NEW YORK STATE ASSEMBLY

MIDYEAR UPDATE

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EXECUTIVE SUMMARY

United States Economy

- The recovery that began in June 2009 has shown signs of significant weakness. Although the current forecast calls for the U.S. economy to continue to recover from the "Great Recession," the pace of recovery is likely to be well below the trend growth rate. Excesses still remain in the housing market and housing demand remains weak despite record low mortgage rates. Also, the outlook and developments regarding the debt crisis in Europe are thus far unclear. The unemployment rate remains elevated with 13.9 million workers unemployed. The pace of payroll job creation is painfully slow with 6.5 million jobs still remaining to be recouped to reach the pre-recession peak level. Faced with a lean employment outlook, slow income growth, and depressed household wealth, weary consumers are cautious of spending. Unsure how the future course of the economy will play out, businesses are reluctant to hire.

- The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2012 is 1.7 percent. This forecast is 0.6 percentage point lower than the Division of the Budget forecast, 0.4 percentage point below the Blue Chip Consensus, 0.9 percentage point below Moody's Economy.com, and 0.7 percentage point below Macroeconomic Advisers. The staff's forecast is 0.1 percentage point above IHS Global Insight.

- The current forecast assumes that the "Bush tax cuts" will expire on January 1, 2013. As incentives exist to take advantage of tax differences arising from the tax law changes, some economic activity is expected to shift from 2013 to 2012. Given the uncertainty surrounding the timing and final details of the proposed American Jobs Creation program, it has not been factored into the current forecast, although unemployment benefits and the payroll tax cut are both assumed to be extended for another year.

- Personal consumption spending, adjusted for inflation, is expected to increase by 2.1 percent in 2011, after rising 2.0 percent in 2010. This weak growth is due to higher prices that have eroded consumer purchasing power, high unemployment, slow income growth, and falling home and equity prices. Growth in consumer spending is forecast to persist below pre-crisis growth rates as consumers will continue to be plagued by a weak labor market, lackluster wage growth, and depressed household wealth.

- Total business spending is estimated to increase 4.7 percent in 2011, as gains in spending on equipment and software and nonresidential structures outweigh losses in spending on residential construction. As construction activities strengthen and spending on equipment and software remains healthy during the forecast period, business spending growth is expected to accelerate to 5.3 percent in 2012 and to 7.8 percent in 2013.

- With the federal government under pressure to reduce spending, and state and local governments facing the loss of non-recurring funds from the American Recovery and Reinvestment Act of 2009 (ARRA) as well as statutory obligations to balance their budgets, total government spending, adjusted for inflation, is estimated to fall 2.3 percent in 2011 after increasing 0.7 percent in 2010. As spending cuts persist at all levels of government, total government spending is forecast to decline 2.5 percent in 2012 and another 2.1 percent in 2013.

- The world economy is expected to continue to grow in 2012 and 2013, while the U.S. dollar is expected to remain weak. As world Gross Domestic Product (GDP) is anticipated to grow faster than the U.S. throughout the forecast period, driven by growth in developing countries, exports are expected to grow faster than imports in 2012 and 2013. Exports are forecast to grow by 4.6 percent in 2012, and then grow by 7.9 percent in 2013. Imports are expected to increase by 3.2 percent in 2012 and 4.9 percent in 2013. Thus, U.S. trade will be less of a drag on U.S. GDP.

- Only 2.3 million of the 8.8 million jobs lost during the recent recession have been regained. Total national payroll employment is estimated to grow 1.0 percent in 2011. In 2012, payroll employment is expected to grow only 0.9 percent, reflecting the expected slow pace of the economic recovery and the hesitancy businesses are displaying in hiring employees. In 2013, employment is expected to increase by 1.4 percent.

- Businesses have undergone changes as a result of the recent recession. Faced with ever more unfavorable market conditions in the depths of the recent recession, firms increasingly shied away from hiring new employees, and instead concentrated on increasing productivity, often substituting capital for labor as evidenced by strong investment spending on equipment and software. Businesses have also been affected over the years by structural changes in the economy and increasing global competition that led producers to find ways to cut labor costs, sometimes by outsourcing jobs overseas. Also, some evidence exists that there is a mismatch between the skills possessed by the pool of unemployed workers and the skills required for available jobs for some firms that are hiring.

- Growth in personal income is estimated to improve to 5.2 percent in 2011, still below pre-crisis growth rates. A drastic slowdown in transfer payment growth will continue in 2012, curtailing personal income growth as unemployment benefits are exhausted and other transfer programs expire for many recipients. In 2012, personal income is forecast to grow only 3.4 percent as all components of personal income, except interest income and employers' contributions for employee pension and insurance funds, slow. In 2013, personal income is expected to grow 3.3 percent as wage and salary growth accelerates, but the payroll tax cuts and the federal unemployment benefits extensions expire.

- The Consumer Price Index increased 1.6 percent in 2010, well below the increases observed in the years leading up to the recent recession. Consumer prices are estimated to grow 3.1 percent in 2011, driven by higher energy and other commodity prices in early 2011. In 2012 and 2013 consumer prices are expected to rise, but at a slower rate as energy pricing pressures ease and slow economic growth keeps pricing pressure in check.

- As the economy improves, the Standard & Poor's 500 Composite Stock Price Index (S&P 500) is estimated to average 1,251.4 points in 2011, an increase of 9.8 percent from 2010. Even though the S&P 500 is expected to grow slowly on a quarterly basis in 2012, it is forecast to fall 2.0 percent in 2012 on an annual average basis as the Index declined sharply during the second half of 2011 due to concerns over European and U.S. debt. The S&P 500 is forecast to grow by 7.6 percent to an annual average of 1,319.9 points in 2013 as the economies and debt situations in both European countries and the U.S. are expected to improve.

- Serious risks to the economic outlook of the nation and State remain. A highly volatile stock market and government regulations have created considerable uncertainty in the financial markets. Limited access to credit continues to pose a significant risk going forward. Many global issues add uncertainty to the outlook, including the war in Afghanistan, unrest in the Middle East, volatility in oil prices, and other geo-political issues. The European sovereign debt crisis and the overall health of the eurozone remain a significant risk to the global recovery, as the extent of the problem and its impact on the rest of the world still remain unclear. In addition, the lack of recovery in the housing market remains a concern. If these areas fail to improve, the impact on the outlook would be substantial.

New York State Economy

- The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth in the State in 2012 is 0.6 percent. This forecast is 0.2 percentage point below the Division of the Budget. The staff's forecast for State wages in 2012 is 3.9 percent. This forecast is 0.8 percentage point above the Division of the Budget.

- As the economy recovers, State employment is estimated to grow 0.9 percent in 2011. Since the nation has lost a substantially higher percentage of jobs than the State (on an annual basis New York State lost 3.1 percent of total payroll jobs from peak to trough compared to 5.6 percent for the nation), the speed of the nation's employment recovery is expected to accelerate as employment in the sectors that were hardest hit during the recession posts stronger gains. Total nonfarm employment in the State is forecast to grow at 0.6 percent in 2012 before growing at 1.2 percent in 2013, compared to national employment growth of 0.9 percent and 1.4 percent in 2012 and 2013, respectively.

- After declining 7.2 percent in 2009, wages in New York State started to recover in 2010, with base wages growing 1.8 percent and variable wages rebounding 27.4 percent. In 2011, wages are estimated to continue to recover, although growth has not reached the rates seen before the recent recession; in 2012, wages will continue to grow. Base wages will rise slowly, as firms continue to be cautious about hiring workers. While variable wages will grow in 2012, the assumed expiration of "Bush tax cuts" will shift bonus payments from 2013 to 2012. Without this anticipated shift, wage growth in 2012 would be slower.

- As the economy shows signs of weakness and financial firms are faced with sluggish economic growth and an uncertain environment, the outlook for bonus payments is less positive. In addition, there are uncertainties for the bonus outlook as the result of regulatory actions pertaining to revenue generation and salaries and bonuses in the financial sector. How these regulations may change the concept of variable wages as we know it are unclear. Furthermore, the timing of bonus income has become less clear as companies change payment allocation between cash and stock options, and employees choose whether or not to exercise options. The Assembly

Ways and Means Committee staff estimates that total variable wages will decline slightly in State Fiscal Year (SFY) 2011-12. In SFY 2012-13, as the economic environment improves, variable compensation (both overall and in the securities industry) should improve, although not at the strong rates experienced leading up to the recession.

Revenue

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for State Fiscal Year (SFY) 2011-12 is $64.551 billion, representing an increase of 6.0 percent or $3.681 billion above the prior year.

- This growth in annual collections is primarily due to significant growth in personal income tax (PIT) receipts. PIT receipts are estimated to increase by $2.8 billion or 7.7 percent in SFY 2011-12—however $1.4 billion of this increase is actually from payments based on 2010 income combined with a $500 million administrative change in refunds. The remaining growth is in estimated payments, which generally reflect non-wage income, including capital gains and business income. Through the first six months of the fiscal year, PIT receipts have grown 17.2 percent—reflecting a $2.1 billion increase in extension payments in the month of April—which are based on 2010 income—and the $500 million decrease in refunds.

- User taxes are estimated to increase by $215 million in SFY 2011-12—reflecting a slight increase in consumption taxes (1.5 percent). Tax law changes, including increases on tobacco tax rates, enforcement of tobacco taxes on Native American reservations and the return of the clothing exemption at $55 on April 1, 2011—are estimated to essentially offset each other in SFY 2011-12.

- Business taxes are estimated to grow by $754 million or 10.4 percent in SFY 2011-12—reflecting the business tax credit deferral enacted in SFY 2010-11 combined with an increase in corporate profitability. Year-to-date business tax collections have increased by 12.1 percent—with corporate franchise taxes growing by 27.4 percent and insurance tax collections by 12.7 percent. Utility, bank, and petroleum business taxes have shown modest changes from last fiscal year.

- Other taxes are estimated to decrease by $61 million or 1.9 percent—however this decline reflects an almost $200 million decline in estate and gift taxes from SFY 2010-11, which benefited from a significant number of large estates. Real estate transfer taxes are estimated to increase 11.6 percent as the real estate market in

New York State continues its slow recovery—and have grown 12.9 percent through September. Collections from the MTA payroll tax are up 2.8 percent year-to-date and are estimated to increase by 5.6 percent in SFY 2011-12.

- New York State tax revenues have continued their recovery from the economic downturn that began in 2007, with fiscal year-to-date growth of 12.6 percent. However, growth of 0.4 percent is needed in the second half of the fiscal year to meet current revenue estimates, as economic growth is expected to slow and certain tax law and administrative changes are no longer in effect. Much of this slowing in the second half of the year relates to the elimination of the income tax surcharge on high-income earners on December 31, 2011.

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for SFY 2011-12 is $48 million above the Executive's Mid-Year Financial Plan Update.

- Although the net difference between Ways and Means Committee staff and the Executive Mid-Year is small, there are more significant differences among the specific taxes. Committee staff estimates for personal income tax receipts and business tax receipts are higher by $99 million and $138 million respectively, whereas user taxes and fees are $182 million lower than the Executive. Other taxes are only $7 million below the Executive estimates.

- General Fund receipts in SFY 2011-12 are estimated to be $56.920 billion, representing growth of $2.473 billion or 4.5 percent. This estimate is $55 million above the Executive Mid-Year estimate.

- The NYS Assembly Ways and Means Committee staff forecast tax revenues to total $65.023 billion in SFY 2012-13, an increase of 0.7 percent or $472 million over SFY 2011-12 Committee staff estimates.

- General Fund receipts in SFY 2012-13 are forecasted to total $56.464 billion, representing a decline of $456 million or 0.8 percent from the SFY 2011-12 estimate. This forecast is $170 million below the Executive's Mid-Year forecast.

- The NYS Assembly Ways and Means Committee staff's All Funds tax revenue forecast for SFY 2012-13 is $235 million below the Executive's Mid-Year Financial Plan Update.

ECONOMIC OUTLOOK

While the economy has stabilized following one of the sharpest declines since the 1930s, growth remains below the pace of other recoveries. Many of the same problems that were at the source of the recent downturn are still being addressed, and growth has been more sluggish than was originally anticipated at the end of the recession. Debt and credit problems in the housing and credit markets persist. The housing market has sagged since tax credit programs for first-time home buyers expired. The labor market remains stagnant. Consumer confidence has stayed near record low levels and overall uncertainty continues to weigh on consumers, businesses, and investors. Issues including problems such as the European sovereign debt crisis continue to afflict global growth. Given the list of economic indicators still struggling, the current economic recovery is likely to be sub-par.

The NYS Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2012 is 1.7 percent (see Table 1). This forecast is 0.6 percentage point lower than the Division of the Budget forecast, 0.4 percentage point below the Blue Chip Consensus, 0.9 percentage point below Moody's Economy.com, and 0.7 percentage point below Macro Advisors. The staff's forecast is 0.1 percentage point above IHS Global Insight.

Table 1

U.S. Real GDP Forecast Comparison
(Percent Change)

	Actual 2010	Estimate 2011	Forecast 2012	Forecast 2013
Ways and Means	3.0	1.7	1.7	2.6
Division of the Budget	3.0	1.8	2.3	3.2
Blue Chip Consensus	3.0	1.8	2.1	N/A
Moody's Economy.com	3.0	1.8	2.6	3.6
Macroeconomic Advisers	3.0	1.8	2.4	3.1
IHS Global Insight	3.0	1.8	1.6	2.5

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of the Budget, Mid-Year Financial Plan Update FY 2012 through FY 2015, November 2011; Blue Chip Economic Indicators, November 2011; Moody's Economy.com, October 2011; Macroeconomic Advisers LLC, October 2011; IHS Global Insight, November 2011.

The Assembly Ways and Means Committee staff's forecast for overall national economic growth in 2013 is 2.6 percent. This forecast is lower than the Division of the Budget by 0.6 percentage point, Moody's Economy.com by 1.0 percentage point, and Macroeconomic Advisers by 0.5 percentage point. The staff's forecast is 0.1 percentage point above IHS Global Insight.

The economy in New York State was dramatically affected by the recent recession and, while recovering, is still feeling the effects of the downturn, especially in the financial sector. During the recent recession, New York did not falter as badly as some other states for reasons including a milder downturn in the State's housing market. New York State is expected to continue to recover from the recession, although possibly at a slower growth rate than some other states. New York's recovery will benefit from an overall broad economic recovery nationwide and globally.

The NYS Assembly Ways and Means Committee staff's forecast for total nonfarm payroll employment growth in the State in 2012 is 0.6 percent (see Table 2). This forecast is 0.2 percentage point below the Division of the Budget. The staff's forecast for State wages in 2012 is 3.9 percent. This forecast is 0.8 percentage point above the Division of the Budget.

Table 2

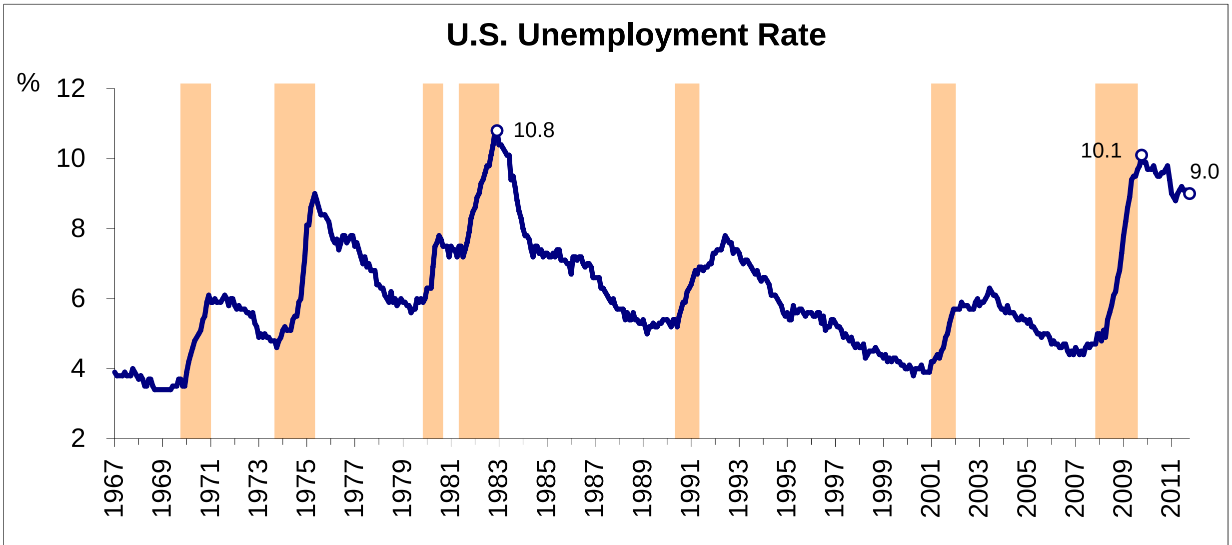
New York State Forecast Comparison
(Percent Change)

	Actual 2010	Estimate 2011	Forecast 2012	Forecast 2013
Employment				
Ways and Means	0.1	0.9	0.6	1.2
Division of the Budget	0.1	0.9	0.8	N/A
Wages				
Ways and Means	4.4	4.4	3.9	2.9
Division of the Budget	4.4	4.3	3.1	N/A

Sources: NYS Assembly Ways and Means Committee staff; NYS Division of the Budget, Mid-Year Financial Plan Update FY 2012 through FY 2015, November 2011.

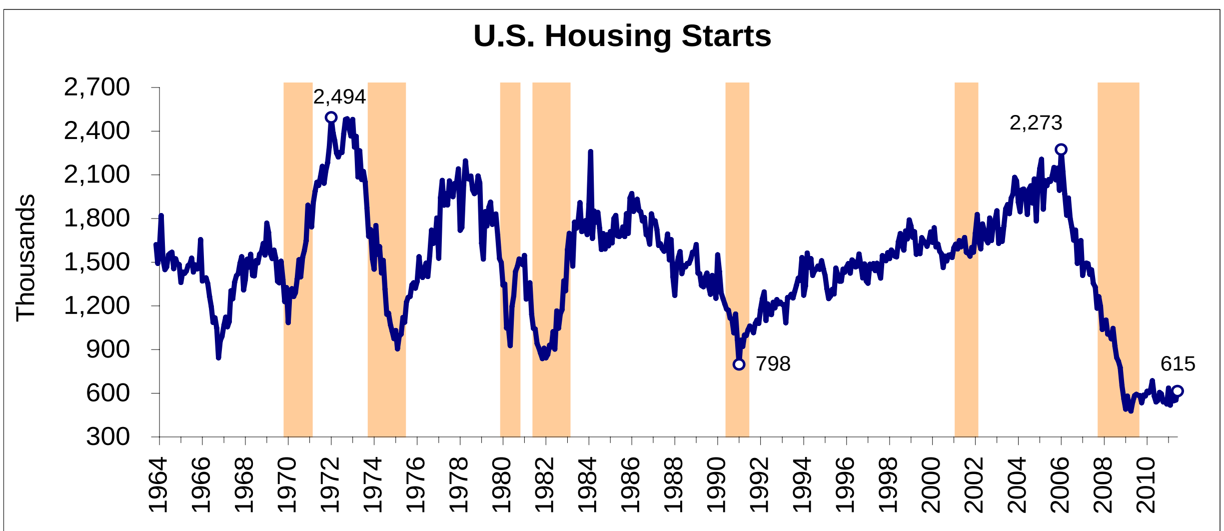
United States Forecast

The recovery that began in June 2009 has recently shown signs of significant weakness. With the help of aggressive policy actions by the federal government and monetary authorities, the U.S. economy grew 3.0 percent in 2010 after declining 3.5 percent during 2009. However, as the private sector struggled to gain firm traction out of those stimulus programs, U.S. Gross Domestic Product (GDP) growth, adjusted for inflation, slowed to a mere 0.7 percent on an annualized basis in the first two quarters of 2011. The unemployment rate still remains elevated with 13.9 million workers unemployed (see Figure 1). The pace of payroll job creation is painfully slow with 6.6 million jobs still remaining to be recouped to reach the pre-recession peak level. The housing market has sagged since tax credit programs for homebuyers expired. The overall trend in home sales has been flat since April 2010. Based on the S&P/Case-Shiller U.S. National Home Price Index, home prices have gained little after declining by more than 30 percent from the peak level of April 2006. Also, gains in housing starts have been anemic (see Figure 2).



Note: Data is monthly through October 2011. The shaded areas represent recessions.
Source: U.S. Bureau of Labor Statistics.

Figure 1



Note: Data is monthly through September 2011. The shaded areas represent recessions.
Source: U.S. Census Bureau.

Figure 2

Although the current forecast calls for the U.S. economy to continue to recover from the "Great Recession," the pace of recovery is likely to be below the trend growth rate. Some recent indicators point to an increased chance of another recession: the depressed stock market; falling consumer sentiments; and a sharp decline in ISM indices to levels that are dangerously close to the contraction benchmark. Excesses still remain in the housing market and home prices are likely to fall further. Housing demand remains weak despite record low mortgage rates. Also, the outlook for resolution of the European debt crisis is still unclear. Faced with slow income growth, a lean employment outlook, and depressed household wealth, weary consumers are cautious of spending. Unsure how the future course of the economy will play out, businesses are reluctant to hire.

Policy options are somewhat limited. The Fed's quantitative easing appears to have failed to stimulate private demand and its "promise" to keep the short-term rate close to zero percent for another two years could make consumers and businesses postpone, rather than accelerate, spending. The Fed's more recent initiative, "Operation Twist," which involves selling $400 billion of short-term Treasury securities and purchasing the same dollar amount of long-term Treasury securities in an effort to bring down long-term interest rates further, is not likely to have more than marginal effects on private spending. The borrowing costs are just one of many factors that enter private spending decisions, whether investment or consumption. In terms of fiscal policy, deliberations continue at the national level over how best to meet short-term needs while achieving long-term goals.

Against this backdrop, U.S. GDP growth, adjusted for inflation, is forecast to remain below 2 percent in 2012 after slowing to an estimated 1.7 percent in 2011. This is well below the post-World War II average performance during the early phase of recovery: on average the U.S. economy grew 4.7 percent per year during the first two years after nine post-World War II recessions. With excesses in the housing market expected to be worked off and consumer demand expected to strengthen, national economic growth is forecast to recover to a near trend growth rate of 2.6 percent in 2013 (see Table 3).

Table 3

U.S. Economic Outlook (Percent Change)	Actual 2009	Actual 2010	Estimate 2011	Forecast 2012	Forecast 2013
Real GDP	(3.5)	3.0	1.7	1.7	2.6
Consumption	(1.9)	2.0	2.1	1.9	2.2
Investment	(25.0)	17.9	4.7	5.3	7.8
Exports	(9.4)	11.3	7.0	4.6	7.9
Imports	(13.6)	12.5	5.0	3.2	4.9
Government	1.7	0.7	(2.3)	(2.5)	(2.1)
Federal	6.0	4.5	(1.9)	(2.6)	(3.8)
State and Local	(0.9)	(1.8)	(2.5)	(2.4)	(0.9)
Personal Income	(4.3)	3.7	5.2	3.4	3.3
Wages & Salaries	(4.3)	2.2	4.2	3.5	4.3
Corporate Profits	9.1	32.2	9.2	3.6	4.3
Productivity	2.3	4.1	0.8	1.7	1.8
Employment	(4.4)	(0.7)	1.0	0.9	1.4
Unemployment Rate*	9.3	9.6	9.1	9.2	8.9
CPI-Urban	(0.3)	1.6	3.1	1.8	2.0
S&P 500 Stock Price	(22.5)	20.3	9.8	(2.0)	7.6
Treasury Bill Rate (3-month)*	0.2	0.1	0.1	0.1	0.1
Treasury Note Rate (10-year)*	3.3	3.2	2.8	2.4	3.0

* Annual average rate.

Note: Personal income and corporate profits are nominal.

Sources: U.S. Bureau of Economic Analysis; U.S. Bureau of Labor Statistics; Federal Reserve; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

After shedding 8.8 million jobs from the payroll during the "Great Recession," U.S. firms have been cautious of restoring most of those jobs. Faced not only with uncertain demand for their products, but also the intensifying global forces of competition, U.S. firms have been looking for ways to economize on costs. The fact that business spending on equipment and software has increased strongly since the end of the recent recession may reflect their efforts to substitute capital input for labor input in production processes. Given this cost-saving trend, the pace of recovery in U.S. payroll employment is likely to remain relatively slow. On net, just 1.4 million jobs are estimated to be created from the fourth quarter of 2011 to the fourth quarter of 2012 and another 2.8 million jobs during 2013. Even with an average monthly net gain of 189,000 jobs expected during 2013, the U.S. economy will still have 2.7 million fewer jobs at the end of 2013 compared to the peak level in January 2008.

Although there is some evidence of elevated energy and commodity prices being passed through to retailers and consumers, recent trends in productivity and unit labor costs indicate that inflationary pressures from the labor market are minimal. Also, the rising dollar value in the midst of global uncertainties will help neutralize some of the worries related to the potential inflationary effects of the monetization of the U.S. national debt. These inflation-stabilizing forces will largely remain in place in the next two years, helping to keep inflationary pressures in check. The Consumer Price Index is forecast to advance 1.8 percent in 2012 and another 2.0 percent in 2013.

The current forecast assumes that the "Bush tax cuts" will expire on January 1, 2013. As incentives exist to take advantage of tax differences arising from the tax law changes, some economic activity is expected to shift from 2013 to 2012. Given the uncertainty surrounding the timing and final details of the proposed American Jobs Creation program, it has not been factored into the current forecast, although the unemployment benefits and payroll tax cuts that are in place are assumed to be extended for another year.

Outlook for Components of GDP

Consumption

- Personal consumption spending, adjusted for inflation, is estimated to increase by 2.1 percent in 2011, after rising 2.0 percent in 2010. The weak growth is due to rising prices eroding consumer purchasing power, high unemployment, and falling home and equity prices. In 2012, growth in consumer spending is forecast to persist below pre-crisis growth rates, increasing by only 1.9 percent as spending on durable and non-durable goods soften. Consumers will continue to be plagued by a weak labor market, lackluster wage growth, and depressed household wealth due to falling equity prices and a depressed housing market. In 2013, higher personal disposable income from households rebuilding wealth, the expectation of higher wages and salaries, and an improving labor market should allay consumers' fears, helping the outlook of personal consumer spending. As a result, consumer spending is forecast to grow 2.2 percent in 2013, still below pre-crisis growth rates.

Investment

- Business spending helped to support the economy coming out of the recent recession but has recently slowed. Total business spending grew 17.9 percent in 2010, before slowing to an estimated 4.7 percent in 2011. Gains in 2010 came from the rebuilding of inventories after several years of rundowns and from a rebound in spending on equipment and software. Spending on both nonresidential and residential construction activities weighed on business spending in 2010. As the rebuilding cycle has ended, the contribution of changes in inventories to overall economic growth is expected to be relatively small in 2011 and throughout the forecast period. Spending on equipment and software is forecast to remain strong, but will grow at a slower pace than seen in 2010 and 2011.

- Private spending in both nonresidential and residential construction has been weak. Growth in these two sectors has been deterred by an overhang of underwater real estate and tight credit standards, which are expected to weigh on the sectors through much of 2012. Spending on nonresidential construction is estimated to grow slightly in 2011 as significant advancements in spending on mining exploration, shafts, and wells overshadows continued weakness throughout most of the commercial real estate market. As spending growth in mining exploration, shafts, and wells is expected to weaken in 2012, growth in overall nonresidential structure spending is forecast to be slower than in 2011. Residential spending is estimated to decline 2.2 percent in 2011 and is forecast to grow slightly in 2012. Construction activity is anticipated to improve in 2013 as the economy progresses and demand for both business space and new-homes improves.

- As spending on both nonresidential and residential construction strengthens and spending on equipment and software remains healthy, total business spending growth is expected to accelerate to 7.8 percent in 2013 after growing 5.3 percent in 2012.

Government Spending

- In 2011, federal government spending, adjusted for inflation, is estimated to fall 1.9 percent as defense and nondefense expenditures are restrained. In particular, the federal government has reduced the size of its workforce, resulting in lower expenditures on compensation. From March 2011 to October 2011, total federal government employment had been decreased by 42,000 employees. Federal non-compensatory spending has also been reined in as pressure to cut spending escalates. Outlays on public investment have been drastically curtailed as funds from the American Recovery and Reinvestment Act of 2009 (ARRA) are depleted.

- Further pressures to reduce spending can be expected as negotiations proceed for the impending federal budgets for federal fiscal years 2012 and 2013. Hence, federal government spending is forecast to fall by 2.6 percent in 2012 and an additional 3.8 percent in 2013.

- More than two years after the recent recession ended, many state and local governments are still struggling to cope. The recent recession was deeper and longer than the 2001 recession. Given a much slower economic recovery, the outlook for state and local government spending is dismal over the forecast period. In 2011, state and local government spending is estimated to fall 2.5 percent, and then forecast to decline another 2.4 percent in 2012 as states and localities make even deeper spending cuts. The pain is exacerbated as funds from the ARRA are non-recurring. Furthermore, problems linger from the recent recession: revenues have been improving but still remain below pre-recession levels; high unemployment adversely affects personal income tax collections, and also lowers sales tax collections since less income is available to make purchases; and low home prices reduce property tax collections. Some of these same forces have contributed to higher demands for unemployment insurance benefits, public assistance benefits, Medicaid, housing assistance, and other social services, putting more pressure on governments' coffers.

Exports and Imports

- The weak U.S. dollar and global economic recovery led to an increase in U.S. trade in 2010. Exports increased 11.3 percent in 2010, while imports rose 12.5 percent—strong growth coming after a decline in 2009. The global economy is estimated to grow modestly in 2011. As a result, U.S. imports are estimated to increase by 5.0 percent in 2011, while exports are estimated to increase by 7.0 percent. The world economy is expected to grow at a moderate rate in 2012 and 2013, while the U.S. dollar is expected to remain weak. This dynamic will likely help U.S. trade. As world GDP is anticipated to grow faster than the U.S. throughout the forecast period, exports are expected to grow faster than imports in 2012 and 2013. Exports are forecast to grow by 4.6 percent in 2012, before growing further by 7.9 percent in 2013. Imports are expected to increase by 3.2 percent in 2012 and 4.9 percent in 2013.

Prices

For the first time since 1955, the Consumer Price Index declined on an annual average basis in 2009. The Index fell 0.3 percent; mainly as a result of declining energy prices. However, as energy prices rebounded, overall prices have been increasing since 2009. In 2010, prices increased by 1.6 percent, and in 2011 prices are estimated to increase 3.1 percent as productivity growth has slowed from 2010. In addition, higher import prices, as a result of the weak dollar, have put upward pressure on prices. In 2012 and 2013, prices are expected to grow at a slower rate than in 2011 as energy pricing pressures ease and slow economic growth keeps pricing pressures in check.

Although there is some evidence of elevated energy and commodity prices being passed through to retailers and consumers, the recent trend in productivity and unit labor costs indicates that inflationary pressures from the labor market are minimal. Also, the rising dollar value in the midst of global uncertainties will help to neutralize some of the worries related to the potential inflationary effects of the monetization of the U.S. national debt. These inflation-stabilizing forces will largely remain in place in the next two years, helping to keep inflationary pressures in check.

Employment

Despite the potential for stronger growth, employment has continued to struggle. Although the large losses of the recent recession have abated, employment gains have been weak. Only 2.3 million of the 8.8 million jobs lost during the recent recession have been regained. Forty-five months after the last employment peak in January 2008, employment has not returned to its peak level, and is currently 6.5 million below the peak (see Figure 3).

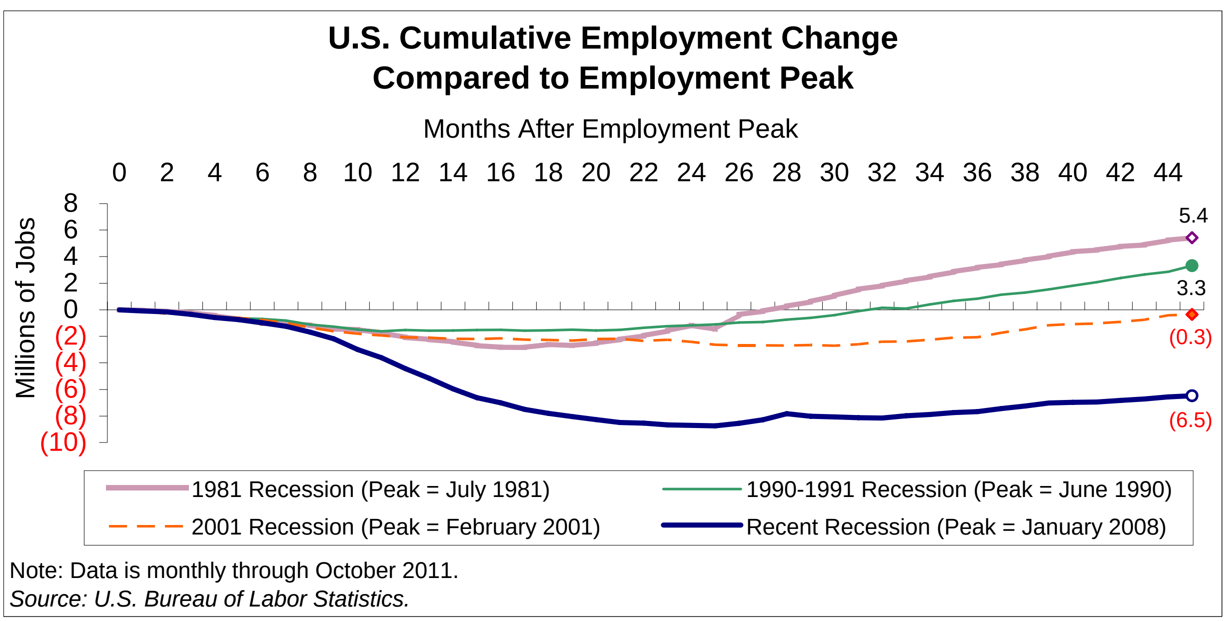


Figure 3

In most previous recessions, employment returned to its prior peak much sooner. Comparatively, although employment after the 2001 recession had not yet returned to its previous peak after 45 months, employment had started to grow and reached its previous peak level in 48 months. Employment is not forecast to reach its previous peak during the forecast period as the millions of jobs to be made up require that firms start to hire new employees on a more consistent basis.

The October 2011 unemployment rate of 9.0 percent translates into 13.9 million people unemployed. Since the recent recession, large numbers of these people have been unemployed for long durations. Currently, 42.4 percent of the unemployed have been out of work for 27 weeks or more and the average duration of unemployment is 39.4 weeks. Before the recent recession, the highest this figure had ever been since 1948 was 20.4 weeks, a level reached after the 1981 recession.[1]

Total national payroll employment declined sharply by 4.4 percent in 2009, and then dropped another 0.7 percent in 2010. Employment is estimated to grow a mere 1.0 percent in 2011. In 2012, payroll employment is expected to grow only 0.9 percent, reflecting the expected slow pace of the economic recovery and the hesitancy businesses are displaying in hiring. The possibility remains that a portion of the jobs lost during the recent recession may be permanently lost due to structural changes in the economy.

Businesses remain hesitant to hire new employees given the weak economic climate. In addition, businesses have undergone changes as a result of the recent recession. Faced with ever more unfavorable market conditions in the depths of the recession, firms increasingly shied away from hiring new employees and instead concentrated on increasing productivity, often substituting capital for labor as evidenced by strong investment spending on software and equipment. Businesses have also been affected over the years by structural changes in the economy and increasing global competition that led producers to find ways to cut labor costs, sometimes by outsourcing jobs overseas. Also, some evidence exists that there is a mismatch between the skills possessed by the pool of unemployed workers and the skills required for the available jobs for some firms that are hiring.[2]

In terms of employment growth by sector, it is unclear which sectors may help lead the employment recovery. While most sectors are not expected to continue to lose jobs in

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[1] U.S. Bureau of Labor Statistics, *Current Population Survey*.

[2] Justin Lahart and Ben Casselman, "Seeking to Match Skills and Jobs," *Wall Street Journal*, October 3, 2011, A2.

2012, none will experience strong growth. Total government employment is expected to fall for the third year in a row as all levels of government continue to trim budgets. Finance and insurance employment is forecast to decline again in 2012 as financial firms continue to struggle to recover from the financial crisis. A seemingly broad recovery in the sector appears to have stalled as reports have surfaced that many companies have planned to cut back on staff in response to mixed quarterly results in revenues and profits. Construction employment is forecast to grow 1.3 percent in 2012, as the industry stabilizes after enduring catastrophic losses during and after the recent recession. Unfortunately, although the construction industry led the job losses during and after the recession, the sector is not expected to lead the recovery in the labor market. Services employment is expected to lend some help to the fragile recovery in the labor market, as education and health continue to grow and professional and temporary service jobs slowly return as businesses start to gain footing.

Stock Market

The stock market has been quite volatile during 2011 as it has been hit with several events that raised uncertainty. Unrest in the Middle East and North Africa and a natural disaster in Japan that occurred in the second quarter of 2011 created fears that the global economic recovery could stall. The lingering European sovereign debt crisis, weak economic indicators, and the U.S. debt problem have also raised market risks in the second half of 2011. As a result, the stock market has become more erratic and more sensitive to news.

On an annual average basis, the Standard & Poor's 500 Composite Stock Price Index (S&P 500) is estimated to be 1,251.4 points in 2011, an increase of 9.8 percent from 2010. Despite record high corporate profits, the stock market outlook remains gloomy, as it has become more evident that the European debt crisis is deeper and more complex and will be more difficult to resolve. Europe's debt crisis could also have a far-reaching impact on the global financial system through banks' exposure to those countries' debt. Moreover, as the U.S. economic recovery has become weaker than initially anticipated and the federal debt reduction program has yet to be finalized, investors will likely continue to be cautious. These factors will likely hinder the recovery in the stock market; as a result, the stock market is expected to improve slowly throughout the forecast period.

The S&P 500 is expected to recover in 2012, growing by 9.1 percent from the fourth quarter of 2011 to the fourth quarter of 2012. The annual average level of the S&P 500 in 2012, however, is forecast to be lower than that of 2011, as the Index declined sharply during the second half of 2011 and the pace of recovery in 2012 is expected to be slow. The S&P 500 is forecast to decline slightly to 1,226.4 points or by 2.0 percent in 2012, on an annual average basis. The S&P 500 is forecast to grow by 7.6 percent to an annual average of 1,319.9 points in 2013 as the economy as well as debt situations in both European countries and the U.S. are expected to improve.

New York State Forecast

The NYS Assembly Ways and Means Committee staff estimates that in 2011 nonfarm payroll employment in New York State will increase 0.9 percent, wages will increase an estimated 4.4 percent, and personal income growth is estimated at 4.9 percent. In 2012, employment will continue to recover, growing at an annual average rate of 0.6 percent. Personal income is forecast to gain 3.3 percent (see Table 4). Variable compensation is expected to grow throughout the forecast period on a fiscal year basis, but will be impacted in calendar year 2012 by tax law changes.

Table 4

New York State Economic Outlook (Percent Change)					
	Actual 2009	Actual 2010	Estimate 2011	Forecast 2012	Forecast 2013
Employment	(3.1)	0.1	0.9	0.6	1.2
Personal Income	(5.1)	4.2	4.9	3.3	2.6
Total Wages [calendar year basis]	(7.2)	4.4	4.4	3.9	2.9
Base Wages	(3.1)	1.8	3.7	3.3	4.1
Variable Compensation	(32.7)	27.4	9.4	7.5	(4.9)
Total Wages [fiscal year basis]	(1.5)	5.4	2.4	4.0	5.0
Base Wages	(2.3)	3.0	3.1	3.5	4.2
Variable Compensation	5.0	25.6	(2.5)	7.6	11.0
New York Area CPI	0.4	1.7	2.8	1.7	2.0

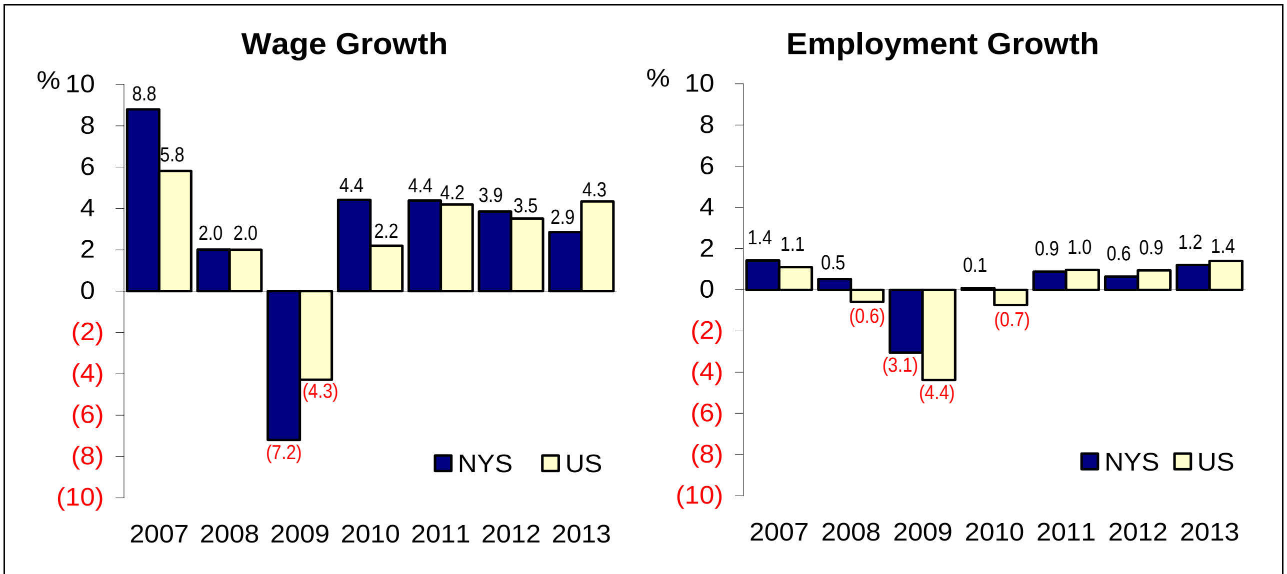
Note: Base wages and variable compensation are estimated by the NYS Assembly Ways and Means Committee staff and sum to total wages. New York area CPI is based on the New York-Northern NJ-Long Island, NY-NJ-CT-PA CPI-U series from the U.S. Bureau of Labor Statistics. For fiscal year variables, 2009 represents SFY 2009-10.

Sources: U.S. Bureau of Economic Analysis; NYS Department of Labor, QCEW; U.S. Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Both employment and wages are expected to recover throughout the forecast period. However, while employment will grow, a return to the level reached during the years leading up to the recent recession may be difficult, especially given the slow pace of hiring in the labor market.

State nonfarm employment growth outperformed the nation four years in a row from 2007 to 2010 (see Figure 4). However, as the nation has lost a substantially higher percentage of jobs than the State, the speed of the nation's employment recovery is expected to accelerate, since employment in the sectors that were hardest hit during the recession may be poised to post stronger gains.

Wages are expected to recover during the forecast period, although they will grow at rates lower than pre-recession rates. The wage outlook for the State remains highly susceptible to the performance of the financial sector.



Sources: NYS Assembly Ways and Means Committee staff; NYS Department of Labor.

Figure 4

In 2010, wages in New York State started to recover, with base wages growing 1.8 percent and variable wages rebounding 27.4 percent.[3] However, this growth was off

[3] Data based on NYS Assembly Ways and Means Committee staff estimates. Variable compensation consists primarily of cash bonuses and exercised stock options. There is no known series of data for state or national variable compensation. The Committee staff estimates variable compensation based on seasonal variations in wage patterns. These seasonal patterns are analyzed at the NAICS three-digit level. The growth in this variation over time is also accounted for in the estimate. Since this estimate is based on seasonal variation, it may underestimate bonuses and commissions that come at frequent intervals throughout the year. It also may underestimate stock options to the extent that they are exercised throughout the year. On the other hand, in some cases non-variable pay may be included in variable compensation if there are regular seasonal patterns

the low 2009 base. In 2011, wages are estimated to have continued to recover, although growth has not reached the levels seen before the recent recession. In 2012, wages will continue to grow. Base wages will grow slowly, as firms continue to be cautious about hiring staff. The stronger growth in variable wages in 2012 and the decline in 2013 is partially attributable to a shift from 2013 to 2012 as a result of the expiration of certain tax cuts. The wage growth in 2012 would be slower were it not for the shift.

Wall Street activities rebounded steadily following the recession. Mergers and acquisitions (M&A) activity began to improve in 2010. Easing credit conditions, low interest rates, high cash on corporate balance sheets, and an improving economy helped support M&A activity to gain strength in the first half of 2011. However, as the global risk rose due to the European and U.S. debt situations, U.S. M&A volume dropped sharply in the third quarter of 2011. Initial public offering (IPO) activities, another area that can be very lucrative for securities industry firms, were also curtailed during the recent recession, but recovered strongly through the first half of 2011. As was the case with M&A, rising global risk has caused IPO activities to slow in the third quarter of 2011. The performance of revenue generating activities such as IPO and M&A during the fourth quarter will be crucial to the overall Wall Street outlook; hence the expectations for bonuses.

Since the recent financial crisis, bonus season payments are proving particularly tricky to forecast. Although some facets of the financial sector appear to be doing well, overall year-to-date annual revenue and profit results are mixed—especially for the third quarter of 2011. Some investment firms reported an increased amount of compensation set aside for the first three quarters of 2011 compared to the first three quarters of 2010, while other firms reported lower totals. However, the year end totals will depend on performance during the fourth quarter, the results of which will not be available for some time. Should activity not pick up from the third quarter, it could have further detrimental effects on the year end compensation totals. In addition, as financial firms faced harsh public criticism for paying bonuses, they implemented changes to their compensation structures, with some banks raising base pay and diminishing bonus payments. Others changed the division of bonuses between stock options and cash, awarding more stock and less cash. However, the exact breakout between stock and cash is not available. Some of these stock options have possibly been exercised, which may help increase overall wages, although timing and gains realized on the options are not clear. In addition, new regulatory actions pertaining to

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(e.g., if overtime regularly occurs in a certain quarter). Therefore, variable compensation contains high uncertainty—even in terms of the data history.

revenue generation and salaries and bonuses in the industry create uncertainties for the bonus outlook.

Risks to the Economic Outlook

Serious risks to the economic outlook of the nation and New York State remain. Within the U.S., problems that were central to the recent recession continue, particularly weaknesses in both the labor market and the housing market. Furthermore, high volatility in the stock market and government regulations have created considerable uncertainty in the financial markets. Limited access to credit continues to pose a significant risk going forward. If these areas fail to improve, the impact on the outlook would be substantial. Weakness in the economic recovery has persisted as fiscal policies implemented to spur growth failed to generate firm traction. As a result, the outlook presented in this report could prove to be optimistic.

The health of the global economy is also a concern. If the global economy should slow, the ability of the United States economy to grow would be negatively impacted. Many global issues add uncertainty to the outlook, including the war in Afghanistan, unrest in the Middle East, volatility in oil prices, and other geo-political issues. The European sovereign debt crisis and the overall health of the eurozone remain a significant risk to the global recovery, as the extent of the problem and its impact on the rest of the world still remains unclear. Any further action by major emerging economies to slow their growth in order to control inflation could also be detrimental to the global recovery.

In other words, the U.S. economy is in a precarious state. Any major negative shock or further restraint to components of overall growth including those relating to domestic policies and the foreign sector could lead to slower growth or would increase the possibility of another recession.

The current global and national economic climate presents particular challenges and risks to the New York State forecast. The European sovereign debt crisis and the associated European banking sector turmoil, continues to roil financial markets, having direct negative impacts on Wall Street. Furthermore, the extent to which the Wall Street landscape has permanently changed continues to unfold, hence there is great ambiguity surrounding the State outlook. Wall Street and the financial markets play a central role in the State economy, and drastic cuts to or changes in the composition of Wall Street compensation (including bonuses) have critical implications for the economic health of the

State. In addition, the extent to which the Dodd-Frank Wall Street Reform and the Consumer Protection Act fosters continued hesitation or inaction on the part of financial firms could infuse more uncertainty into the forecast.

REVENUE UPDATE

State Fiscal Year 2011-12 Tax Revenue Estimates

New York State tax revenues for the first six months of the fiscal year continue to show growth with an increase of 12.6 percent. Although the overall economic recovery, especially job growth, has been slower than projected, tax revenues have shown strong growth year-to-date.

The NYS Assembly Ways and Means Committee staff's All Funds tax revenue estimate for State Fiscal Year (SFY) 2011-12 is $64.6 billion, representing an increase of 6.0 percent or $3.681 billion over the prior year. Including miscellaneous receipts and federal grants, the total is $130.882 billion, a decrease of $2.439 billion or 1.8 percent.

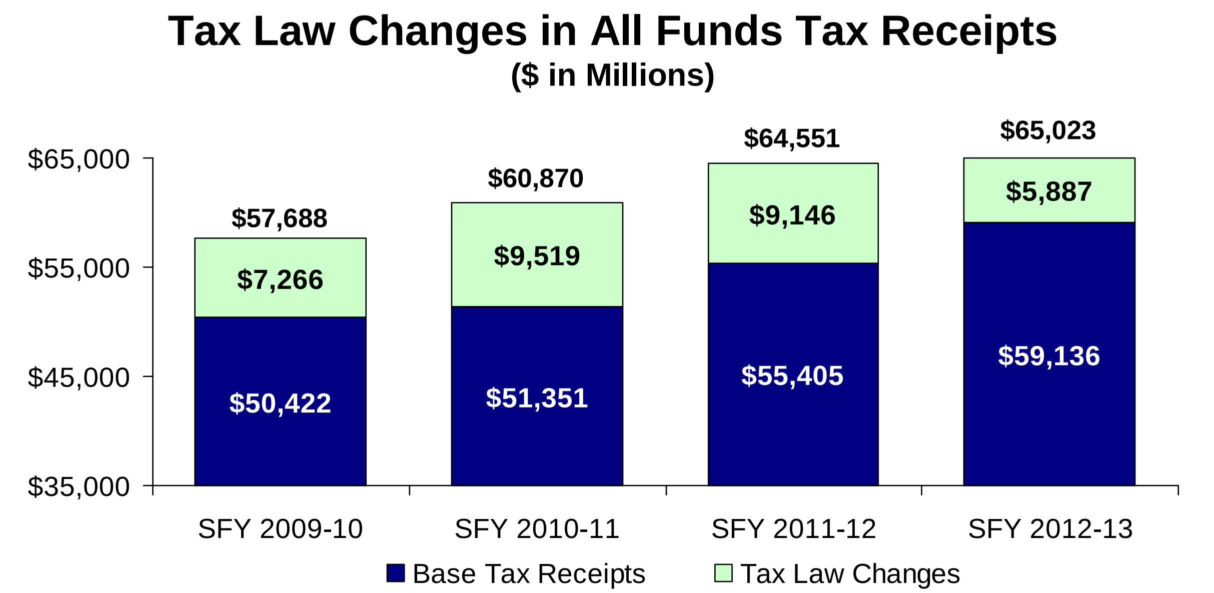
The majority of the increase in tax receipts is in the personal income tax (PIT), which is estimated to increase by $2.773 billion or 7.7 percent. Also contributing to the year-over-year increase, business taxes are estimated to increase by 10.4 percent or $754 million. User taxes are expected to increase by $215 million or 1.5 percent. Other taxes are estimated to decrease by $61 million, reflecting large collections last year, not weakness this year.

Table 5

W&M All Funds Taxes, Miscellaneous Receipts, and Federal Grants
SFY 2011-12
($ Millions)

Tax Category	2011-12	Year Over Year Change	Percent Growth	Diff. from Exec. Mid-Year
PIT	$38,983	$2,773	7.7%	$99
User	$14,421	$215	1.5%	($182)
Business	$8,033	$754	10.4%	$138
Other	$3,114	($61)	(1.9%)	($7)
Total Taxes	**$64,551**	**$3,681**	**6.0%**	**$48**
AF Misc Receipts	$23,300	$152	0.7%	-
Federal Grants	$43,031	($6,272)	(12.7%)	-
Total w/ MR and Federal	**$130,882**	**($2,439)**	**(1.8%)**	**$48**

The Assembly Ways and Means Committee staff's All Funds tax revenue estimate is $48 million above the Executive's Mid-Year Financial Plan Update and $425 million below the Enacted State Budget estimate. In terms of overall State tax revenues, the largest difference between the Committee staff estimates and the Division of Budget estimates is in user taxes, which are estimated to be $182 million below Executive estimates. However, this difference is offset by business tax and personal income tax estimates which exceed the Executive's estimates by $138 million and $99 million respectively (see Table 5).



Sources: Office of the State Comptroller; Division of the Budget; NYS Assembly Ways and Means Committee staff estimates.

Figure 5

It is important to note in terms of out-year budget gaps the significant impact of tax law changes enacted since the beginning of the economic crisis when evaluating the current financial plan. Absent these tax law changes, SFY 2011-12 tax revenues would have been more than $9 billion lower (see Table 6). The most significant of these actions were the PIT surcharge ($3.7 billion), MTA payroll tax ($1.4 billion), tobacco and cigarette tax increases ($1.0 billion), business tax credit deferral ($860 million), and the temporary suspension of the clothing exemption ($210 million).

Table 6

Revenue Actions ($ Millions)				
Revenue Action	**SFY 2009-10**	**SFY 2010-11**	**SFY 2011-12**	**SFY 2012-13**
PIT Surcharge	$3,541	$4,599	$3,735	$673
PIT Itemized Deduction Limitations	$140	$300	$285	$310
PIT Other	$209	$317	$449	$634
Temporary Suspension of Clothing Exemption	$0	$330	$210	$0
Tobacco Tax Increases	$400	$924	$1,023	$1,002
Other User Taxes	$224	$335	$365	$412
Business Tax Credit Deferral	0	$100	$860	$934
Other Business Taxes	$1,524	$1,255	$785	$429
MTA Payroll Tax	$1,228	$1,359	$1,435	$1,492
Total	**$7,266**	**$9,519**	**$9,146**	**$5,887**

Tax Analysis

The Ways and Means Committee staff's tax revenue estimates for SFY 2011-12 are based on year-to-date collections and historical collections patterns. Through the first half of the fiscal year, All Funds tax revenues are up 12.6 percent (see Figure 6). This increase is largely attributable to a $2.9 billion or 17.2 percent increase in PIT—the majority of which was from the settlement on 2010 liability ($1.7 billion increase), which included a decline in prior year refunds of $400 million. The decrease in refunds reflects a one-time administrative shift of $500 million in refunds from SFY 2009-10 into SFY 2010-11 slightly offset by $100 million less in other prior year refunds.

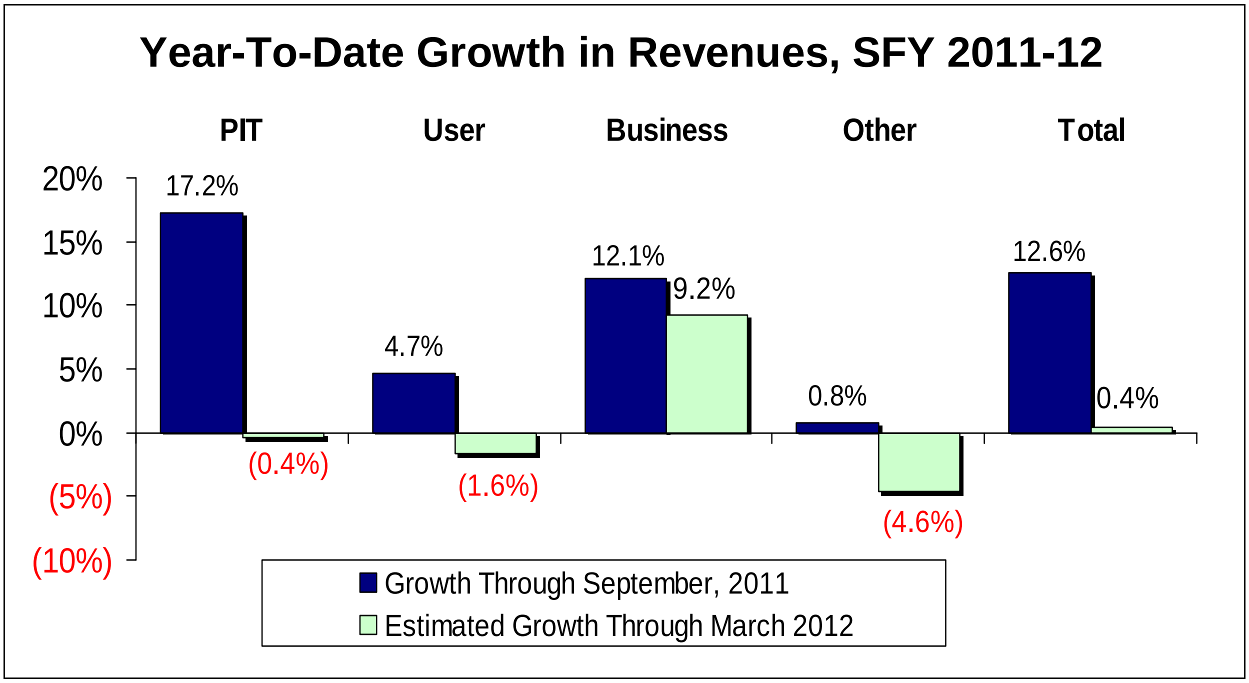


Figure 6

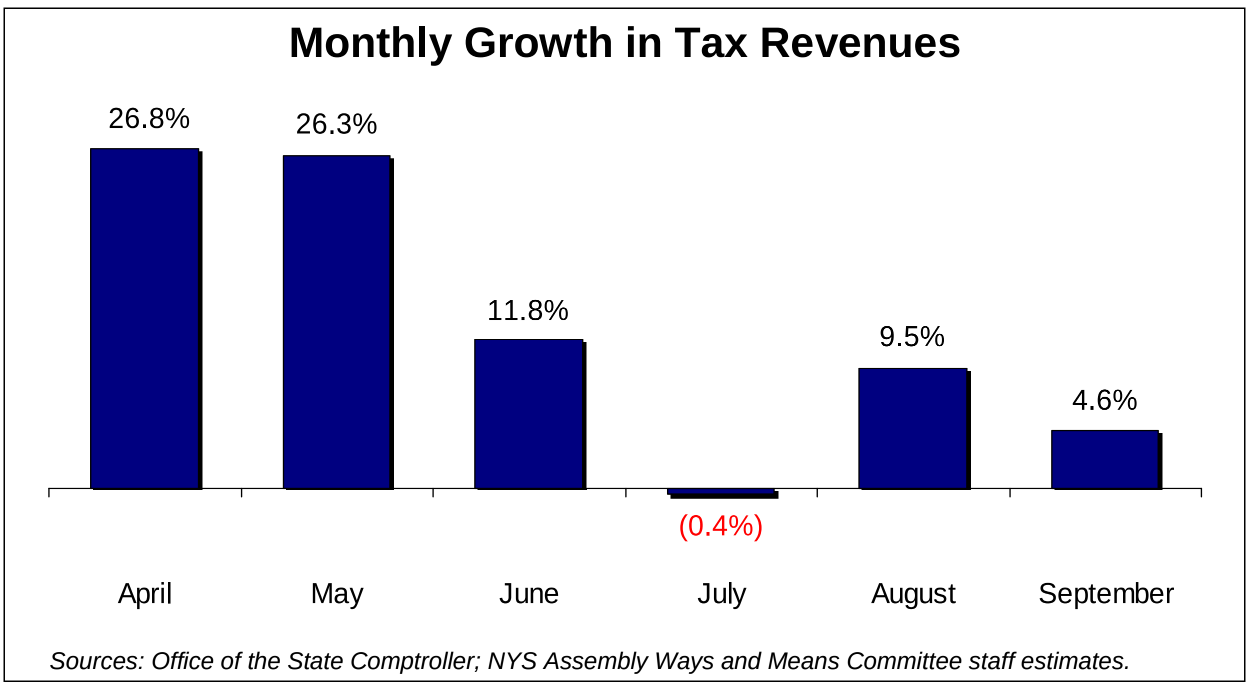


Figure 7

Also contributing to the year-to-date increase is a $361 million or 12.1 percent increase in business taxes. However, approximately half of this growth may be attributable to the tax credit deferral enacted in SFY 2010-11. User taxes increased by $328 million or 4.7 percent through the first six months of the current fiscal year. Other taxes increased by $13 million and are essentially flat. As can be seen from Figure 6, growth in collections is expected to slow as the year progresses. Tax collections are expected to increase by just 0.4 percent over the last half of the fiscal year.

Personal Income Taxes

The NYS Assembly Ways and Means Committee staff estimates that PIT receipts will total $38.983 billion in SFY 2011-12, representing growth of 7.7 percent or $2.773 billion over last year. Gross receipts are expected to increase by 5.5 percent or $2.417 billion over SFY 2010-11, driven by significant growth in estimated payments, specifically a 50.6 percent increase in extension payments combined with a 4.3 percent increase in final payments. The Committee staff estimates that delinquencies will increase by 7.1 percent or $75 million. Withholding is estimated to decrease by approximately $302 million or 1.0 percent—reflecting the loss of the high income surcharge in the last quarter of the fiscal year. If the surcharge were to be extended, withholding would be expected to increase by 1.2 percent.

Further enhancing net receipts, total refunds are anticipated to decrease 4.6 percent or $356 million, resulting from a 7.7 percent or $399 million decline in prior year refunds and a $155 million or 20.1 percent decline in previous year refunds. The $399 million decrease in prior year refunds reflects the $500 million in refunds that was distributed as SFY 2010-11 prior year refunds instead of SFY 2009-10 current year refunds. When adjusting for the inflated refund amount in SFY 2010-11, and a $198 million increase in the state-city offset, the Ways and Means Committee staff estimate for refunds would be essentially flat compared to last year.

Overall, net personal income taxes have totaled $19.431 billion year-to-date, an increase of 17.2 percent, and are estimated to decline 0.4 percent in the second half of the year to reach SFY 2011-12 estimates. Collections in the second half of the SFY are expected to be dominated by estimated payments growth of 20.9 percent, stemming largely from capital gains growth of 23.5 percent in calendar year 2011.

Bonus payments are typically volatile from year to year. If bonuses are lower than current forecasted, due to continued uncertainty on Wall Street, personal income tax collections will suffer.

User Taxes

User taxes are estimated to total $14.421 billion in SFY 2011-12, an increase of 1.5 percent or $215 million. Sales tax revenue is estimated to increase by $147 million or 1.3 percent—reflecting sluggish economic recovery. The growth in user taxes is slightly offset by tax law changes, which are expected to decrease revenues by approximately $120 million as the exemption for clothing and footwear valued at less than $55 takes effect.

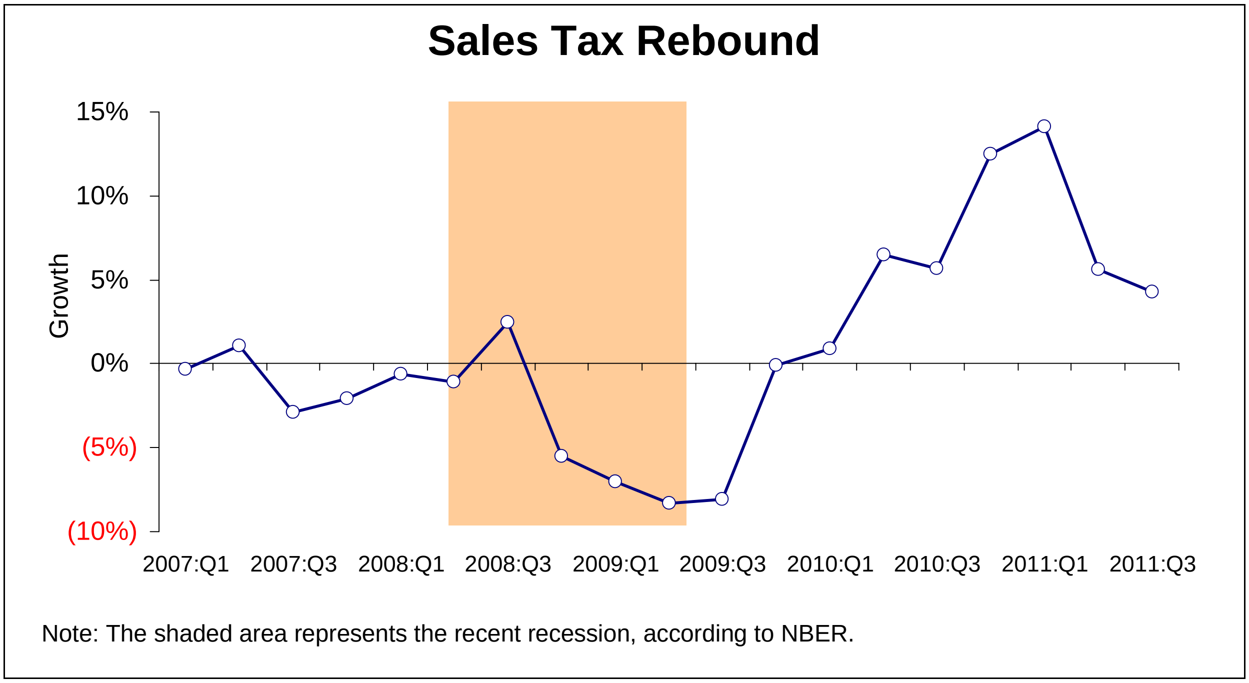


Figure 8

Through the first half of the fiscal year, sales tax revenues are up 5.0 percent, and have increased for 17 of the last 18 months—building on growth dating back to the fourth quarter of 2009 as can be seen in Figure 8. Collections over the second half of the year are expected to decline by 2.3 percent as growth rates are impacted by the temporary suspension of the clothing exemption that took effect last October. Absent this tax law change, collections would be expected to be essentially flat. Further contributing to growth in user taxes is the full year implementation of tax increases on cigarettes and tobacco products and the enforcement of laws that prohibit Native American reservations from purchasing tobacco products from distributors without paying excise taxes. Although Native American sellers have reacted by only selling Native American cigarettes, which the State has not attempted to collect taxes on, cigarette tax stamp sales indicate that more smokers are purchasing cigarettes from non-Native American sellers and are therefore paying the respective taxes.

Business Taxes

Halfway through the fiscal year, business taxes have grown 12.1 percent above the first six months of last year, and growth of 9.2 percent is expected in the second half of the fiscal year. Utility, bank, and petroleum business taxes have all been relatively flat year-to-date, while corporate franchise and insurance taxes have experienced healthier growth of 27.4 percent and 12.7 percent, respectively. Going forward, business taxes are expected to grow.

Business taxes are estimated to increase by 10.4 percent or $754 million in SFY 2011-12 over SFY 2010-11. Corporate franchise taxes are estimated to increase by $544 million or 19.1 percent, buoyed by the tax credit deferral. Relatively flat growth is forecast in the petroleum business tax, while utility, insurance and bank tax collections are expected to experience growth ranging between four percent and seven percent. The Committee staff estimate accepts the Executive's assumptions with regard to audit collections as well as the impact of recent tax law changes.

Other Taxes

Through September, real estate transfer tax (RETT) receipts are up 12.9 percent or $39 million over the same year-to-date period in SFY 2010-11—as the real estate market in New York stabilized and some areas began to experience increases in construction and prices. Thus, RETT collections are estimated to finish SFY 2011-12 with growth of 11.6 percent or $67 million over SFY 2010-11. MTA payroll tax collections are estimated to have fiscal year growth of 5.6 percent. After growing 2.8 percent in the first half of the fiscal year, payroll tax collections are estimated to increase by 8.0 percent in the second half of the year.

Other tax collections are estimated to decrease 1.9 percent or $61 million from SFY 2010-11. Estate and gift taxes are at $578 million year-to-date, down 6.8 percent from the first six months of last year. With an expected 26.9 percent decline in the next six months, estate and gift tax revenues are expected to decrease 16.7 percent or $203 million for the full fiscal year – reflecting very large collections in SFY 2010-11.

Lottery

Through the first six months of SFY 2011-12, total lottery revenues are down $369 million or 24.4 percent. However, this decline reflects the absence of the one-time payment of $380 million for the licensing of the Aqueduct Video Lottery Terminal (VLT) facility. When taking account of the one-time payment, receipts have actually shown growth of 1.0 percent. Year-end receipts are estimated to be approximately $12 million below the Executive Mid-Year Update. The Committee staff estimate reflects the absence of additional revenues from the hiring of additional lottery staff, which were expected to increase lottery revenues by $100 million this fiscal year.

General Fund Receipts Estimate 2011-12

The Ways and Means Committee staff estimates that on a General Fund basis taxes, before transfers, will be $41.913 billion, reflecting growth of 6.9 percent or $2.710 billion over SFY 2010-11 (see Table 7). This estimate is $28 million above the Executive Mid-Year estimate and $324 million below the Enacted Budget financial plan. When including transfers, miscellaneous receipts and federal grants, General Fund receipts are estimated to be $56.920 billion, representing growth of $2.473 billion or 4.5 percent. This estimate is $55 million above the Executive Mid-Year estimate or $373 million below the Enacted Budget financial plan.

Table 7

W&M General Fund Receipt Forecast
SFY 2011-12
($ Millions)

Tax Category	2011-12	Year Over Year Change	Percent Growth	Diff. from Exec. Mid-Year
PIT	$25,944	$2,051	8.6%	$74
User	$8,986	$191	2.2%	($70)
Business	$5,952	$673	12.8%	$84
Other	$1,031	($206)	(16.7%)	($60)
Total Taxes	**$41,913**	**$2,710**	**6.9%**	**$28**
Misc Receipts & Federal	$3,218	$68	2.2%	$6
Transfers	$11,789	($304)	(2.5%)	$21
General Fund Receipts	**$56,920**	**$2,473**	**4.5%**	**$55**

SFY 2012-13 Forecast

Key economic indicators point to an ongoing but slow recovery. The Assembly Ways and Means Committee staff is now predicting that GDP will continue with anemic growth of 1.7 percent in 2012, the same as 2011. In addition, job growth is expected to remain weak for the foreseeable future. As a result of continued economic sluggishness combined with the loss of the personal income tax surcharge on high-income taxpayers, the Committee staff is expecting modest growth of $472 million or 0.7 percent to $65.023 billion in tax collections for the upcoming fiscal year (see Table 8). The growth is due to a modest 2.8 percent growth in user taxes, 2.9 percent growth in business taxes, and 4.4 percent growth in other taxes, partially offset by a 0.8 percent decline in personal income taxes. Weakness in consumer spending growth and the incremental impact of the full reinstatement of the sales tax exemption on clothing is expected to put downward pressure on growth in sales taxes. The Committee staff forecast is $235 million below the Executive's Mid-Year forecast, including estimates for miscellaneous receipts and federal grants, and is $1.1 billion below the Executive's Enacted Budget Report.

Table 8

W&M All Funds Taxes, Miscellaneous Receipts, and Federal Grants
SFY 2012-13
($ Millions)

Tax Category	2012-13	Year Over Year Change	Percent Growth	Diff. from Exec. Mid-Year
PIT	$38,679	($304)	(0.8%)	$90
User	$14,828	$407	2.8%	($190)
Business	$8,265	$232	2.9%	($127)
Other	$3,251	$137	4.4%	($8)
Total Taxes	**$65,023**	**$472**	**0.7%**	**($235)**
AF Misc Receipts	$23,987	$687	2.9%	-
Federal Grants	$39,534	($3,497)	(8.1%)	-
Total w/ MR and Federal	**$128,544**	**($2,338)**	**(1.8%)**	**($235)**

Personal Income Taxes

Overall, personal income taxes, the largest component of tax collections, are forecast to total $38.679 billion, which is $304 million or 0.8 percent below the SFY 2011-12 estimate. The slow economic recovery, coupled with the expiration of the surcharge on high-income earners, is expected to take its toll on personal income tax liability in 2012. Total New York State wages are expected to slow from 4.4 percent growth in 2011 to 3.9 percent in calendar year 2012, whereas capital gains are expected to surge by 41.1 percent. However, this rapid growth reflects the expected expiration of lower federal tax rates, resulting in a shift in capital gains realizations and bonus payments from the first quarter of 2013 to the last quarter of 2012. However, a shift in bonuses will have little impact on SFY 2012-13 revenue collections, as the shift is within the same fiscal year. A 30.5 percent increase in variable compensation in the last quarter of 2012 offsets a large portion of the loss in withholding attributed to the expiration of the personal income tax surcharge on December 31, 2011.

User Taxes

All Funds user taxes are forecast to be $14.828 billion, which is 2.8 percent above the current year estimates. This forecast reflects staff projections that the economic recovery will be slow and consumer spending growth will decelerate. In addition, sales tax collections will be negatively impacted by the full reinstatement of the exemption on clothing and footwear—the exemption level will increase from $55 to $110 on April 1, 2012.

Business Taxes

Business taxes are forecast to total $8.265 billion in SFY 2012-13, which is an increase of 2.9 percent from the current year closeout on an All Funds basis. However, the only tax within business taxes to experience substantial growth is the bank tax at 19.7 percent, reflecting continued high interest rate spreads, the exhaustion of carry-forward losses and an anticipated increase in lending. Corporate franchise, utility, insurance, and petroleum business taxes are all expected to be relatively flat.

Other Taxes

Other taxes, which consist primarily of estate tax, real estate transfer taxes, and the MTA payroll tax, are forecast to increase by 4.4 percent in SFY 2012-13, to a level of $3.251 billion. The growth in other taxes reflects growth in real estate transfer taxes, as the real estate market continues its sluggish recovery combined with an expected 4.0 percent growth in the MTA payroll tax—reflecting 4.0 percent growth in forecasted total wages.

General Fund Miscellaneous Receipts

General Fund miscellaneous receipts are forecast to total $3.084 billion, which represents a decline of $134 million. This decline is primarily due to a $138 million decrease in other transactions.

Lottery

Lottery receipts are forecast to increase 6.2 percent or $177 million in SFY 2012-13 to $3.049 billion—reflecting the first full-year of revenues from the VLT facility at Aqueduct.

General Fund Receipts Forecast 2012-13

In SFY 2012-13, the Ways and Means Committee staff forecasts that General Fund taxes will be $42.032 billion, reflecting a increase of $119 million or 0.3 percent. This estimate is $170 million below the Executive's Mid-Year estimate, or $977 million below the forecast released with the Enacted Budget. When including transfers, miscellaneous receipts and federal grants, General Fund receipts are forecast to be $56.464 billion, representing a decline of $456 million or 0.8 percent from the SFY 2011-12 estimate. This forecast is $170 million below the Executive (see Table 9), and $1.178 billion below the forecast released in the Enacted Budget Report.

Table 9

W&M General Fund Receipt Forecast
SFY 2012-13
($ Millions)

Tax Category	2012-13	Year Over Year Change	Percent Growth	Diff. from Exec. Mid-Year
PIT	$25,687	($257)	(1.0%)	$68
User	$9,168	$182	2.0%	($120)
Business	$6,130	$178	3.0%	($78)
Other	$1,047	$16	1.6%	($39)
Total Taxes	**$42,032**	**$119**	**0.3%**	**($170)**
Misc Receipts & Federal	$3,084	($134)	(4.2%)	-
Transfers	$11,348	($441)	(3.7%)	-
General Fund Receipts	**$56,464**	**($456)**	**(0.8%)**	**($170)**

Risks to the Revenue Forecast

Despite strong year-to-date growth in revenues, total tax collections through September are still below the Enacted Budget Financial Plan, with growth over the remaining half of the fiscal year expected to be substantially lower. With economic uncertainty and weakness manifesting on a series of fronts, from the ongoing European debt crisis to instability in the Middle East and federal budgetary and debt conflicts, the national and state recoveries are endangered. While all taxes revenues could suffer if the economic recovery further slows, or if the economy enters a recession, personal income tax receipts tied to the Wall Street bonus season are particularly vulnerable. Although the Ways and Means Committee staff estimates that variable wages will decrease by 2.5 percent in SFY 2011-12, the actual rate of decline could be even more pronounced in reaction to federal regulations, combined with certain major financial firms announcing lay-offs and declining profits. Likewise, this forecast assumes a growth in variable wages in SFY 2012-13 of 7.6 percent, which may prove overly optimistic if current international financial volatility continues.

The pace of economic activity has been slowing and is not expected to return to historical growth trend rates in the current forecast period. Consequently, revenue growth is also slowing and, depending on the extent of the slowdown, could fall short of current expectations. Finally, the economic forecast assumes that the scheduled increase in federal tax rates effective January 1, 2013 will accelerate capital gains realizations and bonus payments from the first quarter of 2013 to the last quarter of 2012. While this shift will not create a substantial change in total tax liability, it will have an impact on revenue collection patterns and introduces an additional element of risk to the state financial plan.

Table 10

All Governmental Funds SFY 2011-12 ($ in Millions)					
	2010-11 Actual	2011-12 Estimate	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$36,210**	**$38,983**	**$2,773**	**7.7%**	**$99**
Gross Receipts	**44,002**	**46,419**	**2,417**	**5.5%**	**43**
Withholding	31,240	30,938	(302)	-1.0%	(264)
Estimated Payments	9,735	12,294	2,559	26.3%	319
Vouchers	7,386	8,756	1,370	18.5%	326
IT 370s	2,349	3,538	1,189	50.6%	(7)
Final Payments	1,964	2,049	85	4.3%	(61)
Delinquencies	1,063	1,138	75	7.1%	49
Total Refunds	**7,792**	**7,436**	**(356)**	**-4.6%**	**(56)**
Collections	**36,210**	**38,983**	**2,773**	**7.7%**	**$99**
User Taxes and Fees	**14,206**	**14,421**	**215**	**1.5%**	**(182)**
Sales and Use Tax	11,538	11,686	147	1.3%	(191)
Motor Fuel Tax	517	494	(23)	-4.4%	(10)
Cigarette Tax	1,616	1,696	80	5.0%	30
Highway Use	129	130	1	0.8%	(4)
Alcoholic Beverage Tax	230	233	3	1.3%	-
Auto Rental Tax	95	102	7	7.4%	(2)
Taxi Surcharge	81	81	-	0.0%	(4)
Business Taxes	**7,279**	**8,033**	**754**	**10.4%**	**138**
Corporate Franchise	2,846	3,390	544	19.1%	92
Utility Tax	813	846	33	4.1%	4
Insurance Tax	1,351	1,440	89	6.6%	3
Bank Tax	1,179	1,258	79	6.7%	29
Petroleum Business Tax	1,090	1,099	9	0.9%	10
Other	**3,175**	**3,114**	**(61)**	**-1.9%**	**(7)**
Estate and Gift	1,219	1,015	(204)	-16.7%	(60)
Real Estate Transfer	580	647	67	11.6%	27
Pari Mutuel	16	16	-	0.0%	-
Other	1	-	(1)	-100.0%	(1)
Payroll Tax	1,359	1,435	76	5.6%	26
Total All Funds Taxes	**60,870**	**64,551**	**3,681**	**6.0%**	**49**
All Funds Misc Receipts	23,148	23,300	152	0.7%	-
Federal Grants	49,303	43,031	(6,272)	-12.7%	-
Total All Funds Receipts	**$133,321**	**$130,882**	**($2,439)**	**-1.8%**	**49**

Table 11

All Governmental Funds SFY 2012-13 ($ in Millions)					
	2011-12 Estimate	2012-13 Forecast	Change	Percent Growth	Diff. Exec.
Personal Income Tax	**$38,983**	**$38,679**	**($304)**	**-0.8%**	**$90**
Gross Receipts	**46,419**	**46,809**	**390**	**0.8%**	**197**
Withholding	30,938	31,678	740	2.4%	(123)
Estimated Payments	12,294	11,791	(503)	-4.1%	313
Vouchers	8,756	7,583	(1,173)	-13.4%	(322)
IT 370s	3,538	4,208	670	18.9%	635
Final Payments	2,049	2,113	64	3.1%	(86)
Delinquencies	1,138	1,227	89	7.8%	93
Total Refunds	**7,436**	**8,130**	**694**	**9.3%**	**107**
Collections	**38,983**	**38,679**	**(304)**	**-0.8%**	**$90**
User Taxes and Fees	**14,421**	**14,828**	**407**	**2.8%**	**(190)**
Sales and Use Tax	11,686	12,013	327	2.8%	(159)
Motor Fuel Tax	494	502	8	1.6%	(13)
Cigarette Tax	1,696	1,763	67	4.0%	11
Highway Use	130	130	0	0.2%	(17)
Alcoholic Beverage Tax	233	233	0	0.0%	(5)
Auto Rental Tax	102	106	4	3.9%	(3)
Taxi Surcharge	81	81	0	0.0%	(4)
Business Taxes	**8,033**	**8,265**	**232**	**2.9%**	**(127)**
Corporate Franchise	3,390	3,347	(43)	-1.3%	(127)
Utility Tax	846	838	(8)	-0.9%	(67)
Insurance Tax	1,440	1,448	8	0.6%	(41)
Bank Tax	1,258	1,506	248	19.7%	133
Petroleum Business Tax	1,099	1,126	27	2.4%	(25)
Other	**3,114**	**3,251**	**138**	**4.4%**	**(8)**
Estate and Gift	1,015	1,032	17	1.7%	(38)
Real Estate Transfer	647	711	64	9.9%	21
Pari Mutuel	16	15	(1)	-6.3%	(1)
Other	0	1	1	-	-
Payroll Tax	1,435	1,492	57	4.0%	10
Total All Funds Taxes	**64,551**	**65,023**	**472**	**0.7%**	**(235)**
All Funds Misc Receipts	23,300	23,987	687	2.9%	-
Federal Grants	43,031	39,534	(3,497)	-8.1%	-
Total All Funds Receipts	**$130,882**	**$128,544**	**($2,338)**	**-1.8%**	**(235)**

EXPENDITURE FORECAST AND RISKS

Chapter 1 of the Laws of 2007 requires the State Legislature, the Executive, and the Office of the State Comptroller to include estimated state disbursements for the current and ensuing fiscal years for Medicaid, public assistance, and assistance for elementary and secondary education in a midyear report. The statute also requires delineation of underlying factors and assumptions on which such estimates are based.

The NYS Assembly Ways and Means Committee staff has prepared estimates and compared those to estimates provided in the Executive's midyear report. The current year and out-year estimates for Medicaid are below the Executive projections; the public assistance estimates are above the Executive projections; and overall aid for elementary and secondary education is consistent with that estimated by the Executive.

The Assembly Ways and Means Committee staff estimates that the New York State Department of Health will spend $15.26 billion in State Funds for the Medicaid program in State Fiscal Year (SFY) 2011-12; $64.2 million lower than the Division of the Budget midyear forecast. The estimate for Department of Health spending for the Medicaid program in SFY 2012-13 is $15.85 billion; $89.2 million lower than the Division of the Budget midyear forecast. The SFY 2011-12 Assembly public assistance expenditure estimate is $2.63 billion; roughly $20.1 million more than the Executive on an All Funds basis. For SFY 2012-13, the Committee staff forecasts public assistance expenditures to total $2.64 billion; $85.8 million above the Executive estimate.

In School Year 2011-12, Foundation Aid was frozen for the third consecutive year and is maintained at $14.89 billion. An $805 million increase in school aid has already been appropriated for School Year 2012-13. Using data recently received from the State Education Department, the Assembly finds that General Support for Public Schools will increase by $265.2 million and that expense based aids including Building Aid, Transportation Aid, Private and High Cost Excess Cost Aids, and BOCES will grow by approximately $256.5 million in School Year 2012-13.

There are several risks to the expenditure forecast that could significantly change these estimates however, and therefore must be noted for the uncertainty that they introduce into the process. It is also important to recognize that the cash management of disbursements, including the timing of certain payments, is a function performed solely by the Division of the Budget—yet it has a critical effect on the accuracy of this analysis. It is important that there be discussions on the timing of disbursements as the goals and purposes of budget reform are evaluated.

Some of the risks to the expenditure forecasts include:

- Apart from risks to the forecast related to the economy and to continued changes in the State's health care system, there are several other risks to the Medicaid expenditure forecast. Specifically, there is a lack of consistent reporting on expenditures that occur outside of the Medicaid claims payment system and other adjustments that are necessary from a statistical standpoint to account for the implementation of administrative and statutory changes to the Medicaid program

- When economic variables such as employment, wages, and unemployment exhaustions do not meet projections, the actual public assistance caseload may vary from estimates. In addition, attempting to translate the public assistance caseload forecast into spending terms presents a risk since a significant portion of public assistance expenditures are for purposes other than basic assistance such as shelter, transitional services, and diversion payments, which fluctuate on a monthly basis depending on the needs of the recipients.

- Data made available by the State Education Department for the calculation of School Aid is submitted by individual school districts, and these data are revised throughout the year.

Medicaid Expenditure Forecast

Medicaid expenditure forecasting takes into account more than twenty major service categories that comprise total Medicaid spending. The following Assembly Ways and Means Committee staff forecast is for State Funds Medicaid spending under the New York State Department of Health (DOH) only, and does not include additional Medicaid spending through other agencies.[4]

[4] Medicaid spending also appears in other agencies such as the Office of Mental Health (OMH), the Office for People with Developmental Disabilities (OPWDD), and the Office of Alcoholism and Substance Abuse Services (OASAS).

The Medicaid forecast uses regression techniques to incorporate historical trends and also adjusts for seasonal factors.[5] The model forecast is periodically evaluated to remain consistent with the most recent Medicaid spending trends, as well as current and projected economic conditions. The forecast also reflects statutory changes that are not captured by regression techniques, offline payments, and other adjustments.

Closeout estimates for the current fiscal year are derived from the most recent expenditure data available. The closeout is estimated by applying the historical expenditure ratio, which is represented through the data available for the current fiscal year as a percentage of total State fiscal year expenditures, to the actual monthly expenditures available for the current fiscal year. Since the monthly distribution of Medicaid spending can vary from year to year, calculating the closeout at present (with only six months of data) introduces the possibility of unanticipated changes in the closeout estimate as more data becomes available.

Medicaid Spending: SFY 2010-11, 2011-12, 2012-13

New York's State share of Medicaid spending for DOH in State Fiscal Year (SFY) 2010-11 was $15.887 billion. Based on the data for the first six months of SFY 2011-12, and accounting for adjustments related to cost containment measures advanced through the budget process and offline payments, the Assembly Ways and Means Committee staff estimates that DOH Medicaid expenditures will total $16.015 billion in SFY 2011-12, an increase of 0.8 percent. In SFY 2012-13, Committee staff projects DOH Medicaid spending at $15.596 billion, representing a decrease in State share spending of 2.6 percent. It should be noted that SFY 2011-12 expenditure projections reflect a $325 million cost related to the payment of one previously-deferred weekly Medicaid cycle.

The Executive estimates that DOH Medicaid spending will total $16.080 billion in SFY 2011-12, an increase of 1.2 percent from SFY 2010-11. The Executive forecasts that DOH Medicaid expenditures will total $15.686 billion in SFY 2012-13, representing a decrease of 2.5 percent.

The Executive estimate for State Medicaid spending is 0.4 percentage points higher than that of the Ways and Means Committee staff in SFY 2011-12, and 0.1 percentage point higher in SFY 2012-13.

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[5] Data used in the forecast are obtained from the NYS Assembly Ways and Means Committee staff and the NYS Department of Health.

Enhanced Federal Support

Forecasted State spending noted above does not reflect enhanced federal support made available under the American Recovery and Reinvestment Act of 2009 (ARRA). Rather, an adjustment for ARRA receipts, under both the Ways and Means and Executive analysis, is reflected after underlying program growth is calculated. Under this Act, each state's Federal Medical Assistance percentages (FMAP)—which determines the federal share of Medicaid costs—was increased in a manner that corresponded to rates of unemployment. Through ARRA and one subsequent extension of its enhanced FMAP provisions, the federal government committed an additional $8.5 billion to offset DOH Medicaid spending over a period of four state fiscal years, beginning in SFY 2008-09. On July 1, 2011, the State's FMAP rate reverted to the standard 50 percent. In SFY 2010-11 the State received $3.948 billion in enhanced federal support. Through the first three months of SFY 2011-12, the State received only $753 million in enhanced federal support and in SFY 2012-13 the State will receive no enhanced federal support. In SFY 2012-13, the State will incur $254 million in additional costs related to a reconciliation of the local share of the enhanced FMAP benefit (see Table 12).

As noted above, the Ways and Means Committee staff projects that underlying DOH Medicaid spending will increase by 0.8 percent in SFY 2011-12. However, when this estimate is adjusted for the loss of $3.195 billion in enhanced federal support, State share expenditures will increase by 27.8 percent.

Likewise, the Ways and Means Committee staff projects that underlying DOH Medicaid spending will decrease by 2.6 percent in SFY 2012-13, but when this estimate is adjusted for the loss of $753 million in federal support and $254 million in local reconciliation payments, overall expenditures will increase by 3.9 percent.

Table 12

State Share Medicaid Spending Summary					
	SFY 2010-11	**SFY 2011-12**		**SFY 2012-13**	
	Closeout	**Executive**	**WAM**	**Executive**	**WAM**
Forecast	15,887	16,080	16,015	15,686	15,596
Enhanced FMAP	***($3,948)***	***($753)***		***$254***	
Adjusted Forecast	11,939	15,327	15,262	15,940	15,850
Note: Authorization for an enhanced FMAP expired June 30, 2011.					

Medicaid Global Cap

The SFY 2011-12 Enacted State Budget established a cap on State DOH Medicaid expenditures that will limit future growth to the 10-year rolling average of the medical component of the consumer price index (CPI). As a result of this cap, notwithstanding the projections indicated in the previous section, DOH Medicaid expenditures will be limited to $15.326 billion in SFY 2011-12 and $15.939 billion in SFY 2012-13.

If DOH Medicaid spending is projected to exceed the global cap, the Executive is authorized to implement a Medicaid Savings Allocation Plan, consisting of rate reductions and/or benefit reductions, to bring expenditures in-line with amounts budgeted under the cap. The Executive must provide notification to the Legislature 30 days prior to the implementation of any savings plan.

The Ways and Means Committee staff estimates that DOH Medicaid expenditures will be $64.2 million below the cap in SFY 2011-12 and $89.2 million below the cap in SFY 2012-13. The Executive estimates that DOH Medicaid expenditures will be equal to the cap amount in both SFY 2011-12 and SFY 2012-13.

Medicaid Redesign Team

In 2011, the Executive established the Medicaid Redesign Team (MRT) to work collaboratively with the health care community to develop a variety of Medicaid cost-containment initiatives. Through the MRT process, the State enacted 78 discrete cost-containment initiatives; eliminated scheduled Medicaid inflationary rate increases; and implemented a 2 percent across-the-board reduction in Medicaid rates. In total, the recommendations of the MRT are projected to reduce State share spending by $2.2 billion in SFY 2011-12 and $3.3 billion in SFY 2012-13.

The scope and complexity of these initiatives are far greater than any Medicaid program reductions that were enacted in prior fiscal years. To date, the State appears on track to achieve the majority of these savings; however, complexities in implementation could result in unanticipated delays that would reduce the actual savings achieved in the current fiscal year. In addition, the Enacted Budget assumes significant savings that would result from additional, as yet unidentified, initiatives, which include $640 million in voluntary health care industry reductions. The development and implementation of these additional proposals could have a substantial impact on present and out-year Medicaid expenditures.

Risks to the Medicaid Spending Forecast

Apart from risks to the forecast related to the economy and continued changes to the health care system in New York, there are several risks to both the SFY 2011-12 closeout and the SFY 2012-13 forecast for DOH Medicaid spending. As previously noted, total Medicaid spending reflects payments for more than twenty major service categories. Although the Medicaid claims payment system (eMedNY) provides monthly data for a substantial percentage of budgeted Medicaid spending, over $1 billion in expenditures remain outside the confines of eMedNY (in the form of offline payments), and are thus not accounted for on a consistent basis. These expenditures include administrative costs that are reimbursed by the State to local governments, cash receipts from audit recoveries made by the Office of the Medicaid Inspector General (OMIG), and State spending related to its assumption of localities' Medicaid payments under the existing local spending cap.

Even for those data that are within eMedNY, expenditure adjustments remain necessary from a statistical standpoint because of statutory changes, pending federal approvals, or instances where sufficient information is not readily available.

In March 2010, through enactment of the Patient Protection and Affordable Care Act, Congress enacted a number of sweeping changes to the manner by which health care will be delivered and financed nationwide. Expanded eligibility under the Medicaid program, an individual mandate to secure health insurance, and a range of payment reforms will all come to bear on New York's budget and its health care delivery infrastructure, with the most profound fiscal impact to be realized in years 2014 and beyond. Since implementation of most of these provisions is contingent upon extensive stakeholder input and federal rulemaking, their impact to New York State's financial plan is largely undetermined.

Public Assistance Caseload and Expenditures

Public assistance expenditures consist of two main categories of spending: Family Assistance and Safety Net Assistance. The Family Assistance program is a federal program that provides support services and cash assistance to eligible families and children, and is financed through a combination of federal Temporary Assistance for Needy Families (TANF) funds, State funds, and local funds. The Safety Net Assistance program is a State program, financed jointly between the State and local governments. As the name implies, it offers a “safety net” by providing cash assistance to those individuals who do not qualify for Family Assistance (i.e., single adults, childless couples, and families that have exhausted their five year time limit for TANF eligibility imposed under federal law).

It should be noted that while the data available from the Office of Temporary and Disability Assistance (OTDA) is sufficient for estimating the public assistance caseload, it lacks the needed specificity for preparing a public assistance spending forecast. While economic factors such as employment, wages, and unemployment exhaustions may help to forecast the number of recipients on the public assistance rolls, translating those figures into spending terms cannot be done with precision because a significant portion of public assistance expenditures are made for emergency situations that are unrelated to the public assistance caseload. Consequently, in order to forecast public assistance expenditures more accurately, OTDA needs to refine currently available data by segregating emergency and other non-assistance spending from basic expenditures that are directly related to the public assistance caseload.

SFY 2010-11 Closeout

For SFY 2010-11, actual public assistance expenditures were $2.56 billion on an All Funds basis, with an average monthly caseload of 551,327. This represented a caseload increase of 2.7 percent over the previous State fiscal year and a spending increase of $173.5 million or 7.3 percent.

The actual caseload in SFY 2010-11 was 4,973 recipients lower than levels projected in the SFY 2010-11 Enacted Budget. At the time, expenditures for SFY 2010-11 were estimated at $2.5 billion, or $59.1 million lower than the actual spending level.

SFY 2011-12 Forecast

Assembly Ways and Means Committee staff estimate that public assistance spending will total approximately $2.63 billion on an All Funds basis in SFY 2011-12, with State share spending of $422.9 million, to provide benefits to 566,110 recipients. This represents an aggregate increase of $74.8 million and 14,783 recipients over SFY 2010-11 closeout. On a State Funds basis, the Committee staff projection is $51.8 million higher than the SFY 2011-12 Enacted Budget. At midyear, the Executive estimates expenditures for SFY 2011-12 at $2.61 billion on an All Funds basis ($414 million State share), approximately $54.7 million above the SFY 2010-11 closeout and $20.1 million ($8.9 million State share) below the Assembly estimate. The Executive projects a monthly average caseload of 565,518, a 2.6 percent caseload increase from the previous year, and this estimate is 0.1 percent lower than the Assembly projection.

SFY 2012-13 Forecast

The Executive estimates caseload will decrease to 553,029 (or -2.2 percent) in SFY 2012-13, with spending projected to decline to $2.55 billion on an All Funds basis ($407.4 million State share). The Ways and Means Committee staff estimates that the public assistance caseload will increase to 567,204, or 14,175 recipients above the Executive mid-year forecast. Public assistance expenditures are estimated to increase to $2.64 billion on an All Funds basis (or $426.3 million State share), which is approximately $85.8 million ($18.9 million State share) above the Executive's forecast.

Risks to the Public Assistance Forecast

Despite signs of a modest recovery that began in 2010, the State is still feeling the effects of a weakened economy. An increasing number of people have fallen into poverty partly due to a weak housing market and home foreclosures. Job opportunities continue to be limited and unemployed workers may exhaust their Unemployment Insurance (UI) benefits before finding new employment. Once UI benefits are exhausted, individuals often turn to emergency and regular public assistance benefits.

The demand for public assistance benefits will continue to increase until the economy steadily improves at a rate that supports a more robust job market, which the vulnerable population is able to benefit from. If economic conditions should worsen, it is fair to anticipate an increase in both the forecast for public assistance expenditures and caseload in New York State.

Education Expenditure Forecast

School Year 2011-12

The 2011-12 enacted Education Budget provides a total of $19.6 billon in General Support for Public Schools, and of this amount, $19.3 billion is allocated through computerized school aid formulas. This amount reflects a year to year decrease of approximately $697 million from School Year 2010-11, and much of this decrease was the result of the expiration of funds made available under the American Recovery and

Reinvestment Act of 2009 (ARRA). This year to year decrease was primarily implemented through an extension of the Gap Elimination Adjustment (GEA) which was in effect since School Year 2010-11. This GEA formula was overlaid on top of existing school aid formulas and was calculated based on district wealth, student need, administrative efficiency, enrollment growth, and residential tax burden.

The 2011-12 State Budget maintained Foundation Aid at its 2008-09 level, representing the third consecutive year where this Aid remained constant. In addition to Foundation Aid, there are a variety of expense based computerized aids that were continued for School Year 2011-12. These aids reimburse districts for certain expenditures that were already made, including funding for Transportation, BOCES and Special Services, and Private and High Cost Special Education programs. The State also shares in school construction expenses through Building Aid reimbursement. Total funding for these programs in School Year 2011-12 is calculated at $5.87 billion. Since enactment of the budget, current data indicates that the cost of General Support for Public Schools in 2011-12 has been reduced by $133.9 million, to an overall cost of $19.5 billion, which is not currently reflected in the Executive's Mid-Year Report.

Computerized aids also set forth distinct funding streams for the Universal Prekindergarten program; conversion to Full Day Kindergarten; instructional materials such as Textbooks, Library Materials, and Computer Software and Hardware; Charter School Transition Aid; High Tax Aid and other grants. These programs will receive total State support of $937 million for School Year 2011-12.

Budgeted Out-Year Growth and a Real Property Tax Cap

The 2011-12 State budget marked the first time where a two year appropriation was enacted for school aid and this appropriation is tied to the growth in personal income in the State. For School Year 2012-13, an $805 million school aid increase has already been appropriated and should provide a level of predictability for school districts for planning purposes. This expected increase would bring General Support for Public Schools to a funding level of $20.31 billion in School Year 2012-13 (see Figure 9).

Finally, legislation was enacted to institute a property tax cap beginning in School Year 2012-13. The cap will limit the annual growth in school district tax levies, with certain exceptions, to either two percent or the rate of inflation, whichever is smaller, unless a 60 percent override vote by the local electorate is achieved. Coupled with recent restrictions on State spending, the property tax cap will potentially result in constrained spending by school districts.

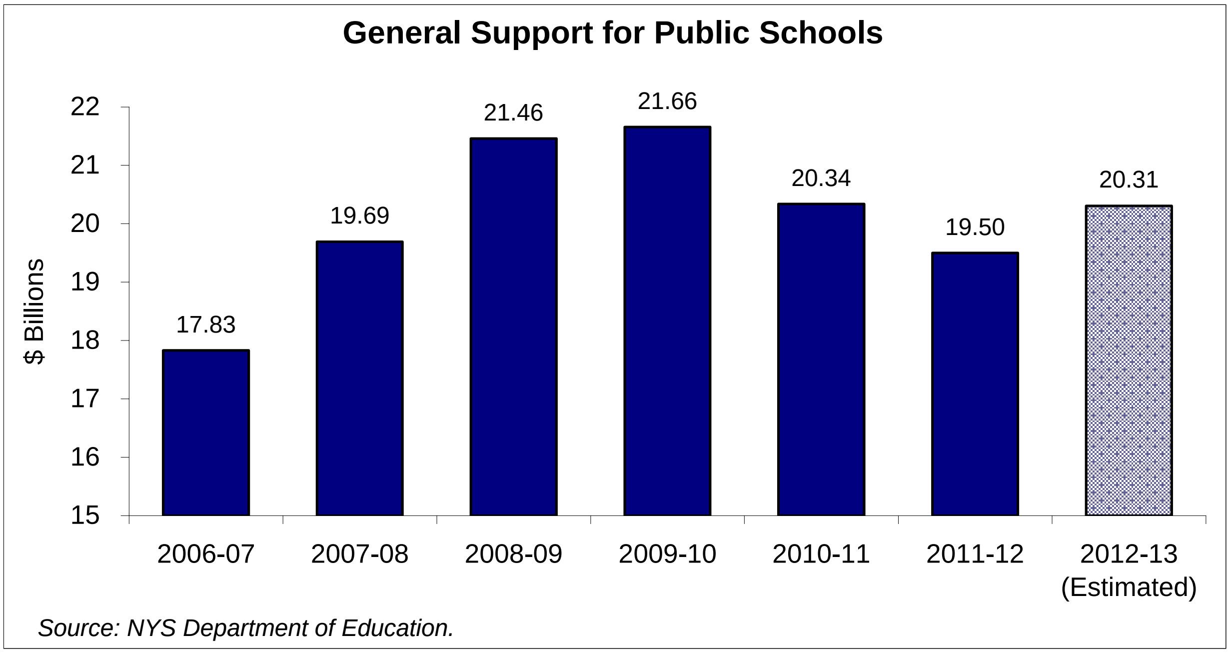

Figure 9

Foundation Aid Formula, Gap Elimination Adjustment (GEA), and Universal Pre-K

Foundation Aid, which was enacted in the 2007 State Budget, remains the largest component of school aid and remains frozen for the third consecutive year at $14.8 billion. The Foundation Aid formula was developed to take into account the needs of individual districts with low fiscal capacity and a concentration of high-need students. For the second year in a row, a $2.5 billion Gap Elimination Adjustment (GEA) was assessed against all formula based aids except for Building Aid and Universal Prekindergarten (UPK). In School Year 2011-12, the Universal Prekindergarten program will continue to serve more than 100,000 children in 441 school districts throughout the State at an estimated cost of $384 million, reflecting the continuation of existing programs. Through the economic downturn the State has been able to maintain funding for UPK, and in fact, nearly every school district has maintained its programs.

School Year 2012-13

In School Year 2012-13 there is already a commitment for an \$805 million increase in General Support for Public Schools which was enacted in the 2011-12 State Budget. This additional State funding will support an increase in expense based aids as well as a \$50 million payment for two new competitive grant programs that were enacted in 2011; the remainder of the \$805 million will go toward growing Foundation Aid and reducing the GEA.

Expense Based Aids

The State also provides reimbursement for a variety of education expenses that school districts incur. Ensuring proper facilities, reducing costs by using shared services, educating students with special needs, and transporting students to and from schools safely are all part of providing a sound, basic education to students throughout the State. In developing estimates of growth in formula based aids, the Assembly has traditionally used an average of recent growth in these programs to reflect current expenditure levels. As school districts have continued to grapple with a new economic reality and enactment of a real property tax cap, the rate of growth for reimbursable aids may begin to slow. The November 15 database is currently available and provides more specific data on projected growth (see Table 13).

Transportation Aid reimburses districts for approved transportation expenses. Aid for School Year 2011-12 totaled \$1.6 billion, an increase of \$22.7 million or 1.44 percent over School Year 2010-11. A review of the past three years of funding reveals that yearly increases in Transportation Aid ranged from \$21.7 million to \$27.8 million. Recently received data indicates that Transportation Aid will increase by \$64 million for the 2012-13 School Year.

Table 13

YEAR TO YEAR AID GROWTH					
	2008-09	2009-10	2010-11	2011-12	2012-13 (estimated)
Transportation	1,534,353,047	1,556,031,192	1,583,920,550	1,606,693,818	1,670,708,115
Change		21,678,145	27,889,358	22,773,268	64,014,297
% Change		1.41%	1.79%	1.44%	3.98%
BOCES	671,513,994	693,205,967	701,859,291	704,226,563	720,875,307
Change		21,691,973	8,653,324	2,367,272	16,648,744
% Change		3.23%	1.25%	0.34%	2.36%
Private Excess Cost	307,761,293	331,851,560	341,104,376	317,135,670	362,754,800
Change		24,090,267	9,252,816	(23,968,706)	45,619,130
% Change		7.83%	2.79%	(7.03%)	14.38%
High Cost Excess Cost	521,445,823	495,628,724	501,156,917	475,166,820	498,090,344
Change		(25,817,099)	5,528,193	(25,990,097)	22,923,524
% Change		(4.95%)	1.12%	(5.19%)	4.82%
Building	1,980,867,498	2,193,808,840	2,391,225,526	2,550,576,357	2,657,837,229
Change		212,941,342	197,416,686	159,350,831	107,260,872
% Change		10.75%	9.00%	6.66%	4.21%

Source: State Education Department Local Assistance Tables.

Nearly all districts throughout the State are components of Boards of Cooperative Educational Services (BOCES) and as a result are eligible to receive BOCES aid, which allows districts to offer various programs and services that they might otherwise be unable to afford. BOCES aid for School Year 2011-12 totaled $704.2 million, an increase of $2.3 million or 0.34 percent over School Year 2010-11. Funding increases over the past three years have ranged from a low of $2.3 million to a high of $21.69 million. Recently received data indicates that BOCES aid will increase by $16.6 million for the 2012-13 School Year. School districts that are not components of BOCES, including the five large city school districts, receive Special Services Aid to fund career education programs, computer services, and academic improvement. The State provided a total of $212 million for these programs in School Year 2011-12. Funding for Special Services Aid is projected to increase by $6.9 million in School Year 2012-13.

Private Excess Cost Aid provides reimbursement for school children with significant disabilities who are placed in private school settings or in State operated schools located in Rome and Batavia. Aid for School Year 2011-12 was $317 million, a decrease of $23.9 million or 7.03 percent from School Year 2010-11. Funding increases over the past three years have ranged from a decrease of $23.9 million to a high of $24 million. Recently received data indicates that Private Excess Cost Aid will increase by $45.6 million for the 2012-13 School Year.

High Cost Excess Cost Aid provides reimbursement for the costs associated with resource intensive public school and BOCES programs for students with disabilities. Funding amounts have fluctuated widely over the past three years, growing by $5.5 million in one year and declining by $25.9 million in another. This category of aid totaled $475.1 million for School Year 2011-12, a decrease of 5.19 percent from School Year 2010-11. Recently received data indicates funding in School Year 2012-13 will increase by $22.9 million.

Building Aid provides school districts with State support for approved building projects. Aid for School Year 2011-12 totaled $2.55 billion, an increase of $159.3 million or 6.66 percent over School Year 2010-11. Funding increases over the past three years have ranged from a low of $159.3 million to a high of $212.9 million. Recently received data indicates that Building Aid will increase by $107.2 million for the 2012-13 School Year.

American Recovery and Reinvestment Act of 2009 (ARRA)

In the winter of 2009 the federal government provided stimulus funds to help support local school districts in New York State starting in School Year 2009-10. Since then, more than $5 billion in non-recurring funding has flowed from the federal government to local school districts through the Education Stabilization Fund, the Education Jobs Fund, Title I, and IDEA. With the exception of the Education Jobs Fund, these funds were no longer available for School Year 2011-12, causing a sudden decrease in funding for school districts. The last of the Education Jobs Fund monies will be used in School Year 2011-12, leaving no additional federal funding under this source for School Year 2012-13.