2012-13 Executive Budget
Governor Andrew M. Cuomo

January 17, 2012
Robert L Megna, Director of the Budget
I. Economic Overview
II. Financial Plan Summary
III. Reforms
I. Economic Overview
Outlook for Real U.S. GDP Growth and Inflation

Note: Displayed values pertain to GDP growth.
Source: Moody’s Analytics; DOB staff estimates.
Economic forecasters have been continuously revising their outlooks for 2012 downward; on average, forecasts for real 2012 U.S. GDP growth have fallen from over 3% to about 2%.

Source: Global Insight; Macroeconomic Advisors; Blue Chip.
Note: Shaded areas represent U.S. recessions.
Source: Moody's Analytics.
Single Family Housing Market Still Weak

1996-2007 Avg. household formation rate

2008-2010 Avg. household formation rate

Home buyers credit expires

Source: Moody’s Analytics.
Weak Wall Street Profits Lead to a Decline in Bonuses

Note: Values for profits pertain to the prior calendar year; estimates for 2011 assume that profits for the fourth quarter will be equal to the third quarter.
Source: NYS Department of Labor; SIFMA; DOB staff estimates.

- Securities Industry profits are expected to decline over 75 percent during 2011. The Finance sector bonuses are expected to decline 31.8 percent during SFY2011-12.
Finance Sector Has an Outsized Impact on State Revenue

- The finance sector has 5% of total employment but about 20% of total wages.

Source: NYS Department of Labor; DOB staff estimates.
NYS Private Sector Employment Dynamics

Source: NYS Department of Labor; DOB staff estimates.
Office Vacancy Rates

Source: Moody’s Analytics; CBRE.
The Indicators of New York State’s Tax Base

Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2010 liability and NYSAGI data are preliminary.
Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.
Forecast Risks

- The global economy is slowing
- Financial markets becoming increasingly volatile
- Labor market yet to provide momentum to the U.S. economy
- Households still deleveraging
- Housing market still weak with risk from foreclosures
- Energy prices on the rise again
- Fiscal policy uncertainty a negative for the economic outlook
II. Financial Plan Summary
State Operating Funds
2012-13 Executive Budget - $88.7 Billion

Where it Comes From
- Taxes 73%
- Misc Receipts/Other 27%

Where it Goes
- Medicaid (All Agencies)* 25%
- School Aid 22%
- Agency Operations 22%
- Other Local Assistance 24%
- Debt Service 7%

* Includes local assistance, state operations and fringe benefits.
All Funds
2012-13 Executive Budget - $132.5 Billion

Where it Comes From
- Taxes: 49%
- Federal Grants: 31%
- Misc Receipts/Other: 20%

Where it Goes
- Medicaid (All Agencies)*: 36%
- School Aid: 18%
- Agency Operations: 12%
- Other Local Assistance: 24%
- Capital: 5%
- Debt Service: 5%

* Includes local assistance, state operations and fringe benefits.
2012-13 Executive Budget Overview

- Budget gap for 2012-13 was $3.5 billion – upper end of range in Mid-Year Update
- Tax reform reduced the budget gap by $1.5 billion, leaving $2.0 billion that must be closed by the Executive Budget
- Gap-closing plan of $2 billion consists entirely of proposals to control spending
- Total State Operating Funds (“SOF”) spending growth is held to 1.9%
  - Local aid grows at 2.6%
  - Agency operations decline by 0.4%
- School Aid and Medicaid grow at 4%, consistent with 2011-12 caps
- Budget leaves a 2013-14 gap of $715 million, equal to about 1.2% of projected General Fund receipts -- by comparison, the 2011-12 gap equaled about 18% of receipts
Budget Gaps: Before Gap-Closing Plan

- State Operating Funds Spending
- Available Resources

Dollars in billions.

- **2012**: $86.9
- **2013**: $87.3
- **2014**: $90.7
- **2015**: $92.5
- **2016**: $100.7

- **2012 Gap**: $90.8
- **2013 Gap**: $94.3
- **2014 Gap**: $97.5
- **2015 Gap**: $100.7

**Percentage Changes**:
- **2013**: 3.9%
- **2014**: 3.4%
- **2015**: 3.3%
- **2016**: 4.5%
## Annual Growth
### Local Assistance Programs (SOF)
#### Before and After Executive Budget

<table>
<thead>
<tr>
<th></th>
<th>BEFORE</th>
<th>AFTER</th>
</tr>
</thead>
<tbody>
<tr>
<td>LOCAL ASSISTANCE</td>
<td>3.9%</td>
<td>2.6%</td>
</tr>
<tr>
<td>SCHOOL AID (School Year Basis)</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>MEDICAID</td>
<td>4%</td>
<td>4%</td>
</tr>
<tr>
<td>SOCIAL SERVICES</td>
<td>7.3%</td>
<td>2.1%</td>
</tr>
<tr>
<td>MENTAL HYGIENE</td>
<td>7.7%</td>
<td>-0.1%</td>
</tr>
<tr>
<td>HIGHER EDUCATION</td>
<td>3.3%</td>
<td>2.2%</td>
</tr>
</tbody>
</table>
## Annual Growth (SOF) Executive Agencies

<table>
<thead>
<tr>
<th>Category</th>
<th>2012-13 Annual Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>STATE OPERATIONS (PS/NPS ONLY)</td>
<td>-1.0%</td>
</tr>
<tr>
<td>CORRECTIONS</td>
<td>-3.3%</td>
</tr>
<tr>
<td>ENVIRONMENTAL CONSERVATION</td>
<td>-1.0%</td>
</tr>
<tr>
<td>HEALTH</td>
<td>1.3%</td>
</tr>
<tr>
<td>MENTAL HEALTH</td>
<td>-0.2%</td>
</tr>
<tr>
<td>OPWDD</td>
<td>-0.6%</td>
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</table>
Budget Gaps: After Gap-Closing Plan

<table>
<thead>
<tr>
<th>Year</th>
<th>State Operating Funds Spending</th>
<th>Available Resources</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$87.0</td>
<td>$88.7</td>
</tr>
<tr>
<td>2013</td>
<td>$92.6</td>
<td>$91.9</td>
</tr>
<tr>
<td>2014</td>
<td>$95.8</td>
<td>$92.8</td>
</tr>
<tr>
<td>2015</td>
<td>$99.4</td>
<td>$95.7</td>
</tr>
<tr>
<td>2016</td>
<td>$3.7 Gap</td>
<td>$3.0 Gap</td>
</tr>
</tbody>
</table>

Dollars in billions.
Gap-Closing Plan for 2012-13
Dollars in Billions

SPENDING CONTROL: $2.0
Agency Operations: $1.1
Local Assistance: $0.8
Debt Management: $0.1

TAX REFORM/JOB GROWTH: $1.5
Rate/Bracket Reform: +$1.9
MTA Payroll Tax: -$0.25
Tax Credits: -$0.045
Programs: -$0.1

Spending Control 57%
Tax Reform/Job Growth 43%
## SPENDING CONTROL -- $2B

<table>
<thead>
<tr>
<th>SPENDING CONTROL ($BIL)</th>
<th></th>
</tr>
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<tbody>
<tr>
<td><strong>Agency Spending Controls</strong></td>
<td>1.14</td>
</tr>
<tr>
<td>Agency/Independents</td>
<td>0.84</td>
</tr>
<tr>
<td>Enterprise/Consolidations</td>
<td>0.10</td>
</tr>
<tr>
<td>Health Insurance Rate Renewal</td>
<td>0.13</td>
</tr>
<tr>
<td>Fringe Benefits (New Proposals)</td>
<td>0.07</td>
</tr>
<tr>
<td><strong>Local Assistance Spending Controls</strong></td>
<td>0.76</td>
</tr>
<tr>
<td>Human Services COLA/Trends</td>
<td>0.15</td>
</tr>
<tr>
<td>Mental Hygiene</td>
<td>0.17</td>
</tr>
<tr>
<td>Social Services/Housing</td>
<td>0.14</td>
</tr>
<tr>
<td>Public Health</td>
<td>0.11</td>
</tr>
<tr>
<td>All Other Local Programs</td>
<td>0.19</td>
</tr>
<tr>
<td><strong>Debt Management</strong></td>
<td>0.14</td>
</tr>
<tr>
<td>Investments/New Initiatives</td>
<td>(0.07)</td>
</tr>
<tr>
<td><strong>Total Spending Controls</strong></td>
<td>1.97</td>
</tr>
</tbody>
</table>
Annual Spending Growth

- State Operating Funds: 1.9%
- All Funds: -0.2%
# State Operating Funds Growth = 1.9%

## State Operating Funds Total

<table>
<thead>
<tr>
<th>State Operating Funds Total</th>
<th>FY 2012 Current</th>
<th>FY 2013 Proposed</th>
<th>Ann. Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>TOTAL STATE OPERATING FUNDS</td>
<td>87,048</td>
<td>88,734</td>
<td>1,686</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>1.9%</td>
</tr>
<tr>
<td>Local Assistance Grants</td>
<td>57,548</td>
<td>59,061</td>
<td>1,513</td>
</tr>
<tr>
<td>School Aid (Fiscal Year)</td>
<td>19,677</td>
<td>20,002</td>
<td>325</td>
</tr>
<tr>
<td>Medicaid (DOH)</td>
<td>15,280</td>
<td>15,859</td>
<td>579</td>
</tr>
<tr>
<td>Transportation</td>
<td>4,257</td>
<td>4,398</td>
<td>141</td>
</tr>
<tr>
<td>All Other</td>
<td>18,334</td>
<td>18,802</td>
<td>468</td>
</tr>
<tr>
<td>State Operations/Fringe Benefits</td>
<td>23,623</td>
<td>23,519</td>
<td>104</td>
</tr>
<tr>
<td>Personal Service</td>
<td>11,876</td>
<td>11,964</td>
<td>88</td>
</tr>
<tr>
<td>Non-Personal Service/Other</td>
<td>5,211</td>
<td>5,167</td>
<td>44</td>
</tr>
<tr>
<td>Pension Contribution</td>
<td>1,680</td>
<td>1,574</td>
<td>106</td>
</tr>
<tr>
<td>Employee/Retiree Health</td>
<td>3,291</td>
<td>3,240</td>
<td>51</td>
</tr>
<tr>
<td>Other Fringe Benefits</td>
<td>1,565</td>
<td>1,574</td>
<td>9</td>
</tr>
<tr>
<td>Debt Service</td>
<td>5,872</td>
<td>6,149</td>
<td>277</td>
</tr>
<tr>
<td>Capital Projects</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

1. School Aid increase if $805M (4%) on School Year Basis.
2. Medicaid excludes NPS costs (shown in State Operations) and includes administrative takeover savings. Excluding these factors, Medicaid spending grows by 4% over 2011-12.
**NY Works Fund**

<table>
<thead>
<tr>
<th>Source</th>
<th>Amount</th>
<th>Source</th>
</tr>
</thead>
</table>
| State    | $1.3 billion | $723 million new capital  
$600 million existing capital accelerated |
| Federal  | $1.7 billion | Combination new and accelerated Federal aid  
(e.g. dam & municipal water systems) |
| Authority| $5 billion  
$4 billion | New Tappan Zee Bridge  
Existing capital accelerated (e.g. NYSERDA & PA) |
| Private  | $3 billion  | Leveraging new private investment |
| TOTAL    | $15 billion | |


A Fundamental Change in New York’s Spending Habits

One Year Ago

Today

$85.1

$87.0

$88.7

$92.6

$95.8

$99.4

$113.0

$108.1

$102.4

$95.0

$85.0
Declines in Two-Year Budget Gaps
2011-12 and 2012-13

2011-12 Budget

- Before: $14.9
- After: $3.5
- Reduction: $21.4 B (86%)

2012-13 Budget

- Before: $3.6
- After: $0.7
- Reduction: $6.4 B (90%)

FY 2012  FY 2013

FY 2013  FY 2014
III. Reforms
Enterprise Shared Services
8 to 1 Return on Investment
$110 million in cost reductions in 2012-13

<table>
<thead>
<tr>
<th>$ in Thousands</th>
<th>Five Year Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Required Investments:</strong></td>
<td>(134,757)</td>
</tr>
<tr>
<td><strong>Savings:</strong></td>
<td></td>
</tr>
<tr>
<td>Procurement</td>
<td>755,000</td>
</tr>
<tr>
<td>Real Estate</td>
<td>69,000</td>
</tr>
<tr>
<td>Business Services</td>
<td>115,000</td>
</tr>
<tr>
<td>Information Technology</td>
<td>160,000</td>
</tr>
<tr>
<td><strong>Savings Subtotal</strong></td>
<td>1,099,000</td>
</tr>
<tr>
<td><strong>NET ANNUAL SAVINGS</strong></td>
<td>964,243</td>
</tr>
</tbody>
</table>
Mergers and Consolidations

• Division of Lottery and Racing and Wagering Board
• Civil Service and the Governor’s Office of Employee Relations
• Department of Tax and Finance will assume the debt collection functions of HESC
• Department of Transportation will consolidate regional offices
• Management of Belleayre Ski Center will move from DEC to the Olympic Regional Development Authority
• Eliminate more than 25 boards and commissions that are no longer active
• Use flexible State Operations appropriation language to enable further consolidations
Single Contract Reform

The existing grant application and contract process is overly complex, the payment system is cumbersome and causes delays and there is no relation to outcome-based performance standards

Currently:
- 20 agencies use over 50 independent systems or databases to manage the grant contracting process
- 71 percent of new and renewal grant contracts with not-for-profits were approved after the start or renewal date

Executive Budget Recommendations:
- Develop standard Master Contract for Grants
- Develop single application to apply for grants
- Implement a Statewide Grants Management Portal to standardize grant application, contract, payment and reporting activities
- Implement rigorous vendor performance management process that holds vendors accountable against the Service Level Objectives
Controlling Executive Compensation and Administrative Costs in Service Providers

One-third of the State budget goes to non-profit and for-profit agencies to provide services on behalf of the State

- At least 85 percent of every public dollar will be spent on direct services, not administration
- Reimbursement for any executive’s compensation will be capped at $199,000
- Excess compensation will be a basis for rejection of a provider
Local Medicaid Relief
Saves Counties and NYC $1.2 billion over 5 years

Executive Budget Recommendations:
• The State will take over growth in the local share or Medicaid expenses
• Phased takeover of the local government Medicaid administration expense

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</thead>
<tbody>
<tr>
<td>Local Cap Growth</td>
<td>3%</td>
<td>2%</td>
<td>1%</td>
<td>0%</td>
</tr>
<tr>
<td>Local Benefit/State Cost</td>
<td>$0</td>
<td>$61.1</td>
<td>$187.0</td>
<td>$369.6</td>
</tr>
</tbody>
</table>
Pension Reform
Save Public Employers $83 billion over 30 years
Plus $30 billion in savings over 30 years for NYC

• Increase salary contributions from 3 percent to 4, 5, or 6 percent based on salary
• Implement a risk/reward system which would tie contributions to economic conditions
• Raise the retirement age from 62 to 65
• Decrease the pension multiplier and exclude overtime for the formula to calculate final average salary
• Create a voluntary new defined contribution option
Pre-School Special Education Reforms

State costs have doubled over the past ten-years
School districts make most programmatic decisions but do not share in costs

Pre-School Special Education reforms will save counties $20 million in the 2013 local fiscal year

Executive Budget recommendations:

• Assign any county growth (excluding NYC) above the 2011-12 school year equally to the State, county and school district
• Current split is 59.5 percent State, 40.5 percent county
• Eliminate potential conflicts of interest in the current evaluation system
Early Intervention Reforms

Significant fiscal and administrative relief without impacting services

Early Intervention Reforms will save local governments $99 million over five years

Executive Budget recommendations:

• Expand insurance coverage to include EI service providers
• Centralize fiscal oversight through a fiscal intermediary
• Reduce local costs and improve timeliness of State reimbursement

Total Cost of Current System is $643 million

- Medicaid (Federal) 27%
- Medicaid (State) 22%
- Non-Medicaid State Share 26%
- Local Share 22%
- Insurance 3%
$805 Million School Aid Increase

$290 million for General Support
Targeted to high need school districts

$265 million for Reimbursable Costs
Reimburse expenses like school construction and transportation

$250 million for Performance Grants
Additional aid for results in academic gains and management efficiency
Allocated School Aid Increase is Targeted to High Need School Districts
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