NEW YORK STATE SENATE

FINANCIAL INFORMATION REVIEW

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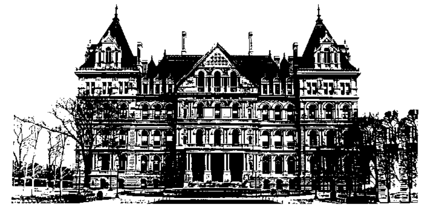
GLOBAL INSIGHT

NOVEMBER 2008



Financial Information Review

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SFC Senate Finance Committee
Financial Information Revision
November 2008

I. National & State Economy

The National Economy

As the housing market bubble burst and the subprime mortgage market collapsed in 2007, the outlook for 2008 was not whether the economy would go into a recession, but when. To compound the economic slowdown, inflation emerged as oil prices continued to rise which affected every sector of the economy, and made both monetary and fiscal intervention by the government difficult.

The national economy exhibited growth in the first quarter of 2008, although very slow growth. Real GDP in the first quarter increased by 0.9 percent. In the second quarter, the economy rebounded and grew by 2.8 percent. However, this growth was primarily a result of the economic stimulus package enacted by the Federal government in the spring. As the fallout from the collapse of the subprime mortgage market continued to wreak havoc upon the credit markets, the impact flowed into the equity markets by September. As a result the national economy declined by 0.3 percent in the third quarter. The recession is expected to deepen in the fourth quarter of the year, declining by an estimated 3.0 percent. Overall, the baseline estimate for the national economy in 2008 shows a 1.0 percent decline in real GDP.

For 2009, the recession is projected to continue through the first quarter with baseline real GDP declining by 0.7 percent. Growth is projected to return to the economy in the second quarter of 2009 at the slow pace of 1.2 percent. The slow growth is projected to continue into the second half of the year, with the economy picking up steam in the fourth quarter of 2009. Baseline real GDP growth is only projected at 0.2 percent for all of 2009.

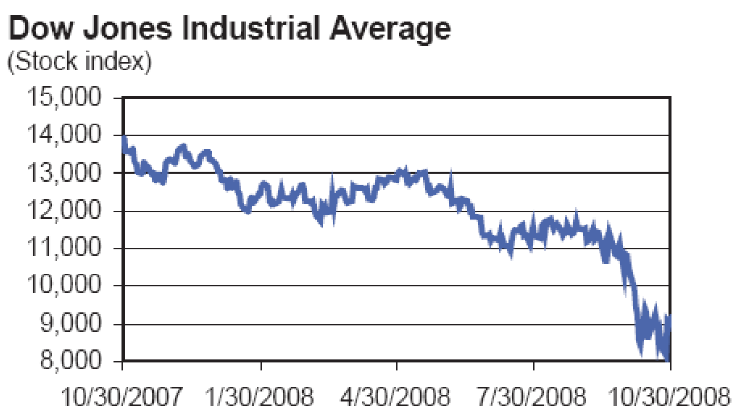
Similar to what happened to the economy as a whole, most sectors of the economy individually exhibited growth in the first half of 2008 with declines expected in the second half of the year. For 2008, baseline consumption is only estimated to grow by 0.6 percent. This growth is a result of an estimated increase in baseline personal income of 4.4 percent, mainly as a result of the economic stimulus checks, offset by a decline in employment of 0.1 percent. If not for the economic stimulus checks which put additional money in the consumers' pockets, overall consumption for 2008 would have been negative. In addition, the tightening of the credit markets and the continued declines in the housing market has resulted in double digit declines in the consumption of durables for the second half of 2008; creating a significant drag on consumption growth. As a result of the decline in employment, the baseline unemployment rate for 2008 is estimated to increase to 5.6 percent.

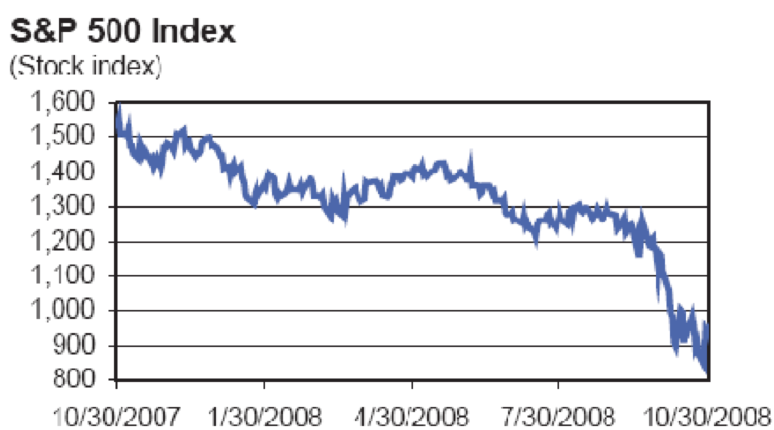
As the recession continues into 2009, baseline employment is projected to continue to decline by 1.0 percent; increasing the unemployment rate to 7.2 percent nationally. In turn, baseline growth in personal income is projected to slow; increasing by only 2.7 percent. Lower projected personal income growth and higher projected unemployment continues to dampen consumption. In 2009, baseline consumption is projected to grow by only 0.4 percent.

The housing market, one of the main factors in the current recession, continued to contract in 2008. Housing starts nationally are estimated to decline by approximately 30.0 percent. Concurrently, existing home sales are estimated to decline by approximately 15.0 percent. The weakness in the housing market is projected to continue into 2009 with the market finally bottoming out by the second quarter of 2009. Housing starts and existing home sales in 2009 are projected to decline by 15.4 percent and 7.6 percent, respectively.

With the collapse of the financial markets in the third quarter of 2008 and the continued slowing economy, the business sector is estimated to realize extreme weakness in profits for the year. Baseline corporate profits are estimated to decrease by 6.6 percent in 2008. With the recession continuing into the first half of 2009 and the effects of the Troubled Asset Relief Program (TARP) continuing to be realized within the financial markets, baseline corporate profits are projected to remain weak in 2009; declining by 0.1 percent.

Since the beginning of the troubles in the subprime mortgage market and its subsequent ripple effects into all of the financial markets, the stock market has shown extreme volatility. The Dow Jones Industrial Average, which topped 14,000 in October 2007, lost over 40 percent of its value over the course of a year. The S&P 500 showed similar declines. The stock market, as measured by the S&P 500, is estimated to decline by 14.8 percent in 2008. The economic recession and the continued decline in corporate profits will dampen stock market growth in 2009. The S&P 500 is projected to continue to decline by 0.2 percent.





The New York State Economy

Unlike the previous recession of 2001, the New York economy did not enter the recession before the national economy did. Both economies entered into a recession at the same time, the third quarter of 2008. Although the impact of the collapse of the subprime mortgage market on the financial markets has had a significant impact on the New York economy, the bursting of the housing market bubble has had less of an impact as few areas in the state were affected by the run up in housing prices. While the baseline national economy is estimated to contract by 1.0 percent in 2008, the New York economy, as measured by baseline real Gross State Product (GSP), is estimated to grow by 2.2 percent. However, as the national economy is projected to grow slightly during 2009, the New York economy is projected to contract by 0.7 percent. This is similar to other recessions where New York has lagged the nation in economic recovery, mainly as a result of the dependence of the New York economy on the health of Wall Street and a tax structure that removes too much investment potential from the economy.

As previously stated, the housing market in New York has fared better than the housing market nationally in 2008. Housing starts are estimated to grow by 7.2 percent in 2008. This growth is mainly attributable to significant growth in multi-family housing starts, an increase of 31.6 percent. Single family housing starts are estimated to decline by approximately 30.0 percent. Similar to the decline in single family housing starts, existing home sales are estimated to decline by approximately 12.0 percent in 2008. As the recession deepens in 2009, housing starts are projected to decline by 56.4 percent. Again, the change is mostly attributable to multi-family housing starts, which in 2009 are projected to decline significantly by 62.4 percent. Existing home sales are projected to fare better in 2009, growing by 4.3 percent.

Although the fallout from the collapse of the financial markets has negatively impacted employment in the financial activities sector, total baseline employment in the state is estimated to grow by 0.3 percent in 2008. However, as the recession continues to affect Wall Street and the state economy as a whole, baseline employment in 2009 is projected to decline by 1.1 percent. Similarly, the baseline unemployment rate is projected to increase to 5.4 percent and 6.6 percent in 2008 and 2009, respectively.

Because of New York City's position as the financial capital of the world, the bonuses paid to Wall Street and other financial sector employees has a significant impact on the state economy, as well as revenues. It is estimated that financial sector bonuses could decline by as much as 50 percent in 2008. However, due to the timing of the payment of these bonuses, which are primarily paid within the first quarter of the succeeding year, the estimated decline in bonuses are not reflected in wages or personal income for 2008. As a result, baseline wages and personal income are estimated to increase by 4.3 percent and 4.6 percent, respectively. The growth in personal income is also augmented by the economic stimulus checks that were issued in the spring. In 2009, baseline wages are projected to decline by 0.5 percent, reflecting the projected decline in bonuses and employment. Baseline personal income is projected to grow by 1.0 percent, mainly due to slight growth in proprietor's income.

Baseline consumption in New York, as measured by retail sales, is estimated to grow by 1.8 percent in 2008. This growth, similar to the growth in consumption at the national level, is a reflection of the impact of the economic stimulus checks offset by the estimated decline in holiday sales. In 2009, baseline retail sales are projected to decline by 0.6 percent as the recession continues and employment and wages decline.

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 recovers or falls deeper into recession. For example, the impact of the TARP on the credit and financial markets is a significant risk to the forecast. If implementation takes too long and/or does not loosen up the credit markets, the securities markets continue to decline; businesses cannot invest in capital; and consumer confidence is eroded. Therefore, the recession deepens and economic recovery is postponed.

Another risk to the forecast is the possibility of another fiscal stimulus package at the Federal level. If passed, more aid flows to state and local governments; easing their budget burdens. This, in turn, would enable the state and local governments to maintain their spending in other areas; driving higher than baseline expenditures in this sector.

In addition to the unforeseen economic shocks, the forecast is at risk from the lack of accurate data due to the timing of the forecast. Current data for the decrease in GDP for the third quarter is subject to revision. Once all the data is reviewed, the previous estimate may change considerably. Variances in the data, whether positive or negative, can greatly affect the outcome of the forecast.

If the TARP does have its intended impact and the credit markets begin to loosen faster, Global Insight estimates that the economy could realize growth, albeit slow growth. Real GDP growth would be 1.6 percent and 1.0 percent in 2008 and 2009, respectively. Accompanying this growth would be no declines in employment and an increase in the unemployment rate to 6.7 percent instead of 7.2 percent.

However, if the TARP does not have its intended effects or there are any other negative shocks to the financial markets, real GDP could decline by 2.0 percent in 2009. Along with this prolonged contraction, the unemployment rate could increase to 8.0 percent and employment could continue to decline by 2.1 percent.

The timing of New York's fiscal year also affects the forecast, most notably in the forecast of tax collections. Although calendar year 2008 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 forecast of the national and state economies, affect the forecast going forward. Most notably is the payment of Wall Street bonuses that occur between December and March. In addition to the bonus payments, the final quarter of the calendar year, especially December, is when sales tax collections from holiday sales are realized and when businesses must make their final estimated payments for the year.

Economic Outlook (Percent Change)			
	2008	2009	2010
National Economy			
GDP	3.7 – 4.1	(0.2) – 3.7	2.2 – 4.8
Real GDP	(1.3) – 1.6	(2.0) – 1.0	0.8 – 2.8
Consumption Expenditures	0.4 – 0.6	(1.1) – 1.3	0.9 – 2.5
Government Expenditures	2.3	(0.3)	(1.1)
Exports	9.2 – 9.6	1.9 – 6.5	3.0 – 4.9
Imports	(1.8) – (2.4)	(7.3) – 1.5	2.7 – 6.7
CPI - All Urban, Percent Change	4.2 – 4.4	0.3 – 1.8	2.1 – 2.4
Pretax Corporate Profits	(6.6)	(0.1)	5.5
Personal Income	4.3 – 4.5	1.1 – 4.0	1.5 – 4.7
Wages and Salaries	3.6	2.2	3.7
Nonagricultural Employment	(0.2) -0.0	(2.1) – 0.1	(0.5) -1.2
Unemployment Rate	5.6 – 5.7	6.7 – 8.0	6.7 – 8.9
T-Note Rate, 10-Year	3.68 – 3.80	2.93 – 3.93	3.77 – 4.47
Standard and Poor's 500 Stock Index	(14.3) – (15.8)	(20.6) – 4.3	18.2 – 24.1
New York Economy			
Personal Income	4.5 – 4.6	0.2 – 1.7	3.4 – 4.6
Wages and Salaries	4.2 – 4.3	(1.6) – 0.0	3.2 – 4.3
Nonagricultural Employment	0.3 – 0.4	(1.8) – (0.4)	(0.4) – 0.6
Unemployment Rate	5.4 – 5.5	6.7 – 7.6	6.0 – 7.6
Source: Global Insight October Forecast			

Tax Collections

For SFY 2008-09, All Funds tax collections are estimated to increase from SFY 2007-08 collections. This growth primarily reflects strong collections in the first quarter of the year from final payments of personal income tax from the 2007 tax year and strong estimated payments. This growth is offset by a decline in business tax collections as a result of the financial market meltdown and the slowdown in the economy.

Tax collections for SFY 2009-10 are projected to decline, reflecting the effects of the recession both on business growth and on personal income tax returns for the 2008 tax year.

ALL FUNDS TAX COLLECTIONS (Millions of Dollars)						
	2008-09		2009-10		2010-11	
	Baseline	High Risk	Baseline	High Risk	Baseline	High Risk
Personal Income Tax	**38,127**	**37,505**	**37,289**	**35,911**	**40,779**	**37,111**
Withholding	29,269	28,597	29,517	28,139	31,329	29,039
Estimated Payments	12,525	12,575	11,318	11,318	12,901	11,702
Final Returns	2,713	2,713	2,640	2,640	2,824	2,645
Other	835	835	885	885	929	929
Gross Collections	45,342	44,720	44,360	42,982	47,983	44,315
Refunds	(7,215)	(7,215)	(7,071)	(7,071)	(7,204)	(7,204)
User Taxes and Fees	**14,278**	**14,278**	**14,487**	**13,955**	**15,005**	**14,543**
Sales and Use	11,234	11,234	11,391	10,863	11,931	11,471
Auto Rental	55	55	58	54	58	56
Motor Vehicle	733	733	743	743	746	746
Cigarette/Tobacco	1,343	1,343	1,383	1,383	1,361	1,361
Motor Fuel	518	518	518	518	517	517
Highway Use	147	147	147	147	147	147
Alcoholic Beverage	248	248	247	247	245	245
Business Taxes	**7,697**	**7,697**	**7,830**	**7,719**	**8,132**	**8,043**
Corporate Franchise	3,636	3,636	3,626	3,620	3,822	3,801
Corporate Utilities	790	790	800	800	812	812
Insurance	1,170	1,170	1,220	1,220	1,273	1,273
Bank	949	949	959	854	969	901
Petroleum Business	1,152	1,152	1,225	1,225	1,256	1,256
Other Taxes	**2,212**	**2,212**	**2,183**	**2,066**	**2,273**	**2,225**
Real Estate Transfer	840	840	829	829	936	936
Estate and Gift	1,348	1,348	1,330	1,213	1,313	1,265
Pari-mutuel	23	23	23	23	23	23
Other	1	1	1	1	1	1
Total All Funds Taxes	**62,314**	**61,692**	**61,098**	**56,651**	**66,189**	**61,922**

Personal Income Tax

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 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, 2008 wages would be reflected in 2008 withholding. However, personal income tax payments made with final returns are associated with the preceding year's income. As a result, final return payments made in 2008 are a reflection of income earned in 2007. The same pattern holds true for refunds.

Withholding collections for SFY 2008-09 are estimated to increase over SFY 2007-08 collections. Withholding collections for the current fiscal year are lower than the estimated increase in wages due to the fact that SFY 2007-08 collections included higher bonus payments than those estimated for the current fiscal year. The slower growth in the current fiscal year not only reflects the decline in the bonus payments but, also the estimated decline in employment and related wages in the fourth quarter of 2008 and first quarter of 2009. Currently, the forecast assumes a 50 percent decline in bonuses for the current fiscal year. However, if the decline in bonuses is larger and/or state employment declines further, withholding collections would be lower. For SFY 2009-10, withholding is projected to grow, reflecting the continued recession with recovery occurring in the latter part of the year.

Estimated payments are paid either quarterly throughout the year, mainly by the state's taxpayers whose income is not earned through the payment of wages, or with requests for the extension of filing one's annual return. As a result, these payments reflect both the current year's income as well as the previous year's income. Estimated payments are projected to increase in the current fiscal year, reflecting growth in extension payments as a result of personal income growth in 2007 and growth in proprietor's income. Of risk to this growth is the amount of quarterly estimated payments that are due in January. If the economic slowdown has had a larger negative effect on proprietors' incomes, the amount of estimated payments filed could be lower.

As the economy gets mired in the recession in the first half of 2009, payments made through estimated payments are projected to decline in SFY 2009-10. This decline represents both smaller growth in personal income in 2008 and 2009.

Collections of the personal income tax remitted with a taxpayer's annual return are a function of personal income of the prior year. Due to strong personal income growth in 2007, collections from final returns in SFY 2008-09 are estimated to increase. For SFY 2009-10, collections from final returns are projected to decline. Similar to estimated payments, this decrease reflects the slowdown in the economy in 2008.

Other personal income tax collections are primarily comprised of the assessments made on taxpayers for additional tax due as a result of audits. This category also includes filing fees paid by LLC's and partnerships. The amount of collections in this category is primarily a function of the number of audits and the income of the year being audited. The Department of Taxation and Finance is allowed a three year "window" to conduct audits. The amount is also a function of the number of LLC's and partnerships filing under the personal income tax. Other collections are estimated to decline in the current fiscal year and are projected to increase in SFY 2009-10.

Finally, if a taxpayer overpays his personal income tax, either through over-withholding or remitting excess estimated payments, he is allowed a refund of such overpayment when he files his annual return. With the proliferation of e-filing tax returns, the number of returns requesting refunds within the final quarter of the fiscal year has greatly increased. In SFY 2007-08, the amount paid within this time period was $1.5 billion. In SFY 2008-09, the amount of refunds to be paid in the final quarter will by $1.75 billion.

In the current fiscal year, the amount of refunds paid is estimated to increase. This increase is primarily the effect of the "spin-up" of refunds that would have previously been paid in the first quarter of SFY 2009-10. For SFY 2009-10, the amount of refunds is projected to decrease, reflecting the economic downturn offset by the spin-up.

User Taxes and Fees

Collections from user taxes and fees are comprised of: sales and use taxes, auto rental taxes, motor vehicle fees, cigarette and tobacco taxes, motor fuel taxes, alcoholic beverage taxes and license fees, and highway use taxes. Sales and use taxes are the main contributor to tax collections in this category.

Sales and use taxes for the current fiscal year are estimated to decline. This decrease is a result of an estimated decline in retail sales, primarily in the latter half of the fiscal year as the economic downturn dampens holiday sales.

Holiday sales as well as post-holiday sales as a result of the proliferation of gift cards have a large impact on sales tax collections during the final half of the fiscal year. Depending upon consumer sentiment in relation to the direction of the economy and the extent of job layoffs, the amount spent on holiday gifts will be adjusted downward or upward.

Sales and use tax collections for 2009-10 are projected to increase. This growth is mainly a reflection of a projected baseline increase in prices by 1.3 percent and economic growth projected for the final part of 2009.

Collections from the other taxes in this category do not normally fluctuate greatly from year to year. However, for SFY 2008-09, collections are estimated to increase significantly. This growth is attributable to the increase in the cigarette tax that was enacted as part of the SFY 2008-09 budget which went into effect in June. In SFY 2009-10, collections are only projected to return to their historical growth patterns, incorporating the full year impact of the cigarette tax increase.

Business Taxes

The type of business operating in New York determines the method by which the business pays its taxes. Corporations and banks pay taxes based primarily on their net income. Utilities pay their corporate taxes based on their gross receipts. Most insurance companies pay their corporate taxes based on the amount of their premiums. Life insurance companies are the exception; their taxes are based on their net income. The petroleum business tax is based on volume and the tax rate varies with the price of petroleum.

Business taxes are estimated to decrease in SFY 2008-09. This decrease reflects the drop in corporate profits for the year as well as the impact of the collapse of the financial markets, especially on bank tax collections. Depending upon the impact of the TARP as well as the timetable for full implementation, easing of the credit markets and stock market jitters may be prolonged, weakening corporate profits. As a result, corporate refunds could increase as well as causing a decline in collections from the March prepayment.

For SFY 2009-10, business tax collections are projected to grow, mainly due to increased petroleum business tax collections as a result of an increase in the price index upon which the tax is based. Otherwise, collections are projected to remain stagnant as the economy slowly recovers.

Other Taxes

Other taxes are primarily comprised of the estate and gift taxes, real estate transfer taxes, and pari-mutuel taxes. New York's gift tax was repealed in 2000 but, the State is estimated to receive collections from the tax in the current year as a result of audits.

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 2008-09 are estimated to increase primarily as a result of August collections from an extremely large estate.

Estate taxes are projected to decline in SFY 2009-10 as a result of the absence of any extremely large estates as seen in the current fiscal year. In addition, the projected decline in the stock market would serve to dampen any collections.

MISCELLANEOUS RECEIPTS

	SFY 2008-09 Estimated	SFY 2009-10 Projected	SFY 2010-11 Projected
Licenses, Fines, and Fees	593.0	665.6	596.0
Abandoned Property	750.0	700.0	700.0
Reimbursements	170.5	168.2	168.2
Investment Income	176.4	215.0	221.4
Other	836.9	668.0	665.0
Total	**2526.8**	**2,416.8**	**2,350.6**

General Fund miscellaneous receipts are estimated to total $2.53 billion in SFY 2008-09, $25 million below the Executive's estimate in the MidYear Update report. This reflects a 2.7 percent increase in receipts from 2006-07. This decrease is mainly due to decreased collections from investment income and other receipts as a result of the volatility in the financial markets.

Collections in SFY 2009-10 are projected to decrease by 4.3 percent as a result of the economic recession which is is a result of the loss of one time revenues such as the deposit to the General Fund from the Power Authority to support the Power for Jobs program and SONYMA. Collections in SFY 2010-11 are projected to decrease by 2.7 percent. Although investment income is projected to increase as the economy recovers in 2010, this increase is offset by a decrease in licenses and fees.

II. Overall Disbursements & Receipts

All Funds spending of $120.763 billion, including Federal Aid.

The Executive's Mid-Year Financial Plan Update for 2008-09 through 2011-12 estimates a $1.475 billion current services deficit for the current state fiscal year, which includes $427 million in savings from Legislative actions taken during the August 2008 Special Session.

The Division of Budget (DOB) estimates a current services budget gap of $12.5 billion for SFY 2009-10, an increase of approximately $6 billion from the Division's previous estimate in the First Quarter Financial Plan Update.

The bond ratings for New York State remain unchanged from 2006.

From SFY 2006-07 to SFY 2008-09, All Funds spending increased by approximately **$8 billion** or **7 percent**, this represents an average increase of **3.5 percent, annually over two years**.

A two year trend more clearly illustrates state spending increases because many of the items that are labeled as "spending" are actually cost shifting (i.e. from the property tax base to broad based state taxes) and onetime accounting measures, many of which occurred in the prior year. Examples from previous years include the local Medicaid cap, Family Health Plus Takeover, substantial school aid increases and ongoing property tax rebates paid directly to taxpayers. The above items are examples of transactions that increase the size of the State budget but are not increases in overall spending.

The single year All Funds increase from **SFY 2007-08 to SFY 2008-09** is $**4.7 billion or 4.0 percent**.

Spending on **Education** (K-12/Higher Education) accounts for approximately $40 billion and spending on **Health/Mental Hygiene** is estimated at $46 billion on an All Funds basis, combined they represent approximately 71 percent of the total $120.763 billion budget for SFY 2008-09. Moreover increases in these areas account for approximately 84 percent of the net budget growth in 2008-09.

The "structural gap" refers to the degree that current services spending is estimated to differ from revenues in years following the current budget year.

In the past the Executive consistently overestimates the out year gaps. **Over the past three years, DOB has overestimated the out year gaps by an average of $5.7 billion.** Although recent events in the financial markets are likely to have a negative impact on tax receipts for the second half of the year, General Fund receipts are $138 million higher than projected in the First Quarter Update and spending $203 million lower. However, the Executive has nearly doubled the three year structural deficit from the **$26.2 billion** estimated in the First Quarter Financial Plan Update ($6.4 billion in 2009-10, $9.3 billion in 10-11, and $10.5 billion in 11-12) to **$45.5 billion** ($12.5 billion for SFY 2009-10, $15.7 billion for SFY 2010-11, and $17.2 billion for SFY 2011-12).

The Adopted Budget includes total General Fund reserves of $1.6 billion, equal to 2.87 percent of General Fund spending (1.89 percent of State Funds spending). The Tax Stabilization Reserve Fund has a balance of just over $1 billion (out of a total of $1.6 billion in reserves for SFY 2008-09).

Due to anticipated economic weakness, DOB has lowered the forecast of General Fund tax revenue by $1.7 billion for SFY 2008-09 and 5.8 billion for SFY 2009-10. Over the past three years General Fund tax revenue has exceeded DOB projections by an average of $1.5 billion per year or 4.3 percent.

SENATE FINANCE MEDICAID FORECAST GENERAL FUND

SFY 2008-09

Spending Category	DOB Recast	SFC Recast	Dollar Change	Percent Change
Hospital /Clinics	$2,738,000,000	$2,741,198,529	$3,198,529	0.12%
Nursing Homes	$2,993,000,000	$2,933,246,581	($59,753,419)	-2.00%
Managed Care	$1,500,000,000	$1,581,678,455	$81,678,455	5.45%
Home Care	$2,265,000,000	$2,200,148,889	($64,851,111)	-2.86%
Non-Institutional / Other	$889,000,000	$927,591,388	$38,591,388	4.34%
Pharmacy	$1,333,000,000	$1,343,548,269	$10,548,269	0.79%
Family Health Plus	$862,000,000	$825,416,586	($36,583,414)	-4.24%
TOTAL BASE	$12,580,000,000	$12,552,828,697	($27,171,303)	-0.22%
Adjustments	($3,603,000,000)	($3,603,000,000)	$0	0.00%
TOTAL ADJUSTED BASE	**$8,977,000,000**	**$8,949,828,697**	**($27,171,303)**	**-0.30%**

SFY 2009-10

Spending Category	DOB Recast	SFC Recast	Dollar Change	Percent Change
Hospital /Clinics	$2,924,000,000	$2,840,830,751	($83,169,249)	-2.84%
Nursing Homes	$3,373,000,000	$3,346,683,906	($26,316,094)	-0.78%
Managed Care	$1,870,000,000	$1,904,946,122	$34,946,122	1.87%
Home Care	$2,544,000,000	$2,460,173,573	($83,826,427)	-3.30%
Non-Institutional / Other	$1,217,000,000	$1,175,405,291	($41,594,709)	-3.42%
Pharmacy	$1,503,000,000	$1,473,689,089	($29,310,911)	-1.95%
Family Health Plus	$862,000,000	$852,635,498	($9,364,502)	-1.09%
TOTAL BASE	$14,293,000,000	$14,054,364,230	($238,635,770)	-1.67%
Adjustments	($3,468,000,000)	($3,468,000,000)	$0	0.00%
TOTAL ADJUSTED BASE	**$10,825,000,000**	**$10,586,364,230**	**($238,635,770)**	**-2.20%**

SFY 2010-11

Spending Category	DOB Recast	SFC Recast	Dollar Change	Percent Change
TOTAL ADJUSTED BASE	**$12,225,000,000**	**$11,221,546,083**	**$ (1,003,453,917)**	**$ (1,003,453,917)**

Senate vs DOB SFY 2008-09 through 2010-11

State Fiscal Year	DOB	Senate	Dollar Change	Percent Change
2008-09	$8,977,000,000	$8,949,828,697	**($27,171,303)**	-0.30%
2009-10	$10,825,000,000	$10,586,364,230	**($238,635,770)**	-2.20%
TWO YEAR MEDICAID RE-ESTIMATE			**($265,807,073)**	

III. Medicaid

Methodology

The Senate Finance Medicaid forecast model uses projections of price and the number of service units to forecast Medicaid expenditures, based on Management Account Reporting Subsystem (MARS) data, specifically, report numbers 39, 51, 72 and 73. Projections for the current and immediately following year are based on analysis of actual data and service category trends. Projections for the third year in the trend are based upon a combined increase of Medicaid price and utilization of six percent for SFY 2010-11 (assumes the Legislature will enact cost-living-increases and provider rate adjustments and that the number of Medicaid enrollees will increase modestly).

The Senate forecast is based on quarterly data, which tend to be more reliable than monthly data. In addition, while the forecast is based on a year to year comparison, trends for each category of service are examined for multiple prior years in order to analyze historical trends.

The Senate model is composed of five components: **institutional** (hospital inpatient and nursing homes); **non-institutional** (hospital outpatient and freestanding clinics); **managed care** (HMO services and Family Health Plus); **non-institutional long term care** (assisted living, home care and long term managed care); and **other services** (including rehabilitative services, physicians, hospice, practitioners, dental, transportation, vision, durable medical equipment, pharmaceuticals, lab and other health care support services).

Both models forecast General Fund disbursements for Medicaid and include adjustments to remove amounts financed through Health Care Reform Act (HCRA) revenue sources. The Senate Finance model can also be articulated with the high level categories of service used by the Division of the Budget (DOB) in the Financial Plan and periodic updates.

Mid-Year Projections

Over the next two years the Senate projects General Fund Medicaid spending to increase by an aggregate amount of approximately $1.8 billion, which is $265 million less than projected by the Executive. The Senate Finance Mid-Year Review projects General Fund Medicaid baseline expenditures for SFY 2008-09 at $8.95 billion compared to the SFY 2008-09 Enacted Budget General Fund Medicaid expenditures of $9.2 billion. The Senate projections for 2009-10 and SFY 2010-11 are $10.6 and $11.6 billion respectively.

Over the next three years the Executive projects General Fund Medicaid spending to increase by an aggregate amount of $3.2 billion. The Executive Mid-Year Financial Plan Update projects General Fund Medicaid disbursements of $8.977 billion, a statistically negligible decrease of $21 million from the SFY 2007-08 Adopted Budget. However, on a State Funds basis, the Executive anticipates Medicaid spending for SFY 2008-09 to increase by $211 million from SFY 2007-08. This increase is financed through an increase in the amount subsidized by HCRA of $256 million (“the HCRA offload”). The Executive projections for SFY 2009-10 and 10-11 are $10.825 billion and $12.225 billion respectively.

The lower SFY 2008-09 Medicaid spending contained is the Senate Finance mid-year forecast is attributed primarily to lower spending nursing homes, home care and Family Health Plus. This trend carries forward into SFY 2009-10 where there the Senate forecast also predicts lower spending in hospitals and clinics. Below is an analysis of how the Senate forecast differs from the Executive. The categories are presented in the same organizational format as used by the Executive in the Mid-Year Financial Plan Update.

Hospitals and clinics. The Executive projects hospital and clinic spending to be approximately 2.7 billion for SFY 2008-09 and $2.9 billion for SFY 2009-10. These amounts represent increases of $109 million in SFY 2008-09 and $186 million in SFY 2009-10. The Senate recast is approximately $3.2 million over the Executive for SFY 2008-09 and approximately $92 million under the Executive for SFY 2009-10. For free standing clinics the cost per unit of service is staying about the same.

For hospital inpatient service the overall number of service units trending slightly downwards between SFY 2007-08 and SFY 2009-10 (from 5.6 million in 5.4 million or approximately four percent). While at the same time, the cost per unit trending up (from approximately $1,100 to $1,300). The average number of beneficiaries is staying about the same. The Executive defines an inpatient service unit as services provided to one beneficiary.

Outpatient service units are trending downwards from approximately 12.2 million to 9.4 million a reduction of nearly 25 percent. Cost per unit is trending up from approximately $93 to $104. The average number of beneficiaries are trending down.

For clinics, the number of service units trending upward while cost per unit is staying about the same and average number of beneficiaries is trending down. The same dynamics effecting outpatient service utilization probably apply to free standing clinics. For both outpatient services and clinics the Executive defines a service unit as one visit.

Nursing homes. The Executive projects nursing home spending to be approximately $2.9 billion in SFY 2008-09 and 3.4 billion in SFY 2009-10. These amounts represent increases of $208 million in SFY 2008-09 and $380 million in SFY 2009-10. The Senate recast is approximately $60 million lower than the Executive for SFY 2008-09 and $26 million for SFY 2009-10. For nursing homes, the Executive defines a service unit as one bed day.

Managed care. The Executive projects managed care spending to be $1.5 billion for SFY 2008-09 and $1.85 billion for SFY 2009-10. These amounts represent increases of $159 million and $370 million respectively. The Senate recast estimates managed care spending for SFY 2008-09 to be approximately $1.6 billion and $1.8 billion for SFY 2009-10. These amounts are approximately $82 million over the Executive for SFY 2008-09 and $90 million under the Executive for 2009-10. This calculation is arrived at by taking the average number of beneficiaries for HMO services over the appropriate twelve months and multiplying that amount by a monthly premium. The premium amount was derived at using the monthly premium of Family Health Plus as a base. Reductions were made to reflect the cost per service unit under HMO services.

Trends indicate the average number of beneficiaries, number of service units and state share percentage increasing significantly; however, the cost per unit is going down. From SFY 2007-08 to SFY 2009-10, it is expected that the number of services units will increase from approximately 30 million to 33 million, the cost per unit looks like it might decrease significantly with the state share increasing from 34 to 38 percent.

For managed care, utilization is not measured by service units, both the Executive and the Senate Finance forecast trend the average number of beneficiaries and multiply that amount by an assumed monthly premium. The Executive adds other assumptions to the projection.

Home care. The Executive projects home care spending to be approximately $2.3 billion for SFY 2008-09 and $2.5 billion for SFY 2009-10. These amounts represent increases of $215 million and $279 million respectively. The Senate recast estimates home care spending for SFY 2008-09 to be approximately $2.2 billion and $2.4 billion for SFY 2009-10; which equates to approximately $65 million less than the Executive in SFY 2008-09 and approximately $121 million less than the Executive for SFY 2009-10. The category corresponding to home care in the Senate model is non-institutional long term care which includes assisted living, home nursing, long term home health care waived services (LTHHC), long term managed care, home health aide and personal care services. Broadly stated, overall trends seem to indicate that the price for these services are increasing while less people are being served as evinced by the average number of beneficiaries going down while the cost per service unit going up. For home care services, the Executive defines one service unit as an hour of service delivered.

Non-institutional/other. The Executive projects non-institutional/other spending to be approximately $890 million for SFY 2008-09 and $1.2 billion for SFY 2009-10. These amounts represent a decrease of $515 million in SFY 2008-09 and an increase of $328 million in 2009-10. The Senate recast estimates non-institutional spending to be approximately $928 million for SFY 2008-09 and approximately $1.2 billion for SFY 2009-10; which equates to approximately $39 million more than the Executive for SFY 2008-09 and $42 million less than the Executive for SFY 2009-10. The category corresponding to non-institutional care in the Senate model includes a wide array of items such as dentists, therapists, practitioners, physicians, lab, x-ray, durable medical equipment, transportation, eyeglasses, case management and other items.

Pharmacy. The Executive projects pharmacy spending to be approximately $1.3 billion for SFY 2008-09 and $1.5 billion for SFY 2009-10. These amounts represent increases of $51 million and $170 million respectively. The Senate recast estimates pharmacy spending to be approximately $11 million above the Executive in SFY 2008-09 and $29 million below the Executive in 2009-10.

Family Health Plus. The Executive projects Family Health Plus spending of $862 million for SFY 2008-09 and SFY 2209-10. The Senate Finance forecast projects spending of approximately $825 million for SFY 2008-09 and $853 million for SFY 2009-10. These amounts are approximately $37 million and $9 million under the Executive for SFY 2008-09 and SFY 2009-10 respectively.

The Senate recast derived the Family Health Plus estimate by taking the 12 month state share actual from MARS 72 and multiplying that amount by 50 percent (approximately $924 million X .5 = $462 million). Next, a monthly premium of $291 was assessed against 530,000 members for SFY 2008-09 and 550,000 members for SFY 2009-10 (yielding $825 million and $853 million respectively). Those annual amounts were multiplied by 50% and again multiplied by the state share percentage. These amounts were added to the $462 million above to arrive at the Senate recast numbers for Family Health Plus.

IV. Public Assistance

Background

Public Assistance consists of two major categories of recipients: Family Assistance and Safety Net Assistance. The Office of Temporary and Disability Assistance administers these programs which are offered to eligible low to moderate income families and individuals. Family Assistance is financed through federal funds from TANF (Temporary Assistance for Needy Families), State funds, and local government funds. Safety Net Assistance is financed by only State and Local governments and is provided to eligible individuals and families who have exhausted their five-year time limit for TANF eligibility.

Current Year

All categories of public assistance caseloads were determined by analyzing a multi-year trend of the change in actual monthly caseload over a three year period from August 2005 through August 2008. While current baseline trends indicate a further decline in Public Assistance caseload, the current projections for a rise in unemployment will intervene to reverse the multi-year trend of declining caseloads. The Senate Finance analysis indicates that although there has been a downturn in the economy, as in the past there is a lag on the impact of public assistance caseload in relation to changes in economic conditions, such as unemployment. The effects will not be seen until subsequent years therefore caseload may continue to decrease at a lesser rate, in line with current trends for the next fiscal year.

Family Assistance

New York City

For SFY 2009-10, the Family Assistance caseload for New York City (NYC) is projected at 143,722, a decrease of 2,946 or 2.1 percent from the Executive's Mid-Year Financial Plan update. The Monthly Average Payment for NYC is projected at $392.76, consistent with the Executive's Mid-Year Financial Plan update.

Rest of State

For SFY 2009-10, the Family Assistance caseload for the Rest of State (ROS) is projected at 83,759, a decrease of 1,534 or 1.8 percent from the Executive's Mid-Year Financial Plan update. The Monthly Average Payment for ROS is projected at $280.58, consistent with the Executive's Mid-Year Financial Plan update.

Safety Net Families

New York City

For SFY 2009-10 the Safety Net Families caseload for New York City (NYC) is projected at 88,314, a decrease of 1,560 or 1.7 percent from the Executive's Mid-Year Financial Plan update. The Monthly Average Payment for NYC is projected at $260.13, consistent with the Executive's Mid-Year Financial Plan update.

Rest of State

For SFY 2009-10 the Safety Net Families caseload for the Rest of State (ROS) is projected at 28,148, a decrease of 387 or 1.4 percent from the Executive's Mid-Year Financial Plan update. The Monthly Average Payment for ROS is projected at $209.41, consistent with the Executive's Mid-Year Financial Plan update.

Safety Net Singles

New York City

For SFY 2009-10, the Safety Net Singles caseload for New York City (NYC) is projected at 98,572, a decrease of 766 or 0.8 percent from the Executive's Mid-Year Financial Plan update. The Monthly Average Payment for NYC is projected at $493.21, consistent with the Executive's Mid-Year Financial Plan update.

Rest of State

For SFY 2009-10, the Safety Net Singles caseload for the Rest of State (ROS) is projected at 46,413, an increase of 1,160 or 2.6 percent from the Executive's Mid-Year Financial Plan update. The Monthly Average Payment for ROS is projected at $360.17, consistent with the Executive's Mid-Year Financial Plan update.

Statewide Totals

For SFY 2009-10, the Senate projects a statewide total caseload of 488,928, reflecting a decrease of 6,033 or 1.2 percent from the Executive's Mid-Year Financial Plan update. The Senate projects a total State share cost related to that caseload of $805.1 million for SFY 2009-10, reflecting a $7.4 million or 0.9 percent decrease from the Executive's Mid-Year Financial Plan update.

These projections presume economic activity to be approximately consistent with the economic forecast included within this document. If economic activity varies in any measured amount from those projections, caseload numbers will change accordingly.

V. School Aid

I. State Fiscal year 2008-09 Enacted Spending

The Legislature and the Governor enacted a general support for public schools program totaling $21.45 billion. This represented a $1.8 billion increase over the 2007-08 school year. On a State Fiscal Year basis this increase translates into an additional $1.7 billion in education spending for SFY 2008-09 after the "tail" for the 2007-08 school year is accounted for.

II. Current Year Spending Projections

Over the course of the State Fiscal Year the State Education Department (SED) is required to update State aid claims for school districts. These aid claim updates occur statutorily in May, November and February on or before the 15th of each respective month. Typically the school aid figures in each year's enacted budget are based upon data submitted by school district's on February 15th. The most recent data we currently have is an unofficial update provided by SED in September. The SFY 2008-09 spending projections for school aid included in this report are based on this unofficial September data. The data submitted by school districts includes changes for the 2008-09 school year in addition to changes for the 2007-08 school year and the 2006-07 school year. The updated claims submitted by school districts from the 2006-07 school year and the 2007-08 school year affect the spending in the 2008-09 "tail" (funding from the prior year included in the current year).

Analysis of projected participation in the Universal Pre-K program reveals that as of this printing New York City is projected to not use $43 million of its allocation. It is also expected during the November 15th update that all eligible schools will not opt into the program. SED estimates that 283 school districts, that were appropriated funds in the 2007-08 school year, have not opted in. It is expected that $15 million of those funds outside of NYC will not go out the door in 2008-09. This will reduce the State Fiscal Year need for 2008-09 by $40.6 million as well as the amount needed for 2009-10. The following table provides a State Fiscal projected change for the 2007-08:

SFY 2007-08 State Aid Adjustments	
Item	Amount
2006-07 and 2007-08 State Aid Claim Adjustments	$108.5 million
2008-09 Change (September update)	$106.33 million
2008-09 Pre-K adjustment (non-participation projection)	($40.6 million)
Total Adjustment	$173.6 million

As noted above, these estimates are likely to change when we receive the more recent claims data districts will be submitting for the November 15th database update. In past years these fluctuations in claims were substantial. In 2008-09 between enactment of the budget and the following August (4 months later), claims increased by $106 million.

III. Projected 2009-10 Spending:

The largest projected increase in current services education spending is within Foundation Aid. The third year of the Foundation Aid phase-in is $1.37 billion in the upcoming fiscal year, 2009-10. At the time of the 2007-08 budget enactment Foundation aid was projected to increase to $5.5 billion by SFY 2010-11. The first year of the phase-in provided a $1.1 billion increase in Foundation Aid. The second year of the phase-in provided a $1.2 billion increase for the 2008-09 school year. There is $3.2 billion remaining in the four year phase-in plan. These projections are based on the statutory provisions set in Education Law section 3602.

Beyond Foundation Aid, the largest increases will come in expense based aids such as building aid, transportation aid, BOCES and private excess cost aid. Actual claim data for these aid categories are not available until November 15, 2008. Therefore, forecasts of these expense based aids, a large aid category are limited to analysis of prior year annual average growth over the last eight years. This method provides an estimate of changes we are likely to see in the November update. The following chart provides the average annual increases in these aid categories and the projected increases for 2008-09:

2008-09 School Year Aid Projections Expense Aids (millions)				
Aid	Annual Average Growth	2008-09 Amount	2009-10 School Year Projected	2009-10 School Year Projected Increase
Building Transportation BOCES Private and High Cost Excess Cost Aid Instructional Materials	8%	$4,795	$5,179	$384

Most of the remaining aid categories will continue to provide the same funding as 2008-09. The following table provides a listing of aid categories expected to be sustained in 2009-10:

2008-09 School Year Aids Expected to Remain Unchanged	
Aid Category	2008-09 and 2009-10 Projected Funding
Rochester Community Schools Pilot	$2,000,000
Native American Education/Building	$39,000,000
Shared Services	$137,101,691
Incarcerated Youth	$17,500,000
Homeless Education/Transportation	$9,225,000
Supp. Ed. Imp. NYC/Aca. Ach. Grant Yonkers	$18,700,000
Employment Preparation Education	$96,000,000
Bilingual Education	$12,500,000
Charter School Incentive Aid	$21,174,006
Education of OMH/OMR	$66,000,000
Teacher Programs	$75,000,000
Student Health Services	$13,840,000
Other	$172,014,812

Several programs are expected to change from the 2008-09 school year. As noted above Universal Pre-K spending is expected to decrease as result of fewer districts opting into the program than anticipated. Total general support for public schools program (GSPS) is expected to reach $23 billion when the expected second year phase-in of Foundation Aid is added to the projected changes in the expense based aids. This estimate represents a $1.75 billion school aid increase over the 2008-09 school year. The projected increase includes the following components:

2008-09 School Year Projections General Support for Public Schools (billions)				
Aid Category	2008-09	2009-10	Change Amount	Change Percent
Foundation Aid	$14.87	$16.24	$1.37	9.0%
Expense Aids	$4.79	$5.17	$.38	8.0%
Universal Pre-K	$.393	$.393	$.00	0.0%
High Tax Aid	$.204	$.204	$.00	0.0%
All Other	$1.20	$1.20	$.00	0.0%
Total	$21.46	$23.21	$1.75	8.2%

This projected increase in school aid when translated into a fiscal year cost for SFY 2009-10 amounts to $1.19 billion. In total the projected increase on a State Fiscal Year basis is expected to grow by approximately $1.7 billion after the 2007-08 school year "tail" which is appropriated in SFY 2008-09.

IV. Projected 2010-11 Spending:

The same aid categories are expected to increase in the 2010-11 school year as the State moves into the fourth and final year of the Foundation Aid phase-in. Expense base aids are also expected to continue to trend up in the 2010-11 school year. Together these increases are expected to $2.2 billion on a school year basis. This will bring total school aid to $25.42 billion. The state financial plan impact of school aid in 2010-11 will include the 2009-10 "tail" as well as the costs associated with statutory increases. In total school aid spending for SFY 20010-11 is estimated to grow by an additional $2 billion. The following table provides the school year increases projected for the 2010-11 school year:

2010-11 School Year Projections General Support for Public Schools (billions)				
Aid Category	2009-10	20010-11	Change Amount	Change Percent
Foundation Aid	$16.24	$18.04	$1.8	11.08%
Expense Aids	$5.17	$5.58	$.413	8%
Universal Pre-K	$.393	$.393	$.00	0.0%
High Tax Aid	$.204	$.204	$.00	0.0%
All Other	$1.20	$1.20	$.00	0.0%
Total	$23.21	$25.42	$2.21	9.0%

The Senate projects total lottery revenue generated for education at approximately $3 billion for SFY 2008-09 and $2.8 billion for SFY 2009-10. For, SFY 2010-2011 total net lottery revenue is estimated at $3.1 billion. All three years reflect downward adjustments from the SFY 2008-09 Enacted Budget estimates. These estimates include the upfront payment of $370 million for the new facility at Aqueduct, assume a temporary facility becoming operational in SFY 2009-10 and assume that the new facility at Aqueduct will be fully operational by SFY 2010-11.

The purpose of the Lottery is to raise revenues for education through the sale of traditional lottery games and video lottery terminals.

There are many variables and factors that influence consumer demand for Lottery products including: pricing; size of jackpots; prize payout percentages; and development of new gaming venues. Competition and Lottery's investment in advertising and promotion of the games also impact Lottery revenues. Additionally, the revenue generated from the introduction of new games is partially offset by reductions in receipts for existing games. New York's markets have diverse census tracks that make continual shifts in the previous noted factors necessary to ensure maximum revenues are derived for education funding from the games. It is apparent that the State's economy may not be directly related to the Lottery's fiscal history as evidenced by eight straight years of continued growth in Lottery revenue. However, historical percentages of revenues from the traditional lottery games realized a slight decrease when Video Lottery Terminals (VLT) began operations in 2005. Any shift in the variables and factors that impact the games can produce large revenue variances in estimates. For example, year to date receipts show that New York is experiencing a double digit decrease in VLT receipts at Monticello Raceway because Pennsylvania established a significant number of VLT machines within a short distance. In contrast, stronger revenues were recognized at Saratoga Raceway due to aggressive marketing techniques by the local management team.

APPENDIX

THE NEW YORK STATE TAX REVENUE AND ECONOMY MODEL

Technical Characteristics

This report represents a continuation of the long-standing relationship between the Senate Finance Committee and Global Insight. Prior to 1995, Global Insight (formerly WEFA) produced both the economic and revenue forecasts and issued a final report to the Senate Finance Committee. Under a relationship now in its eighth year, Global Insight continues to produce the economic and tax revenue forecasts using the New York State Tax and Revenue Model (NYSTREM) and serves in an advisory capacity to the Senate Finance Committee in the development of revenue forecasts.

The New York State Tax Revenue and Economy Model (NYSTREM) was developed for the New York State Senate by Global Insight to provide forecasts of quarterly tax revenues, by tax category, on a timely basis with the greatest accuracy possible. The model captures the latest historical and forecast information of the U.S. economy, the New York State economy, and New York State tax revenues.

The model and forecasting procedures have the following characteristics and considerations:

- the model is based on economic theory and tax revenue accounting relationships;
- tax variables are first seasonally adjusted to obtain consistency with other seasonally adjusted national and New York State data in modeling and forecasting processes, and are transformed back into non-seasonally adjusted variables to reflect the seasonality of tax collections;
- the New York State economy part of the model belongs to the system of Global Insight's Quarterly State Econometric Model. This system is composed of 51 state and D.C. models, which is further linked to Global Insight's national social and economic forecasting system;
- all of the expertise of the Global Insight Regional Economics Group is embedded in the modeling and forecasting processes;
- the Senate Finance Committee has access to the latest historical data and Global Insight's forecast of the U. S. economy each month; and
- NYSTREM is implemented in AREMOS, Global Insight's proprietary, state-of-the-art, econometric, PC-based software, providing the New York Senate Finance Committee with the ability to carry out simulations of the model as needed.

Equations in the model were estimated with the most appropriate methods that econometrics theory suggests based on the availability and characteristics of the data. Because state tax revenue is determined by the state, as well as the national economy, many U. S. and New York State economic and social variables must be used to provide an explanation of New York State tax revenue. Therefore, besides forecasting New York State's tax revenue, NYSTREM also forecasts the State's following variables:

- 2-digit manufacturing (20 components) and 1-digit non-manufacturing employment (17 components);
- 14 components of real income;
- 17 components of nominal income;
- 8 components of population by age;
- 18 components of net migration by age;
- 8 components of household by age and sex of head;

- 2 components of retail sales;
- housing starts, sales and prices;
- passenger motor vehicle registration;
- pari-mutuel racing attendance;
- total retail sales; and
- alcoholic beverage sales volume.

Global Insight needs to process hundreds of endogenous and exogenous data series for estimating equations in the model and producing the forecasts.