

# *New York State*



## *2009 Joint Report* *On Receipts and Disbursements*

*November 13, 2009*

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



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## **QUICK START REPORT FOR 2009**

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, Assembly Majority and Senate Majority 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, 2009 when the Division of the Budget (DOB) issued its Mid-Year Financial Plan updating the State’s official financial projections for the 2009-10 through 2012-13 fiscal years. On November 5, 2009, DOB released a Methodology Report that describes the assumptions and models it uses in developing its economic, revenue and spending forecasts. The Mid-Year Financial Plan and the Methodology Report provide multi-year financial projections intended to assist discussions among the participants and the public.

In early November, the Senate Majority, Assembly Majority, Senate Minority, Assembly Minority, and State Comptroller submitted public “quick start” reports. The reports are available on the respective websites. On November 9, the Director of DOB and fiscal staff from the Senate Majority, Assembly Majority, Senate Minority, Assembly

Minority and Comptroller's Office met publicly to review and discuss their individual forecasts. Though there are some differences between the respective estimates, representatives of all parties agreed that the timing of the State's economic recovery remains uncertain.

## **JOINT 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.

The parties agree that the economic downturn has had an adverse impact on State finances. DOB projects a General Fund budget gap of \$3.2 billion in 2009-10 and \$6.8 billion in 2010-11 in the Mid-Year Financial Plan, absent gap-closing actions. The Governor will present a balanced Executive Budget to the Legislature for consideration on January 19, 2009.

### **Economic Context**

The Senate Majority, the Assembly Majority, and DOB all agree that the most severe economic recession since the 1930s is coming to an end. All parties estimate a decline of 2.5 percent in real U.S. GDP for 2009 (see Table 1) and agree that the nation is entering what is projected to be a relatively weak recovery; growth for 2010 ranges from 2.1 percent to 2.3 percent. All parties expect job declines to continue into the early stage of the recovery, resulting in declines ranging from 0.7 percent to 1.2 percent for nonfarm employment for 2010, following a decline of 3.8 percent for 2009. Consistent with this outlook, personal income growth is projected to range from 2.3 percent to 2.8 percent for 2010, with growth in its largest component, wages, ranging from 1.6 percent to 2.2 percent. These growth rates are well below the historical averages for these measures. Projected growth in U.S. corporate profits ranges from 8.7 percent to 12.9 percent for 2010, following three consecutive years of decline.

New York State employment is expected by all parties to continue to fall in 2010, though the pace of decline will be less than that of 2009 (see Table 2). Personal income growth ranging from 2.1 percent to 2.8 percent is projected for 2010, while growth ranging from 2.1 percent to 2.9 percent is projected for wages. As in the U.S. forecast, these growth rates are well below historical averages.

The parties generally agree that weakness in both the labor and credit markets represent the primary risks to the forecasts as both continue to put downward pressure on household spending. It was generally agreed that inflationary pressures stemming from volatile commodity prices and the unprecedented volume of liquidity pumped into financial markets by the world's central banks represent risks going forward. There are additional risks stemming from public and political pressure to restructure or curtail financial sector compensation. All of the risks related to the financial sector are compounded for New York due to their importance to the State economy.

**Table 1**  
**U.S. FORECAST**  
**ANNUAL CALENDAR YEAR**  
**Percent Change**

	<u>CY2008</u>	<u>CY2009</u>	<u>CY2010</u>	<u>CY2011</u>
<b>Real U.S. GDP</b>				
Assembly Majority	0.4	(2.5)	2.1	2.5
DOB	0.4	(2.5)	2.3	3.2
Senate Majority	0.4	(2.5)	2.1	2.9
<b>PERSONAL INCOME</b>				
Assembly Majority	2.9	(2.1)	2.3	3.9
DOB	2.9	(2.2)	2.5	4.8
Senate Majority	2.9	(2.1)	2.8	4.0
<b>WAGES</b>				
Assembly Majority	2.1	(4.5)	1.6	4.4
DOB	2.1	(4.5)	2.1	5.1
Senate Majority	2.1	(3.5)	2.2	4.2
<b>CORP PROFITS</b>				
Assembly Majority	(11.8)	(6.1)	12.9	6.2
DOB	(11.8)	(8.6)	9.3	7.7
Senate Majority	(11.8)	(5.9)	8.7	10.3
<b>NONFARM EMPLOYMENT</b>				
Assembly Majority	(0.4)	(3.8)	(1.2)	1.3
DOB	(0.4)	(3.8)	(0.7)	1.3
Senate Majority	(0.4)	(3.8)	(0.7)	1.9
<b>3-MONTH T-BILL RATE</b>				
Assembly Majority	1.4	0.2	0.2	1.3
DOB	1.4	0.2	1.1	3.0
Senate Majority	1.4	0.2	0.5	2.1

**Table 2**  
**N.Y. FORECAST**  
**ANNUAL CALENDAR YEAR**  
**Percent Change**

	<u>CY2008</u>	<u>CY2009</u>	<u>CY2010</u>	<u>CY2011</u>
<b>NONFARM EMPLOYMENT</b>				
Assembly Majority	0.7	(2.6)	(0.6)	0.7
DOB	0.7	(2.3)	(0.5)	0.6
Senate Majority	0.7	(2.0)	(0.4)	1.6
<b>PERSONAL INCOME</b>				
Assembly Majority	2.6	(2.7)	2.6	3.6
DOB	3.3	(2.8)	2.1	4.5
Senate Majority	3.3	0.3	2.8	4.2
<b>WAGES</b>				
Assembly Majority	2.0	(5.7)	2.9	4.0
DOB	2.0	(5.8)	2.1	4.0
Senate Majority	2.0	(0.7)	2.9	4.3

## Overall Receipts Projections

The analyses reflect a range of receipt projections for the remainder of 2009–10 and 2010-11.

### All Funds Mid Year Comparison 2009-10 (millions of dollars)

	Executive Mid Year Estimate	<u>Differences from Executive</u>	
		Senate Majority	Assembly Majority
Personal Income Taxes	35,030	(101)	(855)
User Taxes and Fees	13,946	131	(73)
Business Taxes	7,563	118	165
Other Taxes	1,346	(112)	1
MTA Payroll Tax	1,498	-	-
All Funds Total	59,383	36	(762)

### All Funds Mid Year Comparison 2010-11 (millions of dollars)

	Executive Mid Year Estimate	<u>Differences from Executive</u>	
		Senate Majority	Assembly Majority
Personal Income Taxes	37,968	323	442
User Taxes and Fees	14,631	141	65
Business Taxes	7,782	23	422
Other Taxes	1,397	(88)	93
MTA Payroll Tax	1,568	-	-
All Funds Total	63,346	399	1,022

### All Funds Mid Year Comparison 2009-10 and 2010-11 Two Year Total (millions of dollars)

	Executive Mid Year Estimate	<u>Differences from Executive</u>	
		Senate Majority	Assembly Majority
Personal Income Taxes	72,998	222	(413)
User Taxes and Fees	28,577	272	(8)
Business Taxes	15,345	141	587
Other Taxes	2,743	(200)	94
MTA Payroll Tax	3,066	-	-
All Funds Total	122,729	435	260



The recession is expected to continue to have a significant impact on revenues during the remainder 2009-10 and into the beginning of 2010-11. Overall tax collections for the first half of 2009-10 were weak and below plan estimates despite the temporary personal income tax rate increase imposed on high income taxpayers as part of the 2009-10 Enacted Budget. The impact of a return to positive personal and business income growth and improved consumer spending in 2010-11 should translate into positive revenue growth for the year as a whole.

The revenue outlook for the current and upcoming fiscal year remains dependent on a number of global, national, and statewide economic factors that could pose risks to the forecasts:

- A significant downside risk remains to the projected timing and strength of New York's coming economic recovery, given the historically unprecedented decline in wages witnessed during the current recession, particularly within the State's high-wage economic sectors.
- Actions taken by the Federal government to alleviate the faltering banking industry and credit markets could be less effective than intended, and take longer to achieve their desired objectives.
- Taxable sales could be driven down further by continued weakness in household spending.
- The temporary PIT rate increases on high-income taxpayers represent a substantial portion of estimated tax receipts and could produce less revenue than anticipated. Given the uncertainty surrounding taxpayer behavior following a law change and the extreme volatility in the sources of income among the State's high-income taxpayers, these estimates are subject to substantial future revisions.
- The relationship between economic activity and revenue collections varies over time, especially at business cycle turning points. Due to the payment lags that are built into many revenue statutes, tax collections can lag many years behind when the liability was incurred. Finally, the public's desire to cap executive compensation in the finance industry adds an additional layer of risk to these estimates.

## 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 2008-09 through 2011-12 as prepared by DOB in the Mid-Year Financial Plan:

DOB MID-YEAR SPENDING FORECAST (millions of dollars)				
	2008-09 Actuals	2009-10 Mid-Year Estimate	2010-11 Current Services Projection	2011-12 Current Services Projection
<b>State Operating Funds</b>	\$78,168 1.5%	\$79,970 2.3%	\$85,861 7.4%	\$95,855 11.6%
<b>General Fund (with transfers)</b>	\$54,607 2.3%	\$54,610 0.0%	\$60,296 10.4%	\$69,706 15.6%
<b>State Funds</b>	\$83,146 2.2%	\$85,505 2.8%	\$92,257 7.9%	\$102,115 10.7%
<b>All Funds</b>	\$121,571 4.8%	\$133,185 9.6%	\$140,890 5.8%	\$145,761 3.5%

\* Current services forecast before actions that may be needed to balance the 2009-10 Budget.

The spending forecast does not reflect potential collective bargaining agreements and other costs that have the potential to increase projected disbursements in 2009-10 and beyond. However, a reserve 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 Medical Assistance Reporting System (MARS) reports. Monthly MARS category of service data is incorporated into mathematical models that are used to predict 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 Medicaid forecast uses regression techniques, incorporating historical trends and seasonal factors. The model forecast is adjusted to be consistent with the most recent Medicaid spending trends, current and projected economic conditions, and also reflects any statutory changes that may not be captured by regression techniques and any offline payments or adjustments that are not picked up by the Medicaid claims payment system (eMedNY) operated under the oversight of the Department of Health.

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.

Below is a summary of the Medicaid State funds spending projections included in the respective "quick start" reports issued by the Executive and Legislature.

### ***SFY 2008-09 Medicaid Actual Spending***

The 2008-09 Medicaid State funds spending totaled \$12.7 billion, an increase of 2.4 percent from 2007-08. The 2008-09 spending breakdown by health care service category was hospitals/clinics (\$2.7 billion); nursing homes (\$3.0 billion); managed care (\$1.7 billion); home care (\$2.3 billion); non-institutional/other (\$0.8 billion); pharmacy (\$1.4 billion); and Family Health Plus (\$0.8 billion). The State also received \$1.1 billion in Federal aid for Medicaid spending as a result of the American Recovery and Reinvestment Act (ARRA).

### ***SFY 2009-10 Medicaid Spending Forecast***

In 2009-10, DOB projects Medicaid spending of \$6.2 billion on a General Fund basis, \$13.8 billion on State Funds basis, and \$37.4 billion on an All Funds basis.

The Assembly Majority and Senate Majority similarly estimate that Medicaid expenditures in 2009-10 will total approximately \$13.8 billion on a State Funds basis, which is consistent with the DOB projection.

This projected spending forecast reflects an increase over actual 2008-09 State Funds spending of approximately 9 percent.

### ***SFY 2010-11 Medicaid Spending Forecast***

In 2010-11, DOB projects Medicaid spending of \$8.6 billion on a General Fund basis, \$15.6 billion on a State Funds basis, and \$40.0 billion on an All Funds basis.

The Assembly Majority estimates that Medicaid spending in 2010-11 will total \$15.0 billion on a State Funds basis, which is lower than the DOB projection by \$609 million (3.9 percent).

The Senate Majority estimates that State Medicaid baseline spending in 2010-11 will total \$15.5 billion, which is lower than the DOB projection by \$100 million (0.6 percent).

All of the forecasts assume that spending will increase substantially from the projected 2009-10 levels, with estimated State Funds increases of 12.8 percent (Executive) and 8.6 percent (Assembly), and 11.9 percent (Senate).

### **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 2010-11 School Year is not yet available, estimating School Aid for 2010-11 presents significant challenges. DOB estimates are based upon the most recently reported data from SED. 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 summary 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 2010-11 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:

<b>2010-11</b>	<b>EXECUTIVE</b>	<b>ASSEMBLY</b>	<b>SENATE</b>
<b>Foundation Aid Increase (School Year)</b>	\$0	\$0	\$0
<b>Expense-Based Aids Increase (School Year)</b>	\$490 million	\$451 million	\$491 million

The Executive, Senate, and Assembly recognize the statutory change made in 2009 that freezes the Foundation Aid formula for a two-year period. Variances between Expense-Based Aids (i.e., Transportation Aid, BOCES, Private Excess Cost Aid, High Cost Aid and Building Aid) are due to differing assumptions of annual growth based on the time periods assessed.

### **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. 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.

#### ***SFY 2008-09 Public Assistance Caseload and Spending***

The 2008-09 public assistance caseload was 510,521, with associated gross costs (Federal/State/local) of \$2.3 billion. While the actual caseload decreased by 2.5 percent, the gross costs increased by 3.3 percent, over 2007-08.

#### ***SFY 2009-10 Estimated Public Assistance Caseload and Spending***

The Executive 2009-10 forecast for the public assistance caseload is 527,792, a projected 3.4 percent increase from 2008-09. Public assistance gross costs are estimated at \$2.4 billion, a projected 3.7 percent increase from 2008-09.

The Senate 2009-10 forecast for the public assistance caseload is 529,069, a 3.6 percent increase from 2008-09. Public assistance gross costs are estimated at \$2.4 billion.

The Assembly 2009-10 forecast for the public assistance caseload is 529,730, a projected 3.8 percent increase from 2008-09. However, public assistance gross costs are estimated at \$2.4 billion, a projected 5.3 percent increase from their reported 2008-09 actual.

The Assembly's 2009-10 gross cost projection varies from that of the Executive by 0.5 percent. This variance may be due to different assumptions related to caseload and the cost of supporting that caseload.

### ***SFY 2010-11 Estimated Public Assistance Caseload and Spending***

The Executive 2010-11 forecast for the public assistance caseload is 541,279, a projected 2.6 percent increase from its 2009-10 projection. Public assistance gross costs are estimated at \$2.5 billion, a 2.9 percent increase from its 2009-10 projection.

The Senate 2010-11 forecast for the public assistance caseload is 544,728, a projected increase of 3.0 percent from its 2009-10 estimate. Public assistance gross costs are estimated at \$2.5 billion, a projected increase of 3.0 percent from its 2009-10 projections.

The Assembly 2010-11 forecast for the public assistance caseload is 540,969, a projected 2.1 percent increase from its 2009-10 caseload projection. Public assistance gross costs are estimated at \$2.5 billion, a projected 2.5 percent increase from its 2009-10 projections.

The Assembly's 2010-11 gross cost projection is lower than the Executive projection by approximately \$16 million (0.6 percent).

### **FISCAL OUTLOOK**

Currently, DOB projects a current services budget gap of \$3.2 billion in 2009-10 and \$6.8 billion in 2010-11, 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, the results of the November special session, and revised economic and spending performance over the next several months.