

**THE NELSON A.
ROCKEFELLER
INSTITUTE
OF GOVERNMENT**

New York State: Current Budget Conditions

Conference: State Budgets: Possible Paths to Sustainability

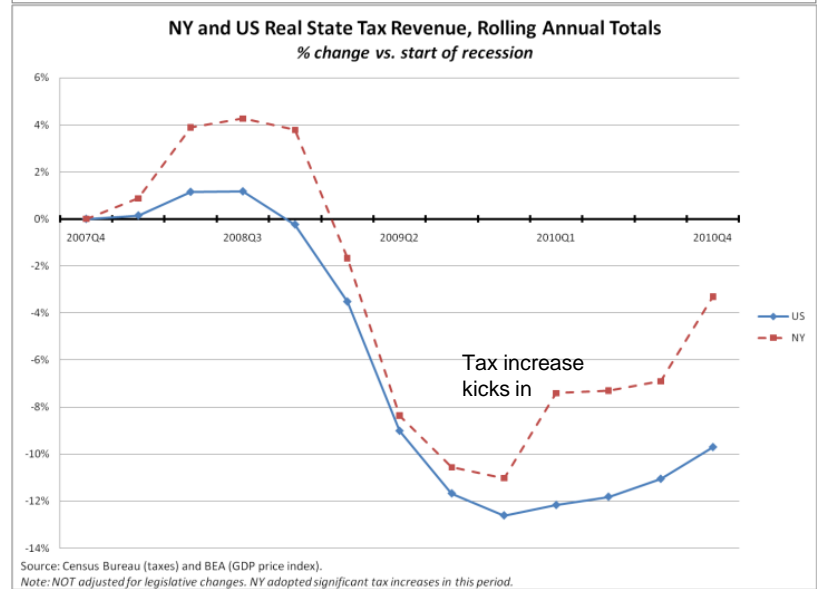
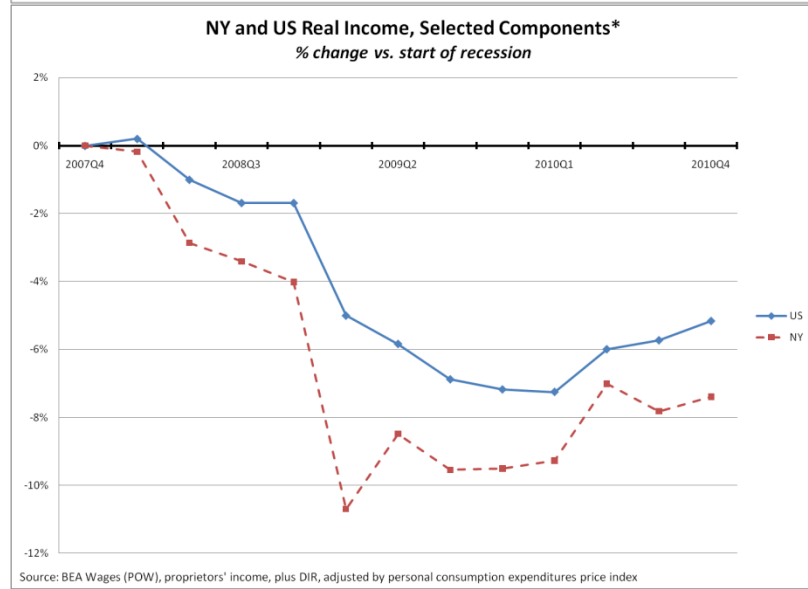
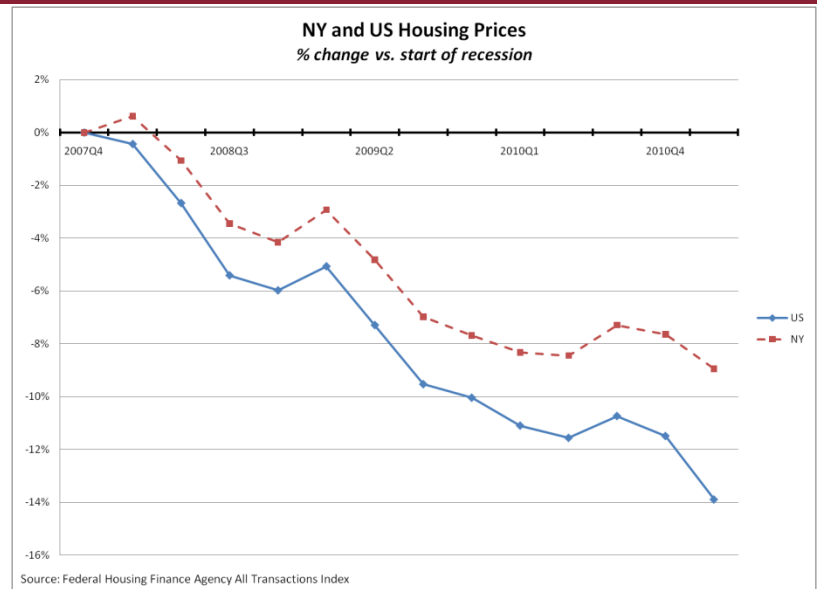
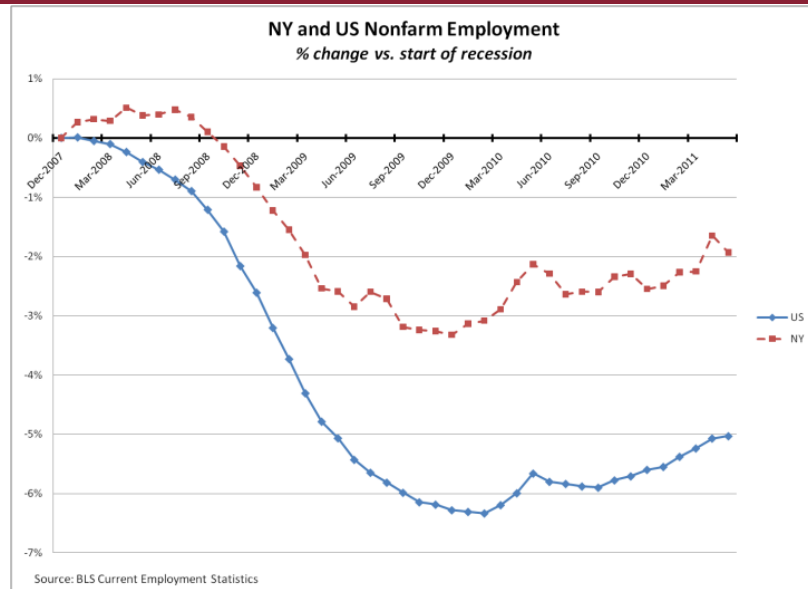
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How we got here

NY employment and housing fared relatively well, income and taxes not so well



Year-ahead gaps increased dramatically when crisis hit. LARGE revenue shortfalls in 2008-09 & 2009-10

Gaps addressed in adopted budget			
	\$ millions		% of General Fund disbursements
2007-08	(1,540)		2.9%
2008-09	(5,223)		9.3%
2009-10	(20,076)		36.6%
2010-11	(9,188)		17.2%
2011-12	(10,001)		17.6%
<p>Note: Would prefer a broader measure than general fund, but GF is most-readily available for this time period</p>			
<p>Caution: These #s give a rough sense of relative magnitudes of budget gaps. Because of definitional changes and funding shifts, they are not comparable in any precise way.</p>			

Major gap-closing actions prior to 2011-12

2008-09 (\$5.2b)

- Nearly \$3b temporary resources: fund sweeps, tax prepayments, other
- \$1.3b in recurring revenue: “audit & compliance”, abandoned property, loopholes; no major tax increase
- Nearly \$500m in across the board spending cuts; targeted spending cuts

2009-10 (\$20.1b)

- \$3.9b first year of 3-year PIT increase on high incomes
- \$1.5b other new revenue, nearly half temporary
- Over \$3b other new nonrecurring resources
- \$6.5b spending reductions, dominated by cuts/changes to Medicaid and school tax relief
- Over \$6b federal stimulus

2010-11 (\$9.2b)

- \$5.6b “spending control”: school aid, Medicaid, agency cuts, gimmicks; value drops to \$4b in subsequent year
- \$1.4b minor revenue actions such as temp. elim. of clothing sales tax exemption; cigarette tax increase; restrictions on preferences; audit/compliance
- \$800m extended federal stimulus
- \$660m new other nonrecurring resources

→ Heavy reliance on temporary resources

Significant cuts in gov't employment, esp. state

Percent change in state and local government employment

March-May 2011 vs. two years earlier

	Median of 50 states	NY	NY rank (1=deepest cuts)
State & local government	(1.1)	(2.2)	16
State government	(1.0)	(3.6)	10
Local government	(1.3)	(1.8)	21
Source: BLS Current Employment Statistics			

Environment leading up to 2011-12

- Dysfunction in budget process, late budgets. Advocates have been relatively effective in attacking proposed cuts in Medicaid, school aid, other spending. Temporary resources.
- Projected budget gap for 2011-12 of \$10b
 - Economy weak, \$1.4b tax revenue shortfall in 2010-11
 - Federal stimulus loss of nearly \$6b in 2011-12
 - Temporary PIT increase begins to phase down, loss in 2011-12 of \$1.8b. Will expire at end of 2011 tax year. (Further loss of \$3-4b in 2012-13.)
- New governor, Jan 2011, for fiscal year that starts April 1. Promises:
 - Will not increase taxes. Will not extend temp. PIT past 2011
 - Wage freeze for state employees
 - Redesign state government
 - Cap on local property taxes (levy cap)

How they closed the 2011-12 budget gap

Key elements of gap-closing approach

- Create “teams” to develop recommendations and defuse attacks on spending cuts: Medicaid Redesign Team, Mandate Relief Redesign Team, SAGE (Spending and Government Efficiency) Commission
- Vagueness is a virtue. Substantial savings to be obtained from policies not yet determined at time of budget adoption
- Seek recurring savings, reduce outyear gaps
- Seek authority and mechanisms to hit near-term targets
- Seek laws and multi-year appropriations to signal and enforce outyear savings

Key elements (2)

- Overall structure:
 - No meaningful tax increases
 - Heavy reliance on spending cuts (85% of plan)
 - Only \$860m new temporary resources (but others from prior years are significant -- \$8b total temporary resources)

Key elements (3)

- Medicaid:
 - Annual growth limited to long-term average growth in medical component of CPI (estimated at 4%)
 - 1% variance would change spending by approximately \$150-\$200 million
 - Cap (if hit) reportedly saves \$2.7 billion in FY 2012
 - \$973 million from cost controls identified by “MRT”
 - \$345 million from 2% across-the-board reduction in payments
 - \$640 million from savings to be achieved by the health-care industry (growing to \$1.5 billion in FY 2013)
 - Various other savings
 - Executive empowered to institute sweeping cost controls to stay within caps; depends on federal approvals
 - 2-year appropriation enacted to enforce/signal longer-term savings

Key elements (4)

- School aid:
 - Annual growth limited to rate of growth in state personal income (estimated at 4%)
 - Two-year appropriation enacted that incorporates this cap – sends a signal
- Other:
 - Annual reductions near 10 percent for most agencies
 - Negotiations underway with employee unions on wages and benefits; plan includes no funding for new labor settlements
 - Planning to reduce state workforce if negotiations do not produce savings
 - SAGE Commission undertaking comprehensive review of state agencies and functions; goal of consolidation and streamlining

GENERAL FUND GAP-CLOSING PLAN FOR 2011-12				
(millions of dollars)				
	2011-12	2012-13	2013-14	2014-15
CURRENT-SERVICES GAP ESTIMATES (BEFORE ACTIONS)	(10,001)	(14,945)	(17,429)	(20,903)
Total Enacted Budget Gap-Closing Plan	10,001	12,566	14,593	16,298
Spending Reductions/Offsets	8,537	11,967	14,302	15,908
Local Assistance	7,040	10,389	12,707	14,319
Medicaid	2,744	4,047	4,875	5,605
Public Health/Aging	52	140	147	154
School Aid	2,767	4,752	6,238	7,133
Lottery Aid	147	158	158	158
School Tax Relief	125	262	262	262
Special Education	98	0	0	0
Higher Education	47	50	51	51
Human Services/Labor/Housing	284	302	310	323
Local Government Aid	325	295	295	295
Mental Hygiene	328	327	317	280
Member Item Fund Deposit Repeal	85	0	0	0
All Other	38	56	54	58
State Agency Redesign	1,497	1,578	1,595	1,589
Revenue Enhancements	324	293	91	21
Tax Modernization/Voluntary Compliance	200	150	0	0
Abandoned Property	110	125	70	55
Prison Closure Tax Credit	0	0	(5)	(60)
All Other	14	18	26	26
Non-Recurring Resources	860	2	0	0
MTA Transaction	200	0	0	0
Debt Management/Capital Financing	200	0	0	0
HCRA Resource Reestimate	155	0	0	0
NYP/Other Authorities	150	0	0	0
Recoveries	75	0	0	0
Fund Sweeps/Other	80	2	0	0
New Resources/Costs	380	304	200	369
Updated Receipts Forecast	387	455	460	448
Debt Service	154	0	0	0
Health Insurance Conversion	(150)	(25)	0	0
HEAL Capital Plan Reestimate	160	(94)	(160)	0
Native American Cigarette Tax Enforcement	(103)	0	0	0
All Other	(68)	(32)	(100)	(79)
Deposit to Rainy Day Reserve	(100)			
ENACTED BUDGET SURPLUS/(GAP) ESTIMATE	0	(2,379)	(2,836)	(4,605)

Risks to the 2011-12 budget

- 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

Structural issues for the longer term

Nonrecurring resources fall by \$6b in 2012-13, a legacy of earlier budgets

Non-Recurring and Temporary Resources Used in the Financial Plan (in millions of dollars)

	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15
Temporary PIT Provisions for High Incomes	4,076	649	-	-
Deferred Tax Credits	970	970	870	-
DOB Reported Non-Recurring Actions	860	2	-	-
Temporary Utility Assessment	537	557	291	-
Stimulus Fiscal Stabilization	463	-	-	-
Stimulus FMAP (Medicaid) Increase	449	(254)	-	-
Temporary Suspension of Clothing Sales Tax Exemption	210	-	-	-
Tax Modernization/Voluntary Compliance	200	150	-	-
HEAL Re-Estimate	160	(94)	(160)	-
Prepaid SUNY Debt Service	154	-	-	-
Abandoned Property	110	125	70	55
Special Education	98	-	-	-
Member Item Fund Deposit Repeal	85	-	-	-
Insurance Conversion Proceeds	-	250	300	300
Total Temporary and Non-Recurring Resources	8,372	2,355	1,371	355

Source: Office of the State Comptroller and the Division of the Budget.

As reported in DiNapoli, May 2011.

Still, NY reports substantial progress in closing outyear gaps

Gaps before and after policy actions, five budgets, as reported by Governor's Budget Division										
	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15		Outyear vs. first year
	<i>(amounts in \$ millions)</i>									
General fund gaps at time of 2007-08 budget debate										
"Current services" gaps before actions	(1,540)	(2,965)	(5,060)	(5,331)						(3,791)
Reported impact of budget actions	1,540	(140)	289	(1,294)						(2,834)
Enacted budget for 2007-08	-	(3,105)	(4,771)	(6,625)						(6,625)
		↓								
General fund gaps at time of 2008-09 budget debate										
"Current services" gaps before actions		(5,223)	(7,685)	(9,618)	(11,188)					(5,965)
Reported impact of budget actions		5,223	2,669	1,887	2,426					(2,797)
Enacted budget for 2008-09		-	(5,016)	(7,731)	(8,762)					(8,762)
			↓							
General fund gaps at time of 2009-10 budget debate										
"Current services" gaps before actions			(20,076)	(20,374)	(21,900)	(22,845)				(2,769)
Reported impact of budget actions			21,076	18,208	13,143	9,139				(11,937)
Enacted budget for 2009-10			-	(2,166)	(8,757)	(13,706)				(13,706)
				↓						
General fund gaps at time of 2010-11 budget debate										
"Current services" gaps before actions				(9,188)	(15,851)	(19,650)	(21,584)			(12,396)
Reported impact of budget actions				9,188	7,674	6,189	6,021			(3,167)
Enacted budget for 2010-11				-	(8,177)	(13,461)	(15,563)			(15,563)
					↓					
General fund gaps at time of 2011-12 budget debate										
"Current services" gaps before actions					(10,001)	(14,945)	(17,429)	(20,903)		(10,902)
Reported impact of budget actions					10,001	12,566	14,593	16,298		6,297
Enacted budget for 2011-12					-	(2,379)	(2,836)	(4,605)		(4,605)
Year 4 (outyear) gap as % of projected general fund disbursements				-9.7%	-12.2%	-19.0%	-20.3%	-7.0%		

Sources: NYS Division of Budget, reports on enacted budgets for 2010-11 and 2011-12

NOTE: "Budget actions" include ARRA relief

A cap is not a policy

- Outyear projections count savings from hewing to Medicaid cap
- But those savings only occur if policies – as yet not known – are devised to keep spending within the cap
- Or if executive uses authority to limit spending
- Likely to be pushback against some of these policies

Pension pressures

- NY pension funds relatively well funded:
 - Aggregate cost funding method is conservative
 - Case law may require that contributions be paid (*McDermott v. Regan*, 1993)
- But:
 - Even AC systems can face huge contribution increases depending on discounting: “a reduction from the current assumption of 8 percent to 5 percent, all things being equal, would increase FY 2011 employer contributions from over \$3 billion to about \$14 billion” (Dutcher, 2010)
 - Recent large contribution increases
 - Broad set of “benefits” appears to be constitutionally protected (future benefit accruals? employee contributions? tax exemption?)

Some issues and questions

- On paper, substantial progress toward reducing outyear budget gaps, although gaps remain large
- Can they implement 2011-12 plan successfully? A lot of targets to hit without well-defined policies. Other risks.
- Over longer term:
 - Significant pressures, some understated
 - Setting cap on Medicaid spending growth is not the same as adopting policies that limit growth – hard work still to be done
 - Smaller gaps, but more of budget may be “off limits”. Medicaid and school aid caps may be floors.
- 2011-12 shows power a governor can marshal to encourage greater longer-term thinking. But without institutions in place to require this, can it persist and succeed?

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Adopted-budget economic forecast: Tepid, consensus-like. Oil-price-driven 2011q1 inflation.

U.S. ECONOMIC INDICATORS (Percent change from prior calendar year)			
	2010 (Actual)	2011 (Forecast)	2012 (Forecast)
Real U.S. Gross Domestic Product	2.9	2.9	3.6
Consumer Price Index (CPI)	1.6	2.7	1.8
Personal Income	3.1	5.2	4.0
Nonagricultural Employment	-0.7	1.3	2.0

Source: Moody's Economy.com; DOB staff estimates.

NEW YORK STATE ECONOMIC INDICATORS (Percent change from prior calendar year)			
	2010 (Estimated)	2011 (Forecast)	2012 (Forecast)
Personal Income	4.0	4.7	3.7
Wages	4.4	3.8	4.8
Nonagricultural Employment	0.1	0.7	0.9

Source: Moody's Economy.com; New York State Department of Labor; DOB staff estimates.