New York State Senate Finance Committee

2009 Mid Year Report

On Receipts and Disbursements

Senator Carl Kruger
Chair, Senate Finance Committee

Senator Liz Krueger
Vice-Chair, Senate Finance Committee

Joseph F. Pennisi
Secretary, Senate Finance Committee

Senator John L. Sampson
Conference Leader

Senator Malcolm A. Smith
President Pro Tem

Senator Pedro Espada, Jr.
Majority Leader

November 2009

ECONOMIC OUTLOOK

National Economy

At the beginning of 2009, the US economy had been in a recession for over a year. In addition, the economy was still reeling from the impact of the bursting of the housing market bubble, the subprime mortgage market collapse, and the subsequent financial market crisis. The Federal government was already utilizing monetary policy through the lowering of the federal funds rate and the implementation of the Troubled Asset Relief Program (TARP) to stimulate the economy and to avoid a meltdown of the banking sector. With the start of a new administration in the White House, the Federal government turned to fiscal policy to apply additional stimulus to the economy through the enactment of the American Recovery and Reinvestment Act (ARRA).

The first quarter of 2009 was the fourth consecutive quarter of a decline in real GDP; declining by 6.4 percent. However, as the fiscal stimulus package began to make its way through the economy, real GDP decline slowed; decreasing by only 0.7 percent in the second quarter. Although not officially declared by the National Bureau of Economic Research (NBER), the current recession is alleged to have ended in August. For the third quarter, real GDP is estimated to have increased by 3.5 percent. Growth is estimated to continue into the fourth quarter of the year, albeit at a slower pace of 2.6 percent. This slower growth is primarily a result of the expiration of the "cash for clunkers" program in August and the expiration of the tax credit for first time homebuyers in November. Overall, the national economy is estimated to decline by 2.5 percent in 2009.

For 2010, economic recovery is projected to continue. Real GDP growth is projected to be slow in the first half of the year; growing at 1.8 percent. For the latter half of the year, the recovery is projected to pick up steam with projected growth of 2.2 percent and 2.7 percent for the third and fourth quarters, respectively. For all of 2010, real GDP is projected to increase by 2.1 percent.

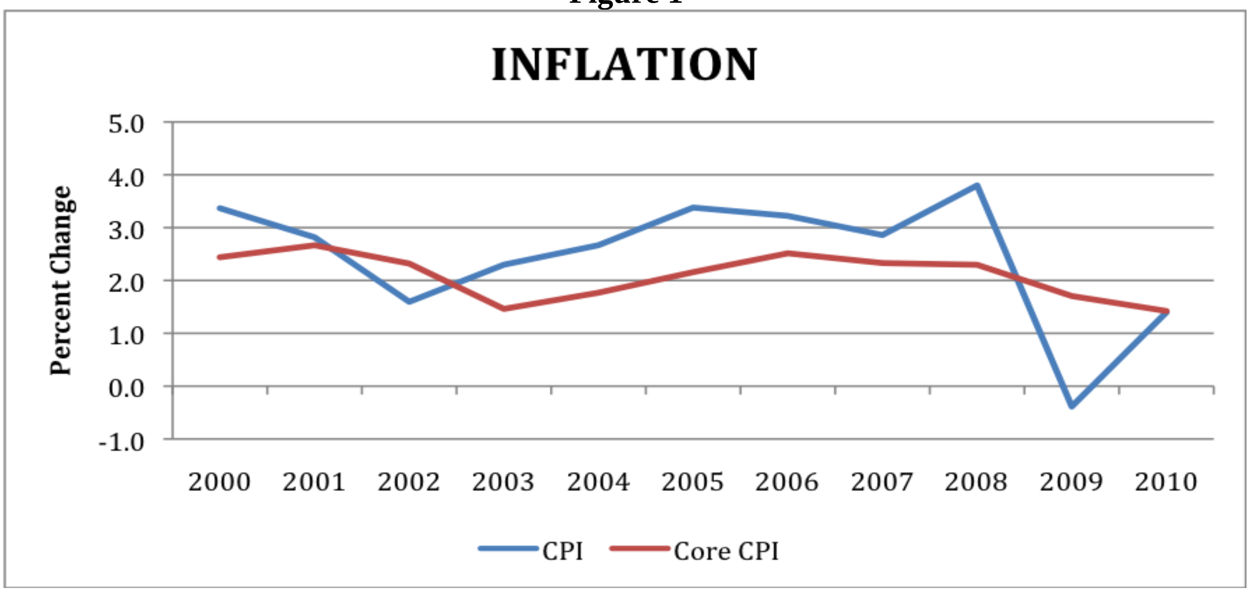
Similar to what is happening on the aggregate level, the components of real GDP are projected to show the same trends. Consumption, while only declining in one quarter of 2009, has only realized minimal growth throughout the rest of the year. Similar to the significant growth in real GDP for the third quarter of 2009, real consumption growth is estimated at 2.9 percent as a result of the federal stimulus programs mentioned above. Real consumption for the whole of 2009, however, is estimated to decline by 0.7 percent. For 2010, growth in real consumption is projected to return; increasing by 1.5 percent. This anemic growth is due primarily to the continued declines in the job market; depressing wage income.

Because consumption is a large component of GDP, the factors that influence consumption are significant contributors to economic growth, as well. These factors include employment, wages, and personal income. Employment began to decline in 2008 with more widespread job losses occurring throughout 2009. Through the end of 2009, total employment is estimated to decline by 3.8 percent. In conjunction with this decline in employment, the unemployment rate is estimated to increase to 9.2 percent in 2009, up from 5.8 percent in 2008. The increase in job losses has, as a result, negatively impacted wage growth. For 2009, wages are estimated to decrease by 3.5 percent. With the decline in employment and wages, the decline in business income, as reflected in corporate profits, and the volatility of the stock market, total personal income is estimated to decline by 2.1 percent in 2009.

Similar to the recovery from the 2001 recession, employment growth is projected to lag overall economic growth. Employment is projected to continue to decline by 0.7 percent in 2010; with growth projected to return in the latter half of the year. In turn, the unemployment rate is projected to continue to rise; increasing to 9.9 percent. Although job losses are still projected to occur in 2010, wage growth and personal income growth are projected to return, increasing by 2.2 percent and 2.8 percent, respectively.

In addition to the income factors that influence the consumption of goods and services, the prices of those goods and services also influence consumption. The following chart shows the change in prices, as reflected by changes in the Consumer Price Index (CPI), from 2000 to 2010. Core CPI is the change in prices, excluding food and energy. As shown below, inflation increased by 3.8 percent in 2008, primarily as a result of the large increase in gas prices. As the recession continued into 2009, inflation essentially disappeared with deflation setting in. For all of 2009, prices are estimated to decline by 0.4 percent. As the economy starts to recover in 2010, prices are projected to increase by 1.4 percent.

Figure 1



Source: IHS Global Insight

The decline in the housing market and its impact upon the economy has been at the forefront of the economic news. In 2008, housing starts and home sales combined declined by over 17 percent. Housing starts and homes sales are estimated to decline by an additional 3.1 percent in 2009. However, this decline is a combination of a 34 percent decline in housing starts offset by a 2.7 percent increase in existing home sales. The growth in home sales is primarily attributed to the first time homebuyer tax credit authorized under the federal stimulus plan. Growth in both housing starts and existing home sales is projected to return in 2010, growing by 5.8 percent.

Besides the decline in the housing market, which has impacted the residential fixed investment component of GDP, declines in nonresidential fixed investment, essentially business spending on facilities and equipment, have been a significant drag on GDP in 2009. Nonresidential fixed investment declined over the first three quarters of 2009; the decline only beginning to slow in the third quarter. Although growth in this component is projected for the fourth quarter, a double digit decline of 17.3 percent is projected for the year. Similar to growth in consumption in 2010, nonresidential fixed investment is projected to grow in 2010 but, only by 0.3 percent.

A portion of the decline in nonresidential fixed investment is due to the lack of access to the capital markets by businesses as a result of the financial market crisis. Another factor is the decline in corporate profits. Because corporate profits are declining, businesses do not have the money to invest in their infrastructure. As shown in the chart below, corporate profits began to decline in 2007. As the recession took hold over the course of 2008 and the financial market crisis ensued, corporate profits declined by 11.7 percent. This downward trend, while no longer as severe, is expected to continue through calendar year 2009 with corporate profits declining another 5.9 percent. As the national economy slowly begins to recover from the recession, profits are projected to increase 8.6 percent through 2010. Much of this growth can be expected in the latter half of 2010.

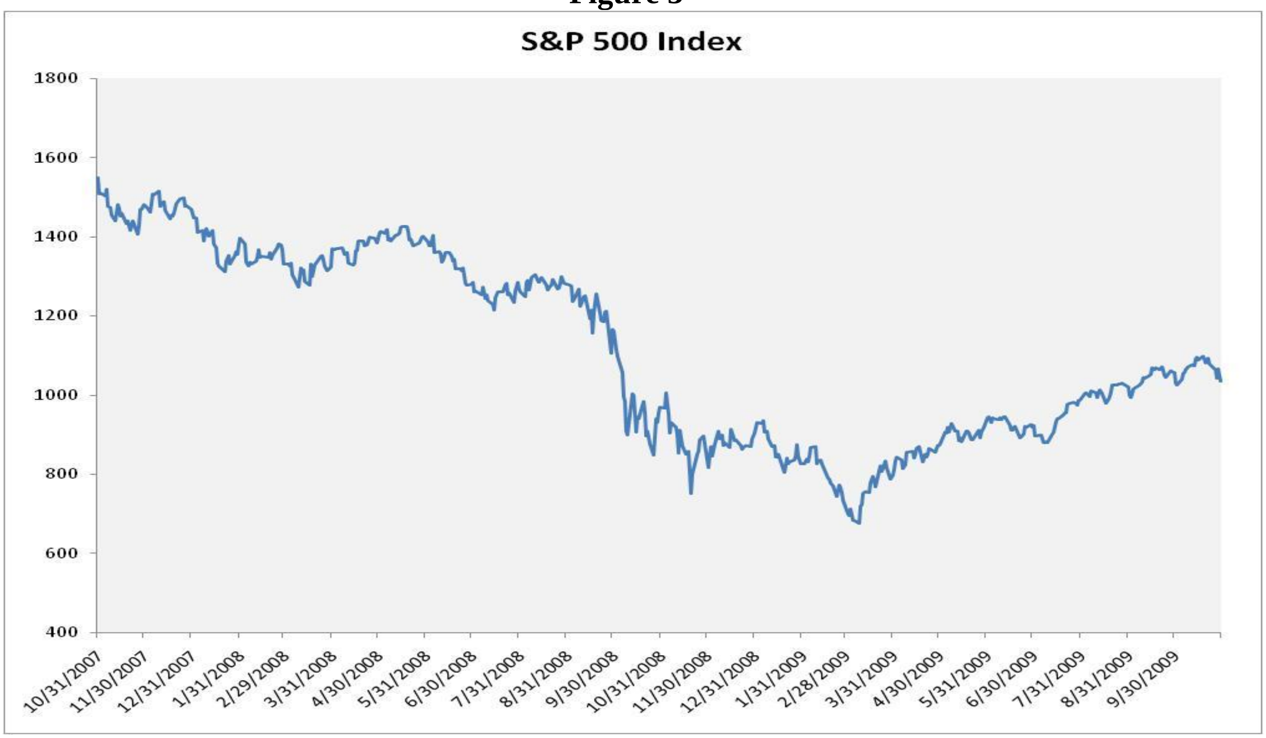
Figure 2

Source: IHS Global Insight

As corporate profits declined and the economy continued to weaken, the stock market experienced extreme volatility. Figure 3 shows the changes in the S&P 500 index from October 2007, when the S&P Index peaked at 1567, to the present. The S&P 500 reached a low in March but has shown a steady recovery since then increasing by over 420 points from its low in March. Although the S&P 500 has been growing, on average, from its trough in March, the average value of the Index over the course of 2009 is estimated to decrease by 23.7 percent from the average value of the Index for all of 2008. As shown in Figure 3, the S&P 500 was over 1,200 for almost three quarters of 2008, with the Index declining by over 300 points in the fourth quarter. For 2009, the Index increased to over 1000 after August; averaging less than 1000 for the first three quarters of the year. The S&P 500 is estimated to remain above 1000 for the remainder of 2009.

As the economy is projected to continue to show positive signs of recovery, the stock market, through the S&P 500, is projected to continue to grow. Through 2010, the S&P 500 is projected to increase by 15 percent, an annualized average of 1071; still significantly off the peak value of 1567.

Figure 3

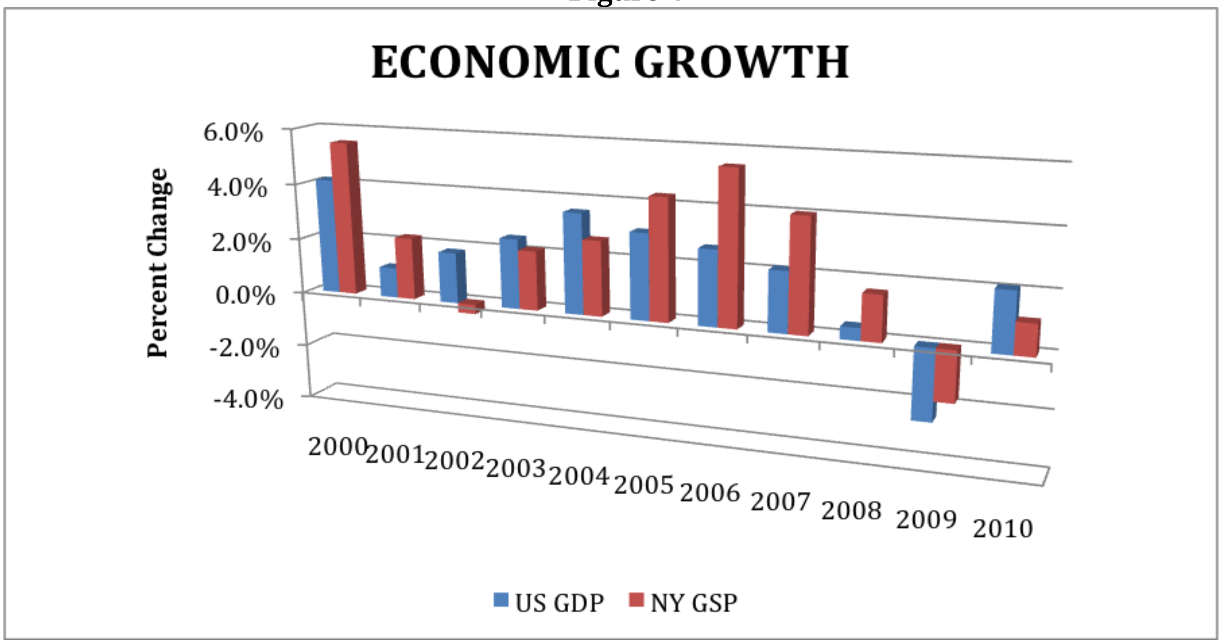


Source: Yahoo Finance

New York Economy

Unlike the recession of 2001 where New York's economy entered into recession earlier than the rest of the nation, New York entered the current recession after the nation. As shown in figure 4, New York's economy has performed better than the national economy through 2009. However, primarily due to the significant impact that the financial markets have on the New York State economy, New York's recovery from the recession in 2010 is projected to be later and slower than the nation's.

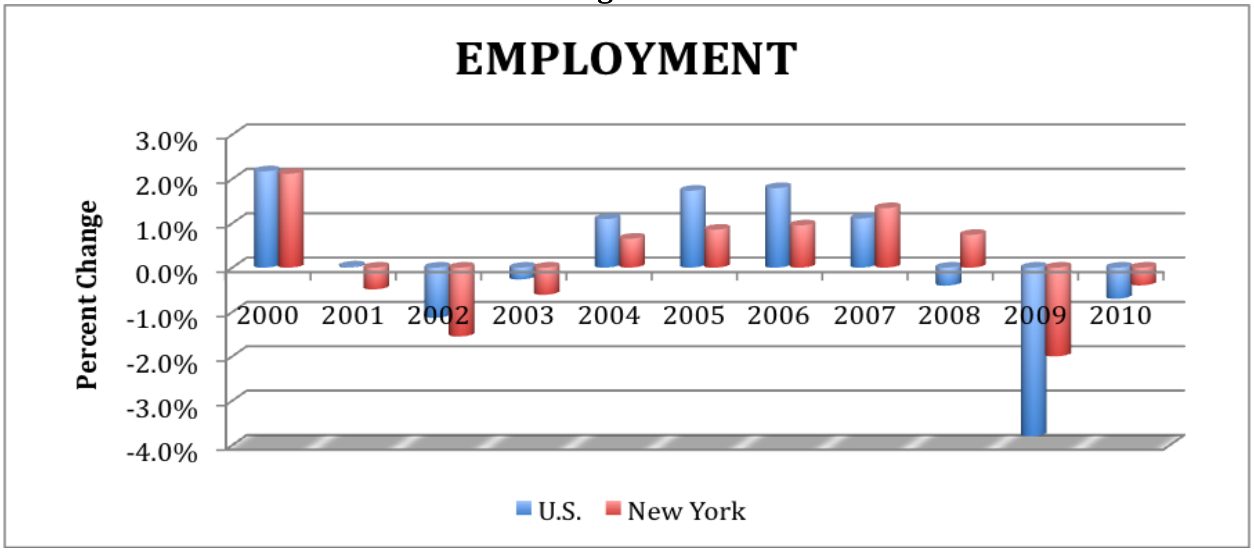
Figure 4



Source: IHS Global Insight

Both employment and unemployment in New York have been impacted by the severity of the recession in New York. However, as with aggregate economic growth, New York has fared somewhat better than the rest of the nation as unemployment rates have not increased as rapidly as the nation's. Employment in New York is estimated to decrease by 2 percent in 2009 and to continue to decrease by 0.4 percent in 2010. In turn, the unemployment rate in New York is estimated to be 8.5 percent for 2009; increasing to 9.3 percent in 2010. Figure 5 shows how New York's employment rates have compared to the nation as a whole.

Figure 5

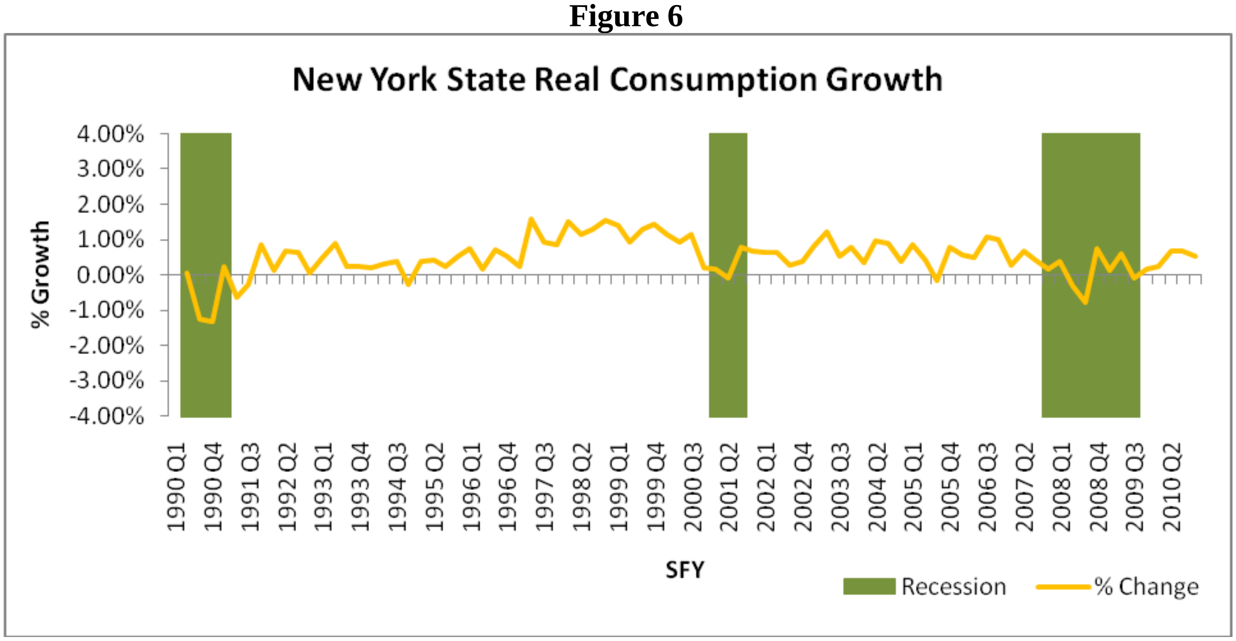


Source: IHS Global Insight

As employment in New York is projected to decline in both 2009 and 2010, wages and personal income are negatively affected as well. Wages are estimated to decline by 0.7 percent in 2009. Similar to the nation as a whole, wage growth is projected to return in 2010, increasing by 2.9 percent.

Unlike personal income at the national level which is estimated to decline in 2009, personal income in New York is estimated to grow, although at the anemic rate of 0.3 percent. Personal income is projected to continue to grow in 2010, increasing by 2.8 percent.

Figure 6



Source: IHS Global Insight & NBER & SFC

Consumption is as significant to the New York economy as it is to the national economy. It also generates revenues for the State and local governments through the imposition of the sales tax. As shown in Figure 6 above, the growth in real consumption in New York since 1990 is, on average, one percent. However, as illustrated, recessionary periods serve to restrain consumption. Most notable is the impact on real consumption in the current recession.

Risks to the Forecast

As with any forecast, there are unforeseen risks associated with forecasting the economy. Any "shock" to the various sectors of the economy, whether positive or negative, can have significant effects on whether the economy continues to recover or falls back into recession. For example, the state of the economic recovery is of significant risk to the forecast. Economic growth, through the growth in real GDP, has only occurred in one quarter. While this growth was significant, mainly as a result of fiscal stimulus by the federal government, the sustainability of that growth is still in question.

The timing of New York's fiscal year also affects the forecast, most notably in the forecast of tax collections. Although calendar year 2009 is over three quarters complete, the fiscal year is only half complete. The final quarter of the calendar year as well as the first two months of the subsequent year play a major role in New York's tax collections. These collections, besides the economic variables, affect the forecast going forward.

The most notable in this aspect is the amount of bonus payments to be paid by the finance and insurance sector. Although there have been reports of increased compensation for Wall Street firms, if and how bonus payments may be paid is unclear. With the political backlash from bonus payments being made by firms who received Federal stimulus funds, the structure of bonus payments may be significantly different than in years past. For example, firms may spread the amount of the bonus throughout the year in the form of increased base compensation. Another option would be to issue stock options as bonuses. In this form, tax revenues would not be received until the option was exercised.

Holiday sales are also a risk. With the decline in employment and wages, people have less money to spend. Although the economy has shown signs of improvement, consumer confidence has not.

Economic Outlook (Percent Change)			
	2009	2010	2011
National Economy			
GDP	(1.2)	3.2	4.5
Real GDP	(2.5)	2.1	2.9
Consumption Expenditures	(0.7)	1.5	2.3
Government Expenditures	1.8	1.2	(1.5)
Exports	(10.4)	7.5	7.0
Imports	(13.9)	9.4	6.3
CPI - All Urban, Percent Change	(0.4)	1.4	2.2
Pretax Corporate Profits	(5.9)	8.7	10.3
Personal Income	(2.1)	2.8	4.0
Wages and Salaries	(3.5)	2.2	4.2
Nonagricultural Employment	(3.8)	(0.7)	1.9
Unemployment Rate	9.2	9.9	9.4
T-Note Rate, 10-Year	3.23	3.51	3.88
New York Economy			
Personal Income	0.3	2.8	4.2
Wages and Salaries	(0.7)	2.9	4.3
Nonagricultural Employment	(2.0)	(0.4)	1.6
Unemployment Rate	8.5	9.3	8.7
Source: IHS Global Insight October Forecast			

REVENUE OUTLOOK

All Funds

All Funds tax collections are estimated to total $59.42 billion in SFY 2009-10. This reflects a decrease of 1.5 percent from collections of $60.34 billion in SFY 2008-09. The decline is a result of the continued negative impact of the recession on all aspects of the economy including employment, personal income, consumption, and corporate profits. However, the decline has been mitigated by various revenue measures that were included in the SFY 2009-10 Enacted Budget. These measures include: the imposition of the personal income tax surcharge on high income taxpayers, the increase in the March prepayment by businesses, and the increase in motor vehicle registration and license fees.

For SFY 2010-11, All Funds tax collections are projected to increase by 7.3 percent to $63.75 billion. This increase reflects economic growth as a result of the continued recovery projected for 2010 as well as the full year impact of the revenue measures enacted in SFY 2009-10. In addition, the increase includes revenues from the issuance of new license plates to occur in April 2010 as well as the full year impacts of various revenue measures that were enacted to support the Metropolitan Transportation Authority.

General Funds

General Fund tax collections are estimated to be $37.43 billion in SFY 2009-10, a decrease of 2.3 percent from SFY 2008-09 collections of $38.34 billion. Similar to the decline in tax collections at the All Funds level, the decline in General Fund collections is a result of the ongoing recession offset by revenue measures enacted in the SFY 2009-10 budget. However, the decline is greater than the decline in All Funds revenues due to the absence of revenue measures that impact General Fund collections. Most notable is the increase in motor vehicle registration and license fees that are deposited primarily to the Dedicated Highway and Bridge Trust Fund and the Metropolitan Transportation Operating Account with little General Fund impact.

For SFY 2010-11, General Fund tax collections are projected to increase by 7.9 percent to $40.37 billion. As with All Funds collections for SFY 2010-11, this increase reflects projected economic growth as well as the full year impact of the revenue measures enacted in SFY 2009-10. The General Fund growth in tax collections is higher than the All Funds growth as a result of the license plate reissuance in April 2010. While only a small portion of motor vehicle fees have historically been deposited to the General Fund, all of the revenues from the license plate reissuance will be deposited to the General Fund. Therefore, the growth in General Fund collections for SFY 2010-11 is inflated as a result of these revenues.

ALL FUNDS TAX COLLECTIONS
(Millions of Dollars)

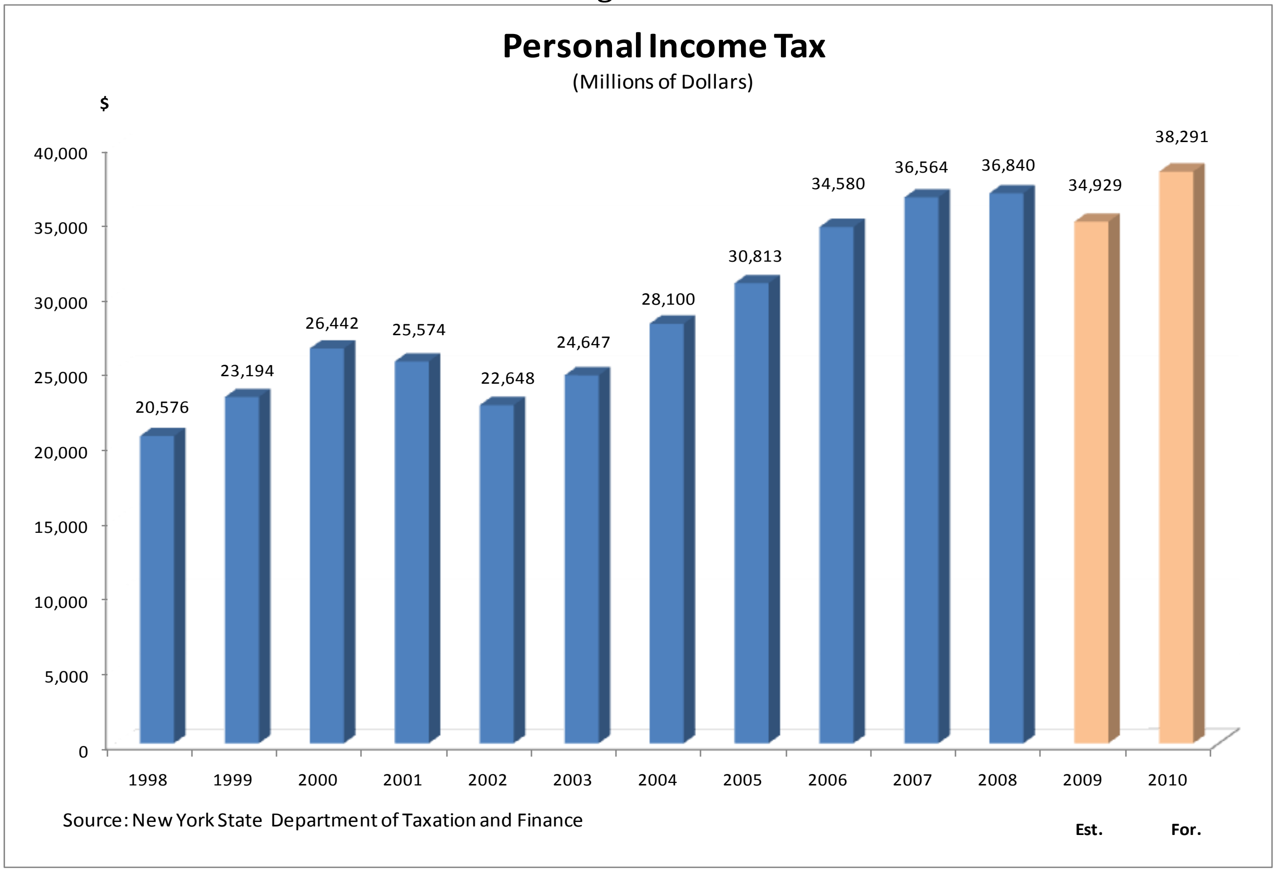
	2008-09 Actual	2009-10 Estimated	2010-11 Projected
Personal Income Tax	**36,840**	**34,929**	**38,291**
Withholding	27,686	28,696	29,828
Estimated Payments	12,690	9,883	12,464
Final Returns	2,686	1,888	1,976
Other	949	1,115	1,132
Gross Collections	44,011	41,582	45,400
Refunds	(7,171)	(6,653)	(7,109)
User Taxes and Fees	**14,004**	**14,077**	**14,772**
Sales and Use	10,985	10,739	11,074
Auto Rental	61	85	103
Motor Vehicle	723	966	1,278
Cigarette/Tobacco	1,340	1,346	1,309
Motor Fuel	504	513	516
Highway Use	141	142	147
Alcoholic Beverage	250	272	260
MTA Taxicab Surcharge	0	14	85
Business Taxes	**7,604**	**7,681**	**7,805**
Corporate Franchise	3,221	3,077	3,230
Corporate Utilities	863	973	918
Insurance	1,181	1,423	1,493
Bank	1,233	1,076	1,054
Petroleum Business	1,106	1,132	1,110
Other Taxes	**1,889**	**1,234**	**1,309**
Real Property Gains	0	(1)	0
Real Estate Transfer	701	351	431
Estate and Gift	1,165	860	854
Pari-mutuel	22	23	23
Other	1	1	1
MTA Payroll Tax	**0**	**1,498**	**1,568**
Total All Funds Taxes	**60,337**	**59,419**	**63,745**

GENERAL FUND TAX COLLECTIONS (Millions of Dollars)			
	2008-09 Actual	**2009-10 Estimated**	**2010-11 Projected**
Personal Income Tax	**23,196**	**22,757**	**25,238**
Withholding	27,686	28,696	29,828
Estimated Payments	12,690	9,883	12,464
Final Returns	2,686	1,888	1,976
Other	949	1,115	1,132
Gross Collections	**44,011**	**41,582**	**45,400**
Refunds	(7,171)	(6,653)	(7,109)
STAR	(4,434)	(3,440)	(3,480)
RBTF	(9,210)	(8,732)	(9,573)
User Taxes and Fees	**8,361**	**8,268**	**8,819**
Sales and Use	7,707	7,541	7,962
Motor Vehicle	(42)	19	149
Cigarette/Tobacco	446	436	424
Alcoholic Beverage	250	272	260
Business Taxes	**5,556**	**5,517**	**5,648**
Corporate Franchise	2,755	2,654	2,786
Corporate Utilities	654	737	695
Insurance	1,086	1,211	1,266
Bank	1,061	915	901
Other Taxes	**1,188**	**883**	**878**
Real Property Gains	0	(1)	0
Estate and Gift	1,165	860	854
Pari-mutuel	22	23	23
Other	1	1	1
Total General Fund Taxes	**38,301**	**37,425**	**40,374**

Personal Income Tax

Article 22 of the tax law imposes a tax on the New York income of individuals, estates and trusts. Personal Income Tax (PIT) receipts contribute over one half of all tax collections deposited into the General Fund.

Figure 7



The personal income tax is paid in a variety of ways: the withholding of wages and other income payments, the payment of estimated taxes, the payment of unpaid taxes through final returns, and the payment of overdue taxes known as delinquencies through assessments. Any overpayment of the personal income tax is refunded to the taxpayer. The manner of payment determines the income year to which the tax applies. For example, withholding is paid when the income is earned. Therefore, 2009 wages would be reflected in 2009 withholding. However, tax payments made with the final returns are based on the prior year's income. As a result, final payments made in 2009 are a reflection of income earned in 2008. The same pattern holds true for refunds.

All Funds net personal income tax receipts for SFY 2009-10 are estimated at $34.93 billion, a drop of $1.9 billion, or 5.2 percent, from SFY 2008-09. Gross receipts are estimated to decline by $2.4 billion, or 5.5 percent, from SFY 2008-09. This decline is largely attributable to a 22.1 percent decline in estimated payments, particularly in extension payments related to the 2008 tax year.

All Funds net personal income tax receipts for SFY 2010-11 are projected to increase by $3.4 billion, or 9.6 percent, to $38.3 billion. Gross receipts are projected to increase by $3.8 billion, or 9.2 percent, reflecting an increase in wage growth as well as the continued impact of the PIT surcharge enacted in SFY 2009-10.

General Fund receipts for SFY 2009-10 are estimated to be $22.75 billion, $439 million lower than SFY 2008-09. General Fund receipts for SFY 2010-11 are projected at $25.24 billion, an increase of $2.5 billion from SFY 2009-10. This increase is a result of increases in withholding taxes and estimated payments as a result of better economic conditions and the PIT surcharge.

Components of PIT Collections

Withholding

In order to spread the payment of the personal income tax over the course of the tax year, employers are required to withhold a portion of the taxpayer's tax liability from the employee's earnings. Withholding has a slight lag from the period in which it is withheld to the time the State receives the payment from the employer. Withholding is closely correlated to wage and salaries received during any given quarter. As part of the SFY 2009-10 Enacted Budget, the tax rate was increased on New York's high income taxpayers. However, with the unemployment rate still rising and the lethargic recovery of the economy, increased revenues from the higher tax rates have been offset by decreased revenues as a result of these factors. For SFY 2009-10, withholding taxes are estimated to be $28.7 billion; an increase of approximately $1 billion from SFY 2008-09. For SFY 2010-11, withholding tax is projected to increase to $29.8 billion, an increase of approximately $1.13 billion.

Estimated Taxes

Individuals make estimated payments if the tax they will owe for the year is significantly more than the amount of tax being withheld from their wages. Individuals who have large amounts of non-wage income (self-employment income, interest, dividends, or capital gains) generally make these quarterly payments. Estimated tax payments are due on the fifteenth of April, June, September, and January. Estimated payments are also made when a taxpayer files for an extension to file his annual return. When a taxpayer files for an extension, he is required to estimate his tax liability and, if payment is due, submit it with the extension. Estimated payments for SFY 2009-10 are estimated to be $9.9 billion, a decrease of $2.8 billion from SFY 2008-09. This decline is consistent with current economic conditions. As the economy is still in the midst of the recession, non-wage income, especially that earned by sole proprietors, is estimated to decline. For SFY 2010-11, estimated payments are projected to be $12.5 billion. This increase is a result of the increase in personal income as a result of the recovering economy.

Final Returns

Final returns are due by April fifteenth of every year. The final return is essentially a reconciliation between a taxpayer's withholding and/or estimated payments and the tax liability calculated on the total personal income received throughout the tax year. A payment is due when the combination of withholding and estimated payments result in an underpayment of the total tax liability. For SFY 2009-10, personal income tax collections from final returns are estimated at $1.89 billion, $798 million lower than collections in SFY 2008-09. This decrease is attributed to the decline in personal income growth from 2008. For SFY 2010-11, collections from final returns are projected to be $1.98 billion, an increase of $88 million from SFY 2009-10.

Other Payments

These collections are comprised of delinquencies and filing fees required to be paid by the State limited liability companies and limited liability partnerships. Delinquencies are the sum payments due on overdue tax liability and any penalties and interest imposed on such past due liabilities. These are essentially collections received from Tax Department audits. For SFY 2009-10, other payments are estimated at $1.12 billion, an increase of $166 million from SFY 2008-09. This increase is attributable to the restructuring of the LLC filing fees that was enacted in SFY 2008-09. For SFY 2010-11, collections from other payments are projected at $1.13 billion.

Refunds

A refund occurs when a taxpayer overpays his personal income tax, either through over-withholding or remitting excess estimated payments. Similar to payments made with final returns, refunds are made as a result of filing an annual return. For SFY 2009-1010, refunds are estimated at $6.65 billion, a decrease of $518 million from SFY 2008-09. This decrease is primarily due to the amount of refunds paid in the fourth quarter of the fiscal years. A specific amount of refunds is authorized to be issued to those taxpayers who file their returns early. Prior to SFY 2008-09, these refunds were set at $1.5 billion. In SFY 2008-09, the amount was increased to $1.75 billion. This resulted in a portion of refunds that historically had been paid in April of the next fiscal year to be paid in March. For SFY 2010-11, refunds are projected to be $7.11 billion, reflecting the lower growth in personal income for 2009.

User Taxes

New York's user taxes are comprised of seven different taxes. They include: sales and use tax, cigarette and tobacco taxes, motor fuel tax, motor vehicle fees, alcoholic beverage tax, highway use tax, and the auto rental tax. For SFY 2009-10, total user taxes on an All Funds basis are estimated to be $14.07 billion, a 0.5 percent increase from SFY 2008-09. On a General Fund basis, receipts are estimated to decline by 1.1 percent, from $8.4 billion in SFY 2008-09 to $8.3 billion in SFY 2009-10.

For SFY 2010-11, All Funds user taxes are projected to be $14.8 billion, a 5.3 percent increase from SFY 2009-10. This increase is attributable to the economic recovery as well as the full year impact of tax increases that were enacted in the SFY 2009-10 budget. On a General Fund basis, user taxes are projected to be $8.61 billion, an increase of 4.1 percent over SFY 2009-10.

Sales and Use Tax

The sales and use tax is the State's second largest revenue source. In New York, the sales and use tax was enacted in 1965 at the rate of 2 percent. The tax rate was subsequently increased to 3 percent in 1969, 4 percent in 1971, and to 4.25 percent in 2003. The rate reverted back to 4 percent after June 2005.

On an All Funds basis, sales and use tax collections are estimated to be $10.74 billion, a 2.2 percent decline from SFY 2008-09. General Fund collections are estimated to decline by 2.1 percent from $7.7 billion to $7.54 billion in SFY 2009-10. For SFY 2010-11, All Funds sales tax collections are projected to be $11.07 billion, an increase of 2.6 percent. This increase is due to economic recovery as well as the imposition of the tax on additional services that was enacted in the SFY 2009-10 budget. On a General Fund basis, sales and use tax collections are projected to be $7.8 billion, a 3.1 percent increase from SFY 2009-10.

Cigarette & Tobacco Tax

In New York, an excise tax is imposed upon cigarettes at a rate of $2.75 per package of 20 cigarettes. The State also imposes a tax on other tobacco products, such as chewing tobacco, snuff, cigars, pipe tobacco and roll-your-own cigarette tobacco. This tax is imposed at a rate of 42 percent of the wholesale price, except for snuff products which are taxed at a rate of $0.96 cents per ounce.

For SFY 2009-10, All Funds collections from cigarette and tobacco taxes are estimated to increase from $1.34 billion to $1.35 billion, an increase of 0.5 percent. On a General Fund basis, collections from these taxes are estimated to decline from $446 million in SFY 2008-09 to $436 million in SFY 2009-10, a decrease of 2.3 percent.

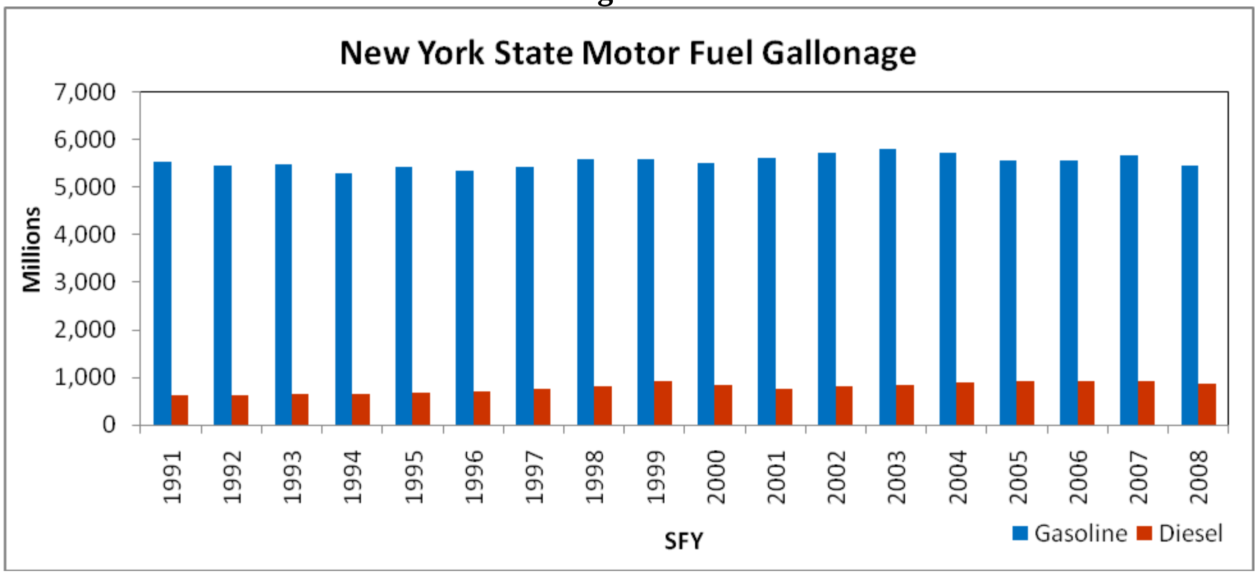
In SFY 2010-11, All Funds cigarette and tobacco tax collections are projected to decrease to $1.31 billion in SFY 2010-11, a decrease of 2.8 percent. General Fund collections are projected to decrease to $424 million, a decrease of 2.7 percent. This decrease is due to the continued downward trend in the consumption of cigarettes. The decline in consumption reflects the impact of increased public awareness of the adverse health effects of smoking, smoking restrictions imposed by governments, anti-smoking education programs, and changes in consumer preferences toward other types of tobacco.

Motor Fuel Tax

Motor fuel and diesel motor fuel taxes are imposed by Article 12-A of the Tax Law upon the sale, generally for highway use, of motor fuel and diesel motor fuel, respectively. A motor fuel tax of two cents was imposed on gasoline motor fuel in 1929. The tax on gasoline was increased to 3 cents in 1932, to four cents in 1937, to six cents in 1956, to seven cents in 1959 and to eight cents in 1972. A motor fuel tax of two cents was imposed on diesel motor fuel in 1936. The tax on diesel fuel was increased to four cents in 1947, to six cents in 1956, to nine cents in 1959 and to ten cents in 1972. The tax on diesel fuel was reduced to eight cents in 1996.

For SFY 2009-10, collections from the motor fuel tax are estimated to be $513 million, a 1.8 percent increase from SFY 2008-09 collections. For SFY 2010-11, collections are projected to increase slightly to $515 million in 2010-11, an increase of 0.4 percent. Collections from the motor fuel tax do not fluctuate significantly from year to year since the number of gallons of fuel imported into the State does not fluctuate significantly, as shown in Figure 8 below.

Figure 8



Source: New York State Department of Taxation & Finance

Motor Vehicle Fees

Motor vehicle fees are imposed under the Vehicle and Traffic Law. These fees include registrations for motor vehicles operated in the State, fees for drivers' licenses, and other fees such as: fees for inspection and emission stickers, repair shop certificates, and insurance civil penalties.

Most vehicle registration fees in New York are based on weight except for buses, which are charged according to seating capacity, and semi-trailers, which are charged a flat fee. Vehicle registration and driver licensing fees are a function of the fee schedules, the number of licensed drivers and registered vehicles, and the number of years between license and vehicle registration renewals. Historically, the collections from motor vehicle fees are not significantly impacted by economic conditions. Collections from these fees are impacted more by changes in the fee or renewal schedules.

For SFY 2009-10, All Funds collections from motor vehicle fees are estimated to be $966 million, a 33.6 percent increase in collections from SFY 2008-09. This large increase is due to the increase in license and registration fees included in the SFY 2009-10 Enacted Budget as well as the imposition of license and registration fees within the MTA district.

For SFY 2010-11, All Funds collections from motor vehicle fees are projected to increase to $1.3 billion, a 32.2 percent increase. This increase is due to the full year impact of the license and fee increases enacted in SFY 2009-10 as well as collections received as the result of the issuance of new license plates in April 2010.

Alcoholic Beverage Tax

New York State imposes excise taxes at various rates on liquor, beer, wine and specialty beverages. Overall, per capita consumption of taxed beverages and receipts has remained fairly constant in recent years with declines in one beverage class being offset with increases in others, due to shifts in consumer preferences.

For SFY 2009-10, alcoholic beverage tax collections are estimated to be $221 million, a 7.4 percent increase from collections in SFY 2008-09. This increase is primarily due to the increase in the excise tax on wine and beer that was enacted as part of the SFY 2009-10 budget. For SFY 2010-11, collections are projected to decrease to $214 million, a 3.3 percent decline.

Alcoholic Beverage License Fees

New York State distillers, brewers, wholesalers, retailers, and others who sell alcoholic beverages are required by law to be licensed by the State Liquor Authority. For SFY 2009-10, alcoholic beverage license fee collections are estimated to be $51 million, a 15.6 percent increase in collections from SFY 2008-09. Collections for SFY 2010-11 are projected to decrease to $45.8 million, a 9.8 percent decrease from SFY 2009-10.

Auto Rental Tax

The auto rental tax applies to a vehicle rented by a resident or a nonresident, regardless of where the vehicle is registered. The tax does not apply to a car lease covering a period of one year or more. Auto rental tax collections are estimated to increase from $61 million in SFY 2008-09 to $85 million in SFY 2009-10, an increase of 39.8 percent rise from that in SFY 2008-09. This increase is a result of the increase in the rate from 5 percent to 6 percent as well as the imposition of an auto rental tax within the MTA district. Collections from this tax are projected to continue to increase to $102.8 million in SFY 2010-11, 20.5 percent increase over SFY 2009-10 collections. This increase reflects the full year impact of the tax rate increases as well the economic recovery.

Highway Use Tax

Articles 21 and 21-A of the Tax Law impose a highway use tax on commercial vehicles using the public highways of the State. Highway use tax revenues are derived from three sources: the truck mileage tax, the fuel use tax, and registration fees.

For SFY 2009-10, collections from the highway use tax are estimated to be $142 million, a 0.8 percent increase from SFY 2008-09. In SFY 2010-11, highway use tax collections are projected to increase to $147 million, a 3.6 percent increase.

Business Taxes

All Funds business tax receipts are estimated to amount to $7.68 billion dollars for SFY 2009-10, an increase of 1 percent over SFY 2008-09 collections. General Fund collections are estimated to total $5.52 billion for the current fiscal year, a decrease of 0.6 percent from SFY 2008-09. This stagnant year-over-year growth corresponds to continuous declines in corporate profits, tightening credit market conditions, a struggling housing sector, and lingering skepticism within the stock market.

For SFY 2010-11, All Funds business tax receipts are projected to increase to $7.8 billion, an increase of 1.6 percent over 2009-10. General Fund receipts are projected to increase to $5.65 billion, an increase of 2.3 percent. These increases are a result of the anticipated stabilization of the financial markets and the economic recovery.

Corporation Franchise Tax

Levied by Articles 9-A and 13, the corporate franchise tax generates over half of all business taxes. Under Article 9A, general business corporations employing their franchise in the State of New York are required to make payments based on the highest of the following 4 bases: (1) entire net income, (2) alternative minimum tax, (3) allocated business and investment capital, or (4) a fixed dollar minimum. Article 13 imposes a 9 percent tax on unrelated business income from not-for-profit organizations.

For SFY 2009-10, All Funds receipts are estimated to be $3.08 billion, a decline of 4.5 percent from SFY 2008-09. General Fund receipts are estimated to total $2.65 billion, a decrease of 3.7 percent. These declines can largely be attributed to a decline in corporate profits. For SFY 2010-11, All Funds receipts are projected to increase to $3.23 billion, an increase of 5 percent. On a General Fund basis, receipts are projected to increase to $2.79 billion, increasing by 5 percent. This growth is a result of the projected rebound in corporate profits in the latter half of calendar year 2010.

Corporation and Utilities Tax

Specialized industries including public utilities, newly organized or reorganized corporations, out-of-State corporations doing business in New York State, transportation and transmission companies, and agricultural cooperatives are required to pay taxes and fees under Article 9. Fluctuations in tax receipts are primarily due to economic performance within the public utility, telecommunications, and transportation industries.

For SFY 2009-10, All Funds receipts are estimated to total of $973 million, an increase of 12.7 percent from SFY 2008-09. This increase is a result of increasing consumption in telecommunications services and residential electricity over prior years. General Fund receipts are estimated at $737 million, an increase of 12.7 percent.

For SFY 2010-11, All Funds receipts are projected to decrease to $918 million, a decrease of 5.7 percent. General Fund receipts are projected to decrease to $695 million, a decrease of 5.7 percent. This decline in tax revenue is a result of slower growth in receipts from telecommunications services and a projected decline in electricity consumption.

Bank Tax

Bank Tax revenues are collected under Article 32 of the Tax Law. This is imposed as a franchise tax on banking corporations which are broken down into three groups: clearinghouse, savings institutions, and other commercial. Collections from Article 32 consist largely of estimated payments made in June, September, and December. A final payment is made in March along with a required first installment payment of 30 percent of the prior year's liability. In March 2010, this prepayment will be raised to 40 percent.

For SFY 2009-10, All Funds receipts are estimated to total $1.07 billion, a decrease of 12.7 percent over SFY 2008-09. General Fund receipts are estimated to be $920 million, a decrease of 13.3 percent. Much of this decline is attributed to significantly lower audit collections for this fiscal year compared to last.

For SFY 2010-11, All Funds and General Fund receipts are projected to decline to $1.05 billion and $901 million, respectively. This represents a decline of approximately 2 percent.

Insurance Tax

Article 33 of the Tax Law imposes a franchise tax on insurance corporations and insurance brokers. A premiums-based tax is levied on non-life insurers and independently procured insurance. The tax base for Article 33 is divided between life and non-life insurers. Life insurance companies pay an income tax similar to the corporate franchise tax, as well as a premiums component at a rate of 0.7 percent of taxable premiums. The total of the two cannot exceed 2 percent of taxable premiums. All other insurance companies are taxed only on premiums. Accident and health insurers are taxed at a rate of 1.75 percent and all other insurers are taxed at a rate of 2 percent.

Insurance tax receipts are estimated to amount to $1.42 billion for SFY 2009-10, an increase of 20.5 percent over SFY 2008-09 receipts. A significant portion of this increase is the result of accounting changes in how not-for-profit HMOs are taxed. Collections from these institutions were previously made under the Corporate Franchise Tax. However, as a result of legislation enacted in the SFY 2009-10 budget, these HMOs are required to pay under the insurance tax. Also affecting this increase is the increase in the March prepayments from 30 percent to 40 percent of the previous year's tax liability. General Fund receipts for SFY 2009-10 are estimated at $1.21 billion; an increase of 11.5 percent over the prior year. The HMO reclassification does not impact General Fund receipts as collections from these companies is deposited to the Health Care Reform Act (HCRA) funds.

For SFY 2010-11, All Funds insurance tax receipts are projected to increase to $1.49 billion, an increase of 4.9 percent. General Fund receipts are projected to increase to $1.26 billion, an increase of 4.5 percent.

Petroleum Business Tax

Collections under Article 13-A of the Tax Law are based upon the quantity of various petroleum products imported for sale or use in the State. Base tax rates are indexed to reflect the twelve month change in the Petroleum Producers Price Index ending August 31.

All Funds receipts for SFY 2009-10 are estimated at $1.13 billion, a 2.4 percent increase over SFY 2008-09. For SFY 2010-11, PBT receipts are projected to decrease to $1.11 billion, a decrease of 1.9 percent.

Other Taxes

Other taxes are primarily comprised of the estate and gift taxes, real estate transfer taxes, and pari-mutuel taxes. New York's estate taxes do not have to be remitted until nine months following a person's death. As a result, the amount of estate taxes paid in any particular month is not a reflection of the current economy, but the economy at the time of death. These collections are also a function of the size of the estates on which the taxes are paid. Estate tax collections for SFY 2009-10 are estimated to decrease by 26.2 percent from SFY 2008-09 collections. This reduction in collections is due to the decline in the stock market as well as the decline in home prices; primary factors impacting the value of one's estate.

Estate taxes are projected to remain relatively flat in SFY 2010-11, declining by only 0.7 percent. This is a result of a projected increase in the stock market offset by the projected continued decline in average home prices over the first half of 2010.

With the bursting of the housing market bubble, collections from the real estate transfer tax in SFY 2009-10 are estimated to decline by 50 percent from SFY 2008-09. Collections are projected to improve in SFY 2010-11, increasing by 22 percent, reflecting the projected improvement in the housing market in the second half of the fiscal year.

Miscellaneous Receipts

	SFY 2008-09 Actual	SFY 2009-10 Estimated	SFY 2010-11 Projected
Licenses, Fines, and Fees	1,006	600	629
Abandoned Property	698	525	530
Reimbursements	1,089	300	167
Investment Income	104	15	50
Other	208	1,692	1,301
Total	**3,105**	**3,132**	**2,677**

General Fund miscellaneous receipts are estimated to total $3.1 billion in SFY 2009-10; reflecting a 0.9 percent increase in receipts from 2008-09. This increase is a reflection of increases in various licenses and fees that were included in the SFY 2009-10 Enacted Budget, including the increase in the Article 18-A assessment that is deposited to the General Fund. This increase is offset by decreased collections from abandoned property and investment income. The decrease is a result of the volatility in the financial markets which impacts the value of abandoned property, especially in relation to securities that are deposited into the fund. In addition, low interest rates and the decrease in fund balances have resulted in lower investment income collections.

Collections in SFY 2010-11 are projected to decrease by 14.5 percent; decreasing from $3.1 billion to $2.7 billion. This decrease is primarily a result of the loss of "one shots" that were included in the SFY 2009-10 budget. These one shots include the transfer of funds from SONYMA and the Dormitory Authority.

Lottery/VLT's

Traditional Lottery

Revenue from traditional lottery games is estimated to continue on trend, with minimal growth potential. Growth in traditional lottery sales is mainly attributed to the introduction of a new game, Sweet Millions. This game is estimated to generate $45 million by end of SFY 2009-2010. In addition, the SFY 2009-10 Enacted Budget authorized the Division of Lottery to enter into an additional multi-jurisdictional game. The Division of Lottery has just initiated negotiations for Powerball which is projected to launch in February at the earliest. By entering Powerball, Lottery is projecting approximately $48 million in Powerball sales during the last 2 months of SFY 2009-10. However, these receipts are projected to be reduced by approximately $26 million as a result of reduced Lotto and Mega Millions sales; resulting in a net gain of $22 million.

Based upon current reports, national revenues from gambling operations have declined for the first time in three decades. With the national economy continuing to experience volatility and the projected decline of disposable income, growth in traditional lottery sales are projected to increase slightly in SFY 2010-11, only as a result of the introduction of new lottery games. Sales of Sweet Millions are projected to be approximately $84 million and Powerball sales are projected to be approximately $288 million. However, as in SFY 2009-10, these sales are projected to offset with projected declines in Lotto and Mega Millions sales by approximately $155 million.

Video Gaming

The current trend in revenue from video gaming is estimated to continue through the end of SFY 2009-10. Although the State has yet to realize a franchise agreement for Aqueduct, the Executive anticipates that the agreement will be approved by the end of the fiscal year; resulting in a franchise payment of $200 million with the planned installation of 4,500 VLT terminals for Aqueduct. In SFY 2010-11, with the launch of a VLT facility at Aqueduct, revenues from VLT's are projected to increase moderately, depending on when the facility and its machines are fully operational.

With the implementation of Sweet Millions and the possibility of inclusion in Powerball, the increase in revenue may reflect a shift in consumer spending on lottery as opposed to real revenue growth.

The approval of the Aqueduct franchise agreement is not considered an administrative action by the Division of the Budget, but rather but a legislative one, since the proposed actions require the approval the Governor and the leaders of both houses of the Legislature. There is no assurance that the franchise deal will be authorized by the end of SFY 2009-10.

DISBURSEMENT OUTLOOK

Education

Multi-Year School Aid Projections				
	2009-10	2010-11	Annual Change $	**Annual Change %**
Foundation Aid/Academic Achievement Grant	$14,893	$14,893	$0	**0.00%**
Other Operating Aids	$217	$217	$0	**0.00%**
Universal Pre-Kindergarten	$414	$414	$0	**0.00%**
EXCEL Building Aid	$165	$185	$20	**10.81%**
Expense-Based Aids	$5,531	$6,022	$491	**8.15%**
Other Aid Categories/Initiatives	$628	$685	$38	**5.71%**
Total School Aid	**$21,848**	**$22,416**	**$568**	**2.53%**

The State Education Department (SED) is required by law to provide an update of State Aid claims for school districts. This updates take place three times a year in the months of May, November and February on or before the 15th of each month. The most recent data we currently have in an unofficial update provided by SED in September.

The enacted State budget for 2009-2010 provided a total General Support for Public Schools (GSPS) of $21.93 billion, an increase of $404 million over School Year (SY) 2008-2009. Included within the GSPS amount was a restoration of the $1.1 billion Deficit Reduction Assessment (DRA) proposed by the Executive in December 2008. This restoration was made with federal American Recovery and Reinvestment (ARRA) dollars. ARRA funding from the State Fiscal Stabilization Fund and the State Fiscal Stabilization Fund-Other Governmental Services provided fiscal relief to the State and prevented school aid reductions at crucial time for school districts through the State.

The restoration of school aid reductions and other GSPS related programs with stimulus funds requires greater accountability and transparency for all federal stimulus recipients including the State, school districts and local education agencies (LEA). As it was clearly stated by the Comptroller of the State of New York, ARRA recipients are required to submit quarterly reports. The information included within these reports will not only require ARRA-related financial data, but also other non-financial data, such as the number of jobs created or preserved, tax increases averted, project completion status, total costs of projects (excluding ARRA funds), rationale for the project, and award or program sub-recipient information.

In addition to GSPS restorations, school districts throughout the State received an estimated increase of $454 million in part A Title I of the Elementary and Secondary Education Act (ESEA) and $398 million for the Individual with Disabilities Education Act (IDEA). Other GSPS programs slated to be reduced in the Executive Budget recommendation such as Teacher Resource and Computer Training Centers, Teacher Mentor-Intern, the Roosevelt School District

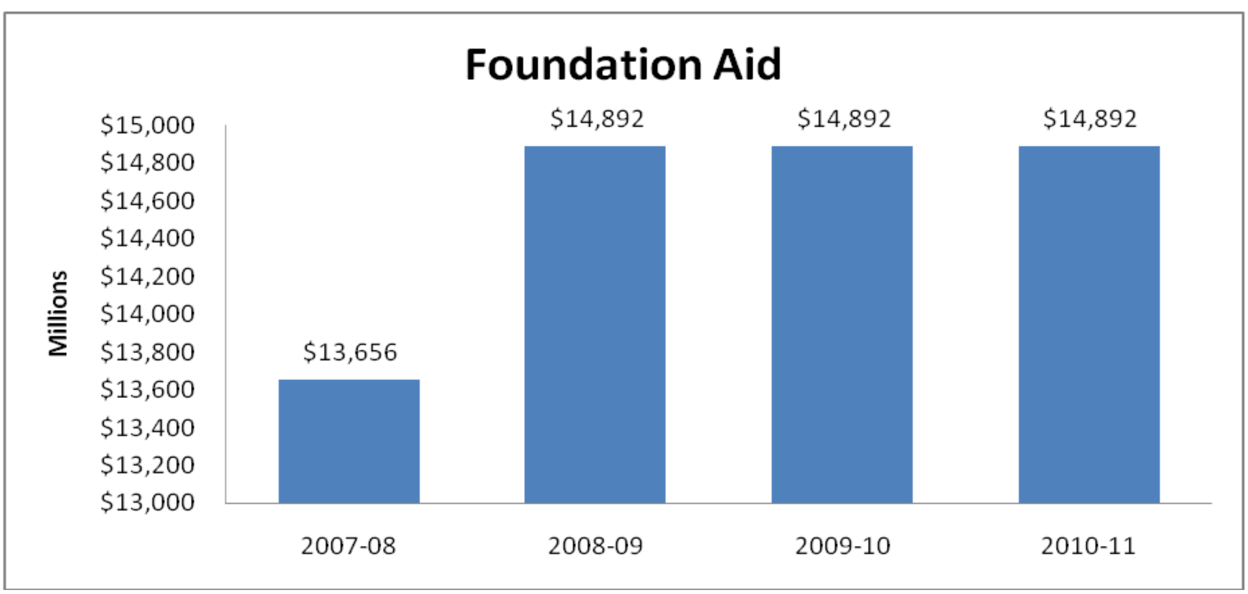
Special Academic Grant and the school district claim changes included in the February database were restored using federal stimulus funds.

In the near future, the State of New York will receive notification from the federal government regarding our eligibility for the Race to the Top funds included as part of ARRA. The Race to the Top Fund provides competitive grants to encourage and reward States that are creating the conditions for education innovation and reform; implementing ambitious plans in the four education reform areas described in the ARRA, and achieving significant improvement in student outcomes, including making substantial gains in student achievement, closing achievement gaps, improving high school graduation rates, and ensuring that students are prepared for success in college and careers. Whether New York State will be required to make major policy decisions in order to qualify for this fund or received a waiver is still being debated by all interested parties.

Foundation Aid

New York State's financial crisis forced policymakers to make difficult decisions when providing funding for particular programs. The $20 billion financial gap made funding for the third year of Foundation Aid unattainable. As consequence, the enacted budget for School Year 2009-2010 provided the same amount of funding received by school districts in the prior year. For School Year 2009-10, Foundation Aid totaled $14.89 billion. In order to keep the promise of the Campaign for Fiscal Equity court case, the Legislature and the Governor took several steps to extend the phase-in of the Foundation Aid formula. Chapter 57 of the laws of 2009 established extended the phase in to 2012-2013.

The Senate Finance Committee understands that Foundation Aid for the 2010-2011 School Year will be flat at the $14.89 billion level. The uncertainty of data changes during the current school year and the 2010-2011 school year prevent us from making a multi-year projection of the full phase-in of Foundation Aid. The phase-in process will restart with the 2011-2012 School Year.

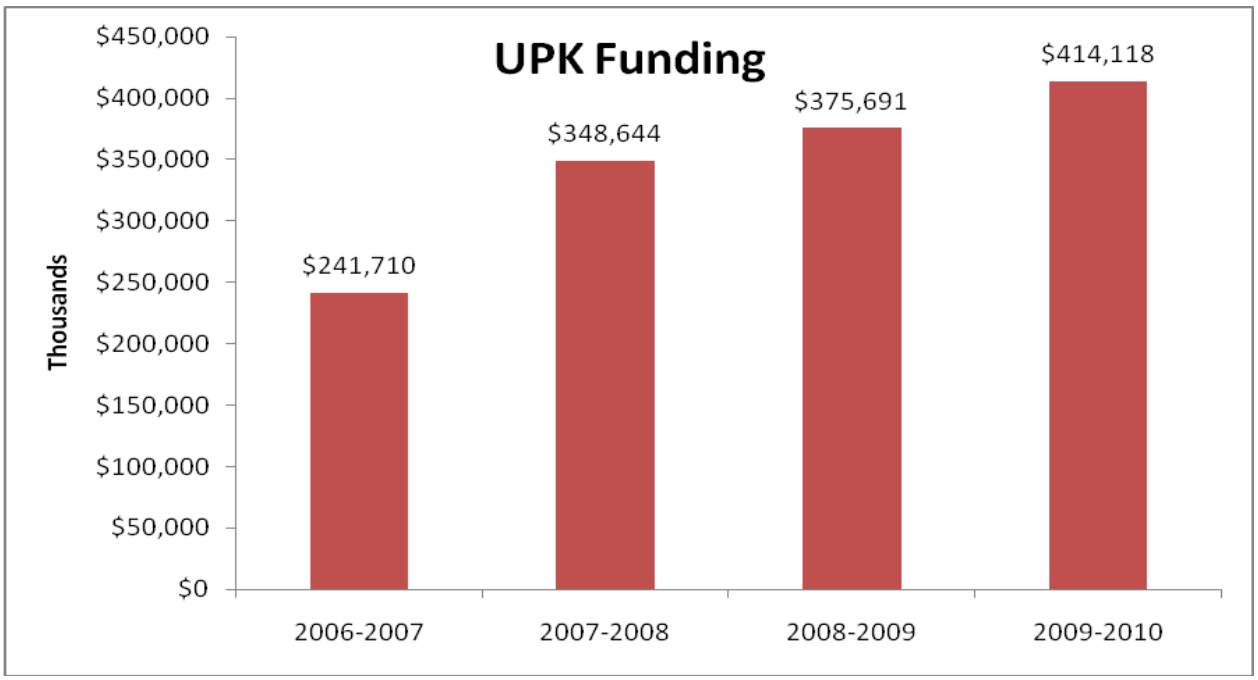


Universal Pre-K

According to the National Institute for Early Education Research (NIEER), approximately 1.13 million children participate in State-funded Prekindergarten programs, about 24% of all 3 and 4-year-olds in the nation. State spending on Prekindergarten programs totals $4.6 billion. More than half of the states established Prekindergarten programs during the last two decades. As State-created entities, these programs vary in design, eligibility requirements, hours of operation, and other standards.

The New York State Universal Prekindergarten (UPK) program was established under Chapter 436 of the Laws of 1997. During the 2004-05 school year, 192 districts (224 eligible) served approximately 57,000 students. In School Year 2009-2010, this number has increased considerably from 192 to 450 school districts and the number of 4-year old has increased from 57,000 to almost 107,700.

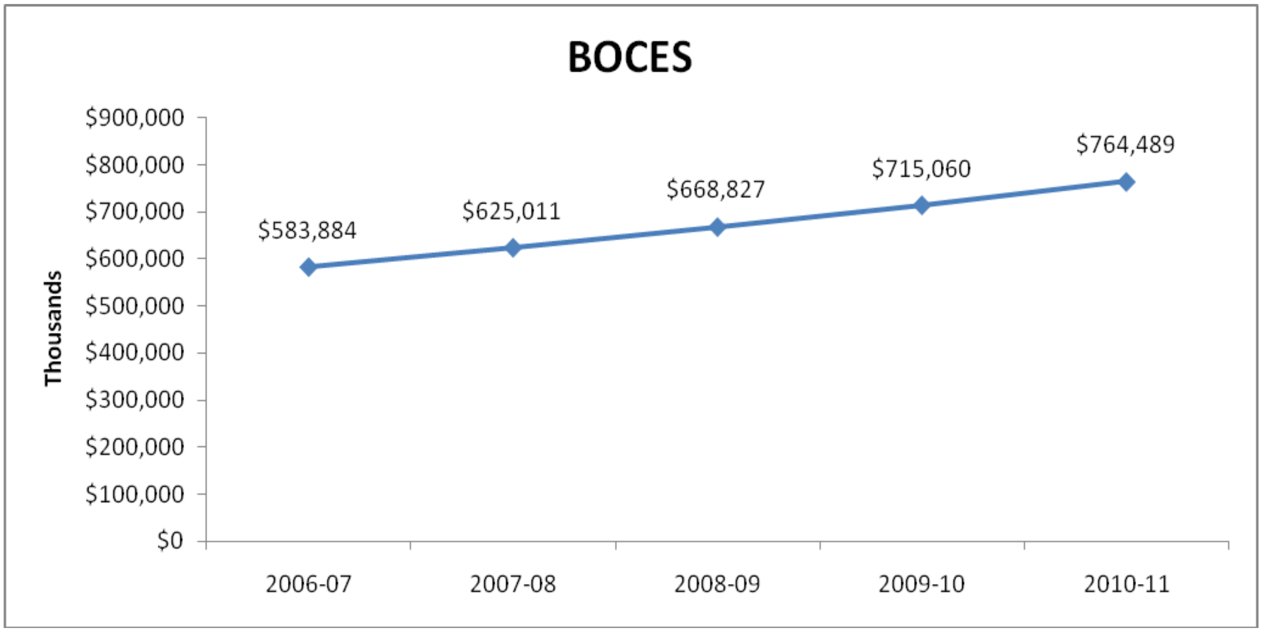
The Senate Finance Committee understands that Universal Pre K for the 2010-2011 School Year will be flat at the $414.1 million level. The uncertainty of data changes during the current school year and the 2010-2011 school year prevent us from making a multi-year projection of the full phase-in of Universal Pre K. The phase-in process will restart with the 2011-2012 School Year.



Expense Based Aids

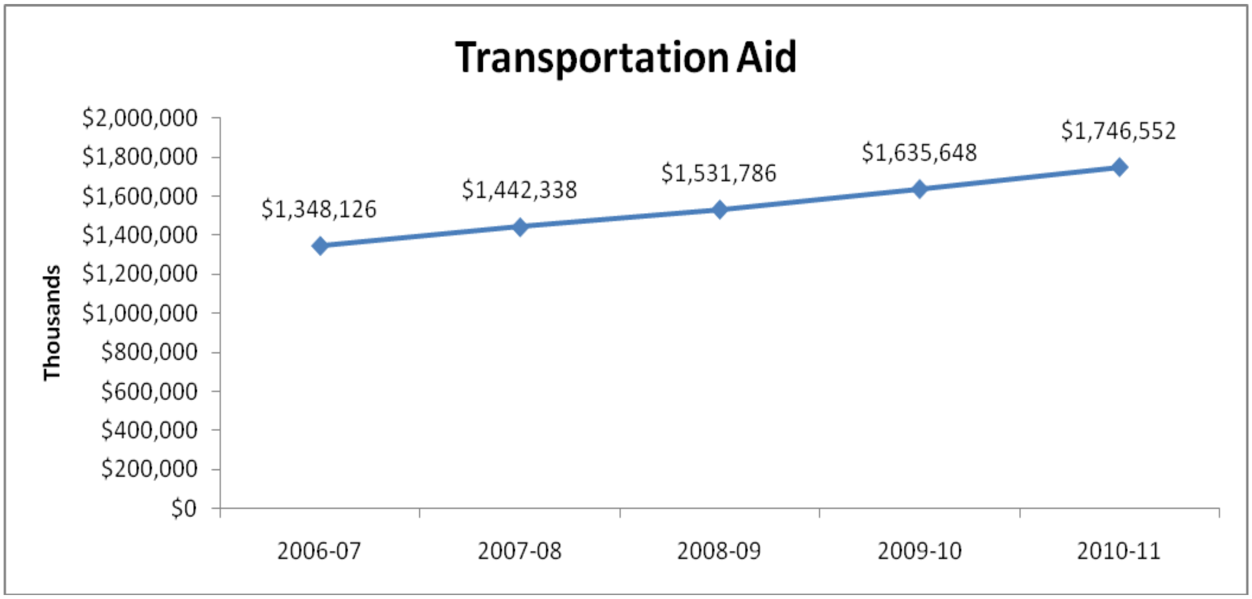
Expense based aid are an important part of the funding received by school districts. These funds reimburse school districts for costs already incurred in areas such as transportation, school construction, special education and cooperative services. For SY 2009-2010, the enacted budget funded all expense based aids at present law levels.

BOCES services are created when two or more school districts decide they have similar needs that can be met by a shared program. BOCES helps school districts save money by providing opportunities to pool resources and share costs. Sharing is an economical way for districts to provide programs and services that they might not be able to afford otherwise. It is often more efficient and less costly to operate one central service than it is to have separate programs in each school district. BOCES services are often customized offering districts the flexibility to meet their individual needs.

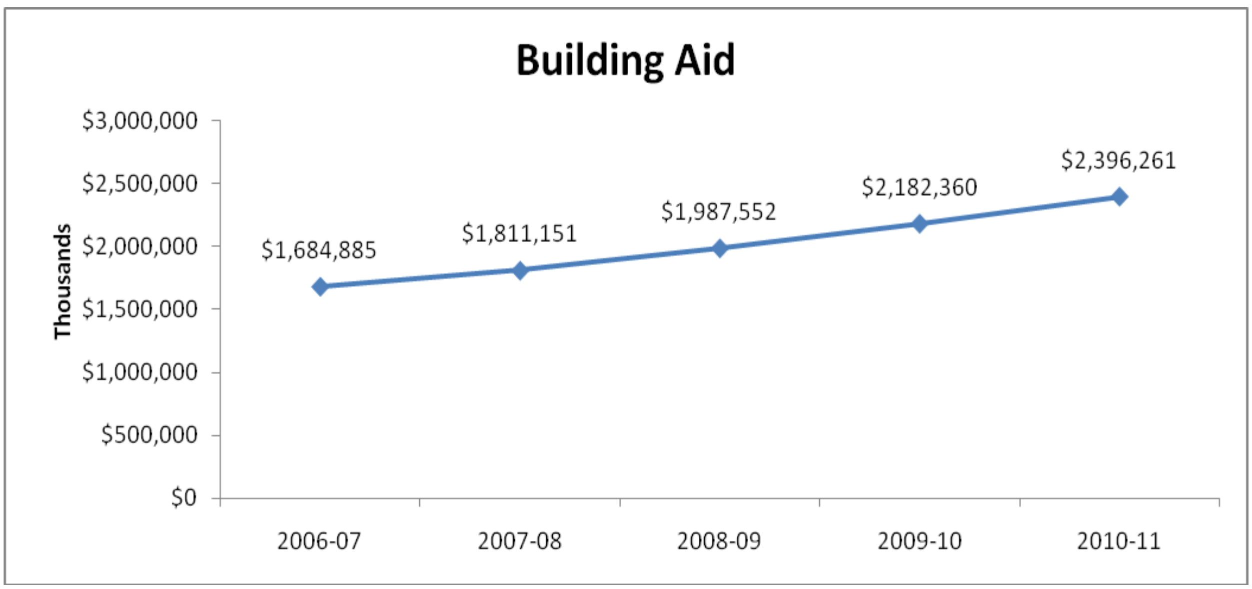


The enacted budget for School Year 2009-2010 totaled $715.9 million, an increase of $47.1 million or 7 percent above SY 2008-2009. If we were to estimate BOCES aid based on percentage increases over the last three years, BOCES aid could increase by 7 percent or $49.4 million in SY 2010-2011.

Transportation Aid reimburses school districts for approved transportation expenses including equipment, salary, and benefits. An estimate for SY 2010-2011 cannot be provided at this time since the most recent data that we currently have is based on the latest SED September 2009 database update. If we were to estimate Transportation Aid based on percentage increases over the last three years, Transportation Aid would increase by 7 percent or $110.9 million in SY 2010-2011.

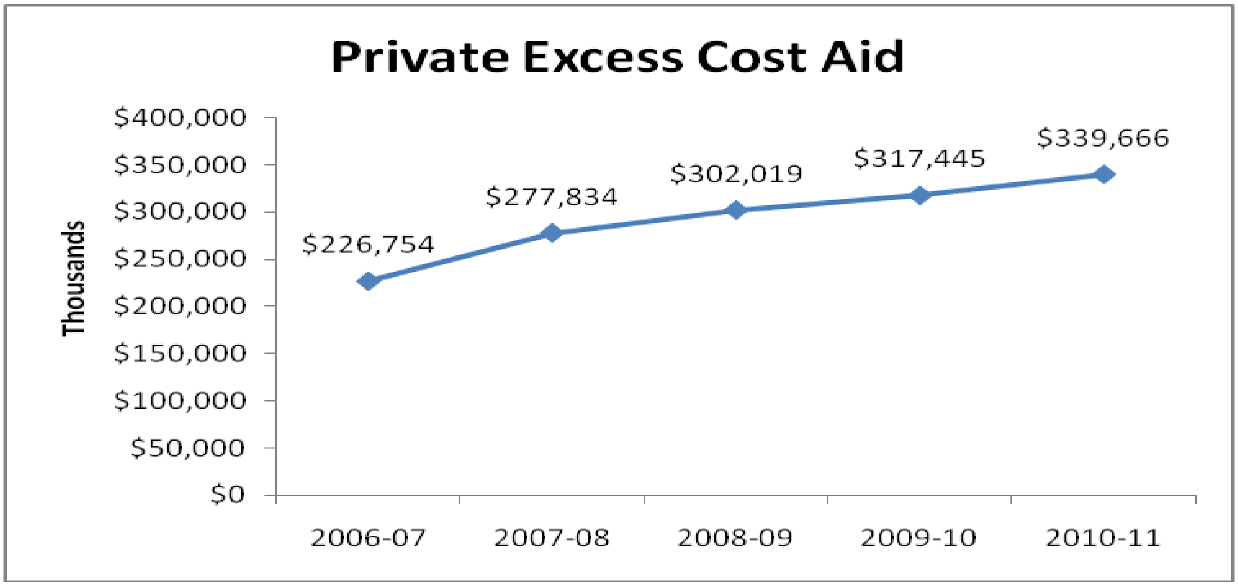


Building Aid allows school districts to receive aid for approved building projects. The enacted budget for School Year 2009-2010 totaled $1.98 billion, an increase of $194.8 million or 10% above SY 2008-2009. We will not have actual data until the November 2009 release of the Local Assistance table. If we were to estimate Building Aid based on percentage increases over the last three years, Building Aid would increase by 10% or $213.9 million in SFY 2010-2011.



During difficult economic times the share of overall school spending on special education services increases in comparison to general education. It is difficult to determine the total amount of this increase since Public Excess Cost Aid is folded into the Foundation Aid formula. In the case of High Cost Excess Cost Aid the data can only address two years making any estimate difficult. As a consequence of these circumstances, the Senate Finance Committee can only provide a range between a 5 percent and 7 percent increase in SY 2009-2010.

Private Excess Cost Aid provides reimbursement for public school children with more severe disabilities who are placed in private school settings or in the State-operated schools in Rome and Batavia. The enacted budget for School Year 2009-2010 totaled $317.4 million, an increase of $15.4 million or 5 percent above SY 2008-2009. If we were to estimate Private Excess-Cost Aid based on percentage increases over the last three years, Private Excess Cost Aid would increase by a range between 5 percent and 7 percent in SY 2010-2011. This increase would range between $15.8 million or $22.2 million in 2009-10.



Public Assistance

New York State's Public Assistance caseload consists of two major categories of recipients: Family Assistance and Safety Net Assistance. The temporary cash assistance programs offer support services and cash assistance to eligible low-to moderate-income families and individuals. The Family Assistance program is financed through federal Temporary Assistance for Needy Families (TANF) funds, State funds, and local government funds. The Safety Net Assistance program is financed only by State and local funds and provides cash assistance to individuals and families who have exhausted their five-year time limit for TANF eligibility.

Family Assistance

New York City

For SFY 2009-10, the updated Family Assistance caseload for New York City (NYC) is projected at 150,569, an increase of 3,378 or 2.2 percent from the SFY 2009-10 Enacted Budget. The Family Assistance caseload for NYC was determined by analyzing a three year trend in actual monthly caseload adjusted for unemployment and average low wage data for the period from August 2006 through August 2009. Carrying that trend forward results in a projected caseload of 152,520 for SFY 2010-11. The Monthly Average Payment is projected at $425.58.

Rest of State

For SFY 2009-10, the updated Family Assistance caseload for the Rest of State (ROS) is projected at 98,598, an increase of 8,330 or 8.5 percent from the SFY 2009-10 Enacted Budget. The Family Assistance caseload for the ROS was determined by analyzing a three year trend in actual monthly caseload adjusted for unemployment and average low wage data for the period from August 2006 through August 2009. Carrying that trend forward results in a projected caseload of 102,960 for SFY 2010-11. The Monthly Average Payment is projected at $273.59.

Safety Net Families

New York City

For SFY 2009-10, the updated Safety Net Families caseload for New York City (NYC) is projected at 89,782, an increase of 4,182 or 4.7 percent from the SFY 2009-10 Enacted Budget. The Safety Net Families caseload for NYC was determined by analyzing a three year trend in actual monthly caseload adjusted for unemployment and average low wage data for the period from August 2006 through August 2009. Carrying that trend forward results in a projected caseload of 91,129 for SFY 2010-11. The Monthly Average Payment is projected at $284.72.

Rest of State

For SFY 2009-10, the updated Safety Net Families caseload for the Rest of State (ROS) is 31,027, an increase of 2,368 or 7.6 percent from the SFY 2009-10 Enacted Budget. The Safety Net Families caseload for the ROS was determined by analyzing a three year trend in actual monthly caseload adjusted for unemployment and average low wage data for the period from August 2006 through August 2009. Carrying that trend forward results in a projected caseload of 31,775 for SFY 2010-11. The Monthly Average Payment is projected at $215.93.

Safety Net Singles

New York City

For SFY 2009-10, the updated Safety Net Singles caseload for New York City (NYC) is projected at 108,720, an increase of 2,985 or 2.8 percent from the SFY 2009-10 Enacted Budget. The Safety Net Singles caseload for NYC was determined by analyzing a three year trend in actual monthly caseload adjusted for unemployment and average low wage data for the period from August 2006 through August 2009. Carrying that trend forward results in a projected caseload of 113,411 for SFY 2010-11. The Monthly Average Payment (MAP) is projected at $539.21.

Rest of State

For SFY 2009-10, the updated Safety Net Singles caseload for the Rest of State (ROS) is projected at 50,373, an increase of 4,075 or 8.1 percent from the SFY 2009-10 Enacted Budget. The Safety Net Singles caseload for the ROS was determined by analyzing a three year trend in actual monthly caseload adjusted for unemployment data and average low wage data for the period from August 2006 through August 2009. Carrying that trend forward results in a projected caseload of 52,933 for SFY 2010-11. The Monthly Average Payment is projected at $362.57.

Statewide

For SFY 2009-10, the mid-year revision projects a statewide caseload of 529,069, reflecting an increase of 25,318 or 4.8 percent from the Enacted Budget. The mid-year revision projects a total State share cost related to that caseload of $928.1 million for SFY 2009-10, an increase of $96.1 million or 10.4 percent from the Enacted Budget Spending level.

For SFY 2010-11, the statewide total caseload is projected to be 544,728, reflecting an anticipated increase of 15,659 or 2.9 percent from the current year. The projected SFY 2010-11 State share spending level related to that caseload is $958.1 million, an increase of $30.1 million or 3.1 percent from the estimated current year level spending.

These projections presume economic activity to be consistent with the economic forecast included within this report. Should economic activity vary in any measured amount, caseload numbers will change accordingly.

Public Assistance	Enacted 09-10	Recast 09-10	Projected 10-11
Family Assistance			
NYC			
Recipients/month	147,191	150,569	152,520
Total Expenditures	$693,728,846	$768,949,860	$778,913,539
MAP	$392.76	$425.58	$425.58
State Share	$173,432,211	$192,237,465	$194,728,385
ROS			
Recipients/month	90,268	98,598	102,960
Total Expenditures	$303,928,745	$323,705,122	$338,025,917
MAP	$280.58	$273.59	$273.59
State Share	$75,982,186	$80,926,280	$84,506,479
Family Assistance - State Share	**$249,414,398**	**$273,163,746**	**$279,234,864**
Total Family Assistance Recipients	**237,459**	**249,167**	**255,480**
Safety Net Families			
NYC			
Recipients/month	85,600	89,782	91,129
Total Expenditures	$267,205,536	$306,752,772	$311,354,987
MAP	$260.13	$284.72	$284.72
State Share	$133,602,768	$153,376,386	$155,677,493
ROS			
Recipients/month	28,659	31,027	31,775
Total Expenditures	$72,017,774	$80,395,921	$82,334,109
MAP	209.41	215.93	215.93
State Share	$36,008,887	$40,197,961	$41,167,055
Safety Net 5 yr. - State Share	**$169,611,655**	**$193,574,347**	**$196,844,548**
Safety Net 5 yr. Recipients	**114,259**	**120,809**	**122,904**
Safety Net Singles			
NYC			
Recipients/month	105,735	108,720	113,411
Total Expenditures	$625,794,712	$703,474,934	$733,828,144
MAP	$493.21	$539.21	$539.21
State Share	$312,897,356	$351,737,467	$366,914,072
ROS			
Recipients/month	46,298	50,373	52,933
Total Expenditures	$200,101,808	$219,164,863	$230,303,014
MAP	$360.17	$362.57	$362.57
State Share	$100,050,904	$109,582,432	$115,151,507
Safety Net - State Share	**$412,948,260**	**$461,319,899**	**$482,065,579**
Safety Net Recipients	**152,033**	**159,093**	**166,344**
Total - State Share	**$831,974,313**	**$928,057,991**	**$958,144,991**
Total Caseload	**503,751**	**529,069**	**544,728**

Medicaid

Methodology

The forecast model is comprised of five components including, institutional, non-institutional, managed care, non institutional long term care, and other categories. It relies on projections of price and service units to forecast Medicaid expenditures for Department of Health Medicaid spending. The forecast does not include Medicaid spending in other agencies. These calculations are derived from data contained in the Management Accounting Reporting Subsystem (MARS) reports 39, 51, 72 and 73. Projections are based on an analysis of service category trends. State spending is analyzed and compared to prior year levels of spending. The projected changes are further refined to larger data sets and compared with quarterly percentage changes. In order to account and adjust for periodic reconciliation of account, the forecast model includes review of quarterly data, which is more reliable.

The total expenditures for the next year are projected from the current year base by multiplying the cost per unit of beneficiary by the trended units of service. This total is also multiplied by the expected State share for each category of service. The model also continues to refine these calculations to apply other variables not expressed in the model such as economic indicators like unemployment rate trends, public assistance caseload trends and wages and salary trends.

Midyear Projections

The midyear forecast estimates State Medicaid baseline expenditures for SFY 2009-10 at $13.816 billion. This update represents a $130 million decrease in Medicaid baseline expenditures from the projected expenditures of the SFY 2009-10 Enacted Budget.[1] While Medicaid baseline expenditures continue to trend upward, the rate of projected year-to-year increase is declining slightly. The forecast projects the year-to-year growth in Medicaid spending to be 9.92 percent instead of the 10.1 percent increase that was projected during the SFY 2009-10 Enacted Budget.

The midyear projection of $13.816 billion for State Medicaid baseline expenditures would result in a spending increase of $1.2 billion or 9.92 percent over SFY 2008-09. This increased trend in spending is primarily attributed to an increase in the utilization of services combined with an increase in cost. Notably, the forecast projects lower spending in ***hospital inpatient services*** of approximately $151 million as a result of an anticipated decrease in utilization of services and a slightly slower than expected increase in costs. This year-to-year decrease in spending is offset by projected year-to-year increases for categories of spending including ***hospital outpatient and freestanding clinics.*** For these two categories of services, the midyear forecast projects spending to increase by $260.5 million or 44.2 percent over SFY 2008-09. The increase in funding for out-patient and clinic services is attributed to a projected increase in utilization of these services. This shift in Medicaid spending from hospital inpatient to outpatient and clinics

[1] (Division of the Budget, New York State 2009-10 Financial Plan-First Quarterly Update, July 30, 2009. Page 22.)

can be attributed to health care reform enacted in April 2009. The ultimate goal of the reform was to shift the focus of health care from more costly inpatient treatment to primary care outpatient and clinical services. The spending projection reached by the forecast appears to reinforce that this positive shift in Medicaid spending is occurring.

In the category ***drugs***, the midyear forecast projects Medicaid expenditures of $1.48 billion, a projected increase of $81.9 million or 5.8 percent over SFY 2008-09 expenditures. This lower than average increase in expenditures for drugs is attributed to lower than expected costs as a result of the First Data Bank settlement. The projection was adjusted to account for lower costs as a result of this settlement. The forecast continues this adjustment into SFY 2010-11.

In the category ***long term care services,*** which includes, skilled nursing facilities, personal care, home health aid and home nursing, the forecast projects base year-to-year growth of more than 9.5 percent. In the category ***skilled nursing facilities***, the forecast projects baseline spending to increase to $3.3 billion or $289 million over SFY 2008-09 expenditures. This increase in expenditure projections is also attributed to an increase in the utilization of services. Projected expenditures for other long term care services are also trending upward, most notably ***long term managed car***e, which under the forecast is estimated to increase to $509.8 million or by 12.44 percent over SFY 2008-09. The projected increase for long term managed care services can be attributed to increases in utilization and increases in the number of beneficiaries.
The forecast model projects SFY 2010-11 expenditures primarily through the use of the most recent 12 months of spending, utilizations data, along with various projected adjustments. The forecast projects that baseline Medicaid expenditures for SFY 2010-11 will be $15.46 billion, reflecting a $1.64 billion increase. This equates to an 11.91 percent increase over SFY 2009-10. The SFY 2010-11 projected Medicaid expenditure of $15.46 billion is attributed to increases in utilization and increases in costs for most of the Medicaid services including, skilled nursing facilities, hospital outpatient services, freestanding clinics and drugs.

	SFY 2008-09 Closeout	**SFY 2009-10 Mid Year Recast**	**Dollar Amount**	**Percent Change**
Categories of Service*				
Hospital Inpatient	**$2,056,485,000**	**$1,904,586,387**	**($151,898,613)**	**-7.39%**
Skilled Nursing Services (Nursing Homes)	**$3,016,793,000**	**$3,305,891,951**	**($157,697,789)**	**9.58%**
Hospital Outpatient	**$282,055,000**	**$389,449,590**	**$107,394,590**	**38.08%**
Freestanding Clinic	**$306,609,000**	**$459,761,717**	**$153,152,717**	**49.95%**
Managed Care Service	**$2,453,089,000**	**$2,602,384,270**	**$149,295,270**	**6.09%**
Long Term Managed Care	**$453,384,000**	**$509,780,000**	**$56,396,000**	**12.44%**
Drugs	**$1,398,191,000**	**$1,480,085,539**	**$81,894,539**	**5.86%**
Total State Share Base Expenditures	**$12,570,056,000**	**$13,816,721,844**	**$1,246,665,844**	**9.92%**
***This is a Partial List of the Categories of Medicaid Services**				

Risks to the Forecast

A significant portion of the forecast relies on economic indicators such as unemployment rates and public assistance caseloads trends. As a result, upward or downward trends in the economy can change the projections of the forecast for SFY 2009-10 and SFY 2010-11. Many adjustments to the forecast, made to account for the implementation of current and future statutory changes (which are not contained in the spending numbers provided in the various MARS reports), may not actually generate the savings or in some instances increase costs. In other words, many of the Medicaid cost containment initiatives as well as the various components of healthcare reform enacted by the legislature may not be approved by Centers for Medicare and Medicaid Services (CMS) in a period of time sufficient to realize State savings. Failure of CMS to approve changes to New York State's Medicaid program could result in an increase in Medicaid spending significantly higher than projected by the Medicaid expenditure forecast for SFY 2009-10 and SFY 2010-11.

Overall Receipts and Disbursements

The Division of the Budget projects a potential $3.159 billion General Fund deficit by the end of SFY 2009-10. For SFY 2010-11, the projected current services General Fund deficit is projected to be $6.796 billion. These deficits do not reflect the implementation of any Deficit Reduction Plan (DRP) actions.

Total General Fund revenues in SFY 2009-10 are estimated to be $185 million higher than estimated revenues contained in DOB's Mid-Year Financial Update. For SFY 2010-11, total General Fund revenues are projected to be $265 million above those projected by DOB. These increases are primarily attributed to a slightly stronger economic recovery than that projected by DOB.

In relation to the disbursements covered in this report, spending is estimated to be approximately $124 million less than that projected by DOB in SFY 2009-10. This is comprised of $17 million less in Medicaid spending and $107 million less in School Aid spending. For SFY 2010-11, disbursements are projected to be approximately $247 million less than those projected by DOB; $140 million less in Medicaid expenditures and $107 million less in School Aid expenditures. Disbursements for Public Assistance are estimated to be minimally higher for the current fiscal year and SFY 2010-11.

Accepting the Division of Budget's projections for all other spending categories and not accounting for any DRP actions, the General Fund deficit is estimated to be $2.872 billion in SFY 2009-10, approximately $307 million less than DOB. For SFY 2010-11, the General Fund deficit is projected to be approximately $6.465 billion, a reduction of $511 million from DOB's projection.