



NEW YORK

2009-10 Executive Budget

Governor David A. Paterson

December 16, 2008

Overview

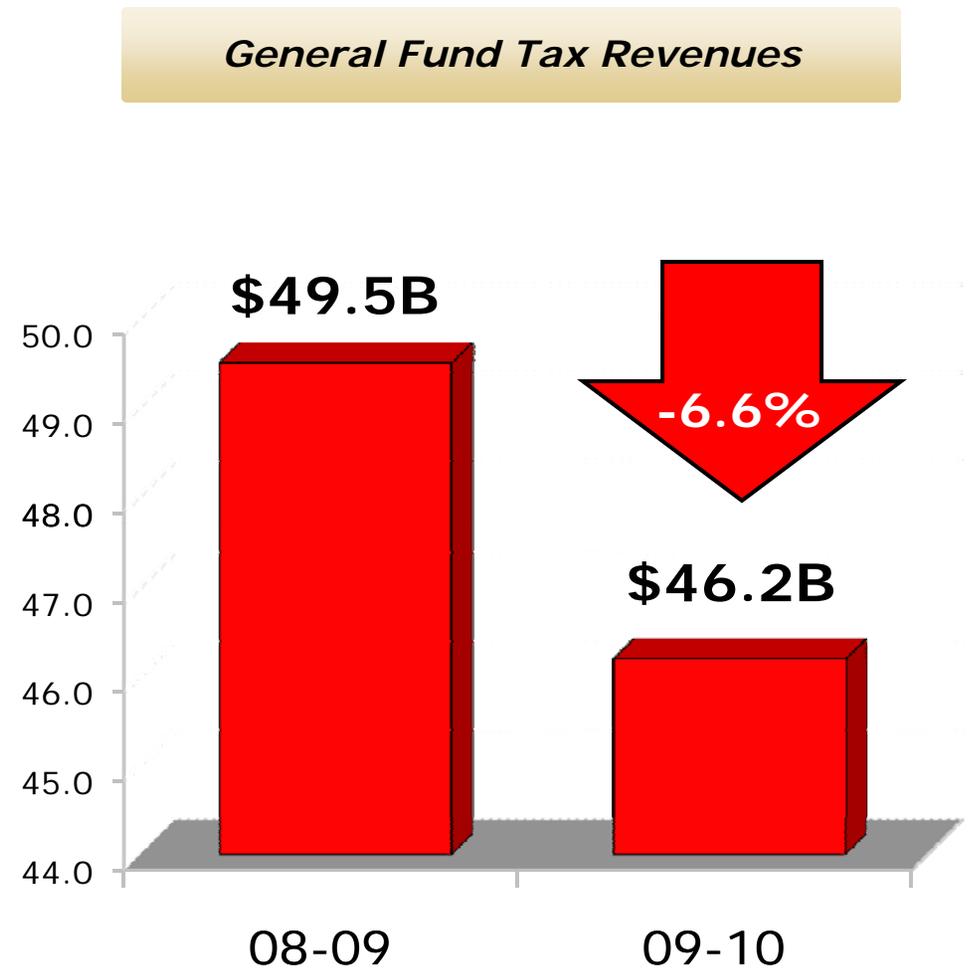
- Greatest Economic and Fiscal Challenge of Our Lifetimes
- Guiding Principles, Governor Paterson's Approach
- 2008-09 Deficit Reduction Plan
- 2009-10 Executive Budget



Greatest Economic and Fiscal Challenge of Our Lifetimes

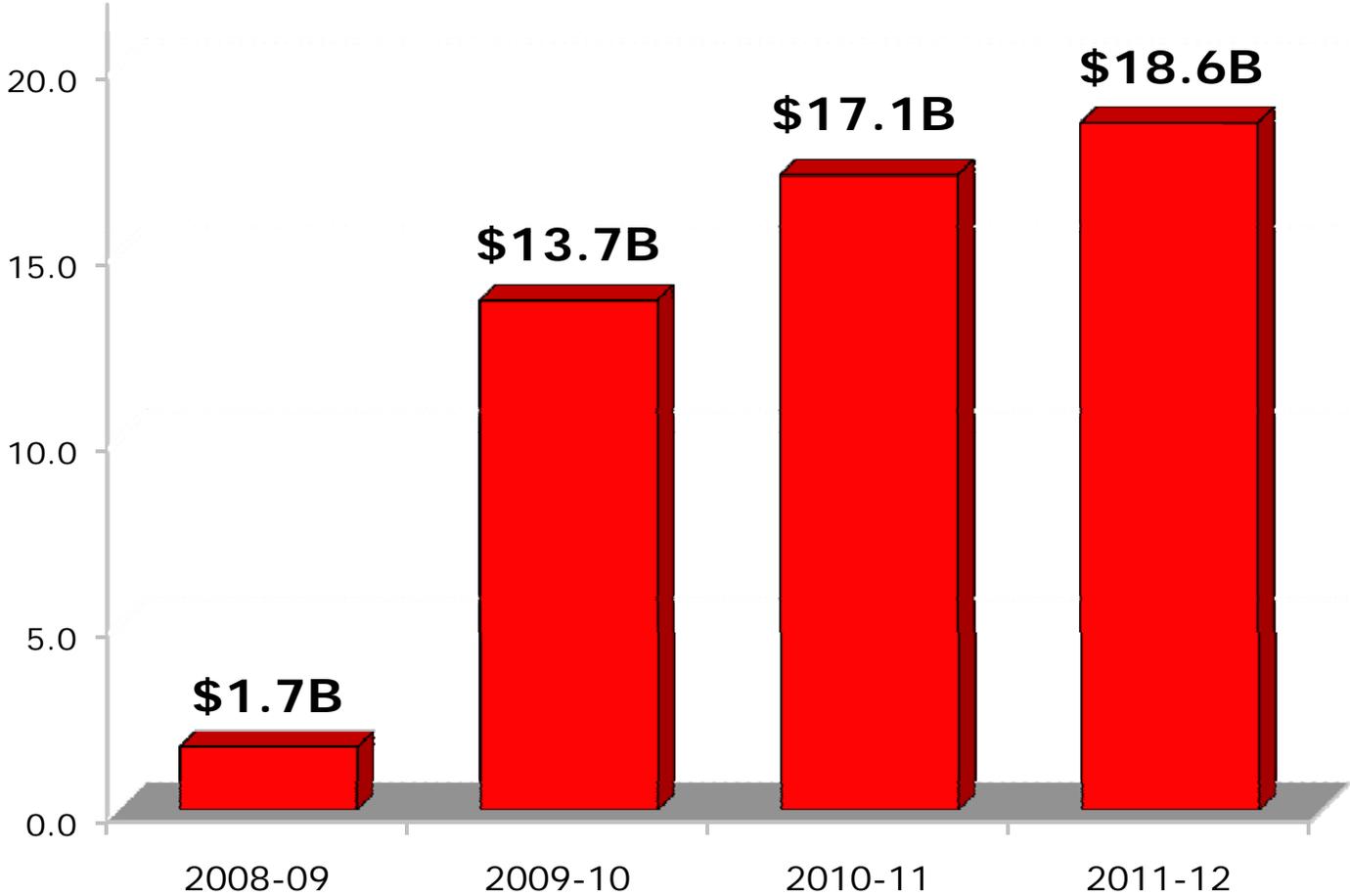
A Struggling Economy – Plummeting Revenues

- Greatest crisis on Wall Street since the Great Depression. Financial services sector accounts for twenty percent of state tax revenue.
- Nationally, 533,000 jobs lost in November, highest total in 34 years. Nearly two million jobs lost since beginning of the year.
- NYS economy expected to lose at least 180,000 jobs – 60,000 in financial services sector alone. NYS unemployment rate expected to rise above 7 percent in 2009.
- Real GDP will decline for four consecutive quarters. Consumer spending will decline for 3 straight quarters. Would represent first time either has happened since World War II.
- National unemployment claims have reached 4 million, highest total in 26 years.
- Currently, 43 states facing deficits totaling nearly \$100 billion.



Four-year Deficit: \$51.1 Billion

Projected General Fund Deficits





Guiding Principles

Governor Paterson's Approach

Guiding Principles

1. **Adjusting to New Fiscal Reality**: One of the pillars of our revenue base – Wall Street – has been transformed. We must fundamentally reevaluate how we manage state government and what we can afford to spend.
2. **Concentrating on our Core Mission**: State government will continue to deliver essential services. Some programs will have to be scaled back or eliminated in order to focus limited resources on each agency's core mission.
3. **Acting Comprehensively, Shared Sacrifice**: Given magnitude of the deficit, cannot solve our problems by either reductions or revenues alone – actions taken across every area of government.

The Importance of Context

Even after proposed reductions, significant spending commitments will remain for our state's core priorities in every area.

- **Historical Perspective**: There have been significant increases in spending over recent years in many policy areas, which were fueled by revenues from record Wall Street profits.
- **National Perspective**: Even after proposed reductions, New York will still spend far more than most other states in the nation in many areas – particularly education and health care.

2009-10 Executive Budget

Budget proposal delivered more than one month before constitutional deadline.

■ Step One: 2008-09 Deficit Reduction Plan (February 1)

- Needed to eliminate current-year shortfall.
- Financial Plan assumes February 1 enactment of Deficit Reduction Plan.

■ Step Two: 2009-10 Executive Budget (March 1)

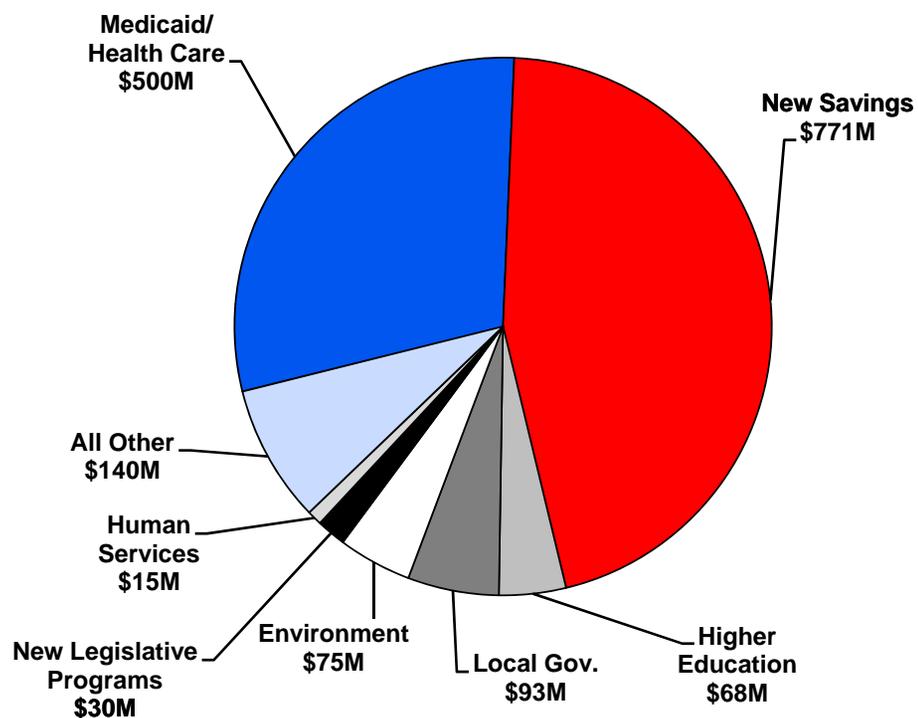
- Closes 2009-10 deficit, makes important strides toward structural balance.
- Financial plan assumes March 1 enactment – one month prior to beginning of 2009-10 fiscal year.



Step One: 2008-09 Deficit Reduction Plan

2008-09 Deficit Reduction Plan

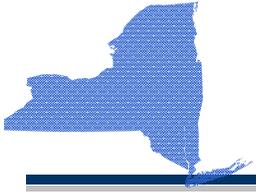
**2008-09 \$1.7 Billion
Deficit Reduction Plan**



New Savings: \$771 Million

Examples

- **NYPA Transfer:** \$306M
- **Agency Spending Controls:** \$100M
- **Available Fund Balances:** \$100M
- **Member Items:** \$45M



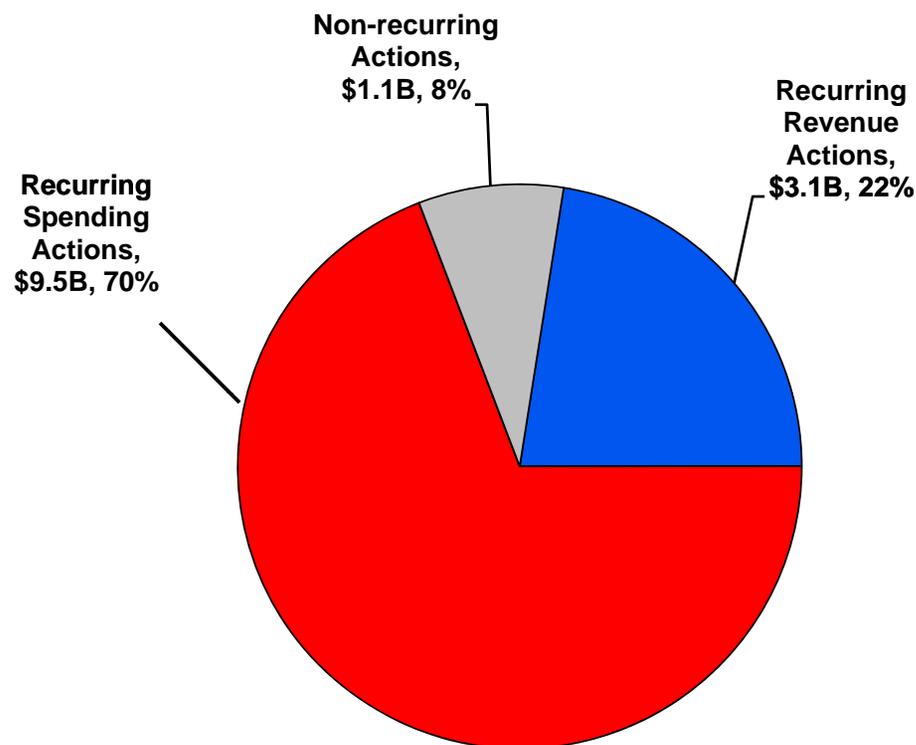
Step Two: 2009-10 Executive Budget

2009-10 Executive Budget Overview

Balanced plan for a balanced budget:

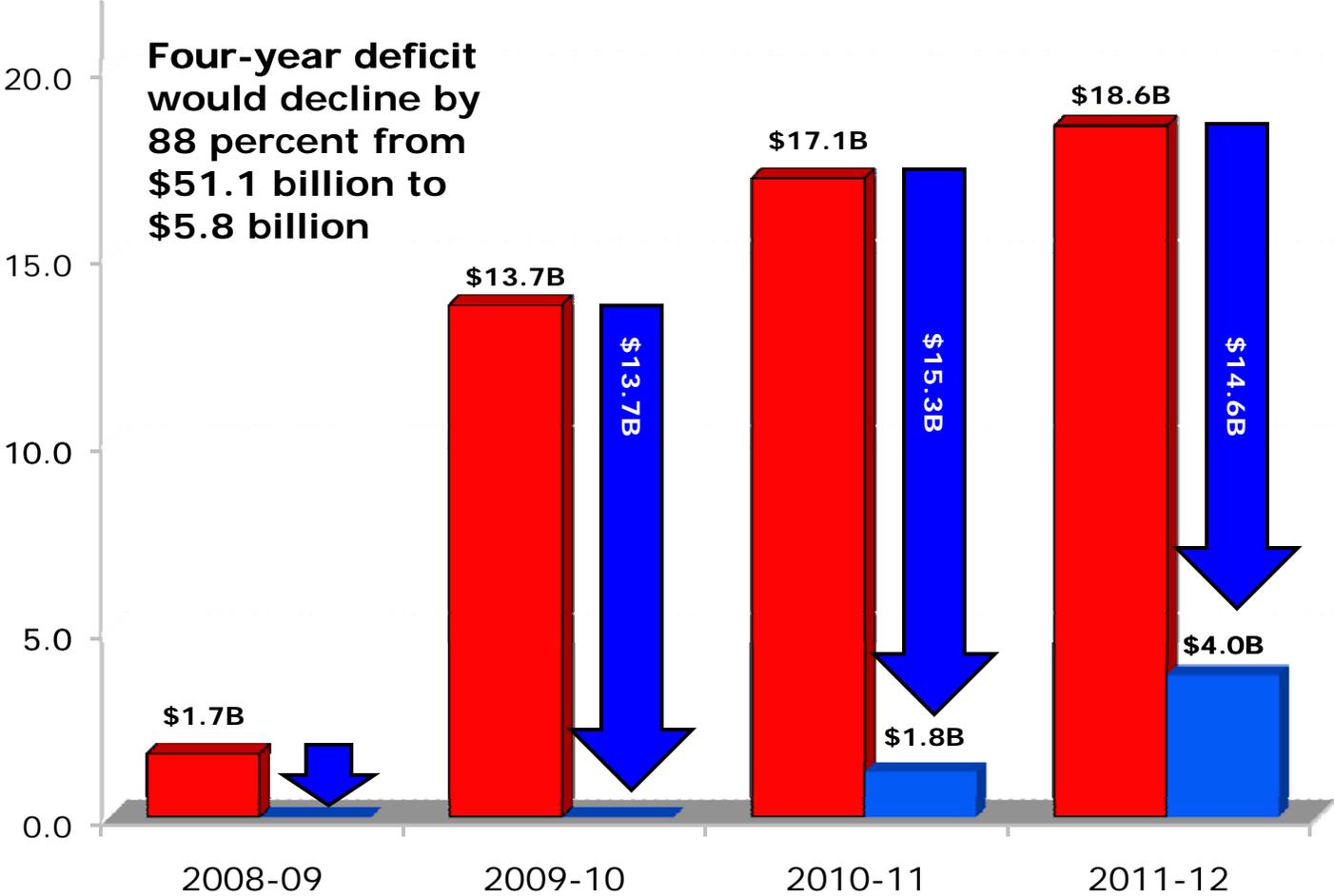
- Recurring Actions (92%)
 - Recurring Spending (70%)
 - Recurring Revenue (22%)
- Non-recurring Actions (8%)
- Does not include Federal Stimulus Package or use of Rainy Day Reserves.

\$13.7 Billion Savings Plan



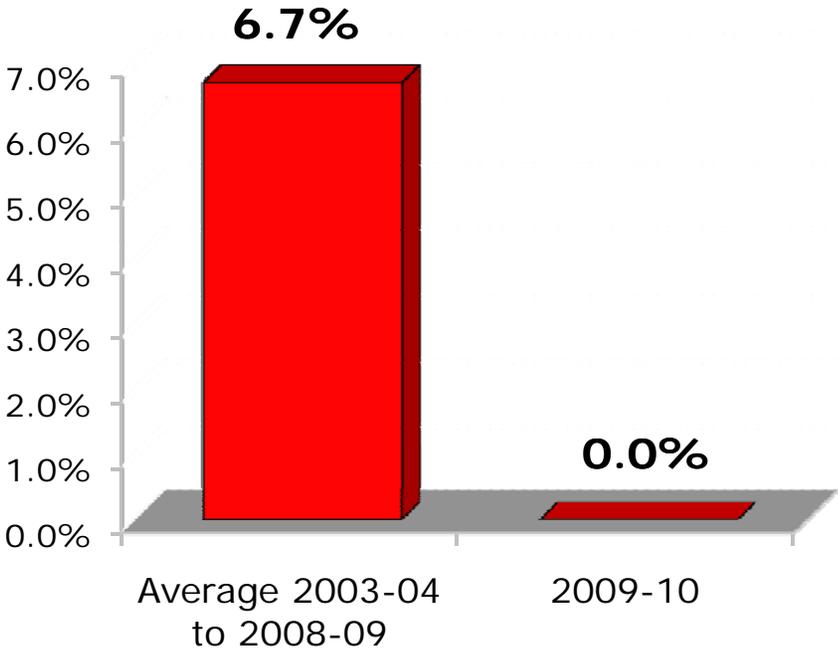
Important Strides Toward Structural Balance

Projected General Fund Deficits

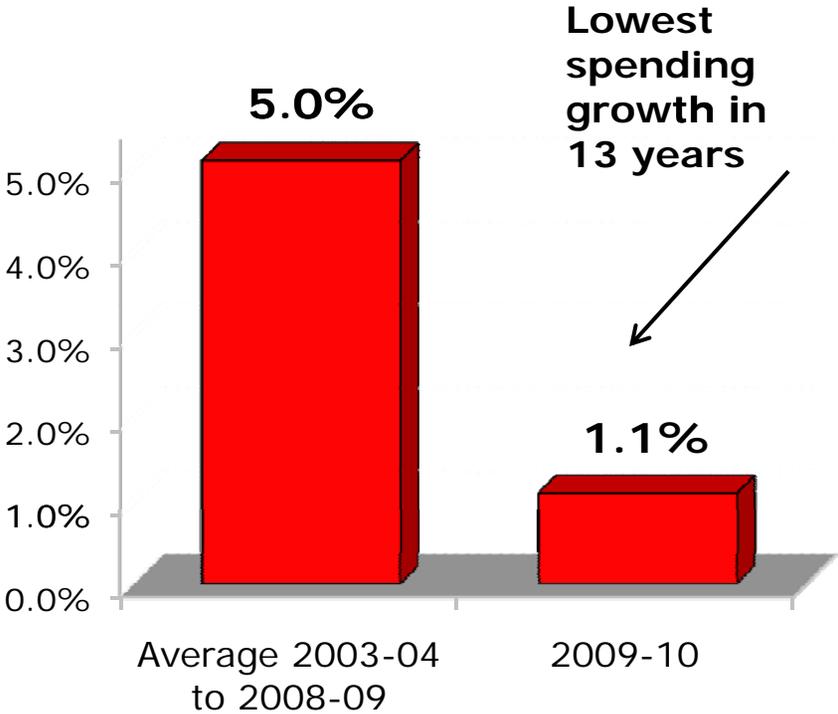


Reining in Unaffordable Spending Growth

General Fund Spending Growth

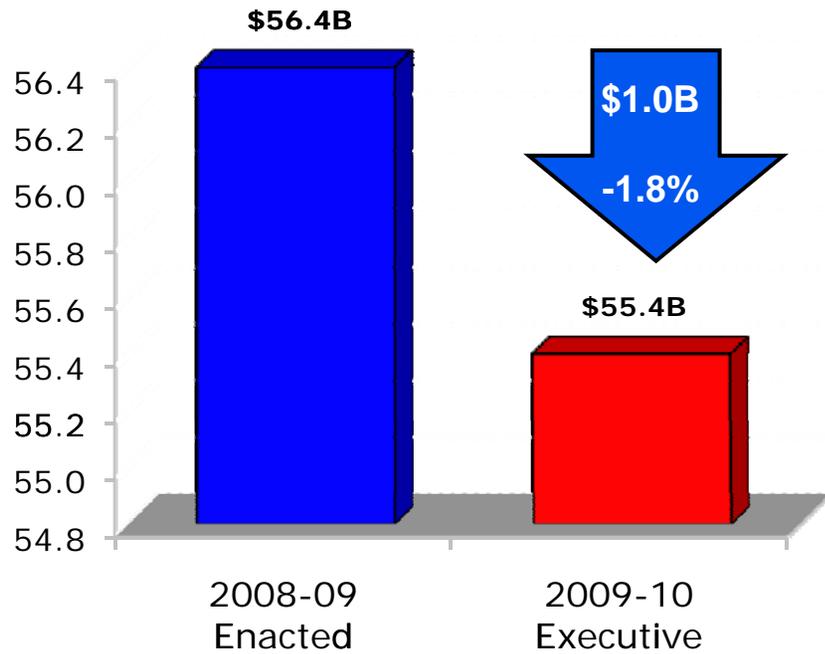


All Funds Spending Growth

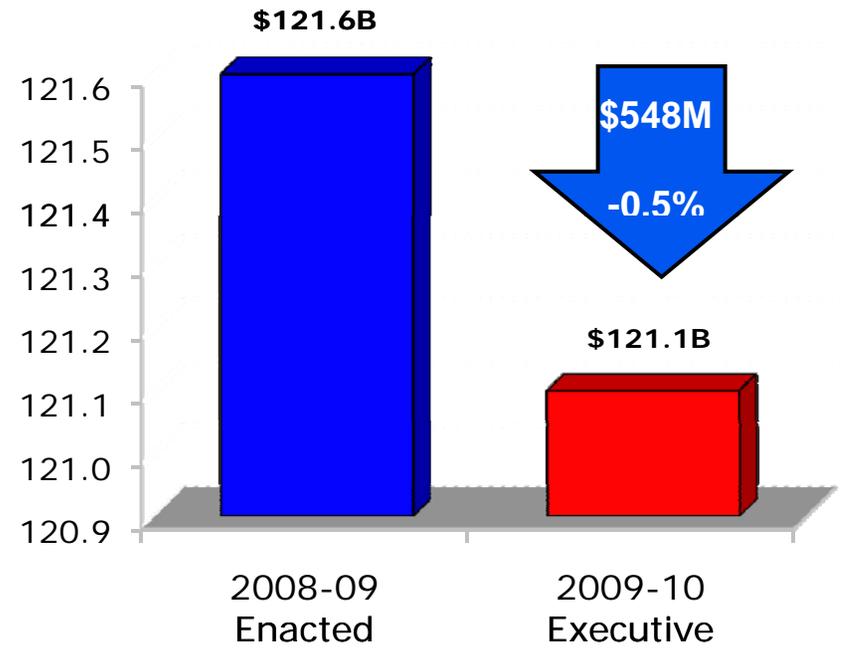


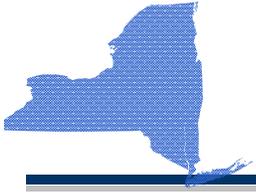
Decline Compared to Original 2008-09 Enacted Budget

General Fund



All Funds

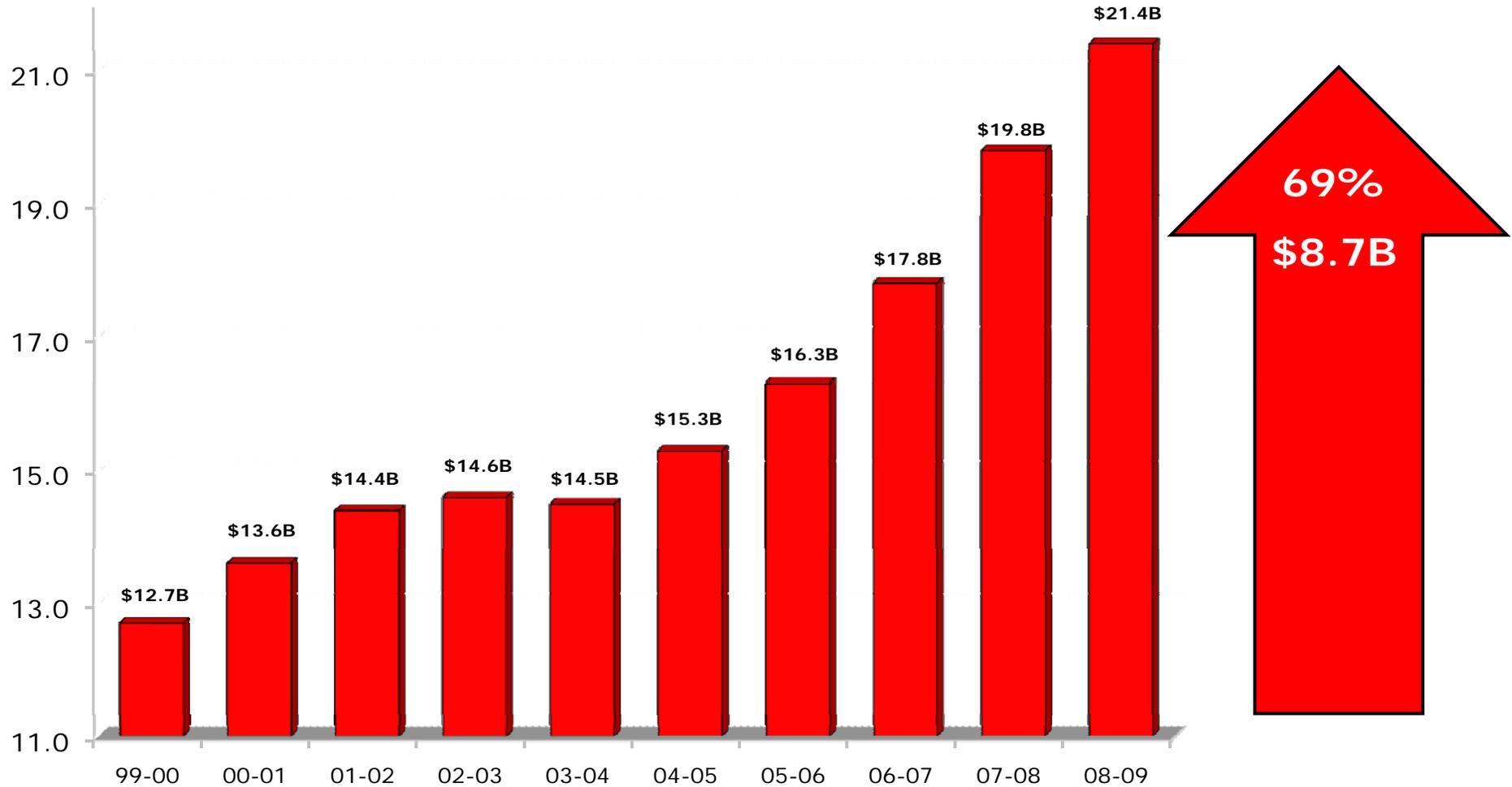




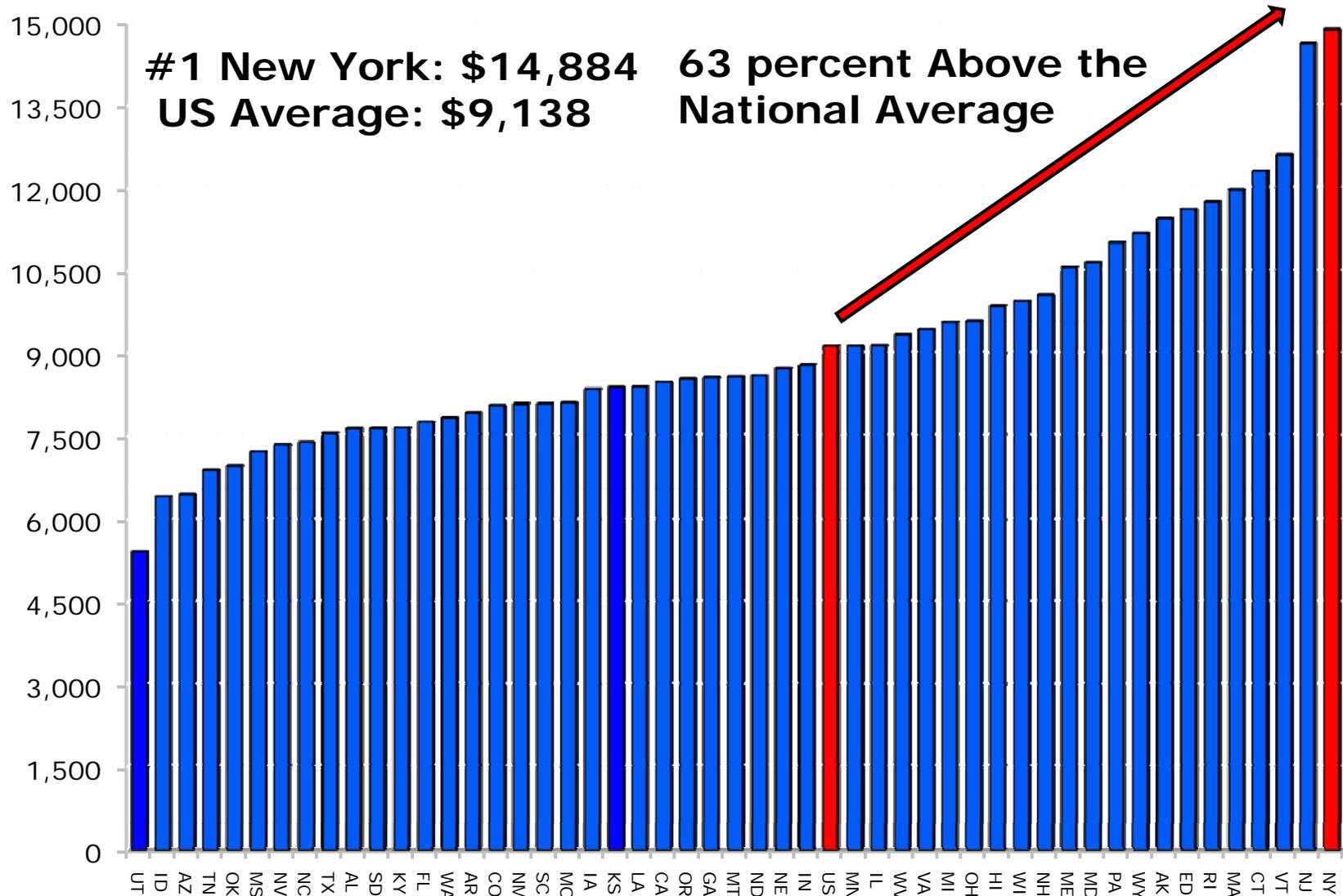
School Aid

Substantial Investment in Education

School Aid (School Year)

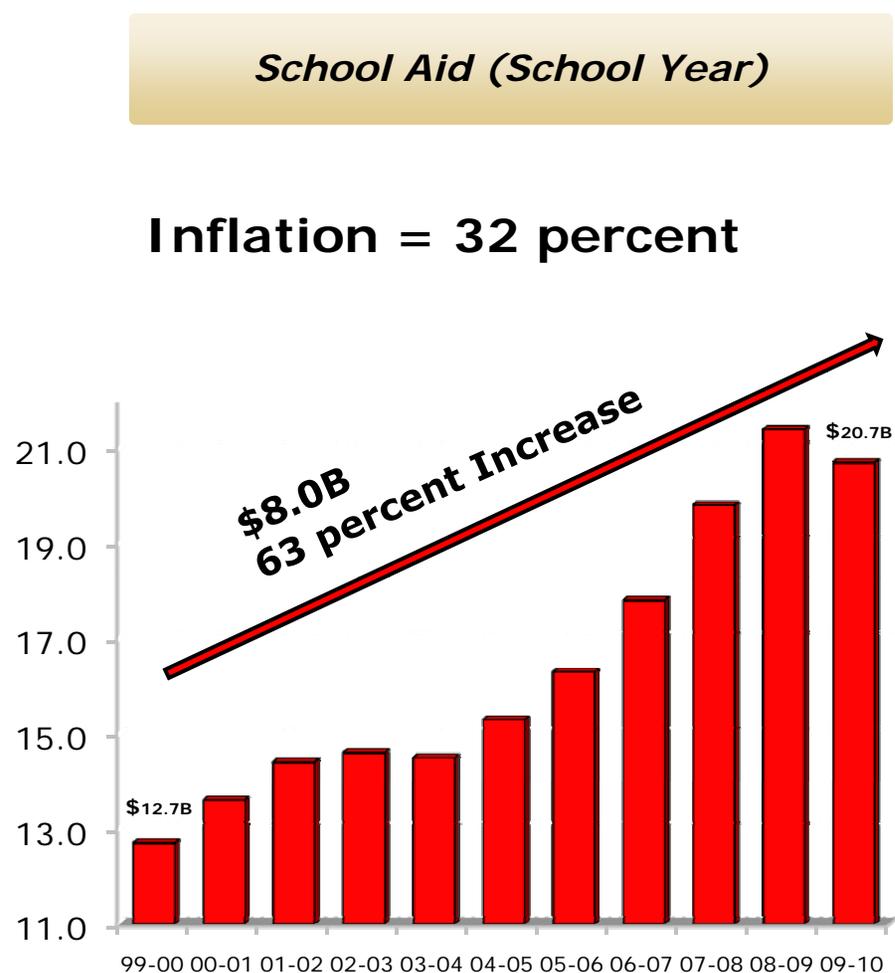


Highest Per Pupil Education Spending in the Nation



Adjusting to Changing Fiscal Circumstances

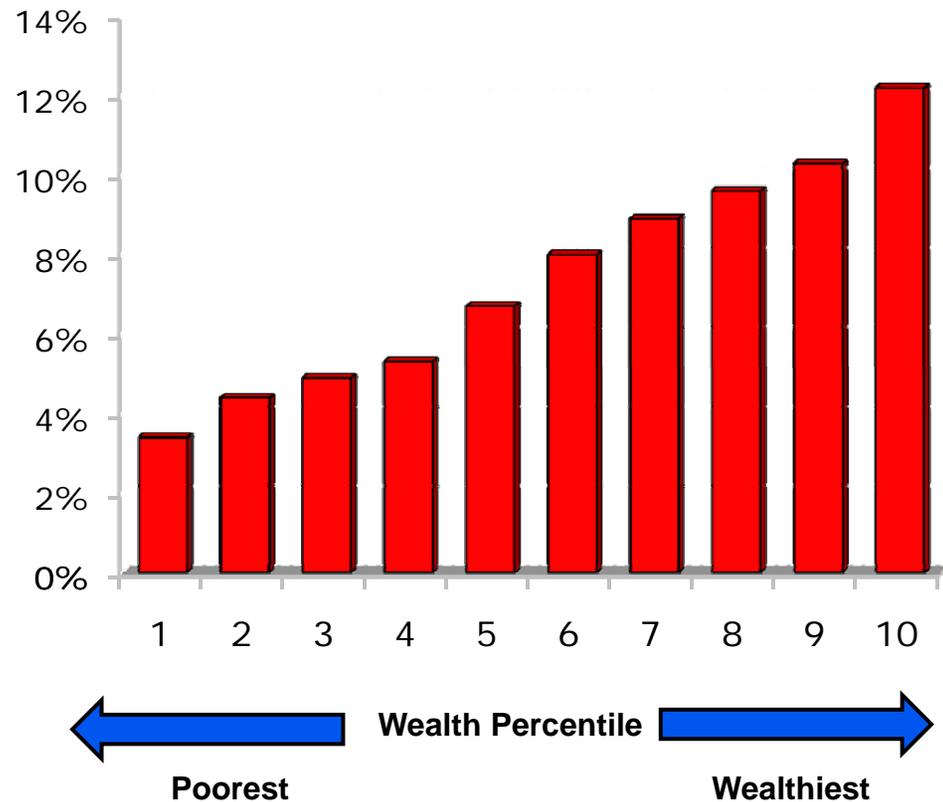
- Remain committed to \$7.0 billion increase in School Aid originally proposed in 2007-08. But have to responsibly adjust timeframe to changing fiscal circumstances.
- Year-to-year School Aid reduction of \$698 million (3.3 percent). School Aid would total \$20.7 billion.
 - Maintain Foundation Aid and UPK at 2008-09 levels. Extend phase-in from four years to eight years.
 - One-time Deficit Reduction Assessment. Partially offset by increases in some other aid categories such as Building Aid.

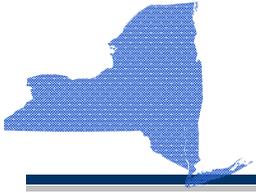


Deficit Reduction Targeted in Equitable Manner

- Progressive Approach: Individual districts experience Deficit Reduction Assessments of approximately between 3 percent to 13 percent based on district wealth, student need, tax effort.
- School Districts have reported over \$1.3 billion in unreserved fund balances. More than 87 percent of school districts statewide have unreserved fund balances in excess of their proposed year-to-year School Aid reductions.

*Average Deficit Reduction Assessment by District Wealth**



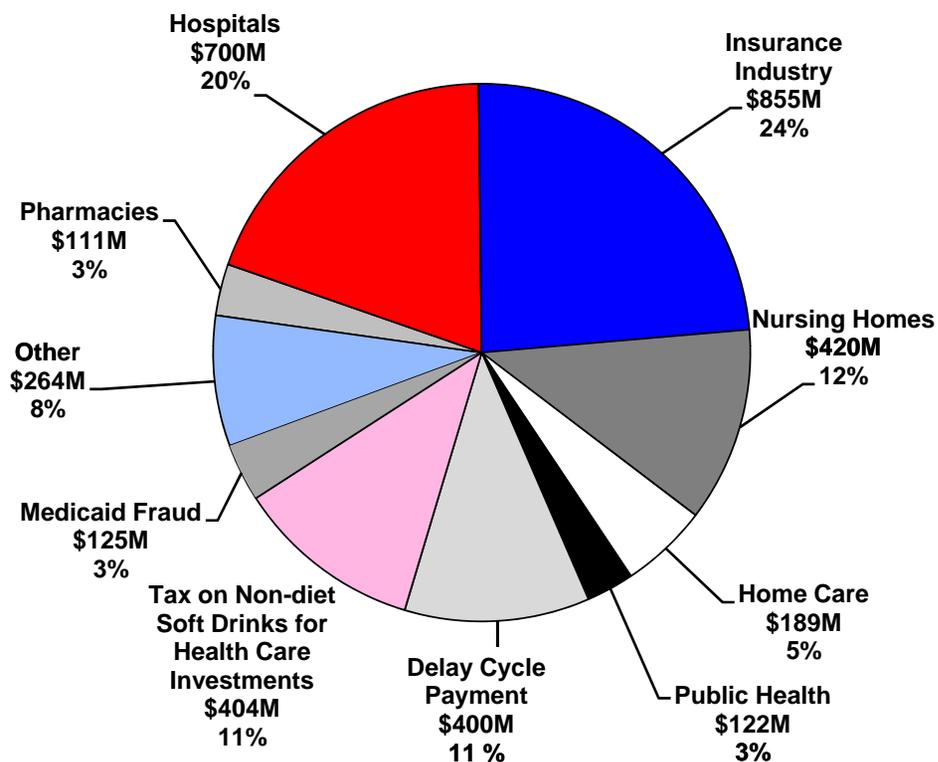


Medicaid/Health Care

Medicaid/Health Care Overview

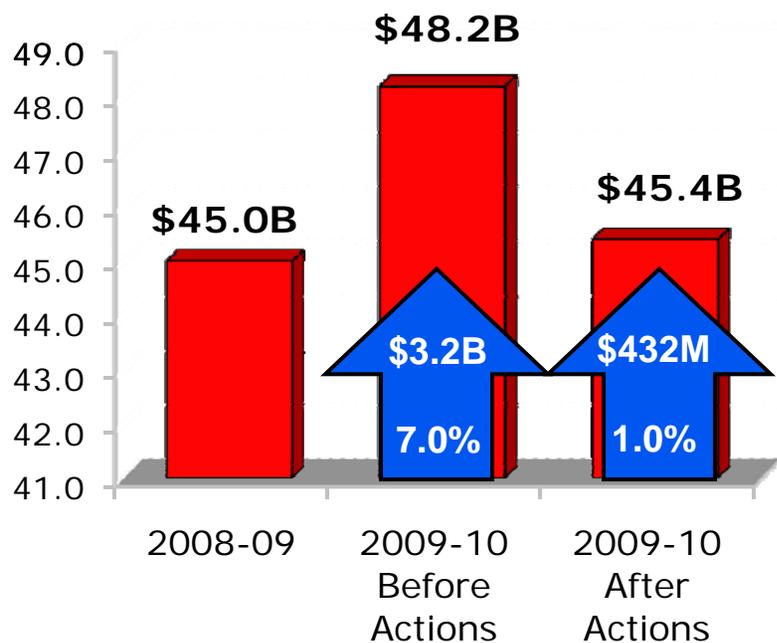
- Balanced plan spread across all sectors.
- Reduces growth. No year-to-year reduction. Medicaid spending will still be highest in the nation.
- No reductions in eligibility or benefits for Medicaid recipients.
- Continues implementing critical reimbursement reform efforts to improve quality, efficiency of New York's health care system.

2009-10 \$3.5 Billion* Savings Plan



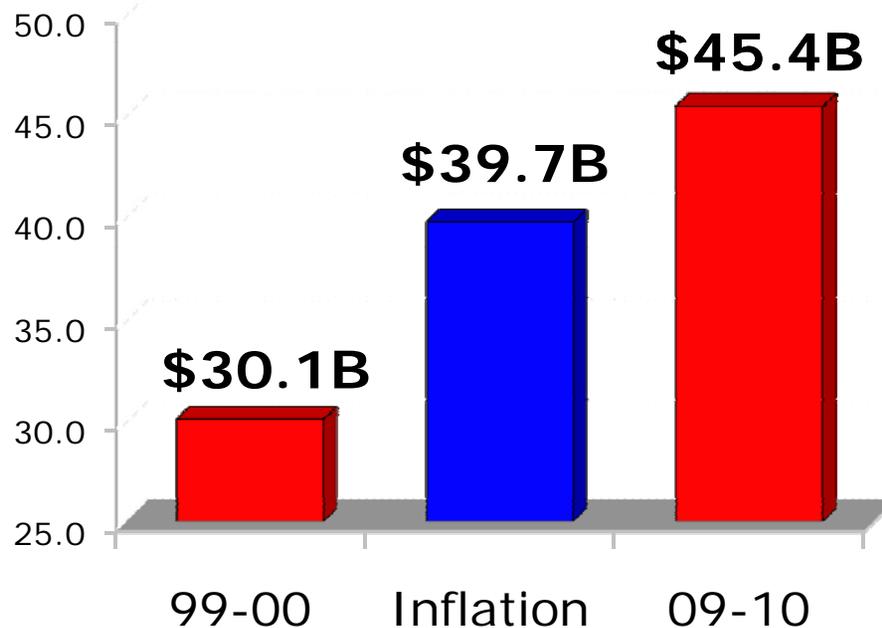
Slowing *Growth* in Medicaid Program

Total Medicaid Spending

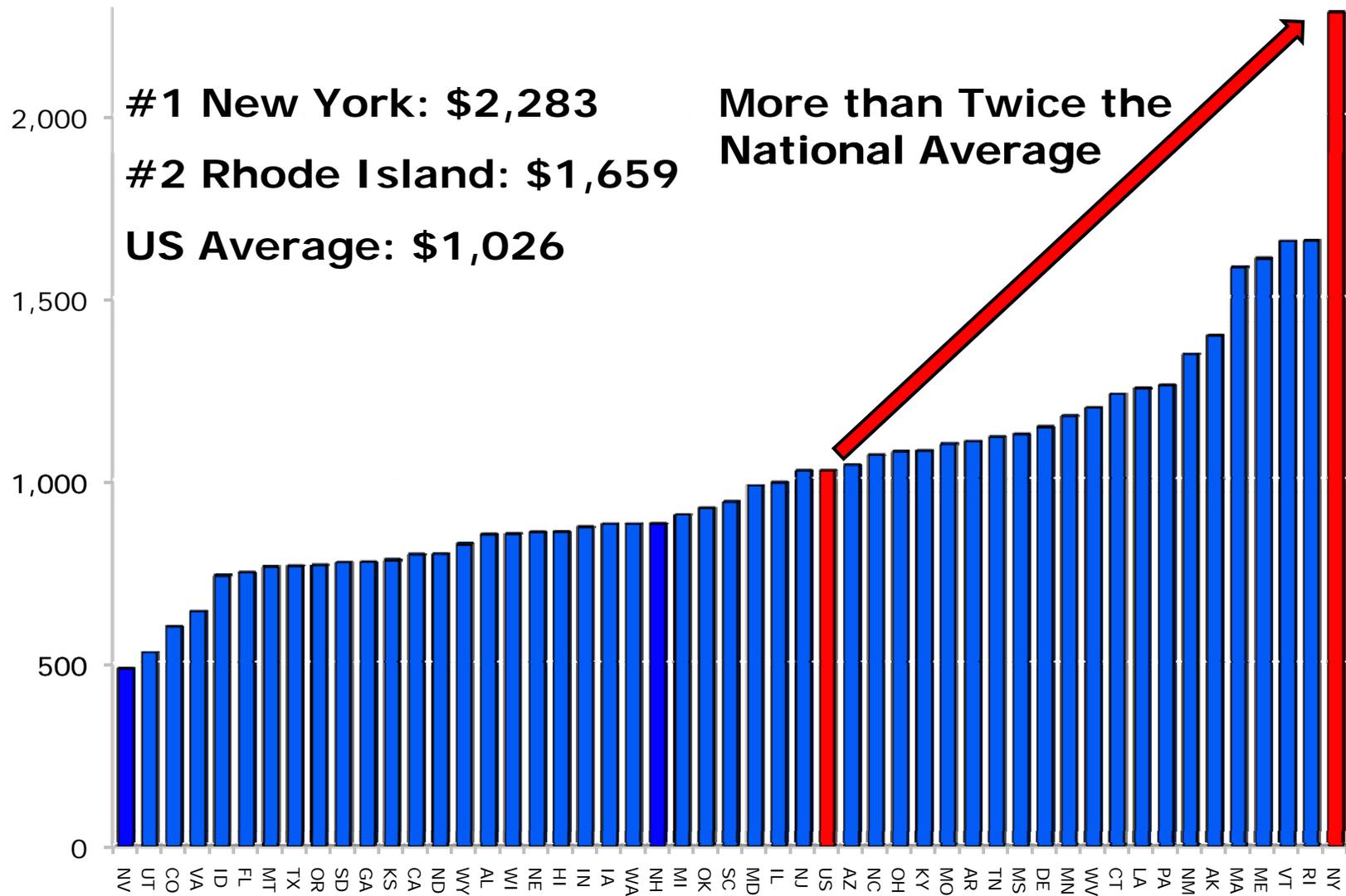


Total Medicaid Spending: Actual vs. Inflation

Actual: 51% Increase, \$45.4B
Inflation: 32% Increase, \$39.7B

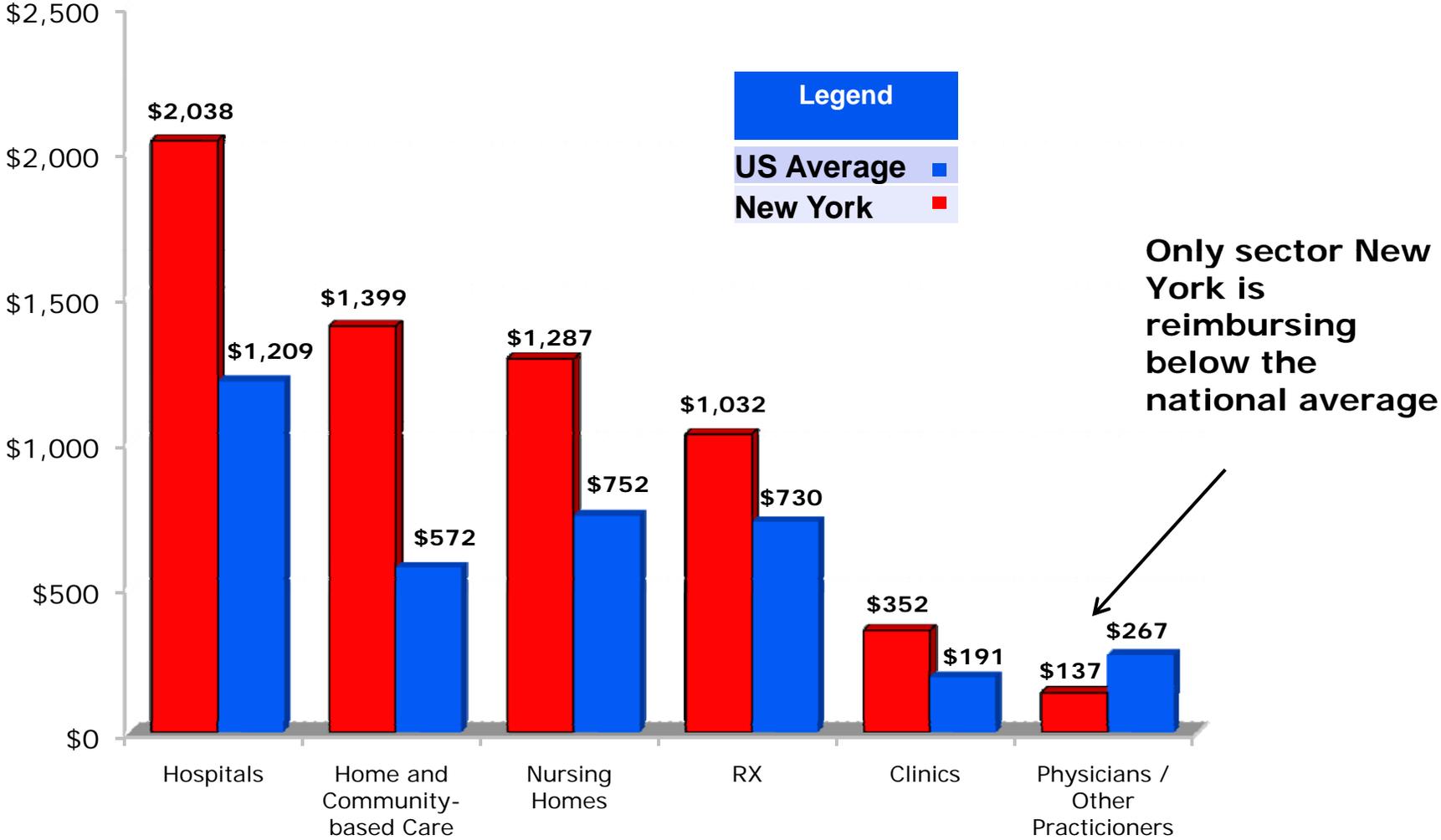


Highest Per Capita Medicaid Spending in the Nation

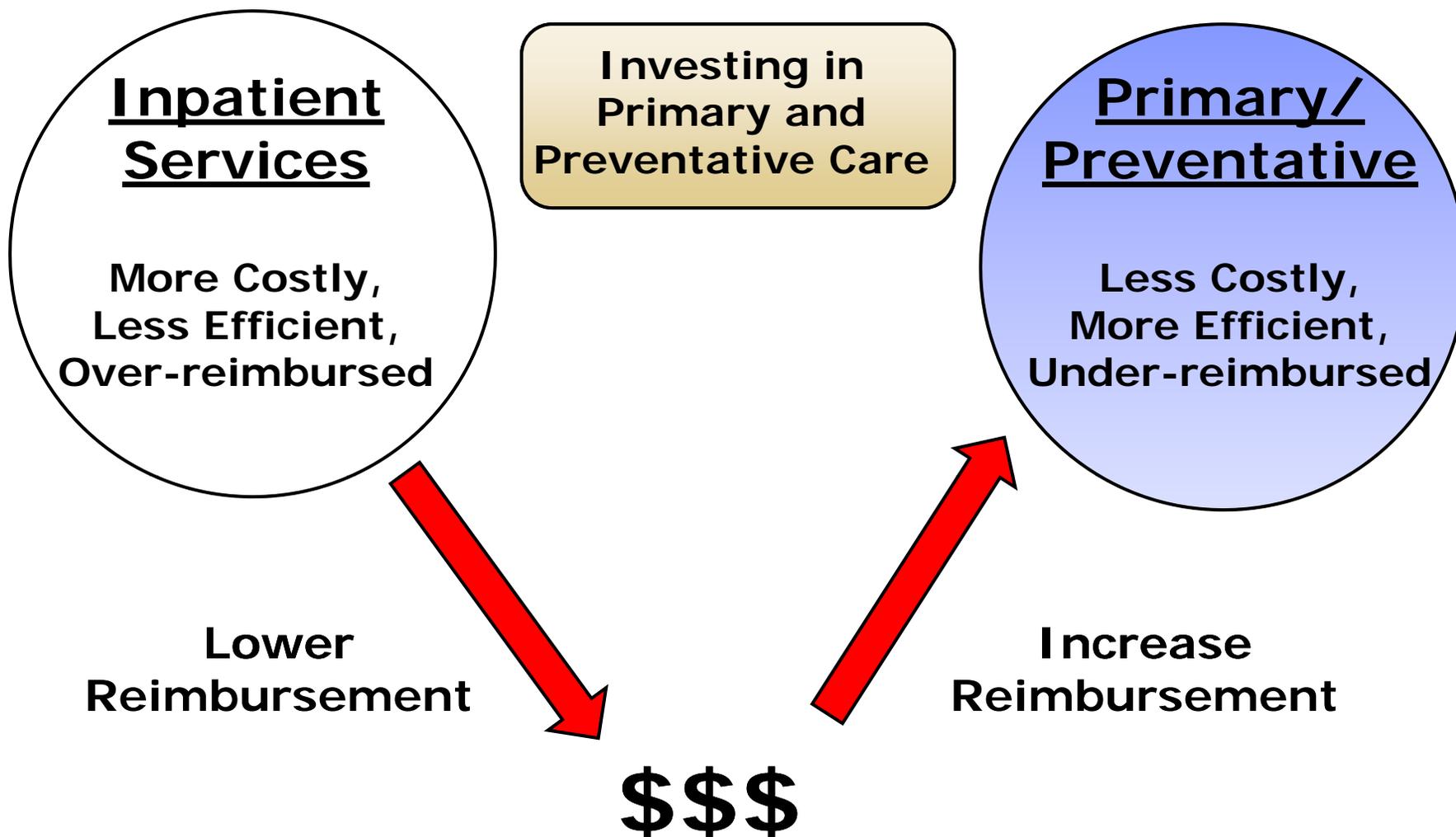


Spending Exceeds the National Average Across Almost Every Sector

Medicaid Spending (Avg. Cost per Eligible Recipient)



Hospital Reimbursement Reform – A More Rational System

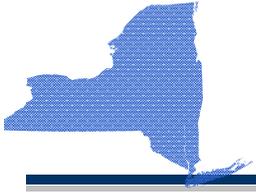


A Healthier New York

- Poor diet and physical inactivity cause up to 365,000 deaths per year.*
- Obesity epidemic. One out of every four New Yorkers is obese (25.5 percent). Up from 13.9 percent in 1995.*
- Each additional 12-ounce soft drink consumed per day increases risk of a child becoming obese by 60 percent.**
- High soft drink consumption increases risk of diabetes by 83 percent in women.***
- Levy 18 percent additional sales tax on non-diet soft drinks. Expected to reduce consumption by 5 percent.
- Revenue dedicated to health care programs.

*Percentage of New Yorkers Who are Obese **





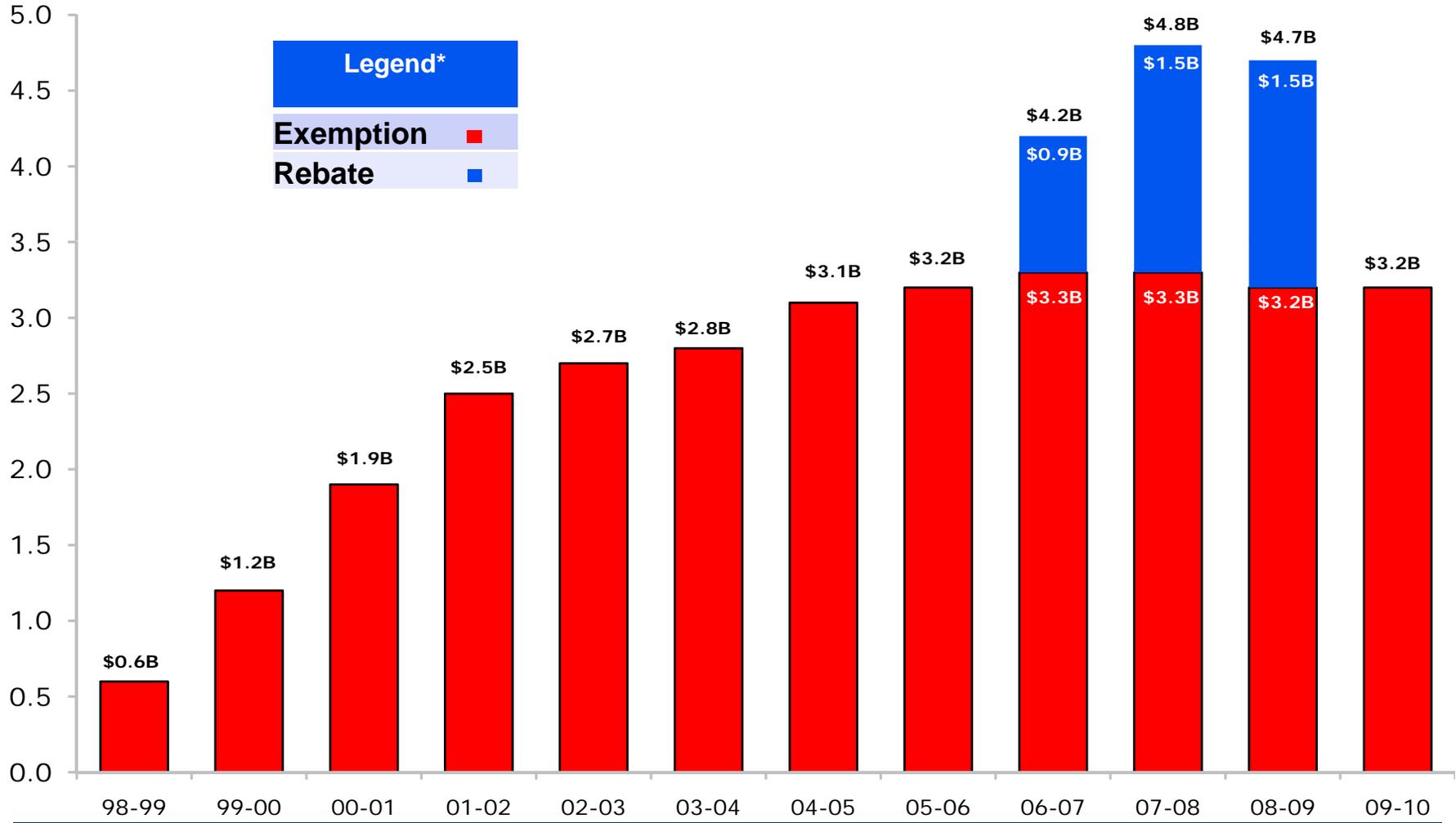
STAR Program

STAR Program

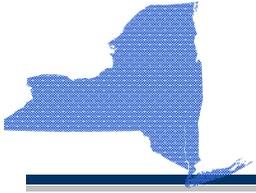
- **Continues STAR exemption (\$3.25 billion)**. Has a direct impact on New Yorkers' property tax bill. Maintains core purpose of the program.
- **Eliminates STAR rebate check (\$1.4 billion)**. No direct relation to property tax bill.
- **Equitable treatment**. NYC STAR income tax credit returned to pre-rebate (2005-06) levels. Decreases credit from \$290 to \$125 for married couples and \$145 to \$62.50 for individuals (\$364 million).
- **Pre-rebate Levels**. Effectively returns total STAR spending to pre-rebate levels.

Returning STAR to Pre-rebate Levels

STAR Spending



*Includes NYC PIT Credit



Higher Education



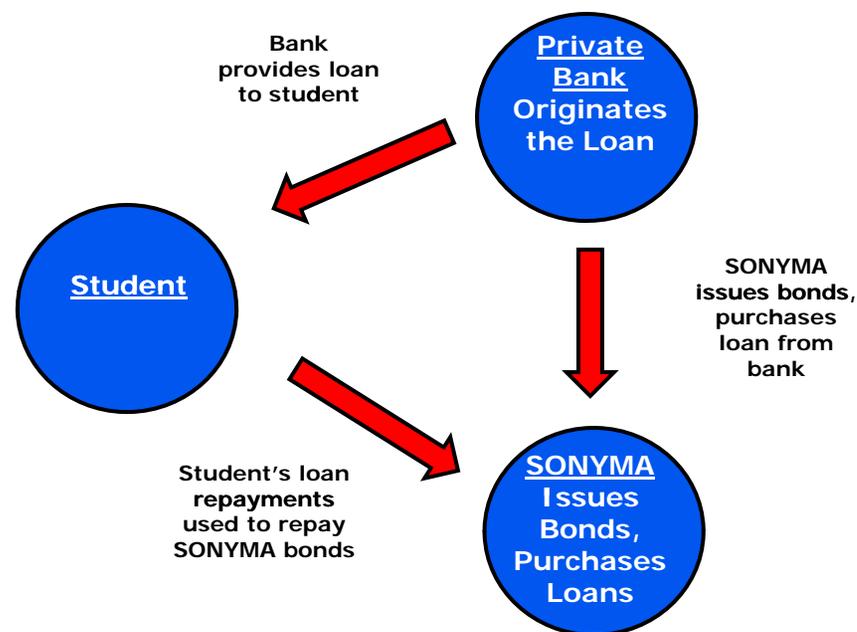
Investing in Higher Education

- **Investment Plan**: For the first time in at least 30 years, tuition increase (SUNY \$620, CUNY \$600) is tied to an investment plan. In 2008-09, 10 percent of fiscal benefit from tuition increase will be set aside for increased investment. Twenty percent will be set aside in 2009-10, growing to 50 percent in later years.
- **Minimizes Further Reductions**: Tuition increase minimizes need for further reductions in state support for SUNY/CUNY.
- **Tuition Remains Affordable**: SUNY and CUNY tuition would remain below Tuition Assistance Program (TAP) maximum threshold of \$5,000. Lowest in region and below national average.
- **Capital Investment**: Continues the \$9.3 billion multi-year capital plan enacted in 2008-09, including \$834 million in new appropriations for critical maintenance projects.

NYHELPS Student Loan Program

- Will provide at least \$350 million in loans to 45,000 students *annually*.
- All resident undergraduate and graduate students enrolled full-time in a degree program at a college or university in New York State would be eligible to apply.
- Expected interest rate 8 percent. Would be up to 10 percentage points lower than conventional private loans. Future rates will vary based on market conditions, but NYHELPS loan will always be lower than conventional private loans for almost all borrowers.
- State invests \$50 million to capitalize program in 09-10, then \$10 million annually.

Public/Private Partnership





Tax and Fee Actions

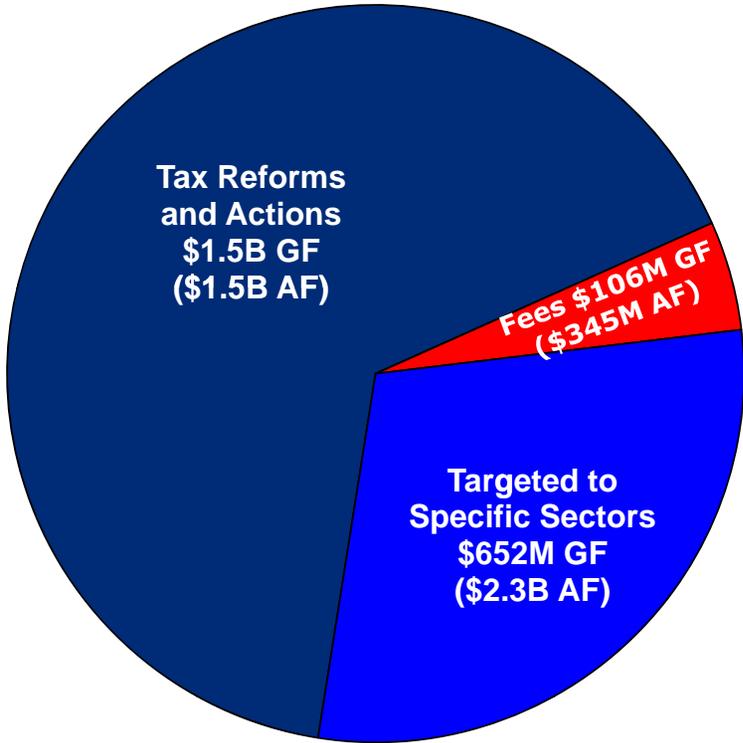
Tax and Fee Actions

**\$2.2 Billion General Fund
(\$4.1 Billion All Funds)**

Tax Reforms and Actions

Examples:
 Eliminate Clothing Exemption;
 Eliminate Ineffective Gas Tax Cap;
 Close Digital Download Loophole;

Wealthy Share in Burden (\$216M)
 Luxury Tax on High-cost Furs, Jewels, Jets
 Limit Deductions for Millionaires
 Close Hedge Fund Loophole
 Close Tax Free Yacht/Jet Loophole

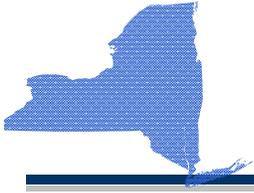


Fees

Examples:
 Drivers License (Last Changed 1992)
 License Plates (Last Issued 2001)
 Auto Registration (Last Changed 1998)
 Tobacco Retail Fee (Last Changed 1990)

Specific Sectors

Examples:
 Tax on Non-diet Soft Drinks
 Utility Assessment
 Insurance Assessment for Timothy's Law
 Reinstitute Hospital Assessment
 Reinstitute Home Care Assessment



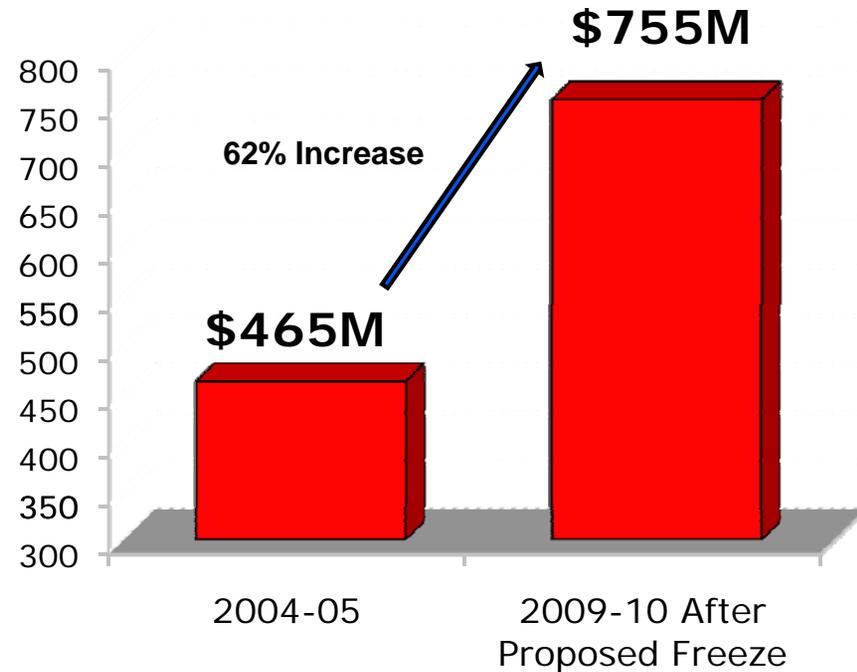
Local Governments



Aid and Incentives for Municipalities

- Maintain 2009-10 AIM payments at 2008-09 levels outside NYC, eliminating \$61 million increase.
- Funding for AIM outside NYC has increased by \$290 million or 62 percent compared to 2004-05 and will still total \$755 million in 2009-10.
- Eliminate NYC AIM payment. Last year NYC received \$246 million. Represents 0.5 percent of NYC's revenue.

*Historical AIM Payments
(Outside NYC)*



Mandate Relief and Local Savings Measures

- New pension tier will provide substantial savings over the long term for localities.
- School districts would receive full Wicks exemption for five years. For NYC, would raise Wicks Law threshold from \$3 million to \$10 million.
- Provides greater contracting and procurement flexibility for local governments.
- Advances Commission on Local Government Efficiency reforms. Simplifies process for consolidating local governments, reforms special districts, and removes legal barriers to allow more shared services.



Critical Investments

Targeted Investments in a Time of Economic Difficulty

- **Increase Basic Welfare Grant** (\$109 million by 2012-13)
- **Establish NY HELPs Student Loan Program** (\$350 million)
- **Extend HEAL New York Capital Grants** (\$650 million over Two Years)
- **Streamline Access to Public Health Care Coverage** (\$5.0 million)
- **Provide Food Bank Funding** (\$4.4 million)
- **Provide Lead Poisoning Prevention Funding** (\$2.5 million)
- **Establish New York Growth, Achievement and Investment Strategy (GAINS) Grant Program** (\$50 million)
- **Expand Research and Development Tax Credits** (\$50 million by 2012-13)
- **Increase Support for Veterans Counseling and Services** (\$1.1 million)
- **Increase Funding for Volunteer Centers** (\$500,000)

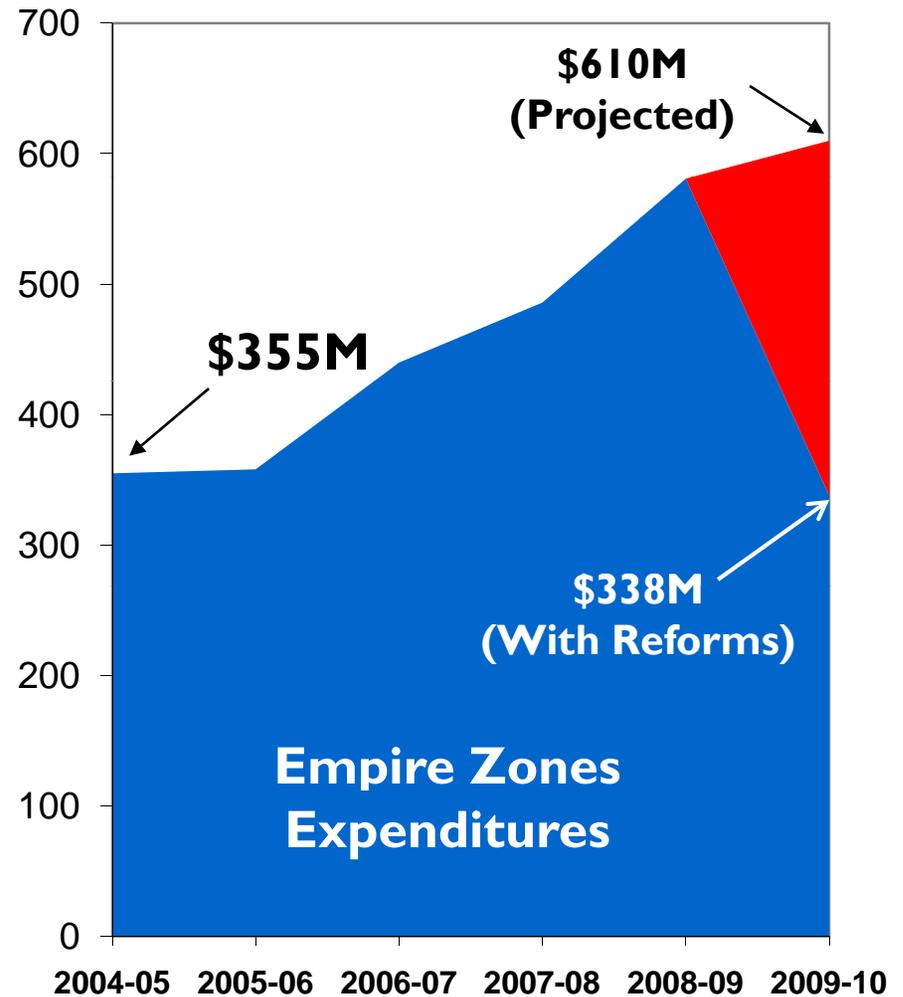


A Foundation for Changing the Way State Government Does Business

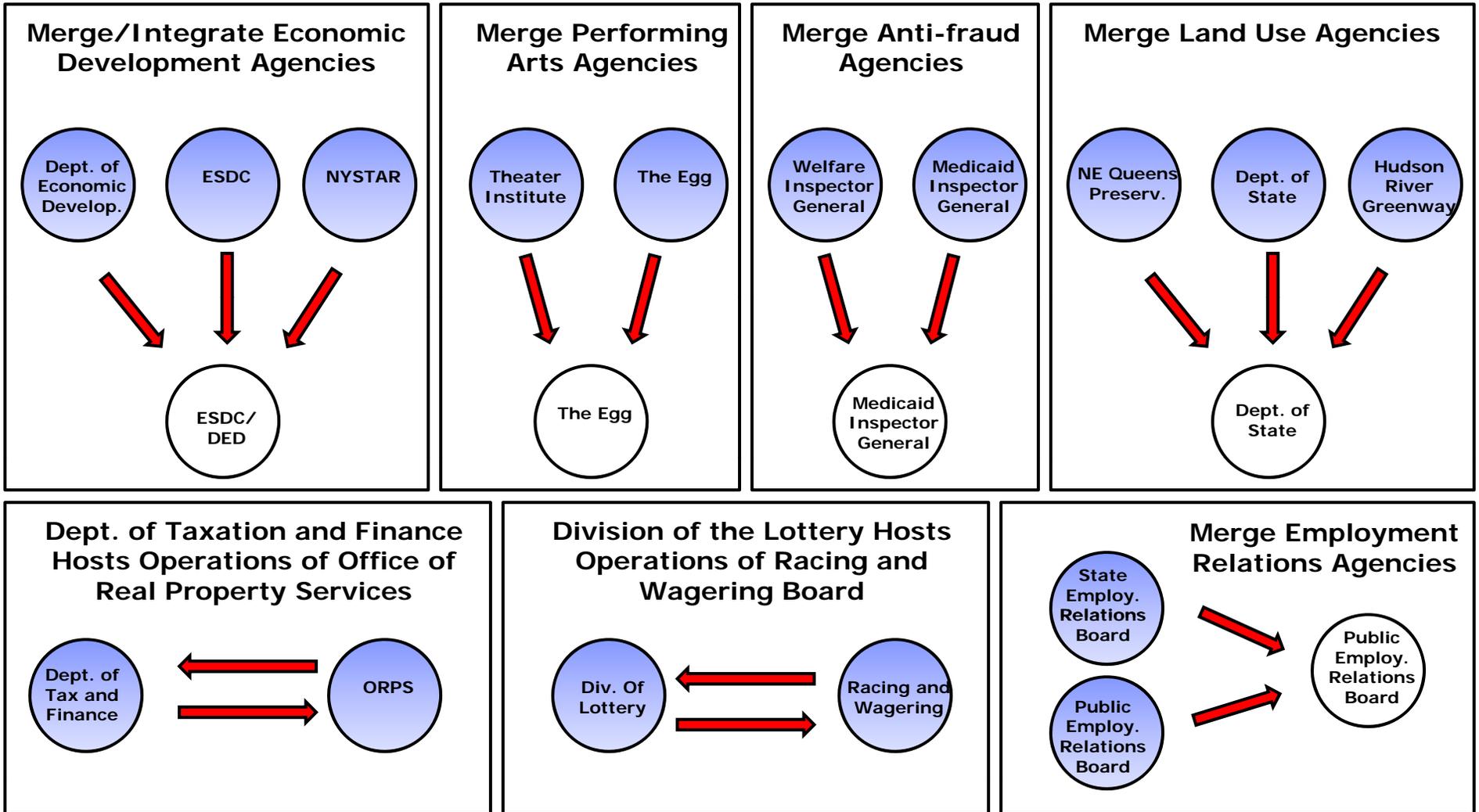


Empire Zone Reform

- **Reform:** Requires all 9,800 current participants in the program to meet 20:1 benefit/cost standard.
- **New Investment:** Establish a new ESDC grant program and R&D tax credits using a portion of savings that accrue – \$100 million when fully effective.
- **Sunset:** Empire Zone program sunsets in June 2011.



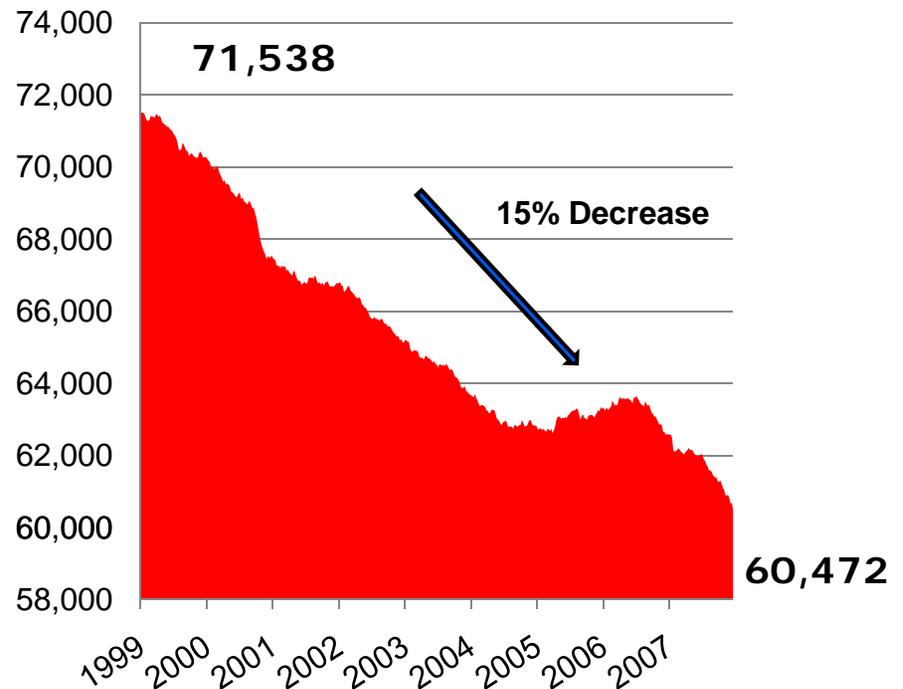
Agency Consolidations/Integration



Facility Closures

- **DOCS**: Close four prison camps, several annexes. Prison population has declined by over 11,000 or 15 percent compared to 1999.
- **OCFS**: Close six, downsize two youth facilities. Close three evening reporting centers. Affected youth facilities have average vacancy rate of 63 percent.
- **OMH**: Eliminate 450 beds from inpatient psychiatric system, moving patients to more appropriate settings.
- **OASAS**: Close Manhattan Addiction Treatment Center.

DOCS Weekly Prison Population



State Workforce

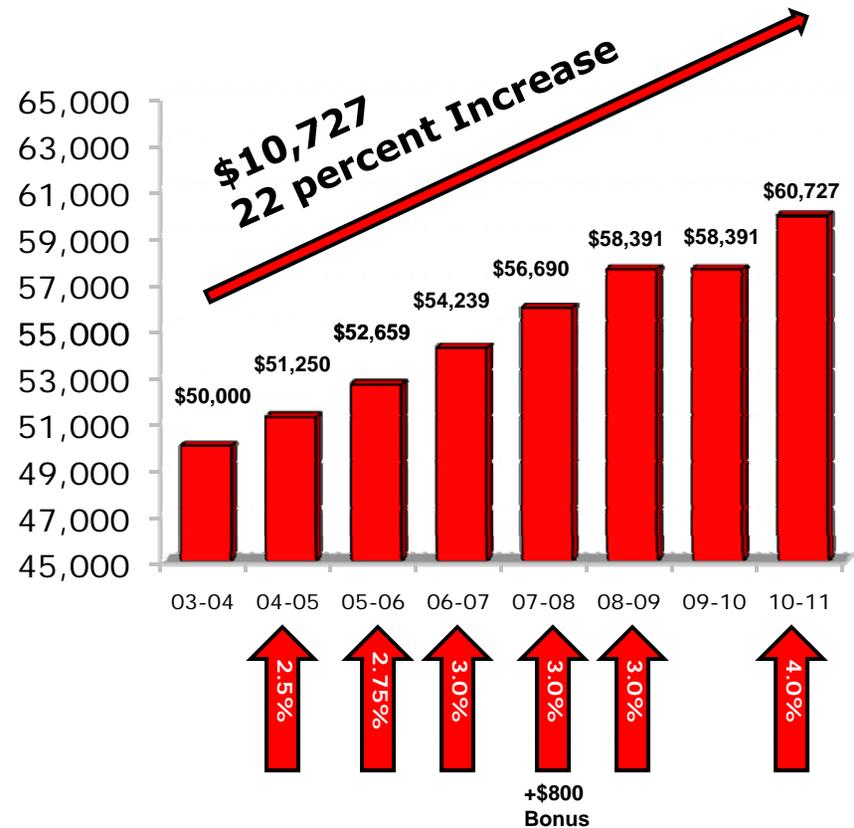
Governor Paterson continues his call for a partnership with public employee unions to lower cost of state workforce.

- Eliminate scheduled 2009-10 general salary increase.
- Defer five days worth of salary payments

Average state employee salary:
\$62,453 plus generous benefits

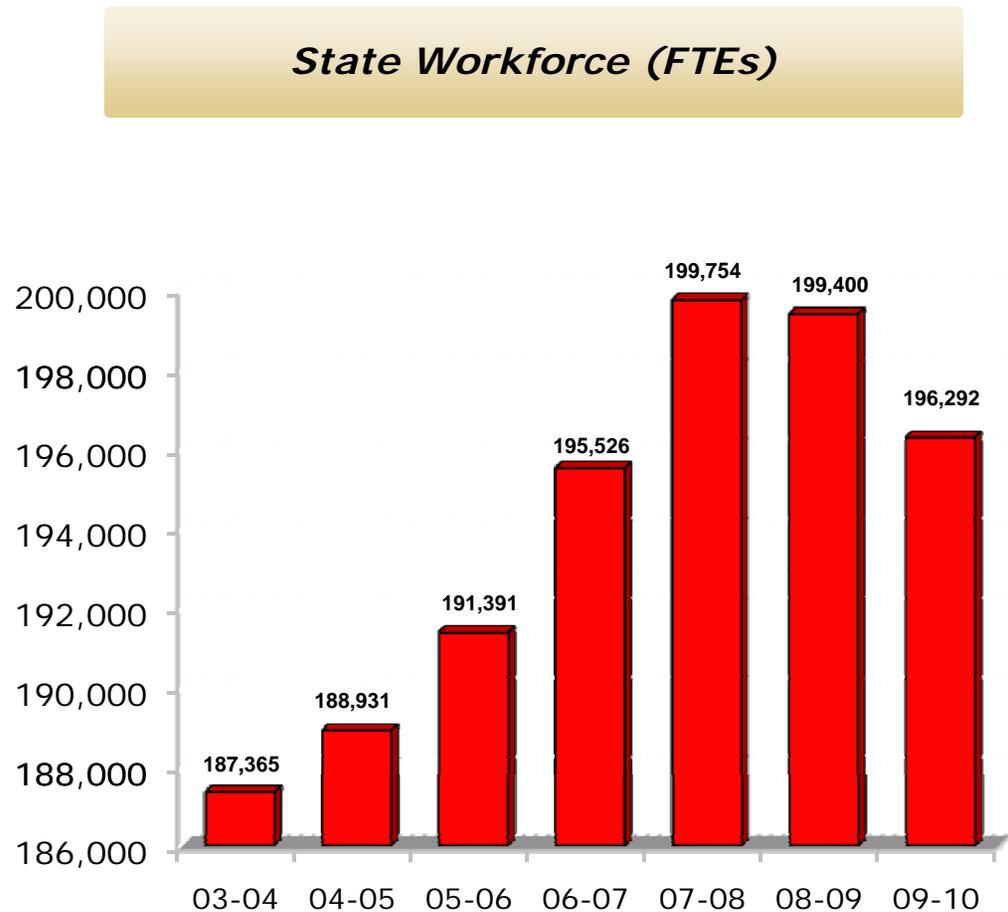
General salary increases of 25 percent scheduled from 2003-04 to 2010-11. Would still receive 22 percent raise compared to 2003-04 under Executive Budget proposal.

Employee with \$50,000 Salary in 03-04 after Proposed 09-10 Action



State Workforce

- In 2009-10, state workforce would decline by 3,108 and would total 196,292.
- Would still represent increase of 8,927 compared to 2003-04.
- 2009-10 decline includes estimated 521 layoffs. Layoffs primarily limited to agency consolidations, facility closures, program eliminations.



Pension Reform

Tier IV

1990 & 1994: Lowered minimum retirement age for public employee from 62 to 55.

2000: Removed employee's 3 percent contribution after ten years of service.

1998: Lowered threshold for 2 percent "multiplier" to 20 years of service.

1998: Lowered required years of service to draw pension from 10 to 5.

Overtime compensation used to calculate pension benefit; allows salary "spiking" at end of service.



Tier V

Returns minimum employee retirement age to 62.

Restores 3 percent contribution for entire length of employee's service.

Restores original threshold for 2 percent multiplier: 25 years of service.

Restores 10-year service requirement to draw pension.

New Requirement: Excludes overtime when calculating pension benefit.