

NEW YORK STATE

FINANCIAL PLAN MID-YEAR UPDATE

1997-1998



Division of the Budget
October 1997

NEW YORK STATE

1997-98 Financial Plan

Mid-Year Update

INTRODUCTION

This is the second quarterly update to the State's 1997-98 cash-basis Financial Plan. The first quarterly update was incorporated with the Adopted Budget Report of August 11, 1997 following enactment of the State budget. This update incorporates cash-basis results for the first six months of the fiscal year.

SUMMARY

Year-to-date General Fund receipt and disbursement estimates continue to show that the State's Financial Plan for 1997-98 remains soundly balanced. This Update makes no changes to the projections contained in the Financial Plan released in the Adopted Budget Report. Based on experience to date, there is a growing likelihood that the General Fund reserve will ultimately be larger.

The projected General Fund reserve for future needs continues to be \$530 million. Based on year-to-date results, this is now considered to be at the low end of the range of possible outcomes for 1997-98. This reserve will ensure General Fund balance throughout the 1997-98 fiscal year and provide resources to help balance the 1998-99 fiscal year.

The Financial Plan also reflects a balance of \$332 million in the State's "rainy day" fund (the Tax Stabilization Reserve Fund) and \$65 million in a litigation reserve fund (the Contingency Reserve Fund) both of which are available to guard against possible unforeseen adverse events.

Six Month Operating Results

The State ended the first six months of the 1997-98 fiscal year with a General Fund cash balance of \$ 3.2 billion, some \$254 million higher than projected in the cash flow accompanying the enacted budget Financial Plan.

Receipts: Total receipts, including transfers from other funds, reached \$18.8 billion, or approximately \$340 million higher than expected, reflecting underforecasts of tax revenues (approximately \$244 million) and miscellaneous receipts (\$93 million). The miscellaneous receipts variance is largely timing related, but the higher-than-projected tax receipts reflect stronger underlying economic activity during the first half of the year.

Disbursements: General Fund spending for the first six months of the fiscal year was \$16.0 billion, or \$86 million above enacted budget cashflow projections. This variance is entirely the result of timing issues which resulted in higher than expected State Operations spending, mostly due to a temporary delay in the receipt of revenues from the State University and the Department of Health, and in the receipt of Federal monies for the Department of Family Assistance. These revenues will be used to reduce the need for General Fund spending during the balance of the fiscal year and, accordingly, annual State Operations spending is still projected to remain on target.

ECONOMIC FORECAST

United States

The national economy grew strongly during the first half of 1997, with growth rates of 4.9 percent and 3.3 percent, respectively, in the first two quarters. Although some moderation is expected in the second half, the annual growth rate for 1997 is projected to match or exceed 3.6 percent. Due to the strong growth, the Federal Reserve Board (FRB) is expected to increase short-term interest rates modestly over the next three months in spite of a lack of evidence of significant inflationary pressure. Following the anticipated rise in interest rates, growth is expected to slow gradually during the first three quarters of 1998 before rebounding somewhat in the fourth quarter.

New York

The steady growth that has characterized the New York economy recently continued during the first half of 1997. According to seasonally-adjusted employment data from the State Labor Department, New York has added 54,400 private-sector jobs since December 1996 and nearly 200,000 since December 1994. The service sector accounted for 43,800 of the 1997 increase, and trade added nearly 8,000. The unemployment rate was 6.4 percent in August and remains above the national rate. The Division of the Budget's forecast calls for employment to increase by 1.4 percent in 1997 and 1.1 percent in 1998. Personal income should increase about 6 percent in 1997.

GENERAL FUND

General Fund Receipts

Total receipts for 1997-98 are still projected to total \$35.09 billion, an increase of \$2.05 billion from 1996-97 results. The increase largely reflects the stronger than expected economic growth in the July-September quarter and improved full-year expectations for Wall Street profits and bonuses. The higher forecast also reflects the anticipated positive short-term impact on receipts of the changes in Federal tax treatment of capital gains. Of the \$35.09 billion in total receipts, taxes are projected at over \$31.68 billion, miscellaneous receipts at over \$1.48 billion and transfers from other funds at over \$1.93 billion.

Personal income tax: Total income tax collections are projected to reach \$18.87 billion, up nearly \$2.49 billion above the amount reported for 1996-97, although virtually all of this amount reflects refund and refund reserve transactions associated with the movement of the 1996-97 surplus into the current year.

User taxes and fees: Receipts from user taxes and fees are expected to total \$7.0 billion, up \$204 million over the amount reported in 1996-97, or growth of over 3 percent.

Business Taxes: Business tax collections, despite slightly weaker than expected performance through September, are expected to finish at the same level reported in the enacted budget. Total receipts in this category are expected to reach \$4.83 billion, roughly \$253 million, or approximately 5 percent short of collections in 1996-97, largely reflecting the effect of tax reductions and exceptional audit activity in the prior year.

Other Taxes: Receipts from other taxes are projected at \$982 million and are expected to show a year-over-year net decline of nearly \$100 million, accounted for by the diversion of well over \$100 million in real estate transfer tax receipts to support debt service on the Clean Water/Clean Air Bond Act.

Miscellaneous Receipts and Transfers from Other Funds: Miscellaneous receipts are projected to be \$1.48 billion. On a year-over-year basis, miscellaneous receipts are still projected to show a decline of over a half billion dollars, reflecting the loss of such one-time transactions as the transfer from the Medical Malpractice Insurance Association and the special assessment on worker's compensation insurers that were received in the preceding year.

Transfers from other funds are expected to be over \$1.93 billion, including \$1.47 billion as the portion of sales tax receipts that flows to the General Fund after meeting the debt service requirements of the Local Government Assistance Corporation Fund. Transfers from other funds are expected to show growth of nearly \$300 million from the 1996-97 total, largely as a result of the

receipt in the current year of \$200 million in federal reimbursements for prior years' social service spending.

General Fund Disbursements

Total General Fund disbursements, including transfers to capital projects, debt service and other funds, are still projected at \$34.60 billion, or 5.2 percent more than a comparable level of disbursements in 1996-97. This represents an average annual increase of less than one percent since 1994-95, or about one-third the rate of inflation.

Grants to Local Governments: Spending for local assistance continues to be estimated at \$23.63 billion, an increase of \$862 million from 1996-97 levels. This increase results primarily from an increase in school aid of \$387 million (on a fiscal year basis). The largest areas of spending in this category continue to be for school aid (\$8.80 billion), Medicaid (\$5.42 billion), welfare (\$1.79 billion), and revenue sharing and other general purpose aid (\$802 million).

State Operations: The cost of operating State agencies is still estimated at \$6.22 billion, which represents an increase of \$441 million from last year. This increase is primarily attributable to approved collective bargaining agreements and the impact of binding arbitration settlements.

General State Charges: Disbursements in this category continue to be projected at \$2.18 billion, essentially unchanged from 1996-97 spending levels, reflecting moderation in overall employee fringe benefit costs.

Debt Service: Short-term and long-term debt service is still estimated at \$2.08 billion, an increase of \$290 million from last year. This increase is primarily due to the debt service costs of bond sales which took place in 1996-97, including the bond-out of previous pension liabilities at lower interest rates.

Capital Projects and All Other Transfers: The Budget continues to project transfers of \$184 million for Capital Projects and \$299 million for All Other Transfers.

Fund Balance

The 1997-98 Financial Plan projects a closing fund balance in the General Fund of \$927 million. This reflects a reserve of \$530 million which is available for future needs, a \$332 million balance in the Tax Stabilization Reserve Fund (following a repayment of \$15 million in 1997-98), and a balance of \$65 million in the Contingency Reserve Fund (following a deposit of \$24 million in 1997-98).

Recent Events

Yonkers School Desegregation

In an October 8, 1997 decision, the United States District for the Southern District of New York issued an opinion in the Yonkers school district desegregation case, an action originally commenced in 1985. The Court found that the State is liable, and must help fund a remedy, for eliminating vestiges of segregation in the Yonkers School system. The State is in the process of filing an appeal of this decision.

In a related matter, a separate claim against the State Urban Development Corporation (UDC) is being made by plaintiffs who assert that the siting of UDC housing developments contributed to the patterns of segregation in the school district. The Court deferred judgement on this housing claim and subsequently ordered all parties to begin discussions for a consensual resolution of this matter.

If these matters are not resolved in the State's favor, the State could face potential fiscal costs as determined and mandated by the Courts.

Medicaid Provider Taxes

The Federal Balanced Budget Act of 1997 contained a provision which would have deemed New York State's provider taxes approved by the Federal government. In August 1997, President Clinton exercised a line item veto to cancel this provision.

New York has historically used hospital rate add-ons and assessments — which were subsequently deemed as provider taxes through Federal legislation — to finance hospital uncompensated care, health insurance programs for children and other low-income state residents, and necessary restructuring of our health service delivery infrastructure. Although considerable misinformation about the nature of New York's provider tax program appeared in the public press during the weeks after the veto, New York's process of taxation and redistribution of health care dollars was sanctioned by federal legislation in 1987 and 1991. However, Health Care Financing Administration (HCFA) regulations have necessitated waiver requests seeking explicit approval of New York taxing systems that have been in place since the early 1980s. The majority of these waivers have been at HCFA since 1995 and have not been acted upon. Full disallowance would jeopardize nearly \$2.6 billion in provider tax revenues authorized through December 31, 1996.

The Balanced Budget Act provision was intended to rectify the uncertainty created by HCFA's inaction. In his veto message, the President claimed the provision would cost the Federal government \$200 million. This estimate has since been characterized by Federal officials as the value of the probability of a disallowance.

New York State is actively urging Federal officials to correct the problems created by HCFA's delays and the line item veto. In addition, the City of New York and other affected parties in the health care industry have filed a lawsuit challenging the constitutionality of the line item veto. HCFA has taken modest steps to work with the State toward a resolution. The State does not anticipate a disallowance.

OTHER GOVERNMENTAL FUNDS

Total spending from All Governmental Funds is projected at \$67.37 billion and remains at the same level contained in the Adopted Budget Report. Total spending in 1997-98 represents an increase of seven percent from 1996-97 and an average annual increase of 2.8 percent since 1994-95. The change from 1996-97 levels (above the General Fund increase) is primarily due to additional Federal support for welfare and Medicaid programs. Spending is projected at \$32.05 billion for the General Fund (excluding transfers), \$28.45 billion for the Special Revenue Funds, \$3.70 billion for the Capital Projects Funds, and \$3.17 billion for the Debt Service Funds.

State Funds spending is estimated to total \$45.10 billion, an annual increase of 5.4 percent from 1996-97 and an average annual increase of 1.9 percent from 1994-95. Consistent with the General Fund and All Governmental Funds, disbursement estimates in State Funds are projected at the same level contained in the Adopted Budget Report.

**Cash Financial Plan
1997-98 General Fund
(millions of dollars)**

	<u>Enacted</u>	<u>Change</u>	<u>October</u>
Opening fund balance	<u>433</u>	<u>0</u>	<u>433</u>
<i>Receipts:</i>			
Taxes			
Personal income tax	18,865	0	18,865
User taxes and fees	7,004	0	7,004
Business taxes	4,825	0	4,825
Other taxes	982	0	982
Miscellaneous receipts	1,482	0	1,482
Transfers from other funds:			
--LGAC	1,472	0	1,472
--All other	464	0	464
Total receipts	<u>35,094</u>	<u>0</u>	<u>35,094</u>
<i>Disbursements:</i>			
Grants to local governments	23,634	0	23,634
State operations	6,221	0	6,221
General State charges	2,183	0	2,183
Debt service	11	0	11
Transfers to other funds:			
--Debt service	2,068	0	2,068
--Capital projects	184	0	184
--Other purposes	299	0	299
Total disbursements	<u>34,600</u>	<u>0</u>	<u>34,600</u>
 Change in fund balance	 <u>494</u>	 <u>0</u>	 <u>494</u>
 Closing fund balance	 <u>927</u>	 <u>0</u>	 <u>927</u>
--Tax Stabilization Reserve Fund	332	0	332
--Contingency Reserve Fund	65	0	65
--Reserve for Future Needs	530	0	530

**Cash Financial Plan
1996-97 and 1997-98 General Fund
(millions of dollars)**

	<u>1996-97 Adjusted</u>	<u>1997-98 October</u>	<u>Change</u>
Opening fund balance	<u>287</u>	<u>433</u>	<u>146</u>
<i>Receipts:</i>			
Taxes			
Personal income tax	16,371	18,865	2,494
User taxes and fees	6,800	7,004	204
Business taxes	5,078	4,825	(253)
Other taxes	1,081	982	(99)
Miscellaneous receipts	2,072	1,482	(590)
Transfers from other funds:			
--LGAC	1,414	1,472	58
--All other	227	464	237
Total receipts	<u>33,043</u>	<u>35,094</u>	<u>2,051</u>
<i>Disbursements:</i>			
Grants to local governments	22,772	23,634	862
State operations	5,780	6,221	441
General State charges	2,184	2,183	(1)
Debt service	10	11	1
Transfers to other funds:			
--Debt service	1,779	2,068	289
--Capital projects	138	184	46
--Other purposes	234	299	65
Total disbursements	<u>32,897</u>	<u>34,600</u>	<u>1,703</u>
Change in fund balance	<u>146</u>	<u>494</u>	<u>348</u>
Closing fund balance	<u>433</u>	<u>927</u>	<u>494</u>
--Tax Stabilization Reserve Fund	317	332	15
--Contingency Reserve Fund	41	65	24
--Community Projects Fund	75	0	(75)
--Reserve for Future Needs	0	530	530

**Current State Receipts
1997-98 General Fund
(millions of dollars)**

	<u>Enacted</u>	<u>Change</u>	<u>October</u>
Personal income tax	<u>18,865</u>	<u>0</u>	<u>18,865</u>
User taxes and fees	<u>7,004</u>	<u>0</u>	<u>7,004</u>
Sales and use tax	5,434	0	5,434
Cigarette and tobacco taxes	660	0	660
Motor fuel tax	160	0	160
Motor vehicle fees	496	0	496
Alcoholic beverage taxes	172	0	172
Hotel/motel tax	0	0	0
Alcoholic beverage control license fees	26	0	26
Container tax	25	0	25
Auto rental tax	31	0	31
Business taxes	<u>4,825</u>	<u>0</u>	<u>4,825</u>
Corporation franchise tax	1,972	0	1,972
Corporation and utilities taxes	1,525	0	1,525
Insurance taxes	625	0	625
Bank tax	595	0	595
Petroleum business taxes	108	0	108
Other taxes	<u>982</u>	<u>0</u>	<u>982</u>
Estate and gift taxes	931	0	931
Real property gains tax	9	0	9
Real estate transfer tax	0	0	0
Pari-mutuel taxes	41	0	41
Other taxes	1	0	1
Total taxes	<u>31,676</u>	<u>0</u>	<u>31,676</u>
Miscellaneous receipts	<u>1,482</u>	<u>0</u>	<u>1,482</u>
Total	<u><u>33,158</u></u>	<u><u>0</u></u>	<u><u>33,158</u></u>

**Cash Financial Plan
1997-98 All Governmental Funds
(millions of dollars)**

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	<u>433</u>	<u>600</u>	<u>(200)</u>	<u>150</u>	<u>983</u>
<i>Receipts:</i>					
Taxes	31,676	1,286	996	2,032	35,990
Miscellaneous receipts	1,482	5,608	1,223	601	8,914
Federal grants	0	21,324	1,081	0	22,405
Total receipts	<u>33,158</u>	<u>28,218</u>	<u>3,300</u>	<u>2,633</u>	<u>67,309</u>
<i>Disbursements:</i>					
Grants to local governments	23,634	22,114	709	0	46,457
State operations	6,221	5,960	0	6	12,187
General State charges	2,183	338	0	0	2,521
Debt service	11	0	0	3,165	3,176
Capital projects	0	36	2,989	0	3,025
Total disbursements	<u>32,049</u>	<u>28,448</u>	<u>3,698</u>	<u>3,171</u>	<u>67,366</u>
<i>Other financing sources (uses):</i>					
Transfers from other funds	1,936	2,359	188	4,325	8,808
Transfers to other funds	(2,551)	(2,216)	(368)	(3,773)	(8,908)
Bond and note proceeds	0	0	605	0	605
Net other financing sources (uses)	<u>(615)</u>	<u>143</u>	<u>425</u>	<u>552</u>	<u>505</u>
Change in fund balance	<u>494</u>	<u>(87)</u>	<u>27</u>	<u>14</u>	<u>448</u>
Closing fund balance	<u>927</u>	<u>513</u>	<u>(173)</u>	<u>164</u>	<u>1,431</u>

**Cash Financial Plan
1997-98 State Funds
(millions of dollars)**

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	<u>433</u>	<u>716</u>	<u>(81)</u>	<u>150</u>	<u>1,218</u>
<i>Receipts:</i>					
Taxes	31,676	1,286	996	2,032	35,990
Miscellaneous receipts	1,482	5,513	1,223	601	8,819
Federal grants	0	3	0	0	3
Total receipts	<u>33,158</u>	<u>6,802</u>	<u>2,219</u>	<u>2,633</u>	<u>44,812</u>
<i>Disbursements:</i>					
Grants to local governments	23,634	3,914	549	0	28,097
State operations	6,221	3,118	0	6	9,345
General State charges	2,183	190	0	0	2,373
Debt service	11	0	0	3,165	3,176
Capital projects	0	36	2,073	0	2,109
Total disbursements	<u>32,049</u>	<u>7,258</u>	<u>2,622</u>	<u>3,171</u>	<u>45,100</u>
<i>Other financing sources (uses):</i>					
Transfers from other funds	1,936	488	188	4,325	6,937
Transfers to other funds	(2,551)	(124)	(363)	(3,773)	(6,811)
Bond and note proceeds	0	0	605	0	605
Net other financing sources (uses)	<u>(615)</u>	<u>364</u>	<u>430</u>	<u>552</u>	<u>731</u>
Change in fund balance	<u>494</u>	<u>(92)</u>	<u>27</u>	<u>14</u>	<u>443</u>
Closing fund balance	<u>927</u>	<u>624</u>	<u>(54)</u>	<u>164</u>	<u>1,661</u>

**Cash Financial Plan
1997-98 Special Revenue Funds
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Opening fund balance	<u>716</u>	<u>(116)</u>	<u>600</u>
<i>Receipts:</i>			
Taxes	1,286	0	1,286
Miscellaneous receipts	5,513	95	5,608
Federal grants	3	21,321	21,324
Total receipts	<u>6,802</u>	<u>21,416</u>	<u>28,218</u>
<i>Disbursements:</i>			
Grants to local governments	3,914	18,200	22,114
State operations	3,118	2,842	5,960
General State charges	190	148	338
Capital projects	36	0	36
Total disbursements	<u>7,258</u>	<u>21,190</u>	<u>28,448</u>
<i>Other financing sources (uses):</i>			
Transfers from other funds	488	1,871	2,359
Transfers to other funds	(124)	(2,092)	(2,216)
Net other financing sources (uses)	<u>364</u>	<u>(221)</u>	<u>143</u>
Change in fund balance	<u>(92)</u>	<u>5</u>	<u>(87)</u>
Closing fund balance	<u>624</u>	<u>(111)</u>	<u>513</u>

**Summary Of Disbursements By Function
1997-98 General Fund
(Thousands of Dollars)**

	<u>October</u>
ECONOMIC AFFAIRS AND GOVERNMENT OVERSIGHT	
Agriculture & Markets, Department of	29,508
Alcoholic Beverage Control, Division of	7,695
Consumer Protection Board, State	347
Economic Development, Department of	36,903
Empire State Development Corporation	69,711
Housing Finance Agency	91,042
Housing Trust Fund Corporation	690
Long Island Power Authority	0
Olympic Regional Development Authority	1,972
Science and Technology Foundation, New York State	19,240
Total	<u>257,108</u>
ENVIRONMENTAL/PARKS	
Adirondack Park Agency	3,379
Environmental Conservation, Department of	82,020
Parks, Recreation and Historic Preservation, Office of	88,341
Total	<u>173,740</u>
TRANSPORTATION	
Motor Vehicles, Department of	116,476
Transportation, Department of	377,251
Total	<u>493,727</u>
HEALTH & SOCIAL DEVELOPMENT	
Advocate for Disabled, Office of	835
Aging, Office for the	57,660
Children & Families, Council on	859
Children and Family Services, Department of	1,083,105
Health, Department of	
Medical Assistance	5,417,920
MA Administration	81,050
All Other Local Aid	437,695
All Other Health Department	132,035
Human Rights, Division of	9,382
Labor, Department of	18,058
Social Services, Department of	
Income Maintenance	1,788,300
Income Maintenance Administration	380,296
All Other Local Aid	13,418
All Other Social Services Department	19,635
Welfare Inspector General, Office of	365
Youth, Division for	0
Total	<u>9,440,613</u>
MENTAL HYGIENE	
Mental Hygiene, Department of	0
Mental Health, Office of	929,266
Mental Retardation and Developmental Disabilities, Office of	697,069
Alcoholism and Substance Abuse Services, Office of	284,661
Quality of Care for the Mentally Disabled, Commission on	2,772
Total	<u>1,913,768</u>

Summary Of Disbursements By Function
1997-98 General Fund
(Thousands of Dollars)

	<u>October</u>
PUBLIC PROTECTION	
Correction, Commission of	1,930
Correctional Services, Department of	1,553,717
Criminal Justice Services, Division of	97,650
Military and Naval Affairs, Division of	22,846
Parole, Probation and Correctional Alternatives, Division of	188,281
Probation, Division of	83,604
State Police, Division of	327,158
Total	<u>2,275,186</u>
EDUCATION	
Arts, Council on the	39,773
City University of New York	633,992
Education, Department of	10,010,364
STAR	0
School Aid	8,802,600
Handicapped	695,600
All Other Local Aid	464,713
Agency Operations	47,451
Higher Education Services Corporation, New York State	641,591
State University of New York	1,061,621
Debt Service- SUNY Community Colleges	27,330
Total	<u>12,414,671</u>
GENERAL GOVERNMENT	
Audit and Control, Department of	83,579
Budget, Division of the	25,801
Civil Service, Department of	22,814
Elections, State Board of	2,598
Employee Relations, Office of	3,663
Executive Chamber	11,805
General Services, Office of	103,109
Law, Department of	73,799
Public Employment Relations Board	3,133
Racing and Wagering Board, State	9,365
Real Property Services, Office of	27,718
Regulatory Reform, Governor's Office of	2,209
State, Department of	12,905
Taxation and Finance, Department of	259,995
Tax Appeals, Division of	3,109
Veterans Affairs, Division of	6,345
Total	<u>651,947</u>
ALL OTHER CATEGORY	
Miscellaneous	291,220
Legislature	180,576
Judiciary	960,963
General State Charges	2,182,929
Short-Term Debt Service	11,193
Revenue Sharing	801,631
Total	<u>4,428,512</u>
SUBTOTAL	32,049,272
TRANSFERS:	
Long-Term Debt Service	2,067,977
Capital Projects	184,300
All Other	298,388
GENERAL FUND SPENDING	<u>34,599,937</u>