



New York State
2003-04 Mid-Year
Financial Plan Update



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Introduction

This is the Mid-Year Update to the State's 2003-04 Financial Plan, submitted pursuant to section 23 of the State Finance Law. The Mid-Year Update includes revised Financial Plan projections, an updated economic forecast, operating results for the first six months of fiscal year 2003-04, and General Fund cash flow projections through the third quarter of fiscal year 2003-04. For a description of the structure of the State Financial Plan and general State operating procedures, please see the 2003-04 New York State Executive Budget Appendix II published on January 29, 2003 and the Annual Information Statement of the State of New York dated May 30, 2003, as updated August 7, 2003, which are available at www.budget.state.ny.us.

The actual cash-basis results and financial plan projections reported in this Mid-Year Update reflect the deferral of \$1.9 billion in spending from 2002-03 to 2003-04 that was necessary due to delayed Legislative authorization for issuance of tobacco bonds. Therefore, the projections contained herein are reported on a basis consistent with the actual results reported by the State Comptroller, and with unadjusted Financial Plans previously reported in the Enacted Budget Report and First Quarterly Financial Plan Update.

In addition, the State Funds and All Governmental Funds actual results and estimates contained in this Update reflect the reclassification of the Expendable and Non-Expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type. This fund reclassification conforms to the new accounting standards as set forth in the Governmental Accounting Standards Board (GASB) issued Statement 34, which substantially changed the way in which governments are required to report operations in their financial statements.

Overview

At mid-year, the State's 2003-04 Financial Plan remains solidly balanced based on the availability of one-time Federal aid that was authorized after this year's budget was enacted. While these receipts help to ensure balance in the current year, the State continues to face a significant financial gap in 2004-05.

Revenue actions enacted by the Legislature over the Governor's objection continue to perform as the Executive had anticipated, with no appreciable receipt collections from several newly authorized sources. Moreover, while the potential for improved performance from the financial services sector shows some promise, the level of revenue from tax law changes has not materialized to the extent anticipated by the Legislature at the time of their enactment. At the same time, governmental spending on economically sensitive entitlement programs is running higher than expected as the State's economic recovery remains anemic. Taken together, these factors represent a fiscal challenge for the 2004-05 fiscal year and beyond. As of this Mid-Year Report, the imbalance between anticipated receipts and disbursements for the upcoming fiscal year remains at approximately \$5 billion to \$6 billion.

As previously reported, a number of steps have been taken to address the State's fiscal situation. Aggressive austerity measures that require all State agencies to carefully scrutinize discretionary expenditures are in place, and a strict hiring freeze has been maintained. The Governor is also working with Legislative Leaders on statutory measures that could be enacted this fall to provide further savings this year and begin to address next year's gap.

As indicated, the Division of the Budget (DOB) projects the State will end the 2003-04 fiscal year in balance after year-end reserve transactions. These transactions, totaling \$730 million, are comprised of \$710 million in the permanent rainy day fund (the Tax Stabilization Reserve Fund) and \$20 million in the Contingency Reserve Fund. An additional \$75 million in resources, resulting primarily from minor timing revisions to the July Financial Plan projections, have been treated as available for use in 2004-05.

As detailed later in this report, the Mid-Year Update reflects modest net increases in both receipts and spending of \$30 million from the July Update. The \$30 million net increase in the revenue projections include modest upward revisions to tax receipts estimates. Nonetheless, tax receipt projections for the current fiscal year remain slightly below those contained in the Enacted Budget Report. The \$30 million net increase in spending reflects higher spending in welfare and Medicaid due to increasing caseloads, expenditure growth and utilization and growth in the Tuition Assistance Program (TAP) due to higher enrollment. These costs are partially offset by the timing of Federal aid that lowers health care costs and savings resulting from recently enacted "clean-up" legislation. In addition, the report updates the status of certain risks to the Financial Plan projections, including possible reductions in anticipated Federal aid for the school supportive health services program.

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Current revenue and spending estimates for the General Fund, State Funds and All Governmental Funds are summarized in the following table. Detailed information is provided later in this report.

2003-04 Revenue and Spending Estimates (millions of dollars)				
	July Update	October Update	Change from July Update	Change from Enacted Budget
Revenue:				
General Fund	42,337	42,367	30	627
State Funds	62,539	62,647	108	592
All Governmental Funds	97,029	98,322	1,293	2,601
Spending:				
General Fund	42,422	42,452	30	(285)
State Funds	62,700	62,864	164	(123)
All Governmental Funds	96,918	97,979	1,061	1,605

Summary of Mid-Year Revisions

General Fund revenue projections have been revised upward by \$30 million from the July Financial Plan Update issued July 30, 2003 (the "July Update") to reflect a modest upward revision in the tax receipts estimate offset by additional costs for the School Tax Relief (STAR) program and a deposit to the Personal Income Tax (PIT) Refund Reserve Account. The spending increase of \$30 million is due to higher estimated costs in welfare (\$31 million), Medicaid (\$100 million), and TAP (\$31 million), partially offset by Federal aid which reduces the State share of Medicaid costs (\$51 million), other available health care resources (\$46 million), implementation of cost containment in recently enacted "clean-up" legislation (\$20 million), and projected additional lottery receipts used to finance school aid costs (\$15 million).

State Funds disbursements increased by \$164 million from the July Update reflecting General Fund changes described above (\$30 million) and increased spending for STAR (\$35 million). The reclassification of Expendable Trust and Non-Expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type increases both receipts and disbursements (\$60 million and \$84 million, respectively) from amounts published in the July Update. The balance of the increase in the State Funds receipts of \$108 million from the July Update primarily reflects the General Fund changes discussed above (\$30 million).

The increase in All Governmental Funds receipts of \$1.29 billion over the July Update primarily reflects the receipt of Federal Emergency Management Agency (FEMA) reimbursement aid for costs incurred by the State and New York City associated with the World Trade Center attacks of September 11th (\$1.17 billion), as well as the State Funds changes described above (\$108 million). All Governmental Funds disbursements increased by \$1.06 billion over the July Update due primarily to FEMA aid that flowed through the State to New York City for costs associated with the

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World Trade Center attacks (\$885 million), and State Funds changes described above (\$164 million).

Recap of Financial Plan Revisions since the Enacted Budget

Since the Enacted Budget Financial Plan, projected General Fund receipts have been increased by \$627 million. This increase is attributable to the receipt of \$645 million in one-time Federal revenue sharing payments and the expected flow of \$170 million in additional sales tax receipts to the General Fund due to the delay in providing payments to New York City associated with the Local Government Assistance Corporation (LGAC)/Municipal Assistance Corporation (MAC) transaction. These increases are partially offset by a net reduction in the estimate for General Fund tax and miscellaneous receipts for 2003-04 of \$53 million, additional costs for the STAR program of \$35 million, an increased deposit into the PIT Refund Reserve Account of \$75 million and a decrease in other transfers of \$25 million.

General Fund spending has decreased by \$285 million from the Enacted Budget Financial Plan. This decrease is primarily attributable to lower costs resulting from a 15-month increase in the Federal matching rate on Medicaid costs (\$422 million), the delayed timing of spending for new legislative “member items” (\$100 million), additional resources available to Medicaid (\$46 million), lower debt service costs (\$42 million) and savings from the cap on mentally disabled payments to counties (\$20 million). These reductions in spending are partially offset by: growth above budgeted levels for Medicaid (\$200 million), welfare (\$71 million) and TAP (\$31 million); the delayed implementation of employee health insurance cost containment changes (\$26 million); and a modest increase in State operations spending (\$17 million).

The combined benefit of the increased General Fund receipts and lower spending was used to balance the 2003-04 Enacted Budget and help lower the 2004-05 budget gap. The 2004-05 budget gap of roughly \$5 billion to \$6 billion already reflects these revisions.

State Funds receipts increased \$592 million over the Enacted Budget Financial Plan primarily reflecting the General Fund increase described above (\$627 million). The State Funds disbursements decline of \$123 million reflects the decline in General Fund spending detailed above (\$285 million) offset by increased spending in STAR (\$35 million) and the reclassification of Expendable Trust and Non-Expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type (\$84 million).

The increase in All Governmental Funds receipts of \$2.60 billion over the Enacted Budget Financial Plan primarily reflects the receipt of Federal Emergency Management Agency (FEMA) reimbursement aid for costs incurred by the State and New York City associated with the World Trade Center attacks of September 11th (\$1.17 billion), the State funds changes described above (\$592 million), higher projected Federal aid in support of the Medicaid program reflecting the temporary increase in the Federal matching rate (\$1.01 billion) and program cost increases (\$300 million). All Governmental Funds disbursements increased \$1.60 billion over the Enacted Budget

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primarily due to increases in World Trade Center costs (\$885 million) and the Medicaid increases detailed above (\$1.31 billion), offset by decreases in all other program areas.

The majority of the changes since the Enacted Budget Financial Plan were reflected in the July Update, and thus only the incremental changes from the July Update are discussed in further detail later in this report.

Recent Events

The Legislature recently passed “clean-up” bills that provide technical corrections and clarification to the budget bills and Article VII language bills enacted in the 2003 regular legislative session. These bills include necessary corrections and clarifications to achieve several savings and revenue initiatives included in the 2003-04 Financial Plan, as well as \$20 million in new cost containment savings (described in more detail below). In addition, the bills include a provision that grants loan forgiveness to local governments of roughly \$172 million in advance payments associated with the cost of providing mental health services. This action was already reflected in the Financial Plan.

Status of Legislative Actions

DOB continues to value certain revenue measures adopted by the Legislature at significantly lower amounts. The temporary personal income tax increase is valued at \$280 million below legislative estimates, and year-to-date results appear consistent with the lower estimate. In addition, more speculative revenue actions taken by the Legislature are expected to have virtually no positive revenue impact in the current fiscal year, again, consistent with results to date. These actions include Video Lottery Terminals (VLTs) permitted to operate at certain racetracks, the collection of excise and sales taxes from non-exempt purchasers on Native American lands, and the denial of business deductions for the use of certain intangible assets.

DOB Analysis of 2003-04 Legislative Revenue Actions (millions of dollars)		
	Legislative Value	DOB Value
Temporary PIT Increases	1,680	1,400
Indian Reservation Taxes	164	0
VLTs	150	0
Bonus Depreciation Recapture	146	58
Intangible Holding Companies	115	0
Other Revenue Actions	140	15

It should also be noted that the Legislature assumed savings in certain program areas that have not been attainable and which are still not reflected in this Update. These occur primarily in Medicaid and in shelter allowances for welfare recipients.

Projected General Fund Outyear Budget Gaps

While the current fiscal year is balanced, the magnitude of future budget gaps requires timely and aggressive measures to restore structural balance. The Governor is continuing implementation of a fiscal management plan that includes measures intended to reduce costs and generate recurring savings in the outyears. General Fund outyear budget gaps are estimated to be roughly \$5 billion to \$6 billion in 2004-05 and \$8 billion in 2005-06, consistent with the range of gaps initially reported by DOB in the May 1 Analysis of Legislative Budget Changes and in the Enacted Budget Report released later in May.

The statewide austerity measures limiting discretionary spending, travel, and low priority capital spending will remain in force and all State agencies will continue to operate under a hiring freeze, consistent with existing guidelines. In addition, agencies continue to conduct comprehensive reviews of all existing and new State contracts, fleet management practices, and equipment purchases, as well as management assessments of current agency operations. These reviews will identify opportunities where agencies, through increased administrative flexibility, statutory changes or other means, can achieve greater productivity, improve services, and reduce costs. Savings from these measures, which are not yet reflected in the Financial Plan, should provide a hedge against risk for the remainder of the fiscal year and help reduce the outyear budget gaps.

General Fund Financial Plan

National Economy

Revised data for the second quarter of this year, in conjunction with preliminary data for the third quarter, indicate a stronger national economy for 2003 than projected in the July Update. Indeed, U.S. real gross domestic product is expected to grow almost 6 percent during the third quarter, aided by the issuance of tax cut rebate checks and a long-awaited improvement in business spending. Consequently, the DOB forecast for real growth in U.S. GDP for 2003 has been revised up to 2.8 percent. National economic growth is expected to accelerate to 3.8 percent in 2004.

The improved outlook for the overall national economy has not yet translated into significant labor market growth. High productivity growth, rising benefit costs, and the trend toward off-shore outsourcing in certain economic sectors has delayed the resumption of hiring by businesses. DOB has reduced its estimate of nonagricultural employment growth for 2003 slightly from the 0.2 percent decline reported in July to a decline of 0.3 percent. Moreover, expected growth for 2004 has been reduced from 0.9 percent to 0.6 percent. The weaker job market, along with slightly lower than expected consumer price inflation, will result in slower wage and personal income growth than reported in the July Update. Wage growth has been revised down from 2.8 percent to 2.1 percent for 2003, partly due to a downward revision to the first quarter of 2003. Overall personal income growth has been revised down as well from 3.5 percent to 3.2

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percent. Income growth is expected to accelerate in 2004, but remains well below the historical average.

Major Economic Indicators			
	2002	2003	2004
Gross Domestic Product (real)	2.4	2.8	3.8
Personal Income	2.7	3.2	4.7
Non Farm Employment	(0.3)	0.6	1.7
Consumer Price Index	1.6	2.3	1.9
Note: Numbers above are percent change/calendar year. DOB estimates are based on National Income and Product Account data through September 2003.			

DOB's forecast is not without risk. With significant labor market slack and the capacity utilization rate at its lowest level since the early 1980s recession, the business sector has been more reluctant to significantly increase investment spending than is typical at this stage of a recovery. If this trend continues, it could result in even slower job growth than expected. In turn, continued weakness in the labor market could depress consumption spending, further reducing the incentive for businesses to spend. In contrast, if the Federal tax reduction, combined with historically low interest rates, has a greater impact on households than expected, or a weaker dollar produces higher export growth than the current forecast, national economic growth could be stronger than expected.

State Economy

DOB's New York State Index of Coincident Economic Indicators shows that the State economy began to emerge from recession in early 2003. The collapse of dot-com equity prices, and the implosion of the high-tech sector that followed, sent the stock market tumbling and precipitated heavy job losses in the State's manufacturing, trade, and finance industries during the first eight months of 2001. The destruction of the World Trade Center wrought catastrophe for the downstate economy, with the finance and travel and tourism industries being the hardest hit. The December 2001 collapse of Enron, the corporate governance scandals that followed, and finally, the run-up to the war in Iraq, further delayed the recovery in equity prices, leading to further financial sector layoffs, as well as reductions in bonuses. As a result of this barrage of negative events, the State recession extended beyond that of the nation.

Notwithstanding the upward revision to the national economic forecast, DOB's outlook for the New York economy is little changed from that presented in the July Update. With the State's labor market beginning to recover, DOB has revised its 2003 forecast for total State employment growth marginally upward from a decline of 0.4 percent to a decline of 0.1 percent, on an annual average basis. Private sector job growth has similarly been revised up from a decline of 0.2 percent to a decline of 0.1 percent. Expected employment growth for 2004 has also been revised upward from 0.6 percent to 0.8 percent. Nevertheless, the estimate for the State's unemployment rate,

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which is often a lagging economic indicator, remains at 6.2 percent for both 2003 and 2004.

The recovery of the State's financial sector continues. With the S&P 500 up over 13 percent since the end of 2002, recent months have seen an increase in merger and acquisition activity, as well as strong revenues from bond trading activity, although the latter are expected to weaken with the rise in long-term interest rates. The improved outlook for the financial markets is expected to translate into higher bonus growth for the coming bonus season than was projected in July. DOB's 2003 forecast for State wages and salaries is relatively unchanged from July, but has been revised up for 2004 from 4.1 percent to 4.6 percent. Growth in total State personal income, of which wages and salaries are the largest component, has been revised up to 2.7 percent for 2003, due in large part to revised data for proprietors' income, and to 4.4 percent for 2004.

Major Economic Indicators			
	2002	2003	2004
Personal Income	(0.2)	2.7	4.4
Nonagricultural Employment	(1.8)	(0.1)	0.8
Unemployment Rate	6.1	6.2	6.2
Note: Numbers above are percent change/calendar year. Personal income and nonagricultural employment growth for 2002 and all forecasts for 2003 and 2004 are projected by DOB.			

The volatility of the financial markets remains a significant source of risk to the New York forecast. If the recent rise in equity prices and financial services activity fails to be sustained, industry profitability and associated compensation could be lower than anticipated. In addition, weaker than expected growth for both the national and international economies would, in turn, weaken the State's recovery. This would result in even slower employment and income growth than projected. In contrast, stronger financial services sector growth or stronger national and international growth could result in a healthier economic recovery for the State than projected.

General Fund Receipts

2003-04 General Fund Receipts (millions of dollars)				
	July Update	October Update	Change from July Update	Annual Change
Total Tax Receipts	28,406	28,402	(4)	425
All Other Receipts	13,931	13,965	34	4,546
Total Receipts	42,337	42,367	30	4,971

Total General Fund receipts are estimated at \$42.37 billion, an increase of \$30 million from the July Update, as explained below. The increase of \$4.97 billion over the prior year is largely attributable to three factors: the expected receipt of \$3.80 billion in tobacco securitization proceeds, \$645 million from the Federal revenue sharing grants, and higher receipts resulting from tax and fee increases enacted with the 2003-04

Budget. The tax receipt revisions from the July Update, including transfers, are relatively minor and reflect a modestly more optimistic view of economic trends and financial sector performance balanced against some shortfalls in year-to-date results. Estimates for the impact of legislatively enacted changes remain essentially unchanged. It remains the case that a significant number of the revenue actions taken by the Legislature will generate little or no revenue in fiscal year 2003-04.

Personal Income Tax

Personal income tax receipts for the 2003-04 fiscal year are estimated at \$16.28 billion, a decrease of \$8 million from the July Update estimate. This decrease is comprised of an additional deposit to the PIT Refund Reserve Account (\$75 million) partially offset by higher PIT collections (\$67 million). The estimate reflects an increase of \$150 million in the non-withholding payments estimate due in part to a change in collection patterns related to tax actions taken with the Enacted Budget. Despite a year-to-date shortfall in withholding results, the estimate is unchanged reflecting better-than-anticipated securities industry profitability and an expected increase in end-of-year bonus payments. Increases are partially offset by a lower assessments estimate (\$25 million), increased costs for the STAR program (\$35 million) and greater deposits to the Revenue Bond Tax Fund (RBTF) (\$23 million). Important risks affecting the personal income tax estimate include the strength of growth in the overall economy, financial sector compensation trends, and collection patterns related to the temporary tax increase enacted earlier this year.

Consumption and Use Taxes

The estimate for user taxes and fees is \$7.96 billion, which is \$11 million below the July Update. The estimates for sales tax, motor vehicle fees, the alcohol beverage tax, and alcohol beverage control license fees are unchanged from the July Update. The estimate for the cigarette and tobacco tax is \$11 million below the July Update estimate, reflecting weaker-than-anticipated cigarette consumption. Overall, consumption and use tax receipts are within \$5 million of the estimated cash flow contained in the July Update.

Business Taxes

The business tax estimates total \$3.44 billion and remain unchanged from the July Update. Business taxes for the first half of the fiscal year were \$1.54 billion, which is \$43 million below July estimates. This is primarily due to unexpected large refunds in the bank tax and lower-than-expected utility tax payments. Collections are expected to strengthen in the later part of the year as corporate profitability continues to improve.

Other Taxes

Other taxes, comprised of the estate tax, gift tax, real property gains tax, pari-mutuel taxes and other taxes are now expected to total \$726 million, a \$15 million increase from the July Update. Through the first half of the fiscal year, receipts totaled \$398 million, which is \$32 million above the cash flow projection in the July Update. The change from the July Update is due to the unexpectedly strong results in the estate

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tax. The change is based upon the strong year-to-date results, and an upward revision to estimates of household net worth.

Miscellaneous Receipts

The estimate for miscellaneous receipts is \$5.55 billion and remains unchanged from the July Update. Year-to-date collections of miscellaneous receipts are \$3.13 billion, which is \$2.27 billion higher than last year. The higher receipts are attributable to \$2.20 billion in tobacco bond proceeds received in June, offset by lower collections from abandoned property. There is some downside risk in the miscellaneous receipts estimate, stemming from lower-than-expected year-to-date collections from abandoned property, though the majority of revenue from this source is received during the second half of the fiscal year.

Federal Grants

Federal Grants are estimated to total \$645 million and remain unchanged from the July Update.

Transfers From Other Funds

The estimate for transfers from other funds is \$7.77 billion, which is \$34 million above the July Update. Personal income tax and the real estate transfer tax in excess of debt service requirements are expected to increase by \$23 million and \$11 million respectively. These changes reflect modest increases in the estimates of the personal income and real estate transfer taxes.

General Fund Disbursements

2003-04 General Fund Disbursements (millions of dollars)				
	July Update	October Update	Change from July Update	Annual Change
Grants to Local Governments	29,584	29,629	45	4,742
All Other	12,838	12,823	(15)	97
Total Disbursements	42,422	42,452	30	4,839

General Fund spending is estimated at \$42.45 billion, an increase of \$30 million from the July Update as a result of additional net spending of \$45 million for Grants to Local Governments partially offset by the anticipated elimination of a \$15 million transfer to the State Lottery Fund.

Grants to Local Governments disbursements are projected at \$29.63 billion, an increase of \$45 million from the July Update. This higher local spending consists of increases in welfare (\$31 million), TAP (\$31 million), and Medicaid (\$3 million), partially offset by reduced spending in mental hygiene programs (\$20 million).

Revised welfare caseload and expenditure estimates result in a net \$31 million spending increase above the July Update. Federal Temporary Assistance to Needy

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Families (TANF) originally programmed to offset school aid costs for the Pre-K program and Higher Education Services Corporation (HESC) spending for the TAP program are now needed to fund welfare costs. As a result, school aid and HESC spending increases by \$50 million and \$70 million respectively, partially offset by a welfare realignment of \$89 million after the TANF reprogramming, including \$23 million in TANF bonus funds.

In addition to the loss of \$70 million of TANF funds to offset TAP spending from the General Fund, HESC local assistance spending is \$31 million above the July Update estimate as a result of larger than projected growth in the number of TAP recipients and average award levels.

Medicaid spending increased by a net \$3 million over the July Update estimate as a result of \$100 million in higher costs relating to caseload and utilization (\$96 million) and revised cost containment savings (\$4 million). This growth is partially offset by an increased State benefit resulting from the 15-month increase in the Federal matching rate used to lower Medicaid costs (\$51 million). The gross State benefit of \$319 million (for a total State share benefit in 2003-04 of \$690 million) is reduced by \$268 million to reflect the portion of these savings used to finance programs under the Health Care Reform Act. In addition, there are other available resources to Medicaid to reduce current year costs (\$46 million).

Local assistance spending estimates for the Office of Mental Retardation and Developmental Disabilities were reduced by \$20 million from the July Update estimate due to the implementation of a cap on mentally disabled payments to counties pursuant to the recently enacted "clean-up" bills.

Transfers from the General Fund to other funds are reduced by \$15 million for the anticipated elimination of a transfer to the Lottery Fund assumed in the July Update. This transfer is no longer required due to an increase in estimated lottery receipts that sufficiently funds a portion of school aid costs as assumed in the Enacted Budget Financial Plan.

All other General Fund spending estimates, including State Operations (\$7.14 billion), General State Charges (\$3.26 billion), Debt Service (\$1.54 billion) and Capital Projects (\$255 million), remain unchanged from the July Update.

Annual Change in General Fund Disbursements

General Fund spending is now projected to total \$42.45 billion, an increase of \$4.84 billion or 13.0 percent from the prior year. The deferral of \$1.90 billion in disbursements from 2002-03 to 2003-04 that was made necessary due to the delay in securing authorization to issue tobacco bonds represents \$3.80 billion of the annual growth in General Fund spending. The deferral of \$1.9 billion in payments included school aid (\$1.31 billion), CUNY Senior Colleges advance (\$419 million), Medicaid to New York City relating to the mentally disabled (\$82 million), education (\$54 million), welfare (\$47 million) and several other payments (\$186 million).

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The remaining \$1.04 billion in projected annual spending growth in the General Fund is primarily attributable to increased spending for Grants to Local Governments of \$1.09 billion. This category is the largest area of General Fund spending and represents over 68 percent of total disbursements. All other General Fund spending is estimated to decrease by \$51 million and consists of lower spending for State Operations (\$610 million), offset by increases in General State Charges (\$493 million) and Transfers To Other Funds (\$66 million).

Higher local assistance spending of \$1.09 billion or 4.1 percent results from higher welfare spending associated with the loss of non-recurring Federal TANF reserve funds used to offset 2002-03 welfare spending and an increased caseload (\$582 million), additional spending for legislative member items (\$250 million), growth in Medicaid program costs (\$130 million), and various other increases in spending across several local assistance programs.

State Operations disbursements, which accounts for the second largest area of General Fund spending, are estimated to decline \$610 million or 7.9 percent from 2002-03 due to decreased spending for personal service (\$677 million) partially offset by modest growth in non-personal service spending (\$67 million).

Decreases in personal service costs are attributable to the continuation of the strict statewide hiring freeze, an aggressive use of a State employees retirement incentive, and the use of alternative funding sources to finance spending. These alternative funding sources for personal service costs are comprised of additional SUNY revenues including a tuition increase (\$289 million), increased Federal revenues used to finance a portion of mental hygiene spending (\$227 million), and the shift of transportation-related spending for the Department of Motor Vehicles to the Dedicated Highway Fund (\$90 million). This lower spending is partially offset by increased non-personal service spending resulting primarily from inflationary increases across all agencies.

General State Charges annual growth of \$493 million or 18.0 percent is mostly due to higher costs associated with pensions (\$250 million) and health insurance (\$204 million). Increases in pension costs are driven by a required minimum contribution rate of 4.5 percent of 2003-04 annual payroll expenditures (versus 1.0 percent in 2002-03), as well as higher costs produced by retirement incentives. The growth in health insurance spending reflects rising costs of employee and retiree health care, including the escalating costs of prescription drugs.

Transfers to other funds are projected to grow \$66 million or 2.8 percent over the prior year, primarily the result of timing of State subsidy payments to the SUNY hospitals (\$107 million), increased General Fund support of capital projects spending for transportation and the environment (\$90 million), and underlying growth in debt service costs (\$46 million). These increases are partially offset by a decrease in the transfer to the Community Service Provider Assistance Program Fund (\$100 million) and in the State's share of Medicaid payments to SUNY hospitals (\$48 million).

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Additional information relating to the annual spending changes is included in the 2003-04 Enacted Budget Report published on May 28, 2003.

Reserves/General Fund Closing Balance

The Mid-Year Update projects a closing balance of \$730 million in the General Fund, and is unchanged from the July Update. The closing fund balance is comprised of \$710 million in the permanent rainy day fund (Tax Stabilization Reserve Fund) and \$20 million in the litigation reserve (Contingency Reserve Fund).

Risks

The Mid-Year Financial Plan does not assume costs that could materialize as a result of adverse rulings in pending litigation, increased school aid funding related to recent court rulings, future collective bargaining agreements with State employee unions, Federal disallowances or other Federal actions that could produce adverse effects on the State's projections of receipts and disbursements. These risks are explained in further detail below.

The State is a defendant in several ongoing legal proceedings that could result in costs to the State Financial Plan. The most significant litigation includes ongoing claims by several Indian Nations alleging wrongful possession of lands by the State and several counties, and the recent State Court of Appeals ruling that the State's financing system for New York City public schools was unconstitutional requiring the State to submit its remedy to the Court by July 30, 2004. In addition, in *Jiggetts vs. Dowling*, the State has implemented a court-ordered increase in the shelter allowance schedule for public assistance families effective November 1, 2003. The court has also directed the parties to return on March 30, 2004 for further proceedings.

The State and several State employee unions are negotiating new collective bargaining agreements. The recently expired four-year agreement included a \$500 non-recurring lump sum payment and salary increases of 1.5 percent in 1999-00, 3.0 percent in 2000-01 and 3.5 percent in 2001-02 and 2002-03. Each one percent salary increase costs roughly \$80 million in the General Fund.

The Federal government is currently auditing Medicaid claims submitted since 1993 under the school supportive health services program. At this point, these audits have not been finalized, and, as a result, the liability of the State and/or school districts for any disallowances that may result from these audits cannot be determined. Federal regulations include an appeals process that could postpone repayment of any disallowances.

In addition, as of September 2003, nearly \$300 million in Federal Medicaid payments related to school supportive health services have been deferred by the Federal Centers for Medicare and Medicaid Services. Since the State has continued to reimburse school districts for these costs, these Federal deferrals, if not resolved, could result in a Medicaid cash shortfall in the General Fund.

New York State continues to await Federal approval of the Medicaid State Plan Amendment necessary to make planned payments totaling roughly \$1.1 billion (half funded by the Federal government) to public hospitals throughout the State, including the New York City Health and Hospitals Corporation, State University of New York hospitals, and other State and county operated facilities.

Governmental Funds Financial Plans

The State Funds and All Governmental Funds sections below provide a brief description of the annual change in receipts and disbursements. For a more detailed discussion of these changes, refer to the Enacted Budget Financial Plan.

GASB issued Statement 34 (GASB 34), which substantially changed the way in which governments are required to report their operations in their financial statements. In accordance with GASB 34, the Expendable and Non-Expendable Trust Funds have been reclassified from the Fiduciary fund type to the Special Revenue fund type. These fund reclassifications conform to the new accounting standards and are counted in the State Funds and All Governmental Funds actual results and estimates contained in this Update.

State Funds

State Funds represent the portion of the State's budget supported exclusively by State revenues: taxes, fees, fines, and other revenues imposed and collected by the State. Federal grants are not typically included as part of State Funds; however, one-time Federal grants received in the General Fund have been included for 2003-04.

2003-04 State Fund Receipts (millions of dollars)				
	July Update	October Update	Change from July Update	Annual Change
Taxes	42,534	42,577	43	1,901
Miscellaneous Receipts	19,360	19,424	64	5,421
Federal Grants	645	646	1	646
Total Receipts	62,539	62,647	108	7,968

The increase in State Funds receipts of \$108 million over the July Update is primarily attributable to General Fund changes including projected increases in tax collections (\$43 million). The remaining State Funds receipts change reflects the reclassification of Expendable and Non-Expendable Trust Funds to the Special Revenue Funds pursuant to GASB 34 as discussed above (\$60 million).

State Funds receipts are projected to total \$62.65 billion in 2003-04, an increase of \$7.97 billion or 14.6 percent from 2002-03. Tax receipts in State Funds are projected to total \$42.58 billion, an increase of \$1.90 billion from 2002-03 primarily reflecting a new personal income tax surcharge (\$1.4 billion) and a one-quarter percent increase in sales tax (\$450 million) as well as other modest tax reestimates. Miscellaneous receipts in State Funds are projected to total \$19.42 billion, an increase of \$5.42 billion over 2002-

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03. The growth in miscellaneous receipts primarily reflects receipts from the issuance of tobacco bonds (\$3.8 billion), receipt of bond proceeds in support of capital spending (\$1.29 billion) and growth in SUNY revenues attributable to a tuition increase (\$280 million). Federal grants are projected to total \$646 million and reflect one-time Federal revenue sharing payments.

2003-04 State Funds Disbursements (millions of dollars)			
July Update	October Update	Change from July Update	Annual Change
62,700	62,864	164	7,111

State Funds disbursements increased by \$164 million from the July Update. Spending growth is due mostly to General Fund changes, including welfare caseload increases (\$31 million) and higher than expected enrollment in the current academic year for TAP (\$31 million). The remaining change reflects increased spending in STAR for higher than anticipated school tax increases (\$35 million) and fund reclassifications made pursuant to GASB 34 as discussed above (\$84 million).

State Funds disbursements are projected at \$62.86 billion in 2003-04, an increase of \$7.11 billion or 12.8 percent from 2002-03. The deferral of payments made necessary due to the delay in securing authorization to issue tobacco bonds accounts for \$3.8 billion of the \$7.11 billion increase.

Spending growth in welfare and HESC (\$582 million and \$210 million, respectively) results primarily from the loss of non-recurring Federal TANF reserve funds that had previously helped offset 2002-03 General Fund spending.

Other State Funds spending growth includes increases in: General State Charges (\$543 million) primarily due to higher pension and health insurance costs; Medicaid (\$249 million) reflecting growth in program costs; and debt service (\$349 million), reflecting planned growth in costs and additional bonding enacted by the Legislature.

The remaining annual growth includes: legislative member items (\$250 million), public health (\$195 million), SUNY (\$183 million), STAR (\$171 million), transportation (\$136 million), environmental conservation (\$117 million) and children and family services (\$105 million).

All Governmental Funds

All Governmental Funds includes activity in the four governmental fund types: the General Fund, Special Revenue Funds, Capital Projects Funds, and Debt Service funds. All Governmental Funds spending combines State Funds with Federal grants across these fund types.

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2003-04 All Governmental Fund Receipts (millions of dollars)				
	July Update	October Update	Change from July Update	Annual Change
Taxes	42,534	42,577	43	1,901
Miscellaneous Receipts	19,582	19,555	(27)	5,413
Federal Grants	34,913	36,190	1,277	2,934
Total Receipts	97,029	98,322	1,293	10,248

The increase in All Governmental Funds receipts of \$1.29 billion over the July Update primarily reflects the receipt of Federal Emergency Management Agency (FEMA) reimbursement aid for World Trade Center costs (\$1.17 billion), and the State Funds changes described above (\$108 million).

All Governmental Funds receipts are projected to be \$98.32 billion in 2003-04, an increase of \$10.25 billion or 11.6 percent from 2002-03. The growth in receipts is comprised of the State Funds increase of \$7.97 billion discussed above, and additional growth of \$2.29 billion in Federal grants. The annual increase in Federal grants primarily reflects the receipt of FEMA aid as described above (\$1.13 billion) and higher projected Federal aid in support of the Medicaid program reflecting the temporary increase in the Federal matching rate (\$1.01 billion) and program cost increases (\$300 million).

2003-04 All Governmental Funds Disbursements (millions of dollars)			
July Update	October Update	Change from July Update	Annual Change
96,918	97,979	1,061	8,923

All Governmental Funds disbursements increased by \$1.06 billion over the July Update due to FEMA aid that flowed through the State to New York City for costs incurred associated with the World Trade Center attacks (\$885 million), and the State funds changes described above (\$164 million).

All Governmental Funds spending is projected to total \$97.98 billion in 2003-04, an annual increase of \$8.92 billion or 10 percent from 2002-03. All Governmental Funds Medicaid spending growth of \$2.51 billion primarily reflects underlying spending growth (\$1.40 billion), the temporary increase in the Federal matching rate (\$1.01 billion), and increased aid for disproportionate share payments to public hospitals (\$394 million), as well as the State Funds changes described above (\$249 million).

Also included in the annual increase is higher spending for public health (\$475 million), largely related to the Child Health Plus program (\$319 million), and welfare (\$225 million), which reflects the State Funds increase described above (\$582 million) partially offset by decreased Federal spending primarily due to the loss of one-time TANF aid that was used to support 2002-03 spending.

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All Governmental Funds spending growth largely attributable to State Funds spending includes growth for fringe benefits (\$525 million), debt service (\$349 million), legislative member items (\$250 million), SUNY (\$160 million), and STAR (\$171 million).

Mid-Year Cash-Basis Results

General Fund

Cumulative General Fund Cash Flow Results April 1, 2003 through September 30, 2003 (millions of dollars)			
	July Plan	Actuals	Favorable (Unfavorable) Variance
Total Receipts	21,764	21,649	(115)
Total Disbursements	20,316	19,905	411
Cash Balance	2,263	2,559	296

The General Fund ended the second quarter with a balance of \$2.56 billion, \$296 million higher than the estimate in the July Update to the Financial Plan. The variance primarily reflects timing delays in projected spending of \$411 million partially offset by lower receipts of \$115 million.

Total General Fund receipts, including transfers from other funds, were \$21.65 billion in the first six-months. On a net basis, receipts were \$115 million lower than the July Update cash flow projections. This variance is primarily attributable to the delay in a transfer from the Dedicated Highway Fund (\$118 million), lower sales and business taxes (\$46 million) and lower gross personal income tax receipts (\$21 million), which are partially offset by higher miscellaneous receipts (\$29 million) and other taxes (\$32 million).

General Fund disbursements, including transfers to other funds, totaled \$19.91 billion through the second quarter, and were \$411 million lower than the estimate of disbursements in the July Update. This lower spending consists of slower than anticipated 2002-03 school year aid payments primarily for categorical aid programs to school districts (\$178 million), timing delays in capital projects in the economic development, environment, education and general government areas (\$113 million), and a delay in the receipt of Federal Medicaid disproportionate share monies which are then transferred to SUNY hospitals (\$92 million). Almost all of these timing variances are expected to be paid by the end of December and should have no impact on year-end projections, with the exception of the pending Federal approval of the Medicaid State Plan Amendment to make additional intergovernmental transfers and disproportionate share (IGT/DSH) payments to public hospitals as discussed earlier in this document which could result in higher costs.

State Funds

Total State Funds receipts were \$30.15 billion in the first six months of 2003-04 comprised of \$20.48 billion in taxes and \$9.67 billion in other receipts. State Funds tax receipts are projected to total \$42.58 billion at year-end and all other receipts are projected to total \$20.07 billion. State Funds receipts through September represent 48 percent of total year-end projections which is consistent with financial plan assumptions that closely mirror State Funds disbursements.

State Funds disbursements totaled \$28.42 billion through the second quarter against projected year-end total disbursements of \$62.86 billion. Disbursements through September from State Funds amount to 45 percent of total projected disbursements consistent with underlying cash flow assumptions which plan for the disbursement of substantially all of the STAR local tax relief payments, significant school aid payments and Medicaid payments supported by HCRA monies in the second half of the fiscal year.

All Governmental Funds

All Governmental Funds receipts totaled \$48.81 billion in the first six months of 2003-04 comprised of \$20.48 billion in taxes, \$9.44 billion in miscellaneous receipts and \$18.89 billion in Federal grants. All Governmental Funds receipts are projected to total \$98.32 billion at year-end: \$42.58 billion in taxes, \$19.56 billion in miscellaneous receipts, and \$36.19 billion in Federal grants.

Total All Governmental Funds disbursements were \$46.23 billion through September against projected year-end total disbursements of \$97.98 billion. All Governmental Funds receipts and disbursements through September are consistent with cash flow assumptions made in development of the Financial Plan projections and represent 49 percent and 47 percent of total year-end estimates, respectively.

General Fund Cash Flow Projections

Actual month-end cash balances through September ranged from a low of \$1.33 billion in August to a high of \$2.79 billion in April. Total receipts through September included \$2.20 billion in tobacco proceeds and \$323 million in Federal revenue sharing received in June, which allowed for the repayment of all pending March 2003 payment delays totaling \$1.9 billion.

The General Fund closing balance on September 30, 2003 was \$2.56 billion. General Fund intra-month daily balances can be supplemented with positive balances in other governmental funds as permitted by legislation included in the 2003-04 Enacted Budget that allows the State Comptroller to temporarily access balances in other funds to support the General Fund within a month. This process was utilized in September, as planned, to ensure intra-month payments continued in a timely manner.

While the receipt of tobacco proceeds and additional Federal aid has alleviated the tight monthly cash flow position experienced in the first six months of the 2003-04 State

Mid-Year Update to the 2003-04 Financial Plan

Fiscal Year, DOB continues to review cash balances on a daily basis and expects that cash flow in the early part of 2004-05 will have to be carefully monitored.

The 2003-04 General Fund cash flow is projected to end the third quarter with a balance of \$2.54 billion, an increase of \$1.07 billion over the prior fiscal year.

Debt Reform Act

The Debt Reform Act of 2000 imposed phased-in caps that limit new debt outstanding to four percent of personal income and new debt service costs to five percent of total governmental funds receipts. To immediately constrain State debt levels, the Act applies to all new State-supported debt issued on and after April 1, 2000 (excluding certain refunding bonds). Section 23 of the State Finance Law requires the calculation of the caps imposed by the Act to be submitted with the Financial Plan Update most proximate to October 31 of each year.

For the 2002-03 fiscal year, the debt outstanding and debt service caps are 1.65 percent each. As shown in the table below, actual levels of debt outstanding and debt service costs continue to remain well below the limits imposed by the Act.

Debt Outstanding Cap (\$ in millions)	
New Debt Outstanding	\$8,295
Personal Income (CY 2002)	\$684,070
Debt Outstanding (% of PI)	1.21%
Cap Imposed by Debt Reform Act	1.65%

Debt Service Cap (\$ in millions)	
New Debt Service	\$470
Governmental Funds Receipts	\$90,174
Debt Service (% of Govn't Fund Receipts)	0.52%
Cap Imposed by Debt Reform Act	1.65%

Mid-Year Update to the 2003-04 Financial Plan

**CASH FINANCIAL PLAN
GENERAL FUND
2003-2004
(millions of dollars)**

	<u>July</u>	<u>Change</u>	<u>October</u>
Opening fund balance	<u>815</u>	<u>0</u>	<u>815</u>
Receipts:			
Taxes:			
Personal income tax	16,284	(8)	16,276
User taxes and fees	7,975	(11)	7,964
Business taxes	3,436	0	3,436
Other taxes	711	15	726
Miscellaneous receipts	5,547	0	5,547
Federal grants	645	0	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,150	23	5,173
Sales tax in excess of LGAC debt service	1,960	0	1,960
Real estate taxes in excess of CW/CA debt service	199	11	210
All other	430	0	430
Total receipts	<u>42,337</u>	<u>30</u>	<u>42,367</u>
Disbursements:			
Grants to local governments	29,584	45	29,629
State operations	7,142	0	7,142
General State charges	3,258	0	3,258
Transfers to other funds:			
Debt service	1,541	0	1,541
Capital projects	255	0	255
State university	145	0	145
Other purposes	497	(15)	482
Total disbursements	<u>42,422</u>	<u>30</u>	<u>42,452</u>
Change in fund balance	<u>(85)</u>	<u>0</u>	<u>(85)</u>
Closing fund balance	<u>730</u>	<u>0</u>	<u>730</u>
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	20	0	20

Mid-Year Update to the 2003-04 Financial Plan

CASH FINANCIAL PLAN GENERAL FUND 2003-2004 (millions of dollars)

	Enacted	Change	October
Opening fund balance	815	0	815
Receipts:			
Taxes:			
Personal income tax	16,285	(9)	16,276
User taxes and fees	8,007	(43)	7,964
Business taxes	3,498	(62)	3,436
Other taxes	771	(45)	726
Miscellaneous receipts	5,569	(22)	5,547
Federal grants	0	645	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	5,125	48	5,173
Sales tax in excess of LGAC debt service	1,853	107	1,960
Real estate taxes in excess of CW/CA debt service	202	8	210
All other	430	0	430
Total receipts	41,740	627	42,367
Disbursements:			
Grants to local governments	29,835	(206)	29,629
State operations	7,205	(63)	7,142
General State charges	3,232	26	3,258
Transfers to other funds:			
Debt service	1,583	(42)	1,541
Capital projects	255	0	255
State university	145	0	145
Other purposes	482	0	482
Total disbursements	42,737	(285)	42,452
Fiscal Management Plan/Federal Aid	912	(912)	0
Change in fund balance	(85)	0	(85)
Closing fund balance	730	0	730
Tax Stabilization Reserve Fund	710	0	710
Contingency Reserve Fund	20	0	20

Mid-Year Update to the 2003-04 Financial Plan

**CASH FINANCIAL PLAN
GENERAL FUND
2002-2003 and 2003-2004
(millions of dollars)**

	<u>2002-2003</u> <u>Actual</u>	<u>2003-2004</u> <u>October</u>	<u>Annual</u> <u>Change</u>
Opening fund balance	<u>1,032</u>	<u>815</u>	<u>(217)</u>
Receipts:			
Taxes:			
Personal income tax	16,791	16,276	(515)
User taxes and fees	7,063	7,964	901
Business taxes	3,380	3,436	56
Other taxes	743	726	(17)
Miscellaneous receipts	2,091	5,547	3,456
Federal grants	0	645	645
Transfers from other funds:			
PIT in excess of Revenue Bond debt service	4,215	5,173	958
Sales tax in excess of LGAC debt service	1,919	1,960	41
Real estate taxes in excess of CW/CA debt service	263	210	(53)
All other	931	430	(501)
Total receipts	<u>37,396</u>	<u>42,367</u>	<u>4,971</u>
Disbursements:			
Grants to local governments	24,887	29,629	4,742
State operations	7,678	7,142	(536)
General State charges	2,699	3,258	559
Transfers to other funds:			
Debt service	1,496	1,541	45
Capital projects	166	255	89
State university	26	145	119
Other purposes	661	482	(179)
Total disbursements	<u>37,613</u>	<u>42,452</u>	<u>4,839</u>
Change in fund balance	<u>(217)</u>	<u>(85)</u>	<u>132</u>
Closing fund balance	<u>815</u>	<u>730</u>	<u>(85)</u>
Tax Stabilization Reserve Fund	710	710	0
Contingency Reserve Fund	20	20	0
Community Projects Fund	85	0	(85)

Note: Actuals reflect the amounts published in the Comptroller's Cash Basis Report released on July 29, 2003.

Mid-Year Update to the 2003-04 Financial Plan

**CURRENT STATE RECEIPTS
GENERAL FUND
2002-2003 and 2003-2004
(millions of dollars)**

	<u>2002-2003 Actual</u>	<u>2003-2004 October</u>	<u>Annual Change</u>
Personal income tax	<u>16,791</u>	<u>16,276</u>	<u>(515)</u>
User taxes and fees:	<u>7,063</u>	<u>7,964</u>	<u>901</u>
Sales and use tax	6,328	7,250	922
Cigarette and tobacco taxes	446	415	(31)
Motor vehicle fees	67	75	8
Alcoholic beverages taxes	180	182	2
Alcoholic beverage control license fees	42	42	0
Business taxes:	<u>3,380</u>	<u>3,436</u>	<u>56</u>
Corporation franchise tax	1,407	1,388	(19)
Corporation and utilities tax	860	755	(105)
Insurance taxes	704	868	164
Bank tax	409	425	16
Other taxes:	<u>743</u>	<u>726</u>	<u>(17)</u>
Estate tax	701	692	(9)
Gift tax	7	0	(7)
Real property gains tax	5	2	(3)
Pari-mutuel taxes	29	32	3
Other taxes	1	0	(1)
Total taxes	<u>27,977</u>	<u>28,402</u>	<u>425</u>
Miscellaneous receipts	<u>2,091</u>	<u>5,547</u>	<u>3,456</u>
Federal grants	<u>0</u>	<u>645</u>	<u>645</u>
Total receipts	<u><u>30,068</u></u>	<u><u>34,594</u></u>	<u><u>4,526</u></u>

Mid-Year Update to the 2003-04 Financial Plan

GENERAL FUND PERSONAL INCOME TAX COMPONENTS 2002-2003 AND 2003-2004 (millions of dollars)

	2002-2003 Actual	2003-2004 October	Annual Change
Withholdings	19,959	22,085	2,126
Estimated Payments	4,855	5,035	180
Final Payments	1,334	1,240	(94)
Delinquencies	796	595	(201)
Gross Collections	26,944	28,955	2,011
State/City Offset	(288)	(300)	(12)
Refund Reserve	1,050	84	(966)
Refunds	(4,008) ⁽¹⁾	(4,230) ⁽²⁾	(222)
Reported Tax Collections	23,698	24,509	811
STAR	(2,664)	(2,835)	(171)
RBTF	(4,243)	(5,398)	(1,155)
General Fund	16,791	16,276	(515)

Net personal income tax collections are affected by transactions in the tax refund reserve account. The tax refund reserve account is used to hold moneys designated to pay tax refunds. The Comptroller deposits receipts into this account at the discretion of the Commissioner of Taxation and Finance. The deposit of moneys into the account during a fiscal year has the effect of reducing receipts for the fiscal year, and the withdrawal of moneys from the account has the effect of increasing receipts in the fiscal year of withdrawal. The tax refund reserve account also includes amounts made available as a result of the LGAC financing program. Beginning in 1998-99, a portion of personal income tax collections is deposited directly in the School Tax Reduction (STAR) fund and used to make payments to reimburse local governments for their revenue decreases due to the STAR program.

Note 1: Reflects the payment of the balance of refunds on 2001 liability and payment of \$960 million of calendar year 2002 refunds in the last quarter of the State's 2002-03 fiscal year and a balance in the Tax Refund Reserve Account of \$627 million.

Note 2: Reflects the payment of the balance of refunds on 2002 liability and the projected payment of \$960 million of calendar year 2003 refunds in the last quarter of the State's 2003-04 fiscal year and a projected balance in the Tax Refund Reserve Account of \$543 million.

Mid-Year Update to the 2003-04 Financial Plan

CASH FINANCIAL PLAN STATE FUNDS 2003-2004 (millions of dollars)

	General Fund	Special Revenue Funds	Capital Projects Funds	Debt Service Funds	(MEMO) Total
Opening fund balance	815	947	(560)	158	1,360
Receipts:					
Taxes	28,402	4,462	1,750	7,963	42,577
Miscellaneous receipts	5,547	9,943	3,232	702	19,424
Federal grants	645	1	0	0	646
Total receipts	<u>34,594</u>	<u>14,406</u>	<u>4,982</u>	<u>8,665</u>	<u>62,647</u>
Disbursements:					
Grants to local governments	29,629	10,237	1,095	0	40,961
State operations	7,142	4,630	0	8	11,780
General State charges	3,258	410	0	0	3,668
Debt service	0	0	0	3,387	3,387
Capital projects	0	6	3,062	0	3,068
Total disbursements	<u>40,029</u>	<u>15,283</u>	<u>4,157</u>	<u>3,395</u>	<u>62,864</u>
Other financing sources (uses):					
Transfers from other funds	7,773	820	280	4,882	13,755
Transfers to other funds	(2,423)	(229)	(947)	(10,149)	(13,748)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	<u>5,350</u>	<u>591</u>	<u>(419)</u>	<u>(5,267)</u>	<u>255</u>
Change in fund balance	<u>(85)</u>	<u>(286)</u>	<u>406</u>	<u>3</u>	<u>38</u>
Closing fund balance	<u>730</u>	<u>661</u>	<u>(154)</u>	<u>161</u>	<u>1,398</u>

The Special Revenue Funds Opening fund balance has been increased by \$54 million to reflect the reclassification of the Expendable and Non-Expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

Mid-Year Update to the 2003-04 Financial Plan

**CASH FINANCIAL PLAN
ALL GOVERNMENTAL FUNDS
2003-2004
(millions of dollars)**

	<u>General Fund</u>	<u>Special Revenue Funds</u>	<u>Capital Projects Funds</u>	<u>Debt Service Funds</u>	<u>(MEMO) Total</u>
Opening fund balance	815	1,039	(791)	158	1,221
Receipts:					
Taxes	28,402	4,462	1,750	7,963	42,577
Miscellaneous receipts	5,547	10,074	3,232	702	19,555
Federal grants	645	33,907	1,638	0	36,190
Total receipts	<u>34,594</u>	<u>48,443</u>	<u>6,620</u>	<u>8,665</u>	<u>98,322</u>
Disbursements:					
Grants to local governments	29,629	40,388	1,312	0	71,329
State operations	7,142	7,922	0	8	15,072
General State charges	3,258	576	0	0	3,834
Debt service	0	0	0	3,387	3,387
Capital projects	0	6	4,351	0	4,357
Total disbursements	<u>40,029</u>	<u>48,892</u>	<u>5,663</u>	<u>3,395</u>	<u>97,979</u>
Other financing sources (uses):					
Transfers from other funds	7,773	3,302	280	4,882	16,237
Transfers to other funds	(2,423)	(2,671)	(1,079)	(10,149)	(16,322)
Bond and note proceeds	0	0	248	0	248
Net other financing sources (uses)	<u>5,350</u>	<u>631</u>	<u>(551)</u>	<u>(5,267)</u>	<u>163</u>
Change in fund balance	<u>(85)</u>	<u>182</u>	<u>406</u>	<u>3</u>	<u>506</u>
Closing fund balance	<u>730</u>	<u>1,221</u>	<u>(385)</u>	<u>161</u>	<u>1,727</u>

The Special Revenue Funds Opening fund balance has been increased by \$54 million to reflect the reclassification of the Expendable and Non-Expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

Mid-Year Update to the 2003-04 Financial Plan

**CURRENT STATE RECEIPTS
ALL GOVERNMENTAL FUNDS
2002-2003 and 2003-2004
(millions of dollars)**

	<u>2002-2003 Actual</u>	<u>2003-2004 October</u>	<u>Annual Change</u>
Personal income tax	23,698	24,509	811
User taxes and fees	10,804	11,906	1,102
Sales and use taxes	8,796	9,914	1,118
Cigarette and tobacco taxes	446	415	(31)
Motor fuel tax	544	515	(29)
Motor vehicle fees	612	651	39
Highway use tax	147	149	2
Alcoholic beverage taxes	180	182	2
Alcoholic beverage control license fees	42	42	0
Auto rental tax	37	38	1
Business taxes	4,983	5,021	38
Corporation franchise tax	1,612	1,577	(35)
Corporation and utilities taxes	1,091	964	(127)
Insurance taxes	776	972	196
Bank tax	481	497	16
Petroleum business taxes	1,023	1,011	(12)
Other taxes	1,191	1,141	(50)
Estate tax	701	691	(10)
Gift tax	7	0	(7)
Real property gains tax	5	2	(3)
Real estate transfer tax	448	415	(33)
Pari-mutuel taxes	29	32	3
Other taxes	1	1	0
Total taxes	<u>40,676</u>	<u>42,577</u>	<u>1,901</u>
Miscellaneous receipts	<u>14,148</u>	<u>19,555</u>	<u>5,407</u>
Federal grants	<u>33,250</u>	<u>36,190</u>	<u>2,940</u>
Total receipts	<u><u>88,074</u></u>	<u><u>98,322</u></u>	<u><u>10,248</u></u>

Mid-Year Update to the 2003-04 Financial Plan

CASH FINANCIAL PLAN SPECIAL REVENUE FUNDS 2003-2004 (millions of dollars)

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Opening fund balance	<u>947</u>	<u>92</u>	<u>1,039</u>
Receipts:			
Taxes	4,462	0	4,462
Miscellaneous receipts	9,943	131	10,074
Federal grants	1	33,906	33,907
Total receipts	<u>14,406</u>	<u>34,037</u>	<u>48,443</u>
Disbursements:			
Grants to local governments	10,237	30,151	40,388
State operations	4,630	3,292	7,922
General State charges	410	166	576
Debt service	0	0	0
Capital projects	6	0	6
Total disbursements	<u>15,283</u>	<u>33,609</u>	<u>48,892</u>
Other financing sources (uses):			
Transfers from other funds	820	2,482	3,302
Transfers to other funds	(229)	(2,442)	(2,671)
Bond and note proceeds	0	0	0
Net other financing sources (uses)	<u>591</u>	<u>40</u>	<u>631</u>
Change in fund balance	<u>(286)</u>	<u>468</u>	<u>182</u>
Closing fund balance	<u>661</u>	<u>560</u>	<u>1,221</u>

The State Special Revenue Funds Opening fund balance has been increased by \$54 million to reflect the reclassification of the Expendable and Non-Expendable Trust Funds from the Fiduciary fund type to the Special Revenue fund type pursuant to GASB 34.

Mid-Year Update to the 2003-04 Financial Plan

**CASH FINANCIAL PLAN
CAPITAL PROJECTS FUNDS
2003-2004
(millions of dollars)**

	<u>State</u>	<u>Federal</u>	<u>Total</u>
Opening fund balance	(560)	(231)	(791)
Receipts:			
Taxes	1,750	0	1,750
Miscellaneous receipts	3,232	0	3,232
Federal grants	0	1,638	1,638
Total receipts	4,982	1,638	6,620
Disbursements:			
Grants to local governments	1,095	217	1,312
State operations	0	0	0
General State charges	0	0	0
Debt service	0	0	0
Capital projects	3,062	1,289	4,351
Total disbursements	4,157	1,506	5,663
Other financing sources (uses):			
Transfers from other funds	280	0	280
Transfers to other funds	(947)	(132)	(1,079)
Bond and note proceeds	248	0	248
Net other financing sources (uses)	(419)	(132)	(551)
Change in fund balance	406	0	406
Closing fund balance	(154)	(231)	(385)

Mid-Year Update to the 2003-04 Financial Plan

CASHFLOW GENERAL FUND 2003-2004 (millions of dollars)											
	April	May	June	July	August	September	October	November	December		
Opening fund balance	<u>815</u>	<u>2,786</u>	<u>2,151</u>	<u>1,989</u>	<u>1,466</u>	<u>1,331</u>	<u>2,559</u>	<u>3,245</u>	<u>2,825</u>		
Receipts:											
Taxes											
Personal income tax	2,811	244	1,545	1,214	1,126	1,791	1,345	1,034	233		
Sales tax	450	461	692	547	557	813	567	574	815		
User taxes and fees	103	74	40	73	52	65	49	50	55		
Business taxes	56	(133)	728	58	42	787	41	1	809		
Other taxes	49	93	33	60	67	96	48	52	55		
Tobacco bond proceeds	0	0	2,202	0	0	0	0	0	1,598		
Federal Grants	0	0	323	0	0	0	323	0	0		
Miscellaneous receipts	70	55	116	94	81	187	137	290	102		
Transfers from other funds	898	297	770	585	561	816	628	460	359		
Total receipts	<u>4,437</u>	<u>1,091</u>	<u>6,449</u>	<u>2,631</u>	<u>2,486</u>	<u>4,555</u>	<u>3,138</u>	<u>2,461</u>	<u>4,026</u>		
Disbursements:											
Grants to local governments	1,462	604	5,426	1,834	1,723	1,703	1,557	1,871	2,973		
State operations	743	799	648	845	606	634	504	656	728		
General State charges	32	268	246	359	246	636	275	171	217		
Transfers to other funds	229	55	291	116	46	354	116	183	397		
Total disbursements	<u>2,466</u>	<u>1,726</u>	<u>6,611</u>	<u>3,154</u>	<u>2,621</u>	<u>3,327</u>	<u>2,452</u>	<u>2,881</u>	<u>4,315</u>		
Change in fund balance	<u>1,971</u>	<u>(635)</u>	<u>(162)</u>	<u>(523)</u>	<u>(135)</u>	<u>1,228</u>	<u>686</u>	<u>(420)</u>	<u>(289)</u>		
Closing fund balance	<u>2,786</u>	<u>2,151</u>	<u>1,989</u>	<u>1,466</u>	<u>1,331</u>	<u>2,559</u>	<u>3,245</u>	<u>2,825</u>	<u>2,536</u>		

Note: Reflects actuals through September published in the Comptroller's Monthly Report on State Funds Cash Basis of Accounting for September 2003 and DOB projections for October through December.