



OFFICE OF THE STATE COMPTROLLER

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Comptroller's Fiscal Update: Closeout Analysis of State Fiscal Year 2009-10

April 2010

Executive Summary

While the State ended State Fiscal Year (SFY) 2009-10 with a positive General Fund balance and all restricted reserves intact, this was accomplished because the Executive delayed \$1.1 billion more in payments than had been anticipated in February.¹ The additional payment delays will have significant cash flow implications in the first quarter of the current year. The Executive delayed paying \$500 million in Personal Income Tax (PIT) refunds and \$2.4 billion in other payments. The resulting General Fund closing balance of \$2.3 billion was \$929 million more than the Executive's February Financial Plan projections, but only because \$1.1 billion more in payments than originally planned was delayed.²

After adjusting for payment delays, the General Fund actually ended the year \$225 million below revised projections. The \$2.9 billion in delayed refunds and payments are required by law to be made within the first quarter of SFY 2010-11. Current projections indicate that the State could face significant cash flow issues through June 2010 due to a combination of the delayed payments coming due and the cumulative effect of anticipated revenue and savings that have failed to materialize. The magnitude of these cash flow issues will become more apparent as final tax settlements are received early in the first quarter.

General Fund spending was \$2.7 billion lower than initially projected in April 2009 and \$2.4 billion, or 4.4 percent, below spending in SFY 2008-09. This reduction primarily reflects the delay of \$2.1 billion in school aid payments and a \$348 million Medicaid cycle payment that was delayed one day into the new fiscal year. General Fund receipts were \$1.8 billion below initial projections made in April 2009 and \$1.2 billion, or 2.3 percent, below SFY 2008-09. Because PIT refunds are subtracted from receipts, delaying refunds into the new fiscal year artificially inflates reported PIT receipts.

Although collections in all major tax categories grew 13.1 percent overall in the fourth quarter compared to the previous year, General Fund tax collections ended the year \$173 million below February Financial Plan projections. Furthermore, part of the year-to-year growth in the fourth quarter reflected the delay of refunds, which artificially inflated PIT receipts. If

¹ The State must repay restricted reserves prior to the beginning of a new fiscal year or be subject to specific requirements and pay back obligations.

² For the purpose of this report, February Financial Plan projections refer to the Financial Plan as revised with the 21-day amendments to the SFY 2010-11 Executive Budget, released on February 9, 2010. The February Financial Plan also stated that additional refunds from business taxes totaling \$200 million would be delayed, of which some would benefit the General Fund and the remainder would benefit other special revenue funds.

refunds had occurred when initially anticipated, year-to-year growth would have been only 8.4 percent. The Executive's February Financial Plan projects tax revenue growth of 6.1 percent in the first quarter of SFY 2010-11. This growth reflects the payment of the delayed refunds from SFY 2009-10, which has the effect of lowering tax receipts.³ If the refunds had not been delayed, projected growth increases to 11.5 percent, significantly higher than what was achieved in the fourth quarter of SFY 2009-10. Given that revenue collections trailed projections throughout SFY 2009-10, this growth projection may be optimistic.

If the school aid and Medicaid payment delays had not occurred, General Fund spending, including transfers, would have increased \$1.9 billion, or 12.2 percent, in the fourth quarter on a year-to-year basis. However, after the payment delays, spending actually declined \$532 million, or 3.5 percent, for the same period.

SFY 2009-10 Recap

Total spending from the General Fund (including transfers to other funds) totaled \$52.2 billion. This was \$1.1 billion below February Financial Plan projections and \$2.4 billion, or 4.4 percent, below SFY 2008-09. Spending at year-end was \$2.7 billion lower than initially projected in the SFY 2009-10 Enacted Budget Financial Plan released in April 2009. This primarily reflects the delay of \$2.1 billion in school aid payments and the \$348 million Medicaid cycle payment that was delayed one day (from March 31 to April 1).

General Fund receipts, including transfers from other funds, of \$52.6 billion were \$156 million below February Financial Plan projections and \$1.2 billion, or 2.3 percent, below SFY 2008-09. Receipt collections in SFY 2009-10 do not reflect the \$500 million in delayed PIT refunds from 2009 liabilities. This has the effect of temporarily inflating reported PIT receipts. General Fund receipts were \$1.8 billion below initial projections made in April 2009.

The following shortfalls in expected receipts also impacted the year-end closing balance in the General Fund:

- \$134 million of the projected \$200 million included in the December 2009 Deficit Reduction Plan (DRP) was received from the Battery Park City Authority in March.
- \$51.8 million of the projected \$250 million was received from the Penalty and Interest Discount (PAID) Program, a tax amnesty program enacted with the December DRP.
- \$300 million from the franchise fee associated with Video Lottery Terminals (VLTs) at Aqueduct Racetrack was not received.⁴

Many other SFY 2009-10 projected resources from both increased revenue and decreased spending did not materialize. For example, the bottle bill expansion brought in \$45.5 million, despite projections for \$115 million. On the other hand, collections for the temporary utility assessment included in the SFY 2009-10 Enacted Budget were nearly \$350 million over what was initially anticipated, totaling \$906 million. However, over \$300 million of this amount appears to reflect collections initially expected in SFY 2010-11. While the early receipt of this revenue will help mitigate the cash flow challenges of the first quarter, it provides no overall additional fiscal benefit to the State in its effort to close the projected deficit for SFY 2010-11.

³ Tax refunds appear as a reduction in receipts, rather than as a disbursement. As a result, payment of refunds offsets the amount of overall tax receipts.

⁴ The Division of the Budget (DOB) now expects this revenue in the second half of SFY 2010-11 but has not updated the Financial Plan to reflect this. On March 2, 2010, the Supplement to the Third Quarterly Update to the Annual Information Statement noted that DOB believed the franchise payment would likely not be received until the latter half of SFY 2010-11.

General Fund Closing Balance – Reserves
SFY 2008-09 through SFY 2009-10
(in millions of dollars)

| | Actual SFY 2008-09 | Enacted SFY 2009-10 April 2009 | 21-Day Amendment Projections February 2010 | Actual March 31, 2010 | Difference from 21 Day Amendment Projections |
|--------------------------------|-----------------------|--------------------------------------|---|--------------------------|---|
| Tax Stabilization Reserve Fund | 1,031 | 1,031 | 1,031 | 1,031 | - |
| Rainy Day Reserve | 175 | 175 | 175 | 175 | - |
| Contingency Reserve Fund | 21 | 21 | 21 | 21 | - |
| Unrestricted Refund Reserve | 577 | 73 | 73 | 978 | 905 |
| Community Projects Fund | 145 | 78 | 73 | 96 | 23 |
| Total | 1,949 | 1,378 | 1,373 | 2,302 | 929 |

Delayed Payments and Refunds

In January 2010, facing a projected year-end General Fund deficit for SFY 2009-10, the Executive expressed an intent to cash-manage the projected year-end deficit by delaying \$1.1 billion in refunds and payments into SFY 2010-11, rather than draw down the State's restricted reserves.

As the size of the projected year-end deficit grew from January through March, the magnitude of the planned payment delays grew as well. The 21-day amendments to the SFY 2010-11 Executive Budget increased the amount of payments and PIT refunds expected to be delayed to \$1.8 billion. As of March 31, 2010, refunds and payments totaling \$2.9 billion were delayed into SFY 2010-11.⁵ In addition to the \$500 million in delayed PIT refunds, \$2.1 billion in school aid payments were delayed to June 1 (statutory due date) and a \$348 million Medicaid cycle payment was delayed one day.

Actions Required to Meet General Fund Balance and Reserve Goals
(in millions of dollars)

| | Actual SFY 2008-09 | Enacted SFY 2009-10 April 2009 | 21-Day Amendment Projections February 2010 | Actual March 31, 2010 | Difference from 21 Day Amendment Projections |
|--|-----------------------|--------------------------------------|---|--------------------------|---|
| Medicaid 53rd cycle | | 400 | 400 | 348 | (52) |
| School Aid | | | - | 2,063 | 2,063 |
| CUNY | | | 479 | - | (479) |
| Unspecified Delays | | | 401 | - | (401) |
| Total Payment Delays | 300 | 400 | 1,280 | 2,411 | 1,131 |
| Personal Income Tax Refund Delays | - | - | 500 | 500 | - |
| Total Actions | 300 | 400 | 1,780 | 2,911 | 1,131 |

⁵ Certain payment delays that were announced with the release of the 21-Day Amendments were not delayed as planned and were paid in March 2010. This resulted in net General Fund delayed payments of \$2.9 billion.

Implications for SFY 2010-11

According to the Executive's proposed SFY 2010-11 Financial Plan, the projected balance in All Governmental Funds (a representation of the Short Term Investment Pool, or STIP, and available resources from which the General Fund could borrow) will fall to \$1.2 billion by the end of June 2010.⁶ Additional fiscal pressure exists as a result of the \$2.9 billion in delayed payments from SFY 2009-10. These payments, including the \$2.1 billion school aid payment, are due by law by June 1. Current projections suggest that challenges remain in the first quarter of SFY 2010-11 that could rival or exceed the December 2009 cash shortfall.

In December 2009, for the first time since the General Fund was reconstituted to its current structure in 1981, the General Fund ended the month with a negative balance. Cash flow forecasts included in the Executive's proposed SFY 2010-11 Financial Plan, which includes all the Executive's proposed spending and revenue actions, project that the General Fund will end the months of May through August with negative balances.

Because recurring spending continues to outpace recurring revenue, New York State's finances are not improving despite improving economic conditions. Symptomatic of the State's worsening fiscal picture, the Financial Plan projects rolling monthly deficits for the State's main operating fund for four consecutive months of the fiscal year. As a result, the General Fund will likely have to borrow from STIP over the next several months to remain solvent. Since these loans could have a substantial impact on the STIP balance, it is clear that the Executive will need to employ cash management actions to ensure the solvency of STIP.

Furthermore, actual spending and receipt collections from SFY 2009-10 illustrate that other significant timing issues could remain. For instance, All Governmental Funds spending of \$126.9 billion is \$6.3 billion below February Financial Plan projections. Of this amount, \$2.1 billion is the delayed school aid payment, and an additional \$1.1 billion is associated with capital projects, which is prone to timing issues. However, the remaining \$3.1 billion variance from the Financial Plan is primarily federally funded. This variance could reflect either payment timing issues or lower than projected spending for programs such as Medicaid and various stimulus programs.

The books are now closed on SFY 2009-10. The budget enacted for that year relied on revenue that failed to materialize or that fell well short of projections. Thus, the State made funding commitments it could not meet. The SFY 2010-11 budget must be prudently balanced and avoid short-term fiscally suspect fixes. The projected deficits for SFY 2010-11 and subsequent years underscore the need for a budget that restores structural balance and aligns recurring revenue and recurring spending.

⁶ The projected balance in All Governmental Funds of \$1.2 billion was based on the expectation that the Executive would delay \$1.8 billion in payments and refunds. The Executive actually delayed \$2.9 billion in payments and refunds. However, the overall effect of the additional payment delays and other year-end results is a net decrease of \$225 million.

SFY 2009-10 Projected Results
vs.
SFY 2009-10 Actual Results
General Fund
(in millions of dollars)

| | SFY 2009-10 Enacted Plan | SFY 2009-10 February Plan | SFY 2009-10 Actual | Difference Actual Less Enacted |
|--|-----------------------------|------------------------------|-----------------------|--------------------------------------|
| Opening Fund Balance (April 1) | 1,948 | 1,948 | 1,949 | 1 |
| Receipts: | | | | |
| Taxes | 39,401 | 37,234 | 37,061 | (2,340) |
| Personal Income Tax | 24,404 | 22,364 | 22,655 | (1,749) |
| Consumer Taxes and Fees | 8,520 | 8,229 | 8,151 | (369) |
| Business Taxes | 5,495 | 5,688 | 5,371 | (124) |
| Other Taxes | 982 | 953 | 885 | (97) |
| Miscellaneous Receipts | 3,381 | 3,508 | 3,824 | 443 |
| Federal Grants | - | 68 | 71 | 71 |
| Sub-Total | 42,782 | 40,810 | 40,956 | (1,826) |
| Transfers from Other Funds | 11,556 | 11,902 | 11,600 | 44 |
| Total Receipts | 54,338 | 52,712 | 52,556 | (1,782) |
| Disbursements: | | | | |
| Grants to Local Governments | 37,086 | 35,515 | 34,234 | (2,852) |
| State Operations - PS | 6,465 | 6,569 | 6,611 | 146 |
| State Operations - NPS | 2,194 | 1,993 | 1,977 | (217) |
| General State Charges | 3,704 | 3,794 | 3,594 | (110) |
| Sub-Total | 49,449 | 47,871 | 46,415 | (3,034) |
| Transfers to Other Funds | 5,459 | 5,416 | 5,787 | 328 |
| Total Disbursements | 54,908 | 53,287 | 52,202 | (2,706) |
| Changes in Fund Balance | (570) | (575) | 353 | |
| Closing Fund Balance (March 31) | 1,378 | 1,373 | 2,302 | 924 |
| <i>Reserves</i> | | | | |
| Tax Stabilization Reserve Fund | 1,031 | 1,031 | 1,031 | - |
| Rainy Day Fund | 175 | 175 | 175 | - |
| Contingency Reserve Fund | 21 | 21 | 21 | - |
| Community Projects Fund | 78 | 73 | 96 | 18 |
| Refund Reserve | 73 | 73 | 978 | 905 |