



Report on Estimated Receipts and Disbursements

State Fiscal Years 2010-11 through 2012-13

November 5, 2010

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Table of Contents

| | |
|--|----|
| Introduction | 1 |
| Economic Outlook..... | 4 |
| Receipts | 6 |
| Disbursements | 9 |
| Risks | 13 |
| Office of the State Comptroller Estimates for Receipts and Disbursements | |
| State Fiscal Year 2010-11..... | 14 |
| State Fiscal Year 2011-12..... | 15 |
| State Fiscal Year 2012-13..... | 16 |

Introduction

This Report on Estimated Receipts and Disbursements for State Fiscal Year (SFY) 2010-11 through SFY 2012-13, 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 pace of the national economic recovery slowed this past summer as the effects of the federal stimulus program faded. Even though the recession has officially ended, growth in the national and State economies is expected to be modest and generate small employment growth and a slow decline in the unemployment rate.

All Funds tax revenue makes up approximately half of available revenue. All Funds tax revenue, while up approximately 5.0 percent through the first six months of the fiscal year over the same period of the previous year, must grow at 7.9 percent for the remaining six months of the year to meet the year-end projections in the SFY 2010-11 Mid-Year Update to the Enacted Budget Financial Plan. The personal income tax, the State's largest tax source and approximately one-third of total State revenue, grew 3.2 percent through the first six months of the year, and must grow 7.0 percent in the second half of the year to support planned spending.

Comptroller DiNapoli has repeatedly cautioned that the State is on an unsustainable fiscal path – planning to spend 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, as well as relying excessively on non-recurring or temporary resources. By the end of SFY 2009-10, tax collections were nearly \$2 billion below those used to support the Enacted Budget. Comptroller DiNapoli repeated many of these warnings when the SFY 2010-11 Budget was enacted more than four months late. Now, just three months since the budget was enacted, tax collections are already more than \$500 million below projections.

The SFY 2010-11 Enacted Budget utilized nearly \$16.7 billion in non-recurring or temporary resources, particularly federal stimulus funds, to support planned spending. While the General Fund gap closing plan did include \$1.4 billion in recurring revenue actions and nearly \$4.5 billion in recurring spending reductions, the greater dependence on temporary resources illustrates that the Enacted Budget did not address the State's long-term structural imbalance.

The increased dependence on non-recurring resources is clearly evident in projections for current and out-year General Fund gaps contained in the Mid-Year Financial Plan Update released by the Executive on November 1, 2010. According to the SFY 2010-11 Mid-Year Update to the Enacted Budget Financial Plan, the cumulative General Fund gap through SFY 2013-14 is estimated at approximately \$41.2 billion, an increase of over \$4 billion from the Enacted Budget estimate. New York's structural imbalance has been aggravated by a weakened economy combined with years of overreliance on temporary fixes, debt issuances and various accounting gimmicks routinely used to finance recurring spending without addressing long-term implications.

The Executive has called for a special legislative session to consider certain budget actions to address current and out-year gaps. While no specific agenda is available at the time of this writing, the reported purpose of the session is to address the projected current year deficit, a new Education, Labor and Family Assistance Article VII Budget Bill, as well as to provide spending authority for additional federal funds from the Education Jobs Fund.

It is clear that the budget process must be fundamentally reformed for the State to align recurring revenues with recurring spending. Comptroller DiNapoli has introduced a series of constitutional and statutory fiscal reforms that would address current and future budget issues, including:

- Require Gap Closing Plan for Out-Years
- Impose a Binding Revenue Consensus
- Increase Reserves
- Restrict the Use of Temporary and Non-Recurring Resources
- Require Public Negotiation of the Budget
- Strengthen Capital Planning
- Enact Real Debt Reform
- Mandate Budget Transparency by Improving Budget Documentation

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's 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 made 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 2010-11 through SFY 2012-13 (in millions of dollars)

| | <u>2010-11</u> | <u>2011-12</u> | <u>2012-13</u> |
|---------------------------------|----------------|----------------|----------------|
| Receipts | | | |
| Office of the State Comptroller | 134,293 | 134,334 | 133,897 |
| Division of the Budget | <u>135,236</u> | <u>134,667</u> | <u>133,391</u> |
| Difference | (943) | (333) | 506 |
| Disbursements | | | |
| Office of the State Comptroller | 137,685 | 144,913 | 148,660 |
| Division of the Budget | <u>137,397</u> | <u>144,316</u> | <u>148,065</u> |
| Difference | 288 | 597 | 595 |

Economic Outlook

National Economy

Even though the recession has officially ended, the economy remains seriously damaged. Job growth has remained subdued and the unemployment rate has remained high, which has translated into weak consumer confidence. The pace of the national economic recovery slowed this past summer as the effects of the federal stimulus program faded. In an effort to boost economic growth, the Federal Reserve recently began a new quantitative easing program intended to reduce long-term interest rates.

The real Gross Domestic Product (GDP) grew at an annual rate of 2.0 percent during the third quarter of 2010 after growing by 1.7 percent in the second quarter of 2010. These gains were less than half the average rate of growth in the prior two quarters. IHS Global Insight forecasts that GDP growth will remain weak until the final quarter of 2011, when growth is expected to rise above 3.0 percent.

In the third quarter of 2010, the pace of business investment slowed to its lowest rate in a year, and the nation's trade deficit began to increase again. While consumer spending strengthened, gaining 2.6 percent, consumers remain cautious given the weak labor and housing markets. The consumer confidence index has shown little improvement since the end of the recession, and has remained well below pre-recession levels.

Private sector job growth has been weak, increasing by 1.1 million jobs or 1.0 percent between December 2009 and October 2010. This represents only a fraction of the 8.5 million private sector jobs lost during the recession. The unemployment rate was 9.6 percent in October 2010, down only slightly from a peak of 10.1 percent in October 2009. Currently, the unemployment rate is expected to stay above 9.5 percent until late 2011.

The expiration of the federal income tax credit for homebuyers had a chilling effect on the housing market, with both new home sales and existing home sales subsequently falling sharply to record lows. Home prices also began to decline again, falling in July and August 2010. The high level of home foreclosures continues to depress the housing market, and legal issues related to the processing of home foreclosures may dampen the reselling of these properties.

Inflation remains low and is forecast to stay under 2.0 percent until the second half of 2012. High unemployment, excessive capacity, and low wage growth has helped to limit inflation, although commodity prices have recently risen in market anticipation of the Federal Reserve's latest quantitative easing program.

New York State Economy

While the economic downturn was less severe in New York State than in the nation, the State still lost 367,400 jobs, and the unemployment rate peaked at 8.9 percent in 2009—a 17-year high. New York State’s economy is slowly improving, but the recovery is fragile, and setbacks can be expected. Between December 2009 and September 2010, the State gained 54,000 private sector jobs, an increase of 0.8 percent—the same rate as the national rate.

Growth was concentrated in the downstate region, with a gain of 63,000 private sector jobs in New York City during this period. The rate of job growth in the City (2 percent) was more than twice the rate of growth in the State or the nation. By September 2010, the unemployment rate in New York State had fallen to 8.3 percent, slightly lower than the national rate, but lower than the 9.3 percent rate in New York City.

The rate of overall growth in New York State’s economy has also moderated. IHS Global Insight estimates that growth in New York’s inflation-adjusted gross state product slowed from 4.1 percent in the first quarter of 2010 to 2.6 percent in the second quarter, and that growth will further slow to about half that rate during the second half of 2010.

Profitability in New York City’s securities industry, a major source of revenue for New York State, has moderated in 2010 from last year’s record (\$61.4 billion), which was fueled by federal assistance and low interest rates. The industry has continued to shed jobs as it restructures and downsizes in response to changes in business conditions.

Receipts

Overview

To support the Office of the State Comptroller's tax receipts analysis, an independent revenue forecast model of New York State taxes developed by the Center of Excellence on Human Capital, Technology Transfer, and Economic Growth and Development of the University at Buffalo, SUNY, is used. This model identifies the key economic indicators of importance for New York's economy.

This analysis indicates that New York State entered a recession in the first quarter of 2008 which ended in the fourth quarter of 2009. 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 2012-13.

This report includes a forecast for tax receipts for SFY 2010-11 through SFY 2012-13. 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 then declined by 0.9 percent in SFY 2008-09 and by 2.7 percent in SFY 2009-10. For SFY 2010-11, tax receipts are expected to increase by 4.9 percent, primarily due to recently enacted tax changes.

New York City securities industry cash bonuses increased by 17 percent in 2009. In 2010, compensation in the financial sector has trended downward. Regulatory reform of compensation practices may result in an increased share of bonuses being paid in stock rather than in cash.

Tax receipts are expected to grow by 7.7 percent in SFY 2011-12. 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 are scheduled to expire. For SFY 2012-13, tax receipts are expected to grow by 2.4 percent. All projections are as compared to the prior fiscal year.

Personal Income Tax

In SFY 2010-11, personal income tax receipts are forecast to increase by \$1.58 billion over the prior year, or 4.6 percent. This increase reflects the improvement in the economy, as wage growth increases tax withholding payments by 5.9 percent. Personal income tax payments with final returns and extension payments both related to tax year 2009 increased by 8.8 percent and 15.5 percent, respectively. Current year estimated taxes are expected to increase by 12.8 percent from the prior year, based on growth in the equity markets and a behavioral response from high-income taxpayers as they shift income into 2010 to avoid the scheduled 2011 expiration of 2001 and 2003 federal tax cuts. If current tax rates are extended, however, this income shift is not expected to occur.

For SFY 2011-12, tax receipts are expected to increase 7.9 percent as the economy continues to recover and increased payments from extensions and final returns for tax year 2010 are made from taxpayers who did not make sufficient payments to cover the tax increase. Personal income tax receipts in SFY 2012-13 are expected to grow by 0.8 percent. The low rate of growth can be attributed to the expiration of the temporary tax increase in 2012.

User Taxes and Fees

Consumption tax receipts are forecast to increase by 8.8 percent in SFY 2010-11. The increase can be attributed to the return to growth in the economy and to tax law changes, which account for over half of the expected increase. Sales and use taxes, the largest component of this group, are forecast to increase by 7.2 percent this year, with growth boosted by the temporary return of the sales tax on purchases of clothing costing less than \$110. All of the expected increase in the cigarette and tobacco tax collections can be attributed to the tax increases included in the SFY 2010-11 Enacted Budget.

Growth in consumption tax receipts is expected to continue over the remainder of the forecast period, averaging 3.8 percent. This reflects the continuing economic rebound, offset by the phased-in return of the sales tax exemption on clothing items costing less than \$110.

Business Taxes

Business tax receipts are expected to decline by 1.8 percent in SFY 2010-11. Weak collections in the first half of the year are partially offset by strong growth in the corporate franchise tax, due to the large expected increase in corporate profits in 2010. Bank tax collections are expected to decline by over 20 percent, while the corporation and utilities taxes decline by over 11 percent.

Business tax receipts are expected to grow in SFY 2011-12 and SFY 2012-13, with strong growth in the bank and corporate franchise taxes as the economy continues to rebound and the temporary cap on business tax credits expires.

Other Taxes

Other tax receipts are expected to increase by 10.3 percent in SFY 2010-11. The increase is primarily due to full year collections of the Metropolitan Commuter Transportation Mobility Tax (payroll tax), a tax which is collected by the State on behalf of, and transferred to, the Metropolitan Transportation Authority (MTA). There is also strong projected growth in the estate tax and the real estate transfer tax, reflecting growth in the equities and real estate markets.

For SFY 2011-12, other tax receipts are expected to increase by 6.2 percent due to an increase in the real estate transfer tax and the payroll tax. Receipts in SFY 2012-13 are expected to grow 9.7 percent, as the rate of growth in the economy increases. This is expected to accelerate the growth in the real estate transfer tax, the estate tax and the payroll tax.

General Fund Miscellaneous Receipts and Lottery Receipts

General Fund miscellaneous receipts are estimated to decrease by 26.4 percent in SFY 2010-11. The large decline primarily reflects the loss of one-time revenues.

In SFY 2011-12 and SFY 2012-13, miscellaneous receipts are expected to decline by 1.4 percent and 1.2 percent, respectively.

Lottery revenues are expected to increase by 10.6 percent in SFY 2010-11 (primarily due to the one-time receipt of a \$380 million franchise fee payment associated with the Video Lottery Terminals at the Aqueduct Racetrack. Lottery receipts are projected to decline by 8.4 percent in SFY 2011-12 and increase by 5.4 percent in SFY 2012-13.

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 equal spending), the Office of the State Comptroller accepts DOB's federal receipt projections.

Federal grants are projected to total nearly \$50.6 billion in SFY 2010-11, an increase of over \$5.0 billion from SFY 2009-10, driven by receipt of funds from the federal American Recovery and Reinvestment Act of 2009 (ARRA).

Federal grants are projected to total \$46.3 billion in SFY 2011-12 and \$44.4 billion in SFY 2012-13, a decrease of \$4.3 billion and \$1.9 billion, respectively, reflecting the loss of ARRA funds.

Disbursements

Overview

This report includes a forecast for disbursements for SFYs 2010-11 through 2012-13. 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 2010-11, the Office of the State Comptroller projects All Funds school aid (adjusted for payment delays), Medicaid and public assistance spending will total \$67.1 billion, an increase of \$3.0 billion, or 5.0 percent, from SFY 2009-10 levels. All other spending is projected to total \$70.6 billion, an increase of \$5.7 billion, or 8.9 percent.

For SFY 2011-12, the Office of the State Comptroller estimates school aid, Medicaid and public assistance will total \$71.6 billion, representing a \$6.6 billion, or 10.1 percent, increase. The Office of the State Comptroller projects all other spending to increase \$2.7 billion, or 3.8 percent, to \$73.3 billion.

For SFY 2012-13, the Office of the State Comptroller estimates school aid, Medicaid and public assistance spending will total \$75.3 billion, an increase of \$3.7 billion, or 5.1 percent. During this period, all other spending is projected to increase \$85 million, or 0.1 percent, to \$73.4 billion.

School Aid

While the Enacted Budget lowered projected General Fund spending for school aid in SFY 2010-11, it did so primarily with temporary measures. Moreover, because the entire Education, Labor and Family Assistance (ELFA) Article VII Budget Bill was vetoed, out-year disbursements are expected to increase significantly (for example, General Fund spending is currently projected to increase 14.4 percent in SFY 2011-12). However, the Executive has called for an extraordinary legislative session to address a new ELFA Article VII Budget Bill, as well as to provide spending authority for additional federal funds from the Education Jobs Fund that were awarded after the budget was enacted.

The Financial Plan currently projects that non-expense-based school aid categories, including Foundation Aid, will be held to SFY 2009-10 levels. Expense-based aids, including Building Aid and Private and High Cost Excess Costs, are expected to increase approximately 5.6 percent. However, the Enacted Budget included a one-time Gap Elimination Assessment of approximately \$2.1 billion that lowered school aid by the same amount for one year only. Of that amount, approximately \$726 is offset by non-recurring federal stimulus funding, while the remaining \$1.4 billion reflects an actual reduction.

On a fiscal year basis, school aid is projected to decline in the General Fund by approximately \$910 million (adjusted for delayed payments from SFY 2009-10 and not including Medicaid). However, due to non-recurring resources from other funds, including \$380 million from the sale of franchise rights at the Aqueduct Racetrack and over \$1.0 billion in non-recurring federal resources, spending in All Governmental Funds is projected to increase just under \$600 million (adjusted for delayed payments and Medicaid).

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. In addition, since the entire ELFA language bill was vetoed, base-year figures from School Year (SY) 2009-10 are not available. Those formulas would also be affected by the adjustments normally found in the ELFA language bill.

On a school-year basis, DOB projects school aid will reach \$21.2 billion, a decline of approximately \$499 million, or 2.3 percent, in 2010-11 (SY 2009-10 estimates are from the SFY 2010-11 Enacted Budget Financial Plan). This includes debt service costs associated with the Expanding Our Children's Education and Learning (EXCEL) program, and \$607 million from the federal Education Jobs Fund. On a State fiscal year basis, All Governmental Funds spending for School Aid (adjusted for spending delays from SFY 2009-10) is projected to increase \$599 million, or 2.5 percent.

In SY 2011-12, DOB projects school aid will reach \$23.7 billion, an increase of \$2.5 billion, or 11.9 percent. This includes debt service costs associated with the EXCEL program. On a State fiscal year basis, All Governmental Funds spending for School Aid is projected to increase \$2.4 billion, or 10.0 percent, to \$26.6 billion.

In SY 2012-13, DOB projects school aid will reach \$25.9 billion, an increase of \$2.2 billion, or 9.3 percent. This includes debt service costs associated with the EXCEL program. On a State fiscal year basis, All Governmental Funds spending for School Aid is projected to increase \$1.7 billion, or 6.3 percent, to \$28.2 billion.

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 reflecting the Enacted Budget. DOB projections for Foundation Aid, High Tax Aid and Universal Pre-Kindergarten were incorporated into the Office of the State Comptroller's projections.

Based on currently available data, the Office of the State Comptroller projects All Funds school aid will reach \$24.3 billion in SFY 2010-11, which is \$186 million above the DOB projection of \$24.1 billion. The Office of the State Comptroller projection equates to approximately \$21.2 billion on a school-year basis.

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 2010-11 Enacted Budget, the Office of the State Comptroller estimates that school aid will increase to \$26.8 billion in SFY 2011-12, an increase of \$2.5 billion, or 10.1 percent over SFY 2010-11 (adjusted for payment delays). This equates to \$23.5 billion on a school-year basis.

For SFY 2012-13, the Office of the State Comptroller projects that school aid will total \$28.4 billion, an increase of approximately \$1.6 billion, or 6.1 percent. This equates to \$25.7 billion on a school-year basis.

Medicaid

For SFY 2010-11, DOB estimates All Funds Medicaid spending administered by DOH will total \$39.1 billion, an increase of \$2.1 billion, or 5.7 percent. This current estimate is up from the 2.9 percent increase projected in the SFY 2010-11 Enacted Budget Financial Plan issued in August 2010. The increased projections in the Mid-Year Financial Plan Update for SFY 2010-11 primarily reflect costs associated with higher utilization rates.

DOB forecasts DOH Medicaid costs to total \$43.0 billion in SFY 2011-12, an increase of \$3.9 billion, or 9.9 percent, and \$45.0 billion in SFY 2012-13, an increase of \$2.0 billion, or 4.7 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 2010-11 and the ensuing two fiscal years. Spending data was adjusted to reflect a cycle payment delay or other known actions that would impact cash management. Projected data derived from the CAS was adjusted to reflect the manner in which DOB accounts for Medicaid within the Financial Plan.

For instance, the CAS includes administrative costs within Medicaid, but the Financial Plan delineates those costs separately. In addition, Medicaid data from the CAS includes costs for various services, including adult services, and programs for family and children medical care that are not included in the Financial Plan's Medicaid data. Finally, other costs, including the Medicare Part D clawback, are added because DOB's projections include these costs.

Based on actual payments through September 2010, as well as an analysis of historical spending and utilization trends, the Office of the State Comptroller estimates that All Funds DOH Medicaid spending for SFY 2010-11 will total \$39.2 billion, an increase of \$2.3 billion, or 5.9 percent.

For SFY 2011-12, the Office of the State Comptroller projects Medicaid spending to total \$43.3 billion, an increase of \$4.1 billion, or 10.5 percent.

For SFY 2012-13, the Office of the State Comptroller estimates Medicaid spending to total \$45.4 billion, an increase of \$2.0 billion, or 4.7 percent.

Projected costs associated with Medicaid are subject to a number of risks. For instance, State clawback 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, depending on the pace of the economic recovery, continued 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 utilization is possible.

Public Assistance

For SFY 2010-11, DOB estimates that State and federal costs associated with public assistance will total \$1.47 billion, based on caseloads of 374,338 families in both the Family Assistance Program and the Safety Net Program and another 164,832 single people with no children in the Safety Net Program. For SFY 2011-12, DOB projects that public assistance spending will decline by \$24 million, or 1.6 percent, to \$1.45 billion based on caseloads of 368,666 families and 163,057 singles. For SFY 2012-13, DOB estimates that spending will decline \$19 million, or 1.3 percent, based on caseloads of 364,255 families and 160,692 singles.

Using historical trends for unemployment rates, as well as an adjustment for the effect of extended unemployment benefits, caseloads and spending according to monthly caseload reports issued by OTDA, the Office of the State Comptroller estimates that in SFY 2010-11, spending for public assistance will total \$1.52 billion, based on 383,948 family caseloads and 172,033 single caseloads.

For SFY 2011-12, the Office of the State Comptroller projects public assistance spending will total \$1.51 billion, a decline of \$12 million, or 0.8 percent, based on caseloads of 380,483 families and 171,260 singles.

For SFY 2012-13, the Office of the State Comptroller estimates that spending for public assistance will total \$1.5 billion, a decline of \$8.0 million, or 0.5 percent, based on caseloads of 378,358 families and 171,035 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 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 impact these projections.

Risks

In September 2010, this Office warned of a number of risks to the Financial Plan. Risks include unanticipated events that may require additional spending, as well as anticipated revenues that may not materialize. The estimates contained in this report are reasonable based on current data and available information. However, other factors, such as federal reimbursements and tax collections, have the potential to create significant variances in the Financial Plan.

Medicaid spending projections have already been subject to significant revisions in the Financial Plan in SFY 2010-11, and the assumptions that underlie such projections also pose additional risk. Tax collections have been below projections since the Financial Plan was released in August, creating uncertainty with regard to the State's ability to meet its spending commitments.

The State's reliance on temporary and non-recurring resources to address budget imbalances also represents an inherent risk to the State's fiscal condition. In September, this Office identified nearly \$17 billion in temporary or non-recurring resources that were utilized to support recurring expenses, reflecting 30 percent of projected General Fund spending. In addition, through March 31, 2010, 16.2 percent, or nearly \$10 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.

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 reach \$156.8 billion by SFY 2013-14, versus All Funds revenue of \$139.8 billion. DOB projects that General Fund spending growth from SFY 2010-11 through SFY 2013-14 will be 42.1 percent, while General Fund receipts growth will be only 14.8 percent over the same period. Spending is projected to grow nearly three 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 exceed 51 percent of All Funds spending by SFY 2013-14, 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 2010-11 (adjusted for delays)

(in millions of dollars)

| | <u>Office of the State Comptroller</u> | <u>DOB</u> | <u>Difference</u> |
|---|--|------------|-------------------|
| Receipts: | | | |
| Personal Income Tax | 36,333 | 36,568 | (235) |
| Consumer Taxes and Fees | 13,980 | 14,103 | (123) |
| Business Taxes | 7,322 | 7,817 | (495) |
| Other Taxes including MTA Payroll | 2,875 | 2,965 | (90) |
| General Fund Miscellaneous Receipts | 2,861 | 2,861 | - |
| Lottery | 3,005 | 3,005 | - |
| Subtotal | 66,376 | 67,319 | (943) |
| Other Miscellaneous Receipts | 17,352 | 17,352 | - |
| Federal Grants | 50,565 | 50,565 | - |
| Total Revenues | 134,293 | 135,236 | (943) |
| Disbursements: | | | |
| Adjusted Elementary and Secondary Education | 24,333 | 24,147 | 186 |
| SFY 2009-10 Payment Delay (1) | 2,063 | 2,063 | - |
| Medicaid | 39,197 | 39,146 | 51 |
| Public Assistance | 1,521 | 1,470 | 51 |
| Subtotal | 67,114 | 66,826 | 288 |
| All Other Disbursements | 70,571 | 70,571 | - |
| Total Disbursements | 137,685 | 137,397 | 288 |

(1) The payment delay from SFY 2009-10 artificially increased school aid spending in SFY 2010-11. The Elementary and Secondary Education figure in this table has that payment delay adjusted out to show planned growth.

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 | 39,189 | 39,277 | (88) |
| Consumer Taxes and Fees | 14,565 | 14,655 | (90) |
| Business Taxes | 8,376 | 8,571 | (195) |
| Other Taxes including MTA Payroll | 3,053 | 3,013 | 40 |
| General Fund Miscellaneous Receipts | 2,821 | 2,821 | - |
| Lottery | 2,737 | 2,737 | - |
| Subtotal | 70,741 | 71,074 | (333) |
| Other Miscellaneous Receipts | 17,313 | 17,313 | - |
| Federal Grants | 46,280 | 46,280 | - |
| Total Revenues | 134,334 | 134,667 | (333) |
| Disbursements: | | | |
| Elementary and Secondary Education | 26,796 | 26,554 | 242 |
| Medicaid | 43,321 | 43,029 | 292 |
| Public Assistance | 1,509 | 1,446 | 63 |
| Subtotal | 71,626 | 71,029 | 597 |
| All Other Disbursements | 73,287 | 73,287 | - |
| Total Disbursements | 144,913 | 144,316 | 597 |

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds State Fiscal Year 2012-13

(in millions of dollars)

| | Office of the State Comptroller | DOB | Difference |
|-------------------------------------|--|----------------|-------------------|
| Receipts: | | | |
| Personal Income Tax | 39,506 | 39,287 | 219 |
| Consumer Taxes and Fees | 15,043 | 14,987 | 56 |
| Business Taxes | 8,962 | 8,837 | 125 |
| Other Taxes including MTA Payroll | 3,349 | 3,243 | 106 |
| General Fund Miscellaneous Receipts | 2,786 | 2,786 | - |
| Lottery | 2,895 | 2,895 | - |
| Subtotal | 72,541 | 72,035 | 506 |
| Other Miscellaneous Receipts | 16,987 | 16,987 | - |
| Federal Grants | 44,369 | 44,369 | - |
| Total Revenues | 133,897 | 133,391 | 506 |
| Disbursements: | | | |
| Elementary and Secondary Education | 28,423 | 28,217 | 206 |
| Medicaid | 45,364 | 45,049 | 315 |
| Public Assistance | 1,501 | 1,427 | 74 |
| Subtotal | 75,288 | 74,693 | 595 |
| All Other Disbursements | 73,372 | 73,372 | - |
| Total Disbursements | 148,660 | 148,065 | 595 |