



# **Report on Estimated Receipts and Disbursements**

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*State Fiscal Years 2007-08 through 2009-10*

November 5, 2007

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State Comptroller

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# **Executive Summary**

## ***“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 staff of the Governor, the Legislature and the Comptroller to separately prepare reports detailing receipts 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 not be 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 disbursements estimates are based must be included, as well.

By November 15, the Governor, Senate and Assembly are directed to 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.

Chapter 1 also requires a public meeting on or before November 15 of the staff of the Governor, the Senate, the Assembly and the Comptroller to jointly review financial information, including the economic outlook, receipts forecasts, projected disbursements, and the impact of relevant State and federal statutory provisions on the State’s Financial Plan 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 accelerate the budget process. In addition to other information, this data was used to determine receipts and disbursements trends, which were considered in calculating the Office of the State Comptroller’s estimates.

The table below summarizes the Office of the State Comptroller’s estimates compared to the Division of the Budget (DOB) estimates of receipts and disbursements contained in the Mid-Year Financial Plan Update. While the variance between each of these estimates are minimal in the context of the overall scope of the Financial Plan, it is important to note that the State is midway through the fiscal year, and, as evidenced by

the significant Financial Plan revisions by DOB, these figures are subject to change before the end of the fiscal year. As a result, ongoing monitoring and disclosure of receipts and disbursements variances is critical to ensure that all parties are aware of such changes in order to allow for a productive budget process. This is particularly true where State Fiscal Year (SFY) 2007-08 budget balancing actions, such as Medicaid cost containment and tax loophole closure efforts, are still being implemented.

Pursuant to 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 2007-08 through SFY 2009-10** (millions of dollars)

	<b>2007-08</b>	<b>2008-09</b>	<b>2009-10</b>
<b>Receipts</b>			
Office of the State Comptroller	117,512	122,469	126,565
Division of the Budget	117,279	122,350	126,449
Difference	233	119	116
<b>Disbursements</b>			
Office of the State Comptroller	118,826	128,010	134,139
Division of the Budget	118,603	127,480	133,875
Difference	223	530	264

## Economic Overview

With the ongoing instability in the credit markets, the continued decline in housing and the associated impact on the financial markets, as well as the cost of oil at over \$90 per barrel, the outlook for the national economy has softened over the past year.

In February 2007, the Blue Chip Economic Indicators consensus forecast for real Gross Domestic Product (GDP) expected growth of 2.7 percent in 2007 and 3.0 percent in 2008. By July, when DOB's First Quarterly Update was released, the real GDP forecast was lowered to 2.1 percent and 2.9 percent, respectively. The current consensus forecast (October 2007) now has real GDP growing by only 2.0 percent in 2007 and 2.4 percent in 2008.

While none of the major national economic forecasters are predicting a recession, growth in the fourth quarter of 2007 and the first half of 2008 is expected to slow. For example, Global Insight expects real GDP growth to slow during the current and next two quarters to 1.5 percent, 1.2 percent and 1.9 percent, respectively, after growing by over 3 percent in the second quarter and by 3.9 percent in the third quarter of 2007.

Consistent with the national economy, New York's economy is expected to continue to grow at a slower pace. The economic slowdown is expected to impact New York adversely because the financial sector is such a large part of the State's revenue collections. In fact, the financial sector accounts for approximately 20 percent of the State's revenues.

With the uncertainty in the markets, a number of risks to the forecast exist which could negatively impact the State's Financial Plan. For example, a further decline in the housing market, which has already reduced growth, could push the economy into a recession.

Higher energy prices could increase inflationary pressures, and higher inflation would likely cause the Federal Reserve to delay reducing interest rates or possibly to increase rate targets. This could weaken corporate profits and further delay the housing market recovery. However, if energy prices decline and the housing market rebounds faster than expected, then the economy could grow faster than expected.

# Receipts

## *Overview*

This report includes a forecast for tax receipts for State Fiscal Years (SFYs) 2007-08 through 2009-10. This three-year forecast is consistent with an economic forecast for slower, but moderate growth at both the national and State levels. After growing by close to 10 percent in both SFYs 2005-06 and 2006-07, growth in tax receipts is expected to slow to 4.6 percent in SFY 2007-08, 5.2 percent in SFY 2008-09 and 5.5 percent in SFY 2009-10.

### **Personal Income Tax**

Personal income tax receipts in SFY 2007-08 are now forecast to grow by \$2.3 billion over the prior year, or 6.6 percent. While this rate of growth is substantially slower than in the prior two years when receipts grew by 12.2 percent and 8.6 percent, respectively, it is closer to the historical growth rate for the tax. The slower growth reflects lower wage growth, especially in the financial sector where bonuses could decline by up to 10 percent this year, after increasing by approximately 18 percent in 2006.

For both SFYs 2008-09 and 2009-10, receipts are expected to increase at a rate similar to SFY 2007-08, at 6.6 percent and 6.7 percent, respectively. These rates reflect the continued moderate growth in the economy and wage growth offset by slower growth in capital gains.

### **User Taxes and Fees**

Consumption tax receipts are forecast to grow by a moderate 3.5 percent in SFY 2007-08. The main factor attributing to the growth in the current fiscal year is the 4.4 percent growth in sales tax receipts, which is offset somewhat by a 1.6 percent decline in cigarette tax collections.

Growth in consumption tax receipts is expected to average 3.3 percent for the remainder of the forecast period. Moderate wage and employment growth are factors affecting consumption tax receipts. In addition, modest growth in retail sales, a slowdown in housing related spending and the impact of energy prices will restrain growth in out-year receipts.

### **Business Taxes**

After rising dramatically in SFYs 2005-06 (22.1 percent) and 2006-07 (21.4 percent), business tax receipts are expected to grow by a small amount in SFY 2007-08 (0.57 percent). The slower growth is mainly attributed to lower corporate profits. From 2003 through 2006, after-tax corporate profits grew by an annual average rate of 24 percent.

According to Global Insight's October 2007 report, corporate profits are expected to grow by only 3.3 percent in 2007.

Growth in business tax receipts is expected to average 2.6 percent for the remainder of the forecast period. Moderate growth in corporate profits will be the main factor driving business tax receipts. In addition, energy prices are expected to remain high, curtailing growth in corporate utilities taxes and petroleum business taxes.

### **Other Taxes**

Other tax receipts are expected to decline slightly in SFY 2007-08, by 2.7 percent, due to lower than expected estate tax collections and a small decline in the real estate transfer tax.

Growth in other tax receipts is expected to average 6.5 percent for the remainder of the forecast period. However, if the housing market decline lasts longer than expected, the real estate transfer tax could be much lower.

### **General Fund Miscellaneous Receipts and Lottery Receipts**

General Fund miscellaneous receipts are estimated to increase 7.8 percent in SFY 2007-08. This increase includes a one-time increase in New York State Power Authority payments, as well as increases in indirect costs and short-term investment income.

In SFY 2008-09, miscellaneous receipts are expected to decline 16 percent, mainly because of the non-recurring resources or one-shots received in SFY 2007-08. For SFY 2009-10, miscellaneous receipts are expected to increase 5.4 percent, in part reflecting the results from the intercept of Monroe County sales tax revenue related to the Medicaid cap. This intercept will be offset by increased spending.

Lottery is expected to increase by 15.4 percent in SFY 2007-08 and by an average of 7.4 percent for the remainder of the forecast period.

Video lottery terminal (VLT) receipts are projected to increase by \$288 million in SFY 2007-08, or 178.3 percent, as a result of the opening of the Yonkers racino and the increase in the number of VLT machines at other selected racinos. VLT receipts are expected to increase by an average of 16.8 percent over the remainder of the forecast period, mainly due to planned expansions and increased player participation.



# Disbursements

## Overview

This report includes a forecast for disbursements for SFYs 2007-08 through 2009-10. These estimates rely on a variety of data sources, including ten years of receipts and disbursements data from the Office of the State Comptroller's Central Accounting System (CAS) and information from State agencies, including the State Education Department, DOB, the Department of Health (DOH), the Department of Taxation and Finance, and the Office of Temporary Disability Assistance. DOB disbursement estimates are shown for comparison purposes for school aid, Medicaid and public assistance. All projections shown are as compared to the prior fiscal year.

For SFY 2007-08, the Office of the State Comptroller projects All Funds school aid, Medicaid and public assistance spending to increase \$1.3 billion, or 2.3 percent, to \$57.4 billion. All other spending will total \$61.4 billion, an increase of \$4.8 billion, or 8.5 percent.

In SFY 2008-09, the Office of the State Comptroller estimates school aid, Medicaid and public assistance will total \$62.1 billion, representing a \$4.7 billion increase, or 8.2 percent. The Office of the State Comptroller projects all other spending will increase \$4.5 billion, or 7.3 percent, to \$65.9 billion.

In SFY 2009-10, the Office of the State Comptroller estimates school aid, Medicaid and public assistance spending will total \$66.6 billion, an increase of \$4.5 billion, or 7.3 percent. During this period, all other spending will increase \$1.6 billion, or 2.5 percent, to \$67.5 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 newly implemented Foundation Aid Program consolidated 30 traditional school aid formulas and comprises the majority of total school aid funding. Using the Foundation Aid structure, the Financial Plan assumes a significant increase in school aid funding phased in over a four-year period, with full implementation occurring by school year 2010-11. In SFY 2007-08, the Enacted Budget also provided considerable increases in funding to Building Aid and Transportation Aid.

For SFY 2007-08, DOB estimates All Funds school aid spending will total \$21.8 billion, an increase of \$1.7 billion, or 8.7 percent. DOB estimates school aid funding will total \$23.3 billion in SFY 2008-09, an increase of \$1.5 billion, or 6.8 percent, and \$25.2 billion in SFY 2009-10, an increase of \$1.9 billion, or 8.3 percent.

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 could not consider updated school aid funding data, since such data will not be available until November 15. Given the current data, the Office of the State Comptroller concurs with DOB's school aid projection for SFY 2007-08.

Based on an analysis of historical spending trends, combined with increases in the SFY 2007-08 Enacted Budget, the Office of the State Comptroller estimates that school aid will increase to \$23.5 billion in SFY 2008-09, an increase of \$1.7 billion, or 7.6 percent.

For SFY 2009-10, the Office of the State Comptroller projects that school aid will total \$25.3 billion, an increase of \$1.8 billion, or 7.7 percent.

### **Medicaid**

For SFY 2007-08, DOB estimates All Funds Medicaid spending administered by DOH will total \$31.8 billion, a decrease of \$1.3 billion, or 4.0 percent. DOB attributes this decrease to several factors, including an unusual reduction in Medicaid caseload, lower spending associated with delays in federal approval for several new initiatives, lower than expected spending for Medicare Part D coverage and clawback payments, and additional savings related to anti-fraud activities.

DOB forecasts that this lower level of disbursements will not be maintained in future years, and projects Medicaid costs to total \$34.8 billion in SFY 2008-09, an increase of \$3.0 billion, or 9.3 percent, and \$37.6 billion for SFY 2009-10, an increase of \$2.9 billion, or 8.2 percent.

The Office of the State Comptroller used historical trends derived from data maintained by DOH, DOB and the CAS to estimate Medicaid spending for SFY 2007-08 and the ensuing two fiscal years. Based on actual payments through September 2007 and an analysis of historical spending trends, the Office of the State Comptroller estimates that Medicaid spending for SFY 2007-08 will total \$32.0 billion, a decrease of \$1.1 billion, or 3.4 percent. It is important to note, however, that in previous years significant spending shifts have taken place between fiscal years.

For SFY 2008-09, the Office of the State Comptroller estimates a return to more historical spending trends with Medicaid spending projected to total \$35.0 billion, an increase of \$3.0 billion, or 9.4 percent.

For SFY 2009-10, the Office of the State Comptroller estimates Medicaid spending to total \$37.6 billion, an increase of \$2.6 billion, or 7.5 percent.

## Public Assistance

For SFY 2007-08, DOB estimates that public assistance will total \$3.6 billion, an increase of \$171 million, or 5.0 percent. This includes \$81 million related to the *Doe vs. Doar* lawsuit, of which \$57 million is a non-recurring expense.<sup>1</sup> In SFY 2008-09, DOB projects that public assistance spending will decline slightly by \$51 million, or 1.4 percent, to \$3.5 billion. For SFY 2009-2010, DOB estimates that spending will remain level at \$3.5 billion.

Using historical trends, caseload data and budget information, the Office of the State Comptroller estimates that in SFY 2007-08 spending for public assistance will be \$8 million higher than DOB's estimate, and will total \$3.6 billion.

In SFY 2008-09, the Office of the State Comptroller projects public assistance spending will total \$3.6 billion, an increase of \$48 million, or 1.3 percent. Finally, for SFY 2009-10 the Office of the State Comptroller estimates that spending for public assistance will total \$3.7 billion, an increase of \$60 million, or 1.7 percent.

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<sup>1</sup> *Mary Doe, &c., et al., Respondents, v. Robert Doar, &c., Appellant.* 6 N.Y.3d 891; 850 N.E.2d 672; 817 N.Y.S.2d 625; 2006 N.Y. LEXIS 132.

## Risks

As previously stated in the Economic Overview, a forecast is based on a number of assumptions that may change over time. Unforeseen events which negatively affect the economy will have corresponding negative effects on the State's tax receipts and could have a significant impact on disbursements.

Furthermore, as noted in the Office of the State Comptroller's report, *The Securities Industry in New York City* issued on October 30, 2007, personal and business tax collections from the securities industry account for up to 20 percent of New York State tax revenues. Consequently, the State's Financial Plan will be adversely affected by any slowdown in Wall Street activity.

Risks to the Financial Plan also include unanticipated events that may require additional spending, as well as anticipated revenue that may not materialize, including New York State Power Authority payments. While the estimates contained in this report are reasonable, certain less reliable factors exist, such as federal reimbursements, which have the potential to create significant variances. Medicaid spending projections have been subject to significant revisions in the Financial Plan in SFY 2007-08, and the assumptions that underlie such projections also pose a risk.

The State's reliance on debt and non-recurring resources to address budget imbalances also represents an inherent risk. Over the past five years, the State has relied on nearly \$19 billion in non-recurring resources and one-shots to pay for recurring expenses. Through March 31, 2007 over 22 percent, or \$11.5 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, by SFY 2009-10, debt service will be one of the fastest growing categories of expenditures, increasing at roughly one-half billion dollars annually.

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 years with All Funds spending expected to reach \$140 billion by SFY 2010-11. The Office of the State Comptroller projections indicate that this structural imbalance is worsening.

Spending growth is dominated by growth in Medicaid and aid to local school districts, which by SFY 2010-11 will reach almost 50 percent of All Funds spending, 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 have to be significantly higher than currently forecast to accommodate these anticipated higher spending needs.

## OSC Estimates for Receipts and Disbursements

### All Funds State Fiscal Year 2007-08

(in millions of dollars)

	<u>OSC</u>	<u>DOB</u>	<u>Difference</u>
<i>Receipts</i>			
Personal Income Tax	36,845	36,570	275
User Taxes and Fees	13,923	13,907	16
Business Taxes	8,655	8,652	3
Other Taxes	2,040	2,076	(36)
General Fund Miscellaneous Receipts	2,444	2,444	-
Lottery	2,515	2,540	(25)
<b>Subtotal</b>	<b>66,422</b>	<b>66,189</b>	<b>233</b>
Other Miscellaneous Receipts	15,074	15,074	-
Federal Funds	36,016	36,016	-
<b>Total Receipts</b>	<b>117,512</b>	<b>117,279</b>	<b>233</b>
<i>Disbursements</i>			
Elementary and Secondary Education	21,840	21,840	-
Medicaid	32,004	31,804	200
Public Assistance	3,575	3,567	8
<b>Subtotal</b>	<b>57,419</b>	<b>57,211</b>	<b>208</b>
All Other	61,407	61,392	15
<b>Total Disbursements</b>	<b>118,826</b>	<b>118,603</b>	<b>223</b>

## OSC Estimates for Receipts and Disbursements

### All Funds State Fiscal Year 2008-09

(in millions of dollars)

	<u>OSC</u>	<u>DOB</u>	<u>Difference</u>
<i>Receipts</i>			
Personal Income Tax	39,289	39,064	225
User Taxes and Fees	14,369	14,369	-
Business Taxes	8,857	8,881	(24)
Other Taxes	2,131	2,186	(55)
General Fund Miscellaneous Receipts	2,052	2,052	-
Lottery	2,664	2,691	(27)
<b>Subtotal</b>	<b>69,362</b>	<b>69,243</b>	<b>119</b>
Other Miscellaneous Receipts	15,272	15,272	-
Federal Funds	37,835	37,835	-
<b>Total Receipts</b>	<b>122,469</b>	<b>122,350</b>	<b>119</b>
<i>Disbursements</i>			
Elementary and Secondary Education	23,493	23,315	178
Medicaid	35,008	34,773	235
Public Assistance	3,623	3,516	107
<b>Subtotal</b>	<b>62,124</b>	<b>61,604</b>	<b>520</b>
All Other	65,886	65,876	10
<b>Total Disbursements</b>	<b>128,010</b>	<b>127,480</b>	<b>530</b>

## OSC Estimates for Receipts and Disbursements

### All Funds State Fiscal Year 2009-10

(in millions of dollars)

	<u>OSC</u>	<u>DOB</u>	<u>Difference</u>
<i>Receipts</i>			
Personal Income Tax	41,909	41,734	175
User Taxes and Fees	14,853	14,849	4
Business Taxes	9,112	9,112	-
Other Taxes	2,312	2,342	(30)
General Fund Miscellaneous Receipts	2,163	2,163	-
Lottery	2,900	2,933	(33)
<b>Subtotal</b>	<b>73,249</b>	<b>73,133</b>	<b>116</b>
Other Miscellaneous Receipts	14,807	14,807	-
Federal Funds	38,509	38,509	-
<b>Total Receipts</b>	<b>126,565</b>	<b>126,449</b>	<b>116</b>
<i>Disbursements</i>			
Elementary and Secondary Education	25,313	25,245	68
Medicaid	37,641	37,628	13
Public Assistance	3,683	3,519	164
<b>Subtotal</b>	<b>66,637</b>	<b>66,392</b>	<b>245</b>
All Other	67,502	67,483	19
<b>Total Disbursements</b>	<b>134,139</b>	<b>133,875</b>	<b>264</b>