



OFFICE OF THE NEW YORK STATE COMPTROLLER

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Comptroller's Fiscal Update: State Fiscal Year 2015-16 Revenue and Spending Trends through the Midyear

October 2015

Summary

The State's cash position continues to improve, as illustrated by the \$10.7 billion balance in the General Fund through the middle of State Fiscal Year (SFY) 2015-16. This improvement is due primarily to monetary settlements that continued to flow to the State in the first half of the fiscal year, as well as tax collections that are higher than estimated.

Partly as a result of the State's stronger cash position, the Division of the Budget (DOB) decided to accelerate more than \$1 billion in this year's school aid payments from October to September.

Through the first half of the fiscal year, All Funds tax collections were more than \$675 million above the most recent projections. The General Fund balance is up nearly one-third from a year earlier. Still, recent stock-market volatility and certain other conditions in the economy suggest the need for caution with regard to the remainder of the fiscal year.

All Funds Tax Collections

All Funds tax collections totaled \$38.2 billion through the first half of SFY 2015-16, an increase of 11.7 percent, or just under \$4 billion, from the first six months of last year. In total, collections through September 30 were \$675.6 million higher than the most recent projections in the First Quarterly Update to the SFY 2015-16 Enacted Budget Financial Plan, and nearly \$1.5 billion above the original projections from the Enacted Budget Financial Plan. Including particularly strong collections in April, monthly tax collections have exceeded both prior-year and DOB projections in five of the first six months in this fiscal year.

Personal Income Tax (PIT) collections provided the highest year-over-year growth and the largest variance from projections included in DOB's Enacted Budget Financial Plan issued in May 2015 and the First Quarter Financial Plan Update released in August 2015. Business tax collections totaled \$3.7 billion, down 2.6 percent or \$97.7 million from collections last year, due largely to decreased audit collections from the bank tax. Such collections through the first half of the year have exceeded initial and updated projections, as some decline was anticipated. Receipts for Other taxes have also shown double digit growth from last year, primarily due to significant growth in estate and real estate transfer taxes. Estate taxes have increased nearly 64 percent from SFY 2014-15, or \$358.7 million, to \$920.2 million, representing almost 85 percent of the projected total for the year.

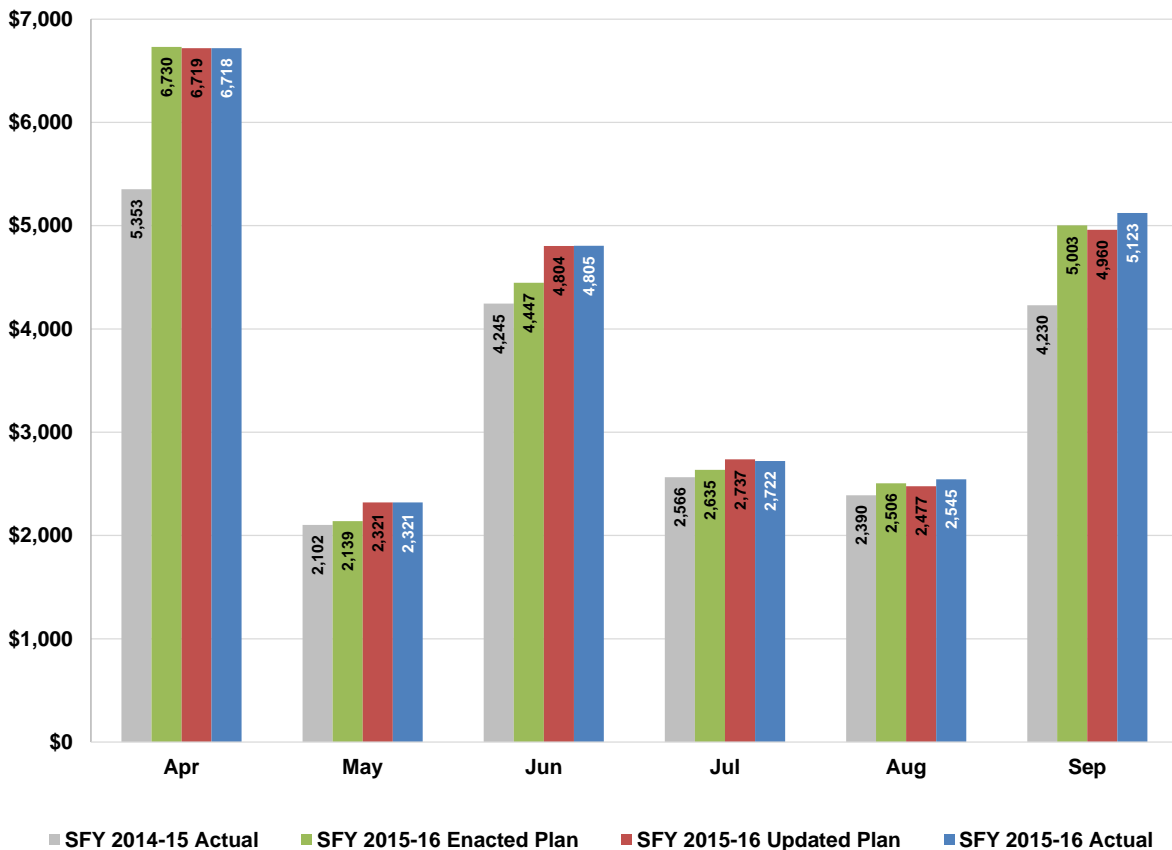
Personal Income Tax Collections

Figure 1 illustrates the strong growth in PIT collections through the first half of the year, including the 23 percent growth in estimated payments made in April, June and September. DOB’s most recent projection in August showed year-end collections of estimated payments are expected to increase by 14.2 percent from collections in SFY 2014-15. While receipts from estimated payments can be volatile, such collections could slow significantly in the second half of SFY 2015-16 and still meet projected year-end figures. Within this amount, DOB projected that prior-year estimated payments (also known as extensions) would increase nearly 35 percent, or \$1.2 billion, and that current-year estimated payments would increase 7.5 percent or \$781 million. Payments associated with extensions, which are primarily collected in April, have increased nearly \$1.2 billion, or 34.7 percent, through September 30, whereas current-year payments, which occur throughout the year have increased \$780.4 billion, or 15.3 percent, through September 30.

The State’s largest single tax revenue source, PIT withholding collections, increased 6.9 percent, or more than \$1 billion, through the first half of the year compared to the same period last year. DOB currently projects withholding collections will increase by 5.8 percent, or just over \$2 billion, by the end of the fiscal year.

Figure 1

Personal Income Tax Collections through the Midyear, SFY 2014-15 and SFY 2015-16
(in millions of dollars)



Sources: Office of the State Comptroller, Division of the Budget.

Other Taxes

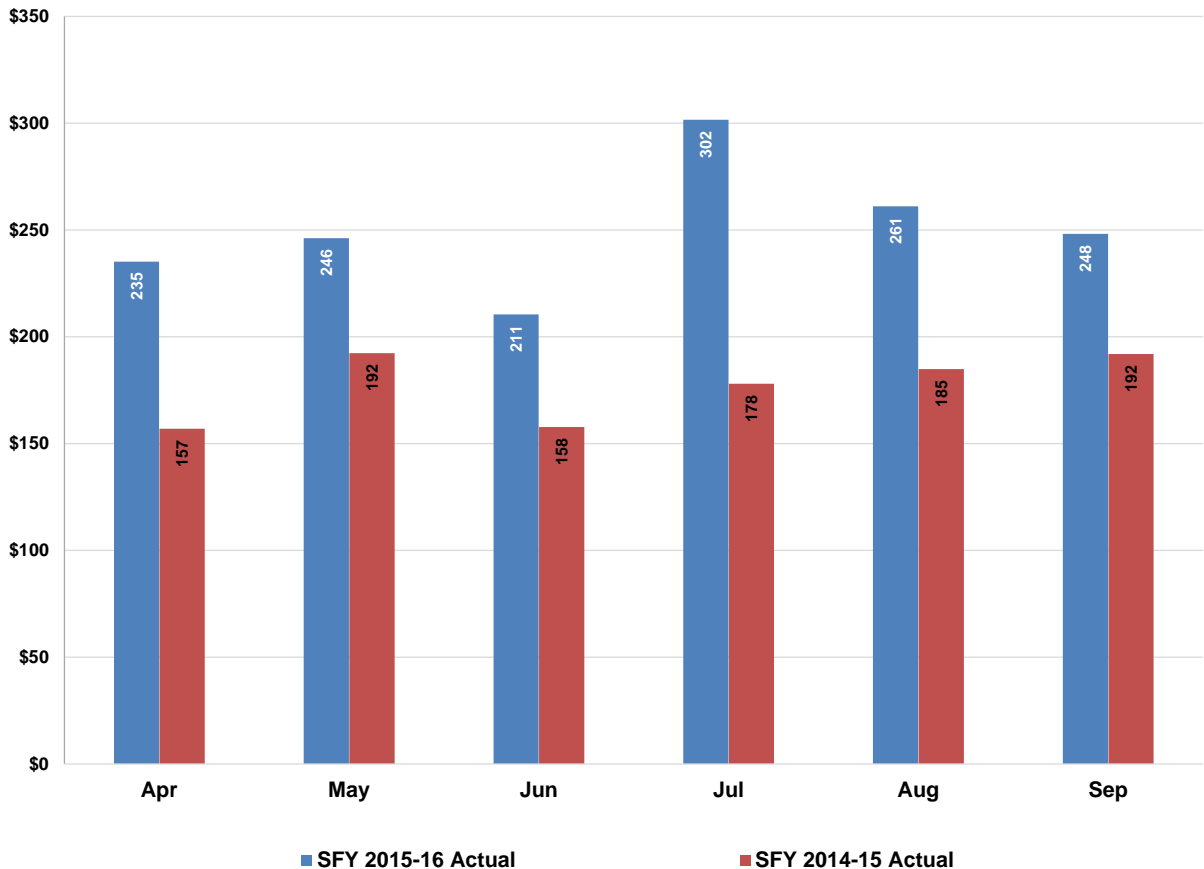
The SFY 2015-16 First Quarterly Update to the Financial Plan projected year-end All Funds tax collections of other taxes (including the MTA mobility tax) to increase by 1.8 percent, or \$63 million, compared to the previous year. However, through September 30, All Funds other tax collections have increased 28.4 percent, or \$466.8 million, compared to the same period last year, and are \$210.2 million above the latest projections and nearly \$400 million over initial projections. The majority of the growth is due to Estate Tax collections, which have increased 63.9 percent, or \$358.7 million, through the first half of the year, significantly ahead of the \$59 million year-end decline DOB projected in its First Quarterly Update.

Collections from Real Estate Transfer taxes have also exhibited strong growth through the first half of the year. Collections totaling \$582.6 million through September 30 in SFY 2015-16 were 16.4 percent, or \$82.2 million, higher than last year for the same period. This level of growth already exceeds the year-end projected growth of \$47 million. Figure 2 illustrates monthly growth of combined Estate and Real Estate Transfer tax collections. DOB does not provide projections of monthly collections for Estate or Real Estate Transfer taxes.

Figure 2

Combined Estate and Real Estate Transfer Tax Collections through the Midyear, SFY 2014-15 and SFY 2015-16

(in millions of dollars)



Sources: Office of the State Comptroller, Division of the Budget.

All Funds Disbursements

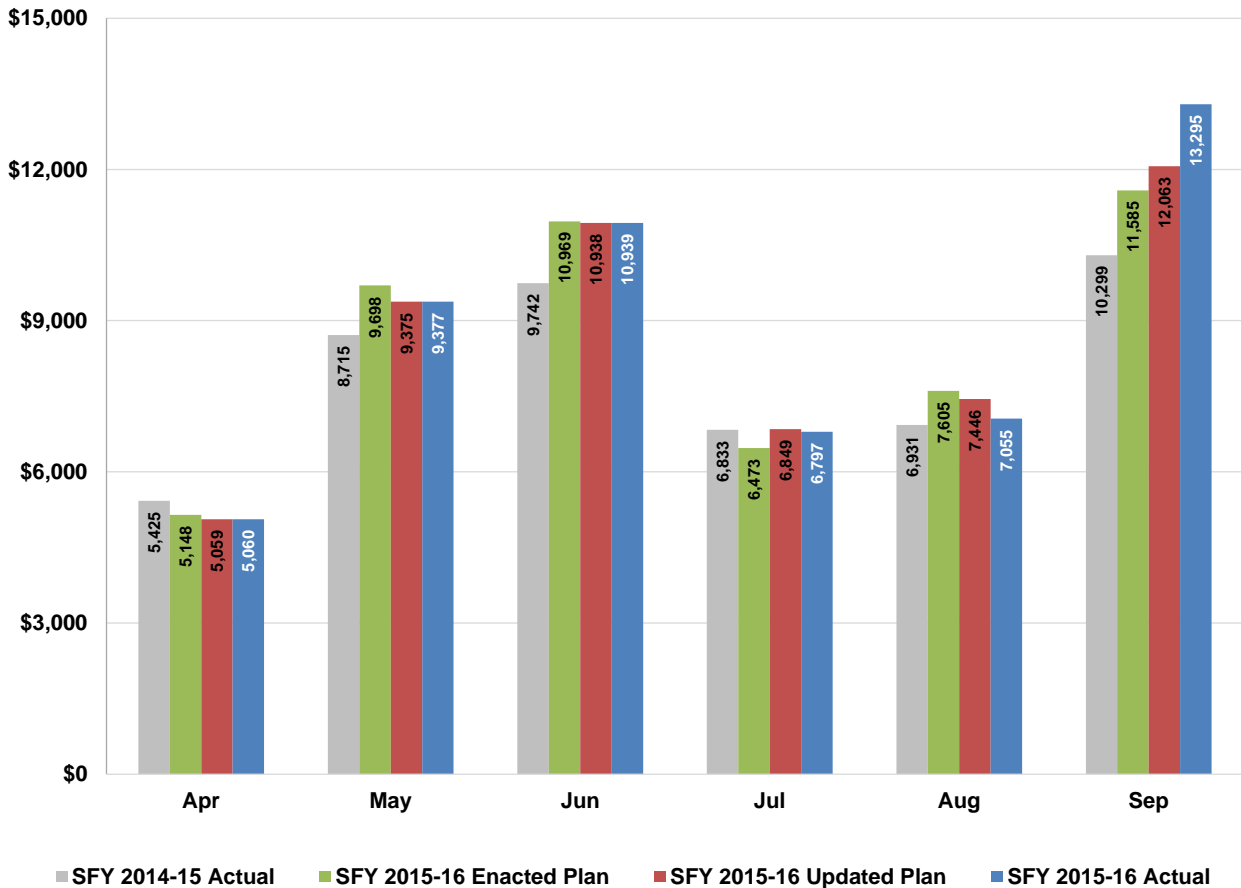
Disbursements from All Funds totaled \$72.2 billion through the first six months of SFY 2015-16, representing year-to-year growth of 8.1 percent, or \$5.4 billion. Spending was nearly \$1.4 billion over the latest projections and \$1.3 billion over initial projections from the Enacted Budget. This large variance is primarily due to the timing of local assistance school aid payments that were initially planned for October. As directed by DOB, these payments were accelerated into September to avoid any potential complications due to software changes in the Statewide Financial System scheduled in October. Total local assistance payments also reflect this change, increasing 9.5 percent, or \$4.6 billion. Figure 3 illustrates how monthly spending totals for local assistance payments trailed initial projections for much of the year, then significantly exceeded projections in September. DOB has indicated that it expects that spending will return to projected year-to-date levels in October.

Spending for capital projects also increased markedly through September 30, increasing by 17.5 percent, or \$465.5 million, from the same period last year. This level of spending exceeded the latest projections by \$180 million.

Figure 3

All Funds Local Assistance Payments through the Midyear, SFY 2014-15 and SFY 2015-16

(in millions of dollars)



Sources: Office of the State Comptroller, Division of the Budget.

General Fund Balance and the Near-Term Outlook

The General Fund ended September with a balance of \$10.7 billion, \$358.5 million lower than the latest projections, primarily because of the timing of school aid payments previously discussed. The balance was 33 percent higher than the year-ago figure of just over \$8 billion. It was \$1.3 billion higher than initial projections from the Enacted Budget, primarily because of the receipt of unanticipated monetary settlements in May 2015.

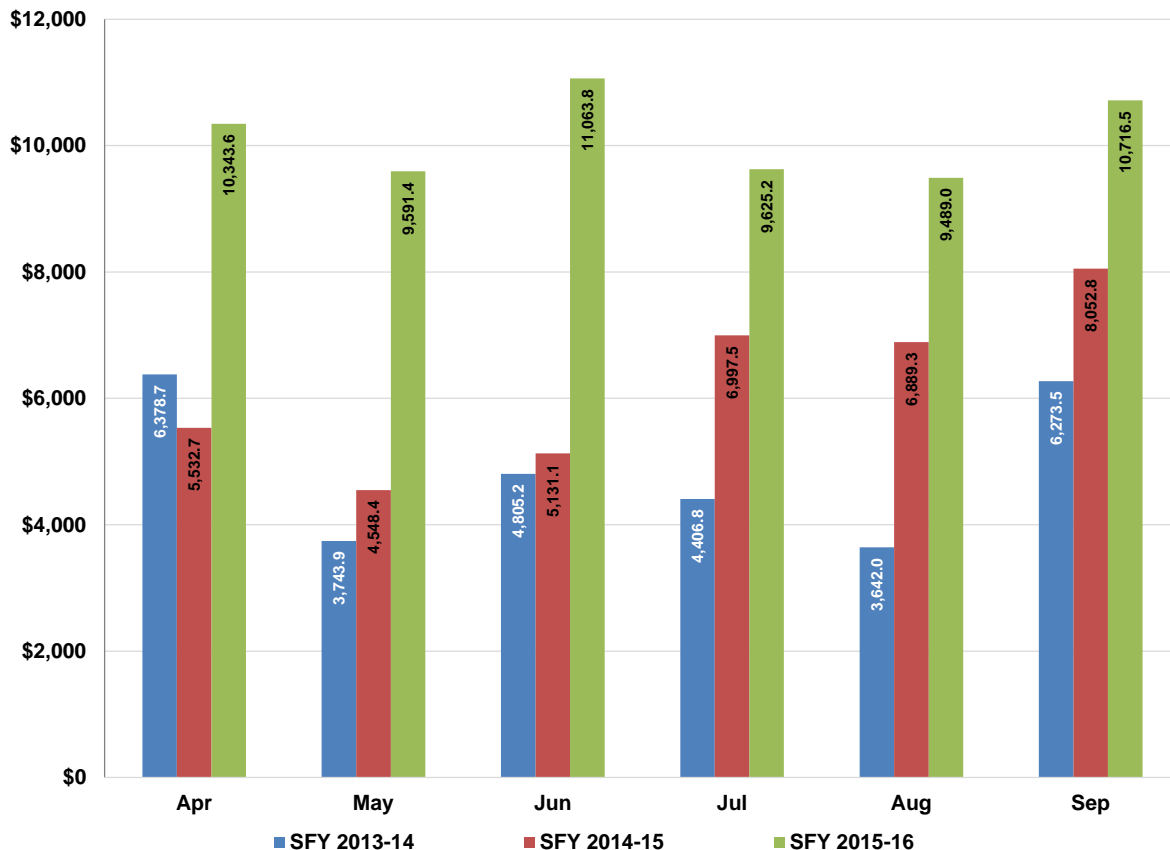
This \$10.7 billion balance is one of the three highest month-end balances in the last 10 years (all three have occurred in the current fiscal year). Much of this is due to non-recurring settlements and assessments received in the current and previous fiscal years that have not yet been transferred to the Dedicated Infrastructure Investment Fund (established in the SFY 2015-16 Enacted Budget; \$306.9 million has been transferred through September) or used for other purposes. Such one-time resources, while welcome, should be used for one-time purposes such as infrastructure investments or paying down higher-cost debt.

Figure 4 illustrates monthly General Fund balances through September of SFY 2013-14, SFY 2014-15 and the current year.

Figure 4

General Fund Monthly Balance through the Midyear, SFY 2013-14 through SFY 2015-16

(in millions of dollars)



Sources: Office of the State Comptroller, Division of the Budget.

While tax receipts through September exceeded projections by over \$675 million (nearly \$1.5 billion more than initial projections), the remaining six months of the current fiscal year could provide any number of bumps in the road that may impact collections going forward. Certain encouraging economic indicators in recent months, including declines in unemployment rates both nationally and in New York, have been accompanied by more troubling signs. For example, recent volatility in major stock-market indices may portend negative implications for the financial sector, which drives a significant share of the State's tax revenues. Along with heightened concerns associated with geopolitical tensions and economic slowdowns in China and other large emerging economies, such factors suggest the need for caution in projections of State revenues in the months ahead.