

**Remarks of David J. Rosen
Legislative Budget and Finance Officer
To the Assembly Budget Committee
May 20, 2015**

Eight weeks ago when we began the budget review process, our testimony was pleasantly uninteresting. The OLS largely agreed with the Executive’s reasonable revenue forecasts. Combined over FY 2015 and FY 2016, the OLS estimates were higher by only \$16 million.

Today I am pleased to report that OLS and the Executive were a little too conservative in our forecasts. In 2015, the April Surprise broke in our favor, albeit modestly. State revenues received a measurable boost from the April tax filings this year. The OLS is now estimating FY 2015 total revenues will be \$271 million above the Governor’s Budget Message (GBM). For FY 2016, OLS is estimating \$140 million more than the GBM.

Figures 1 and 2 show the differences between the GBM and the May OLS forecast.

Figure 1

FY 2015 Revenue Estimates			
<i>\$ in Millions</i>			
	Executive Estimate Feb 2015	OLS Revised May 2015	Difference
Gross Income Tax	\$13,007.0	\$13,350.0	\$343.0
Sales Tax	\$8,886.0	\$8,865.0	-\$21.0
Corporation Business Tax	\$2,590.0	\$2,500.0	-\$90.0
All Other Revenues	\$8,083.8	\$8,122.5	\$38.7
Total Budget Revenues	\$32,566.8	\$32,837.5	\$270.7

Figure 2

FY 2016 Revenue Estimates			
<i>\$ in Millions</i>			
	Executive Estimate Feb 2015	OLS Revised May 2015	Difference
Gross Income Tax	\$13,652.0	\$14,080.0	\$428.0
Sales Tax	\$9,199.0	\$9,130.0	-\$69.0
Corporation Business Tax	\$2,646.3	\$2,500.0	-\$146.3
All Other Revenues	\$8,308.4	\$8,235.8	-\$72.6
Total Budget Revenues	\$33,805.7	\$33,945.8	\$140.1

Today's good news is due entirely to the gross income tax (GIT). April is always the most important tax collection month, and this April saw strong growth in payments by high-income taxpayers. Estimated payments grew by 12%, and we project final payments for Tax Year 2014 liabilities will be up by more than 14%. Withholding from employee wages is also showing strength, up 7% in April, following 6% growth in March. Net collections are also enhanced by an unexpected decline in refund payments. Based on these developments, the OLS now believes overall GIT growth will improve to 8.4% this year, providing \$343 million more than anticipated in the GBM for FY 2015.

The GIT tax base appears to be returning to a more normal level after several years of confusing disruptions associated with 2013 federal tax changes. For FY 2016, the OLS forecast maintains the moderate growth rate of 5.5% that we projected in March, a rate close to the long-run average for this tax. The higher base and that growth rate yield an FY 2016 GIT estimate \$428 million above GBM.

Figure 3

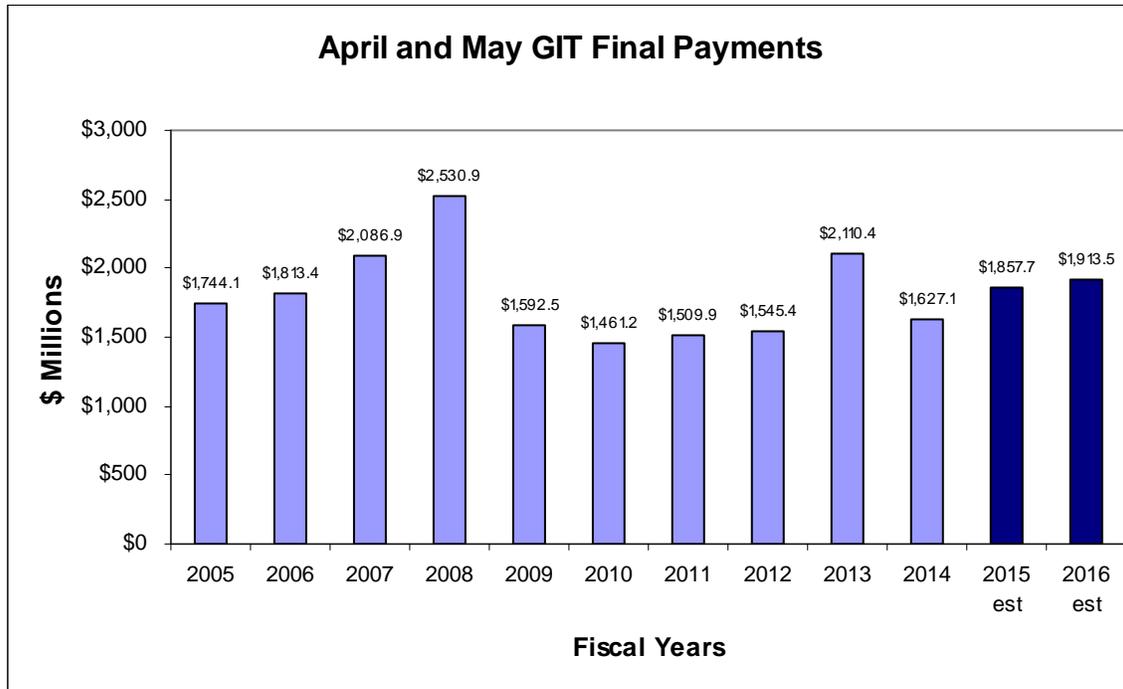


Figure 3 shows the historical pattern of April and May final payments, including the OLS calculation for FY 2015 and OLS forecast for FY 2016. These payments peaked in FY 2008, just before the Great Recession, and then jumped again briefly in FY 2013 owing to the federal tax change. Collections for FY 2015 and our forecast for FY 2016 appear to be more typical for a period of growth.

While the GIT is performing well, not all the revenue news is positive. The OLS continues to project weaker collections than the GBM for the sales tax and for the corporation business tax. While maintaining our prior estimate for the sales tax in FY 2015, the OLS is reducing further our estimate for FY 2016, now \$69 million below the GBM. Current growth matches the expected 2.6% growth, but we have concerns about how much improvement is likely next year. For the CBT, the OLS is reducing its estimates to account for weakness this Spring and uncertainty next year. The OLS is now \$90 million below GBM for FY 2015 and \$146 million below GBM for FY 2016.

The OLS has reduced some other revenue forecasts by minor amounts to account for recent collection trends. Also, the OLS is reducing the lottery estimate by \$25 million this year and \$40 million next year due to on-going concerns about the performance of the large multi-state games.

Figures 4 and 5 display a comparison of the revised forecasts by the Treasury and the OLS. The OLS is \$66 million above Treasury for FY 2015 and \$133 million above in FY 2016, a combined difference of only 0.3% over the two years.

Figure 4

FY 2015 Revenue Estimates			
<i>\$ in Millions</i>			
	Executive Revised Estimate May 2015	OLS Revised May 2015	Difference
Gross Income Tax	\$13,340.0	\$13,350.0	\$10.0
Sales Tax	\$8,830.0	\$8,865.0	\$35.0
Corporation Business Tax	\$2,432.0	\$2,500.0	\$68.0
All Other Revenues	\$8,169.2	\$8,122.5	-\$46.7
Total Budget Revenues	\$32,771.2	\$32,837.5	\$66.3

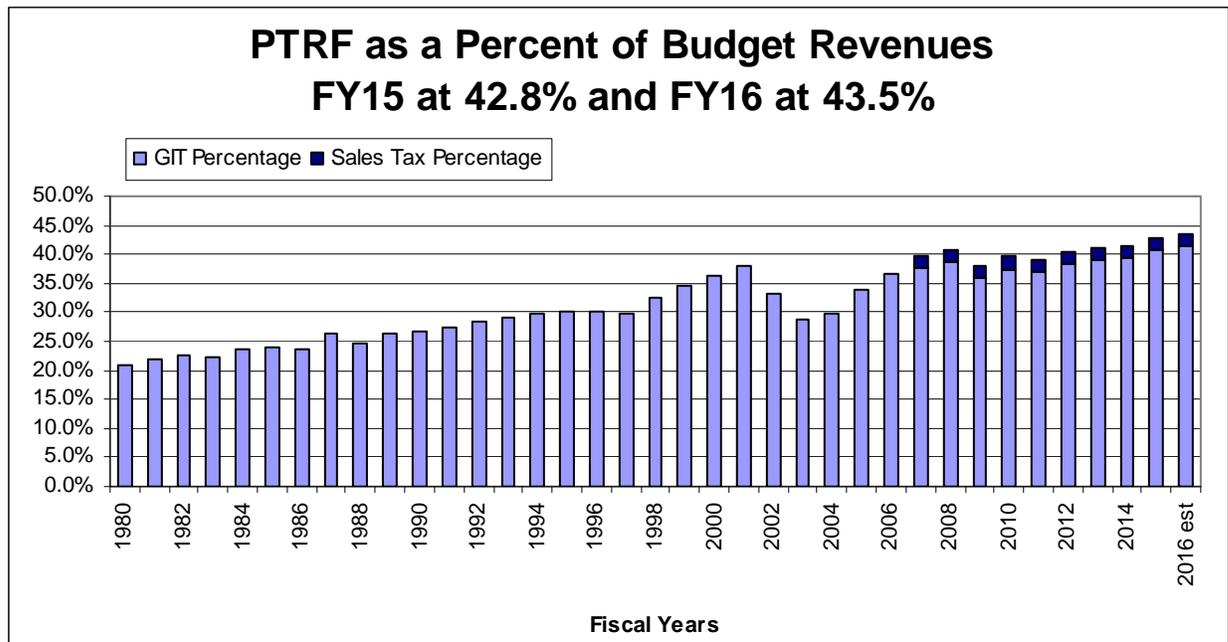
Figure 5

FY 2016 Revenue Estimates			
<i>\$ in Millions</i>			
	Executive Revised Estimate May 2015	OLS Revised May 2015	Difference
Gross Income Tax	\$13,880.0	\$14,080.0	\$200.0
Sales Tax	\$9,090.0	\$9,130.0	\$40.0
Corporation Business Tax	\$2,575.0	\$2,500.0	-\$75.0
All Other Revenues	\$8,267.7	\$8,235.8	-\$31.9
Total Budget Revenues	\$33,812.7	\$33,945.8	\$133.1

Often in these meetings we discuss the income tax, but I want to address a particular aspect of the tax that we have not discussed before because, to date, it has not mattered. Nearly forty years ago the voters adopted an amendment to the constitution which dedicated the proceeds of the income tax to the Property Tax Relief Fund (PTRF) and provided the fund could only be used to reduce or offset property taxes. While the adoption of this amendment to the Constitution was critical to the enactment of the income tax, it has had no real impact on how the State spends money. In every budget since 1976, the State budget has included more money for property tax relief than was generated by the income tax. That is, while appropriating all the money in the PTRF for property tax relief items - - principally school aid, municipal aid and direct homestead benefits - - we have also appropriated additional General Fund money for these same purposes.

In 2006, the constitution was further amended to place a half penny of the sales tax rate into the PTRF as well. Nonetheless, each budget, before and after 2006, spent more on property tax relief than was required by the Constitution.

Figure 6



Over time, and despite a few dips, income tax revenues have grown more robustly than the State’s other revenue sources. Consequently the

PTRF has become an increasingly large share of the State budget. This year, the PTRF will provide 42.8% of the State's revenue and we project that it will grow to 43.5% in FY 2016. For budget wonks this trend may be intrinsically interesting and raise some concerns owing to the GIT's volatility.

But this trend is important because it may soon be limiting the State's budget flexibility. For FY 2016, OLS is projecting \$288 million less General Fund revenue and \$428 million more PTRF revenue than the GBM. In the past when we crafted a budget under such circumstances, we would normally shift \$428 million in property tax relief appropriations from the General Fund to the PTRF, leaving adequate General Fund money for other purposes. However, the Governor's recommended FY 2016 budget contains only \$148 million in General Fund spending for the traditional property tax expenditure categories.

This would leave \$280 million too much in the PTRF and a \$280 gap in General Fund appropriations. If the budget crafters cannot identify sufficient recommended expenditures on line items that have not been previously funded from the PTRF, but for which PTRF might be deemed appropriate, the State will have to alter spending and/or taxing priorities to adhere to the constitutional dedication of the PTRF.

As you deal with this and a host of other budget concerns over the next six weeks, the fiscal staff of the OLS stands ready to provide whatever assistance you may require.

STATE REVENUES
FISCAL YEARS 2015 AND 2016 ESTIMATES
(thousands of dollars)

	FY 2015 Revised 5/19/15	FY 2015 OLS 5/19/15	FY 2015 Difference	FY 2016 Revised 5/19/15	FY 2016 OLS 5/19/15	FY 2016 Difference
Major Revenues						
Gross Income Tax	\$ 13,340,000	\$ 13,350,000	\$ 10,000	\$ 13,880,000	\$ 14,080,000	\$ 200,000
Sales Tax Dedication-PTRF	695,370	695,370	-	711,100	711,100	-
Sales Tax	8,830,000	8,865,000	35,000	9,090,000	9,130,000	40,000
Sales Tax Dedication-General Fund	(674,000)	(674,000)	-	(689,000)	(689,000)	-
Corporate Business	2,432,000	2,500,000	68,000	2,575,000	2,500,000	(75,000)
State Lottery Fund	930,000	930,000	-	1,000,000	980,000	(20,000)
Motor Fuels	531,000	530,000	(1,000)	541,000	535,000	(6,000)
Motor Vehicle Fees	438,100	440,000	1,900	479,300	484,600	5,300
Transfer Inheritance	741,000	725,000	(16,000)	755,000	755,000	-
Casino Revenue Fund	209,320	206,700	(2,620)	204,185	200,000	(4,185)
Insurance Premium	642,000	635,000	(7,000)	660,000	660,000	-
Cigarette	177,000	172,500	(4,500)	153,000	148,800	(4,200)
Petroleum Products Gross Receipts	215,000	215,000	-	215,000	218,000	3,000
Corporation Banks and Financial Institutions	192,000	190,000	(2,000)	165,000	190,000	25,000
Alcoholic Beverage Excise	105,000	105,000	-	110,000	107,000	(3,000)
Realty Transfer	281,000	267,000	(14,000)	320,000	293,000	(27,000)
Tobacco Products Wholesale Sales	21,800	21,800	-	21,800	21,800	-
Public Utility Excise (Reform)	15,000	15,000	-	15,500	15,500	-
Total Major Revenues	29,121,590	29,189,370	67,780	30,206,885	30,340,800	133,915
Miscellaneous Taxes, Fees, Revenues, Transfers						
Other Energy Taxes	370,242	370,242	-	284,500	284,500	-
Assessment on Real Property Greater Than \$1 Million	118,000	116,500	(1,500)	129,000	128,200	(800)
Medicaid Uncompensated Care	409,907	409,907	-	413,813	413,813	-
Good Driver	78,300	78,300	-	79,900	79,900	-
Hotel/Motel Occupancy Tax	100,000	100,000	-	105,000	105,000	-
Fringe Benefit Recoveries	539,995	539,995	-	641,095	641,095	-
Interfund Transfers	510,148	510,148	-	494,372	494,372	-
Casino Control	56,596	56,596	-	55,202	55,202	-
Gubernatorial Elections	700	700	-	700	700	-
Other Miscellaneous	1,465,703	1,465,703	-	1,402,193	1,402,193	-
Total Miscellaneous Taxes, Fees, Revenues, Transfers	3,649,591	3,648,091	(1,500)	3,605,775	3,604,975	(800)
TOTAL STATE REVENUES	\$ 32,771,181	\$ 32,837,461	66,280	\$ 33,812,660	\$ 33,945,775	\$ 133,115