



NEW YORK

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Mid-year Update to the  
State Financial Plan

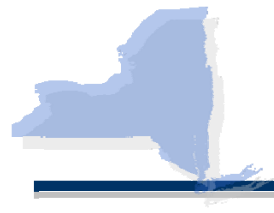
Governor David A. Paterson

October 28, 2008

# Overview

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- A New Era on Wall Street
- What Does It Mean for Main Street?
- Impact on the State Budget
- A Problem Long in the Making
- Governor Paterson's Response



# **A New Era on Wall Street**



# Investment Banking Industry as We Knew It Is Over

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## *Fate of Top 5 US Independent Investment Banks*

LEHMAN BROTHERS



Collapsed, largest bankruptcy filing in history

**BEAR  
STEARNS**



Acquired by JP Morgan Chase under extreme financial pressure

 **Merrill Lynch**



Acquired by Bank of America under extreme financial pressure

Morgan Stanley



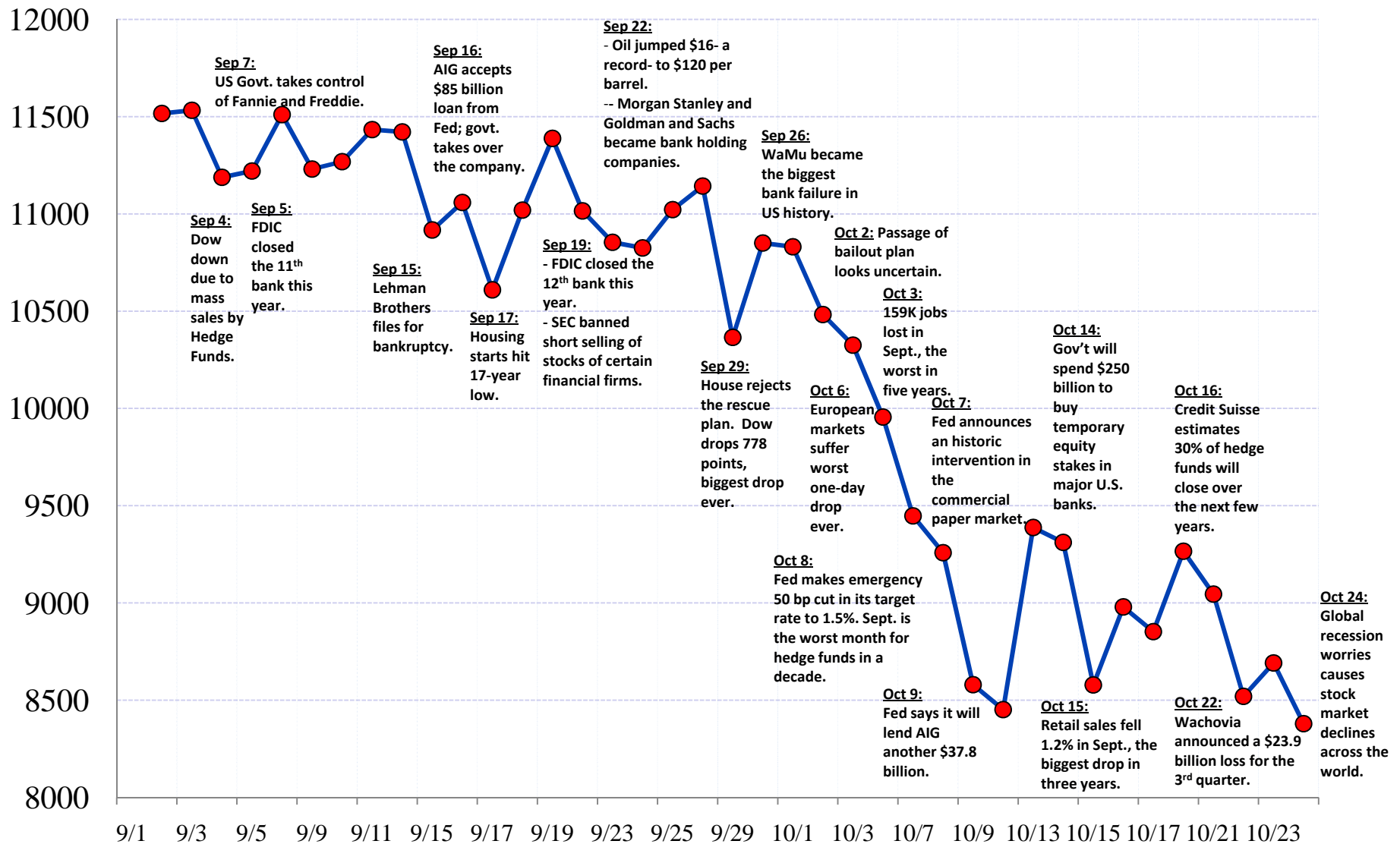
Restructured to become a bank holding company

**Goldman  
Sachs**



Restructured to become a bank holding company

# A Series of Unprecedented Shocks to the Financial Market



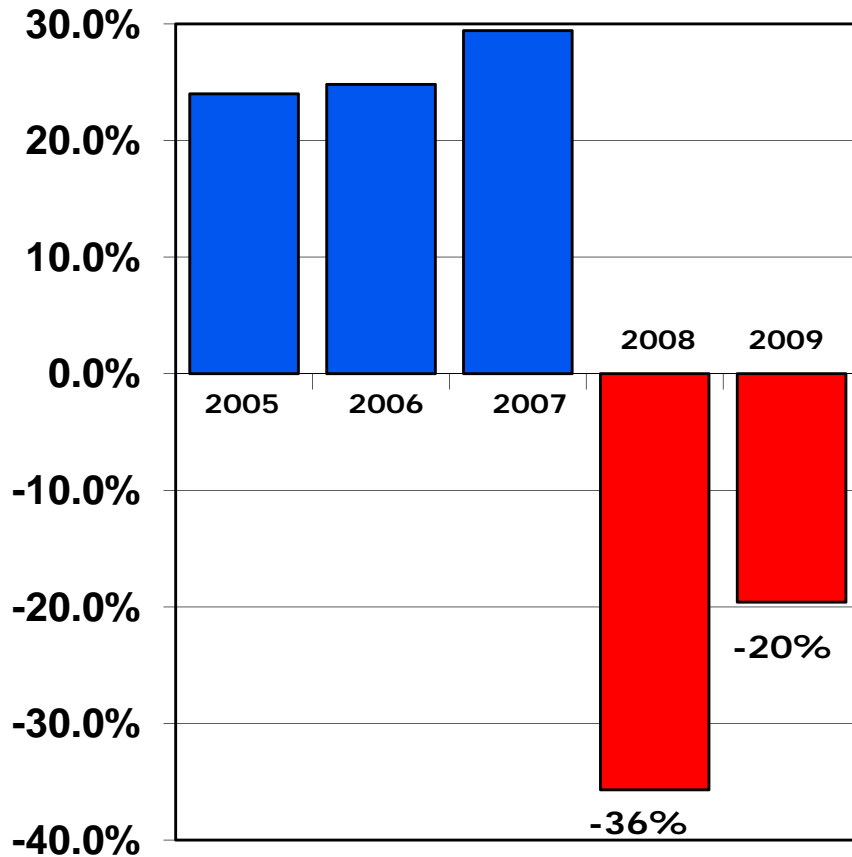
# Deepening Wall Street Turmoil

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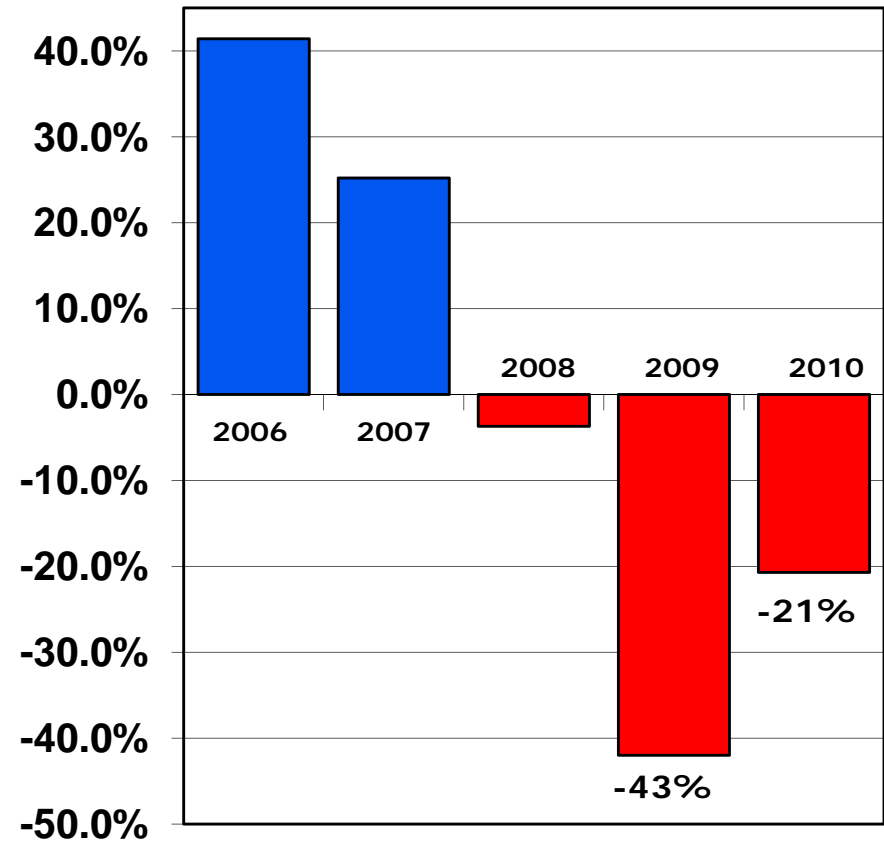
- Twenty percent of state tax revenues are derived from Wall Street.
- NYS financial sector layoffs expected to total 45,000 – 50 percent higher than after 9/11, when layoffs totaled 30,000.
- Washington Mutual collapsed, largest bank failure in history. In 2008, a total of 16 banks have failed – largest number since 1994.
- Goldman Sachs and Morgan Stanley now bank holding companies. Stricter rules about how much they can leverage/borrow. Less risk, but also less potential for profit.
- No IPOs in the last ten weeks, longest drought on record.
- S&P 500 is down 40 percent from its previous record close.

# Declining Capital Gains and Bonuses

*Capital Gains Growth/Decline*



*Wall Street Bonus Growth/Decline*





# **What Does It Mean for Main Street?**



# Mounting Job Losses

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## *New York State*

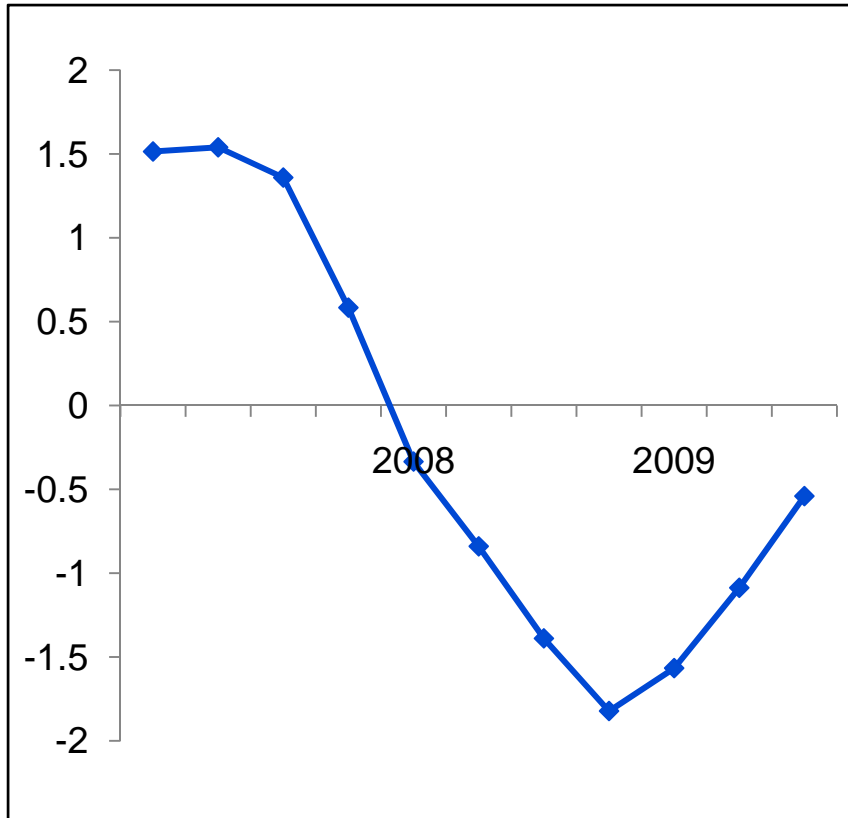
- New York private sector job losses are expected to total over 160,000 during the current downturn.
- New York's unemployment rate currently totals 5.8 percent, its highest level in more than four years.
- In 2009, the New York unemployment rate is expected to reach 6.5 percent

## *National*

- National private sector job losses are expected to total over 1.7 million during the current downturn.
- In 2009, the national unemployment rate is expected to average 6.7 percent

# Seven Straight Quarters of Declining Employment Projected

*New York Employment  
Year over Year Percent Change*

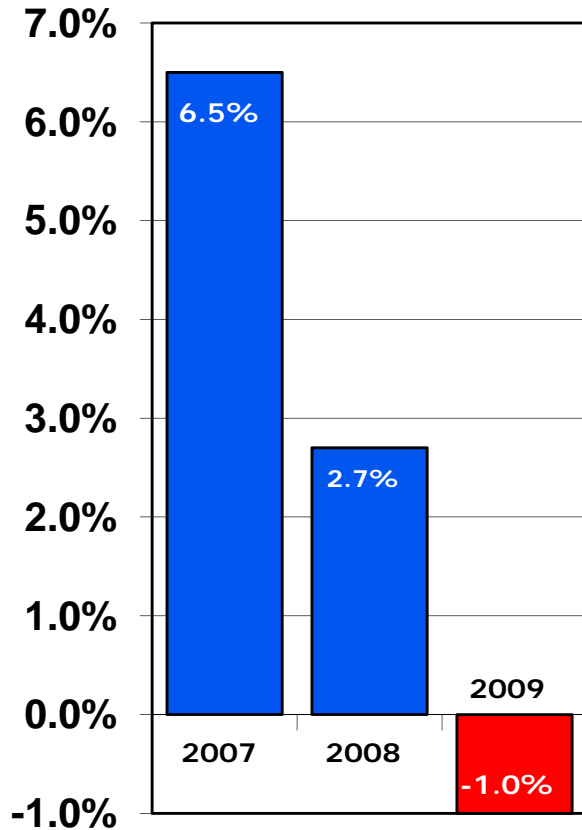


*Employment Declines Across  
Virtually All Sectors of the Economy*

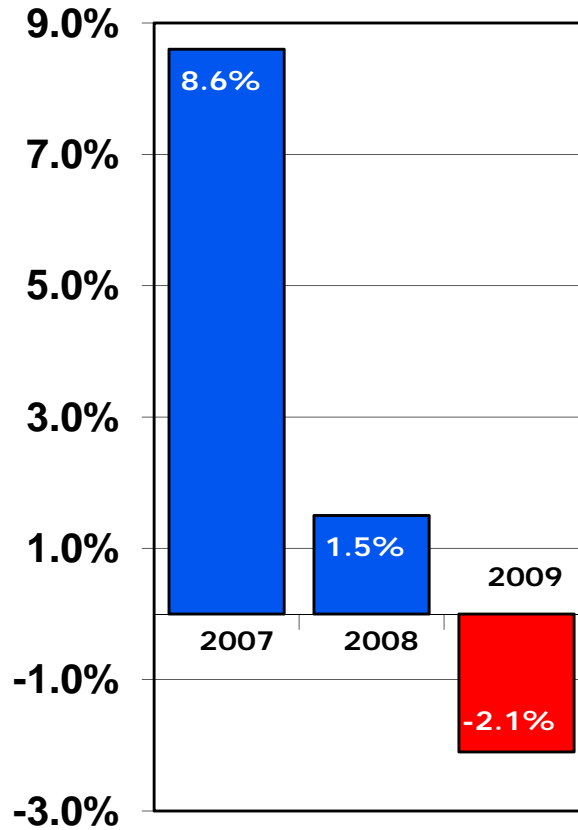
	2009 Annual Change
<b>Private</b>	<b>-1.7%</b>
Utilities	-1.4%
Construction	-3.6%
Manuf. & Mining	-4.2%
Wholesale	-1.3%
Retail	-2.1%
Transp. & Warehousing	-1.7%
Information	-1.1%
Finance and Insurance	-4.2%
Real Estate	-1.9%
Prof. Sci. and Tech. Svs.	-3.9%
Mangt. & Admin. Support	-2.2%
Other Services	-1.8%
Education	2.0%
Healthcare	1.5%
<b>Government</b>	<b>-0.2%</b>
<b>Total</b>	<b>-1.5%</b>

# A Struggling Economy

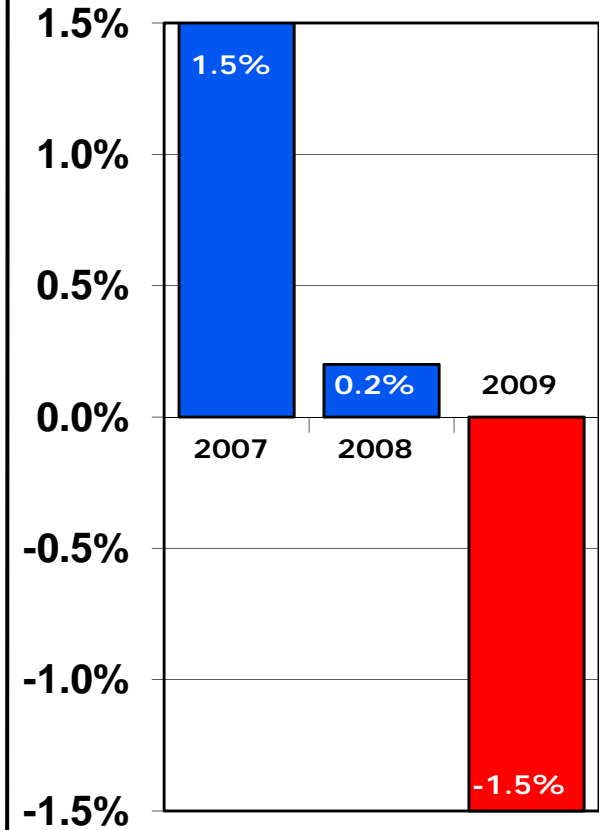
*NY Personal Income*



*NY Wages*



*NY Employment*



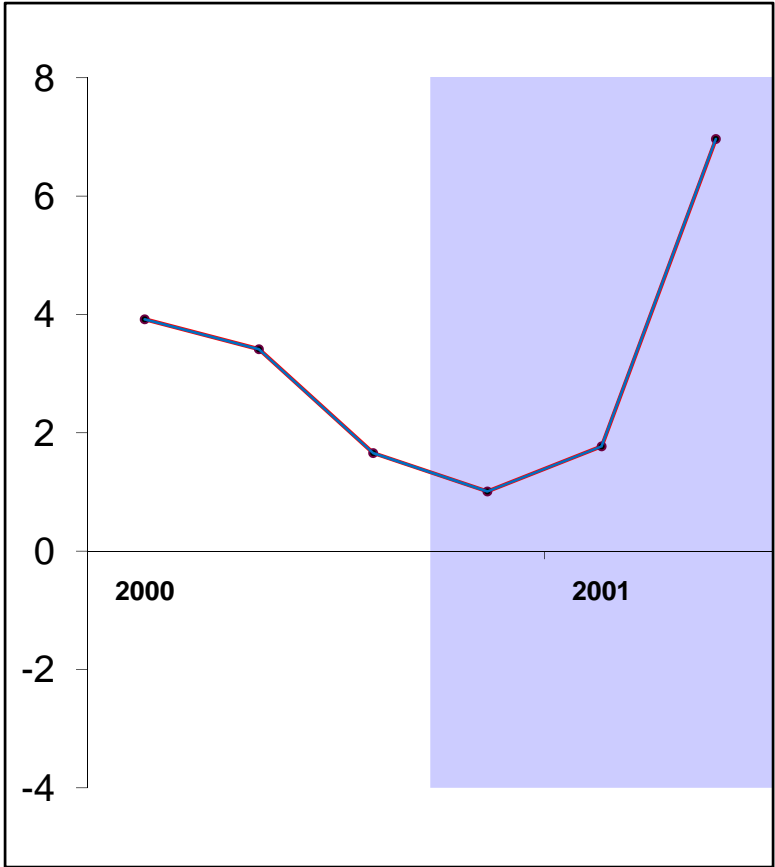
# Declining Consumer Spending

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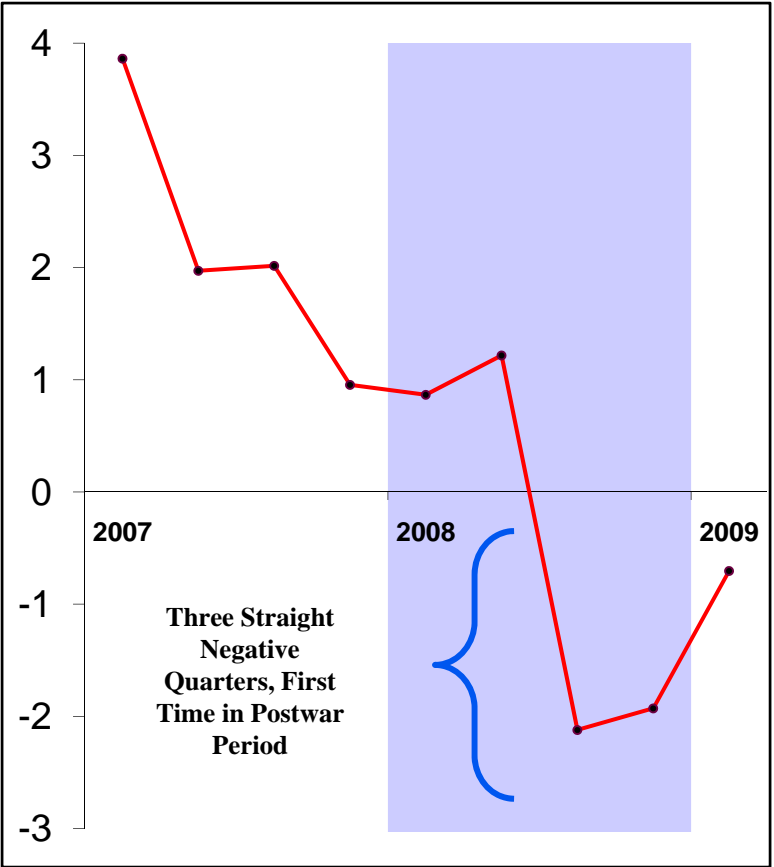
- “Reverse Wealth Effect” – Average Americans have lost trillions of dollars in wealth (stocks, 401(k)s, real estate). Less willing to consume.
  - Congressional Budget Office says workplace retirement plans, including 401(k)s, have lost \$2.0 trillion.
  - According to S&P Case/Schiller index, national home prices have declined 16.3 percent compared to previous year – largest annual decline in history of the index.
- Tightening access to credit. Cannot as easily tap credit card or home equity loans to finance consumer spending.
- Drags down economy, deepens recession.

# Declining Real Consumption

*2001 Recession (Percent Change)*



*2008 Recession (Percent Change)*

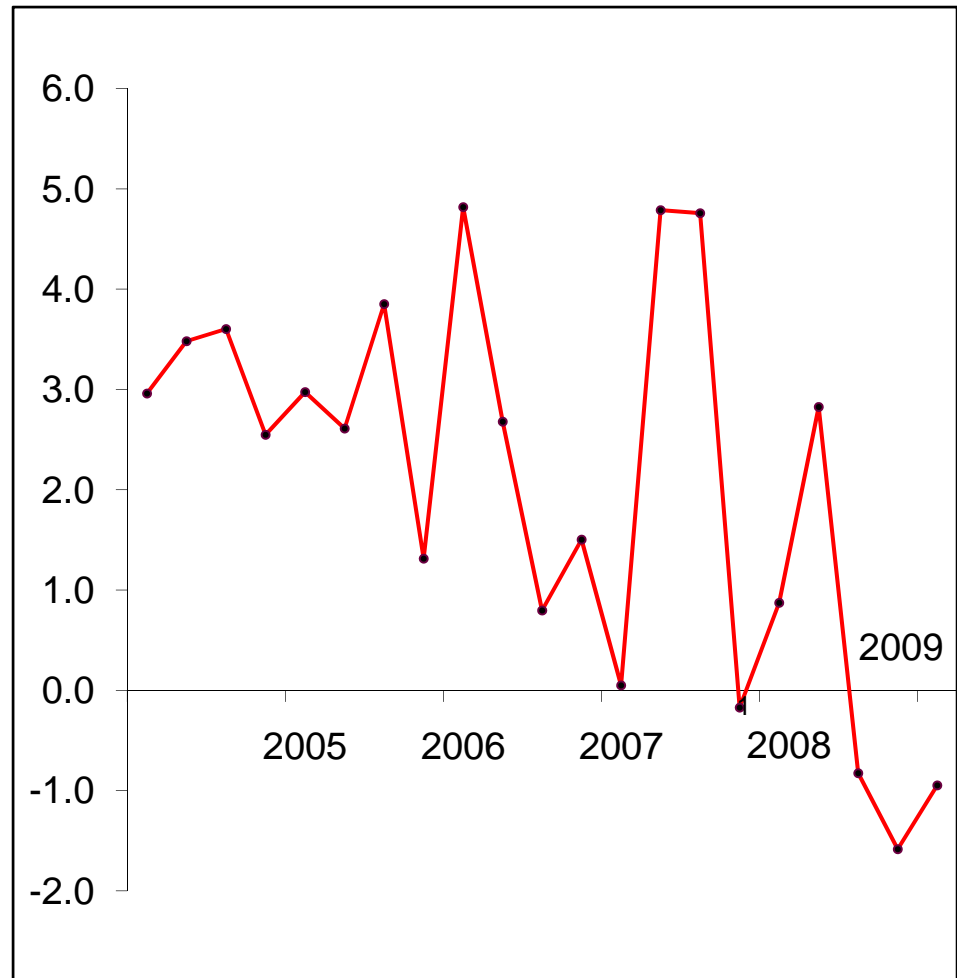


# Negative GDP Growth

- Real GDP is expected to fall for three consecutive quarters starting Q3 2008.
- First time this would happen in more than three decades (since mid-1970s-era recession).

Year	Quarter	Real GDP Growth
2008	Q3	-0.827%
2008	Q4	-1.584%
2009	Q1	-0.947%

*Real GDP  
(Annualized Percent Change)*





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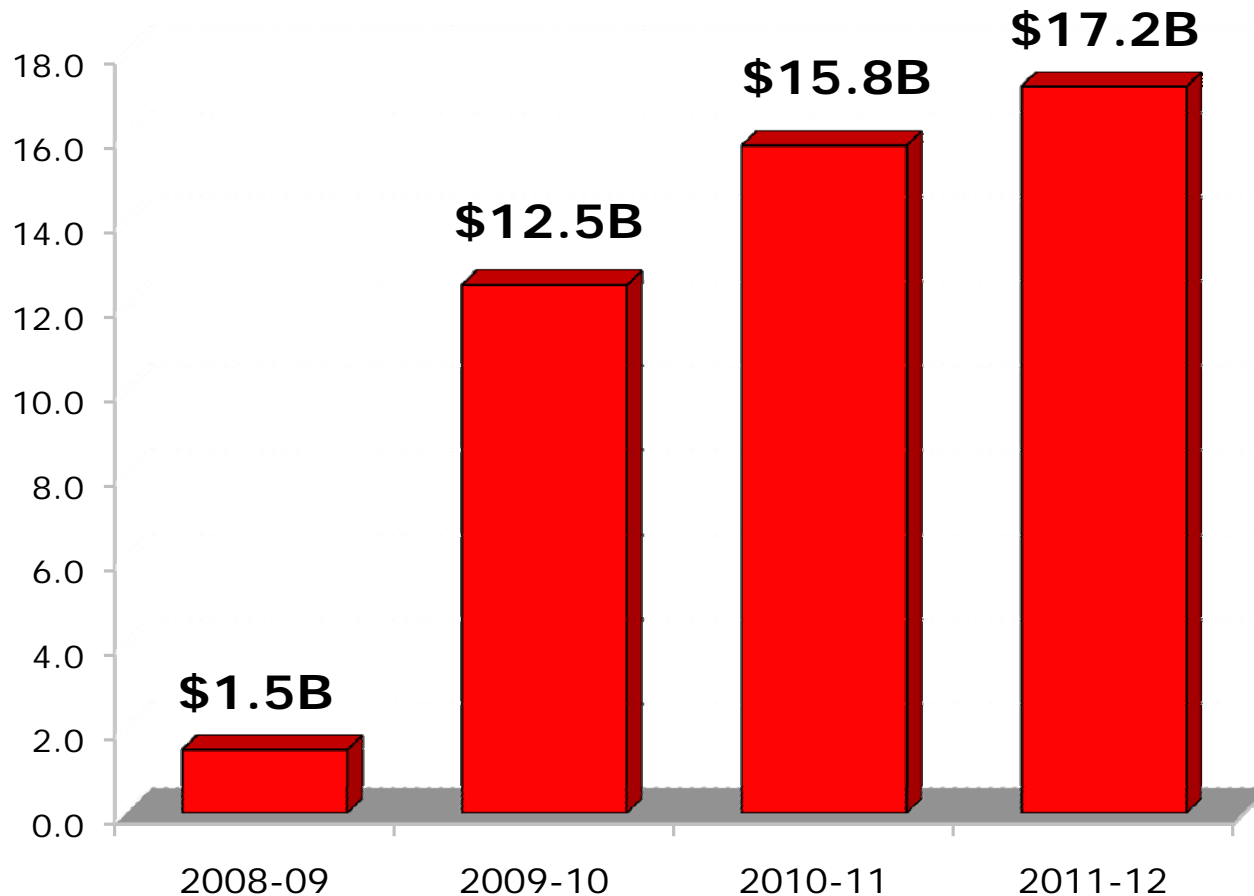
# **Impact on the State Budget**

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# Largest Deficit in State History: \$47.0 Billion

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*Projected General Fund Deficits*



# Budget Gaps have increased by over \$20 billion

## General Fund: Change from First Quarter Update

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

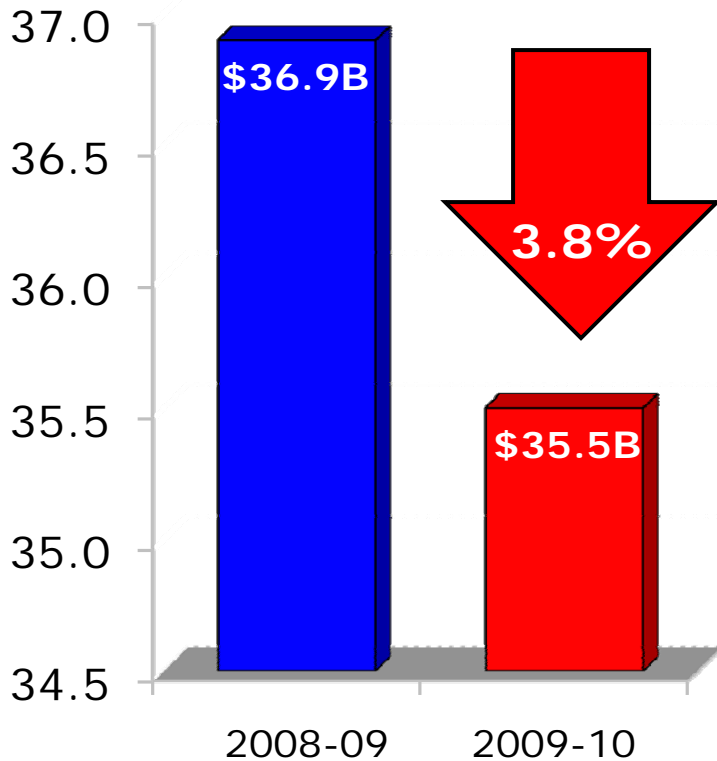
# \$19 Billion Loss in Revenue

*General Fund: Changes from First Quarter Update*

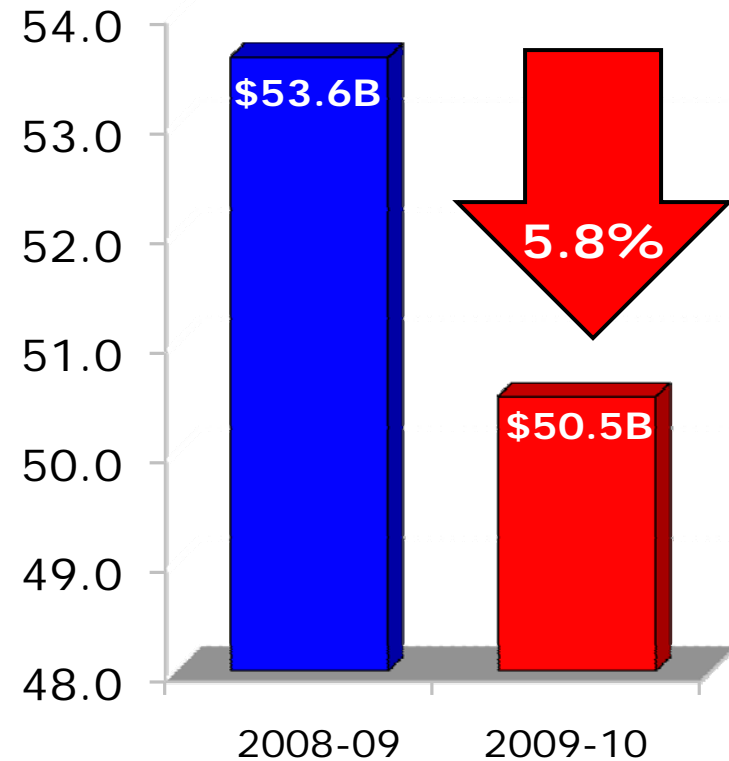
	2008-09	2009-10	2010-11	2011-12	Cumulative
<b>Total Revenue Loss</b>	<b>(\$1,664M)</b>	<b>(\$5,819M)</b>	<b>(\$5,794M)</b>	<b>(\$5,893M)</b>	<b>(\$19,170M)</b>
Personal Income Taxes	(\$1,167M)	(\$4,243M)	(\$4,425M)	(\$4,787M)	(\$14,622M)
Business Taxes	(\$404M)	(\$913M)	(\$452M)	(\$376M)	(\$2,145M)
Sales/Use Taxes	(\$101M)	(\$267M)	(\$380M)	(\$383M)	(\$1,131M)
Other Taxes	(\$5M)	(\$264M)	(\$337M)	(\$344M)	(\$950M)
Misc.	\$13M	(\$132M)	(\$200M)	(\$3M)	(\$322M)

# Plummeting Revenues

*All Funds  
Personal Income Tax Revenues*



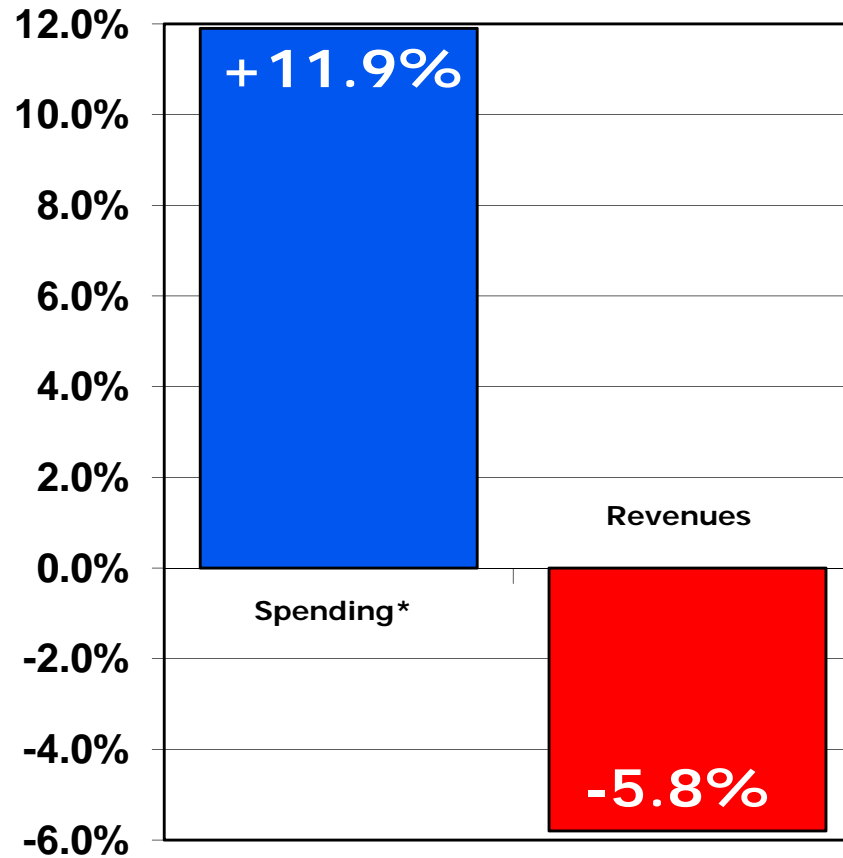
*General Fund  
Overall Revenues*



# Unbalanced Equation: Spending v. Revenues

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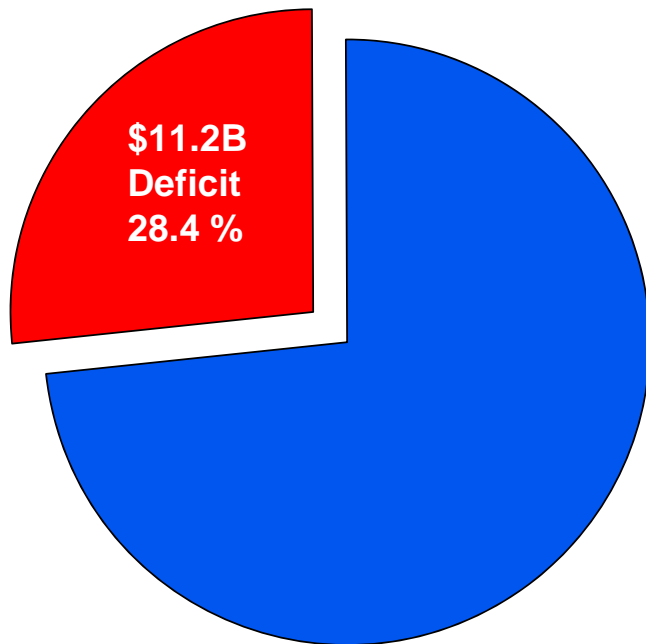
*2009-10 General Fund*



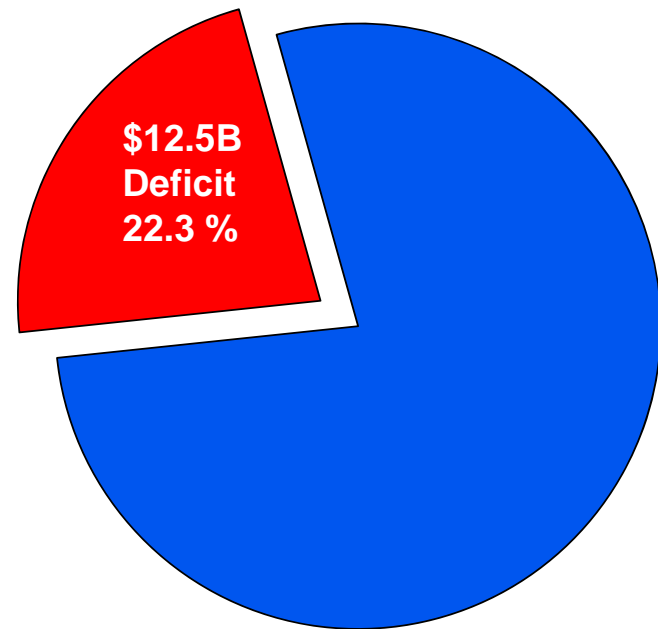
# Historical Perspective

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*2003-04*  
*\$39.5B General Fund*

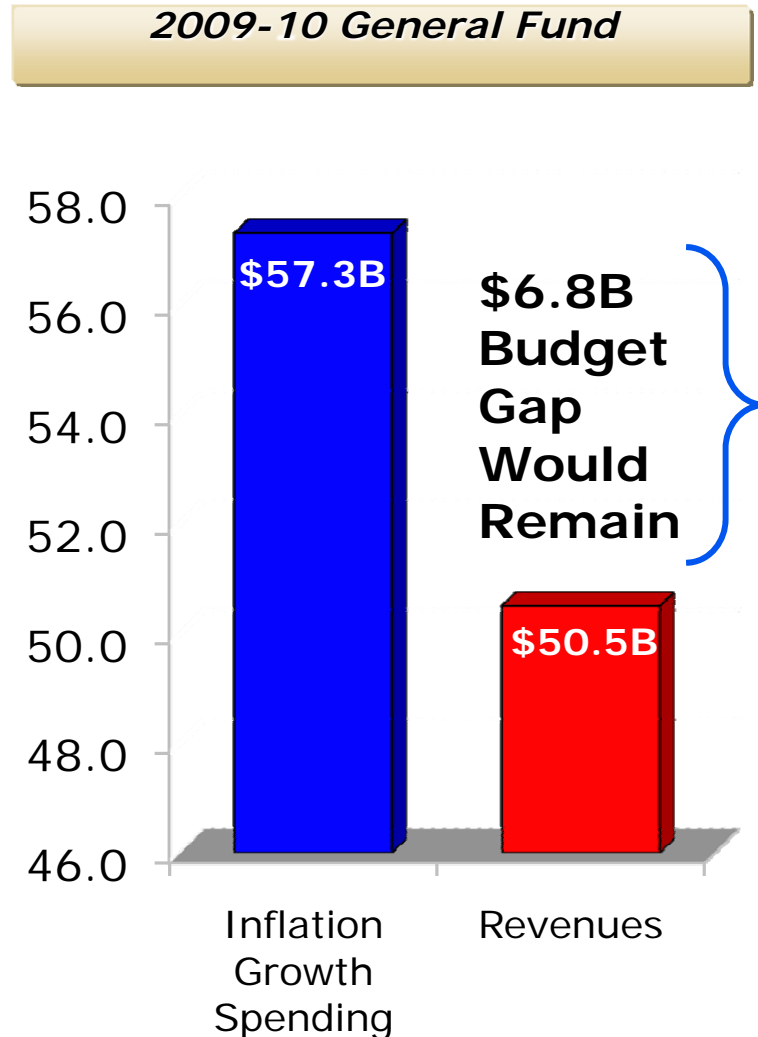


*2009-10*  
*\$56.1B General Fund*



# Inflation-level Growth Will Not Solve the Problem

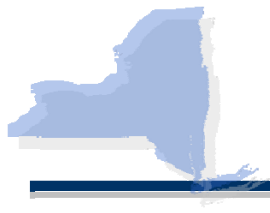
- Inflation is currently projected to total 2.1 percent next year.
- If General Fund spending increased by inflation in 2009-10, it would total \$57.3 billion, up from \$56.1 billion in 2008-09.
- Given that General Fund revenues are projected to decline by 5.8 percent next year to \$50.5 billion, a \$6.8 billion deficit would still remain.
- We will need significant spending reductions next year.



# New York Is Not Alone

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- Twenty-nine states closed budget shortfalls totaling \$48 billion in enacting their FY2009 budgets.
- Since then, at least 27 states are experiencing mid-year budget shortfalls in FY2009, totaling \$12.3 billion.
- Projected state budget deficits nationwide in FY2010 are expected to total at least \$100 billion.



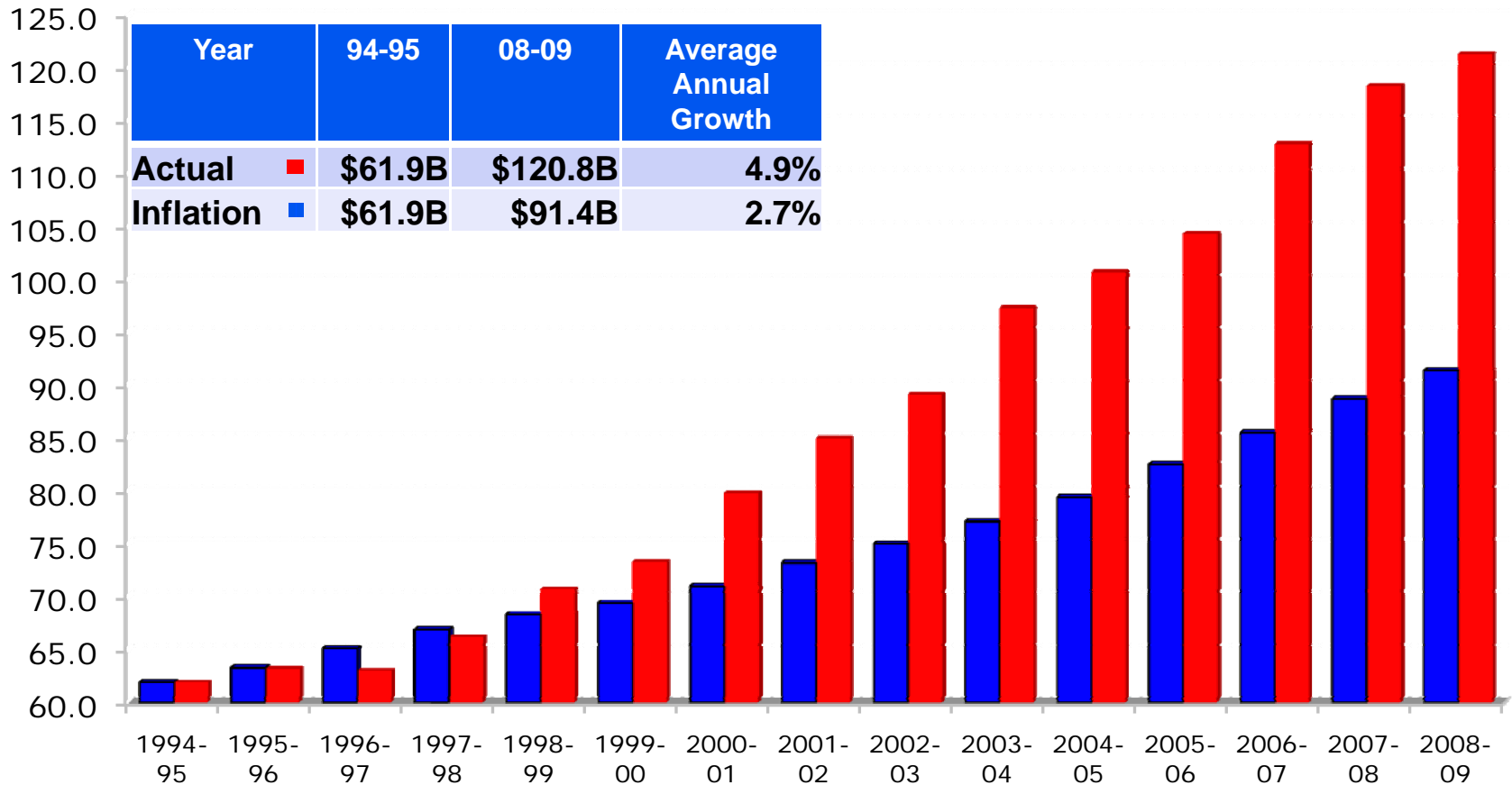
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# **A Problem Long in the Making**

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# Budget Has Grown At Nearly Twice the Rate of Inflation

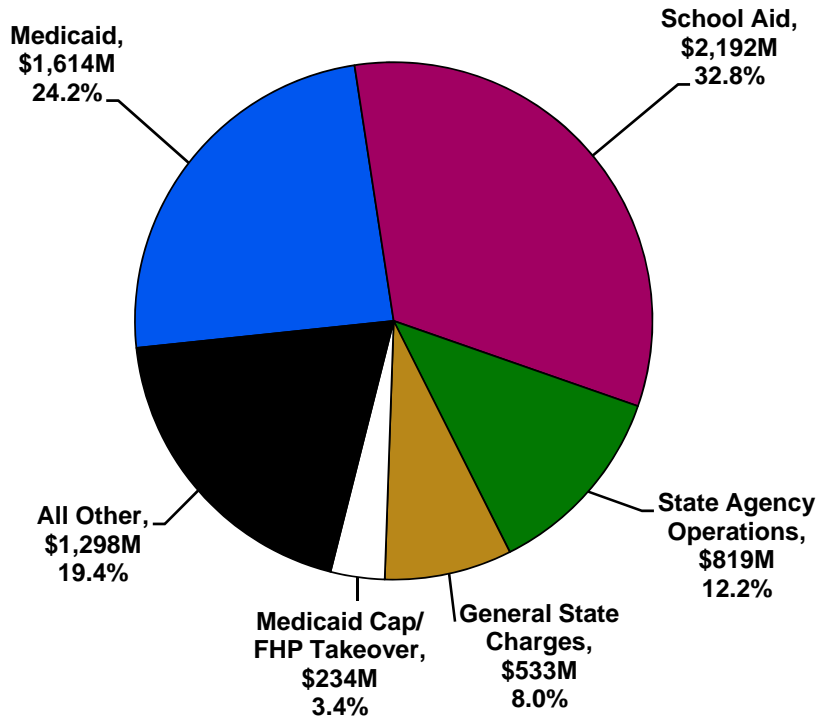
*All Funds Budget (Billions)*



# Major Drivers of 2009-10 General Fund Spending Growth

**\$6.7 Billion in Projected 2009-10 GF Spending Growth (millions)**

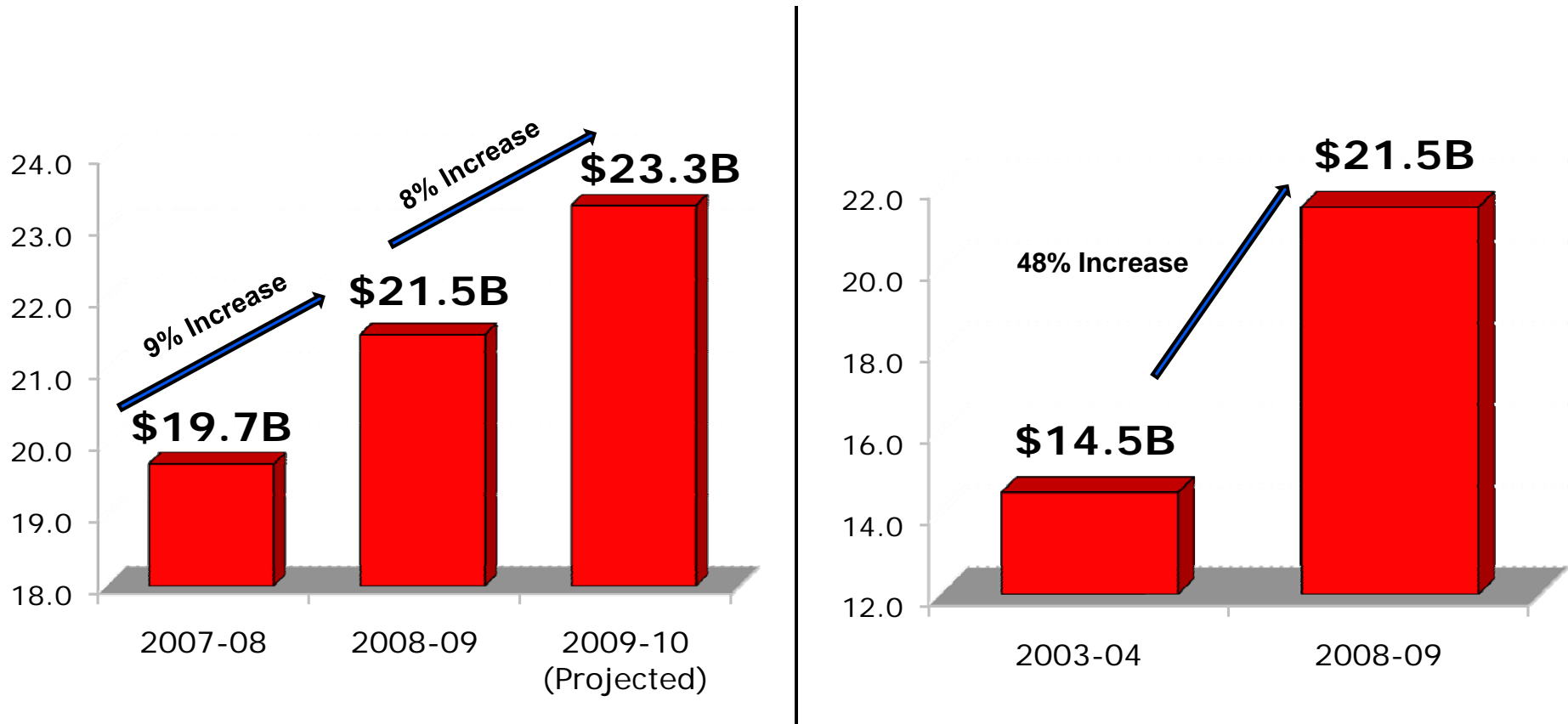
**Projected 2009-10 GF Spending Growth (millions)**



Area	08-09	09-10	Dollar Change	Percent Change
School Aid	\$17,780M	\$19,972M	\$2,192M	12.3%
Medicaid	\$8,253M	\$9,867M	\$1,614M	19.6%
Agency Ops	\$8,540M	\$9,359M	\$819M	9.6%
GSCs	\$3,113M	\$3,646M	\$533M	17.1%
Medicaid Cap/FHP	\$724M	\$958M	\$234M	32.3%

# School Aid Spending Has Increased Dramatically in Recent Years

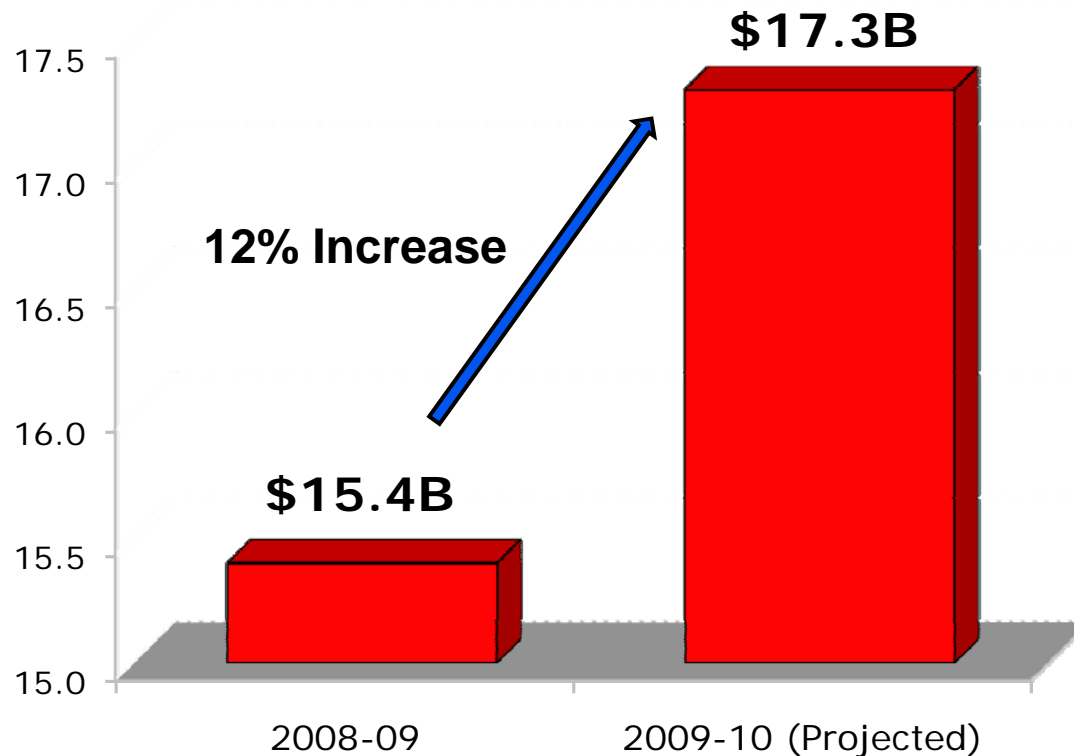
*School Aid Spending (School Year Basis)*



# Unsustainable Medicaid Spending Growth

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## State Funds Medicaid Spending





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# **Governor Paterson's Response**

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# Governor Paterson's Response

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- **October 29**: Governor Paterson will testify before the House Ways and Means Committee in Washington D.C., urging that Congress provide states with immediate, direct fiscal relief.
- **Early November**: Legislature will publicly deliver proposals for \$2.0 billion in current-year savings initiatives.
- **November 18**: Convene special emergency economic session to enact \$2.0 billion in current-year savings.
  - Will close entire \$1.5 billion projected shortfall
  - Will protect against further revenue deterioration
  - Will make a substantial down payment on next year's deficit
- **December 16**: Governor Paterson will deliver a balanced 2009-10 Executive Budget proposal, more than one month early, closing next year's \$12.5 billion budget deficit. He has also asked that the Legislature to enact budget early to produce additional savings.