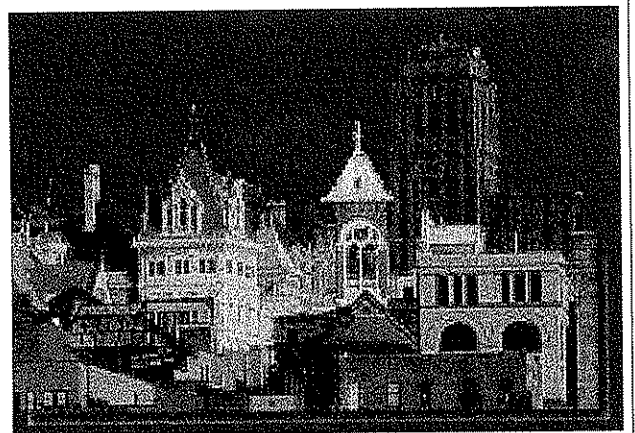


New York State

1998-99 Financial Plan

Mid-Year Update

October 30, 1998



NEW YORK STATE

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INTRODUCTION

This is the second quarterly update to the State's 1998-99 cash-basis Financial Plan. The first quarterly update was published on July 30, 1998. This update incorporates cash-basis results for the first six months of the fiscal year and makes modifications to the Financial Plan presented in July.

SUMMARY

Year-to-date General Fund receipt and disbursement estimates continue to demonstrate that the State's Financial Plan for 1998-99 remains soundly balanced.

The projected General Fund reserve for future needs is \$1.04 billion, an increase of \$29 million from the July estimate. This surplus ensures General Fund balance throughout the 1998-99 fiscal year and provides resources to meet future obligations.

The Financial Plan also projects a balance of \$400 million in the State's "rainy day" fund (the Tax Stabilization Reserve Fund) and \$100 million in a litigation reserve fund (the Contingency Reserve Fund), both of which are available to guard against unforeseen adverse events.

Six Month Operating Results

The State ended the first six months of the 1998-99 fiscal year with a General Fund cash balance of \$5.02 billion, some \$143 million higher than projected in the cash flow accompanying the July Update to the Financial Plan.

Receipts: Total receipts, including transfers from other funds, grew to \$19.7 billion, through September approximately \$52 million higher than expected. This increase is comprised of additional tax revenues (approximately \$22 million) and transfers from other funds (\$30 million).

Disbursements: Total spending through the first six months of the fiscal year was \$16.27 billion, or \$91 million lower than projected. This variance results primarily from higher spending in Grants to Local Governments (\$27 million), offset by lower spending in State Operations (\$124 million.) These variances are timing-related and should not affect total disbursements for the fiscal year.

ECONOMIC FORECAST

United States

The national economy grew strongly during the first quarter of 1998 but slowed sharply in the second quarter, with the real growth rate falling from 5.5 percent to 1.8 percent. Although continued moderation is expected during the second half of the year, the annual growth rate for 1998 is projected to be 3.4 percent. However, the slowing of growth within the domestic economy, the contraction of export markets in many parts of the world and the lack of inflationary pressure has encouraged the Federal Reserve Board (FRB) to commence a policy of gradually decreasing short-term interest rates. The decrease will help to spur future growth.

Nominal GDP is expected to grow about 4.6 percent in 1998, more than a percentage point slower than in 1997. Inflation, as measured by the Consumer Price Index, is expected to be 1.7 percent in 1998. The annual rate of job growth is expected to be a strong 2.5 percent in 1998. As a result of strong job growth and a tight labor market, the rate of growth of wages in 1998 will be a robust 6.7 percent. In line with the general slowdown of the overall economy that has occurred during the year, personal income growth is projected to decline from 5.6 percent in 1997 to 5.0 percent in 1998.

The current outlook for the nation has deteriorated modestly from the Budget Division's July forecast, with weaker real and nominal growth now anticipated and a general weakening of the business profits picture for the balance of the fiscal year. There are, however, uncertainties inherent in any economic forecast. Consumer or business spending could be weaker than expected, due, perhaps, to further significant declines in corporate profits or equity values. Additionally, the international economic and financial disruptions currently being felt around the globe could worsen or take longer than anticipated to subside. The result could be a sharp, additional reduction in domestic economic growth. Indeed, several private sector forecasters have indicated a heightened risk of a national recession beginning in 1999. Under that scenario, the FRB would be likely to lower short-term interest rates faster and further than expected in an effort to reignite the nation's economic engines. Alternatively, but less likely, the pace of US economic growth could be faster if productivity or consumer spending becomes stronger than anticipated, or if the economies of many of the countries of Asia and Latin America recover more quickly than expected. If such growth, or a rapid rise in labor, health or energy costs, awakens long-dormant inflationary pressures, the FRB may reverse its current position and raise interest rates.

New York

The healthy growth that has characterized the New York economy continued during the first three-quarters of 1998. According to seasonally-adjusted employment data from the State Labor Department, New York has added over 90,000 private-sector jobs since December 1997 and over 370,000 since December 1994. The service sector accounted for 60,000 of the 1998 increase and trade added about 15,000. The unemployment rate was 5.5 percent in September and remains above the national rate, as it has since 1991. The State's current rate, however, is 0.9 percentage points below the level in September 1997.

Compared with the July forecast, the Division of the Budget's current employment, income, and wage outlook is slightly higher for 1998. The forecast calls for employment to increase about 2.0 percent in 1998. Both private and overall employment growth rates will likely hit ten-year highs. Personal income should increase about 5.0 percent in 1998 based on wage growth of around 6.2 percent.

The forecast for New York is subject to the same uncertainties as the national forecast, as well as some specific to New York. The securities industry is more important to the New York economy than to the national economy and, therefore, a large change in financial market performance during the forecast horizon could result in wage and employment levels that are significantly different from those embodied in the forecast.

SELECTED ECONOMIC INDICATORS Calendar Years

	<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998*</u>
United States				
Gross Domestic Product (current dollars, % change)	4.6	5.4	5.9	4.6
Gross Domestic Product (current dollars, % change)	2.3	3.4	3.9	3.4
Consumer Price Index (% change)	2.8	2.9	2.3	1.7
Personal Income (% change)	5.5	5.8	5.6	5.0
New York State				
Personal Income (% change)**	4.6	4.6	4.7	5.0
Nonagricultural Employment (% change)	0.7	0.6	1.5	2.0
Unemployment (%)	6.3	6.2	6.4	5.6

*Based on preliminary data.

**Series developed by N.Y.S. Division of the Budget; excludes legal underground wages.

Source: U.S. Department of Commerce, N.Y.S. Department of Labor, U.S. Bureau of Labor Statistics.
(1998 estimates by N.Y.S. Division of the Budget.)

GENERAL FUND

General Fund Receipts

Total receipts for 1998-99 are projected to reach \$37.84 billion, an increase of \$29 million from the amount projected in July. Of the \$37.84 billion in total receipts, taxes are projected at over \$34.5 billion, miscellaneous receipts at over \$1.47 billion and transfers from other funds at over \$1.86 billion. Anticipated tax receipts have been reduced slightly, but expected miscellaneous receipts and transfers from other funds have been increased by enough to produce the net \$29 million increase in overall collections.

Personal income tax: Total income tax receipts are projected to reach \$21.44 billion, \$29 million above the amount expected in July, and nearly \$3.7 billion above the amount reported for 1997-98. The net increase from the July forecast is attributable to modest upward revisions in estimated 1997 liability as partially offset by slightly weaker expectations for collections on current year liability for the balance of the current year. The current estimate reflects an anticipated deterioration in the growth of financial sector bonuses and the resultant impact on withholding.

While gross collections under this tax are expected to grow approximately 10 percent from 1997-98, the exceptional year-to-year change in the estimate of receipts from this source is still significantly attributable to the movement of the General Fund surplus available at the end of 1997-98 into the current fiscal year. The approximately \$2.4 billion impact on the year-over-year change that results from the surplus swing is only partially offset by the planned diversion of slightly over \$700 million in income tax receipts to the School Tax Relief (STAR) Fund in the current year to fund statewide school property tax relief for senior citizens.

User taxes and fees: Receipts from user taxes and fees are expected to total \$7.21 billion, down \$3 million from the amount projected in July, and approximately \$170 million above the amount reported for 1997-98. The reduction in estimated collections from the July forecast is largely the result of lower anticipated sales and use tax collections as partially offset by modestly higher forecasts of receipts from the cigarette, beverage and motor fuel taxes and from motor vehicle fees.

The modest downward revision in anticipated sales tax receipts is largely attributable to small reductions in the expected consumption of taxable goods over the balance of the fiscal year. The small upward revisions in the remaining sources noted above largely reflect collection experience through the first half of the year.

Business Taxes: Business tax collections, reflecting collection experience in September and reduced expectations for profits in the balance of the year, are expected to reach \$4.79 billion, some \$157 million below the amount anticipated in the July plan. The revised estimate for 1998-99 is some \$257 million below the amount recorded for the 1997-98 fiscal year.

The largest revision in this category from the July forecast is a \$88 million reduction in anticipated receipts from the bank tax, reflecting both a lower 1997 liability base than estimated in

July as well as lower expected bank earnings in the current year. Receipts expected under the State's general business tax, the insurance tax and the corporation and utility tax were also revised down, reflecting year-to-date collection experience, a weakening profits outlook and, in the case of the utility levy, continued moderate weather.

Other Taxes: Receipts from other taxes are projected at \$1,072 million, an increase of \$53 million from the July forecast, largely on the basis of higher-than-projected estate tax receipts in September. Despite the new, higher forecast, the revised estimate for the current fiscal year represents a year-over-year net decline of \$22 million from actual results in 1997-98.

Miscellaneous Receipts and Transfers from Other Funds: Miscellaneous receipts are projected to reach \$1.47 billion, an increase of some \$70 million from the amount anticipated in July, largely as a result of higher investment income received during the first six months of the year and expected for the balance of 1998-99. The revised estimate for the current year is still some \$124 million below the amount recorded in the category in the preceding fiscal year.

Transfers from other funds are expected to be over \$1.86 billion, including \$1.54 billion as the portion of sales tax receipts that flows to the General Fund after meeting the debt service requirements of the Local Government Assistance Corporation (LGAC). Total receipts in this category are expected to be some \$37 million higher than projected in July, largely as a result of a \$49 million increase in the estimate of real estate transfer tax receipts available to be transferred to the General Fund. The upward revision largely reflects the burst of commercial sales in the New York City real estate market. The estimate of receipts available to be transferred from LGAC has been reduced by nearly \$12 million, mirroring the reduction expected in the estimate of sales tax received directly in the General Fund. The estimate of available transfers from other funds is now some \$156 million below the amount transferred in 1997-98.

General Fund Disbursements

The State is making no revisions to its July disbursement estimates, with projected General Fund disbursements for the year still expected to total \$36.78 billion. The State believes year-to-date disbursements and the trends underlying its yearly spending estimates remain consistent with the July update and it does not anticipate any changes that would alter total projected disbursements for the year.

Grants to Local Governments: The State continues to project disbursements of \$25.14 billion for the year, an increase of \$1.88 billion over 1997-98. An \$830 million increase in cash disbursements for school aid over the prior year is responsible for nearly half the year-over-year growth in this category. Other significant increases include Medicaid (\$144 million), handicapped education programs (\$108 million) and children and families programs (\$66 million).

School aid is also largest program in terms of total spending in this category, with disbursements of \$9.7 billion expected in 1998-99. It is followed by Medicaid (\$5.6 billion), welfare (\$1.6 billion), services for children and families (\$927 million) and general purpose aid to local governments (\$837 million).

State Operations: This category accounts for the costs of running State agencies. The State estimates \$6.7 billion in spending for State Operations, \$511 million higher than 1997-98. This year-to-year growth reflects the continuing phase-in of wage increases under existing collective bargaining agreements, the impact of binding arbitration settlements, and the costs of funding an extra payroll in 1998-99.

General State Charges: Spending in this category, which accounts primarily for fringe benefits of State employees, is projected to total \$2.22 billion in 1998-99, a modest decrease from 1997-98.

Debt Service: Short- and long-term debt service is projected at \$2.14 billion, an increase of \$111 million over 1997-98. For the first time, the State plans to make a \$50 million deposit to the Debt Reduction Reserve Fund.

Capital Projects and All Other Transfers: Spending in this category is estimated at \$592 million, a decrease of \$61 million over 1997-98, reflecting the non-recurring nature of certain items included in the prior fiscal year.

Fund Balance

The Financial Plan now projects a closing balance in the General Fund of \$1.7 billion. The balance is comprised of the \$1.04 billion reserve for future needs, \$400 million in the Tax Stabilization Reserve Fund, \$100 million in the Contingency Reserve Fund (after a planned deposit of \$32 million in 1998-99), and \$158 million in the Community Projects Fund.

OTHER GOVERNMENTAL FUNDS

Total spending from All Governmental Funds is projected at \$71.54 billion, unchanged from the July estimate. Spending is projected at \$34.07 billion for the General Fund (excluding transfers), \$29.98 billion for the Special Revenue Funds, \$4.14 billion for the Capital Projects Funds, and \$3.36 billion for the Debt Service Funds.

State Funds spending is estimated to total \$48.58 billion. Consistent with the General Fund and All Governmental Funds, the State is making no change to the State Funds disbursement estimate in the July update.

The State believes year-to-date disbursements and the trends underlying its yearly spending estimates remain consistent with the July update and it does not foresee any changes that would significantly alter total projected disbursements for either All Funds or State Funds for the year.

**Cash Financial Plan
1998-99 General Fund
(millions of dollars)**

	<u>July</u>	<u>Change</u>	<u>October</u>
Opening fund balance	<u>638</u>	<u>0</u>	<u>638</u>
<i>Receipts:</i>			
Taxes			
Personal income tax	21,406	29	21,435
User taxes and fees	7,209	(3)	7,206
Business taxes	4,947	(157)	4,790
Other taxes	1,019	53	1,072
Miscellaneous receipts	1,404	70	1,474
Transfers from other funds:			
--LGAC	1,551	(12)	1,539
--All other	<u>274</u>	<u>49</u>	<u>323</u>
Total receipts	<u>37,810</u>	<u>29</u>	<u>37,839</u>
<i>Disbursements:</i>			
Grants to local governments	25,141	0	25,141
State operations	6,704	0	6,704
General State charges	2,215	0	2,215
Debt service	11	0	11
Transfers to other funds:			
--Debt service	2,131	0	2,131
--Capital projects	200	0	200
--Debt reduction reserve	50	0	50
--Other purposes	<u>327</u>	<u>0</u>	<u>327</u>
Total disbursements	<u>36,779</u>	<u>0</u>	<u>36,779</u>
Change in fund balance	<u>1,031</u>	<u>29</u>	<u>1,060</u>
Closing fund balance	<u>1,669</u>	<u>29</u>	<u>1,698</u>
--Tax Stabilization Reserve Fund	400	0	400
--Contingency Reserve Fund	100	0	100
--Community Projects Fund	158	0	158
--Reserve for Future Needs	<u>1,011</u>	<u>29</u>	<u>1,040</u>

**Cash Financial Plan
1997-98 and 1998-99 General Fund
(millions of dollars)**

	<u>1997-98 Actual</u>	<u>1998-99 October</u>	<u>Change</u>
Opening fund balance	<u>433</u>	<u>638</u>	<u>205</u>
<i>Receipts:</i>			
Taxes			
Personal income tax	17,759	21,435	3,676
User taxes and fees	7,036	7,206	170
Business taxes	5,047	4,790	(257)
Other taxes	1,094	1,072	(22)
Miscellaneous receipts	1,598	1,474	(124)
Transfers from other funds:			
--LGAC	1,484	1,539	55
--All other	534	323	(211)
Total receipts	<u>34,552</u>	<u>37,839</u>	<u>3,287</u>
<i>Disbursements:</i>			
Grants to local governments	23,266	25,141	1,875
State operations	6,193	6,704	511
General State charges	2,265	2,215	(50)
Debt service	10	11	1
Transfers to other funds:			
--Debt service	2,021	2,131	110
--Capital projects	206	200	(6)
--Debt reduction reserve	0	50	50
--Other purposes	386	327	(59)
Total disbursements	<u>34,347</u>	<u>36,779</u>	<u>2,432</u>
Change in fund balance	<u>205</u>	<u>1,060</u>	<u>855</u>
Closing fund balance	<u>638</u>	<u>1,698</u>	<u>1,060</u>
--Tax Stabilization Reserve Fund	400	400	0
--Contingency Reserve Fund	68	100	32
--Community Projects Fund	170	158	(12)
--Reserve for Future Needs	0	1,040	1,040

**Current State Receipts
1998-99 General Fund
(millions of dollars)**

	<u>July</u>	<u>Change</u>	<u>October</u>
Personal income tax	<u>21,406</u>	<u>29</u>	<u>21,435</u>
User taxes and fees	<u>7,209</u>	<u>(3)</u>	<u>7,206</u>
Sales and use tax	5,714	(35)	5,679
Cigarette and tobacco taxes	659	12	671
Motor fuel tax	168	2	170
Motor vehicle fees	411	13	424
Alcoholic beverage taxes	178	4	182
Hotel/motel tax	0	0	0
Alcoholic beverage control license fees	27	0	27
Container tax	18	0	18
Auto rental tax	34	1	35
Business taxes	<u>4,947</u>	<u>(157)</u>	<u>4,790</u>
Corporation franchise tax	2,033	(32)	2,001
Corporation and utilities taxes	1,435	(18)	1,417
Insurance taxes	666	(21)	645
Bank tax	710	(88)	622
Petroleum business taxes	103	2	105
Other taxes	<u>1,019</u>	<u>53</u>	<u>1,072</u>
Estate and gift taxes	962	50	1,012
Real property gains tax	19	6	25
Pari-mutuel taxes	37	(3)	34
Other taxes	1	0	1
Real estate transfer tax	0	0	0
Total taxes	<u>34,581</u>	<u>(78)</u>	<u>34,503</u>
Miscellaneous receipts	<u>1,404</u>	<u>70</u>	<u>1,474</u>
Total	<u>35,985</u>	<u>(8)</u>	<u>35,977</u>

Cash Financial Plan
1998-99 All Governmental Funds
(millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	638	617	72	164	1,491
<i>Receipts:</i>					
Taxes	34,503	2,069	1,087	2,193	39,852
Miscellaneous receipts	1,474	5,582	1,670	615	9,341
Federal grants	0	21,724	1,194	0	22,918
Total receipts	35,977	29,375	3,951	2,808	72,111
<i>Disbursements:</i>					
Grants to local governments	25,141	23,653	818	0	49,612
State operations	6,704	5,968	0	5	12,677
General State charges	2,215	346	0	0	2,561
Debt service	11	0	0	3,355	3,366
Capital projects	0	7	3,321	0	3,328
Total disbursements	34,071	29,974	4,139	3,360	71,544
<i>Other financing sources (uses):</i>					
Transfers from other funds	1,862	2,321	202	4,430	8,815
Transfers to other funds	(2,708)	(1,907)	(441)	(3,819)	(8,875)
Bond and note proceeds	0	9	528	0	537
Net other financing sources (uses)	(846)	423	289	611	477
Change in fund balance	1,060	(176)	101	59	1,044
Closing fund balance	1,698	441	173	223	2,535

**Cash Financial Plan
1998-99 State Funds
(millions of dollars)**

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	638	1,040	195	164	2,037
<i>Receipts:</i>					
Taxes	34,503	2,069	1,087	2,193	39,852
Miscellaneous receipts	1,474	5,487	1,670	615	9,246
Federal grants	0	0	0	0	0
Total receipts	<u>35,977</u>	<u>7,556</u>	<u>2,757</u>	<u>2,808</u>	<u>49,098</u>
<i>Disbursements:</i>					
Grants to local governments	25,141	4,801	655	0	30,597
State operations	6,704	3,188	0	5	9,897
General State charges	2,215	199	0	0	2,414
Debt service	11	0	0	3,355	3,366
Capital projects	0	7	2,295	0	2,302
Total disbursements	<u>34,071</u>	<u>8,195</u>	<u>2,950</u>	<u>3,360</u>	<u>48,576</u>
<i>Other financing sources (uses):</i>					
Transfers from other funds	1,862	549	202	4,430	7,043
Transfers to other funds	(2,708)	(95)	(436)	(3,819)	(7,058)
Bond and note proceeds	0	9	528	0	537
Net other financing sources (uses)	<u>(846)</u>	<u>463</u>	<u>294</u>	<u>611</u>	<u>522</u>
Change in fund balance	<u>1,060</u>	<u>(176)</u>	<u>101</u>	<u>59</u>	<u>1,044</u>
Closing fund balance	<u>1,698</u>	<u>864</u>	<u>296</u>	<u>223</u>	<u>3,081</u>

**Cash Financial Plan
1998-99 Special Revenue Funds
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Opening fund balance	<u>1,040</u>	<u>(423)</u>	<u>617</u>
<i>Receipts:</i>			
Taxes	2,069	0	2,069
Miscellaneous receipts	5,487	95	5,582
Federal grants	0	21,724	21,724
Total receipts	<u>7,556</u>	<u>21,819</u>	<u>29,375</u>
<i>Disbursements:</i>			
Grants to local governments	4,801	18,852	23,653
State operations	3,188	2,780	5,968
General State charges	199	147	346
Capital projects	7	0	7
Total disbursements	<u>8,195</u>	<u>21,779</u>	<u>29,974</u>
<i>Other financing sources (uses):</i>			
Transfers from other funds	549	1,772	2,321
Transfers to other funds	(95)	(1,812)	(1,907)
Bond and note proceeds	9	0	9
Net other financing sources (uses)	<u>463</u>	<u>(40)</u>	<u>423</u>
Change in fund balance	<u>(176)</u>	<u>0</u>	<u>(176)</u>
Closing fund balance	<u>864</u>	<u>(423)</u>	<u>441</u>

**Cash Financial Plan
1998-99 Capital Projects Funds
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Opening fund balance	<u>195</u>	<u>(123)</u>	<u>72</u>
<i>Receipts:</i>			
Taxes	1,087	0	1,087
Miscellaneous receipts	1,670	0	1,670
Federal grants	0	1,194	1,194
Total receipts	<u>2,757</u>	<u>1,194</u>	<u>3,951</u>
<i>Disbursements:</i>			
Grants to local governments	655	163	818
State operations	0	0	0
General State charges	0	0	0
Capital projects	2,295	1,026	3,321
Total disbursements	<u>2,950</u>	<u>1,189</u>	<u>4,139</u>
<i>Other financing sources (uses):</i>			
Transfers from other funds	202	0	202
Transfers to other funds	(436)	(5)	(441)
Bond and note proceeds	528	0	528
Net other financing sources (uses)	<u>294</u>	<u>(5)</u>	<u>289</u>
Change in fund balance	<u>101</u>	<u>0</u>	<u>101</u>
Closing fund balance	<u>296</u>	<u>(123)</u>	<u>173</u>