

NEW YORK STATE ASSEMBLY

MIDYEAR UPDATE

Sheldon Silver
Speaker

Herman D. Farrell, Jr.
Chairman

New York State Assembly
Ways and Means Committee Staff

November 13, 2007
(Revised Edition)

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INTRODUCTION

The New York State Assembly is committed to enhancing the public's understanding of our constantly changing national and State economies, and the myriad factors and assumptions that go into the construction of our State Budget. At the end of February of each year, the Assembly Committee on Ways and Means publishes the staff analysis and forecasts in the New York State Economic Report and the New York State Revenue Report. These reports are readily available through the Assembly's public information office and on the Assembly web site (www.assembly.state.ny.us).

The following report provides a summary of the current outlook for our national and State economies through the next State fiscal year, and includes State revenue forecasts and preliminary expectations for costs pertaining to Medicaid, education, and public assistance. These projections are part of the "quick start" process contained in the Budget Reform statute enacted in January 2007. The budget reform legislation envisions an exchange of information among the Division of the Budget, the Legislative fiscal committees, and the Comptroller's Office; a public discussion and finally a joint report on actual, estimated, and projected receipts and disbursements.

All the projections contained in this report are based on the best information available as of early November 2007. We continue to express our appreciation to our Board of Economic Advisors who have provided valuable comments on the current state of the economy. Given the high degree of uncertainty in the economy and in the securities industry, new information will affect the forecasts contained in this report, and will be incorporated in our February 2008 forecasts on the Executive Budget submission.

ECONOMIC OUTLOOK

The NYS Assembly Ways and Means Committee staff forecast for overall national economic growth in 2008 is 2.4 percent. It is the same as Blue Chip, 0.1 percentage point lower than the Division of the Budget and Macroeconomic Advisors, 0.1 percentage point higher than Moody's Economy.com, and 0.4 percentage point higher than Global Insight (see Table 1).

Table 1

U.S. Real GDP Forecast Comparison (Percent Change)				
	Actual 2006	Estimate 2007	Forecast 2008	Forecast 2009
Ways and Means	2.9	2.1	2.4	2.7
Blue Chip Consensus	2.9	2.0	2.4	N/A
Division of the Budget	2.9	2.0	2.5	2.8
Moody's Economy.com	2.9	2.0	2.3	3.2
Macroeconomic Advisers	2.9	2.0	2.5	2.7
Global Insight	2.9	2.0	2.0	2.9

Sources: NYS Assembly Ways and Means Committee staff; Blue Chip, October 2007; New York State Mid-Year Financial Plan Update, 2007-08 through 2010-11, October 30, 2007; Moody's Economy.com, October 2007; Global Insight, October 2007; Macroeconomic Advisers, October 2007.

The Assembly Ways and Means Committee staff's New York State employment growth forecast for 2008 is 0.5 percent (see Table 2). It is 0.2 percentage point lower than the Division of the Budget forecast, 0.3 percentage point lower than Global Insight, and 0.2 percentage point higher than Moody's Economy.com's forecast.

The Ways and Means Committee staff's wage growth forecast for 2008 is 3.7 percent. This is 0.3 percentage point lower than the Division of the Budget forecast, 1.0 percentage point lower than Global Insight's forecast, and 1.3 percentage points higher than Moody's Economy.com's forecast.

Table 2

NYS Forecast Comparison (Percent Change)				
	Actual 2006	Estimate 2007	Forecast 2008	Forecast 2009
Employment				
Ways and Means	1.0	1.0	0.5	0.8
Division of the Budget	0.9	0.9	0.7	0.7
Global Insight	1.0	0.9	0.8	0.9
Moody's Economy.com	1.0	0.9	0.3	0.5
Wages				
Ways and Means	7.8	7.4	3.7	4.6
Division of the Budget	7.3	7.1	4.0	4.8
Global Insight	7.6	9.8	4.7	4.8
Moody's Economy.com	7.6	9.6	2.4	3.3
<i>Sources: NYS Assembly Ways and Means Committee staff; New York State Mid-Year Financial Plan Update, 2007-08 through 2010-11, October 30, 2007; Moody's Economy.com, October 2007; Global Insight, October 2007.</i>				

United States Forecast

Although there is great uncertainty in the future outlook, the national economy continued to expand in 2006 for the fifth consecutive year since the end of the 2001 recession.¹ After surging 4.8 percent (annualized) in the first quarter of 2006 however, the economy shifted into low gear. The recent downshift was mainly caused by a significant decline in residential construction activity and its negative fallout spilling over to other sectors of the economy. Residential construction spending, which accounts for about a third of total private fixed investment spending, declined 11.8 percent (annualized) in the second quarter of 2007. It was the sixth consecutive quarterly decline since the fourth quarter of 2005. The national economy would have grown by 3.3 percent instead of 2.9 percent during 2006 if residential construction activity had been excluded from the Gross Domestic Product (GDP). For the second quarter of 2007, the difference would have been 0.8 percentage point (see Figure 1).

¹ According to the annual three-year revisions of the National Income and Product Accounts (NIPA) that were released in July 2007, the U.S. economy grew 0.1 to 0.4 percentage point slower per year than previously estimated over the past three years.

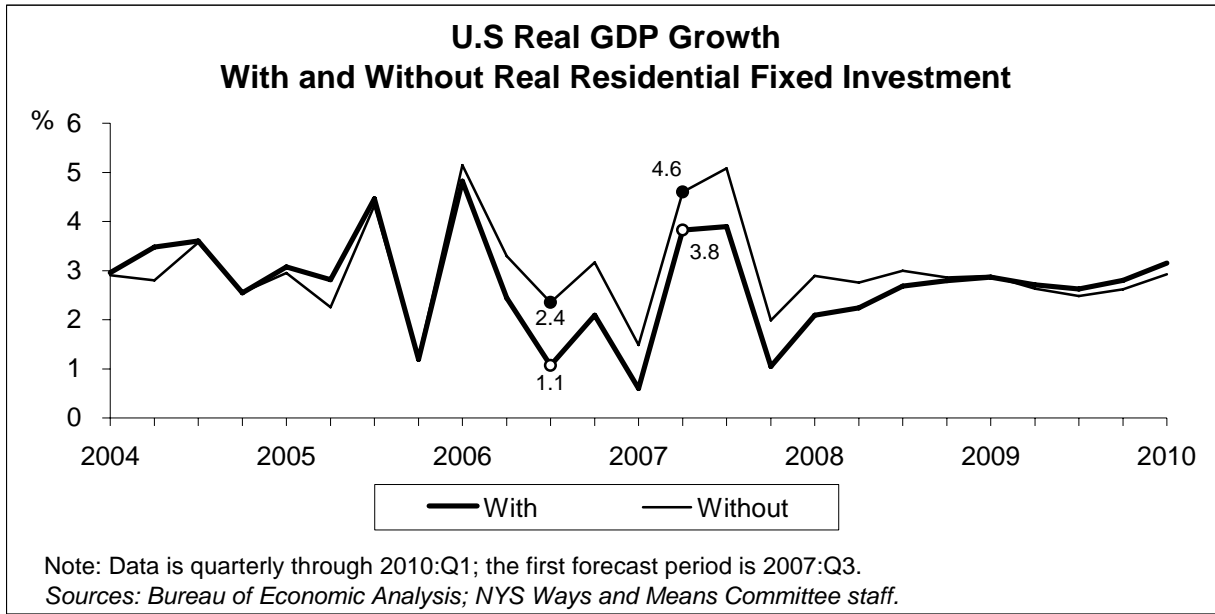


Figure 1

Various signs still point to further deterioration in the housing market. Home sales and housing permits have been falling. Foreclosures and inventories of unsold new homes have been rising. In addition, housing starts have dropped markedly (see Figure 2). Each quarter since early 2007 homebuilders' confidence has been dropping to a low level not seen in more than a decade (see Figure 3). House prices have also been falling at a record quarterly rate.

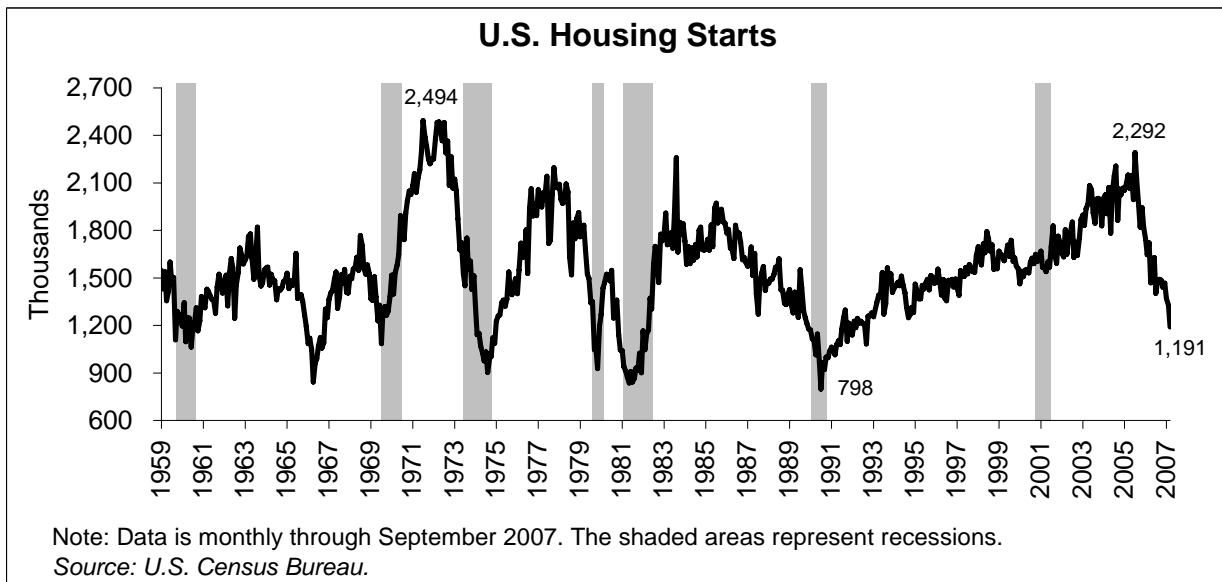


Figure 2

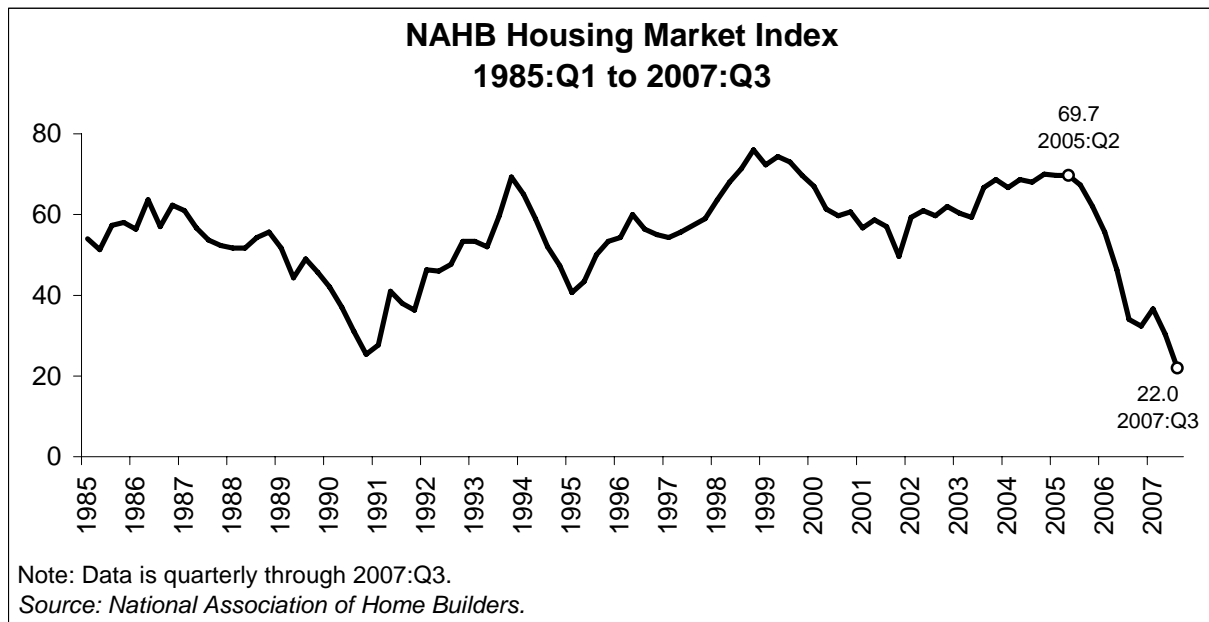


Figure 3

The ongoing and prolonged correction in the housing market is worrisome. Housing (the production of housing as well as the value of housing services produced by the housing stock) accounts for about 15 percent of U.S. aggregate economic activity. Housing not only has direct effects on the construction sector but also indirect effects on personal consumption spending through income and housing wealth effects—in particular through the so-called mortgage equity withdrawal by homeowners.

Worse yet, since the subprime mortgage crisis surfaced in the summer of 2007, the risk premium has been pushed higher, making credit conditions tighter even outside residential mortgage markets (see Figure 4). As a result, any possibility of a housing market recovery anytime soon has become more remote. Furthermore, financial markets, in general, have been volatile lately as investor confidence slips in light of growing uncertainties. In addition, as overall confidence slips consumers and businesses may cut back on spending, causing further concerns for economic growth.

Nonetheless, the national economy is expected to stay out of recession during the current forecast period. This cautious optimism is based on the assumption that businesses as well as consumers will gradually regain their confidence in the fundamental health of the economy as well as the Federal Reserve's commitment to maintaining stable economic growth. However, the economic environment remains extremely uncertain. Whether the

economy manages to avoid a recession or not will depend crucially on how much further the housing market will decline. Also critical to the current outlook is the future course of oil prices and the assumption that the global economy will remain robust.

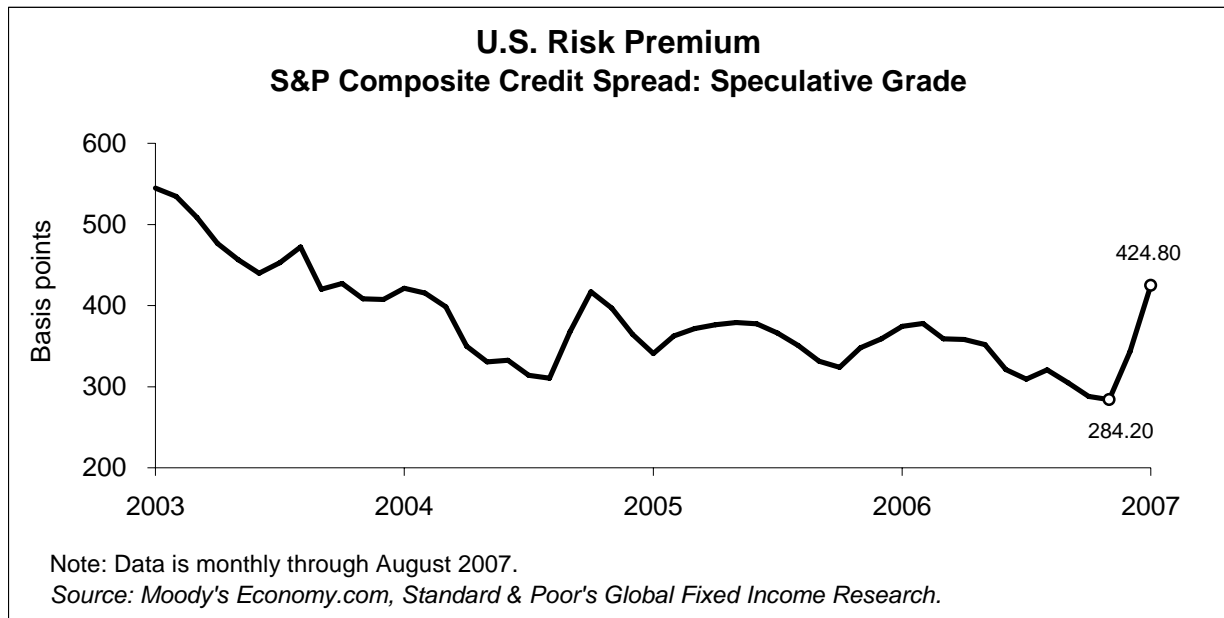


Figure 4

Despite the recent turbulence in the economy, the composite index of U.S. coincident indicators (a representative gauge of current economic activity), has risen every month since January 2007, indicating the U.S. economy is still expanding (see Figure 5). On the other hand, the index of U.S. leading economic indicators, a key gauge of future economic activity, fell four out of nine months in 2007. None of these declines were consecutive, largely hinting toward a great deal of volatility and uncertainty surrounding the national economy.

The national economy, as measured by real Gross Domestic Product (GDP), is estimated to grow 2.1 percent in 2007, followed by growth of 2.4 in 2008 and 2.7 in 2009 (see Table 3).² GDP growth slowed to 2.9 percent in 2006 from 3.2 percent in 2005, caused by declines in consumption and investment growth.

² The Assembly Ways and Means' Macro Forecasting Models for the U.S. and New York State are structural models consisting of stochastic equations and definitional relations (or identities). These equations and identities comprise of systems that, given the predetermined values of the so-called exogenous variables, simultaneously determine the forecast values of all the variables contained therein.

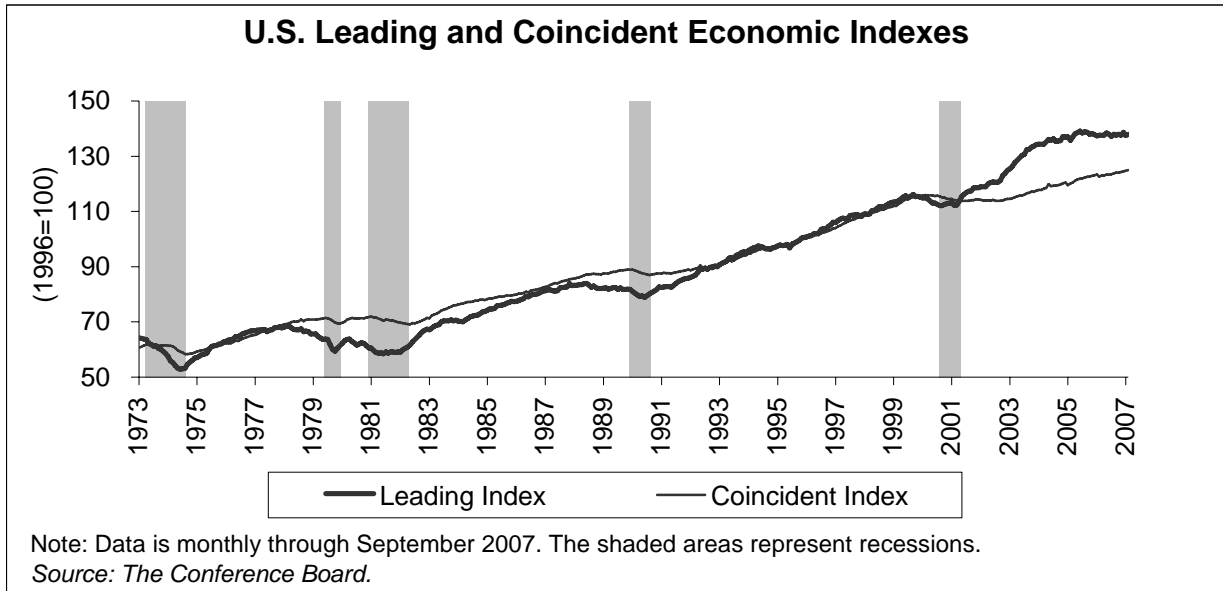


Figure 5

Table 3

U.S. Economic Outlook				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Real GDP	2.9	2.1	2.4	2.7
Real Consumption	3.1	2.9	2.2	2.5
Real Investment	2.7	(4.5)	0.8	3.8
Real Exports	8.4	7.5	7.6	7.3
Real Imports	5.9	2.4	3.7	4.9
Real Government	1.8	2.0	2.2	1.4
<i>Federal</i>	2.2	1.8	3.2	1.5
<i>State and Local</i>	1.6	2.1	1.6	1.4
Personal Income	6.6	6.6	5.2	5.1
<i>Wages & Salaries</i>	6.2	6.5	5.1	5.2
Corporate Profits (Economic Basis)	13.2	4.3	2.1	4.1
Productivity	1.0	1.1	1.7	1.8
Employment	1.9	1.3	0.8	1.1
CPI-Urban	3.2	2.8	2.6	2.3
S&P 500 Stock Price	8.6	13.9	5.4	6.3
Treasury Bill Rate (3-month)*	4.7	4.5	4.1	4.3
Treasury Note Rate (10-year)*	4.8	4.7	4.5	4.7

* Annual average rate.
Sources: Bureau of Economic Analysis; Bureau of Labor Statistics; Federal Reserve Board of Governors; Standard & Poor's; NYS Assembly Ways and Means Committee staff.

Outlook for Components of GDP

- Personal consumption spending is estimated to increase by 2.9 percent in 2007 and slow to 2.2 percent in 2008, caused by restrained growth in real disposable personal income. In addition, cash-out refinancing will considerably diminish due to falling housing prices; more restrictive credit requirements that limit access to liquidity and increased borrowing costs will put more strain on consumer spending. Personal consumption spending growth is expected to rebound somewhat to 2.5 percent in 2009.
- Private investment spending is expected to increase 0.8 percent in 2008 and 3.8 percent in 2009, after falling 4.5 percent in 2007. While residential construction activity has been declining for several quarters and is expected to decline further during 2008, gains in other components of private investment spending will help contribute to growth in overall private investment spending. Although credit market conditions have become tighter in the wake of the recent housing market downturn, it appears that the credit crunch is largely limited to speculative grade debt markets. Also, the recent rate cuts by the Fed and the improvements in corporate balance sheets in recent years will help support business capital spending during the next two years.
- Federal government spending grew 2.2 percent in 2006. Outlays for defense and disaster relief were the main components of growth in federal spending in 2006. Growth in spending is expected to be 1.8 percent in 2007 with slower growth of non-defense spending. In 2008, federal spending will increase by 3.2 percent as outlays for the maintenance and procurement of military equipment as well as compensation for civilian and military employees in Iraq and Afghanistan rises.
- State and local government spending grew 1.6 percent in 2006 and is estimated to grow 2.1 percent in 2007. Growth is expected to continue at an average annual rate of 1.6 percent in 2008 and 1.4 percent in 2009, as states cut spending to adjust to lower revenue expectations. Outlays on investment structures, equipment, and software account for the growth in state and local spending for 2007. Other key pressures on state spending include outlays for education, infrastructure, and state employee benefits and pension systems.
- Exports are expected to grow 7.5 percent in 2007, 7.6 percent in 2008, and 7.3 percent in 2009. Imports will grow by 2.4 percent in 2007, down from

5.9 percent in 2006, and by 3.7 percent and 4.9 percent in 2008 and 2009, respectively. Net exports, defined as exports minus imports, have declined (becoming more negative) every year from 1995 through 2006, adversely affecting the exchange rate, external debt, and GDP. Net exports have started to improve (becoming less negative) in 2007 and are expected to continue to improve throughout 2009. This improvement in net exports is a result of strong demand from steady economic growth around the world as well as the declining dollar. The world economy is expected to continue on a healthy growth path; much of the developing world is continuing to experience rapid growth. With economic activity worldwide expanding for nearly all of our significant trading partners, the global economy will be a positive stimulus for the United States economy.

Employment

- The United States employment profile shows relatively slower growth in 2008 and 2009, compared to 2006 and 2007. After growing an estimated 1.3 percent in 2007, employment growth in the nation is expected to weaken slightly to 0.8 percent in 2008 and 1.1 percent in 2009. The turmoil in the housing market will play some role in the softening of employment growth as the construction sector continues to lose jobs. In addition, a sluggish overall economic growth will also play a role as it filters through to the labor market, contributing to slower growth in employment.

Prices

- Increases in consumer prices in 2007 have been driven mainly by energy prices, although the pace has slowed since 2006. The consumer price index (CPI) is estimated to have grown 2.8 percent in 2007, and is expected to grow 2.6 percent in 2008 and 2.3 percent in 2009.
- Oil prices will remain high throughout the forecast period. The refiners acquisition cost (RAC) of crude oil is expected to average \$65.04 per barrel in 2007, \$69.75 in 2008, and \$67.50 in 2009.³ The extent to which the higher energy prices will be passed through to consumers may be tempered by slowing growth and a reluctance

³ The refiner acquisition cost is a volume weighted average price of imported oils. It is generally lower and less volatile than the West Texas Intermediate (WTI) price commonly reported in the media. The current news stories referring to crude oil prices over \$90 per barrel are referring to WTI daily spot prices, or futures prices of other various oil price measures.

by business owners to raise prices. However, continued spikes in energy prices remain a major risk factor to the forecast.

Stock Market

- Using annual average values, the S&P 500 Stock Price Index increased 8.6 percent year-over-year in 2006 and is expected to increase 13.9 percent in 2007. Due to the turmoil in the housing market, tightening credit, and slower corporate profit growth, the S&P 500 is expected to show slower growth in 2008 and 2009 at 5.4 and 6.3 percent, respectively.

New York State Forecast

There is great uncertainty in the outlook for the New York State economy. There are many potential downside and upside risks. Central among these risks is the performance of Wall Street in the coming months, particularly pertaining to bonus payouts for the securities industry. Allowing for these risks, the New York State economy is expected to slow in 2008 compared to 2007. Both employment and wages are predicted to grow slower throughout the forecast period relative to 2007 (see Table 4). As wage growth slows, personal income growth will also moderate. The State CPI is expected to grow only slightly less in 2008 and 2009 than in 2007.

Table 4

New York State Economic Outlook				
(Percent Change)				
	Actual	Estimate	Forecast	Forecast
	2006	2007	2008	2009
Employment	1.0	1.0	0.5	0.8
Personal Income	7.5	6.7	4.5	5.1
Total Wages	7.8	7.4	3.7	4.6
Base Wages	5.3	4.8	3.8	4.4
Variable Compensation	31.9	26.8	2.8	5.8
CPI	3.8	2.9	2.8	2.7

Sources: Bureau of Economic Analysis; NYS Department of Labor, QCEW; Bureau of Labor Statistics; NYS Assembly Ways and Means Committee staff.

Employment

The slowdown in employment to 0.5 percent in 2008 from 1.0 percent in 2007 is attributed to several sectors. Construction employment, previously growing more than 2 percent, is forecast to grow only 0.5 percent in 2008 due to consequences associated

with the continuing slump in the national housing market. Financial services employment is forecast to decline in 2008, likely due to layoffs in the securities industry. Professional services will also grow at a slower rate, 2.5 percent in 2008, compared to an estimated 3.5 percent in 2007. Manufacturing job losses are expected to continue in 2008 and 2009.

Securities Industry

Part of the slowdown in the State economy in the next few years, especially for wages and personal income, can be attributed to the less positive outlook for the securities industry. Up until the second half of 2007, the securities industry had been doing very well for several years and had been having record bonus seasons that led to strong growth in State variable wages. This record-pace activity will likely not continue. Securities industry profits in 2006 were just slightly below the peak profitability level of 2000. However, profits in 2006 rose significantly from 2005, jumping from \$9.4 billion in 2005 to \$20.9 billion in 2006. Securities industry profits are expected to remain somewhat strong in 2007 before falling in 2008 and 2009. With credit conditions tightened for private equity firms, mergers and acquisitions activity (one of the major revenue generating activities for the securities industry) will likely weaken throughout the forecast period.

Wages

Wage growth in New York State is expected to be 3.7 percent in 2008, following an estimated 7.4 percent in 2007. Due to recent and current events that may limit profits and revenues on Wall Street, variable wages are not expected to grow as fast as in recent years. In 2008, variable wages are forecast to grow 2.8 percent, compared to an estimated 26.8 percent in 2007 and 31.9 percent in 2006. Base wages will grow steadily throughout the forecast period, although at a lower rate.

Risks to the Economic Outlook

Risks to the national economic forecast are significantly concentrated on the downside throughout the forecast period, and many of the risks are related to the housing market. The downturn in the housing market has been a drag on economic growth, and problems in the sector remain. Continued concerns in the housing market could lead to further depression of economic growth. Current uncertainty triggered by credit and liquidity issues has caused volatility in the stock market, and has also created problems for consumers, some of whom are no longer able to obtain credit.

Energy prices also have the potential to trim economic growth should they continue to rise higher than expected. As supply and demand conditions remain tight, the potential for volatility and higher prices remains. Energy prices can be influenced by a variety of unpredictable factors including inclement weather and geo-political tensions. Issues in any of these areas could cause spikes in energy prices that, if sustained, may cause downward pressure on growth.

Other current events that may add to economic uncertainty include the War in Iraq, tensions in the Middle East, other geo-political issues, and a faltering in consumer confidence.

The risks to the United States forecast are also a concern for the New York State forecast. In addition, the State economy is quite susceptible to changes in the securities industry, especially the variability in bonuses from year to year, as the bonuses paid by the securities industry are a major driver of State variable wages. This year and in 2008, the possibility of lay-offs and lower earnings represent a risk for the industry outlook, and the New York State forecast.

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MIDYEAR REVENUE UPDATE

The slowdown in economic activity forecasted for the U.S. and New York State economies, as described in the Economic Outlook section of the report, will have significant implications for State tax revenues in the current and ensuing fiscal years. The NYS Assembly Ways and Means Committee staff's outlook for revenues is slightly more pessimistic than what is presented in the Executive's Midyear Financial Plan Update, especially with regard to SFY 2008-09.

In SFY 2007-08, the Assembly Ways and Means Committee staff estimates that tax revenues will total \$61.2 billion. This estimate is just \$27 million below the Executive's midyear estimate. The Executive's latest estimate is \$824 million below the 1st Quarter Financial Plan Update, though still \$243 million higher than the forecast proposed with the Executive Budget in January.

For SFY 2008-09, the Ways and Means Committee staff is forecasting State tax revenues of \$64.1 billion, which is \$363 million below the Executive forecast. A large portion of the difference can be explained by the personal income tax forecast, which is \$511 million below the Executive forecast. The disparity is largely the result of lower withholding estimates, reflecting different assumptions about wage growth in SFY 2008-09, and the impact of the subprime mortgage lending crisis on Wall Street profitability in 2008. The Committee staff forecast for the remaining tax components are largely in-line with the Executive's forecast. The Committee forecast for user, business, and other taxes are \$138 million above the Executive forecast, the bulk of which, (\$91 million), is contained in the forecast for the sales tax.

SFY 2007-08 Revenue Estimates

The Assembly Ways and Means Committee staff revenue estimates for the current state fiscal year (SFY) are based on revenue collections to date and historical collection patterns. These estimates are then adjusted for exogenous factors, such as expected audit collections and tax law changes, to arrive at final estimates.

All Fund receipts are expected to grow by \$2.4 billion or 4.1 percent in the current fiscal year to a total of \$61.2 billion. This represents a significant slowdown in the rate of growth of the last few years. Growth in tax revenues has averaged 11.6 percent over the last three state fiscal years.

The slowdown is the result of several factors including the impact of previously enacted tax reductions, which have increased personal income tax refunds by more than 30 percent, and slower growth in corporate income taxes due to a return to more historical audit collection patterns. In addition, expected weakness in bonuses and job losses in the securities industry is expected to dampen growth in withholding collections during the last quarter of the fiscal year. Record profits on Wall Street have been a major driver of tax revenues over the last several years.

Midyear Results

Tax collections have increased by 4.5 percent during the first six months of the fiscal year. Revenue collections are expected to continue to decelerate through the remainder of the year, in large part due to lower profitability in the securities industry resulting from losses associated with collateralized debt securities backed by subprime mortgages. The impact of recently enacted tax loophole closers should have a positive impact on the corporate tax settlement in March. Taxes are expected to increase by just 3.8 percent over the last half of the fiscal year according to Assembly Ways and Means staff estimates.

Personal Income Taxes

Personal income taxes are expected to increase 5.6 percent in SFY 2007-08, to a total of \$36.5 billion. This is a \$1.9 billion increase from SFY 2006-07. Quarterly estimated payments continue to be strong and are expected to increase by 11.4 percent in this fiscal year. The strength in estimated payments reflects increases in non-wage income such as capital gains and business and partnership income. Withholding has exhibited strong growth of 8.8 percent over the first half of the year but is expected to moderate over the last six months due to expected weakness in Wall Street bonuses. Overall, withholding collections are projected to increase by 6.0 percent in SFY 2007-08. In addition, prior year tax reductions, namely the addition of the Empire State child tax credit, will increase refunds by 18 percent from the prior fiscal year, holding overall growth to just 5.6 percent. Growth for the remainder of the fiscal year will need to be 5.9 percent to achieve Assembly Ways and Means Committee staff estimates.

User Taxes

User taxes are expected to increase by 3.7 percent in SFY 2007-08, to a total of \$13.95 billion. User taxes have grown by 4.1 percent through the midyear, driven largely by a 5.6 percent increase in sales tax revenue. Sales tax collections were boosted by a one-

time rollover from the prior fiscal year, which boosted growth in April receipts to 12.6 percent. Collections growth has moderated in subsequent months and is expected to increase by 3.6 percent over the last half of the year to finish the year at \$11.2 billion, or 4.6 percent above SFY 2006-07.

Growth in this category is dampened by declines of 1.2 percent in motor fuel, 0.6 percent in cigarette and tobacco, 5.7 percent in highway use taxes, and 23.4 percent in alcohol license fees. The decline in alcohol license fees is attributable to a one-time collection gain in July 2006. Growth of 3.0 percent is necessary to reach Assembly Ways and Means Committee staff estimates. The estimate for user taxes has been lowered by \$150 million due to the postponement of plans to collect taxes from the sale of cigarettes and motor fuel to non-Indians on Indian reservations. The Executive now expects such revenues will be collected beginning in SFY 2008-09.

Business Taxes

Business taxes are projected to increase by 0.4 percent in the current fiscal year. Audit collections, coupled with strong growth in corporate profits, have contributed to strong growth in this category over the last few years. However, a slowdown in corporate earnings and a return to historical audit collection patterns will dampen growth in the current fiscal year. Collections are expected to benefit from tax loophole closers enacted earlier in the year, though their impact is muted by reductions in corporate franchise and bank tax rates that were included in the enacted budget.

Through the second quarter, business tax collections have increased by 2.9 percent, despite a decline in the corporate franchise tax of 1.6 percent. The slow increase is attributable to large non-recurring audit collections in April of SFY 2006-07. Bank taxes are up 12.9 percent through the midyear, while insurance taxes have grown by 2.4 percent. Bank tax collections are expected to moderate as firms adjust to the lower tax rates and are impacted by the mortgage lending crisis. Business taxes are expected to decline slightly over the last six months of the fiscal year to reach Assembly Ways and Means Committee staff estimates.

Other tax collections are expected to decline by 0.7 percent in SFY 2007-08. Continued growth in the real estate transfer tax is offset by a decrease in estate tax collections. These two taxes account for the lion's share of collections in this category. Despite a dramatic downturn in the housing market in most of the country, transfer tax collections continue to remain positive, supported by the continued strength in the

commercial real estate market in New York City and a housing market that has yet to exhibit the downturn that has afflicted the rest of the country.

SFY 2008-09 Tax Revenue Forecast

State tax revenues are forecasted to grow by a modest 4.8 percent in SFY 2008-09, reflecting continued sluggishness in the national and State economies. Total tax collections are forecasted at \$64.1 billion in SFY 2008-09, which is \$2.96 billion above expected SFY 2007-08 collections. The forecast is supported by the full year implementation of the tax loophole closers enacted in SFY 2007-08 and by the Executive's inclusion of roughly \$150 million from the collection of sales and excise taxes on Indian reservations. The slowdown in economic activity is expected to have a dampening effect on growth in most of the major taxes.

Personal income taxes are expected to grow by a modest 5.6 percent. The impact from the subprime mortgage market on Wall Street bonuses is expected to weaken withholding growth to 5.0 percent. Other components of income are not expected to be significantly impacted by the housing market slump. As a result, non-wage income, while moderating, is expected to show healthy growth in 2007, which will support moderate growth in the settlement on prior year liability. Capital gains income is forecasted to remain relatively flat in 2008, which will dampen growth in estimated payments.

User taxes are forecasted to increase by 3.7 percent. A slowdown in consumer spending is expected to lower growth in sales tax revenue to 3.6 percent. Among the other taxes in the category, the cigarette and tobacco tax is forecasted to increase by 9.5 percent, due to the impact of cigarette tax enforcement on Indian reservations.

Business taxes are expected to increase by a modest 3.6 percent from SFY 2007-08. The increase is largely the result of a shift in the timing of the increased revenues expected from the tax loophole closers enacted in the prior fiscal year as well as an increase in the corporate tax base as a result of new regulations with respect to the definition of investment income. Large write-offs in the financial and banking sectors, from losses suffered in the subprime mortgage market, is expected to have a negative impact on bank taxes.

Other taxes are forecasted to increase by 4.1 percent from SFY 2007-08. The increase is attributable to moderate increases in estate tax and real estate transfer tax collections. Real estate transfer taxes have been bolstered by a strong commercial real

estate market, which has offset the decline in transfer taxes from a softening housing market. This trend is expected to continue through the next fiscal year.

Table 5

Total Tax Collections SFY 2007-08					
(Dollar Amounts in Millions)					
	2006-07	2007-08		Percent	Diff.
	Actual	Estimate	Change	Growth	Exec.*
Personal Income Tax	\$34,581	\$36,508	\$1,927	5.6	(\$62)
Gross Receipts	40,090	43,030	2,940	7.3	97
Withholding	26,802	28,404	1,602	6.0	(97)
Estimated Payments	10,355	11,485	1,130	10.9	38
Vouchers	7,572	8,432	860	11.4	110
IT 370s	2,783	3,053	270	9.7	(72)
Final Payments	2,102	2,177	75	3.6	101
Delinquencies	832	964	132	15.9	55
Total Refunds	5,510	6,522	1,012	18.4	159
Prior Year Refunds	3,231	4,151	920	28.5	67
Current Refunds	1,500	1,500	0	(0.0)	-
Previous Refunds	256	329	73	28.3	59
State/City Offsets	522	542	20	3.8	33
User Taxes and Fees	13,457	13,951	494	3.7	29
Sales and Use Tax	10,739	11,233	494	4.6	35
Motor Fuel Tax	513	507	(6)	(1.2)	(5)
Cigarette Tax	985	979	(6)	(0.6)	7
Motor Vehicle Fees	769	785	16	2.1	10
Highway Use	153	144	(9)	(5.7)	(20)
Alcoholic Beverage Tax	194	206	12	6.0	6
Alcoholic Beverage Fees	58	50	(8)	(14.0)	(2)
Auto Rental Tax	46	47	1	3.3	(2)
Business Taxes	8,606	8,636	30	0.4	(16)
Corporate Franchise	4,228	4,179	(49)	(1.1)	(27)
Utility Tax	820	830	10	1.2	14
Insurance Tax	1,258	1,266	8	0.7	(26)
Bank Tax	1,210	1,198	(12)	(1.0)	(11)
Petroleum Business Tax	1,090	1,163	73	6.7	34
Other	2,097	2,082	(15)	(0.7)	5
Real Property Gains	0	1	1	150.0	1
Estate and Gift	1,053	998	(55)	(5.3)	(83)
Real Estate Transfer	1,022	1,060	38	3.7	85
Pari Mutuel	21	22	1	5.7	2
Other	1	1	0	48.9	-
Total Taxes	\$58,740	\$61,177	\$2,437	4.1	(\$44)
General Fund Misc Receipts	2,419	2,515	96	4.0	-
Lottery	2,309	2,642	333	14.4	25
Total w/Misc Receipts and Lottery	\$63,468	\$66,334	\$2,866	4.5	(\$19)

* Reflects the difference between the NYS Assembly Ways and Means Committee staff forecasts and the Executive forecasts.

Table 6

Total Tax Collections SFY 2008-09					
(Dollar Amounts in Millions)					
	2007-08	2008-09		Percent	Diff.
	Estimate	Forecast	Change	Growth	Exec.*
Personal Income Tax	\$36,508	\$38,553	\$2,045	5.6	(\$511)
Gross Receipts	43,030	45,458	2,428	5.6	(438)
Withholding	28,404	29,814	1,410	5.0	(562)
Estimated Payments	11,485	12,289	804	7.0	(108)
Vouchers	8,432	8,965	533	6.3	(57)
IT 370s	3,053	3,324	271	8.9	(51)
Final Payments	2,177	2,362	185	8.5	186
Delinquencies	964	993	29	3.0	46
Total Refunds	6,522	6,905	383	5.9	73
Prior Year Refunds	4,151	4,361	210	5.1	23
Current Refunds	1,500	1,500	0	0.0	-
Previous Refunds	329	340	11	3.3	50
State/City Offsets	542	704	162	29.9	-
User Taxes and Fees	13,951	14,471	520	3.7	92
Sales and Use Tax	11,233	11,637	404	3.6	91
Motor Fuel Tax	507	527	20	3.9	4
Cigarette Tax	979	1,072	93	9.5	24
Motor Vehicle Fees	785	773	(12)	(1.5)	(21)
Highway Use	144	148	4	2.8	(16)
Alcoholic Beverage Tax	206	211	5	2.4	6
Alcoholic Beverage Fees	50	54	4	8.0	6
Auto Rental Tax	47	49	2	4.3	(2)
Business Taxes	8,636	8,945	309	3.6	65
Corporate Franchise	4,179	4,497	318	7.6	(34)
Utility Tax	830	866	36	4.4	45
Insurance Tax	1,266	1,317	51	4.0	41
Bank Tax	1,198	1,068	(130)	(10.9)	(5)
Petroleum Business Tax	1,163	1,197	34	2.9	18
Other	2,082	2,167	85	4.1	(19)
Real Property Gains	1	-	(1)	(100.0)	-
Estate and Gift	998	1,051	53	5.3	(139)
Real Estate Transfer	1,060	1,094	34	3.2	119
Pari Mutuel	22	21	(1)	(4.5)	1
Other	1	1	0	0.0	-
Total Taxes	\$61,177	\$64,136	\$2,959	4.8	(\$373)
General Fund Misc Receipts	2,515	2,107	(\$408)	(16.2)	-
Lottery	2,642	2,675	\$33	1.2	(19)
Total w/Misc Receipts and Lottery	\$66,334	\$68,918	\$2,584	3.9	(\$392)

* Reflects the difference between the NYS Assembly Ways and Means Committee staff forecasts and the Executive forecasts.

Table 7

Total Tax Collections By Fund Type					
SFY 2007-08					
(Dollar Amounts in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	\$22,651	\$4,730	\$9,127	-	\$36,508
User Taxes and Fees	8,580	1,637	2,624	\$1,110	13,951
Sales and Use Tax	7,873	736	2,624		11,233
Motor Fuel Tax		105		402	507
Cigarette Tax	404	575			979
Motor Vehicle Fees		221		564	785
Highway Use				144	144
Alcoholic Beverage Tax	206				206
Alcoholic Beverage Fees	50				50
Auto Rental Tax	47				47
Business Taxes	6,479	1,495	-	662	8,636
Corporate Franchise	3,675	504			4,179
Utility Tax	629	184		17	830
Insurance Tax	1,153	113			1,266
Bank Tax	1,022	176			1,198
Petroleum Business Tax		518		645	1,163
Other	1,022		848	212	2,082
Real Property Gains	1				1
Estate and Gift	998				998
Real Estate Transfer			848	212	1,060
Pari Mutuel	22				22
Other	1				1
Total Taxes	\$38,732	\$7,862	\$12,599	\$1,984	\$61,177

Table 8

Total Tax Collections By Fund Type					
SFY 2008-09					
(Dollar Amounts in Millions)					
	General Fund	Special Revenue	Debt Service	Capital Projects	All Funds
Personal Income Tax	\$23,557	\$5,358	\$9,638	\$0	\$38,553
User Taxes and Fees	8,910	1,722	2,719	1,120	14,471
Sales and Use Tax	8,156	762	2,719		11,637
Motor Fuel Tax		110		417	527
Cigarette Tax	440	632			1,072
Motor Vehicle Fees		218		555	773
Highway Use				148	148
Alcoholic Beverage Tax	211				211
Alcoholic Beverage Fees	54				54
Auto Rental Tax	49				49
Business Taxes	6,721	1,543	-	681	8,945
Corporate Franchise	3,954	543			4,497
Utility Tax	656	192		18	866
Insurance Tax	1,199	118			1,317
Bank Tax	911	157			1,068
Petroleum Business Tax		534		663	1,197
Other	1,073		857	237	2,167
Real Property Gains					-
Estate and Gift	1,051				1,051
Real Estate Transfer			857	237	1,094
Pari Mutuel	21				21
Other	1				1
Total Taxes	\$40,260	\$8,623	\$13,214	\$2,038	\$64,136

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EXPENDITURE FORECASTS AND RISKS

Chapter 1 of the Laws of 2007 requires the Legislature, the Executive, and the Office of the State Comptroller to include estimated state disbursements for the current and ensuing fiscal years for Medicaid, public assistance, and assistance for elementary and secondary education in the midyear report. The statute also requires delineation of underlying factors and assumptions on which such estimates are based.

The NYS Assembly Ways and Means Committee staff has prepared estimates and compared those to estimates provided in the Executive's midyear report. The current fiscal year should end in balance, based on the Executive modifications to the spending plan and our revenue forecasts. Both current year and out-year estimates for Medicaid and public assistance are both slightly below the Executive; aid for elementary and secondary education is above that estimated by the Executive.

The Assembly estimates that the New York State Department of Health will spend \$12.278 billion in State Funds for the Medicaid program in SFY 2007-08, \$64 million lower than the Division of the Budget midyear forecast. The estimate for Department of Health spending for the Medicaid program in SFY 2008-09 is \$13.918 billion, \$80 million lower than the Division of the Budget midyear forecast. The SFY 2007-08 Assembly public assistance expenditure estimate is \$2.006 billion, \$28 million lower than the Executive. For SFY 2008-09, the Assembly forecasts public assistance expenditures to total \$1.925 billion, \$97 million lower than the Executive.

For the 2008-09 school year, both the Assembly and the Executive project that the Foundation Aid portion of aid to elementary and secondary education will grow by \$1.25 billion. The Assembly believes that Universal Prekindergarten should grow by \$105 million in SY 2008-09, while the Executive projects growth of \$54 million. Using an historical average, the Assembly estimates that expense-based aids including Building Aid, Transportation Aid, Private Excess Cost Aid, and BOCES will grow by a total of approximately \$299 million in SY 2008-09, while the Executive projects that these aids will grow by \$190 million.

There are several risks to the expenditure forecast that could significantly change these estimates however, and therefore must be noted for the uncertainty that they introduce into the process. It is also important to recognize that the cash management of disbursements, including the timing of certain payments, is a function performed solely by

the Division of the Budget—yet it has a critical effect on the accuracy of this analysis. It is important that there be discussions on the timing of disbursements as the goals and purposes of budget reform are evaluated.

Some of the risks to the expenditure forecasts include:

- The Mid-Year Financial Plan Update submitted by the Division of the Budget incorporates roughly \$1.2 billion of existing reserves to accommodate potential out-year costs, primarily those resulting from collective bargaining agreements. However, these costs are not factored into the agency disbursement estimate in the current year financial plan and will require revisions to reflect existing and future agreements.
- An increase in energy and fuel costs could significantly impact the accuracy of the expenditure assumptions included within the Mid-Year Financial Plan Update submitted by the Division of the Budget. While the Division of the Budget estimates for non-personal services disbursements do take into account inflationary changes in utilities and fuel costs, they do not appear to have resulted in significant increases in estimated disbursements during the projection period. With the price of crude oil (future WTI spot price) reaching record highs, additional increases in petroleum-based fuels and energy could have a significant impact on the operating expenses for the State.
- Data necessary for calculating SY 2008-09 School Aid will not be released by the State Education Department until November 15. This data, which is submitted by districts, includes factors such as enrollment, district wealth, poverty indicators, and reimbursable spending. Therefore, any projections made for 2008-09 School Aid spending necessarily carry the risk of being uncertain.
- The Medicaid expenditure forecast is subject to many risks, such as natural disasters, economic fluctuations, or shifts in demographic patterns such as the aging of baby boomers. Such factors may lead to increased enrollment and a greater number of beneficiaries, producing higher than anticipated expenditure levels that cannot be captured by an expenditure model.
- When economic variables such as employment, wages, and unemployment exhaustions do not meet projections, the actual public assistance caseload may vary from estimates. In addition, attempting to translate the public assistance caseload

forecast into spending terms presents a risk since a significant portion of public assistance expenditures are made in emergency situations for shelter, transitional services, diversion payments, and other non-assistance payments that are unrelated to the public assistance caseload.

Medicaid Expenditure Forecast

Background

Medicaid expenditure forecasting takes into account more than twenty major categories that combine to make up total Medicaid spending. The forecast provided by the NYS Assembly Ways and Means Committee is for State fund Medicaid spending under the New York State Department of Health only, and does not include spending through other agencies.⁴

The Medicaid forecast uses regression techniques, which rely heavily on an exogenous variable outlook. Factors that may influence the utilization as well as the cost of providing care include: historical trends over time, price level, population, the ratio of elderly population to total population, the unemployment rate, and seasonal factors.⁵ The model forecasts must be evaluated to be consistent with the current and most recent trends, and, in addition, must reflect any statutory changes that may not be captured by regression techniques.

Closeout estimates for the current fiscal year are determined from the most recent expenditures data available. It is estimated by applying the historical expenditure ratio: the ratio of the data available for the current fiscal year as a percentage of total State fiscal year expenditures to the actual quarterly expenditures available for the current fiscal year. The quarterly distribution of Medicaid spending can vary from year to year; however, calculating the closeout at present (with only seven months of data) introduces the possibility of unanticipated changes in the closeout estimate as we move closer to April 2008.

⁴ Medicaid spending also appears in other agencies such as the Office of Mental Health, Office of Mental Retardation and Developmental Disabilities, Office of Alcoholism and Substance Abuse Services, the State Education Department, etc.

⁵ Data used in the forecast are obtained from the following sources: NYS Assembly Ways and Means Forecast, NYS Department of Health, U.S. Census Bureau.

Medicaid Spending: SFY 2006-07, 2007-08, and 2008-09

Total State share Department of Health Medicaid spending in SFY 2006-07 was \$12.843 billion. From April 2007 to October 2007, Medicaid expenditures grew 2.9 percent compared to the same period in 2006. Based on the data for the first seven months of SFY 2007-08, the Assembly Ways and Means Committee staff estimates that Medicaid expenditures will decline by 4.37 percent in SFY 2007-08 and then grow by 13.42 percent in SFY 2008-09. The growth in SFY 2008-09 is driven in large part by several one-time payments. The baseline growth, which excludes one-time payments and the Medicaid local cap, would be much lower. It is estimated that New York State Department of Health will spend \$12.278 billion in State Funds for the Medicaid program in SFY 2007-08, or about \$3.069 billion each quarter. The estimated closeout for SFY 2007-08 is based on seven months of data, from April 1, 2007, through October 30, 2007. This cost is expected to increase to \$13.918 billion in SFY 2008-09.

The Executive currently estimates that Medicaid spending will be \$12.342 billion in SFY 2007-08, a decline of 3.87 percent from SFY 2006-07. The Executive forecasts that Medicaid expenditures will grow 13.36 percent from SFY 2007-08 to \$13.998 billion in SFY 2008-09.

Skilled Nursing Facilities expenditure has been the largest Medicaid expense. This spending is expected to decline slightly in SFY 2007-08 before continuing to grow in SFY 2008-09. More recently, however, Medicaid spending growth has been driven by double-digit growth in Personal Care, Home Health Services, and Managed Care. The growth in Managed Care is part of a strategy on the part of the Executive to shift Medicaid expenses from fee for service spending to Managed Care. This growth, however, is expected to decelerate in the next few years as most of those who are eligible have already been enrolled.

The demand for long-term care (Skilled Nursing Facilities and Home Care) is expected to increase significantly in the next several years due to the aging of the baby boomers. This increase in demand will offset the slight decline in the demand for long-term care services, witnessed in recent years. The change in magnitude of long-term care expenditure will depend on several factors including, the number of elderly in need of assistance, the type of services needed, and the type of institutions providing the care.

There are certain factors which may introduce an amount of risk into the Medicaid forecast. Natural disasters, epidemics, economic fluctuations, or shifts in demographic

patterns such as aging of the baby boomers may cause eligibility and expenditures levels to change in a way that the model cannot capture. In addition, each year there are a variety of statutory changes made at both the State and the national level that can have a significant impact on Medicaid expenditures.

Public Assistance Caseload and Expenditures

Background

Public assistance expenditures consist of two main categories of spending: Family Assistance and Safety Net Assistance. The Family Assistance program is financed using a combination of federal Temporary Assistance for Needy Families (TANF) funds, State funds, and local funds, and provides support services and cash assistance to eligible families and children. The Safety Net Assistance program is financed jointly between the State and local governments, and provides cash assistance to single adults, childless couples, and families that have exhausted their five-year time limit for TANF eligibility imposed by federal law.

It is important to note that while the data available from the Office of Temporary and Disability Assistance (OTDA) is sufficient for estimating the public assistance caseload, it is inadequate for doing a public assistance spending forecast. While economic factors such as employment, wages, and unemployment exhaustions can be used to help forecast the number of recipients on the public assistance rolls, translating those figures into spending terms cannot be done within an appropriate degree of precision because a significant portion of public assistance expenditures are made for emergency situations and include payments for shelter, transitional services, diversion payments, and other non-assistance payments that are unrelated to the public assistance caseload. To improve accountability and transparency, it is important for OTDA to work on a way to separate the emergency and other non-assistance expenditures from basic public assistance expenditures that are directly tied to the caseload.

SFY 2006-07 Actual Public Assistance Caseload and Spending

For purposes of developing the SFY 2007-08 State Budget, SFY 2006-07 spending on public assistance was estimated to total \$2.091 billion, which represented a decline of 4.8 percent below SFY 2005-06. Upon the release of the final spending figures for SFY 2006-07 in June, actual spending totaled \$2.139 billion, approximately \$48 million higher than estimated, and a decline of only 2.6 percent below the prior fiscal year. The underlying caseload estimated in developing the SFY 2007-08 State Budget was 565,814 recipients, while the actual figures for SFY 2006-07 was 560,861 recipients, 5,253

recipients lower than originally estimated. The fact that spending was higher than originally estimated, while the underlying caseload was lower than anticipated, is an example of the disconnect between public assistance caseload and public assistance expenditures.

SFY 2007-08 Estimated Public Assistance Caseload and Spending

Upon enactment of the SFY 2007-08 State Budget, SFY 2007-08 public assistance expenditures were estimated to total \$2.057 billion, a decline of 1.6 percent from the SFY 2006-07 estimate. The Executive currently estimates that public assistance spending will total \$2.034 billion, a decline of \$23 million from the original estimate, and a 4.9 percent decline from the SFY 2006-07 final spending numbers. If public assistance spending continues to decline at the same rate as it declined during the first five months of the current fiscal year, then SFY 2007-08 public assistance spending will total \$2.006 billion. However, since only five months of data for the fiscal year are currently available, the accuracy of estimates for public assistance expenditures will undoubtedly improve as additional data becomes available.

The forecast of caseload originally used for purposes of developing the SFY 2007-08 State Budget was 553,008, representing a decline of 2.3 percent from the SFY 2006-07 estimate. The Executive currently estimates that the public assistance caseload will average 527,847 recipients for SFY 2007-08, a decline of 5.9 percent. Assuming the caseload trend observed through August 2007 continues at the same rate, the average caseload for SFY 2007-08 will total 523,570 recipients. Again, it will be important to continue monitoring the public assistance caseload level over the next few months as additional data becomes available.

SFY 2008-09 Forecasted Public Assistance Caseload and Spending

A forecast for public assistance spending for SFY 2008-09 will be an essential component of the upcoming State Budget. The Executive forecast for SFY 2008-09 public assistance expenditures is \$2.022 billion, representing a decline of 0.6 percent from the SFY 2007-08 Executive expenditure estimate. The underlying Executive caseload forecast for SFY 2008-09 is 522,206 recipients, a decline of 1.1 percent from the SFY 2007-08 Executive caseload estimate. Using current trends for SFY 2007-08, the NYS Assembly Ways and Means Committee staff estimates a preliminary SFY 2008-09 forecast of \$1.925 billion in total public expenditures, and an estimated public assistance caseload of 508,180 recipients. Again, it will be important to monitor the data over the next few months of SFY 2007-08 to be able to provide a more reliable and accurate forecast for SFY 2008-09 for budgeting purposes.

Aid to Education

School Year 2007-08

The 2007-08 State Budget provided an increase of over \$1.76 billion in General Support for Public Schools above 2006-07 levels for a total of \$19.5 billion in overall support for education programs.

The 2007-08 State Budget provides for \$19.2 billion in computerized school aid formulas (see Figure 6). This represents an increase of \$1.73 billion over School Year (SY) 2006-07, which is an increase of \$478 million over the original Executive Proposal. Of this increase \$1.1 billion is attributable to the establishment of a foundation aid formula which enables the State and school districts to have a functioning, comprehensive operating aid formula that takes into account changes in district characteristics on a timely basis.

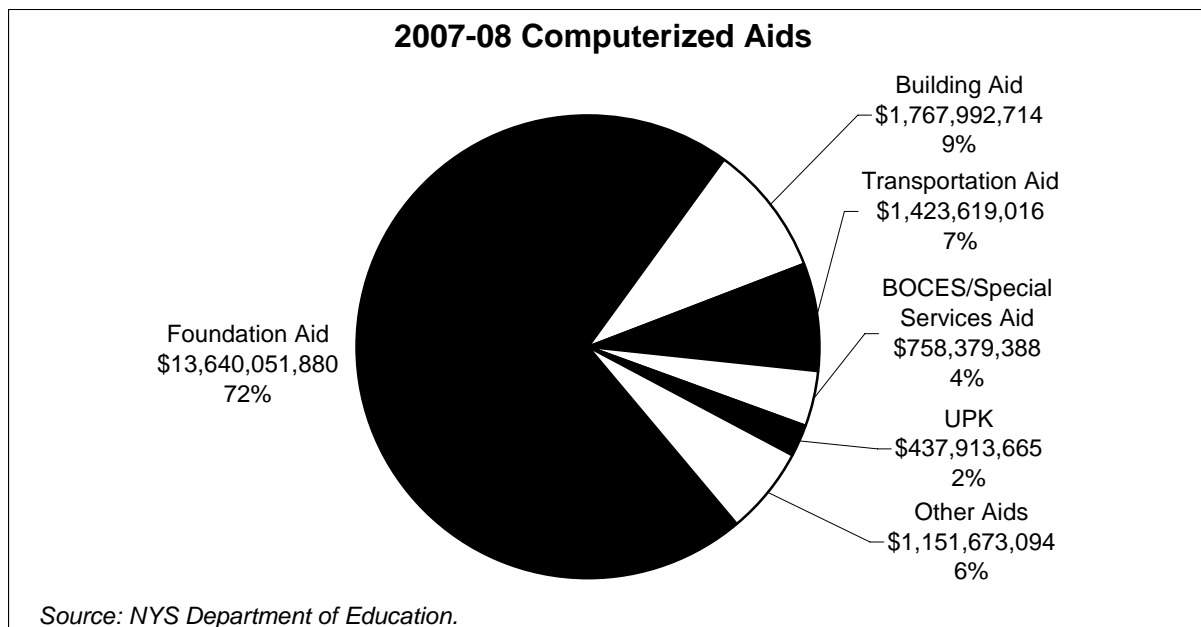


Figure 6

In addition, expense-based computerized aids were maintained and will continue to reimburse districts for certain expenditures that districts have made to provide access and educational programs for their students through this school year. These programs include aid for transportation services, BOCES, special services, and private and high cost special education programs. The State also shares in expenses involved in school construction

through Building Aid. For the 2007-08 school year, the State spent \$137 million in increased aid to maintain our commitment to these programs. Total funding for these programs in SY 2007-08 was \$4.588 billion.

Computerized aids also delineate distinct funding for conversion to full-day kindergarten; universal prekindergarten programs; instructional materials, which includes textbooks, library materials, and computer software and hardware; charter school transition aid; certain grants; and high tax aid. These programs received a total funding of \$951 million.

Finally, it should be noted that the Education budget also provides funding for various grant programs. In SY 2007-08, the State provided \$80 million in additional funds for other education-related programs such as adult education, teacher programs, mandated services aid, additional support for public libraries, and independent living centers. Additionally, \$15 million was provided for the State Education Department to provide additional financial support to implement accountability measures.

School Year 2008-09

Pursuant to §305.21 of the Education Law, an updated electronic data file for the 2008-09 school year containing both actual and estimated data for the current and following school years is not available or released from the State Education Department until November 15. The type of data that districts submit includes information about enrollment, wealth, students eligible for free and reduced price lunch, property values, and the amount of money a district has spent on certain programs eligible for reimbursement. This data, which is due from school districts by November 1, is revised throughout the year as more accurate data is available from school districts. As a result, information is not available to make accurate projections on school aid spending for SY 2008-09. In addition, enhancements are often made to formulas in order to help districts meet their needs and close the achievement gap. Nevertheless, in this report an effort is made to make a projection based on data supplied for the 2007-08 school year. These projections are preliminary and uncertain because information that will be used to determine aid to school districts in SY 2008-09 is unavailable.

Foundation Aid Formula

In the 2007-08 State Budget, the Legislature provided a multi-year plan for historic levels of education funding through a Foundation Aid Formula. For years, the Assembly has

been proposing the creation of a foundation formula that creates a predictable, stable, and equitable structure for State funding of education.

The Foundation Aid Formula is based on the average cost of educating students in successful schools and is adjusted for regional cost differences, poverty levels, and pupils with limited English proficiency. This formula is based on enrollment rather than attendance. In addition, the formula is weighted for special education needs. Full implementation of the Foundation Aid Formula will be phased in over a four-year period, by SY 2010-11. Initial projections at the time of enactment of the 2007-08 State Budget assumed a total dollar commitment of an additional \$5.5 billion in foundation aid by SY 2010-11 (see Figure 7).

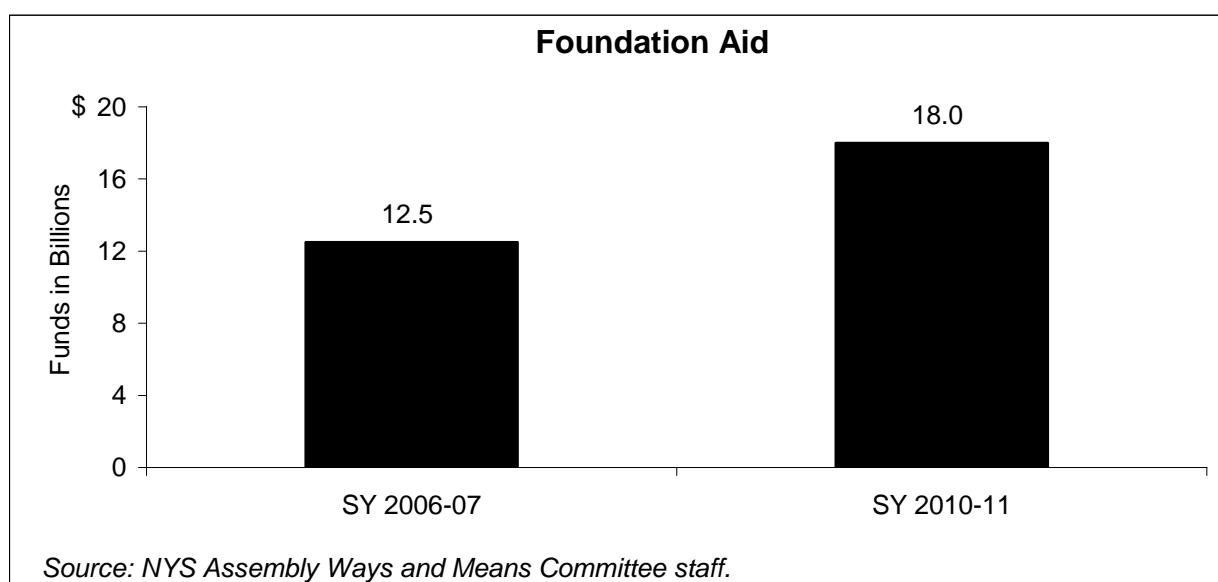


Figure 7

The Foundation Aid Formula consolidates 17 different aid formulas including Flex Aid, Public Excess Cost Aid (not including High Cost Aid), Sound Basic Education Aid, Supplemental Extraordinary Needs Aid, Limited English Proficiency, Class Size Reduction, Growth Aid, Enrollment Adjustment Aid, Operating Reorganization Incentive Aid, Tax Limitation Aid, Teacher Support Aid, Magnet School Aid, Categorical Reading, Improving Pupil Performance, Aid to Small City School Districts, Tuition Adjustment, and Aid to Fort Drum. This consolidation has resulted in a streamlined, simplified formula that better reflects student and district needs.

Upon enactment on April 1, 2007, the Foundation Aid Formula was projected to provide \$13.640 billion to school districts across the State in the SY 2007-08, an increase

of \$1.1 billion over SY 2006-07. Projections from the State Education Department based on data on file submitted to the Commissioner by June 30, 2007, show that this number has increased to \$13.648 billion for the 2007-08 school year, an increase of \$8.4 million or 0.06 percent.

As noted, the Foundation Aid Formula was scheduled to increase by \$5.5 billion over four years. Indications are that this phase in will occur in a relatively proportional manner, and that the increase in Foundation Aid will be \$1.25 billion in SY 2008-09. Again, this estimate does not take into account any data or programmatic changes that may occur. In their 2008-09 State Aid Proposal, the Regents call for a \$1.82 billion increase in Foundation Aid for the coming school year.

Universal Pre-K

Beginning with the initiation of the LADDER program ten years ago, a commitment to create and fund a truly universal prekindergarten program available to all children across the State has been a priority of the Assembly.

The 2007-08 State Budget consolidated the Universal Prekindergarten, Supplemental Universal Prekindergarten, and Targeted Prekindergarten programs into a single Universal Prekindergarten program, and funded the program at \$437.9 million, an increase of \$145.9 million above the consolidated base. The consolidated program was already serving over 70,000 children, and this funding increase would allow the program to expand access to up to 44,000 additional children. In addition, for the first time, funding was made available to all districts with eligible students.

The cost of this program in SY 2008-09 will be affected by program utilization rates and adjustments to the foundation amount, and cannot be accurately calculated until the release of the November 15 database. Both the Executive Budget submission and the Assembly School Aid Proposal for SY 2007-08 included a statutory phase in of full universality for prekindergarten over a four-year period. Specifically, the Assembly's School Aid Proposal called for an increase of \$105 million for SY 2008-09. Although the enacted budget did not include a phase in beyond the current school year, the Regents State Aid Proposal recommended that funding be increased by an additional \$104 million in SY 2008-09. Growth and universal access to this critical education program remain Assembly priorities.

Expense-Based Aids

The State provides reimbursement for various education expenses that school districts incur (see Table 9). Ensuring proper facilities, reducing costs by using shared services, educating students with special needs, and transporting students to schools safely are all a part of providing a sound, basic education to students in the State.

Transportation Aid reimburses districts for approved transportation expenses such as equipment, salary, and benefits. Aid for SY 2007-08 totaled \$1.428 billion, an increase of \$86.0 million or 6.41 percent over SY 2006-07. A SY 2008-09 estimate for this aid category cannot be accurately provided without the November data update. However, a review of the past five years of funding reveals that yearly percentage increases ranged from 0.22 percent to 13.07 percent, with an average annual increase of 7.43 percent. If funding were to increase by this average amount, Transportation Aid would rise by approximately \$106 million in SY 2008-09.

Districts which are components of Boards of Cooperative Educational Services (BOCES) are eligible to receive BOCES aid. BOCES aid allows districts to offer various programs and services that they might otherwise be unable to afford by pooling resources and sharing costs. Aid for SY 2007-08 totaled \$629.4 million, an increase of \$46.1 million or 7.91 percent over SY 2006-07. Funding increases over the past five years ranged from a low of 1.62 percent to a high this past year of 7.91 percent, with an average annual increase of 5.05 percent. If funding were to grow by this average amount, BOCES Aid would increase by approximately \$32 million in SY 2008-09. Additionally, school districts which are not components of BOCES, including the five large city school districts, would receive Special Services Aid to fund career education programs and computer services that totaled \$130.9 million for SY 2007-08.

Private Excess Cost Aid provides reimbursement for public school children with more severe disabilities who are placed in private school settings or in the State-operated schools in Rome and Batavia. Aid for SY 2007-08 totaled \$237.1 million, an increase of \$10.0 million or 4.40 percent over SY 2006-07. Over the past five years, percentage increases in funding have ranged from 3.75 percent to 9.00 percent, with an average annual increase of 5.12 percent. If funding were to increase by this average amount, Private Excess Cost Aid would grow by approximately \$12 million in SY 2008-09.

Building Aid allows school districts to receive aid for approved building projects. Aid for SY 2007-08 totaled \$1.704 billion, an increase of \$42.6 million or 2.56 percent

over SY 2006-07. Percentage increases over the past five years varied from a low this past year of 2.56 percent to a high of 12.28 percent, with an average annual increase of 8.77 percent. If funding were to rise by this average amount, Building Aid would increase by approximately \$149 million in SY 2008-09. Building Aid has generally been one of the most difficult aid categories to forecast, as funding for this program is based both on new building projects that have become aidable, as well as older projects that are no longer aidable as the State has completed its commitment to these projects and the bonds have been paid off.

Table 9

YEAR TO YEAR AID GROWTH							
	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	Total Growth
Transportation	998,147,670	1,081,793,165	1,084,225,686	1,225,948,401	1,342,066,296	1,428,083,277	
Change		83,645,495	2,432,521	141,722,715	116,117,895	86,016,981	429,935,607
% Change		8.38%	0.22%	13.07%	9.47%	6.41%	43.07%
BOCES	491,867,938	502,781,495	510,921,848	549,118,754	583,230,378	629,375,501	
Change		10,913,557	8,140,353	38,196,906	34,111,624	46,145,123	137,507,563
% Change		2.22%	1.62%	7.48%	6.21%	7.91%	27.96%
Private Excess Costs	184,720,944	201,349,457	208,903,620	218,699,706	227,128,806	237,119,527	
Change		16,628,513	7,554,163	9,796,086	8,429,100	9,990,721	52,398,583
% Change		9.00%	3.75%	4.69%	3.85%	4.40%	28.37%
Building	1,119,543,097	1,206,577,979	1,354,719,282	1,498,070,285	1,661,582,230	1,704,157,257	
Change		87,034,882	148,141,303	143,351,003	163,511,945	42,575,027	584,614,160
% Change		7.77%	12.28%	10.58%	10.91%	2.56%	52.22%

Furthermore, certain past initiatives are expected to have a continued impact on Building Aid utilization, and may influence funding increases. In SY 2006-07, the Legislature created the EXCEL (Expanding our Children's Education and Learning) program, a \$2.6 billion statewide program of capital grants to school districts. Of this amount, \$1.8 billion is dedicated to projects in New York City and \$400 million is dedicated to other high-need school districts. The Division of the Budget displays payments of EXCEL debt service in the School Aid Budget; the Assembly places this cost in the Debt Service Budget.

The Legislature also amended certain Building Aid provisions in SY 2005-06 that will continue to affect funding levels. The definition of allowable costs in New York City was expanded to allow the higher costs associated with multi-story buildings, delivery complexities, quality building materials, and enhanced safety precautions to be eligible for reimbursement. In addition, the building aid ratio for all high-need districts was increased by 5 percent, with a maximum ratio of 98 percent.

Other General Support for Public School Aid Programs

There are a variety of other aid programs that the State provides support for ranging from grant programs such as Bilingual Education and School Health Services to formula-based aid programs such as Charter School Transition Aid. Many of these aid categories remain fairly stable over time, while others fluctuate. For example, Full Day Kindergarten is based on how many school districts convert to a Full Day Kindergarten program in a given year. Without the necessary data it is impossible to predict how this aid category will grow or shrink. The instructional materials aid categories are based on enrollments in public and nonpublic schools as well as district wealth, but remain fairly stable on a year-to-year basis. In the same way, Charter School Transition Aid is based on the growth of Charter School enrollments in the State as well as district spending, and no accurate prediction can be made of this aid category's growth. Additionally, grant programs such as Children of Migrant Workers remain funded at consistent levels unless there is legislative action taken to change funding levels.