
2005-06 Enacted Budget State of New York

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Governor**

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2005-06 Enacted Budget Overview

- First on-time budget in 21 years. Debt service continues to pass ahead of deadline (this year on March 8th – the earliest ever – without any legislative changes).
- Financial Plan fully balanced without the need for vetoes.
- Structural gap reduced to roughly \$3 billion, lowest level since September 11th.
- General Fund GAAP deficit eliminated.
- Nearly \$700 million added to general reserves, bringing the total to \$1.5 billion, equal to 3.2 percent of spending.
- All major elements of healthcare reform were enacted, including:
 - Over \$1 billion in Medicaid cost containment – highest level since 1996.
 - Local Medicaid cap; State takeover of Family Health Plus.
 - Hospital and nursing home closures legislation.

2005-06 Budget Scorecard

GOAL	OUTCOME
Progress Toward Structural Balance	<ul style="list-style-type: none"> ✓ Structural gap cut by two-thirds ✓ Enacted Budget added only modestly to Executive gap forecast
Control Annual Spending Growth	<ul style="list-style-type: none"> ✓ General Fund at 4.7 percent ✓ All Funds at 4.3 percent
Achieve substantial Medicaid Reform	<ul style="list-style-type: none"> ✓ \$1.4 billion in new cost containment ✓ \$300 million in continuing cost containment ✓ Multi-point plan in place to restructure system
Continue School Finance Reforms	<ul style="list-style-type: none"> ✓ Sound basic education aid approved ✓ “Flex aid” provides schools flexibility in using State aid
Mitigate Major Risks	<ul style="list-style-type: none"> ✓ HCRA extended through June 2007 ✓ Law requires HCRA spending to stop until conversions settled ✓ Transportation Plans enacted ✓ Impediments to VLTs removed by legislation, Court of Appeals ✓ Stay remains in force on CFE case

2004-05 Results Exceeded Expectations

- Ended with \$1.2 billion surplus.
- Revenues realized their “upside potential,” exceeding forecast at every point during the fiscal year.
- Spending generally on track with Enacted Forecast.
- Most of surplus used to capitalize reserves and pre-pay 2005-06 obligations.
- Rainy Day Reserve at statutory maximum after ninth deposit in ten years.

SUMMARY OF 2004-05 GENERAL FUND OPERATING RESULTS	
Enacted Budget to Year-End Actuals	
Savings/(Costs)	
Enacted Budget Projected (Deficit)/Surplus	<u>(434)</u>
Revenue Revisions:	1,819
Revenue Reestimates through 30-Day	1,302
Consensus Revenue	350
Closeout Revenue Reestimates	231
Change in Transfers/Fund Balances	(64)
Spending Revisions (net of prepayments):	(190)
Delayed Empire Conversion Proceeds	(200)
Corrections	(138)
Fiscal Management Plan Savings	161
All Other Changes	(13)
Operating Surplus	<u>1,195</u>
Use of Surplus:	(1,195)
Deposit to Fiscal Stability Reserve	(601)
Reserve for Timing-Related Underspending	(126)
HCRA Transfer	(200)
Prepay Medicaid Cycle	(190)
Rainy Day Fund Deposit	(78)

U.S. Economic Forecast

- DOB projects solid growth in real U.S. GDP of 3.6 percent for this year, following 4.4 percent growth for 2004. Output is expected to grow slightly above its potential rate in 2005.
- U.S. employment is projected to grow 1.7 percent in 2005, following growth of 1.0 percent in 2004.
- DOB expects inflation to increase to 2.8 percent in 2005, following price growth of 2.7 percent in 2004. As a result, the Federal Reserve is expected to continue on its course of rate hikes, with the federal funds target rate expected to reach 4.25 percent by the end of this year.
- DOB's forecast is not without risks. Inflationary expectations are rising with oil prices remaining at around \$50 a barrel.
- Higher inflation might cause the Federal Reserve to tighten faster than forecast, creating significant risk for the stock market and the larger economy.

U.S. Economic Forecast Comparison

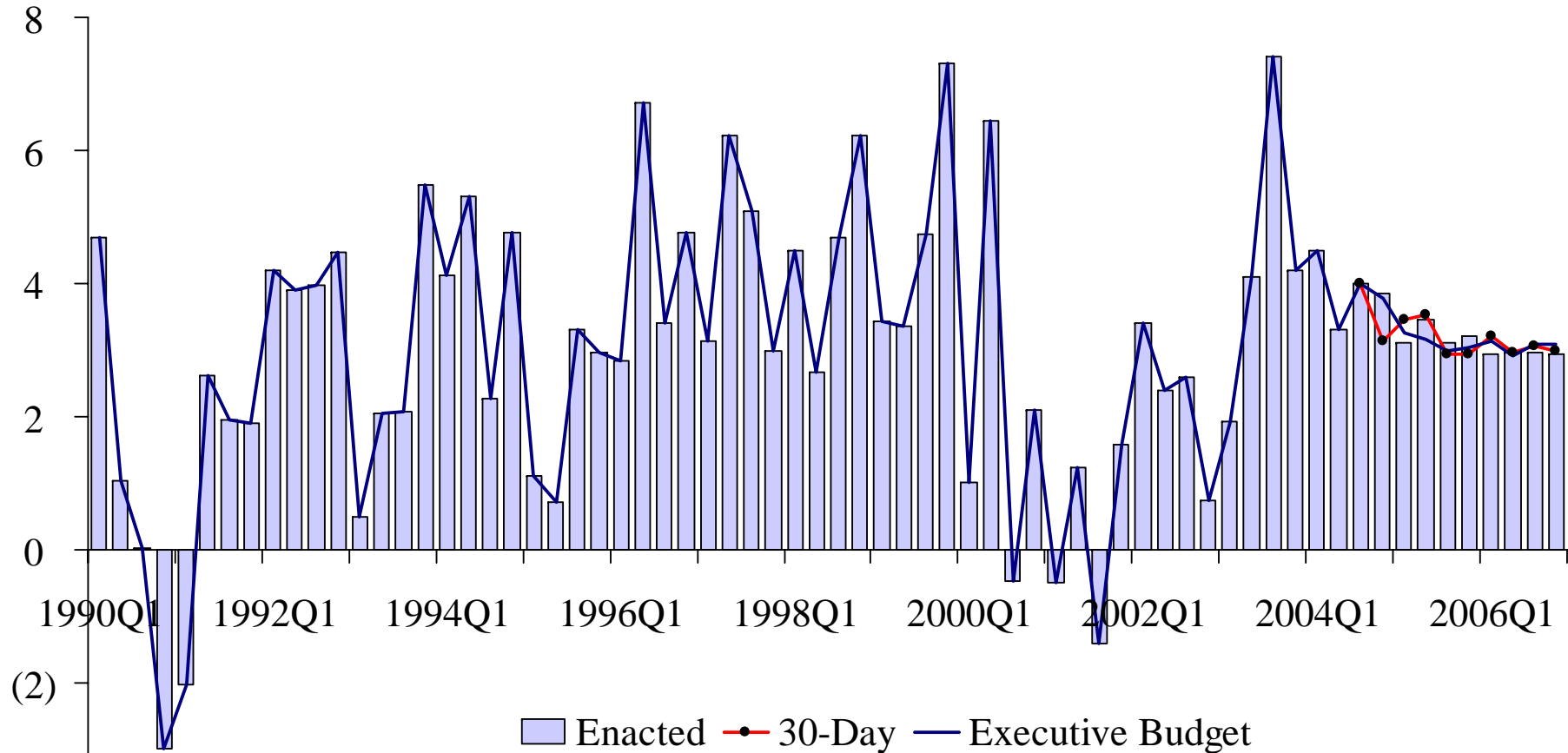
	2004 (preliminary)	2005 (forecast)	2006 (forecast)	2007 (forecast)	2008 (forecast)
Gross Domestic Product (GDP) (1996 chain wt. percent change)					
DOB	4.4	3.6	3.0	3.0	3.0
Blue Chip Consensus	4.4	3.7	3.4	NA	NA
Economy.com	4.4	3.7	NA	NA	NA
Global Insight	4.4	3.7	3.0	2.8	3.1
Macroeconomic Advisers	4.4	4.0	3.7	NA	NA
Consumer Price Index (CPI) (percent change)					
DOB	2.7	2.8	2.8	2.8	2.8
Blue Chip Consensus	2.7	2.6	2.4	NA	NA
Economy.com	2.7	2.4	NA	NA	NA
Global Insight	2.7	2.7	2.0	2.1	2.3
Macroeconomic Advisers	2.7	2.6	2.2	NA	NA
Unemployment Rate (percent)					
DOB	5.5	5.2	5.0	5.0	5.0
Blue Chip Consensus	5.5	5.2	5.1	NA	NA
Economy.com	5.5	5.3	NA	NA	NA
Global Insight	5.5	5.1	5.1	5.2	5.1
Macroeconomic Advisers	5.5	5.2	5.1	NA	NA

Source: Projections for 2005-2008 by New York State Division of the Budget, April 2005; Blue Chip Economic Indicators, April 2005; Economy.com, Macro Forecast, April 2005; Global Insight, US Executive Summary, April, 2005; and Macroeconomic Advisers, Economic Outlook, April 2005.

- DOB's 2005 real GDP forecast is in line with other forecasters, while the forecast for 2006 is more cautious compared with Blue Chip and Macroeconomic Advisers.
- DOB's inflation forecast of 2.8 for 2005 and beyond is higher than other forecasters.

Real Gross Domestic Product Forecast Improves

(Annualized percent change from prior quarter)

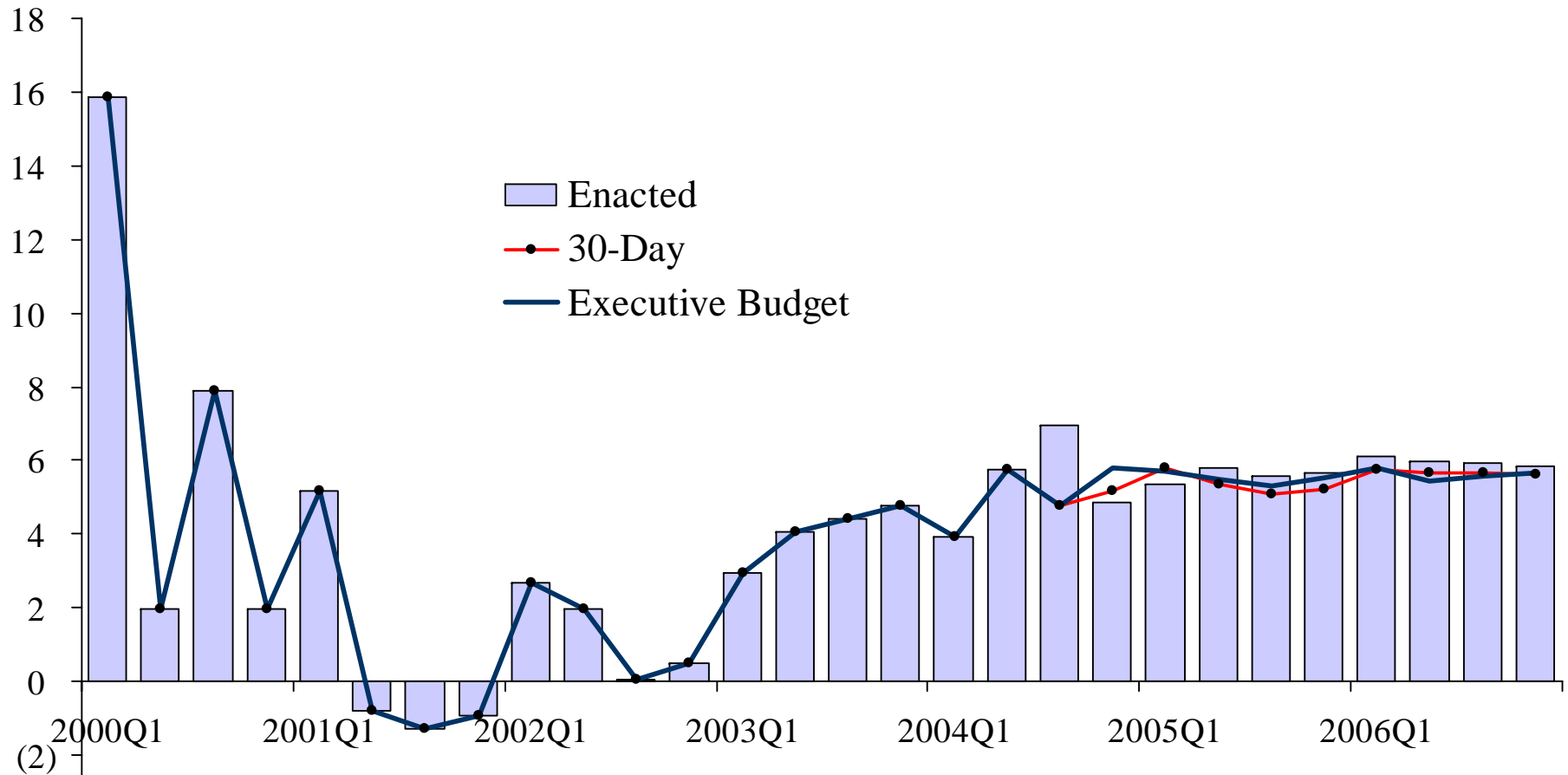


Source: Economy.com; DOB staff estimates.

- U.S. Real GDP is expected to grow 3.6 in 2005 following 4.4 percent for 2004. DOB's current forecast is slightly above the forecast contained in the Executive Budget.

U.S. Total Wages Forecast Improves

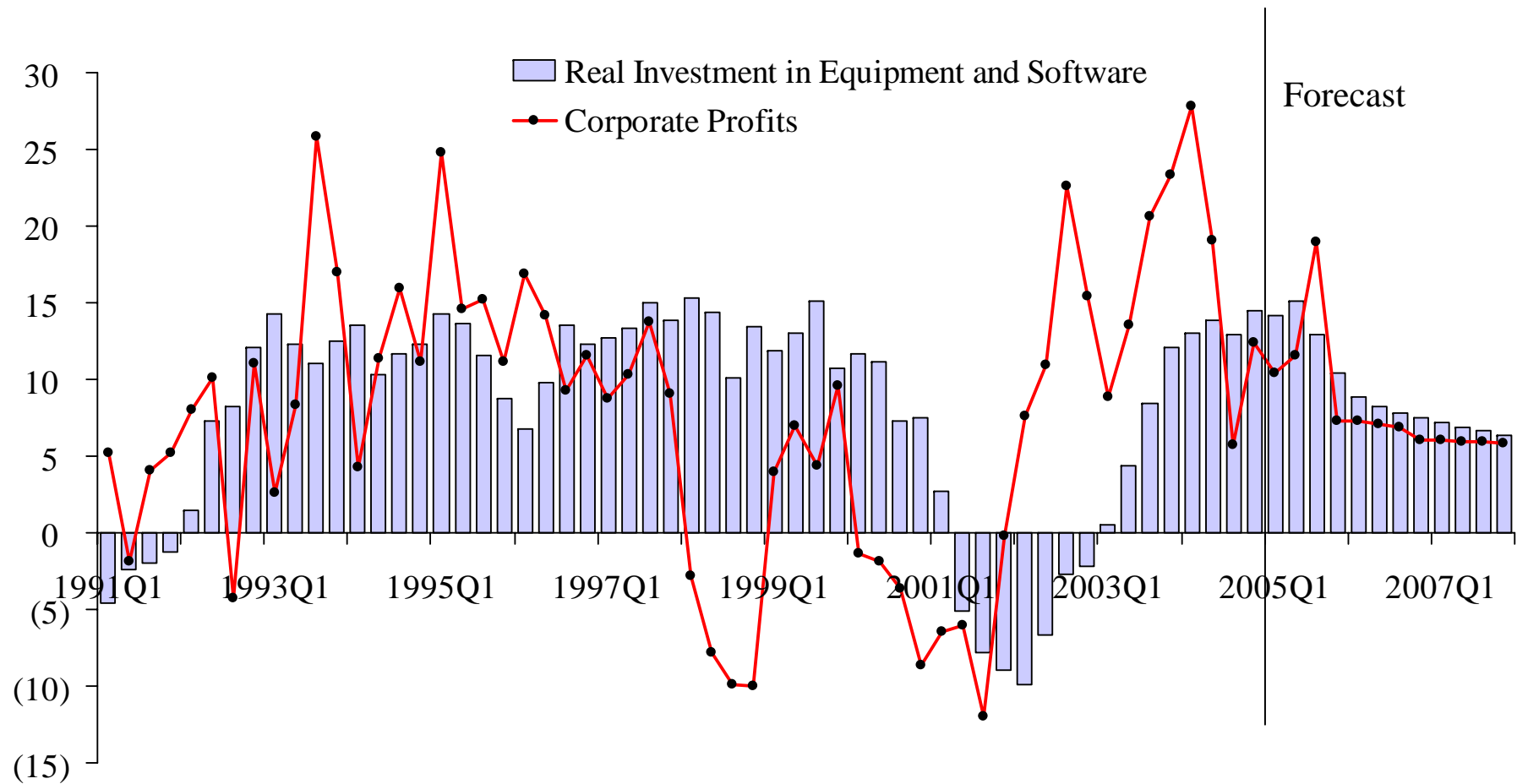
(Annualized percent change from prior quarter)



(4) Source: Economy.com; DOB staff estimates.

- Following BEA's upward revision to U.S. wage growth for the second half of 2004, DOB raised its forecast for 2005 wage growth to 5.6 percent, following growth of 4.9 percent in 2004.

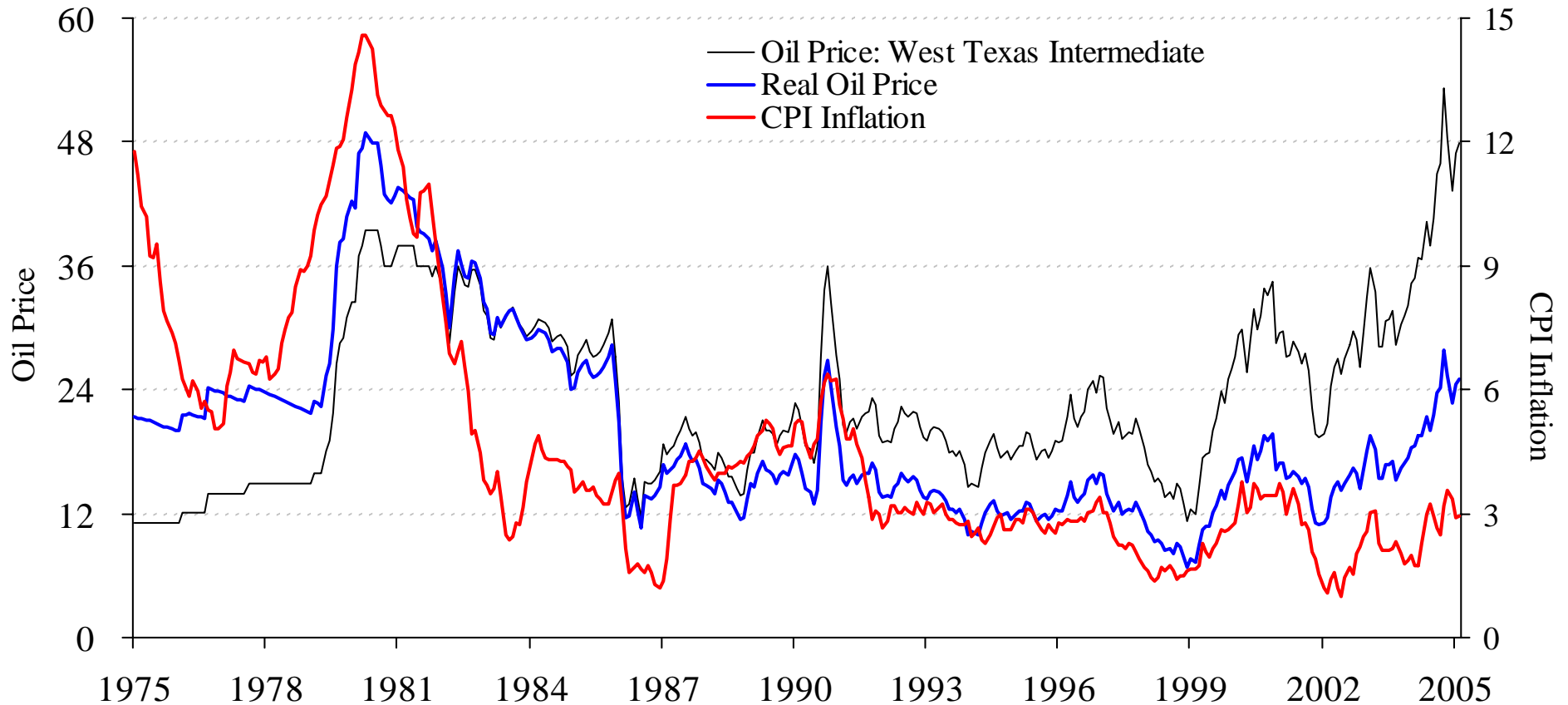
Real Investment in Equipment and Corporate Profits (Growth from a year ago)



Source: Economy.com.

- Both profits and business investment showed significant strength in 2004.

Real Oil Prices and Inflation



Note: Oil prices are measured in 1982-84 dollars.

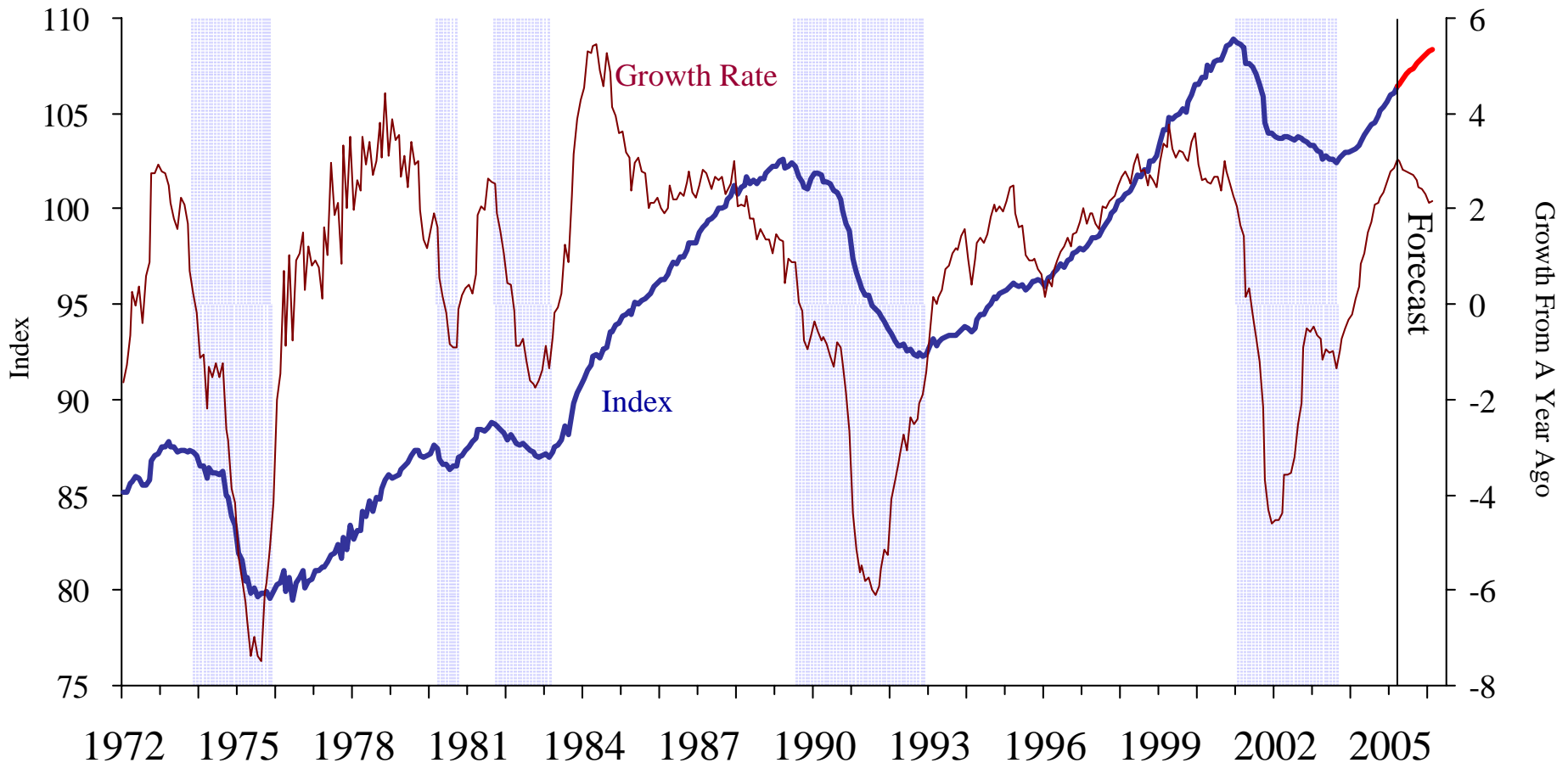
Source: Economy.com.

- The price of oil, adjusted for inflation, has reached its 1990 level. Continuing high oil prices could create significant inflationary pressures on prices for other goods and services.

State Economic Forecast

- State economy is continuing to grow. Following 0.7 percent growth in 2004, State private sector employment is projected to grow 1.3 percent in 2005.
- New York personal income is projected to grow a solid 5.0 percent in 2005, with the largest component, wages and salaries, expected to grow 4.9 percent.
- Rising interest rates could affect the New York State economy disproportionately, as they did during the 1994-95 monetary tightening.

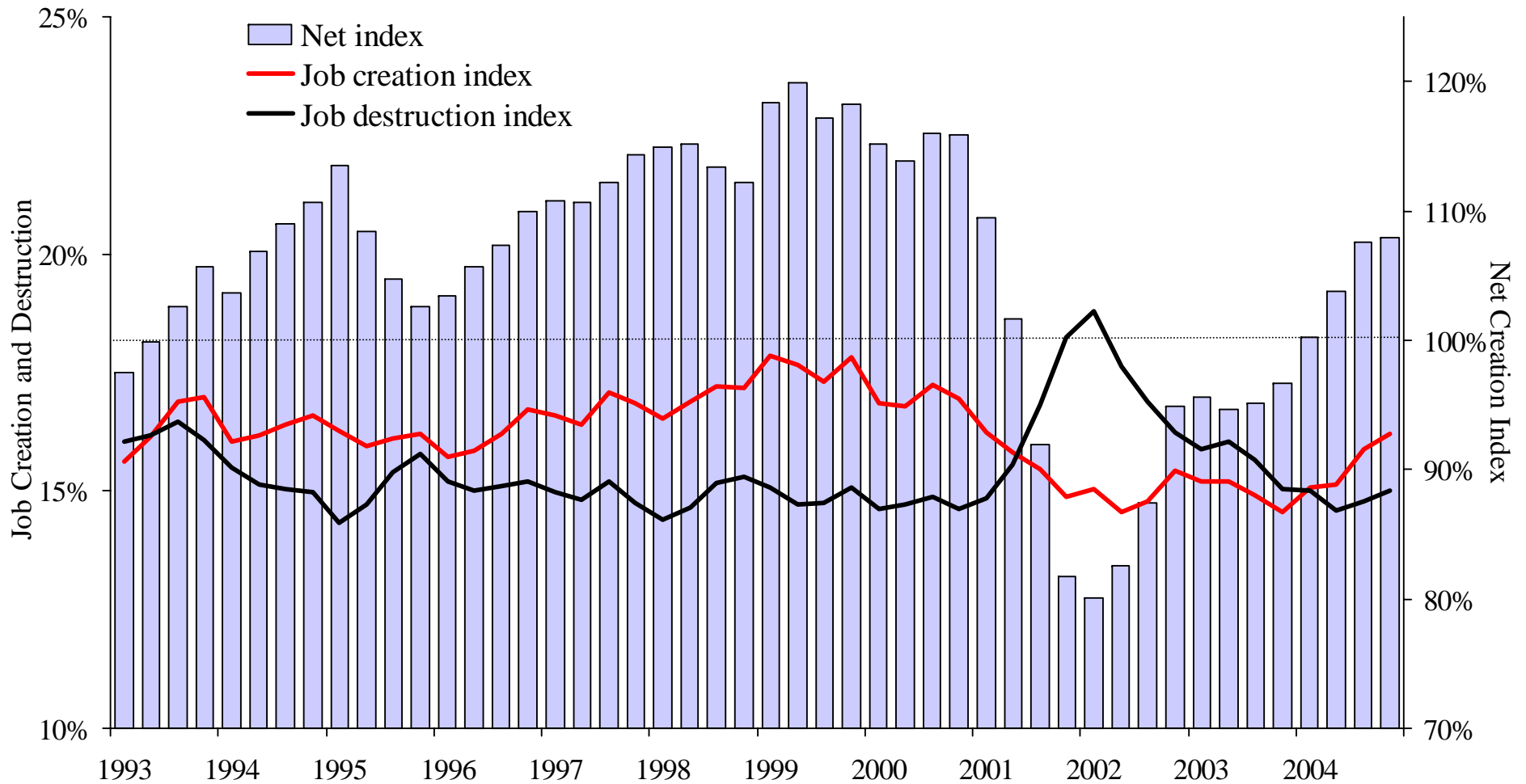
New York State Index of Coincident Economic Indicators



Note: Shaded areas represent N.Y. recessions; forecast is derived from the New York Leading Index.
Source: Economy.com; DOB staff estimates.

- New York coincident index is expected to grow in 2005, but slowly. By the beginning of 2006, the State economy is expected to be close to its most recent pre-recession peak, after a duration of about five years, representing a faster pace of recovery than following the early 1990s recession.

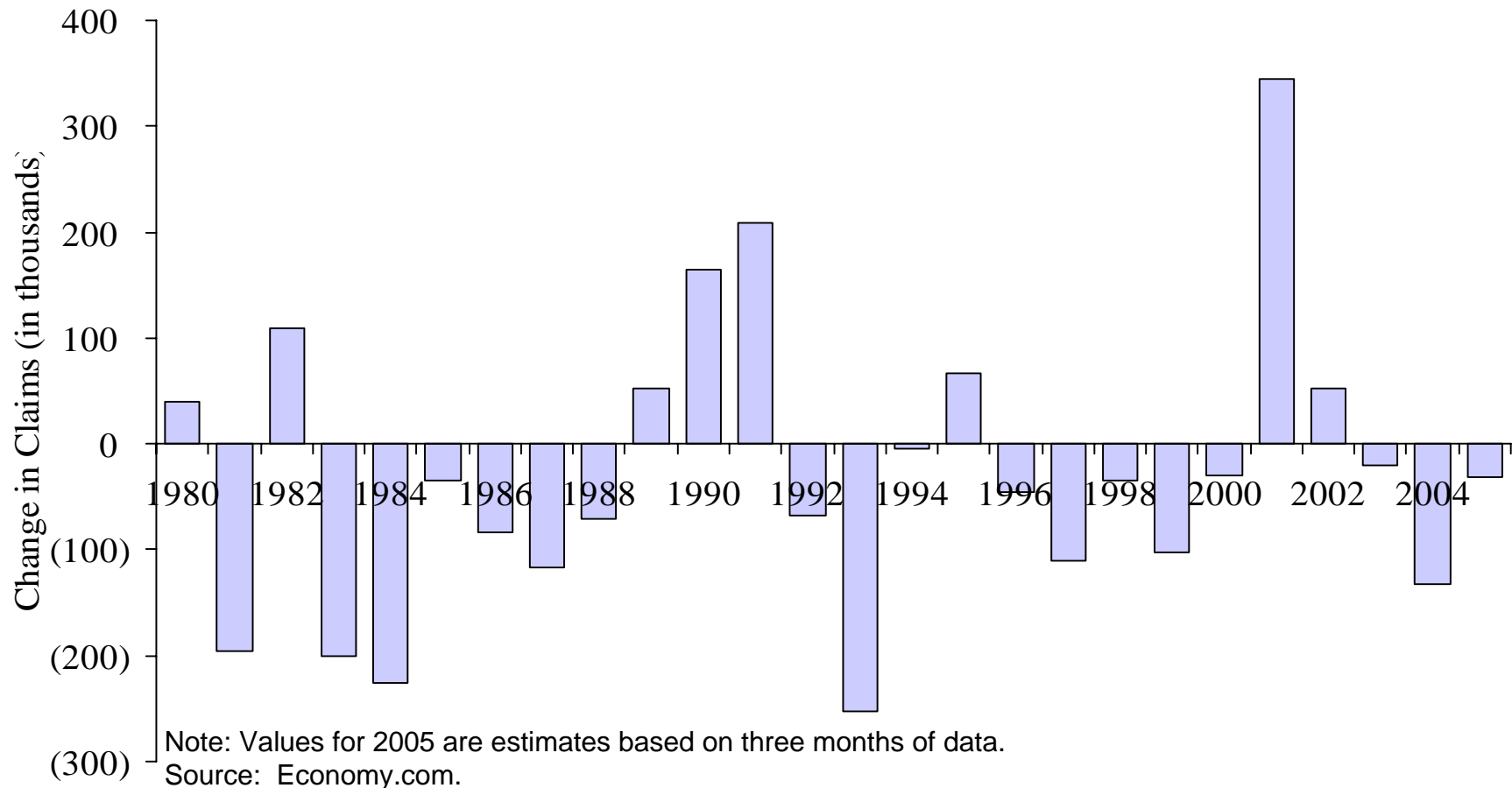
NYS Private Sector Employment Dynamics



Source: NYS Department of Labor; DOB staff estimates.

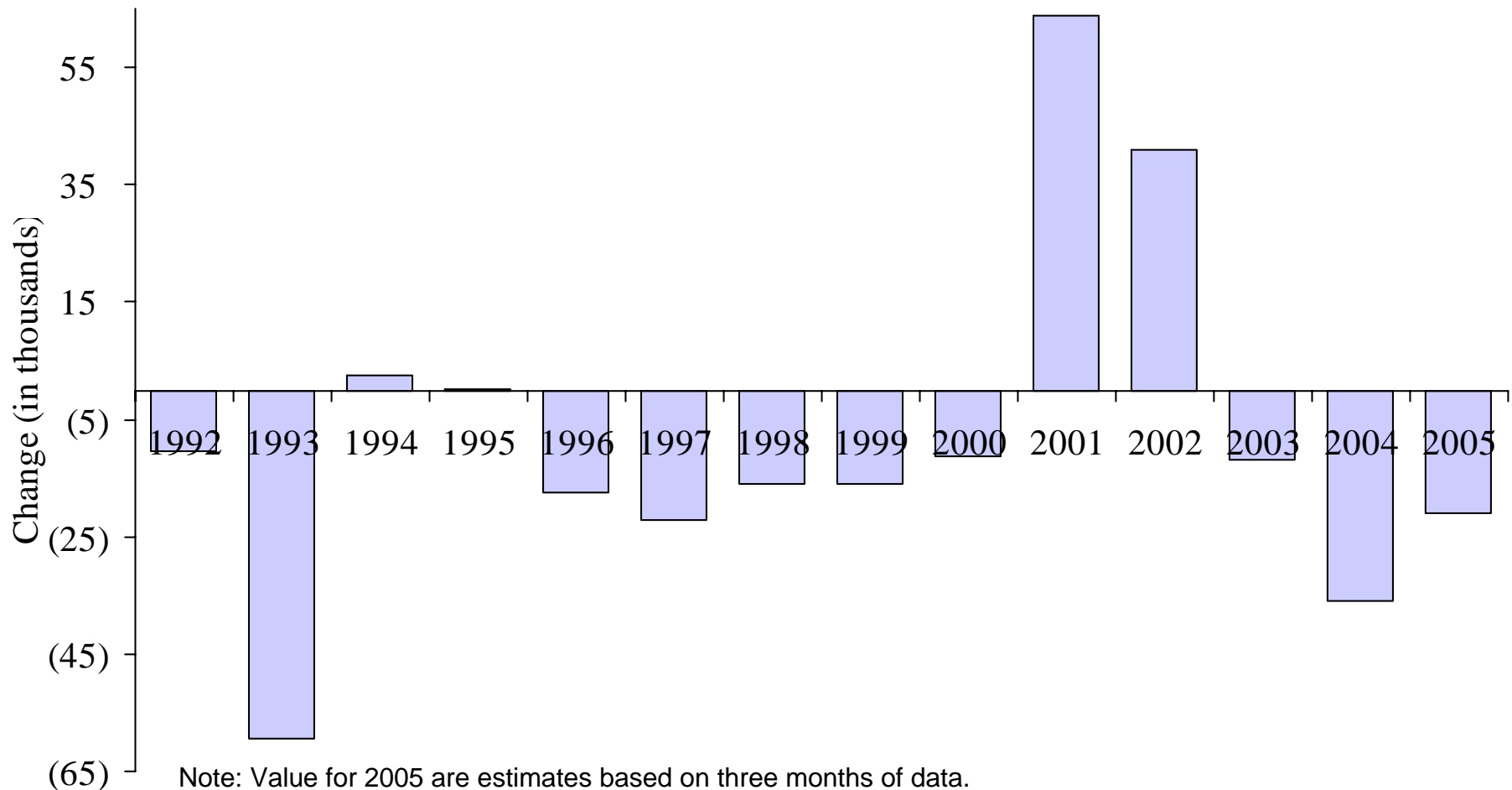
- Private sector job creation exceeded job destruction in 2004, indicating that labor markets are recovering in New York.

Initial Unemployment Insurance Claims (Change from prior year)



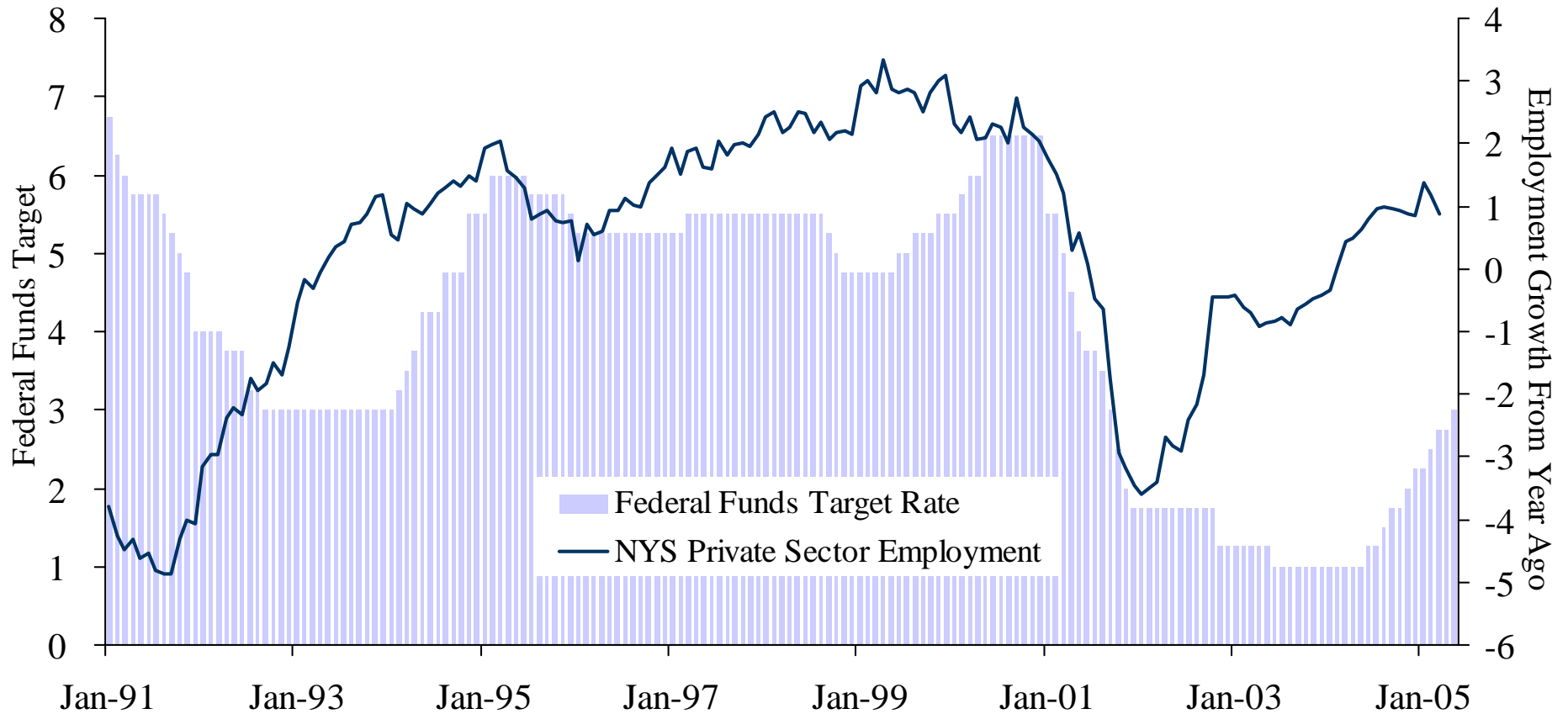
- The New York State labor market has been growing on a year-ago basis since February 2004.
- Initial claims declined two years in a row following increases in both 2001 and 2002. Following a total decline of 133,000 in 2004, initial claims continued to decline at an annual rate of 31,000 during first three months of this year.

Continuing Unemployment Insurance Claims (Change from prior year)



- The number of people with continuing claims declined by 36,000 in 2004, indicating a significant improvement in the labor market. This trend is expected to continue in 2005, but at a slower pace.

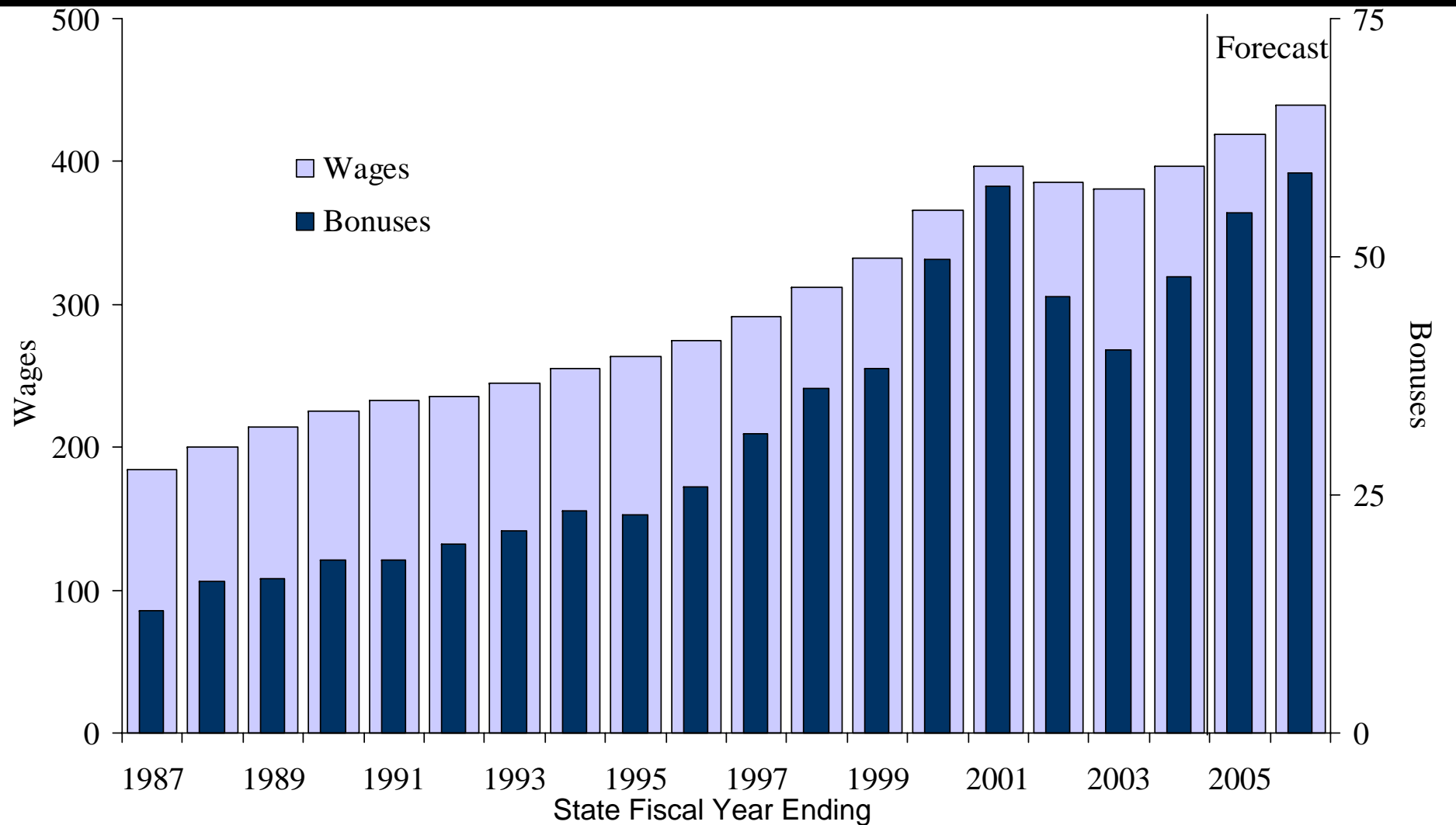
Impact of Federal Reserve Tightening on Employment



Source: Economy.com.

- The Federal Reserve's 1994-95 tightening adversely affected the New York State labor market. This is chiefly due to New York's unique position as a global financial capital. We assume current pace of tightening will slow New York employment growth in 2005.

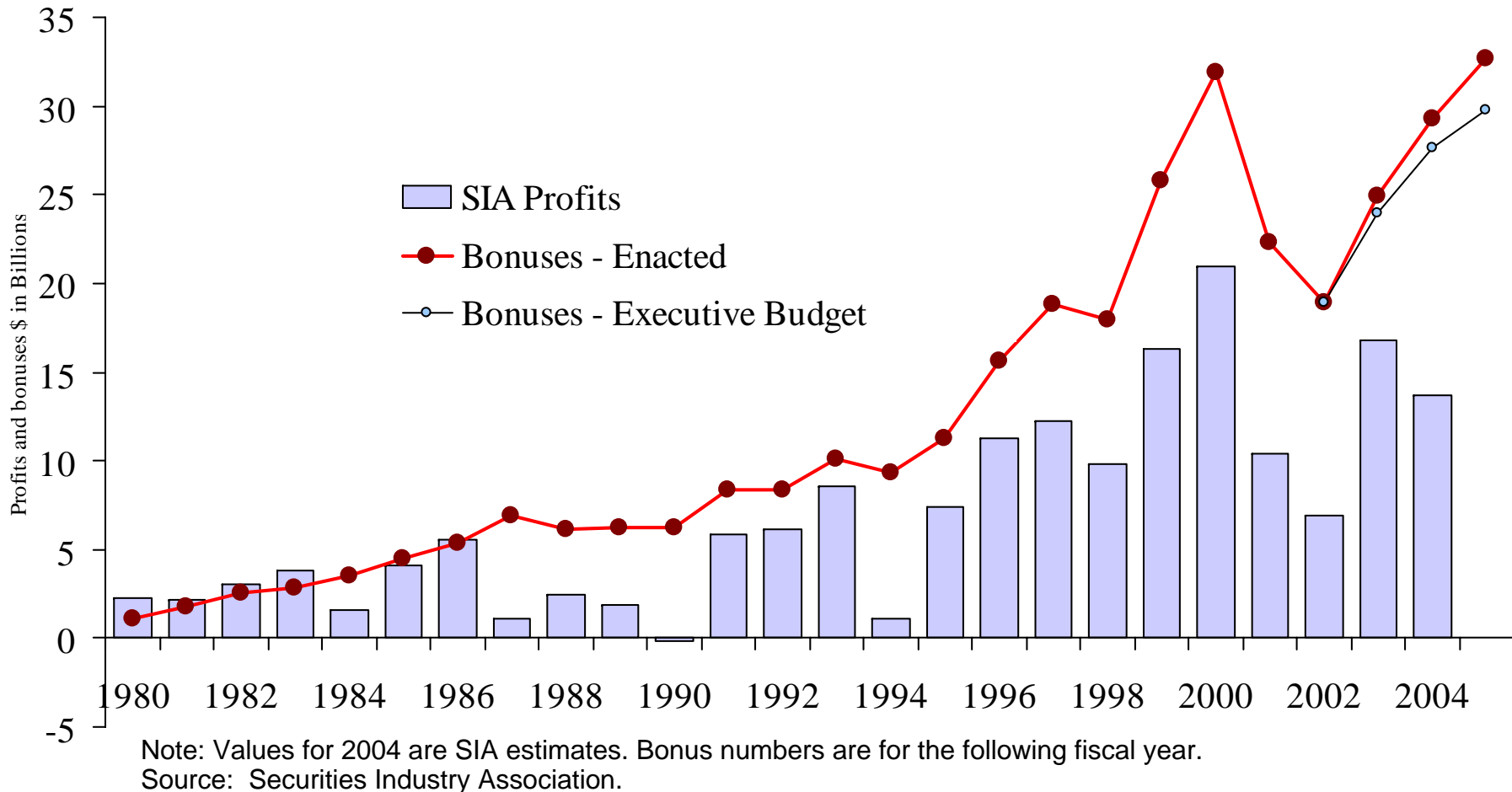
New York State Wages and Bonuses (dollars in billions)



Source: NYS Department of Labor; DOB staff estimates.

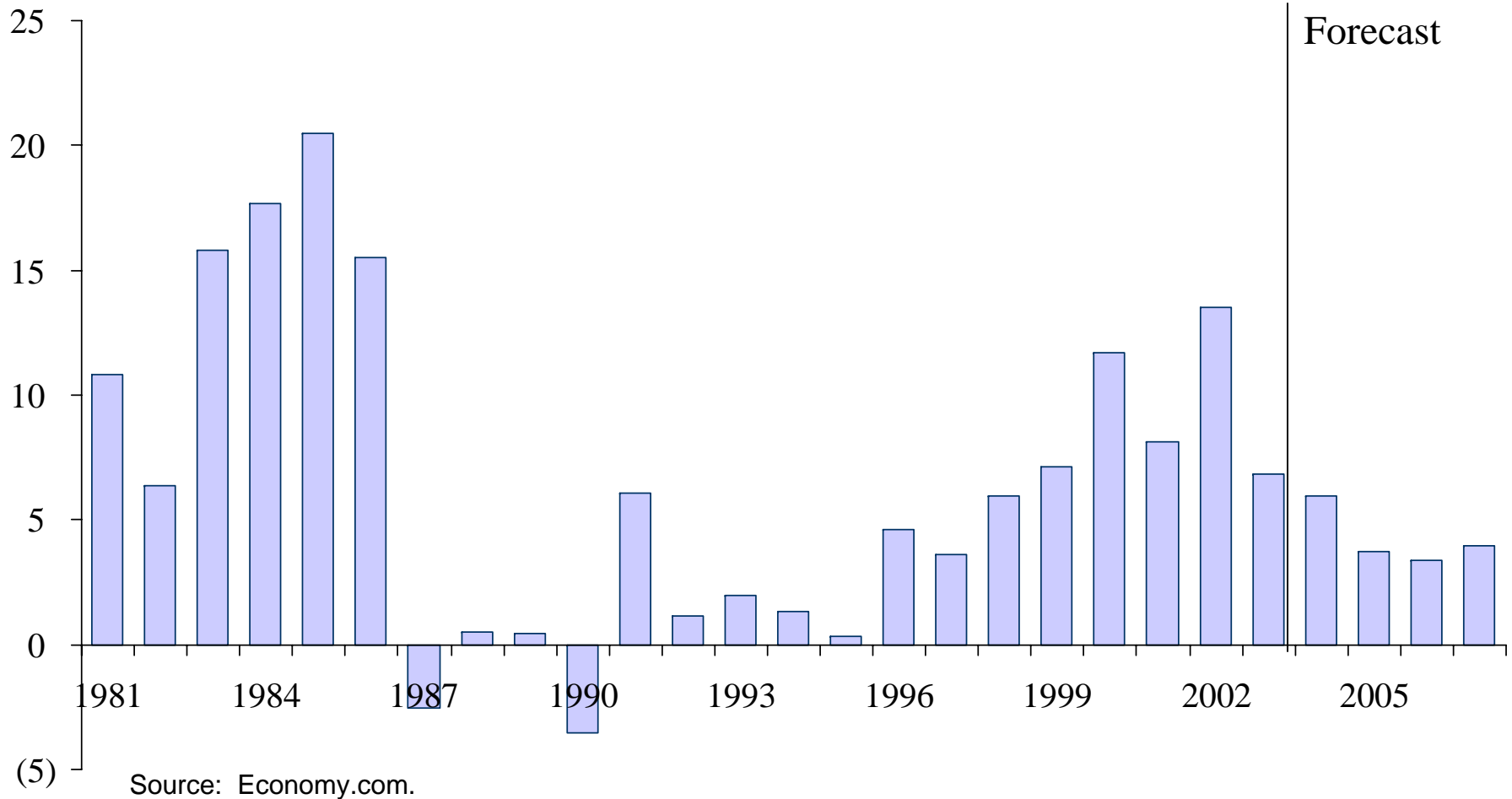
- Since the Executive Budget forecast, DOB has revised its wage forecast up by \$1.9 billion for 2005 and \$4.1 billion for 2006; most of the increase was contained in the 30-Day forecast.

Securities Industry Profits vs. Finance and Insurance Bonuses



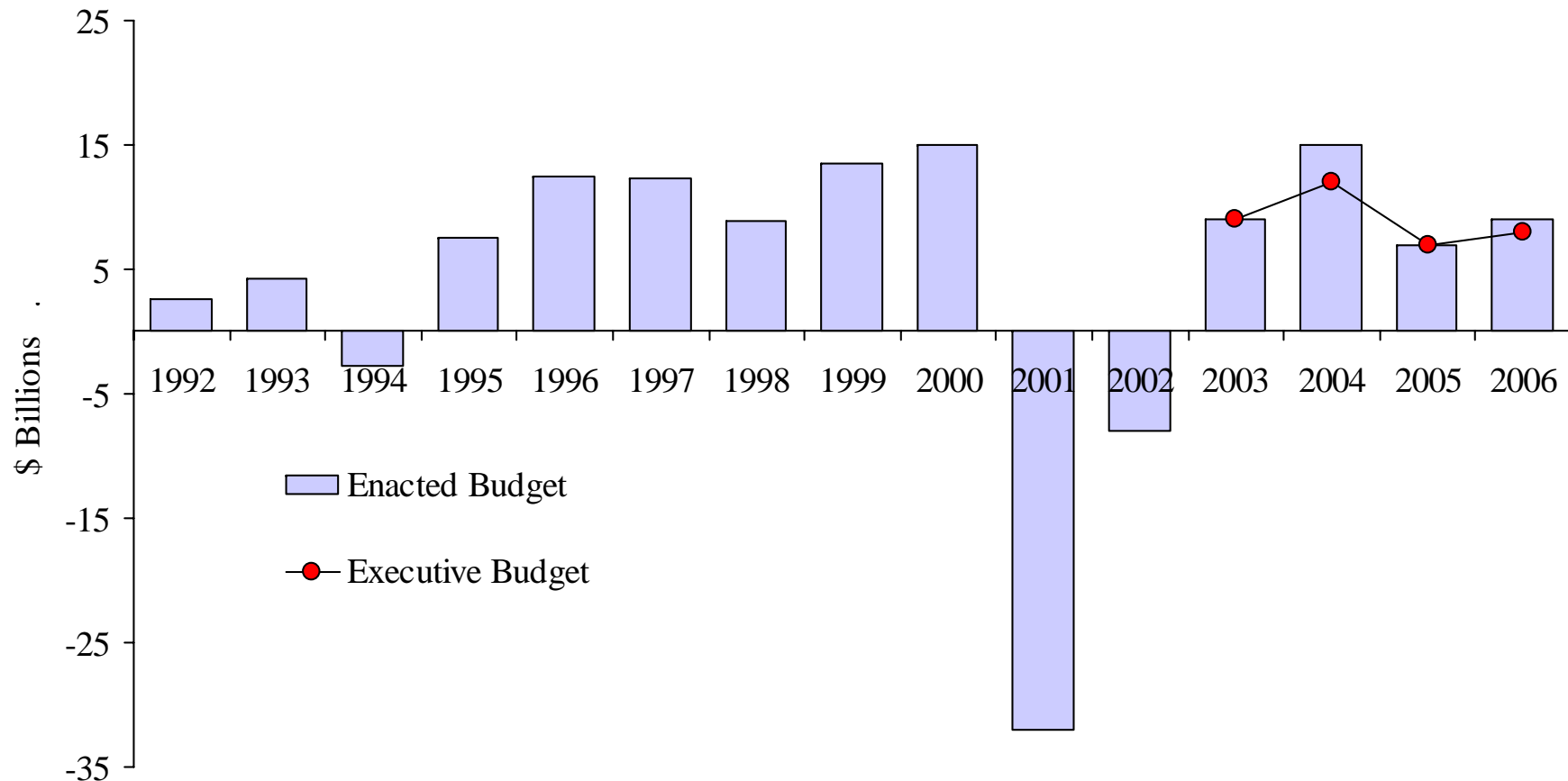
- Securities industry profits more than doubled in 2003 due to substantial cost-cutting, a strong fixed-income market, and rising equity prices. Although profits have declined since then, they were still twice as high in 2004 as in 2002.
- DOB has raised its forecast of finance and insurance sector bonuses for SFY2005-06 by \$2.9 billion since the Executive Budget forecast.

Average Price of Existing Homes Sold in New York (Percent change)



- The real estate market is still very healthy in New York. Although growth in home prices is expected to slow, DOB does not anticipate a real estate market crash similar to the late 1980s.

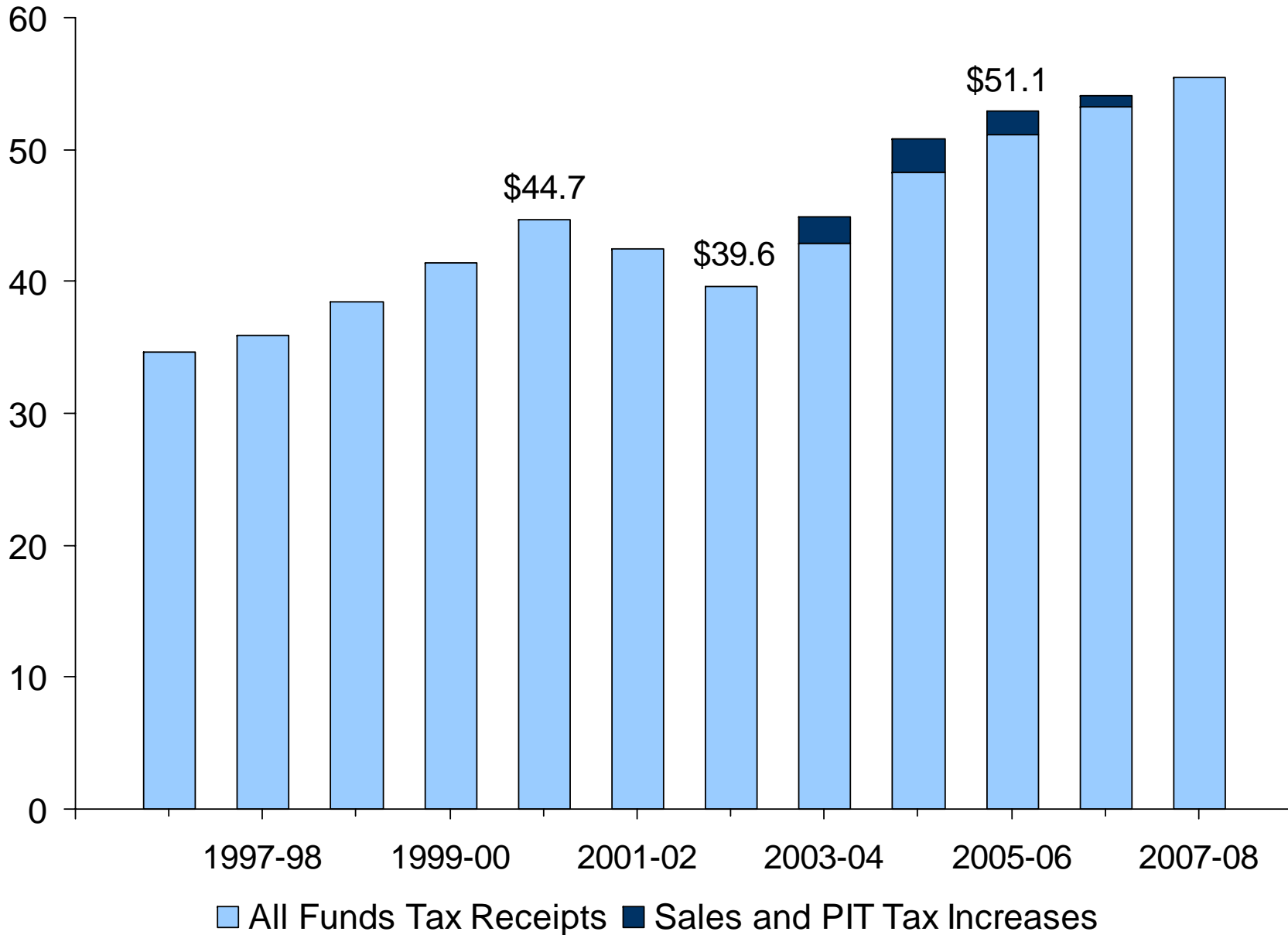
Net Capital Gains and Net Partnerships Corporation Income Year over Year Changes



Source: NYS Department of Taxation and Finance; DOB staff estimates.

- Due to stronger equity and real estate markets, the DOB outlook for income from capital gains realizations and partnership and S corporation gains has improved. A total of \$3.0 billion was added to the DOB estimate for these two components for 2004.

All Funds Tax Receipts (dollars in billions)



Tax Collections: Actual vs. Forecast*

Fiscal Year	Actual/Forecast	Base/Forecast
1999-00	7.5	9.2
2000-01	7.9	11.5
2001-02	(4.9)	(3.9)
2002-03	(6.7)	(5.9)
2003-04	8.1	5.4
2004-05	12.6	11.6
2005-06	6.0	7.0
2006-07	4.2	6.1
2007-08	4.1	6.2

*Percent Change from Prior Year

Income Tax Settlement: Money in the Bank*

April Settlement	Extensions	Final Payments
1999-00	24.3	16.6
2000-01	5.5	16.6
2001-02	36.6	14.7
2002-03	(39.3)	(32.8)
2003-04	(18.2)	(8.1)
2004-05	84.4	24.0
2005-06	65.0	33.9

* Percent Change from Prior Year

2005-06 Budget Plan

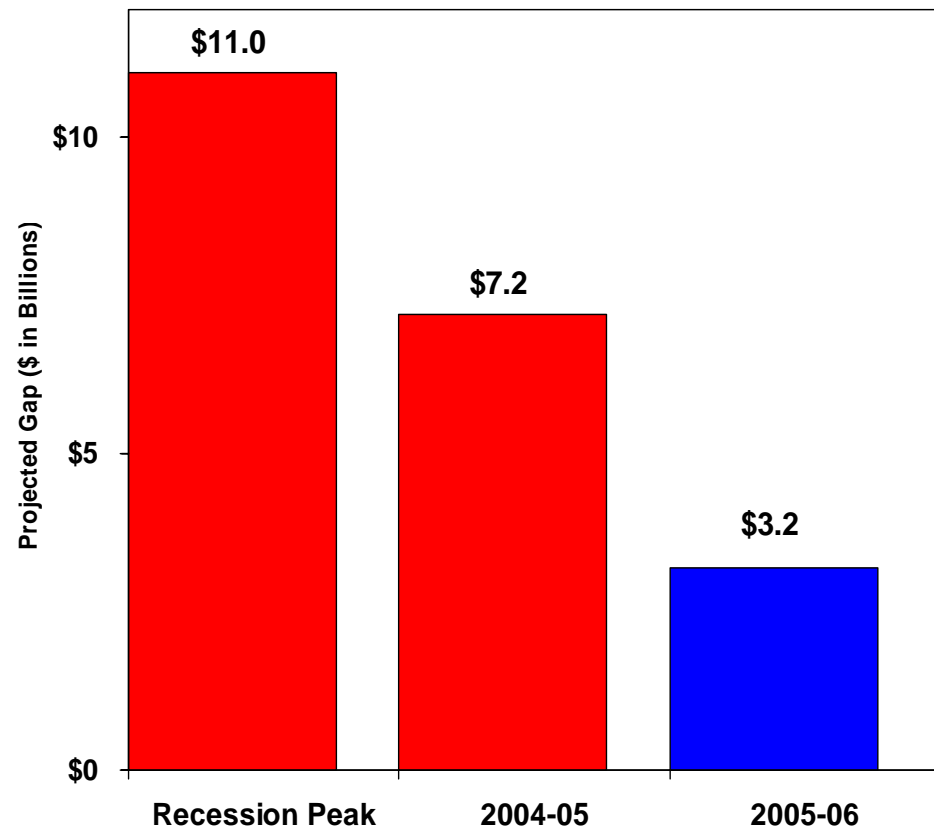
- Legislature approved nearly 80 percent of gap-closing proposals.
- Budget includes \$1.4 billion in Medicaid cost containment:
 - New preferred drug program.
 - Health Care provider assessments.
 - Family Health Plus benefit modifications.
 - Managed care reforms.
- Major reforms help local governments.
 - Takeover of Medicaid costs.
 - Accelerated phase-in of Family Health Plus takeover.
 - Enhanced Incentive-based aid program for localities.

2005-06 Gap-Closing Plan Dollars in Millions	
Initial Budget Gap	(4,152)
Enacted Budget Actions	4,752
Revenues/Reestimates	2,587
Key Savings Actions	2,165
<i>Medicaid</i>	1,383
<i>Mental Hygiene</i>	196
<i>Debt Management</i>	150
<i>Transportation</i>	163
<i>Welfare</i>	115
<i>All Other Spending (net)</i>	158
Deposit to Reserves	600

Progress Toward Structural Balance

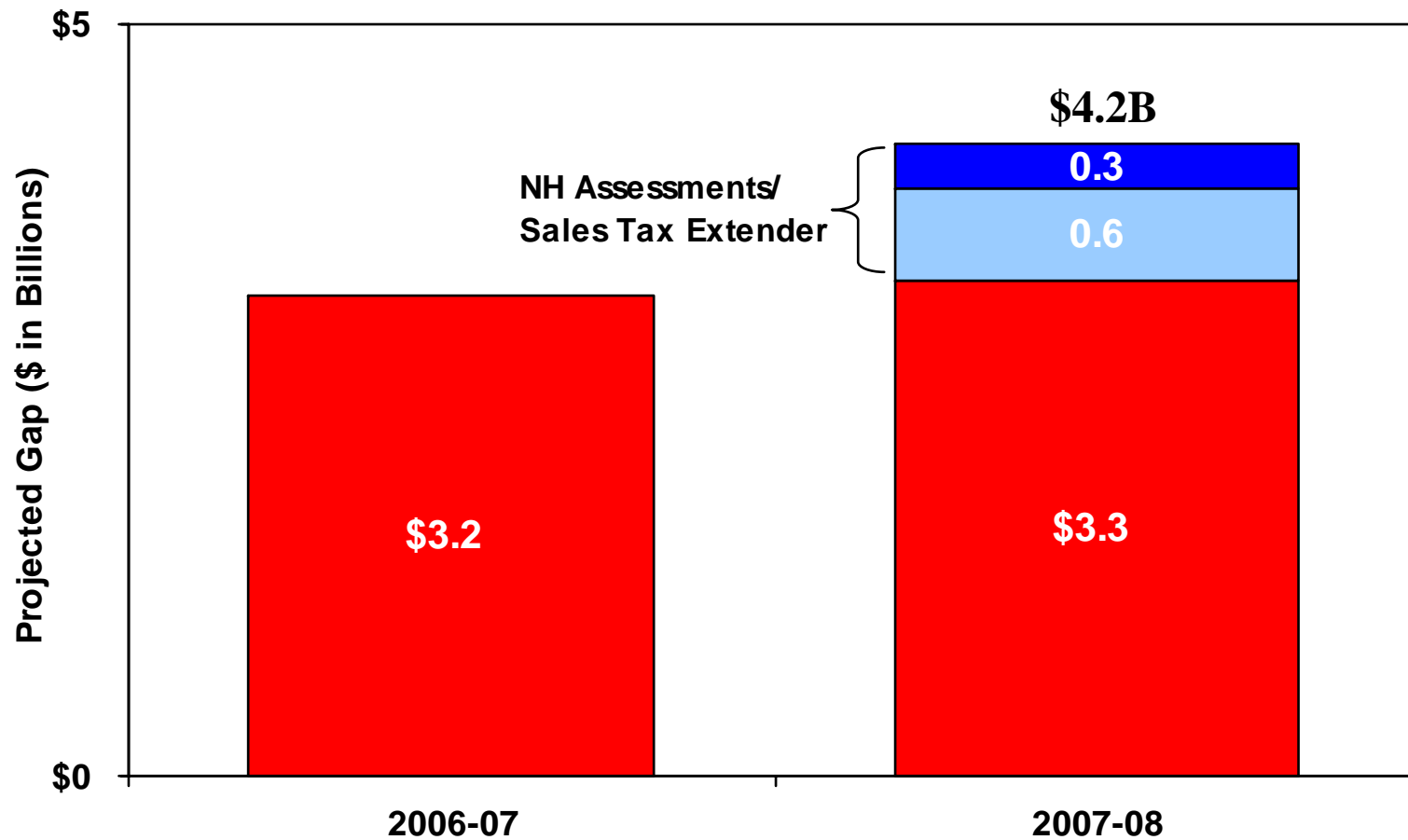
- Structural gap at lowest level since September 11th.
- Enacted Budget added modestly to 2006-07 gap.
- Gap estimate is based on prudent assumptions.
- Revenues have upside potential.

2006-07 Gap at Time of Budget Enactment



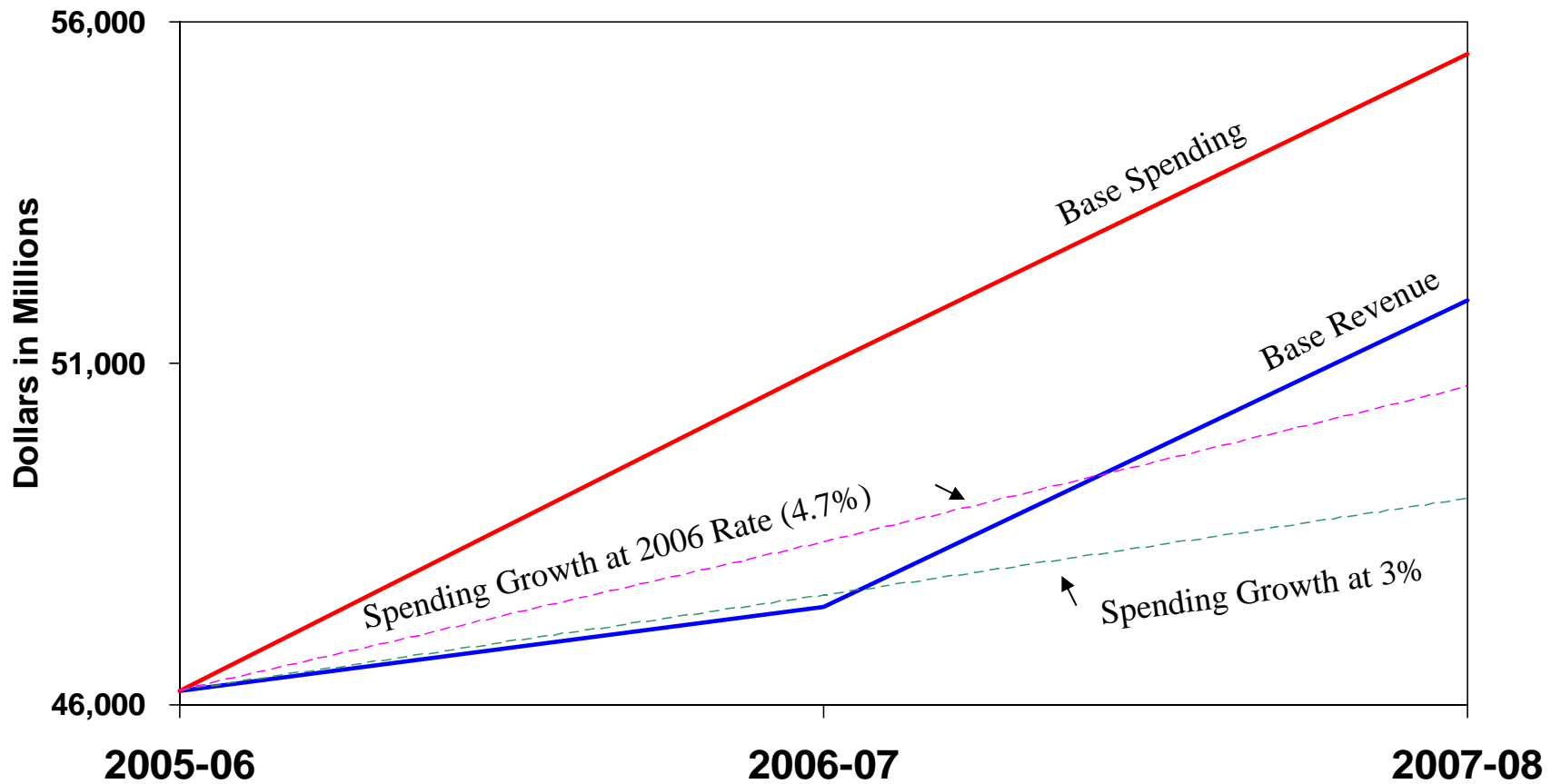
Current General Fund Budget Gaps

Gap Projections with Extenders



Reduced Spending Growth Enough to Eliminate Gaps

General Fund Gaps if Spending Held to Historical Average, 2005-06 Levels



Size of the 2005-06 Budget

Total Disbursements (millions of dollars)				
	2004-05 Adjusted	2005-06 Enacted	Annual Change	Percent Change
General Fund	44,127	46,207	2,080	4.7%
State Funds	65,404	70,273	4,869	7.4%
All Funds	102,101	106,503	4,402	4.3%

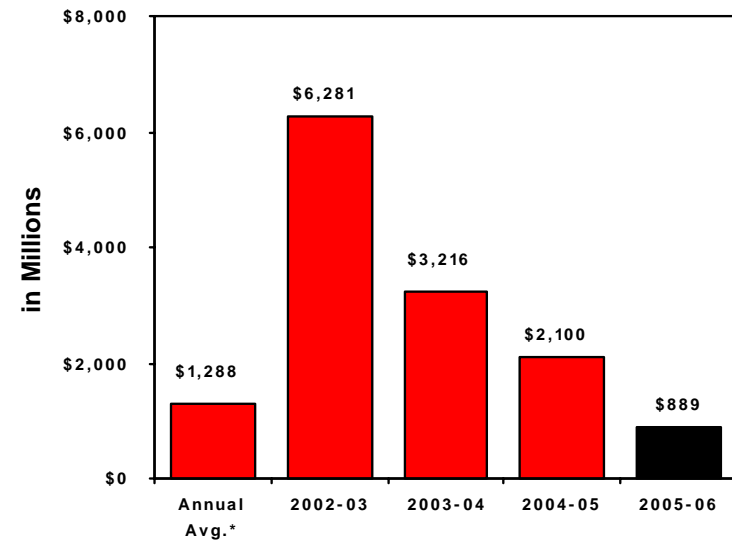
- \$848 million increase for public schools.
- \$400 million for State takeover of local Medicaid and Family Health Plus costs.
- \$400 million for pension costs.
- Reflects inclusion of the entire HCRA program and other health care spending on budget (\$1.4 billion).

Limited Nonrecurring Resources

- One-timers at routine levels after three years of steady decline.
 - Account for less than 2 percent of total General Fund budget.
 - Below annual average.

- Total includes 2004-05 surplus, pension reform, and routine use of balances and Federal aid.

One-Timers at Routine Levels



*Annual average from 1986-87 thru 2004-05

2005-06 Nonrecurring Resources (millions of dollars)	
Fund Balances	286
Use 2004-05 Surplus	170
Pension Amortization	152
Abandoned Property	90
Proceeds from Sale of Property	54
Federal Aid (TANF/Medicaid)	103
All Other	34
Total Nonrecurring Resources	889

Risk Profile has Improved

➤ Health care conversions.

- Most HCRA spending will stop on June 30, 2005 – unless health care conversion proceeds become available.
- Positive balances provide flexibility in structuring conversions to maximize revenues.

➤ School finance reform.

- SBE aid enacted; will be financed with VLT revenues.
- Court of Appeals has given okay to VLTs.
- Stay on judgment remains in force for CFE; Appellate Division expected to hear arguments on appeal during October Session.

➤ Transportation plans.

- Plans enacted.
- Voters will be asked to approve GO bond act in November.
- Implementing plans near final approval.

Five-Point Plan for Healthcare

- Enacted Budget encompasses key points of Governor's five-point plan.
 - Restraining growth with nearly \$1.4 billion in cost containment.
 - Reducing the burden on local governments – and property taxes – by instituting the Governor's cap on local Medicaid costs.
 - Including resources included to reform long-term care, consistent with Federal initiatives.
 - Addressing excess capacity with a new commission on health care facilities that will recommend options for consolidation, restructuring, and service delivery.
 - Rebuilding the State's health care infrastructure with \$1 billion in new capital grants.

Medicaid/HCRA

- \$1.4 billion in cost containment.
- General Fund Medicaid grows more slowly than overall budget.
- Major program initiatives include:
 - New preferred drug program.
 - Health provider assessments.
 - Family Health Plus benefit modifications.
- HCRA extended through June 2007.
- Entire HCRA program (\$5.3 billion) is “on-budget,” adding roughly \$900 million to State Funds and All Funds.

School Aid

- \$848 million increase in school aid (school year basis).
 - \$325 million for new Sound Basic Education (SBE) Aid formula, with 60 percent of funding going to New York City.
 - \$523 million in traditional School Aid, including \$113 million for a Flex Aid increase.
 - SBE Aid and Flex Aid allocated based on measures of need, including a poverty indicator and a regional cost indicator.
 - Budget adds funding to promote school district financial accountability.
- 2005-06 aid increase represents the first year of the Governor's proposed five-year plan to address CFE.

Five-Year Transportation Plans Enacted

- \$2.9 billion General Obligation Bond Act authorized in budget.
- If approved by the voters in November 2005, Act would provide \$1.45 billion each to DOT and MTA, with \$1.7 billion in bonds issued through 2009-10.
- MTA Plan (\$21.1B): includes \$15.4 billion for core and security projects, \$1.2 billion for bridges and tunnels, and \$4.5 billion for expansion projects.
- MTA expansion projects include #7 Line Extension, East Side Access, 2nd Avenue Subway, and Kennedy Airport Link.
- DOT Plan (\$17.9B): Restructuring \$3 billion in Dedicated Highway Bonds to more closely match maturities to useful project lives.
- Additional resources needed for the last two years of the plan.

Increasing Variable Rate Portfolio

Projected Variable Rate Exposure to Debt Outstanding (Percent)					
Actual 2004-05	2005-06	2006-07	2007-08	2008-09	2009-10
10.2	12.9	14.9	14.0	14.6	13.9

- Continues gradual move to 15 percent of portfolio.
- State will use the most cost-effective vehicles for increasing variable rate exposure, including synthetic fixed-to-floating rate swaps, variable rate demand obligations, and ARCs.
- Approximately \$1 billion synthetic fixed-to-floating rate swaps are now outstanding, which helps reduce counterparty exposure.

Local Governments Benefit

2005-06 Local Impact (millions of dollars)					
	<u>Total</u>	<u>Counties</u>	<u>NYC</u>	<u>Other Locals</u>	<u>School Districts</u>
Medicaid Cap/Other	409	143	266	0	0
AIM Program	57	0	0	57	0
School Aid	593	0	227	0	366
Revenues	273	85	188		0
All Other Impacts	59	30	12	14	3
Total	1,391	258	693	71	369

- Medicaid cap grows in value in future years, culminating in full State takeover in January 2007.
- AIM program fosters sound financial planning and innovative practice in exchange for substantial increase in aid.

Favorable Results/Positive Outlook

- On-time, balanced budget achieved significant program reforms, added nearly \$700 million to reserves, and kept potential future gaps at manageable levels.
- Risk profile has improved, providing for a more stable fiscal environment.
- Revenue forecast is reasonable, but upside potential is possible.
- Planning is already underway for the 2006-07 budget, which will build on the reforms and restructuring enacted this year.