



2007-08 Executive Budget Overview

New York State

February 9, 2007

Executive Summary

- This Budget is the first step in a multi-year plan to fund strategic investments and restore structural balance.

- Here is what it does:
 - Closes a projected \$1.6 billion gap in 2007-08.
 - Proposes a \$3.5 billion savings plan in 2007-08 that grows to over \$5 billion by 2010-11.
 - Begins fundamental restructuring of the State's health care system.
 - Fully funds schools, property tax relief, and health insurance expansion for all four years.
 - Maintains \$3 billion in reserves, equal to over 5 percent of spending.
 - Slows spending growth – even after including funding for schools and other programs - at levels much closer to the “expected” Enacted Budget.
 - Extends HCRA through 2007-08 with operations essentially balanced through 2008-09.

- The Financial Plan is supported by cautious revenue and spending estimates that, in turn, are based on an expectation of moderating economic growth.

Executive Summary

- ❑ The Budget is based on prudent assumptions and focuses on improving the State's multi-year fiscal outlook through substantive program reforms.
- ❑ But the fiscal issues that we must address to achieve structural balance and meet our commitments cannot be solved in one budget.
- ❑ Accordingly, the 2008-09 budget will include similar far-reaching reforms to the health care system and other State programs.
- ❑ Over the next year, we will review all State local aid programs and agency operations with the goal of identifying fundamental reforms.
- ❑ Key areas include: health care; higher education; labor force productivity and benefit levels; authority operations; and State-local service delivery.

2007-08 Financial Plan Overview

General Fund Budget-Balancing Plan				
(millions of dollars)				
	<u>2007-08</u>	<u>2008-09</u>	<u>2009-10</u>	<u>2010-11</u>
Current Services Gaps	(1,608)	(2,995)	(5,089)	(5,359)
New Initiatives/Unmet Needs	(1,873)	(3,097)	(4,271)	(5,961)
Structural Gaps to be Closed	(3,481)	(6,092)	(9,360)	(11,320)
Savings Plan:	<u>2,810</u>	<u>3,383</u>	<u>4,460</u>	<u>4,659</u>
Medicaid/Health/Mental Hygiene	1,299	958	1,924	1,738
All Other Program Savings	1,062	1,858	1,999	2,384
Revenue Loophole Closures	449	567	537	537
Mutli-Year Use of Surpluses	671	401	401	401
Executive Budget Gaps	0	(2,308)	(4,499)	(6,260)

2007-08 Financial Plan Overview

- ❑ The structural gap, including funding for unmet needs, grows from \$3.5 billion in 2007-08 to over \$11 billion in 2010-11.
- ❑ The estimated structural gap differs from prior years in that this Executive Budget includes funding for schools and other programs at levels much closer to what will ultimately be enacted.
- ❑ The savings plan fully balances the 2007-08 budget and reduces the gaps to \$2.3 billion in 2008-09, \$4.5 billion in 2009-10, and \$6.3 billion in 2010-11.
- ❑ Even after reflecting significant funding for schools, the structural gaps are cut nearly in half and are within the normal forecast range.

Executive Budget Outyear Gaps

	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	
1998-99	0										
1999-00	(1,664)	0									
2000-01	(3,721)	(1,143)	0								
2001-02		(2,071)	(1,232)	0							
2002-03			(2,647)	(2,483)	0						
2003-04				(2,943)	(2,807)	0					
2004-05					(3,286)	(2,800)	0				
2005-06						(4,146)	(2,852)	0			
2006-07							(4,354)	(2,544)	0		
2007-08								(2,541)	(1,919)	0	
2008-09									(3,887)	(2,308)	
2009-10										(4,499)	
2010-11										(6,260)	New

*As amended by 30-Day changes, where applicable.

- ❑ Ten-year trend demonstrates first two outyear gaps are in line with prior projections.
- ❑ A “third outyear” gap is published for the first time with this budget.
- ❑ All estimates include planned use of reserves to lower gaps (e.g., outyear gaps in 2006-07 budget were reduced by the use of \$1 billion in reserves in each year).

New Initiatives/Unmet Needs

General Fund -- New Initiatives				
(millions of dollars)				
	2007-08	2008-09	2009-10	2010-11
Property Tax Relief	1,211	1,688	2,038	2,152
School Aid	371	851	1,670	3,069
Health Care Initiatives	100	191	172	191
All Other	191	367	391	549
Total General Fund New Initiatives	1,873	3,097	4,271	5,961

- Three initiatives address long-standing unmet needs:
 - Enhanced funding for schools, with the aid directed to those districts that need it most.
 - Property tax relief for middle class homeowners.
 - Access to health insurance for every child in New York.

- Other initiatives include expanded tax benefits for low-income people; an increase in community college aid; funding for stem cell research; expanded mental hygiene bed capacity; and additional upstate transit aid.

Four-Year Educational Investment Plan

- A \$7 billion increase in aid by 2010-11, with nearly 80 percent of the flexible increase to high-need districts.
- New Foundation Aid program will combine 30 existing aid categories into a single, progressive, and transparent formula.
 - All school districts will receive at least a 3 percent Foundation Aid increase.
 - High-need districts will receive proportionately higher increases.
 - Foundation Aid increases will be linked to reforms and accountability measures targeted at improving school performance.
- The school aid funding plan, in combination with the EXCEL and TFA school construction programs and accountability standards, provides a framework for significant performance improvements.
- Realistic school aid increase reduces magnitude of likely legislative change.

Property Tax Relief for the Middle Class

- ❑ Budget includes a multi-year \$6 billion property tax relief package, an increase of over \$2 billion above the current program requirements.
- ❑ Expansion targets middle class homeowners, providing sliding scale relief to homeowners with household income at or below \$235,000 (including adjustments for downstate higher cost of living areas).
- ❑ Expanded STAR program will total \$4.9 billion in 2007-08, an annual increase of \$952 million.

Health Care Expansion

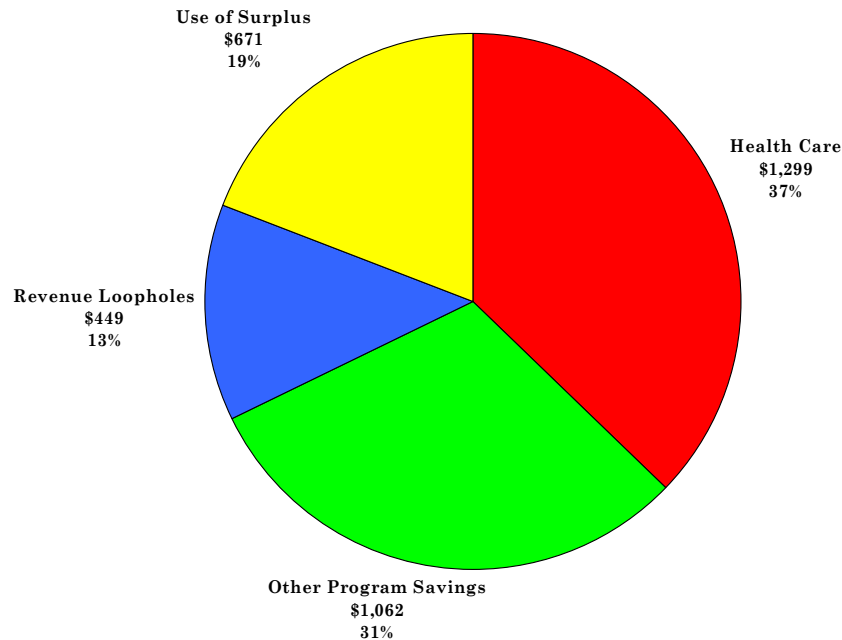
- ❑ Expanded access to health insurance.
 - Increase Child Health Plus income eligibility to 400 percent of Federal Poverty Level to provide access to 400,000 uninsured children.
 - Modify and simplify recertification procedures for public health insurance programs to encourage enrollment.

- ❑ Reduced costs through long-term care initiatives to encourage community and home based care rather than more expensive institutional settings.

- ❑ Increased public health program funding, including emergency response to public health crises (avian flu), access to cervical cancer vaccine, and enhanced reporting on vital records and communicable diseases.

2007-08 Savings Plan

General Fund: \$3.5 Billion Savings in 2007-08



Health Care Savings

- Freeze trend factors
- Pharmaceutical savings
- Anti-Fraud
- Federal maximizations

Other Program Savings

- Reduce and redirect local aid
- Statewide efficiencies
- Enhance debt management
- Reduce discretionary spending

Revenue Loopholes

- REITs
- Corporate franchise combined filing
- S Corporation election

* Dollars in billions

Health Care System Reform

Health Care Savings Plan (millions of dollars)				
	2007-08	2008-09	2009-10	2010-11
Freeze 2007 Trend Factors Pending Rate Overhaul	350	389	389	389
Reduce/Redirect Subsidies to High-Need MA Hospitals	73	99	120	120
Pharmaceutical Savings	240	301	303	303
Strengthen Anti-Fraud Capabilities	104	109	109	109
Other General Fund Medicaid Savings	221	105	372	378
Other HCRA Savings	219	544	543	593
Public Health/Mental Hygiene	239	187	198	206
Total Medicaid/HCRA/Health/Mental Hygiene Savings	1,446	1,734	2,034	2,098
HCRA Savings in Other State Funds	(147)	(776)	(110)	(360)
Net General Fund Savings	1,299	958	1,924	1,738

- ❑ Reduce payments and freeze trend factors pending development and implementation of a more rational cost-based reimbursement system;
- ❑ Lower pharmacy costs through rate adjustments, increasing Part D enrollment, and improving and expanding the Preferred Drug program;
- ❑ Strengthen statewide ability to combat fraud; and
- ❑ New programs to improve management of high-cost enrollees.

Loophole Closures

General Fund Savings Plan -- Revenue Loophole Closures				
(millions of dollars)				
	2007-08	2008-09	2009-10	2010-11
Corporate Franchise Tax Combined Filing	185	185	185	185
Real Estate Investment Trusts	88	70	70	70
Add Back Certain Expenses	35	28	28	28
Extend/Restructure LLC Fees	30	30	30	30
Exclude Deduction for Production Activities	25	30	30	30
Cooperative Insurance Companies	23	18	18	18
S Corporation Election	0	100	100	100
All Other	63	106	76	76
Total General Fund Savings	449	567	537	537

- Tax law loophole closures will generate \$449 million, and include:
 - Require corporations with multiple inter-subsidaries transactions to file a single combined corporate franchise tax return.
 - Eliminate anomalies in tax law benefiting a small number of taxpayers that other states and Federal government have already addressed.
 - Require sales tax on surcharges charged for hotel rooms reserved via the internet.
 - Restructure fee methodology for Limited Liability Companies from member based to income based.

Other Savings Actions

All Other Savings Plan (millions of dollars)				
	2007-08	2008-09	2009-10	2010-11
Local Government Aid	306	267	217	167
Economic Development	209	96	96	96
Social Services/Labor	165	139	150	139
Public Safety/Homeland	109	113	111	112
STAR Rebate	0	675	675	675
VLT Expansion	0	150	357	766
All Other	273	418	393	429
Total General Fund Savings	1,062	1,858	1,999	2,384

- One-time savings actions include the use of prior year surpluses (\$671 million) and \$455 million of other resources that consist mainly of routine balance transfers and Federal maximizations.

- Other savings actions totaling \$1 billion include:
 - Reducing and redirecting State aid subsidies.
 - Instituting strict controls on spending by State agencies.
 - Enhancing competition in the State's debt management.
 - Reductions in discretionary spending (legislative adds).
 - TAP eligibility reforms.
 - Federal maximizations (TANF).
 - Elimination of the 2006-07 STAR Plus Rebate program.
 - Expand VLT facilities.

Debt Levels and Reforms

- ❑ Growth in debt still needs to be addressed, but is due largely to prior commitments.

- ❑ Debt measures are stable, with debt as a percent of personal income projected to decline from 6.1 percent to 5.7 percent, and debt service costs projected to increase from 4.2 percent to 5.0 percent of All Funds spending.

- ❑ Proposed reforms will help maintain affordability:
 - \$250 million will be used to reduce high-cost debt in 2007-08.
 - Voter approval of the proposed General Obligation Stem Cell and Innovation Bond Act.
 - New SUNY and CUNY five-year capital plans (begins 2008-09).
 - Increase use of competitive bond sales; authorize variable rate and swaps cap increases from 15 percent to 20 percent.
 - Competitive process to determine funding for economic development projects.

Budget Slows Spending Growth Rate

Total Disbursements					
(millions of dollars)					
	2006-07 Current	2007-08 Executive	Annual \$ Change	Rec'd Annual % Change	Prior-Year Growth
General Fund	51,127	53,262	2,135	4.2%	10.0%
State Funds	77,522	83,557	6,035	7.8%	11.2%
All Funds	113,536	120,633	7,097	6.3%	8.8%

- General Fund growth rate is less than half the 2006-07 increase.
- Higher rate of State Funds growth is driven by:
 - Property tax relief (+\$1 billion).
 - Capital investments (\$1.4 billion).

National Economic Outlook

- ❑ The national economy appears to be recovering from last year's slowdown more quickly than anticipated, growing a strong 3.5 percent in the fourth quarter of 2006. Based on the most recent data, DOB's outlook for 2007 is now more favorable.
- ❑ After successfully managing a soft landing, the Federal Reserve is not expected to alter its short-term interest rate target this year. In the current stable interest rate environment, the housing market appears to be bottoming out, with household spending remaining strong.
- ❑ U.S. employment growth above 1 percent is projected for 2007, following revised growth of 1.9 percent for 2006. However, the unemployment rate is expected to remain below 5 percent for this year.
- ❑ DOB projects inflation of 2.3 percent for 2007, down from 3.2 percent for 2006. Personal income is expected to grow 5.5 percent in 2007, following 6.4 percent growth for 2006.
- ❑ Risks to DOB's forecast include a more severe decline in the nation's housing sector than expected, weakening household spending and the rest of the economy.

U.S. Economic Forecast Comparison

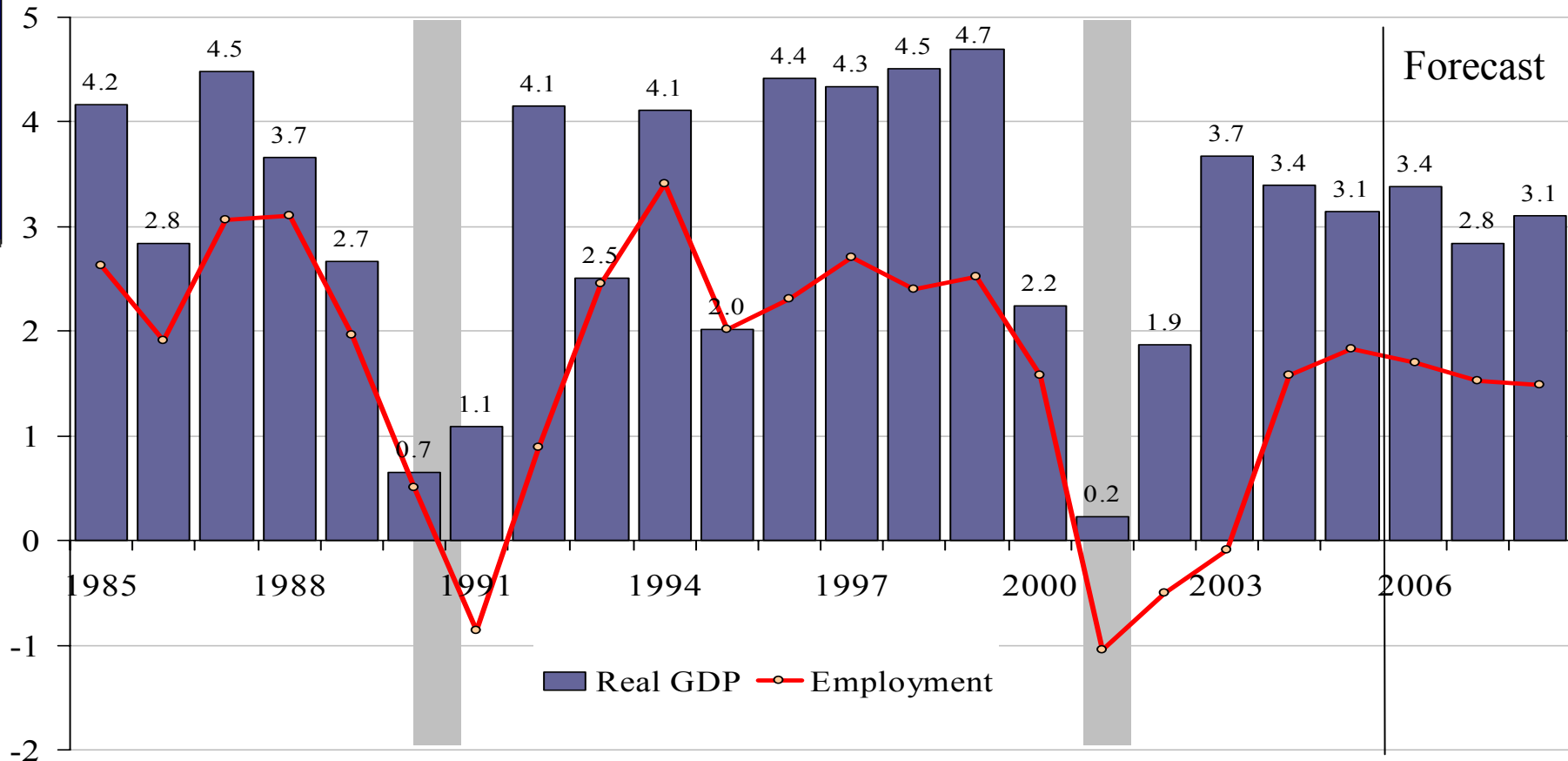
	2005 (actual)	2006 (actual)	2007 (forecast)	2008 (forecast)	2009 (forecast)
Gross Domestic Product (GDP) (2000 chained, percent change)					
DOB	3.2	3.4	2.3	3.0	3.2
Blue Chip Consensus	3.2	3.4	2.4	3.0	NA
Moody's Economy.com	3.2	3.4	2.6	NA	NA
Global Insight	3.2	3.4	2.3	3.2	3.4
Macroeconomic Advisers	3.2	3.4	2.6	3.2	NA
Consumer Price Index (CPI) (percent change)					
DOB	3.4	3.2	2.3	2.5	2.5
Blue Chip Consensus	3.4	3.2	2.0	2.3	NA
Moody's Economy.com	3.4	3.2	1.8	NA	NA
Global Insight	3.4	3.2	1.8	2.1	1.9
Macroeconomic Advisers	3.4	3.2	1.8	2.4	NA

Source: Projections for 2006-2010 by New York State Division of the Budget, January 2007; Blue Chip Economic Indicators, January 2007; Moody's Economy.com, Macro Forecast, January 2007; Global Insight, US Executive Summary, January 2007; and Macroeconomic Advisers, Economic Outlook, January 2007.

- ❑ DOB, along with many of the major forecasters, will be revising upward its real GDP forecast for 2007 based on the most recent data for the fourth quarter of 2006, but DOB's forecast is likely to continue to appear cautious when compared with Economy.com and Macroeconomic Advisers.
- ❑ DOB's 2007 forecast for inflation is near the high end.

Selected U. S. Economic Indicators

Fourth Quarter Year-Ago Growth



Note: Shaded areas represent US recessions.

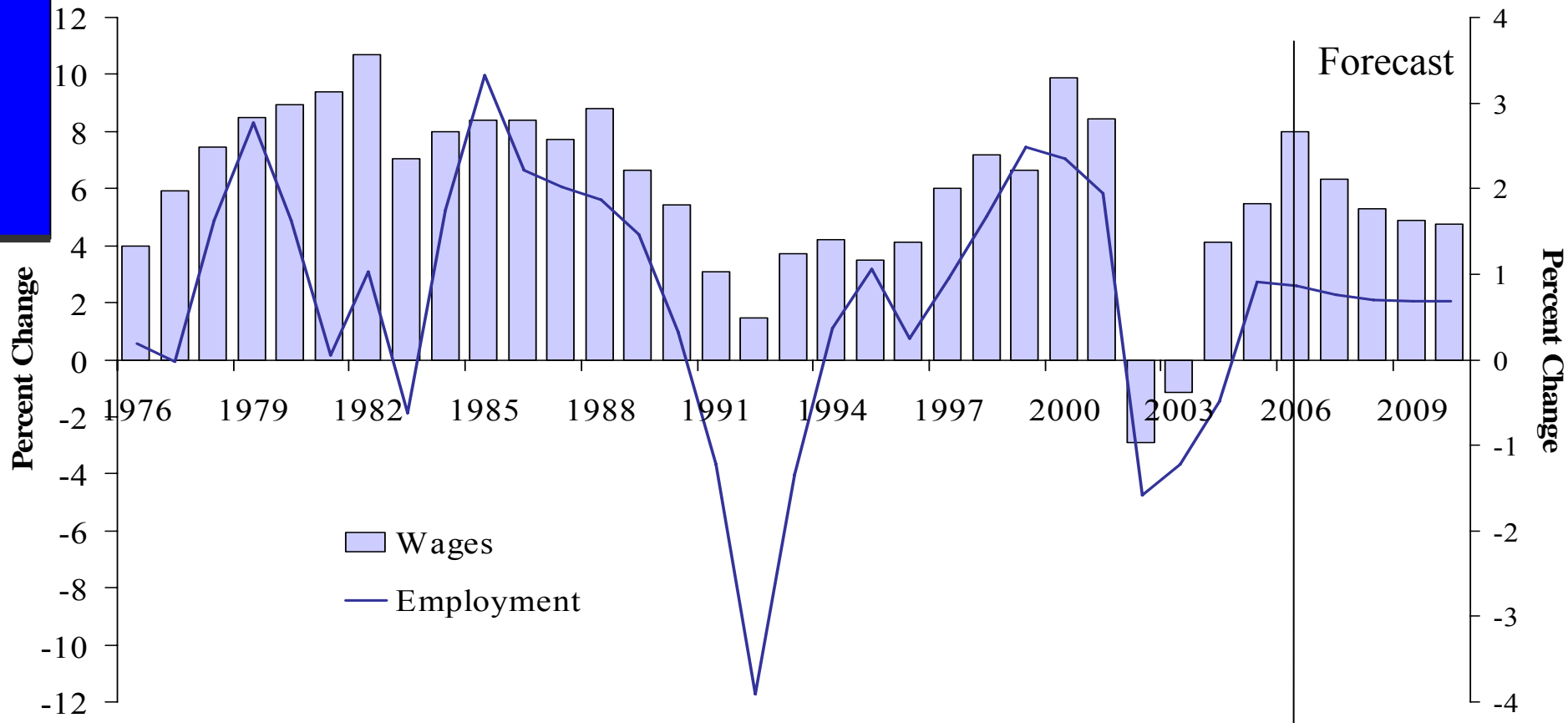
Source: Moody's Economy.com; DOB staff estimates.

- The Federal Reserve appears to be successfully managing a soft landing, with real U.S. GDP exhibiting quarterly growth of only 2.0 percent during 2006Q3, on an annualized basis. Economic growth rebounded to 3.5 percent in the fourth quarter, but the auto and housing market corrections remain a risk.

New York State Economic Outlook

- Consistent with the national slowdown, the New York State economy slowed as well. State private sector employment is projected to fall from 1.0 percent in 2006 to 0.8 percent for 2007.
- Similarly, New York personal income growth is projected to slow from a solid 6.8 percent in 2006 to 5.6 percent in 2007, with growth in its largest component, wages and salaries, slowing from 7.5 percent in 2006 to 5.7 percent in 2007.
- The major factors keeping U.S. economy growth from falling much below its long-term trend rate bode well for the State economy as well:
 - As the world's financial capital, the New York economy may particularly benefit from a stable interest rate environment;
 - Growth in U.S. corporate profits is expected to fall but remain solid, with financial markets continuing to do well;
 - The housing and auto industry corrections remain contained.
- DOB's outlook on the State economy is cautious in light of the risks stemming from the volatile real estate and financial markets. These represent even greater risks to revenues due to the high concentration of taxable income among a relatively small segment of the taxpaying population.

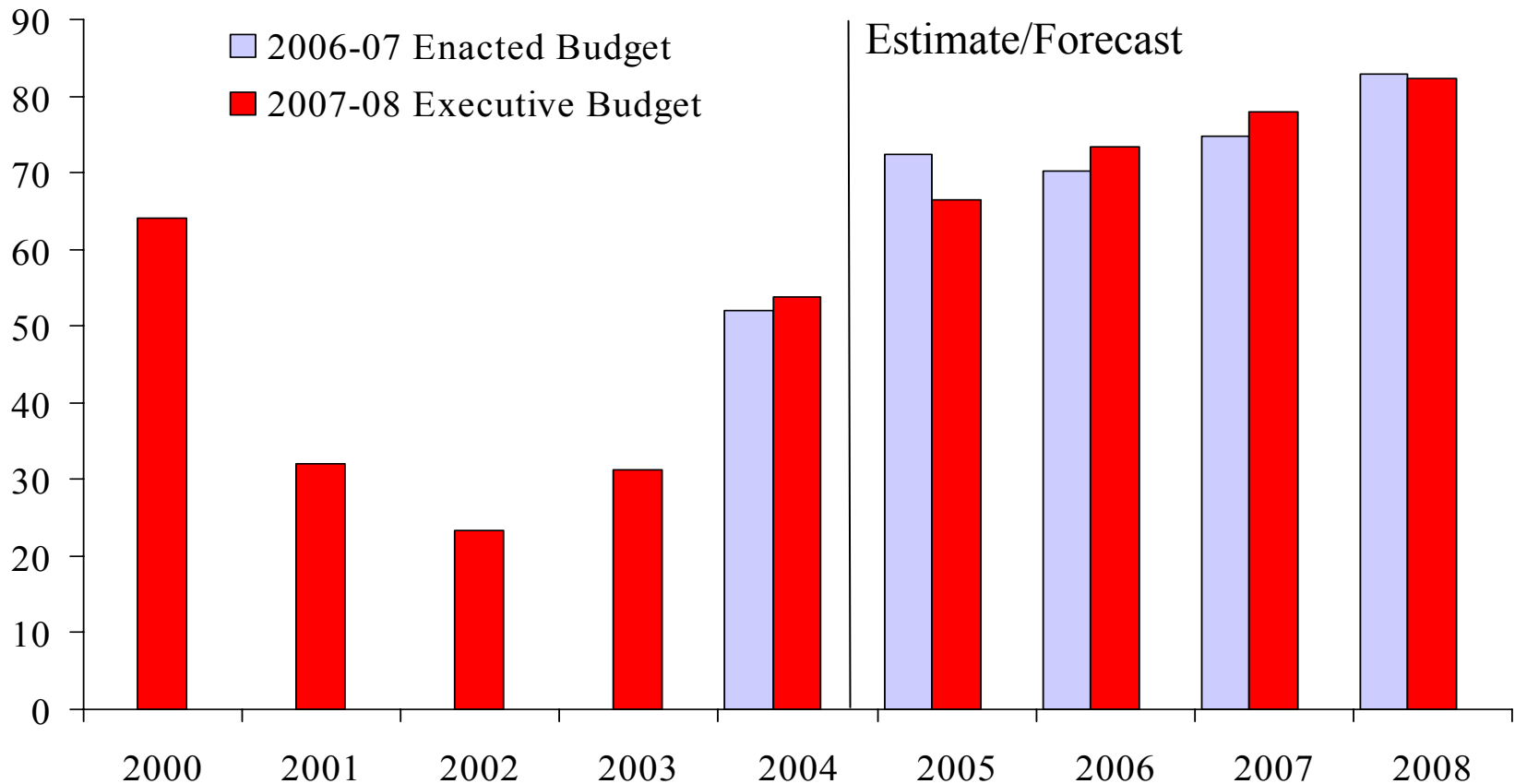
New York State Employment and Wage Growth



Source: NYS Department of Labor; DOB staff estimates.

- In light of the risks associated with the financial and real estate markets, DOB's outyear forecasts for employment and wage growth remain cautious.

Capital Gains Forecast Becoming Less Uncertain (billions of dollars)



Source: NYS Department of Taxation and Finance; DOB staff estimates.

- ❑ Based on preliminary tax data, capital gains realizations for 2005 fell short of expectations given the strength of real estate and equity markets for that year, suggesting that a substantial amount of losses carried over from prior years were applied against realized gains.
- ❑ The resulting estimated decline in the amount of losses carried over into 2006 and future years reduces — but does not eliminate — the risk to the capital gains forecast going forward.

Receipts Summary

- ❑ Receipts growth is consistent with the economic forecast.
- ❑ Growth slows to rates consistent with historical averages and slightly below growth in previous economic expansions.
- ❑ Outyear tax growth is not significantly impacted by policy actions contained in this Budget.
- ❑ Loophole closers, while important, are a relatively small part of the 2007-08 receipts base.

All Funds Tax Receipts Growth & Selected Economic Indicators

Fiscal Year	All Funds Receipts (1)	Percent Change	All Funds Inflation Adjusted	Percent Change	New York Personal Income	Percent Change	Inflation Adjusted New York Personal Income	Percent Change
2003-04	42,851.2	8.1	22,104.4	5.4	722.3	7.2	372.6	4.5
2004-05	48,597.9	13.4	24,206.3	9.5	752.8	4.2	375.0	0.6
2005-06	53,642.9	10.4	25,777.7	6.5	798.7	6.1	383.8	2.4
2006-07*	58,308.8	8.7	27,089.5	5.1	842.1	5.4	391.2	1.9
2007-08**	60,961.5	4.5	27,600.1	1.9	884.6	5.0	400.5	2.4
2008-09**	64,388.0	5.6	28,437.4	3.0	929.1	5.0	410.3	2.5
2009-10**	67,935.2	5.5	29,274.7	2.9	977.5	5.2	421.2	2.7
2010-11**	71,111.4	4.7	29,873.9	2.0	1,027.6	5.1	431.7	2.5
Percent Growth (75-76 to 05-06)		486.7		65.7		516.7		69.4
Historical Average (75-76 to 05-06)		6.2		1.8		6.3		1.8
Standard Deviation (75-76 to 05-06)		5.1		4.9		3.0		2.1
Average Forecast (07-08 to 10-11)		5.1		2.5		5.1		2.5
Average Recessionary Growth		4.6		(0.7)		5.2		(0.0)
Average Expansionary Growth		7.0		2.8		6.8		2.6

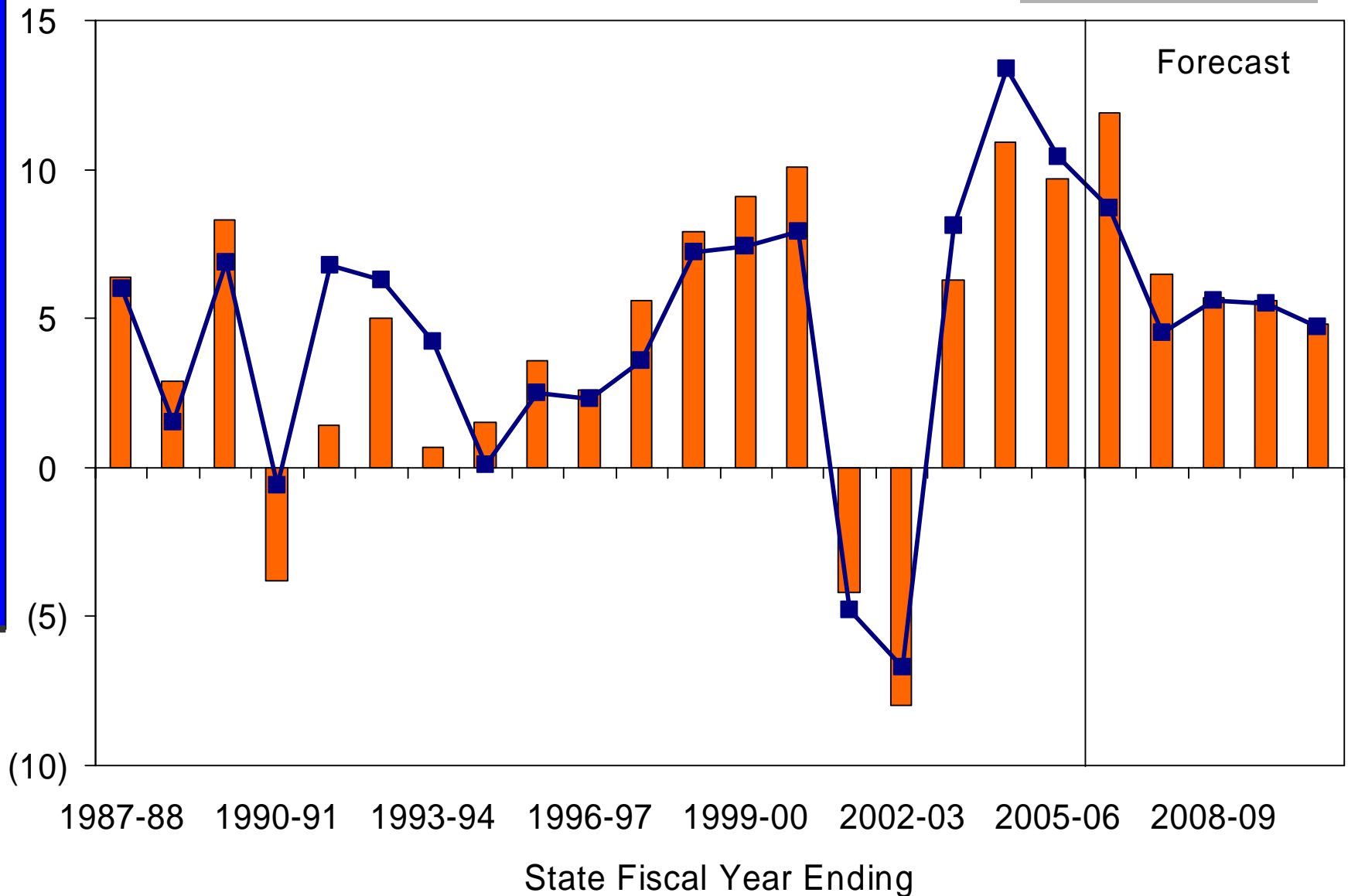
¹ Personal Income Tax defined as gross receipts less refunds - 2000-01 receipts reflect an adjustment for the timely payment of refunds.

² Receipts deflated by Consumer Price Index (CPI).

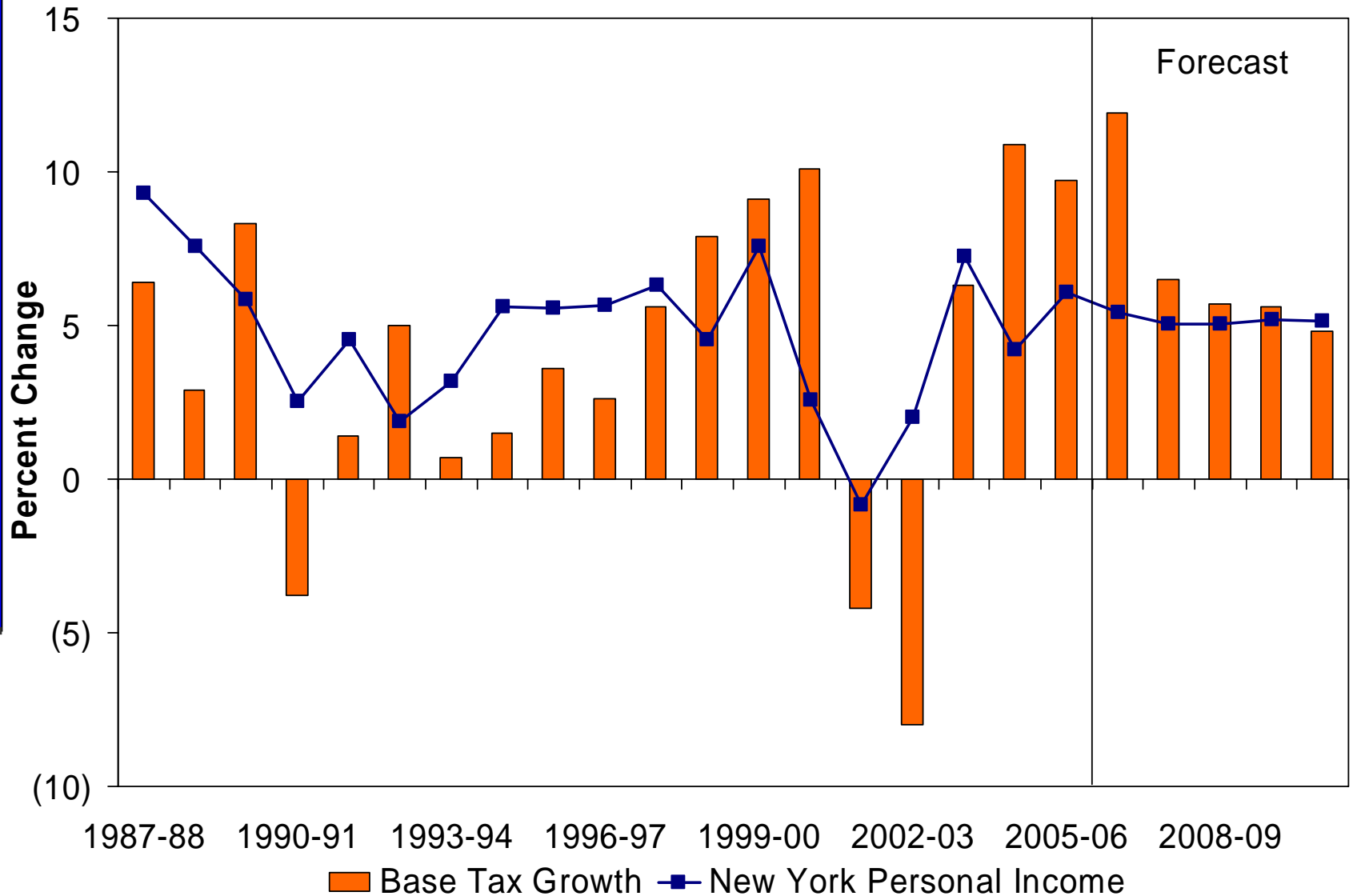
* Estimated

** Projected

All Funds Tax Receipts Growth & Base Growth



New York Personal Income Growth and Base Tax Growth



GASB 45 Status

- ❑ Total retiree health care liability is projected at \$47 billion, using a 4.1 percent discount rate.
- ❑ Annual Required Contribution is either \$3.7 billion without pre-funding, or \$2.4 billion with pre-funding -- compared to current costs of \$1.1 billion.
- ❑ Retiree health care costs have remained stable at roughly 38 percent of total health care spending in the past decade.
- ❑ The current plan does not assume pre-funding, pending further review and development of options by the State's Health Insurance Council.

Risks to the Financial Plan

- ❑ The Financial Plan is based on reasonable growth trends in revenues and moderate economic growth.

- ❑ Aside from the economy, other risks include:
 - Costs to fund new labor contracts (current contracts expire at the end of 2006-07).
 - Potential Federal penalties related to school supportive health services.
 - Proposed modification to Federal reimbursement methodologies for public hospitals and mental hygiene facilities.
 - Need to finalize transactions with NYC.

- ❑ Accordingly, the Budget proposes multi-year cost reductions and sets aside reserves to address uncertainties.

Reserve Levels

2007-08 Year-End Reserves (millions of dollars)	
Total Reserves	2,975
<i>Undesignated Reserves</i>	
Tax Stabilization Reserve Fund	1,025
New Rainy Day Reserve Fund	125
Contingency Reserve Fund	21
<i>Designated Reserves</i>	
Remaining 2006-07 Surplus	1,203
Debt Reduction Reserve Fund	250
Community Projects Fund	351

Budget includes initial deposit in the new 3 percent Rainy Day Reserve that can only be used to respond to an economic downturn or catastrophic event.

- Reserves are projected to total \$3 billion in 2007-08, or 5.6 percent of General Fund spending.
 - \$1.2 billion in undesignated reserves can only be used to cover an unanticipated deficit (\$1 billion), respond to an economic downturn (\$.1 billion), or for litigation costs (\$.02 billion).
 - \$1.8 billion in reserves are designated to reduce outyear budget gaps, reduce debt, and finance existing legislative commitments.

Positive Fiscal Impact on Local Governments

(Local Fiscal Year Ending in 2008 – millions of dollars)

	Total	NYC	School Districts	Counties	Other Cities	Towns & Villages
School Aid⁽¹⁾	1,415.0	637.0	778.0	0.0	0.0	0.0
Revenue Actions	379.8	344.0	0.0	35.8	0.0	0.0
-Close Tax Loopholes/Other Actions	380.8	374.0	0.0	6.8	0.0	0.0
-Increase NYC's Charge for Personal Income Tax Administration	(30.0)	(30.0)	0.0	0.0	0.0	0.0
-Enforce Native American Sales Tax	29.0	0.0	0.0	29.0	0.0	0.0
Transportation	28.9	18.0	0.0	10.9	0.0	0.0
-Include One-time Funding for Roosevelt Island Tram	11.3	11.3	0.0	0.0	0.0	0.0
-Increase Downstate Operating Assistance	17.6	6.7	0.0	10.9	0.0	0.0
Public Protection	6.3	0.0	0.0	1.3	0.0	5.0
-Add Funding for Justice Courts	5.0	0.0	0.0	0.0	0.0	5.0
-Upstate Crime-fighting Initiative	2.0	0.0	0.0	2.0	0.0	0.0
-Eliminate High Impact Incarceration Program	(0.7)	0.0	0.0	(0.7)	0.0	0.0
Municipal Aid	(297.1)	(347.9)	0.0	(3.4)	54.7	(0.5)
-Restructure AIM Program	(266.3)	(327.9)	0.0	0.0	58.7	2.9
-Target VLT Aid to High Need Municipalities	(30.8)	(20.0)	0.0	(3.4)	(4.0)	(3.4)
Welfare/Child Welfare	(18.4)	(5.4)	0.0	(13.0)	0.0	0.0
-Increase Local TANF Allocations	9.2	5.5	0.0	3.7	0.0	0.0
-Adjust OCFS Youth Facility Rates	(27.6)	(10.9)	0.0	(16.7)	0.0	0.0
Early Intervention	2.3	0.8	0.0	1.5	0.0	0.0
-Increase EI Insurance Reimbursement Revenue	2.3	0.8	0.0	1.5	0.0	0.0
Economic Development	(2.2)	0.0	0.0	(2.2)	0.0	0.0
-Eliminate Empire Zone Administration	(2.2)	0.0	0.0	(2.2)	0.0	0.0
Mandate Relief⁽²⁾	22.0	22.0	0.0	0.0	0.0	0.0
-Wicks Reform	8.0	8.0	--	--	--	--
-Tort/Litigation Reform	14.0	14.0	--	--	--	--
Total 2007-08 Executive Budget Actions	1,536.6	668.5	778.0	30.9	54.7	4.5
Continuing Medicaid Cap Savings⁽³⁾	640.3	343.3	0.0	297.0	0.0	0.0
Continuing FHP Takeover Savings	492.8	362.5	0.0	130.3	0.0	0.0
Grand Total	2,669.7	1,374.3	778.0	458.2	54.7	4.5

(1) The \$1.4 billion 2007-08 school year increase includes \$112 million in EXCEL building aid debt service payments but does not include \$1.45 billion in EXCEL capital assistance to be provided in 2007-08

(2) Mandate Relief Savings outside of NYC cannot be specifically quantified since savings vary based upon local government financing practices and unique circumstances

(3) Medicaid Cap Savings exclude proposed 2007-08 cost containment initiatives which – if enacted – will lower the State's cost for the cap

Budget Reform

- ❑ Total Rainy Day Reserves increased to 5 percent.
- ❑ Governor will submit budget amendments earlier.
- ❑ Legislature will convene open budget conference committees.
- ❑ Comptroller will set revenue forecast if no agreement is reached.
- ❑ Legislature must provide “sunshine” reporting before a budget vote.
- ❑ Eliminated legislative “lump sum” appropriations.
- ❑ Enacted Budget must be balanced.

Significant Fiscal Progress Has Been Made This Year But Continuation of Same Effort is Needed

- ❑ This Budget is the first step in a multi-year plan to restructure costs and services.
- ❑ It is based on prudent assumptions and focuses on improving the State's multi-year fiscal outlook through substantive reforms to key programs.
- ❑ While this budget addresses unmet needs and cuts the structural budget gap in half, achieving structural balance cannot be solved in one budget.
- ❑ Accordingly, the 2008-09 budget will include similar far-reaching reforms to the health care system and other State programs.