



---

Special Quarterly Report on the State Financial Plan  
Revenue Results and Trends

*Mid-Year Update*  
*State Fiscal Year 2008-09*

*October 2008*

---

**Thomas P. DiNapoli**  
**New York State Comptroller**

In an effort to reduce the costs of printing, please notify the Office of Budget and Policy Analysis at (518) 473-4333 if you wish your name to be deleted from the mailing list or if your address has changed.

Additional copies of this report may be obtained from:

Office of the State Comptroller  
Public Information Office  
110 State Street  
Albany, New York 12236  
(518) 474-4015

**Or through the Comptroller's website at: [www.osc.state.ny.us](http://www.osc.state.ny.us)**

# Table of Contents

**INTRODUCTION..... 1**

**DECLINING ECONOMIC CONDITIONS ..... 1**

**CURRENT PROJECTED GENERAL FUND GAP ..... 2**

**GENERAL FUND FINANCIAL PLAN RECEIPTS: PROJECTED VS. ACTUAL ..... 3**

**GENERAL FUND RECEIPTS: YEAR-TO-YEAR GROWTH ..... 3**

**GENERAL FUND FINANCIAL PLAN DISBURSEMENTS: PROJECTED VS. ACTUAL ..... 5**

**GENERAL FUND DISBURSEMENTS: YEAR-TO-YEAR GROWTH ..... 6**

**ALL GOVERNMENTAL FUNDS FINANCIAL PLAN RECEIPTS: PROJECTED VS. ACTUAL ..... 7**

**ALL GOVERNMENTAL FUNDS RECEIPTS: YEAR-TO-YEAR GROWTH ..... 8**

**ALL GOVERNMENTAL FUNDS FINANCIAL PLAN DISBURSEMENTS: PROJECTED VS. ACTUAL ..... 10**

**ALL GOVERNMENTAL FUNDS DISBURSEMENTS: YEAR-TO-YEAR GROWTH..... 11**



## **Introduction**

This report is part of a series of quarterly reports that highlight key aspects of the State Financial Plan, including variances and risks, based on actual revenue and spending information from the Office of the State Comptroller Monthly Cash Reports. As a continuation of the first quarterly report released in July 2008, this report focuses on ongoing concerns over the State's economy and the associated impact of the State's Financial Plan.

Overall tax collections still do not fully reflect the current economic climate. Personal income tax collections remain steady as revenue collected from withholding (those taxes that come directly out of paychecks) grew nearly 6 percent over the same period last year. Nonetheless, after a strong start in April, total personal income tax collections are starting to slow with year-to-year growth of 15.4 percent through September, compared to 24.6 percent through June. It is expected that personal income taxes will decline significantly in December and into January as a result of a projected decline in bonus payments in the financial sector. At that time, tax collections should provide a more accurate reflection of the financial challenges for the upcoming year. Business taxes remain the indicator that best reflects the deteriorating economy and have been below projections all year, as well as below prior year collections.

Consistently throughout 2008, the Office of the State Comptroller has expressed concern that the Financial Plan relies too heavily on unrealistic projections for revenue and savings that may not materialize for budget balance. In June 2008, this Office reported on \$1.6 billion in risks, as well as \$2.8 billion in non-recurring resources used to balance the Budget. The Division of the Budget subsequently acknowledged a number of these risks and adjusted the Financial Plan accordingly, which has, in part, added to the current deficit projection.

While the Governor and the Legislature have reduced current year spending by nearly \$1.8 billion from original projections, the deficit is growing due to an ongoing imbalance between revenue and spending. Year-to-date All Funds spending is 7.7 percent higher than last year, while revenues are only 6 percent higher. Consistent with a long history of structurally imbalanced budgets, the current budget does not align recurring spending with recurring revenue and, as a result, combined with current economic conditions, the State potentially faces significant deficits this year and in the future.

## **Declining Economic Conditions**

Recent economic events, including the collapse of Lehman Brothers and the sale of Merrill Lynch, as well as the government intervention of Fannie Mae, Freddie Mac and AIG, have begun to impact certain State revenue collections and accrued significant additional pressure on the State's Financial Plan. On September 29, 2008, Comptroller DiNapoli issued a report stating that through March 31, 2010 revenues could decline approximately \$3.5 billion below current expectations. Furthermore, it is yet unknown how the \$700 billion government bailout recently signed by the President will affect the economy nationally or within the State.

On October 3, 2008, the Governor convened a meeting with the Comptroller and legislative leaders to present revised revenue projections for the current year. The Governor projected that revenue would be reduced by an additional \$1.6 billion in the upcoming Midyear Update to the Financial Plan expected to be released by the end of October, offset by the projected \$427 million in reductions made in August, thus creating a current year General Fund deficit of \$1.2

billion. As a result, the Governor called for a special legislative session on November 18 to implement an additional \$2 billion in budget actions to address the current year deficit, as well as growing out-year gaps. In addition, the Governor has indicated that the Executive Budget for State Fiscal Year (SFY) 2009-10 will be released one month early in order to extend the time available to develop the next budget.

### ***Reductions to Date***

Three different sets of budget reductions have occurred in SFY 2008-09. Initial reductions were negotiated as part of the Enacted Budget and included approximately \$778 million in State Operating funds (\$485 million from the General Fund) with a 3.35 percent reduction to State Operations and an additional 2 percent reduction to certain local assistance payments.

In July 2008, the Governor and the Division of the Budget administratively reduced nearly \$500 million in projected State Operations spending and included an additional \$130 million in lower spending outside of the General Fund, creating fund balances that will be transferred to the General Fund for a total savings of \$630 million.

Concurrent with the announcement of administrative spending reductions, the Governor called for a special legislative session in August 2008 to address an additional \$1 billion in proposed cuts. The Legislature enacted a projected \$427 million in budget actions in the current year, including reductions in unspent local assistance, additional fund sweeps into the General Fund, reductions in legislative initiatives, reductions in City University of New York (CUNY) funding and reductions in Medicaid spending. In total, reductions already taken are expected to produce savings of \$1.5 billion in the General Fund and \$1.8 billion in other State Operating funds.

It is important to note that the following figures and comparisons do not reflect any changes that may be enacted on November 18. In addition, the current Financial Plan (issued July 30) does not reflect current economic conditions or actions taken by the Legislature in August, or actions that the Legislature may take in November.

### **Current Projected General Fund Gap**

According to the Division of the Budget, if no additional action is taken in the current year, the State will face a General Fund budget gap of approximately \$1.2 billion caused by lower than projected Personal Income Tax collections of \$950 million, lower than projected business tax collections of \$350 million and lower than projected miscellaneous receipts totaling \$300 million.

In addition, although the Division of the Budget has taken into consideration many of the risks outlined by the Comptroller in June in the Review of the SFY 2008-09 Enacted Budget, other risks remain that could continue to increase the gap this year and in subsequent years. For instance, the Division of the Budget still expects approximately \$317 million in miscellaneous Health Care Reform Act (HCRA) receipts from the sale of Wellpoint stock. While the projection has been lowered noticeably, there is still a significant risk that the remaining 7.3 million shares will not sell at the approximate current estimate of \$43 per share, but instead be sold at a significantly lower price. Although the current price is \$41.98 per share (as of market close, October 14, 2008), it has been as low as \$33.10. This would result in an additional loss of \$74

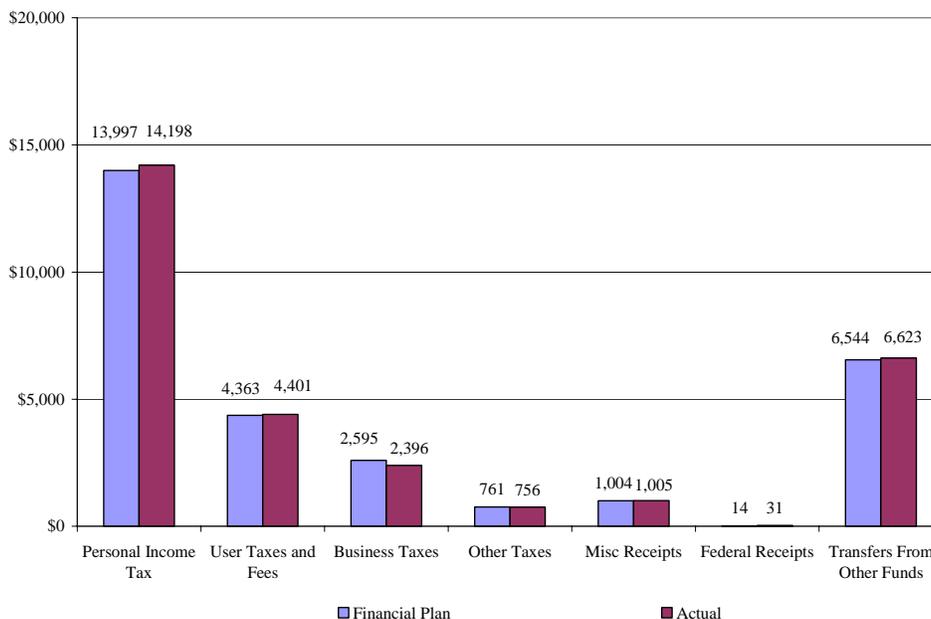
million, which would have to be made up with either General Fund resources or reduced spending.

### General Fund Financial Plan Receipts: Projected vs. Actual

General Fund receipts, including transfers from other funds, totaled \$29.4 billion, which was \$132.3 million higher than Financial Plan projections updated in July. The growth is primarily due to stronger than expected Personal Income Tax collections of \$14.2 billion, which were \$201.4 million higher than Financial Plan projections through September. Consumption and use tax collections of \$4.4 billion were slightly higher (\$38.2 million) than projected. These increases were offset by business tax collections of \$2.4 billion, which were \$198.7 million lower than projected through September.

The following chart illustrates General Fund receipts compared to Financial Plan projections.

**General Fund Receipts – Actual to Financial Plan**  
**April through September 2008**  
(in millions of dollars)

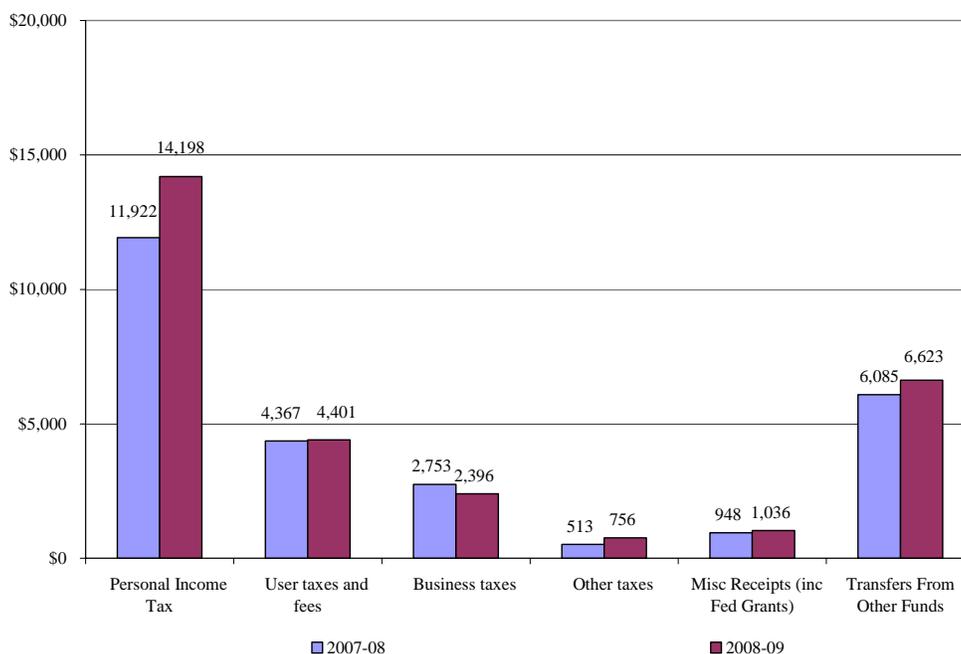


### General Fund Receipts: Year-to-Year Growth

Through September, General Fund receipts, including transfers from other funds, grew from the prior year 10.6 percent, or \$2.8 billion. Personal income tax collections of \$14.2 billion grew \$2.3 billion, or 19.1 percent, primarily because of very strong estimated tax collections in April, which reflect 2007 tax liabilities and do not reflect the current economic climate. Other tax collections of \$756.2 million grew by \$242.8 million, or 47.3 percent, primarily because of Estate Tax collections in the month of July. These increases were offset by a decline of \$356.7 million, or 13 percent, in business tax collections. Consumption tax collections, including sales tax, of \$4.4 billion grew less than 1 percent from the previous year.

The following chart illustrates year-to-year growth in General Fund receipts.

**General Fund Receipts**  
**Year-to-Year Comparison April through September 2008**  
(in millions of dollars)



***General Fund Personal Income Tax***

The current SFY 2008-09 Financial Plan (updated in July) projects growth of 5.1 percent for Personal Income Tax receipts through the end of SFY 2008-09. The projection includes the receipt of estimated taxes and final returns in April 2008 for 2007 tax year liabilities.

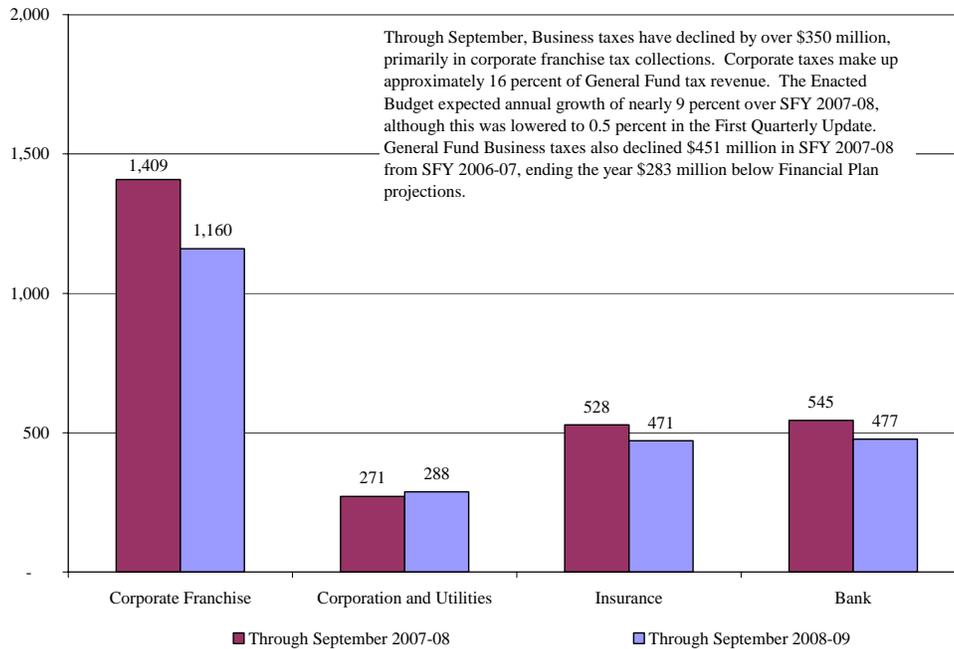
Personal income tax receipts after April 2008 were more indicative of historical monthly collections. Through the first six months of SFY 2008-09, collections from withholding—the largest portion of the personal income tax and the portion that comes directly from paychecks—increased 5.9 percent from the same period last year. Although withholding growth has been strong, significantly lower than predicted Wall Street bonuses and other job losses associated with the current economic situation will likely lead to significantly lower withholding results during the balance of the current year.

***General Fund Business Taxes***

The SFY 2008-09 Enacted Budget Financial Plan assumed approximately \$664 million in business tax revenue actions that included loophole closers and increased compliance. Without these actions, business tax collections were expected to decline 1.4 percent from SFY 2007-08. In addition, the SFY 2008-09 Enacted Budget included approximately \$59 million in business tax reductions. The SFY 2008-09 Financial Plan projected that General Fund business tax collections would grow 9.0 percent, or \$541 million, over SFY 2007-08, primarily due to revenue actions included in the SFY 2008-09 Enacted Budget. Compared with current Financial Plan cash flow projections, General Fund business tax collections for the first six months were \$198.7 million below projections.

Through the first six months of the fiscal year, year-to-year General Fund collections for business taxes declined by \$356.7 million, or 13.0 percent, primarily in tax collections from corporate franchise taxes (down \$248.5 million, or 17.6 percent), bank taxes (down \$67.9 million, or 12.5 percent) and insurance taxes (\$57 million, or 10.8 percent). It is important to note that although year-to-date collections were below last year, collections for the month of September experienced growth over the month of September 2007, although they have not met Financial Plan projections in every month of the current fiscal year.

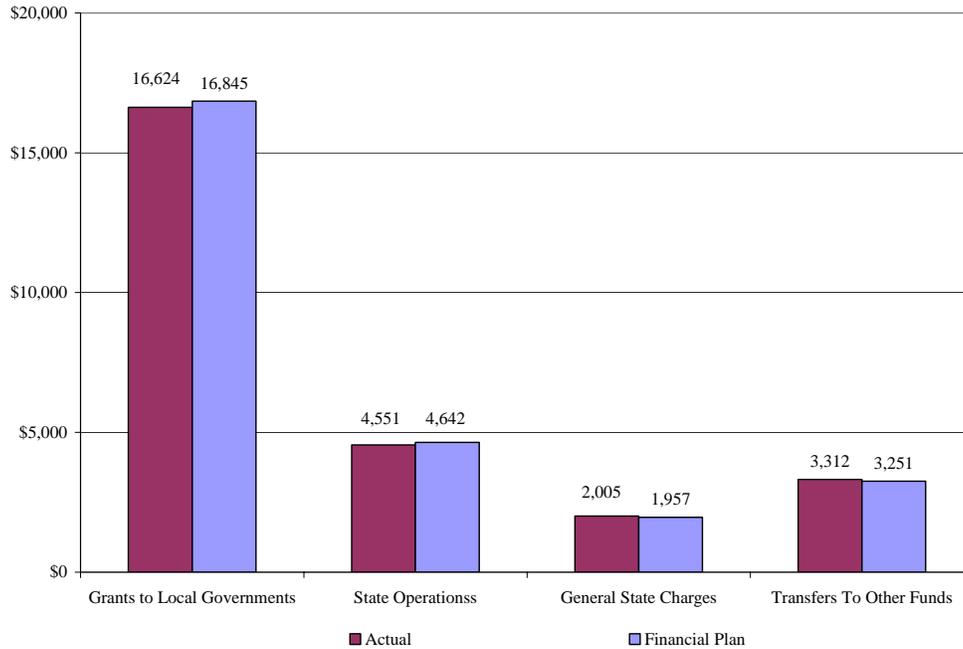
**Year-to-Year Comparison of General Fund Business Tax Collections**  
(in millions of dollars)



### General Fund Financial Plan Disbursements: Projected vs. Actual

Through the first six months of the 2008-09 State Fiscal Year, General Fund disbursements, including transfers to other funds, of \$26.5 billion was \$203.4 million below Financial Plan projections through September, primarily in the timing of local assistance payments (\$221.3 million below). Disbursements for departmental operations of \$4.6 billion were \$91 million below projections. These were offset by higher than anticipated spending for transfers to other funds (\$60.8 million) and General State Charges (\$48.1 million).

**General Fund Disbursements – Projected vs. Actual**  
**April through September 2008**  
(in millions of dollars)



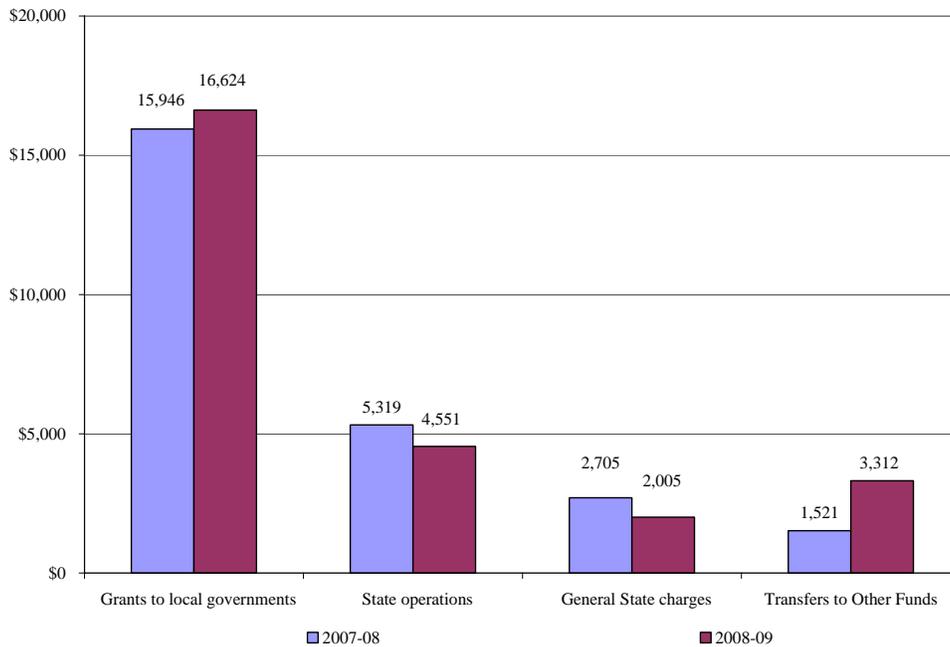
**General Fund Disbursements: Year-to-Year Growth**

General Fund disbursements, including transfers to other funds, grew 3.9 percent, or \$1 billion, over the same period last year. The majority of the growth was from local assistance payments (\$677.7 million) and transfers to other funds (\$1.8 billion). These are offset by lower payments for State Operations and General State Charges spending that has been moved to other funds as a part of the Executive’s Medicaid transparency initiative begun this year. The initiative has no effect on the All Governmental Funds Financial Plan.

Within local assistance, increased spending was primarily for education (\$1 billion) and was offset by lower spending in Medicaid (\$311.5 million) and mental hygiene (\$339.6 million). The lower spending for mental hygiene also reflects the Executive’s Medicaid transparency initiative.

The following chart illustrates year-to-year comparisons for General Fund disbursements.

**General Fund Disbursements**  
**Year-to-Year Comparison April through September 2008**  
(in millions of dollars)

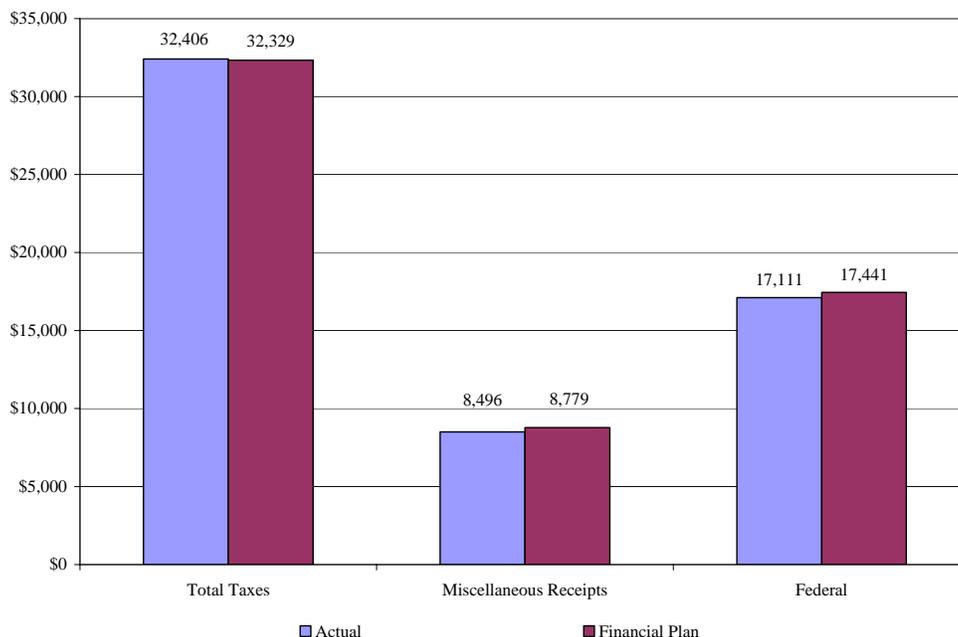


### **All Governmental Funds Financial Plan Receipts: Projected vs. Actual**

All Governmental fund receipts totaled \$58.0 billion through September 30, 2008. This is approximately \$536 million below Financial Plan projections updated July 30, 2008. Year-to-date tax receipts of \$32.4 billion were approximately \$77 million over Financial Plan projections, while year-to-date miscellaneous receipts of \$8.5 billion were approximately \$283 million below Financial Plan projections and year-to-date federal receipts of \$17.1 billion were \$330 million below Financial Plan projections. Tax receipt collections were over Financial Plan projections primarily because of strong personal income tax collections in April of this year. However, those collections represent estimated tax collections from the 2007 tax year and are not indicative of current economic circumstances.

The following chart illustrates projections and results for the first half of the 2008-09 Fiscal Year.

**All Governmental Funds Receipts – Actual to Financial Plan**  
**April through September 2008**  
(in millions of dollars)



### All Governmental Funds Receipts: Year-to-Year Growth

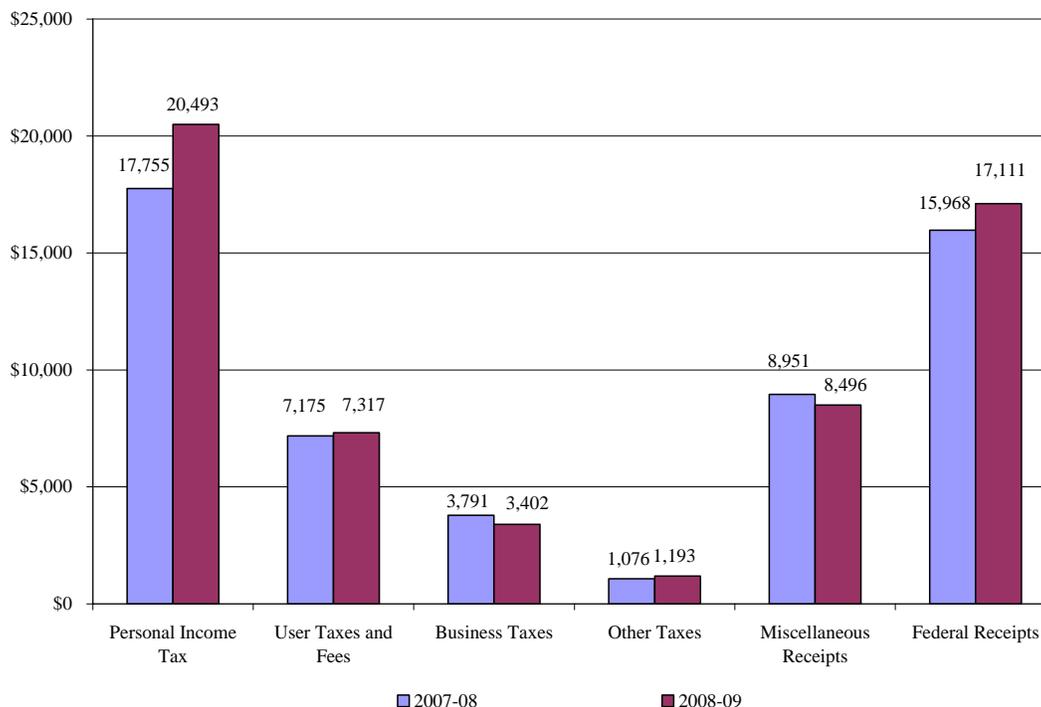
Compared to the prior year, All Governmental funds receipts were \$3.3 billion, or 6.0 percent, higher than through the same period in SFY 2007-08. This is primarily due to strong estimated personal income tax collections in April and federal receipts, which were approximately \$1.1 billion, or 7.2 percent, over collections through the first six months of last year.

Offsetting these strong growth figures were reductions in miscellaneous receipts, which were approximately \$455 million below the first six months of 2007-08, primarily because of a transfer of nearly \$500 million in April 2007 from the sale of stocks associated with the conversion of Empire Blue Cross/Blue Shield (a/k/a Public Asset Fund) to for-profit status.

In addition, year-to-date business tax collections were approximately \$389 million below the same period last year, even though there was slight growth in the month of September primarily due to bank audits. All Governmental funds business tax collections were reduced \$800 million in the SFY 2008-09 Enacted Budget Financial Plan released in May and another \$630 million in the First Quarterly Update to the SFY 2008-09 Financial Plan in July. The Division of the Budget has stated that estimates of General Fund Business Taxes would be reduced by an additional \$350 million in the Midyear Update expected by the end of October.

The following chart illustrates year-to-date comparisons with the same period in SFY 2007-08.

**All Governmental Funds Receipts**  
**Year-to-Year Comparison April through September 2008**  
(in millions of dollars)



***Miscellaneous Receipts***

Miscellaneous receipts represent 16-17 percent of All Governmental funds and include all revenue outside of taxes and federal receipts. They include fees and fines, lottery proceeds, certain bond proceeds, interest income, proceeds from the sale of assets and from abandoned property.

Included in miscellaneous receipts are proceeds from the sale of stocks associated with the conversions of Empire Blue Cross/Blue Shield and eventually GHI/HIP from not-for-profit to for-profit status (the companies are now named Wellpoint and Emblem, respectively). The SFY 2008-09 Enacted Budget Financial Plan expected \$834 million for stock sales from both entities. This projection was lowered by \$317 million in the First Quarterly Update to the Financial Plan released in July. The Division of the Budget has stated that they expect to lower the projection by an additional \$200 million in the upcoming Midyear Update to the Financial Plan for a total reduction of \$517 million, leaving the current SFY 2008-09 projection at \$317 million, all of which is expected from the sale of Wellpoint stock, which the State currently holds approximately 7.3 million shares. In order to realize \$317 million, the shares would have to sell for approximately \$43 per share.

Also included in miscellaneous receipts is interest income from earnings associated with short-term investments and various bank accounts outside of State agencies. In the Enacted Budget Financial Plan, the Division of the Budget projected General Fund interest earnings of \$199 million for SFY 2008-09. That was lowered to \$180 million in July based on receipts in the first

three months; however, month-to-month reductions were taken in the first six months, while projections for the last six months of the year were actually increased. Through the first six months of the 2008-09 State Fiscal Year, General Fund interest income totaled approximately \$65 million, about \$5 million below Financial Plan projections from July and \$54 million below last year for the same period.

All Governmental funds miscellaneous receipt collections through the first six months of the fiscal year totaled \$8.5 billion, representing a reduction of nearly \$455 million from the previous year and approximately \$283 million below Plan.

### ***Federal Receipts***

Through the first half of SFY 2008-09, federal receipts of \$17.1 billion were \$329.7 million below Financial Plan projections. Of the \$17.1 billion, \$789.3 million was reported in the Capital Projects Fund for various capital needs (primarily transportation). This was slightly lower than the \$796.7 million reported in SFY 2007-08 and was well below the \$1.2 billion expected in the Financial Plan through September.

Overall, federal receipts have increased \$1.1 billion, or 7.2 percent, over last year for the April through September period. Federal receipts for capital projects declined \$7.4 million, or less than 1 percent. Through the month of September, the State received \$16.3 billion for other non-capital needs, including Medicaid, other social services, education and mental hygiene, among others, representing an increase of \$1.2 billion, or 7.6 percent.

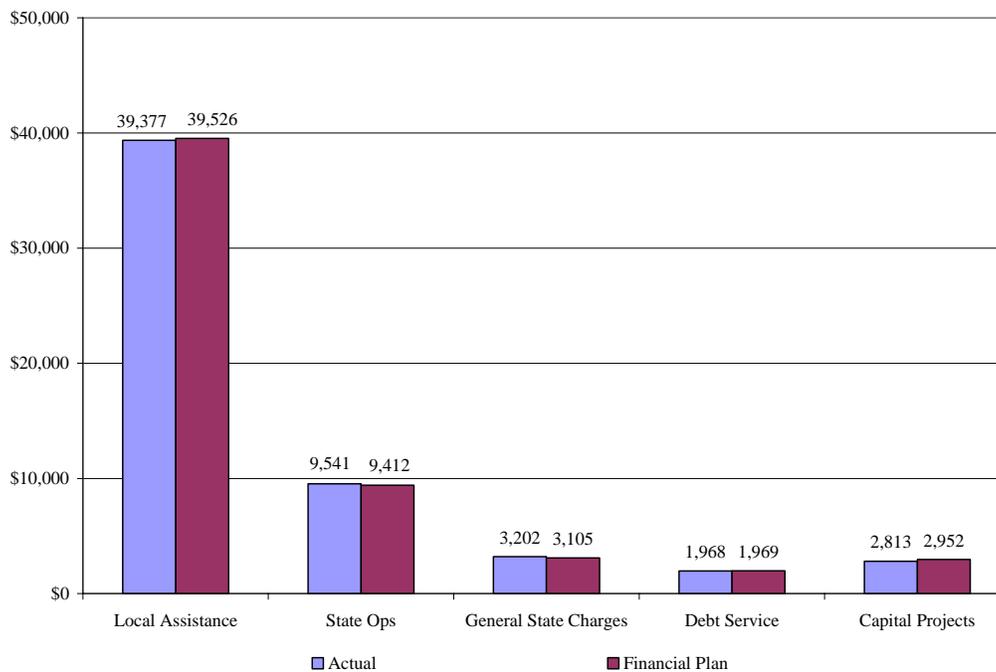
### **All Governmental Funds Financial Plan Disbursements: Projected vs. Actual**

Through September 2008, the State has spent \$56.9 billion from All Governmental funds, compared to \$57 billion expected through the same period in the Financial Plan that was last updated July 30, 2008. Although local assistance payments and capital spending were below Plan through the first six months, a total of \$148.7 million and \$139.2 million, respectively, were offset by increases in State Operations (\$129.1 million) and General State Charges (\$97.3 million).

According to the Division of the Budget, much of the variance between actual and planned disbursements was due to the timing of payments for school aid, as well as federal changes to Medicaid systems that slowed the processing of claims. Both of these are expected to “catch up” by the end of the fiscal year.

The following chart illustrates the difference between what was planned for the first six months of the fiscal year and what actually occurred.

**All Governmental Funds Disbursements – Projected vs. Actual**  
**April through September 2008**  
(in millions of dollars)



### All Governmental Funds Disbursements: Year-to-Year Growth

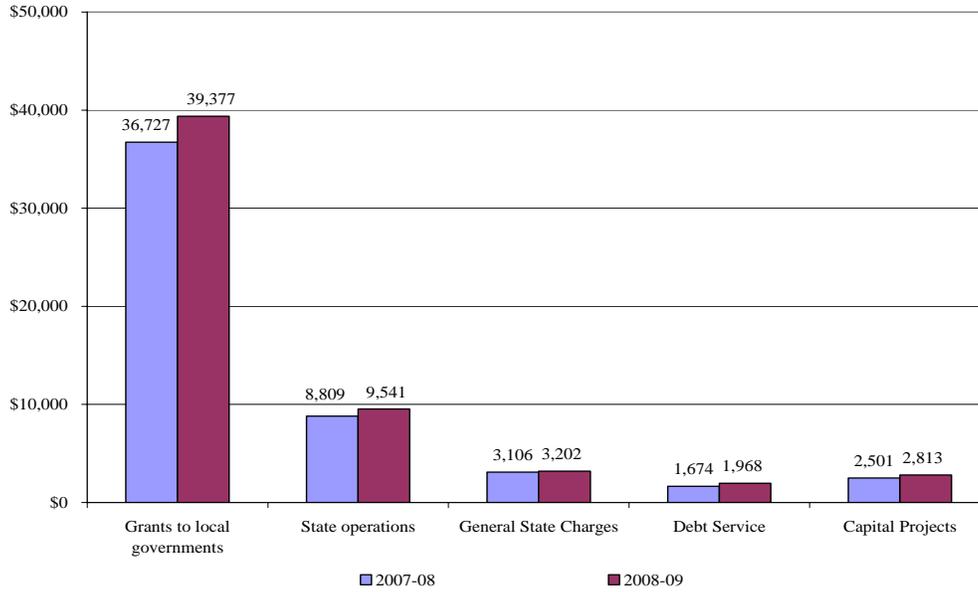
Through the first six months of the fiscal year, spending in All Governmental funds increased 7.7 percent, or \$4.1 billion, with the majority of the growth in local assistance payments (which grew 7.2 percent, or \$2.7 billion). State Operations spending increased \$733 million, or 8.3 percent, while General State Charges increased \$96.3 million, or 3.1 percent. Spending for debt service increased 17.6 percent, or \$294.7 million, and spending for Capital Projects has increased 12.5 percent, or \$312.2 million, compared to year-to-date spending through September 2007.

The largest increase within local assistance comes from school aid, which increased 10.2 percent, or \$1.2 billion. The increase was primarily due to a planned increase of 9.3 percent, or \$1.8 billion, included in the SFY 2008-09 Enacted Budget. Other significant increases included social services other than Medicaid, which grew \$604 million, or 20.3 percent, and local assistance spending for transportation, which grew \$416 million, or 27.3 percent. Spending for social services was primarily timing related as claims are being processed faster than last year. Increased transportation spending was primarily due to the timing of payments for the Mass Transit program in which payments were made earlier in the current year.

Spending for State Operations was currently 8.3 percent, or \$732.6 million, over last year at this time. This spending was also approximately \$129 million over Financial Plan projections updated in July. While the year-to-date growth was significantly higher than the growth planned by year end (8.3 percent compared to 1.2 percent by the end of the year), this could be due to the timing of payments made prior to the application of the reductions through the end of September.

The following chart illustrates year-to-date comparisons of disbursements with the same period last year.

**All Governmental Funds Disbursements**  
**Year-to-Year Comparison April through September 2008**  
(in millions of dollars)



In an effort to reduce the costs of printing, please notify the Office of Budget and Policy Analysis at (518) 473-4333 if you wish your name to be deleted from the mailing list or if your address has changed.