NEW YORK STATE ASSEMBLY

MIDYEAR UPDATE

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Table of Contents

EXECUTIVE SUMMARY

Economy

- The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2011 is 2.1 percent. The staff's forecast is lower than the Division of the Budget by 0.5 percentage point, Blue Chip Consensus by 0.4 percentage point, Macroeconomic Advisers by 0.6 percentage point, IHS Global Insight by 0.1 percentage point, and Moody's Economy.com by 0.9 percentage point.

- The recession that began in December 2007 ended in June 2009. It was the longest and deepest recession since the Great Depression. An astounding 8.4 million payroll jobs or 6.1 percent were lost between December 2007 and December 2009. U.S. economic output contracted $553.7 billion or 4.1 percent from the fourth quarter 2007 peak level to the trough in the second quarter of 2009.

- Economic recovery is likely to be a long, slow haul. Excesses still remain in the housing market. Unsure how the future course of the economy will play out, businesses are reluctant to hire more aggressively. Faced with a lean employment outlook and depressed net worth, consumers are cautious of spending and keen on deleveraging.

- The Federal Reserve is set to purchase up to $600 billion of Treasury securities through June 2011. This quantitative easing is expected to support economic recovery by putting more downward pressure on long-term interest rates and the U.S. dollar value.

- U.S. Gross Domestic Product, or real GDP, is forecast to grow a mere 2.1 percent in 2011. This is well below the post-World War II average performance during the early phase of recovery: on average, the U.S. economy grew 4.7 percent per year during the first two years after nine post-World War II recessions. The national economy is forecast to continue to expand in 2012 at a healthier rate of 3.0 percent.

- U.S. payroll employment is estimated to net gain 696,000 jobs from the fourth quarter of 2009 to the fourth quarter of 2010 and another 1.75 million jobs during 2011. Even with a monthly net gain of 239,000 jobs expected during 2012, the U.S. economy will still have 2.95 million fewer jobs compared to the first quarter 2008 peak level.

- National employment is expected to decline another 0.6 percent year-over-year in 2010 as hiring remains sluggish and the boost from the hiring of temporary federal government Census workers fades. In 2011, employment is expected to grow only 0.8 percent, reflecting the expected slow pace of the recovery and the difficulties businesses will face in determining when to hire employees. In 2012, employment is expected to grow 2.0 percent, only slightly stronger than the growth seen following the 2001 recession.

- As the overall economy continues to recover, total nonfarm payroll employment in both the State and the nation is forecast to increase in 2011. However, as the nation lost substantially more jobs than the State, the speed of the New York State nonfarm payroll employment recovery will likely be slower than the nation in 2012.

- The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth for New York State in 2011 is 0.9 percent. The staff's forecast is 0.1 percentage point above the Division of the Budget. The staff's forecast for total New York State wages in 2011 is 1.5 percent. The staff's forecast is 1.4 percentage point below the Division of the Budget.

- The securities industry was particularly hard hit and continues to be troubled by the problems in the financial system. Due to the concentration of these high-paying financial sector jobs on Wall Street, wage losses in New York State during this past recession were larger than in previous recessions.

- In 2010, the overall total New York State nonfarm wage outlook is expected to recover somewhat as businesses continue to regain some confidence in the economy and start hiring employees (albeit at a slower pace than before the recession). However, annual totals will be affected by the expected shift in wages from 2011 to 2010 as a result of the expected increase in the personal income tax rate as the "Bush tax cuts" expire. Therefore, total variable wages are expected to grow by 31.0 percent in 2010, and then fall by 14.7 percent in 2011. Overall wages will grow by 6.3 percent in 2010 and 1.5 percent in 2011 as the financial sector and the general health of the State economy and employment outlook returns.

- Uncertainty remains for bonus payouts as ambiguity surrounds changes in the distribution of payments between stock and cash. Further, the consequences of the Dodd-Frank financial regulation bill on corporate profits of financial institutions are unclear.

Revenue

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for State Fiscal Year (SFY) 2010-11 is $61.307 billion, representing an increase of 6.3 percent or $3.640 billion above the prior year.

- The growth in year-end total tax collections is due to significant growth in personal income tax (PIT) revenue ($1.9 billion) and user taxes and fees ($1.3 billion). Other taxes are estimated to increase by $465 million or 17.9 percent, whereas business taxes are estimated to decrease by $12 million or 0.2 percent.

- New York State tax revenues have been begun to recover from the massive global economic upheaval that began in 2007, with fiscal year-to-date growth of 5.0 percent. Overall growth of 7.4 percent is needed for all taxes in the second half of the year.

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for SFY 2010-11 is $146 million below the Executive's Mid-year Financial Plan Update and $153 million below when the estimates for lottery and General Fund miscellaneous receipts are included. When differences in other miscellaneous receipts are included, the estimate is $238 million below the Executive's Mid-year Financial Plan Update.

- The majority of this difference is in the business tax. However, there is significant downside risk in the business tax estimate associated with the ability of the Department of Taxation and Finance to meet its audit collection target in the second half of the fiscal year.

- General Fund Receipts in SFY 2010-11 are estimated to be $54.381 billion, representing growth of $1.076 billion or 2.0 percent. This estimate is $133 million below the Executive Mid-Year estimate.

- The NYS Assembly Ways and Means Committee staff forecast tax revenues to total $64.749 billion in SFY 2011-12, an increase of 5.6 percent or $3.442 billion over SFY 2010-11 Committee staff estimates.

- General Fund receipts in SFY 2011-12 are forecasted to total $56.252 billion, representing growth of $1.871 billion or 3.4 percent over the SFY 2010-11 estimate. This forecast is $806 million below the Executive's midyear forecast.

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue forecast for SFY 2011-12 is $767 million below the Executive's Mid-year Financial Plan Update and $879 million below when the estimates for lottery and General Fund miscellaneous receipts are included. When differences in other miscellaneous receipts are included, the estimate is $985 million below the Executive's Mid-year Financial Plan Update.

Medicaid

- The NYS Assembly Ways and Means Committee staff estimates that the New York State Department of Health will spend $15.9 billion in State Funds for the Medicaid program in SFY 2010-11, approximately $1.0 million lower than the Division of the Budget's midyear forecast. The estimate for Department of Health spending for the Medicaid program in SFY 2011-12 is $17.5 billion, $473.5 million lower than the Division of the Budget's midyear forecast. This forecast incorporates the $205 million downward revision of Medicaid audit recoveries assumed in the Executive's midyear report.

ECONOMIC OUTLOOK

The U.S. economy has stabilized following one of the sharpest declines since the 1930s. Fiscal stimulus programs have helped the U.S. economy return to growth. However, growth remains below the pace of other recoveries. Many of the same problems that were at the source of the recent downturn are still being worked out, particularly debt problems in the housing and credit markets. Monthly employment losses persist, though private employment has posted anemic gains over the past several months. As consumer confidence and uncertainty in the recovery remain, employment growth will be slow but stable, as will the U.S. Gross Domestic Product, or real GDP, growth.

The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2011 is 2.1 percent (see Table 1). The staff's forecast is lower than the Division of the Budget by 0.5 percentage point, Blue Chip Consensus by 0.4 percentage point, Macroeconomic Advisers by 0.6 percentage point, IHS Global Insight by 0.1 percentage point, and Moody's Economy.com by 0.9 percentage point.

Table 1

U.S. Real GDP Forecast Comparison
(Percent Change)

	Actual 2009	Estimate 2010	Forecast 2011	Forecast 2012
Ways and Means	(2.6)	2.6	2.1	3.0
Division of the Budget	(2.6)	2.6	2.6	N/A
Blue Chip Consensus	(2.6)	2.7	2.5	N/A
Moody's Economy.com	(2.6)	2.7	3.0	5.0
Macroeconomic Advisers	(2.6)	2.7	2.7	4.3
IHS Global Insight	(2.6)	2.6	2.2	3.0

Sources: NYS Assembly Ways and Means Committee staff; Division of the Budget, New York State Mid-Year Financial Plan Update: 2010-11 through 2013-14, November 1, 2010; Blue Chip Economic Indicators, October 2010; Moody's Economy.com, October 2010; Macroeconomic Advisers LLC, October 2010; IHS Global Insight, October 2010.

New York State has also been greatly affected by the recent recession. The credit crunch and the fallout in the financial sector resulted in a sharp downturn in employment and wages in 2009. While wages are estimated to have returned to growth in 2010, employment is estimated to have declined for a second year. The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth for the State in 2011 is 0.9 percent (see Table 2). The staff's forecast is 0.1 percentage point above the

Division of the Budget. The staff's forecast for State wages in 2011 is 1.5 percent. The staff's forecast is 1.4 percentage point below the Division of the Budget.

Table 2

New York State Forecast Comparison (Percent Change)	Actual 2009	Estimate 2010	Forecast 2011	Forecast 2012
Employment				
Ways and Means	(3.1)	(0.1)	0.9	1.2
Division of the Budget	(2.9)	(0.3)	0.8	N/A
Wages				
Ways and Means	(7.2)	6.3	1.5	7.0
Division of the Budget	(7.2)	4.5	2.9	N/A

Note: The NYS Assembly Ways and Means Committee staff's employment number for 2009 reflects data more recently available.
Sources: NYS Assembly Ways and Means Committee staff; Division of the Budget, New York State Mid-Year Financial Plan Update 2010-11 through 2013-14, November 1, 2010.

Several risks to the economic outlook of the nation and the State remain. Problems that were central to the recession continue to a certain extent, including ongoing credit issues in the housing market and uncertainty in the financial markets. If these areas were to worsen again, the impact on the outlook would be significant.

United States Forecast

The recession that began in December 2007 ended in June 2009. It was the longest and deepest recession since the Great Depression. An astounding 8.4 million payroll jobs or 6.1 percent were lost between December 2007 and December 2009. It was more than three times as many as the 2.7 million jobs lost during the 1981-1982 recession, which was the second sharpest recession since World War II. The unemployment rate surged to 10.1 percent in October 2009, leaving 15.5 million workers jobless (see Figure 1). The jobless rate was still 9.6 percent in September 2010. U.S. economic output contracted $553.7 billion or 4.1 percent from the fourth quarter 2007 peak level, as both consumer and business spending declined sharply, 2.4 percent and 35.8 percent, respectively (see Appendix A on page 48 and Appendix B on page 49).

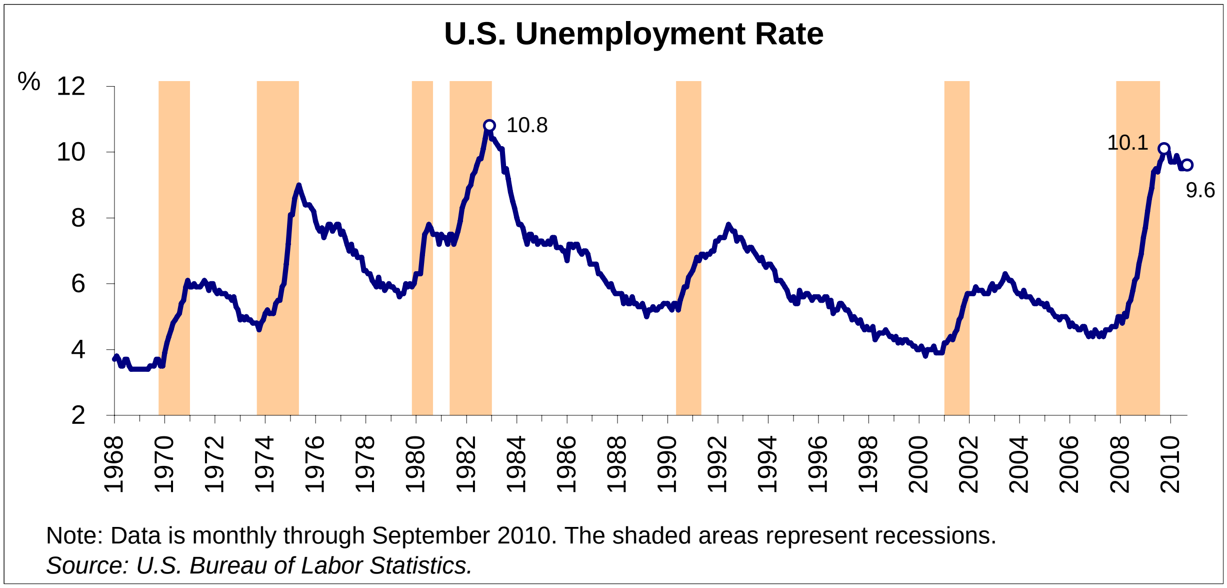

Figure 1

The housing market went through the most severe adjustments among all sectors. Residential construction activity declined a total of 57.8 percent or $452.8 billion during the seventeen consecutive quarters starting from the first quarter of 2006. Housing starts underwent a more severe contraction—a 76.7 percent decline from the peak of January 2006 to the bottom of October 2009 (see Figure 2).[1] Home prices declined more than 30 percent from the 2006 peak level and foreclosure filings in 2007 and 2008 totaled over 3.5 million.

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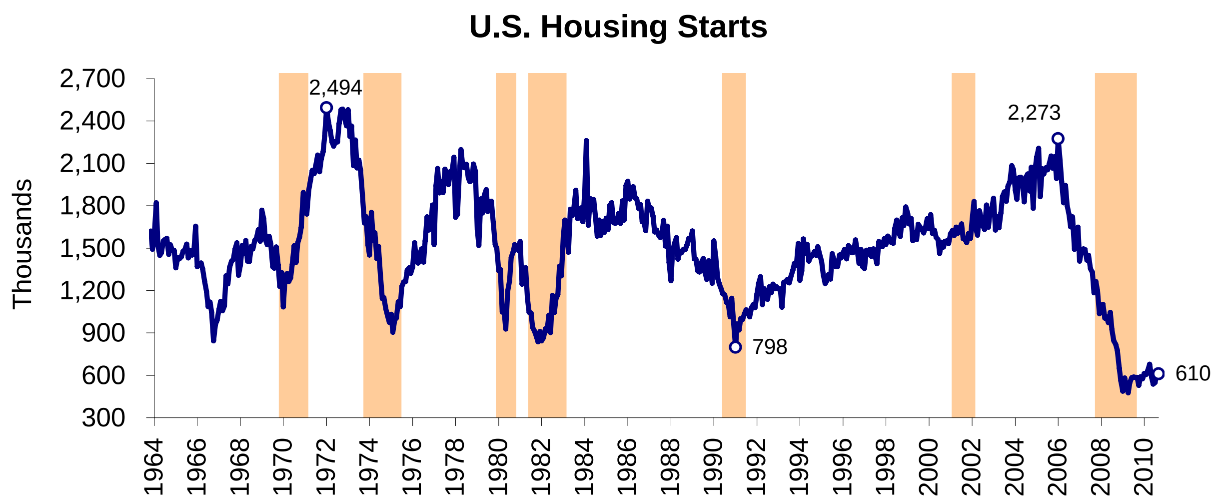
[1] In comparison, housing starts declined 89.7 percent from the peak in 1925 to the bottom in 1933. But, when adjusted for the U.S. population, housing starts peaked at 8.1 per 1,000 persons in 2006, compared to 7.3 in 1925. This indicates that the housing bubble leading up to the 2006 peak was even greater than the one before the Great Depression. For more details, see Jeff Booth, "Housing Starts Today vs. The Great Depression!" *Building into the Future*, BuildDirect, accessed November 2, 2010, http://blog.builddirect.com/industryinsights/housing-starts-today-vs-the-great-depression/.



Note: Data is monthly through September 2010. The shaded areas represent recessions.
Source: U.S. Census Bureau.

Figure 2

With aggressive policy actions by the federal government and monetary authorities, the U.S. economy started showing signs of stabilization in the second half of 2009. Gross Domestic Product grew 2.6 percent, after adjusting for inflation, between the third quarter of 2009 and the first quarter of 2010. Induced by attractive deals and incentives, consumers started spending again. Businesses started spending again in order to replace old equipment and software and remain productive in competitive global markets. Businesses also started hiring again, although only at a measured pace. As a result, private payroll employment gained 0.8 percent or 863,000 jobs during the first three quarters of 2010.

However, the private sector fails to gain firm traction as stimulus programs begin to recede. Also, the European debt crisis lingers with its effects rippling through the global economy and sapping fragile investor confidence. GDP grew a mere 1.7 percent in the second quarter of 2010 and 2.0 percent in the third quarter, although an unusual surge in imports was largely to blame. The housing market has sagged since tax credit programs for home buyers expired. The overall trend in home sales has been flat since April 2010. Based on the S&P Case-Shiller U.S. National Home Price Index, home prices have gained little after declining by more than 30 percent from the peak level in April 2006. Gains in housing starts have been anemic.

Despite the recent setbacks, it is not likely that the current recovery will relapse into recession. Corporate profits have shown strength, and businesses have been updating equipment and software. Industrial production has been steadily rising and the utilization of the existing production capacity has also been steadily improving. Retail sales have been picking up. The private sector has been creating payroll jobs since January 2010. Global economic growth is expected to continue, more pronouncedly in Asia and South America, supporting global demand for U.S. exports. The Federal Reserve is set to increase the size of its balance sheet further, putting more downward pressure on already low long-term interest rates. Furthermore, once recovery was under way, it typically lasted fifty-nine months in the post-WWII U.S. history.[2]

Economic recovery is likely to be a long, slow haul. In U.S. history since 1920, every economic recovery was preceded by housing recovery.[3] Excesses still remain in the housing market and home prices are likely to fall further. Housing demand remains weak despite record low mortgage rates. Also, as seen in the recovery after the savings and loan crisis of the late 1980s and after the stock market bubble burst of 2000, the pace of recovery after financial crisis is usually slow.[4] That is because it takes several years to mend balance sheets and recoup from asset losses. Financial intermediaries still struggle to repair their damaged balance sheets, unwilling to release their reserves to loans. Faced with slow income growth, lean employment outlook, and depressed household wealth, weary consumers are cautious of spending and keen on deleveraging. Unsure how the future course of the economy will play out, businesses are reluctant to hire more aggressively.

In the 1990s, the economy was powered by the financial market boom and financial innovations. In the last decade after the 2001 recession, the economy was fueled by a housing market boom and global economic growth. It is not clear yet what sectors, if any, will help put the economy on a robust growth path in coming years. For now, cautiousness

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[2] Fifty-nine months is the average duration of eleven expansions since 1945. Three expansions lasted roughly three years and one expansion lasted for two years. Although the U.S. economy fell into recession in July 1981, only one year after the previous recession ended, it was rather an exception in that it was caused primarily by a sharp tightening by the Federal Reserve to fight inflation and then exacerbated by the Reagan tax cuts that were announced in 1981. Since the tax cuts were scheduled to become effective on January 1, 1983, production and other economic activities were effectively postponed until after January 1983, making the economic performance of 1981 and 1982 appear worse than it would otherwise have been.

[3] Steven Gherstad and Vernon L. Smith, "Household Expenditure Cycles and Economic Cycles, 1920-2010," (working paper, Economic and Science Institute, Chapman University, CA, June 22, 2010).

[4] Prakash Kannan, "Credit Conditions and Recoveries from Recessions Associated with Financial Crises," Working Paper 10/83, International Monetary Fund, March 2010.

on the part of consumers and businesses is expected to lead to slow growth in employment and output in 2011. Also, until excesses in the housing sector are worked off, a healthy recovery is not likely to settle in. With 11 million homeowners owing more than their homes are worth, foreclosures and falling home prices will likely remain.[5] As a result, recovery in the housing sector is not likely to be a sharp V-shape either.

Against this backdrop, U.S. real GDP is forecast to grow a below-trend 2.1 percent in 2011 (see Table 3). This is well below the post-World War II average performance during the early phase of recovery: on average the U.S. economy grew 4.7 percent per year during the first two years after nine post-World War II recessions. The only other time when the first two-year economic growth after the end of recession was similarly weak was 2002 and 2003. During those two years, the U.S. economy grew only 2.2 percent per year

Table 3

U.S. Economic Outlook
(Percent Change)

	Actual 2009	Estimate 2010	Forecast 2011	Forecast 2012
Real GDP	(2.6)	2.6	2.1	2.9
Consumption	(1.2)	1.6	2.2	2.4
Investment	(22.6)	17.4	5.9	11.0
Exports	(9.5)	11.6	8.3	7.6
Imports	(13.8)	13.9	7.7	7.0
Government	1.6	1.0	(0.0)	(0.5)
Federal	5.7	4.7	0.4	(1.5)
State and Local	(0.9)	(1.4)	(0.2)	0.2
Personal Income	(1.7)	2.8	2.7	4.1
Wages & Salaries	(4.3)	1.5	2.9	4.6
Corporate Profits	(0.4)	28.6	6.4	3.8
Productivity	3.5	3.3	1.2	2.1
Employment	(4.3)	(0.6)	0.8	2.0
CPI-Urban	(0.3)	1.6	1.6	1.7
S&P 500 Stock Price	(22.5)	18.2	5.0	7.5
Treasury Bill Rate (3-month)*	0.2	0.1	0.2	1.1
Treasury Note Rate (10-year)*	3.3	3.1	2.6	3.4

* Annual average rate.

Note: Personal income and corporate profits are nominal.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

[5] Core Logic, Negative Equity Report Q2 2010, August 26, 2010.

in the midst of continued weakness in the labor and financial markets. The national economy is forecast to continue to expand in 2012 at a healthier rate of 3.0 percent.

Combined with relatively stable energy prices, the recent trend in productivity and unit labor costs indicates that inflationary pressures from the labor market are minimal. These inflation-stabilizing forces will largely remain in place in the next two years, helping to keep inflationary pressures in check. Deflation is not likely, however. Despite slacks in the labor market and other sectors, wages and salaries have been rising. Also, the trend in import prices and commodity prices does not point to decline in prices of consumer goods. The Consumer Price Index is forecast to advance 1.6 percent in 2011 and 1.7 percent in 2012.

Outlook for Components of GDP

- **Consumer spending** remains the biggest concern to overall economic recovery as it accounts for more than two-thirds of GDP. Personal consumption spending showed some improvement early in 2010 as consumers took advantage of the fiscal stimulus. With a significant portion of the fiscal stimulus set to disappear by the end of 2010, disposable income, in effect, will again be squeezed. Personal consumption spending adjusted for inflation is estimated to grow only 1.6 percent in 2010. Beyond 2010, falling debt burdens and foreclosures will likely enhance personal consumption spending as funds once used to make debt payments become available to make purchases. Consumer spending will strengthen as households try to rebuild their wealth. In addition, labor market improvements and low interest rates will provide some support to consumer spending. Therefore, real personal consumption spending is anticipated to grow by 2.2 percent year-over-year in 2011 and 2.4 percent in 2012. This is well below the percentage increases observed in the late 1990s.

- Overall private **investment** spending is estimated to increase 17.4 percent in 2010, following three consecutive years of decline. From its peak in the first quarter of 2006, business spending fell 35.8 percent over a period of thirteen quarters. In previous recessions, it declined an average of 18.8 percent over a period of 4.3 quarters. Restocking of inventories after a year of rundowns, and a pickup in equipment and software spending have helped boost investment in 2010. Strong growth in equipment and software, improvements in the housing market and moderating losses in the commercial real estate market will contribute to strong investment growth in the forecast period. The NYS Assembly Ways and Means

Committee staff forecasts overall business spending to grow 5.9 percent in 2011 and 11.0 percent in 2012.

- The 2010 Census temporarily boosted the federal government civilian workforce in the first half of the year augmenting nondefense payroll expenses. As these temporary workers fell off the federal payroll, outlays for nondefense compensation declined. Furthermore, slower growth in the compensation of military employees and defense investment spending will cause **federal government spending** growth to slow to 4.7 percent in 2010, following growth of 5.7 percent in 2009. Federal government spending is forecast to grow 0.4 percent in 2011, before falling 1.5 percent in 2012 as the government continues to restrain spending on compensation for defense and nondefense personnel as well as public investments.

- The recent recession continues to take its toll on state and local governments. Cutbacks in the face of rising deficits and weak revenues persist at the state and local levels of government. The hardship faced by state and local governments will likely prolong into coming years given that the recent recession was deeper and longer than past recessions, and federal aid is fading. For State Fiscal Year (SFY) 2010-11, budget deficits are expected to be at least $100 billion, and an additional $134 billion is projected in SFY 2011-12 even with billions of dollars in assistance from the federal government.[6] Widening budget gaps will require additional reductions in services and programs, higher taxes, and additional layoffs.[7] **State and local government spending** is estimated to fall 1.4 percent in 2010 despite a boost from the American Recovery and Reinvestment Act of 2009 (ARRA) and additional fiscal help from the federal government. In 2011, state and local government spending is forecast to decline 0.2 percent as the fiscal stimulus wanes and states continue to limit spending. In 2012, state and local government spending will continue to be restrained, and is forecast to increase only 0.2 percent.

- The global economic recovery has helped U.S. export growth in 2010. Export growth is estimated to jump to 11.6 percent in 2010. Similarly, imports are estimated to grow by 13.9 percent. As the U.S. economy and the world recover

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[6] See Elizabeth McNichol, Phil Olift, and Nicholas Johnson, "States Continue to Feel Recession's Impact," Center of Budget and Policy Priorities, October 7, 2010.

[7] Kansas and New Mexico increased sales taxes effective July 1, 2010; New York, South Carolina, Hawaii, and Utah increased their tax on tobacco products; while Washington imposed a soda tax. See Erica Williams, Phil Oliff, Ashali Singham, and Nicholas Johnson, "New Fiscal Year Brings More Grief for State Budgets, Putting Economic Recovery At Risk," Center of Budget and Policy Priorities, June 29, 2010.

from the recession, world trade as well as **U.S. imports and exports** will likely continue to grow. Imports are forecast to grow by 7.7 percent in 2011, and 7.0 percent in 2012; while exports are predicted to grow by 8.3 percent in 2011 before growing another 7.6 percent in 2012.

Prices

For the first time since 1955, the Consumer Price Index declined on an annual average basis in 2009. It fell 0.3 percent, mainly as a result of declining energy prices. Price increases in 2010 have been muted; although the energy component is showing double-digit increases over 2009, it is off the lower 2009 base.

The weak outlook for economic growth, combined with the sagging labor market and the expectation that energy prices will remain in check throughout the forecast period, makes the inflation outlook relatively tame. The NYS Assembly Ways and Means Committee staff forecasts the Consumer Price Index to increase 1.6 percent in 2010, well below the increases observed in the years leading up to the recent recession. It is expected by the Committee staff that inflation will remain under 2 percent throughout the forecast period.

Employment

Employment losses were great during the recent recession, and the recovery of jobs remains a striking concern for the economy. As of September 2010, thirty-three months after the employment peak, jobs remained down by 7.8 million. In the three recessions before the most recent one, employment did not fall as far and did not remain as far below peak for as long. After the 1981-82 and 1990-91 recessions, employment had already surpassed the previous peaks thirty-three months after the peak.

Although there have been positive signals from other indicators, employment has yet to show any sustained gains on a monthly basis. While private employment has made small gains since January 2010, the difficulties in the labor market are evidenced by several factors: overall employment losses still continue; initial unemployment claims remain well over 400,000—the threshold for a healthy labor market; continuing claims remain close to historical highs; and the unemployment rate hovers over 9 percent.

In addition to large numbers of people being laid off, those who have lost jobs remain unemployed for a longer period of time than during and after other recessions.

Continuing claims remain above 4.3 million, far above the pre-recession level of 2 to 3 million reported in 2007. These numbers may be somewhat skewed by the fact that some people may have become discouraged and dropped out of the labor force altogether. However, as the recovery progresses and the unemployed assess their chances of finding a job, trends in flows in and out of the labor market may be muddied. Clearly though, those who are counted as unemployed are facing a long road finding work, as evidenced by the increase in the percentage of employed who have been out of work for 27 weeks and over. This percentage has risen drastically since the start of the recent recession and remains at over 40 percent. Before the recent peak in employment in December 2007, this percentage never went above 26 percent.

With the exception of leisure and hospitality, other services (which has been helped by hiring increases in temporary help), and education and health, it is estimated that the job losses in 2010 are to be spread across all sectors. Construction is again expected to lose the highest percentage of jobs, reflecting the difficult state of the housing market and the possibility of a major slowdown in activity in the commercial sector. Overall, payroll employment is expected to decline another 0.6 percent year-over-year in 2010 as hiring remains sluggish and federal government Census positions are eliminated.

In 2011, payroll employment is expected to grow only 0.8 percent, reflecting the expected slow pace of the recovery and the difficulties businesses will face in determining when to hire employees. In 2012, employment is expected to grow 2.0 percent, only slightly stronger than the growth seen following the 2001 recession. While the recovery of jobs may mirror the jobless recovery after the 2001 recession, there is some potential for job growth to be slightly stronger as the economy lost such a large number of jobs in the recent recession. It is reasonable to think that as activity picks up some of these jobs will need to be filled immediately in order to keep pace with the recovery. However, it is possible that some portion of the eight million jobs lost may be gone for a very long time due to structural changes in the economy.

Stock Market

After reaching its peak in October 2007, the stock market plummeted to its lowest level in over twelve years, bottoming out in March 2009. The S&P 500 Stock Price Index (S&P 500) and the Dow Jones Industrial Average (DJIA) fell over 50 percent during this period, marking the largest decline since the Great Depression.

Improvement in economic activities has gradually lifted market uncertainty, and helped improve stock market performance in the second half of 2009. As a result, the stock market gained quite rapidly since its trough, growing by more than 50 percent by the end of 2009. The market continued to improve in early 2010, with the S&P 500 gaining over 6 percent during the first four months. Since April 2010, however, the stock market has gone through several corrections. The emergence of fiscal problems in several European countries in mid-2010 spilled over into the global financial market, causing nervousness among investors. In response, equity markets worldwide started to rattle and have since become more volatile and more sensitive to news.

With the economy continuing to recover, the stock market is expected to continue to improve throughout the forecast period. The S&P 500 is estimated to average 1,118.6 in 2010, an increase of 18.2 percent from 2009. The S&P 500 is forecast to increase 5.0 percent in 2011 due to slow growth in the U.S. and global markets. As growth picks up, the Index is forecast to improve further in 2012, with growth of 7.5 percent.

New York State Forecast

The NYS Assembly Ways and Means Committee staff estimates that in 2010 total nonfarm payroll employment in New York State will decline 0.1 percent, wages will grow 6.3 percent, and personal income will grow 5.1 percent. In 2011, employment growth is forecast to turn positive at an annual average rate of 0.9 percent, while personal income is forecast to gain 2.4 percent (see Table 4).[8] The variable compensation outlook will be impacted during 2010 and 2011 by any tax rate changes that may occur. The current forecast assumes that the "Bush tax cuts" will expire for the top 2 percent of taxpayers. Should the actual action taken on tax cuts differ, the impact on the forecast could be significant.

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[8] Data is based on NYS Assembly Ways and Means Committee staff estimates. Variable compensation consists primarily of cash bonuses and exercised stock options. There is no known series of data for state or national variable compensation. The Committee staff estimates variable compensation based on seasonal variations in wage patterns. These seasonal patterns are analyzed at the NAICS three-digit level. The growth in this variation over time is also accounted for in the estimate. Since this estimate is based on seasonal variation, it may underestimate bonuses and commissions that come at frequent intervals throughout the year. It also may underestimate stock options to the extent that they are exercised throughout the year. On the other hand, in some cases non-variable pay may be included in variable compensation if there are regular seasonal patterns (e.g., if overtime regularly occurs in a certain quarter). Therefore, variable compensation contains high uncertainty—even in terms of the data history.

Table 4

New York State Economic Outlook (Percent Change)	Actual 2009	Estimate 2010	Forecast 2011	Forecast 2012
Employment	(3.1)	(0.1)	0.9	1.2
Personal Income	(3.1)	5.1	2.4	6.0
Total Wages [calendar year basis]	(7.2)	6.3	1.5	7.0
Base Wages	(3.5)	3.5	3.8	4.6
Variable Compensation	(30.8)	31.0	(14.7)	27.9
Total Wages [fiscal year basis]	(1.5)	4.6	5.4	5.4
Base Wages	(2.7)	4.1	4.0	4.7
Variable Compensation	9.0	8.0	16.4	10.6
New York Area CPI	0.4	1.7	1.9	2.1

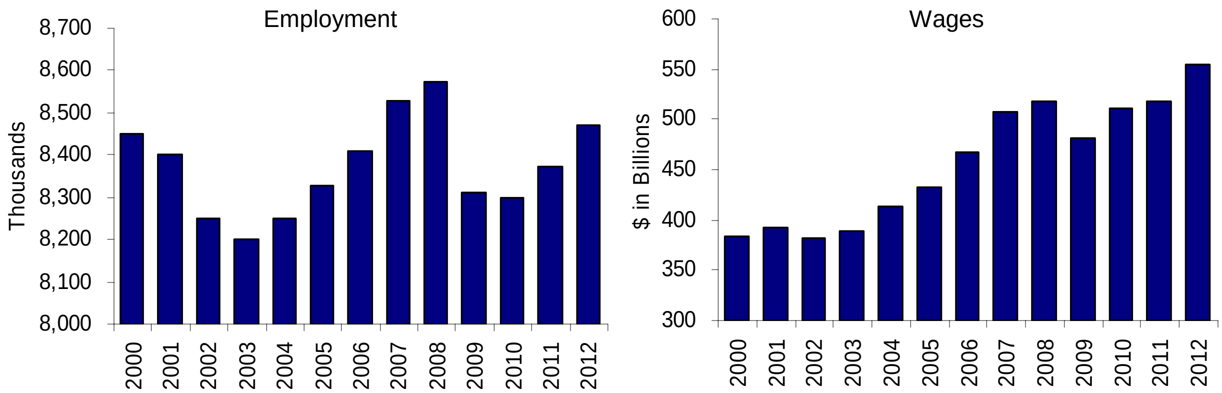
Note: Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and sum to total wages. New York area CPI is based on the New York-Northern NJ-Long Island, NY-NJ-CT-PA CPI-U series from the U.S. Bureau of Labor Statistics.
Fiscal year 2009 represents SFY 2009-10.

Sources: U.S. Bureau of Economic Analysis; NYS Department of Labor, QCEW; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Even though total nonfarm payroll employment grew significantly slower in 2008 than in 2007, the State still gained employment in 2008, while national employment declined by 0.6 percent. As the overall economy weakened further in 2009, total employment in the State declined by 3.1 percent, the largest decline in more than a decade, compared to a decline of 4.3 percent in the nation. Nonfarm employment in New York State is estimated to decline slightly in 2010.

As the overall economy continues to recover, total nonfarm payroll employment and wages in the State are forecast to increase. Though employment growth is positive in the forecast period, there would still be 104,000 fewer jobs in the State in 2012 than in 2008. Wages are forecast to eventually return to pre-recession levels; however, the growth will be greatly affected by the pace of improvement in variable wage growth. Due to the assumption of tax law changes, the wage level in 2010 is higher than it otherwise would have been as bonuses shift from 2011 to 2010. On a fiscal year basis, the wage level grows more evenly from 2010 through 2012 (see Figure 3).

New York State Employment and Wages



Note: Data for 2010 is estimated; 2011 and 2012 are forecasts.

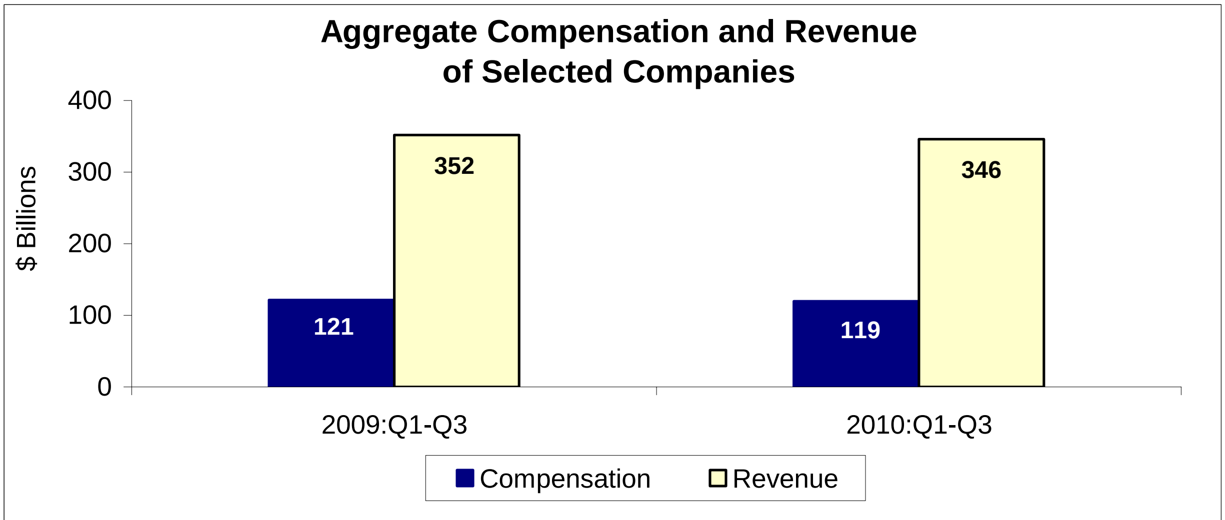
Sources: NYS Department of Labor; NYS Assembly Ways and Means Committee staff.

Figure 3

The turmoil in the financial and housing markets has had a significant negative impact on employment and the performance of the finance and insurance sector. As financial firms cut jobs in order to reduce costs, the finance and insurance sector lost over 38,000 jobs in 2009 (the second largest loss after the manufacturing sector). In 2010, the finance and insurance sector in New York State is expected to lose another 15,900 jobs as firms remain reluctant to hire. From 2007 to 2010, the sector is estimated to lose over 60,000 jobs or 11.7 percent of the overall employment from its peak in 2007. This is higher than the rate of sector employment lost during the last employment downturn.

Within the finance and insurance sector, the securities industry was particularly hard hit and continues to be troubled by the problems in the financial system. Securities industry employment reached a record high of 871,200 jobs nationally in the second quarter 2008, but has since contracted by 8.5 percent. As New York State accounted for a large proportion of national securities industry jobs, employment in this sector declined much faster than that of the nation. The sector lost almost 10 percent of its employment, or 20,100 jobs, in 2009 compared to the loss of slightly over 6 percent nationwide. The industry currently employs approximately 180,000 workers in the State, most of which are located in New York City, and accounted for 2.2 percent of total State nonfarm employment in 2009. Although there are some signs of hiring in segments of the industry, securities industry employment is estimated to decline further by 4.8 percent in 2010 before starting to rebound in 2011. Securities industry employment is forecast to grow by 0.8 percent in 2011 and 1.4 percent in 2012.

Employment and compensation in the securities sector will likely be affected by changes in revenue growth among investment firms. An overview of the top investment firms on Wall Street shows an overall decline in revenue and compensation for the first three quarters of 2010, compared to the corresponding period in 2009 (see Figure 4). Revenue declined at five of the eight major investment firms studied. Of those five, four had declines in revenue of over 7 percent. The majority of firms allocated less to compensation in the first three quarters of 2010 than was allocated in the first three quarters of 2009. Overall, compensation and revenue declined over the second quarter as well, indicating that both have slowed compared to the first half of the year.



Note: The companies included are Goldman Sachs, JP Morgan, Morgan Stanley, Bank of America, UBS, Citi, Credit Suisse, and Bank of New York Mellon.
Sources: Individual company financial reports.

Figure 4

Central to the overall wage and variable compensation outlook for New York State is the performance of Wall Street. While the finance and insurance industry accounted for about 6 percent of State employment in 2009, the sector made up for 17.9 percent of total State wages. The average wage in finance and insurance industry was over three times that of the overall average wage in the State. This suggests that employees in the finance and insurance industry contribute disproportionately more in taxes than those working in other industries. As a result, the performance of the industry is a key component to the overall economic well-being of New York State.

Risks to the Economic Outlook

More than several risks to the economic outlook of the nation and New York State remain. Problems that were central to the recent recession continue to a certain extent, including weaknesses in both the labor market and the housing market, uncertainty in the financial markets, and limited access to credit. If these areas fail to improve, or worsen again, the impact on the outlook would be significant.

Possible future actions by the government also add uncertainty to the forecast, especially pertaining to the treatment of the expiration of the "Bush tax cuts." If the economy falters and the government and monetary authority take action to buoy economic growth, such currently-unanticipated measures would clearly affect the rates of growth anticipated in this report.

The health of the global economy is also a concern. If the global economy was not to continue to recover as assumed, the ability of the United States economy to grow would be impacted. Many global issues add uncertainty to the outlook, including the war in Afghanistan, tensions in the Middle East, and other geo-political issues.

The current economic climate presents particular challenges and risks to the New York State forecast. Since the extent to which the Wall Street landscape will be permanently changed as the economy continues to emerge from the current crisis is still unclear, there is great ambiguity surrounding the State outlook. Wall Street and the financial markets play a central role in the State economy, and drastic cuts to or changes in the composition of Wall Street compensation (including bonuses) and the resulting reductions in Wall Street tax revenues have critical implications for the economic health of the State. In addition, the extent to which the recent Wall Street Reform Act fosters hesitation or inaction on the part of financial firms could infuse more uncertainty to the forecast.

REVENUE UPDATE

State Fiscal Year 2010-11 Tax Revenue Estimates

New York State tax revenues are beginning to recover from the global economic upheaval of the past two years. Reflecting the slow growth in the economy, tax revenues have shown a modest 5.0 percent growth over the last six months (see Figure 5).

The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for State Fiscal Year (SFY) 2010-11 is $61.3 billion, representing an increase of 6.3 percent or $3.6 billion over the prior year. Including miscellaneous receipts and lottery, the total would be $67.2 billion, an increase of $3.0 billion or 4.7 percent.

The majority of the increase in tax receipts is in the personal income tax (PIT), which is estimated to increase by $1.9 billion or 5.4 percent. Also contributing to the year-over-year increase, user taxes are estimated to increase by 10.1 percent or $1.3 billion. Other taxes are expected to increase by $465 million or 17.9 percent.

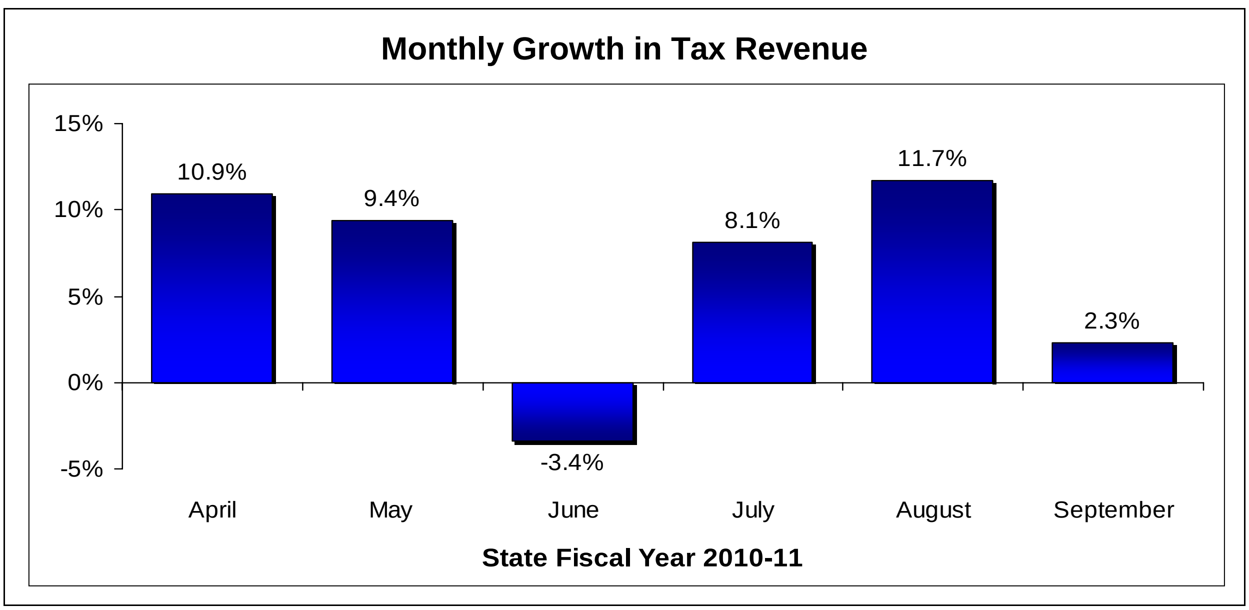


Figure 5

The Assembly Ways and Means Committee staff's All Funds tax revenue estimate is $146 million below the Executive's Mid-year Financial Plan Update and $489 million below the Enacted State Budget estimate. Committee staff estimates are $153 million below the Executive's when estimates for lottery and General Fund miscellaneous receipts are included. When differences in other miscellaneous receipts are included, the estimate is $238 million below the Executive's Mid-year Financial Plan Update. In terms of overall State tax revenues, the largest difference between the Committee staff estimate and the Division of Budget estimate is in business tax receipts—the Committee staff estimate is $371 million below the Executive (see Table 5).

Table 5

W&M All Funds Taxes, General Fund Miscellaneous Receipts, and Lottery
SFY 2010-11
($ in Millions)

Tax Category	2010-11	Year Over Year Change	Percent Growth	Diff. from Exec. Midyear
PIT	$36,640	$1,889	5.4%	$72
User	$14,150	$1,298	10.1%	$47
Business	$7,446	($12)	-0.2%	($371)
Other	$3,071	$465	17.8%	$106
Total Taxes	**$61,307**	**$3,640**	**6.3%**	**($146)**
GF Misc Receipts	$2,859	($1,029)	-26.5%	($2)
Lottery	$3,004	$359	13.6%	($6)
Total w/ MR and Lottery	**$67,171**	**2,970**	**4.6%**	**($153)**

Year-to-Date Results

The Ways and Means Committee staff's tax revenue estimates for SFY 2010-11 are based on year-to-date collections and historical collections patterns. Through the first half of the fiscal year, All Funds tax revenues are up 5.0 percent. This increase is largely attributable to a $514 billion or 3.2 percent increase in PIT—the majority of which was in withholding and final payments. Also contributing to the year-to-date increase is a $475 million or 7.3 percent increase in user taxes and fees. Other taxes increased $715 million. Business taxes, however, have declined a dramatic 14.0 percent or $486 million. Tax collections are expected to increase by 7.4 percent over the last half of the fiscal year (see Figure 6).

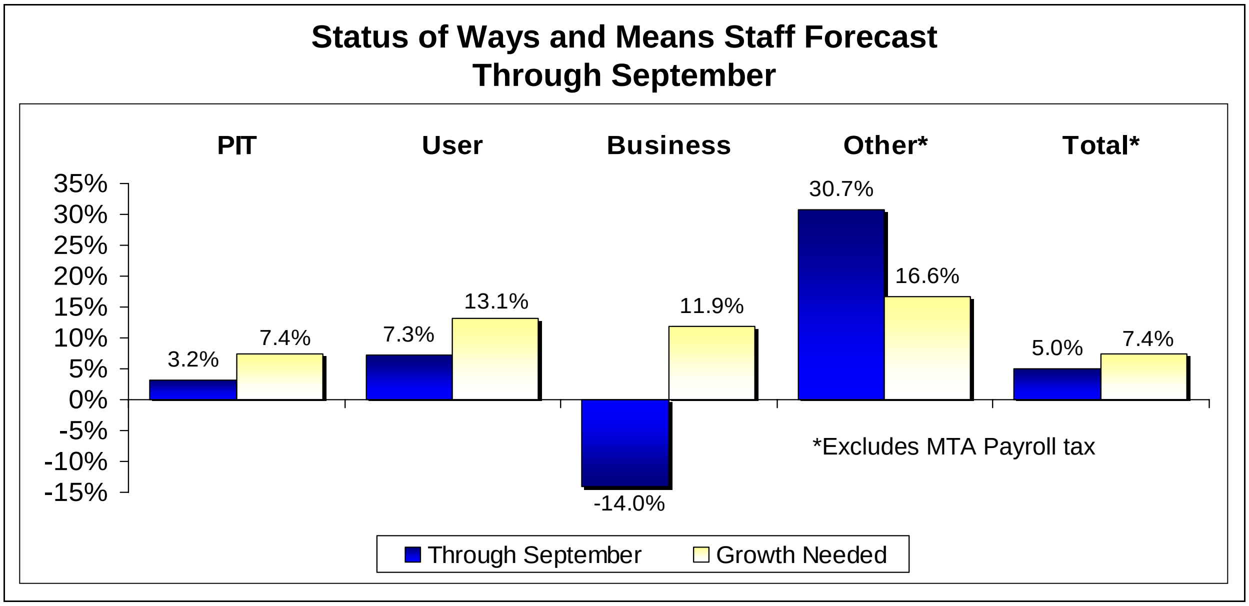


Figure 6

Personal Income Taxes

The NYS Assembly Ways and Means Committee staff estimates that PIT receipts will total $36.640 billion in SFY 2010-11, representing growth of 5.4 percent or $1.889 billion over last year. Gross receipts are expected to increase by 8.1 percent or $3.347 billion over SFY 2009-10, driven largely by expectations for growth in withholding of 6.8 percent or $1.991 billion, as well as an increase in voucher payments of 12.4 percent or $857 million. Final payments and extension payments are expected to conclude with increases of 9.0 percent or $164 million and 12.7 percent or $266 million, respectively. The Committee staff estimates that delinquencies will increase by 6.3 percent or $70 million, representing the only receipt category with a SFY decline.

Offsetting the annual growth in gross receipts is an anticipated 22.0 percent increase or $1.458 billion in total refunds, resulting from significant growth in all of the major refund components. The growth in both prior and current year refunds is directly attributable to a shift in refund allocation between fiscal years, as $500 million in what would have otherwise been SFY 2009-10 current year refunds was distributed as SFY 2010-11 prior year refunds. Taken together, the Ways and Means Committee staff expects an increase of $923 million, instead of a decline of $77 million had the shift not taken place.

Overall, net personal income taxes have totaled $16.574 billion year-to-date, an increase of 3.2 percent, and will require an average growth rate of 7.4 percent in the third and fourth quarters to reach SFY 2010-11 estimates. Collections in the second half of SFY are expected to be dominated by withholding growth of 6.8 percent, stemming largely from variable wage growth of 6.0 percent, and estimated payment growth of 15.2 percent. While bonus payments are typically volatile from year to year, posing a significant risk to the forecast, the risk to estimated payments is possibly higher this year, due to uncertainty with regard to the federal capital gains tax rate. The Ways and Means Committee staff forecast is based on the notion that the 2003 federal tax cuts will expire at the end of 2010, and that capital gains realizations will be accelerated in anticipation of this law change, finishing with an annual growth rate of 23.7 percent.

User Taxes

User taxes are estimated to total $14.150 billion in SFY 2010-11, an increase of 10.1 percent or $1.299 billion. Sales tax revenue is estimated to increase by $869 million or 8.3 percent—reflecting the general recovery of the economy. The increase in user taxes is also reflective of increased spending after years of frugality. The growth in user taxes is aided somewhat by tax law changes, which are expected to create an additional $390 million from sales tax.

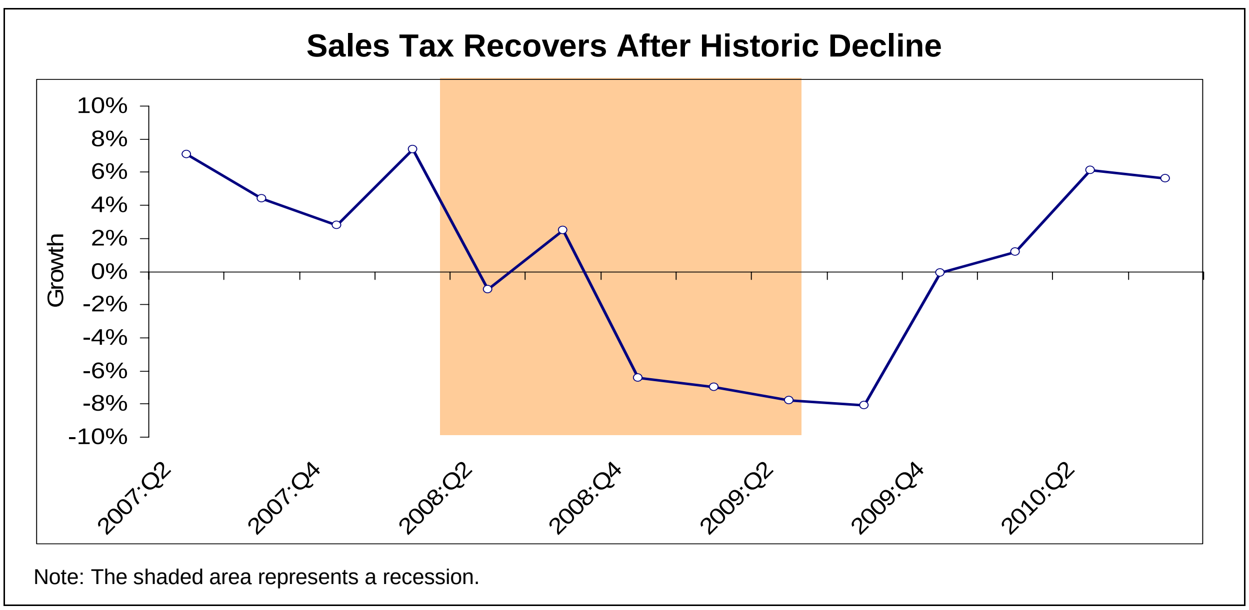


Figure 7

Through the first half of the fiscal year, sales tax revenues are up 6.1 percent, and have grown for five of the last six months. Collections over the second half of the year are expected to grow by 13.1 percent as tax law changes take effect and the economic recovery continues.

Business Taxes

Business taxes are estimated to decline 0.2 percent or $12 million below SFY 2009-10. Relatively flat growth is forecast in the petroleum business tax, and the bank tax is expected to yield $112 million, or 8.0 percent less than last year. Corporate franchise taxes are expected to increase 10.5 percent or $264 million. In contrast, utility taxes and insurance taxes are estimated to decrease by 6.6 and 5.8 percent, respectively.

Halfway through the fiscal year, business taxes are 14.0 percent below where they were last year, and growth of 33.3 percent is still expected in the second half of the fiscal year. The Committee staff estimate accepts the Executive's assumptions with regard to audit collections over the second half of the fiscal year. Likewise, bank tax collections are currently down 17.0 percent from last year, but are expected to decline 0.9 percent in the second half to finish SFY 2010-11 down 8.0 percent.

Other Taxes

Other tax collections are estimated to increase 17.9 percent or $465 million from SFY 2009-10. Estate and gift taxes are at $620 million year-to-date, up 27.7 percent over the first six months of last year. With expected 33.1 percent growth in the next six months, estate and gift tax revenues are expected to increase 30.1 percent or $261 million for the full fiscal year.

Through September, real estate transfer tax (RETT) receipts are up 38.7 percent or $85 million over the same year-to-date period in SFY 2009-10. The federal home buyer credit, which expired April 30, 2010, is a major factor in stimulating the housing market. The expiration of the federal tax credit in conjunction with new rules for FHA-backed loans may diminish the rapid gains that the housing market enjoyed over the first six months of SFY 2010-11. Nonetheless, the number of sales and real estate prices throughout New York appear to have stabilized. In pockets of New York City there appear to be signs of continued modest growth. Thus, the overall growth for SFY 2010-11 is expected to be 14.2 percent or $70 million over SFY 2009-10.

Lottery

For the past couple of years the revenue from traditional "lottery" games (lotto, numbers, win 4, pick 10, etc.) has remained steady reflecting only modest year-over-year growth. However, the first six months of SFY 2010-11 would indicate that sales of traditional lottery games have been declining. As of September, traditional lottery receipts are down by 5.5 percent or $50 million below the same period in SFY 2009-10. It is for this reason that the Assembly Ways and Means Committee staff estimates a negative growth for traditional lottery of 3.5 percent or $69 million over SFY 2009-10. On the other hand, receipts from video lottery gaming (VLT) are growing. According to data from the New York State Division of Lottery, as of October 16, 2010, net machine income (revenue after payout of prizes) has increased 6.8 percent over the same time period in SFY 2009-10. However, as a result of increased VLT activity, the one-time $380 million payment for Aqueduct licensing, as well as legislative changes that increased the share of net machine income that goes to Education, the Committee staff estimates substantial growth in video lottery gaming revenue of 88.2 percent or $434 million over SFY 2009-10. As a result of the estimated negative growth for traditional lottery and the positive growth for video lottery gaming, the Committee staff estimates a combined revenue of $3.004 billion for SFY 2010 11, a growth rate of 13.6 percent or $359 million over SFY 2009-10.

General Fund Receipts Estimate 2010-11

The Ways and Means Committee Staff estimates that on a general fund basis taxes, before transfers, will be $39.562 billion, reflecting growth of 6.9 percent or $2.566 billion over the current year. This estimate is $136 million below the Executive Mid-Year estimate and $368 million below the Enacted Budget financial plan. When including transfers, miscellaneous receipts and federal grants, General Fund receipts are estimated to be $54.381 billion, representing growth of $1.076 billion or 2.0 percent. This estimate is $133 million below the Executive Mid-Year estimate or $295 million below the Enacted Budget financial plan.

Table 6

W&M General Fund Receipt Forecast SFY 2010-11 ($ in Millions)				
Tax Category	**2010-11**	**Year Over Year Change**	**Percent Growth**	**Diff. from Exec. Midyear**
PIT	$24,181	$1,527	6.7%	$33
User	$8,772	$685	8.5%	$36
Business	$5,464	$93	1.7%	($319)
Other	$1,146	$261	29.5%	$112
Total Taxes	**$39,562**	**$2,566**	**6.9%**	**($136)**
Misc Receipts & Federal	$2,919	($1,040)	-26.3%	($3)
Transfers	$11,899	($451)	-3.6%	$6
General Fund Receipts	**$54,381**	**1,076**	**2.0%**	**($133)**

SFY 2011-12 Forecast

Key economic indicators point to an ongoing but slow recovery. The Assembly Ways and Means Committee staff is now predicting that GDP will decelerate in 2011 to 2.1 percent, which is down from the staff's current estimate of 2.6 percent for 2010. In addition, job growth is expected to remain depressed for the foreseeable future. As a result, the Committee staff is expecting modest growth of $3.2 billion to $64.7 billion, or 5.6 percent in revenue for the upcoming fiscal year. The growth is due largely to a modest 6.4 percent growth in personal income taxes and the deferral of nearly $1 billion in business tax credits. Weakness in consumer spending and the incremental impact of partially reinstating the clothing sales tax exemption is expected to keep growth in sales taxes virtually flat. The Committee staff forecast is $879 million below the Executive's midyear forecast, including estimates for lottery and General Fund miscellaneous receipts. When differences in other miscellaneous receipts are included, the estimate is $985 million below the Executive's Mid-year Financial Plan Update.

Table 7

W&M All Funds Taxes, General Fund Miscellaneous Receipts, and Lottery
SFY 2011-12
($ in Millions)

Tax Category	2011-12	Year Over Year Change	Percent Growth	Diff. from Exec. Midyear
PIT	$38,969	$2,329	6.4%	($308)
User	$14,456	$305	2.2%	($199)
Business	$8,212	$766	10.3%	($359)
Other	$3,113	$42	1.4%	$100
Total Taxes	**$64,749**	**$3,442**	**5.6%**	**($767)**
GF Misc Receipts	$2,818	($42)	-1.4%	($4)
Lottery	$2,628	($376)	-12.5%	($109)
Total w/ MR and Lottery	**$70,195**	**$3,024**	**4.5%**	**($879)**

Personal Income Taxes

Overall, personal income taxes, the largest component of tax collections, are forecast to total $38.969 billion, which is $2.3 billion or 6.4 percent above the SFY 2010-11 estimate. The slow economic recovery, coupled with uncertainty over the direction of federal tax policy, is expected to take its toll on personal income tax liability in 2011. Annual wage growth is only expected to be 1.5 percent, and capital gains is expected to decline by 18.4 percent. As a result, New York adjusted gross income is forecast to increase by 0.4 percent resulting in a liability increase of just 1.2 percent.

The decline in capital gains is based on the assumption that investors will accelerate their realization of capital gains in 2010 to avoid potentially higher federal tax rates in 2011. As result, the Ways and Means Committee staff estimates that quarterly estimated payments will decline by 3.0 percent in 2011-12. A 59.0 percent increase in variable compensation in the first quarter of 2012 accounts for the lion's share of the growth in the withholding forecast—offsetting the loss in withholding attributed to the expiration of the personal income tax surcharge on December 31, 2011. The increase in variable compensation is also based on a reversion to normal compensation patterns on Wall Street after a large portion of 2011 bonuses were accelerated into 2010 to avoid higher federal income tax rates.

User Taxes

All Funds user taxes are forecast to be $14.456 billion, which is 2.2 percent above the current year. This forecast reflects the expectation that the economic recovery will be slow and consumer spending can be expected to lag other major economic indicators. In addition, sales tax collections will be negatively impacted by the partial reinstatement of the exemption on clothing and footwear, which will be effective for purchases less than $55 on April 1, 2011. Furthermore, the forecast assumes that the Tax Department will commence enforcement of the current laws regarding the taxation of cigarette sales on Native American reservations.

Business Taxes

Business taxes are forecast to total $8.212 billion in SFY 2011-12, which is an increase of 10.3 percent from the current year closeout on an All Funds basis.

The recovery in business taxes, after the decline in revenues in SFY 2010-11, reflects the impact of the business tax credit deferral that was enacted as part of the SFY 2010-11 Budget, as well as continued growth in corporate profits.

Other Taxes

Other taxes, which consist primarily of estate tax, real estate transfer taxes, and the MTA payroll tax, are forecast to increase by 1.4 percent in SFY 2011-12, to a level of $3.113 billion. After a strong recovery in 2010-11, albeit from very depressed levels in 2009-10, collections in all but the payroll tax are expected to be virtually unchanged from the prior year.

General Fund Miscellaneous Receipts

General Fund miscellaneous receipts are forecast to total $2.818 billion, which represents a decline of $42 million. This decline is primarily due to a $80 million decrease in licenses, offset by an increase in other receipts.

Lottery

Lottery receipts are forecast to decrease 12.5 percent in SFY 2011-12. However, much of the decline is due to the one-time payment of $380 million for the franchise fee to run the Aqueduct racino that was received in SFY 2010-11. Absent this payment, lottery receipts would be expected to increase slightly. This forecast does not include revenues from the racino at Aqueduct Raceway.

General Fund Receipts Forecast 2011-12

In SFY 2011-12, the Ways and Means Committee Staff forecasts that General Fund taxes will be $41.877 billion, reflecting growth of $2.315 billion or 5.9 percent. This estimate is $639 million below the Executive's Mid-Year estimate, or $687 million below the forecast released with the Enacted Budget. When including transfers, miscellaneous receipts and federal grants, General Fund receipts are forecast to be $56.252 billion, representing growth of $1.871 billion or 3.4 percent over the SFY 2010-11 estimate. This forecast is $806 million below the Executive, and $1.556 billion below the forecast released in the Enacted Budget Report.

Table 8

W&M General Fund Receipt Forecast
SFY 2011-12
($ in Millions)

Tax Category	2010-11	Year Over Year Change	Percent Growth	Diff. from Exec. Midyear
PIT	$25,810	$1,629	6.7%	($230)
User	$8,846	$74	0.8%	($189)
Business	$6,111	$647	11.8%	($341)
Other	$1,111	($35)	-3.1%	$122
Total Taxes	**$41,877**	**$2,315**	**5.9%**	**($639)**
Misc Receipts & Federal	$2,878	($42)	-1.4%	($4)
Transfers	$11,498	($402)	-3.4%	($163)
General Fund Receipts	**$56,252**	**1,871**	**3.4%**	**($806)**

Risks to the Revenue Forecast

Despite the fact that the current Assembly Ways and Means Committee staff estimates are considerably lower than the Enacted Budget estimates, tax revenue growth will need to accelerate over the next six months in order to reach our current estimates. A significant risk revolves around the assumption that the Tax Department will achieve their targets for business tax audits in SFY 2010-11. The forecast assumes $150 million from the collection of cigarette taxes from the enforcement of current laws regarding reservation sales of cigarettes to non-Indians. The courts have prevented the Tax Department from enforcing this tax law up to this point. In addition, the pace of economic activity has been slowing and is not expected to return to historical growth rates until 2012 at the earliest. Consequently, revenue growth is also slowing and, depending on the extent of the slowdown, could fall short of expectations. Finally, the economic forecast assumes that taxpayers will alter their behavior in response to the expiration of the federal tax laws that provide favorable treatment to long-term capital gains by realizing gains in 2010 that would otherwise be held over a longer term. This assumption provides a considerable boost to the forecast that, if not realized, would result in personal income taxes falling below current estimates.

Table 9

Total Tax Collections SFY 2010-11 ($ in Millions)	2009-10 Actual	2010-11 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$34,751**	**$36,640**	**$1,889**	**5.4%**	**$72**
Gross Receipts	**41,393**	**44,741**	**3,348**	**8.1%**	**(45)**
Withholding	29,443	31,434	1,991	6.8%	133
Estimated Payments	9,028	10,151	1,123	12.4%	(200)
Vouchers	6,938	7,795	857	12.4%	(149)
IT 370s	2,090	2,356	266	12.7%	(51)
Final Payments	1,822	1,986	164	9.0%	13
Delinquencies	1,100	1,170	70	6.3%	9
Total Refunds	**6,642**	**8,101**	**1,459**	**22.0%**	**(89)**
Prior Year Refunds	4,986	5,409	**423**	**8.5%**	**(94)**
Current Refunds	1,250	1,750	**500**	**40.0%**	**-**
Previous Refunds	468	694	**226**	**48.3%**	**5**
State/City Offsets	(62)	248	**310**	**-500.0%**	**-**
Collections	**34,751**	**36,640**	**1,889**	**5.4%**	**42**
User Taxes and Fees	**12,852**	**14,150**	**1,299**	**10.1%**	**47**
Sales and Use Tax	10,529	11,398	869	8.3%	2
Motor Fuel Tax	507	513	7	1.3%	2
Cigarette Tax	1,364	1,716	352	25.8%	64
Highway Use	137	129	(8)	-5.8%	(5)
Alcoholic Beverage Tax	226	226	(0)	-0.1%	(2)
Auto Rental Tax	76	83	7	9.7%	(12)
Taxi Surcharge	13	85	72		-
Business Taxes	**7,459**	**7,446**	**(14)**	**-0.2%**	**(371)**
Corporate Franchise	2,511	2,775	264	10.5%	(542)
Utility Tax	954	891	(63)	-6.6%	12
Insurance Tax	1,491	1,405	(86)	-5.8%	(5)
Bank Tax	1,399	1,287	(112)	-8.0%	146
Petroleum Business Tax	1,104	1,088	(17)	-1.5%	18
Other	**2,606**	**3,071**	**465**	**17.9%**	**106**
Estate and Gift	866	1,127	261	30.1%	112
Real Estate Transfer	493	563	70	14.2%	(3)
Pari Mutuel	19	18	(1)	-5.3%	-
Other	1	1	0	29.4%	-
Payroll Tax	1,228	1,362	134		(3)
Total All Funds Taxes	**57,668**	**61,307**	**3,639**	**6.3%**	**(146)**
General Fund Misc Receipts	3,888	2,859	(1,029)	-26.5%	(2)
Lottery	2,645	3,004	359	13.6%	(6)
Total w/Misc Receipts and Lottery	**$64,200**	**$67,171**	**$2,970**	**4.6%**	**(153)**

Table 10

Total Tax Collections SFY 2011-12 ($ in Millions)	2010-11 Estimate	2011-12 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,640**	**$38,969**	**$2,329**	**6.4%**	**($308)**
Gross Receipts	**44,741**	**46,546**	**1,805**	**4.0%**	**(483)**
Withholding	31,434	32,805	1,371	4.4%	503
Estimated Payments	10,151	10,499	348	3.4%	(726)
Vouchers	7,795	7,563	(232)	-3.0%	(617)
IT 370s	2,356	2,936	580	24.6%	(109)
Final Payments	1,986	2,061	75	3.8%	(242)
Delinquencies	1,170	1,181	11	1.0%	(18)
Total Refunds	**8,101**	**7,577**	**(524)**	**-6.5%**	**(175)**
Collections	**36,640**	**38,969**	**2,329**	**6.4%**	**38,969**
User Taxes and Fees	**14,150**	**14,456**	**305**	**2.2%**	**(199)**
Sales and Use Tax	11,398	11,470	72	0.6%	(295)
Motor Fuel Tax	513	496	(17)	-3.3%	(17)
Cigarette Tax	1,716	1,966	250	14.6%	145
Highway Use	129	127	(2)	-1.6%	(13)
Alcoholic Beverage Tax	226	225	(1)	-0.3%	(8)
Auto Rental Tax	83	86	3	3.5%	(12)
Taxi Surcharge	85	85	-	0.0%	-
Business Taxes	**7,446**	**8,212**	**766**	**10.3%**	**(359)**
Corporate Franchise	2,775	3,255	480	17.3%	(450)
Utility Tax	891	921	30	3.4%	(45)
Insurance Tax	1,405	1,403	(2)	-0.1%	(67)
Bank Tax	1,287	1,526	239	18.5%	192
Petroleum Business Tax	1,088	1,107	19	1.8%	11
Other	**3,071**	**3,113**	**42**	**1.4%**	**100**
Estate and Gift	1,127	1,092	(35)	-3.1%	122
Real Estate Transfer	563	565	2	0.4%	(16)
Pari Mutuel	18	18	-	0.0%	-
Other	1	1	-	0.0%	-
Payroll Tax	1,362	1,437	75	5.5%	(6)
Total All Funds Taxes	**61,307**	**64,749**	**3,442**	**5.6%**	**(767)**
General Fund Misc Receipts	2,859	2,818	(42)	-1.5%	(4)
Lottery	3,004	2,628	(376)	-12.5%	(109)
Total w/Misc Receipts and Lottery	**$67,171**	**$70,195**	**$3,024**	**4.5%**	**(879)**

FINANCIAL PLAN

The slow rebound in the economy has stabilized the New York State's financial plan. However, a slight underperformance in tax revenues and an underestimation in Medicaid spending has caused the Executive to propose $375 million in across-the-board spending reductions to balance the current year budget. This section summarizes the six-month operating results.

All Funds

Year-to-date All Funds receipts totaled $63.6 billion, an increase of $4.96 billion or 8.5 percent compared to the same time period last year. Tax receipts totaled $28.1 billion, an increase of $1.3 billion or 5.0 percent. Miscellaneous receipts decreased by $230.7 million or 2.1 percent. Federal grants increased by $3.85 billion or 18.6 percent.

Table 11

ALL FUNDS
Year-to-Date
Receipts and Disbursements
($ in Millions)

	6 Months ended Sept. 30, 2010	6 Months ended Sept. 30, 2009	Difference	% Change
Beginning Fund Balance (Deficit)	**4,860.1**	**4,585.8**	**274.3**	**6.0**
Receipts	**63,639.4**	**58,673.2**	**4,966.2**	**8.5**
Taxes	28,149.2	26,804.6	1,344.6	5.0
Miscellaneous Receipts	10,968.4	11,199.1	(230.7)	(2.1)
Federal Grants	24,521.8	20,669.5	3,852.3	18.6
Disbursements	**63,423.7**	**59,637.7**	**3,786.0**	**6.3**
Local Assistance Grants	46,578.8	42,925.1	3,653.7	8.5
Department Operations	9,348.9	9,590.0	(241.1)	(2.5)
Other	7,496.0	7,122.6	373.4	5.2
Ending Fund Balances (Deficit)	**5,031.6**	**3,582.3**	**1,449.3**	**40.5**

Year-to-date disbursements in All Funds totaled $63.4 billion, an increase of 6.3 percent or $3.8 billion over the previous fiscal year. Local Assistance grants increased by $3.65 billion or 8.5 percent compared to the same time last year and Department Operations disbursements totaled $9.3 billion, a decrease of $241.1 million or 2.5 percent.

Personal Service totaled $6.59 billion, a decrease of $142.5 million or 2.1 percent. Non-personal Service totaled $2.76 billion, a decrease of $98.6 million or 3.4 percent. Other Spending totaled $7.5 billion, a $373 million increase from the prior year or 5.2 percent.

General Fund

Year-to-date General Fund receipts totaled $25.5 billion, an increase of $318.9 million or 1.3 percent compared to the same time period last year. General Fund taxes totaled $18.8 billion, an increase of $750 million or 4.15 percent. Miscellaneous receipts decreased by 22.0 percent or $374.5 million. Federal grants totaled $13.3 million, a decrease of $31.9 million from the same period last year. Transfers from other sources totaled $5.3 billion, a decrease of $25.1 million or 0.5 percent from the previous year.

Table 12

GENERAL FUND
Year-to-Date
Receipts and Disbursements
($ in Millions)

	6 Months ended Sept. 30, 2010	6 Months ended Sept. 30, 2009	Difference	% Change
Beginning Fund Balance (Deficit)	**2,301.7**	**1,948.5**	**353.2**	**18.1**
Receipts	**25,519.1**	**25,200.2**	**318.9**	**1.27**
Taxes	18,842.8	18,092.4	750.4	4.15
Miscellaneous Receipts	1,325.9	1,700.4	(374.5)	(22.02)
Federal Grants	13.3	45.2	(31.9)	(70.58)
Other Financing Sources (Uses)				
Transfers from Other Funds	5,337.1	5,362.2	(25.1)	(0.5)
Disbursements	**25,439.4**	**24,718.4**	**721.0**	**2.9**
Local Assistance Grants	17,138.9	16,138.7	1,000.2	6.2
Department Operations	4,282.6	4,567.3	(284.7)	(6.2)
Other	1,395.0	1,403.0	(8.0)	(0.6)
Other Financing Sources (Uses)				
Transfers to Other Funds	2,622.9	2,609.4	13.5	0.5
Ending Fund Balances (Deficit)	**2,381.4**	**2,430.3**	**(48.9)**	**(2.0)**

Year-to-date General Fund disbursements totaled $25.4 billion, a decrease of 2.9 percent or $721 million compared to the same time period last year. Local Assistance grants totaled $17.1 billion, an increase of $1 billion or 6.2 percent compared to the same period last year. Department Operations spending totaled $4.28 billion, a decrease of $284.7 million or 6.2 percent. Personal Service decreased by $154.9 million or 4.4 percent to $3.35 billion. Non-personal Service totaled $928 million, a decrease of $129.8 million or 12.3 percent. General State Charges totaled $1.395 billion, a decrease of $8 million or 0.6 percent.

Budgetary Basis

The opening General Fund and All Fund cash balances for April 1, 2010, were $2.3 billion and $4.86 billion, respectively. On September 30, 2010, the General Fund closing balance was $2.38 billion or $94.6 million below the Enacted Budget. This shortfall was primarily due to the $484.9 billion decline in State revenue, which was partially offset by lower than projected disbursements of $390.6 billion.

The All Funds closing balance was $5 billion on September 30, 2010, $346.6 million above the Enacted Budget plan. A higher All Funds balance was caused by higher miscellaneous receipts and federal aid of $787.2 million offset by lower personal income taxes, sales taxes, and other receipts of $528.8 million, while disbursements were down by $120.3 billion.

The General Fund year-to-date disbursements are $390.6 billion lower than the Enacted Budget in the following areas: Education, Higher Education, and in Other Aid to Localities disbursements, Personal Services and Non-personal Services; and higher in General State Charges and Medicaid.

Table 13

BUDGETARY BASIS
Financial Plan v. Actual
Receipts and Disbursements
as of September 30, 2010
($ in Millions)

	GENERAL FUND			ALL FUNDS (MEMO)		
	Enacted	Actual	Favorable (Unfavorable) Variance	Enacted	Actual	Favorable (Unfavorable) Variance
Opening Cash Balance - April 1, 2010	**2,302**	**2,302**	**(0.3)**	**4,859**	**4,860**	**1.1**
RECEIPTS	**26,004**	**25,519**	**(484.9)**	**63,381**	**63,639**	**258.4**
Taxes	19,218	18,843	(375.2)	28,678	28,149	(528.8)
Miscellaneous Receipts	1,259	1,326	66.9	10,725	10,968	243.4
Federal Receipts	28	13	(14.7)	23,978	24,522	543.8
OTHER FINANCING SOURCES (USES)						
Transfers From Other Funds	5,499	5,337	(161.9)			
DISBURSEMENTS	**25,830**	**25,439**	**(390.6)**	**63,544**	**63,424**	**(120.3)**
Local Assistance Grants	17,477	17,139	(338.1)	46,366	46,579	212.8
Departmental Operations:	4,335	4,283	(52.4)	9,440	9,349	(91.1)
General State Charges	1,372	1,395	23.0	2,357	2,319	(37.9)
Debt Service	-	-		2,203	2,190	(12.8)
Capital Projects	-	-		3,178	2,987	(191.3)
OTHER FINANCING SOURCES (USES)						
Transfers To Other Funds	2,646	2,623	(23.1)			
Closing Cash Balance - September 30, 2010	**2,476**	**2,381**	**(94.6)**	**4,685**	**5,032**	**346.6**

EXPENDITURE FORECAST AND RISKS

Chapter 1 of the Laws of 2007 requires the State Legislature, the Executive, and the Office of the State Comptroller to include estimated state disbursements for the current and ensuing fiscal years for Medicaid, public assistance, and assistance for elementary and secondary education in a midyear report. The statute also requires delineation of underlying factors and assumptions on which such estimates are based.

The NYS Assembly Ways and Means Committee staff has prepared estimates and compared those to estimates provided in the Executive's midyear report. The current year and out-year estimates for Medicaid are below the Executive projections; the public assistance estimates are below the Executive projections; and aid for elementary and secondary education is consistent with that estimated by the Executive.

The Assembly Ways and Means Committee staff estimates that the New York State Department of Health will spend $15.9 billion in State Funds for the Medicaid program in State Fiscal Year (SFY) 2010-11, $1.0 million lower than the Division of the Budget midyear forecast. The estimate for Department of Health spending for the Medicaid program in SFY 2011-12 is $17.53 billion, $473 million lower than the Division of the Budget midyear forecast. The SFY 2010-11 Assembly public assistance expenditure estimate is $2.46 billion, roughly $65 million more than the Executive. For SFY 2011-12, the Committee staff forecasts public assistance expenditures to total $2.5 billion, $154 million above the Executive estimate.

In the 2010-11 school year, Foundation Aid was frozen for the second consecutive year and is maintained at $14.89 billion. For the 2011-12 school year, indications are that Foundation Aid will once again remain frozen. Using a historical average, the Assembly estimates that expense-based aids including Building Aid, Transportation Aid, Private and High Cost Excess Cost Aids, and BOCES will grow by a total of approximately $426.8 million in School Year (SY) 2011-12, the same as the level projected by the Executive.

There are several risks to the expenditure forecast that could significantly change these estimates however, and therefore must be noted for the uncertainty that they introduce into the process. It is also important to recognize that the cash management of disbursements, including the timing of certain payments, is a function performed solely by the Division of the Budget—yet it has a critical effect on the accuracy of this analysis. It is important that there be discussions on the timing of disbursements as the goals and purposes of budget reform are evaluated.

Some of the risks to the expenditure forecasts include:

- Data necessary for calculating School Year 2010-11 School Aid will not be released by the State Education Department until November 15. This data, which is submitted by districts, includes factors such as enrollment, district wealth, poverty indicators, and reimbursable spending. Therefore, any projections made for 2010-11 School Aid spending carry the risk of being uncertain.

- The Medicaid expenditure forecast is subject to many risks that are not accounted for in a detailed manner on a consistent basis that corresponds with how they are budgeted for within the major categories. Additionally, even within the system there are expenditure adjustments that are necessary from a statistical standpoint because of statutory changes or federal approvals for which there is not enough information available on a consistent basis.

- When economic variables such as employment, wages, and unemployment exhaustions do not meet projections, the actual public assistance caseload may vary from estimates. In addition, attempting to translate the public assistance caseload forecast into spending terms presents a risk since a significant portion of public assistance expenditures are made for other than basic assistance such as shelter, transitional services, diversion payments, and other miscellaneous spending that fluctuate on a monthly basis reflecting the needs of the recipients.

Medicaid Expenditure Forecast

Medicaid expenditure forecasting takes into account more than twenty major service categories that comprise total Medicaid spending. The following Assembly Ways and Means Committee staff forecast is for State Funds Medicaid spending under the New York State Department of Health (DOH) only, and does not include additional Medicaid spending through other agencies.[9]

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[9] Medicaid spending also appears in the Office of Mental Health (OMH), Office for People With Developmental Disabilities (OPWDD), Office of Alcoholism and Substance Abuse Services (OASAS), etc.

The Medicaid forecast uses regression techniques to incorporate historical trends and also adjusts for seasonal factors.[10] The model forecast is periodically evaluated to remain consistent with the most recent Medicaid spending trends, as well as current and projected economic conditions. The forecast also reflects statutory changes that are not captured by regression techniques, offline payments, and other adjustments.

Closeout estimates for the current fiscal year are derived from the most recent expenditure data available. The closeout is estimated by applying the historical expenditure ratio, which is represented through the data available for the current fiscal year as a percentage of total State fiscal year expenditures to the actual monthly expenditures available for the current fiscal year. Since the monthly distribution of Medicaid spending can vary from year to year, calculating the closeout at present (with only seven months of data) introduces the possibility of unanticipated changes in the closeout estimate as more data becomes available.

Medicaid Spending: SFY 2009-10, 2010-11, and 2011-12

Total New York State share Medicaid spending for DOH in SFY 2009-10 was $14.519 billion. Based on the data for the first seven months of SFY 2010-11, and accounting for adjustments related to cost containment measures advanced through the budget process and offline payments, the Assembly Ways and Means Committee staff estimates that DOH Medicaid expenditures will total $15.900 billion in SFY 2010-11, an increase of 9.5 percent. In SFY 2011-12, Committee staff projects DOH Medicaid spending at $17.530 billion, representing an increase in State share spending of 10.3 percent. It should be noted that SFY 2011-12 expenditure projections reflect a $400 million adjustment related to the payment of one previously-deferred weekly Medicaid cycle.

The Executive estimates that DOH Medicaid spending will total $15.901 billion in SFY 2010-11, an increase of 9.5 percent from SFY 2009-10. The Executive forecasts that DOH Medicaid expenditures will total $18.003 billion in SFY 2011-12, representing a growth rate of 13.2 percent.

The Executive estimate for State Medicaid spending is virtually the same as that of the Ways and Means Committee staff in SFY 2010-11, and 2.9 percentage points higher in SFY 2011-12. Under either analysis, underlying growth in Medicaid spending reflects

[10] Data used in the forecast are obtained from the following sources: NYS Assembly Ways and Means Committee Forecast and NYS Department of Health.

burgeoning enrollment in the Medicaid program, as opposed to an increasingly generous benefit package or higher rates of payment. Enrollment in all forms of public assistance is inextricably linked to a host of other economic indicators. Accordingly, Medicaid spending growth in all fifty states averaged 8.8 percent in 2010, the highest rate of growth in eight years.[11]

Enhanced Federal Support

Forecasted State spending noted above does not reflect enhanced federal support under the American Recovery and Reinvestment Act of 2009 (ARRA). Rather, an adjustment for ARRA receipts, under both the Ways and Means and Executive analysis, is reflected after underlying program growth is calculated. Under this Act, each state's Federal Medical Assistance percentages (FMAP)—which determines the federal share of Medicaid costs—was increased in a manner that corresponded to rates of unemployment. Through ARRA and one subsequent extension of its enhanced FMAP provisions, the federal government committed an additional $8.4 billion to offset DOH Medicaid spending over a period of four state fiscal years, beginning in SFY 2008-09.

In SFY 2011-12, the FMAP benefit virtually evaporates, with the State to receive a benefit of $353 million, a 91.0 percent reduction from the SFY 2010-11 benefit. As noted above, the Ways and Means Committee staff projects that DOH Medicaid spending will increase by over 10.3 percent in SFY 2011-12—an absolute increase of about $1.630 billion. Compounding the effects of underlying program growth, a year-to-year loss in FMAP in the amount of $3.6 billion translates to an overall 43.7 percent increase in State funds spending. Table 14 provides a summary of the forecasts adjusted for an increased FMAP.

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[11] Kaiser Family Foundation, September 2010

Table 14

State Share Medicaid Spending Summary					
	SFY 2009-10	**SFY 2010-11**		**SFY 2011-12**	
	Close Out	**Executive**	**WAM**	**Executive**	**WAM**
Forecast	14,519	15,901	15,900	18,003	17,530
FMAP	***($3,040)***	***($3,948)***		***($353)***	
Adjusted Forecast	11,479	11,953	11,952	17,650	17,177

Note: The value represented herein is exclusive of Federal Medical Assistance percentages (FMAP) that is allocated to Medicaid spending in other State agencies and FMAP that must be passed through to local governments.

Risks to the Medicaid Spending Forecast

Apart from risks to the forecast related to the economy and continued changes to the health care system in New York, there are several risks to both the SFY 2010-11 closeout and the SFY 2011-12 forecast for DOH Medicaid spending.

As previously noted, total Medicaid spending reflects payments for more than twenty major service categories. Although the Medicaid claims payment system (eMedNY) provides monthly data for a substantial percentage of budgeted Medicaid spending, over $2 billion in expenditures remain outside the confines of eMedNY (in the form of offline payments), and are thus not accounted for on a consistent basis. These expenditures include administrative costs that are reimbursed by the State to local governments, cash receipts from audit recoveries made by the Office of the Medicaid Inspector General (OMIG), and State spending related to its assumption of localities' Medicaid payments under the existing spending cap.

Even for those data that are within eMedNY, expenditure adjustments remain necessary from a statistical standpoint because of statutory changes, pending federal approvals, or instances where sufficient information is not readily available.

In March 2010, through enactment of the Patient Protection and Affordable Care Act, Congress enacted a number of sweeping changes to the manner by which health care will be delivered and financed nationwide. Expanded eligibility under the Medicaid program, an individual mandate to secure health insurance, and a range of payment reforms will all come to bear on New York's budget and its health care delivery infrastructure, with the most profound fiscal impact to be realized in years 2014 and beyond. Since implementation of most of these provisions is contingent upon extensive stakeholder input and federal rulemaking, their impact to New York State's financial plan is largely undetermined.

In summary, the NYS Assembly Ways and Means Committee staff has herein provided estimated Department of Health Medicaid spending for both SFY 2010-11 and SFY 2011-12, as prescribed under Chapter 1 of the Laws of 2007. This forecast should be considered with caution due to the level of information that remains necessary to complete a more thorough analysis. In the coming months, as these data become available, these forecast estimates may be modified.

Public Assistance Caseload and Expenditures

Public assistance expenditures consist of two main categories of spending: Family Assistance and Safety Net Assistance. The Family Assistance program is a federal program financed using a combination of federal Temporary Assistance for Needy Families (TANF) funds, State funds, and local funds; it provides support services and cash assistance to eligible families and children. The Safety Net Assistance program is a State program, financed jointly between the State and local governments. As the name implies, it offers a "safety net" by providing cash assistance to those individuals who do not qualify for Family Assistance, i.e., single adults, childless couples, and families that have exhausted their five-year time limit for TANF eligibility imposed by federal law. It should be noted that while the data available from the Office of Temporary and Disability Assistance (OTDA) is sufficient for estimating the public assistance caseload, it lacks the needed specificity for doing a public assistance spending forecast. While economic factors such as employment, wages, and unemployment exhaustions can be used to help forecast the number of recipients on the public assistance rolls, translating those figures into spending terms cannot be done with precision because a significant portion of public assistance expenditures are made for emergency situations and include payments for shelter, transitional services, diversion payments, and other non-assistance payments that are unrelated to the public assistance caseload. Consequently, in order to forecast public assistance expenditures more accurately, OTDA needs to refine currently available data by segregating emergency and other non-assistance spending from basic expenditures that are directly related to the public assistance caseload.

Current Year Closeout

For SFY 2009-10, actual public assistance expenditures were $2.41 billion with an average monthly caseload of 537,035. This represents a caseload increase of 5.2 percent over the previous fiscal year while spending was $88 million higher or 3.8 percent.

Actual caseload was 33,284 larger than the caseload number of 503,751 estimated by the Executive when the SFY 2009-10 Budget was submitted. At that time, the Executive had also estimated expenditures for SFY 2009-10 at $2.16 billion, which was $242.9 million lower than the actual spending of $2.41 billion. The large discrepancy in caseload between the Executive's estimate at the time of the Executive Budget submission and actual caseload is primarily attributable to the sharp downturn in the economy.

The SFY 2009-10 Enacted Budget increased the basic allowance for public assistance recipients by 10 percent per year for three years, effective July 1, 2009. Prior to this action, the basic allowance had not been increased in nineteen years. While public assistance benefits are typically split equally between the State and local governments after the federal government has paid for its share, the SFY 2009-10 Budget amended the funding to provide that the State will assume fiscal responsibility for the entire nonfederal share of the grant increase for three years. This additional State cost will be paid out of TANF contingency funds and will result in a temporary increase in TANF funds spent for public assistance benefits over the next three years. Please note, the projections for SFY 2010-11 and SFY 2011-12 do not incorporate the impact of the scheduled public assistance grant increases.

When the SFY 2010-11 Budget was enacted, public assistance expenditures were estimated to total $2.5 billion with an average monthly caseload of 556,300. At midyear, the Executive currently estimates expenditures for SFY 2010-11 at $2.39 billion, approximately $13.1 million below the previous fiscal year with a monthly average caseload of 539,170, a 0.4 percent caseload decrease from SFY 2009-10. NYS Assembly Ways and Means Committee staff foresees marginally more growth than had been anticipated in the Enacted Budget. The Committee staff estimates that public assistance spending will total approximately $2.46 billion, approximately a $51.5 million increase in spending over the previous fiscal year and roughly $64.6 million above the Executive. The Assembly estimates an increase of 13,512 recipients or 2.5 percent in the monthly average caseload over SFY 2009-10 to 550,547 recipients, which is 11,377 above the Executive. While the SFY 2010-11 Executive Budget had recommended reducing from 10 percent to

5 percent the statutory public assistance grant increases scheduled for July 2010 and July 2011 and providing for a 5 percent increase for two consecutive years thereafter, the Legislature restored the 10 percent grant increase as enacted in SFY 2009-10. This action necessitates additional spending in SFY 2010-11 and SFY 2011-12.

SFY 2011-12 Forecast

Given that New York State continues to meet the fiscal challenges caused by a major economic downturn and is still confronted with a severe fiscal deficit, an accurate forecast for public assistance spending will be a necessary component in developing the State Budget. Despite factors that indicate that the State's economy may be recovering, job opportunities continue to be limited and unemployed workers may exhaust their Unemployment Insurance (UI) benefits before finding new employment. As a result, demand for public assistance benefits will continue to increase at a modest rate. Additionally, given the current uncertainty facing the New York economy, the SFY 2011-12 forecast will be impacted by factors not yet known. It remains to be seen how quickly the economic recovery will progress and at which point vulnerable populations will begin to realize the benefits of an improved economy and more robust job market.

The Executive estimates caseload will decrease by nearly 1.4 percent to 531,723, while spending will decline by nearly $38.5 million to $2.35 billion. The Committee staff estimates caseload will increase from its SFY 2010-11 projection by 2.0 percent to 561,348 recipients, 29,625 above the Executive, while public assistance expenditures are estimated to increase by $50.9 million to $2.5 billion, approximately $153.9 million above the Executive forecast.

Aid to Education

School Year 2010-11

The 2010-11 State Budget was severely impacted by continuing economic distress. After years of increased State funding for local school districts, this past year's State Budget resulted in a decrease of $479.3 million in General Support for Public Schools below School Year (SY) 2009-10 funding levels for a total of $21.2 billion in overall support. Of this amount, the State Budget provided $20.9 billion in funding through computerized school aid formulas. This year-to-year decrease was primarily implemented through a $1.4 billion Gap Elimination Adjustment (GEA) which was overlaid on top of existing school aid formulas that continued to be calculated based on existing law. The GEA for each district was calculated based on district wealth, student need, administrative efficiency, and residential tax burden. The GEA is being partially offset by an additional $607.59 million in Federal Education Jobs Fund money that was enacted in August. Unfortunately, the restoration of $600 million in State funding that the Legislature added to offset the GEA was vetoed by the Governor. Finally, pursuant to the Federal Medical Assistance Program (FMAP) Contingency Plan, there will be an estimated $131.5 million in reductions from 2010-11 School Aid, and approximately $9.4 million in reductions to other educational programs and services.

In 2007, the Foundation Aid Formula was created to provide a comprehensive and equitable distribution of school aid. For the 2007-08 and 2008-09 school years, Foundation Aid generated record school aid increases. However, the recent economic situation has required a delay in the full implementation of Foundation Aid. In 2010-11, Foundation Aid was frozen for the second consecutive year and is maintained at $14.89 billion.

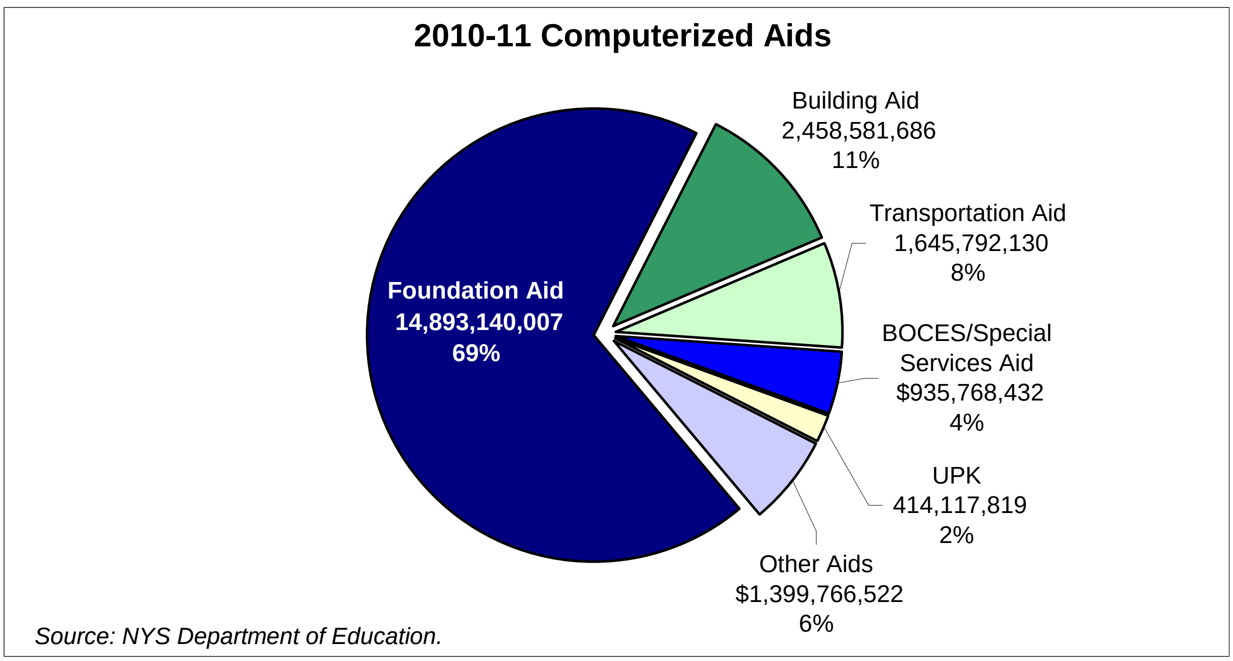


Figure 8

In addition to Foundation Aid, there are a variety of expense-based computerized aids that were continued for SY 2010-11. These aids reimburse districts for certain expenditures that were already made so that educational programs for students can be maintained. These programs include aid for transportation services, BOCES and special services, and private and high cost special education programs. The State also shares in expenses involved in school construction through Building Aid reimbursement. For the 2010-11 school year, the State will spend $354 million in increased aid to maintain our commitment to these programs. Total funding for these programs in SY 2010-11 is estimated to be $5.889 billion.

Computerized aids also delineate distinct funding streams for universal prekindergarten programs; conversion to full-day kindergarten; instructional materials such as textbooks, library materials, and computer software and hardware; charter school transition aid; certain other grants; and high tax aid. These programs receive total State support of $960 million.

Finally, the Enacted Budget also appropriated federal funds through the American Recovery and Reinvestment Act of 2009 (ARRA) for a variety of programs, including $454 million for Title 1-A, $398 million for the Individuals with Disabilities Education Act (IDEA), $135 million for Title 1 School Improvement grants, and $28 million for Educational Technology. Additionally, New York State will be receiving $696.64 million from the federal Race to the Top competition.

School Year 2011-12

Pursuant to §305.21 of the Education Law, an updated electronic data file for the 2011-12 school year containing both actual and estimated data for the current and following school years is not available or released from the State Education Department until November 15. The type of data that school districts submit to the Department includes information about enrollment, wealth, students eligible for free and reduced price lunch, property values, and the estimated costs incurred by school districts for certain services and programs that are eligible for reimbursement. This data, which is due from school districts by November 1, is revised throughout the year as more accurate data becomes available from school districts. As a result, at this point in time, information is not available to make accurate predictions on school aid spending for SY 2011-12. Additionally, the current fiscal climate of the State creates additional uncertainty to these projections. Nevertheless, in this report an effort is made to provide a projection based on an analysis of multiple years' worth of data. As previously noted, these projections are preliminary since information that will be used to determine aid to school districts in SY 2011-12 is currently unavailable.

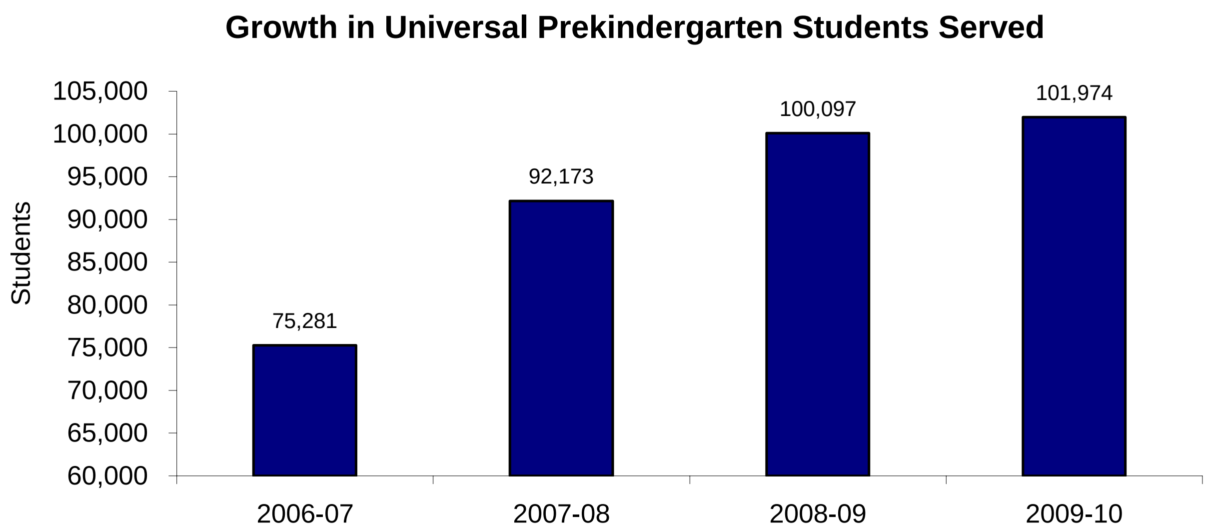
Foundation Aid Formula

Foundation Aid, which was enacted in the 2007 State Budget, remains the largest component of the formula-based aids that are distributed to school districts. Frozen for the second consecutive year at $14.8 billion, the formula was created to provide a comprehensive, stable, and equitable structure for State funding of education. For years the Assembly had proposed the creation of a foundation formula. The enactment of this formula in 2007-08 attests to a commitment by the State to a stream of funding for local school districts which reflects student and district needs as a response to the Campaign for Fiscal Equity case. Unfortunately, the current economic downturn has stalled progress on fully funding the Foundation Aid Formula. For the 2011-12 school year indications are that Foundation Aid will once again remain frozen. The Assembly remains committed to fully implementing the Foundation Aid Formula.

Universal Prekindergarten

Beginning with the initiation of the LADDER program more than ten years ago, a commitment to create and fund a truly universal prekindergarten program available to all children across the State has been a priority of the Assembly. The 2007-08 State Budget consolidated the Universal Prekindergarten, Targeted Prekindergarten, and Supplemental Universal Prekindergarten programs. In 2010-11 the program will serve more than 100,000 children in 450 school districts throughout the State at an estimated cost of $378 million, reflecting the continuation of existing programs.

The Assembly remains committed to the continuation and ultimately, the promise of a fully accessible and universal prekindergarten program throughout the State.



Note: In 2010-11 pupils are estimated to be similar to the number of students served in 2009-10.
Source: NYS Department of Education.

Figure 9

Expense-Based Aids

The State provides reimbursement for various education expenses that school districts incur. Ensuring proper facilities, reducing costs by using shared services, educating students with special needs, and transporting students to and from schools safely are all part of providing a sound, basic education to students throughout the State.

In developing estimates for the growth in formula-based aids, the Assembly continues to use an average of five years growth in these programs in projecting costs for 2010-11. However, due to the current economic climate, growth in these reimbursable aid categories potentially may be slower than average, as districts look to find ways to contain costs.

Transportation Aid reimburses districts for approved transportation expenses such as equipment, salary, and benefits. Aid for 2010-11 totaled $1.65 billion, an increase of $99.1 million or 6.39 percent over SY 2009-10. Although an accurate portrayal for SY 2010-11 cannot be provided without the November data, a review of the past five years of funding reveals that the yearly percentage increases in Transportation Aid range from 1.07 percent to 10.04 percent, with an average annual increase of 6.17 percent. If funding were to increase by this average amount, Transportation Aid would rise by approximately

$101.7 million in SY 2011-12. As noted, actual costs for reimbursement might be lower than this estimate due to current economic conditions.

Nearly all districts throughout the State are components of Boards of Cooperative Educational Services (BOCES) and are eligible to receive BOCES aid which allows districts to offer various programs and services that they might otherwise be unable to afford by pooling resources and sharing costs. Aid for SY 2010-11 totaled $735.5 million, an increase of $44 million or 6.37 percent over SY 2009-10. Funding increases over the past five years ranged from a low of 2.98 percent to a high of 7.42 percent, with an average annual increase of 6.04 percent. If funding were to grow by this average amount, BOCES aid would increase by approximately $44.44 million in SY 2011-12. However, actual costs for reimbursement might be lower than this estimate due to current economic conditions. Additionally, school districts that are not components of BOCES, including the five large city school districts, receive Special Services Aid to fund career education programs, computer services, and academic improvement; the State provided a total of $200.5 million in SY 2010-11 for these programs.

Private Excess Cost Aid provides reimbursement for school children with severe disabilities who are placed in private school settings or in State-operated schools in Rome and Batavia. Aid for SY 2010-11 was $331 million, a decrease of 0.667 million or 0.2 percent below SY 2009-10. Over the past five years, the percentage change in funding has fluctuated widely, declining 0.2 percent and growing 22.53 percent, with an average annual increase of 8.92 percent. If funding were to increase by this average amount, Private Excess Cost Aid would grow by approximately $29.5 million in SY 2011-12.

High Cost Excess Cost Aid provides reimbursement for the costs associated with resource-intensive public schools and BOCES programs for students with disabilities. Aid for SY 2010-11 totaled $491.17 million, a decrease of 0.76 percent from the 2009-10 school year. Over the past four years, the percentage change has also fluctuated widely, growing by 10.19 percent in one year and declining by 5.08 percent in another. If funding were to increase by the average amount of 1.45 percent, then High Cost Excess Cost would grow by approximately $7.2 million in SY 2011-12.

Building Aid allows school districts to receive State support for approved building projects. Aid for SY 2010-11 totaled $2.419 billion, an increase of $233.3 million or 10.67 percent over SY 2009-10. Percentage increases over the past five years varied from a low of 7.41 percent to a high of 11.88 percent with an average annual increase of

10.09 percent. If funding were to rise by this average amount, Building Aid would increase by approximately $244 million in SY 2011-12. As noted, actual costs for reimbursement might be lower than this estimate due to district efforts to contain costs. Building Aid has generally been one of the most difficult categories to forecast as funding for this program is based both on new building projects that have become aidable as well as older projects that are no longer aidable as the State completes its commitment to these projects and the bonds become fully paid.

American Recovery and Reinvestment Act of 2009 (ARRA)

In the winter of 2009 the federal government provided over $2 billion in federal stimulus funding to help support local school districts in New York State for the 2009-10 and 2010-11 school years. These funds provide support for a variety of programs which includes $725.9 million that is going directly to schools for the 2010-11 school year and $194.0 million to help fund preschool special education programs. At this time these federal funds are also not expected to continue into the 2011-12 school year. Additionally, the aforementioned Title I and IDEA funds are not expected to continue. The expiration of these funds will place strains on both the State and local school district budgets.

Table 15

YEAR TO YEAR AID GROWTH							
	2005-06	**2006-07**	**2007-08**	**2008-09**	**2009-10**	**2010-11**	**Total Growth**
Transportation	1,225,674,901	1,348,687,516	1,440,203,785	1,534,540,958	1,551,001,309	1,650,108,907	
Change		123,012,615	91,516,269	94,337,173	16,460,351	99,107,598	424,434,006
%Change		10.04%	6.79%	6.55%	1.07%	6.39%	34.63%
BOCES	548,849,447	583,410,997	625,111,808	671,506,193	691,530,073	735,553,313	
Change		34,561,550	41,700,811	46,394,385	20,023,880	44,023,240	186,703,866
% Change		6.30%	7.15%	7.42%	2.98%	6.37%	34.02%
Private Excess Cost	218,718,416	226,763,492	277,849,682	307,761,293	331,851,416	331,183,817	
Change		8,045,076	51,086,190	29,911,611	24,090,123	(667,599)	112,465,401
% Change		3.68%	22.53%	10.77%	7.83%	-0.20%	51.42%
High Cost Excess Cost			473,220,366	521,453,534	494,949,615	491,177,295	
Change				48,233,168	(26,503,919)	(3,772,320)	17,956,929
% Change				10.19%	-5.08%	-0.76%	3.44%
Building	1,496,740,249	1,674,579,964	1,798,592,361	1,985,062,087	2,185,706,962	2,419,009,507	
Change		177,839,715	124,012,397	186,469,726	200,644,875	233,302,545	922,269,258
% Change		11.88%	7.41%	10.37%	10.11%	10.67%	61.62%

Source: State Education Department Local Assistance Tables.

APPENDIX A

U.S. Recessions Since World War II (Based on Series-Specific Turning Points)					
GDP			**Employment**		
Peak to Trough	**Duration (Quarters)**	**Depth**	**Peak to Trough**	**Duration (Quarters)**	**Depth**
1948:Q4-1949:Q4	4	(1.6%) ($29.5)	1948:Q3-1949:Q4	5	(4.4%) (1,973.0)
1953:Q2-1954:Q1	3	(2.7%) ($62.7)	1953:Q2-1954:Q3	5	(3.2%) (1,635.0)
1957:Q3-1958:Q1	2	(3.7%) ($97.7)	1957:Q2-1958:Q2	4	(4.1%) (2,200.7)
1960:Q1-1960:Q4	3	(1.6%) ($45.1)	1960:Q2-1961:Q1	3	(1.7%) (910.0)
1969:Q3-1970:Q4	5	(0.6%) ($26.8)	1970:Q1-1970:Q4	3	(1.0%) (737.7)
1973:Q4-1975:Q1	5	(3.2%) ($157.8)	1974:Q3-1975:Q2	3	(2.7%) (2,087.3)
1980:Q1-1980:Q3	2	(2.2%) ($131.9)	1980:Q1-1980:Q3	2	(0.9%) (847.0)
1981:Q3-1982:Q3	4	(2.7%) ($163.8)	1981:Q3-1982:Q4	5	(3.0%) (2,734.3)
Average over All Previous Recessions	3.5	(2.3%) ($89.4)	Average over All Previous Recessions	3.8	(2.6%) (1,640.6)
1990:Q2-1991:Q1	3	(1.4%) ($109.4)	1990:Q2-1991:Q3	5	(1.4%) (1,498.3)
2000:Q4-2001:Q3	3	0.0% $5.6	2001:Q1-2003:Q2	9	(2.0%) (2,657.3)
2007:Q4-2009:Q2	6	(4.1%) ($553.7)	2008:Q1-2009:Q4	7	(6.0%) (8,257.3)

Note: Depth is defined as the level change from the peak level to the trough level. GDP is in billions of chained 2005 dollars. Employment is non-farm total in thousands. The percentages are the depth divided by the peak level.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics, CES; NYS Assembly Ways and Means Committee staff.

APPENDIX B

U.S. Recessions Since World War II (Based on Series-Specific Turning Points)					
Consumption			**Investment**		
Peak to Trough	**Duration (Quarters)**	**Depth**	**Peak to Trough**	**Duration (Quarters)**	**Depth**
1948:Q4-1949:Q4	No Decline	3.4% 40.4	1948:Q3-1949:Q2	3	(31.0%) ($75.2)
1953:Q2-1953:Q4	2	(0.9%) ($12.7)	1953:Q2-1954:Q2	4	(11.1%) ($27.6)
1957:Q4-1958:Q1	1	(1.4%) ($22.3)	1957:Q3-1958:Q2	3	(17.2%) ($47.7)
1960:Q2-1960:Q3	1	(0.4%) ($7.1)	1960:Q1-1960:Q4	3	(21.7%) ($71.9)
1970:Q3-1970:Q4	1	(0.3%) ($7.5)	1969:Q3-1970:Q1	2	(8.4%) ($43.5)
1973:Q3-1974:Q1	2	(1.2%) ($37.0)	1973:Q4-1975:Q2	6	(29.4%) ($198.2)
1979:Q4-1980:Q2	2	(2.4%) ($92.8)	1978:Q4-1980:Q3	7	(19.9%) ($163.2)
1981:Q3-1981:Q4	1	(0.8%) ($29.0)	1981:Q3-1982:Q4	5	(22.5%) ($181.3)
Average over All Previous Recessions	1.4	(0.5%) ($21.0)	Average over All Previous Recessions	4.1	(20.1%) ($101.1)
1990:Q3-1991:Q1	2	(1.1%) ($56.6)	1990:Q2-1991:Q2	4	(12.7%) ($129.7)
2000:Q4-2001:Q3	No Decline	1.2% $94.2	2000:Q2-2001:Q4	6	(14.2%) ($287.3)
2007:Q4-2009:Q2	6	(2.4%) ($225.3)	2006:Q1-2009:Q2	13	(35.8%) ($811.5)

Note: Depth is defined as the level change from the peak level to the trough level. Consumption and investment are in billions of chained 2005 dollars. The percentages are the depth divided by the peak level.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics, CES; NYS Assembly Ways and Means Committee staff.