

# New York State's Fiscal Health

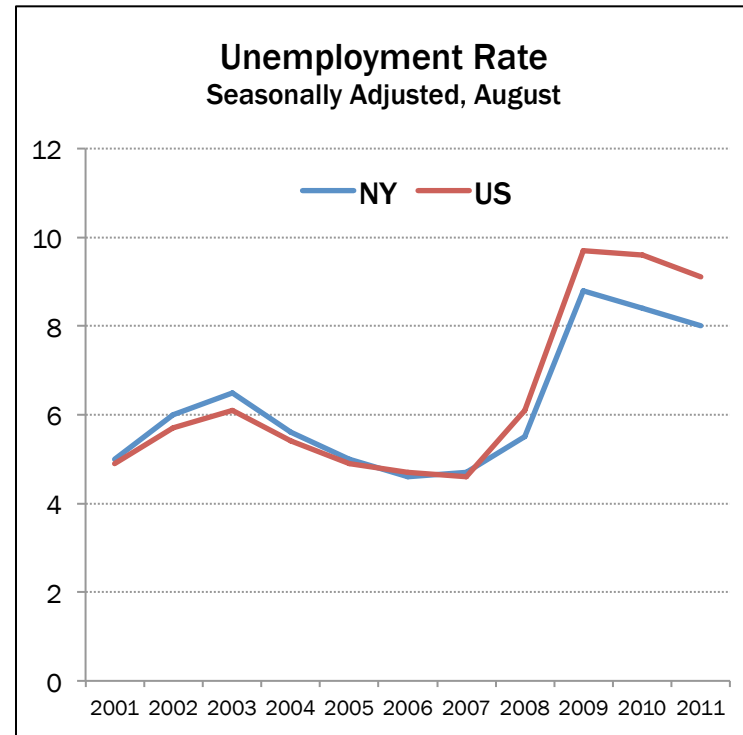
Presentation by E.J. McMahon  
*Onondaga Republican Executive Leadership Council*  
*October 19, 2011*

EMPIRE  CENTER  
FOR NEW YORK STATE POLICY  

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*A project of the Manhattan Institute for Policy Research*

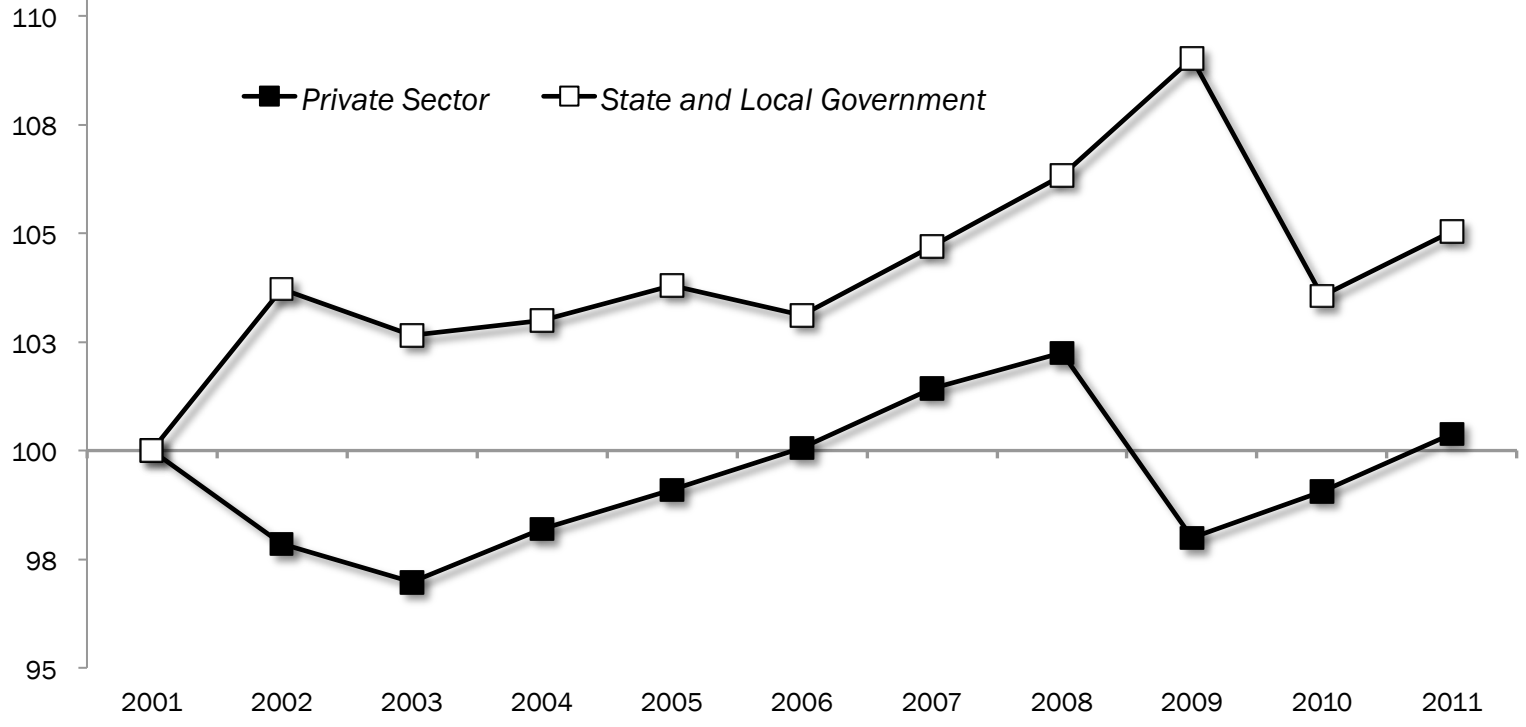
# New York State's "Great Recession"



New York State's private sector job losses were less severe than the national average, and its unemployment rate has been below the national average throughout the downturn and its aftermath.

## Indexed Employment Trends in New York State Private vs. State and Local Government, 2001-2011

August estimates, not seasonally adjusted. 2001 = 100



Private sector employment in New York as of August was at roughly the same level as a decade ago, and still 133,000 jobs below the August 2008 level. State and local government employment was 5 percent above the August 2001 level. Further disaggregating the data: compared to the 2001 level, state government employs 7,000 fewer people, but local governments employ 71,000 more.

# The Fiscal Crisis, Pre-Cuomo

December 2008:

Governor Paterson projected a \$13.8 billion budget gap for 2009-10, and a \$17.1 billion budget gap for 2010-11.

Subsequent gap-closing measures:

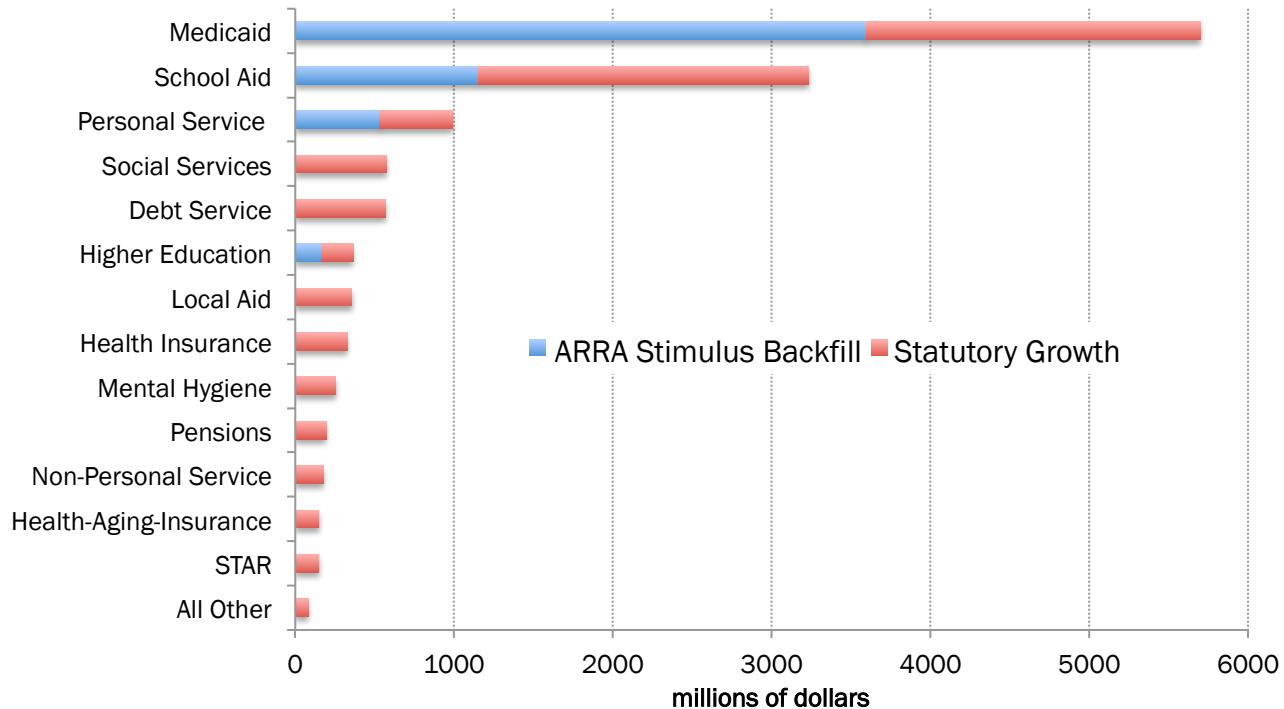
- more than \$7 billion in tax and fee increases;
- temporary federal stimulus funding, which peaked at \$6.4 billion in the 2010-11 budget;
- spending restraint—chiefly a deferral of massive scheduled school aid increases, attrition-driven reductions in the state payroll, and cuts in non-personal service spending.

# Major Tax Increases Since 2008

- Personal Income Tax
  - tax increase of 31% for AGI > \$500,000 and 12% for AGI of \$200,000-\$500,000; set to expire 12/31/2011
  - Permanent elimination of remaining itemized deductions for filers with income > \$1 million
  - Temporary 25% cutback in charitable deductions for filers with income > \$10 million
- Utility fee: \$557 million
- MTA Regional Payroll Tax: \$1.5 billion
- NYC income tax hike: \$120 million
  - restructuring of STAR credit for higher-income households
- Cigarette tax: \$290 million
- All other state taxes and fees: \$3 billion (approx)

## Buildings Blocks of the 2010-11 Budget Gap

Projected 2011-12 Baseline Spending Increase  
Compared to Estimated 2010-11 Spending

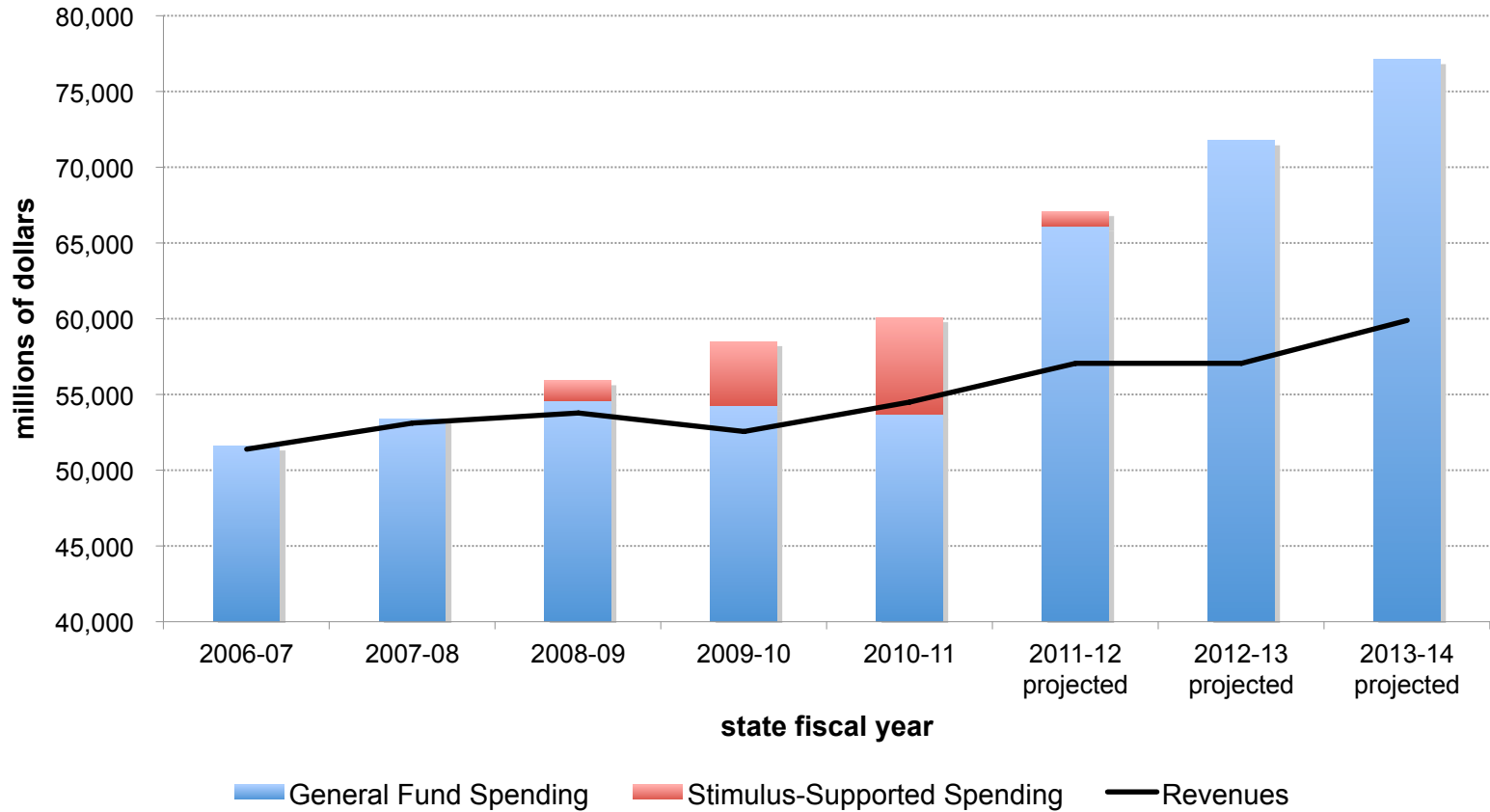


Source: Division of the Budget, 2010-11 Mid-Year Financial Plan Update

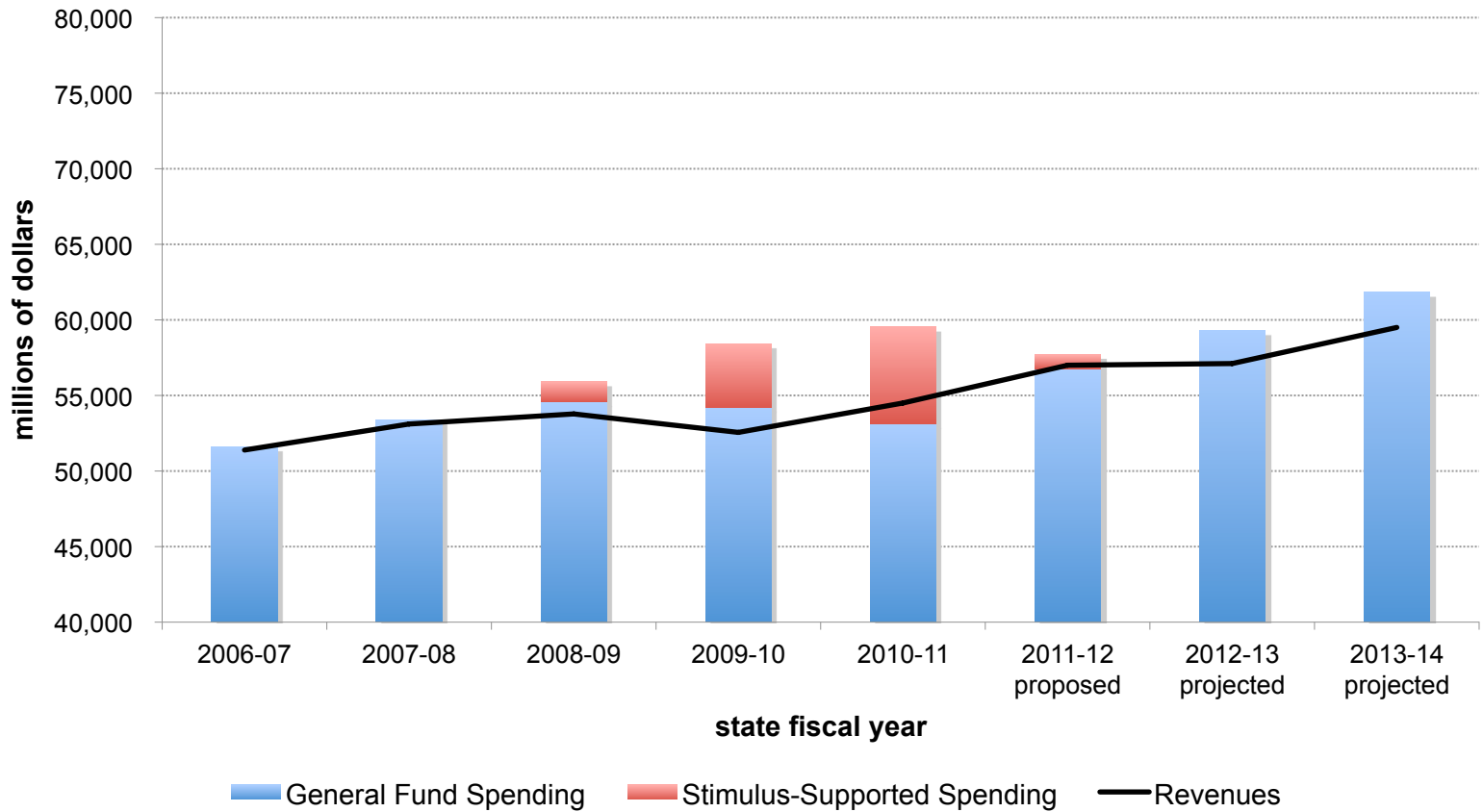
Current-law “baseline” spending increases on Medicaid and School Aid accounted for most of the \$10 billion projected budget gap for 2011-12. More than half of the net gap reflected withdrawal of temporary federal “ARRA” stimulus aid.

# The Cuomo Difference

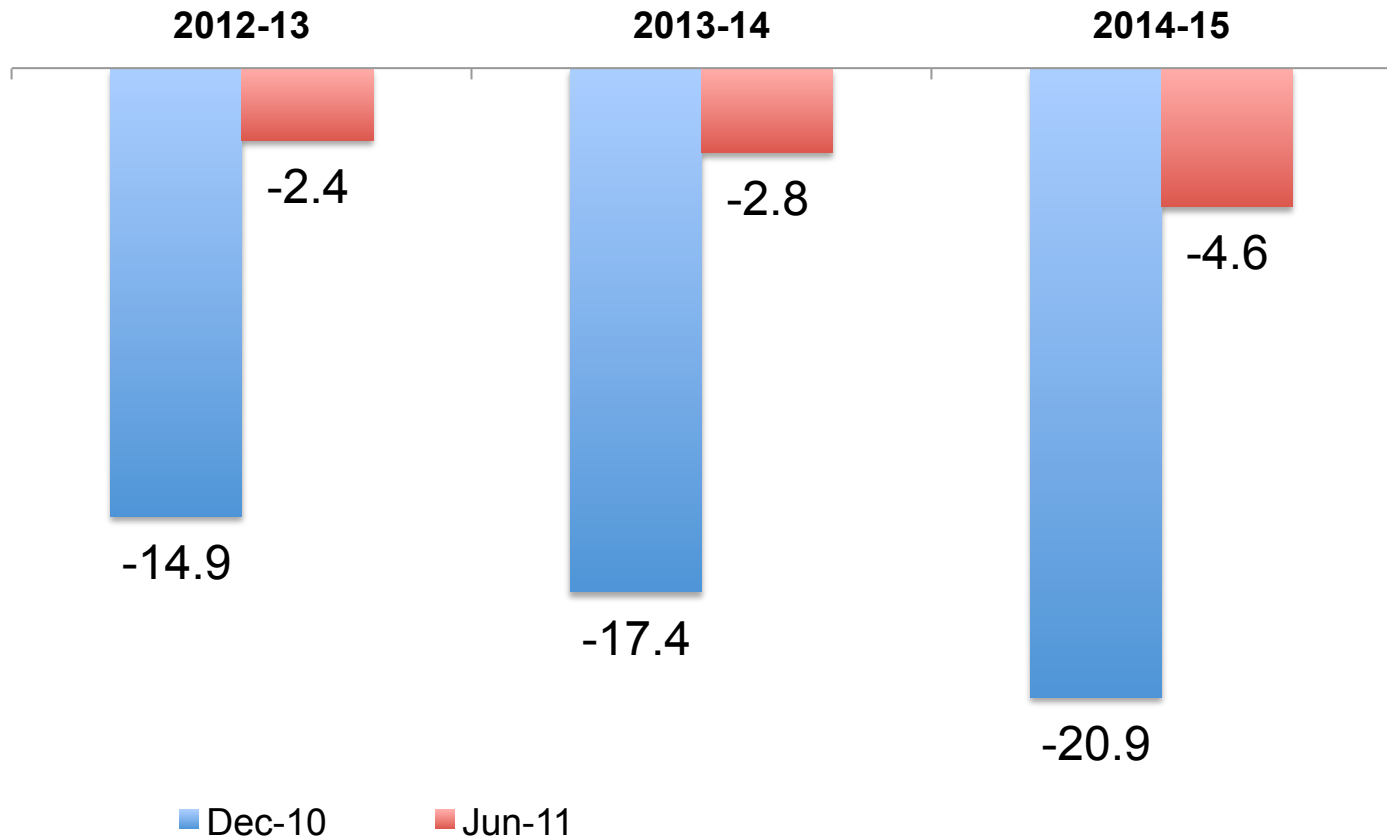
## New York State General Fund Spending and Revenues Paterson Financial Plan, November 2010



## New York State General Fund Spending and Revenues Cuomo Budget



# Projected State Budget Gaps (billions of dollars)



# ***How the 2011-12 gap was closed:***

- \$8.5 billion reduction from local aid baseline, including:
  - \$1.5 billion net school aid cut
  - \$2.3 billion in Medicaid “savings” (effectively a 0.5% year-to-year increase)
- \$1.5 billion from state operations baseline
- \$860 million in one-shots
- Remainder in “revenue enhancements” and updated revenue forecast

# “Caps” – or floors?

*From Enacted Budget Financial Plan for Fiscal Year 2011-12:*

- “The Enacted Budget also includes a two-year appropriation and makes statutory changes to limit future School Aid increases to the rate of growth in New York state personal income (about 4 percent).”
- “The Financial Plan projections assume that spending growth is limited to 4 percent annually for DOH State Medicaid spending beginning annually in State FY 2013. This reflects the targeted growth rate for Medicaid proposed in the Enacted Budget, which is the ten-year average change in the medical component of the Consumer Price Index. Statutory changes adopted with the budget grant the Executive authority to hold Medicaid spending to this rate. This authority expires after two years; however, the cap remains in place and the Financial Plan assumes that statutory authority will be extended in subsequent years.”

# Risks Ahead

- **Economy**

- Enacted Budget Financial plan (May) assumes Real GDP of 2.9% in 2011, 3.6% in 2012-13, and 3.5% in 2014. NYC-OMB and CBO both predict somewhat slower growth.
- Actual 2011-Q1 was 0.4%
- Actual 2011-Q2 was 1.3%

- **Budget control**

- After the cuts of 2011-12, further reductions of \$2.4 billion will be harder to achieve
- Medicaid growth has been checked, but major reforms have barely begun, and federal health care law will add to spending pressure
- Election year will bring pressure to raise school aid, in particular.
- Proposed federal tax hikes would hammer New York's state and local income tax base

# Next Year's Budget Gap

*Projected Increases in General Fund Disbursements by Category, in millions*

<b>Local Assistance:</b>	<b>\$1,150</b>
School Aid	567
Medicaid	220
<b>State Operations:</b>	<b>\$600</b>
Personal Service	213
Nonpersonal service	382
<b>Pensions &amp; Benefits:</b>	<b>\$460</b>
<b>Transfers:</b>	<b>\$718</b>
Debt Service	263
Medicaid State Share	87

*Source: Enacted Financial Plan for Fiscal 2011-12*

NOTE: One-third of the projected 2011-12 budget gap consists reflects already appropriated increases in school aid and Medicaid spending. Another one-third consists of additional debt service, employee benefit costs and Medicaid fund transfers.



# CAUTION

## WARNINGS FROM THE STATE COMPTROLLER'S OFFICE

**“Growth in revenue collections in several major categories of taxes is slowing, and at the midpoint of the fiscal year, Personal Income Tax, sales tax, and business taxes are lagging recent projections by \$400 million. If these trends continue, the state may need to adjust its revenue projections downward.”**

**“The securities industry had a strong start to 2011, but its prospects have cooled considerably for the second half of this year. It now seems likely that profits will fall sharply, job losses will continue, and bonuses will be smaller than last year. These developments will have a rippling effect through the economy and adversely impact State and City tax collections. As we know, when Wall Street slows, New York City and New York State’s budgets feel the impact ...”**

Meanwhile:

**No relief for increasing fiscal stress on local governments and school districts**

# Prognosis for 2012:



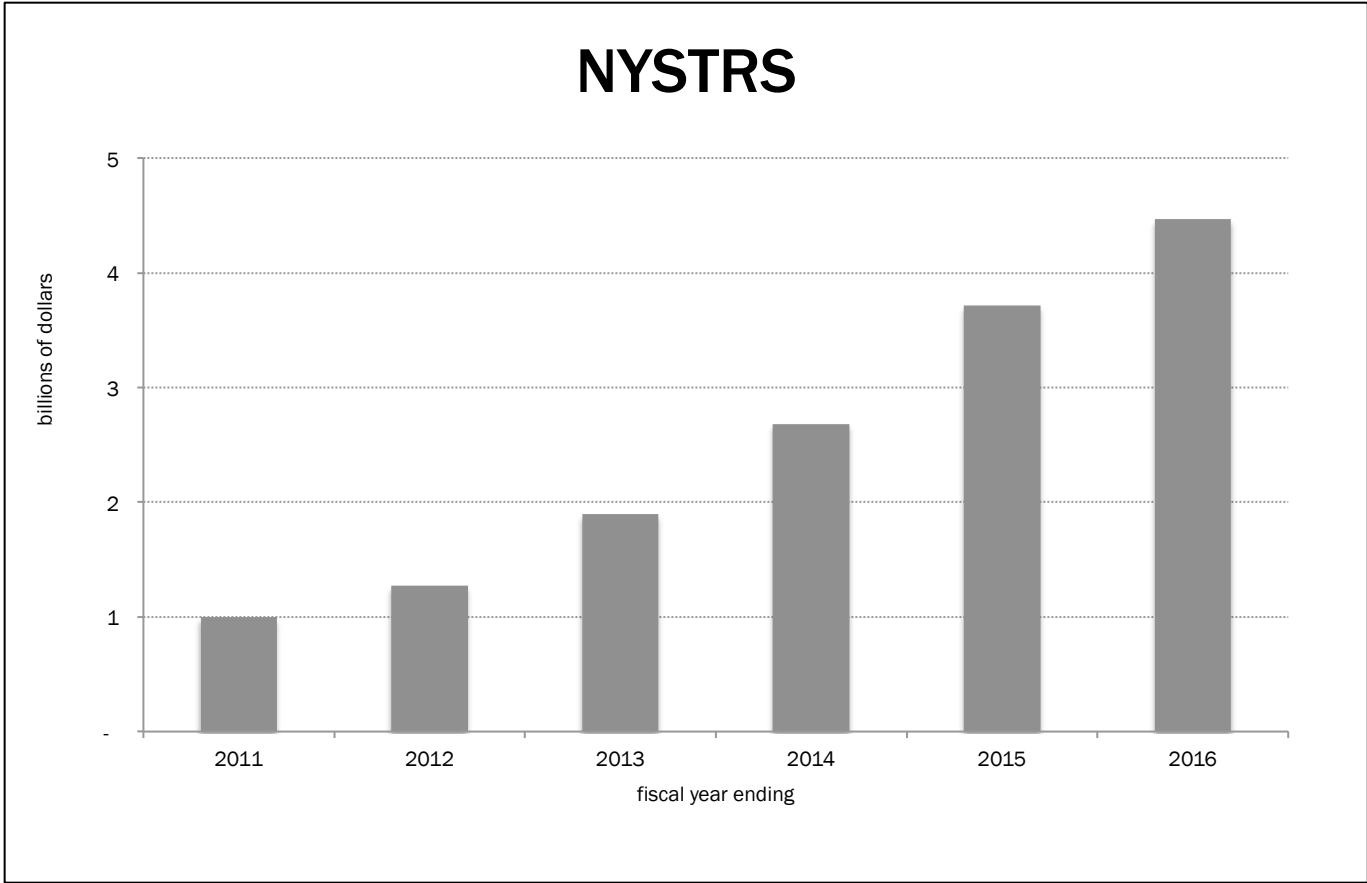
# Long-Term Liabilities

- Public employee pensions
- Public employee retiree health benefits (“OPEB”)



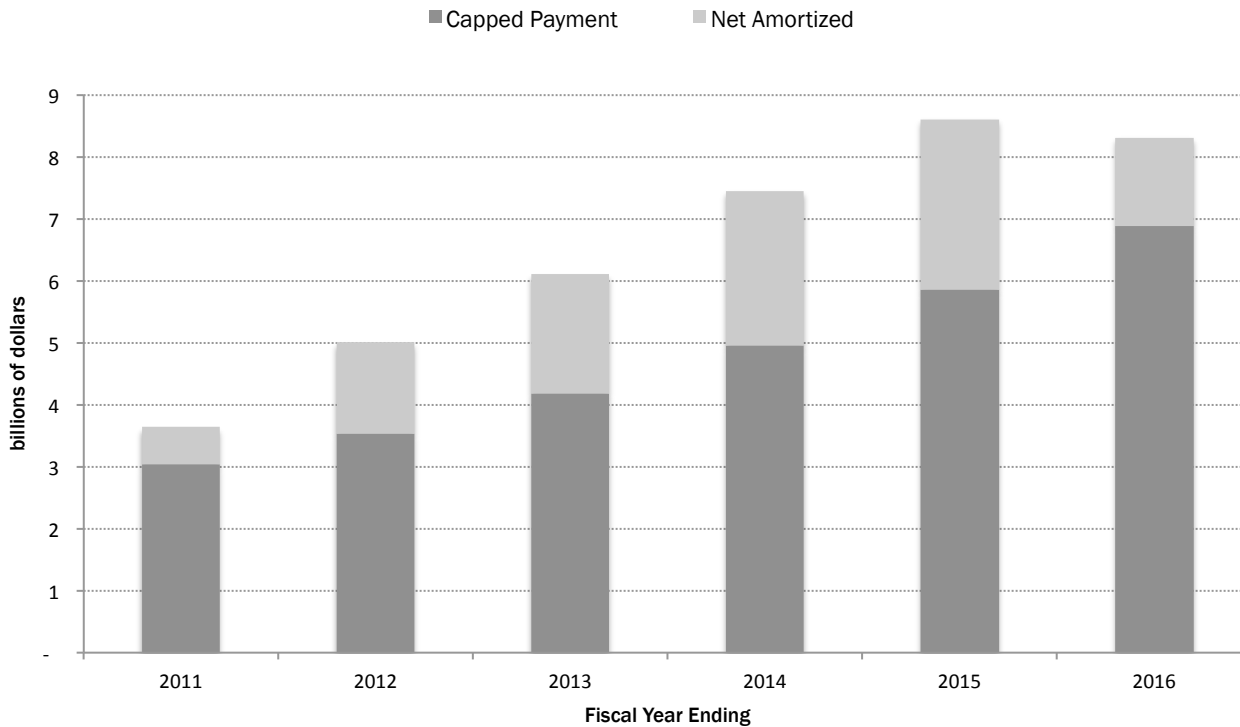
“The costs of  
pensions are  
exploding.”

- Gov. Cuomo  
Jan. 5, 2011



Taxpayer-funded employer contributions to the NYS Teachers' retirement System will more than quadruple over the next five years, growing from \$900 million to \$4.5 billion – equivalent to an 18% hike in property tax levies.

## NYSLERS (Combined ERS-PFRS)



Taxpayer contributions to the NY State & Local Retirement Systems will more than double over the next five years, adding nearly \$4 billion to annual taxpayer costs even if most opt to convert a portion of their higher pension bills into IOUs that won't be paid off until the 2020s.

# Pushing Costs Into the Future

- State in FY 2010-11 deferred \$249 million in pension payments through 10-year “amortization.”
- Will stretch out another \$3.8 billion over next three years.

# Cuomo Pension Plan

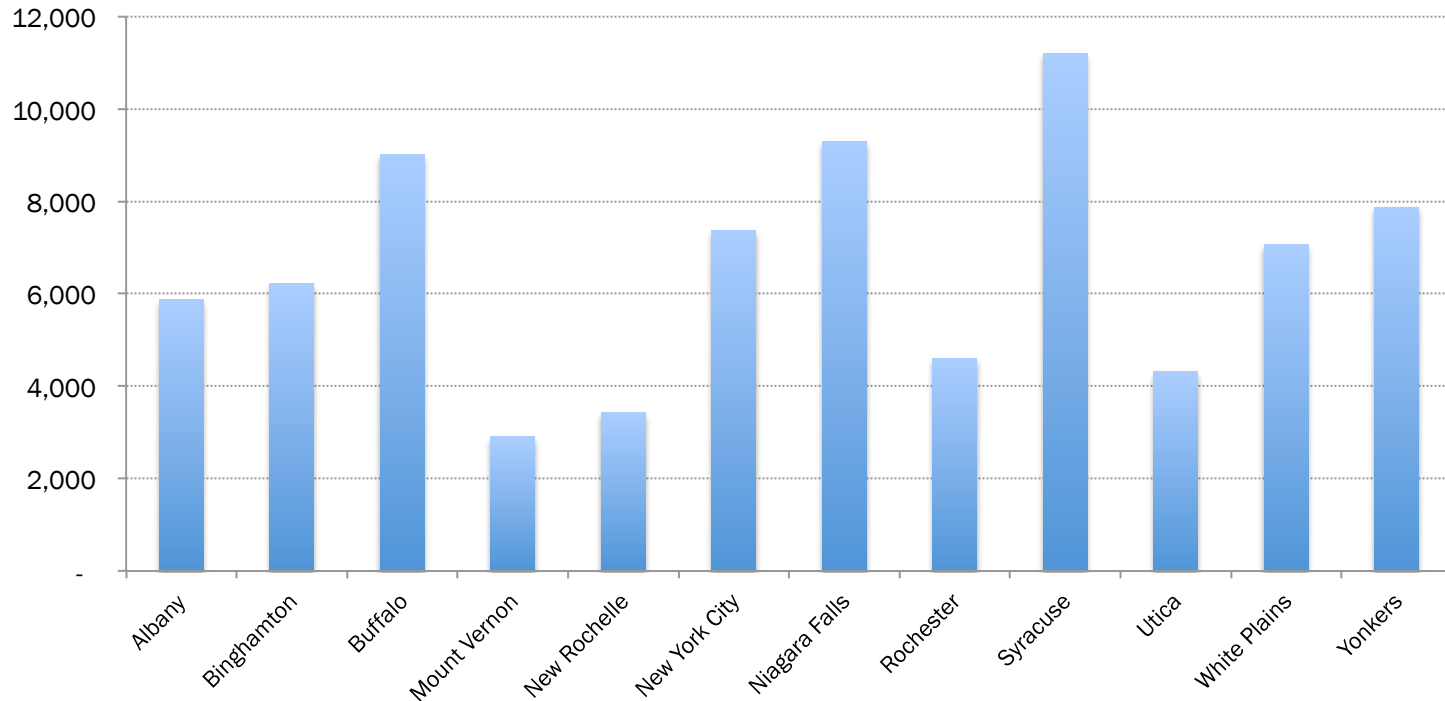
- Raise full-benefit retirement age from 62 to 65
- Raise vesting period from 10 to 12 years
- Raise employee contribution to 6 percent of salary from 3 percent
- Reduce benefit levels
- Eliminate overtime “spiking” of pensions
- So what’s not to like?
  - Governor’s “reform” retains guaranteed defined-benefit pensions with no financial protection of taxpayers from open-ended financial risks.
  - Doesn’t even offer defined-contribution plan as option



# Public-Sector Retiree Health Benefit Obligations:

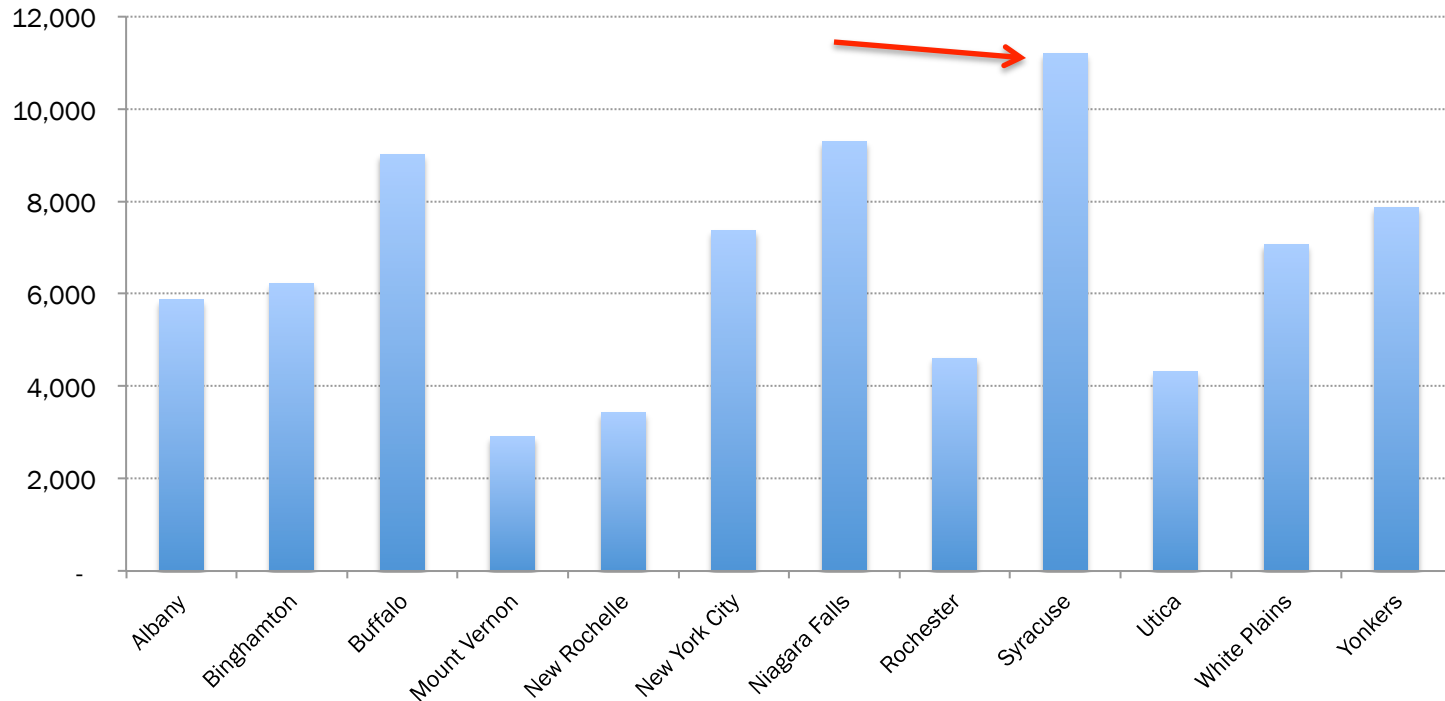
**\$200 billion +**

## Per-Capita Unfunded Liabilities for Retiree Health Care Combined Municipal and City School District Estimates



Source: Empire Center, "Iceberg Ahead: The Hidden Cost of Public-Sector Retiree Health Benefits in New York"

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# Cleaning It Up ...

## Key Tax Cap (Ch. 97) Provisions

<b>What's covered</b>	Property tax levies of all counties, cities, towns, villages, school districts and special districts outside NYC
<b>Allowable tax levy growth</b>	Lesser of 2% per year or rate of inflation* but no less than zero
<b>Exclusions from cap</b>	Taxes necessary to support capital expenditures approved by school district voters
	Approved legal settlement of tort action whose costs exceed 10% of prior-year tax levy
	Cost of responsibilities shifted to the taxing jurisdiction from another local government
	Growth in annual required pension contribution rate that exceeds two percentage points of covered employee payroll
	Added taxes generated by "physical or quantity change" in assessed property tax base (but not less than zero).

# Key Tax Cap (Ch. 97) Provisions

<b>Override provisions</b>	<i>For counties, cities, towns, villages and special districts:</i>
	Cap can be exceeded in a single year with approval of at least 60% of the governing body (e.g., County Legislature, City Council, Town Board).
	<i>For school districts:</i>
	<ul style="list-style-type: none"> <li>• Tax levy above cap must be approved by &gt;60% of voters.</li> <li>• Tax levy within cap must be approved by &gt;50% of voters.</li> <li>• Tax levy will be frozen at prior year level if increase fails to win approval in two submissions to voters.</li> </ul>
<b>"Carryover" allowance</b>	Unused tax levy capacity of up to 1.5% from one year may be used in the following year; e.g., if the cap is 2% in two consecutive years, and the levy increases 0.5% in the first year, the cap in the second year becomes 3.5%.
<b>Effective Dates</b>	Immediate, for 2012-13 school years and 2012 local fiscal years; remains effective so long as "temporary" rent control and regulation laws also remain in effect

# Growth-Oriented Tax Policy Goals

- Short-term:
  - ✓ Allow PIT hike to sunset
  - ✓ Index PIT brackets
  - ✓ Adjust state estate tax to match new federal law
  - ✓ Permanently freeze STAR and phase out “Enhanced STAR”
  - ✓ Repeal film production credit and phase out other credits
- Long-Term
  - ✓ Lower tax rates
  - ✓ Broader base
  - ✓ Fewer different taxes
  - ✓ Simpler rules

# ***Real Mandate Relief:***

- Close defined-benefit pension plans and shift new hires to defined-contribution or hybrid plans for all retirement benefits
- Set statewide “floors” for public employee contributions to health insurance premiums
- Restructure retiree health benefits to rely on employee-owned health savings accounts or employee medical trusts.
- Repeal or modify onerous Taylor Law provisions including:
  - ✓ “Triborough” amendment
  - ✓ Compulsory arbitration for police and fire unions
  - ✓ *Manhasset* ruling restricting outsourcing
- Repeal costly labor laws and regs including:
  - ✓ Prevailing wage
  - ✓ Wicks Law
  - ✓ Project-Labor Agreements

# Upstate Specials

- Move forward with Marcellus Shale and Utica Shale explorations
- Repeal state 9A corporate taxes upstate
- Repeal income tax on capital gains from upstate business investments

# Tools You Can Use

- [www.empirecenter.org](http://www.empirecenter.org)
  - NYTorch blog
  - DataBank
- [www.SeeThroughNY.net](http://www.SeeThroughNY.net)
- [www.NYPensionBomb.com](http://www.NYPensionBomb.com)