NEW YORK STATE

FINANCIAL INFORMATION REVIEW

SENATOR JOSEPH L. BRUNO

MAJORITY LEADER AND

PRESIDENT PRO TEM

SENATOR OWEN H. JOHNSON

CHAIRMAN

NEW YORK STATE SENATE EXCELSIOR

JEFFREY LOVELL
SECRETARY TO THE FINANCE COMMITTEE AND
SPECIAL ADVISOR TO THE MAJORITY LEADER

ROBERT F. MUJICA
MANAGING DIRECTOR OF BUDGET & FISCAL
ANALYSIS AND DEPUTY SECRETARY TO THE
FINANCE COMMITTEE

GLOBAL INSIGHT

NOVEMBER 2007

Financial Information Review

Jeffery Lovell
Secretary to the Finance Committee
and Special Advisor to the Majority Leader

Robert F. Mujica
Managing Director of Budget & Fiscal Analysis
and Deputy Secretary to the Finance Committee

Contributors to this report:

Peter S. Applebee, Deputy Director
Kathleen H. Preston, Associate Director
Thomas P. Havel, Assistant Director
Michael Paoli, Assistant Director
Mary C. Arzoumanian
Shawn M. MacKinnon
Jacqueline Y. Donaldson
Heather Mowat
Peter C. Drao
Kurt Van Wormer, Publication Editor

SFC

Senate Finance Committee

Financial Information Review

November 2007

Overview

"The Financial Information Review requirements were enacted to provide for an earlier discussion period regarding the State's current year fiscal plan and a review of financial and economic data available seven months into the current state fiscal year.."

Pursuant to the State Finance Law (Section 23(5)), as amended by Chapter 1 of the laws of 2007, this is the Senate staff report on estimated State receipts and disbursements for the current and ensuing fiscal years. Pursuant to the statute, included in this report are estimated tax receipts on an all-funds basis, estimated lottery receipts, estimated miscellaneous receipts to be received in the General Fund, and the underlying factors and data upon which such receipts are based. Also included are estimates of state disbursements for the Medicaid program, public assistance, and elementary and secondary education including the underlying factors, caseload, and data on which such estimates are based. This report is complete and satisfies the requirements of State Finance Law (Section 23(5)) to report on estimated State receipts and disbursements for the current and ensuing fiscal years.

The Financial Information Review requirements were enacted to provide for an earlier discussion period regarding the State's current year fiscal plan and a review of financial and economic data available seven months into the current state fiscal year. The financial information review also provides an opportunity for preliminary discussions regarding the financial plan for the upcoming state fiscal year.

In addition to this report, State Finance Law (Section 23(5)), as amended by Chapter 1 of the Laws of 2007, requires the Executive, Senate and Assembly to prepare a joint report by November 15 of each year, on estimated receipts and disbursements. Specifically this joint report does not require consensus forecasts. The financial information review is clearly distinguished in statute from the March consensus revenue forecast process required in State Finance Law (Section 23(6)). In March of each year the Executive, Senate, and Assembly are required to meet to develop a consensus forecast based on updated economic forecasts and the most current receipt data available. The consensus forecast is not a joint forecast or a formal adoption of an economic forecast. The consensus forecast is "a basis for setting a target for receipts on which the Legislative and Executive branches can agree"[1]

The 'Financial Information Review' is based on preliminary data and provides estimates which are limited by the changes in the underlying data and assumptions on which such estimates are based. There are inherent risks in forecasting receipts and disbursements based on limited data. Recognizing that over the course of the year new information may require financial plan adjustments, the changes to the 'Financial Information Review' process in State

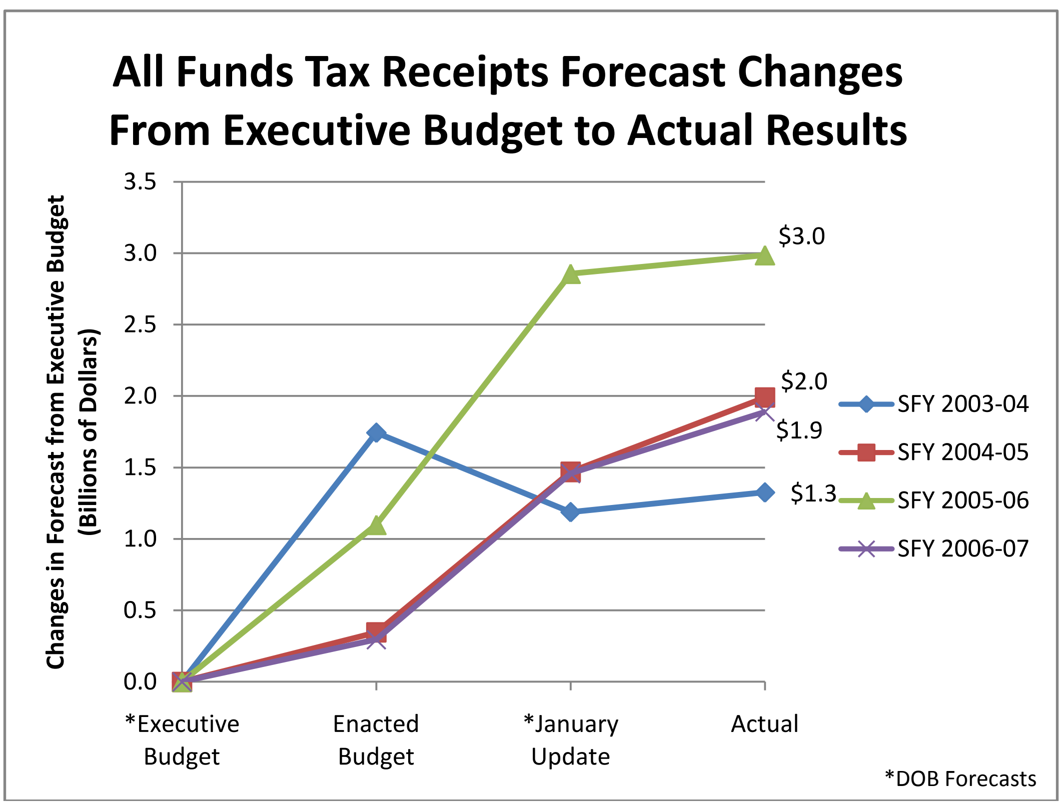
[1] 2007-08 New York State Executive Budget, Economic and Revenue Outlook, p.223

Finance Law (Section 23(5)), did not alter the requirement for the Governor to provide a quarterly financial plan update in January. As with any forecast, financial projections are affected by variables including economic fluctuations, policy changes, new initiatives and financial management. The further out into the future the forecast the more inherent risk of changes which will impact financial plan assumptions.

"…the Division of the Budget revenue estimates as presented in the Executive Budget have averaged $2 billion below actual annual collections."

Forecasting Risks

The following chart shows the progression of changes to revenue estimates from the Executive Budget forecast to actual collections at fiscal year end. For the past several years (SFY 2003-04 to SFY 2006-07**)** the Division of the Budget revenue estimates as presented in the Executive Budget have averaged $2 billion below actual annual collections**.** For example, in SFY 2005-06 the forecast of All Funds tax receipts went from $50,657 million in the Executive Budget (January (2006) to $50,966 million in the 30-Day revisions (February 2006) then to $51,756 million in the Enacted Budget (April 2006) to $51,950 million in the first quarter update (July 2006), to $52,754 in the Mid-year Financial Report (October 2006), to $53,513 in the January 2007 update, to actual collections of $53,643 million. This represents a total change from the original Executive Budget projections to actual collections of $2.9 billion. Analysis of the Executive's January revenue estimates for the closeout of the fiscal years ending just two months later reveals that the Division of Budget's revenue forecast still averaged more than $300 million below actual collections.



I. National & State Economy

The National Economy

As expected, the national economy in 2007 has slowed down albeit not dramatically. The economy started off extremely slowly in 2007, growing by only 0.6 percent in the first quarter. Performance rebounded in the second quarter, growing by a robust 3.8 percent. Then, the third quarter saw the collapse of the subprime mortgage market which many analysts predicted would further dampen economic growth. Preliminary forecasts for Gross Domestic Product (GDP) for the third quarter estimated growth slowing to 2.7 percent. However, real GDP, as recently reported by the Bureau of Economic Analysis, has grown by 3.9 percent for the third quarter of 2007, showing continued strong economic growth**.** Current Senate Finance estimates for the fourth quarter show the economy slowing to a rate of 1.5 percent. For all of 2007, real GDP is estimated to grow by 2.0 percent, down from the 2.9 percent growth of 2006. The forecast for 2007 will likely be modified if the third quarter GDP growth remains at 3.9 percent after revisions are made.

"…However, real GDP, as recently reported by the Bureau of Economic Analysis, has grown by 3.9 percent for the third quarter of 2007, showing continued strong economic growth."

For 2008, national economic growth is projected to continue to slow in the first quarter of the year with a rebound beginning in the second quarter. Real GDP is projected to grow by 1.2 percent in the first quarter. The economy is projected to regain steam in the second quarter with real GDP increasing by 1.9 percent. In the second half of the year, real GDP is projected to grow by 2.8 percent and 3.0 percent in the third and fourth quarters, respectively. This translates into real GDP growth for the entire year at 2.0 percent, the same rate as in 2007. Real GDP in 2009 is projected to maintain the growth projected in the second half of 2008, growing at 2.9 percent.

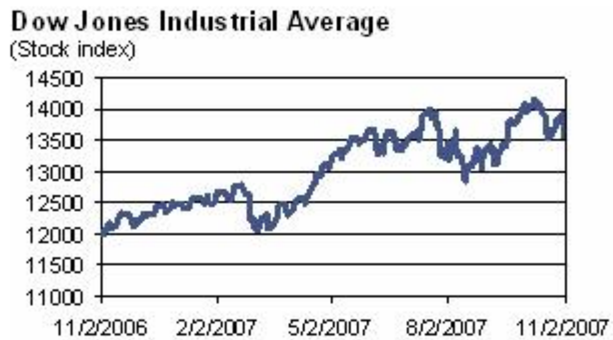
The other sectors of the economy have maintained growth throughout the first half of 2007 despite the fact that the recession in the housing market has affected all sectors of the economy. This growth is expected to continue, albeit at a slower pace, through the end of the year and into 2008 and 2009, thereby staving off a recession. Consumption is estimated to grow by 3.0 percent in 2007, buoyed by continued job growth and personal income growth of 1.5 percent and 6.5 percent, respectively. The unemployment rate for 2007 is estimated at 4.6 percent, the same rate as in 2006. As the economy slows in 2008, so will consumption, growing by only 2.3 percent. Job growth is projected to slow to 0.7 percent and, as a result, the unemployment rate is projected to increase to 5.0 percent. In turn, growth in personal income is projected to slow to 4.8 percent. With a rebound projected in 2009, employment is projected to increase by 1.4 percent; decreasing the unemployment rate slightly to 4.9 percent. Personal income is projected to grow by 5.1 percent, increasing consumption by 2.7 percent.

As shown in employment growth, the business sector is estimated to experience a larger portion of the economic slowdown as compared to the consumer sector. After several years of double digit profit growth, corporate profits in 2007 are

"It has reached records highs, with the Dow Industrial average topping 14,000, and has had some precipitous declines."

estimated to grow by only 2.9 percent. Corporate profit growth is projected to be sluggish in 2008, increasing by only 1.7 percent. As the economy shakes off the housing market downturn by the end of 2008, corporate profits are projected to increase by 5.1 percent in 2009.

To date, the stock market performance in 2007 has been a rollercoaster ride although the broader market is up significantly for the year. Even with all the volatility, the stock market, as measured by the S&P 500, is estimated to show year over year growth of 13.2 percent for calendar year 2007. However, the slowdown in corporate profits and the continued housing market slump projected for 2008 will, in turn, dampen any continued growth in the stock market. As a result, the S&P 500 is projected to increase by only 2.7 percent in 2008 and 5.5 percent growth is projected for 2009.



Source: Global Insight

The New York Economy

The New York State economy is expected to experience a similar slowdown in growth during 2007 as the national economy; New York's real Gross State Product (GSP) is estimated to grow by 2.1 percent, down from 3.4 percent growth in 2006. However, if the New York economy sustains growth similar to the national economy as reflected in the third quarter GDP estimates, real GSP for 2007 would be greater than the estimated 2.1 percent. One difference between the New York economy and the national one is that the housing market in New York has not suffered to the same degree as the national housing market. For 2007, housing starts in New York are estimated to decrease by 6.6 percent and home sales are estimated to decrease by 1.2 percent, a significant departure from the estimates of decreases at the national level, 25.8 percent and 11.6 percent respectively.

Projections for 2008 show the downturn in housing starts at a somewhat higher level in New York than in the nation as a whole with decreases of 21.3 percent and 17.0 percent, respectively. However, homes sales are projected to decrease by only 6.0 percent in New York as compared to a decrease of 15.5 percent nationally.

As the economic expansion increases in 2009, the housing market also recovers. For New York, this projected rebound results in an 11.0 percent growth in housing starts and 1.3 percent increase in home sales. Although this falls short of the projected growth in housing starts and home sales at the national level of 25.7 percent and 5.3 percent respectively, New York's housing market, as projected, does not have the same amount of ground to make up from the housing slump.

As a result of this milder downturn in the housing market, New York's economy is estimated to fare a little better than the national economy in 2007. Real Gross State Product (GSP) growth is estimated at 2.1 percent in 2007, compared to 2.0 percent growth in real GDP[2]. In addition, the New York economy is projected to grow faster than the national economy in both 2008 and 2009 with real GSP growing by 2.8 percent and 3.2 percent, respectively.

Similar to the national economy, employment in New York is projected to be adversely affected by the slowdown in the economy. In 2007, employment is estimated to grow by 0.9 percent, slightly lower than the 1.0 percent growth of 2006. This weakening of employment growth is projected to continue into 2008, with growth projected at 0.7 percent. Employment growth is projected to rebound with the strengthening economy in 2009, growing by 1.0 percent.

Because of New York City's position as the financial capital, the housing recession and the collapse of the subprime market have had a significant impact on Wall Street financial institutions, particularly those dealing in mortgage backed investment instruments. In addition, profits earned by Wall Street firms, as reported by the Securities Industry and Financial Markets Association, are estimated to be smaller in the third quarter despite a robust second quarter. This change in profits is a result of the turbulence in the housing market as well as a decrease in mergers and acquisitions (M&A) and is projected to result in lower bonuses for those who work on Wall Street.

Due to the timing of Wall Street bonuses which are usually paid in the first quarter of the succeeding year, the projected weakness in Wall Street bonuses will not be reflected in New York's wages or personal income for 2007. As a result, wages are estimated to increase by 8.7 percent in 2007 and personal income is estimated to increase by 7.5 percent, mainly as a result of the record

[2] Data for GDP growth for the third quarter of 2007 was released on October 31, 2007 after this forecast was completed. As a result of stronger than expected growth in the third quarter, real GDP growth for calendar year 2007 is expected to increase by more than the currently estimated 2.0 percent.

high Wall Street bonuses that were paid in the first quarter of the year. In 2008 wages and personal income are projected to increase by 4.0 percent and 4.9 percent, respectively. This is the result of the lower projected bonuses as well as the slowdown in the economy. For 2009, wages and personal income are projected to grow by 5.3 percent and 5.7 percent, respectively.

Consumption in New York, as measured by retail sales, is estimated to grow by a robust 6.2 percent in 2007. This growth is due not only to the strong estimated wage growth for the current year but is also buoyed by the depreciation in the value of the dollar during the year. Foreign travelers realize greater buying power in relation to the cheaper U.S. dollar and, as such, are willing to spend money in New York as well as other tourist destinations around the country.

Retail sales are projected to slow in 2008, growing by 3.2 percent. This retail slowdown is a reflection of the lower growth in personal income as well as a greater impact from the housing downturn in 2008. Similar to income and employment, retail sales growth is projected to increase by 4.0 percent in 2009 as the economy rebounds.

Risks to The Forecast

As with any forecast, there are unforeseen risks associated with forecasting the economy. Any "shock" to the various sectors of the economy, whether positive or negative, can have significant effects on whether the economy continues its expansion or falls into a recession. For example, if the housing market downturn is more pronounced, housing starts and sales continue to fall; construction employment decreases; residential investment decreases; and the purchase of durable goods decline. Thus, affecting every sector of the economy and, as a result, causing little or no economic growth.

In addition to these unforeseen economic shocks for the upcoming fiscal year, the forecast is at risk from the lack of accurate data due to the timing of the forecast. As stated above, data for GDP growth for the third quarter of 2007 was released on October 31, after this forecast was completed. As a result of this strong growth in the third quarter, real GDP growth for calendar year 2007 is expected to increase by more than the currently estimated 2.0 percent. However, GDP growth for the third quarter is subject to revision; what is currently reported as 3.9 percent growth may be changed considerably once all the data is reviewed. Variances in the data, whether positive or negative, can greatly affect the outcome of the forecast.

If the third quarter economic growth holds and the expansion heats up, Global Insight estimates that real GDP could grow by 3.0 percent in 2008, while maintaining 2.0 percent growth in 2007. Real GDP would then be projected to grow by 3.6 percent in 2009. Accompanying this economic growth would be lower than estimated unemployment and inflation and increased growth in the stock market.

However, if the economy slows even further than estimated, real GDP growth in 2007 would be 1.8 percent; growing by only 0.6 percent in 2008. Subsequently, the rebound for 2009 would be weak with real GDP growing by 1.7 percent. Similar to the outcomes if the economy expands faster than projected, unemployment and inflation would increase with a protracted slowdown and the stock market would decline.

"…The final quarter of the calendar year as well as the first two months of the subsequent year play a major role in New York's tax collections."

The construct of New York's fiscal year also affects the forecast, most notably in relation to the forecast of tax collections. Although calendar year 2007 is over three quarters complete, the New York State fiscal year is only half complete. The final quarter of the calendar year as well as the first two months of the subsequent year play a major role in New York's tax collections. These collections, besides the forecast of the national and state economies, affect the forecasts going forward. Most notably is the payment of Wall Street bonuses that occur between December and March. In addition to the bonus payments and the growth in holiday sales, December is also when businesses must make their final estimated payments for the year. The focus on collections from these payments is particularly important this year as a result of the tax loophole closures that were enacted as part of the SFY 2007-08 budget and how quickly businesses have been able to react to them.

GLOBAL INSIGHT ECONOMIC FORECAST

	2007	2008	2009
	Global Insight	Global Insight	Global Insight
National Economy			
GDP	4.4 – 4.7	2.4 – 4.6	4.1 – 5.2
Real GDP	1.8 – 2.0	0.6 – 3.0	1.7 – 3.6
Consumption Expenditures	2.9 – 3.0	1.3 – 3.2	1.3 – 3.5
Government Expenditures	1.9	2.0	0.7
Exports	7.1 – 7.4	7.7 – 9.4	7.0 – 8.3
Imports	2.1 – 2.5	0.0 – 6.2	1.4 – 7.3
CPI - All Urban, Percent Change	2.6 - 2.7	1.1 – 2.3	1.4 – 2.3
Pretax Corporate Profits	2.9	1.7	5.1
Personal Income	6.5	4.1 – 5.4	4.5 - 5.5
Wages and Salaries	6.3	4.4	4.8
Nonagricultural Employment	1.5	0.7	1.4
Unemployment Rate	4.6	4.7 – 5.5	4.3 – 5.8
T-Note Rate, 10-Year	4.69	4.49 – 4.92	4.77 – 6.24
Standard and Poor's 500 Stock Index	12.3 – 14.3	-3.1 – 6.2	3.7 – 6.3
New York Economy			
***Personal Income**	7.5	4.9	5.7
***Wages and Salaries**	8.7	4.0	5.3
Nonagricultural Employment	0.9	0.7	1.0
Unemployment Rate	4.4	4.6	4.6

ALL FUNDS TAX COLLECTIONS (Millions of Dollars)				
	2006-07 Actual	**2007-08 Estimated**	**2008-09 Projected**	**2009-10 Projected**
Personal Income Tax	**34,580**	**36,956**	**38,849**	**41,120**
Withholding	26,802	28,798	29,950	31,537
Estimated Payments	10,355	11,467	12,052	12,763
Final Returns	2,123	2,195	2,360	2,475
Other	810	917	943	937
Gross Collections	40,090	43,377	45,304	47,712
Refunds	(5,510)	(6,421)	(6,455)	(6,593)
User Taxes and Fees	**13,456**	**13,990**	**14,428**	**14,893**
Sales and Use	10,739	11,296	11,680	12,147
Auto Rental	46	50	53	53
Motor Vehicle	769	748	815	823
Cigarette/ Tobacco	985	987	968	949
Motor Fuel	513	507	508	508
Highway Use	153	152	152	153
Alcoholic Beverage	252	250	252	259
Business Taxes	**8,606**	**8,987**	**8,984**	**9,128**
Corporate Franchise	4,228	4,358	4,432	4,658
Corporate Utilities	820	870	861	852
Insurance	1,258	1,288	1,291	1,314
Bank	1,210	1,317	1,221	1,130
Petroleum Business	1,090	1,154	1,179	1,173
Other Taxes	**2,097**	**2,034**	**1,992**	**2,108**
Real Estate Transfer	1,022	1,008	939	998
Estate and Gift	1,053	1,004	1,031	1,088
Pari-mutuel	21	21	21	21
Other	1	1	1	1
Total All Funds Taxes	**58,739**	**61,967**	**64,253**	**67,248**

Tax Collections

For SFY 2007-08, All Funds tax collections are estimated to increase by 5.5 percent from SFY 2006-07 collections. Although the economy has slowed, collections growth for the current fiscal year is attributable to continued wage and sales growth, as well as tax law changes to close various tax loopholes in the SFY 2007-08 enacted budget. However, these increased tax collections are offset by the increase in the amount of personal income tax refunds paid (explained under the personal income tax section).

Tax collections for SFY 2008-09 are projected to grow by 3.7 percent reflecting the economic slowdown offset by the return to normal growth in personal income tax refunds. Collections in SFY 2009-10 are projected to increase by 4.7 percent, reflecting the projected rebound in the economy.

Personal Income Tax

The personal income tax is paid in a variety of ways: the withholding of wages and other income payments, the payment of estimated taxes, the payment of unpaid taxes through final returns, and the payment of overdue taxes through assessments. Any overpayment of the personal income tax is refunded to the taxpayer. The manner of payment determines the income year to which the tax applies. For example, withholding is paid when the income is earned. Therefore, 2007 wages would be reflected in 2007 withholding. However, personal income tax payments made with final returns are associated with the preceding year's income. As a result, final return payments made in 2007 are a reflection of income earned in 2006. The same pattern holds true for refunds.

Withholding collections for SFY 2007-08 are estimated to increase by 7.4 percent over SFY 2006-07 collections. Withholdings are lower than the estimated increase in wages due to the fact that SFY 2006-07 collections included the record high bonus payments that were paid in the first quarter of 2007. The anticipated decrease in the amount of bonuses paid in the final quarter of the state fiscal year, as well as one less withholding day by the end of the fiscal year, contribute to slower growth in the current fiscal year. The impact of the lack of this withholding day is a revenue loss of approximately $60 million. For SFY 2008-09 and SFY 2009-10, withholding is projected to grow by 4.0 percent and 5.3 percent, respectively, reflecting projected growth in wages.

"Due to the uncertainty at the time of this forecast as to the growth, if any, in Wall Street bonus payments, the estimate for withholding collections for the current fiscal year, as well as projections going forward, could be significantly impacted by any departure from current estimates."

Due to the uncertainty at the time of this forecast as to the growth, if any, in Wall Street bonus payments, the estimate for withholding collections for the current fiscal year, as well as projections going forward, could be significantly impacted by any departure from current estimates. For every one percent of growth in the amount of Wall Street bonuses over 2006 bonuses, withholding collections would increase by approximately $100 million.

Estimated payments are paid either quarterly throughout the year, primarily by the State's taxpayers whose income is not earned through the payment of wages, or with requests for the extension of filing one's final return. As a result, these payments reflect both the current year's income as well as the previous year's income. Estimated payments are projected to increase by 10.7 percent in the current fiscal year reflecting growth in proprietors' income (primarily income from the self-employed) as a result of economic growth as well as stock market growth in 2007 and 2006 personal income growth.

As the economy slows down in 2008, the growth in estimated payments will slow down as well. The slowdown in the growth of proprietors' income and other income not subject to withholding is projected to be supported by the extension payments to be filed with taxpayers' returns due to strong income growth in 2007. As a result, estimated payments are projected to increase by 5.1 percent. The opposite holds true for estimated payment collections in 2009. Although extension payments are projected to be weaker as a result of lower income growth in 2008, the rebound in the economy is projected to increase the amount of quarterly payments; resulting in estimated payments growth of 5.9 percent.

Collections of the personal income tax remitted with a taxpayer's final return are a function of personal income of the prior year. Due to strong personal income growth in 2006, collections from final returns in SFY 2007-08 are estimated to increase by 3.4 percent. This growth was tempered by the Empire State Child Tax Credit which was enacted in 2006 and applied to taxpayers' returns for 2006 (this will be explained in more detail in the discussion of refund growth below).

Collections from final returns are projected to increase by 7.5 percent in SFY 2008-09 as a result of strong personal income growth in 2007. In turn, the economic slowdown in 2008 is projected to restrain personal income growth. Therefore, collections from final returns in SFY 2009-10 are projected to grow by 4.9 percent.

Other personal income tax collections are primarily comprised on the assessments made on taxpayers for additional tax due as a result of audits. The amount of collections from these assessments is mainly a function of the amount of income for the year being audited. The Department of Taxation and Finance is allowed a three year "window" to conduct audits. Other collections are estimated to grow by 13.2 percent in the current fiscal year and projected to slow to 2.8 percent growth in SFY 2008-09. Collections are projected to decline in SFY 2009-10. This slowdown in audit collection growth is a function of the lower personal income growth for the tax years authorized for audit which reflects the slowdown in the economy.

Finally, if a taxpayer overpays his personal income tax, either through withholding or estimated payments, he is allowed a refund of such overpayment when he files his final return. With the proliferation of e-filing tax returns, the number of returns requesting refunds within the final quarter of the fiscal year has greatly increased. In SFY 2005-06, $960 million in refunds were paid in the final quarter of the fiscal year. In SFY 2006-07, this amount was increased to $1.5 billion. This increase in the amount of refunds paid served to inflate the refunds paid in SFY 2006-07.

In the current fiscal year, the amount of refunds paid is estimated to increase by 16.5 percent. Although a portion of the refunds were rolled into the previous fiscal year, as stated above, the large growth in refunds is primarily due to the enactment of the child tax credit. The child tax credit allows all taxpayers a refundable credit equal to a third of the credit allowed at the Federal level, with a minimum credit of $100 per child within the ages of 4 and 17. Since the credit applies to many taxpayers, its impact on collections (or rather refunds) is large; the fiscal impact was estimated to be $600 million.

For SFY 2008-09, the growth in refunds reflects growth in personal income offset by the continued effect of the Empire State Child Tax Credit. Due to strong growth in personal income in 2007 not including those taxed through withholding and estimated payments, refunds are projected to increase by only 0.5 percent. Conversely, refund growth is projected to be 2.1 percent in SFY 2009-10, reflecting the slowdown in personal income growth.

User Taxes and Fees

Collections from user taxes and fees are comprised of: sales and use taxes, auto rental taxes, motor vehicle fees, cigarette and tobacco taxes, motor fuel taxes, alcoholic beverage taxes and license fees, and highway use taxes. Sales and use taxes are the main contributor to tax collections in this category.

Sales and use tax collections for the current fiscal year are estimated to increase by 5.2 percent. This increase is due to strong income growth in the current year which translated into strong retail sales. In addition, the housing downturn has not hit New York as hard as in other states in the nation. This has helped maintain sales and use tax growth. The depreciation of the dollar has also spurred collection growth as foreign travelers take advantage of increased buying power in the state as well as the nation as a whole.

Holiday sales as well as post-holiday sales as a result of the proliferation of gift cards have a large impact on sales tax collections during the final half of the fiscal year. Depending upon consumer sentiment in relation to the direction of housing market as well as job and income growth, the amount spent on holiday gifts will be adjusted downward or upward.

While sales and use tax collections are projected to continue to grow in SFY 2008-09, growth is projected at a slower 3.4 percent rate. This slower growth is a result of the continued housing market slump and slower income growth. Collections growth is projected to rebound to 4.0 percent in SFY 2009-10.

Collections from the other taxes in this category do not fluctuate greatly from year to year. As such, collections in the current fiscal year are estimated to decrease by 0.9 percent, primarily due to lower motor vehicle fees and motor fuel taxes. In SFY 2008-09, collections are projected to increase by 2.0 percent. This is due to the anticipated increase in the number of drivers' license renewals subsequent to the enactment of the eight year renewal period at the beginning of this decade. In SFY 2009-10, collections from these other user taxes are projected to remain flat, decreasing by 0.1 percent as the effect of the driver's license renewal period is carried forward.

Business Taxes

The type of business operating in New York determines the method by which the business pays its taxes. Corporations and banks pay taxes based primarily on their net income. Utilities pay their corporate taxes based on their gross receipts.

Most insurance companies pay their corporate taxes based on the amount of their premiums. Life insurance companies are the exception; their taxes are based on their net income. The petroleum business tax is based on volume and the tax rate varies with the price of petroleum.

Business taxes are estimated to increase by 4.4 percent in SFY 2007-08. This growth is primarily the result of tax loophole closures that were enacted in the current year's budget coupled with the small growth in corporate profits offset by the decrease in the tax rates that were also enacted this year.

Depending upon how quickly businesses have been able to react to the law changes enacted in the current fiscal year will have an effect on when the fiscal impact of those changes will be realized. At the time of budget enactment, the tax loophole closures were estimated to increase business tax collections by $500 million in the current fiscal year. Based upon collections to date, it is difficult to determine whether businesses have adjusted their quarterly estimated payments to reflect the law change. December's final quarterly payment will be a better gauge as to how businesses are reacting.

Another risk to these collections is how well businesses, especially larger corporations, are able to "tax plan" around these law changes. Collections may be further postponed if these loophole closures are implemented upon audit rather than with quarterly and final return payments.

"Should economic growth remain strong as reflected in current third quarter GDP growth and corporate profits fare better than what is currently projected for 2008, business tax collections would increase as opposed to the current projection of no growth."

Combined with regular tax collections are those made through the performance of audits. Similar to audits under the personal income tax, the amount of taxes collected through audits depends on the amount of income in the year being audited. Recently, audit collections from business taxes were strong as a result of the strong profit growth in the past three years. Business tax collection growth for SFY 2007-08 also reflects strong audit collections.

In SFY 2008-09, business tax collections are projected to remain flat. This is not only the result of the slowdown in the economy but, also to a slowdown in the amount of audit collections. This is especially apparent in bank tax collections where, in recent years, audit collections have accounted for approximately one quarter of all bank tax collections. For SFY 2009-10, business tax collections are projected to increase by only 1.6 percent, again a reflection of the anticipated decrease in the amount of audit collections.

Should economic growth remain strong as reflected in current third quarter GDP growth and corporate profits fare better than what is currently projected for 2008, business tax collections would increase as opposed to the current projection of no growth. In addition, the impact of the fallout in the subprime market on the financial services industry would not only affect collections in the current fiscal year but, would have an impact on collections going forward.

Other Taxes

Other taxes are primarily comprised of the estate and gift taxes, the real estate transfer tax, and pari-mutuel taxes. Although New York's gift tax was repealed in 2000, the State is still receiving a small amount of revenue as a result of audits.

New York's estate taxes do not have to be remitted until 9 months following a person's death. As a result, the amount of estate taxes paid in any particular month is not a reflection of the current economy but the economy at the time of death. These tax collections are also a function of the size of the estates on which the taxes are paid. Estate tax collections for the current fiscal year are estimated to decrease by 4.7 percent as a result of the turbulence in the stock market at the beginning of the year and a decrease in the number of large, taxable estates.

Estate taxes are projected to rebound in SFY 2008-09, increasing by 2.7 percent, reflecting the growth in the stock market at the end of 2007 and into 2008. For SFY 2009-10, collections are projected to continue to grow by 5.5 percent, again reflecting stock market growth.

Miscellaneous Receipts

GENERAL FUND MISCELLANEOUS RECEIPTS (Millions of Dollars)				
	SFY 2006-07 Actual	SFY 2007-08 Estimated	SFY 2008-09 Projected	SFY 2009-10 Projected
Licenses, Fines, and Fees	777.6	840.4	838.1	917.7
Abandoned Property	708.2	634.0	570.6	513.5
Reimbursements	163.5	158.2	158.8	159.5
Investment Income	190.7	197.2	180.6	182.8
Other	428.0	597.0	508.8	475.0
Total	**2268.0**	**2,426.8**	**2,256.2**	**2,248.5**

General Fund miscellaneous receipts are estimated to total $2.43 billion in SFY 2007-08, $58 million below the Enacted Budget estimate. This reflects a 7.0 percent increase in receipts from 2006-07. This increase is mainly due to increased collections from licenses and fees and investment income which is offset by a decrease in abandoned property revenues. The comptroller sold a significant amount of securities in the Abandoned Property Fund in SFY 2006-07 which inflated collections for that year.

Collections in SFY 2008-09 are projected to decrease by 7.0 percent as a result of the economic slowdown which is projected to decrease the State's investment income. In addition, the decrease is a result of the loss of one time revenues such as the deposit to the General Fund from the Power Authority to support the Power for Jobs program and the one time sale of state owned properties.

Collections in SFY 2009-10 are projected to remain relatively flat, decreasing by only 0.3 percent. The decline in abandoned property revenues is offset by growth in licenses, fees, and other reimbursements.

II. Medicaid

Methodology

The Senate Finance Medicaid forecast model uses projections of price and the number of service units to forecast Medicaid expenditures, based on Medicaid Analysis Reporting System (MARS) data, specifically report numbers 39, 51, and 73. Projections are based on analysis of actual data and service category trends. State spending for each category of service is analyzed and compared to prior year spending trends. The projected changes are further refined against larger data sets and compared with quarterly percentage changes in each service category and overall, in order to identify and adjust for anomalous data.

The total expenditures for the next year are projected from the current year base by multiplying the cost per unit of beneficiary, estimated, by the trended units of service. The total is then multiplied by the expected State share percentage for each category of service. Additional variables that are not expressed in the model are then applied, including expected price increases and any changes in utilization which would not be articulated in the trend.

The Senate forecast is based on quarterly data, which tend to be more reliable than monthly data. In addition, while the forecast is based on a year to year comparison, trends for each category of service are examined for multiple prior years in order to analyze historical trends.

The Senate model is currently composed of seven components, including: hospital inpatient; hospital outpatient and freestanding clinic; home care (including personal care, home health aide, home nursing, long term home health care and assisted living); managed care; pharmacy; and other categories

"The Executive midyear Medicaid spending projection is $12.3 billion, a reduction of $556 million from SFY 2007-08 Enacted Budget."

Mid Year Projections

The Senate Finance Mid-Year Review projects State Medicaid baseline expenditures for SFY 2007-08 at $12.4 billion compared to the SFY 2007-08 Enacted Budget for Medicaid expenditures of $12.9 billion. The Executive midyear Medicaid spending projection is $12.3 billion, a reduction of $556 million from SFY 2007-08 Enacted Budget. The Senate Finance midyear projection is $73.3 million higher than the Mid-Year projections offered by the Executive and would therefore reduce overall Medicaid spending by $482.7 million from the SFY 2007-08 Enacted Budget.

The lower projected SFY 2007-08 Medicaid spending contained in the Senate Finance midyear forecast is attributed primarily to lower spending in hospitals and clinics, non-institutional services, and various spending items contained in the 'other' category. For hospitals and clinics, the Senate Finance forecast projects spending at $2.6 billion or $84.1 million lower than the midyear

Medicaid spending projections offered by the Executive for hospitals and clinics. This lower projected spending under the Senate Finance forecast is primarily due to a projected decline in the number of in-patient hospital visits, and the lack of Federal approval for rate increases previously authorized by the State Legislature. The Senate Finance forecast projects spending of $874.4 million for the Family Health Plus (FHP) program, which is $78.6 million lower than the projected spending for FHP offered by the Executive, and is attributed to a re-estimate of the number of new enrollees expected to enter into the FHP program. The Senate Finance midyear forecast also projects spending for non-institutional and other category of services at $1.1 billion, or $56.1 million lower than the spending projections offered by the Executive. The lower projected level of spending for these categories is contained mostly in the 'other' category of services and is attributed to services including: physicians; dental; eyeglasses, durable medical equipment (DME) and laboratory services. Senate Finance projects the utilization for these various services to remain relatively constant, but the cost to provide these services shows a downward trend from year to year and would result in lower Medicaid spending under the non-institutional and other category of services.

The projected reduction in spending in the previously mentioned categories is offset by higher than projected SFY 2007-08 spending in other categories. For example the midyear projected spending for nursing home services is $2.9 billion, which is $35.7 million higher than the projected spending offered by the Executive at the Mid-Year update. This higher projected spending is attributed to an upward trend in the number of patients receiving care in nursing homes. For Managed Care, the Senate Finance midyear projected spending is $1.3 billion or $15.7 million higher than the midyear forecast offered by the Executive. The higher projected spending included in the Senate Finance midyear forecast is attributed to a projected increase in the number of recipients enrolled in the managed care program. Another category with a dramatic change in projected spending is home care. For this category, midyear projected spending for SFY 2007-08 is $2.3 billion or $145.6 million higher than the projected spending offered in the Executive midyear forecast. The increased home care spending is primarily attributed to a projected increase in the number of patients receiving personal care service. Pharmaceutical spending under the Senate Finance midyear forecast is $1.3 billion or $94.9 million higher than the midyear projected spending for this category offered by the Executive.

The Senate Finance forecast model was trended forward primarily using, the most recent 12 months of spending and utilization data, along with projected adjustments related to Legislative and administrative changes made during the current year, to project the State Medicaid expenditures for SFY 2008-09. The forecast projects that baseline Medicaid expenditures would be $13.7 billion, which is $1.3 billion or 10.3 percent above the Senate Finance midyear spending projections for SFY 2007-08. The SFY 2008-09 projected increase of 10.3 percent for Medicaid spending is attributed to a substantial increase in spending for various categories, including hospitals and clinics, nursing homes and home care and family health plus. For hospital and clinics, the SFY 2008-09 projected spending is $2.9 billion, which is 8.8 percent higher than the SFY 2007-08 projected spending for that category. This substantial projected increase in spending can be attributed to a projected increase in the number of patient visits along with the full implementation of rate increases previously authorized by the Legislature. It is estimated that the two year value of the hospital rate increase would be $170 million. SFY 2008-09 spending for nursing home services is projected to be $3.2 billion or 10 percent higher than the SFY 2007-08 spending projected by the Senate Finance Committee. This increase in spending for nursing home services is attributed to a projected increase in the number of patients receiving services, as well as the implementation of rate increases previously authorized by the Legislature. It is estimated that the full two year value of the rate increases for nursing home would be approximately $170 million. Spending for non-institutional services are projected at $1.2 billion which is approximately $145 million or 13.3 percent higher than the projected SFY 2007-08 spending for this category. In addition, the SFY 2008-09 spending under pharmaceuticals is projected to be $1.4 billion or 10.3 percent higher than SFY 2007-08 projected spending. Finally, the Senate Finance forecast projects spending for managed care services at $1.5 billion or 15 percent higher than the projected SFY 2007-08 spending for that category. This increase in spending is attributed to higher projected enrollment of manage care recipients.

To achieve projected spending for SFY 2009-10, spending trends were analyzed against a projected baseline growth rate of six percent. Using a growth rate of six percent, SFY 2009-10 projected baseline Medicaid spending would be $14.5 billion or $800 million over the projected Medicaid spending for SFY 2008-09.

Factors Impacting Future Medicaid Spending

The Senate Finance forecast model has projected baseline Medicaid spending for SFY 2007-08, SFY 2008-09 and SFY 2009-10, using projections of price and the number of service units for each category of service. Absent from the available data is the impact of recent legislative actions to the Medicaid program. Statutory changes to the Medicaid program can have substantial future financial implications. As a result, the projected baseline Medicaid spending could change significantly, particularly in the area of spending related to enrollment growth.

" Statutory changes to the Medicaid program can have substantial future financial implications. "

Chapter 58 of the laws of 2005 established a cap on the Medicaid expenditures of local governments. Under the provisions of the legislation, local Medicaid spending would be contained at 2005 spending levels, increased annually by a modest trend factor. Prior to the enactment of the local cap, Medicaid spending by local governments was increasing at an average annual rate of 12 percent. In fact, local Medicaid spending increased more than 34 percent between 1999 and 2002[3]. It is projected by the Executive that the cap on Medicaid spending financed by local taxes would provide cumulative savings to

[3] Page 3 of the Senate Medicaid Reform Task Force Report, December 2003.

"…the cap on medicaid spending financed by local taxes would provide cumulative savings to local governments of more that $4.95 billion by SFY 2010-11."

local governments of more that $4.95 billion by SFY 2010-11. Over time, the savings to local governments will translate to higher State Medicaid expenditures. For SFY 2006-07, New York State's Medicaid spending increased by approximately $197.8 million to finance the local Medicaid cap.[4]

Recent analysis indicates that local Medicaid spending has increased at 6.83 percent. It is projected by the Executive that for SFY 2007-08, New York State would have to assume an additional $400 million in spending due to the local cap. For SFY 2008-09, Medicaid spending would increase by an additional $730 million due to the cap.

The SFY 2007-08 budget authorized an eligibility expansion for the Child Health Plus (CHP) Program from 250 percent of the federal poverty level (FPL) to 400 percent of FPL. The cost of the CHP expansion was to be shared by the State and the Federal Government with cost shares of 35 percent 65 percent respectively. However there are a number of Child Health Plus (CHP) recipients (Legal Immigrants, residing in the United States within five years) for which there is no Federal reimbursement. This results in a Federal/State share of fifty percent each. The State cost was estimated at $10.6 million for SFY 2007-08 and as the number of children enrolled into the CHP program the State cost was estimated to grow to $51.3 million by SFY 2009-10. Recent actions at the federal level require that plans to increase the eligibility criteria for enrollment into the CHP program would be the sole financial responsibility of New York State. Failure of the Federal Government to enact legislation to authorize expansion of the CHP eligibility criteria would result in the State not receiving Federal funds for New York State's planned expansion. If New York State were to proceed with the expansion of the CHP program, the absence of Federal support would result in greater financial obligations for State spending under the Medicaid program. Estimates of the cost to expand the CHP program, provided by the Division of Budget, estimate the State's Medicaid expenditures for SFY 2008-09 could increase by $82.6 million, with that outstanding obligation growing to $102.6 million by SFY 2009-10.

CONCLUSION

Factoring the full effect of enacted statutory changes to New York State's Medicaid program, the Senate Finance forecast projects baseline Medicaid spending at $12.42 billion for SFY 2007-08 growing to $14.5 billion by SFY 2009-10 (See Chart). This projection of baseline Medicaid spending over the next three fiscal years represents a two year average growth rate of 8 percent compared to growth rate of seven percent used in the Executive Mid-Year forecast.

[4]Source: Department of Health

SENATE FINANCE MEDICAID FORECAST

	EXECUTIVE MID-YEAR SFY 2007-08 RE-ESTIMATES	SFC PROJECTED SFY 2007-08 MEDICAID SPENDING	DIFFERENCE	PERCENT DIFFERENCE	SFC PROJECTED SFY 2008-09 MEDICAID SPENDING	SFC YEAR TO YEAR PERCENT CHANGE 07-08 TO 08-09	SFC PROJECTED SFY 2009-10 MEDICAID SPENDING	SFC YEAR TO YEAR PERCENT CHANGE 08-09 TO 09-10
Hospital /Clinics	2,732,000,000	2,647,910,907	(84,089,093)	-3.08%	2,880,809,797	8.80%		
Nursing Homes	2,875,000,000	2,910,724,453	35,724,453	1.24%	3,203,647,719	10.06%		
Managed Care	1,314,000,000	1,329,729,912	15,729,912	1.20%	1,529,189,399	15.00%		
Home Care	2,132,000,000	2,277,616,074	145,616,074	6.83%	2,458,413,294	7.94%		
Non-Institutional / Other	1,150,000,000	1,093,939,001	(56,060,999)	-4.87%	1,238,968,761	13.26%		
Pharmacy	1,186,000,000	1,280,899,890	94,899,890	8.00%	1,412,130,004	10.25%		
Family Health Plus	953,000,000	874,433,694	(78,566,306)	-8.24%	971,495,834	11.10%		
TOTAL BASE	**12,342,000,000**	**12,415,253,931**	**73,253,931**	**0.59%**	**13,694,654,808**	**10.31%**	14,516,334,096	6.00%

III. Public Assistance

Family Assistance

New York City

For SFY 2007-08, the Family Assistance caseload for New York City (NYC) is projected at 150,491, a decrease of 12,584 or 7.7 percent from the SFY 2007-08 Enacted Budget, and a decrease of 6.4 percent from the March 2007 actual caseload figure. The Family Assistance NYC caseload was projected by analyzing a multi-year trend of the change in actual monthly caseload over a three year period from July 2004 to July 2007. Carrying that trend forward results in a projected caseload of 140,921 for SFY 2008-09 and 131,960 for SFY 2009-2010. The Monthly Average Payment (MAP) for NYC is projected at $365.10, an increase of $24.92 or 6.8 percent. The MAP was calculated by using the average MAP for the period of July 2006 to June 2007. The MAP is unchanged for SFY 2008-09 and 2009-2010.

Rest of State

For SFY 2007-08, the Family Assistance caseload for the Rest of State (ROS) is projected at 89,242, a decrease of 18,948 or 17.5 percent from the SFY 2007-08 Enacted Budget, and a decrease of 8.7 percent from the March 2007 actual caseload figure. The Family Assistance ROS caseload was projected by using a multi-year trend of the change in actual monthly caseload over a three year period from July 2004 through July 2007. Carrying that trend forward results in a projected caseload of 81,497 for SFY 2008-09 and 74,424 for SFY 2009-2010. The Monthly Average Payment (MAP) for ROS is projected at $244.57, a decrease of $1.57 or 0.6 percent. The MAP was calculated by using the average MAP for the period of July 2006 to June 2007. The projected MAP remains unchanged for SFY 2008-09 and 2009-2010.

Safety Net Families

New York City

For SFY 2007-08, the Safety Net Families caseload for New York City (NYC) is projected at 77,129 a decrease of 18,645 or 19.5 percent from the SFY 2007-08 Enacted Budget and a decrease of 8.9 percent from the actual March 2007 caseload. The Safety Net Families NYC caseload was projected by using a multi-year trend of the change in actual monthly caseload over a three year period from July 2004 through July 2007. Carrying that trend forward results in a projected caseload of 70,234 for SFY 2008-09 and 63,956 for SFY 2009-2010. The Monthly Average Payment (MAP) for NYC is projected at $234.51, an increase of $33.46 or 14.3 percent. The MAP was calculated by using the average MAP for the period of July 2006 to June 2007. The projected MAP remains unchanged for SFY 2008-09 and 2009-2010.

Rest of State

For SFY 2007-08, the Safety Net Families caseload for the Rest of State (ROS) is projected at 29,043, a decrease of 1,472 or 4.8 percent from the SFY 2007-08 Enacted Budget, and 4.1 percent from the March 2007 actual caseload figure. The Safety Net Families ROS caseload was projected by using a multi-year trend of the change in actual monthly caseload over a three year period from July 2004 through July 2007. Carrying that trend forward results in a projected caseload of 27,852 for SFY 2008-09 and 26,710 for SFY 2009-2010. The Monthly Average Payment (MAP) for ROS is projected at $198.80, an increase of $6.37 or 3.2 percent. The MAP was calculated by using the average MAP for the period of July 2006 to June 2007. The projected MAP remains unchanged for SFY 2008-09 and 2009-2010.

Safety Net Singles

New York City

For SFY 2007-08, the Safety Net Singles caseload for New York City (NYC) is projected at 121,590, an increase of 3,098 or 2.6 percent from the SFY 2007-08 Enacted Budget, and a decrease of 0.55 percent from the March 2007 actual caseload figure. The Safety Net Singles NYC caseload was projected by using a multi-year trend of the change in actual monthly caseload over a three year period from July 2004 through July 2007. Carrying that trend forward results in a projected caseload of 120,920 for SFY 2008-09 and 120,253 for SFY 2009-2010. The Monthly Average Payment (MAP) for NYC is projected at $392.56, a decrease of $28.01 or 7.1 percent. The MAP was calculated by using the average MAP for the period of July 2006 to June 2007. The projected MAP remains unchanged for SFY 2008-09 and 2009-2010.

Rest of State

For SFY 2007-08, the Safety Net Singles caseload for the Rest of State (ROS) is projected at 50,450, an increase of 13,488 or 36.5 percent from the SFY 2007-08 Enacted Budget, and an increase of 7.8 percent from the March 2007 actual caseload figure. The Safety Net Singles ROS caseload was projected by using a multi-year trend of the change in actual monthly caseload over a three year period from July 2004 through July 2007. Carrying that trend forward results in a projected caseload of 54,359 for SFY 2008-09 and 58,571 for SFY 2009-2010. The Monthly Average Payment (MAP) for ROS is projected at $368.89, a decrease of $18.45 or five percent. The MAP was calculated by using the average MAP for the period of July 2006 to June 2007. The projected MAP remains unchanged for SFY 2008-09 and 2009-2010.

Statewide Totals

For SFY 2007-08, the mid-year revision projects a statewide total caseload of 517,945, reflecting a decrease of 35,063 or 6.3 percent from the Enacted Budget level. The mid-year revision projects a total State share cost related to that caseload of $771.5 million for SFY 2007-08, reflecting a $10.5 million or 1.3 percent decrease from the Enacted Budget spending level.

For SFY 2008-09, the statewide total caseload is projected to be 495,783, reflecting an anticipated decrease of 22,162 or 4.3 percent from the current year. The projected SFY 2008-09 State share spending level related to that caseload is $751.3 million, reflecting a decrease of $20.2 million or 2.6 percent from the estimated current year spending level.

For SFY 2009-10, the statewide total caseload is projected to be 475,874, reflecting an anticipated decrease of 19,909 or four percent from SFY 2008-09. The projected SFY 2008-09 State share spending level related to that caseload is $733.9 million, reflecting a decrease of $17.4 million or 2.3 percent from the estimated current year spending level.

These projections presume economic activity to be approximately consistent with the economic forecast including within this documents. If economic activity varies in any measured amount from those projections, caseload numbers will change accordingly.

	2006-07 Actual	2007-08 Enacted Budget Estimates	2007-08 SFC Midyear	2008-09 SFC	2009-10 SFC
<u>**Family Assistance**</u>					
NYC Recipients/month	172,807	163,075	150,491	140,921	131,960
Total Expenditures	$ 752,580,379	$665,698,242	$659,331,169	$617,403,085	$578,143,152
MAP	$ 362.92	$340.18	$365.10	$365.10	$365.10
State Share	$ 188,145,095	$166,424,561	$164,832,792	$154,350,771	$144,535,788
ROS Recipients/month	105,523	108,190	89,242	81,497	74,424
Total Expenditures	$ 308,717,498	$319,558,639	$261,910,991	$239,180,655	$218,422,532
MAP	$ 243.80	$246.14	$244.57	$244.57	$244.57
State Share	$ 77,179,375	$79,889,660	$65,477,748	$59,795,164	$54,605,633
Family Assistance - State Share	$ 265,324,469	**$246,314,220**	**$230,310,540**	**$214,145,935**	**$199,141,421**
Total Family Assistance Recipients	278,330	**271,265**	**239,733**	**222,418**	**206,384**

	2006-07 Actual	2007-08 Enacted Budget Estimates	2007-08 SFC Midyear	2008-09 SFC	2009-10 SFC
Safety Net Families					
NYC					
Recipients/month	92,377	95,774	77,129	70,234	63,956
Total Expenditures	$ 251,581,846	$231,064,352	$217,050,261	$197,646,904	$179,979,859
MAP	$ 226.95	$201.05	$234.51	$234.51	$234.51
State Share	$ 62,895,462	$115,532,176	$108,525,131	$98,823,452	$89,989,929
ROS					
Recipients/month	31,641	30,515	29,043	27,852	26,710
Total Expenditures	$ 74,842,356	$70,464,017	$69,284,981	$66,443,731	$63,719,376
MAP	$ 197.11	192.43	$ 198.80	198.80	$ 198.80
State Share	$ 18,710,589	$35,232,009	$34,642,490	$33,221,866	$31,859,688
Safety Net 5 yr. - State Share	$ 81,606,051	**$150,764,185**	**$143,167,621**	**$132,045,318**	**$121,849,617**
Safety Net 5 yr. Recipients	124,018	**126,289**	**106,172**	**98,086**	**90,666**
Safety Net					
NYC					
Recipients/month	118,077	118,492	121,590	120,920	120,253
Total Expenditures	$ 568,456,085	$598,010,165	$572,776,445	$569,620,262	$566,478,212
MAP	$ 401.19	$420.57	$392.56	$392.56	$392.56
State Share	$ 142,114,021	$299,005,083	$286,388,222	$284,810,131	$283,239,106
ROS					
Recipients/month	40,436	36,962	50,450	54,359	58,571
Total Expenditures	$ 183,113,688	$171,802,333	$223,326,006	$240,629,898	$259,275,074
MAP	$ 377.37	$387.34	$368.89	$368.89	$368.89
State Share	$ 45,778,422	$85,901,166	$111,663,003	$120,314,949	$129,637,537
Safety Net - State Share	$ 187,892,443	**$384,906,249**	**$398,051,225**	**$405,125,080**	**$412,876,643**
Safety Net Recipients	158,513	**155,454**	**172,040**	**175,279**	**178,824**
Total - State Share	$ 534,822,963	**$781,984,654**	**$771,529,387**	**$751,316,333**	**$733,867,682**
Total Caseload	560,861	**553,008**	**517,945**	**495,783**	**475,874**

IV. School Aid

I. State Fiscal Year 2007-08 Enacted Spending: The Legislature and the Governor enacted a general support for public schools program totaling $19.6 billion. This represented a $1.8 billion increase over the 2006-07 school year. On a State Fiscal Year basis this increase translates into an additional $1.7 billion in education spending for SFY 2007-08 after the "tail" for the 2006-07 school year is accounted for.

II. Current Year Spending Projections: Over the course of the State Fiscal Year the State Education Department (SED) is required to update State aid claims for school districts. These aid claim updates occur statutorily in May, November and February on or before the 15th of each respective month. Typically the school aid figures in each year's enacted budget are based upon data submitted by school districts on February 15th. The most recent data is an unofficial update provided by SED in September. The SFY 2007-08 spending projections for school aid included in this report are based on this unofficial September data. The data submitted by school districts includes changes for the 2007-08 school year in addition to changes for the 2006-07 school year and the 2005-06 school year. The updated claims submitted by school districts from the 2005-06 school year and the 2006-07 school year affect the spending in the 2007-08 "tail" (funding from the prior year included in the current year).

Analysis of projected participation in the Universal Pre-K program reveals that approximately 291 school districts did opt to participate in September 2007 for the 2007-08 school year according to the State Education Department. During the October 2007 Budget Hearing the State Education Department estimated that approximately eight to nine more school districts may decide to opt in mid-year. The State Board of Regents passed a regulation, in September 2007, allowing school districts to begin a pre-k program mid-year. Based on data available in late-October it is projected that participation rates for the 2007-2008 school year will reduce the overall Universal Pre-k Program by $42 million on a school year basis from the SFY 2007-08 Enacted Budget estimates. This will reduce the State Fiscal Year need for 2007-08 as well as the amount needed for 2008-09. The following table provides a State Fiscal projected spending changes for the 2007-08:

SFY 2007-08 State Aid Adjustments	
Item	Amount
2005-06 and 2006-07 State Aid Claim Adjustments	$8.7 million
2007-08 Change (September update)	($13.2 million)
2007-08 Pre-K adjustment (non-participation projection)	($29.4 million)[5]
Lottery Update	$28 million
Medicaid Offset	$60 million
Total 2007-08 Adjustment	$54.1 million

As noted above, these estimates are likely to change when we receive the more recent claims data districts will be submitting for the November 15th database update. In past years these fluctuations in claims were substantial. For example, in 2006-07 between enactment of the budget and the following February (10 months later), claims increased by $175 million.

[5] The SFY 2007-08 Pre-K adjustment of $29.4 million is equal to $42 million on a school year basis.

III. Projected 2008-09 Spending:

The largest projected increase in current services education spending is within Foundation Aid. The second year of the Foundation Aid phase-in is in the upcoming fiscal year, 2008-09. At the time of the 2007-08 budget enactment Foundation aid was projected to increase to $5.5 billion by SFY 2010-11. The first year of the phase-in provided a $1.1 billion increase in Foundation Aid. The second year of the phase-in is expected to provide a $1.2 billion increase for the 2008-09 school year. These projections are based on the statutory provisions set in Education Law section 3602.

Beyond Foundation Aid, the largest increases will come in expense based aids such as building aid, transportation aid, BOCES and private excess cost aid. Actual claim data for these aid categories are not available until November 15, 2007. Therefore, forecasts of these expense based aids, a large aid category are limited to analysis of prior year annual average growth over the last eight years. This method provides an estimate of changes we are likely to see in the November update. The following chart provides the average annual increases in these aid categories and the projected increases for 2008-09:

2008-09 School Year Aid Projections
Expense Aids
(millions of dollars)

Aid Categories	Annual Average Growth	2007-08 Amount	2008-09 School Year Projected Increase	2009-10 School Year Projected Increase
Building Transportation BOCES Private and High Cost Excess Cost Aid Instructional Materials	6%	$4,726	$283.6	$300.6

Most of the remaining aid categories will continue to provide the same funding as 2007-08. The following table provides a listing of aid categories expected to be sustained in 2008-09

2008-09 School Year Aids Expected to Remain Unchanged	
Aid Category	2008-09 and 2009-10 Projected Funding
Rochester Community Schools Pilot	$4,000,000
Native American Education/Building	$39,000,000
Shared Services	$140,892,194
Incarcerated Youth	$16,500,000
Homeless Education/Transportation	$6,475,000
Supp. Ed. Imp. NYC/Aca. Ach. Grant Yonkers	$97,385,000
Employment Preparation Education	$96,000,000
Bilingual Education	$11,500,000
Charter School Incentive Aid	$22,513,617
Education of OMH/OMR	$54,600,000
Teacher Programs	$85,000,000
Student Health Services	$13,840,000
Other	$18,160,900

"…Universal Pre-K spending is expected to be lower than estimated in March 2007 as a result of fewer districts opting into the program than anticipated."

Several programs are expected to change from the 2007-08 school year. An increase of $2.8 million for reorganization incentive operating aid is expected due to the reorganization of several school districts as well as a projected increase of $5 million for fiscal stabilization grants. As noted above Universal Pre-K spending is expected to be lower than estimated in March 2007 as a result of fewer districts opting into the program than anticipated. Total general support for public schools program (GSPS) is expected to reach $21 billion when the expected second year phase-in of Foundation Aid is added to the projected changes in the expense based aids. This estimate represents a $1.49 billion school aid increase over the 2007-08 school year. The projected increase includes the following components:

2008-09 School Year Projections General Support for Public Schools (billions of dollars)				
Aid Category	2007-08	2008-09	Change Amount	Change Percent
Foundation Aid	$13.65	$14.85	$1.20	8.8%
Expense Aids	$4.72	$5.01	$.28	6.0%
Universal Pre-K	$.40	$.40	$0	0.0%
High Tax Aid	$.099	$.099	$0	0.0%
All Other	$1.085	$1.08	$0	0.0%
Total	$19.95	$21.43	$1.49	7.5%

This projected increase in school aid when translated into a fiscal year cost for SFY 2008-09 amounts to $1.04 billion. In total the projected increase on a State Fiscal Year basis is expected to grow by approximately $1.69 billion after the 2007-08 school year "tail" which is appropriated in SFY 2008-09 is included as well as changes projected in lottery revenues and Medicaid offsets.

IV. Projected 2009-10 Spending:

The same aid categories are expected to increase in the 2009-10 school year as the State moves into the third year of the Foundation Aid phase-in. Expense base aids are also expected to continue to trend up in the 2009-10 school year. The state financial plan impact of school aid in 2009-10 will include the 2008-09 "tail" as well as the costs associated with statutory increases. In total school aid spending for SFY 2009-10 is estimated to grow by an additional $1.9 billion. This projection includes changes in the Medicaid offset as well as the Lottery which affect the General Fund. The following table provides the school year increases projected for the 2009-10 school year:

2009-10 School Year Projections General Support for Public Schools (billions of dollars)				
Aid Category	2008-09	2009-10	Change Amount	Change Percent
Foundation Aid	$14.85	$16.35	$1.5	10.0%
Expense Aids	$5.01	$5.301	$.30	6.2%
Universal Pre-K	$.040	$.040	$.007	0.0%
High Tax Aid	$.099	$.099	$.00	0.0%
All Other	$1.085	$1.085	$.00	0.0%
Total	$21.43	$23.23	$1.80	8.4%

Scheduled School Year Increases
In Foundation Aid Between 2007-08 and 2010-2011
(billions of dollars)

School Year	2007-08	2008-09	2009-10	2010-2011
Annual Increase	$1.1	$1.20	$1.50	$1.70
Cumulative Increase	$1.1	$2.30	$3.80	$5.5

V. Lottery Revenues:

The express purpose of the Lottery is to raise revenues for education through the sale of the following six basic game products: Instant scratch-off games; Pari-mutuel numbers games with drawings conducted nine times per week with payouts that are based upon sales (Lotto and Take 5); Twice daily fixed payout games ("Numbers" and "Win-4"); Nightly "Pick 10" which allows patrons to choose ten numbers from a field of eighty and "Quick Draw" which consist of an on-line game drawn every four minutes; "Mega Millions' which is a multi-jurisdictional game in which the Lottery participates with Georgia, Illinois, Massachusetts, Maryland, Michigan, New Jersey, Ohio, Texas, Virginia, Washington and California where the game has a pari-mutuel payout for the first prize and fixed payouts for lower tier prizes; and Video Lottery games offered at various racetracks.

Net proceeds resulting from gross sales less payout from prize awards, range from a low of 40 percent for Lotto and Instant Win to 92 percent for Video Lottery games.

"Any shift in the variables and factors that impact the games can produce large revenue variances in estimates"

There are many variables and factors that influence consumer demand for Lottery products including; pricing; sizing of jackpots; prize payout percentages; and development of new gaming venues. Competition and Lottery's investment in advertising and promotion of the games also impact Lottery revenues. Additionally, the revenue generated from the introduction of new games is partially offset by reductions in receipts for existing games. New York's markets have diverse census tracks that make continual shifts in the previous noted factors necessary to ensure maximum revenues are derived for education funding from the games. It is apparent that the State's economy may not be directly related to the Lottery's fiscal history as evidenced by eight straight years of continued growth in Lottery revenue. However, historical percentages of revenues from the traditional lottery games realized a slight decrease when video lottery terminals began operations in 2005.

Any shift in the variables and factors that impact the games can produce large revenue variances in estimates. For example, year to date receipts show that New York is experiencing a double digit decrease in VLT receipts at Monticello

Raceway because Pennsylvania established a significant number of VLT machines within a short distance. In contrast, stronger revenues were recognized at Saratoga Raceway due to aggressive marketing techniques by the local management team.

The Senate projects total lottery revenue generated for education at $2.75 billion for SFY 2007-08 and $2.88 billion for SFY 2008-09. For, SFY 2009-2010 total net lottery revenue is estimated at $3.12 billion. All three years reflect downward adjustments from the Enacted SFY 2007-08 Budget estimates. These revisions reflect delayed expansion into new VLT sites previously authorized by law and trend figures reflecting actual revenue collections at operating VLT locations.

V. STAR and the Middle Class Property Tax Rebate Program

The total School Tax Relief program (STAR) for SFY 2007-08 is estimated at $4.73 billion, an increase of $738 million over the SFY 2006-07 program. Since the application deadline for the STAR rebate checks was extended to December 31, 2007, it is unclear at this time how the new application process will affect participation rates. In SFY 2008-09 the total STAR program is projected to increase by $628 million to $5.36 billion. The SFY 2009-2010 STAR program estimate reflects the third year of the three year Property Tax relief expansion included in the SFY 2007-08 enacted Budget. As such the SFY 2009-10 STAR program is scheduled to total $5.83 billion.

The growth in the STAR program is the result of three-year phase-in for the expansion of the STAR Rebate Check program and corresponding increase NYC Personal Income Tax Credits. The underlying traditional STAR is scheduled to increase based upon growth in the number of exemptions, increasing tax rates, and increasing property values.

APPENDIX

THE NEW YORK STATE TAX REVENUE AND ECONOMY MODEL

Technical Characteristics

The economy portion of this report represents a continuation of the long-standing relationship between the Senate Finance Committee and Global Insight. Prior to 1995, Global Insight (formerly WEFA) produced both the economic and revenue forecasts and issued a final report to the Senate Finance Committee. This portion utilizes Global Insight's economic forecasts for both the national and New York economy. Global Insight continues to produce the economic forecast using the New York State Tax and Revenue Model (NYSTREM).

The New York State Tax Revenue and Economy Model (NYSTREM) was developed for the New York State Senate by Global Insight to provide forecasts of quarterly tax revenues, by tax category, on a timely basis with the greatest accuracy possible. The model captures the latest historical and forecast information of the U.S. economy and the New York State economy. The Senate Finance Committee has used this information to forecast New York State tax revenues.

The model and forecasting procedures have the following characteristics and considerations:

- the model is based on economic theory and tax revenue accounting relationships;

- tax variables are first seasonally adjusted to obtain consistency with other seasonally adjusted national and New York State data in modeling and forecasting processes, and are transformed back into non-seasonally adjusted variables to reflect the seasonality of tax collections;
- The New York State economy part of the model belongs to the system of Global Insight's Quarterly State Econometric Model. This system is composed of 51 state and D.C. models, which is further linked to Global Insight's national social and economic forecasting system;
- all of the expertise of the Global Insight Regional Economics Group is embedded in the modeling and forecasting processes;
- The Senate Finance Committee has access to the latest historical data and Global Insight's forecast of the U. S. economy each month.

Equations in the model were estimated with the most appropriate methods that econometrics theory suggests based on the availability and characteristics of the data. Because state tax revenue is determined by the state, as well as the national economy, many U. S. and New York State economic and social variables must be used to provide an explanation of New York State tax revenue. Therefore, besides forecasting New York State's tax revenue, NYSTREM also forecasts the State's following variables:

- 2-digit manufacturing (20 components) and 1-digit non-manufacturing employment (17 components);
- 14 components of real income;
- 15 components of nominal income;
- 8 components of population by age;

- 18 components of net migration by age;
- 8 components of household by age and sex of the head of household;
- 2 components of retail sales;
- housing starts, sales and prices;
- passenger motor vehicle registration;
- pari-mutuel racing attendance;
- total retail sales; and
- Alcoholic beverage sales volume.

Global Insight needs to process hundreds of endogenous and exogenous data series for estimating equations in the model and producing the forecasts.