

2000-01 BUDGET ANALYSIS

Review of Economic and Revenue Forecasts

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EXECUTIVE SUMMARY

This is the sixth annual report issued by the Comptroller reviewing the economic and revenue projections for the State budget. As in past years, this report focuses on whether the economic forecasts are reasonable and whether the revenue estimates are consistent with those economic forecasts, recent collections history, and reasonable expectations of taxpayer behavior. This analysis is not based on an independent forecast for the economy or revenues; it reviews the forecasts published by the Legislature and Executive based on these criteria.

Improving the Forecasting Process

The revenue forecasting process in New York remains flawed despite a statutory requirement for a consensus economic and revenue report to be released by March 10. As of the date of this report, no consensus has been reached and no report has been released.

The law also requires a consensus forecasting conference to assist the Executive and Legislature in reaching a consensus revenue forecast. The conference met on March 1 and allowed experts in the field to offer guidance on the expected performance of the economy and its impact on state revenues.

The inability to reach consensus on the revenue forecasts may be based, in part, on the track record of the past few years when revenues and economic performance have exceeded all expectations. Actual receipts have exceeded proposed Executive Budget estimates by an average of more than \$1.5 billion a year, over the past five years. Some have viewed the recent revenue under-forecasting as intentional, in order to ensure year-end surpluses. The Office of the State Comptroller wholeheartedly supports conservative and prudent budgeting practices that incorporate an *appropriate* element of caution. However, at some point, significant and consistent under-forecasting — while preserving surpluses — damages the process. This trend has contributed to late budget enactments because it has made good faith negotiating more difficult.

One way to deal with potential over-forecasting that can result from an unexpected economic downturn is to directly address the lack of adequate reserves. Although the State currently has historically high fund balances, most of these balances are earmarked for particular purposes and do not represent true rainy day funds. The Tax Stabilization Reserve Fund is a reserve that is clearly locked away and can only be tapped if the State encounters an unanticipated deficit. In 1999, New York had about 1 percent of General Fund revenues reserved in true rainy day funds. This is below the national average of 4 percent¹ and must be improved in order to weather an economic downturn or a shortfall in revenues.

Recent proposals by the Legislature and Executive to reform the budget process have been encouraging, such as an improved forecasting process and an increased use of conference committees.

¹ National Association of State Budget Officers, *The Fiscal Survey of States: June 1999*.

As these process reforms are considered, important structural reforms, such as an increased level of reserve funds and improved multi-year financial planning need to be incorporated.

Finally, spending projections have taken on a more prominent role in recent years. Over the last four fiscal years, nearly 20 percent of the total year-end unanticipated surplus was attributable to errors in spending projections. In the future, it might be useful to expand the consensus conference to formalize a process for reaching consensus on spending projections that have a clear link to the economic variables typically discussed. For example, Medicaid spending is related to economic variables like the unemployment rate and the consumer price index. Since eligibility for Medicaid is based on income, unemployment can provide insight into enrollment trends. Similarly, the rates paid to medical providers are based on different types of inflation rates.

The Economy

Forecasters generally agree that economic growth is expected to slow. Differences between the Executive and legislative forecasts for the national economy were relatively minor, other than in corporate profits expectations. Unfortunately, no consensus was reached on economic indicators. Neither were disagreement ranges narrowed, as in previous years.

For the state economy, the differences were more significant and centered on wage and income growth. No consensus was reached on projections for the State economy. While projections for employment, wages and personal income growth are healthy, the rate of growth is expected to slow in 2000.

Analysis of Revenue Forecasts

The differences in tax projections primarily stem from translating the economic forecasts into revenues. The Executive and Legislature disagree on the responsiveness of receipts to economic growth. This could be due, in part, to differing assumptions on the types and distribution of income among the income groups. Since the income tax is progressive, when income growth accrues to upper income taxpayers, the State receives a higher percentage of that income in taxes.

Revenue estimates for 1999-00 and 2000-01 were \$440 million to \$1,133 million more than Executive estimates. This range includes differences in projections made by the Assembly Ways and Means majority, Assembly Ways and Means minority, Senate Finance majority and Senate Finance minority. Considering the size of the State budget, the disagreement ranges from about one to three percent of total receipts.

The differences in revenue estimates for 1999-00 ranged from \$46 million to \$236 million more than the Executive's initial estimate. Tax collections though February indicate that current revenue estimates for 1999-00 are too low. Withholding tax collections alone will be at least \$400 million higher than projected by the Executive. The current consensus process has not acknowledged the stronger than expected receipts, even though the Executive recently announced the availability

of \$500 million more in additional resources (primarily increased revenues) for the current fiscal year due to continued strength in the State's economy. The lack of consensus is especially troubling since there is less than one month left in the fiscal year.

For 2000-01, the differences were more significant and ranged from \$394 million to \$897 million more than Executive estimates. The personal income tax accounted for the bulk of the difference. Like last year, the root of the disagreement on income tax revenues is likely related to Wall Street — the distribution of income growth, capital gains, bonuses, and stock options — as well as the difficulties in translating economic projections into state revenue estimates.

Risk

A cautious approach to forecasting continues to be important. In the case of New York, with our reliance on financial markets, a sharp and sustained market decline would have a major impact on the State's economy and revenues. Robust financial markets cannot continue indefinitely; however, such a market break is also especially difficult to predict.

REVENUE FORECASTING IN NEW YORK

The revenue forecasting process in New York remains flawed despite statutory changes made in 1996 that were intended to open up the process and impose a time frame to reach agreement. The law requires the Legislature and Executive to hold a joint conference in March and jointly release a consensus economic and revenue report by March 10. In 1997, this report was issued but it reported a large range of differences in estimates. In 1998, no agreement was reached and a report was not issued. Last year, again, no consensus was reached. However, differences were narrowed and a report was released after the statutory deadline. This year, no consensus has been reached or report released to date.

Recent Forecasting Record

The inability to reach consensus on a revenue forecast may be based, in part, on the track record of the past few years. Revenues and economic performance have exceeded all expectations.

- In 1995-96, the highest revenue projection by the Legislature was \$549 million higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$300 million. Fiscal year receipts were \$570 million above Executive Budget projections, or slightly ahead of the highest legislative forecast.
- In 1996-97, the highest revenue projection by the Legislature was \$218 million higher than the Executive March 15, 1996 estimate. The adopted budget revised the revenue estimates upwards by \$615 million. Fiscal year receipts were \$2.2 billion above Executive Budget projections, or \$2.0 billion above the highest legislative forecast.
- In 1997-98, the highest revenue projection by the Legislature was \$1.0 billion higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$1.5 billion. Fiscal year receipts were \$2.7 billion above Executive Budget projections, or \$1.7 billion above the highest legislative forecast.
- For 1998-99, the highest revenue projection by the Legislature was \$819 million higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$592 million. Fiscal year receipts were almost \$1.5 billion above Executive Budget projections, or almost \$700 million above the highest legislative forecast.
- For 1999-00, the highest revenue projection by the Legislature was \$725 million higher than what was proposed in the Executive Budget. The adopted budget revised the revenue estimates upwards by \$313 million. Fiscal year receipts are projected by the Executive to be at least \$812 million above the original Executive Budget projections, or about \$90 million above the highest legislative forecast. Add to this the Executive's recently announced \$500 million in additional resources, primarily composed of higher revenues.

Track Record of Revenue Estimates
(\$ millions)

Fiscal Year	Upper Range of Disagreement on Revenue Projections	Revision in Estimated Revenues Included in the Adopted Budget	Actual Receipts Compared to Executive Budget
1995-96	\$ 549	\$ 300	\$ 570
1996-97	\$ 218	\$ 615	\$ 2,215
1997-98	\$ 1,012	\$ 1,518	\$ 2,715
1998-99	\$ 819	\$ 592	\$ 1,473
1999-00	\$ 725	\$ 313	\$ 812 ²
Total	\$ 3,323	\$ 3,338	\$ 7,785

In the first four years shown above, the upper range of the revenue forecasts was attributable to the Assembly majority. Last year, the Senate minority had the highest estimate. Each year many contended that these revenue estimates were too optimistic. However, in the end, these estimates turned out to be nearly \$4.5 billion too low given the unexpected strength of the economy. This does not however, imply that this economic strength will continue indefinitely and that an overly optimistic forecast is appropriate for 2000-01.

Forecasting Risks

Although economic and revenue forecasts use econometric tools that appear to be precise and scientific, they are, in reality, subject to significant errors and risk such as:

- *Turning points.* Forecasting models are generally based on predicting the future by following trends in recent history. If the assumption that the future will be like the past is incorrect — due to an economic slowdown or change in taxpayer behavior — the forecast will be incorrect. New York is currently in its seventh year of economic expansion — the longest on record. The risk of a turning point in the economy or stock market is greater the longer uninterrupted growth continues.
- *Changing composition and character of personal income.* Forecasting models are built on historical relationships between the economy and tax receipts which makes accurate predictions more difficult when these relationships change. Over half of New York tax revenues are from the personal income tax. This tax is progressive because income is taxed at higher rates as it increases. Recently, much of the growth in income has been at the upper end of the income distribution which means the State collects a proportionately larger share of income taxes than it would if income were distributed uniformly.

² Projected, based on the Executive Budget and 30 day amendments.

- *Reliance on income from the volatile financial markets.* Much of the growth in revenues is attributable to income associated with the financial markets. This income includes financial sector bonuses, exercised stock options and capital gains. Because of past volatility, continued reliance on growth from this sector is risky.
- *Statistical precision.* The econometric techniques that are used for economic and revenue forecasts produce a single number after all the inputs are run through a model. However, this number represents only a point estimate within a range; any figure within the range is just as likely to be correct as the point estimate. State tax collections total over \$40 billion on an all funds basis, which means that a one percent error results in a \$400 million variance.
- *Economic inputs.* Even minor variations in forecasts can result in revenue estimating errors. A tenth of one percent difference in wage growth, for example, can result in a withholding revenue estimate error of approximately \$20 million.
- *Taxpayer behavior.* The level of receipts for many taxes depends on decisions made by taxpayers about when to make a tax payment or whether to complete a transaction that results in tax liability. Taxpayer behavior frequently changes because of changes in tax laws, economic circumstances or even perceptions about future changes. For example, extraordinary increases in taxable capital gains were partially due to an unlocking of transactions as the result of a federal tax rate cut.

Given these risks, from a budgeting perspective, additional reserve funds should be set aside when raising revenue estimates in the event collections are lower than expected.

ECONOMIC PROJECTIONS

National Economy

The Executive and legislative forecasts call for continued growth in the U.S. economy in 2000, although all forecasts expect a slowing from the 4.1 percent gross domestic product (GDP) growth recorded in 1999. The forecasts call for growth of between 3.5 and 3.9 percent in 2000, which is slightly less optimistic than the most recent (March 10) Blue Chip consensus forecast of 4.1 percent. Despite the expected rise in GDP projected to match 1999 growth, Blue Chip envisions a moderation in the pace of growth.

Calendar Year 2000 National Economic Projections

	Lower Range	Upper Range
GDP	3.5%	3.9%
Personal Income	5.5%	6.0%
Wages	4.9%	6.6%
Employment	1.7%	2.1%
Corporate Profits	-0.7%	11.7%
Inflation	2.1%	2.7%

The expected moderation in growth is evident across most of the major economic indicators addressed by the Executive and legislative forecasts. Inflation is expected to edge up slightly in the range of 2.1 and 2.7 percent. The Blue Chip consensus forecast for inflation in 2000 is 2.6 percent, consistent with the higher end of the forecast range. Personal income and wages are expected to decline slightly in 2000 from last year's pace. Employment growth is also expected to slow from 2.2 percent in 1999 to a range of 1.7 to 2.1 percent in 2000.

The Executive and legislative forecasts varied significantly in their outlooks for corporate profits in 2000 — ranging from a decline of -0.7 percent to an increase of 11.7 percent. The most recent Blue Chip consensus forecast projects corporate profit growth of 6.5 percent, consistent with the middle of the forecast range.

New York State Economy

The forecasts for the State economy foresee continued employment growth in the range of 1.5 percent to 2.1 percent in 2000, albeit at a slower rate. Personal income is expected to grow in the range of 5.1 to 6.0 percent. Wage growth is expected to slow to a range of 5.9 percent to 6.7 percent.

Calendar Year 2000 State Economic Projections

	Lower Range	Upper Range
Personal Income	5.1%	6.0%
Wages	5.9%	6.7%
Employment	1.5%	2.1%

Significant disparities continue between both national and statewide job growth figures — and job growth in upstate New York. During the last five years, while the nation and the rest of the State have experienced impressive job growth, upstate New York has continued to lag. New York State's overall employment growth ranked 49 among the fifty states for the period 1994-1999. Although the State's relative performance improved last year, efforts by the Federal Reserve to slow the economy are likely to prevent the State from sustaining its most recent employment growth rates. Early indications suggest that the State's growth has indeed begun to slow. Further, many of the jobs that have been produced upstate are in the low wage service sector. Total personal income growth including wages and salaries in the upstate region under-performs both the nation and the downstate region. Transfer payments (such as pension and social security income) have become an increasingly larger share of personal income upstate over the past decade, highlighting both the trends of out-migration and an aging population.

Despite these challenges, the upstate region has valuable assets that need to be better utilized. These assets include a high quality of life, public and private research and development centers, as well as cultural and educational institutions. Most of the upstate cities continue to face the repercussions of downsizing by major employers, especially in the manufacturing sector. The challenges of replacing those lost jobs with new ones, as smaller firms grow, include recruiting skilled workers in high technology industries, retaining a manufacturing base and encouraging other sectors such as education and health. In the future, attention needs to be paid to addressing the high cost structure upstate in terms of taxes, regulatory issues and regional development.

Risks to the Economic Forecast

New York State continues to be dependent on the financial services sector, particularly that portion located in New York City and dominated by activity on Wall Street. This, in conjunction with the challenges facing the upstate economy, presents a risk to the forecast. Between 1987 and 1997, wages from the New York City financial sector accounted for about one-quarter of total State wage

growth and about one-third of wage growth since 1994. Since securities industry profits are highly volatile, a downturn in the market presents considerable downside risk for State tax revenues. Additionally, bonuses — the primary source of wage growth — are expected to flatten out, drying up an important generator of income growth across the State.

RECEIPT PROJECTIONS

This report considers revenue projections produced by the Executive, Assembly Ways and Means majority, Assembly Ways and Means minority, Senate Finance majority and Senate Finance minority. The analysis concentrates on major areas of disagreement. Tables in the Appendix provide revenue estimate comparisons on a tax by tax basis.

Revenue estimates for 1999-00 and 2000-01 ranged between \$440 million and \$1,133 million above the Executive estimates. The Assembly majority represented the upper end and the Senate minority represented the lower end of the estimate differences.

Difference from Executive Revenue Estimates (\$ millions)

Fiscal Year	Senate Majority	Assembly Majority	Senate Minority	Assembly Minority
1999-00	\$113	\$236	\$46	\$133
2000-01	\$828	\$897	\$394	\$464
Two-Year Total	\$941	\$1,133	\$440	\$597

Disagreements on projected revenues for 1999-00 ranged from \$46 million to \$236 million more than the Executive estimates. The differences in expected revenues for 2000-01 were more significant and ranged from \$394 million to \$897 million more than Executive estimates.

The law requires a consensus forecasting conference to assist the Executive and Legislature in reaching a consensus revenue forecast. The conference met on March 1 and allowed experts in the field to offer guidance on the expected performance of the economy and its impact on state revenues.

However, the law also requires the Executive and Legislature to issue a joint report containing a consensus forecast of the economy and receipts for the current and upcoming state fiscal years. As of the date of this report, no revenue consensus has been reached and the statutorily required report has not been issued. Even though the consensus conference began the process on a positive note, no results have been achieved.

1999-00 Forecast

For 1999-00, the Assembly majority represents the highest difference from the Executive of \$236 million. The personal income tax accounts for the bulk of this difference.

1999-00 Revenue Estimates (\$ millions)

Category	Executive	Assembly Majority	Difference
Personal Income Tax	\$21,498	\$21,682	\$184
Refund Reserve Account	(\$788)	\$(788)	\$0
User Taxes and Fees	\$7,439	\$7,495	\$56
Business Taxes	\$4,574	\$4,604	\$30
Other Taxes	\$1,059	\$1,024	(\$35)
Miscellaneous Receipts	\$1,474	\$1,475	\$1
Lottery	\$1,345	\$1,345	\$0
Total Receipts	\$36,601	\$36,837	\$236

Source: New York State Consensus Forecasting Conference materials; compiled by Division of Budget

For the close of the 1999-00 state fiscal year, tax collections though February indicate that current revenue estimates are too low. Withholding tax collections alone will be at least \$400 million higher than projected by the Executive in the 30 day amendments. It appears that February withholding collections of 28 percent account for the bulk of the underestimate. In fact, the Executive's current withholding estimate for the fiscal year implies a decline of 15 percent in March. This is unlikely, since withholding tax collections for the first 11 months of the fiscal year grew at approximately 11.8 percent.

The current consensus process has not acknowledged the stronger than expected receipts, even though the Executive recently announced the availability of \$500 million more in additional resources³ for the current fiscal year as a result of continued strength in the State's economy. The lack of consensus is especially troubling since there is less than one month left in the fiscal year and no official progress has been made toward agreement on total revenues.

2000-01 Forecast

For 2000-01, the Assembly majority represents the highest difference from the Executive of \$897 million. The personal income tax accounts for the bulk of this difference.

³ Resources primarily include increased revenues, but also contain a spending re-estimate component.

2000-01 Revenue Estimates
(\$ millions)

Category	Executive	Assembly Majority	Difference
Personal Income Tax	\$20,666	\$21,448	\$782
Refund Reserve Account	\$2,527	\$2,527	\$0
User Taxes and Fees	\$7,074	\$7,117	\$43
Business Taxes	\$4,211	\$4,295	\$84
Other Taxes	\$766	\$754	(\$12)
Miscellaneous Receipts	\$1,339	\$1,350	\$11
Lottery	\$1,497	\$1,486	(\$11)
Total Receipts	\$38,080	\$38,977	\$897

Source: New York State Consensus Forecasting Conference materials; compiled by Division of Budget

Personal Income Tax

The Assembly majority projects personal income tax receipts will be \$782 million higher than forecast by the Executive. The majority of personal income tax collections in 2000-01 represent tax payments on income received during that year. The remaining portion is related to the settlement of liability, through final payments or refunds, associated with calendar year 1999. An examination of the components of personal income tax may shed some light on the basis for the current disagreement.

In addition, the personal income tax is important to understand since it accounts for more than half the tax base and has accounted for the bulk of the underestimation of revenues in recent years (graph). Over the past three years, the personal income tax has accounted for almost two-thirds of the year-end revenue-related surplus. The income tax is considered progressive — that is, as income increases it is taxed at progressively higher rates.

Withholding

Withholding is the automatic deduction of personal income taxes from wages. Withholding tax tables instruct employers on the appropriate deductions and exemptions from wages and at what rate to withhold taxes from the remaining wages. Regular wage payments, lump-sum bonus payments subject to mandatory withholding at the top statutory rate and gains from stock options exercised in non-qualified employee stock option plans are subject to the tax.

The Assembly majority projects withholding collections for 2000-01 of \$19.7 billion, \$489 million higher than the Executive. Some of this disagreement is attributable to stronger wage growth projected by the Assembly. The Senate majority has a slightly higher forecast withholding growth rate, yet their difference from the Executive of \$390 million is lower than the Assembly's difference from the Executive. Part of this difference relates to the fact that the Senate had a lower 1999-00 base, however the remaining disparity probably relates to the responsiveness of the withholding tax to wages.

There is a direct connection between wages and withholding. Due to the progressive nature of the income tax and withholding tax tables, a simple one percent increase in wages usually results in a greater percentage increase in withholding. This occurs because the withholding tax rate increases as income increases; the economic term used to describe such a relationship is elasticity. Withholding elasticity refers to the percent change in withholding tax collections for each one percent change in wages.

The following table illustrates the differing elasticities of the various forecasts. It should be noted that due to limited information, this is an inexact estimate of elasticity because it mixes fiscal year data with calendar year data.

Summary of Forecasted Growth Rates and Estimated Elasticity

	Calendar Year 2000 Wage Growth	Fiscal Year 2000-01 Withholding Growth	Implied Elasticity
Executive	6.2%	6.3%	1.02%
Assembly majority	6.7%	8.1%	1.21%
Senate majority	6.1%	8.2%	1.34%

Another factor affecting elasticity is the distribution of wage growth among taxpayers. If most wage growth occurs in the upper incomes, the growth rate of withholding will be higher than if the wage growth is evenly distributed or accrues mostly at the bottom of the income bracket.

To illustrate this effect, the Office of the State Comptroller estimated the percentage change in withholding under three different scenarios.⁴ These examples apply only to single taxpayers in 1996. The results do not necessarily reflect the elasticities that would occur if the same calculations were done for all taxpayers. This is a hypothetical example that shows the differing relationship between wages and withholding depending on where the wage growth occurs.

- *Scenario one:* Wages are increased uniformly for all taxpayers by 5 percent. Total withholding is estimated to increase by 7.3 percent resulting in a 1.46 percent elasticity.
- *Scenario two:* Total wages are increased by 5 percent, but wages increase only for taxpayers with incomes below \$60,000. In order for total wages to increase 5 percent, this requires a wage increase of 6.9 percent for those taxpayers with incomes less than \$60,000. In this case, total withholding from all taxpayers increases by 6.9 percent resulting in a 1.38 elasticity.
- *Scenario three:* Total wages are increased by 5 percent, but wages increase only for taxpayers with incomes above \$60,000. In order for total wages to increase 5 percent, this requires a wage increase of 17.5 percent for those taxpayers with incomes greater than \$60,000. In this case, total withholding from all taxpayers increases by 8.2 percent resulting in a 1.64 elasticity.

Recently, much of the growth in income has been concentrated toward the upper end of the income distribution. This is due to the increases in bonus payments, exercised stock options, and capital gains. When income gains occur for these taxpayers, State tax revenues tend to increase by a higher percentage. This has been the driving force behind much of the unanticipated strength of tax collections in the fairly recent past. However, the factors contributing to the growth in income are closely related to financial markets, which are one of the more volatile elements of the State's economic structure. Therefore, an assumption for strong or even modest growth over last year's high revenue base poses an added element of uncertainty.

One of the factors complicating the relationship between wages and withholding — making the translation of economic projections into State tax revenues even more difficult — is bonus activity. The following graph illustrates the historical relationship between wages (with and without bonuses) and withholding, represented by elasticities.

⁴ These estimates were based on information contained in the *Analysis of 1996 Personal Income Tax Returns* by the New York State Department of Taxation and Finance. They were prepared using the withholding tables that have been in effect since January 1, 1997.

Overall estimated elasticities (adjusting for tax cuts) declined from a high of 1.6 percent in 1996, to 1.4 percent in 1999. The 2001 forecast elasticities range from the Senate majority's estimate of 1.3 percent to the Executive's estimate of 1.0 percent.

Given what we know about the relationship between wages and withholding, as follows:

- A simple one percent increase in wages usually results in a greater percentage increase in withholding, and
- The greater the percentage of wages that occur in high income brackets, the greater the elasticities (assumption from the hypothetical example above).

If much of the growth in income has been concentrated toward the upper end of the income distribution (and therefore taxed at a higher rate), one might expect to see consistently higher historical elasticities. However, this is not the case. In fact, the opposite effect was found.

The complicating factor appears to be bonus activity. The graph examines overall wage growth with and without bonuses. It shows (1) wage growth without bonuses, (2) wage growth including bonuses — when bonuses grew at a faster rate than overall wages, (3) the difference between overall wage growth with and without bonuses — when bonuses grew at a slower rate than overall wages, and (4) withholding elasticities.

The graph makes clear that it was the *change* in wage growth attributable to bonuses that appears to be affecting the changes in elasticity. This makes sense since bonus income is taxed at a special higher withholding tax rate of 7.35 percent. The graph shows that when the area representing wage growth including bonuses — when bonuses grew at a faster rate than overall wages — was significant, there were higher withholding elasticities.

In 1995, overall wage growth was higher without bonuses — in other words general wages grew faster than bonuses did. This year the elasticity was relatively low at 1.1 percent. In 1996, unlike 1995, bonuses grew at a higher rate than non-bonus wages, thus contributing to a higher overall wage growth. This had a significant impact on the estimated elasticity which jumped to 1.6 percent. Over the next two years bonuses continued to grow at a faster rate than overall wages and the withholding elasticity remained high but began to drop slightly as the difference narrowed. In 1999, bonuses grew at a slower rate than the rest of wages and there is a slight corresponding drop in elasticity to 1.4 percent.

What does this all mean in the context of the forecast? First, it points out the difficulties of translating economic variables such as wages into State revenue components like withholding. Fairly small disagreements about the economy tend to become magnified in the translation to State receipts. Secondly, although each withholding forecast follows the historical trend toward declining elasticities, the forecasts are still quite different, making consensus difficult to reach.

Estimated Tax Payments

Estimated payments are income tax payments made by individuals with large amounts of non-wage income. The primary components of non-wage income include capital gains, interest and dividend income. Capital gains has grown dramatically in the past few years due to a robust stock market that contributed to larger gains and a federal income tax cut that encouraged many to realize capital gains.

The Senate majority forecast for 2000-01 was \$203 million higher than the Executive and the Assembly majority estimate was \$149 million above the Executive. These differences are mainly attributable to varying levels and growth of capital gains.

Projected Annual Growth Rates

	2000-01 Estimated Payments	1999 Capital Gains	2000 Capital Gains
Executive	6.3%	15.8%	8.7%
Assembly majority	8.0%	24.7%	16.4%
Senate majority	10.0%	N/A	N/A

Capital gains has been the fastest growing share of total income in recent years and is one of the most volatile components. It is difficult to forecast with precision since it is a function of the stock market and taxpayer behavior. The graph on the following page shows that historically capital gains have been very erratic.

Realized capital gains is a tax concept, and is not included in traditional economic series. The level of realized taxable capital gains, which is typically found in the upper income classes, is related to the financial markets as well as tax law changes. The growing popularity of mutual funds also makes estimating difficult since taxpayers do not have to take any action to receive capital gains distributions. Because capital gains growth has varied so much in recent years, it is more difficult to predict and often it has been an area where forecasters have had significantly different growth projections. A 10 percent difference in the projected growth rate can mean a revenue forecast difference of up to \$340 million.

The good news, from a budget perspective, is that growth in these types of income (bonuses and capital gains) has resulted in higher than expected receipts. The bad news is that these components of income tend to be the most volatile and difficult to predict. It does become clear however, that in reaching consensus it is imperative to discuss the detail that supports the overall growth rates in employment and income. Each sector needs to be discussed separately with attention given to bonuses, capital gains and average wages.

Summary of 1999-2000 Revenue Estimates
(\$ in millions)

	DOB	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Personal Income Tax	\$20,710	\$20,768	\$20,894	\$20,755	\$20,790
Withholding	\$18,053	\$18,090	\$18,208	\$18,073	\$18,108
Estimated Payments	\$5,845	\$5,835	\$5,891	\$5,855	\$5,885
Final Returns	\$1,420	\$1,419	\$1,392	\$1,435	\$1,412
Other Payments	\$495	\$501	\$500	\$495	\$498
Refunds	(\$3,120)	(\$3,094)	(\$3,114)	(\$3,120)	(\$3,130)
Refund Reserve	(\$788)	(\$788)	(\$788)	(\$788)	(\$788)
STAR Deposit	(\$1,195)	(\$1,195)	(\$1,195)	(\$1,195)	(\$1,195)
User Taxes and Fees	\$7,439	\$7,458	\$7,495	\$7,440	\$7,489
Sales	\$6,050	\$6,066	\$6,079	\$6,050	\$6,078
Cigarette	\$618	\$619	\$637	\$618	\$620
Motor Fuel	\$180	\$180	\$180	\$180	\$179
Motor Vehicle	\$353	\$355	\$359	\$353	\$372
Alcoholic Beverage	\$198	\$198	\$200	\$199	\$201
Container	\$0	\$0			
Auto Rental	\$40	\$40	\$40	\$40	\$39
Business Taxes	\$4,574	\$4,622	\$4,604	\$4,575	\$4,590
Corporate Franchise	\$1,938	\$1,951	\$1,951	\$1,938	\$1,927
Utilities	\$1,373	\$1,388	\$1,388	\$1,373	\$1,408
Insurance	\$601	\$612	\$596	\$601	\$609
Bank	\$570	\$580	\$576	\$570	\$556
Petroleum	\$92	\$91	\$93	\$93	\$90
Other Taxes	\$1,059	\$1,042	\$1,024	\$1,058	\$1,046
Estate and Gift	\$1,007	\$990	\$973	\$1,007	\$993
Real Property Gains	\$14	\$14	\$14	\$14	\$14
Pari-mutuel	\$36	\$36	\$36	\$36	\$37
Other	\$2	\$2	\$1	\$1	\$2
Total Taxes	\$33,782	\$33,890	\$34,017	\$33,828	\$33,915
Miscellaneous Receipts	\$1,474	\$1,479	\$1,475	\$1,474	\$1,464
Lottery	\$1,345	\$1,345	\$1,345	\$1,345	\$1,355
Total	\$36,601	\$36,714	\$36,837	\$36,647	\$36,734

Summary of Annual Growth of 1999-00 Revenue Estimates

	DOB	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Personal Income Tax	3.1%	3.4%	4.1%	3.4%	3.5%
Withholding	9.3%	9.5%	10.2%	9.4%	9.6%
Estimated Payments	13.4%	13.2%	14.3%	13.6%	14.2%
Final Returns	15.5%	15.5%	13.3%	16.8%	14.9%
Other Payments	6.2%	7.5%	7.3%	6.2%	6.9%
Refunds	11.6%	10.7%	11.4%	11.6%	12.0%
Refund Reserve	35.4%	35.4%	35.4%	35.4%	35.4%
STAR Deposit	N/A	N/A	N/A	N/A	N/A
User Taxes and Fees	2.7%	3.0%	3.5%	2.7%	3.4%
Sales	6.2%	6.5%	6.7%	6.2%	6.7%
Cigarette	-7.3%	-7.2%	-4.5%	-7.3%	-7.0%
Motor Fuel	5.3%	5.3%	5.3%	5.3%	4.7%
Motor Vehicle	-20.5%	-20.0%	-19.1%	-20.5%	-16.2%
Alcoholic Beverage	-6.4%	-6.6%	-5.7%	-6.1%	-5.2%
Container	-100.0%	-100.0%	-100.0%	-100.0%	-100.0%
Auto Rental	17.6%	17.6%	17.6%	17.6%	14.7%
Business Taxes	-5.8%	-4.9%	-5.2%	-5.8%	-5.5%
Corporate Franchise	-33.0%	-4.8%	-4.8%	-5.5%	-6.0%
Utilities	-59.6%	-6.8%	-6.8%	-7.8%	-5.4%
Insurance	-15.3%	-9.1%	-11.4%	-10.7%	-9.5%
Bank	4.8%	6.6%	5.9%	4.8%	2.2%
Petroleum	-9.8%	-10.8%	-8.8%	-8.8%	-11.8%
Other Taxes	-6.9%	-8.4%	-10.0%	-7.0%	-8.1%
Estate and Gift	-6.0%	-7.6%	-9.2%	-6.0%	-7.3%
Real Property Gains	-51.7%	-51.7%	-51.7%	-51.7%	-51.7%
Pari-mutuel	-2.7%	-2.7%	-2.7%	-2.7%	0.0%
Other	100.0%	100.0%	0.0%	0.0%	100.0%
Total Taxes	1.4%	1.7%	2.1%	1.5%	1.8%
Miscellaneous Receipts	-1.8%	-1.5%	-1.7%	-1.8%	-2.5%
Lottery	-6.7%	-6.7%	-6.7%	-6.7%	-6.0%
Total	0.9%	1.2%	1.6%	1.1%	1.3%

**Summary of 1999-00 Revenue Estimates
Difference from Division of the Budget
(\$ in millions)**

	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Personal Income Tax	\$58	\$184	\$45	\$80
Withholding	\$37	\$155	\$20	\$55
Estimated Payments	(\$10)	\$46	\$10	\$40
Final Returns	(\$1)	(\$28)	\$15	(\$8)
Other Payments	\$6	\$5		\$3
Refunds	\$26	\$6		(\$10)
Refund Reserve				
STAR Deposit				
User Taxes and Fees	\$19	\$56	\$1	\$50
Sales	\$16	\$29		\$28
Cigarette	\$1	\$19		\$2
Motor Fuel				(\$1)
Motor Vehicle	\$2	\$6		\$19
Alcoholic Beverage		\$2	\$1	\$3
Container				
Auto Rental				(\$1)
Business Taxes	\$48	\$30	\$1	\$16
Corporate Franchise	\$13	\$13		(\$11)
Utilities	\$15	\$15		\$35
Insurance	\$11	(\$5)		\$8
Bank	\$10	\$6		(\$14)
Petroleum	(\$1)	\$1	\$1	(\$2)
Other Taxes	(\$17)	(\$35)	(\$1)	(\$13)
Estate and Gift	(\$17)	(\$34)		(\$14)
Real Property Gains				
Pari-mutuel				\$1
Other		(\$1)	\$1	
Total Taxes	\$108	\$235	\$46	\$133
Miscellaneous Receipts	\$5	\$1		(\$10)
Lottery				\$10
Total	\$113	\$236	\$46	\$133

Summary of 2000-01 Revenue Estimates
(\$ in millions)

	DOB	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Personal Income Tax	\$23,193	\$23,825	\$23,975	\$23,456	\$23,506
Withholding	\$19,186	\$19,576	\$19,675	\$9,396	\$19,360
Estimated Payments	\$6,215	\$6,418	\$6,364	\$6,245	\$6,356
Final Returns	\$1,510	\$1,529	\$1,524	\$1,540	\$1,549
Other Payments	\$510	\$493	\$510	\$510	\$512
Refunds	(\$3,295)	(\$3,258)	(\$3,165)	(\$3,302)	(\$3,338)
Refund Reserve	\$2,527	\$2,527	\$2,527	\$2,527	\$2,527
STAR Deposit	(\$2,010)	(\$2,010)	(\$2,010)	(\$2,010)	(\$2,010)
STAR Reserve Deposit	(\$1,200)	(\$1,200)	(\$1,200)	(\$1,200)	(\$1,200)
DRRF Deposit	(\$250)	(\$250)	(\$250)	(\$250)	(\$250)
<hr/>					
User Taxes and Fees	\$7,074	\$7,091	\$7,117	\$7,140	\$7,125
Sales	\$5,959	\$5,980	\$5,981	\$6,025	\$5,992
Cigarette	\$497	\$496	\$512	\$497	\$489
Motor Fuel	\$19	\$19	\$19	\$19	\$19
Motor Vehicle	\$350	\$351	\$364	\$350	\$366
Alcoholic Beverage	\$207	\$202	\$199	\$207	\$216
Container					
Auto Rental	\$42	\$43	\$42	\$42	\$43
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Business Taxes	\$4,211	\$4,325	\$4,295	\$4,276	\$4,286
Corporate Franchise	\$2,130	\$2,208	\$2,181	\$2,185	\$2,138
Utilities	\$764	\$777	\$779	\$774	\$808
Insurance	\$637	\$643	\$644	\$637	\$645
Bank	\$590	\$606	\$597	\$590	\$605
Petroleum	\$90	\$91	\$94	\$90	\$90
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Other Taxes	\$766	\$771	\$754	\$766	\$784
Estate and Gift	\$732	\$737	\$717	\$722	\$750
Real Property Gains			\$3	\$10	
Pari-mutuel	\$33	\$33	\$33	\$33	\$33
Other	\$1	\$1	\$1	\$1	\$1
<hr/>					
Total Taxes	\$35,244	\$36,012	\$36,141	\$35,638	\$35,701
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Miscellaneous Receipts	\$1,339	\$1,378	\$1,350	\$1,339	\$1,351
Lottery	\$1,497	\$1,518	\$1,486	\$1,497	\$1,492

	DOB	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Total	\$38,080	\$38,908	\$38,977	\$38,474	\$38,544

Summary of Annual Growth of 2000-01 Revenue Estimates⁵

	DOB	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Personal Income Tax	12.0%	14.7%	14.7%	13.0%	13.1%
Withholding	6.3%	8.2%	8.1%	7.3%	6.9%
Estimated Payments	6.3%	10.0%	8.0%	6.7%	8.0%
Final Returns	6.3%	7.8%	9.5%	7.3%	9.7%
Other Payments	3.0%	-1.6%	2.0%	3.0%	2.8%
Refunds	5.6%	5.3%	1.6%	5.8%	6.6%
Refund Reserve	-420.7%	-420.7%	-420.7%	-420.7%	-420.7%
STAR Deposit	68.2%	68.2%	68.2%	68.2%	68.2%
STAR Reserve Deposit	N/A	N/A	N/A	N/A	N/A
DRRF Deposit	N/A	N/A	N/A	N/A	N/A
User Taxes and Fees	-4.9%	-4.9%	-5.0%	-4.0%	-4.9%
Sales	-1.5%	-1.4%	-1.6%	-0.4%	-1.4%
Cigarette	-19.6%	-19.9%	-19.6%	-19.6%	-21.1%
Motor Fuel	176.1%	-89.4%	-89.4%	-89.4%	-89.4%
Motor Vehicle	-0.8%	-1.1%	1.4%	-0.8%	-1.6%
Alcoholic Beverage	4.5%	2.0%	-0.5%	4.0%	7.5%
Container	N/A	N/A	N/A	N/A	N/A
Auto Rental	5.0%	7.5%	5.0%	5.0%	10.3%
Business Taxes	-7.9%	-6.4%	-6.7%	-6.5%	-6.6%
Corporate Franchise	55.1%	13.2%	11.8%	12.7%	10.9%
Utilities	27.1%	-44.0%	-43.6%	-43.6%	-42.6%
Insurance	11.8%	5.1%	8.1%	6.0%	5.9%
Bank	3.5%	4.5%	3.6%	3.5%	8.8%
Petroleum	-2.2%	0.0%	1.1%	-3.2%	0.0%
Other Taxes	-27.7%	-26.0%	-26.4%	-27.6%	-25.0%
Estate and Gift	-27.3%	-25.6%	-26.3%	-28.3%	-24.5%
Real Property Gains	-100.0%	-100.0%	-78.6%	-28.6%	-100.0%
Pari-mutuel	-8.3%	-8.3%	-8.3%	-8.3%	-10.8%
Other	-50.0%	-50.0%	0.0%	0.0%	-50.0%
Total Taxes	4.3%	6.3%	6.2%	5.4%	5.3%
Miscellaneous Receipts	-9.2%	-6.8%	-8.5%	-9.2%	-7.7%
Lottery	11.3%	12.9%	10.5%	11.3%	10.1%

⁵ Compared to their respective 1999-00 Revenue Estimates

	DOB	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Total	4.0%	6.0%	5.8%	5.0%	4.9%

**Summary of 2000-01 Revenue Estimates
Difference from Division of the Budget
(\$ in millions)**

	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Personal Income Tax	\$632	\$782	\$263	\$313
Withholding	\$390	\$489	\$210	\$174
Estimated Payments	\$203	\$149	\$30	\$141
Final Returns	\$19	\$14	\$30	\$39
Other Payments	(\$17)			\$2
Refunds	\$37	\$130	(\$7)	(\$43)
Refund Reserve				
STAR Deposit				
STAR Reserve Deposit				
DRRF Deposit				
User Taxes and Fees	\$17	\$43	\$66	\$51
Sales	\$21	\$22	\$66	\$33
Cigarette	(\$1)	\$15		(\$8)
Motor Fuel				
Motor Vehicle	\$1	\$14		\$16
Alcoholic Beverage	(\$5)	(\$8)		\$9
Container				
Auto Rental	\$1			\$1
Business Taxes	\$114	\$84	\$65	\$75
Corporate Franchise	\$78	\$51	\$55	\$8
Utilities	\$13	\$15	\$10	\$44
Insurance	\$6	\$7		\$8
Bank	\$16	\$7		\$15
Petroleum	\$1	\$4		
Other Taxes	\$5	(\$12)		\$18
Estate and Gift	\$5	(\$15)	(\$10)	\$18
Real Property Gains		\$3	\$10	
Pari-mutuel				
Other				
Total Taxes	\$768	\$897	\$394	\$457
Miscellaneous Receipts	\$39	\$11		\$12
Lottery	\$21	(\$11)		(\$5)

	SFC Maj.	WAM Maj.	SFC Min.	WAM Min.
Total	\$828	\$897	\$394	\$464

**This report was prepared by the State Comptroller's
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