NEW YORK STATE ASSEMBLY

MIDYEAR UPDATE

Sheldon Silver
Speaker

Herman D. Farrell, Jr.
Chairman

New York State Assembly
Ways and Means Committee staff

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Table of Contents

INTRODUCTION I

EXECUTIVE SUMMARY III
- Economy iii
- Revenue iv
- Medicaid v

ECONOMIC OUTLOOK 1
- United States Forecast 2
  - Outlook for Components of GDP 7
  - Prices 9
  - Employment 10
  - Stock Market 11
- New York State Forecast 11
- Risks to the Economic Outlook 14

MIDYEAR REVENUE UPDATE 17
- State Fiscal Year 2009-10 Tax Revenue Estimates 17
  - Personal Income Taxes 19
  - User Taxes 20
  - Business Taxes 21
  - Other Taxes 22
  - Lottery 22
- State Fiscal Year 2010-11 Tax Revenue Forecast 23
  - Risks to the Forecast 25

FINANCIAL PLAN 29
- All Funds 29
- General Fund 29
- Budgetary Basis 30

EXPENDITURE FORECAST AND RISKS 33
- Medicaid Expenditure Forecast 35
  - Medicaid Spending: SFY 2008-09, 2009-10, and 2010-11 35
  - Enhanced Federal Support 36
  - Risks to the Medicaid Spending Forecast 37
- Public Assistance Caseload and Expenditures 38
  - Current Year Closeout 39
  - SFY 2010-11 Forecast 40
- Aid to Education Forecast 40

School Year 2009-10 ... 40
School Year 2010-11 ... 42
Foundation Aid Formula ... 43
Universal Prekindergarten ... 43
Expense-Based Aids ... 44
APPENDIX A ... **49**
APPENDIX B ... **50**

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 *New York State Assembly Midyear Update* provides a summary of the current outlook for the national and State economies through the next New York State Fiscal Year. State revenue forecasts and preliminary expectations for costs pertaining to Medicaid, education, and public assistance are included. These projections are part of the "quickstart" 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 2009. 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 2010 forecasts.

EXECUTIVE SUMMARY

Economy

- The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2010 is 2.1 percent. The staff's forecast is 0.2 percentage point lower than the Division of Budget, 0.4 percentage point lower than the Blue Chip Consensus, and 1.4 percentage points lower than Macroeconomic Advisers. The staff's forecast is higher than Moody's Economy.com by 0.2 percentage point, and is the same as IHS Global Insight.

- In the midst of the recent financial market turmoil and global economic crisis, the U.S. economy has undergone one of the sharpest declines since the 1930s.

- Although there are signs that the worst of the recent contraction in overall economic activity is over, the recovery will not be as strong as earlier recoveries. Monthly employment losses still remain large and will likely continue for some time even as overall economic growth returns. Some fiscal stimulus programs have been particularly popular and effective in persuading consumers back to shopping, but the effects will likely be limited.

- The NYS Assembly Ways and Means Committee staff's forecast for New York State total nonfarm payroll employment calls for a decline of 0.6 percent in 2010. The staff's forecast is lower than the Division of Budget by 0.1 percentage point. The Committee staff's forecast for New York State wage growth for 2010 is 2.9 percent. The staff's forecast is 0.8 percentage point above the Division of Budget.

- Compared to other states, New York State has fared better in employment losses during this recession. New York State did not start losing jobs until August 2008, eight months after national payroll employment peaked in December 2007. However, New York State has lost a larger share of high-paying securities industry jobs, compared to other states.

- Due to the concentration of these high-paying financial sector jobs on Wall Street, wage losses in New York State during this recession are larger than in previous recessions.

- Total wages in New York State are estimated to decline 5.7 percent in 2009, due in large part to an estimated 32.2 percent decline in variable compensation. Given the recent improvement in revenues and compensation set aside by Wall Street firms, variable compensation is expected to recover somewhat in 2010. Combined with overall economic growth expected to return in 2010, this expected improvement in variable compensation will help total wages in New York State grow 2.9 percent in 2010.

- Uncertainty remains about bonus payouts given the possibility of further federal regulation and the unknown distribution of payments between stock and cash.

Revenue

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for State Fiscal Year (SFY) 2009-10 is $57.122 billion, representing a decline of 5.3 percent or $3.215 billion below the prior year.

- According to the Rockefeller Institute, states with adopted budgets for fiscal year 2010 are already facing shortfalls as tax receipts for state governments in the second quarter recorded the sharpest quarterly decline in forty-six years.

- New York State tax revenues have been significantly impacted by the massive global economic upheaval which has resulted in a fiscal year-to-date decline of 15.9 percent.

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate is $762 million below the Executive's Mid-year Financial Plan Update and $704 million below when the estimates for lottery and miscellaneous receipts are included.

- The decline in year-end total tax collections is due to a significant reduction of $2.66 billion in PIT revenue.

- While PIT withholding was actually down 1.2 percent to $12.439 billion through the first half of the fiscal year, the second half is expected to grow 8.1 percent, as bonus payments subject to the PIT surcharge are awarded in the second half of the fiscal year. Overall growth of 6.9 percent is needed for all taxes.

- The NYS Assembly Ways and Means Committee forecast tax revenues to total $62.800 billion in SFY 2010-11, an increase of 9.9 percent or $5.678 billion over SFY 2009-10 Committee staff estimates.

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimates are $1.022 billion above the Executive's midyear estimates—the vast majority of this difference is in PIT and business taxes. The difference increases to $1.104 billion when the estimates for lottery and General Fund miscellaneous receipts are included.

Medicaid

- The Assembly estimates that the New York State Department of Health will spend $13.8 billion in State Funds for the Medicaid program in SFY 2009-10, $29.8 million lower than the Division of the Budget midyear forecast. The estimate for Department of Health spending for the Medicaid program in SFY 2010-11 is $14.99 billion, $608 million lower than the Division of the Budget midyear forecast.

ECONOMIC OUTLOOK

In the midst of the recent financial market turmoil and global economic crisis the U.S. economy has undergone one of the sharpest declines since the 1930s. Although there are signs that the worst of the recent contraction in overall economic activity is over, the recovery will not be as strong as earlier ones. Monthly employment losses still remain large and will likely continue for some time even as overall economic growth returns. Some fiscal stimulus programs have been particularly popular and effective in persuading consumers back to shopping, but the effects will likely be limited.

The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2010 is 2.1 percent. The staff's forecast is 0.2 percentage point lower than the Division of Budget, 0.4 percentage point lower than the Blue Chip Consensus, and 1.4 percentage points lower than Macroeconomic Advisers. The staff's forecast is higher than Moody's Economy.com by 0.2 percentage point, and is the same as IHS Global Insight (see Table 1).

Table 1

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

	Actual 2008	Estimate 2009	Forecast 2010	Forecast 2011
Ways and Means	0.4	(2.5)	2.1	2.5
Division of the Budget	0.4	(2.5)	2.3	3.2
Blue Chip Consensus	0.4	(2.5)	2.5	N/A
Moody's Economy.com	0.4	(2.5)	1.9	3.9
Macroeconomic Advisers	0.4	(2.4)	3.5	4.4
IHS Global Insight	0.4	(2.5)	2.1	2.9

Sources: NYS Assembly Ways and Means Committee staff; Blue Chip Economic Indicators, October 2009; New York State Division of the Budget, Mid-year Financial Plan Update 2009-10 through 2012-13, October 30, 2009; Moody's Economy.com, October 2009; IHS Global Insight, October 2009; Macroeconomic Advisers LLC, September 2009.

New York State has also been greatly affected by the recession that began in December 2007. The credit crunch and the fallout in the financial sector have resulted in a sharp downturn in both nonfarm payroll employment and wages in the State. The Ways and Means Committee staff's forecast for New York State total nonfarm payroll employment calls for a decline of 0.6 percent in 2010. The staff's forecast is lower than the Division of Budget by 0.1 percentage point, and is 0.7 percentage point higher than

Moody's Economy.com. The Committee staff's forecast for New York State wage growth for 2010 is 2.9 percent. The staff's forecast is 0.8 percentage point above the Division of Budget, and 5.0 percentage points above Moody's Economy.com (see Table 2).

Table 2

New York State Forecast Comparison (Percent Change)

	Actual 2008	Estimate 2009	Forecast 2010	Forecast 2011
Employment				
Ways and Means	0.7	(2.6)	(0.6)	0.7
Division of the Budget	0.7	(2.3)	(0.5)	0.6
Moody's Economy.com	0.7	(1.9)	(1.3)	0.9
Wages				
Ways and Means	2.0	(5.7)	2.9	4.0
Division of the Budget	2.0	(5.8)	2.1	4.0
Moody's Economy.com	3.2	(2.5)	(2.1)	1.4

Sources: NYS Assembly Ways and Means Committee staff; New York State Division of the Budget, Mid-year Financial Plan Update 2009-10 through 2012-13, October 30, 2009; Moody's Economy.com, October 2009.

Several risks to the economic outlook of the nation and the State continue. Problems that were central to the recession remain, including the turmoil in the housing market and uncertainty in the financial markets. If these areas were to become unstable again, the impact on the outlook would be dire.

United States Forecast

The recent financial and global economic crisis has caused the U.S. economy to suffer one of the deepest recessions since the Great Depression. National home values have declined 31.5 percent from the 2006 peak level. Cumulative job losses reached 7.2 million in September 2009, twenty-one months after the downturn began in December 2007 (see Figure 1). Gross Domestic Product adjusted for inflation, or real GDP, declined 3.7 percent from the fourth quarter of 2007 to the second quarter of 2009. Consumer spending, which accounts for more than two-thirds of real GDP, declined 1.9 percent during the same period. It was the sharpest such decline since 1947.

Figure 1

Although weaknesses remain in many parts of the economy, there are signs of stabilization and recovery. After declining for several months, the Conference Board's coincident economic indicator index made modest improvements in July and August 2009, and held steady in September. The leading indicator index has gained for six months in a row, pointing to a recovery in the near future (see Figure 2).

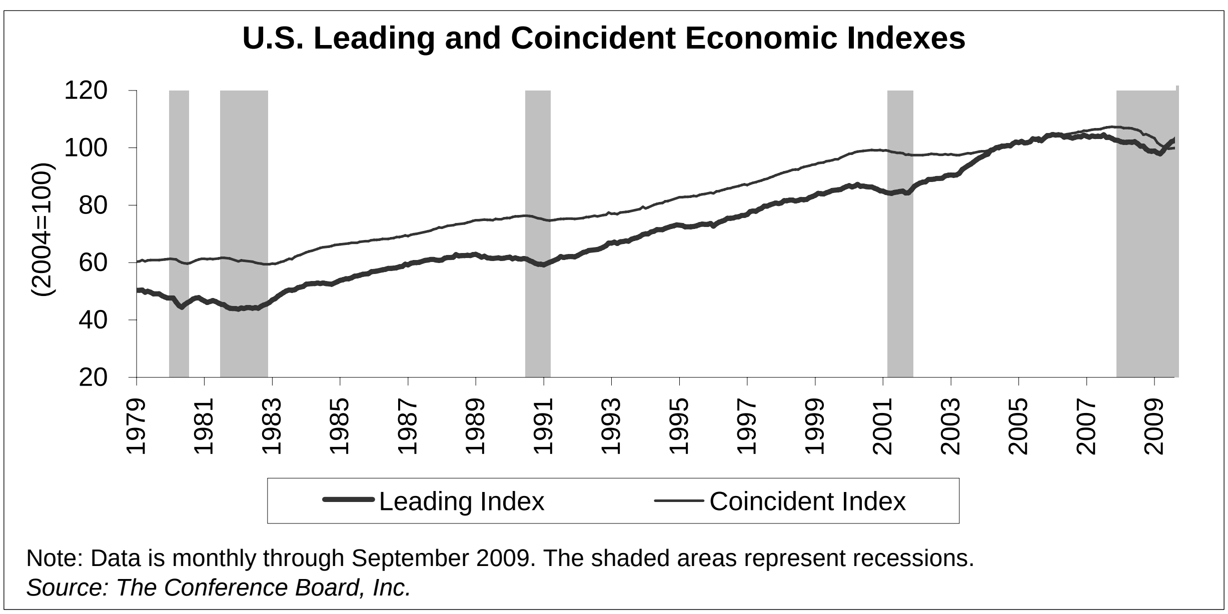
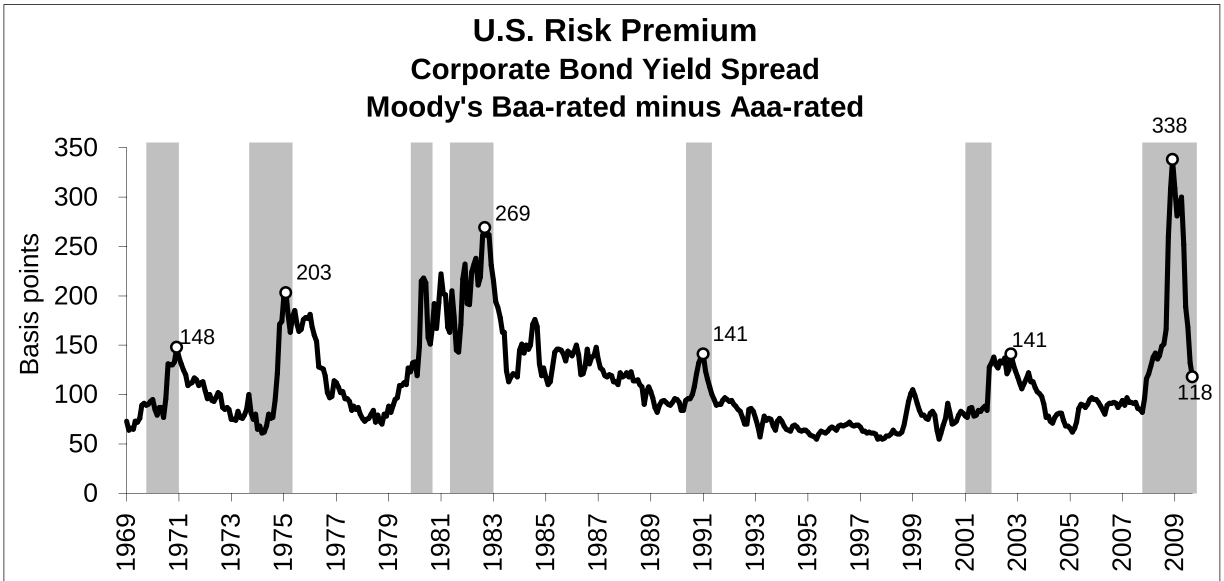


Figure 2

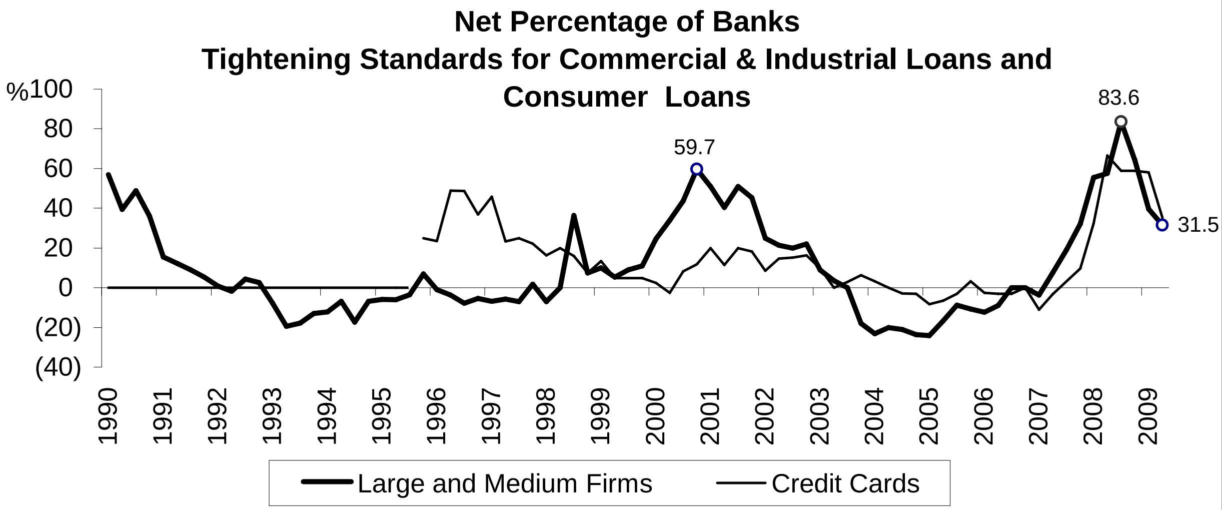
In general, the Federal Reserve's aggressive easing and direct lending programs have helped improve financial market conditions. As some of the uncertainties are lifted and investor confidence returns, the S&P 500 stock price index has gained more than 300 points since early March 2009, after falling almost 900 points or 56.8 percent from the 2007 peak. The risk premium required on lower quality corporate bonds has been steadily falling, as the risk and uncertainty perceived by investors have receded (see Figure 3).



Note: Data is monthly through September 2009. The shaded areas represent recessions.
Source: Moody's Economy.com.

Figure 3

The U.S. Treasury bond market seems to have regained stability after a shaky performance in the early summer of 2009 and asset-backed commercial paper issuance has recently started increasing. Bank lending practices also have shown some improvement: the number of banks tightening lending standards has declined and willingness to lend has improved somewhat (see Figure 4).

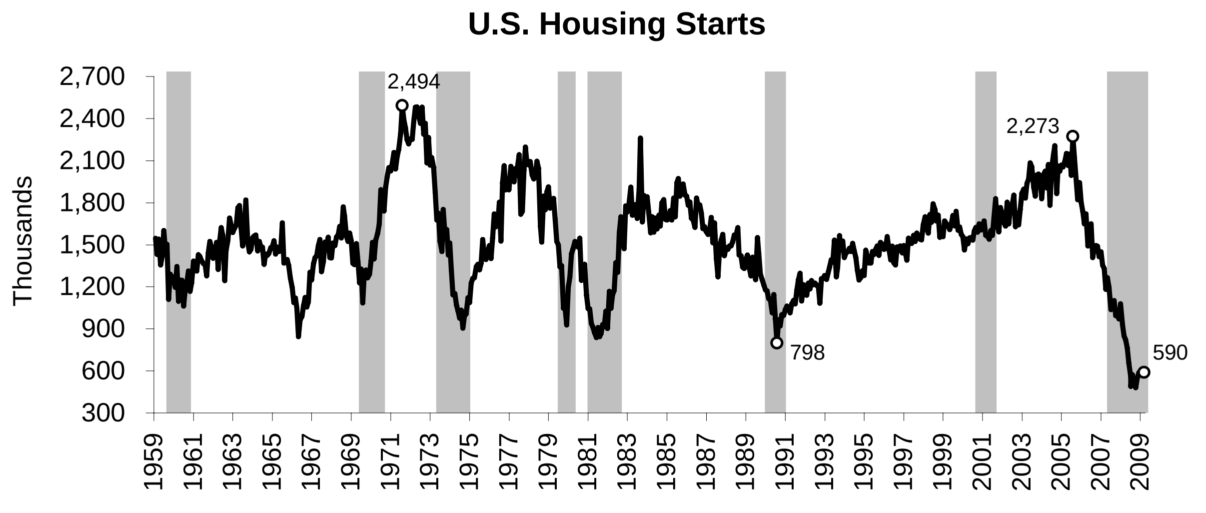


Note: Data is quarterly through 2009:Q3. Bank data taken from a survey of approximately sixty large domestic banks and twenty-four U.S. branches and agencies of foreign banks. The credit card series starts in 1996:Q1.
Source: Board of Governors of the Federal Reserve System: Senior Loan Officer Opinion Survey on Bank Lending Practices, July 2009.

Figure 4

The housing sector has also showed signs of bottoming out. Although still high, inventories of unsold homes have continued to decline in recent months. The federal housing tax credit program (up to $8,000 for first-time home buyers) appears to have helped stimulate home sales; both new and existing home sales have picked up in recent months. Housing starts are still at historic low levels but have increased four out of the recent five months (see Figure 5). More importantly, in some parts of the country home prices appear to be stabilizing after the Case-Schiller national home-price index fell 32 percent from the 2006 peak level.

Despite those positive signals and prospects of recovery, the upcoming recovery will not be as strong as earlier ones. Monthly employment losses still exceed 200,000 jobs and losses will likely continue for some time even after overall economic growth returns. Despite the recent gains in the financial market and the recent signs of stabilization in the housing market, it will take a long while for home and equity prices to return to their peak levels and for households to recuperate from wealth losses. As of the second quarter of 2009, 32.2 percent of U.S. home mortgage holders owed more on their mortgages than their home was worth.[1] Thus, it is unlikely that consumers will resume their pre-crisis spending routines any time soon. With unemployment expected to increase further, demand for office and retail space will likely remain weak, weighing on commercial construction activity.



Note: Data is monthly through September 2009. The shaded areas represent recessions.
Source: U.S. Census Bureau.

Figure 5

Against this backdrop, after declining an estimated 2.5 percent in 2009, U.S. real GDP is forecast to increase 2.1 percent in 2010 (see Table 3). This is well below the post-World War II average performance. On average the U.S. economy grew 4.9 percent during the first year after nine post-World War II recessions. The only other time when the first-year economic growth after the end of recession was similarly weak was 2002. That year, the U.S. economy grew only 1.8 percent in the midst of continued weakness in the labor and financial markets. The national economy is forecast to continue to expand in 2011, but at a below-trend rate of 2.5 percent.

[1] First American CoreLogic's data report is based on 47 million properties that have a first and/or second mortgage, which account for over 80 percent of all mortgages in the U.S. See First American CoreLogic, "First American CoreLogic's Negative Equity Data Report" (as of June 30, 2009), August 13, 2009.

Table 3

U.S. Economic Outlook (Percent Change)				
	Actual 2008	Estimate 2009	Forecast 2010	Forecast 2011
Real GDP	0.4	(2.5)	2.1	2.5
Consumption	(0.2)	(0.6)	1.5	2.1
Investment	(7.3)	(23.0)	9.1	9.0
Exports	5.4	(10.9)	5.4	6.1
Imports	(3.2)	(14.3)	7.6	6.3
Government	3.1	2.0	1.8	0.2
Federal	7.7	5.2	3.9	1.0
State and Local	0.5	0.1	0.4	(0.4)
Personal Income	2.9	(2.1)	2.3	3.9
Wages & Salaries	2.1	(4.5)	1.6	4.4
Corporate Profits	(11.8)	(6.1)	12.9	6.2
Productivity	1.8	2.6	2.9	1.3
Employment	(0.4)	(3.8)	(1.2)	1.3
CPI-Urban	3.8	(0.4)	1.6	1.7
S&P 500 Stock Price	(17.3)	(23.0)	24.7	7.3
Treasury Bill Rate (3-month)*	1.4	0.2	0.2	1.3
Treasury Note Rate (10-year)*	3.7	3.3	3.6	4.1

* Annual average rate.

Note: Personal income and corporate profits are nominal.

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

Outlook for Components of GDP

- Expenditures on consumer goods and services remain the biggest concern to overall economic recovery. As indicated by the recent increase in the personal savings rate, consumers continue to be cautious as they look for signs to regain confidence in the economy and rebuild their wealth. Though personal consumption spending has shown some improvement in recent months, consumer spending will continue to be strained by falling home prices, limited access to credit, stagnant income growth, higher savings by households, and a labor market that continues to shed jobs. As a result, personal consumption spending, adjusted for inflation, is likely to decline 0.6 percent in 2009 after falling 0.2 percent 2008. This is the first back-to-back yearly falloff in consumer spending since 1932. Since consumers are unlikely to resume pre-crisis spending patterns anytime soon, real personal consumption spending is forecast to grow at a rate that is well below the post WWII annual average growth rate of 3.6 percent: 1.5 percent in 2010 and 2.1 percent in 2011.

- Overall private investment spending is estimated to fall 23.0 percent in 2009, marking the third consecutive year of negative growth. Falloffs in investment have been caused by deterioration in the residential markets, waning business confidence, and tight credit markets. Business spending plummeted eleven of thirteen quarters from its peak in the first quarter of 2006 to the second quarter of 2009, totaling a decline of 35.7 percent, and marking the deepest and longest downturn of any post WWII recession. In previous recessions, investment declined an average of 20.1 percent over a period of 4.1 quarters. The NYS Assembly Ways and Means Committee staff estimates that business spending will return to positive growth in 2010 and 2011, increasing 9.1 percent and 9.0 percent, respectively. Improvements in 2010 and 2011 business spending will be attributed to moderate strengthening in the residential market, as well as a return to investment in inventories, and equipment and software.

- In 2009, due to slower growth in public investment spending and significantly lower non-compensation expenditures, federal government spending growth is estimated to slow to 5.2 percent in 2009 compared to 7.7 percent in 2008. Federal government spending will likely slow further to 3.9 percent in 2010 as the federal government reins in compensation for civilian and military employees, and outlays for public investments decelerate. By 2011, federal government spending is forecast to grow only 1.0 percent as the government continues to restrain spending on compensation for defense and nondefense personnel as well as public investments.

- The recession that began in December 2007 has taken its toll on state and local governments and triggered widespread cutbacks. States with adopted budgets for fiscal year 2010 are already facing shortfalls as tax receipts for state governments recorded the sharpest quarterly decline in forty-six years in the second quarter of 2009.[2] Even with assistance from the federal government, widening deficits will require additional reductions in services and programs provided by state and local governments. Higher taxes and further layoffs of state employees are also likely. Hence, the impact of the portion of the American Recovery and Reinvestment Act of

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[2] Lucy Dadayan and Donald J. Boyd, "State Tax Revenues Show Record Drop, For Second Consecutive Quarter," *State Revenue Report*, The Nelson A. Rockefeller Institute of Government, (Albany, NY) October 2009, no. 77, http://www.rockinst.org/pdf/government_finance/state_revenue_report/2009-10-15-SRR_77.pdf.

2009 (ARRA) that has been allocated to state and local governments will act as a cushion against adjustments states have to make elsewhere to combat expanding deficits. State and local government spending is estimated to grow a mere 0.1 percent in 2009 after growing 0.5 percent in 2008. Despite a boost from the infrastructure portion of the ARRA, state and local spending is forecast to grow only 0.4 percent in 2010, then decline 0.4 percent in 2011 as the fiscal stimulus dissipates.

- After growing for six consecutive years, exports are estimated to decline 10.9 percent in 2009 due to the global recession. Global economic recovery and a weaker U.S. dollar will likely help exports grow in 2010 and 2011. Exports are forecast to grow 5.4 percent in 2010 and another 6.1 percent in 2011. Faced with the deepest recession in decades, imports are estimated to decline for the second consecutive year in 2009, falling 14.3 percent. As the U.S. economy recovers from the recession, imports are forecast to grow 7.6 percent in 2010 and 6.3 percent in 2011. As U.S. imports are anticipated to grow faster than exports, net exports will be a drag on U.S. economic growth throughout the forecast period.

Prices

Combined with relatively stable energy prices and slow economic growth, recent trends in productivity and unit labor costs indicate that inflationary pressures from the labor and energy markets are minimal. These inflation-stabilizing forces will largely remain in place in the next two years, helping to keep inflationary pressures in check.

Energy prices in 2009 are considerably lower than in the first half of 2008, as overall economic growth has diminished significantly. Therefore, prices are expected to decline 0.4 percent in 2009, the first decline in prices since 1955. Prices are anticipated to grow 1.6 percent in 2010 and 1.7 percent in 2011 as economic growth returns and energy prices stabilize at a higher level than in 2009. Although finding an effective exit strategy is a challenge to the Federal Reserve, the inflation outlook in this report assumes that the Fed will successfully control the unwinding of current stimulus measures in a manner that prevents the emergence of rapid inflation.

Employment

National employment has been particularly hard hit by the recession that began in December 2007. The nation lost 7.2 million jobs between December 2007 and September 2009. Payroll employment for the U.S. is forecast to decline 5.7 percent or 7.9 million jobs peak-to-trough, the largest such decline since the early 1930s.[3] Compared to earlier employment cycles, the U.S. economy created payroll jobs at a much slower rate during the 2002-07 expansion and has lost jobs by a much larger magnitude during the downturn that began in December 2007.[4] The severity of the current downturn is such that even by the end of the third year after the 2007 peak, the U.S. economy will likely have 5.4 percent less jobs compared to the 2007 peak level.[5]

Employment losses have been widespread throughout many sectors of the economy. While some sectors were still able to add jobs in 2008, only two are expected to add jobs in 2009: education and health, and government. As the recession deepened in early 2009, sectors that previously had positive growth, such as leisure and hospitality, professional services, and management of companies also began to lose jobs.

Initial and continuing claims have been offering a somewhat stabilizing picture for unemployment. The four-week moving average for initial claims has been trending downward since April 2009, coinciding with reports of lower employment losses in the past few months compared to early 2009. However, initial claims still remain well above the benchmark level of 400,000, indicating that the labor market recovery still has a long way to go.

Total national payroll employment declined by 0.4 percent in 2008 and is estimated to fall 3.8 percent in 2009. For comparison, employment declined 1.1 percent in 2002.

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[3] This estimate of the total jobs lost since December 2007 will likely be underestimated. According to the Bureau of Labor Statistics, the preliminary estimate of the annual benchmark revision to payroll employment data indicates a downward adjustment to March 2009 total nonfarm employment of 824,000. BLS's initial estimate for the month was a decline of 652,000 jobs. The final benchmark revisions will be available on February 5, 2010.

[4] U.S. employment grew only 4.4 percent during the three-year periods leading up to the fourth quarter of 2007, whereas net job creation during the three-year period leading up to earlier employment peaks ranged from 6.2 percent to 7.9 percent.

[5] In comparison, employment grew 0.6 percent during the three-year period after the 1990 peak and 4.7 percent on average during the three-year period after earlier peaks.

Employment is expected to decline another 1.2 percent year-over-year in 2010 as hiring will remain sluggish.

Stock Market

Since peaking in October 2007, U.S. stock market indices plunged sharply in the midst of the turmoil in the housing and credit markets. As of early March 2009, the stock market indices dropped by more than 50 percent to the lowest levels in more than twelve years. Using annual average values, the S&P 500 stock price index fell 17.3 percent in 2008 after increasing 12.7 percent in 2007.

Due to optimism among investors for an upcoming economic recovery and improving corporate profitability, the stock market has steadily gained since March 2009. On an annual average basis, however, the S&P 500 stock price index is estimated to decline 23.0 percent in 2009. As the overall economy is expected to recover in 2010, stock market performance is forecast to improve further. The S&P 500 index is forecast to gain 24.7 percent year-over-year in 2010, and continue to grow by 7.3 percent in 2011.

New York State Forecast

The NYS Assembly Ways and Means Committee staff estimates that nonfarm payroll employment in the State will decline 2.6 percent, wages will decline 5.7 percent, and personal income will decline 2.7 percent in 2009. In 2010, job losses will continue at an annual average rate of 0.6 percent. Personal income will gain 2.6 percent, as wage and salary income from the finance and insurance sector begins to recover. Employment will grow in 2011. Variable compensation is estimated to decline 32.2 percent in 2009, then grow 7.6 percent in 2010 and 8.2 percent in 2011 (see Table 4).[6]

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

Table 4

New York State Economic Outlook (Percent Change)	Actual 2008	Estimate 2009	Forecast 2010	Forecast 2011
Employment	0.7	(2.6)	(0.6)	0.7
Personal Income	2.6	(2.7)	2.6	3.6
Total Wages	2.0	(5.7)	2.9	4.0
Base Wages	3.1	(1.6)	2.3	3.5
Variable Compensation	(4.6)	(32.2)	7.6	8.2
New York Area CPI	3.9	0.3	2.1	2.4

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

The impact of the national recession that began in December 2007 on New York State has differed from the effect on other states. In addition, the downturn has had different characteristics in New York State compared to past recessions. While some changes in economic behavior during this recession are attributable to the various triggers that caused the national recession, there have been changes in the State economy over time that may account for the different impact.

The changing composition of New York's economy has led to some differences in New York State employment losses as compared to previous recessions. Historically, manufacturing employment has made up a much larger share of the State economy and was especially hard hit in the 1990-91 recession. In 2001, in the aftermath of the attack on the World Trade Center there was permanent relocation of jobs from New York to other surrounding states.

National job losses during the U.S. recession that began in December 2007 have been spread throughout many sectors. However, New York fared better than many other states in terms of job loss in the hardest hit sectors such as construction and manufacturing. In fact, due to New York State's relative shield from the real estate bubble, the State's employment continued to grow several months after the nation's December 2007 employment peak. Therefore, New York State has been losing jobs for a shorter time than the majority of states. For example, California employment has followed a downward trend almost every month since August 2007. Florida employment peaked in March 2007.

Unlike these states and several others, payroll employment in New York State did not begin to have consecutive monthly declines until August 2008.

However, due to the concentration of the financial sector on Wall Street, New York was impacted more severely by the loss of finance and insurance jobs than most other states. Before the national recession that began in December 2007, the finance and insurance sector was growing steadily in New York State. In 2003, finance and insurance jobs totaled 513,750. By 2007, this number had climbed to 544,065, and many of these jobs earned very high wages. As the national recession progressed, this sector not only stopped adding jobs but shed jobs at an accelerating rate. Only California has lost a higher number of total finance and insurance jobs since December 2007, but New York State was relatively harder hit in the high-paying subsectors of finance and insurance such as the securities industry.

The 2008 annual average employment in the New York State finance and insurance sector was 9,190 less than the 2007 number. As these jobs have been lost, the income associated with these positions has also been cut. Therefore, the employment decline during this recession is accompanied by a larger percentage drop in wages than in previous recessions. Around the 2001 recession, wages dropped by 2.6 percent in 2002, then grew by 1.4 percent in 2003. Wages in 1991 dropped just 0.2 percent. In contrast, total wages in 2009 are estimated to drop 5.7 percent, the largest percentage drop since the data series started in 1975 (see Figure 6). For New York State's employment and wages forecast comparison, refer to Table 2 on page 2.

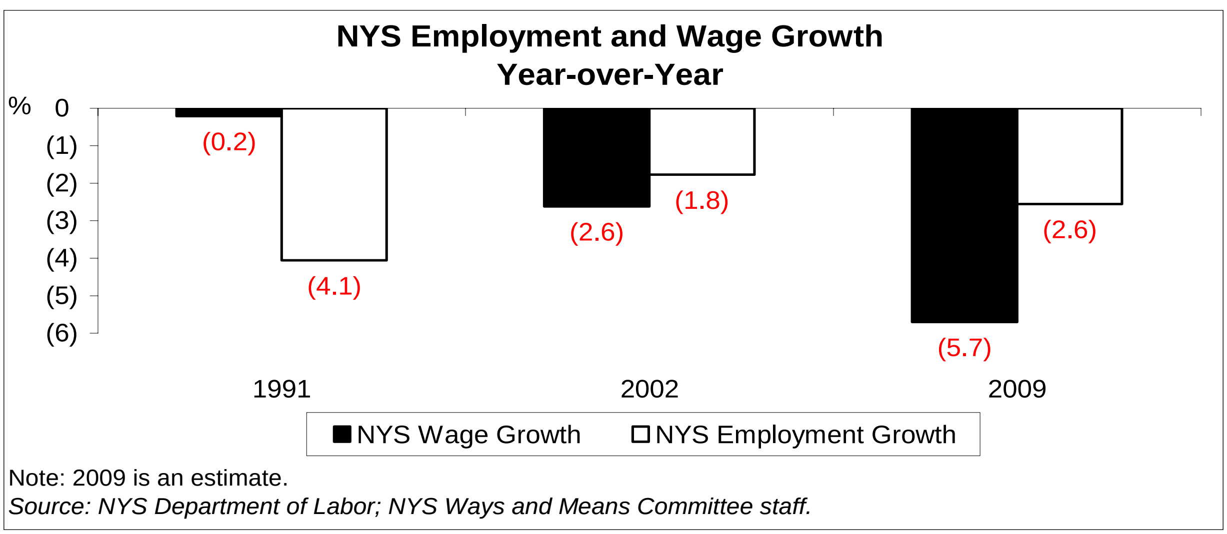

Figure 6

Central to the overall wage and variable compensation outlook for New York State is the performance of Wall Street. This sector accounted for 21.4 percent of total New York State wages in 2008, even though employment in the industry was only 6.2 percent of total nonfarm payroll employment in the State. The average wage in this industry was over three times that of the overall average wage in the State. This suggests that employees in the finance and insurance industry contribute disproportionately more in taxes than those working in other industries. As a result, the performance of this industry is a key component to the overall economic well-being of New York State. As problems in the housing and the credit markets continued to intensify throughout the national recession that began in December 2007, industry revenue and profits declined sharply. Reduced levels of activities such as mergers and acquisitions and initial public offerings, asset degradation, huge write-downs by many firms, and the closure of financial institutions contributed to the poor performance of Wall Street firms. The recovery of these businesses will be key to the recovery of the New York State economy.

Risks to the Economic Outlook

Several risks to the economic outlook of the nation and New York State remain. Problems that were central to the recession continue, including the turmoil in the housing market and uncertainty in the financial markets. If these areas were to continue to worsen, the impact on the outlook would be dire.

Energy prices continue to have an impact on the economic outlook, and the long-term outlook for energy prices continues to be difficult to pinpoint. Should energy prices spike for an extended period of time, economic growth could be curtailed. However, should energy prices decrease, growth may be stronger than is forecast.

Long-term behavior of the consumer is also a risk to the outlook presented in this report, which assumes the consumer will slowly start to spend again. If consumers should continue to curtail spending for a more extended period of time, the outlook presented in this report may be too optimistic. A return of consumer confidence also plays a strong role in the recovery. The continuation of bad news such as further write-downs, company bankruptcies, further layoffs, and investment scandals has the potential to depress confidence in the ability of the economy to recover.

Federal actions by the government also add uncertainty to the forecast. If the economy does not gain traction from many of the fiscal policies implemented to spur growth, the outlook presented in this report would be more pessimistic.

As the economy moves towards recovery, credit and stability in the financial markets remain issues that can have significant impact on the economy, and these present risks going forward. If credit conditions do not ease further, even with the help from the federal government and the Federal Reserve, it could have dismal implications for the recovery path set forth in this report.

The health of the global economy is also a concern. If the global economy were not to recover as assumed, the ability of the United States economy to grow would be impacted. Many global issues add uncertainty to the outlook, including the 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 the extent to which the Wall Street landscape will be permanently changed when the economy emerges from the current crisis is still unclear, there is great ambiguity surrounding the State outlook. Wall Street and the financial markets play a central role in the State economy, and drastic cuts in Wall Street compensation (including bonuses) and the resulting reductions in Wall Street tax revenues have critical implications for the economic health of the State. However, a faster turnaround than expected for Wall Street activities offers some upside potential for the forecast.

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MIDYEAR REVENUE UPDATE

State Fiscal Year 2009-10 Tax Revenue Estimates

New York State tax revenues have been significantly impacted by the massive global economic upheaval of the past eighteen months. Reflecting this weakness in the economy, tax revenues have declined in eight of the last nine months (see Figure 7). This has resulted in a fiscal-year-to-date decline of 15.9 percent.

The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for State Fiscal Year (SFY) 2009-10 is $57.122 billion, representing a decline of 5.3 percent or $3.215 billion over the prior year. Including miscellaneous receipts and lottery, the total would be $62.920 billion, a decline of $3.066 billion or 4.6 percent.

The majority of the decline in tax receipts is in the PIT, which is estimated to decline by $2.665 billion or 7.2 percent in SFY 2009-10. Also contributing to the year-over-year decline, user taxes are estimated to decline by 0.9 percent or $131 million. Other taxes are down $543 million or 28.7 percent.

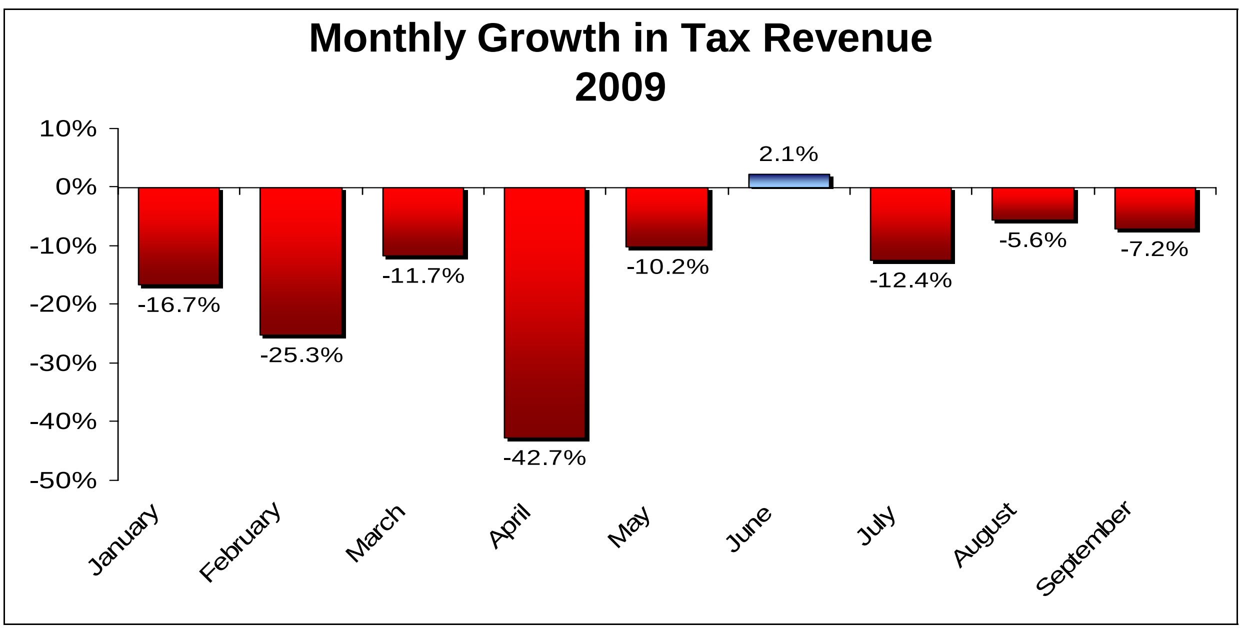

Figure 7

The Assembly Ways and Means Committee staff's tax revenue estimates for SFY 2009-10 are based on year-to-date collections and historical collections patterns. When appropriate, these estimates are then adjusted for tax law changes and economic forecasts. Through the first half of the fiscal year, All Funds tax revenues are down 15.9 percent, or $5.148 billion. This decrease is largely attributable to a $4.434 billion or 21.6 percent decline in PIT—the majority of which was in estimated payments, particularly IT-370 filings and final payments. Also contributing to the year-to-date decline is a $316 million or 4.3 percent decline in user taxes and fees. Other taxes declined by a dramatic 40.1 percent or $478 million. Business taxes were the only bright spot—growing by 2.3 percent or $79 million.

The Ways and Means Committee staff's All Funds tax revenue estimate is $762 million below the Executive's Mid-year Financial Plan Update and $704 million below when the estimates for lottery and General Fund miscellaneous receipts are included. However, when taking account of revenue actions to benefit the Metropolitan Transportation Authority that were enacted after the Budget, the Committee staff estimate is actually $3.673 billion below enacted budget estimates. In terms of overall State tax revenues, the largest difference between the Committee staff estimate and the Division of Budget estimate is PIT receipts—the Committee staff PIT estimate is $855 million below the Executive (see Table 5). Of this difference, approximately half is from lower estimated payments, and the rest of the difference relates to lower withholding and higher refunds.

Table 5

Summary of Total Tax Collections
(Dollar Amounts in Millions)

	2008-09 Actual	2009-10 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	$36,840	$34,175	($2,665)	-7.2%	($855)
User Taxes	$14,004	$13,872	($131)	-0.9%	($73)
Business Taxes	$7,604	$7,728	$124	1.6%	$165
Other	$1,890	$1,347	($543)	-28.7%	$1
Total Tax Collections	**$60,338**	**$57,122**	**($3,215)**	**-5.3%**	**($762)**
General Fund Misc Rpts	3,105	3,114	9	0.3%	-
Lottery	2,544	2,684	140	5.5%	58
Total w/Misc Rpts & Lotter	**$65,987**	**$62,920**	**($3,066)**	**-4.6%**	**($704)**

Personal Income Taxes

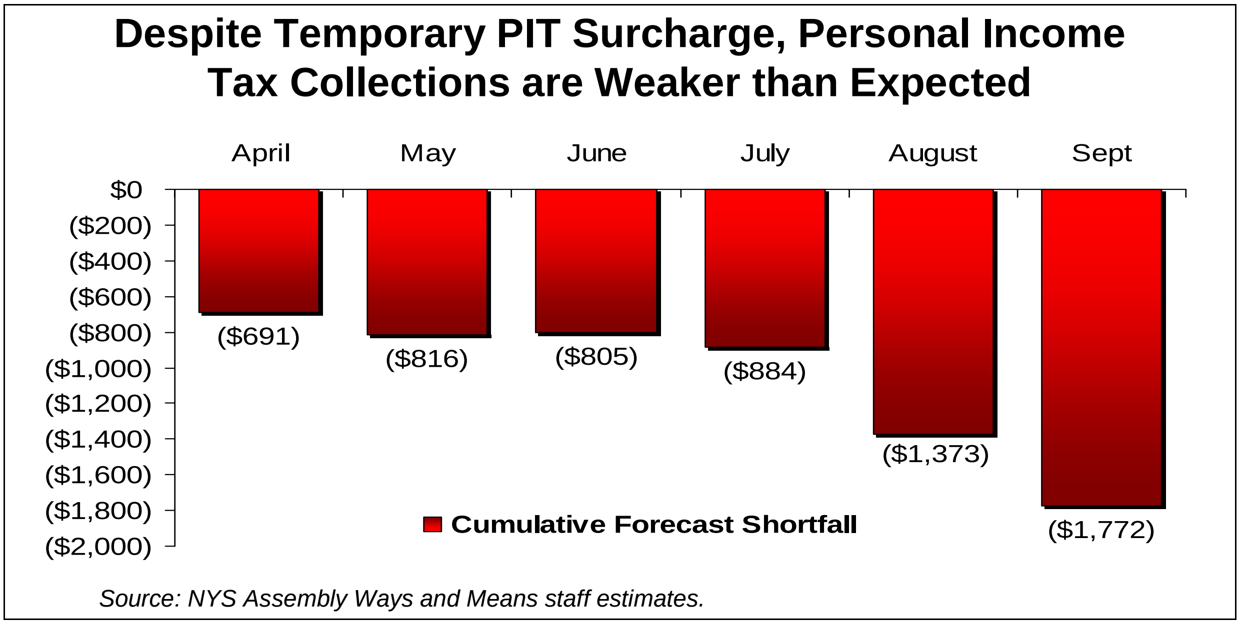

Figure 8

PIT receipts, which are highly sensitive to changes in the economy, are down 21.6 percent through September and, according to staff estimates, are approximately $1.8 billion below expectations. The Assembly Ways and Means Committee staff now estimates that PIT receipts will total $34.175 billion in SFY 2009-10, representing a decline of 7.2 percent or $2.665 billion over last year. The vast majority of this decline is expected to come via lower estimated payments, currently forecast to decline by $3.409 billion or 26.9 percent. Final payments are expected to decline by 32.3 percent or $868 million. In contrast, withholding is estimated to grow by 3.9 percent or $1.072 billion and delinquencies are expected to grow to $1.075 billion, an increase of 13.3 percent or $126 million from SFY 2008-09.

While withholding was actually down 1.2 percent to $12.439 billion through the first half of the fiscal year, the second half is expected to improve, growing 8.1 percent, as bonus payments subject to the PIT surcharge are awarded in the second half of the fiscal year. New York State has received $5.427 billion in estimated payments year-to-date, requiring growth of 10.8 percent in the second half of the year to meet SFY 2009-10 estimates. Overall, all personal income taxes have totaled $16.060 billion year-to-date, down 21.6 percent over the first half of last year. This will require a growth rate of 10.8 percent in the third and fourth quarters to reach SFY 2009-10 estimates.

The drastic decrease in total PIT revenues reveals a significant decline in New York State income. Absent the PIT surcharge levied on wealthy taxpayers forecasted to yield approximately $4 billion, PIT revenues would be expected to decline by approximately $6.7 billion, or 18.0 percent. New York State wages, which reflect decreased employment, are expected to decline 5.7 percent in 2009. Furthermore, as capital gains have suffered, estimated payments are expected to decrease 28 percent in SFY-2009-10.

User Taxes

User taxes are estimated to total $13.872 billion in SFY 2009-10, a decline of 0.9 percent or $131 million. Sales tax revenue, however, is estimated to decline by $519 million or 4.7 percent—reflecting lower consumption, which is forecast to decline 0.6 percent in 2009. The decline in user taxes is also reflective of declining outstanding consumer credit, indicating that people are saving more and spending less. The decline in user taxes would have been more severe without tax law changes, which are expected to create an additional $188 million in motor vehicle fees—$105 million dedicated to the MTA fund.

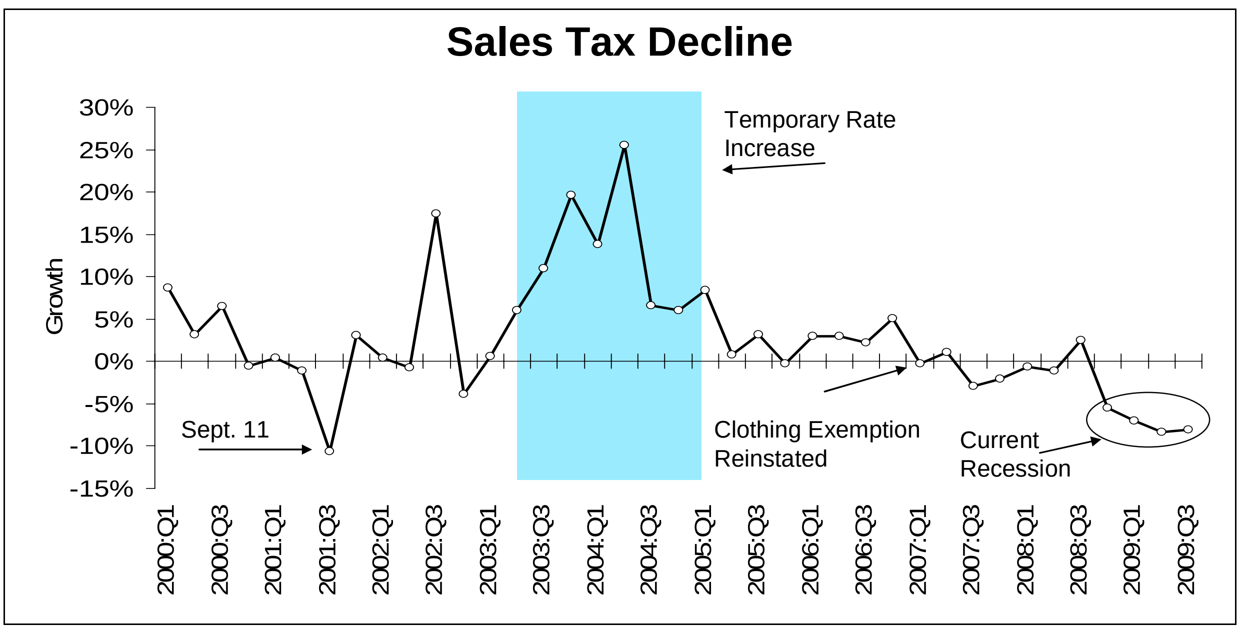

Figure 9

Through the first half of the fiscal year, sales tax revenues are down 8.2 percent, and have declined for four consecutive quarters. However, collections over the second half of the year are expected to decrease by 0.8 percent as tax law changes take effect and the economic recession slows. Slow improvement in the second half of SFY 2009-10 also reflects a lower base, since there was a significant decline in revenues in the second half of SFY 2008-09. Motor vehicle fees and auto rental taxes, due to tax law changes, are expected to increase 56.1 percent and 93.1 percent, respectively, in the second half of the year.

Business Taxes

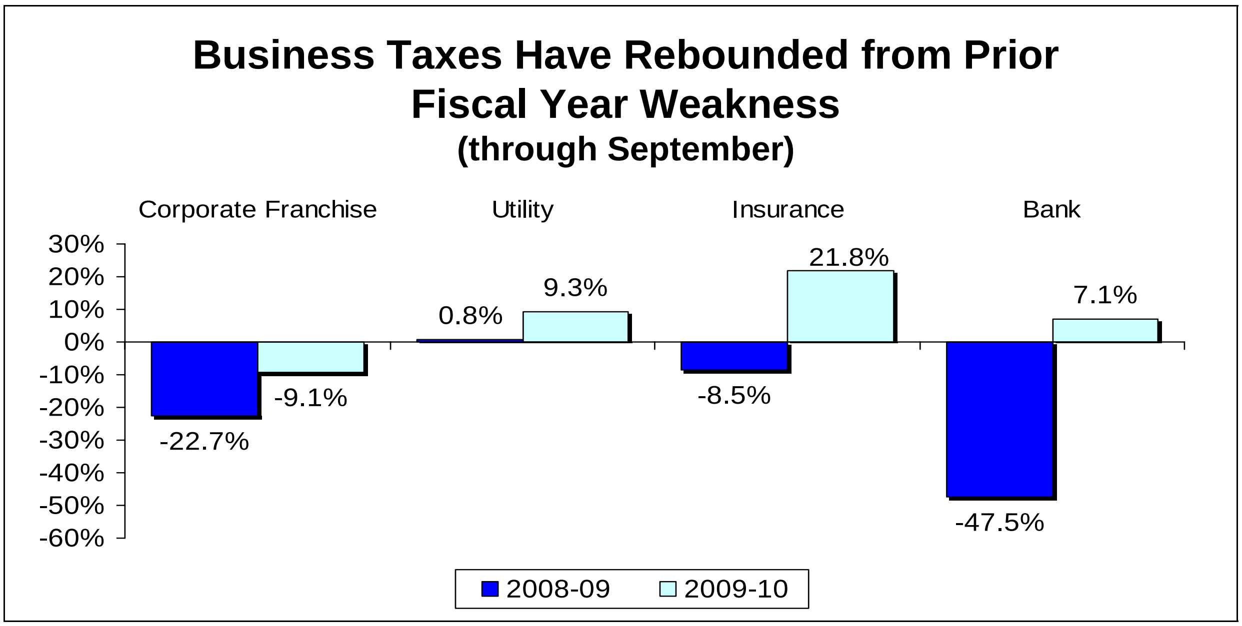

Figure 10

Business taxes are estimated to increase 1.6 percent or $124 million above SFY 2008-09. Relatively flat growth is forecast in the petroleum business tax, and the bank tax is expected to yield $130 million, or 10.6 percent, less than last year. Corporate franchise taxes are expected to decline 3.1 percent or $99 million. In contrast, utility taxes and insurance taxes are estimated to grow by 12.1 and 19.7 percent, respectively. The growth in the insurance tax is primarily attributable to a change in the treatment of for-profit HMOs enacted in the 2009-10 budget.

Halfway through the fiscal year, business taxes are 2.3 percent above where they were last year, and further growth of 1.1 percent is still expected in the second half of the fiscal year as tax law changes require businesses to pay a greater share of their tax liability in March of each year. However, corporate franchise taxes, at $1.235 billion as of

September, are down $124 million or 9.1 percent from the same period in the prior year. Corporate franchise taxes are expected to see growth of 1.3 percent in the second half of the fiscal year, but ultimately finish down 3.1 percent. Likewise, bank tax collections are currently up 7.1 percent from last year, but are expected to decline 26.3 percent in the second half to finish SFY 2009-10 down 10.6 percent. The decline in the second half of the year reflects the impact of specific taxpayers submitting payments in the first half of the year that will not be repeated in the second half of the State fiscal year.

Other Taxes

Other tax collections are estimated to decrease 28.7 percent or $543 million from SFY 2008-09. Estate and gift taxes are at $486 million year-to-date, down 34.6 percent over the first six months of last year. With expected 7.8 percent growth in the next six months, estate and gift tax revenues are expected to be down 19.2 percent or $224 million for the full fiscal year. The positive growth rate in the second half of the fiscal year reflects a large refund in March 2009, which artificially increases the year-over-year growth rate in March of 2010. Through September, real estate transfer tax (RETT) receipts are half of what they were during the same period last year—reflecting the sudden and drastic downturn in the real estate market, particularly the non-residential market. Since RETT receipts are dependent on real estate prices and the frequency of transactions, even if the average sales price in New York does not experience the declines seen elsewhere in the country, the decline in the frequency of transactions have resulted in significantly lower revenues. RETT receipts are estimated to continue the current downward trend in the second half of the year with a decline of 37.0 percent. The overall decline in RETT compared to SFY 2008-09 is expected to be 45.1 percent or $316 million.

Lottery

Traditional “lottery” (lotto, numbers, win 4, pick 10, etc.) has remained flat over the past few years; thus, the Assembly Ways and Means Committee staff anticipates no growth in traditional lottery games in SFY 2009-10. However, video lottery games have experienced considerable growth; this may be due in part to legislation that was enacted in SFY 2008-09 that provided a greater portion of the net machine operating (NMI) to be used to improve and promote video lottery facilities. Overall, lottery receipts are forecast to grow by 5.5 percent.

State Fiscal Year 2010-11 Tax Revenue Forecast

State tax revenues are forecast to total $62.800 billion in SFY 20010-11, an increase of 9.9 percent or $5.678 billion over SFY 2009-10 Committee staff estimates. This growth reflects the combined impacts of revenue enhancements in the SFY 2009-10 budget and a rebounding economy. The Assembly Ways and Means Committee staff estimates are $1.022 billion above the Executive's midyear estimates—the vast majority of this difference is in PIT and business taxes (see Table 6). When including miscellaneous receipts and lottery, Committee staff estimates are $1.104 billion above the Executive.

Table 6

Summary of Total Tax Collections (Dollar Amounts in Millions)					
	2009-10 Estimate	**2010-11 Forecast**	**Change**	**Percent Growth**	**Diff. Exec.**
Personal Income Tax	$34,175	38,410	$4,235	12.4%	442
User Taxes	$13,872	14,696	$824	5.9%	65
Business Taxes	$7,728	8,204	$476	6.2%	422
Other	$1,347	1,490	$143	10.6%	93
Total Tax Collections	**$57,122**	**$62,800**	**$5,678**	**9.9%**	**$1,022**
General Fund Misc Rpts	3,114	2,687	(427)	-13.7%	-
Lottery	2,684	2,882	198	7.4%	82
Total w/Misc Rpts & Lottery	**$62,920**	**$68,369**	**$5,449**	**8.7%**	**$1,104**

The Ways and Means Committee staff forecasts PIT growth of 12.4 percent in SFY 2010-11. This reflects growth in all major components of New York State Adjusted Gross Income (NYSAGI), including a 47.7 percent growth in annual capital gains. Also included in this growth is the continuation of the PIT surcharge, which is estimated to be worth $4.7 billion in calendar year 2010. Withholding is expected to increase by 2.5 percent or $715 million, benefiting from mild economic recovery. Estimated payments and final payments are expected to grow 35.6 percent or $3.304 billion and 32.9 percent or $599 million, respectively. These aggressive growth rates are highly attributable to increased settlement payoffs, resulting from surcharge liability in the 2009 tax year. Estimated payments, in particular, benefit from expected increased capital gains realizations as taxpayers react to tax law changes that take effect after 2010.

The Ways and Means Committee staff projects overall user taxes and fees to be $14.696 billion in SFY 2010-11, an increase of 5.9 percent over the previous year. This includes sales tax revenue growth of $558 million or 5.3 percent to $11.024 billion. Auto rental tax revenues, due largely to full-year implementation of statewide and MTA auto rental tax increases, are expected to rise 28.1 percent to $99 million in SFY 2010-11. Also due to law changes, motor vehicle fees are expected to increase by $300 million or 29.7 percent to $1.311 billion in SFY 2010-11. Alcoholic beverage tax revenues, after large increases related to tax law changes in SFY 2009-10, are expected to grow 1.3 percent to $239 million. Motor fuel taxes are also expected see moderate growth of 1.8 percent to $514 million. Alternately, alcoholic beverage control license fees, cigarette taxes, and highway use taxes are forecast to decline 8.0 percent, 4.3 percent, and 3.2 percent, respectively, in SFY 2010-11. Despite the small declines in these sources of revenue, the overall forecasted growth in user-based taxes is consistent with strong projections for disposable income and retail sales in SFY 2010-11.

Business taxes are expected to increase 6.2 percent to $8.204 billion in SFY 2010-11. The largest portion of New York State's business tax receipts comes from the corporate franchise tax, and this is expected to grow 10.4 percent over 2009-10 to $3.446 billion. Corporate profits, which drive corporate franchise tax receipts, are expected to grow by 8.9 percent in SFY 2010-11. In the spring of 2009, the film tax credit was restructured and other tax law changes were enacted to bring out-year savings to the State, which account for 3.2 percent of the growth in corporate franchise taxes. Bank taxes are expected to grow by 16.6 percent to $1.286 billion.

Other taxes are forecast to increase 10.7 percent, totaling $1.490 billion. The increase is attributable to growth of 10.7 percent in the estate tax, reflecting forecasted growth in the stock market. Likewise, real estate transfer tax revenues are also forecast to show improvement with 10.3 percent growth as the real estate market begins to rebound.

Lottery revenues are forecast to grow by $198 million or 7.4 percent in SFY 2010-11. This growth stems from a $200 million payment for the video lottery gaming rights at Aqueduct raceway when the bidding process is finalized. The Executive's Deficit Reduction Plan that was introduced in October would move this payment into SFY 2009-10.

Risks to the Forecast

Given the magnitude and unprecedented nature of the economic downturn, current Ways and Means Committee staff estimates are considerably lower than previous estimates. However, even with the first half of the fiscal year complete, revenue estimates for the second half of the fiscal year still carry considerable downside risk. Forecasting future economic activity, particularly into SFY 2010-11, is especially challenging during a period of economic upheaval. Federal actions may also affect the behavior of taxpayers in a way that depresses New York State revenues, for instance by limiting Wall Street bonuses. Also, growth in the bank tax could be mitigated by banking regulatory reforms imposed at the federal level. Furthermore, it will not be clear until after the close of the fiscal year if year-to-date weaknesses in PIT collections reflect lower wages or if taxpayers have not accurately altered their payments for the PIT surcharge.

Table 7

Total Tax Collections SFY 2009-10 (Dollar Amounts in Millions)					
	2008-09 Actual	2009-10 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,840**	**$34,175**	**($2,665)**	**-7.2%**	**($854)**
Gross Receipts	**44,011**	**40,932**	**(3,079)**	**-7.0%**	**(665)**
Withholding	27,686	28,758	1,072	3.9%	(170)
Estimated Payments	12,690	9,281	(3,409)	-26.9%	(436)
Vouchers	7,889	7,203	(686)	-8.7%	(395)
IT 370s	4,801	2,078	(2,723)	-56.7%	(41)
Final Payments	2,686	1,818	(868)	-32.3%	(18)
Delinquencies	949	1,075	126	13.3%	(41)
Total Refunds	**7,171**	**6,757**	**(414)**	**-5.8%**	**190**
Collections	**36,840**	**34,175**	**(2,665)**	**-7.2%**	**(855)**
User Taxes and Fees	**14,004**	**13,872**	**(131)**	**-0.9%**	**(73)**
Sales and Use Tax	10,985	10,466	(519)	-4.7%	(161)
Motor Fuel Tax	504	505	1	0.2%	4
Cigarette Tax	1,340	1,381	41	3.0%	47
Motor Vehicle Fees	723	1,011	288	39.9%	29
Highway Use	141	146	5	3.3%	6
Alcoholic Beverage Tax	206	236	30	14.6%	1
Alcoholic Beverage Fees	44	50	6	14.4%	2
Auto Rental Tax	61	78	17	27.8%	(1)
Business Taxes	**7,604**	**7,728**	**124**	**1.6%**	**165**
Corporate Franchise	3,220	3,121	(99)	-3.1%	169
Utility Tax	863	968	105	12.1%	3
Insurance Tax	1,181	1,414	233	19.7%	(4)
Bank Tax	1,233	1,103	(130)	-10.6%	(6)
Petroleum Business Tax	1,107	1,122	15	1.4%	3
Other	**1,890**	**1,347**	**(543)**	**-28.7%**	**1**
Estate and Gift	1,165	941	(224)	-19.2%	39
Real Estate Transfer	701	385	(316)	-45.1%	(35)
Pari Mutuel	22	20	(2)	-10.3%	(3)
Other	1	1	0	29.4%	-
Total Taxes	**60,338**	**57,122**	**(3,215)**	**-5.3%**	**(762)**
General Fund Misc Receipts	3,105	3,114	9	0.3%	-
Lottery	2,544	2,684	140	5.5%	58
Total w/Misc Receipts and Lottery	**$65,987**	**$62,920**	**($3,066)**	**-4.6%**	**($704)**

Table 8

Total Tax Collections SFY 2010-11 (Dollar Amounts in Millions)	2009-10 Estimate	2010-11 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$34,175**	**$38,410**	**$4,235**	**12.4%**	**$442**
Gross Receipts	**40,932**	**45,505**	**4,573**	**11.2%**	**252**
Withholding	28,758	29,473	715	2.5%	(972)
Estimated Payments	9,281	12,585	3,304	35.6%	839
Vouchers	7,203	9,009	1,806	25.1%	410
IT 370s	2,078	3,576	1,498	72.1%	429
Final Payments	1,818	2,417	599	32.9%	524
Delinquencies	1,075	1,030	(45)	-4.2%	(139)
Total Refunds	**6,757**	**7,095**	**338**	**5.0%**	**(190)**
Collections	**34,175**	**38,410**	**4,235**	**12.4%**	**442**
User Taxes and Fees	**13,872**	**14,696**	**824**	**5.9%**	**65**
Sales and Use Tax	10,466	11,024	558	5.3%	4
Motor Fuel Tax	505	514	9	1.8%	11
Cigarette Tax	1,381	1,322	(59)	-4.3%	14
Motor Vehicle Fees	1,011	1,311	300	29.7%	27
Highway Use	146	141	(5)	-3.2%	7
Alcoholic Beverage Tax	236	239	3	1.3%	-
Alcoholic Beverage Fees	50	46	(4)	-8.0%	(2)
Auto Rental Tax	78	99	21	27.6%	4
Business Taxes	**7,728**	**8,204**	**476**	**6.2%**	**422**
Corporate Franchise	3,121	3,446	325	10.4%	177
Utility Tax	968	978	10	1.0%	62
Insurance Tax	1,414	1,410	(4)	-0.3%	(41)
Bank Tax	1,103	1,286	183	16.6%	216
Petroleum Business Tax	1,122	1,084	(38)	-3.4%	8
Other	**1,347**	**1,490**	**143**	**10.6%**	**93**
Estate and Gift	941	1,042	101	10.7%	132
Real Estate Transfer	385	425	40	10.3%	(39)
Pari Mutuel	20	23	3	15.0%	-
Other	1	1	0	0.0%	-
Total Taxes	**57,122**	**62,800**	**5,678**	**9.9%**	**1,022**
General Fund Misc Receipts	3,114	2,687	(427)	-13.7%	-
Lottery	2,684	2,882	198	7.4%	82
Total w/Misc Receipts and Lottery	**$62,920**	**$68,369**	**$5,449**	**8.7%**	**$1,104**

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FINANCIAL PLAN

The devastating effect the weak economy has had on revenues has caused a severe deterioration in New York State's financial plan. This has led the Executive to propose a $3.2 billion Deficit Reduction Plan to balance the current year budget. The following pages summarize the six-month operating results.

All Funds

Year-to-date All Funds receipts totaled $58.67 billion, an increase of $660 million or 1.1 percent compared to the same time period last year (see Table 9). Tax receipts totaled $27.3 billion, a decrease of $5.1 billion or 15.9 percent. Miscellaneous Receipts increased by $2.24 billion or 26.4 percent. Federal grants increased by $3.56 billion or 20.8 percent.

Year-to-date disbursements in All Funds totaled $59.6 billion, an increase of 4.8 percent or $2.7 billion over the previous fiscal year. Local Assistance grants increased by $3.5 billion or 9 percent compared to the same time last year and Department Operations disbursements totaled $9.5 billion, an increase of $49 million or 0.5 percent. Personal Service totaled $6.7 billion, an increase of $436 million or 6.9 percent. Non-personal Service totaled $2.8 billion, a decrease of $387 million or 11.9 percent. Other Spending totaled $7.1 billion, an $861 million decrease from the prior year or 10.8 percent.

General Fund

Year-to-date General Fund receipts totaled $25.2 billion, a decrease of $4.2 billion or 14.3 percent compared to the same time period last year (see Table 10). General Fund Taxes totaled $18.1 billion, a decrease of $3.6 billion or 16.7 percent. Miscellaneous Receipts increased by 66.3 percent or $667 million. Federal grants totaled $45 million, an increase of $15 million from the same period last year. Transfers from other sources totaled $5.36 billion, a decrease of $1.26 billion or 19.0 percent from the previous year.

Year-to-date General Fund disbursements totaled $24.7 billion, a decrease of 6.7 percent or $1.77 billion compared to the same time period last year. Local Assistance grants totaled $16.1 billion, a decrease of $485 million or 2.9 percent compared to the same period last year. Department Operations spending totaled $4.5 billion, an increase of $16 million or 0.4 percent. Personal Service increased by $186 million or 5.6 percent to

$3.5 billion. Non-personal Service totaled $1.05 billion, a decrease of $169 million or 13.8 percent. General State Charges totaled $1.4 billion, a decrease of $602.1 million or 30 percent.

Budgetary Basis

The opening General Fund and All Fund cash balances for April 1, 2009, were $1.9 billion and $4 billion, respectively (see Table 3). On September 30, 2009, the General Fund closing balance was $2.43 billion, $347 million below the Enacted Budget. This shortfall was primarily due to the $2.2 billion decline in State revenue, which was partially offset by lower than projected Disbursements of $1.9 billion.

The All Funds closing balance was $3.58 billion on September 30, 2009, $438 million or 10.9 percent below the Enacted Budget plan. A lower All Funds balance was caused by lower Personal Income Taxes, Sales Taxes, and Other Receipts of $3.55 billion, while Disbursements were down by $3.46 billion.

The General Fund year-to-date disbursements are $1.89 billion lower than the Enacted budget in the following areas: $243 million Education and Higher Education; $175 million in Medicaid; $373 million in Other Aid to Localities disbursements; $259 million in Personal Services; $60 million in Non-Personal Services; and $787 million in General State Charges.

The small difference in fund balance from the Enacted plan understates the stress on the budget from the substantial decline in revenues. Approximately $2 billion of the $3.5 billion in lower then anticipated spending remain a cash liability to the State.

Table 9

Year-to-Date Balance Receipts & Disbursements (Millions)	6 Months ended September 30, 2009	6 Months ended September 30, 2008	Difference	% Change
Beginning Fund Balance (Deficit)	**4,585.8**	**6,486.0**	**(1,900.2)**	**(29.3)**
Receipts	**58,673.2**	**58,013.1**	**660.1**	**1.1**
Taxes	27,263.3	32,405.6	**(5,142.3)**	**(15.9)**
Miscellaneous Receipts	10,740.4	8,496.2	**2,244.2**	**26.4**
Federal Grants	20,669.5	17,111.3	**3,558.2**	**20.8**
Disbursements	**59,637.7**	**56,901.7**	**2,736.0**	**4.8**
Local Assistance Grants	42,925.1	39,377.3	**3,547.8**	**9.0**
Department Operations	9,590.0	9,541.1	**48.9**	**0.5**
Other	7,122.6	7,983.3	**(860.7)**	**(10.8)**
Ending Fund Balances (Deficit)	**3,582.3**	**7,559.5**	**(3,977.2)**	**(52.6)**

Table 10

Year-to-Date Balance Receipts & Disbursements (Millions)	6 Months ended September 30, 2009	6 Months ended September 30, 2008	Difference	% Change
Beginning Fund Balance (Deficit)	**1,948.5**	**2,754.0**	**(805.5)**	**(29.2)**
Receipts	**25,200.2**	**29,410.3**	**(4,210.1)**	**(14.3)**
Taxes	18,121.5	21,752.1	(3,630.6)	(16.7)
Miscellaneous Receipts	1,671.3	1,004.8	666.5	66.3
Federal Grants	45.2	30.7	14.5	47.2
Other Financing Sources				
Transfers from Other Funds	5,362.2	6,622.7	(1,260.5)	(19.0)
Disbursements	**24,718.4**	**26,491.6**	**(1,773.2)**	**(6.7)**
Local Assistance Grants	16,138.7	16,623.7	(485.0)	(2.9)
Department Operations	4,567.3	4,551.0	16.3	0.4
Other	1,403.0	2,005.1	(602.1)	(30.0)
Other Financing Sources				
Transfers to Other Funds	2,609.4	3,311.8	(702.4)	(21.2)
Ending Fund Balances (Deficit)	**2,430.3**	**5,672.7**	**(3,242.4)**	**(57.2)**

Table 11

BUDGETARY BASIS
Financial Plan v. Actual

Receipts & Disbursements

(Millions)

	GENERAL FUND			ALL FUNDS (MEMO)		
	Enacted	Actual	Favorable (Unfavorable) Variance	Enacted	Actual	Favorable (Unfavorable) Variance
Opening Cash Balance - April 1, 2009	**1,948.0**	**1,948.5**	**0.5**	**4,586.0**	**4,585.8**	**(0.2)**
Receipts	**27,444.0**	**25,200.2**	**(2,243.8)**	**62,227.0**	**58,673.2**	**(3,553.8)**
Taxes	19,944	18,122	(1,822.5)	29,672	27,263	(2,408.7)
Miscellaneous Receipts	1,619	1,671	52.3	10,482	10,740	258.4
Federal Receipts	-	45	45.2	22,073	20,670	(1,403.5)
Other Financing Sources						
Transfers From Other Funds	5,881	5,362	(518.8)			
Disbursements	**26,615.0**	**24,718.0**	**(1,897.0)**	**63,100.0**	**59,637.7**	**(3,462.3)**
Local Assistance Grants	16,758	16,139	(619.3)	43,890	42,925	(964.9)
Departmental Operations:	4,885	4,567	(317.7)	10,082	9,590	(492.0)
General State Charges	2,190	1,403	(787.0)	3,248	2,294	(954.0)
Debt Service	-	-		2,114	1,957	(156.7)
Capital Projects	-	-		3,766	2,871	(894.7)
Other Financing Sources						
Transfers To Other Funds	2,782	2,609	(173.0)			
Closing Cash Balance - September 30, 2009	**2,777**	**2,430**	**(346.7)**	**4,020**	**3,582**	**(437.7)**

EXPENDITURE FORECAST AND RISKS

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

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

The Assembly estimates that the New York State Department of Health will spend $13.8 billion in State Funds for the Medicaid program in State Fiscal Year (SFY) 2009-10, $29.8 million lower than the Division of the Budget midyear forecast. The estimate for Department of Health spending for the Medicaid program in SFY 2010-11 is $14.99 billion, $608 million lower than the Division of the Budget midyear forecast. The SFY 2009-10 Assembly public assistance expenditure estimate is $2.39 billion, roughly $10 million less than the Executive. For SFY 2010-11, the Assembly forecasts public assistance expenditures to total $2.45 billion, $15.5 million below the Executive estimate.

For the 2010-11 school year, both the Assembly and the Executive project that both the Foundation Aid portion of aid to elementary and secondary education, along with the Universal Prekindergarten Program, will remain at 2009-10 spending levels. Using an historical average, the Assembly estimates that expense-based aids including Building Aid, Transportation Aid, Private and High Cost Excess Cost Aids, and BOCES will grow by a total of approximately $451 million in SY 2010-11, while the Executive projects that these aids will grow by $491 million.

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

Some of the risks to the expenditure forecasts include:

- The *Mid-Year Financial Plan Update* submitted by the Division of the Budget (DOB) incorporates an assumption of the achievement of expenditure reduction measures resulting from the implementation of a Deficit Reduction Plan (DRP). The DRP is intended to result in deficit reductions of $3 billion in SFY 2009-10 with an additional $2 billion in reductions in SFY 2010-11. 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 School Year 2010-11 School Aid will not be released by the State Education Department until November 15. This data, which is submitted by districts, includes factors such as enrollment, district wealth, poverty indicators, and reimbursable spending. Therefore, any projections made for 2010-11 School Aid spending carry the risk of being uncertain.

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

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

Medicaid Expenditure Forecast

Medicaid expenditure forecasting takes into account more than twenty major categories that combine to make up total Medicaid spending. The following NYS Assembly Ways and Means Committee forecast is for State Funds Medicaid Spending under the New York State Department of Health (DOH) only, and does not include additional Medicaid spending through other agencies.[7]

The Medicaid forecast uses regression techniques incorporating historical trends and adjusts for seasonal factors.[8] The model forecast must be evaluated to be consistent with the most recent Medicaid spending trends, as well as current and projected economic conditions. The forecast must also reflect any statutory changes that may not be captured by regression techniques and other offline payments or adjustments that are not picked up by the Medicaid claims payment system (eMedNY) operated under the oversight of DOH.

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, represented through the data available for the current fiscal year as a percentage of total State fiscal year expenditures to the actual monthly expenditures available for the current fiscal year. Since the monthly distribution of Medicaid spending can vary from year to year, calculating the closeout at present (with only seven months of data) introduces the possibility of unanticipated changes in the closeout estimate as we move closer to April 2010.

Medicaid Spending: SFY 2008-09, 2009-10, and 2010-11

Total New York State share Medicaid spending for DOH in SFY 2008-09 was $12.661 billion. Based on the data for the first seven months of SFY 2009-10, and accounting for certain adjustments related to cost containment measures advanced through the budget process and offline payments, the NYS Assembly Ways and Means Committee staff estimates that DOH Medicaid expenditures will total $13.803 billion in SFY 2009-10, an increase of 9.0 percent. In SFY 2010-11, it is expected that DOH's Medicaid spending will total $14.994 billion, representing an increase in State share spending of 8.6 percent.

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[7] Medicaid spending also appears in the Office of Mental Health (OMH), Office of Mental Retardation and Developmental Disabilities (OMRDD), Office of Alcoholism and Substance Abuse Services (OASAS), etc.

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

Forecasted State spending does not reflect enhanced federal support under the American Recovery and Reinvestment Act of 2009 (ARRA) (see discussion below).

The Executive currently estimates that DOH Medicaid spending will total $13.883 billion in SFY 2009-10, an increase of 9.3 percent from SFY 2008-09. The Executive forecasts that DOH Medicaid expenditures will total $15.603 billion in SFY 2010-11, representing a growth rate of 12.8 percent. The Executive estimate for State Medicaid spending is 0.2 percent higher than that of the Assembly Ways and Means Committee in SFY 2009-10, and 4.6 percent higher in SFY 2010-11.

Under either analysis, underlying growth in Medicaid spending reflects burgeoning enrollment in the Medicaid program, as opposed to an increasingly generous benefit package or higher rates of payment. Enrollment in all forms of public assistance is inextricably linked to a host of other economic indicators.

Enhanced Federal Support

After underlying program growth is calculated, under both the Executive and Ways and Means analysis, State share spending for the Medicaid program is offset by a significant infusion of federal support made available through ARRA. Under this Act, each state's Federal Medical Assistance percentages (FMAP), which determines the federal share of Medicaid costs, was increased in a manner that corresponds to rates of unemployment. Accordingly, through this action alone, the federal government committed an additional $7.13 billion to New York State over a span of three state fiscal years.[9] Table 12 provides a summary of the forecasts adjusted for an increased FMAP.

Table 12

State Share Medicaid Spending Summary					
	SFY 2008-09	SFY 2009-10		SFY 2010-11	
	Close Out	Executive	WAM	Executive	WAM
Forecast	12,661	13,833	13,803	15,603	14,994
FMAP	($1,092)	($3,155)		($2,883)	
Adj. Forecast	11,569	10,678	10,648	12,720	12,111

[9] The value presented herein is exclusive of FMAP that is allocated to Medicaid spending in other State agencies and FMAP that must be passed through to local governments.

Risks to the Medicaid Spending Forecast

Apart from risks to the forecast related to the economy and the changing state of the health care system in New York, there are several risks to both the SFY 2009-10 closeout and the SFY 2010-11 forecast for DOH Medicaid spending. These risks could result in significant shifts in Ways and Means Committee staff projections depending upon information that has yet to have been made available relating to offline payments and other adjustments.

As previously noted, total Medicaid spending reflects payments for more than twenty major service categories. Although the eMedNY system provides monthly data for a substantial percentage of Medicaid spending that has been budgeted for, a significant amount of expenditures remain outside the confines of eMedNY (in the form of offline payments), and are thus not accounted for in a detailed manner on a consistent basis. Even for those data that are within the eMedNY system, expenditure adjustments remain necessary from a statistical standpoint because of statutory changes, pending federal approvals, or in instances where there is not enough information available.

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 from audit recoveries made by the Office of the Medicaid Inspector General (OMIG), and State spending related to its assumption of localities' Medicaid payments under the existing spending cap. Although Medicaid payments made outside the eMedNY system total more than $1 billion per year, there is no readily available information source to allow Ways and Means staff to track this spending on a regular basis. 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 2010-11 with some minor revisions, both of which are likely to be revised upon the receipt of additional information.

In addition, significant expenditure adjustments calculated in the Ways and Means estimate are contingent upon federal approvals and the vagaries of the implementation process. For example, the Ways and Means staff estimate assumes enactment of a variety of Medicaid payment reforms. Should these reforms be delayed, the staff estimate must be revised.

Ways and Means Committee staff continues to monitor national and State proposals that would authorize sweeping reforms to the health care delivery infrastructure, or reduce support for the Medicaid program altogether. Changes under consideration in the national health reform debate are too vast to note in the space of this report, and are not likely to take effect until 2013. In the long term, however, certain proposals may result in a surge in enrollment in the State Medicaid program without a commensurate level of federal cost sharing.

In the more immediate future, New York's increase in FMAP expires at the end of calendar year 2011. The loss of these funds, like the loss of all other temporary assistance authorized under the federal stimulus package, may present serious fiscal challenges for the Medicaid program beginning in SFY 2010-11. Additionally, the Governor's recently-proposed Deficit Reduction Plan would reduce Medicaid rates to achieve $287 million in State share savings in SFY 2009-10 and each year thereafter. Should the Legislature enact these proposals, the Ways and Means staff forecast must be amended accordingly.

In summary, the Ways and Means Committee staff has provided estimated Department of Health Medicaid spending for both SFY 2009-10 and SFY 2010-11, as required under Chapter 1 of the Laws of 2007. This forecast should be considered with caution due to the level of information that remains necessary to complete a more thorough analysis. In the coming months, as these data become more readily available, these forecast estimates will be refined, perhaps to a relatively large degree.

Public Assistance Caseload and Expenditures

Public assistance expenditures consist of two main categories of spending: Family Assistance and Safety Net Assistance. The Family Assistance program is 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 2008-09, actual public assistance expenditures totaled $2.27 billion with an average monthly caseload of 510,521. Although this represents an overall caseload decline of 2.5 percent from the previous fiscal year, spending was $40 million higher, highlighting the difficulty in predicting public assistance spending based on caseload due to the incorporation of various assistance expenditures in reported public assistance spending data other than basic assistance. This includes: rent supplements, domestic violence or family shelter spending, security deposits, and other miscellaneous spending that fluctuates on a monthly basis reflecting the needs of the recipients.

Actual caseload was 4,238 over the caseload number of 506,283 estimated by the Executive when the SFY 2008-09 Budget was submitted. At that time, the Executive had also estimated expenditures for SFY 2008-09 at $1.84 billion, which was $432 million lower than actual spending.

Affecting the current year closeout is the public assistance grant increase provided for in the SFY 2009-10 Enacted Budget, which increased the basic allowance for public assistance recipients by 10 percent a year for three years, effective July 1, 2009. While public assistance benefits are typically split equally between the State and local governments after the federal government has paid for its share, the SFY 2009-10 Budget amended the funding to provide that the State will pay for the entire State and local cost of the grant increase for three years. This will be paid out of the TANF contingency funds and will result in a temporary increase in the TANF funds spent for public assistance benefits over the next three years.

When the Budget was enacted, SFY 2009-10 public assistance expenditures were estimated to total $2.16 billion with an average monthly caseload of 503,751. At midyear, the Executive currently estimates expenditures for SFY 2009-10 at $2.4 billion, approximately $130 million above the previous fiscal year with a monthly average caseload of 527,792, a 3.4 percent caseload increase over SFY 2008-09. NYS Assembly

Ways and Means Committee staff estimates that public assistance spending will total approximately $2.39 billion, approximately a $120 million increase in spending over the previous fiscal year and roughly $10 million below the Executive. This increased expenditure is estimated due to the public assistance grant increase, as well as an increase in caseload. The Assembly forecasts an increase of 19,209 recipients or 3.8 percent in the monthly average caseload over SFY 2008-09 to 529,730 recipients, which is 1,938 above the Executive.

SFY 2010-11 Forecast

Given the fact that New York State is still facing a major economic downturn and confronted with a severe fiscal deficit, an accurate forecast for public assistance spending will be a necessary component in developing the State Budget. As job opportunities diminish and unemployed workers exhaust their Unemployment Insurance (UI) benefits before finding new employment, demand for public assistance benefits will increase. Additionally, given the challenges facing the New York economy, the SFY 2010-11 forecast will be impacted by factors not yet known, including the depth of the economic downturn and the length of time before a recovery starts.

Consequently, both Ways and Means Committee staff and the Executive forecast an increase in caseload in SFY 2010-11. The Executive estimates caseload will increase by nearly 2.6 percent to 541,279 while spending will grow by nearly $69 million to $2.47 billion. The Committee staff estimates caseload will increase from its SFY 2009-10 projection by 2.1 percent to 540,969 recipients, 310 below the Executive, while public assistance expenditures are estimated to increase by nearly $66 million to $2.45 billion, approximately $15.5 million below the Executive forecast.

Aid to Education Forecast

School Year 2009-10

Despite a global economic downturn, the 2009-10 Enacted State Budget provided for an increase of $404.87 million in General Support for Public Schools above School Year (SY) 2008-09 funding levels for a total of $21.8 billion in overall support for education programs. Of this amount, the Enacted State Budget provided $21.5 billion in computerized school aid formulas. This represents an increase of $403.7 million over SY 2008-09, which is an increase of $1.17 billion over the original Executive Budget proposal.

Restorations to the Executive proposal for formula-based aids were appropriated from ARRA funds.

Over the past several years, the cornerstone of aid to education has been and continues to be the Foundation Aid formula, which is designed to provide a comprehensive and equitable distribution of school aid. Unfortunately, due to the deteriorating economic climate, planned increases in Foundation Aid funding were put on hold for the 2009-10 school year. Total Foundation Aid funding for SY 2009-10 was maintained at $14.87 billion.

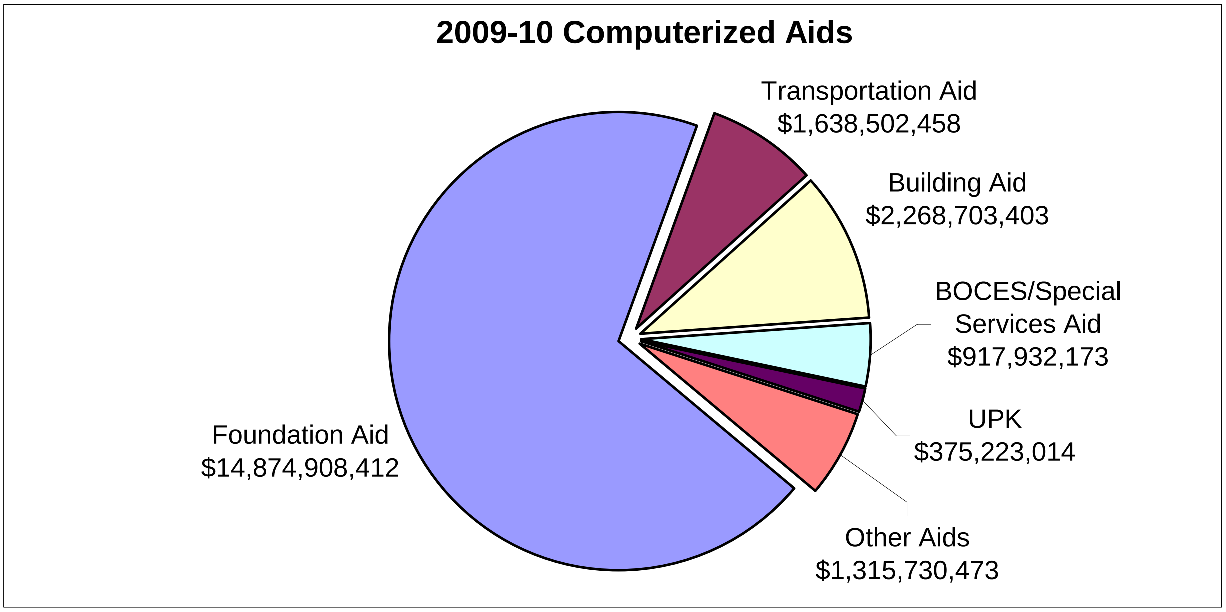

Figure 11

In addition, expense-based computerized aids were continued for the purpose of reimbursing districts for certain expenditures that were already made so that educational programs for students could be maintained. These programs include aid for transportation services, BOCES and special services, and private and high cost special education programs. The State also shares in expenses involved in school construction through Building Aid reimbursement. For the 2009-10 school year, New York State spent $376 million in increased aid to maintain our commitment to these programs. Total funding for these programs in SY 2009-10 was $5.59 billion.

Computerized aids also delineate distinct funding streams for universal prekindergarten programs; conversion to full-day kindergarten; instructional materials which 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 $917 million.

Additionally, it should be noted that the Education budget also provides funding for various grant programs. In SY 2009-10, the Legislature provided $252 million in additional funds and restorations for other education-related programs such as adult education, libraries, and preschool special education programs.

Finally, the enacted budget appropriated federal funds for a variety of programs, including $454 million for Title 1-A, $398 million for Individuals with Disabilities Education Act (IDEA), $127 million for Title 1 School Improvement grants, and $28 million for educational technology.

School Year 2010-11

Pursuant to §305.21 of the Education Law, an updated electronic data file for the 2010-11 school year containing both actual and estimated data for the current and following school years is not available or released from the State Education Department until November 15. The type of data that school districts submit to the department includes information about enrollment, wealth, students eligible for free and reduced price lunch, property values, and the estimated costs incurred by school districts for certain services and programs that are eligible for reimbursement. This data, which is due from school districts by November 1, is revised throughout the year as more accurate data becomes available from school districts. As a result, at this point in time, information is not available to make accurate predications on school aid spending for SY 2010-11. Additionally, the current fiscal climate of New York State creates additional uncertainty to these projections. Nevertheless, in this report an effort is made to provide a projection based on an analysis of multiple years' worth of data. As previously noted, these projections are preliminary since information that will be used to determine aid to school districts in SY 2010-11 is currently unavailable.

Another important factor that will contribute to overall education funding in the 2010-11 school year is the second and presumably final year of funding provided through ARRA. These funds are scheduled to provide over $1.2 billion to school districts for State formula-based aids, as well as additional funds to support programs that include Title 1 and IDEA.

Foundation Aid Formula

Beginning with the 2007-08 State Budget, the Legislature enacted a multi-year plan for historic levels of education funding through a 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. The enactment of this formula in 2007-08 attests to a commitment by the State to a secure 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. This is 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.

Unfortunately, due to the deep recession the economy has been facing in 2009-10, the decision was made to freeze the Foundation Aid Formula for a two-year period. Foundation Aid will once again continue to grow beginning in the 2011-12 school year and will be fully phased in by SY 2013-14. For the 2010-11 school year, there is no scheduled growth of Foundation Aid.

Universal Prekindergarten

Beginning with the initiation of the LADDER program more than ten years ago, a commitment to create and fund a truly universal prekindergarten program available to all children across New York State has been a priority of the Assembly. The 2007-08 State Budget consolidated the Universal Prekindergarten, Targeted Prekindergarten, and

Supplemental Universal Prekindergarten programs. In 2009-10 the program will serve an estimated 109,000 children in 451 school districts throughout the State at a cost of more than $414 million, reflecting continued growth.

Like the Foundation Aid formula, Universal Prekindergarten is scheduled to be frozen for both the 2009-10 and 2010-11 school years. The Assembly remains committed to a fully accessible and universal prekindergarten program throughout the State.

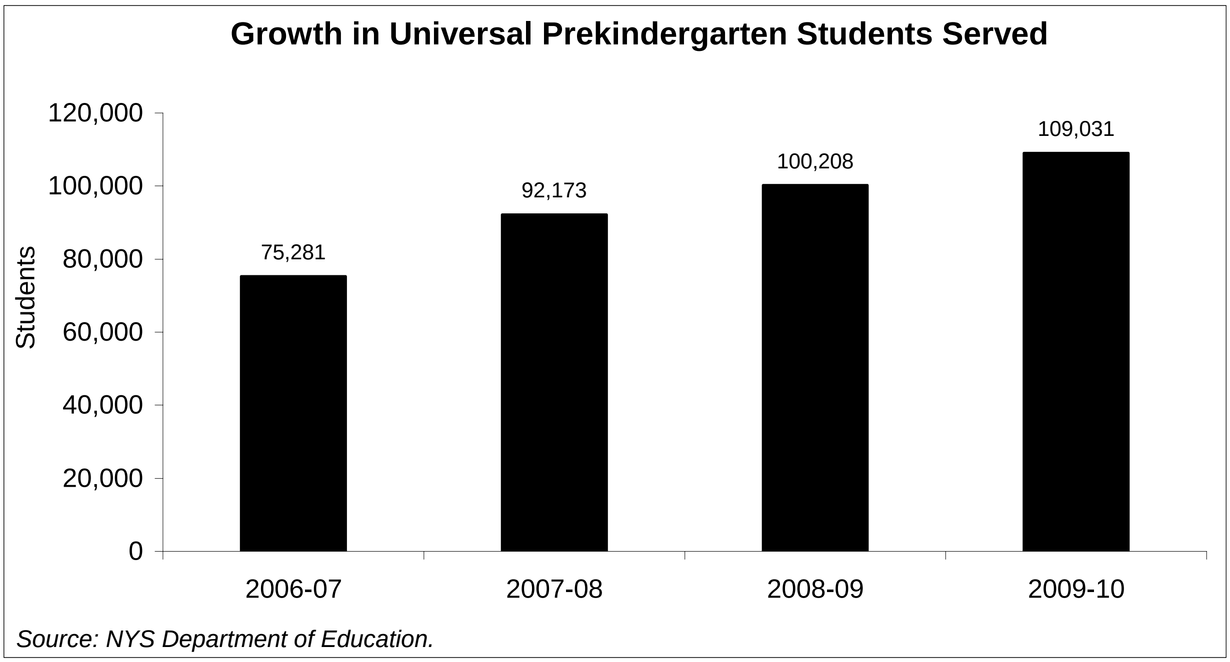

Figure 12

Expense-Based Aids

New York 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 throughout the State.

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

Transportation Aid reimburses districts for approved transportation expenses such as equipment, salary, and benefits. Aid for 2009-10 totaled $1.635 billion, an increase of $104 million or 6.83 percent over SY 2008-09. An accurate estimate for SY 2010-11 for this aid category cannot be provided without the November data update. A review of the past five years of funding reveals that the yearly percentage increases in Transportation Aid range from 6.61 percent to 12.84 percent, with an average annual increase of 8.62 percent. If funding were to increase by this average amount, Transportation Aid would rise by approximately $141 million in SY 2010-11. As noted, actual costs for reimbursement might be lower than this estimate due to current economic conditions.

Districts which 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 2009-10 totaled $715 million, an increase of $44.9 million or 6.70 percent over SY 2008-09. Funding increases over the past five years ranged from a low of 6.41 percent to a high of 7.41 percent, with an average annual increase of 6.96 percent. If funding were to grow by this average amount, BOCES Aid would increase by approximately $49 million in SY 2010-11. However, actual costs for reimbursement might be lower than this estimate due to current economic conditions. Additionally, school districts that are not components of BOCES, including the five large city school districts, receive Special Services Aid to fund career education programs, computer services, and academic improvement; the State has provided a total of $204 million in SY 2009-10 for these programs.

Private Excess Cost Aid provides reimbursement for school children with severe disabilities who are placed in private school settings or in State-operated schools in Rome or Batavia. Aid for SY 2009-10 was $317 million, an increase of $9.7 million or 3.15 percent over SY 2008-09. Over the past five years, percentage increases in funding have ranged from 3.15 percent to 22.53 percent, with an average annual increase of 8.96 percent. If funding were to increase by this average amount, Private Excess Cost Aid would grow by approximately $28.4 million in SY 2010-11. In addition, funding for High Cost Excess Cost Aid, which has only been a separate aid category for the past three years has fluctuated, growing by 10.19 percent in one year and declining by 4.14 percent in SY 2009-10. If funding were to increase by the average amount of 3.02 percent, then High Cost Excess Cost would grow by approximately $15.1 million in SY 2010-11.

Building Aid allows school districts to receive State support for approved building projects. Aid for SY 2009-10 totaled $2.182 billion, an increase of $204 million or 10.32 percent over SY 2008-09. Percentage increases over the past five years varied from a low of 7.57 percent to a high of 11.92 percent with an average annual increase of 10.02 percent. If funding were to rise by this average amount, Building Aid would increase by approximately $218 million in SY 2010-11. As noted, actual costs for reimbursement might be lower than this estimate due to current economic conditions. Building Aid has generally been one of the most difficult categories to forecast as funding for this program is based both on new building projects that have become aidable as well as older projects that are no longer aidable as the State has completed its commitment to these projects and the bonds have been paid off.

Table 13

YEAR TO YEAR AID GROWTH	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	Total Growth
Transportation	1,083,026,528	1,222,112,679	1,345,157,004	1,434,076,640	1,531,075,877	1,635,648,151	
Change		139,086,151	123,044,325	88,919,636	96,999,237	104,572,274	552,621,623
%Change		12.84%	10.07%	6.61%	6.76%	6.83%	51.03%
BOCES	510,832,575	548,688,188	583,860,779	625,011,374	670,132,114	715,059,724	
Change		37,855,613	35,172,591	41,150,595	45,120,740	44,927,610	204,227,149
% Change		7.41%	6.41%	7.05%	7.22%	6.70%	39.98%
Private Excess Cost	208,906,217	218,706,024	226,754,638	277,834,289	307,743,031	317,445,315	
Change		9,799,807	8,048,614	51,079,651	29,908,742	9,702,284	108,539,098
% Change		4.69%	3.68%	22.53%	10.76%	3.15%	51.96%
High Cost Excess Cost				473,165,497	521,357,433	499,793,339	
Change					48,191,936	(21,564,094)	26,627,842
% Change					10.19%	-4.14%	5.63%
Building	1,354,355,653	1,493,748,530	1,671,839,810	1,798,371,956	1,978,152,300	2,182,359,518	
Change		139,392,877	178,091,280	126,532,146	179,780,344	204,207,218	828,003,865
% Change		10.29%	11.92%	7.57%	10.00%	10.32%	61.14%

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	(1.6%) ($29.5)	1948:Q3-1949:Q4	5	(4.4%) (1,973.0)
1953:Q2-1954:Q1	3	(2.7%) ($62.7)	1953:Q2-1954:Q3	5	(3.2%) (1,635.0)
1957:Q3-1958:Q1	2	(3.7%) ($97.7)	1957:Q2-1958:Q2	4	(4.1%) (2,200.7)
1960:Q1-1960:Q4	3	(1.6%) ($45.1)	1960:Q2-1961:Q1	3	(1.7%) (910.0)
1969:Q3-1970:Q4	5	(0.6%) ($26.8)	1970:Q1-1970:Q4	3	(1.0%) (737.7)
1973:Q4-1975:Q1	5	(3.2%) ($157.8)	1974:Q3-1975:Q2	3	(2.7%) (2,087.3)
1980:Q1-1980:Q3	2	(2.2%) ($131.9)	1980:Q1-1980:Q3	2	(0.9%) (847.0)
1981:Q3-1982:Q3	4	(2.7%) ($163.8)	1981:Q3-1982:Q4	5	(3.0%) (2,734.3)
Average over All Previous Recessions	3.5	(2.3%) ($89.4)	Average over All Previous Recessions	3.8	(2.6%) (1,640.6)
1990:Q2-1991:Q1	3	(1.4%) ($109.4)	1990:Q2-1991:Q3	5	(1.4%) (1,498.3)
2000:Q4-2001:Q3	3	0.0% 5.6	2001:Q1-2003:Q3	10	(2.0%) (2,629.3)
2008:Q2-2009:Q2	4	(3.8%) ($513.7)	2007:Q4-2010:Q2	10	(5.7%) (7,893.6)

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

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

APPENDIX B

U.S. Recessions Since World War II (Based on Series-Specific Turning Points)					
Consumption			Investment		
Peak to Trough	Duration (Quarters)	Depth	Peak to Trough	Duration (Quarters)	Depth
1948:Q4-1949:Q4	No Decline	3.4% 40.4	1948:Q3-1949:Q2	3	(31.0%) ($75.2)
1953:Q2-1953:Q4	2	(0.9%) ($12.7)	1953:Q2-1954:Q2	4	(11.1%) ($27.6)
1957:Q4-1958:Q1	1	(1.4%) ($22.3)	1957:Q3-1958:Q2	3	(17.2%) ($47.7)
1960:Q2-1960:Q3	1	(0.4%) ($7.1)	1960:Q1-1960:Q4	3	(21.7%) ($71.9)
1970:Q3-1970:Q4	1	(0.3%) ($7.5)	1969:Q3-1970:Q1	2	(8.4%) ($43.5)
1973:Q3-1974:Q1	2	(1.2%) ($37.0)	1973:Q4-1975:Q2	6	(29.4%) ($198.2)
1979:Q4-1980:Q2	2	(2.4%) ($92.8)	1978:Q4-1980:Q3	7	(19.9%) ($163.2)
1981:Q3-1981:Q4	1	(0.8%) ($29.0)	1981:Q3-1982:Q4	5	(22.5%) ($181.3)
Average over All Previous Recessions	1.4	(0.5%) ($21.0)	Average over All Previous Recessions	4.1	(20.1%) ($101.1)
1990:Q3-1991:Q1	2	(1.1%) ($56.6)	1990:Q2-1991:Q2	4	(12.7%) ($129.7)
2000:Q4-2001:Q3	No Decline	1.2% 94.2	2000:Q2-2001:Q4	6	(14.2%) ($287.3)
2007:Q4-2009:Q2	6	(1.9%) ($174.6)	2006:Q1-2009:Q2	13	(35.7%) (808.0)

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

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