



## OFFICE OF THE STATE COMPTROLLER

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### Comptroller's Fiscal Update: Year-End Results for State Fiscal Year 2011-12

April 2012

## Executive Summary

Cost containment actions in the State Fiscal Year (SFY) 2011-12 Enacted Budget, including spending caps for State-funded Medicaid and school aid, have greatly reduced the structural deficit that has long plagued the State. The cumulative out-year General Fund gap through SFY 2015-16 is now estimated at \$8.5 billion, down 87.2 percent from the four-year cumulative projection made just two years ago. The revenue increases enacted in the December 2011 Extraordinary Session of the Legislature have also improved the State's fiscal position for fiscal years 2012 through 2016. Both a higher closing balance and a stronger cash position throughout the past year reflect notable improvement in the State's short-term fiscal position. However, a review of fiscal year-end results shows that the State continues to face significant budgetary challenges.

The SFY 2011-12 Enacted Budget Financial Plan projected All Funds receipts would decline \$2.1 billion, or 1.6 percent, from SFY 2010-11, reflecting the loss of additional federal stimulus funds.<sup>1</sup> Actual year-end results indicate that receipts declined 0.8 percent, primarily due to the use of non-stimulus federal funds which were not initially anticipated and to additional tax revenue generated by actions taken in the December 2011 Extraordinary Session. All Funds spending was initially projected to decline \$1.1 billion, or 0.8 percent, from SFY 2010-11. Actual year-end results show that spending increased \$739 million or 0.6 percent, indicating a total difference of over \$1.8 billion from initial projections, primarily due to the timing of certain Medicaid payments.

General Fund receipts, including transfers from other funds, were projected to increase 4.3 percent. However, even after factoring in additional revenue from the December actions, year-end revenue growth was only 3.6 percent. General Fund disbursements, including transfers to other funds, were projected to increase 6.8 percent, largely reflecting the loss of federal stimulus funds which had temporarily lowered General Fund disbursements. Actual results reflect growth of 6.0 percent.

While General Fund spending ended the year \$443 million below initial projections, primarily in State Operations, receipts also fell below projections, by \$394 million. This revenue shortfall would have been greater without the tax code actions enacted in December 2011. The State ended SFY 2011-12 with a General Fund balance of \$1.787 billion, which is \$111.7 million more than projections included in the Third Quarter Update to the Financial Plan.

<sup>1</sup> For the purposes of this report, comparisons to State Fiscal Year (SFY) 2010-11 are made to reflect adjusted receipt and disbursement results. To address cash flow issues in the last quarter of SFY 2009-10, the Division of the Budget (DOB) delayed \$500 million in Personal Income Tax refunds from the fourth quarter of SFY 2009-10 to the first quarter of SFY 2010-11, thus artificially increasing receipts in SFY 2009-10 and lowering receipts in SFY 2010-11. In addition, for the same reasons, \$2.06 billion in school aid payments planned for the fourth quarter of SFY 2009-10 were delayed to the first quarter of SFY 2010-11. See the Appendix for adjusted and unadjusted comparisons.

Cumulatively, actual tax collections have been more than \$8.5 billion below initial projections over the last five years. This reflects overly optimistic revenue projections made at the start of the fiscal year, which have repeatedly translated into mid-year projected deficits. In addition, annual Financial Plan projections carry a level of risk associated with a number of different areas. The Comptroller's Report on State Fiscal Year 2011-12 Enacted Budget identified a number of revenue risks. For instance, the enacted gap-closing plan counted on \$147 million from various Lottery actions that were expected to lower General Fund spending. By year-end, however, the General Fund was required to supplement school aid because projections had been \$55 million too high. Such supplementation has occurred in nine of the last ten years, resulting in cumulative, unanticipated costs to the General Fund of over \$1.1 billion.

New York State ended its 2011-12 fiscal year having achieved major reductions in structural budget gaps, even in the face of unexpectedly weak economic conditions. Continued attention to long-term balance will help ensure that the State is better prepared to face whatever economic challenges may arise.

## SFY 2011-12 – All Governmental Funds Results

### Receipts

#### All Governmental Funds Receipts SFY 2011-12 – Actual vs. Plan Projections (in millions of dollars)

	SFY 2011-12 Enacted Financial Plan (May)	SFY 2011-12 Mid-Year Financial Plan Update (November)	SFY 2011-12 3rd Quarter Financial Plan Update (February)	SFY 2011-12 Actual (unaudited)	Difference in Year End Projections and Results - Actual less Enacted Plan	Difference in Year End Projections and Results - Actual less Mid-Year Plan	Difference in Year End Projections and Results - Actual less 3rd Quarter Plan
<b>Receipts:</b>							
Taxes	64,976	64,503	64,532	64,299	(677)	(204)	(233)
Personal Income Tax	39,058	38,884	38,664	38,768	(290)	(116)	104
Consumption and Use Taxes	14,673	14,603	14,719	14,571	(102)	(32)	(148)
Business Taxes	8,173	7,895	7,921	7,878	(295)	(17)	(43)
Other Taxes	3,072	3,121	3,228	3,082	10	(39)	(146)
Miscellaneous Receipts	23,407	23,300	23,832	23,836	429	536	4
Federal Grants	43,305	43,031	43,942	44,610	1,305	1,579	668
<b>Total Receipts</b>	<b>131,688</b>	<b>130,834</b>	<b>132,306</b>	<b>132,745</b>	<b>1,057</b>	<b>1,911</b>	<b>439</b>

After strong settlement results in April 2011, the growth in Personal Income Tax (PIT) collections (the State's largest category of taxes) slowed, and monthly receipts fell short of projections seven times during the year. The slowing of the economy, illustrated by lower-than-anticipated tax collections, drove the Division of the Budget (DOB) to lower the State's economic and revenue projections. Year-end tax revenue projections were reduced by a total of \$444 million between the SFY 2011-12 Enacted Budget Financial Plan and the Third Quarter Update to the SFY 2011-12 Financial Plan (included in the Executive's 30-day amended Financial Plan).

Even with these reduced expectations, tax collections in All Governmental Funds ended the year \$233 million below the most recent projections (made in February) and \$677 million below initial projections. Still, All Funds tax collections increased \$2.9 billion, or 4.8 percent, from adjusted SFY 2010-11 results. In the SFY 2011-12 Enacted Budget Financial Plan, All Funds

receipts were expected to decline \$2.1 billion, or 1.6 percent, reflecting the loss of additional federal stimulus funds. Year-end results indicate that receipts declined \$1.1 billion, or 0.8 percent, primarily because of non-stimulus federal funds not initially anticipated (due to the timing of certain payments, as well as retroactive adjustments initially expected in SFY 2010-11) and additional tax revenue from actions taken in December's Extraordinary Session.

### **Personal Income Tax**

Throughout SFY 2011-12, year-to-date growth reported in the Comptroller's Monthly Report on State Funds Cash Basis of Accounting (commonly known as the monthly cash report) was largely attributable to settlement collections from April 2011. The settlement reflects final tax collections (other than extensions) for the previous tax year (in this case, 2010). Improvements in the economy were expected to translate into higher settlement collections, and such expectations were reflected in optimistic projections made in the SFY 2011-12 Enacted Budget Financial Plan. Consistent with these projections, total actual collections in April (including settlements of 2010 tax payments and current year collections) were 35.3 percent higher than the previous April.

### **Individual Components of Personal Income Tax – SFY 2011-12 Actual vs. Enacted Adjusted and Unadjusted for December Actions** (in millions of dollars)

<b>Personal Income Tax</b>	<b>Enacted Financial Plan</b>	<b>Year-End Actual</b>	<b>Dollar Difference</b>	<b>December Actions</b>	<b>Without December Actions</b>	<b>Difference from Enacted</b>
Withholdings	31,802	31,199	(603)	385	30,814	(988)
Estimated Payments	11,900	11,628	(272)	-	11,628	(272)
Final Payments	2,110	2,175	65	-	2,175	65
Other Payments	1,089	1,029	(60)	-	1,029	(60)
<b>Gross Collections</b>	<b>46,901</b>	<b>46,031</b>	<b>(871)</b>	<b>385</b>	<b>45,646</b>	<b>(1,256)</b>
State/City Offset	(148)	(366)	(218)	-	(366)	(218)
Refunds	(7,694)	(6,897)	797	-	(6,897)	797
<b>Reported PIT Collections</b>	<b>39,058</b>	<b>38,768</b>	<b>(290)</b>	<b>385</b>	<b>38,383</b>	<b>(675)</b>

Note: Table may not add due to rounding

In the Enacted Budget Financial Plan, year-end PIT growth was projected to be 6.4 percent higher than adjusted SFY 2010-11 figures. However, actual growth for SFY 2011-12 was only 5.6 percent, which was \$290 million less than initial projections (but \$104 million above the last projections from February). Actions taken in December 2011 to amend the tax code were expected to increase SFY 2011-12 Personal Income Tax collections by \$385 million. Without that additional revenue, PIT collections would have been \$675 million below initial projections.<sup>2</sup>

<sup>2</sup> Note that actual collections resulting from the December 2011 actions are not yet available. However, as total actual year-end Personal Income Tax collections were \$104 million higher than anticipated in the last Financial Plan update, which included revenue from the December tax code changes, it is reasonable to assume that the \$385 million projection for revenue resulting from the December 2011 actions is probably low and that additional collections were actually realized.

## **Consumption and Use Taxes**

Through the first eight months of SFY 2011-12, collections from consumption and use taxes, primarily Sales Tax, exceeded collections from the previous year. However, beginning in December 2011, monthly collections began to decline in comparison to the previous year. By March 2012, year-end collections were \$366 million, or 2.6 percent, higher than last year. However, these results were \$148 million less than projections updated in February 2012 and \$102 million less than the initial projections made in the Enacted Budget Financial Plan, which projected year-end growth of 3.3 percent.

## **Business Taxes**

### **Business Taxes – Comparison of Actual and Financial Plan**

(in millions of dollars)

	SFY 2010-11 Actual	SFY 2011-12 Enacted	Dollar Difference	Percentage Difference	SFY 2011-12 Actual	Dollar Difference from SFY 2010-11	Percentage Difference from SFY 2010-11
Corporate Franchise Tax	2,846	3,463	617	21.7%	3,176	330	11.6%
Corporation and Utilities Tax	814	892	78	9.6%	797	(17)	-2.1%
Insurance Tax	1,351	1,395	44	3.3%	1,413	62	4.6%
Bank Tax	1,178	1,317	139	11.8%	1,392	213	18.1%
Petroleum Business Tax	1,091	1,106	16	1.4%	1,100	10	0.9%
<b>Reported Business taxes</b>	<b>7,279</b>	<b>8,173</b>	<b>894</b>	<b>12.3%</b>	<b>7,878</b>	<b>599</b>	<b>8.2%</b>

Note: Table may not add due to rounding

The SFY 2011-12 Enacted Budget Financial Plan projected that year-end business tax collections would be 12.3 percent, or \$894 million, above actual year-end collections in SFY 2010-11. Most of the expected growth was attributed to the Corporate Franchise Tax. By the end of the year, however, after lowering projections a total of \$252 million from initial projections, actual business tax collections grew only 8.2 percent, and were \$43 million below the latest projections and \$295 million below initial projections.

## **Miscellaneous Receipts**

The State collected \$23.8 billion in Miscellaneous Receipts in SFY 2011-12, representing an increase of \$688 million, or 3.0 percent, from SFY 2010-11. Miscellaneous receipts include fees, fines, interest earnings, refunds and reimbursements, Lottery and other gambling revenue, as well as revenues of various agencies (including tuition for SUNY colleges and universities and assessments charged to health care providers).

The final results were in line with the last projections made in February, but \$429 million higher than initial projections. This was primarily due to the timing of bond proceeds collected from public authorities.

## **Federal Receipts**

Federal grants represent the largest single source of revenue for the State. In addition, federal grants finance approximately 20 percent of capital spending by the State. In SFY 2011-12, the

State collected \$44.6 billion from the federal government for various programs (the largest being Medicaid and cash assistance for low income families). This is a reduction of nearly \$4.7 billion from SFY 2010-11, primarily due to the end of federal funding from the American Recovery and Reinvestment Act of 2009 (ARRA).

The end of ARRA funding was assumed in the Enacted Budget Financial Plan, which projected federal receipts would decline by \$6.0 billion. Actual collections ended the year \$1.3 billion higher than initial projections, primarily due to the timing of certain Medicaid payments (and thus federal reimbursement).

## Disbursements

### All Governmental Funds Disbursements SFY 2011-12 – Actual vs. Plan (in millions of dollars)

	SFY 2011-12 Enacted Financial Plan (May)	SFY 2011-12 Mid-Year Financial Plan Update (November)	SFY 2011-12 3rd Quarter Financial Plan Update (February)	SFY 2011-12 Actual (unaudited)	Difference in Year End Projections and Results - Actual less Enacted Plan	Difference in Year End Projections and Results - Actual less Mid-Year Plan	Difference in Year End Projections and Results - Actual less 3rd Quarter Plan
<b>Disbursements:</b>							
Grants to Local Governments	95,404	95,022	95,822	96,481	1,077	1,459	659
State Operations	18,424	18,565	18,689	19,028	604	463	339
General State Charges	6,833	6,836	6,833	6,854	21	18	21
Debt Service	5,855	5,834	5,872	5,864	9	30	(8)
Capital Projects	5,182	5,152	5,519	5,277	95	125	(243)
<b>Total Disbursements</b>	<b>131,698</b>	<b>131,409</b>	<b>132,735</b>	<b>133,504</b>	<b>1,806</b>	<b>2,095</b>	<b>769</b>

Note: Table may not add due to rounding

The SFY 2011-12 Enacted Budget Financial Plan projected that All Funds spending would decline by 0.8 percent from adjusted SFY 2010-11 levels to \$131.7 billion, with reductions coming primarily in education and health (including Medicaid). Actual results show All Funds spending totaled \$133.5 billion in SFY 2011-12, reflecting an increase of 0.6 percent.

All Funds spending ended the year \$1.8 billion higher than initial projections, largely due to the timing of Medicaid payments, an issue that also affected federal receipts. The Financial Plan was adjusted to reflect that change in the third quarter update. Even with this adjustment, All Funds spending ended the year \$768.9 million higher than third quarter projections, primarily in local assistance payments. Notably, the February 2012 monthly cash report stated that spending through February 29 was \$343.2 million *below* the latest projections, primarily in local assistance payments.

## Local Assistance

Between the release of the SFY 2011-12 Enacted Budget Financial Plan and the release of the Third Quarter Update to the Enacted Plan, projections for year-end local assistance spending increased over \$418 million, primarily because of the timing of Medicaid payments. However, this was offset by reductions elsewhere. Local assistance spending through year-end was 0.1 percent, or \$92 million, lower than adjusted SFY 2010-11 results. This was \$659 million more than the latest projections and nearly \$1.1 billion more than initial projections from the Enacted Budget Financial Plan, again primarily because of the timing of certain Medicaid payments.

## State Operations

Spending for State Operations ended the year \$603.9 million higher than initial projections and \$338.9 million higher than the latest projections released in February. Spending for personal service (salaries, overtime and costs for temporary employees) totaled \$12.7 billion, \$424.9 million less than SFY 2010-11 (3.2 percent). Actual results were \$316.9 million higher than initial Enacted Budget projections and \$160.9 million higher than the latest projections. Spending for non-personal service (rental, utilities, contractual payments, supplies, equipment and travel) increased \$368.7 million from SFY 2010-11 (6.2 percent) and was \$287 million higher than initial projections and \$178 million higher than the latest projections.

## Other

Spending for General State Charges increased \$493.3 million, or 7.8 percent, to \$6.9 billion from SFY 2010-11.<sup>3</sup> This was \$21.4 million higher than initial projections as well as the latest Financial Plan update. Debt service increased \$249.3 million, or 4.4 percent, in SFY 2011-12 from the previous year. Year-end results for debt service were \$9.0 million higher than initial projections and \$8.0 million less than the latest projections. Spending for capital projects increased \$144.8 million, or 2.8 percent, in SFY 2011-12 from the previous year. The year-end total was \$94.5 million more than initial projections and \$242.5 million lower than the latest projections.

## SFY 2011-12 – General Fund Actual Results

### General Fund SFY 2011-12 – Actual vs. Plan (in millions of dollars)

	SFY 2011-12 Enacted Financial Plan (May)	SFY 2011-12 Mid-Year Financial Plan Update (November)	SFY 2011-12 - 3rd Quarter Financial Plan Update (February)	SFY 2011-12 Actual Year-End (unaudited)	Difference in Year End Projections and Results - Actual less Enacted Plan	Difference in Year End Projections and Results - Actual less Mid- Year Plan	Difference in Year End Projections and Results - Actual less 3rd Quarter Plan
<b>Receipts:</b>							
Taxes	42,237	41,886	41,920	41,755	(482)	(131)	(165)
Personal Income Tax	26,001	25,870	25,705	25,843	(158)	(27)	138
Consumer Taxes	9,105	9,056	9,135	9,055	(50)	(1)	(80)
Business Taxes	6,101	5,868	5,868	5,760	(341)	(108)	(108)
Other Taxes	1,030	1,092	1,212	1,097	67	5	(116)
Miscellaneous Receipts	3,098	3,152	3,244	3,162	64	10	(83)
Federal Grants	60	60	60	60	(1)	(1)	(1)
<b>Subtotal</b>	<b>45,395</b>	<b>45,098</b>	<b>45,224</b>	<b>44,976</b>	<b>(419)</b>	<b>(122)</b>	<b>(248)</b>
Transfers from Other Funds	11,898	11,768	11,990	11,923	25	155	(67)
<b>Total Receipts</b>	<b>57,293</b>	<b>56,866</b>	<b>57,214</b>	<b>56,899</b>	<b>(394)</b>	<b>33</b>	<b>(315)</b>
<b>Disbursements:</b>							
Grants to Local Governments	38,888	38,721	38,515	38,420	(469)	(302)	(96)
State Operations	7,356	7,462	7,565	7,494	138	32	(71)
General State Charges	4,668	4,704	4,707	4,720	52	16	13
<b>Subtotal</b>	<b>50,912</b>	<b>50,887</b>	<b>50,787</b>	<b>50,633</b>	<b>(279)</b>	<b>(254)</b>	<b>(154)</b>
Transfers to Other Funds	6,020	5,968	6,128	5,856	(164)	(112)	(272)
<b>Total Disbursements</b>	<b>56,932</b>	<b>56,855</b>	<b>56,915</b>	<b>56,489</b>	<b>(443)</b>	<b>(366)</b>	<b>(426)</b>

<sup>3</sup> General State Charges include employer contributions for pensions, Social Security, and other benefits as well as fixed costs such as payments in lieu of taxes and payments for local assessments of State-owned land.



## Receipts

DOB initially projected General Fund tax collections would increase 6.4 percent over adjusted SFY 2010-11 year-end collections. Although no significant tax actions were included in the SFY 2011-12 Enacted Budget, certain tax collections were expected to increase significantly, specifically PIT and business taxes (6.6 percent and 15.6 percent, respectively). Initial SFY 2011-12 projections for PIT and business tax collections from the Enacted Budget Financial Plan were \$262 million higher than those in the Executive's initial SFY 2011-12 Proposed Budget Financial Plan (released February 1, 2011).

### General Fund Personal Income Tax and Business Tax Collections Actual Compared to Previous Projections (in millions of dollars)

	Executive Proposed February 2011	Enacted May 2011	Difference From Executive	Actual March 2012	Difference From Executive	Difference From Enacted
Personal Income Tax	25,589	26,001	412	25,843	254	(158)
Business Tax	6,251	6,101	(150)	5,760	(491)	(341)
Total	31,840	32,102	262	31,603	(237)	(499)

As the previous table illustrates, business tax collections did not meet projections at any time during the year, whereas actual PIT collections exceeded projections from the Executive proposed budget. However, the February and May projections did not anticipate the tax actions enacted in the December 2011 Extraordinary Session. If the \$385 million expected from those actions is subtracted from actual collections, as the following table illustrates, the adjusted collections from just these two areas were \$884 million lower than expected in the Enacted Budget Financial Plan.

### Adjusted General Fund Personal Income Tax and Business Tax Collections Actual Compared to Previous Projections (in millions of dollars)

	Executive Proposed February 2011	Enacted May 2011	Difference From Executive	Actual March 2012	Difference From Executive	Difference From Enacted
Personal Income Tax	25,589	26,001	412	25,458	(131)	(543)
Business Tax	6,251	6,101	(150)	5,760	(491)	(341)
Total	31,840	32,102	262	31,218	(622)	(884)

In the Mid-Year Update to the SFY 2011-12 Enacted Budget Financial Plan, DOB projected a year-end deficit of \$350 million, if no other action was taken, including \$404 million in lowered revenue projections (offset by various projections for higher spending and miscellaneous receipts).

## Disbursements

In the SFY 2011-12 Enacted Budget Financial Plan, DOB projected that year-end General Fund spending, including transfers to other funds, would increase 6.8 percent from adjusted SFY 2010-11 results, largely reflecting the loss of federal ARRA funding which had temporarily lowered General Fund spending. General Fund spending totaled \$56.5 billion in SFY 2011-12, which was \$443 million below initial Enacted Budget projections and \$426 million below the latest projections.

Local assistance disbursements from the General Fund totaled \$38.4 billion, representing an increase of 9.3 percent from adjusted SFY 2010-11 results. Projections for General Fund local assistance spending were reduced by \$373 million between the Enacted Budget Financial Plan and the Third Quarter Update released in January. However, the majority (80.4 percent) of the \$373 million difference between these projections occurs in the “Other” category, for which minimal information is available. Year-end actual results were \$96 million below the latest projections.

### **General Fund Closing Balance and Reserves**

The General Fund ended SFY 2011-12 with a balance of \$1.79 billion. This was \$410.6 million more than the year-end balance for SFY 2010-11 and \$111.7 million more than projected in the last Financial Plan update. The following table compares restricted and unrestricted reserve levels within the General Fund. Total reserves, both restricted and unrestricted, were equal to approximately 3.1 percent of General Fund spending in SFY 2011-12.

#### **General Fund Balance and Reserves – Actual and Projected Year End** (in millions of dollars)

	SFY 2010-11 Actual	SFY 2011-12 Enacted Update	SFY 2011-12 Mid-Year Update	SFY 2011-12 3rd Quarter Update	SFY 2011-12 Actual
<b>Restricted</b>					
Tax Stabilization Reserve	1,031	1,031	1,031	1,031	1,131
Rainy Day Fund	175	275	275	275	175
Contingency Reserve	21	21	21	21	21
Community Projects Fund	136	51	51	51	102
Debt Reduction Reserve	-	-	-	-	-
<i>Total Restricted</i>	<i>1,363</i>	<i>1,378</i>	<i>1,378</i>	<i>1,378</i>	<i>1,429</i>
<b>Unrestricted (Refund Reserve)</b>					
Prior Year Labor Agreements	-	346	346	284	283
Debt Management	13	13	13	13	-
Unrestricted Fund Balance	-	-	-	-	75
<i>Total Unrestricted</i>	<i>13</i>	<i>359</i>	<i>359</i>	<i>297</i>	<i>358</i>
<b>Total Reserves</b>	<b>1,376</b>	<b>1,737</b>	<b>1,737</b>	<b>1,675</b>	<b>1,787</b>

DOB initially planned to deposit \$100 million to the Rainy Day Fund that was created in 2007, thus increasing the balance of the reserve to \$275 million, at the end of the 2011-12 fiscal year. (The first and only other deposit occurred in SFY 2007-08). However, language authorizing a transfer of funds to the Rainy Day Fund was not included in the Enacted Budget. Instead, in accordance with State Finance Law Section 92, \$100 million was deposited to the Tax Stabilization Reserve Fund, bringing that fund up to its statutory limit of two percent of General Fund spending. The Community Projects Fund ended the year with a balance of \$101.8 million, or \$50.8 million more than anticipated.

Over much of the past 10 years, reserves – and in particular unrestricted reserves – have been significantly higher than current levels, primarily reflecting better economic circumstances. In

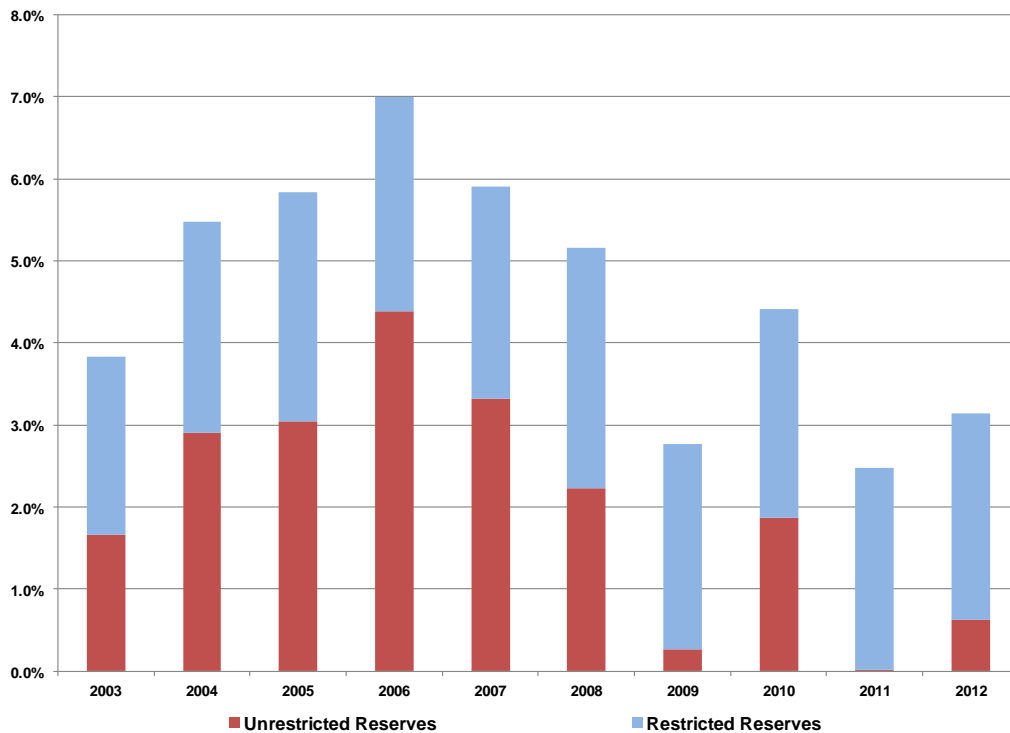


SFY 2005-06, the General Fund ended the year with a balance of \$3.3 billion, reflecting approximately 7.0 percent of General Fund spending, including 4.4 percent in unrestricted reserves and 2.6 percent in restricted reserves.

Unrestricted reserves are funds that are not statutorily restricted or allocated. Historically, these funds were used to support PIT refunds made in the first quarter of the fiscal year. However, as electronic tax filing has better aligned collections and refunds, thus reducing the first quarter fiscal impact, over the last decade these funds have increasingly been used to support recurring General Fund spending. Ideally, such reserves should be considered a non-recurring resource and be used for one-time costs or to pay down debt.

Restricted reserves include the Tax Stabilization Reserve Fund, the Rainy Day Fund (used for shortfalls in the General Fund either during the year or at year-end), the Contingency Reserve Fund (for unanticipated but authorized payments) and the Community Projects Fund (used to support various legislative and Executive special projects). They are statutorily restricted for certain uses and, in the case of the Tax Stabilization Reserve Fund, contain specific repayment terms. The following chart illustrates the State's General Fund restricted and unrestricted reserves over the past ten years.

**General Fund Reserves as a Percentage of General Fund Spending  
SFY 2002-03 through SFY 2011-12**



While General Fund reserves are currently lower than prior years, as illustrated in the previous chart, it is important to note that the State's cash position is significantly better than just a few years ago. For example, in SFY 2009-10 the State was forced to delay payments both during the year and at year-end because sufficient cash was not available. Conversely, the State made prepayments of certain pension and debt service obligations at the end of SFY 2011-12. While the General Fund is allowed to end the month with a negative balance for up to four consecutive months (with temporary loans from other dedicated funds), it has not had to do so since June 2010.

## Gap Closing

The SFY 2011-12 Enacted Budget Financial Plan included a gap-closing plan that addressed a \$10 billion projected deficit. This plan included spending caps of approximately 4.0 percent for the State's two largest categories of spending – Medicaid and school aid. If revenue anticipated in that plan did not materialize, or savings did not occur, then additional actions would be necessary to avoid reopening the budget gap.

The Enacted Budget included tools for DOB to address cash shortfalls as well as to increase flexibility in cash management. These included blanket sweep authority to allow the movement of up to \$500 million from unencumbered special revenue fund balances (with certain exceptions) to the General Fund, as well as administrative authority to reduce spending in certain areas.

A projected deficit was identified in the General Fund in the Mid-Year Financial Plan Update, and DOB stated that it was assembling a Fiscal Management Plan to address the shortfall. In response to renewed concern about the emerging SFY 2011-12 budget gap and increased projections for out-year gaps, temporary changes to the State's PIT brackets were enacted by the State Legislature during its December 2011 Extraordinary Session.

The December tax changes were projected to raise an additional \$385 million in the last quarter of SFY 2011-12 and \$1.9 billion in new revenue in SFY 2012-13. Other actions from December, including the partial repeal of the MTA payroll tax, added costs, resulting in a net benefit of \$1.5 billion. In addition, DOB used \$298 million in blanket sweep authority, compared to \$64.6 million as projected in the last Financial Plan update. However, the authority to reduce Medicaid spending administratively was not utilized.

## Risk

The Comptroller's Report on the State Fiscal Year 2011-12 Enacted Budget identified numerous areas of risk, including the economy and certain revenue projections (such as Lottery receipts, Abandoned Property, and Tribal-State Compact revenue). Each of these risks had the potential to translate into revenue shortfalls, and many of the identified risks came to fruition.

For example, DOB projected an additional \$147 million in Lottery receipts in the Enacted Budget resulting from various Lottery changes. Actual results indicate that projections were nearly \$55 million too high, meaning the General Fund had to backfill Lottery support to meet planned education spending. Such substitution of General Fund revenues for lower-than-expected Lottery receipts has occurred in nine of the last ten years, totaling over \$1.1 billion. Similarly, the Enacted Budget Financial Plan expected \$92.4 million to be available for General Fund use from the Tribal-State Compact with Native American casinos. In SFY 2010-11, only \$4.6 million was collected. In SFY 2011-12, no payments were received.

The Comptroller's Report on the State Fiscal Year 2011-12 Enacted Budget also showed that, when adjusted for non-recurring actions, Personal Income Tax was projected to grow 12.4 percent. Year-end collections were \$290 million less than initial projections, and would have been substantially lower if additional revenue had not been made available from the tax code

changes enacted in December. In the last five years, actual tax collections have been cumulatively more than \$8.5 billion lower than projections from Enacted Budget financial plans, including a \$677 million shortfall from SFY 2011-12.

In addition to these revenue risks, the State continues to rely on temporary resources to meet recurring spending needs, though this amount has decreased significantly in recent years. The Comptroller's Report on the State Fiscal Year 2011-12 Enacted Budget identified nearly \$8.4 billion in temporary resources in the Enacted Budget including tax changes enacted in 2010, certain deferred tax credits and remaining federal stimulus funding. Even with these resources, mid-year action was needed to address a projected year-end deficit.

Recent budgets have made significant progress in addressing the State's chronic structural imbalance. The cumulative out-year General Fund gap through SFY 2015-16 is now estimated at \$8.5 billion, down 87.2 percent from the four-year cumulative projection made just two years ago. However, the year-end results for SFY 2011-12, with revenue shortfalls throughout the year, serve as a reminder that the State must be well prepared to deal with unexpected, negative developments.

## Appendix

### Comparison of Adjusted and Unadjusted Receipt and Disbursement Growth (in millions of dollars)

<b>Unadjusted</b>	<b>SFY 2010-11 Actual</b>	<b>SFY 2011-12 Actual</b>	<b>Dollar Difference</b>	<b>Percentage Difference</b>
General Fund Receipts	54,447	57,293	2,846	5.2%
General Fund Disbursements	55,373	56,932	1,559	2.8%
All Funds Receipts	133,321	132,745	(576)	-0.4%
All Funds Disbursements	134,825	133,504	(1,321)	-1.0%
<b>Adjusted</b>	<b>SFY 2010-11 Adjusted Actual</b>	<b>SFY 2011-12 Actual</b>	<b>Dollar Difference</b>	<b>Percentage Difference</b>
General Fund Receipts	54,947	57,293	2,346	4.3%
General Fund Disbursements	53,313	56,932	3,619	6.8%
All Funds Receipts	133,821	132,745	(1,076)	-0.8%
All Funds Disbursements	132,765	133,504	739	0.6%