Time for a Turnaround: Facing Fiscal Reality in New York State

Citizens Budget Commission
Summary

I. A pattern of high spending growth – combined with recent revenue losses – has put New York State into the worst fiscal condition in decades

II. We have exhausted the capacity of our traditional solutions – taxing our way out of the problem, borrowing to cover operating shortfalls, and/or burdening local government by pushing costs down – which would both damage the state and leave the structural problems unsolved

III. Meaningful spending cuts and more strategic investment of limited resources are the only responsible course of action
Fiscal Reality #1 - For a quarter century New York State spending has been growing steadily

New York State Operating Fund Disbursements, New York State Personal Income and U.S. Consumer Price Index, 1984-2009 (indexed, 1985 =100)

Fiscal Reality #2 – Nearly two-thirds of the budget goes to school aid, Medicaid, and employee salaries and benefits

New York State Operating Spending by Major Category ($ in billions)
$92.2 B Fiscal Year 2011-12 Cash Disbursements

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount</th>
<th>Percent of Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>School Aid</td>
<td>$22.7</td>
<td>25%</td>
</tr>
<tr>
<td>Medicaid</td>
<td>$19.7</td>
<td>22%</td>
</tr>
<tr>
<td>Employee Compensation</td>
<td>$17.0</td>
<td>20%</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>$59.5</strong></td>
<td><strong>64%</strong></td>
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Fiscal Reality #3 - Personal Income, Sales/Use, and Business Income Taxes equal 65% of the base

State Operating Revenues by Major Category
$75.8B Fiscal Year 2009-10 Cash Receipts

- Personal Income Tax, $34.8, 46%
- Sales and User Taxes, $12.3, 16%
- Business Taxes, $6.8, 9%
- Other Taxes, $2.4, 3%
- Miscellaneous Receipts, $19.5, 26%

Source: New York State Division of Budget, Fiscal Year 2010-11 Financial Plan, Mid-Year Update, November 1, 2010.
The big taxes have shrunk – Down by 16% from two years ago and up 5% from last year

General Fund Tax Collections for Three Major Taxes* April to November – Current Fiscal Year Compared to Previous Two Years

Source: New York State Comptroller and New York State Division of Budget
Notes:*Personal Income Tax adjusted for State-City offset payments
Fiscal Reality #4 - Revenues are shrinking but spending is not

Projected Spending in the “Big 3”

1. Medicaid
   • Expected to grow by 39% in four years, adding $5.8B to the gap
   • Per beneficiary spending 70% above the U.S. average

2. Employee compensation costs
   • Expected to grow by 19% in four years, adding $2.8B to the gap
   • Salaries are 35% above the U.S. average, and fringes are comparatively generous in key ways

3. Education aid
   • Expected to grow by 30% in four years, adding $7.3B to the gap
   • Per pupil spending is 65% above the U.S. average
Medicaid Spending

Growth of 39%
Planned Spending on Medicaid Fiscal Year 2009-10 to 2013-14

Source: New York State Division of Budget, 2010-11 Mid-Year Update, November 1, 2010.

70% above U.S
Per Beneficiary Spending – NY vs. U.S.

Source: U.S. Department of Health, Center for Medicaid and Medicare Services, State Data Files, Federal Fiscal Year 2008
**Unusual Features**

**Pensions**
- One of only three states to allow OT
- Among only 4% of systems with member contributions in the 1-3% range
- Lower retirement ages; high disability rates

**Health Insurance**
- Only 5 other states pay any of Medicare Part B premiums for retirees – only NY pays 100%
- NYS retirees pay 10 and 25% of premiums for single & family coverage; public sector norm is 50% for both

**Salaries and Wages**
- Wage increases of 13.4% 2007 to 2011

**Growth of 19%**

Planned Spending on Employee Compensation
Fiscal Year 2009-10 to 2013-14

- **Salaries**: $14.7B
- **Health Insurance**: $1.5B
- **Pensions**: $1.3B

School Spending

**Growth of 30%**

Planned Spending on School Aid
Fiscal Year 2009-10 to 2013-14

- 2009-10: $24.3B
- 2013-14: $31.6B

**65% above U.S.**

Per Pupil Spending – NY vs. U.S

- U.S.: $9,666
- New York: $15,981

Source: New York State Division of Budget, *2010-11 Mid-Year Update, November 1, 2010.*

Fiscal Reality #5 – This combination of steep projected spending increases and declining revenues produces daunting budget gaps

New York State Projected Operating Budget, Next Four Years ($ millions)

Significant Budget Gaps Loom

Source: New York State Division of Budget, 2010-11 Mid-Year Update, November 1, 2010.
Fiscal Reality #6 - Raising taxes is not the answer

- Taxes have already been raised significantly – Last year’s budget included $8B in measures to increase revenues and this year’s included $1B

- The Tax Foundation ranks New York #49 among states on its business climate index naming the state among the ten states whose tax systems “are the most inhospitable to economic growth”

- Census data show that our combined state and local tax burden per $1,000 of personal income is 35 percent above the U.S. average – NY ranks as having 3rd highest burden among states
Fiscal Reality # 7 - Passing costs to local governments is not an option – New York’s local tax burden is the highest in the nation – 74% higher than average

Local Tax Burden Per $1,000 Personal Income
New York Compared to the U.S. Average
Fiscal Year 2008

Fiscal Reality #8 - Our $60B in debt will put us close to the debt cap - NY owes $11B from prior borrowings to cover deficits

New York State Supported Debt Outstanding
Fiscal Year 2009-10 and 2014-15

Agenda for a Turnaround

- Reject tax increases or borrowing to fund operating expenses
- Reduce State spending
- Improve management of limited resources (e.g. procurement reform, performance metrics, IT innovation, agency & program consolidation)
- Adopt new, strategic approach to investment that promotes economic growth and infrastructure modernization