



***NEW YORK STATE
2000-01 Mid-Year
Financial Plan Update***

October 30, 2000

SUMMARY

This is the second quarterly update to the State's 2000-01 cash-basis Financial Plan, submitted pursuant to section 23 of the State Finance Law. The update describes revisions to the Financial Plan published on July 31, 2000 and summarizes actual operating results for the first six months of the fiscal year.

Sustained economic growth continues to produce a favorable fiscal outlook for the State. The 2000-01 Financial Plan remains soundly balanced, and the Division of the Budget expects General Fund receipts for the fiscal year to achieve or exceed the levels projected in the July Update to the Financial Plan — with General Fund receipts and transfers from other funds expected to total \$39.72 billion for the fiscal year.

While the overall State economy remains strong, there are signs the national economy is slowing. Additionally, given the recent weakness in equity markets, the strong receipts gains realized to date may not be matched in the remainder of the current fiscal year. Accordingly, the receipts forecast remains unchanged from the July Update, but will be revised as additional data becomes available.

The Enacted Budget Financial Plan set aside a collective bargaining reserve to fully finance the costs of anticipated labor settlements with State employee unions. Since that time, most of the State's unions, including the Civil Service Employees Association and the Public Employees Federation, have ratified four-year labor agreements. Accordingly, the revised Financial Plan disbursements include the use of collective bargaining reserves to finance the agreements which have already been settled or are expected to be settled within this fiscal year. The July Financial Plan Update reflected the use of \$370 million of the collective bargaining reserve and the October Financial Plan Update reflects the use of the \$255 million remaining balance. As a result, disbursements and transfers to other funds are now projected to total \$39.55 billion in 2000-01, an increase of \$255 million over the July Update.

ECONOMIC FORECAST

National Economy

The national economy remains strong as the longest economic expansion on record nears the end of its tenth year. Real U.S. Gross Domestic Product (GDP) grew by 4.8 percent during the first quarter of 2000, followed by second quarter growth of 5.6 percent. However, the Division of the Budget expects this fast pace of growth to moderate over the remainder of 2000 and through 2001. Real U.S. GDP is expected to grow 5.2 percent for all of 2000, followed by 3.8 percent in 2001.

The slowdown in the economy is, in part, due to the Federal Reserve Board's six interest rate hikes since June of 1999. Higher interest rates will produce lower growth in consumption, housing investment and business spending. Effects of the Federal Reserve

Board's monetary tightening have also become evident in the financial sector. Higher interest rates, turbulence in the Middle East, higher oil prices and lower-than-expected corporate profits have heightened the uncertainty in the stock market. Most of the major stock price indices are at levels near or below their January values. As consumer confidence erodes, consumption spending can be expected to slow significantly.

Personal income is estimated to grow 6.5 percent for 2000. Continued growth in wages and salaries, along with increased growth in interest income due to higher interest rates, are the primary factors contributing to high personal income growth. With slower growth in wages and interest income, personal income growth should slow to 5.8 percent in 2001. With the help of a temporary influx of government workers hired to execute the census, employment is estimated to grow 2.0 percent for the current year, but is expected to fall to 1.6 percent in 2001, in line with the anticipated economic slowdown. The unemployment rate is estimated to average 4.0 percent for 2000, but could inch upward in 2001 as employment and output growth fall.

The primary risk to the national economic outlook is the possibility of accelerating inflation due to an oil shock or the nation's tight labor market. In response, the Federal Reserve Board may feel compelled to raise interest rates even further. With the economy already slowing down, further rate hikes could cause even weaker-than-expected growth toward the end of 2001. Another potential risk to the national economy lies in the uncertain future of the financial markets. Should the stock markets undergo future significant corrections, the resultant reduction in the value of household wealth could reduce consumption growth even further. Alternatively, an acceleration in technology induced productivity growth could lead to enhanced economic performance.

State Economy

Employment in New York grew strongly for the first nine months of 2000, with the service sector accounting for the largest increases. The State economy added 166,600 new jobs, a growth rate of 2.0 percent, of which private sector employment added 154,100 of the additional jobs, growing by 2.2 percent. New York's unemployment rate fell to 4.6 percent in September, about half of its July 1992 peak of 8.9 percent.

The midyear economic outlook for State employment remains unchanged from the July Financial Plan Update. Total employment is expected to grow 2.1 percent for all of 2000 and 1.7 percent for 2001, with the largest employment increases concentrated in the services sector. This represents another two solid years for the New York labor market which, historically, has lagged national employment trends.

Projections for wages and personal income growth for 2000 have been increased from the July Update, and reflect strong first quarter growth in bonus payments. However, the recent prolonged weakness exhibited by the stock market and the slowdown projected for the national economy suggest that the securities industry may not repeat its strong current-year performance. The Division of the Budget now projects wage growth of 9.4 percent for 2000, followed by growth of 5.4 percent for 2001. Overall personal income

growth of 8.0 percent is projected for 2000, with 5.0 percent growth in personal income expected for 2001.

The State forecast is subject to the same uncertainties as the national forecast, as well as to some which are more specific to New York. For example, with Wall Street fueling a significant portion of the growth in the State's revenues, New York is particularly vulnerable to an unexpectedly poor performance by the financial markets, which could reduce securities industry rates of profit and bonus payment growth.

GENERAL FUND

Receipts

General Fund receipts are projected at \$39.72 billion, with results through the first half of the fiscal year reflecting the robust expansion in the New York economy. If receipts growth continues unabated, end-of-year receipts will exceed current estimates. However, several factors identified in this and the July Financial Plan Update may negatively impact future receipts:

- A visible slowdown in national economic activity, at least partially engineered by Federal Reserve Board policy designed to prevent accelerating inflation;
- C A significant increase in energy prices which may have an adverse impact on energy intensive industries and which will reduce consumer discretionary income;
- C A flattening of or reduction in the equity markets as indicated by stock market indices that have stalled at 1999 levels; and
- C A growing uncertainty with respect to financial sector profits and bonus payments which determine a significant portion of end-of-year receipt results through income and corporate tax payments.

A further risk to the receipt estimates results from the national slowdown in consumer spending which has occurred in recent months. Sales tax receipts have been growing at near record levels through the early part of the current fiscal year. With the slowdown in consumer spending, reduced growth in sales tax collections can be expected, especially for large ticket durable goods which generate significant sales tax receipts.

Disbursements

Disbursements and transfers to other funds are now projected to total \$39.55 billion in 2000-01, an increase of \$255 million over the July Update. The entire increase in disbursements reflects the costs of labor agreements with State employee unions, which were financed by reserves set aside for this purpose. Spending in State Operations is now projected to total \$7.62 billion, an increase of \$223 million over the July Update. Spending

for General State Charges has been revised upward by \$32 million to total \$2.27 billion for the fiscal year.

The 2000-01 estimate for General State Charges includes a projected \$250 million offset resulting from the planned dissolution of the Medical Malpractice Insurance Association (MMIA). To date, this transaction has not been completed. Legislation passed at the conclusion of the 2000 legislative session extends MMIA for one year to allow the Superintendent of Insurance to conclude a satisfactory dissolution. It is possible the MMIA dissolution will not be concluded in fiscal year 2000-01 and that the projected dissolution value will not meet current expectations.

The October Update contains no revisions to estimated local assistance disbursements and transfers for debt service, capital projects or other purposes.

Closing General Fund Balance

The 2000-01 Financial Plan projects a closing balance of \$1.09 billion in the General Fund. The closing balance is reserved for specified purposes, including \$547 million in the Tax Stabilization Reserve Fund (for "rainy day" needs), \$150 million in the Contingency Reserve Fund (for litigation risks), \$338 million in the Community Projects Fund and \$50 million in reserves for other purposes. An additional \$1.2 billion is reserved in the STAR Special Revenue Fund (for STAR payments) and \$250 million in the Debt Reduction Reserve Fund (for 2001-02 debt reduction).

Six Months Cash-Basis Results

The General Fund ended the first six months with a balance of \$7.24 billion, \$437 million over the estimate in the July Financial Plan Update. This positive variance results from higher receipts and represents potentially positive news for the State. However, caution remains warranted as second half receipt growth is critically linked to the highly volatile financial services sector and continued strong growth in sales tax collections.

Total General Fund receipts and transfer from other funds totaled \$24.51 billion through September. Receipts were \$423 million higher than the July Update cashflow projections. This represents stronger-than-anticipated results, primarily for the personal income and sales taxes.

Total General Fund disbursements and transfers to other funds totaled \$18.19 billion through September. The results were generally consistent with the estimate of disbursements in the July Financial Plan Update. The modest decrease of \$14 million below the July Plan is attributable to the timing of payments and is not anticipated to affect year-end totals.

OTHER GOVERNMENTAL FUNDS

All Governmental Funds

All Governmental Funds spending is now estimated at \$78.15 billion in 2000-01, an increase of \$255 million over the July Financial Plan Update. This increase reflects the higher General Fund disbursements to finance collective bargaining agreements which have been settled or are expected to be settled within this fiscal year.

State Funds

State Funds disbursements are projected at \$53.91 billion, an increase of \$255 million. Consistent with All Governmental Funds, the change is related exclusively to the costs associated with collective bargaining.

**Cash Financial Plan
2000-01 General Fund
October Update
(millions of dollars)**

	<u>July</u>	<u>Change</u>	<u>October</u>
Opening fund balance	<u>917</u>	<u>0</u>	<u>917</u>
Receipts:			
Taxes			
Personal income tax	24,334	0	24,334
User taxes and fees	7,021	0	7,021
Business taxes	4,228	0	4,228
Other taxes	766	0	766
Miscellaneous receipts	1,339	0	1,339
Transfers from other funds:			
--LGAC	1,645	0	1,645
--All other	384	0	384
Total receipts	<u>39,717</u>	<u>0</u>	<u>39,717</u>
Disbursements:			
Grants to local governments	26,863	0	26,863
State operations	7,401	223	7,624
General State charges	2,237	32	2,269
Debt service	5	0	5
Transfers to other funds:			
--Debt service	2,260	0	2,260
--Capital projects	234	0	234
--Other purposes	294	0	294
Total disbursements	<u>39,294</u>	<u>255</u>	<u>39,549</u>
Change in fund balance	<u>423</u>	<u>(255)</u>	<u>168</u>
Closing fund balance	<u>1,340</u>	<u>(255)</u>	<u>1,085</u>
--Tax Stabilization Reserve Fund	547	0	547
--Contingency Reserve Fund	150	0	150
--Community Projects Fund	338	0	338
--Salary/Other Reserve	305	(255)	50

**Cash Financial Plan
2000-01 All Governmental Funds
October Update
(millions of dollars)**

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	917	762	232	198	2,109
Receipts:					
Taxes	36,349	4,623	1,510	2,314	44,796
Miscellaneous receipts	1,339	6,727	2,000	570	10,636
Federal grants	0	22,903	1,392	0	24,295
Total receipts	<u>37,688</u>	<u>34,253</u>	<u>4,902</u>	<u>2,884</u>	<u>79,727</u>
Disbursements:					
Grants to local governments	26,863	26,499	1,064	0	54,426
State operations	7,624	6,193	0	7	13,824
General State charges	2,269	559	0	0	2,828
Debt service	5	0	0	3,784	3,789
Capital projects	0	3	3,284	0	3,287
Total disbursements	<u>36,761</u>	<u>33,254</u>	<u>4,348</u>	<u>3,791</u>	<u>78,154</u>
Other financing sources (uses):					
Transfers from other funds	2,029	2,308	259	4,895	9,491
Transfers to other funds	(2,788)	(2,122)	(659)	(4,009)	(9,578)
Bond and note proceeds	0	0	322	0	322
Use of Debt Reduction Reserve Fund	0	0	(500)	0	(500)
Net other financing sources (uses)	<u>(759)</u>	<u>186</u>	<u>(578)</u>	<u>886</u>	<u>(265)</u>
Change in fund balance	<u>168</u>	<u>1,185</u>	<u>(24)</u>	<u>(21)</u>	<u>1,308</u>
Closing fund balance	<u>1,085</u>	<u>1,947</u>	<u>208</u>	<u>177</u>	<u>3,417</u>

**Cash Financial Plan
2000-01 State Funds
October Update
(millions of dollars)**

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	917	991	436	198	2,542
Receipts:					
Taxes	36,349	4,623	1,510	2,314	44,796
Miscellaneous receipts	1,339	6,626	2,000	570	10,535
Federal grants	0	0	0	0	0
Total receipts	<u>37,688</u>	<u>11,249</u>	<u>3,510</u>	<u>2,884</u>	<u>55,331</u>
Disbursements:					
Grants to local governments	26,863	6,572	868	0	34,303
State operations	7,624	3,381	0	7	11,012
General State charges	2,269	428	0	0	2,697
Debt service	5	0	0	3,784	3,789
Capital projects	0	3	2,109	0	2,112
Total disbursements	<u>36,761</u>	<u>10,384</u>	<u>2,977</u>	<u>3,791</u>	<u>53,913</u>
Other financing sources (uses):					
Transfers from other funds	2,029	465	259	4,895	7,648
Transfers to other funds	(2,788)	(145)	(652)	(4,009)	(7,594)
Bond and note proceeds	0	0	322	0	322
Use of Debt Reduction Reserve Fund	0	0	(500)	0	(500)
Net other financing sources (uses)	<u>(759)</u>	<u>320</u>	<u>(571)</u>	<u>886</u>	<u>(124)</u>
Change in fund balance	<u>168</u>	<u>1,185</u>	<u>(38)</u>	<u>(21)</u>	<u>1,294</u>
Closing fund balance	<u>1,085</u>	<u>2,176</u>	<u>398</u>	<u>177</u>	<u>3,836</u>

**Cash Financial Plan
2000-01 Special Revenue Funds
October Update
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Opening fund balance	991	(229)	762
Receipts:			
Taxes	4,623	0	4,623
Miscellaneous receipts	6,626	101	6,727
Federal grants	0	22,903	22,903
Total receipts	<u>11,249</u>	<u>23,004</u>	<u>34,253</u>
Disbursements:			
Grants to local governments	6,572	19,927	26,499
State operations	3,381	2,812	6,193
General State charges	428	131	559
Capital projects	3	0	3
Total disbursements	<u>10,384</u>	<u>22,870</u>	<u>33,254</u>
Other financing sources (uses):			
Transfers from other funds	465	1,843	2,308
Transfers to other funds	(145)	(1,977)	(2,122)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	<u>320</u>	<u>(134)</u>	<u>186</u>
Change in fund balance	<u>1,185</u>	<u>0</u>	<u>1,185</u>
Closing fund balance	<u>2,176</u>	<u>(229)</u>	<u>1,947</u>

**Cash Financial Plan
2000-01 Capital Projects Funds
October Update
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Opening fund balance	436	(204)	232
Receipts:			
Taxes	1,510	0	1,510
Miscellaneous receipts	2,000	0	2,000
Federal grants	0	1,392	1,392
Total receipts	<u>3,510</u>	<u>1,392</u>	<u>4,902</u>
Disbursements:			
Grants to local governments	868	196	1,064
State operations	0	0	0
General State charges	0	0	0
Capital projects	2,109	1,175	3,284
Total disbursements	<u>2,977</u>	<u>1,371</u>	<u>4,348</u>
Other financing sources (uses):			
Transfers from other funds	259	0	259
Transfers to other funds	(652)	(7)	(659)
Bond and note proceeds	322	0	322
Use of Debt Reduction Reserve Fund	(500)	0	(500)
Net other financing sources (uses)	<u>(571)</u>	<u>(7)</u>	<u>(578)</u>
Change in fund balance	<u>(38)</u>	<u>14</u>	<u>(24)</u>
Closing fund balance	<u>398</u>	<u>(190)</u>	<u>208</u>