NEW YORK STATE ASSEMBLY

MIDYEAR UPDATE

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INTRODUCTION

The New York State Assembly is committed to enhancing the public's understanding of our constantly changing national and State economies, and the myriad factors and assumptions that go into the construction of our State Budget. At the end of February of each year, the Assembly Committee on Ways and Means publishes the staff analysis and forecasts in the New York State Economic Report and the New York State Revenue Report. These reports are readily available through the Assembly's public information office and on the Assembly web site (www.assembly.state.ny.us).

The following report provides a summary of the current outlook for the national and State economies through the next State fiscal year, and includes State revenue forecasts and preliminary expectations for costs pertaining to Medicaid, education, and public assistance. These projections are part of the "quick start" process contained in the Budget Reform statute enacted in January 2007. The budget reform legislation envisions an exchange of information among the Division of the Budget, the Legislative fiscal committees, and the Comptroller's Office; a public discussion and finally a joint report on actual, estimated, and projected receipts and disbursements.

All the projections contained in this report are based on the best information available as of early November 2008. We continue to express our appreciation to our Board of Economic Advisors who have provided valuable comments on the current state of the economy. Given the high degree of uncertainty in the overall economy and in the outlook for the securities industry, there are significant risks to the outlook contained in this report. Therefore, new information will affect the preliminary forecasts contained in this report and will be incorporated in our February 2009 forecasts.

ECONOMIC OUTLOOK

The United States economy is in recession, and the global economy is suffering through an unparalleled financial crisis. What began with the failure in the subprime mortgage market has led to turmoil in the financial markets of historic proportions. Paralyzing uncertainty, a plague of negative forces, and an unprecedented Wall Street restructuring are threatening the health of the economy and restraining growth. Global and national indicators of the economy's condition continue to deteriorate, leading to exceptional government actions to prevent the economy from degrading further.

The credit crunch has had farther-reaching effects than first anticipated (see the Credit Crunch section on page 3). What originally started as general concern over mortgage-backed securities has spread to other areas of the economy. Global write-downs have totaled more than $500 billion, and there are more to come. Exceptional moves by the government and the Federal Reserve have become common events as officials try to minimize the damage to the overall economy and hasten a return to growth.

As the federal government considers implementing another stimulus package, the final passage and magnitude of the stimulus package offers some upside potential for the forecast presented in this document, as the package would offer significant assistance to states. The injection to states can have a significant effect, not only on the national outlook by adding to GDP growth, but also to the New York State variables considered in this forecast. If the package were to grow in size before final passage, the positive impact on the overall economy would also grow, making the outlook in this report more positive.

The NYS Assembly Ways and Means Committee staff forecasts the U.S. economy will contract by 0.1 percent in 2009 (see Table 1). The staff forecast for 2009 is the same as the Division of the Budget and lower than other major forecasting groups.

Table 1

U.S. Real GDP Forecast Comparison (Percent Change)	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Ways and Means	2.0	1.3	(0.1)	2.3
Blue Chip Consensus	2.0	1.5	0.5	N/A
Division of the Budget	2.0	1.4	(0.1)	N/A
Moody's Economy.com	2.0	1.6	1.0	3.7
Macroeconomic Advisers	2.0	1.3	0.2	3.1
IHS Global Insight	2.0	1.5	0.2	2.4

Sources: NYS Assembly Ways and Means Committee staff; Blue Chip, October 2008; New York State Division of the Budget, 2008-09 Executive Budget, Mid-Year Financial Plan Update, October 28, 2008; Moody's Economy.com, October 2008; IHS Global Insight, October 2008; Macroeconomic Advisers, Mid-October 2008.

During the current downturn, real GDP is forecast to decline by 1.0 percent and payroll employment by 1.4 percent or 1.9 million jobs. In comparison, during the 1990-91 downturn, real GDP declined by 1.3 percent and payroll employment by 1.4 percent or 1.5 million jobs. During the 2001 recession, real GDP declined by 0.2 percent and payroll employment dropped by 2.0 percent or 2.7 million jobs (see Appendix A on page 47).

The current recessionary forecast assumes a three quarter decline in consumption, for a total decline of 1.7 percent (see Appendix B on page 48). In the 2001 recession there was no decline in consumption. This indicates that while the pullback in consumption is a factor driving the current recession, the impact was not present in the 2001 recession.

As output growth slowed and production costs rose sharply, corporate profits declined 1.6 percent during 2007, ending the five consecutive years of double-digit growth. With the further slowing of the economy, corporate profits are forecast to decline another 5.5 percent in 2008. In the past five years, nonfinancial corporations performed better in profits than financial corporations. With the financial turmoil weighing more on financial corporations, this trend will continue during the forecast period. As economic growth is expected to weaken further during 2009, corporate profits are forecast to decline another 4.7 percent. With economic growth expected to rebound in 2010, corporate profits will gain 3.1 percent.

The State has also been affected adversely by the current events on Wall Street. The Assembly Ways and Means Committee staff forecasts that New York State payroll employment will decline 1.2 percent in 2009. It is higher than DOB by 0.3 percentage point and Moody's Economy.com by 0.1 percentage point. It is lower than IHS Global

Insight's forecast by 0.1 percentage point (see Table 2). The decline in employment takes into account the expectation of significant job losses in the financial sector.

Table 2

New York State Forecast Comparison (Percent Change)				
	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Employment				
Ways and Means	1.4	0.1	(1.2)	0.4
Division of the Budget	1.5	0.2	(1.5)	N/A
IHS Global Insight	1.4	0.3	(1.1)	0.3
Moody's Economy.com	1.4	0.1	(1.3)	0.6
Wages				
Ways and Means	8.8	1.4	(3.2)	2.3
Division of the Budget	8.6	1.5	(2.1)	N/A
IHS Global Insight	8.4	4.2	(0.7)	4.0
Moody's Economy.com	8.4	3.2	(0.9)	2.6

Sources: NYS Assembly Ways and Means Committee staff; New York State Division of the Budget, 2008-09 Executive Budget; Mid-Year Financial Plan Update, October 28, 2008; Moody's Economy.com, October 2008; IHS Global Insight, October 2008.

Wages in New York State are expected to fall 3.2 percent in 2009, after growing 1.4 percent in 2008. The decline is attributed to a drop in variable wages, as base wages will grow steadily throughout the forecast period, though at a much slower rate than in 2007.

As adverse conditions on Wall Street continue to limit business activities, New York State variable wages are forecast to fall 29.6 percent in 2009, compared to a drop of 10.6 percent in 2008. A decline of this magnitude is unprecedented, surpassing even the 13.7 percent falloff in variable wages in 2002 after September 11th. The current forecast is also exceptional in that it predicts variable wages will fall three years in a row, through 2010, as financial firms will likely undergo major cost-cutting measures and other reforms.

Credit Crunch

The credit crunch has continued longer and has had farther-reaching effects than first anticipated. What originally started as general concern over mortgage-backed securities that were adversely affected by the severe downturn in the housing market, has spread. The core problem stems from a high exposure of the financial sector to asset-backed securities (ABS), especially mortgage-backed securities (MBS).[1] Many MBS are backed by subprime mortgages. As the housing market continues to deteriorate and more subprime mortgages have been foreclosed, cash flows in MBS declined and have become more uncertain. As a result, MBS holders have been significantly affected. Financial institutions around the world have already written down more than $500 billion in assets, with more likely to come.[2]

As problems remain, both companies and citizens find it difficult to obtain credit to finance daily activities. As banks are unable to raise capital, they will be unable to lend money. In addition, lending standards have been tightening for some time, and are becoming even tighter as time goes on (see Figure 1 and Figure 2). Obtaining a mortgage now requires a larger down payment and a higher credit score. For outstanding credit, default rates are jumping. Charge-off rates for real estate and consumer loans, as reported by the Federal Reserve, were at high levels at the latest reporting in the second quarter of 2008. These levels will likely be even higher in the third and fourth quarters. Also, investor confidence is plummeting, as investors try to determine what investments and securitized assets are safe.

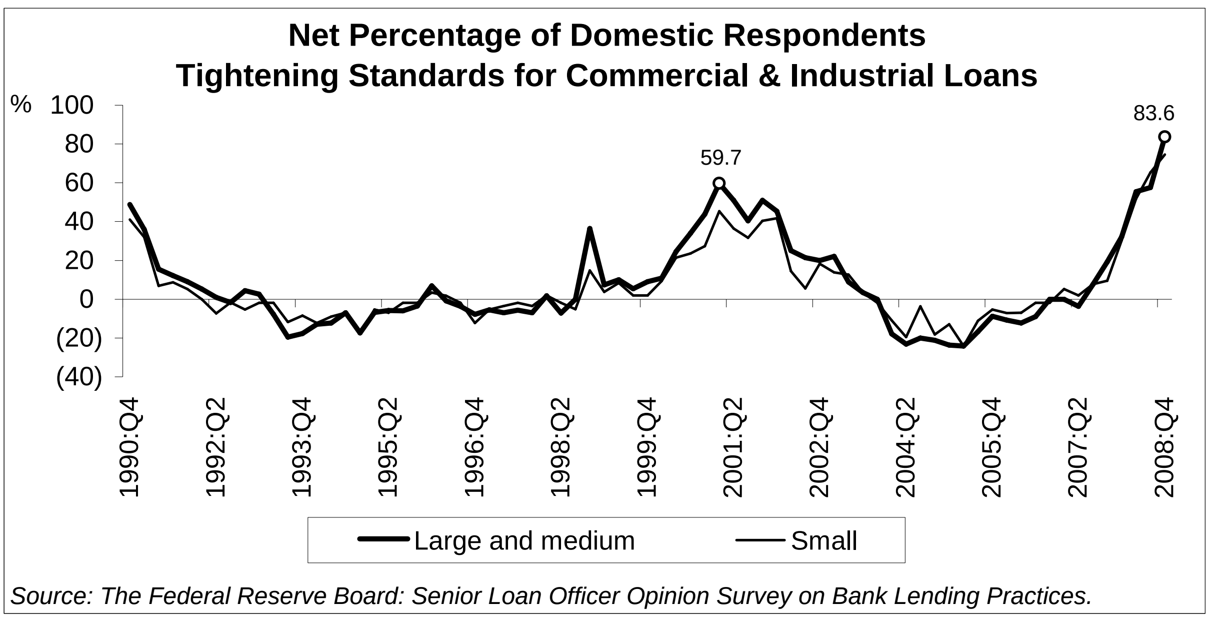


Figure 1

[1] Asset-backed securities (ABS) are securities that are based on a pool of assets. Cash flow from ABS is backed by the principal and interest payment of the underlying assets such as mortgages loans, credit card loans, and car loans, etc. Mortgage-backed securities (MBS) are securities that are based on a pool of mortgages, in which cash flow is backed by the principal and interest payment of the underlying mortgages loans.

[2] As of September 29, 2008, Bloomberg.com had reported that more than 100 of the nation's largest banks had written-down $590.8 billion worth of assets.

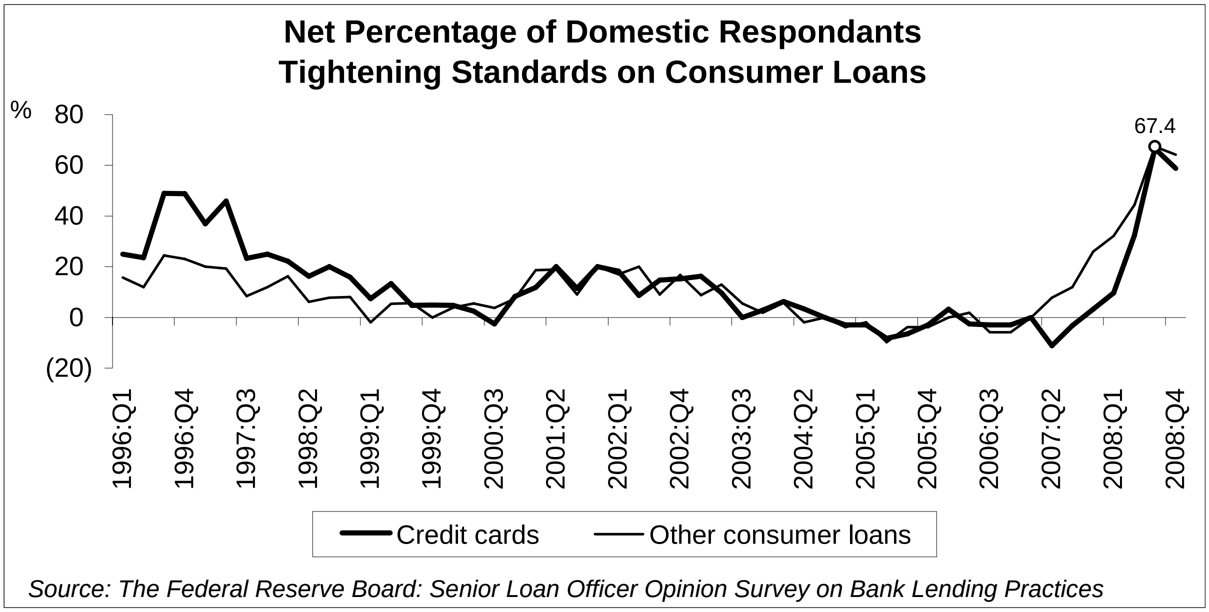


Figure 2

Exceptional moves by the government and the Federal Reserve have occurred throughout the crisis. As confidence in the financial sector slid in the first quarter of 2008, the Federal Reserve made several unprecedented policy changes to stabilize the financial markets and provide reassurance to the public. At an emergency meeting held on Sunday, March 16, 2008, the Federal Reserve of New York was authorized to facilitate short-term emergency loans to investment institutions, an extraordinary move as the Fed is the lender of last resort to institutions that are government regulated. Investment banks are not regulated. The discount rate was reduced from 3.5 percent to 3.25 percent and a financing agreement was established that resulted in the acquisition of Bear Stearns by JP Morgan Chase. The 'bailout' of Bear Stearns was extraordinary because the Fed agreed to take on losses or gains of Bear Stearns' securities up to $29 billion in order to induce the sale to JP Morgan Chase.

Later in March 2008, regulators eased the capital requirements for Fannie Mae and Freddie Mac (privately owned but government-chartered companies) that allowed them to purchase $200 billion in mortgage-backed securities. In addition, the Federal Home Loan Banks were permitted to buy $100 billion in mortgage-backed securities, though they were less capitalized than Fannie Mae and Freddie Mac. A single regulator, the Federal Housing Finance Agency (FHFA) was established to oversee government-sponsored enterprises involved in home mortgage markets. The Federal Housing Administration was authorized to allow certain at-risk borrowers to refinance their mortgages after the mortgage holder wrote down their loans.

The impact of these policies did little to lessen the strain on credit. In September 2008, Fannie Mae and Freddie Mac were placed into conservatorship, overseen by the FHFA, because of fears that their failure would have a significant adverse effect on the already stressed financial markets. With their shares plunging, any commercial banks that hold Fannie and Freddie stocks will have to write down the value of these stocks, indicating more widespread write-downs for the third and fourth quarters of 2008. According to a survey done by the American Bankers Association, 27 percent of banks hold Fannie and Freddie shares in their portfolios, and an overwhelming number of these banks are community banks with less than $1 billion in assets.

Even with these aggressive moves by the Fed in the first half of 2008, serious problems still remained as firms were still crippled by a lack of liquidity. Lehman Brothers filed for bankruptcy on September 15, 2008, and Bank of America announced a deal to buy Merrill Lynch. On September 16, 2008, the Federal Reserve stepped in to offer a bridge loan of $85 billion to major insurer American International Group (AIG) in hopes of facilitating an orderly sale of AIG's assets.

The failure and merger of large investment banks will mean significant changes to the financial activities industry, especially in terms of wages and employment. In addition, uncertainty and investor panic are making it difficult for the remaining players to operate. After the failure of Lehman Brothers and the announcement of Merrill Lynch merging with Bank of America, the stocks of the two remaining major investment banks, Goldman Sachs and Morgan Stanley, were extremely volatile on a daily basis, falling by double-digit percentages. Both firms released third quarter results that indicated their exposure to the mortgage-backed securities might have been more limited than other major investment banks. However, as it became increasingly clear that the firms could not survive on their own without adapting, both banks announced that they would no longer be investment banks, but instead would become bank holding companies.

The panic resulting from the intensifying bad news from Wall Street has prompted investors to find safe havens for their money. The Dow Jones Industrial Average (DJIA) became extremely volatile after the events in mid-September. The average fell 507 points on September 15, 2008, the largest drop since the terrorist attacks of 2001. As of September 17, 2008, the DJIA was down twenty percent for the year. Commodity prices rose, however. Oil temporarily resumed an uptick after falling below $100 per barrel. Gold posted the largest one-day rise ever on September 17, 2008, as people lost confidence in the financial sector and looked for safer investments. Investors also flocked to treasury bills, as the Treasury announced plans to issue $100 billion of new debt to help the Federal Reserve inject liquidity into the system.

By the week of September 21, 2008, conditions had worsened so that banks were unwilling to lend to other institutions and the credit markets were frozen. Uncertainty still surrounded the value and types of bad debts companies had on their balance sheets. The U.S. Treasury and Congress raced to agree on a bailout plan. The initial Treasury proposal suggested buying up to $700 billion of troubled mortgage-related assets from struggling institutions, thus removing the toxic assets from firm balance sheets. The proposal also called for raising the public debt limit to $11.3 trillion, and gave the Treasury broad authority and flexibility in deciding which assets to buy and how much to buy. The initial Treasury proposal did not set any limits on executive pay, or offer any assistance to homeowners facing foreclosure, concessions sought by some members of Congress in their counter-proposals.

As proposals were being discussed by Congress and the Treasury, stocks fell and crude oil rose. On September 22, 2008, crude oil prices rose $25, the largest one-day gain ever. While a portion of the increase was attributable to the weakening dollar and weaker supply data, there was also much activity as investors were forced to cover their short positions as October contracts expired.

The unprecedented moves by the Federal Reserve continued. At 1:00 a.m. on September 24, 2008, the Federal Reserve announced the creation of temporary swap lines to help U.S. dollar short-term funding markets and inject liquidity into global financial markets. This agreement injected an additional $30 billion to the $247 billion previously approved for swap lines. In addition, the Federal Reserve used a short-term reverse repurchase program to take $25 billion from the banking system.

Bank failures have also been part of the crisis. In fact, on September 26, 2008, Washington Mutual, Inc. was seized by regulators and the bulk of their operations were sold to JP Morgan Chase. This marked the largest bank failure in U.S. history, and was the latest in an ever-growing list of banks that had failed due to the meltdown in mortgage-backed securities. Rising bank failures have led to some parallels being drawn between this crisis and the savings and loan crisis which included massive bank failures. However, the cost of the current bailout being discussed will be larger. The savings and loan crisis in the late 1980s and early 1990s affected 1,043 institutions with total assets of $519 billion. The government acted by passing the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), and by creating the Resolution Trust Corporation (RTC). The savings and loan crisis, which resulted in unprecedented losses on loans and insolvency of hundreds of thrift institutions, was influenced by a variety of factors. These factors included reduced regulatory capital requirements, excessive chartering of new thrifts, the development of the brokered deposit market, and adverse regional economic conditions.

On October 3, 2008, Congress passed a $700 billion financial rescue package. Of the $700 billion, the Treasury allocated $250 billion to buying shares in the nation's banks, effective October 27, 2008. The purpose of the $250 billion was to stabilize the commercial paper market, and banks are expected to buy back their shares from the government once financial markets have recovered. To further lubricate the credit market, the FDIC will temporarily guarantee bank-to-bank loans for up to three years and will expand government insurance to cover all non-interest bearing accounts, even if they surpass the $250,000 limit, in effect aiding businesses in their day-to-day operations.

Congress is currently considering another stimulus package that would allocate funds to states and municipalities. Funds are widely needed across the country, as many states are experiencing higher than usual unemployment rates and a large loss in tax revenue due to the economic downturn. Under the $61 billion Job Creation and Unemployment Relief Act of 2008, passed by the U.S. House of Representatives on September 26, 2008, states would have received $15 billion in fiscal relief for Medicaid assistance, an additional $3 billion in food stamps, and $490 million to assist state and local governments. The bill also sought to extend unemployment benefits by up to thirteen weeks in states that are experiencing high unemployment. Furthermore, in an effort to support job creation, the Act allocated $37 billion for states to build infrastructure and transportation.[3] The Job Creation and Unemployment Relief Act is possibly a preview of the current relief package that is being considered by the House and whose deliberation has been supported by Federal Reserve Chairman Ben Bernanke. However, the magnitude has been increased significantly, as the problems faced by states have worsened.

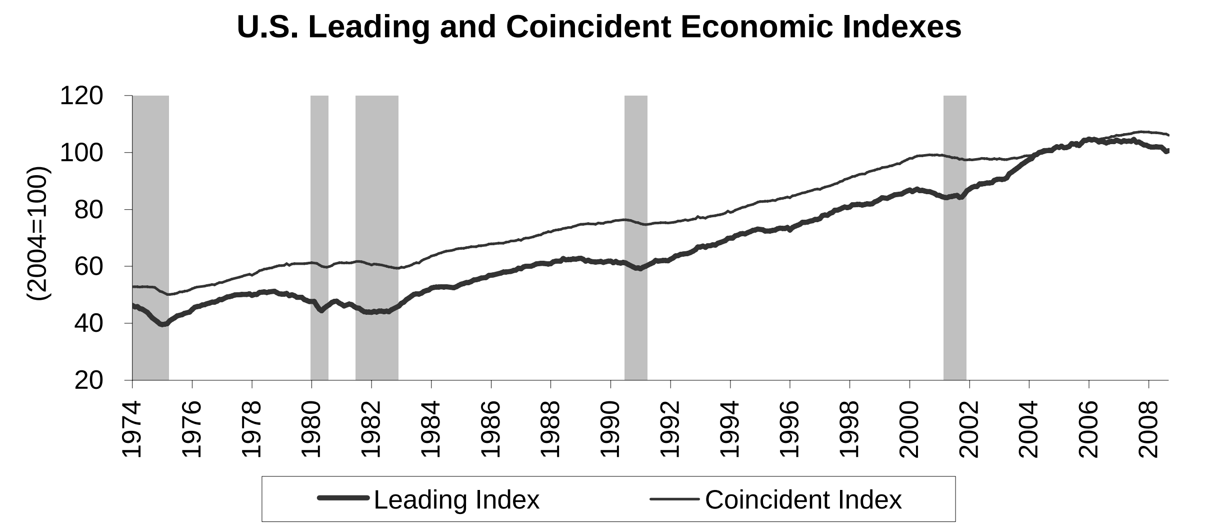
United States Forecast

The U.S. economy is in recession, and the global economy is suffering through an unparalleled financial crisis. What began with the failure in the subprime mortgage market has led to turmoil in the financial markets of historic proportions. Paralyzing uncertainty, a

[3] See H.R. 7110: Job Creation and Unemployment Relief Act of 2008 (considered and passed by House), 110th Congress, September 26, 2008.

plague of negative forces, and an unprecedented Wall Street restructuring are threatening the health of the entire economy and restraining growth. Global and national indicators of the economy's condition continue to deteriorate, leading to exceptional governmental actions to prevent the economy from degrading further.

The widely watched monthly indicators on sales, production, income, and employment indicate that the national economy probably reached a cyclical peak in November or December 2007.[4] The Conference Board's coincident economic indicator index has been on a downward trend since October 2007. The Chicago Fed National Activity Index (CFNAI), a coincident indicator of the business cycle as a weighted average of 85 monthly indicators of national economic activity, fell to negative 1.78 on a three-month moving average basis in September 2008, well below the threshold value of negative 0.70.[5]



Note: Data is monthly through September 2008. The shaded areas represent recessions.
Source: The Conference Board.

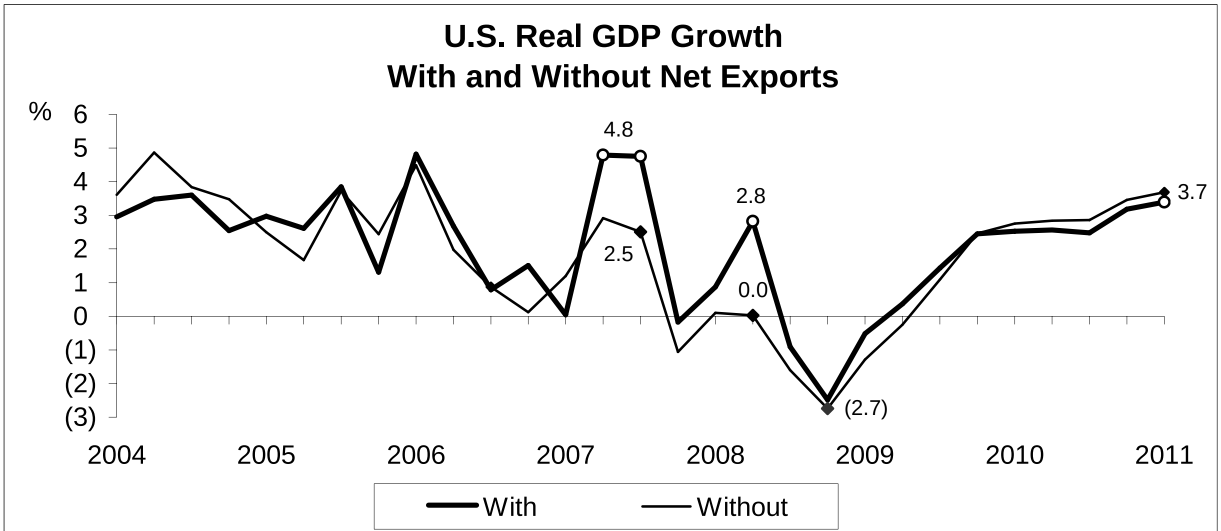
Figure 3

The U.S. economy has been weakening since the summer of 2007 when the housing market revealed signs of trouble. Declining home values, high energy prices, and

[4] U.S. real GDP declined 0.2 percent in the fourth quarter of 2007 but subsequently grew in the first two quarters of 2008. Factors that are responsible for the apparent gap between the data on GDP and monthly cyclical indicators include: a mild correction in inventories, the economic stimulus, and a boost from overseas economic growth.

[5] According to the Chicago Fed, when the 3-month moving average CFNAI value moves below negative 0.70 following a period of economic expansion, there is an increasing likelihood that a recession has begun.

the credit crunch have worked their way through the rest of the economy. Personal consumption spending, which accounts for approximately two-thirds of overall economic activity, grew only 1.3 percent from the second quarter of 2007 to the second quarter of 2008. It was the weakest four-quarter performance since 1991. Although the Gross Domestic Product adjusted for inflation, or real GDP, grew 2.1 percent from the second quarter of 2007 to the second quarter of 2008, the economic performance of the United States could have been poorer without the help from the economic stimulus package worth $165 billion, as well as the boost to net exports from a strong global economy and weak dollar values. During the four-quarter period, a steady, sharp decline in the trade deficit contributed 1.7 percentage points toward U.S. real GDP growth (see Figure 4).



Note: Data is quarterly through 2011:Q1; the first forecast period is 2008:Q3.
Sources: Bureau of Economic Analysis; NYS Assembly Ways and Means Committee staff.

Figure 4

Labor market conditions have recently turned weaker. Payroll employment has declined for nine months in a row starting from January 2008—a total job loss of 760,000 so far, or a monthly loss of 84,440 on average. Although the decline has been relatively slow compared to the average monthly loss of 181,000 for the nine-month period following the 2001 employment peak (February 2001), it is broad-based with only the government, education, and health sectors adding jobs. The unemployment rate rose to 6.1 percent in September, its highest in about five years and just twenty basis points shy of the peak around the 2001 recession (see Figure 5). Unemployment insurance claims have also been rising rapidly.

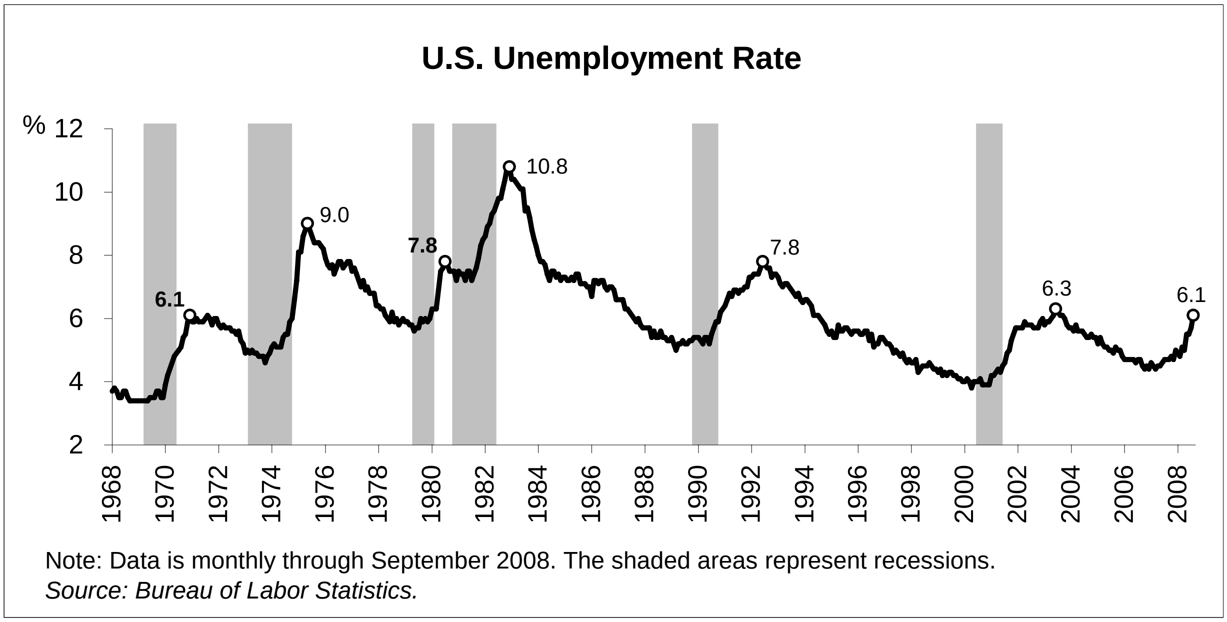


Figure 5

The concerns surrounding the credit market are dire. Since the subprime mortgage crisis surfaced in the summer of 2007, risk in general has been sharply repriced in the wake of the financial crisis, making credit conditions tighter across the whole spectrum of credit markets (see Figure 6). Even non-financial corporations have been experiencing a sudden freeze in credit flow in recent weeks (see Figure 7).

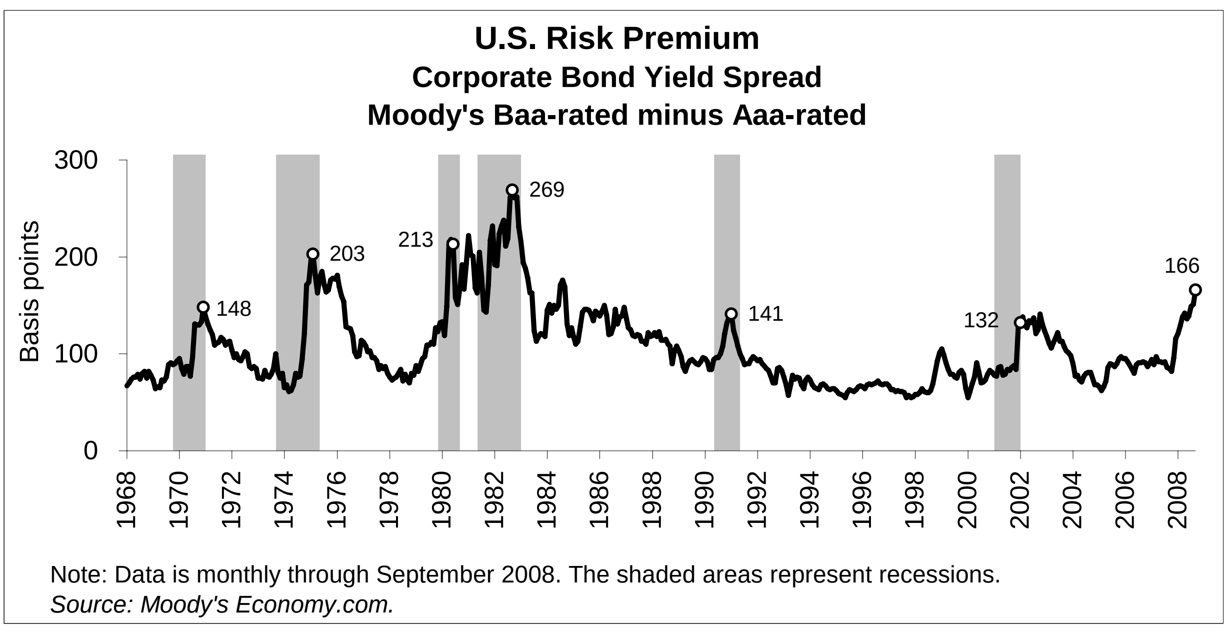


Figure 6

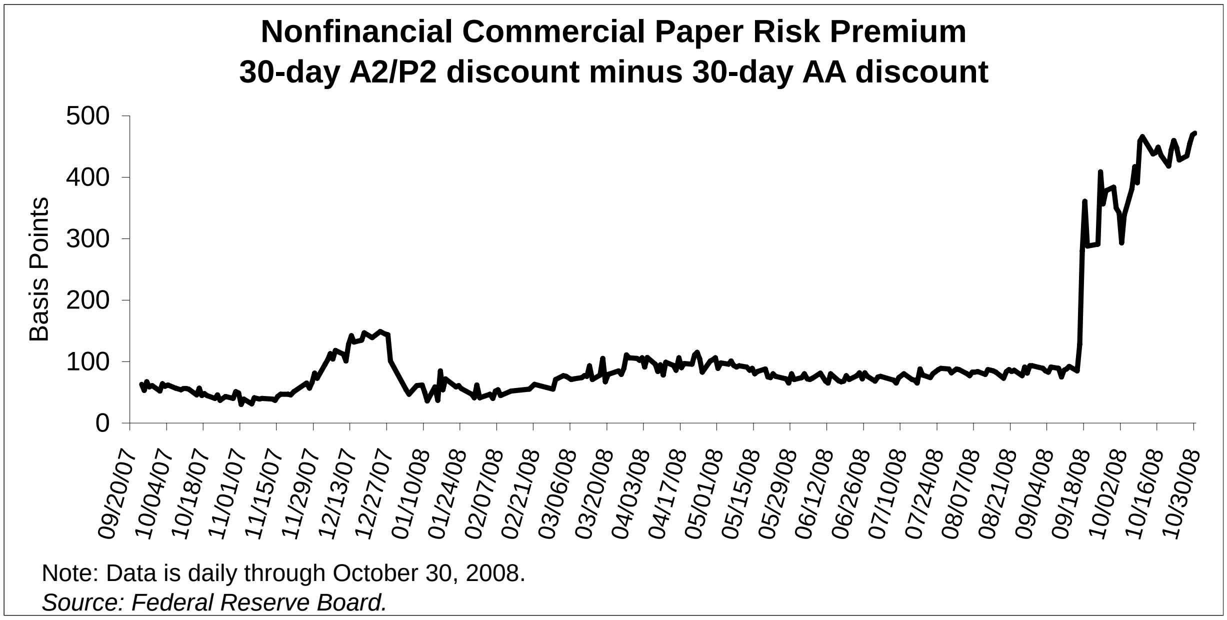


Figure 7

Various other negative forces are weighing on the economy. The economic stimulus from tax rebates has receded. Although sharply declining in recent weeks, oil prices are still subject to uncertainty. As investor confidence plummets in light of growing uncertainties, the stock market has become more volatile in recent months. While homebuilders' confidence is searching for a bottom, various indicators still point to further deterioration in the housing market. Foreclosures continue to rise and home sales continue to fall, resulting in the continued decline of housing starts (see Figure 8). Home prices are still falling, weighing on housing wealth and home equity withdrawals. Consequently, consumers will retrench further. With tight credit conditions and a slowing economy, commercial construction activity and other business capital spending are weakening. As the confidence of businesses falls, future hiring plans are also being cancelled. Increasingly, economic indicators are pointing to a significant slowdown in global economic growth, hampering U.S. exports.

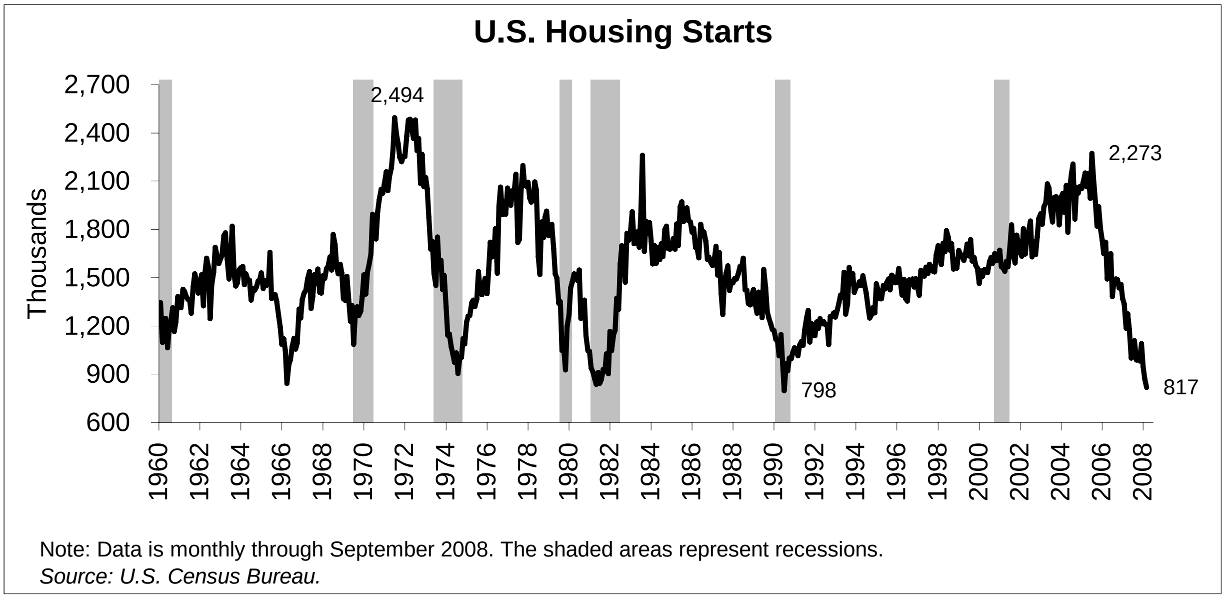


Figure 8

The U.S. economy is expected to experience a sharp weakening throughout the first half of 2009. U.S. real Gross Domestic Product (GDP) is forecast to decline 2.5 percent in the fourth quarter. With the financial markets expected to start stabilizing and investors to regain confidence in the financial system, the national economy is forecast to recover gradually during the second half of 2009. Global economic growth is assumed to slow but remain robust enough to result in the U.S. trade deficit being less of a drag on economic growth. The recent trend in productivity and unit labor costs indicates that inflationary pressures from the labor market are essentially nonexistent.

U.S. real GDP is forecast to fall 0.1 percent during 2009 as the turmoil in the financial sector weighs on households as well as businesses (see Table 3). It will be the slowest overall economic growth since 1991. With financial markets expected to start stabilizing and the housing market expected to recover, the national economic growth is anticipated to rebound to 2.3 percent in 2010.

Table 3

U.S. Economic Outlook (Percent Change)	**Actual 2007**	**Estimate 2008**	**Forecast 2009**	**Forecast 2010**
Real GDP	2.0	1.3	(0.1)	2.3
Consumption	2.8	0.4	(0.7)	2.1
Investment	(5.4)	(5.8)	(3.8)	6.1
Exports	8.4	9.1	4.0	4.2
Imports	2.2	(1.5)	(0.9)	4.4
Government	2.1	2.6	1.1	0.5
Federal	1.6	4.5	3.0	1.8
State and Local	2.3	1.5	0.0	(0.3)
Personal Income	6.1	4.3	3.0	4.4
Wages & Salaries	5.6	3.5	1.9	3.9
Corporate Profits	(1.6)	(5.5)	(4.7)	3.1
Productivity	1.4	2.5	0.9	2.0
Employment	1.1	(0.1)	(0.9)	0.7
CPI-Urban	2.9	4.5	1.7	1.9
S&P 500 Stock Price	12.7	(15.9)	(15.3)	12.5
Treasury Bill Rate (3-month)*	4.4	1.5	0.7	1.5
Treasury Note Rate (10-year)*	4.6	3.7	3.5	3.9

* Annual average rate.

Note: Personal income and corporate profits are nominal.

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

Outlook for Components of GDP

- Consumers remain under intense pressure as debt levels rise and asset values fall. Overall, personal consumption spending, adjusted for inflation, is expected to grow 0.4 percent in 2008, after growing 2.8 percent in 2007. Due to the strains in the housing and financial markets and deterioration of the labor market, real personal consumption spending is forecast to decline 0.7 percent in 2009. This will be the first yearly decline since 1980. The decline in consumption reflects a difference in comparison to the past two recessions, when consumption did not decline on an annual basis. Real personal consumption spending is expected to rebound to 2.1 percent in 2010 as a result of an improving labor market and higher overall economic growth.

- Overall private investment spending is estimated to decline 5.8 percent in 2008, the third consecutive yearly decline. As the correction in the housing market continues, and tight credit conditions and a weakening economy weigh on business confidence, business spending is forecast to continue to decline in 2009 before recovering by 6.1 percent in 2010. Investment is forecast to decline for more quarters than the average of previous recessions (see Appendix B on page 48). The Ways and Means Committee staff forecast calls for investment to decline for seven quarters, compared to the average in past recessions of 3.8 quarters. The current recession forecast is for a decline of 11.6 percent in investment, compared to a fall of 16.5 percent in 2001 and a decline of 12.7 percent in the 1990-91 recessions.

- Federal government spending growth slowed to 1.6 percent in 2007 from 2.3 percent in 2006 due to slower growth in nondefense spending on structures and equipment, and software. In 2008, federal spending is estimated to increase 4.5 percent due to significant growth in both defense and nondefense spending. Lower outlays for structure and equipment and a fall in the growth of compensation will contribute to slower federal spending in 2009. The anticipated pull down of troops in 2009 from Iraq will offset some of the expenditures associated with a troop increase in Afghanistan. Federal government spending is expected to grow 3.0 percent in 2009, and is anticipated to slow further to 1.8 percent in 2010 as the federal government continues to rein in compensation for civilian and military personnel.

- State and local government spending grew 2.3 percent in 2007 due mainly to higher outlays on investments in structures. In 2008, state and local spending is estimated to slow to 1.5 percent as a result of lower revenue expectations as well as less investment in structures and equipment and software. As state and local government deficits grow, state and local government spending growth is forecast to remain flat in 2009 and decline by 0.3 percent in 2010. Key pressures on state spending include outlays for education, infrastructure, and state employee benefits and pension systems. Currently, the House is considering a fiscal relief package that could inject as much as $150 billion into states.[6] Since many states have already begun trimming their current fiscal year budgets, the package could mitigate some additional reductions on spending that states are preparing to make for State Fiscal Year (SFY) 2009 and SFY 2010.

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[6] In September 2008, the House passed the Job Creation and Unemployment Relief Act of 2008 that included $37 billion in capital projects, $6 billion to extend unemployment benefits, $3 billion for food stamps, and $15 billion for Medicaid. See H.R. 7110: Job Creation and Unemployment Relief Act of 2008, September 26, 2008, 110th Congress.

- In constant dollars, exports grew 8.4 percent in 2007, and growth is expected to remain healthy in 2008 at 9.1 percent. Weakening global growth and a stronger U.S. dollar will likely cause export growth to slow in 2009 and 2010. Exports are forecast to grow 4.0 percent in 2009 and 4.2 percent in 2010. Imports are forecast to decline 0.9 percent in 2009 and grow 4.4 percent in 2010. During the past year, the decline of the dollar has not only made U.S. goods more competitive, but also has attracted more foreign tourists to visit and shop in the United States. The declining dollar together with strong global demand for U.S. goods and services has helped boost exports and slow import growth in 2007 and 2008. As a result, net exports, defined as exports minus imports, have improved significantly in 2007 and 2008 after years of deterioration.

Employment

The overall employment outlook for the nation is poor. National employment has declined on a monthly basis starting from January 2008. The declines have averaged 84,440 jobs per month over this period. Initial continuing unemployment claims data are currently showing an upward trend. The unemployment rate was 6.1 percent in September 2008, the highest rate since September 2003. In addition, in September 2008 mass layoffs reached the highest level since the series was started in 1995.[7]

National employment is expected to decline by 0.1 percent in 2008 and 0.9 percent in 2009. In comparison, employment declined 1.1 percent in 2002. Employment is expected to rebound in 2010, growing by 0.7 percent.

Job losses in 2009 are expected to be spread across several sectors. Only two major sectors are expected to experience growth in 2009: education and health, and government. Some sectors are expected to recover to near-flat or growing employment in 2010, while the construction, manufacturing, information, financial activities, and management of company sectors will continue to lose employment.

Prices

The general price level, as measured by the Consumer Price Index (CPI), is expected to rise 4.5 percent in 2008 as a direct result of pricing pressures, mostly from energy prices, and is anticipated to grow 1.7 percent in 2009 and 1.9 percent in 2010. Slower growth in

[7] The Bureau of Labor Statistics calculates monthly mass layoffs from establishments which have at least fifty initial claims for unemployment insurance filed against them during a five-week period.

2009 prices is due to fading pressures from rising commodity prices and a weakening economy.

Relatively high energy prices for the most recent years are now affecting almost all sectors in the economy. As a result, producers can no longer afford to absorb higher energy costs. Therefore, consumers will be facing higher costs for most goods and services over the next year or two.

Oil prices represent considerable risk to the inflation forecast. Oil prices are expected to average $100 in 2008, an increase of 48.6 percent from the 2007 average of $67.[8] The long-term outlook for oil prices is unclear and daily movements in prices may not reflect the true balance of supply and demand fundamentals in the long run.

In 2008, the price of crude oil surpassed the inflation-adjusted record set during 1980. Although there has been a significant drop in price lately, prices are still much higher than a few years ago and would have to drop further to return to pre-2007 levels. The nominal RAC price in September 2008 was $98, a 33.4 percent appreciation from the September 2006 price of $73.47. The inflation-adjusted price increased 27.7 percent between September 2007 and September 2008.

The worldwide economic downturn has sent crude oil prices spiraling downwards in the fourth quarter of 2008. On October 14, the WTI spot price dropped to $78.69 per barrel, a decline of 12.7 percent from the previous week and the first time since October 8, 2007, that the WTI spot price for crude oil was below $80 per barrel. On October 15, 2008, the cost of crude oil declined another four dollars to $74.38 a barrel, a 16.3 percent decline from the previous week and a 48.8 percent decline from oil's peak price of over $145 per barrel.

Energy prices, however, are of increasing concern for consumers, and have added to the everyday economic stress facing consumers. Consumers have endured double-digit percentage increases in many of the energy products necessary for daily living, particularly gasoline prices. Heating oil also represents a particular concern, especially for residents of the northeastern states. In their October 2008 short-term energy outlook, the Energy Information Administration forecasts that heating oil costs for the 2008-09 heating season will likely be 23 percent higher than the 2007-08 season.

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[8] Oil prices in this report refer to the U.S. Refiners Acquisition Cost of Oil (RAC), a volume weighted average price of imported oils. The RAC is generally less than the West Texas Intermediate (WTI) price commonly reported in the media.

Stock Market

After rising rapidly throughout most of the 1990s and into 2000, stock prices, as measured by the Standard & Poor's 500 Stock Price Index (S&P 500), declined sharply from late 2000 until early 2003. The stock market rose for four consecutive years from 2004 to 2007 due to healthy corporate profits and a positive economic outlook. In the second quarter of 2007, the S&P 500 surpassed its former quarterly average peak of 1,476 reached in the third quarter of 2000. Using annual average values, the S&P 500 increased 8.6 percent year-over-year in 2006 and another 12.7 percent in 2007. The S&P 500 index averaged a record high at 1,476.7 in 2007.

Stock market indices have dropped by more than 30 percent from the record high of 1,565.15 on October 9, 2007. This is due largely to the turmoil in the housing and credit markets, as well as the much lower than expected earnings reported by large firms.

With overall economic activity expected to continue to slow and the housing and credit markets expected to stabilize in late 2009, the stock market will likely fall further in 2009. As the overall economy is expected to rebound in 2010, the stock market is forecast to improve. The S&P 500 Stock Price Index is forecast to decline 15.3 percent in 2009 before rising 12.5 percent in 2010.

New York State Forecast

The New York State economic outlook is bleak. Both employment and wages are expected to fall in 2009, and the outlook for variable compensation is particularly dire due to the current financial situation on Wall Street (see Table 4).

Financial markets and operations play a central role in the economy of New York State. The financial activities industry is a major source of revenue, generated from corporate and personal income taxes, for the State. This industry accounted for 24 percent of total New York State wages for 2007, even though employment in the industry was only 8.6 percent of total State employment. The average wage in this industry was three times that of the overall State average wage. This suggests that employees in the financial activities industry contribute disproportionately more in taxes than those working in other industries. As a result, the performance of this industry is a key component to the overall economic well-being of New York State.

Table 4

New York State Economic Outlook (Percent Change)	Actual 2007	Estimate 2008	Forecast 2009	Forecast 2010
Employment	1.4	0.1	(1.2)	0.4
Personal Income	6.5	2.8	(0.2)	3.6
Total Wages	8.8	1.4	(3.2)	2.3
Base Wages	8.6	3.2	0.1	3.0
Variable Compensation	9.6	(10.6)	(29.6)	(4.7)
New York Area CPI	2.8	4.1	1.7	1.9

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.

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

The mounting problems related to mortgage-backed securities have resulted in seriously distressed financial markets. Many firms in this industry have sustained record losses. As the losses have escalated, many of these firms have begun to set aside less for compensation and benefits, while simultaneously reducing their workforce, many of whom live and work in New York City and the surrounding areas. This does not bode well for New York State.

Historically, a one-year employment decline of 1.2 percent is less than seen in previous recessions. During and after the 2001 recession, employment declined by 0.6 percent in 2001, 1.8 percent in 2002, and 0.6 percent in 2003. In the early 1990s, employment also declined three years in a row: 0.4 percent in 1990, 4.1 percent in 1991, and 1.9 percent in 1992. In contrast to the recession in the early 1990s however, wage growth was strong in 1990 and 1992, and fell by only 0.2 percent in 1991, reflecting the different nature of the downturn. In 2001, wages declined by 2.6 percent, indicating the significant effect the 2001 terrorist attacks had on Wall Street.

New York State employment grew 1.4 percent in 2007, and is estimated to grow 0.1 percent in 2008 while national employment is estimated to decline slightly. This is explained by the activity in two sectors. In construction, State employment has held up very well as the State housing market has been somewhat insulated from the housing downturn. In addition, the job losses in the State's manufacturing sector are expected to be less than the rate of loss in the nation because the sector represents a lower share of the State economy than in past recessions. In 2009, however, the rate of total job decline in

New York will outpace the nation as the State is disproportionately hit by financial sector lay-offs.

Many risks exist in the New York State economic outlook. Central among these risks is the performance of Wall Street in the coming year, particularly pertaining to bonus payments and layoffs of financial activities sector employees. The uncertainty associated with the credit crisis and the full extent of the related problems on the rest of the economy is a risk to the forecast. Also, the magnitude of government response represents a major risk to our forecast.

Employment

In 2007, New York State employment grew 1.4 percent, slightly higher than 2006. As problems in housing and the financial markets spread to the rest of the economy, employment in both the State and the nation is expected to be almost flat in 2008. The rate of State employment growth is expected to be weaker than that of the nation in 2009 and 2010. As the overall economy is expected to weaken further in 2009, payroll employment in New York State is forecast to decline by 1.2 percent in 2009. State payroll employment is forecast to grow by 0.4 percent in 2010.

The difference between the current and past recessions in New York State can be partially explained by structural changes to the economy which have happened over time. For example, manufacturing employment made up a much larger share of the State workforce in the past, and was especially hit hard in the 1990-91 recession. In 2001, the terrorist attacks forced an immediate loss of jobs, and also required some relocation of jobs from New York City to other surrounding states. Some of this job loss likely remained permanent as firms settled elsewhere. In addition, the employment recovery from the 2001 recession was particularly slow, due in large part to productivity gain and outsourcing of U.S. jobs overseas. This has resulted in a current reluctance or inability to cut staff levels by the magnitude seen in previous recessions.

Wages

Wages in New York State are expected to fall 3.2 percent in 2009, following estimated growth of 1.4 percent in 2008 (see Figure 9). Base wages will grow steadily throughout the forecast period, although at a much slower rate than in 2007.[9]

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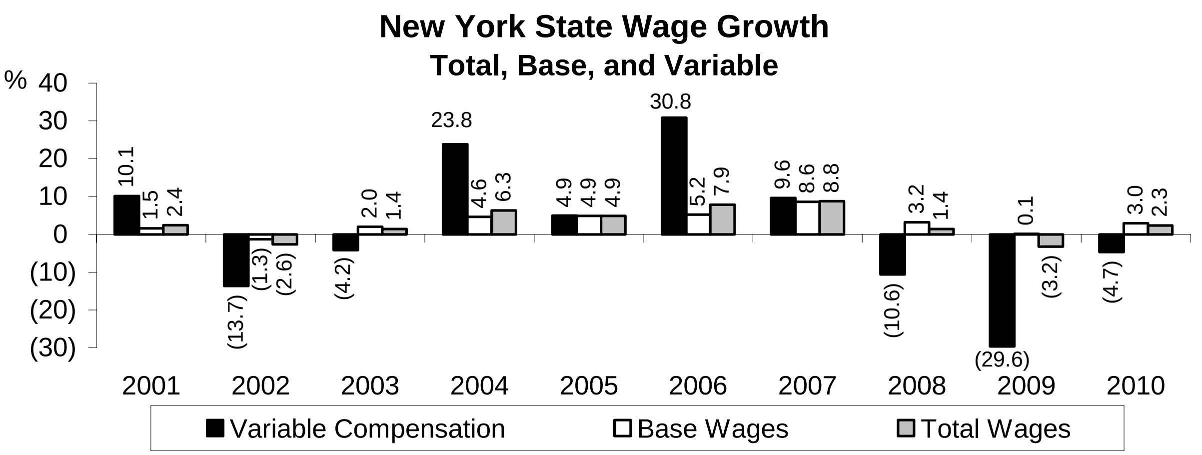
[9] There is no known series of data for state or national variable compensation. The NYS Assembly Ways and Means Committee staff estimates variable compensation based on seasonal variations in wage patterns. These



Note: Total wage data for 2008 is estimated; 2009 and 2010 are forecasts. Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and sum to total wages.
Sources: NYS Department of Labor, QCEW; NYS Assembly Ways and Means Committee staff estimates.

Figure 9

As a result of adverse conditions on Wall Street and the continued limiting of activities due to the credit crunch, total variable wages in New York State are forecast to fall 29.6 percent in 2009, compared to a drop of 10.6 percent in 2008 (see Figure 9). The decline of 29.6 percent is unprecedented, surpassing the 13.7 percent falloff in variable wages in 2002 after September 11th. The current forecast is also exceptional as it predicts variable wages to fall for three consecutive years, through 2010.

These declines will be a direct result of a major fallback in financial activities industry bonus payments. The NYS Assembly Ways and Means Committee staff estimates that New York State total financial activities industry variable compensation, which was a record high $44.7 billion in 2007, fell by 12.6 percent to $39.1 billion in 2008. Total financial activities industry variable compensation is expected to decrease further by 41.3 percent in 2009 and another 11.3 percent in 2010.

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seasonal patterns are broken down by sector (at the NAICS three-digit level) to improve the precision of the estimate. 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.

Regionally, wages paid within the State are uneven. Over half of the wages paid in the State are paid in New York City, although the City accounts for only 42.7 percent of employment. Wages are spread more evenly throughout the other State regions. Wage growth is also disparate across the State, with downstate regions generally growing much faster than upstate regions. For example, regional wage growth in 2007 ranged from a high of 11.7 percent in New York City to a low of 3.1 percent in the Capital region.

Capital Gains

The most important factors that drive capital gains are the performance of financial markets, particularly equity markets, and the real estate markets. The prolonged contraction of the housing market has resulted in the decline of housing prices in New York State at an annualized rate of 4.1 percent in the second quarter of 2008. The stock markets have fallen significantly since the end of 2007 due to turmoil in the financial markets sparked by the distressed housing market. Accordingly, these disturbances in the economy will have a significant adverse effect on capital gains realization in New York State.

In 1999, corporate equity holdings accounted for 41.9 percent of total realized U.S. capital gains, while real estate accounted for 10.6 percent, compared to 37.8 percent and 24.6 percent in 1985, respectively.[10] Capital gains realizations grew rapidly during the booming stock market of the late 1990s, but plummeted in 2001, triggered by the steep decline in stock prices from post-bubble corrections in the stock market and the events of September 11th.[11] After a further decline in 2002, taxable capital gains began to steadily rise in 2003 with the recovering stock market and the strengthening housing market (see Figure 10).

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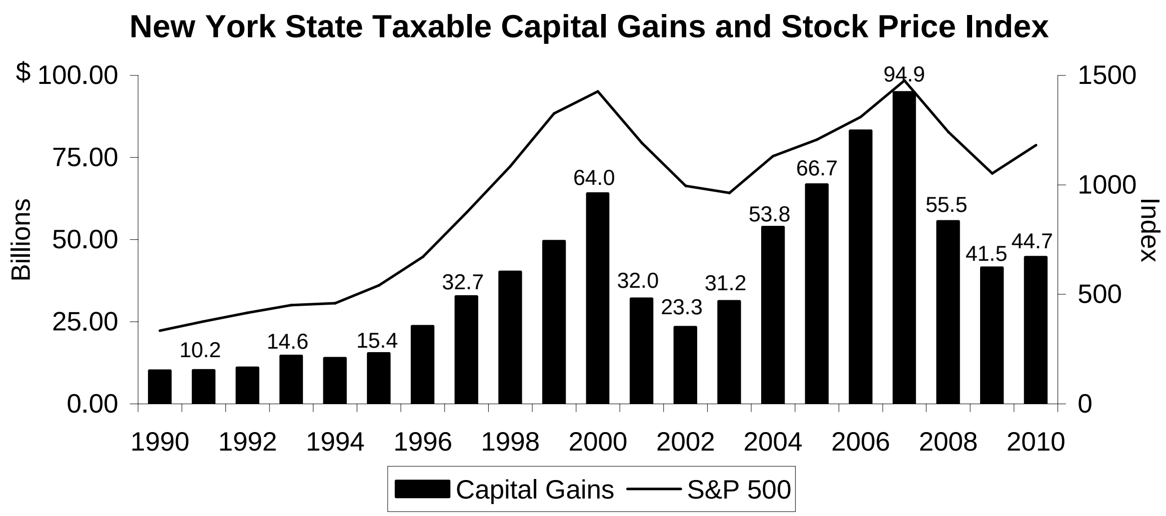
[10] Internal Revenue Service, "SOI Tax Stats - Individual Income Tax Returns with Short-Term and Long-Term Capital Gains and Losses," 1985 and 1999 issues, Table 2 from each issue.

[11] New York State capital gains were more adversely affected by the events of September 11th because the equity market is one of the most important sectors in the State.



Note: The first forecast period is 2007 for capital gains; for the S&P 500 index: 2008 is estimated, 2009 and 2010 are forecasts.

Sources: NYS Department of Taxation and Finance; Securities Industry and Financial Markets Association; NYS Assembly Ways and Means Committee staff.

Figure 10

Due to solid gains in the housing and stock markets, for the past several years New York State taxable capital gains increased to an estimated record level of $94.9 billion in 2007 (see Figure 11). However, given the overall decline in economic growth coupled with the continued deterioration in the housing market and the fall in corporate equity prices, capital gains are expected to decline 41.5 percent in 2008 to $55.5 billion and an additional 25.3 percent in 2009 to $41.5 billion. In 2010, taxable capital gains are forecast to increase only 7.7 percent reflecting an equity market recovery that is expected to be well below the 2007 peak.

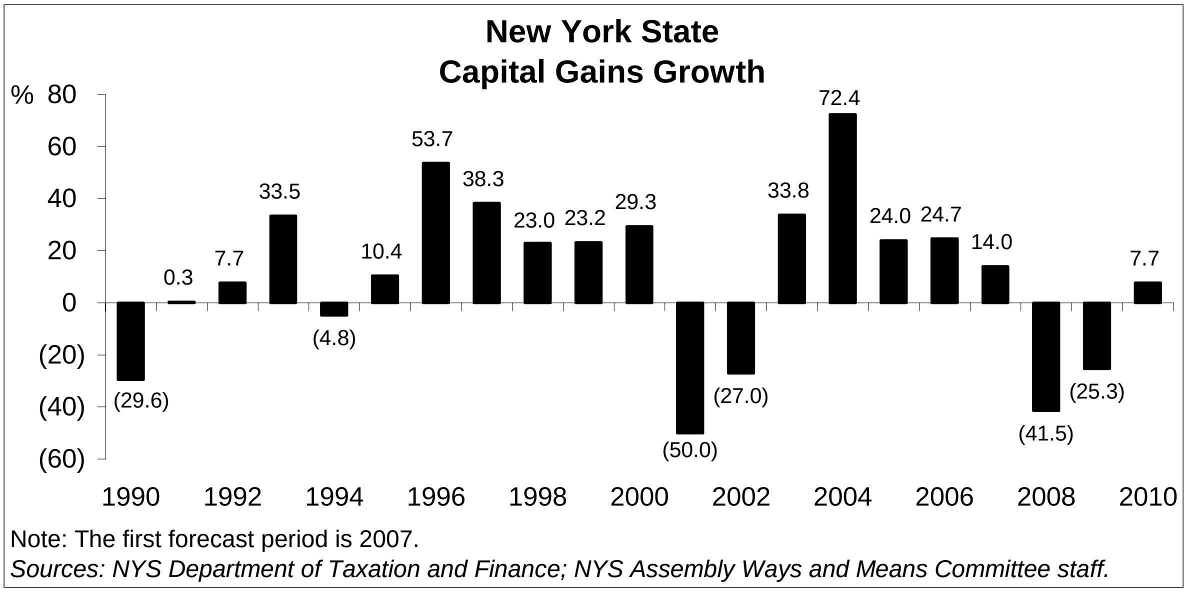


Figure 11

Risks to the Economic Outlook

Current uncertainty triggered by credit and liquidity issues has caused volatility in the stock market and has also created problems for consumers and businesses, some of whom are no longer able to obtain credit. Should this environment continue to persist or worsen, the forecast would become more pessimistic. The current forecast assumes that the federal bailout program will help ease the ongoing credit squeeze during 2009, enabling the economy to start recovering gradually during the second half of 2009. If the bailout program should fail to buoy the confidence of investors in the financial system, the performance of the economy, both of the nation and New York State, would be significantly worse than the current forecast.

Many risks to the national economic forecast exist. The downturn in the housing market has been a drag on economic growth and problems in the sector remain. Continued concerns in the housing market could lead to further weakening of economic growth.

Energy prices have declined sharply in recent months. Should recent decreases in demand continue, it would allow for a drop in oil prices beyond the assumption in this forecast. A further decrease in oil prices would offer some relief to consumers and businesses. However, energy prices can be influenced by a variety of unpredictable factors including inclement weather and geo-political tensions. Issues in these areas could cause spikes in energy prices that, if sustained, may further depress overall economic growth.

The health of the global economy is also a concern. If the financial crisis were to deepen and spread to other countries to a greater extent than assumed in this forecast, global economic performance will deteriorate and negatively impact the outlook. Without strong economic growth by U.S. trading partners, exports will contribute less to overall GDP growth. Other current events that may add to economic uncertainty include the wars in Iraq and 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 it is unclear the extent to which the Wall Street landscape will change as the economy emerges from this crisis, there is great ambiguity surrounding the New York State outlook. Wall Street and the financial markets play a central role in the State economy, and drastic cuts in Wall Street compensation and the resulting reductions in Wall Street tax revenues have critical implications for the economic health of the State. However, a faster turn around than expected for Wall Street activities offers some upside potential for the forecast.

There is some danger that should all the downside risks materialize in their worst form, the United States recession might be more severe than most recent recessions. Should this occur, the negative impact on New York State would be more serious.

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MIDYEAR REVENUE UPDATE

The financial crisis facing the domestic and global economy will have significant implications for State tax revenues in the current and ensuing fiscal years. The NYS Assembly Ways and Means Committee staff's outlook for revenues is slightly more pessimistic than what is presented in the Executive's Mid-year Financial Plan Update, especially with regard to State Fiscal Year (SFY) 2009-10.

In SFY 2008-09, the Assembly Ways and Means Committee staff estimates that tax revenues will total $61.0 billion. This estimate is $252 million below the Executive's midyear estimate. The Executive's midyear estimate of $61.2 billion for the current fiscal year is $1.8 billion below the 1st Quarter Financial Plan Update.

For SFY 2009-10, the Ways and Means Committee staff is now forecasting State tax revenues of $59.0 billion, which is $1.1 billion below the Executive forecast. A large portion of the difference can be explained by the personal income tax forecast, which is $715 million below the Executive forecast. The disparity is largely the result of lower withholding estimates, reflecting different assumptions about wage growth in SFY 2009-10. The Committee staff forecast for the remaining tax components show minor differences from the Executive's forecast. The Committee forecast for user taxes is $123 million below the Executive's; business taxes $178 million below, and $118 million below in other taxes.

SFY 2008-09 Revenue Estimates

The Assembly Ways and Means Committee staff revenue estimates for the current State fiscal year are based on revenue collections to date and historical collection patterns. These estimates are then adjusted for exogenous factors such as expected audit collections and tax law changes to arrive at final estimates.

All Fund tax receipts are expected to remain flat growing by only $165 million or 0.3 percent in the current fiscal year to a total of $61.037 billion. This represents a significant slowdown in the rate of growth of the last few years.

The weakness in tax receipts is largely due to the fallout from the financial crisis, which will drive down receipts in both the corporate and personal income tax. In addition, the dramatic downturn in the real estate market, which is at the root of the crisis on Wall Street, will also have a negative impact on real estate taxes and through the State's consumption taxes, as consumers adjust their spending to account for dramatic declines in their household net worth.

The financial services industry, which is responsible for a large share of total tax revenues, is undergoing a major transformation in its corporate governance structure after several major firms filed for bankruptcy protection or were merged with commercial banking institutions. Weakness in this sector is already having a negative impact on corporate tax collections and is expected to reduce the end of the year withholding collections as the result of lower bonus payouts.

Midyear Results

Tax collections have increased by 8.8 percent during the first six months of the fiscal year. This increase is largely due to a substantial year-over-year increase in estimated payments made by individuals requesting extensions to file in April, which added over a billion dollars of unanticipated revenue. Revenue collections, however, are expected to decelerate significantly through the remainder of the year, in large part due to lower profitability in the financial and securities industry, a softening in the real estate market, and an overall decline in the State economy. Taxes are expected to decrease by almost 8.0 percent over the last half of the fiscal year.

Personal Income Taxes

Assembly Ways and Means Committee staff projects personal income taxes (PIT) are expected to be relatively flat this year, growing at only 0.7 percent in SFY 2008-09 for a total of $36.8 billion. As mentioned above, IT-370 filings increased $1.7 billion or 57.2 percent. On the other hand, quarterly estimated payments are extremely weak, declining 0.4 percent, and are expected to decrease overall by 6.8 percent this fiscal year. The weakness in estimated payments reflects reductions in non-wage income such as capital gains and business and partnership income.

Withholding has exhibited stable growth of 5.9 percent over the first half of the year but is expected to decline 9.4 percent over the last six months due to expected weakness in Wall Street bonuses. Overall, withholding collections are projected to decrease by 3.0 percent in SFY 2008-09.

User Taxes

User taxes are expected to increase by 3.2 percent in SFY 2008-09, to a total of $14.441 billion. User taxes have grown by 2.0 percent through the midyear, driven largely by a 27.6 percent increase in cigarette tax collections. Sales tax collections are weak, growing at one percent over the past six months. Collections growth has moderated in subsequent months and is expected to increase by 0.8 percent over the last half of the year to finish the year at $11.4 billion, or 0.9 percent above SFY 2007-08.

Growth in this category is dampened by declines of 2.1 percent in motor fuel, 1.6 percent in highway use taxes, and 19.2 percent in alcohol license fees. The estimate for user taxes has been lowered by $125 million due to the postponement of plans to collect taxes from the sale of cigarettes and motor fuel to non-Indians on Indian reservations. The Executive now expects to begin collecting such revenues in SFY 2009-10.

Business Taxes

Business taxes are projected to decrease by 7.1 percent in the current fiscal year. Audit collections, coupled with strong growth in corporate profits, have contributed to strong growth in this category over the last few years. However, a slowdown in corporate earnings, an increase in refunds, and a return to historical audit collection patterns will dampen growth in the current fiscal year.

Through the second quarter, business tax collections have decreased by 10.3 percent, partially due to a decline in the corporate franchise tax of 16.1 percent. The decline is attributable to a decline in payments on current year liability, coupled with a large increase in refunds on prior year payments. Bank taxes are down almost 9 percent through the midyear, while insurance taxes have declined by 12 percent. Bank tax collections are expected to continue their decline as firms adjust to their current year liability to reflect the lower tax rates enacted in 2007 and the impact of the mortgage lending crisis on their corporate earnings.

Other Taxes

Other tax collections are expected grow by 2.0 percent in SFY 2008-09. A substantial decline in the real estate transfer tax is offset by an increase in estate tax collections. These two taxes account for the lion's share of collections in this category. The downturn in real estate taxes indicates that the dramatic downturn in the housing market that impacted most of the country over the last few years has finally taken its toll on sale prices and transaction volume in the State's real estate industry.

SFY 2009-10 Tax Revenue Forecast

State tax revenues are forecast to decline by 3.3 percent in SFY 2009-10, reflecting continued weakness in the financial industry and a contraction in the national and State economies. Total tax collections are forecasted at $59.0 billion in SFY 2009-10, which is $1.1 billion below the Executive's Mid-year Financial Plan Update. The slowdown in economic activity is expected to have a dampening effect on growth in most of the major taxes.

Personal income taxes are expected to decline by 5.5 percent, the worst performance in the PIT since the fiscal years surrounding the last recession. Significant layoffs in the financial industry combined with a reduction in bonus income will limit withholding receipts to virtually no growth over this year. In addition to a decline in total wages, other components of income are expected to be significantly impacted by the crisis in the financial markets and the housing market slump. As a result, personal income tax liability is expected to decline in 2008, which will generate negative growth in the settlement of prior year liability. Capital gains income is forecast to decline sharply for two consecutive years beginning in 2008, which will dampen growth in estimated payments.

User taxes are forecast to increase by 2.3 percent. A slowdown in consumer spending is expected to limit growth in sales tax revenue to 1.9 percent. Among the other taxes in the category, the cigarette and tobacco tax is forecast to increase by 7.7 percent, due to the full year impact of the cigarette tax rate increase and the enforcement of taxes on Indian reservations.

Business taxes are expected to decrease by 1.1 percent from SFY 2008-09. Large write-offs in the financial and banking sectors from losses suffered in the subprime mortgage market is expected to continue to have a negative impact on corporate franchise and bank taxes.

Other taxes are forecast to decrease by 10.2 percent from SFY 2008-09. The decrease is attributable to substantial decreases in estate tax and real estate transfer tax collections. The decline in Estate Taxes is largely the result of a forecasted decline in household net worth as a result of the significant decline in the equity and housing markets. Real estate transfer taxes will continue to be negatively impacted by the housing market correction well into the next fiscal year.

Table 5

Total Tax Collections SFY 2008-09 (Dollar Amounts in Millions)					
	2007-08 Actual	2008-09 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,565**	**$36,824**	**$259**	**0.7%**	**($81)**
Gross Receipts	**43,171**	**43,992**	**822**	**1.9%**	**(127)**
Withholding	28,440	27,594	(846)	-3.0%	(138)
Estimated Payments	11,640	12,803	1,162	10.0%	(49)
Vouchers	8,592	8,011	(581)	-6.8%	(16)
IT 370s	3,048	4,792	1,743	57.2%	(33)
Final Payments	2,167	2,703	536	24.7%	115
Delinquencies	923	893	(30)	-3.2%	(54)
Total Refunds	**6,605**	**7,169**	**563**	**8.5%**	**(45)**
Prior Year Refunds	4,286	4,509	223	5.2%	(161)
Current Refunds	1,500	1,750	250	16.7%	-
Previous Refunds	340	406	65	19.2%	116
State/City Offsets	479	504	25	5.2%	-
Collections	**36,565**	**36,824**	**259**	**0.7%**	**(81)**
User Taxes and Fees	**13,993**	**14,441**	**448**	**3.2%**	**(103)**
Sales and Use Tax	11,296	11,399	103	0.9%	(95)
Motor Fuel Tax	525	520	(5)	-0.9%	(3)
Cigarette Tax	976	1,315	339	34.7%	5
Motor Vehicle Fees	748	761	13	1.7%	(6)
Highway Use	148	147	(1)	-0.6%	-
Alcoholic Beverage Tax	205	208	3	1.6%	2
Alcoholic Beverage Fees	48	38	(10)	-20.3%	(6)
Auto Rental Tax	47	53	6	12.8%	-
Business Taxes	**8,231**	**7,648**	**(583)**	**-7.1%**	**(67)**
Corporate Franchise	3,997	3,554	(443)	-11.1%	(45)
Utility Tax	802	879	77	9.7%	21
Insurance Tax	1,219	1,177	(42)	-3.5%	(44)
Bank Tax	1,058	915	(143)	-13.5%	21
Petroleum Business Tax	1,155	1,123	(32)	-2.8%	(20)
Other	**2,083**	**2,124**	**41**	**2.0%**	**0**
Estate and Gift	1,037	1,307	270	26.0%	7
Real Estate Transfer	1,021	793	(228)	-22.3%	(7)
Pari Mutuel	24	23	(1)	-2.5%	-
Other	1	1	0	12.4%	-
Total Taxes	**60,872**	**61,037**	**165**	**0.3%**	**(252)**
General Fund Misc Receipts	2,460	2,551	91	3.7%	-
Lottery	2,595	2,983	388	15.0%	-
Total w/Misc Receipts and Lottery	**$65,927**	**$66,571**	**$644**	**1.0%**	**($252)**

Table 6

Total Tax Collections SFY 2008-09 (Dollar Amounts in Millions)					
	2008-09 Estimate	2009-10 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,824**	**$34,799**	**($2,025)**	**-5.5%**	**(715)**
Gross Receipts	**$43,992**	**$42,324**	**($1,668)**	**-3.8%**	**(272)**
Withholding	$27,594	$27,702	$108	0.4%	(766)
Estimated Payments	$12,803	$11,265	($1,537)	-12.0%	459
Vouchers	$8,011	$7,760	($251)	-3.1%	9
IT 370s	$4,792	$3,505	($1,286)	-26.8%	450
Final Payments	$2,703	$2,377	($326)	-12.1%	41
Delinquencies	$893	$980	$87	9.7%	(6)
Total Refunds	**$7,169**	**$7,525**	**$356**	**5.0%**	**443**
Prior Year Refunds	$4,509	$4,854	**$345**	**7.7%**	**416**
Current Refunds	$1,750	$1,750	**$0**	**0.0%**	**-**
Previous Refunds	$406	$337	**($69)**	**-16.9%**	**27**
State/City Offsets	$504	$584	**$80**	**15.9%**	**-**
Collections	**$36,824**	**$34,799**	**($2,025)**	**-5.5%**	**(715)**
User Taxes and Fees	**$14,441**	**$14,775**	**$334**	**2.3%**	**(123)**
Sales and Use Tax	$11,399	$11,619	$220	1.9%	(98)
Motor Fuel Tax	$520	$531	$11	2.1%	3
Cigarette Tax	$1,315	$1,416	$101	7.7%	59
Motor Vehicle Fees	$761	$755	($6)	-0.8%	(71)
Highway Use	$147	$144	($3)	-2.0%	(12)
Alcoholic Beverage Tax	$208	$209	$1	0.5%	(2)
Alcoholic Beverage Fees	$38	$46	$8	21.1%	(2)
Auto Rental Tax	$53	$55	$2	3.8%	-
Business Taxes	**$7,648**	**$7,566**	**($82)**	**-1.1%**	**(178)**
Corporate Franchise	$3,554	$3,561	$7	0.2%	(200)
Utility Tax	$879	$875	($4)	-0.5%	(2)
Insurance Tax	$1,177	$1,220	$43	3.7%	(14)
Bank Tax	$915	$801	($114)	-12.5%	115
Petroleum Business Tax	$1,123	$1,109	($14)	-1.2%	(77)
Other	**$2,124**	**$1,907**	**($217)**	**-10.2%**	**(118)**
Estate and Gift	$1,307	$1,135	($172)	-13.2%	(16)
Real Estate Transfer	$793	$748	($45)	-5.7%	(102)
Pari Mutuel	$23	$23	$0	0.0%	-
Other	$1	$1	$0	0.0%	-
Total Taxes	**$61,037**	**$59,047**	**($1,990)**	**-3.3%**	**(1,134)**
General Fund Misc Receipts	$2,551	$2,399	-$152	-6.0%	**$0**
Lottery	$2,983	$2,842	-$141	-4.7%	**$0**
Total w/Misc Receipts and Lottery	**$66,571**	**$64,288**	**($2,283)**	**-3.4%**	**($1,134)**

EXPENDITURE FORECASTS AND RISKS

Chapter 1 of the Laws of 2007 requires the 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 the 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, public assistance are above the Executive projections, and aid for elementary and secondary education is close to that estimated by the Executive.

The Ways and Means Committee staff estimates that the New York State Department of Health will spend $12.491 billion in State Funds for the Medicaid program in SFY 2008-09, $89 million lower than the Division of the Budget midyear forecast. The estimate for Department of Health spending for the Medicaid program in SFY 2009-10 is $14.096 billion, $197 million lower than the Division of the Budget midyear forecast.

The SFY 2008-09 Assembly public assistance expenditure estimate is $2.33 billion, $200 million above the Executive. For SFY 2009-10, the Assembly forecasts public assistance expenditures to total $2.41 billion, $250 million above the Executive estimate.

For the 2009-10 school year, both the Assembly and the Executive project that the Foundation Aid portion of aid to elementary and secondary education will grow by an estimated $1.33 billion. The Assembly believes that the commitment to Universal Prekindergarten should be continued; the Executive projects growth of $89 million in the 2009-10 school year. Using an historical average, the Assembly estimates that expense-based aids including Building Aid, Transportation Aid, Private Excess Cost Aid, and BOCES will grow by a total of approximately $378 million in SY 2009-10, while the Executive projects these aids to grow by $414 million.

There are several risks to the expenditure forecast that could significantly change these estimates however and therefore introduce uncertainty 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:

- The Mid-Year Financial Plan Update submitted by the Division of the Budget incorporates an assumption of the achievement of administrative cost savings measures resulting from the implementation of a Fiscal Management Plan (FMP). The FMP is intended to save $630 million in SFY 2008-09 and $500 million annually thereafter. An inability on the part of the Executive to meet these costs savings targets would have an adverse impact on the Financial Plan.

- Data necessary for calculating SY 2009-10 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 2009-10 School Aid spending necessarily carry the risk of being uncertain.

- The Medicaid expenditure forecast is subject to many risks, specifically, there are significant expenditures made outside the eMedNY system that are not accounted for in a detailed, consistent manner that describes how these expenditures are budgeted within major spending categories. Additionally, even within the eMedNY system, there are expenditure adjustments because of statutory changes or federal approvals for which there is not enough information.

- The actual public assistance caseload may vary from estimates if factors such as employment, wages, and unemployment exhaustions fail to meet projections. In addition, attempting to translate the public assistance caseload forecast into spending terms is difficult since a significant portion of public assistance expenditures are made in emergency situations for shelter, transitional services, diversion payments, and other non-assistance payments that are unrelated to the public assistance caseload.

Medicaid Expenditure Forecast

Background

Medicaid expenditure forecasting takes into account more than twenty major categories that combine to make up total Medicaid spending. The forecast provided by the

NYS Assembly Ways and Means Committee is for State funds Medicaid spending under the New York State Department of Health only, and does not include Medicaid spending through other agencies.[12]

The Medicaid forecast uses regression techniques, incorporating historical trends over time and seasonal factors.[13] The model forecast must be adjusted to be consistent with the most recent Medicaid spending trends, current and projected economic conditions, and must also reflect any statutory changes that may not be captured by regression techniques and any other offline payments or adjustments that are not picked up by the Medicaid claims payment system (eMedNY) operated under the oversight of the Department of Health.

Closeout estimates for the current fiscal year are determined from the most recent expenditure data available. The closeout is estimated by applying the historical expenditure ratio: the ratio of 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. The monthly distribution of Medicaid spending can vary significantly each year; calculating the 2008-09 closeout at present with only seven months of data has inherent risks and introduces the possibility of unanticipated changes in the closeout estimate.

Medicaid Spending: SFY 2007-08, 2008-09, and 2009-10

Total State share Department of Health Medicaid spending in SFY 2007-08 was $12.369 billion. From April 2008 to October 2008, Department of Health Medicaid expenditures claimed through the eMedNY system grew by 1.8 percent compared to the same seven-month period in 2007. Based on comparable data for the first seven months of SFY 2008-09, and accounting for certain adjustments related to cost containment measures and offline payments, the Assembly Ways and Means Committee staff estimates that Department of Health Medicaid expenditures will total $12.491 billion in SFY 2008-09, an increase of 1.0 percent. In SFY 2009-10, it is expected that Department of Health Medicaid spending will total $14.096 billion, representing an increase of 12.8 percent. It should be noted that the SFY 2009-10 spending forecast includes several large adjustments, including

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[12] Medicaid spending also appears in other agencies such as the Office of Mental Health, Office of Mental Retardation and Developmental Disabilities, Office of Alcoholism and Substance Abuse Services, the State Education Department, etc.

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

a $650 million adjustment projected by the NYS Division of the Budget related to a 53rd Medicaid cycle and timing of certain payments.[14]

The Executive currently estimates that Department of Health Medicaid spending will total $12.580 billion in SFY 2008-09, an increase of 1.7 percent from SFY 2007-08. The Executive forecasts that Department of Health Medicaid expenditures will total $14.293 billion in SFY 2009-10, representing growth of 13.6 percent.

Risks to the Medicaid Spending Forecast

Apart from risks to the forecast related to the economy and the changing state of the health care system in New York, there are several risks to both the SFY 2008-09 closeout and the SFY 2009-10 forecast for Department of Health Medicaid spending. These risks could result in a significant upward or downward shift in the Ways and Means Committee staff closeout and forecast in the coming months, depending upon information that is made available in relation to offline payments and other adjustments.

As mentioned previously, there are more than twenty major categories that combine to make up total Medicaid spending. Although monthly data is available for a substantial percentage of the spending that is budgeted for in those categories through the eMedNY system, there are significant expenditures that are made outside the system that are not accounted for in a detailed, consistent manner that describes how these expenditures are budgeted within the major spending categories. In addition, there are expenditure adjustments because of statutory changes or federal approvals.

Examples of significant expenditures that are made outside the eMedNY system are administrative costs that are reimbursed by the State to local governments, cash receipts related to audit recoveries made by the Office of the Medicaid Inspector General (OMIG), and State spending in relation to the existing spending cap placed on Medicaid payments made by local governments. Although Medicaid payments made outside the eMedNY system total more than $1 billion per year, there is no information source available that allows us to track this spending on a regular basis and, therefore, enable us to forecast it accurately. As a result, the Ways and Means staff closeout relies on information received shortly after the release of last year's Executive Budget, and the forecast carries that information forward for SFY 2009-10 with some minor revisions, both of which are likely to be revised upon the receipt of additional information.

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[14] New York State Division of the Budget, *Mid-Year Update to the State Financial Plan*, released October 28, 2008, 24.

There are significant expenditure adjustments related to the spending data within the eMedNY system as well. For example, transition payments to nursing homes and supplemental hospital payments were recently approved by the federal government, but it is not necessarily clear in looking at the spending data exactly when these payments started or to what extent they have been paid out each month. Without being apprised of the timing of major spending items such as these that are reflective of factors other than price or utilization, it is difficult to analyze their effect for purposes of estimating the level of Medicaid spending for the fiscal year.

In summary, the Ways and Means Committee staff has provided estimated Department of Health Medicaid spending figures for both SFY 2008-09 and SFY 2009-10, as required. However, these figures carry significant risk. In the coming months, as more data becomes available, these figures will be refined.

Public Assistance Caseload and Expenditures

Background

Public assistance expenditures consist of two main categories of spending: Family Assistance and Safety Net Assistance. The Family Assistance program is financed using a combination of federal Temporary Assistance for Needy Families (TANF) funds, State funds, and local funds, and provides support services and cash assistance to eligible families and children. The Safety Net Assistance program is financed jointly between the State and local governments, and provides cash assistance to single adults, childless couples, and families that have exhausted their five-year time limit for TANF eligibility imposed by federal law.

It is important to note that while the data available from the Office of Temporary and Disability Assistance (OTDA) is sufficient for estimating the public assistance caseload, it is inadequate 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 segregate emergency and other non-assistance spending from basic expenditures directly related to the public assistance caseload.

Current Year Closeout

For SFY 2007-08, actual public assistance expenditures totaled $2.23 billion with an average monthly caseload of 523,411. Although this represents an overall caseload decline of 6.7 percent from the previous fiscal year, spending was over $57 million higher, highlighting the difficulty in predicting public assistance spending based on caseload due to the incorporation of emergency and other non-assistance expenditures in reported public assistance spending data.

Actual caseload was 15,934 over the caseload number of 507,477 estimated by the Executive when the SFY 2008-09 Budget was submitted. At that time, the Executive had also estimated expenditures for SFY 2007-08 at $1.83 billion which was $400 million lower than actual spending.

When the Budget was enacted, SFY 2008-09 public assistance expenditures were estimated to total $1.84 billion with an average monthly caseload of 506,283. At midyear, the Executive currently estimates expenditures for SFY 2008-09 at $2.11 billion, $100 million below the previous fiscal year with a monthly average caseload of 494,961. The Executive attributes this decrease to the decline in caseload. Assembly Ways and Means Committee staff, however, estimates that public assistance spending will total approximately $2.33 billion, a $100 million increase in spending over the previous fiscal year and $200 million above the Executive. This increased expenditure is estimated despite a decline of 18,425 cases or 3.5 percent in the average monthly caseload from SFY 2007-08 to 504,986 recipients, which is 10,025 above the Executive. The increased expenditure is attributable to significant increases that have been witnessed in the monthly average payment for not only the first five months of this fiscal year, but also since the last two quarters of the previous fiscal year. While the Executive uses the monthly average payment from SFY 2007-08 to calculate expenditures for SFY 2008-09 and SFY 2009-10, the Assembly incorporates expanded monthly average payment data in its spending estimates.

SFY 2009-10 Forecast

Given the economic forecast for the upcoming 2009-10 fiscal year, an accurate forecast for public assistance spending will be a very important and necessary component in developing the State Budget as more families are forced to seek public assistance as job opportunities diminish and unemployment escalates.

Consequently, following multiple years of a downward trend in caseload, both the Executive and the Assembly Ways and Means Committee staff estimate an increase in caseload in SFY 2009-10. The Executive estimates caseload will increase by 1.8 percent to 503,751 while spending will grow by $50 million to $2.16 billion. The Assembly Ways and Means Committee staff estimates caseload will increase from its SFY 2008-09 projection by 1.6 percent to 513,039 cases, 8,053 above the Executive. Public assistance expenditures are estimated to grow by $80 million to $2.41 billion.

Aid to Education Forecast

School Year 2008-09

The 2008-09 State Budget provided for an increase of $1.74 billion in General Support for Public Schools above 2007-08 levels for a total of $21.3 billion in overall support for education programs. Of this amount, the State Budget provided $21.0 billion in computerized school aid formulas. This represents an increase of $1.71 billion over School Year (SY) 2007-08, which is an increase of $372 million over the original Executive Proposal.

The cornerstone of aid to education is the Foundation Aid Formula, which is designed to provide a comprehensive and equitable distribution of school aid funds. The State commitment to the continued implementation of the Foundation Aid Formula was ushered in with the second year of funding of $14.87 billion, an increase of $1.2 billion over SY 2007-08.

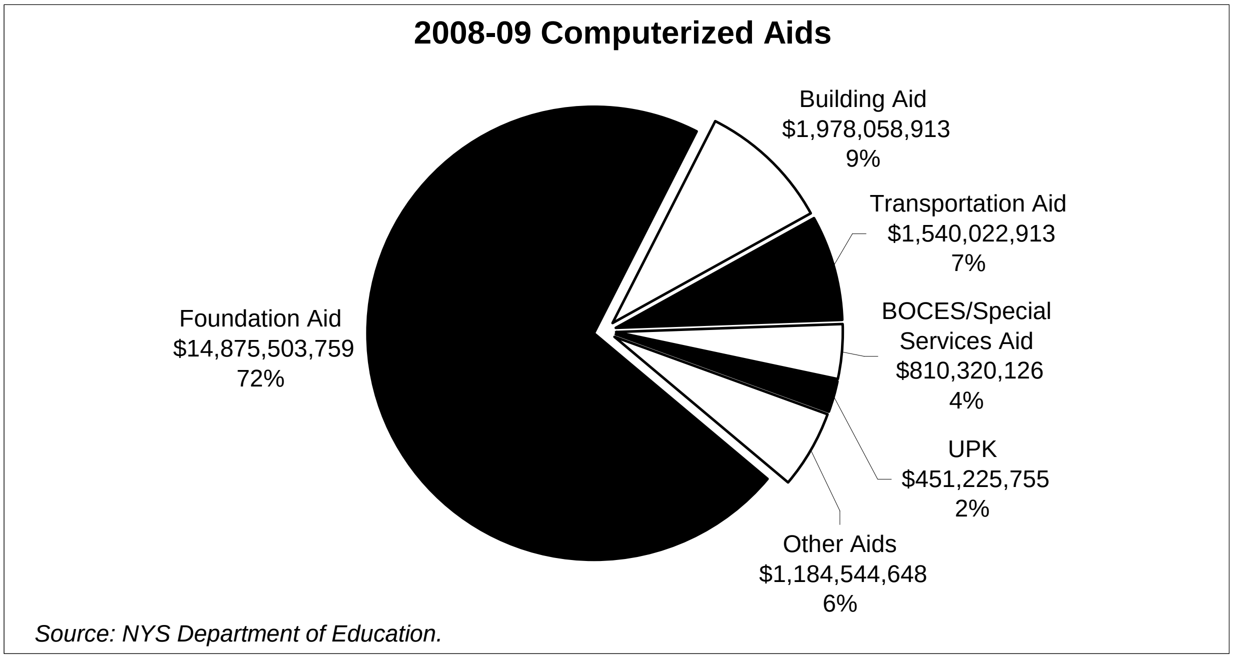

Figure 12

In addition, expense-based computerized aids were maintained for the purpose of reimbursing districts for certain expenditures that districts have made, in order to provide access and educational programs for their students through this school year. 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 2008-09 school year, the State spent $361 million in increased aid to maintain our commitment to these programs. Total funding for these programs in SY 2008-09 was $5.074 billion.

Computerized aids also provides distinct funding for conversion to full-day kindergarten; universal prekindergarten programs; instructional materials that include textbooks, library materials, and computer software and hardware; charter school transition aid; certain grants; and high tax aid. These programs receive total funding of $1.0 billion.

Additionally, it should be noted that the Education budget also provides funding for various grant programs. In SY 2008-09, the Legislature provided $85 million in additional funds and restorations for other education-related programs such as adult education, libraries, and preschool special education programs.

Finally, it is important to note that additional actions were taken in mid-August where $28 million in cuts were enacted to more than fifteen education programs.

School Year 2009-10

Pursuant to §305.21 of the Education Law, an updated electronic data file for the 2009-10 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 districts submit includes information about enrollment, wealth, students eligible for free and reduced price lunch, property values, and the amount of money that districts have spent on certain services and programs which are eligible for reimbursement. This data, which is due from school districts by November 1, is revised throughout the year as more accurate data is available from school districts. As a result, information is not available to make accurate projections on school aid spending for SY 2009-10. Additionally, the current fiscal climate of the State adds extra uncertainty to these projections. Nevertheless, in this report an effort is made to provide a projection based on data supplied for the 2008-09 school year. These projections are preliminary and uncertain because information that will be used to determine aid to school districts in SY 2009-10 is currently unavailable.

Foundation Aid Formula

For years, the Assembly had proposed the creation of a foundation formula that would provide a predictable, stable, and equitable structure for State funding of education. Beginning with the 2007-08 State Budget, the Legislature enacted a multi-year plan for education funding through a Foundation Aid Formula. The enactment of this formula in 2007-08 attests to a commitment by the State to a predictable stream of funding for local school districts.

The Foundation Aid Formula is based on the average cost of educating students in successful schools and is adjusted for regional cost differences, poverty levels, and pupils with limited English proficiency. This formula is based on enrollment rather than attendance. In addition, the formula is weighted for special education needs. In 2007-08 Foundation Aid was increased by $1.1 billion and in 2008-09 it was increased by $1.2 billion, a cumulative increase of $2.3 billion over two years.

The Foundation Aid Formula consolidated 17 different aid formulas including Flex Aid, Public Excess Cost Aid (not including High Cost Aid), Sound Basic Education Aid, Supplemental Extraordinary Needs Aid, Limited English Proficiency, Class Size Reduction, Growth Aid, Enrollment Adjustment Aid, Operating Reorganization Incentive Aid, Tax Limitation Aid, Teacher Support Aid, Magnet School Aid, Categorical Reading, Improving

Pupil Performance, Aid to Small City School Districts, Tuition Adjustment, and Aid to Fort Drum. This consolidation has resulted in a streamlined, simplified formula that better reflects student and district needs.

Upon enactment in 2007, the Foundation Aid Formula was scheduled to increase by $5.5 billion over four years. In 2008-09 the phase in schedule was modified to decrease the phase in for that school year from 42.5 percent to 37.5 percent and in 2009-10 from 70 percent to 65 percent. The only modification made to Foundation Aid besides the phase in, was an enhancement in the formula for high need school districts. In 2009-10 Foundation Aid is scheduled to increase by $1.33 billion.

Universal Prekindergarten

Beginning with the initiation of the LADDER program more than ten years ago, a commitment to create and fund a universal prekindergarten program available to all children across the State has been a priority of the Assembly.

In 2007-08, the State Budget consolidated the Universal Prekindergarten, Targeted Prekindergarten, and Supplemental Universal Prekindergarten programs. This consolidated program served over 90,000 children in nearly 400 school districts throughout the State. For the first time, funding was made available to all districts with eligible students.

In 2008-09, nearly 450 school districts are now serving an estimated 107,000 children throughout the State at a cost of more than $400 million. This represents the provision of additional services and programs to approximately 13,000 young children and 48 additional participating districts, and $47 million in increased expenditures since last year. As Prekindergarten has become stable and predictable, school districts have become confident in providing this valuable program.

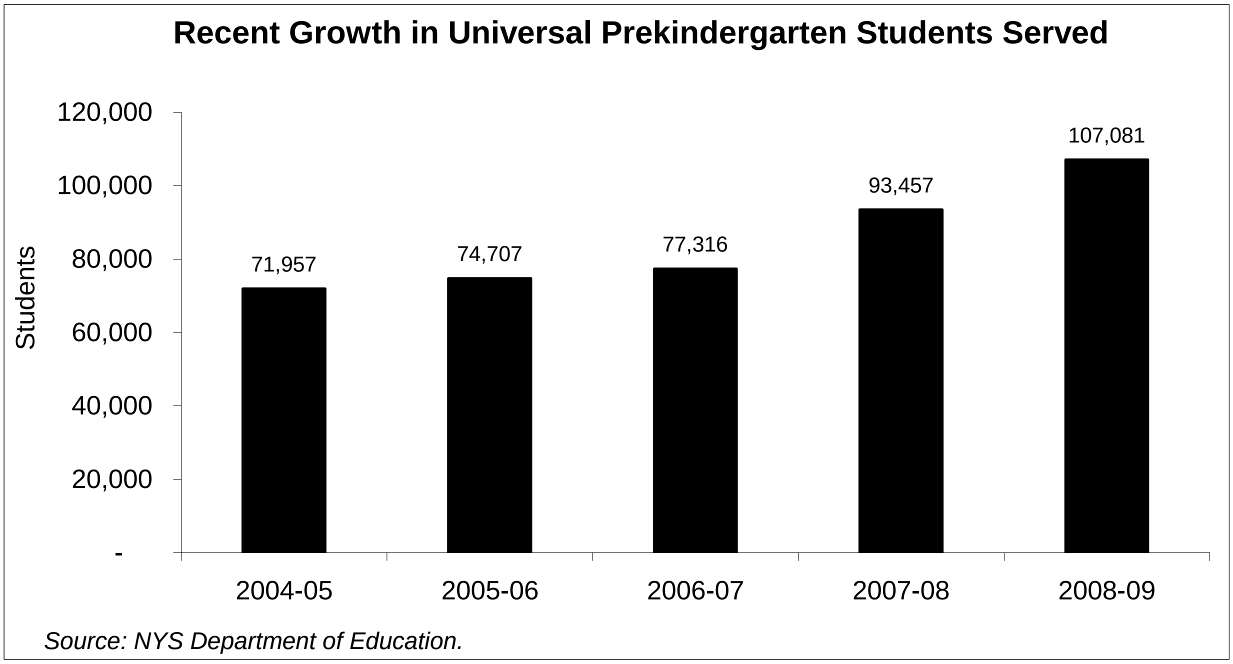

Figure 13

Both the Executive Budget submission and the Assembly School Aid proposal for SY 2008-09 included a statutory phase in of full universality for prekindergarten for the succeeding two-year period. Although the enacted budget did not include a phase in beyond the current school year, we remain committed to providing universal access to this critical early childhood program.

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 schools safely are all part of providing a sound, basic education to students in the State.

Transportation Aid reimburses districts for approved transportation expenses such as equipment, salary, and benefits. Aid for 2008-09 totaled $1.535 billion, an increase of $98.2 million or 6.84 percent over SY 2007-08. An estimate for 2009-10 for this aid category cannot be accurately provided without the November data update. Additional uncertainty to any estimate is also exacerbated because of the recent increases in fuel costs that could result in an increase in State reimbursement to those school districts that provide transportation services themselves as well as to districts that contract for their transportation services and are forced to re-bid their transportation contracts over the next several years.

With that being stated, a review of the past five years of funding reveals that yearly percentage increases in Transportation Aid range from 0.12 percent to 13.22 percent, with an average annual increase of 7.33 percent. If funding were to increase by this average amount, Transportation Aid would rise by approximately $112 million in SY 2009-10.

Districts that are components of Boards of Cooperative Educational Services (BOCES) are eligible to receive BOCES aid. BOCES aid 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 2008-09 totaled $673 million, an increase of $49.4 million or 7.92 percent over SY 2007-08. Funding increases over the past five years ranged from a low of 1.62 percent to a high this past year of 7.92 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 $40 million in SY 2009-10. 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 and computer services that totaled $137 million for SY 2008-09.

Private Excess Cost Aid provides reimbursement for schoolchildren with more severe disabilities who are placed in private school settings or in the State-operated schools in Rome or Batavia. Aid for SY 2008-09 was $284.0 million, an increase of $6.2 million or 2.24 percent over SY 2007-08. Over the past five years, percentage increases in funding have ranged from 2.24 percent to 22.54 percent, with an average annual increase of 7.38 percent. If funding were to increase by this average amount, Private Excess Cost Aid would grow by approximately $21 million in SY 2009-10. In addition, funding for High Cost Excess Cost Aid has remained stable at $470 million.

Building Aid allows school districts to receive State support for approved building projects. Aid for SY 2008-09 totaled $1.978 billion, an increase of $164.7 million or 9.08 percent over SY 2007-08. In the 2008-09 State Budget, provisions were included to make New York City's Building Aid more predictable throughout the school year. Percentage increases over the past five years varied from a low of 7.64 percent to a high of 12.37 percent with an average annual increase of 10.40 percent. If funding were to rise by this average amount, Building Aid would increase by approximately $205 million in SY 2009-10. 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 eligible for aid, as well as older projects that are no longer eligible for aid as the State has completed its commitment to these projects and the bonds have been paid off.

Table 7

YEAR TO YEAR AID GROWTH							
	2003-04	**2004-05**	**2005-06**	**2006-07**	**2007-08**	**2008-09**	**Total Growth**
Transportation	1,082,319,445	1,083,582,788	1,226,846,765	1,347,956,081	1,436,794,548	1,535,023,071	
Change		1,263,343	143,263,977	121,109,316	88,838,467	98,228,523	452,703,626
%Change		0.12%	13.22%	9.87%	6.59%	6.84%	41.83%
BOCES	502,788,760	510,929,598	549,012,451	583,735,768	623,802,930	673,218,435	
Change		8,140,838	38,082,853	34,723,317	40,067,162	49,415,505	170,429,675
% Change		1.62%	7.45%	6.32%	6.86%	7.92%	33.90%
Private Excess Cost	201,350,206	208,906,217	218,706,024	226,728,118	277,834,300	284,069,843	
Change		7,556,011	9,799,807	8,022,094	51,106,182	6,235,543	82,719,637
% Change		3.75%	4.69%	3.67%	22.54%	2.24%	41.08%
High Cost Excess Cost					472,970,338	470,346,445	
Change						(2,623,893)	NA
% Change						-0.55%	NA
Building	1,207,057,197	1,356,221,134	1,499,123,509	1,684,556,033	1,813,319,807	1,978,058,913	
Change		149,163,937	142,902,375	185,432,524	128,763,774	164,739,106	771,001,716
% Change		12.36%	10.54%	12.37%	7.64%	9.08%	63.87%

Source: State Education Department Local Assistance Tables.

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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	(1.7%) ($28.1)	1948:Q3-1949:Q4	5	(4.4%) (1,973.0)
1953:Q2-1954:Q1	3	(2.7%) ($55.7)	1953:Q2-1954:Q3	5	(3.2%) (1,635.0)
1957:Q3-1958:Q1	2	(3.7%) ($86.8)	1957:Q2-1958:Q2	4	(4.1%) (2,200.7)
1960:Q1-1960:Q4	3	(1.6%) ($41.2)	1960:Q2-1961:Q1	3	(1.7%) (910.0)
1969:Q3-1970:Q4	5	(0.6%) ($24.4)	1970:Q1-1970:Q4	3	(1.0%) (737.7)
1973:Q4-1975:Q1	5	(3.1%) ($135.7)	1974:Q3-1975:Q2	3	(2.7%) (2,087.3)
1980:Q1-1980:Q3	2	(2.2%) ($113.9)	1980:Q1-1980:Q3	2	(0.9%) (847.0)
1981:Q3-1982:Q3	4	(2.7%) ($144.6)	1981:Q3-1982:Q4	5	(3.0%) (2,734.3)
Average over All Previous Recessions	3.5	(2.3%) ($78.8)	Average over All Previous Recessions	3.8	(2.6%) (1,640.6)
1990:Q3-1991:Q1	2	(1.3%) ($90.0)	1990:Q2-1991:Q3	5	(1.4%) (1,498.3)
2000:Q4-2001:Q3	3	(0.2%) ($16.6)	2001:Q1-2003:Q3	10	(2.0%) (2,629.3)
2008:Q2-2009:Q1	3	(1.0%) ($115.3)	2007:Q4-2009:Q3	7	(1.4%) (1,935.6)

Note: Depth is defined as the level change from the peak level to the trough level. GDP, consumption, and investment are in billions of chained 2000 dollars. Employment is non-farm total in thousands. The percentages are the depth divided by the peak level.

Sources: Bureau of Economic Analysis; 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	3.3% 35.4	1948:Q3-1949:Q2	3	(30.9%) ($67.4)
1953:Q2-1954:Q1	3	(0.5%) ($6.9)	1953:Q2-1954:Q3	5	(11.1%) ($24.8)
1957:Q3-1958:Q1	3	(0.6%) ($8.1)	1957:Q3-1958:Q2	3	(17.3%) ($43.2)
1960:Q2-1960:Q3	1	(0.4%) ($6.6)	1960:Q1-1960:Q4	3	(21.7%) ($64.9)
1970:Q3-1970:Q4	1	(0.3%) ($7.0)	1969:Q3-1970:Q1	2	(8.4%) ($39.1)
1973:Q3-1974:Q1	2	(1.2%) ($32.8)	1973:Q4-1974:Q3	3	(12.1%) ($73.2)
1979:Q4-1980:Q2	2	(2.4%) ($81.3)	1979:Q1-1980:Q3	6	(19.9%) ($146.8)
1981:Q3-1981:Q4	1	(0.8%) ($26.0)	1981:Q3-1982:Q4	5	(22.5%) ($163.2)
Average over All Previous Recessions	1.9	(0.3%) ($16.7)	Average over All Previous Recessions	3.8	(18.0%) ($77.8)
1990:Q3-1991:Q1	2	(1.1%) ($54.5)	1990:Q2-1991:Q2	4	(12.7%) ($116.6)
2000:Q4-2001:Q3	No Decline	1.1% 75.5	2000:Q2-2001:Q4	6	(16.5%) ($295.2)
2008:Q2-2009:Q1	3	(1.7%) ($140.2)	2007:Q3-2009:Q2	7	(11.6%) (213.0)

Note: Depth is defined as the level change from the peak level to the trough level. GDP, consumption, and investment are in billions of chained 2000 dollars. Employment is non-farm total in thousands. The percentages are the depth divided by the peak level.

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