

STATE OF NEW YORK  
MARIO M. CUOMO, GOVERNOR

Division of the Budget  
Rudy F. Runko, Director

Communications Office  
(518) 473-3732

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New York State is expected to end its fiscal year with a \$14 million surplus, according to the Division of the Budget's Mid-Year Financial Update issued today. This would be the third consecutive State budget surplus.

"This report underscores the value of a conservative approach," said Budget Director Rudy F. Runko. "The budget has allowed us to absorb the impact of some adverse news in the financial services sector, precipitated nationally by rising interest rates, which could have had a significant effect on our overall balance. We're well-positioned to ensure continued balance for the rest of the year. New York has added more than 134,000 jobs since the depths of the recession, with employment gains spread throughout the State."

The Mid-Year Financial Update revises the Division's July financial forecast to reflect actual spending and receipt patterns of the first six months of the fiscal year. Receipts are projected at \$34.054 billion, a decrease of \$267 million from July, which primarily reflects recent weakness in the financial services sector.

General Fund spending is projected at \$33.967 billion, a decrease of \$281 million from July, with much of the reduced spending attributable to decreased social services spending projections. Medicaid and Income Maintenance projections were reduced to reflect greater savings from cost-containment initiatives, smaller welfare caseloads and less frequent usage of Medicaid services than expected, and increased federal funding. The \$87 million difference between projected expenditures and revenues includes a payment of \$50 million to finance next year's costs of certain new programs, a required payment of \$23 million to the State's Tax Stabilization Reserve Fund, and the \$14 million surplus.

The Mid-Year Financial Update is attached.

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## **MID-YEAR FINANCIAL UPDATE**

**Fiscal Year 1994-95**

### **INTRODUCTION**

This is the second update to the State's 1994-95 cash-basis Financial Plan that was formulated following enactment of the State Budget. This update of the Financial Plan is submitted pursuant to 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.

Revised estimates of receipts and disbursements for the current fiscal year are presented in this update, as are comparisons to estimates included in the July update. Revisions in this update are based on the following factors:

- Updated economic forecasts for both the United States and New York.
- An analysis of actual receipts and disbursements for the first six months of the fiscal year.
- An assessment of other factors, including changing program requirements and court decisions.

## SUMMARY

This update projects a year-end surplus of \$14 million in the General Fund, which would represent the third consecutive year of budgetary surplus for the State of New York.

Net General Fund changes in this update are as follows:

- Receipts are projected at \$34,054 million, including operating transfers from other funds. This estimate is reduced \$267 million from July, and reflects a weakening in the financial services sector.
- Disbursements including operating transfers to other funds are projected at \$33,967 million. This is \$281 million below the level projected in July, and is attributable primarily to savings in social services and other programs of assistance to localities where actual spending will fall short of estimates.

The \$87 million margin of receipts over disbursements reflects three components:

- A payment of \$50 million to a fund established to help finance the costs in 1995-96 of the Liberty Scholarship initiative enacted during 1994.
- A required payment of \$23 million to the State's Tax Stabilization Reserve Fund, raising its balance to \$157 million.
- A \$14 million General Fund operating surplus.

These three items in total comprise the \$221 million projected closing fund balance.

## **ECONOMIC FORECAST**

### **National Forecast**

As the national economy is running close to full capacity, inflation is becoming a more prominent concern. In response to strong economic growth in recent quarters and to alleviate inflationary pressures, the Federal Reserve Board (FRB) has increased short-term interest rates several times. Rising interest rates have already dragged down the growth in interest-rate-sensitive sectors, and economic growth appears to be slowing to a level more sustainable over the long run.

The Division of the Budget forecasts that real gross domestic product (GDP) will grow at about 3.6 percent in 1994 and at approximately 2.5 percent in 1995, a rate of growth that is more sustainable over the long term. This forecast for GDP growth is marginally below the Blue Chip consensus of national economic forecasters. Inflation, as measured by the Consumer Price Index, will increase by 2.7 percent in 1994. Inflation is expected to worsen a bit in 1995 to about 3.5 percent, due mainly to rising use of industrial capacity and higher oil prices. The annual rate of job growth is expected to slow gradually to about two percent in 1995, from 2.5 percent in 1994. Growth in personal income and wages will remain near its current pace, with rising inflation offsetting the slowdown in real growth.

Compared with the Budget Division's July forecast, the short-term forecast is basically unchanged except for the fourth quarter of 1994. For this quarter, the forecast is relatively stronger on GDP, consumption and profits, but weaker on investment, wages and employment.

There are uncertainties inherent in any economic forecast. The pace of economic growth could be faster if consumer and business confidence becomes stronger than anticipated. The recoveries in Europe and Japan might be stronger and faster than expected, generating more demand for our products. On the other hand, stronger-than-expected economic growth could lead the FRB to raise interest rates much higher; as a result, the economy could slow more precipitously instead of experiencing the anticipated soft landing.

## **New York Forecast**

New York's economy entered the second year of recovery in early 1994, fueled by sustained growth in the service sector, and a turnaround in the recession-wracked trade, construction, and FIRE (finance, insurance, and real estate) sectors. According to seasonally adjusted data from the State Labor Department, New York added 134,400 jobs between the trough of the recession in November 1992 and August 1994. Virtually all these jobs were created in the private sector, representing an increase of more than two percent in private sector employment. The unemployment rate fell to 6.2 percent in September, down from a peak of 9.4 percent in July 1992.

Employment has grown in most regions of the State. New York City, Long Island, the Capital Region, and Rochester accounted for roughly two-thirds of employment growth during the past twelve months.

The Division of the Budget's forecast of the New York economy calls for employment to climb in 1994 and in 1995. Personal income should increase about 4.5 percent in both 1994 and 1995. Wage growth should be around four percent in both years.

Employment growth will moderate in 1995 as the pace of national economic growth slackens and entire industries adjust to changing markets and the State's economy absorbs the full impact of these developments. In response to lower industry profits, the surge in financial industry employment that occurred in 1993 and early 1994 has abated.

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. Further hikes in interest rates could cause additional weakness in the financial industry, posing risks to the forecast of employment.

## GENERAL FUND

### Revisions in Receipts Estimates

Total General Fund receipts are now projected at \$34,054 million, a reduction of \$267 million from the July estimate. Reduced expectations for personal and business income taxes account for the decline. Most of these downward revisions are related to weakness in the financial services sector caused in large part by rising interest rates.

**Personal Income Tax:** Receipts from the personal income tax are now estimated to total \$18,222 million, down \$334 million from the July forecast. Despite continued moderate growth in most areas of the economy, net collections from the tax fell short of expectations for the July-September quarter. This is largely attributable to lower payments than projected from estimated taxes and final returns for 1993, and higher refunds than projected. Higher interest rates and the weakness in the bond market have contributed to lower estimated tax payments. Modest downward revisions to expected year-end bonus payments have been made to reflect a moderation in the performance of the securities markets. The annual estimate for refunds on 1993 income has been increased marginally, reflecting more refunds claimed in the second quarter.

**User Taxes and Fees:** These taxes are now projected to total \$6,555 million, up \$51 million from the July forecast. Collections through September in this category were \$47 million above the July cash flow projections, largely attributable to higher-than-expected sales and use tax collections.

Through September, General Fund sales and use tax collections were \$175 million above prior year collections. This strong growth in the first half of the year was the result of unusually robust sales after the severe winter and unusually large audits. These strong collections triggered the increase in the annual estimate. Growth in the second half is expected to return to levels more in line with economic trends, producing General Fund receipts from this levy of \$4,836 million, up \$40 million from the July forecast.

Higher collections are now expected this year from cigarette and tobacco taxes. Through September, receipts from these sources were \$7 million ahead of July's cash flow projections. This prompted a change in the year-over-year estimated decline in consumption in the remainder of the fiscal year from five percent for the July-March period to three percent for the October-March period. As a result, the annual estimate was increased by \$9 million from the July estimate.

Because the five percent tax on hotel rooms costing \$100 or more a night has been repealed, the State received its last payment of the hotel tax in September. The final payment was \$6 million above expectations and will account for virtually all revenues from this source. Very modest reductions were made to estimates of the alcoholic beverage tax, container tax, and motor vehicle fees.

**Business Taxes:** Receipts from this category are now projected to total \$5,396 million, reflecting a modest decline of \$46 million (or less than one percent) compared to the July estimate.

This adjustment primarily reflects the weaker-than-anticipated collections to date in the bank tax. That decline reflects a reduction of 1993 liability estimates as commercial banks file their tax returns for last year and apply their overpayments for 1993 liability as credits toward 1994 liability. It is anticipated that 1994 liability for calendar-year commercial banks will remain strong.

The insurance tax estimate has been reduced to reflect weak premium and income earnings in the property and casualty insurance industry and collections under the Insurance Law. Collections from this sector have declined compared to last year, primarily due to unexpectedly large losses from the California earthquake, portfolio losses due to recent interest rate increases, and lower 1994 payments as companies apply their overpayment for 1993 toward 1994 liability, depressing the cash collection pattern.

The estimates of receipts from other sources in this category — mainly the corporation franchise and corporation and utilities taxes — have been increased, reflecting strong collections to date and the continued positive impact on corporate earnings from the strength in the State economy.

Estimates of receipts from corporation and utilities taxes have been increased to \$1,598 million from \$1,559 million in July. The \$39 million increase reflects anticipated higher demand for residential electricity and gas, somewhat offset by the lower natural gas prices that are expected. Liability growth in the telecommunications sector is projected to be less robust than the earlier forecast, averaging only 1.8 percent for 1994. Receipts in the first half of the fiscal year were adversely affected by an abnormally high level of refunds associated with litigation involving the tax. As in July, these refunds are anticipated to be financed from the Contingency Reserve Fund.

General Fund estimated receipts from the petroleum business tax are virtually unchanged from the July update. The estimate was reduced by \$5 million due to cash flow experience to date and modest revisions to components of consumption.

**Other Taxes:** Receipts from taxes in this category are estimated at \$1,131 million, or \$51 million above the level expected in July. Receipts through the first half of this year were \$589 million, which was \$11 million higher than the comparable period last year.

While the annual estimate for the gift tax has remained constant, the estate tax is now expected to produce \$30 million more than the July estimate. The principal reason for the increase is receipt of payments on large estates that were not expected this year and strong collections from small estates during the first half of the year. During the last half of the year, growth in collections is expected to moderate. Gains will be offset by this year's tax reductions to produce collections of \$715 million by the end of the fiscal year.

The annual estimate of the real property gains tax has been increased by \$14 million from the July estimate. This is the result of several offsetting influences. Revenue from activity in commercial, condo/coop, and entity transactions is expected to be substantially greater than anticipated in the July forecast. However, these gains will be partially offset by larger-than-expected refunds.

Real estate transfer tax collections are now estimated at \$11 million above the July estimate. This is a result of the unexpected growth from last year in non-deeded transfers (comprising merger and acquisition transactions as well as the



sale of cooperative apartments). This accounts for \$9 million of the increased annual estimate. The balance was due to stronger economic activity.

**Miscellaneous Receipts:** Miscellaneous receipts, a category composed of various licenses and fees, investment income, abandoned property receipts, certain reimbursements of State costs and other revenues, are now projected to total \$1,271 million, an increase of \$5 million from the July estimate. Somewhat higher interest earnings and fee income are partially offset by reduced revenue from public authorities and the delay of certain fine income into subsequent fiscal years.

**Transfers From Other Funds:** Transfers from other funds are now projected at \$1,479 million, \$6 million higher than estimated in July. More than 85 percent of transfers from other funds is a return to the General Fund of the portion of the State sales tax dedicated to debt service on Local Government Assistance Corporation (LGAC) bonds. The estimate for sales tax receipts has been increased since July, leading to a corresponding increase in this transfer, which now is expected to be \$12 million higher than the July projection. Offsetting this increase are reductions in the forecast of available transfers from Special Revenue Funds where the General Fund benefits from revenue collections in excess of required spending in such accounts. These reductions reflect lower-than-anticipated collections in these accounts.

### **Revisions in Disbursements Estimates**

General Fund disbursements for the fiscal year are expected to be lower than originally projected in almost every category of the Financial Plan. This decrease results from both lower spending trends during the first six months of the fiscal year, as well as actions expected to be undertaken in the remainder of the fiscal year. Down \$281 million from the July update, projected disbursements (including transfers to other funds) now total \$33,967 million.

General Fund spending through the first half of the year was \$153 million below projections, occurring in most categories of the Financial Plan, but most significantly in Grants to Local

Governments. Some of the variance was simply due to the timing of payments; however, lower spending trends were evident in certain programs. Most notably, payments for social services programs are lower than projected, with expected savings continuing through the close of the fiscal year.

***Grants to Local Governments:*** Projected disbursements in this category total \$23,676 million, a reduction of \$246 million from the level projected in July. More than half this reduction is due to lower spending projections for social services.

Spending for Medicaid is expected to be \$75 million lower than the level projected in July. This reduction reflects lower spending through the first six months of the fiscal year, and a projection that this trend will continue. The State continues to reap the benefits of cost containment initiatives enacted in previous years, and is experiencing a utilization of services that is lower than projected at the start of this fiscal year.

Spending for Income Maintenance is also revised downward. Slightly lower-than-projected caseload and modest increases in available credits result in savings of \$25 million. Another \$30 million in savings is expected to be captured under an initiative of the Department of Social Services to increase Federal participation in administrative costs incurred by the State and local social services districts.

Remaining social services programs are projected to cost \$10 million less than in the earlier forecast.

This update to the Financial Plan also reflects a full re-estimate of General Fund support for school aid. The State Education Department reports revised projections for the current and two prior school years. Revised estimates for the 1992-93 and 1993-94 school years, based upon final audits and revised aid claims, result in savings of \$33 million. Costs for the 1994-95 school year are projected to be \$40 million higher, resulting primarily from increased estimates for operating aid and public excess cost aid for pupils with disabilities.

In addition to the re-estimate of State school aid obligations, the State Education Department also expects changes in certain reimbursements from the levels projected in the July update. Anticipated Federal Medicaid recoveries exceed previous cash estimates by \$62 million, as a result of new initiatives to recover administrative expenses and costs of providing services to

privately educated disabled students. However, while eligible charges of more than \$45 million were expected to be made to Federal petroleum overcharge monies (for energy-saving improvements or programs), those charges are now expected to total only \$18 million in the current year. As a result of all these changes, school aid costs are reduced by a net \$27 million.

Savings are also expected to be realized from other programs in this category, including City University debt service, health programs, youth programs, and education programs.

**State Operations:** Projected disbursements in this category are now estimated to total \$6,353 million. The Department of Correctional Services is now expected to spend \$54 million more than anticipated. An estimated \$50 million will be used to accommodate an unanticipated increase in the prison population. The remaining \$4 million will meet the State's obligation to reimburse certain employees for back pay for military leave, as a result of a recent Federal Court of Appeals decision.

**General State Charges:** Spending in this category is now projected to total \$2,050 million, reflecting a decrease of \$27 million from the July update. This decrease reflects a reduction in the State's pension contribution of \$8 million, as estimated by the New York State Employees' Retirement System. An additional \$22 million in dividends is also expected to be available to reduce State costs for health insurance for its employees. These decreases offset a modest increase in the estimated payments to the Employee Benefit Funds.

**Debt Service:** Anticipated short-term debt service totals \$8 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 for certain State programs. General Fund support for the General Debt Service Fund is projected at \$1,429 million, a decrease of \$14 million from the level projected in July. This decrease is primarily the result of debt management actions undertaken by several of the State's public authorities.

General Fund support for capital projects is projected to be \$379 million, or \$27 million lower than the level projected in July. The lower spending is attributable primarily to the late adoption of the budget.

Transfers to Others Funds decline \$19 million, reflecting both actual experience through the first six months and the elimination of a projected \$16 million transfer to the Lottery Fund pursuant to the lottery aid guarantee, because lottery proceeds are expected to be higher than originally projected.

## **OTHER GOVERNMENTAL FUNDS**

### **Special Revenue Funds**

Spending in the Special Revenue fund type is projected to total \$24,897 million, a decrease of \$85 million from the July estimate. Projected spending from the Mass Transportation Operating Assistance Fund is \$70 million lower, raising the fund balance by a similar amount. Spending supported by Federal grants has been revised upward by \$25 million, primarily reflecting changes in social services programs as discussed in the General Fund. Lower-than-anticipated utilization reduces spending in these programs; however, these reductions are more than offset by projected increases in Federally financed spending resulting from State efforts to achieve greater reimbursement from Washington. As discussed previously, the State expects to receive additional reimbursements from the Federal Government as a result of initiatives undertaken by the State Education Department and the Department of Social Services. Changes in these fund types have also been made to reflect actual results for the first two quarters of the fiscal year, and reclassification of certain payments as a transfer in order to conform with reporting standards of the Office of the State Comptroller.

### **Capital Projects Funds**

Spending in the Capital Projects fund type is projected to total \$3,711 million, a decrease of \$19 million from the July estimate. This decrease is primarily due to the late enactment of the budget.

### **Debt Service Funds**

Spending in the Debt Service fund type is projected to total \$2,230 million, a decrease of \$16 million from the July update. This reduction reflects debt management actions undertaken by certain public authorities.

## **RELATED DEVELOPMENTS**

### **Contingency Reserve Fund**

Payments from the Contingency Reserve Fund continue to be projected at \$265 million. Through the first six months of the fiscal year \$56 million was expended for cases relating to unclaimed property (Delaware vs. New York) and construction cost claims authorized in the legislation. Payments made in the first instance out of other funds to settle litigation in relation to Medicaid claims and certain tax items are expected to be reimbursed by a transfer of moneys from the Contingency Reserve Fund by the end of the fiscal year. The balance available in this fund is expected to be disbursed to cover litigation costs in this fiscal year.

## **CONCLUSION**

New York remains on track to record a balanced budget. The small General Fund surplus projected in this update, if maintained through the end of the fiscal year, would represent the third consecutive surplus attained by the State.

Achieving this goal will underscore the value of a conservative approach to budgeting. Without such a stance, New York State would have been unable to absorb the adverse news stemming from the problems facing many financial services firms. Developments on Wall Street will, of course, be followed closely in the remaining months.

**1994-95 GENERAL FUND FINANCIAL PLAN PREPARED  
ON THE CASH BASIS OF ACCOUNTING  
(millions of dollars)**

	July Estimate	Change	October Estimate
Opening fund balance . . . . .	399		399
<b>Receipts:</b>			
<b>Taxes</b>			
Personal income tax . . . . .	18,556	(334)	18,222
User taxes and fees . . . . .	6,504	51	6,555
Business taxes . . . . .	5,442	(46)	5,396
Other taxes . . . . .	1,080	51	1,131
Miscellaneous receipts . . . . .	1,266	5	1,271
Transfers from other funds . . . . .	1,473	6	1,479
<b>Total receipts . . . . .</b>	<b>34,321</b>	<b>(267)</b>	<b>34,054</b>
<b>Disbursements:</b>			
Grants to local governments . . . . .	23,922	(246)	23,676
State operations . . . . .	6,301	52	6,353
General State charges . . . . .	2,077	(27)	2,050
Debt service . . . . .	8		8
Transfers to other funds			
--Debt service . . . . .	1,443	(14)	1,429
--Capital projects . . . . .	406	(27)	379
--Other purposes . . . . .	91	(19)	72
<b>Total disbursements . . . . .</b>	<b>34,248</b>	<b>(281)</b>	<b>33,967</b>
Payments from contingency reserve fund . . . . .	265	-0-	265
Change in fund balance . . . . .	(192)	14	(178)
Closing fund balance . . . . .	207		221

**1994-95 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	399	855	(229)	133	1,158
Receipts:					
Taxes	31,304	1,220	692	1,714	34,930
Miscellaneous receipts	1,271	4,379	1,587	581	7,818
Federal grants	-0-	19,049	954	-0-	20,003
Total receipts	32,575	24,648	3,233	2,295	62,751
Disbursements:					
Grants to local governments	23,676	19,019	566	-0-	43,261
State operations	6,353	5,557	7	3	11,920
General State charges	2,050	307	-0-	-0-	2,357
Debt service	8	-0-	-0-	2,227	2,235
Capital projects	-0-	14	3,138	-0-	3,152
Total disbursements	32,087	24,897	3,711	2,230	62,925
Other financing sources (uses):					
Transfers from other funds	1,479	2,073	404	3,286	7,242
Transfer to other funds	(1,880)	(1,836)	(173)	(3,368)	(7,257)
Bond and note proceeds	-0-	-0-	374	-0-	374
Net other financing sources (uses)	(401)	237	605	(82)	359
Payments from contingency reserve fund	265	-0-	-0-	-0-	265
Change in fund balance	(178)	(12)	127	(17)	(80)
Closing fund balance	221	843	(102)	116	1,078

**1994-95 STATE FINANCIAL PLAN**  
**SPECIAL REVENUE FUNDS**  
(millions of dollars)

	State Special Revenue Funds	Federal Special Revenue Funds	Total Special Revenue Funds
Opening fund balance	736	119	855
Receipts:			
Taxes	1,220	-0-	1,220
Miscellaneous receipts	4,361	18	4,379
Federal grants	1	19,048	19,049
Total receipts	5,582	19,066	24,648
Disbursements:			
Grants to local governments	2,969	16,050	19,019
State operations	2,677	2,880	5,557
General State charges	167	140	307
Capital projects	11	3	14
Total disbursements	5,824	19,073	24,897
Other financing sources (uses):			
Transfers from other funds	363	1,710	2,073
Transfers to other funds	(113)	(1,723)	(1,836)
Net other financing sources (uses)	250	(13)	237
Change in fund balance	8	(20)	(12)
Closing fund balance	744	99	843



**CHANGES TO GENERAL FUND  
RECEIPTS ESTIMATES FOR  
1994-95 STATE FISCAL YEAR  
(millions of dollars)**

	July Estimate	Change	October Estimate
Personal income tax .....	18,556	(334)	18,222
User taxes and fees .....	6,504	51	6,555
Sales and use tax .....	4,796	40	4,836
Cigarette and tobacco taxes .....	715	9	724
Motor fuel tax .....	179	-0-	179
Motor vehicle fees .....	457	(1)	456
Alcoholic beverage taxes .....	212	(1)	211
Hotel/motel tax .....	35	6	41
Alcoholic beverage control license fees .....	29	-0-	29
Container tax .....	53	(2)	51
Auto rental tax .....	28	-0-	28
Business taxes .....	5,442	(46)	5,396
Corporation franchise tax .....	1,875	41	1,916
Corporation and utilities taxes .....	1,559	39	1,598
Insurance taxes .....	653	(49)	604
Bank tax .....	872	(72)	800
Petroleum business taxes .....	483	(5)	478
Other taxes .....	1,080	51	1,131
Estate taxes .....	685	30	715
Gift taxes .....	76	-0-	76
Real property gains tax .....	78	14	92
Real estate transfer tax .....	182	11	193
Pari-mutuel taxes .....	58	(4)	54
Other taxes .....	1	-0-	1
Miscellaneous receipts .....	1,266	5	1,271
Transfers from other funds .....	1,473	6	1,479
 Total receipts .....	 34,321	 (267)	 34,054