

**STATE OF NEW YORK
DIVISION OF THE BUDGET
DAVID A. PATERSON, GOVERNOR**

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GOVERNOR PATERSON ANNOUNCES THAT NEW YORK FACES A RECORD \$47 BILLION BUDGET DEFICIT OVER THE NEXT FOUR YEARS – LARGEST IN STATE HISTORY

**Wall Street Woes Create Unprecedented Fiscal Challenges, Require
Bold Action at Special Legislative Session**

**\$1.5 billion Current-year Shortfall, \$12.5 billion Deficit in 2009-10
Are the Result of Plummeting Tax Revenues, Unsustainable Spending
Growth**

Governor David A. Paterson today announced that, as a result of unprecedented turmoil on Wall Street, the State now faces a current-year budget shortfall of \$1.5 billion and a \$12.5 billion deficit in 2009-10. Over the next four years, New York must confront a cumulative budget gap of \$47 billion.

“New York is at the epicenter of an extraordinary financial crisis on Wall Street. We will have no choice but to take bold and aggressive action to reduce state spending,” Governor Paterson. “I have full confidence that my partners in the Legislature will work together with me at next month’s special session to take the actions that will be necessary to get our state’s fiscal house in order.”

The Division of the Budget (DOB) today released its Mid-year Update to the State Financial Plan. In that report, DOB forecasts that the State will have to close budget deficits of \$1.5 billion in 2008-09, \$12.5 billion in 2009-10, \$15.8 billion in 2010-11, and \$17.2 billion in 2011-12 – a cumulative total of \$47 billion. These deficits are nearly

double the \$26.2 billion cumulative budget gap (\$6.4 billion in 2009-10, \$9.3 billion in 2010-11, \$10.5 billion in 2011-12) projected in DOB's July 2008 First Quarter Update to the State Financial Plan. This increase is primarily attributable to the fact that the state will lose \$19.2 billion in revenue over the next four years as a result of the recent turmoil on Wall Street and its long-term effects on the broader economy.

In 2009-10, General Fund revenues are projected to decline by 5.8 percent compared to 2008-09. But General Fund spending is projected to increase by 11.9 percent based on commitments in current law.

The State budget has grown from \$61.9 billion in 1994-95 to \$120.8 billion in 2008-09, an average annual increase of 4.9 percent, which is nearly double the average inflation rate of 2.7 percent over that period. While spending has been limited to the rate of inflation during the last two fiscal years, Governor Paterson believes that we must take significant action to address long-term, unsustainable growth in state spending.

Historical Perspective

While the State's current deficits are the largest in absolute dollars in history, as a percentage of the General Fund budget, they are similar to those faced in 2003-04. In that year, the State closed an \$11.2 billion budget gap, which represented 28.4 percent of the then \$39.5 billion General Fund.

The State will close its 2008-09 shortfall in the current fiscal year. As such, Governor Paterson and the Legislature will have to address a \$12.5 billion deficit in its 2009-10 Enacted Budget, which represents 22.3 percent of the \$56.1 billion General Fund.

Economic Forecast

In just the last two months, the State, national, and global economies have endured a series of unprecedented financial shocks. These events include the largest bank failure in U.S. history (Washington Mutual); the largest bankruptcy filing in history (Lehman Brothers); the federal takeover of Fannie Mae, Freddie Mac, and AIG; a credit freeze that is impacting the ability of businesses, municipalities, and average Americans to borrow money; and over 40 percent declines across all major stock market indexes.

The impact on New York's economy is expected to be severe:

- **Job Losses:** Over 160,000 New Yorkers are projected to lose their jobs during this downturn, including 45,000 in the financial services industry.
- **Unemployment:** Last month, New York's unemployment rate reached 5.8 percent, its highest level in four years. It is expected to reach 6.5 percent next year, with declines projected in virtually every sector of the economy.
- **Income and Wage Declines:** New York personal income and wages for 2009 are projected to decline by 1 percent and 2.1 percent respectively. This compares to personal income growth of 6.5 percent and wage growth of 8.6 percent in 2007.

The national economy is also facing significant difficulties:

- Job Losses: 1.7 million Americans are projected to lose their jobs during the current downturn.
- Real Gross Domestic Product will decline for three consecutive quarters. This has not happened since the recession of the 1970's.
- Consumer spending is projected to decline for three consecutive quarters. This has not happened since World War II.

Governor Paterson's Response

On November 18, Governor Paterson will convene a special emergency economic session of the Legislature to close the entire 2008-09 shortfall and begin aggressively attacking the State's substantial future deficits. Assembly Speaker Sheldon Silver, Majority Leader Skelos, Minority Leader Smith, and Minority Leader Tedisco have each agreed to put forward \$2 billion in current-year savings proposals before the beginning of the session.

Governor Paterson will release his Executive Budget proposal for the 2009-10 fiscal year more than one month early on December 16, 2008. He has also asked the Legislature to pass an Enacted Budget prior to beginning of the fiscal year on April 1, 2009.

Additionally, Governor Paterson will also be meeting with officials in Washington D.C. tomorrow to discuss the need for a second economic stimulus package that will include direct, immediate, fiscal relief for states.

Financial Plan Impact

	2008-09	2009-10	2010-11	2011-12	Cumulative
First Quarter Gaps	\$0	(\$6,355M)	(\$9,295M)	(\$10,545M)	(\$26,195M)
Revenue	(\$1,664M)	(\$5,819M)	(\$5,794M)	(\$5,893M)	(\$19,170M)
Spending	\$26M	(\$569M)	(\$1,002M)	(\$1,171M)	(\$2,716M)
Special Session	\$427M	\$651M	\$639M	\$650M	\$2,367M
Misc	(\$264M)	(\$426M)	(\$300M)	(\$275M)	(\$1,265M)
Mid-year Gaps	(\$1,475M)	(\$12,518M)	(\$15,752M)	(\$17,234M)	(\$46,979M)

Revenue Revisions

As a result of the recent turmoil on Wall Street, tax receipts are projected to be \$19.2 billion lower than previously anticipated over the next four years. Personal income tax

collections represent the largest portion of this loss in revenue and are expected to decline by 3.8 percent in 2009-10 compared to the current fiscal year.

	2008-09	2009-10	2010-11	2011-12	Cumulative
Total Revenue Loss Compared to July Update	(\$1,664M)	(\$5,819M)	(\$5,794M)	(\$5,893M)	(\$19,170M)
Personal Income Taxes	(\$1,167M)	(\$4,243M)	(\$4,425M)	(\$4,787M)	(\$14,622M)
Business Taxes	(\$404M)	(\$913M)	(\$452M)	(\$376M)	(\$2,145M)
Sales/Use Taxes	(\$101M)	(\$267M)	(\$380M)	(\$383M)	(\$1,131M)
Other	\$8M	(\$396M)	(\$537M)	(\$347M)	(\$1,272M)

August Special Session

At an August special emergency economic session, Governor Paterson worked with the Legislature to enact \$1 billion in savings over a two-year period. These measures included across-the-board savings in local assistance payments, new executive and legislative programs, and member items. Additionally, as part of this spending reduction plan, the Legislature enacted \$501 million in Medicaid cost-containment initiatives.

Spending Revisions

DOB has revised its spending projections downward in 2008-09 by \$26 million. This reflects lower than anticipated costs in various programs, primarily Medicaid and general state charges. These lower costs were partially offset by higher spending in other areas, including Mental Hygiene. Additionally, the State Police and the Department of Correctional Services (DOCS) were both partially exempted from their 10.35 percent agency savings targets to ensure that public safety is not compromised, which is reflected in the financial plan. State police will achieve \$13.7 million of their original \$61.1 million spending reduction target. DOCS will achieve \$84.1 million of their original \$249.0 million spending reduction target.

A full progress report concerning agency spending reductions is available at the Division of the Budget's website (www.budget.state.ny.us).

DOB has also revised its spending projections higher by \$568 million in the 2009-10 fiscal year. These changes primarily reflect higher General Fund education costs related to updated pupil demographic data from the State Education Department and lower than anticipated lottery revenues for School Aid. Rebased nursing home reimbursement rates

is also projected to drive higher than previously expected General Fund costs in future years.

Miscellaneous

Financial transactions expected to bring in \$384 million in additional revenue, including the conversion of GHI/HIP to a for-profit company (\$284 million), as well as the sale of certain State properties (\$100 million), will likely not occur during the 2008-09 fiscal year because of adverse market conditions. These developments were partially offset by an agreement to award a video lottery terminal franchise at Aqueduct to Delaware North for an upfront payment of \$370 million, an amount that was \$120 million above initial financial plan projections of \$250 million.

Overall Spending

Overall 2008-09 All Funds spending is projected to total \$120.8 billion, an increase of 4.1 percent, slightly lower than the 4.2 percent inflation rate projected in that fiscal year.

State Operating Funds spending is projected to total \$80.3 billion in 2008-09, an increase of 4.3 percent. General Fund spending is projected to total \$56.1 billion in 2008-09, an increase of 5.1 percent.