Report on the State Fiscal Year 2010-11 Executive Budget

February 2010

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New York State Comptroller

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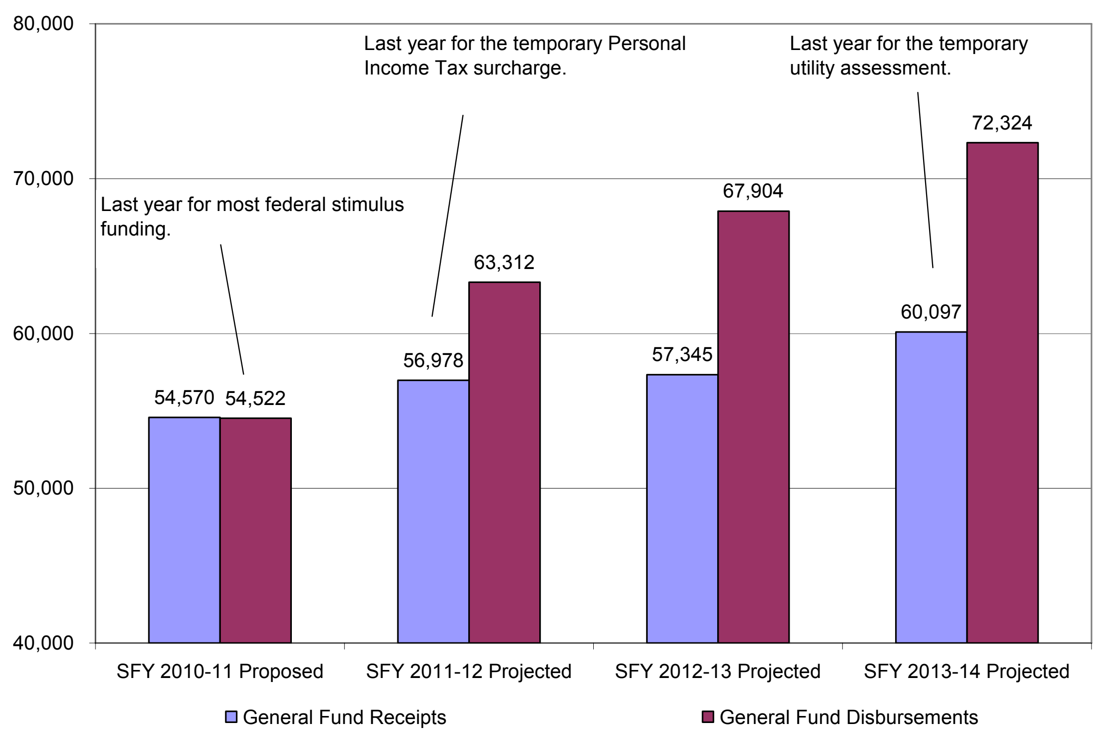
Executive Summary

The Executive has proposed a spending plan for State Fiscal Year (SFY) 2010-11 that relies heavily on recurring spending cuts and revenue actions to produce a cash balanced budget, including provisions to roll a projected current year deficit forward. To close the estimated $7.4 billion State Budget deficit, the SFY 2010-11 Executive Budget recommends $4.9 billion in spending reductions, $1.07 billion in new or increased fees and taxes, $692 million in recurring Deficit Reduction Plan savings and revenue, $565 million in new non-recurring or "one-shot" resources and $221 million in tax audit recoveries.

Despite the magnitude of these proposed actions, the State's long-term Financial Plan remains structurally unbalanced, for two primary reasons. First, recurring State expenses are rising at a faster rate than recurring revenues, which continues a long-term trend. Second, this structural imbalance is worsened by the fact that the proposed budget relies on approximately $11.3 billion in temporary funds with no plan to replace those resources. Approximately 20 percent of permanent General Fund spending is supported by revenue that disappears over the next three years. Federal stimulus funds of $4.7 billion, a temporary Personal Income Tax surcharge projected to yield $5.5 billion and a temporary utility assessment projected at $557 million make up the largest portion of these disappearing resources.

General Fund Receipts and Disbursements – Executive Proposed Budget
SFY 2010-11 through SFY 2013-14
(in millions of dollars)



These two factors produce significant budget imbalances for the foreseeable future. The current services out-year gap (reflecting estimates prior to factoring in Executive Budget proposals) is projected to exceed $20 billion in SFY 2013-14, with a projected cumulative four-year gap of $61 billion. Even if all proposals advanced by the Executive are enacted, General Fund revenue over the next four years is still projected to increase at a much slower rate than is spending. Revenue is expected to increase by approximately 12.2 percent, while spending is anticipated to increase by 33.6 percent. The result is a projected four-year cumulative gap totaling $29 billion through SFY 2013-14.

Additionally, projections for both the current and the next State fiscal years rely on revenue and savings assumptions that appear optimistic and may fail to materialize, significantly increasing the size of the projected gaps. For example, revenue collections through January indicate that tax receipts, especially in the Personal Income Tax category, are likely to end SFY 2009-10 below projections. This could result in a current fiscal year deficit appreciably larger than the $500 million projected by the Executive. Because the Executive plans to roll the current year deficit into next year, this would translate into an even larger gap for SFY 2010-11. The following summarizes some of the risks to the SFY 2010-11 Financial Plan:

- The Executive's anticipated growth in revenue from the Personal Income Tax and other sources is based on an economic recovery, the timing of which remains uncertain.
- The lingering recession adds to fiscal stress by increasing the demand for programs and services such as Medicaid.[1]
- Several revenue producing measures (sugared beverage tax, wine sales in grocery stores, Video Lottery Terminal and Quick Draw expansions) have similarly been proposed in the past, but not enacted.
- Numerous programmatic cuts have been proposed previously, but either were not enacted or were not fully realized. School aid, higher education and health care reductions are notable examples.
- Tax audit recoveries, new Medicaid audit recoveries and abandoned property transfers are budgeted aggressively at $1.1 billion.

State debt levels remain among the highest in the nation, and debt service remains the fastest growing major category of State spending, limiting available funds for other critical programs such as health and education. Although the Executive proposes to slow the pace of capital spending, by nearly $1.8 billion over the next five years, outstanding State-Supported debt is projected to increase by $3.1 billion, or 6.1 percent, in SFY 2010-11.

[1] Enrollment growth, utilization increases, the local spending cap and the expiration of federal stimulus monies drive additional State costs of $1.3 billion in Medicaid in the Department of Health, prior to cost-containment measures.

General Fund revenue for SFY 2010-11 is projected to increase by $1.0 billion (1.9 percent) to $54.6 billion, and General Fund spending to increase by $393 million (0.7 percent) to $54.5 billion. Spending on an All Funds basis, which includes the General Fund as well as special revenue, debt service and capital projects funds, is projected at $133.96 billion in SFY 2010-11, an increase of 0.6 percent over the current year estimate.

As the Legislature proceeds with its review of the SFY 2010-11 Executive Budget and specific proposals to address the State's budget deficit are enacted, rejected or substituted for alternative proposals, the focus must be on creating a final budget that improves underlying structural budget balance. While all prudent fiscal measures must be considered to avoid devastating reductions in services and maintain critical support for New York's infrastructure, the choices made must improve the State's future financial condition.

Financial Overview

State Fiscal Year 2009-10

The Enacted Budget for State Fiscal Year (SFY) 2009-10 overestimated revenue and made extensive use of non-recurring or temporary budget resources to achieve balance. As proposed by the Executive, the SFY 2009-10 Budget projected a $13.8 billion General Fund current services deficit, 89 percent of which would be closed with recurring spending reductions and revenue increases and the remaining 11 percent with non-recurring resources. During the following months, revenue projections were revised downward, causing the deficit to balloon to $17.9 billion at the time the final budget agreement was enacted.

The SFY 2009-10 Enacted Budget was closed primarily using temporary actions, including nearly $4.9 billion in federal stimulus funding and a Personal Income Tax (PIT) surcharge. The Enacted Budget included significant amounts of risky resources that the Division of the Budget (DOB) eventually removed from the Financial Plan because they were unattainable. The Office of the State Comptroller described the final product as a “buy time” budget that merely postponed difficult, but necessary, decisions.

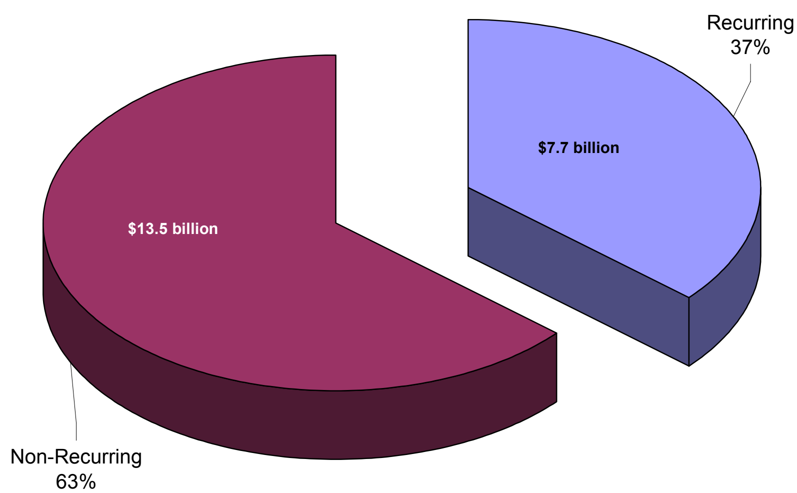
Throughout the fiscal year, revenue collections, as reported in the Comptroller’s monthly cash reports, were below DOB’s projections. In July, just three months into the fiscal year, the Executive projected a deficit of $2.1 billion and stated that a Deficit Reduction Plan (DRP) would be proposed to close the gap. In October 2009, DOB increased the year-end deficit projection to $3.2 billion ($4.1 billion was projected by the Comptroller) while also projecting a potential cash shortfall for the month of December. In November, the Comptroller warned that absent corrective action, the General Fund faced a $1.4 billion deficit in December.

The DRP enacted in December 2009 contained $2.7 billion in actions (two-thirds of which were non-recurring). However, it did little to address the December cash flow issue, which the Executive managed by delaying $750 million in payments to local governments, school districts and insurance carriers. The Executive also delayed until March 2010 the State’s $960 million contribution payment to the State Retirement System, originally planned for September. Despite these delays, the State ended the month of December with a negative balance of $205 million. DOB projects the State faces a year-end deficit of $500 million because the December DRP did not fully close the projected current year deficit.

To address this SFY 2009-10 cash deficit, the Executive Budget proposes to delay income tax refunds into SFY 2010-11, thereby increasing the SFY 2010-11 deficit by $500 million. Actions such as these exacerbate the structural imbalance that continues to plague the State.

Nearly $13.5 billion in non-recurring or temporary resources have been used or are planned to be used to balance the SFY 2009-10 State Budget, equaling 25 percent of General Fund spending. The Enacted Budget included $11 billion in such actions and the DRP enacted in December added another $1.8 billion. In March, the Executive plans to delay $500 million in income tax refunds in an effort to close the year in balance. Current estimates of the value of these gap-closing resources differ from original estimates due to updated revenue projections.

Use of Recurring and Temporary or Non-Recurring Resources to Maintain General Fund Balance in SFY 2009-10
(in millions of dollars)



There remains significant uncertainty associated with the economy and revenue collections in the current fiscal year. Given that revenue collections for most of SFY 2009-10 were consistently below Financial Plan projections, DOB's increased revenue estimates for the last quarter of SFY 2009-10 appear too optimistic. In addition, revenue included in the DRP may not materialize as anticipated. This could result in a cash shortfall in March and a significantly larger than anticipated deficit for the current fiscal year, creating the risk that DOB may have to delay more refunds or other payments to maintain budget balance.

General Fund

General Fund receipts projected for SFY 2009-10 (including transfers from other funds) of $53.6 billion are $784 million below Financial Plan projections made when the Budget was enacted in April. However, they are $1.8 billion above Mid-Year Financial Plan projections, primarily due to fund sweeps and transfers included in the December DRP, as well as increased projections in PIT and Business Taxes.

General Fund Financial Plan including Reserves
SFY 2008-09 and SFY 2009-10
(in millions of dollars)

	SFY 2008-09 Actual	SFY 2009-10 Enacted Projections	SFY 2009-10 1st Quarter Update Projections	SFY 2009-10 Mid-Year Update Projections	SFY 2009-10 3rd Quarter Update Projections
General Fund Receipts	53,801	54,338	52,366	51,708	53,554
General Fund Disbursements	54,607	54,908	55,059	54,610	54,129
Reserves					
Tax Stabilization Reserve	1,031	1,031	1,031	1,031	1,031
Rainy Day Fund	175	175	175	175	175
Contingency Reserve	21	21	21	21	21
Community Projects	145	78	78	72	73
Refund Reserve	576	73	73	73	73

Projected General Fund spending of $54.1 billion is $779 million below April Financial Plan projections, $481 million below Mid-Year Financial Plan projections, and $478 million below actual spending in SFY 2008-09. Planned spending reductions enacted in the December DRP include $629 million in local assistance payments and $803 million in administrative actions taken by the Executive to lower operational spending.

All Funds

Projected All Funds revenue of $131.1 billion is expected to be $509 million more than in the Enacted Budget Financial Plan projections released in April. However, they are $2.2 billion higher than Mid-Year projections, primarily due to federal aid and miscellaneous receipts from the December DRP.[2] By the end of the fiscal year, revenue is expected to total $11.8 billion, or 9.9 percent, more than SFY 2008-09.

All Funds spending for SFY 2009-10 of $133.2 billion is projected to be $1.2 billion above Enacted Budget Financial Plan projections (due to the addition of MTA-related tax collections and spending passed after budget enactment) and $13 million below Mid-Year projections. However, total spending is projected to be $11.6 billion, or 9.5 percent, more than SFY 2008-09.

All Governmental Funds Financial Plan
SFY 2008-09 and SFY 2009-10
(in millions of dollars)

	SFY 2008-09 Actual	SFY 2009-10 Enacted Projections	SFY 2009-10 1st Quarter Update Projections	SFY 2009-10 Mid-Year Update Projections	SFY 2009-10 3rd Quarter Update Projections
All Funds Receipts	119,235	130,550	129,790	128,855	131,059
All Funds Disbursements	121,571	131,935	133,469	133,185	133,172

[2] Subsequent to budget enactment in April 2009, legislation was enacted creating new revenue sources totaling nearly $1.4 billion in aid to the Metropolitan Transportation Authority (MTA). These new revenues do not benefit the State since all revenue generated from the various fees and taxes are sent to the MTA.

State Fiscal Year 2010-11

General Fund

The SFY 2010-11 Executive Budget projects a current services gap of $6.9 billion plus the $500 million budget deficit from SFY 2009-10. The gap results primarily from relatively flat revenues, built-in spending growth for items such as Medicaid, school aid, collectively bargained salaries and fringe benefits, and a reduction in available federal stimulus aid. A total of $7.4 billion in actions is recommended to close this projected General Fund gap.

The proposed Financial Plan projects General Fund receipts (including transfers) will grow nearly $1.0 billion, or 1.9 percent, in SFY 2010-11 with two revenue sources showing material changes. PIT receipts are expected to grow $1.6 billion, or 7.2 percent, primarily because of significant growth in collections in both withholding and estimated taxes. Miscellaneous Receipts are projected to decline $605 million, or 17.2 percent, primarily due to the loss of certain non-recurring resources received in SFY 2009-10.

General Fund spending is projected to stay nearly flat, as a result of proposed spending reductions and actions to increase revenue in other funds and thereby offset General Fund support. Gap-closing actions affect all program areas but most significantly Medicaid, school aid and agency operations. The largest year-to-year decline is $506 million in local assistance payments (1.4 percent), including $463 million in school aid and $316 million in local government assistance (primarily New York City). These reductions are offset by a $581 million increase in Department of Health (DOH) Medicaid spending.

State Operations costs are projected to decline $244 million, or 2.9 percent, to $8.3 billion, reflecting reductions taken by the Executive in SFY 2009-10 as well as additional reductions that are proposed in SFY 2010-11.

Proposed General Fund Gap-Closing Plan

The State faces a projected current services General Fund shortfall of $7.4 billion in SFY 2010-11, growing to over $20 billion in SFY 2013-14 before reflecting actions proposed in the Executive Budget. To address the SFY 2010-11 shortfall, the Executive proposes approximately $4.9 billion in spending reductions, $1.07 billion in new or increased fees and taxes, $692 million in recurring Deficit Reduction Plan savings and revenue, $565 million in new non-recurring or “one-shot” resources and $221 million in tax audit recoveries.

While the Executive’s proposal closes the projected $7.4 billion current services gap in SFY 2010-11, it does little to address the fact that more than half of the $13.5 billion in temporary resources used to balance the budget in SFY 2009-10 will be unavailable in SFY 2011-12. The loss of these temporary resources, including federal stimulus funds and the first year of the temporary PIT surcharge, is reflected in projected out-year gaps.

General Fund and HCRA Gap-Closing Plan SFY 2009-10 through SFY 2013-14
(in millions of dollars)

	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2013-14
Current Services Gap From Mid-Year Update October 2009	**(3,159)**	**(6,796)**	**(14,775)**	**(19,520)**	**NA**
Forecast Revisions	**(86)**	**(122)**	**464**	**1,189**	**NA**
Revised Current Services Gap - Pre-December DRP (1)	**(3,245)**	**(6,918)**	**(14,311)**	**(18,331)**	**(20,713)**
Deficit Reduction Plan - December 2009	**2,745**	**692**	**811**	**876**	**854**
Recurring Actions	*926*	*692*	*811*	*876*	*854*
Non-Recurring Actions	*1,819*	-	-	-	-
Deficit roll to SFY 2010-11	**500**	**(500)**	**-**	**-**	**-**
New Projected Current Services Deficit	**-**	**(6,726)**	**(13,500)**	**(17,455)**	**(19,859)**
New Recurring Revenue	**-**	**1,291**	**1,874**	**1,609**	**1,448**
Syrup Excise Tax (HCRA)	-	465	1,000	1,000	1,000
Cigarette Tax (HCRA)	-	210	205	201	197
Wine in Grocery Stores	-	92	51	6	5
Informational Returns on Credit/Debit Cards	-	-	-	35	83
Film Credit	-	-	-	(168)	(292)
Empire Zone Replacement	-	-	-	(50)	(100)
Other Tax Actions	-	32	49	49	49
Medicaid Provider Assessment (HCRA)	-	216	235	235	235
Work-Zone Cameras for Speed Enforcement	-	25	71	38	23
Civil Court Filing Fees	-	31	44	44	44
Tax Audit and Recoveries	-	221	221	221	221
All Other	-	(1)	(2)	(2)	(17)
Non-Recurring Actions as Reported	**-**	**565**	**-**	**-**	**-**
Federal TANF Resources	-	261	-	-	-
Medicaid Malpractice Payment Timing	-	127	-	-	-
Fund Balances	-	95	-	-	-
Lottery Investment	-	50	-	-	-
School Aid Recoveries	-	32	-	-	-
New Recurring Spending Reductions	**-**	**4,870**	**5,340**	**5,358**	**6,184**
School/Lottery Aid and other Education	-	1,764	1,587	1,495	2,100
Health Care/Mental Hygiene	-	869	1,247	1,215	1,206
STAR	-	213	250	267	288
Human Services/Labor/Housing	-	201	201	193	223
Higher Education	-	208	210	213	214
Local Government Assistance	-	325	329	330	322
Agency Reductions	-	709	743	704	734
Workforce Savings	-	250	125	-	-
Pension Amortization/Fringe Benefits	-	262	536	792	917
Bonded Capital Reductions	-	10	37	78	100
All other	-	59	75	71	80
New Executive Budget Proposal Gap Projection	**-**	**-**	**(6,286)**	**(10,488)**	**(12,227)**

Note: Negative numbers increase the gap whereas positive numbers decrease the gap.

(1) The Proposed Financial Plan includes the $500 million remaining from SFY 2009-10 in the SFY 2010-11 current services gap.

All Funds

All Funds receipts are projected to increase $1.9 billion, or 1.5 percent, to $133 billion, primarily reflecting growth in tax collections. Taxes are expected to increase $3.4 billion, or 5.6 percent, primarily driven by PIT withholding and estimated collections. Total PIT collections are projected to increase $1.9 billion, or 5.4 percent.

User Taxes are projected to increase by approximately $1.4 billion, or 10.1 percent, including $450 million from the Executive's proposed tax on syrup and other beverage mixes and another $15 million in related sales tax revenue. Business taxes are projected to decline by $65 million, or 0.8 percent. Bank tax collections are projected to drop sharply (21.1 percent), while Corporate Franchise tax collections are expected to increase by $314 million, or 10.6 percent. Federal grants are projected to decline slightly, reflecting the phase-out of stimulus funding.

All Funds spending is projected to increase $786 million, or 0.6 percent, to nearly $134 billion. Local assistance is projected to decline by $1.2 billion, or 1.3 percent, with reductions similar to those in the General Fund with the exception of DOH Medicaid, where related All Funds spending is projected to decline $154 million. State Operations is projected to decline $270 million, or 1.4 percent. Debt service on State-Supported debt is projected to be the fastest growing major category of spending in the Budget, growing by $844 million, or 17.1 percent, along with growth in Capital Projects spending, growing by $934 million, or 13.1 percent.

The Executive Budget does not rely on federal stimulus funds beyond the time when they are scheduled to expire. In the event these federal funds are extended, such as the Obama Administration's recent proposal to extend the enhanced Federal Medical Assistance Percentage (FMAP) for an additional six months, the State will benefit from these actions.

Structural Imbalance

The State's chronic General Fund budget gaps are the result of a long trend in New York State budgets of spending growing faster than revenue. Thus, even though General Fund revenue in SFY 2010-11 is expected to grow by more than twice the rate of spending, the structural imbalance in the State Budget persists.

This is because of the $21.2 billion in deficit reduction actions taken in SFY 2009-10 (including gap closing plans in the SFY 2009-10 Enacted Budget), only 36.5 percent were permanent. Furthermore, while more than 80 percent of the revenue and spending actions proposed in the Executive Budget are recurring, they do little to address the $11.3 billion in resources that will disappear over the next three years.

As a result, the long-term disparity between recurring growth rates of revenue versus spending continues. General Fund spending is projected to grow an average of

7.7 percent annually through SFY 2013-14, more than double the 2.9 percent revenue growth rate.

Using percentage growth rates, the following table illustrates the structural imbalance between spending and receipts in both the General Fund and All Funds.

Projected Growth in General Fund Receipts and Disbursements
SFY 2009-10 through SFY 2013-14

Percentage Growth	SFY 2009-10 Projected	SFY 2010-11 Proposed	SFY 2011-12 Projected	SFY 2012-13 Projected	SFY 2013-14 Projected	Total Growth 2010-11 through 2013-14	Average Annual Growth 2010-11 through 2013-14
General Fund Receipts	-0.5%	1.9%	4.4%	0.6%	4.8%	12.2%	2.9%
General Fund Disbursements	-0.9%	0.7%	16.1%	7.3%	6.5%	33.6%	7.7%
All Funds Receipts	9.9%	1.5%	-1.3%	1.3%	3.7%	5.3%	1.3%
All Funds Disbursements	9.5%	0.6%	3.4%	4.2%	4.4%	13.1%	3.1%

Non-Recurring Resources and Structural Imbalance

The SFY 2009-10 Financial Plan is only the most recent example of New York State's long tendency to close a persistent revenue-spending disparity with non-recurring budget actions. The Enacted Budget utilized $11 billion in temporary or non-recurring actions to achieve balance, including the use of $4.9 billion in federal stimulus funding and another $4.5 billion in tax increases that will sunset within the next five years.

Because the SFY 2009-10 Enacted Budget relied on risky revenue sources and overly optimistic projections, three months into the fiscal year the General Fund was already projected to be out of balance. This necessitated additional deficit closing actions. When $2.7 billion in additional deficit reduction measures were approved in December 2009, the State again relied on non-recurring resources to provide two-thirds of the total estimated value of this mid-year DRP. Moreover, the approved actions did not close the entire gap estimated by the Executive.

The State's reliance on non-recurring and temporary measures to balance the SFY 2009-10 Financial Plan culminated with the Executive's proposal to close the remaining budget gap by rolling an estimated $500 million deficit into SFY 2010-11. By the end of the fiscal year, the SFY 2009-10 Budget will have used an estimated $13.5 billion in non-recurring or temporary revenue for balance, comprising over 25 percent of projected General Fund spending.

Most of these temporary resources are still in use in the Executive's proposed budget for SFY 2010-11. General Fund balance is achieved using $11.3 billion in resources that will eventually disappear. As the following table illustrates, the Budget will begin seeing the largest declines in these temporary resources in SFY 2011-12 when significant sums of stimulus monies are no longer available and in SFY 2012-13 when the temporary PIT surcharge ends.

Temporary Resources Supporting the General Fund
(in millions of dollars)

	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2013-14
Stimulus FMAP Increase	3,702	3,387	-	-	-
Stimulus Fiscal Stabilization	1,523	1,275	220	-	-
Temporary Personal Income Tax	3,643	5,488	3,335	-	-
Temporary Utility Assessment	602	557	557	557	557
Non-Specific Fund Sweeps	287	367	368	369	350
Pension Amortization (1)	-	217	475	738	859
Workforce Concessions	-	250	125	-	-
Abandoned Property	100	100	100	100	100
Sale of Wine in Grocery Stores	-	92	51	6	6
Workers' Compensation Recapture	-	24	-	-	-
DRP/Year End Actions (including reserves) (2)	1,928	(1,031)	-	-	-
Reported Non-Recurring Actions	1,681	565	-	-	-
Total Temporary Resources	**13,466**	**11,291**	**5,231**	**1,770**	**1,872**

(1) Out-year values estimated based on historic growth.
(2) Includes costs associated with prior non-recurring actions such as $500 million from delaying income tax refunds in SFY 2009-10 and $391 million from spin-up of federal education stimulus dollars, as well as other costs/benefits from the December DRP.

All budgets make use of some temporary resources. For example, a carefully constructed pension amortization can dampen the impact of volatile pension rates. However, over-reliance on temporary measures without a plan to replace those resources, worsens the State's long-term fiscal outlook.

Risks to the Financial Plan

In addition to the over-reliance on temporary resources, the SFY 2009-10 and SFY 2010-11 Financial Plans include several proposals that may not ultimately provide the level of revenue or savings anticipated. This could worsen the projected deficits for SFY 2010-11 and significantly increase out-year gap projections. These proposals include billions of dollars in new or increased revenue actions and spending reductions that may be difficult to enact as well as savings targets that lack detailed plans. The following provides an overview of the larger risks that could impact the Financial Plan.

- **Unrealized DRP Revenue**—With less than three months remaining in SFY 2009-10, certain revenue included in the DRP may not materialize as anticipated, including $250 million from the Tax Amnesty Program, $200 million from a franchise fee for Video Lottery Terminals at the Aqueduct Racetrack, and $200 million from the Battery Park City Authority. The State does not have a plan to close the projected deficit in the current year and instead plans to roll it into SFY 2010-11, exacerbating the challenge for that year.

- **The Economy**—The current economic slowdown is already worse and longer than anticipated and a further decline or slower recovery could continue to drive up social services costs, while reducing revenues. For example, revenue collections through January indicate that tax receipts, especially in the Personal Income Tax (PIT) category, are likely to end SFY 2009-10 below current DOB projections. If this shortfall occurs and is significant, a reduction in the PIT projection for SFY 2010-11 may be warranted. While DOB and many economists believe the nation has emerged from the recession, the lagging effects could persist and cause revenue shortfalls and increased pressure on Medicaid and various social services costs.

- **Previously Rejected Proposals**—Many of the Executive's proposals may be very difficult to achieve in whole or in part due to the fact that they are similar to actions that have been proposed in prior years and rejected. This includes significant spending reductions in school aid and Medicaid, as well as major revenue initiatives, such as the proposed tax on sugared beverages and the expansion of certain gambling-related programs.

- **Non-specific Fund Sweeps**—Recent State budgets have included language authorizing DOB to transfer or "sweep," at its discretion, available, unencumbered resources from other State funds to the General Fund. These are generally programs that have dedicated revenue streams, typically with a substantive link to such revenue. In prior budgets, such transfers were individually identified by fund, providing transparency with regard to what funds were to be swept. The Executive Budget includes non-specific transfer language and increases the maximum amount to be swept to $500 million. According to the Financial Plan, DOB expects to sweep $367 million in SFY 2010-11 and similar amounts in the out-years, but does not identify what funds will be swept, how the estimate was derived or the impact the sweeps will have on the operations of affected programs.

- **Workforce Savings "Targets"**—The SFY 2010-11 Financial Plan includes a $250 million target in savings from workforce actions to reduce State employee salary costs. Such actions may include salary deferrals or delays or reductions in contractually determined wage increases. Such savings can only be achieved through contract renegotiations.

- **Medicaid Fraud and Tax Audit Recoveries**—The proposed Budget includes $300 million in increased Medicaid fraud recoveries and another $221 million in tax audit recoveries for SFY 2010-11 and in each out-year, reflecting significant increases over previous projections. This is in addition to projections for $250 million in non-recurring revenue from the tax amnesty program and $15 million in non-recurring Medicaid fraud resources included in the December 2009 DRP.

- **Abandoned Property Transfer**—Pursuant to the State Finance Law, all monies in the Abandoned Property Fund in excess of $750,000 are transferred to the General Fund by the end of each fiscal year. For SFY 2010-11, the Executive proposes a transfer of $550 million, approximately $100 million more than levels historically available. The levels projected in the SFY 2010-11 Financial Plan are likely unsustainable. While receipts to the Fund have modestly increased in the current year, claims paid are also rising significantly.

Each of these risks poses a significant threat to the Financial Plan for the current year and subsequent fiscal years. Any additional deterioration in revenue collections in the fourth quarter of SFY 2009-10 or delays in completing the transactions described above could materially increase the size of the projected deficit considerably.

The Legislature must enact a budget that mitigates these risks through responsible measures that set the State on a fiscally prudent path. Gimmicks and other irresponsible solutions, such as the use of borrowing to resolve the deficit, only postpone the problem and demonstrate that the State is unwilling to address its financial difficulties. The State's taxpayers cannot afford a budget that gives the illusion of being balanced, but relies on unrealistic revenue sources and savings projections to continue spending beyond available means.

Economic Outlook

National Economy

The national economy continues to show signs of improvement. After declining for four quarters, the Gross Domestic Product (GDP) grew at an annualized rate of 2.2 percent in the third quarter of calendar year 2009 and a surprisingly robust 5.7 percent annualized rate in the fourth quarter. The pace of expansion is expected to ease until job growth begins to boost consumer confidence and spending over a sustained period. The Blue Chip consensus forecast expects the GDP, after declining by 2.5 percent in 2009, will grow by 2.8 percent in 2010 and 3.1 percent in 2011.

Weak employment numbers, however, continue to be a source of economic concern. Through December 2009, the nation lost 7.2 million jobs since the recession began two years earlier. The rate of job loss has slowed since the spring, and in November 2009 there was a small increase of 4,000 jobs; a more sustained increase in job growth is expected to begin in the first quarter of 2010. The national unemployment rate was 10 percent in December 2009—twice the level of two years earlier—and is expected to peak in the first quarter of 2010.

Real consumer spending declined by an annual rate of 0.9 percent in the second quarter of 2009, but increased by 2.8 percent in the third quarter as the "Cash for Clunkers" program boosted auto sales. In the fourth quarter, spending eased back down to 2.0 percent. The Blue Chip consensus forecast is for a subdued recovery in real consumer expenditures, with growth rates around 2.0 percent through the second quarter of 2010.

New York State Economy

After four quarters of contraction, New York State's economy also began to expand during the third quarter of 2009. However, most forecasters still expect the State's recovery will be weaker than the nation's. Although Wall Street is strengthening, the industry's recovery will not solve the State's fiscal problems.

New York has lost 291,900 jobs thus far in the current recession, and job losses are expected to continue into 2010. The unemployment rate in New York was 9.0 percent in December 2009, matching a 26 year high. This unemployment rate is lower than the national rate, but still more than four percentage points higher than it was two years ago.

While a number of New York's economic indicators have shown some improvement since the lows reached last winter, these gains have been relatively small. For example, initial unemployment insurance claims were 30,290 in the four-week period ending December 26, 2009, and while this was below the levels at the beginning of 2009, initial claims have risen somewhat in recent weeks. Also, although consumer confidence in New York State was at 65.8 in December 2009, this is 6.7 points below the national level, according to the Siena Research Institute.

Wall Street has recovered dramatically in the past year and has posted record profits. Year-end bonuses are also expected to be higher than last year. However, in response to calls for compensation reform, the portion paid in stock and other forms of deferred compensation, which will not generate tax revenue in the near term, is expected to be greater than last year.

The Division of the Budget is forecasting that cash bonuses will decline by 5.0 percent, which is a reasonable estimate for financial planning purposes. The Office of the State Comptroller traditionally issues its estimate of cash bonuses paid to securities industry workers employed in New York City in February.

According to the S&P/Case-Shiller Home Price indices, through April 2009 housing prices in the New York City metropolitan area had declined by 20.6 percent from the peak reached in May 2006. In 2009 there were 50,369 foreclosures in New York State, an increase of 0.7 percent from 2008 and 30.2 percent from 2007.

Revenue

The Executive estimates that total General Fund receipts will increase $1.0 billion, or 1.9 percent, over SFY 2009-10 to $54.6 billion. General Fund tax receipts are estimated to increase $2.1 billion, or 5.4 percent, to $39.9 billion. Base General Fund tax receipts growth, which nets out the impact of law changes, is projected to increase (for the first time since SFY 2007-08) by 3.1 percent due to a rebound in economic activity.

The Executive estimates that in SFY 2010-11 total All Funds receipts will increase $1.9 billion, or 1.5 percent, over SFY 2009-10 to $133 billion. All Funds tax receipts are estimated to increase $3.4 billion, or 5.6 percent, to $62.2 billion. This increase is attributable to the full year impact of the SFY 2009-10 temporary PIT surcharge, federal tax changes and proposed new taxes. The SFY 2010-11 Executive Budget includes new revenue actions of $1.4 billion in All Funds receipts ($1.9 billion fully implemented). All Funds miscellaneous receipts and federal grants are projected to decline more than $1.4 billion due to the loss of non-recurring revenue.

New or Increased Taxes and Assessments

The Executive projects the receipt of $923.2 million in All Funds revenue ($1.5 billion fully effective) from new tax and assessment actions proposed for SFY 2010-11. The majority of these new tax and assessment actions are dedicated to health care. There are seven proposals in this category, including:

- $450 million and another $15 million in related sales tax revenue ($1.0 billion fully implemented) from a new excise tax imposed on beverage syrups and soft drinks at a rate of $7.68 per gallon for syrups and $1.28 per gallon for bottled soft drinks and powders. The Executive projects this will increase the cost of soft drinks by one penny per ounce.
- $218 million (including $200 million for health care, $10 million to the General Fund and an $8.0 million additional transfer to New York City) from an increase in the cigarette excise tax from $2.75 to $3.75 (the highest in the nation).
- $240.2 million ($333.7 million fully implemented) from four health care assessments and surcharges.

Loophole Closures

The Executive projects the receipt of All Funds revenue from tax law changes intended to close loopholes including:

- $30 million in SFY 2010-11 from treating S-Corporation gains on stock and installment income as taxable for non-residents. This closes a loophole that allows a non-resident to receive income without paying New York taxes.
- $25 million in SFY 2011-12 from taxing income received by a resident trust if a non-resident is appointed as a trustee.

New or Increased Fees

The Executive projects the receipt of $42 million ($71.1 million fully effective) in All Funds revenue from two fee proposals, including:

- $41 million ($54 million fully implemented) from increasing certain Supreme, City/District and Appellate courts' filing fees.
- $1.0 million ($17.1 million fully implemented) from new early intervention parental fees established on a sliding scale based on income, ranging from $45 to $540 per child per quarter.

Tax Enforcement Actions

The Executive projects the receipt of $229 million ($233 million fully effective) in All Funds revenue from tax enforcement actions including:

- $221 million from improving Department of Taxation and Finance audit and compliance results by adding significant new staff.

Other Revenue Actions

The Executive projects the receipt of $224.6 million ($236.9 million fully effective) in All Funds revenue from six other revenue proposals including:

- $93 million ($54 million fully effective) from the sale of wine in grocery stores.
- $78 million ($99 million fully effective) from the expansion of Quick Draw and extension of Video Lottery Terminal (VLT) hours of operation.
- $32.9 million ($86.8 million fully effective) from automated speed enforcement cameras.

Program Area Highlights

Education

The Executive proposes a school aid cut of $1.1 billion on a school year basis, reflecting a 5.0 percent year-to-year reduction. School aid for the 2010-11 school year is reduced to $20.5 billion. In SFY 2010-11, All Funds spending for school aid totals $24.3 billion, a decrease of $324 million, or 1.3 percent; this includes support from Lottery revenues and $4.4 billion in federal funds, including ARRA funds.

The proposed net reduction of $1.1 billion results from several changes, the most significant being a proposed aid reduction formula, called the Gap Elimination Adjustment (GEA). The GEA would be applied in the 2010-11 school year to major formula-based aid categories, including Foundation Aid, reducing aid by $1.4 billion. The Executive Budget proposes a continuing freeze in Foundation Aid, prior to application of the GEA. Foundation Aid is the largest general aid formula within school aid (representing roughly 70 percent) and is intended to support most classroom programs and provide resources in an equalized manner to support a sound basic education.

Various "expense-based" aid formulas are proposed to increase by $367 million overall, before application of the GEA reduction. This includes reimbursements based on expenditures for transportation, building, special education and BOCES. Other proposed reductions include elimination of funding for Teacher Centers ($35 million) and reduced special supplemental funding for the Roosevelt School District ($6.0 million).

The GEA would provide a smaller percentage cut to low-wealth school districts, and would be adjusted for student need, administrative efficiency and residential tax burden. Under the GEA, with adjustments, school districts would receive a formulaic reduction in aid ranging from 3.5 to 15 percent of the combined total for major formula aid categories, with an average reduction of 9.6 percent. This would equate to a $1.1 billion reduction in Foundation Aid, and a $300 million reduction in other aid categories to which it applies. The aid reduction of $1.4 billion produced by the GEA is described in budget documents as a $2.1 billion adjustment offset by $726 million in remaining federal ARRA funds.

Mandate Relief

The Executive proposes a package of mandate relief measures for schools including a complete Wicks Law exemption, streamlined reporting and a four-year moratorium on new statutory mandates, with the State Education Department (SED) required to implement a regulatory review process. School districts would be allowed to utilize excess funds in their Employee Benefit Accrued Liability Reserve (EBALR) funds as needed.

New York State School Tax Relief (STAR) Program

The Executive Budget proposes STAR property tax relief of $3.2 billion in SFY 2010-11, an increase of $47 million, or 1.5 percent, over SFY 2009-10. Natural growth occurs in STAR due to rising tax rates and other factors such as homeowner demographics and save-harmless provisions such as the “floor” (maximum annual reduction in STAR benefits) described below. The Executive proposes over $200 million in STAR savings including:

- $143 million from eliminating the New York City Personal Income Tax STAR benefit on income over $250,000.
- $40 million from modifying the “floor” or the maximum annual reduction in STAR benefits that individuals may receive.
- $30 million from eliminating the STAR exemption benefit for residences valued at $1.5 million or more.

Higher Education

The Executive proposes to reduce State support for SUNY and CUNY senior colleges by $142.7 million in SFY 2010-11, which has a $181.5 million impact on an academic year basis. Additional proposed appropriation reductions of $52 million reflect the public universities’ share of the Executive’s proposed $250 million in workforce savings yet to be negotiated, such as delaying or reducing payment of scheduled salary increases and implementing a salary deferral. After these reductions, $946 million would be provided to SUNY and $577 million to CUNY.

Legislation accompanying the Executive Budget would provide both public university systems with new tuition, budgetary and State oversight flexibility. The Public Higher Education Empowerment and Innovation Act would allow for annual tuition increases up to two and one-half times general higher education inflation and differential tuition among campuses, with tuition and other self-supporting program revenue moved off the State’s budget. Flexibility would also be provided for procurement, capital construction and leasing of campus property. Major elements of SUNY revenue (e.g., tuition and hospital revenues) would be moved to a sole custody account; this and other changes would substantially reduce oversight by the Office of the State Comptroller.

A variety of other reductions are proposed, including:

- Reduced aid to Community Colleges by $285 per full-time equivalent student (from $2,545 to $2,260). The SFY 2010-11 cut is $56.7 million, increasing to $75.6 million in SFY 2011-12. An additional $50 million in ARRA funds would be used to support community college aid payments.
- Reduced Tuition Assistance Program (TAP) awards by $75 per award ($16.5 million savings), with maximum grants for two-year degree programs

reduced by $1,000 ($19.6 million savings), and other changes for a net reduction of $71 million on an academic year basis.

Health

The SFY 2010-11 Executive Budget increases State funded Medicaid spending $1.1 billion, or 8.3 percent, to $14.6 billion in SFY 2010-11. All Funds Medicaid spending increases $281 million, or 0.6 percent, to $44.3 billion. Overall Medicaid spending, including $7.2 billion in local government spending, is projected to total $51.5 billion in SFY 2010-11, an increase of $899 million, or 1.8 percent, over SFY 2009-10.

Much of the increase in State funded Medicaid spending results from program growth related to rising enrollment and utilization, higher costs of the cap on local Medicaid spending and the scheduled expiration of the enhanced federal Medicaid matching rate (FMAP) at the end of December 2010. The Executive proposes over $1.7 billion in Medicaid and health care savings and new revenue, including $857 million in cost containment measures, $240 million in additional provider taxes and assessments, $450 million from a new syrup tax aimed at discouraging consumption of soft drinks and $200 million from a $1.00 per pack increase in cigarette taxes. The proposed syrup tax is projected to provide a significantly greater fiscal benefit in SFY 2011-12 with receipts estimated at $970 million.

The proposed reductions in provider reimbursement and new assessments would affect hospitals ($114 million in reductions and $130 million in assessments), nursing homes ($72 million in reductions and $68 million in assessments), home care and personal care ($56 million in reductions and $18 million in assessments), and the health insurance industry ($197 million in reductions and $25 million in assessments). The Executive also proposes a target of an additional $300 million in Medicaid fraud and abuse recoveries as well as $116 million in other Medicaid reductions.

The Executive justifies the increases in hospital, nursing home and home care provider assessments by describing their impact as similar to direct funding cuts, but without a loss of federal matching funds. Proposed provider reductions and additional fraud and abuse recoveries are projected to result in the loss of approximately $800 million in federal funds.

The SFY 2010-11 Executive Budget balances Health Care Reform Act (HCRA) receipts and expenditures largely through the additional revenue generated by the higher cigarette tax and the new syrup tax. These new revenues are used, in part, to support a significant increase in the portion of General Fund Medicaid spending financed by HCRA. In SFY 2010-11, HCRA would finance nearly $2.9 billion in General Fund Medicaid expenditures, an increase of $343 million, or 13.4 percent, over SFY 2009-10. Nearly 63.6 percent of HCRA revenue would be used to support State-Funded Medicaid spending in SFY 2012-14, up from 53.4 percent in SFY 2009-10. The Executive delays for one year anticipated receipt of $242 million from the conversion of not-for-profit health insurers HIP and GHI.

Mental Hygiene

The Executive Budget proposes nearly $200 million in savings actions to limit growth in All Funds Mental Hygiene spending to $429 million, or 5.3 percent, in SFY 2010-11. Expenditures recommended for the offices of Mental Health (OMH), Mental Retardation and Developmental Disabilities (OMRDD) and Alcoholism and Substance Abuse Services, as well as the Developmental Disabilities Planning Council and the Commission on Quality Care and Advocacy for Persons with Disabilities total $8.5 billion.

Much of the year-to-year growth in Mental Hygiene spending results from salary increases and fringe benefits, as well as higher community bed development costs and service utilization. The Executive proposes a variety of savings actions to offset a portion of this growth, including:

- Eliminating 128 positions at OMH by reconfiguring inpatient services to close six wards at State psychiatric centers.
- Eliminating 20 research positions at OMRDD's Institute for Basic Research on Staten Island.
- Reducing Medicaid rates for certain OMRDD community residential services.
- Delaying OMRDD community bed development projects.
- Negotiating workforce savings with State employee unions.
- Eliminating various other non-health and safety positions at OMH and OMRDD.

The Executive proposes to use a portion of the savings from the delay of community bed development projects to begin funding a multi-year remedial plan for adult home residents with mental illness. In September 2009, a Federal District Court judge ordered the State to comply with the Americans with Disabilities Act by creating community housing and support for thousands of adult home residents with mental illness living in New York City. The Executive's proposed remedial plan provides $1.0 million in SFY 2010-11 to begin assessments of current residents. The Executive Budget indicates support for providing 200 additional housing units per year for five years, starting in SFY 2011-12 at a full annual cost of $20 million.

Human Services

The Executive proposes to use Temporary Assistance for Needy Families (TANF) emergency contingency funds (one-time ARRA stimulus funds) in response to rising public assistance caseloads, saving $261 million in the General Fund. The Executive reduces the SFY 2010-11 public assistance grant increase from 10 percent to

5.0 percent. Full implementation of the scheduled overall 30 percent public assistance grant increase is delayed from July 2011 to July 2013, saving $14 million in SFY 2010-11.

The Executive proposes to save $69 million in SFY 2010-11 by discontinuing TANF funding for certain programs, including the Summer Youth Employment Program, Supportive Housing for Families, Emergency Homeless Program, Non-residential Domestic Violence, CUNY/SUNY Child Care, Community Solutions to Transportation and the Wage Subsidy Program.

Article VII legislation, expected to save $27 million, is advanced to allow the Office of Children and Family Services to intercept payments to local social services districts for programs including child welfare, foster care, adoption and detention when districts are deficient in paying their share of the costs of operating youth facilities.

Juvenile Justice

The Executive proposes to add $9.0 million to increase staff-to-youth ratios at juvenile justice facilities, resulting in an additional 169 staff for the youth facility program. The Annville and Taberg (Oneida) youth residential facilities are proposed to be consolidated; the Tryon Boys (Fulton) and Lansing Girls (Tompkins) facilities are proposed to be downsized. This is expected to save $3.0 million in 2010-11 ($15 million in 2011-12), with an expected staff reduction of 251.

Economic Development

The Executive Budget proposes replacing the Empire Zone Program with a new jobs program, adding two new small business and technology funds. Firms receiving Empire Zone benefits would continue to receive them, but would not be eligible for the Excelsior program.

The proposed Excelsior program would be available to firms in any geographic area of the State, but only within targeted industries including biotechnology, pharmaceutical, high-tech, clean-tech, green-tech, financial services and manufacturing; and other industries with significant potential for private-sector economic growth and development, to be determined pursuant to regulation.

Excelsior would be a State-controlled tax credit program, rather than an entitlement, and firms would be eligible for benefits only after demonstrating job and/or other development commitments are met. Tax incentives would include a new jobs credit, an investment tax credit, and a research and development tax credit. Excelsior benefits would be capped at $50 million per year for new entrants, ultimately rising to a $250 million annual cap upon full implementation over five years. Commitments under the new program in SFY 2010-11 would be applicable to the tax year beginning in January 2011.

The Budget would also create a $25 million Small Business Revolving Loan Fund and a $25 million New Technology Seed Fund to support the economic growth of New York's small businesses and university-based entrepreneurs.

The Executive proposes the consolidation of the State's economic development agencies: the Department of Economic Development (DED), a State agency, and the New York State Urban Development Corporation (UDC) doing business as Empire State Development Corporation (ESDC), a public authority. Both entities would be combined within a new public authority, the New York Job Development Corporation (JDC), which would be created by reconstituting the existing New York Job Development Authority (JDA).

The new JDC would assume all of the powers, duties and functions of the DED and UDC, with annual savings of $4.7 million expected, due to elimination of duplicative functions. Another major economic development authority, the Foundation for Science, Technology and Innovation, which administers programs to expand university-based research and technology, would not be involved in the consolidation.

A similar consolidation was proposed in the SFY 2009-10 Executive Budget but was not enacted. Because functions of a State department (DED) were proposed to be transferred to a public authority (ESDC), oversight and accountability for programs would have been substantially reduced. The Office of the State Comptroller's contract review and approval process and expenditure review functions would have been eliminated. Although this year's proposed merger would be accomplished through different technical means, similar concerns remain.

Transportation

In October 2009, the Department of Transportation (DOT) proposed a new five-year capital needs program totaling $25.8 billion for the period covering SFY 2010-11 through 2014-15 to replace the $18 billion five-year program that concludes in SFY 2009-10. The Executive indicated that the current fiscal crisis made this DOT proposal unaffordable and instead proposes a two-year $7.0 billion capital program, split evenly between the two years.

The Executive proposes to eliminate $133 million in multi-modal and industrial access reappropriations, to free a similar amount of bonded funding for current capital construction programs. According to DOB, this represents approximately 50 percent of unused multi-modal appropriations and about 75 percent of unused industrial access appropriations.

Dedicated Highway and Bridge Trust Fund

The SFY 2010-11 Executive Budget increases disbursements from the Dedicated Highway and Bridge Trust Fund (DHBTF), the State's principal fund for highway construction, by $92.9 million, or 4.3 percent, over SFY 2009-10 disbursement levels, excluding transfers. Disbursements from the DHBTF are expected to total $2.3 billion in SFY 2010-11.

The General Fund subsidy for the DHBTF increases to $695 million in SFY 2010-11, a $334.9 million increase over SFY 2009-10. This General Fund subsidy is expected to total $4.7 billion for the period from SFY 2009-10 through SFY 2014-15, demonstrating the significant structural imbalance facing the DHBTF that remains unaddressed. (See the Office of the State Comptroller's October 2009 report, *The Dedicated Highway and Bridge Trust Fund: Where Did the Money Go?)*

Housing

The Executive Budget proposes to consolidate the administrative and program operations of the Division of Housing and Community Renewal (DHCR) with those of the "nyhomes" public authorities which include the Housing Finance Agency (HFA), the State of New York Mortgage Agency (SONYMA), the Municipal Bond Bank Agency, the Tobacco Settlement Financing Corporation (TSFC) and the Affordable Housing Corporation (AHC).

The Executive expects $3.5 million savings in administration, asset management and grant making through a single management structure, yet DHCR and "nyhomes" will remain separate entities. The proposed management structure is unclear (i.e., agency or authority) making reporting and accountability requirements ambiguous.

The Executive proposes cuts to neighborhood preservation and rural preservation corporations totaling $3.7 million.

Environment

Department of Environmental Conservation

The Executive Budget proposes $2.95 million in SFY 2010-11 for additional staff at the departments of Environmental Conservation (DEC), Health, and Public Service to provide oversight of natural gas extraction activities in the Marcellus Shale. This includes inspecting drilling sites, protecting water supplies, reviewing permit applications and other related functions. The Executive Budget proposes a 3.0 percent severance tax on gas produced through lateral drilling in the Marcellus and Utica Shale formations.

The Executive Budget includes General Fund savings of $10 million from shifting DEC staff costs to special revenue funds of the New York State Energy Research and Development Authority and the Environmental Facilities Corporation, and extending the waste tire fee.

Environmental Protection Fund

The Executive Budget for SFY 2010-11 proposes Environmental Protection Fund (EPF) appropriations of $143 million, a reduction of $79 million from the SFY 2009-10 Enacted Budget. Real Estate Transfer Tax transfers to the EPF are proposed to be permanently reduced by $67 million annually.

The Executive recommends a moratorium on the purchase of open space and does not provide new appropriations for this EPF category. The Executive proposes using $40 million from the EPF to maintain DEC and Parks properties and to pay local property taxes on forest preserve lands.

Adirondack Park Agency

The Executive proposes closing the Adirondack Visitor Interpretive Centers in Newcomb and Paul Smith's to save $129,000 in SFY 2010-11 ($583,000 fully annualized).

Public Protection

Department of Correctional Services

The Executive proposes closing four prisons: Lyon Mountain (Clinton), Butler (Wayne), Moriah (Essex), and Ogdensburg (St. Lawrence). These closures, along with proposed dormitory consolidations, are associated with $7.0 million in SFY 2010-11 savings ($52 million in SFY 2011-12), and once completed would reduce staff levels by 637.

Division of Criminal Justice Services

The Executive proposes to consolidate the operations of the Crime Victims Board, the Office for the Prevention of Domestic Violence, and the Division of Probation and Correctional Alternatives within the Division of Criminal Justice Services (DCJS) for savings of $2.0 million in SFY 2010-11.

The Executive proposes to reduce grants to communities for crime prevention, alternatives to incarceration and legal services programs by 10 percent to save $7.2 million. Aid to local probation departments would also be reduced by 10 percent to save $5.2 million.

Office of Homeland Security

The Executive proposes to merge the Office of Homeland Security, the State Emergency Management Office, the State 911 Board, the Office of Cyber Security and Critical Infrastructure Coordination, and the Office of Fire Prevention and Control into a newly created Division of Homeland Security and Emergency Services for savings of $1.5 million in SFY 2010-11. Additional savings of $15.5 million is proposed from shifting some of the new agency's operational costs from the General Fund to revenue from the enhanced wireless 911 emergency services (E911) surcharge.

The Executive proposes grants of up to $50 million next year to help counties develop communication networks and consolidate dispatch centers using E911 surcharge revenue previously intended for the Statewide Wireless Network, and recommends $42 million in new debt to expand the State Preparedness Training Center at Oriskany into a first responders training center.

Division of State Police

The Executive Budget proposes to delay a State Police Training class in SFY 2010-11, for a savings of $17 million. The Executive projects the State Police force will be reduced by 269 positions by the end of SFY 2010-11 and proposes a redeployment plan to reassign 90 school resource and other officers to highest priority assignments.

Local Governments

The Executive estimates that the proposed budget would have a net negative impact of $1.3 billion for local fiscal years ending in 2011. This includes program reductions of $1.6 billion that fall almost entirely on school districts and New York City, offset by a positive benefit of nearly $337 million in additional local revenues generated through revenue raising proposals ($175 million), savings generated through mandate relief proposals ($33 million) and other programmatic increases and reform proposals ($128 million).

Major Executive Budget program actions that impact local governments in fiscal years ending in 2011 include:

- Reducing school aid by 5.0 percent ($1.1 billion).
- Eliminating Aid and Incentives for Municipalities (AIM) for New York City and Erie County ($302.4 million).
- Reducing AIM funding to municipalities outside New York City ($15.1 million).
- Reducing Transit Aid to New York City and downstate counties ($8.9 million).
- Reducing VLT Impact Aid by 10 percent ($2.7 million).
- Reducing the amount available for new Local Government Efficiency Grant (LGEG) awards from what was originally available in 2009-10 ($1.5 million).

Aid and Incentives for Municipalities for Cities, Towns and Villages

AIM for New York City and Erie County is eliminated, representing reductions of $302 million and $668,332, respectively. Recognizing that AIM has been a stabilizing factor for many cities, towns and villages since 2005-06 when State revenue sharing aid was restructured to tie increases in aid to measures of need, the Executive has tied proposed reductions in AIM in the 2009-10 DRP and the SFY 2010-11 Executive Budget to a municipality's reliance on this revenue—the greater the municipal reliance on AIM, the smaller the reduction in aid.

The $15 million reduction proposed in the Executive Budget is achieved by reducing AIM by 2.0 percent from SFY 2009-10 levels if AIM revenues account for more than 10 percent of a municipality's total revenues and 5.0 percent if AIM accounts for 10 percent or less of a municipality's total revenues. For cities which had their AIM reduced in the SFY 2009-10 DRP, including Buffalo, Rochester, Syracuse and Yonkers, the SFY 2010-11 AIM would be reduced by only 1.0 percent. In total, for municipalities outside New York City, $735 million in AIM would be distributed in SFY 2010-11 compared to $750 million in SFY 2009-10—a reduction of 2.0 percent.

Revenue Options

The Executive proposes a number of new revenue raising authorizations that would benefit local governments. These proposals include:

- Providing cities and villages with the option of increasing the local gross receipts tax rate on utilities from 1.0 percent to 3.0 percent. If all cities and villages increased the rate to 3.0 percent (with the exception of New York City, Rochester, Buffalo and Yonkers which already charge 3.0 percent), DOB estimates cities and villages could generate an additional $53 million and $57 million, respectively.
- Extending the State mortgage recording tax to cooperatives to generate an additional $76 million, primarily benefiting New York City ($71 million).
- Authorizing municipalities to charge or increase various fees for public safety services, including increased fees for accident reports, fees for ambulance and emergency medical services provided by fire departments and charging for the provision of police services at paid-admission events.

Mandate Relief

To help localities manage reductions in aid, the Executive Budget includes a mandate relief package with more than 100 proposals (including actions already enacted). This package includes: a four-year moratorium on new unfunded legislative mandates on local governments and school districts; a full repeal of Wicks law requirements for school districts; increased procurement flexibility; reductions in paperwork requirements for school districts; and a requirement that the State Education Department and the

Office of Court Administration implement a mandate review process for school districts and courts respectively. The Executive also proposes legislation that would allow local governments to amortize a portion of their increased required pension cost.

The Executive proposes a number of mandate reforms aimed at providing specific relief for counties, including capping the growth in preschool special education costs at 2.0 percent annually, with school districts responsible for spending over this level, and instituting reforms aimed to make early intervention more affordable.

New York City

According to DOB, the Executive Budget would reduce aid to New York City by $749 million in City Fiscal Year 2011. Most of the impact would come from reducing education aid and from eliminating AIM funding to New York City. According to DOB, the reduction in education aid would have been even greater if not partly offset with funding from the federal ARRA funds.

The Office of the State Comptroller estimates that the Executive Budget would reduce aid to New York City by nearly $1.2 billion (see following table). This estimate is higher largely because the Executive's proposal to eliminate funding to New York City under the AIM program in SFY 2010-11 would take effect in the current City fiscal year as a result of the accounting treatment of these funds. The City also has not yet reflected in its budget the impact of a previous cut in AIM funding ($26 million) that was included in the DRP enacted in December 2009.

Impact of the Executive's Executive Budget on New York City
(in millions of dollars)

	City FY 2010	City FY 2011
Aid and Incentives to Municipalities	(353)	(327)
State Education Aid	-	(493)
Health and Social Services	(12)	(43)
Revenue Initiatives	-	60
Other	(1)	(5)
Total	**(366)**	**(808)**

In addition, the State used ARRA discretionary funds ($129 million), which were targeted for use in City Fiscal Year 2011, to help the State maintain budget balance in the current State fiscal year as part of the December 2009 DRP.

The impact of the loss in funding on educational services remains to be determined, as does whether the City would reallocate resources from other programs to mitigate any adverse impact.

State Workforce

The Executive Budget recommends a reduction of 674 full time equivalent (FTE) Executive agency workforce positions in SFY 2010-11, to a total of 195,701.[3] This represents a 0.34 percent reduction year-over-year from the closeout estimate of 196,375 for SFY 2009-10.

The Executive's workforce proposals include 16,605 attritions and 134 job eliminations, offset by 16,065 new fills. The number of attritions is four times the number projected in last year's Executive Budget proposal. DOB indicates that the new presentation of attrition and new fill numbers include all personnel actions, such as filling existing positions that have been vacated.

The Executive Budget includes a number of proposals to achieve cost savings through workforce actions in the coming year. These measures are substantially the same as proposals that were advanced last year but not enacted. The Executive identifies options to achieve a savings target of $250 million, including the implementation of a five-day salary deferral for all State employees or the delay or elimination of the scheduled 4.0 percent negotiated salary increase currently scheduled for April 1, 2010. The $28 million savings associated with the elimination of scheduled salary increases for Management/Confidential employees is included in the target figure.

The Executive proposes to require State employees and retirees to contribute to Medicare Part B premiums: a 10 percent contribution for individuals and 25 percent for dependent coverage. Currently, the State reimburses the entire Part B premium. This change would produce $30 million in savings in both SFY 2010-11 and SFY 2011-12.

Legislation is proposed to permit the State to self-insure the New York State Health Insurance Program (NYSHIP), which provides health insurance for State and many local employees. DOB expects this option would allow the State to save on tax and risk charges it currently pays to private insurance providers, with associated savings of $15 million in SFY 2010-11 and $30 million in SFY 2011-12.

Retirement

The Executive proposes Article VII legislation to permit State and local governments to amortize certain employer contributions. Pension costs exceeding 9.5 percent of payroll for employees who are members of the Employees' Retirement System (ERS), and costs exceeding 17.5 percent of payroll for members of the Police and Fire Retirement

[3] This total does not include employees of the legislative and judicial branches of the New York State government.

System (PFRS), could be amortized over a ten-year period at an interest rate determined by the State Comptroller.

This proposal allows the amortizations in each of the next six years. However, the percentage of payroll above which costs could be amortized would increase by 1.0 percent of payroll annually. The estimated reduction in contribution in SFY 2010-11 would be $217 million while in SFY 2011-12 it would be $475 million. The impact on the Common Retirement Fund would be neutral over time, because employers would eventually pay the full value of deferred contributions including interest.

Legislation proposed by Comptroller DiNapoli would allow amortization of pension payments similar to the measure proposed in the Executive Budget. However, the Comptroller's proposal provides a permanent method to reduce the volatility of rates by ensuring rates do not increase or decrease by more than one percentage point of payroll in any year. The Comptroller's proposal also provides a mechanism to accelerate the payoff of amortizations during periods when rates are decreasing.

The Executive proposes replacing the Comptroller as sole trustee of the New York State Common Retirement System with a five-person board. The board would be selected by a ten-person committee appointed by the Governor (four members), the Comptroller (one member), the Attorney General (one member) and each of the four legislative leaders (one member each). However, the Board would have regulatory authority over the entire retirement system, not just investments. This measure could subject the Common Retirement Fund to manipulation by changes in funding levels and the actuarial method.

Public Authorities

The SFY 2010-11 Executive Budget estimates that $5.3 billion in capital projects would be financed using public authority bond proceeds. The Executive Budget increases bonding caps for ten programs and decreases the bonding caps for seven others. The net increase in bonding authorizations for public authorities is $1.1 billion. Although significant, this is considerably smaller than the SFY 2009-10 Enacted Budget increase of $3.4 billion.

As described previously, the Executive Budget proposes consolidating the State's economic development agencies into the New York Job Development Corporation (JDC), and consolidating the administrative and program operations of the Division of Housing and Community Renewal (DHCR) with those of the State's housing public authorities. Both proposed mergers raise important questions regarding accountability and transparency, since agency functions are proposed to be transferred to public authorities, which are not subject to the same accountability and transparency requirements that apply to agencies.

Debt and Capital

The Executive's proposed SFY 2010-11 Five-Year Capital Program and Financing Plan includes $48.8 billion in projected spending, of which $7.9 billion is spent off-budget and outside the State's Financial Plan. The Executive's Plan includes a Capital Reduction Program that lowers capital spending from the previous Capital Program and Financing Plan (updated October 30, 2009) by nearly $1.8 billion over the next five years. This reduction is proposed, in part, to address the potential of the State exceeding the statutory cap on State-Supported debt outstanding. However, despite this proposed reduction, capital spending is projected to increase by $765 million, or 7.7 percent, in SFY 2010-11 over SFY 2009-10 levels.

As a result of the State's reliance on debt as well as the recent downturn in the State's economy, the State is approaching the cap on State-Supported debt outstanding as established in the Debt Reform Act of 2000.

Under existing law, outstanding State-Supported debt is capped at 4.0 percent of personal income.[4] In October 2009, the Mid-Year Update to the SFY 2009-10 Enacted Budget Financial Plan projected that the State had approximately $9.2 billion of available State-Supported debt capacity at the end of SFY 2008-09. That debt capacity was projected to decrease, however, to only $52 million in SFY 2012-13 due to the combination of declining economic conditions that lowered projections for personal income and significantly increased annual debt issuances.

State of New York Projected State-Funded Debt Outstanding SFY 2010-11 through SFY 2014-15
(in thousands of dollars)

		Proposed Capital Plan					Total Percent Change Cap Plan	Total Dollar Change Cap Plan
	SFY 2009-10	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	2010 end - 2015 end	2010 end - 2015 end
2009-10 Capital Plan (State-Supported)	50,451,384	53,514,750	55,217,847	55,834,173	55,979,793	56,059,934	11.12%	5,608,550
Total Other	9,972,935	10,323,150	10,537,070	10,756,382	10,180,604	9,569,402	-4.05%	(403,533)
Projected Outstanding (State-Funded)	60,424,319	63,837,900	65,754,917	66,590,555	66,160,397	65,629,336	8.61%	5,205,017

A reduction in planned annual debt issuance is associated with the proposed Capital Reduction Plan compared to the SFY 2009-10 Plan. The Executive's proposed

[4] See Article 5-B of the State Finance Law. The statutory cap on State-Supported debt outstanding issued after April 1, 2000 is 4.0 percent of personal income. The cap was phased in over ten years and becomes fully implemented in SFY 2010-11.

Five-Year Capital Program and Financing Plan projects a total of $22.9 billion in State-Supported debt to be issued over the next five years. The annual average issuance is projected to be $4.6 billion as compared to $4.4 billion in the previous five years. Projections for State-Supported debt outstanding are also lowered. DOB projects that State-Supported debt outstanding will reach $56.1 billion in SFY 2014-15, based on $22.9 billion in new State-Supported debt and $17.3 billion in State-Supported debt retirements.

Although personal income projections were again lowered for the next five years, the State's planned reduction in annual issuances is expected to keep the State within the statutory cap on State-Supported debt outstanding. This would result in approximately $2.0 billion in available State-Supported debt capacity in SFY 2014-15.

While the proposed SFY 2010-11 Executive Budget Five-Year Capital Program and Financing Plan would reduce the State's reliance on debt to meet existing and new commitments and increase the use of existing State resources (pay-as-you-go—PAYGO) in the out-years, new debt issuances are still projected to be higher than in previous years. Beginning in SFY 2010-11, the proposed Capital Plan increases the use of PAYGO and reduces planned debt issuance compared to the current Capital Plan primarily in the areas of transportation, economic development and housing.

The Office of the State Comptroller provides a more comprehensive accounting of the State's debt burden. The measure developed by the Office of the State Comptroller, State-Funded debt, includes obligations that are not counted under the cap on State-Supported debt outstanding, such as bonds issued by the Sales Tax Asset Receivable Corporation or the Tobacco Settlement Financing Corp.[5]

Currently, more than 94 percent of State-Funded debt outstanding was issued by public authorities and, therefore, was not subject to voter approval. Over the life of the proposed Capital Plan, public authorities are projected to issue nearly $23.1 billion in debt as compared to projected issuances of $2.1 billion in General Obligation bonds. The proposed Capital Plan does not include any new initiatives to be financed with voter approved General Obligation bonds.

Under the proposed SFY 2009-10 Five-Year Capital Plan:

- State-Funded debt outstanding is projected to reach $65.6 billion by SFY 2014-15.
- State-Funded debt service is expected to reach $7.6 billion by SFY 2014-15.
- State-Funded debt service is anticipated to grow approximately 30.8 percent between SFY 2009-10 and SFY 2014-15, making it the fastest growing major category of spending in the State budget.

[5] State-Funded debt was defined by the Office of the State Comptroller in the February 2005 report, *New York State's Debt Policy, a Need for Change*. It represents a more comprehensive accounting of the State's debt burden. Not all State-Funded debt appears in the Capital Program and Financing Plan and is, therefore, illustrated separately in the tables of this section.

State of New York Projected State-Funded Debt Service
SFY 2010-11 through SFY 2014-15

(in thousands of dollars)

		Proposed Capital Plan					Total Percent Change Cap Plan	Total Dollar Change Cap Plan
	SFY 2009-10 Projected	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	2010 end - 2015 end	2010 end - 2015 end
2009-10 Capital Plan (State-Supported)	**4,942,050**	**5,766,457**	**6,087,696**	**6,362,830**	**6,494,889**	**6,495,180**	**31.43%**	**1,553,130**
Total Other	**899,411**	**949,033**	**1,005,726**	**1,062,551**	**1,118,968**	**1,142,486**	**27.03%**	**243,074**
Projected Debt Service (State-Funded)	**5,841,461**	**6,715,490**	**7,093,422**	**7,425,381**	**7,613,857**	**7,637,666**	**30.75%**	**1,796,204**

Note: Totals may not add due to rounding

By either measure, State-Supported or State-Funded debt, the level of debt—and the associated debt service burden—continues to grow at a rate that cannot be sustained.