

2012-13 Executive Budget

Governor Andrew M. Cuomo

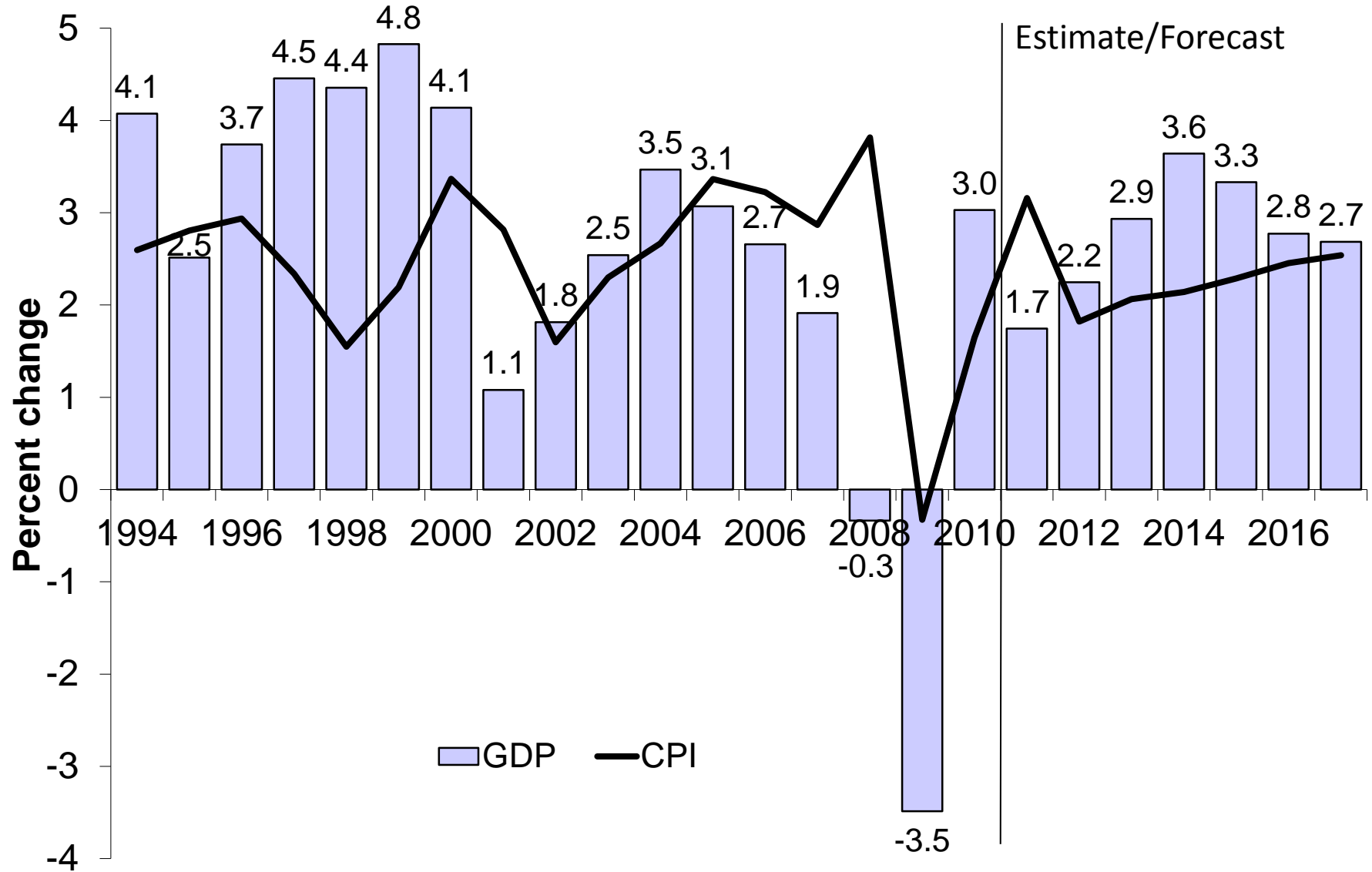
January 17, 2012

Robert L Megna, Director of the Budget

- I. Economic Overview
- II. Financial Plan Summary
- III. Reforms

I. Economic Overview

Outlook for Real U.S. GDP Growth and Inflation

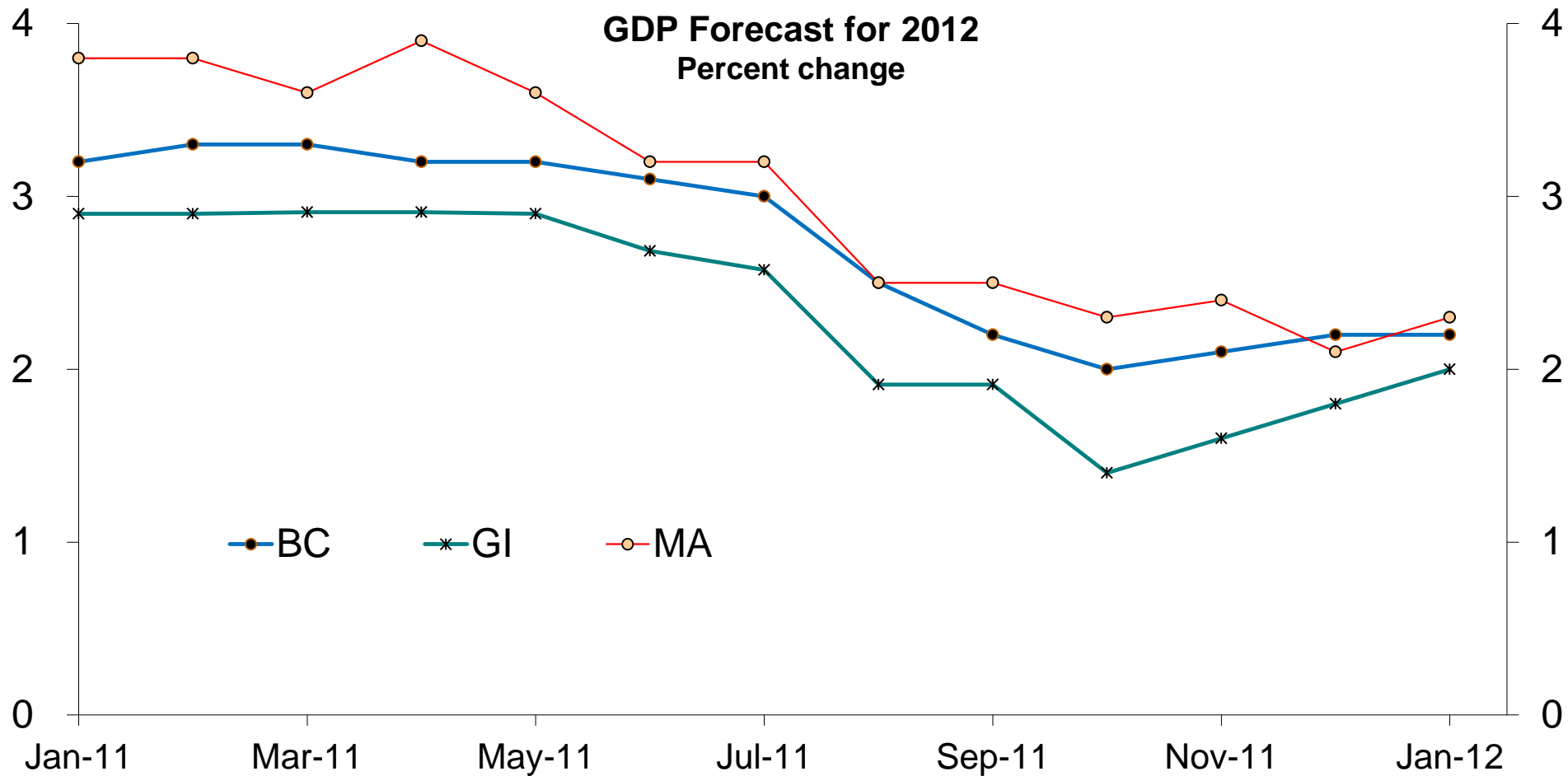


Note: Displayed values pertain to GDP growth.

Source: Moody's Analytics; DOB staff estimates.

Economic Outlook Weakens

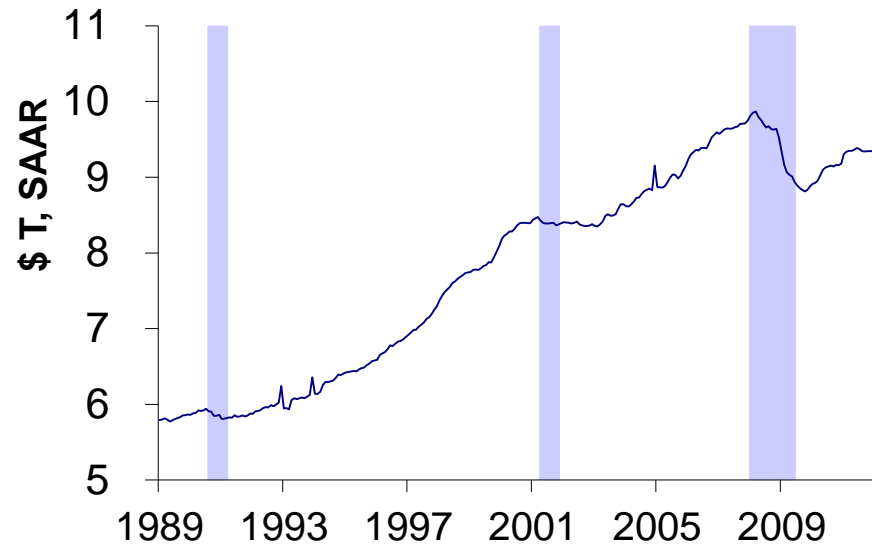
GDP Forecast for 2012
Percent change



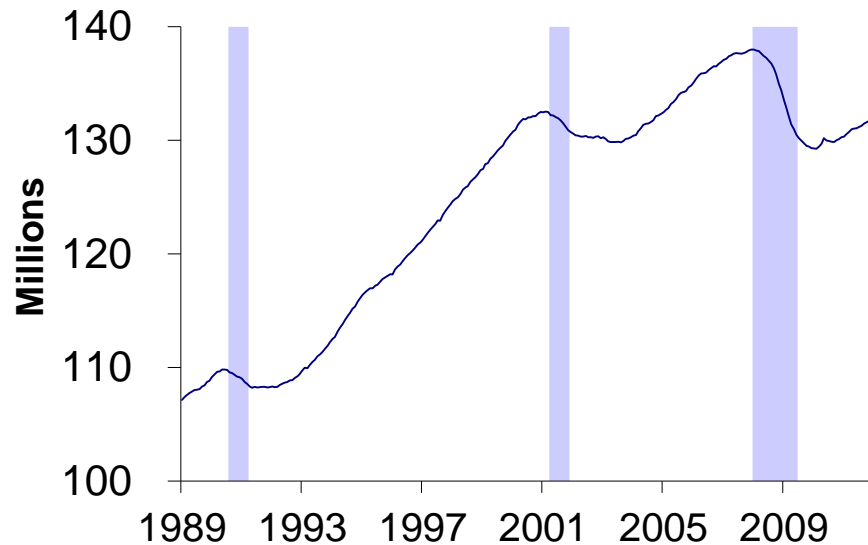
Source: Global Insight; Macroeconomic Advisers; Blue Chip.

- Economic forecasters have been continuously revising their outlooks for 2012 downward; on average, forecasts for real 2012 U.S. GDP growth have fallen from over 3% to about 2%.

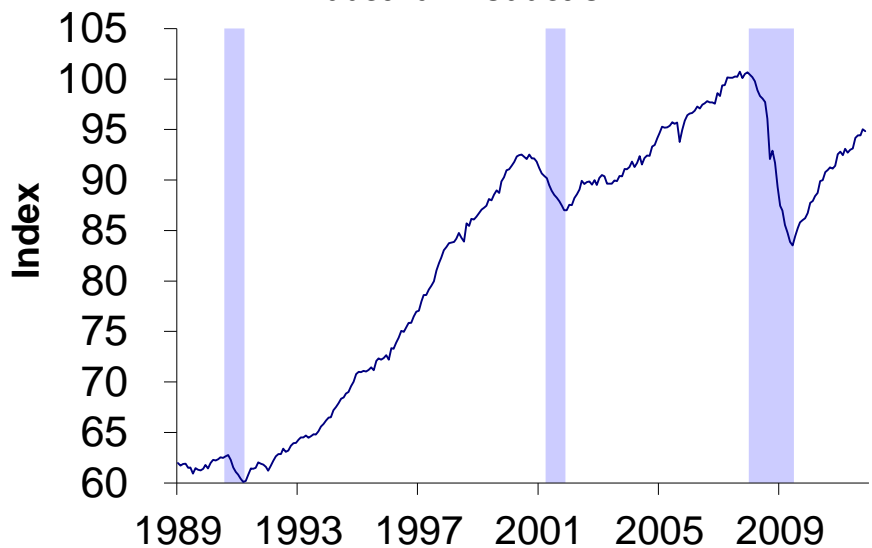
Real Personal Income Minus Transfers



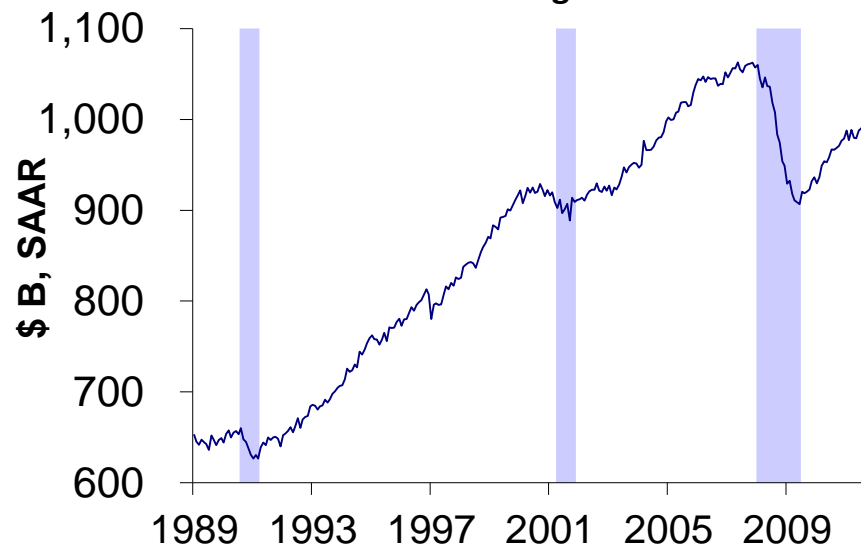
Total Employment



Industrial Production



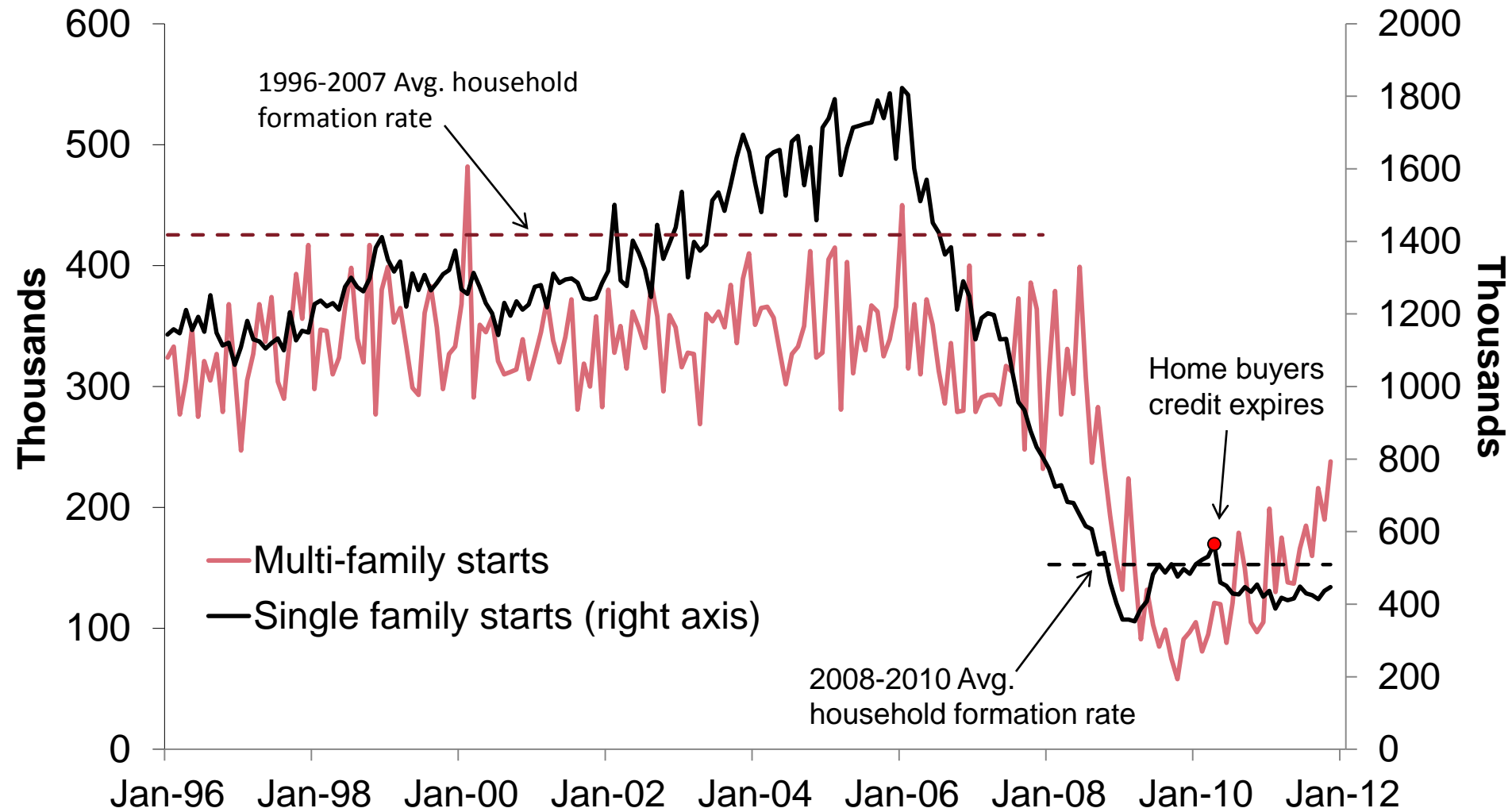
Real Manufacturing and Trade Sales



Note: Shaded areas represent U.S. recessions.

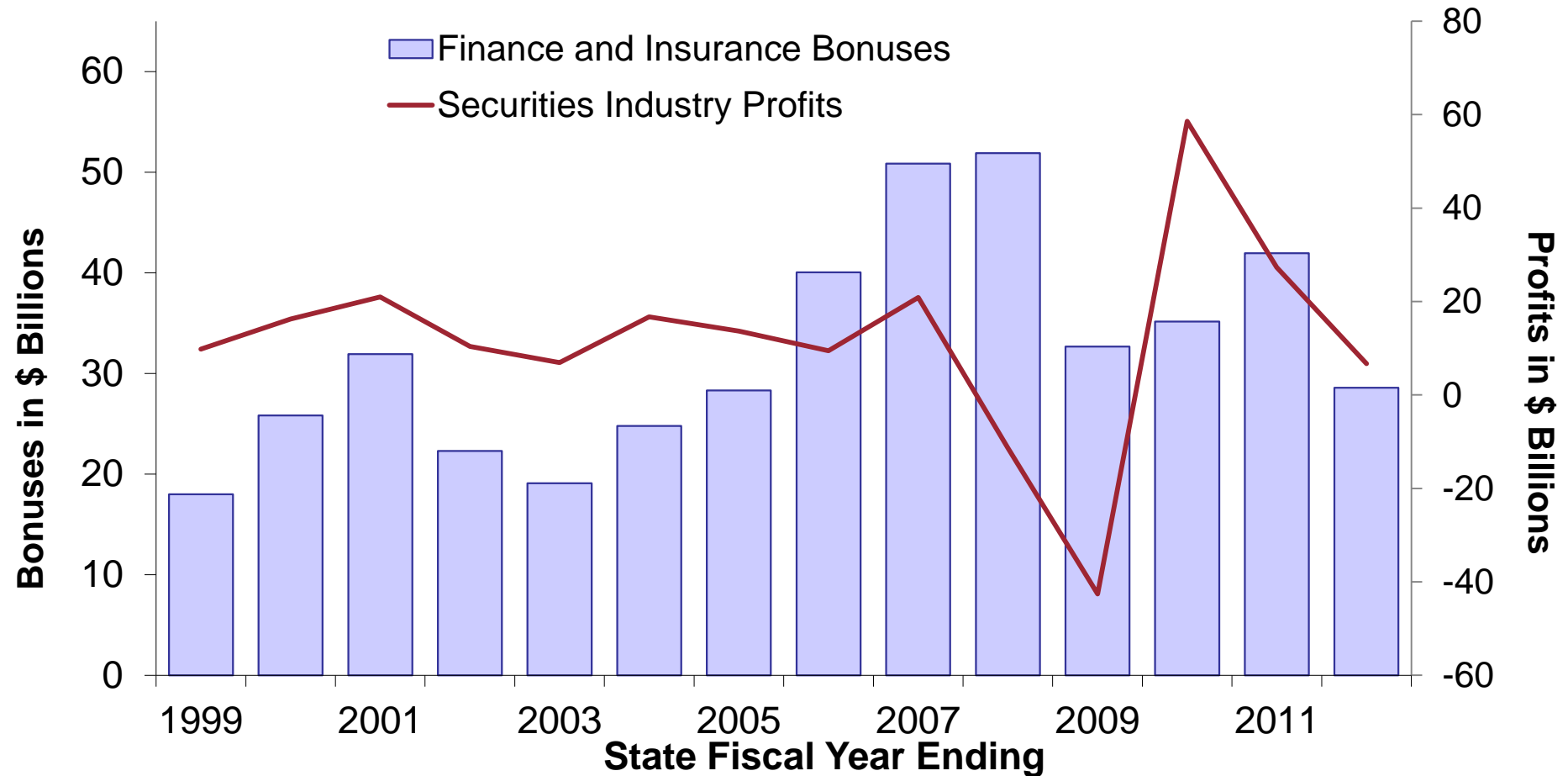
Source: Moody's Analytics.

Single Family Housing Market Still Weak



Source: Moody's Analytics.

Weak Wall Street Profits Lead to a Decline in Bonuses

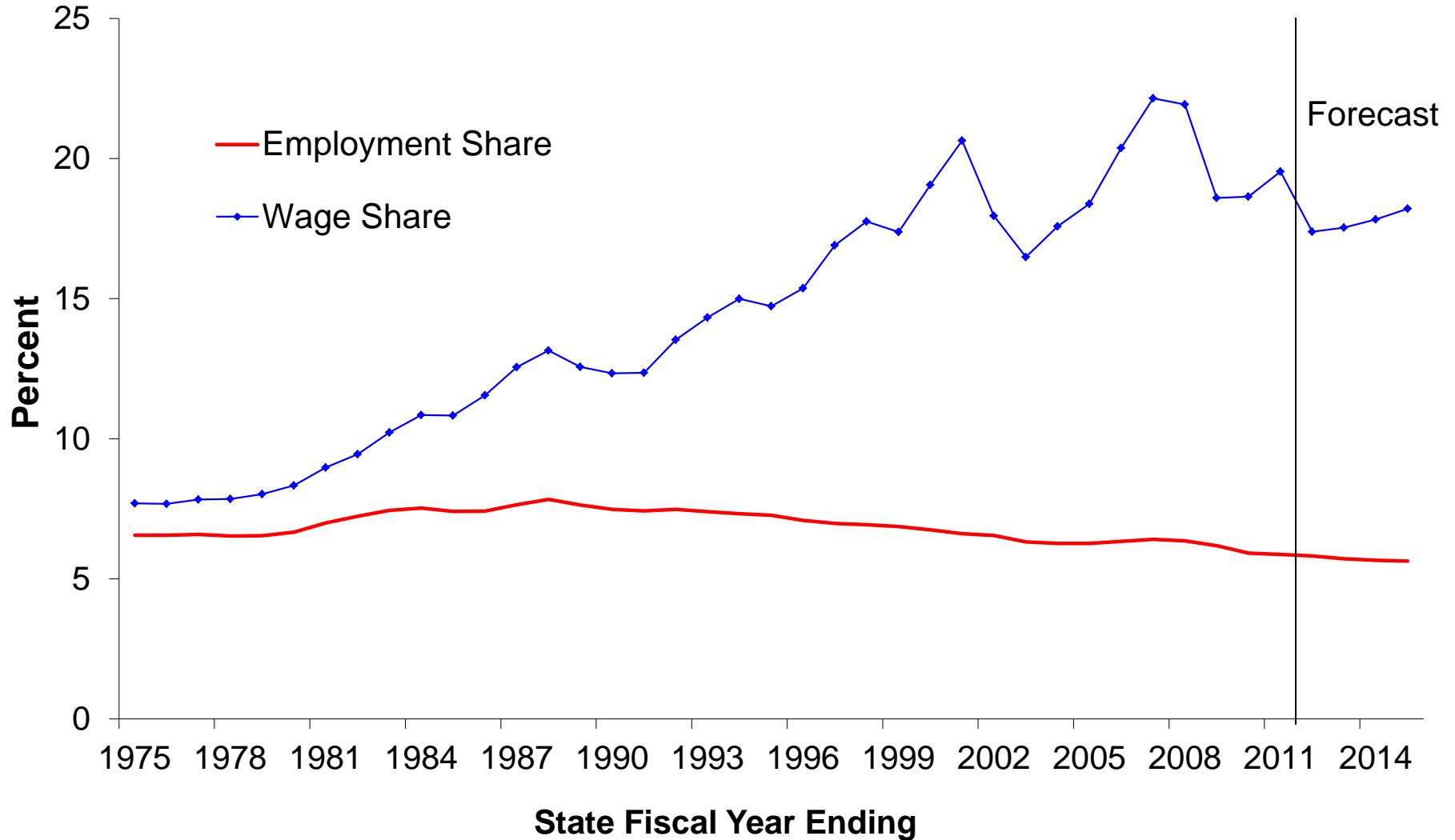


Note: Values for profits pertain to the prior calendar year; estimates for 2011 assume that profits for the fourth quarter will be equal to the third quarter.

Source: NYS Department of Labor; SIFMA; DOB staff estimates.

- Securities Industry profits are expected to decline over 75 percent during 2011. The Finance sector bonuses are expected to decline 31.8 percent during SFY2011-12.

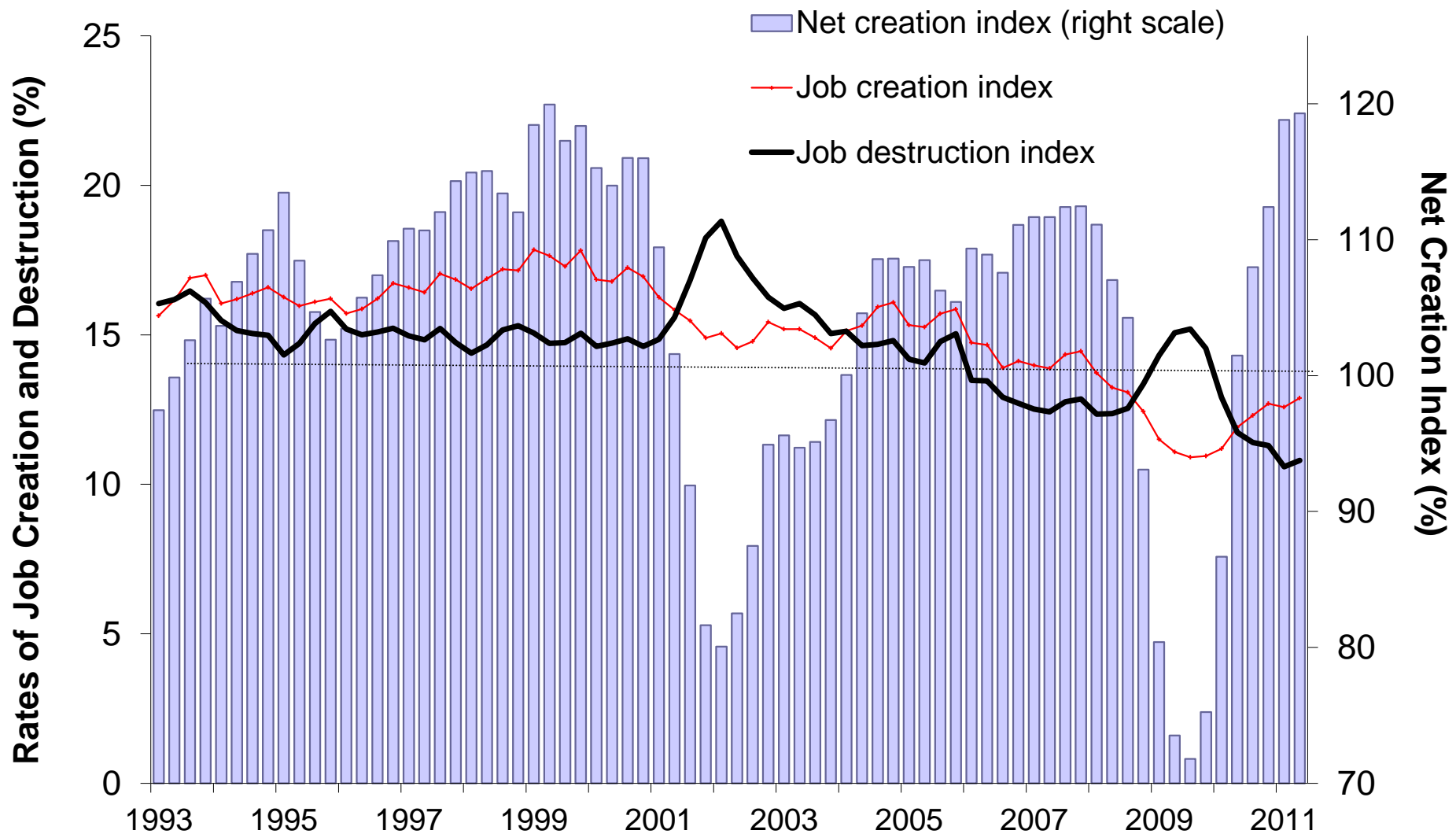
Finance Sector Has an Outsized Impact on State Revenue



Source: NYS Department of Labor; DOB staff estimates.

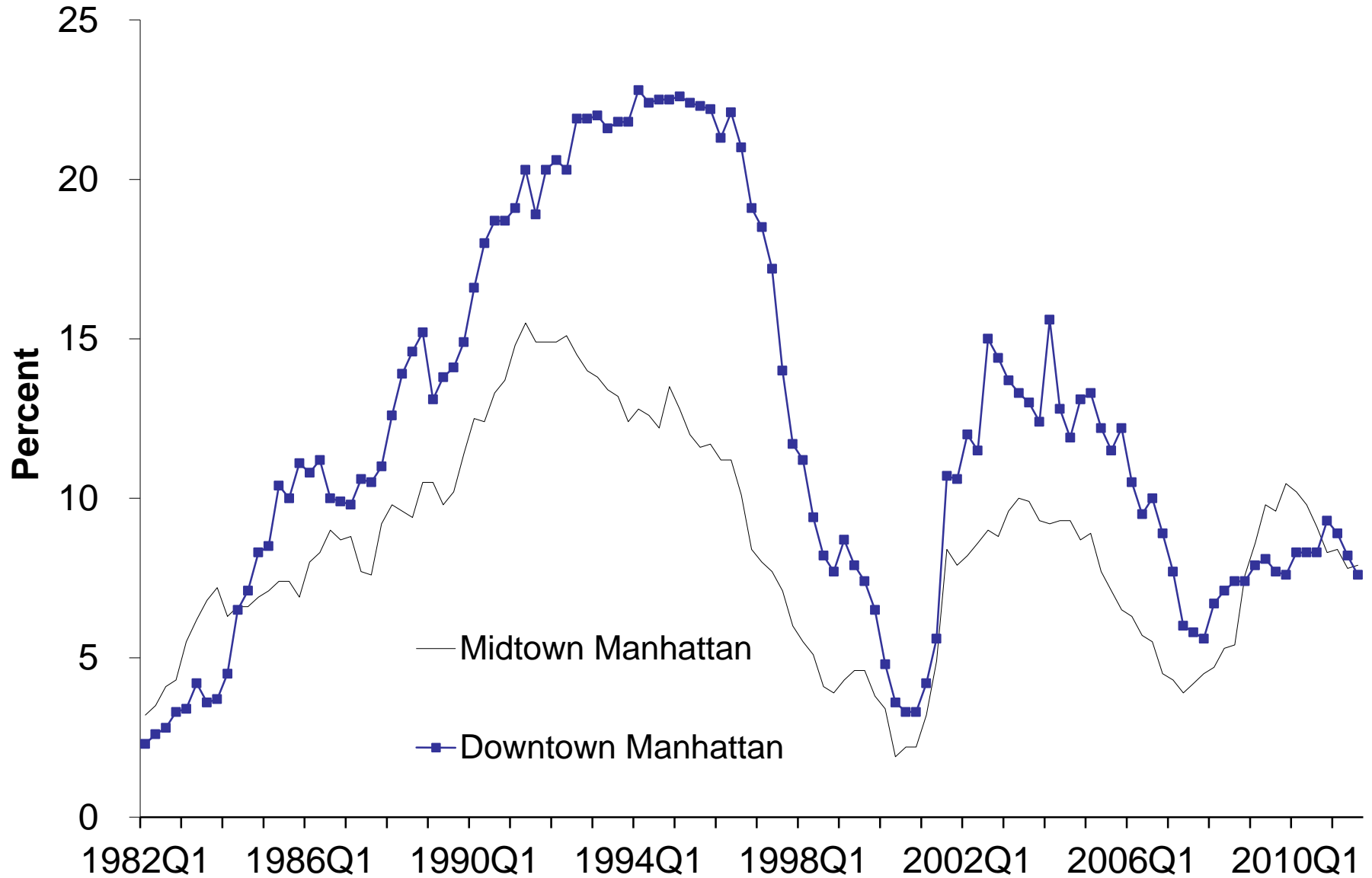
- The finance sector has 5% of total employment but about 20% of total wages.

NYS Private Sector Employment Dynamics



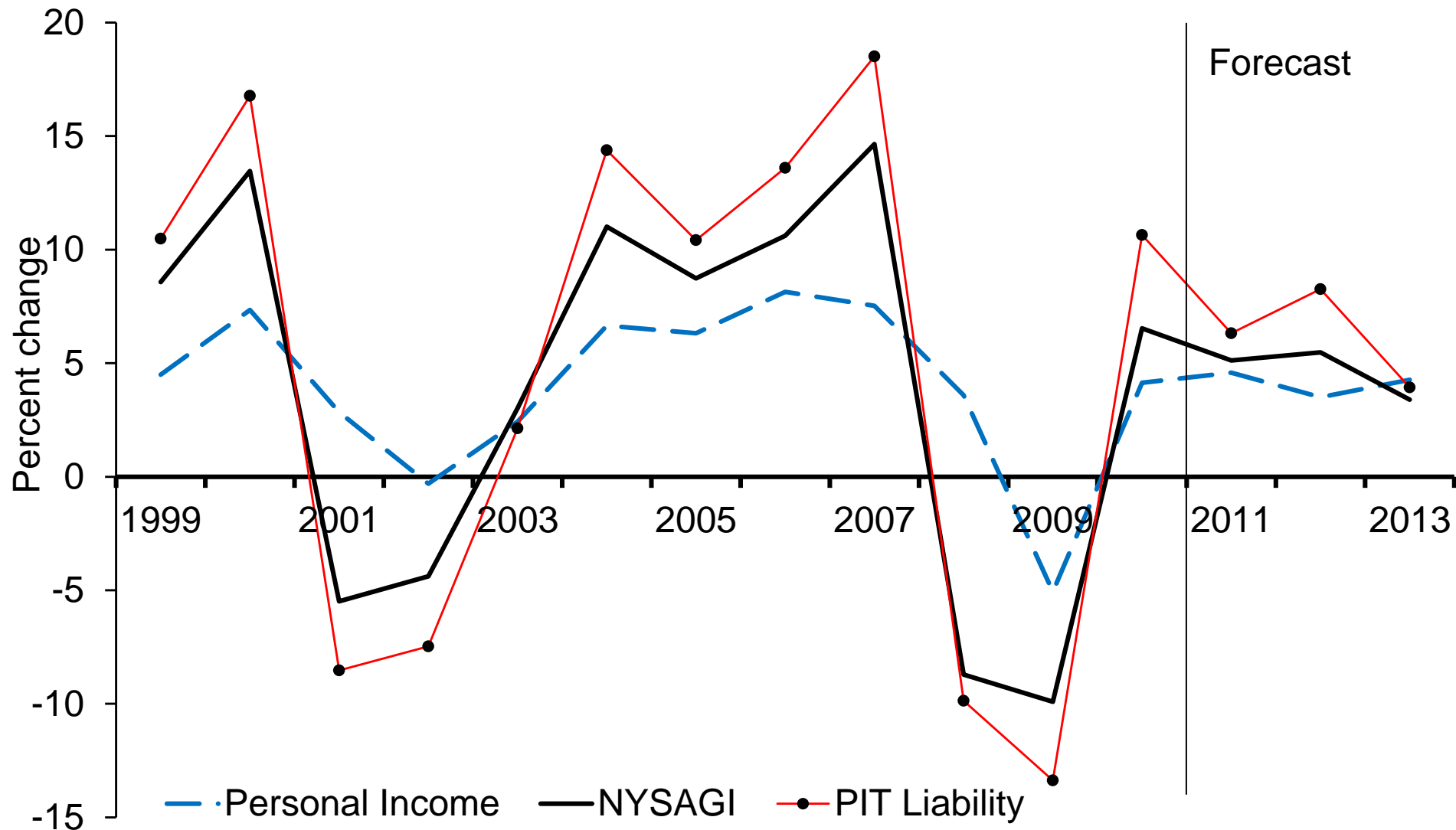
Source: NYS Department of Labor; DOB staff estimates.

Office Vacancy Rates



Source: Moody's Analytics; CBRE.

The Indicators of New York State's Tax Base



Note: Personal income tax (PIT) liability is computed based on 2002 NY State tax law; 2010 liability and NYSAGI data are preliminary.

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

Forecast Risks

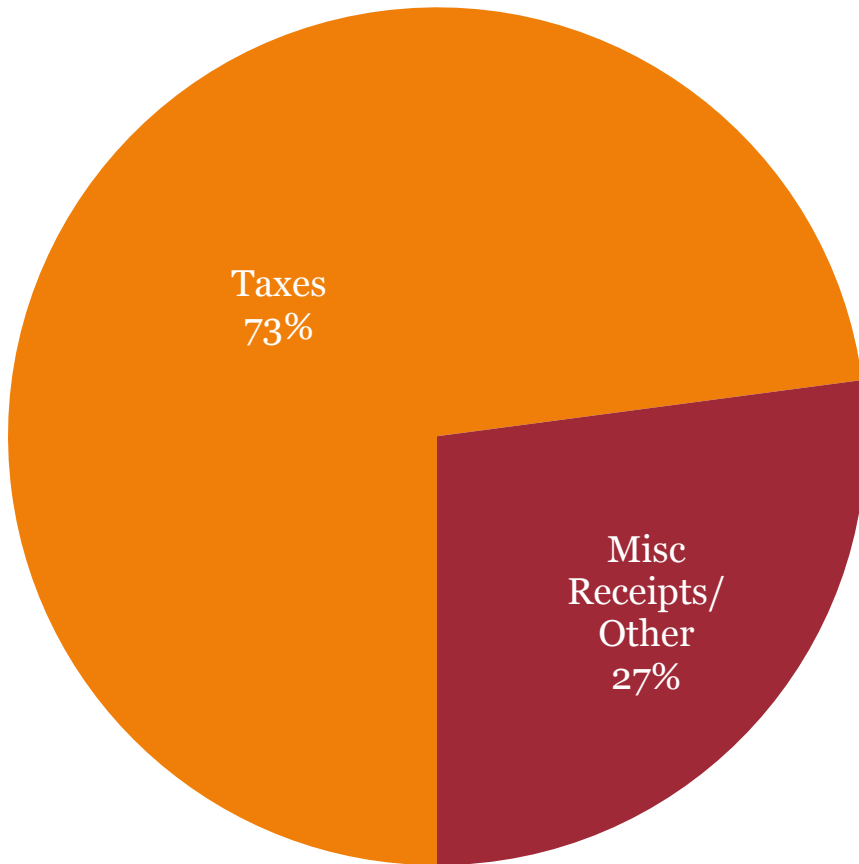
- The global economy is slowing
- Financial markets becoming increasingly volatile
- Labor market yet to provide momentum to the U.S. economy
- Households still deleveraging
- Housing market still weak with risk from foreclosures
- Energy prices on the rise again
- Fiscal policy uncertainty a negative for the economic outlook

II. Financial Plan Summary

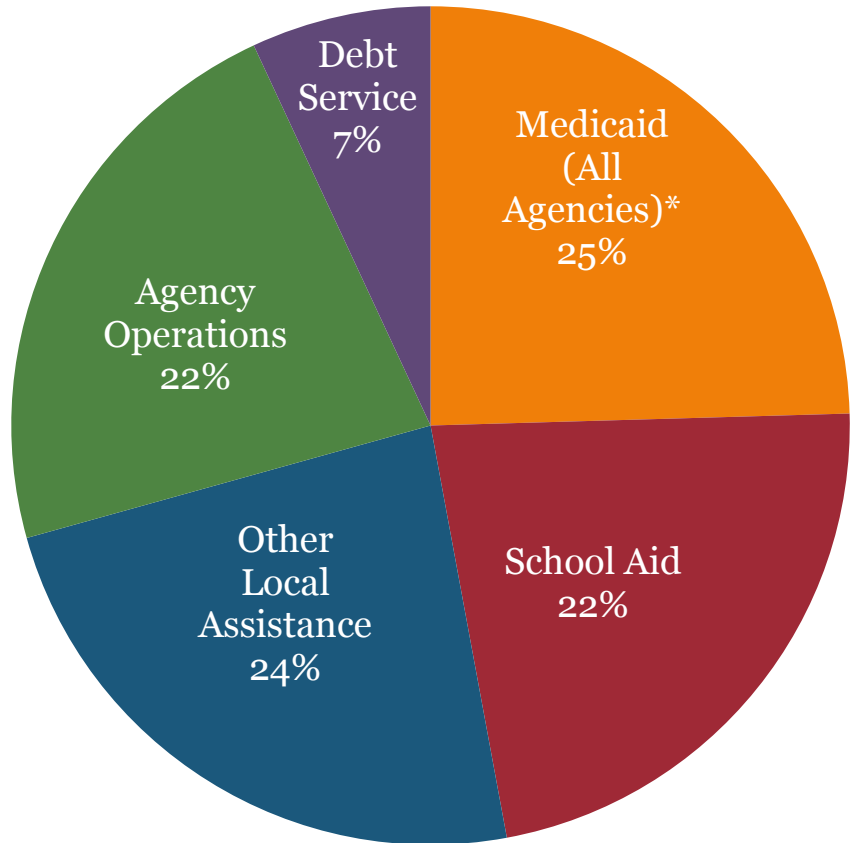
State Operating Funds

2012-13 Executive Budget - \$88.7 Billion

Where it Comes From



Where it Goes

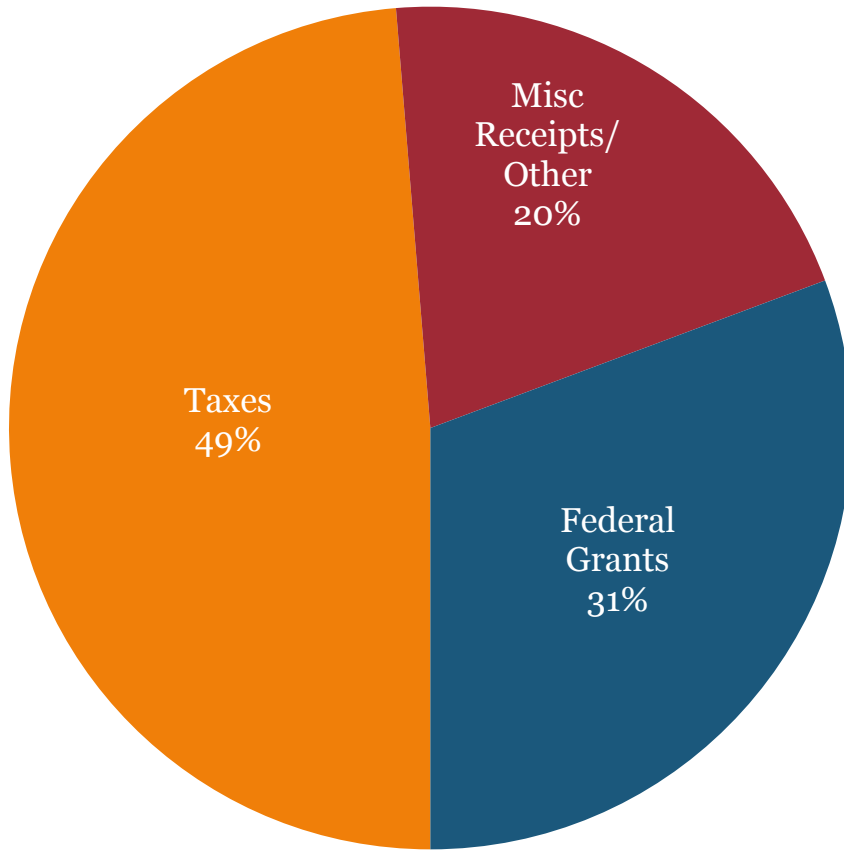


* Includes local assistance, state operations and fringe benefits.

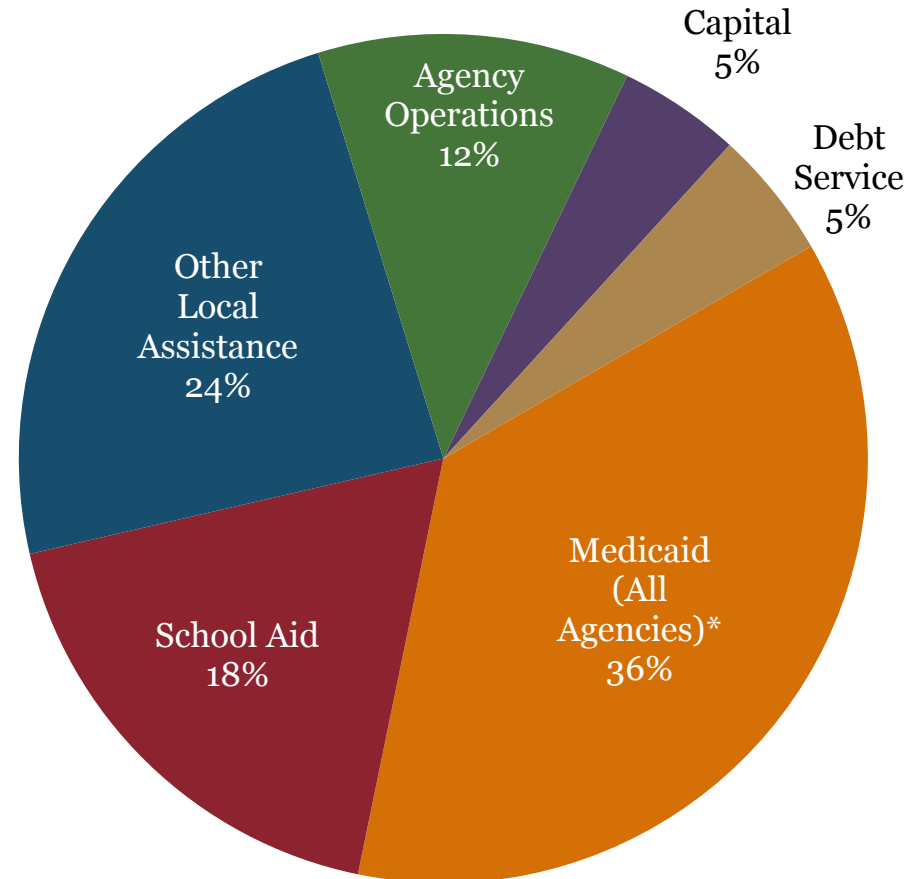
All Funds

2012-13 Executive Budget - \$132.5 Billion

Where it Comes From



Where it Goes

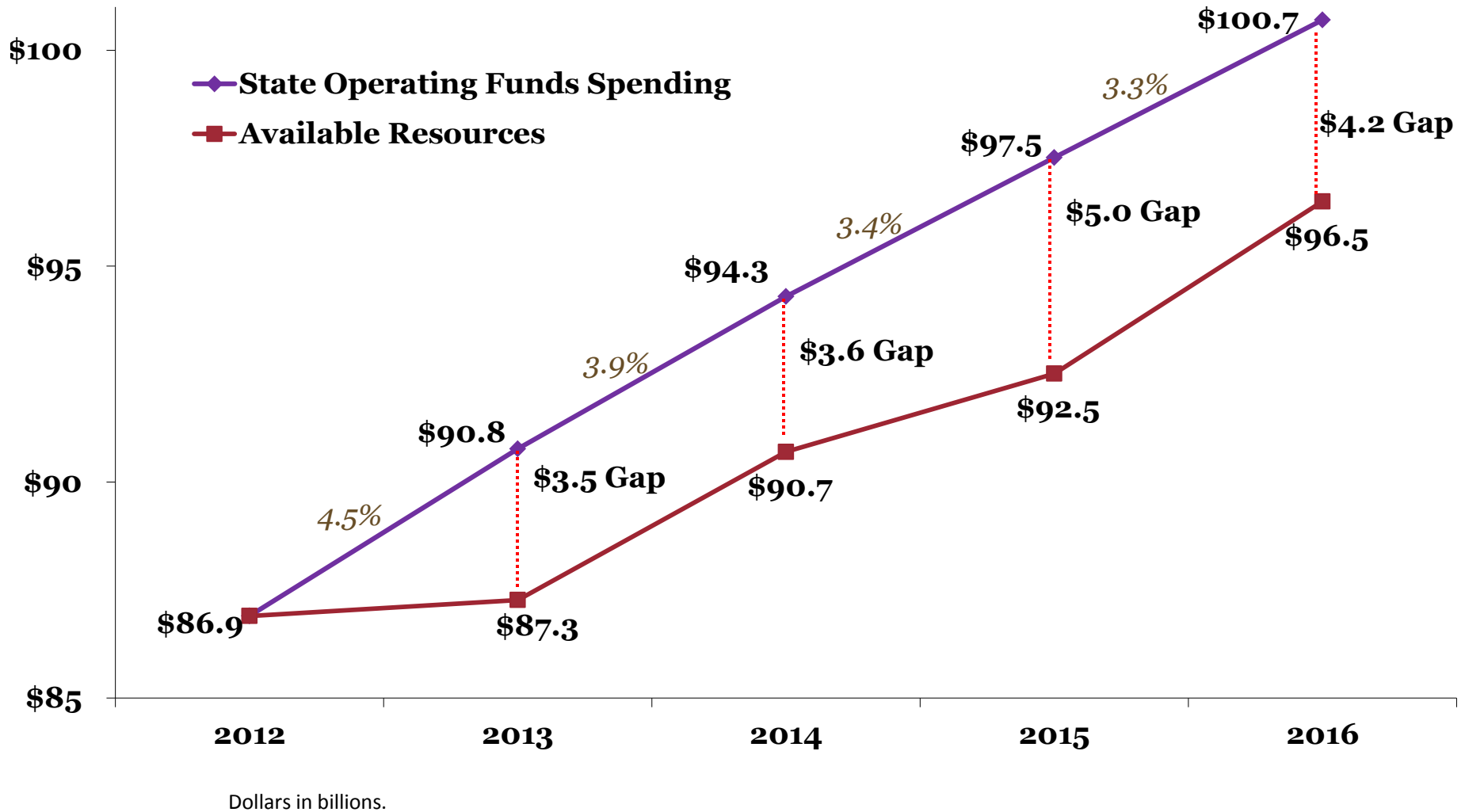


* Includes local assistance, state operations and fringe benefits.

2012-13 Executive Budget Overview

- Budget gap for 2012-13 was \$3.5 billion – upper end of range in Mid-Year Update
- Tax reform reduced the budget gap by \$1.5 billion, leaving \$2.0 billion that must be closed by the Executive Budget
- Gap-closing plan of \$2 billion consists entirely of proposals to control spending
- Total State Operating Funds (“SOF”) spending growth is held to 1.9%
 - Local aid grows at 2.6%
 - Agency operations decline by 0.4%
- School Aid and Medicaid grow at 4%, consistent with 2011-12 caps
- Budget leaves a 2013-14 gap of \$715 million, equal to about 1.2% of projected General Fund receipts -- by comparison, the 2011-12 gap equaled about 18% of receipts

Budget Gaps: Before Gap-Closing Plan



Annual Growth

Local Assistance Programs (SOF)

Before and After Executive Budget

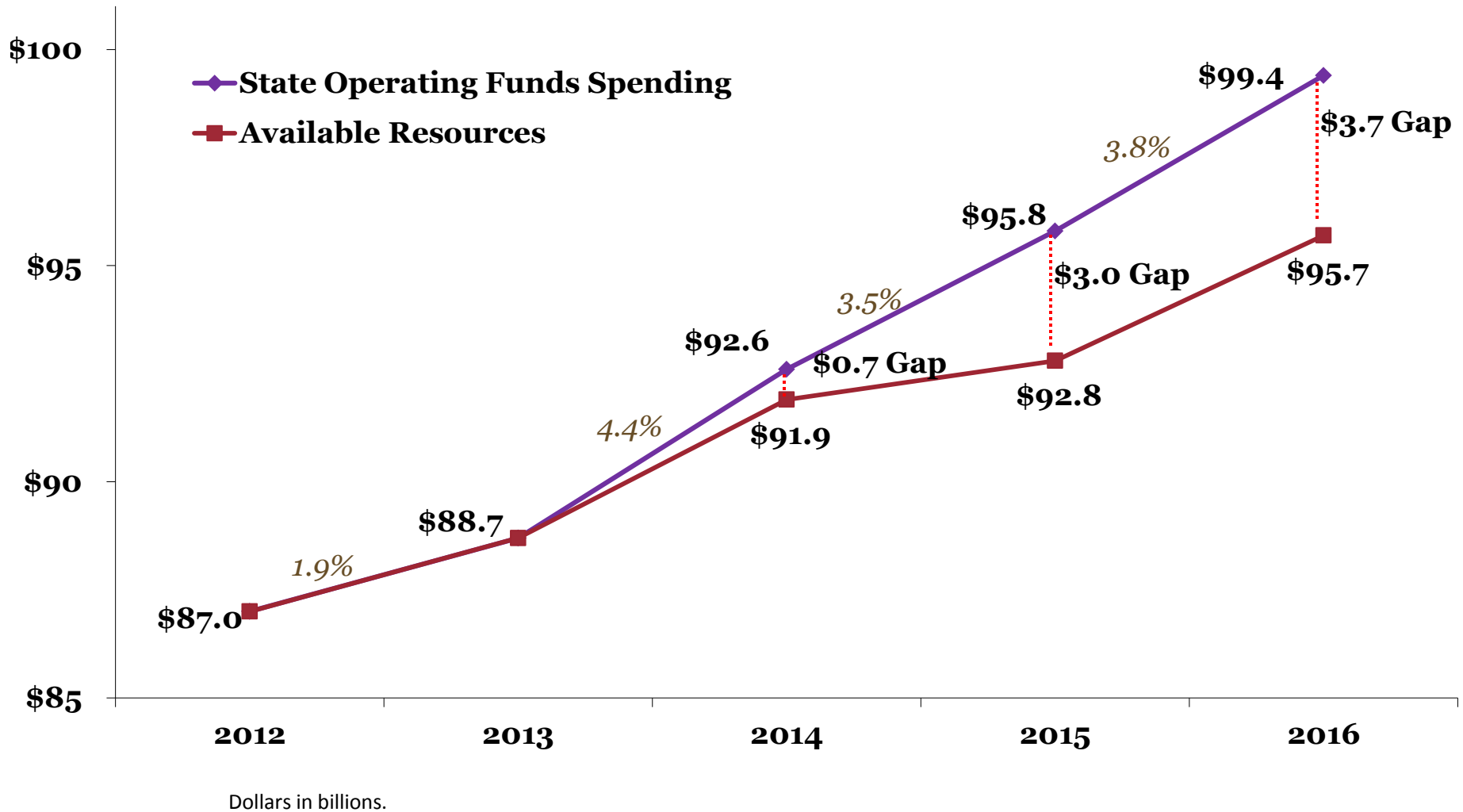
	BEFORE	AFTER
LOCAL ASSISTANCE	3.9%	2.6%
SCHOOL AID (School Year Basis)	4%	4%
MEDICAID	4%	4%
SOCIAL SERVICES	7.3%	2.1%
MENTAL HYGIENE	7.7%	-0.1%
HIGHER EDUCATION	3.3%	2.2%

Annual Growth (SOF)

Executive Agencies

	2012-13 Annual Change
STATE OPERATIONS (PS/NPS ONLY)	-1.0%
CORRECTIONS	-3.3%
ENVIRONMENTAL CONSERVATION	-1.0%
HEALTH	1.3%
MENTAL HEALTH	-0.2%
OPWDD	-0.6%

Budget Gaps: After Gap-Closing Plan



Gap-Closing Plan for 2012-13

Dollars in Billions

SPENDING CONTROL: \$2.0

Agency Operations: \$1.1

Local Assistance: \$0.8

Debt Management: \$0.1

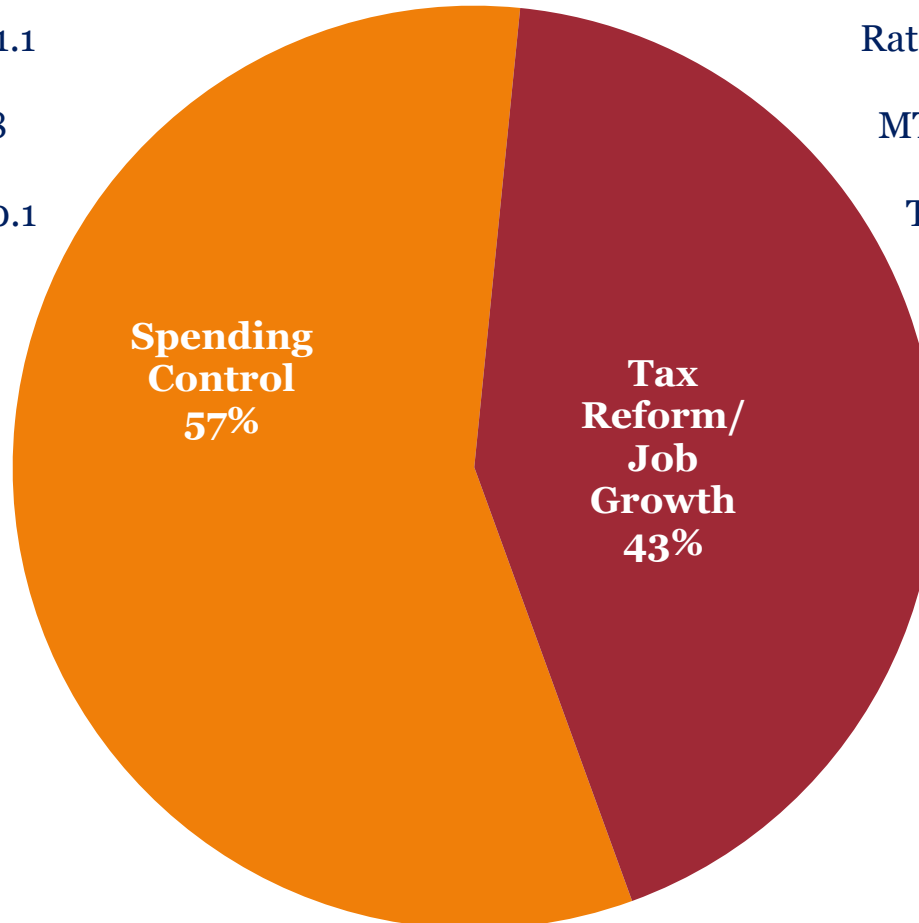
TAX REFORM/JOB GROWTH: \$1.5

Rate/Bracket Reform: +\$1.9

MTA Payroll Tax: -\$0.25

Tax Credits: -\$0.045

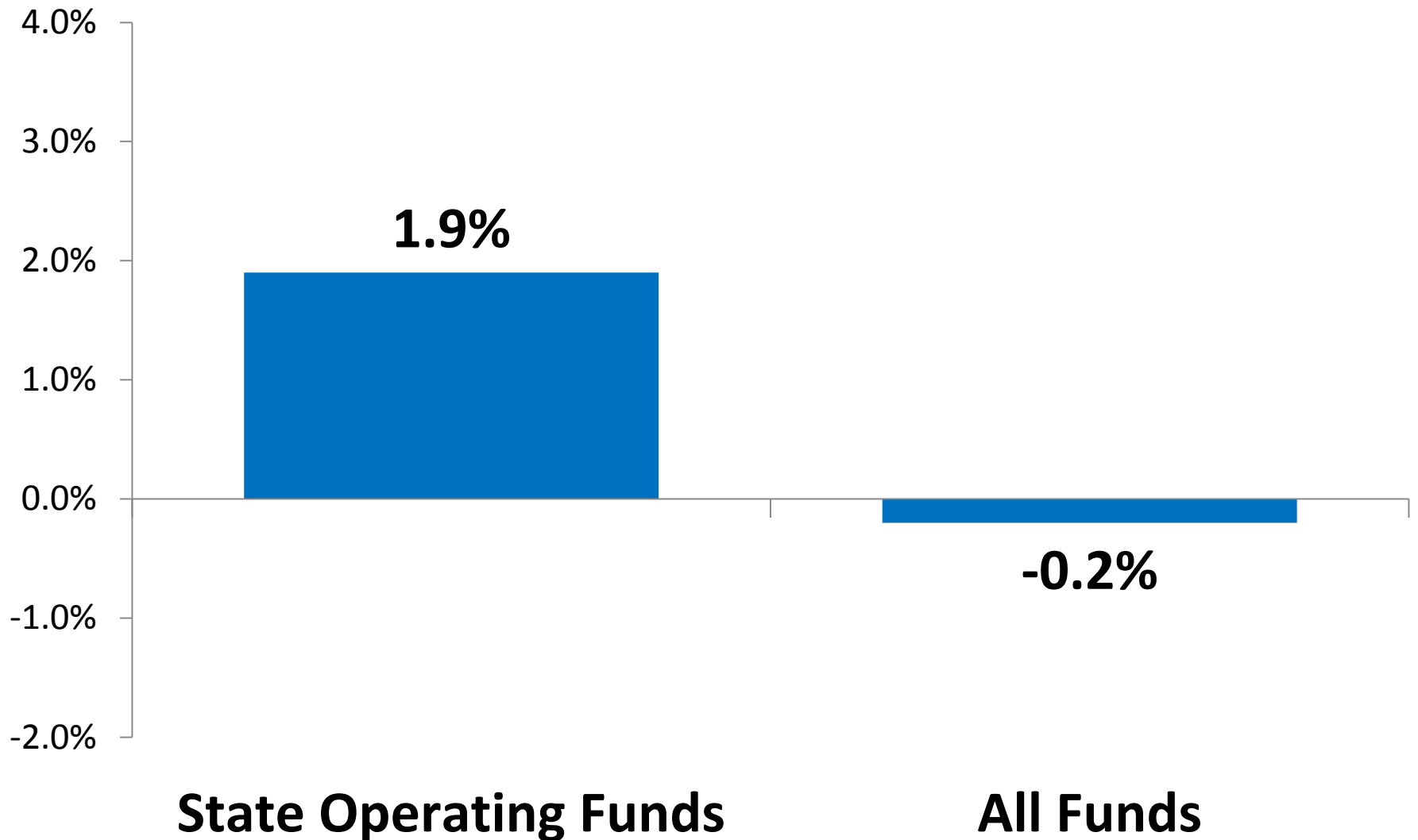
Programs: -\$0.1



SPENDING CONTROL -- \$2B

SPENDING CONTROL (\$BIL)	
Agency Spending Controls	1.14
Agency/Independents	0.84
Enterprise/Consolidations	0.10
Health Insurance Rate Renewal	0.13
Fringe Benefits (New Proposals)	0.07
Local Assistance Spending Controls	<u>0.76</u>
Human Services COLA/Trends	0.15
Mental Hygiene	0.17
Social Services/Housing	0.14
Public Health	0.11
All Other Local Programs	0.19
Debt Management	0.14
Investments/New Initiatives	(0.07)
Total Spending Controls	<u><u>1.97</u></u>

Annual Spending Growth

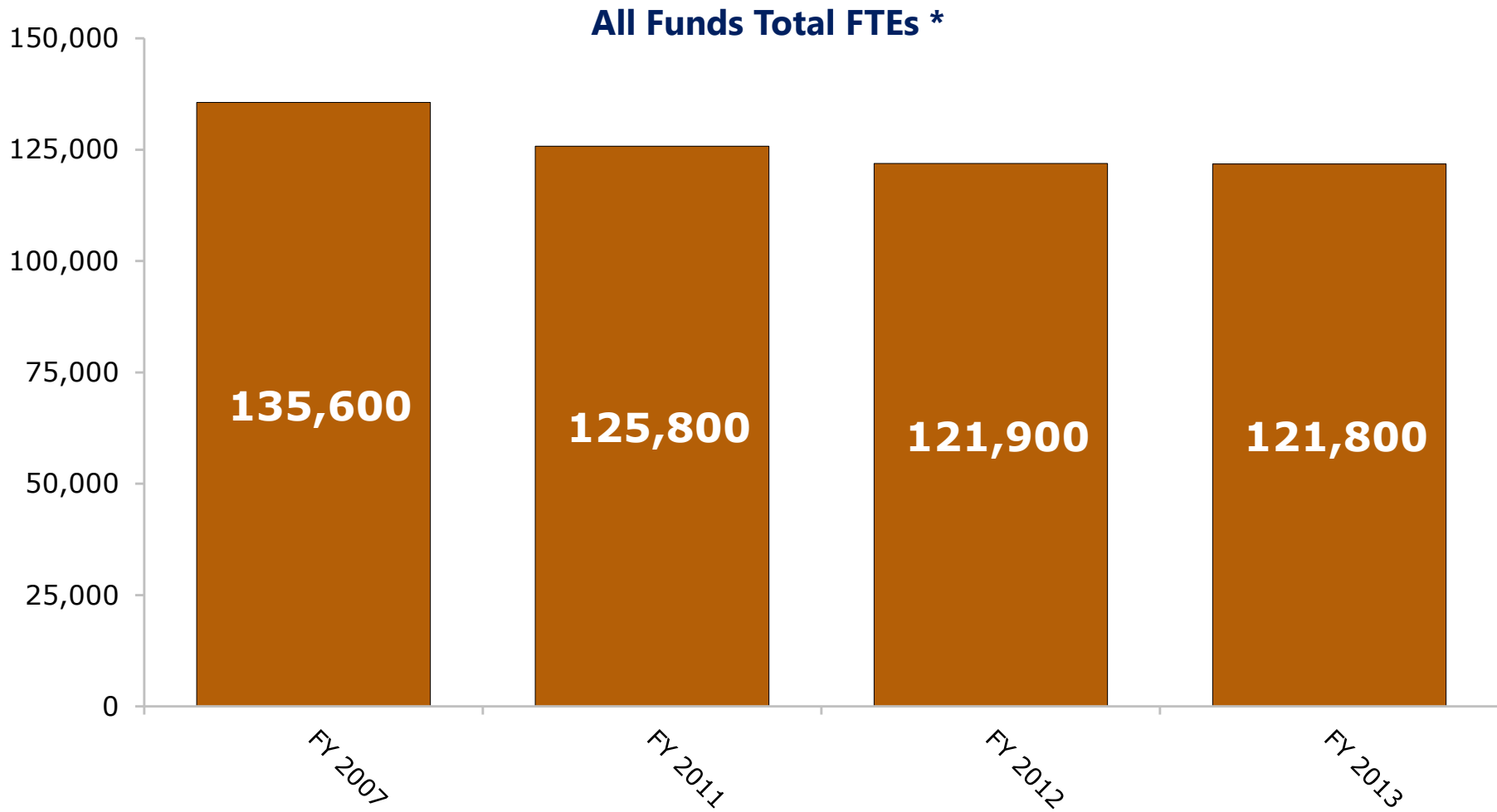


State Operating Funds Growth = 1.9%

STATE OPERATING FUNDS TOTAL (millions of dollars)				
	FY 2012 Current	FY 2013 Proposed	Ann. Change	
			\$	%
TOTAL STATE OPERATING FUNDS	87,048	88,734	1,686	1.9%
Local Assistance Grants	57,548	59,061	1,513	2.6%
School Aid (Fiscal Year)	19,677	20,002	325	1.7%
Medicaid (DOH)	15,280	15,859	579	3.8%
Transportation	4,257	4,398	141	3.3%
All Other	18,334	18,802	468	2.6%
State Operations/Fringe Benefits	23,623	23,519	(104)	-0.4%
Personal Service	11,876	11,964	88	0.7%
Non-Personal Service/Other	5,211	5,167	(44)	-0.8%
Pension Contribution	1,680	1,574	(106)	-6.3%
Employee/Retiree Health	3,291	3,240	(51)	-1.5%
Other Fringe Benefits	1,565	1,574	9	0.6%
Debt Service	5,872	6,149	277	4.7%
Capital Projects	5	5	0	0.0%

1. School Aid increase if \$805M (4%) on School Year Basis.
2. Medicaid excludes NPS costs (shown in State Operations) and includes administrative takeover savings. Excluding these factors, Medicaid spending grows by 4% over 2011-12.

State Workforce

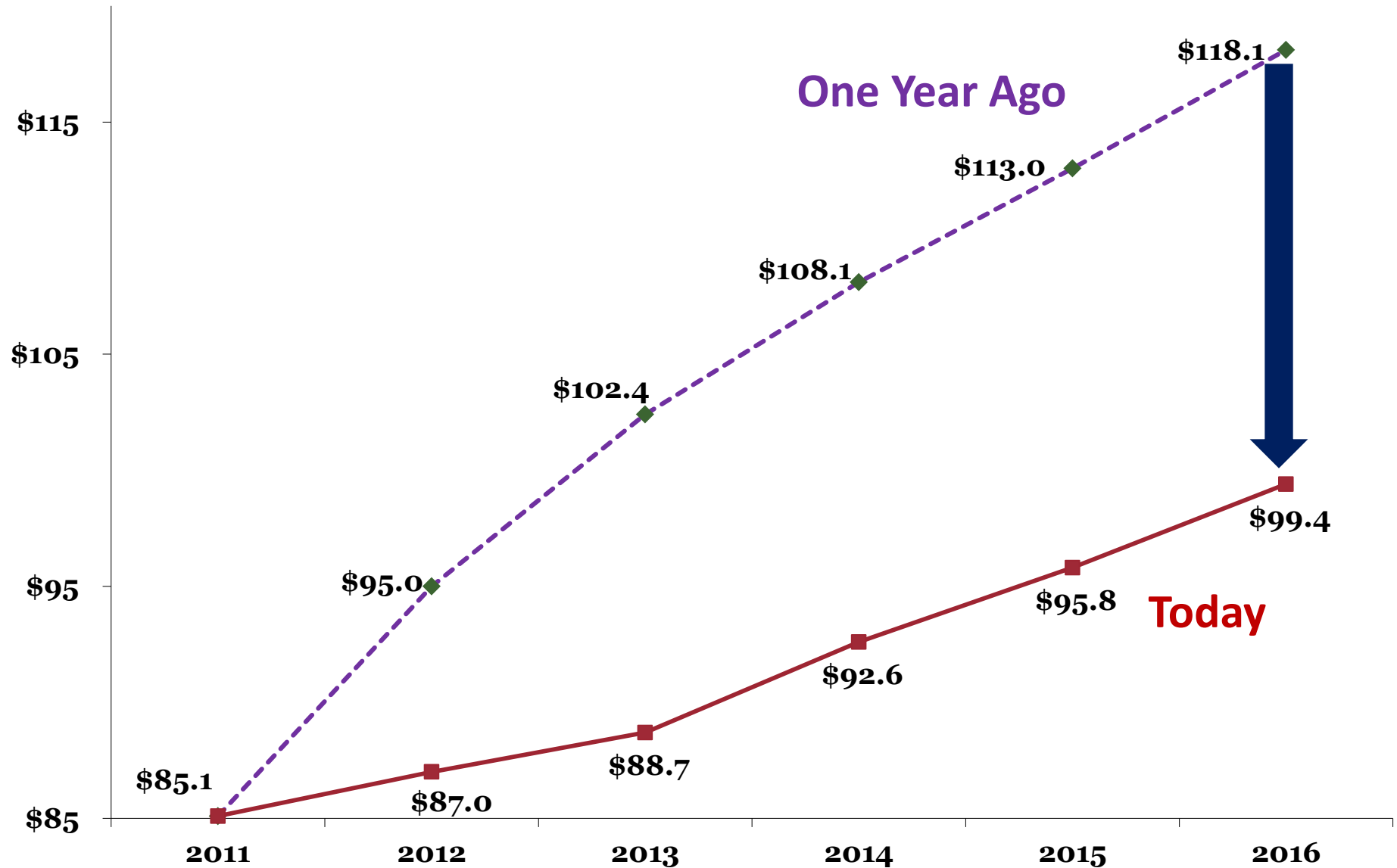


* Subject to Direct Executive Control

NY Works Fund

		Source
State	\$1.3 billion	\$723 million new capital \$600 million existing capital accelerated
Federal	\$1.7 billion	Combination new and accelerated Federal aid (e.g. dam & municipal water systems)
Authority	\$5 billion \$4 billion	New Tappan Zee Bridge Existing capital accelerated (e.g. NYSERDA & PA)
Private	\$3 billion	Leveraging new private investment
TOTAL	\$15 billion	

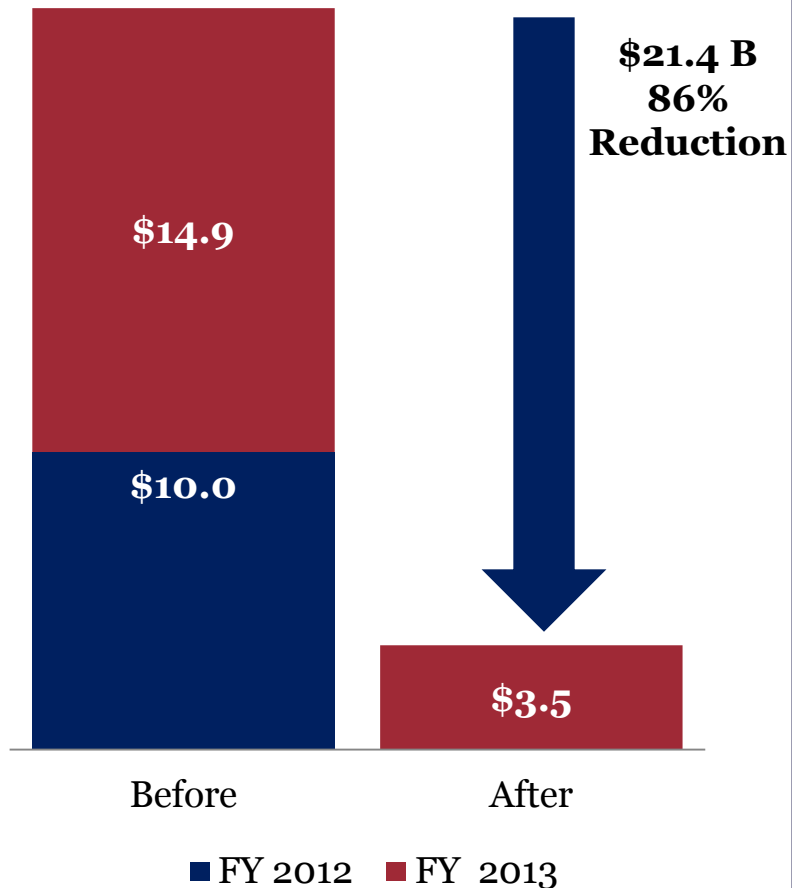
A Fundamental Change in New York's Spending Habits



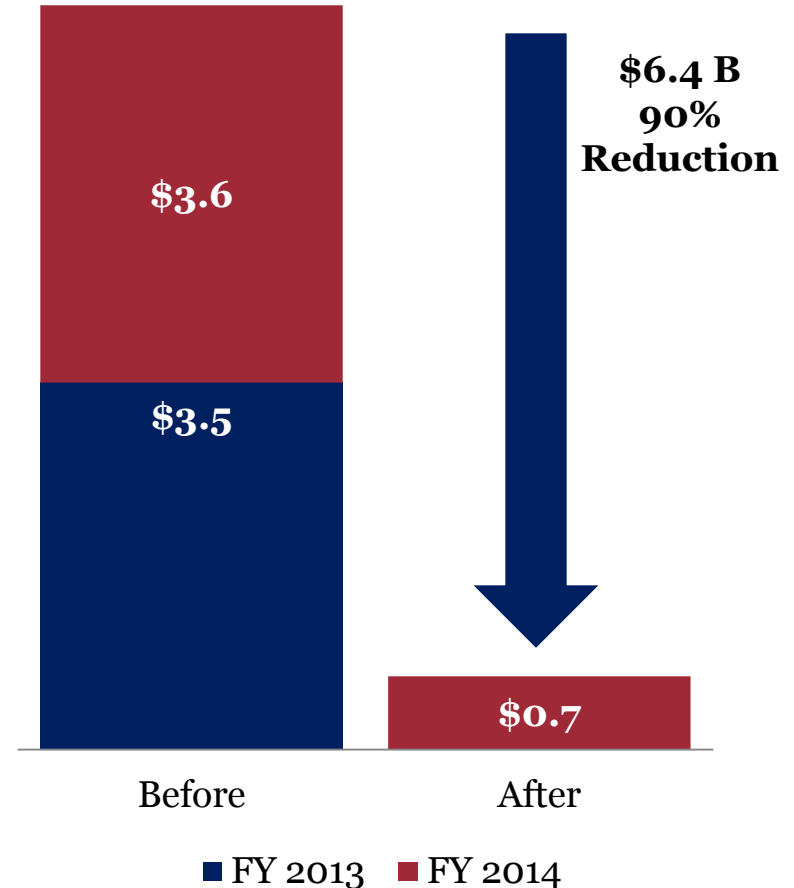
Declines in Two-Year Budget Gaps

2011-12 and 2012-13

2011-12 Budget



2012-13 Budget



III. Reforms

Enterprise Shared Services

8 to 1 Return on Investment

\$110 million in cost reductions in 2012-13

\$ in Thousands	Five Year Total
Required Investments:	(134,757)
Savings:	
Procurement	755,000
Real Estate	69,000
Business Services	115,000
Information Technology	160,000
Savings Subtotal	1,099,000
NET ANNUAL SAVINGS	964,243

Mergers and Consolidations

- Division of Lottery and Racing and Wagering Board
- Civil Service and the Governor's Office of Employee Relations
- Department of Tax and Finance will assume the debt collection functions of HESC
- Department of Transportation will consolidate regional offices
- Management of Belleayre Ski Center will move from DEC to the Olympic Regional Development Authority
- Eliminate more than 25 boards and commissions that are no longer active
- Use flexible State Operations appropriation language to enable further consolidations

Single Contract Reform

The existing grant application and contract process is overly complex, the payment system is cumbersome and causes delays and there is no relation to outcome-based performance standards

Currently:

- 20 agencies use over 50 independent systems or databases to manage the grant contracting process
- 71 percent of new and renewal grant contracts with not-for-profits were approved after the start or renewal date

Executive Budget Recommendations:

- Develop standard Master Contract for Grants
- Develop single application to apply for grants
- Implement a Statewide Grants Management Portal to standardize grant application, contract, payment and reporting activities
- Implement rigorous vendor performance management process that holds vendors accountable against the Service Level Objectives

Controlling Executive Compensation and Administrative Costs in Service Providers

One-third of the State budget goes to non-profit and for-profit agencies to provide services on behalf of the State

- At least 85 percent of every public dollar will be spent on direct services, not administration
- Reimbursement for any executive's compensation will be capped at \$199,000
- Excess compensation will be a basis for rejection of a provider

Local Medicaid Relief

Saves Counties and NYC \$1.2 billion over 5 years

Executive Budget Recommendations:

- The State will take over growth in the local share of Medicaid expenses
- Phased takeover of the local government Medicaid administration expense

(\$ in millions)	2012-13	2013-14	2014-15	2015-16
Local Cap Growth	3%	2%	1%	0%
Local Benefit/ State Cost	\$0	\$61.1	\$187.0	\$369.6

Pension Reform

Save Public Employers \$83 billion over 30 years
Plus \$30 billion in savings over 30 years for NYC

- Increase salary contributions from 3 percent to 4, 5, or 6 percent based on salary
- Implement a risk/reward system which would tie contributions to economic conditions
- Raise the retirement age from 62 to 65
- Decrease the pension multiplier and exclude overtime for the formula to calculate final average salary
- Create a voluntary new defined contribution option

Pre-School Special Education Reforms

State costs have doubled over the past ten-years

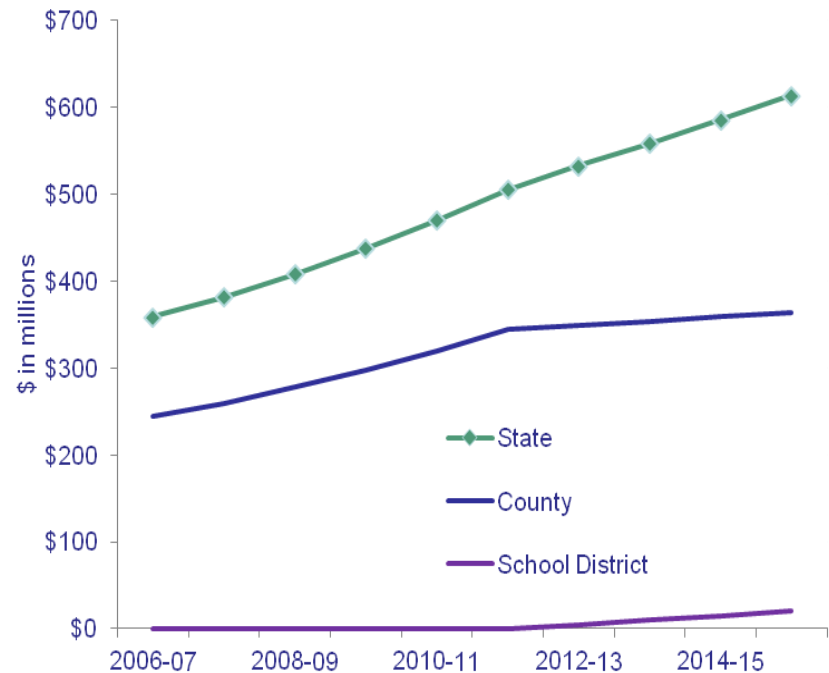
School districts make most programmatic decisions but do not share in costs

Pre-School Special Education reforms will save counties \$20 million in the 2013 local fiscal year

Executive Budget recommendations:

- Assign any county growth (excluding NYC) above the 2011-12 school year equally to the State, county and school district
- Current split is 59.5 percent State, 40.5 percent county
- Eliminate potential conflicts of interest in the current evaluation system

Pre-School Special Ed Growth



2009-10 through 2015-16 projected

Early Intervention Reforms

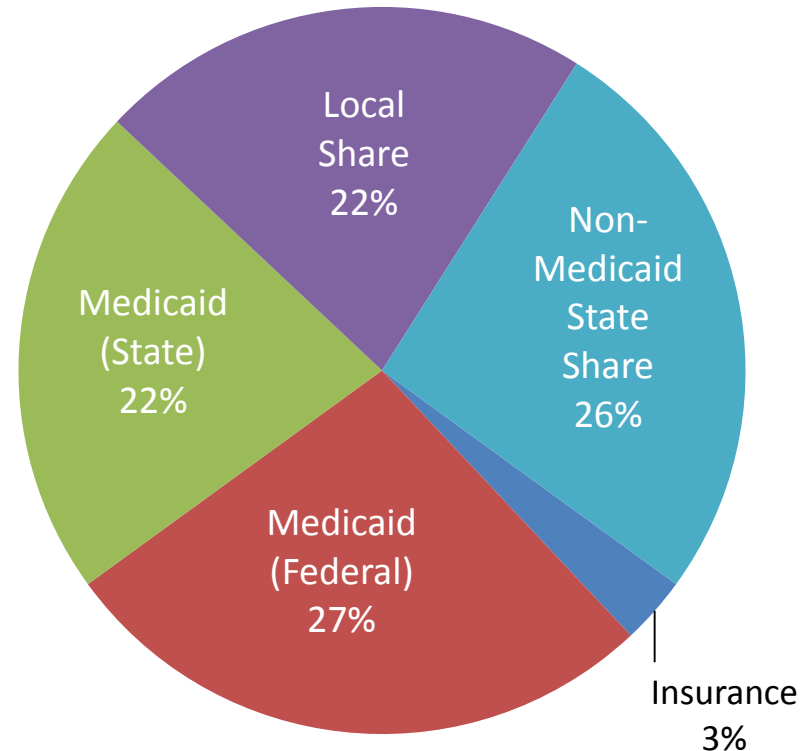
Significant fiscal and administrative relief
without impacting services

**Early Intervention Reforms will
save local governments \$99
million over five years**

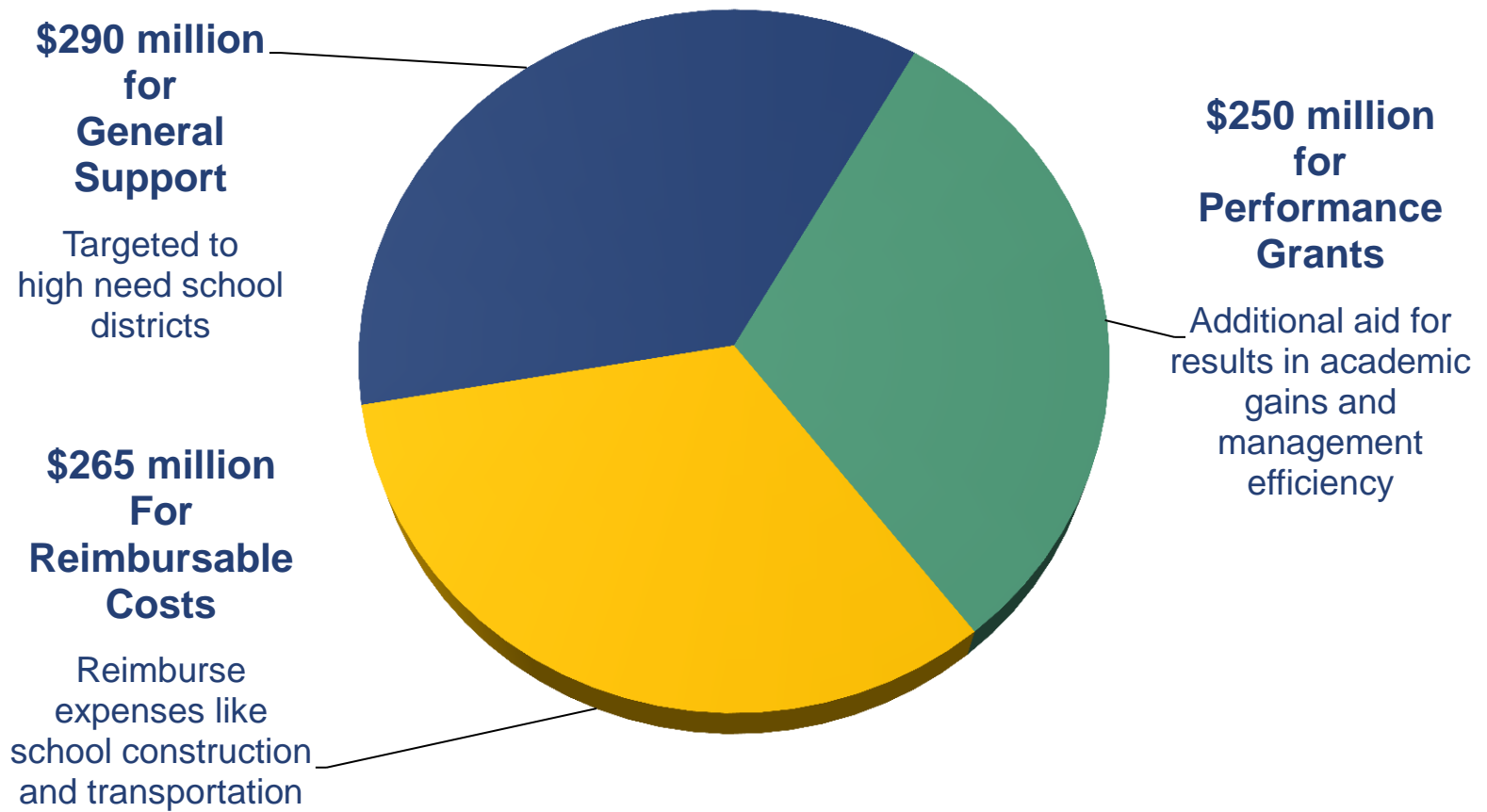
Executive Budget
recommendations:

- Expand insurance coverage to include EI service providers
- Centralize fiscal oversight through a fiscal intermediary
- Reduce local costs and improve timeliness of State reimbursement

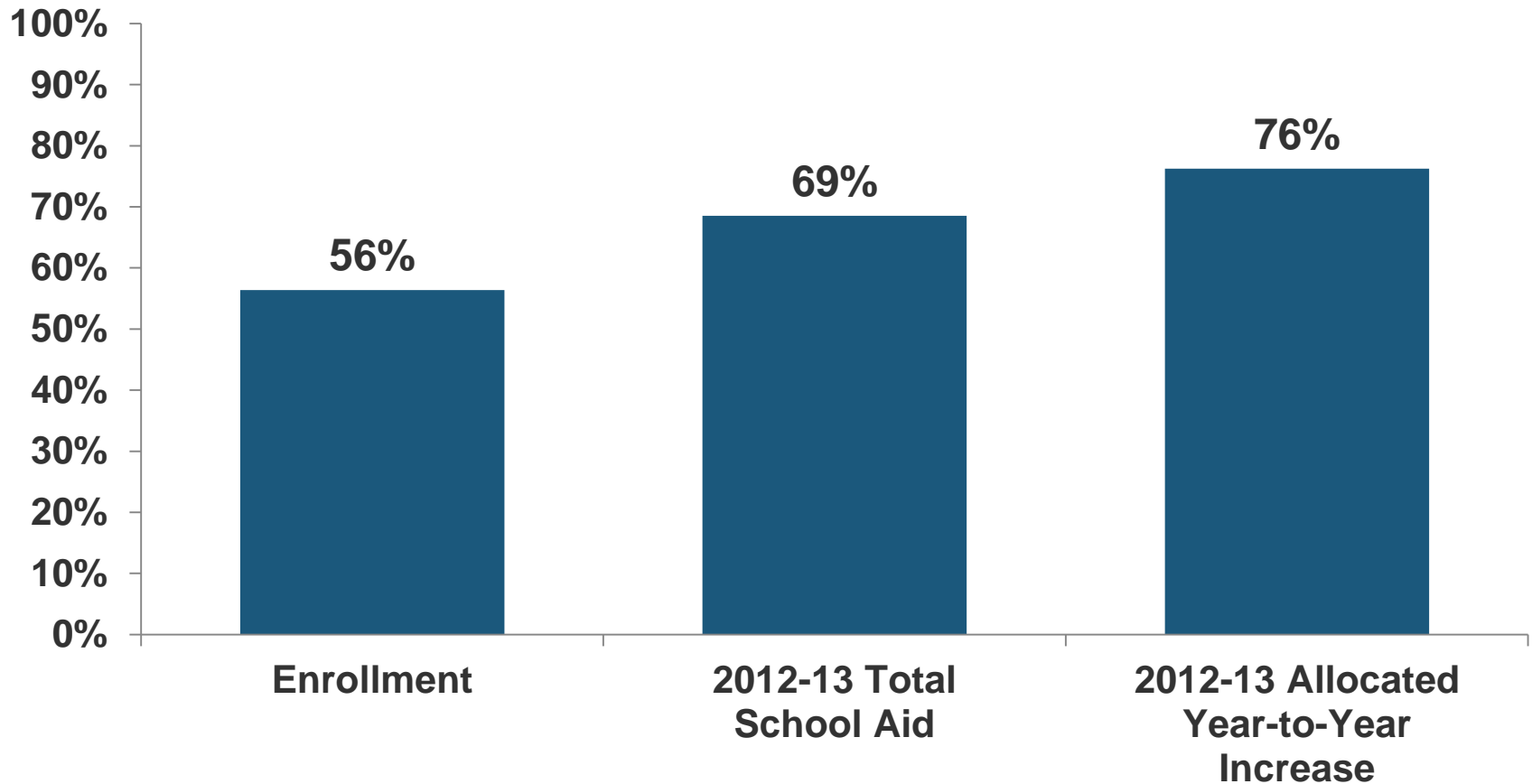
**Total Cost of Current
System is \$643 million**



\$805 Million School Aid Increase



Allocated School Aid Increase is Targeted to High Need School Districts



2012-13 Executive Budget

Governor Andrew M. Cuomo

January 17, 2012

Robert L Megna, Director of the Budget