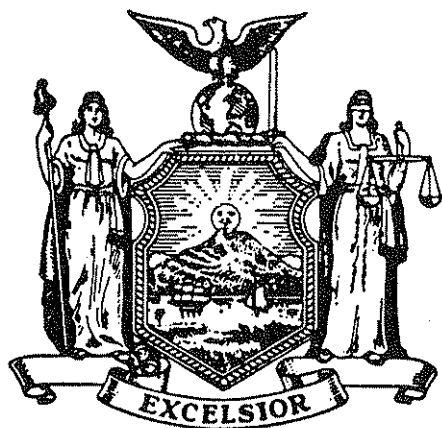


MID-YEAR FINANCIAL UPDATE

Fiscal Year 1993-94

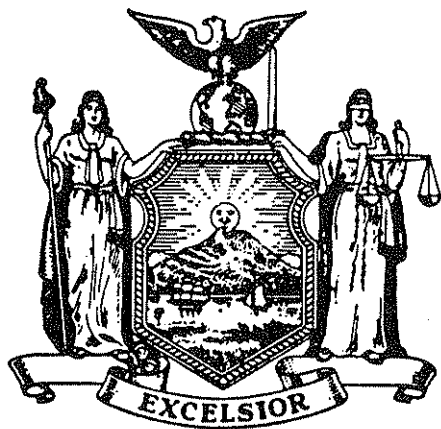


STATE OF NEW YORK

Mario M. Cuomo
Governor

MID-YEAR FINANCIAL UPDATE

Fiscal Year 1993-94



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INTRODUCTION

This is the second update to the State's 1993-94 cash-basis Financial Plan that was formulated in April following enactment of the State Budget. This update of the Financial Plan is submitted pursuant to section 23(4) of the State Finance Law which requires three updates of the Financial Plan -- following the conclusion of each of the first three quarters of the State's fiscal year, in July, October, and January.

Revised estimates of receipts and disbursements for the current fiscal year are presented in this update. It also compares these revisions to the estimates included in the First Quarter Update, released in July. Revisions in this update are based on the following factors:

- An updated economic forecast for both the United States and New York.
- An analysis of receipts and disbursements for the first six months of the fiscal year, as reported by the Comptroller.
- An assessment of other factors, including changing program requirements and court decisions.

SUMMARY

This update anticipates a potential year-end margin of \$38 million in the General Fund, up from the \$5 million margin forecast in July's First Quarter Update. Net General Fund changes in this update are as follows:

- Receipts are projected at \$32,584 million, including operating transfers from other funds. This estimate is up \$251 million from July.

- Disbursements are estimated at \$32,546 million, including transfers to other funds and the deposits to the Contingency Reserve and Tax Stabilization Reserve Funds. This reflects \$201 million in additional spending above the July estimate. The largest component of this increase is \$101 million in additional General Fund spending on school aid. In addition, the deposit to the Contingency Reserve Fund increased \$17 million, which brings total projected receipts in that fund to \$206 million.

ECONOMIC FORECAST

National Forecast

Despite the fact that interest rates have been cut sharply to their lowest level in 30 years, the national economy continues to grow in fits and starts. The Division of the Budget forecasts that real gross domestic product (GDP) will continue to grow at a very moderate pace. The forecast used by the Division of the Budget for GDP growth is consistent with the Blue Chip consensus of national economic forecasters. Inflation, as measured by the Consumer Price Index, will remain moderate, at about three percent, due to the sluggish economy and the slow reduction in the number of unemployed. The annual rate of job growth is expected to improve slowly to about two percent. Growth in personal income and wages will be significantly slower than in 1992, when a considerable amount of income was accelerated into 1992 from future years to shelter it from Federal tax increases that occurred in 1993.

Compared with the Budget Division's July forecast, the short-term forecast is basically unchanged. The forecast is marginally stronger on consumption and gross domestic product, weaker on wage and profits growth, and virtually unchanged on employment.

There are uncertainties inherent in any economic forecast. The pace of economic growth could slow if consumer and business confidence does not improve. Sluggish European and Japanese economies might retard demand for U.S. exports more than expected. On the other hand, there could be a more rapid improvement in consumer and business confidence -- as a result,

economic growth could be stronger than forecast.

New York Forecast

New York's economy appears to be poised for recovery. Economic indicators, such as new car registrations, housing starts and initial unemployment claims, are improving.

The Division of the Budget's forecast of the New York economy calls for employment to decline 0.5 percent in calendar 1993 on an annual average basis, with end-of-year gains only partially offsetting losses in earlier months; employment gains should accelerate in 1994 as the economy gains momentum. Personal income should increase 4.2 percent in 1993, then grow somewhat faster in 1994. Wage growth should be about 3.9 percent in 1993 and should improve in 1994 as job growth accelerates.

Although the forecast calls for economic growth to begin in late 1993, the growth rates -- like those occurring nationally -- will not reach those experienced during previous recoveries, especially that of the early 1980's. Cutbacks in Federal spending and employment, continued downsizing by large corporations, and a persistent and large surplus of commercial office space in New York City pose barriers to strong growth during the recovery.

New York State is taking aggressive actions to invigorate economic growth. Although Congress failed to enact the President's proposed \$16 billion stimulus program, New York has initiated its own response through its multi-year \$30 billion "New, New York" infrastructure investment program that will make important contributions to the State's economic recovery.

The forecast for New York is subject to the same uncertainties as the national forecast, as well as some specific to New York. For example, should the average wage per employee, which continues to grow faster than the national average, grow more slowly than forecast, total wage and personal income growth would be reduced. Larger-than-anticipated cuts in defense spending and the difficulty in predicting the amount of time required to absorb the surplus of commercial real estate in New York City pose significant uncertainties to the forecast of employment.

GENERAL FUND

Revisions in Receipts Estimates

Overall General Fund receipts are projected to total \$32,584 million, up \$251 million from the July forecast, and \$217 million from the enacted Budget in April. Included in these revised estimates are \$29,745 million in taxes, miscellaneous receipts of \$1,180 million, and \$1,659 million in transfers from other funds.

Personal Income Tax: Receipts from the personal income tax are now estimated to total \$16,845 million, up \$146 million from the July forecast. Despite continued weakness in the economy, net collections from the tax exceeded expectations for the July-September quarter. This is largely attributable to higher payments than projected in withholding and estimated taxes, and lower refunds than projected. The strength in withholding tax collections occurred only in August, and was attributable in part to nonrecurring bonus payments. Because collections since August have been on target, the forecast assumes that this strength will not recur. Modest upward revisions to expected year-end bonus payments have been made to reflect continued strong performance of the securities markets. Despite the higher September collections, year-to-date estimated tax collections remain consistent with the forecast made in July, and no revision has been made in the annual estimate for that component. The annual estimate for refunds on 1992 income has been reduced marginally, reflecting fewer refunds claimed in the second quarter.

User Taxes and Fees: These taxes are now projected to total \$6,257 million, up \$33 million from the July forecast. Collections through September in this category were \$35 million above the July cash flow projections, largely attributable to slightly higher-than-expected sales and use tax collections.

The most significant revision to the annual estimates among the user taxes and fees is the sales and use tax, with the General Fund portion of receipts from this levy now estimated at \$4,551 million, up \$24 million from the July forecast. Positive revisions were also made to expected cigarette tax, motor vehicle

fee and auto rental tax receipts, while modest downward revisions were made to estimates of anticipated hotel tax and alcoholic beverage tax collections.

Business Taxes: Receipts from this category are now projected to total \$5,587 million, up \$164 million from the July estimate. The estimate of bank tax collections has been raised by \$100 million, reflecting sharply higher-than-projected receipts in September and higher earnings projected for the balance of the year. The estimates of receipts from other sources in this category have also been increased, largely reflecting collections to date.

Other Taxes: Receipts from taxes in this category are estimated at \$1,056 million for 1993-94, or \$26 million below the level expected in July. Downward revisions were made in expected collections from gains taxes (-\$16 million), estate taxes (-\$10 million) and pari-mutuel taxes (-\$3 million). Real estate transfer taxes are now projected to be higher than forecast in July.

Miscellaneous Receipts: The estimate of miscellaneous receipts has been reduced by \$80 million to \$1,180 million. The revision reflects collection history to date and technical reclassifications of a net \$6 million -- an \$8 million reduction for a transaction which is now counted as a transfer, and a \$2 million increase to reflect reimbursements previously intended to offset spending in debt service funds. The reduction in miscellaneous receipts also reflects both the loss of certain transactions, including special fines and certain transfers from authorities and other funds (amounting to \$33 million), and revised cash flow estimates for assessments and reimbursements that indicate that another \$37 million, assumed in the July estimate to be received in 1993-94, will not be available until 1994-95.

Transfers From Other Funds: Estimated transfers from other funds are expected to total \$1,659 million, an increase of \$14 million from the July update. This increase results from a reclassification from miscellaneous receipts of \$8 million expected to be received from the Alternate Correctional Facilities

Capital Projects Fund to this category, as well as an additional \$6 million in tax receipts in the Local Government Assistance Tax Fund.

Revisions in Disbursements Estimates

General Fund disbursements for the fiscal year, including transfers to other funds and deposits to the Contingency Reserve and Tax Stabilization Reserve Funds, are now projected to total \$32,546 million, an increase of \$218 million from the July Update. Additional spending of \$201 million is primarily the result of higher-than-expected caseload growth in income maintenance and higher school aid payments, due in part to higher claims from school districts. In addition, the deposit to the Contingency Reserve Fund is now estimated at \$206 million, an increase of \$17 million from the July estimate reflecting further savings from the refinancing of State debt.

General Fund spending through the first six months of the fiscal year was \$5 million below projections. The largest cash flow variances were in Grants to Local Governments (\$31 million higher than projected) and State Operations (\$22 million lower than projected). These variances are explained in detail below. Reported spending for General State Charges, short-term Debt Service and Transfers to Other Funds was generally consistent with projections.

Grants to Local Governments: General Fund disbursements for the fiscal year in this category are now projected to total \$22,298 million, up \$175 million from the level projected in July. The increase primarily reflects anticipated deficiencies for income maintenance and school aid payments, as offset by a \$6 million savings from a second refinancing of Dormitory Authority bonds issued for the City University of New York (CUNY) educational facilities. These refunding savings are part of the additional \$17 million to be deposited into the Contingency Reserve Fund.

Disbursements in the Grants to Local Governments category for the first six months of the fiscal year exceeded projections by \$31 million. This was primarily due to increased costs for income maintenance. Caseload growth is expected to increase beyond previous projections by 74,000 recipients for Aid to

Families with Dependent Children and Home Relief. As a result, overall costs for income maintenance are expected to increase by \$80 million during the fiscal year.

This Update to the General Fund Financial Plan also reflects an additional \$101 million for anticipated increases in school aid payments for the State fiscal year. Most of this growth results from increases associated with revised enrollment and cost data, affecting the 1993-94 school year as well as prior periods. In addition, the projection of available offsetting revenues has been reduced.

State Operations: Estimated disbursements for the fiscal year for State Operations now total \$6,137 million, up \$1 million from the July estimate. Of this amount, \$4,362 million or 71 percent supports payroll expenses for State employees.

Spending for the first six months of the fiscal year was \$22 million lower than projected. This cashflow variance is comprised primarily of many small timing differences in non-personal service costs. Payroll costs remain on target.

General State Charges: Spending in this category for the fiscal year is now estimated at \$2,032 million, up \$9 million from the level projected in July. This change is due to an increase of \$9 million for payments made by the Court of Claims for judgements against the State.

Debt Service: Anticipated short-term debt service totals \$24 million, unchanged from the July estimate.

Transfers to Other Funds: This category includes spending from the General Fund for debt service on long-term bonds, capital projects, and subsidies to certain State programs. General Fund support for the General Debt Service Fund is estimated to total \$1,359 million, down \$9 million from the July estimate. The decrease resulting primarily from reestimates of \$11 million in savings from additional refundings of State-supported debt by the Metropolitan Transportation Authority and the Dormitory Authority for SUNY academic facilities. These savings will be transferred to the Contingency Reserve Fund.

Transfers to the Capital Projects Fund are projected at \$300 million, a minor increase of \$3 million from the July estimate.

All other transfers are estimated to increase by \$39 million to \$329 million. This change reflects a reestimate in transfers pursuant to the Lottery Aid Guarantee, as a result of lower-than-expected lottery receipts for the first half of the year; and an increase of \$17 million of additional refunding savings to be deposited to the Contingency Reserve Fund.

Tax Stabilization Reserve Fund Payment: The required deposit to the Tax Stabilization Reserve Fund is estimated at \$67 million, unchanged from earlier estimates.

OTHER GOVERNMENTAL FUNDS

Special Revenue Funds

Spending in the Special Revenue fund type is projected to total \$23,316 million and remains unchanged from the July estimate. The closing fund balance is projected at \$890 million, an increase of \$76 million from the July estimate. This change primarily resulted from a reestimate in Mass Transportation Operating Assistance (MTOA) tax receipts.

Capital Projects Funds

Spending in the Capital Projects Fund is not projected to change from the April and July estimate of \$3,559 million. However, changes in the financing sources reflect further reestimates of individual program spending from July -- miscellaneous receipts increase while general obligation bond proceeds decrease. Sales of general obligation bonds are now projected at \$456 million.

Debt Service Funds

Spending in the Debt Service Fund is projected to total \$1,976 million, a decrease of \$25 million from the July estimate. This decrease represents additional debt service savings from refundings of State-supported debt completed in the second quarter of the year. It also includes a reestimate of debt service for bonds to be issued to support the Dedicated Highway and Bridge Trust fund based on a revised sale schedule. The closing fund balance remains unchanged from July.

RELATED DEVELOPMENTS

Delaware v. New York

Since the Court's decision against New York last March, legal proceedings are continuing in this long-standing dispute over certain unclaimed property turned over to New York by securities brokers and dealers incorporated in Delaware and

certain other states. All parties to the case are working under the direction of a special master appointed by the Supreme Court. The litigation efforts are aimed at determining the dollar amounts involved in implementing the Court's decision and resolution of outstanding legal issues concerning various states' rights to escheat under the Court's "back-up" rule. In addition, ongoing settlement discussions among the parties have been complicated by the introduction of Federal legislation related to this issue.

Public Authority Financing Litigation

Certain capital financing programs of the Metropolitan Transportation Authority and the Thruway Authority -- enacted this year as part of the Governor's overall transportation plan -- have been challenged in court. Following a Supreme Court decision in favor of the State, the Appellate Division also ruled on October 21, 1993 in favor of the State. The Appellate Division's decision has been appealed to the Court of Appeals.

Other Litigation

Two tax cases with potentially significant fiscal implications continue through the judicial system. One case involves the computation of taxes on long distance telephone companies, the other involves tax refunds for Federal retirees who paid State taxes on their pensions from 1986 through 1988 and now seek retroactive refunds. Court action on both cases is likely in the current fiscal year, although the fiscal effects of an adverse outcome are not reflected in this Update.

Contingency Reserve Fund

Legislation accompanying the enacted 1993-94 budget established the Contingency Reserve Fund, the first general purpose reserve fund in recent memory. Its proceeds are available for payments arising from court orders and settlements, natural disasters, and efforts to stimulate the State's economy.

The fund is capitalized in two ways. First, a transfer of \$100 million is planned to be made from the General Fund. Second, savings to be realized in 1993-94 from the refinancing

of State public authority bonds are required to be deposited to the fund. As of this Update, refunding savings to be deposited are estimated to total \$106 million, an increase of \$17 million from the July estimate. This increase reflects additional refundings of State-supported debt completed in the second quarter of the fiscal year, as described in the sections on Grants to Local Governments and Transfers to Debt Service.

Savings achieved through completed refundings total \$125 million, and are reflected in three categories of the Financial Plan -- Grants to Local Governments, Transfers to Debt Service, and Transfers From Other Funds. Of that amount, \$106 million will be deposited to the Contingency Reserve Fund, while the remaining \$19 million will be deposited to the Environmental Protection Fund, pursuant to statute.

CONCLUSION

This Update is released at a time of contradictory and often confusing economic and fiscal developments. The national economic recovery has by all appearances attained a self-sustaining momentum. However, job growth continues to be disappointing, as corporate layoffs continue, and companies are able to meet the slight pickup in orders by increasing both productivity and overtime work.

In this environment, corporate profitability is increasing, leading to increases in State tax collections that have insulated the General Fund temporarily from the effects of prolonged economic sluggishness. Unfortunately, this economic weakness is having an adverse impact on other aspects of the State's budget -- causing, for example, unanticipated increases in public assistance caseloads.

The Division of the Budget believes that positive tax collection experience will offset this higher spending, driven largely by the lingering effects of the recession.

1993-94 GENERAL FUND FINANCIAL PLAN PREPARED
ON THE CASH BASIS OF ACCOUNTING
(millions of dollars)

	1993-94 July Estimate	Change	1993-94 October Estimate
Opening fund balance	-0-		-0-
Receipts:			
Taxes			
Personal income tax	16,699	146	16,845
User taxes and fees	6,224	33	6,257
Business taxes	5,423	164	5,587
Other taxes	1,082	(26)	1,056
Miscellaneous receipts	1,260	(80)	1,180
Transfers from other funds	1,645	14	1,659
Total receipts	32,333	251	32,584
Disbursements:			
Grants to local governments	22,123	175	22,298
State operations	6,136	1	6,137
General State charges	2,023	9	2,032
Debt service	24	-0-	24
Transfers to other funds			
—Debt service	1,368	(9)	1,359
—Capital projects	297	3	300
—Other purposes	290	39	329
Total disbursements	32,261	218	32,479
Tax Stabilization Reserve Fund Payment	67	-0-	67
Change in fund balance	5	33	38
Closing fund balance	5		38

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1993-94 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-	700	(160)	97	637
Receipts:					
Taxes	29,745	1,078	485	1,626	32,934
Miscellaneous receipts	1,180	4,146	1,397	610	7,333
Federal grants	-0-	17,982	980	-0-	18,962
Total receipts	30,925	23,206	2,862	2,236	59,229
Disbursements:					
Grants to local governments	22,298	17,713	737	-0-	40,748
State operations	6,137	5,291	6	1	11,435
General State charges	2,032	305	-0-	-0-	2,337
Debt service	24	-0-	-0-	1,976	2,000
Capital projects	-0-	7	2,816	-0-	2,823
Total disbursements	30,491	23,316	3,559	1,977	59,343
Other financing sources (uses):					
Transfers from other funds	1,659	2,157	329	2,924	7,069
Transfers to other funds	(1,988)	(1,857)	(56)	(3,179)	(7,080)
Bond and note proceeds	-0-	-0-	456	-0-	456
Net other financing sources (uses)	(329)	300	729	(255)	445
Tax Stabilization Reserve Fund Payment	67	-0-	-0-	-0-	67
Change in fund balance	38	190	32	4	264
Closing fund balance	38	890	(128)	101	901

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**1993-94 STATE FINANCIAL PLAN
SPECIAL REVENUE FUNDS
(millions of dollars)**

	State Special Revenue Funds	Federal Special Revenue Funds	Total Special Revenue Funds
Opening fund balance	584	116	700
Receipts:			
Taxes	1,078	-0-	1,078
Miscellaneous receipts	4,122	24	4,146
Federal grants	2	17,980	17,982
Total receipts	5,202	18,004	23,206
Disbursements:			
Grants to local governments	2,843	14,870	17,713
State operations	2,539	2,752	5,291
General State charges	175	130	305
Capital projects	4	3	7
Total disbursements	5,561	17,755	23,316
Other financing sources (uses):			
Transfers from other funds	630	1,527	2,157
Transfers to other funds	(104)	(1,753)	(1,857)
Net other financing sources (uses)	526	(226)	300
Change in fund balance	167	23	190
Closing fund balance	751	139	890

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**CHANGES TO GENERAL FUND
RECEIPTS ESTIMATES FOR THE
1993-94 STATE FISCAL YEAR
(millions of dollars)**

	July Estimate	Change	October Estimate
Personal income tax	16,699	146	16,845
User taxes and fees	6,224	33	6,257
Sales and use tax	4,527	24	4,551
Motor fuel tax	174	0	174
Cigarette and tobacco taxes	669	11	680
Motor vehicle fees	451	4	455
Alcoholic beverage tax	224	(3)	221
Hotel/motel tax	67	(4)	63
Highway use tax	2	0	2
Alcoholic beverage control license fees	28	0	28
Container tax	52	0	52
Auto rental tax	25	1	26
Telephone entertainment excise tax	5	0	5
Business taxes	5,423	164	5,587
Corporation franchise tax	1,760	25	1,785
Corporation and utilities taxes	1,570	20	1,590
Insurance taxes	624	16	640
Bank tax	620	100	720
Petroleum business taxes	849	3	852
Other taxes	1,082	(26)	1,056
Estate taxes	658	(10)	648
Gift taxes	76	0	76
Real property gains tax	114	(16)	98
Real estate transfer tax	160	3	163
Pari-mutuel tax	73	(3)	70
Other taxes	1	0	1
Miscellaneous receipts	1,260	(80)	1,180
Transfers	1,645	14	1,659

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