

New York State Division of the Budget

State Budget Update

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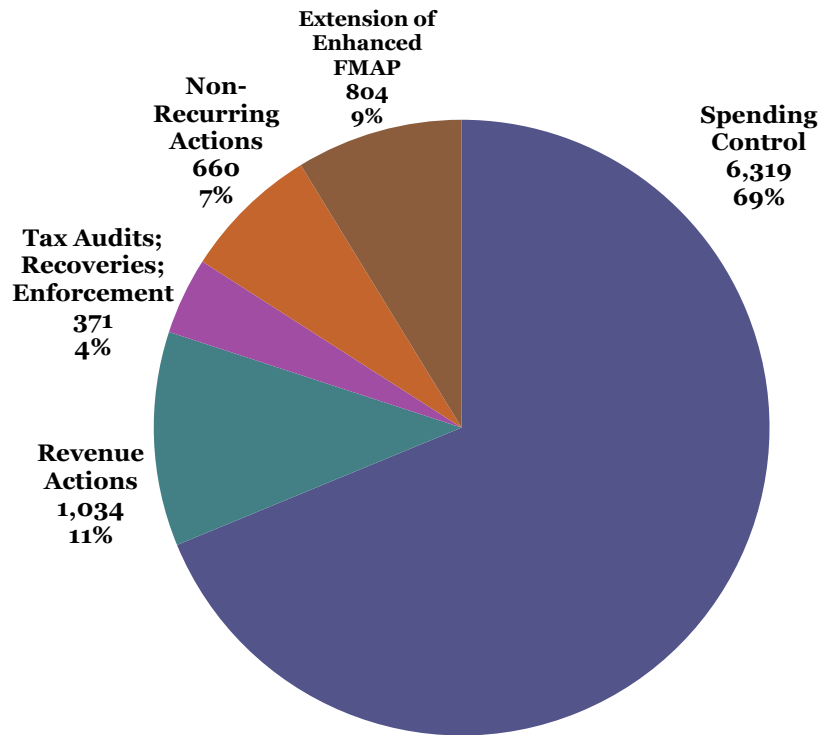
November 18, 2010

Enacted Budget Highlights

- Eliminates a budget gap of \$9.2 billion, including the \$1.65 billion shortfall carried forward from SFY10.
- Achieves recurring savings in nearly every area of the budget.
- Reduces the four-year gap (SFY11 through SFY14) from \$66 billion to \$37 billion, a reduction of \$29 billion.
- Manages risk by mandating uniform payment reductions to cover the difference between assumed and approved levels of enhanced FMAP.
- Keeps annual spending growth in the General Fund and State Operating Funds below inflation, after adjusting for the carry-forward of the SFY10 shortfall.
- Reduces planned bond-financed capital spending by \$1.6 billion over five years to maintain adequate room under the State's Debt Reform caps.
- Preserves the rainy day reserves (\$1.2 billion).
- Does not rely on the issuance of long-term debt to finance operating costs.

Shares of SFY11 Gap-Closing Plan

\$9.2 Billion in Actions



- Recurring actions comprise over 90 percent of gap-closing plan.
- Second straight year of substantial recurring reductions affecting nearly every activity:
 - Local assistance (\$4.3 billion)
 - Agency operations (\$1.6 billion)
 - Fringe benefits (\$287 million, including pension amortization)
 - Debt management and bond-financed capital reductions (\$110 million)
- Significant revenue actions demonstrate willingness of State to raise taxes to help eliminate budget gaps.
- Risk surrounding Federal Medical Assistance Plan managed prudently through contingency bill.
- Non-recurring actions pose limited transaction risks.

Annual Spending

- Compared to the current-services forecast, State Operating Funds and General Fund spending (as adjusted) would be reduced by approximately \$6.4 billion.
- Spending growth in the General Fund and State Operating Funds, as adjusted, is below inflation of 1.3 percent.
- Cash management and timing of Federal stimulus money affect annual spending growth.

TOTAL DISBURSEMENTS -- SUMMARY OF ADJUSTMENTS ¹ (millions of dollars)						
	2009-10			2010-11		
	Actual Results	Adjustment	Results Adjusted	2010-11 Enacted	Adjustment	Enacted Adjusted
State Operating Funds	76,874	2,060	78,934	81,058	(2,060)	78,998
General Fund (Excludes Transfers)	46,415	2,060	48,475	49,661	(2,060)	47,601
Other State Funds	25,447	0	25,447	25,789	0	25,789
Debt Service Funds	5,012	0	5,012	5,608	0	5,608
All Funds	126,877	4,060	130,937	135,887	(2,060)	133,827
State Operating Funds	76,874	2,060	78,934	81,058	(2,060)	78,998
Capital Projects Funds	7,112	0	7,112	8,454	0	8,454
Federal Operating Funds	42,891	2,000	44,891	46,375	0	46,375
General Fund, including Transfers	52,202	2,060	54,262	55,593	(2,060)	53,533
State Funds	82,034	2,060	84,094	87,133	(2,060)	85,073

¹ Adjusted to (a) exclude the impact of paying the \$2.06 billion end-of-year school aid payment, scheduled for the last quarter of 2009-10, in the first quarter of 2010-11, as authorized in statute; and (b) include \$2.0 billion in Federal ARRA pass-through aid in 2009-10. See Financial Plan tables for 2009-10 actual results and 2010-11 estimates.

Causes of Spending Growth

- The annual spending growth in State Operating Funds, as adjusted, is affected by the rapid annual increase in debt service and fringe benefits.

CAUSES OF ADJUSTED STATE OPERATING FUNDS SPENDING CHANGE ¹				
(millions of dollars)				
	2009-10	2010-11	Annual \$ Change	Annual % Change
Total	78,934	78,998	64	0.1%
Debt Service	4,961	5,516	555	11.2%
Fringe Benefits	4,276	4,879	603	14.1%
Personal Service	10,874	10,307	(567)	-5.2%
Non-Personal Service/Fixed Costs	4,885	4,663	(222)	-4.5%
Local Assistance	53,938	53,633	(305)	-0.6%

¹ Adjusted to exclude the impact of paying the \$2.06 billion end-of-year school aid payment, scheduled for the last quarter of 2009-10, in the first quarter of 2010-11, as authorized in statute.

- As adjusted, spending for local assistance and agency operations, two areas of the budget that are responsive to immediate cost reduction efforts, decline by \$1.1 billion (-1.6 percent) from SFY10 levels.

Outlook for SFY12

- Gap for SFY12 totals \$8.2 billion. Estimates will be next updated as part of the Mid-Year Financial Plan (October 2010).
- Even after two years of substantial spending reductions and tax increases, the SFY12 gap remains high, equaling approximately 14 percent of projected General Fund receipts for SFY12.
- Expiration of Federal stimulus aid will result in over \$5.1 billion in costs reverting to the General Fund in SFY12.
- Equally important, rapid growth in planned spending is a key contributor to the gaps in SFY12 and beyond.

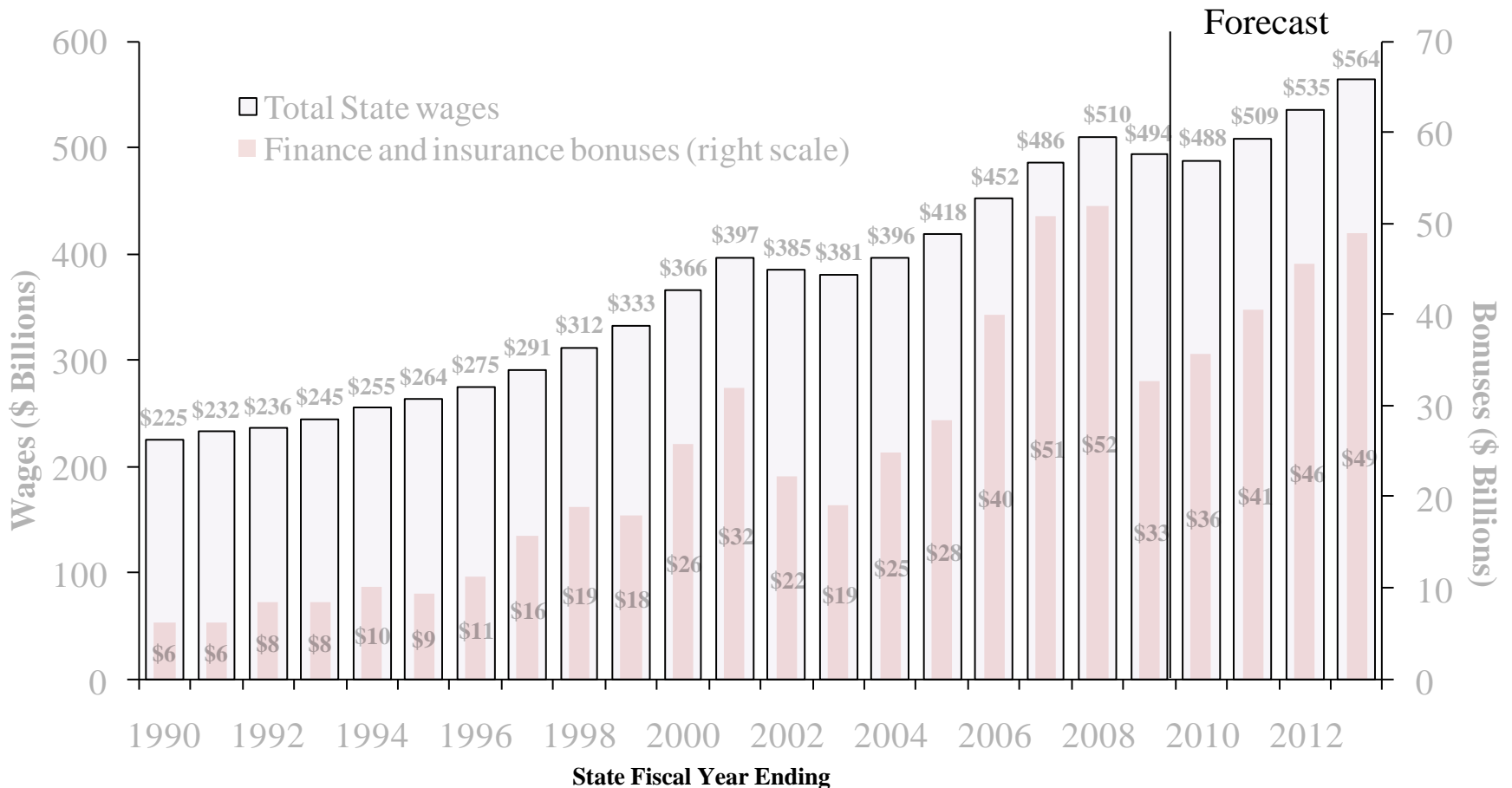
Risks to Financial Plan

- Level of economic growth, and the resulting impact on tax collections.
- Pressure on entitlement spending.
- Implementation of State agency reductions.
- Collection of taxes on Native American reservations.
- Adverse Federal actions.

New York Outlook

- New York State wages fell an unprecedented 7.2 percent in 2009, a bit below the February forecast. Though the State economy is estimated to have emerged from recession in early 2010, like the rest of the nation, the State's recovery may have lost some momentum during the late spring and early summer.
- DOB projects an employment decline of 0.3 percent on an annual average basis for 2010, followed by growth of 1.0 percent for 2011. Private sector jobs are projected to fall 0.5 percent for 2010 and grow 1.2 percent in 2011.
- The first quarter saw stronger bonus payouts within the finance and insurance sector than anticipated in February. Wage growth of 5.1 percent is now projected for 2010.
- Although markets are recovering from their recent lows, the outlook remains uncertain due to the extreme volatility in financial market prices.

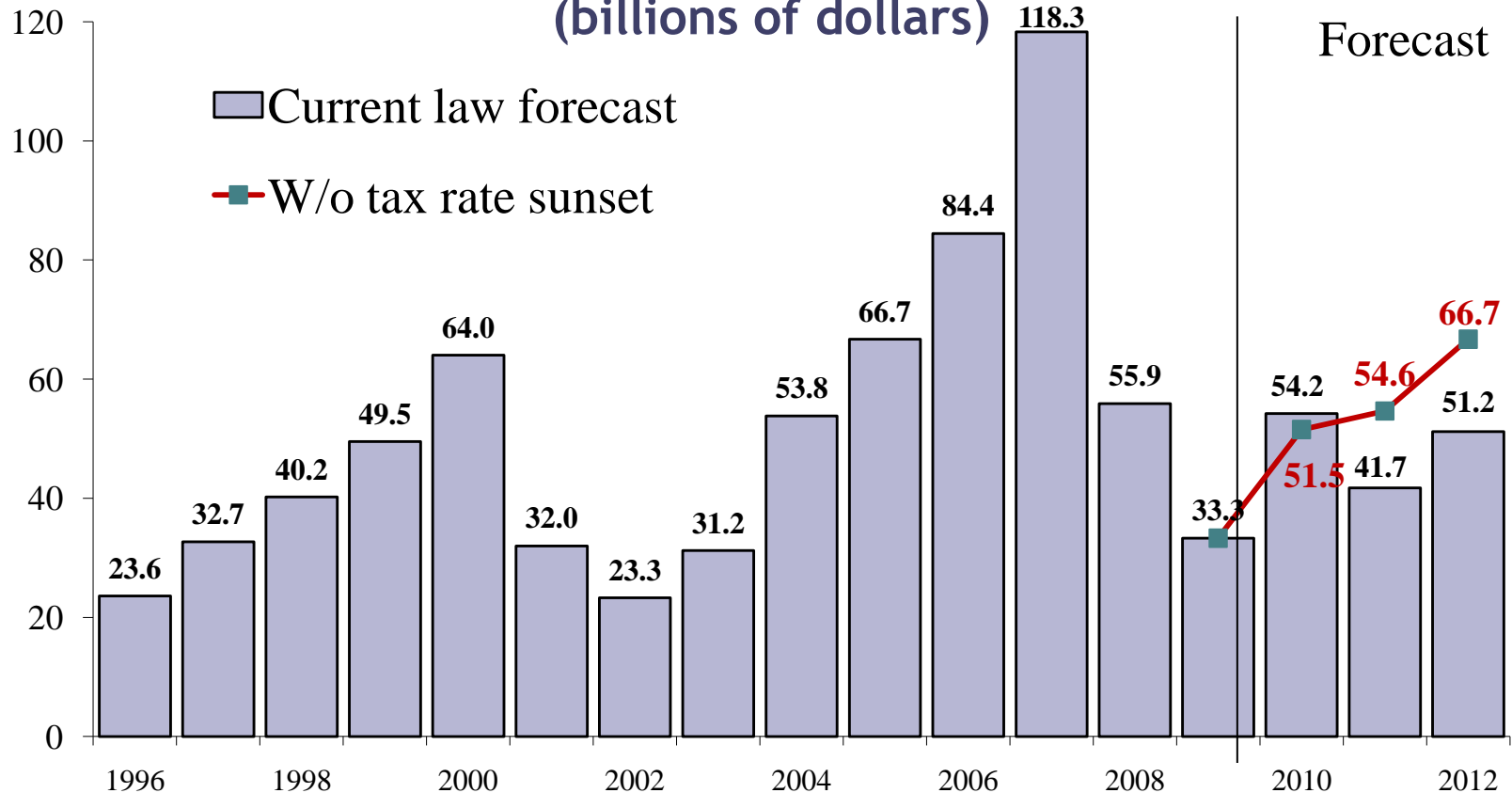
New York State Finance and Insurance Sector Bonuses



Source: NYS Department of Labor; DOB staff estimates

- In the wake of the financial crisis, total State wages fell in both 2008-09 and 2009-10 as a result of large declines in bonuses and the loss of more than 300,000 jobs over the course of the State recession. Although wages are expected to rise 4.3 percent in 2010-11, they are projected to remain below their most recent 2007-08 peak.

Capital Gains Realizations (billions of dollars)

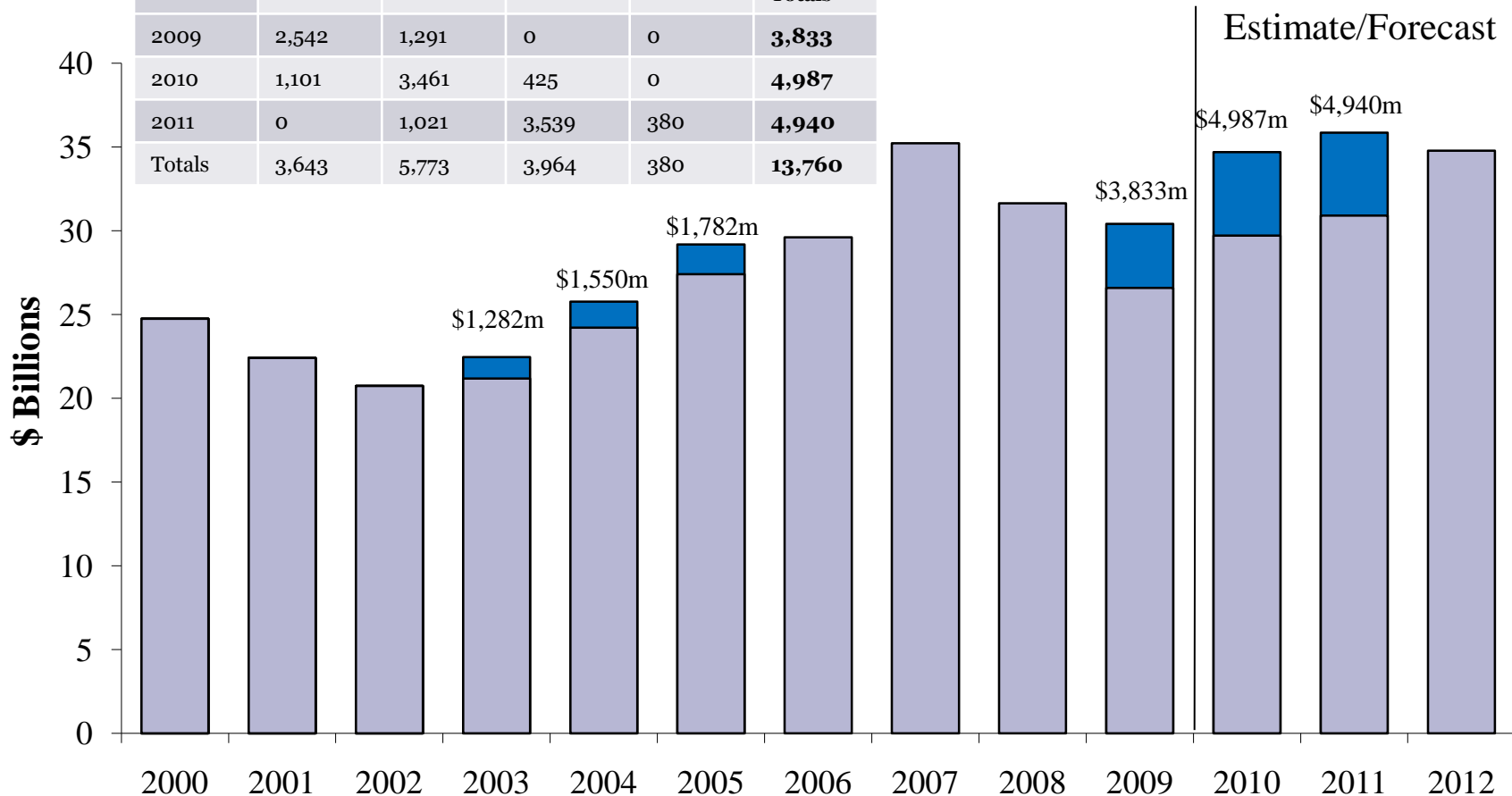


Source: NYS Department of Taxation and Finance; DOB staff estimates.

- Capital gains realizations are projected to increase a cumulative 54 percent between 2009 and 2012 if the favorable tax rate of 15 percent is allowed to sunset by the end of 2010. If the tax rate is not allowed to return to 20 percent, capital gains realizations are expected to double over those three years.
- Projecting the taxpayer response to an anticipated change in tax rates adds to the already high degree of uncertainty surrounding a forecast of capital gains.

Total Personal Income Tax Liability 2000-2012

2009 and 2010 High Income Tax Provisions ¹					
Tax Year	Fiscal Year (\$ in millions)				Liability Totals
	2009-10	2010-11	2011-12	2012-13	
2009	2,542	1,291	0	0	3,833
2010	1,101	3,461	425	0	4,987
2011	0	1,021	3,539	380	4,940
Totals	3,643	5,773	3,964	380	13,760



Note: Values above bars indicate the amount of additional liability due to temporary brackets and rates for those tax years. "Current law" for 2006-2012 includes changes in State and Federal tax law that are effective with the 2006 tax year and beyond.

Source: New York State Department of Taxation and Finance; DOB staff estimates.

- Personal income tax liability is projected to fall by over \$900 million in 2012 due to the expiration of the 2009-2011 surcharge.

¹ Values for 2009 and 2010 high income tax provisions include both the 2009 temporary rate increase and 2009 and 2010 additional limitations on itemized deductions.