

## INTRODUCTION

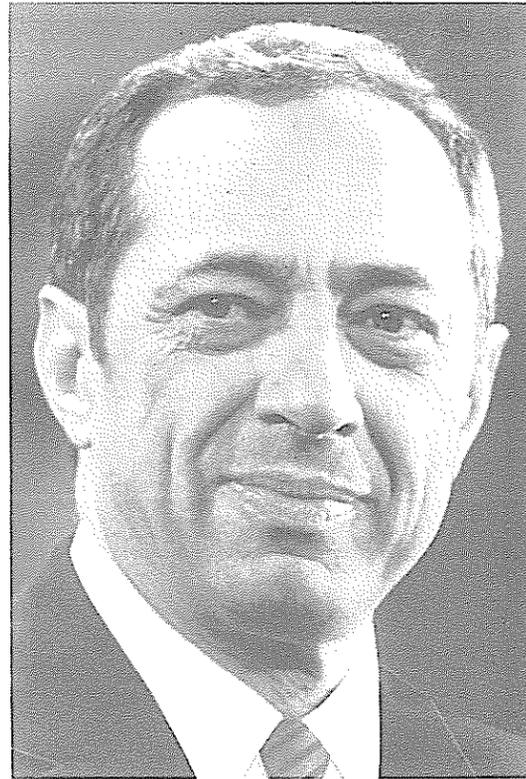
This is the second quarterly update to the 1989-90 State Financial Plan, submitted pursuant to the provisions of Section 23 of the State Finance Law. The revisions to the 1989-90 Plan contained in this Update reflect an analysis of the first six months' actual results, an assessment of recent developments, and a revised economic forecast.

New York State faces a potential budgetary imbalance in the current fiscal year of approximately \$277 million. This imbalance is caused by a reduction of some \$200 million in receipt estimates, largely in the sales tax, business taxes, and real estate-related taxes, and an increase of \$88 million in disbursements primarily for Medicaid and Foster Care, compared with the July update which estimated a potential \$11 million margin. The adverse tax collection experience in New York and the slowing economy mirror developments in the Northeast as a whole. The State is beginning a series of actions immediately that will produce \$135 million in cost reductions, reducing the potential imbalance to \$142 million, and is reviewing other steps to close the gap.

## ECONOMIC FORECAST

The Budget Division's economic forecast reflects a general consensus among economists that real gross national product will grow at a modest pace of about 2 percent throughout the remainder of 1989 and about 3 percent for the year as a whole. With inflation close to the 5 percent level for 1989, the gross national product in current dollars will post a growth of approximately 6 percent for the remainder of the 1989-90 fiscal year. National personal income and wages will grow at roughly an annual rate of 7 percent. Economic growth has slowed down during 1989 as a result of the tight monetary policy of the Federal Reserve Board.

Employment growth in both New York and in the Northeast as a whole has been weaker than the rest of the nation over the last year. The New York State economy will continue to show very modest growth in employment for the remainder of the 1989-90 fiscal year. Some further weakness in the financial services sector is possible, although the worst of the cost-cutting measures seem to be past. New York City is one of the weakest regions within the State. Employment in the City has barely grown since last year and accounts for a significant part of the slowdown in statewide employment growth. Personal income and wage growth will increase at a rate approximately one percentage point below the experience of the last few years.



*"We are faced with an opportunity and a challenge. The challenge is to prove we are capable of making the judgments necessary to maintain spending discipline while keeping intact our progressive and pragmatic New York agenda."*

**MARIO M. CUOMO, Governor**  
Budget Message — January 17, 1989

**GENERAL FUND FINANCIAL PLAN  
STATE FISCAL YEAR 1989-90**  
(millions of dollars)

|  | July<br>Update | Mid-Year<br>Update | Change<br>From<br>July |
|--|----------------|--------------------|------------------------|
| Opening Fund Balance.....                      | -0-            | -0-                | NA                     |
| Receipts:                                      |                |                    |                        |
| Taxes  |                |                    |                        |
| Personal income tax .....                      | 16,055         | 16,080             | 25                     |
| User taxes and fees .....                      | 7,854          | 7,734              | (120)                  |
| Business taxes .....                           | 3,829          | 3,721              | (108)                  |
| Other taxes .....                              | 1,337          | 1,295              | (42)                   |
| Miscellaneous receipts .....                   | 1,137          | 1,150              | 13                     |
| Transfers from other funds .....               | 30             | 62                 | 32                     |
| Impoundment for deficit TRANS.....             | (460)          | (460)              | -0-                    |
| Total receipts .....                           | 29,782         | 29,582             | (200)                  |
| Disbursements:                                 |                |                    |                        |
| Grants to local governments .....              | 19,236         | 19,412             | 176                    |
| State operations .....                         | 6,883          | 6,736              | (147)                  |
| General State charges .....                    | 1,844          | 1,787              | (57)                   |
| Debt service .....                             | 291            | 291                | 0                      |
| Transfers to other funds                       |                |                    |                        |
| —Debt service .....                            | 703            | 703                | 0                      |
| —Capital projects .....                        | 682            | 638                | (44)                   |
| —Other purposes .....                          | 92             | 117                | 25                     |
| Total disbursements .....                      | 29,731         | 29,684             | (47)                   |
| Repayment to Infrastructure Trust Fund .....   | 40             | 40                 | -0-                    |
| Closing fund balance/Potential imbalance ..... | 11             | (142)              | (153)                  |

2

**Governmental Funds Financial Plan  
State Fiscal Year 1989-90**  
(millions of dollars)

|  | General<br>Fund | Special<br>Revenue<br>Funds | Capital<br>Projects<br>Funds | Debt<br>Service<br>Funds | (MEMO)<br>Total |
|--|-----------------|-----------------------------|------------------------------|--------------------------|-----------------|
| Opening balance .....                        | -0-             | 1,728                       | 171                          | 220                      | 2,119           |
| Receipts:                                    |                 |                             |                              |                          |                 |
| Taxes .....                                  | 28,830          | 686                         | -0-                          | 34                       | 29,550          |
| Miscellaneous receipts .....                 | 1,150           | 2,891                       | 711                          | 1,468                    | 6,220           |
| Federal grants .....                         | -0-             | 10,064                      | 790                          | 2                        | 10,856          |
| Subtotal .....                               | 29,980          | 13,641                      | 1,501                        | 1,504                    | 46,626          |
| Impoundment for deficit TRANS. ....          | (460)           |                             |                              |                          | (460)           |
| Total receipts .....                         | 29,520          | 13,641                      | 1,501                        | 1,504                    | 46,166          |
| Disbursements:                               |                 |                             |                              |                          |                 |
| Grants to local governments .....            | 19,412          | 10,806                      | -0-                          | -0-                      | 30,218          |
| State operations .....                       | 6,736           | 3,851                       | 6                            | -0-                      | 10,593          |
| General State charges .....                  | 1,787           | 221                         | -0-                          | -0-                      | 2,008           |
| Debt service .....                           | 291             | -0-                         | -0-                          | 1,061                    | 1,352           |
| Capital projects .....                       | -0-             | 5                           | 2,874                        | -0-                      | 2,879           |
| Total disbursements .....                    | 28,226          | 14,883                      | 2,880                        | 1,061                    | 47,050          |
| Other financing sources (uses):              |                 |                             |                              |                          |                 |
| Transfers from other funds .....             | 62              | 2,455                       | 760                          | 1,711                    | 4,988           |
| Transfers to other funds .....               | (1,458)         | (1,213)                     | (38)                         | (2,245)                  | (4,954)         |
| Repayment to Infrastructure Trust Fund ..... | (40)            | -0-                         | -0-                          | -0-                      | (40)            |
| Bond and note proceeds .....                 | -0-             | -0-                         | 578                          | -0-                      | 578             |
| Net other financing sources (uses)           | (1,436)         | 1,242                       | 1,300                        | (534)                    | 572             |
| Change in fund balance .....                 | (142)           | -0-                         | (79)                         | (91)                     | (312)           |
| Closing fund balance .....                   | (142)           | 1,728                       | 92                           | 129                      | 1,807           |

3

## CHANGES TO THE GENERAL FUND FINANCIAL PLAN

### Revisions in Receipts Estimates

General Fund receipts, after reflecting the impoundment of \$460 million to repay outstanding deficit notes are now projected to total \$29,582 million, down \$200 million from the July projection. The reduction primarily reflects downward revisions to the estimates of the sales tax, business taxes, and real estate-related taxes, partially offset by higher revenue expectations as a result of a retroactive settlement with the Federal government and modestly higher personal income tax receipts. The experience in New York State for the first six months of the fiscal year has been similar to the experience in New York City and in states across the Northeast. Employment growth has been slowing and collections from sales taxes and real estate-based taxes have been lagging considerably. In addition, New York has been part of the nationwide phenomenon of corporate tax collections that are far lower than even the economy would suggest.

**Personal Income Tax:** Net personal income tax receipts are now projected to reach \$16,080 million, up \$25 million from the July forecast. The net revision reflects a variety of small, largely offsetting changes across the range of components that comprise this source, reflecting collection experience to date and the revised economic forecast. Anticipated withholding tax collections have been revised down only slightly, while expected collections on pre-1988 tax-year liability have been increased moderately. The income tax estimate continues to reflect the significant increase in 1988 tax liability.

**User Taxes and Fees:** Receipts from these sources are estimated to total \$7,734 million in 1989-90, some \$120 million below the July estimate, principally as a result of collection experience during the second quarter of the fiscal year. A downward revision in the State sales and use tax estimate accounts for virtually all of the reduction.

During most of this decade, State sales and use tax receipts grew more rapidly than New York personal income as consumers participated in and spurred economic expansion. However, for the second year in a row, New York sales and use tax collection growth has been unusually depressed relative to growth in New York personal income. Sales tax growth in neighboring Connecticut, Massachusetts and New Jersey also was quite limited this summer. Among the national economic factors that may have contributed to this experience are the decline in auto sales and the growth in the personal savings rate over the past year. Regionally, the depressed tax collections may

reflect weakening economic growth in the metropolitan area and in the Northeast as a whole. For the balance of the year, the State sales and use tax estimate assumes a growth in New York taxable sales more consistent with, but still substantially less than, New York personal income growth. This estimate anticipates strong holiday shopping this year.

The remainder of the revisions include a \$6 million reduction in estimated motor fuel tax receipts, a \$4 million reduction in estimated receipts from cigarette and other tobacco taxes, a \$4 million increase in estimated motor vehicle fees, and modifications in estimated receipts for the highway use tax and alcoholic beverage taxes and fees, all reflecting collection experience through September.

**Business Taxes:** Expected business tax collections have been revised downward by \$108 million from the July forecast, reflecting continued weakness in receipts during the second quarter of the fiscal year. The largest downward revision was in Article 9-A, where the revised estimate of \$1,525 million is \$50 million lower than the July forecast. Other downward revisions were made in Article 9 (-\$20 million), bank (-\$30 million) and insurance (-\$14 million) taxes. Expected receipts from the petroleum gross receipts tax were revised upward by \$6 million.

Business tax collections during the initial six months of the year were distorted by an exceptionally large carryover of receipts into early October. These estimate revisions reflect those deposits as if they were timely made.

The weakness in corporate franchise tax collections continued through the second quarter of the year, with net receipts, even after adjusting for the carryover of money into October, now down 16 percent for the year to date. While recent weakness in reported corporate profits helps to explain why corporate tax forecasts should continue to fall, a longer-term look at the relationship between corporate profits and tax collections continues to raise some puzzling questions. Some analysts have hypothesized that the drop-off results from unintended effects of recent Federal and State business tax changes, which may have resulted in an unintentional State tax cut. Others have attributed the business tax decline entirely to the expanded use of S Corporations, which are exempt from the corporate franchise tax. Other factors also may partly explain the decline.

No satisfactory explanations yet exist for why 1989-90 corporate tax receipts are nearly 20 percent below the level achieved in 1984-85, while corporate profits are 22 percent higher now than they were in that year. Preliminary results of ongoing research on the issue being conducted by the Department of Taxation and Finance are expected to be released shortly.

**Other Taxes:** Receipts in this category are now expected to total \$1,295 million, \$42 million less than forecast in July. The revision consists entirely of a reduction in estimated collections from taxes on real property transactions: down \$25 million for the real estate transfer tax and down \$17 million for the real property gains tax. Collections for both taxes in the first six months of 1989-90 were below the depressed levels of the first six months of 1988-89, and, in part, reflect the weak real estate markets in New York City and Long Island. In the case of the real property gains tax, assessments were the lowest since 1983-84. Projected relatively high interest rates and slowing economic growth should continue to affect real estate activity adversely for the second half of the fiscal year. The revised forecast for this category requires considerable improvement for the remainder of the year and is subject to downside risk.

**Miscellaneous Receipts and Transfers:** Receipts in these categories are now projected to reach \$1,212 million, up \$45 million from the July forecast. Two-thirds of the change is attributable to a retroactive settlement with the Federal government on reimbursement of earlier State spending on foster care programs.

#### Revisions in Disbursements Estimates

Before extraordinary actions are taken to close the potential imbalance for the 1989-90 fiscal year, General Fund disbursements, including operating transfers to the Infrastructure Trust Fund and other funds, are estimated to total \$29,859 million. Although this total spending is \$88 million higher than that shown in the July update to the Financial Plan, disbursements for two items alone, Medicaid and foster care, are up \$153 million. All other spending is down \$65 million. To close the potential imbalance, the Budget Director is reducing current year State spending by a total of \$135 million. These actions will reduce spending including all transfers to \$29,724 million, which is \$47 million below the level estimated in July.

**Grants to Local Governments:** Disbursements in this category are estimated to total \$19,412 million. This represents an increase of \$176 million from the disbursement level estimated in July. Three items account for all but \$8 million of this increase. Spending for the Medicaid program is now projected to exceed earlier estimates by \$85 million. The single largest factor contributing to this increase is the anticipated repeal or reform of the Medicare Catastrophic Coverage Act by the Federal government. Although this action has not yet been taken, all serious proposals to revise this program include fea-

tures that drastically curtail payments for nursing home care. Repeal of these provisions would increase State Medicaid costs by \$29 million this fiscal year. The remainder of the projected deficiency is caused by the rising cost of inpatient services and utilization increases for community-based medical care provided to the State's elderly and mentally ill.

Foster care spending estimates are increased by \$68 million. This increase reflects a sharp escalation in caseload levels, an increase partly caused by court-ordered payments in cases where children are placed in the care of a relative (commonly known as "kinship" placement). Other placements are also increasing, and the foster care caseload is now expected to exceed 59,000 in December 1989 compared to the 40,000 level projected in January 1989 for that same month. The balance of this increase can be attributed to parental drug abuse.

A reduction in estimated Lottery proceeds requires a \$35 million increase in General Fund support for public schools; \$15 million of this increased support is shown in the Grants to Local Governments category and the balance in operating transfers.

**State Operations:** The estimate of disbursements for this category, prior to measures to close the budgetary imbalance, is reduced by \$12 million from the July estimate. This reduction is made possible by an increase in savings attributable to the refinancing of existing debt on facilities of the State University of New York.

**General State Charges:** Spending is estimated to be \$57 million lower than in the July estimate. This reduction reflects \$72 million in lower-than-expected payments for health insurance premiums as a result of the expected 1989 dividend in the Empire Plan. These savings are partly offset by minor increases for Social Security and payments to employee benefit funds.

On October 15, 1989 the State Retirement System, based on language in Chapter 50 of the Laws of 1989, submitted a revised pension estimate for the State's retirement contribution to be paid March 1, 1990; this estimate is \$29 million higher than the amount currently budgeted. The payment for the retirement contribution is unchanged in this Update because the Retirement and Social Security Law provides that any underpayment on March 1, 1990 be included in the March 1, 1992 payment.

However, the revised estimate also revealed that the Retirement System has adopted a more conservative method for valuing its assets. As a result of this change, the rates set on April 1, 1989 were higher than they would otherwise have been. These rates, used for both the 1988-89 and 1989-90 retirement contribution calculations,

depress the value of the savings associated with the actuarial interest assumption change made last year. The savings to the State and to local governments originally expected from this change have therefore been reduced substantially.

**Debt Service:** No change is expected for debt service on State tax and revenue anticipation notes and commercial paper.

**Transfers to Other Funds:** Transfers, including the Infrastructure Trust Fund, are expected to total \$1,498 million, a decline of \$19 million from the July estimate. This decline includes a reduction of \$44 million in the General Fund transfer to the Capital Projects Fund, based on slower-than-anticipated spending through the first six months of the fiscal year. This estimate also includes an additional \$20 million in transfers to the Lottery Fund pursuant to the Lottery Guarantee. Together with the \$15 million increase in grants to local governments, this transfer replaces the \$35 million in lower-than-expected Lottery receipts.

#### **Actions to Reduce State Disbursements**

The revisions in receipts, disbursements and other financing sources (uses) indicate a potential budgetary imbalance of \$277 million. To reduce this imbalance, the Division of the Budget is implementing a reduction in existing disbursement ceilings for State agency operations. These reductions are estimated to produce \$135 million in savings in the current year.

Other measures to reduce disbursements further and thereby eliminate the gap will be pursued. Legislation may be proposed in January to achieve carefully targeted reductions in grants to local governments. To the extent possible, such actions will be confined to non-essential programs that will not cause serious disruptions to recipients.

In addition, the Budget Director is reviewing the State's methodologies for calculating retirement contributions and other fringe benefit costs.

#### **Risks to the Plan**

Considerable risk remains in the revised financial plan for 1989-90, particularly in the revenue sources for which estimates have been revised downward. Sales tax growth must improve significantly in the second half of the fiscal year, growing above the relatively strong second half of last year. Collections of the corporate fran-

TABLE I  
GOVERNMENTAL FUNDS FINANCIAL PLAN  
CASH BASIS OPERATING RESULTS  
STATE FISCAL YEAR 1988-89  
(millions of dollars)

|                                    | General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | (MEMO) Total |
|------------------------------------|--------------|-----------------------|------------------------|--------------------|--------------|
| Opening balance                    | 53           | 2,191                 | 193                    | 231                | 2,668        |
| Receipts:                          |              |                       |                        |                    |              |
| Taxes                              | 25,587       | 644                   | -0-                    | 30                 | 26,261       |
| Miscellaneous receipts             | 1,404        | 2,390                 | 568                    | 1,319              | 5,681        |
| Federal grants                     | 10           | 9,461                 | 677                    | 2                  | 10,150       |
| Total receipts                     | 27,001       | 12,495                | 1,245                  | 1,351              | 42,092       |
| Disbursements:                     |              |                       |                        |                    |              |
| Grants to local governments        | 18,188       | 9,862                 | -0-                    | -0-                | 28,050       |
| State operations                   | 6,788        | 3,311                 | 7                      | -0-                | 10,106       |
| General State charges              | 1,793        | 170                   | 1                      | -0-                | 1,964        |
| Debt service                       | 165          | -0-                   | -0-                    | 1,067              | 1,232        |
| Capital projects                   | -0-          | 6                     | 2,091                  | -0-                | 2,097        |
| Total disbursements                | 26,934       | 13,349                | 2,099                  | 1,067              | 43,449       |
| Other financing sources (uses):    |              |                       |                        |                    |              |
| Transfers from other funds         | 730          | 2,094                 | 577                    | 1,578              | (1,979)      |
| Transfers to other funds           | (1,310)      | (1,703)               | (83)                   | (1,873)            | (4,966)      |
| Bond and note proceeds             | -0-          | -0-                   | 338                    | -0-                | 338          |
| STIP Note                          | 460          | -0-                   | -0-                    | -0-                | 460          |
| Net other financing sources (uses) | (120)        | 391                   | 832                    | (295)              | 808          |
| Change in fund balance             | (53)         | (463)                 | (22)                   | (11)               | (549)        |
| Closing fund balance               | -0-          | 1,728                 | 171                    | 220                | 2,119        |

Source: Office of the State Comptroller

TABLE II  
STATE FINANCIAL PLAN  
GAAP BASIS OPERATING RESULTS  
STATE FISCAL YEAR 1988-89  
(millions of dollars)

|  | General Fund | Special Revenue Funds | Capital Projects Funds | Debt Service Funds | (MEMO) Total |
|--|--------------|-----------------------|------------------------|--------------------|--------------|
| Revenues:  |              |                       |                        |                    |              |
| Taxes  | 26,135       | 683                   | -0-                    | 30                 | 26,848       |
| Miscellaneous receipts   | 1,687        | 1,948                 | 85                     | 1,603              | 5,323        |
| Federal grants   | 6            | 9,590                 | 689                    | 22                 | 10,307       |
| Total revenues   | 27,828       | 12,221                | 774                    | 1,655              | 42,478       |
| Expenditures:  |              |                       |                        |                    |              |
| Grants to local governments  | 17,417       | 8,690                 | 120                    | -0-                | 26,227       |
| State operations   | 9,734        | 1,712                 | -0-                    | -0-                | 11,446       |
| General State charges  | 2,065        | 94                    | -0-                    | -0-                | 2,159        |
| Debt service   | 167          | -0-                   | -0-                    | 1,393              | 1,560        |
| Capital projects   | -0-          | -0-                   | 2,116                  | -0-                | 2,116        |
| Total expenditures   | 29,383       | 10,496                | 2,236                  | 1,393              | 43,508       |
| Other financing sources (uses):                                    |              |                       |                        |                    |              |
| Transfers from other funds   | 2,475        | 59                    | 1,257                  | 2,638              | 6,429        |
| Transfers to other funds   | (2,056)      | (1,573)               | (226)                  | (2,790)            | (6,645)      |
| Bond proceeds  | -0-          | -0-                   | 247                    | -0-                | 247          |
| Net other sources (uses)   | 419          | (1,514)               | 1,278                  | (152)              | 31           |
| Excess (deficiency) of revenues and other financing sources (uses) | (1,136)      | 211                   | (184)                  | 110                | (999)        |

Source: Office of the State Comptroller

TABLE III  
1989-90 RECEIPTS ESTIMATES  
CHANGE FROM JULY PLAN  
(millions of dollars)

|  | July   | October | Change |
|--|--------|---------|--------|
| Personal income tax .....                          | 16,055 | 16,080  | 25     |
| User taxes and fees .....                          | 7,854  | 7,734   | (120)  |
| Sales and use tax .....                            | 5,955  | 5,840   | (115)  |
| Motor fuel tax .....                               | 528    | 522     | (6)    |
| Cigarette tax .....                                | 552    | 548     | (4)    |
| Motor vehicle fees .....                           | 514    | 518     | 4      |
| Alcoholic beverage taxes and license fees .....    | 225    | 228     | 3      |
| Highway use tax .....                              | 80     | 78      | (2)    |
| Business taxes .....                               | 3,829  | 3,721   | (108)  |
| Corporation franchise tax .....                    | 1,575  | 1,525   | (50)   |
| Corporation and utilities taxes .....              | 987    | 967     | (20)   |
| Insurance taxes .....                              | 513    | 499     | (14)   |
| Bank tax .....                                     | 610    | 580     | (30)   |
| Petroleum gross receipts tax .....                 | 144    | 150     | 6      |
| Other taxes .....                                  | 1,337  | 1,295   | (42)   |
| Real property gains tax .....                      | 511    | 494     | (17)   |
| Estate and gift taxes .....                        | 529    | 529     | 0      |
| Real estate transfer tax .....                     | 216    | 191     | (25)   |
| Part-mutuel tax .....                              | 80     | 80      | 0      |
| Other taxes .....                                  | 1      | 1       | 0      |
| Miscellaneous receipts and<br>Federal grants ..... | 1,137  | 1,150   | 13     |
| Transfers from other funds .....                   | 30     | 62      | 32     |
| Total receipts .....                               | 30,242 | 30,042  | (200)  |