



Report on Estimated Receipts and Disbursements

State Fiscal Years 2011-12 through 2013-14

November 2011

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Introduction

This Report on Estimated Receipts and Disbursements for State Fiscal Year (SFY) 2011-12 through SFY 2013-14, 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.

While the national economy improved in the third quarter of 2011, growth is expected to remain weak. IHS Global Insight expects that the GDP will slow to an annualized rate of 1.0 percent in the fourth quarter of 2011, bringing annual GDP growth for all of 2011 to 1.7 percent. IHS Global Insight then expects GDP growth to slow to 1.4 percent in 2012 before strengthening in 2013. In New York State, the economy is projected to grow by 3.9 percent in 2011 according to IHS Global Insight. The continuing escalation of the euro zone debt crisis which has now spread from Greece to Italy increases the level of uncertainty in the financial markets and the general economy. The financial markets are a major component of the State's economy and a renewed downturn in this industry could have an adverse affect on New York State. A broader slowdown in the national economy would also negatively impact New York.

These factors weigh on the revenue prospects for New York State for the remainder of the current fiscal year, as well as the next two fiscal years. While growth in State tax revenue compared to the same period last year has been relatively strong, much of the growth reflects robust estimated tax settlements on 2010 earnings, and does not necessarily reflect current economic conditions. Withholding taxes on current year wages – which account for over 50 percent of total tax collections – are up only 2.9 percent.

Collections over the remainder of the year will be negatively impacted by several tax law changes, including the loss of the Personal Income Tax surcharge on high income earners and the partial restoration of the sales tax exemption on clothing items. In the last quarter of the current State fiscal year, for example, withholding collections are expected to be reduced by more than \$1.0 billion because of the tax law changes. In addition, several variables, including the very volatile and uncertain euro zone debt crisis, a gridlocked domestic political environment, high unemployment, and the struggling housing market, increases the difficulty of forecasting State tax collections. Close monitoring is critical to ensure that actual results comport with projections.

Recent State Budgets, in addition to being late, were plagued by overly optimistic estimates on the revenue side, unrealistic savings targets on the spending side, and excessive reliance on temporary and non-recurring revenues. Consequently, budgets fell out of alignment soon after enactment, and projected out-year deficits ballooned. While numerous challenges persist, the enacted SFY 2011-12 State Budget began to align recurring revenues and disbursements more successfully. The Enacted Budget's savings targets were aggressive, but the budget included administrative mechanisms to achieve those targets. The Enacted Budget was also significantly less reliant than in recent years on temporary and non-recurring revenues, and substantially reduced projected out-year budget gaps.

However, fiscal pressure – particularly on the revenue side – will make it challenging for the State to stay on track with the Financial Plan for the remainder of the fiscal year, and risks remain. In SFY 2011-12, the Executive and the Legislature made progress in moving the State towards a sound fiscal future. However, achieving structural balance will require an ongoing commitment to responsible budgeting. Comptroller DiNapoli has recommended 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 forecast; 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.¹

Background: “Quick Start” Financial Information Review Process

In order to facilitate the timely adoption of the State Budget, Chapter 1 of the Laws of 2007 revised the existing “Quick Start” budget process to require the staffs of the Executive, the Senate, the Assembly, and the Comptroller to prepare separate reports detailing receipt and disbursement estimates for the current and ensuing fiscal years.

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 of the staffs of the Executive, the Senate, the Assembly and the Comptroller to be held on or before November 15th 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 reflect the flow of revenues 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.

¹ See Comptroller DiNapoli’s *Strategy for Fiscal Reform*, released in March 2010.

The following tables summarize the Office of the State Comptroller's estimates compared to the estimates of the Division of the Budget (DOB) for receipts and disbursements as contained in the SFY 2011-12 First Quarter Financial Plan Update.² The Office of the State Comptroller's estimates for All Funds receipts and disbursements are based on current law, which provides for caps on growth in Medicaid and school aid spending. Because the statutory cap on Medicaid disbursements applies to disbursements from State Operating Funds, estimates for State Operating Funds are also provided.

**Estimates for Receipts and Disbursements
All Funds SFY 2011-12 through SFY 2013-14**
(in millions of dollars)

	<u>Actual 2010-11</u>	<u>Projected 2011-12</u>	<u>Growth</u>	<u>Projected 2012-13</u>	<u>Growth</u>	<u>Projected 2013-14</u>	<u>Growth</u>
Receipts							
Office of the State Comptroller	133,321	131,474	-1.4%	129,222	-1.7%	134,361	4.0%
Division of the Budget	133,321	131,688	-1.2%	129,768	-1.5%	134,859	3.9%
Difference	-	(214)		(546)		(498)	
Disbursements							
Office of the State Comptroller	132,765	131,795	-0.7%	132,081	0.2%	137,324	4.0%
Division of the Budget	132,765	131,698	-0.8%	131,999	0.2%	137,249	4.0%
Difference	-	97		82		75	

**Estimates for Receipts and Disbursements
State Operating Funds SFY 2011-12 through SFY 2013-14**
(in millions of dollars)

	<u>Actual 2010-11</u>	<u>Projected 2011-12</u>	<u>Growth</u>	<u>Projected 2012-13</u>	<u>Growth</u>	<u>Projected 2013-14</u>	<u>Growth</u>
Receipts							
Office of the State Comptroller	78,792	82,775	5.1%	84,486	2.1%	87,780	3.9%
Division of the Budget	78,792	83,014	5.4%	85,027	2.4%	88,274	3.8%
Difference	-	(239)		(541)		(494)	
Disbursements							
Office of the State Comptroller	82,357	86,952	5.6%	90,962	4.6%	94,299	3.7%
Division of the Budget	82,357	86,879	5.5%	90,900	4.6%	94,242	3.7%
Difference	-	73		62		57	

See the Appendix for more detailed estimates for All Funds and State Operating Funds.

² To address cash flow issues in the fourth quarter of SFY 2009-10, the Division of the Budget delayed \$500 million of Personal Income Tax refunds and \$2.06 billion in school aid payments from the last quarter of SFY 2009-10 to the first quarter of SFY 2010-11, thus artificially increasing Personal Income Tax receipts in SFY 2009-10 and artificially decreasing school aid for the same year. As such, Personal Income Tax receipts appeared artificially low and school aid appeared artificially high in SFY 2010-11. The disbursements figures shown are adjusted for these actions.

Economic Outlook

National Economy

While the national economy improved in the third quarter of 2011, growth is expected to remain weak. The real Gross Domestic Product (GDP) grew at an annualized rate of 2.5 percent in the third quarter of 2011, up from 0.4 percent and 1.3 percent in the first and the second quarters of 2011, respectively. Increases in consumer and business spending more than offset reductions in inventory investment and state and local government spending. Nevertheless, IHS Global Insight expects that the GDP will slow to an annualized rate of 1.0 percent in the fourth quarter of 2011, bringing annual GDP growth for all of 2011 to 1.7 percent. IHS Global Insight then expects GDP growth to slow to 1.4 percent in 2012 before strengthening in 2013.

Consumer spending increased by 2.4 percent in the third quarter of 2011, but is expected to remain weak for the year. Consumption is expected to slow further as a result of limited job and income gains, a low level of consumer confidence and high household indebtedness. IHS Global Insight forecasts consumption expenditures to increase by a net of 1.9 percent in 2011 and 1.8 percent in 2012, down from 2.1 percent in 2010.

Businesses continue to spend, rebounding from the slowdown caused by supply disruptions from the tsunami and nuclear disaster in Japan earlier this year. Investments in office buildings and plants experienced growth of more than 10 percent in each of the second and third quarters of 2011. Software and equipment investment in the third quarter also grew by the fastest rate in more than a year. Business investment is projected to grow by 8.7 percent in 2011, which would be the fastest growth in 11 years as business spending continues to rebound from the recession and natural disasters. After this surge, spending is expected to slow to 4.3 percent in 2012.

Despite high profits, businesses have not yet stepped up hiring, as consumer demand remains weak. Since the recession ended, the nation has added 2.6 million private sector jobs (an increase of 2.4 percent), recovering less than one-third of the jobs lost in the recession. Employment gains have slowed in the third quarter of 2011, with just over 350,000 private sector jobs created, compared to 574,000 jobs in the first quarter of 2011. IHS Global Insight expects private employment to grow by 1.5 percent in 2011 – the fastest growth in five years – and then to slow to 1.0 percent in 2012. The national unemployment rate is expected to remain above 9.0 percent through 2013, not far below the peak of 9.6 percent in 2010.

Home sales and prices remain well below the peak levels before the recession, depressed by weak labor markets, high rates of foreclosure filings and delinquencies, and a tight credit market. IHS Global Insight expects median home prices to decline by 2.6 percent in 2011 before stabilizing in 2012.

New York State Economy

According to IHS Global Insight, New York State's economy is projected to grow by 3.9 percent in 2011. Financial markets – in the nation and overseas – have slumped in recent months, which is expected to affect New York State's economy adversely. IHS Global Insight expects the Gross State Product (GSP) to grow by 1.0 percent in 2012 and 1.9 percent in 2013. Both rates are lower than expected growth in national GDP for those years.

New York continues to create jobs, but the gains have recently slowed. Since the job recovery began in January 2010, the State has gained 184,100 private sector jobs (a 2.6 percent increase) while government jobs have declined by 22,600 (a 1.5 percent decrease). Private sector job gains have been concentrated in education and health care, professional and business services, and leisure and hospitality. In the third quarter of 2011, private sector job gains in the State slowed, increasing by 6,900, compared to 55,200 in the previous quarter. Employment slowed especially in high-income sectors. For example, professional and business services employment declined by 7,700 jobs. IHS Global Insight expects that private sector employment in the State will grow by 1.3 percent in all of 2011 and by the same amount in 2012.

Despite the increases in private sector employment, the unemployment rate in New York continues to be high (8.0 percent in September 2011), although below the peak at the end of 2009 (8.9 percent). The unemployment rate is not expected to dip below 7.0 percent until 2015.

Total wages grew by 4.4 percent in 2010, driven by gains in the securities industry. The recent downturns on Wall Street and in other financial industries are expected to limit total wage gains to 4.1 percent in 2011 and 3.5 percent in 2012.

The housing market in New York has held up better than the national market. In the first six months of 2011, there were 1.9 foreclosures per 1,000 households in New York compared to 9 foreclosures per 1,000 households in the United States. However, the foreclosure problem in New York, while less severe than in the nation, will take a long time to work through and will continue to put downward pressure on prices. In 2010, the sales volume for existing homes in the State declined by 3.3 percent while the median price for existing homes stayed flat. Existing home sales are expected to decline by 7.2 percent in 2011, followed by an increase in 2012. Home prices are projected to decline in both 2011 and 2012 before stabilizing in 2013.

Receipts

Overview

This report includes the Office of the State Comptroller's forecast for All Funds tax receipts for SFY 2011-12 through SFY 2013-14. This forecast is consistent with an economy that will continue to exhibit weak growth over the next three years. However, there are several variables that could affect this forecast. These include the very volatile and uncertain euro zone debt crisis, a gridlocked domestic political environment, high unemployment, and the struggling housing market, which increases the difficulty of forecasting tax collections. As a result, the State's actual tax revenues could deviate from these estimates. Close monitoring is critical to ensure that projections remain on track.

After declining by 0.9 percent in SFY 2008-09 and 3.2 percent in SFY 2009-10, tax receipts in SFY 2010-11 grew by 5.6 percent in response to enacted tax law changes, the end of the recession, and the financial sector's return to profitability. For SFY 2011-12, tax receipts are expected to increase by 6.4 percent, due in large part to the continuation of the tax law changes and the surge in estimated tax payments based on 2010 income. This will be partially offset by the end of the temporary Personal Income Tax surcharge on high-income earners in January 2012.

After increasing significantly in 2009, cash bonuses in New York City's securities industry declined in 2010. Given current trends, it appears that cash bonuses will decline again in 2011 as profits in the industry are expected to fall by one-third.

Tax receipts are expected to grow by 1.5 percent in SFY 2012-13, significantly less than in the two previous years. The reduced growth in receipts is due to the expiration of a number of temporary tax increases, as well as slower growth in the economy. For SFY 2013-14, tax receipts are expected to grow by 5.0 percent as the economy rebounds. (All projections are as compared to the prior fiscal year.)

Personal Income Tax

The Office of the State Comptroller estimates that Personal Income Tax receipts in SFY 2011-12 will increase by \$2.7 billion (7.5 percent) from the previous year. This increase reflects Personal Income Tax payments related to tax year 2010, with final returns and extension payments both increasing (7.4 percent and 51.1 percent, respectively) and refunds declining (5.6 percent). Withholding taxes are expected to increase by only 0.2 percent, based on fiscal year wage growth of 2.6 percent, which will be offset by the end of the temporary income tax surcharge.

Wage growth will also be held back by Wall Street's lower profits and the resumption of downsizing. After growing by 16.4 percent in the first half of the current fiscal year, current-year estimated taxes are expected to increase by only 6.3 percent for the rest of the year, as growth in the economy has slowed.

For SFY 2012-13, Personal Income Tax receipts are expected to decline by 0.1 percent. The decline can be attributed to the end of the temporary Personal Income Tax

surcharge on high income earners, and continued slow growth in the securities industry and the economy generally. Personal Income Tax receipts in SFY 2013-14 are expected to grow by 5.7 percent. The faster rate of growth is attributable to the expected rebound in the economy.

User Taxes and Fees

Consumption tax receipts are forecast to increase by 3.6 percent in SFY 2011-12. The increase can be attributed to growth in the economy and tax law changes. Sales and use taxes, the largest component of this group, are forecast to increase by 3.7 percent this year, with growth constrained by the partial restoration of the sales tax exemption on clothing items that cost less than \$55. The expected increase in cigarette and tobacco tax receipts is primarily attributable to the full implementation of the cigarette tax rate.

Over the remainder of the forecast period, growth in consumption tax receipts is expected to continue, averaging 2.7 percent. This reflects the continuing economic rebound, offset by the return of the full sales tax exemption on clothing items that cost less than \$110.

Business Taxes

Business tax receipts are expected to increase by 9.4 percent in SFY 2011-12, reflecting growth across all business taxes as a result of the improved economy and increased corporate profits, as well as the deferral of certain tax credits enacted in SFY 2010-11. Strong collections in the first half of the year will be partially offset by a lower rate of growth in profits in the securities industry.

Business tax receipts are expected to grow in SFY 2012-13 with the continuation of deferred credits. In SFY 2013-14, growth is also expected to remain strong as the expiration of the credit deferral and growth in the economy continues.

Other Taxes

Other tax receipts, including the MTA Payroll Tax, are expected to decrease by 1.1 percent in SFY 2011-12. Last fiscal year, the State received an extremely large estate tax payment that is not expected to be repeated this year. The decline is expected to be partially offset by an increase in the real estate transfer tax, reflecting growth in the equities and commercial real estate markets.

Other tax receipts are expected to increase in SFY 2012-13 and SFY 2013-14, by 5.4 percent and 6.8 percent, respectively. Real estate sales should continue to improve, driven by the commercial sector.

General Fund Miscellaneous Receipts and Lottery Receipts

General Fund miscellaneous receipts are estimated to increase only 0.1 percent in SFY 2011-12, to \$3.1 billion. This estimate includes \$92.7 million from Native American casinos. DOB included this amount in the Enacted Budget Financial Plan and the

estimate remained in the First Quarter Update. However, New York State has not received any revenue from the casinos in the first six months of the fiscal year, and in SFY 2010-11 the State received only \$4.6 million (down significantly from the Plan estimate of \$96.1 million). The State Comptroller has identified additional risks associated with revenues from abandoned property, as well as voluntary contributions from public authorities.

General Fund miscellaneous receipts are expected to decline in SFY 2012-13 and SFY 2013-14 by 5.8 percent and 14.4 percent, respectively, reflecting the loss of temporary measures used in previous years. The Financial Plan includes \$104 million in casino revenue annually in SFY 2012-13 and SFY 2013-14. If this revenue is lower, receipts will decline further.

Lottery revenues are expected to decline by 4.5 percent in SFY 2011-12. The one-time receipt of a \$380 million franchise fee payment associated with the video lottery terminals (VLTs) at the Aqueduct Racetrack had boosted collections in SFY 2010-11. When this non-recurring payment is excluded, revenues are projected to increase by 9.2 percent, largely because of new revenues projected for the VLTs. Lottery receipts are projected to increase by 5.9 percent in SFY 2012-13 and 2.3 percent in SFY 2013-14.

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” (i.e., federal receipts equal spending), the Office of the State Comptroller accepts DOB’s federal receipt projections with adjustments according to changes in federally funded disbursements as projected in this report.

According to spending projections by the Office of the State Comptroller, federal grants are projected to total \$43.3 billion in SFY 2011-12, a decrease of nearly \$6.0 billion from SFY 2010-11, primarily driven by the expiration of stimulus funds under the federal American Recovery and Reinvestment Act of 2009 (ARRA).

Federal grants are projected to total \$39.7 billion in SFY 2012-13 and \$41.7 billion in SFY 2013-14.

Without the Medicaid spending cap enacted by the State in SFY 2011-12, the Office of the State Comptroller estimates that federal receipts would be more than \$1.0 billion higher in SFY 2013-14. This is because if Medicaid spending was to increase beyond the current statutory limits, federal reimbursements would increase.

Disbursements

Overview

This report includes a forecast for disbursements for SFY 2011-12 through SFY 2013-14. Chapter 1 of the Laws of 2007 requires forecasts for *State* disbursements. Previously the Office of the State Comptroller provided projections for All Funds spending, since federally funded programs are disbursed in the same manner as State-funded programs. This year, because Department of Health Medicaid spending from State funds is specifically limited in both language and appropriation, the Office of the State Comptroller includes spending projections from both All Funds and State Operating Funds.

These estimates rely on a variety of data sources, including receipt and disbursement data from the State'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). (All projections are as compared to the prior fiscal year.)

The SFY 2011-12 Enacted Budget included appropriations intended to reflect two years' worth of spending in Medicaid and school aid, as well as future limits on spending growth for Medicaid based on ten-year average growth in the medical component of the Consumer Price Index (CPI) and for education based on the rate of growth for personal income. Both of these growth rate limits are estimated at approximately 4.0 percent. As a result of these limitations, projected spending in two of the largest major categories of spending in the State Budget are constrained, absent action by the Executive and the Legislature to surpass the spending targets.

Therefore, this report provides Medicaid and school aid spending projections based on current law, and provides comparisons to the Financial Plan through SFY 2013-14. Because the Financial Plan reflects spending estimates based on current law limits, these projections were used for Medicaid and school aid. However, estimated spending growth that would occur absent the spending limitations enacted in SFY 2011-12 is also provided for comparative purposes in each substantive area.

SFY 2011-12

For SFY 2011-12, the Office of the State Comptroller projects Medicaid, school aid, and public assistance spending from State Operating Funds will total \$36.0 billion, an increase of \$2.8 billion, or 8.3 percent, from SFY 2010-11 levels (adjusted for timing delays at the end of SFY 2009-10).³ The increase largely reflects the loss of federal stimulus funding, which had lowered spending from State funds. All other spending is

³ To address cash flow issues in the fourth quarter of SFY 2009-10, the Division of the Budget delayed \$500 million of Personal Income Tax refunds and \$2.06 billion in school aid payments from the last quarter of SFY 2009-10 to the first quarter of SFY 2010-11, thus artificially increasing Personal Income Tax receipts in SFY 2009-10 and artificially decreasing school aid for the same year. As such, Personal Income Tax receipts were artificially low and school aid was artificially high in SFY 2010-11.

projected to total \$51.0 billion, a decline of \$172 million, or 0.3 percent, compared to SFY 2010-11.

Medicaid, school aid and public assistance spending from All Funds is projected to total \$63.8 billion, which is \$1.7 billion, or 2.6 percent, lower than SFY 2010-11 levels.

SFY 2012-13

For SFY 2012-13, the Office of the State Comptroller estimates Medicaid, school aid, and public assistance from State Operating Funds will total \$37.1 billion, which is an increase of \$1.2 billion, or 3.2 percent. The Office of the State Comptroller projects all other spending to increase \$2.9 billion, or 5.6 percent, to \$53.8 billion.

Medicaid, school aid, and public assistance spending from All Funds is projected to total \$64.74 billion in SFY 2012-13, which is \$909 million, or 1.4 percent, higher than SFY 2011-12 levels.

SFY 2013-14

For SFY 2013-14, the Office of the State Comptroller estimates Medicaid, school aid, and public assistance spending from State Operating Funds will total \$38.7 billion, an increase of \$1.5 billion, or 4.1 percent. During this period, all other spending is projected to increase \$1.8 billion, or 3.4 percent, to \$55.6 billion.

Medicaid, school aid and public assistance spending from All Funds is projected to total \$66.37 billion in SFY 2013-14, which is \$1.6 billion, or 2.5 percent, higher than SFY 2012-13 levels.

Issue Areas

Note that Medicaid and school aid projections in this section reflect increases *without* enacted spending caps but with all other changes included in the SFY 2011-12 Enacted Budget, to provide an understanding of the impact of the spending caps on the Budget.

School Aid Projections Without Enacted Spending Limits

The SFY 2011-12 Enacted Budget lowered projected spending for school year (SY) 2011-12 school aid by nearly \$1.3 billion in comparison to SY 2010-11. The reduction was achieved through a \$2.8 billion Gap Elimination Adjustment (GEA) imposed on most school aids according to a formula that reduces total aid to a targeted amount, offset by a GEA Restoration formula that added back approximately \$230 million of school aid for SY 2011-12. The Enacted Budget held Foundation Aid constant for SY 2011-12.

The Enacted Budget also provides appropriations for two State fiscal years' worth of funding for school aid (including GEA), with limits on how much of the appropriations can be used in each State fiscal year. The SFY 2011-12 Enacted Budget Financial Plan projects a total increase of \$805 million for SY 2012-13, although it does not detail how this increase will be apportioned among the various school aid programs. This net

increase can be used, among other things, to increase Foundation Aid or restore the GEA.

In addition, the Enacted Budget included language intended to limit future annual growth in school aid to the rate of growth for personal income within New York State as reported by the U.S. Department of Commerce, currently estimated at approximately 4.0 percent. The Financial Plan assumed that future school aid would be capped by this provision, either through the continued use of a GEA or by reducing individual aid categories. However, any fluctuations in personal income could greatly affect projected spending levels.

The following projections illustrate growth without such a cap in order to show how the Gap Elimination Adjustment would have to be increased or other aids reduced.⁴ To create these 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.

The Office of the State Comptroller projects that school aid spending from State Operating Funds will total \$19.7 billion in SFY 2011-12, which is a decline of \$80 million or 0.4 percent over SFY 2010-11. All Funds school aid is projected to reach \$23.4 billion in SFY 2011-12. The Office of the State Comptroller's projection equates to approximately \$19.6 billion on a school-year basis.

Based on an analysis of historical spending trends in various expense-based aids, combined with scheduled levels for Foundation Aid and Universal Pre-Kindergarten in the SFY 2011-12 Enacted Budget, the Office of the State Comptroller estimates that without the enacted cap, school aid from State Operating Funds would increase to \$20.4 billion in SFY 2012-13, an increase of \$673 million, or 3.4 percent over SFY 2011-12. This increase is primarily due to higher projections in need-based aids. All Funds spending is projected to decline \$224 million or 1.0 percent to \$23.2 billion. This equates to \$20.5 billion on a school-year basis.

Projecting SFY 2013-14 figures is a challenge because the treatment of Foundation Aid, Universal Pre-Kindergarten and any Gap Elimination Adjustments is unknown. However, if Foundation Aid increases to \$16.4 billion in accordance with the Executive Budget proposal (which is possible in the context of the less-specific Enacted Budget), and other expense-based aids increase in accordance with historical levels, the Office of the State Comptroller projects that school aid would increase nearly \$3.3 billion before any GEA.

Thus, to stay within the cap determined by the growth in personal income, the State would need to implement a GEA or take other actions totaling at least \$3.3 billion. With such an adjustment, school aid from State Operating Funds would total \$21.2 billion, an

⁴ 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.

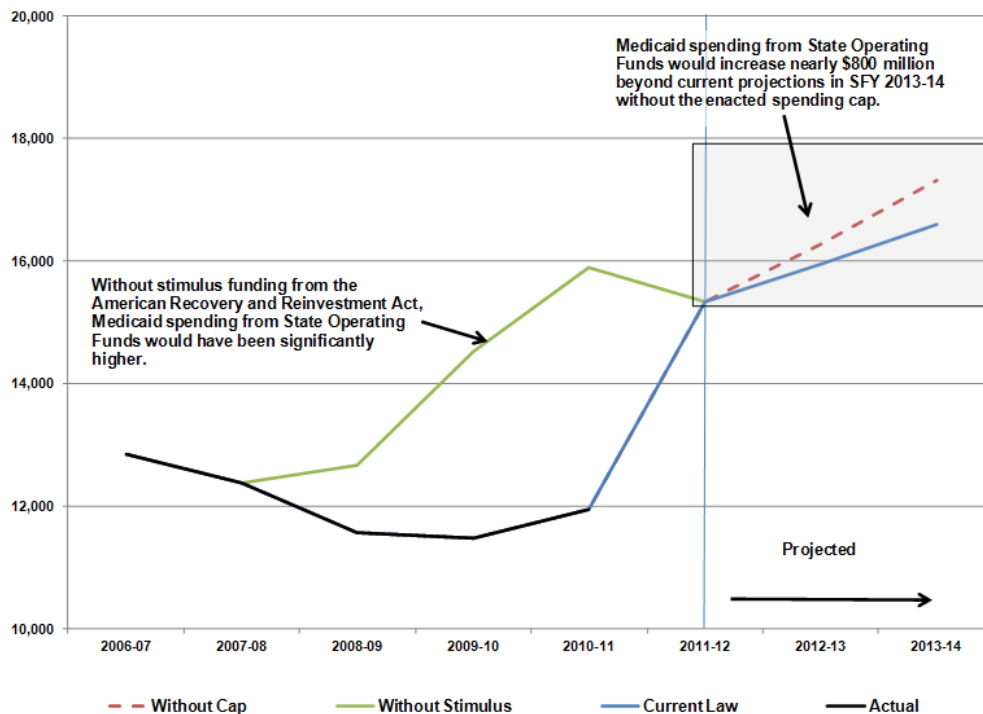
increase of approximately \$811 million, or 4.0 percent. All Funds spending would also increase \$603 million, or 2.6 percent, to \$23.8 billion.

Medicaid Projections Without Enacted Spending Limits

Much like school aid, two years' worth of Medicaid spending from the Department of Health (including administration) is represented in appropriations included in the SFY 2011-12 Enacted Budget, with a specific limit in State Operating Funds spending for each year. The Enacted Budget also includes language that caps future Medicaid spending to the 10 year average of the medical component of the Consumer Price Index – approximately 4.0 percent.

In addition, the Enacted Budget gives the Health Commissioner broad administrative authority to implement cost-saving actions to stay within the cap, provided savings plans are posted on DOH's website and written copies are provided to the Legislature 30 days before any action is taken. While the growth limit for Medicaid spending is permanent, the authority provided to the Commissioner to achieve savings through administrative actions expires at the end of SFY 2012-13.

Medicaid – State Operating Funds (in millions of dollars)



Note that there is \$353 million in federal stimulus funding projected in SFY 2011-12 and a cost of \$254 million associated with the stimulus in SFY 2012-13 with the cost primarily due to the reconciliation of costs between the State and counties related to the Medicaid cap.

The SFY 2011-12 Enacted Budget projected nearly \$2.3 billion in savings in State Operating Funds from various actions recommended by the Medicaid Redesign Team (MRT). These savings are projected to hold future spending growth within the spending cap, currently estimated at approximately 4.0 percent. Average annual growth prior to these changes was 5.5 percent from SFY 2006-07 through SFY 2010-11 (not including

additional Federal Medical Assistance Percentage (FMAP) funding from the federal government).

The largest individual component of the \$2.3 billion in savings, projected to reach \$640 million in SFY 2011-12 (approximately 28 percent of total savings), comes from as-yet unidentified provider cost-saving actions. In SFY 2013-14, savings derived from provider actions to lower costs are projected to exceed \$2.0 billion, more than half of the projected savings for that year. The authority given to the Health Commissioner to administratively reduce Medicaid spending expires in that year. If that authority is not renewed, the State's ability to realize the targeted level of savings could be undermined. In addition, the slow pace of the economic recovery, coupled with continued increases in demand, could result in higher Medicaid enrollment and program costs.

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 from State Operating Funds and All Funds for SFY 2011-12 and the ensuing two fiscal years. Spending data was adjusted to reflect known actions that would impact cash management such as delayed cycle payments. 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 those costs.

The following estimates illustrate projected Medicaid growth in the absence of the enacted spending cap and unilateral cost control mechanisms. While enacted spending cuts are included in these estimates, the projected increases are primarily due to increased utilization.

Based on actual payments through September 2011, historical spending and utilization trends and an analysis of how the MRT spending cuts would be distributed, the Office of the State Comptroller estimates that absent the statutory spending limits, DOH Medicaid spending would total \$15.3 billion from State Operating Funds for SFY 2011-12, and \$38.9 billion from All Funds.

For SFY 2012-13, the Office of the State Comptroller projects that absent the statutory spending limits, Medicaid spending from State Operating Funds would increase to \$16.3 billion (6.1 percent or \$938 million) and \$40.9 billion (5.3 percent or \$2.0 billion) in All Funds.

For SFY 2013-14, the Office of the State Comptroller estimates that absent the statutory spending limits, Medicaid spending would total \$17.3 billion from State Operating Funds, an increase of \$1.1 billion, or 6.5 percent, and just under \$43 billion from All Funds, representing an increase of \$2.0 billion or 5.0 percent.

Public Assistance

Spending and caseload projections are sensitive to economic fluctuations. As unemployment increases and wages fall, the number of persons in need of public assistance typically increases. Those who lose their jobs may face extended periods of unemployment in the current economic climate. In addition, federal actions regarding unemployment benefits will also affect public assistance costs in New York. Although it appears that a lag of between 12 to 18 months exists between an economic downturn and caseload increase, continued economic volatility could significantly impact these projections.

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 2011-12, All Funds spending for public assistance will total \$1.54 billion (\$981.1 million from State Operating Funds), based on 379,083 family caseloads and 174,014 single caseloads.

For SFY 2012-13, the Office of the State Comptroller projects public assistance spending will decrease by \$34 million, or 2.2 percent, to \$1.51 billion (\$958.4 million from State Operating Funds), based on caseloads of 371,764 families and 173,098 singles.

For SFY 2013-14, the Office of the State Comptroller estimates that spending for public assistance will decline \$21 million or 1.4 percent to \$1.49 billion (\$944.6 million from State Operating Funds), based on caseloads of 366,684 families and 170,192 singles.

Risks

In May 2011, the Office of the State Comptroller warned of a number of risks to the Financial Plan. Identified risks included unanticipated events that may require additional spending, as well as anticipated revenues that fail to materialize. However, given the enactment of spending limitations in Medicaid and school aid, the most significant risk to the Financial Plan relates to tax collections.

Factors such as global political and economic volatility, natural disasters, and spending reductions at the federal level have the potential to create significant variances in the Financial Plan, especially in SFY 2012-13 and beyond. For example, while tax collections currently exceed collections from SFY 2010-11, there are still areas of weakness, such as business taxes, and other areas that could grow more slowly than anticipated. Unanticipated declines in major sectors of New York's economy, such as financial services, could also have a significant impact on tax collections.

All Funds spending growth has recently been dominated by Medicaid and aid to local school districts, which have grown from 44.9 percent of spending in SFY 2000-01 to 48.2 percent in SFY 2010-11. The future growth of both of these is currently statutorily restricted. While DOB projects the sum of the two will increase to more than 49 percent of the All Funds budget, the average annual growth for both is projected to decline from

nearly 7.0 percent to 3.0 percent. This reduction is projected to lower the average growth for the budget as a whole over the same period.

Other risks specific to the SFY 2011-12 Enacted Budget that were identified by the Comptroller's Office in May 2011 remain, including the ability to reap the projected savings from Medicaid after SFY 2012-13 and the ability to reach targeted levels of certain miscellaneous receipts, including revenue collected from Native American casinos, Abandoned Property, and new revenue anticipated from increased tax compliance efforts.

The structural imbalance in the State Budget still poses a risk on a broader scale. Structural gaps are projected in each of the next three fiscal years, with DOB projecting All Funds spending to reach \$145.9 billion by SFY 2014-15, as opposed to All Funds revenue of \$141.7 billion. DOB projects that General Fund spending growth from SFY 2011-12 through SFY 2014-15 will be 18.1 percent, while General Fund receipts growth will be 11.9 percent over the same period.

Even with nearly \$7.7 billion in recurring spending reductions included in the SFY 2011-12 Enacted Budget (which are projected by DOB to increase to nearly \$15 billion in SFY 2014-15), spending is projected to grow faster than revenues. While the SFY 2011-12 Enacted Budget made significant strides in reducing the structural imbalance, additional actions will be necessary.

Appendix – Financial Projections

Projections Based on Current Law, Including Enacted Spending Caps

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2011-12

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	38,919	39,058	(139)
Consumer Taxes	14,100	14,060	40
Business Taxes	7,335	7,544	(209)
Other Taxes (incl. MTA Payroll)	3,023	2,953	70
General Fund Miscellaneous Receipts	3,098	3,098	-
Lottery	2,884	2,884	-
Subtotal	69,358	69,597	(239)
Other Miscellaneous Receipts	13,277	13,277	-
Federal Grants	140	140	-
Total Receipts	82,775	83,014	(239)
Disbursements:			
Elementary and Secondary Education	19,686	19,686	-
DOH Medicaid (incl. admin.)	15,327	15,327	-
Public Assistance	981	908	73
Subtotal	35,994	35,921	73
All Other Disbursements	50,958	50,958	-
Total Disbursements	86,952	86,879	73

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements
State Operating Funds - State Fiscal Year 2012-13

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	38,890	39,210	(320)
Consumer Taxes	14,500	14,511	(12)
Business Taxes	7,778	8,024	(246)
Other Taxes (incl. MTA Payroll)	3,192	3,156	36
General Fund Miscellaneous Receipts	2,917	2,917	-
Lottery	3,053	3,053	-
Subtotal	70,330	70,871	(541)
Other Miscellaneous Receipts	14,016	14,016	-
Federal Grants	140	140	-
Total Receipts	84,486	85,027	(541)
Disbursements:			
Elementary and Secondary Education	20,250	20,250	-
DOH Medicaid (incl. admin.)	15,940	15,940	-
Public Assistance	958	896	62
Subtotal	37,148	37,086	62
All Other Disbursements	53,814	53,814	-
Total Disbursements	90,962	90,900	62

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

State Operating Funds - State Fiscal Year 2013-14

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	41,117	41,439	(322)
Consumer Taxes	14,894	14,976	(82)
Business Taxes	8,216	8,338	(122)
Other Taxes (incl. MTA Payroll)	3,418	3,386	32
General Fund Miscellaneous Receipts	2,496	2,496	-
Lottery	3,122	3,122	-
Subtotal	73,263	73,757	(494)
Other Miscellaneous Receipts	14,377	14,377	-
Federal Grants	140	140	-
Total Receipts	87,780	88,274	(494)
Disbursements:			
Elementary and Secondary Education	21,151	21,151	-
DOH Medicaid (incl. admin.)	16,587	16,587	-
Public Assistance	945	888	57
Subtotal	38,682	38,625	57
All Other Disbursements	55,617	55,617	-
Total Disbursements	94,299	94,242	57

Note: Figures may not total due to rounding.

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>Division of the Budget</u>	<u>Difference</u>
Receipts:			-
Personal Income Tax	38,919	39,058	(139)
Consumer Taxes	14,713	14,673	40
Business Taxes	7,964	8,173	(209)
Other Taxes (incl. MTA Payroll)	3,142	3,072	70
General Fund Miscellaneous Receipts	3,098	3,098	-
Lottery	2,884	2,884	-
Subtotal	70,720	70,958	(238)
Other Miscellaneous Receipts	17,425	17,425	-
Federal Grants	43,329	43,305	24
Total Receipts	131,474	131,688	(214)
Disbursements:			
Elementary and Secondary Education	23,412	23,412	-
DOH Medicaid (incl. admin.)	38,876	38,876	-
Public Assistance	1,543	1,446	97
Subtotal	63,831	63,734	97
All Other Disbursements	67,964	67,964	-
Total Disbursements	131,795	131,698	97

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2012-13

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	38,890	39,210	(320)
Consumer Taxes	15,119	15,130	(11)
Business Taxes	8,408	8,678	(271)
Other Taxes (incl. MTA Payroll)	3,311	3,275	36
General Fund Miscellaneous Receipts	2,917	2,917	-
Lottery	3,053	3,053	-
Subtotal	71,697	72,263	(566)
Other Miscellaneous Receipts	17,832	17,832	-
Federal Grants	39,693	39,673	20
Total Receipts	129,222	129,768	(546)
Disbursements:			
Elementary and Secondary Education	23,079	23,079	-
DOH Medicaid (incl. admin.)	40,152	40,152	-
Public Assistance	1,509	1,427	82
Subtotal	64,740	64,658	82
All Other Disbursements	67,341	67,341	-
Total Disbursements	132,081	131,999	82

Note: Figures may not total due to rounding.

Office of the State Comptroller Estimates for Receipts and Disbursements

All Funds - State Fiscal Year 2013-14

(in millions of dollars)

	<u>Office of the State Comptroller</u>	<u>Division of the Budget</u>	<u>Difference</u>
Receipts:			
Personal Income Tax	41,117	41,439	(322)
Consumer Taxes	15,517	15,598	(81)
Business Taxes	8,849	8,994	(145)
Other Taxes (incl. MTA Payroll)	3,537	3,505	32
General Fund Miscellaneous Receipts	2,496	2,496	-
Lottery	3,122	3,122	-
Subtotal	74,638	75,154	(516)
Other Miscellaneous Receipts	18,024	18,024	-
Federal Grants	41,699	41,681	18
Total Receipts	134,361	134,859	(498)
Disbursements:			
Elementary and Secondary Education	23,772	23,772	-
DOH Medicaid (incl. admin.)	41,110	41,110	-
Public Assistance	1,488	1,413	75
Subtotal	66,371	66,296	75
All Other Disbursements	70,953	70,953	-
Total Disbursements	137,324	137,249	75

Note: Figures may not total due to rounding.