from 2013 into 2012, taxpayers suddenly realized a greater level of 2012 tax liability than previously anticipated. As a result, extension payments in the first quarter of SFY 2013-14 (a reflection of 2012 liability) increased by 62.6 percent or $1.980 billion compared to the prior year. This has inflated net PIT receipts for SFY 2013-14 and will mitigate growth for SFY 2014-15 as collections on extension payments are projected to decline to a more trend level.

PIT Surcharge and 2011 Tax Reform

The three-year personal income tax surcharge, enacted as part of the 2009 budget, added two additional personal income tax brackets to the previously existing tax tables for all filer types. Taxpayers with taxable incomes above $300,000 but below $500,000 were subject to a new rate of 7.85 percent, whereas taxpayers whose taxable incomes totaled more than $500,000 were subject to a rate of 8.97 percent. The surcharge applied to tax years 2009 through 2011 and officially expired after December 31, 2011. In SFY 2011-12, the temporary surcharge was valued at $3.8 billion on an All-Funds basis.

Figure 21 depicts net fiscal year PIT receipts along with the amount generated by the tax surcharge, PIT reform, and itemized deduction limitations. The timing of the temporary surcharge proved to be vital to the State's fiscal health, as it helped to stabilize revenues in the midst of an economic recession and subsequent weak recovery. As can be seen in the graph, baseline receipts performed much worse in SFY 2009-10 than actual collections indicate. Absent the tax surcharge, revenues would have declined by approximately $5.7 billion or 15.4 percent. This decline was mitigated due to an additional $3.6 billion from the temporary surcharge, with overall receipts declining by only $2.1 billion or 5.7 percent.

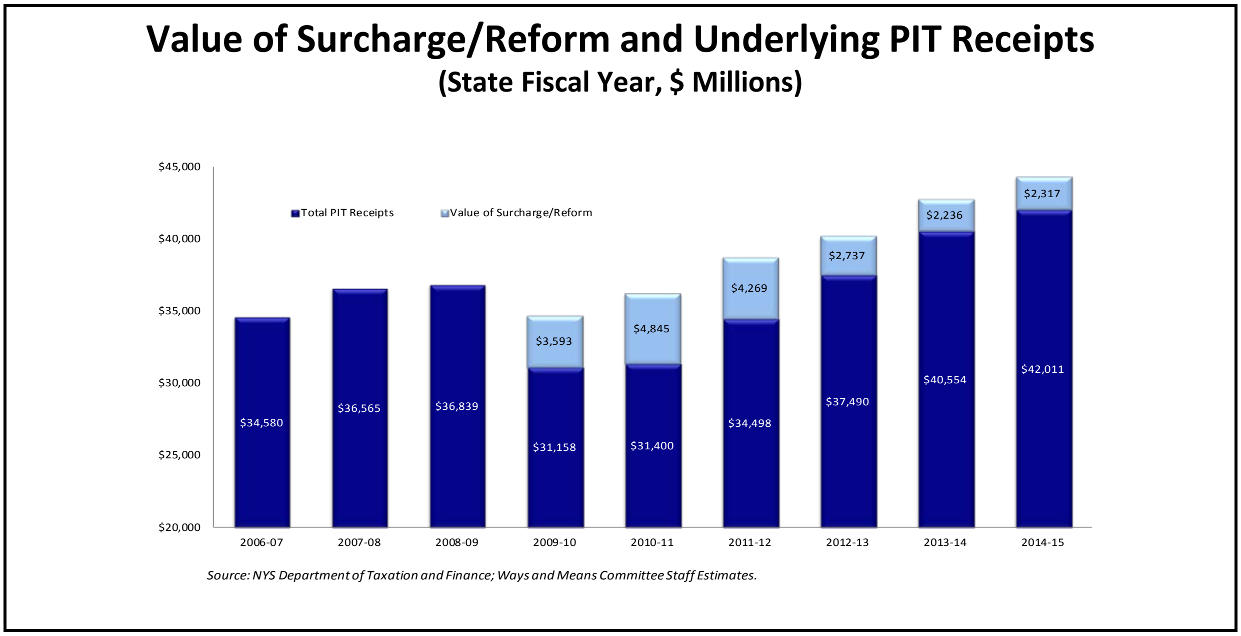


Figure 21

The following year, SFY 2010-11, revenue collections increased by 4.3 percent, with an estimated $4.8 billion attributed to the surcharge. Absent the impact of the surcharge, revenues would have remained stagnant through SFY 2010-11, with growth of only 0.8 percent reflective of the lingering effects of the recession on the State's economy.

In December 2011, the State faced its own fiscal cliff as the temporary surcharge was scheduled to expire effective January 1, 2012. As an alternative to an extension of the surcharge, the State opted for a three-year personal income tax reform which added new brackets to make the tax more progressive as well as provide significant tax relief for middle income households, and included a CPI-adjustment of the brackets and standard deduction amounts for 2013 and 2014 to counter the effects of inflation. A new tax rate of 8.82 percent was established under this legislation. For single filers, this rate is applied to incomes totaling $1 million or more. For head of household and joint filers, the rate is effective on incomes at or above $1.5 million and $2 million, respectively.

As a result of lowering the tax rates for a majority of State income taxpayers, the fiscal impact of the reform is much less than what was provided under the temporary surcharge. The reform is estimated to have generated $2.2 billion in SFY 2013-14 in All Funds tax revenues relative to 2008 law (prior to the surcharge).

The new rates and tax structure along with the CPI adjustment factors have been extended for an additional three years as part of the SFY 2013-14 Enacted Budget. Originally scheduled to expire following the 2014 tax year, the reform will now remain in effect through tax year 2017. In addition, the CPI adjustment factor shall be applied to both the brackets and standard deduction amounts for each of the next three years.

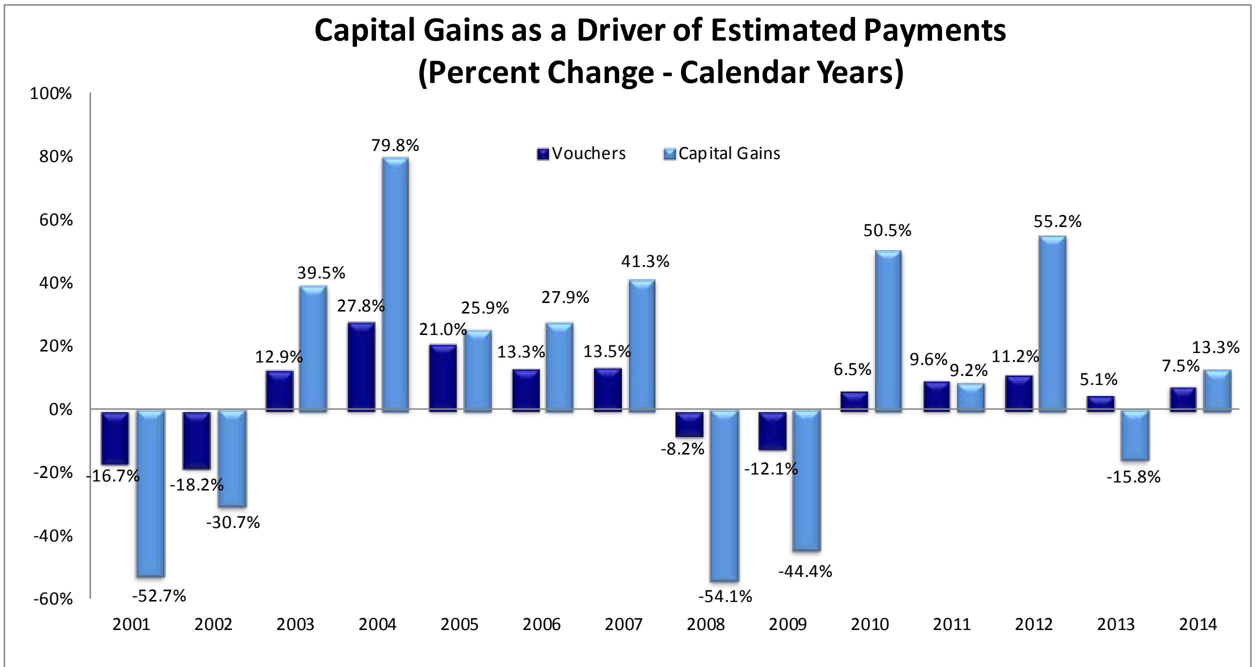
For SFY 2014-15, PIT receipts are estimated to increase by 3.6 percent or $1.538 billion, with $2.3 billion of the total attributed to the PIT reform. The reform extension is projected to generate an additional $468 million in SFY 2014-15, attributable to tax withholdings in the first quarter of 2015. Had the reform been allowed to expire as originally intended, projected net PIT receipts would increase by 2.5 percent compared to the prior fiscal year. Adjusting for all reform impacts, PIT baseline growth is projected at 3.6 percent.

Estimating underlying growth is significantly affected by the tax surcharge. This poses a significant risk to forecasting PIT receipts. It also highlights the overwhelming effect of the State's reliance on revenues from a limited and volatile source of high income earners, which poses its own significant risks to forecasting PIT receipts.

Since 1994, there has been a clear trend of the top ten percent of income earners accumulating an increasing share of overall PIT liabilities. The deviations from the trend appear to be directly linked to the two recessions that took place in the 2000s.

While the percentage of liability accrued by New York's top income earners serves to highlight the dependency on these taxpayers for revenue, the progressive structure of the tax brackets serves to exaggerate the effect of changes in income for high-income taxpayers. This is particularly true for the effects of capital gains on tax revenues.

The chart below highlights the relationship between voucher collections realized in a given fiscal year and capital gains in a given calendar year. Taxpayers will make estimated payments if they believe that tax liability for the year will be significantly greater than the amount of tax withheld from wages. Estimated payments received in a given fiscal year are generally tied to the liability of the predominant calendar year. For example, SFY 2013-14 voucher collections were attributable to net capital gains during the 2013 tax year. As mentioned previously, capital gains serve as a key exogenous variable within the voucher forecasting model.



Source: NYS Department of Taxation and Finance; Ways and Means Committee Staff Estimates.

Figure 22

Executive Budget Proposals

- **Authorize a Two-Year Freeze on Property Taxes through a Personal Income Tax Credit:** The Executive proposes to authorize a personal income tax credit against any property tax increases levied by a school district or local government adhering to a cap-compliant budget as well as developing and implementing cost savings during the second year. The credit may only be claimed by New York State homeowners with household income less than $500,000. The credit or "freeze" will be effective for school districts starting with the 2014-15 school year and for local governments in fiscal years beginning in 2015. The credit shall be authorized by the Department of Taxation and Finance as an advanced payment in the Fall prior to a qualified resident filing their New York State income tax return. The Executive estimates that the two-year freeze would reduce All Funds receipts by a total of $400 million in SFY 2014-15, $976 million in SFY 2015-16, and $475 million in SFY 2016-17.

  The two charts below outline the mechanics of the two-year freeze for school districts, other municipalities, and city-dependent school districts.

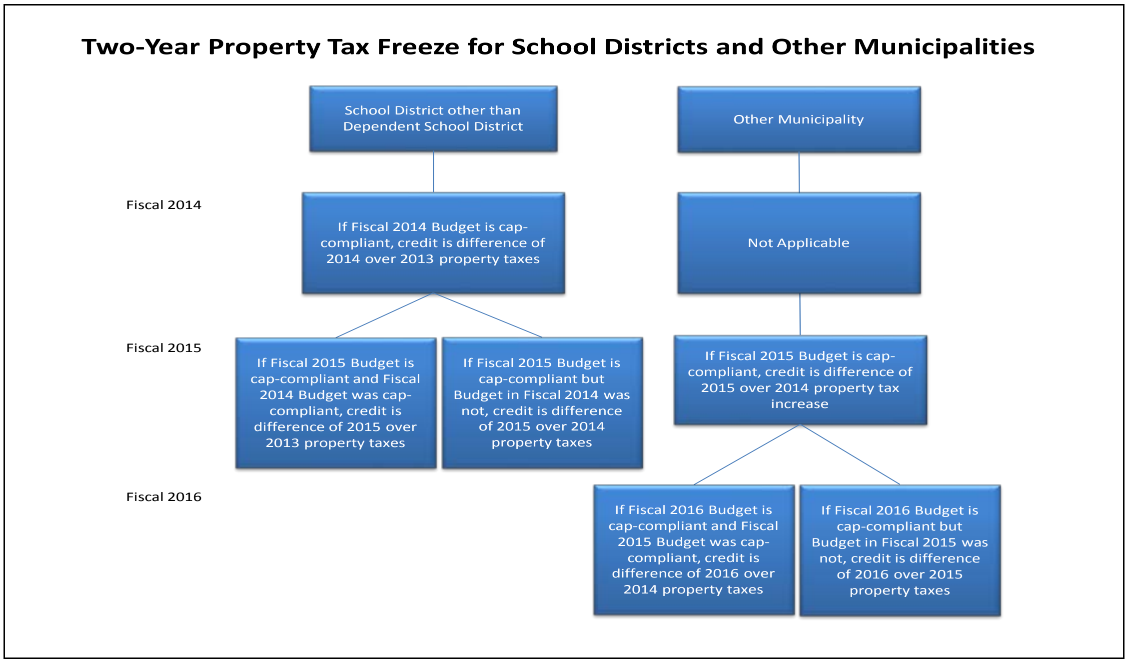


Figure 23

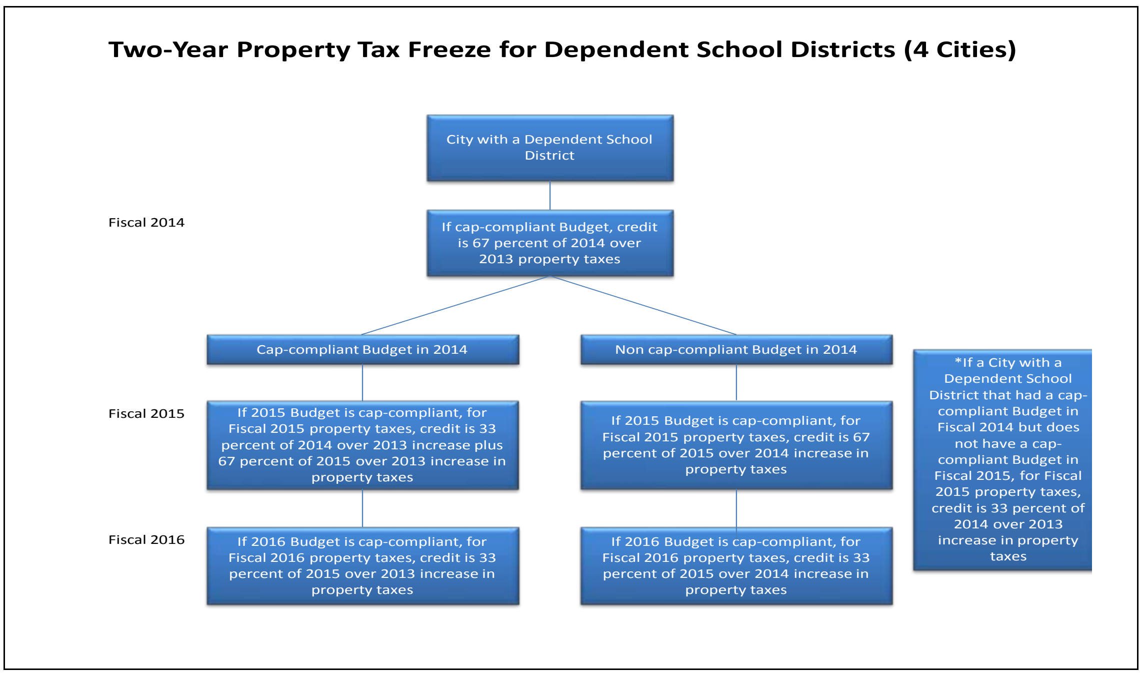


Figure 24

- **Modify Signature Requirements on E-Filed Returns Prepared by Tax Professionals:** The Executive proposes to allow taxpayers to use electronic signatures when authorizing their tax preparers to electronically file their tax returns. The legislation would serve to remove an unnecessary barrier to e-filing and simplify the process for tax preparers.

- **Extend the Noncustodial Parent Earned Income Credit:** The Executive proposes to extend the current enhanced earned income credit for noncustodial parents for an additional two years. The credit, is currently scheduled to expire following the 2014 tax year, would remain in effect for tax years 2015 through 2016, effectively expiring January 1, 2017. The Executive estimates the extension would reduce State tax revenues by $4 million in each of SFY 2016-17 and SFY 2017-18.

- **Close the Resident Trust Loophole:** The Executive proposes to close an exempt resident trust loophole used by taxpayers to avoid paying income tax on certain income earned by an incomplete gift non-grantor (ING) trust. In addition, the legislation would ensure that the proper tax would be collected on distributions of accumulated income to New York beneficiaries of non-resident and exempt resident trusts. The Executive estimates that closing this loophole would increase State revenues by $75 million in SFY 2014-15, $225 million in SFY 2015-16, and $150 million annually thereafter.

- **Repeal Minimum Personal Income Tax:** The Executive proposes to repeal the six percent minimum income tax levied on limited categories of income.

- **Establish the Residential Real Property Personal Income Tax:** The Executive proposes to authorize an enhanced circuit breaker credit for certain low to middle-income class New York homeowners. Resident homeowners with household income less than $200,000 will be eligible to claim the credit against property taxes levied only by local jurisdictions operating within the property tax cap, with the value of the credit rising as the homeowner's property tax burden increases beyond a certain threshold. New York City homeowners would be eligible for the credit as long as the State mandated property tax cap remains in effect.

  The credit will apply to homeowners with qualifying incomes up to $200,000. The homeowner will receive a credit on the excess of property taxes paid over a certain percent of income. When fully phased-in in taxable year 2016, for incomes up to $120,000, when property taxes exceed three percent of income, the credit is 20 percent of the excess; for incomes between $120,000 to $150,000, when property taxes exceed four percent of income, the credit is 15 percent of the excess; for incomes between $150,000 to $200,000, when property taxes exceed five percent of income, the credit is 10 percent of the excess. The maximum credit available will be $1,000. The Executive estimates that the new credit would reduce State tax revenues by $200 million in SFY 2015-16, $525 million in SFY 2016-17, and $1 billion annually thereafter.

- **Establish the Renter's Personal Income Tax Credit:** The Executive proposes to authorize a new refundable personal income tax credit for qualified renters with income up to $100,000 or $50,000 for a taxpayer who is 65 or older. The value of the credit would be based on the taxpayer's income level, filing status, and number of exemptions claimed on his/her federal income tax return. Single and jointly filing taxpayers under the age of 65 and without a claimed dependent would not be eligible to receive the renter's credit. The Executive estimates a reduction in State tax revenues of $200 million in SFY 2015-16 and $400 million annually thereafter.

- **Modify Delivery of the Family Tax Relief Credit:** The Executive proposes to eliminate the prepayment element of the family tax relief credit for taxable years beginning on or after January 1, 2015. The SFY 2013-14 Enacted Budget authorized a new $350 credit for qualified residents with AGI between $40,000 and $300,000 and claiming at least one dependent between the ages of four and 16. Qualification for the credit is currently determined using income tax returns filed two years prior and is scheduled to be distributed to qualified taxpayers by the Department of Taxation and Finance as a prepayment against tax liability. This legislation would allow the Department to use final returns issued within the same tax year to determine eligibility for the credit. The proposal would have no effect on the timing of payments in tax year 2014 but would shift the loss of revenues of $410 million to SFY 2017-18 and realize a gain of $410 million in SFY 2015-16.

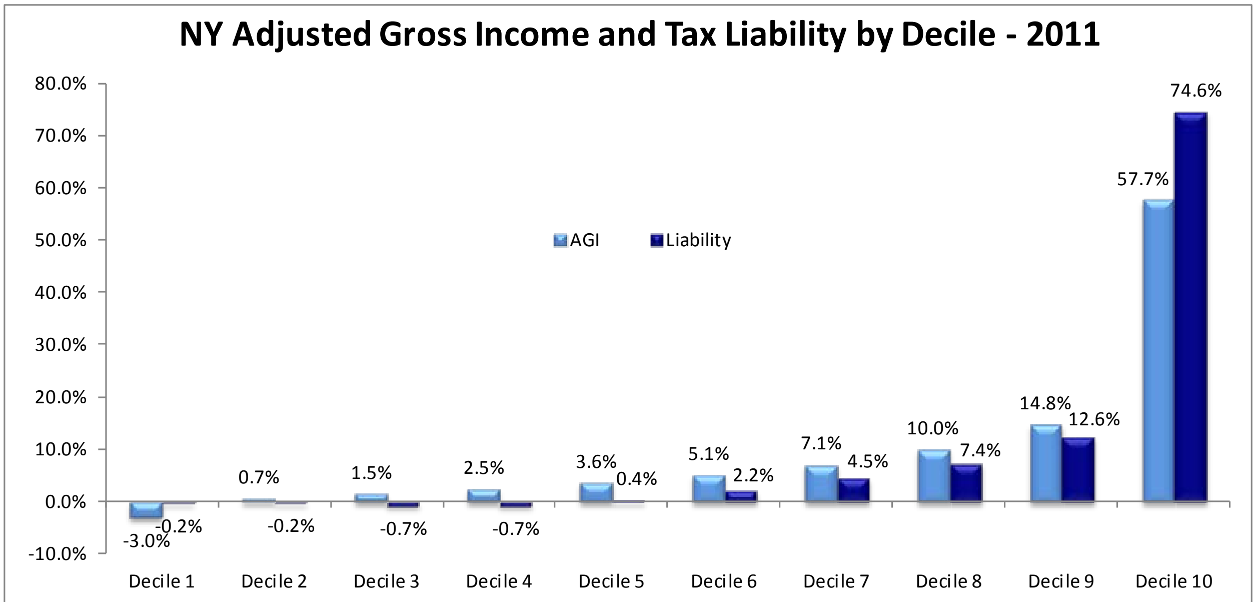
- **Increase the Personal Income Tax Filing Threshold:** The Executive proposes to increase the current threshold requirement for filing an income tax return from $4,000 to the applicable value of the allowable standard deduction.

- **Extend and Reform the Brownfields Cleanup Program:** The Executive proposes the extension of the program for ten years and provides a variety of reforms including narrowing the eligibility criteria for the applicable credits.

Who Pays the NYS Personal Income Tax?

Distribution of Liability and Adjusted Gross Income

The State's personal income tax has a progressive structure, meaning higher income individuals pay a higher proportion in taxes. According to 2011 data from the Department of Taxation and Finance, latest available, the top 10 percent of New York taxpayers earned 57.7 percent of income and paid 74.6 percent of total liability, while the bottom four deciles were net recipients of income taxes.



Source: NYS Department of Taxation and Finance; Ways and Means Committee Staff Estimates.

Figure 25

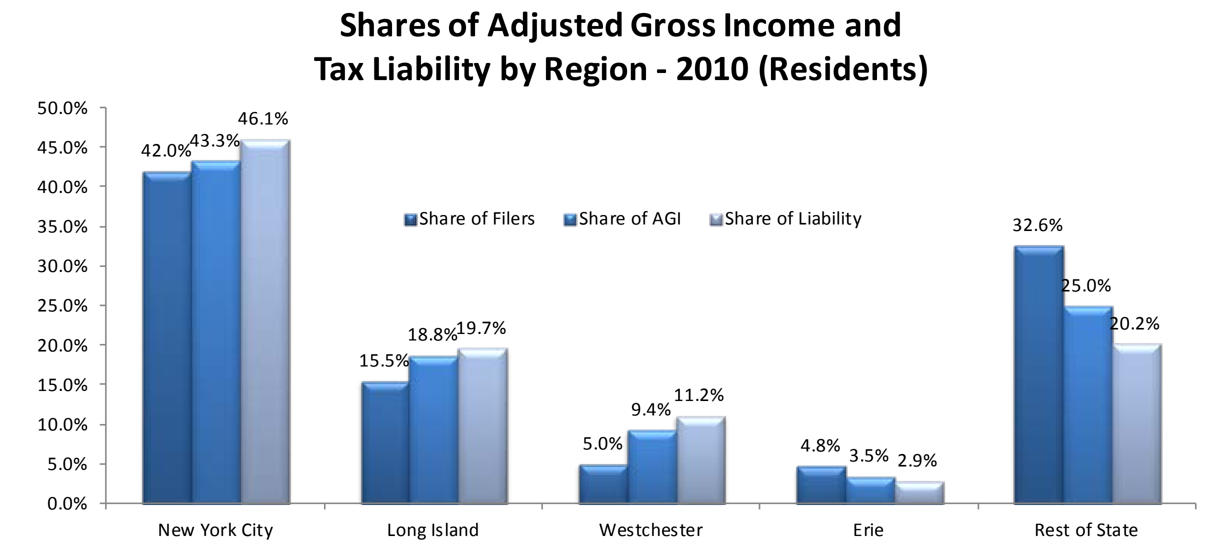
One should note that the progressivity of the personal income tax is mitigated when incorporating assumptions regarding the incidence of the sales and property taxes that tend to exhibit a more proportional or even regressive tax structure. For example, when incorporating sales and excise taxes as well as property taxes, the top one percent of income earners has an effective tax rate (ratio of taxes paid over income) of 10.3 percent compared to a rate of 12.3 percent for the middle 20 percent and 10 percent for the bottom 20 percent of income earners.[3]

A Regional View of Liability and Adjusted Gross Income

The chart below provides an overview of the shares of filers, AGI and personal income tax liability for key regions in the State as of 2010 (latest available). As expected, New York City and Long Island account for the largest shares of AGI and liability. New York City residents account

[3] "*Who Pays? A distributional analysis of the tax systems in all 50 states*", Institute on Taxation & Economic Policy, January 2013.

for 42.0 percent of filers and roughly 46 percent of residents' total liability, while Long Island residents account for 19.7 percent of liability. Westchester and Erie counties combine for an additional 14.1 percent in liability with 9.8 percent of the filers and 12.9 percent in AGI. The rest of the State accounts for 20.2 percent in liability compared to 32.6 percent of filers and 25.0 percent of AGI.



Source: NYS Department of Taxation and Finance; Ways and Means Committee Staff Estimates.

Figure 26

Recent NYS Personal Income Tax Changes

Table 18

Levels of Income at which the Top Tax Rate Applies				
		Taxable Income in Excess of:		
Tax Year	Top Rate	Married filing Jointly	Single	Head of Household
1989-1994	7.875	$26,000	$13,000	$17,000
1995	7.59375	$25,000	$12,500	$19,000
1996	7.125	$26,000	$13,000	$17,000
1997-2002	6.85	$40,000	$20,000	$30,000
2003-2005	7.7	$500,000	$500,000	$500,000
2006-2008	6.85	$40,000	$20,000	$30,000
2009-2011	8.97	$500,000	$500,000	$500,000
2012	8.82	$2,000,000	$1,000,000	$1,500,000

Since the mid-1980s there has been a consistent pattern of progressive reductions in tax rates and surcharges. The recession of the early 2000s, combined with the impact of the September 11, 2001 terrorist attacks on the financial industry in New York, led to legislation that temporarily imposed higher income tax rates on incomes over $500,000 for the period 2003 to

2005. The Great Recession and the sizeable deficits that the State incurred led to a second round of temporary surcharges effective for tax years 2009, 2010, and 2011. What follows is a brief summary of the major changes in the Personal Income Tax.

1987: In response to Federal tax reform, the State enacted a five-year phase down from the top rates of nine percent on earned income and 13 percent to seven percent on all incomes. Standard deduction amounts were also increased.

1990-1994: Due to recessionary pressures, the final two years of the phase down were delayed, with the top tax rate remaining at 7.875 percent until 1995.

1991: A “supplemental” tax was introduced to the personal income tax code. The tax was intended to recapture the value of marginal tax rates below the top rate.

1995: Enacted a three-year reduction in the top rate from 7.875 percent to 6.85 percent. The marginal brackets subject to the top rate were also adjusted over this time, from $13,000 to $20,000 for single filers ($26,000 to $40,000 for joint filers). These rates and brackets would remain in effect until 2002.

2003-2005: Amidst an economic recession, the State enacted a temporary three-year income tax surcharge. The legislation created two new tax brackets for incomes greater than $150,000 and $500,000. Taxpayers with incomes greater than $500,000 were subject to new top rate of 7.7 percent regardless of filing status.

2006-2008: As the temporary surcharge was allowed to expire following 2005, the top rate declined to 6.85 percent on incomes greater than $20,000 ($40,000 for joint filers).

2009-2011: In response to a decline in net collections of 5.7 percent in SFY 2009-10, the State once again enacted a three-year income tax surcharge. Two new brackets were created as follows:

- Single Filers:
  - 7.85 percent on incomes between $200,000 and $500,000
  - 8.97 percent on incomes over $500,000
- Married filing Jointly:
  - 7.85 percent on incomes between $300,000 and $500,000
  - 8.97 percent on incomes over $500,000
- Head of Household:
  - 7.85 percent on incomes between $250,000 and $500,000
  - 8.97 percent on incomes over $500,000

In addition, legislation increased the Itemized Deduction Limitation (IDC) from 50 percent to 100 percent for taxpayers with over $1 million in adjusted gross income, excluding deductions on charitable contributions.

2010: Legislation imposed further restrictions to itemized deductions limiting from 50 percent to 25 percent of Federal charitable contributions deductions on taxpayers whose NYAGI is over $10 million.

2012-2014: The December 2011 Tax Reform enacted a three-year PIT reform which added new brackets to make the PIT more progressive, while reducing tax rates for middle-class households, and included inflation-adjustment of the brackets and standard deduction amounts for 2013 and 2014 to counter the effects of inflation. In particular:

- Single Filers:
  - 6.85 percent on incomes between $200,000 and $1,000,000
  - 8.82 percent on incomes over $1,000,000
- Married filing Jointly
  - 6.85 percent on incomes between $300,000 and $2,000,000
  - 8.82 percent on incomes over $2,000,000
- Head of Household
  - 6.85 percent on incomes between $250,000 and $1,500,000
  - 8.82 percent on incomes over $1,500,000.

2015-2017: As part of the SFY 2013-14 Enacted Budget, the State extended the new tax structure for three years, effectively expiring January 1, 2018. In addition, the CPI adjustment factor would apply to the brackets and standard deduction values for each tax year through 2017.

Interaction of Federal and New York State Tax Code – Implications for NYS Taxpayers

In December 2012, the NYS Comptroller released a comprehensive report that provides several key insights as to the potential effects on NYS taxpayers of actions initiated at the Federal level:[4]

- Tax increases at the Federal level immediately reduce discretionary income, and thus potential sales and other user tax receipts, especially the two percentage points increase in the payroll tax from 4.2 percent to 6.2 percent which is estimated to cost NYS taxpayers $7.7 billion in lost discretionary income in 2014;
- Enacted tax increases due to the higher top marginal tax rate and the new higher rates for capital gains and dividends is also expected to reduce discretionary income by approximately $4.6 billion in 2014;
- However, the preservation of the Child and Earned Income tax credits provide approximately $3.0 billion in income to eligible taxpayers;

[4] "*Impact of the "Fiscal Cliff" on New York State*", New York State Comptroller, December 2012.

- To the extent that any tax reform (see more below) includes the elimination of the exemption of interest payments from bonds issues by state and local governments, the cost of such debt will increase for New York, thus, making harder the ability to fund infrastructure projects. The significance of such legislation for New York becomes more apparent when considering that "in 2011, New York issuers ranked first nationally for long-term bond sales, with a total of $39.3 billion."[5]

[5] Ibid.

Sales and User Taxes

Table 19

User Tax Collections Forecasts by State Fiscal Year ($ in Millions)	SFY 2013-14	Growth	Diff. Exec.	SFY 2014-15	Growth	Diff. Exec.
User Taxes and Fees	**$15,158**	**3.7%**	**50**	**$15,470**	**2.1%**	**(10)**
Sales and Use Tax	12,613	5.2%	18	12,977	2.9%	(11)
Motor Fuel Tax	477	-3.1%	(23)	489	2.4%	(13)
Cigarette Tax	1,462	-5.7%	41	1,381	-5.5%	7
Highway Use	141	-2.8%	1	142	0.7%	1
Alcoholic Beverage Tax	257	4.3%	6	265	3.4%	9
Auto Rental Tax	115	5.5%	1	116	0.9%	(3)
Taxi Surcharge	93	12.0%	7	100	7.5%	0

Sales Tax

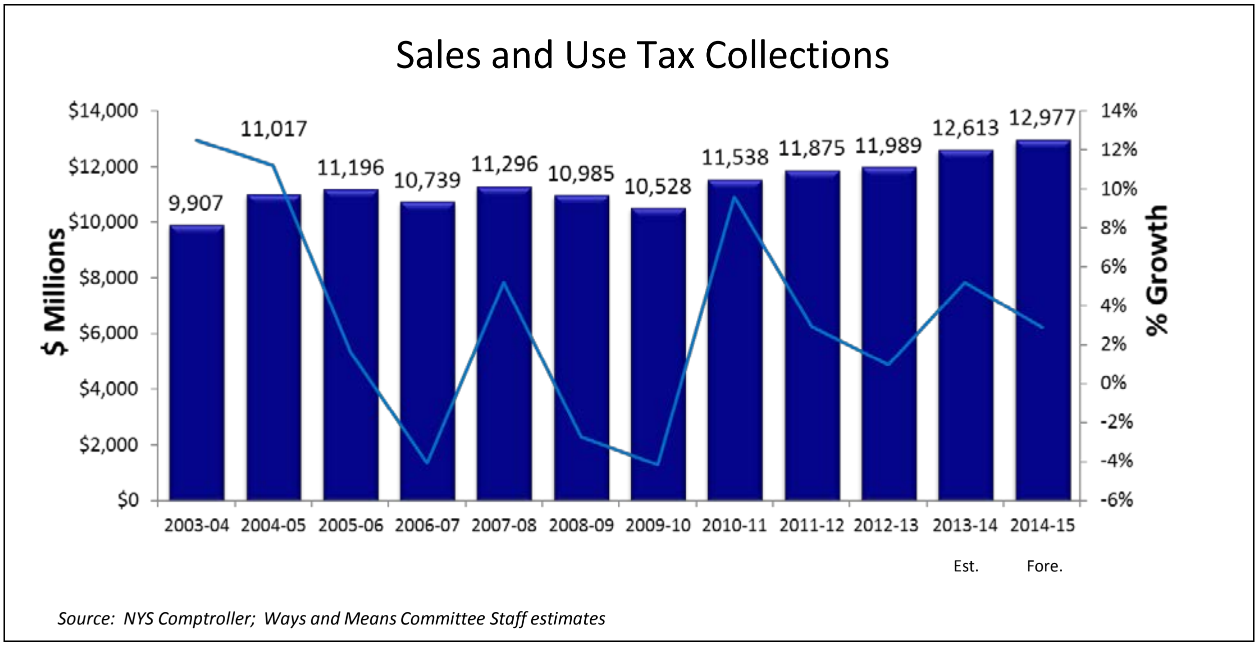


Figure 27

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. Certain non-profit and charitable organizations are exempt from paying sales tax on purchases.

Sales taxes are generally paid to and collected by the vendor at the time of purchase. Vendors remit sales tax collections annually, quarterly or monthly depending upon their level of taxable sales. Some vendors are required to remit their sales tax liability electronically to the State.

All funds sales tax collections are deposited into the General Fund and 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 former's 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, which was created in 1990 to eliminate annual spring borrowing. Once the LGAC debt service obligations are paid, excess revenues are transferred back to the General Fund.

The Sales Tax Revenue Bond Fund became effective at the beginning of SFY 2013-14. One-quarter of the State's sales tax collections are directed to this fund. Once LGAC bonds are defeased or retired, collections from two percent of the State's four percent sales tax rate will be dedicated to the STBF. As with the LGAC, all receipts in excess of STBF debt service requirements will be transferred to the General Fund.

Table 20

Sales Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$10,564	5.7%	$12,613	5.2%	$12,595	$18
2014-15			$12,977	2.9%	$12,988	($11)

SFY 2013-14

The Committee staff estimates Sales Tax revenues to be $12.613 billion in SFY 2013-14, a 5.2 percent increase over SFY 2012-13.

Growth of 2.7 percent is expected in the remaining months of the fiscal year. The Executive estimates SFY 2013-14 Sales Tax receipts to be $12.595 billion, a 5.1 percent increase over the previous year, or $18 million below Committee estimates.

SFY 2014-15

The Committee staff forecasts that SFY 2014-15 Sales Tax collections will be $12.977 billion, a 2.9 percent increase over SFY 2013-14 estimates.

The Executive is predicting growth of 3.1 percent or $12.988 billion, $11 million above Committee estimates.

Executive Proposals

- **Boxing and Wrestling Tax Repeal:** The Executive proposes to repeal Tax Law Article 19 which provides for the taxation of admissions receipts to boxing and wrestling events, and the taxation of the sale of event broadcast rights. Admissions tickets would become taxable via the sales tax by the State and localities under the proposal. Minimal fiscal impact for the State.

- **Alternative Fuels Exemptions Extension:** The Executive proposes to extend the sales and use tax, motor fuel tax, and petroleum business tax exemptions for alternative fuels. E85, compressed natural gas, hydrogen and B20 would be exempt from user taxes until September 1, 2016 under this proposal. Total fiscal impact of $8 million in lost receipts in SFY 2014-15 with a loss of $16 million in SFY 2015-16. One-quarter of the tax expenditures generated by these exemptions are from the sales tax.

Impact of Recent Law Changes

Gasoline and diesel purchases are taxed by the gallon and not the sale price, so the sales tax is equivalent to a purchase price of $2 per gallon. This tax expenditure is expected to save consumers $374 million this fiscal year, $23 million more than in SFY 2012-13. For SFY 2014-15 this exemption is estimated at $325 million. The State's expansion of nexus in 2008 to include internet retailers with in-State soliciting agents is expected to collect $82 million in SFY 2013-14 for the State and $10 million more the following fiscal year.

Law changes adopted in the SFY 2013-14 budget included Industrial Development Agency (IDA) reforms, the extension of sales tax modernization provisions, a technical amendment to the sales tax exemption for compressed natural gas, and a driver's license suspension program. These measures are expected to increase collections by $20 million this fiscal year. Excluding all law changes, and the expected increase in audit collections, sales tax collections are expected to grow 1.3 percent in 2014-15.

Fund Distribution

Table 21

Fund Distribution
($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	5,898	816	5,898		12,613
2014-15	6,064	849	6,064	-	12,977

Current State and Regional Trends

The State Fiscal Year started off strong with growth in the first quarter of 7.6 percent. This growth was not evenly distributed, as the Southern Tier experienced a decline of 2.1 percent, while Long Island saw collections rise 9.0 percent and New York City collections were 7.5 percent higher than the previous fiscal year's first quarter.

Statewide, second quarter collections were up 5.6 percent, with less variance among the regions of the State. Western New York sales tax collections grew only 1.9 percent while the Southern Tier had slightly less growth of 1.8 percent. The downstate regions, impacted by Hurricane Sandy, continued to experience strong growth likely associated with rebuilding and refurnishing.

From October through December, State collections experienced growth of 5.3 percent, but excluding New York City and Long Island which grew at 6.1 and 3.2 percent respectively, the fastest growing region was Western New York at 2.9 percent. The variation in regions was the greatest year-to-date, and four of the ten economic development regions had sales tax declines. Collections in the Southern Tier declined the most at 4.1 percent, while the Capital Region, the North Country and the Finger Lakes experienced declines of less than one percent.

Cumulative State sales tax collections through January increased 5.7 percent or $571 million. Sales tax collections for the regions have varied significantly. While Western New York has experienced less than average sales tax collections growth, revenues have been the most stable, while the Finger Lakes and the Southern Tier regions have had the highest variances in collections.

Table 22

Regional Sales Tax Growth SFY 2013-14

	April-June	July-Sept	Oct-Dec	**Total**
Western NY	2.9%	1.9%	2.9%	**2.6%**
Finger Lakes	1.6%	6.0%	-0.4%	**2.4%**
Southern Tier	-2.1%	1.8%	-4.1%	**-1.5%**
Central NY	2.1%	4.2%	0.7%	**2.3%**
Mohawk Valley	1.6%	5.8%	0.1%	**2.5%**
North Country	0.7%	2.5%	-0.1%	**1.1%**
Capital Region	0.8%	5.4%	-0.6%	**1.9%**
Mid-Hudson	4.9%	6.5%	1.8%	**4.4%**
NYC	7.5%	6.2%	6.1%	**6.6%**
Long Island	9.0%	7.4%	3.2%	**6.5%**
Total (Does not Include MCTD Collections)	**5.8%**	**5.8%**	**3.6%**	**5.1%**

Underlying Economic Conditions

Sales tax collections are driven by the consumption of tangible personal property and some services. Consumption depends on disposable income and one's propensity to consume, which is largely dependent upon their perceived wealth. New York State personal income is the economic variable that most closely impacts consumption trends. The Committee staff expects State personal income growth of 5.0 percent in 2014 followed by growth of 5.1 percent in 2015. These rates represent a substantial acceleration over the below-trend rates over the last three years.

The equity markets are also a reliable predictor and contributor to future consumption trends. In 2013, the S&P 500 registered growth of 19.1 percent, and the Committee staff expects growth of 12.1 percent in 2014 and 3.6 percent in 2015. As of February 2014, the stock market has experienced significant volatility with substantial declines reflective of international uncertainty and losses, underlying the precarious nature of the equity markets.

Sales tax collections, to date, have also benefited from the reconstruction following catastrophic damages in the New York City area from Hurricane Sandy. Many of the purchases for rebuilding after Hurricane Sandy are subject to the State and local sales tax. Services of installing, maintaining, servicing or repairing personal property, not held for sale, are subject to tax. Therefore, a homeowner choosing to rebuild without making flood-resistant improvements is subject to tax. However, capital improvements work is not subject to tax, whereas the materials used in the improvements are subject to tax.

Decentralized Structure of the New York State Sales Tax Base

At four percent, New York State has a relatively low sales tax rate. Other than the five states that do not impose a sales tax, only Colorado, at 2.9 percent, has a lower state sales tax rate. California's 7.5 percent is the highest state sales tax rate. Of the 45 states, plus the District of Columbia and Puerto Rico, that have a sales tax the median rate is six percent, and the average is 5.55 percent.[6]

While the States are the largest taxing governments in the country, there are more than 15,000 taxing authorities across the nation.[7] Most states allow cities, counties and special districts to apply their own sales tax rates, but some states with higher sales tax rates forbid localities from also applying taxes. New York State allows cities, counties and school districts within cities to apply their own sales taxes. In addition, the Metropolitan Commuter Transportation District (MCTD), which covers New York City and seven counties, collects an additional sales tax. While there are only 62 counties in the State, there are 77 different reporting codes or sales tax jurisdictions that impact consumption.[8]

[6] http://www.ncsl.org/research/fiscal-policy/state-sales-and-use-taxes-2013.aspx#About Sales and Use Taxes
[7] http://na.sage.com/erp/resources/~/media/D901CD64F39546569752CC4F9730B358.pdf
[8] http://www.tax.ny.gov/pdf/publications/sales/pub718.pdf

New York State adds another layer of complexity by allowing localities to alter the State's sales tax base. The following provides a list of some notable differences between state and local tax bases.

- New York State only taxes items of clothing and footwear that cost more than $110 per item but only 10 taxing jurisdictions conform to this exemption. [9]

- Qualified Empire Zone Enterprise (QEZE) businesses certified before April 1, 2009 may receive a refund on qualifying purchases from the State, but only seven local jurisdictions allow their taxes to be exempted as well.[10]

- QEZE businesses certified after April 1, 2009 may only receive a State and local sales tax exemption if the locality provides the exemption, and only seven localities choose to do so. [11]

- New York State provides a sales tax exemption for the sales and instillation of commercial solar energy systems equipment, but only six localities have opted into the exemption.
    - This creates a unique sales tax rate for systems sold in four cities in Westchester County. The State, the MCTD and Westchester County have exempted commercial solar energy systems, but the cities of Mount Vernon, New Rochelle, White Plains and Yonkers have independently chosen to tax commercial solar panels at a rate of 2.5 percent.[12]

- New York State and the MCTD provide a sales tax exemption for the sales and instillation of residential solar energy systems, but only 23 jurisdictions have chosen to also provide the exemption.
    - Similar to the commercial solar energy exemption, there are seven cities that choose not to provide the sales tax exemption, but the county they reside in does. In addition to the four cities in Westchester, the cities of Rome, Utica and Glens Falls assess a 1.5 percent tax on the sale of solar energy systems.[13]

- In 2006, the State changed the sales tax on qualified motor fuel, highway diesel motor fuel and B20 biodiesel from a percentage tax to a cents-per-gallon tax. Seneca County is the only county that has reduced its tax on motor fuels by adopting the cents-per-gallon tax. The rest of the localities apply a percentage tax on top of the State's cents-per-gallon tax.

[9] http://www.tax.ny.gov/pdf/publications/sales/pub718c.pdf
[10] http://www.tax.ny.gov/pdf/publications/sales/pub718qz.pdf
[11] Ibidem
[12] http://www.tax.ny.gov/pdf/publications/sales/pub718cs.pdf
[13] http://www.tax.ny.gov/pdf/publications/sales/pub718s.pdf

- The State does not subject residential energy sources and services to sales tax, but counties, cities and school districts in cities can tax energy sources and services. 55 jurisdictions apply a sales tax to residential gas, propane, electricity and steam. The rates vary from two percent to 7¾ percent. 28 jurisdictions tax coal, fuel oil and wood used for heating; these rates vary from 1½ percent to 4¾ percent.[14]

- The State applies an additional six percent tax on the short-term rental of passenger cars, but within the MCTD, there is an additional six percent supplemental car rental tax.

- New York City applies its local sales tax to many services that the State does not tax. The following are services only New York City taxes:
  - credit-rating and credit-reporting services;
  - beautician, barbering, and hair restoring;
  - tanning;
  - manicure and pedicure;
  - electrolysis; and
  - massage services and services provided by weight control and health salons, gymnasiums, Turkish and sauna baths, and similar establishments.

- Nonresidents of Manhattan pay an 18.375 percent sales tax on parking in Manhattan, while residents of Manhattan and all others who park in the outer boroughs pay a 10.375 percent sales tax.

- New York City provides a sales tax exemption for interior design services, but the State does not.

- New York State authorizes localities to tax local consumption under their own statutes. The State does not collect these taxes, so there are no aggregate estimates of collections from local telecommunication taxes, occupancy taxes, and energy taxes.

- In 2008, New York State expanded its nexus on internet commerce vendors. E-commerce vendors that have affiliates in the State and make sales in excess of $10,000 a year must collect sales tax from their customers and remit payments to the State. In late 2013, the United States Supreme Court refused to hear a case challenging New York State law and therefore upheld the State's expansion of economic nexus.

- The U.S. House of Representatives is scheduled to begin hearings on the Market Place Fairness Act (MFA) that the Senate passed in May of 2013. The MFA would allow states to collect sales tax from internet retailers that had more than $1,000,000 in remote sales across the country in one year. However, to collect sales tax from these

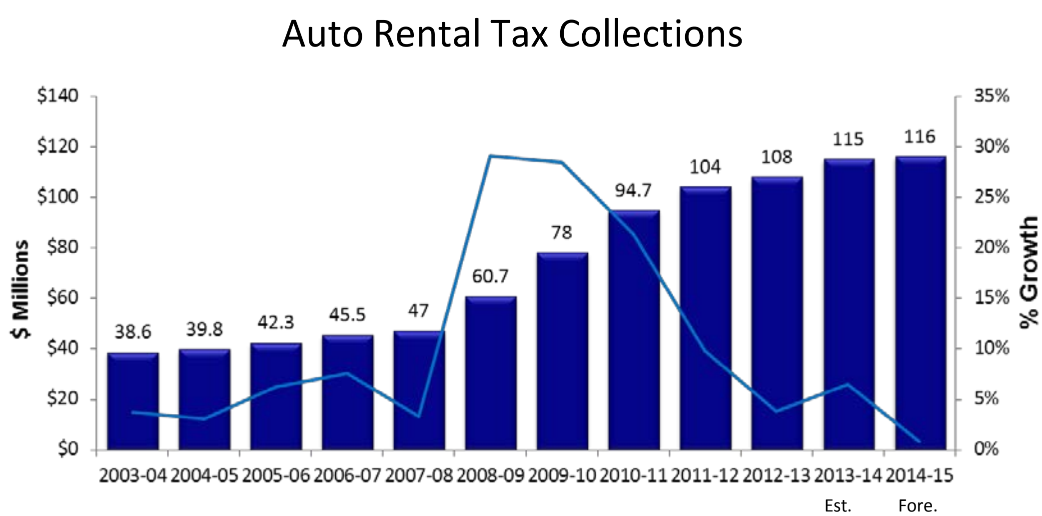
[14] http://www.tax.ny.gov/pdf/publications/sales/pub718r.pdf

companies, states must meet one of two conditions: a) they will need to join the Streamlined Sales and Use Tax Agreement (SSUT), or b) they will need to meet some minimum simplification requirements.

- The MFA's minimum simplification requirements would not be currently met by New York State, as it requires states to "provide a uniform sales and use tax base among the State and the local taxing jurisdictions within the State."[15] New York's current decentralized sales tax structure is not conducive to collecting additional revenue under the current MFA.

[15] 113th Congress, 1st Session, S.743, §2(b)(B).

Auto Rental Tax



Source: NYS Comptroller; Ways and Means Committee Staff estimates

Figure 28

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 auto rental tax was imposed at a rate of five percent on auto rental charges incurred for use in New Your State from its inception on June 1, 1990 until June 1, 2009; June 1, 2009 the rate increased to six percent statewide. Additionally, on June 1, 2009 a five percent supplemental tax went into effect on auto rentals in the Metropolitan Commuter Transportation District (MCTD). The tax does not apply to leases of one year or more. Since SFY 2002-03 all statewide auto rental receipts are dedicated to the Highway and Bridge Trust Fund. Revenue from the supplemental five percent MCTD Auto Rental tax is dedicated to the Mass Transportation Operating Assistance Fund (MTOAF).

Table 23

Auto Rental Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$94	8.9%	$115	5.5%	$114	$1
2014-15			$116	0.9%	$119	($3)

Current Trends

Collections through January total $94 million, for growth of 8.9 percent over the same period during SFY 2012-13.

SFY 2013-14

The Committee staff estimates auto rental tax collections to be $115 million in SFY 2013-14, an increase of $6 million or 5.5 percent.

The Executive estimates SFY 2013-14 All Funds auto rental tax collections to be $114 million or $1 million below the Committee's estimate.

SFY 2014-15

Ways and Means Committee staff forecasts collections of $116 million for the auto rental tax in SFY 2014-15 on an All Funds basis. This is growth of 0.9 percent over SFY 2013-14 estimates. The Executive forecasts 4.4 percent growth for collections of $119 million. The Committee staff forecast is $3 million below the Executive's forecast.

Fund Distribution

Table 24

Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14		43		72	115
2014-15	-	44	-	72	116

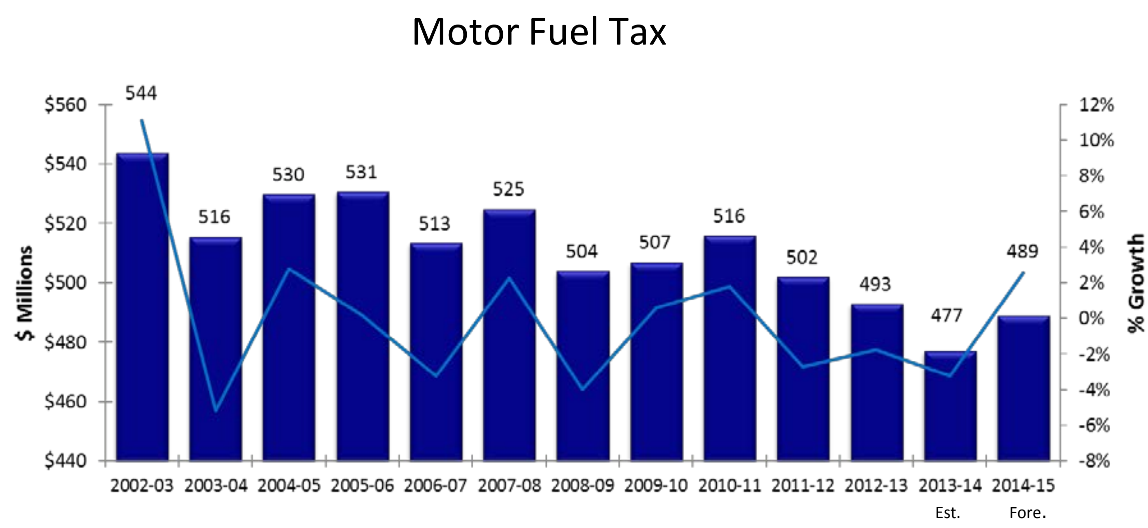
Underlying Economic Conditions

Auto rental tax collections follow patterns of general spending on leisure and business travel. Robust tourism growth trends in the national and state economy account for the growth in auto rental tax collections.

Executive Budget Proposals

The Executive has proposed no actions impacting the auto rental tax.

Motor Fuel Tax



Source: NYS Comptroller; Ways and Means Committee Staff estimates; Bureau of Labor Statistics

Figure 29

Article 12-A of the Tax Law imposes an eight cents per gallon tax on diesel fuel. Motor fuel and gasoline are taxed at the same eight cents per gallon upon importation or production within New York State. The motor fuel tax has three components: regular tax of four cents per gallon; additional tax of three cents per gallon; and supplemental tax of one cent per gallon. Motor fuel receipts are split between the 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 25

Motor Fuel Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$398	-3.4%	$477	-3.1%	$500	($23)
2014-15			$489	2.4%	$502	($13)

Current Trends

Collections through January total $398 million, a 3.4 percent decrease over the same period in SFY 2012-13.

SFY 2013-14

The Committee staff estimates that Motor Fuel tax collections will reach $477 million in SFY 2013-14, reflecting negative growth of 3.1 percent. Gasoline consumption is expected to decrease 0.1 percent this fiscal year while diesel consumption is expected to decrease 3.6 percent. In the remainder of the fiscal year, motor fuel tax collections are expected to decrease 1.3 percent over last year.

The Executive estimates an annual increase of 1.6 percent for Motor Fuel Tax receipts for a SFY 2013-14 total of $500 million, or $23 million above Committee estimates.

SFY 2014-15

The Committee staff forecast of $489 million for growth of 2.4 percent is $13 million below the Executive's forecast of $502 million.

Fund Distribution

Table 26

Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	-	100		377	477
2014-15	-	102	-	386	489

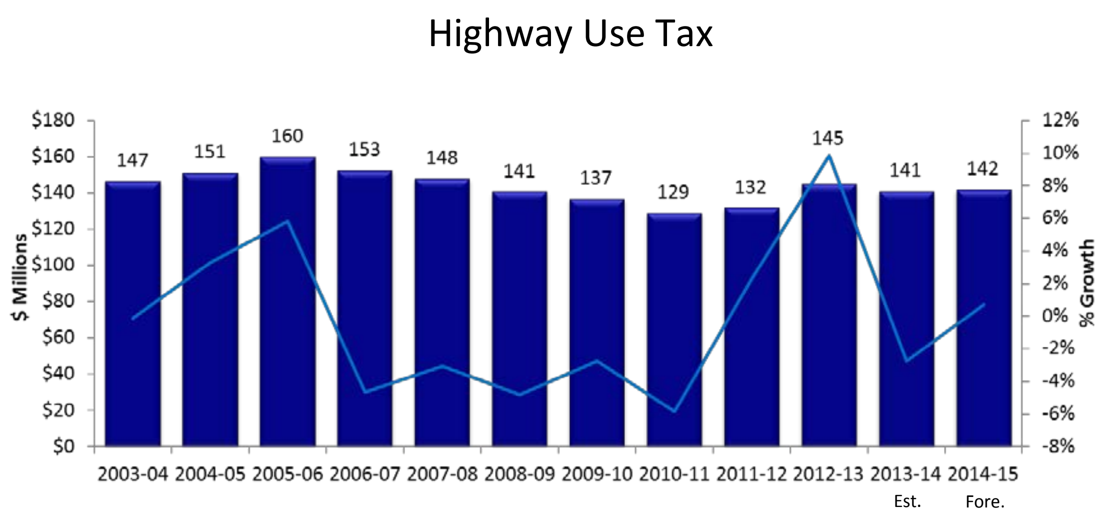
Underlying Economic Conditions

Motor Fuel taxes are generally very stable. The fluctuations can be explained by changes in consumption in gasoline and diesel fuel. Consumption of diesel fuel is estimated as a function of economic activity. As the economy expands the demand for shipping expands, increasing the consumption of diesel fuel. The variation in gasoline consumption is estimated based on the disposable income of consumers as well the price of gas. National gasoline CPI, used as an indicator of gasoline prices, is expected to increase 4.5 percent, resulting in weakened demand for motor fuels.

Executive Budget Proposals

- **Alternative Fuels Exemption Extension:** The Executive proposes to extend the sales and use tax, motor fuel tax, and petroleum business tax exemption for alternative fuels. E85, compressed natural gas, hydrogen and B20 would be exempt from user taxes until September 1, 2016 under this proposal. Total fiscal impact of $8 million in revenues losses in SFY 2014-15 and $16 million in revenue losses in SFY 2015-16. One-quarter of the tax expenditures generated by this exemption are from the motor fuel tax.

Highway Use Tax



Source: NYS Comptroller; Ways and Means Committee staff estimates

Figure 30

Articles 21 and 21-A of the Tax Law imposes a Highway Use Tax (HUT) for the privilege of operating a commercial vehicle on public highways. Revenues are derived from three sources: the truck mileage tax (TMT), highway use permit fees, and the fuel use 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 indexed according to the gross, laden or unladen weight.

Highway use permits are mandatory for owners of vehicles subject to the HUT. The permits are triennial at a cost of $15 for an initial permit and $15 for reregistration. Beginning January 1, 2013, vehicles subject to HUT are required to display a decal, costing $4, representing the ownership of a highway use permit.

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 its home jurisdiction all fuel taxes owed to IFTA members; the 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, 4.0 percent, and the lowest county sales tax rate at the time, currently 3.0 percent. The sales tax rates are applied to the capped price of $2 per gallon. All HUT receipts are earmarked to the Dedicated Highway and Bridge Trust Fund.

Table 27

Highway Use Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$118	-6.7%	$141	-2.8%	$140	$1
2014-15			$142	0.7%	$141	$1

Current Trends

Through January, HUT collections have declined 6.7 percent to $118 million.

SFY 2013-14

Collections for SFY 2013-14 are estimated to be $141 million, a 2.8 percent decline over the prior fiscal year. This estimate is based on year-to-date collections, tax law changes and the collection patterns over the last five years.

The Executive expects $140 million in HUT collections in SFY 2013-14, $1 million below the Committee staff estimate.

SFY 2014-15

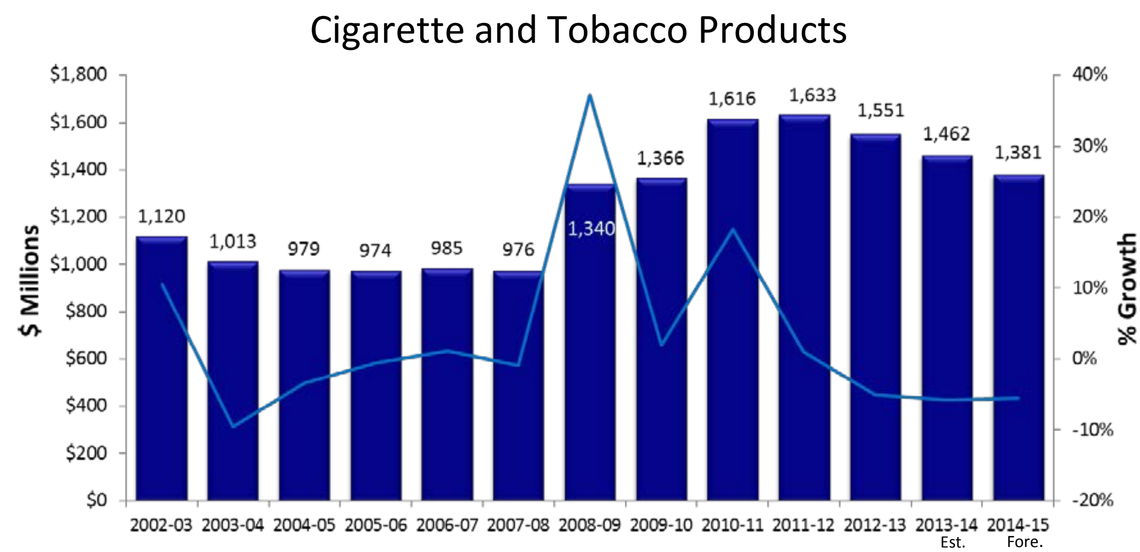
The Committee forecasts HUT collections will increase 0.7 percent to $142 million in SFY 2014-15. This forecast is $1 million above the Executive's forecast of $141 million.

Fund Distribution

Table 28

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14				141	141
2014-15	-	-	-	142	142

Cigarette and Tobacco Taxes



Source: NYS Comptroller; Ways and Means Committee Staff estimates

Figure 31

The cigarette excise tax of New York State has been imposed by Article 20 of the tax law since 1939. The rate is currently $4.35 for a package of 20 cigarettes.

The Commissioner of Taxation is authorized to make provisions for the sale of stamps and may license agents to sell stamps for the payment of tax on cigarettes. The agent may retain some of the revenues from the sale as commission according to guidelines established by the Tax Commissioner. The Commissioner is also authorized to prescribe a schedule of commissions, not exceeding five percent, to agents for buying and affixing stamps. The schedule shall be uniform with respect to the different types of stamps used, and may be on a graduated scale with respect to the number of stamps purchased.

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

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

Table 29

Cigarette and Tobacco Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$1,278	-5.2%	$1,462	-5.7%	$1,421	$41
2014-15			$1,381	-5.5%	$1,374	$7

Current Trends

Year-to-date through January cigarette and tobacco products tax collections are $1.278 billion, a decline of 5.2 percent or $70 million below the same period in SFY 2012-13. This decline in collections is directly linked to a 6.4 percent decline in consumption year-to-date. The decline is likely attributed to: a) a decline in the smoking population; and b) tax avoidance, either through purchasing non-taxed Native American brand cigarettes or purchasing cigarettes outside New York State or perhaps purchasing bootlegged cigarettes.

SFY 2013-14

The Committee staff estimates SFY 2013-14 collections for cigarette and tobacco tax collections to be $1.462 billion, a decrease of $89 million or 5.7 percent. This estimate is based on year-to-date collections and historical collection patterns. The Committee staff estimate is $41 million above the Executive's 2014-15 estimate.

SFY 2014-15

The Committee staff's cigarette and tobacco tax receipt forecast for SFY 2014-15 is $1.381 billion, for a decrease of 5.5 percent or $81 million below the SFY 2013-14 estimates. The Executive's Budget forecasts a decline of 3.3 percent, for collections of $1.374 billion, $7 million below the Committee's forecast.

Fund Distribution

Table 30

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	395	1,067			1,462
2014-15	391	990	-	-	1,381

Cigarette Consumption

Consumption of cigarettes has declined 74 percent since 1996. However, the impact of these declines on revenue collections was partially offset by a tax rate increase in 2010. Every rate increase has resulted in double-digit declines in consumption, but also in double-digit increases in collections growth.

Cigarette taxes have not increased since July of 2010 and the State has seen consistent declines in consumption ever since, as tax increases are not the only factor in decreasing consumption. This pattern of decreasing consumption, without an accompanying rate increase, is likely to result in significant declines in cigarette and tobacco tax collections in both SFY 2013-14 and SFY 2014-15.

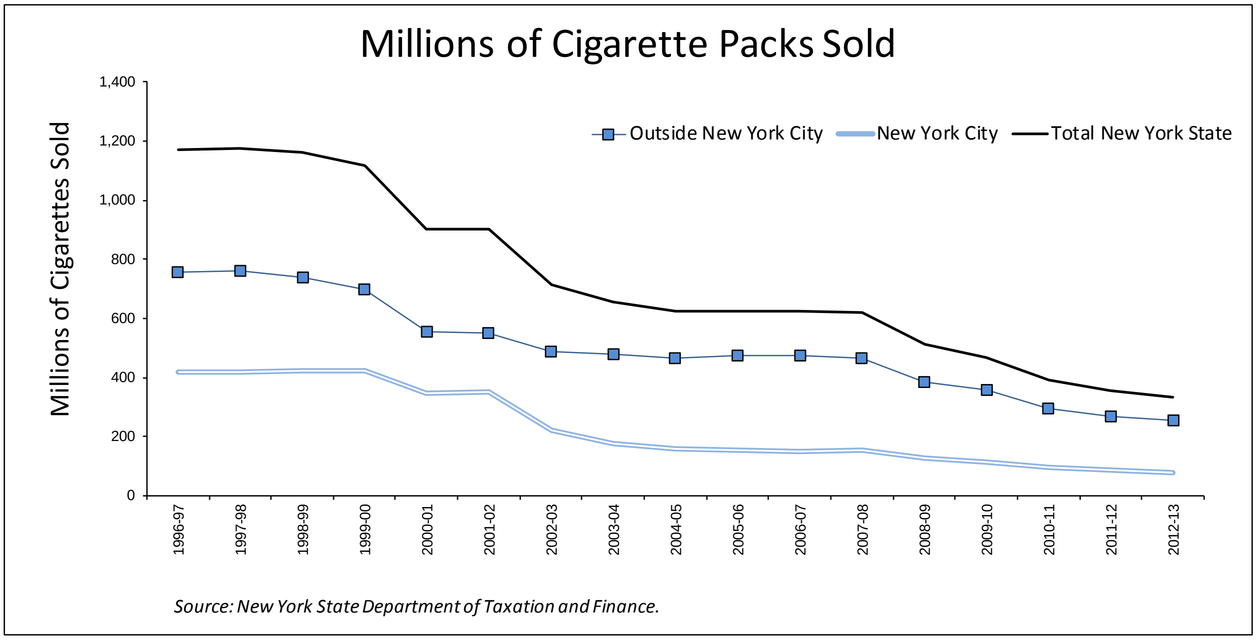
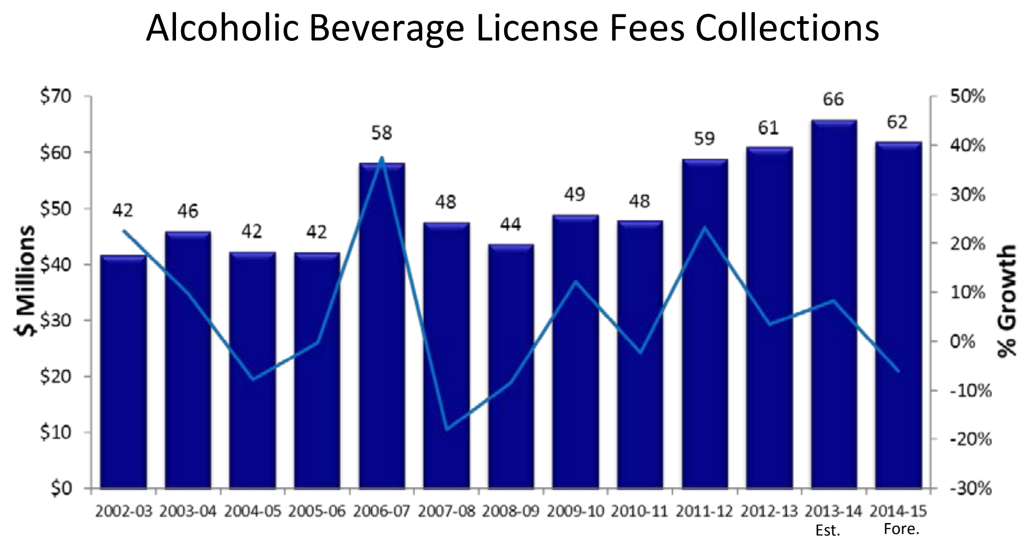


Figure 32

Alcoholic Beverage Control License Fees



Source: NYS Comptroller; Ways and Means Committee Staff estimates

Figure 33

Articles 4, 4-A, 5 and 6 of the Alcoholic Beverage Control Law impose fees for licenses on distillers, brewers, distributors, wholesalers, retailers, and others who sell alcoholic beverages in New York State. The Division of Alcoholic Beverages administers these laws.

License fees vary according to three major factors:

a) the type of license which is issued to distillers, wholesalers, retailers, distributors, brewers, and vendors;
b) for retail licenses, the population of the establishment's location; and,
c) the class of beverage for which the license is issued.

The most expensive licenses are for distillers, which can cost $12,000 a year. There are approximately 48,000 retail outlets in the State and in the most densely populated areas liquor vendors are charged $1,366 annually, but a grocery store selling beer in a rural area of the State is only charged $110 a year.

Table 31

Alcoholic Beverage Control License Fees ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$55	9.4%	$66	7.4%	$63	$3
2014-15			$62	-5.2%	$56	$6

Current Trends

Year-to-date, Alcoholic Beverage License Fees collections are $55 million, an increase of 9.4 percent.

SFY 2013-14

The Committee staff estimates revenues from Alcoholic Beverage Control License Fees at $66 million in SFY 2013-14, for growth of 7.4 percent or $5 million over the previous year. The Executive Budget estimates collections of $63 million for the fiscal year, $3 million below Committee estimates.

SFY 2014-15

For SFY 2014-15, the Committee staff forecasts collections of $62 million, a decrease of 5.2 percent. The Executive Budget forecasts a decline of 11.1 percent or $7 million for collections of $56 million.

No measures enacted in the SFY 2012-13 Budget are expected to affect SFY 2013-14 or SFY 2014-15 Alcoholic Beverage Control License Fees collections, and the Executive did not propose any changes to these fees in the SFY 2014-15 Budget.

Alcoholic Beverage Tax

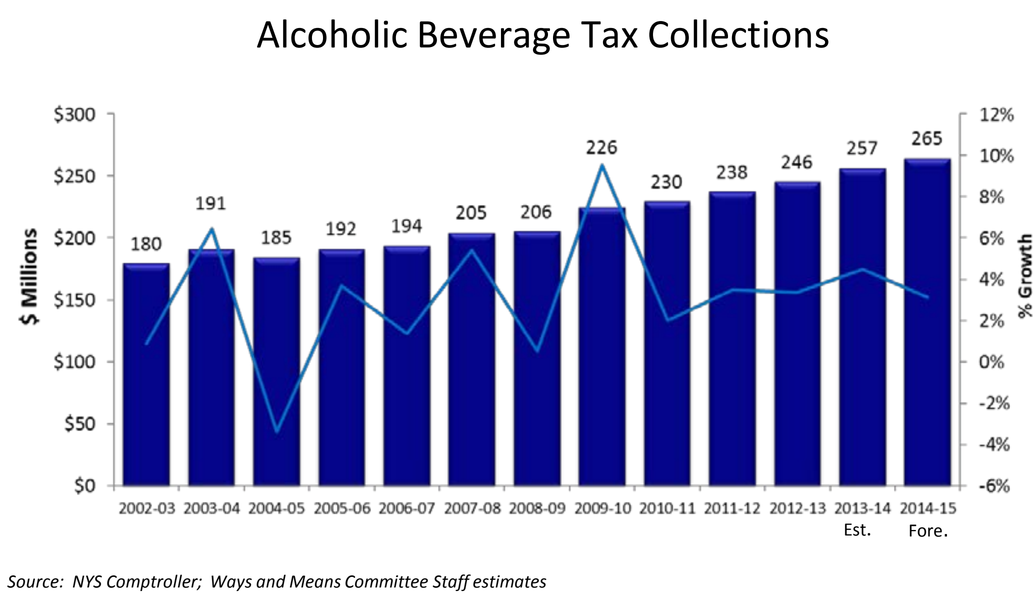


Figure 34

New York State imposes tax on all alcoholic beverages sold in the state under Article 18 of the tax law. The tax rate is dependent upon the percentage of alcohol in the beverage. The tax is imposed on the distributor or non-commercial importer of alcoholic beverages.

Table 32

Alcoholic Beverage	$ Rate Per Gallon	$ Rate Per Liter
Beer	0.14	
Still Wine	0.30	
Artificially Carbonated Sparking Wine	0.30	
Natural Sparking Wine	0.30	
Cider containing more than 3.2% Alcohol	0.0379	
Liquor: not more than 2% Alcohol		0.01
Liquor: not more than 24% Alcohol		0.67
Liquor or Wine: more than 24% Alcohol		1.70

The State administers the New York City tax on beer and liquor, which is imposed at a rate of $0.12/gallon of beer and $0.264/liter of liquor. The State is reimbursed by the City for expenses accrued in the administration of the tax.

Table 33

Alcoholic Beverage Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$219	4.2%	$257	4.3%	$251	$6
2014-15			$265	3.4%	$256	$9

Current Trends

Year-to-date through January, Alcoholic Beverage Tax collections have increased 4.2 percent or $9 million on an All Funds basis, for collections of $219 million.

SFY 2013-14

The Committee staff estimates SFY 2013-14 Alcoholic Beverage Tax collections to be $257 million, a 4.3 percent or $11 million growth over SFY 2012-13. An increase of 4.8 percent is expected in the remaining two months of the fiscal year. The Executive's Budget estimates SFY 2013-14 Alcoholic Beverage Tax revenues to be $251 million, an increase of 2.0 percent over last year. This estimate would require a decline of 10.7 percent in the remaining two months of the fiscal year.

SFY 2014-15

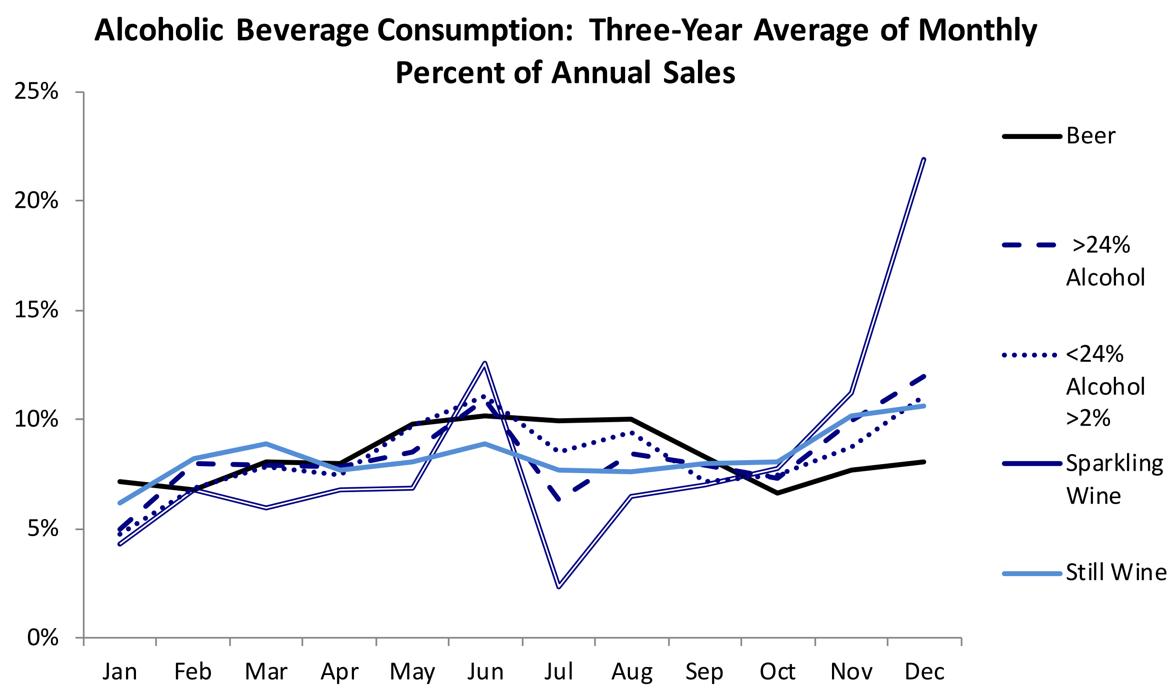
The Committee staff forecasts Alcoholic Beverage Tax collections to be $265 million in SFY 2014-15 for growth of 3.4 percent over the 2013-14 estimate. The Executive's Budget forecasts growth in SFY 2014-15 of 2.0 percent for collections of $256 million, $9 million below Committee estimates.

No enacted measures are expected to affect SFY 2013-14 or SFY 2014-15 Alcoholic Beverage Tax collections. The Executive is not proposing any legislative changes that would impact Alcoholic Beverage revenues.

Seasonal Alcohol Consumption Patterns

Alcohol beverage taxes are assessed on distributors when they purchase alcoholic beverages for sale in the State. Distributors then have a month to remit payment of the taxes to the State. By removing the one month lag from revenue receipts and averaging SFYs 2010-11 through 2012-13, seasonal consumption patterns can be identified.

Alcohol consumption patterns display seasonal trends. On average people purchase the least amount of all kinds of alcohol in the month of January. This could be a mix of a genuine decrease in consumption, but also reflective of the peak during the December holiday season. Consumption rises through the spring and it peaks in June. The most pronounced increase in monthly consumption is in sparkling wine. The conclusion of another school year and its accompanying graduation celebrations, as well as the start of summer, entice people to consume sparkling wines. Beer consumption peaks in the summer, but as temperatures decrease, so does beer consumption. The arrival of Thanksgiving and the end of the year holidays are accompanied with increased alcohol consumption, and again sparkling wine shows the most seasonal variation. NYS tax receipts are greatest in January when distributors have to remit tax payments for sales made in the previous month.



Source: New York State Department of Taxation and Finance, Ways and Means Committee Staff.

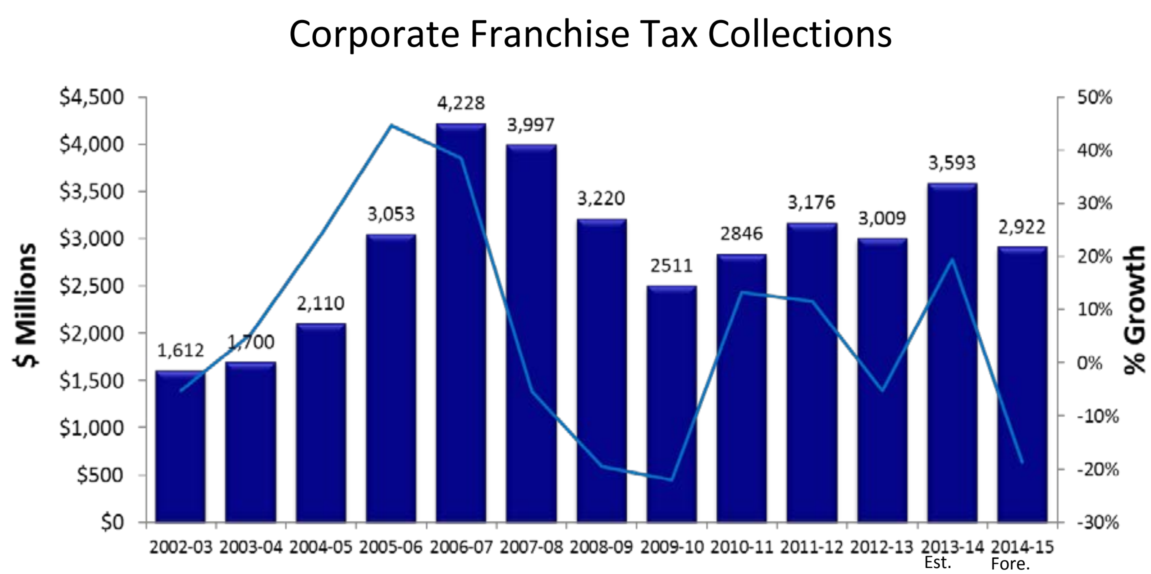
Figure 35

Business Taxes

Table 34

Business Taxes Forecasts by State Fiscal Year ($ in Millions)						
	SFY 2013-14	Growth	Diff. Exec.	SFY 2014-15	Growth	Diff. Exec.
Business Taxes	**$8,096**	**-4.4%**	**(90)**	**$7,940**	**-1.9%**	**87**
Corporate Franchise	3,593	19.4%	32	2,922	-18.7%	11
Utility Tax	797	-10.9%	3	820	2.8%	6
Insurance Tax	1,441	-4.5%	(16)	1,551	7.6%	10
Bank Tax	1,094	-42.8%	(95)	1,485	35.8%	67
Petroleum Business Tax	1,171	2.7%	(14)	1,162	-0.8%	(7)

Corporate Franchise Tax



Source: NYS Comptroller; Ways and Means Committee Staff estimates

Figure 36

Article 9-A taxes are imposed on every domestic or foreign corporation "for the privilege of exercising its corporate franchise, or of doing business, or of employing capital, or of owning or leasing property… in a corporate or organized capacity, or of maintaining an office in this state…" (Tax law §209.1).

The corporate franchise tax is imposed in three parts:

1. All corporations will pay the highest of the following four alternative bases:

   - 7.1 percent of entire net income allocated to New York;
   - 0.15 percent of allocated capital, subject to a maximum of $10,000,000;
   - an alternative minimum tax of 1.5 percent of entire net income; and,
   - a fixed dollar minimum tax, which ranges from $25 to $5,000, and is based upon the amount of New York receipts.

   Plus

2. For corporations that own more than 50 percent of the voting stock of another corporation, a tax of 0.09 percent of allocated subsidiary capital is to be paid.

3. If a corporation is in the Metropolitan Commuter Transportation District, they pay an additional surcharge which is distributed to the Metropolitan Transportation Authority.

Table 35

Corporate Franchise Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$2,396	16.8%	$3,593	19.4%	$3,561	$32
2014-15			$2,922	-18.7%	$2,911	$11

Current Trends

All Fund cumulative collections through January are $2.369 billion, up 16.8 percent or $345 million from prior year collections. Audit collections are up $185.6 million, or 32.2 percent, compared to the previous fiscal year. This accounts for a portion of the growth; without audits, the underlying growth is 10.8 percent.

Refunds for the first ten months of this fiscal year were $559 million, a decrease of 4.5 percent compared to the previous year.

SFY 2013-14

The Committee staff expects SFY 2013-14 corporate franchise tax collections to reach $3.593 billion, an increase of 19.4 percent over the previous fiscal year. To reach this level of collections, the remaining growth needed compared to the previous fiscal year is 25.0 percent.

The Executive is projecting SFY 2013-14 collections of $3.561 billion, an increase of 18.3 percent. At $32 million below the Committee staff's estimate, collections would have to increase by 21.7 percent for the remainder of the fiscal year to reach the Executive's estimate.

SFY 2014-15

The Committee staff expects corporate tax receipts to decrease by 18.7 percent, or $671 million, to $2.922 billion. The staff's SFY 2014-15 forecast is $11 million above the Executive's forecast of $2.911 billion.

Fund Distribution

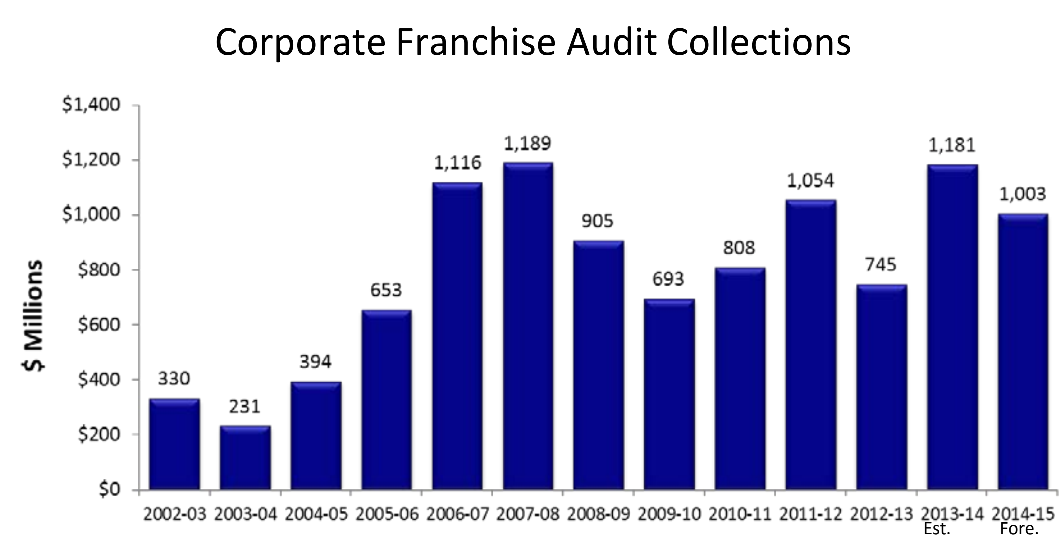
Table 36

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	3,106	487	-	-	3,593
2014-15	2,433	489	-	-	2,922

All corporate franchise tax receipts are deposited into the General Fund except for the MCTD surcharge, which is deposited into the MTOAF Special Revenue Fund. In SFY 2013-14, the Committee expects General Fund receipts to total $3.106 billion.

In SFY 2014-15, the Committee staff expects negative growth of 21.7 percent in the General Fund. The General Fund is expected to fall by $673 million to $2.433 billion.

Audits



Source: NYS Division of the Budget; Ways and Means Committee Staff estimates

Figure 37

The above chart reviews audit collections for the period SFY 2001-02 to SFY 2014-15. Audit collections through January are $762 million. This is up $185.6 million or 32.2 percent compared to the previous fiscal year. The Executive estimates SFY 2013-14 audits to be $1.181 billion.

Audits are expected to rise to $1.003 billion in SFY 2014-15.

Underlying Economic Conditions

In the direct aftermath of the most recent financial crisis, corporate profits declined at record rates. However, since bottoming out, profits have rebounded well past pre-fallout levels to historical highs; this, in a slow to stagnate growth climate. Low borrowing costs, labor costs, post-recession downsizing, and a favorable tax climate have contributed to the gains.

Corporate taxes as a share of profits have seen a downward trend since the 1970s. (See section below.) Discussion surrounding closing tax saving loopholes has contributed to the current reform debate. The current tax code incentivizes multinational corporations to keep earnings in countries with a more favorable climate rather than bring them back to the USA.[16] Repatriating income held by foreign subsidiaries is far more costly than reinvesting profits abroad. Perhaps the most telling figure is a comparison of U.S. foreign profits relative to the GDP of the country in which they are held. A Congressional Research Report shows that large developed nations such as France, Germany, and Japan have U.S. corporate profits totaling less than one percent of their GDPs. Known tax havens such as Bermuda and the Cayman Islands hold U.S. profits amounting to 645 and 546 percent of their respective GDPs.[17] Such ratios clearly do not stem from industry, resources, or markets within the small island nations. Profits earned from intangibles, such as patents, are much easier to shift to foreign subsidiaries, thus avoiding U.S. taxes.

New York State receipts from the Corporate Franchise Tax do not necessarily follow contemporaneously the growth in profits. The main risk to New York State tax collections is the productivity of auditing activities; historically, over a quarter of receipts are derived from the auditing process.

[16] Sablik, Tim. “Taxing the Behemoths” Econ Focus. Richmond Federal Reserve. Third Quarter 2013. http://www.richmondfed.org/publications/research/econ_focus/2013/q3/pdf/feature4.pdf

[17] Gravelle, Jane G. “Tax Havens: International Tax Avoidance and Evasion” Congressional Research Service. January 23, 2013. http://www.fas.org/sgp/crs/misc/R40623.pdf

The Declining Share of Corporate Income Taxes

As of SFY 2012-13 the share of corporate taxes out of total All Funds taxes stood at 4.4 percent, well below the 11.9 percent share during SFY 1977-78. The overall trend experienced a pronounced decline during the 1980s and has stabilized since at around five percent. A combination of lower tax rates, narrowing of the tax base via tax exemptions, organizational changes that moved businesses to the personal income tax (e.g. pass-through entities such as partnerships and S-corporations) as well as a move by businesses to lower-tax jurisdictions domestically and/or abroad have been cited as potential causes.

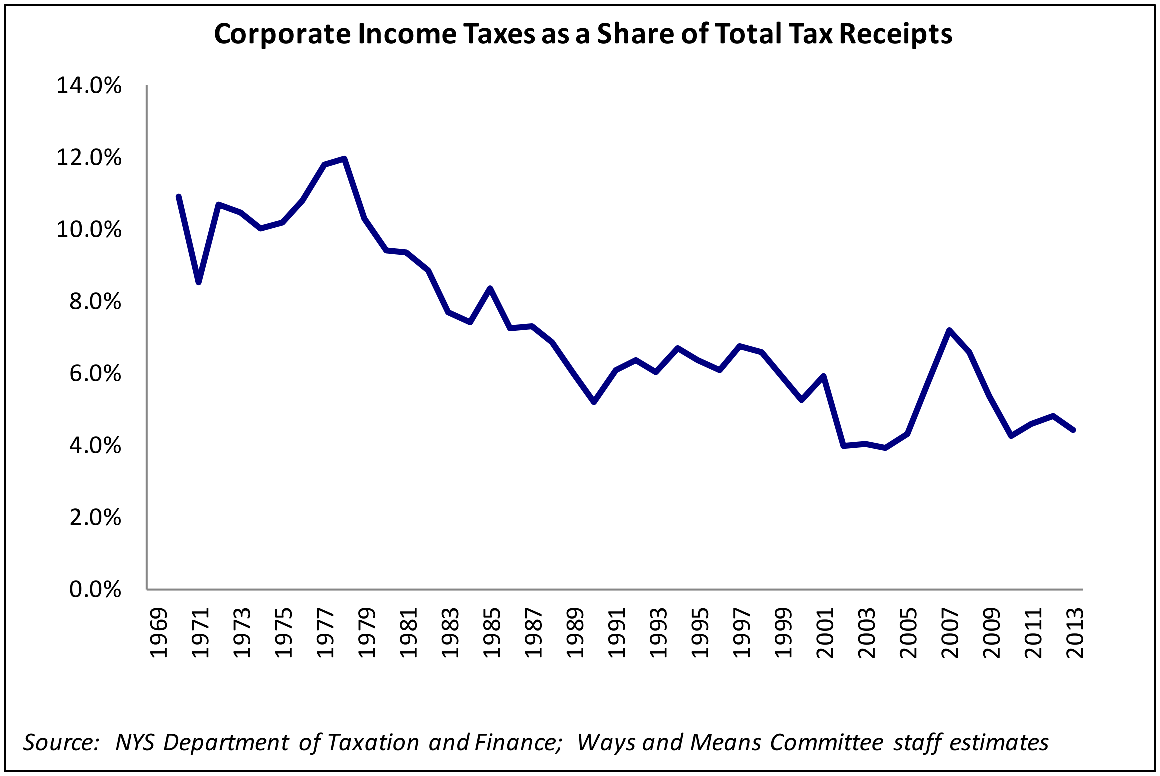


Figure 38

Corporate Reform Highlights

Unification of Article 32 (Bank Tax) payers with Article 9-A (Corporate Tax)

Nexus and Income Definitions

- Economic nexus is expanded to include deriving receipts in NYS (at least $1 mill) even if no physical presence or fulfillment service exists;
- Business income will include foreign source income if it is effectively connected with the U.S.;
- Eliminates current exemption of income from subsidiary capital and 50 percent of dividends from non-subsidiaries;
- Investment income definition is narrowly defined to include gains and losses from investments in non-unitary businesses;
- Investment income will be exempt from tax and deductions for interest expenses will be disallowed (taxpayer may deduct expenses by adding back 40 percent of otherwise non-taxable investment income).

Tax Bases and Rates

- Eliminates Article 9-A alternative minimum tax (AMT) and all Article 32 tax bases;
- Separate tax on subsidiary capital is eliminated;
- Three bases:
    - Business income
    - Business capital
    - Fixed dollar minimum (FDM)
- Increases the top FDM to $200,000 from the current $5,000;
- Reduces the top rate from 7.1 percent to 6.5 percent;
- Capital assets tax will be based on net assets (currently for banks is on gross) and is capped at $350,000 for manufacturers (as currently) and $5 million for all others (up from $1 million currently);

Apportionment/Sourcing

- Financial institutions may elect to either identify source of income based on customer location or elect to treat 8 percent of all taxable financial income as net income.
- Taxable receipts for service and digital products will be based on customer's location, instead of location of service.

Combined Reporting

- Makes subsidiaries and affiliates more likely to be combinable (taxable) by tightening current ownership requirements (more than 50 percent);
- Simplifies the combination rule by repealing inter-corporate transactions;
- Makes un-combinable (exempt) entities (alien corporations, over-capitalized insurance) subject to combined reporting;
- Allows taxpayer to make irrevocable 7-year election for combined return;

Net Operating Losses (NOLs)

- Eliminates carry-back provisions, conform to 20-year Federal carry forward;
- Repeals strict Federal NOL conformity rules by allowing taxpayer to fully apply NOL irrespective of Federal NOL amount or source year;
- NOLs can be used to reduce liability to the max of capital or FDM liability with the excess carry forward;
- NOLs incurred prior to 2015 will be converted into a NOL conversion pool (on 2014 allocations and rates) and 10 percent of such amount from NOL pool can be used in each year over the next 20 years.

MTA Surcharge

- Makes permanent;
- Increases rate to 24.5 percent from 17 percent currently, and reduces the tax base while preserving revenue neutrality;
- Conform MTA surcharge calculation to current law.

Bank Tax

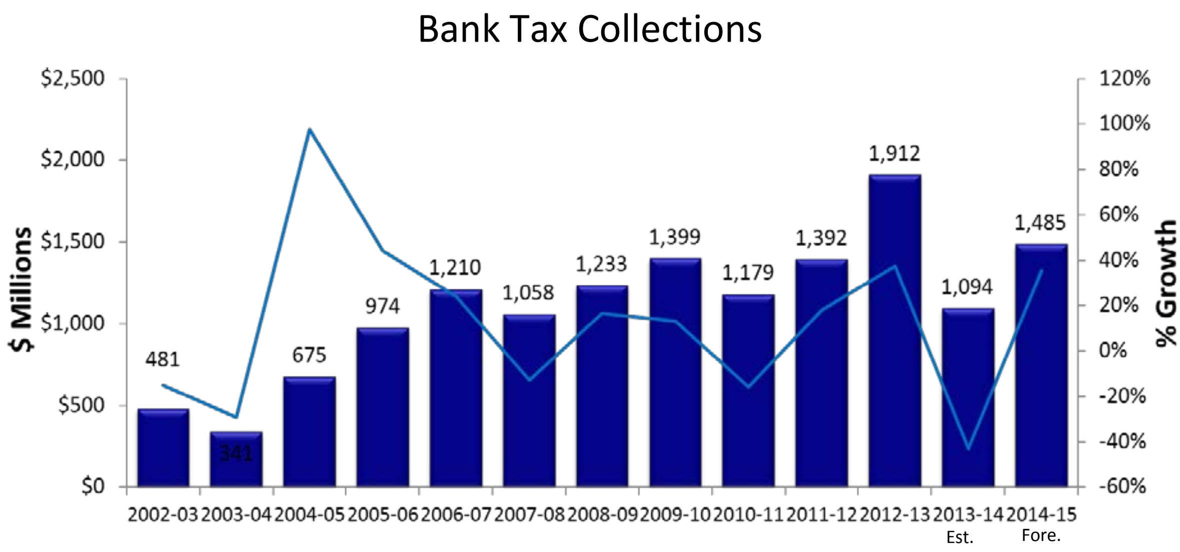


Figure 39

In general, the bank tax is imposed on all corporations performing banking business in New York. Corporations subject to the bank tax will pay the highest of the following four alternative bases:

- 7.1 percent of entire net income allocated to New York;

Alternative Minimum Tax (used if a higher tax results):

- 3 percent of entire net income allocated to New York; or
- a variable tax that ranges from 1/10 to 1/50 of a mill of assets allocated to New York; or,
- a fixed minimum of $250.

If a corporation has business attributable to the Metropolitan Commuter Transportation District (MCTD), they pay a 17 percent surcharge on their liability inside the MCTD, which is distributed to the Metropolitan Transportation Authority.

Table 37

Bank Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$767	-42.8%	$1,094	-42.8%	$1,189	($95)
2014-15			$1,485	35.8%	$1,418	$67

Current Trends

Through January, bank tax collections are down $574 million or 42.8 percent over the last fiscal year at a total of $767 million.

There has not been a consistent trend in bank collections so far this year. Monthly growth rates have varied from positive 5,580.0 percent to negative 486.0 percent, and cumulative growth has ranged from negative 551.3 percent to negative 22.3 percent. Recent settlements with large taxpayers can account for a large portion of the bank tax's decline.

Refunds are given due to overpayments on the part of the taxpayer. Cumulative refunds for bank collections through January are $68 million. Refunds are down $71 million from the same time period in SFY 2012-13.

SFY 2013-14

The Committee staff expects bank tax collections to be $1.094 billion this fiscal year, a decrease of $818 million or 42.8 percent from last year. To meet the staff's estimate, bank collections will have to decline 43 percent over the remainder of the year. The Committee's estimate is $95 million less than the Executive's.

SFY 2014-15

The Committee staff expects bank collections to be $1.485 billion in SFY 2014-15, an increase of $391 million or 35.8 percent. The Committee staff is forecasting $67 million more in total receipts than the Executive's estimate of $1.418 billion.

The Committee staff's forecast of strong collection levels is premised on the absence of settlements that reduce the tax base.

Underlying Economic Fundamentals

For the first time in over four years, FDIC-insured institutions posted a decline in year-over-year quarterly earnings. Third quarter, July to September, net incomes totaled $36 billion.[18] That is a 3.9 percent, $1.5 billion, decline compared to 2012 third quarter earnings. The FDIC cites lower revenue from mortgages and large litigation expenses as key variables for the decline. Higher medium- and long-term interest rates lowered the market value of fixed rate assets as well as decreased demand for mortgage refinancing.

The Federal Reserve's December announcement by outgoing chairperson Ben Bernanke to taper its long term bond buying program by $10 billion a month could be contributing to the slowdown in the otherwise booming housing market. Under the newly approved Chair, Dr. Janet Yellen, the Federal Reserve has remained committed to continue its stimulus efforts to keep short term interest rates near zero. With respect to future pull backs in long term bond buying, known as "Quantitative Easing", the Federal Reserve will look to GDP and labor growth as benchmarks. Strong economic growth and increased employment provide the foundation for sustainable increases in mortgages without jeopardizing the recovery.

A positive contribution to third quarter bank earnings is a decline in both net charge-offs and loan loss reserves. Charge-offs occur when a bank no longer expects to collect on a debt and removes it from their books, as banks want net charge-offs to be as low as possible. Loan loss provisions require banks to set aside funds to cover potential losses from loans they provide. An observed decline in loan losses indicates that the banking industry is more confident that they will collect on their loans. Net charge-offs declined 47.4 percent, down $10.5 billion from third quarter 2012, the lowest since 2007. [19]

Fund Distribution

Table 38

Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	925	169	-	-	1,094
2014-15	1,266	219	-	-	1,485

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

[18] FDIC. "Quarterly Banking Profile: Third Quarter" September 2013. http://www2.fdic.gov/qbp/2013sep/qbpall.html
[19] FDIC. "Quarterly Banking Profile: Third Quarter." September 2013. http://www2.fdic.gov/qbp/2013sep/qbpall.html

In SFY 2013-14, the Committee staff expects General Fund receipts of $925 million. In SFY 2014-15 the Committee expects General Fund to total $1.266 billion.

Audits

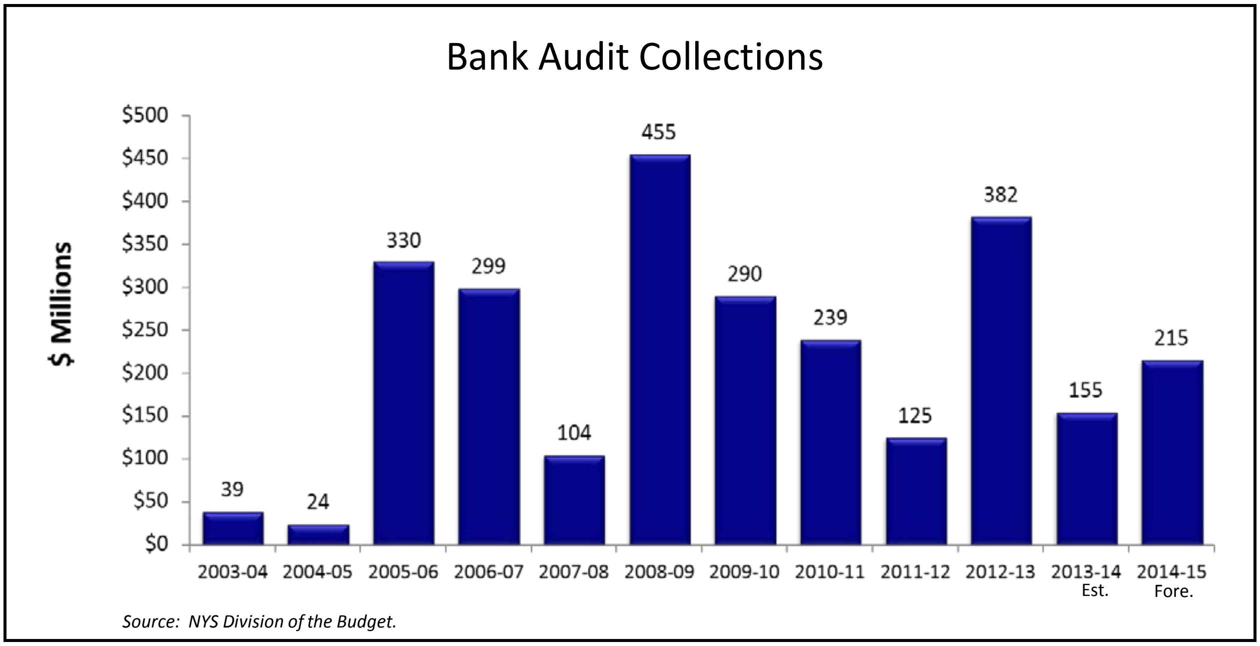


Figure 40

Cumulative audit collections are down $285.4 million over the first ten months to $96.4 million. When excluding audits from collections, underlying growth is negative 30.1 percent. The Executive estimates $155 million in audits for SFY 2013-14 and forecasts $215 million for SFY 2014-15.

Executive's Budget Proposals

- Please see Corporate Tax Reform under the Corporate Franchise Tax
- Extend and reform the Brownfields Cleanup Program
- Repeal the financial services investment tax credit (ITC)
- Streamline audit procedures.

Insurance Tax

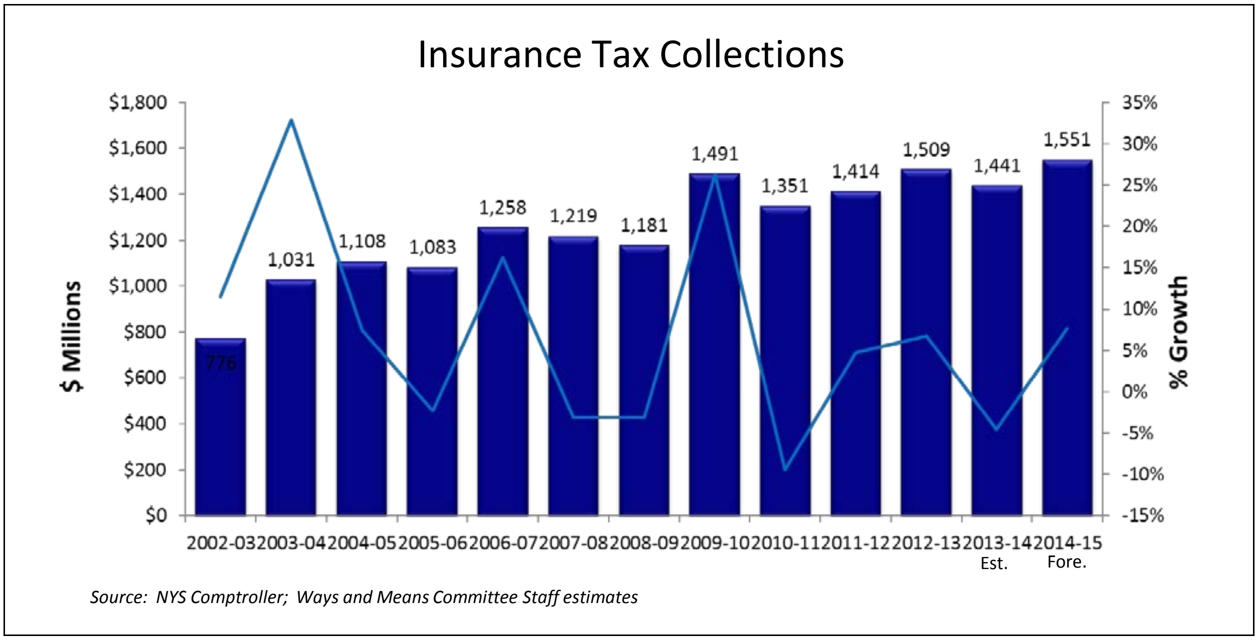


Figure 41

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

Article 33 of the Tax Law imposes a tax on insurance companies for the privilege of operating in a corporate form in New York State. The calculation of the tax liability and rates vary by type of insurer as illustrated below:

Life Insurers

The greater of:

1. The highest of four alternative bases listed below, *plus* 0.7 percent of premiums written on risks assigned to New York State; or,
2. 1.5 percent of premiums written on risks assigned to New York State.

Four Alternative Bases of Tax for Life Insurers – Insurance Calculation

1. 7.1 percent on allocated entire net income;
2. 0.16 percent on allocated business and investment capital;

3. 9.0 percent on statutory allocated income and salaries; or,
4. $250.
5. Plus 0.08 million for each dollar of allocated subsidiary capital.

The total amount of tax cannot exceed 2.0 percent of taxable premiums and cannot be lower than 1.5 percent of net premiums.

Non-Life Insurers

1. 1.75 percent of premiums written on risks assigned to New York State for Accident and Health insurers; or,
2. 2.0 percent of premiums written on risks assigned to New York State for Property and Casualty insurers.

If a corporation has business attributable to the Metropolitan Commuter Transportation District, they pay a 17 percent surcharge on their liability inside the MCTD, which is distributed to the Metropolitan Transportation Authority.

Table 39

Insurance Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$854	-3.3%	$1,441	-4.5%	$1,457	($16)
2014-15			$1,551	7.6%	$1,541	$10

Current Trends

Year to date collections are $854 million, a decrease of $29 million or 3.3 percent compared to the prior fiscal year.

SFY 2013-14

The Committee staff expects collections to equal $1.441 billion in SFY 2013-14, $16 million less than the Executive's estimate of $1.457 billion. The Committee staff expects remaining SFY 2013-14 collections to be negative 6.2 percent over the previous fiscal year. The Executive expects Article 33 audits to bring in $21 million this fiscal year, $13 million less than the previous fiscal year's collections.

SFY 2014-15

The Committee staff expects insurance collections to be $1.551 billion in SFY 2014-15, an increase of $110 million or 7.6 percent from the current fiscal year. The Executive is expecting collections to be $1.541 billion in SFY 2014-15, an increase of 5.8 percent. This estimate is $10 million less than Committee staff forecast for SFY 2014-15.

Fund Distribution

Table 40

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	1,285	156	-	-	1,441
2014-15	1,384	167	-	-	1,551

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

In SFY 2013-14, the Committee projects General Fund receipts to reach $1.285 billion. In SFY 2014-15 the Committee staff projects the General Fund to increase $99 million to $1.384 billion.

Executive Budget Proposals

- Repeal Article 33 investment tax credit (ITC)
- Extend and reform the Brownfields Cleanup Program.

Corporate Utility Tax

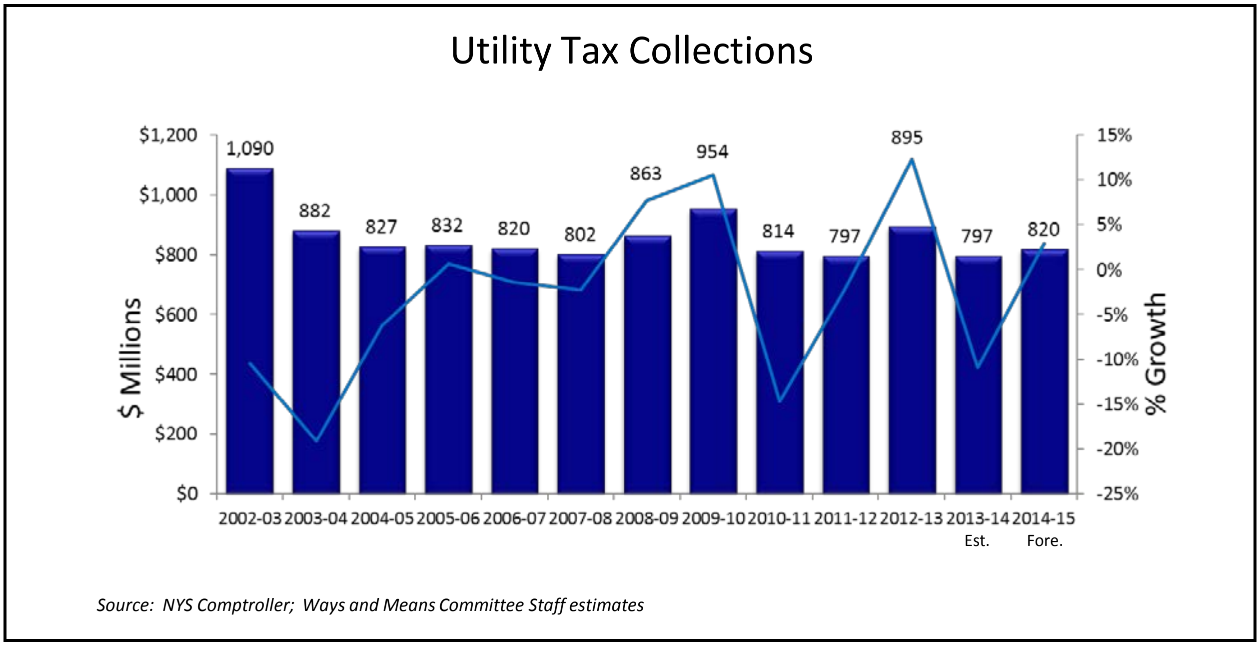


Figure 42

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

Tax Law Section 183 imposes tax on transportation and transmission companies. They pay the highest tax after determining their liability under these 3 methods:

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

Tax Law Section 184 taxes the same companies taxed under Tax Law Section 183, with a 0.375 percent tax on gross receipts within New York State.

Tax Law Section 186-a imposes a two percent gross receipts tax on the sale of the transportation, transmission, distribution, or delivery of electric and gas utility service.

Tax Law Section 186-e imposes a 2.5 percent excise tax on the gross receipts from the sale of interstate and intrastate telecommunication services.

Companies subject to the supervision of the Public Service Commission are required to pay Section 186-e, the telecommunication services tax and section 186-a, a tax on their non-telecommunications receipts.

Additionally, companies with business attributable to the Metropolitan Commuter Transportation District (MCTD) pay a 17 percent surcharge on a company's liability attributable to the MCTD.

Table 41

Utility Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$488	-10.6%	$797	-10.9%	$794	$3
2014-15			$820	2.8%	$814	$6

Current Trends

Through January, cumulative utility tax collections have decreased $58 million or 10.6 percent.

Audit collections for utilities are down $16.1 million, which accounts for some of the year-over-year decline in collections.

Collections for the gross receipts tax on transportation and telecommunication transmission companies, section 184, were $26.3 million through January, a decrease of $3.8 million from the same time period last fiscal year.

The tax on telecommunications services, the largest component of the Article 9 corporation and utilities tax, has collected $231 million through January, a decrease of 15.6 percent or $42.5 million since last fiscal year.

SFY 2013-14

The Committee staff expects collections for SFY 2013-14 to be $797 million, a decrease of 10.9 percent or $98 million from the previous fiscal year. This is $3 million above the Executive estimate. The Committee staff expects collections for the remainder of the year to be 11.5 percent lower than the last fiscal year.

Last fiscal year audit collections for Article 9 taxes were $100 million. The Executive expects audit collections to be $72 million this fiscal year, $28 million less than last fiscal year. Through January, the State has collected $43 million in audits.

SFY 2014-15

The Committee staff expects utility tax collections to increase by $23 million or 2.8 percent to a level of $820 million in SFY 2014-15. The Executive is expecting $814 million for the next fiscal year, an increase of 2.5 percent.

Fund Distribution

Table 42

Fund Distribution
($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	609	174	-	15	797
2014-15	627	178	-	15	820

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 2013-14, the Committee staff expects General Funds to total $609 million. The Committee staff expects Special Revenue Funds for SFY 2013-14 at $174 million, while Capital Projects Funds are estimated to total $15 million total.

For SFY 2014-15, the Committee staff expects General Funds to increase to $627 million. The Committee staff expects Special Revenue Funds for SFY 2014-15 to increase to $178 million, while Capital Projects Funds are forecast to be $15 million.

In 1998, the Federal government passed the Internet Tax Freedom Act (ITFA), and Congress subsequently extended its provisions until 2014. This legislation exempts "internet access" from taxation by the federal, state and local governments, regardless if it is imposed upon the consumer or provider of internet access. ITFA does not prohibit states and localities from imposing fees or taxes upon net income, capital stock, net worth, or property value of internet access providing companies. Because New York State's Article 9 Corporate and Utilities tax imposes a gross receipts tax upon the business providing internet access, all revenue generated by companies from providing internet access is not taxable.

Underlying Economic Fundamentals

Wireless communications provide a substantial part of Utility Tax collections for New York State. Growth in the wireless industry provides underlying support for tax receipts. A key variable to the wireless industry is the penetration rate, the number of subscribers as a percentage of the total potential customers. With the U.S. penetration rate being 102.2 percent in 2012, there are now more wireless devices than people.[20] The potential for continued growth exists in the specific penetration of smart devices as well as wireless-only households. Currently, 38.2 percent of households in the U.S. have only wireless communication devices. With respect to smart devices, newer applications are more data dependent. Increased data usage is also compounded by a growing trend to stream media over a wireless network. Growing data usage relates to growing revenue for telecommunication companies. U.S. smartphone penetration exceeded 60 percent in 2013;[21] the trend is expected to continue. A growing number of smartphones leads to growing data usage, which adversely affects utility tax collections.

Executive Budget Proposals

- Eliminate 18-a assessment surcharge on industrial utility customers and accelerate phase out for all other utility customers

- Extend and reform the Brownfields Cleanup Program.

[20] CTIA: The Wireless Association. "Wireless Quick Facts" Retrieved January 10, 2014. http://www.ctia.org/your-wireless-life/how-wireless-works/wireless-quick-facts
[21] comScore. "comScore Reports September 2013 U.S. Smartphone Subrscriber Markter Share" Retrieved January 10, 2014. http://www.comscore.com/Insights/Press_Releases/2013/11/comScore_Reports_September_2013_U.S._Smartphone_Subscriber_Market_Share

Petroleum Business Tax

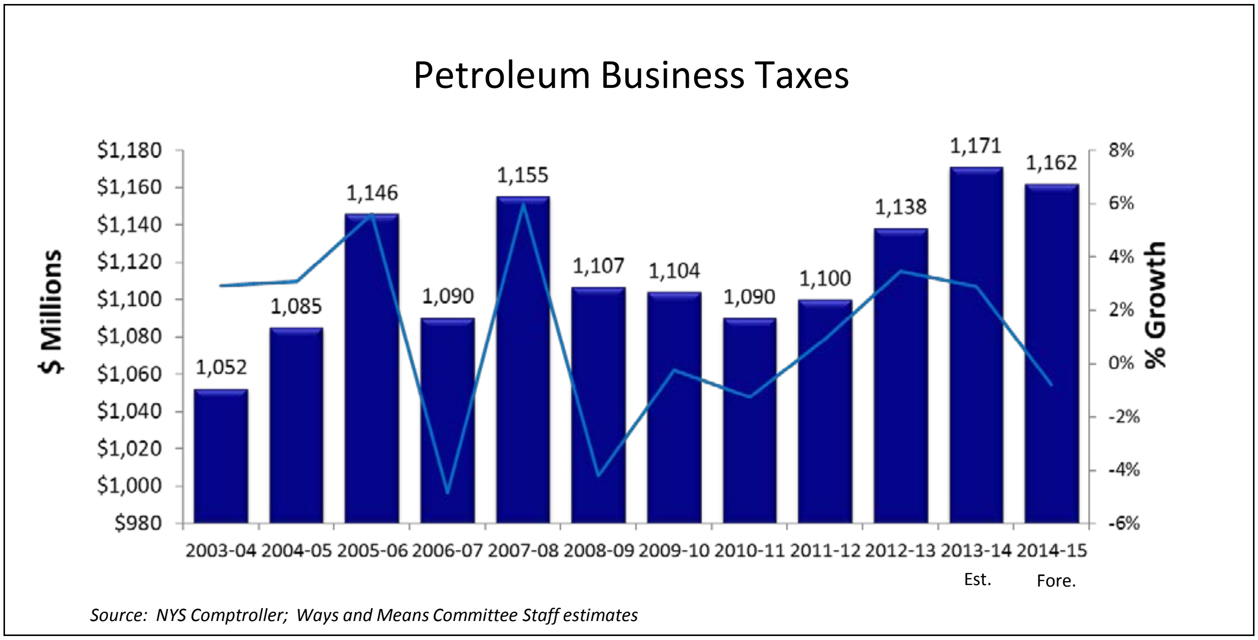


Figure 43

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

PBT 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.

PBT 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 the Dedicated Funds Pool. The supplemental tax and the tax on carriers are deposited entirely into the 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 43

Petroleum Business Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$974	1.8%	$1,171	2.7%	$1,185	($14)
2014-15			$1,162	-0.8%	$1,169	($7)

YTD Through December

Through January, PBT collections have increased $17 million or 1.8 percent.

SFY 2013-14

The Committee staff expects collections for SFY 2013-14 to be $1.171 billion, an increase of 2.7 percent or $31 million from the previous fiscal year. This is $14 million below the Executive's estimate. The Committee staff expects collections for the remainder of the year to be 7.6 higher than the last fiscal year. PBT rates are expected to be lowered by 0.8 percent starting January 1, 2014.

The Executive's estimate is $1.185 billion, or 3.9 percent over the prior year. Collections would have to increase by 15.3 percent compared to the previous fiscal year to meet the Executive's estimate.

SFY 2014-15

The Committee staff expects PBT collections to decrease by $9 million or 0.8 percent to a level of $1.162 billion in SFY 2014-15. The Executive is expecting $1.169 billion for the next fiscal year, a decrease of 1.4 percent. PBT rates are expected to decrease by 4.0 percent on January 1, 2015.

Fund Distribution

Table 44

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14		521		650	1,171
2014-15	-	517		645	1,162

Underlying Economic Conditions

PBT collections are driven primarily by gasoline and diesel receipts, which comprise approximately 96 percent of total PBT receipts. It should be noted that PBT collections have been extremely steady over time. PBT revenues have varied by less than $100 million or 10 percent from the average over the last eleven years. Likewise, annual collections have not grown by more than six percent or declined by more than five percent.

Executive Budget Proposals

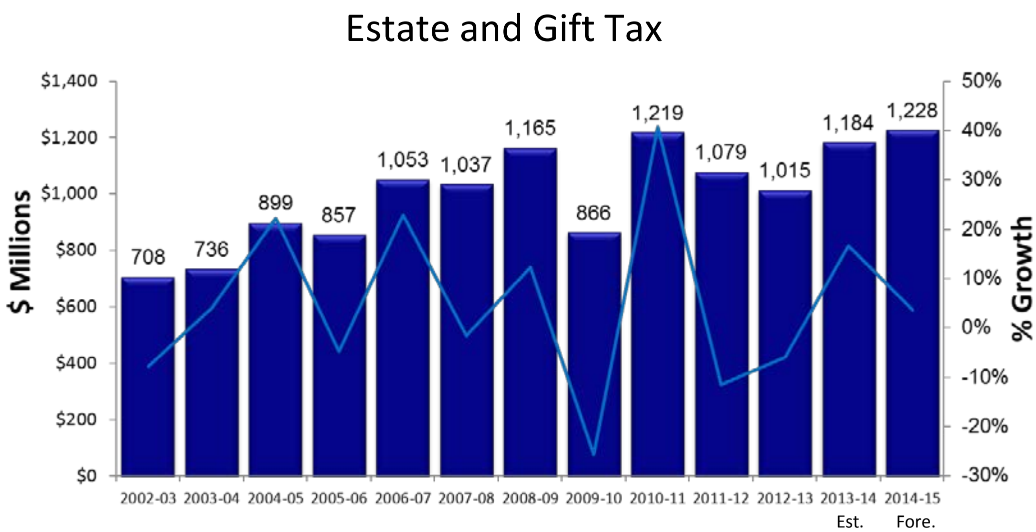
- The Executive proposes to extend the alternative fuels exemption for two years.

Other Taxes

Table 45

Other Taxes Forecasts by State Fiscal Year ($ in Millions)						
	SFY 2013-14	Growth	Diff. Exec.	SFY 2014-15	Growth	Diff. Exec.
Other	**$3,303**	**10.3%**	**29**	**$3,444**	**4.3%**	**114**
Estate and Gift	1,184	16.8%	(36)	1,228	3.7%	53
Real Estate Transfer	875	15.7%	60	899	2.7%	44
Pari Mutuel	17	-5.6%	0	17	0.0%	0
Payroll Tax	1,226	1.8%	4	1,300	6.0%	17

Estate Tax



Source: NYS Comptroller; Ways and Means Committee Staff estimates

Figure 44

Article 26 of the Tax Law imposes a tax on the transfer of property upon death. Commonly known as the estate tax, Article 26 imposes a graduated rate structure on the value of estates in excess of one million dollars. The tax applies to New York residents and nonresidents who own real estate or tangible personal property located in New York. All of the receipts from this tax are deposited into the General Fund. Estate taxes must be filed and payments made within nine months of the decedent's death.

In 1997, legislation was enacted which phased-in a reduction of New York's Estate Tax making the tax liability equal to the Federal credit for state estate taxes paid. New York automatically paralleled State law to the unified credit provisions specified in Federal Law but capped the maximum credit at $1 million. However, the Federal "Economic Growth and Tax Relief Reconciliation Act of 2001" repealed the credit for state estate taxes. In order to avoid a massive loss of revenues at a time of fiscal pressure, New York amended the State law such that New York's Estate Tax is equal to the Federal credit as it existed in 1998. Therefore New York is not affected by the "2012 Federal Taxpayer Relief Act", passed in 2013 to avoid the "fiscal cliff", which made permanent the Federal estate tax exemption of $5 million while indexing said exemption to inflation.

Table 46

Estate and Gift Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$1,078	21.1%	$1,184	16.8%	$1,220	($36)
2014-15			$1,228	3.7%	$1,175	$53

Current Trends

Estate and gift tax receipts through January have totaled $1.078 billion, for growth of 21.1 percent over the same period in SFY 2012-13.

SFY 2013-14

The Committee staff projects receipts will total $1.184 billion in SFY 2013-14, which is 16.8 percent or $170 million more than total collections for SFY 2012-13. The Committee staff's SFY 2013-14 projection calls for a decline in Estate and Gift tax receipts of 14.6 percent during the remainder of the fiscal year.

The Committee staff's SFY 2013-14 is $36 million below the Executive's SFY 2013-14 Budget estimate of $1.220 billion.

SFY 2014-15

The Committee staff's year-over-year growth in Estate and Gift tax collections for SFY 2014-15 is 3.7 percent or $44 million for a total of $1.228 billion.

The Committee staff's forecast for SFY 2013-14 is $53 million above the Executive's Budget projection of $1.175 billion.

Fund Distribution

Table 47

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2012-13	1,184	-	-	-	1,184
2013-14	1,228	-	-	-	1,228

Underlying Economic Conditions

The Committee staff model for forecasting estate tax revenues depends on the value of the S&P 500. Since most taxable estates have significant stock holdings, this variable serves as a proxy for the overall value of estates. As the value of the stock market fell in SFY 2008-09, estate tax collections followed suit. Likewise, as the market began to recover so did collections. The S&P 500 finished calendar year 2013 with 19.1 percent average growth. The Committee staff forecasts growth of 12.1 percent for 2014 followed by expected growth of 3.6 percent in 2015. Significant risks to Estate Tax collections include the uncertainty of, and dependence on, the passing of very wealthy individuals. Since these events are not directly related to any economic trends, our model utilizes qualitative variables to account for collections stemming from abnormally large estates.

Executive Budget Proposals

- The Executive's SFY 2014-15 Budget proposes comprehensive estate tax reform that would increase the exclusion threshold, lower the top tax rate from 16 percent to 10 percent, require add-back of certain gifts, and repeal the generation skipping transfer tax.

  The following describes the scheduled increases in the estate exclusion thresholds and the scheduled decreases in the relevant tax rates:

  a) Reduce the top rate from 16 percent to 10 percent over four years:
     - April 1, 2014 Exclusion: $2,062,500, Top Rate: 14.5 percent
     - April 1, 2015 Exclusion: $3,125,000, Top Rate: 13 percent
     - April 1, 2016 Exclusion: $4,187,500, Top Rate: 11.5 percent
     - April 1, 2017 Exclusion: $5,250,000, Top Rate: 10 percent

  b) Exclusion would be equal to the Federal exemption beginning January 1, 2019 and adjusted to the federal level every January 1st thereafter.

Real Estate Transfer Tax (RETT)

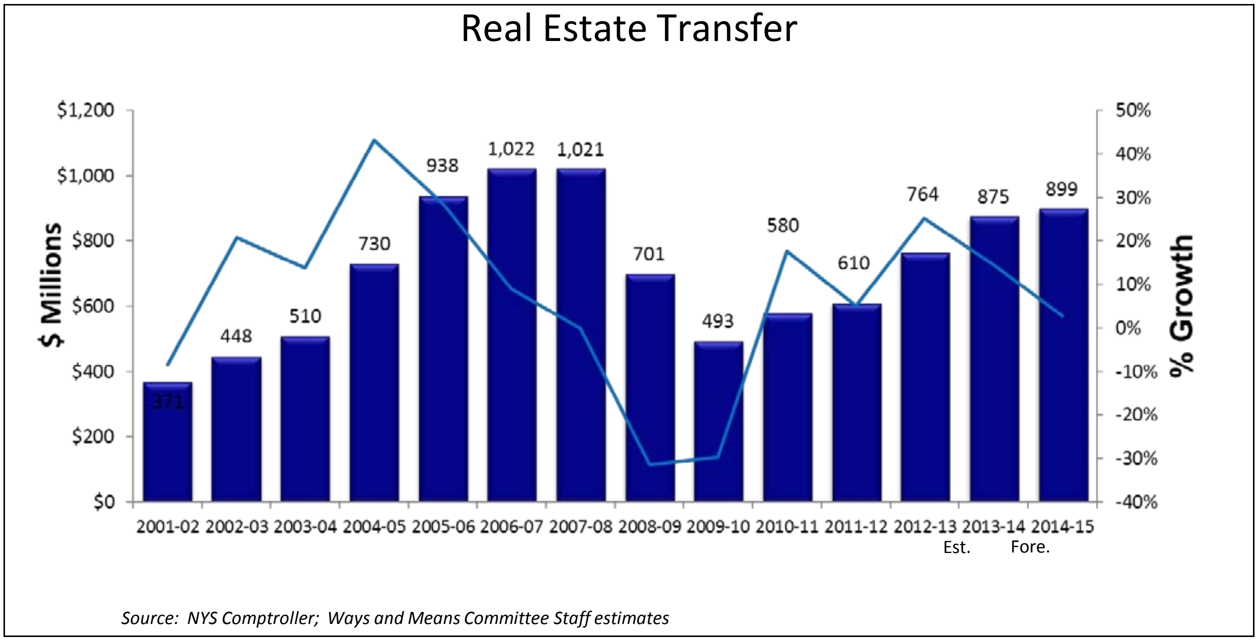


Figure 45

Article 31 of New York State Tax Law levies a two dollar per $500 or 0.4 percent tax on real property transfers in excess of $500. The tax also applies to transfers of economic interest such as shares in cooperatively owned apartments. An additional tax of one percent, referred to as the "mansion tax" is levied on the transfer of one, two, or three-family residences over one million dollars. Typically, the party conveying the property (grantor) is liable for the additional one percent mansion tax, where applicable. The tax is collected at the local level. All payments are due to the recording agent within 15 days of transfer. The transfer of funds to the State Tax Commissioner is dependent upon the liability; counties with more than $1.2 million in liability during the previous calendar year must submit payment twice a month (10th and 25th), all other counties must remit receipts by the 10th of the following month following the receipt of the RETT payment.

Table 48

Real Estate Transfer Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$775	18.0%	$875	15.7%	$815	$60
2014-15			$899	2.7%	$855	$44

Current Trends

Through January, Real Estate Transfer Tax (RETT) collections have increased 18.0 percent or $118 million over the same period in SFY 2012-13, to a total of $775 million.

SFY 2013-14

The Committee staff anticipates RETT receipts will total $875 million in SFY 2013-14. The Executive's estimates RETT receipts will total $815 million, or $60 million below Committee staff estimates. The Committee staff estimate for SFY 2013-14 represents 15.7 percent growth over SFY 2012-13. The Committee staff's closeout estimate is based on year-to-date collections and collection patterns over the past five years.

The large year-to-date collections can be attributed to above average monthly receipts during the period from August to December, where collections during that period totaled $433 million, or 56 percent of year-to-date collections. Year-over-year growth during this period in SFY 2012-13 was 39 percent, or $121 million.

SFY 2014-15

The Committee projects RETT receipts will total $899 million in SFY 2014-15 for a year-over-year growth of 2.7 percent, a more moderate rate as activity levels off. The staff's projection is $44 million above the Executive's forecast. Real Estate Investment Trust (REIT) receipts and commercial activity is projected to increase in SFY 2014-15, albeit at a slower pace, as investor confidence in NYC real estate properties continues and price increases remain relatively low. Continued diversification in the NYC commercial market and new demand for office properties is expected to positively impact receipts in SFY 2014-15.

Fund Distribution

Table 49

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14		-	756	119	875
2014-15	-	-	780	119	899

The 2010-11 budget decreased the share of RETT revenue that is to be deposited into the Environmental Protection Fund from $199.3 million to $119.1 million. The remaining share is to be 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

New York State's real estate transfer tax receipts are heavily dependent on the real estate market in both New York City and Long Island. Historically New York City accounts for over 50 percent of real estate transfer tax receipts, while Long Island accounts for approximately 15 percent. Key components of New York State's real estate transfer tax receipts are commercial properties and high-end co-op and condominiums in New York City. Monthly market data shows that fourth quarter year-over-year sales growth in the Manhattan real estate market from 2012 to 2013 has increased 26.8 percent, to the highest fourth quarter sales total in 25 years.[22] In Brooklyn, average sales have increased by 12.2 percent in the fourth quarter of calendar year 2013, while average sales in Queens and Long Island have remained relatively flat over prior year levels.

The Manhattan cooperative housing market has been host to significant year-over-year growth in the fourth quarter. The cooperative housing market saw growth of 29.4 percent over the prior calendar year fourth quarter, from 1,558 sales to 2,016 sales. The number of days cooperative housing units spent on the market declined drastically, more than 50 percent, from 184 days to 90, while the absorption rate, the rate at which all existing inventory would sell at current pace, decreased 34 percent from five percent to 3.3 percent. Similar to the Manhattan cooperative housing market, the condominium, loft, and luxury markets were host to large year over year growth, and were also host to decreasing days spent on the market, and decreasing absorption rates. In addition, decreasing listing inventory has led to a slight increase in average sales price of 5.3 percent.

[22] Prudential Douglas Elliman Real Estate, (2013), Quarterly Survey of Manhattan Co-op & Condo Sales, http://www.elliman.com/pdf/02134c6074d78ceffb7dd375bc6a151633f5302d.

Average sales in Brooklyn increased 12.2 percent from fourth quarter calendar year 2012 to 2013. The number of sales increased 21.2 percent from 1,445 to 1,752. Listing inventory in Brooklyn decreased 27.7 percent from 4,685 units to 3,385 units, the lowest level since 2008.[23] The year-over-year growth was primarily driven by the strong growth in condominium and one- to three-family units, where number of sales increased 13.8 and 37.8 percent, respectively. The cooperative housing and luxury markets were host to minimal growth where number of sales in the cooperative housing market increased by 2.7 percent, the number of sales in the Brooklyn luxury housing market decreased 6.3 percent from 144 sales in the fourth quarter of calendar year 2012 to 135 in 2013.

Despite listing inventory in the fourth quarter of 2013 decreasing dramatically from the prior calendar year in the Queens housing market, by nearly 40 percent, the average sales price remained relatively flat. The number of sales in Queens increased 74.7 percent from 1,914 in the fourth quarter of calendar year 2012 to 3,344 in 2013. The number of sales of condominium and cooperative housing units more than doubled in the fourth quarter of calendar year 2013 from 2012 by 148 and 126 percent respectively, or from 208 to 516 units and 498 to 1,129 units, respectively.

The residential real estate market in Long Island has experienced significant year-over-year growth. The number of real estate sales in Long Island grew at 24 percent over the prior calendar year third quarter, from 5,638 sales to 6,977 sales. Notably, the increase in year-over-year sales appears to be driven by condominium sales, where the increase in signed contracts outpaced closed sales, reflective of the year-end uptick, where sales surged to a six year high.[24]

Executive Budget Proposals

The Executive has proposed no actions impacting the Real Estate Transfer Tax.

[23] Prudential Douglas Elliman Real Estate (2013), Quarterly Survey of Brooklyn Residential Sales, http://www.elliman.com/pdf/1b9b2e41e26933cd45ba60cb93d4d80e9306ac51.
[24] Prudential Douglas Elliman Real Estate (2013), Quarterly Survey of Long Island Residential Sales, http://www.elliman.com/pdf/0ce8c62198af1de3e198ea61ee32d5f250f9e978.

Pari-mutuel

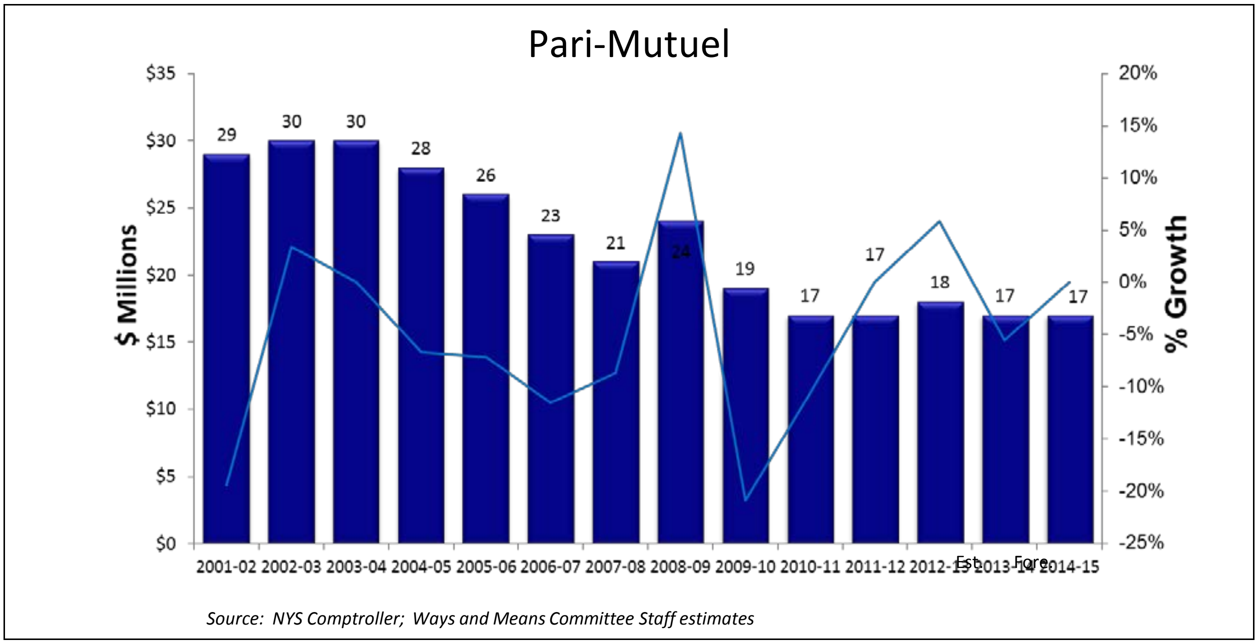


Figure 46

The Racing, Pari-Mutuel Wagering and Breeding Law impose a pari-mutuel tax on bets placed at racetracks, simulcast theaters and Off-Track Betting (OTB) facilities. For-profit and not-for-profit racing associations, as well as OTB corporations, are taxed a percentage of their total betting pools for the privilege of conducting pari-mutuel wagering. All of the receipts are deposited into the General Fund.

The tax is paid on the last business day of each month for the period from the 16th day of the preceding month the 15th day of the current month. Payments that are required to be made on March 31 must include all taxes due and accruing through the last full week of racing in March.

Table 50

Pari-Mutuel Tax ($ in Millions)						
	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$14	-6.0%	$17	-5.6%	$17	$0
2014-15			$17	0.0%	$17	$0

Current Trends

Through January, pari-mutuel tax receipts have decreased by 6.0 percent for a total of $14 million over the same period in SFY 2012-13.

SFY 2013-14

The Committee staff's estimates pari-mutuel receipts will total $17 million in SFY 2013-14, same as the Executive.

In the 2013 Revenue Report projections, the staff estimated pari-mutuel receipts would total $17 million in SFY 2013-14. Since the inception and continued success of Resorts World at Aqueduct in October of 2011, the racino has provided additional activity in horse racing, while providing the New York Racing Association (NYRA) with significant collections from their thoroughbred racing activity.

SFY 2014-15

The Committee staff forecast for SFY 2014-15 is $17 million, representing no growth from SFY 2013-14. The Committee's forecast mirrors the Executive's forecast for SFY 2014-15. The lack of growth is largely representative of an industry that has relatively stabilized after continued declines in revenue throughout the years.

Fund Distribution

Table 51

Fund Distribution ($ in Millions)

	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2013-14	17	-	-	-	17
2014-15	17	-	-	-	17

Underlying Economic Conditions

Pari-mutuel receipts have steadily decreased over the past 20 years. Through January of 2013, tax receipts of pari-mutuel wagering for SFY 2013-14 have declined 6.0 percent over SFY 2012-13. This year-over-year decrease is largely attributable to decreased attendance during the 2013 horse racing season. On a larger scale however, the overall decline in pari-mutuel gambling is believed to be related to increased competition from other forms of gambling (e.g. traditional lottery has continued to be marketed, the large success of Video Lottery Terminals (VLT), as well as out of state casinos siphoning business from NYS racinos). Originally there was concern that the closure of NYC's OTB in December of 2010 would negatively impact pari-mutuel receipts. However this did not occur as NYRA was successful in marketing other venues; notably Resorts World at Aqueduct was able to assume many of New York City's OTB patrons.[25]

In September of 2010, the Genting Corporation acquired the rights to operate video lottery terminals (VLTs) at Resorts World at Aqueduct. VLT operations at Resorts World first became operational in October of 2011; there was speculation that VLT operations at the racino would lure horse racing enthusiasts and their entertainment dollars to the VLTs instead of wagering on horses; however, it appears that the racing industry was not adversely impacted by the VLTs.

Executive Budget Proposal

- The Executive's SFY 2014-15 Budget proposes to increase the racing regulatory fee on thoroughbred, harness, off-track pari-mutuel betting and simulcast racing from 0.5 percent to 0.6 percent.

- The Executive's SFY 2014-15 Budget proposes to extend the current disbursement of simulcasting revenue for an additional year which would otherwise expire in 2014 and result in a tax increase on winnings.

[25] Coglianese, Adam, Thoroughbred Times (28 April 2011), http://www.thoroughbredtimes.com/national-news/2011/04/28/aqueduct-handle.aspx, (retrieved 28 Jan. 2012).

MTA Payroll Tax

Article 23 of the Tax Law levies a payroll tax percent on all employers, including the self-employed, within the Metropolitan Commuter Transportation District (MCTD). The MCTD includes New York City as well as Nassau, Suffolk, Westchester, Rockland, Orange, Dutchess, and Putnam counties. The revenues from this tax are deposited into the Mass Transportation Operating Assistance Fund (MTOAF) for the benefit of the Metropolitan Transportation Authority (MTA). Exemptions to the MTA Payroll Tax include: an employer that is an agency or instrumentality of the United States; the United Nations; an interstate or international agency or public corporation; all elementary and secondary schools, effective April 2012; and proprietors earning $50,000 or less, effective January 2012, formerly $10,000 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 52

Metropolitan Commuter Transportation Mobility Tax ($ in Millions)

	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$976	-1.2%	$1,226	1.8%	$1,222	$4
2014-15			$1,300	6.0%	$1,283	$17

YTD Through January

Through January, MTA payroll tax collections have decreased $12 million or 1.2 percent to $976 million.

SFY 2013-14

The Committee staff expects collections for SFY 2013-14 to be $1.226 billion, an increase of 1.8 percent or $21 million from the previous fiscal year. This is $4 million above the Executive's estimate. The Committee staff expects collections for the remainder of the year to be 15.3 percent higher than the last fiscal year.

SFY 2014-15

The Committee staff expects MTA Payroll tax collections to increase by $74 million or 6.0 percent to a level of $1.300 billion in SFY 2014-15. The Executive is expecting $1.283 billion for the next fiscal year, an increase of 5.0 percent, $17 million below the Committee staff estimate.

Fund Distribution

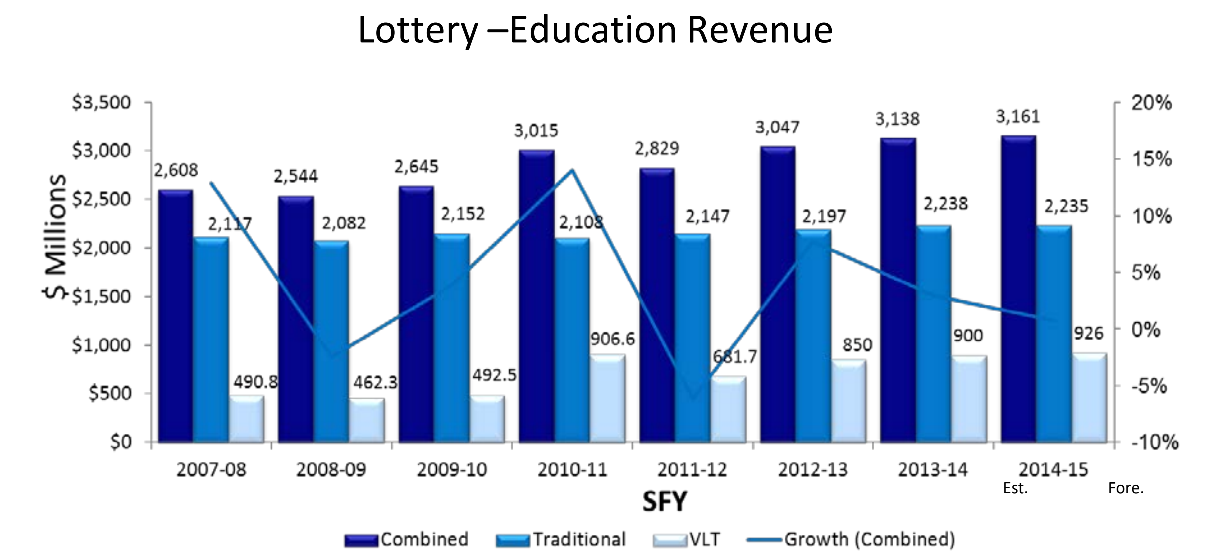
Table 53

Fund Distribution ($ in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
2012-13	-	1,226	-	-	1,226
2013-14	-	1,300	-	-	1,300

Executive Budget Proposals

- Align the MTA mobility tax with personal income tax filings for the self-employed.

Lottery



Source: NYS Comptroller; Ways and Means Committee Staff estimates.
Note: 2010-11 VLT includes One-time licensing fee of $380 million.

Figure 47

The New York State Lottery was established via Constitutional Amendment in 1976 for the express purpose of raising revenues for education. A percentage of sales from each game are dedicated to fund education, where most games dedicate between 15 and 45 percent of sales to education. Fifteen percent of revenue from traditional lottery sales is placed into a special revenue account to cover the administrative costs of the Division of Lottery; any unused administrative aid is deposited into the Lottery Education Fund.

Similarly to traditional lottery games, a percentage of the nets machine income (revenue after payout of prized) are dedicated to education. Video Lottery Terminals (VLTs) collectively in SFY 2011-12 VLT facilities dedicated 46.8 percent of their net machine income (NMI) to education. Depending on the revenue generated by the individual facilities, between three and four percent of NMI used for administrative purposes.

Table 54

Lottery ($ in Millions)	Year To Date	YTD Growth	Closeout/ Forecast	Growth	Executive	Difference
2013-14	$2,288	4.2%	$3,138	2.1%	$3,172	($34)
2014-15			$3,161	0.8%	$3,164	($3)

Current Trends

Through January, combined Lottery (Traditional and VLTs) revenue has increased by $91.6 million or 4.2 percent when compared to the same period in SFY 2012-13.

SFY 2013-14

The Committee staff estimates Lottery receipts will total $3.138 billion for an increase of 2.1 percent or $64 million over SFY 2012-13. The staff's estimate is $34 million below the Executive's estimate.

The Committee staff estimates traditional lottery receipts will total $2.238 billion for an increase of 0.9 percent over SFY 2012-13. While the Committee staff estimates VLT receipts will total $900 million for an increase of 5.1 percent. The increase in VLT receipts can be attributed to the continued success of Resort World at Aqueduct. As for the year-over-year growth in traditional lottery games, the staff anticipates continued growth in the multi-state lotteries Mega Millions and Power Ball, and Quick Draw while revenue from the other traditional lottery games (e.g. Take 5, Sweet Millions, etc.) are expected to remain flat.

Year-to-date, Mega Millions, Powerball, Numbers, Win 4, and Quick Draw are the only games that have experienced growth over SFY 2012-13. The growth in Win 4 revenue can be attributed to enhanced promotional support, while the growth in Quick Draw revenue can be attributed to the complete phase in of retail expansion. While Power Ball observed lower average sales this year, the growth in receipts is attributed to a record breaking jackpot in March of 2013 that reached $600 million.

SFY 2014-15

The Committee staff projects the combined total in Lottery revenue will be $3.161 billion, representing growth of 0.8 percent or $24 million over SFY 2013-14. The staff's estimate is $3 million below the Executive's estimate. The staff anticipates that traditional lottery revenue receipts will total $2.235 billion, an decrease of 0.1 percent over SFY 2013-14. The staff anticipates that VLT receipts will total $926 million, an increase of 2.9 percent over SFY 2013-14.

VTL revenue at Empire City at Yonkers is likely to decline further and there is no evidence that they will be able to recapture the patrons that are seeking other venues in which to spend their entertainment dollars. Since December of 2012, Resort World at Aqueduct VLT profits have held steadily, at approximately $25 million monthly dedicated to State education funding, illustrating that growth has leveled off since its inception in October 2011.

Overall, growth in Lottery receipts is premised on VLT receipts as Traditional Lottery games (Lotto, Take 5, Instant 65 and 75, etc.) have been flat or declining while receipts from the multi-state (Mega-million and Powerball) games have been mixed, with growth dependent on jackpot size. With passage of recent legislation allowing casino expansion as part of the SFY 2013-14 Executive Budget, existing VLT facilities may consider expanding while new gaming facilities may begin development in Upstate New York in the Fall of 2014. In addition to the aforementioned legislation, as part of the exclusivity agreements made with Tribal operated casino facilities, existing VLT facilities are required to no longer market themselves as casinos; as a result the Hamburg Gaming at the Fairgrounds VLT facility in particular has witnessed continued declines in patronage. Casino expansion is likely to cannibalize revenue from existing VLT facilities that either do not opt to convert, or do not have the ability to as per exclusivity agreements.

Executive Budget Proposals

- The Executive's SFY 2014-15 Budget proposes to extend the Monticello Casino and Raceway video lottery terminal NMI shares for one year. The favorable share distribution for Monticello raceway is structured to account for the fact that Monticello does not receive capital award funding.

- The Executive's SFY 2014-15 Budget proposes to extend for one year the deadline to receive approval to complete capital projects that are reimbursed through the Video Lottery Gaming (VLG) vendor's capital award program.

- The Executive's SFY 2014-15 Budget proposes to allow for the distribution of moneys in the Commercial Gaming Revenue Fund for support of education to be made in the year received. It also makes technical changes to the Upstate New York Gaming and Economic Development Act of 2013.

Miscellaneous Receipts

Miscellaneous Receipts – All Funds

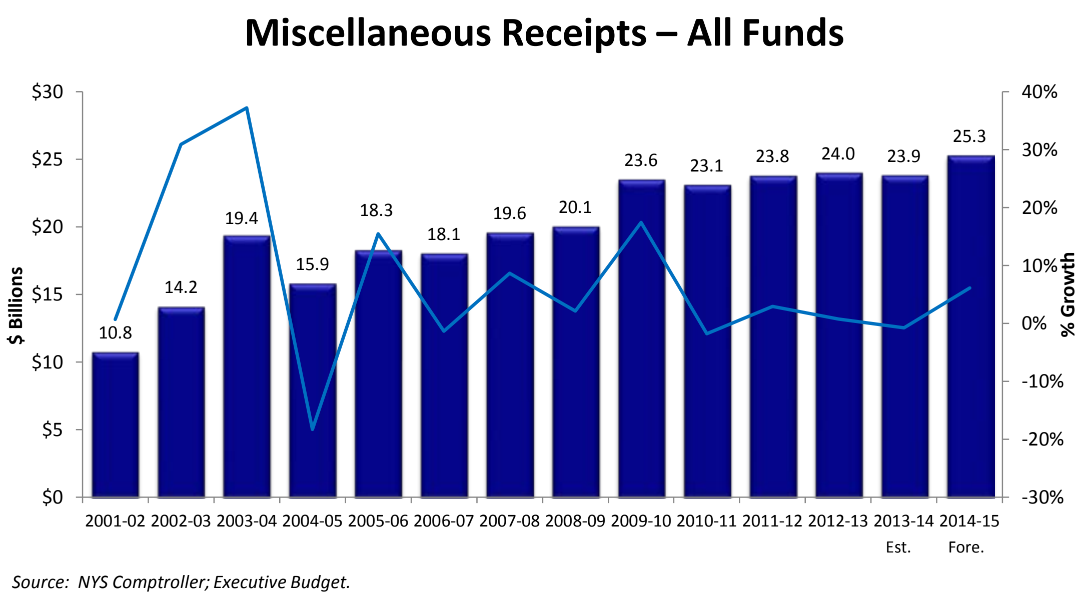


Figure 48

In the Executive's SFY 2014-15 Budget, All Funds Miscellaneous Receipts are estimated to total $25.3 billion, the distribution is as follows: General Fund - $3.9 billion, Special Revenue Fund - $15.9 billion, Debt Service - $815 million, and Capital Projects $4.8 billion. The Executive's estimated miscellaneous receipts for SFY 2014-15 represent an increase of 6.1 percent or $1.5 billion in revenue over SFY 2013-14; the Committee Staff's estimate for SFY 2014-15 All Funds mirrors the Executive's SFY 2014-15 Budget estimate with difference in motor vehicle fees and lottery.

All Funds Miscellaneous Receipts consist of moneys received from HCRA financing sources, SUNY tuition and patient income, lottery receipts for education, assessments on regulated industries, motor vehicles fees and a variety of fees and licenses.

Miscellaneous Receipts – General Fund

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.

General Fund Miscellaneous Receipts are estimated to total $3.7 billion in SFY 2014-15, a $480 million increase from SFY 2013-14, a result of the following increases: $136 million in licenses and fees, $130 million in Abandoned Property, $28 million in Investment Income, and $193 million in other transactions. Reimbursements and ABC licenses and fees decreased by $3 million and $4 million, respectively.

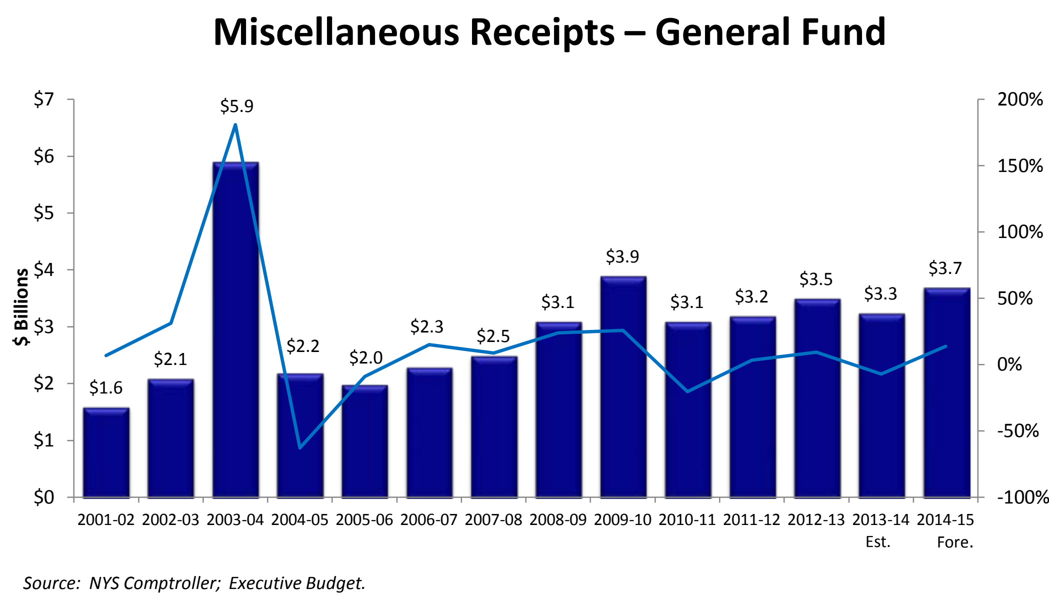


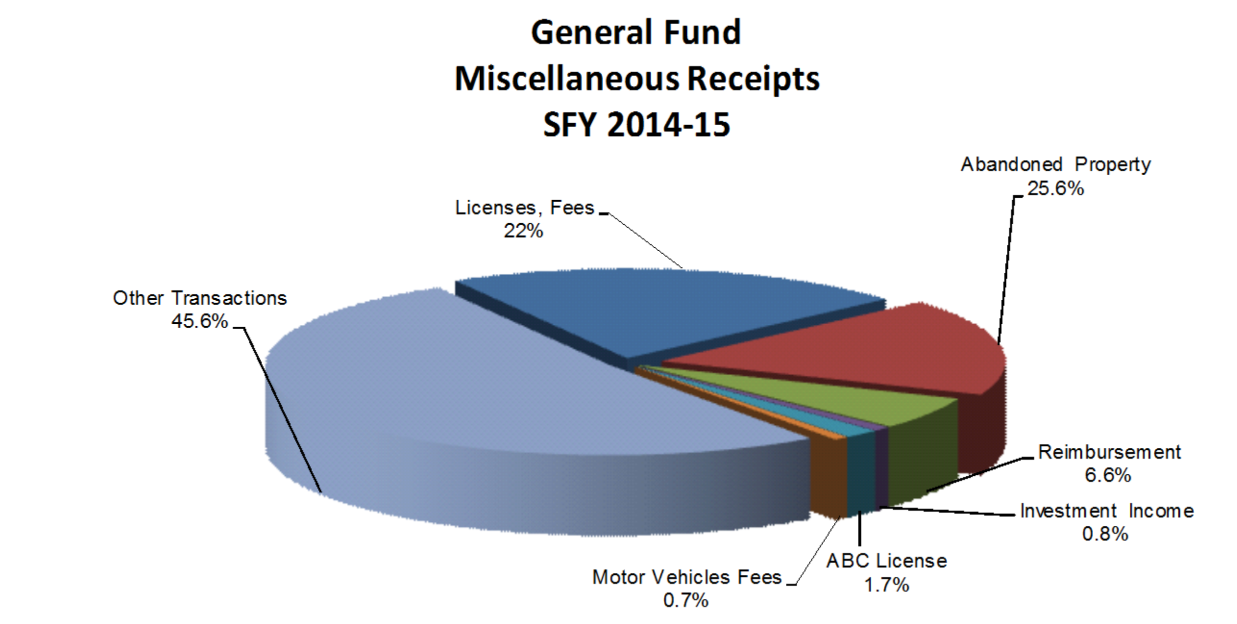
Figure 49

Miscellaneous receipts have been a steady source of revenue for the General Fund. The sizeable increase in 2004 receipts reflects the one time deposit of tobacco bond proceeds to fund the shortfall in the Health Care Fund.

Table 55

Miscellaneous Receipts - General Fund ($ in Millions)					
	2012-13 Actual	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Licenses, Fees	$584	$681	$817	$136	20.0%
Abandoned Property	714	525	655	130	24.8%
Reimbursements	233	222	219	-3	(1.4%)
Investment Income	2	2	30	28	1400.0%
ABC License	61	66	62	-4	(6.1%)
Motor Vehicles Fees	129	26	26	0	-
Other Transactions	1,781	1,732	1,925	193	11.1%
Total	**$3,504**	**$3,254**	**$3,734**	**$480**	**14.8%**

Source: Executive Budget.



Source: Executive Budget.

Figure 50

Miscellaneous Receipts – Special Revenue Funds

Table 56

Miscellaneous Receipts - Special Revenue Funds ($ in Millions)					
	2012-13 Actual	**2013-14 Estimated**	**2014-15 Projected**	**Change**	**Percent Change**
HCRA	$4,228	$4,294	$4,537	$243	5.7%
State University Income	4,143	4,267	4,383	116	2.7%
Lottery	3,214	3,288	3,322	34	1.0%
Medicaid	783	785	788	3	0.4%
Industry Assessment	723	778	786	8	1.0%
Motor Vehicle Fees	453	475	477	2	0.4%
Capital Projects	3,855	4,198	4,841	643	15.3%
Debt Service	913	797	814	17	2.1%
All Other	2,213	1,699	1,652	(47)	(2.8%)
Total	**$20,525**	**$20,581**	**$21,600**	**$1,019**	**5.0%**

Source: Executive Budget.

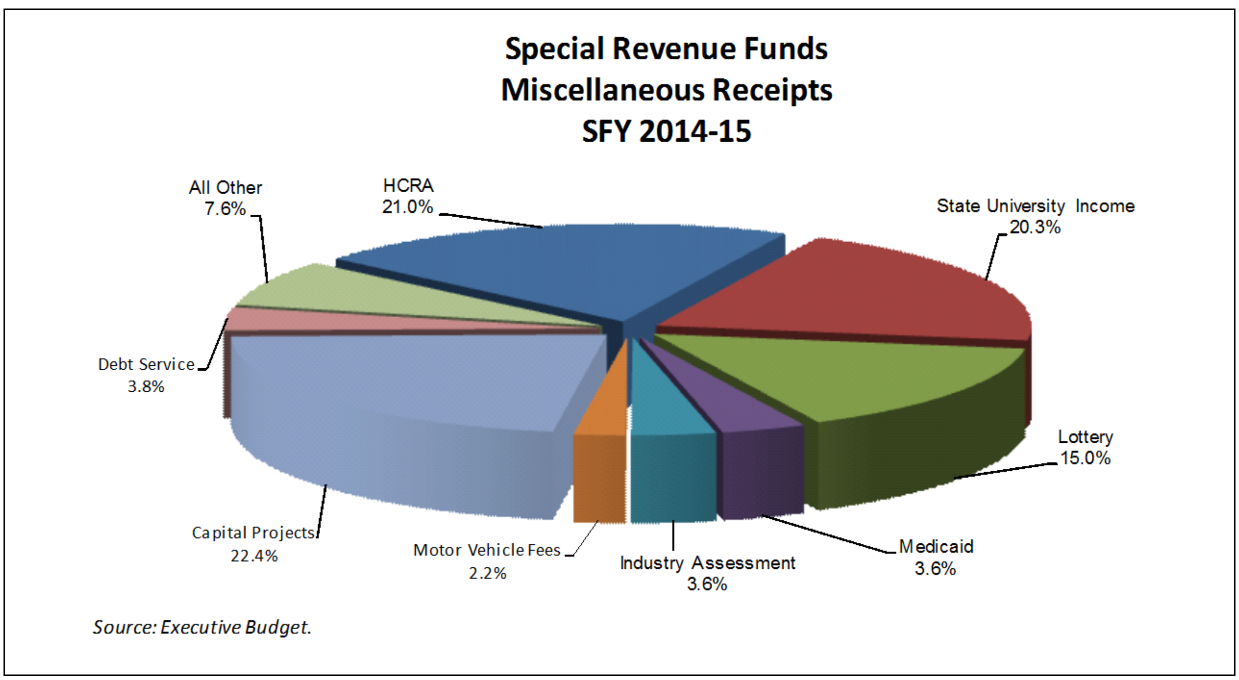


Figure 51

The Executive estimates miscellaneous receipts in Special Revenue Funds of $21.6 billion in SFY 2014-15, an increase of $1 billion or 5 percent from SFY 2013-14. The change in miscellaneous receipts is primarily related to increases in Capital Projects of $643 million and HCRA of $243 million, State University Income of $116 million.

HCRA

HCRA is estimated to receive $4.5 billion, an increase of $243 million or 5.7 percent over SFY 2013-14. Receipts comprising HCRA are surcharges, assessments on hospitals and certain insurance providers, and other taxes. The following are receipts to HCRA in SFY 2014-15: $2.9 billion in Surcharges, an increase of $175 million; $1.1 billion in Covered Lives assessments, an increase of $40 million; $400 million in Hospital Assessments, an increase of $32 million; and $90 million in other receipts, a decrease of $4 million.

State University Income

Receipts in the State University Income fund are projected at $4.4 billion, an increase of $116 million over SFY 2013-14. Receipts into the State University Income fund are from the operation of SUNY from tuition, patient revenue and user fees. Tuition is estimated at $1.6 billion, a $76 million increase from the previous year. Patient revenues from SUNY's teaching hospitals at Brooklyn, Stony Brook and Syracuse and from the Long Island Veterans' Home contribute receipts estimated of $1.9 billion, an increase of $31 million for SFY 2013-14. User fees from a variety of sources at SUNY, interest earnings and fringe benefits are estimated to $678 million, an increase of $14 million over SFY 2013-14.

Lottery

Lottery receipts are estimated at $3.3 billion, an increase of $34 million over SFY 2013-14. The sale of lottery tickets and proceeds from Video Lottery Terminals (VLTs) are used to support public education and Lottery administrative operating expenses.

Medicaid

Provider Assessments on nursing homes, hospital and home care providers contribute revenues to support Medicaid. The Provider Assessments are estimated to $788 million, an increase of $3 million over SFY 2013-14. Receipts are supported from a partially reimbursable 5.5 percent assessment, 9 percent on nursing homes revenues and a 0.75 percent assessment on hospital and home care revenues.

Motor Vehicles Fees

Motor vehicles fees are fees, licenses, and registration revenues from motor vehicles, motorcycles, trailers, semi-trailers, buses, and other types of vehicles operating and registered with the Department of Motor Vehicles. Motor Vehicles fees are estimated at $477 million, an increase of $2 million from SFY 2013-14.

Capital Projects

Capital Projects spending is funded from two sources: authority bond proceeds which support spending financed through Public Authority Bonds, and miscellaneous receipts (Parks, Environmental, and other receipts) which finance State pay-as-you-go spending to support the State Capital Plan.

The Executive estimates $4.8 billion in capital projects receipts, including receipts from public authority bond proceeds, an increase of $643 million.

Debt Service

Miscellaneous receipts are one of the sources of receipts that support the Debt Service fund. 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 veteran's homes from payments of Medicaid, Medicare, insurance and individuals. Miscellaneous receipts in debt service are $814 million, an increase of $17 million over SFY 2013-14.

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.

Federal Funds

Federal funding accounts for more than one-third of total All Funds spending. Federal grants consist of reimbursements from the Federal government for services performed by the State in accordance with Federal laws and regulations. The State is required to follow specific cash management practices regarding the timing of withdrawal for each grant award.

The Executive projects total Federal grants receipts of $45.8 billion in SFY 2014-15, a decrease of $1.7 billion from SFY 2013-14. This decrease is primarily due to the amount of extraordinary federal aid the State received for Superstorm Sandy.

Federal grants in the Special Revenue Fund support a multitude of programs of which Medicaid is the largest. The Executive estimates Federal grants for Medicaid will be $29.2 billion in SFY 2014-15 an increase of $1.9 billion primarily related to the Affordable Care Act. Other programs include Welfare, Food and Nutrition Services, and Supplementary Educational Services.

Federal grants in the Capital Projects Fund support transportation planning, engineering, construction projects, housing programs, rehabilitation of state armories and other environmental purposes as well as local wastewater treatment project financed through the State's revolving loan fund. The Executive estimates Federal grants for Capital Project at $2.1 billion in SFY 2014-15.

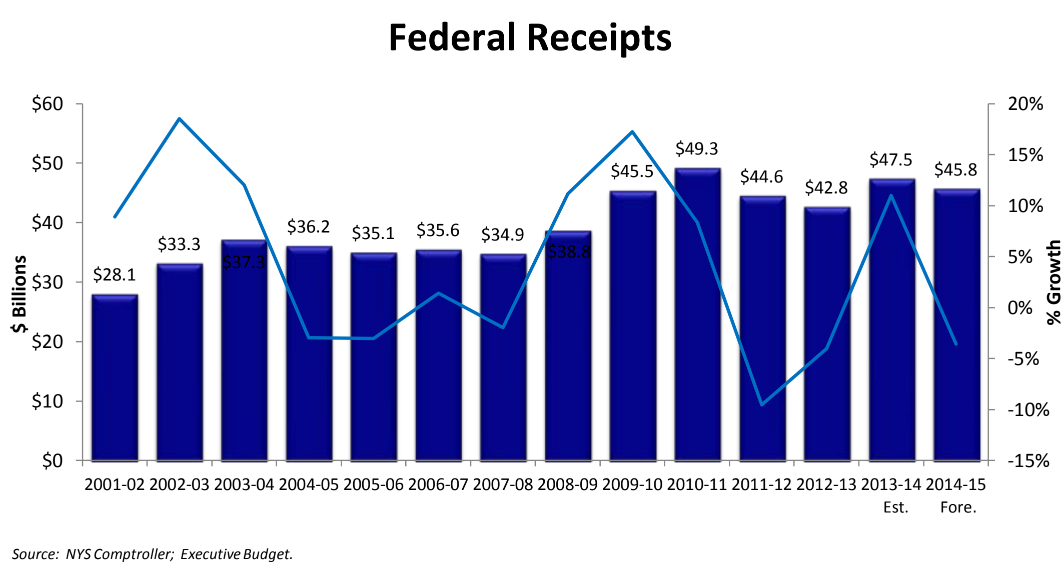


Figure 52

Table 57

Federal Funds ($ in Millions)	2012-13 Actual	2013-14 Estimate	2014-15 Executive	Change	Percent Change
Special Revenue	**$40,576**	**$45,183**	**$43,666**	**($1,517)**	**(3.4%)**
Medicaid	27,043	27,388	29,283	1,895	6.9%
Welfare	2,583	2,827	2,627	(200)	(7.1%)
All Other	10,950	14,968	11,756	(3,212)	(21.5%)
General Fund	**$62**	**$2**	**$0**	**($2)**	**-100.0%**
Capital Projects	**$2,126**	**$2,246**	**$2,053**	**($193)**	**(8.6%)**
Debt Service	**$79**	**$72**	**$73**	**$1**	**1.4%**
Total All Funds	**$42,843**	**$47,503**	**$45,792**	**($1,711)**	**(3.6%)**

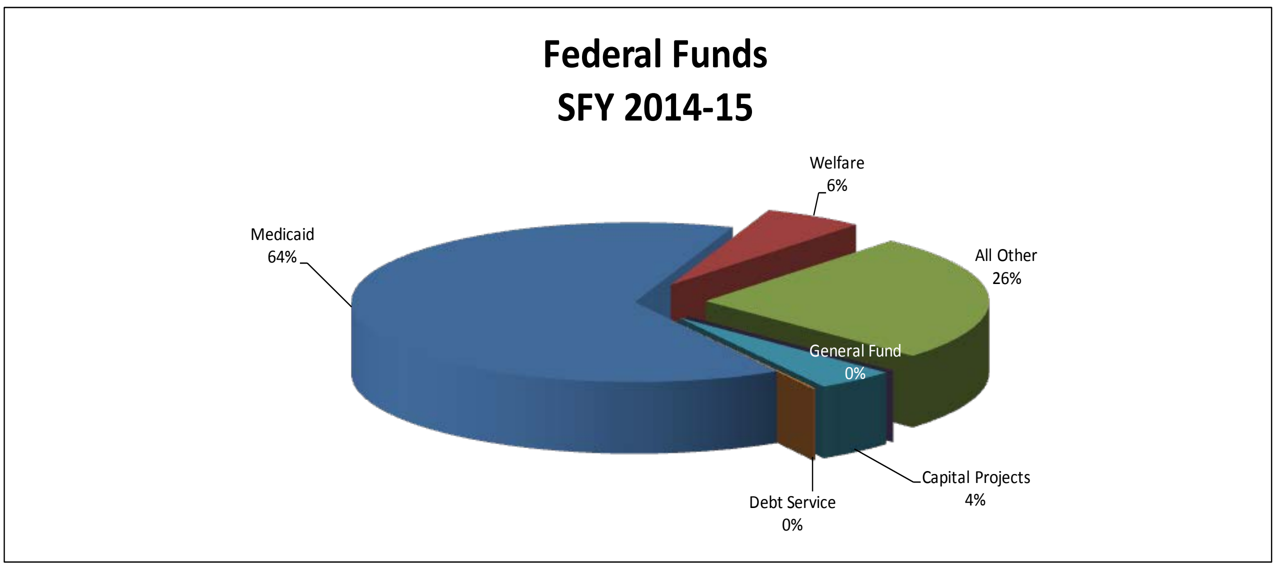


Figure 53

Executive Tax Proposals

TAX REFORMS AND NEW INITIATIVES

A. 8559 - REVENUE

PART	DESCRIPTION	SUMMARY
A	Corporate Tax Reform	This part would merge the Corporate Franchise and Bank taxes, provide for a rate reduction, new income definitions and tax bases.
B	Authorize Department of Taxation and Finance to pay basic STAR tax savings directly to taxpayers in certain cases	This part would authorize the Commissioner of the Department of Taxation and Finance to pay basic STAR tax savings directly to taxpayers in instances where the Commissioner accepts a late application for the STAR Registration program and determines that basic STAR benefits should be restored.
C	Extend the authorization for the Department of Taxation and Finance to charge oil and natural gas producers for the cost of determining the value of oil and gas units of production	This part would extend for three years the authorization for the Department of Taxation and Finance to charge oil and natural gas producers for the cost of determining the value of oil and gas units of production. The authorization is currently set to expire on March 31, 2015.
D	Increase Racing Regulatory Fee	This part would increase the racing regulatory fee of 0.5 percent to 0.6 percent on thoroughbred, harness, off-track pari-mutuel betting and simulcast racing handle.
E	Modify e-Filing Signature Requirements	This part would allow taxpayers to use electronic signatures when authorizing tax preparers to e-file their tax return.
F	Eliminate the income threshold inflation adjustment for Enhanced STAR	This part would eliminate the yearly cost-of-living adjustment made to the Enhanced STAR eligibility income standard beginning in school tax year 2015-2016.
G	Extend Noncustodial EITC	This part would extend through tax year 2016 the noncustodial Earned Income Tax Credit (EITC).
H	Electronic Tax Clearance for Professional & Business Licenses	This part would require electronic tax clearance for the issuance or renewal of professional or business licenses if certain past-due tax liabilities are owed.
I	Close Resident Trust Loophole	This part would ensure that certain trusts do not avoid paying New York State income tax.

J	Repeal Additional Minimum PIT	This part would repeal the personal income tax "add-on" minimum tax.
K	Create a Real Property Personal Income Tax Credit	This part would create a refundable state personal income tax credit to certain homeowners with household incomes of less than $200K, whose qualified property tax liabilities exceed a certain percentage of their incomes, provided that the associated taxing jurisdiction(s) has stayed within the real property tax cap. The credit would be calculated based upon school taxes for taxable years beginning in 2014, and both school and municipal taxes in tax years beginning in 2015 and thereafter.
L	Renter's PIT Credit	This part would establish a progressively declining personal income tax credit for qualified taxpayers with incomes up to $100,000.
M	Modify Delivery of Family Relief Credit	This part would make, effective January 1, 2015, the credit's eligibility determination based on the current year's return.
N	Increase PIT Income Filing Threshold	This part would increase the minimum threshold for filing personal income tax from the current $4,000 to the NYS standard deduction.
O	Extension of the Empire State Commercial Production Tax Credit	This part would extend the Empire State Commercial Production tax credit for two years until January 1, 2017.
P	Additional Credits for Low-Income Housing	This part would authorize an additional allocation of $8 million for the low-income housing credit for each of the next two fiscal years (2014-15 and 2015-16).
Q	Extend and Reform the Brownfield Cleanup Program	This part would extend for ten years the Brownfield Cleanup Program with several reforms including the tightening of eligibility criteria.
R	Enact 20 percent Real Property Tax Credit for Manufacturers; Eliminate the Net Income Tax on Upstate Manufacturers; Reform the ITC; and Repeal the ITC for Financial Services firms	This part would provide a 20 percent credit on a manufacturer's annual property tax bill; reduce the tax rate on Entire Net Income from 5.9 percent to zero for qualified Upstate (non-MCTD) manufacturers; tighten eligibility criteria for the Investment Tax Credit (ITC); and repeal the ITC for bank and insurance taxpayers.
S	Repeal the Franchise Tax on Agricultural Cooperatives	This part would repeal the State franchise tax on farmers, fruit growers, and other like agricultural corporations organized and operated on a co-operative basis.

T	START-UP NY Credit for Excise Tax on Telecommunications Services	This part would provide a refundable tax credit to START-UP NY businesses that are subject to the excise tax on telecommunications services.
U	Enhance the Youth Works Tax Credit	This part would allow employees who work at least ten hours and are full-time high school students to be included in the calculation of the credit, provide an additional $1,000 credit if an employee is retained for one more year ($500 for part-time), and increase the program's annual allocation from $6 million to $10 million.
V	Extend Alternative Fuels Tax Exemption for Two Years	This part would extend through September 1, 2016 the tax exemptions for alternative fuels.
W	Simplify the Distribution of Motor Vehicle Fee Receipts	This part would make a technical amendment that replaces the revenue flow of motor vehicle fee receipts to the dedicated funds.
X	Estate Tax Reform	Progressively increases the exemption threshold to eventually conform to the $5.25 million Federal level over four years (inflation indexed thereafter). Reduces the tax rate from 16 percent to 10 percent by 2017-18. Reinstates gift tax.
Y	Repeal of the Boxing and Wrestling Exhibitions Tax	This part would repeal provisions of the Tax Law that impose the State's Boxing and Wrestling Exhibitions Tax on a promoter's gross receipts from ticket sales and on the promoter's sale of broadcast rights to the event and misdemeanor penalties for willful failure to comply with provisions of Article 19 and provides that State and Local sales taxes would apply to the sale of tickets to these matches, similar to sales of tickets to other sporting events in the State.
Z	Extend Monticello VLT Rates	This part would extend for one year the current distribution percentages for net machine income earned at the Monticello video lottery terminal facility.
AA	Extend certain pari-mutuel tax rates and out of state simulcast provisions	This part would extend for one year the current pari-mutuel tax rates and out-of-state simulcast provisions.
BB	Extend video lottery gaming vendor's capital awards program	This part would extend the video lottery gaming vendor's capital awards program for one year.

CC	New York City Municipal Assistance Corporation (MAC)	This part would repeal provisions of the Tax Law which imposes a tax on all sales and deliveries or transfers of shares or certificates of stock to provide additional security for MAC bonds.
DD	Align the Mobility Tax and PIT Filing Dates for the Self-Employed	This part would align Mobility Tax payment dates with the timing of personal income tax payments made by self-employed individuals. Taxpayers will also be allowed to file combined Mobility and PIT returns.
EE	Make technical amendments to the Commercial Gaming Law	This part would make technical amendments to the Commercial Gaming Law.
FF	Create a state personal income tax credit to offset property tax increases in certain municipalities	This part would provide a state personal income tax credit by advancing payments to certain taxpayers residing outside of New York City equal to the increase in real property taxes owed on their primary residence, provided that the property is eligible for basic STAR and the associated tax levying body meets certain requirements. In year one to qualify the school district or municipality must stay within the tax cap. In year two the school district or municipality would be required to take certain consolidation or shared services actions that would result in a certain percentage of tax savings.

Property Tax Relief

Two-year Freeze Tax Proposal

As part of the State Fiscal Year (SFY) 2014-15 Executive Budget, the Executive proposes to freeze eligible taxpayer's property tax increases over a two year period. The State would provide eligible taxpayers with a refundable personal income tax credit equal to the increase in eligible taxpayers' property taxes. An eligible taxpayer is defined as a homeowner who is or otherwise would have been eligible for the New York State School Tax Relief Program (STAR) program.

During the first year of the property tax freeze, the freeze applies only to school districts which must maintain a property tax cap compliant budget (the current year tax levy cannot exceed the lesser of a two percent increase over the prior year tax levy or the rate of inflation). During the second year of the property tax freeze, school districts, in addition to other local government taxing jurisdictions, must maintain property tax cap compliance and must also submit an "efficiency plan" that provides either consolidation or plans for shared services. With the exception of New York City, four of the dependent "Big 5" school districts are eligible to participate in the property tax freeze program.

The "efficiency plan" must demonstrate aggregate savings over the fiscal year (FY) 2014-15 tax levy of one percent, two percent, and three percent, in FYs 2016-17, 2017-18, and 2018-19, respectively. Each school district and/or local municipality with intent to consolidate or share services, must submit to the school district with the largest pupil enrollment as of the 2013-14 school year - to be known as the lead district - or to the local government unit with the largest population as of the 2010 Federal Census - to be known as the lead local government unit - an efficiency plan by May 15, 2015. The selected lead school district or lead local government unit must then submit to the Department of State the certified "efficiency plan" by June 1, 2015.

Circuit Breaker

As part of the State Fiscal Year (SFY) 2014-15 Executive Budget, the Executive also includes a proposal to establish a residential real property personal income tax credit based on a taxpayers ability to pay for incomes up to $200,000. Qualified homeowners that reside in taxing jurisdictions that abides by the property tax cap would be granted a refundable credit against their personal income tax. While New York City does not fall under the jurisdiction of the property tax levy limit, qualified homeowners are able to receive the refundable credit. The maximum credit is capped at $1,000.

The credit is available so long as the legislation enacting the property tax levy limit is effective. (The legislation that enacted the property tax cap is set to expire in 2016.) Qualified homeowners are grouped into three income brackets, with the lower brackets claiming a greater credit percentage against a lower percentage of excess property taxes. Both the percentage by which property taxes paid exceed income and the percentage of excess credit allowed are scheduled to increase incrementally through the first three taxable years that the credit takes effect. The maximum values attained in tax year 2016 would remain in effect going forward.

Unlike the two year property tax freeze credit, the circuit breaker credit will be claimed by the taxpayer on their final return, typically filed in April following the end of the taxable year. The credit is structured to phase-in as the two year property tax freeze credit phases out. The table below outlines the income thresholds and percentages applicable as the credit is phased in through 2016.

Table 58

Tax Year 2014			
Income	**Credit Available if Taxes Exceed Income By:**	**Credit as a Percentage of Excess Taxes**	**Maximum Credit**
Less than $120,000	2.40%	6.25%	$500
$120,000 to less than $150,000	3.20%	4.75%	
$150,000 to less than $200,000	4.00%	3.25%	

Table 59

Tax Year 2015			
Income	**Credit Available if Taxes Exceed Income By:**	**Credit as a Percentage of Excess Taxes**	**Maximum Credit**
Less than $120,000	3.00%	8.25%	$750
$120,000 to less than $150,000	4.00%	6.00%	
$150,000 to less than $200,000	5.00%	3.75%	

Table 60

Tax Year 2016			
Income	**Credit Available if Taxes Exceed Income By:**	**Credit as a Percentage of Excess Taxes**	**Maximum Credit**
Less than $120,000	3.00%	20.00%	$1,000
$120,000 to less than $150,000	4.00%	15.00%	
$150,000 to less than $200,000	5.00%	10.00%	

The Executive's two-year tax freeze and circuit breaker proposals to address New York State's property tax burden, provide a unique opportunity for a more in-depth look into the State's overall property tax system, as well as the recent history of the legislative changes enacted related to property taxes.

New York State's Property Tax Structure and School Tax Relief

Overview of the Real Property Tax Structure

While the majority of the states have fewer than 100 assessing jurisdictions, NYS is ranked fifth among five states that have in excess of 1,000 assessing jurisdictions, at 1,116, exceeded only by Illinois, Michigan, Wisconsin, and North Dakota. Each assessing unit is responsible for determining their own level of assessment as well as the frequency in which reassessments are conducted.

Property taxes in New York are imposed following local assessments of property values. The following describes in summary form the basic process:

1) assessment of the *full value* of the property. This is the assessor's opinion on the property's current market value;

2) application of the *uniform percentage of value (or level of assessment)* at which properties are assessed. By law, all assessments must be made at the same percentage of market value for all properties in a jurisdiction (except for Nassau County and New York City, where a separate percentage applies to each of four classes of property, i.e. residential, commercial, vacant or farm/forest, and utility); and,

3) estimation of the *total assessed value* of the property. This is simply the multiplication of the full value times the *uniform percentage of value.* This step will finalize the amount of the tax that a property owner owes once various exemptions have been incorporated.

The last step involves the administration of an equalization program that seeks the equitable distribution of the property tax burden across the various tax jurisdictions. (This is a critical component as State Aid to education depends on this equalization process.) Equalization is necessary because: a) there is no fixed percentage at which properties are assessed, b) municipalities assess properties at different percentages of market value, c) taxing jurisdictions boundaries, such as school districts, do not coincide with the assessing units of cities or towns.

Based on the particular school district and other municipal financing needs the revenue that needs to be raised is determined. Subsequently, the relevant tax rates are calculated as the ratio of the levy over assessed value of all property, therefore distributing the tax burden or tax levy across property owners.

New York State School Tax Relief (STAR) Legislative History

STAR is the only property tax exemption funded by the State, its aim being to provide a partial exemption to homeowners' school tax liability. Beginning in 1999 the STAR exemption became a source of tax relief for homeowners across New York State. Under the program individuals can register for either the *Basic* or the *Enhanced* STAR exemption provided they meet certain criteria.

The STAR exemption reduces the tax liability for homeowners by a home's taxable assessed value. The STAR exemption is only applicable to school districts and does not apply to property taxes for other purposes such as county, town, or city, with the exception being the "Big 5" cities (Buffalo, New York City, Rochester, Syracuse, and Yonkers), where city property taxes fund schools.

Currently, the basic STAR exemption is available for owner-occupied, primary residences where the resident owners' and their spouse's income is less than $500,000. The basic STAR exemption has a base exemption amount of $30,000 of the full value of a home. The enhanced STAR exemption provides an increased benefit for the primary residences of senior citizens, those 65 and over, with qualifying incomes. The enhanced STAR exemption has a base exemption amount of $63,300 of the full value of a home. Since its inception the STAR exemption program has undergone many statutory changes as described below.

<u>SFY 1997-98 Budget</u>

Created the School Tax Relief ("STAR") program, which when fully effective was to provide homeowners a minimum of $30,000 full value exemption against school property taxes. The minimum exemption for homeowners age 65 and over was $50,000, while New York City residents received a personal income tax credit.

<u>SFY 1998-99 Budget</u>

Accelerated the STAR program enacted with the 1997-98 budget. This included providing in the 1998-99 school year and 1998 tax year a higher exemption and New York City resident income tax credits to elderly residents, previously scheduled to be phased in by the 2001-02 school year, and 2001 tax year.

<u>SFY 2002-03 Budget</u>

Enacted a cost-of-living adjustment to the maximum income allowed under the enhanced School Tax Relief (STAR) exemption for persons age 65 and over.

SFY 2006-07 Budget

The budget increased the base figure for the enhanced STAR exemption by 13.6 percent. The budget authorized a local property tax rebate for STAR eligible property owners equal to $9,000 multiplied by the product of the school district tax rate and the county sales price differential factor, if any. Senior citizens that qualified for the enhanced STAR exemption received a rebate as computed above times 1.67. There is also an adjustment factor for qualified taxpayers whose residences are in the Big 5 city school districts. Checks were to be issued by October 31st. After 2006, in the event that the enacted State budget does not contain an appropriation to pay the rebates, a refundable tax credit equal to the rebates was to be issued as part of the personal income tax.

The budget increased the NYC STAR credit from $125 to $230 for married couples and from $62.50 to $115 for all others.

SFY 2007-08 Budget

The budget authorized the Middle Class STAR rebate program. This replaced the rebate/personal income tax credit that was enacted into law in 2006. Real property owners who receive basic STAR exemptions on their property and whose affiliated income is no more than $250,000 received rebate checks in 2007. The size of the rebate depended on the property owners' income and the location of the property. Enhanced STAR exemption recipients received a rebate check that was not based on income.

The budget increased the NYC STAR credit for certain taxpayers. If the taxpayer's federally adjusted gross income less IRA distributions was over $250,000, then the credit remained the same. The $250,000 level was to be indexed to inflation beginning with the 2010 tax year. For all other taxpayers, the credit was increased to $290 in 2007, to $310 in 2008, and to $335 in 2009 and thereafter.

SFY 2008-09 Budget

The budget allowed offsets against STAR rebates for certain debts owed to the State. The offsets applied to rebates issued for 2008-09 and subsequent school years. It eliminated the New York City School tax credit for high income taxpayers and delayed the scheduled increases of the credit. The budget delayed for one year the scheduled increase in the basic Middle Class STAR rebates.

SFY 2009-10 Budget

The budget repealed the Middle Class STAR rebates that were scheduled to be issued in 2009 and thereafter. The budget reduced the NYC STAR credit beginning in 2009 from $310 to $125 for married couples and from $155 to $62.50 for all others.

SFY 2010-11 Budget

The budget limited the basic STAR exemption to homeowners with affiliated income no greater than $500,000. This applied beginning with the 2011-12 School Year and each year thereafter.

SFY 2011-12 Budget

The budget limited the growth in the STAR real property tax exemption to two percent annually beginning in the 2011-12 school year. In addition, the new provisions provided taxpayers a means for renouncing the STAR exemption they received in prior years and wished to pay back (generally to qualify for a benefit in another state). The provision set a limit of ten years on past payments and included the imposition of a fine.

SFY 2012-13 Budget

The budget eliminated the STAR property tax benefit for homeowners who have past-due state tax obligations. The suspension would begin with the 2013-14 school year. Tax payers would receive at least a 45-day notice from the Department of Taxation and Finance. Only those taxpayers owing at least $4,500 in past tax liabilities would be under this program.

SFY 2013-14 Budget

The budget provided for the creation and implementation of a new STAR registration program by the Department of Tax and Finance. Certain notice deadlines, penalties, and processing fees were established. Subsequent re-registrations were to be undertaken no more than once every three years. The program is applicable only to recipients of the basic STAR exemption, while those receiving the enhanced STAR exemption are to continue to register every year or participate in the income verification program.

STAR Payments to School Districts and STAR Assessment

Because the STAR exemption reduces homeowners' school tax liability, the State reimburses the school districts through increased State aid to offset lost school district revenues. The table below highlights the amount of State aid that has been reimbursed to school districts since the STAR exemption became effective in 1999. Individual homeowner enrollment in the STAR exemption and the amount of State aid reimbursed to school districts exhibit a positive relationship. As expected, as more homeowners enroll for the exemption, the State must provide more in State aid reimbursement to school districts.

Table 61

School Distict STAR Revenue ($ in Millions)				
Year	STAR Payments	STAR Payment to School	School District Total Revenue	STAR Payments as percent of School District Total
1999	$464		$20,121	2.3%
2000	$932	100.8%	$21,235	4.4%
2001	$1,377	47.8%	$22,341	6.2%
2002	$1,875	36.2%	$23,610	7.9%
2003	$2,005	6.9%	$24,911	8.0%
2004	$2,142	6.9%	$26,125	8.2%
2005	$2,275	6.2%	$28,067	8.1%
2006	$2,358	3.6%	$29,731	7.9%
2007	$2,461	4.4%	$31,659	7.8%
2008	$2,456	-0.2%	$33,496	7.3%
2009	$2,339	-4.8%	$35,010	6.7%
2010	$2,305	-1.5%	$35,726	6.5%
2011	$2,415	4.8%	$35,489	6.8%
Total	$25,403		$367,521	

Source: Annual Report on Local Governments, 2012, Office of the NYS Comptroller.

Following the first few years of homeowner enrollment, State aid reimbursement to school districts begins to level by the mid-2000s with a decline registered during the Great Recession when State finances came under intense pressure.

New York's Property Tax Cap

Established in 2011, the property tax cap imposes a limit on the annual growth of property taxes levied by school districts and local governments to the lesser of two percent of the rate of inflation. The cap applies to all local government taxing jurisdictions and all independent school districts, excluding the "Big 5" dependent school districts (Buffalo, Rochester, Syracuse, New York City, and Yonkers). There are a limited amount of exclusions to the property tax levy limit. Local governments can increase their tax levy as a result of tort actions and if the growth of certain pension actuarial contribution rates is unusually large.

While a local government budget with a tax levy within the allowable levy limit must be approved by a simple majority of over 50 percent of voters, local governments have the ability to override the tax levy limit if so supported. In order for a local government to exceed the property tax levy limit, 60 percent of the total voting power of the governing body must approve the override, and for school districts, 60 percent of the school budget voters. If a local government fails to pass a budget under either scenario a contingency budget must be adopted that allows for no growth over the prior year tax levy.

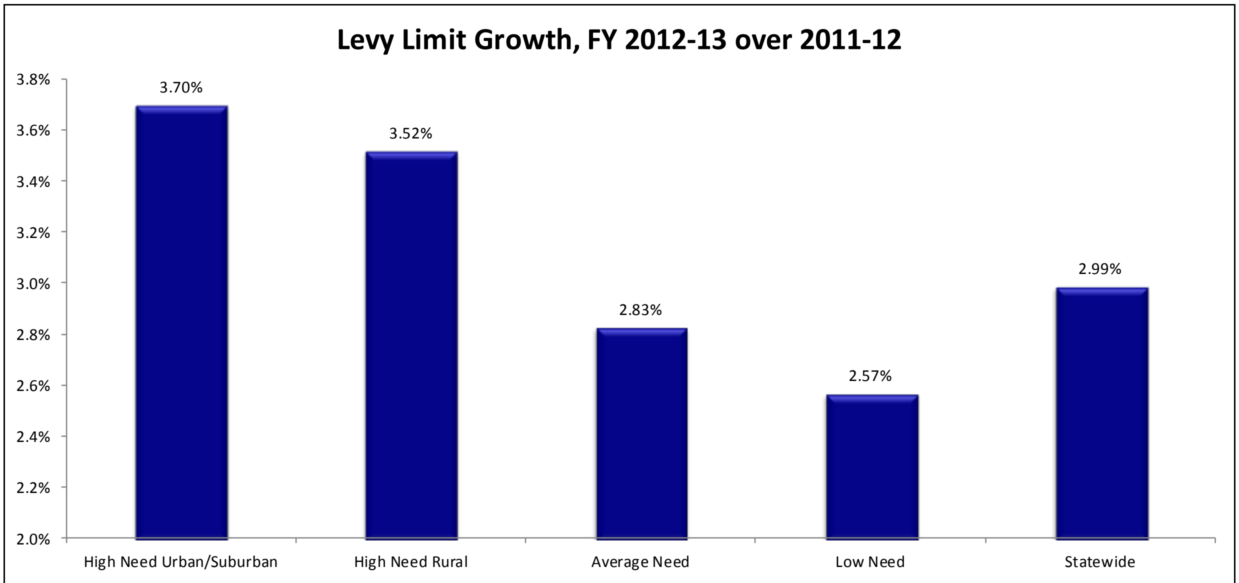
The table below provides a quick overview of the way the tax levy limit calculation is implemented:

Table 62

Tax Levy Limit Calculation
Tax levy of prior year
x Tax base growth factor (as provided from Dept. of Tax and Finance)
+ Payments in Lieu of Taxes (PILOTs) receivable in prior year
- Local capital expenditure in prior year (School Districts)
x Allowable levy growth factor (lesser of 2 percent or inflation)
- PILOTs receivable in current year
= Tax Levy Limit Before Exclusions
+ Court order exclusion (Torts)
+ Local capital expenditure exclusion in current year (School Districts)
+ Pension exclusion in current year
= Tax Levy Limit with Applicable Exclusions
Source: NYS Office of the State Comptroller, Local Government Snapshot, April 2012.

According to the Office of the State Comptroller, an analysis of self-reported local government data indicates the average allowable levy growth factor is 3.0 percent for FY 2012-13. For the period FY 2012-13 allowable levy limit, school districts that were considered "high need" - as a result of student demographic and relative wealth - reported higher rates of allowable growth compared to school districts categorized as "average" or "low need".[26] Below is a chart illustrating the average percent change for the period FY 2012-13 over FY 2011-12 by school district classification as defined according to "need".

[26] Local Government Snapshot: School District Tax Levy Limits, NYS Office of the State Comptroller, April 2012, Page 3. http://www.osc.state.ny.us/localgov/pubs/research/snapshot/schooltaxlevylimits.pdf



Source: NYS Office of the State Comptroller, Local Government Snapshot, April 2012.

Figure 54

As mentioned in the calculation of the property tax levy limit, the allowable levy growth factor is only one of many variables used in the calculation of the local government tax levy. Other important factors affecting the calculation of local government and school district tax levies are the applicable exclusions to the levy. If the annual growth of the average actuarial contribution rate for the Employees' Retirement System (ERS), the Police and Fire Retirement System (PFRS), or the normal contribution rate for Teachers' Retirement System (TRS) exceeds more than two percent over the prior year, the increase in the tax levy that occurs as a result of increased pension costs *is not considered* to be an increase in the levy under the tax levy limit and is therefore exempt. According to a report from the Office of the State Comptroller when observing the increase in the local government levy growth for the period FY 2012-13 over FY 2011-12, increases in pension costs accounted for only 0.13 percent of the statewide average of three percent allowable growth.

School districts, unlike other local governments and taxing jurisdictions, are allowed to exclude any voter-approved capital expenditures for projects that might result in a tax levy increase. When a school district is calculating their property tax levy limit, they must also subtract the amount of local capital expenditures from the prior year. The impact of the capital expenditure exemption for school districts ranged from decreasing the levy limit by 5.5 percent to increasing it by 13.1 percent, with an average effect statewide of 0.45 percent.[27]

The formula for calculating the property tax levy limit also considers payments in lieu of taxation (PILOTs) made by tax-exempt businesses to local governments and school districts. The

[27] Local Government Snapshot: School District Tax Levy Limits, April 2012, Page 4 http://www.osc.state.ny.us/localgov/pubs/research/snapshot/schooltaxlevylimits.pdf

tax levy limit is a limit on the tax levy in addition to PILOT payments made. When PILOT payments have frequent year-over-year variation it can have a considerable impact on the tax levy under the property tax levy limit. According to analysis by the Office of the State Comptroller, the net effect of all PILOT payment changes was small, ranging from decreasing the allowable levy growth by 45.4 percent to increasing it by 24.2 percent.[28]

The tax base growth factor is also incorporated into the formula for calculating the tax levy limit. The tax base growth factor accounts for an adjustment in the growth in the tax base within a local government, school district, or other taxing jurisdiction, that adjusts with development occurring within the jurisdiction. Taxing jurisdictions that are host to significant development can potentially see a substantial increase in the allowable levy. However, the effect of the tax base growth factor is generally small, with an average effect on the allowable levy growth an increase of 0.46 percent.[29]

[28] Ibid.
[29] Ibid.

Tax Structure and Reform

Issues on Corporate Taxes and Reform – Executive Proposal

Executive Proposal on Corporate Tax Reform

Over the past several years the New York State Department of Taxation and Finance (Department) has solicited comments from practitioners and the business community and has disseminated more or less comprehensive proposals to address issues related to recent developments in the business community as well as issues that arose following the Gramm-Leach-Bliley legislation of 1999, and to conclusively address the extension of certain "grandfathering" provisions in the State law due to that legislation. That legislation repealed the Glass-Steagall Act of 1933 and effectively brought down the barriers that used to separate traditional commercial banks from other financial institutions, such as investment banks and insurance companies.

The Executive's reform proposal adopts the Department's recommendations and seeks to restructure the State's corporate and bank taxes in a way that will bring the State's tax code in closer conformity to Federal rules as well as align State practices with those of several other states. In particular, the reform proposal addresses issues related to:

- Merger of Bank Tax with the Corporate Tax;
- Expansion of the definition of nexus;
- Redefines business income and investment and includes income from subsidiary capital (currently excluded) in the definition of taxable income;
- Conform banks' tax bases with those of corporate taxpayers and eliminate the alternative minimum tax base;
- Reduces the tax rate for all taxpayers from 7.1 percent to 6.5 percent (effective January 1, 2016);
- Increases the maximum fees for the Fixed Dollar Minimum tax base;
- Redefines the Capital Base tax base for banks, to conform to corporations', by allowing the tax to be imposed on a net asset basis with a maximum cap of $5 million (currently there is no cap);
- Creates a new definition for Qualified Financial Instruments (QFIs) to simplify and rationalize the treatment of financial instruments' income;
- Creates safe-harbor rules for QFIs, in terms of apportioning income to New York, and interest expenses that cannot be deducted from income;
- Redefines the combined reporting requirements by adopting a water's-edge definition;
- Adopts a customer-based single sales receipts formula for both corporations and banks;
- Conforms the treatment of Net Operating Losses (NOLs) to that of the Federal tax code;
- Makes permanent the MTA surcharge, conforms its calculation to current law, reduces the tax base, and increases the relevant tax rate.

The Executive and the Department believe that the proposed reform will effectively address the long-standing disputes between the business community and auditors as they try to clarify the current Law provisions. The proposal, however, comes at an estimated fiscal cost of $346 million when fully effective in SFY 2016-17, with the losses offset by projected surpluses in other tax and spending categories. Historically, a major stumbling block in past efforts to reform the Bank and Corporate Tax Law was the State's precarious fiscal balance, and, thus, the need to accomplish reform with revenue neutrality.

Qualified Manufacturers

Embedded in the Executive's Corporate Reform propels, as well as is in Part R of the proposed Article VII Revenue legislation, are new definitions that affect who is eligible to claim filing status as a qualified manufacturer. The definition changes are important as they affect eligibility of a variety of credits including the Investment Tax Credit and the proposed 20 percent real property tax credit for manufacturers, as well as the proposed zero rate on Entire Net Income on Upstate manufacturers. The box below provides the key highlights.

Manufacturer and Manufacturing Definitions – Executive Proposals

What is Manufacturing?

Manufacturing is defined as the process of working raw materials into wares suitable for use or which gives new shapes, new quality or new combinations to matter which already has gone through some artificial process by the use of machinery, tools, appliances and other similar equipment. The following clarifications apply:

1) The generation and distribution of electricity, the extraction and distribution of natural gas, and the production of steam associated with the generation of electricity does not constitute manufacturing;
2) The creation, production or reproduction of a film, television show or commercial does not constitute manufacturing;
3) The blending of two or more fuels does not constitute manufacturing;
4) The mass production of food products for wholesale commercial distribution and sales constitutes manufacturing.

Who is a Manufacturer?

Manufacturer is a taxpayer that during the taxable year is principally engaged in manufacturing. "Principally" engaged is interpreted as more than 50 percent of the gross receipts are derived from the sale (only) of goods produced by manufacturing.

Who is a Qualified Manufacturer?

Qualified manufacturer (eligible for lower tax rates) means a manufacturer that has either:

a) All of its property located in New York, or
b) Has property in New York that is used in manufacturing with fair market value of at least $10 million (up from the current $1 million definition), or
c) If the company does not meet the 50 percent gross receipts test, then they must have at least 2,500 manufacturing employees and $100 million in manufacturing property in New York.

The new definition also applies to qualified agricultural and mining businesses. Qualified emerging technology companies will no longer qualify as a manufacturer.

Who is an Upstate Qualified Manufacturer?

Upstate manufacturer is a qualified manufacturer who does not own or lease any tangible personal property or real property in the Metropolitan Commuter Transportation District and does not pay any wages, salaries or other personal service compensation within that district. The manufacturer qualifies if she has sales and, thus, receipts attributed to the district as long as she has no property or payroll as described.

Executive's Corporate Tax Reform and Implications for the Banking Industry

The Executive's proposed reform seeks to modify all aspects of how corporate income is taxed in New York. The merging of Articles 32 and 9-A, together with the accompanying proposals, intends to simplify and modernize the tax code and better align the State code with the Federal and other states' treatment of banks and businesses in general.

Under the proposed reform, banking corporations would be taxed under the amended Article 9-A, Corporation Franchise Tax. Banks would no longer be subject to the alternate entire net income (ENI) and the taxable asset bases. In their place, banks and other Article 9-A filers would be subject to the highest of the following three bases:

- Business Income (includes definitions of investment income);
- Business Capital (based on the current *net* asset base definition for Article 9-A payers); and,
- Fixed Dollar Minimum (FDM): the maximum amount is raised to $200,000 for New York receipts over $1 billion, up from the present maximum FDM of $5,000.

The following outlines important changes that affect banking corporations:

- The tax on business capital would be capped at $5 million for banks. Currently, banks are not subject to a cap on capital base liabilities with the asset base calculated on a *gross* basis. Banks with a substantial capital presence within New York borders are expected to benefit from this change;
- Single-sales apportionment factor: currently, unlike Article 9-A payers, banks apportion income to New York based on a three-factor formula (payroll, receipts, and deposits). Under the proposed changes business income would be apportioned based on single receipts factor using customer sourcing. In general, corporations and banks with substantial physical presence in New York but with a large customer exposure across the nation will see the greatest benefit from this change;
- Some other changes include:
    - Elimination of special international banking facilities provisions; and,
    - Elimination of bank deductions for interest income from government obligations and income and net gains from subsidiary capital.

Treatment of Net Operating Losses

Currently, Net Operating Losses (NOLs) are deductions taken from the Entire Net income tax base. They are allowed to be carried forward 20 years and carried back two. Carryback losses are limited to $10,000. The Federal deduction is the baseline for computing New York deductions with the following limitations:

- deductions are only allowed in years when the business was subject to New York tax;

- NOLs are subject to adjustments used in converting federal income to New York ENI; and,
- the New York deduction may not exceed the Federal.

Under the proposed reform:

- NOLs will no longer be carried back and they will be allowed to be carried forward for up to 20 years;
- NOLs will no longer be limited by the Federal NOL source year or amount;
- The reform will continue the policy that a NOL deduction is not allowed if sustained during any year in which the corporation generating the loss was not subject to tax in New York;
- NOLs will be allowed to bring down the tax liability to the higher of the tax measured by capital or fixed dollar minimum tax, with any excess carried forward;
- If the corporation incurred the loss before the law is enacted (2015), the loss will be converted into a credit to be used in 1/10 increments over the next 20 years. The purpose of this provision is to provide businesses stable accounting during this transition. Corporations subject to tax under the reform proposal would be advantaged by being able to have their New York NOLs exceed their Federal NOLs. Currently, corporations can lose their New York deductions if they exhaust their federal NOLs even though they are calculated and treated differently.

Combined Reporting

"States either treat related members of a single corporate umbrella as separate entities or as a single combined firm. Separate reporting states treat each entity on a stand-alone basis that reports the profits or losses of only that individual corporation. Combined reporting states effectively disregard the existence of separate legal entities and require a business to combine the operations of all related firms involved in a unitary business."[30]

Combined reporting eliminates the passive investment company strategy (PIC), a common planning tool whereby a business locates intangible assets (such as a trademark) to a PIC at a state without or low corporate income tax. The PIC will charge royalties to the operating entities for their use of the intangible assets, while those entities will in turn deduct such royalty expenses and, therefore, reduce their overall tax liability. Under combined reporting the presence of a PIC does not alter the underlying taxable income, thus, neutralizing any potential tax advantage.

Combined reporting has been adopted by 22 states, with six adopting since 2006, as it is being considered an effective tool in curtailing tax planning by multistate corporations. (Other strategies to minimize tax planning have included rules that add back deductions associated

[30] "*How Should a Subnational Corporate Income Tax on Multistate Businesses be Structured*?" William F. Fox, Matthew N. Murray and LeAnn Luna, National Tax Journal, March 2005.

with passive investment companies, efforts to assert economic nexus, transfer pricing audits, and throwback rules.) In practice, the adoption of combined reporting leads to considerations of allocating or apportioning the income of a controlled group of entities among the states in which the group conducts business. In theory the combined group's tax burden is comparable to the tax burden resulting if the entities were collapsed into a single firm. However, as different states have different tax structures the actual tax burden is not comparable.

The ultimate tax burden on a group of related companies under combined reporting is uncertain as income in profitable firms will be offset with losses from unprofitable firms. The final result will also depend on the entities' apportionment factors – sales, property, and payroll.

While New York has historically been a separate reporting State, the 2007 the State allowed for combined reporting if businesses met an 80 percent or more capital stock ownership test and if reporting separately was to distort the taxpayers' New York activities. "This presumption, however, was rebuttable upon a showing that the transactions were conducted at arm's length pricing. The rules resulted in significant litigation that required corporations or the department to hire expensive experts to litigate the arm's length pricing issue."[31]

The proposed combined reporting rules are designed to help address such issues and minimize litigation conflicts arising out of different interpretations. The Executive proposal includes:

- A full unitary water's-edge method for combined reporting;[32]
- The requirements to be combined are:
  - Unitary business test;
  - More than 50 percent stock ownership test;
  - The substantial inter-corporate transactions test is eliminated.
- The combined group must include domestic corporations, alien corporations deemed domestic under IRC rules, alien corporations with effectively connected income, captive REITs and RICs, as well as combinable captive insurance companies;
- Taxpayers will be required to make an election for a seven-year period (requires affirmative decline otherwise automatically renews).

[31] "*To be Combined or Decombined in New York, That is the Question,*" Haueisen, Zargari, Hutton, Verde, Tax Analysts, November 2013.

[32] The treatment of foreign affiliates has important implications for states such as New York with a large presence of groups that include firms with significant foreign presence. States may exclude from taxation foreign entities from the unitary group by allowing a "water's edge" election, or, the more prevalent method, restricting the combined report to operations within the U.S. New York, like most states, excludes the income of affiliates of the unitary group that are incorporated in a foreign country or that conduct most of their business outside of the U.S.

Economic Nexus

New York currently applies, in general, a physical nexus standard as opposed to an economic nexus one. However, one current exception was introduced in 2008, when legislation required that out-of-state banking corporations are subject to State tax if they issue more than 1,000 credit cards, or have receipts of more than $1 million, to New York residents.[33]

The Executive's proposal, conforming to recent national trends in terms of defining nexus, adopts a full economic nexus by expanding the current standard to include in the definition of State presence for taxable purposes "deriving receipts from activity in New York" with a minimum threshold of $1 million. In addition, it repeals the fulfillment service nexus rule for purposes of business tax. (The standard still applies for sales tax purposes.) Finally, alien (i.e. non US) corporations with economic nexus but without effectively connected income will not be subject to tax and will be excluded from the combined group.

Brownfields Cleanup Program – Executive Proposal

The Executive proposal, in general, extends the program for an additional 10 years and provides for a variety of policy changes designed to restrict eligibility. Some key highlights include:

- Establishes more restrictive eligibility criteria for redevelopment credits by limiting to: a) vacant lots or buildings for 15 years or more; b) vacant lots or buildings that are tax delinquent for 10 years or more; c) are "upside down", i.e. projected remediation costs exceed the "certified value of the property absent contamination"; or, d) Site has designation as a "priority economic development project" with specific job criteria by industry.
- Creates the BCP-EZ Program, a volunteer program without credits, which allows the Department of Economic Development to exempt volunteers from procedural requirements applicable to investigation and/or contamination remediation subject to certain criteria;
- Modifies the tangible property tax credit so that costs can also include "costs incurred in connection with preparing a site for the erection of a building or a component of a building including: costs of excavation, demolition, temporary electric wiring, scaffolding, fencing and security facilities if such costs are not included in site prep and when calculating affordable housing credit";
- Limits the period that development credits can be claimed from ten to five years and also limits eligible costs to those "associated with actual construction of tangible property incorporated as part of physical structure and costs associated with site preparation that are not properly included in the site preparation component";

[33] Other conditions were included to define which out-of-state banking corporations will be subject to tax.

- Eliminates the real property tax credit for remediated brownfields and the environmental remediation insurance credit and establishes a new tangible property tax credit effective on and after July 1, 2014 which includes a ten percent plus additional amounts provided that the total credit shall not exceed 24 percent. The additional amounts include:
    - 10 percent for a site within an environmental zone;
    - 5 percent for a "strategic site" within a Brownfield Opportunity Area (BOA) if the proposed development is in conformance with the BOA plan;
    - 5 percent for "affordable housing" defined as having at least 20 percent of its units subject to an agreement with a municipality, state, federal government, or an instrumentality where such agreement restricts occupancy of those units to residents who qualify in accordance with an income test.
- Repeals the brownfield redevelopment report requirements and requires supplemental brownfield credit report to be prepared for years 2005-2007;
- Terminates sites with a brownfield cleanup agreement prior to June 23, 2008 that doesn't have a COC by 12/31/15 or entered the program on or after June 23, 2008 and prior to July 1, 2014 that does not have a COC by December 31, 2017;
- Adds the Environmental Restoration Program (ERP) to the Superfund refinancing authority.

Recent Corporate Tax Collections Trends – History of NYS Corporate Tax Rates

An examination of the proposed reform and a more in-depth analysis of key issues related to the reform needs to be preceded by a closer look at some of the recent trends in tax receipts. New York's corporate tax receipts as a share of All Funds taxes have experienced a pattern of decline over the last 30 years. As of FY 2013-14 corporate tax receipts comprised 5.2 percent of All Funds taxes, compared to a 6.2 percent average share for the period FY 1990-91 to FY 1999-00 and 7.4 percent average share in the 1980s. In general, "four sources of the deterioration in state corporate tax revenues can be identified: cyclical declines in profits, reductions in the federal corporate tax base, state policy decisions to reduce corporate tax burdens, and more aggressive corporate tax planning."[34]

As has been the trend across tax jurisdictions in the U.S., New York's top marginal corporate tax rate has been on a path of consistent decline. New York's current top rate is 7.1 percent for the entire net income basis with a rate of 6.5 percent for qualified manufacturing companies and other emerging technology companies. (Lower rates apply for eligible qualified manufacturers and recent legislation provides for further rate reductions for qualified manufacturers.)

The table below provides the history of corporate tax rates since 1917.

[34] "*State Corporate Tax Revenue Trends: Causes and Possible Solutions*", William F. Fox and LeAnn Luna, National Tax Journal, September 2002.

Table 63

NYS Corporate Franchise Tax Rates

Year	Corporation Franchise (1) (Income Base)	Banks (2) (Income Base)	Insurance (3) (Income Base)
1917	3.000%	--	--
1918-25	4.500%	--	--
1926-34	4.500%	4.500%	--
1935-44	6.000%	4.500%	--
1945-48	4.500%	4.500%	--
1948-67	5.500%	4.500%	--
1968-70	7.000%	6.000%	--
1971-73	9.000%	8.000%	--
1974	9.000%	8.000%	9.000%
1975-76 (4)	12.000%	15.600%	9.000%
1977 (5)	10.000%	15.600%	9.000%
1978-84	10.000%	12.000%	9.000%
1985-86	10.000%	9.000%	9.000%
1987-88	9.000%	9.000%	9.000%
1989 (6)	9.000%	9.225%	9.225%
1990-93 (7)	10.350%	10.350%	10.350%
1994 (8)	10.125%	10.125%	10.125%
1995 (9)	9.675%	9.675%	9.675%
1996 (10)	9.225%	9.225%	9.225%
1997-99	9.000%	9.000%	9.000%
1999-00 (11)	8.500%	9.000%	9.000%
2000-01 (12)	8.000%	8.500%	8.500%
2001-02	7.500%	8.000%	8.000%
2002-03 (13)	7.500%	7.500%	7.500%
2003-06 (14)	7.500%	7.500%	7.500%
2007-09	7.100%	7.100%	7.100%

(1) The franchise tax on corporations dates back to 1874, but the tax imposed on net income began in 1917.
(2) Bank tax revenues went to local governments until 1940 when it became a state revenue source.
(3) Prior to 1974, insurance companies were taxed under Article 9.
(4) Includes a 20% surcharge on corporations and 30% on banks.
(5) Includes a 30% surcharge on banks.
(6) Includes a 2.5% surcharge on banks and insurance companies.
(7) Includes a 15% surcharge on corporations, banks and insurance companies.
(8) Includes a 12.5% surcharge on corporations, banks and insurance companies.
(9) Includes a 7.5% surcharge on corporations, banks and insurance companies.
(10) The tax rate on corporations, banks and insurance companies is 9% plus a 2.5% surcharge.
(11) The tax rate fell to 8% after 6/30/00.
(12) The tax rate fell to 7.5% after 6/30/01.
(13) The bank and insurance tax rate reductions were effective for tax years beginning after 6/30/01. The tax rate fell to 7.5% after 7/1/02.
(14) Non-life insurance companies are not subject to the corporate income tax after 2002-03. They are now subject only to the insurance premiums tax.

Source: NYS Department of Taxation and Finance, Office of Tax Policy Analysis.

Financial Plan Highlights

Financial Plan

The All Funds Budget is the broadest measure of spending accounting for both State unrestricted and restricted or dedicated funds as well as funds received from the Federal government. Figure 55 provides an overview of the key components of All Funds disbursements since SFY 2002-03.

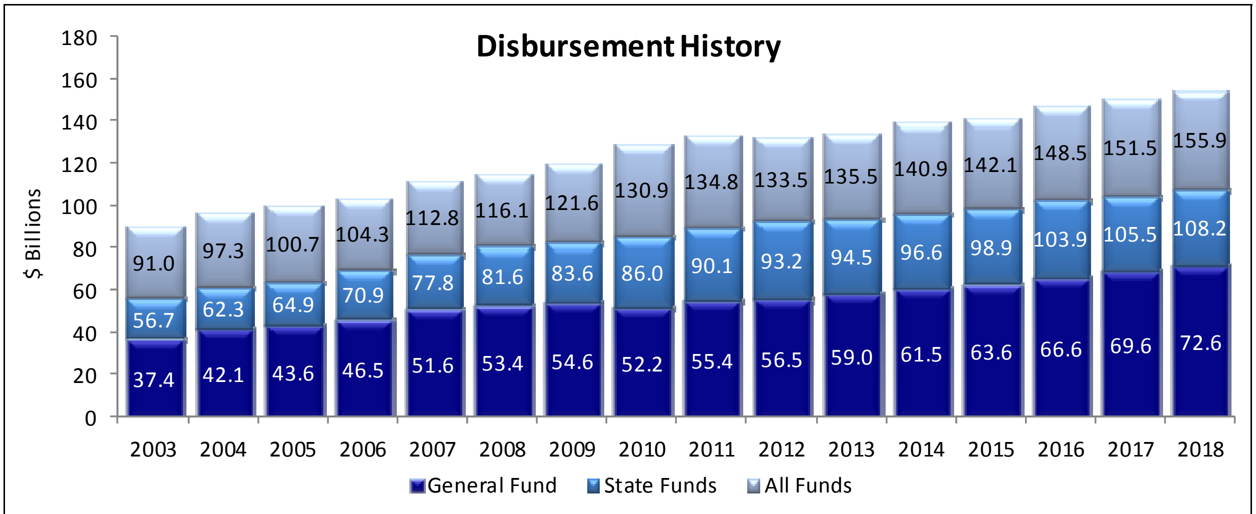


Figure 55

The top portions of the bars represent the incremental additions to the State funds via Federal grants. The middle portions of the bars represent State funds and underscore the robust gains in State tax resources growth during the mid-2000s when State receipts benefited from the growth in Wall Street and the overall financial environment. Receipts growth translated into robust gains in State-only spending growth followed by a slowdown in the rate of growth over the last few fiscal years.

State and All Funds Disbursements

State Operating Funds spending is estimated to total $92.0 billion, an increase of 1.5 billion or 1.7 percent. The State Operating Funds includes all State spending in the General Fund plus State Special Revenue Funds and Debt Service Funds except Capital Projects Funds and Federal spending. On an All Fund basis, total spending is estimated at $142.1 billion. Health, primarily Medicaid, is the largest share at 33 percent with Education following at 19 percent.

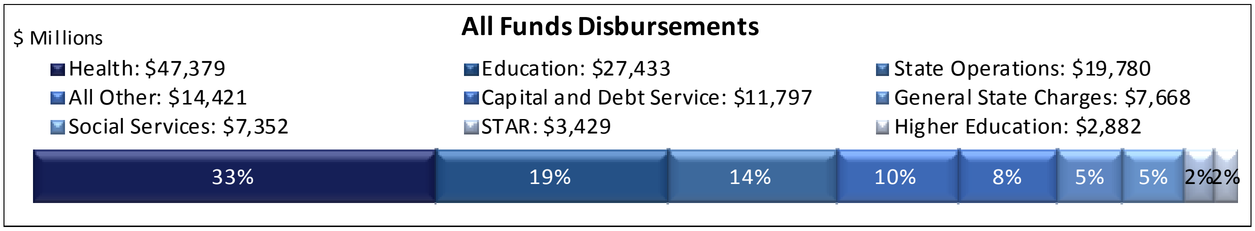


Figure 56

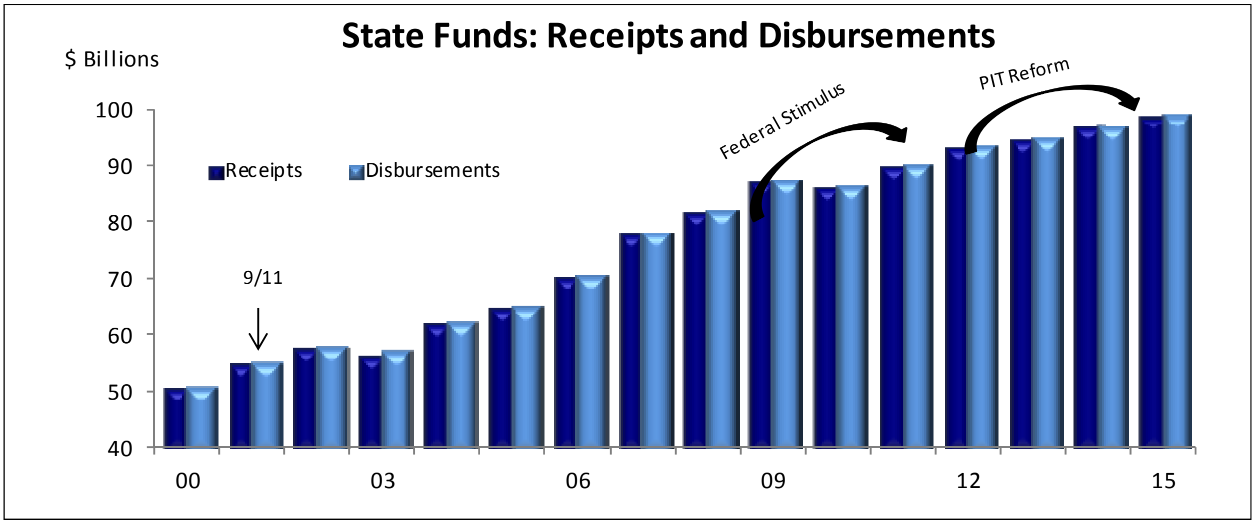


Figure 57

As shown in the chart above, receipts and disbursements on a State Funds basis have grown at the same rate. Since 2000, State spending has stayed on par with receipt collections to allow for balanced budgets. During SFY 2008 through 2011, the State budget benefited from over $10 billion in Federal assistance called FMAP to help with expenditures related to Medicaid. Upon expiration of FMAP, the State reformed personal income tax on a temporary basis to support the budget and its programs.

After 9/11 the State was able to use a substantial amount of reserves to offset the reduction in tax revenue. During the Great Recession a revenue crisis forced the State to reduce its spending but the federal stimulus funds was able to replace State spending. Most recently, with the slow revenue recovery, State spending was balanced with temporary surcharge on personal income.

Table 64

Enacted Vs Actual State Budgets ($ in Billions)								
	Enacted				Actual			
Fiscal Year Ending	General Fund	All Funds	State Operating Funds*	State Funds	General Fund	All Funds	State Operating Funds*	State Funds
2004	40.8	96.4		63	42.1	97.3		62
2005	43	101.2		64.3	43.6	100.7		64.5
% Change	4.1%	4.0%		1.1%	3.7%	3.5%		4.1%
2006	46	106.4		70.2	46.5	104.3		70.4
% Change	4.7%	4.3%		7.4%	6.6%	3.6%		9.1%
2007	50.8	112.5		77.1	51.6	112.8	73.5	77.8
% Change	9.4%	7.8%		10.6%	11.0%	8.1%		10.6%
2008	53.7	120.7		83.8	53.4	116.1	77	81.6
% Change	4.1%	7.0%		8.4%	3.5%	2.9%	4.8%	4.9%
2009	56.6	121.6	80.5	86	54.6	121.6	78.2	86.9
% Change	5.6%	4.8%	5.0%	5.7%	2.3%	4.7%	1.5%	6.4%
2010	54.9	131.9	78.7	84.7	52.2	130.9	76.9	86
% Change	0.6%	8.5%	0.7%	1.8%	-4.4%	7.6%	-1.0%	-1.0%
2011	55.6	135.9	81.1	87.1	55.4	134.8	84.4	90.1
% Change	6.5%	7.1%	5.4%	6.2%	6.1%	3.0%	9.8%	4.7%
2012	56.9	131.7	86.9	92.8	56.5	133.5	87.2	93.2
% Change	2.8%	-2.3%	2.9%	3.0%	2.1%	-1.0%	3.6%	3.6%
2013	58.9	133.4	88.9	95	59	133.1	88.8	94.5
% Change	4.2%	-0.1%	2.0%	2.0%	4.4%	0.3%	1.9%	1.4%
2014	61.2	140.5	90.2	96.4	61.5	140.9	90.5	96.6
% Change (projection)	3.7%	5.6%	1.6%	2.0%	4.2%	5.8%	1.9%	2.2%
2015	63.6	142.1	92	99				
% Change	3.4%	0.9%	1.7%	2.4%				

*** State Operating Funds was not identified until SFY 2008-2009**

Historically, the enacted budget growth rates of the major funds showed differences from the actual growth rates. In SFY 2013-14, the updated spending estimates already show growth rates exceeding enacted growth levels for all four of the major funds.

Table 65

Cash Disbursements By Function State Operating Funds ($ in Millions)	FY 2015			FY 2016			FY 2017			FY 2018		
	Proposed	$ Change	% Change	Projected	$ Change	% Change	Projected	$ Change	% Change	Projected	$ Change	% Change
Education	27,151	1,106	4.2%	28,465	1,314	4.8%	29,687	1,222	4.3%	31,038	1,351	4.6%
Higher Education	9,360	145	1.6%	9,545	185	2.0%	9,750	206	2.2%	9,926	176	1.8%
Health	19,327	218	1.1%	20,169	842	4.4%	20,696	527	2.6%	21,308	613	3.0%
Mental Hygiene	7,009	58	0.8%	7,316	307	4.4%	7,312	(4)	-0.1%	7,814	502	6.9%
Human Services	3,429	(120)	-3.4%	3,529	100	2.9%	3,597	69	1.9%	3,665	67	1.9%
Transportation	4,969	76	1.5%	5,034	64	1.3%	5,112	78	1.6%	5,195	83	1.6%
Public Protection	3,602	(146)	-3.9%	3,812	210	5.8%	3,717	(94)	-2.5%	3,682	(36)	-1.0%
Elected Officials	3,308	82	2.5%	3,319	11	0.3%	3,330	11	0.3%	3,341	11	0.3%
Economic Development	857	(12)	-1.4%	899	42	4.9%	917	18	2.0%	919	3	0.3%
Local Government Assistance	764	0	0.0%	776	13	1.7%	788	12	1.5%	793	5	0.6%
Parks and Environment	478	(5)	-1.1%	480	3	0.6%	482	1	0.2%	454	(28)	-5.7%
General Government	1,487	154	11.5%	1,528	41	2.8%	1,537	9	0.6%	1,560	22	1.4%
All Other	10,288	(26)	-0.2%	10,969	681	6.6%	11,479	510	4.7%	11,881	402	3.5%
Total State Operating Funds	**92,027**	**1,529**	**1.7%**	**95,840**	**3,813**	**4.1%**	**98,405**	**2,565**	**2.7%**	**101,577**	**3,172**	**3.2%**

In SFY 2014-15, State Operating Funds is estimated to increase $1.5 billion or 1.7 percent. While SFY 2014-15 is below the two percent benchmark established by the Executive, the outyear estimates are 4.1 percent in SFY 2015-16, 2.7 percent in SFY 2016-17, and 3.2 percent in SFY 2017-18. State Operating Funds are realizing significant spending pressure in the areas of Education, Health, Mental Hygiene and Higher Education.

Balancing the General Fund

Each year the Division of Budget develops a cash financial plan that shows the receipts and disbursements proposed for the upcoming fiscal year. That plan is then submitted as part of the overall Executive Budget. As required by the Constitution, the Executive submitted a balanced General Fund budget that closes a projected budget gap of $1.74 billion for the upcoming fiscal year. However, it is projected that the State will experience budget surpluses through SFY 2017-18. In adopting protocol for an austere budget, many of the critical fiscal rules and discretionary policies enacted over the past three years have brought the upcoming budget into balance and reduced the projected out-year fiscal gaps. The table below provides an overview of the General Fund gaps anticipated over the next four fiscal years inclusive of the anticipated surpluses following the Executive's gap-closing proposals.

Table 66

Out Year General Fund GAPS ($ in Millions)

	Before Action	Executive Proposal
2014-15	(1,742)	0
2015-16	(2,889)	155
2016-17	(2,948)	165
2017-18	(3,887)	173

The Executive's proposed gap-closing actions are projected to eliminate a gap total of $11.46 billion, the total before-actions gap for the period SFY 2014-15 to SFY 2017-18, leading to small annual surpluses to spare. State expenses will still have to be carefully managed as these surpluses depend on the State's adherence to the two percent State Operating Funds benchmark.

Table 67

Temporary Revenues and Non-Recurring General Fund Actions in the Financial Plan Savings/(Costs) ($ in Millions)	2014-15	2015-16	2016-17	2017-18
State Insurance Fund Reserves (SIF)	1,000	250	250	
Temporary Utility Assessment - 18A	232	232	232	
Family Tax Credit		410		
Resident Trust Loophole closure	75	225	150	150
Debt Management/Capital Financing/Debt Service	76	90	98	138
MTA Debt Service offset from MMTOA Transaction	40	20	20	20
New York Power Authority/Other Authorities	90			
DASNY	22			
Recoveries	275			
Abandoned Property*	130			
Use of Reserve Fund surplus	310			
Legal Services sweep	2			
Non Specific Fund Sweeps for IT	250			
Non Specific Fund Sweeps	50			
SubTotal	**2,552**	**1,227**	**750**	**308**
Additional Temporary Revenues				
Personal Income Tax (PIT) Reform Surcharge	2,375	2,612	2,993	2,389
Total	**4,927**	**3,839**	**3,743**	**2,697**

* Reflects increase over prior year. Total amount is $655 million.

Temporary actions proposed by the Executive are estimated at $4.9 billion in SFY 2014-15. These are one-time revenue actions used to cover spending in a given fiscal year. The major actions are $2.4 billion from the PIT reform surcharge and $1 billion from the SIF reserve release. The PIT surcharge is estimated to increase through SFY 2016-17, while the SIF transfer decreases to $250 million.

Proposed Gap-Closing Actions

The Executive Proposal closes an estimated $1.74 billion General Fund budget gap in SFY 2014-15. The Executive has indicated that these actions are comprised of the following: $1.9 billion in spending changes and $286 million in resource changes. These actions, however, include $156 million for new initiatives such as the universal pre-kindergarten program. Additionally, the Executive proposes new tax actions to reduce state taxes, paid for primarily by capping State Operating Funds spending growth at two percent.

The spending reductions are related to agency operations, local assistance, and debt management. These actions include agency redesign and cost-control efforts such as hiring controls, attrition, consolidation of resources, and efficiency measures. The most significant local assistance actions involve education reforms and annual costs attributed to State-share Medicaid. The largest resource action is primarily attributed to the $310 million surplus from higher than expected tax receipts in SFY 2013-14. This amount is offset by other tax and miscellaneous receipt revisions. Additionally, the Executive proposes a series of tax reductions totaling $2.1 billion over the next three years.

Table 68

General Fund GAP-Closing Plan 2014-15 ($ in Millions)	
CURRENT SERVICES GAP ESTIMATES	**(1,742)**
Spending Controls	**1,942**
Agency Operation	358
Local Assistance	1,624
Debt Management	116
Initiatives	(156)
Resource Changes	**286**
Surplus/Gap Before Tax Actions	**486**
Tax Actions	(486)
EXECUTIVE BUDGET SURPLUS/(GAP) ESTIMATES	**0**

Gap-Closing Actions since SFY 2001-02

From SFY 2001-02 to SFY 2013-14, New York State has closed budget gaps totaling $80.2 billion. While primarily using spending and revenue actions, gaps have also been closed utilizing non-recurring resources such as tax audits, reserve deposits, and state and federal relief. In SFY 2009-10, the General Fund gap of $17.9 billion was the largest gap to close over the past 11 years. (See Figure 58).

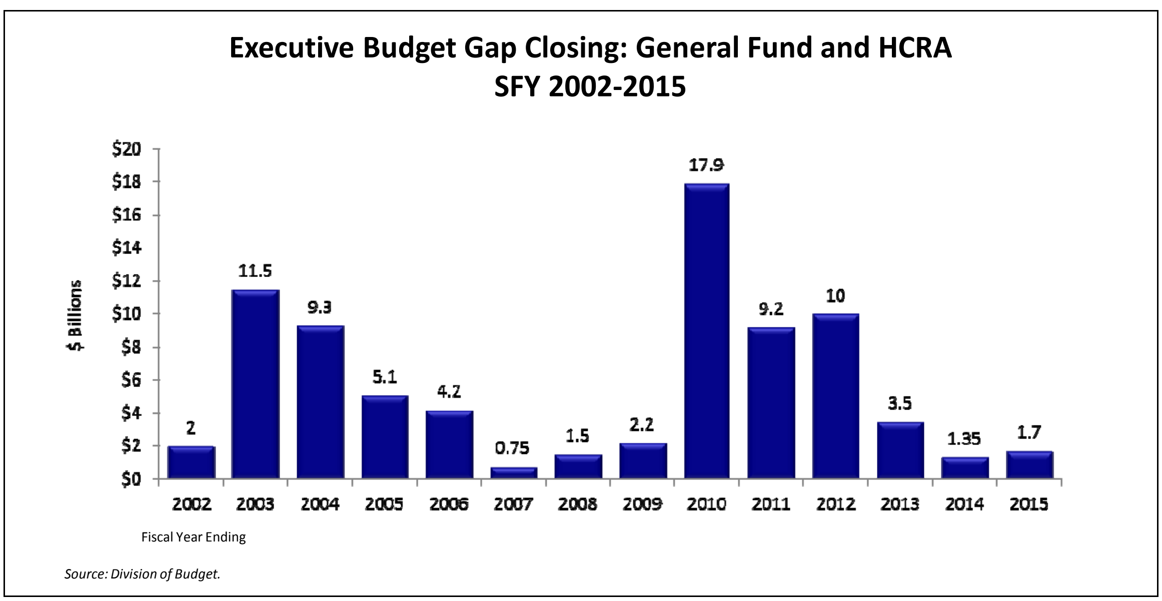


Figure 58

Reserves

Reserves are an essential safeguard against unexpected adverse movements that deplete the available cash flow. According to the latest Executive estimates, SFY 2013-14 is projected to close with total reserves balance of $1.8 billion of which $1.1 billion is attributed to the Tax Stabilization Reserve Fund, a constitutionally restricted fund that can only be used in the event of a revenue shortfall or deficit during the fiscal year.

During the financial boom of the mid-2000s the State benefited from robust revenue growth rates that allowed for a General Fund reserve of $3.3 billion in SFY 2005-06 followed by $3.1 billion in SFY 2006-07. With the onset of the Great Recession and the sharp declines in tax receipts, General Fund reserves contracted to a low of $1.4 billion in SFY 2010-11.

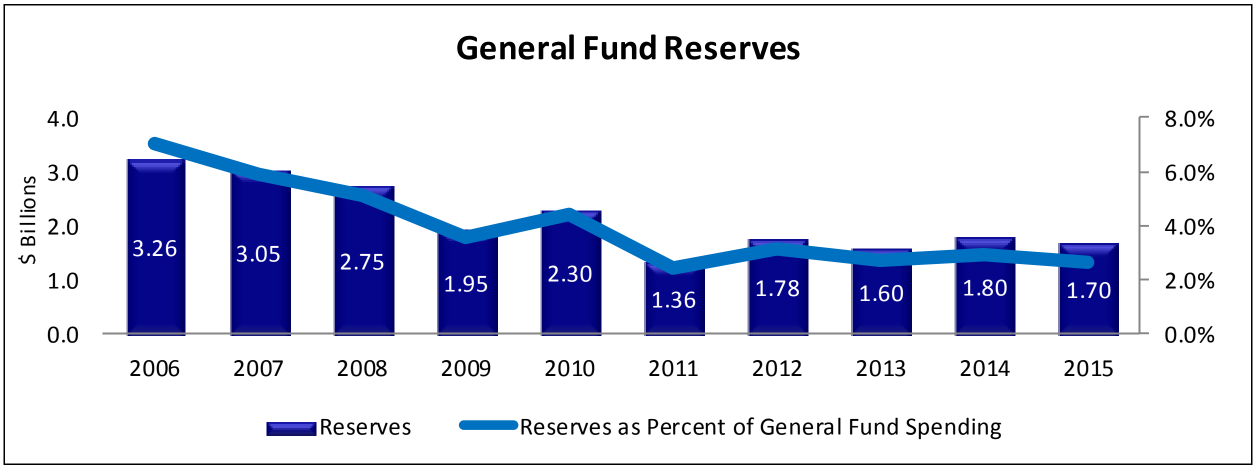


Figure 59

The Executive budget expects minimal change in the year-end closing balance from this year to the next fiscal year. The Executive estimates that the SFY 2014-15 General Fund closing balance will be $1.74 billion, maintaining $1.1 billion in the Tax Stabilization Reserve Fund, $21 million in the Contingency Reserve Fund and $175 million in the Rainy Day Reserve.

Table 69

Estimated General Fund Closing Balance ($ in Millions)		
	2013-14	**2014-15**
Tax Stabilization Reserve Fund	1,131	1,131
Statutory Rainy Day Reserve Fund	175	175
Contingency Reserve Fund	21	21
Community Projects Fund	68	-
Reserved for Debt Management	363	363
Reserved for Labor Agreements	45	53
Total	**1,803**	**1,743**

Multi-Year Financial Plan

The proposed gap closing actions reduces the gap to zero in SFY 2014-15, with small surpluses in the out years. These surpluses are primarily achieved by holding State Operating Funds Spending benchmark to two percent in the out years. As shown below, these surpluses would be larger without the proposed tax actions.

Table 70

Current Services General Fund GAP
($ in Millions)

	SFY 2015	SFY 2016	SFY 2017	SFY 2018
Receipts	**62,839**	**65,549**	**68,676**	**70,913**
Disbursements	**64,606**	**68,459**	**71,611**	**74,800**
Use (reservation) of Fund Balance	25	21	(13)	
CURRENT SERVICES SURPLUS/GAP	**(1,742)**	**(2,889)**	**(2,948)**	**(3,887)**

Source: NYS DOB & WAM.

Table 71

General Fund GAP-Closing Plan
($ in Millions)

	SFY 2015	SFY 2016	SFY 2017	SFY 2018
CURRENT SERVICES GAP ESTIMATES	**(1,742)**	**(2,889)**	**(2,948)**	**(3,887)**
Spending Changes	**2,098**	**2,794**	**3,375**	**3,604**
Agency Operation	358	708	990	1,342
Local Assistance	1,624	1,976	2,267	2,104
Capital Projects/Debt Management	116	110	118	158
Resource Changes	**286**	**441**	**(153)**	**(539)**
Resource Changes	(24)	31	(153)	(129)
Surplus Available from FY 2014	310	0	0	0
Tax Credit Timing	0	410	0	(410)
SURPLUS/GAP ESTIMATE BEFORE BUDGET ACTIONS	**642**	**346**	**274**	**(822)**
Tax Actions	(486)	(1,644)	(2,082)	(2,124)
Initiatives	(156)	(232)	(394)	(499)
Total New Budget Actions	**(642)**	**(1,876)**	**(2,476)**	**(2,623)**
SURPLUS/GAP SUBTOTAL AFTER BUDGET ACTIONS	**0**	**(1,530)**	**(2,202)**	**(3,445)**
Adherence to 2% State Operating Funds Spending Benchmark	0	1,685	2,367	3,618
EXECUTIVE BUDGET SURPLUS/(GAP) ESTIMATE	**0**	**155**	**165**	**173**

Generally Accepted Accounting Principles (GAAP) Analysis

State Finance Law requires that the Financial Plan is presented for informational purposes in accordance to GAAP rules, mirroring the accounting principles followed by the State Comptroller in the preparation of the annual Financial Statements. Cash basis accounting recognizes revenues at the time they are received rather than when earned while expenses are recognized when paid rather than when obligations are incurred. Thus, under GAAP one is better able to match revenue and expenses in a specific year.

State law only requires the enactment of a balanced General Fund. With a system of cash basis accounting and multiple fund accounts, cash can be shuffled to create the appearance of a balance while structural deficits still exist. This includes the one-shots described early in addition to fund sweeps from undesignated funds and well-timed transfers. As shown in the chart below, these deficits accumulate from previous years.

Based on GAAP principles the SFY 2014-15 fiscal gap is projected at $2.0 billion as can be seen in Figure 60. This compares a balanced General Fund budget with no gap based on a cash basis.

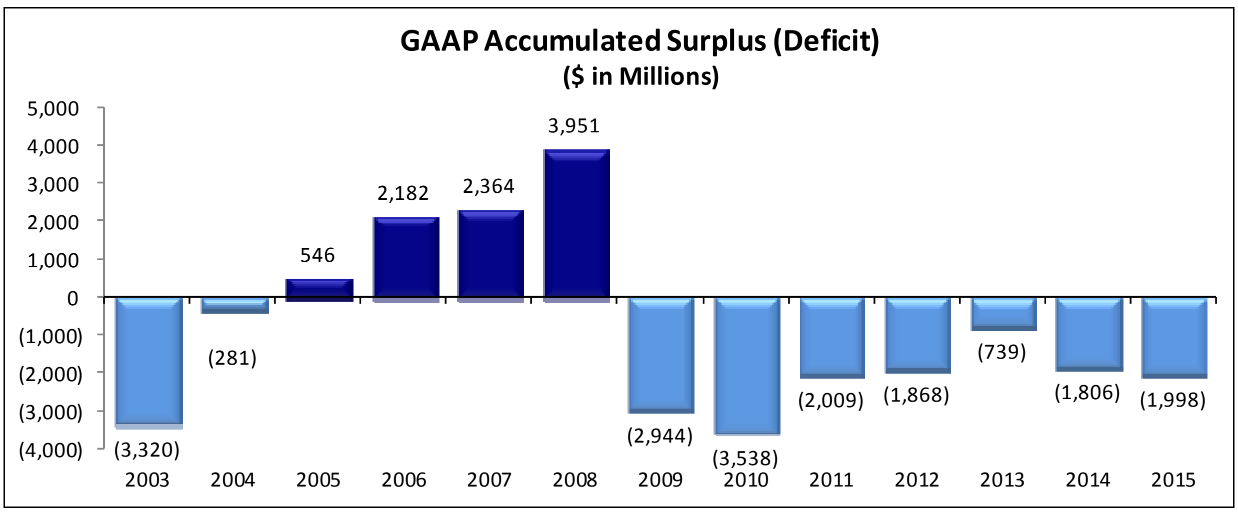


Figure 60

The severity of the revenue shortfall substantially reversed the State's financial position between SFY 2008-09. During the housing boom, pre-financial crisis, the State generated a GAAP surplus. Yet even with the addition of federal stimulus money, there was a $6.9 billion swing in the State's fiscal position. State revenue actions enacted in 2009 improved the financial position, but the sunset of temporary revenues will increase our projected accumulated deficits.

Multi-Year Impact of Executive Tax Cuts

The New York State "Tax Reform and Fairness Commission" several key categories with recommendations for reform. Those areas included: tax administration, real property tax administration, sales tax, corporate taxes, business tax incentive credits, estate and gift tax, and the personal income tax. In general, the Commission recommended:[1]

- Overall real property tax relief.
- Modify the estate tax and other wealth-related taxes.
- Reform the State's corporate and bank franchise taxes.
- Update the State's system of local property tax administration.
- Simplify the administration of taxes to ease compliance for businesses and individuals.

The Executive budget includes proposals that lead to tax revenue losses totaling $2.5 billion by SFY 2017-18. During that year, over 65 percent of the revenue losses are attributed to the personal income tax, primarily the circuit breaker and the renter's credit. In addition, the proposed estate tax reform is expected to generate of loss of revenue of $612 million in SFY 2017-18, while by SFY 2018-19 it will account for one third of the total revenue loss at $757 million.

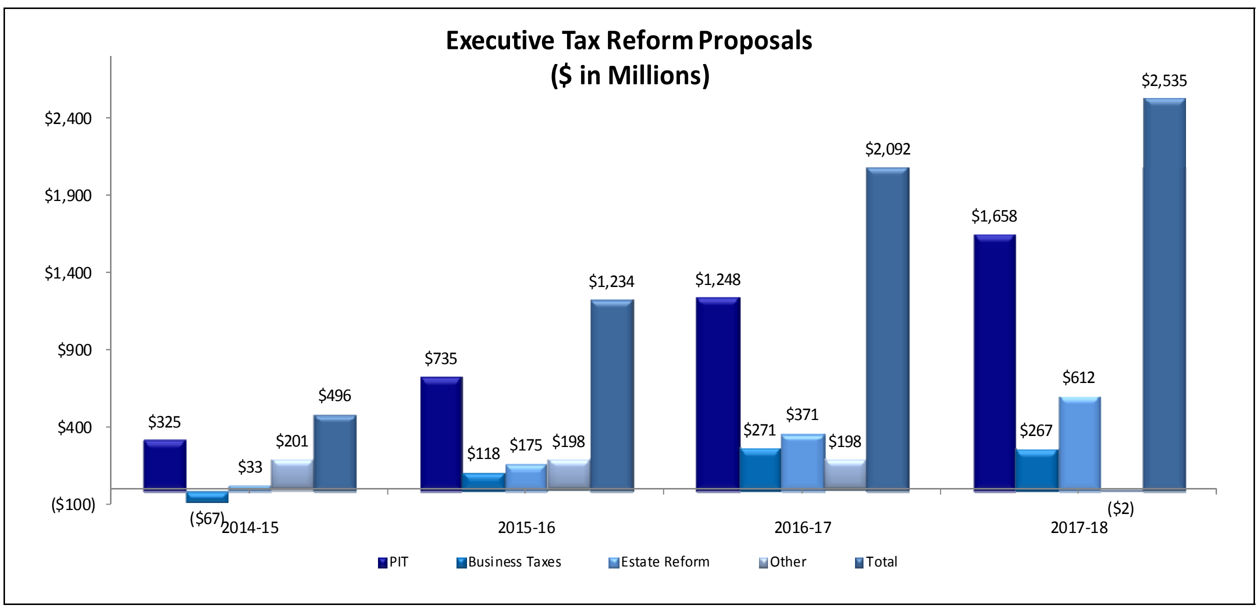


Figure 61

The majority of the business tax reforms revenue losses are concentrated in the Corporate and Bank tax reform proposals, with additional revenue losses from the 20 percent real property tax credit for manufacturers. Those losses are only partially offset by the repeal of the Investment

[1] "*New York State Tax Reform and Fairness Commission*," Final Report, November 2013, page 9.

Tax Credit (ITC) for financial services firms, tighter eligibility standards for the ITC, and increased receipts expected from the streamline of corporate audit activities.

The chart below provides an overview of the major reform components and their share in terms of the total revenue losses as of SFY 2017-18. The proposed PIT changes will account for 65.4 percent, or $1.7 billion, of the overall revenue losses, while the estate tax reform will account for 24.1 percent, or $612 million, followed by business taxes at 10.5 percent, or $267 million in revenue losses.

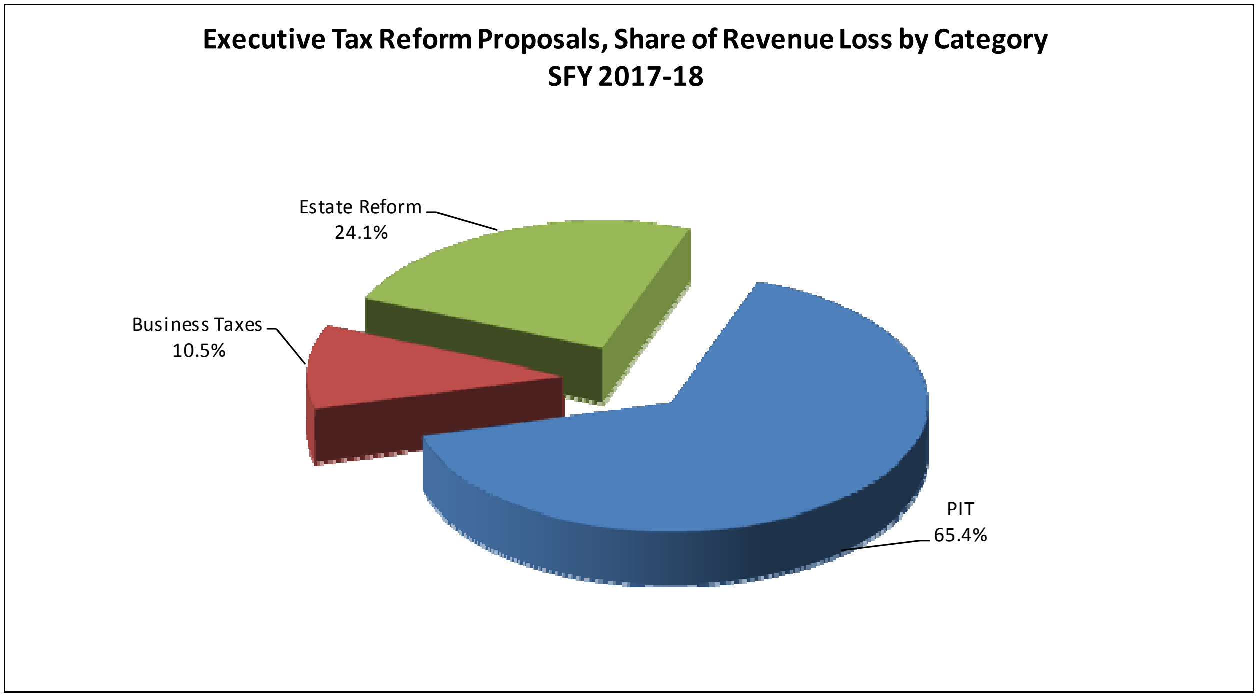


Figure 62

These tax proposals come on the heel of tax cuts enacted with the SFY 2013-14 Budget that, excluding the PIT reform extension, called for close to $1.0 billion in business and other tax reductions for SFY 2016-17 and approximately $900 million in cuts for SFY 2017-18 and SFY 2018-19.

Budget Tools, Rules and Savings

The fiscal challenges set off by the Great Recession has allowed the State, albeit forcibly, to establish certain fiscal rules in order to reduce spending levels. These reductions have curtailed many program initiatives established during the expansion that preceded the economic downturn. The goal is to align the growth in spending with the depressed growth in revenues to achieve a balanced budget.

Under fiscal duress, these rules are necessary. In the case of New York State, with revenue growing at a slower rate than spending, comprehensive rules to reduce spending have proven necessary over the past four years.

These rules are based in statute, temporary budget measures, and others are assumptions and actions of the Executive. The most prominent example in terms of controlling spending growth is the two percent spending cap on State Operating Funds spending.

Health and education programs have direct limitations on spending growth rates that exceed the overall two percent State Operating Funds benchmark. These caps recognize the economic imperative associated with providing the appropriate level funding adequate for program priorities. Spending growth rates in health are limited to the ten year rolling average of the medical component of the Consumer Price Index. Spending growth rates in education are limited to the increase in personal income. Given the escalating cost of these two programs, the spending limitations applied considerably altered the spending trends.

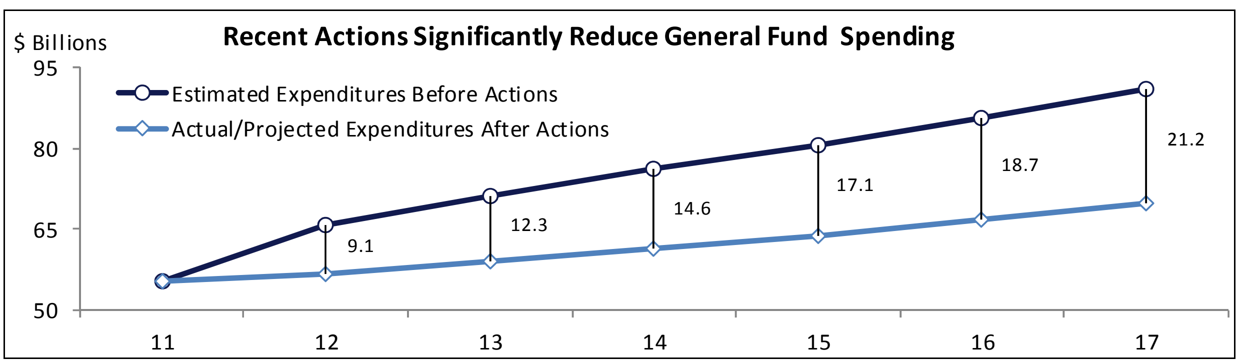


Figure 63

As a result of these caps, spending reductions from planned current service levels have been instituted since SFY 2011-12. Cumulatively, these budgets have reduced spending by $93 billion through SFY 2016-17, reducing Education and Medicaid spending by $20.9 billion and 17.1 billion respectively over four years. Additionally, budget gaps have been reduced from $17.9 billion in SFY 2009-10 down to $1.7 billion in SFY 2014-15.

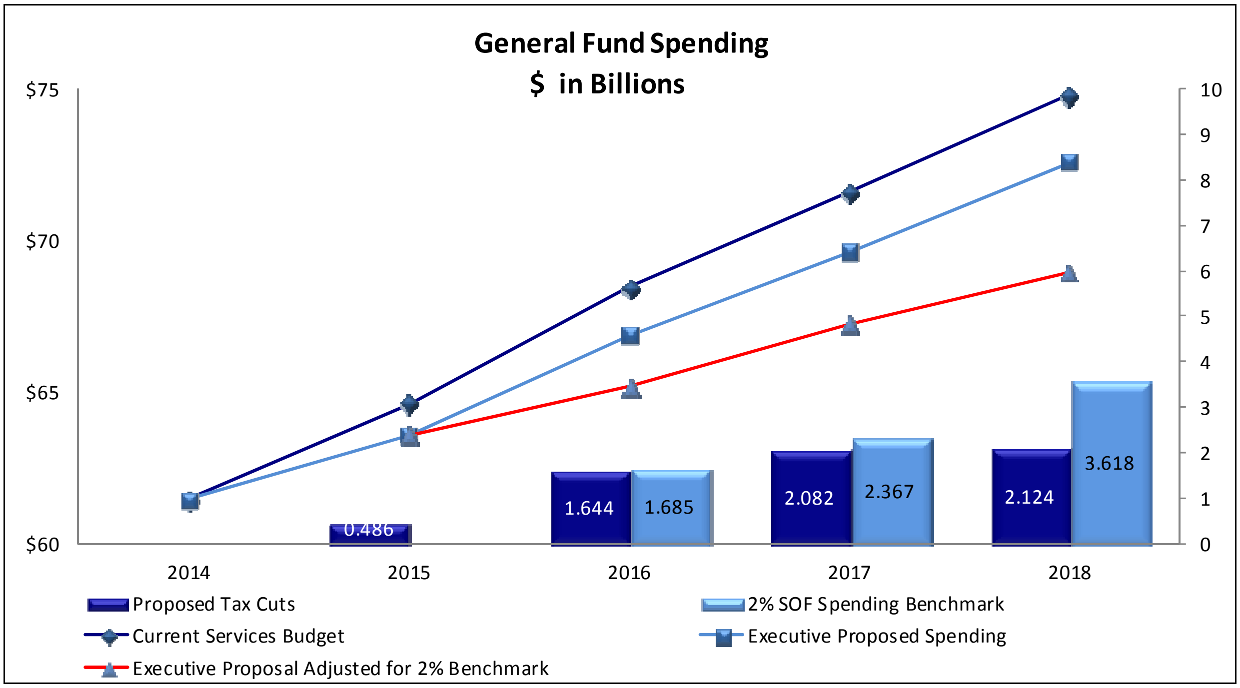


Figure 64

The first Five-year Financial Plan projected General Fund spending after actions were taken is significantly lower over the Financial Plan compared to the current services spending from $74.8 billion to $72.6 billion in SFY 2017-18. The current services spending is $64.6 billion in SFY 2014-15, $68.5 billion in SFY 2015-16, $71.6 billion in SFY 2016-17 and $74.8 billion in SFY 2017-18. The Executive proposes spending reduction actions to close the gap are $1.9 billion in SFY 2014-15, $4.2 billion in SFY 2015-16, $5.3 billion in SFY 2016-17 and $6.7 billion in SFY 2017-18. The gap closing actions result in the projected General Fund spending.

The Executive proposes a two percent State Operating Funds benchmark savings in spending totaling $1.7 billion in SFY 2015-16, $2.4 billion in SFY 2016-17, and $3.6 billion in SFY 2017-18. These two percent benchmark savings exceed current services need and produce surpluses. The Executive proposes tax cuts of $486 million in SFY 2014-15, $1.6 billion in SFY 2015-16, $2.1 billion in SFY 2016-17, and $2.1 billion SFY 2017-18 in the areas including real property tax relief, personal income tax credit, and corporate tax reform.

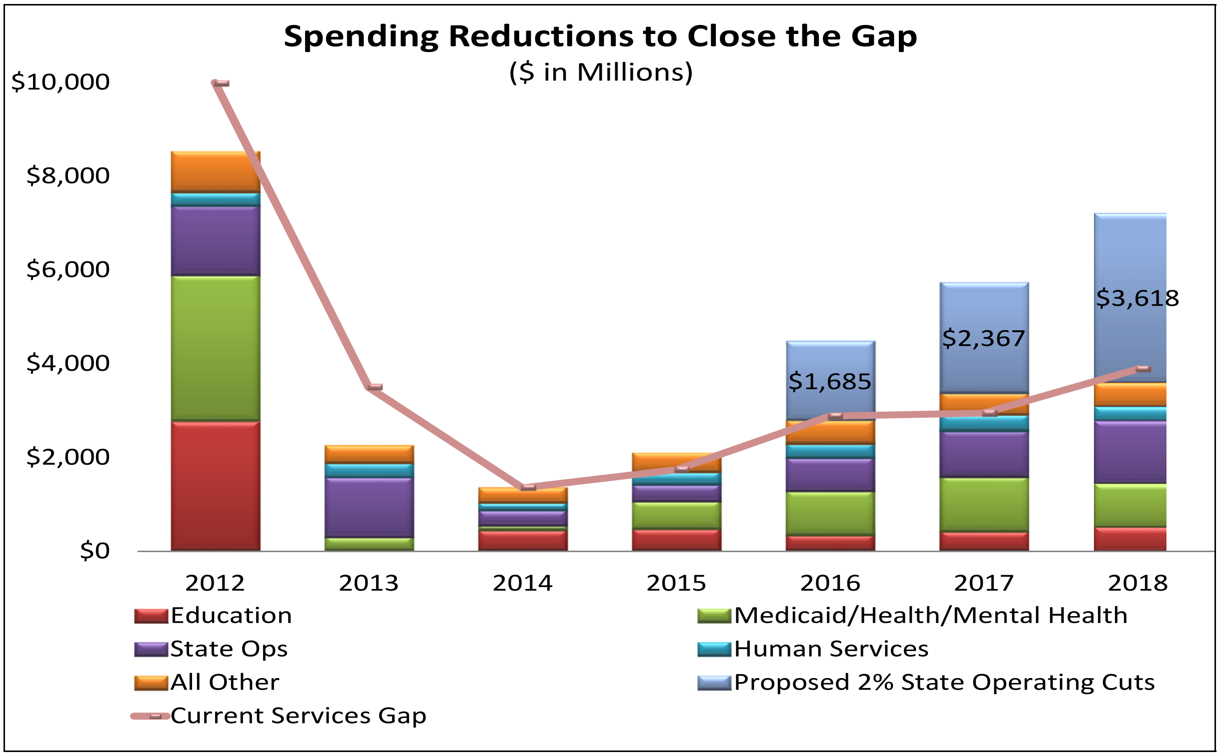
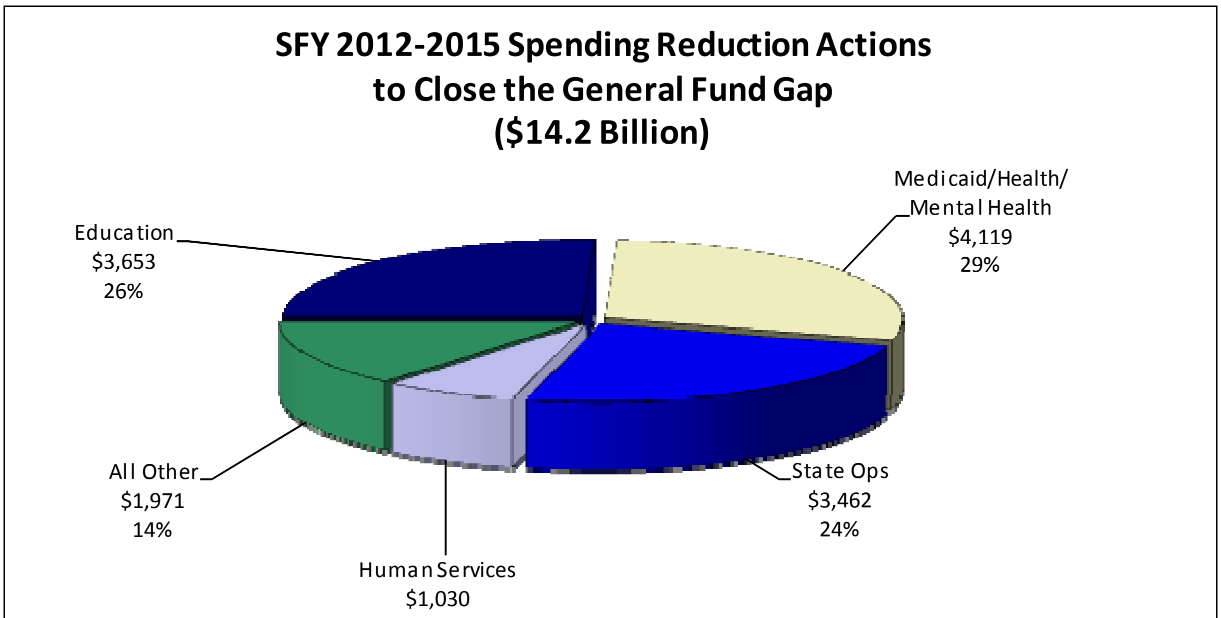


Figure 65



Source: Executive Budget.

Figure 66

In terms of General Fund spending actions, the Executive proposal represents a shift in budgetary policy by proposing a series of actions that exceed the requirements for closing the current services gap. However, these actions are necessary to support the Governors new spending and tax initiatives. The Executive spending cuts exceed the current service gap by

$356 million in SFY 2014-15, $1.6 billion in SFY 2015-16, $2.8 billion in SFY 2016-17 and $3.3 billion in SFY 2017-18.

During SFY 2011-2015, the $16.6 billion of General Fund gap has been closed with $14.2 billion in spending cuts from Medicaid (29 percent), Education (26 percent), State Operations (24 percent), Human Services (7 percent), and All Other areas (14 percent).

The various benchmark saving actions and prior year spending reductions may increase spending program risks due to the Executive proposing legislation to institute tax cuts without a detailed benchmark savings plan. The benchmark savings action could jeopardize program spending priorities such as school aid, health care and human services. If the current, sluggish economic recovery pace accelerates and finally enters a long-term sustainable path, then the relevant tax sources will experience more robust gains to meet revenue projections. However, any economic growth reversals with the economy falling even into a mild recession will translate into revenue losses across tax sources. Additionally, the economic outlook depends on the unquantifiable factors including business and consumer confidence and changes in the domestic and international markets.

Education

The State of New York spends approximately $32 billion annually on education. The State Education Department administers school aid, regulates school operations, maintains a performance based accountability system, certifies teachers, and administers a host of other education programs. Education funding is critical to school districts and comprises the second largest spending area in the budget. In recent years, school aid growth has been limited to the rate of State personal income growth.

New York State has roughly 3.2 million PreK-12 students, including nearly 2.7 million children in 694 public school districts and over 400,000 in children in nonpublic schools. These districts include 674 major public school districts and Special Act school districts, plus 37 Boards of Cooperative Educational Services (BOCES).

To fund these districts, the Executive proposes a year-to-year increase in General Support for Public Schools (GSPS) of $807 million or 3.8 percent, increasing aid from $21.08 billion to $21.88 billion for School Year (SY) 2014-15. This increase is comprised of $682 million for School Aid, $100 million for Full-Day Prekindergarten Programs, and $25 million for Performance Programs.

The Executive Budget proposes a five year phase-in for full-day Prekindergarten Programs. For the 2014-15 SY, the Governor proposes $100 million, targeting the highest need students. This program is anticipated to grow by $100 million each year for a total of $1.5 billion.

The Executive budget also includes issuing a Smart Schools Bond Act, $2 billion in General Obligation bonds to invest in classroom technology; an After School Program dedicating funds through $720 million in casino revenue over five years for after school programs, starting with $160 million in SY 2015-16; the Teacher Excellence Fund, which would provide annual supplemental compensation for teachers with "highly effective" ratings; and an expansion of the Pathways in Technology and Early College High School (P-TECH) program to create additional placements for high performing, at-risk students.

Education receives the bulk of its funding from the General Fund. As such it must compete with other spending needs of the State budget. Education does receive receipts including funds from the Lottery, Other revenue streams and Federal grants. Total Education Receipts for SFY 2014-15 are estimated at $32.3 billion, an increase of $1.2 billion from SFY 2013-14.

General Fund support for Education in SFY 2014-15 is estimated at $20.4 billion, an increase of $1.0 billion above SFY 2013-14.

Special Revenue Education receipts are forecast at $7.7 billion in SFY 2014-15 from Lottery and STAR. Education receives $3.2 billion in funds from the NYS Lottery VLT program. It should be noted that $9 million of the lottery amount is predicated in a new law proposed by the Executive Budget.

Federal grants are expected to be $4.2 billion, an increase of $106 million from SFY 2013-14. Federal grants made up 13.1 percent of Education funding. Federal grants include but are not limited to Stimulus Fiscal Stabilization grants, Federal Education Jobs grants, Title 1 and Federal Nutrition grants.

Table 72

Source of Education Funds ($ in Millions)					
	2012-13 Actual	2013-14 Projected	2014-15 Estimated	Change	Percent Change
Federal Grants	$3,407	$4,114	$4,221	$106	2.6%
Lottery	$2,217	$2,235	$2,220	($15)	(0.7%)
STAR	$3,286	$3,389	$3,429	$40	1.2%
Other SRO Receipts	$1,824	$2,035	$2,091	$56	2.7%
General Fund Receipts	$19,093	$19,348	$20,380	$1,032	5.3%
Total Education Receipts	**$29,827**	**$31,122**	**$32,341**	**$1,219**	**3.9%**

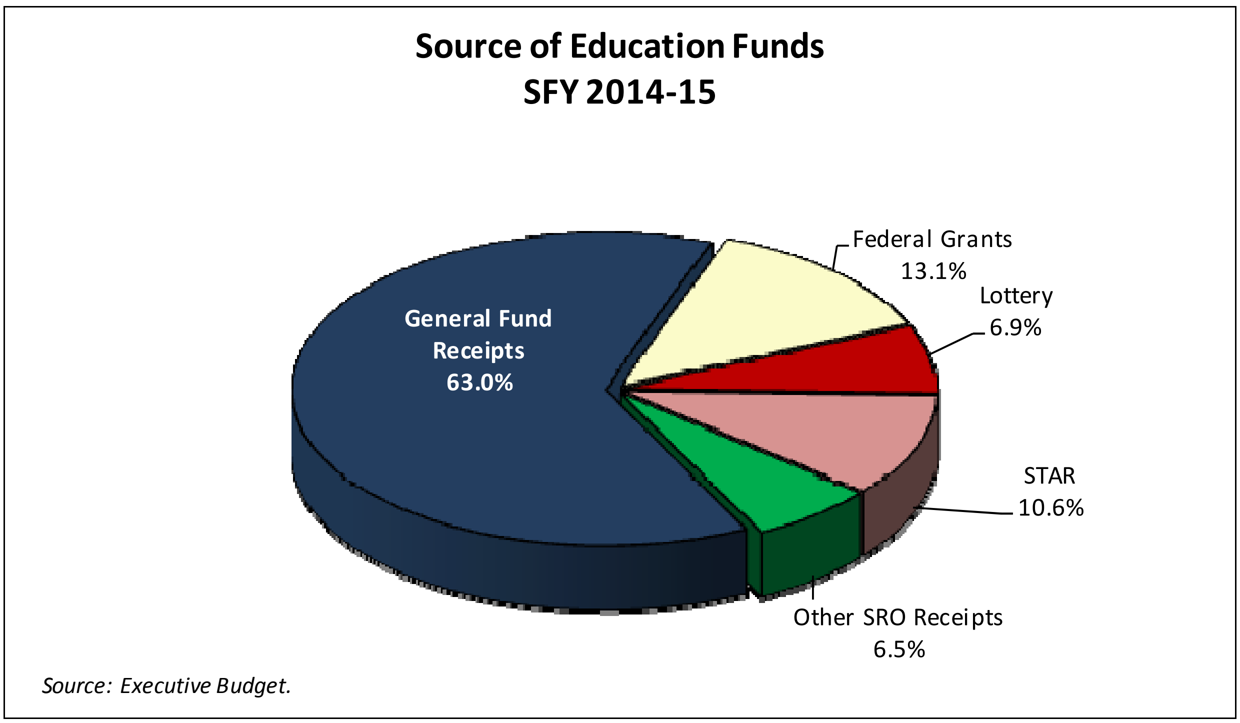


Figure 67

Table 73

Use of Education Funds ($ in Millions)				
	2013-14 Estimated	2014-15 Projected	Change	Percent Change
State Funds School Aid	$20,420	$21,469	$1,049	5.1%
STAR	$3,389	$3,429	$40	1.2%
Special Education	$1,418	$1,489	$71	5.0%
Federal Aid	$4,114	$4,120	$6	0.1%
All Other	$800	$849	$49	6.1%
Total Disbursements	**$30,141**	**$31,356**	**$1,215**	**4.0%**

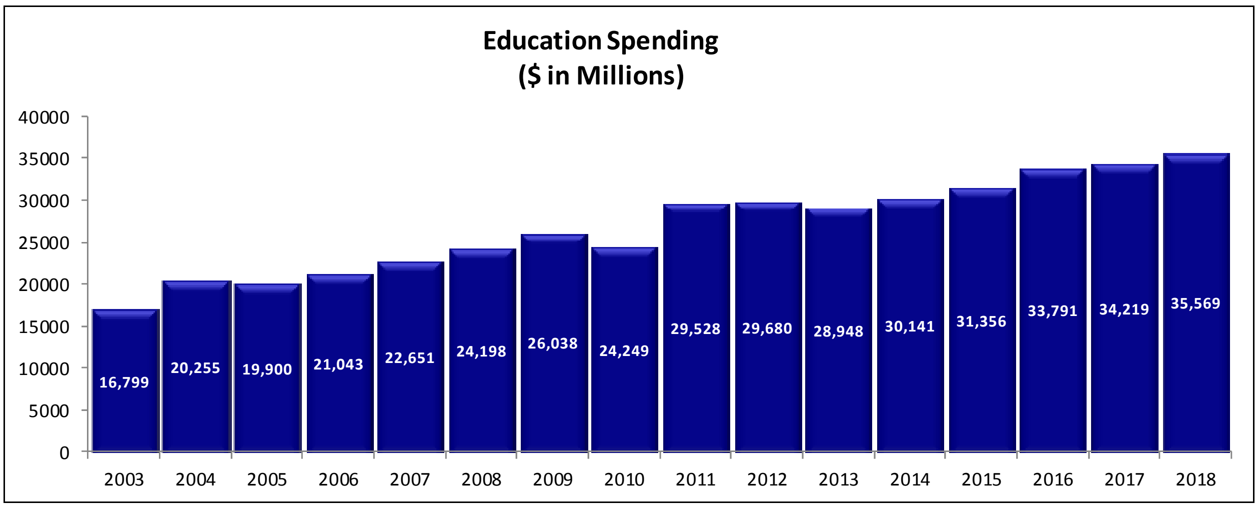


Figure 68

As shown above, Education spending continues to grow from $31.6 billion in SFY 2014-15 to $35.6 billion in SFY 2017-18. This includes annual growth rates of 4.0 percent in SFY 2014-15; 7.8 percent in SFY 2015-16; 1.3 percent in SFY 2016-17; and 3.9 percent in SFY 2017-18. The greatest drivers fueling this growth include state funded school aid and special education.

Consistent with the two-year appropriation enacted in 2013-14, the 2014-15 Executive Budget recommends $21.9 billion in School Aid for the 2014-15 school year. This is an $807 million increase or 3.8 percent. The increase includes $682 million for school aid, $100 million for Full-Day Prekindergarten programs, $20 million for Performance grants, and $5 million for Pathways in Technology and Early College (P-Tech) High Schools. High need school districts will receive 70 percent of the allocated increase. In SFY 2015, Education spending is $31.4 billion, an increase of $1.2 billion, which is $4.1 billion from federal grants.

Table 74

Education Aid Cap
($ in Millions)

School Fiscal Year	School Aid	Change	Percent Change
2014	21,075		
2015	21,882	807	3.8%
2016	22,735	853	3.9%
2017	23,804	1,069	4.7%
2018	24,994	1,190	5.0%

Limit aid growth to rate of State personal income growth.

The Executive Budget will increase funding for school districts by including an appropriation that covers School Aid payable for two years. This appropriation provides a 3.8 percent increase in School Aid for the 2014-15 school year based on growth corresponding to New York State personal income, and 3.9 percent the following year.

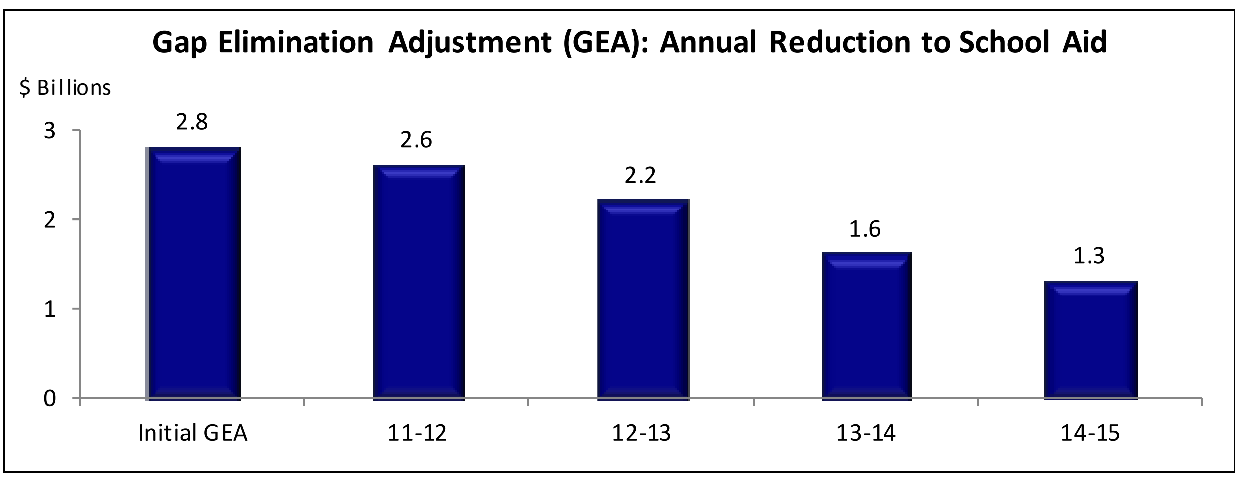


Figure 69

The Gap Elimination Adjustment (GEA) began in the SFY 2009-10 school year deducting a portion of state aid allocated funds from each school district to help the State's revenue shortfall. The Executive proposes an $807 million increase to School Aid allocated to a Gap

Elimination Adjustment restoration of $323 million. In SFY 2014-15, School Aid is reduced by $1.3 billion comparable to the $1.6 billion in SFY 2013-14

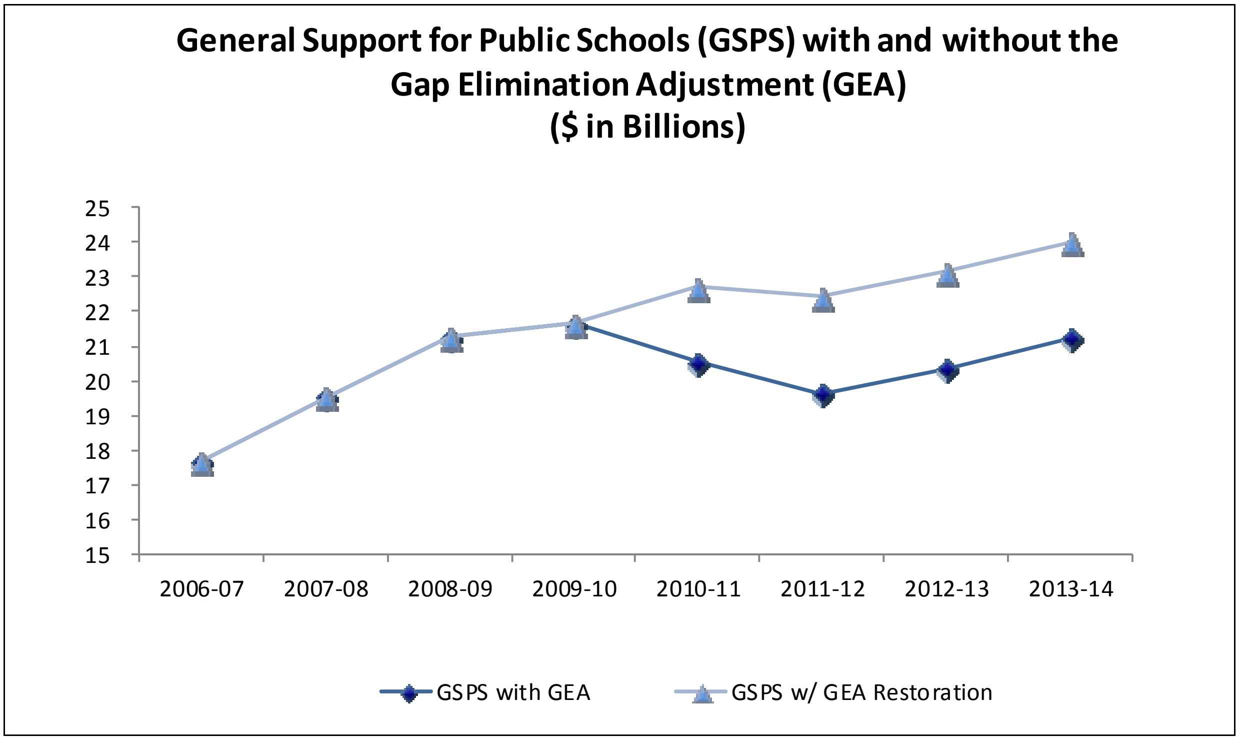


Figure 70

The Gap Elimination Adjustment (GEA) began in the SFY 2009-10 school year deducting a portion of state aid allocated funds from each school district to help the State's revenue shortfall.

Health Care

The State of New York spends approximately $54 billion annually on health care. This is the largest spending area within the budget. The Department of Health's (DOH) mission is to provide quality health services to all New Yorkers, including comprehensive health care and long-term care coverage for low and middle income individuals and families through Medicaid, Child Health Plus, and Elderly Pharmaceutical Insurance Coverage (EPIC) programs. In addition to its health insurance programs, DOH promotes and supervises public health activities throughout the State, reduces infectious diseases, directs a variety of emergency preparedness initiatives, and oversees all health care facilities in the State.

The major components of proposed heath care spending include the extension of the Medicaid Global Cap which limits these expenditures at $16.96 billion in SFY 2014-15 and at $17.74 billion in SFY 2015-16; a cost-neutral series of new MRT initiatives for SFY 2014-15; and the second year of a three year phase-out of growth in local Medicaid expenditures that was enacted in SFY 2012-13.

Also proposed is a $1.2 billion Capital Restructuring Financing Program to support infrastructure improvements in health care facilities including hospitals and nursing homes.

The Executive proposes to reauthorize the Health Care Reform Act (HCRA) through March 31, 2017. HCRA is projected to remain in balance throughout the three year period, with receipts and disbursements projected at $5.5 billion in SFY 2014-15.

The Executive proposes to include $28.6 million in additional State funds support for the New York State Health Benefit Exchange, to bring total State support for the State's health exchange to $54.3 million in SFY 2014-15. This funding is expected to grow to $148.3 million in SFY 2015-16.

Under the Affordable Care Act (ACA), the State will begin to receive enhanced matching rates for single childless adults beginning January 1, 2014. The Executive estimates a total State benefit of $83 million in SFY 2014-15 from this enhanced matching rate. In addition, under the ACA local districts will receive savings of $364.7 million in SFY 2014-15.

New York State Health Care All Funds receipts for SFY 2014-15 are forecast to total $54.1 billion, an increase of $2.5 billion over the previous fiscal year. Health Care receipts support several programs including Medicaid.

Total Health Care spending totals $53.7 billion, an increase of $2.3 billion over SFY 2013-14. The local share of Medicaid spending totals $8.5 billion in SFY 2014-15.

Medicaid is the largest health care program and coordinates the provision, quality and cost of care for its enrolled members. All Funds Medicaid receipts in SFY 2014-15 is $51.2 billion, an increase of $2.4 billion or 4.9 percent above the previous year. Federal grants have increased by an estimate of $1.9 billion in SFY 2014-15 related to the Affordable Care Act.

The General Fund support for other than Medicaid Health care is forecast at $3.0 billion, an increase of $96 million above SFY 2013-14. Medicaid support in the General Fund is forecast at $11.2 billion, an increase of $218 million from SFY 2013-14.

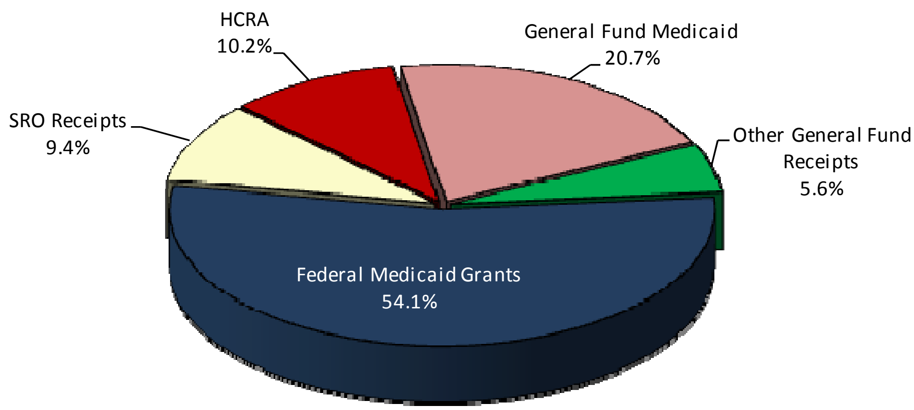
Special Revenue Health Care receipts other than HCRA are anticipated to increase $134 million above the previous fiscal year. HCRA is anticipated to receive $5.5 billion, an increase of $191 million above SFY 2013-14.

The Executive federal Medicaid forecast is $29.3 billion, an increase of $1.9 billion from SFY 2013-14.

Table 75

Source of Health Care Funds ($ in Millions)	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Federal Medicaid Grants	$27,388	$29,283	$1,895	6.9%
SRO Receipts	$4,952	$5,085	$134	2.7%
HCRA	$5,331	$5,522	$191	3.6%
General Fund Medicaid	$10,972	$11,191	$218	2.0%
Other General Fund Receipts	$2,953	$3,049	$96	3.2%
Total Receipts	**$51,596**	**$54,129**	**$2,534**	**4.9%**

Source of Health Care Funds SFY 2014-15



Source: Executive Budget.

Figure 71

Health Care Taxes, Fees and Assessments

The State provides a variety of health care services such as Medicaid, Family Health Plus, Child Health Plus, Elderly Pharmaceutical Insurance Coverage, Community-based Health Care, and Public Health Services such as Early Intervention and General Public Health Works and Mental Hygiene.

Revenues to support HCRA include surcharges and assessments on hospital revenues, proceeds from insurance company conversions, a covered lives assessment paid by insurance carriers, a portion of cigarette tax revenues, and other revenues dedicated by statute.

The Committee Staff forecast for SFY 2014-15 HCRA receipts is $5.5 billion and projected HCRA expenditures of the same amount.

The following table outlines the dedicated fund tax receipts for the HCRA for SFY 2014-15:

Table 76

Health Care Reform Act (HCRA) Receipts ($ in Millions)

	2013-14 Estimate	2014-15 Executive	Change	Percent Change
Surcharges	2,787	2,962	$175	6.3%
Covered Lives Assessment	1,045	1,085	$40	3.8%
Cigarette Tax Revenue	1,037	985	($52)	(5.0%)
Hospital Assessment (1 percent)	368	400	$32	8.7%
All Other	94	90	($4)	(4.3%)
Total Receipts	**$5,331**	**$5,522**	**$191**	**3.6%**

In SFY 2014-15 an estimated $5.5 billion is dedicated to HCRA. Of the amount, 53.6 percent is derived from surcharges on clinics and hospitals, 19.6 percent from the covered lives assessment paid by insurance companies based on the number of insured, while 17.8 percent comes from cigarette taxes. The one percent hospital assessment is a fee on inpatient services and accounts for 7.2 percent of HCRA revenues. Total HCRA receipts are forecast to grow by 3.6 percent in SFY 2014-15.

Surcharges

Varying surcharges are assessed on the net patient revenue of general hospitals and freestanding clinics. Surcharges are expected to yield $3.0 billion in SFY 2014-15. The surcharge levels are as follows:

- 9.63 percent for private payers that pay directly; and,
- 7.04 percent for Medicaid and other New York State governmental payers.

Covered Lives Assessment

The covered lives assessment is a regionally calculated assessment on certain insurance providers based on the number of individuals insured. The covered lives assessment is estimated to produce $1.1 billion in SFY 2014-15.

Cigarette Tax

Currently, New York State levies a $4.35 per pack tax on each package of cigarettes. Per statute, 76 percent of revenue collected from this tax is dedicated to HCRA – approximately $985 million in SFY 2014-15. The remaining amounts are deposited into the General Fund.

Hospital Assessment

Every hospital in New York State is required to pay one percent of its annual inpatient revenue to HCRA. This assessment is estimated to yield approximately $400 million in SFY 2014-15.

All Other

All other HCRA revenue sources are from the New York City Transfer Tax accounting for one percent or $90 million for HCRA in SFY 2014-15.

HCRA Receipts

Table 77

HCRA Receipts ($ in Millions)				
Fiscal Year	Surcharges, Assessments & Other	Cigarette Tax	Conversions	Total
2002-03	2,034	675		2,709
2003-04	2,394	593		2,987
2004-05	3,846	573		4,419
2005-06	2,700	571	2,743	6,014
2006-07	3,128	574	514	4,216
2007-08	3,332	567	999	4,898
2008-09	3,400	894	233	4,527
2009-10	3,886	910	95	4,891
2010-11	4,150	1,136	-	5,286
2011-12	4,155	1,162	-	5,317
2012-13	4,325	1,113	-	5,438
2013-14	4,494	1,037	-	5,531
2014-15	4,537	985	-	5,522

HCRA revenues have varied significantly over time as certain revenue streams are volatile. Specifically, insurance conversion proceeds have varied considerably. The vast majority of these revenues - $2.7 billion - were received in SFY 2005-06, equaling 49 percent of HCRA revenues received that year. As can be seen from the table above, SFY 2005-06 marked the peak in HCRA revenues.

Revenues generated provide for partial financing of hospital indigent care, Elderly Pharmaceutical Insurance Coverage (EPIC), Child Health Plus (CHP), workforce recruitment and retention, capital improvement to health care facilities, and other public health programs. The increased demand for HCRA revenues are driven by the increased costs of health care services. The General Fund will supplement the HCRA Fund if HCRA revenues are not sufficient to support the HCRA program.

Receipts for HCRA have increased $1.1 billion or 37 percent over the past ten years. All current and proposed HCRA funding sources rely on excise taxes ($4.35 per pack of cigarettes) or ad-valorem taxes (a tax that is imposed as a fixed percent of revenues, such as the one percent Hospital Assessment and other Surcharges.)

HCRA surcharges, hospital assessments and other revenues have increased 123 percent from SFY 2002-03, increasing from $2 billion to $4.5 billion.

Cigarette revenues declined steadily until June 2008, when legislation changed the distribution of cigarette revenues from 61.2 percent to 70.6 percent to benefit HCRA. In July 2010, legislation increased the share of cigarette revenues to HCRA to 76 percent from 70.6 percent.

Cigarette Tax receipts are expected to be $985 million, a decrease of $52 million from the SFY 2013-14 estimates.

The merger of WellChoice and WellPoint that was implemented in SFY 2005-06 generated $4.83 billion in conversion revenues for HCRA. At the time of the merger, the State received $2.7 billion in cash and 27 million shares of WellPoint common stock. The shares of stock sold from such conversions and the proceeds enabled the State to maintain funding for existing programs and add more health services. New receipts in proceeds from the sale of insurance company conversions are not projected in the Executive proposal.

Table 78

Use of Health Care Funds ($ in Millions)	2013-14 Estimated	2014-15 Projected	Change	Percent Change
DOH Medical Assistance	$40,503	$43,297	$2,795	6.9%
DOH Medicaid Administration	$1,364	$1,317	($46)	(3.4%)
Public Health	$4,583	$4,064	($519)	(11.3%)
Medicaid Inspector General	$63	$57	($7)	(10.5%)
Stem Cell and Innovation	$38	$38	-	-
OASAS Medicaid	$79	$79	($0)	(0.1%)
OMH Medicaid	$1,856	$1,846	($10)	(0.5%)
OPWDD Medicaid	$2,940	$3,010	$70	2.4%
DOCCS Medicaid	-	$12	$12	-
Total Disbursements	**$51,426**	**$53,719**	**$2,294**	**4.5%**

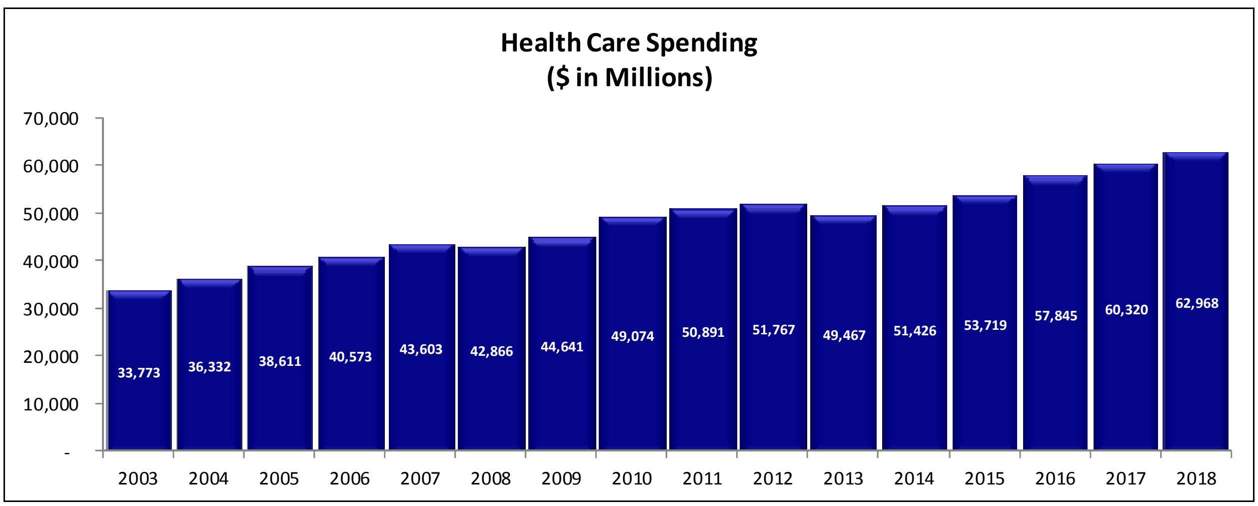


Figure 72

As shown above, health spending continues to grow from $53.7 billion in SFY 2014-15 to $63.0 billion in SFY 2017-18. This includes annual growth rates of 4.5 percent in SFY 2014-15; 7.7 percent in SFY 2015-16; 4.3 percent in SFY 2016-17; and 4.4 percent in SFY 2017-18.

Medicaid Caps

The Medicaid spending cap limits growth in the Department of Health Medicaid spending to the ten year rolling average of the Medical Consumer Price Index, currently estimated at 3.8 percent. In the event that Medicaid expenditures exceed the global cap, the Commissioner of the Department of Health (DOH) is authorized to reduce payment rates and benefits to ensure expenditures remain within the cap. Medicaid expenditures are currently capped at $16.42 billion in SFY 2013-14. The cap was extended to one additional year through SFY 2013-14. The Executive proposes spending Medicaid growth of 3.3 percent or $540 million in SFY 2014-15.

Table 79

Total State Share Medicaid Disbursements ($ in Millions)	2014 Current	2015 Proposed	2016 Projected	2017 Projected	2018 Projected
Department of Health:					
Local Assistance	16,232	16,758	17,521	18,097	18,683
State Operations	189	203	220	232	232
DOH State Share	16,421	16,961	17,741	18,329	18,915
Annual $ Change - DOH Only		540	780	588	586
Annual % Change - DOH Only		3.3%	4.6%	3.3%	3.2%

The Executive Budget provides substantial relief in health care spending for all counties and New York City by reducing growth in the local share of Medicaid payments by one percent annually beginning in 2013-14, fully eliminating all growth by 2015-16, and beginning a phased-takeover of local government administration of the Medicaid program. These initiatives provide significant administrative mandate relief and will save local governments nearly $1.2 billion over five years.

To close the budget gap, the Executive proposes a $132 million spending reduction to public health and aging programs. This cut comes from the consolidation of various public health programs.

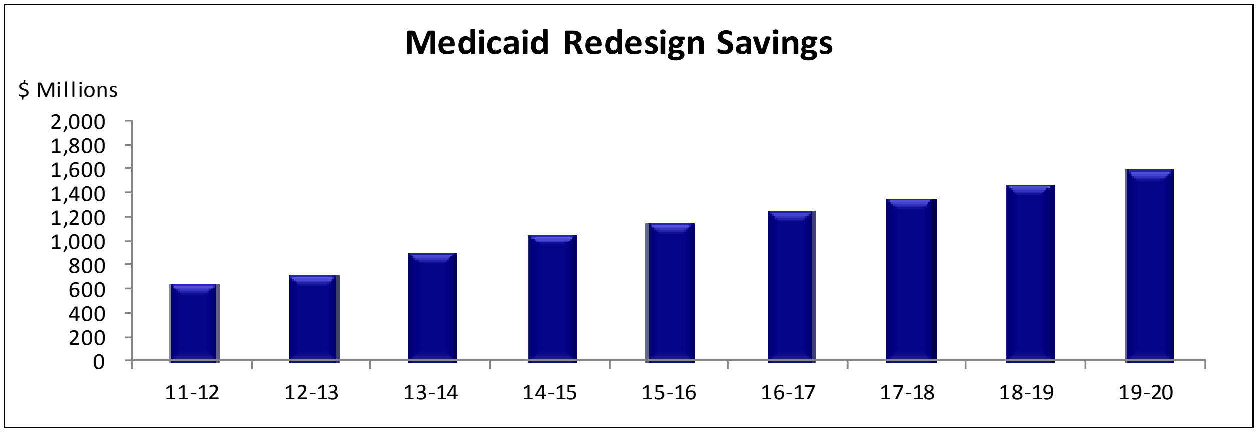


Figure 73

The SFY 2014-15 budget continues to control healthcare spending through the Medicaid Redesign Team including the savings actions enacted as part of the SFY 2011-12 and SFY 2012-13 budgets estimated to save the state approximately $17.1 billion over the next five years.

Medicaid

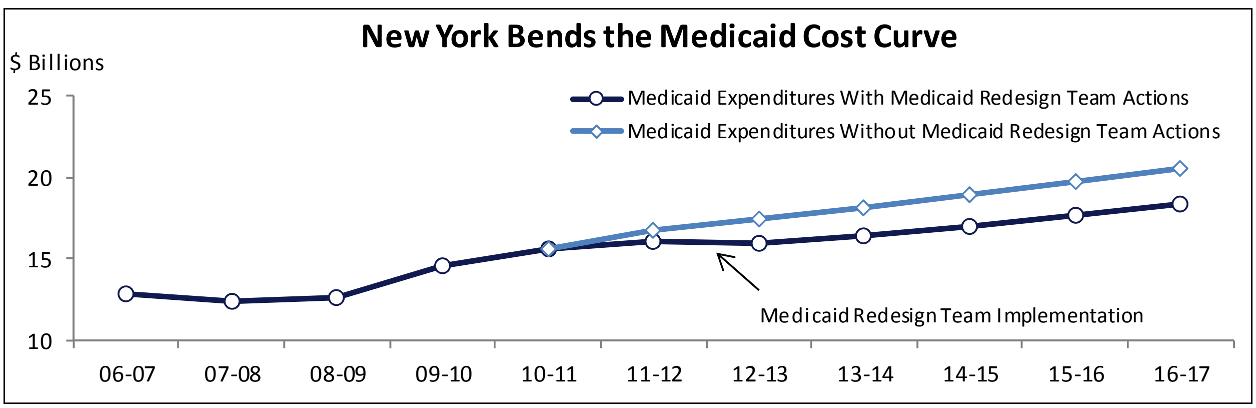


Figure 74

The SFY 2014-15 budget continues to control healthcare spending through the Medicaid Redesign Team. This includes the savings actions enacted as part of the SFY 2011-12 and SFY 2012-13 budgets estimated to save the state approximately $17.1 billion over the next five years. This budget also includes a series of cost-neutral MRT initiatives including new investments in health care delivery balanced by savings resulting from pharmacy reductions, health care fraud initiatives, and other Medicaid program reductions.

Transportation

New York State supports a vast transportation infrastructure with the goal of creating an interconnected statewide transportation system that addresses environmental and community concerns and efficiently moves people and goods throughout the State. The Department of Transportation (DOT) maintains and improves the State's more than 40,000 highway lane miles and 7,600 bridges; in SFY 2012-13 alone, $2.3 billion worth of road and bridge projects were completed around the State. In addition, DOT partially funds local government highway and bridge construction including the Consolidated Highway Improvement Program (CHIPs), rail and aviation projects, as well as over 130 locally operated transit systems, including the Metropolitan Transportation Authority (MTA). The MTA maintains a fleet of 5,700 buses and 6,400 subway cars which operate on an infrastructure of 2,200 miles of track. MTA ridership has increased 49 percent since 1995 and in 2012 reached an all-time high of 2.6 billion people riding on its subways, buses and railroads, a number which is projected to reach 3.1 billion by 2030. Additionally, the MTA's nine bridges and tunnels carry 280 million vehicles annually.

The Executive proposes Capital Plan obligations of $3.45 billion in SFY 2014-15, a decrease of $233 million or six percent. This proposal implements the second year of a two-year Capital program agreed to in SFY 2013-14. It includes core capital projects worth $1.49 billion for SFY 2014-15. Major components of the $3.42 billion capital plan include a letting level of $1.7 billion, $478 million for CHIPs and Marchiselli, $410 million for State Forces Engineering, and $354 million in preventive maintenance. The plan reflects an additional $100 million of core program spending agreed to in SFY 2012-13.

Additionally, the Executive proposes $4.8 billion in support for transit systems, including $4.35 billion directed to the MTA, an increase of $85 million from SFY 2013-14; $286 million for non-MTA downstate transit systems, an increase of $5.6 million from SFY 2013-14; and $175.9 million for upstate transit systems, an increase of $2.3 million from SFY 2013-14.

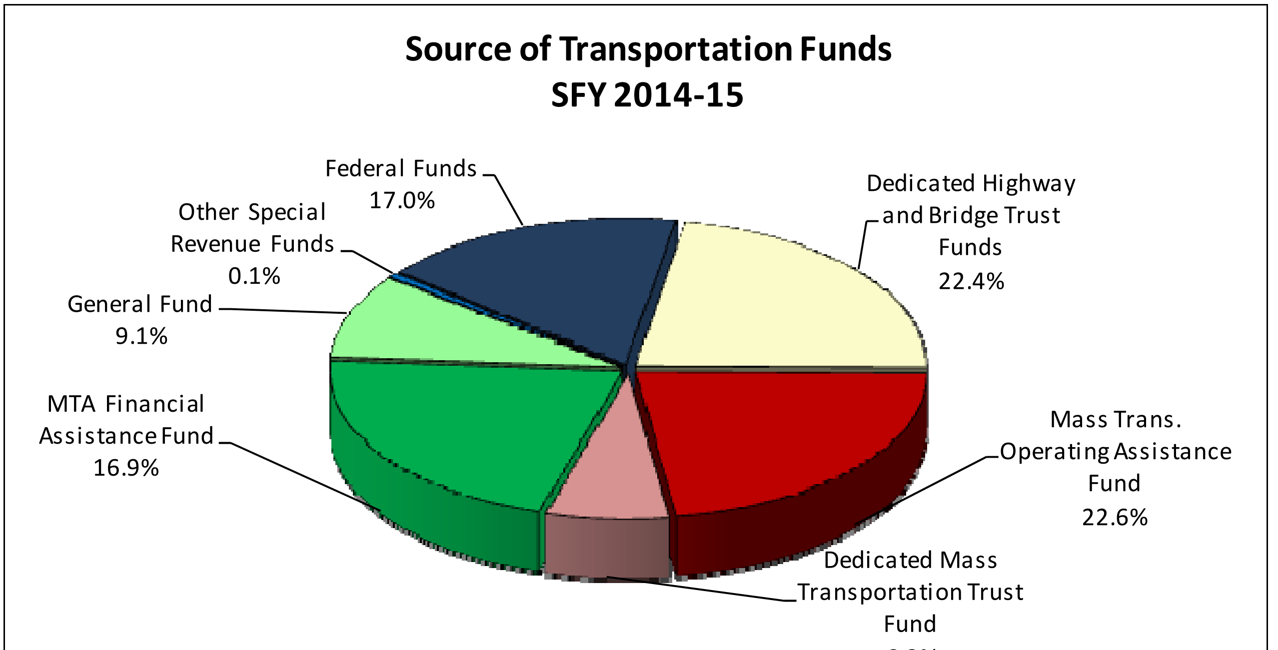
Earmarked or dedicated revenues are an integral part of transportation financing. The long term nature of construction projects and the constant need for maintenance and safety repair require a long term funding commitment.

There are four Dedicated Transportation Funds: the Mass Transportation Operating Assistance Fund, the Dedicated Mass Transportation Trust Fund, Dedicated Highway and Bridge Trust Funds, and the Metropolitan Transportation Authority Financial Assistance Fund.

All Fund receipts dedicated for transportation are estimated at $8.9 billion in SFY 2013-14 and $9.0 billion in SFY 2014-15. Non-federal Special Revenue Receipts dedicated for transportation purposes are $7.2 billion in SFY 2013-14 and $7.45 billion in SFY 2014-15. Federal receipts for transportation purposes are estimated to be $1.7 billion in SFY 2013-14 and $1.5 billion in SFY 2014-15.

Table 80

Source of Transportation Funds ($ in Millions)	2012-13 Actual	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Dedicated Highway and Bridge Trust Funds	$2,052	$2,079	$2,010	($69)	(3.3%)
Mass Trans. Operating Assistance Fund	$1,949	$1,953	$2,028	$75	3.8%
Dedicated Mass Transportation Trust Fund	$643	$680	$612	($68)	(10.0%)
MTA Financial Assistance Fund	$1,786	$1,859	$1,944	$85	4.6%
General Fund	$667	$549	$820	$271	49.4%
Other Special Revenue Funds	$45	$47	$46	($1)	(1.3%)
Federal Funds	$1,497	$1,684	$1,524	($160)	(9.5%)
Total Transportation Receipts	**$8,639**	**$8,850**	**$8,983**	**$133**	**1.5%**



Source: Ways and Means Committee Staff.

Figure 75

Mass Transportation Operating Assistance Fund (MTOAF)

The Mass Transportation Operating Assistance Fund (MTOAF) was created by the Legislature in SFY 1981-82 to help finance state mass transportation operating systems, which at that time were experiencing operating deficits during challenging fiscal times. Pursuant to Section 88-a of the State Finance Law, the fund is subdivided into Public Transportation Systems and Metropolitan Mass Transportation Operating Assistance Accounts. The Mass Transportation Operating Assistance Account provides funding for the transit systems in the Metropolitan Commuter Transportation District (MCTD) which encompasses New York City and the Counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. The account consists of revenues the Petroleum Business Tax (PBT), the MTA Corporate Tax surcharge, a 0.375 percent Sales Tax imposed in the counties that comprise the MCTD and surcharges imposed on corporation and utility companies. The Public Transportation Systems Operating Assistance Account funds all other transit systems (primarily upstate) and consists of receipts from a portion of the PBT and a portion of all transportation taxes and taxes imposed on corporations and utility companies.

Table 81

Mass Transportation Operating Assistance Fund
($ in Millions)

	2012-13 Actual	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Business Tax Surcharges					
Corporation Franchise Tax	$385	$483	$487	$4	0.8%
Corporation and Utilities Tax	$135	$115	$119	$4	3.5%
Insurance Tax	$163	$158	$166	$8	5.1%
Bank Tax	$315	$184	$209	$25	13.6%
Other					
Sales and Use Tax	$758	$815	$850	$35	4.3%
Petroleum Business Tax	$134	$140	$139	($1)	(0.7%)
Corporation and Utilities - Sections 183 &184	$59	$58	$58	-	-
Total Receipts	**$1,949**	**$1,953**	**$2,028**	**$75**	**3.8%**

This fund receives deposits from the following tax sources:

- A 0.375 percent sales tax imposed on the MTA district (inclusive of all the counties that comprise the MCTD);
- A 17 percent corporate franchise surcharge for the MTA district;
- An approximately 12 percent share from PBT revenues; and,
- 80 percent of the imposed corporate surcharge based on the Utility Tax in the MTA district (the remaining is deposited with the DHBTF).

The Ways and Means Committee Staff estimates that $2.0 billion in both SFY 2013-14 and SFY 2014-15 will be dedicated to support the activities funded through the MTOAF.

Dedicated Fund Pools

There are two dedicated funds for Transportation, the Dedicated Mass Transportation Trust Fund and Dedicated Highway and Bridge Trust Fund. These dedicated funds split revenues from the PBT, Motor Fuel Tax and Motor Vehicle Fees.

The Dedicated Mass Transportation Trust Fund (DMTTF) receives deposits from the following tax sources:

- 80.3 percent of the Petroleum Business Tax (PBT);

- Motor Fuel Tax: 4 cents per gallon for gasoline and 8 cents for diesel with revenues flowing into the Dedicated Funds Pool;

- Motor Vehicle Fees: based on registration and other fees around 55 percent of receipts flow into the Dedicated Funds Pool and the rest into the Dedicated Highway and Bridge Trust Fund;

- Once revenues have been collected in the Dedicated Funds Pool about a third goes to the Dedicated Mass Transportation Trust Fund and the rest to the Dedicated Highway and Bridge Trust Fund (DHBTF). The DHBTF also receives 20 percent of the surcharge imposed in the MTA district for Utility taxpayers; and,

- The DHBTF also receives 100 percent of the revenues from the Highway Use and Auto Rental taxes. Payments from this fund are pledged to support the debt service on DHBTF Bonds with debt service coverage of two times the revenues to support debt service costs.

Table 82

Dedicated Mass Transportation Trust Fund
($ in Millions)

	2012-13 Actual	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Petroleum Business Tax (PBT)	$372	$386	$381	($5)	(1.3%)
Motor Fuel Tax	$103	$105	$105	-	-
Motor Vehicle Fees	$168	$189	$126	($63)	(33.3%)
Total Receipts	**$643**	**$680**	**$612**	**($68)**	**(10.0%)**

The Dedicated Mass Transportation Trust Fund receives dedicated revenues from the PBT, Motor Fuel Tax, and Motor Vehicle Fees. Dedicated tax revenues deposited into the DMTTF are expected to total $680 million in SFY 2013-14, and $612 million in SFY 2014-15. The moneys of the DMTTF are used for the reconstruction, replacement, purchase, modernization, improvement, reconditioning, preservation and maintenance of mass transit facilities, vehicles and rolling stock, for rail projects or the payment of debt service and operating expenses incurred by mass transit operating agencies.

The Dedicated Highway and Bridge Trust Funds (DHBTF) receive dedicated revenues from the PBT, Motor Fuel Tax, Highway Use Tax, Motor Vehicle Fees, Transmission Tax and the Auto Rental Tax.

Fund monies are used to support transportation, including the reconstruction, replacement, reconditioning, restoration, rehabilitation and preservation of state, county, town, city and village roads, aviation projects, matching federal highway grants, snow and ice removal, acquisition of real property, bus safety inspection, rail freight facilities, intercity rail passenger facilities, state, municipal and private ports, ferry lines and a portion of operations cost.

Table 83

Dedicated Highway and Bridge Trust Fund

($ in Millions)

	2012-13 Actual	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Petroleum Business Taxes	$634	$658	$649	($9)	(1.4%)
Motor Fuel Tax	$389	$395	$397	$2	0.5%
Motor Vehicle Fees	$801	$800	$734	($66)	(8.3%)
Highway Use Tax	$145	$140	$141	$1	0.7%
Transmission Tax	$15	$15	$15	-	-
Auto Rental Tax	$68	$71	$74	$3	4.2%
Total Receipts	**$2,052**	**$2,079**	**$2,010**	**($69)**	**(3.3%)**

This Fund is expected to receive $2.1 billion in SFY 2013-14 and $2.0 billion SFY 2014-15.

Metropolitan Transportation Authority Financial Assistance Fund
(MTA Financial Assistance Fund)

MTA Financial Assistance Fund receipts are derived from the Metropolitan Commuter Transportation Mobility Tax, the tax on medallion taxicabs, and from supplemental motor vehicle fees, including the supplemental learner permit/license fee, the supplemental registration fee, and the supplemental tax on passenger car rentals.

Table 84

MTA Financial Assistance Fund ($ in Millions)	2012-13 Actual	2013-14 Estimated	2014-15 Projected	Change	Percent Change
MCTD Payroll Tax	$1,205	$1,222	$1,283	$61	5.0%
Motor Vehicle Fees	$180	$176	$181	$5	2.8%
Auto Rental Tax	$41	$43	$45	$2	4.7%
Taxicab Surcharge	$83	$86	$100	$14	16.3%
Total Receipts	**$1,509**	**$1,527**	**$1,609**	**$82**	**5.4%**
General Fund Transfers	277.1	332.3	334.8	$3	1%
Total Receipts and Transfers	**$1,786**	**$1,859**	**$1,943.8**	**$85**	**5%**

The MTA Financial Assistance Fund receipts are collected from the Metropolitan Commuter Transportation District (MCTD) which includes New York City and the Counties of Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, and Westchester. Receipts collected from certain employers and self-employed individuals within the MCTD are deposited in the Mobility Tax Trust Account of the MTA Financial Assistance Fund.

Receipts collected from the supplemental Motor Vehicle Fees are all derived from the MCTD. These receipts are deposited into the MTA Aid Trust Fund Account of the MTA Financial Assistance Fund.

The MTA Financial Assistance Fund is estimated to receive $1.9 billion in both SFY 2013-14 and SFY 2014-15. The General Fund is estimated to support the MTA Financial Assistance Fund of $332 million in SFY 2013-14 and $335 million in SFY 2014-15.

Table 85

Use of Transportation Funds ($ in Millions)	2013-14 Estimated	2014-15 Projected	Change	Percent Change
DOT and Transit	$1,402	$1,848	$446	31.8%
MTA	$4,261	$4,346	$85	2.0%
Motor Vehicles	$120	$114	($6)	(4.9%)
Thruway Authority	$24	$24	($0)	(0.8%)
Highway & Bridge Capital	$3,375	$3,158	($217)	(6.4%)
Total Disbursements	**$9,182**	**$9,490**	**$308**	**3.4%**

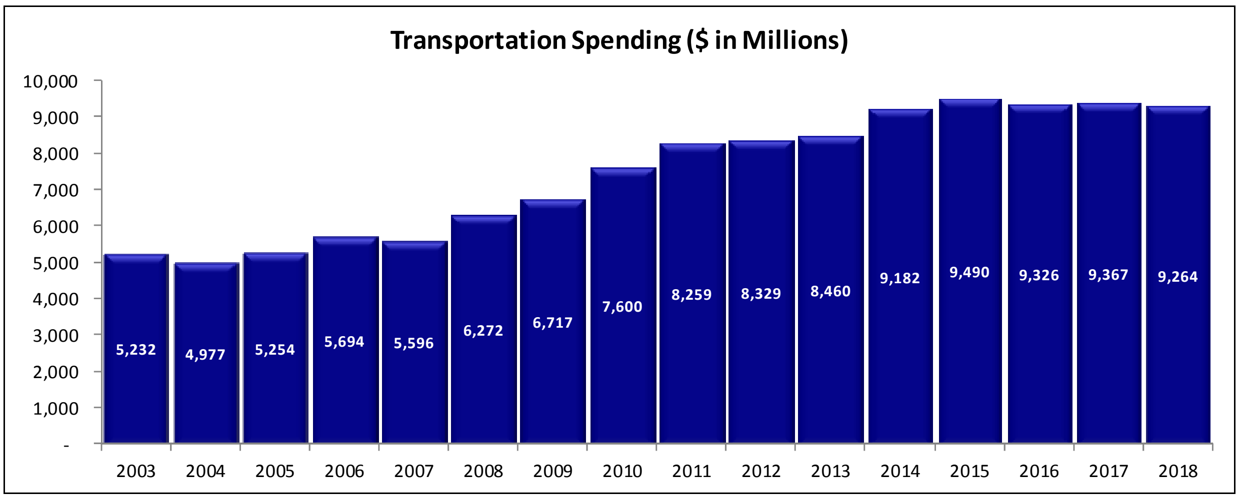


Figure 76

As shown above, transportation funding is one of the few program areas witnessing decreased spending. Spending decreases from $9.5 billion in SFY 2014-15 to $9.3 billion in SFY 2017-18. This is largely attributable to decreases in Highway and Bridge Capital and support for the Department of Motor Vehicles.

The SFY 2014-15 New York Works infrastructure plan proposes to spend $155 million of new state funding to increase investment and improve the State's Highway and Bridge infrastructure.

The Executive Budget proposes $1.8 billion of Highway, Bridge and Other Transit aid, an increase of $446 million over prior year levels. The MTA will receive $4.3 billion, which includes General Fund support of approximately $309.2 million to offset the revenue impact of the recent payroll tax reform on the MTA's 2012 fiscal year. Other transit systems will receive $461 million, an increase of $7.9 million over SFY 2013-14.

Higher Education

New York State's system of public higher education consists of the State University of New York (SUNY) which is composed of 64 campuses educating 462,000 students and the City University of New York (CUNY) which is composed of 24 campuses educating 269,00 students. Both systems include community colleges, four year institutions, and graduate and professional schools, providing a wide range of opportunities to the residents of the State. Additionally, as part of its academic mission, the SUNY system is responsible for three academic medical centers which are attached to the system's medical schools.

The Executive recommends State operating support of $969.1 million for State-operated campuses of the State University of New York (SUNY) and $524.5 million for the Senior Colleges of the City University of New York (CUNY) in the 2013-14 Academic Year (AY). These are the same levels of support these institutions received in the 2013-14 Academic Year.

The 2014-15 Academic Year (AY) will mark the fourth year of the five year 2020 program which balances predictable tuition increases with a state commitment to maintain funding to the SUNY and CUNY systems. The Executive proposes $110 million appropriated in the Urban Development Corporation for another round of NYSUNY 2020 and NYCUNY 2020 challenge grants with $55 million going to each system through a competitive process.

Additionally, for the past two years the Legislature has provided increases in State funding to community colleges on a per Full Time Equivalent (FTE) basis. The Executive recommends maintaining base aid for SUNY and CUNY Community Colleges at $2,422 per full-time equivalent (FTE) student. As a result, the Executive proposal for State support for SUNY Community Colleges in the 2014-15 Academic Year is $448.6 million and $201.4 million in State support at CUNY Community Colleges.

To serve over 731,000 students the SUNY and CUNY systems have a variety of academic buildings which require both continuing maintenance and occasional capital reinvestment. Between 2008 and 2013 a 5-year Capital Plan was enacted for both SUNY and CUNY to provide both required critical maintenance and to construct and renovate facilities, where necessary. The Executive Budget provides $786.2 million in new capital appropriations to SUNY, which includes $519 million in critical maintenance projects funding. CUNY is provided with $310 million in new capital appropriations with $258 million in critical maintenance project funding.

In addition, the Executive proposes a series of higher education new initiatives including a STEM scholarship program, the New School of Pharmacy at SUNY Binghamton, and the College of Emergency Preparedness, Homeland Security, and Cybersecurity.

Higher Education Funds include income received from tuition, fees, and patient revenues from the City and State University system, and the Higher Education Services Corporation (HESC). Total Higher Education receipts are forecast at $10.9 billion, an increase of $146 million above SFY 2013-14 estimates.

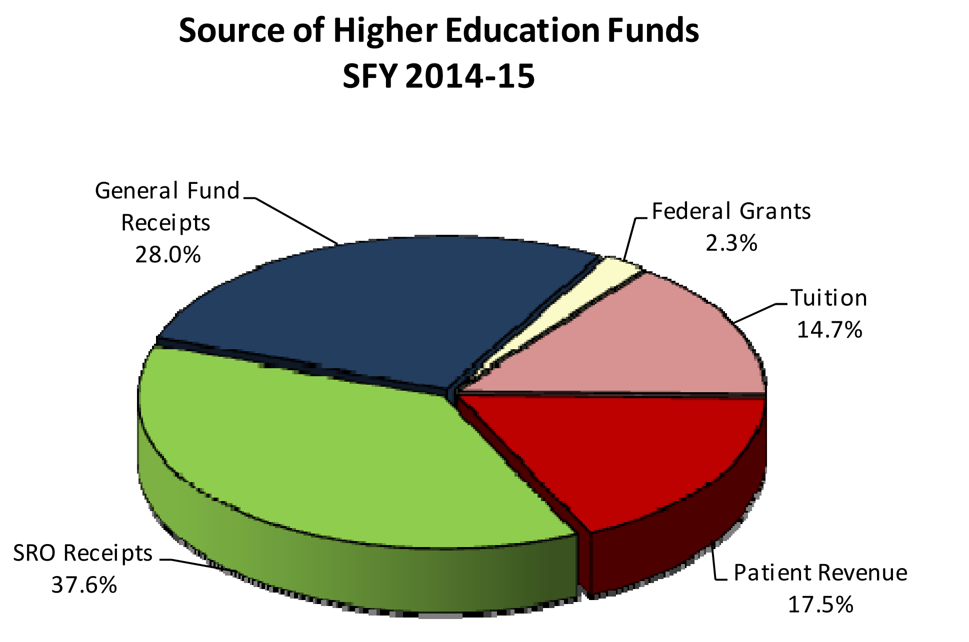
General Fund receipts for SFY 2014-15 are forecast at $3.1 billion, an increase of $51 million from SFY 2013-14. SUNY General Fund receipts are expected to be $685.2 million, a decrease $12 million below SFY 2013-14. CUNY General Fund receipts are forecast to increase by $41 million to $1.4 billion in SFY 2014-15. HESC General Fund receipts will increase by $22 million to $981.3 million.

Higher Education Special Revenue receipts are forecast at $4.1 billion, a decrease of $12 million below SFY 2013-14. Capital Projects are forecast to be $1.1 billion, a decrease of $36 million from the prior fiscal year. SUNY Dormitory fees, which are pledged for debt service to the Dormitory Authority on bonds issued, are forecast at $332 million dollars, an increase of $7 million over SFY 2013-14 estimates. This is due to the Executive Budget proposal to restructure the SUNY Dormitory bonding program. As part of the restructuring, lease revenue from the student dormitory program will no longer flow to the State's All Governmental Funds budget, and instead flow directly to the Dormitory Authority where it will be used to make debt service payments outside of the State's All Governmental Funds budget.

Federal grants are expected to be $250 million; there is no change from SFY 2013-14.

Table 86

Source of Higher Education Funds ($ in Millions)	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Federal Grants	$250	$250	-	-
Tuition	$1,529	$1,606	$76	5.0%
Patient Revenue	$1,877	$1,907	$31	1.6%
SRO Receipts	$4,115	$4,102	($12)	(0.3%)
General Fund Receipts	$3,001	$3,052	$51	1.7%
Total Receipts	**$10,771**	**$10,917**	**$146**	**1.4%**



Source: Executive Budget.

Figure 77

Table 87

Use of Higher Education Funds ($ in Millions)	2013-14 Estimated	2014-15 Projected	Change	Percent Change
SUNY	$7,533	$7,593	$60	0.8%
CUNY	$1,276	$1,311	$35	2.7%
Community Colleges	$687	$685	($2)	(0.3%)
SUNY Hospital Subsidy	$60	$69	$9	-
HESC	$1,075	$1,085	$10	0.9%
Total Disbursements	**$10,631**	**$10,743**	$111	**1.0%**

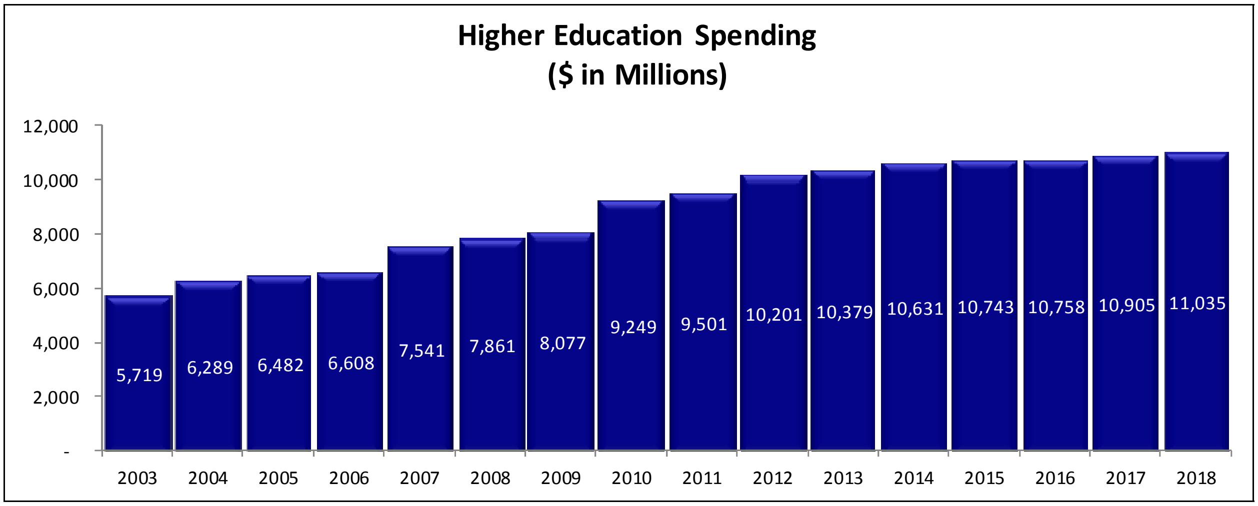


Figure 78

As shown above, higher education spending grows modestly from $10.7 billion in SFY 2014-15 to $11.0 billion in SFY 2017-18. This includes annual growth rates of 1.1 percent in SFY 2014-15; 0.1 percent in SFY 2015-16; 1.4 percent in SFY 2016-17; and 1.2 percent in SFY 2017-18. The greatest driver of this modest growth is CUNY operating support.

The majority of Higher Education funds are allocated to SUNY with 71 percent of spending, followed by CUNY with 12 percent. The Executive Budget accommodates the authorized SFY 2014-15 tuition increases by providing $95 million in additional spending authority for SUNY and $60.8 million for CUNY.

HESC makes up the third largest portion of Higher Education spending at ten percent. No Budget actions are proposed for TAP and Other Scholarship programs administered by HESC. The modest year-to-year increase in spending reflects the full year impact of SFY 2014-15 actions, offset by the impact of SUNY and CUNY tuition increases.

The Executive Budget maintains base operating aid funding for community colleges at levels of $2,422 per full-time equivalent student. A modest spending decrease of $2 million brought Community College aid to $685 million.

In SFY 2013-14, the Executive proposal includes two $55 million appropriations for a fourth round of SUNY 2020 grants and a new round of NY CUNY 2020 grants. Projects will be selected in a competitive manner based on economic impact, advancement of academic goals, innovation and collaboration.

Environment

New York State has a variety of agencies entrusted with protecting our natural environment and aiding in the protection and productivity of its land. The State also has an interest in ensuring an adequate supply of energy is available to consumers who are entitled to protections against unreasonable practices.

In SFY 2014-15, proposed environment spending amounts to $1.3 billion, a $38 million decrease over the prior year. The major spending is accounted for in the Department of Environmental Conservation (DEC), Department of Agriculture and Markets, and The Office of Parks, Recreation and Historic Preservation (OPRHP). The DEC's mission is to conserve and improve the State's natural resources and environment and to prevent, abate, and control water, land and air pollution. DEC's responsibilities include the administration of a portion of the State's Environmental Protection Fund (EPF) and the Clean Water/Clean Air Bond Act of 1996. The Department of Agriculture and Markets is charged with fostering a competitive and safe New York Food and Agriculture industry to benefit producers and consumers. The OPRHP is responsible for the conservation, protection, and enhancement of New York State's natural, historic and cultural resources.

The Executive Budget proposes a new $100 million appropriation to continue the State Superfund program, which includes $10 million to address municipally owned brownfields through the Environmental Restoration Program. It also extends the Brownfields program for 10 years and modifies the Brownfields Cleanup tax credit program.

Additionally, the Executive proposes to reduce the Temporary State Energy and Utility Service Conservation Assessment by $200 million in SFY 2014-15 by eliminating the assessment on industrial utility customers and accelerating the phase out of the assessment for all other utility customers.

Other Environmental initiatives include the Long Island Office of the Department of Public Service, the Adventure License to increase participation in hunting and fishing activities, and an additional $132.5 million in New York Works funding.

Environment Funds include income received from the General Fund, the Environmental Facilities Corporation and the Real Estate Transfer Tax. Total Environment receipts are forecast at $1.9 billion, a decrease of $3 million from SFY 2013-14.

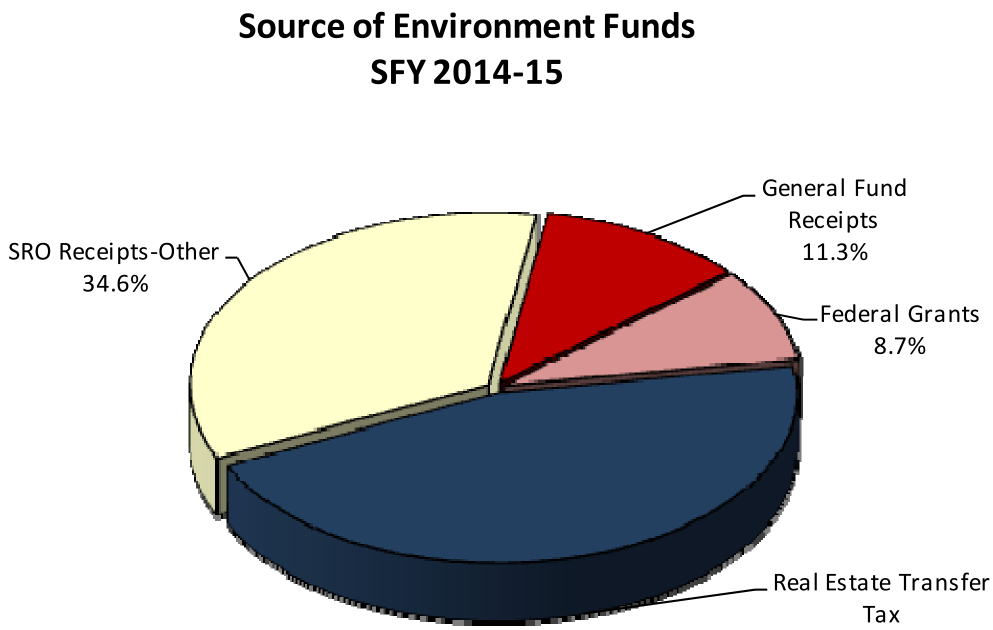
General Fund receipts for SFY 2014-15 are forecast to decrease $3 million to $212 million.

Environment Special Revenue receipts are forecast at $650 million, no change from SFY 2013-14. The Real Estate Transfer Tax receipts are forecast at $855 million, an increase of $40 million. The components of the Real Estate Transfer Tax receipts are anticipated to remain flat for Clean Water/Clean Air bonds for Environmental Protection Fund (EPF) Capital Projects Fund and increase $40 million in the Debt Service Fund, from the previous year.

Federal grants are forecast to be $164 million a $33 million decrease from the previous year.

Table 88

Source of Environment Funds ($ in Millions)	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Federal Grants	$197	$164	($33)	(16.8%)
Real Estate Transfer Tax	$815	$855	$40	4.9%
SRO Receipts-Other	$650	$650	($0)	(0.0%)
General Fund Receipts	$216	$212	($3)	(1.6%)
Total Receipts	**$1,877**	**$1,881**	**$3**	**0.2%**



Source: Executive Budget.

Figure 79

Table 89

Use of Environment Funds ($ in Millions)				
	2013-14 Estimated	2014-15 Projected	Change	Percent Change
Agriculture & Markets	$101	$103	$2	2.4%
Environmental Conservation	$919	$876	($44)	(4.7%)
Parks, Recreations, and Historical Preservation	$282	$292	$10	3.5%
All Other	$12	$5	($7)	(60.7%)
Total Disbursements	**$1,314**	**$1,275**	($38)	**(2.9%)**

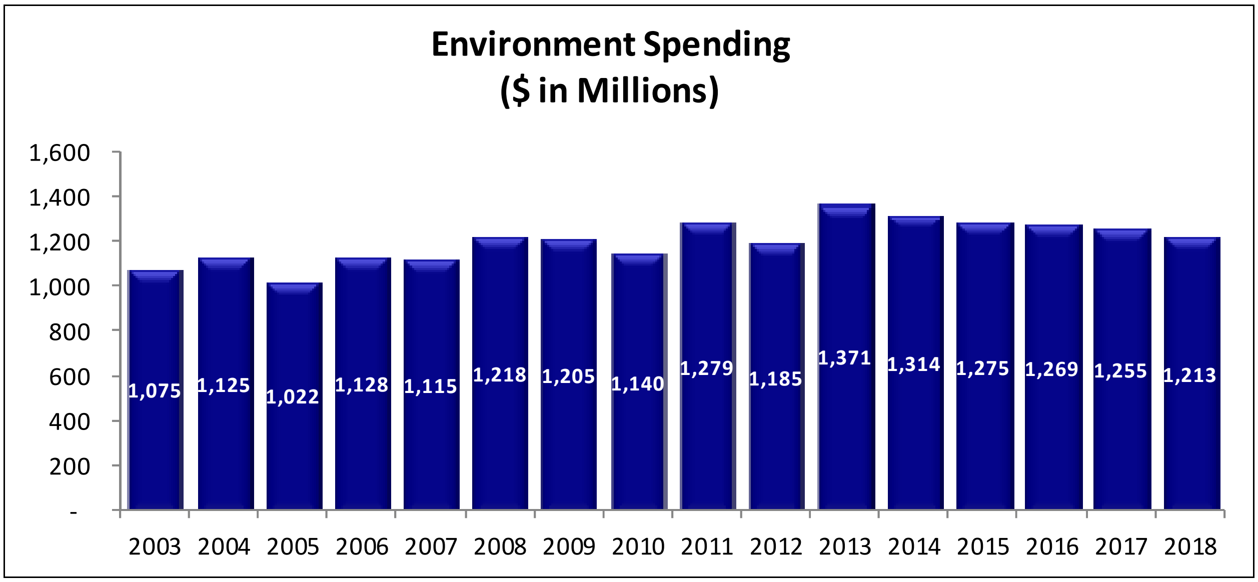


Figure 80

As shown above, Environment funding is one of the few program areas witnessing decreased spending. Spending decreases from $1.3 billion in SFY 2014-15 to $1.2 billion in SFY 2017-18. This is largely attributable to decreases in the DEC budget and All Other spending.

The majority of Environmental Fund spending is attributed to the Department of Environmental Conservation (DEC) at 69 percent; followed by the Office of Parks, Recreation, and Historic Preservation (OPRHR) at 23 percent; and the Department of Agriculture and Markets at eight percent.

The major actions for DEC include appropriations of $157 million for the programs supported by the Environmental Protection Fund; $14 million for solid waste programs; $58 million for Parks and Recreation; $85 million for open space programs; $2.5 million for Adventure Licenses; and a new $100 million appropriation to continue the State Superfund program, which includes $10 million to address municipally owned brownfields through the Environmental Restoration Program.

Major budget actions for OPRHP include providing OPRHP $148.8 million in capital funding under the New York Works infrastructure program to address the large backlog of capital rehabilitation and improvement needs in 48 State parks and historic sites and facilities operated by the Olympic Regional Development Authority; and the continuation of statewide spending reductions for the Department, including a $6 million reduction in State Operations spending.

Major Budget Actions for Agriculture and Markets include $18.5 million in local assistance funding for various programs that provide educational, scientific, promotional and marketing support to the agricultural community; and Capital funding of $3 million from the New York Works program, to address critical capital needs at the New York State Fair, in addition to $5 million to expand and upgrade infrastructure at Cornell University College of Veterinary Medicine.

Local Government Focus

Local Government and Deficit

Local governments in New York State are experiencing fiscal challenge such as chronic budget gaps, low reserves, delinquent property tax collection, and rising expenditures that threatens to disrupt the flow of services to their residents. State aid to local governments have remained flat and increasingly, more municipalities are declaring a need for state assistance to solve their budgetary problems. Recognizing the fiscal stress which local governments are experiencing, the state has taken measures for local governments to identify their fiscal reality, as well as, regain financial solvency.

State Aid

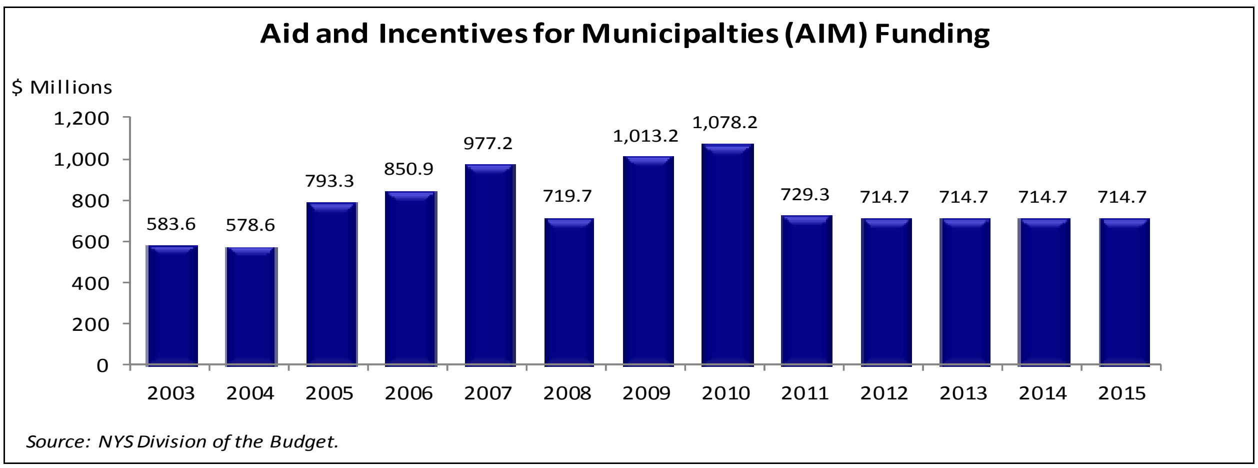


Figure 81

The state provides funding assistance through the Aid and Incentives to Municipalities (AIM) program to municipalities that could be utilized at the discretion of the local entity. Of the $714.7 million in AIM funding, $647 million are for cities outside of New York City, $47.7 million for towns and $19.5 million for villages. From SFY 2011 -12 through 2014-15, AIM funding has remained unchanged.

Fiscal Stress Monitoring System Overview

To help local governments avoid a fiscal crisis, the Office of the State Comptroller (OSC) created the Fiscal Stress Monitoring System as the first step to assess local governments and school districts identify the fiscal challenges and prevent localities from further severe stress. Municipalities are assessed based on two indicators: a) budgetary solvency - the ability of a local government to generate enough revenues to meet expenditures, and b) environmental indicators - which capture those circumstances and trends that are largely outside the locality's control but which have a bearing on its revenue raising capabilities as well as its demand for and/or mix of services. The scoring is calculated using both indicators to determine placement on the fiscal stress list. In addition to the Fiscal Stress Monitoring System, the Comptroller has tools in place to assist local governments with Capital and Multi-Year Financial planning and intergovernmental cooperation.

Financial Restructuring Board

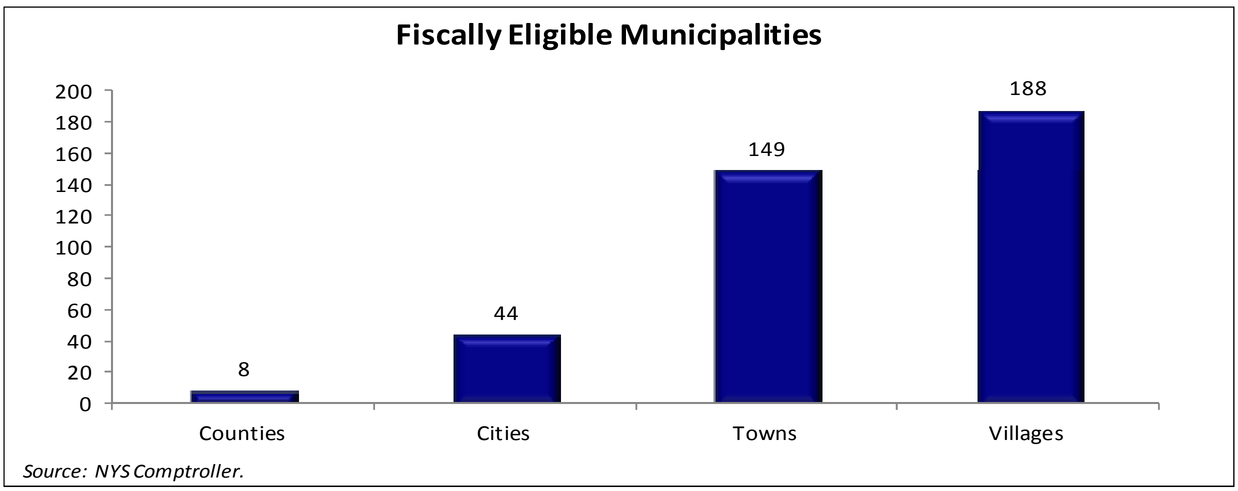


Figure 82

The Financial Restructuring Board is a statewide approach to help fiscally eligible municipalities in financial crisis. The board consists of ten individuals: the Director of Budget (the chair), the Attorney General, the State Comptroller, the Secretary of State, six of the members will be appointed by the Governor, one of which will be on the recommendation of the speaker of the Assembly, one by the temporary Speaker of the Senate and four appointed by the Governor.

Fiscally eligible municipalities is defined as a municipality that has an average full value property tax rate greater than the average full property tax rate of 75 percent of the other municipalities or if a municipality has an average fund balance percentage below five percent. The purpose of the Board is to assist fiscally eligible municipalities with recommendations, grants, and loans from the Local Government Performance and Efficiency Program (LGPEP) fund.

The Board would also serve as an alternative arbitration panel to the binding arbitration process for police, fire, or deputy sheriff unions, if the municipality and union are in agreement.

The Board would render an arbitration ruling within six months. Any agreement between the board and a local government is binding.

Deficit Financing

Municipalities that are under financial crisis also have the option of deficit financing. Under the Local Finance Law, municipalities and school districts can be authorized by the state to incur debt to liquidate operating deficit. No bonds can be issued until the State Comptroller's Office conducts a thorough review, confirm the amount of debt, as well as, notify the finance board of the municipalities and school districts of its findings. Municipalities are also not allowed to exceed the authorized amount of the bonds and municipalities are given strict repayments periods. The Comptroller's office is responsible for overseeing the entire process.

Over the last two years, municipalities that have utilized deficit financing in New York State is Rockland County that was authorized to issue $96 million in bonds to cover it deficits and repay it over ten years. The City of Long Beach is requesting $10.2 million in deficits financing across ten years to avoid burdening residents with a tax increase.

Mandate Relief Council

The Mandate Relief Council is an eleven-member panel that was created as part of a Mandate Relief package estimates to save local governments and school districts more than $125 million. The Mandate Relief Council is authorized to review specific proposals to reduce statutory and regulatory burdens that have been identified by the Mandate Relief Council, local governments school districts and businesses. After considering public comment on each mandate, the Council determines whether such proposal being imposed is "unsound, unduly burdensome or costly that should be eliminated or reformed."

Pension

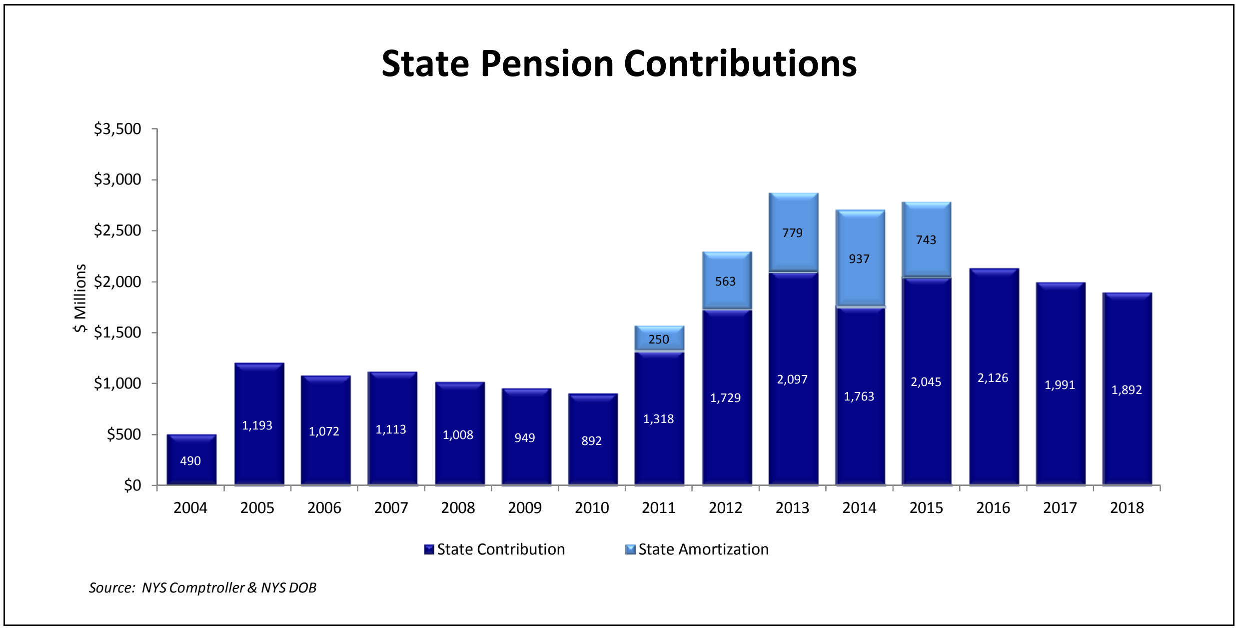


Figure 83

State pension contributions are estimated to $2.0 billion in SFY 2014-15, with $743 million deferred through amortization. The SFY 2010-11 Enacted Budget authorized the State to amortize a portion of its pension costs. The State estimated it will defer $3.27 billion over five fiscal years. Repayment of the deferred amounts will be amortized over a ten-year period at an interest rate to be determined by the State Comptroller. In SFY 2013-14 and 2014-15, $937 million and $743 million were deferred respectively.

The State faced substantial pension contribution increases over the past few years due to investment losses experienced by the Common Retirement Fund including increases and decreases based on the status of the stock market.

Since 2004, the State pension contributions have increased from $490 million to $2 billion in SFY 2014-15 or $2.8 billion without deferral.

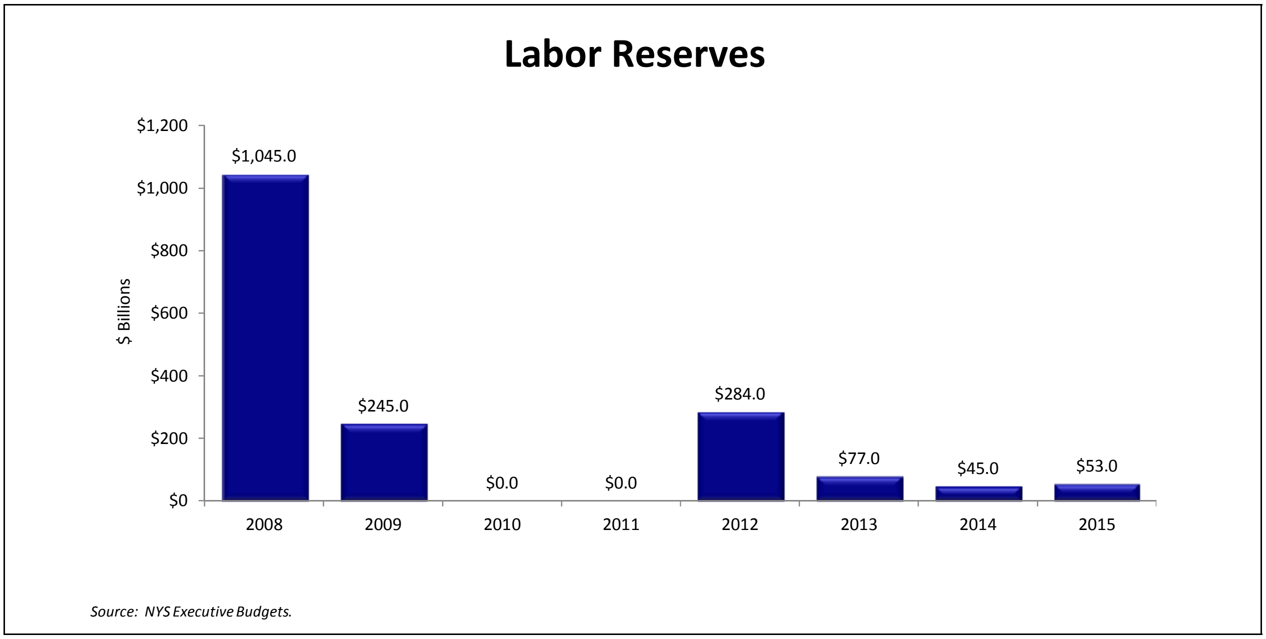


Figure 84

Labor Reserves are estimated to be $53 million in SFY 2014-15, an increase of $8 million over SFY 2013-14. These labor reserves are set aside of retroactive labor settlements with unions that have not agreed to terms for prior contracts. The amounts are calculated based on the pattern settlement for the SFY 2008 through SFY 2011 period agreed to by the State's largest unions.

Capital and Debt

Capital Plan

The Capital Plan plays a critical role in the state's effort to develop, maintain and compete with other regions. Although Capital spending is projected to remain flat next year after seven percent growth this year, significant year over year growth is planned for Economic Development, Public Protection and General Government.

Two new major Capital programs are proposed for this year. The first initiative is in Education, where the Executive proposes a $2 billion General Obligation Bond for Smart Schools Technology. The second new initiative would be a $1.2 billion bond for Health Care Restructuring. In addition, the Executive will continue to fund key Capital programs such as Regional Economic Development Councils.

The New York State Capital program consist of: Transportation, Parks and Environment, Economic Development and Government Oversight, Health and Social Welfare, Education, Public Protection, Mental Hygiene, General Government and Other. The State's Five-year plan outlines how each program area will be appropriated and disbursed over the current fiscal year as well as five-year future commitments.

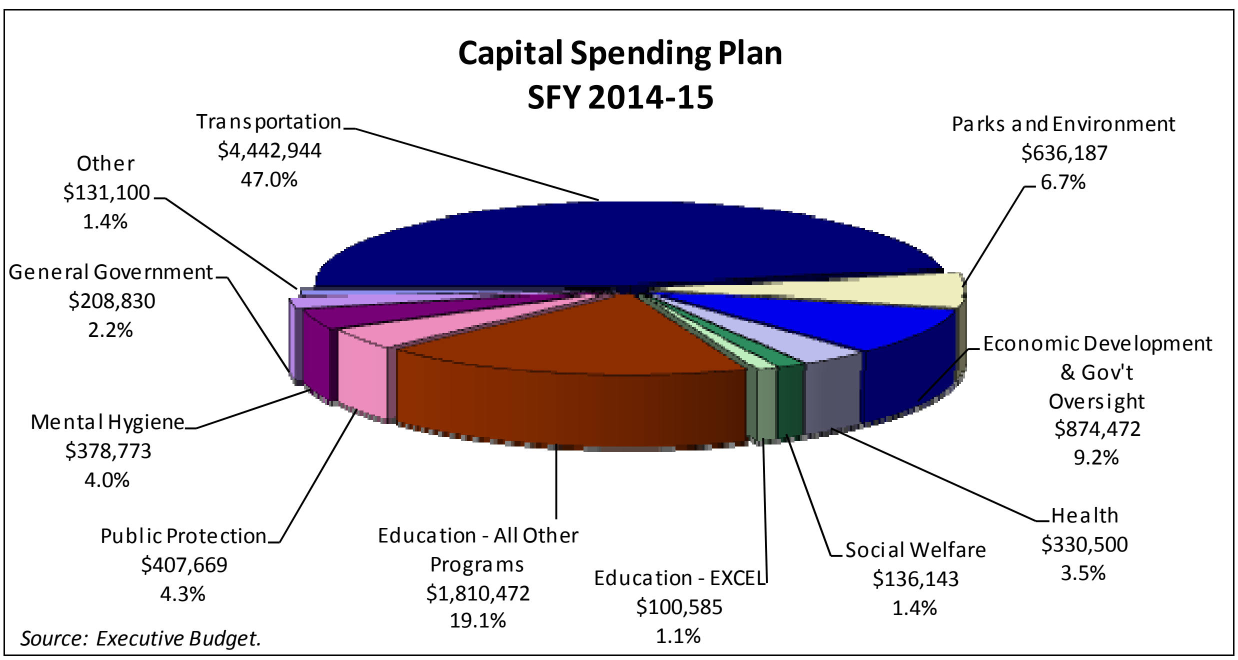


Figure 86

The State anticipates spending $9.5 billion in capital financing for SFY 2014-15, of which $4.4 billion or 47 percent in Transportation, $1.8 billion or 19.1 percent in Education, and $3.2 billion or 33.8 percent in All Other programs.

New Capital Initiatives

The Executive Budget includes $5.4 billion in new bonded capital initiatives, all of which will be committed and spent over a five-year multi-year period.

Table 90

New Capital Obligations New Bonded Capital Initiatives SFY 2014-15 ($ in Millions)						
		Capital Spend Out				
	SFY 2015 Appropriations	SFY 2015	SFY 2016	SFY 2017	SFY 2018	SFY 2019
Smart Schools Bond Referendum	**$2,000,000**	**$0**	**$1,000,000**	**$350,000**	**$350,000**	**$300,000**
Health Care Restructuring	**$1,200,000**	**$200,000**	**$200,000**	**$200,000**	**$200,000**	**$200,000**
Economic Development	**$1,041,650**	**$200,775**	**$261,000**	**$161,000**	**$163,875**	**$175,000**
Buffalo Regional Innovation Cluster	$680,000	$125,000	$175,000	$125,000	$100,000	$155,000
Nano Utica	$180,000	$20,000	$20,000	$20,000	$20,000	$20,000
NY Genome Center	$55,750	$27,875	$0	$0	$27,875	$0
Onondaga Revitalization	$30,000	$0	$10,000	$10,000	$10,000	$0
Economic Transformation Program	$24,000	$6,000	$6,000	$6,000	$6,000	$0
All Other Economic Development	$71,900	$21,900	$50,000	$0	$0	$0
Higher Education Infrastructure	**$773,628**	**$8,350**	**$72,278**	**$190,000**	**$137,158**	**$365,842**
SUNY/CUNY Systemwide Infrastructure	$763,628	$3,350	$67,278	$190,000	$137,158	$365,842
Binghamton School of Pharmacy	$10,000	$5,000	$5,000	$0	$0	$0
Hazardous Waste Remediation (Superfund)	**$100,000**	**$0**	**$0**	**$0**	**$50,865**	**$49,135**
All Other	**$247,700**	**$108,700**	**$120,000**	**$19,000**	**$0**	**$0**
Homeland Security	$122,000	$59,000	$60,000	$3,000	$0	$0
Information Technology	$85,700	$49,700	$36,000	$0	$0	$0
Housing	$40,000	$0	$24,000	$16,000		
Total	**$5,362,978**	**$517,825**	**$1,653,278**	**$920,000**	**$901,898**	**$1,089,977**

(1) Reflects an acceleration of capital authorization from previous plan.

The Executive proposes $5.4 billion in new capital investment:

<u>Smart Schools Bond Referendum ($2 billion)</u>

- The Executive proposes $2 billion Smart Schools Education General Obligation Bond to be put before the voters in November 2014. Bond proceeds will fund enhanced education technology in schools and long-term prekindergarten investments.

The Smart Schools funding would authorize moneys to be distributed for the cost of approved capital projects undertaken by, or on behalf of, school districts.

Classroom technology projects for a term of eight years would expand high speed broadband or wireless internet connectivity solely for school buildings and campuses, or to acquire learning technology hardware for schools, classrooms, and student use, including but not limited to whiteboards, computer servers, desktop computers, laptop computers, and tablet computers. Community connectivity projects will have a useful life and term of 20 years would expand high speed broadband or wireless internet connectivity in the local community, including school buildings and campuses. Pre-kindergarten projects will have a useful life and term of 30 years to expand Instructional class room space.

The implementation of the Smart Schools bond act requires:

- School district submits a smart school investment plan to the Smart School Review Board which consists of the Chancellor of SUNY, the Director of Budget and Commissioner of SED.
- The Smart School Review Board accepts, rejects or request modification of such plan.
- SED approval is required only if the plan is part of school construction project.
- The amount of the grants for the plan shall be certified by SED and paid by Comptroller.
- Smart School Allocations are the same percentage as current school aid formula. Such formula shall also be filed with the Chairs of Senate Finance and Ways and Means Committees, and Comptroller.
- Expenditures from the smart schools allocation shall not be eligible for aid under any other provision.
- If a school district directs amounts to be transferred to another school district, that school receiving the apportioned funds may have funds deducted for the next apportionment distribution at the discretion of the commissioners to meet allocations provisions.
- The parents, teachers, students, community members and other stakeholders are consulted in the smart schools investment planning to what extent.

Health Care Restructuring ($1.2 billion)

- The Budget proposes $1.2 billion for capital restructuring Health Care Facility priority projects in hospitals, nursing homes and clinics. These funds would support financial disadvantaged health care providers.

Economic Development Initiatives ($1.04 billion)

- The Executive proposes $1.04 billion of Economic Development activities to support capital projects and grants designed to promote job growth and private investment, including Nano Utica ($180 million), the New York Genome Center ($55.75 million), an accelerated commitment of funding to Western New York as part of the Buffalo Billion, funding to support the economies of communities affected by the closures of prison and juvenile facilities, and other funds to support regional development projects. $680 million to Buffalo Regional Innovation Cluster; $30 million to Onondaga

Revitalization; $24 million to Economic Transformation Program; and $71.9 million to all other economic development.

Higher Education- $773.6 million

- $763.6 million for SUNY/CUNY System wide infrastructure needs at both four year colleges and community college campuses; $10 million for a new Binghamton School of Pharmacy.

Hazardous Waste Remediation (Superfund) - $100 million

- The Executive proposes $100 million to continue the State Superfund program, which focuses on the identification, classification and remediation of hazardous waste sites and hazardous substances throughout the State.

Other programs – $247.7 million

- $122 million new capital funding for Homeland Security; $85.7 million for Information Technology; and $40 million for Housing.

The Five-Year Capital Plan

The Executive is proposing a $46.8 billion Five-Year Capital Plan: The new Capital Plan is $1.06 billion or 2.3 percent over the Enacted Capital Plan of SFY 2013-14. This new Five-Year Capital Plan reprioritizes and accelerates existing projects and implements a portion of the New York Works program.

Table 91

Capital Spending by Function SFY 2013-14 through 2018-19 ($ in Millions)						
Spending	**2013-14**	**2014-15**	**2015-16**	**2016-17**	**2017-18**	**2018-19**
Transportation	$4,678	$4,442	$4,213	$4,176	$3,989	$4,034
Education	$100	$100	$1,121	$388	$387	$317
Higher Education	$1,902	$1,810	$1,618	$1,550	$1,493	$1,464
Economic Development & Gov't Oversight	$604	$874	$916	$777	$729	$799
Mental Hygiene	$342	$378	$385	$393	$402	$402
Parks and Environment	$672	$636	$631	$616	$601	$558
Health	$479	$330	$352	$348	$283	$283
Social Welfare	$134	$136	$160	$186	$186	$186
Public Protection	$284	$407	$377	$302	$272	$272
General Government	$109	$208	$145	$86	$75	$69
Other	$121	$131	$373	$355	$342	$762
Total	**$9,430**	**$9,457**	**$10,295**	**$9,180**	**$8,764**	**$9,150**
Off-Budget Spending	($1,439)	($930)	($896)	($820)	($810)	($800)
Net Cash Spending	**$7,991**	**$8,527**	**$9,399**	**$8,360**	**$7,954**	**$8,350**

The Executive Capital proposed plan sets forth capital spending priorities within a fiscally responsible and comprehensive process for developing a long-term capital investment plan. The $9.5 billion Capital Spending Plan is adjusted to total $8.5 billion in SFY 2014-15, due to $930 million in *"off budget spending"* directly from bond proceeds held by public authorities.

The Executive's core mission is: Implement and accelerate more efficient stabilization systems to assist in the protection of New York from natural disasters; rebuild smarter infrastructures, while also promoting jobs for tomorrow; utilizing New York Works Task Force to stimulate the economy and managing bond-financed spending within the State's existing debt limits.

- The Executive's proposal of $9.5 billion Capital Plan spending for SFY 2014-15 reflects an increase of 0.3 percent, or $27.2 million, from SFY 2013-14.

- Increases in Capital projects spending for SFY 2014-15 include an increase in Economic Development and Government Oversight by 44.7 percent or $270 million, Public Protection programs by 43 percent or $123 million, Mental Hygiene programs by 10.5 percent or $36 million, General Government programs by 91 percent or $99.5 million and Other by 137 percent or $120.3 million.

- Decreases in proposed Capital projects spending in SFY 2014-15 include a decrease of $236 million or five percent in Transportation, $92 million or 4.8 percent in Higher Education, $36 million or 5.3 percent in Parks and Environment, $146.8 million or 23.9 percent in Health and Social Welfare, and $0.361 million or 0.3 percent in Education programs.

Financing the Capital Plan for 2014-15

The Executive proposes to finance the Five-Year Capital program with a combination of pay as you go (PAYGO) funding and bonded resources: The Capital Program for SFY 2014-15 of $9.5 billion is proposed to be financed as follows:

Table 92

Capital Program and Financial Plan
Financing Source
SFY 2014-15
($ in Thousands)

Financing Source	FY 2014	FY 2015	Annual $ Change	Annual % Change
Authority Bonds	$4,999	$5,159	$160	1%
Federal Pay-As-You-Go	$1,865	$1,679	($186)	-1%
State Pay-As-You-Go	$2,228	$2,313	$85	5%
General Obligation Bonds	$337	$305	($32)	-16%
Total	**$9,430**	**$9,457**	**$27**	**1%**

- $2.3 billion or 24.4 percent in State PAYGO;
- $1.7 billion or 17.8 percent in Federal PAYGO;
- $0.305 billion or 3.3 percent in General Obligation; and,
- $5.2 billion or 54.5 percent in Public Authority bonding.

State PAYGO

State PAYGO resources consists of General Fund taxes, other taxes and user fees dedicated for specific capital programs, repayment from Local Government and Public Authorities for their share of the projects, and transfers from other funds including the General Fund. Capital Projects financed by State PAYGO Resources will total $2.3 billion for SFY 2014-15. Capital spending supported by General Fund receipts is classified as a transfer to the various Capital Projects Funds. General Fund transfers to capital projects essentially finance non-bond eligible capital spending, including minor rehabilitation of facilities operated by Office of General Services, Department of Environmental Conservation, Parks and the Department of Mental Hygiene.

Approximately $673 million will be designated for the Dedicated Highway Bridge and Trust Fund (DHBTF).

Table 93

Five- Year Capital Projects Financed by State PAYGO Resources ($ in Thousands)	
	SFY 2014-15
Transportation	$1,592,905
Parks and Environment	$208,345
Economic Development & Gov't Oversight	$33,694
Health	$60,500
Social Welfare	$2,475
Education	$3,400
Higher Education	$247,457
Public Protection	$26,945
Mental Hygiene	$82,938
General Government	$54,450
Other	$0
Total State PAYGO Financing	**$2,313,109**

Federal PAYGO

Federal PAYGO resources for SFY 2014-15 will total $1.7 billion, allocated primarily to Transportation ($1.4 billion) and Parks and Environmental projects ($105 million). Federal PAYGO supports spending financed by grants from the federal government, earmarked for highways and bridges, drinking water and water pollution control facilities. Public protection and Health will total $458 million over the Five-Year Capital Plan.

Table 94

Federal PAYGO Resources ($ in Thousands)	
	SFY 2014-15
Transportation	$1,445,430
Parks and Environment	$105,342
Health	$70,000
Social Welfare	$3,002
Public Protection	$29,362
Other	$26,000
Total Federal PAYGO Financing	**$1,679,136**

10-YEAR CAPITAL PLANNING PROJECTIONS FOR STATE CAPITAL ACTIVITIES

New York Works Task Force

In May 2012, the New York Works Task Force was created to bring together leading finance, labor, planning and transportation professionals to coordinate a statewide infrastructure plan to more effectively and strategically allocate the State's capital resources.

The New Works Task Force Capital Plan invests in Transportation, Environment, Energy, Economic Development, Education, Public Safety, Social Services, Public Health and General Government projects around the State.

The Capital Planning and Investment Process

The State implemented a statewide Capital Plan to effectuate an efficient comprehensive Capital Plan with an Investment Process that prioritizes needs a financing option through the NY Works Task Force. The Plan is a detailed analysis of capital projects on a regional needs basis highlighting a seven-step process for long term planning and evaluation of the economic benefit.

The process ensures an increased coordination across State agencies and authorities, and a greater focus on all types of public sector capital investment that supports private sector job growth.

A Statewide Infrastructure Assessment

In order to effectively make sound capital investments and decisions State agencies and authorities that own and operate capital assets must undertake a comprehensive inventory process. This process allows the State to dissect what investments are accessible and how the current investments are performing. Developing a strategic plan for economic growth and competiveness includes:

- the condition is the State’s infrastructure;
- the cost to bring the assets to a state of good repair;
- capacity sufficient to meet projected demand;
- the use of each asset’s capacity;
- facilities consolidation if or excess capacity; and,
- condition or performance of capital assets constraining key sectors of the New York State economy.

Developing a Strategic Plan for Economic Growth and Competiveness

The Regional Economic Development Councils with the ten regional economies that have unique differences and distinct weakness and strengths should develop the direction of the future economy, infrastructure, economic strategies, and investment planning.

The Executive Capital Plan reflects funding for both core capital assets and transformative projects, including economic development and critical infrastructure, and a package of capital and debt reforms to reduce borrowing costs, improve efficiency, and promote long term planning. Accordingly, the current ten-year projections reflect a uniform set of capital planning assumptions for all State agencies. The State will no longer permit staggered capital planning cycles for different purposes.

Table 95

Capital Spending by Function
SFY 2014 through SFY 2024
($ in Thousands)

	SFY 2014	SFY 2015	SFY 2016	SFY 2017	SFY 2018	SFY 2019	SFY 2020	SFY 2021	SFY 2022	SFY 2023	SFY 2024
Transportation	$4,678,461	$4,442,944	$4,213,269	$4,176,239	$3,989,994	$4,034,140	$4,016,912	$4,173,684	$4,790,056	$4,963,628	$4,945,200
Higher Education	$1,902,424	$1,810,472	$1,618,694	$1,550,314	$1,493,919	$1,464,831	$1,517,315	$1,645,924	$1,975,607	$2,111,566	$2,163,525
Economic Development	$604,010	$874,472	$916,920	$777,355	$729,392	$799,932	$849,946	$914,959	$1,099,973	$1,059,986	$1,005,000
All Other	$2,245,551	$2,329,787	$3,546,701	$2,677,032	$2,550,951	$2,851,402	$2,643,022	$2,514,411	$2,596,411	$2,475,480	$2,266,550
Total	**$9,430,446**	**$9,457,675**	**$10,295,584**	**$9,180,940**	**$8,764,256**	**$9,150,305**	**$9,027,195**	**$9,248,978**	**$10,462,047**	**$10,610,660**	**$10,380,275**

The Executive proposes a new 10-year Capital planning projections that are consistent with the long-term planning goals. DOB has taken the liberty for first the time to implement a 10-year Capital commitment and disbursement projections for State agencies. The objective is to ensure compliance with the State's debt limit, based on current estimates of personal income, the historical and projected pace of capital activity, and other factors. DOB expects the State will update the rolling 10-year projections annually.

Table 96

Annual Growth Rates For Capital Spending
SFY 2004 Through SFY 2024
($ in Thousands)

	Capital Spending					Annual Growth Since SFY 2004			
	SFY 2004	SFY 2011	SFY 2014	SFY 2015	SFY 2024	SFY 2011	SFY 2014	SFY 2015	SFY 2024
Transportation	3,219,076	4,427,616	4,678,461	4,442,944	4,945,200	4.66%	3.81%	2.97%	2.17%
Higher Education	639,751	1,793,595	1,902,424	1,810,472	2,163,525	15.87%	11.51%	9.92%	6.28%
Economic Development	214,776	1,157,766	604,010	874,472	1,005,000	27.21%	10.89%	13.61%	8.02%
All Other	1,323,253	1,901,521	2,245,551	2,329,787	2,266,550	5.32%	5.43%	5.28%	2.73%
Total	**5,396,856**	**9,280,498**	**9,430,446**	**9,457,675**	**10,380,275**	**8.05%**	**5.74%**	**5.23%**	**3.32%**

Capital spending over the duration of a 10-year period is projecting an $86.1 billion average annually. Capital Spending in SFY 2004 was $5.4 billion, reflecting a growth rate 3.32 percent in SFY 2024.

DOB 10-year Capital Spending projections model effectuates capital planning needs, personal income levels, interest rate forecasts, capital project timetables and historical spending patterns, and other factors which include:

- The State will continue to live within its existing debt limit;
- Personal income estimates are consistent with the State budget forecast, and are then assumed to grow at the long-term average growth rate beyond the five-year forecast period;
- Updated capital plans submitted by agencies will be sized at the levels shown in the 10-year planning projections; and,
- Federal and State PAYGO resources remain relatively constant over the five-year period.

10-Year Investment Commitment

In May 2013, the NY Works Task Force developed a 10-year investment commitment of $174 billion in various sectors in Transportation, Social Services, Public Health, Education, and other areas. These project investments in the various regions of the state were identified into categories that generated a high rate return for areas of state of good repair (maintenance of existing infrastructure), capacity optimization (expansion and demolition) and transformational (major investments).

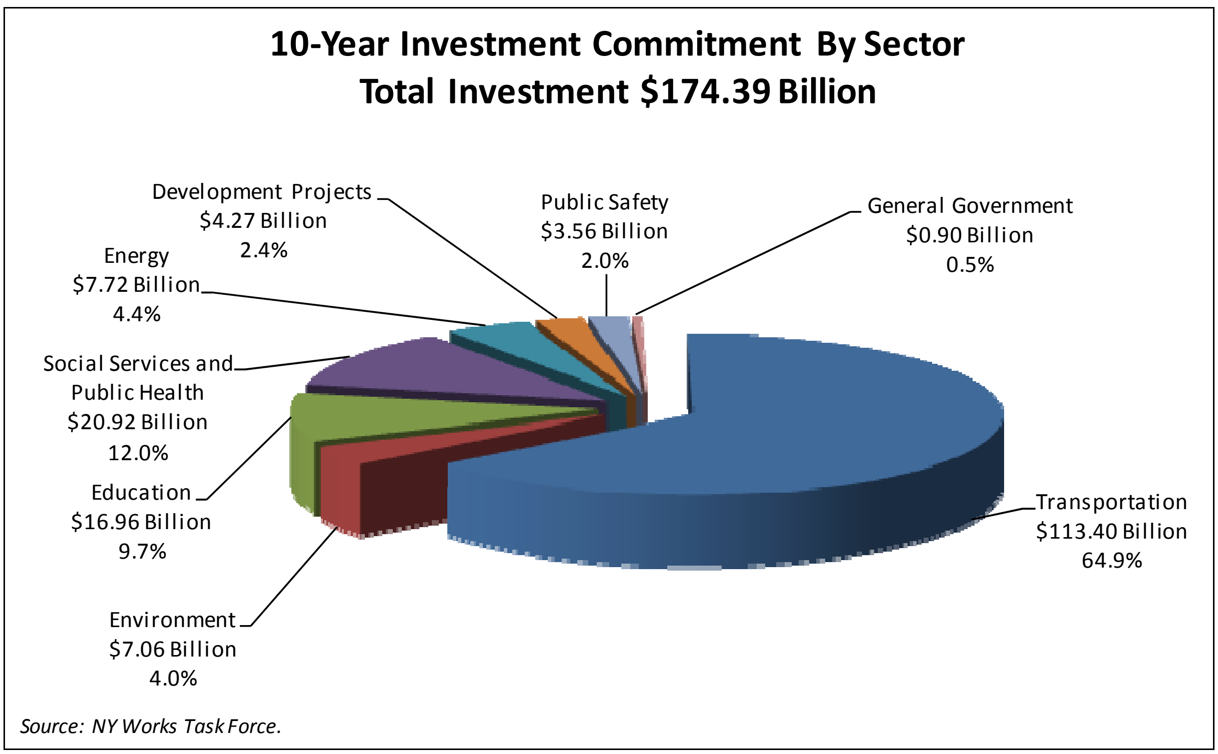
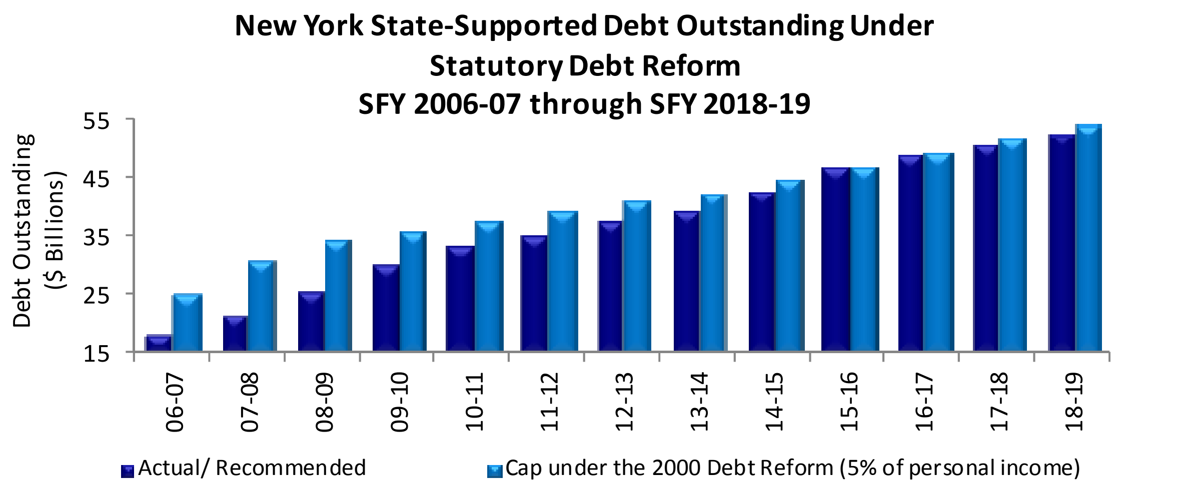


Figure 87

Debt Affordability

Debt Reform Act of 2000

The State of New York enacted on May 15th, 2000, the Debt Reform Act of 2000 which created a new Article 5-B in the State Finance Law outlining limitations on State-supported debt. The Act limited the issuance of State-supported debt to a capital work or purpose. The ceiling on debt outstanding and debt service became directly tied to total personal income and total governmental funds receipts, respectively. The imposed cap for State Fiscal Year (SFY) 2014-15 on new debt outstanding is four percent of personal income and on new debt service costs five percent of total governmental funds. In addition, the Act limited the maturity on all State-supported debt to 30 years. The following shows the impact of issuing State-supported debt outstanding:



Note: Data for 2006-07 through 2012-13 is actual.
Source: NYS Division of the Budget.

Figure 88

Due to the economic slowdown and the decline in revenues that impacted total personal income and governmental funds, the available room under the caps has declined for debt outstanding. As the available room to issue debt has declined, the Executive assumes debt outstanding capacity of $1.9 billion in SFY 2014-15, a decrease of $1.3 billion from SFY 2013-14.

This estimate includes bond-financed portion of increased capital commitments. It will be crucial to maintain flexibility in its capital spending priorities and debt financing practices to adjust to available debt capacity and stay within the statutory limits.

Table 97

Debt Service Subject to Cap ($ in Millions)							
Year	All Funds Receipts	Cap %	Cap $	Debt Service Since April 1, 2000	$ Remaining Capacity	Debt Service as a % of Revenue	% Remaining Capacity
SFY 2014	$140,768	5.00	$7,038	$3,855	$3,183	2.74	2.26
SFY 2015	$141,902	5.00	$7,095	$4,113	$2,982	2.90	2.10
SFY 2016	$145,847	5.00	$7,292	$4,481	$2,811	3.07	1.93
SFY 2017	$149,133	5.00	$7,457	$4,966	$2,491	3.33	1.67
SFY 2018	$152,485	5.00	$7,624	$5,332	$2,292	3.50	1.50
SFY 2019	$156,391	5.00	$7,820	$5,669	$2,151	3.62	1.38

Table 98

Debt Outstanding Subject to Cap ($ in Millions)							
Year	Personal Income	Cap %	Cap $	Debt Outstanding Since April 1, 2000	$ Remaining Capacity	Debt as a % of PI	% Remaining Capacity
SFY 2014	$1,067,485	4.00	$42,699	$39,521	$3,178	3.70	0.30
SFY 2015	$1,120,927	4.00	$44,837	$42,971	$1,866	3.83	0.17
SFY 2016	$1,175,162	4.00	$47,006	$46,850	$156	3.99	0.01
SFY 2017	$1,233,566	4.00	$49,343	$49,237	$106	3.99	0.01
SFY 2018	$1,296,153	4.00	$51,846	$50,821	$1,025	3.92	0.08
SFY 2019	$1,362,589	4.00	$54,504	$52,912	$1,592	3.88	0.12

Credit Ratings

Ratings agencies have state that New York’s positive outlook of job creation and economic development reflects not only the restoration of economic opportunities for New Yorkers but a movement toward structural budget balances. In the past, the State of New York has experienced late budgets adoptions due to fiscal stress periods. Ultimately, resulting to downgrades by various credit rating agencies which in turn raise interest rates for New York State to borrow in the future. Ironically, the three major credit rating agencies Standard & Poor’s, Moody’s and Fitch indicate a positive outlook for New York State due to exemplifying relative strength and recent resilience of its economy. Table 100 provides the State’s current credit ratings on all its State-related bond-financed programs.

The Executive has reported that New York State has maintained a favorable credit rating for all its general obligation bonds. A favorable rating by credit rating agencies lowers State borrowing costs and allows for easier access to financial markets.

Table 99

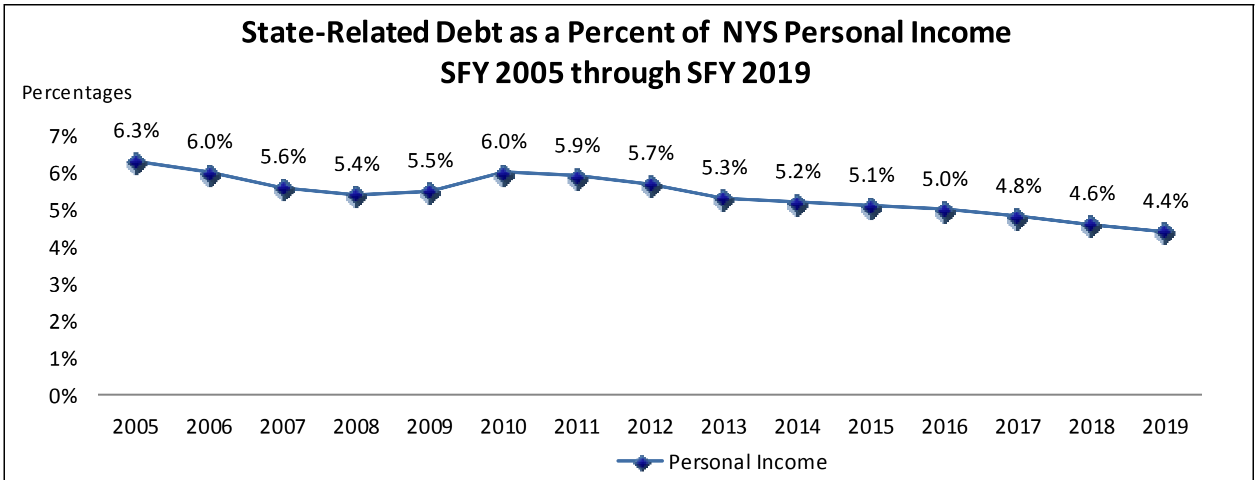
Current Credit Ratings on New York State Debt	Standard & Poor's	Fitch	Moody's[1]
Personal Income Tax Bonds (PIT)	AAA	AA	NR
Sales Tax Bonds	AAA	AA	NR
General Obligation	AA	AA	Aa2
Local Government Assistance Corporation (LGAC)	AAA	AA	Aa2
Dedicated Highway & Bridge Trust Fund	AA	AA	NR
Mental Health Services Facilities Improvement Revenue	AA-	AA-	NR
Department of Health	AA-	AA-	NR
State University of New York Dormitory Revenue	AA-	AA-	Aa2
Tobacco Bonds	AA-	AA-	NR
Municipal Bond Bank Agency (MBBA) Special Schools Revenue	A+	AA-	NR
Service Contract/Appropriation Credits[2]	AA-	AA-	NR

1. Moody's rating not applied for except on GO, LGAC and SUNY Dormitory Bond debt. "NR" - not rated

2. Includes programs that have been separately bond-financed-for in the past (i.e. CHIPs, SUNY Academic Facilities, etc.) and are now replaced by PIT financing

State-Related Debt as a Percent of Personal Income

The State's debt outstanding as a percentage of personal income is projected to decline due to the recovery of personal income growth and the continued retirement of tobacco debt. As a result, State-related debt as a percent of New York personal income has decreased from 6.3 percent in SFY 2004-05 to an estimated 4.4 percent in SFY 2018-19.



Source: NYS Division of Budget Capital Program FY 2015.

Figure 89

Debt Management

State-supported debt is managed and measured by the Debt Reform Act of 2000 and the state is contractually obligated to pay debt service subject to appropriation. State supported debt, along with Other State Obligations, is a component of State-related debt as reported by the Executive. Other State Obligations have not been issued by the State since the Tobacco bonds were issued in 2005.

The Executive continues the implementation of debt management reforming methodologies that promotes efficiency and effectiveness to economic growth and job creations, enhancement of the State's debt spending, and generating savings for SFY 2014-15 and beyond. The reforms include:

- Transitioning Consolidation Highway Improvement Program(s) from an "off-budget" to an "on budget" accounting structure, thereby mitigating risk to the State currently assumed due to bond proceeds being issued in advance of funding requests with associated project information.

- The Continuation to prohibit borrowing to finance State administrative personnel. These costs will be funded from annual operating revenue. This important reform will assist the State in abiding by the Debt Reform Act cap.

- Pursuing options to improve oversight and management of State-supported bond transactions. In December 2013, the State (DOB) completed a centralized procurement for Financial Advisor Services. This contract will be used by DOB and its State debt issuers for all bond transactions to be executed in SFY 2015 and beyond.

- Simplifying investor's access to State disclosure documents in the municipal marketplace.

State-Supported Debt Outstanding

State-supported Debt outstanding is expected to increase from $52.86 billion in SFY 2013-14 to $54.79 billion in SFY 2014-15. Transportation and Education, which make up 29 percent and 32 percent of debt outstanding, respectively, are the majority of the State's obligations. The remaining obligations by function of debt outstanding are 11 percent in State Facilities and Equipment, 4 percent in LGAC, 9 percent in Health and Mental Hygiene, 5 percent in Environment, 10 percent in Economic Development and Housing while Tobacco is 3 percent and all other debt 1.2 percent of state-related debt outstanding.

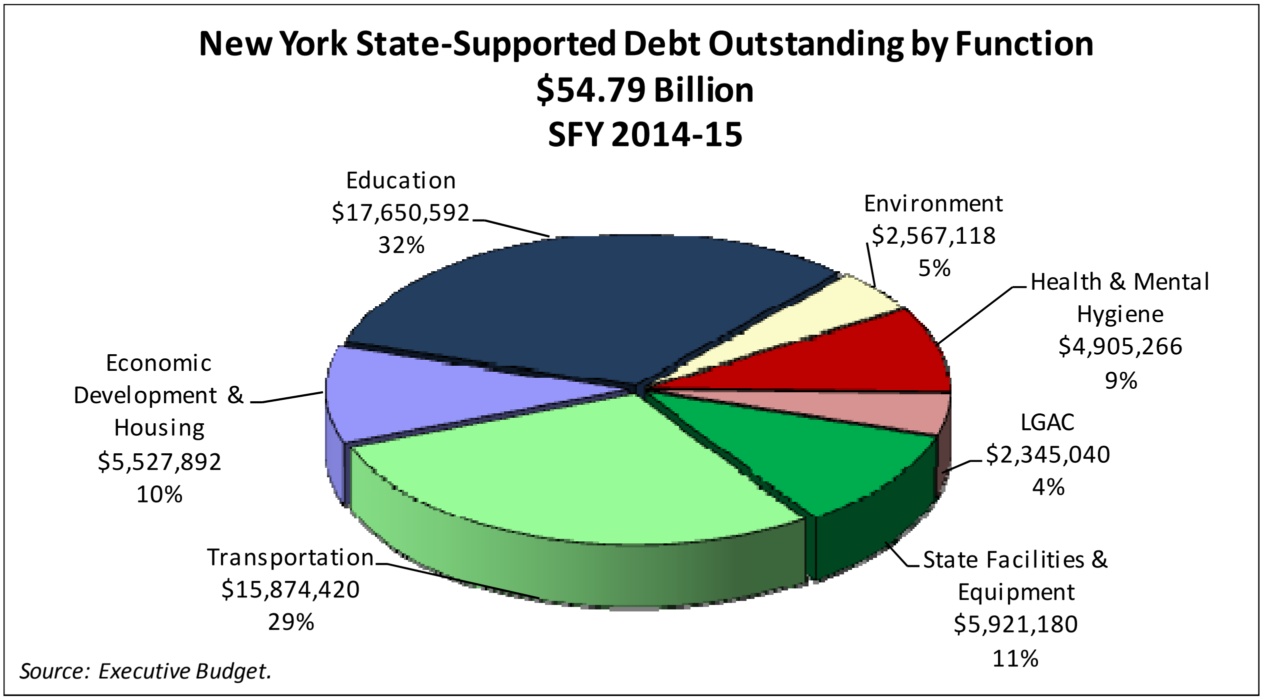


Figure 90

The $1.9 billion increase in state-supported Debt outstanding for SFY 2014-15 is offset by $3.6 billion in state-supported debt retirements and $5.6 billion in state-supported debt issuances. Increases in debt outstanding will occur in the following programs: $1.2 billion for Education facilities, $409 million for Health and Mental Hygiene, $237 million for Transportation, and $117 million for Environmental projects.

State-supported debt outstanding is projected to be $54.8 billion for SFY 2014-15. The projections also exemplifies the debt managing to remain under the statutory debt cap over Five-Year Plan, declining from $3.2 billion in SFY 2013-14, $1.9 billion in SFY 2014-15 to $106 million in remaining capacity SFY 2016-17. The State cap on the amount of debt outstanding is limited to four percent of Personal Income. The amount of debt projected service under the statutory cap for SFY 2014-15 is $3 billion below statutory cap.

Table 100

State Debt Outstanding Financing Program and Program Area SFY 2014 through SFY 2019 ($ in Millions)	SFY 2014	SFY 2015	SFY 2016	SFY 2017	SFY 2018	SFY 2019
General Obligation Bonds	**3,528**	**3,515**	**4,328**	**4,369**	**4,405**	**4,416**
Revenue Bonds						
Personal Income Tax	28,342	31,130	33,506	35,149	36,032	37,496
Sales Tax	959	2,098	3,232	4,363	5,476	6,576
Dedicated Highway	6,254	5,669	5,161	4,667	4,157	3,628
Mental Health Services	2,097	1,916	1,734	1,556	1,375	1,214
SUNY Dorms	1,215	1,164	1,111	1,058	1,007	962
Health Income	252	236	219	202	183	164
LGAC	2,592	2,345	2,058	1,758	1,465	1,241
Subtotal Revenue Bonds	**41,714**	**44,561**	**47,024**	**48,755**	**49,698**	**51,284**
Service Contract	**7,621**	**6,714**	**5,815**	**5,014**	**4,105**	**3,375**
Total State-supported	**52,864**	**54,791**	**57,169**	**58,139**	**58,209**	**59,076**
Program Area						
Economic Development & Housing	5,444	5,527	5,760	5,617	5,126	5,495
Education	16,476	17,650	19,404	20,303	20,988	21,618
Environment	2,450	2,567	2,666	2,756	2,847	2,898
Health & Mental Hygiene	4,495	4,905	5,055	5,192	5,321	5,454
State Facilities & Equipment	5,768	5,921	6,001	5,941	5,851	5,756
Transportation	15,637	15,874	16,223	16,570	16,611	16,610
LGAC	2,592	2,345	2,058	1,758	1,465	1,241
Total State-supported	**52,864**	**54,791**	**57,169**	**58,140**	**58,211**	**59,075**

General Obligation Bonds

The State finances a small portion of its capital projects with general obligation (GO) bonds. GO bonds are issued with the full faith and credit of the State by voter approved authorization. The State expects that $3.5 billion or 6.4 percent of total State-supported debt outstanding is GO bond debt as of SFY 2014-15.

Majority of projected GO bonds spending was authorized in the 2005 Rebuild and Renew New York Bond Act. Spending authorizations from the remaining eight bond acts will be virtually depleted by SFY 2017-18. General Obligation bonds are the only debt obligations that the State is required to pay by law.

Revenue Bonds

The public authorities and benefit corporations authorized to issue revenue bond financing are as follows: The Dormitory Authority of the State of New York (DASNY); The Urban Development Corporation (UDC); The New York State Thruway Authority (TA); The New York State Environmental Facilities Corporation (EFC); and The New York State Housing Finance Agency (HFA). The issuance of such revenue bonds shall not be a debt to the State nor shall the State be liable. Other Revenue Bonds are backed by a separate dedicated revenue stream relating to the projects that they fund, for example SUNY Dormitories would be backed by student fees.

Personal Income Tax Bonds (Revenue Bonds)

Personal Income Tax (PIT) Revenue Bonds are backed by 25 percent of PIT revenues. The following programs are supported by Revenue Bonds: Education, Environment, Transportation, Economic Development and Housing, Health Care, and State Facilities and Equipment.

Specifically Education supports SUNY, CUNY, Expanding our Children's Education and Learning (EXCEL), NYS Office of Science and Technology, and Academic Research (NYSTAR); Environment supports State Revolving Fund, State Superfund, West Valley and other environmental projects; Transportation supports the CHIPs program to aid local transportation projects; Economic Development and Housing, Health Care, capital projects for the Division of Military and Naval Affairs and equipment bonds, including for software development.

Debt issuance for PIT bonds is forecast at $4.1 billion for SFY 2014-15 and will be offset by $1.3 billion in debt retirements for a total of $31.1 billion in debt outstanding and $2.7 billion in debt service.

Service Contract & Lease-Purchase Agreements

The State enters into Service Contract and Lease-Purchase Agreements with Public Benefit Corporations, Municipalities and Other entities.

A lease-purchase agreement is a title asset that will revert back to the State at the end of the lease. Examples of these assets are: Capital Lease-Purchase Agreements (electronic data processing or telecommunications equipment) and Real Property Capital Lease-Purchase Agreements. These debt financings enable hospitals, schools and other facilities to purchase new technical equipment and other assets that would be too costly for them to purchase outright.

The Service Contract & Lease-Purchase Agreement projects $6.7 billion in debt outstanding for SFY 2014-15, a decrease of $906 million or 11.9 percent since SFY 2013-14 estimates. The Service Contract & Lease-Purchase Agreement in debt outstanding will be offset by $906 million in debt retirements and $925 million in debt service.

State-Related Debt Outstanding

Table 101

State-Related Debt Outstanding (Other State Debt Obligations in addition to State-Supported) ($ in Thousands)		
	SFY 2013-14	**SFY 2014-15**
State-supported Subtotal	**$52,864,537**	**$54,791,508**
Contingent Contractual		
DASNY/MCFFA Secured Hospitals Program	353,075	306,110
Tobacco Settlement Financing Corporation	2,053,345	1,744,905
Moral Obligation		
HFA Moral Obligation Bonds	7,050	4,710
MCFFA Nursing Homes & Hospitals	0	0
State Guaranteed		
Job Development Authority (JDA)	12,345	9,255
State Funded		
MBBA Prior Year School Aid Claims	281,315	262,650
Total	**$55,571,667**	**$57,119,138**

State-related debt outstanding is estimated at $57.1 billion in SFY 2014-15 an increase of $1.5 billion over the prior year.

Contingent Obligations

The Executive defines State-related debt to include the following debt obligations in addition to State-supported debt: Contingent Contractual Obligation (Tobacco Settlement Financing Corporation, DASNY/MCFFA Secured Hospital Program), Moral Obligation (Housing Finance Agency Moral Obligation Bonds, MCFFA Nursing Homes and Hospitals), State Guaranteed Debt (Job Development Authority) and Other State Financings (MBBA Prior Year School Aid Claims).

Contingent Contractual Obligations are agreements by the State to fund the debt service payments related to a bonded debt issuance only in the case that debt service payments cannot be made.

Debt Instruments

The management of $54.8 billon state-supported debt outstanding is primarily in debt instruments of fixed rate (96 percent), Interest Rate Exchange Agreement (Swaps) (3.7 percent) and in variable rate (0.4 percent). When interest rates are favorable the State has often refunded outstanding debt to produce fiscal year savings.

The State's refunding criteria require that each individual bond must have a certain minimum net present value (NPV) savings and the overall total NPV savings must be at least the lesser of two percent of the par amount of refunded bonds or three times the refunding bonds' total cost of issuance, including underwriter's discount and bond insurance if applicable.

The use of variable rate and swap instruments have declined due to the over exposure of the underlying markets to the economic crisis. The state has no plans to enter into additional swaps and in SFY 2014-15 swaps exposure is estimated to 3.5 percent of state-supported related debt outstanding. In order for the state to enter into swap agreements, the state counterparty rating must be AA rated at a minimum.

New York State uses certain debt instruments like interest rate exchange agreements (swaps) and variable rate debt obligations (VRDO) to manage debt. Only five percent of debt in SFY 2014-15 will be managed with debt instruments other than fixed interest rates. Article 5-D of State Finance outlines the management of debt instruments.

Debt Coverage Ratio

Public authority bonds will be issued to support capital projects over the Executive Capital Plan. Authority revenue credits include State PIT Revenue Bonds, and Sales Tax Revenue Bonds.

Authority bond-financed capital spending is reimbursed by the proceeds of bonds sold by State public authorities pursuant to Contractual agreements with the State. Bond reimbursements is managed to provide the most efficient reimbursement possible. Factors affecting the timing of reimbursement of State expenditures include the availability of existing bond proceeds, bond market access, investment terms, and State cash flow considerations.

Table 102

Projected Revenue Bond Coverage Ratios
SFY 2014 through 2019
($ in Thousands)

	SFY 2014	SFY 2015	SFY 2016	SFY 2017	SFY 2018	SFY 2019
Projected RBTF Receipts	$10,711,625.00	$11,033,175.00	$11,676,300.00	$12,335,350.00	$12,822,350.00	$13,143,025.00
Projected New PIT Bonds Issuances	$2,853,120.00	$4,089,599.00	$3,828,136.00	$3,241,695.00	$2,619,901.00	$3,335,513.00
Projected Total PIT Bonds Outstanding	$28,342,595.00	$31,130,628.00	$33,506,722.00	$35,140,242.00	$36,032,965.00	$37,496,360.00
Projected Maximum Annual Debt Service	$2,652,204.00	$2,997,599.00	$3,295,889.00	$3,553,917.00	$3,765,297.00	$4,046,257.00
Projected PIT Coverage Ratio	4	3.7	3.5	3.5	3.4	3.2

Table 103

Projected Sales Tax Revenue Bond Coverage Ratios
SFY 2014 through 2019
($ in Thousands)

	SFY 2014	SFY 2015	SFY 2016	SFY 2017	SFY 2018	SFY 2019
Projected Sales Tax Receipts	$2,945,000.00	$3,034,600.00	$3,145,100.00	$3,261,600.00	$3,386,100.00	$3,521,100.00
Projected New Sales Tax Bonds Issuances	$959,795.00	$1,178,773.00	$1,214,136.00	$1,250,560.00	$1,288,077.00	$1,326,720.00
Projected Total Sales Tax Bonds Outstanding	$959,795.00	$2,098,403.00	$3,232,975.00	$4,363,238.00	$5,476,591.00	$6,576,130.00
Projected Maximum Annual Debt Service	$85,857.00	$184,588.00	$287,867.00	$396,524.00	$507,111.00	$629,065.00
Projected Sales Tax Coverage Ratio	34.3	16.4	10.9	8.2	6.7	5.6

Approximately 55 percent of total spending will be financed with authority bond proceeds. The receipts to debt service coverage for PIT Revenue bonds are 3.7 and Sales Tax Revenue bonds are 16.4, representing sufficient receipts for various bonding program.

State Bonds Caps

New York State bond caps provide the legal authorization to issue bonds to finance a portion of the State's Capital Plan. As bond cap for a particular programmatic purpose is reached, subsequent legislative changes are required to raise the statutory caps to the level necessary to meet the bondable capital needs. A total of $6.9 billion of increased bond authorizations were included in the SFY 2015 Executive Budget.

The Executive's debt program includes increases of bond authorizations for the following programs; $510 million for SUNY Educational Facilities, $32 million for SUNY Upstate Community Colleges, $273.6 million for CUNY Educational Facilities, $14 million for Library Facilities, $110 million for NY-SUNY 2020, $132.5 million for Environmental infrastructure projects, $35 million for Water Pollution Control (SRF), $16 million Division of State Police, $97 million in state office buildings, $15 million for prison facilities, $137 million for Homeland Security and Training Facilities, $35.8 million for Youth Facilities, $94.7 million for Office of Information Technology Services, $154.2 million in Housing capital programs, $1.19 billion in 2011 and 2012 Economic Development initiatives, $69.2 million for Mental Health Facilities, $1.2 billion for Capital Restructuring Program, $488.8 million for CHIPS and $225 million for Transportation Facilities.

Table 104

State-Supported Bond Caps SFY 2014-15 ($ in Thousands)		
Program	Current Law Bond Caps	Proposed Bond Cap Increases/Decreases
SUNY Educational Facilities	$10,422,000	$510,000
SUNY Dormitory Facilities	$1,561,000	
SUNY Upstate Community Colleges	$663,000	$32,129
CUNY Educational Facilities	$6,853,200	$273,628
Library for the Blind	$16,000	
SUNY Athletics Facilities	$22,000	
RESCUE	$195,000	
University Facilities (Jobs 2000)	$47,500	
School District Capital Outlay Grants	$140,000	
Judicial Training Institute	$16,105	
Transportation Transition Grants	$80,000	
Public Broadcasting Facilities	$15,000	
Higher Education Capital Matching Grants	$150,000	
EXCEL	$2,600,000	
Library Facilities	$112,000	$14,000
Cultural Education Facilities	$79,000	
State Longitudinal Data System	$20,400	
NY-SUNY 2020	$220,000	$110,000
Total Education Bond Caps	**$23,212,205**	**$939,757**
Environmental Infrastructure Projects	$1,265,760	$132,500
Hazardous Waste Remediation (Superfund)	$1,200,000	$100,000
Riverbank State Park	$78,000	
Water Pollution Control (SRF)	$735,000	$35,000
State Park Infrastructure	$30,000	
Pipeline for Jobs (Jobs 2000)	$33,750	
Long Island Pine Barrens	$15,000	
Pilgrim Sewage Plant	$11,200	
Total Environment Bond Caps	**$3,368,710**	**$267,500**
Empire State Plaza	$133,000	
State Capital Projects (Attica)	$200,000	
Division of State Police Facilities	$133,600	$16,000
Division of Military & Naval Affairs	$27,000	
Alfred E. Smith Building	$89,000	
Elk St. Parking Garage	$25,000	
State Office Buildings and Other Facilities	$220,800	$97,000
Judiciary Improvements	$37,600	
OSC State Buildings	$51,700	
Albany Parking Garage (East)	$40,910	
OGS State Building and Other Facilities	$140,000	
Equipment Acquisition (Cops)	$784,285	
Food Laboratory	$40,000	
OFT Facilities	$21,000	
Courthouse Improvements	$76,100	
Prison Facilities	$7,133,069	$15,000
Homeland Security and Training Facilities	$67,000	$137,000

- continued

State-Supported Bond Caps SFY 2014-15 ($ in Thousands) *- continued -*		
Program	Current Law Bond Caps	Proposed Bond Cap Increases/Decreases
Youth Facilities	$429,515	$35,850
NYRA Land Acquisition/VLT Construction	$355,000	
Storm Recovery Capital Fund	$450,000	
Office of Information Technology Services	$87,740	$94,700
Total State Facilities Bond Caps	**$10,542,319**	**$395,550**
Housing Capital Programs	$2,844,899	$154,200
Community Enhancement Facilities (CEFAP)	$423,500	
University Technology Centers (incl. HEAT)	$248,300	
Onondaga Convention Center	$40,000	
Sports Facilities	$144,936	
Child Care Facilities	$30,000	
Bio-Tech Facilities	$10,000	
Strategic Investment Program	$215,650	
Regional Economic Development	$1,189,700	
NYS Economic Development (2004)	$345,750	
Regional Economic Development (2004)	$243,325	
High Technology and Development	$249,000	
Regional Economic Development/SPUR	$89,750	
Buffalo Inner Harbor	$50,000	
Jobs Now	$14,300	
Economic Development 2006	$2,310,385	
Javits Convention Center (Expansion 2006)	$350,000	
Queens Stadium (Mets)	$74,700	
Bronx Stadium (Yankees)	$74,700	
NYS Ec. Dev. Stadium Parking (2006)	$75,000	
State Modernization Projects (Tram)	$50,450	
Int. Computer Chip Research and Dev. Center	$300,000	
2008 and 2009 Economic Development Initiatives	$1,269,450	
H.H. Richardson Complex/Darwin Martin House	$83,500	
Economic Development Initiatives	$1,003,607	$1,191,650
State and Municipal Facilities	$385,000	
Total Economic Development Bond Caps	**$12,115,902**	**$1,345,850**
Department of Health Facilities (Inc. Axelrod)	$495,000	
Mental Health Facilities	$7,366,600	$69,215
HEAL NY Capital Program	$750,000	
Capital Restructuring Program	$0	$1,200,000
Total Health/Mental Hygiene Bond Caps	**$8,611,600**	**$1,269,215**
Consolidated Highway Improvement Program (CHIPS)	$7,591,875	$488,853
Dedicated Highway & Bridge Trust	$16,500,000	
High Speed Rail	$22,000	
Albany County Airport	$40,000	
MTA Transit and Commuter Projects	$2,005,455	
MTA Transportation Facilities	$770,000	
Transportation Initiatives	$240,000	$225,000
Transportation (TIFIA)	$750,000	
Total Transportation Bond Caps	**$27,919,330**	**$713,853**
Local Government Assistance Corporation (LGAC)	$4,700,000	
Total LGAC Bond Cap	**$4,700,000**	**$0**
General Obligation	$17,435,000	$2,000,000
Total General Obligation Bond Caps	**$17,435,000**	**$2,000,000**
Grand Total	**$107,905,066**	**$6,931,725**

Debt of Public Authorities

Debt of Public Authorities

Public Authority debt is not a State obligation unless an appropriation is passed by the legislature each fiscal year. Public Authority borrowing supports the Capital Plan and Authority revenue credits include State PIT Revenue Bonds, DHBTF Bonds, SUNY Dormitory Facilities Revenue Bonds, Mental Health Facilities Improvement Revenue Bonds and DOH Revenue Bonds.

Approximately, 52 percent of total Capital Plan spending will be financed with authority bond proceeds. The State expects to use State PIT and Sales Tax Revenue Bonds as the financing vehicles for the vast majority of new bond financed spending for non-transportation programs.

Authority bond-finance Capital spending is reimbursed by the proceeds of bonds sold by State public authorities pursuant to contractual agreements with the State. Bond reimbursement is managed by the Executive according to timing needs and the availability of existing bond proceeds, bond market access, investment terms and State cash flow considerations.

As of December 31, 2012, each of the 19 authorities had an outstanding debt of $100 million or more, and the aggregate outstanding debt, including refunding bonds, was approximately $171 billion, only a portion of which constitutes State-supported or State-related debt. The State-related debt bonding totaled $52.6 billion, which 48 percent in Dormitory Authority, 21.2 percent in Thruway Authority, 16.2 percent in Urban Development Corporation & Empire State Development, 5.4 percent in Local Government Assistance Corporation, five percent in Tobacco Settlement Financing Corporation, 1.9 percent in Housing Finance Agency, and 2.9 percent in the remaining bonding authorities. The following table lists all entities that have issued Public Authority debt:

Table 105

Outstanding Debt of Certain Authorities As of December 31, 2012 ($ in Millions)			
Authority	State-Related Debt Bonding	Authority and Conduit Bonding	Total
Dormitory Authority	25,194	20,963	46,157
Metropolitan Transportation Authority	400	22,695	23,095
Port Authority of NY & NJ	0	21,898	21,898
Thruway Authority	11,121	3,290	14,411
Housing Finance Agency	995	10,140	11,135
UDC/ ESD	8,505	959	9,464
Triborough Bridge and Tunnel Authority	0	8,395	8,395
Environmental Facilities Corporation	801	6,474	7,275
Job Development Authority	15	7,011	7,026
Long Island Power Authority	0	6,757	6,757
Energy Research and Development Authority	0	3,426	3,426
State of New York Mortgage Agency	0	3,019	3,019
Local Government Assistance Corporation	2,836	0	2,836
Tobacco Settlement Financing Corporation	2,411	0	2,411
Power Authority	0	1,746	1,746
Battery Park City Authority	0	1,032	1,032
Municipal Bond Bank Agency	294	317	611
Niagara Frontier Transportation Authority	0	162	162
Bridge Authority	0	123	123
Total Outstanding	**52,572**	**118,407**	**170,979**

Table 106

Capital Spending And Debt Measures At A Glance ($ in Millions)	Results (1)	Projected					
	SFY 2013	SFY 2014	SFY 2015	SFY 2016	SFY 2017	SFY 2018	SFY 2019
Total Capital Spending	8,904	9,430	9,458	10,296	9,181	8,764	9,150
Annual Growth		5.9%	0.3%	8.9%	-10.8%	-4.5%	4.4%
Financing Source (Annual Growth)							
Pay-As-You-Go (Federal and State)	4,282	4,094	3,992	3,729	3,687	3,641	3,688
		-4.4%	-2.5%	-6.6%	-1.1%	-1.2%	1.3%
Bonded Capital Spending	4,622	5,336	5,466	6,567	5,494	5,123	5,462
		15.4%	2.4%	20.1%	-16.3%	-6.8%	6.6%
Capital Spending Category (Annual Growth)							
Capital Spending in State Financial Plan	7,539	7,992	8,526	9,399	8,361	7,954	8,350
		6.0%	6.7%	10.2%	-11.0%	-4.9%	5.0%
Capital Spending Directly from Bond Proceeds	1,365	1,438	932	897	820	810	800
		5.3%	-35.2%	-3.8%	-8.6%	-1.2%	-1.2%
Capital Spending by Program (Annual Growth)							
Transportation	4,432	4,678	4,443	4,213	4,176	3,990	4,034
		5.6%	-5.0%	-5.2%	-0.9%	-4.5%	1.1%
Education/Excel	97	101	101	1,121	388	387	317
		4.1%	0.0%	1009.9%	-65.4%	-0.3%	-18.1%
Other Higher Education/ Education Programs	2,029	1,902	1,810	1,619	1,550	1,494	1,465
		-6.3%	-4.8%	-10.6%	-4.3%	-3.6%	-1.9%
Economic Development and Government Oversight	426	604	874	917	777	729	800
		41.8%	44.7%	4.9%	-15.3%	-6.2%	9.7%
Mental Hygiene	236	343	379	385	393	402	402
		45.3%	10.5%	1.6%	2.1%	2.3%	0.0%
Parks and Environment	738	673	636	632	616	602	558
		-8.8%	-5.5%	-0.6%	-2.5%	-2.3%	-7.3%
Health	431	479	331	353	349	284	284
		11.1%	-30.9%	6.6%	-1.1%	-18.6%	0.0%
Social Welfare	130	134	136	160	186	186	186
		3.1%	1.5%	17.6%	16.3%	0.0%	0.0%
Public Protection	244	285	408	377	303	272	272
		16.8%	43.2%	-7.6%	-19.6%	-10.2%	0.0%
All Other	141	231	340	519	443	418	832
		63.8%	47.2%	52.6%	-14.6%	-5.6%	99.0%
Debt Measures							
State-Related							
Debt Outstanding	55,692	55,572	57,119	59,045	59,606	59,259	59,381
		-0.2%	2.8%	3.4%	1.0%	-0.6%	0.2%
Debt Service	6,668	6,550	6,160	6,891	7,238	7,536	7,549
		-1.8%	-6.0%	11.9%	5.0%	4.1%	0.2%
Debt Issuances	3,619	4,150	5,574	6,162	4,907	4,300	5,004
		14.7%	34.3%	10.5%	-20.4%	-12.4%	16.4%
Debt Outstanding as a percent of Personal Income	5.3%	5.2%	5.1%	5.0%	4.8%	4.6%	4.4%
Debt Service as a percent of All Funds Receipts	5.0%	4.7%	4.3%	4.7%	4.9%	4.9%	4.8%
Debt per Capita	2,846	2,828	2,902	2,995	3,017	2,994	2,995
State-Supported							
Debt Reform Act- Est. Debt Capacity (Cumulative)	4,155	3,179	1,866	157	106	1,025	1,591