Report on the State Fiscal Year 2012-13 Executive Budget

February 2012

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New York State Comptroller

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Executive Summary

As Chief Fiscal Officer for the State of New York, the Comptroller annually examines the Executive Budget proposal and the Enacted Budget, as well as issues monthly reports on the State's cash position. This report provides an analysis of the State Fiscal Year (SFY) 2012-13 Executive Budget.

For many years, proposed and enacted State budgets have been balanced with significant temporary and non-recurring resources, and relied on revenue estimates that were speculative or overly optimistic in the face of a struggling economy. Enacted budgets unraveled soon after passage, projected deficits grew and the additional gap-closing actions taken were often based on non-recurring gimmicks. This imprudent budgeting caused out-year gaps to grow, and worsened New York's chronic structural budget problem.

The SFY 2012-13 Executive Budget continues important progress made in SFY 2011-12 in addressing the immediate projected gaps as well as the out-year gaps. The $3.5 billion projected current services General Fund gap for SFY 2012-13 is closed with $1.9 billion from temporary Personal Income Tax (PIT) changes, recurring savings actions, and minimal non-recurring resources. As a result, the projected deficit for SFY 2013-14 is estimated at $715 million, which is significantly less than the multibillion dollar deficits projected for the out-years just a few budget seasons ago.

The Executive Budget also proposes substantial programmatic changes to major areas of spending, including school aid, Medicaid, and agency operations, intended to improve State government efficiency. One of the most significant challenges to the overall positive fiscal course set by the SFY 2012-13 Executive Budget is the weak economic recovery, which could be derailed by a number of developments, including the European sovereign debt crisis. This could translate into funding reductions in State aid from the federal government, as well as lower-than-expected State tax revenue collections.

SFY 2012-13 Projected Executive Budget Growth
(in millions of dollars)

	SFY 2011-12 Projected	SFY 2012-13 Proposed	Dollar Change	Percentage Change
General Fund Receipts *	57,214	58,715	1,501	2.6%
General Fund Disbursements **	56,915	58,592	1,677	2.9%
State Operating Funds Receipts	82,679	85,291	2,612	3.2%
State Operating Funds Disbursements	87,048	88,734	1,686	1.9%
All Governmental Funds Receipts	132,306	132,724	418	0.3%
All Governmental Funds Disbursements	132,735	132,510	(225)	-0.2%

* Includes transfers from other funds
** Includes transfers to other funds

Source: Division of the Budget

Noteworthy aspects of the proposed budget include the following:

- The Executive Budget continues the progress made in the SFY 2011-12 Enacted Budget toward better aligning recurring revenues with recurring expenses. The benefit of using primarily recurring actions in SFY 2011-12 to close the deficit is clearly demonstrated by the markedly smaller projected out-year gaps.

- The proposed budget is less reliant on temporary and non-recurring revenues than in many previous years, although this is partially caused by the loss of federal stimulus funds. Out-year cumulative deficits through SFY 2015-16, while challenging, are projected to decline by more than 50 percent from $16.4 billion to $7.4 billion.

- The Executive Budget proposes minimal new revenue actions. Temporary changes to the State's PIT brackets were enacted by the State Legislature during its December 2011 extraordinary session. These tax changes are projected to raise an additional $385 million in the last quarter of the current fiscal year and $1.9 billion in new revenue in the upcoming fiscal year. The changes are scheduled to expire at the end of 2014. Other actions from December, including the partial repeal of the MTA payroll tax, added costs, resulting in a net benefit of $1.5 billion.

- The December PIT actions were sufficient to address the current year deficit as well as a substantial portion of the SFY 2012-13 projected gap. The $2.0 billion projected gap that remains for the upcoming fiscal year is more manageable than the $10 billion gap the State addressed in the last budget cycle. The Executive Budget proposes to address it largely without fiscal gimmicks.

- Despite the positive aspects of the spending plan, risks remain. Based on Division of the Budget (DOB) estimates, General Fund tax collections will end the current year $702 million below original estimates when the additional PIT revenue is excluded. This reflects slower projected growth in tax collections over the second half of the current fiscal year.

- Global economic risks remain, and any further economic slowdown or unanticipated shock could very quickly cause significant downward pressure on revenue and upward pressure on spending. Overly optimistic revenue or savings assumptions could also translate into a mid-year budget challenge.

- The Executive Budget does not account for potential reductions in federal funding resulting from the Budget Control Act of 2011. DOB estimates that if automatic federal funding cuts scheduled to begin in January 2013 occur, New York State and local governments could lose approximately $5.0 billion in federal funding over nine years. The Executive Budget also relies on additional federal funding of approximately $1.7 billion for the proposed New York Works infrastructure initiative, including $917 million for on-budget transportation projects and another $760 million in off-budget projects, at a time when federal support is uncertain.

- The Executive Budget includes provisions that reduce financial transparency, accountability and oversight. For example, the Executive proposes to exempt centralized agency contracts from the Comptroller's review and approval. There is also proposed language that would dramatically increase the Executive's ability to move spending authority from one agency to another with minimal oversight or Legislative input and without regard to the original intent of the funding in the Enacted Budget as approved by the Legislature. In addition, $12.9 billion of the $15 billion New York Works infrastructure initiative is proposed to occur off-budget.

- The Executive Budget proposes a new Tier VI pension plan that would apply to members who join on or after April 1, 2012 for all public employee retirement systems in New York State. The new tier would reduce benefits in comparison to the current pension plans. It also would increase employee contributions and decrease the contribution rate for the State and local governments. The Executive also proposes the creation of a defined contribution program. The proposal would allow new members who join on or after April 1, 2012 to choose either a defined benefit pension plan or a defined contribution program.

The release of the SFY 2012-13 Executive Budget begins the necessary public debate and legislative deliberations over the State's priorities and the means to achieve them. The passage of an on-time budget through an open, observable process is important, including deliberative Legislative budget conference committees. Budget balance based on reasonable and realistic revenue and spending projections is critical. Progress made in ending the long-standing tradition of enacting budgets that pushed ever-increasing projected deficits to future years must continue. But this progress should be accomplished without abandoning meaningful oversight, appropriate checks and balances, and adequate protection of public dollars.

Financial Overview

State Fiscal Year 2011-12

General Fund[1]

The Enacted Budget for SFY 2011-12 closed a projected $10 billion General Fund deficit primarily with recurring actions, curtailing the practice of relying on temporary resources for budget balance, and made substantial progress in addressing the chronic structural gap between recurring revenue and recurring spending. More than 80 percent of the projected gap was closed with recurring actions, primarily on the spending side. As a result, out-year gaps were projected to decline significantly, from a cumulative four-year total of $63.3 billion to $9.8 billion. The Enacted Budget also included actions intended to limit future growth in State-funded Medicaid and school aid, which have historically accounted for nearly half of General Fund spending.

Nonetheless, the Mid-Year Update to the SFY 2011-12 Financial Plan released in November projected a current year deficit of $350 million caused primarily by lower-than-expected tax collections. The SFY 2012-13 Executive Budget Financial Plan (which includes the third quarter update to the SFY 2011-12 Enacted Budget Financial Plan) projects that this deficit has been eliminated. The projected gap was eliminated largely by temporary changes to the Personal Income Tax (PIT) brackets enacted during the December 2011 extraordinary legislative session, which are valued at $385 million in the current year.

The SFY 2012-13 Executive Budget Financial Plan increases projected SFY 2011-12 General Fund tax collections by a net $34 million over the Mid-Year Update released in November. However, absent the additional revenue anticipated from December's tax bracket changes, tax collection projections would have been *lower by* $351 million from the Mid-Year Update projections and $702 million lower than the original SFY 2011-12 Financial Plan projections. In other words, the revenues anticipated from the changes enacted in December filled the gap that would have been caused by lower overall tax collection projections.

These additional revenues, along with lower spending, not only eliminated the projected deficit, but also have allowed the Division of the Budget (DOB) to plan a pension prepayment and a debt service prepayment. Making these payments in SFY 2011-12 will lower costs in the SFY 2012-13 proposed Budget. Furthermore, DOB expects to make a $100 million deposit to the Rainy Day Reserve Fund in SFY 2011-12. However, uncertainty associated with the economy persists. These planned prepayments, as well as the reserve deposit for SFY 2011-12, provide flexibility if receipts fail to meet current expectations or spending is higher than anticipated.

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[1] The State's finances are generally broken down into three main categories: General Fund, State Operating Funds and All Governmental Funds (All Funds). The General Fund is the major operating fund of the State and accounts for all receipts that are not required by law to be deposited into another fund. State Operating Funds includes the General Fund, State Special Revenue Operating funds and Debt Service funds. All Funds includes General, Special Revenue, Debt Service and Capital Projects funds, as well as funds from the federal government.

DOB currently projects a balance of $1.7 billion in the General Fund at the end of SFY 2011-12, after accounting for the planned prepayments and December extraordinary session actions. Reserves are expected to be $62 million less than originally projected at the start of the fiscal year.

SFY 2011-12 Financial Plan Evolution – General Fund

(in millions of dollars)

	SFY 2011-12 Enacted (May)	SFY 2011-12 Mid-Year (November)	SFY 2011-12 - 3rd Quarter (January)	Difference in Year-End Projections - 3rd Quarter Update less Enacted Financial Plan	Difference in Year-End Projections - 3rd Quarter Update less Mid-Year Update
Receipts:					
Taxes	42,237	41,886	41,920	(317)	34
Personal Income Tax	26,001	25,870	25,705	(296)	(165)
Consumer Taxes	9,105	9,056	9,135	30	79
Business Taxes	6,101	5,868	5,868	(233)	-
Other Taxes	1,030	1,092	1,212	182	120
Miscellaneous Receipts	3,098	3,152	3,244	146	92
Federal Grants	60	60	60	-	-
Subtotal	**45,395**	**45,098**	**45,224**	**(171)**	**126**
Transfers from Other Funds	11,898	11,768	11,990	92	222
Total Receipts	**57,293**	**56,866**	**57,214**	**(79)**	**348**
Disbursements:					
Grants to Local Governments	38,888	38,721	38,515	(373)	(206)
State Operations	7,356	7,462	7,565	209	103
General State Charges	4,668	4,704	4,707	39	3
Subtotal	**50,912**	**50,887**	**50,787**	**(125)**	**(100)**
Transfers to Other Funds	6,020	5,968	6,128	108	160
Total Disbursements	**56,932**	**56,855**	**56,915**	**(17)**	**60**
Operating Surplus/(Gap)	**361**	**11**	**299**		
Projected Deficit		**(350)**			
Reserves					
Tax Stabilization Reserve	1,031	1,031	1,031	-	-
Rainy Day Fund	275	275	275	-	-
Contingency Reserve	21	21	21	-	-
Community Projects Fund	51	51	51	-	-
Debt Reduction Reserve	-	-	-	-	-
				-	-
Prior Year Surplus	359	359	297	(62)	(62)
Total Reserves	**1,737**	**1,387**	**1,675**	**(62)**	**288**

Source: Division of the Budget

General Fund miscellaneous receipts are expected to reach $3.2 billion by the end of the year. DOB expects to sweep $64.6 million from other dedicated funds as part of the $500 million “blanket sweep” authorization included in the SFY 2011-12 Enacted Budget to meet this projection. The Enacted Budget Financial Plan did not originally anticipate using this blanket authorization.

The following table illustrates the $206 million reduction in local assistance spending from the Mid-Year Update to current projections. The most significant change is a $316 million reduction to the "other" category. This is partially offset by increased spending projections in certain other issue areas.

SFY 2011-12 General Fund Projected Local Assistance Disbursements

(in millions of dollars)

	SFY 2011-12 Mid-Year	SFY 2011-12 January Update	Difference from SFY 2011-12 Mid-Year
Economic Development Government Oversight	161	163	2
Parks and Environment	19	19	-
Transportation	99	99	-
DOH Medicaid (including Administration)	10,265	10,265	1
Other Health	842	782	(60)
Social Welfare	2,953	3,046	93
Mental Hygiene	1,880	1,902	22
Public Protection/Criminal Justice	149	215	66
Higher Education	2,570	2,589	19
School Aid	16,802	16,793	(9)
Other Education	1,762	1,739	(23)
General Government	63	60	(3)
Local Government Assistance	758	758	-
Other	399	84	(316)
Total	**38,720**	**38,514**	**(206)**

Source: Division of the Budget
*Amounts may not add up due to rounding.

State Operating Funds

Compared to SFY 2010-11, the SFY 2011-12 Financial Plan Update included in the Executive's Budget proposal projects that State Operating Funds revenue will increase $3.9 billion, or 4.9 percent, to $82.7 billion, in SFY 2011-12, which includes revenue expected from tax changes enacted in December's extraordinary session. The projected increase is primarily due to higher tax collections, which are projected to increase $3.7 billion or 6.2 percent, primarily in PIT. State Operating Funds spending is projected to increase 3.1 percent, or $2.6 billion, with most of the increase occurring in Local Assistance payments.

All Funds

All Funds tax collections are projected to be approximately $444 million lower than original projections, and $29 million more than projected in the Mid-Year Update, again primarily because of additional revenue expected as a consequence of December's extraordinary session. The negative variances from the Enacted Plan are in PIT collections and Business Tax collections, totaling over $1.0 billion, if collections expected from December actions are not included. Projections for Consumption and Use Taxes as well as Other Taxes increased in the latest update.

Miscellaneous receipts are expected to end the year $425 million higher than initial projections largely because of additional reimbursements from bond proceeds issued by public authorities (which reflect, in part, higher-than-anticipated capital spending). Federal receipts are expected to be $637 million higher than initially estimated, primarily because of the timing of federally funded Medicaid spending.

SFY 2011-12 All Funds spending is projected to total $132.7 billion, which is an increase of $1.0 billion over original projections included in the SFY 2011-12 Enacted Budget Financial Plan and $1.3 billion higher than projections included in the Mid-Year Update. The increase is primarily due to higher-than-expected Medicaid costs associated with the timing of federal funds. These higher costs are partially offset by lower projections in other areas, including education, transportation and mental hygiene.

SFY 2011-12 Cash Financial Plan – All Funds

(in millions of dollars)

	SFY 2011-12 Enacted (May)	SFY 2011-12 Mid-Year (November)	SFY 2011-12 3rd Quarter (January)	Difference in Year-End Projections - 3rd Quarter Update less Enacted Financial Plan	Difference in Year End Projections - 3rd Quarter less Mid-Year Update
Receipts:					
Taxes	64,976	64,503	64,532	(444)	29
Personal Income Tax	39,058	38,884	38,664	(394)	
Consumption and Use Taxes	14,673	14,603	14,719	46	116
Business Taxes	8,173	7,895	7,921	(252)	26
Other Taxes	3,072	3,121	3,228	156	107
Miscellaneous Receipts	23,407	23,300	23,832	425	532
Federal Grants	43,305	43,031	43,942	637	911
Total Receipts	**131,688**	**130,834**	**132,306**	**618**	**1,472**
Disbursements:					
Grants to Local Governments	95,404	95,022	95,822	418	800
State Operations	18,424	18,565	18,689	265	124
General State Charges	6,833	6,836	6,833	-	(3)
Debt Service	5,855	5,834	5,872	17	38
Capital Projects	5,182	5,152	5,519	337	367
Total Disbursements	**131,698**	**131,409**	**132,735**	**1,037**	**1,326**

Source: Division of the Budget

December Extraordinary Session

In response to DOB's projected $350 million current year deficit, as well as increased subsequent out-year gaps (first reported in the Mid-Year Update to the SFY 2011-12 Financial Plan), the Executive and Legislature enacted a package of spending and revenue changes projected to provide $385 million in additional PIT revenue in the last quarter of SFY 2011-12 and a net $1.5 billion in additional revenue in SFY 2012-13.

The main component of the December actions was a restructuring of PIT brackets. In the SFY 2009-10 two additional PIT brackets were created that applied to incomes over $300,000 and $500,000, respectively. This temporary surcharge was scheduled to expire on December 31, 2011. PIT collections after that date were projected to decline as the tax rates for those income groups were to be reduced.

The December tax code changes added four brackets, three of which were lower and one of which was higher. (The higher bracket was for incomes over $1.0 million for single filers, $1.5 million for Heads of Households and $2.0 million for married couples). The bracket changes are expected to generate $385 million in SFY 2011-12, $1.9 billion in SFY 2012-13, $2.0 billion in SFY 2013-14, and $1.3 billion in SFY 2014-15. An additional $79 million is expected from the settlement of 2014 liabilities in SFY 2015-16. The PIT changes enacted in December are scheduled to expire December 31, 2014.

Also enacted during the session were changes projected to increase costs by $395 million in SFY 2012-13. These costs include the elimination or reduction of the Metropolitan Transportation Authority (MTA) payroll tax for small businesses, private elementary and secondary schools, parochial schools, public schools and BOCES, for which the State has agreed to reimburse the MTA on a permanent basis. Other actions included temporary costs intended to address job creation and assistance, higher education, and disaster relief. These increased costs partially offset increased revenue from the PIT.

December 2011 Extraordinary Session – General Fund Actions

(in millions of dollars)

	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16
Personal Income Tax	385	1,931	2,034	1,335	79
MTA Payroll Tax Reduction	-	(250)	(250)	(250)	(250)
Corporate Tax Reduction	-	(25)	(25)	(25)	-
New York Youth Works Credit	-	(20)	(5)	-	-
Economic Development Initiatives	-	(32)	(32)	(13)	(3)
Inner-City Summer Youth Employment	-	(25)	-	-	-
Disaster Relief	-	(20)	(15)	(10)	-
Educational Opportunities	-	(11)	(4)	(4)	(4)
Other	-	(12)	(1)	-	-
Total	**385**	**1,536**	**1,702**	**1,033**	**(178)**

Source: Division of the Budget

State Fiscal Year 2012-13

General Fund

The SFY 2012-13 Executive Budget Financial Plan projects that General Fund receipts (including transfers from other funds) will increase 2.6 percent, or $1.5 billion, compared to updated SFY 2011-12 estimates. This growth is primarily due to expected growth in PIT collections, which are projected to increase by a net $1.2 billion, or 4.7 percent, including $1.9 billion in projected revenue from the December PIT changes. Absent this additional revenue, the PIT projections would have been projected to *decline* by $340 million, or 1.3 percent, from the estimated SFY 2011-12 level. PIT collections were initially projected to decline from SFY 2011-12 to SFY 2012-13 in the Mid-Year Update to the SFY 2011-12 Enacted Budget Financial Plan, largely reflecting the sunset of the 2009 temporary PIT surcharge.

The SFY 2012-13 Executive Budget Financial Plan projects General Fund disbursements will grow $1.7 billion, or 2.9 percent, primarily in local assistance and transfers to other funds. Local assistance is expected to grow by $888 million, largely due to education, Medicaid and "other" spending. These figures include a significant amount of revenue that flows to private service provider agencies. The Executive proposes to limit the amount of public funds spent by these agencies on administrative costs to 25 percent in SFY 2012-13, decreasing 5.0 percent per year to 15 percent in SFY 2015-16. The Executive also proposes to limit reimbursement for any executive compensation to $199,000, and make excess compensation a basis for rejection of a service provider.

SFY 2012-13 General Fund Projected Local Assistance Disbursements
(in millions of dollars)

	SFY 2011-12 January Update	SFY 2012-13 Proposed	Dollar Difference from SFY 2011-12 Estimate	Percentage Difference from SFY 2011-12 Estimate
Economic Development Government Oversight	163	175	12	7.2%
Parks and Environment	19	14	(5)	-26.5%
Transportation	99	98	(1)	-0.7%
DOH Medicaid inc. Administration	10,265	10,468	203	2.0%
Other Health	782	773	(9)	-1.1%
Social Welfare	3,046	3,127	81	2.6%
Mental Hygiene	1,902	1,868	(35)	-1.8%
Public Protection/Criminal Justice	215	214	(1)	-0.6%
Higher Education	2,589	2,630	41	1.6%
School Aid	16,793	16,949	156	0.9%
Other Education	1,739	1,914	175	10.1%
General Government	60	56	(4)	-6.2%
Local Government Assistance	758	776	18	2.4%
Other	84	341	257	306.8%
Total	**38,514**	**39,403**	**888**	**2.3%**

Source: Division of the Budget
*Amounts may not add up due to rounding.

Transfers to other funds are projected to increase slightly more than $1.0 billion, primarily due to the movement of SUNY Operating costs from the General Fund to a special revenue fund (with an overall neutral Financial Plan impact), the State's reimbursement to the MTA for the recent payroll tax reduction, increased capital spending (including an additional $90.3 million for the General Fund subsidy of the Dedicated Highway and Bridge Trust Fund), and increased debt service. While the movement of SUNY Operating appropriations from the General Fund to a special revenue fund is cost-neutral, it has the effect of lowering General Fund State Operations spending. Overall General Fund spending is unchanged, since transfers to other funds are included in the General Fund spending total.

General State Charges paid from the General Fund are projected to decline $273 million, due in part to the planned prepayment of pension costs in SFY 2011-12.

Proposed General Fund Gap-Closing Plan

The Executive Budget projects a current services deficit or gap (meaning the difference between projected receipts and disbursements based on existing law) of $3.5 billion in SFY 2012-13, prior to taking into account the December actions. With the net effect of those changes included, the SFY 2012-13 current services projected deficit is slightly less than $2.0 billion, or $8.0 billion less than the projected gap that was addressed in the SFY 2011-12 Enacted Budget. In the SFY 2011-12 Mid-Year Update, DOB projected a SFY 2012-13 current services deficit of between $3.0 billion and $3.5 billion ($3.25 billion in gap tables), again, before accounting for the December actions.

While many actions proposed by the Executive to close the projected SFY 2012-13 deficit are considered recurring by DOB, there are still unknown details for a significant portion of these reductions, particularly in agency operations and redesign initiatives. Furthermore, it may be difficult to track savings because of new proposed appropriation language, which, if enacted, would provide broad authority to interchange, suballocate, or transfer spending authority from agency State Operations appropriations to any other State agency or public authority.

In addition, there are projected savings assumed in the proposed Financial Plan from the gap-closing plan in the SFY 2011-12 Enacted Budget associated with agency redesigns, Medicaid, tax compliance, and other actions. The savings associated with the Executive's proposal are in addition to these savings. See Appendix A for a table that illustrates the evolution of the projected deficit from the Mid-Year Update to the SFY 2012-13 Financial Plan.

State Operating Funds

The SFY 2012-13 Executive Budget Financial Plan projects that State Operating Funds revenue will increase $2.6 billion, or 3.2 percent, to $85.3 billion, from SFY 2011-12, including revenue expected from December's extraordinary session. The projected increase is primarily due to higher tax collections, which are projected to increase $1.9

billion or 3.1 percent, primarily in Personal Income Tax. State Operating Funds spending is projected to increase 1.9 percent, or $1.7 billion, with most of the increase occurring in Local Assistance payments.

All Funds

The SFY 2012-13 Executive Budget Financial Plan projects All Funds receipts will increase $418 million, or 0.3 percent, to $132.7 billion, as increases in other areas are largely offset by decreases due to the end of federal stimulus funding. Taxes are expected to increase $2.0 billion, or 3.1 percent, primarily driven by higher receipts from PIT withholding collections. Total PIT collections are projected to increase $1.6 billion, or 4.3 percent. Without revenue associated with December's actions, PIT is projected to increase only $101 million.

All Funds spending is projected to decline $225 million, or 0.2 percent. Declines in spending of $637 million, or 0.7 percent, are projected in Local Assistance. Spending for capital projects is projected to increase $335 million or 6.1 percent.[2] Debt service is projected to increase $277 million or 4.7 percent.

All Funds Comparison of SFY 2011-12 Estimate vs. SFY 2012-13 Proposed

(in millions of dollars)

	SFY 2011-12 Estimate	SFY 2012-13 Proposed	Dollar Change	Percentage Change
Receipts:				
Taxes	64,532	66,533	2,001	3.1%
Personal Income Tax	38,664	40,311	1,647	4.3%
Consumer Taxes and Fees	14,719	15,076	357	2.4%
Business Taxes	7,921	8,152	231	2.9%
Other Taxes	3,228	2,994	(234)	-7.2%
Miscellaneous Receipts	23,832	24,255	423	1.8%
Federal Grants	43,942	41,936	(2,006)	-4.6%
Total Receipts	**132,306**	**132,724**	**418**	**0.3%**
Disbursements:				
Grants to Local Governments	95,822	95,185	(637)	-0.7%
State Operations	18,689	18,620	(69)	-0.4%
General State Charges	6,833	6,702	(131)	-1.9%
Debt Service	5,872	6,149	277	4.7%
Capital Projects	5,519	5,854	335	6.1%
Total Disbursements (1)	**132,735**	**132,510**	**(225)**	**-0.2%**
Other Financing Sources (uses):				
Transfers from Other Funds	26,797	27,572	775	2.9%
Transfers to Other Funds	(26,786)	(27,581)	(795)	3.0%
Bond and Note Proceeds	475	400	(75)	-15.8%
Net Other Financing Sources (uses)	486	391	(95)	-19.5%

(1) Does not include off-budget capital spending.
Source: Division of the Budget

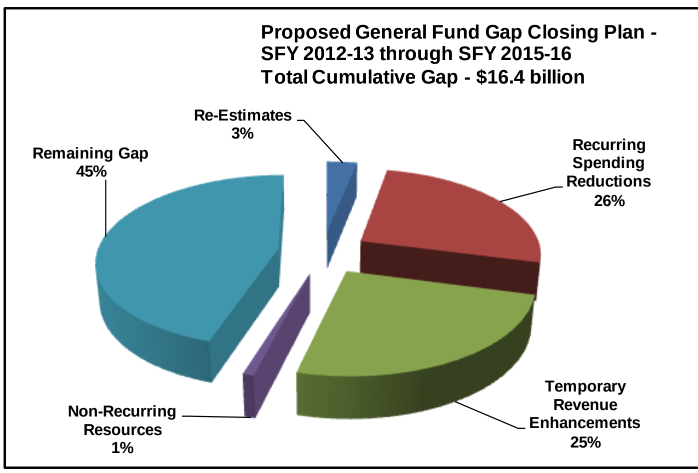
[2] Capital Projects spending, as detailed in the All Funds Financial Plan, primarily occurs within Capital Projects Funds but does not include local assistance payments made from Capital Projects funds.

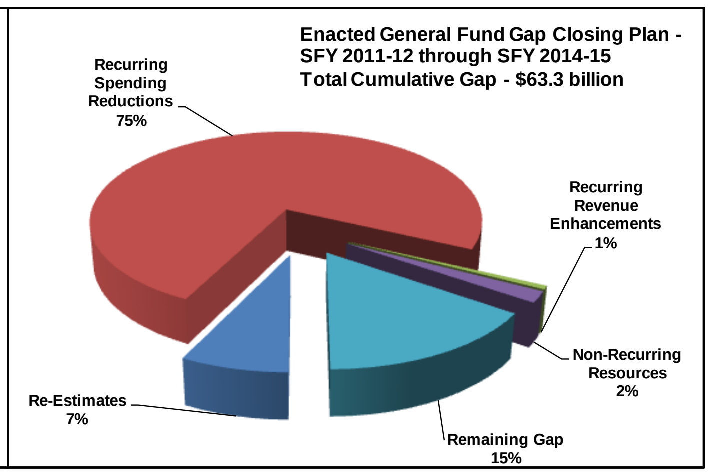
Structural Imbalance

Over the past two decades, the State's chronic General Fund budget gaps had been exacerbated by successive budgets where recurring spending was projected to grow significantly faster than recurring revenue, and annual budget gaps were filled largely through the use of short-term solutions. The SFY 2011-12 Enacted Budget made significant progress in reversing that trend with more than 80 percent of gap-closing initiatives from recurring sources. As a result, the gap-closing measures that eliminated the $10 billion SFY 2011-12 deficit also reduced projected out-year gaps from $53.3 billion to $9.8 billion, according to the SFY 2011-12 Financial Plan.

While gap projections were increased in both the Mid-Year Financial Plan Update and the SFY 2012-13 Executive Budget Financial Plan, even updated gap projections are below projections prior to the SFY 2011-12 Enacted Budget. General Fund spending for SFY 2012-13 included in the SFY 2009-10 Enacted Budget was projected to top $72 billion. The Executive Budget now projects SFY 2012-13 General Fund spending to total $58.6 billion if all budget provisions are enacted as proposed. Over the same period, projected receipts for SFY 2012-13 only rose from the estimate in SFY 2009-10 of $58.2 billion to $58.7 billion.

Comparatively speaking, the proposed multi-year gap-closing program for SFY 2012-13 does not include as high a portion of recurring actions as the gap-closing plan enacted for SFY 2011-12 when the four-year gap was reduced from $63.3 billion to $9.8 billion, with recurring actions reflecting over 80 percent of the total. The following charts compare the composition of each gap-closing plan.





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

The proposed SFY 2012-13 gap closing plan addresses a projected four-year deficit of $16.4 billion, with nearly 30 percent in recurring actions. However, this estimated cumulative gap is of a significantly smaller magnitude than prior year projections.

Composition of Gap-Closing Plans

(in millions of dollars)

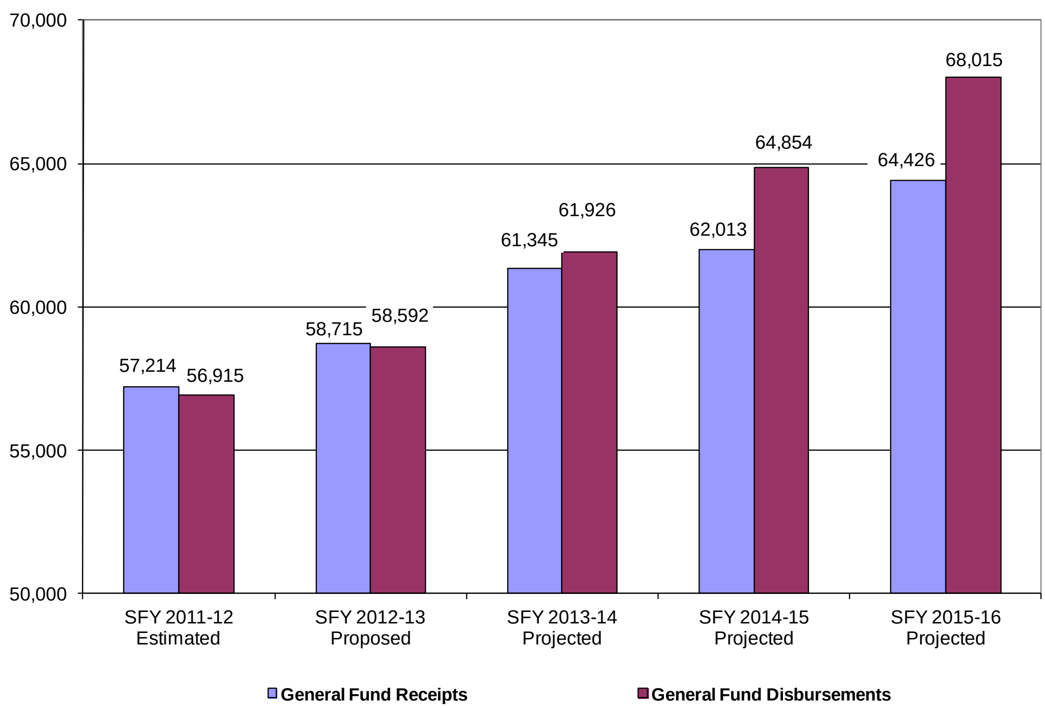
	Enacted SFY 2011-12 through SFY 2014-15	Proposed SFY 2012-13 through SFY 2015-16
Total Cumulative Gap to be Closed	**(63,278)**	**(16,414)**
Recurring Spending Reductions	47,261	4,251
Re-estimates	4,641	520
Temporary Revenue Enhancements	-	4,093
Recurring Revenue Enhancements	379	-
Non-Recurring Resources	1,177	140
Remaining Gap	**9,820**	**7,410**

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

The SFY 2012-13 Executive Budget, while reliant on broadly defined savings actions, does significantly reduce the out-year gap between recurring revenue and spending. If the SFY 2012-13 Enacted Budget were to achieve the targets set forth in the Executive's Plan with the proposed recurring actions, the structural deficit would be markedly improved compared to prior years.

General Fund Receipts and Disbursements – Executive Budget

(in millions of dollars)



Source: Division of the Budget

Temporary and Non-Recurring Resources

The Executive Budget includes approximately $3.7 billion in resources that are either temporary (more than one year but not permanent) or non-recurring (one year). This is a significant decline from previous years (in SFY 2010-11 temporary or non-recurring resources, including federal stimulus funds, supported approximately 30 percent of General Fund spending), representing approximately 6.5 percent of General Fund spending. This amount is projected to decline to $442 million by SFY 2015-16, $3.2 billion lower than anticipated in the current year.

While the changes to the PIT brackets are temporary and scheduled to expire in 2014, the Executive has expressed intent to create a tax reform commission to address long term changes to the tax system and create economic growth. The Commission would conduct a comprehensive and objective review of the State's tax policy, including corporate, sales and personal income taxation and make recommendations to improve the current system.

Temporary and Non-Recurring Resources
(in millions of dollars)

	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16
Temporary PIT Changes	1,931	2,034	1,335	79
Deferred Tax Credits	970	870	-	-
Temporary Utility Assessment	521	261	-	-
Stimulus FMAP (Medicaid) Increase	(254)	-	-	-
Prepaid SUNY Debt Service	140	-	-	-
Elderly Pharmaceutical Insurance Coverage (EPIC) Sweep	52	-	-	-
Abandoned Property	200	85	70	70
Insurance Conversion Proceeds	250	300	300	300
Costs Associated with December Extraordinary Session	(145)	(82)	(52)	(7)
Total Temporary and Non-Recurring Resources	**3,665**	**3,468**	**1,653**	**442**

Source: Division of the Budget

The SFY 2012-13 Executive Budget proposes recurring actions to slow the growth of out-year spending. While there is a lack of specificity regarding certain proposed savings actions, the Financial Plan reduces projected recurring spending to levels much closer to projected recurring revenues than prior plans.

In the General Fund, revenue is projected to increase 12.6 percent between SFY 2011-12 and SFY 2015-16, or 3.0 percent annually on average. Over the same period, General Fund spending is projected to increase 19.5 percent, or 4.6 percent annually on average. While not precisely aligned, this reflects a continued narrowing of the projected gap between out-year revenue and spending growth.

Executive General Fund Gap-Closing Plan SFY 2011-12 through SFY 2015-16

(in millions of dollars)

	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16
Current Services Gap Reported in Mid-Year Update	**(350)**	**(3,250)**	**(3,274)**	**(4,798)**	**NA**
Changes Since Mid-Year Update	-	(250)	(350)	(246)	(4,246) (1)
Current Services Prior to December Actions	**(350)**	**(3,500)**	**(3,624)**	**(5,044)**	**(4,246)**
December Actions	385	1,536	1,702	1,033	(178)
Other Receipt Revisions	(37)	-	-	-	-
Other Disbursement Revisions	242	-	-	-	-
SFY 2011-12 Prepayments	(240)	-	-	-	-
Restated Current Services Gap to Be Closed	**-**	**(1,964)**	**(1,922)**	**(4,011)**	**(4,424)**
Agency Operations		**1,141**	**1,089**	**842**	**861**
Executive and Independent Agencies		835	696	442	457
Consolidations and Coordination of Enterprise Services		109	175	180	180
Health Insurance Re-Estimates		130	130	130	130
New Fringe Benefit Proposals and Prepayment Savings		67	88	90	94
Local Assistance		**756**	**580**	**779**	**660**
Eliminating/Replacing COLAs/Trends		150	169	168	118
Mental Hygiene/Social Services/Housing		316	190	263	187
Public Health		105	58	28	19
All Other		185	163	320	336
New Initiatives/Investments/Costs		**(73)**	**(462)**	**(584)**	**(818)**
State Takeover Local Medicaid Growth/Administration		16	(23)	(83)	(181)
Agency Redesign Costs		(43)	(66)	(27)	(17)
Supplemental Security Income (SSI) Administration Takeover		(11)	(13)	(21)	(16)
Vulnerable Populations		(10)	(30)	(30)	(30)
Rural Rental Assistance		(6)	(6)	(6)	(6)
Temporary Assistance for Needy Families (TANF) Child Care Replace Federal Costs		(93)	(215)	(215)	(215)
Mental Hygiene System Funding		-	(100)	(200)	(300)
Additional Pension Payment		-	(80)	(70)	(61)
All Other		74	71	68	8
Non-Recurring Resources		**140**	**-**	**-**	**-**
Debt Management - Prepay Debt Service		140			
Total Actions Toward Deficit	**350**	**1,964**	**1,207**	**1,037**	**703**
Remaining Gap After Actions	**-**	**-**	**(715)**	**(2,974)**	**(3,721)**

(1) New with the Executive Proposal.

Source: Division of the Budget

Oversight Issues

Progress has been made in addressing the State's structural budget gap, and important efforts are underway to improve the effectiveness and efficiency of State government. However, there has been an increasing prevalence in the appropriation and Article VII budget bills of proposed actions that would reduce transparency, accountability and oversight of major State spending, procurement, and related activities. Checks and balances exist in the law to help ensure that taxpayer dollars are protected from waste, fraud, and abuse. Some examples of how these laws would be circumvented are described as follows.

- **Elimination of the Comptroller's Oversight.** The Executive proposes to centralize contracting for commodities and services within the Office of General Services (OGS) for all agencies, as well as to allow local governments, not-for-profit organizations, and others to "piggyback" on these contracts. While contract centralization may provide efficiencies, the Executive proposes to exempt these contracts from the Office of the State Comptroller's review and approval requirements under State Finance Law Section 112.

  In addition, the Executive Budget proposes to bypass the Office of the State Comptroller's procurement review as well as the competitive bidding process on more than five major health-related contracts, and proposes to exempt certain State agreements with Cornell University related to the University's land grant mission from all provisions of the State Finance Law.

  Under Section 112, the Office of the State Comptroller conducts an independent review and approval of most State agency contracts, including centralized contracts let by OGS. This review reduces the risk that the State will:
    - overpay for goods and services;
    - award contracts in a manner inconsistent with the law, including competitive bidding requirements;
    - not get the best possible goods or services;
    - award contracts to vendors who are not responsible and should be ineligible for State business;
    - engage in favoritism or "pay to play" business;
    - suffer from vendor fraud;
    - accept contract language that does not protect the State or the taxpayers; and
    - engage in activities that overstep the statutory authority of agencies.

  Pre-audit has an important deterrent effect. Although the Comptroller can use his or her constitutional authority to withhold or recover moneys arising from fraud or illegality, the Comptroller's review and approval prior to contract execution is a critical step in preventing a bad business deal from slipping through which can waste taxpayer money, damage the State's reputation and harm the citizens who depend on the State's contractual services.

- **Increased Use of Non-Statutory, Off-Budget Actions for Critical Projects.** The Executive has advanced an ambitious $15 billion capital projects initiative, called New York Works, to address the State's infrastructure needs. However, many key elements of this plan have not yet been established in law and are currently without statutory parameters.

  These include the creation of the New York Works Task Force, charged with overseeing efforts to attract private investment in the State's public projects, as well as the New York Works Economic Development Fund, which would play a key role in advancing critical public capital projects in the State using private sector money. Of the $15 billion infrastructure investment plan set forth by the Executive, 86 percent, or $12.9 billion, is expected to occur off-budget and without the Legislature's specific approval. This means the funds will have reduced transparency and accountability, and will not be subject to same level of scrutiny and checks and balances as on-budget spending.

The Executive also proposes to move all on-budget spending for the Environmental Facilities Corporation off-budget and eliminate the requirement that administrative monies for the Sewage Treatment Program and the Drinking Water Program flow through State funds. These actions would reduce oversight of these funds.

- **Discretion to Move Funding for State Operations Between Agencies and Public Authorities.** The Executive Budget proposes broad new language in appropriation bills that would give DOB significant power to reallocate (or "interchange") spending among agencies. This reallocation could occur without regard to the appropriated amounts approved by the Legislature in the enacted budget, provided DOB determines such interchanges improve the efficiency and effectiveness of government operations.

  The proposed language, included in almost every SFY 2012-13 State Operations appropriation as well as in certain transportation-related Capital Projects appropriations, would allow DOB to move money between agencies and public authorities without limitation, rendering the appropriation limits approved by the Legislature, to a certain extent, meaningless. The language is as follows:

  > *Notwithstanding any other provision of law to the contrary, for the purpose of planning, developing and/or implementing the consolidation of administration, business services, procurement, information technology and/or other functions shared among agencies to improve the efficiency and effectiveness of government operations, the amounts appropriated herein may be (i) interchanged without limit, (ii) transferred between any other state operations appropriations within this agency or to any other state operations appropriations of any state department, agency or public authority, and/or (iii) suballocated to any state department, agency or public authority with the approval of the director of the budget who shall file such approval with the department of audit and control and copies thereof with the chairman of the senate finance committee and the chairman of the assembly ways and means committee.*

  While the stated purpose of this language is related to the Executive's important shared services and agency redesign initiative, the language could be written in a way that is more limited, the anticipated fund moves could be more clearly identified, the expected programmatic impact could be provided, and more controls could be put in place to ensure greater transparency and accountability for this initiative.

- **Broad, Undefined New Powers for Public Authorities.** Public Authorities are not subject to the same oversight and controls as State agencies, and audits by the Office of the State Comptroller have routinely identified problems that have resulted, in part, from this lack of oversight. While recent legislation, including the Public Authority Accountability Act of 2005 and the Public Authority Reform Act of 2009 were designed to improve the transparency and accountability of public authorities, much of their spending still occurs off-budget and their activities often circumvent public scrutiny.

  Despite this, the Executive Budget includes language that would allow any public authority to transfer any funds to any other public authority, as long as the transfer is approved by their governing board. This new, broad transfer authorization raises the possibility that an authority may use revenue generated for one program or purpose, such as tolls intended to be used for highway or bridge maintenance, for an entirely unrelated purpose. The details surrounding the need for this broad authority have not been provided, and the proposal raises concerns regarding the potential for misuse of public funds. If such authorization is necessary to achieve savings, it could be accomplished on a case-by-case basis, subject to specific Legislative review and approval.

  Broad authorization is also proposed for the Urban Development Corporation (doing business as the Empire State Development Corporation) to allow the Corporation the unlimited ability to award grants. This broad-scoped authority would circumvent the need for any programmatic parameters to be defined in law by the Legislature in the awarding of economic development grants.

Spending Trends by Programmatic Area

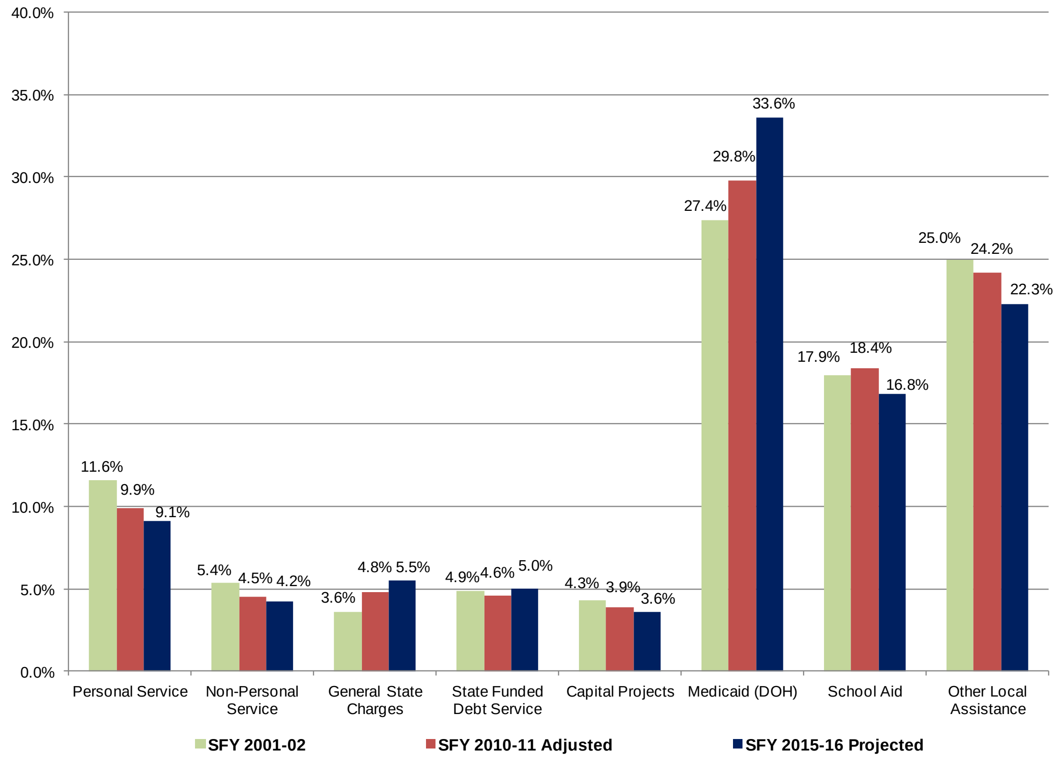
All Governmental Funds spending increased $47.7 billion, or 56.1 percent, between SFY 2001-02 and SFY 2010-11, which is an average annual increase of 5.1 percent. More than half of the total growth comes from Medicaid (34.1 percent of the total growth and 6.1 percent average annual growth) and school aid (19.2 percent of the total growth and 5.4 percent average annual growth). As a share of total spending, Medicaid increased from 27.4 percent of All Funds spending in SFY 2001-02 to 29.8 percent in SFY 2010-11 and is projected to increase to 33.6 percent of total spending in SFY 2015-16. School aid's share of spending increased from 17.9 percent in SFY 2001-02 to 18.4 percent in SFY 2010-11, but is projected to decline to 16.8 percent in SFY 2015-16.

State Operations, which includes personal service and non-personal service costs, has declined from 16.9 percent of total spending in SFY 2001-02 to 14.4 percent in SFY 2010-11, and is projected to decline further to 13.3 percent by SFY 2015-16.

The Executive Budget proposes significant reductions in out-year growth to both school aid and Medicaid. While the proportion (or share) of the total budget declines in the case of school aid and State Operations, Medicaid, as a share of the total budget, continues to grow. The only area with a comparable level of growth is General State

Charges, although this area remains a relatively small percentage of All Funds spending (4.8 percent in SFY 2010-11 and 5.5 percent projected for SFY 2015-16). State-Funded Debt Service is also projected to increase as a share of the total budget.

Proportion of All Funds Spending by Major Category



Source: Division of Budget

Risks to the Financial Plan

The SFY 2012-13 Executive Budget relies much less on temporary and non-recurring resources for balance than have recent budgets. However, the Budget includes several proposals where achieving the anticipated level of revenue or savings will be challenging and expectations may not be realistic. These proposals include optimistic revenue assumptions and savings targets that lack specificity.

The proposed gap-closing plan may produce less savings than expected, and other proposals may provide less than the projected fiscal benefits. Any shortfalls that occur could create a deficit for SFY 2012-13 and increase out-year gap projections. The following provides an overview of the larger risks and assumptions which the Office of the State Comptroller has identified in the Executive Budget:

- **Vulnerable Economic Recovery –** While the economy is improving, not all areas are showing growth. For example, the unemployment rate is expected to remain high and the housing market weak, and although consumer spending has increased recently, consumer confidence is expected to continue to be low over the next two years. In addition, global instability poses a threat to the recovery. Because projections for taxes and certain large spending areas are based on the economic forecast, slower growth in the economy could reduce tax collections and increase spending.

Actual results indicate that tax projections in the SFY 2011-12 Enacted Budget Financial Plan were overly optimistic, especially considering that the SFY 2011-12 gap-closing plan included increased revenue projections of $387 million, nearly equal to the current year deficit projected in the Mid-Year Update to the Financial Plan.

DOB now projects that General Fund tax collections will end the year $317 million below the original SFY 2011-12 Enacted Budget forecast, even including the additional revenue expected to be generated as a result of the Personal Income Tax changes enacted in December's extraordinary session. Projected collections would be $702 million lower without considering this new revenue. A slowdown or unanticipated shock to the economy could very quickly cause significant downward pressure on revenue and upward pressure on spending for various social services.

- **Uncertain Revenue -** The Executive Budget contains a number of projections that should be considered uncertain, not only because of a vulnerable economy, but also because of other variables.

    - *Insurance Conversion Proceeds* – The proposed budget anticipates $250 million in SFY 2012-13, increasing to $300 million annually through SFY 2015-16, in funds related to the conversion of HIP and GHI, which are not-for-profit insurance companies, to for-profit status. The conversion process has, in the past, proven lengthy, and funds have not been realized as expected in prior financial plans.

    - *Public Authority Transfers* – The Executive Budget relies on nearly $100 million in non-recurring revenue from various public authorities to support the proposed spending plan. This includes the transfer of $65 million in "voluntary contributions" from the New York Power Authority. The Executive Budget also includes blanket transfer language to allow unspecified other authorities to make "voluntary contributions" to the General Fund *and/or other public benefit corporations* (the italicized language is new in the Executive's proposed Budget). In addition to issues of accountability and transparency, the fiscal ramifications of this broad authorization are unclear.

    - *Unspecified Fund Sweeps* – The Executive Budget proposes an authorization for $500 million in unspecified transfers from dedicated funds to the General Fund for budget relief, as was provided in SFY 2011-12, although the Financial Plan does not indicate that DOB plans to use this authorization. However, the SFY 2011-12 Enacted Budget Financial Plan also did not initially contemplate using this authorization, but the most recent Update now expects to sweep $65 million to the General Fund for budget relief under this authorization. Since SFY 2007-08, budget language has been enacted authorizing DOB to transfer or “sweep,” at its discretion, available, unencumbered resources from other State funds to the General Fund. These are generally programs that have dedicated revenue streams. After several years of these blanket sweeps, it is unclear whether resources will continue to be available for budget relief.

- *Lottery* – The Executive Budget projects Lottery receipts from traditional games will increase over 5.0 percent in SFY 2012-13 to nearly $2.2 billion. Largely reflecting new revenue from Video Lottery Terminals (VLTs) at Aqueduct, VLT receipts are projected to increase 21.8 percent. Contrary to original projections, receipts from traditional games are now expected to decline slightly in SFY 2011-12, which has resulted in the projected need for a General Fund subsidy of $128 million (another $10 million was needed for lower-than-anticipated VLT revenue) that was not expected in the SFY 2011-12 Enacted Budget. The General Fund has been required to subsidize Lottery revenues in nine of the last ten years, totaling over $1.2 billion, reflecting a pattern of overly optimistic Lottery revenue assumptions.

- *Tribal State Compact* – The Executive Budget Financial Plan anticipates revenue from Native American casinos of $125.5 million in SFY 2011-12, including $92 million for the State with the remainder directed to local governments, and $129.3 million in SFY 2012-13 for the State and local governments. As of January 1, 2012, the State had not received any of the expected SFY 2011-12 funds, although $43.6 million has been transferred to the General Fund from a prior fund balance. The State received only $4.6 million in SFY 2010-11, when $121.9 million was anticipated as late as March 3, 2011. It is not clear whether the State will receive any additional revenue from this source this year or next.

- *Abandoned Property Transfer* – Pursuant to the State Finance Law, all moneys in the Abandoned Property Fund in excess of $750,000 are transferred to the General Fund by the end of each fiscal year. For SFY 2012-13, the Executive proposes a transfer of $785 million, which is approximately $200 million more than historical patterns suggest would be available for transfer. While receipts to the Fund have increased in the current year, this is largely because of the non-recurring benefit of reducing various dormancy periods in 2011. The number and value of abandoned property claims paid also continue to rise.

- **Optimistic Tax Receipts Projections –** Personal Income Tax collections are the State’s largest revenue source outside of federal receipts, comprising approximately 30 percent of All Funds revenue. Nonetheless, All Funds PIT final collections have been below initial projections in each of the last five years. This includes SFY 2011-12, even when adjusted to reflect expected additional collections associated with the December tax code changes. In SFY 2009-10, actual PIT collections were almost

$2.5 billion below the projections included in the SFY 2009-10 Enacted Budget Financial Plan, even though $500 million in refunds were delayed to SFY 2010-11.

In the SFY 2011-12 Enacted Budget Financial Plan, All Funds PIT collections were projected to grow 7.9 percent, well above most economic indicators. Now, after nine months, the growth projection for All Funds PIT collections for the year is reduced to 6.8 percent, including the additional revenue from the PIT changes from the December session. That new revenue was not in Enacted Budget projections. If the additional revenue is taken out so that comparisons are the same, projected growth would only be 5.7 percent.

The SFY 2012-13 Proposed Budget Financial Plan projects All Funds PIT collections will grow 4.3 percent from the SFY 2011-12 estimates.

The following chart shows the change in projections for Personal Income and Business tax collections over the course of SFY 2011-12.

SFY 2011-12 All Funds PIT and Business Tax Collection Detail
(in millions of dollars)

All Funds Tax Receipts	Enacted Financial Plan	Mid-Year Update	Dollar Difference	January Update	Dollar Difference	December Actions	Without December Actions	Difference from Enacted
Personal Income Tax								
Withholdings	31,802	31,202	(600)	31,197	(5)	385	30,812	(990)
Estimated Payments	11,900	11,975	75	11,530	(445)	-	11,530	(370)
Final Payments	2,110	2,110	-	2,125	15	-	2,125	15
Other Payments	1,089	1,089	-	1,039	(50)	-	1,039	(50)
Gross Collections	46,901	46,376	(525)	45,891	(485)	385	45,506	(1,395)
					-			
State/City Offset	(148)	(298)	(150)	(358)	(60)	-	(358)	(210)
Refunds	(7,694)	(7,194)	500	(6,869)	325	-	(6,869)	825
Reported Tax Collections	***39,059***	***38,884***	***(175)***	***38,664***	***(220)***	***385***	***38,279***	***(780)***
Business Taxes								
Corporation Franchise Tax	3,463	3,298	(165)	3,231	(67)	-	3,231	(232)
Corporation and Utilities Tax	892	842	(50)	815	(27)	-	815	(77)
Insurance Taxes	1,395	1,437	42	1,413	(24)	-	1,413	18
Bank Tax	1,317	1,229	(88)	1,374	145	-	1,374	57
Petroleum Business Tax	1,106	1,089	(17)	1,088	(1)	-	1,088	(18)
Reported Business taxes	***8,173***	***7,895***	***(278)***	***7,921***	***26***	***-***	***7,921***	***(252)***

Source: Division of the Budget

- **Broadly Defined Savings Actions –** The proposed budget includes more than $1.8 billion in savings targets with only certain broad parameters to identify where and how the savings will be achieved.

    - *Medicaid* – The SFY 2011-12 Enacted Budget included cuts to General Fund Medicaid spending totaling $2.85 billion in SFY 2011-12, and limited future Medicaid growth to the long-term average change of the medical component of the Consumer Price Index (approximately 4.0 percent), irrespective of enrollment. The Executive's proposal assumes last year's spending constraints will continue this year, although it does not detail how or where the spending reductions will occur. This poses a particular risk in the out-years, when the Commissioner of Health's authority to reduce spending expires.

The Executive's proposal again includes a two-year appropriation for State-financed Medicaid that relies on actions included in the last budget, including unspecified savings from providers. In addition, the Executive's proposed budget extends for one year the Commissioner's ability to develop a plan to achieve the necessary savings.

The risk comes from the difficulty in continuing to find such savings while remaining in compliance with current federal rules, and then in implementing such levels of savings within the current year. Furthermore, details are also lacking about how Medicaid spending growth would be limited to approximately 4.0 percent annually, especially after Commissioner authorization to implement unilateral cost saving actions expires.

Furthermore, the Executive Budget proposes to reduce funding for the Office of the Medicaid Inspector General (OMIG) by $2.8 million, or 4.0 percent, to $66.2 million in SFY 2012-13. The Executive Budget also recommends reducing the OMIG's workforce by 52 full-time equivalent (FTE) positions, or 9.3 percent, to 506 FTEs in SFY 2012-13, but expects the Office to achieve $1.1 billion in annual State share Medicaid recoveries through SFY 2015-16.

- *State Operations* – The Executive Budget expects to reduce agency costs by more than $1.1 billion, on top of the $1.4 billion in agency and workforce savings expected in the current year. There is a lack of specificity as to how these savings will be achieved, and the anticipated impact of these reductions on programs and services is unclear.

- **Federal funding –** The Financial Plan does not anticipate any substantial reductions in federal funding that could result from the Budget Control Act of 2011. The Act required reductions in federal spending and/or the imposition of automatic cuts in January 2013, including significant cuts to federal assistance to the states.

  DOB estimates that if automatic cuts at the federal level occurred ("sequestration"), the cost to State and local governments would be approximately $5.0 billion over the next nine years, beginning in January 2013. While there is an expectation that the sequestration process will be overridden by other budgetary actions, any significant cuts at the federal level could negatively impact New York. In addition, the New York Works Infrastructure Investment Plan anticipates an additional $917 million in on-budget federal appropriations as well as $760 million in off-budget federal matching funds.

Economy and Revenue

Economic Outlook

National Economy

The national economy rebounded in the first half of 2011, but that growth is expected to slow during the first half of 2012. The real Gross Domestic Product (GDP) improved from an annualized rate of 0.4 percent in the first quarter of 2011 to 2.8 percent in the fourth quarter of 2011, benefiting from inventory rebuilding. This growth was the strongest in one and a half years, and brings the annual GDP to 1.7 percent for all of 2011. IHS Global Insight expects GDP to grow by 2.0 percent in 2012 and 2.4 percent in 2013, before accelerating in 2014.

Consumer spending grew by 2.0 percent in the fourth quarter of 2011, supported mainly by consumers reducing their savings rather than income gains. Despite the recent rise in consumer confidence, the rate of growth in consumption is expected to level off, battered by the ongoing sovereign debt crisis and recessionary fears in Europe, high household indebtedness, and the weak job and housing markets. IHS Global Insight projects that consumption will increase by 2.2 percent in 2012—the same amount as in 2011—and that the rate of growth will not pick up until 2015.

Business investment eased downward in the fourth quarter of 2011, after rebounding from the slowdown caused by supply disruptions resulting from the disasters in Japan earlier in the year, as investment in office buildings, plants, software and equipment retreated from their strong performance in the preceding two quarters. With corporate profits expected to be lower in 2012 as a result of the weakening global economy, growth in business investment is projected to slow to 5.3 percent in 2012 from 8.7 percent in 2011 (which was the fastest growth in 11 years). The growth in business investment is expected to accelerate in both 2013 and 2014.

Businesses remain cautious about hiring. The nation has recovered only one-third of the jobs lost during the recession, adding 2.7 million jobs (an increase of 2.1 percent). The relatively slow rate of job creation during the recovery has led to only a small decline in the unemployment rate, which averaged 9.0 percent in 2011 compared to the recession peak of 9.6 percent in 2010. IHS Global Insight projects that the pace of job growth will increase slightly in 2012, to 1.2 percent compared to 1 percent in 2011. Employment gains are expected to further increase in 2013 to 1.6 percent, while the unemployment rate is expected to remain above 8.5 percent until the fourth quarter of 2013.

Home sales and prices remain sluggish and have not yet recovered from their historic lows because of a weak job market, high rates of foreclosure filings and delinquencies, and a tight credit market. IHS Global Insight expects that median home prices will soon turn around—growing by 2.5 percent in 2012, following a 4.4 percent decline in 2011—

and that home sales will rise by 8.9 percent in 2012, exceeding the growth rate of 2.6 percent in 2011.

New York State Economy

While New York State's economy had been growing faster than the national economy, recent weaknesses in the financial markets, both domestically and overseas due to the European sovereign debt crisis, could adversely impact the State's economy. Wall Street is already downsizing in response to reduced profitability, and cash bonuses are likely to be much smaller than last year. The Federal Reserve Bank's coincidence index report shows that the State's economic growth has diminished recently. IHS Global Insight forecasts that growth in New York's Gross State Product (GSP) will slow to only 1.7 percent in 2012 and 2.1 percent in 2013. Projected growth in both years is lower than the expected rate of growth in the national GDP.

As of December 2011, New York had regained 183,600 (58.1 percent) of the private sector jobs lost during the recession, but job growth ceased during the second half of 2011, and the State has lost 11,200 jobs since July. Job gains in education and health care, professional and business services, and leisure and hospitality more than offset the losses in government. Statewide, the unemployment rate was 8.0 percent in December 2011. While this was lower than the national rate, it was only 0.9 percentage points below the State's recession peak of 8.9 percent in January 2010. The unemployment rate is forecast to continue declining slowly, averaging 7.6 percent in 2012 and 7.2 percent in 2013.

Total wage gains in New York have lessened, primarily because of weaknesses on Wall Street. Recent layoffs, profit losses, and bonus reductions in the securities industry have affected not only the industry's wages but also the wages in the State's other industries through multiplier effects. IHS Global Insight estimates that total wage growth will slow to 2.8 percent in 2011 (after increasing by 4.5 percent in 2010) and remain modest at only 2.9 percent in 2012 and 4.4 percent in 2013.

The housing market in New York has held up better than it has in the rest of the nation. While the State's foreclosure crisis has been less severe, the foreclosure problem in New York will take longer to work through and will continue to put downward pressure on prices. The median price for existing homes is estimated to have declined by 2.5 percent in 2011, and is expected to decline by the same amount in 2012 before stabilizing in 2013. Existing home sales in the State are estimated to have declined by 8.0 percent in 2011, but are expected to increase by 2.4 percent in 2012.

Revenue

State Fiscal Year 2011-12

The SFY 2012-13 Executive Budget projects that total All Funds receipts will decrease in SFY 2011-12 by $1.0 billion, or 0.8 percent, below the amount in SFY 2010-11, to $132.3 billion. The decline was driven by the loss of federal stimulus funds, which are expected to decrease federal grants by almost 11 percent.

All Funds tax receipts are estimated to increase $3.7 billion, or 6.0 percent, to $64.5 billion. Receipts grew rapidly in the beginning of the fiscal year, primarily as a result of strong 2010 PIT settlements. As New York's economy began to slow in the summer, so did the pace of growth in the State's revenues.

Personal Income Tax

All Funds Personal Income Tax receipts in SFY 2011-12 are now forecast to increase by $2.5 billion, or 6.8 percent, over the prior year. As previously mentioned, the increase reflects the strong growth in the 2010 PIT settlements ($1.2 billion) and the large increase in current-year extensions, as well as the $500 million delay in 2009 tax refunds from the last quarter of SFY 2009-10 to the first quarter of SFY 2010-11. The Executive Budget has forecast that the PIT legislation enacted in December 2011 will increase withholding by $385 million in the current fiscal year. This is partially offset by the Executive Budget's forecast of a 31.8 percent decline in the finance, insurance, and real estate sector bonuses in the fourth quarter of the fiscal year compared to a year ago.

User Taxes and Fees

All Funds consumption tax receipts in SFY 2011-12 are forecast to increase by $513 million, or 3.6 percent, over SFY 2010-11. The increase can be attributed mainly to increases in the sales tax as well as the cigarette and tobacco taxes. Sales taxes are expected to increase by $459 million, or 4.0 percent, because of the improvement in the economy and the strength in tourism. This is partially offset by the phase-in of the return of the sales tax exemption for clothing and footwear (for items that cost less than $55 rather than $110). Cigarette taxes are forecast to increase by $49 million, or 3.0 percent.

Business Taxes

All Funds business tax receipts are forecast to increase from the prior year by $642 million, or 8.8 percent, in SFY 2011-12. The increase is attributable to a rise in corporate franchise tax receipts ($385 million, or 13.5 percent), primarily from higher audit payments, the deferral of certain tax credits, the bank tax ($196 million, or 16.6 percent) attributed to the large commercial bank payments in December 2011, and an anticipated increase in March prepayments. The insurance tax is forecast to grow

$62 million, or 4.6 percent. Receipts for the corporation tax, utilities tax and the petroleum business tax are forecast to remain flat from the prior year.

Other Taxes

All Funds other tax receipts in SFY 2011-12, including the payroll tax, are forecast to increase $52 million, or 1.6 percent, over the prior year. This increase is attributable to growth in receipts from the payroll tax ($40 million, or 3.0 percent) and the real estate transfer tax ($40 million, or 6.9 percent). This is partially offset by the estate tax, which is forecast to decline by $23 million, or 1.9 percent.

Miscellaneous Receipts

All Funds miscellaneous receipts are forecast to increase by $684 million, or 3.0 percent, in SFY 2011-12, largely reflecting increased projections for programs financed with authority bonds.

Federal Grants

Federal grants are expected to decrease by almost $5.4 billion, or 10.9 percent, in SFY 2011-12, reflecting the loss of funding from temporary stimulus funds from the federal American Recovery and Reinvestment Act of 2009 (ARRA).

State Fiscal Year 2012-13

The Executive Budget estimates that total All Funds receipts will increase in SFY 2012-13 by $418 million, or 0.3 percent, over SFY 2011-12, to $132.7 billion. The increase can be attributed to an increase in All Funds tax receipts of $2.0 billion, or 3.1 percent. This reflects continued growth in the economy, partially offset by the net impact of the difference between the expired Personal Income Tax rates and the Personal Income Tax rate changes enacted in December 2011. All Funds miscellaneous receipts are expected to increase by $423 million, or 1.8 percent. The increase will be offset by the decline in federal grants of $2.0 billion, or 4.6 percent.

Personal Income Tax

For SFY 2013-14, All Funds Personal Income Tax receipts are forecast to increase over the prior year by $1.6 billion, or 4.3 percent. Overall, receipts are expected to rise, but at a slower rate than last year. The increase is attributable to the tax reform enacted in December 2011, offset by higher refunds. Withholding taxes are forecast to increase by $1.4 billion, or 4.5 percent, of which $957 million is due to the December 2011 rate restructuring, and current-year estimated payments, which are expected to increase $894 million, or 11.1 percent.

User Taxes and Fees

For SFY 2012-13, All Funds consumption tax receipts are forecast to increase by $357 million, or 2.4 percent, over the prior year. The increase is mainly due to growth in the sales tax and cigarette and tobacco taxes. Sales taxes are expected to increase by $249 million, or 2.1 percent, because of the continued improvement in the economy. This is partially offset by the return of the full sales tax exemption for clothing and footwear items that cost less than $110. Cigarette taxes are forecast to increase by $68 million, or 4.1 percent.

Business Taxes

For SFY 2012-13, All Funds business tax receipts are forecast to increase by $231 million, or 2.9 percent. All business taxes except the bank tax are forecast to increase in SFY 2012-13.

Other Taxes

For SFY 2012-13, All Funds other tax receipts are forecast to decrease by $234 million, or 7.2 percent. The decrease is due to the December 2011 changes in the payroll tax ($236 million, or 16.9 percent) and estate tax collections ($68 million, or 5.7 percent). This is expected to be partly offset by an increase in the real estate transfer tax ($70 million, or 11.3 percent).

Miscellaneous Receipts

All Funds miscellaneous receipts are forecast to increase by $423 million, or 1.8 percent, in SFY 2012-13, largely reflecting increased projections for programs financed with authority bonds.

Federal Grants

For SFY 2011-12, All Funds federal grants are forecast to decline $2.0 billion, or 4.6 percent, reflecting the continued loss in ARRA stimulus funds.

New Revenue Actions

The Executive Budget contains no new tax or fee proposals, though a large portion of the projected deficit for SFY 2012-13 was closed with a net $1.5 billion from the tax code changes enacted in December 2011. These changes increased the number of Personal Income Tax brackets and the top tax rate for incomes above $2.0 million to 8.92 percent from 6.85 percent.

The Executive Budget does, however, include proposed tax enforcement and what DOB classifies as loophole-closing initiatives, partially offset by expanded tax credits and exemptions as well as tax-cut extenders. Overall, these actions are expected to increase All Funds revenue by $27.4 million in SFY 2012-13.

Loophole Closings

The Executive Budget projects the receipt of $18 million in SFY 2012-13 ($24 million when fully effective) from a proposal to replace the current cigar tax with a new two-tier tax and to change the tax rate on loose tobacco.

Tax Enforcement Actions

The Executive Budget projects the receipt of $6.0 million in SFY 2012-13 ($9.0 million when fully effective) from the following tax enforcement actions:

- Require that banks remit the full amount of a fee for processing levies. This will reduce the amount of past taxes paid to the State ($5.0 million in SFY 2012-13; $7.0 million when fully effective).
- Require that new sales tax vendors may not register until all prior tax liabilities are paid ($1.0 million in SFY 2012-13; $1.0 million when fully effective).
- Eliminate the STAR benefit for taxpayers who have outstanding tax liabilities ($0 in SFY 2012-13; $1.0 million when fully effective).

Other Revenue Actions

The Executive Budget projects the receipt of $5.2 million in SFY 2012-13 ($20.2 million when fully effective) from the following two additional revenue proposals:

- Make permanent the tax modernization provisions enacted last year ($5.0 million in SFY 2012-13 and $20 million annually thereafter).
- Collect unused pari-mutuel vouchers not presented for payment into the State's account ($200,000).

Lengthening License Terms

The Executive Budget projects the receipt of $1.8 million in SFY 2012-13 ($6.8 million when fully effective) from the following two proposals:

- Extend security guard license terms from two years to four years, and increase the fee from $36 to $72 ($1.8 million in SFY 2012-13; $1.8 million when fully effective).
- Extend license terms for real estate brokers and salespersons from two years to four years, and increase the fee from $150 to $300 for real estate salespersons and from $50 to $100 for real estate brokers ($0 in SFY 2012-13; $5.0 million when fully implemented).

Expand Tax Credits and Exemptions

The Executive Budget projects a reduction in receipts of $2.0 million in SFY 2012-13 from the following three proposals:

- Expand of the sales tax exemption for solar equipment purchases ($2.0 million in SFY 2012-13; $3.0 million when fully effective).
- Expand the residential solar equipment tax credit to leases ($0 in SFY 2012-13; $2.0 million through SFY 2015-16).
- Increase the low-income housing tax credit program an additional $8.0 million (for a total of $40 million) in SFY 2012-13 with an additional $8.0 million per year (for a total of $72 million) in SFY 2017-18 ($8.0 million in SFY 2012-13; $40 million increase when fully implemented).

Tax-Cut Extenders

The Executive Budget projects a reduction in receipts of $1.6 million in SFY 2012-13 from the following two proposals:

- Extend the television commercial production credit for five years ($0 in SFY 2012-13; $7.0 million when fully effective).
- Extend the alternative fuels tax exemption for five years ($1.6 million in SFY 2012-13; $3.2 million annually though SFY 2016-17 and $1.5 million in SFY 2017-18).
- Extend Biofuel Production Tax Credit through 2019 ($0 in SFY 2012-13; $10 million SFY 2014-15 through SFY 2019-20).
- Make permanent the non-custodial Earned Income Tax Credit ($4.0 million annually beginning in SFY 2014-15).

Total Receipts
(in millions of dollars)

Category	Actual SFY 2010-11	Projected SFY 2011-12	Dollar Change	Percent Change	Proposed SFY 2012-13	Dollar Change	Percent Change
General Fund	**54,447**	**57,214**	**2,767**	**5.1%**	**58,715**	**1,501**	**2.6%**
Taxes	39,205	41,920	**2,715**	6.9%	43,373	**1,453**	3.5%
Personal Income Tax	23,894	25,705	**1,811**	7.6%	26,911	**1,206**	4.7%
Consumption and Use Taxes	8,795	9,135	**340**	3.9%	9,341	**206**	2.3%
Business Taxes	5,279	5,868	**589**	11.2%	5,977	**109**	1.9%
Other Taxes	1,237	1,212	**(25)**	-2.0%	1,144	**(68)**	-5.6%
Miscellaneous Receipts	3,095	3,244	**149**	4.8%	3,069	**(175)**	-5.4%
Federal Grants	54	60	**6**	11.1%	60	**-**	0.0%
Transfers From Other Funds	12,093	11,990	**(103)**	-0.9%	12,213	**223**	1.9%
All Funds	**133,321**	**132,306**	**(1,015)**	**-0.8%**	**132,724**	**418**	**0.3%**
Taxes	60,870	64,532	**3,662**	6.0%	66,533	**2,001**	3.1%
Personal Income Tax	36,209	38,664	**2,455**	6.8%	40,311	**1,647**	4.3%
Consumption and Use Taxes	14,206	14,719	**513**	3.6%	15,076	**357**	2.4%
Business Taxes	7,279	7,921	**642**	8.8%	8,152	**231**	2.9%
Other Taxes	3,176	3,228	**52**	1.6%	2,994	**(234)**	-7.2%
Miscellaneous Receipts	23,148	23,832	**684**	3.0%	24,255	**423**	1.8%
Federal Grants	49,303	43,942	**(5,361)**	-10.9%	41,936	**(2,006)**	-4.6%

Source: Division of the Budget

Program Area Highlights

Education

The SFY 2012-13 Executive Budget increases school aid from $19.5 billion to $20.3 billion in school year (SY) 2012-13, an increase of $805 million, or 4.1 percent. On a State fiscal year (SFY) basis, projected school aid spending would total $20 billion, an increase of $325 million over SFY 2011-12 in State Operating Funds. The Executive Budget continues a practice started in the SFY 2011-12 Enacted Budget of including a two-year appropriation for school aid, which would allow school districts to anticipate an increase of $711 million, or 3.5 percent for SY 2013-14. The increase is indexed to projected growth in personal income.

Although the $805 million increase in State aid mirrors the commitment made in the SFY 2011-12 Enacted Budget, the allocation of this money may differ from what was anticipated. The Legislature, in passing that budget, indicated that the SY 2012-13 increase would be used primarily for growth in expense-driven aids and either increasing Foundation Aid or reducing the Gap Elimination Adjustment (GEA). In addition, $50 million dollars was allocated for competitive performance and efficiency grants. However, the SFY 2012-13 Executive Budget proposal would distribute the $805 million increase as follows:

- $265 million to fund growth in expense-driven aids,
- $290 million to restore a portion of the GEA, using a formula that drives the restoration to the neediest districts, and
- $250 million for competitive grants, reflecting an increase of $200 million from the anticipated level.

The Executive's efforts to target the GEA restoration to the neediest districts may be offset by the effects of the $250 million in competitive grants, for which poorer districts may lack the staff to effectively compete. In addition, given that the State Education Department is not yet ready to award the $50 million in grants initially provided in SFY 2011-12 for SFY 2012-13, it is possible that little of the $250 million may actually be awarded in time to be spent in the upcoming school year. Therefore, the actual funding increase for school districts in SY 2012-13 may be closer to $555 million rather than $805 million, or 2.9 percent as compared to 4.1 percent. Excluding building aids, proposed growth in school aid distribution to school districts would range from -8.4 percent to 30.2 percent, with a statewide increase of 2.8 percent.

Notably, the Executive's proposal links districts' funding increases to their implementation of teacher evaluation systems by January 2013. In addition, the Executive has indicated that districts that implement evaluation plans by September 2012 will benefit in the scoring system for the competitive grant awards. This is meant to help ensure that the State does not lose $700 million in federal Race to the Top grant funds that are also tied to teacher evaluations.

The Executive Budget also contains two major program reforms intended to reassign fiscal responsibility to school districts. Neither change is associated with any savings to the State in SFY 2012-13.

First, the Executive Budget recommends shifting the growth in certain costs from the State and counties to school districts. Currently, school districts bear none of the costs of preschool special education referrals, which are covered by the State (59.5 percent) and the county (40.5 percent). The Executive Budget proposes to split the cost of any increases in preschool special education costs evenly between the State, the county and the involved school district. This would likely have no cash flow impact in SFY 2012-13, since the State's payments are made on a reimbursement basis. However, if enacted, this change in fiscal responsibility could reduce future growth in the State's share of the cost of preschool special education. To prevent conflicts of interest, the Executive would also prohibit those who evaluate children for these services from providing the services, and would require justification for choosing distant providers when local providers are available.

Second, the Executive proposes to divide the cost of Teacher Disciplinary Hearings between the schools and the employees' bargaining units (or the employee, if not represented). Presently, the cost is borne by the State. Currently, the Teacher Disciplinary Hearing process can significantly exceed the statutory limit of 155 days. The Financial Plan shows no savings for this cost shift because the program has been underfunded, and paid on a lag basis, for a number of years.

Other elements in the Budget include centralizing bus purchases via a single State contract; maintaining the existing "Contracts for Excellence" programs in 23 districts at SFY 2011-12 funding levels; an additional $99.3 million for Schools for the Blind and Deaf which were changed from prospective to reimbursed aids last year; and a proposal to cut Teacher Centers ($20 million).

New York State School Tax Relief (STAR) Program

STAR property tax relief is projected to total $3.3 billion in SFY 2012-13, consistent with the SFY 2011-12 funding level.

Higher Education

The Executive Budget proposal maintains General Fund operating support for the State University of New York (SUNY) and the City University of New York (CUNY) at the prior year levels. Overall, on an academic year basis, General Fund operating support for SUNY and CUNY is proposed to total $2.169 billion, including $968 million for SUNY's Operating Budget, $523 million for CUNY's Operating Budget, $618 million for SUNY and CUNY Community Colleges, and $60 million for the General Fund subsidy for SUNY's teaching hospitals.

The Executive Budget includes $113.2 million in additional spending authority for SUNY and $66.6 million for CUNY to accommodate previously authorized tuition increases.

Community College Base Operating Aid is maintained at $2,122 per full-time equivalent (FTE) student, which is unchanged from SFY 2011-12 levels.

The Executive Budget also includes $1.963 billion in spending for capital projects in SFY 2012-13 including $1.458 billion for SUNY and $505 million for CUNY.

Capital funding of $30 million for a new round of SUNY 2020 Challenge Grants is proposed. An additional $30 million would also be provided by SUNY. The University's 60 non-university centers will be eligible to apply for three $20 million challenge grants. This is in addition to $80 million that was previously authorized for SUNY's university centers at Albany, Binghamton, Buffalo and Stony Brook. Accompanying this proposal is Article VII legislation to increase the bonding authorization for the NY-SUNY 2020 Challenge Grant program by $30 million.

The Executive Budget also includes a proposal to increase the bond cap for SUNY Educational Facilities by $215 million to pay for a previously committed project to relocate the School of Medicine and Biomedical Sciences to the Buffalo Niagara Campus. The debt service on these bonds will be paid by the University of Buffalo. The bond cap for SUNY Upstate community colleges is also proposed to be increased by $87 million. This is related to a proposal by the Executive to give $113 million for SUNY and CUNY community colleges in the Five Year Capital Plan for projects that have been approved by local sponsors. According to the Executive, there is sufficient room within the CUNY Educational Facilities bond cap to accommodate this proposal.

The Executive Budget proposal includes General Fund support of $962 million for the Higher Education Services Corporation (HESC) in SFY 2012-13. No programmatic changes are proposed for the Tuition Assistance Program (TAP) or the Scholarship programs.

The Executive Budget also includes a proposal to extend the Higher Education Capital Matching Grant Program for one additional year, until March 31, 2013. The timeframe for the reallocation of unexpended funds is also extended.

Finally, the Executive Budget includes a proposal which would exempt State agreements with Cornell University for services, technical assistance and grant awards related to the University's land grant mission from all provisions of the State Finance Law.

Health/Medicaid

The Executive Budget proposes to increase State-funded Medicaid spending by $650.4 million, or 3.1 percent, to $21.8 billion in SFY 2012-13. Department of Health (DOH) State Medicaid spending, which is capped under current law and excludes State payments for services provided at the Office of Mental Health (OMH), the Office for People with Developmental Disabilities (OPWDD) and the Office of Alcoholism and Substance Abuse Services (OASAS) facilities or not appropriated within DOH, would increase by $585.1 million, or 3.8 percent, to $15.9 billion in SFY 2012-13. This level of funding is consistent with budget provisions enacted in SFY 2011-12, which limit the annual growth rate of DOH State Medicaid spending to the 10-year rolling average of the medical component of the U.S. consumer price index, or about 4.0 percent, starting in April 2012.

The Executive Budget proposes to increase All Governmental Funds Medicaid spending, reflecting the State and federal shares of Medicaid, by $444.3 million, or 1.0 percent, to $46.0 billion in SFY 2012-13. Overall Medicaid spending in New York, including approximately $8.0 billion in local government expenditures, is projected to total $54 billion in SFY 2012-13, a decrease of $136 million, or 0.3 percent, from SFY 2011-12. By SFY 2015-16, the Executive Budget estimates overall Medicaid spending will reach $66 billion.

Total Medicaid Spending
(in millions of dollars)

	2011-12	2012-13	2013-14	2014-15	2015-16
Department of Health	15,327	15,912	16,569	17,104	17,951
Mental Hygiene	5,692	5,744	6,137	6,440	6,802
Foster Care	111	113	118	122	127
Corrections	0	11	11	11	12
State Share Total	**21,130**	**21,780**	**22,835**	**23,677**	**24,892**
Federal Share	24,424	24,219	26,123	30,091	32,596
Local Share	8,621	8,040	8,477	8,486	8,481
Total Medicaid Spending	**54,175**	**54,039**	**57,435**	**62,254**	**65,969**

Source: Division of the Budget

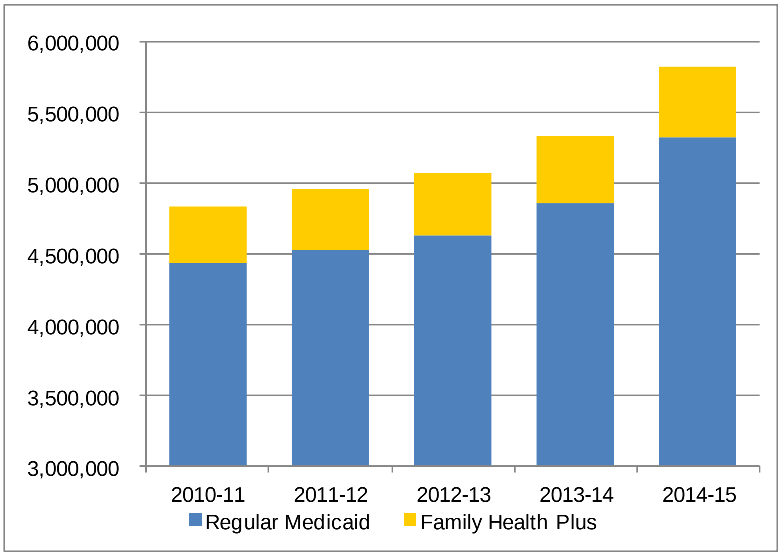
The SFY 2011-12 Enacted Budget required that if State DOH Medicaid expenditures were projected to exceed the spending cap in either SFY 2011-12 or SFY 2012-13, the State Health Commissioner would develop a plan to bring such spending back under the cap. Through November 2011, State DOH Medicaid spending was $4.4 million, or less than one percent, below the SFY 2011-12 spending cap.

For SFY 2013-14 and each succeeding State fiscal year, the Executive Budget proposes to amend the 4.0 percent Medicaid spending cap to accommodate increased State costs related to taking over the growth in local Medicaid expenditures. Under current law, local Medicaid spending growth is capped at 3.0 percent. Under the Executive Budget proposal, local spending growth would be capped at 2.0 percent in SFY 2013-14, 1.0 percent in SFY 2014-15 and eliminated altogether in SFY 2015-16, yielding local savings (and, conversely, additional State costs) of $61.1 million, $187 million and $369.6 million, respectively.

Including the first-year costs of taking over local Medicaid growth, State DOH Medicaid spending would increase $657.6 million, or 4.1 percent, to $16.6 billion in SFY 2013-14. There is no State cost associated with taking over local Medicaid growth in SFY 2012-13. The Executive Budget also proposes to extend the Health Commissioner's authority to limit State DOH Medicaid spending to the cap through March 2014.

The Executive Budget projects Medicaid enrollment to reach 5.1 million recipients in SFY 2012-13, an increase of about 120,000 individuals, or 2.4 percent, over SFY 2011-12. The Executive Budget projects average annual enrollment to exceed 5.8 million Medicaid recipients in SFY 2014-15.

Average Annual Medicaid Enrollment by State Fiscal Year



Source: Division of the Budget.
Note: Family Health Plus is a Medicaid expansion program for adults whose income is too high for regular Medicaid. Unlike regular Medicaid, Family Health Plus does not cover long-term care services.

These enrollment projections are lower than the Executive's Medicaid enrollment estimates published in May 2011 in the SFY 2011-12 Enacted Budget Financial Plan. While DOB continues to project enrollment growth, it is at a slower rate than originally projected in SFY 2011-12. Out-year enrollment growth is expected to result, in part, from Medicaid expansion provisions of federal health reform.

Medicaid Enrollment Growth Projection Changes
May 2011 Compared to January 2012

	SFY 2011-12 Enacted Budget	SFY 2012-13 Executive Budget	Percentage Change
2011-12	5,080,233	4,962,529	-2.3%
2012-13	5,367,808	5,081,860	-5.3%
2013-14	5,681,361	5,336,209	-6.1%
2014-15	6,017,233	5,830,476	-3.1%

Source: Division of the Budget

In addition to the Executive's proposed takeover of growth in the local share of New York Medicaid costs, the Executive proposes a phased-in takeover of local government Medicaid administration expenses. The proposal to take over local Medicaid administration responsibilities would cap State reimbursement of local costs at SFY

2011-12 appropriation levels, or approximately $574 million, and allow for further reductions in the cap as the State takeover proceeds. All county employees performing Medicaid administration functions would be eligible to transfer to appropriate DOH positions without being subject to competitive examination. State takeover would be complete by April 2018 and achieve net State savings of $3.5 million in SFY 2012-13, growing to $50.5 million in SFY 2015-16. The Executive considers the takeover necessary to ensure compliance with federal health reform requirements related to expanding Medicaid eligibility and establishing a State health insurance exchange.

The Executive Budget proposes to reduce funding for the Office of the Medicaid Inspector General (OMIG) by $2.8 million, or 4.0 percent, to $66.2 million in SFY 2012-13. The Executive Budget also recommends reducing the OMIG's workforce by 52 full-time equivalent (FTE) positions to 506 FTEs in SFY 2012-13, but expects the Office to achieve $1.1 billion annually in State share Medicaid recoveries through SFY 2015-16.

Receipts and spending in Health Care Reform Act (HCRA) Funds, which finance a significant portion of State health care programs, remain in balance through SFY 2015-16 under the Executive Budget proposal. Receipts are projected to rise by $670 million, or 12.5 percent, to $6.0 billion in SFY 2012-13, primarily through the accrual of proceeds from the conversion of HIP and GHI to for-profit insurers and surcharges for birth-related neurologically impairments. However, the conversion proceeds have been anticipated in previous Financial Plans, but have proven difficult to achieve.

Disbursements of $6.0 billion for various HCRA programs reflect a $511 million, or 9.3 percent, increase over SFY 2011-12. This increase comes primarily from off-loading additional General Fund Medicaid spending to HCRA, which would rise by $417 million, or 12.4 percent, to nearly $3.8 billion in SFY 2012-13.

HCRA General Fund Off-Loads

(in millions of dollars)

	2011-12	2012-13	2013-14	2014-15	2015-16
Medicaid	3,358	3,775	3,953	4,127	4,093
Public Health	120	120	120	120	120
Elderly Pharmaceutical Insurance Coverage (EPIC)	110	128	135	146	158
Roswell Park Cancer Institute	78	78	78	78	78
Total Off-Loads	**3,666**	**4,101**	**4,286**	**4,471**	**4,449**
As a Share of Total HCRA Spending	66.4%	68.0%	69.3%	71.2%	71.1%
Total HCRA Spending	**5,518**	**6,029**	**6,185**	**6,282**	**6,260**

Source: Division of the Budget

The Executive Budget proposal includes legislation to establish a State health insurance exchange, in accordance with federal health reform. The exchange would serve as a central marketplace where individuals and small groups could buy health insurance and receive eligibility and subsidy determinations. The Assembly passed similar legislation in 2011; the Senate did not.

The Executive Budget reduces All Funds spending on public health programs, such as tobacco control, early intervention services for children under three with disabilities or developmental delays, and local health departments, by $123 million, or 2.8 percent, to $4.3 billion in SFY 2012-13. All Funds expenditures on programs for elderly New Yorkers administered by the State Office for the Aging, including in-home services and nutrition assistance, would increase by $1.3 million, or 0.6 percent, to nearly $217 million in SFY 2012-13.

In addition, the Executive Budget proposes to bypass procurement review by the Office of the State Comptroller and the competitive bidding process on several major health-related contracts, including hiring a fiscal agent for the Early Intervention program, establishing a new supportive housing development reinvestment program for vulnerable populations, facilitated enrollment activities for aged, blind and disabled persons who may be eligible for the Medicaid program, and Medicaid administration services.

Mental Hygiene

The SFY 2012-13 Executive Budget proposes to increase State-funded mental hygiene spending by $90 million, or 1.2 percent, to approximately $7.7 billion in SFY 2012-13. All Funds spending, including federal funds and capital projects, is proposed to total $8.2 billion in SFY 2012-13, an increase of $84.7 million, or 1.0 percent, over SFY 2011-12. This funding supports the operations of five State agencies, including:

- $4.3 billion, or a 0.9 percent increase, for the Office for People With Developmental Disabilities (OPWDD);
- $3.2 billion, or a 1.2 percent increase, for the Office of Mental Health (OMH);
- $593.4 million, or a 1.0 percent increase, for the Office of Alcoholism and Substance Abuse Services (OASAS);
- $16.2 million, or a 7.8 percent increase, for the Commission on Quality of Care and Advocacy for Persons with Disabilities (CQCAPD); and,
- $4.2 million, or no increase, for the Developmental Disabilities Planning Council (DDPC).

The Executive Budget proposes significant reforms of OPWDD's service delivery system that are expected to achieve net savings of $45 million in SFY 2012-13 and intended to improve health and safety protections for individuals with developmental disabilities. Reforms include imposing fines on and revoking the operating certificates of underperforming non-profit service providers, continuing to move individuals from State developmental centers to community settings, increasing hiring and training standards, and providing stricter oversight of patient abuse incidents.

The increase in CQCAPD funding supports the hiring of five additional investigators to improve the State's response to allegations and incidents of abuse.

The Executive Budget also proposes to close the Kingsboro Psychiatric Center in Brooklyn, which houses approximately 260 adults with serious and persistent mental illness. However, the Executive proposes to reinvest savings from the closure in community services in Brooklyn and in inpatient capacity at South Beach Psychiatric Center in Staten Island, which currently houses approximately 300 adults.

In addition, the Executive Budget proposes to permanently reduce notice requirements for closing, consolidating or merging State psychiatric centers from one year to 60 days. A variation of this provision was enacted in last year's budget for SFY 2011-12. With respect to decreasing inpatient capacity by closing wards or converting beds to transitional placements, the Executive Budget would reduce notice requirements from one year to 30 days.

The Executive Budget includes $102 million in savings by eliminating automatic cost-of-living adjustments and trend factor increases for all non-profit mental hygiene providers in SFY 2012-13. The Executive proposes a new program to base future increases on appropriate provider costs and performance outcomes starting in SFY 2013-14.

In addition, as part of a broader proposal directed at State funds received by not-for-profit organizations, budget language would require non-profit mental hygiene providers to spend at least 75 percent of State payments for operating expenses on direct care services and limit State reimbursement for executive compensation to $199,000 a year.

Human Services

The Executive Budget proposes $3.6 billion in State funding for human services programs provided by the Office of Temporary and Disability Assistance (OTDA) and the Office for Children and Family Services (OCFS), which is a $134.5 million, or 3.9 percent, increase over SFY 2011-12. All Funds spending, including federal funds, capital projects and general State charges, is proposed to total $8.3 billion in SFY 2012-13, which is $126.0 million, or 1.5 percent, lower than in SFY 2011-12.

The increase in State funding largely reflects a $93 million increase in General Fund support for child care subsidies, to offset a reduction in federal funding through the Temporary Assistance for Needy Families (TANF) program. The Executive Budget also proposes OTDA administration of the State's participation in the federal supplemental security income (SSI) benefit for low-income people who are aged, blind or disabled. State administrative takeover of this benefit, which is currently run by the federal government at a State cost of $92 million, requires $11 million in new State spending in SFY 2012-13 for information technology systems and personnel, but is projected to save the State about $90 million annually after full implementation in SFY 2014-15.

In addition, the Executive Budget proposes new spending of $10 million to establish a centralized hotline within OTDA to report allegations of abuse and neglect of vulnerable persons, as well as $3.0 million to implement the "Close to Home" juvenile justice reform initiative to place youth from New York City within New York City-based facilities. In conjunction with this initiative, the Executive Budget proposes to close 324 beds within the OCFS juvenile justice system and reduce notice requirements for potential service reductions from 12 months to 60 days for up to one year after the initiative's effective date.

The Executive Budget proposes to eliminate $37 million in cost-of-living adjustments and trend factor increases for various OCFS programs including foster care and adoption, $35 million in State funding for local child support administration, $15 million in New York City homelessness and eviction prevention funding, and $6.0 million by reducing the planned July 2012 increase in non-shelter public assistance grants from 10.0 to 5.0 percent.

The Executive Budget projects public assistance caseloads to decrease by about 12,500, or 2.2 percent, to 553,029 recipients in SFY 2012-13 and to continue to decrease by similar annual percentages through SFY 2014-15, as economic conditions improve.

Economic Development

The Executive Budget proposes establishing the New York Works infrastructure investment (NY Works) initiative to build or improve the State's critical infrastructure assets, including bridges, highways, parks, energy systems and other infrastructure components. According to the SFY 2012-13 Executive Budget Briefing Book, the Executive proposes to establish the New York Works Task Force, which will develop a master plan for the infrastructure investments, and the New York Works Economic Development Fund, which will provide grants to projects aimed at creating or retaining jobs. More details on implementation are expected to be forthcoming.

The proposed $15 billion NY Works initiative includes new appropriations for economic development projects totaling $280 million, including additional funding for a second round of competitive awards through the Regional Economic Development Councils established in 2011. The Regional Economic Development Councils were proposed in the SFY 2011-12 Executive Budget and were implemented over the course of the fiscal year. The councils were established to coordinate and distribute economic development resources from State agencies and authorities. This second round of funding through the councils includes $130 million in new capital resources from NY Works and $70 million in tax credits from the Excelsior Jobs Program. In addition, as mentioned previously, according to the Executive's Briefing Book, the NY Works Economic Development Fund would be established with $75 million in capital funding.

The Executive also proposes to establish, as part of the previously announced $1.0 billion economic development package for the City of Buffalo, the Buffalo Regional Innovation Cluster which includes, NY Works funding of $75 million and $25 million in Excelsior Jobs Program tax credits for each of the next two State fiscal years.

The Executive Budget proposes granting permanent general loan powers to the New York State Urban Development Corporation (UDC). This modification is proposed each year, however, the Legislature has only provided annual extensions that sunset at the end of each fiscal year. The new proposal seeks to also grant permanent general grant-making powers to UDC. Currently, UDC has the ability to make grants only when they are tied to specific, statutory programs. There is no programmatic legislation establishing and defining certain recent economic development programs. While economic development programs are important, so are transparency and accountability of these and other major spending programs.

The Executive Budget expands the Linked Deposit Program, which provides loans to New York State businesses for various eligible projects such as facility modernization and expansion or new product development. Modifications to the program would authorize loans at three percentage points below the interest rate that would have otherwise applied to the loan for eligible projects of agricultural businesses. Currently, these types of businesses are only eligible for a two percentage point reduction in rates.

In August 2011, the Executive signed legislation establishing the NY-SUNY 2020 Challenge Grant Program, which committed $80 million in capital funding for projects at the four University Centers at Albany, Binghamton, Buffalo and Stony Brook to promote regional economic development at or near the SUNY campuses. The Executive Budget includes appropriations for these previously committed funds as well as an additional $30 million for projects at the other SUNY colleges.

In addition, the proposal includes $250 million in capital funding appropriations for the SUNY College of Nanoscale Science and Engineering in Albany. The funds are part of the $400 million committed by the Executive in September 2011 as part of a plan to leverage private investment in computer chip technology and manufacturing in the Capital District region.

The Executive Budget also proposes $117.6 million to support Minority and Women-Owned Business development initiatives, various ongoing economic development programs (administered by the Department of Economic Development or UDC) tourism and marketing programs, and technology, and research and development initiatives.

Lottery and Gambling

The SFY 2012-13 Executive Budget proposes merging the Division of Lottery with the Racing and Wagering Board, creating a new entity, the New York State Gaming Commission. This new commission would comprise five divisions: lottery, charitable gaming, gaming, horse racing and pari-mutuel wagering and law enforcement. In addition, the Executive Budget proposes creating, within the new commission, an Office of Racing Promotion and Development to administer the State's breeding and development fund corporations.

It is unclear how the consolidation of the three development funds into the new Office of Racing Promotion and Development would impact the existing board structure, executive management and staff of the fund corporations.

The Executive Budget also proposes requiring uncashed pari-mutuel vouchers to be presented for payment before April 1 of the year following the year of their purchase. The proceeds from vouchers not presented during this time period, estimated at $200,000 annually, would be paid to the Racing Regulation Account.

On January 20, 2012, the Executive released Governor Program Bill 26, proposing a constitutional amendment which would provide broad authorization for casino gambling in New York State.

Transportation

The SFY 2012-13 Executive Budget proposes funding the Consolidated Local Street and Highway Improvement Program (CHIPs) and Marchiselli Aid at the same levels as in SFY 2011-12, $363.1 million and $39.7 million, respectively. The bond cap associated with these local highway aid programs is proposed to be raised by $411 million, from $6.695 billion to $7.106 billion. SFY 2011-12 saw a similar incremental increase of $408 million.

Capital Projects

The Executive Budget proposes a $1.16 billion transportation capital funding “enhancement” related to the Executive’s New York Works infrastructure initiative. Federal aid accounts for $917 million, or 79 percent, of the transportation amount. This reflects increased spending of federal capital funds in the near term. An additional $232 million is redirected from the Dedicated Highway and Bridge Trust Fund. The final $15 million is expected to come from bonds issued for work on the approach to the Peace Bridge, which joins Buffalo with Fort Erie, Ontario.

The entire Department of Transportation (DOT) capital program is projected to total $3.449 billion in SFY 2012-13. The overall letting level – the amount actually anticipated to be spent - for the DOT would increase by $946 million to $2.753 billion in SFY 2012-13. This is a 52 percent increase over SFY 2011-12 and is due almost entirely to the New York Works program.

Dedicated Highway and Bridge Trust Fund

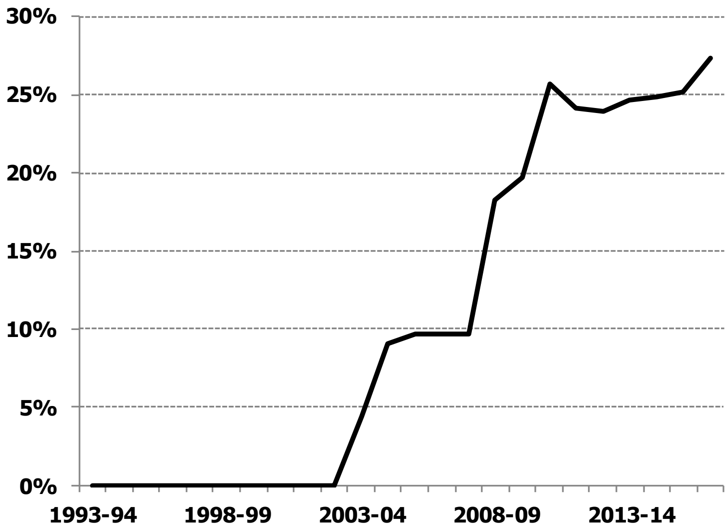
The Dedicated Highway and Bridge Trust Fund (DHBTF), enacted in 1991, was intended to be the primary funding source for the construction and rehabilitation of State-owned roads and bridges. Initially, it was anticipated that the Fund would rely primarily on pay-as-you-go financing to support its capital programs and purposes, using revenue from highway taxes, motor vehicle taxes and fees, petroleum business taxes and a number of smaller resources. Despite this intention, a growing portion of the DHBTF has been diverted to pay for State operating costs, as well as debt service.

This year, the Executive Budget proposes an additional use for the DHBTF. As part of the Executive’s New York Works initiative, the proposed budget includes an allocation of $232 million from the DHBTF to be used as “seed money” to attract private investment in the State’s infrastructure.

The Executive Budget increases the General Fund subsidy for the DHBTF to $543 million in SFY 2012-13. This represents a $90.3 million increase over SFY 2011-12, but a $50.4 million reduction in the estimated amount for SFY 2012-13 when compared with the amount projected in the SFY 2011-12 Enacted Budget Financial Plan. These adjustments indicate a modest projected reduction in General Fund subsidies between SFY 2012-13 and SFY 2015-16, but an increase in the subsidy in SFY 2016-17. The total amount of General Fund transfers for the period from SFY 2012-13 through SFY 2016-17 is now expected to be $3.1 billion.

Overall, the DHBTF has become increasingly reliant on transfers, both from the General Fund and from the Federal Capital Fund. As the following chart shows, the percentage of the fund revenues that comprises transfers from other funds has grown steadily over the years. This trend shows no sign of slowing.

Dedicated Highway and Bridge Trust Fund
Transfers as a Percentage of All Funds Revenues

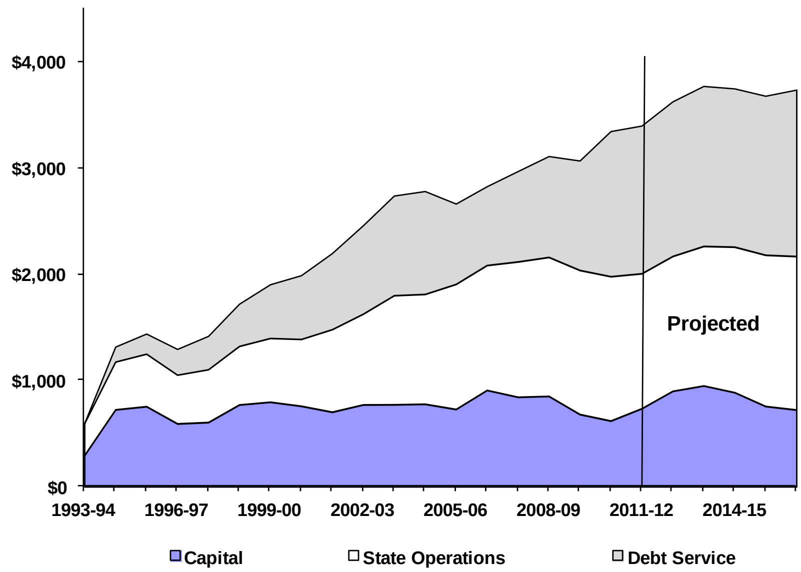


Source: Division of the Budget

Total debt service disbursements from the DHBTF for SFY 2012-13 will be $1.455 billion, or 40.2 percent of all DHBTF disbursements. Debt service therefore remains the largest component of DHBTF disbursements. This is partially due to the fact that the DHBTF is also used to pay for debt service on CHIPS and Marchiselli Aid bonds issued by the New York State Thruway Authority, and the debt cap for those programs is proposed to increase. Capital disbursements for SFY 2012-13 are projected to total $898.4 million, which accounts for 24.8 percent of total DHBTF spending while State Operations will account for $1.27 billion, or 35 percent of disbursements.

The following chart shows that a short-term jump in capital spending will soon be followed by a quick decline. Furthermore, debt service and State Operations are projected to continue to consume the majority of DHBTF resources in the years ahead.

Dedicated Highway and Bridge Trust Fund Disbursements
(in millions)



Sources: Actual Results (SFY 1993-94 to SFY 2010-11) - Office of the State Comptroller
Projected Results (SFY 2011-12 to SFY 2016-17) - Division of the Budget

Mass Transit

Total proposed mass transit aid is $4.4 billion, including nearly $4.0 billion for the MTA. This represents an increase of $220 million, including $190 million for the MTA. The Executive Budget includes $250 million in General Fund support for the MTA to offset the revenue lost by the partial repeal of the MTA's dedicated regional payroll tax in December.

Housing

The Executive Budget proposes to reduce Division of Housing and Community Renewal (DHCR) spending by $167.2 million, to $242.8 million, from SFY 2011-12. A significant portion of this decrease in spending is due to the final expenditure of energy efficiency funding – totaling $157.9 million in SFY 2011-12 – made available through the federal American Recovery and Reinvestment Act (ARRA). The Executive Budget includes reductions in appropriations for the Federal Small Cities Community Development Block Grant of $18 million and proposes to eliminate appropriations for the Neighborhood and Rural Preservation programs for a savings of $12 million.

The Executive Budget proposes to increase appropriations to the rural rental assistance program by $4.8 million. The Executive Budget appropriates $4.8 million to create a Tenant Protection Unit in the DHCR's Office of Rent Administration. The Unit will enforce landlord obligations under New York's rent control laws. The Executive Budget also proposes to create a Foreclosure Relief Unit within the Department of Financial Services to provide counseling and mediation services to assist parties at risk of foreclosure. The Executive Budget proposes to increase the tax credit available to developers of low income housing by $8.0 million to $40 million in SFY 2012-13 and an additional $8.0 million in the four following State fiscal years for a total of $72 million.

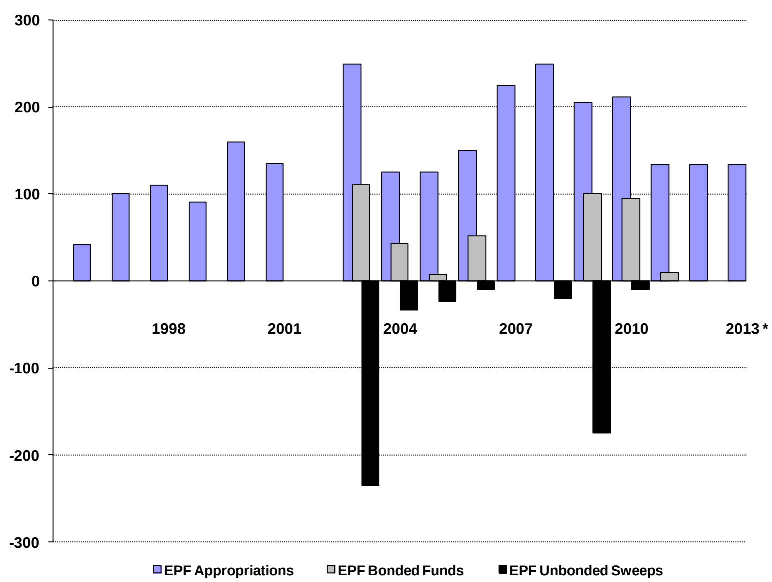
Environment and Parks

Department of Environmental Conservation

The Executive Budget proposes to decrease All Funds spending for the Department of Environmental Conservation (DEC) by $167.8 million to $872.9 million from SFY 2011-12. The decrease in spending is largely attributable to the completion of spending of federal ARRA funds in SFY 2011-12. The Executive Budget proposes an appropriation of $101.7 million in new capital spending associated with the New York Works capital infrastructure program. The Environmental Protection Fund (EPF) is proposed to be funded at $134 million, the same level as in SFY 2011-12.

Beginning in the SFY 2002-03 Enacted Budget, a portion of EPF fund balances have been swept to the General Fund for budget relief. In addition, EPF funds have been swept to the General Fund and replaced with public authority debt, creating a long-term cost where one had previously not been anticipated. These practices continued through SFY 2010-11. The SFY 2012-13 Executive Budget proposal for the EPF contains no General Fund sweeps or new authorizations to bond for EPF projects.

EPF Appropriations, Sweeps and Authorized Bonds
(in millions)



Note: There were no EPF appropriations in SFY 2001-02; two appropriations were made in SFY 2002-03.
* Appropriation level proposed in SFY 2012-13 Executive Budget.

Federal support for New York State's fish and wildlife conservation program was jeopardized by the broad authority to sweep funds included in the SFY 2011-12 Budget. The U.S. Fish and Wildlife Service threatened to declare New York State ineligible to participate in the Pittman-Robertson and Dingell-Johnson Sport Fish restoration programs. These programs distribute revenues generated by an assessment on sales of hunting and fishing equipment to participating states for eligible fish and wildlife conservation programs. The Executive Budget proposal for SFY 2012-13 modifies the sweep language to prohibit sweeps and transfers that would jeopardize federal funding. In addition, the Executive Budget appropriation bills do not include authority to transfer funds from the New York State Conservation Fund. The Budget proposal does include transfer language for other environmental funds composed of federal funding.

The Executive Budget proposes to extend the licensing periods for a number of activities permitted by the DEC. The proposal also proportionately increases the fees associated with these activities. After April 1, 2012, the DEC would no longer issue licenses for the raising of fur-bearing animals.

The Executive Budget proposes to eliminate certain advisory boards and commissions including: the State Environmental Board; the State Freshwater Wetlands Board of Appeals; and the Solid Waste Management Board. The functions of some of these boards, such as that of the State Environmental Board's role in approving regulations, would simply be eliminated. Appeals of freshwater wetlands permits will occur through the DEC's administrative review process and ultimately the State court system.

The Executive Budget proposes to transfer the Belleayre Ski Center from the DEC to the Olympic Regional Development Authority (ORDA) at the end of the 2011-2012 ski season. This proposal includes the transfer to ORDA all appropriations and staff necessary to the operation of the facility.

Environmental Facilities Corporation

The Executive Budget proposes to move funding for the Environmental Facilities Corporation (EFC) off-budget. This is accomplished in two ways. The Executive proposes to eliminate appropriations for EFC and proposes to revise the statute governing the flow of funds for administration of the Sewage Treatment Program and the Drinking Water Program to eliminate the requirement that such moneys flow through State funds and the State's Central Accounting System. These actions would reduce the transparency and accountability of these funds.

Office of Parks, Recreation and Historic Preservation

The Executive Budget proposes to increase Office of Parks, Recreation and Historic Preservation (Parks) All Funds spending by $38.5 million to $276.3 million from SFY 2011-12. The increase is largely attributable to $94.3 million in new capital spending included in the New York Works infrastructure program. Parks has identified a $1.1 billion backlog in maintenance for critical infrastructure at State Parks.

In addition, the Executive Budget proposes to shift $5.0 million in General Fund State Operations appropriations to the Patron Services Special Revenue Fund. Local assistance funds to support management of State historic sites added in the Enacted Budget for SFY 2011-12 have been eliminated, but this is not projected to result in any facility closures.

Agriculture

The SFY 2012-13 Executive Budget proposes to decrease All Funds spending by the Department of Agriculture and Markets by $14.6 million to $105.0 million from SFY 2011-12. Appropriations for Local Assistance programs would be reduced by $699,000.

The Executive Budget proposes to create a new dairy research and education program to be funded by an assessment on milk production. The assessment cannot exceed one-tenth of 1.0 percent per hundred weight of the average statistical uniform price for the northeast federal milk marketing order.

In addition, the Executive Budget proposes to eliminate the Commercial Feed Licensing Fund—a special revenue fund created to accept licensing fees from parties selling commercial animal feed in the State. Under the Executive proposal, licensing fees associated with the commercial feed license and the licensing of food processing establishments, projected to total $7.7 million, would be directed to the General Fund. In the future, these programs would be funded through the General Fund.

The Executive Budget proposes to expand New York State's linked deposit program to include agricultural operations. Under this program, agricultural operations would be eligible to receive interest rates that are 3.0 percentage points below the interest rate that would have otherwise applied to the loan.

Energy

The Executive Budget proposes to create a master plan for improving New York State's energy transmission infrastructure. The creation of the master plan would be managed by an as-yet unnamed Energy Highway Taskforce. The Taskforce would issue a request for proposals to the private sector, seeking the best ideas on improving the State's energy transmission infrastructure, and would issue a report by June 1, 2012. The Taskforce report would feed into the State energy planning process.

The Executive Budget proposes to expand or extend tax credits for solar energy equipment and alternative fuels. A tax credit for producers of alternative fuels due to expire in 2012 would be extended to 2017 at a cost of $1.5 million in SFY 2012-13 and SFY 2017-18. The projected cost associated with this tax credit is $3.0 million annually from SFY 2013-14 through SFY 2016-17. A tax credit for producers of biofuels would be extended through 2019 at a cost of $10 million per year beginning in SFY 2014-15.

A State sales tax exemption on purchases of solar energy equipment currently available to residential and industrial consumers would be extended to commercial consumers. In addition, an income tax credit currently available to purchasers of solar equipment would be extended to parties that lease this equipment. The sales tax credit is extended indefinitely, while the income tax credit would apply to income earned in tax years 2012 through 2014. The cost of these tax credits is projected to be $2.0 million in SFY 2012-13, $5.0 million in succeeding SFYs through SFY 2015-16 and $3.0 million per year thereafter.

Public Protection

The Executive Budget reduces the Department of Correctional Services All Funds spending by $71.2 million, or 2.6 percent, to $2.7 billion, reflecting, in part, savings from the closure of seven prisons in SFY 2011-12. The Division of State Police All Funds budget is reduced by $1.5 million to $722 million. The Division plans to hold two training classes in SFY 2012-13 to bring in up to 230 recruits, to maintain 4,458 officers (down 9.7 percent from 2009 peak of 4,939).

The Executive Budget proposes creating a DNA database for all defendants convicted of either a penal law misdemeanor or any felony.

The Office of Emergency Management in Homeland Security is charged with improving emergency response and preparedness. Legislation will set guidelines for how shared resources will be deployed and costs will be shared.

A third round of Statewide Interoperable Communication Grants totaling $75 million will be available to counties. As appropriated in the December session, $50 million in State funds are available for disaster relief from Hurricane Irene and Tropical Storm Lee.

Public Authorities

The Executive Budget estimates that $4.8 billion in capital projects will be financed using public authority bond proceeds in SFY 2012-13. The Executive Budget increases bonding caps for eleven State-Supported programs, and decreases the cap in one program. Two new State-Supported bonding caps are added for transportation initiatives through the Thruway Authority, including Peace Bridge plaza improvements and MTA transportation facilities.

The proposed net increase in bonding authorizations for public authorities is $2.7 billion, more than double the increase enacted in SFY 2011-12. In addition, the proposal raises the statutory limit on the amount of non-State supported bonds, notes and other obligations which the MTA, NYC Transit and the Triborough Bridge and Tunnel Authority may issue by $7.0 billion, to $41.9 billion.

SFY 2012-13 Change in State-Supported Public Authority Bond Caps
(in millions of dollars)

Program	SFY 2011-12 Cap	SFY 2012-13 Executive Proposed Cap	Executive Change from Current Cap
SUNY Educational Facilities	10,089.0	10,304.0	215.0
SUNY Upstate Community Colleges	536.0	623.0	87.0
Library Facilities	84.0	98.0	14.0
NY-SUNY 2020	80.0	110.0	30.0
Environmental Infrastructure Projects	915.7	1,118.8	203.0
Water Pollution Control	665.0	700.0	35.0
Division of Military & Naval Affairs	21.0	24.0	3.0
Courthouse Improvements	85.9	76.1	(9.8)
Prison Facilities	6,490.5	6,816.9	326.4
Housing Capital Programs	2,636.5	2,740.7	104.2
2011 and 2012 Economic Development Initiatives	180.6	715.6	535.0
Consolidated Highway Improvement Program (CHIPS)	6,695.2	7,106.0	410.9
MTA Transportation Facilities	-	770.0	770.0
Peace Bridge	-	15.0	15.0
Total	**28,479.3**	**31,218.0**	**2,738.7**

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

Note: Totals may not add up due to rounding.
This table does not reflect the Executive Budget proposal to change the MTA debt cap from a cap on annual debt service to a cap equivalent to the Authority's outstanding debt.

The Executive Budget authorizes $91.4 million in transfers and miscellaneous receipts from public authorities to provide General Fund support. In addition, the proposal anticipates a $7.0 million transfer to the Health Care Reform Act (HCRA) Resources Fund from the Dormitory of the State of New York (DASNY).

SFY 2012-13 Transfers and Miscellaneous Receipts from Public Authorities
(in millions of dollars)

Public Authority	Transfer Amount
Transfers to the General Fund:	
Housing Finance Agency	3.5
New York Power Authority	65.0
Dormitory Authority of the State of New York	22.0
New York State Energy Research Development Authority	0.9
Transfers to the Health Care Reform Act (HCRA) Resources Fund:	
Dormitory Authority of the State of New York	7.0
Total Transfers from Public Authorities	**98.4**

Source: Division of the Budget

The Executive Budget proposes to increase the maximum for State cost recovery from State public authorities from $60 million to $62 million. The additional recovery payments are directed to facilitate enhanced audit and general oversight of the State's public authorities.

The Executive proposes a blanket authorization for any public benefit corporation to make voluntary contributions to the General Fund or to any other public benefit corporation at any time as long as the transfers are approved by the corporations' governing boards. Language permitting public authorities to make voluntary contributions to the General Fund was first enacted in SFY 2011-12. (The provision enacted in SFY 2011-12 was similar in concept to the "blanket sweep" language first enacted in SFY 2007-08, which provides DOB discretion to sweep funds from any special revenue accounts to the General Fund.) However, this new proposal would grant public authorities the broad ability to transfer funds to other public authorities. This type of arrangement would decrease the transparency and accountability of the use of revenues generated by authorities by allowing these entities to circumvent the appropriations process, bypass procurement and reporting requirements, and enter into agreements with minimal oversight by State officials or the public.

The Executive Budget proposes transferring the management and operation of Belleayre Ski Center from DEC to ORDA at the close of the 2011-12 ski season. The proposal would also add an additional board member who must be a resident of Ulster or Delaware county, and provides for the transfer of all DEC employees engaged in the operation, maintenance and management of Belleayre to ORDA as deemed necessary.

The Executive Budget proposal creates a new State public authority, the New York Health Benefit Exchange. The purpose of the Exchange would be to facilitate the purchase and sale of health insurance plans in accordance with federal health care law. Provisions in the language establishing the Exchange require that the Exchange be financially self-sufficient by January 1, 2015.

The Executive Budget proposal would require Roswell Park Cancer Institute to work toward becoming operationally and financially independent from the Department of Health by March 31, 2014, and makes future funding contingent on reaching that goal. The proposal also requires the Commissioner of Health to monitor and assess the Institute's progress, and delay or withhold funds if the goals are not met.

The Executive proposes amending the enabling legislation of the Convention Center Development Corporation (CCDC), a subsidiary of the New York State Urban Development Corporation, to allow disposal of properties adjacent to the Jacob Javits Convention Center. While this amendment authorizes the disposal of the adjacent properties by the CCDC, the Authority must do so in conformance with the requirements set forth in Public Authorities Law §2897, which contains fair market value and competitive bidding provisions. The amendment also provides that the proceeds of any such disposition would be transferred to the General Fund.

State Workforce

The Executive Budget projects that the overall size of the State workforce will remain essentially unchanged during SFY 2012-13, with a net increase of 70 FTEs. Total FTEs at the end of SFY 2012-13 are projected to be 185,867 compared to 185,797 estimated at the end of SFY 2011-12 (these figures do not include members or staff of the Legislature or the Judiciary.) The following table presents all agencies expected to show any changes in the size of their workforce.

SFY 2012-13 Estimated Agency Workforce Changes

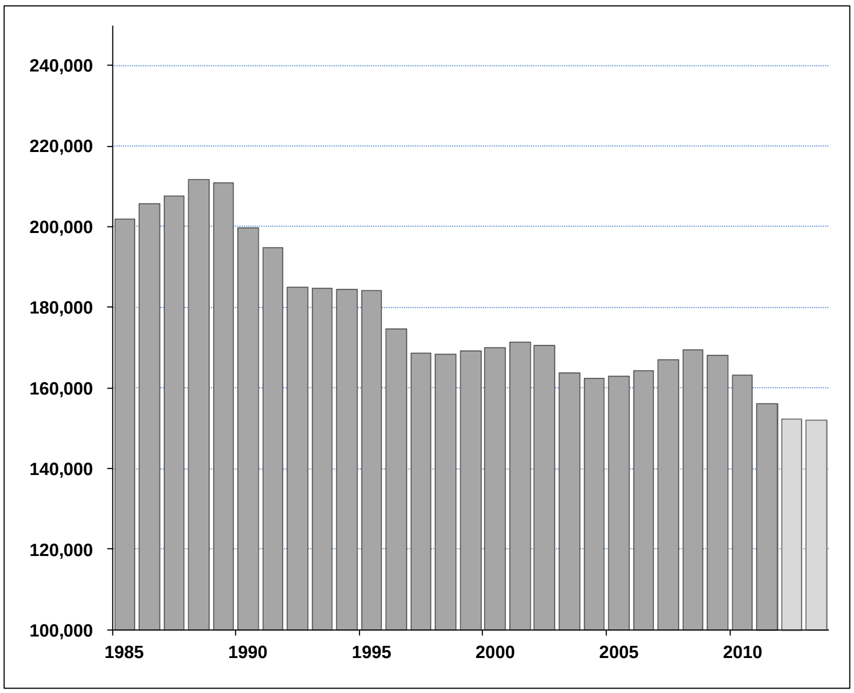
	March 2012	March 2013	Change
AGENCIES WITH INCREASES			
CHILDREN AND FAMILY SERVICES	3,143	3,334	191
HEALTH	5,000	5,120	120
OFFICE OF THE STATE COMPTROLLER	2,516	2,614	98
EDUCATION DEPARTMENT	2,672	2,765	93
LAW, DEPARTMENT OF - ATTORNEY GENERAL	1,747	1,798	51
TEMPORARY AND DISABILITY ASSISTANCE	2,225	2,266	41
TECHNOLOGY	571	597	26
STATE, DEPARTMENT OF	598	620	22
MOTOR VEHICLES	2,393	2,414	21
PUBLIC SERVICE	508	524	16
ECONOMIC DEVELOPMENT	143	158	15
HOMELAND SECURITY AND EMERGENCY SERVICES	427	442	15
GENERAL SERVICES	1,315	1,329	14
HOUSING AND COMMUNITY RENEWAL	745	759	14
EMPLOYEE RELATIONS, GOVERNOR'S OFFICE OF	41	54	13
BUDGET	307	317	10
ALCOHOLIC BEVERAGE CONTROL	123	132	9
STATEWIDE FINANCIAL SYSTEM	136	145	9
QUALITY OF CARE AND ADVOCACY FOR DISABLED	99	103	4
CRIMINAL JUSTICE SERVICES	589	592	3
INSPECTOR GENERAL	62	65	3
VETERANS AFFAIRS	91	94	3
VICTIMS' SERVICES	75	78	3
AGENCIES WITH DECREASES			
LABOR	3,753	3,526	(227)
PEOPLE WITH DEVELOPMENTAL DISABILITIES	20,718	20,604	(114)
TAXATION AND FINANCE, DEPARTMENT OF	4,897	4,800	(97)
TRANSPORTATION	8,583	8,492	(91)
ENVIRONMENTAL FACILITIES CORPORATION	88	0	(88)
MEDICAID INSPECTOR GENERAL	558	506	(52)
PARKS, RECREATION AND HISTORIC PRESERVATION	1,748	1,736	(12)
HUMAN RIGHTS	188	178	(10)
WORKERS' COMPENSATION BOARD	1,380	1,371	(9)
ALCOHOLISM AND SUBSTANCE ABUSE	822	813	(9)
CIVIL SERVICE	416	408	(8)
AGRICULTURE AND MARKETS	495	488	(7)
NET CHANGE			**70**

Source: Division of the Budget
Note: The 88 Environmental Facilities Corporation FTEs are being moved off-budget, not eliminated.

The Executive Budget estimates that the State workforce will total 185,867 as of March 31, 2012. Of this total, 126,131 will be employed by on-budget agencies (not including SUNY). Last year, upon enactment of the SFY 2011-12 Budget, the DOB estimated that this total would be 130,671, significantly higher than the current estimate. The 4,540 FTE difference between these two estimates indicates that the projected 9,748 FTE layoffs needed to achieve workforce savings if all workers had not accepted pay and benefit cuts may have been an overestimate.

State Agency Full-Time Equivalents, SFY 1984-85 through SFY 2012-13

(excluding SUNY/CUNY)



Source: SFY 1984-85 through SFY 2010-11: OSC Payroll Records;
SFY 2011-12 and SFY 2012-13: adjusted DOB estimates.

The chart above shows the change in State employee workforce totals since SFY 1984-85. These totals are based on actual payroll data maintained by the Office of the State Comptroller. Unlike DOB estimates, actual payroll data includes employees of the Legislature and Judiciary, as well as a count of temporary and part-time employees who are not included in DOB figures.

The chart does not include SUNY and CUNY employees because the manner of counting FTE positions at these institutions has not been consistent over the time period considered, and because CUNY employees did not appear on the State payroll before 1990. Estimates for the final FTE counts for SFY 2011-12 and SFY 2012-13 are based on Office of the State Comptroller workforce figures, adjusted for DOB estimates of Executive agency workforce changes.

A number of State agency mergers are recommended in the proposed budget, but DOB does not anticipate savings in the coming State Fiscal Year. These include:

- The Division of the Lottery would be merged with the Racing and Wagering Board to create the New York State Gaming Commission.

- The Department of Taxation and Finance would take over the Higher Education Services Corporation's collection activities.

- The Governor's Office of Employee Relations (GOER) would be merged with the Department of Civil Service to create a new Department of Workforce Management.

Other agency changes include:

- The Office for Technology (OFT) would change its name to the Office of Information Technology Services and would work with the Office of General Services (OGS) to continue to centralize more agency operations including procurement, IT and administrative functions.

- The Belleayre Mountain Ski Center would be transferred from the supervision of DEC to the Olympic Regional Development Authority (ORDA).

The Executive also proposes Article VII language that would allow the Department of Civil Service to permit 5-year appointments without exam for certain positions requiring special technical or computer skills. The Civil Service Commission would determine when it is "impractical" to rely on competitive testing for such employment. These changes would also introduce a new category into Civil Service Law, called "open promotion." Individuals who are currently eligible for either the open competitive or the promotion list would be eligible for the new list. A maximum of 500 such appointments would be permitted.

General State Charges

The Executive Budget's presentation of costs associated with fringe benefits and other State expenses is known collectively as General State Charges (GSC). However, the GSC program that appears in the State Operations appropriations bill – which totals just $2.723 billion – accounts for 61.4 percent of General Fund spending on GSC and only 40.6 percent of All Funds GSC spending. Excluded from this presentation are all the fringe benefits paid from non-General Fund sources, as well as GSC spending for employees of the Courts, SUNY, and other adjustments.

As a result of employee salary and benefit cuts and a declining workforce, the Executive Budget reduces General Fund appropriations for General State Charges by $269 million.

SFY 2012-13 General State Charges
(in millions of dollars)

Program	General Fund		Other Funds		All Funds	Y-T-Y % Change
State Employee Fringe Benefits						
Health Insurance	$1,822	61.2%	$1,157	38.8%	**$2,980**	-5.5%
Social Security	$497	60.0%	$331	40.0%	**$828**	-3.9%
Workers' Compensation	$226	64.4%	$125	35.6%	**$350**	7.8%
Pension Contributions	$658	53.4%	$573	46.6%	**$1,231**	-5.9%
Employee Benefit Funds	$34	40.2%	$51	59.8%	**$85**	-9.7%
Dental Insurance	$47	67.0%	$23	33.0%	**$70**	-6.0%
Unemployment Benefits	$19	66.3%	$9	33.7%	**$28**	11.2%
Miscellaneous Benefits	$17	63.1%	$10	36.9%	**$27**	-43.8%
Subtotal Fringe Benefits	**$3,319**	**59.3%**	**$2,279**	**40.7%**	**$5,599**	**-4.8%**
Other State Expenses						
Taxes on Public Lands	$212	100.0%	$0	0.0%	**$212**	7.3%
Court of Claims Judgments	$106	100.0%	$0	0.0%	**$106**	1.8%
Public Officers' Indemnification	$26	100.0%	$0	0.0%	**$26**	7.1%
Miscellaneous Expenses	$59	100.0%	$0	0.0%	**$59**	6.5%
Subtotal State Expenses	**$403**	**100.0%**	**$0**	**0.0%**	**$403**	**5.8%**
Court Employee Benefits	$560	100.0%	$0	0.0%	**$560**	-9.4%
SUNY and Other Benefits	$152	100.0%	$0	0.0%	**$152**	-14.9%
Total GSC Spending	**$4,434**	**66.0%**	**$2,279**	**34.0%**	**$6,713**	**-4.6%**
Adjustments*			($11)		($11)	
MEMO: Financial Plan Total	**$4,434**	**66.2%**	**$2,268**	**33.8%**	**$6,702**	**-1.9%**

Source: Division of the Budget Note: Totals may not add up due to rounding.
*Principally GSC spending from the Dedicated Highway and Bridge Trust Fund, which is classified as Capital Fund spending in the Financial Plan.

Public Pensions

The Executive proposes a new Tier VI, which would decrease employer contributions while increasing employee contributions above the existing Tier V rates.

The Executive proposal would move a larger portion of the cost of the pension benefit for new members from employers (the State and local governments) to employees. Under Tier V Employees' Retirement System (ERS), the employer's long-term expected rate of contribution is 9.4 percent of payroll and the employee's contribution is 3.0 percent of earnings. Under the proposed Tier VI, the benefit would be reduced and the proportion of who paid the cost would shift, with the employer paying approximately 4.7 percent of payroll and the employee between 4.0 percent and 6.0 percent, depending on salary.

Tier VI would apply to new participants in all public retirement systems in New York State as of April 1, 2012. However, Tier VI ERS and Police and Fire Retirement System (PFRS) members enrolled in a special plan would still be able to retire upon completion of 20 or 25 years of service. The proposed Tier VI legislation would enact the following contribution rates:

Proposed Tier VI Employee Contribution Rates

Public Retirement System	4 Percent	5 Percent	6 percent
If employee salary is:	Equal to or less than:	Between:	Greater than:
New York State & Local PFRS	$66,000	$66,001 - $132,000	$132,000
New York City Fire	$63,000	$63,001 - $126,000	$126,000
New York City Police	$61,000	$61,001 - $122,000	$122,000
New York City Teachers	$47,000	$47,001 - $94,000	$94,000
New York City Employees	$43,000	$43,001 - $85,000	$85,000
New York State Teachers	$35,000	$35,001 - $69,000	$69,000
New York State & Local ERS	$32,000	$32,001 - $63,000	$63,000
New York City Board of Education	$26,000	$26,001 - $52,000	$52,000

Source: Division of the Budget, Proposed Public Protection and General Government Article VII Bill, Part H.

Note that these rates would not be indexed for inflation. As a result, if public employees receive salary increases in the future more of them will pay higher contribution rates, even if the real value of their salaries and pensions remains the same.

Furthermore, whenever the employer contribution exceeds 7.0 percent for members of the ERS the members would be required to pay half of the extra amount. If the employer contribution declines below 4.0 percent, the member contribution would be cut by half of the amount saved. For PFRS, the thresholds are 14 percent and 10 percent. (For New York City members, these figures would be calculated by the City Director of the Budget, subject to State DOB approval.)

Additional provisions of the proposed new Tier VI include:

- **Vesting:** Delays employee vesting from the existing 10 year minimum to 12 years.
- **Retirement Age:** Raises the minimum retirement age from 62 to 65.
- **Benefits:** Decreases benefits:
    - The rate for calculating pension benefits from 2 percent of final average salary for every year over 20 years of service to a flat rate of 1.667 percent.
        - This provision alone would reduce the value of a pension for a 30-year member from 60 percent of their working salary to 50 percent.
        - This would reduce the pension for the average State employee who works 30 years (average salary $68,380) from $41,028 to $34,190, a 16.7 percent pension reduction for this provision alone.
        - No longer includes unused sick leave.
- **Final average salary calculation changes:**
    - Extends the base for final average salary calculations from the current three-year period to five years.
    - Caps the amount by which wages in any one year may exceed the average of the four previous years at 8 percent (currently the cap is 10 percent of the average of the previous two years) when calculating final average salary.

    - Excludes overtime, lump sum deferred compensation, and accumulated sick and vacation time.
- **Prohibits early retirements**, regardless of the number of years worked.
    - Tier IV permits employees aged 55 or older to retire with no reduction when they have worked 30 years or more. Tier V eliminates the 55/30 option, but allows early retirement with reductions.
- **Reportable earnings changes:**
    - Excludes overtime from reportable earnings.
    - Reportable earnings capped at the Executive's Salary (currently $179,000).
- **Previous service cost:**
    - Would cost 6.0 percent of earnings to purchase all previous service, including military service.

The Executive also proposes that a new defined contribution plan option be offered to future public employees in New York State as an alternative to the existing defined benefit plan. This plan would require a minimum employer contribution of 4.0 percent of salary, but would provide for additional employer contributions of up to 3.0 percent, when matched by the employee. The employee would assume all investment risk under this option.

This proposal would have minimal impact on the spike in rates cause by investment losses from the near collapse of the financial services sector in the Great Recession in 2008 and 2009. In addition, questions have been raised regarding implementation costs for the State and local governments. The proposal would reduce the employer contribution rates for new hires and, over decades, the long-term expected contribution rates for State and local government employers. However, both the proposed defined benefit and defined contribution would also reduce retirement security for future workers.

Local Governments

Overall, the SFY 2012-13 Executive Budget maintains funding for many programs benefiting local governments outside of New York City, increases funding for school districts, and proposes some mandate relief. DOB estimates the net positive impact of the Executive Budget on local governments to be $941.9 million for local fiscal years ending in 2013. More than 85 percent of this benefit ($805 million) is attributable to increases in school aid and other educational funding. Nearly $97 million is attributable to savings generated by the creation of a new pension tier ($44.6 million), a one-time acceleration of State aid for the City of Rochester ($28 million), and $24 million related to a phased State takeover of Medicaid growth.

Of the $941.9 million in positive impact on local governments, school districts ($350.6 million) and New York City ($242.8 million) account for $593.4 million, with an additional $250 million in School District Performance Grants which have not yet been allocated. Counties account for another $62.4 million, while other cities, towns and villages account for the remaining $36.1 million.

The specific Executive Budget proposals as well as the Executive's estimated fiscal impact for local fiscal years ending in 2013 include:

- School Aid and other education-related funding is increased by $805 million to $20.31 billion – a $331 million increase to districts outside New York City and a $224 million increase to New York City schools. This increase also includes an additional $250 million in School District Performance Grants that has not yet been allocated. Both of these funding increases are directly linked to school districts' successfully implementing teacher evaluation programs.
- A takeover of growth in local Medicaid costs, starting in local fiscal year 2013 and ending in local fiscal year 2015, is projected to result in $24.3 million in savings for counties and New York City in 2013.
- Pension changes, including the creation of a new Tier VI pension plan, are projected by the Executive to result in $44.6 million in savings in 2013 – $24.6 million for school districts, $12 million for counties, $2.9 million for cities outside of New York City, and $5.1 million for towns and village governments. With strained budgets and hiring of new employees stagnant for local governments and school districts alike, these short-term savings estimates may be optimistic.
- Aid and Incentives for Municipalities (AIM) is held flat from SFY 2011-12 levels, totaling $715 million for cities (outside of New York City), towns and villages. An additional $79 million is provided for efficiency grant programs that were established in SFY 2011-12.
- Video Lottery Terminal Impact Aid is held flat at $25.9 million, as are the Small Government Assistance and Miscellaneous Financial Assistance Programs ($2.2 million, combined).
- Local transportation aid is preserved at SFY 2011-12 levels, including $363.1 million for the Consolidated Highway Improvement Program (CHIPs) and $39.7 million for the Marchiselli Program.
- Various programmatic changes to the Early Intervention and Preschool Special Education programs are expected to drive savings of $18.5 million in 2013, primarily to county governments.

Medicaid

The Executive Budget proposes a phased takeover of *growth* in local Medicaid costs. Under the proposal, the phased takeover would begin in SFY 2013-14 (during counties' 2013 fiscal year) and by 2015, counties' and New York City's Medicaid expenses would no longer grow. Beginning in SFY 2013-14, counties and New York City would be responsible for a 2.0 percent growth rate in SFY 2013-14 and a 1.0 percent growth rate in SFY 2014-15. In SFY 2015-16, local responsibility for growth in local Medicaid costs would be fully phased out.

The estimated local fiscal year 2013 savings is $24.3 million -- $13.5 million for counties and $10.8 million for New York City. Over five years, the Executive estimates that the proposal will save counties and New York City $1.2 billion. While this proposal provides an out-year benefit to local governments, the plan does not provide immediate relief to counties or New York City.

The Executive Budget also proposes a phased-in State takeover of local government administration of the Medicaid program. This proposal would cap State reimbursement of local government administration expenses at SFY 2011-12 levels, and would further reduce the cap to account for the reduction in local government administrative responsibilities.

Aid and Incentives for Municipalities and Efficiency Grants

AIM funding for cities, towns and villages is held at SFY 2011-12 levels – $715 million to cities, towns and villages. AIM for New York City is again eliminated, a $302 million reduction from SFY 2009-10 levels.

Funding is continued ($79 million) for previously enacted tax credit and efficiency grants, as follows:

- **Citizen Empowerment Tax Credits**. Funding incentives for local government consolidation or dissolution is continued at existing levels, providing a bonus equal to 15 percent of the newly combined local government's tax levy (70 percent of such amount must be used for direct tax relief).
- **Citizens Reorganization Empowerment Grants.** Funding is maintained for grants up to $100,000 for local governments to cover costs associated with studies, plans and implementation efforts related to local government re-organization activities. These grants share a $35 million appropriation with the Citizen Empowerment Tax Credits.
- **Local Government Performance and Efficiency Program.** Appropriations of $40 million are provided for competitive one-time awards (up to $25 per capita, capped at $5.0 million) recognizing local governments that have achieved efficiencies and performance improvements.
- **Local Governments Efficiency Grants**. Appropriations of $4.0 million would continue to be provided to help cover costs associated with local government efficiency projects. Types of projects include: planning and/or implementation of a functional consolidation, shared or cooperative services agreements, and regionalized delivery of services.

Notably, the Executive Budget also contains language that will limit the timeframe in which reappropriated funds can be used. If enacted as proposed, with the exception of reappropriations for capital projects and federal funds, reappropriations would lapse five years from the date of original appropriation. As such, local governments that received these credits or grants last year would have approximately four years to use the funds, or risk losing them.

New York City

According to DOB, the SFY 2012-13 Executive Budget benefits New York City by a net of $243 million in City Fiscal Year (CFY) 2013, $548 million in CFY 2014 and $948 million in CFY 2015, largely as a result of increases in education aid and a State takeover of the growth in the local share of Medicaid over three years.

The increases in State education aid, however, are contingent upon the implementation of a teacher evaluation process by January 2013. The City risks the loss not only of State education aid, but of approximately $315 million in federal funds. The Executive Budget also includes $250 million for competitive education grants, for which the City may compete.

Impact of the SFY 2012-13 Executive Budget on New York City
(in millions of dollars)

	CFY 2013	CFY 2014	CFY 2015
Education Aid	224.0	468.0	765.0
Medicaid	10.8	65.2	163.9
All Other Actions	8.0	14.7	19.1
Total Impact	**242.8**	**547.9**	**948.0**

Sources: Division of the Budget; OSC

Metropolitan Transportation Authority

The SFY 2012-13 Executive Budget provides the Metropolitan Transportation Authority (MTA) with an increase of $190 million in financial assistance over SFY 2011-12. The increase largely reflects improving economic conditions, which are expected to boost dedicated transit tax revenues. These resources were anticipated by the MTA and have already been incorporated into its financial plan.

The MTA’s budget is balanced in the current calendar year, but the MTA assumes that a fare and toll increase of 7.5 percent on January 1, 2013, which would generate $449 million annually. This increase, combined with additional cost-reduction actions, will close a $579 million budget gap in 2013. The MTA’s financial plan assumes that the MTA’s unionized employees will agree to no-cost labor agreements for three years. The MTA is currently in negotiations with the Transport Workers’ Union, whose contract expired on January 15, 2012.

The Executive Budget provides the MTA with $770 million in new capital projects funding support over a multiyear period, as requested by the MTA, to help fund the MTA's current $24.3 billion five-year capital program. To fill a $9.9 billion funding gap in the capital program, the MTA had proposed an increase in State support and planned borrowing. Under the MTA’s proposed financing strategy, which is under review by the

State's Capital Program Review Board, borrowing would increase by $6.3 billion to a total of $14.8 billion, which, between 2011 and 2018, would increase MTA debt service by 64 percent to $3.2 billion.

In December 2011, the MTA Payroll Mobility Tax (PMT) was eliminated for most small businesses, all private schools and public school districts. The Executive Budget includes $250 million in support to the MTA to fully offset the revenue lost from changes to the PMT.

Debt and Capital

Debt Outstanding and Debt Service

Although the Proposed SFY 2012-13 Five-Year Capital Program and Financing Plan (the proposed Capital Plan) projects that the yearly issuance of State-Supported debt will decline annually over the next five years, the State continues to be heavily reliant on debt to address its considerable ongoing capital needs.

Significant borrowing over the past decades coupled with current weak economic conditions has depleted much of the State's debt capacity. Over the last five years, projected debt capacity under the cap on State-Supported debt outstanding, as established in the Debt Reform Act of 2000, has declined significantly, both because of increased issuance of new State-Supported debt, and because the faltering economy has negatively impacted Personal Income projections.

For example, since 2007, the projected cap on debt outstanding for SFY 2011-12, which is based on the projection for Personal Income in New York State, has declined by nearly $5.0 billion. The projection from October 2007 estimated the cap on debt outstanding in SFY 2011-12 would be $44.2 billion. The latest estimate from DOB included in the proposed Capital Plan projects the cap on debt outstanding in SFY 2011-12 to be only $39.3 billion. (The cap was fully phased in at 4.0 percent of Personal Income in SFY 2011-12.)

Given the State's limited resources, its shrunken debt capacity and significant unmet capital needs, it is critical that the State prioritize its use of debt and capital resources to ensure that they are used as effectively as possible.

The statutory cap on outstanding debt does not include approximately $10.6 billion in additional debt projected to be outstanding at the end of SFY 2011-12 that was authorized outside the narrow definition of State-Supported debt included in the Debt Reform Act, most of which was issued to finance non-capital costs, including deficit financing and budget relief. These obligations are included in the Office of the State Comptroller's more comprehensive definition of State-Funded debt.

The Comptroller's definition includes obligations that are not counted under the Debt Reform Act cap on State-Supported debt outstanding, such as bonds issued by the Sales Tax Asset Receivable Corporation or the Tobacco Settlement Financing Corporation.[3] If these additional obligations are included, as well as all the remaining

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[3] State-Funded debt was defined by the Office of the State Comptroller in the February 2005 report, New York State's Debt Policy, a Need for Change. It represents a more comprehensive accounting of the State's debt burden by including State-Supported obligations as well as obligations that fall outside the narrow definition of State-Supported debt enacted in the Debt Reform Act of 2000. These additional obligations include bonds issued by the Sales Tax Asset Receivable Corporation to refinance New York City's Municipal Assistance Corporation; bonds issued by the Tobacco Settlement Financing Corporation to finance deficits in SFY 2003-04 and SFY 2004-05; bonds issued to finance prior year school aid claims by the Municipal Bond Bank Agency; and Building Aid Revenue Bonds issued by New York City's Transitional Finance Agency. Not all State-Funded debt appears in the Capital Program and

debt that was outstanding when the Debt Reform Act of 2000 was enacted (because the cap only applies to State-Supported debt issued *after* April 1, 2000), the State would be $27.7 billion over the cap and additional debt could not be issued.

The Executive Budget proposes to increase debt caps on programs financed with State-Supported debt by approximately $2.7 billion, including $770 million in State support for the MTA and $535 million for various economic development initiatives. The Executive's proposed Capital Program and Financing Plan does not include any new General Obligation Bond Act proposals which would be subject to voter-approval.

The proposed SFY 2012-13 Five-Year Capital Program and Financing Plan projects that State-Supported debt will increase by approximately $3.0 billion, or 5.6 percent, from SFY 2012-13 through SFY 2016-17. State-Funded debt is projected to increase $4.5 billion or 7.0 percent over the same time frame, as indicated in the following table.

Projected State-Funded Debt Outstanding – SFY 2011-12 through SFY 2016-17
(in thousands of dollars)

		Proposed Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2012-13 through SFY 2016-17	SFY 2012-13 through SFY 2016-17
General Obligation	3,494,365	3,584,854	3,631,355	3,607,745	3,408,611	3,179,612	-9.01%	(314,753)
Other State-Supported Public Authority	49,849,068	51,311,669	52,249,682	52,781,970	53,232,085	53,161,968	6.65%	3,312,900
State-Supported	**53,343,433**	**54,896,523**	**55,881,037**	**56,389,715**	**56,640,696**	**56,341,580**	**5.62%**	**2,998,147**
TSFC	2,698,805	2,370,095	2,032,865	1,685,145	1,319,510	934,905	-65.36%	(1,763,900)
TFA BARBs	5,311,061	6,385,344	7,440,883	8,373,539	9,195,108	9,019,274	69.82%	3,708,213
STARC	2,187,820	2,127,005	2,063,315	1,996,545	1,926,475	1,853,680	-15.27%	(334,140)
MBBA	370,910	344,760	318,545	293,690	267,475	239,810	-35.35%	(131,100)
Total Other State Funded	**10,568,596**	**11,227,204**	**11,855,608**	**12,348,919**	**12,708,568**	**12,047,669**	**13.99%**	**1,479,073**
Projected Outstanding (State-Funded)	**63,912,029**	**66,123,727**	**67,736,645**	**68,738,634**	**69,349,264**	**68,389,249**	**7.01%**	**4,477,220**

Source: Division of the Budget, New York City Office of Management and Budget
Note: These projections incorporate issuance projections from the New York City FY 2013 Preliminary Budget released February 2, 2012.

Overall, over the next five years, new State-Supported debt issuances of $21.8 billion are projected to be $593.4 million less than current Five-Year Capital Plan estimates, as of the last update in November 2011. New York City's Transitional Finance Authority (TFA) is expected to issue approximately $4.3 billion in new Building Aid Revenue Bonds (BARBs) through SFY 2015-16, bringing the projected five-year issuance level of State-Funded debt to $26.1 billion, representing a decline of $830.3 million from the current Plan. The average annual level of State-Funded debt issuance is projected to be $5.2 billion, as compared to $5.8 billion in the previous five years.

Financing Plan and is, therefore, illustrated separately in the tables of this section. See the Comptroller's Debt Impact Study for more information on State-Funded debt, at www.osc.state.ny.us/reports/debt/debtimpact2010.pdf.

Projected State-Funded Debt Issuance – SFY 2011-12 through SFY 2016-17

(in thousands of dollars)

		Proposed Capital Plan					Total Capital Plan
	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2012-13 through SFY 2016-17
Total State-Supported Issuances	**5,043,439**	**5,144,434**	**4,698,129**	**4,314,511**	**4,086,152**	**3,553,914**	**21,797,140**
TFA BARBs	950,000	1,080,000	1,160,000	1,060,000	973,000	-	4,273,000
Total State-Funded Issuances	**5,993,439**	**6,224,434**	**5,858,129**	**5,374,511**	**5,059,152**	**3,553,914**	**26,070,140**

Source: Division of the Budget, New York City Office of Management and Budget.

Note: Issuance projections for Transitional Finance Authority Building Aid Revenue Bonds are only available through SFY 2015-16. The projections used here from FY 2013 Preliminary Budget released February 2, 2012.

Although Personal Income projections were again lowered for the next five years, DOB projects that the State will remain within the statutory cap on State-Supported debt outstanding. DOB further projects that there will be approximately $3.1 billion of available debt capacity at the end of SFY 2011-12. DOB projects that the State will approach the cap on State-Supported debt outstanding (as established in the Debt Reform Act of 2000) in SFY 2013-14 and SFY 2014-15. Available debt capacity is expected to be $314 million and $614 million respectively, with approximately $2.4 billion in available State-Supported debt capacity in SFY 2016-17.

The proposed Capital Plan anticipates reducing the State's reliance on debt to meet existing and new commitments and increasing the use of current State resources, or PAYGO, in the out-years.

Currently, more than 94 percent of State-Funded debt outstanding was issued by public authorities and, therefore, was not subject to voter approval. Over the life of the proposed Capital Plan, public authorities are projected to issue nearly $24.5 billion in debt, as compared to projected issuances of $1.3 billion in voter-approved General Obligation bonds.

Projected State-Funded Debt Service – SFY 2011-12 through SFY 2016-17

(in thousands of dollars)

		Proposed Capital Plan					Total Percentage Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2016-17	SFY 2011-12 through SFY 2016-17	SFY 2011-12 through SFY 2016-17
2011-12 Capital Plan (State-Supported)	5,871,918	6,145,129	6,417,010	6,529,113	6,666,357	6,757,415	15.08%	885,497
Total Other State Funded	942,456	925,122	1,091,645	1,159,615	1,240,141	1,291,408	37.03%	348,952
Projected Debt Service (State-Funded)	6,814,374	7,070,251	7,508,655	7,688,728	7,906,498	8,048,823	18.12%	1,234,449

Source: Division of the Budget, New York City Office of Management and Budget

Note: These projections incorporate issuance projections from the New York City FY 2013 Preliminary Budget released February 2, 2012. Totals may not add up due to rounding

Under the proposed Capital Plan, State-Funded debt service is expected to exceed $8.0 billion by SFY 2016-17. Debt service for non-State-Supported debt is projected to grow significantly faster than State-Supported debt service. State-Funded debt service is anticipated to grow approximately 18.1 percent between SFY 2011-12 and SFY 2016-17, or 3.3 percent annually on average.

Capital Program and Financing Plan[4]

The Executive Budget's proposed SFY 2012-13 Five-Year Capital Program and Financing Plan includes $43.4 billion in projected capital spending, of which $7.4 billion would be spent off-budget (whereby bond proceeds are expended directly by public authorities and outside the Financial Plan and the Central Accounting System).

Total spending in the proposed Capital Plan is slightly higher ($138 million over the five-year Capital Plan) than in the current Capital Plan. Overall, total capital spending is projected to decline in each year of the proposed five year Capital Plan, including declines of 2.0 percent in SFY 2012-13, 3.9 percent in SFY 2013-14, 2.5 percent in SFY 2014-15, 7.8 percent in SFY 2015-16, and SFY 8.6 percent in 2016-17. However, spending within certain categories is projected to increase in SFY 2012-13, such as Transportation (up 7.2 percent) and Higher Education / Other Education (up 9.0 percent), while other categories are projected to decline, including Economic

[4] The Capital Program and Financing Plan reflects all spending from Capital Projects Funds, one of the four fund groups that make up All Governmental Funds, including local assistance disbursements made from Capital Projects Funds such as payments to local governments to help finance their capital programs. The Capital Program and Financing Plan also includes capital spending that is considered "off-budget" in that it represents direct spending by public authorities from bond proceeds.

Development (down 41.4 percent) and Parks and the Environment (down 15.2 percent). This reflects, in part, the Executive's efforts to accelerate certain capital projects associated with the NY Works initiative, as well as efforts to leverage private investment in New York's infrastructure.

New York Works Infrastructure Fund and Board

The proposed Capital Plan incorporates $2.1 billion in capital spending for a portion of the Executive's proposed $15 billion New York Works infrastructure investment initiative. This spending is associated with the portion of the New York Works Plan that is on-budget. The Executive Budget does not include statutory language authorizing the New York Works Infrastructure Board or Fund.

New York Works Infrastructure Initiative

	Amount	Source
State	$1.3 billion	$723 million in new capital appropriations $600 million in accelerated existing capital
Federal	$1.7 billion	New and accelerated federally financed capital
Public Authorities and Local Governments	$9 billion	$5 billion Tappan Zee Bridge replacement $4 billion in accelerated existing capital
Private	$3 billion	Projected private investment

Source: Division of the Budget

New York Works includes $1.6 billion in new appropriation authority, including $723 million in State Funds and $917 million in federal transportation funds. The State funds portion includes:

- $232 million for transportation projects,
- $130 million for the Regional Economic Development Councils,
- $102 million for DEC and other environmental projects,
- $94 million for State parks and ORDA projects,
- $75 million for Buffalo,
- $75 million for additional economic development purposes, and
- $15 million toward the Peace Bridge Capacity Improvement Project.

Other components of the $15 billion plan include $600 million from existing spending authority (both on- and off- budget) for transportation, economic development, environmental, parks, and higher education projects. An additional $760 million in off-budget federal funds is anticipated. The remainder of the Plan, including an additional $9.0 billion in federal, public authority, and local funds, as well as $3.0 billion anticipated from leveraging private sector investments, will be implemented off-budget.

Management Initiatives

- **Extending Authorization to Issue PIT Revenue Bonds for Mental Health.** The Executive's proposal extends the authorization for DASNY to issue Mental Health bonds under the Personal Income Tax bond structure.

- **Debt Reduction Reserve Fund.** The SFY 2012-13 Executive Budget includes an authorization to transfer $500 million into the Debt Reduction Reserve Fund. However, the Financial Plan does not currently include cash for a transfer to the Debt Reduction Reserve Fund. The authorization would be available if funds become available.

- **Competitive Sales.** The Capital Plan assumes that 50 percent, or $2.4 billion, of proposed new bond issuances will be sold competitively in SFY 2012-13. The remaining 50 percent will be sold through negotiated sales.

- **Eliminate Practice of Borrowing to Finance Administrative Costs and Short Term Equipment Purchases.** This is primarily related to SUNY and CUNY Construction Funds as well as Corrections.

- **Authorize Set-Aside for Debt Service Payments**. The SFY 2012-13 Executive Budget proposes to extend authority to set aside funds in advance for debt service payments on General Obligation and service contract bonds.

Appendix: Gap-Closing Plan

SFY 2012-13 Executive Budget General Fund Gap-Closing Plan
(in millions of dollars)

	SFY 2011-12	SFY 2012-13
Current Services Gap Reported in Mid-Year Update	**(350)**	**(3,250)**
Changes Since Mid-Year Update	-	(250)
Current Services Prior to December Actions	**(350)**	**(3,500)**
December Actions	385	1,536
Other Receipt Revisions	(37)	-
Other Disbursement Revisions	242	-
SFY 2011-12 Prepayments	(240)	-
Restated Current Services Gap to Be Closed	**-**	**(1,964)**
Agency Operations		**1,141**
Executive and Independent Agencies		835
Consolidations and Coordination of Enterprise Services		109
Health Insurance Re-Estimates		130
New Fringe Benefit Proposals and Prepayment Savings		67
Local Assistance		**756**
Eliminating/Replacing COLAs/Trends		150
Mental Hygiene/Social Services/Housing		316
Public Health		105
All Other		185
New Initiatives/Investments/Costs		**(73)**
State Takeover Local Medicaid Growth/Administration		16
Agency Redesign Costs		(43)
Supplemental Security Income (SSI) Administration Takeover		(11)
Vulnerable Populations		(10)
Rural Rental Assistance		(6)
Temporary Assistance for Needy Families (TANF) Child Care Replace Federal Costs		(93)
Mental Hygiene System Funding		-
Additional Pension Payment		-
All Other		74
Non-Recurring Resources		**140**
Debt Management - Prepay Debt Service		140
Total Actions Toward Deficit	**350**	**1,964**

Source: Division of the Budget