



Report on Estimated Receipts and Disbursements

State Fiscal Years 2009-10 through 2011-12

November 4, 2009

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Introduction

This Report on Estimated Receipts and Disbursements for State Fiscal Year (SFY) 2009-10 through SFY 2011-12, issued pursuant to Chapter 1 of the Laws of 2007, is intended to facilitate continuing discussion of the State's economic condition and the State Budget.

The current recession is the longest since the Great Depression. All Funds tax revenue through the first six months of the fiscal year is down nearly 16 percent. While there are signs that a recovery may be underway, overall revenue collections are still declining and may not rebound for some time because much of the State's tax base is dependent on employment-related revenue, including 60 percent from Personal Income Tax collections. In addition, tax revenue associated with consumer spending represents nearly 25 percent of the State's tax base. Accompanying the decline in revenue have been increasing costs in social services, reflecting a higher need for assistance throughout this severe recession. The net result has been a growing current year fiscal deficit, now estimated by the Executive to be \$3.2 billion.

Comptroller DiNapoli has repeatedly cautioned that the State is on an unsustainable fiscal path – spending more than it takes in. This chronic structural imbalance worsened when the economy faltered in 2008 and revenues declined. In May 2009, Comptroller DiNapoli's Report on the SFY 2009-10 Enacted Budget warned that the State Budget relied too heavily for budget balance on revenue and savings projections that were either unrealistic or might not materialize. The report also showed that nearly two-thirds of the actions taken to close the \$17.9 billion General Fund gap projected at that time were temporary measures, rather than long-term solutions. The Enacted Budget merely delayed the difficult decisions needed to restore structural balance to the State Budget.

Over \$11 billion used to close the \$17.9 billion SFY 2009-10 General Fund gap was either non-recurring (available one time) or temporary in nature. The State Budget was balanced with nearly \$4.9 billion in federal stimulus funding (scheduled to end in SFY 2010-11), \$1.7 billion in non-recurring actions and another \$4.5 billion in temporary revenue actions (ranging in duration from three to five years). While the budget did include approximately \$775 million in recurring revenue and \$6.0 billion in recurring spending reductions, the greater dependence on temporary resources illustrates that the Enacted Budget did little to address the State's long-term structural imbalance, and instead exacerbated the problem.

Based on an analysis of the Enacted Budget as well as actual revenue and spending results through the first half of the fiscal year, the Office of the State Comptroller projects that the current year General Fund deficit could reach \$4.1 billion if present trends continue and no action is taken. This estimate primarily reflects lower than anticipated Personal Income Tax receipts. It is estimated that the three year, cumulative out-year General Fund gap through SFY 2011-12 could approach \$27.5 billion (\$3.6 billion higher than the Division of the Budget's (DOB's) estimate for the same period). New York's structural imbalance has been aggravated by a weakened economy combined with years of over-reliance on temporary fixes, debt issuances and other

gimmicks routinely used to finance recurring spending without regard to long-term implications.

The current year deficit, with less than six months remaining to address the problem, will be increasingly difficult to close. The Executive has called for a legislative special session to be held on November 10 to consider a Deficit Reduction Plan (DRP) which is estimated by the Executive to provide \$3.0 billion in revenue and savings actions in SFY 2009-10. This proposed DRP includes approximately \$1.8 billion in recurring spending reductions and approximately \$1.2 billion in non-recurring actions to close the current year deficit. The Mid-Year Financial Plan Update released by the Executive on October 30, 2009 calls for an additional \$200 million in other deficit-closing actions, including sweeps from the Refund Reserve Fund (designated by DOB for debt reduction) and Workers' Compensation surplus funds.

However, the Office of the State Comptroller estimates that approximately \$1.0 billion or over 80 percent of the proposed non-recurring actions is at risk of either not occurring or not providing the level of savings anticipated. For example, the DRP includes a controversial transfer of \$300 million from the Battery Park City Authority, which requires New York City and Authority approval, as well as a \$200 million franchise payment associated with the Aqueduct Video Lottery Terminal. Both of these items were included as part of the SFY 2009-10 Enacted Budget, but were not counted in the Financial Plan because the revenue was not expected to be received in the current year.

In addition to projected deficits, the State faces potentially significant cash flow shortfalls in the months of November and December, which will have to be addressed. The Executive has begun to take action to manage these shortfalls, but it is unclear what further actions may be taken. For example, in the SFY 2009-10 Enacted Budget Financial Plan, scheduled School Property Tax Relief Program (STAR) payments included \$704 million in October, \$861 million in November and \$1.0 billion in December. Because of the State's worsening cash flow situation, the Executive subsequently delayed much of the October and November STAR payments until December. This increased the projected December STAR payment to \$2.5 billion, exacerbating the cash flow challenge for that month. There is also a significant school aid payment of \$1.6 billion due in December.

Furthermore, the State pension payment has frequently been prepaid, which has the benefit of lowering the cost, as the interest is discounted from the March 1st required payment date. In May, the Executive had planned to pre-pay what was estimated at the time to be the \$959.1 million SFY 2009-10 pension payment on September 1st.¹ The Executive has now elected to make this payment in March 2010 to preserve cash in the General Fund, costing the State an additional \$30 million in interest.² Language was also included in the SFY 2009-10 Enacted Budget to allow the General Fund to borrow from the Short Term Investment Pool for a period not to exceed four months or until the end of the fiscal year, whichever is shorter, to meet its obligations in the event of a cash

¹ Annual Information Statement, State of New York, May 15, 2009.

² Division of the Budget, *Mid-Year Financial Plan Update, 2009-10 Through 2012-13*.

shortfall in the General Fund. Previously, such borrowing was limited to intra-month loans.

While these payment delays and temporary loans may allow the State to manage its cash through the year, they are only temporary solutions that postpone the implementation of a permanent fix to the State's worsening structural imbalance. Even if actions are taken in November to address the current gap, additional steps will likely be necessary. Significant risk remains that these actions will be insufficient to close the Executive's projected current year deficit, and, given current revenue trends, it is possible that the deficit will continue to grow.

Through its monthly cash reporting and periodic special reports, the Office of the State Comptroller will continue, as the fiscal year progresses, to provide ongoing monitoring and disclosure of receipt and disbursement variances relative to the Financial Plan projections and the prior year's actual figures.

Background: "Quick Start" Financial Information Review Process

In order to facilitate the timely adoption of a State budget for the next fiscal year, Chapter 1 of the Laws of 2007 revised the existing "Quick Start" budget process to require the staffs of the Executive, the Legislature and the Comptroller to separately prepare reports detailing receipt and disbursement estimates for the current and ensuing fiscal years. These reports are required to be made available by November 5.

The receipts forecast must include estimates of taxes on an All Funds basis, lottery receipts and General Fund miscellaneous receipts. The disbursements forecast is required to include, but is not limited to, estimates in the functional areas of Medicaid, public assistance, and elementary and secondary education (school aid). The underlying factors and data upon which the disbursement estimates are based must be included as well.

By November 15, the Executive, Senate and Assembly are directed to prepare jointly and make available on their respective Internet websites a report on the actual, estimated and projected State receipts and disbursements for the prior, current and ensuing fiscal years.

Chapter 1 also requires a public meeting on or before November 15th of the staffs of the Executive, the Senate, the Assembly and the Comptroller to jointly review financial information, including the economic outlook, receipt forecasts, projected disbursements, and the impact of relevant State and federal statutory provisions on the State's Financial Plan, in order to facilitate the timely adoption of a State budget for the next fiscal year.

Office of the State Comptroller Estimates for Receipts and Disbursements

The Office of the State Comptroller maintains extensive data on receipts and disbursements, which reflects the flow of revenue and expenditures through the State's Central Accounting System (CAS). This information is available to the Governor and the Legislature to facilitate discussion and to accelerate the budget process. In addition to other information, this data was used to determine receipt and disbursement trends, which were considered in calculating the Office of the State Comptroller's estimates.

The following table summarizes the Office of the State Comptroller's estimates compared to the Division of the Budget's (DOB's) estimates of receipts and disbursements as contained in the Mid-Year Financial Plan Update. In accordance with Chapter 1 of the Laws of 2007, the Comptroller's estimates for All Funds receipts and disbursements are as follows:

**Estimates for Receipts and Disbursements
All Funds SFY 2009-10 through SFY 2011-12
(in millions of dollars)**

	<u>2009-10</u>	<u>2010-11</u>	<u>2011-12</u>
Receipts			
Office of the State Comptroller	127,830	131,999	129,036
Division of the Budget	<u>128,855</u>	<u>133,599</u>	<u>130,661</u>
Difference	(1,025)	(1,600)	(1,625)
Disbursements			
Office of the State Comptroller	133,575	141,345	146,529
Division of the Budget	<u>133,185</u>	<u>140,890</u>	<u>145,761</u>
Difference	390	455	768

Economic Overview

The national economy has shown some signs of improvement. After declining during the prior four quarters, the Gross Domestic Product (GDP) grew at a 3.5 percent annualized rate in the third quarter of 2009. Although the economy expanded sharply in the third quarter, the pace of the expansion is expected to ease until job growth begins to boost consumer confidence and spending. For this year and next, the consensus view released by the Blue Chip Economic Indicators (Blue Chip) on October 10, 2009 is that GDP will decline by 2.5 percent in 2009 but then rebound and grow by 2.5 percent in 2010.

Through September 2009, the nation lost 7.2 million jobs since the recession began in December 2007. While the rate of job loss has slowed since the spring, a return to job growth is not expected until the second quarter of 2010. The national unemployment rate rose to 9.8 percent in September 2009—a 26-year high—and is expected to peak at over 10 percent in the first quarter of 2010.

After declining by a 0.9 percent annual rate in the second quarter of 2009, real consumer spending increased by 3.4 percent in the third quarter. Although auto spending was boosted by the “Cash for Clunkers” program, the growth was broad-based. The Blue Chip consensus forecast is for a subdued recovery in real consumer expenditures, with growth rates at or below 2.0 percent through the second quarter of 2010.

The recession appears to be easing in New York State, but most forecasters still expect that the State’s recovery will be weaker than the nation’s, and that job losses will continue into 2010. Although Wall Street is strengthening, its recovery will not solve the State’s fiscal problems.

New York has lost 274,100 jobs thus far in the current recession, and the unemployment rate in New York reached 8.9 percent in September 2009. Though less than the national rate, it was still more than four percentage points higher than it was two years ago. The State’s unemployment rate is expected to peak at over 9.3 percent in the second quarter of 2010.

While a number of New York’s economic indicators have shown some improvement since the lows reached last winter, the improvements have stalled over the last few months. For example, initial unemployment insurance claims were 22,835 in the four-week period ending October 3rd. While the number of claims is below the levels of earlier this year, claims have remained at about the same level since early August. Also, consumer confidence in New York State eased in September 2009 to 68.6 points and is almost five percentage points below the national level, according to the Siena Research Institute.

Foreclosures in New York rose by 5.0 percent in the third quarter of 2009 compared to one year ago, reaching 15,242. Since peaking in May 2006, housing prices in the New York City Metropolitan area have declined by 19.3 percent, according to the S&P/Case-Shiller Home Price Indices.

Receipts

Overview

In December 2007, the Office of the State Comptroller contracted with the State University of New York, University at Buffalo's Center of Excellence on Human Capital, Technology Transfer and Economic Development (University) to prepare a revenue forecast model of New York State taxes by State fiscal year. This independent model identifies the key economic indicators of importance for New York's economy. It has been tested against prior conditions and has identified the business cycles affecting New York State.

As a part of this effort, the University's analysis indicates that New York State entered a recession in the first quarter of SFY 2008-09. This finding is reflected in the Comptroller's estimate of current and future revenues. While no model can fully account for all future conditions, at this time, the work provides the most current outlook for State fiscal years through 2012.

This report includes a forecast for tax receipts for SFY 2009-10 through SFY 2011-12. This three-year forecast is consistent with an economy that is emerging from the most severe downturn since the Great Depression. After average annual growth close to 10 percent in both SFY 2005-06 and SFY 2006-07, tax receipts increased by only 3.6 percent in SFY 2007-08 and declined by 0.9 percent in SFY 2008-09. For SFY 2009-10 receipts are expected to decline by 3.3 percent despite the recently enacted tax changes. Without the tax increases, receipts would have fallen over 10 percent.

Based upon improving compensation trends in the financial sector, the bonus pool for the current fiscal year is likely to be higher than last year. Regulatory reform of compensation practices, however, may result in an increased share of bonuses in stock rather than in cash. Because of this uncertainty, for Financial Plan purposes, the Office of the State Comptroller has adopted the DOB's assumption of a 22 percent decline in finance and insurance bonuses. If this change in the makeup of compensation does not materialize, cash bonuses could be higher.

Receipts are expected to grow by 5.8 percent in SFY 2010-11. Besides the growing economy, a portion of this increase is also due to high income taxpayers shifting income into 2010 to avoid paying higher federal taxes in 2011, when the 2001 and 2003 tax cuts expire. For SFY 2011-12, receipts are expected to grow by 3.4 percent. All projections are as compared to the prior fiscal year.

Personal Income Tax

Personal income tax receipts in SFY 2009-10 are now forecast to decline by \$2.66 billion over the prior year, or 7.2 percent. This decline reflects the large reduction in wages which has held the year-to-date change in withholding to a decline of over 1.0 percent even accounting for the recent tax law changes. Estimated taxes are expected to decline by over 25 percent, reflecting the large decline in extension payments related to tax year 2008. Current year estimated taxes are expected to

decline 7.5 percent from the prior year, as the weaker base more than offsets the tax increase.

For SFY 2010-11, receipts are expected to increase 7.6 percent as the economy begins to recover, taxpayers shift capital gains into 2010 from 2011, and increased payments from extensions and final returns for tax year 2009 are made from taxpayers who did not make sufficient payments to cover the tax increase. Personal income tax receipts in SFY 2011-12 are expected to grow by 3.7 percent. The growth can be attributed to the projected improvement in the economy, offset by the expiration of the temporary tax increase in 2012.

User Taxes and Fees

Consumption tax receipts are forecast to decline by 1.5 percent in SFY 2009-10. The decline can be attributed to the recession and the decline in consumer spending. Through the first half of the fiscal year, sales tax receipts were 8.2 percent lower as compared to the same period in the prior year. The tax law changes in alcohol beverage taxes, auto rental taxes, motor vehicle fees and the addition of the taxicab surcharge partially offset the decline in sales and use taxes. Sales and use taxes, the largest component of this group, is forecast to decline by 4.8 percent this year.

Growth in consumption tax receipts is expected to return over the remainder of the forecast period, averaging 4.4 percent. As the recession ends, wage and employment growth will be modest, which will restrain the growth in these revenues. In addition, the tight credit market, the reduction of jobs in the high-paying financial sector, and the loss of wealth from the decline in housing prices and the stock market will restrain growth in out-year receipts.

Business Taxes

After rising dramatically in SFY 2006-07 (18.5 percent) and in SFY 2007-08 (36.5 percent), business tax receipts declined by 7.6 percent in SFY 2008-09 and are expected to decline 0.2 percent in SFY 2009-10. The decline can mainly be attributed to the recession and its negative impact on corporate profits, partially offset by an increase in insurance taxes³. From 2003 through 2006, after-tax corporate profits grew by an annual average rate of 24.5 percent. In 2007 and 2008, profits declined by 2.0 percent and 11.5 percent, respectively. According to Blue Chip, corporate profits are expected to decline by 8.0 percent in 2009.

Business tax receipts are expected to show no growth in SFY 2010-11 and SFY 2011-12. Growth in the corporate franchise tax is expected to be offset by declines in the other taxes in this group.

³ The increase in insurance taxes is primarily the result of the imposition of the premiums tax on for-profit Health Maintenance Organizations (HMOs) that was part of the SFY 2009-10 Enacted Budget.

Other Taxes

Other tax receipts are expected to increase by 47.9 percent in SFY 2009-10. The increase is due to the enactment of the Metropolitan Commuter Transportation Mobility Tax, a tax which is collected by the State on behalf of, and transferred to, the Metropolitan Transportation Authority (MTA). Offsetting the increase, the real estate transfer tax is expected to decline by almost 50 percent, while the estate tax is expected to decline 22.6 percent.

For SFY 2010-11, other tax receipts are expected to decline by 1.9 percent due to lower estate tax collections offset by a small increase in the real estate transfer tax. Receipts in SFY 2011-12 are expected to grow 12.8 percent, as the estate tax and the real estate transfer tax begin to grow.

General Fund Miscellaneous Receipts and Lottery Receipts

General Fund miscellaneous receipts are estimated to increase 0.3 percent in SFY 2009-10.

In SFY 2010-11 and SFY 2011-12, miscellaneous receipts are expected to decline by 13.7 percent and 3.9 percent, respectively. The large decline in 2010-11 reflects the loss of one-time revenues.

Lottery revenues are expected to increase by 3.2 percent in SFY 2009-10, 6.6 percent in SFY 2010-11 and 2.5 percent in SFY 2011-12.

Federal Receipts

Federal grants support State spending for Medicaid, transportation, school aid, public health, environmental and energy programs, and other activities. Since State spending for federally-financed programs is typically 'cash neutral' (federal receipts equals spending), the Office of the State Comptroller accepts DOB's federal receipt projections.

Federal grants are projected to total nearly \$48.1 billion in SFY 2009-10, an increase of nearly \$ 9.2 billion from SFY 2008-09 results, driven by receipt of Federal American Recovery and Reinvestment Act of 2009 (ARRA) moneys.

Federal grants are projected to total \$48.9 billion in SFY 2010-11, an increase of \$800 million from the prior year, reflecting an increase in the use of ARRA funding.

In SFY 2011-12, ARRA funds are not expected to be available to support State spending.

Disbursements

Overview

This report includes a forecast for disbursements for SFYs 2009-10 through 2011-12. These estimates rely on a variety of data sources, including receipt and disbursement data from the Office of the State Comptroller's CAS and information from State agencies, including the State Education Department (SED), DOB, the Department of Health (DOH), the Department of Labor (DOL) and the Office of Temporary and Disability Assistance (OTDA). DOB estimates are shown for comparison purposes for school aid, Medicaid and public assistance. All projections shown are compared to the prior fiscal year.

For SFY 2009-10, the Office of the State Comptroller projects All Funds school aid, Medicaid and public assistance spending to increase \$6.1 billion, or 10.6 percent, from SFY 2008-09 levels to \$63.1 billion. All other spending will total \$70.5 billion, an increase of \$5.9 billion, or 9.2 percent.

In SFY 2010-11, the Office of the State Comptroller estimates school aid, Medicaid and public assistance will total \$67.4 billion, representing a \$4.4 billion, or 6.9 percent, increase. The Office of the State Comptroller projects all other spending will increase \$3.4 billion, or 4.8 percent, to \$73.9 billion.

In SFY 2011-12, the Office of the State Comptroller estimates school aid, Medicaid and public assistance spending will total \$70.6 billion, an increase of \$3.2 billion, or 4.7 percent. During this period, all other spending will increase \$2.0 billion, or 2.7 percent, to \$75.9 billion.

School Aid

The mechanism for funding school aid was changed in the SFY 2007-08 Enacted Budget through the consolidation of multiple formulas. The Foundation Aid Program consolidated 30 traditional school aid formulas, which together constitute the largest component of total school aid funding. Using the Foundation Aid structure, the Financial Plan currently assumes a significant increase in school aid funding phased in over a four-year period, with full implementation occurring by school year 2013-14. In SFY 2009-10, the Enacted Budget maintained most other expense aids, other than Universal Pre-Kindergarten and High Tax Aid, under present funding formulas.

For SFY 2009-10, DOB estimates All Funds school aid spending will total \$24.7 billion, an increase of \$1.6 billion, or 6.7 percent. This equates to \$21.8 billion on a school year basis (not including debt service for *Expanding our Children's Education and Learning*, or EXCEL), which represents an increase of \$435 million, or 2.0 percent. DOB estimates school aid funding will total \$26.4 billion in SFY 2010-11, an increase of \$1.7 billion, or 6.9 percent (\$22.3 billion on a school year basis, representing an increase of \$548 million, or 2.5 percent), and \$26.3 billion in SFY 2011-12, a decline of \$88 million, or less than 1.0 percent. On a school year basis, DOB projects school aid

will reach \$24.0 billion, an increase of approximately \$1.6 billion, or 7.25 percent, in 2011-12.

Periodic adjustments to school aid expenditures that occur during the year are often reflected in the first quarter of the following year. Such adjustments tend to neutralize the impact on the current year Financial Plan and, therefore, would minimally impact this forecast. Furthermore, this forecast does not consider updated school aid funding data, since such data will not be available until November 15th.

To reach the following projections, the Office of the State Comptroller used weighted historical average growth of the large expense aids (Transportation, Building, BOCES, Private Excess Cost and High Cost Excess), as well as State Aid data from September 2009. DOB projections for Foundation Aid, High Tax Aid and Universal Pre-Kindergarten were incorporated into the Office of the State Comptroller's projections.

Given the current data, the Office of the State Comptroller projects school aid will reach \$24.8 billion in SFY 2009-10, which is \$101 million above the DOB projection of \$24.7 billion. The Office of the State Comptroller projection equates to approximately \$22.0 billion in school year 2009-10.

Based on an analysis of historical spending trends in various expense aids, combined with scheduled increases for Foundation Aid and Universal Pre-Kindergarten in the SFY 2009-10 Enacted Budget, the Office of the State Comptroller estimates that school aid will increase to \$26.4 billion in SFY 2010-11, an increase of \$1.6 billion, or 6.3 percent. This equates to \$22.5 billion on a school year basis.

For SFY 2011-12, the Office of the State Comptroller projects that school aid will total \$26.3 billion, a decline of approximately \$62 million, or 0.2 percent. This equates to \$24.1 billion on a school year basis.

Medicaid

For SFY 2009-10, DOB estimates All Funds Medicaid spending administered by DOH will total \$36.5 billion, an increase of \$4.1 billion, or 12.5 percent. This current estimate is up from the 10.8 percent increase projected in the SFY 2009-10 Enacted Budget Financial Plan issued in April 2009. The increased projections in the Mid-Year Update to the SFY 2009-10 Financial Plan primarily reflect increased utilization as well as improved reporting for federal funds.

DOB forecasts DOH Medicaid costs to total \$39.0 billion in SFY 2010-11, an increase of \$2.6 billion, or 7.0 percent, and \$42.0 billion in SFY 2011-12, an increase of nearly \$3.0 billion, or 7.6 percent.

The Office of the State Comptroller used historical trends derived from service utilization data maintained by DOH along with actual spending data from the CAS to estimate Medicaid spending for SFY 2009-10 and the ensuing two fiscal years. Spending data was adjusted to reflect prepayments, additional payment cycles or other known actions that would impact cash management. Projected data taken from the CAS was adjusted

to better reflect the manner in which DOB accounts for Medicaid within the Financial Plan.

For instance, the CAS includes administrative costs (approximately \$916 million in SFY 2009-10) within Medicaid, but the Financial Plan delineates those costs separately. In addition, Medicaid data from the CAS includes approximately \$510 million in costs for various services, including adult services, and programs for family and children medical care that are not included in Financial Plan Medicaid data. Finally, other costs, including the Medicare Part D Claw back (approximately \$891 million in SFY 2009-10), are added in as DOB includes these costs in its projections.

Based on actual payments through September 2009 and an analysis of historical spending and utilization trends, the Office of the State Comptroller estimates that All Funds DOH Medicaid spending for SFY 2009-10 will total \$36.6 billion, an increase of \$4.2 billion, or 12.9 percent.

For SFY 2010-11, the Office of the State Comptroller projects Medicaid spending to total \$39.1 billion, an increase of \$2.6 billion, or 7.0 percent.

For SFY 2011-12, the Office of the State Comptroller estimates Medicaid spending to total \$42.3 billion, an increase of \$3.2 billion, or 8.1 percent.

Projected costs associated with Medicaid are subject to a number of risks. For instance, State claw back payments to the federal government, accounting for a portion of the Medicaid costs the State had previously paid for dual eligibles (people eligible for both Medicare and Medicaid) now receiving their drug coverage from Medicare, can be expected to increase as the State's population ages and the cost of prescription drugs continues to rise.

In addition, although there are signs that the economy is beginning to improve, increased demand, coupled with ongoing initiatives to simplify eligibility rules, will result in higher Medicaid enrollment and program costs, as has been illustrated throughout the current fiscal year. The State has already witnessed significant growth in Medicaid enrollment and significantly higher growth in utilization is a possibility.

Public Assistance

For SFY 2009-10, DOB estimates that State and federal costs associated with public assistance will total \$1.5 billion, based on caseloads of 367,881 families in both the Family Assistance Program and Safety Net Program and another 159,911 single people with no children in the Safety Net Program. For SFY 2010-11, DOB projects that public assistance spending will increase by \$39 million, or 2.6 percent, to \$1.5 billion based on caseloads of 374,804 families and 166,475 singles. For SFY 2011-12, DOB estimates that spending will increase \$10 million, or 0.7 percent, based on caseloads of 369,667 families and 174,253 singles.

Using historical trends for unemployment rates, entry-level employment, caseloads and spending according to monthly caseload reports issued by OTDA, the Office of the

State Comptroller estimates that in SFY 2009-10 spending for public assistance will total \$1.7 billion, based on 402,907 family caseloads and 162,231 single caseloads.

In SFY 2010-11, the Office of the State Comptroller projects public assistance spending will total \$1.9 billion, an increase of \$248 million, or 15.0 percent, based on caseloads of 505,740 families and 173,859 singles. Finally, for SFY 2011-12 the Office of the State Comptroller estimates that spending for public assistance will total \$2.0 billion, an increase of \$75 million, or 3.9 percent, based on caseloads of 528,754 families and 176,348 singles.

Spending and caseload projections are sensitive to economic fluctuations. As unemployment increases and wages fall, the number of persons in need of public assistance tends to increase, as has been illustrated over the last year. Those who lose their jobs may face extended periods of unemployment in the current economic climate. In addition, federal actions on unemployment benefits (e.g. to extend or not) will also affect costs for public assistance in New York. Although it appears that a lag of between 12 to 18 months exists between an economic downturn and caseload increase, current economic volatility could significantly change these projections.

Risks

The significant revenue declines experienced by New York State—and the majority of states across the United States—demonstrate that, despite signs that the economy is improving, the effects of the recession that began in December 2007 continue to pose a challenge to the State Budget. Unforeseen events that negatively affect the economy, or a slower recovery than anticipated, will have corresponding negative effects on the State's tax receipts and could have a significant impact on disbursements.

Risks to the Financial Plan also include unanticipated events that may require additional spending, as well as anticipated revenues that may not materialize. While the estimates contained in this report are reasonable, other factors, such as federal reimbursements and tax collections, have the potential to create significant variances in the Financial Plan. Medicaid spending projections have been subject to significant revisions in the Financial Plan in SFY 2009-10, and the assumptions that underlie such projections also pose a risk. Tax collections have been below projections throughout this year, creating uncertainty with regard to the State's ability to meet its spending commitments.

The State's reliance on debt and non-recurring resources to address budget imbalances also represents an inherent risk. Since SFY 2002-03, the State has relied on nearly \$25 billion in non-recurring resources and one-shots to pay for recurring expenses. In addition, through March 31, 2009, over 18 percent, or \$10.4 billion, of existing, outstanding State-funded debt was issued to provide budget relief or deficit financing, which reduces the State's flexibility to address other critical priorities. Furthermore, DOB projects that room under the State's cap on debt outstanding will decrease from \$6.8 billion in SFY 2009-10 to just \$53 million in SFY 2012-13, limiting the State's ability to meet future critical capital needs.

The structural imbalance in the State budget poses a risk on a broader scale. Significant structural gaps are projected in each of the next three fiscal years with All Funds spending expected to approach \$152 billion by SFY 2012-13 versus All Funds revenue of \$132 billion. DOB projects that General Fund spending growth from SFY 2009-10 through SFY 2012-13 will be 37 percent, while General Fund receipts growth will be only 3.4 percent over the same period. Spending is projected to grow more than 10 times faster than revenues. The Office of the State Comptroller's projections indicate that the State's structural imbalance is worsening, and may continue to do so.

Spending growth is dominated by Medicaid spending, and aid to local school districts, which DOB projects will reach almost 50 percent of All Funds spending by SFY 2012-13, leaving the remainder to meet all other spending needs, including transportation, higher education, mental health, local government assistance, public protection, environment and debt service. Revenue growth would need to be significantly higher than currently forecast to accommodate these anticipated higher spending needs.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds State Fiscal Year 2009-10

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>DOB</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	34,180	35,030	(850)
Consumer Taxes and Fees	13,796	13,946	(150)
Business Taxes	7,588	7,563	25
Other Taxes including MTA Payroll	2,794	2,844	(50)
General Fund Miscellaneous Receipts	3,114	3,114	-
Lottery	2,626	2,626	-
Subtotal	64,098	65,123	(1,025)
Other Miscellaneous Receipts	15,645	15,645	-
Federal Grants	48,087	48,087	-
Total Revenues	<u>127,830</u>	<u>128,855</u>	<u>(1,025)</u>
Disbursements:			
Elementary and Secondary Education	24,823	24,722	101
Medicaid	36,597	36,486	111
Public Assistance	1,654	1,476	178
Subtotal	63,074	62,684	390
All Other Disbursements	70,501	70,501	-
Total Disbursements	<u>133,575</u>	<u>133,185</u>	<u>390</u>

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds State Fiscal Year 2010-11

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>DOB</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	36,793	37,968	(1,175)
Consumer Taxes and Fees	14,431	14,631	(200)
Business Taxes	7,652	7,782	(130)
Other Taxes including MTA Payroll	2,870	2,965	(95)
General Fund Miscellaneous Receipts	2,687	2,687	-
Lottery	2,800	2,800	-
Subtotal	67,233	68,833	(1,600)
Other Miscellaneous Receipts	15,879	15,879	-
Federal Grants	48,887	48,887	-
Total Revenues	131,999	133,599	(1,600)
Disbursements:			
Elementary and Secondary Education	26,384	26,419	(35)
Medicaid	39,147	39,044	103
Public Assistance	1,902	1,515	387
Subtotal	67,433	66,978	455
All Other Disbursements	73,912	73,912	-
Total Disbursements	141,345	140,890	455

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds State Fiscal Year 2011-12

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>DOB</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	38,170	39,345	(1,175)
Consumer Taxes and Fees	15,045	15,225	(180)
Business Taxes	7,578	7,773	(195)
Other Taxes including MTA Payroll	3,067	3,142	(75)
General Fund Miscellaneous Receipts	2,583	2,583	-
Lottery	2,870	2,870	-
Subtotal	69,313	70,938	(1,625)
Other Miscellaneous Receipts	15,883	15,883	-
Federal Grants	43,840	43,840	-
Total Revenues	129,036	130,661	(1,625)
Disbursements:			
Elementary and Secondary Education	26,322	26,331	(9)
Medicaid	42,332	42,007	325
Public Assistance	1,977	1,525	452
Subtotal	70,631	69,863	768
All Other Disbursements	75,898	75,898	-
Total Disbursements	146,529	145,761	768