

New York State



2007 Joint Report *Receipts and Disbursements*

November 15, 2007

Division of the Budget
Senate Finance Committee
Assembly Ways and Means Committee

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QUICK START REPORT FOR 2007

This report summarizes the results of the “quick start” forecasting process conducted by the Executive, Legislature and Comptroller, pursuant to Chapter 1 of the Laws of 2007. Specifically, this report meets the statutory requirement that by “not later than November 15, the Governor, the temporary president of the Senate and the Speaker of the Assembly shall jointly prepare and make available on their internet websites a report on the actual, estimated, and projected State receipts and disbursements for the prior, current, and ensuing fiscal years, respectively, for all funds of the State.”

INTRODUCTION

The Budget Reform Act of 2007 reinstated and substantially expanded the “quick start” budget process. As the name suggests, the goal of “quick start” is to bring the parties together, well in advance of the Governor’s budget submission, to begin an open, public dialogue on the fiscal outlook for the upcoming year. By jump-starting the formal exchange of information and analysis, “quick start” is intended to stimulate timely discussion and analysis on important economic and fiscal factors that are likely to shape the upcoming budget debate.

As part of this process, each party that plays a role in the budget was invited to contribute an assessment of the State economic outlook, an estimate of State spending and receipts, and a forecast for several of the State’s major programs, including School Aid, Medicaid, and Welfare.

The law directs the Executive, Senate, Assembly, and the State Comptroller to prepare separate “quick start” reports by November 5. The Executive and Legislature are then required to meet publicly shortly thereafter to discuss their reports. By November 15, the Executive and the Legislature must issue a joint report on the actual, estimated and projected State receipts and disbursements of the prior, current and ensuing fiscal years.

OVERVIEW

The official “quick start” process began on October 30, 2007 when the Division of the Budget (DOB) issued its Mid-Year Financial Plan updating the State’s official financial projections for the 2007-08 through 2010-11 fiscal years. On October 31, DOB also released a Methodology Report that provides detailed assumptions and approaches used to develop DOB’s economic, revenue and spending forecasts. The information in the Mid-Year Financial Plan and the Methodology Report provide multi-year financial projections intended to assist discussions among the participants.

On November 5, the Senate, Assembly, and the State Comptroller each submitted public reports as part of “quick start”. From November 7 through November 12, representatives from all the parties held a series of meetings to review and, to the

extent possible, reach a common understanding of the information and analysis behind the forecasts contained in the reports. On November 13, the Director of DOB and fiscal staff from the Senate, Assembly, and Comptroller's Office met publicly to review and discuss their individual forecasts.

The key economic, revenue, and spending projections resulting from this process are detailed later in this report, and are summarized below:

- It was generally agreed that the State faces a period of economic uncertainty that has the potential to present challenges to State finances in 2008-09 and beyond.
- DOB projects a current services General Fund budget gap of \$4.3 billion in 2008-09 and \$6.2 billion in 2009-10 in the Mid-Year Financial Plan, absent gap-closing actions.
- The following table summarizes the major differences between DOB's mid-year projections and those of the staff of the Assembly Ways and Means Committee and the Senate Finance Committee, as detailed in this report.

**Difference from DOB Mid-Year Plan
Savings/(Costs)**

	Assembly Majority			Senate Majority		
	2007-08	2008-09	Two-Year Total	2007-08	2008-09	Two-Year Total
Spending	80	133	213	97	366	463
Medicaid	64	80	144	73	303	376
Welfare	16	53	69	24	63	87
Revenue	(28)	(364)	(392)	762	(246)	516
Personal Income Taxes	(62)	(511)	(573)	386	(214)	172
User Taxes and Fees	45	102	147	84	59	143
Business Taxes	(16)	64	48	335	103	438
Other Taxes	5	(19)	(14)	(43)	(194)	(237)

REVIEW OF ECONOMIC AND FISCAL FACTORS

The following sections highlight the discussions that took place with respect to the economy, receipts and disbursements projections, and the fiscal outlook.

Economic Context

Based on the forecasts presented by the Senate, the Assembly, and DOB, national economic growth, as measured by growth in real U.S. Gross Domestic Product (GDP), is projected to accelerate in the second half of 2008. Averaging the forecasts of the various parties, growth of 2.0 percent is projected for 2007, 2.3 percent for 2008, and 2.7 percent for 2009 (see Table 1). In contrast, slower growth in personal income is projected for 2008 compared with 2007. The slowdown in personal income growth is more than explained by a slowdown in its largest component, wages. Slower wage growth is explained, in part, by the generally shared expectation that job growth will decelerate in 2008 as compared with 2007.

All parties agree that, based on current data, New York State employment can be expected to grow more slowly in 2008 than in 2007 (see Table 2). Wage growth is expected to slow even further due to both slower job growth and weaker finance sector bonus growth.

All parties acknowledge significant risks to their forecasts from both the ongoing housing market contraction and uncertain credit market conditions. It was generally agreed that high energy prices and a weakening dollar represent risks to both the inflation and household spending forecasts. Moreover, it was agreed that the risks associated with rising energy costs had grown since the forecasts were completed. Finally, given the significant losses experienced by many Wall Street firms related to the declining values of asset-backed securities, particularly mortgage-backed securities, all parties agreed that the outlook for finance sector bonus payouts is uncertain at the current time.

TABLE 1
U.S. ECONOMIC INDICATORS
ANNUAL CALENDAR YEAR
Percent Change

	<u>CY2006</u>	<u>CY2007</u>	<u>CY2008</u>	<u>CY2009</u>
Real U.S. GDP				
Assembly Majority	2.9	2.1	2.4	2.7
DOB	2.9	2.0	2.5	2.8
Senate Majority	2.9	1.8-2.0	0.6-3.0	1.7-3.6
PERSONAL INCOME				
Assembly Majority	6.6	6.6	5.2	5.1
DOB	6.6	6.5	5.5	5.8
Senate Majority		6.5	4.1-5.4	4.5-5.5
WAGES				
Assembly Majority	6.2	6.5	5.1	5.2
DOB	6.2	6.4	4.8	5.4
Senate Majority	6.2	6.3	4.4	4.8
CORP PROFITS (Pre-Tax)				
Assembly Majority	13.2	4.3	2.1	4.1
DOB	13.2	4.6	5.4	5.7
Senate Majority	13.2	2.9	1.7	5.1
NONFARM EMPLOYMENT				
Assembly Majority	1.9	1.3	0.8	1.1
DOB	1.9	1.3	0.9	1.2
Senate Majority	1.5	1.5	0.7	1.4
3-MONTH T-BILL RATE				
Assembly Majority	4.7	4.5	4.1	4.3
DOB	4.7	4.5	4.2	4.3
Senate Majority	4.8	4.5	3.9	4.5

TABLE 2
NEW YORK STATE ECONOMIC INDICATORS
ANNUAL CALENDAR YEAR
Percent Change

	<u>CY2006</u>	<u>CY2007</u>	<u>CY2008</u>	<u>CY2009</u>
NONFARM EMPLOYMENT				
Assembly Majority	1.0	1.0	0.5	0.8
DOB	0.9	0.9	0.7	0.7
Senate Majority		0.9	0.7	1.0
PERSONAL INCOME				
Assembly Majority	7.5	6.7	4.5	5.1
DOB	7.2	6.7	4.7	5.2
Senate Majority		7.5	4.9	5.7
WAGES				
Assembly Majority	7.8	7.4	3.7	4.6
DOB	7.3	7.1	4.0	4.8
Senate Majority		8.7	4.0	5.3

Overall Receipts Projections

The analyses reflect a narrow range of receipt projections for the remainder of 2007–08 and 2008–09. The range of estimates of All Funds tax receipts differs from Executive estimates by a maximum of 1.2 percent for the State Fiscal Year (SFY) 2007–08 and 0.6 percent for SFY 2008-09.

All Funds Mid Year Comparison 2007-08 (millions of dollars)

	Executive Mid Year Estimate	Differences from Executive Estimates	
		Senate	Assembly
		Majority	Majority
Personal Income Taxes	36,570	386	(62)
User Taxes and Fees	13,906	84	45
Business Taxes	8,652	335	(16)
Other Taxes	2,077	(43)	5
All Funds Total	61,205	762	(28)

All Funds Mid Year Comparison 2008-09 (millions of dollars)

	Executive Mid Year Estimate	Differences from Executive Estimates	
		Senate	Assembly
		Majority	Majority
Personal Income Taxes	39,064	(214)	(511)
User Taxes and Fees	14,369	59	102
Business Taxes	8,881	103	64
Other Taxes	2,186	(194)	(19)
All Funds Total	64,500	(246)	(364)

All Funds Mid Year Comparison 2007-08 and 2008-09 Two Year Total (millions of dollars)

	Executive Mid Year Estimate	Differences from Executive Estimates	
		Senate	Assembly
		Majority	Majority
Personal Income Taxes	75,634	172	(573)
User Taxes and Fees	28,275	143	147
Business Taxes	17,533	438	48
Other Taxes	4,263	(237)	(14)
All Funds Total	125,705	516	(392)

To date, tax collections have remained consistent to slightly ahead of Enacted Budget projections for the current fiscal year. However, the issues surrounding the subprime lending situation and the associated negative consequences for the housing market and financial service companies have resulted in a significant change in the risk profile the State faces over the next 18 months. The most critical uncertainty involving current year revenue projections concerns bonus payouts by Wall Street firms during the December-March time frame. Many Wall Street firms have invested in mortgage backed securities and related debt instruments and the resulting losses have eroded their current year profitability. To the extent that profits on Wall Street are negatively impacted we can anticipate a decline in bonus payouts. In fact, recent reports on expected financial sector bonus payouts suggest results could range from flat to down 15 percent compared to last year. A decline of this magnitude would likely result in revenue results at the low end of those reported. Should the more profitable areas of Wall Street activities dominate, it is possible the more optimistic projections for the current year would hold. Given these significant uncertainties, the receipt estimates across the reports differ by relatively small amounts due to varying appraisals of the risks the State is currently facing.

As was reported above, it is generally agreed that the national and State economic growth will grow modestly in 2008. The revenue outlook for the current and upcoming fiscal year remains uncertain given the current economic and Wall Street turbulence. Additional issues that can impact receipts include:

- the strength of the financial securities industry given the large exposure of many market participants to current credit conditions;
- the current weakness in the housing market, including the volume of transactions and price;
- the pace of both national and New York employment growth both to-date and over the next year;
- the impact of Federal Reserve Board policy on interest rates;
- the current increased volatility in equity prices;
- the recent changes in petroleum prices; and
- an unanticipated shock that could have an adverse impact on the economy.

Despite the inherent risks and uncertainties surrounding these issues, the analyses of the Executive and Legislative staff are reasonable as to both economic and revenue estimates for the remainder of this fiscal year and for next fiscal year.

REVIEW OF DISBURSEMENT PROJECTIONS

The Mid-Year Financial Plan prepared by DOB contains detailed forecasts of all major spending programs. The General Fund traditionally has been, and will continue to be, an important focus of State financial performance because State law requires it be balanced. State Operating Funds is a more inclusive measure that captures all spending financed by dedicated revenue sources and for servicing the State's debt,

excluding capital spending and Federal aid. All Governmental Funds includes spending for capital purposes and Federal grants.

The table below summarizes the State's actual and projected disbursements for 2006-07 through 2009-10 as prepared by DOB in the Mid-Year Financial Plan:

DOB Mid-Year Spending Forecast				
(millions of dollars)				
	2006-07 Actuals	2007-08 Mid-Year Estimate	2008-09 Current Services Projection	2009-10 Current Services Projection
State Operating Funds	\$73,489 11.0%	\$77,936 6.1%	\$84,284 8.1%	\$89,933 6.7%
General Fund (with transfers)	\$51,591 11.0%	\$53,669 4.0%	\$59,179 10.3%	\$63,797 7.8%
State Funds	\$77,311 10.9%	\$82,764 7.1%	\$89,965 8.7%	\$95,729 6.4%
All Funds	\$112,764 8.1%	\$118,603 5.2%	\$127,480 7.5%	\$133,875 5.0%

* Current services forecast before actions that may be needed to balance the 2008-09 Budget.

DOB's spending forecast does not reflect potential collective bargaining agreements and other costs that have the potential to increase projected disbursements in 2007-08 and beyond. However, a reserve of \$1.2 billion has been set aside for these multi-year costs in the Financial Plan prepared by DOB.

Summary information for three key areas of spending --- Medicaid, School Aid, and Public Assistance --- follows.

Medicaid

Medicaid, which is jointly financed by the Federal government, the State and local governments (i.e., counties and New York City) provides health care services for low income, mentally-ill, disabled and elderly individuals. Prior to 2006, for most services the non-Federal share of Medicaid costs was shared between the State and local governments. Since that time, local contributions have been capped at the 2005 level with a statutorily specified annual increase, and the State assumes all costs above the capped amount.

The respective parties use somewhat different projection models. The Executive's forecast is based on a detailed analysis of Medicaid claims data by category of service as reported by the Department of Health (DOH) in its Medicaid Analysis Reporting System (MARS) reports. Monthly MARS category of service data is

incorporated into mathematical models that are used to predict future changes in the price and utilization of services based on historical patterns, seasonal trends, statutory changes and other factors. The models also use non-MARS data to generate program specific expenditures in certain areas (i.e., managed care enrollment, average managed care premiums).

The Senate's projections are also based on an analysis of actual Medicaid claim data, service category trends, and the number of service units, as reported in the MARS data. The Senate forecast is based on quarterly data which is compared to prior year spending trends and compared to quarterly percentage changes by service category. That information is trended forward and adjusted to include expected price and utilization changes that would not be reflected in the historical trends.

The Assembly's model employs regression techniques which rely on a number of factors (i.e., MARS data, historical spending trends by category, price levels, population, unemployment, seasonal factors). The results of the model are evaluated against current and most recent trends and statutory and other changes that would not be captured by regression techniques.

Though each party uses different models, the variances of the spending projections are within reasonable ranges. It should be noted that the forecasts provide a point-in-time estimate for program spending based on the most current data available and therefore are subject to considerable variance depending on a number of risks that could affect Medicaid spending and enrollment. These include natural disasters, economic fluctuations, shifts in demographic patterns, litigation and changes in State and Federal policies and statutes.

The charts below display the Medicaid State funds spending projections included in the respective "quick start" reports issued by the Executive and Legislature.

SFY 2006-07 Medicaid Actual Spending

The 2006-07 Medicaid State funds spending totaled \$12.839 billion, an increase of 9.6 percent from 2005-06. The 2006-07 spending breakdown by health care service category was hospitals/clinics (\$2.905 billion); nursing homes (\$2.884 billion); managed care (\$1.252 billion); home care (\$2.039 billion); non-institutional/other (\$1.428 billion); pharmacy (\$1.468 billion); and Family Health Plus (\$863 million).

SFY 2007-08 Medicaid Spending Forecast

	EXECUTIVE	ASSEMBLY	SENATE
State Funds Spending	\$12.342 billion	\$12.278 billion	\$12.415 billion
\$ Difference From Executive	NA	(\$64 million)	\$73 million
% Different From Executive	NA	(\$0.6%)	0.6%

All forecasts reflect a downward trend in spending from the actual 2006-07 spending of \$12.839 billion, with the Executive projecting a decrease of almost 4 percent, with the Senate estimating a slightly lower decline and the Assembly a slightly greater decline. Both the Senate and Assembly forecasts differ from the Executive's by less than 1 percent.

The Executive's forecast reflects a decline across most service categories, with the exception of managed care (+4.8 percent), home care (+4.6 percent) and Family Health Plus (+10.4 percent). The Senate's forecast is similar to the Executive's with the exception of a projected increase in nursing home spending. The Assembly's forecast notes a decline in nursing home spending and cites recent increases in managed care and home care.

SFY 2008-09 Medicaid Spending Forecast

	EXECUTIVE	ASSEMBLY	SENATE
State Funds Spending	\$13.998 billion	\$13.918 billion	\$13.695 billion
\$ Difference From Executive	NA	(\$80 million)	(\$303 million)
% Different From Executive	NA	(0.6%)	(2.2%)

All of the forecasts assume that spending will rebound and increase from the projected 2007-08 levels, with estimated increases of 13.9 percent (Executive), 10.3 percent (Senate), and 13.3 percent (Assembly). Much of the projected increases are due to one-time 2007-08 savings actions and delayed Federal approval for certain reimbursement rate increases planned for 2007-08 (i.e., nursing home rebasing, emergency room rates) as well as estimated spending increases across all service categories. The Executive assumes that enrollment, which is projected to decline by almost 40,000 from SFY 2006-07 to SFY 2007-08, will increase by almost two percent from SFY 2007-08 to SFY 2008-09.

The variance between the Executive and Senate forecast is within a reasonable range (-2.2 percent) given the inherent variability in projecting out-year Medicaid spending, while the Assembly (-0.6 percent) spending forecast difference is minimal.

School Aid

The State Education Department (SED) releases school district specific data three times a year pursuant to §305 of the Education Law. The November 15 database update provides the first information on the projected upcoming school year. This data will continue to be updated on February 15 and May 15. Since this data for the 2008-09 School Year is not yet currently available, estimating School Aid for 2008-09 presents significant challenges. In prior years, claims have varied by amounts as much as \$200 million from the time of Budget Enactment until all final claims have been submitted for a school year.

The following is a discussion of School Aid projections as reflected in the respective reports put forward by Executive, Senate and Assembly staffs. Each report used different approaches to forecasting School Aid for 2008-09 with differing degrees of specificity. However, the Foundation Aid and Expense-Based Aids components of school aid were forecast on a consistent basis among the reports and can be summarized as follows:

2008-09	EXECUTIVE	ASSEMBLY	SENATE
Foundation Aid Increase (School Year)	\$1.24 billion	\$1.25 billion	\$1.2 billion
Expense-Based Aids Increase (School Year)	\$190 million	\$299 million	\$284 million

Variances between the forecasts for the Foundation Aid are due to small expected changes in the underlying data between SED updates. Variances between Expense-Based Aids (i.e., Transportation Aid, BOCES, Private Excess Cost Aid and Building Aid) are due to differing assumptions of annual growth based on the time periods assessed.

The treatment of other components of School Aid, particularly with regard to provisions authorized for one year in the 2007-08 Enacted Budget, are inconsistent among the three forecasts. For information on the treatment of these programs, as well as a fuller understanding of the methodologies, please consult the individual reports.

Public Assistance

The following is a summary of public assistance disbursement projections as reflected in the respective reports put forward by Executive, Senate and Assembly staffs. Each report concludes that the number of individuals on public assistance (i.e., the caseload) will decline through 2008-09, and that with that decrease will come a reduction in public assistance disbursements. Variances between disbursement estimates may be attributable to differing conclusions regarding the extent of caseload declines. However, because a portion of public assistance expenditures are for non-benefit payments such as diversion payments and transitional services, it is difficult to determine expenditures based solely on caseload. Both the Senate and Assembly

2008-09 gross cost projections are within five percent of the Executive projections. The Senate's gross cost projections would drive a \$63 million reduction and the Assembly's gross cost projections would drive a \$53 million reduction in the Financial Plan.

SFY 2006-07 Public Assistance Caseload and Spending

The 2006-07 public assistance caseload was 560,861, with associated gross costs (Federal/State/local) of \$2.139 billion. These actuals represent decreases of 6.4 percent and 2.6 percent, respectively, from 2005-06.

SFY 2007-08 Estimated Public Assistance Caseload and Spending

	EXECUTIVE	ASSEMBLY	SENATE
CASELOAD	527,847	523,570	517,945
GROSS COST	\$2.035 billion	\$2.006 billion	\$2.004 billion
FINANCIAL PLAN IMPACT		(\$16 million)	(\$24 million)

The Executive 2007-08 forecast for the public assistance caseload is 527,847, a projected 5.9 percent decrease from 2006-07. Public assistance gross costs are estimated at \$2.035 billion, a projected 4.9 percent decrease from 2006-07.

The Senate 2007-08 forecast for the public assistance caseload is 517,945, a projected 7.7 percent decrease from 2006-07. Public assistance gross costs are estimated at \$2.004 billion, a projected 6.3 percent decrease from 2006-07.

The Assembly 2007-08 forecast for the public assistance caseload is 523,570, a projected 6.6 percent decrease from 2006-07. Public assistance gross costs are estimated at \$2.006 billion, a projected 6.2 percent decrease from 2006-07.

The Senate's 2007-08 gross cost projection varies from that of the Executive by 1.5 percent and equates to a \$24 million reduction in State costs. This variance is a function of differing caseload assumptions. The Senate is forecasting a larger decrease in families on assistance than the Executive, and even though this decrease is offset by an increase in the single adult population, the net result is a total caseload that is almost 2 percent lower than that of the Executive.

The Assembly's 2007-08 gross cost projection varies from that of the Executive by slightly more than 1 percent and equates to \$16 million in reduced State costs. This variance may be due to different assumptions related to caseload and the cost of supporting that caseload. The Assembly forecasts a more aggressive decrease in the number of families on assistance than is generated by the DOB econometric model.

SFY 2008-09 Estimated Public Assistance Caseload and Spending

	EXECUTIVE	ASSEMBLY	SENATE
CASELOAD	522,206	508,180	495,783
GROSS COST	\$2.022 billion	\$1.925 billion	\$1.931 billion
FINANCIAL PLAN IMPACT		(\$53 million)	(\$63 million)

The Executive 2008-09 forecast for the public assistance caseload is 522,206, a projected 1 percent decrease from its 2007-08 projection. Public assistance gross costs are estimated at \$2.022 billion, a less than 1 percent decrease from its 2007-08 projection.

The Senate Majority 2008-09 forecast for the public assistance caseload is 495,783, a projected 4.3 percent decrease from its 2007-08 projection. Public assistance gross costs are estimated at \$1.931 billion, a projected 3.6 percent decrease from its 2007-08 projection.

The Assembly Majority 2008-09 forecast for the public assistance caseload is 508,180, a projected 2.9 percent decrease from its 2007-08 caseload projection. Public assistance gross costs are estimated at \$1.925 billion, a projected 4.0 percent decrease from its 2007-08 projections.

The Senate's gross cost projection differs from the Executive by 4.5 percent (a \$63 million reduction in State costs) and is also a factor of differing caseload assumptions. The Senate's caseload is more than 5 percent lower than the Executive forecast. Once again, it assumes significant decreases in the number of families on public assistance, offset by an increase in the number of single adults. As with its 2007-08 caseload projections, the Senate's 2008-09 projections are based on the application of caseload growth patterns from the past three years.

The Assembly's 2008-09 gross cost projection is lower than the Executive projection by almost 5 percent, which equates to \$53 million in reduced costs to the financial plan. This disparity is a function of the difference in econometric models and economic factors used by the Executive and Assembly and the lower 2007-08 caseload and expenditure base used by the Assembly.

FISCAL OUTLOOK

It is generally agreed that this period of economic uncertainty has the potential to present challenges to State finances in 2008-09 and beyond.

DOB currently projects a current services budget gap of \$4.3 billion in 2008-09 and \$6.2 billion in 2009-10, absent gap-closing actions. These gap projections will be updated as more data becomes available on key trends and actual results with the release of the Executive Budget. Key data that will impact the forecast include the November 15 school aid database update, and revised economic and spending performance over the next several months.