



New York State Office of the State Comptroller

Office of Budget and Policy Analysis

Alan G. Hevesi
New York State Comptroller

Kim Fine
Deputy Comptroller

July 2006

Fact Sheet: WHAT HAPPENED IN THE 2006-07 SUPPLEMENTAL BUDGET?

Following the Legislature's final action on the Executive Budget, including vetoes and overrides, the Division of the Budget (DOB) published a Financial Plan for 2006-07 on May 12. The Comptroller's Report on the Enacted Budget, also published in May, presented an analysis of the actions taken to date on the 2006-07 Budget. On June 23, the Executive and legislative leaders came to agreement on several outstanding issues and passed a supplemental appropriation bill and a supplemental Article VII language bill. These bills reflected final agreement on major outstanding issues, including Medicaid, the property tax rebate and capital spending.

While the full impact of these bills will be known with the first quarterly update of the State's Financial Plan, due this month, the

Contents

- 1 Budget Size and Growth
- 2 Out-Year Gaps
- 2 Revenues and the Local Property Tax Rebate Program
- 2 Medicaid
- 3 Debt
- 3 Environmental Protection Fund
- 3 Off-Budget Spending
- 3 Risks

following is the Office of the State Comptroller's estimated State fiscal impact of the supplemental budget legislation.

Budget Size and Growth

- All Funds spending increased by a net \$2.2 billion as a result of the supplemental bill enacted on June 23.¹ The May 2006 Financial Plan had projected All Governmental Funds spending of \$112.5 billion; it is now estimated at as much as \$114.7 billion. Compared to actual spending of \$104.3 billion in 2005-06, year-to-year growth could be as high as \$10.1 billion, or 10 percent.
- Changes made in the supplemental bills will drive General Fund spending growth of nearly 30 percent between 2005-06 and 2008-09, while General Fund revenues are growing only 15 percent. All Governmental Funds spending is also growing at twice the rate of revenues: spending will increase 22.8 percent, while revenues increase only 12.1 percent.
- General Fund spending increased by \$578 million to \$51.4 billion, primarily due to Medicaid restorations.

- Federal Fund spending increased by \$600 million over the May 2006 Financial Plan projection of \$35.4 billion, also due largely to the Medicaid restorations, which generate additional support from the federal government.
- Barring significant increases in receipts through the 2006-07 State fiscal year (SFY), nearly the entire \$2.0 billion surplus from 2005-06 will be needed for 2006-07 disbursements.

Size of the 2006-07 Budget
(in billions of dollars)

	Actual 2005- 06	Before Supplemental (Based on May 12, 2006 Financial Plan)	After Supplemental (Based on Office of the State Comptroller Analysis)
All Funds	104.3	112.5	114.7
General Fund	46.5	50.8	51.4
State Funds	69.7	77.1	78.7
Federal Funds	34.6	35.4	36.0

Out-Year Gaps

- DOB calculated a two-year General Fund budget gap of \$9.8 billion.ⁱⁱ In May, the Office of the State Comptroller projected an additional \$3.0 billion in risks that could raise that gap to as much as \$12.8 billion. Accounting for recent legislative actions, the two-year gap could rise to as high as \$13.9 billion.
- The supplemental budget increased spending by nearly \$2.1 billion over the two out-years; this is offset by the suspension of \$1.1 billion in General Fund guaranteed transfers to the Health Care Reform Act (HCRA).ⁱⁱⁱ

Out-Year Budget Gaps
2007-08 and 2008-09
(in billions of dollars)

	2007-08	2008-09	Two-Year Total
DOB Estimate - May 2006	(4.6)	(5.2)	(9.8)
Office of the State Comptroller Estimate - May 2006	(5.5)	(7.4)	(12.8)
Supplemental: New Spending	(1.1)	(1.1)	(2.2)
Supplemental Budget Transfers*	0.6	0.5	1.1
Office of the State Comptroller Estimate - July 2006	(5.9)	(8.0)	(13.9)

*These transfers result in a projected two-year budget gap in HCRA of \$1.1 billion.

Revenues and the Local Property Tax Rebate Program

- Local Property Tax Rebate Program: The Legislature approved a new spending program to mail rebate checks to homeowners beginning in October 2006. The annual estimated cost, beginning in 2006-07, is \$920 million.
- No new or increased General Fund revenue sources were identified in the supplemental budget.^{iv}

Medicaid

- The Supplemental Budget enacted an additional \$550 million in increased General Fund spending, reflecting a restoration of most of the spending reductions included in the Enacted Budget.^v
- The Supplemental Budget also enacted an additional \$59.1 million in General Fund cost containment measures: reduced the annual inflation adjustment for hospitals and nursing homes, lowered reimbursement for pharmaceuticals in the Medicaid and Elderly Pharmaceutical Insurance Coverage (EPIC) programs, and closed long-term care eligibility

loopholes mandated by federal Medicaid reform legislation.

- As a result of these actions, Federal Funds spending on Medicaid will increase an additional \$545 million.

Debt

- The Supplemental Budget added \$1.8 billion in new debt, bringing the total amount of new debt authorized in 2006-07 to \$16.5 billion. The State is directly responsible for \$11.8 billion of this amount.
- With this additional \$1.8 billion, outstanding debt could increase to nearly \$65 billion, or 33.9 percent, by 2010-11.
- Debt service had been projected to increase 59 percent, from \$4.3 billion in 2005-06 to \$6.7 billion in 2010-11; the additional debt will increase that projection to \$6.8 billion, or 59 percent, by 2011.
- The largest additions to the State's debt burden recently authorized are a \$300 million "Restore New York Communities Initiative" and \$650 million for a semiconductor plant in Saratoga County.

Environmental Protection Fund

- The Supplemental Budget appropriated \$225 million in capital spending from the Environmental Protection Fund. This spending is fully financed with current resources, primarily the Real Estate Transfer Tax. Despite having no new appropriation in the Enacted Budget, the May 12 Financial Plan assumed new spending of \$15 million in 2006-07. Therefore, there is no fiscal impact of the appropriation included in the Supplemental Budget.

Off-Budget Spending

- Prior to the enactment of the Supplemental Budget, the 2006-07 Budget authorized \$3.1 billion in off-budget capital spending.^{vi} Absent a revised Financial Plan reflecting the Supplemental Budget, the Office of the State Comptroller estimates that an additional \$1 billion in off-budget spending was authorized beyond the original \$3.1 billion, for a total of \$4.1 billion in the current fiscal year. With these actions, off-budget capital spending increases 310 percent year to year, from \$1.0 billion in 2005-06.

Risks

- A looming risk that remains unaddressed is the State's obligation to New York City schools pursuant to the decision in the Campaign for Fiscal Equity (CFE) lawsuit. The State could be compelled to provide up to as much as \$2.9 billion in additional operating aid during the 2006-07 school year.
- Other risks identified in the Comptroller's Report on the Enacted Budget that remain unaddressed include the fact that revenue estimates do not account for a reduction in the sales tax on gasoline and that the Medicaid fraud savings projections may be overly optimistic.
- The Supplemental Budget suspended payments from the General Fund to HCRA in 2007-08 and in 2008-09. The May Financial Plan projected a \$1.1 billion deficit in HCRA. The supplemental budget reduces revenues into HCRA by an additional \$1.1 billion, creating a two-year gap of \$2.2 billion. HCRA expires June 30, 2007, and while the Legislature and the Executive may choose to increase revenues and/or decrease

spending, all things being equal, the current resources and spending levels projected for the next two fiscal years may require General Fund assistance to meet all commitments.

- Other factors outside the control of the State continue to be risks to the Financial Plan. Tobacco manufacturers may reduce their payments to the states

pursuant to the Tobacco Master Settlement Agreement; the Federal Reserve again increased interest rates, for the 17th straight time in 36 months, increasing the State's cost of borrowing; and costs associated with cleanup and rebuilding from the flooding in Central New York at the end of June could reach \$100 million.^{vii}

State of New York Projected State-Funded Debt Outstanding
2006-07 through 2010-11
(in thousands of dollars)

	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010	SFY 2011	Total Percent Change 2006-2011	Total Dollar Change 2006-2011
General Obligation	3,469,849	3,357,762	3,409,638	3,584,109	3,801,494	4,012,889	15.65%	543,040
Public Authority	37,706,942	41,881,805	45,283,966	47,582,115	48,967,546	50,125,607	32.93%	12,418,665
2006-07 Capital Plan (State-Supported)	41,176,791	45,239,567	48,693,604	51,166,224	52,769,040	54,138,496	31.48%	12,961,705
Tobacco Bonds	4,278,290	4,049,940	3,805,590	3,487,220	3,144,315	2,775,945	-35.12%	(1,502,345)
State Funded TFA	-	-	1,490,000	3,001,710	3,382,212	3,759,216	100.00%	3,759,216
MAC Refinancing	2,504,650	2,456,505	2,406,775	2,355,255	2,301,730	2,245,990	-10.33%	(258,660)
Prior Year Claims	504,480	484,455	463,685	442,065	419,475	395,775	-21.55%	(108,705)
Total Other	7,287,420	6,990,900	8,166,050	9,286,250	9,247,732	9,176,926	25.93%	1,889,506
Projected Outstanding (State-Funded)	48,464,211	52,230,467	56,859,654	60,452,474	62,016,772	63,315,422	30.64%	14,851,211
Potential New Debt - Cleanup *	-	352,000	692,356	1,012,428	1,313,149	1,594,726		
Total New Debt	48,464,211	52,582,467	57,552,010	61,464,901	63,329,921	64,910,148	33.93%	16,445,937

*Office of the State Comptroller Estimate

State of New York Projected State-Funded Debt Service
2006-07 through 2010-11
(in thousands of dollars)

	SFY 2006	SFY 2007	SFY 2008	SFY 2009	SFY 2010	SFY 2011	Total Percent Change 2006-2011	Total Dollar Change 2006-2011
General Obligation	486,760	495,539	494,789	505,037	528,733	557,328	14.50%	70,568
EXCEL			151,096	220,231	220,231	220,231	100.00%	
State-Supported Public Authority	3,217,596	3,611,044	4,034,480	4,376,972	4,759,663	5,235,880	62.73%	2,018,284
State-Supported Debt Service	3,704,356	4,106,583	4,680,365	5,102,240	5,508,627	6,013,439	62.33%	2,309,083
TSFC	430,842	437,581	443,989	503,296	510,539	517,063	20.01%	86,221
STARC	170,000	170,000	170,000	170,000	170,000	170,000	0.00%	-
MBBA	28,363	45,189	45,186	45,184	45,182	45,189	59.32%	16,826
Potential New Debt Service from Cleanup *			22,567	61,876	99,377	136,479		
Total State-Funded Debt Service	4,333,561	4,759,353	5,362,107	5,882,596	6,333,725	6,882,170	58.81%	2,548,609

*Office of the State Comptroller Estimate

ⁱ This estimate is a conservative assumption that the additional \$2.0 billion in capital projects enacted on June 23 are supported with no cash in 2006-07. This may understate the actual impact on the 2006-07 Financial Plan if there are, in fact, disbursements made against these capital projects. Conversely, this estimate also assumes that General Fund and Special Revenue Fund appropriations are fully backed by cash, which may overstate the impact of these new appropriations. The new \$100 million debt service appropriation is supported by 50 percent cash.

ⁱⁱ The Division of the Budget's (DOB's) 2006 Financial Plan reduced the two-year estimated gap through the use of the \$2.0 billion surplus.

ⁱⁱⁱ When the State securitized its annual payments from the Tobacco Master Settlement Agreement, the payments became pledged to debt service, rather than deposited into the Health Care Reform Act (HCRA) to support health programs. The State wrote into law a "guarantee" to HCRA that the General Fund would make up any shortfall up to the amount that HCRA would have received from the Tobacco Master Settlement. The Supplemental Budget suspended that guarantee for 2007-08 and 2008-09, resulting in a loss to HCRA—and a commensurate gain to the General Fund—of \$900 million. The Supplemental Budget also postponed the repayment of a \$200 million loan that HCRA made to the General Fund. While these actions benefit the General Fund, these provisions greatly exacerbate the expected deficit in HCRA in the out-years. Without these transfers from the General Fund, HCRA now faces a two-year shortfall of \$2.25 billion.

^{iv} The Nursing Home Assessment is deposited into a Special Revenue fund to pay providers for Medicaid services. The assessment was scheduled to expire March 31, 2007; the Supplemental Budget extended the assessment to March 31, 2009. The fiscal impact is \$258 million in both 2007-08 and 2008-09.

^v The Legislature attempted to restore the cuts proposed in the Executive Budget, but the restorations were declared unconstitutional and, therefore, void by the Executive. As a result, the May 12 Financial Plan reflects essentially all of the Executive's proposed cuts and cost containments.

^{vi} The \$3.1 billion originally enacted off-budget capital spending comprised \$1.8 billion for the *EXpanding Our Children's Education and Learning* (EXCEL) school construction program, \$578 million for SUNY and CUNY construction, \$162 million for economic development projects, \$348 million for transportation, \$132 million for health and mental health, and \$75 million for State equipment. The additional \$1 billion from the Supplemental Budget includes \$650 million for a biotechnology manufacturing plant in Saratoga County, plus a new \$300 million economic development program targeted at cities and economically depressed areas.

^{vii} It is likely that some of these costs will be offset by federal assistance.

Major contributors include:

Kim Fine

Christine Rutigliano

Jennifer McCormick

Jody Dixon

Kathleen Kerwin

Deputy Comptroller

Assistant Comptroller

Director, Budget Studies

Policy Research Specialist

Research Assistant

**New York State
Office of the State Comptroller
Office of Budget and Policy Analysis**

Additional copies may be obtained from:

Office of the State Comptroller
Public Information Office
110 State Street
Albany, New York 12236
(518) 474-4015

Or through the Comptroller's website at www.osc.state.ny.us.
