Governor David A. Paterson
January 19, 2010
Overview

- Current Economic and Fiscal Situation
- 2010-11 Executive Budget Overview
- Eliminating the Budget Deficit
- Long-term Reforms
Current Economic and Fiscal Situation
National Context

- At this point, 41 states face FY11 deficits estimated to exceed $180B

- 2010-11 Executive Budget does not assume extension of stimulus funding

*FY Cumulative Budget Deficits ($ Billions)*

<table>
<thead>
<tr>
<th>Year</th>
<th>Deficit ($ Billions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>-110B</td>
</tr>
<tr>
<td>2010</td>
<td>-193B</td>
</tr>
<tr>
<td>2011</td>
<td>-180B</td>
</tr>
<tr>
<td>2012</td>
<td>-120B</td>
</tr>
</tbody>
</table>

*Center on Budget and Policy Priorities (CBPP) estimates*
Recovery Will Take Years

Will Not Return to Pre-crisis Levels Until 2013

$8B Revenue
Recovery Will Take Years

Wall Street Bonuses ($ Billions)

$1.5B Revenue
Recovery Will Take Years

Capital Gains Realizations ($ Billions)

$6.0B Revenue
Continued High Unemployment

- Unemployment rate above 8% through 2011
- Unemployment rate above 7% through 2014
- New York has lost 229,000 jobs since the start of the downturn. It will take until 2014 to reach prior levels of employment at previous peak
### Unsustainable Spending

#### State Operating Funds Growth
Prior to 2008-09

- **7.9% Average Increase**
  - Prior to Gov. Paterson Taking Office

<table>
<thead>
<tr>
<th>Year</th>
<th>Growth Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>03-04</td>
<td>10.3%</td>
</tr>
<tr>
<td>04-05</td>
<td>4.9%</td>
</tr>
<tr>
<td>05-06</td>
<td>8.5%</td>
</tr>
<tr>
<td>06-07</td>
<td>10.9%</td>
</tr>
<tr>
<td>07-08</td>
<td>4.8%</td>
</tr>
</tbody>
</table>

#### Projected During Financial Plan Period
(09-10 to 13-14)

- **Next 5 Years, Spending Projected to Exceed Revenue by $61B**

<table>
<thead>
<tr>
<th>Year</th>
<th>Spending (Before Actions)</th>
<th>Receipts (w/ Surcharge)</th>
</tr>
</thead>
<tbody>
<tr>
<td>09-10</td>
<td>7.5%</td>
<td>3.1%</td>
</tr>
</tbody>
</table>

-9-
Current Fiscal Situation

- 09-10 DRP left $500M deficit unsolved

- Combined with $6.9B 10-11 deficit, imbalance of $7.4B

- $7.4B deficit addressed comprehensively in 10-11 fiscal year

- Structural imbalance: $61B
2010-11 Executive Budget Overview
Guiding Principles

1. Substantial, recurring spending reductions, every area of the budget, eliminate deficit

2. Critical reforms, build toward long-term economic and fiscal recovery
Overview of $7.4B Gap-closing Plan

- **Recurring Actions:** 92% of plan

- **Recurring Spending Cuts:** 74% of plan

- **Taxes/Fees:** Less than 14% of the plan. Offset deeper cuts to health care

- **Plan cuts structural deficit in half**

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![Pie chart showing the breakdown of the $7.4B gap-closing plan.]

- Recurring Spending Reductions $5.5B
- Tax/Fee Increases $1.0B
- Other Rev. Actions $430M
- Non-Recurring $565M

2010-11 Gap-closing Plan: $7.4 Billion
Spending Growth Below Inflation/Spending Cap

- State Operating Funds: 0.9%
- All Funds: 0.6%

2.0% Inflation/Spending Cap
# Extraordinary Growth in Fixed Costs

Past obligations, large increases in fixed costs

- Short-sighted debt restructuring (Dedicated Highway Bridge Trust Fund, 2005)
- Debt for past capital spending
- Fringe benefit includes 33% incr. in pension costs

<table>
<thead>
<tr>
<th>Category</th>
<th>Dollar Change</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>State Op. Funds</td>
<td>$745M</td>
<td>0.9%</td>
</tr>
<tr>
<td>Debt Service</td>
<td>$844M</td>
<td>17.1%</td>
</tr>
<tr>
<td>Fringe Benefits</td>
<td>$437M</td>
<td>9.9%</td>
</tr>
<tr>
<td>State Agencies</td>
<td>($453M)</td>
<td>(2.8%)</td>
</tr>
<tr>
<td>Local Assist.</td>
<td>($83M)</td>
<td>(0.2%)</td>
</tr>
</tbody>
</table>
Address Growing Fixed Costs

1. *Tier V – Pension Reform*
   - $35B in savings over next 30 years

2. *Capital/Debt Reduction Plan*
   - Reduce $1.8B in planned capital/debt over next five years
Eliminating the Deficit
Cutting the Bureaucracy, Taxpayer Accountability

In 2008-09 and 2009-10, total of $1.5B in State agency cuts

2010-11 Exec. Budget additional $1B agency savings, brings total to $2.5B

New actions:

- Further across-the-board cut: $500M
- Save $250M from negotiated workforce actions
  - Non-union M/C salary increase (4%) rescinded for 2nd consecutive year
- Smarter, smaller, less costly government, shared services, Office of Taxpayer Accountability
- Right-size underutilized youth facilities and prisons
- Smaller Executive workforce, will be down 5,775 from 2008 to 2011

Workforce Subject to Gubernatorial Management

<table>
<thead>
<tr>
<th>Year</th>
<th>Workforce</th>
<th>Annual Savings</th>
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</thead>
<tbody>
<tr>
<td>2007-08</td>
<td>137,675</td>
<td></td>
</tr>
<tr>
<td>2009-10</td>
<td>132,525</td>
<td>$457M</td>
</tr>
<tr>
<td>2010-11</td>
<td>131,900</td>
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</tr>
</tbody>
</table>

Annual Savings: $457M
School Aid
New York School Spending

Legend

New York
US Average

Source: National Center for Education Statistics, 2006-07 Data
School Aid Savings Plan

- School Aid reduction, $1.1B (5%) from prior year

- $20.5B still represents:
  - $6.1B (42%) incr. from 03-04
  - $3.4B above inflation from 03-04

- Extend Foundation Aid phase-in from 7 years to 10 years, maintain current-year levels for additional year
  - Maintain commitment, but past rate of increase not sustainable with projected structural deficit
School Aid in Historical Perspective

School Aid (School Year)

141% Increase, $12B, Twice Rate of Inflation

- 1991-92 to 2010-11
- 8.0 to 22.0
School Aid Reduction in Context

- Year-to-year cut represents 2% of statewide school district spending (State + Local)

- School districts have $1.5B in reported undesignated reserves

- Mandate reform agenda, full Wicks repeal for school districts
Health Care
Medicaid and Health Care Overview

- $1.9B Gap-closing Plan
  - $1.0B in savings
  - $923M taxes and assessments, revenues prevent deeper cuts to health care

- Reduces growth in Medicaid program

- Caseload projected to increase by over 400,000 (10%) in 10-11

![Total Medicaid Spending Chart]

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Medicaid Spending</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009-10</td>
<td>$50.6B</td>
</tr>
<tr>
<td>2010-11</td>
<td>$53.2B</td>
</tr>
<tr>
<td>Before</td>
<td>$50.6B</td>
</tr>
<tr>
<td>After</td>
<td>$51.5B</td>
</tr>
<tr>
<td>Actions</td>
<td></td>
</tr>
</tbody>
</table>

- 2010-11 Before Actions:
  - $2.6B
  - 5.1%

- 2010-11 After Actions:
  - $899M
  - 1.8%
Cracking Down on Medicaid Fraud

- Increase fraud recovery target by $300M from 2009-10 Enacted Budget levels
  - New civil penalties
  - Increased collaboration with other agencies: Tax Dept, DOL, and others to root out fraud and abuse
- Will reach record levels of $1.2 billion in 2010-11

Medicaid Fraud Recoveries

Record Medicaid Fraud Recoveries

<table>
<thead>
<tr>
<th>Year</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>06-07</td>
<td>$300M</td>
</tr>
<tr>
<td>07-08</td>
<td>$505M</td>
</tr>
<tr>
<td>08-09</td>
<td>$695M</td>
</tr>
<tr>
<td>09-10</td>
<td>$870M</td>
</tr>
<tr>
<td>10-11 (Enact.)</td>
<td>$1.2B</td>
</tr>
</tbody>
</table>
A Healthier New York

- These taxes will save lives, lower health care costs
- Revenue dedicated to health care. Prevents deeper cuts to health care.

**Increase Cigarette Tax**
- Reduce cigarette use by 14 percent
- Prevent 100,000 kids from smoking, 50,000 adult smokers quit

**Tax Sugared Beverages**
- Reduce consumption of unhealthy beverages by 15 percent

<table>
<thead>
<tr>
<th>Health Risks</th>
<th>Smoking</th>
<th>Obesity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deaths Per Year</td>
<td>400,000 (25,000 NYS)</td>
<td>112,000</td>
</tr>
<tr>
<td>Annual Cost to NY Health Care</td>
<td>$8.2 Billion</td>
<td>$7.6 Billion</td>
</tr>
<tr>
<td>Health Risks</td>
<td>Heart Disease, Lung Cancer, Obstructive Lung Disease, Aneurysm, Stroke</td>
<td>Heart Disease, Diabetes, High Blood Pressure, High Cholesterol, Stroke</td>
</tr>
</tbody>
</table>
Preventing Tax Evasion

- Address issue of tax evasion. Ensure that cigarette tax prevents smoking, improves health care

- Department of Taxation and Finance (DTF) will rescind Advisory Opinion of forbearance on sale of unstamped products to Indian reservations

- DTF will promulgate regulations for public comment – will take six months

- Allows State to seek lifting of injunction that prevents enforcement of law prohibiting sale of unstamped cigarettes

- Budget does not rely on these revenues to close gap. Regulations will take six months
Difficult Choices
Difficult Choices

- $79M cut to the Environmental Protection Fund from 09-10 Enacted Budget, includes moratorium on land acquisition

- Eliminate NYC AIM, targeted AIM reduction to other municipalities

- $75 cut to each TAP award

- Cut to Community College Base Aid ($56M)

- Delay implementation of Public Assistance grant increase

- Cuts to homeless programs, supportive housing, other TANF programs ($69M)
Key Reforms
Current SUNY/CUNY Tuition System

- Tuition tied up in State budget process
- Tuition hiked sporadically, used to help address budget deficits
- **Attend college during good economic times**
  - No tuition increase
- **Attend college during a recession**
  - Tuition increase
Higher Education Reforms

■ **Rational Tuition: Predictable and Fair for Families**
  - Move tuition outside budget process
  - SUNY/CUNY effectively determine tuition, based on higher ed. inflation
  - Differential tuition based on each campus’ unique strengths

■ **Reduce Burdensome and Costly Overregulation**
  - Greater freedom related to procurement, land use, construction
  - Flexibility for SUNY/CUNY. Adapt and thrive in innovation economy. Better able to capitalize on public private partnerships
  - SUNY estimate: Reforms will create more than 2,200 faculty positions, 7,000 staff positions, 43,000 construction jobs
Mandate Reform Agenda

**Relief for Property Taxpayers, Local Governments**

- Prevent New Unfunded Mandates
  - 4-year Mandate Moratorium

- Reform Existing Mandates
  - Over 100 Mandate Reform Initiatives ($1B over 3 Years)
  - Repeal Wicks Law School Districts ($200M Capital)
Bold Steps to a New Economy

- **Excelsior Jobs Program**
  - Targeted to strategic industries. Demands accountability. Companies must **Create Jobs**

- **New Technology Seed Fund** ($25M)
  - Bring cutting-edge research to market, **Create Jobs**

- **Small Business Revolving Loan Fund** ($25M)
  - Access to credit, small businesses can expand and **Create Jobs**

- **Innovation Economy Matching Grants** ($100M over 5 Years)
  - Promote research innovations that will **Create Jobs**
Path to Property Tax Relief/Structural Balance

<table>
<thead>
<tr>
<th>FY</th>
<th>Cuts Req. by Cap</th>
<th>Deficit</th>
<th>Surplus</th>
<th>Avg. Prop. Tax Relief</th>
<th># Recipients</th>
</tr>
</thead>
<tbody>
<tr>
<td>11-12</td>
<td>$8.4B</td>
<td>($6.3B)</td>
<td>$2.1B</td>
<td>$1,000-1,200</td>
<td>More than One Million</td>
</tr>
<tr>
<td>12-13</td>
<td>$12.2B</td>
<td>($10.5B)</td>
<td>$1.7B</td>
<td>$1,000-1,100</td>
<td></td>
</tr>
<tr>
<td>13-14</td>
<td>$15.4B</td>
<td>($12.2B)</td>
<td>$3.2B</td>
<td>$1,000-1,400</td>
<td></td>
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</table>

**Hold Spending to Inflation Cap** → **Surplus** → **Progressive Circuit-breaker**
Further Executive Budget Information

**E-budget Initiative**

- Eliminate full printed copy of Budget Books. Saves $75,000 and 5.5 million sheets of paper annually

- Continue to print summary briefing materials for legislators and press

**Continued Transparency**

- More information than ever. Thousands of pages available on DOB’s website ([www.budget.state.ny.us](http://www.budget.state.ny.us))

- Budget books, legislation, briefing materials, detailed lists of gap-closing actions, additional documents are online
New York

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