Report on the State Fiscal Year 2011-12 Executive Budget

February 2011

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New York State Comptroller

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Executive Summary

The State Fiscal Year (SFY) 2011-12 Executive Budget makes significant progress in addressing the State's structural deficit by bringing recurring spending into better alignment with recurring revenue. In addition to outlining the broad framework of a plan to close the current year deficit, the Financial Plan reduces projected out-year deficits by $13.0 billion, $15.4 billion and $17.0 billion in SFY 2012-13, SFY 2013-14, and SFY 2014-15, respectively.

However, significant portions of the proposed spending reductions are to be achieved by unspecified actions, with savings targets of $2.85 billion in Medicaid spending and $1.4 billion in State Operations spending. Savings in these areas have historically been difficult to achieve in the years they are enacted. To achieve the savings reflected in these placeholders, the teams the Executive has assembled must develop viable and timely recommendations. The details of the recommended measures will require thorough scrutiny to ensure that they are realistic and based on reasonable projections. They will also require vigilant monitoring of savings as the measures are implemented.

Projected Executive Budget Growth
(in millions of dollars)

	SFY 2010-11 Projected	SFY 2011-12 Proposed	Dollar Growth	Percentage Growth
General Fund Receipts	54,214	57,003	2,789	5.1%
General Fund Disbursements	55,157	56,753	1,596	2.9%
State Operating Funds Receipts	78,664	82,908	4,244	5.4%
State Operating Funds Disbursements	85,067	86,769	1,702	2.0%
All Funds Receipts	134,597	132,871	(1,726)	-1.3%
All Funds Disbursements	136,531	132,863	(3,668)	-2.7%

Other noteworthy aspects of the proposed budget include the following:

- The Executive Budget avoids significant new tax increases and largely avoids borrowing for operating expenses to close the projected $10 billion deficit. The budget primarily uses recurring spending reductions (totaling 89 percent of the gap-closing plan) for budget balance.

- The proposed Budget is less reliant on temporary and non-recurring actions than in previous years. The Financial Plan relies on $7.7 billion in temporary and non-recurring actions in SFY 2011-12, a 54 percent reduction from the $16.7 billion used in SFY 2010-11.

- Because more than $4.0 billion of the SFY 2011-12 gap-closing plan is to be achieved through yet-unspecified cost-saving actions, the impact of these savings on various health care services, government services, and employment cannot yet be determined.

- In addition to unspecified cost-saving proposals, further risks to budget balance include the vulnerable economic recovery at the national and State levels, optimistic tax receipt projections, and several uncertain sources of revenue.

- The Executive proposes to create or restructure several grant programs to be competitively and/or performance based in many substantive areas including education, local governments, economic development, and energy.

- The current year (SFY 2010-11) General Fund deficit, largely caused by lower than anticipated General Fund tax collections, is expected to be closed with revenues received earlier than anticipated, including an accelerated payment (or spin-up) of existing temporary utility tax revenue, and reduced spending, some of which may include changing the timing of payments.

The release of the SFY 2011-12 Executive Budget begins the necessary public debate and legislative deliberations. The passage of an on-time budget is important and budget balance is critical. The long-standing tradition of enacting budgets that push ever-increasing projected deficits to future years must end. The State's significant debt and tax burdens necessitate a focus on spending. Proposals that result in increased spending should be accompanied by offsetting savings actions elsewhere to preserve the parameters of balance defined by the Executive.

Financial Overview

State Fiscal Year 2010-11

General Fund

The Enacted Budget for SFY 2010-11 relied on billions of dollars in non-recurring or temporary budget resources, as well as overly optimistic tax revenue projections, to achieve balance. When the Budget was finally enacted in August 2010, nearly $16.7 billion in non-recurring or temporary resources were used for balance—making up more than 30 percent of total General Fund spending. These factors dramatically worsened the State's structural deficit, as evidenced by the significant out-year General Fund gaps projected in the SFY 2010-11 Enacted Budget Financial Plan. Furthermore, tax receipts have been revised downward throughout the year.

The Executive Budget indicates that the current year deficit of $315 million projected in the Mid-Year Update to the SFY 2010-11 Financial Plan in November increased by $705 million primarily because of lower tax collections. The lower than anticipated tax collections are largely being replaced with undefined lower spending and non-recurring resources. This includes the net effect of $589 million in lower than projected spending, $405 million in previously unplanned revenue, and $26 million from the use of reserves. Over 72 percent, or $426 million, of the projected lower spending is in grants to local governments, although the vast majority of that reduction is not specified, nor is the majority of the reductions in State Operations.

There remains significant uncertainty associated with the economy and revenue collections for the remainder of the current fiscal year. Tax collections in December and January were well below projections from November, and the SFY 2011-12 Executive Budget Financial Plan significantly decreased year-end overall tax revenue projections from mid-year projections to reflect actual results. However, despite the lower than anticipated actual tax revenue collections, DOB actually increased by $318 million General Fund Personal Income Tax (PIT) projections for February and March. These projected increases in PIT revenue for the last two months of SFY 2010-11 may not materialize.

There is some question as to whether these actions will be sufficient to end the year in balance. If tax receipts fail to meet revised projections, or if spending does not come in as low as projected, the deficit will need to be addressed. In the past, DOB has used cash management actions, such as payment and tax refund delays, to end the year in balance. The State has resorted to these measures previously because at the end of the fiscal year, there is insufficient time to close the gap with recurring actions.

A balance of $1.4 billion in General Fund reserves is expected at the end of SFY 2010-11.

Cash Financial Plan – General Fund
SFY 2009-10 and SFY 2010-11 – Not Adjusted for Timing Issues
(in millions of dollars)

	SFY 2009-10 Actual	SFY 2010-11 Enacted August	SFY 2010-11 Mid-Year November	SFY 2010-11 - 3rd Quarter February	Difference in Year-End Projections - Enacted Financial Plan to 3rd Quarter Financial Plan Update	Difference in Year-End Projection - Mid-Year Financial Plan to 3rd Quarter Financial Plan Update
Receipts:						
Taxes	36,997	39,931	39,701	39,162	(769)	(539)
Personal Income Tax	22,655	24,373	24,148	23,624	(749)	(524)
Consumer Taxes	8,086	8,810	8,736	8,775	(35)	39
Business Taxes	5,371	5,714	5,783	5,664	(50)	(119)
Other Taxes	885	1,034	1,034	1,099	65	65
Miscellaneous Receipts	3,888	2,897	2,861	3,083	186	222
Federal Grants	71	60	60	60	-	-
Sub-Total	**40,956**	**42,888**	**42,622**	**42,305**	**(583)**	**(317)**
Transfers from Other Funds	11,600	11,788	11,892	11,909	121	17
Total Receipts	**52,556**	**54,676**	**54,514**	**54,214**	**(462)**	**(300)**
Disbursements:						
Grants to Local Governments	34,234	37,508	37,748	37,322	(186)	(426)
State Operations	8,588	8,025	8,138	8,043	18	(95)
General State Charges	3,594	4,128	4,119	4,124	(4)	5
Sub-Total	**46,416**	**49,661**	**50,005**	**49,489**	**(172)**	**(516)**
Transfers to Other Funds	5,787	5,932	5,741	5,668	(264)	(73)
Total Disbursements	**52,203**	**55,593**	**55,746**	**55,157**	**(436)**	**(589)**
Operating Surplus/(Gap)	**353**	**(917)**	**(1,232)**	**(943)**	(26)	289
Proposed Reductions			**315**			
Reserves						
Tax Stabilization Reserve	1,031	1,031	1,031	1,031	-	-
Rainy Day Fund	175	175	175	175	-	-
Contingency Reserve	21	21	21	21	-	-
Community Projects Fund	96	85	85	96	11	-
Debt Reduction Reserve	-	-	-	-	-	-
					-	-
Prior Year Surplus	978	73	73	36	(37)	-
Total Reserves	**2,302**	**1,385**	**1,385**	**1,359**	**(26)**	**-**

All Funds

Despite the fact that tax collections are projected to be approximately $1.0 billion lower than original projections, the Executive Budget Financial Plan projects that All Governmental Funds revenue of $134.6 billion will increase by $301 million from the SFY 2010-11 Enacted Budget Financial Plan. The difference is made up from Federal Grants and Miscellaneous Receipts.

Federal receipts are expected to exceed initial projections by $612 million, primarily due to higher Medicaid projections recognized in the Mid-Year Financial Plan Update, as well as education aid. Miscellaneous Receipts are expected to exceed initial projections by $722 million, primarily due to accelerated collections of 18-A public utility assessments as well as State University of New York dormitory fees.

All Funds spending is projected to total $136.5 billion, which is an increase of $644 million over the projections included in the SFY 2010-11 Enacted Budget Financial Plan. The increase is primarily due to higher than anticipated Medicaid costs of $1.1 billion, which were recognized in the SFY 2010-11 Mid-Year Financial Plan Update, and non-personal services costs of $229 million. These higher costs are partially offset by lower projections in other areas, including $228 million in school aid and $224 million for the Office of Children and Family Services (OCFS).

Cash Financial Plan – All Funds
SFY 2009-10 and SFY 2010-11 – Not Adjusted for Timing Issues
(in millions of dollars)

	SFY 2009-10 Actual	SFY 2010-11 Enacted August	SFY 2010-11 Mid-Year November	SFY 2010-11 3rd Quarter February	Difference in Year-End Projections - Enacted Financial Plan to 3rd Quarter Financial Plan Update	Difference in Year-End Projection - Mid-Year Financial Plan to 3rd Quarter Financial Plan Update
Receipts:						
Taxes	57,667	61,796	61,453	60,763	(1,033)	(690)
Miscellaneous Receipts	23,557	23,014	23,218	23,736	722	518
Federal Grants	45,524	49,486	50,565	50,098	612	(467)
Total Receipts	**126,748**	**134,296**	**135,236**	**134,597**	**301**	**(639)**
Disbursements:						
Grants to Local Governments	91,070	97,684	98,911	98,011	327	(900)
State Operations	19,430	19,186	19,493	19,504	318	11
General State Charges	5,734	6,337	6,320	6,328	(9)	8
Debt Service	4,961	5,516	5,471	5,485	(31)	14
Capital Projects	5,682	7,164	7,202	7,203	39	1
Total Disbursements	**126,877**	**135,887**	**137,397**	**136,531**	**644**	**(866)**

Timing Issues

In order to end SFY 2009-10 in balance, the Executive used significant payment and tax refund delays. These payment delays distort the revenue and spending used in year-to-year comparisons. For example, moving a payment from one year to the next artificially decreases spending in the first year, and increases it in the next, making growth appear larger. With revenue, delaying tax refunds has the effect of making revenue look higher in the first year, and lower in the second, making revenue growth look smaller.

The following table shows the effect of these SFY 2009-10 payment and tax refund delays. The State delayed $500 million in Personal Income Tax refunds that were initially planned for the last quarter of SFY 2009-10 to April 2010. In addition, $2.06 billion in school aid payments that were initially scheduled for March 2010, but not due until June 2010, were made in June 2010.

Receipts and Disbursements –Unadjusted and Adjusted for Timing Issues
SFY 2009-10 and SFY 2010-11
(in millions of dollars)

Unadjusted	**2009-10**	**2010-11**	**$ Growth**	**% Growth**
General Fund				
Receipts	52,556	54,214	1,658	3.2%
Disbursements	52,202	55,157	2,955	5.7%
State Operating Funds				
Receipts	75,847	78,664	2,817	3.7%
Disbursements	80,659	85,067	4,408	5.5%
All Funds				
Receipts	126,749	134,597	7,848	6.2%
Disbursements	126,878	136,531	9,653	7.6%

Adjusted for Timing Issues	**2009-10**	**2010-11**	**$ Growth**	**% Growth**
General Fund				
Receipts	52,056	54,714	2,658	5.1%
Disbursements	54,262	53,097	(1,165)	-2.1%
State Operating Funds				
Receipts	75,347	79,164	3,817	5.1%
Disbursements	82,719	83,007	288	0.3%
All Funds				
Receipts	126,249	135,097	8,848	7.0%
Disbursements	128,938	134,471	5,533	4.3%

The Comptroller’s Financial Statements created in compliance with Generally Accepted Accounting Principles (GAAP) record revenue and spending on an accrual basis, irrespective of payment timing issues or tax refund delays. This means that the delayed payments and delayed tax refunds were reported as liabilities on the State’s Balance Sheet and as expenditures on the State’s Operating Statement in SFY 2009-10. The Comptroller’s cash reports record revenue and spending as they actually occurred, meaning that the delayed payments and tax refunds were reported as they were paid in SFY 2010-11.

State Fiscal Year 2011-12

The State’s finances are generally broken down into three main categories: General Fund, State Operating Funds and All Governmental 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 Governmental Funds includes General, Special Revenue, Debt Service and Capital Projects funds, as well as funds from the federal government.

General Fund

The SFY 2011-12 Executive Budget Financial Plan projects General Fund receipts will increase 5.1 percent, or $2.8 billion, compared to SFY 2010-11. This growth is primarily due to expected strength in Personal Income Tax (PIT) collections, which are projected to increase 8.3 percent or nearly $2.0 billion, including $1.2 billion, or 12 percent, growth in estimated payments.

Adjusting for the effect of refunds that were delayed into SFY 2010-11, General Fund receipts growth in SFY 2011-12 is projected to be 4.2 percent higher. Adjusted PIT collections growth is projected to be 6.1 percent higher compared to SFY 2010-11.

PIT projections include revenue from a temporary surcharge and other provisions enacted in SFY 2009-10 that increased taxes on high incomes and which expire at the end of calendar year 2011. The amount projected to be received from these temporary taxes declines by $1.4 billion in SFY 2011-12 compared to the prior year, and is reflected in PIT growth estimates. If the value of these provisions, as well as the timing of refunds is adjusted out, General Fund PIT collections are expected to grow 15.4 percent in SFY 2011-12. This projected growth may prove overly aggressive.

The SFY 2011-12 Executive Budget Financial Plan projects that General Fund disbursements will grow $1.6 billion, or 2.9 percent, primarily in local assistance. Local assistance is expected to grow by $996 million, primarily due to Medicaid, public assistance and higher education. General State Charges and transfers to other funds in support of Medicaid costs outside of the General Fund also contribute to the $1.6 billion increase.

Adjusting for the effect of payment delays from SFY 2009-10 into SFY 2010-11, General Fund spending growth is projected to increase $3.7 billion, or 6.9 percent, and local assistance by 8.7 percent.

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 $10 billion. At this time, DOB does not anticipate a need to delay payments or refunds, or take other actions that would negatively affect the current services deficit. This amount is nearly $1.0 billion more than the $9.03 billion projected in the SFY 2010-11 Mid-Year Financial Plan Update. The difference is primarily from lower revenue projections. These are offset by lower than anticipated spending for education and the Judiciary.

Executive General Fund Gap-Closing Plan
(in millions of dollars)

	SFY 2010-11	SFY 2011-12
November 2010 Current Services Gap	**(315)**	**(9,026)**
Receipt Revisions	(300)	(1,386)
Disbursement Revisions	589	409
Other Actions (reserves, etc.)	26	-
Gap to be Closed	**-**	**(10,003)**
Spending Reductions/Savings		
Local Assistance		
Medicaid		2,850
Public Health/Aging		81
School Aid		2,851
Lottery Aid		155
School Tax Relief (STAR)		125
Education and Special Education		155
Higher Education		69
Human Services/Labor/Housing		385
Local Government Assistance		334
Mental Hygiene		307
Member Items		85
Other		87
State Operations		1,374
Total Spending Reductions/Savings		**8,858**
Revenue Actions		
Tax Actions		
Tax "Modernization" and Increased Voluntary Compliance		200
Business Tax Loophole Closer		22
Other Revenue		
Abandoned Property (including $55 million from reducing certain dormancy periods)		100
Other		18
Total Revenue		**340**
Non-Recurring		**805**
Metropolitan Transportation Authority		200
Debt Management/Capital Financing		200
New York Power Authority/Authority Sweeps		150
School Aid - Limit Prior Year School Aid Claims		100
Various Recoveries		75
Other		80
Total Actions Toward Deficit	**-**	**10,003**
Remaining Gap After Actions	**-**	**-**

The SFY 2011-12 gap-closing proposal primarily utilizes recurring spending reductions. However, the Executive Budget lacks details for a significant portion of these reductions. Rather, details for more than $4.0 billion in projected savings are either assigned to teams being assembled by the Executive or are dependent upon negotiations with labor.[1] The Executive Budget includes language that, in the absence of sufficient savings recommendations from the teams, would empower the Executive and/or agency commissioners to develop and in some cases implement savings strategies. The teams will begin reporting their savings recommendations by March 1, 2010.

The Executive Budget's SFY 2011-12 gap-closing plan includes an unspecified reduction of $2.85 billion in General Fund Medicaid spending. The gap-closing plan also includes approximately $1.4 billion in reductions in State Operations, including a stated $450 million workforce savings target, 10 percent reductions in the General Fund from State agencies, and $100 million in savings from facility closures. Savings from Medicaid, personnel reductions and facility closures have historically been difficult to achieve in the year that they are enacted.

State Operating Funds[2]

The SFY 2011-12 Executive Budget Financial Plan projects that State Operating Funds revenue will increase $4.2 billion, or 5.4 percent, to $82.9 billion, over SFY 2010-11. This is primarily due to higher projected tax collections. If adjusted to reflect the delay of PIT refunds from SFY 2009-10 into SFY 2010-11, which lowers SFY 2010-11 PIT receipts, revenue growth is projected to be 4.7 percent.

State Operating Funds spending is projected to increase 2.0 percent, reflecting a 4.2 percent decline in State Operations along with an increase of 10 percent in debt service and 7.8 percent in General State Charges. The increases in General State Charges primarily reflect health insurance benefits for current and retired State employees (up $349 million, or 11.4 percent) and State pension contributions (up $202 million, or 13.7 percent after amortization).

Local Assistance is projected to increase $1.4 billion, or 2.5 percent, primarily due to increases in Medicaid spending by the Department of Health, which is projected to increase 26.5 percent, reflecting the loss of federal stimulus funds. If State Operating Funds spending were adjusted to reflect payment delays from SFY 2009-10 into SFY 2010-11, which inflates SFY 2010-11 spending, growth would increase by 4.5 percent.

All Funds

The SFY 2011-12 Executive Budget Financial Plan projects All Funds receipts will decline $1.7 billion, or 1.3 percent, to $132.9 billion, largely due to the end of federal stimulus funding. Taxes are expected to increase $4.0 billion, or 6.6 percent, primarily

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[1] The Executive has proposed a Medicaid Redesign Team, a Mandate Relief Redesign Team, a Spending and Government Efficiency Commission, and a task force to recommend correctional facility closures. The Executive also propose the creation of ten Regional Economic Development Councils to allocate economic development resources.

[2] Note that State Operating Funds figures have been adjusted by DOB to reclassify certain funds DOB previously considered Federal Operating Funds in the Financial Plan. The adjustment makes the new presentation consistent with the Comptroller's reporting of State Operating Funds in the Monthly and Annual Cash Reports.

driven by higher receipts from PIT withholding and estimated collections. Total PIT collections are projected to increase $2.6 billion, or 7.4 percent. When adjusted for tax refund delays, the All Funds revenue decline is projected to be 1.6 percent year-over-year.

All Funds spending is projected to decline $3.7 billion, or 2.7 percent, reflecting in part the loss of approximately $5.3 billion in federal stimulus funding. Declines in spending of $873 million, or 4.5 percent, are projected in State Operations, and $193 million, or 2.7 percent, in capital projects. The largest component of the reduction is in Local Assistance, which is projected to decline $1.2 billion, or 3.0 percent, primarily because of lower spending on education and Medicaid.

If spending is adjusted for payments delayed in SFY 2009-10, the projected reduction falls to $1.6 billion, or 1.2 percent. Likewise, if school aid spending is adjusted to reflect the delayed payments, the projected year-over-year decline adjusts from nearly $2.2 billion, or 8.4 percent, to $137 million, or 0.5 percent.

Receipts and Disbursements –Unadjusted and Adjusted for Timing Issues
SFY 2009-10, SFY 2010-11 and SFY 2011-12
(in millions of dollars)

Unadjusted	2009-10	2010-11	$ Growth	% Growth	2011-12	$ Growth	% Growth
General Fund							
Receipts	52,556	54,214	1,658	3.2%	57,003	2,789	5.1%
Disbursements	52,202	55,157	2,955	5.7%	56,753	1,596	2.9%
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Receipts	75,847	78,664	2,817	3.7%	82,908	4,244	5.4%
Disbursements	80,659	85,067	4,408	5.5%	86,769	1,702	2.0%
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Receipts	126,749	134,597	7,848	6.2%	132,871	(1,726)	-1.3%
Disbursements	126,878	136,531	9,653	7.6%	132,863	(3,668)	-2.7%

Adjusted for Timing Issues	2009-10	2010-11	$ Growth	% Growth	2011-12	$ Growth	% Growth
General Fund							
Receipts	52,056	54,714	2,658	5.1%	57,003	2,289	4.2%
Disbursements	54,262	53,097	(1,165)	-2.1%	56,753	3,656	6.9%
State Operating Funds							
Receipts	75,347	79,164	3,817	5.1%	82,908	3,744	4.7%
Disbursements	82,719	83,007	288	0.3%	86,769	3,762	4.5%
All Funds							
Receipts	126,249	135,097	8,848	7.0%	132,871	(2,226)	-1.6%
Disbursements	128,938	134,471	5,533	4.3%	132,863	(1,608)	-1.2%

Structural Imbalance

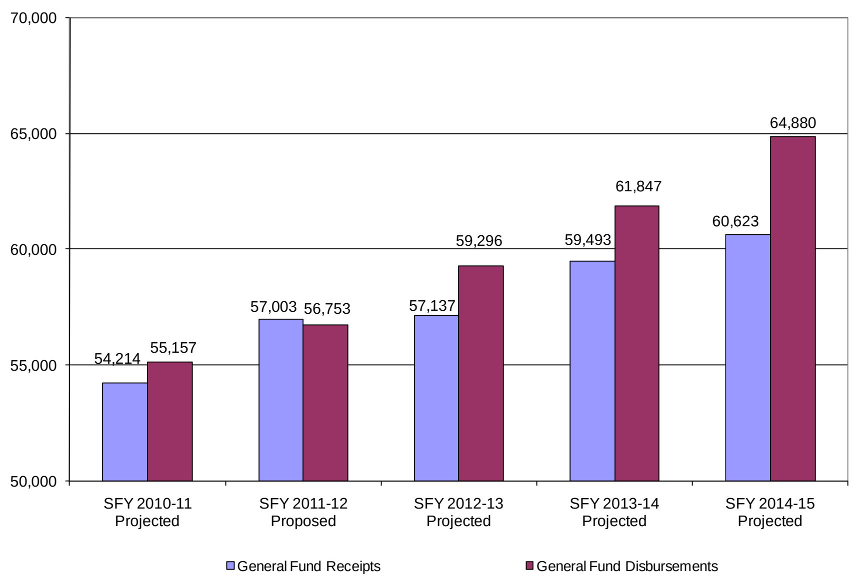
The State's chronic General Fund budget gaps have been exacerbated by successive budgets where recurring spending has grown faster than recurring revenue. Historically, these gaps have been filled largely with temporary or non-recurring resources, providing short-term relief that fails to address long-term structural problems.

The SFY 2010-11 Enacted Budget included nearly $16.7 billion in temporary or non-recurring resources, representing approximately 30 percent of General Fund spending.

At the time the SFY 2010-11 budget was enacted in August 2010, the projected current services gap for SFY 2011-12 totaled nearly $8.2 billion, which was only marginally lower than the $8.8 billion projected in the SFY 2009-10 and SFY 2008-09 Enacted Budgets for that same year. (When budgets are enacted, out-year projected spending growth typically exceeds out-year revenue growth, and the structural gap is often worsened, rather than mitigated.)

The SFY 2011-12 Executive Budget, while reliant on unspecified savings actions, does seek to reduce the out-year gap between recurring revenue and spending. This is a significant departure from past budgets that have inevitably included out-year spending growth that far exceeded revenue growth, and included escalating projected deficits. If the Enacted Budget were to achieve the targets set forth in the Executive's Plan with recurring actions, the structural deficit would be markedly improved compared to prior years.

General Fund Receipts and Disbursements – Executive Budget
SFY 2010-11 through SFY 2014-15
(in millions of dollars)



While some out-year spending growth is due to statutory formulas, these formulas are routinely amended during the budget process. For example, the Foundation Aid formula was created in SFY 2007-08 in response to a court order to address school aid funding inequities. It was structured in law to be phased-in over four years, with scheduled increases. In response to financial constraints, in each enacted budget since then, the scheduled phase-in of funding increases has been delayed. Indeed, the SFY 2011-12 Executive Budget proposes to further delay the implementation of the original scheduled increases in Foundation Aid by an additional two years, to school year 2016-17.

Formulas established in law provide frameworks for spending and a longer term spending plan for the State Budget beyond the one-year budget cycle. This facilitates planning and budgeting for entities that rely on the State for funding, including local governments, school districts, and service providers. However, given the Constitutional constraint against binding future legislatures, no statutory formula or spending commitment is ever irrevocable. Many local governments that counted on receiving funding from the State's Revenue Sharing program learned that lesson when funding was significantly reduced in the 1980s and never restored to statutory formula levels.

Revenue, on the other hand, is typically not as easily planned. Year-end actual results often differ significantly from projections used to support planned spending in an enacted budget. In boom years, surpluses develop quickly (and spending is often ramped up to match). Conversely, during times of contraction, revenue trails projections, sometimes dramatically. For example, the SFY 2008-09 Enacted Budget projected that General Fund revenue would total nearly $63 billion in SFY 2011-12. In comparison, the SFY 2011-12 Executive Budget now projects that General Fund revenue will reach $57 billion in SFY 2011-12, a shortfall of nearly $6.0 billion from the amount expected just three years ago.

In particular, when the economy slows, the effects of overly optimistic revenue projections and unanticipated spending growth are magnified. For example, in the current year, tax revenues are projected to be over $1.0 billion lower than originally anticipated in the SFY 2010-11 Enacted Budget Financial Plan, and Medicaid spending is projected to be over $1.0 billion higher than projected.

Temporary and Non-Recurring Resources

The Executive's proposal includes approximately $7.7 billion in resources that are either temporary in nature (more than one year but not permanent) or non-recurring (one year). While this represents a significant decline of 54 percent from the $16.7 billion used to finance 30 percent of General Fund spending in the SFY 2010-11 Enacted Budget, it still represents approximately 13.6 percent of General Fund spending. This amount is projected to decline to $400 million by SFY 2014-15, $7.3 billion lower than anticipated in the current year.

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

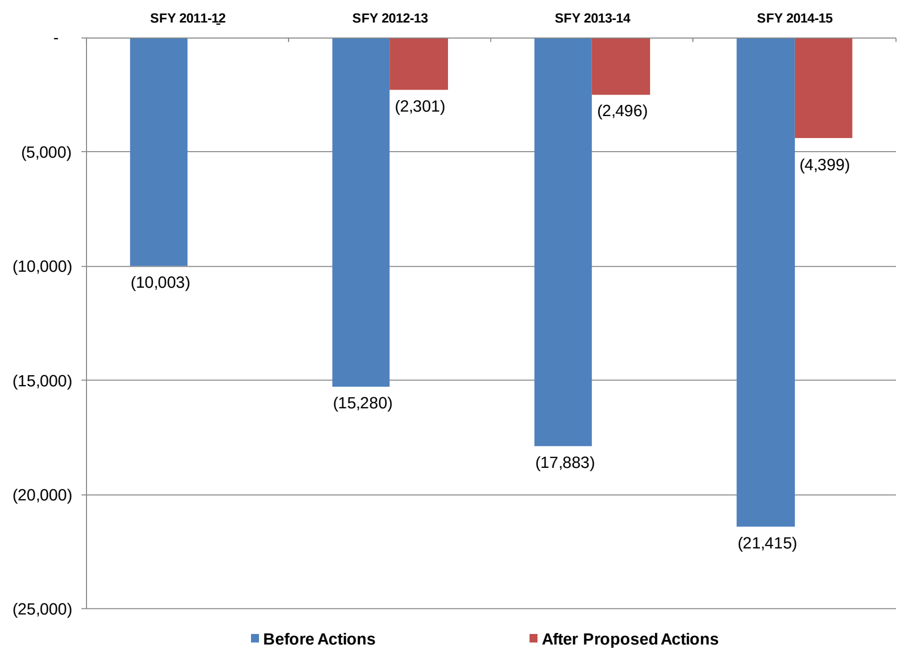
	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15
Temporary Personal Income Tax Provisions for High Incomes	3,858	400	-	-
Stimulus FMAP Increase	449	(254)	-	-
Stimulus Fiscal Stabilization	612	-	-	-
DOB Reported Non-recurring Actions	805	2	-	-
Temporary Utility Assessment	537	557	291	-
Temporary Suspension of Clothing Sales Tax Exemption	210	-	-	-
Deferred Tax Credits	970	970	870	-
Abandoned Property	100	100	100	100
Insurance Conversion Proceeds	150	275	300	300
Total Temporary and Non-Recurring Resources	**7,691**	**2,050**	**1,561**	**400**

The SFY 2011-12 Executive Budget proposes to slow the growth of out-year spending with recurring reductions. While the details of all of the reductions are not delineated, the Financial Plan as presented reduces projected recurring spending to levels that are much closer to projected recurring revenues than prior plans.

In the General Fund, revenue is projected to increase 11.8 percent between SFY 2011-12 and SFY 2014-15, or 2.8 percent annually on average. Over the same period, General Fund spending is projected to increase 17.6 percent, or 4.1 percent, annually on average. While not precisely aligned, this reflects a significant narrowing of the projected gap between revenue and spending growth in the out-years, and sets the State on more sustainable fiscal path.

Comparison of Out-Year Gaps Projections – Before and After Executive Proposal

(in millions of dollars)



The Executive Budget reduces the cumulative out-year General Fund current services gaps from $64.6 billion to $9.2 billion, with 85 percent of the actions currently proposed to be recurring.

Executive General Fund Gap-Closing Plan
SFY 2010-11 through SFY 2014-15
(in millions of dollars)

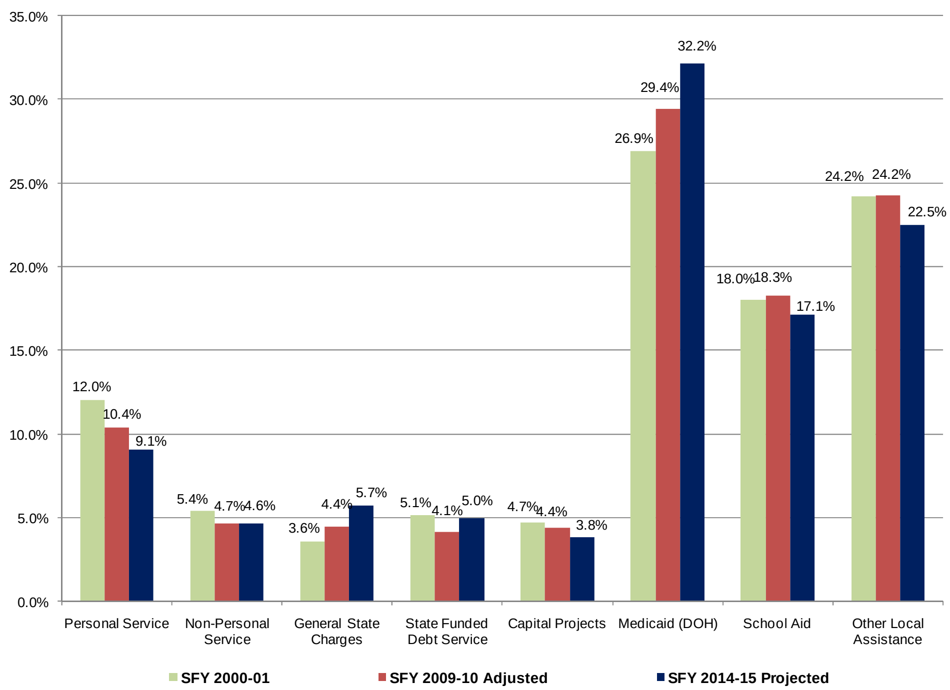
	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15
November 2010 Current Services Gap	**(315)**	**(9,026)**	**(14,644)**	**(17,232)**	**NA**
Receipt Revisions	(300)	(1,386)	(760)	(1,076)	
Disbursement Revisions	589	409	124	425	
Other Actions (reserves, etc.)	26	-	-	-	
Gap to be Closed	**-**	**(10,003)**	**(15,280)**	**(17,883)**	**(21,415)**
Spending Reductions/Savings					
Local Assistance					
Medicaid		2,850	4,572	5,555	6,354
Public Health/Aging		81	242	249	257
School Aid		2,851	4,651	6,091	6,947
Lottery Aid		155	200	200	200
School Tax Relief (STAR)		125	262	262	262
Education and Special Education		155	35	40	46
Higher Education		69	87	89	89
Human Services/Labor/Housing		385	396	409	428
Local Government Assistance		334	304	304	304
Mental Hygiene		307	327	317	280
Member Items		85	-	-	-
Other		87	83	84	82
State Operations		1,374	1,467	1,483	1,478
Total Spending Reductions/Savings		**8,858**	**12,626**	**15,083**	**16,727**
Revenue Actions					
Tax Actions					
Tax "Modernization" and Increased Voluntary Compliance		200	200	200	200
Business Tax Loophole Closer		22	16	16	16
Other Revenue					
Abandoned Property (including $55 million from reducing certain dormancy periods)		100	115	60	45
Other		18	20	28	28
Total Revenue		**340**	**351**	**304**	**289**
Non-Recurring		**805**	**2**	**-**	**-**
Metropolitan Transportation Authority		200	-	-	-
Debt Management/Capital Financing		200	-	-	-
New York Power Authority/Authority Sweeps		150	-	-	-
School Aid - Limit Prior Year School Aid Claims		100	-	-	-
Various Recoveries		75	-	-	-
Other		80	2	-	-
Total Actions Toward Deficit	**-**	**10,003**	**12,979**	**15,387**	**17,016**
Remaining Gap After Actions	**-**	**-**	**(2,301)**	**(2,496)**	**(4,399)**

The Changing Structure of the Budget

All Governmental Funds spending has increased $49.2 billion, or 61.7 percent, since SFY 2000-01, which is an average annual increase of 5.3 percent. More than half of total growth comes from school aid (18.7 percent of total growth; 5.9 percent average annual growth) and Medicaid (33.5 percent of total growth; 6.7 percent average annual growth). State Operations, which includes personal service and non-personal service costs, has declined from 17.4 percent to 15.1 percent in SFY 2009-10, and is projected to decline further to 13.7 percent by SFY 2014-15.

The Executive Budget proposes significant reductions in out-year growth of 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, primarily because of health benefits for current and retired State employees and the State's retirement contributions for current employees. General State Charges has grown 8.0 percent annually on average since SFY 2000-01 and is projected to grow 7.2 percent annually on average over the next five years, but remains a relatively small percentage (5.7 percent) of All Funds spending. State-Funded Debt Service as a share of the total budget is also projected to increase.

Proportion of All Funds Spending by Major Category



Risks to the Financial Plan

The proposed SFY 2011-12 Executive Budget relies much less on temporary and non-recurring resources for balance than have recent budgets. However, the proposed Budget includes several proposals where achieving the anticipated level of revenue or savings will be challenging. These proposals include optimistic revenue assumptions and savings targets that lack detailed plans. The proposed gap-closing plan may produce less savings than expected and other proposals may provide less than the assumed fiscal benefits. Any shortfalls that occur could create a deficit for SFY 2011-12 and increase out-year gap projections. The following provides an overview of the larger risks and assumptions that the Office of the State Comptroller identifies in the Executive Budget that could impact the Financial Plan.

- **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 while consumer spending has increased recently, consumer sentiment 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.

  Projections in the SFY 2010-11 Enacted Budget Financial Plan were clearly overly optimistic, which is reflected in revenue collections and spending estimates that are off by billions of dollars just six months after the Budget's enactment. A slowdown or unanticipated shock to the economy could very quickly translate into significant downward pressure on revenue and upward pressure on spending.

- **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.

  - *Cigarette Taxes* – The proposed plan includes $130 million in projected cigarette taxes from Native American sales to non-Native Americans. This elusive source of revenue has been included in financial plans for many years. No revenue has yet been collected.

  - *Insurance Conversion Proceeds* – The proposed budget anticipates $150 million in SFY 2011-12, increasing to $300 million in SFY 2013-14, in funds related to the conversion of HIP and GHI, both currently 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's proposed gap-closing plan includes non-recurring revenue from transfers of "voluntary contributions" from the New York Power Authority of $100 million, and $50 million from unspecified other authorities that are authorized to make "voluntary contributions" to the General Fund. While NYPA has a history of making voluntary contributions to the State, the source of the additional $50 million is not identified.

  - *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. It is unclear from the Financial Plan how much of this authorization will be used. However, 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.

- *Tax Modernization/Voluntary Compliance* – The Executive Budget proposes a number of provisions designed to increase administrative efficiencies and improve systems to enhance revenue collections in the Department of Taxation and Finance as well as compliance initiatives through modernization, expected to net $200 million annually. However, realizing the full $200 million within the next fiscal year could be difficult.

- *Lottery Expansion* – The Executive Budget relies on over $100 million in revenue from various lottery proposals, including $10 million from a proposal to remove restrictions on locations for the Division of Lottery's Quick Draw video game. Lottery expansion proposals, particularly those related to Quick Draw, have been rejected by the Legislature in the past.

- *Tribal State Compact* – The Executive Budget Financial Plan includes funding from Native American casinos of $121.9 million in SFY 2010-11 and $125.5 million in SFY 2011-12. As of January 31, 2011, the State had only received $4.6 million due to the timing of payments from Tribal nations. It is not clear at this time that the State will receive any additional funding this year, which could require additional actions at the end of the fiscal year. Also, it is not known if current trends will continue next year, thus requiring additional gap closing actions.

- *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 2011-12, the Executive proposes a transfer of $745 million, which reflects, in part, a proposal to reduce the dormancy period for certain abandoned property. This level is approximately $170 million more than what could be expected from the Fund, even factoring in the additional revenue expected from reducing the dormancy period for certain property. While receipts to the Fund have modestly increased in the current year, claims paid are also rising significantly.

- **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, PIT final collections have been below initial projections every year annually since SFY 2005-06.

  For example, in the SFY 2010-11 Enacted Budget Financial Plan, PIT collections were projected to grow 6.2 percent, which was well above most economic indicators. Now, only six months later, the projection for PIT collections for the year is reduced to 3.2 percent growth, a decrease of over $1.0 billion. The SFY 2011-12 Executive Budget projects PIT growth of 7.4 percent. However, this is largely due to expected growth of 12 percent in estimated payments (which are quarterly payments from people who do not have taxes taken directly from their paychecks).

- **Unspecified Savings Actions –** The proposed budget includes over $4.0 billion in savings targets, without details identifying where and how the savings will be achieved beyond broad parameters, making these targets a risk to the Financial Plan in both SFY 2011-12 and beyond. Moreover, savings in many of these areas have traditionally been difficult to achieve in the same year that the savings measures are enacted.

    - *Medicaid* – The Executive Budget proposes to cut General Fund Medicaid spending by $2.85 billion in SFY 2011-12, and then limit 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 proposal to cut spending this year does not detail how or where the spending reductions would occur.

      Instead, there is a negative appropriation of $2.85 billion with language that states that the reduction "may be allocated, to the extent practicable, with the findings and recommendations in a report submitted by the Medicaid redesign team pursuant to Executive Order number five." If the team does not provide recommendations to achieve sufficient savings, the Commissioner of Health, in consultation with other agency heads, would be empowered to develop a plan for the additional savings. Furthermore, the Commissioner is authorized to implement either the team's plan, or any other plan he develops, to achieve the necessary savings.

      The risk comes from the difficulty in finding 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 will be limited to approximately 4.0 percent growth annually, given that Medicaid enrollment is expected to grow between 5.2 percent and 6.4 percent annually over the next five years.

    - *Agency Redesign and Workforce Savings* – The Executive Budget expects to reduce agency costs by nearly $1.4 billion, including facility closures (subject to recommendations) expected to save $100 million, and wage and benefit changes negotiated with employee unions or layoffs, if other sources of savings are not identified, expected to save $450 million.

      The Executive Budget proposes a 10 percent General Fund reduction in agency State Operations (as well as savings that will be realized in other funds), totaling approximately $1.0 billion.

Economy and Revenue

Economic Outlook

National Economy

The national economy continues to recover from the worst recession since the Great Depression. For 2010, Gross Domestic Product (GDP) grew at a rate of 2.9 percent, the highest annual rate of growth since 2005. The second round of the Federal Reserve's quantitative easing program and the newly enacted tax stimulus package are expected to further boost consumer and business spending beginning in calendar year 2011. The Blue Chip consensus forecast expects the GDP to continue to grow by 3.1 percent in 2011 and 3.2 percent in 2012.

Consumer spending increased sharply in the fourth quarter of 2010, as modest job growth resumed and consumer confidence gradually recovered. For 2010, personal consumption expenditures increased by 1.8 percent. The Blue Chip consensus forecast expects personal consumption expenditures to increase by 3.1 percent in 2011 and 2.9 percent in 2012. Business investment and exports benefited from the recovery of the global economy and the declining value of the dollar. Business investment in equipment and software grew by 15.1 percent in 2010—the largest increase since 1984, although investment in office buildings and plants remained weak. Rebuilding of business inventories, in response to higher demand, also contributed positively to the overall economy.

Weakness in the labor and housing markets continues to be a source of concern. After losing 8.5 million private sector jobs during the recession, the nation added only 1.3 million jobs in 2010. This slow rate of job growth is insufficient to reduce the unemployment rate quickly. By January 2011, the unemployment rate stood at 9.0 percent—only seven-tenths of a percentage point lower than in January 2010. Between December 2009, when job growth began, and January 2011, the nation gained 1.2 million private sector jobs, or 1.1 percent, while government jobs declined by 250,000, or 1.1 percent. IHS Global Insight forecasts that job growth will strengthen beginning in 2011 with an increase of 2.1 percent in 2011 and another 2.6 percent in 2012. The housing market continues to be depressed by the high rate of foreclosure filings and delinquencies, coupled with a tight credit market. Both home sales volume and prices are not expected to show sustainable recovery until 2012.

New York State Economy

New York State's economy began to grow in the fourth quarter of 2009, after five consecutive quarters of contraction. Gross State Product (GSP) is expected to have grown by 2.1 percent in 2010, after declining by 4.3 percent in 2009. Much of the growth was fueled by New York City's economy. IHS Global Insight expects GSP to grow slower than the national GDP—by 2.8 percent in 2011 and 2.4 percent in 2012.

Employment losses in New York also ended in December 2009. Since then, the State has gained 70,600 private sector jobs or 1 percent, while government jobs declined by 33,600 or 2.2 percent. Job gains have been concentrated in education and health care, professional and business services, and leisure and hospitality. The unemployment rate in New York declined three quarters of a percentage point since December 2009 to 8.2 percent. IHS Global Insight expects the State's unemployment rate to decline to 8.0 percent in 2011 and 7.5 percent in 2012.

IHS Global Insight has forecast that wages grew by 4.6 percent in 2010, after falling by 7.2 percent in 2009. Helping to drive the wage growth in 2010 was the recovery of the financial sector. IHS Global Insight expects wages in New York to increase by 5.2 percent in 2011 and 4.6 percent in 2012.

According to IHS Global Insight, the sales volume and the median price for existing homes in the State declined by 2 percent and 0.6 percent, respectively, in 2010. The decline is expected to continue throughout 2011 before a recovery begins in 2012, when sales volume and prices are expected to rise. There were 50,369 foreclosure filings in 2009 and another 43,913 in 2010. High levels of foreclosure filings and delinquencies will continue to hinder the housing market in the State.

Revenue

State Fiscal Year 2010-11

The SFY 2011-12 Executive Budget projects that total All Funds receipts will increase in SFY 2010-11 by almost $7.8 billion, or 6.2 percent, over SFY 2009-10 to $134.6 billion. The growth was driven by the federal stimulus funds, which are expected to increase Federal Grants by 10 percent, and by expected gains in tax receipts.

All Funds tax receipts are estimated to increase $3.1 billion, or 5.4 percent, to $60.8 billion. As New York's economy began to grow in 2010, so did the State's revenues. Base tax receipts growth, which adjusts the results to net out the impact of law changes, is projected to increase for the first time since SFY 2007-08, by 2.1 percent in SFY 2010-11.

Personal Income Tax

All Funds Personal Income Tax receipts in SFY 2010-11 are now forecast to increase by $1.1 billion, or 3.2 percent, over the prior year. The increase reflects the gradual improvement in the economy and the full-year implementation of the temporary PIT increase on high income earners, partially offset by the $500 million delay in 2009 tax refunds from the last quarter of SFY 2009-10 to the first quarter of SFY 2010-11.

User Taxes and Fees

All Funds consumption tax receipts in SFY 2010-11 are forecast to increase by $1.3 billion, or 10.4 percent, over SFY 2009-10. The increase can be attributed mainly to increases in the sales tax as well as cigarette and tobacco taxes. Sales taxes are expected to increase by $986 million, or 9.4 percent, because of the improvement in the economy, the temporary elimination of the sales tax exemption for clothing and footwear, and other law changes. Cigarette taxes are forecast to increase by $255 million, or 18.7 percent, because of the tax increase of $1.60 per pack enacted as part of the SFY 2010-11 State Budget.

Business Taxes

All Funds business tax receipts are forecast to increase by $215 million, or 2.9 percent, in SFY 2010-11, over the prior year. The increase is attributable to a rise in corporate franchise tax receipts ($759 million, or 30.2 percent) as corporate profits increased by 28.8 percent in 2010, as well as higher audit payments and lower refunds. This is offset by declines in the bank tax ($215 million, or 15.4 percent), the insurance tax ($183 million, or 12.3 percent), the corporation and utilities tax ($118 million, or 12.4 percent), and the petroleum business tax ($29 million, or 2.6 percent).

Other Taxes

All Funds other tax receipts in SFY 2010-11, including the payroll tax, are forecast to increase $432 million, or 16.6 percent, over the prior year. This increase is attributable to growth in receipts from the estate tax ($216 million, or 25 percent), the payroll tax ($144.3 million, or 11.8 percent) and the real estate transfer tax ($73 million, or 14.8 percent).

Miscellaneous Receipts

All Funds miscellaneous receipts are forecast to increase by $179 million, or 0.8 percent, in SFY 2010-11.

Federal Grants

Federal grants are expected to increase by almost $4.6 billion, or 10 percent, in SFY 2010-11, reflecting the receipt of temporary American Recovery and Reinvestment Act (ARRA) federal stimulus funds.

State Fiscal Year 2011-12

The Executive Budget estimates that total All Funds receipts will decline in SFY 2011-12 by $1.7 billion, or 1.3 percent, over SFY 2010-11 to $132.9 billion. The decline can be attributed to the loss of federal stimulus funds receipts, which are expected to fall

$5.8 billion, or 11.6 percent. This loss will be partially offset by growth in All Funds tax receipts, which are estimated to increase $4 billion, or 6.6 percent, to $64.8 billion. This increase is attributable to the economic recovery, the revenue actions passed last year and those proposed with the SFY 2011-12 Budget. Finally, All Funds miscellaneous receipts basically remain unchanged, growing by $80 million, or 0.3 percent.

Personal Income Tax

For SFY 2011-12, All Funds PIT receipts are forecast to increase by $2.6 billion, or 7.4 percent, over the prior year. The increase is attributable to the improving economy, higher refunds in SFY 2010-11, and the voluntary compliance initiative in the Executive Budget. Base tax receipts, which net out the $500 million in additional refunds in SFY 2010-11 and the elimination of the high income tax provisions in the fourth quarter of SFY 2011-12, are projected to grow by 11.4 percent.

User Taxes and Fees

For SFY 2011-12, All Funds consumption tax receipts are forecast to increase by $627 million, or 4.4 percent, over the prior year. The increase is mainly due to growth in the sales tax as well as cigarette and tobacco taxes. The sales tax is expected to increase by $437 million, or 3.8 percent, as the economy continues to improve, offset by the partial return of the clothing exemption. Cigarette taxes are forecast to increase by $165 million, or 10.2 percent, as the Executive expects to collect cigarette taxes sold on Indian reservations to non-Native Americans ($130 million).

Business Taxes

For SFY 2011-12, All Funds business tax receipts are forecast to increase by $705 million, or 9.2 percent. The increase is attributable to the improving economy and an expected increase in corporate profits of 6.2 percent. All of the business taxes are forecast to increase in SFY 2011-12.

Other Taxes

For SFY 2011-12, All Funds other tax receipts are forecast to increase by $48 million, or 1.6 percent. The increase is due to an increase in the payroll tax ($65 million, or 4.7 percent) and the real estate transfer tax ($54 million, or 9.5 percent), offset by a decline in estate tax collections ($65 million, or 6.0 percent).

Miscellaneous Receipts

All Funds miscellaneous receipts are forecast to increase by $80 million, or 0.3 percent in SFY 2011-12.

Federal Grants

For SFY 2011-12, All Funds federal grants are forecast to decline $5.8 billion, or 11.6 percent, reflecting the loss in ARRA funds.

New Revenue Actions

The Executive Budget projects the receipt of an additional $455.5 million in All Funds revenue ($459.4 million when fully effective) from new revenue actions proposed for SFY 2011-12.

Tax Enforcement Actions

The Executive Budget projects the receipt of $205 million in SFY 2011-12 ($210 million when fully effective) from two proposals related to tax enforcement:

- $200 million from a tax modernization initiative, including mandated electronic filings by all sales tax vendors, increased PIT e-filings, and enabling notices, filings and other transactions to be completed electronically. Also, the Tax Commissioner would be empowered to require automated point-of-sale accounting systems and more frequent filings from sales tax filers with poor filing records.

- $5.0 million from requiring certain outstanding tax debts to be withheld from any lottery winnings above $600.

Loophole Closings

The Executive Budget projects the receipt of $22 million in SFY 2011-12 ($16 million when fully effective) from a proposal to repeal the insurance tax exemption for large cooperative insurance companies with annual insurance premiums that exceed $25 million.

New or Increased Fees

The Executive Budget projects the receipt of $19.5 million in SFY 2011-12 ($20.4 million when fully effective) from two proposals:

- $11.9 million from increasing the fee for Statewide central registrar clearance checks from $5 to $60, and imposing the fee on certain previously exempt individuals.

- $7.6 million from a new 2.75 percent surcharge on purses for all horse races in the State.

Other Revenue Actions

The Executive Budget projects the receipt of $209 million in SFY 2011-12 ($213 million when fully effective) from five other revenue proposals, including four related to the Lottery:

- $100 million from Lottery efficiencies.
- $55 million from reducing the dormancy period for certain abandoned properties.
- $38 million from Video Lottery Terminal provisions related to authorizing free play allowances.
- $10 million from the expansion of Quick Draw by removing location restrictions.
- $6.0 million from other Lottery provisions, including increasing the number of 75 percent prize pay-out instant games from three to five annually, and allowing multi-state progressive video lottery games.

Total Receipts
(in millions of dollars**)**

Category	Actual SFY 2009-10	Projected SFY 2010-11	Dollar Change	Percent Change	Proposed SFY 2011-12	Dollar Change	Percent Change
General Fund	**52,556**	**54,214**	**1,658**	**3.2%**	**57,003**	**2,789**	**5.1%**
Taxes	36,997	39,162	**2,165**	5.9%	42,023	**2,861**	7.3%
Personal Income Tax	22,655	23,624	**969**	4.3%	25,589	**1,965**	8.3%
Consumption and Use Taxes	8,086	8,775	**689**	8.5%	9,153	**378**	4.3%
Business Taxes	5,371	5,664	**293**	5.5%	6,251	**587**	10.4%
Other Taxes	885	1,099	**214**	24.2%	1,030	**(69)**	-6.3%
Miscellaneous Receipts	3,888	3,083	**(805)**	-20.7%	3,088	**5**	0.2%
Federal Grants	71	60	**(11)**	-15.5%	60	**-**	0.0%
Transfers From Other Funds	11,600	11,909	**309**	2.7%	11,832	**(77)**	-0.6%
All Funds	**126,748**	**134,597**	**7,849**	**6.2%**	**132,871**	**(1,726)**	**-1.3%**
Taxes	57,667	60,763	**3,096**	5.4%	64,783	**4,020**	6.6%
Personal Income Tax	34,751	35,869	**1,118**	3.2%	38,509	**2,640**	7.4%
Consumption and Use Taxes	12,852	14,183	**1,331**	10.4%	14,810	**627**	4.4%
Business Taxes	7,458	7,673	**215**	2.9%	8,378	**705**	9.2%
Other Taxes	2,606	3,038	**432**	16.6%	3,086	**48**	1.6%
Miscellaneous Receipts	23,557	23,736	**179**	0.8%	23,816	**80**	0.3%
Federal Grants	45,524	50,098	**4,574**	10.0%	44,272	**(5,826)**	-11.6%

Program Area Highlights

Education

The SFY 2011-12 Executive Budget proposes to reduce school aid from $20.9 billion to $19.4 billion in school year 2011-12, a reduction of $1.5 billion, or 7.3 percent. A large portion of the reduction is attributable to the phase-out of $1.3 billion in federal ARRA and Education Jobs Fund revenues. On a State fiscal year basis, projected school aid spending totals $18.7 billion, a decrease of $1.3 billion.

The proposed net reduction of $1.5 billion would come from several changes, the most significant of which is a gap elimination adjustment (GEA), similar in nature to the gap-closing measures enacted in SFY 2009-10 and SFY 2010-11, although larger in size than those measures. The GEA proposed for SFY 2011-12, which totals $2.8 billion on a school year basis, would be applied to all major formula-based aids except building aid and universal pre-kindergarten aid, and is structured to distribute proportionately smaller reductions to high-need districts. Many districts would sustain double-digit percentage cuts, especially if building aid—which cannot be used to fund operating expenses—is not factored into the equation. Unlike in previous budgets the Executive Budget proposes extending the GEA into future budget years, as part of the Executive's plan to limit school aid growth to the multi-year average of growth in New York State personal income.

In addition, the Executive proposes holding basic Foundation Aid and Universal Pre-Kindergarten Aid flat for two more years, and extending the phase-in of full funding from the already-delayed target date of school year 2012-13 to school year 2016-17. The Executive Budget also proposes to realize savings from a restructuring of aid for two major special education programs. The first would shift costs from the State to school districts for summer school special education by factoring in wealth-based criteria, saving the State $57 million in SFY 2011-12. The second would fund schools for the deaf and blind through the same reimbursement mechanism that funds schools for children with other major disabilities, rather than through a separate line item, saving the State $98 million in SFY 2011-12.

Offsetting some of these cuts and expense shifts, various "expense-based" aids would increase by $305 million. The Executive Budget also creates two new competitive school district efficiency and performance grant programs totaling $500 million. No disbursements are planned for SFY 2011-12 for these new programs.

The Executive Budget proposes allowing schools to use any excess funds in their Employee Benefits Accrued Liability Reserve (EBALR) accounts to offset the aid reductions. The Executive Budget would require the State Comptroller to determine the amount of excess funding that is available in each school district's reserve account. In addition, the Executive has stated that school districts could utilize other resources to offset some or all of the reduction in State aid, including undesignated reserves and unspent federal Education Jobs Fund revenues. However, not all school districts have enough reserves to fully offset the proposed cuts and the use of such reserves provides one-time revenue for a recurring fiscal challenge.

The legislation accompanying the Executive Budget also restructures several major aid categories, including building aid, transportation aid, and aid for Boards Of Cooperative Educational Services (BOCES). Since these are expense-based aid categories, which are paid based on expenditures made in the prior year, savings would not be realized until SFY 2012-13. Building aid is proposed to be awarded competitively and would no longer incorporate "save harmless" provisions that shield certain districts from lower reimbursements on future projects. Transportation aid would be reduced for districts that do not engage in shared services or implement other "best practices." The responsibility for developing best practice criteria and for evaluating school district performance in this area would rest with the Commissioner of Education. Instructional BOCES aid would be aligned with the Foundation Aid formula, and non-instructional BOCES aid would be largely eliminated.

New York State School Tax Relief (STAR) Program

The SFY 2011-12 Executive Budget proposes STAR property tax relief of $3.3 billion in SFY 2011-12, but notes that the program is large, expensive, and has not reduced tax burdens in the State. In an effort to contain growth in the program that is not tied to growth in participation, the budget proposes to limit growth in exemption benefits to two percent annually when property values decline precipitously due to economic factors. The program already has a similar provision in place that limits exemption decreases when property values escalate rapidly. This measure is anticipated to save $125 million in SFY 2011-12.

The Executive Budget also includes provisions for the Department of Taxation and Finance to expand its auditing for fraud, which is expected to provide no savings in SFY 2011-12 and $50 million in 2012-13. In addition, the Executive proposes a mechanism for STAR recipients to repay erroneous back payments, to save $100,000 in SFY 2011-12.

Higher Education

The SFY 2011-12 Executive Budget proposes to reduce General Fund State support for the State University of New York (SUNY) and the City University of New York (CUNY) senior colleges by $185.5 million in SFY 2011-12 and $233.1 million on an academic year basis. This reflects a 10 percent reduction from SFY 2010-11 funding levels. The impact of this reduction on SUNY is estimated to be $115.4 million or $150 million on an academic year basis, while CUNY's support is estimated to be reduced by $70.1 million or $83.2 million on an academic year basis. After these reductions, $961.6 million in General Fund State support would be provided to SUNY and $509 million to CUNY. The Executive Budget proposal does not include an increase in tuition.

The Executive Budget also proposes to eliminate the General Fund subsidy for the three SUNY teaching hospitals at Brooklyn, Stony Brook and Syracuse. This action will save an additional $135 million or $154 million on an academic year basis. On a full annual basis, the subsidy elimination is estimated to save $167 million. The Executive Budget also provides for $350 million in spending authority to support the operation of the Long Island College Hospital, should its proposed acquisition by SUNY Brooklyn Downstate Medical Center be approved.

Base Operating Aid for SUNY and CUNY community colleges is proposed to be reduced by ten percent or $226 per Full-Time Equivalent (FTE) over SFY 2010-11, from $2,260 to $2,034, resulting in $46.3 million in savings. The impact on SUNY community colleges is estimated to be $33.2 million, while aid to CUNY community colleges would be reduced by $13.1 million. After these reductions, $427.8 million would be provided to SUNY community colleges and $127.5 million to CUNY community colleges.

The Executive Budget increases the Tuition Assistance Program (TAP) by $19 million or 2.3 percent on an All Funds basis, primarily due to enrollment growth. Continuation of certain TAP provisions included in the SFY 2010-11 Enacted State Budget will result in $30.8 million in General Fund savings or $44 million on an academic year basis. These provisions include the inclusion of pension and annuity income when determining TAP eligibility, limiting the maximum TAP award to $4,000 for students in two-year degree programs, continuing the TAP award schedule for students who are married with no children, and eliminating TAP eligibility for all students in default on student loans and for graduate students. Also recommended are minimum academic standards for nonremedial TAP recipients.

The Regents Physician Loan Forgiveness Program, Patricia K. McGee Nursing Faculty Scholarship, Nursing Faculty Loan Forgiveness Incentive Program and Regents Licensed Social Worker Loan Forgiveness Program are recommended to be extended at a cost of $7.7 million in SFY 2011-12. A proposed reduction in support for the Long Island Veterans' Home is projected to save $4.7 million.

The Executive Budget proposal includes an increase of $331 million in bonding authorization for SUNY dormitory facilities from $1.23 billion to $1.56 billion.

The Executive Budget proposes measures to enhance flexibility for SUNY and CUNY in the areas of procurement and participation in public-private partnerships, including the creation of a State University Asset Maximization Review Board. Leases and participation in public-private partnerships would be subject to unanimous approval of the voting members of the newly created Board.

The proposal would expand SUNY's ability, with respect to its hospitals, to participate in certain arrangements without pre-approval from any State office or agency, including but not limited to the Office of the State Comptroller (OSC), the Attorney General and DOB. The proposal removes requirements for SUNY and CUNY to obtain pre-approval of contracts by OSC, removing important oversight, transparency and accountability provisions. The proposal maintains the post-audit function of OSC.

The proposal broadens the authority of the State University Construction Fund to implement capital projects through alternative construction delivery methods and revised procurement guidelines. Revised procurement guidelines are also proposed to be authorized for the City University Construction Fund.

The Dormitory Authority of the State of New York (DASNY) would be authorized to finance and construct dormitories on behalf of community colleges. This provision would require the colleges to assume responsibility for 100 percent of the project cost.

Health/Medicaid

The SFY 2011-12 Executive Budget increases State-funded Medicaid spending by $3.0 billion, or 16.7 percent, to $21.0 billion in SFY 2011-12. All Funds spending of $44.9 billion, reflecting State and federal shares of Medicaid, is lower by $1.4 billion, or 3.0 percent, in SFY 2011-12, largely because of the expiration of enhanced federal Medicaid matching funds at the end of June 2011.

As shown below, the total cumulative State benefit of additional federal aid from enhanced Medicaid matching funds is projected to be approximately $9.6 billion.

Cumulative State Benefit From Enhanced Federal Medicaid Funding
(in millions of dollars)

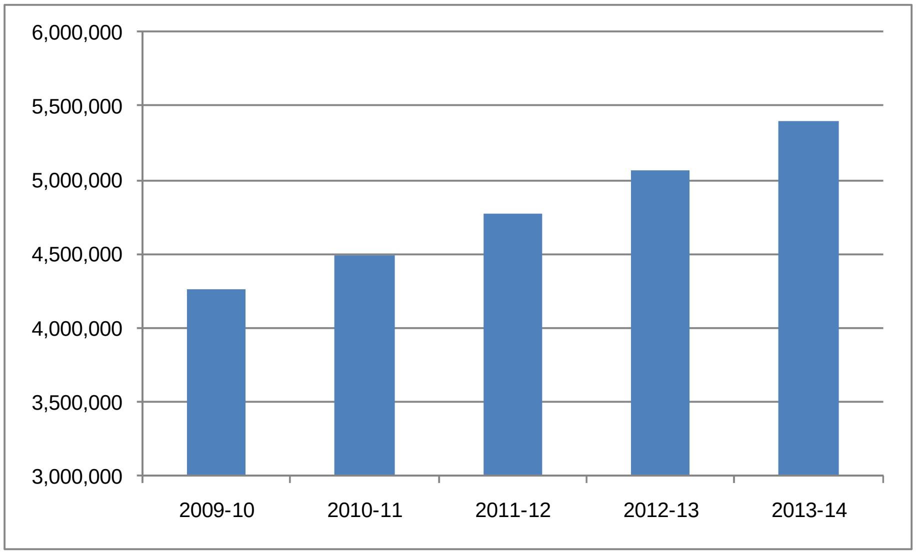
State Fiscal Year	State Health Department	Mental Hygiene Agencies	Total
2008-09	1,092	207	1,299
2009-10	3,041	532	3,573
2010-11	3,948	629	4,577
2011-12	353	96	449
2012-13	(254)	0	(254)
TOTAL	8,180	1,464	9,644

Source: DOB, SFY 2011-12 Executive Budget, February 2011; DOB, SFY 2010-11 Enacted Budget Report, August 2010.

Overall Medicaid spending, including $7.9 billion in local government expenditures, is projected to total $52.8 billion in SFY 2011-12, a decrease of $982 million, or 1.8 percent, from SFY 2010-11.

The Executive Budget projects Medicaid enrollment to exceed 5.0 million recipients in SFY 2011-12, an increase of 5.9 percent over SFY 2010-11. The Executive Budget projects average annual enrollment to reach nearly 5.4 million Medicaid recipients by SFY 2013-14.

Average Annual Medicaid Enrollment by State Fiscal Year



Source: Division of the Budget

The $3.0 billion net increase in State-funded Medicaid spending proposed for SFY 2011-12 largely reflects Medicaid program growth of $2.1 billion, as well as $3.6 billion in higher State costs resulting from the expiration of enhanced federal funding, offset by $2.5 billion in State Funds savings ($2.85 billion in General Fund savings) to be identified by the Medicaid Redesign Team established by Executive Order. This reduction would trigger additional federal Medicaid savings of $2.6 billion, for total State and federal Medicaid savings of $5.1 billion in SFY 2011-12.

If the Redesign Team's recommendations are insufficient or unacceptable to the Commissioner of Health, the Executive Budget authorizes him to develop and implement a plan to achieve the savings. Starting in April 2011, the Executive Budget also proposes to limit future State-funded Medicaid growth to the annual average long-term change in the medical component of the Consumer Price Index, which is currently estimated at about 4.0 percent a year. The SFY 2011-12 Executive Budget Five-Year Financial Plan proposes to hold projected State-funded Medicaid spending growth to $618 million, or 3.0 percent, in SFY 2012-13; $831 million, or 3.9 percent, in SFY 2013-14; and $867 million, or 3.9 percent, in SFY 2014-15, when State-funded spending would reach $23.3 billion.

Including federal Medicaid funding, the Financial Plan projects spending growth to decrease by $710 million, or 1.6 percent, to $44.2 billion in SFY 2012-13. However, combined State and federal Medicaid expenditures would increase by $3.0 billion, or 6.9 percent, in SFY 2013-14, and by $6.4 billion, or 13.5 percent, in SFY 2014-15, when State and federal Medicaid spending would reach $53.6 billion. Much of this increase is due to higher enrollment. The Executive Budget Financial Plan projects overall Medicaid expenditures, including local government spending, to total $63 billion in SFY 2014-15, an increase of $7.2 billion, or 12.9 percent, over SFY 2013-14.

The Executive Budget proposes to extend for three years, through March 2014, the Health Care Reform Act (HCRA), which finances a portion of State health care programs. The proposal also projects HCRA receipts and expenditures to remain balanced through SFY 2014-15. In SFY 2011-12, the Executive Budget proposes $5.4 billion in HCRA receipts and expenditures, reflecting modest growth in receipts from cigarette taxes, health insurance assessments and health care surcharges, as well as $150 million from health insurance company conversions and reductions in spending for the Elderly Pharmaceutical Insurance Coverage (EPIC) program, the Roswell Park Cancer Institute, and other health care programs. These are offset by greater HCRA support for Medicaid and various other initiatives.

EPIC savings reflect major modifications to the program, which include limiting EPIC drug coverage to when enrollees are in the coverage gap of the Medicare Part D drug program (commonly known as the 'donut hole') and eliminating premium and deductible payments for low-income EPIC enrollees. Total HCRA support for State funded Medicaid increases by $121 million, or 4.3 percent, to nearly $3.0 billion in SFY 2011-12.

In addition, the Executive Budget requires the Department of Health (DOH), like other Executive agencies, to achieve a 10 percent, or $43 million, reduction in State Operations spending through administrative efficiencies and workforce savings in SFY 2011-12. In SFY 2010-11, DOH achieved $10 million in State Operations savings by hiring 137 additional State employees, instead of contracting with private consultants for information technology services.

Mental Hygiene

The SFY 2011-12 Executive Budget proposes to decrease State-funded mental hygiene spending by $259 million, or 3.2 percent, to approximately $7.8 billion in SFY 2011-12. All Funds spending, including federal funds and capital projects, is proposed to total $8.2 billion in SFY 2011-12, which is $227 million, or 2.7 percent, lower than SFY 2010-11. This funding provides support for five State agencies: $4.3 billion, or a 3.3 percent reduction, for the Office for People With Developmental Disabilities (OPWDD); $3.3 billion, or a 2.1 percent reduction, for the Office of Mental Health (OMH); $582 million, or a 1.8 percent reduction, for the Office of Alcoholism and Substance Abuse Services (OASAS); $16 million, or a 1.2 percent reduction, for the Commission on Quality of Care and Advocacy for Persons with Disabilities (CQCAPD); and $4.2 million, or no reduction, for the Developmental Disabilities Planning Council (DDPC).

The $259 million decrease in State mental hygiene spending reflects $588 million in savings from State agency efficiencies, reform of community residential and non-residential programs and improved audit activities, which more than offset $329 million in program growth, largely resulting from residential development programs and costs of the sex offender management and treatment program.

The Executive Budget proposes to freeze all new OMH community residential programs for one year, delay development of residential opportunities for people with developmental disabilities, reduce funding for 41 existing gambling education programs, and delay development of five gambling prevention programs and three alcoholism and substance recovery centers.

Human Services

The Executive Budget proposes a $182 million, or 5.4 percent, increase 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). All Funds spending, including federal funds and capital projects, is proposed to total $8.3 billion in SFY 2011-12, which is $145 million, or 1.7 percent, lower than SFY 2010-11.

The increase in State funding largely reflects the expiration of federal Temporary Assistance for Needy Families (TANF) emergency contingency funds made available through the 2009 American Recovery and Reinvestment Act (ARRA), which results in public assistance costs reverting back to State OTDA funding. The Executive Budget proposes to offset a portion of higher State public assistance costs by maximizing the use of regular federal TANF funding and by delaying the third and final 10 percent increase to public assistance grants by one year, until July 2012. The Executive Budget projects an average public assistance caseload of 531,723 recipients in SFY 2011-12, which is 1.4 percent lower than SFY 2010-11.

The increase in State human services funding also reflects $95 million in new OCFS initiatives to prevent foster care placements and juvenile delinquency, support community-based alternatives to placing troubled youth in State facilities or local detention centers, provide 50 percent reimbursement to local governments under a new detention program for high-risk youth, and improve mental health, educating, counseling, direct care and other services at OCFS facilities throughout the State.

Other gap-closing actions include $69 million from transferring State OCFS costs of placing special education children in residential schools to local school districts, $34 million by reducing State OCFS adoption subsidies, and $29 million by reducing State Operations funding at OTDA and OCFS by 10 percent. The Executive Budget also proposes to save $22 million by closing 376 beds, or 31.1 percent of current capacity, in OCFS-funded youth facilities and eliminating the 12-month notification requirement to achieve reductions in service or public employee staffing or to transfer operations to a private or not-for-profit entity.

Economic Development

The SFY 2011-12 Executive Budget proposes establishing ten Regional Economic Development Councils through gubernatorial Executive Order for the purpose of coordinating and distributing all economic development resources from State agencies and authorities. In addition, the councils would review all existing economic development agreements.

Funding for economic development initiatives would be awarded competitively from $200 million in existing resources. The Executive Budget proposes providing $130 million in redirected economic development capital funds and an additional $70 million in tax credits through an enhanced Excelsior Jobs Program. The criteria to be used by the Regional Economic Development Councils to evaluate competing economic development proposals have not yet been specified.

Changes are proposed to the Excelsior Jobs Program enacted in SFY 2010-11. The Executive proposes to extend the tax benefit period from five years to ten years for eligible firms. Benefits would be capped at $50 million annually for new entrants, ultimately rising to a maximum $250 million annual cap upon full implementation over ten years. The cap then declines by $50 million annually through 2024.

In addition, the proposal includes changes to the calculations and caps for the jobs tax credit and research and development tax credit while also clarifying that participants may access both existing Research and Development (R&D) tax credits and the Excelsior R&D tax credits. The real property tax credit calculations would be modified to be based on the value of the property after improvements have been made. The proposal also authorizes utilities to offer discounted gas or electric rates to program participants.

The Executive Budget proposal clarifies that the Department of Economic Development (DED) will continue to monitor Empire Zone Program compliance despite the program's sunset on June 30, 2010, and provides DED with the authority to decertify noncompliant firms.

The Executive Budget proposes modifications to the existing 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. The proposal increases the lifetime maximum loan amount from $1.0 million to $2.0 million. In addition, a provision was added to allow a linked loan to be renewed for an additional four years.

The Executive Budget establishes an Economic Transformation Program, which would provide $100 million in capital funding to communities affected by proposed correctional and youth facility closures.

The Executive Budget proposes merging the New York State Foundation for Science, Technology and Innovation (NYSTAR), which administers programs to expand university-based research and technology, with the Empire State Development Corporation (ESDC), with annual savings of approximately $2.0 million expected due to elimination of duplicative functions.

Lottery and Gambling

The Executive Budget proposes a Supplemental Regulatory Fee of 2.75 percent of all purses at harness and thoroughbred tracks. Receipts from the fee are projected to generate $7.6 million in SFY 2011-12, a portion of which is proposed to be used to support the Racing and Wagering Board's oversight and regulation of the State's racing industry.

The Executive Budget also proposes easing restrictions on Quick Draw operations, authorizing a free-play allowance program, expanding instant lottery games and authorizing multi-jurisdictional video lottery gaming. These proposals are expected to increase revenue by $54 million in SFY 2011-12 and $89 million annually thereafter.

Transportation

The SFY 2011-12 Executive Budget proposes an appropriation cut of $526 million, or 6 percent, in funding for the Department of Transportation, including a $397 million, or 9.3 percent, cut in Capital Projects funding along with a $129 million, or 2.9 percent, cut in departmental and other funds.

The Executive attributes this decline to four factors: the non-recurrence of a SFY 2010-11 federal rail capital appropriation; a 10 percent year-to-year reduction in operations funding from the Dedicated Highway and Bridge Trust Fund (DHBTF); annualized SFY 2010-11 workforce actions; and a decrease in mass transit appropriation levels.

Mass transit aid is proposed to decline by $106 million, including a $108 million decrease for the Metropolitan Transportation Authority (MTA), offset by a $2.0 million increase for other State-supported transit systems. The cut to the MTA is attributed to a "correction" in the SFY 2010-11 MTA Payroll Mobility Tax appropriation, which exceeded actual tax receipts. Total mass transit aid would be $4.2 billion, of which $3.8 billion is provided to the MTA.

The Executive Budget proposes funding the Consolidated Local Street and Highway Improvement Program (CHIPs) and Marchiselli Aid at the same levels as last year, $363.1 million and $39.7 million, respectively. The bond cap associated with these local highway aid programs would be raised from $6.287 billion to $6.695 billion.

Dedicated Highway and Bridge Trust Fund

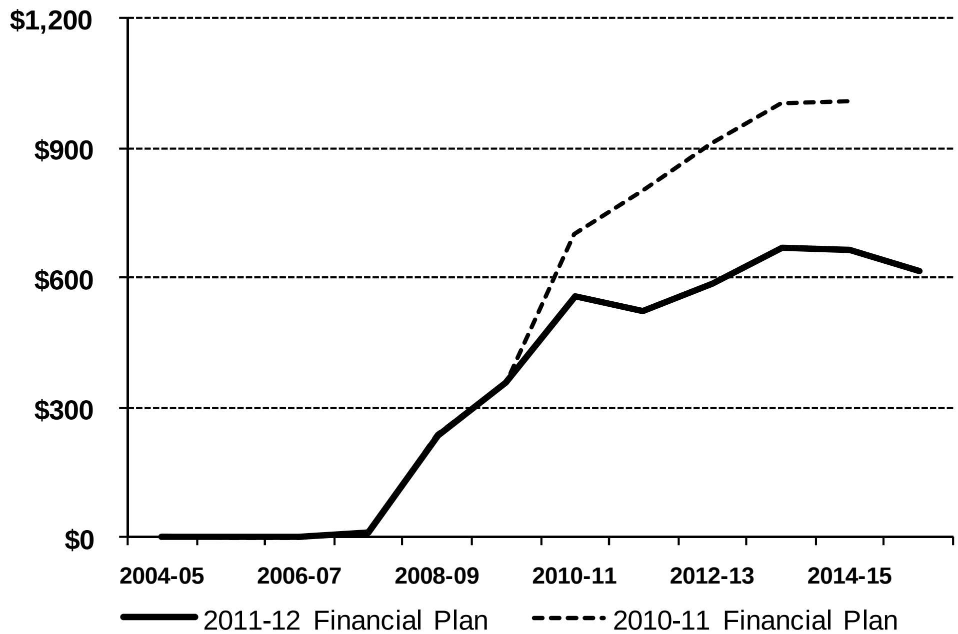
The Dedicated Highway and Bridge Trust Fund (DHBTF), enacted in 1991, was intended to be the primary funding source for the construction and rehabilitation of State-owned roads and bridges. Initially, it was anticipated that the Fund would rely primarily on pay-as-you-go financing to support its capital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

The Executive Budget proposes a 10 percent cut in DHBTF disbursements for Department of Motor Vehicles and Department of Transportation operations. Nevertheless, total State Operations will be $1.27 billion, or 36 percent, of all Fund disbursements.

The State Operations cuts included in this year's plan for the period from SFY 2010-11 through SFY 2014-15 will result in a cumulative $1.2 billion reduction in State Operations costs, when compared with the SFY 2010-11 Enacted Budget plan.

Decline in Anticipated General Fund Transfers to the Dedicated Highway and Bridge Trust Fund

(annual transfer in millions of dollars)



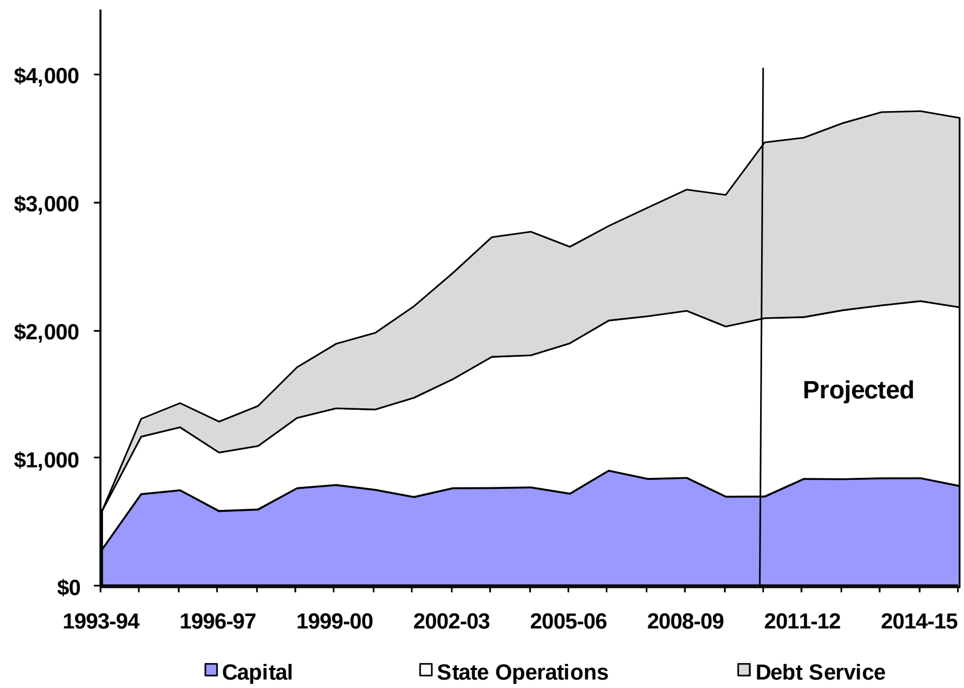
Source: Division of the Budget

As a result of these and other cuts, the General Fund subsidy for the DHBTF shows a $1.4 billion cut for the same period. The total amount of General Fund transfers for the period from SFY 2010-11 through SFY 2014-15 is now expected to be $3.0 billion, a substantial reduction from the $4.4 billion estimate contained in the SFY 2010-11 Enacted Budget Financial Plan.

Total debt service disbursements for SFY 2011-12 will be $1.4 billion, or 40 percent of all DHBTF disbursements. Debt service thus remains the largest component of DHBTF disbursements. Debt service payments will increase slightly, growing by $17 million for the five-year period from SFY 2010-11 to SFY 2014-15, when compared with the SFY 2010-11 Enacted Budget Financial Plan. The debt cap for the DHBTF remains unchanged at $16.5 billion. However, 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 that debt cap is proposed to increase.

Capital disbursements for SFY 2011-12 are projected to total $842.1 million, reflecting 24 percent of total DHBTF spending. Total capital disbursements from the DHBTF for the period between SFY 2010-11 through SFY 2014-15 will decline by $40.9 million when compared with the SFY 2010-11 Enacted Budget Financial Plan. The following chart shows that 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 2009-10) - Office of the State Comptroller
Projected Results (SFY 2010-11 to SFY 2015-16) - Division of the Budget

Housing

The Executive Budget proposes to cut Division of Housing and Community Renewal (DHCR) spending by $70.8 million, to $396.9 million, from SFY 2010-11. This decrease results from the expiration of one-time funding from ARRA and other reductions.

Included in these reductions is a proposed $6.0 million reduction to Neighborhood and Rural Preservation programs. Formula-based funding would be eliminated, and these programs would be redesigned as competitive programs to be administered by the DHCR Commissioner. The Executive Budget provides an additional $4.0 million State Low Income Housing Tax Credit for SFY 2011-12.

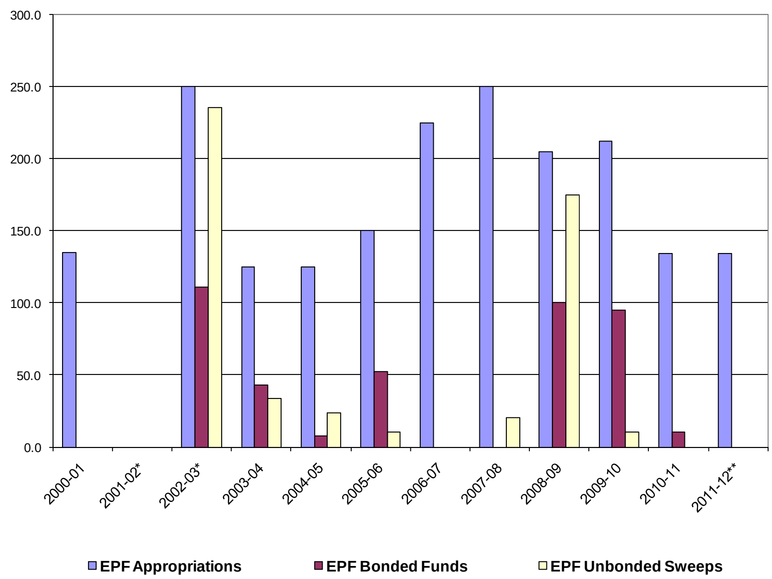
Environment and Parks

Department of Environmental Conservation

The Executive Budget proposes to cut spending for the Department of Environmental Conservation by $43 million to $1.013 billion from SFY 2010-11. The Environmental Protection Fund (EPF) is proposed to be funded at $134 million, the same level as SFY 2010-11.

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 borrowed funds issued by public authorities, creating a long-term cost where one had previously not been anticipated. These practices continued through SFY 2010-11. The SFY 2011-12 Executive Budget EPF proposal contains no General Fund sweeps or new authorizations to bond for EPF purposes for the first time since SFY 2006-07.

EPF Appropriations, Sweeps and Authorized Bonds
(in millions)



* There was no EPF appropriation in SFY 2001-02, but two appropriations were made in SFY 2002-03
** Appropriation level proposed in SFY 2011-12 Executive Budget.

The Executive Budget proposes to make no new appropriations for the Brownfield Opportunity Areas program, for a projected savings of $5.0 million in SFY 2011-12.

Tug Hill Commission

The Executive Budget proposes to eliminate the Tug Hill Commission, which provides planning assistance in the 2,100 square mile Tug Hill plateau region, for a projected savings of $1.2 million in SFY 2011-12.

Office of Parks, Recreation and Historic Preservation

The Executive Budget proposes to cut Office of Parks, Recreation and Historic Preservation (Parks) spending by $50.6 million to $208.4 million from SFY 2010-11. The majority of this cut is a reduction in capital spending due to the expiration of a Parks capital initiative. The Executive Budget proposes to eliminate State reimbursements to counties for enforcement of certain boating laws under the I Love New York Waterways Safe Boating Program, for savings of $2.9 million in SFY 2011-12.

Agriculture

The SFY 2011-12 Executive Budget proposes to increase disbursements by the Department of Agriculture and Markets from the SFY 2010-11 level of $100.8 million to $103.7 million. Local assistance programs will be reduced by $2.0 million, and restructured in a $1.2 million competitive grant program to be administered by the Commissioner of Agriculture and Markets.

The Executive Budget contains several programs to improve access to nutritious foods in underserved communities. Proposals include: expanding the Urban Development Corporation's healthy communities/healthy food initiative to provide low-cost financing in support of developing permanent farmers' markets; authorizing the Commissioner of the Department of Agricultural and Markets to create a revolving loan fund to assist low-income consumers in joining community-supported agricultural enterprises; and allowing grants that promote the development of farmers' markets to be used to purchase electronic benefit transfer (EBT) machines so that recipients of nutrition assistance can use their EBT cards in farmers' markets.

Energy

The Executive Budget proposes to replace the Power for Jobs program with a new Recharge New York Power Program. The program would allocate low cost hydroelectric power to create and retain jobs using 910 megawatts (MW) of low cost power from New York Power Authority (NYPA) hydropower stations and market power purchased by NYPA. The hydroelectric power would be reallocated from domestic and rural customers of National Grid, New York State Electric & Gas (NYSEG) and Rochester Gas & Electric (RG&E).

A bill mitigation payment will be made to these utilities to offset increases in electric bills for their customers. The Recharge New York Power Program would require NYPA to make a payment of $100 million to the utilities in the years 2011 through 2013. The payment would decline to $70 million, $50 million and $30 million in 2014, 2015 and 2016, respectively. The payment would remain at $30 million in perpetuity.

Under the proposal, at least 350 MW would be allocated for economic development in the National Grid, NYSEG and RG&E electric service territories, 200 MW is set aside to attract new investment and 100 MW is set aside for not-for-profit institutions. NYPA is required to make payments to the State to offset continuing tax credits due to a one year extension of the expiring Power for Jobs program. NYPA will pay $7.5 million for SFY 2010-11 and $6 million in SFY 2011-12. The new program would be administered off-budget by NYPA.

Public Protection

Department of Corrections and Community Supervision

The SFY 2011-12 Executive Budget proposes to merge the Division of Parole with the Department of Correctional Services, creating a new Department of Corrections and Community Supervision. The merger is expected to produce savings of $6.0 million in SFY 2011-12. The Executive proposes reducing the Parole Board by six members for estimated savings of $508,000 in SFY 2011-12.

The Executive Budget creates a task force by Executive Order to recommend specific facilities to be closed, and identifies a potential excess of 3,500 beds. If the task force does not recommend sufficient facility closures to meet the savings target, the Commissioner of Correctional Services would be authorized to implement closures. This proposal is associated with savings of $72 million in SFY 2011-12.

The Executive Budget proposes to eliminate the statutory 12-month notification required prior to closures in order to allow closures as soon as practicable after recommendations are made. Communities impacted by the closures would be eligible to receive assistance from the proposed Regional Economic Development Councils, with up to $100 million in bonded funds.

Division of Criminal Justice Services

The Executive Budget proposes to merge the Office for the Prevention of Domestic Violence, the Office of Victim Services, and the State Commission of Correction into the Division of Criminal Justice Services, producing estimated savings of $477,000 in SFY 2011-12.

General Government

Department of Financial Regulation

The Executive Budget proposes to merge the operations of the Department of Insurance, the Banking Department and the consumer protection programs of the Consumer Protection Board into the Department of Financial Regulation, and provides appropriations of $564 million in special revenue funds for SFY 2011-12, a net increase of approximately $6.4 million, or 1.1 percent, over the combined SFY 2010-11 budgets of the departments of Banking and Insurance.

This increase reflects annualized adjustments related to personal service costs, accommodates expenditures necessary to accomplish the consolidation, and provides additional resources that will allow the Department to perform more onsite examinations of insurance companies.

Governor's Office of Regulatory Reform

The Executive Budget proposes to eliminate the Governor's Office of Regulatory Reform to save approximately $1.5 million in SFY 2011-12.

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). The GSC program that appears in the State Operations appropriations bill only accounts for about 55.5 percent of all GSC spending. Excluded from this presentation are all fringe benefits paid from non-General Fund sources as well as significant spending for employees of the Courts, SUNY, and other adjustments. The table below provides a summary of GSC spending. It presents appropriation amounts and may not exactly match Financial Plan subtotals due to spending that is interchanged between the specific fringe benefit programs and categories.

SFY 2011-12 General State Charges

(in millions of dollars)

Program	General Fund		Other Funds		All Funds	Y-T-Y % Change
State Employee Fringe Benefits						
Health Insurance	$1,972.1	62.5%	$1,182.5	37.5%	**$3,154.7**	12.1%
Social Security	$505.0	58.6%	$356.6	41.4%	**$861.7**	-6.1%
Workers' Compensation	$202.3	62.3%	$122.5	37.7%	**$324.8**	1.7%
Pension Contributions	$713.7	54.6%	$594.2	45.4%	**$1,307.9**	16.6%
Employee Benefit Funds	$39.5	41.8%	$55.1	58.2%	**$94.6**	-4.9%
Dental Insurance	$49.0	65.9%	$25.3	34.1%	**$74.3**	32.8%
Unemployment Benefits	$16.9	66.7%	$8.4	33.3%	**$25.3**	44.9%
Miscellaneous Benefits	$24.9	67.6%	$11.9	32.4%	**$36.8**	54.1%
Sub-total Fringe Benefits	**$3,523.4**	**59.9%**	**$2,356.6**	**40.1%**	**$5,880.0**	**9.4%**
Other State Expenses						
Taxes on Public Lands	$197.5	100.0%	$0.0	0.0%	**$197.5**	4.1%
Court of Claims Judgments	$104.1	100.0%	$0.0	0.0%	**$104.1**	24.5%
Public Officers' Indemnification	$24.0	100.0%	$0.0	0.0%	**$24.0**	3.0%
Miscellaneous Expenses	$55.8	100.0%	$0.0	0.0%	**$55.8**	-2.4%
Sub-total State Expenses	**$381.4**	**100.0%**	**$0.0**	**0.0%**	**$381.4**	**7.8%**
Court Employee Benefits	$593.0	96.0%	$24.9	4.0%	**$617.9**	2.2%
TIAA-CREF and Other Benefits	$160.2	100.0%	$0.0	0.0%	**$160.2**	-8.9%
Total GSC Spending	**$4,658.0**	**66.2%**	**$2,381.5**	**33.8%**	**$7,039.5**	**8.0%**
Adjustments*			($207.5)		($207.5)	
MEMO: Financial Plan Total	**$4,658.0**	**68.2%**	**$2,174.0**	**31.8%**	**$6,832.0**	**8.0%**

Source: Division of the Budget Note: Totals may not add 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.

Note that the Executive's program cost estimates do not include any savings that may result either from layoffs or negotiated salary and benefit reductions.

State Workforce

The Executive Budget proposes a ten percent reduction in agency General Fund spending and asks the State's union workforce for "givebacks" to avoid layoffs. The Executive's stated savings goal is $450 million, which is part of the overall $1.4 billion State Operations savings target included in the SFY 2011-12 Executive Budget Financial Plan.

The following table presents proposed agency workforce changes, showing agencies with increases separately from those with decreases. This table gives a summary of the workforce impact of the proposed agency consolidations. (Some increases are the result of the proposed mergers.)

SFY 2011-12 Proposed Agency Workforce Changes

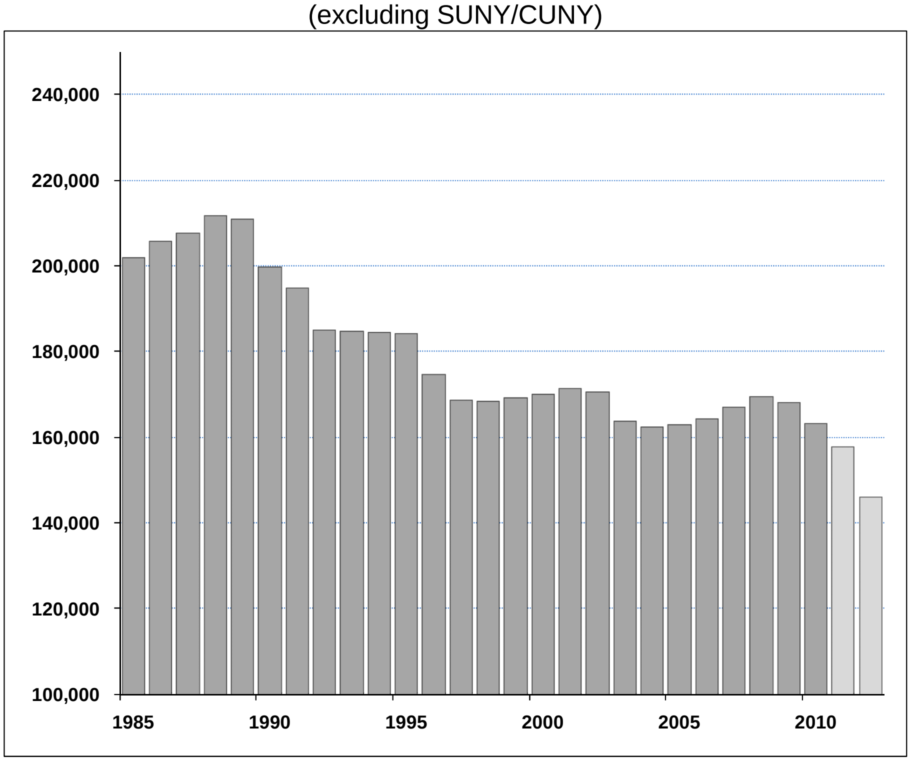
	March 2011	March 2012	Change
AGENCIES WITH INCREASES			
FINANCIAL REGULATION, DEPARTMENT OF	0	1,538	1,538
CORRECTIONAL SERVICES	29,878	31,176	1,298
CHILDREN AND FAMILY SERVICES	3,351	3,771	420
STATE UNIVERSITY	41,815	42,215	400
HEALTH	5,055	5,192	137
CRIMINAL JUSTICE SERVICES	657	787	130
TECHNOLOGY	651	703	52
LOTTERY, DIVISION OF	319	369	50
HOMELAND SECURITY AND EMERGENCY SERVICES	404	433	29
LABOR	3,949	3,977	28
MILITARY AND NAVAL AFFAIRS	417	442	25
STATEWIDE FINANCIAL SYSTEM	113	136	23
WORKERS' COMPENSATION BOARD	1,450	1,466	16
GENERAL SERVICES	1,371	1,374	3
BUDGET	304	307	3
PUBLIC SERVICE	531	534	3
VETERANS AFFAIRS	97	98	1
AGENCIES WITH DECREASES			
PAROLE	1,893	0	(1,893)
INSURANCE	976	0	(976)
BANKING	555	0	(555)
PEOPLE WITH DEVELOPMENTAL DISABILITIES	21,367	21,192	(175)
STATE POLICE	5,439	5,309	(130)
MENTAL HEALTH	15,760	15,660	(100)
VICTIMS' SERVICES	75	0	(75)
CORRECTION COMMISSION	29	0	(29)
PREVENTION DOMESTIC VIOLENCE	26	0	(26)
ALCOHOLISM AND SUBSTANCE ABUSE	842	817	(25)
OFFICE OF THE STATE COMPTROLLER	2,552	2,529	(23)
CONSUMER PROTECTION	23	0	(23)
SCIENCE, TECHNOLOGY AND INNOVATION	23	0	(23)
REGULATORY REFORM	14	0	(14)
STATE, DEPARTMENT OF	596	594	(2)
NET CHANGE			**87**

Source: Division of the Budget
Note: Potential layoffs are not included in the chart above, as detail by agency is not currently available.

If negotiations fail to achieve the Executive's savings target, the Executive Budget recommends that up to 9,748 Full-Time Equivalent (FTE) positions be subject to layoffs. Layoffs are presented in the Budget as a lump sum, with no detailed indication of layoff numbers at individual agencies. The lump sum item in the Executive workforce plan also includes additional attrition of 1,830 FTEs beyond those identified in particular agencies. These cuts, offset by 68 unidentified new hires, bring the lump sum FTE adjustments included in the Executive workforce plan to 11,423 in SFY 2011-12.

The cumulative workforce changes included in the Executive Budget plan would bring the State workforce to a total of 179,042.[3] This represents a 6.0 percent reduction year-over-year from the Executive's estimate of 190,465 for the end of SFY 2010-11. The 2010-11 end-of-year figure also represents a 5,327 or 2.7 percent reduction from the SFY 2009-10 close-out level of 195,792. Therefore, the cumulative two-year reduction in the State workforce would amount to 16,750 FTEs or 8.6 percent, if all potential layoffs and anticipated attritions were to take place. The Executive Budget proposal also includes a number of agency consolidation plans.

State Agency Full-Time Equivalents, SFY 1984-85 Through SFY 2011-12
(excluding SUNY/CUNY)



Source: SFY 1984-85 through SFY 2009-10: OSC Payroll Records; SFY 2010-11 and SFY 2011-12: 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

[3] This total does not include employees of the legislative and judicial branches of the New York State government.

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 2010-11 and SFY 2011-12 are based on DOB estimates of Executive agency workforce changes.

Public Authorities

The SFY 2011-12 Executive Budget estimates that $5.1 billion in capital projects would be financed using public authority bond proceeds. The Executive Budget increases bonding caps for ten programs. A new bonding cap is added for economic development initiatives, funded by decreases in the bonding caps for eight other economic development programs. The net increase in bonding authorizations for public authorities is $1.3 billion.

SFY 2011-12 Change in Public Authority Bond Caps
(in millions of dollars)

Program	SFY 2010-11 Cap	SFY 2011-12 Executive Proposed Cap	Executive Change from Current Cap
SUNY Dormitory Facilities	1,230.0	1,561.0	331.0
Library Facilities	70.0	84.0	14.0
Environmental Infrastructure Projects	903.7	915.7	12.0
Division of Military and Naval Affairs	18.0	21.0	3.0
State Buildings and Other Facilities	165.8	205.8	40.0
Equipment Acquisition (COPS)	751.3	784.3	33.0
Prison Facilities	6,164.1	6,490.5	326.4
Youth Facilities	379.5	429.5	50.0
Housing Capital Programs	2,532.3	2,636.5	104.2
Community Enhancement Facilities (CEFAP)	425.0	407.0	(18.0)
Regional Economic Development	1,200.0	1,195.1	(4.9)
Economic Development (2004)	350.0	290.0	(60.0)
Regional Economic Development (2004)	250.0	243.0	(7.0)
High Technology and Development	250.0	176.7	(73.3)
Regional Economic Development/SPUR	90.0	88.3	(1.7)
Economic Development Stadium Parking (2006)	75.0	48.5	(26.5)
2008 and 2009 Economic Development Initiatives	1,310.0	1,270.8	(39.2)
2011 Economic Development Initiatives	-	230.6	230.6
Consolidated Highway Improvement Program (CHIPS)	6,286.7	6,695.2	408.5
Total	**22,451.4**	**23,773.5**	**1,322.1**

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

The Executive Budget authorizes $211.9 million in transfers and miscellaneous receipts from public authorities to provide General Fund support. Additional General Fund relief is proposed by transferring $165 million from the Metropolitan Mass Transportation Operating Assistance (MMTOA) account to the General Debt Service Fund to pay debt service typically paid from the State's General Fund. In addition, the proposal anticipates General Fund relief of $25 million resulting from delayed repayment of the NYPA asset transfer enacted in SFY 2009-10 and receipt of $6.0 million from NYPA to offset tax credits related to the one-year extension of the Power for Jobs program.

SFY 2011-12 Transfers and Miscellaneous Receipts from Public Authorities
(in millions of dollars)

Public Authority	Amount
Transfers and Receipts to the General Fund:	
Housing Finance Agency	3.5
New York Power Authority	100.0
New York State Foundation for Science Technology and Innovation	0.5
Dormitory Authority of the State of New York	22.0
New York State Energy Research Development Authority	0.9
MTA - Metropolitan Mass Transportation Operating Assistance Fund (MMTOA)	35.0
Unspecified Public Authorities	50.0
Transfers to the General Debt Service Fund:	
MTA - Metropolitan Mass Transportation Operating Assistance Fund (MMTOA)	165.0
Total from Public Authorities	**376.9**

As described previously, the Executive Budget proposes merging the New York State Foundation for Science, Technology and Innovation (NYSTAR) with the Empire State Development Corporation (ESDC). The proposal also repeals the New York State Theatre Institute's enabling legislation and transfers all rights and properties to the Office of General Services.

The Executive Budget proposes to increase the maximum for State cost recovery from State public authorities from $55 million to $60 million. In addition, the proposal repeals the $5.0 million State cost recovery imposed on Industrial Development Agencies, but maintains the uncollected prior year obligation.

The Executive proposes blanket authorization for any public benefit corporation to make voluntary contributions to the General Fund at any time as long as the transfer is approved by the corporation's governing board. This language is 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.

Local Governments

The SFY 2011-12 Executive Budget estimates a net negative impact of $1.8 billion on local governments for local fiscal years ending in 2012. The vast majority of this reduction, or $1.6 billion, would be borne by school districts. Additionally, the Executive Budget reduces funding for various municipal aid programs, most notably, Aid and Incentives for Municipalities (AIM).

While the Executive Budget recognizes the benefits for local governments of previous budget actions, such as the Medicaid cap and the Family Health Plus takeover, the potential impacts to local governments that may result from recommendations to be advanced by the Executive's Medicaid Redesign Team and the Mandate Relief Redesign Team are not reflected in this figure and remain undetermined.

Executive Budget program actions that impact local governments in local fiscal years ending in 2012 include:

- School aid and other education-related funding is reduced by $1.6 billion, including $1.1 billion in cuts to districts outside New York City and $579.7 million in cuts to New York City schools.
- AIM is reduced by 2.0 percent from SFY 2010-11 levels for cities (outside of New York City), towns and villages, resulting in savings of $14.6 million.
- New York City will continue to be excluded from receiving any AIM funding, a $302 million reduction from SFY 2009-10 levels.
- Video Lottery Terminal Impact Aid is eliminated for eligible municipalities, other than Yonkers. These reductions result in savings of $6.2 million.
- The Small Government Assistance and Miscellaneous Financial Assistance programs are eliminated, generating annual savings of $6 million.
- Local transportation aid is preserved at SFY 2010-11 levels, including $363.1 million for CHIPs and $39.7 million for Marchiselli Aid.

Aid and Incentives for Municipalities

AIM payments to cities, towns and villages (outside New York City) are reduced by 2.0 percent from adjusted SFY 2010-11 levels. The SFY 2010-11 Enacted Budget AIM payments were reduced by $5.2 million in the current fiscal year as a result of the Federal Medical Assistance Percentage (FMAP) Contingency Reduction.

Total AIM payments to cities, towns and villages are reduced from $729 million to $715 million in SFY 2011-12, a total savings of $14.6 million. AIM is reduced by $13.2 million for cities other than New York City, $1.4 million for towns and villages, and is again eliminated for New York City. Total AIM payments to cities (excluding New York City), towns and villages have been reduced by $52 million (6.8 percent) from their peak in SFY 2008-09.

Other Municipal Aid

The Executive Budget includes an additional $6.2 million in savings through the elimination of Video Lottery Terminal Impact Aid in municipalities other than Yonkers. This reduction in funding will affect 15 municipalities. Yonkers will continue to receive $19.6 million to support its dependent school district. The Small Government Assistance program is also eliminated for savings of $2.1 million. This program benefited three counties and 26 school districts affected by State Forest Property Tax exemptions. Additionally, the Executive Budget eliminates $3.9 million in Miscellaneous

Financial Assistance, which provided targeted aid to both Oneida and Madison counties.

Incentive Grants

The Executive Budget provides $79 million to fund four programs related to providing incentives for the consolidation and dissolution of local governments. Local Government Efficiency Grants ($4.0 million), originally included in the SFY 2008-09 Enacted Budget, would offer competitive grants for functional consolidation, shared or cooperative services and regional services.

Three new local programs are proposed in the Executive Budget. Citizen Empowerment Tax Credits would promote local government consolidation or dissolution by providing a bonus equal to 15 percent of the new local government tax levy. The Citizens Reorganization Empowerment Grants would provide grants for up to $100,000 for local governments to cover costs associated with studies, plans and implementation efforts related to local government reorganization activities. These programs together are funded at $35 million. The Local Government Performance and Efficiency Program ($40 million) would provide one-time awards up to $25 per capita (capped at $5.0 million) to local governments that have achieved efficiencies and performance improvements. Responsibility for administering these programs and developing evaluation criteria would rest with the Department of State.

Mandate Relief

The Mandate Relief Redesign Team was created by Executive Order and is currently examining cost-effective ways to deliver mandated programs. The Team will report to the Executive on March 1, 2011 and will identify State mandates that are ineffective, unnecessary, outdated and/or duplicative. Local governments and school districts could realize savings if recommendations advanced by the Team are implemented.

New York City

The SFY 2011-12 Executive Budget would reduce aid to New York City by $659 million in City Fiscal Year (CFY) 2012, or 5.8 percent, compared to this year’s level. The City’s four-year financial plan, however, had anticipated an increase in State education aid ($738 million) and the restoration of payments under the Aid and Incentives to Municipalities (AIM) program ($302 million) as included in the SFY 2010-11 Enacted Budget. Thus, the negative impact of the proposed State budget on the City’s financial plan totals about $1.7 billion in CFY 2012, with most of the impact concentrated in education ($1.4 billion).

The City has indicated the impact could total $2.1 billion, after taking into account its higher estimates of the negative impact in social services and education. The City intends to release its analysis along with its revised financial plan, which is scheduled to be released on February 17, 2011. The City has also indicated that proposed changes in the building aid formula could significantly restrict the capital program for the Department of Education.

In addition, the Executive has assembled a Medicaid Redesign Team to recommend changes that would reduce State costs by $2.85 billion. Since New York City accounts for about two-thirds of statewide Medicaid enrollment, the economic and budgetary impact on the City and the Health and Hospitals Corporation could be substantial.

The Executive also has proposed further delays in the State's commitment to increase education aid under the resolution of the Campaign for Fiscal Equity litigation. The Executive has proposed establishing a $500 million competitive program to reward school districts that improve academic performance and improve administrative efficiencies. The impact of the proposed cuts in State education aid could be mitigated if the City successfully competes for these grants.

Metropolitan Transportation Authority

The SFY 2011-12 Executive Budget proposes to divert an additional $200 million in dedicated transit tax revenue for use in the State's operating budget, expanding a practice that began in 1995. The Executive Budget proposes to transfer funds from the MMTOA account totaling $165 million to the General Debt Service Fund to pay debt service for State-Supported MTA bonds, typically paid from the General Fund, and $35 million directly to the General Fund. These monies could have otherwise flowed to the MTA's operating budget.

The impact on the MTA's operating budget in 2011 would be reduced to $100 million because the Executive would reallocate $100 million in capital funds from ESDC to the MTA, which would permit the MTA to free up $100 million in operating funds that it had set aside to finance capital projects on a pay-as-you-go, or cash, basis.

Debt and Capital

Significant borrowing over the past decades has depleted much of the State's debt capacity. However, the State continues to be heavily reliant on debt to address its considerable ongoing capital needs.

The Executive Budget continues to use debt, although in a more limited way than in previous years, to narrow the General Fund gap. For example, $200 million in capital spending for SFY 2011-12 that was planned in the SFY 2010-11 Enacted Budget to be financed with current resources is instead being financed with bonds. The Executive is also proposing to issue $100 million in bonds to partially finance the Metropolitan Transportation Authority (MTA) capital plan. These bond proceeds would replace $100 million that would otherwise have been financed with MTA current resources (PAYGO). This transaction is being proposed to partially offset the effects on the MTA of $200 million in fund sweeps from the Metropolitan Mass Transit Operating Assistance Fund (MMTOA) to benefit the General Fund.

While not incorporated into the Executive Budget's debt projections, the proposed acquisition of Long Island College Hospital (and its outstanding debt obligations) by the State University of New York Health Science Center at Brooklyn's University Hospital of Brooklyn may place even more pressure on the State's already limited debt capacity.

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.

Debt Outstanding and Debt Service

The Executive Budget's proposed SFY 2011-12 Five-Year Capital Program and Financing Plan includes $43.5 billion in projected capital spending, of which $7.6 billion would be spent off-budget and outside the Financial Plan and Central Accounting System. In SFY 2010-11, DOB instituted a Capital Reduction Program that was intended to reduce capital spending by $1.6 billion, or 3.3 percent, over five years. This reduction was advanced, in part, to address the potential for the State to exceed the statutory cap on State-Supported debt outstanding. While the proposed capital program reduces total capital spending further than anticipated in the Capital Reduction Plan, the largest reductions are projected to occur in the out-years.

The State is in a period of very limited debt capacity, in part as a result of the State's previous heavy reliance on debt, as well as the downturn in the economy. 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 2012-13 and SFY 2013-14. Available debt capacity in both years is expected to be just over $700 million. DOB projects that there will be approximately $4.1 billion of available capacity at the end of

SFY 2010-11. In SFY 2011-12, the first year the cap will be fully phased in, available capacity is projected to decline to $2.3 billion.[4]

The statutory cap on outstanding debt does not include approximately $10.2 billion in additional debt projected to be outstanding at the end of SFY 2010-11 that was authorized outside the narrow definition of State-Supported debt included in the Act, most of which was issued to finance non-capital costs, including deficit financing and budget relief. These obligations are included in the 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.[5] If these additional obligations are included, as well as all the remaining 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 nearly $25 billion over the cap and additional debt could not be issued.

The Executive Budget proposes to "reprogram" $340 million in previously authorized but unissued bonds for economic development purposes to support: a new economic development program ($130 million); an Economic Transformation Program that will make available funds for municipalities affected by facility closures ($100 million); State funds to support projects included in the MTA capital plan ($100 million); and the State's commitment to the New York City Empowerment Zone ($10 million).

In addition, $200 million in spending previously expected to be financed with current resources (pay-as-you-go or PAYGO) will now be financed with debt. Furthermore, the State will finance its annual debt service payment on State-Supported MTA debt ($165 million) with funds swept from the MMTOA.

The proposed SFY 2011-12 Five-Year Capital Program and Financing Plan projects that State-Supported debt will increase $3.9 billion, or 7.5 percent, from SFY 2010-11 through SFY 2015-16. State-Funded debt is projected to increase 7.0 percent or $4.4 billion over the same time frame, as indicated in the following table.

[4] The cap on debt outstanding was phased-in over a nine year period. When fully phased-in, the cap on debt outstanding will be equal to 4.0 percent of personal income.

[5] 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. Not all State-Funded debt appears in the Capital Program and 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 Outstanding
SFY 2010-11 through SFY 2015-16
(in thousands of dollars)

	Projected SFY 2010-11	Proposed Capital Plan SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	Total Percent Change Capital Plan SFY 2010-11 through SFY 2015-16	Total Dollar Change Capital Plan SFY 2010-11 through SFY 2015-16
2011-12 Capital Plan (State-Supported)	52,394,962	54,480,365	55,695,927	56,226,908	56,329,944	56,309,617	7.47%	3,914,655
Total Other State Funded	10,223,167	10,662,523	11,208,978	11,850,469	11,303,414	10,710,615	4.77%	487,448
Projected Outstanding (State-Funded)	62,618,129	65,142,888	66,904,905	68,077,377	67,633,358	67,020,232	7.03%	4,402,103

Overall, new State-Supported debt issuances are projected to be slightly lower, at $22 billion, over the next five years, compared to $22.8 billion in the current Plan, as last updated in November 2010.

New York City's Transitional Finance Authority (TFA) is expected to issue approximately $3.0 billion in new Building Aid Revenue Bonds (BARBs) through SFY 2013-14, bringing the projected five-year issuance level of State-Funded debt to $25.1 billion, representing a decline of $1.1 billion from the current Plan. The annual average State-Funded debt issuance is projected to be $4.6 billion, as compared to $4.4 billion in the previous five years.

Projected State-Funded Debt Issuance
SFY 2010-11 through SFY 2015-16
(in thousands of dollars)

	Projected SFY 2010-11	Proposed Capital Plan SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	Total Capital Plan SFY 2011-12 through SFY 2015-16
Total State-Supported Issuances	**5,119,344**	**5,518,977**	**4,789,654**	**4,188,757**	**3,831,593**	**3,694,650**	**22,023,631**
TFA BARBs	394,000	882,000	1,016,000	1,147,000	-	-	3,045,000
Total State-Funded Issuances	**5,513,344**	**6,400,977**	**5,805,654**	**5,335,757**	**3,831,593**	**3,694,650**	**25,068,631**

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. This would result in approximately $2.2 billion in available State-Supported debt capacity in SFY 2015-16. However, available capacity in SFY 2012-13 and SFY 2013-14 will barely exceed $700 million.

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.

Comparison of Use of New Bonds and State Financed PAYGO in Proposed and Current Capital Plan as Percentage of Total Non-Federal Capital Spending

Year of Plan		Non-Federal Spending % Bonds	Non-Federal Spending % PAYGO
Current Plan			
	1	71%	29%
	2	67%	33%
	3	65%	35%
	4	62%	38%
	5	59%	41%
Average		**65%**	**35%**
Proposed Plan			
	1	68%	32%
	2	65%	35%
	3	62%	38%
	4	59%	41%
	5	59%	41%
Average		**62%**	**38%**

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 $23.5 billion in debt, as compared to projected issuances of $1.6 billion in voter approved General Obligation bonds. The SFY 2011-12 Capital Plan does not include any proposed new Bond Acts to be put before the voters.

Projected State-Funded Debt Service SFY 2010-11 through SFY 2015-16

(in thousands of dollars)

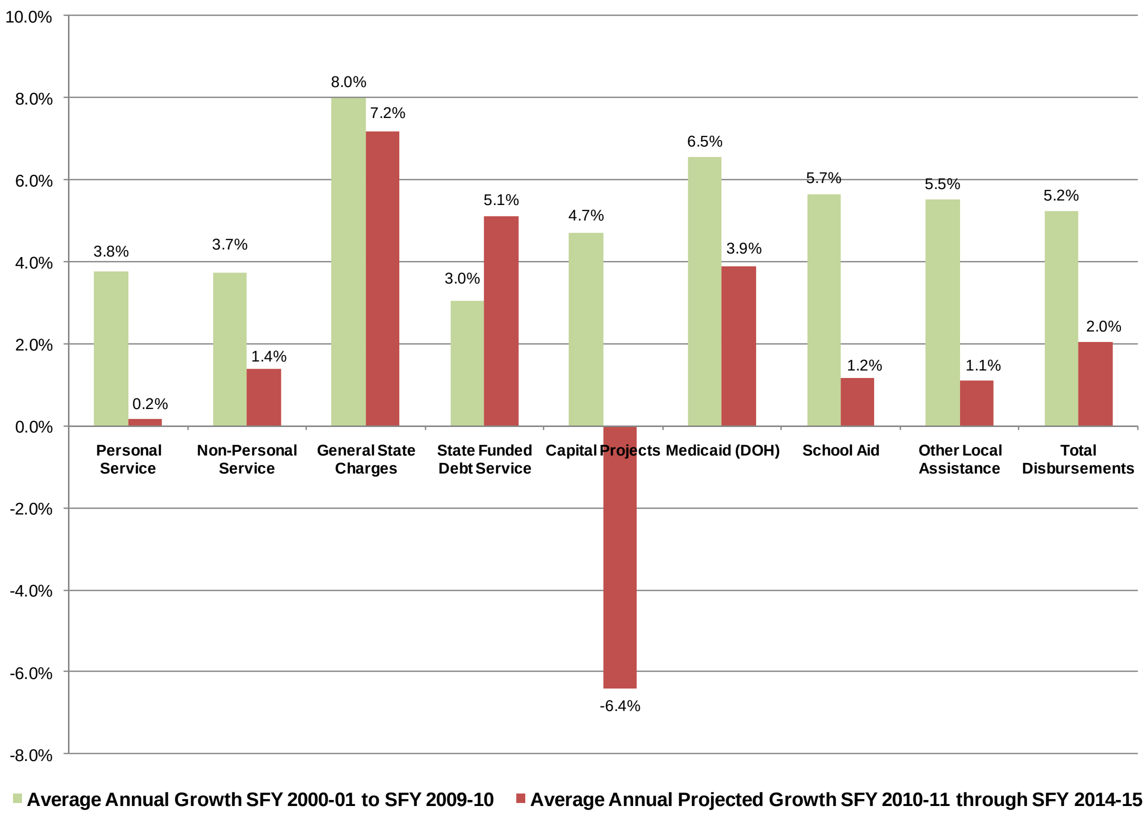
		Proposed Capital Plan					Total Percent Change Capital Plan	Total Dollar Change Capital Plan
	SFY 2010-11	SFY 2011-12	SFY 2012-13	SFY 2013-14	SFY 2014-15	SFY 2015-16	SFY 2010-11 through SFY 2015-16	SFY 2010-11 through SFY 2015-16
2009-10 Capital Plan (State-Supported)	**5,485,167**	**6,036,326**	**6,353,105**	**6,507,627**	**6,559,458**	**6,644,085**	**21.13%**	**1,158,918**
Total Other State Funded	**860,491**	**957,312**	**1,006,544**	**1,072,048**	**1,146,056**	**1,171,955**	**36.20%**	**311,464**
Projected Debt Service (State-Funded)	**6,345,658**	**6,993,638**	**7,359,649**	**7,579,675**	**7,705,514**	**7,816,040**	**23.17%**	**1,470,382**

Note: Totals may not add due to rounding

Under the proposed Capital Plan, State-Funded debt service is expected to reach $7.8 billion by SFY 2015-16. 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 23.2 percent between SFY 2010-11 and SFY 2015-16, or nearly 5.0 percent annually on average, making it one of the only major categories of spending in the State budget in which average growth over the next five years actually increases at a faster rate compared to the average growth of the previous ten years.[6]

Average Annual Growth Comparison – Actual and Projected
SFY 2000-01 through SFY 2009-10 and SFY 2010-11 through SFY 2014-15



[6] Note that for the purpose of comparing average annual growth of State-Funded debt service to the rest of the State budget, debt service from $4.5 billion in tobacco bonds issued in SFY 2003-04 is *not* included in State-Funded debt service because the revenue for tobacco bonds is and was off-budget, and was not included in the State's Financial Plan. State-Funded debt service figures throughout the rest of this report do include such revenue, as that revenue was used to support health care spending that is now part of the Financial Plan before the funding stream was assigned to the Tobacco Settlement Financing Corporation.

Capital Program and Financing Plan

The Executive Budget reduces the total amount of spending (including off-budget capital spending in which bond proceeds are expended directly by public authorities) to $43.5 billion over the next five years, compared to $46.6 billion in the current Plan. While total spending is projected to decline, the specific areas in which spending is projected to occur also change from Plan to Plan.

Comparison of Current and Proposed Capital Spending as Percentage of Total

Spending Area	Average Current Capital Plan	Average Proposed Capital Plan
Transportation	48.9%	48.0%
Education/Higher Education	19.7%	21.0%
Economic Dev/Gov Oversight	7.9%	6.9%
Mental Hygiene	6.9%	7.7%
Parks and Environment	6.0%	6.0%
Health and Social Welfare	4.1%	3.6%
Public Protection	4.0%	4.3%
General Government	1.0%	1.0%
Other	1.7%	1.5%
Total	100.0%	100.0%

Management Initiatives

- **Consolidation of PIT Revenue Bond Issuances.** The SFY 2011-12 Executive Budget continues the authorization provided by the Legislature in SFY 2009-10 to allow DASNY and the Urban Development Corporation to issue PIT Revenue Bonds for any authorized purpose.

- **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 2011-12 Proposed Budget includes an authorization to transfer $250 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 this year. The authorization would be available if funds become available.

- **Competitive Sales.** The Capital Plan assumes that 50 percent, or $2.8 billion, of proposed new bond issuances will be sold competitively in SFY 2011-12. The remaining 50 percent will be sold through a negotiated sale.

- **Replace PAYGO With Debt.** In an effort to reduce spending from the General Fund as part of the Executive's gap closing plan, DOB will finance $200 million of planned capital spending in SFY 2011-12 with bonds instead of previously planned current resources (PAYGO). The proposed Financial Plan identifies the $200 million as a non-recurring resource.

- **Offset Otherwise Dedicated Resources to Make a SFY 2011-12 State-Supported Debt Service Payment.** The State will use $165 million from the Metropolitan Mass Transit Operating Assistance fund (MMTOA) to fund the State's SFY 2011-12 contractual obligations to MTA service contract bond holders. This obligation has been previously supported with General Fund resources.