

|                                      |   |
|--------------------------------------|---|
| <b>2008-09<br/>Spending<br/>Plan</b> | <b>Department of Taxation and Finance</b>           |
|                                      | <b>Commissioner Robert Megna</b>                    |
|                                      | <b>Executive Deputy Commissioner Jamie Woodward</b> |

## **A. Overview of Proposed Plan**

### *A.1 Overall Approach*

The current fiscal year will be very challenging for the Department of Taxation and Finance. The enacted Budget assumes that we will generate an additional \$750 million in incremental State and local revenues from various new and expanded initiatives, while concurrently reducing operating resources.

We engaged in a Department-wide analysis of all projected expenditures in order to identify opportunities to increase efficiencies, improve outcomes, and eliminate less essential activities and spending. Pursuant to Division of the Budget's direction, we have successfully constructed a spending reduction plan that mitigates, to the greatest extent possible, both current- and out-year negative revenue impacts.

We will do more with less, while maintaining our focus on closing the tax gap – the difference between the amount of taxes legally owed and the amount voluntarily paid.

### *A.2 Achievement of Savings on a Recurring Basis*

Our plan achieves 3.35 percent, or \$13.5 million, in recurring savings through a number of discrete initiatives that balance operating needs against our aggressive revenue-generation goals. We identified a total of \$7.7 million in savings actions that have nominal revenue and manageable operational impacts. We are able to realize these savings primarily due to certain initiatives undertaken over the past year. Each initiative required extra effort and foresight. The remaining \$5.8 million of savings target necessitated spending reduction actions in our direct revenue-generating programs.

The \$13.5 million in savings is in addition to the previously committed \$4 million 21-Day Amendment reduction, as well as the \$2.9 million spending cut in the enacted Budget associated with the legislative e-file savings proposal. We must question the efficacy of not including these reductions against the 3.35 percent target. This is especially true given that resources in the enacted Budget were specifically authorized to generate new revenues.

### *A.3 Protecting Key Priorities*

As you know, a budget is a document of choices – issues tend to be complex, easy solutions are scarce, and compromises must be made.

Our top priority is revenue-generation. Development of our plan required difficult choices, and effectuating it will be painful for our programs. However, we believe our plan maintains assumed 2008-09 revenues, and mitigates – to the greatest extent possible – out-year revenue impacts. We

cannot absorb a recurring expenditure reduction of this magnitude without a negative impact to operations. We will work collaboratively with DOB to monitor and assess potential operational and revenue impacts.

*A.4 Treatment of New Initiatives*

The 2008-09 enacted Budget assumes that we implement a variety of new, mission-related initiatives, including:

- Sales Tax Re-Registration – (re-register 600,000 taxpayers);
- Highway Use Tax Re-Registration – (re-register 500,000 vehicles and 100,000 carriers);
- Cigarette Tax Rate Increase and associated Floor Tax;
- Various Audit, Collections, and Enforcement Revenue Raisers; and
- Voluntary Disclosure.

Our plan assumes that these initiatives continue to move forward, however, there is increased operational risk associated with coordinating and implementing these initiatives concurrently with the required budget reductions.

In addition, the enacted Budget includes two initiatives that are not related to our core mission:

- 2008-09 Middle Class Property Tax Rebate (“STAR”) Program; and
- OGS Statewide Contract Procurement Fee administration.

Our plan does not reduce support for these programs, but it should be recognized that the additional work will greatly strain our ability to achieve our aggressive agenda. We project the programs will cost over \$5 million in base resources to implement.

**B. Summary of General Fund Financial Impacts**

| <b>GENERAL FUND -- SAVINGS SUMMARY</b> |                       |                    |                    |
|--|-----------------------|--------------------|--------------------|
|  | Required<br>Reduction | 2008-09<br>Savings | 2009-10<br>Savings |
| Personal Service                       | N/A                   | \$6,656,000        | \$5,274,000        |
| Non-personal Service                   | N/A                   | \$3,268,000        | \$4,651,000        |
| Total State Operations                 | \$9,900,000           | \$9,924,000        | \$9,925,000        |
| Capital                                | N/A                   | N/A                | N/A                |
| <b>TOTAL</b>                           | <b>\$9,900,000</b>    | <b>\$9,924,000</b> | <b>\$9,925,000</b> |

| <b>GENERAL FUND -- YEAR-TO-YEAR CHANGE, AFTER SAVINGS</b> |                      |                       |                   |
|---|----------------------|-----------------------|-------------------|
|   | 2007-08<br>Actual    | Revised<br>Projection | Percent<br>Change |
| Local Assistance  | N/A                  | N/A                   | N/A               |
| Personal Service  | \$220,815,000        | \$245,113,000         | +11.0%            |
| Non-personal Service                                      | \$93,768,000         | \$74,061,000          | -21.0%            |
| Total State Operations                                    | \$314,583,000        | \$319,174,000         | +1.5%             |
| Capital   | N/A                  | N/A                   | N/A               |
| <b>TOTAL</b>  | <b>\$314,583,000</b> | <b>\$319,174,000</b>  | <b>+1.5%</b>      |

**C. Identification of Proposed General Fund Actions**

|   | 2008-09<br>Cash    | 2009-10<br>Cash    | 2010-11<br>Cash    |
|---|--------------------|--------------------|--------------------|
| <b>GENERAL FUND</b>   |                    |                    |                    |
| <b>State Operations</b>   |                    |                    |                    |
| 1. Delay hiring for 1 year of 100 FTE (25 auditors, 25 criminal enforcement investigators, 25 tax compliance representatives, 25 tax technicians) | \$2,928,000        | \$0                | \$0                |
| 2. Eliminate 70 temporary positions   | \$1,370,000        | \$1,412,000        | \$1,454,000        |
| 3. Delay general Department-wide hiring   | \$1,205,000        | \$2,556,000        | \$2,475,000        |
| 4. Eliminate 25 FTE   | \$1,153,000        | \$1,306,000        | \$1,345,000        |
| 5. Leverage new technology to reduce OFT Data Center CPU usage and charges  | \$1,057,000        | \$1,057,000        | \$1,057,000        |
| 6. Reduce NYS-45 and NYS-1 printing and mailing   | \$766,000          | \$981,000          | \$981,000          |
| 7. Utilize reduced OFT rates  | \$725,000          | \$725,000          | \$725,000          |
| 8. Utilize less costly printing press paper (a green initiative)  | \$250,000          | \$250,000          | \$250,000          |
| 9. Reduce for 1 year Audit Program travel and conferences   | \$200,000          | \$0                | \$0                |
| 10. Effectuate various administrative actions   | \$166,000          | \$166,000          | \$166,000          |
| 11. Revise Financial Institute Data Match initiative need for natural slippage  | \$104,000          | \$0                | \$0                |
| 12. Sublease underutilized Manhattan District Office space  | \$0                | \$1,472,000        | \$1,472,000        |
| <b>TOTAL</b>  | <b>\$9,924,000</b> | <b>\$9,925,000</b> | <b>\$9,925,000</b> |

**D. Summary of Impact on Other Funds**

| <b>OTHER FUNDS -- SAVINGS SUMMARY</b> |                           |                        |                        |
|---------------------------------------|---------------------------|------------------------|------------------------|
|                                       | <u>Required Reduction</u> | <u>2008-09 Savings</u> | <u>2009-10 Savings</u> |
| Local Assistance                      | N/A                       | N/A                    | N/A                    |
| Personal Service                      | N/A                       | \$0                    | \$0                    |
| Non-personal Service                  | N/A                       | \$3,576,000            | \$3,576,000            |
| Total State Operations                | \$3,600,000               | \$3,576,000            | \$3,576,000            |
| Capital                               | N/A                       | N/A                    | N/A                    |
| <b>TOTAL</b>                          | <b>\$3,600,000</b>        | <b>\$3,576,000</b>     | <b>\$3,576,000</b>     |

| <b>OTHER FUNDS -- YEAR-TO-YEAR CHANGE, AFTER SAVINGS</b> |                       |                           |                       |
|--|-----------------------|---------------------------|-----------------------|
|  | <u>2007-08 Actual</u> | <u>Revised Projection</u> | <u>Percent Change</u> |
| Local Assistance   | N/A                   | N/A                       | N/A                   |
| Personal Service   | \$38,339,000          | \$38,423,000              | +0.2%                 |
| Non-personal Service                                     | \$81,443,000          | \$76,969,000              | -5.5%                 |
| Total State Operations                                   | \$119,782,000         | \$115,392,000             | -3.7%                 |
| Capital  | N/A                   | N/A                       | N/A                   |
| <b>TOTAL</b>   | <b>\$119,782,000</b>  | <b>\$115,392,000</b>      | <b>-3.7%</b>          |

**E. Identification of Proposed Other Fund Actions**

|   | <u>2008-09 Cash</u> | <u>2009-10 Cash</u> | <u>2010-11 Cash</u> |
|---|---------------------|---------------------|---------------------|
| <b>OTHER FUNDS (Note the fund/s affected by each proposal, in parentheses at the end of each entry)</b> |                     |                     |                     |
| <b>State Operations</b>   |                     |                     |                     |
| 1. Utilize reduced OFT rates (NYC Assessment SRO)   | \$2,100,000         | \$2,100,000         | \$2,100,000         |
| 2. Revise partnership return data capture need (Banking Services ISF)                                   | \$1,000,000         | \$1,000,000         | \$1,000,000         |
| 3. In-source "zero-filer" sales tax return processing (Banking Services ISF)                            | \$250,000           | \$250,000           | \$250,000           |
| 4. Revise various contract assumptions (Banking Services ISF)   | \$226,000           | \$226,000           | \$226,000           |

|       | 2008-09<br>Cash | 2009-10<br>Cash | 2010-11<br>Cash |
|-------|-----------------|-----------------|-----------------|
| TOTAL | \$3,576,000     | \$3,576,000     | \$3,576,000     |

**F. Plan to Manage the Workforce**

*F.1 Overall Approach / F.2 Plan for Refill of Vacant Positions (both current and anticipated vacancies)*

As described above, we intend to eliminate 25 full-time equivalent (FTE) items, delay hiring for one year of 100 Office of Tax Enforcement items, and implement a two-tier hiring delay strategy. Critical staffing fills (i.e., revenue-generating) will be delayed four weeks, less critical or support function hires will be delayed eight weeks or more depending on expenditure projections and progress towards our savings targets.

We will make every attempt to mitigate current- and out-year revenue impacts.

| Workforce Impact -- All Funds   |       |
|---|-------|
| a. Initial Target   | 5,216 |
| b. Current Fills PP #2  | 4,714 |
| c. Impact of proposed actions (see Parts C & E)                       | -125  |
| d. Impact of vacancy-refilling plan (see F.2)                         | +502  |
| e. Total FTEs March 31, 2009 (line b minus line c, plus/minus line d) | 5,091 |
| f. Change from Initial 2008-09 Target (line a minus line e)**         | -125  |

\*\*25 FTE recurring reduction

**G. Monthly Projections: All Funds Workforce; General Fund State Operations/Local/Capital**

State Operations numbers below include the following: \$61.4M for NYC Assessment Account SRO; \$55.3M for Banking Services ISF; and \$2.2M for Treasury Management SRO.

Projections assume that PEF GSI hits in September.

(\$000s)

|          | A      | M      | J      | J      | A      | S      | O      | N      | D      | J      | F      | M      | TL      |
|----------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------|
| FTE      | 4,714  | 4,750  | 4,775  | 4,900  | 4,950  | 4,975  | 5,000  | 5,025  | 5,075  | 5,091  | 5,091  | 5,091  | 4,953   |
| StOps    |        |        |        |        |        |        |        |        |        |        |        |        |         |
| PS       |        |        |        |        |        |        |        |        |        |        |        |        |         |
| 1st PP   | 9,969  | 10,039 | 10,089 | 10,351 | 10,455 | 11,465 | 11,332 | 11,385 | 11,491 | 11,523 | 11,523 | 11,523 | 131,145 |
| 2nd PP   | 9,969  | 10,039 | 10,089 | 10,351 | 10,455 | 11,465 | 11,332 | 11,385 | 11,491 | 11,523 | 11,523 | 11,523 | 131,145 |
| 3rd PP   | 9,969  |        |        |        |        |        | 11,332 |        |        |        |        |        | 21,301  |
| Subtotal | 29,907 | 20,078 | 20,178 | 20,703 | 20,910 | 22,930 | 33,996 | 22,770 | 22,982 | 23,046 | 23,046 | 23,046 | 283,592 |
| NPS      | 0      | 6,325  | 18,328 | 12,982 | 12,982 | 12,982 | 12,982 | 12,982 | 14,892 | 12,982 | 12,982 | 18,982 | 149,401 |
| Total    | 29,907 | 26,403 | 38,506 | 33,685 | 33,892 | 35,912 | 46,978 | 35,752 | 37,874 | 36,028 | 36,028 | 42,028 | 432,993 |

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## **H. Assumptions Underlying the Proposed Plan**

Our ability to achieve the current year savings target is not conditioned – we will realize such savings administratively through careful management of operations, including staffing levels.

## **I. Management of Risks Inherent in the Plan**

We are oriented toward revenue growth. The principal risk inherent to our plan is potentially affecting our ability to continually increase revenue collections year-over-year. This is especially true in a down cycle in the economy. Audit productivity becomes more difficult as tax liabilities and ability to pay shrink with the economy. We must maintain our core activities to ensure the base voluntarily-remitted revenues are appropriately collected, processed, and accounted. In order to ensure that the non-voluntarily remitted revenue base is maintained and continues to increase, we need to invest today in the human capital necessary to develop the case pipelines that will produce revenues in three to five years.

Under-funding operations now to realize immediate savings increases the risk of not achieving out-year revenue collections.

## **J. Additional Savings Opportunities for 2008-09**

Any additional 2008-09 savings opportunities would:

- Have a direct negative impact on our current- and out-year revenue-generation activities;
- Potentially interfere with our ability to maintain base revenue collections in the out-years (e.g., effectiveness could suffer by under-funding, not appropriately maintaining, and / or not making necessary critical upgrades to our highly-sophisticated information technology infrastructure investments); and
- Seriously affect our ability to maintain appropriate internal and external customer service levels.

## **K. Potential Future Savings Opportunities/Operational Improvements (indicate if statutory change is required)**

We have identified the following initiatives for further analysis and evaluation. We believe significant out-year savings opportunities may potentially exist – however, many of these initiatives are conditioned on significant up-front capital outlays and / or reengineering core processes.

- Eliminate non-critical paper output (a green initiative);
- Migrate OFT check printing to the Tax Department;
- Reduce and consolidate the number of networked printers throughout our operations;
- Convert taxpayer call centers to Voice-over Internet Protocol (VoIP) technology;
- Reduce the usage of 1-800 toll-free telephone lines; and
- Reduce State Campus reception booth staff.

## **ATTACHMENTS:**

Monthly Reporting Template, including FTE and NPS Plans

2008-09 PS SPENDING PLAN

(\$000s)

05/16/08

| PROGRAM                                     | ACTUAL   | PROJ           | TOTAL          | 2007-08<br>ACTUAL | CHANGE        | ACTUAL<br>FTE<br>LEVEL | REC FTE<br>LEVEL | PIPE -<br>LINE FTE<br>LEVEL | FTE<br>OVER /<br>(UNDER) | FTE %<br>CHANGE | COMMENT  |
|---|----------|----------------|----------------|-------------------|---------------|------------------------|------------------|-----------------------------|--------------------------|-----------------|--|
| ADMINISTRATION                              |          | 11,473         | 11,473         | 10,711            | 762           | 180.0                  | 176.0            | 179.0                       | 3                        | 2%              |  |
| COUNSEL                                     |          | 6,931          | 6,931          | 6,384             | 546           | 84.0                   | 85.0             | 85.0                        | -                        | 0%              |  |
| TAX POLICY ANALYSIS                         |          | 13,083         | 13,083         | 12,058            | 1,026         | 198.0                  | 184.5            | 202.3                       | 18                       | 10%             |  |
| AUDIT                                       |          | 96,770         | 96,770         | 89,355            | 7,415         | 1,513.0                | 1,685.0          | 1,616.0                     | (69)                     | -4%             | +70 FTE; -66 FTE TO SIU                                      |
| COLLECTIONS AND CIVIL<br>ENFORCEMENT        |          | 35,970         | 35,970         | 29,082            | 6,888         | 694.0                  | 853.5            | 889.2                       | 36                       | 4%              | +110 FTE; -10 FTE TO SIU                                     |
| INVESTIGATIONS AND CRIMINAL<br>ENFORCEMENT  |          | 17,453         | 17,453         | 9,052             | 8,401         | 217.0                  | 286.5            | 266.0                       | (21)                     | -7%             | +35 FTE; +10 FTE (ATTYS); +76 FTE<br>SIU FROM OTHER PROGRAMS |
| OPERATIONS SUPPORT BUREAU                   |          | 6,523          | 6,523          | 5,921             | 602           | 149.0                  | 151.0            | 148.0                       | (3)                      | -2%             |  |
| PROCESSING AND TAXPAYER<br>SERVICES         |          | 55,764         | 55,764         | 50,619            | 5,145         | 948.0                  | 1,010.0          | 955.0                       | (55)                     | -5%             | +15 FTE; +10 FTE; HUT TRIENNIAL<br>+\$315K                   |
| INFORMATION TECHNOLOGY<br>SERVICES / EMPIRE |          | 44,686         | 44,686         | 39,614            | 5,072         | 666.0                  | 689.5            | 687.0                       | (3)                      | 0%              |  |
| CONCILIATION AND MEDIATION                  |          | 2,074          | 2,074          | 1,864             | 210           | 27.0                   | 26.0             | 27.0                        | 1                        | 4%              |  |
| TREASURY MANAGEMENT                         |          | 2,020          | 2,020          | 1,893             | 127           | 38.0                   | 44.0             | 44.0                        | -                        | 0%              |  |
| <b>SUBTOTAL--&gt;</b>                       | <b>-</b> | <b>292,747</b> | <b>292,747</b> | <b>256,554</b>    | <b>36,194</b> | <b>4,714.0</b>         | <b>5,191.0</b>   | <b>5,098.4</b>              | <b>(93)</b>              | <b>-2%</b>      |  |
| TURNOVER @ -->                              | 8.3%     | (9,375)        | (9,375)        |                   |               |                        | 4,714.0          | 4,714.0                     |                          |                 | <<--ACTUAL PP#2  |
| <b>TOTAL--&gt;</b>                          | <b>-</b> | <b>283,372</b> | <b>283,372</b> |                   |               |                        | (477.0)          | (384.4)                     |                          |                 | <<--OVER / (UNDER)   |
| <b>AVAILABLE APPROPRIATION--&gt;</b>        |          |                | <b>280,088</b> |                   |               |                        |                  |                             |                          |                 |  |
| <b>SURPLUS / (DEFICIT)--&gt;</b>            |          |                | <b>(3,285)</b> |                   |               |                        |                  |                             |                          |                 |  |
|   |          |                |                | GSI               | 20,002        |                        |                  |                             |                          |                 |  |
|   |          |                |                | 08-09 250         | 6,805         |                        |                  |                             |                          |                 |  |
|   |          |                |                | FILL TO REC       | 5,800         |                        |                  |                             |                          |                 |  |
|   |          |                |                | 07-08 200         | 5,400         |                        |                  |                             |                          |                 |  |
|   |          |                |                | CREEP / REC       | 4,700         |                        |                  |                             |                          |                 |  |
|   |          |                |                | B-1178            | (6,656)       |                        |                  |                             |                          |                 |  |
|   |          |                |                | TOTAL             | 36,051        |                        |                  |                             |                          |                 |  |
|   |          |                |                |                   |               |                        | NEW REC-->       | 5,191                       |                          |                 |  |





## 2008-09 SPENDING PLAN

(\$000s)  
05/16/08

| PROGRAM                                  | PS             | NPS            | TOTAL          |
|--|----------------|----------------|----------------|
| ADMINISTRATION                           | 11,473         | 1,002          | 12,475         |
| COUNSEL                                  | 6,931          | 476            | 7,406          |
| TAX POLICY ANALYSIS                      | 13,083         | 545            | 13,628         |
| AUDIT                                    | 96,770         | 8,176          | 104,946        |
| COLLECTIONS AND CIVIL ENFORCEMENT        | 35,970         | 1,255          | 37,225         |
| INVESTIGATIONS AND CRIMINAL ENFORCEMENT  | 17,453         | 1,100          | 18,553         |
| OPERATIONS SUPPORT BUREAU                | 6,523          | 37,666         | 44,189         |
| PROCESSING AND TAXPAYER SERVICES         | 55,764         | 2,121          | 57,884         |
| BANKING SERVICES                         |                | 55,122         | 55,122         |
| INFORMATION TECHNOLOGY SERVICES / EMPIRE | 44,686         | 28,070         | 72,756         |
| OFT DATA CENTER                          |                | 13,129         | 13,129         |
| CONCILIATION AND MEDIATION               | 2,074          | 123            | 2,197          |
| TREASURY MANAGEMENT                      | 2,020          | 166            | 2,186          |
| MIDDLE CLASS STAR                        |                | 539            | 539            |
| <b>SUBTOTAL--&gt;&gt;</b>                | <b>292,747</b> | <b>149,489</b> | <b>442,236</b> |
| ADDITIONAL TURNOVER                      | (9,375)        |                | (9,375)        |
| <b>TOTAL--&gt;&gt;</b>                   | <b>283,372</b> | <b>149,489</b> | <b>432,861</b> |
| <b>AVAIL APPROP--&gt;&gt;</b>            | <b>273,432</b> | <b>159,429</b> | <b>432,861</b> |
| <b>SURPLUS / (DEFICIT)--&gt;&gt;</b>     | <b>(9,941)</b> | <b>9,941</b>   | <b>(0)</b>     |
|  |                | OR-->>         | 0.00%          |