

SENATE FINANCE COMMITTEE MINORITY

QUICK START REPORT

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NOVEMBER 13, 2008

# QUICK START REPORT

As Prepared by the Senate Finance Committee Minority Staff

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## EXECUTIVE SUMMARY

### Overview

This Quick Start Report details the Senate Finance Committee Minority's projections of revenues and major State expenditures categories over the next three years. In particular, the Report projects expected State receipts, on an All Funds and General Fund basis, for the closeout of SFY 2008-09, and out-year projections for SFY 2009-10. This Report projects a \$1.67 billion General Fund gap for SFY 2008-09 and a \$12.74 billion gap for SFY 2009-10. This Report also broadly summarizes three major areas of program spending including Public Assistance, Medicaid, and School Aid.

The National and State economies are experiencing a period of extraordinary stress and decline. The collapse of the US housing and mortgage sectors has produced extraordinary negative consequences and precipitated the near collapse of the financial system in the US. This profound tightening of the credit system nationwide is unprecedented since the 1930s.

The great economic turmoil of the past 15 months has a profound deleterious effect on the housing, banking, and financial service sectors, and the State Financial Plan as well. For example, New York's five major investment houses located in New York City are either out of business or have been reconstituted. Financial sector firms have written off hundreds of billions of illiquid debt and these same firms have experienced operating losses totaling billions of dollars in 2008. As a response, the US government has intervened in the market in unprecedented ways over the past five months. Specific Federal actions have been taken to help rescue Bear Stearns, Fannie Mae, Freddie Mac, and AIG. Five weeks ago, President Bush signed the Federal financial services rescue bailout Plan worth \$700 billion. The Federal Reserve has been reducing interest rates for a year from 4.5% in November 2007 to 1% today.

Furthermore, the Dow Jones Industrial Average and Standard and Poor's stock market indices have declined almost 45% this year. As has been widely reported, speculative selling of the shares of many financial sector firms has depressed the entire stock market.

It is now widely accepted that New York's financial service sector will lose at least upwards of 100,000 jobs during 2008 through 2009. Just four months ago, job loss estimates were closer to 15,000 job losses. On October 14, the New York City Comptroller's Chief Economist stated that the City could lose as many as 165,000 jobs over the next two years; this almost doubles the July forecast. Unfortunately, it is also widely recognized that job losses in the financial services sector translate into further job losses outside of this sector of approximately two to three times.

Across the globe, from Asia, to Europe, and the Middle East, international stock markets are experiencing their worst year ever recorded. On the US national level, the widespread and profound decline of the housing market and the dramatic increase of the price of oil (until September) have produced negative consequences that have leaked into virtually all major sectors of the economy. Consumer confidence has also weakened and job growth for both the

national and State economies have sharply weakened. For example, the Siena College Research poll found that overall consumer confidence has dropped to a record low in October 2008.<sup>1</sup>

Furthermore, new and existing home sales have experienced precipitous decline in recent months. By region and compared with a year ago, sales were down 10% in the Northeast, 9.9% in the West, 7% in the Midwest, and 6% in the South. Some economists have speculated that the mortgage write-off crisis could cost financial firms and investors up to \$400 billion. That is far more than the \$240 billion the savings and loan crisis of the late 1980s is estimated to have cost. The losses in total real estate wealth are expected to range from \$3 trillion to \$4 trillion, depending on how far housing prices eventually fall.

Essentially, all fundamental US economic indicators have experienced declines over the past year. US GDP declined for the 3rd quarter by 0.3% as reported on October 30, 2008.

However, there are certain selected slightly positive aspects to be considered. The tourism industry in the New York City area remains vibrant. It is expected that 45 million tourists will visit New York City in 2008. On the national level, existing home sales rose by 5.5% in September 2008 (year-to-year change) which represents the largest increase in five years. Also, the US's net level of exports (deficit) has declined to its lowest level in years. Also, the price of oil per barrel has declined from \$138 on July 4th to \$62 on October 28th. Finally, a further Federal Reserve Federal Funds rate reduction of 50 basis points (to 1.00%) on October 29, 2009 should also help stimulate the economy somewhat. The Federal Funds rates have not been lower since 1958.

The extraordinary volatility of the State and national economies make predicting economic indicators and State revenues even more difficult than usual. However, at this point, a general consensus has emerged that the national, regional, and State economies will decline for at least two more years.

## **State Receipts**

The Senate Finance Committee Minority projects that for the SFY 2008-09 closeout, \$191 million less in General Fund receipts will be received compared with levels projected by the Division of the Budget in its Mid-Year Financial Plan Update. Also, Senate Finance Committee-Minority projects that for SFY 2009-10, General Fund receipts will total \$219 million less than those projected by the Division of the Budget. This variation is primarily explained by slightly lower projected wage and personal income growth and slightly smaller bonuses being disbursed in the financial services sector. The Senate Finance Committee-Minority concurs with the Division of the Budget for the SFY 2010-11 projections.

This Report projects a slightly less favorable General Fund gap in SFY 2008-09, with a projected \$1.67 billion General Fund gap compared to the Executive \$1.48 billion.

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<sup>1</sup> "Consumer Confidence in State hits Record Low," *Times Union*, November 8, 2008.

For SFY 2009-10, total General Fund revenues are projected to be \$219 million less than those projected by the Division of the Budget in its Mid Year Report bringing the projected gap to \$12.74 billion.

### **State Disbursements**

On the disbursements side for SFY 2008-09, this Report concurs with the Division of the Budget estimates for caseloads and disbursements for all major spending categories.

Regarding disbursements and caseload activity for SFY 2009-10, this Report also concurs with all of the Executive's SFY 2009-10 projections (see table on page 21).

Finally, for the time period under consideration, projections for school enrollment and local school assistance are also the same as the Executive. K-12 enrollment is expected to be 2.764 million while School Aid is projected to be \$23.34 billion in School Year 2009-10.

## PART ONE: ECONOMIC REVIEW

### ***Overview: Review of 2008***

In Calendar Year (CY) 2008, the US economy has stalled with an upswing not expected until the Fall of 2009. The US Commerce Department reported that US GDP declined 0.3% in the third quarter. This decline is largely the result of weaker than expected consumer spending. Real personal consumption expenditures fell 0.2% in June, 0.5% in July, and were unchanged in August. According to Blue Chip, the consensus forecast is that real personal consumption expenditures declined at a 2.1% rate during the 3rd Quarter, the first contraction since 1991.

The total U.S. industrial production contracted on an annualized basis in the second quarter and many observers are now expecting to continue to fall through the first quarter of 2009. This is a fairly obvious indicator suggesting that the US economy is in recession. (See Appendix I)

Real residential investment declined for the 10th consecutive quarter in the second quarter of CY 2008. However, nationwide home sales are showing *some slight* signs of improvement. For example, the U.S. Commerce Department reported on this past October 27th that sales of new single family homes rose 2.7% in September 2008 as median home prices dropped to the lowest level in four years. It was expected that sales would actually drop from the August level, which is still 33% below the level a year ago. Median price of a new home sold in September also declined by 9.1% from a year ago to \$218,400, its lowest level since September 2004.

For CY 2008, net exports have been a positive sign for the economy. During the second quarter of 2008, real exports increased at an annual rate of 12.3% while imports fell at a 7.3% annual rate. For the US economy, it also still appears as if the Consumer Price Index (CPI) remains somewhat subdued. Through September 2008, the CPI is running at an annual rate of 4.5%.

For September 2008, the economy lost 160,000 jobs and this accurately demonstrates a major decline in the national employment picture. For September 2008, the seasonally adjusted US unemployment rate stood at 4.7%. In New York State, the rate stood at 5.6% (in April it was 4.5%). On a calendar year basis, over the last 30 years, the annual national average rate for unemployment is 6.3%

Nationally, corporate profits increased 17.6% in 2005, 15.2% in 2006 but declined approximately 1.65% in 2007. For the last 30 years, corporate profits have increased by an average of 8.5% annually.

Orders to US factories for big-ticket manufactured goods posted an unexpectedly strong showing in September - the largest gain in three months- based on a surge in demand for airplanes and autos. The US Commerce Department reported on October 29 that orders for durable goods rose by 0.8%, when a decline was expected. Demand for aircraft rose by 30% and motor vehicles orders rose 3% - the biggest gain in a year.

It is estimated that the Federal Fiscal Stimulus package passed in May increased consumption nationwide by approximately 2.0%. Certain members of the U.S. Congress are proposing a

second round national stimulus package, which would provide more federal dollars to states and local governments for infrastructure projects among other things.

#### CLOSEOUT ESTIMATES: State Revenue Projections

##### *Overview*

Overall State receipts are expected to continue to show small increases, although at a much smaller positive rate of change (see below) compared to last year. Our estimations show smaller Personal Income Tax (PIT) and Sales Tax receipts than projected by the Executive in its SFY 2008-09 Mid-Year Financial Plan Update. These decreases are largely driven by lower than projected financial sector bonuses, which we estimate will be \$2 billion less than the Division of the Budget.

SFY 2007-08 experienced relatively strong growth of State receipts (excluding transfers). The Division of the Budget projects that total All Governmental Funds cash receipts (excluding transfers) will increase only 1.1% for SFY 2008-09. Personal Income Tax (PIT) revenue is expected to decline for SFY 2009-10. Also, after experiencing strong growth in SFY 2007-08 (more than 18%), the Division of the Budget projects that Business Taxes will experience a rapid decline primarily reflecting a serious deterioration in Bank Tax collections.

##### Comparison With DOB Revenue Projections

Senate Finance Minority's estimates for SFY 2008-09 closeout are **slightly lower** than those of the Division of the Budget. This report projects that for the General Fund \$57.42 billion will accrue to the State in the current State Fiscal Year (\$60.98 billion on an All Funds Basis). Furthermore, Senate Finance Committee Minority projects that for the General Fund \$54.52 billion for SFY 2009-10 will accrue (\$59.85 million on an All Funds basis). This represents a \$2.9 billion decrease from SFY 2008-09 to SFY 2009-10.

These decreases are driven by slightly lower projected non-wage income components (bonuses) than those projected by the Division of the Budget. However, this report largely agrees with most of the revenue projections formulated by the Division of the Budget in its Mid Year Report.

**Senate Finance Minority Closeout Estimates**  
**SFY 2008-09 General Fund Tax Collections**  
(millions of dollars)

	<b>Senate Finance Minority</b>	<b>Mid-Year Report</b>	<b>Variance</b>
<b>Personal Income Tax:</b>	<b>\$22,845</b>	<b>\$22,986</b>	<b>(\$141)</b>
Withholding	\$27,695	\$27,732	(\$37)
Estimated Payments	\$12,702	\$12,852	(\$150)
Final Returns	\$2,588	\$2,588	\$0
Delinquencies	\$947	\$947	\$0
Gross Collections	\$43,932	\$44,119	(\$187)
Refunds/Offsets	(\$7,214)	(\$7,214)	\$0
STAR	(\$4,693)	(\$4,693)	\$0
RBTF	(\$9,180)	(\$9,226)	\$46
<b>User Taxes and Fees:</b>	<b>\$8,699</b>	<b>\$8,749</b>	<b>(\$50)</b>
Sales and Use Tax	\$8,026	\$8,076	(\$50)
Motor Vehicle Fees	(\$14)	(\$14)	\$0
Cigarette/Tobacco Tax	\$437	\$437	\$0
Alcohol Beverage Taxes	\$206	\$206	\$0
Alcohol Beverage Fees	\$44	\$44	\$0
<b>Business Taxes:</b>	<b>\$5,645</b>	<b>\$5,645</b>	<b>\$0</b>
Corporate Franchise Tax	\$3,166	\$3,166	\$0
Corporation and Utilities Tax	\$650	\$650	\$0
Insurance Tax	\$1,100	\$1,100	\$0
Bank Tax	\$729	\$729	\$0
<b>Other Taxes:</b>	<b>\$2,124</b>	<b>\$2,124</b>	<b>\$0</b>
Real Property Gains	\$0	\$0	\$0
Estate Tax	\$1,298	\$1,298	\$0
Gift Tax	\$2	\$2	\$0
Pari-Mutuel Taxes	\$23	\$23	\$0
Real Estate Transfer Tax	\$800	\$800	\$0
Other	\$1	\$1	\$0
<b>Total General Fund Taxes:</b>	<b>\$39,313</b>	<b>\$39,504</b>	<b>(\$191)</b>
Miscellaneous Receipts/Fed.	\$2,592	\$2,592	\$0
Lottery/VLTs	\$3,142	\$3,142	\$0
Transfers	\$12,291	\$12,291	\$0
<b>Total General Fund Receipts</b>	<b>\$57,338</b>	<b>\$57,529</b>	<b>(\$191)</b>

**Senate Finance Minority Closeout Estimates**  
**SFY 2008-09 All Funds Tax Collections**  
(millions of dollars)

	<b>Senate Finance Minority</b>	<b>Mid-Year Report</b>	<b>Variance</b>
<b>Personal Income Tax:</b>	<b>\$36,678</b>	<b>\$36,905</b>	<b>(\$227)</b>
Withholding	\$27,675	\$27,732	(\$57)
Estimated Payments	\$12,682	\$12,852	(\$170)
Final Returns	\$2,588	\$2,588	\$0
Delinquencies	\$947	\$947	\$0
Gross Collections	\$43,892	\$44,119	(\$227)
Refunds/Offsets	(\$7,214)	(\$7,214)	\$0
<b>User Taxes and Fees:</b>	<b>\$14,467</b>	<b>\$14,544</b>	<b>(\$77)</b>
Sales and Use Tax	\$11,417	\$11,494	(\$77)
Auto Rental Tax	\$53	\$53	\$0
Motor Vehicle Fees	\$767	\$767	\$0
Cigarette/Tobacco Tax	\$1,310	\$1,310	\$0
Motor Fuel Tax	\$523	\$523	\$0
Highway Use Tax	\$147	\$147	\$0
Alcohol Beverage Taxes	\$206	\$206	\$0
Alcohol Beverage Fees	\$44	\$44	\$0
<b>Business Taxes:</b>	<b>\$7,715</b>	<b>\$7,715</b>	<b>\$0</b>
Corporate Franchise Tax	\$3,599	\$3,599	\$0
Corporate Utilities Tax	\$858	\$858	\$0
Insurance Tax	\$1,221	\$1,221	\$0
Bank Tax	\$894	\$894	\$0
Petroleum Business Tax	\$1,143	\$1,143	\$0
<b>Other Taxes:</b>	<b>\$2,124</b>	<b>\$2,124</b>	<b>\$0</b>
Real Property Gains	\$0	\$0	\$0
Real Estate Transfer Tax	\$800	\$800	\$0
Estate Tax	\$1,298	\$1,298	\$0
Gift Tax	\$2	\$2	\$0
Pari-Mutuel Taxes	\$23	\$23	\$0
Other	\$1	\$1	\$0
<b>Total All Funds Taxes</b>	<b>\$60,984</b>	<b>\$61,288</b>	<b>(\$304)</b>

\* Excludes transfers

## STATE REVENUES

### *Closeout Overview*

The Senate Finance Committee Minority projects very slightly decreased receipts (see accompanying tables) for the various major elements on both a General Fund and All Funds basis compared with the Division of the Budget estimates and forecasts for the remainder of SFY 2008-09.

### *Personal Income Tax Revenues*

The Personal Income Tax (PIT) is New York's largest source of State tax receipts. The Division of the Budget estimates that the PIT will account for approximately 59% of All Funds State Tax receipts in SFY 2008-09.

**The Senate Finance Committee Minority projects All Funds PIT receipts totaling \$36.68 billion in SFY 2008-09 and \$35.25 billion in SFY 2009-10. For the General Fund, the Senate Finance Committee Minority projects \$22.85 billion in SFY 2008-09 and \$21.10 billion in SFY 2009-10.**

The differences between the Senate Finance Committee Minority's and the Division of the Budget's forecast for selected economic variables largely account for the slightly lower Senate Finance Minority projections. Slightly lower New York economic indicators will result in projections moderately lower than the Division of the Budget's. This Report projects that slightly lower wages (1.3%), and personal income (-2.3%) in 2009 will have a net negative effect on State tax receipts. On the national level, this Report projects slightly lower Real GDP (1.3% for 2008 and -0.2% for 2009) and Personal Income (4.3% and 1.8%).

### *Sales and Use Tax Revenues*

On an All Funds basis, Sales and Use Tax receipts totaled \$11.30 billion in SFY 2007-08. The Division of the Budget projects that All Funds Sales and Use Tax receipts are expected to increase slightly by 1.75% to \$11.49 billion in SFY 2008-09 and will rise to \$11.72 billion (or 1.94%) for SFY 2009-10. For the General Fund, DOB projects \$8.076 billion for SFY 2008-09 and \$8.441 billion for SFY 2009-10.

**The Senate Finance Committee Minority projects a slight decrease for the Sales and Use Tax (All Funds) receipts to \$11.42 billion for SFY 2008-09 and \$11.65 billion for SFY 2009-10. For the General Fund, Senate Finance Committee Minority projects \$8.03 billion for SFY 2008-09 and \$8.40 billion for SFY 2009-10.**

### *Business Taxes/Corporation Franchise Tax*

On an All Funds basis, Article 9-A collections amounted to \$3.40 billion in SFY 2007-08. DOB predicts an All Funds closeout for SFY 2008-09 at \$3.60 billion and forecasts \$3.76 billion (an increase of 4.5%) for SFY 2009-10. For the General Fund, DOB projects \$3.20 billion for SFY 2008-09 and \$3.31 billion for SFY 2009-10. These amounts represent major reductions from projections set forth even three months ago.

**The Senate Finance Committee Minority agrees with the DOB predictions.**

***Corporation and Utilities Tax***

For SFY 2007-08, All Funds actual receipts totaled \$801 million. The Division of the Budget projects that total SFY 2008-09 All Funds collections will amount to \$ 858 million (or an increase of 7.12%) and SFY 2009-10 collections will total \$ 877 million. For the General Fund, DOB estimates current year receipts at \$650 million and \$666 million in the next State Fiscal Year.

**The Senate Finance Committee Minority agrees with the DOB predictions.**

***Insurance Taxes***

For SFY 2007-08, actual receipts totaled \$1.22 billion on an All Funds basis. The Division of the Budget projects SFY 2008-09 All Funds receipts will total \$1.22 billion and \$1.23 billion (an increase of 1.06%) for the following fiscal year. For the General Fund, DOB projects receipts totaling \$1.11 billion for the current year and \$1.11 billion for SFY 2009-10.

**The Senate Finance Committee Minority agrees with the DOB projections.**

***Bank Tax***

For SFY 2007-08, on an All Funds basis, total State receipts under Article 32 amounted to \$1.06 billion. In its forecast, DOB projects All Funds receipts for SFY 2008-09 at \$894 million and forecasts a 30.3% decrease to \$686 million for SFY 2009-10. In the General Fund, DOB projects Bank Tax receipts of \$729 million to close out the current State Fiscal Year. For SFY 2009-10, the forecast is \$581 million.

**The Senate Finance Committee Minority agrees with the DOB projections.**

***Other Taxes***

On an All Funds basis, total State receipts in this category amounted to \$2.10 billion for SFY 2007-08. Furthermore, The DOB projects gross collections for the Other Taxes category will amount to \$2.12 billion for the current State Fiscal Year and \$2.03 billion in SFY 2009-10 which represents a 4.88% decrease. The Real Estate Transfer Tax component which saw extraordinary growth in SFY 2005-06, SFY 2006-07, and SFY 2007-08 is expected to show little growth during SFY 2008-09.

**The Senate Finance Committee Minority concurs with DOB projections for the Other Taxes components.**

## PART TWO: OUTYEAR PROJECTIONS

### Economic Forecast: Outlook for SFY 2009

#### ***US Overview***

The national consensus now assumes that the US is in a recession. After growing at a revised rate of 2.8% in the second quarter, it is apparent that the US economy is contracting. US GDP declined 0.3% in the third quarter of 2008. It is expected that Real US GDP will contract at annualized rates of 1.1% on the fourth quarter of CY 2008 and 0.1% in the first quarter of 2009. As noted above, the primary force propelling the economy downward is the first quarterly decline in real consumer spending since the 1990-91 US recession.

Real disposable income is expected to fall in 2009. Also, business investment is expected to decline for at least a year starting in the fourth quarter of 2008.

The manufacturing sector will probably shrink in CY 2009 in the US. Total US industrial production declined at an annualized rate of 3.1% in the second quarter and is now expected to decline through at least the 1st quarter of CY 2009. Nationwide, total industrial production declined 1.1% in August.

Nationally, corporate profits increased 15.2% in 2006 but declined 1.6% in 2007. For 2008, corporate profits are expected to decline by 7%. For 2009, corporate profits are expected to slightly decline. In contrast, for the last 30 years, corporate profits have increased by an average of 8.8% annually.

#### ***Economic Indicators/Forecast***

<b>Senate Finance Minority Forecasts of the U.S. and New York Economies CALENDAR YEAR</b>			
	<b>2007(Actual)</b>	<b>2008</b>	<b>2009</b>
<b>U.S. Economy:</b>			
Real GDP	2.0%	1.3%	(0.2%)
Personal Income	6.1%	4.3%	1.8%
Nonagricultural Employment	1.1%	(0.1%)	(0.9%)
Consumer Price Index	2.9%	4.4%	2.3%
Wages	5.6%	3.5%	1.9%
<b>New York State Economy:</b>			
Non-Farm Employment	1.5%	0.2%	(1.5%)
Wages (Total)	8.6%	1.3%	(2.3%)
Personal Income	6.5%	2.5%	(1.2%)

## *U.S. Economy*

### *Overview*

#### *Employment*

The number of US workers laid off in September climbed to the highest level since the days following Hurricane Katrina in 2005, according to the US Department of Labor (DOL). The DOL reported employers laid off 235,681 workers on a seasonally adjusted basis. In 2008 through September, US employers shed a total of 1.51 million employees - a six year high. The nation's unemployment rate stood at 6.1% in September. (See Appendix II)

On October 23, new claims for jobless benefits increased by more than expected as last reported by the US Department of Labor. The US DOL reported that new applications for unemployment benefits rose 15,000 to a seasonally adjusted total of 478,000. The important four week rolling average actually dropped slightly from a seven year high of 480,250. On October 2, new benefit applications totaled 499,000 - the highest level in seven years and the second highest since 1992.

#### *Housing*

According to data from the Mortgage Bankers Association, banks are now in the process of foreclosing on 1.5 million homes nationwide. Furthermore, more than a million homes have been lost to foreclosures in the last two years. Also, prices of US single family homes plunged a record 16.6% in August from a year earlier and plummeted more than 30% in Las Vegas and Phoenix, according to a Standard and Poor's report of October 28th. Home prices in the 20 major metropolitan areas fell 1% in August compared with July 2008. The composite index of 10 metropolitan areas declined 12.1% in August from July for a 17.7% year-over-year drop. For the 5th straight month, prices fell in every region on annual basis. (See Appendices III and IV)

According to the US Bureau of Economic Analysis (BEA), real exports of goods and services increased a strong 12.3% in the second quarter, compared with an increase of 5.1% in the first. Real imports of goods and services decreased 7.3%, compared with a decrease of 0.8% in the first. Real US GDP growth in the first half of 2008 was largely driven by this trend. (See Appendix V)

Also, according to the BEA, profits from current production (corporate profits with inventory valuation and capital consumption adjustments) decreased \$60.2 billion in the second quarter, compared with a decrease of 17.6 billion in the first quarter. Current production cash flow (net cash flow with inventory valuation and capital consumption adjustments) - these are essentially the internal funds available to corporations for investment - decreased \$60.5 billion in the second quarter, in contrast to an increase of \$10.1 billion in the first.

For the US economy, it also still appears as if the Consumer Price Index (CPI) inflation remains somewhat subdued at an annual rate of 4.5% through September (in 2007, the CPI registered a year to year increase of 4.1%). The price of oil contributed substantially to the rise in prices earlier in the year.

For September 2008, the US seasonally adjusted unemployment rate stood at 6.1%. In New York State, the rate stood at 5.6% (in April it was 4.5%). On a calendar year basis, over the last 30 years, the annual national average rate for unemployment is 6.3%

### ***National Outlook for 2009***

The October 2009 forecast for annualized rate of national industrial production growth, according to Consensus Blue Chip Indicators, was reduced to -0.5% from 0.9%.

Consensus forecasts predict that real disposable personal income will grow 0.9% in 2009, 0.4% lower than forecasted a month ago.

Very slight increases for Real GDP (0.5% from 1.5%) and corporate profits (0.1% from 2.8%) are also projected but represent very substantial reductions compared with even a few months ago. Finally, the personal consumption expenditure indicator projection has declined from 0.9% to 0.2%.

According to the Conference Board, the US leading economic index increased 0.3% in September (six of the ten indicators were positive). This was the first increase in the last five months. Real money supply, consumer expectations, the interest rate spread, and the index of supplier deliveries all made large positive contributions to the index.

<b>Blue Chip Consensus Forecasts 2009</b>		
	<b>September 2008 Consensus</b>	<b>October 2008 Consensus</b>
<b><i>Major US Economic Indicators (Year Over Year)</i></b>		
Real GDP ('2000\$)	1.8%	1.5%
GDP Price Index	2.3%	2.3%
Nominal GDP (Cur. \$)	4.1%	3.8%
Consumer Price Index	4.4%	4.4%
Industrial Production (Total)	0.2%	(0.2%)
Disposable Personal Income ('2000\$)	1.5%	1.4%
Personal Consumption Expenditures ('2000\$)	1.0%	0.7%
Non-Residential Fixed Investment ('2000\$)	3.2%	2.7%
Corporate Profits (Cur. \$)	(4.6%)	(6.4%)
Treasury Bills - 3 month (Ave.)	1.8%	1.6%
Treasury Notes - 10 year (Ave.)	3.9%	3.8%
Unemployment Rate (Civilian/Ave.)	5.5%	5.7%
Housing Starts (Millions)	0.98	0.96
Auto/Truck Sales (Millions)	14.0	13.8
Net Exports ('2000\$)	(391.8)	(386.3)

## *New York State Economy*

### *Overview*

According to the Federal Reserve Bank of New York, the New York State Index of Coincident Economic Indicators (CEI) decreased at an annual rate of 3.0% in September, following a 2.0% decrease in August. Over the past year, the index has fallen a net 0.5%. Also, according to the Federal Reserve, the New York City Index of Coincident Economic Indicators (CEI) grew at an annual rate of 0.6% for September, following an increase of 0.7% in August. The index has risen 2.1% over the past year. A coincident index is a single summary statistic that tracks the current state of the economy.

The State's economy and Financial Plan is strongly linked with the fortunes of the insurance and financial sectors located primarily in the NYC area. As DOB points out in the Mid Year Report, there were no Initial Purchase Offers (IPO's) from August to October 2008. This is the longest period of inactivity on record. This does not bode well for the financial services and corporate sectors for 2009.

This Report projects that the financial and insurance sectors bonuses will decline by approximately 48% for the 2008-09 bonus season (December-March 2009). DOB projects a 43% decline. Further declines for the 2009-10 bonus season are projected at 25%. DOB projects a decline of 21%. It now appears that financial sector firms are placing aside lower reserves than expected.

For the very important capital gains component of the State economy, DOB projects a capital gains decrease of 36% in 2008 and 20% in 2009. This report agrees with the DOB Assessment.

The Federal Reserve Bank of New York's Empire State Manufacturing Survey indicates that conditions for New York manufacturers deteriorated significantly in October. The general business conditions index dropped 17 points to a record low of -24.6. The new orders index also fell to a record low, and the indexes for shipments, unfilled orders, and inventories, all declined sharply. Employment indices were also negative.

In the New York City area, according to the Federal Reserve's 2008 Beige Book, the economy weakened since August. Manufacturers reported that business activity declined moderately in September and early October, while nonmanufacturing firms report more widespread softening in activity and anticipate further cutbacks in employment levels. The Beige Book also reports that consumer confidence has recovered somewhat since the August report, though the latest survey data were collected prior to much of the recent financial sector turmoil. Also, retail sales were moderately below plan in September. The Report suggests that most residential and commercial real estate markets have continued to weaken. Finally, bankers report slowing demand for home mortgages and consumer loans, tightening in credit standards, and higher delinquency rates on loans - especially home mortgages.

New York's unemployment rate is currently at 5.8%, the highest rate in four years.

### ***Prospects for 2009***

The restructuring of the financial services sector in the State of New York has and will have profound effects on the financial fortunes of the State and the State budget. With the dissolution or merger of the five major investment banks, it is fair to assert that “the golden era” of extraordinary wage, profit, and bonus growth is likely gone for at least the foreseeable future. These reconstituted financial firms will no longer be able to generate business (or take risks) on the scale seen since at least 1998. For example, just for the financial services sector alone, bonuses paid, in the 2007-08 bonus season (\$33.5 billion) alone totaled more than the total of the bonuses paid for every year from 1985 to 1995.

Unfortunately, because of the weak state of the municipal bond market, New York State will have limited access to the bond market for at least the remainder of the year. In the past few months, access has been cut off entirely or has been prohibitively expensive.

Regarding employment, it is generally recognized that New York private sector job losses are expected to total 160,000 during the current recession.

Again in 2009, New York City tourism will continue to strongly boost the region’s economy and New York City and State revenues. The tourism industry directly supports increased employment in the hotel, transportation, entertainment, and restaurant sectors. In 2008, an estimated 45 million tourists visited New York City which represented an all-time record. It is expected that in 2009 this record total may be surpassed.

This Report projects that New York State wages are projected to decline 2.3% in CY 2009. Personal income is expected to decline 1.2% in 2009.

### ***Risks to the US/New York State Economy***

Obvious further marked slowdowns in the housing sector and equity markets would directly and adversely impact the New York State economy and the State’s Financial Plan.

Weakening real export growth (second and third quarter US GDP growth was almost entirely fueled by accelerating US export growth) will obviously negatively impact business revenues and profits. Another related challenge facing the State’s economy is the continuing fundamental, structural, and large-scale dichotomy between upstate and downstate employment and personal income growth. The continued languishing of the manufacturing sector and a lack of uniform job growth upstate has been a source of concern for decades.

As is well known, rising interest rates (highly unlikely) and energy prices pose direct challenges to the State economy as well. Furthermore, future State and Federal tax and spending policies potentially generate many presently unforeseen challenges to the State’s economy and taxpayers.

**Senate Finance Minority Forecast**  
**SFY 2009-10 General Fund Tax Collections**  
(millions of dollars)

	<b>Senate Finance Minority</b>	<b>Mid-Year Report</b>	<b>Variance</b>
<b>Personal Income Tax:</b>	<b>\$21,082</b>	<b>\$21,253</b>	<b>(\$171)</b>
Withholding	\$28,411	\$28,468	(\$57)
Estimated Payments	\$10,636	\$10,806	(\$170)
Final Returns	\$2,336	\$2,336	\$0
Delinquencies	\$986	\$986	\$0
Gross Collections	\$42,369	\$42,596	(\$227)
Refunds/Offset	(\$7,082)	(\$7,082)	\$0
STAR	(\$5,383)	(\$5,383)	\$0
RBTF	(\$8,822)	(\$8,878)	\$56
<b>User Taxes and Fees:</b>	<b>\$8,899</b>	<b>\$8,947</b>	<b>(\$48)</b>
Sales and Use Tax	\$8,393	\$8,441	(\$48)
Cigarette/Tobacco Tax	\$430	\$430	\$0
Alcohol Beverage Taxes	\$211	\$211	\$0
Alcohol Beverage Fees	\$48	\$48	\$0
Motor Vehicle Fees	\$37	\$37	\$0
<b>Business Taxes:</b>	<b>\$5,670</b>	<b>\$5,670</b>	<b>\$0</b>
Corporate Franchise Tax	\$3,311	\$3,311	\$0
Corporate Utilities Tax	\$666	\$666	\$0
Insurance Tax	\$1,112	\$1,112	\$0
Bank Tax	\$581	\$581	\$0
<b>Other Taxes:</b>	<b>\$2,025</b>	<b>\$2,025</b>	<b>\$0</b>
Real Property Gains	\$0	\$0	\$0
Estate and Gift Tax	\$1,151	\$1,151	\$0
Pari-Mutuel Taxes	\$23	\$23	\$0
Real Estate Transfer Tax	\$850	\$850	\$0
Other	\$1	\$1	\$0
<b>Total General Fund Taxes:</b>	<b>\$37,676</b>	<b>\$37,895</b>	<b>(\$219)</b>
Miscellaneous Receipts/ Fed.	\$3,399	\$3,399	\$0
Lottery/VLTs	\$3,030	\$3,030	\$0
Transfers	\$11,051	\$11,051	\$0
<b>Total General Fund Receipts</b>	<b>\$55,156</b>	<b>\$55,375</b>	<b>(\$219)</b>

**Senate Finance Minority Forecast**  
**SFY 2009-10 All Funds Tax Collections**  
(millions of dollars)

	<b>Senate Finance Minority</b>	<b>Mid-Year Report</b>	<b>Variance</b>
<b>Personal Income Tax:</b>	<b>\$35,252</b>	<b>\$35,514</b>	<b>(\$262)</b>
Withholding	\$28,397	\$28,468	(\$71)
Estimated Payments	\$10,615	\$10,806	(\$191)
Final Returns	\$2,336	\$2,336	\$0
Delinquencies	\$986	\$986	\$0
Gross Collections	\$42,334	\$42,596	(\$262)
Refunds/Offset	(\$7,082)	(\$7,082)	\$0
<b>User Taxes and Fees:</b>	<b>\$14,828</b>	<b>\$14,898</b>	<b>(\$70)</b>
Sales and Use Tax	\$11,647	\$11,717	(\$70)
Auto Rental Tax	\$51	\$51	\$0
Motor Vehicle Fees	\$826	\$826	\$0
Cigarette/Tobacco Tax	\$1,357	\$1,357	\$0
Motor Fuel Tax	\$528	\$528	\$0
Highway Use Tax	\$154	\$154	\$0
Alcohol Beverage Taxes	\$211	\$211	\$0
Alcohol Beverage Fees	\$48	\$48	\$0
<b>Business Taxes:</b>	<b>\$7,744</b>	<b>\$7,744</b>	<b>\$0</b>
Corporate Franchise Tax	\$3,761	\$3,761	\$0
Corporate Utilities Tax	\$877	\$877	\$0
Insurance Tax	\$1,234	\$1,234	\$0
Bank Tax	\$686	\$686	\$0
Petroleum Business Tax	\$1,186	\$1,186	\$0
<b>Other Taxes:</b>	<b>\$2,025</b>	<b>\$2,025</b>	<b>\$0</b>
Real Property Gains	\$0	\$0	\$0
Real Estate Transfer Tax	\$850	\$850	\$0
Estate Tax	\$1,151	\$1,151	\$0
Gift Tax	\$0	\$0	\$0
Pari-Mutuel Taxes	\$23	\$23	\$0
Other	\$1	\$1	\$0
<b>Total All Funds Taxes</b>	<b>\$59,849</b>	<b>\$60,181</b>	<b>(\$332)</b>

**Excludes Transfers**

**DISBURSEMENT PROJECTIONS**

<b>SFY 2008-09 and SFY 2009-10 Disbursements Projections – (DOB/SFC Minority) (millions of dollars)</b>		
	<b>SFY 2008-09 Mid-Year Estimate</b>	<b>SFY 2009-2010 Estimate</b>
<b>Fund Type</b>		
<b>General Fund (with transfers)</b>	\$56,120	\$62,810
<b>State Funds (inc. General Fund)</b>	\$85,190	\$94,177
<b>All Funds</b>	<b>\$120,763</b>	<b>\$131,154</b>

This Report concurs with the Division of the Budget disbursement projections in the Mid Year Report. Major increases for General Fund programs include: school aid, \$2.2 billion; Medicaid, \$1.6 billion; and Children and Family Services, \$1.2 billion.

## **SPENDING CATEGORIES**

### Public Assistance

In NYS, public assistance disbursements are composed of two major spending categories -- Safety Net Assistance and Family Assistance. The Safety Net Assistance Program is supported by local and State spending and provides cash payments to various New Yorkers who have exhausted their five year limit for Temporary Assistance for Needy Families (TANF) stipulated by the Federal Government.

The Division of the Budget and the Office of Temporary Disability Assistance (OTDA) projects that Family Assistance caseloads will increase slightly (1,000) from SFY 2008-09 to SFY 2009-10. For single adults, caseloads are expected to advance 7,500 from SFY 2008-09 to SFY 2009-10. Higher public assistance caseload activity will cause an increase in State program disbursements.

### Medicaid

Historically, the Skilled Nursing Facilities expenditure has been the largest chargeable medical expense. Furthermore, State Medicaid spending has increased because of growth in Home Health Services, managed care, and personal care.

DOB projects that Medicaid caseload activity will increase from 3.65 million in the current State fiscal year to 3.83 million in SFY 2009-10. DOB projects that Medicaid spending will total \$9.88 billion in SFY 2009-10 (an increase of 19.6%).

### School Aid

Data that is vital to determining current year school aid will not be made available from the NYS Education Department until November 15th. This data contains information about district wealth, poverty, and enrollment. Without this information from SED, any projections made at this time would be tenuous at best.

DOB projects that, on a school year basis, education spending will total \$21.54 billion up from \$19.70 billion. K-12 enrollment is expected to remain at 2.77 million.

### ***Senate Finance Committee/Minority - Program Caseload/Spending Projections***

This Report concurs entirely with the DOB's projections stipulated in the following chart.

This Report concurs with all other assumptions/assessments as stipulated by DOB (see following for DOB's projections).

Regarding School Aid specifically, this Report concurs with the Executive's projections for all categories in all years

**Forecast for Selected Program Measures Affecting Local Assistance (DOB)**

	Actual	Forecast		
	2007-08	2008-09	2009-10	2010-11
<b>Medicaid:</b>				
Medicaid Coverage (\$)	3,559,075	3,649,347	3,825,420	4,021,205
Family Health Plus Coverage (\$)	518,189	527,961	558,345	588,995
Child Health Plus Coverage (\$)	360,436	403,913	435,665	444,667
Medicaid Inflation (%)	2.0%	2.9%	3.0%	3.0%
Medicaid Utilization (%)	(3.0%)	(4.1%)	4.1%	4.2%
State Takeover of County/ NYC Costs (Total)(\$)	564	724	958	1,315
- Family Health Plus (\$)	396	424	442	479
- Medicaid (\$)	168	300	516	836
<b>Education:</b>				
School Aid (School Year)(\$)	19,693	21,543	23,340	25,900
K-12 Enrollment	2,764,379	2,764,000	2,764,000	2,764,000
Public Higher Education Enrollment (FTEs)	512,362	520,047	525,248	529,187
TAP Recipients	309,320	312,362	312,655	313,155
<b>Welfare:</b>				
Family Assistance Caseload	372,964	350,370	351,718	354,609
Single Adult/No Children Caseload	150,447	144,591	152,033	160,380

**GENERAL FUND STATE FINANCIAL PLAN GAPS**

**Senate Finance Minority Revised SFY 2008-09 and SFY 2009-10 Financial Plan Gaps:**

<b>General Fund (millions of dollars)</b>		
	<b>SFY 2008-09</b>	<b>SFY 2009-10 Mid-Year Estimate</b>
<b>DOB</b>	<b>(\$1,475)</b>	<b>( \$12,518)</b>
<b>SFC/MINORITY</b>	<b>(\$1,666)</b>	<b>(\$12,737)</b>

The Senate Finance Minority projects a slightly increased SFY 08-09 gap of \$1.666 billion, an increase of \$191 million over the Executive's estimate.

For SFY 2009-10, however, the Senate Finance Minority projects a larger General Fund gap (\$219 million) than estimated by DOB.

## ALL FUNDS FINANCIAL PLAN

### Senate Finance Committee Minority Revised SFY 2008-09 Financial Plan Gap/Surplus:

<b>ALL FUNDS (Surplus/Gap)</b> <b>(millions of dollars)</b>		
	<b>SFY 2008-09</b>	<b>SFY 2009-10</b> <b>Mid-Year Estimate</b>
<b>DOB</b>	<b>\$4,171</b>	<b>( \$9,970)</b>
<b>SFC/MINORITY</b>	<b>\$3,980</b>	<b>(\$10,189)</b>

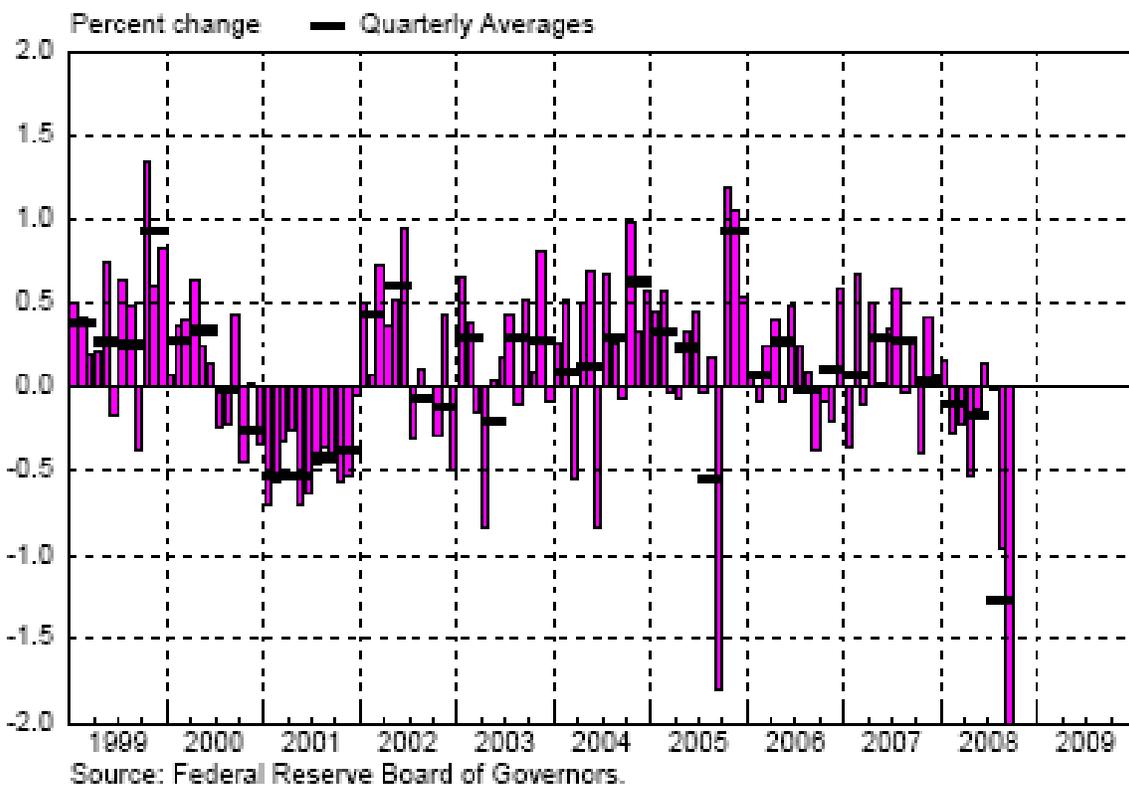
The Senate Finance Minority projects a surplus of \$3.98 billion.

The Senate Finance Minority projects a deficit of \$10.20 billion.

Appendix I

# INDUSTRIAL PRODUCTION

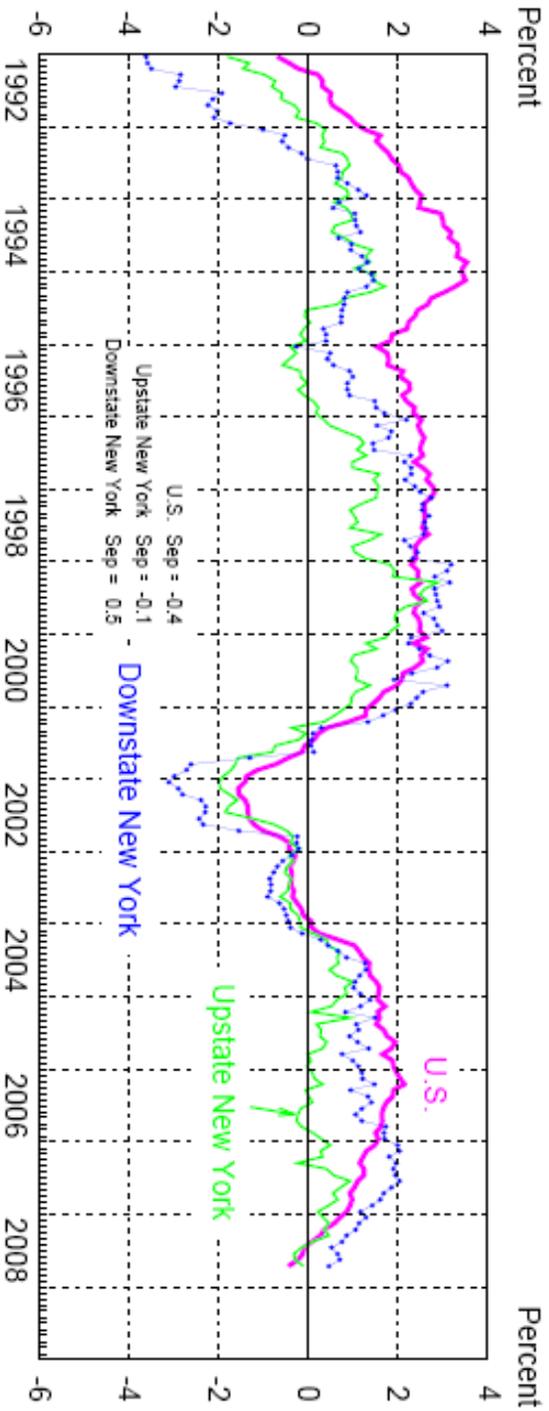
Seasonally Adjusted



Sep  
-2.8

## Appendix II

### PAYROLL JOB GROWTH: U.S., NY DOWNSTATE AND UPSTATE Percent changes from 12-months earlier

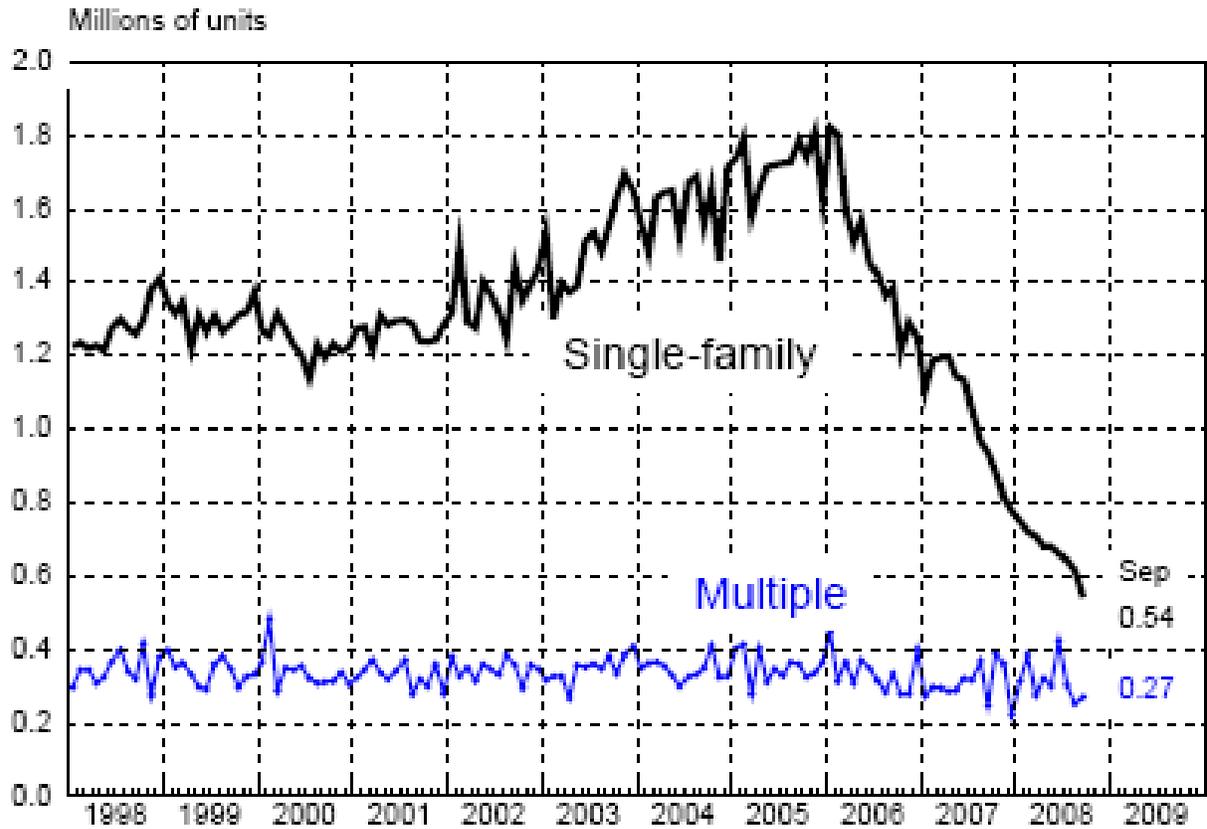


Upstate NY includes: Albany, Binghamton, Buffalo, Glen Falls, Ithaca, Rochester, Syracuse, Utica-Rome metro areas.  
 Downstate NY includes: New York City, Dutchess, Nassau, Orange, Putnam, Rockland, Suffolk, Ulster, and Westchester counties.  
 Source: Bureau of Labor Statistics, NY Department of Labor, Moody's Economy.com.

Appendix III

# HOUSING STARTS

Seasonally Adjusted Annual Rate

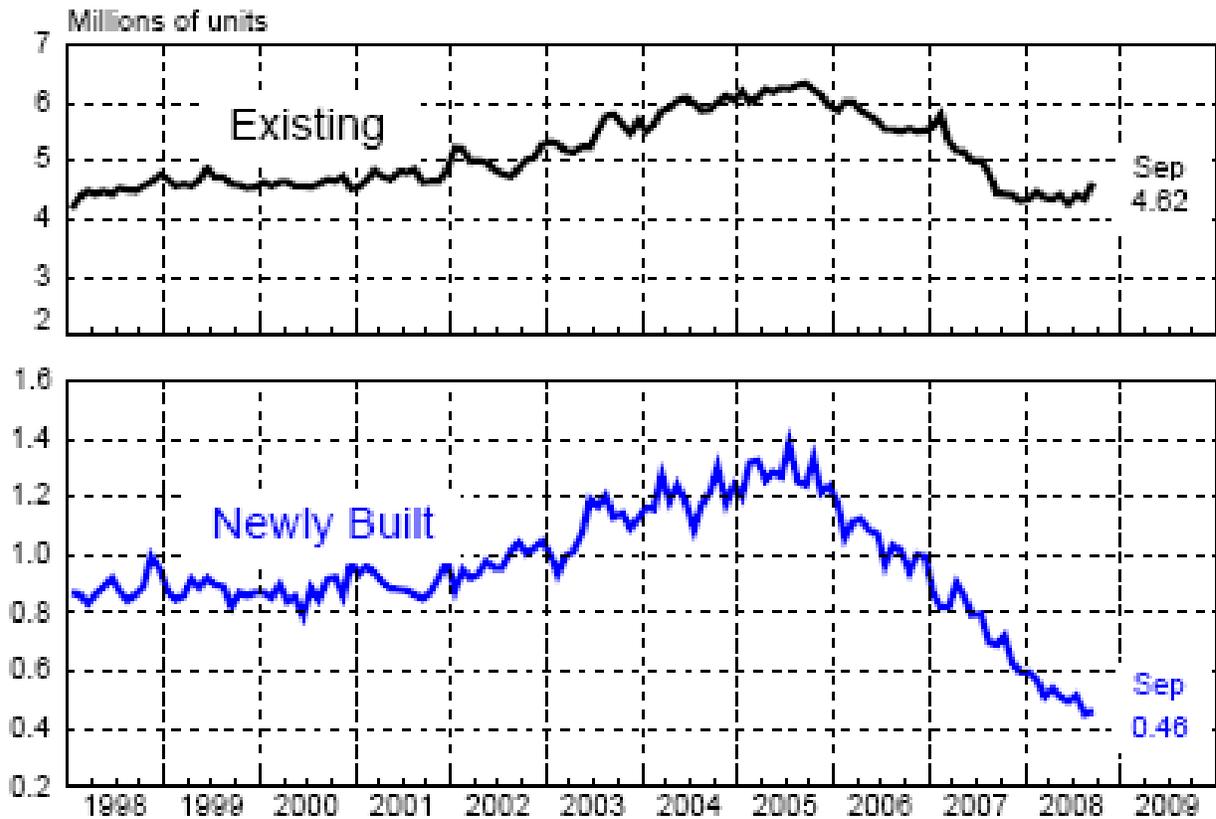


Source: Bureau of the Census.

Appendix IV

# SINGLE FAMILY HOME SALES

Seasonally Adjusted Annual Rate



Sources: Bureau of the Census.

Appendix V

# Net Export Contribution to Real GDP

SAAR, percent

