



2015

Opportunity Agenda

2015-16

Executive Budget
Overview



Division of
the Budget

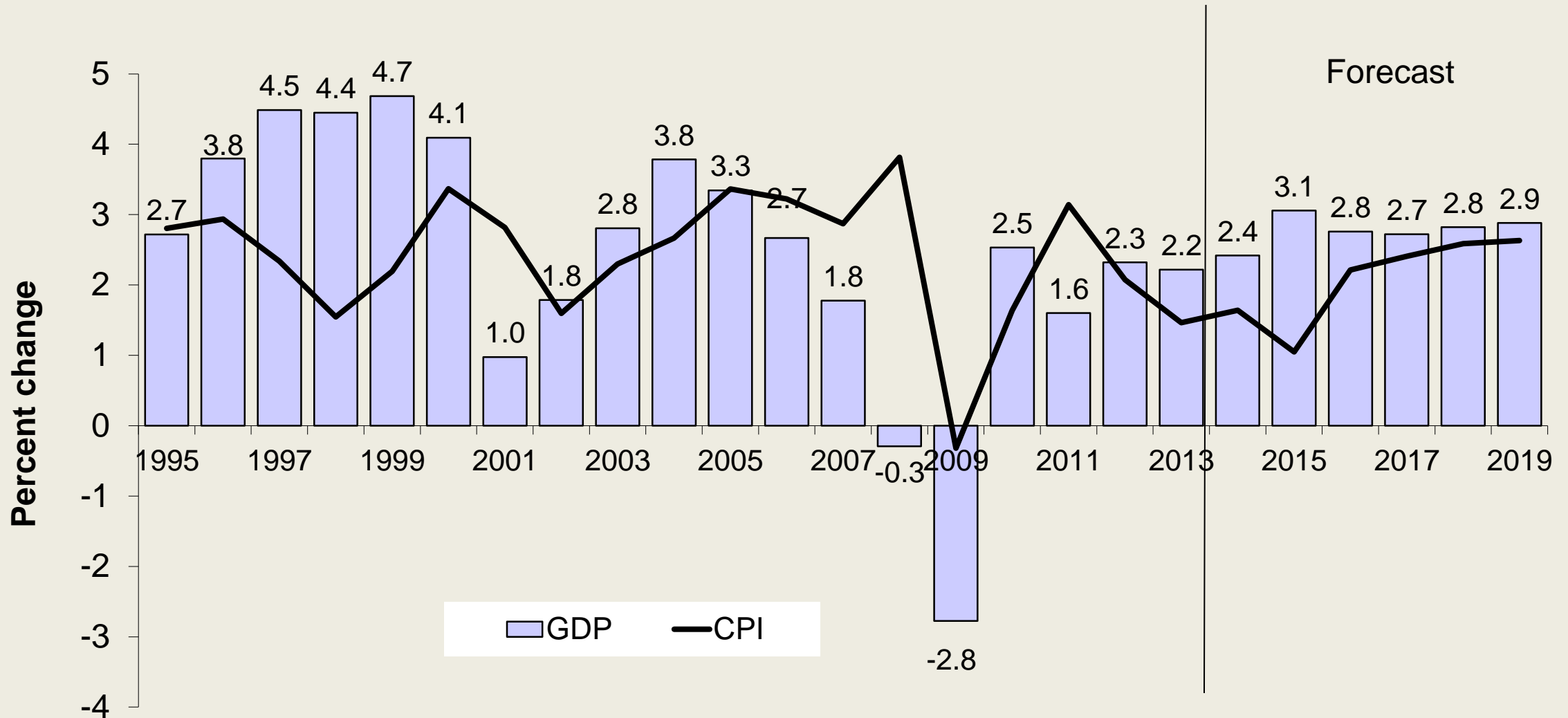
I. Economic Overview

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Outlook for Real U.S. GDP Growth and Inflation



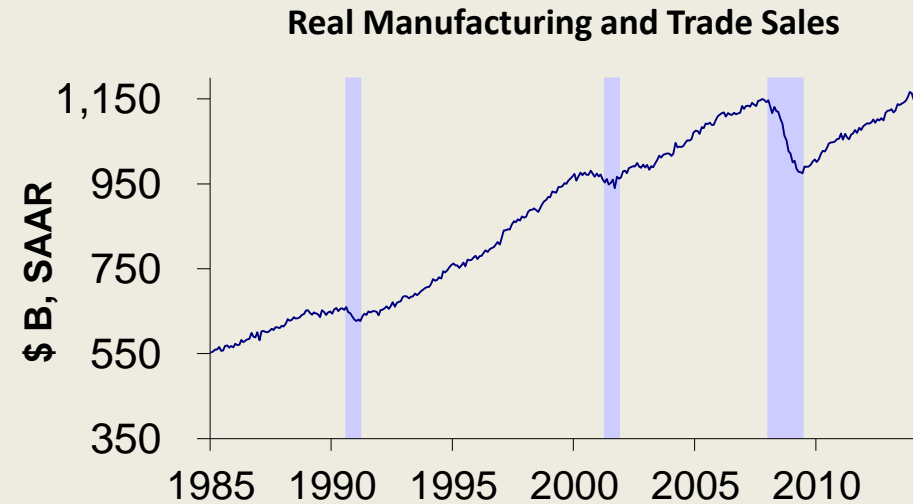
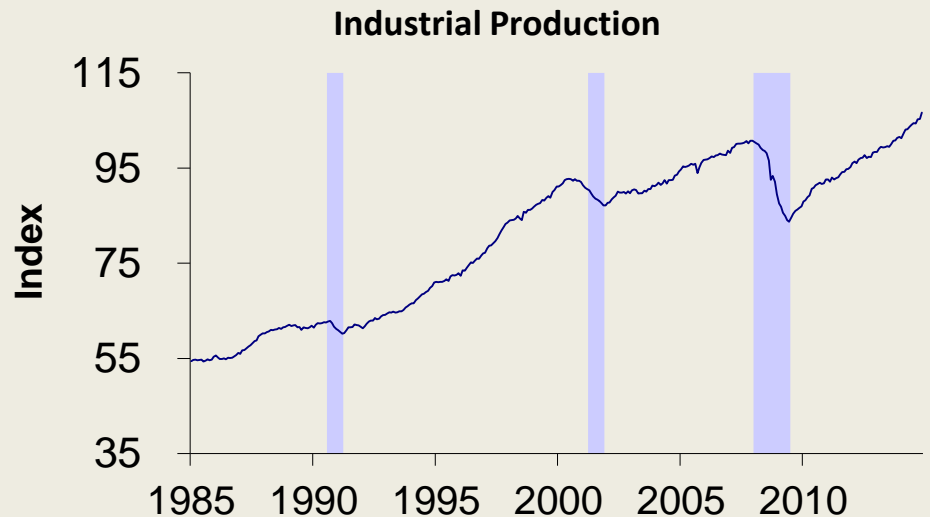
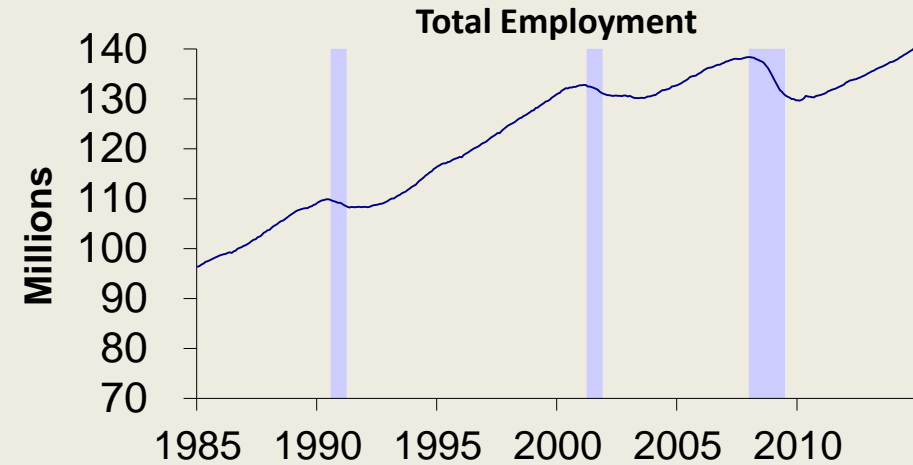
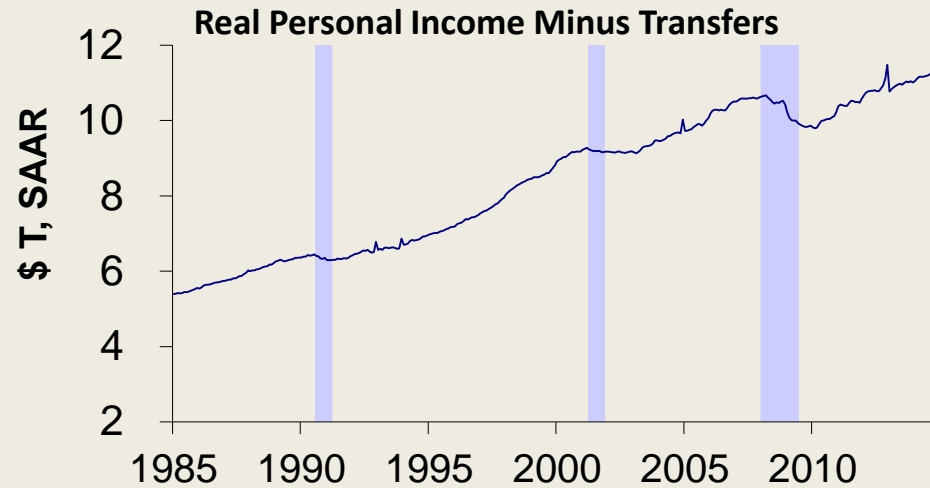
Note: Displayed values pertain to GDP growth.
Source: Moody's Analytics; DOB staff estimates.

U.S. Economic Forecast Comparison

	2014	2015	2016
Real Gross Domestic Product (GDP) (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
Consumer Price Index (CPI) (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
Unemployment Rate (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.

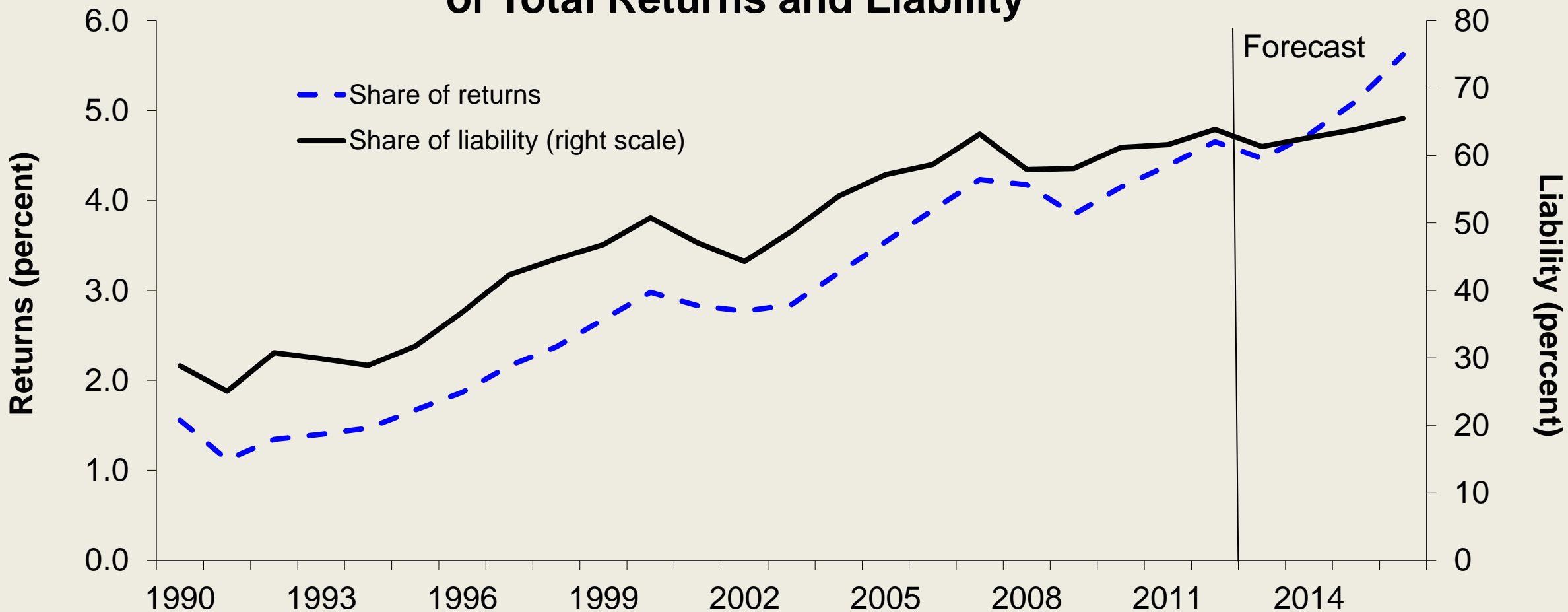
All Business Cycle Indicators Have Finally Surpassed Pre-Recession Peaks. But the Population Has Grown, thus Slack Remains.



Note: Shaded areas represent U.S. recessions.

Source: Moody's Analytics.

High-Income Taxpayers as Percent of Total Returns and Liability

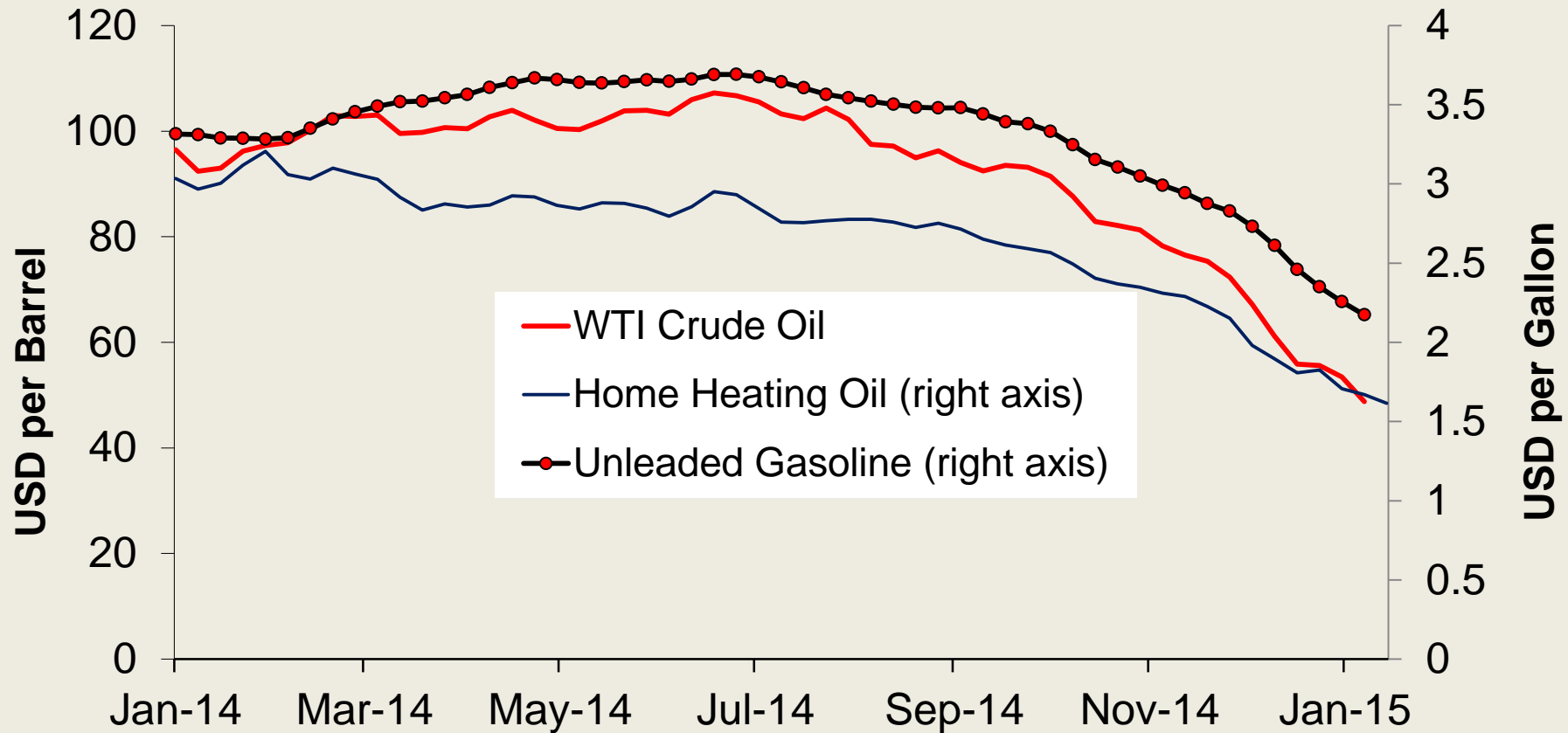


Note: High-income taxpayers are those reporting NYSAGI of \$200,000 or more. Source: NYS Department of Taxation and Finance; DOB staff estimates.

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

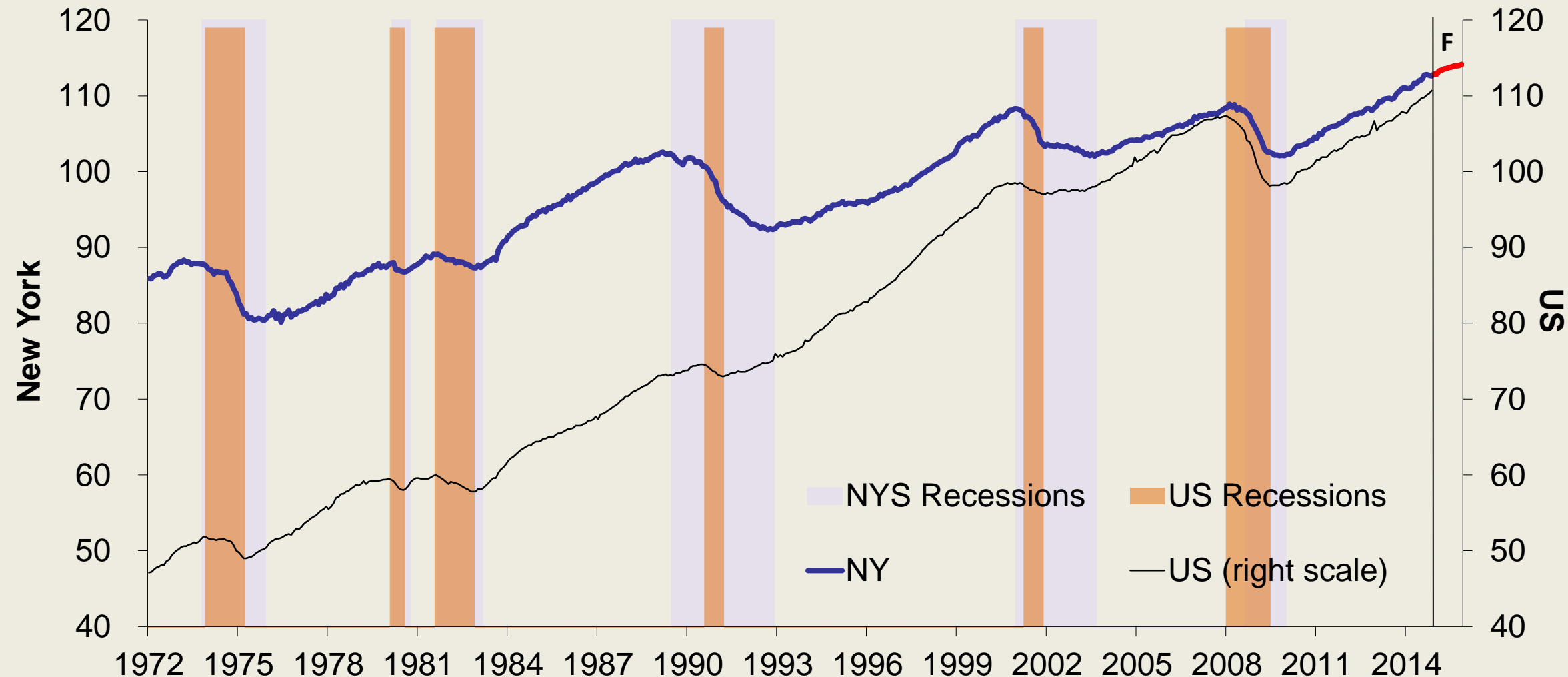
The State’s dependence on a relatively small number of taxpayers creates extreme volatility in personal income tax receipts.

Falling Energy Prices Provide Tailwinds



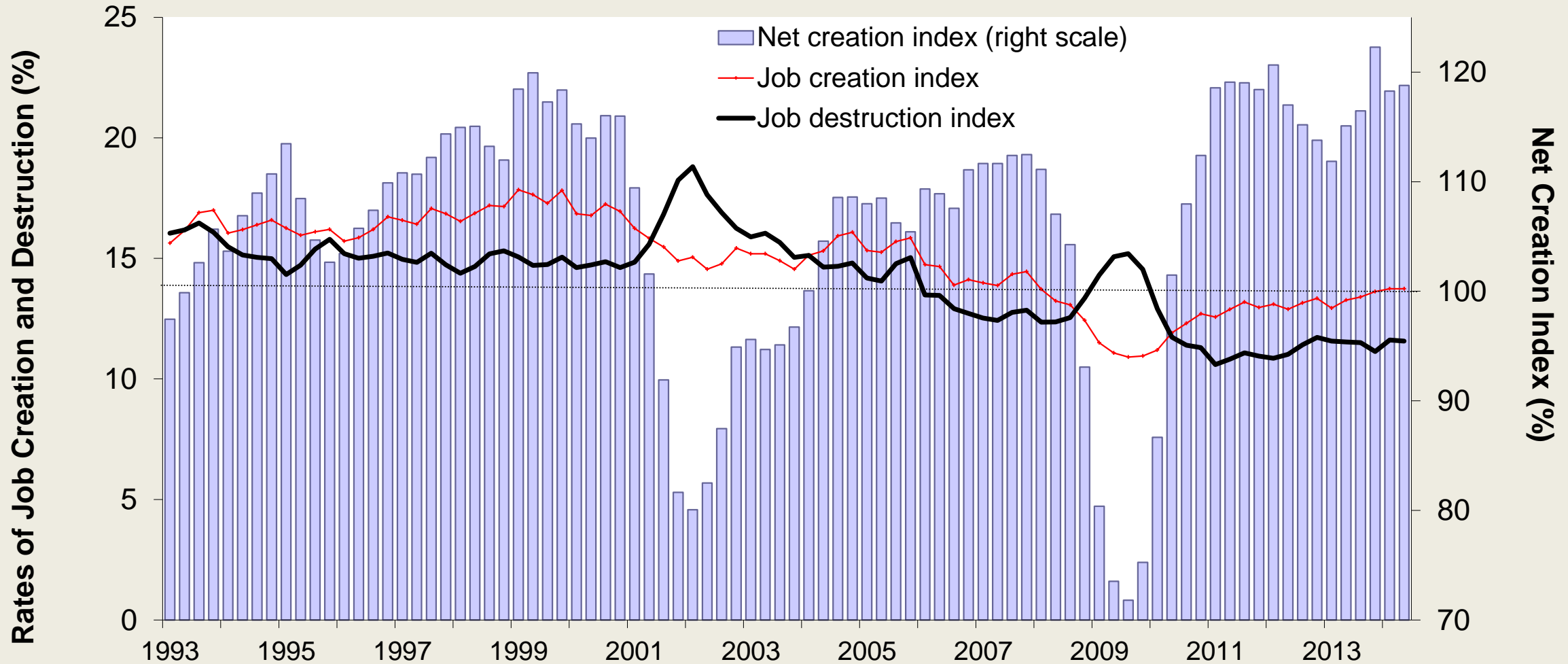
Source: Moody's Analytics.

New York State Index of Coincident Economic Indicators



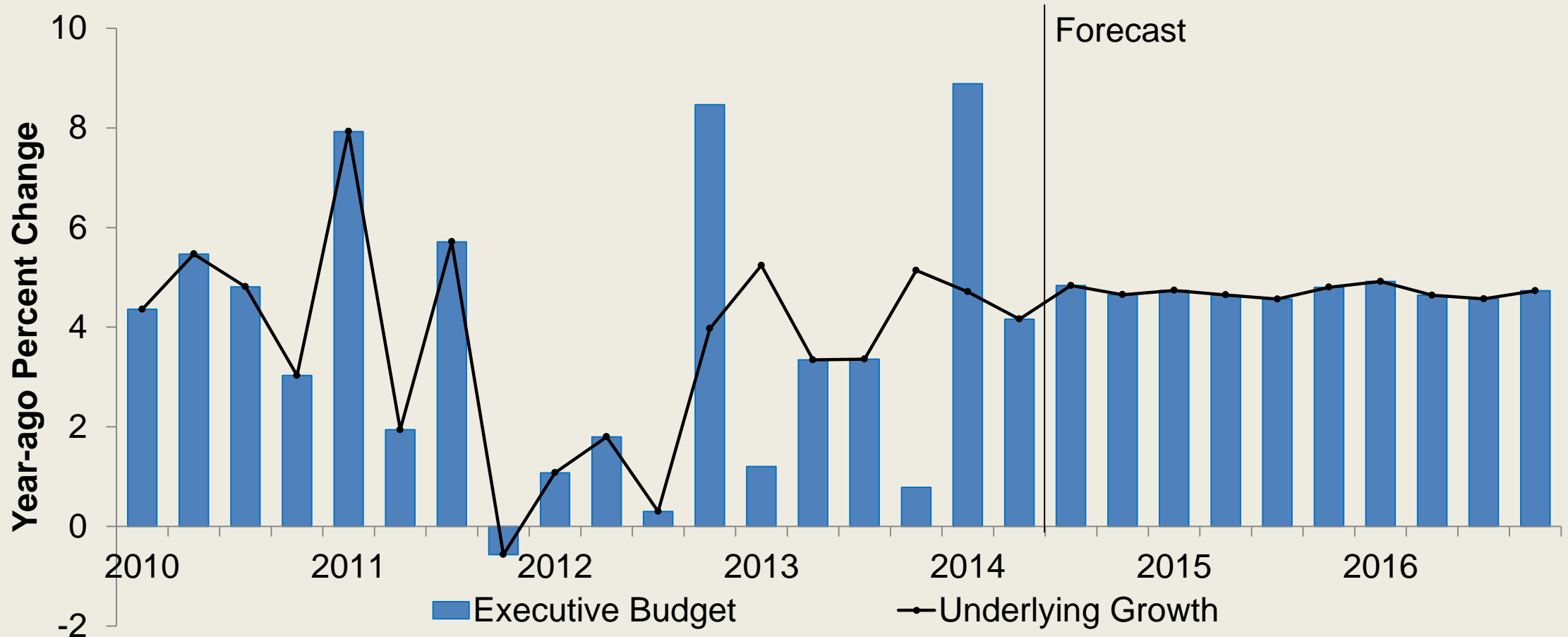
Note: NYS recession dates are DOB staff estimates; NYS forecast (in red) is derived from the New York State Leading Index.
Source: Moody's Analytics; DOB staff estimates.

NYS Private Sector Employment Dynamics



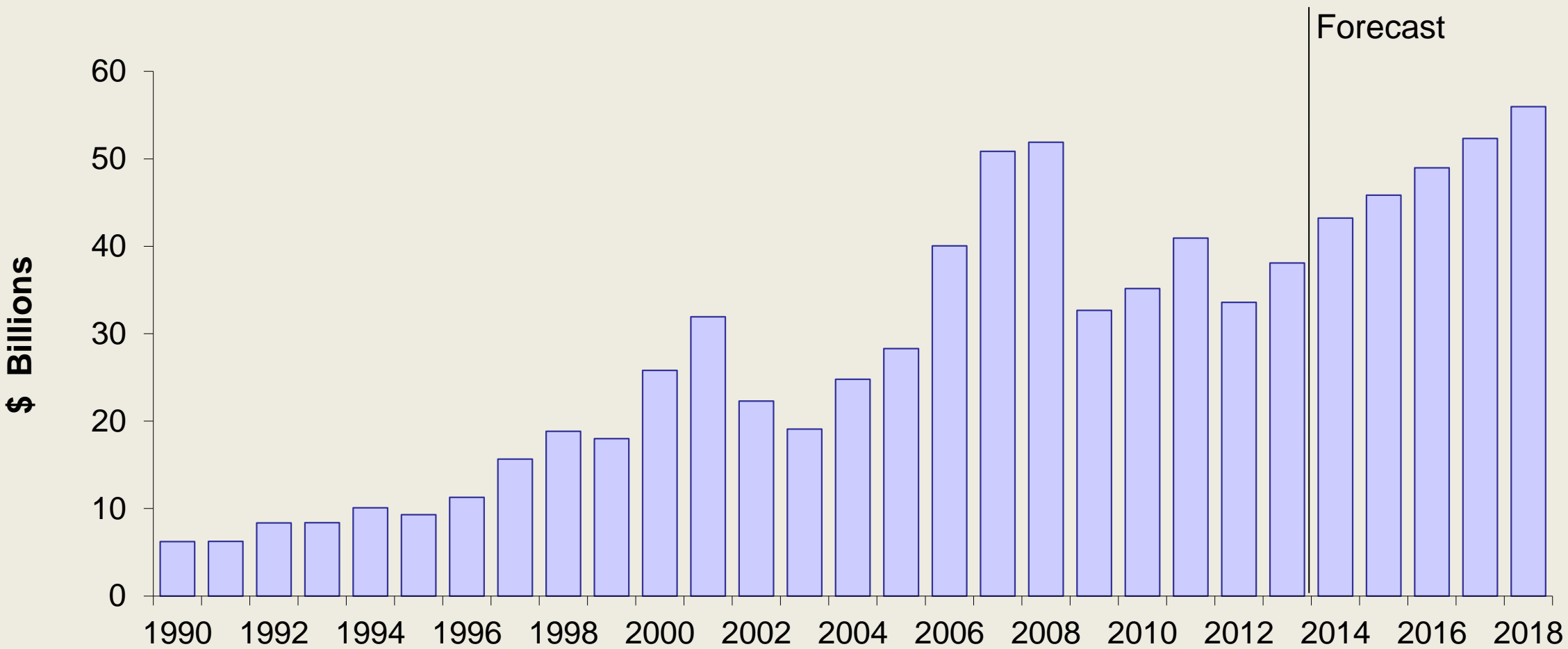
Source: NYS Department of Labor; DOB staff estimates.

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

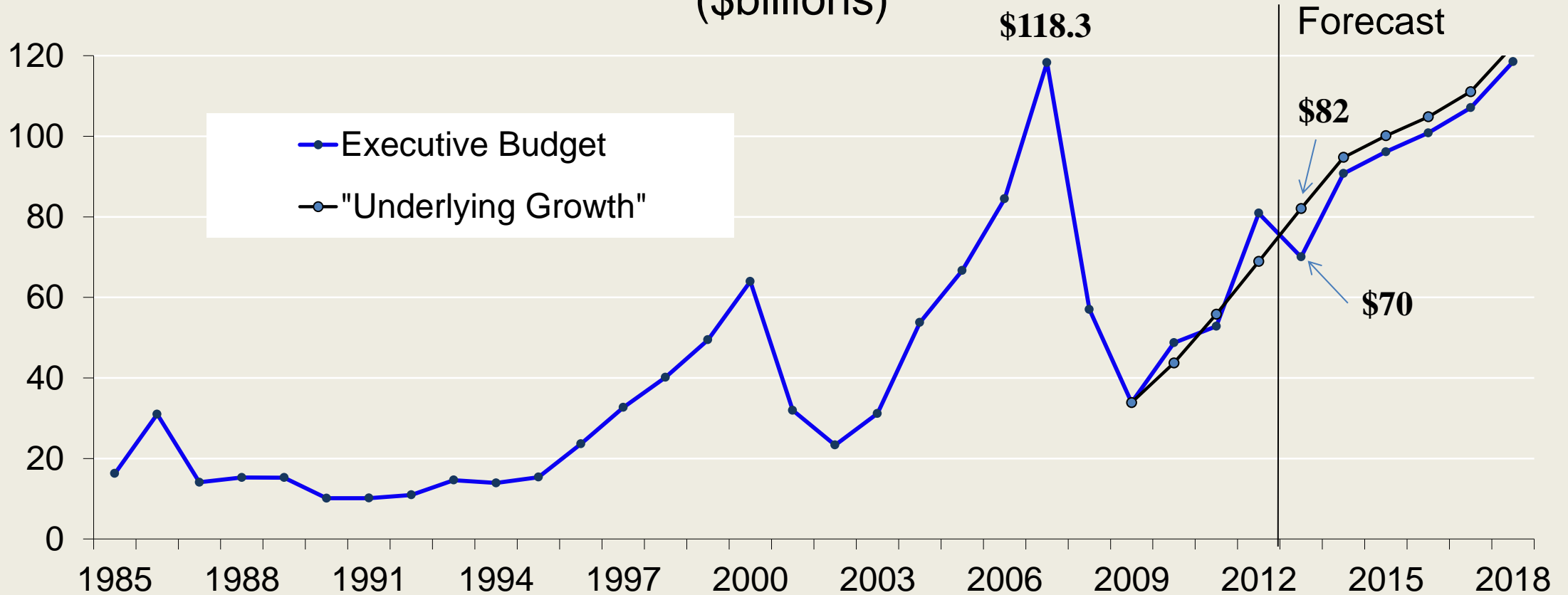


Source: NYS Department of Labor; DOB staff estimates.

- 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

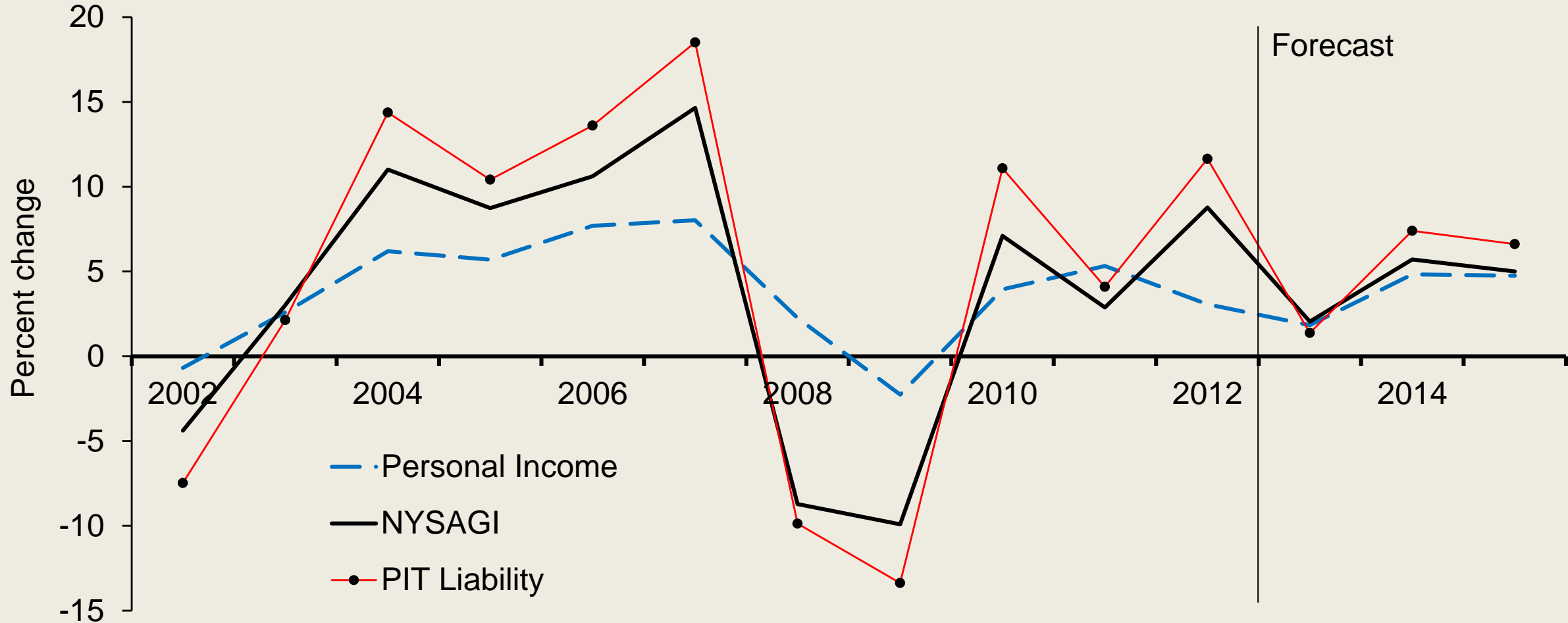
(\$billions)



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

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
Total	5.6	3.1	5.1	1.7	5.1	4.3	3.9

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

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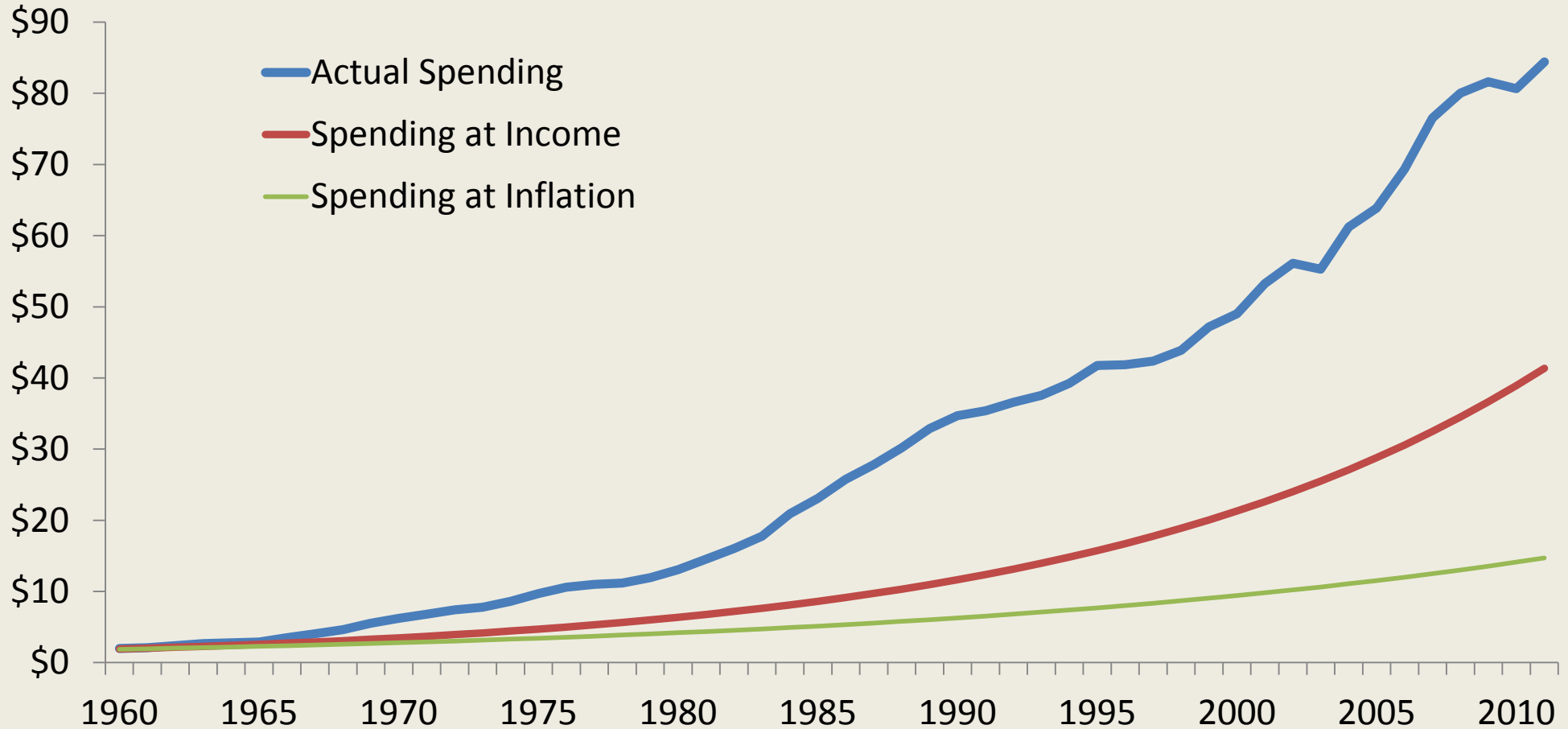
Growth in FY 2016 is inflated by:

- 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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For Decades Actual Spending Outpaced Income and Inflation

Billions



How We Achieved 2 Percent Spending

FY 2016, as of Mid-Year Estimate (Dollars in millions)	\$96,146
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)
FY 2016 Executive Budget Estimate	\$93,984

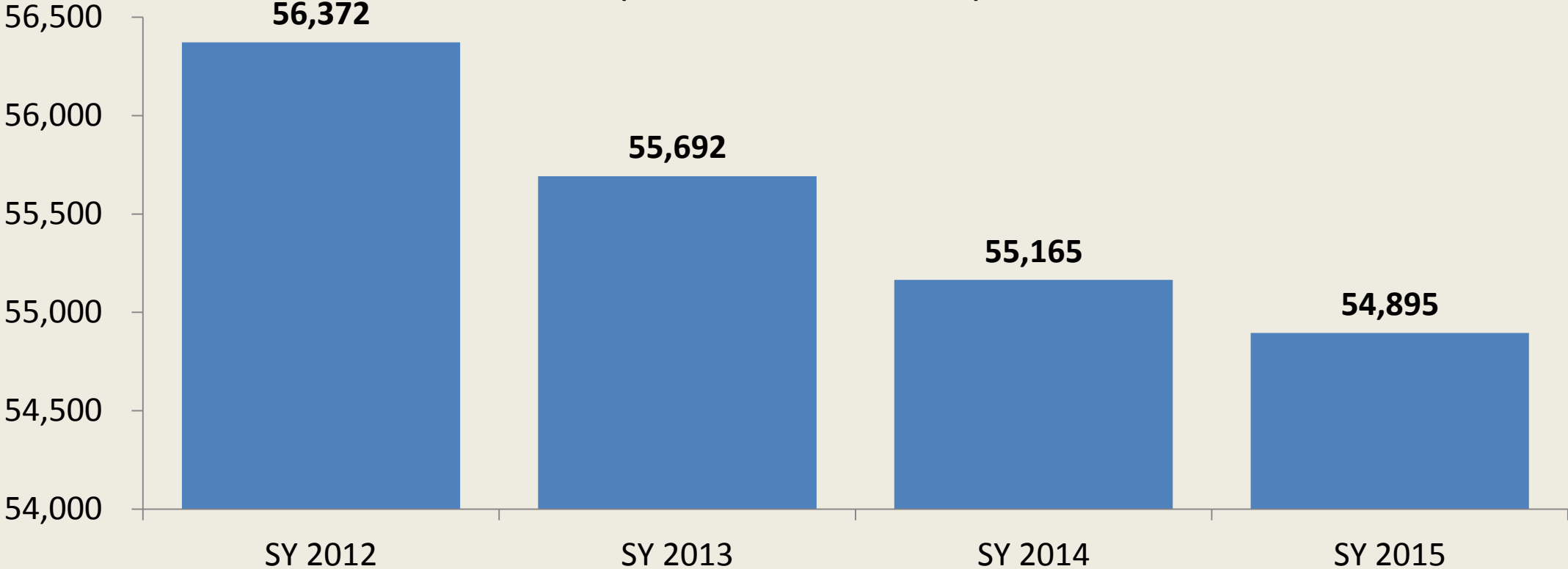
Financial Plan Impact of Tax Actions

	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

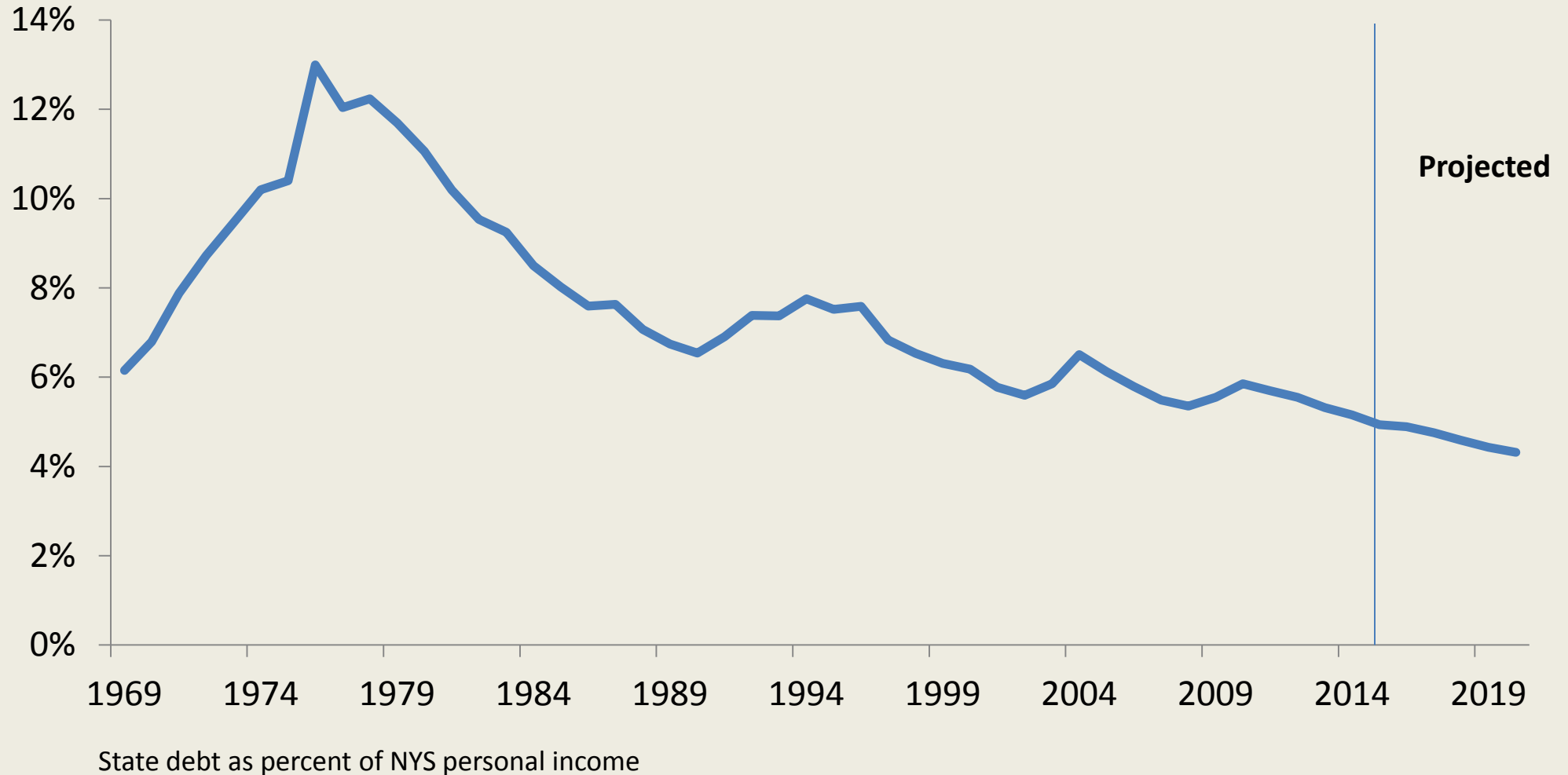
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State Debt is Projected to Decline for a Third Consecutive Year, the First Time in Over 50 Years

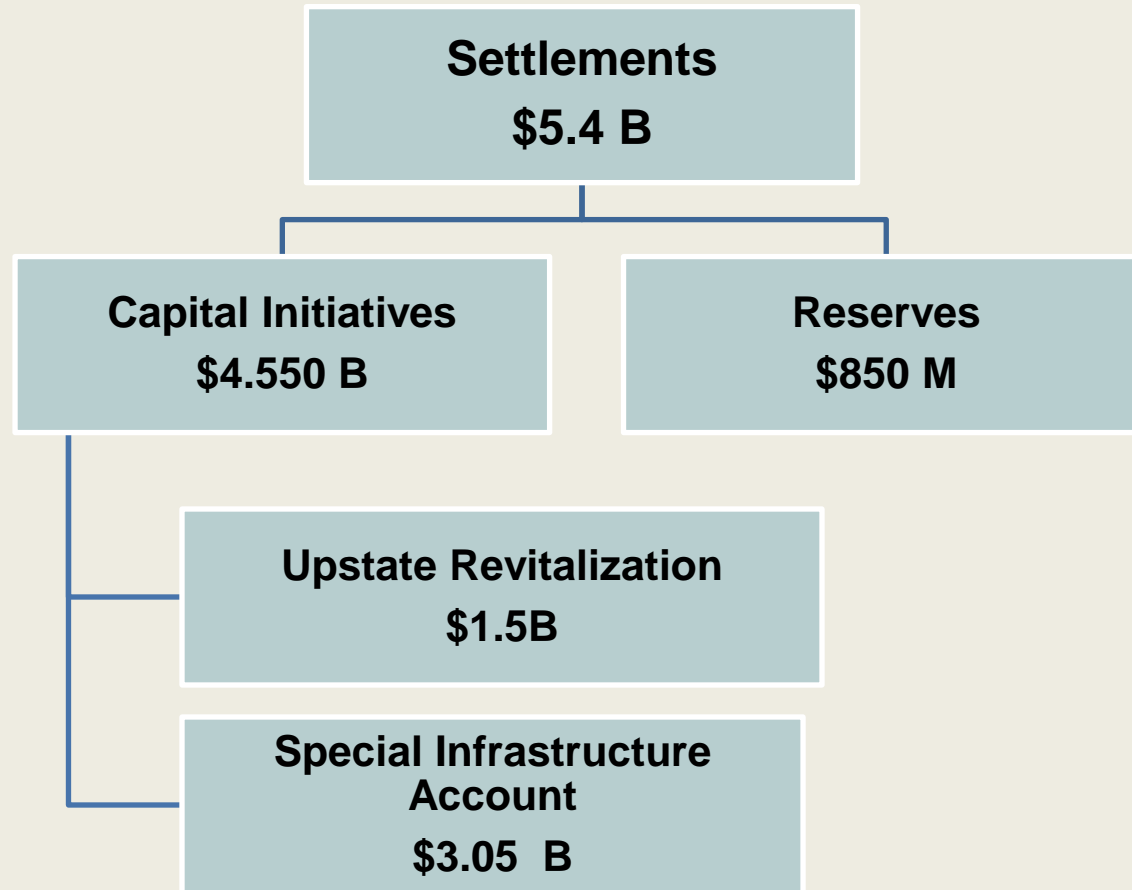
State Debt Outstanding
(Millions of Dollars)



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



\$5.4 Billion in Settlement Funds is Prudently Invested





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