

## OVERVIEW

The submission of a budget plan by the Governor on January 18, 2005 marked the beginning of the budget policymaking process for State Fiscal Year (SFY) 2005-06. Following the release of the Executive Budget, the fiscal committees of the Legislature (the Assembly Committee on Ways and Means and the Senate Committee on Finance) issued separate reports providing overviews and analysis of the Executive Budget.

Beginning in the fourth week of January and concluding in the third week of February, the fiscal committees of the Legislature held twelve joint hearings on all aspects of the Executive Budget proposal. State agency Commissioners and the public at large were invited to comment on the Executive Budget at these hearings. More than two dozen agency Commissioners testified at the hearings, and more than one hundred organizational representatives spoke on behalf of their constituencies. In addition, individual Members of the Legislature held town meetings, met with constituents, and reviewed correspondence regarding the Executive Budget submission.

At the end of the month of February, the Majority and Minority staffs of the Assembly Ways and Means Committee and the Senate Finance Committee produced economic and receipts forecasts for consideration at the Consensus Economic and Revenue Conference. The Consensus Conference conveners are the Chairman of the Senate Finance Committee, the Chairman of the Assembly Ways and Means Committee, the Ranking Minority Member of the Senate Finance Committee, the Ranking Minority Member of the Assembly Ways and Means Committee and the Director of the Division of the Budget. The Consensus Conference, which convened on the first of March, heard presentations from a distinguished panel of economists regarding the outlook for the upcoming fiscal year.

This year, the Consensus Conference produced a five-way agreement on the amount of revenues available in SFY 2004-05 and SFY 2005-06. For purposes of budget negotiations, the parties have agreed to increase the estimate of General Fund receipts by \$350 million in SFY 2004-05. The 2005-06 estimate is increased by \$245 million, resulting in a two-year increase of \$595 million above the Executive's 30-day estimates.

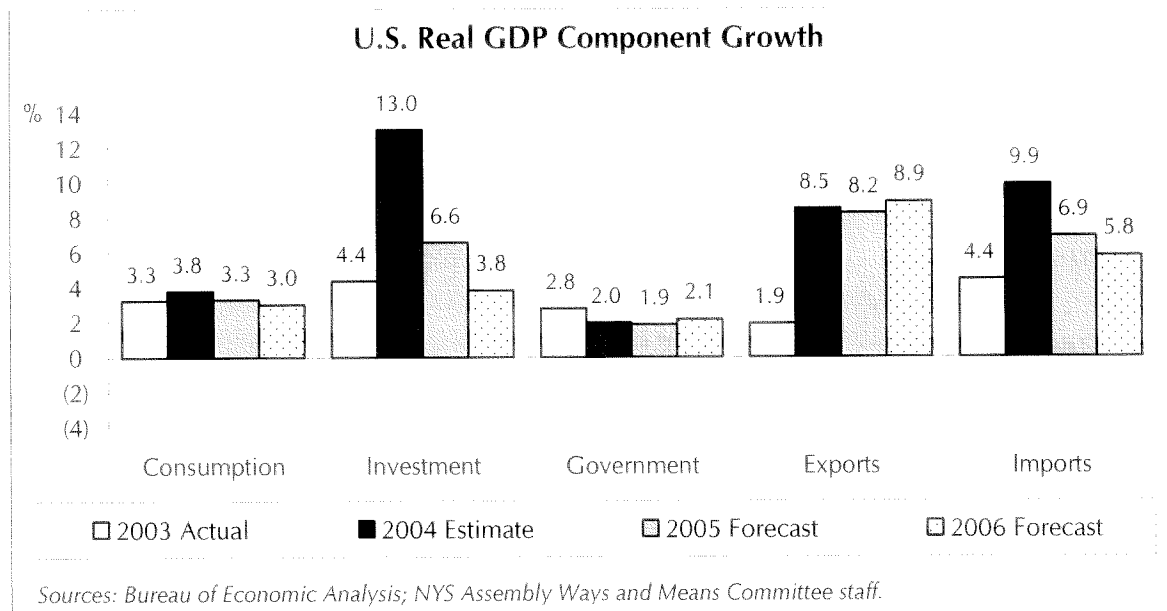
The Report that follows initially presents a summary of the Assembly Committee on Ways and Means staff economic outlook and revenue overview. Following the receipts projections, there is an agency by agency description of the New York Assembly Majority's proposed SFY 2005-06 Budget. This Report presents the Majority Budget in plain language.



## ECONOMIC OVERVIEW

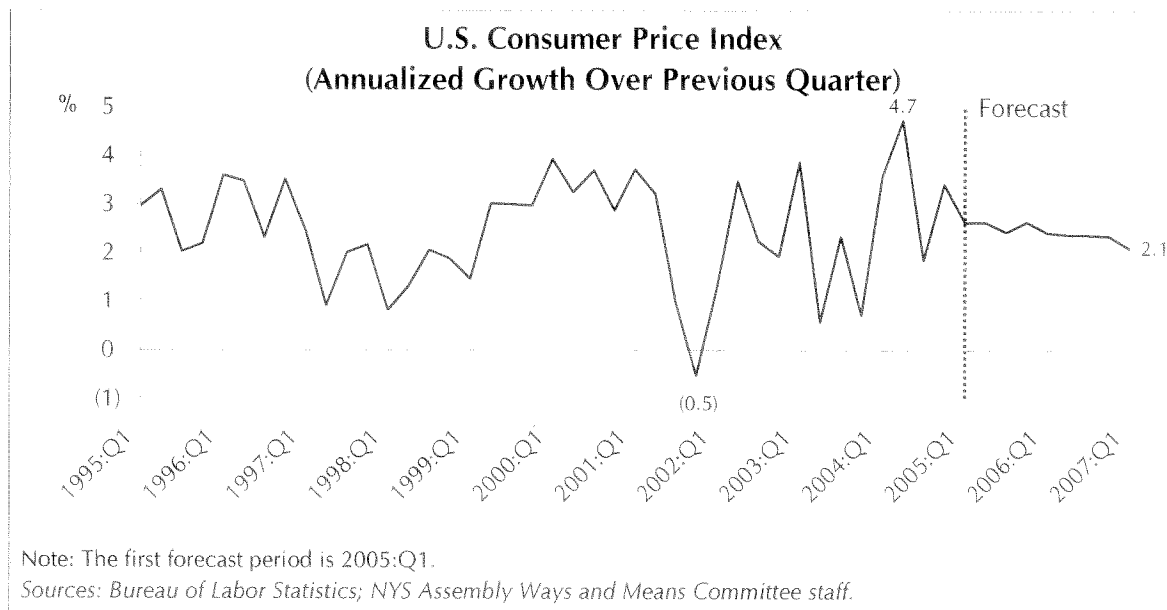
### United States

- Economic expansion is expected to continue into 2005 and 2006, with the economy growing at a rate close to the long-term trend rate of 3.5 percent.
- The NYS Assembly Ways and Means Committee staff estimates that national economic growth, as measured by real Gross Domestic Product (GDP) growth, accelerated to 4.4 percent during 2004. Real GDP will continue to grow in 2005 and 2006, due in large part to robust consumption spending as well as a big swing in investment spending compared to 2001-03.
- The NYS Assembly Ways and Means Committee staff estimates that personal consumption spending growth increased to 3.8 percent during 2004 following the 3.3 percent growth in 2003. Due in part to continued employment recovery and personal income growth, personal consumption spending is forecast to continue to grow at a rate of 3.3 percent year-over-year in 2005 and 3.0 percent in 2006.



- The NYS Assembly Ways and Means Committee staff forecasts that investment spending will continue to expand in 2005, growing 6.6 percent year-over-year after increasing an estimated 13.0 percent in 2004 and 4.4 percent in 2003. It is forecast to slow to 3.8 percent in 2006. Factors contributing to the continued recovery in business investment include: strong growth in corporate cash flow, continued favorable financing conditions, and rising capital goods orders.

- U.S. employment growth is expected to modestly strengthen in 2005 and 2006 after growth of 1.1 percent year-over-year in 2004.
- The NYS Ways and Means Committee staff predicts that consumer prices will increase 2.8 percent year-over-year in 2005 and 2.5 percent in 2006. Increases in consumer and producer prices in 2004 were driven by volatile energy prices and a weakening dollar, while most other prices remained relatively stable.



- High energy prices continue to remain an issue for the United States economy. The varied and unpredictable nature of the factors influencing energy prices adds to the difficulty of reliably predicting future price movements. This uncertainty (as well as the current high price) can be a drag on economic growth and adds to the uncertainty in the forecast.
- The price of oil has increased in the past two years to historic nominal highs. However, if the price of oil is adjusted for inflation, oil prices are not as high as in the early 1980s.

## New York State

- The New York State economy continues to lag the United States economy in terms of employment growth. However, the State will continue to benefit as the nation maintains an expansion. Both employment and wages are expected to grow in 2005 and 2006.
- The recovery in New York State employment is expected to strengthen in 2005; employment is expected to grow 1.2 percent in 2005 and 2006 compared to 0.6 percent in 2004. The education and health sector will create the largest number of jobs in 2005.

