Closing Largest Budget Gap in History
Fiscal Timeline

- **March 2008**: Governor Paterson takes office. First official act is to make 3.35 percent cut to state agencies.

- **July 2008**: Live television address. Further 7 percent cut to state agencies. Hard hiring freeze. Calls August Special Session.

- **August 2008**: Special session results in $1.0 billion savings package over two years.

- **September 2008**: Lehman brothers collapses. Wall Street deterioration.

- **November 2008**: Second special session.

- **December 2008**: Governor Paterson delivers Executive Budget more than one month early.

- **February 2009**: Legislature enacts 2008-09 Deficit Reduction Plan.

- **April 2009**: Legislature enacts final 2009-10 budget to close deficit.
Deficit Quadrupled Over Course of the Year

Combined 2008-09 and 2009-10 Deficit

- Enacted Budget Report (Apr 08): $5.0B
- First Quarter Update (Jul 08): $6.4B
- Mid-year Update (Oct 08): $12.5B
- Executive Budget (Dec 08): $15.4B
- Final Gap (Apr 09): $20.1B

Legend
- 2008-09
- 2009-10

Even After 10% Agency Cuts ($2.0B)
Even After August Session ($1.0B)

Even After 10% Agency Cuts ($2.0B)
Budget Gap in Perspective

General Fund Budget Gap

- $5.0B
- $11.2B
- $20.1B

Years:
- 1995-96
- 1996-97
- 1997-98
- 1998-99
- 1999-00
- 2000-01
- 2001-02
- 2002-03
- 2003-04
- 2004-05
- 2005-06
- 2006-07
- 2007-08
- 2008-09
- 2009-10
$20.1B Gap-closing Plan

General Fund Gap-closing Plan (DRP + Enacted Budget)

- **Spending Reductions**: $6.5B
- **Revenue Actions**: $5.4B
- **Federal Aid (FMAP)**: ($5.0B FMAP) ($1.2B Education) $6.2B Total
- **Nonrecurr. Actions**: $2.0B

DRP includes $2.4 billion in actions (2008-09: $1.6 billion; 2009-10: $803 million)
All Funds Spending
and the Budget
All Funds Spending and the Budget

- All Funds growth has mistakenly obscured virtually every other fact about the budget.

- All Funds is not the right measure of state spending growth. Includes federal funds, which the state seeks to maximize to ensure New York gets its fair share.

- State Operating Funds best measure of cost to state taxpayers of operating government in a given year. (Spending financed by state residents through state taxes, fees, and other state revenues.)
Spending from State Treasury Nearly Flat

2009-10 State Budget Spending Growth

- General Fund - Current Services: 16.4%
- General Fund - Enacted: 0.6%
- State Operating Funds - Current Services: 12.8%
- State Operating Funds - Enacted: 0.7%
State Operating Funds Spending over Last Decade

-02-03 and 03-04 adjusted for payment deferrals related to tobacco securitization
Components of State Operating Funds Growth

$78.2B
State Agency Operations and State Local Assistance $73.6B
Debt Serv., $4.6B

$78.7B
State Agency Operations and State Local Assistance $73.5B
Debt Serv., $5.2B, +$0.6B

+0.7%
Components of All Funds Growth

- 2008-09: $121.6B
- 2009-10: $131.9B

- Federal Operating Aid
  - 2008-09: $36.6B
  - 2009-10: $44.4B
    - Increase: $7.8B

- Capital
  - 2008-09: $6.8B
  - 2009-10: $8.8B
    - Increase: $2.0B

- Debt Serv.
  - 2008-09: $4.6B
  - 2009-10: $5.2B
    - Increase: $0.6B

- State Agency Operations and State Local Assistance
  - 2008-09: $73.6B
  - 2009-10: $73.5B
    - Decrease: $0.1B
Extraordinary Changes Related to Difficult Economy
Pressures on State Spending

Two unique factors beyond state’s control related to economic downturn impacting spending this year:

- Extraordinary Stimulus Funding Passing Through Budget, State Has to Spend
- Rising Demands on Entitlement Services State Has to Provide (e.g. Medicaid Caseload)
Stimulus Funding Must be Spent

“So then you get the argument, well, this is not a stimulus bill, this is a spending bill. What do you think a stimulus is? That's the whole point.”

-President Barack Obama, 2/6/09, AP

***

- Must be spent. Meant to stimulate economy and preserve essential services at state level.

- Cannot be put in Rainy Day Reserve.

- Cannot be used to retire debt.
Governor Paterson Helped Lead Charge for Stimulus


- **October 2008**: Testifies before Congress urging passage of stimulus legislation.

- **December 2008**: Joins group of six governors urging incoming Obama administration to swiftly pass stimulus legislation.

- **January 2008**: Joins group of six governors to propose state fiscal stabilization fund for education.

- **February 2008**: Congress enacts stimulus legislation.
Why Governor Paterson Fought for Stimulus Funding

**Stimulus Initiative**

- Unemployment Benefits
- Funding for County Governments
- Funding for School Districts
- Infrastructure Projects
- Drinking Water Projects

**Why This Funding is Critical**

- Help for Laid off Workers
- Hold Line on Property Taxes
- Educate our Children
- Create Jobs
- Clean Water for Next Generation
$12.6 Billion in Federal Aid Over 2 Years

2008-09 Extraordinary Federal Aid ($1.7B)

- Flexible FMAP $1.3B
- Federal “Pass-through” $440M*

2009-10 Extraordinary Federal Aid ($10.9B)

- Flexible FMAP $3.7B
- Federal “Pass-through” $7.2B

*All $440M in 2008-09 represents County FMAP Share
Allocation of Flexible FMAP Funding

2008-09 and 2009-10 FMAP Funding ($5.0 billion)

- Reject Tax and Fee Actions $1.3B
- Address Revenue Deterioration $1.2B
- Health Care Restorations $1.0B
- Medicaid Caseload $750M
- HCRA Gap $282M
- NYC AIM $328M
- Other* $126M for Human Service Restorations, $38M Mental Hygiene Restorations
### Extraordinary Federal Aid “Pass-through”

<table>
<thead>
<tr>
<th>Category</th>
<th>2009-10</th>
</tr>
</thead>
<tbody>
<tr>
<td>County FMAP Funding</td>
<td>$1.4B</td>
</tr>
<tr>
<td>Mandated Education Restorations</td>
<td>$1.2B</td>
</tr>
<tr>
<td>Title I + IDEA (Direct Aid for School Districts)</td>
<td>$850M</td>
</tr>
<tr>
<td>State and Local Highways</td>
<td>$459M</td>
</tr>
<tr>
<td>Clean Water/Drinking Water Projects</td>
<td>$287M</td>
</tr>
<tr>
<td>Labor Programs</td>
<td>$272M</td>
</tr>
<tr>
<td>TANF Funding</td>
<td>$272M</td>
</tr>
<tr>
<td>Weatherization</td>
<td>$263M</td>
</tr>
<tr>
<td>TCAP (Low-income Housing)</td>
<td>$253M</td>
</tr>
<tr>
<td>Hospital DSH Payments</td>
<td>$192M</td>
</tr>
<tr>
<td>School Improvement Grants</td>
<td>$127M</td>
</tr>
<tr>
<td>All Other</td>
<td>$1.6B</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$7.2B</strong></td>
</tr>
</tbody>
</table>
Dramatic Spike in Medicaid Caseload Projected in Tough Economy

Caseload will drive costs above Executive Budget estimates of $532M in 08-09 & $1.4B 2009-10.
Important Steps Taken
Long-overdue Reforms and Initiatives

- Hospital Reimbursement Reform
- Bottle Bill – (First Proposed 2000)
- Rockefeller Drug Law Reform (Enacted 1973)
- Close Underutilized Prisons (First Proposed 2002)
- Welfare Grant Increase (First Since 1990)
- Empire Zone Reform
- $6.5 Billion in Spending Reductions
Difficult Choices to Close $20.1 Billion Deficit

- $2.3 billion Health Care Savings Plan (Largest in History)
- Eliminate STAR Rebate Check (Preserves $3.5 billion Exemption Program)
- Workforce Reduction Plan of 8,700 Employees
- Extend Foundation Aid and UPK Phase-in from Four Years to Seven Years
- Maintain Foundation Aid and UPK at 2008-09 Levels for 2 Years
- Reduce Funding for Library Aid, After School Programs, Public Broadcasting
- Hold AIM payments flat outside NYC
- Close prisons, youth facilities, other state facilities
- Did not rely on new debt to balance the budget
Significant Strides Toward Addressing Multi-year Deficits

Projected General Fund Deficits

Cuts four-year deficit by 71%
$85.2B to $24.6B
More Work Still Ahead
Difficult Economic Climate

- Data released or revised since January 2009 indicates that national and state economic conditions deteriorated substantially over the last six months. The Enacted Budget reflects the impact of this deterioration in its updated economic forecast.

- DOB projects the U.S. economy will contract 2.9 percent in 2009, the largest annual decline in the postwar period – double rate of decline projected in Executive Budget.

- New York Adjusted Gross Income (AGI) losses are now projected to total $52 billion in 2008 and $53 billion in 2009 – or more than double the last recession. ($28 billion decline in 2001, $21 billion in 2002).

- The Budget Division projects a decline in New York wages for 2009 of 4.2 percent, the largest annual decline in history.

- End of national recession projected sometime in the third quarter of 2009, making it the longest recession since the Great Depression.
More Work Still Ahead

- Reduced multi-year deficit by over 70 percent from $85.2B to $24.6B. But cannot solve entire long-term structural deficit in a single year without massive disruptions to critical services.

- This year’s budget made important progress toward reforming government, addressing New York’s fiscal difficulties.
  - Addressed immediate issue of closing largest budget gap in history
  - Instituted long over-due reforms that will provide savings for years to come
  - Dramatically reduced multi-year deficits by over 70 percent

- As last year has shown, there are no guarantees in the current climate. But we believe we have positioned ourselves well for the year ahead.

- This budget helped put New York on the road to recovery. But fiscal discipline still needed in the future.