

Introduction _____

This Financial Plan Report is submitted pursuant to section 23 of the State Finance Law, which requires the Governor to submit a revised financial plan that reflects action by the Legislature on the Executive Budget. This report includes new forecasts for the national and State economies, as well as detailed estimates for the major categories of receipts and disbursements.

Overview

To balance the General Fund Financial Plan, the 2002-03 Executive Budget reflected proposals to close a combined 2001-02 and 2002-03 budget gap of \$6.8 billion attributable primarily to the World Trade Center attacks and the national recession. These proposals included legislative and administrative savings actions of \$2.4 billion taken during 2001-02 following the World Trade Center disaster, the use of \$1.1 billion in reserves set aside for economic uncertainty, \$885 million in reserves from the Temporary Assistance for Needy Families (TANF) program, and \$2.4 billion in revenue and spending actions.

A potential shortfall of approximately \$1.4 billion materialized in April 2002 when final revenue results for the 2001-02 fiscal year and the impact of the business depreciation measures enacted as part of the federal stimulus package became known. The vast majority of this additional shortfall is expected to be one-time and, accordingly, the Enacted Budget includes a series of non-recurring actions to maintain a balanced Financial Plan. These actions include implementation of a tax amnesty program, increased receipts from abandoned property, a change in the payment date on various business taxes, conversion of certain hard dollar capital projects to bonding, and utilization of available cash reserves and other fund balances.

The Enacted Budget also provides for additional spending of approximately \$600 million in priority areas including school aid, higher education, and various health and human services programs. These costs are financed through actions to reduce spending and increase revenues on a recurring basis, including education aid reform, workforce savings, tobacco revenue increases and enforcement actions, as well as use of resources from other funds.

The following table summarizes current spending levels for the General Fund, State Funds and All Governmental Funds under the 2002-03 Enacted Budget.

2002-03 Spending Projections (millions of dollars)				
	Size of the Budget	Dollar Change from 2001-02	% Change from 2001-02	Average Annual % Growth Without STAR (94-95 to 02-03)
General Fund	40,214	(1,008)	(2.4)	2.3
State Funds	59,358	2,380	4.2	3.7
All Governmental Funds	89,556	5,081	6.0	4.3

Note: All Governmental Funds spending projections do not include \$2.76 billion in federal "flow-through" disaster aid to New York City.

Explanation of the Financial Plan

The State's Enacted Budget Financial Plan forecasts receipts and disbursements for the fiscal year. The economic forecast of the Division of the Budget (DOB) and the State's tax and fee structure serve as the basis for projecting receipts. After consulting with public and private sector experts, DOB prepares a detailed economic forecast for both the nation and New York, showing Gross Domestic Product (GDP), employment levels, inflation, wages, consumer spending, and other relevant economic indicators. It then projects the yield of the State's revenue structure against the backdrop of these forecasts.

Projected disbursements are based on agency staffing levels, program caseloads, levels of service needs, formulas contained in State and Federal law, inflation and other factors. The factors that affect spending estimates vary by program. For example, welfare spending is based primarily on anticipated caseloads that are estimated by analyzing historical trends, projected economic conditions and changes in Federal law. In criminal justice, spending estimates are based on recent trends and data from the criminal justice system, as well as on estimates of the State's prison population. All projections account for the timing of payments, since not all the amounts appropriated in the Budget are disbursed in the same fiscal year.

The State's Fund Structure

The State accounts for all of its spending and receipts by the fund in which the activity takes place (such as the General Fund or the Capital Projects Fund), and the broad category or purpose of that activity (such as State Operations or Capital Projects). The Financial Plan tables sort all State projections and results by fund and category.

The General Fund receives the majority of State taxes. State Funds include the General Fund and funds specified for dedicated purposes, with the exception of Federal Funds. The All Governmental Funds Financial Plan, which includes State Funds and Federal Funds, is comprised of four major fund types, and includes:

- The General Fund, which receives most of the State's tax revenue and accounts for spending on programs that are not supported directly by dedicated fees and revenues;
- Special Revenue Funds, which receive Federal grants, certain dedicated taxes, fees and other revenues that are used for a specified purpose;
- Capital Projects Funds, which account for costs incurred in the construction and reconstruction of roads, bridges, prisons, and other infrastructure projects; and
- Debt Service Funds, which pay principal, interest and related expenses on long-term bonds issued by the State and its public authorities.

Within each of these fund types, revenues and spending are classified by major categories of the Financial Plan (e.g., Taxes, Miscellaneous Receipts, Grants to Local Governments, State Operations). Activity in these Financial Plan categories is described in greater detail later in this Report. Summary charts display the annual change for each category of the Financial Plan, and a narrative explanation of major changes follows each chart. The tables at the end of the Report summarize projected General Fund, State Funds and All Governmental Funds receipts and disbursements for the 2002-03 fiscal year.

2002-03 General Fund Financial Plan

National Economy

The events of September 11 dealt a substantial blow to the U.S. economy. The slowdown in economic activity that began in early 2001 deepened significantly in the wake of the attack. Almost one million jobs were lost in the fourth quarter alone. However, the resilience of the U.S. consumer, combined with an expansionary fiscal and monetary policy, has kept the nation's first recession in ten years relatively mild. Unlike most recessions, real U.S. gross domestic product (GDP) declined for only one quarter — the third quarter of 2001. The national economy grew an unexpected 1.7 percent in the fourth quarter of 2001, followed by growth of almost 6 percent in the first quarter of 2002.

The surprisingly strong economic growth of the last two quarters has resulted in an improved economic outlook for 2002 compared to the Executive Budget. Real U.S. GDP is expected to grow 2.5 percent for 2002, following growth of 1.2 percent in 2001. Both the robust growth in real consumer spending and the unexpected strength of the housing market underlie the upward revision to national economic growth. The outlook for personal income is also more optimistic. The Division of the Budget expects U.S. personal income to grow 3.0 percent for 2002, with its largest component, wages and salaries, expected to grow 2.6 percent. The U.S. unemployment rate is forecast to average 6.0 percent for this year.

In contrast, the outlook for corporate profits has deteriorated since January. Following a steep decline of over 30 percent in the fourth quarter of 2001, producing a decline of 17.4 percent for the year, U.S. corporate profits are now expected to fall 7.0 percent in 2002. The projection for the stock market is also more negative than the Executive Budget forecast, as equity markets continue to struggle with a poor profits outlook and the increased scrutiny of company balance sheets in the wake of the Enron collapse.

Major Economic Indicators			
	2001	2002	2003
Gross Domestic Product (real)	1.2	2.5	3.2
Personal Income	4.9	3.0	5.4
Corporate Profits	(17.4)	(7.0)	8.6
Consumer Price Index	2.8	1.6	2.7
Note: Numbers above are percent change/calendar year. The New York State Division of the Budget estimates are based on National Income and Product Account data through April 2002, except for nonagricultural employment and the unemployment rate which are based on U.S. Department of Labor data through early May 2002.			

There are significant risks to the current forecast, foremost among them being global political instability. A further escalation of tensions in the Middle East could put upward pressure on energy prices, negatively impacting both consumer spending and corporate profits. Higher energy prices could also delay the global recovery, reducing export growth below expectations. In contrast, a stronger global recovery than anticipated could result in stronger export and profits growth than expected. A weakening of growth in consumer spending or a failure of investment spending to grow could result in a return to recessionary conditions. Although the current forecast presumes no further terrorist attacks on U.S. soil, the possibility poses what is perhaps the gravest risk to the U.S. economy in the current environment.

State Economy

As expected, the events of September 11 had a devastating impact on the State economy. The Division of the Budget is now estimating State employment to have declined 0.5 percent in 2001 followed by an estimated decline of 0.8 percent for 2002. Wages and salaries are expected to show an increase of 2.4 percent for 2001, followed by a decline of 1.5 percent for 2002. Total State personal income, of which wages and salaries are the largest component, is projected to grow 0.5 percent in 2002, following growth of 2.9 percent for 2001.

Major Economic Indicators			
	2001	2002	2003
Personal Income	2.9	0.5	3.5
Nonagricultural Employment	(0.5)	(0.8)	0.9
Unemployment Rate	4.9	6.4	5.8
Note: Numbers above are percent change/calendar year. Personal income and nonagricultural employment growth for 2001 and all forecasts for 2002 and 2003 are projected by the Division of the Budget.			

A significant risk to the New York forecast is from weaker than expected growth for both the national and international economies which could delay the onset of the State's recovery. This would result in even slower employment and income growth than projected. In contrast, stronger national and international growth could result in an earlier recovery than projected. The cleanup of the World Trade Center site is proceeding faster than anticipated. If this trend should continue, employment growth could be stronger than projected. Financial sector activity remains the largest risk to the New York forecast. Wall Street compensation fell precipitously in early 2002. Continued weakness in this sector would diminish the State's prospects for an early economic recovery.

General Fund Receipts

General Fund Receipts (millions of dollars)			
SFY:	2001-02	2002-03	Annual Change
Total Tax Receipts	37,371	35,076	(2,295)
All Other Receipts	3,773	4,822	1,049
Total Receipts	41,144	39,898	(1,246)

Total General Fund receipts in support of the 2002-03 Financial Plan are projected to be \$39.90 billion, a decrease of \$1.25 billion from the \$41.14 billion recorded in 2001-02. This total includes \$35.08 billion in tax receipts, \$2.15 billion in miscellaneous receipts, and \$2.67 billion in transfers from other funds. The decline reflects the impact of the World Trade Center attacks on receipts and an associated reduction of revenue reserves rolled over from 2001-02.

General Fund receipts net of refund reserve account transactions are estimated at \$38.65 billion for 2002-03. This is \$271 million below estimates released with the 30-day amendments to the Executive Budget. Declines in the revenue base have been partially offset by revenue actions taken to close the 2002-03 budget gap.

Personal income tax receipts, net of refund reserve account transactions, are expected to be \$50 million higher than the 30-day amendments to the Executive Budget. This increase is due to a higher net contribution from the refund reserve account, largely offset by a lower-than-anticipated income tax settlement for 2001 tax liability.

User taxes and fees are expected to rise by \$37 million from the 30-day amendments to the Executive Budget. This adjustment reflects somewhat better-than-expected first quarter collection results and positive revisions in the economic outlook.

Business taxes are expected to increase by \$67 million from the 30-day amendments to the Executive Budget. This result is partially attributable to a statutory increase to the first installment payment rule used by most business taxpayers and declines from the flow-through effect of the Federal tax law changes.

Other taxes are expected to increase by \$4 million from the 30-day amendments to the Executive Budget due to an increase in the estate tax estimates. The estimate of miscellaneous receipts has been increased by \$542 million from the 30-day amendments to the Executive Budget. Transfers to the General Fund are expected to increase from the estimates in the 30-day amendments to the Executive Budget due primarily to actions taken with the Enacted Budget.

General Fund Revenue Actions

To close the significant budget gap caused largely by the events of September 11, the Enacted Budget contains numerous revenue actions. These actions include: lowering sales and withholding tax electronic funds transfer thresholds (\$58 million); increasing alcoholic beverage control license fees (\$8 million); adopting a new price index for the prepayment of sales tax on cigarettes (\$6 million); increasing the tax rate on tobacco products to 37 percent of wholesale price (\$15 million); enhancing cigarette enforcement measures (\$5 million); changing the mandatory first installment requirement for businesses from 25 percent to 30 percent (\$100 million); providing a Tax Amnesty Program (net benefit of \$175 million); selling securities held as abandoned property (\$300 million); increasing Miscellaneous Receipts from bond issuance charges (\$115 million); changing the surcharge on wireless services (\$38 million); transferring Power Authority resources to fund the Power for Jobs program (\$42 million); and providing new technology investments at the Department of Taxation and Finance to increase audit collections (\$130 million).

Personal Income Tax (millions of dollars)		
2001-02	2002-03	Annual Change
25,854	23,342	(2,512)

Personal income tax receipts are projected to fall by just over \$2.51 billion from 2001-02. This is due to a combination of economic weakness and a reduction in revenue reserves flowing through the refund reserve accounts. The decline is within the range of revenue loss expected given the events of September 11.

The estimate for withholding tax collections decreased by \$111 million from the Executive Budget estimate, reflecting lower wage growth than forecast with the Executive Budget.

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Overall, personal income tax payments associated with the 2001 tax year are down significantly from what was anticipated in the Executive Budget. However, a large portion of this loss is expected to be non-recurring. It appears that much of this loss is attributed to one-time business losses associated with the terrorist attack.

Estimated tax installment payments have been decreased by nearly \$300 million, reflecting the expected continuation of the weakness experienced for the April quarterly payment and the impact of the State's conformity to the "bonus depreciation" recently enacted at the Federal level. The Federal Job Creation and Worker Assistance Act of 2002 included a provision to allow businesses an extra 30 percent "bonus" depreciation in the first year an asset is depreciated. In subsequent years, the remaining basis of the asset is depreciated under the regular rules.

Additionally, the estimate for payments on 2001 tax liability with extension requests has been decreased by nearly \$400 million, the estimate for payments with final returns on 2001 tax liability has been decreased by \$300 million, and the estimate for refunds has been increased by nearly \$300 million.

The estimate for delinquent collections of the personal income tax has been increased by \$106 million, reflecting enactment of the State tax amnesty program.

User Taxes and Fees (millions of dollars)		
2001-02	2002-03	Annual Change
7,098	7,105	7

Receipts for user taxes and fees are projected to total \$7.11 billion, an increase of \$7 million from reported 2001-02 collections. Included in this category are: receipts from the State sales tax, cigarette and tobacco products; alcoholic beverage taxes and fees; and motor vehicle license and registration fees.

The increase is attributable to the projected growth in the sales tax base (after adjusting for tax law changes and other factors) of 3.0 percent yielding a projected cash growth of 3.8 percent, as well as an increase in alcoholic beverage tax receipts and legislation enacted with the Budget increasing the tax on tobacco products and increasing most alcoholic beverage control license fees.

Decreases in the motor vehicle fees, cigarette tax, and auto rental tax components offset most of the gains. The decline in General Fund cigarette tax receipts is the result of the increased dedication of these receipts to the Tobacco Control and Insurance Initiatives Pool. The decline in motor vehicle fees and auto rental taxes in the General Fund largely reflect the increased dedication of these sources to the Dedicated Highway and Bridge Trust Fund.

Business Taxes (millions of dollars)		
2001-02	2002-03	Annual Change
3,616	3,842	226

Corporation franchise tax receipts are estimated to be 1.9 percent, or \$33 million below the 30-day amendments to the Executive Budget. The difference is attributable to the net effect of

the following factors. Accelerated depreciation enacted as part of the Federal "Job Creation and Worker Assistance Act of 2002" will reduce receipts by \$105 million and enhancements to the Low-Income Housing Tax Credit Program will reduce receipts by \$2 million. Increasing the mandatory first installment requirement from 25 percent to 30 percent will increase collections by \$40 million during the 2002-03 State fiscal year. Finally, the amnesty program, which targets corporate income taxpayers with less than 500 employees, will create an additional \$32 million in revenue.

Corporation and utilities tax collections are also adjusted from the Executive Budget estimate. Increasing the mandatory first installment requirement from 25 percent to 30 percent will increase estimated collections by \$30 million during the 2002-03 State fiscal year.

Insurance franchise tax receipts are estimated to be \$81 million, or 15.6 percent above the Executive Budget estimate as a result of increasing the mandatory first installment requirement from 25 percent to 30 percent in the current State fiscal year. Additionally, estimates were revised upward to reflect new information regarding World Trade Center related losses to the insurance industry.

Bank tax receipts are estimated to be 2.1 percent or \$11 million below the Executive Budget. This difference is attributable to the net effect of the following factors. Accelerated depreciation enacted as part of the Federal "Job Creation and Worker Assistance Act of 2002" will reduce receipts under this article by \$35 million. This reduction is partially offset by increasing the mandatory first installment requirement from 25 percent to 30 percent which will increase collections by \$24 million during the 2002-03 State fiscal year.

Other Taxes (millions of dollars)		
2001-02	2002-03	Annual Change
803	787	(16)

Other tax receipts are now projected to total \$787 million or \$16 million below last year's amount. Sources in this category include the estate and gift tax, the real property gains tax and pari-mutuel taxes. Except for the addition of \$4 million anticipated from the amnesty program, the estimates are unchanged from the Executive Budget.

Previously enacted legislation to repeal both the real property gains tax and the gift tax and to reduce the estate and pari-mutuel taxes have significantly reduced the yield from this category of receipts.

Miscellaneous Receipts (millions of dollars)		
2001-02	2002-03	Annual Change
1,625	2,148	523

Miscellaneous receipts are expected to reach \$2.15 billion, an increase of \$523 million from 2001-02 actuals and \$542 million from the Executive Budget projections for 2002-03. The major revenue enhancements include: \$328 million in abandoned property; \$115 million in bond issuance charges; \$42 million from the Power Authority of the State of New York to fund the

Power for Jobs program; and \$38 million from the surcharge on wireless communication services.

Transfers From Other Funds (millions of dollars)			
SFY:	2001-02	2002-03	Annual Change
LGAC	1,750	1,808	58
All Other	398	866	468
Total Transfers	2,148	2,674	526

Transfers from other funds are expected to total \$2.67 billion, or \$526 million more than total receipts from this category during 2001-02. Total transfers of sales taxes in excess of LGAC debt service requirements are expected to increase by \$58 million, while transfers from all other funds are expected to increase by \$468 million from actual collections in 2001-02. This represents an increase of \$24 million in transfers from LGAC since the 30-day amendments to the Executive Budget and an increase in other transfers of \$321 million since that time.

General Fund Disbursements

General Fund Disbursements (millions of dollars)		
2001-02	2002-03	Annual Change
41,222	40,214	(1,008)

Total General Fund disbursements, including transfers to support capital projects, debt service and other purposes, are estimated at \$40.21 billion for 2002-03, a decrease of \$1.01 billion or 2.4 percent from 2001-02. The spending is consistent with 2001-02 funding levels for most ongoing programmatic activities. The annual decline results primarily from the utilization of Federal TANF surplus reserves (\$955 million) and other non-General Fund sources to maintain program commitments at a reduced General Fund cost (\$1.5 billion). These reductions are partially offset by annual increases for pensions and other fringe benefit costs (\$197 million), school aid (\$186 million on a fiscal year basis), and underlying programmatic increases in health care. The annual change in spending is explained by financial plan category in more detail below.

Total projected spending in the revised 2002-03 Financial Plan is essentially unchanged from the level recommended in the Governor's Executive Budget. Spending changes include additions of approximately \$600 million related to education (\$360 million), higher education, including the Tuition Assistance Program (\$149 million), and various health and human services programs (\$91 million). These costs are offset through additional actions including building aid reform (\$88 million), use of alternate financing sources for health care and other programs (\$268 million), and various spending reductions (\$200 million).

Grants to Local Governments (millions of dollars)		
2001-02	2002-03	Annual Change
27,835	26,848	(987)

Grants to Local Governments (also known as local assistance) include financial aid to local governments and non-profit organizations, as well as entitlement payments to individuals. The largest areas of spending in local assistance are for aid to public schools (46 percent) and for the State's share of Medicaid payments to medical providers (22 percent). Spending for mental hygiene programs (6 percent), higher education programs (5 percent), children and families services (4 percent), and welfare assistance (2 percent) represent the next largest areas of local aid.

Spending in local assistance is estimated at \$26.85 billion in 2002-03, a decrease of \$987 million (3.5 percent) from the 2001-02 fiscal year. While overall spending declines, funding for some programs is increasing, including education and higher education, as well as underlying growth in Medicaid and other health programs. These increases are more than offset from maximizing the use of non-General Fund revenue sources to finance program costs, including the use of nursing home assessments (\$266 million), alternate funding sources for various Medicaid and health programs (\$872 million), and the use of Federal TANF reserves for higher education and welfare assistance programs (\$955 million).

School aid of \$14.6 billion on a school year basis reflects a school year increase of \$410 million. On a fiscal year basis, General Fund spending for school aid is projected at \$12.36 billion in 2002-03, an increase of \$186 million over 2001-02. This reflects increases for most major aid components, implementation of building aid reforms, and the latest estimate of available lottery funds.

Medicaid spending is estimated at \$5.85 billion in 2002-03, a decrease of \$359 million (5.8 percent) from 2001-02. Expected underlying spending growth of roughly 7 percent is offset by approximately \$800 million from various proposed revenue actions and program restructuring initiatives. Proposed actions that will lower General Fund costs include implementation of a nursing home assessment (\$266 million), increased Intergovernmental Transfers and Upper Payment Limit payments (\$74 million), and increased health care spending supported by HCRA (\$475 million).

General Fund spending for health programs is projected at \$496 million, a net decrease of \$174 million (26 percent) from 2001-02. Higher costs for a projected increase in participation in the Early Intervention program and other programmatic growth is more than offset by utilizing dedicated funding sources of \$323 million for various health programs. These dedicated funding sources will support the cost of the Elderly Pharmaceutical Insurance Coverage (EPIC) program (\$194 million), State support for the Roswell Park Cancer Institute (\$60 million), the Public Health Campaign program, Indian Health programs, and Immunization and Water Supply Protection (\$69 million).

Spending on welfare is projected at \$496 million, a decrease of \$564 million (53.2 percent) from 2001-02. This decrease is largely attributable to the additional use of Federal TANF funds (\$514 million) to support program costs.

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Higher Education Service Corporation (HESC) spending is projected at \$284 million, a decrease of \$406 million (58.9 percent) from 2001-02. This reduction primarily reflects the use of Federal TANF funds to finance spending on the Tuition Assistance Program (\$380 million).

Spending for all other local assistance programs will total \$7.36 billion in 2002-03, a net increase of \$330 million (4.7 percent) from the current year. This increase primarily includes increased support for the pre-school special education program (\$96 million), funding for the Yonkers settlement agreement (\$92 million), and additional funding for the Community Projects Fund (\$58 million).

State Operations (millions of dollars)		
2001-02	2002-03	Annual Change
7,839	7,815	(24)

State Operations pays for the costs of operating the Executive, Legislative, and Judicial branches of government. Spending in this category is projected at \$7.82 billion, a decrease of \$24 million or 0.3 percent from the prior year.

State Operations spending includes \$358 million for the annualized costs of labor agreements and related costs with State employee unions. These costs are more than offset by proposed spending restraint and revenue maximization efforts totaling \$382 million. The imposition of a strict hiring freeze, offering a retirement incentive to State employees, and various actions to restrain spending in all agencies are anticipated to save \$96 million. In addition, a total of \$286 million in additional savings are projected to be available in 2002-03 from various revenue maximization efforts to finance State Operations spending. These efforts include \$141 million in additional Patient Income Account revenues to offset spending on mental hygiene programs, and \$79 million in additional Federal and other funding sources to finance spending on higher education and health programs.

The State's overall workforce is projected to be 191,100 persons by the end of 2002-03, down approximately 5,000 from November 2001 when the Governor announced a series of cost savings actions following the World Trade Center attacks. This reduction will occur through attrition and early retirement.

General State Charges (millions of dollars)		
2001-02	2002-03	Annual Change
2,650	2,847	197

General State charges (GSCs) account for the costs of providing fringe benefits to State employees and retirees of the Executive, Legislature, and Judiciary. These payments, many of which are mandated by statute and collective bargaining agreements, include employer contributions for pensions, social security, health insurance, workers' compensation, and unemployment insurance. GSCs also cover State payments-in-lieu-of-taxes to local governments for certain State-owned lands, and the costs of defending lawsuits against the State and its public officers.

Disbursements for GSCs are estimated at \$2.85 billion, an increase of \$197 million from the prior year. The projected growth is primarily attributable to rising health insurance costs and

pension fund investment losses. Pension losses are expected to result in the need for \$55 million in additional contributions to the New York State and Local Employees Retirement System (ERS) for fiscal year 2002-03. The pension estimate assumes an ERS contribution rate of 1.5 percent of salary for the 2002-03 fiscal year, an increase from 0.7 percent in 2001-02. Significant growth is also expected in costs for health insurance premiums, which are projected to increase 11 percent in calendar year 2002.

Transfers to Other Funds (millions of dollars)			
SFY:	2001-02	2002-03	Annual Change
Transfers in Support of Debt Service	2,086	1,851	(235)
Transfers in Support of Capital Projects	289	174	(115)
Transfers in Support of State University	69	86	17
All Other Transfers	454	593	139
Total Transfers to Other Funds	2,898	2,704	(194)

Transfers for debt service total \$1.85 billion in 2002-03, a reduction of \$235 million. The decrease is primarily attributable to continued savings from the use of \$1 billion in Debt Reduction Reserve Fund monies to reduce high cost debt, the use of the new lower-cost State Personal Income Tax Revenue Bonds to finance capital projects, and the impact of legislation that will enhance the State's ability to manage its bond portfolio and reduce borrowing costs.

Transfers for capital projects provide General Fund support for projects that are not financed by bond proceeds, dedicated taxes, Federal grants or other revenues. Transfers for capital projects in 2002-03 are projected to decrease by \$115 million and reflect the one-time conversion of certain capital projects from pay-as-you-go financing to bonding.

The State's cost of transfers to the State University increased by \$17 million over 2001-02 primarily due to financing the State's share of an outstanding SUNY loan.

All other transfers, which reflect the remaining transfers from the General Fund to other funds, are estimated to total \$593 million in 2002-03, an increase of \$139 million. The growth is attributable to increases in Medicaid payments to SUNY hospitals (\$89 million) and the State's subsidy to the Court Facilities Incentive Aid Fund to support Judiciary capital projects (\$52 million).

Non-Recurring Actions

Non-recurring actions are incorporated in the 2002-03 Financial Plan, and are primarily intended to finance the one-time extraordinary revenue losses associated with the 2001 tax year.

The vast majority of the non-recurring resources utilize existing available fund balances, including the Abandoned Property Fund (\$300 million), the Environmental Protection Fund and the Superfund (\$264 million), the State of New York Mortgage Agency (\$150 million), the New York State Housing Finance Agency (\$50 million), the Power Authority of the State of New York (\$42 million), various health and Medicaid Special Revenue Funds (\$341 million), the Higher Education Services Corporation (\$39 million), the Dormitory Authority of the State of New York (\$12 million), and various routine fund transfers (\$75 million).

In addition, a variety of measures were enacted to preserve revenues, including a tax amnesty program (\$175 million), a change in the payment date on various business taxes (\$100 million), recoveries of school aid and welfare recipient overpayments (\$39 million), and a change in tax collection procedures (\$64 million).

Reserves/General Fund Closing Balance

The Enacted Budget also reflects the use of reserves set aside over the last several years to help to deal with the extraordinary fiscal impact associated with the events of September 11th and the national economic recession.

The Enacted Budget Financial Plan projects a closing General Fund balance of \$716 million after the planned use of \$1.1 billion of the reserves for WTC-related revenue losses and \$250 million in other available reserves. Other fund balances expected to be used during 2002-03 include \$160 million in the Community Projects Fund for legislative initiatives, \$151 million in the Contingency Reserve Fund for the recent settlement of the Yonkers litigation, and \$5 million in the Universal Pre-Kindergarten Fund. The ending balance of \$716 million primarily reflects \$710 million in the permanent rainy day fund (the Tax Stabilization Reserve Fund), after a seventh consecutive maximum deposit at the end of 2001-02.

Outyear General Fund Financial Plan Projections

State law requires the Governor to propose a balanced budget each year. The Executive Budget, as amended, projected General Fund budget gaps of \$2.8 billion for 2003-04 and \$3.3 billion for 2004-05. DOB will formally update its projections of receipts and disbursements for future years as part of the Governor's 2003-04 Executive Budget submission. Preliminary analysis by DOB indicates that the State will have a 2003-04 budget gap which is larger than projected at the Executive Budget, but significantly below the shortfall that was closed as a part of actions on the 2002-03 Enacted Budget.

Governmental Funds Financial Plans

Federal Disaster Assistance to Localities

Over the next several years, a substantial amount of Federal aid is projected to flow through the State to localities for disaster response and reconstruction activities related to the WTC attacks. This Federal "flow-through" disaster aid totaled \$569 million in 2001-02 and is projected to total \$2.76 billion in 2002-03 as recovery and rebuilding efforts reach full capacity. Nearly all of the Federal disaster aid is expected to flow from the Federal Emergency Management Agency through the State Emergency Management Office (SEMO) to New York City and other localities affected by the disaster. This "flow-through" spending is not counted in the All Governmental Funds actual results and estimates contained in this Overview.

The All Governmental Funds Financial Plan includes State spending for WTC costs of \$330 million in 2002-03. Unlike the flow-through aid, these projected disbursements in the Financial Plan finance State government activities. Most of this spending is supported by Federal funds (\$306 million) which will finance, among other things, payments to the victims of the attack, State Police and DMNA staffing costs directly related to the disaster, expanded counseling and trauma services, and infrastructure repairs.

State-supported spending for WTC costs will total \$24 million in 2002-03. This will provide support for tourism and marketing activities to attract visitors to New York City, bridge loans to small businesses, and expanded case processing for insurance and workers' compensation claims.

State Funds

State Funds Disbursements (millions of dollars)		
2001-02	2002-03	Annual Change
56,978	59,358	2,380

State Funds disbursements are projected at \$59.36 billion in 2002-03, an increase of \$2.38 billion or 4.2 percent from 2001-02. The year-to-year growth in State Funds is primarily comprised of higher spending for Medicaid (\$1.35 billion), capital projects (\$786 million), various health care programs, including the EPIC prescription drug program and Child Health Plus (\$288 million), school aid (\$282 million), the community service provider assistance program (\$188 million), transportation (\$193 million), fringe benefits (\$134 million), and the STAR local tax relief program (\$120 million). These increases are partially offset by the decrease in the General Fund, excluding transfers, described earlier (\$814 million) and lower spending for debt service (\$592 million). All other spending grows by \$445 million, or less than one percent.

All Governmental Funds

All Governmental Funds Disbursements (millions of dollars)		
2001-02	2002-03	Annual Change
84,475	89,556	5,081

All Governmental Funds spending is estimated at \$89.56 billion in 2002-03, an annual increase of \$5.08 billion or 6 percent. The spending growth is comprised of the State Funds increase of \$2.38 billion described above and growth in Federal grants of \$2.70 billion. Federal aid increases are primarily for Medicaid, including payments to State-operated mental health and retardation facilities and SUNY hospitals (\$1.55 billion), the share of the college tuition assistance program financed by TANF (\$380 million), social welfare initiatives authorized under TANF (\$319 million), services for children and families (\$223 million) and the Federal share of Child Health Plus (\$126 million). All other Federal support grows by \$103 million, or less than one percent.

Special Revenue Funds

Total disbursements for programs supported by Special Revenue Funds are projected at \$43.20 billion, an increase of \$5.51 billion or 14.6 percent over 2001-02. Special Revenue Funds, which include Federal grants and State Special Revenue Funds, comprise 50 percent of the All Governmental Funds Financial Plan.

Federal grants account for 66 percent of all special revenue spending in 2002-03, comparable to prior years. Disbursements from Federal funds, excluding aid for capital programs, are estimated at \$28.63 billion, an increase of \$2.51 billion or 9.6 percent. Medicaid

is the largest program within Federal funds, accounting for over half of total spending in this category. In 2002-03, Federal support for Medicaid spending is projected at \$15.61 billion, an increase of \$1.10 billion over 2001-2002. Other increases include Medicaid payments to State-operated mental health and retardation facilities and SUNY hospitals (\$446 million), the share of the college tuition assistance program financed by TANF (\$380 million), enhanced social welfare initiatives authorized under TANF (\$319 million), services for children and families (\$223 million) and the Federal share of Child Health Plus (\$126 million).

State special revenue spending is projected to be \$14.57 billion, an increase of \$3.0 billion or 25.9 percent from 2001-02. Spending from State special revenue funds for Medicaid is projected to total \$2.50 billion in 2002-03, an increase of \$1.35 billion from 2001-02. Roughly \$730 million of this Medicaid increase is financed by HCRA resources, and the balance is supported by a new 6 percent nursing home assessment (\$441 million) and revenues received from various bad debt and charity care pools (\$175 million).

Other components of the State Funds spending increase include program growth in the EPIC prescription drug program and Child Health Plus (\$288 million), state aid for education financed by the lottery (\$282 million), aid to local social service providers through the community service provider assistance program (\$188 million), aid to transit systems (\$193 million), increased costs for employee fringe benefits (\$134 million), and growth in the STAR local tax relief program (\$120 million). State special revenue spending increased \$491 million over the 2002-03 Executive Budget, which primarily reflects additional Medicaid spending financed through HCRA.

Capital Projects Funds

Spending from Capital Projects Funds in 2002-03 is projected at \$5.29 billion, an increase of \$977 million or 22.7 percent from last year. The increase will primarily support capital investments to promote economic development (\$340 million), transportation (\$291 million), and education (\$210 million).

Debt Service Funds

Spending from Debt Service Funds is estimated at \$3.56 billion in 2002-03, a decrease of \$592 million or 14.3 percent from 2001-02. The decrease is primarily attributable to the use of \$500 million in Debt Reduction Reserve Fund (DRRF) monies during 2001-02 (which technically is shown as an increase in debt service spending in that year), debt service savings in 2002-03 generated from the use of DRRF to defease high cost debt, the use of lower-cost State Personal Income Tax Revenue Bonds, and the impact of legislation that will enhance the State's ability to manage its bond portfolio and reduce borrowing costs.

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CASH FINANCIAL PLAN
GENERAL FUND
2001-2002 and 2002-2003
(millions of dollars)

	<u>2001-2002</u> Actual	<u>2002-2003</u> Enacted	<u>Change</u>
Opening fund balance	<u>1,110</u>	<u>1,032</u>	<u>(78)</u>
Receipts:			
Taxes:			
Personal income tax	25,854	23,342	(2,512)
User taxes and fees	7,098	7,105	7
Business taxes	3,616	3,842	226
Other taxes	803	787	(16)
Miscellaneous receipts	1,625	2,148	523
Transfers from other funds:			
LGAC	1,750	1,808	58
All other	398	866	468
Total receipts	<u>41,144</u>	<u>39,898</u>	<u>(1,246)</u>
Disbursements:			
Grants to local governments	27,835	26,848	(987)
State operations	7,839	7,815	(24)
General State charges	2,650	2,847	197
Transfers to other funds:			
Debt service	2,086	1,851	(235)
Capital projects	289	174	(115)
State university	69	86	17
Other purposes	454	593	139
Total disbursements	<u>41,222</u>	<u>40,214</u>	<u>(1,008)</u>
Change in fund balance	<u>(78)</u>	<u>(316)</u>	<u>(238)</u>
Closing fund balance	<u>1,032</u>	<u>716</u>	<u>(316)</u>
Tax Stabilization Reserve Fund	710	710	0
Contingency Reserve Fund	157	6	(151)
Community Projects Fund	160	0	(160)
Universal Pre-Kindergarten Fund	5	0	(5)

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**CASH FINANCIAL PLAN
2002-2003 GENERAL FUND
(millions of dollars)**

	30-Day	Change	Enacted
Opening fund balance	2,077	(1,045)	1,032
Receipts:			
Taxes:			
Personal income tax	23,292	50	23,342
User taxes and fees	7,069	36	7,105
Business taxes	3,775	67	3,842
Other taxes	783	4	787
Miscellaneous receipts	1,606	542	2,148
Transfers from other funds:			
LGAC	1,784	24	1,808
All other	545	321	866
Total receipts	38,854	1,044	39,898
Disbursements:			
Grants to local governments	26,627	221	26,848
State operations	7,900	(85)	7,815
General State charges	2,879	(32)	2,847
Transfers to other funds:			
Debt service	1,849	2	1,851
Capital projects	308	(134)	174
State university	105	(19)	86
Other purposes	553	40	593
Total disbursements	40,221	(7)	40,214
Change in fund balance	(1,367)	1,051	(316)
Closing fund balance	710	6	716
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	0	6	6

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**CURRENT STATE RECEIPTS
GENERAL FUND
2001-2002 and 2002-2003
(millions of dollars)**

	<u>2001-2002 Actual</u>	<u>2002-2003 Enacted</u>	<u>Change</u>
Personal income tax	25,854	23,342	(2,512)
User taxes and fees:	<u>7,098</u>	<u>7,105</u>	<u>7</u>
Sales and use tax	6,131	6,356	225
Cigarette and tobacco taxes	532	467	(65)
Motor vehicle fees	185	64	(121)
Alcoholic beverages taxes	178	178	0
Alcoholic beverage control license fees	34	40	6
Auto rental tax	38	0	(38)
Business taxes:	<u>3,616</u>	<u>3,842</u>	<u>226</u>
Corporation franchise tax	1,515	1,728	213
Corporation and utilities tax	972	1,025	53
Insurance taxes	633	597	(36)
Bank tax	496	492	(4)
Other taxes:	<u>803</u>	<u>787</u>	<u>(16)</u>
Estate tax	761	755	(6)
Gift tax	6	0	(6)
Real property gains tax	5	2	(3)
Pari-mutuel taxes	30	29	(1)
Other taxes	1	1	0
Total Taxes	<u>37,371</u>	<u>35,076</u>	<u>(2,295)</u>
Miscellaneous receipts	<u>1,625</u>	<u>2,148</u>	<u>523</u>
Total	<u><u>38,996</u></u>	<u><u>37,224</u></u>	<u><u>(1,772)</u></u>

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**CASH FINANCIAL PLAN
2002-2003 STATE FUNDS
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	1,032	1,127	(154)	169	2,174
Receipts:					
Taxes	35,076	4,225	1,673	2,479	43,453
Miscellaneous receipts	2,148	9,449	2,507	626	14,730
Federal grants	0	0	0	0	0
Total receipts	<u>37,224</u>	<u>13,674</u>	<u>4,180</u>	<u>3,105</u>	<u>58,183</u>
Disbursements:					
Grants to local governments	26,848	10,051	1,024	0	37,923
State operations	7,815	4,118	0	7	11,940
General State charges	2,847	393	0	0	3,240
Debt service	0	0	0	3,550	3,550
Capital projects	0	4	2,701	0	2,705
Total disbursements	<u>37,510</u>	<u>14,566</u>	<u>3,725</u>	<u>3,557</u>	<u>59,358</u>
Other financing sources (uses):					
Transfers from other funds	2,674	942	199	4,984	8,799
Transfers to other funds	(2,704)	(227)	(1,230)	(4,537)	(8,698)
Bond and note proceeds	0	0	260	0	260
Net other financing sources (uses)	<u>(30)</u>	<u>715</u>	<u>(771)</u>	<u>447</u>	<u>361</u>
Change in fund balance	<u>(316)</u>	<u>(177)</u>	<u>(316)</u>	<u>(5)</u>	<u>(814)</u>
Closing fund balance	<u>716</u>	<u>950</u>	<u>(470)</u>	<u>164</u>	<u>1,360</u>

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CASH FINANCIAL PLAN 2002-2003 ALL GOVERNMENTAL FUNDS (millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	1,032	1,047	(268)	169	1,980
Receipts:					
Taxes	35,076	4,225	1,673	2,479	43,453
Miscellaneous receipts	2,148	9,591	2,507	626	14,872
Federal grants	0	28,783	1,576	0	30,359
Total receipts	<u>37,224</u>	<u>42,599</u>	<u>5,756</u>	<u>3,105</u>	<u>88,684</u>
Disbursements:					
Grants to local governments	26,848	35,442	1,241	0	63,531
State operations	7,815	7,193	0	7	15,015
General State charges	2,847	560	0	0	3,407
Debt service	0	0	0	3,550	3,550
Capital projects	0	4	4,049	0	4,053
Total disbursements	<u>37,510</u>	<u>43,199</u>	<u>5,290</u>	<u>3,557</u>	<u>89,556</u>
Other financing sources (uses):					
Transfers from other funds	2,674	3,002	199	4,984	10,859
Transfers to other funds	(2,704)	(2,477)	(1,241)	(4,537)	(10,959)
Bond and note proceeds	0	0	260	0	260
Net other financing sources (uses)	<u>(30)</u>	<u>525</u>	<u>(782)</u>	<u>447</u>	<u>160</u>
Change in fund balance	<u>(316)</u>	<u>(75)</u>	<u>(316)</u>	<u>(5)</u>	<u>(712)</u>
Closing fund balance	<u>716</u>	<u>972</u>	<u>(584)</u>	<u>164</u>	<u>1,268</u>

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**CASH FINANCIAL PLAN
2002-2003 SPECIAL REVENUE FUNDS
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Opening fund balance	1,127	(80)	1,047
Receipts:			
Taxes	4,225	0	4,225
Miscellaneous receipts	9,449	142	9,591
Federal grants	0	28,783	28,783
Total receipts	<u>13,674</u>	<u>28,925</u>	<u>42,599</u>
Disbursements:			
Grants to local governments	10,051	25,391	35,442
State operations	4,118	3,075	7,193
General State charges	393	167	560
Debt service	0	0	0
Capital projects	4	0	4
Total disbursements	<u>14,566</u>	<u>28,633</u>	<u>43,199</u>
Other financing sources (uses):			
Transfers from other funds	942	2,060	3,002
Transfers to other funds	(227)	(2,250)	(2,477)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	<u>715</u>	<u>(190)</u>	<u>525</u>
Change in fund balance	<u>(177)</u>	<u>102</u>	<u>(75)</u>
Closing fund balance	<u>950</u>	<u>22</u>	<u>972</u>

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**CASH FINANCIAL PLAN
2002-2003 CAPITAL PROJECTS FUNDS
(millions of dollars)**

	State	Federal	Total
Opening fund balance	(154)	(114)	(268)
Receipts:			
Taxes	1,673	0	1,673
Miscellaneous receipts	2,507	0	2,507
Federal grants	0	1,576	1,576
Total receipts	4,180	1,576	5,756
Disbursements:			
Grants to local governments	1,024	217	1,241
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	2,701	1,348	4,049
Total disbursements	3,725	1,565	5,290
Other financing sources (uses):			
Transfers from other funds	199	0	199
Transfers to other funds	(1,230)	(11)	(1,241)
Bond and note proceeds	260	0	260
Net other financing sources (uses)	(771)	(11)	(782)
Change in fund balance	(316)	0	(316)
Closing fund balance	(470)	(114)	(584)