



2006-07 Executive Budget Overview

January 24, 2006



2006-07 Budget Highlights

- Base receipts are on track to grow by over 11 percent in 2005-06 (for the second year in a row) and 8 percent in 2006-07. Out-year receipt growth of 5 percent is assumed.
- The 2006-07 Budget takes advantage of the strong revenue performance to boost reserves, in anticipation of moderating economic growth.
 - Entire 2005-06 surplus -- \$2 billion – reserved for use in the out-years, not in 2006-07.
 - Rainy Day deposit keeps balance at statutory maximum (\$945 million).
 - \$250 million deposit to Debt Reduction reserve.
 - \$375 million set aside for Sound Basic Education reserve.
 - \$275 million reserved for potential labor settlements.
- Spending restraint constitutes the vast majority of budget-balancing actions, and generates resources for tax reductions, spending initiatives.
- Budget gap is under \$1.9 billion for 2007-08 and \$3.8 billion in 2008-09.



Economic Forecast

- DOB projects that the Federal Reserve will successfully engineer a soft landing, with real U.S. GDP slowing from growth of 3.6 percent for 2005 to 3.3 percent for the current year.
- Consistent with slower growth and the peaking of energy prices in late 2005, DOB expects inflation of 3.1 percent for 2006, following 3.4 percent in 2005.
- U.S. employment is projected to grow 1.6 percent in 2006 (job gains of about 180,000 per month), after growth of about the same rate for 2005.
- State economy is expected to see slightly slower growth in 2006 and beyond.
- DOB projects growth in private sector State employment of 0.9 percent for 2006, following 1.1 percent growth in 2005.
- On a State fiscal year basis, wage growth is projected to fall from 6.1 percent in 2005-06 to 5.5 percent in 2006-07.

U.S. Economic Forecast Comparison

	2005 (preliminary)	2006 (forecast)	2007 (forecast)	2008 (forecast)	2009 (forecast)
Real U.S. GDP (% change)					
DOB	3.6	3.3	2.7	2.9	3.1
Blue Chip Consensus	3.6	3.4	3.1	NA	NA
Moody's Economy.com	3.6	3.7	NA	NA	NA
Global Insight	3.6	3.4	2.7	3.0	3.2
Macroeconomic Advisers	3.6	3.7	3.4	NA	NA
Consumer Price Index (% change)					
DOB	3.4	3.1	2.5	2.6	2.6
Blue Chip Consensus	3.4	2.9	2.4	NA	NA
Moody's Economy.com	3.3	3.2	NA	NA	NA
Global Insight	3.4	2.6	1.8	2.0	2.0
Macroeconomic Advisers	3.4	2.7	2.0	NA	NA
Unemployment Rate (%)					
DOB	5.1	4.9	4.9	5.0	5.1
Blue Chip Consensus	5.1	4.9	4.9	NA	NA
Moody's Economy.com	5.1	4.9	NA	NA	NA
Global Insight	5.1	4.8	4.9	5.0	4.9
Macroeconomic Advisers	5.1	5.0	5.0	NA	NA

Sources: Projections for 2005-2009 by New York State Division of the Budget, January 2006; Blue Chip Economic Indicators, January 2006; Moody's Economy.com, Macro Forecast, January 2006; Global Insight, US Executive Summary, January 2006; and Macroeconomic Advisers, January 2006.

- DOB's 2006 and 2007 projections for real U.S. GDP forecasts are on the low end. DOB projects slightly higher inflation for 2007 than other forecasters.



Revenue Forecast

- Base revenue growth is projected to decline from 11 percent in 2005-06 to 8 percent to 2006-07 and roughly 5 percent in the out-years, consistent with growth at this stage of an economic expansion.
- Tax law changes will reduce growth to 6.6 percent in 2006-07 and 4.9 percent in 2007-08.
- In 2006-07, bonus growth is estimated at 9 percent, while capital gains are expected to decline by 3 percent.
- Growth in underlying income tax liability is estimated at 6.4 percent in 2006 (4.9 percent growth in NY AGI).
- Growth in non-PIT Base receipts is estimated to be below 4 percent.



Risks to the Financial Plan

- The Financial Plan is based on reasonable, but nonetheless above-average, growth trends in revenues.
- An even slower housing market than anticipated and possibility of “overshooting” by Federal Reserve pose risks for the current year; the growing Federal budget and current account deficits are long-term risks.
- As the U.S. Financial Capital, many national risks -- “overshooting” by the Federal Reserve or a terrorist attack -- could disproportionately affect the State economy; another spike in energy prices or actual declines in home prices also pose particular risks to New York.
- Potential Federal penalties related to school supportive health services and the need to finalize health care transactions with NYC pose risks.
- Accordingly, the Budget proposes multi-year cost containment and sets aside ample reserves to address uncertainties.

Current Year Net Surplus at \$2 Billion

2005-06 General Fund Quarterly Financial Plan Revisions From Enacted Budget (millions of dollars)				
	First	Mid-Year	Executive	Total
Revenue Revisions	375	752	1,362	2,489
New Costs	(296)	(393)	(337)	(1,026)
Medicaid Prepayment of 2006-07 Costs		(250)	(250)	(500)
Medicaid	(68)	(189)	(88)	(345)
Debt Service	(33)	(13)	16	(30)
Timing of Collective Bargaining			197	197
Welfare		118		118
MTA Prepayment of 2006-07 costs			(45)	(45)
Energy Costs		(86)		(86)
State Police Collective Bargaining	(95)			(95)
All Other Changes	(100)	27	(167)	(240)
Deposit to Rainy Day Reserve			(73)	(73)
Net Change: Favorable/(Unfavorable)	79	359	952	1,390
Spending Stabilization Reserve *	680	1,039	1,991	1,991

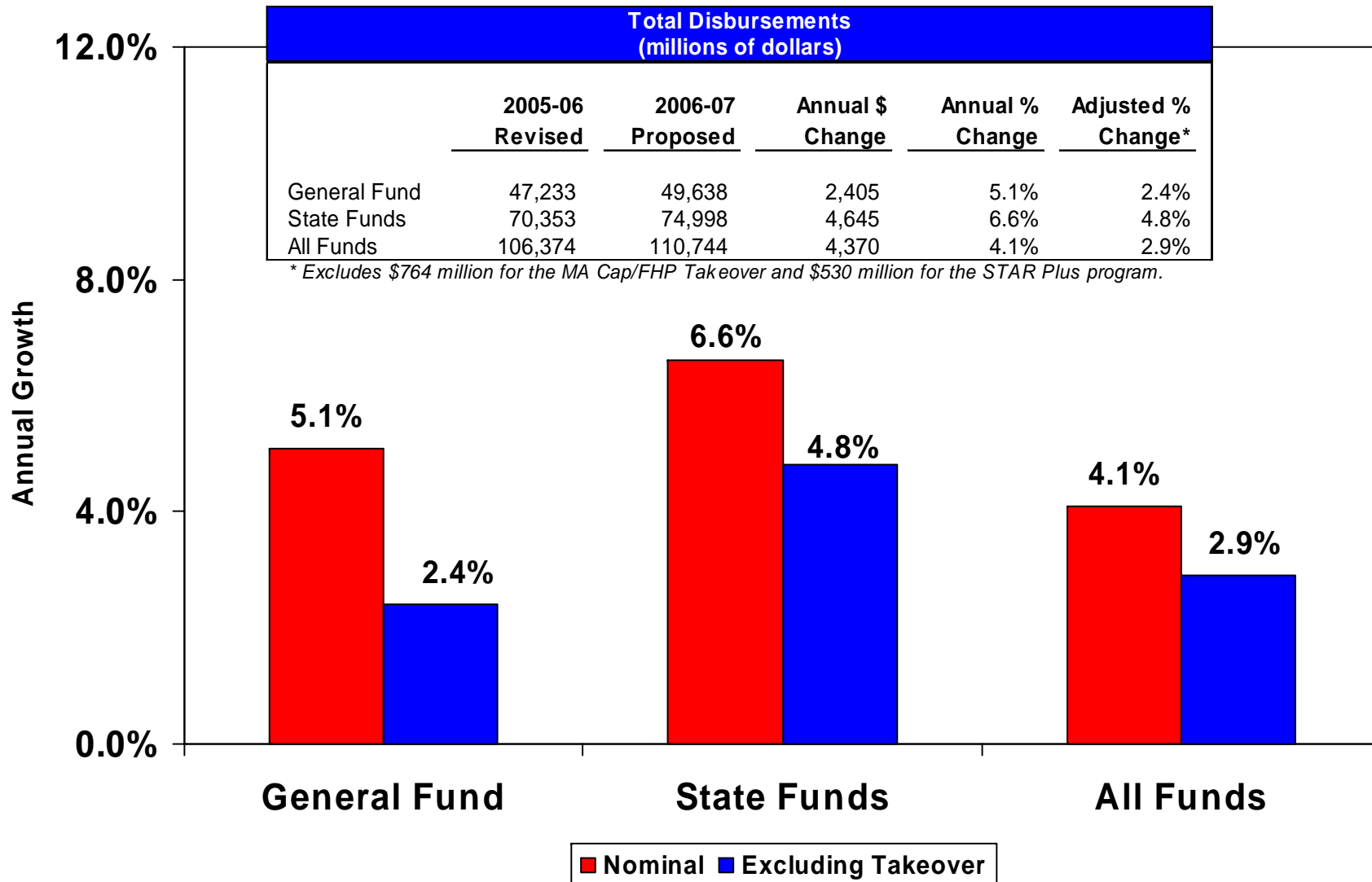
* Includes \$601 million on deposit at the time of the Enacted Budget.

- Conservative initial revenue estimates.
- Majority of spending increases due to accelerated payment of 2006-07 planned MA costs.

2006-07 Budget Overview

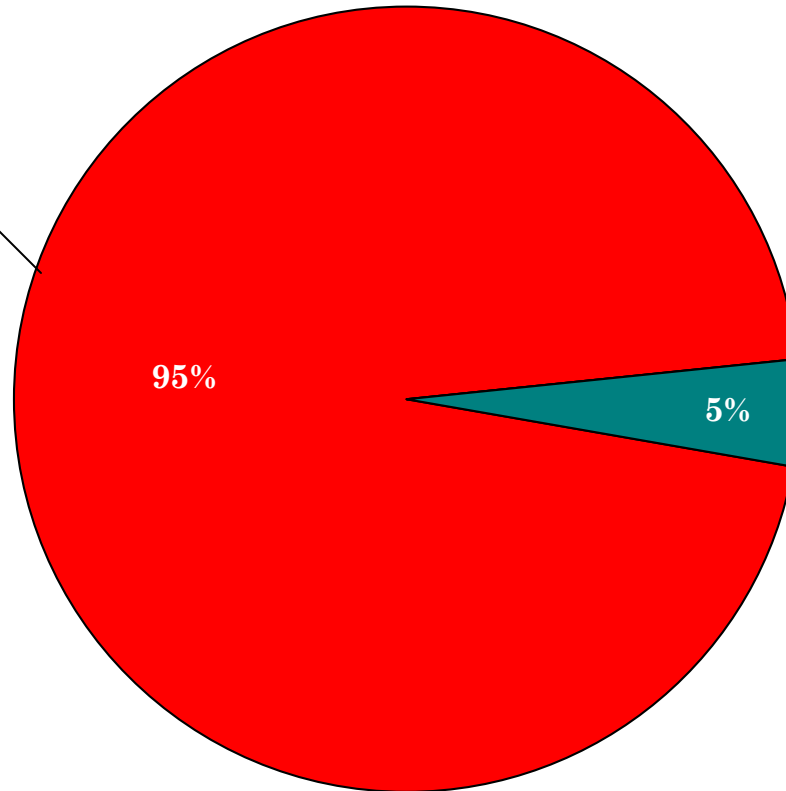
General Fund Budget-Balancing Plan (millions of dollars)				
	GENERAL FUND (\$ Millions)			
	2005-06	2006-07	2007-08	2008-09
Revised Surplus/(Gaps)	1,991	(751)	(3,155)	(3,895)
Spending Restraint		1,983	3,136	3,338
Fines/Fees/Other		94	155	154
Spending Additions		(406)	(834)	(1,194)
Tax Policy Changes		(844)	(2,210)	(3,268)
Debt Reduction Reserve Deposit (One-Time)		(250)	0	0
Finance Debt Reduction Deposit (One-Time)		227	0	0
Spending Stabilization (Deposit)/Use	(1,991)	(53)	1,022	1,022
Executive Budget Surplus/(Gaps)	0	0	(1,886)	(3,843)

Proposed Spending Growth



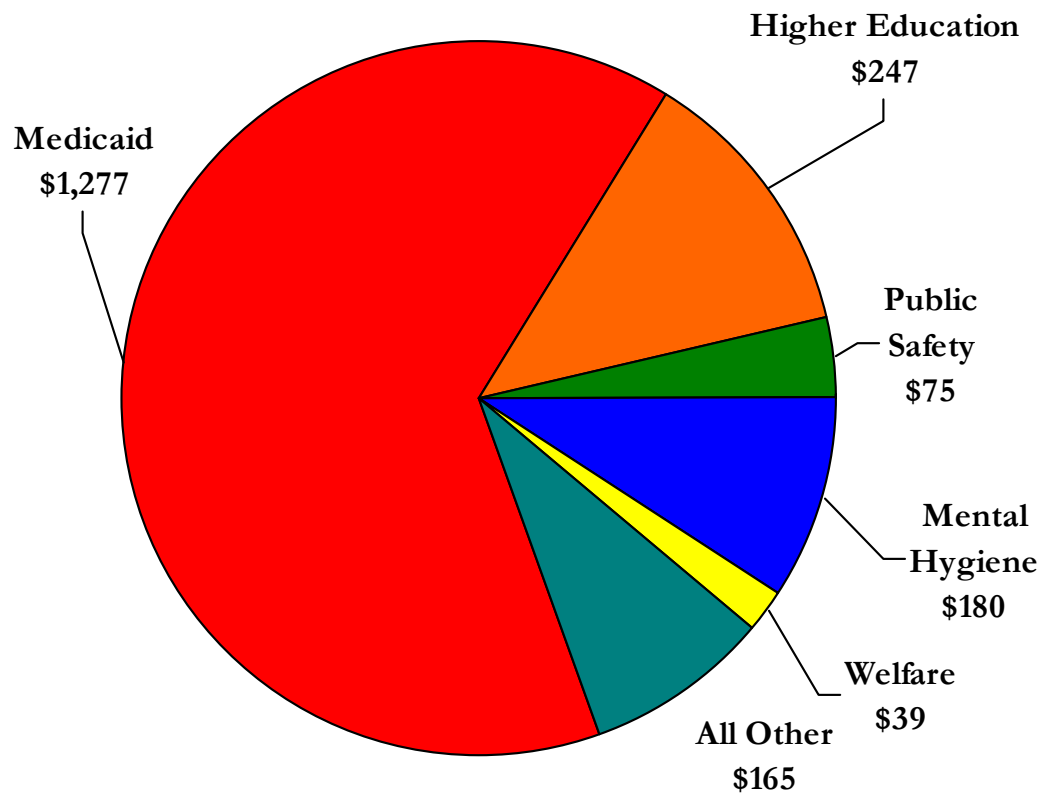
Gap-Closing Plan Emphasizes Spending Restraint

SPENDING RESTRAINT	
<i>TOTAL</i>	<i>1,983</i>
Medicaid	1,277
Higher Education	247
Mental Hygiene	180
Public Safety	75
Welfare	39
Economic Development	22
All Other	143



REVENUES	
<i>TOTAL</i>	<i>94</i>
Auto. Speed Enforcement	42
Quick Draw	38
All Other Revenue	14

Recommended Spending Restraint



* Dollars in millions

Medicaid:

- Limited Part D wrap-around
- Anti-fraud
- Cost containment

Higher Education:

- Flexible cost reductions
- TAP Performance-based criteria

Public Safety:

- Prison closure
- Operations management

Mental Hygiene:

- Patient Income
- Audits

Welfare:

- Full family sanctions
- Work incentives



Health Care Cost Containment

- Left unchecked, Medicaid would grow by nearly \$1.9 billion from 2005-06 – or more than half of the annual “base” growth in spending.
 - \$1.1 billion in growth for utilization, inflation, caseload, and Part-D.
 - \$764 million for Medicaid cap and Family Health Plus takeover.

- Cost containment addresses the key growth areas:
 - Medicare Part D: Federal maximization strategy; “dual-eligibles” required to enroll in Part D (exceptions for AIDS, mental illness, and organ transplants).
 - Preferred Drug program: Strengthened review to avoid abuses.
 - Hospitals/Nursing Homes: Rate adjustments and add-ons modified.
 - Anti-Fraud: comprehensive upgrade to monitoring and enforcement capabilities; new office of Medicaid Inspector General.

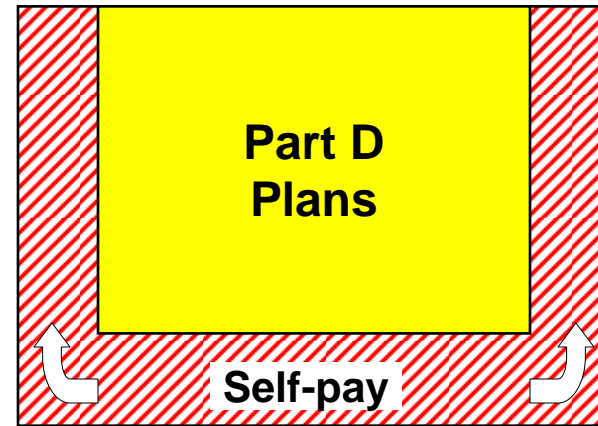
- Health Care Reform Act Financial Plan is fully balanced through 2008-09, reflecting cost containment, cigarette-tax increase.
 - WellPoint stock sales valued at roughly \$500 million annually; new conversion resources anticipated in 2007-08.

Medicare Part D “Wrap-Around”

Medicare Pre-1/1/06



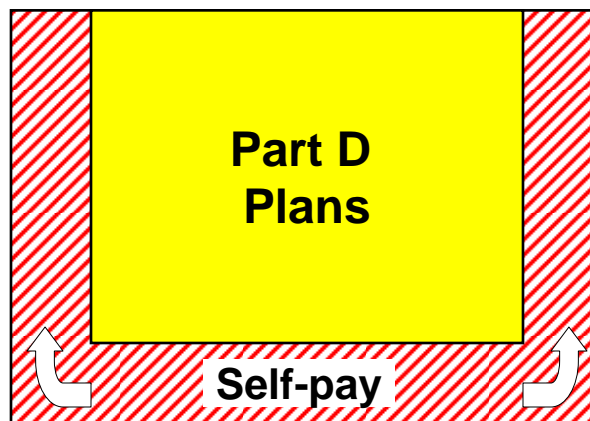
Medicare Part D



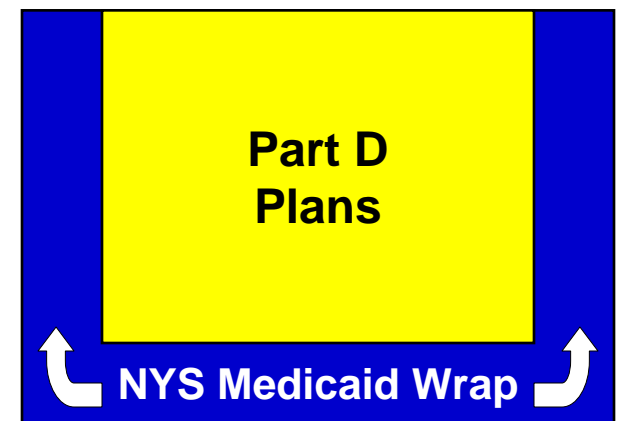
Medicaid Pre-1/1/06
Dual Eligibles



Other States' Duals
Under Part D



NYS Duals
Under Part D



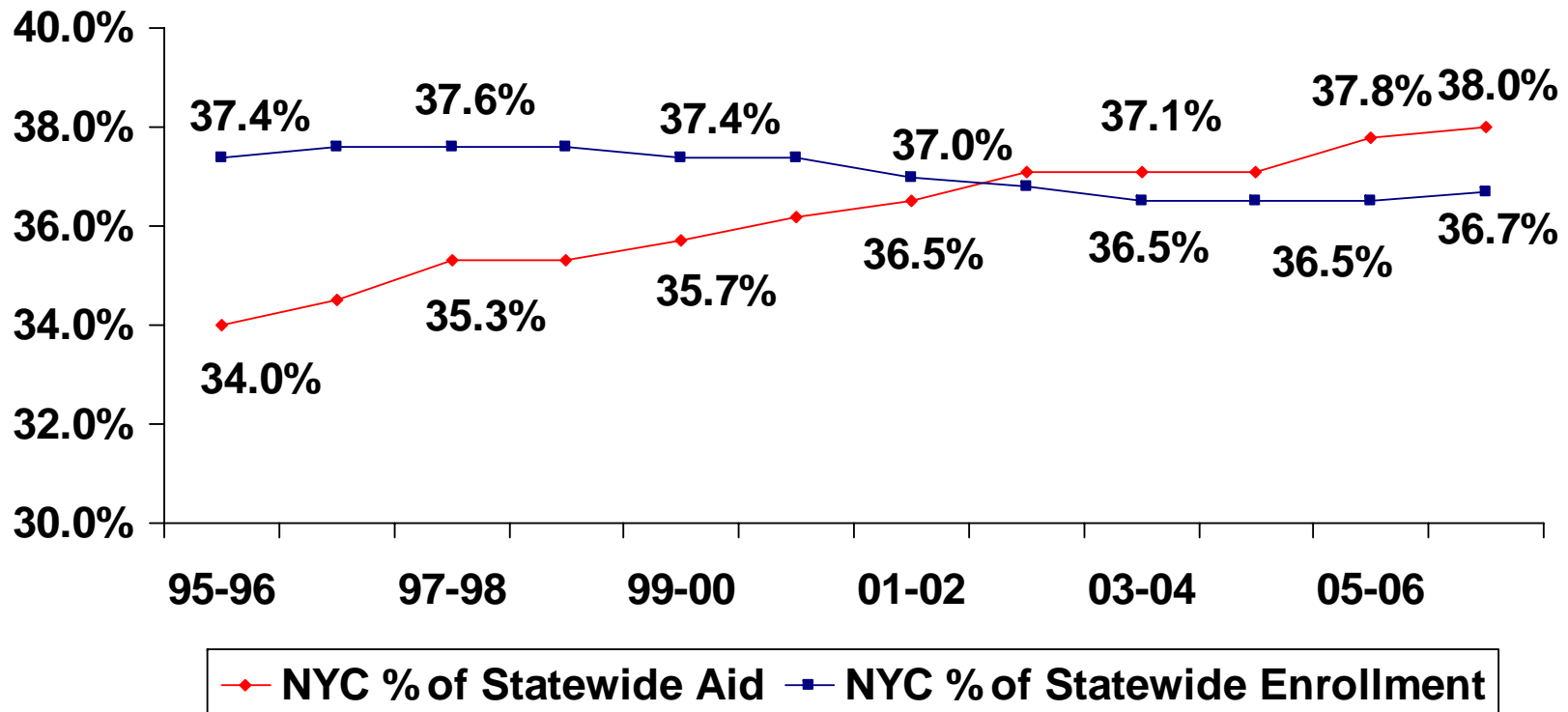


School Aid

- School aid will total \$16.9 billion in 2006-07, or roughly 34 percent of General Fund spending.
 - Formula Aid: \$15.7 billion.
 - Sound Basic Education Aid: \$700 million.
 - Other Aid: \$593 million.

- The Budget proposes a \$634 million school-year increase.
 - \$259 million of the increase will support growth in traditional school aid, including transportation and building aid.
 - \$375 million will support Sound Basic Education Aid, which will be allocated pursuant to a plan to promote SBE in schools throughout the State.
 - VLTs provide resources to support outyear SBE costs as new facilities come “on-line” (Yonkers – October, 2006; Aqueduct – October, 2007).

New York City's Share of Education Aid Continues to Exceed its Share of Statewide Enrollment



- Funding and performance metrics that gave rise to Campaign for Fiscal Equity have improved markedly since mid-1990s.

2006-07 Spending Initiatives

General Fund Spending Additions (millions of dollars)			
	2006-07	2007-08	2008-09
Local Government Assistance: AIM; SMSI; Erie County Authority	72	122	167
Public Health: Grants; Special Projects	46	79	93
Mental Hygiene: "NY-NY III"; Suicide Prevention; Autism; COLA	60	148	206
Public Universities: Community College Aid; PACT	26	50	69
Medicaid: Community-based initiative; Rebase NH rates; Staffing	30	111	192
Public Safety: New Troopers; DNA testing; Operation IMPACT	47	43	60
Increase Environmental Protection Fund	30	30	30
Welfare: Increase Local Administration Fund; Strengthen Families/Fathers	17	56	60
Foster Care and Adoption COLA; Program Enhancements	14	35	48
Education: STEP/CSTEP; Capital	10	13	10
School Aid: Flex Aid 2 Percent Bonus	0	56	136
Debt Service on New Capital Spending	2	16	36
All Other Spending Additions	52	75	87
Spending Additions	406	834	1,194

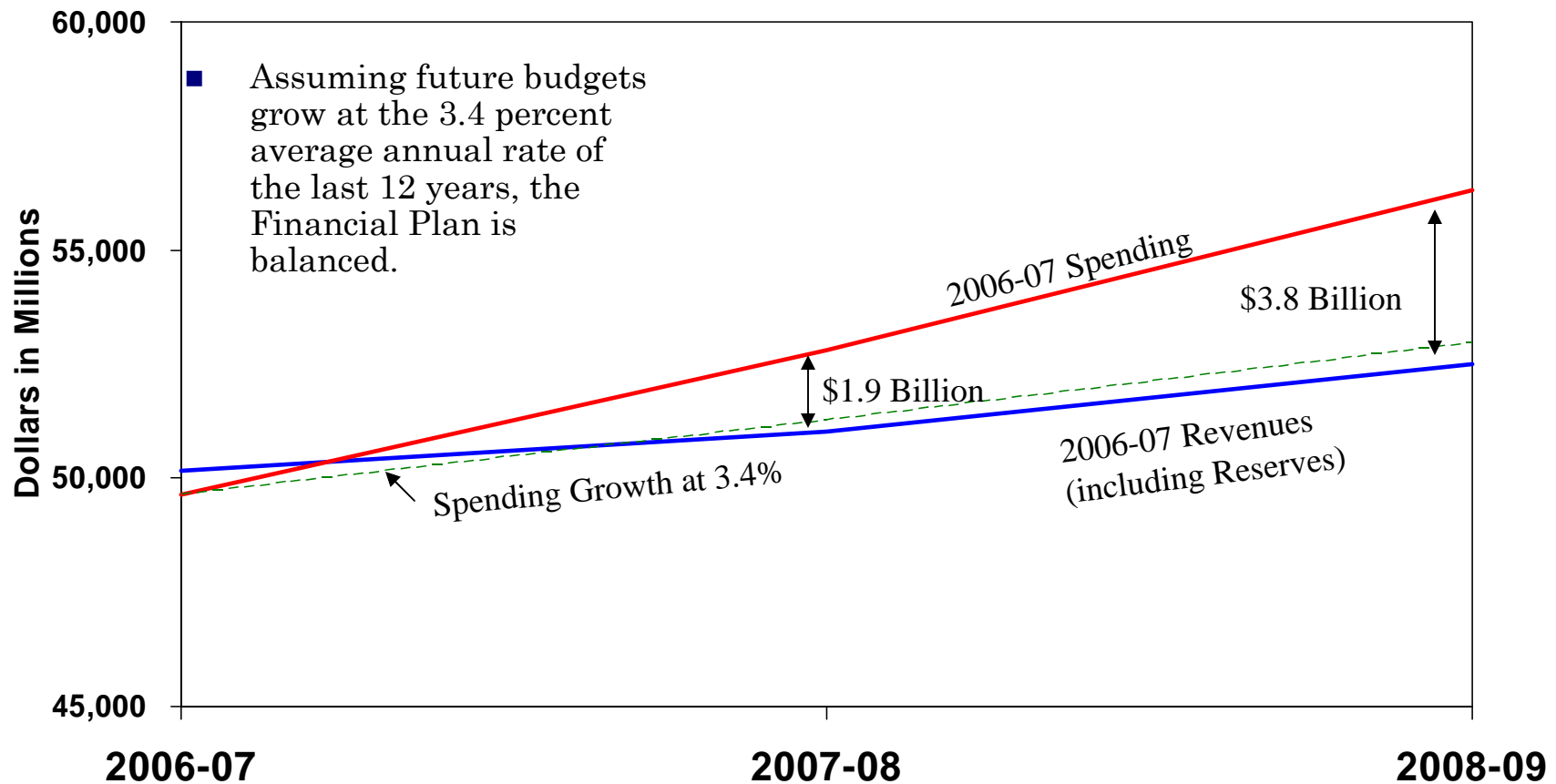
- Spending initiatives provide COLAs for human service providers and enhanced aid for local governments and schools.

2006-07 Tax Policy Initiatives

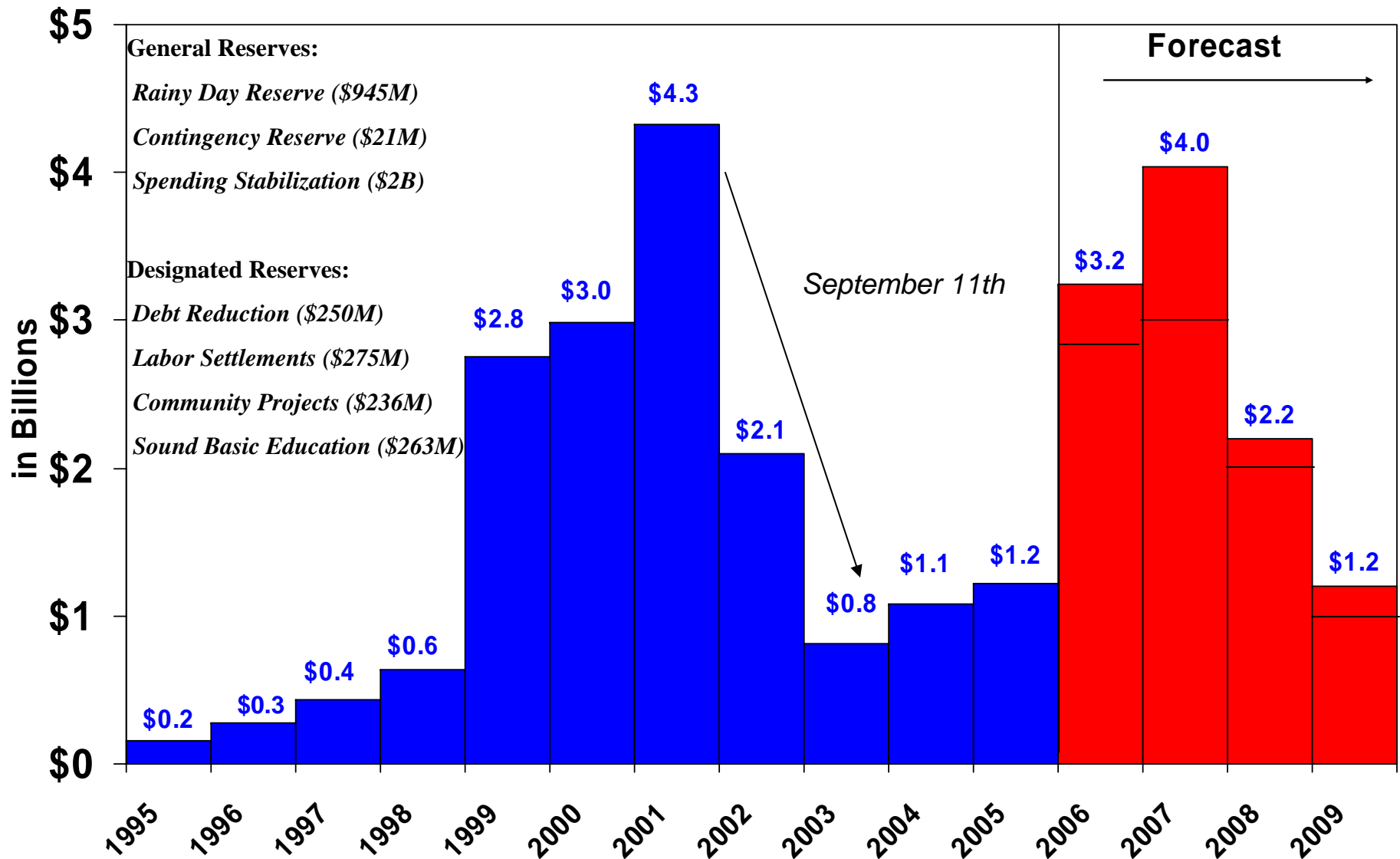
Recommended Tax Policy Changes - General Fund (millions of dollars)			
	2006-07	2007-08	2008-09
STAR Plus \$400 Rebate	(530)	(580)	(625)
STAR Seniors	(72)	(91)	(112)
Eliminate Marriage Penalty	(125)	(475)	(400)
Reduce Top PIT Rate from 6.85 % to 6.75%	0	(325)	(475)
Stretch PIT Tax Brackets and Rate Recapture	0	(325)	(475)
Primary and Secondary Education Credit	0	(400)	(400)
Eliminate Estate and Gift Tax	0	(152)	(329)
Business Taxes	(86)	(247)	(786)
Energy Assistance	0	(185)	(60)
All Other	(10)	(35)	(211)
Sales Tax on Clothing (2 weeks at \$250 vs. Permanent \$110)	(21)	605	605
Net General Fund Tax Policy Changes	(844)	(2,210)	(3,268)

- Roughly \$3.5 billion in fully-effective tax reductions (including cigarette tax increase and two clothing tax-free weeks at \$250).
- No dynamic scoring.

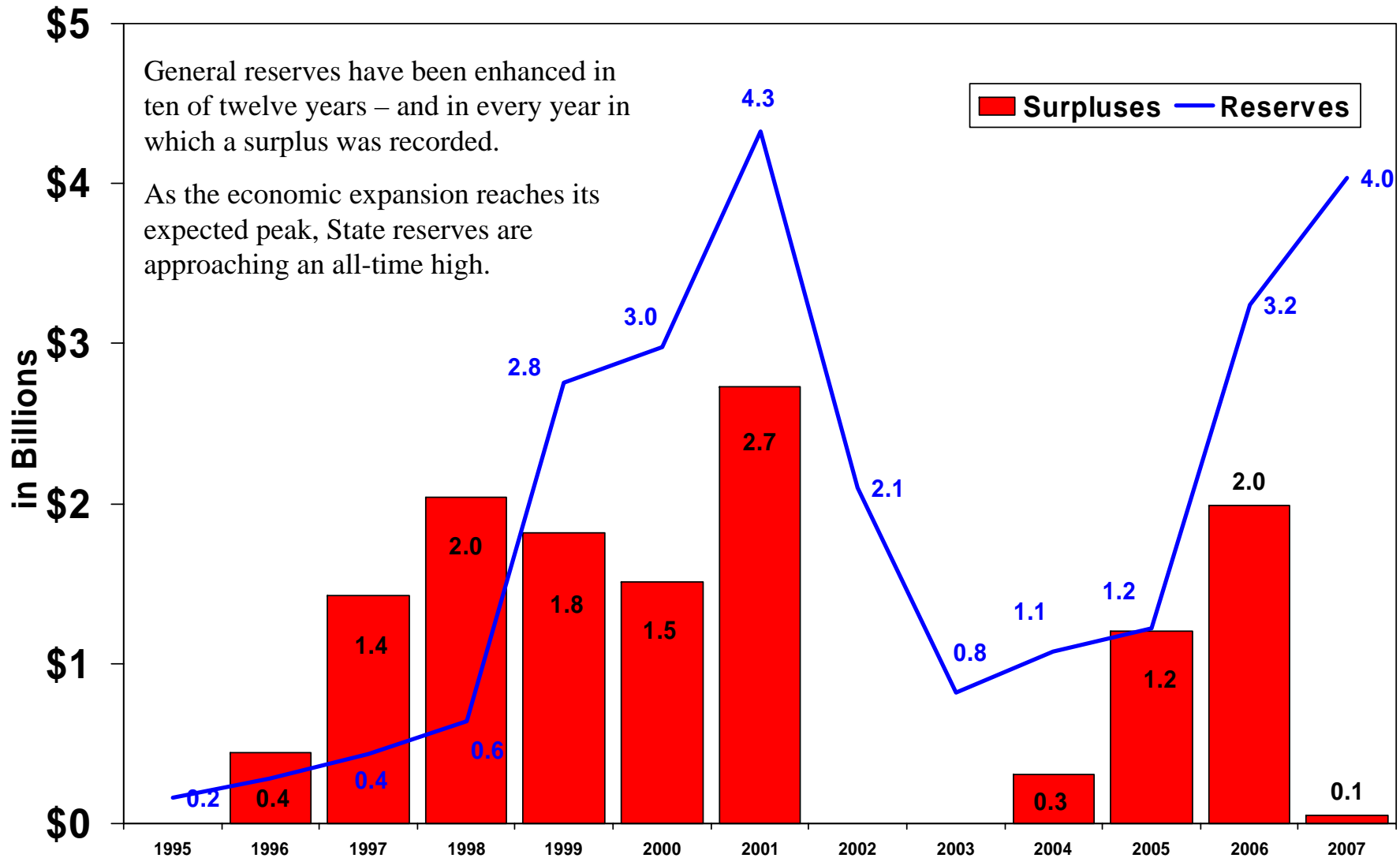
General Fund Spending Growth at Average Annual Rate



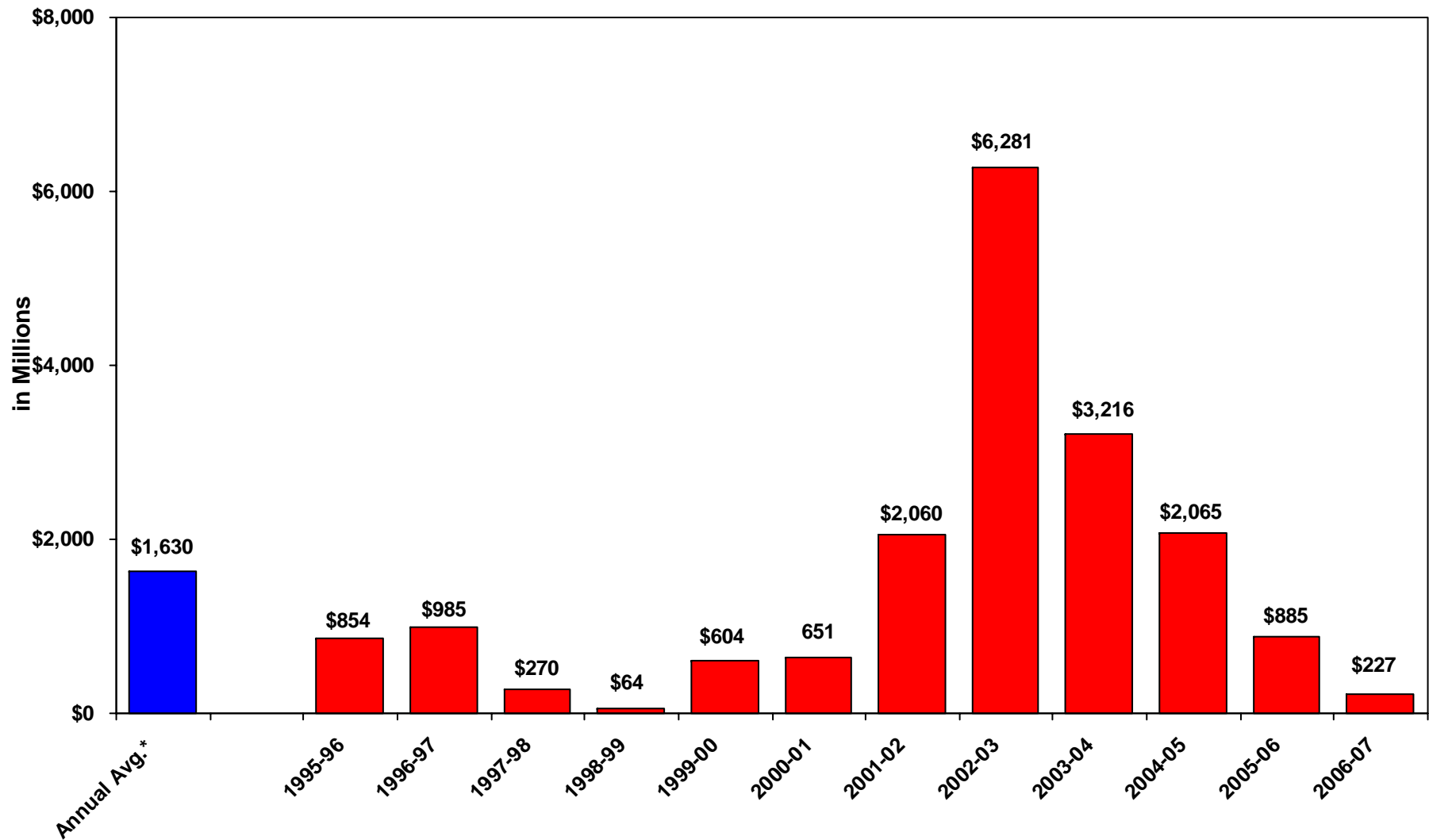
Reserves at Near-Record Levels



Reserves Expand in Good Times



“One-Timers” Near Lowest Level Ever – And Entire Amount Used for Debt Reduction



*Annual average from 1994-95 thru 2005-06 – includes use of surplus



Debt Reform

- **Constitutional amendment to make statutory limits permanent:**
 - Ban “back-door” borrowing -- one-half of all new debt must be approved by voters.
 - Limit debt outstanding to 4 percent of personal income.
 - Limit debt service to 5 percent of All Governmental Funds receipts.
 - Limit debt to capital purposes only.
 - Authorize multiple GO Ballot proposals.
 - Close loopholes.

- Public Authority Office located in DOB.



Budget Reform

- Balanced Enacted Budget.
- Earlier Budget submission (January 15; reduce amendment period from 30 to 21 days).
- July 1 fiscal year start with May 1 enactment.
- 5 percent minimum Rainy Day Reserve.
- Binding revenue forecast (by Comptroller, if no consensus agreement).
- Mandatory conference committees.
- Public reporting to individual legislators on the multi-year fiscal impacts of changes before enacted budget vote.
- Enhanced reporting (four year Financial Plan updated quarterly; more information on workforce, information technology).



A Long-Term Focus

- The 2006-07 Budget promotes structural balance, long-term economic competitiveness, and governmental reform.
 - Spending actions address the highest-growth programs, focusing in particular on Medicaid.
 - Reserves are approaching record levels, part of the long-term strategy to set aside money in anticipation of moderating economic growth.
 - Tax reductions are expected to improve the State's attractiveness to businesses, and timed to phase in to help maintain the economic expansion.
 - Budget and debt reform will encourage on-time, balanced budgets and prudent use of State debt.



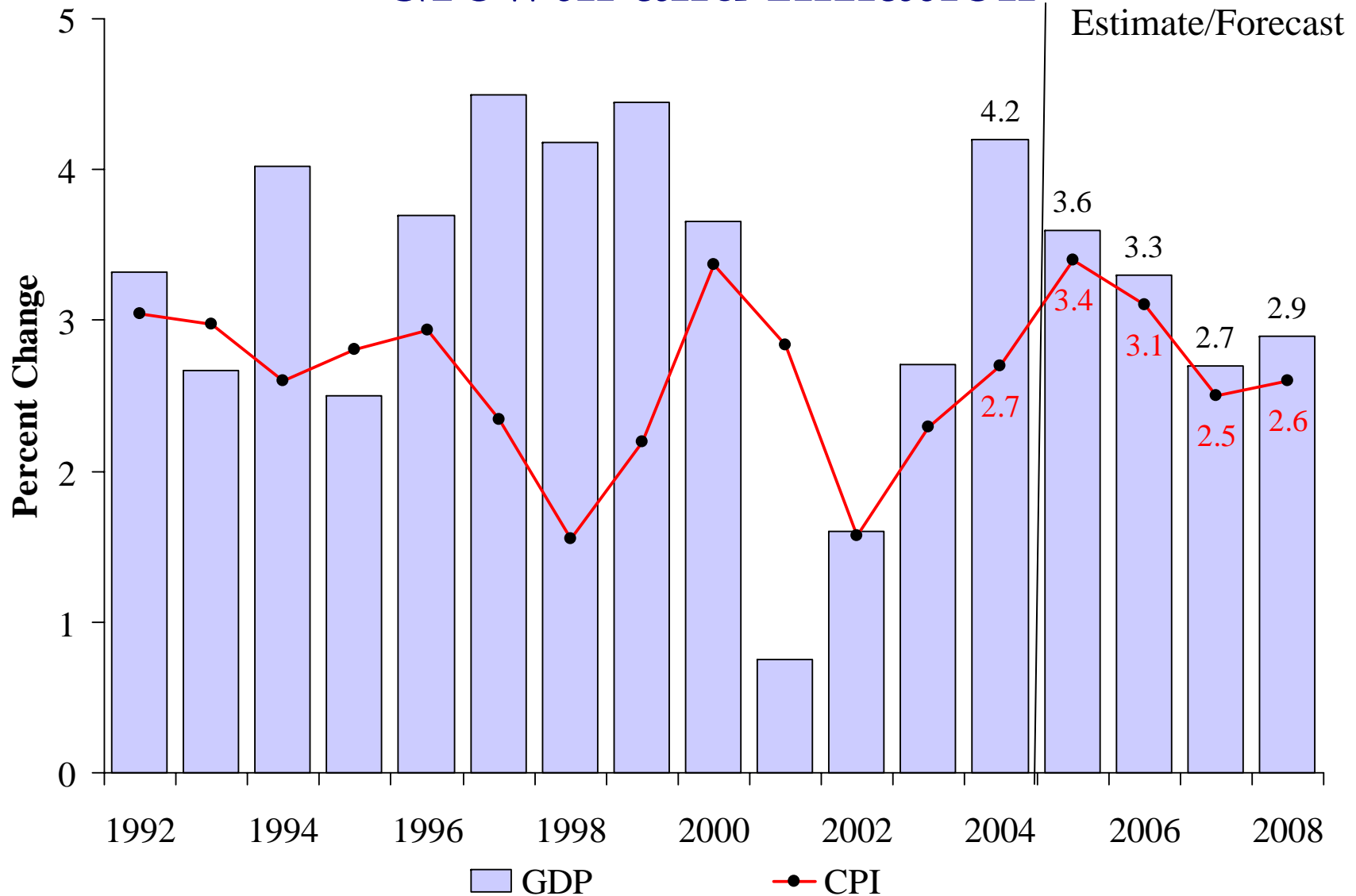
Appendix

Favorable Fiscal Impact on Local Governments

\$ Savings in millions	Total	Counties	NYC	Other Locals	School Districts
Aid and Incentives for Municipalities	72.3	6.1	N/A	66.2	N/A
School Aid	181.2	N/A	72.7	N/A	108.5
Welfare	41.1	15.4	25.7	N/A	N/A
Public Protection	24.8	17.3	7.5	N/A	N/A
Transportation	27.9	17.1	10.8	N/A	N/A
Public Health	18.4	8.2	10.2	N/A	N/A
All Other Proposals	29.1	24.8	-4.1	8.4	N/A
Subtotal	394.8	88.9	122.8	74.6	108.5
Medicaid Cap	638.0	233.0	405.0	N/A	N/A
Family Health Plus Takeover	528.0	158.0	370.0	N/A	N/A
GRAND TOTAL	1,560.8	479.9	897.8	74.6	108.5

- Medicaid cap, Family Health Plus takeover, and STAR Plus (not counted above) generate significant local tax and mandate relief.
- Enhanced AIM promotes better fiscal management practices.

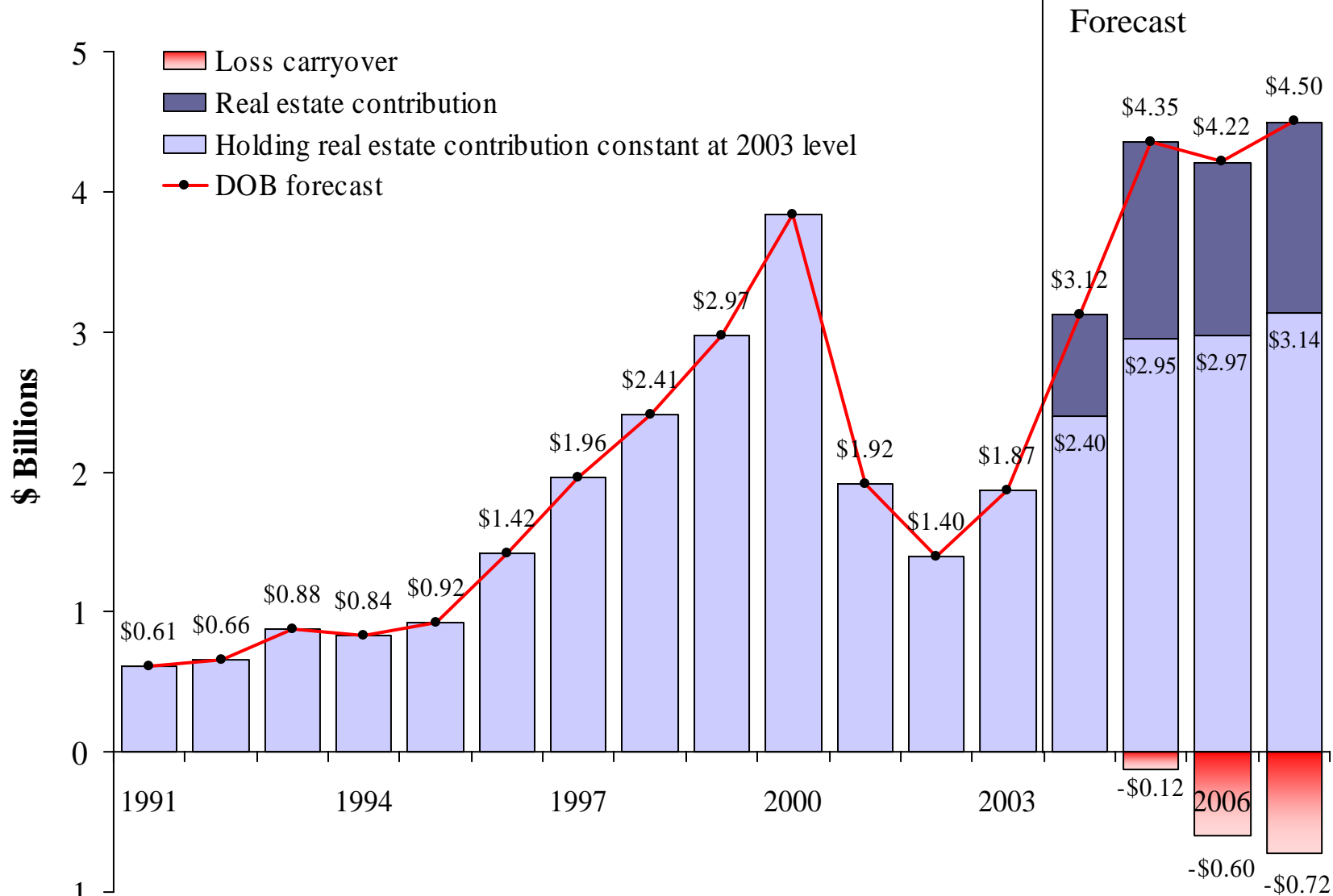
Outlook for Real U.S. GDP Growth and Inflation



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

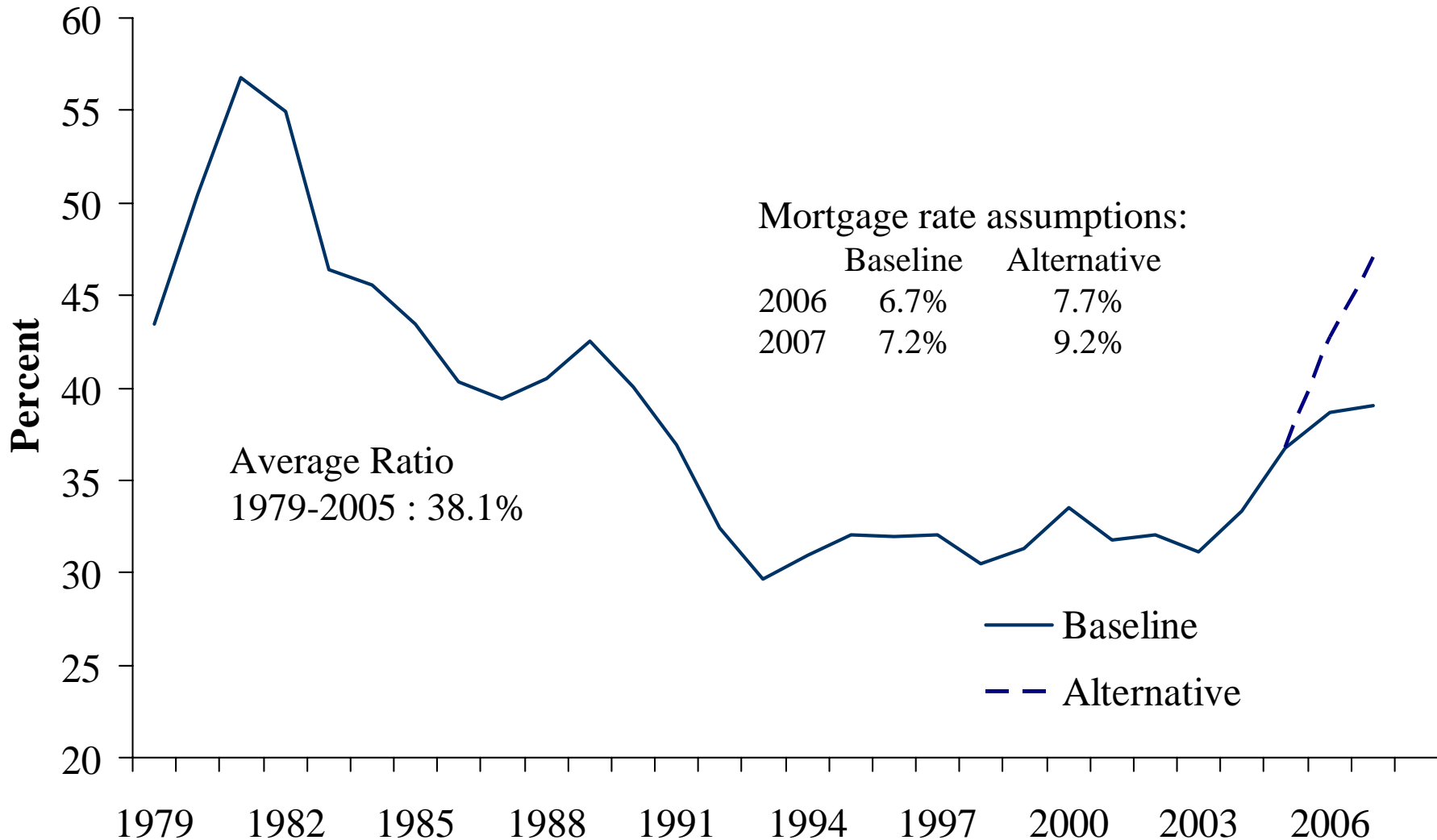
Personal Income Tax Revenues from Capital Gains Realizations

Assuming an Effective Tax Rate of 6 Percent



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

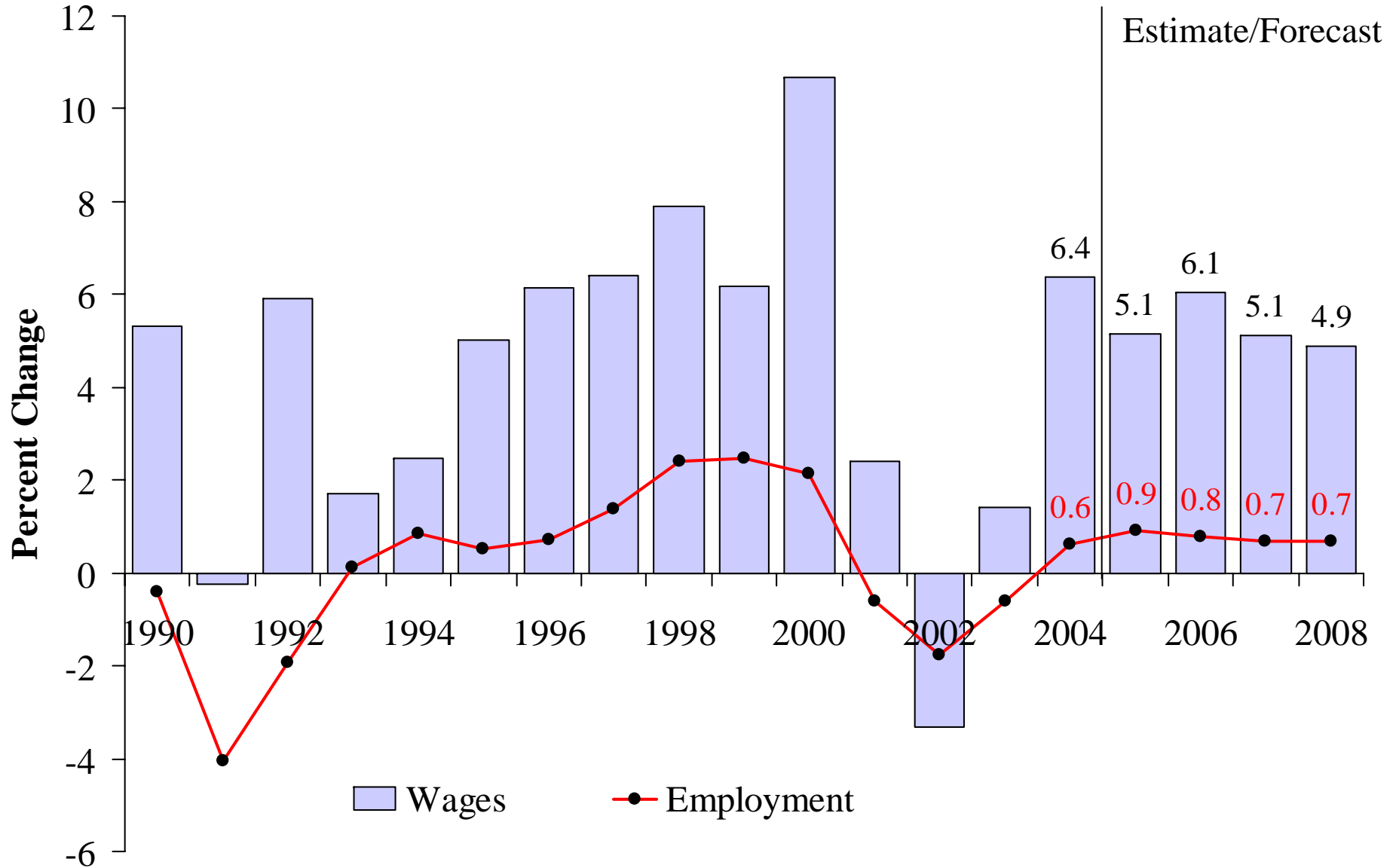
Trends in U.S. Housing Affordability



Note: Ratio refers to annual mortgage payment implied by current median home price and current mortgage interest rate, as percent of average wages. Estimates for 2005 are based on three quarters of data.

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

New York State Employment and Wages



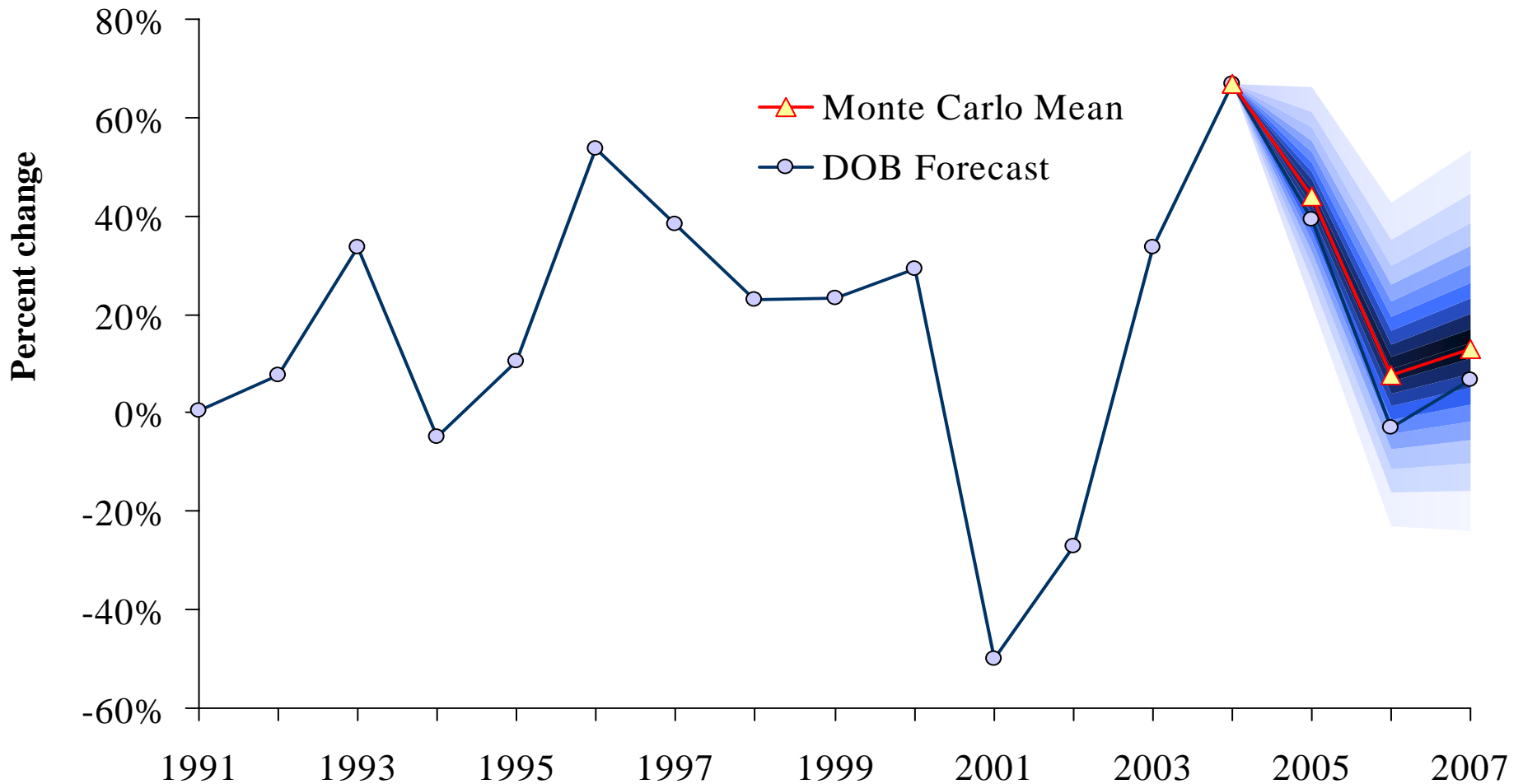
Source: NYS Labor Department; DOB staff estimates.

New York State Wages and Finance and Insurance Sector Bonuses



Source: NYS Labor Department; DOB staff estimates.

Fan Chart for Capital Gains Income Growth 90 Percent Prediction Interval



Note: With 90 percent probability, capital gains growth will fall within the shaded region. Bands represent 5 percent probability regions.

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