



# Opportunity Agenda

2015-16

Executive Budget  
Overview



Division of  
the Budget

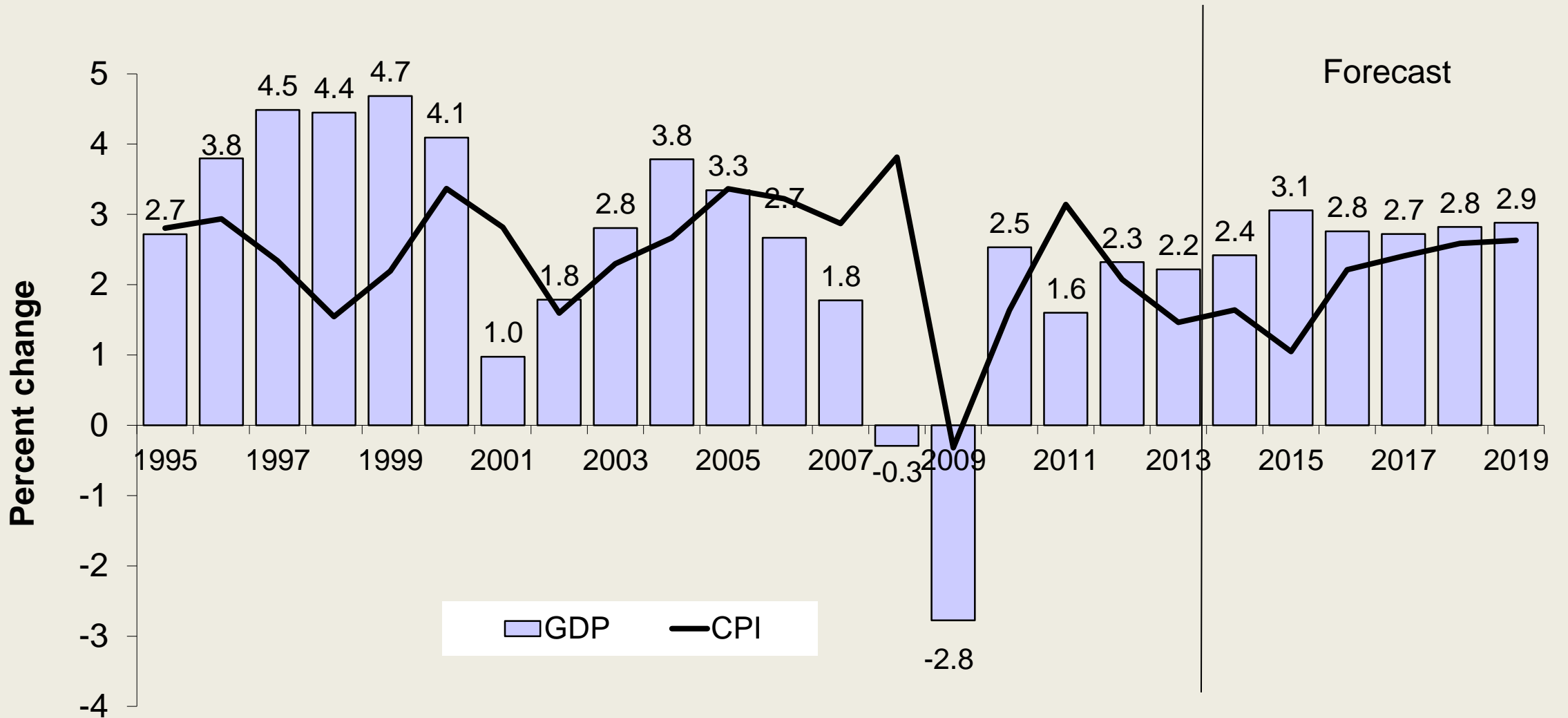
I. Economic Overview

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# Outlook for Real U.S. GDP Growth and Inflation



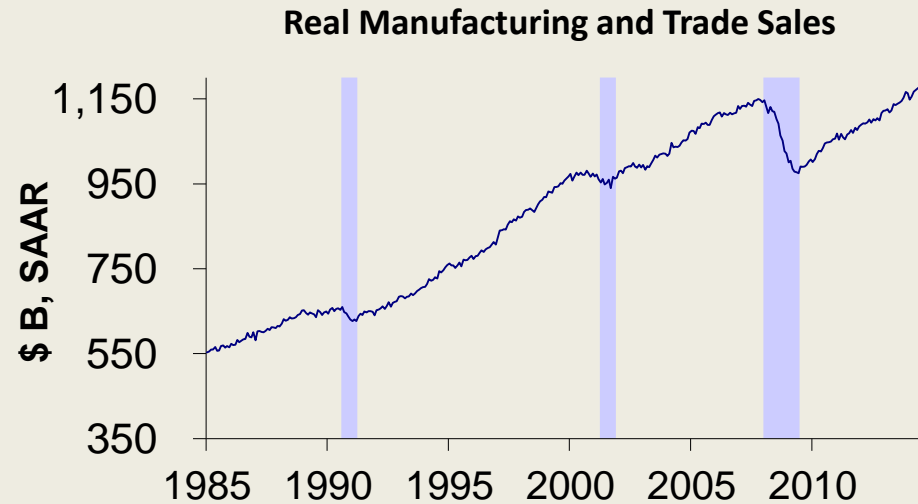
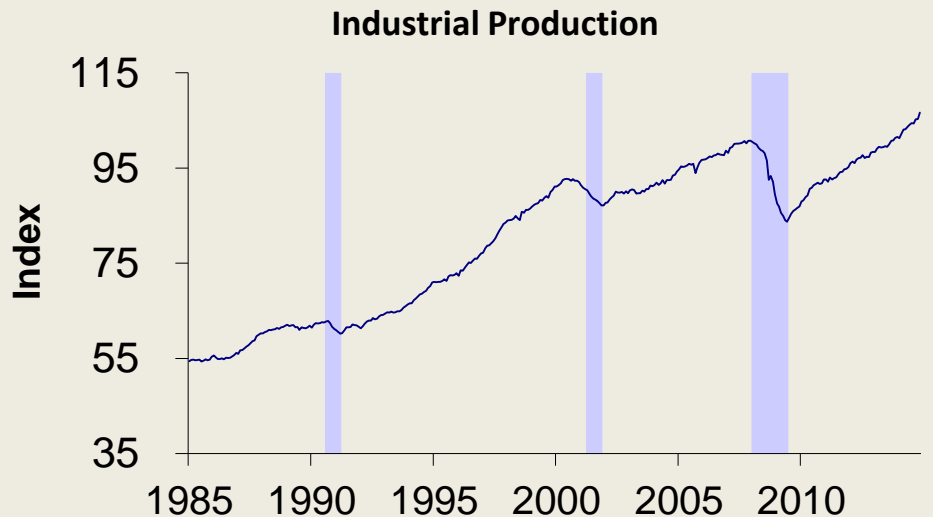
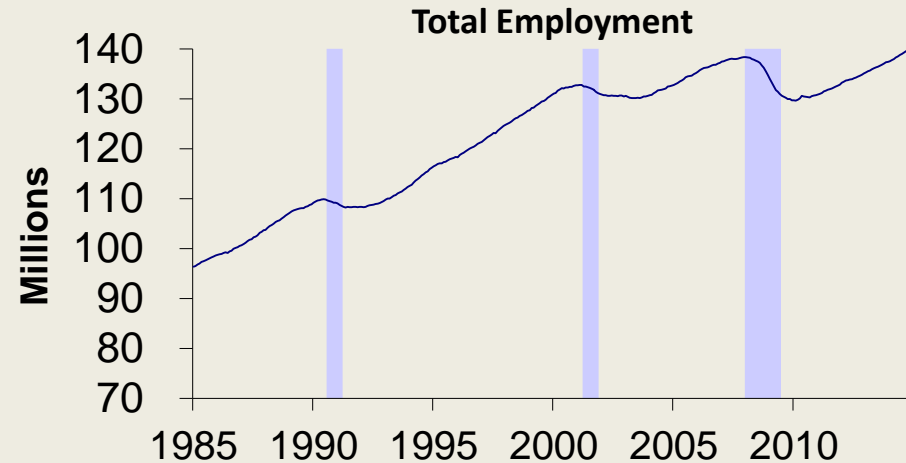
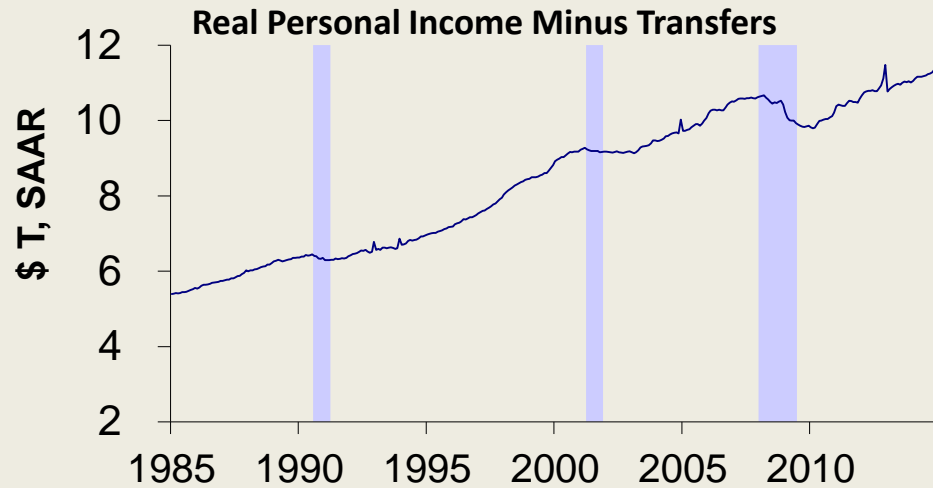
Note: Displayed values pertain to GDP growth.  
Source: Moody's Analytics; DOB staff estimates.

# U.S. Economic Forecast Comparison

|   | 2014 | 2015 | 2016 |
|---|------|------|------|
| <b>Real Gross Domestic Product (GDP)</b><br>(2009 chained percent change) |      |      |      |
| DOB   | 2.4  | 3.1  | 2.8  |
| Blue Chip Consensus   | NA   | 3.2  | 2.9  |
| Global Insight  | 2.4  | 3.1  | 2.7  |
| Macroeconomic Advisers  | 2.5  | 3.3  | 2.9  |
| <b>Consumer Price Index (CPI)</b><br>(percent change)                     |      |      |      |
| DOB   | 1.6  | 1.0  | 2.2  |
| Blue Chip Consensus   | NA   | 0.8  | 2.3  |
| Global Insight  | 1.6  | 0.1  | 2.3  |
| Macroeconomic Advisers  | 1.6  | 0.5  | 2.3  |
| <b>Unemployment Rate</b><br>(percent)                                     |      |      |      |
| DOB   | 6.2  | 5.5  | 5.2  |
| Blue Chip Consensus   | NA   | 5.5  | 5.1  |
| Global Insight  | 6.2  | 5.5  | 5.3  |
| Macroeconomic Advisers  | 6.1  | 5.3  | 5.0  |

Source: New York State Division of the Budget, January 2015; *Blue Chip Economic Indicators*, January 2015; Global Insight, *US Forecast Summary*, January 2015; and Macroeconomic Advisers, *Economic Outlook*, January 2015.

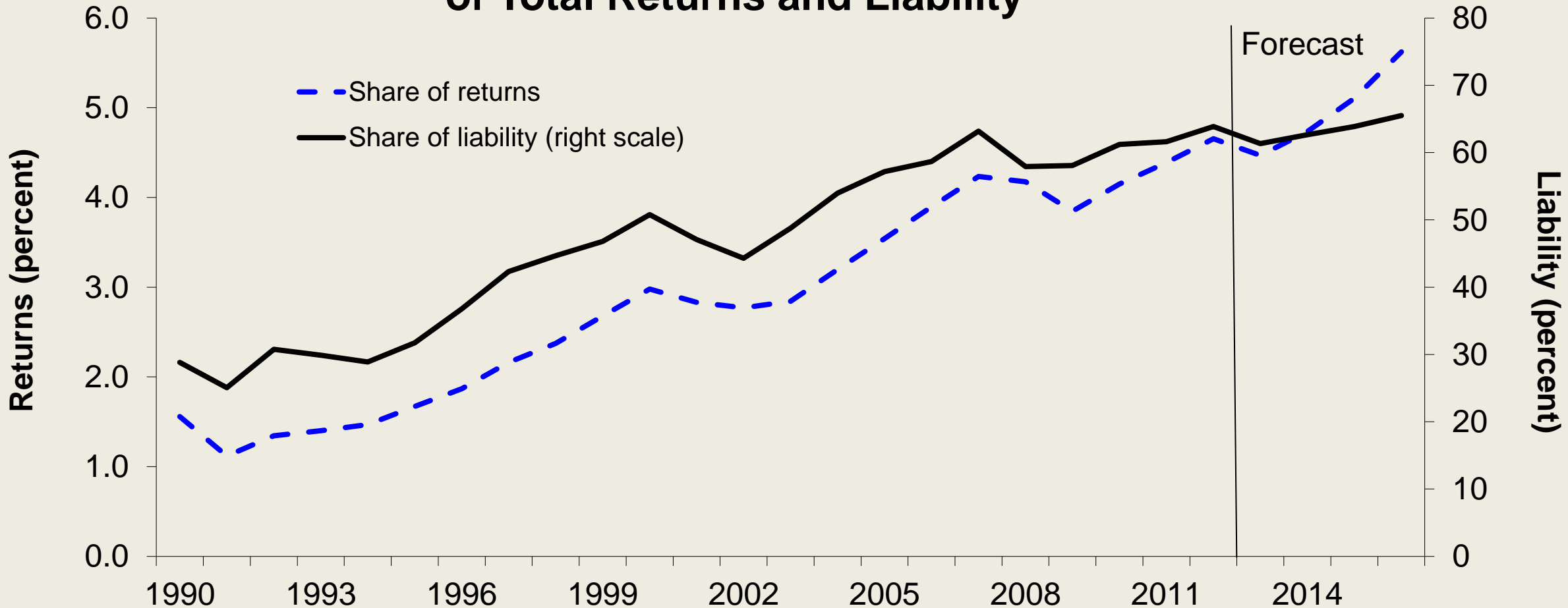
# All Business Cycle Indicators Have Finally Surpassed Pre-Recession Peaks. But the Population Has Grown, thus Slack Remains.



Note: Shaded areas represent U.S. recessions.

Source: Moody's Analytics.

# High-Income Taxpayers as Percent of Total Returns and Liability

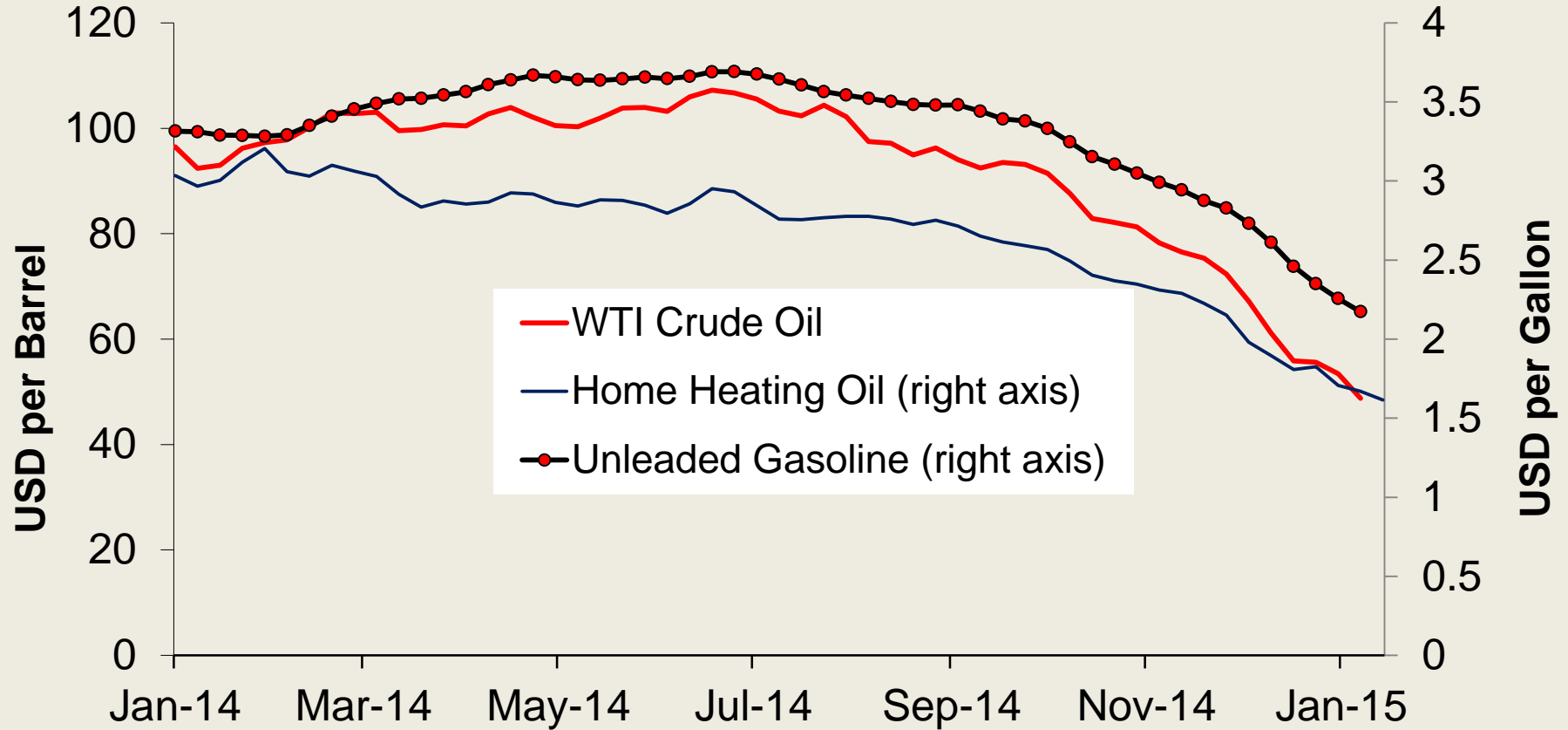


Note: High-income taxpayers are those reporting NYSAGI of \$200,000 or more. Source: NYS Department of Taxation and Finance; DOB staff estimates.

In 2012, high-income taxpayers accounted for 63.9 percent of personal income tax liability, but only 4.7 percent of taxpayers

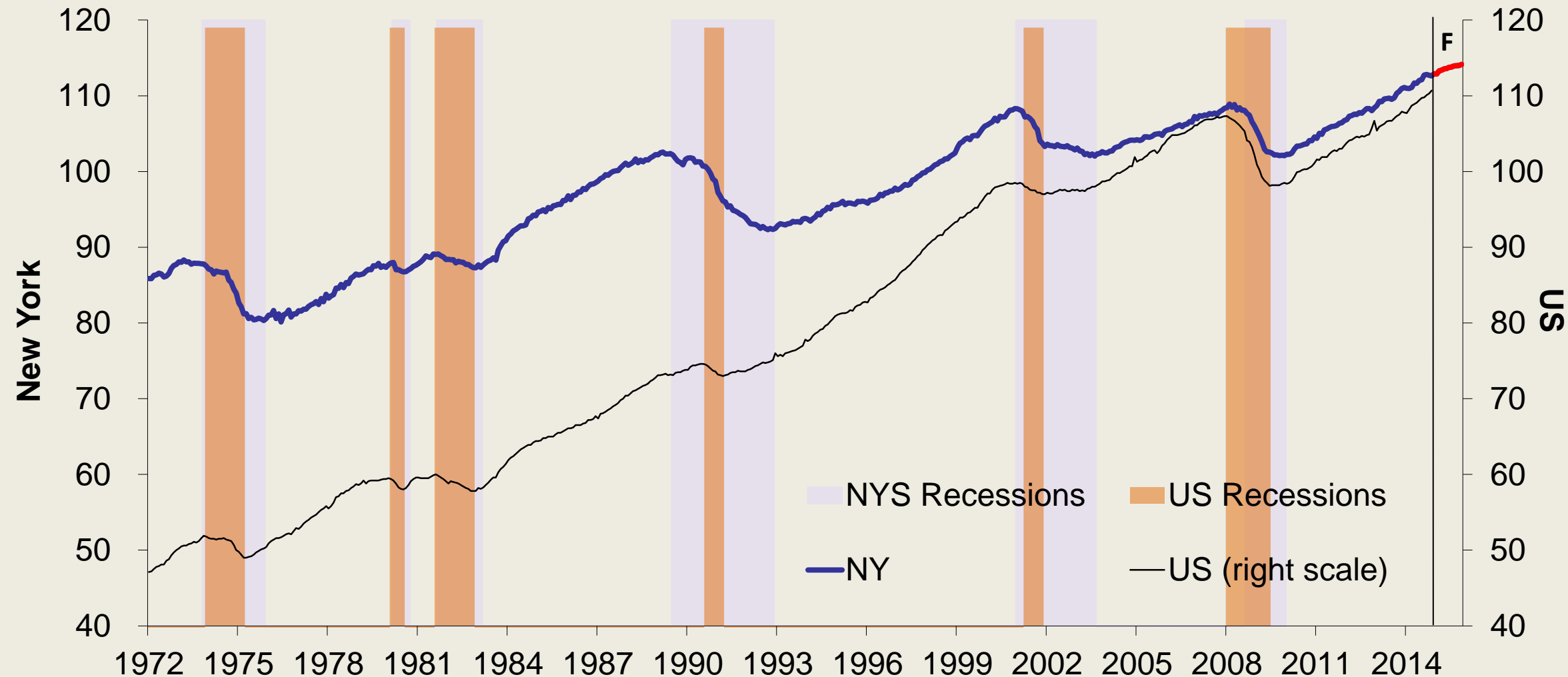
The State's dependence on a relatively small number of taxpayers creates extreme volatility in personal income tax receipts.

# Falling Energy Prices Provide Tailwinds



Source: Moody's Analytics.

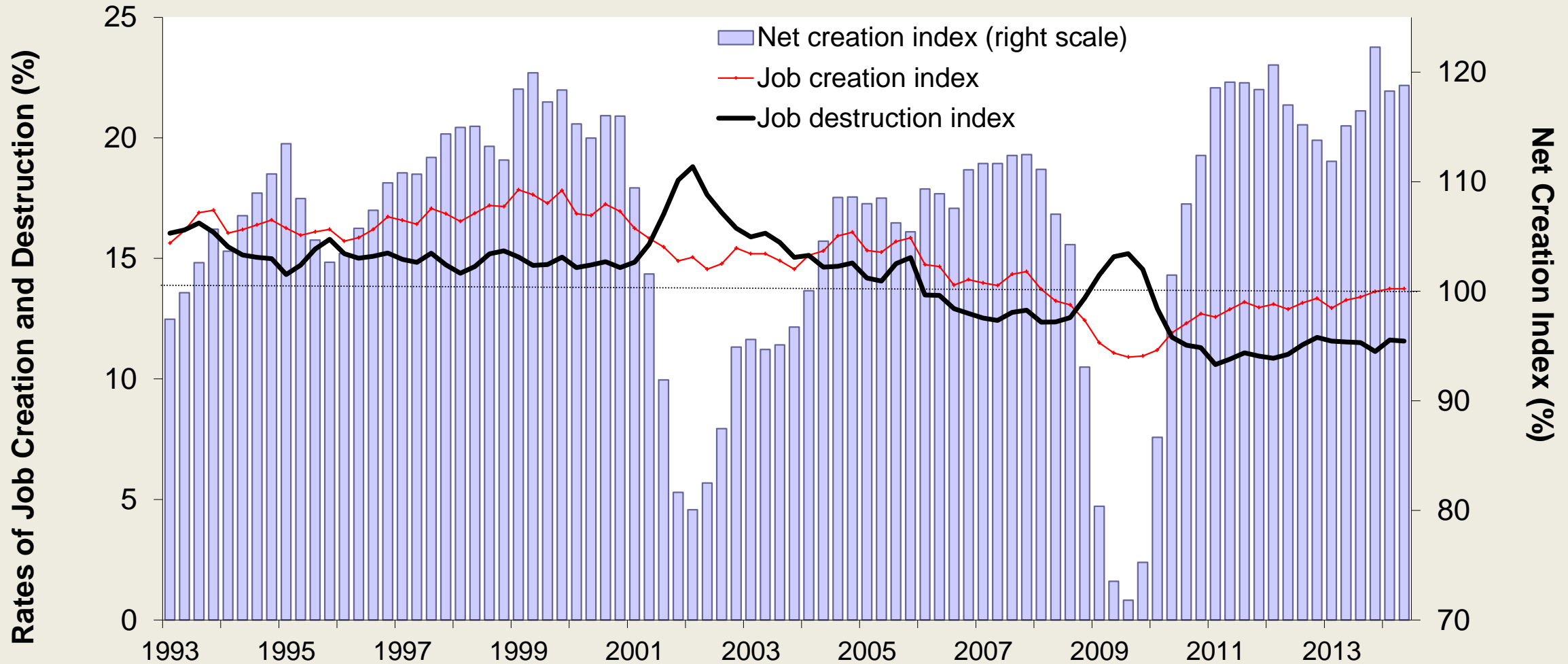
# New York State Index of Coincident Economic Indicators



Note: NYS recession dates are DOB staff estimates; NYS forecast (in red) is derived from the New York State Leading Index.  
Source: Moody's Analytics; DOB staff estimates.

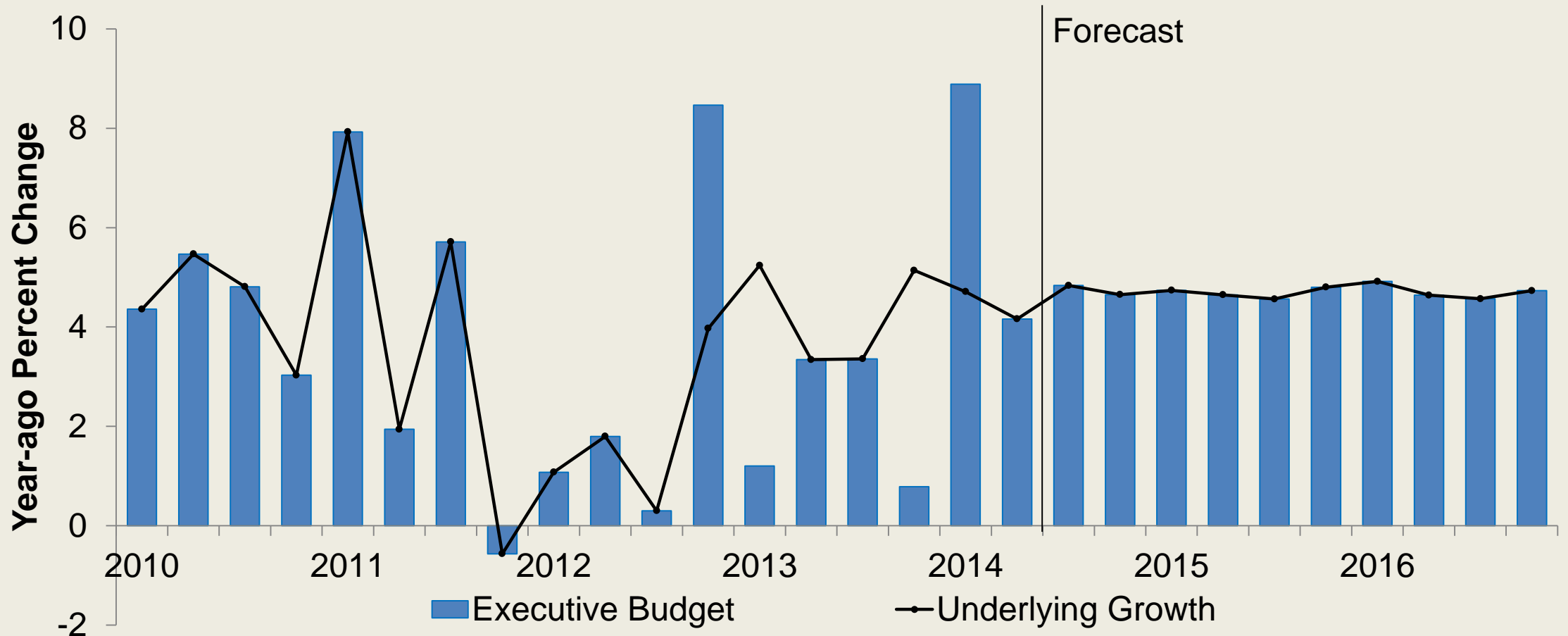


# NYS Private Sector Employment Dynamics



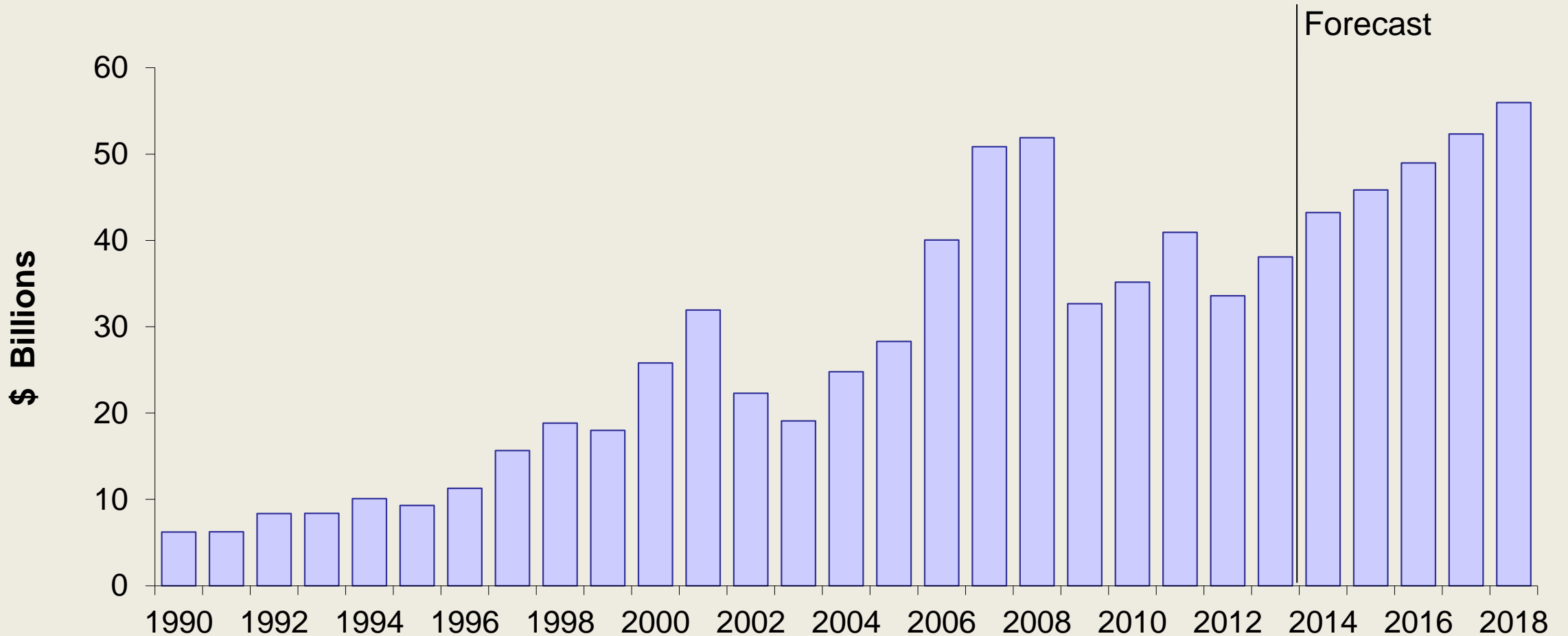
Source: NYS Department of Labor; DOB staff estimates.

# NYS Quarterly Wage Forecast Comparison



- Federal marginal tax rates were raised for the highest income earners in 2013, resulting in accelerated bonus payouts into late 2012, injecting additional volatility into State wages.
- For state fiscal year 2013-14, the contribution to wage growth of the State's high-tech areas – the information sector and professional, scientific and technical services – increased significantly.

# Outlook for NYS Finance and Insurance Sector Bonuses

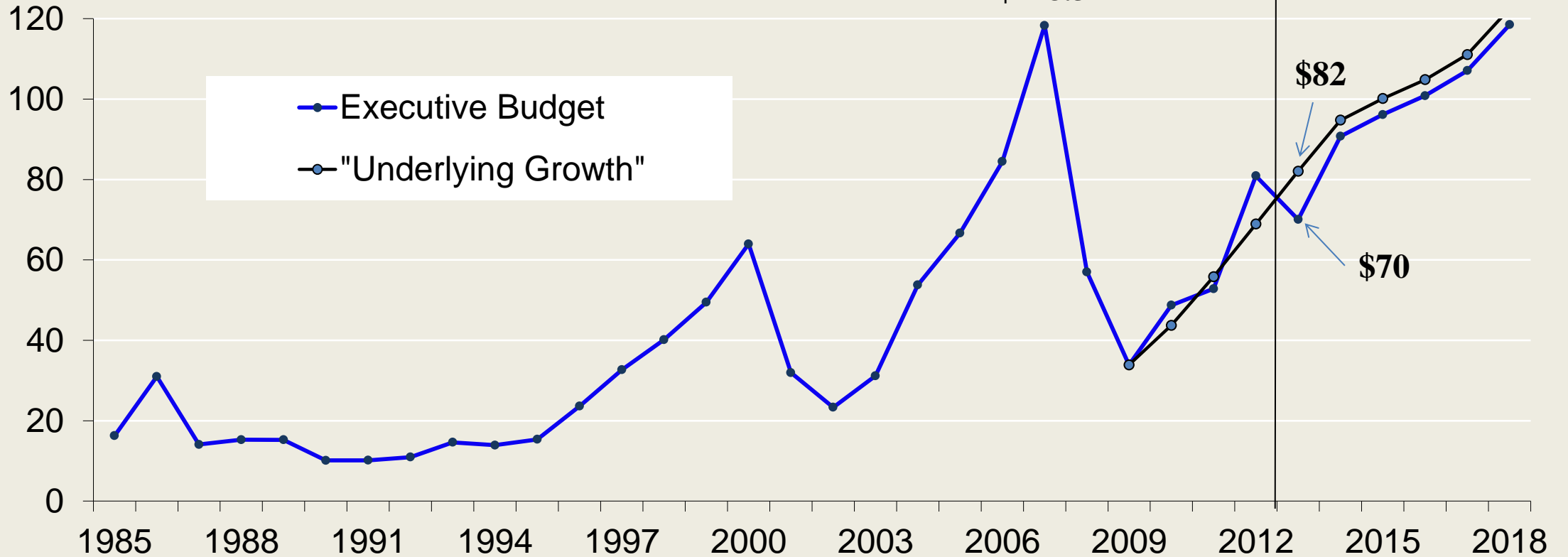


Source: NYS Department of Labor; DOB staff estimates.

- Looking at wage and bonus growth on a fiscal year basis helps to smooth the volatility.
- Finance and insurance bonus growth of about 8 percent is estimated for 2013-14, with projected annual average growth of about 7 percent going forward.

# Capital Gains Realizations

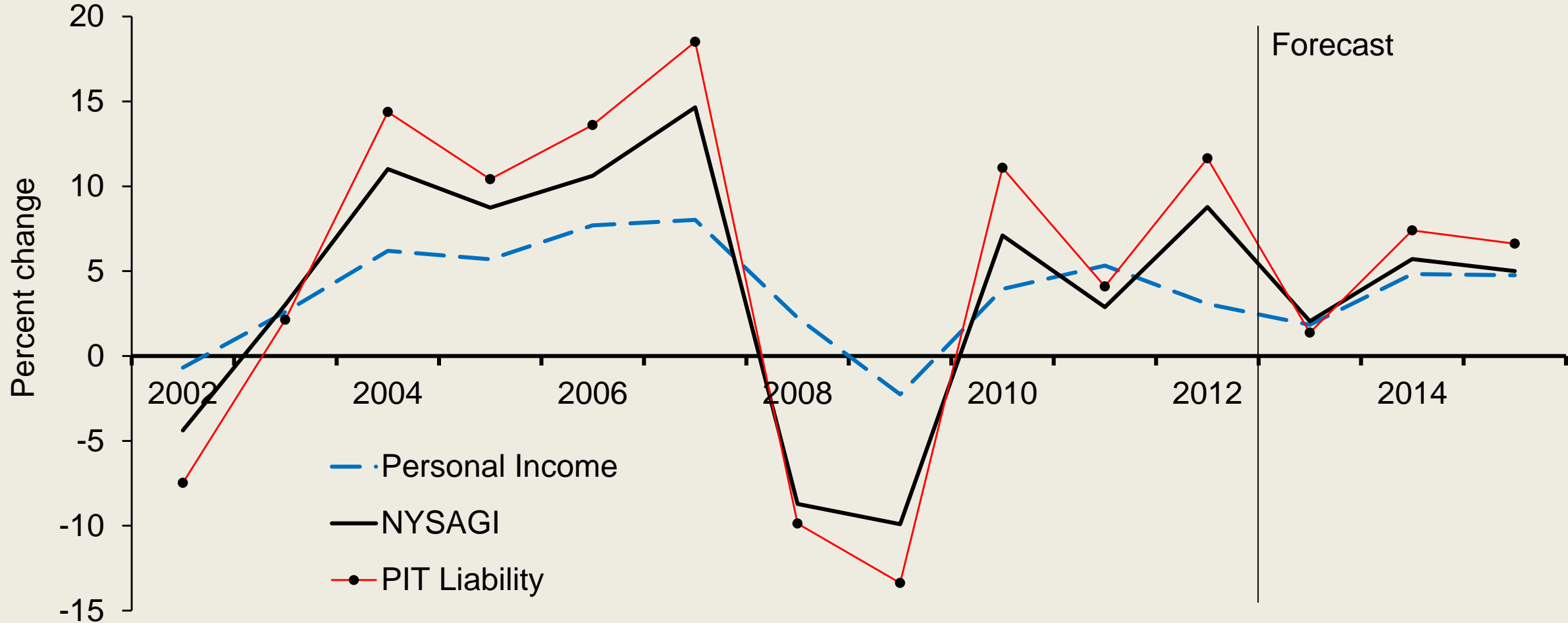
(\$billions)



Source: NYS Department of Taxation and Finance; DOB staff estimates.

- Taxpayers also realized capital gains early to avoid higher tax rates at the end of 2010, but even more so in 2012 when the low rates actually expired.
- The underlying growth smoothes the volatility, revealing a strong estimated performance of \$87.4 billion in 2013.

# The Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2012 liability and NYSAGI data are preliminary.

Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

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# Actual and Base Tax Receipt Growth (percentage)

|  | <u>Actual<br/>Change</u> | <u>Base<br/>Change</u> | <u>Inflation Adjusted Base<br/>Change</u> |
|--|--------------------------|------------------------|---|
| <b>Historical Average<br/>(FY 1992 to FY 2014)</b> | <b>4.2</b>               | <b>3.8</b>             | <b>1.2</b>                                |
| <b>Forecast Average<br/>(FY 2015 to FY 2019)</b>   | <b>3.5</b>               | <b>4.5</b>             | <b>2.4</b>                                |
| <b>Forecast Average<br/>(FY 2016 to FY 2019)</b>   | <b>4.0</b>               | <b>4.6</b>             | <b>2.4</b>                                |
| <b>Recessions</b>                                  | <b>(1.7)</b>             | <b>(5.3)</b>           | <b>(7.8)</b>                              |
| <b>Expansions</b>                                  | <b>5.9</b>               | <b>6.3</b>             | <b>3.6</b>                                |

# Actual and Estimated Tax Receipt Growth (percentage)

## All Funds Tax Receipts Growth (%)

|                     | Actual     |            |            | Estimated  |            |            |            |
|---------------------|------------|------------|------------|------------|------------|------------|------------|
|                     | FY2012     | FY2013     | FY2014     | FY 2015    | FY2016     | FY 2017    | FY2018     |
| Personal Income Tax | 7.1        | 3.8        | 6.8        | 3.2        | 5.7        | 5.8        | 4.5        |
| User Taxes          | 2.6        | 0.3        | 3.3        | 1.9        | 3.8        | 3.6        | 3.1        |
| Business Taxes      | 8.2        | 7.4        | -2.4       | -6.6       | 4.7        | -1.5       | 1.9        |
| Other Taxes         | -3.0       | -2.8       | 12.6       | 1.4        | 2.3        | 0.7        | 2.1        |
| <b>Total</b>        | <b>5.6</b> | <b>3.1</b> | <b>5.1</b> | <b>1.7</b> | <b>5.1</b> | <b>4.3</b> | <b>3.9</b> |



# All Funds Revenue Growth

All Funds FY 2015 tax receipts growth of 1.7 percent and FY 2016 growth of 5.1 percent are heavily influenced by timing factors.

**Slower FY 2015** growth is the result of:

- The first year of the tax credit deferral payback
- The non-recurring nature of Superstorm Sandy recovery spending by consumers.
- Tax cuts enacted in 2014

# All Funds Revenue Growth

All Funds FY 2015 tax receipts growth of 1.7 percent and FY 2016 growth of 5.1 percent are heavily influenced by timing factors.

**Growth in FY 2016** is inflated by:

- An artificially low prior year personal income base resulting from federal tax law changes in 2013
- Enacted 2014 tax cuts already included in the FY 2015 base

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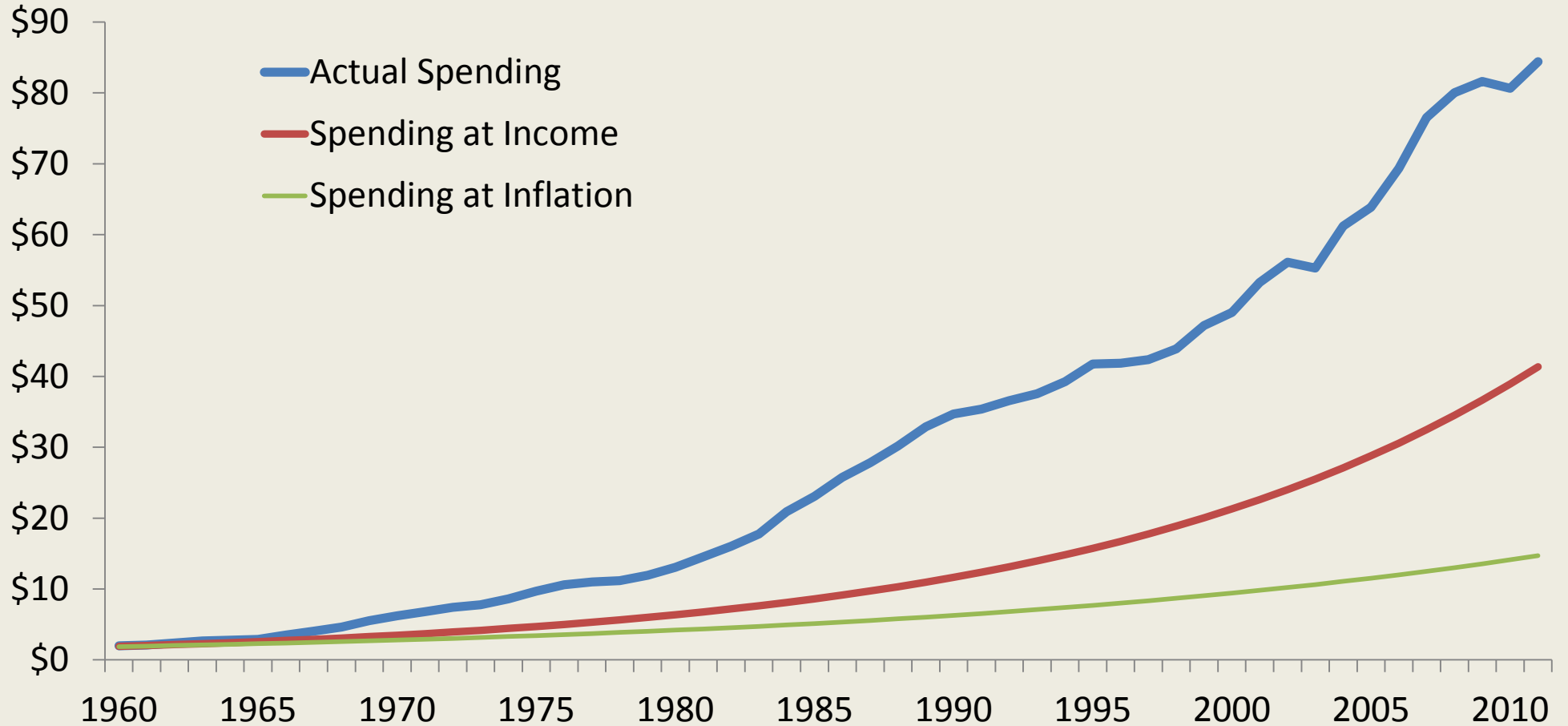
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# For Decades Actual Spending Outpaced Income and Inflation

Billions



# How We Achieved 2 Percent Spending

|   |                 |
|---|-----------------|
| <b>FY 2016, as of Mid-Year Estimate (Dollars in millions)</b>                         | <b>\$96,146</b> |
| STAR Reform and Forecast Revisions  | (250)           |
| Mental Hygiene Forecast Revisions and One-Time Federal BIP Resources                  | (315)           |
| Debt Service Prepayment Offset by Forecast Revisions                                  | (160)           |
| Healthy NY Reduction due to conversion to Health Exchange                             | (144)           |
| GSC Revisions for HI Rate Renewals and Lower Medical Rates and Growth in Workers Comp | (140)           |
| Public Health Spending Changes in Health Exchange and Local Public Health Programs    | (135)           |
| Special Education/Other Education Revisions   | (125)           |
| TADA and Housing Revisions  | (100)           |
| SUNY Hospital Reduction Related to sale of LICH offset by Operational Costs           | (70)            |
| Agencies Flat, Re-Estimates, All Other  | (723)           |
| <b>FY 2016 Executive Budget Estimate</b>  | <b>\$93,984</b> |

# Financial Plan Impact of Tax Actions

|                                     | FY 2017 | FY 2018 | FY 2019 |
|-------------------------------------|---------|---------|---------|
| Budget Surplus (Before Tax Actions) | 552     | 1,799   | 2,122   |
| Tax Actions                         | (386)   | (989)   | (1,492) |
| Budget Surplus (After Tax Actions)  | 166     | 810     | 630     |

I. Economic Overview

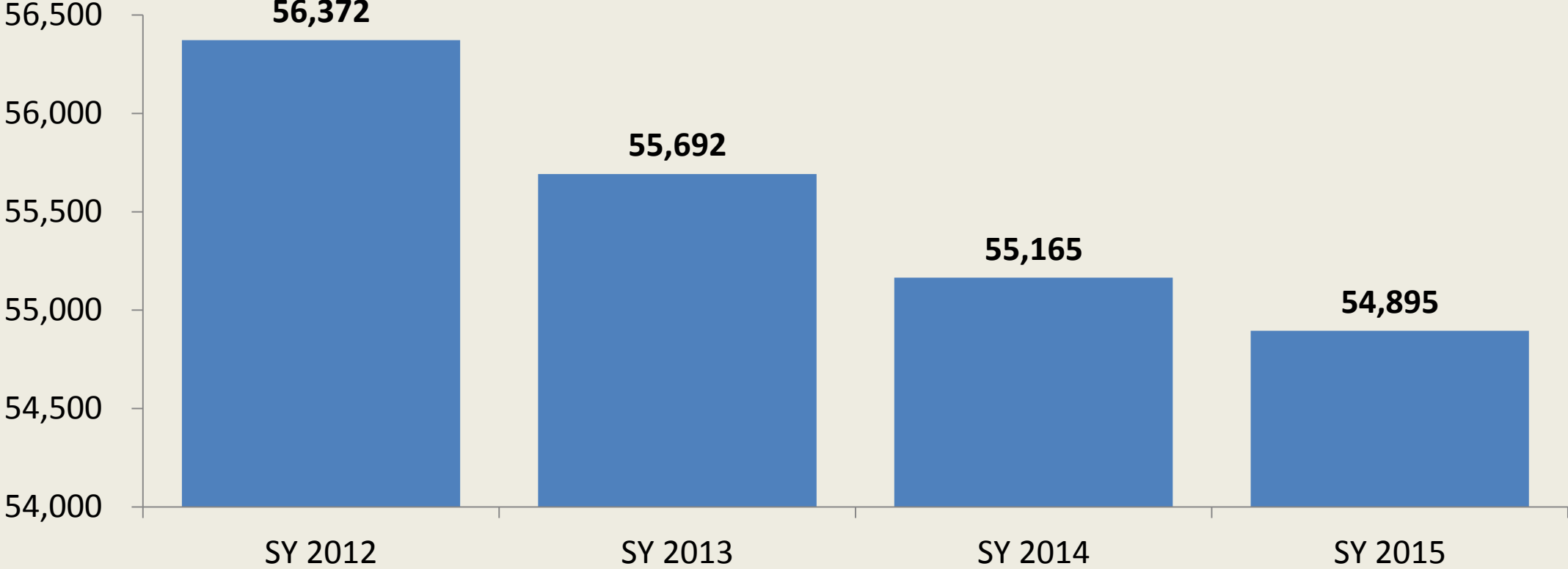
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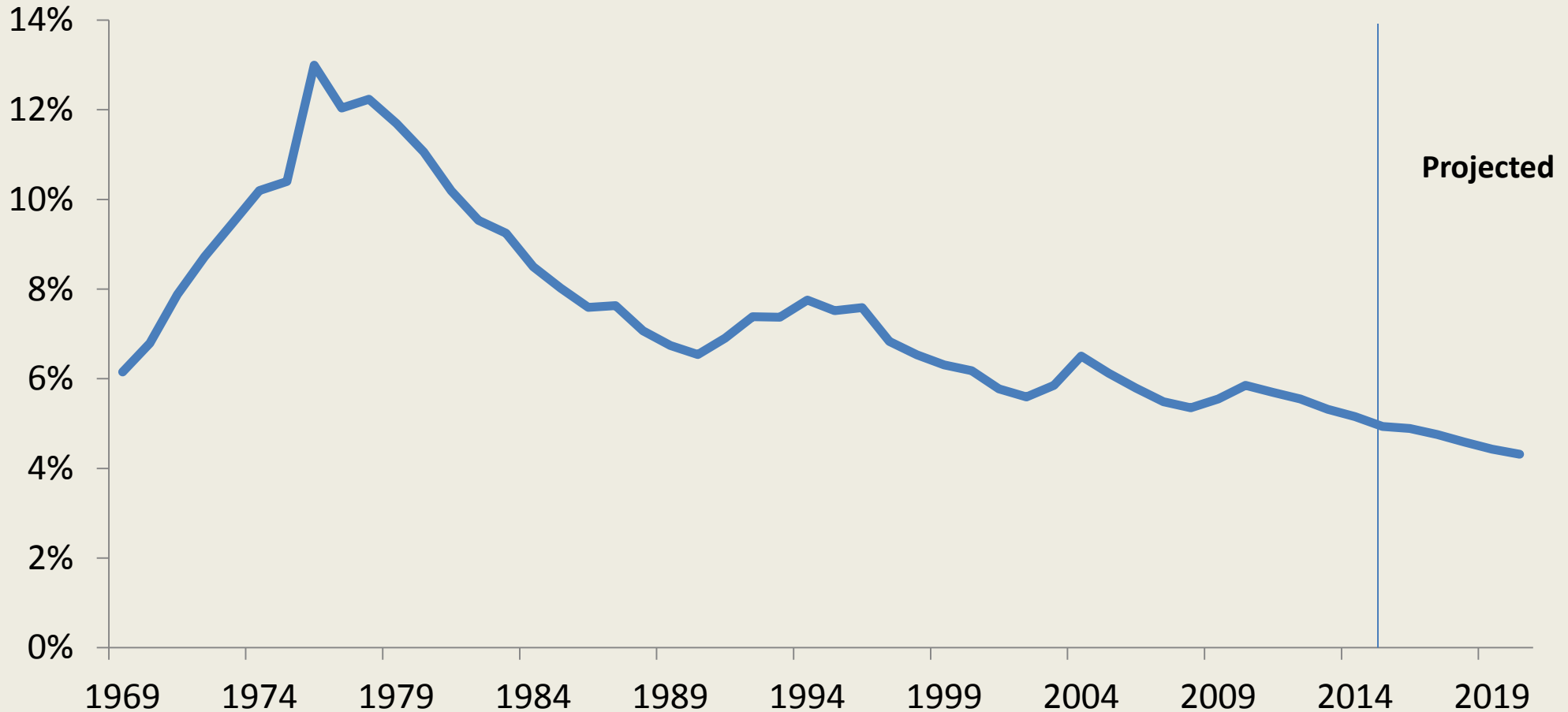
# State Debt is Projected to Decline for a Third Consecutive Year, the First Time in Over 50 Years

**State Debt Outstanding**  
(Millions of Dollars)



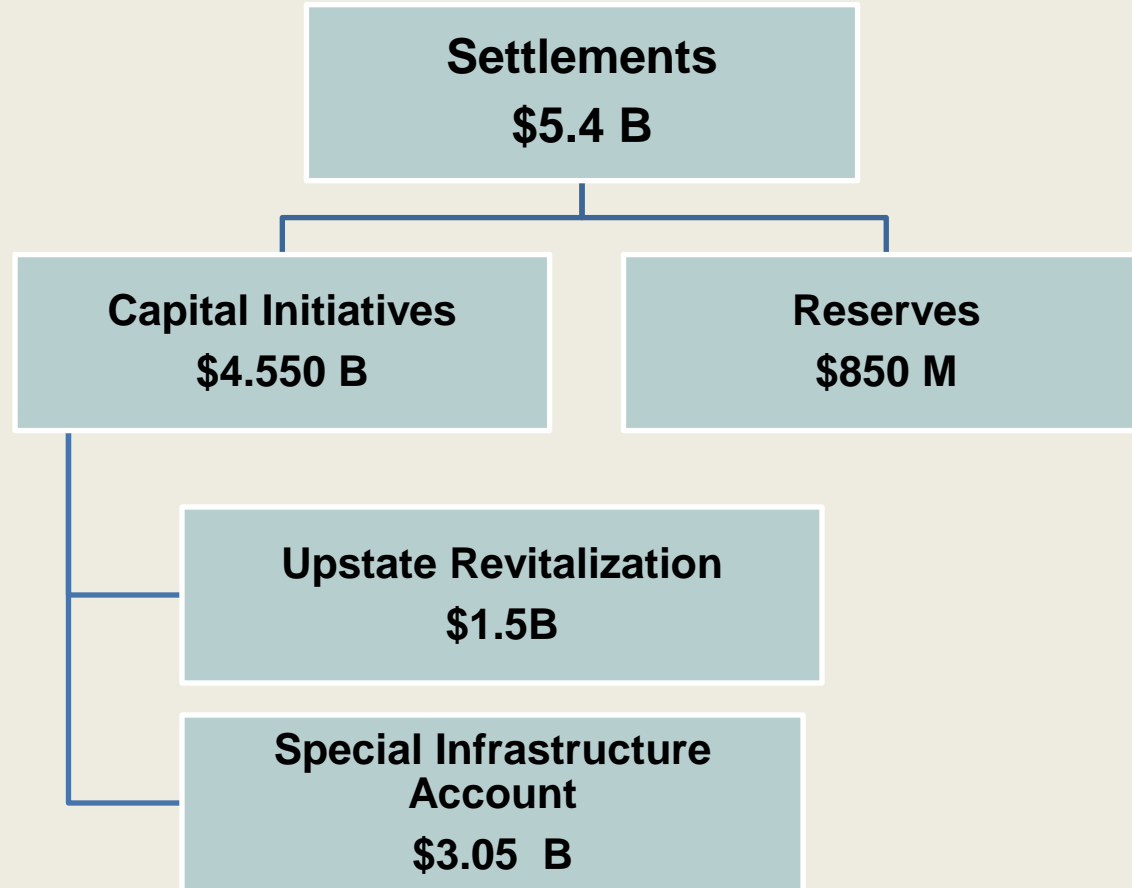


# Debt Burden is Steadily Declining At Lowest Level Since the 1960s



State debt as percent of NYS personal income

# \$5.4 Billion in Settlement Funds is Prudently Invested





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