



2007-08 Enacted Budget Overview



New York State

April 30, 2007

Executive Summary

- 2007-08 Budget was enacted on April 1, 2007 in time for the start of the fiscal year.
 - Third consecutive “on-time” budget.
 - All Debt Service appropriations passed on March 27, without legislative modification.
 - Governor did not veto any legislative changes.
- The Executive Budget’s fundamental reforms survived intact, with relatively minor adjustments agreed to in negotiations.
 - Dramatic and permanent overhaul of School Aid formula.
 - Extensive restructuring of health care financing system, with dollars following patients.
 - New School Tax Relief targeted to the Middle Class.
 - Deposits to the Debt Reduction and Rainy Day Reserves.
- The Enacted Budget for 2007-08 is soundly balanced.
 - \$1.2 billion in new resources will finance an equal level of legislative additions.
 - Maintains over \$3 billion in total reserves (\$2.7 billion for unforeseen needs/gap-closing).
 - Spending growth below 2006-07 results and in line with Executive recommendations.
- Financial Plan supported by cautious revenue and spending estimates.

Reform Scorecard

Proposal	Budget Outcome
School Aid	<ul style="list-style-type: none"> - New Foundation Aid Formula based on student needs and local “ability to pay.” - Formula sends over 95 percent of aid increase to high-need and average-need districts. - New Accountability Standards will promote quality outcomes. - Increases outside of Foundation Aid for one year only.
Health Care	<ul style="list-style-type: none"> - Almost \$1.2 billion in State savings – over 80 percent of Executive proposal. - Reforms cover a broad spectrum: drugs, rates and subsidies, audits, eligibility. - Hospitals serving a high share of Medicaid clients avoid significant reductions. - Insurance access extended to 400,000 children.
Middle-Class STAR	<ul style="list-style-type: none"> - New program benefits homeowners with incomes of \$250,000 or less. - Addresses key issue of tax affordability. - Annual cost of program reduced by roughly \$200 million in negotiations.
Fiscal Policy	<ul style="list-style-type: none"> - Maintains \$3 billion in general reserves, equal to 5.7 percent of spending. - Deposits for debt reduction (\$250 million) and the new Rainy Day Reserve (\$175 million). - Gaps up modestly from Executive level, but remain manageable.
Tax Policy	<ul style="list-style-type: none"> - \$450 million in loophole closers that eliminate unintended tax advantages. - \$150 million in broad-based business tax reductions.

FY 2007 Ends with \$1.5 Billion Surplus

Summary of 2006-07 General Fund Operating Results Initial to Year-End Results Savings/(Costs) (millions of dollars)

Initial Projected Surplus/(Gap)	<u>0</u>
<i>Revenue Revisions (excluding timing)</i>	<u>1,503</u>
Personal Income Tax	328
Business Taxes	989
All Other Taxes	151
User Taxes and Fees	(61)
All Other (incl. transfers)	96
<i>Spending Revisions (excluding timing)</i>	<u>(173)</u>
Higher Education	(395)
School Aid	(129)
Medicaid	160
Other Education Aid	175
All Other Changes	16
<i>Change in Reserves</i>	<u>163</u>
Tax Stabilization Reserve Fund Deposit	(87)
Use Debt Reduction Reserve Fund	250
Net Surplus/(Gap)	<u><u>1,493</u></u>

- ❑ State ended 2006-07 with \$1.5 billion surplus -- the fourth consecutive surplus since FY 2003.
- ❑ Tax receipts far exceeded projections, especially business and personal income tax collections.
- ❑ Spending above planned levels for CUNY and schools based on updated data was offset by lower Medicaid and other education costs.
- ❑ The surplus calculation excludes “timing”-related transactions totaling \$565 million.
- ❑ “Timing” consisted mainly of higher payments for Medicaid, capital projects, and debt service in 2006-07 with corresponding reduction in 2007-08.

National Economic Outlook

- ❑ Consistent with the Executive Budget forecast, DOB expects the national economic slowdown to continue through the first half of 2007, due to a substantial inventory correction and a severe residential housing market contraction.
- ❑ The U.S. economy is expected to grow 2.4 percent for 2007.
- ❑ Federal Reserve appears to be managing a soft landing and is not expected to alter its short-term interest rate target this year. Given the current stable interest rate environment, the housing market is expected to bottom out in early 2008, with household spending remaining close to its long-term growth rate.
- ❑ U.S. employment growth is projected to slow to 1.3 percent for 2007, following revised growth of 1.9 percent for 2006, with the unemployment rate expected to gradually creep up over the year.
- ❑ DOB projects inflation of 2.2 percent for 2007, down from 3.2 percent for 2006. Personal income is expected to grow 5.5 percent in 2007, following 6.3 percent growth for 2006.

U.S. Forecast Comparison

U.S. ECONOMIC FORECAST COMPARISON

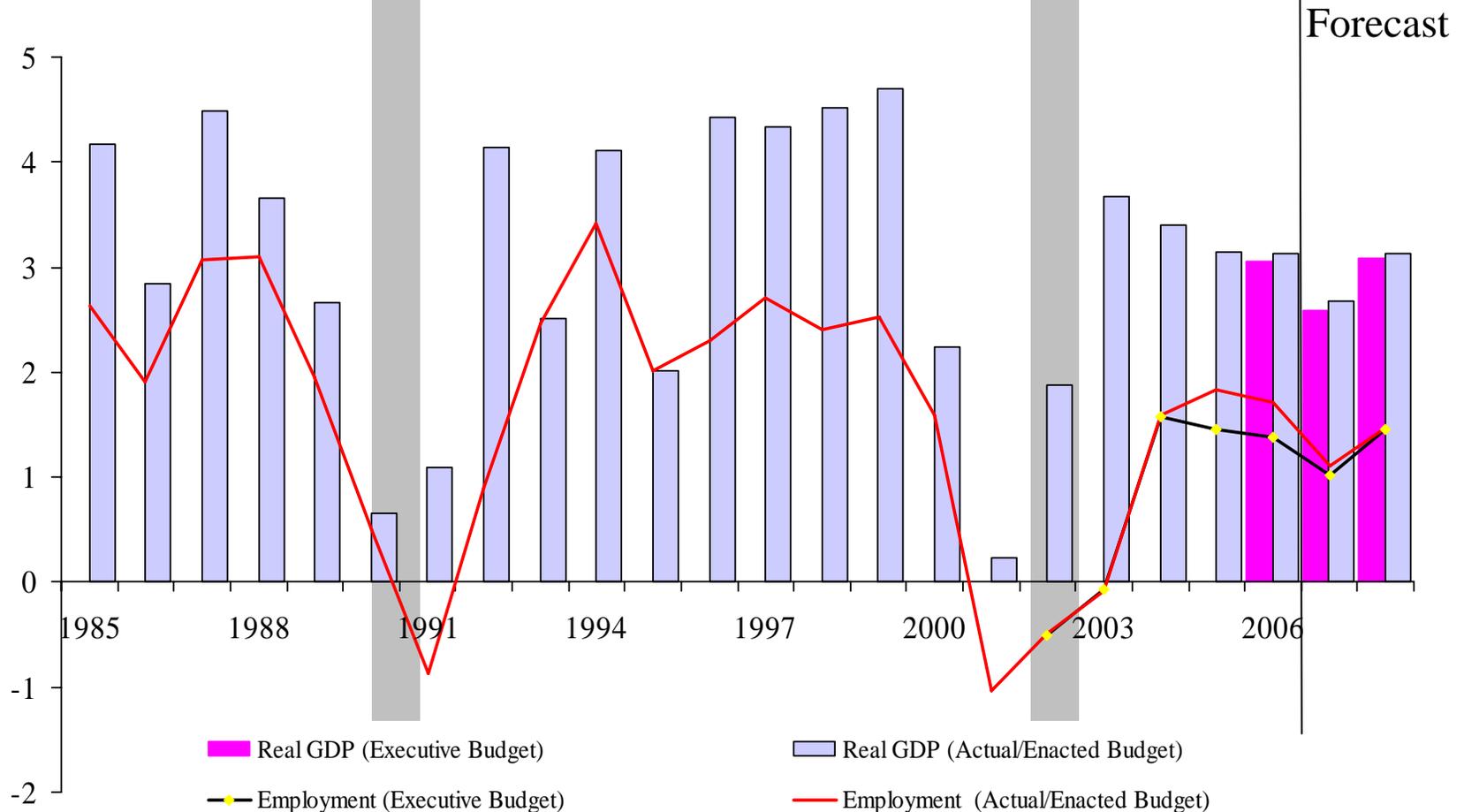
	2005 (actual)	2006 (actual)	2007 (forecast)	2008 (forecast)	2009 (forecast)
Gross Domestic Product (GDP)					
(2000 chained, percent change)					
DOB	3.2	3.3	2.4	3.0	3.3
Blue Chip Consensus	3.2	3.3	2.3	2.9	NA
Moody's Economy.com	3.2	3.3	2.4	3.1	NA
Global Insight	3.2	3.3	2.1	2.8	3.3
Macroeconomic Advisers	3.2	3.3	2.2	2.8	NA
Consumer Price Index (CPI)					
(percent change)					
DOB	3.4	3.2	2.2	2.5	2.5
Blue Chip Consensus	3.4	3.2	2.1	2.4	NA
Moody's Economy.com	3.4	3.2	1.9	2.1	NA
Global Insight	3.4	3.2	2.1	1.9	2.0
Macroeconomic Advisers	3.4	3.2	2.3	2.6	NA

Source: Projections for 2007-2010 by New York State Division of the Budget, April 2007; Blue Chip Economic Indicators, April 2007; Moody's Economy.com, Macro Forecast, March 2007; Global Insight, US Executive Summary, April 2007; and Macroeconomic Advisers, Economic Outlook, April 2007.

- DOB's 2007 forecast for real GDP growth appears on the high end but the spread among forecasters is relatively narrow, ranging from 2.1 percent to 2.4 percent.
- DOB's 2007 forecast for inflation is near the high end.

Selected U. S. Economic Indicators: 2007-08 Enacted vs. Executive Budgets

Fourth Quarter Year-Ago Growth



Note: Shaded areas represent US recessions.

Source: Moody's Economy.com; DOB staff estimates.

- The Federal Reserve appears to be successfully managing a soft landing, with real U.S. GDP growth expected to remain below its long-term trend rate through the first half of 2007 and interest rates expected to remain stable. The housing market, volatile energy prices, and service sector pricing pressures pose risks to the forecast.

Risks to U.S. Economic Forecast

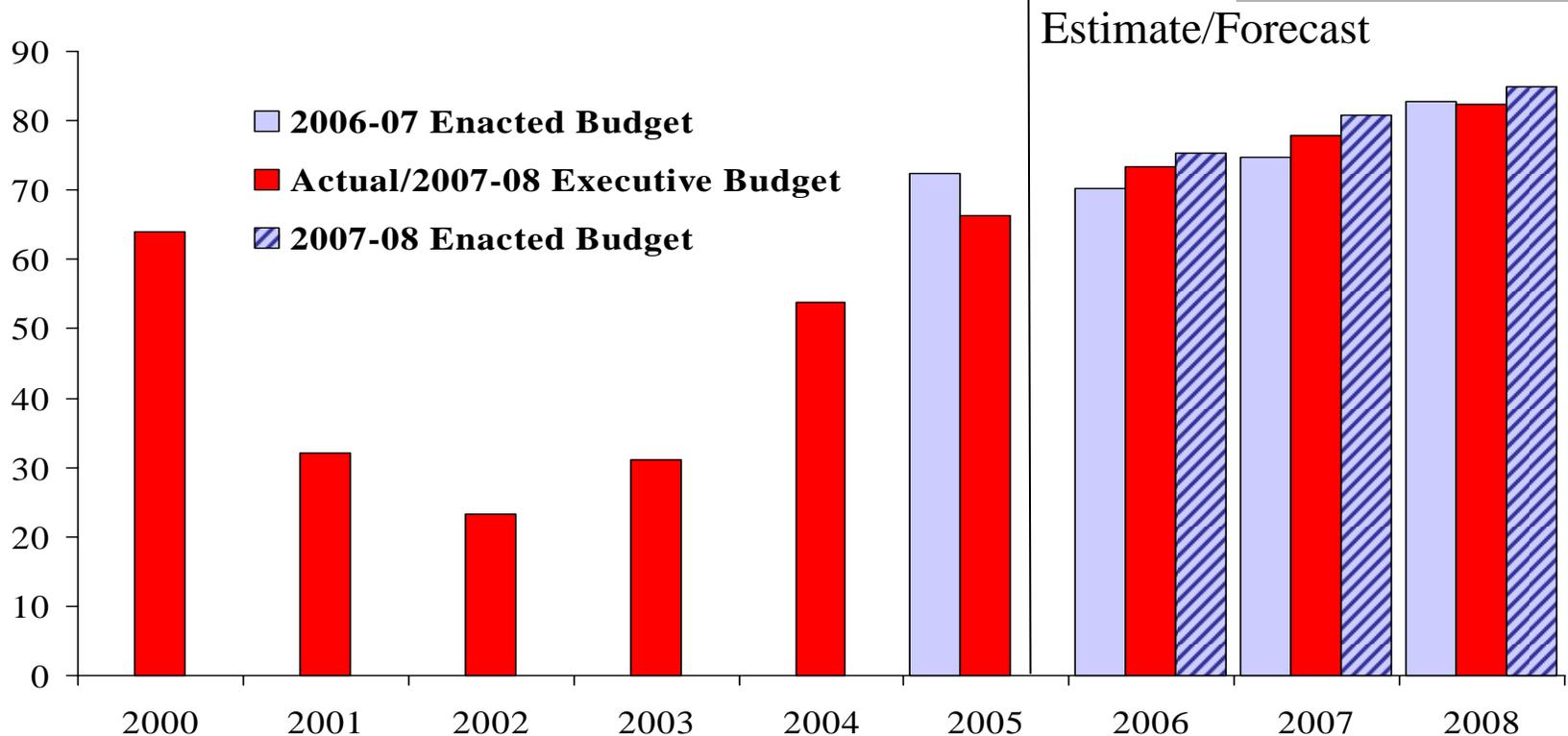
- ❑ More severe decline in the nation's housing sector than expected.
- ❑ Further weakening household and business spending.
- ❑ Excessive energy price volatility or faster wage growth could result in higher inflation, and possibly higher interest rates, than projected.

New York State Economic Outlook

- Consistent with the national slowdown, the New York State economy is slowing as well. State private sector employment is projected to fall from 1.1 percent in 2006 to 0.8 percent for 2007.
- Similarly, New York personal income growth is projected to slow from a solid 6.8 percent in 2006 to 5.7 percent in 2007, with growth in its largest component, wages and salaries, slowing from 7.6 percent in 2006 to 6.2 percent in 2007.
- The major factors keeping U.S. economic growth from falling much below its long-term trend rate bode well for the State economy as well:
 - As the world's financial capital, the New York economy may particularly benefit from a stable interest rate environment;
 - Growth in U.S. corporate profits is expected to fall but remain positive, with financial markets continuing to do well; and,
 - The State's real estate market, particularly in New York City, appears to be stronger than in many other parts of the nation.
- DOB's outlook on the State economy is cautious in light of the risks stemming from the volatile real estate and financial markets. These represent even greater risks to revenues due to the high concentration of taxable income among a relatively small segment of the taxpaying population.

Capital Gains Forecast Becoming Less Uncertain

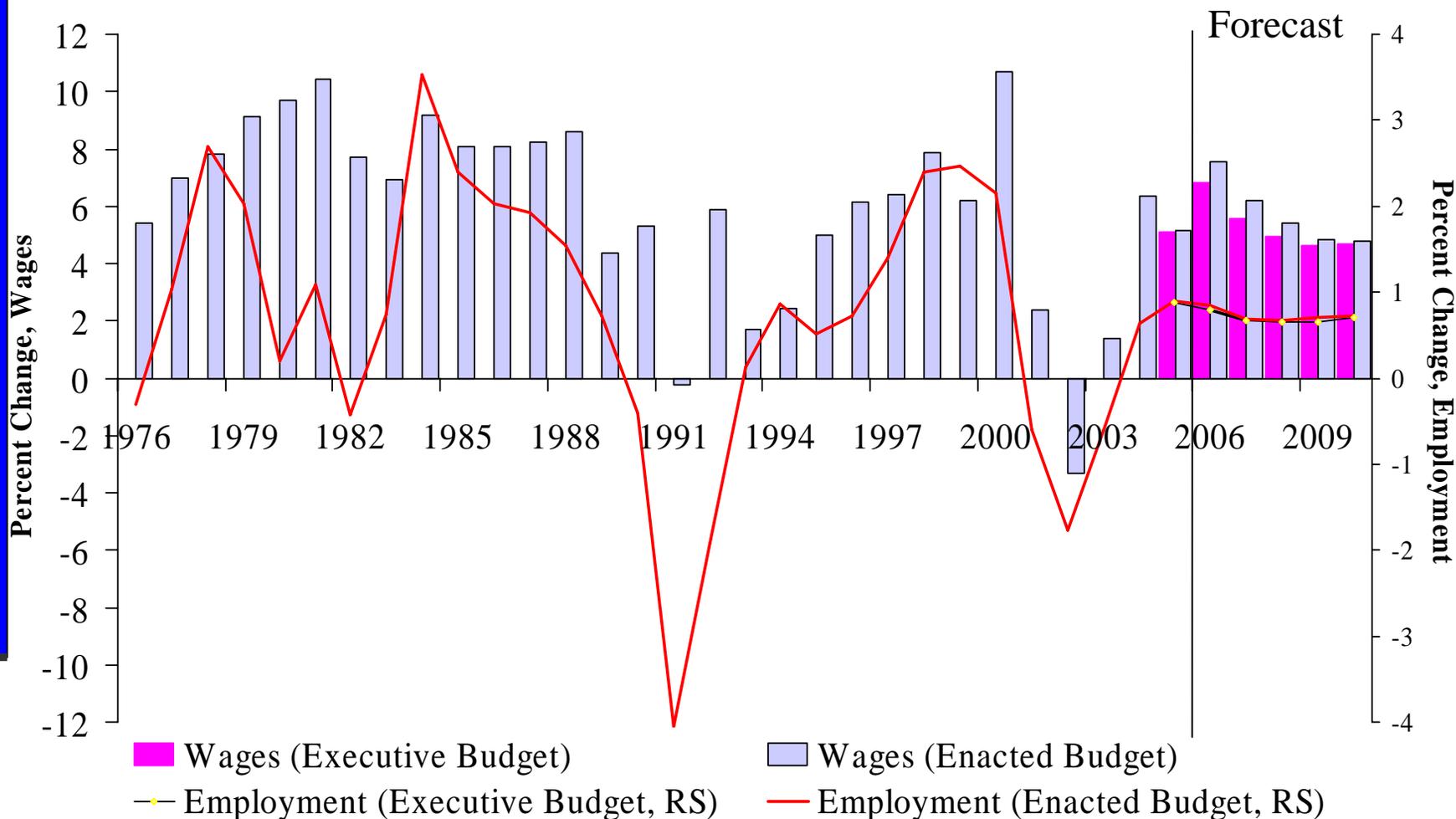
(billions of dollars)



Source: NYS Department of Taxation and Finance; DOB staff estimates.

- ❑ Based on preliminary tax data, capital gains realizations fell short of model expectations in 2005, suggesting that substantial losses carried over from prior years were applied against gains.
- ❑ The resulting estimated decline in the amount of losses carried over into 2006 and future years reduces the risk to the capital gains forecast going forward.
- ❑ A stronger than expected finish for the NYS real estate market resulted in an upward revision of about \$3 billion to the 2006 capital gains forecast relative to the Executive Budget.

New York State Employment and Wage Growth 2007-08 Enacted vs. Executive Budgets



Source: NYS Department of Labor; DOB staff estimates.

- In light of the risks associated with the financial and real estate markets, DOB's outyear forecasts for employment and wage growth remain cautious.

FY 2008 Enacted Budget Overview

General Fund Budget-Balancing Plan				
(millions of dollars)				
	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
INITIAL GAPS	(1,548)	(2,971)	(5,066)	(5,337)
INITIATIVES/UNMET NEEDS	(2,963)	(4,091)	(4,587)	(5,969)
School Aid	(738)	(1,236)	(2,151)	(3,742)
School Tax Relief	(1,011)	(1,284)	(1,531)	(1,590)
Health Care	(170)	(264)	(245)	(264)
NYC Payment	(428)	(350)	0	0
Business Tax Cuts	(150)	(150)	(150)	(150)
All Other	(466)	(807)	(510)	(223)
ENACTED SAVINGS PLAN	4,511	3,957	4,882	4,681
Enacted Savings Plan	<u>2,466</u>	<u>2,534</u>	<u>3,408</u>	<u>3,190</u>
Health Care	1,057	667	1,686	1,493
All Other Program Savings	959	1,331	1,171	1,146
Revenue Loophole Closers	450	536	551	551
Additional Resources	<u>1,425</u>	<u>1,022</u>	<u>1,073</u>	<u>1,090</u>
Additional Revenues	1,039	900	900	900
All Other	386	122	173	190
Mutli-Year Use of Surpluses	620	401	401	401
ENACTED BUDGET GAPS	0	(3,105)	(4,771)	(6,625)

- Enacted Budget is balanced in 2007-08 and leaves manageable outyear gaps.

Receipts Summary

- ❑ Receipts growth is consistent with the economic forecast.
- ❑ Growth slows to rates consistent with personal income and below growth over the past three fiscal years.
- ❑ Out-year tax growth is supported in part by policy actions contained in this Budget to close corporate tax loopholes.

All Funds Tax Receipts Growth and Selected Economic Indicators

Fiscal Year	All Funds Receipts (1)	Percent Change	All Funds Inflation Adjusted	Percent Change	New York Personal Income	Percent Change	Inflation Adjusted New York Personal Income	Percent Change	CPI	Percent Change
2003-04	42,851.2	8.1	22,104.4	5.4	722.3	7.2	372.6	4.5	1.94	2.6
2004-05	48,597.9	13.4	24,206.3	9.5	752.8	4.2	375.0	0.6	2.01	3.6
2005-06	53,577.5	10.2	25,746.3	6.4	798.7	6.1	383.8	2.4	2.08	3.7
2006-07	59,007.4	10.1	27,414.0	6.5	842.1	5.4	391.2	1.9	2.15	3.4
2007-08*	61,959.5	5.0	28,052.0	2.3	884.6	5.0	400.5	2.4	2.21	2.6
2008-09**	65,237.5	5.3	28,812.6	2.7	929.1	5.0	410.3	2.5	2.26	2.5
2009-10**	68,840.0	5.5	29,664.6	3.0	977.5	5.2	421.2	2.7	2.32	2.5
2010-11**	72,024.5	4.6	30,257.5	2.0	1,027.6	5.1	431.7	2.5	2.38	2.6
Percent Growth (75-76 to 06-07)		545.3		71.4		543.8		71.0		276.5
Historical Average (75-76 to 06-07)		6.3		1.8		6.3		1.7		4.5
Standard Deviation (75-76 to 06-07)		5.0		4.6		2.9		2.2		2.4
Average Forecast (07-08 to 10-11)		5.1		2.5		5.1		2.5		2.5
Average Forecast (08-09 to 10-11)		5.1		2.6		5.1		2.5		2.5
Average Recessionary Growth		4.6		(0.7)		5.2		(0.0)		5.3
Average Expansionary Growth		7.1		3.0		6.7		2.5		4.1

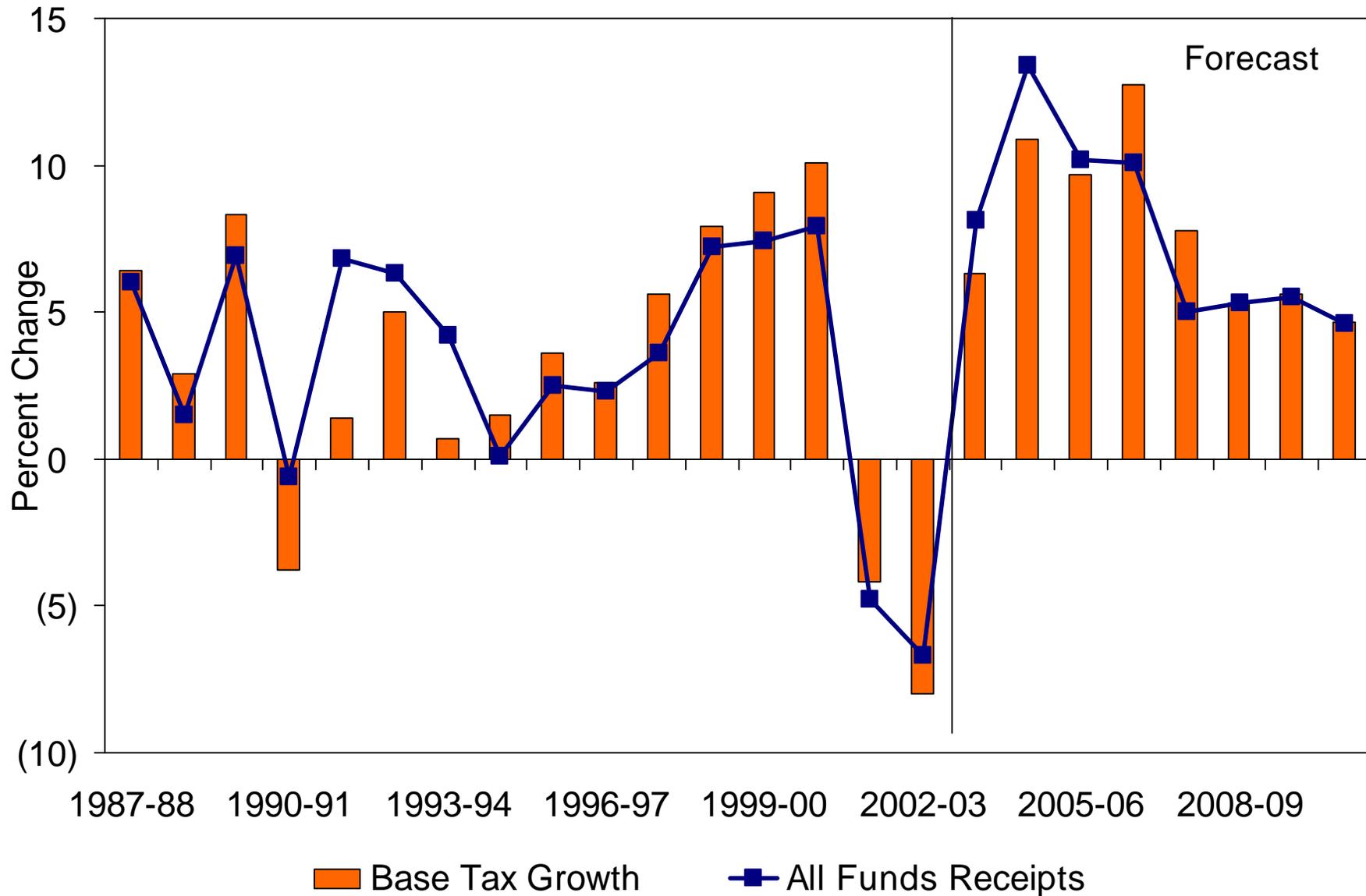
¹ Personal Income Tax defined as gross receipts less refunds - 2000-01 receipts reflect an adjustment for the timely payment of refunds.

² Receipts deflated by Consumer Price Index (CPI).

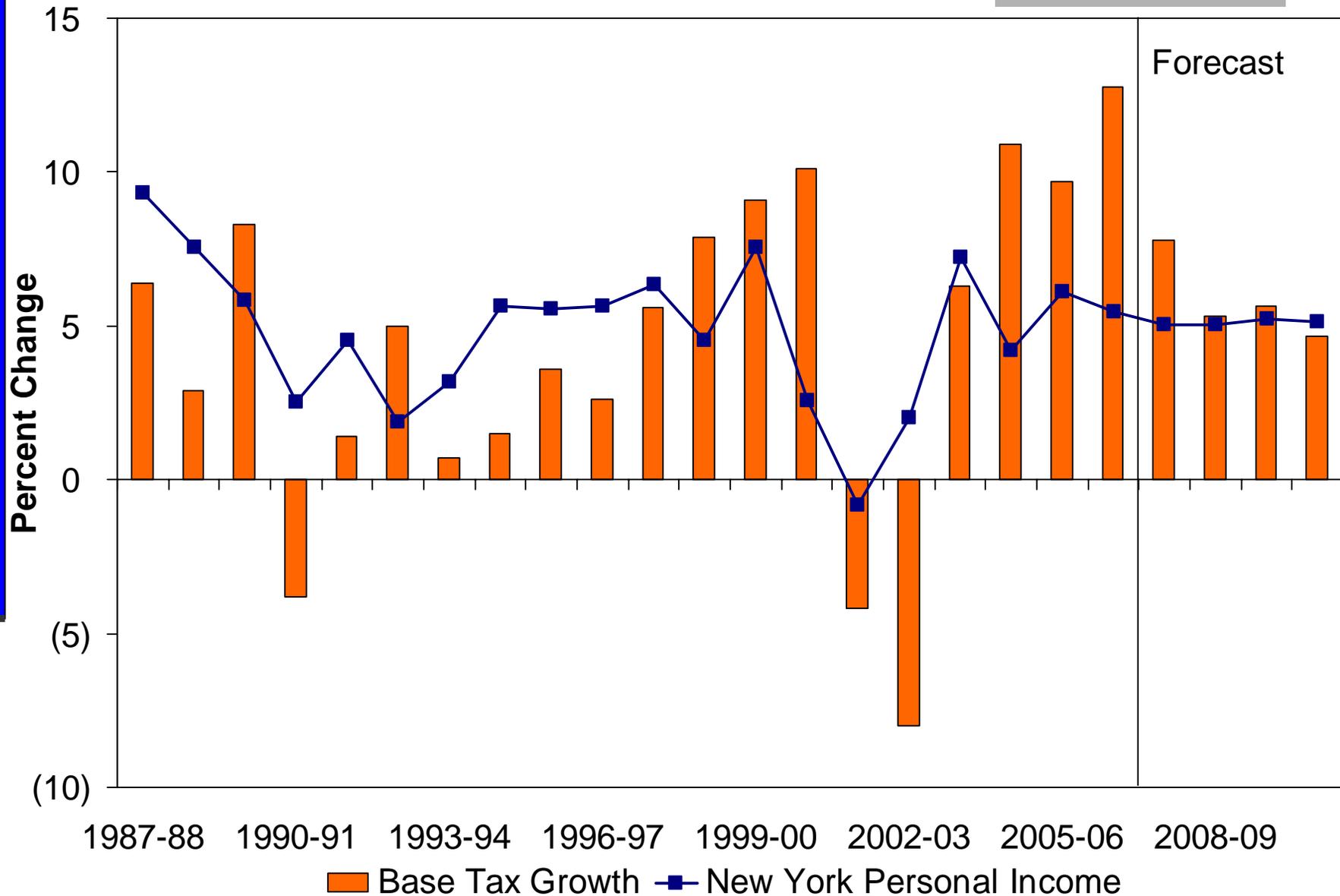
* Estimated

** Projected

All Funds Tax Receipts Growth and Base Growth



New York Personal Income Growth and Base Tax Growth



All Funds Tax Actions

	2007-08	Fully Effective
ALL FUNDS LOOPHOLE CLOSERS TOTAL	522	661
Personal Income Tax	6	115
Extend Tax Shelters Reporting	6	-
S Corporation Election	-	100
Partnership Tax Abuse	-	15
Business Taxes	516	546
Extend Tax Shelters Reporting	11	-
Corporate Franchise Tax Combined Filing	381	381
Real Estate Investment Trusts	102	147
Grandfathered Corporations	22	18
ALL FUNDS TAX CUTS TOTAL	(154)	(154)
Personal Income Tax	(4)	(4)
Increase and Make Permanent Low Income Housing Credit	(4)	(4)
Business Taxes	(150)	(150)
ENI Rate Cut from 7.5% to 7.1%	(75)	(75)
AMT Rate Cut from 2.5% to 1.5%	(20)	(20)
Accelerate effective date for single sales factor for apportionment of corporate franchise tax income	(50)	-
Special ENI rate of 6.5% for manufacturing	(5)	(55)

School Aid

- ❑ Foundation Aid, which was enacted in permanent law, combines 30 existing aid categories into a single, progressive, and transparent formula.
- ❑ Foundation Aid is distributed to school districts based on the educational needs of their students and the local capacity to support education.
- ❑ The Foundation Aid increases are linked to reforms and accountability measures targeted at improving school performance.
- ❑ One-time aid enhancement outside of Foundation Aid was needed to finalize the 2007-08 budget and is not planned to be repeated next year.

Health Care Reform

2007-08 Health Care Savings (millions of dollars)	
Pharmaceutical Savings	199
Change 2007 Reimbursement Rates	143
Strengthen Anti-Fraud Capabilities	134
Redirect Funding to High-Need Medicaid Hospitals	105
Enhance Management of High-Cost Beneficiaries	5
Other General Fund Medicaid Savings (net of avails)	183
Other HCRA Savings	177
Public Health/Mental Hygiene	231
Total Medicaid/HCRA/Health/Mental Hygiene Savings	1,177
HCRA Savings in Other State Funds	(120)
Net General Fund Savings	1,057

- ❑ Achieved nearly \$1.2 billion in recurring health care savings, over 80 percent of total savings recommended in the Executive Budget.
- ❑ Savings include reduced pharmacy costs, a reduction in reimbursement rates, enhanced fraud detection, and federal maximization.
- ❑ Additional conversion proceeds are expected beginning in 2008-09.

Health Care Reform

- ❑ Lower pharmacy costs through reduced reimbursement to pharmacies, increasing Part D enrollment and improving and expanding the Preferred Drug program.
- ❑ Monthly premium payments maintained for managed care programs (including Family Health Plus and Child Health Plus); automatic reimbursement rate increases for hospital and nursing homes are reduced by 25 percent pending development and implementation of a more rational cost-based reimbursement system.
- ❑ Strengthened statewide anti-fraud efforts with new False Claims Act, greater use of technology, and additional auditors.
- ❑ Reduced funding for workforce recruitment and retention programs and nursing home quality improvement.
- ❑ New programs to improve management of high-cost enrollees.
- ❑ An increase in the covered lives assessment, elimination of various discretionary public health programs and maximization of Federal funding.

Other Savings

- ❑ \$450 million in revenue loophole closers, offset in part by \$150 million in broad-based tax reductions.
- ❑ One-time reduction in general aid to New York City.
- ❑ Increase in the tax processing assessment levied on New York City.
- ❑ State Operations efficiencies across agencies.

Initiatives

STAR: New Middle-Class STAR is targeted to homeowners with incomes less than \$250,000, with benefits increasing as income levels decline.

Health Care: Child Health Plus eligibility increased to 400 percent of Federal Poverty Level; simplified enrollment for public health insurance; seed money for stem cell research; increased funding for primary and preventive care and other demonstration projects/initiatives.

Higher Education: \$150 per student increase for community college base aid; additional operating aid for public senior colleges; and a range of other initiatives.

Member Items: Legislature authorized \$170 million in new member item spending; the Governor did not accept any member item funding.

Approved Debt Management Initiatives

- ❑ All Personal Income Tax revenues, after refunds, will flow through the Revenue Bond Tax Fund, enhancing coverage even as STAR program expands.
- ❑ Swaps and Variable Rate Caps increased to 20 percent (from 15 percent), providing flexibility if market conditions become favorable.
- ❑ Consolidated Service Contract Refunding Authorization will produce administrative savings and enhance potential savings opportunities.

Budget Slows Spending Growth Rate

Total Disbursements					
(millions of dollars)					
	2006-07 Current	2007-08 Enacted	Annual \$ Change	Rec'd Annual % Change	Prior- Year Growth
General Fund	51,591	53,684	2,093	4.1%	11.0%
State Funds	77,311	83,779	6,468	8.4%	10.9%
All Funds	112,764	120,675	7,911	7.0%	8.1%

- ❑ General Fund growth rate is less than half the 2006-07 increase.
- ❑ Capital projects, School Aid, STAR, and Transit Aid are the largest sources of spending growth (State Funds).
- ❑ Excluding capital spending, which may be overstated based on past experience, State Funds growth is 6.7 percent.
- ❑ Homeland security, elections, transportation, and mental hygiene spending account for the largest increases in Federal Aid (All Funds).

Revisions to All Funds Forecast for FY 2008

2007-08 All Funds Spending Increase/(Decrease) in Projections (millions of dollars)	
Executive Budget (as amended)	120,635
Additions	1,158
Reestimates (primarily from lower 2006-07 spending)	(734)
STAR	(218)
Spending Cuts	(166)
Enacted Budget	120,675

- ❑ Legislative spending additions were concentrated in School Aid (\$436 million) and Health Care (\$650 million, including Federal match).
- ❑ Re-estimates are based on a review of FY 2007 year-end results, and primarily reflect lower anticipated Federal aid and capital spending.

Risks to the Financial Plan

- ❑ The Financial Plan projects moderating economic growth and gradually declining growth in revenues from the extraordinary levels of recent years.
- ❑ A severe economic downturn continues to pose the most serious risk to the forecast.
- ❑ Aside from the economy, other risks include:
 - New labor contracts (contracts expired in April; each 1 percent increase costs roughly \$85 million in the General Fund) and salary increases for judges and elected officials.
 - Timing of video lottery terminal expansion (valued at \$150 million in 2008-09 growing to \$766 million in 2010-11).
 - Potential Federal penalties related to school supportive health services and proposed modification to Federal reimbursement methodologies for public hospitals and mental hygiene facilities.
- ❑ The Financial Plan no longer includes planned payments from New York City of \$428 million in 2007-08 and \$350 million in 2008-09.

Legislative Session

- ❑ The regular legislative session ends in June.
- ❑ Additional capital spending commitments and other initiatives may be approved during this period.
 - Funding for a new Chip Fab plant upstate is still reflected in this plan, though not enacted.
- ❑ The most significant items under consideration include:
 - Judicial Salaries
 - Energy Initiatives
 - Racing Franchise
- ❑ The First Quarterly Update to the Financial Plan will reflect any legislative changes that occur.

Reserve Levels Maintained as Proposed

2007-08 Year-End Reserves (millions of dollars)	
Total Reserves	<u>3,033</u>
<i>Undesignated Reserves</i>	
Tax Stabilization Reserve Fund	1,031
New Rainy Day Reserve Fund	175
Contingency Reserve Fund	21
<i>Designated Reserves</i>	
Remaining 2006-07 Surplus	1,203
Debt Reduction Reserve Fund	250
Community Projects Fund	353

Budget includes initial deposit in the new 3 percent Rainy Day Reserve that can be used to respond to an economic downturn or catastrophic event.

- ❑ Reserves are projected to total \$3 billion in 2007-08, or 5.7 percent of General Fund spending.
- ❑ Reserves at same level as proposed in Executive Budget.
 - Undesignated reserves can only be used for an unplanned deficit, respond to an economic downturn, or litigation costs.
 - Designated reserves are planned to reduce outyear budget gaps, reduce debt, and finance existing legislative commitments.

Gaps are Manageable

	<u>"First" Outyear Gap</u>		<u>Increase in Gap vs. Exec.</u>		<u>Gap as %</u>
	<u>Executive</u>	<u>Enacted</u>	<u>Dollar</u>	<u>Percent</u>	<u>Spending</u>
2007-08	\$2,292	\$3,105	\$813	35%	5.8%
2006-07	1,886	3,677	1,791	95%	7.1%
2005-06	2,701	3,167	466	17%	6.8%
2004-05	2,850	5,689	2,839	100%	13.0%
2003-04	2,899	6,508	3,609	124%	15.5%
2002-03	2,814	4,376	1,562	56%	11.6%
2001-02	2,490	5,675	3,185	128%	13.8%
2000-01	1,226	2,176	950	77%	5.5%
1999-00	1,113	2,545	1,432	129%	6.8%

* Gap as a percent of prior year General Fund spending (e.g., 2008-09 gap as a percent of 2007-08 spending).

Next Steps

- ❑ The Enacted Budget achieves substantive program and fiscal reforms, most notably in School Aid, health care, and tax policy.
- ❑ But the fiscal issues that we must address to achieve structural balance and meet our commitments cannot be solved in one budget.
- ❑ Accordingly, the 2008-09 budget will include similar far-reaching reforms to the health care system and other State programs.
- ❑ We have already started to work with agencies to review all State local aid programs and agency operations with the goal of identifying fundamental reforms.
- ❑ Key areas include: health care; higher education; labor force productivity and benefit levels; authority operations; and State-local service delivery.