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# **2005-06 Executive Budget State of New York**

## **Highlights**

**George E. Pataki**  
**Governor**

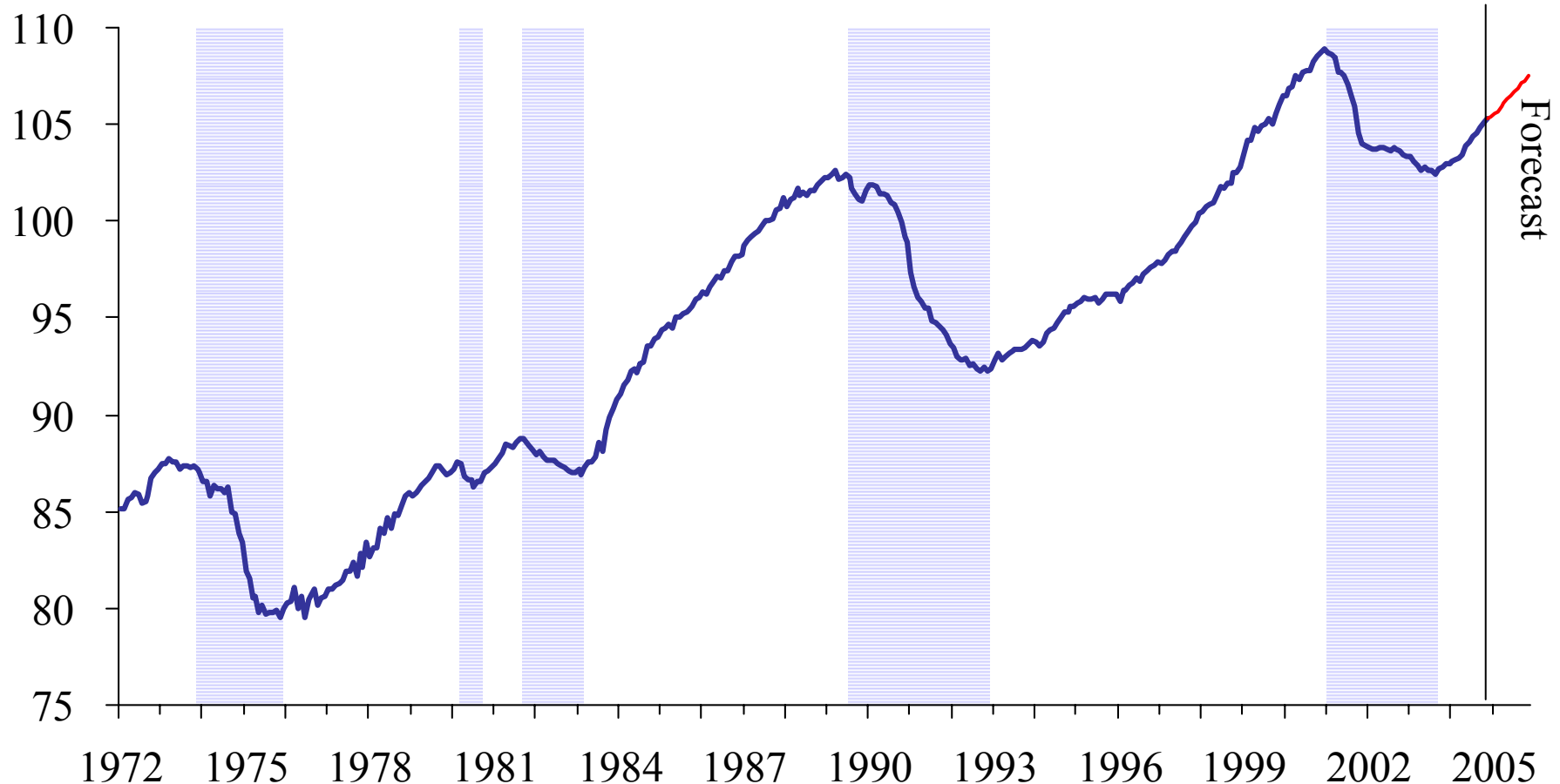
**John F. Cape**  
**Acting Director of the Budget**

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# Favorable Trends

- A sustained economic recovery is underway.
  - DOB expects economy to reach pre-recession peak by start of 2006.
  - Private sector job growth projected at 1.2 percent in 2005.
  - Economy showing more momentum than same stage of 1990s recovery.
  
- Tax collections are exceeding expectations.
  - Revenue forecast up over \$5 billion over four-year Financial Plan.
  - 2005-06 gap cut by 25 percent on strength of revenues alone.
  
- State finances are stable.
  - On track to achieve second straight surplus (\$522 million).
  - Rainy day reserve increased to two percent of spending (\$864 million) -- the legal cap.
  - Budget gaps are again within normal, manageable ranges.
  
- In short, the fiscal outlook is better than it has been in four years.

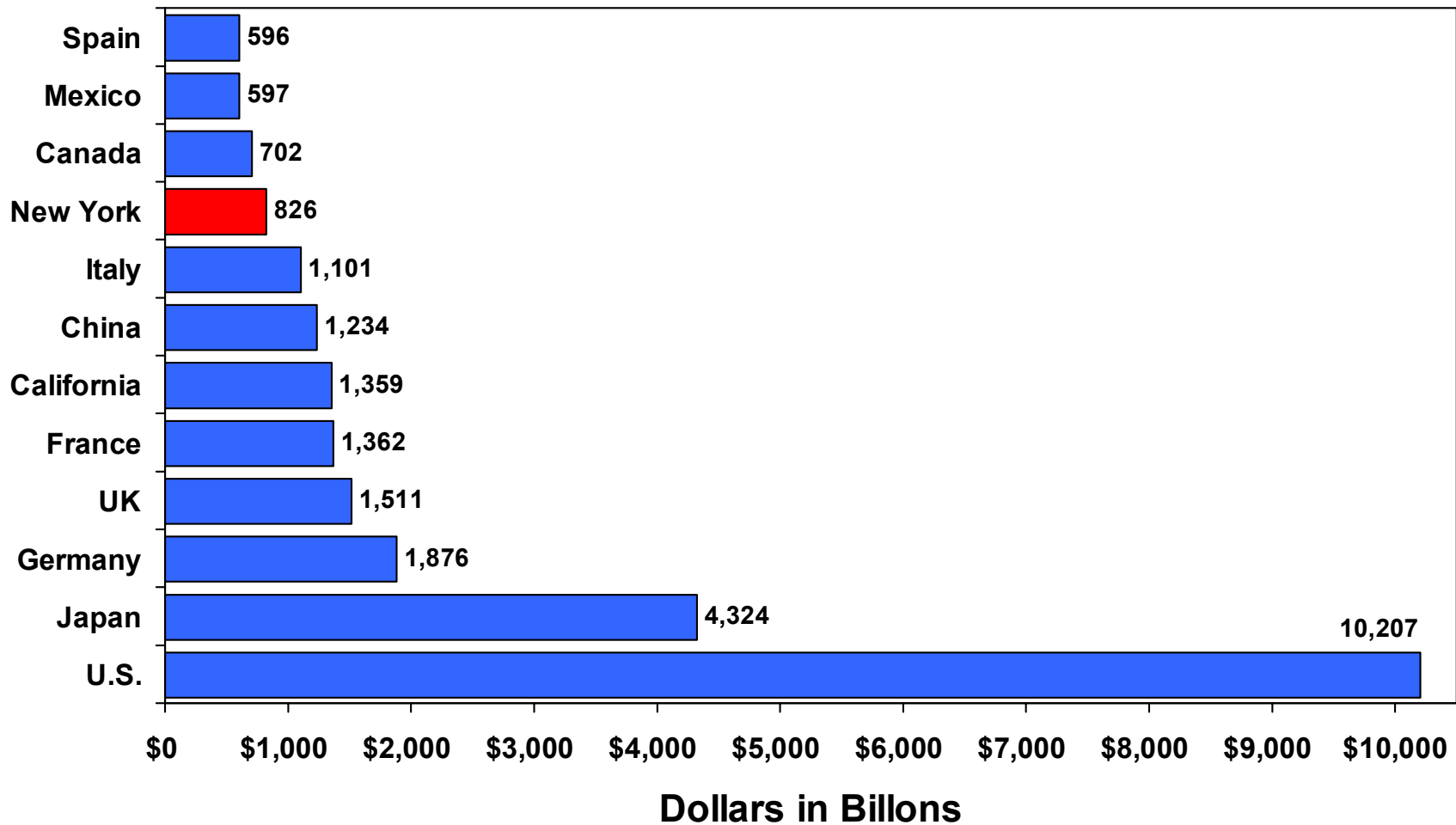
# New York Index of Coincident Economic Indicators



Note: Shaded areas represent N.Y. recessions; forecast is derived from the New York Leading Index.  
Source: Economy.com; DOB staff estimates.

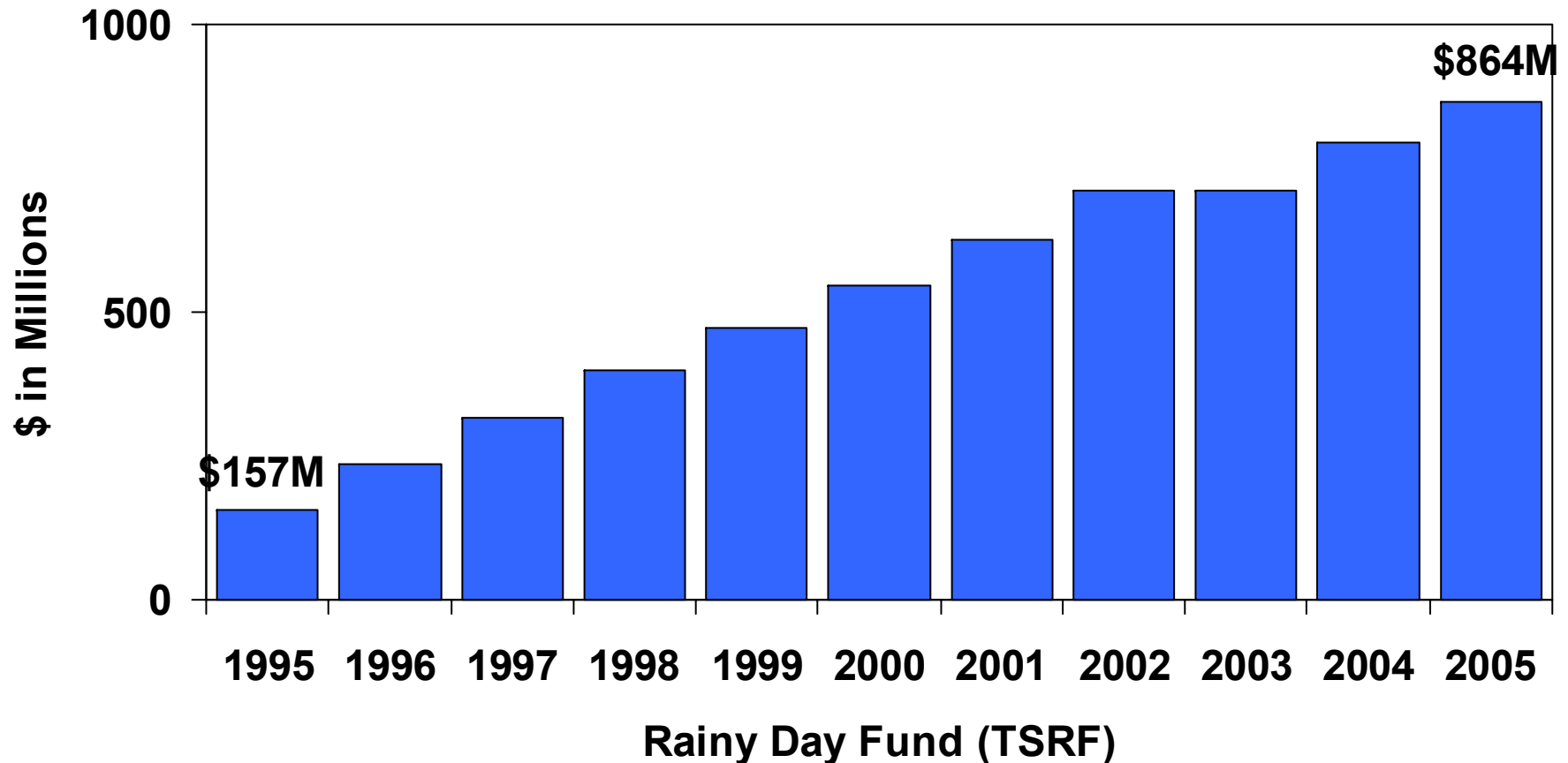
- State economy expected to approach its pre-recession peak by start of 2006, after a duration of about five years -- much faster than pace of recovery from early 1990s recession.

# Ninth Largest Economy in the World



Source: Statistical Abstract of the United States, 2004-05. Tables 645 and 1336.

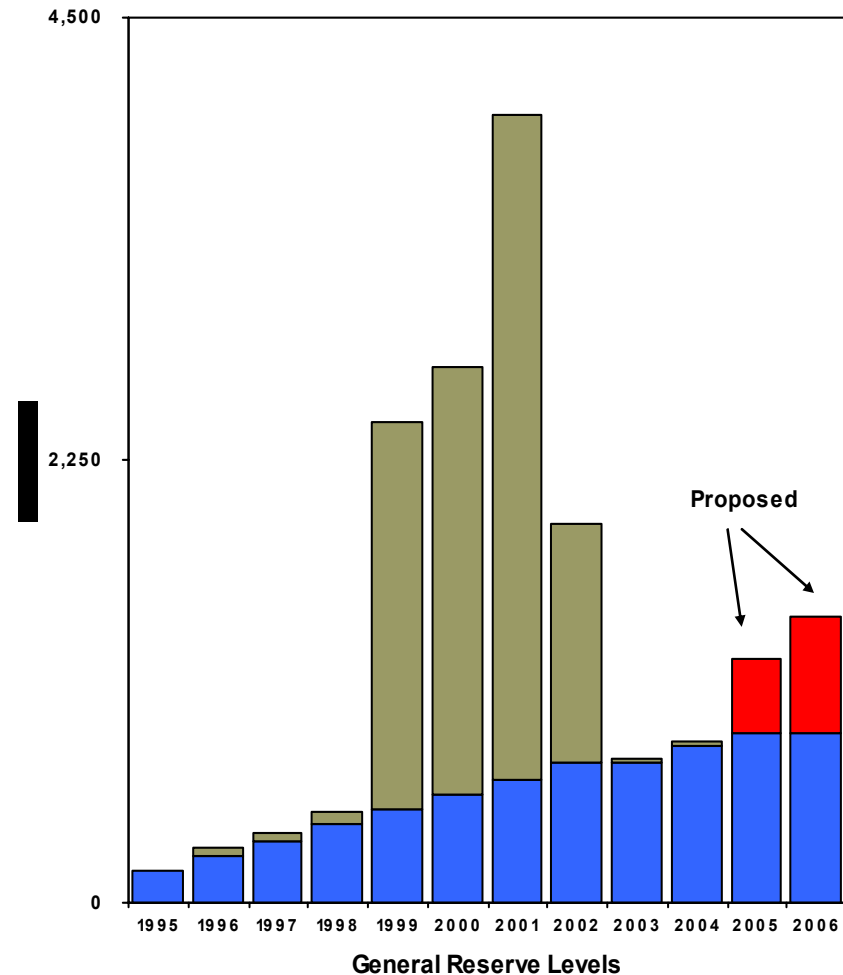
# Steady Rainy Day Fund Increases



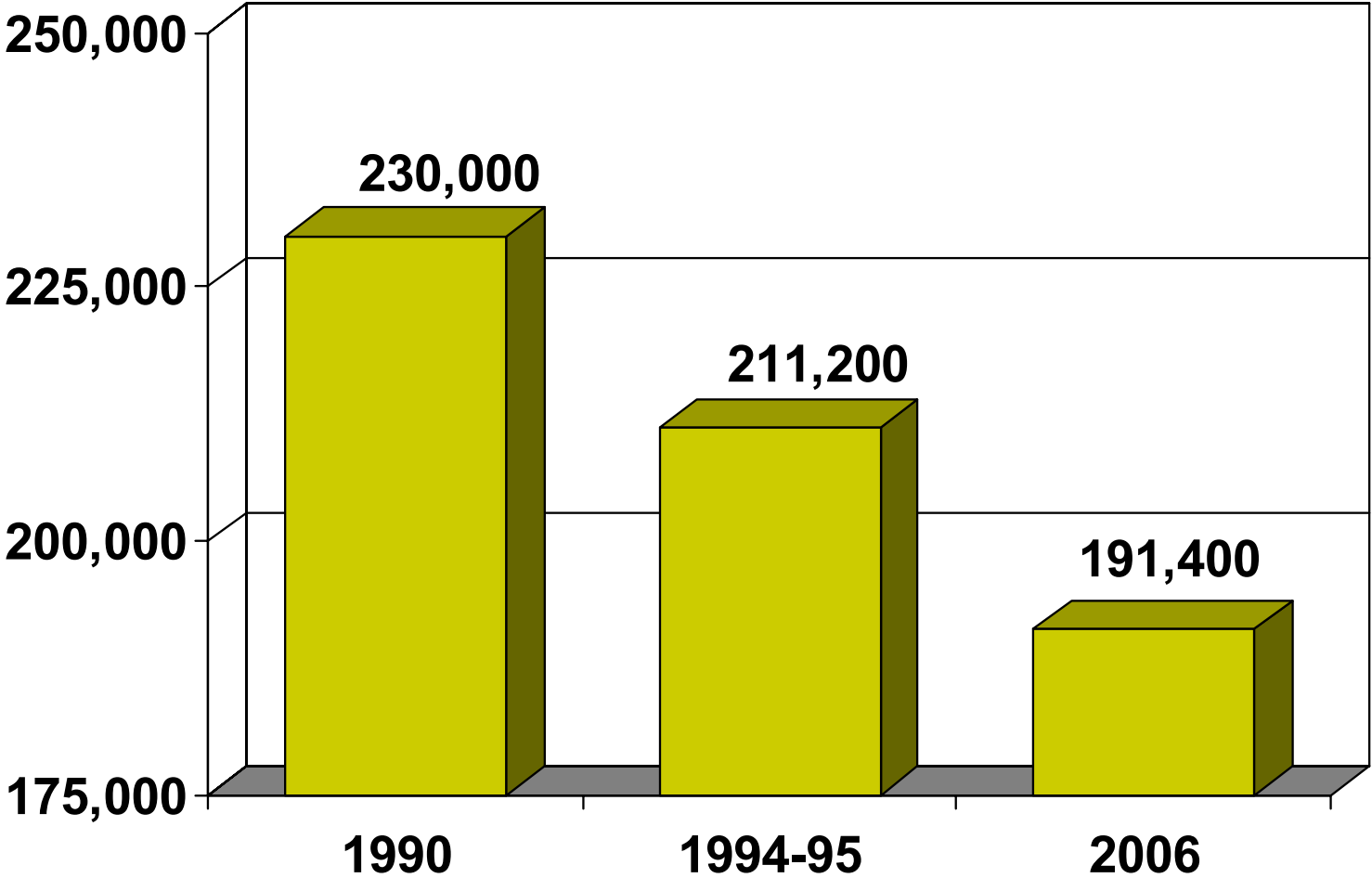
- At statutory maximum of 2 percent of spending after nine maximum deposits in ten years.
- Governor proposes raising maximum balance to 5 percent, in line with other states.

# Good News Used to Restore Reserves

- DOB projects \$352 million higher surplus in 2004-05 and \$220 million positive balance in 2005-06.
- Governor proposes depositing entire \$572 million in fiscal stability reserve.
- Reserve levels will total \$1.5 billion -- 3 percent of spending.
- Similar approach adopted with surpluses in the late 1990s that proved critical after 9/11.



# Smaller State Workforce



# Good News Adds to Reserves

<b>Revisions to Mid-Year Budget Gap Projections</b>			
<b>(millions of dollars)</b>			
	<b>2004-05</b>	<b>2005-06</b>	<b>2006-07</b>
<b>Mid-Year Budget Gaps</b>	<b>(224)</b>	<b>(5,995)</b>	<b>(7,708)</b>
Revenue Revisions	671	1,456	117
Spending Revisions	(207)	387	687
<b>Revised Budget Gaps</b>	<b>240</b>	<b>(4,152)</b>	<b>(6,904)</b>
Deposit to Rainy Day Reserve	(70)		
Projected Surplus	170		

- Governor recommends depositing entire \$572 million into fiscal stability reserve.



# Structural Balance in Reach

- Favorable trends make structural balance by 2006-07 an attainable goal.
- The 2005-06 Budget recommendations capitalize on the opportunity.
  - 80 percent of 2005-06 gap is closed with recurring actions.
  - Dynamics of Medicaid takeover create stronger incentive to enact cost containment.
  - Statewide school aid plan addresses CFE.
- After actions, the gaps for 2006-07 and 2007-08 fall to \$2.5 billion.
- If we close the 2006-07 gap with recurring actions, the State budget would be structurally balanced.

# 2005-06 Budget Plan and Structural Balance

2005-06 Executive Budget (with 30-Day) Recommended Actions (millions of dollars)				
	2005-06	2006-07	2007-08	Total
<b>Revised Budget Gaps (updated)</b>	<b>(3,892)</b>	<b>(5,656)</b>	<b>(5,294)</b>	<b>(14,842)</b>
<b>Total Recommendations</b>	<b>4,711</b>	<b>4,416</b>	<b>4,726</b>	<b>13,853</b>
Spending Actions	3,076	3,483	3,761	10,320
Revenue Actions	779	1,027	995	2,801
Nonrecurring Resources	856	(94)	(30)	732
<b>Additions to the Budget</b>	<b>(599)</b>	<b>(1,304)</b>	<b>(1,973)</b>	<b>(3,876)</b>
Spending Initiatives	(348)	(996)	(1,764)	(3,108)
Tax Cuts	(251)	(308)	(209)	(768)
<b>Remaining Budget Gaps</b>	<b>220</b>	<b>(2,544)</b>	<b>(2,541)</b>	<b>(4,865)</b>

- Over three years, recurring actions total over \$13 billion.
- The plan also includes new spending and tax cuts.

# Impact of Tax Actions

## CASH IMPACT OF SIGNIFICANT TAX ACTIONS (millions of dollars)

	<u>2003-04</u>	<u>2004-05</u>	<u>2005-06</u>	<u>2006-07</u>
<b>1/4 percent sales tax temporary increase</b>	445	584	132	0
<b>Sales tax on clothing (current law)</b>	441	586	107	0
<b>Sales tax on clothing (proposed law)</b>	441	586	563	584
<b>Income tax temporary rate increase (current law)</b>	1,140	1,402	1,253	359
<b>Income tax temporary rate increase (proposed law)</b>	1,140	1,402	1,063	229

# 2005-06 Budget Priorities

- The key budget priorities are to:
  - Control spending growth and enhance the revenue base.
  - Tackle the toughest spending issues – Medicaid and school finance reform – with goal of achieving substantive long-term reforms for both the State and localities.
  - Direct resources to high-priority programs, and reduce or eliminate funding for activities outside the State’s core mission.
  
- Accordingly, the 2005-06 gap-closing plan emphasizes permanent spending restraint and revenue increases, not one-time solutions.
  
- Equally important are the things that are not part of this budget.
  - One-shots that could have made 2005-06 “painless,” but future budgets much harder
  - Across-the-board cuts that hit effective and ineffective programs alike
  - Speculative transactions and overly optimistic assumptions

# Budget Addresses High-Growth Programs

- The budget necessarily focuses on over-capacity in Medicaid, as well as other high-growth sectors.
- School aid is not a viable option for reductions in light of Court case.
- “Fixed” costs -- pensions, employee health insurance, and debt -- provide some opportunity for cost containment, which we have proposed.
- State workforce has been reduced 4,600 since September 11<sup>th</sup> -- majority of 2005-06 savings from non-personal service efficiencies.
- Collective bargaining is essentially concluded through 2006-07, eliminating a source of uncertainty.

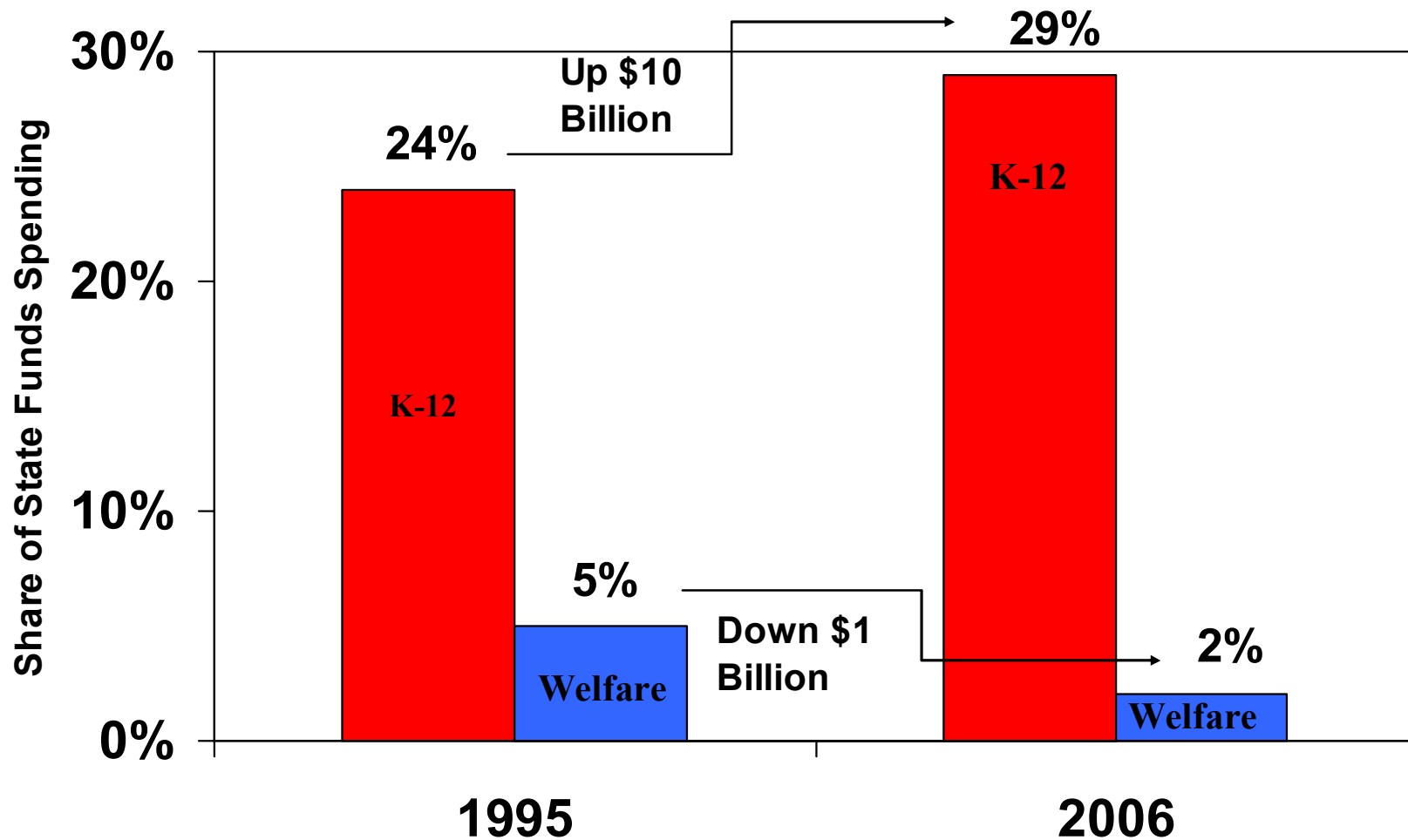
# Medicaid

- General Fund savings consist of cost containment, new assessments, and use of alternate financing sources.
  
- Most significant proposals include:
  - Hospital and nursing home cost containment (\$383 million).
  - Pharmacy and other cost containment (\$250 million).
  - Nursing home and hospital assessments (\$234 million).
  - Family Health Plus reforms/eligibility loophole closures (\$227 million).
  - Use of other financing sources including HCRA savings and Federal revenues that reduce General Fund support (\$839 million).
  
- State takeover provides Legislature with stronger incentive to enact cost containment to restrain spending.

# School Aid

- Budget proposes a \$526 million increase in school aid (school year basis).
  - \$325 million for new Sound Basic Education (SBE) Aid formula, with 60 percent of funding expected to go to New York City.
  - \$201 million in traditional School Aid, including \$122 million for a Flex Aid increase.
  - SBE Aid and Flex Aid allocated based on measures of need, including a poverty indicator and a regional cost indicator.
  
- 2005-06 aid increase represents the first year of five-year plan to address CFE.
  
- Five-year plan includes:
  - \$2.5 billion increase in traditional school aid.
  - Over \$2 billion in additional SBE Aid funding.
  - Educational/accountability reforms.
  - \$4.7 billion of \$8 billion in total aid to NYC -- SBE aid: \$1.2 billion; traditional aid: \$1 billion; Federal: \$1 billion; and City share: \$1.5 billion.

# From Welfare to Education



Note: K-12 education includes school aid, other education aid, handicapped education, and STAR.



# Emphasis on Program Reforms

## ➤ State Operations

- Overtime cost controls will rein in spending in high-growth agencies.
- Hiring freeze will continue, with exemption for critical needs.
- Operational hosting will eliminate duplicative administrative functions.
- Centralized purchasing will achieve savings in the areas of energy, information technology, and telecommunications.

## ➤ Mental Hygiene

- Non-essential programs are eliminated, and savings redirected to enhance community-based services.
- Underutilized Middletown Psychiatric Center will be closed.

## ➤ Higher Education

- New Partnership to Accelerate Completion Time (PACT) will improve college graduation rates at SUNY, CUNY, and participating private colleges.
- Tuition indexing will provide greater predictability in General Fund support.
- Partial TAP award deferral for first-time students will encourage timely graduation.

# Spending Levels Still Sufficient

	Total Disbursements (millions of dollars)						
	2004-05 Revised	2004-05 Adjusted	2005-06 Proposed	Unadjusted		Adjusted <sup>(1)</sup>	
				Annual Change	Percent Change	Annual Change	Percent Change
General Fund	43,412	43,920	45,070	1,658	3.8%	1,150	2.6%
State Funds	64,025	65,458	69,057	5,032	7.9%	3,599	5.5%
All Funds	101,182	102,615	105,162	3,980	3.9%	2,547	2.5%

- After actions, Medicaid still grows by nearly \$1 billion in All Funds.
- School aid grows by \$668 million on a State fiscal year basis in All Funds, including the tail of the 2004-05 school year.
- Social services are up \$292 million, based on anticipated increases in caseload and limits on TANF resources.
- Collective bargaining, pension contributions, and employee health insurance add \$715 million, even after reforms.

# General Fund Revenue Enhancements

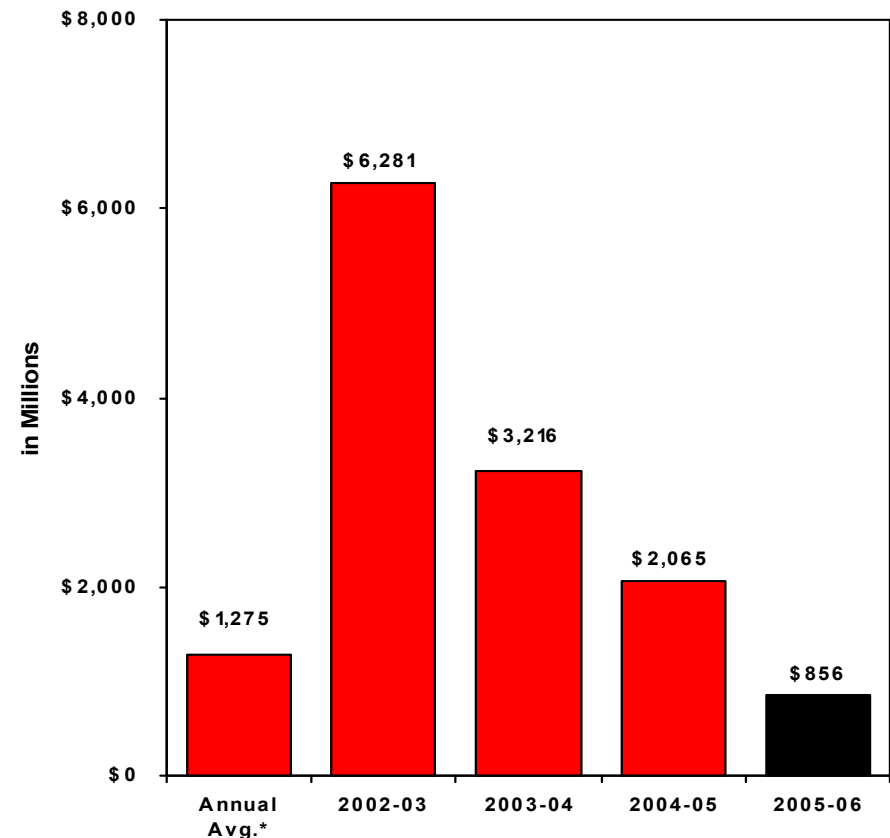
Proposed Revenue Actions (dollars in millions)			
	2005-06	2006-07	2007-08
<b>Revenue Actions</b>	<b>785</b>	<b>1,033</b>	<b>1,001</b>
Two Week Clothing Exemption at \$250	456	584	605
Power Authority PILOT Payments	75	100	100
Corporation Franchise Taxes	51	101	51
Close "Thrift" Loophole on REIT	50	50	50
Eliminate Quick Draw Restrictions	39	57	57
Increase Wine Tax	38	44	45
All Other Revenue	76	97	93

- Few controversial items.
- Limited sales tax exemption on clothing -- which generates more than half of proposed revenues -- has been approved in each of the last two fiscal years.

# Limited Nonrecurring Resources

- One-timers at routine levels after three years of steady decline.
  - Account for less than 2 percent of total General Fund budget.
  - Below annual average.
- Total includes 2004-05 surplus, pension reform, and routine use of balances and Federal aid.

**One-Timers at Routine Levels**



\*Annual average from 1986-87 thru 2004-05

# Localities: Fiscal Relief/Fiscal Responsibility

- Major Medicaid reforms respond to top priority of local governments – with local tax relief linked to enactment of cost containment.
  - Cap on local Medicaid costs at 2005 level plus 3.5 percent in 2005-06, 3.25 percent in 2006-07 and 3 percent thereafter provides \$2 billion in local savings over three years.
  - Cap converts to a full takeover effective January 1, 2008.
  - Acceleration of State takeover of county Family Health Plus generates \$25 million, with full annual savings of \$576 million.
  - Local share of Medicaid cost containment is valued at \$412 million in 2005-06.
  - Local support exists for Medicaid reforms.
  
- Other aid is structured to promote local cost-control efforts and flexibility.
  - Co-STAR program starting in 2006-07 linked to county efforts to control spending.
  - Increased aid to municipalities totaling \$55 million (growing to \$109 million) is designed to foster better financial management and restructuring; linked to local spending restraint.
  - New flexible funding for family services and local public health programs eliminate State-level spending mandates and enhance local discretion.

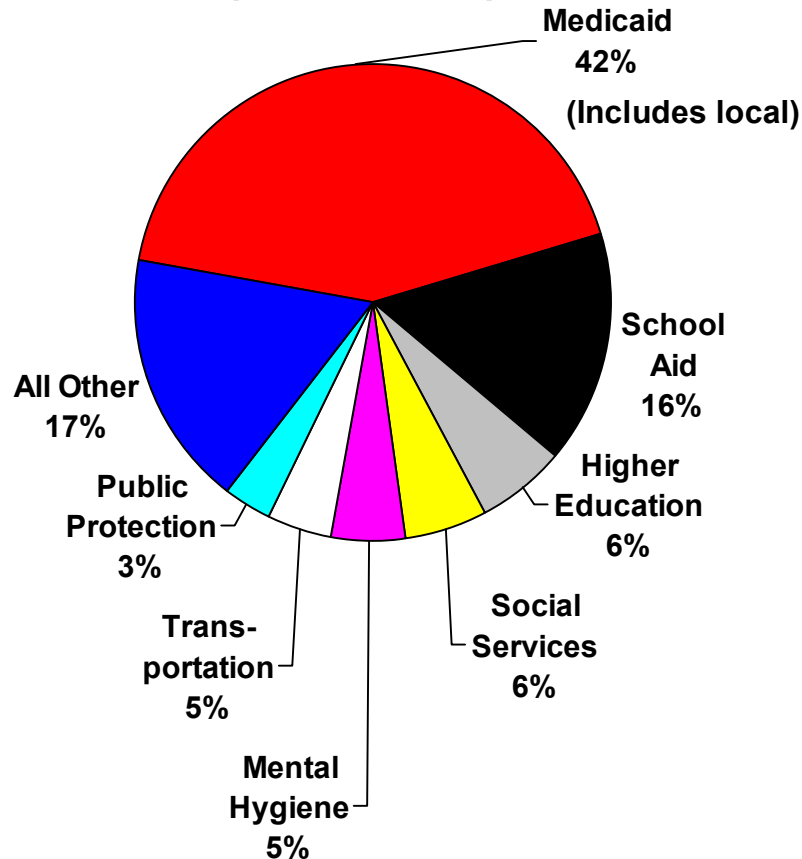
# Local Impact of Budget

SFY 2005-06	TOTAL	COUNTIES	NEW YORK CITY	OTHER LOCALS	SCHOOL DISTRICTS
Medicaid Cap/Other	577.7	202.8	374.9	0	0
Aid for Municipalities	54.6	0	0	54.6	0
School Aid	368.4	0	196.2	0	172.2
Revenues	259.5	80.0	179.2	0.3	0
Pension Reforms	621.0	202.0	0	302.0	117.0
All Other Impacts	34.0	28.2	5.9	(2.4)	2.3
<b>TOTAL</b>	<b>1,915.2</b>	<b>513.0</b>	<b>756.2</b>	<b>354.5</b>	<b>291.5</b>

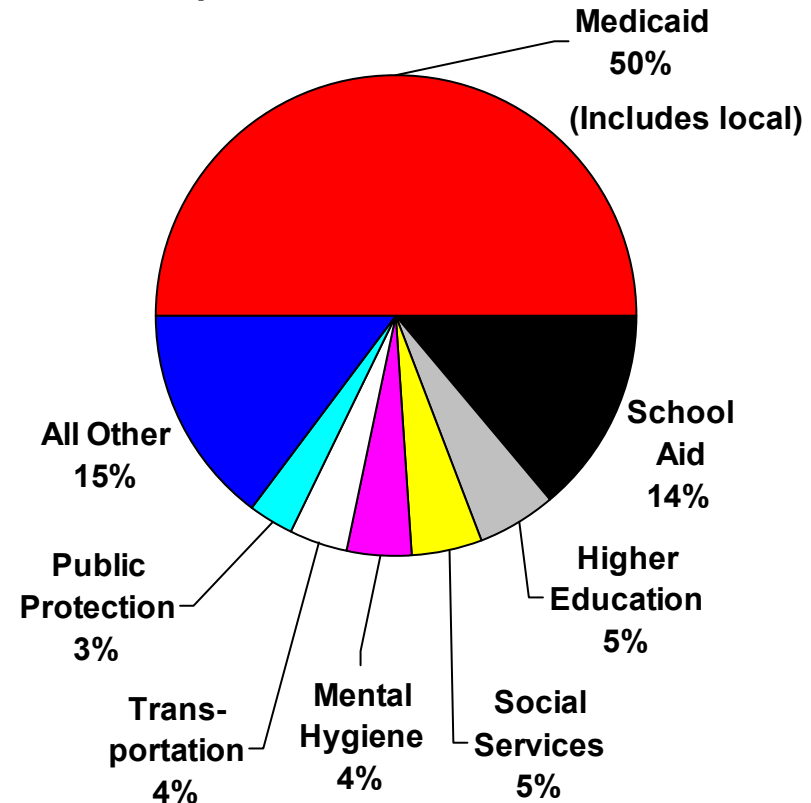
- More than \$1.9 billion for all local governments, including school districts.
- 11th consecutive year of significant budget savings to local governments.
- Since 1995, State has provided \$10.2 billion in savings and new assistance.

# Medicaid Growth Trend Threatens Other Priorities

**2005-06 All Funds  
(Proposed)**

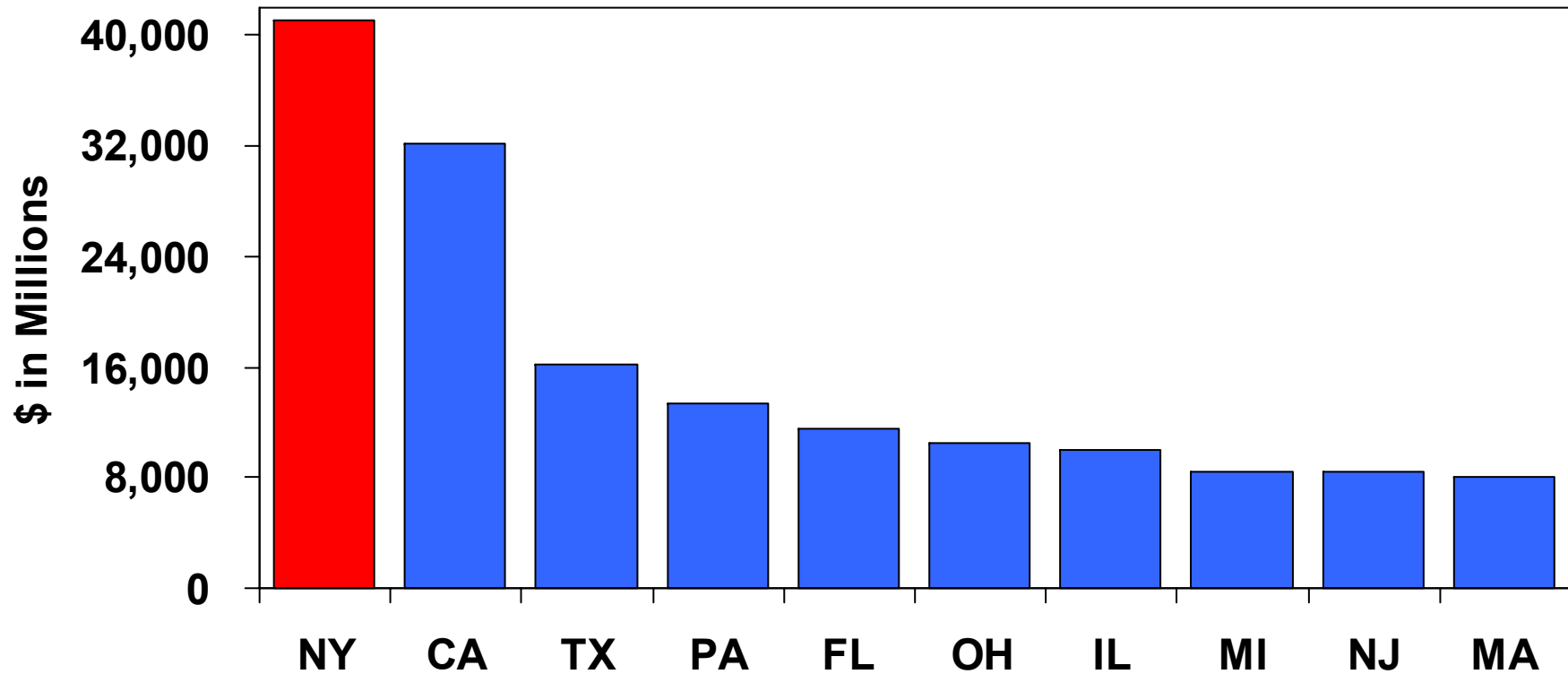


**2010-11 All Funds  
(Medicaid Left Unchecked)**



➤ Left unchecked, Medicaid would consume half the State budget within six years.

# Highest Medicaid Spending in U.S.

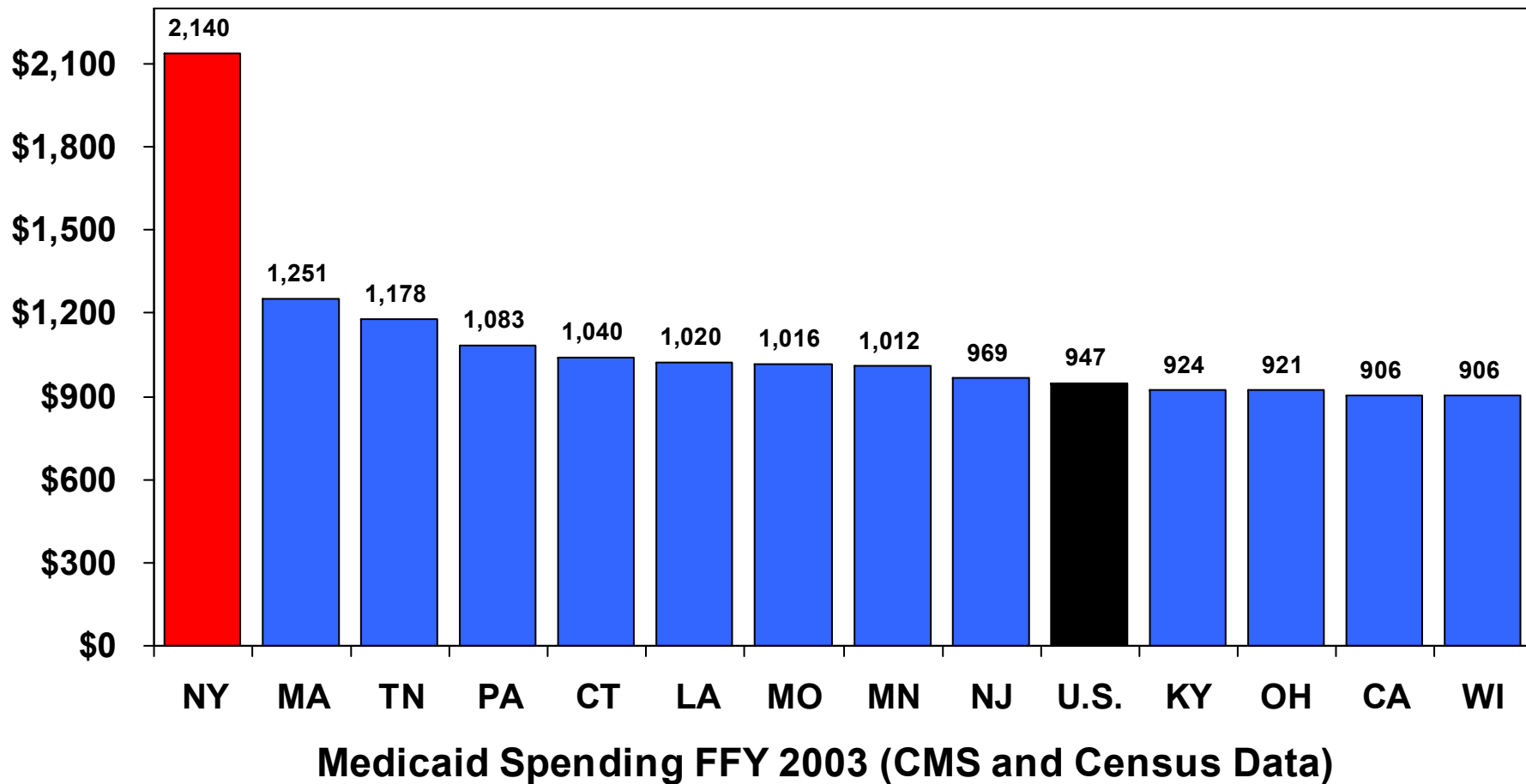


**Total Medicaid Spending -- Ten Highest Spending States (FFY 2003)**

- New York is home to 6.6 percent of the U.S. population -- but accounts for 15 percent of U.S. Medicaid spending.
- New York's Medicaid spending exceeds the total All Funds budgets of 42 other states.

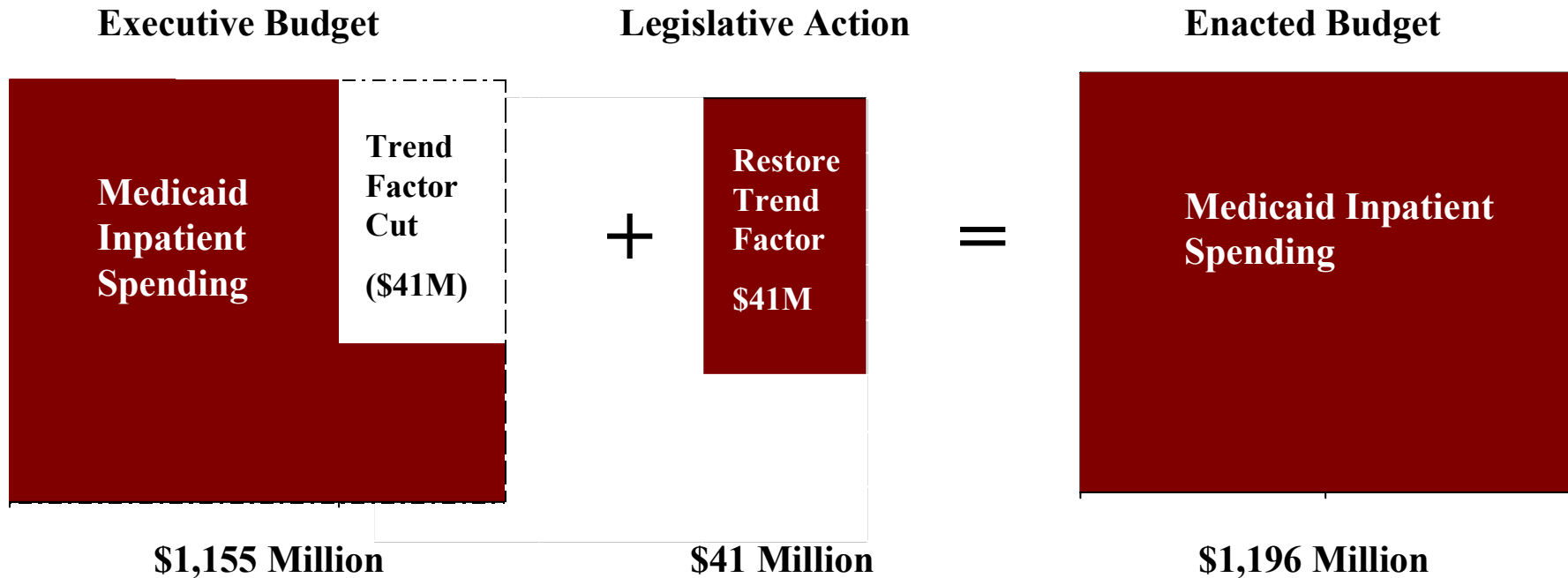


# Medicaid Spending Per Capita in U.S.



Note: DOB estimates that per capita spending in 2004-05 will exceed \$2,300.

# Hospital Inpatient Trend Factor Restoration

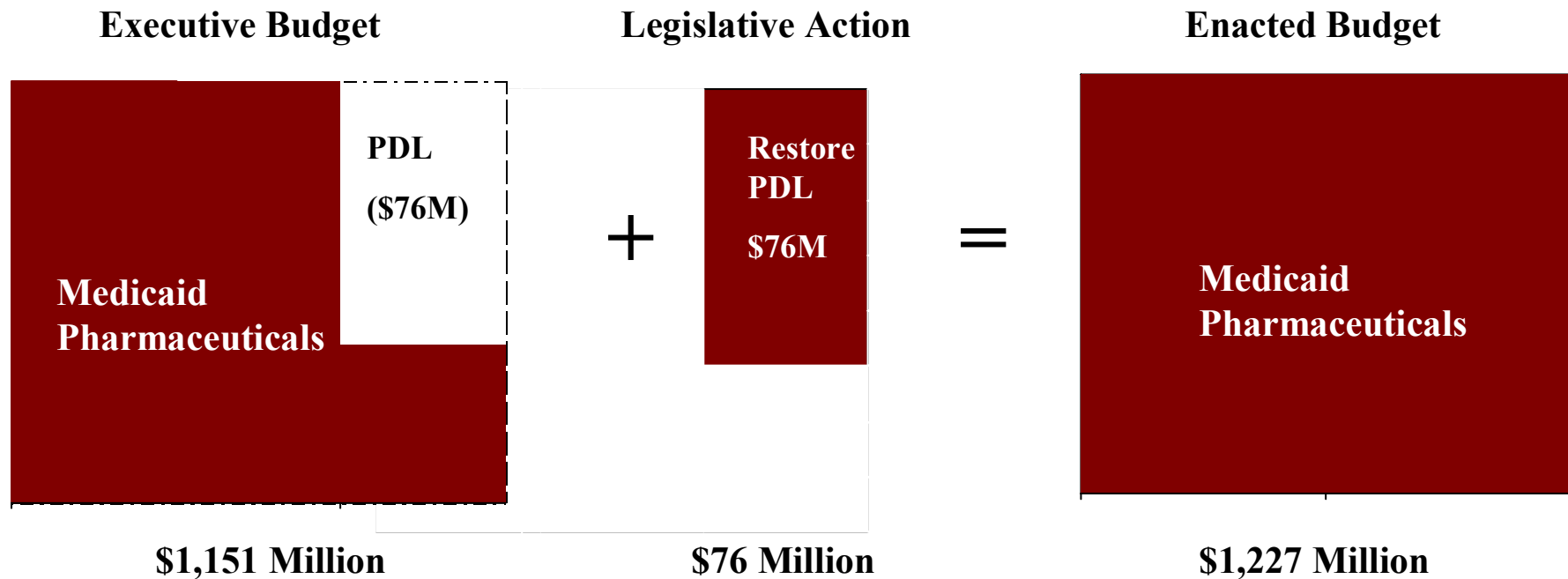


“For inpatient services provided by general hospitals. . . the commissioner shall apply no trend factor projections attributable to the period January 1, 2005 through December 31, 2005”

[HMH Budget Bill, S.554/A554]

For services and expenses related to authorizing a trend factor increase attributable to hospital inpatient services for the period January 1, 2005 through December 31, 2005. . . \$41,000,000

# Medicaid Preferred Drug List Restoration

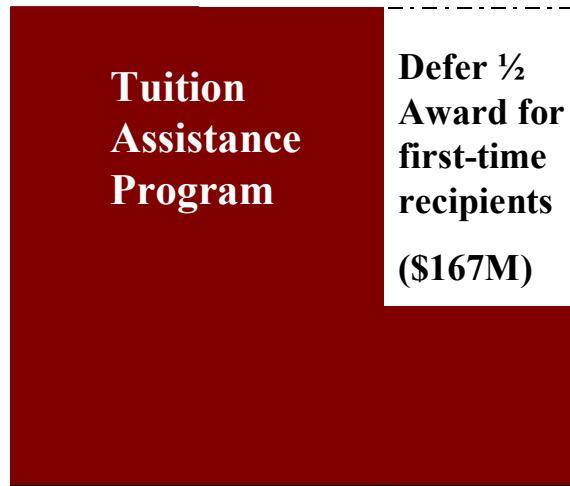


“ . . . When a prescriber prescribes a non-preferred drug, state health plan reimbursement shall be denied unless prior authorization is obtained, unless no prior authorization is required . . . ”  
 [HMH Budget Bill, S.554/A554]

For state health plan reimbursement for non-preferred drugs prescribed by a prescriber without prior authorization, and for which reimbursement was authorized in the previous fiscal year . . .  
 \$76,000,000

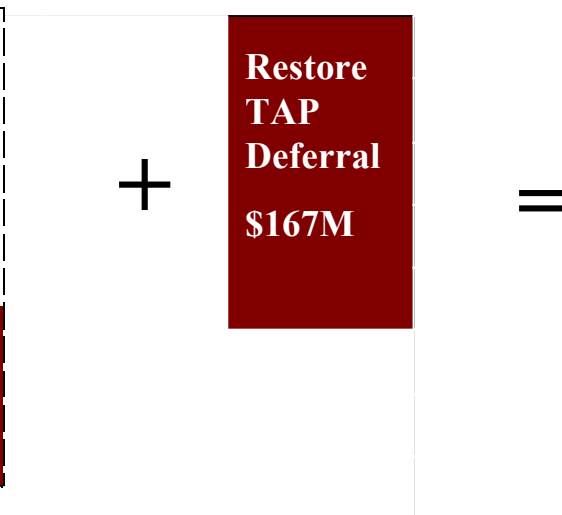
# Tuition Assistance Program Restoration

## Executive Budget



**\$739 Million**

## Legislative Action



**\$167 Million**

## Enacted Budget



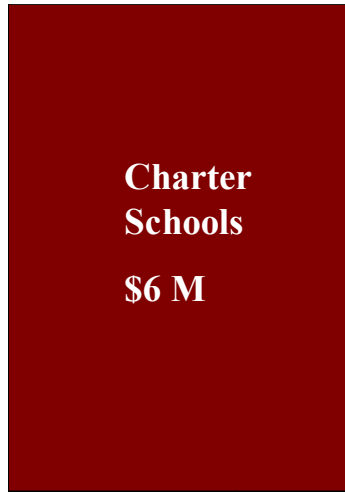
**\$906 Million**

“Funds shall be made available for awards for the 2005-06 academic year provided that the awards for first-time students . . . shall be further reduced by one-half to create a base award for supplementation by a performance award”  
[ELFA Budget Bill, S.553/A553]

For additional awards for first-time recipients in 2005-06 provided that the total award provided to recipients for the 2005-06 academic year cannot exceed the amount calculated pursuant to paragraphs a and b of section 667 of the education law.

# Charter School Reprogramming

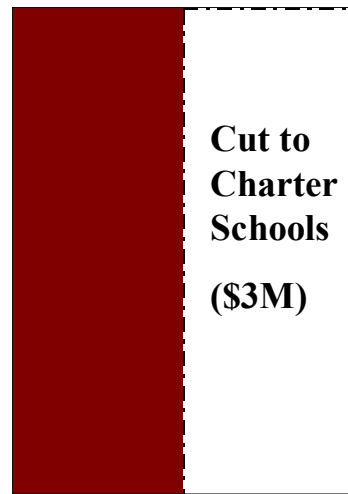
**Executive Budget**  
**\$6 Million**



“For services and expenses related to the development, implementation and operation of charter schools . . \$6,000,000”  
[ELFA Budget Bill, S.553/A553]

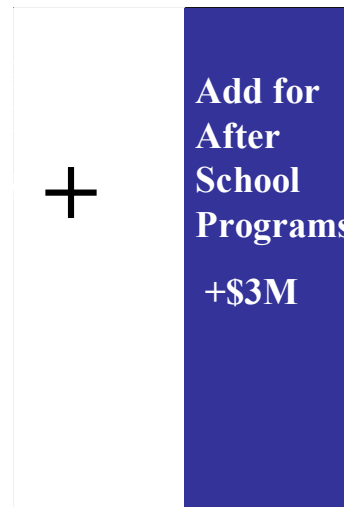
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**Legislative Action**



- **Becomes law upon passage.**
- **Not subject to veto.**

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- **Subject to veto**

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**Enacted Budget**  
**\$6 Million**



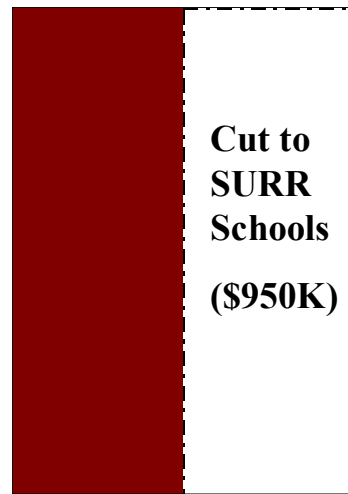
# SURR Schools Reprogramming

**Executive Budget**  
**\$1.9 Million**



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**Legislative Action**



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**Enacted Budget**  
**\$1.9 Million**



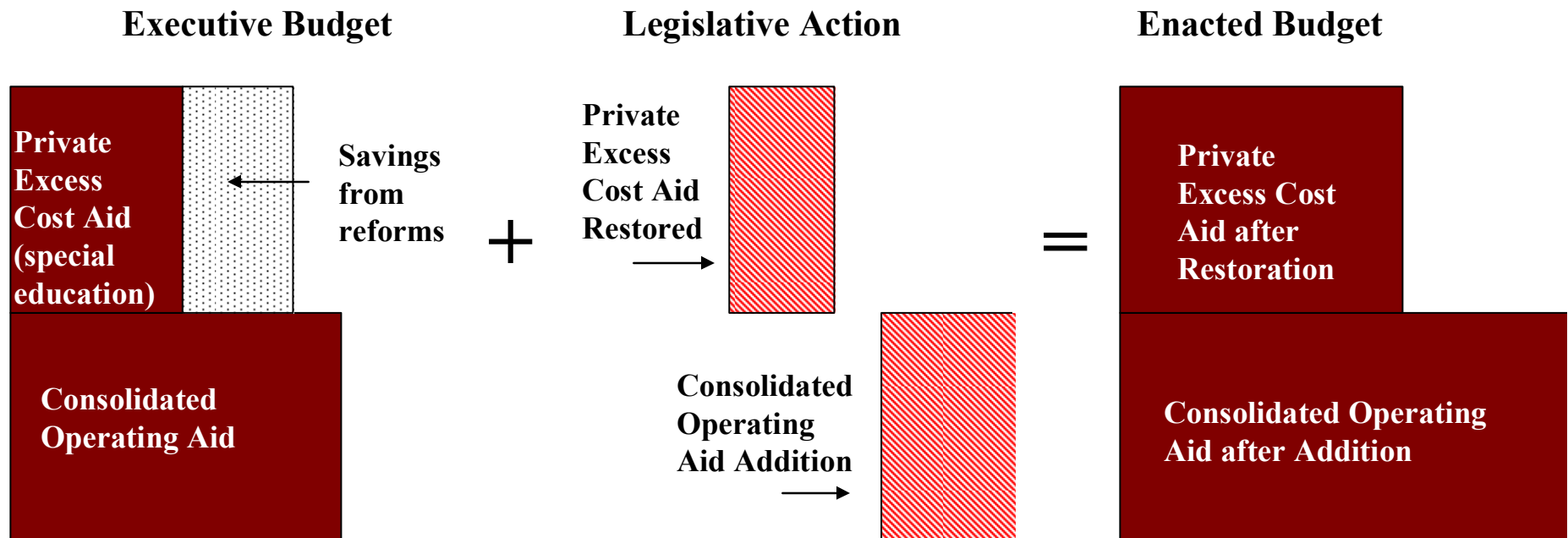
“For services and expenses of schools under registration review . . . \$1,900,000”  
[ELFA Budget Bill, S.553/A553]

- **Becomes law upon passage.**
- **Not subject to veto.**

For services and expenses of schools under registration review . . . [\$1,900,000]  
\$950,000

- **Subject to veto**
- For services and expenses related to the development, implementation and operation of after school programs . . . \$950,000

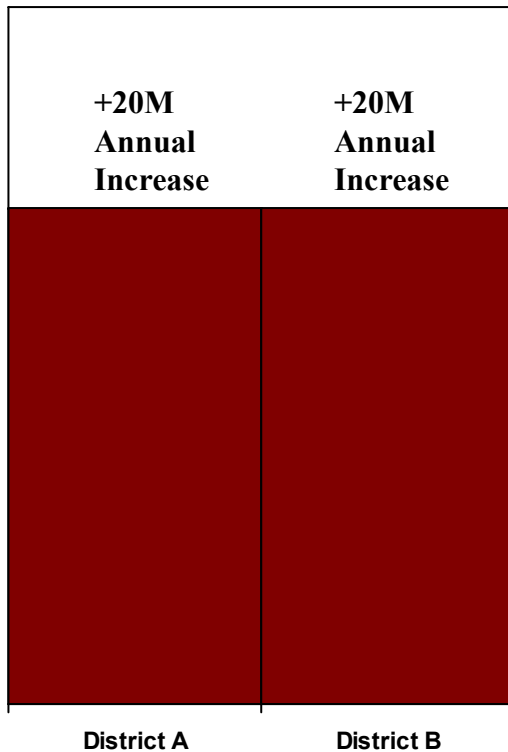
# Normal School Aid Addition



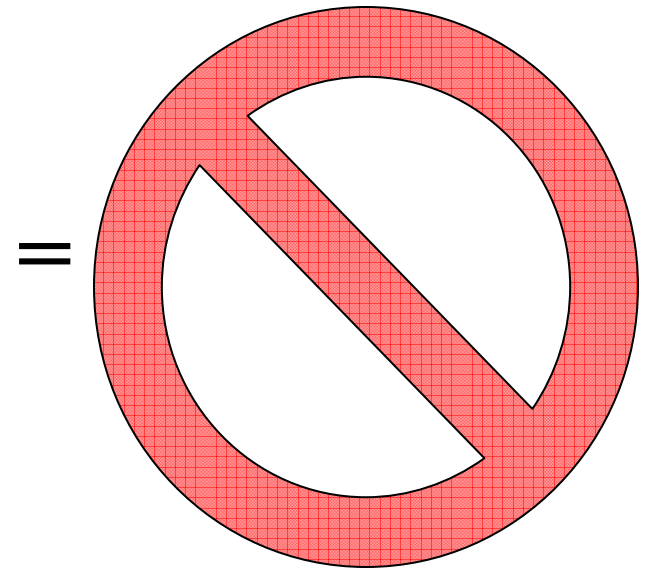
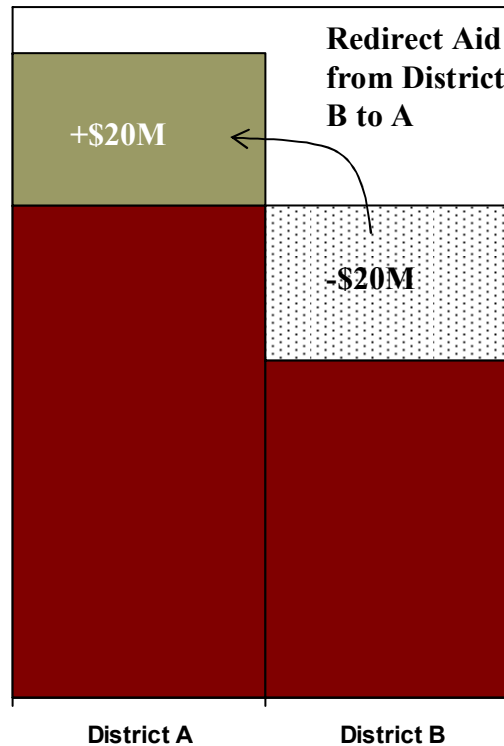
- Reforms in private special education aid to conform reimbursement to public special education aid.
- Consolidated Operating aid increase of 2% over 2004-05.
- New appropriations that increase funding to effectively undo the special education reforms.
- New appropriation to provide an additional operating aid increase of 3% to individual school districts as determined by Legislature.

# School Aid Reallocation

## Executive Budget



## Legislative Action



**\$20 Million Consolidated Operating Aid Increase for District A and District B**

**Redirect \$20 Million Increase from District B to District A**

**Illegal Substitution**



# Budget Reform Guiding Principles

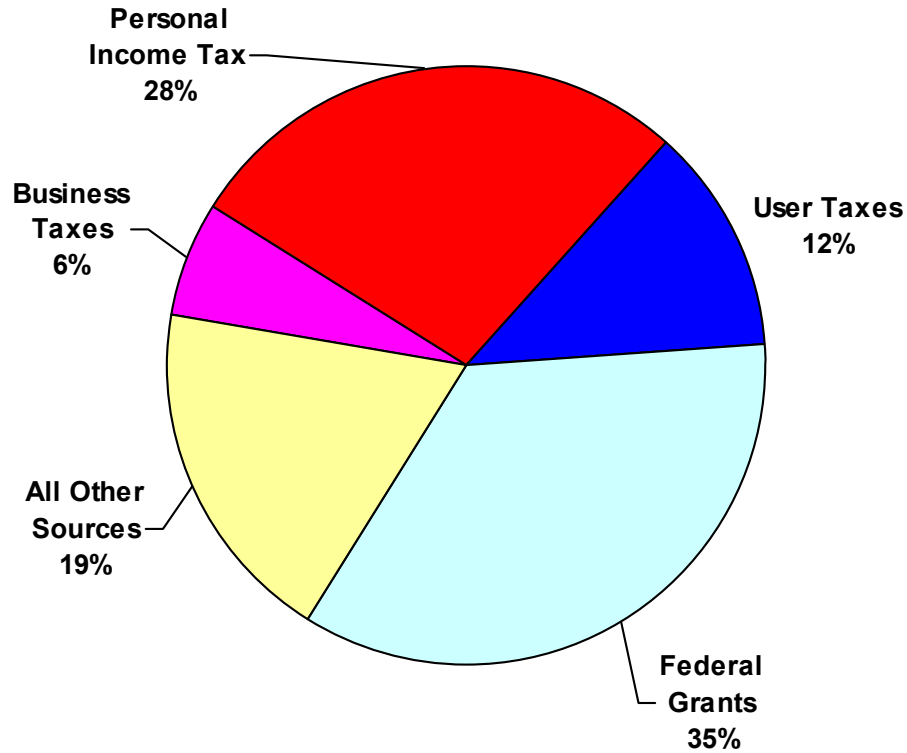
- Ensure annual budget is balanced and enacted on time.
- Provide rank-and-file legislators and the public with “sunshine reporting” to ensure informed choices on the budget before it is voted on.
- Enhance the State’s rainy day reserve to 5 percent and permit limited use during economic downturns if certain objective criteria are met.
- Create an independent financial review board to determine budget balance and set revenue forecast if no consensus is reached.
- Negotiations continue with both houses on a viable, meaningful reform plan.
- Recent Court of Appeals ruling reaffirms Governor’s budgeting powers.

# Prospects are Favorable

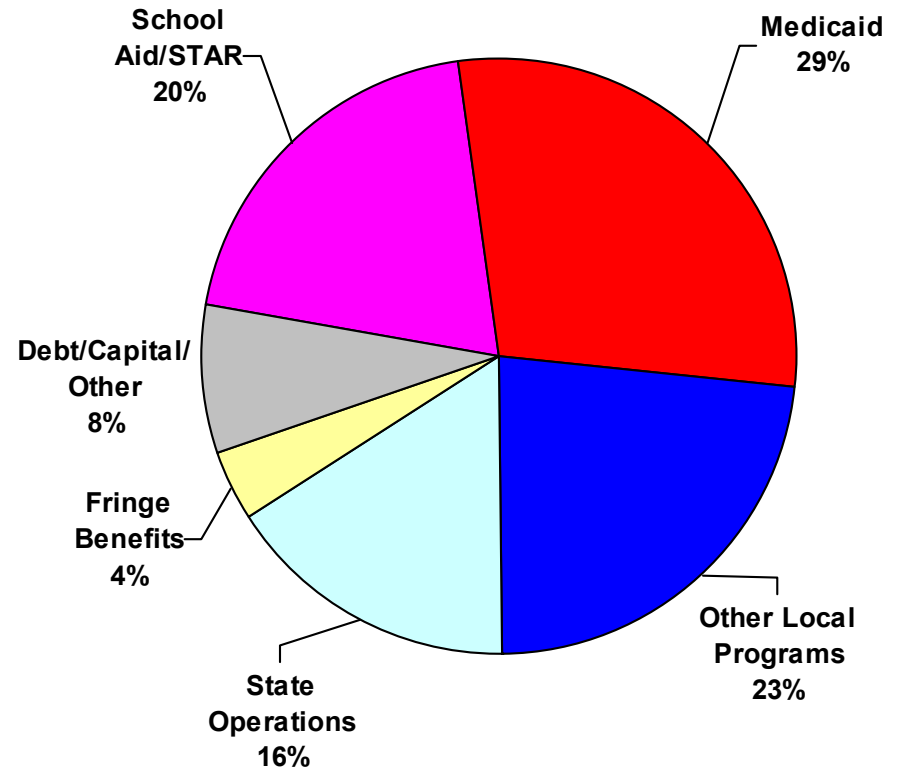
- Executive Budget scores well on any standard measure of fiscal integrity.
  - Emphasizes recurring actions, not one-time solutions.
  - Restrains spending growth.
  - Brings the structural gaps into the range of normal operations.
  - Addresses the State's critical policy issues.
  
- Public pressure makes real reform possible.
  
- The potential for economic and revenue growth, as well as proposed "adds," should enhance options for achieving an acceptable budget.

# Where It Comes From/Where It Goes

## All Funds Resources

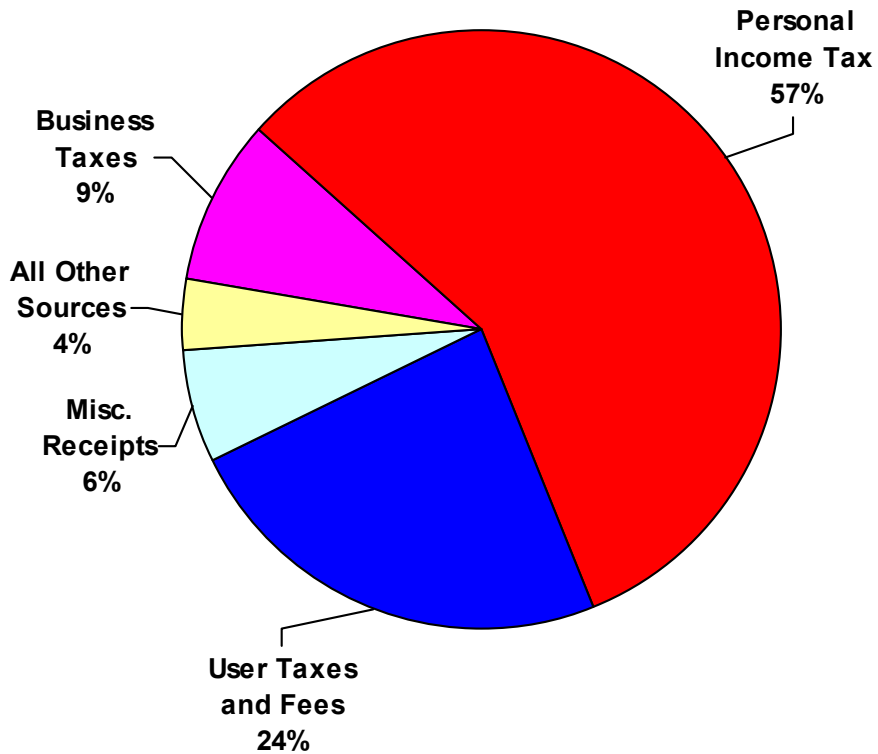


## All Funds Uses

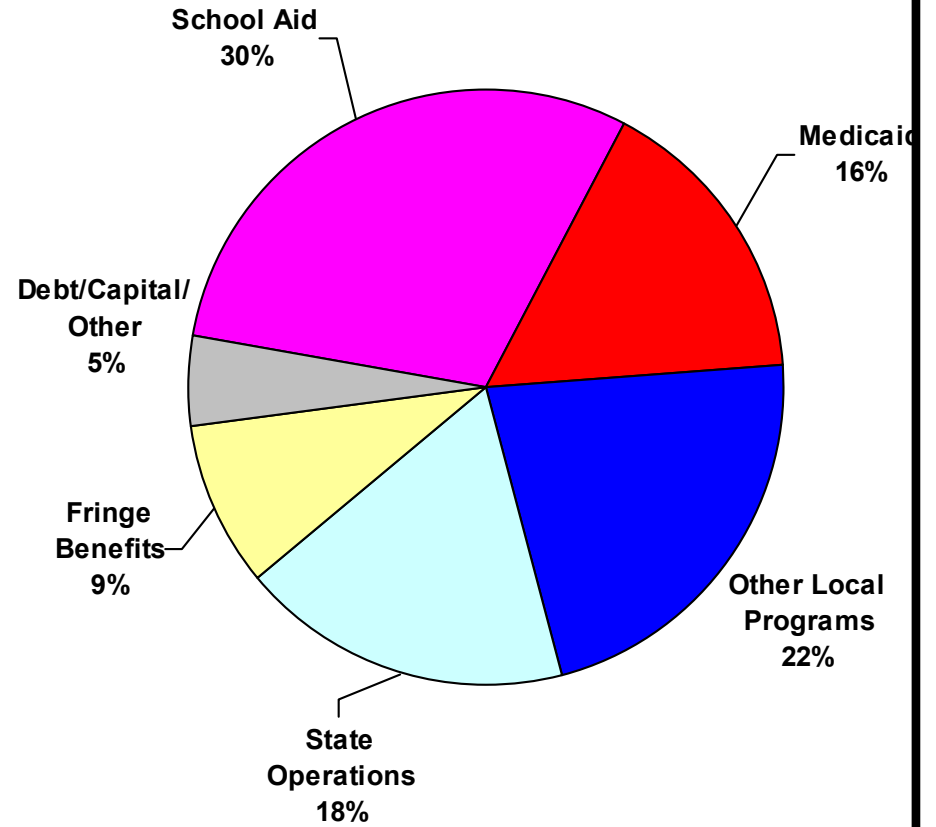


# Where It Comes From/Where It Goes

## General Fund Resources

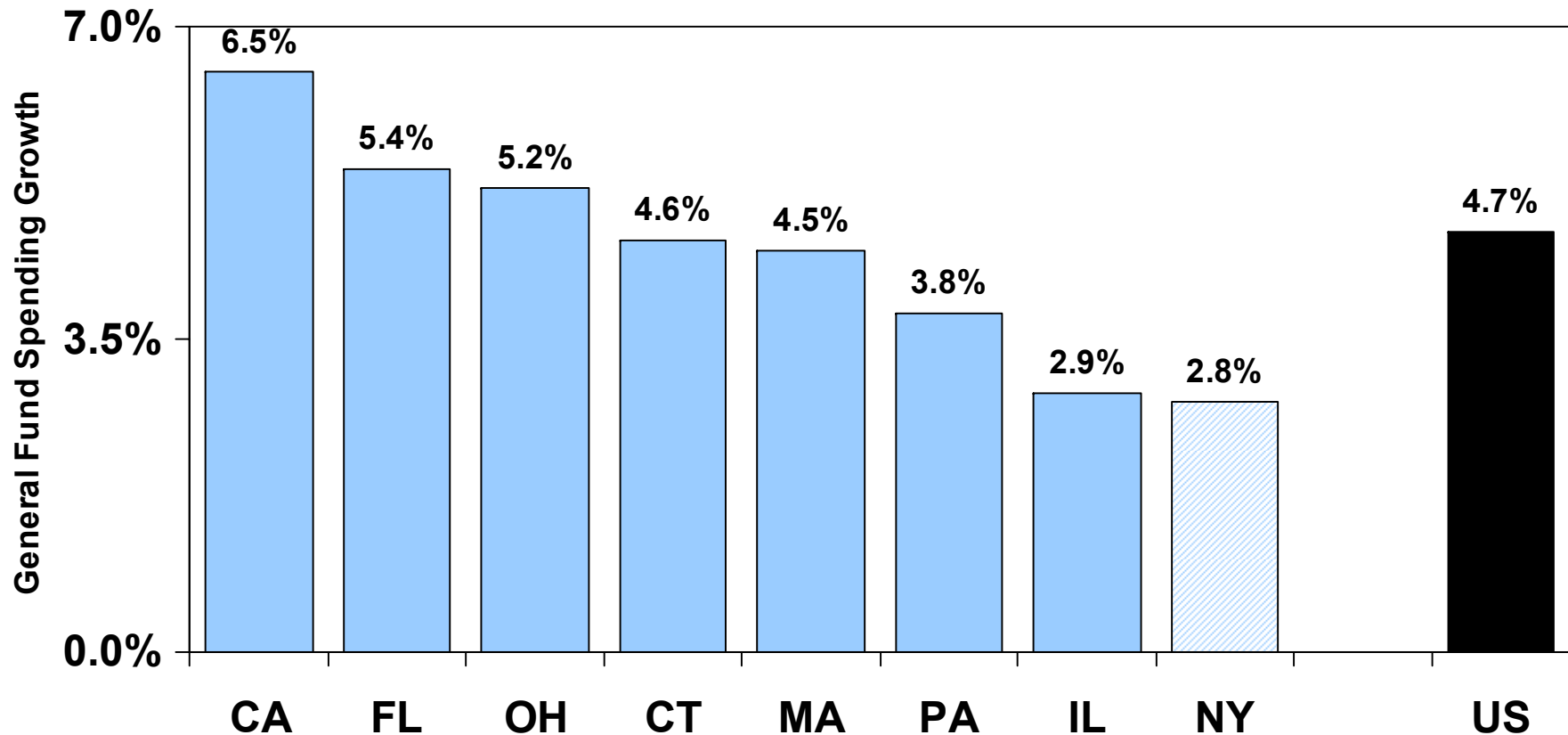


## General Fund Use

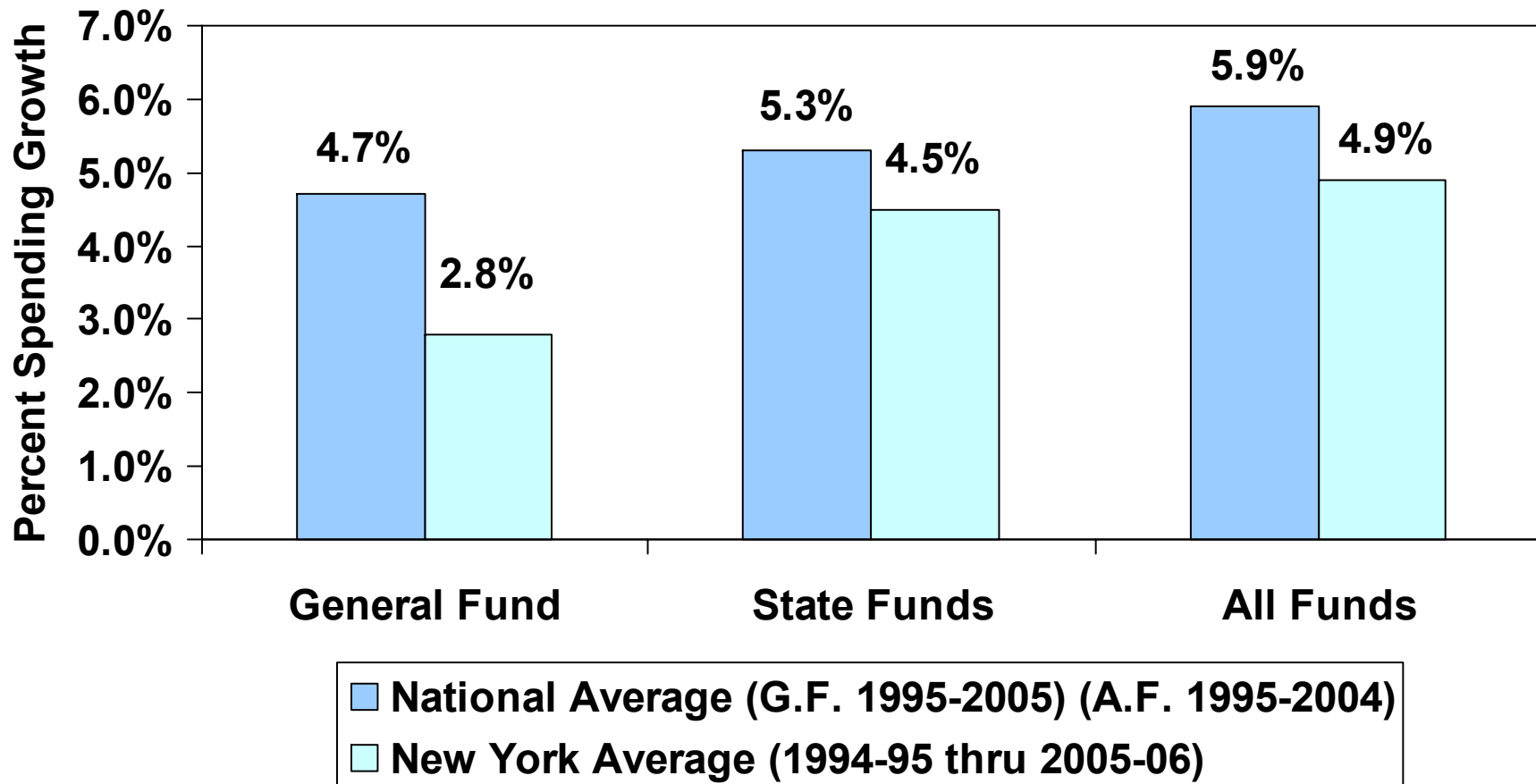


# Spending Trends vs. Peer States

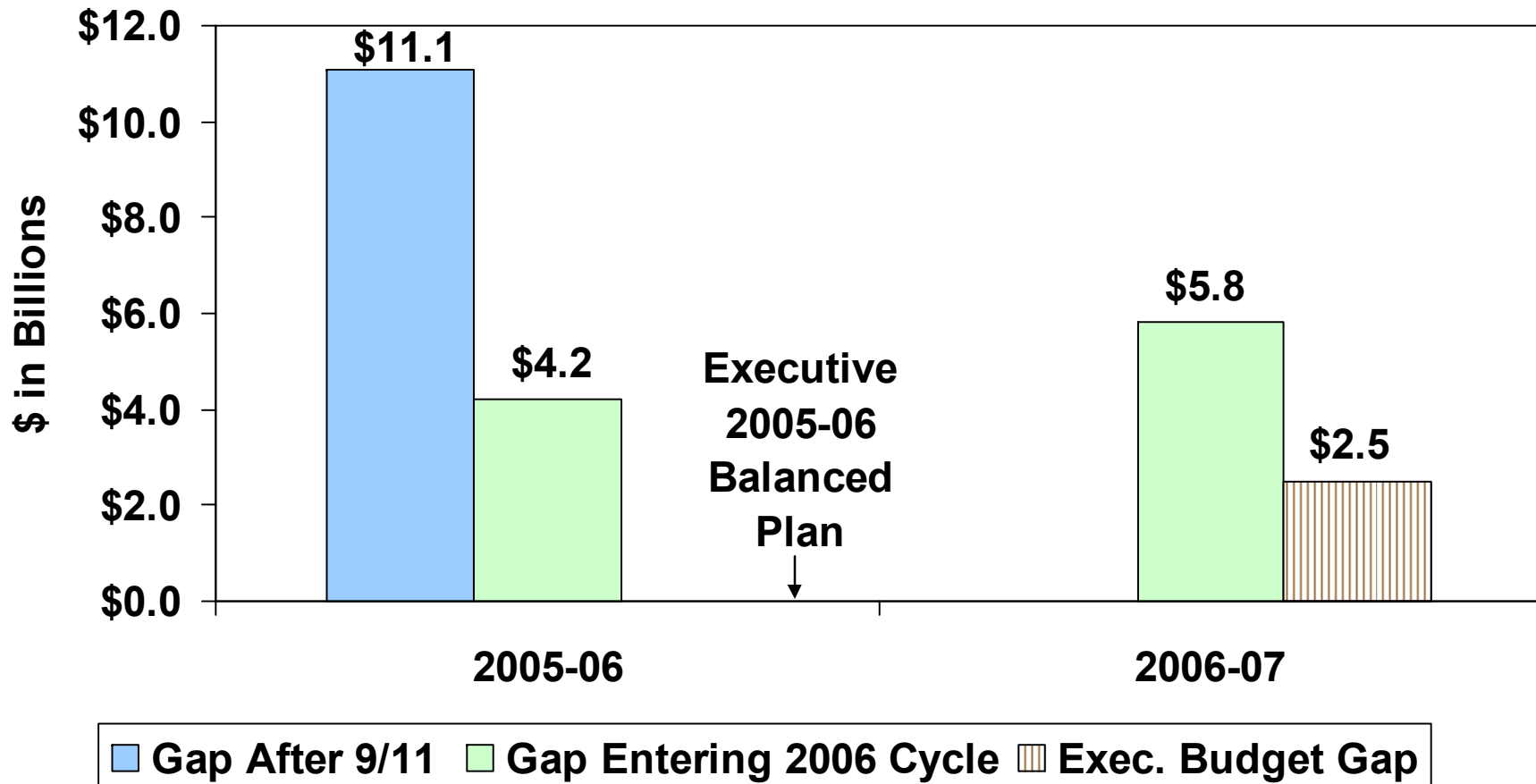
General Fund Spending Growth  
Average Annual Rate -- 1995 to 2005



# Unmatched Record of Spending Restraint

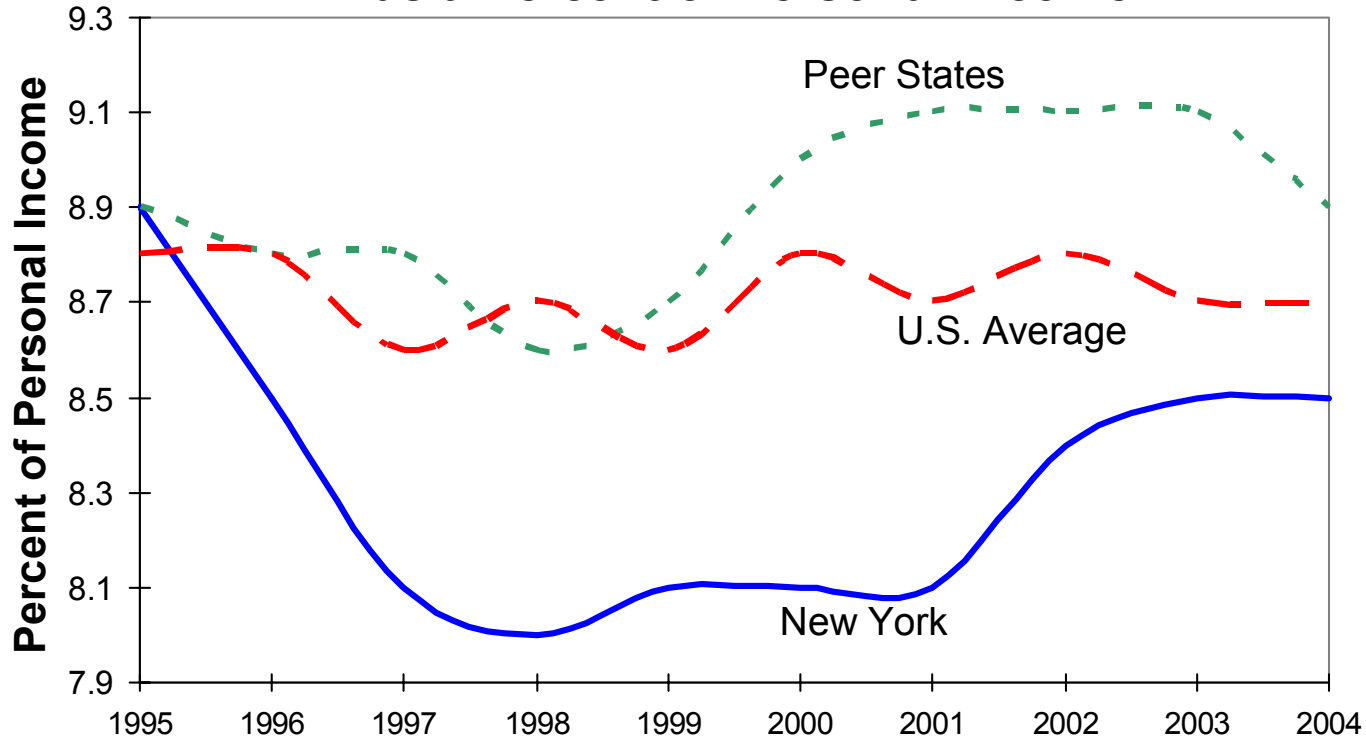


# September 11<sup>th</sup> Gap Cut to Manageable Levels



# Spending Levels Below U.S.

## State Funds Spending as a Percent of Personal Income



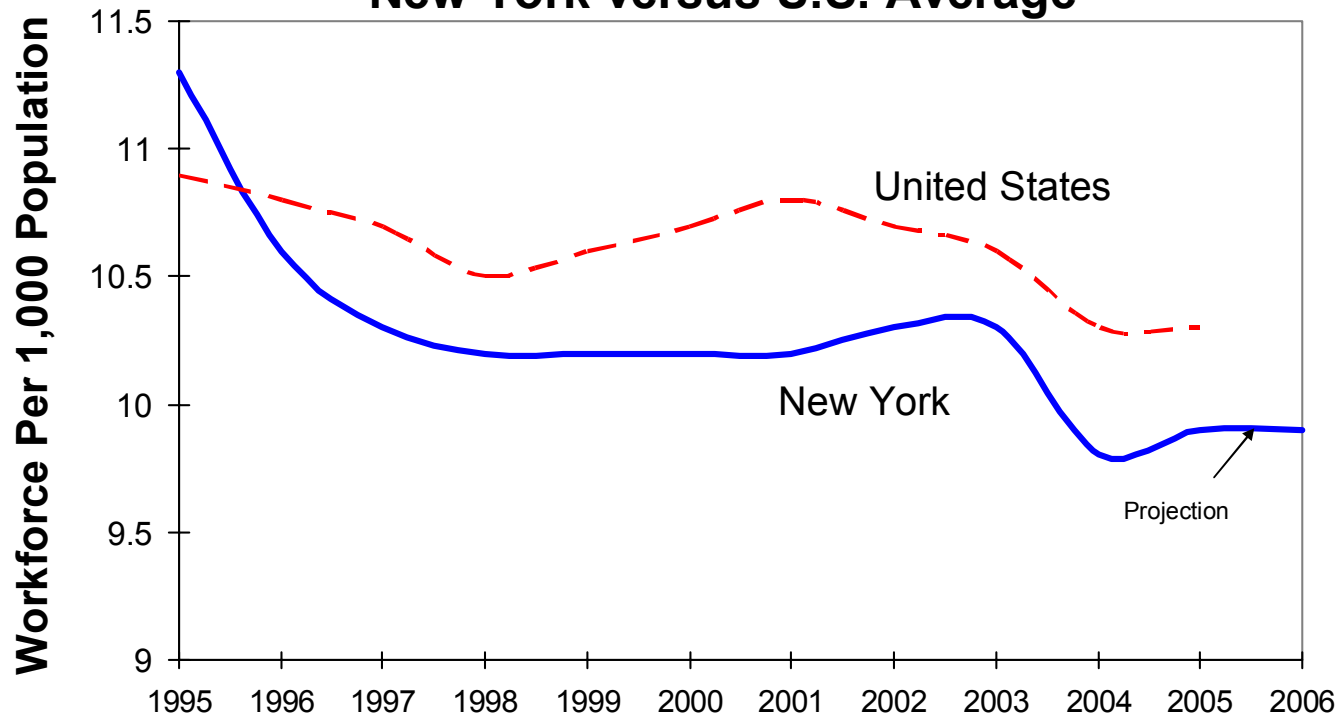
Note: New York State Funds spending in 2002-03 and 2003-04 is adjusted for \$1.9 billion in payment delays. Peer states line represents an average of State Funds spending as a percent of personal income for New York's peer states. United States is overall State Funds spending as a percent of overall personal income.

Sources: U.S. Bureau of Economic Analysis and National Association of State Budget Officers.



# State Workforce Below U.S. Average

**Change in Workforce  
Per 1,000 of Population  
New York versus U.S. Average**

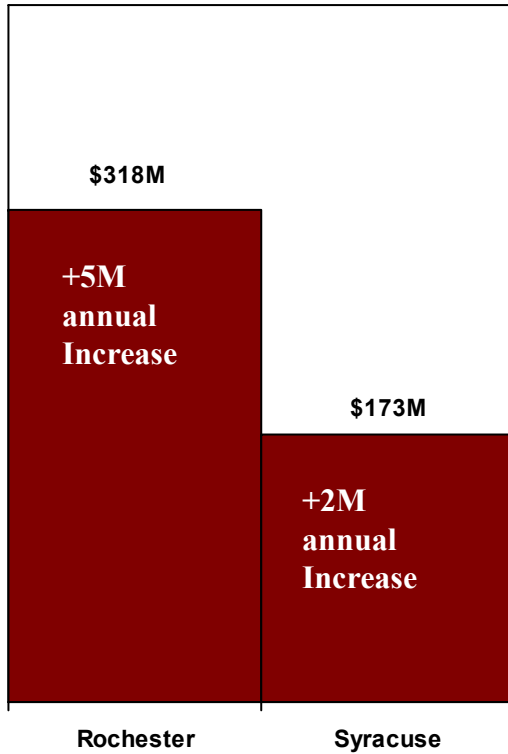


**Notes:** Comparable workforce data not available for Wyoming. United States information represents aggregate state workforce for other 48 states per 1,000 of total population for other 48 states. New York workforce numbers do not include seasonal positions and employees of the Judiciary and Legislature.

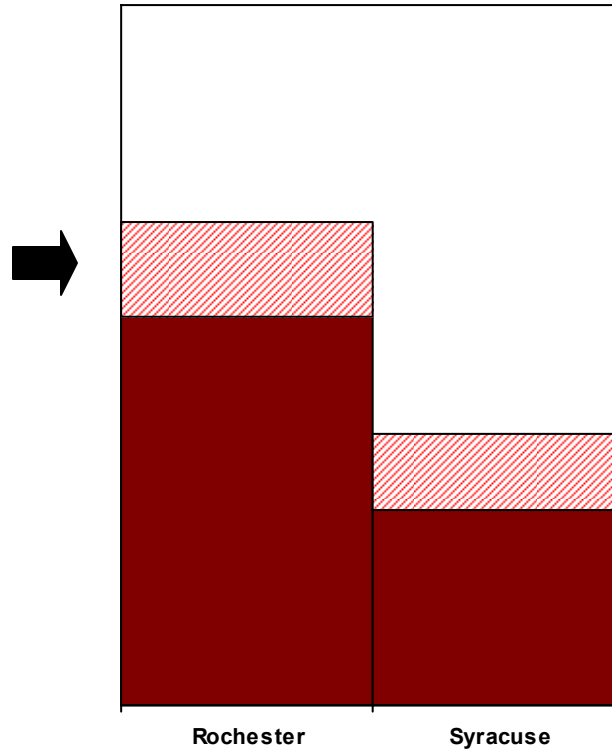
**Sources:** New York State Division of Budget and National Association of State Budget Officers.

# School Aid Uniform Cut

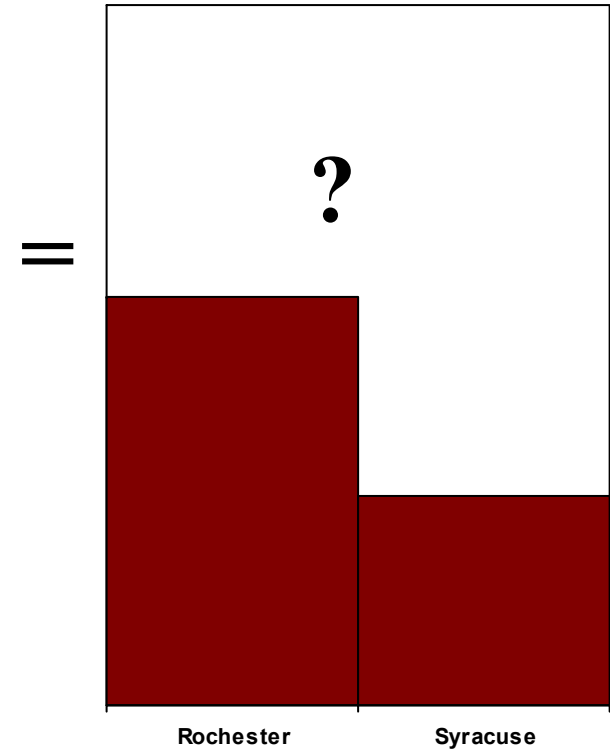
Executive Budget



Legislative Action



Enacted Budget



“Section 3609” Plus  
Other Aids



Uniform cut to  
appropriation



?