Comptroller’s Fiscal Update:
State Fiscal Year 2017-18
Receipts and Disbursements
Through the Mid-Year
I. State Fiscal Year 2017-18 Receipts

Receipts from All Governmental Funds (All Funds) totaled $76.6 billion through the first half of the fiscal year, an increase of $1.5 billion or 2 percent over the same period in SFY 2016-17. Receipts were $22.3 million higher than the latest projections from the First Quarterly Update and $360.7 million below initial projections in the Enacted Budget Financial Plan issued in May.

Tax Collections

All Funds tax collections totaled $36.1 billion through the first half of State Fiscal Year (SFY) 2017-18, a decline of 2.1 percent, or $767.9 million, from the first six months of last year. Collections through September 30, 2017 (the mid-year) were $386.6 million lower than the most recent projections in the First Quarterly Update to the SFY 2017-18 Enacted Budget Financial Plan released in August (First Quarterly Update) by the Division of the Budget (DOB), and $692.6 million lower than initial projections. The shortfall was primarily in personal income tax (PIT) receipts, the State’s largest source of tax revenue.

Personal Income Tax

Through the mid-year of SFY 2017-18, PIT collections totaled nearly $22.2 billion, representing a decline of 5.6 percent or $1.3 billion from the same period in SFY 2016-17. PIT receipts through the mid-year were $1.1 billion below initial projections and $371.3 million below updated projections. Factors in the year-over-year decline and the lower-than-expected receipts include the timing of refunds in previous years, as well as lower-than-projected estimated payments in the current year.

Some of the weakness in this year’s PIT collections relative to the previous year is a function of a change in the timing of refund payments. In SFY 2015-16, $800 million in refunds that would otherwise have been paid in April 2016 were paid in March 2016 instead. This had the effect of increasing PIT receipts in SFY 2016-17. With the return to the standard schedule of payments, refunds thus far in the current year total more than $1.2 billion higher than those paid in SFY 2016-17.¹ Excluding these timing issues, refunds in SFY 2017-18 are $338.3 million, or 8.0 percent, higher than refunds issued in the same time period in SFY 2016-17.

In addition, taxpayer behavior in anticipation of federal tax law changes may be influencing the collections from estimated payments more than anticipated. Estimated payments made with requests for extensions to file annual tax returns declined by over $600 million from collections for this category in the same period in SFY 2016-17, and were nearly $1.2 billion lower than anticipated in the Financial Plan Update released in February 2017. Over the first six months of the current fiscal year, quarterly current year estimated payments for the 2017 tax year have declined $87.7 million or 1.6 percent from the same period last year.

¹ Another factor influencing the year-over-year increase in refunds is the timing of the advanced payment of the STAR credit. In SFY 2016-17, this advanced refund was paid in the latter half of the fiscal year. Due to legislation enacted in the 2017 session, this credit is required to be paid by September 30.
Since the SFY 2014-15 Enacted Budget Financial Plan, when the first official projections for SFY 2017-18 were released, the Division of the Budget has reduced expectations for PIT receipts in SFY 2017-18 by $3.1 billion, primarily in withholding and estimated payments.

**Withholding**

Income tax payments made through withholding represent the largest segment of PIT receipts, projected at $39.5 billion this fiscal year. Through the mid-year, collections from withholding have totaled just under $16.8 billion, representing an increase from the previous year of $762.1 million or 4.8 percent. That growth rate is lower than the current projected annual increase of 5.2 percent. The level of bonuses paid in the financial sector at the end of the year will influence whether this projection will be met.

Collections from withholding have resulted in year-over-year growth in each of the first six months of the fiscal year.

**Estimated Payments**

Receipts from estimated payments reflect income that is not subject to withholding, including business income and certain investment income. Since some of the income upon which estimated payments are made is variable, such as the realization of capital gains, collections from this component tend to be more volatile than withholding receipts. In the Enacted Budget Financial Plan, DOB reduced projections for estimated payments by approximately $1.1 billion in the current year and in each of the subsequent two years of the Financial Plan period. (The projection for SFY 2020-21 was reduced by nearly $3.5 billion from the Executive Budget, primarily because the Enacted Budget included a two-year extension of the PIT top tax rate instead of three years as proposed in the Executive Budget). However, the reduction was made mostly to prior year estimated payments (reflecting extensions of tax return filings) because April 2017 collections were lower than anticipated.

Through September 2017, collections from estimated payments are over $715 million, or 7.6 percent, lower than collections for the same period in SFY 2016-17. Besides the decreased collections from payments related to tax year 2016 annual returns, payments related to the 2017 tax year have also exhibited declines. While both the stock market and individual business income have exhibited growth this year, some of the weakness in collections from estimated payments may be due to taxpayer deferral of income as the discussion of federal tax changes continues in Washington.

Figure 1 shows the proportion of current-year estimated payments received in the first and second halves of SFY 2016-17 compared to the average for these months over the last 10 years and actual and projected figures for these months in SFY 2017-18. As shown, the State typically receives about half of its current-year estimated payments in the first half of the fiscal year. Based on collections through the mid-year and in order to meet current projections for the remainder of the year, 57.3 percent of such receipts for this fiscal year would have to be received from October 2017 through March 2018, compared to a historical average of approximately 49.2 percent.

The latest Financial Plan indicates current-year estimated payments this fiscal year are expected to total $12.4 billion. If the quarterly trends for such receipts in previous years hold true this fiscal year, this component of PIT collections may be lower than expected. As indicated above, taxpayer behavior may also be affecting such receipts. If so, tax receipts
during calendar year 2018 may be affected as well. At this point it is unclear how taxpayer behavior and the federal tax debate will affect the State’s revenue picture for the remainder of the fiscal year and beyond.

**Figure 1**

Comparison of First and Second Half Current-Year Estimated Payment Collections
As Percentage of Year-End Total
SFY 2016-17, SFY 2017-18 and 10-Year Average

![Graph showing comparison of payment collections](image)

Sources: Office of the State Comptroller, Division of the Budget, Department of Taxation and Finance

**Consumption and Use Taxes**

Through the mid-year, collections of all consumption and use taxes totaled just over $8.4 billion, representing an increase of $105.3 million, or 1.3 percent, from the same period in SFY 2016-17. Year-to-date collections are $39.8 million lower than current projections and $147.8 million below initial projections.

**Sales and Use Tax**

The largest component of consumption and use taxes is the sales and use tax, making up between 80 and 85 percent of total receipts in this category. Through the mid-year, sales and use tax collections totaled just over $7.2 billion, representing an increase of $193.6 million or 2.8 percent from the same period in SFY 2016-17. DOB currently projects that sales and use tax collections will increase by 5.1 percent, or $711 million, by the end of the fiscal year. To reach this projection, growth will have to increase to 7.6 percent over the remaining six months, which will be largely dependent on the strength of holiday sales.
Business Taxes

Through the mid-year, business tax collections totaled $3.6 billion, representing an increase of $276 million, or 8.2 percent, from the same period in SFY 2016-17. This is due largely to collections from audits, primarily from the bank tax. However, total collections through the first half of the year have exceeded initial and updated projections in every month except September. Year-to-date collections are $83.4 million lower than current projections but $422.6 million higher than initial projections.

Corporate Franchise Tax

In 2015, the Legislature enacted business tax changes which included the consolidation of the bank tax into the corporate franchise tax. The corporate franchise tax, historically the largest component of business tax collections, has become more dominant, making up 45 percent of the total in SFY 2016-17. Corporate franchise tax collections through the mid-year declined 3.3 percent, or $59.5 million, from the same period last year. Year-end franchise tax collections are anticipated to increase 31.9 percent, or just over $1 billion, because of the continued impact of corporate tax law changes that went into effect in 2015 as well as increased audit collections. The timing of audit collections commonly fluctuates.

To reach current year-end projections, corporate franchise tax collections will have to increase nearly 78 percent, or by nearly $1.1 billion, over the last six months of the fiscal year compared to the same period in SFY 2016-17. Based on such projections, almost half of that total would be receipts from audit collections.

Other Taxes

Other taxes including the Metropolitan Commuter Transportation Mobility Tax (MTA payroll tax) totaled $1.9 billion through the mid-year and were $175.4 million, or 10.1 percent, higher than collections for the same period last year. DOB currently projects that these taxes will total just over $3.7 billion by year-end, representing an increase of 2.7 percent or $98 million.

Estate Tax

The year over year increase in other taxes is almost entirely due to the estate tax, which increased $125.1 million or 23.2 percent through September 30. The increase primarily results from exceptionally large collections in September ($211.7 million). While DOB anticipates that estate taxes for the full year will decline by 3.6 percent from SFY 2016-17, collections currently represent 63 percent of this projected total.

If the large, unanticipated increase in estate tax had not occurred in September, all four tax groups (PIT, business taxes, consumption taxes and other taxes) would be below updated projections, and total tax collections would be below both updated and initial projections.

Miscellaneous Receipts

Miscellaneous receipts, including gaming revenues, bond proceeds and monetary settlements, totaled $12.4 billion through September 30, representing an increase of $168.6 million or 1.4 percent from the same period last year. Through the first half of the fiscal year, miscellaneous receipts are $746.3 million higher than the latest projections and $384.3 million higher than initial projections, due in part to monetary settlements not anticipated when those
projections were issued. In the First Quarterly Update, DOB announced that $39 million from unappropriated/unallocated settlement dollars would be used to pay a judgment with CSX, leaving $536 million of settlement dollars received in recent years currently unallocated. The Enacted Budget Financial Plan included the use of $461 million in monetary settlement dollars for direct General Fund relief.

The SFY 2017-18 Financial Plan anticipates approximately $330.2 million in casino revenues (including Native American casinos and three of the four recently licensed casinos authorized by voters in 2013). Through September 2017, the State had collected $94.3 million, which is down 7.2 percent or $7.4 million from the same period last year. However, collections in SFY 2016-17 only included licensing fees from the new casinos and not actual gaming revenue. The State also projects just under $2.5 billion in Lottery revenues and $928 million in Video Lottery Terminals (VLTs) receipts (including administrative costs). Through September 30, collections have totaled $1.3 billion for traditional Lottery games (up $13.4 million or 1.1 percent) and $485.9 million for VLTs (down $4.5 million or 0.9 percent) from the same period last year.

Miscellaneous receipts in State capital projects funds through September 30, 2017 totaled nearly $1.9 billion, $66.8 million over projections from the First Quarterly Update and $461.2 million below the Enacted Plan. The Enacted Budget Financial Plan projects that miscellaneous receipts in capital projects funds would total $6.9 billion by year-end, representing an increase of $2.3 billion or nearly 50 percent from SFY 2016-17.

The majority of the annual growth in miscellaneous receipts in capital projects funds is anticipated to come from bond proceeds. The Enacted Budget Financial Plan anticipated collections from bond proceeds would increase $1.8 billion or nearly 50 percent to $5.4 billion in SFY 2017-18. The First Quarter Update reduced this growth to $1.7 billion or 46.6 percent. The Financial Plan does not provide monthly projections for bond proceeds, but bond proceeds received in capital projects funds through the mid-year totaled just under $1.3 billion, representing growth of $59.2 million or 4.9 percent from SFY 2016-17.

**Federal Receipts**

Through the mid-year, federal receipts totaled just over $28 billion, representing an increase of $2.1 billion or 8.2 percent from the previous year. Federal receipts were initially projected to increase this year by $1.2 billion or 2.2 percent from SFY 2016-17. The First Quarter Update increased that projection by $545 million. The increase in special revenue funds is primarily due to Medicaid spending within the Department of Health as well as spending for the Essential Plan (an optional ACA program which offers health insurance for certain New Yorkers under 65 who are not eligible for Medicaid or the Child Health Plus Program).

Federal receipts used for capital projects are projected to decline by $362 million for the full fiscal year and, for the first six months, were $277 million or 22.1 percent below the same period in SFY 2016-17.
II. Disbursements and General Fund Balance

Disbursements

Through the mid-year, spending from All Funds totaled $77.8 billion, an increase of 5.9 percent or $4.4 billion over the same period last year, with approximately 68 percent of the growth coming from federal special revenue funds. Spending from the General Fund (including transfers to other funds) increased $1.6 billion or 4.8 percent, whereas spending from State special revenue funds declined $388 million or 2.5 percent, in part due to the conversion of certain STAR benefits from a disbursement to a tax credit. Lower-than-anticipated tax collections have been accompanied by lower-than-projected spending growth through the first six months of the fiscal year.

Spending through the mid-year from All Funds was $647.7 million below updated projections and nearly $2 billion below initial projections with the Enacted Budget. Spending was below estimates in most Financial Plan categories, primarily in aid to localities and capital projects. Departmental operations exceeded the latest projections by approximately $113.6 million or 1.1 percent. Figure 2 illustrates the difference by fund type in actual spending from both initial and updated Financial Plan projections.

Figure 2

Difference by Fund Type of Actual Spending in SFY 2017-18 from Enacted and Updated Financial Plan Projections
(in millions of dollars)

Source: Office of the State Comptroller, Division of the Budget
Figure 2 shows that federally funded spending stayed relatively close to both the actual and updated Financial Plan projections through the first half of the fiscal year. In addition, federally funded spending from special revenue funds was the only type where actual spending through the mid-year exceeded projections. Spending funded with State dollars, especially from capital funds, has been below both initial and updated projections. The First Quarterly Update moved about $1.3 billion in planned spending from the first half of the year to the second half, primarily in capital spending.

Spending from State Operating Funds totaled just under $46.5 billion through the first half of the fiscal year, representing an increase of $1 billion or 2.3 percent over last year, with the majority of the increase occurring in local assistance payments from the General Fund. Year-to-date spending was $184.2 million below the latest projections and $631.2 million below initial projections. In both instances, the majority of the variance from the projections in the Financial Plan was in local assistance payments.

**General Fund Balance**

The General Fund balance as of September 30, 2017, was $6.5 billion. That figure was $21.8 million below the latest Financial Plan projection, and $3 billion less than a year earlier. These balances largely reflected monetary settlement receipts received in recent years.
III. Conclusion

Midway through the current fiscal year, personal income tax collections – the State’s largest source of revenue, other than federal aid – continue to fall below projections. Largely reflecting that impact, All Funds tax receipts for the first six months were nearly $693 million below the level projected in May, and $387 million below the updated projections from August.

The national economy continues to expand, with strong gains in the financial markets in recent months. Figures on certain elements of the State’s tax receipts, including estimated payments within the PIT, provide some indication that taxpayer behavior related to the possibility of federal tax changes may be among the factors keeping revenues below projected levels. Whether the tax debate in Washington will be resolved this year or extended into 2018 and beyond is unclear. At this point, it is also unclear how taxpayer behavior and the federal tax debate will impact the State’s revenues for the remainder of the fiscal year and into the future. Such uncertainty reinforces the importance of monitoring receipts carefully and exercising caution in projecting the State’s revenues going forward.

While tax collections through the first half of the year were lower than expected, miscellaneous receipts were significantly above projections. From an All Funds perspective, these higher receipts more than compensated for the shortfall in taxes. However, the two types of revenues are not necessarily interchangeable for budgetary purposes. The State has received certain monetary settlements that were not anticipated when the Budget was enacted ($575 million) or in the most recent updated Financial Plan projections ($225 million). Such resources boost the State’s bottom line, may be useful for cash-flow purposes, and are available for allocation in the budgetary process. However, they are one-time resources and are most appropriately used for capital investments or other one-time purposes, or for building statutory reserves, not to supplant recurring tax revenues in supporting operational or other ongoing purposes.

The most recent Financial Plan projected a budget gap of $4.1 billion for the coming fiscal year before any budgetary actions to address the gap. If tax receipts continue to fall below projections, next year’s projected gap may grow. Also, the State continues to face an elevated risk of reductions in a wide range of federal assistance programs, including health care funding. Substantial cuts to federal health care programs including the Children’s Health Insurance Program and Disproportionate Share Hospital funding remain under active discussion. More generally, the ongoing debate over the federal budget for the current federal fiscal year continues to generate uncertainty about New York’s receipt of federal funding.

The SFY 2017-18 Enacted Budget created a process that could be used to address certain federal aid reductions of $850 million or more during the current year. However, the enacted provision does not specify the circumstances under which the $850 million threshold would be deemed to have been met. The impact of this process on the Financial Plan and on recipients of State funding under varying potential scenarios of federal aid reduction is unclear. Given the risk of such reductions, continued close monitoring of developments in Washington is essential. Any federal funding reductions not already assumed in the Financial Plan could place significant strain on the State’s budget, and force difficult decisions regarding the availability of other resources and the funding of important programs and services.