

**New York State
Division of the Budget**

The Budget Outlook

2011-12 and beyond



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Executive Summary

- Entering the FY 2012 budget cycle, New York faced budget gaps of \$10 billion in FY 2012, \$14.9 billion in FY 2013, \$17.4 billion in FY 2014, and \$20.9 billion in FY 2015.
- The “budget gaps” represent the difference between the estimated level of spending required to finance current operations, adjusted for demand, and the resources available to pay for them.
- The gaps were caused by the short-term impact of the recession, the long-term impact of allowing spending to grow beyond the State’s resource capacity, the expiration of the temporary PIT surcharge, and the loss of extraordinary Federal aid.

Executive Summary

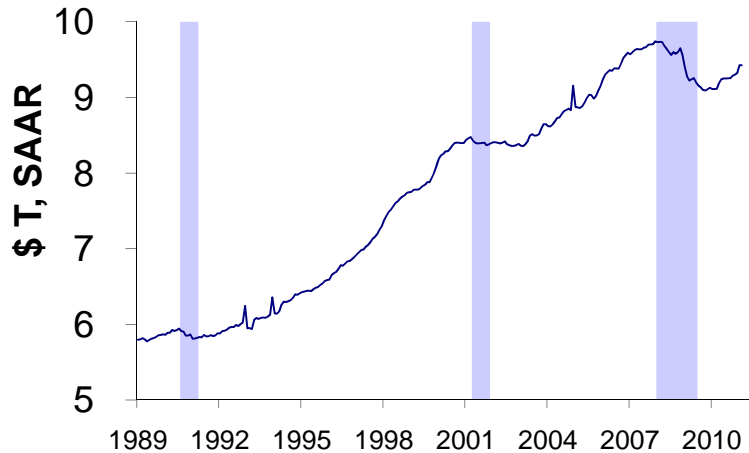
- The State adopted the budget for FY 2012 on March 31, 2011.
- DOB estimates that the actions approved in the Enacted Budget, if implemented successfully, would eliminate the gap in FY 2012 and leave projected gaps of \$2.4 billion in FY 2013, \$2.8 billion in FY 2014, and \$4.6 billion in FY 2015.
- The total gaps over the plan period decline from approximately \$63 billion to \$10 billion.
- Approximately 85 percent of the FY 2012 gap-closing plan consists of actions to reduce spending, allocated equitably among the non-fixed components of the budget.
- The plan includes innovative mechanisms to control the growth of Medicaid and School Aid over the plan period.



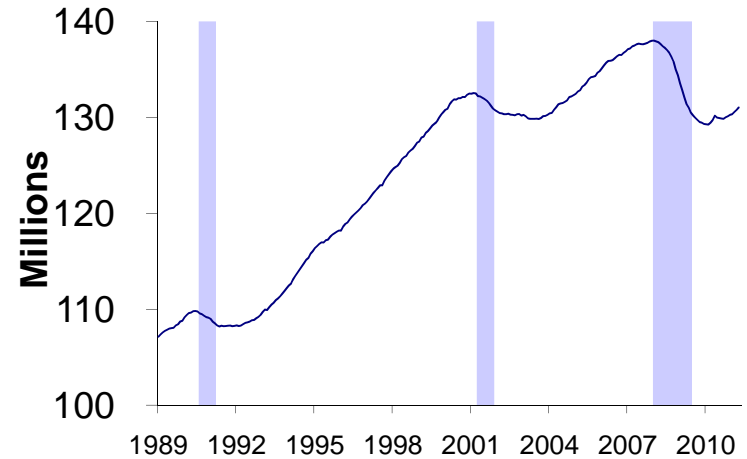
ECONOMIC AND REVENUE OUTLOOK

Key Business Cycle Indicators

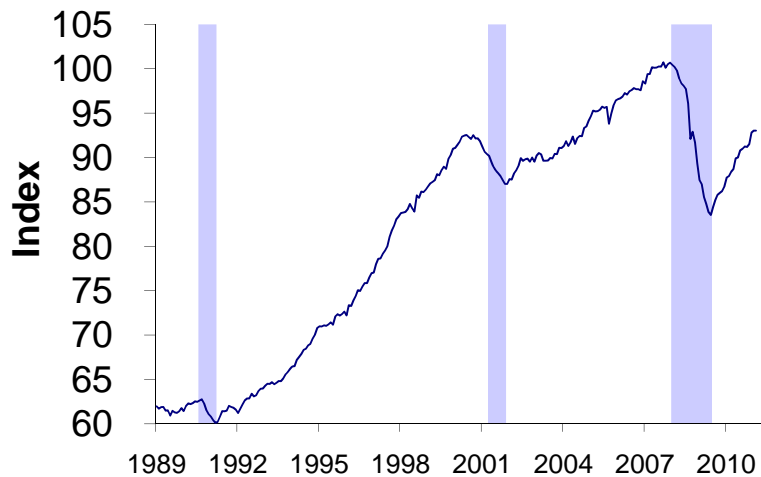
Real Personal Income Minus Transfers



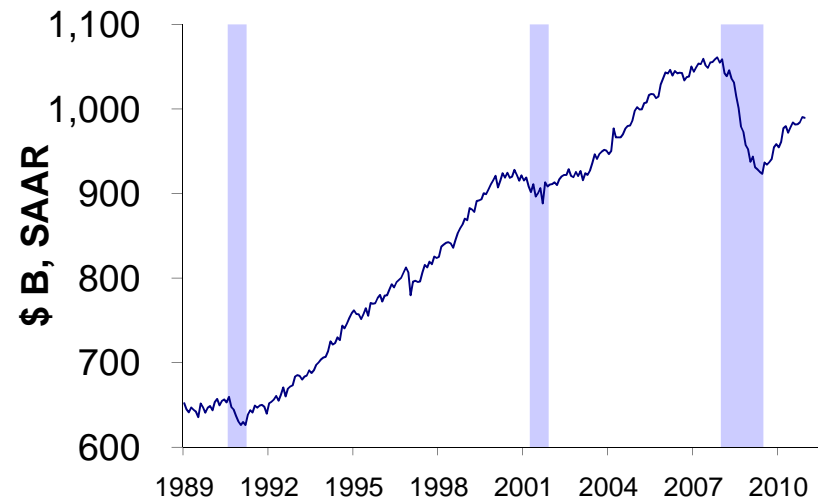
Total Employment



Industrial Production



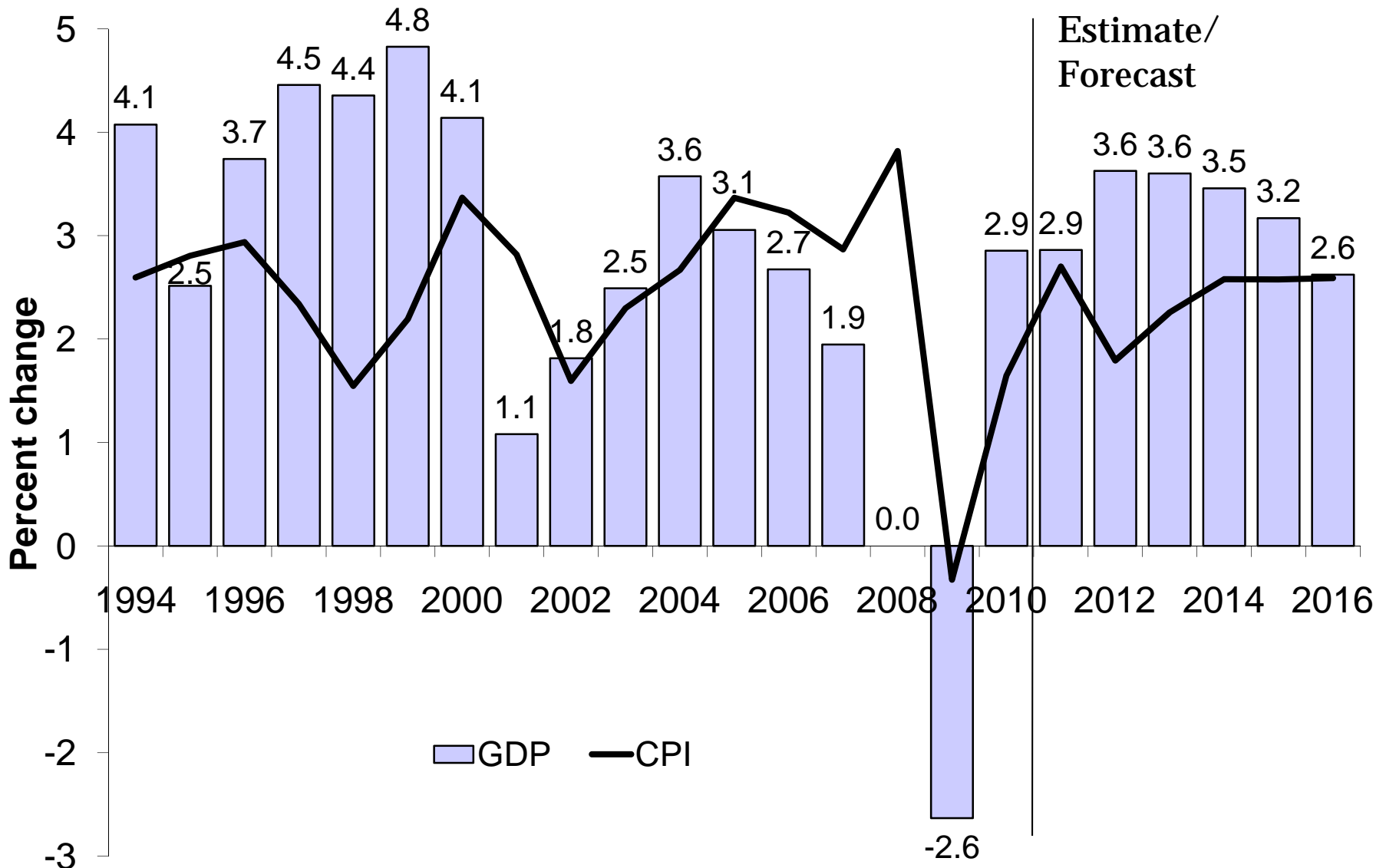
Real Manufacturing and Trade Sales



Note: Shaded areas represent U.S. recessions.

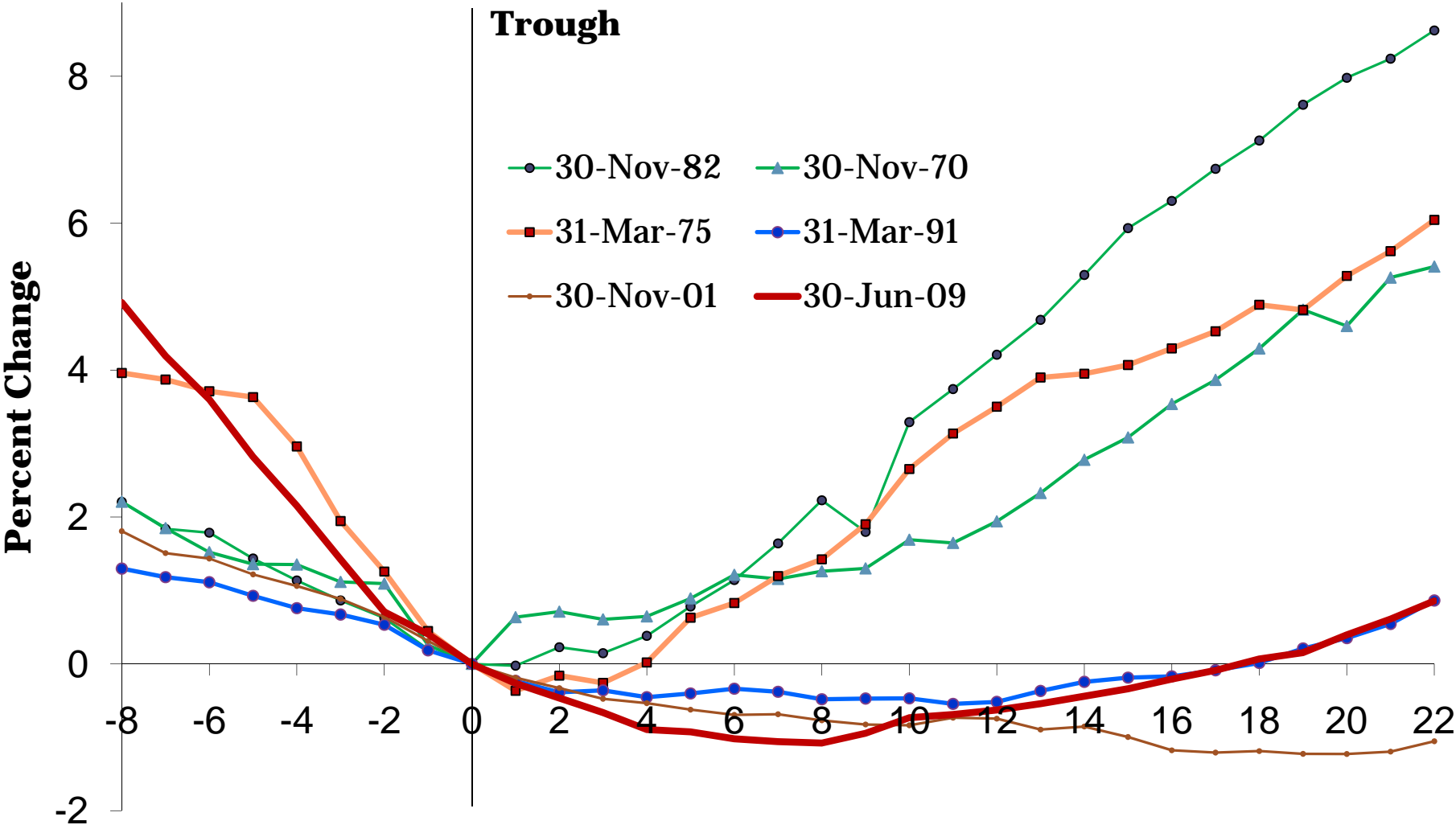
Source: Moody's Economy.com.

Outlook for Real U.S. GDP Growth and Inflation



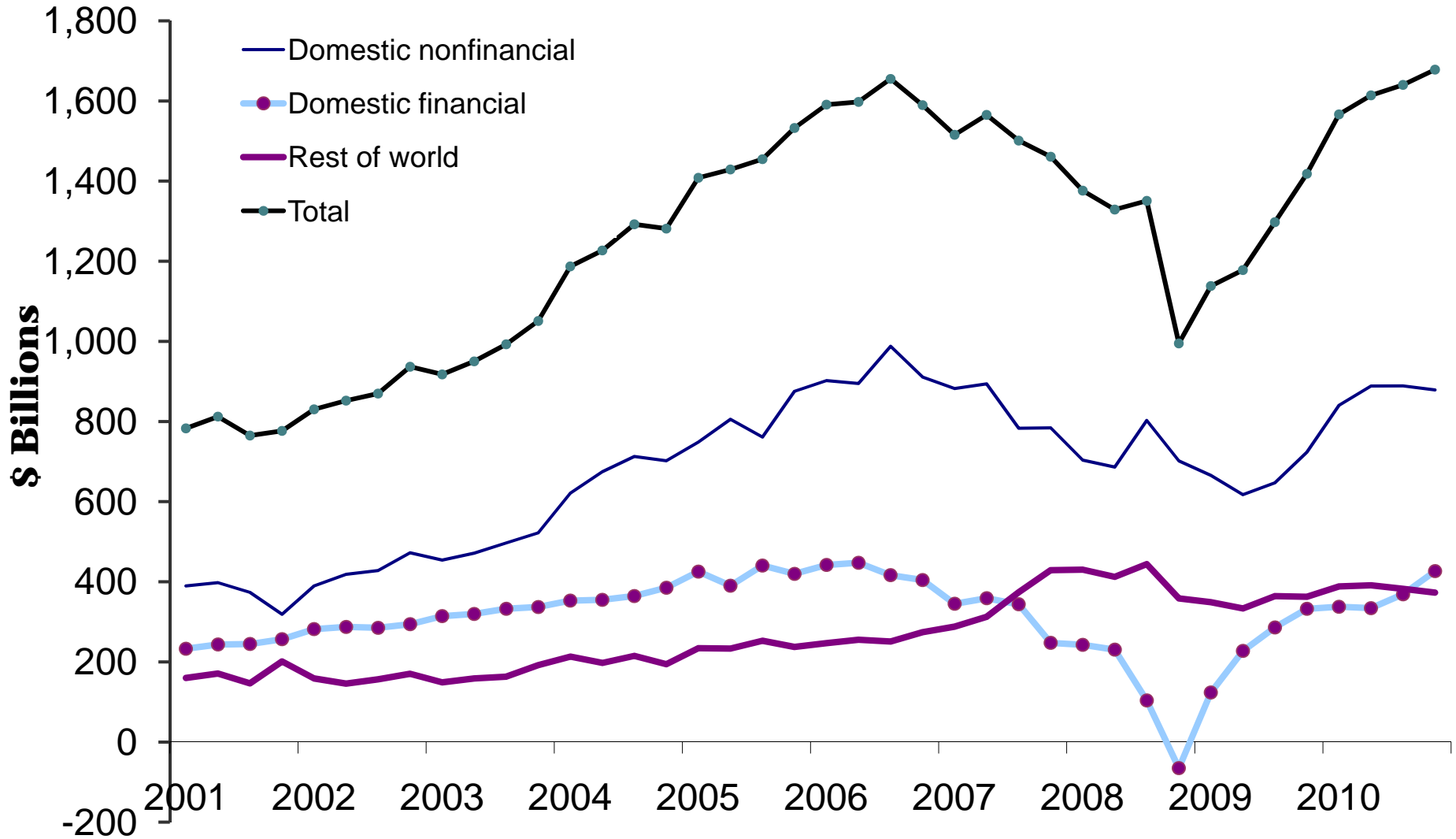
Note: Displayed values pertain to GDP growth.
Source: Moody's Economy.com; DOB staff estimates.

US Private Employment Before and After Recession Trough

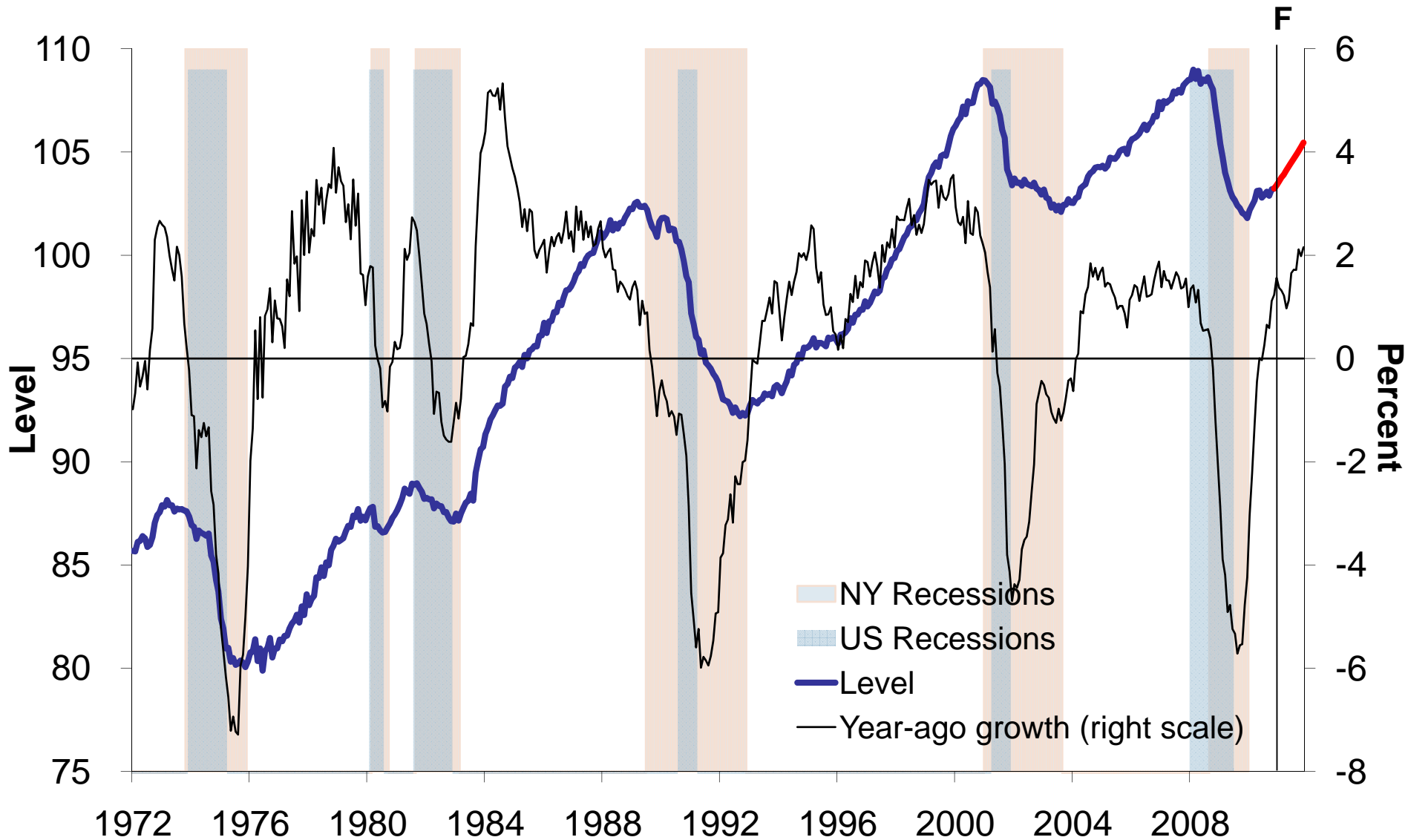


Note: The data represent cumulative percent changes relative to the level of employment at the trough.
 Source: Moody's Economy.com; DOB staff estimates.

U.S. Corporate Profits

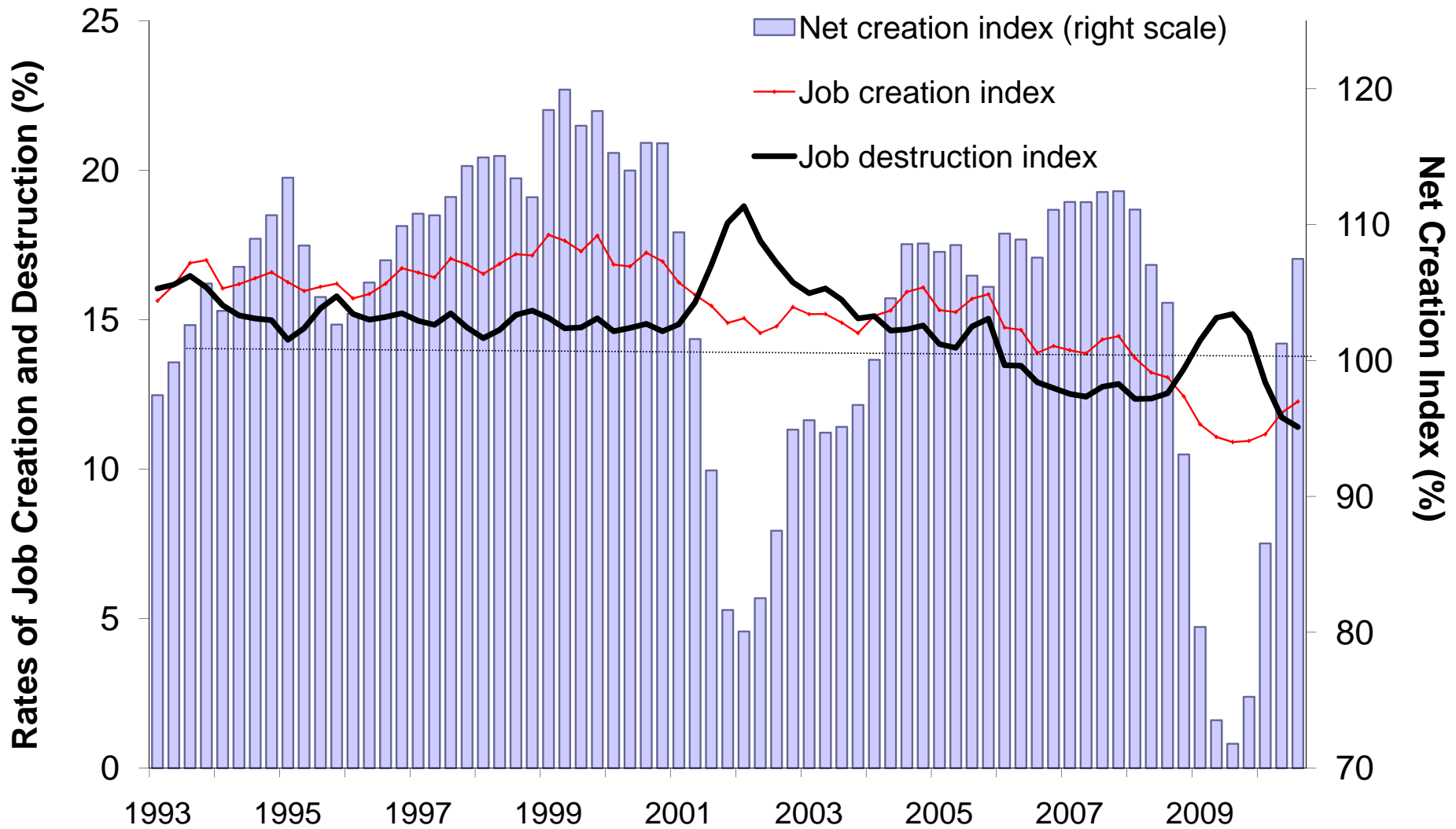


New York State Index of Coincident Economic Indicators

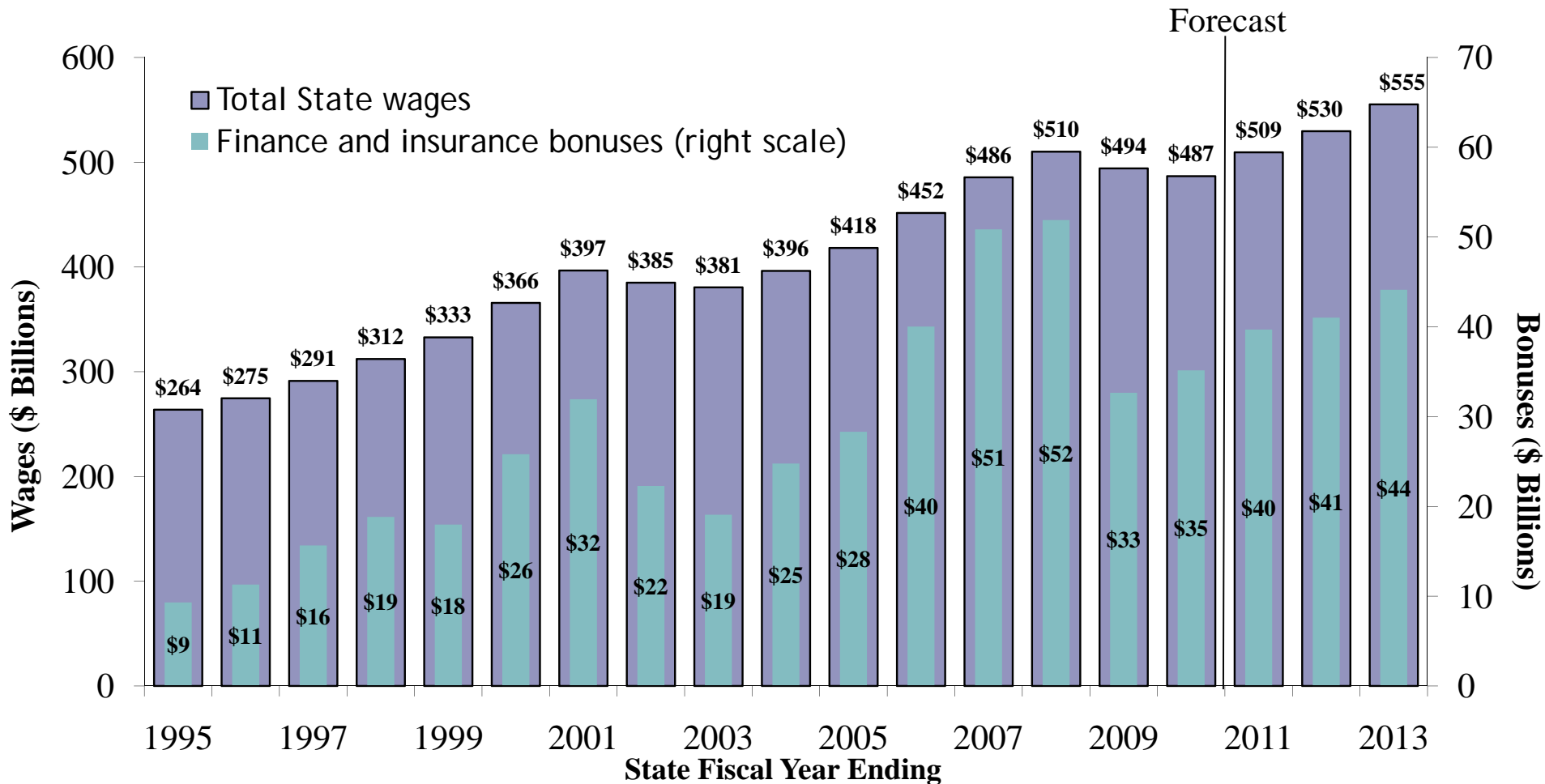


Note: U.S. recession trough and NYS recession dates are DOB staff estimates; forecast (in red) is derived from the New York State Leading Index.
 Source: Moody's Economy.com; DOB staff estimates.

NYS Private Sector Employment Dynamics



NYS Finance/Insurance Sector Bonuses

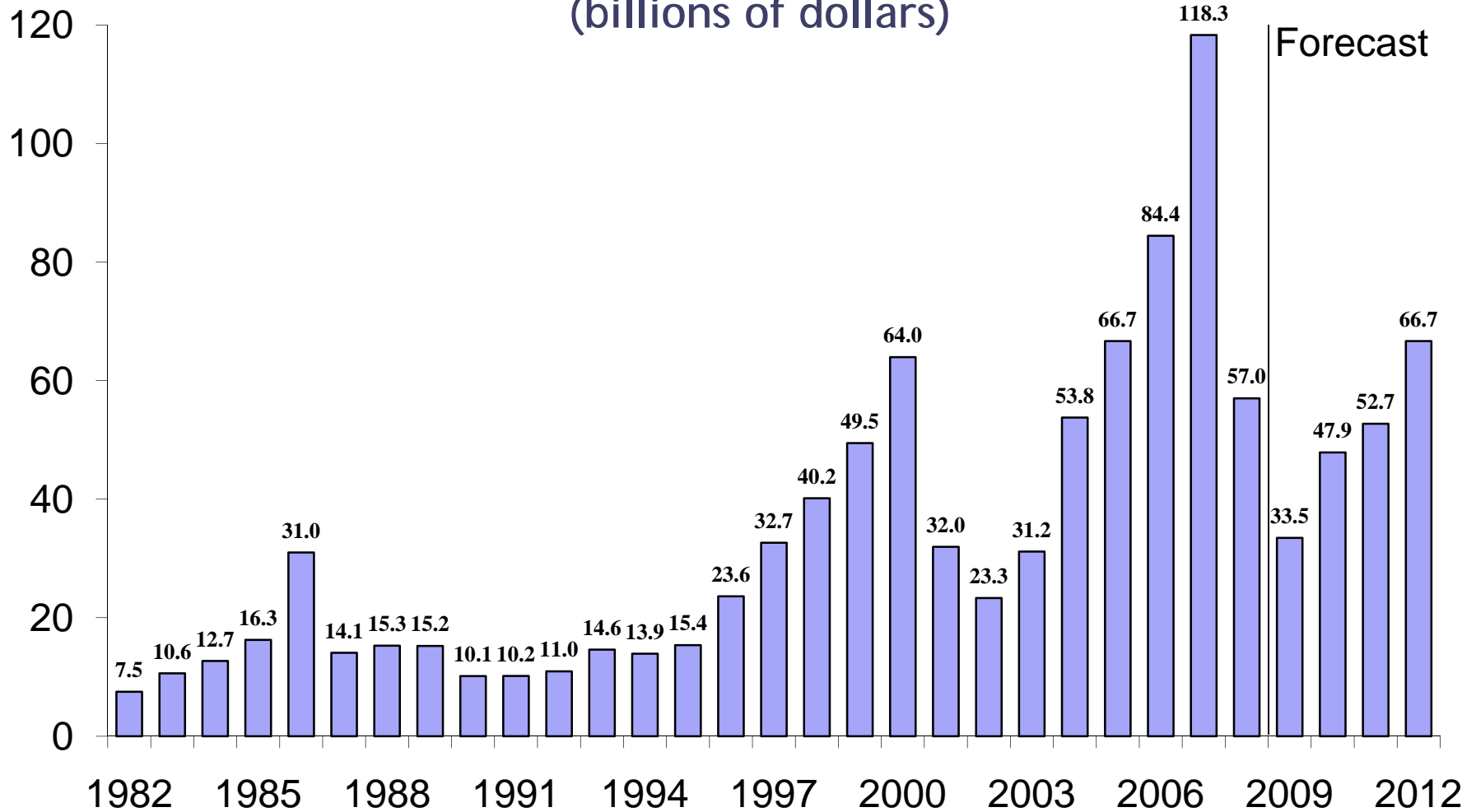


Source: NYS Department of Labor; DOB staff estimates.

- Following two years of declines, State wages are expected to grow 4.7 percent in FY 2011 fiscal year. Wages are projected to finally pass their most recent FY 2008 peak with growth of 4.0 percent in FY 2012.

Positive Capital Gains Realizations

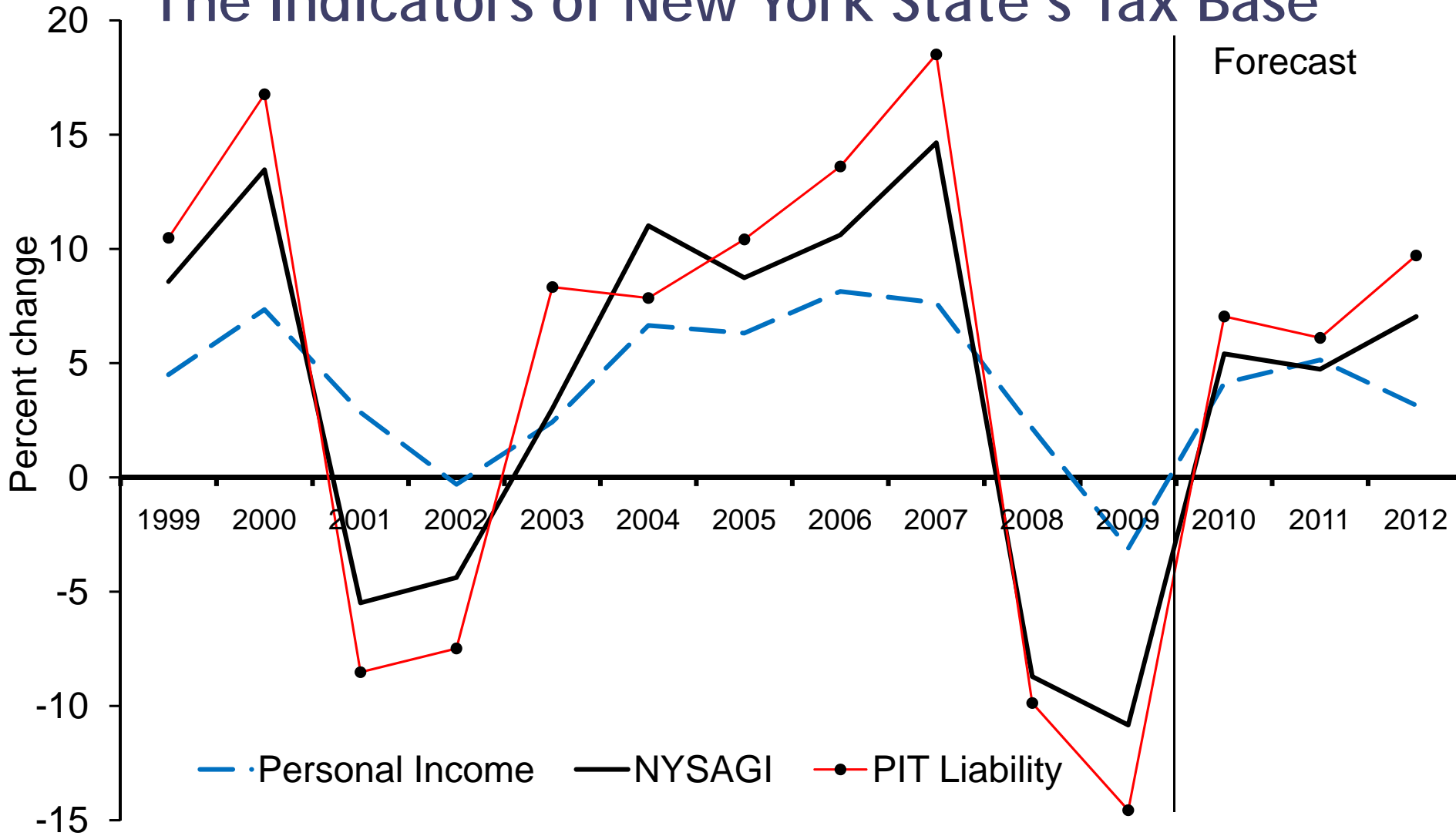
(billions of dollars)



Source: Moody's Economy.com; NYS Department of Taxation and Finance; DOB staff estimates.

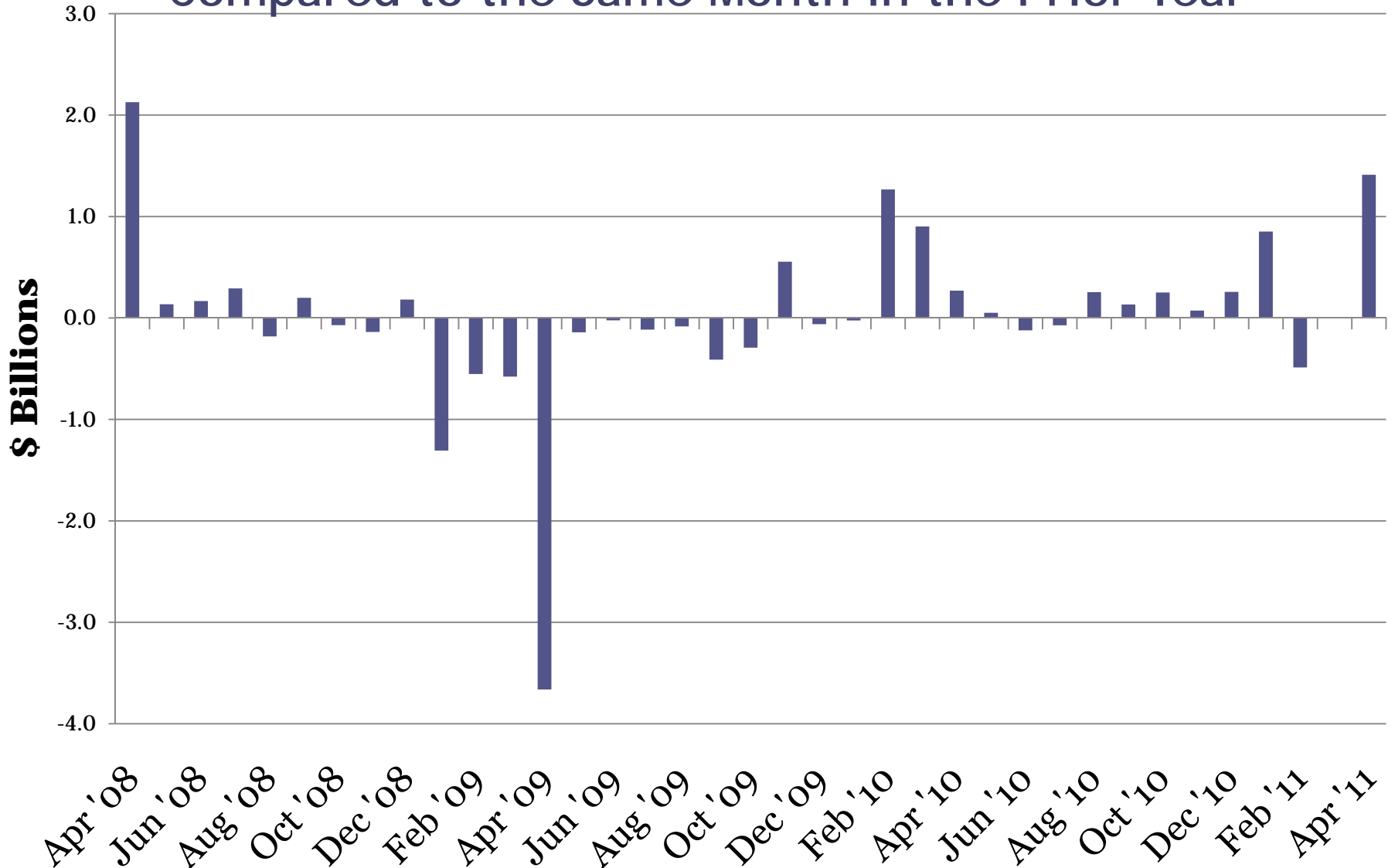
- Positive capital gains realizations peaked at \$118 billion in 2007; the forecast for the 2012 tax year is only about half that amount.

The Indicators of New York State's Tax Base



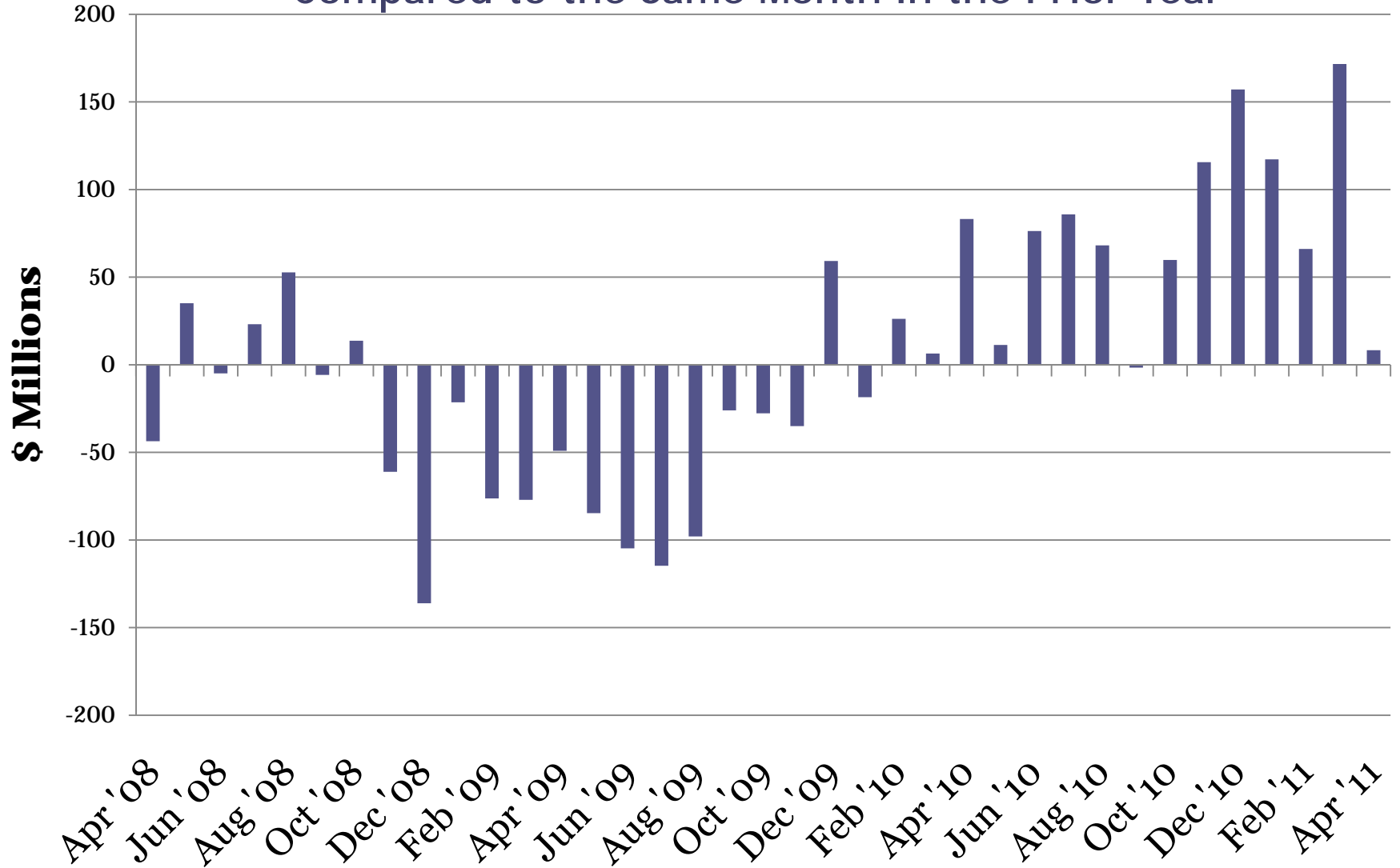
Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2009 liability and NYSAGI data are preliminary.
 Source: NYS Department of Taxation and Finance; Moody's Economy.com; DOB staff estimates.

All Funds Personal Income Tax Monthly Growth Compared to the Same Month in the Prior Year



Note: April 2011 results are based on preliminary data.

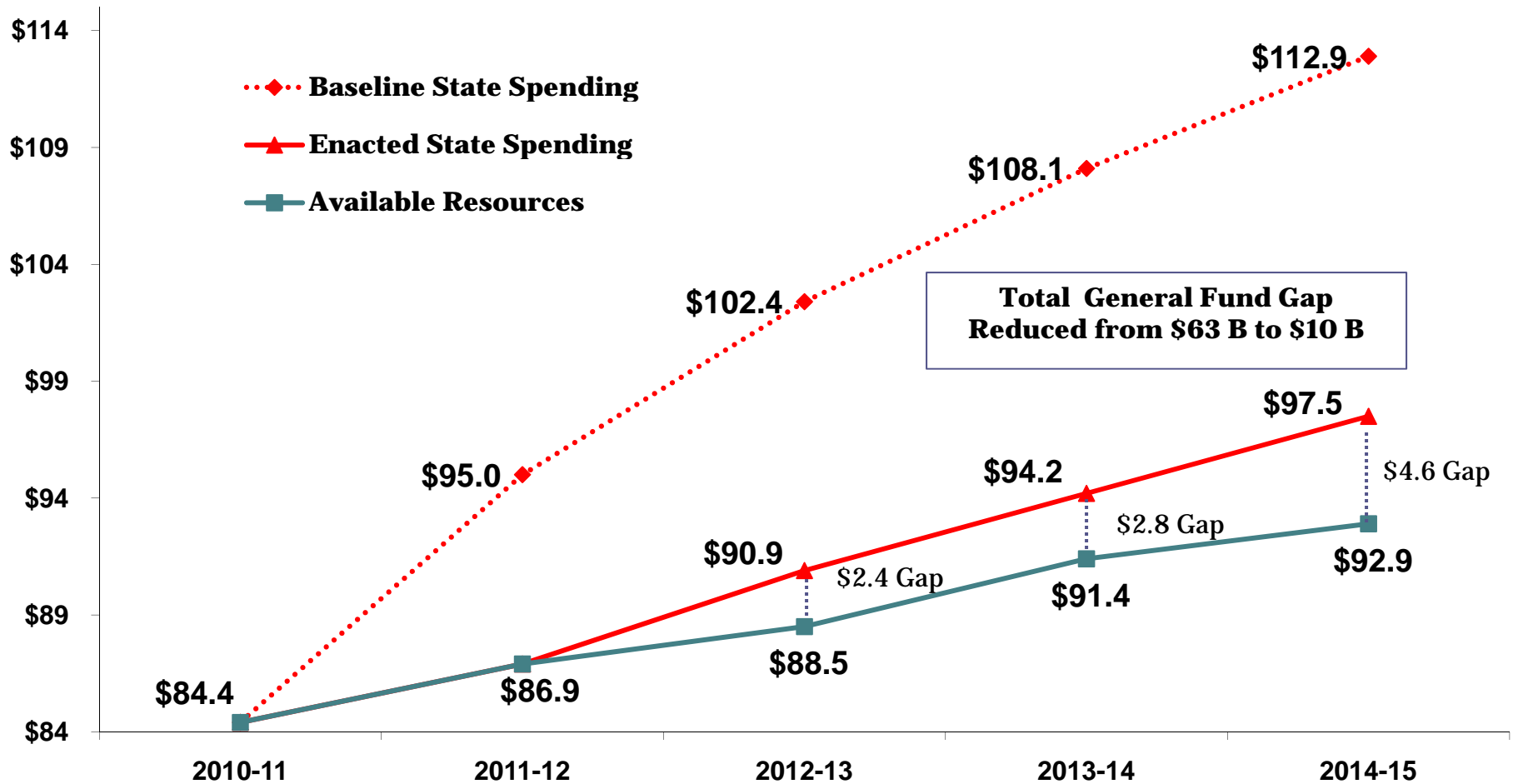
All Funds Sales and Use Tax Monthly Growth Compared to the Same Month in the Prior Year



Note: April 2011 results are based on preliminary data.

FY 2012 Gap-Closing Plan

Enacted Budget Reduces Projected Budget Gaps by \$53 Billion



Multi-Year Impact of Gap-Closing Plan

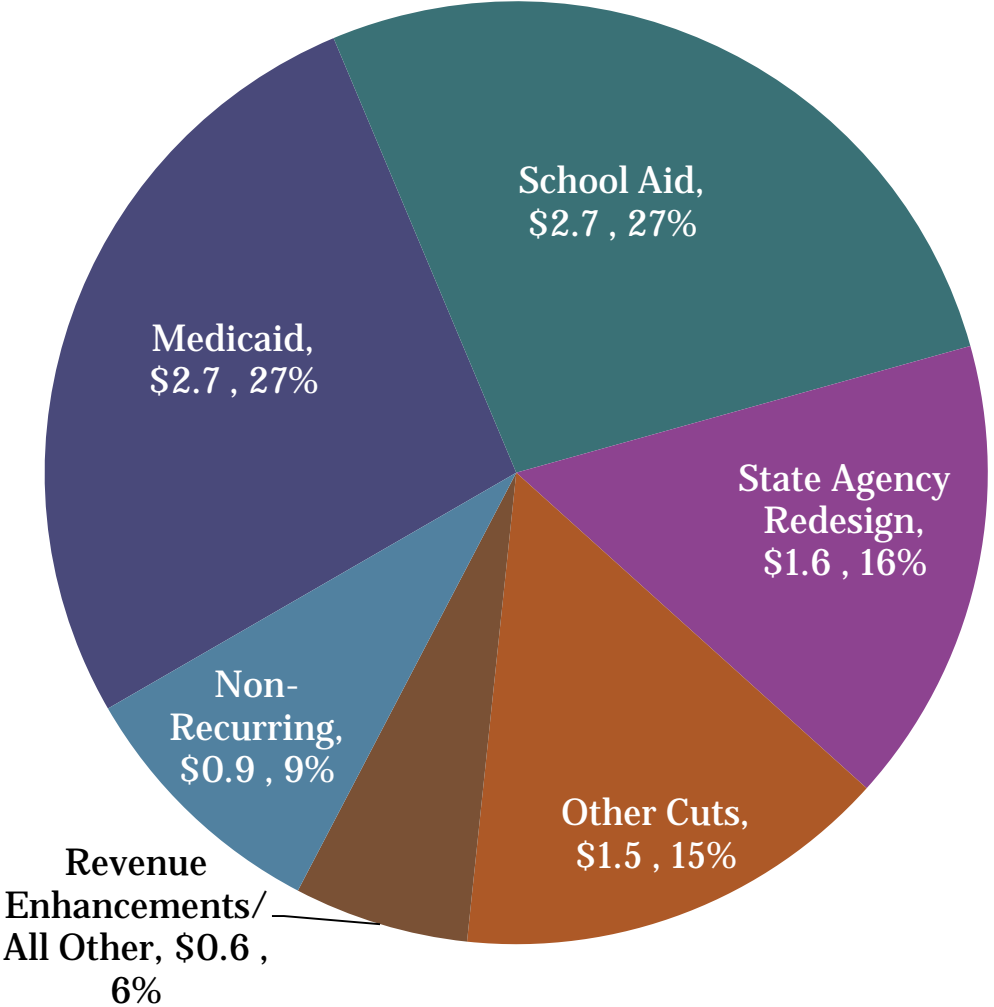
GENERAL FUND BUDGETARY BASIS SURPLUS/(GAP) PROJECTIONS SUMMARY OF CHANGES FROM REVISED CURRENT-SERVICES THROUGH ENACTED BUDGET (millions of dollars)				
	<u>2011-12</u>	<u>2012-13</u>	<u>2013-14</u>	<u>2014-15</u>
REVISED CURRENT-SERVICES ESTIMATE (BEFORE ACTIONS)	(10,001)	(14,945)	(17,429)	(20,903)
Enacted Budget Actions	10,001	12,566	14,593	16,298
Spending Reductions/Offsets	<u>8,537</u>	<u>11,967</u>	<u>14,302</u>	<u>15,908</u>
<i>Aid to Localities Reductions¹</i>	7,040	10,389	12,707	14,319
<i>State Agency Redesign</i>	1,497	1,578	1,595	1,589
Revenue Enhancements	324	293	91	21
Non-Recurring Resources	860	2	0	0
New Resources/Costs	380	304	200	369
Planned Deposit to Rainy Day Reserve	(100)	0	0	0
ENACTED BUDGET SURPLUS/(GAP) ESTIMATE AFTER ACTIONS	0	(2,379)	(2,836)	(4,605)

¹ Outyear savings assume Medicaid and School Aid grow at their proposed target rates.

- FY 2012 gap-closing plan includes \$8.5 billion (85 percent) in recurring spending actions.
- Medicaid and School Aid caps are expected to provide substantial outyear savings.
- Process underway to achieve State agency savings counted on in the Financial Plan.
- Plan includes \$100 million deposit to the Rainy Day Reserve (first deposit since FY 2008).

\$10 Billion Gap-Closing Plan

FY 2012 Contribution by Category



Medicaid

- State-share Medicaid spending (DOH) capped at \$15.3 billion in FY 2012 and \$15.9 billion in FY 2013.
- Annual growth limited to the long-term average growth in the medical component of the CPI, which is currently estimated at 4 percent. A one percent variance in the rate of growth would change spending levels by approximately \$150-\$200 million.
- Gap-closing plan counts on \$2.7 billion in FY 2012 savings as a result of the cap:
 - \$973 million from cost controls identified by the MRT and approved in budget.
 - \$345 million from a 2 percent across-the-board reduction in payments.
 - \$185 million from the elimination of trend factors.
 - \$640 million from savings achieved by the health-care industry (growing to \$1.5 billion in FY 2013).
- In addition, savings reflect a re-estimate in program costs (\$475 million in FY 2012 growing to \$650 million in FY 2013).
- Executive is empowered to institute sweeping cost controls to stay within caps.
- Use of controls will depend on Federal approvals. State is working with CMS.

School Aid

FOUR YEAR SCHOOL AID PROJECTION - SCHOOL YEAR BASIS (millions of dollars)

	<u>2010-11</u>	<u>2011-12</u>	<u>Annual \$ Change</u>	<u>2012-13</u>	<u>Annual \$ Change</u>	<u>2013-14</u>	<u>Annual \$ Change</u>	<u>2014-15</u>	<u>Annual \$ Change</u>
Total School Aid	\$20,924	\$19,641	(\$1,283)	\$20,446	\$805	\$21,386	\$940	\$22,220	\$834
Percent Change			-6.1%		4.1%		4.6%		3.9%

- Progressive “Gap Elimination Adjustment” that reduces aid proportionally based on district wealth.
- Phase-in of Foundation Aid and Universal Pre-K programs from seven to ten years.
- Law changes limit growth in future years to the average increase in NYS personal income, estimate at approximately 4 percent annually.

Other Key Gap-Closing Actions

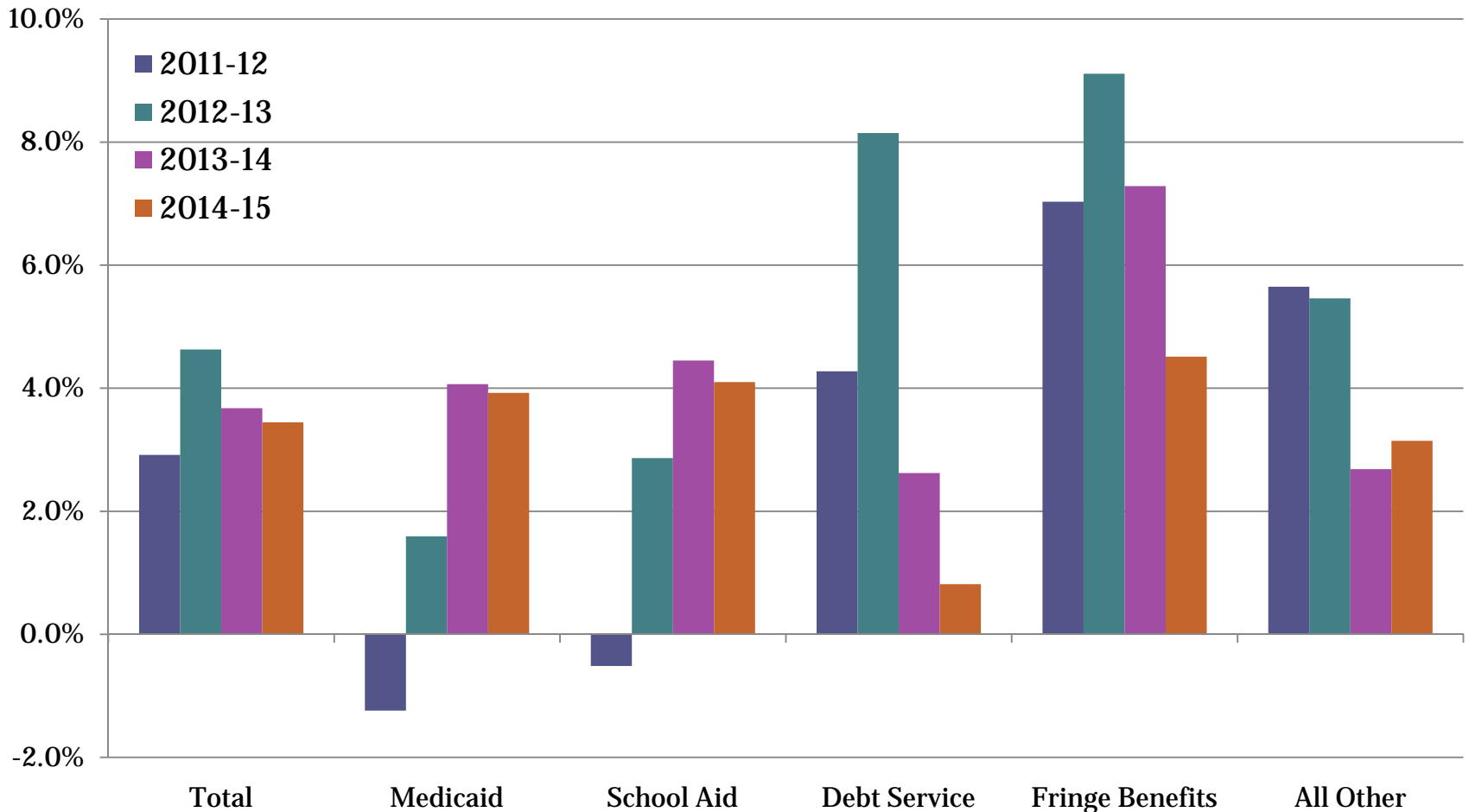
STATE AGENCIES

- Annual reductions in the range of 10 percent to agencies funded by the General Fund, plus health care, mental hygiene, transportation, and DMV operations paid for from other funds.
- Negotiations underway with State employee unions on wage and benefit changes.
- Planning underway to reduce State workforce if negotiations do not produce savings.
- Financial Plan includes no funding for new labor settlements.
- SAGE Commission undertaking comprehensive review of State agencies and functions, with the goal of consolidation and streamlining.

OTHER

- Amortization of +\$600 million in pension contributions, and larger amounts in future years.
- Reduce AIM funding (and continue no AIM funding for NYC).
- Reduce aid to community colleges.
- Eliminate member item deposit.

Annual Growth - State Operating Funds and Selected Programs



Note: Annual growth for Medicaid is adjusted for the impact of FMAP; school aid is adjusted for the deferral of \$2.1 billion from FY 2010 to FY 2011.

Estimated Annual Spending Growth

TOTAL DISBURSEMENTS (millions of dollars)							
	2010-11 Results	2011-12 Base	Before Actions		2011-12 Enacted	After Actions	
			Annual \$ Change	Annual % Change		Annual \$ Change	Annual % Change
State Operating Funds	84,417	95,047	10,630	12.6%	86,879	2,462	2.9%
General Fund (excluding transfers)	49,366	58,591	9,225	18.7%	50,912	1,546	3.1%
Other State Funds	29,373	30,364	991	3.4%	30,050	677	2.3%
Debt Service Funds*	5,678	6,092	414	7.3%	5,917	239	4.2%
All Governmental Funds	134,825	143,593	8,768	6.5%	131,698	(3,127)	-2.3%
State Operating Funds	84,417	95,047	10,630	12.6%	86,879	2,462	2.9%
Capital Projects Funds	7,844	8,273	429	5.5%	7,888	44	0.6%
Federal Operating Funds	42,564	40,273	(2,291)	-5.4%	36,931	(5,633)	-13.2%
General Fund, including Transfers	55,373	65,346	9,973	18.0%	56,932	1,559	2.8%
State Funds	90,118	101,311	11,193	12.4%	92,804	2,686	3.0%

* Includes \$155 pre-payment in FY 2011.

Risks

- Strength and duration of economic recovery.
- Implementation of Medicaid savings.
- Implementation of State Agency savings.
- Transaction risks (use of fund balances, authority payments).
- Bond market uncertainties.
- Federal actions, especially in health/mental hygiene areas.
- Litigation.

Conclusions

- Budget marks a fundamental change in the State's long-term fiscal outlook.
- The Legislature approved the Executive Budget in substantially the same form as it was proposed.
- Key elements of the plan – the caps on Medicaid and School Aid – have altered the basic landscape of State budgeting.
- The implementation of the caps, if successful, will fundamentally change the State's fiscal position over the Financial Plan period.
- The Governor is committed to using his Executive Authority to maintain balanced operations and break the cycle of large annual budget gaps.