



## OFFICE OF THE STATE COMPTROLLER

Thomas P. DiNapoli, Comptroller

### Comptroller's Update: State Fiscal Year 2013-14 Trends through the Mid-Year

October 2013

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#### Summary

Midway through State Fiscal Year (SFY) 2013-14, overall tax collections are slightly below the latest Division of the Budget (DOB) projections included in the First Quarter Update to the SFY 2013-14 Enacted Budget Financial Plan. Receipts from the Personal Income Tax (PIT) and consumption taxes are modestly above projected levels, while business tax collections are slightly below DOB's most recent projections. Disbursements through September were lower than forecast.

All Funds tax collections have increased 8.8 percent, or \$2.8 billion, through the first half of the fiscal year, with the majority of the growth (approximately \$2.2 billion) coming from PIT collections. Most of the PIT growth (just under \$2.0 billion) is attributable to payments made in April 2013 on estimated prior year obligations; these payments are largely non-recurring.<sup>1</sup> Overall tax collections through September totaling \$34.4 billion were approximately 0.2 percent below the latest projections by DOB.

Approximately \$820 million of the total growth in tax collections is attributable to collections from components of PIT other than estimated payments, and from consumption and use taxes (including sales tax), business taxes and other taxes. Excluding the unusually strong collections for prior year estimated payments, year-to-date growth in total remaining taxes is 2.9 percent.

Certain tax categories are continuing to show relatively strong growth. Sales tax collections have increased 6.6 percent through September 30, compared to the same period last year. This level of increase in sales tax receipts is significantly stronger than a year ago, when the Office of the State Comptroller reported 0.6 percent growth in sales tax collections over the same period for the year before. Corporate franchise tax collections increased 24.8 percent, or \$312.7 million, through September. However, at the same time, bank taxes have declined \$184.7 million or 26.8 percent.

The State has benefitted from nearly \$600 million in miscellaneous receipts that were unanticipated when the SFY 2013-14 Budget was enacted. This includes \$250 million in settlement funds from the Bank of Tokyo-Mitsubishi UFJ and \$10 million from Deloitte Financial Advisory Services, as well as \$341 million in back payments from the St. Regis Mohawk Tribe and the Seneca Nation of Indians associated with Native American-owned casinos.

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<sup>1</sup> Over the last 10 years, approximately 97 percent of prior year estimated payments have occurred in April. In SFY 2013-14, DOB projects approximately 98 percent of the year-end total for estimated payments on prior year obligations will have occurred in April 2013.

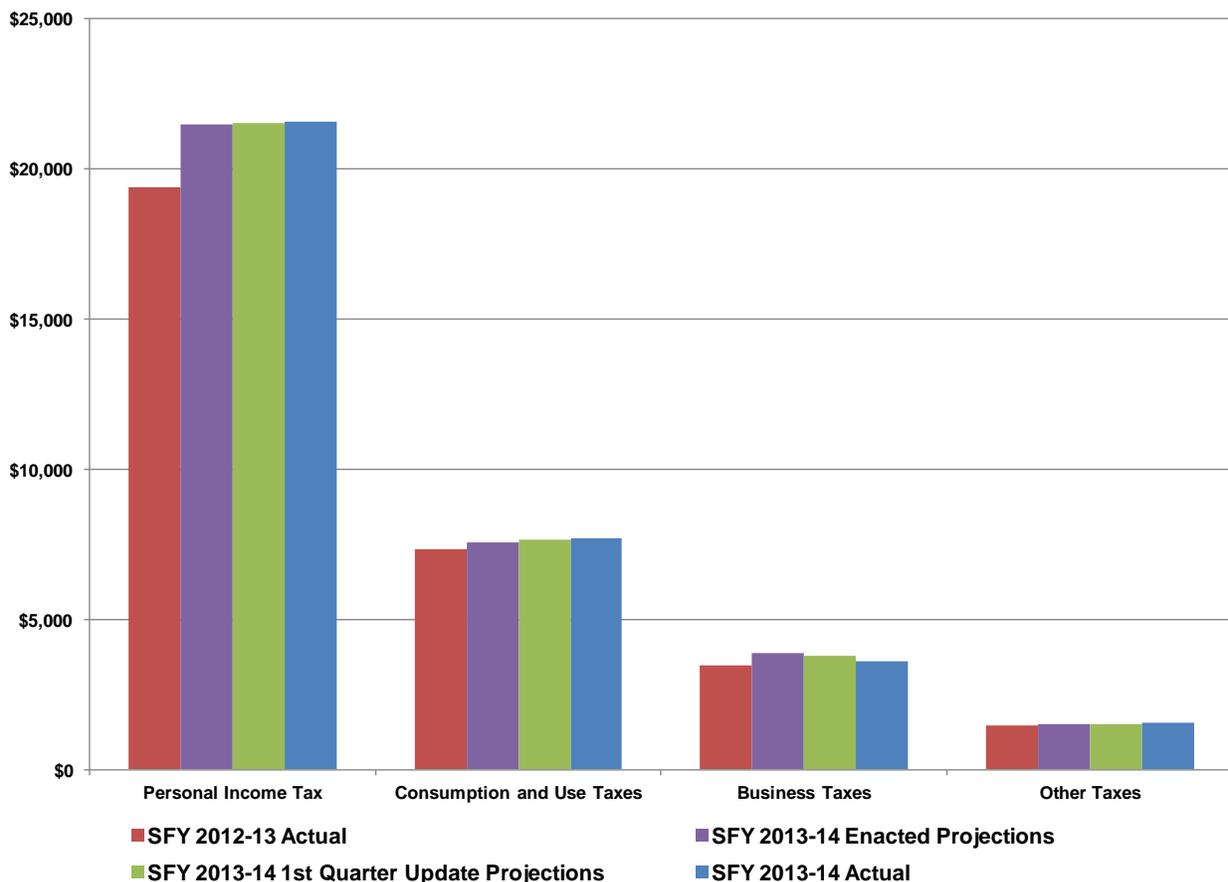
While total receipts are somewhat below current projections (0.2 percent), spending is below projections (1.4 percent) through September 30. All Funds disbursements increased 6.9 percent, or \$4.1 billion, through the first six months of the fiscal year, but were \$859.4 million below projections for the same period. All Funds balances were a collective \$738 million higher than projections, and the General Fund balance was \$709.5 million higher than projections, both primarily due to lower-than-anticipated spending.

## All Funds Receipts

All Funds tax collections totaled \$34.4 billion through the first half of SFY 2013-14. This represents an increase of 8.8 percent, or \$2.8 billion, over last year. In total, collections were \$54.9 million below the most recent projections from the First Quarter Update to the SFY 2013-14 Enacted Budget Financial Plan for the first six months and \$28.1 million above the original projections from the Enacted Budget Financial Plan. Figure 1 illustrates tax collections by major category.

**Figure 1**

**Tax Collections by Major Category –  
SFY 2012-13 Actual, SFY 2013-14 Enacted Budget Financial Plan, First Quarter  
Update to Enacted Budget Financial Plan and SFY 2013-14 Actual**  
(in millions of dollars)



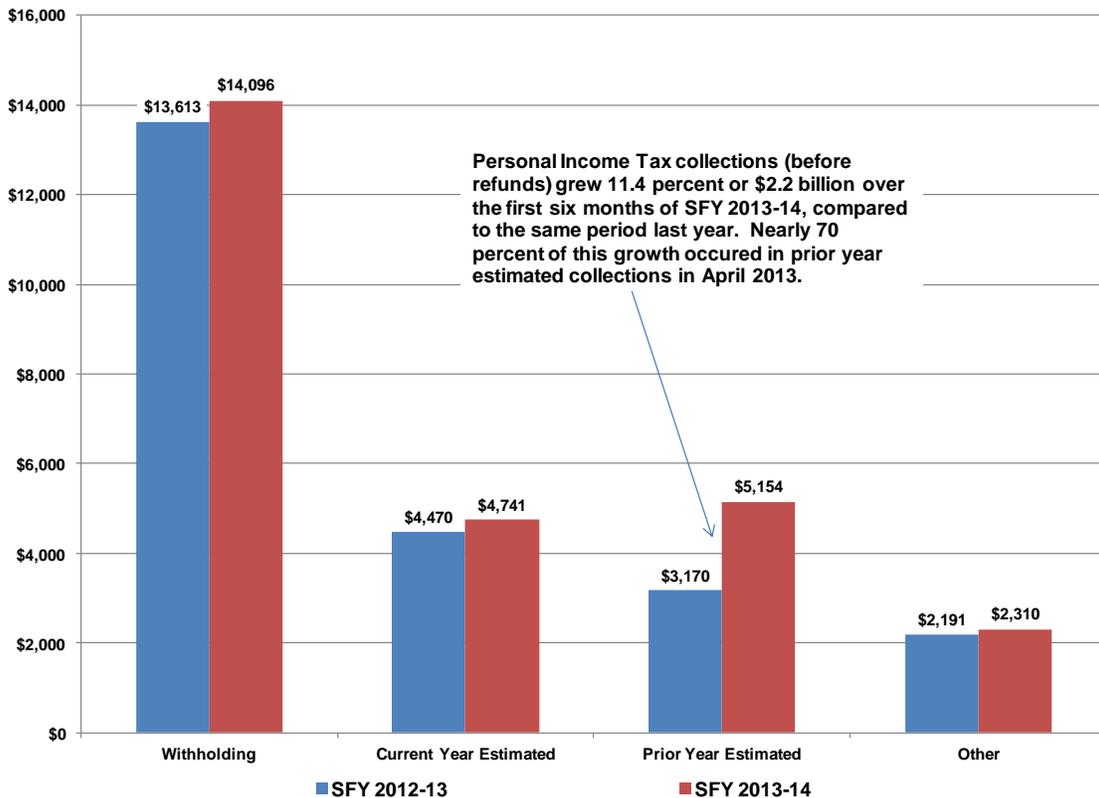
Source: Office of the State Comptroller; Division of the Budget.

## Personal Income Tax Collections

Figure 1 illustrates that the vast majority of the growth in overall tax collections during the first half of SFY 2013-14 came from PIT receipts. Because PIT receipts have historically made up approximately 60 percent of total tax revenue, any given percentage change in PIT receipts generates a proportionally larger dollar impact than changes in other taxes. PIT collections have increased 11.4 percent over the first six months, compared to the same period last year. Year-to-date collections are \$37.4 million over projections from the First Quarter Update to the Financial Plan. However, the majority of that growth occurred in April, reflecting extraordinary actions taken by certain taxpayers in December 2012 and early January 2013 in anticipation of federal tax changes. These actions temporarily increased current year estimated payments in January and December, and prior year estimated payments in April. Figure 2 illustrates where the growth in Personal Income Tax over the first six months primarily occurred.

**Figure 2**

### Components of Personal Income Tax Gross Collections (before refunds) (in millions of dollars)



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

Note: The category Other in Figure 2 includes final returns and the category of "other."

PIT collections (before refunds) are made up of four major categories: withholding (direct from paychecks, representing approximately 67.3 percent of SFY 2012-13 collections – the largest in-State revenue source); current and prior year estimated payments (typically

quarterly payments, often from higher income sources, reflecting 25.7 percent of SFY 2012-13 collections); final returns (approximately 4.7 percent of SFY 2012-13 collections); and “other” (including assessments and collections from limited liability corporations (LLCs), reflecting approximately 2.3 percent of SFY 2012-13 collections).

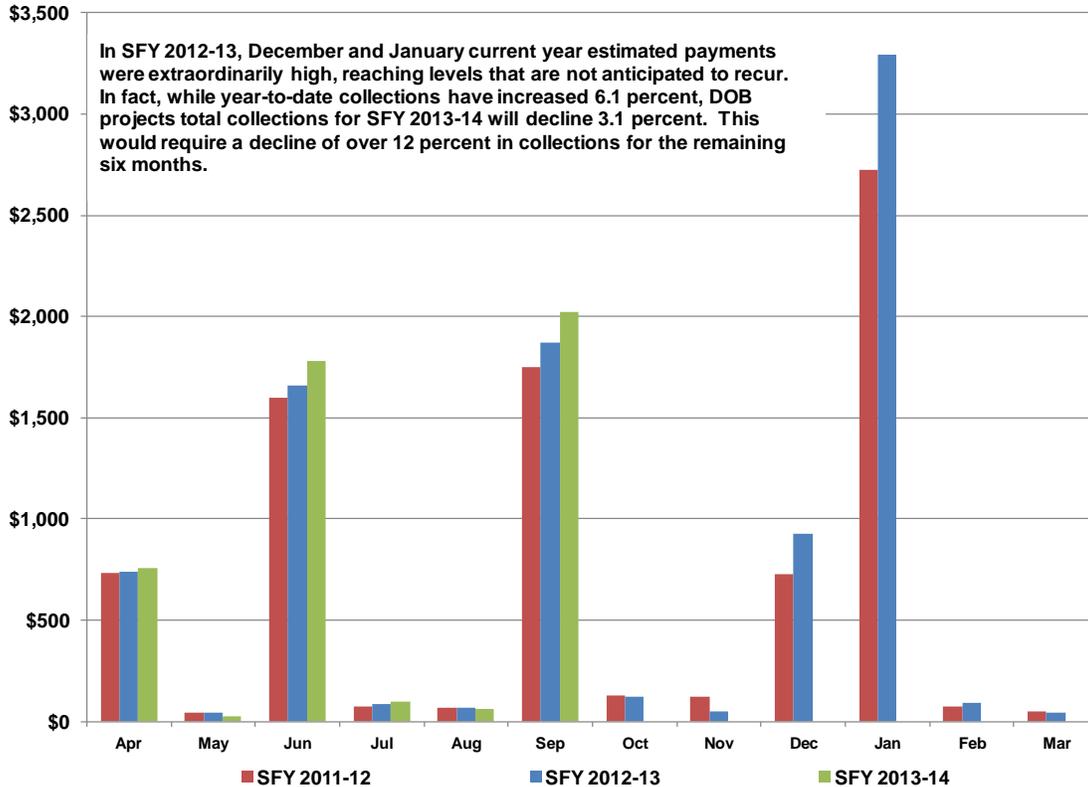
In the First Quarter Update to the SFY 2013-14 Enacted Budget Financial Plan, issued in July, DOB projected that full-year receipts from the largest component of PIT collections, withholding, will increase 3.5 percent from SFY 2012-13. DOB reduced this projection from 3.8 percent in the Enacted Budget Financial Plan issued in May 2013. Through September 30, withholding growth is at 3.5 percent, compared to the same period last year. Historically, between 40 and 45 percent of total annual withholding collections are received in the first six months of the fiscal year. Through September 30, 42.6 percent of projected year-end withholding receipts have been collected.

DOB projects collections for current year estimated payments will decline by \$283 million or 3.1 percent, primarily because of the shifting of income and associated tax payments described above. Through September 30, \$4.7 billion in current year estimated payments have been received, representing an increase of \$271 million or 6.1 percent. Figure 3 illustrates monthly collections for current year estimated payments from SFY 2011-12 through September 2013.

**Figure 3**

**Current Year Estimated Payments – April 2011 through September 2013**

(in millions of dollars)



Source: Office of the State Comptroller; Division of the Budget.

## **Consumption and Use Taxes**

The First Quarter Update to the SFY 2013-14 Enacted Budget Financial Plan projects All Funds consumption and use tax collections will increase 3.4 percent, or \$501 million, from SFY 2012-13 levels. The increase is primarily expected from sales tax collections, which represent approximately 83 percent of total consumption and use taxes and are projected to increase 4.5 percent, or \$541 million, in the current year.

Through September 30, All Funds consumption and use tax collections totaled \$7.7 billion, representing an increase of \$350.3 million, or 4.8 percent, from the previous year. This was \$44.8 million higher than projections from the First Quarter Update. In particular, sales tax collections have increased \$394.8 million, or 6.6 percent, well above the 4.5 percent growth projected for the end of the year.

Cigarette and tobacco products taxes are projected to decline 3.9 percent, or \$60 million, by year-end, primarily because of the continuing trend of reduced taxable consumption, partly offset by additional revenues associated with increased penalties for possession of unstamped cigarette cartons. Through September 30, cigarette and tobacco product taxes have declined 6.1 percent or \$50.5 million.

## **Business Taxes**

The SFY 2013-14 First Quarter Update to the Financial Plan projects year-end All Funds business tax collections will increase 1.7 percent, or \$146 million, from SFY 2012-13 collections, which has been slightly reduced from initial projections. Through September 30, All Funds business tax collections increased \$127.3 million, or 3.7 percent, compared to the same period last year. However, total collections were \$186.5 million below the latest projections for the first six months of the year. The Financial Plan does not include monthly projections for individual taxes, so it is not possible to determine which business tax is primarily causing the current shortfall in DOB's projections.

The corporate franchise tax, the largest of the business taxes, is expected to increase 11.6 percent, or \$350 million, by year-end. Through September 30, collections have increased 24.8 percent or \$312.7 million. Conversely, through the first half of the fiscal year, year-to-year bank tax collections have declined \$184.7 million, or 26.8 percent, from last year's levels. DOB projects a decline in bank tax receipts in both audit and non-audit collections. This is primarily due to higher-than-normal collections in SFY 2012-13, as well as a number of large audit collections last year that are not anticipated to recur in SFY 2013-14.

## **Miscellaneous Receipts**

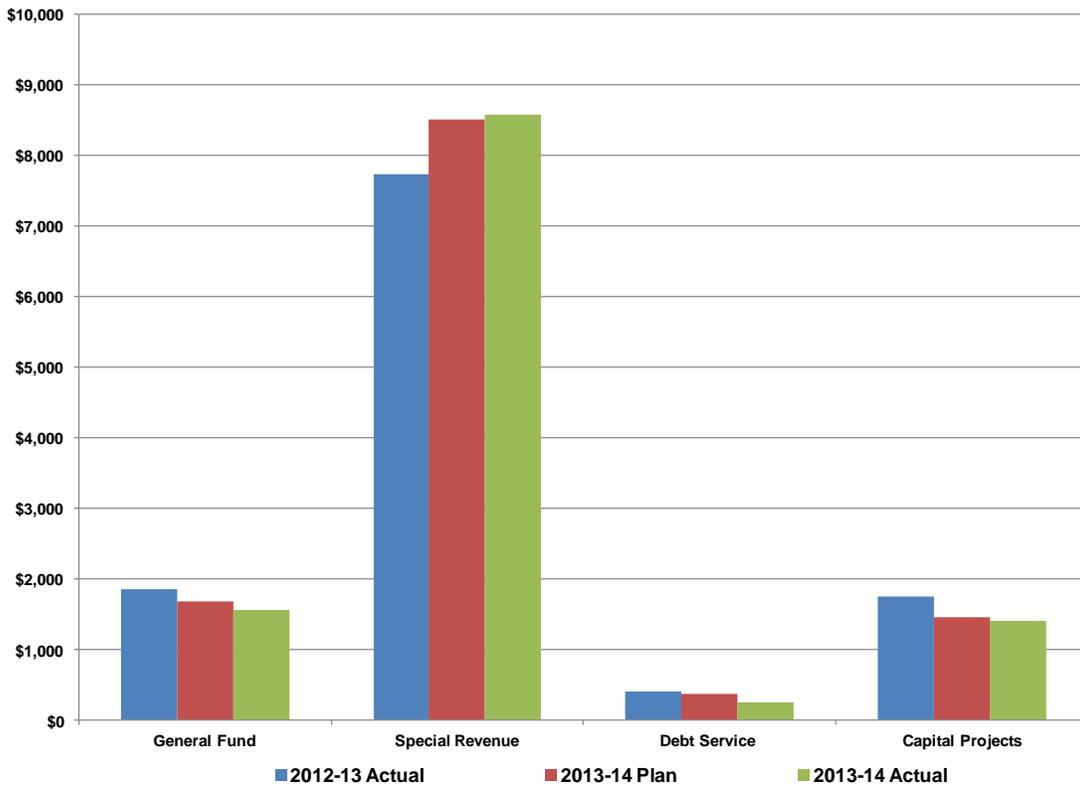
Miscellaneous receipts include fees, fines, reimbursements from public authorities, municipalities and other sources, recoveries, Lottery proceeds, tuition revenue, interest earnings, and other non-tax and non-federal revenue (there are miscellaneous receipts that are disbursed from federal special revenue funds). The State's share of Lottery proceeds, both traditional and from Video Lottery Terminals (VLTs), is counted as miscellaneous receipts. This particular revenue stream is primarily used to finance education, with small portions used for administration of the various Lottery programs.

The SFY 2013-14 First Quarter Update to the Enacted Budget Financial Plan projects miscellaneous receipts will increase 0.8 percent, or \$192 million, in SFY 2013-14. This represents an increase from the Enacted Budget Financial Plan estimate, which projected a decline of 1.7 percent, or \$415 million, primarily due to non-recurring receipts collected in SFY 2012-13. The increase in the First Quarter Update was attributed to the receipt of Tribal-State Compact payments from the St. Regis Mohawk Tribe and the Seneca Nation of Indians, as well as financial settlements from Bank of Tokyo-Mitsubishi UFJ and Deloitte Financial Services.

Through September 30, All Funds miscellaneous receipts totaled \$11.8 billion. This was 0.6 percent, or \$72 million, higher than collections for the same period in SFY 2012-13, but \$197.9 million below Financial Plan projections through September. Figure 4 illustrates collections by fund. All the growth thus far this year is in special revenue funds.

**Figure 4**

**Miscellaneous Receipts through September by Fund –  
SFY 2012-13, SFY 2013-14 Plan and SFY 2013-14 Actual**  
(in millions of dollars)



Source: Office of the State Comptroller; Division of the Budget.  
Note General Fund does not include transfers from other funds.

Miscellaneous receipts within the General Fund, which include receipts from Abandoned Property, a portion of utility assessments and various fines, penalties and forfeitures, declined \$298.8 million, or 16.1 percent, and were \$115.9 million below projections through September. Miscellaneous receipts from special revenue funds, including Lottery, Tribal-State Compact, certain fees and assessments that fund health programs in Health Care Reform Act (HCRA) funds, and others, ended September \$79.3 million over projections and \$841.7 million, or 10.9 percent, over the same period last year. The increase of \$841.7

million primarily reflects the payment of past obligations under the Tribal-State Compact and additional reimbursement for patient/client care costs in HCRA funds.

Miscellaneous receipts from capital projects funds include dedicated fees (such as motor vehicle-related revenue) and bond proceeds from public authorities that have issued debt on behalf of the State. Collections through September were \$339.2 million below collections for the same period last year, primarily due to the timing of bond proceeds, and \$47.2 million below projections.

## **Federal Receipts**

Federal receipts are projected to increase nearly \$4.6 billion, or 10.7 percent, from SFY 2012-13, primarily from disaster assistance. Federal grants not related to disaster assistance are expected to increase by \$90 million or less than 1.0 percent. Federally funded capital spending is projected to increase 1.5 percent, or \$27 million. Through September 30, federal grants in capital projects funds totaled nearly \$1.3 billion, representing an increase of 41.1 percent or slightly less than \$370 million. Collections were \$217.8 million higher than projections from the First Quarter update, although the variance appears to be primarily timing-related.

Non-capital special revenue spending financed with federal funds is projected to increase \$4.6 billion, or 11.2 percent, also primarily because of anticipated spending for disaster assistance. Through September 30, non-capital special revenue federal receipts have totaled \$20.5 billion, representing an increase of \$2.3 billion, or 12.4 percent, which is \$79.3 million below projections.

## **All Funds Disbursements**

All Funds disbursements have increased 6.9 percent, or \$4.1 billion, through September 30. Disbursements of \$64.1 billion were \$859.4 million below DOB projections. It is worth noting that through August 31, All Funds spending was \$453.7 million higher than DOB projections for the first five months of the fiscal year, while All Funds spending during the month of September was \$1.3 billion below projections. Spending through September trailed estimates in all Financial Plan categories except capital. Spending for local assistance grants through September 30 was \$515 million below projections, primarily in the General Fund. It is unclear whether, or to what extent, lower-than-expected disbursement levels are related to the timing of payments.

DOB projects that All Funds spending will increase \$7.9 billion or 6.0 percent by year-end, of which approximately \$4.5 billion is projected for expenditures associated with Superstorm Sandy. Without this additional, non-recurring spending, All Funds projected disbursement growth is \$3.4 billion or 2.6 percent.

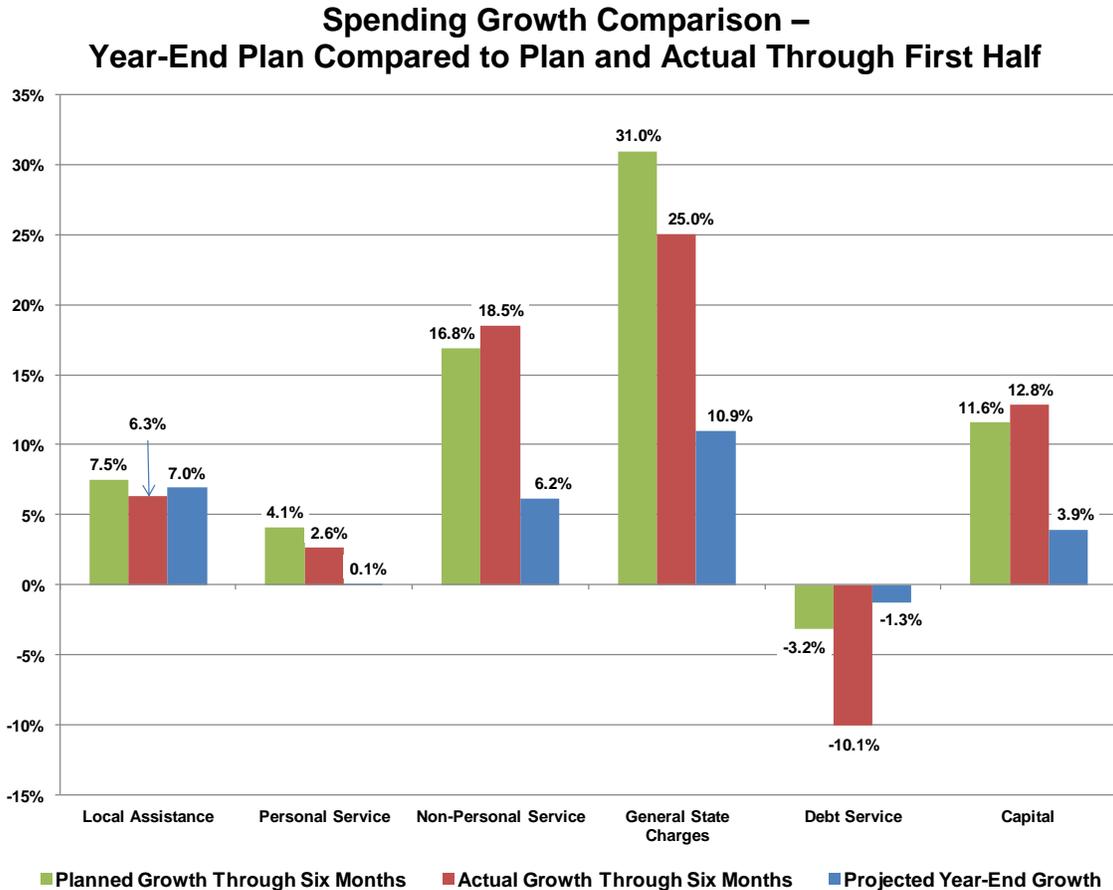
Projected growth includes certain non-recurring elements. For instance, various State payments that were initially planned for SFY 2013-14 were advanced to SFY 2012-13, thus artificially increasing spending in one year and decreasing it in the next, with the effect of lowering spending growth.<sup>2</sup> In addition, historical spending patterns are not always uniform

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<sup>2</sup> For more information on such adjustments and their effect on growth, see the "Report on State Fiscal Year 2013-14 Enacted Budget and Financial Plan," Office of the State Comptroller (July 2013).

over the year. For instance, payments under the School Tax Relief (STAR) program are expected to total \$3.4 billion in SFY 2013-14 and are mostly made monthly between September and January, with a small payment also planned for March. However, the January payment comprises the vast majority of what is disbursed for the year. Figure 5 illustrates year-to-date compared to year-end growth for Financial Plan spending categories.

**Figure 5**



Source: Office of the State Comptroller; Division of the Budget

## Conclusion

Thus far this fiscal year, the State has received nearly \$600 million in miscellaneous receipts that were not anticipated when the original SFY 2013-14 Financial Plan was released in May. This unanticipated funding is in addition to the nearly \$5.0 billion in non-federal temporary resources used in the SFY 2013-14 Enacted Budget to support recurring spending needs.

Through the first half of SFY 2013-14, State tax receipts are tracking close to Financial Plan projections. All Funds miscellaneous receipts are somewhat below projections, while All Funds disbursements through the first six months are below projected levels. All Funds balances as of September 30 were \$7.8 billion, \$738 million higher than the latest Financial Plan projections. The unexpected miscellaneous receipts mentioned above represent a substantial proportion of the positive news on the State’s All Funds bottom line.