MID-YEAR FINANCIAL UPDATE 1992-93

INTRODUCTION

This is the second update to the State's 1992-93 Financial Plan, required by Section 23(4) of the State Finance Law. This update includes a new economic forecast, an analysis of six months of actual cash operating results as reported by the State Comptroller, and an appraisal of other developments and factors affecting State budget balance.

Three months ago, the first such update to the Financial Plan indicated a positive margin of $4 million for the General Fund, which is the largest and most significant of the dozens of funds maintained by the State. Now, at the six-month point in the fiscal year, the positive margin in the General Fund has grown slightly, to $21 million. Receipts estimates have been increased by $92 million, more than offsetting the increase in disbursement estimates of $75 million. Disbursements in all governmental funds are now estimated at $155 million above the July estimate.

That the State continues to be able to project balance, even in the face of continuing economic declines, underscores the State's reliance on conservative economic assumptions and the impact of a timely budget, which provided the State 12 full months in which to optimize revenue and expenditure strategies. The State is well positioned to withstand recent economic adversity and end the fiscal year in balance.

CHANGES TO THE GENERAL FUND FINANCIAL PLAN

The General Fund contains a positive margin of $21 million, up $17 million from the July Update. Receipts, including transfers from other funds, are estimated at $30,996 million, an increase of $92 million. Disbursements, including transfers to other funds, total $30,908 million, up $75 million. The Financial Plan continues to assume a $67 million payment to the Tax Stabilization Reserve Fund.

ECONOMIC FORECAST

National Forecast

Despite the fact that interest rates have been cut sharply to their lowest level in 30 years, national economic growth has slowed. The Division of the Budget forecasts that the real gross domestic product (GDP) will continue to grow at a sluggish pace. As measured by the Blue Chip, the consensus of national economic forecasters has also markedly reduced their outlook for GDP growth. Their outlook has moved toward, and is now consistent with, the forecast used by the Division of the Budget. Inflation, as measured by the Consumer Price Index, will be held below 3.5 percent, due to the sluggish economy and high unemployment. Job losses, which have resumed in recent months, will gradually lessen, and then job growth is expected to be about 1 percent. Personal income, wages and corporate profits will improve only modestly. Compared with the Budget Division's July forecast, the short-term forecast is somewhat weaker on these key variables: consumption, net exports, corporate profits, employment, and gross domestic product.

There are uncertainties in the Budget Division's forecast. The economy could weaken further if consumer and business confidence does not improve. Furthermore, the European currency crisis, together with the sluggish European economies, might last longer and thus hurt U.S. export demand more than expected. On the other hand, there could be a rapid improvement in consumer and business confidence after the Presidential election and monetary easing could take effect sooner than expected -- as a result, economic growth could be more favorable than forecast.

New York Forecast

New York, along with many other industrial states throughout the country, remains in recession, largely due to the lack of a robust recovery at the national level. Even some states that once boasted surging economies, such as California, are in economic distress.

The Division of the Budget's October forecast of the New York economy calls for employment to decline 2.0 percent in calendar 1992, and for declines to continue well into 1993, with a total job loss of nearly 600,000 from the first part of 1990.

Personal income should increase 3.7 percent in 1992, then grow somewhat slower in 1993 due to the probable expiration of extended unemployment benefits. Wage growth should be about 2.6 percent in 1992, but appears unlikely to exceed that figure in 1993.

This New York forecast is for somewhat lower growth than the July forecast, primarily because a national recovery -- one that produces significant job growth -- has failed to materialize. The national recession has been particularly hard on the banking, computer and construction industries and the Federal government has cut back on defense spending. New York's economy, which has a higher-than-average concentration of these industries, has suffered disproportionate job losses. The defense industry will continue to shrink. Although job losses in the brokerage and trading portion of the financial services sector have stopped, the banking industry continues to cut its workforce. An oversupply of commercial real estate, particularly downstate, hinders any short-term recovery in the construction sector. Job cutbacks continue in the computer industry, reflecting a structural shift away from large mainframe computers.

The forecast for New York is subject to the same uncertainties as the national forecast. In addition, there are risks specific to New York. For example, should the average wage per employee, which continues to grow faster than the national average, grow slower than forecast, total wage and personal income growth would be reduced. Larger-than-anticipated cuts in defense spending, and the inherent difficulty in predicting the amount of time required to eliminate the glut of commercial real estate in New York City pose significant risks to the forecast of employment.

Efforts are being made to spur economic growth in New York, through an acceleration of construction schedules and new initiatives such as the "New, New York Program," which is designed to generate $10 billion in economic activity. As part of this economic development strategy, the proposed $800 million "Jobs for New, New York Bond Act" would fund infrastructure projects throughout the State.

GENERAL FUND REVISIONS

Revisions in Receipts Estimates

General Fund receipts, including transfers from other funds, are now projected to total $30,996 million, up $92 million from the July forecast. Estimates of tax receipts have been raised by $57 million, or 0.2 percent. The income tax estimate has been raised on the strength of higher-than-expected collections (largely believed to be accelerated from next year). Estimates for other taxes in aggregate have been reduced, reflecting a modest weakening in the economic outlook and tax collection experience. Estimates of nontax receipts have been raised by $35 million, reflecting receipt of $40 million from the sale of certain race track-related property, partially offset by other minor changes.

Personal Income Tax: Receipts from the personal income tax are now estimated to total $15,535 million, up $126 million from the July forecast. Despite continuing weakness in the economy, net collections from the tax exceeded expectations for the July-September quarter. The favorable variance is largely attributable to lower-than-projected refunds and higher-than-projected estimated tax payments. The forecast assumes that estimated payment growth slackens sharply in the balance of the fiscal year and that much of the year-to-date increase reflects earlier payments, rather than higher-than-predicted liability. The Federal and State rules governing the timing of estimated payments were changed this year, requiring some taxpayers to send higher payments to the State than they would have under pre-existing rules.

User Taxes and Fees: Receipts from user taxes and fees are projected to total $6,443 million in 1992-93, or $6 million less than had been anticipated in July. Positive revisions include an increase of $15 million in estimated hotel and motel occupancy tax receipts and of $5 million in auto rental tax receipts, both due to greater-than-expected collections through September for these taxes and positive adjustments for 1991-92 collections deposited in 1992-93. Offsetting these gains are reductions in estimated receipts from the motor fuel tax ($9 million), cigarette and tobacco taxes ($8 million), motor vehicle fees ($7 million), and minor reductions in alcoholic beverage control license fees and the container tax. These reductions reflect collection trends to date, modest economic weakening, and, in the case of cigarette and tobacco taxes, the growing impact of efforts to discourage smoking.

Business Taxes: Receipts from this category are now projected to total $5,369 million, down $49 million from the July estimate. Modestly weaker-than-projected collections during the second quarter, coupled with a weakening outlook for the economy, indicate downward revisions in the expected yield of the corporate franchise, insurance and petroleum business taxes. The reduction in the estimate of the yield of the insurance tax attempts to reflect the effects of Hurricane Andrew on the liability of the property and casualty industry. These reductions more than offset another upward adjustment in expected receipts from Article 32 taxes.

Other Taxes: Receipts from taxes in this category are estimated at $1,093 million for 1992-93, or $14 million below the level expected in July. Projected real property gains tax receipts account wholly for this reduction, largely as a result of collection experience to date.

Miscellaneous Receipts and Transfers: The forecast for these categories was revised upward by a net of $35 million from the July forecast. The estimate of the miscellaneous receipts component of this category has been raised by $26 million, to $1,430 million. Reflected in this increase is the successful completion of the sale of certain racing association assets, partially offset by the loss of health insurance reserve receipts and reduced expectations for investment income. The estimate of transfers from other funds was increased by $9 million, to $1,657 million.

Revisions in Disbursements Estimates

General Fund disbursements, including transfers to other funds, are now projected to total $30,908 million, an increase of $75 million from the July Update to the Financial Plan. This higher spending is primarily the result of litigation which has delayed implementation of certain of the State's Medicaid cost containment initiatives. Except for a minor revision in formula-driven school aid payments (resulting from the submission of updated cost and enrollment data by school districts), spending remains on target with projections.

Grants to Local Governments: General Fund disbursements in this category are now projected to total $21,127 million, up

$76 million from the level projected in July. The single largest revision to this projection relates to Medicaid costs.

Since April, several temporary restraining orders have been granted, which have delayed implementation of some of the State's Medicaid cost containment initiatives -- home care and home relief limits, and copayments. These delays in implementation are expected to result in a loss to the State of up to $150 million in savings during the current fiscal year, although the State is working actively to resolve the issues raised in court so that implementation can proceed. This significant loss in cost containment savings is partially mitigated by lower-than-projected spending for Medicaid through the first six months of the fiscal year. As a result, overall costs for this program are expected to increase by only $75 million.

Spending for school aid is increased to reflect revised enrollment and cost data submitted by school districts affecting both the 1991-92 and 1992-93 school years; an additional $33 million in payments will be required during the current State fiscal year. However, a portion of this increase is expected to be funded by lottery revenues, which are projected to exceed the July projections by $18 million.

State support for CUNY debt service payments has also been reduced, reflecting $11 million in savings resulting from a refunding of CUNY community college bonds.

State Operations: Estimated disbursements for State Operations now total $5,924 million. Of this amount, $4,191 million supports payroll expenses for State employees.

Decreased spending in this category of $8 million primarily reflects savings from the Thruway takeover of the canals pursuant to Thruway 2000, a long-range plan to spur economic development along the State's Thruway corridor. The Thruway Authority will assume operation and maintenance of the canals, thereby allowing the State to avoid costs of $10 million in maintenance operations and $10 million in capital projects.

General State Charges: Spending in this category is now estimated at $1,929 million, up $9 million from the July estimate. The increase reflects the net impact of the following:

- higher-than-projected costs through the first six months for Court of Claims judgments;

- an additional $7 million in dividends due from the State's health insurance carriers, which will reduce State health insurance premium costs; and,
- a unanticipated $10 million payment to health insurance carriers to fund required reserves.

Debt Service: Anticipated costs for short-term debt service have decreased $3 million, primarily reflecting lower interest rates on short-term obligations used to finance State capital construction.

Transfers to Other Funds: This category includes spending from the General Fund for capital projects, debt service on long-term bonds, and subsidies to certain State programs.

Additional transfers of $5 million for long-term debt reflect costs associated with the September sale of $189 million in general obligation bonds. Previously, the Financial Plan assumed a larger sale planned for late November, with no interest costs accruing in the 1992-93 fiscal year. The sale was accelerated to take advantage of the current optimum market conditions.

Transfers in support of capital projects are reduced $10 million, associated with the Thruway Authority takeover of the canals as discussed above.

Finally, transfers associated with the interception of local government savings generated by the conversion of the State retirement system to the Projected Unit Credit (PUC) actuarial method are expected to increase modestly. Amounts intercepted are transferred to a Special Revenue Fund, and then subsequently transferred back to the General Fund. (See the discussion of Transfers from Other Funds.)

OTHER GOVERNMENTAL FUNDS

Total disbursements from the governmental funds are estimated at $56,031 million. This represents an increase of $155 million from the first quarter update in July.

Special Revenue Funds

The mid-year update to the Special Revenue fund type primarily reflects increases or decreases which correspond with changes reflected in the General Fund.

The Federal share of Medicaid is expected to increase $100 million, to reflect the delays in implementation of the State's cost containment program as offset by the lower-than-projected costs for this program during the first six months of the fiscal year. In addition, activity in the State's Disproportionate Share Fund is expected to be $43 million less than projected in July, also reflecting the impact of lower Medicaid spending to date.

This fund type also reflects the receipt and disbursements of an additional $18 million in lottery revenues. (Lottery revenues in support of education are estimated to total $934 million.)

Capital Projects Funds

The Capital Projects fund type remains unchanged from the July projections, except for the reduction in spending resulting from the Thruway Authority takeover of the canals.

Debt Service Funds

Changes in this fund type reflect the additional debt service associated with the September sale of general obligation bonds (as discussed in the General Fund section of this document).

CONCLUSION

Every budget contains areas of uncertainty. A government dependent on tax collections that are highly sensitive to economic factors will see its tax collections fluctuate, in either direction, from its estimates. This Update contains minor changes from the receipts projections made in July. Moreover, at this point in the fiscal year, the likelihood has greatly diminished that adverse economic developments will precipitate adverse budgetary changes.

There are, however, several areas where attainment of the estimates in the Financial Plan may be jeopardized.

As described in the July update to the Financial Plan, one such potential risk is the planned receipt from the Federal Government of $200 million in Medicaid reimbursements for expenses incurred by the State in providing medical care for indigent New Yorkers at State mental hygiene facilities. These moneys have not yet been received, but State representatives are actively negotiating with Washington on this claim, and hope to secure approval this fiscal year.

Another potential vulnerability concerns the planned receipt of moneys from hospitals and health maintenance organizations (HMO's) pursuant to legislation increasing the differential hospital rate paid by private health care insurers and health maintenance organizations. Challenges to this legislation have been filed in State and Federal courts, and there is a risk that such payments may not be made in the amount anticipated by the State in the Financial Plan.

If they materialize, coping with these risks would present a challenge to New York State. However, the Division of the Budget is confident that positive developments or implementation strategies would offset any loss and produce a balanced plan. For example, the higher-than-expected receipts already realized from estimated personal income taxes could continue in the December-January time period. In addition, the Division of the Budget will continue to manage agency spending plans to control disbursements. Finally, the State is pursuing individual transactions -- including aggressive claiming of Federal aid and the sale of assets -- that are now at various stages of completion, but are not currently included in the Financial Plan.

In assessing the likely outcome of these developments, the Division of the Budget expects the 1992-93 Financial Plan to remain in balance.

General Fund Financial Plan Prepared on the Cash Basis of Accounting 1992-93 (millions of dollars)

	July Estimate	Changes	October Estimate
Opening fund balance	-0-		-0-
Receipts:			
Taxes			
Personal income tax	15,409	126	15,535
User taxes and fees	6,449	(6)	6,443
Business taxes	5,418	(49)	5,369
Other revenues	1,107	(14)	1,093
Miscellaneous receipts	1,404	26	1,430
Transfers from other funds	1,648	9	1,657
Impoundment for deficit TRANs	(531)	-0-	(531)
Total receipts	30,904	92	30,996
Disbursements:			
Grants to local governments	21,051	76	21,127
State operations	5,932	(8)	5,924
General State charges	1,920	9	1,929
Debt service	95	(3)	92
Transfers to other funds			
—Debt service	1,343	5	1,348
—Capital projects	412	(10)	402
—Other purposes	80	6	86
Total disbursements	30,833	75	30,908
Tax Stabilization Reserve Fund Payment	67	-0-	67
Change in fund balance	4	17	21
Closing fund balance	4		21

1992-93 State Financial Plan All Governmental Funds (millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	-0-	737	(172)	99	664
Receipts:					
Taxes	28,440	869	-0-	1,586	30,895
Miscellaneous receipts	1,430	4,057	1,337	495	7,319
Federal grants	-0-	16,372	1,067	-0-	17,439
Subtotal	29,870	21,298	2,404	2,081	55,653
Impoundment for deficit TRANs	(531)	-0-	-0-	-0-	(531)
Total receipts	29,339	21,298	2,404	2,081	55,122
Disbursements:					
Grants to local governments	21,127	16,105	431	-0-	37,663
State operations	5,924	4,987	6	-0-	10,917
General State charges	1,929	299	-0-	-0-	2,228
Debt service	92	-0-	-0-	1,850	1,942
Capital projects	-0-	1	3,280	-0-	3,281
Total disbursements	29,072	21,392	3,717	1,850	56,031
Other financing sources (uses):					
Transfers from other funds	1,657	1,752	407	2,746	6,562
Transfers to other funds	(1,836)	(1,740)	(26)	(2,975)	(6,577)
Bond and note proceeds	-0-	-0-	1,016	-0-	1,016
Net other financing sources (uses)	(179)	12	1,397	(229)	1,001
Tax Stabilization Reserve Fund Payment	67	-0-	-0-	-0-	67
Change in fund balance	21	(82)	84	2	25
Closing fund balance	21	655	(88)	101	689