



NEW YORK

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2008-09 EXECUTIVE BUDGET

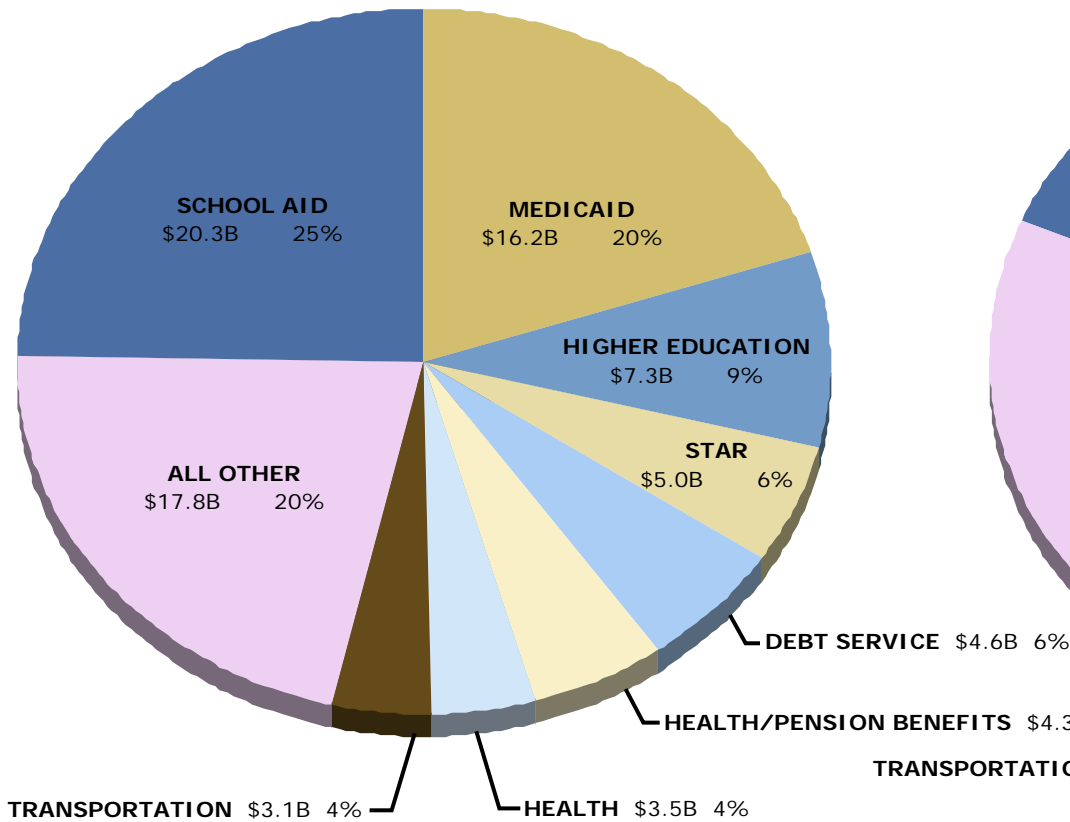
GOVERNOR ELIOT SPITZER

JANUARY 22, 2008

# The 2008-09 Executive Budget

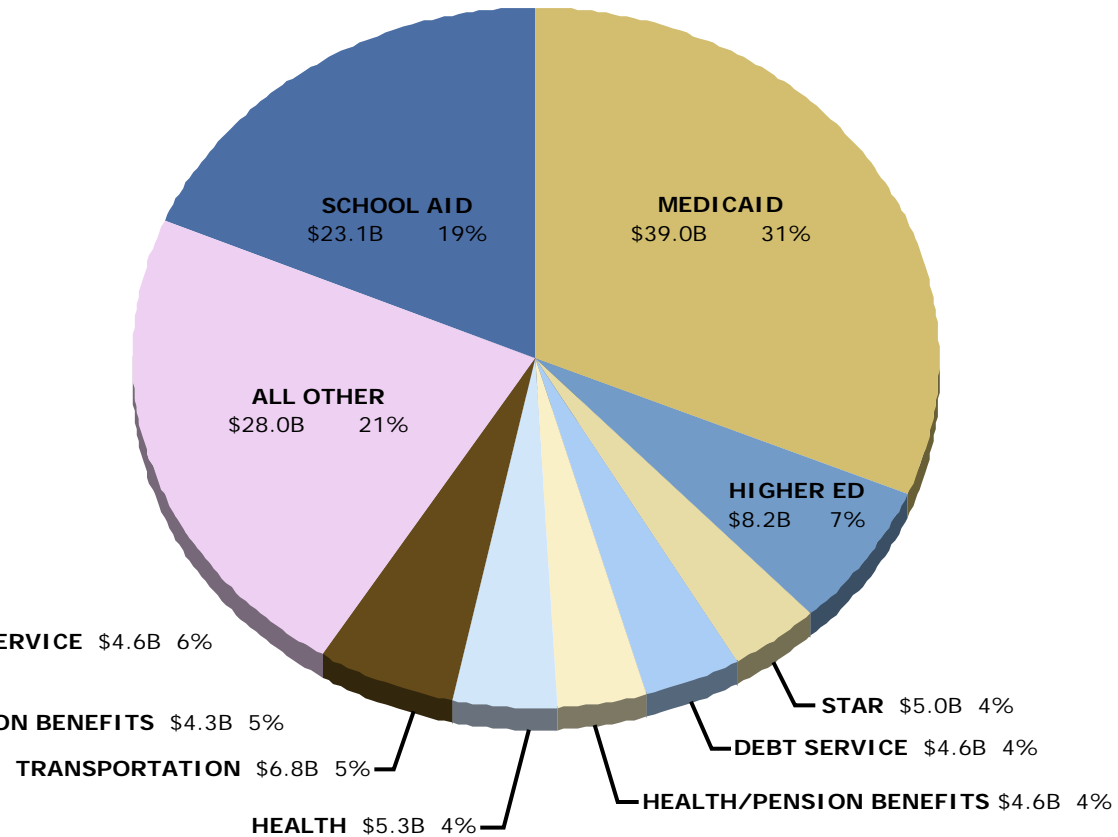
## State Operating Funds

\$81.8 billion/5.0% growth



## All Funds (includes Federal)

\$124.3 billion/5.1% growth



# BUDGET GOALS

- **Closing the Gap**
- **Protecting Core Priorities**
- **Investing for Economic Growth**

# CLOSING THE GAP

## Context: National Economic Downturn

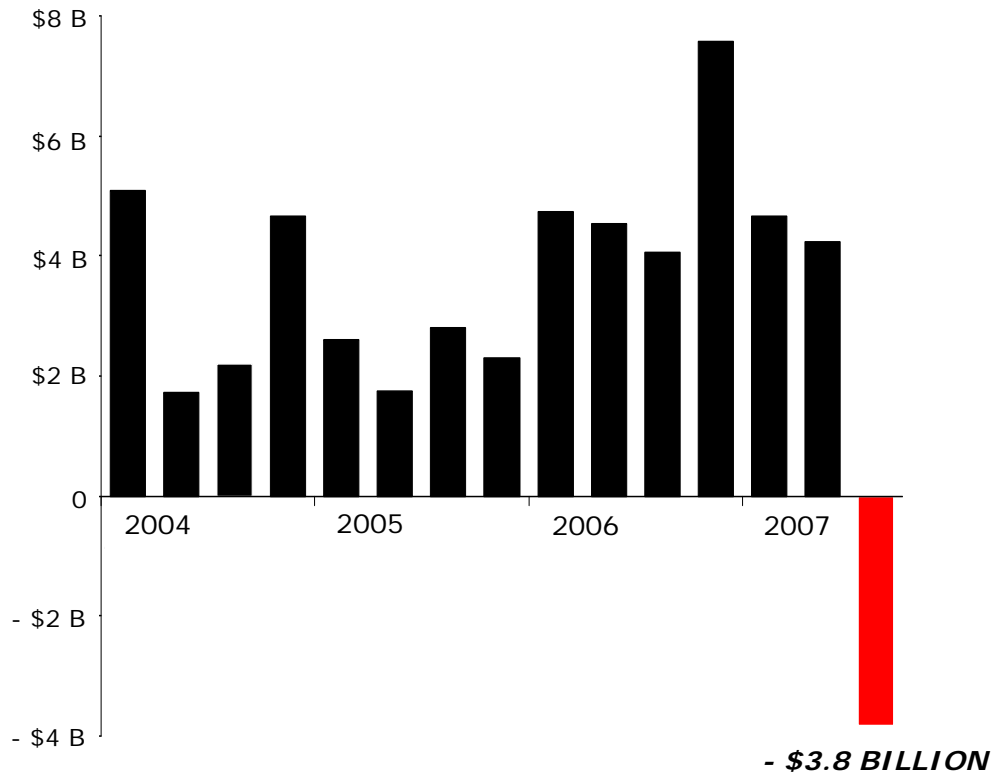
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- Home prices down 11% since March 2007
- Sub-prime crisis: write-downs reach \$100 billion
- Labor market struggling: 4.7% unemployment to 5.0% from November to December 2007
- S&P 500 down 15% since October 2007
- California estimates deficit at 14% of General Fund Budget (NYS is 8.2% of General Fund)

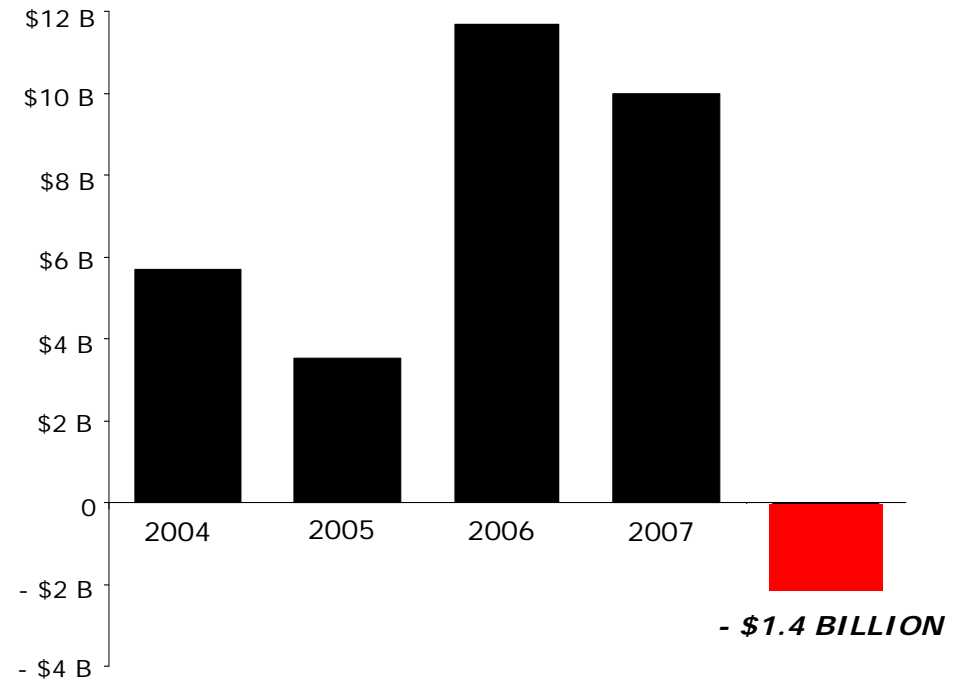
# New York State is No Exception

- Roughly 20% of NYS revenues come from the financial services industry

*Quarterly Profit/Loss, Securities Firms*



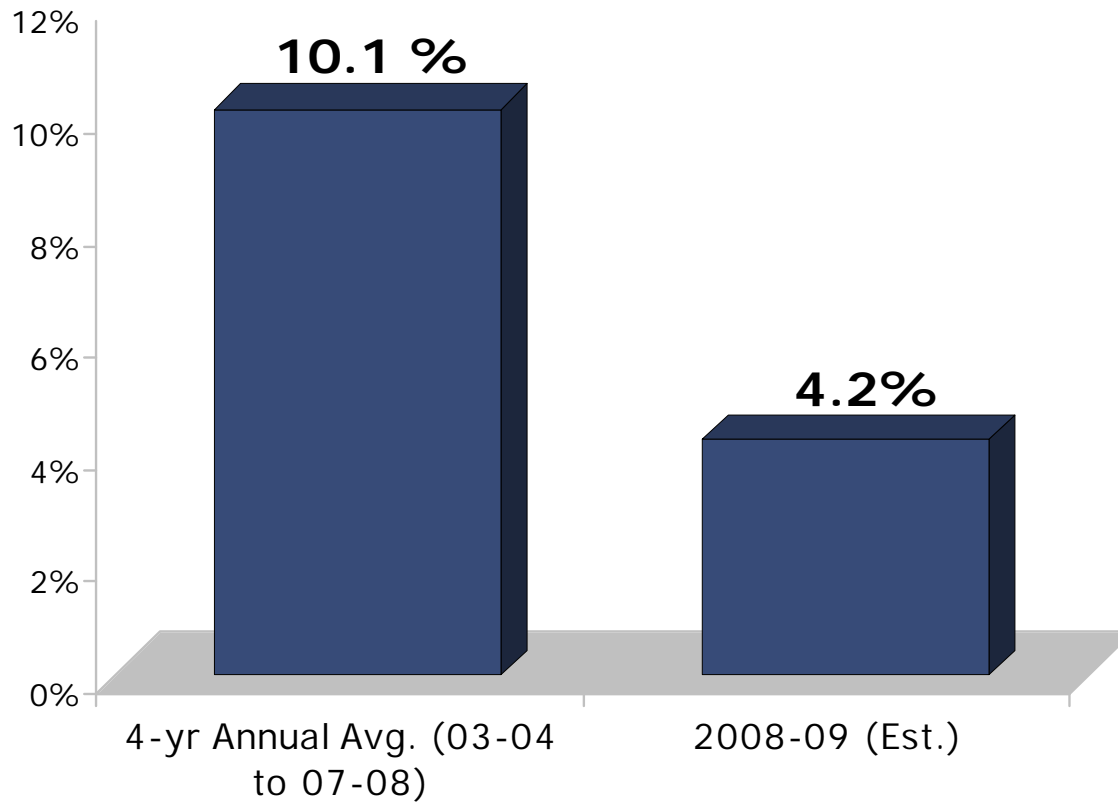
*Annual Change in Bonuses, Financial Services Industry*



# Result: Significant Decrease in Revenue Growth

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*Annual Growth in Base Tax Receipts*



# New York State's Budget Gap

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Current Deficit	\$4.4 B
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New Initiatives*	\$400 M
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2008-09 Budget Gap	\$4.8 B
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\* Includes Child Health Plus expansion; Upstate Revitalization Fund; Veterans' Tuition Program; Investment in primary and preventive health care; Universal Broadband grants; Low-Income Housing Tax Credits; and others



# Gap-Closing Principles

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- No new taxes
- Level playing field by closing tax loopholes
- Provide critical services
- Do more with less – spending efficient, targeted and fair

# Balancing the Equation: Tough but Necessary Choices

## Across-the-Board General Fund Savings: \$4.8 Billion

### Government Efficiency

\$1.35 billion

- NPS reductions of 5%
- Close underutilized facilities
- Lower energy costs
- Lower OT costs
- Maximize federal aid
- Health insurance eligibility audits

### Health Care

\$1.04 billion

- Increase anti-fraud efforts
- Lower Rx costs: strengthen preferred drug list and reduce Average Wholesale Price
- Make insurers pay fair share
- Rationalize reimbursement rates for hospitals, nursing homes and home care

### STAR

\$354 million

- Delays for one yr the planned increase in Basic Middle Class STAR Rebate; would have provided average homeowner with \$65 more (maintains increase for seniors)
- Scheduled increase in NYC PIT credit will also be delayed for one year

### Foundation Aid

\$93 million

- Provides smaller year-to-year increase than projected – phase-in slowed from 42.5% to 37.5%; minimum increase set at 2% instead of 3%

### Fee Increases

\$133 million

- \$5 to \$20 auto insurance surcharge for State Police & critical bridge maintenance
- Real estate closing fees
- Fine insurers that fail to comply with workers' compensation law - from \$2,500 to \$10,000

### Loophole Closures

\$434 million

- Capital base rate reduction/cap elimination
- Internet sales tax (nexus rule)
- Limit tax exemptions for sales by non-profits
- Expand cigarette definition to include little cigars

### Reserves

\$337 million

- Using planned reserves set aside to pay for the costs of new labor settlements this year
- No use of Rainy Day Fund

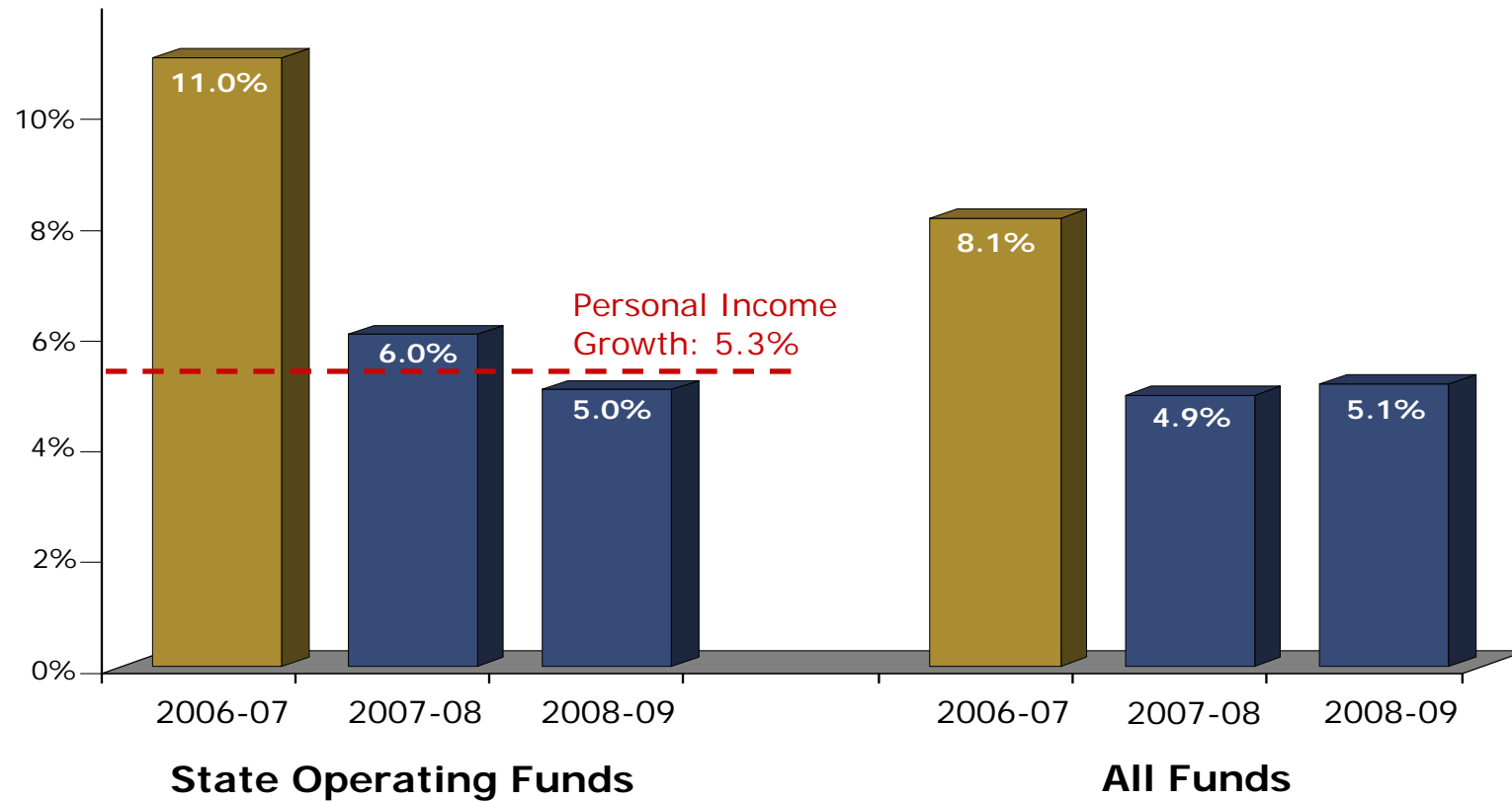
### Non-Recurring Resources

\$1.13 billion

- Belmont development rights
- Fund sweeps
- Phase in AIM restoration for NYC

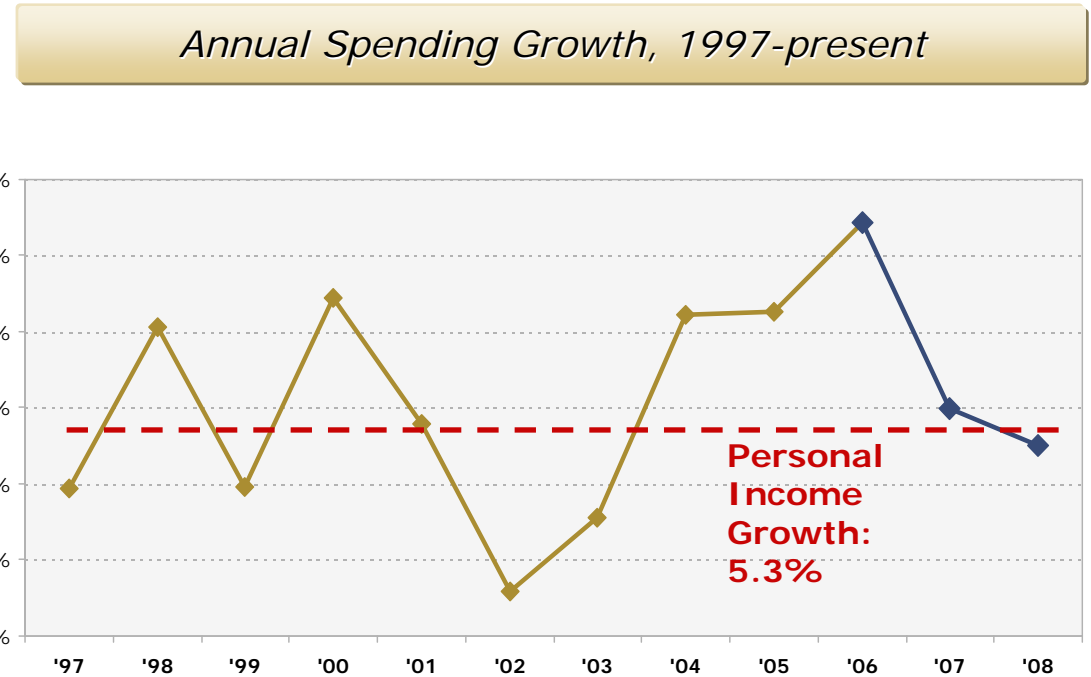
# Getting Spending Under Control

*Annual Spending Growth, 2006-07 to 2008-09*



# Spending Target: 5.3%

- Limit State Operating spending growth to 5.3% (long-term average personal income growth)
- Why?
  - Best measure of affordability without burdening taxpayers
  - If spending growth had been kept to 5.3% the last 5 years, we would have nearly \$4 B in extra reserves today – nearly the size of the current budget gap



**PROTECTING CORE PRIORITIES**

**&**

**INVESTING FOR ECONOMIC GROWTH**

# Protecting Core Priorities for Economic Growth

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## *Long-Term Agenda*

- Fully-funded education system tied to accountability
- New funding strategy to pay for transformative higher education investments
- Patient-first health care reform that increases quality and lowers costs
- Comprehensive property tax relief: Middle Class STAR; mandate relief; tax cap
- Revitalizing the Upstate economy and sustaining growth Downstate
- Government spending under control: 5.3% growth

# Investment + Accountability = Excellence

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## *Year 1: Investment*

- **Historic Increase in Funding**
  - Year 1: \$1.76 B, 10% increase
  - UPK funding
- **Foundation Aid Formula**

## *Year 1: Accountability*

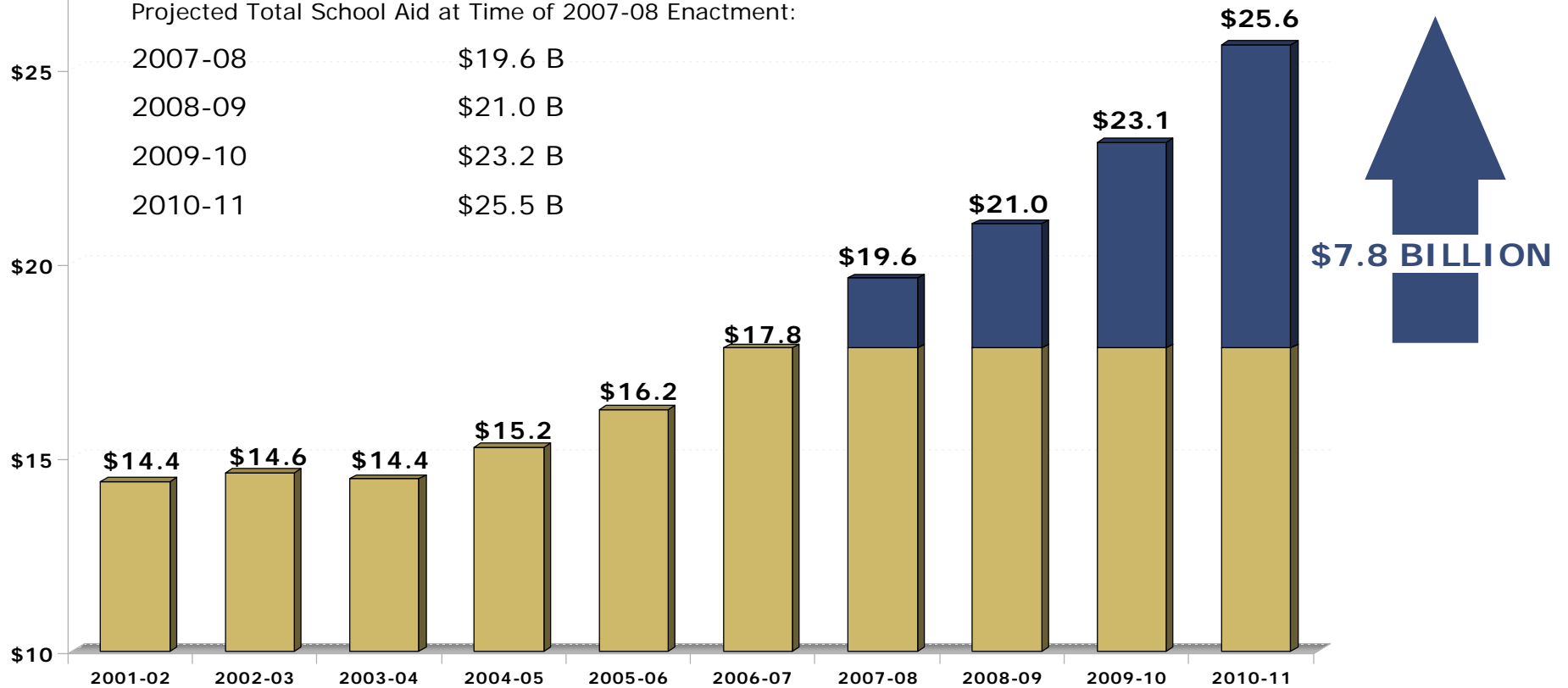
- **Contracts for Excellence**
  - Signed by the 55 districts with large aid increases and failing schools in need of improvement
  - Target historic investments to programs proven to work
  - Example: Buffalo – Funding targeted to 16 most struggling schools; longer school day by 1 hour; longer school year by 20 days; small classes of 10 students for those in most need

# Largest-Ever School Aid Increase Proposed by a Governor: \$1.46B

## State School Aid (\$Billion)

### Maintaining Our Commitment

Projected Total School Aid at Time of 2007-08 Enactment:



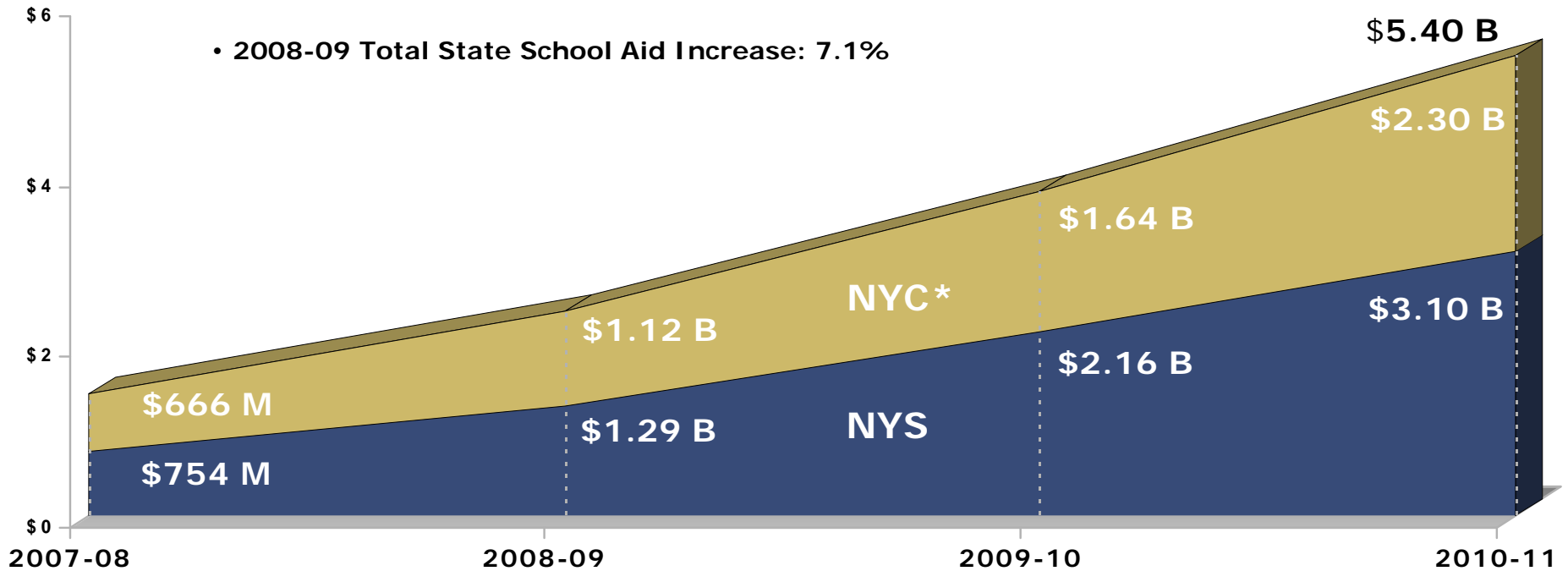


# Foundation Aid Formula Continues to Drive Majority of Operating Support

		\$ Millions	% of Operating
Foundation Aid	(-\$350 M from Projected)	14,543	78%
Other Operating		3,743	20%
NYC Academic Achievement Grant		179	1%
High Tax Aid		100	1%
<b>Total Operating Support</b>		<b>18,565</b>	
Building Aid/EXCEL		2,111	
Other Grant Programs		338	
<b>Total School Aid</b>		<b>21,014</b>	

# Keeps Funding Commitment to NYC

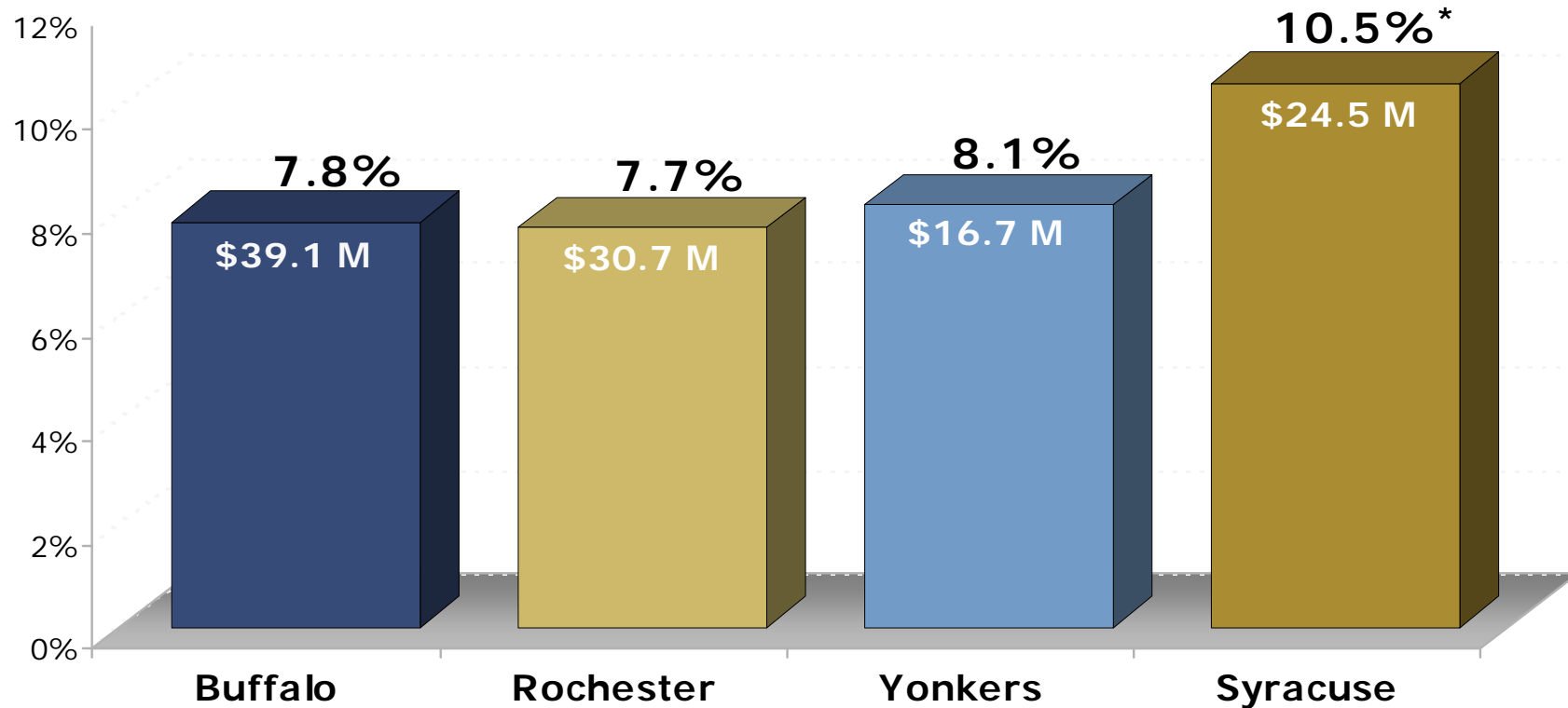
*Cumulative Increase, 2007 to 2011 (\$Million)*



\* Expected NYC contribution

# Continues Historic Increase Statewide

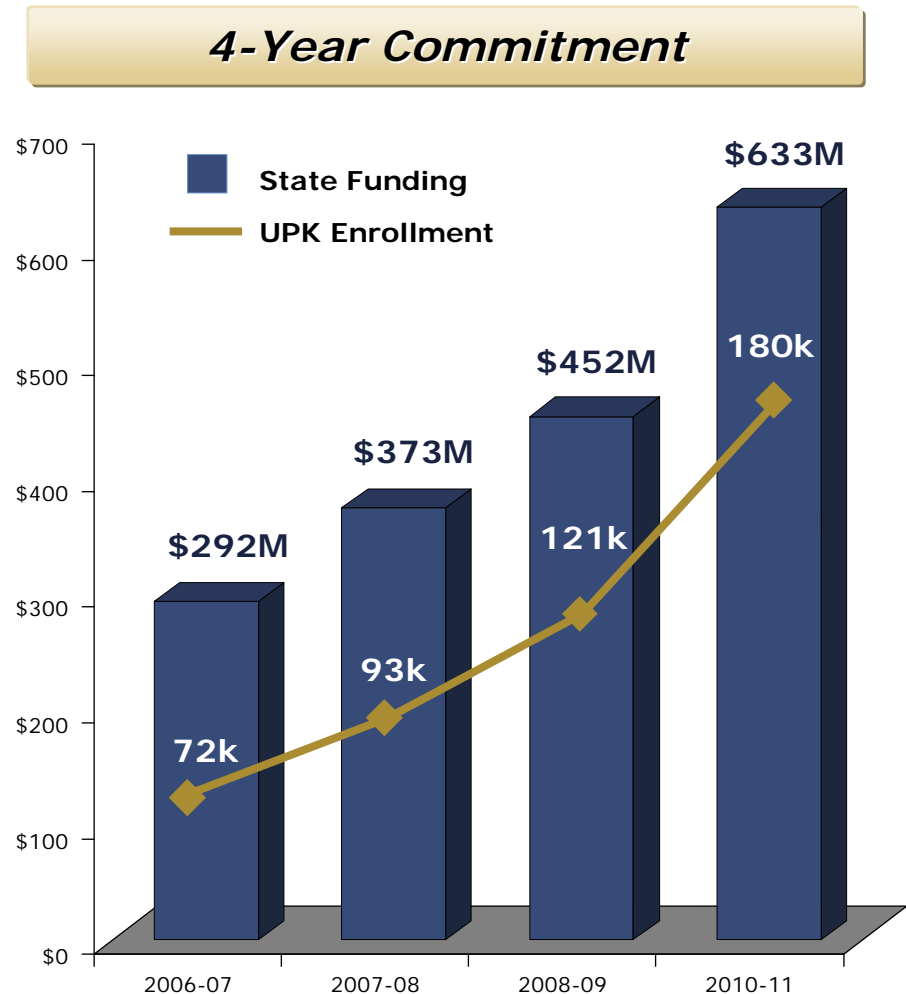
*Increased Operating School Support to Big 4 Cities (2007-08 to 2008-09)*



\* Syracuse is higher because of higher reimbursable aid (transportation, special education, etc.)

# Continues Progress on Universal Prekindergarten

- In 2007-08:
  - 140 school districts offered UPK for the first time
  - 21,000 more students enrolled (30% increase)
- 86% of high-need districts now offer UPK
- Universal enrollment: 2010-11



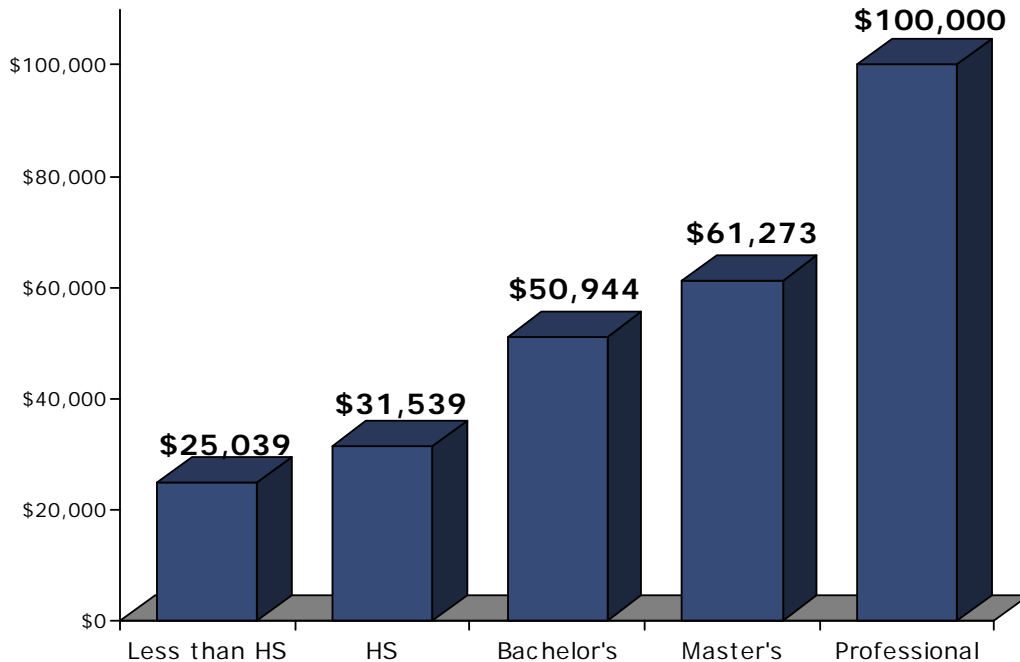
## Phase 2 of Accountability Agenda

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- Develop school and district improvement targets
- Ensure that student progress reports are prepared for all students
- Design a new P-16 data system to track student performance
- Require improvement plans from underperforming districts and intervene when districts fail to demonstrate progress
- Establish minimum standards to strengthen teacher tenure determination

# Higher Ed: The Need in an Innovation Economy

*Earnings Relative to Educational Attainment, 2005*

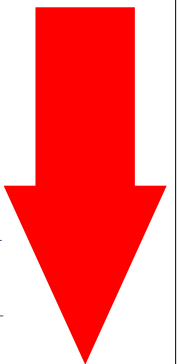


Source: Postsecondary Education Opportunity

*U.S. Rank for Share of 25-34-year-olds with Bachelor's Degree or Greater*

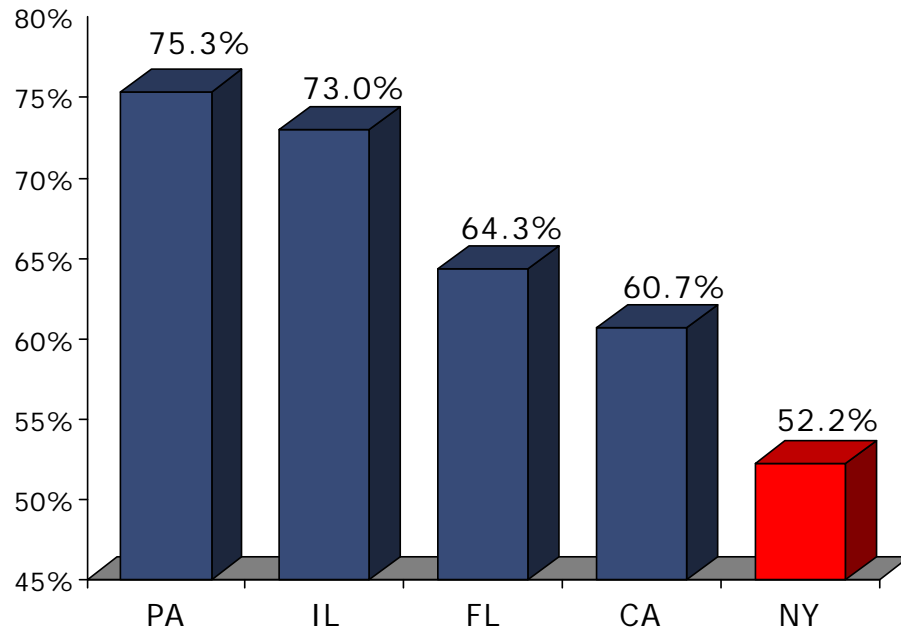
*If trends continue, the world ranking of the U.S. will continue to fall:*

Rank	Year
1 <sup>st</sup>	1998
5 <sup>th</sup>	2004
9 <sup>th</sup>	2007
13 <sup>th</sup>	2009
18 <sup>th</sup>	2019

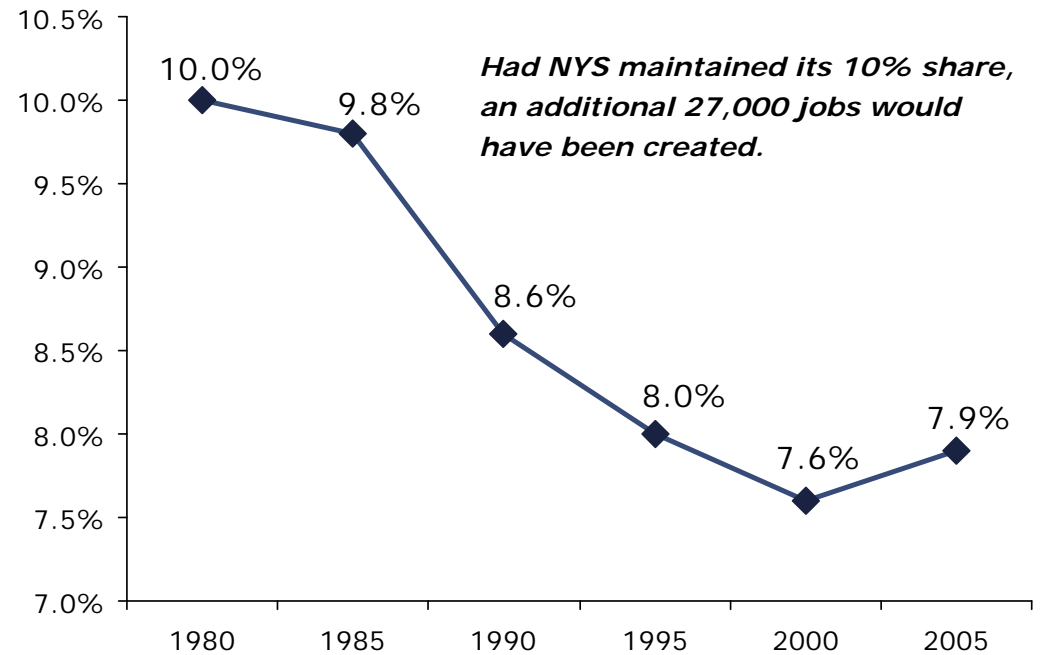


# New York Falling Behind

*Full-Time Faculty at Large Public University Systems as a % of Total*



*New York's Share of U.S. Academic R & D*



## Necessary Investments Over Next 5 Years

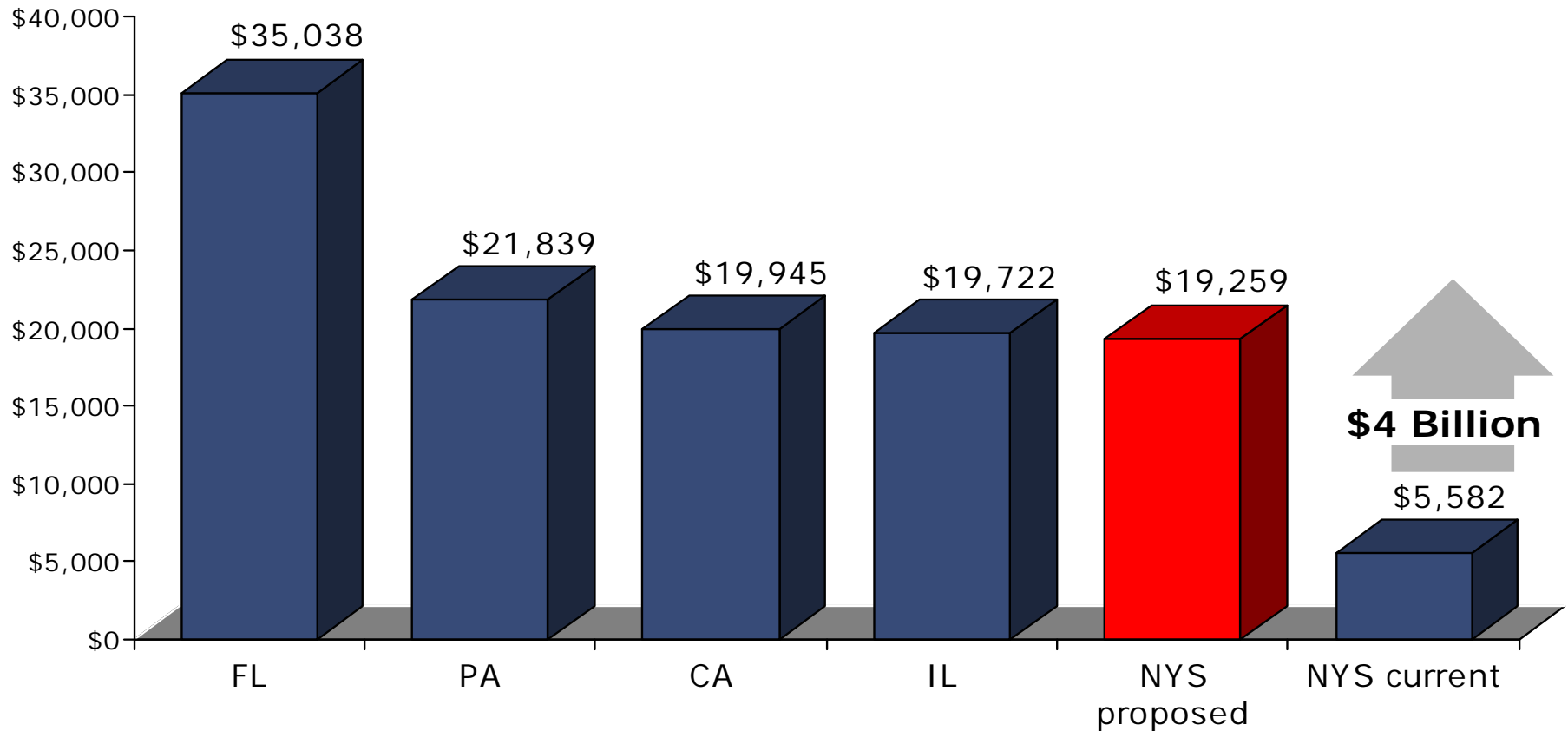
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- 2,000 more full-time faculty
- Innovation Fund for research and job creation
- Make community colleges into workforce development engines and 4-year college gateways
- New 5-year capital plan for SUNY/CUNY to address \$4.9 billion critical maintenance backlog and new strategic initiatives



# Investments Not Possible Without Endowment

*Endowment Size per Full-Time Student, Large U.S. Public University Systems*



\* University of California and California State University Systems combined  
Source: Council on Aid for Education - Voluntary Support of Education, FY 2007 Survey; City University of New York

# Proposal: \$4 Billion Higher Education Endowment

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	<b>Endowment Principal</b>	<b>Annual 5% Distribution</b>	<b>Cumulative Distribution</b>
<b>Year 1</b>	\$4 billion	\$220 million	\$220 million
<b>Year 10</b>	\$6.3 billion	\$334 million	\$3.0 billion
<b>Year 20</b>	\$9.6 billion	\$508 million	\$7.2 billion
<b>Year 30</b>	\$14.7 billion	\$772 million	\$13.7 billion

\* Growth is projected according to the 10-year avg. of the NYS Pension Fund (9.77%) and assumes 5% distribution annually

# Principles of Lottery Monetization

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- Protect Lottery's support for K-12 education (must continue to grow at its current rate of about 2% per year)
- All existing State regulation and oversight of the Lottery must be maintained

...Unless investors can meet these principles: **NO DEAL**

# Patients-First Health Care Reform

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## *Year 1*

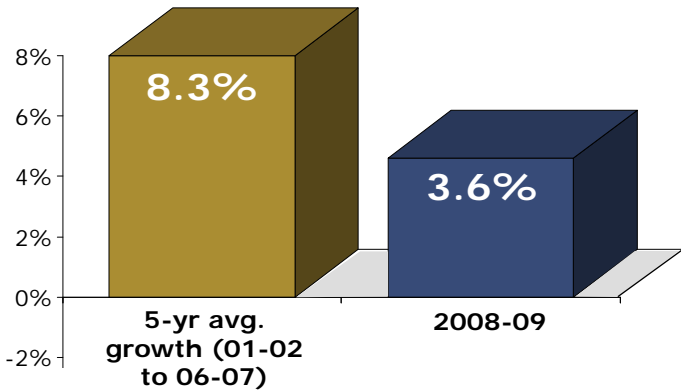
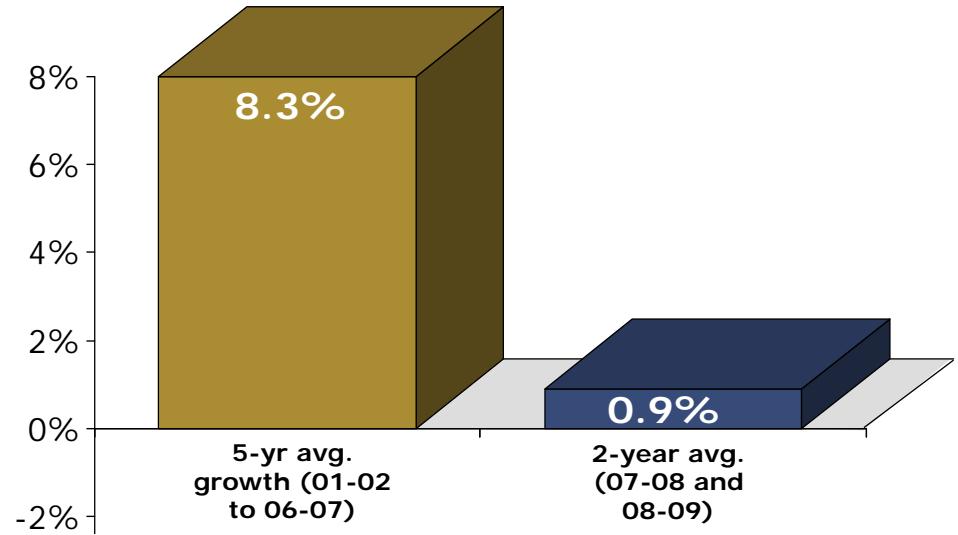
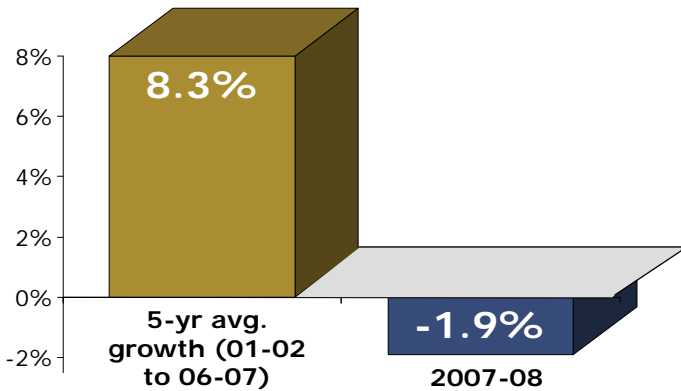
- Controlling costs
- Increasing access through streamlining and expansions
- Rationalizing Reimbursement: “Medicaid dollars must follow Medicaid patients” (Phase 1)
- Investing in Public Health
- Reorganize DOH to leverage market power of Medicaid and fight fraud

## *Year 2*

- Continuing to control costs
- Health care for all children
- Rationalizing Reimbursement: “Pay for the right care in the right setting at the right price” (Phase 2)
- Attacking Chronic Diseases
- Medical Malpractice Task Force

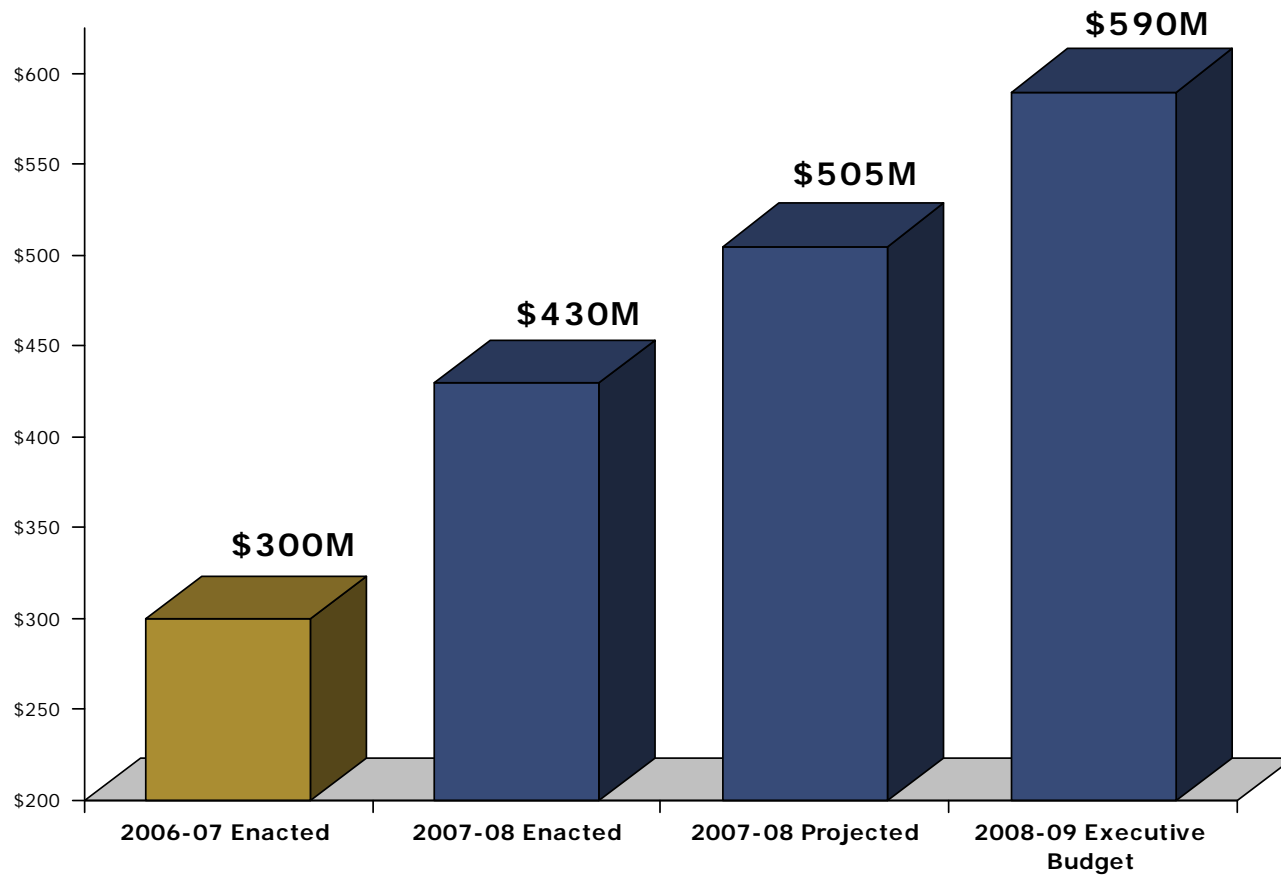
# Continuing to Control Costs

## State Medicaid Spending



# Record Medicaid Fraud Savings

## *Medicaid Fraud Recoveries*



# Health Care for All Children

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- State will fund Federal share of Child Health Plus Expansion up to 400% FPL

*Expanding Access Other Ways:*

- Improve and Streamline Enrollment for Medicaid, Child Health Plus and Family Health Plus
- Expand Medicaid for Former Foster Care Children to age 21
- Family Health Plus Employer “Buy-in”

# Attacking Chronic Diseases

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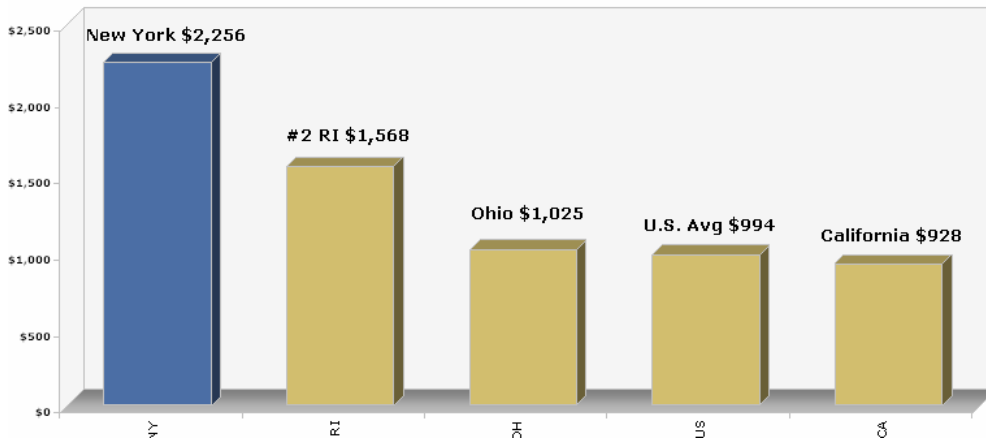
- Obesity: Healthy Schools Act (+ \$37.1M by 2010-11 school year)
- Diabetes and Asthma: Invest in Diabetes and Asthma educators (net budget savings)
- Childhood Lead Poisoning: + \$1.25M
- Heart Disease and Lung Cancer: Anti-Smoking Initiatives (+ \$2.20M)
- High-Cost/High-Need Patients: + \$10M for variety of initiatives (25% of the Medicaid patients who cost 75% of Medicaid dollars)



# We Get the Health Care System We Pay For

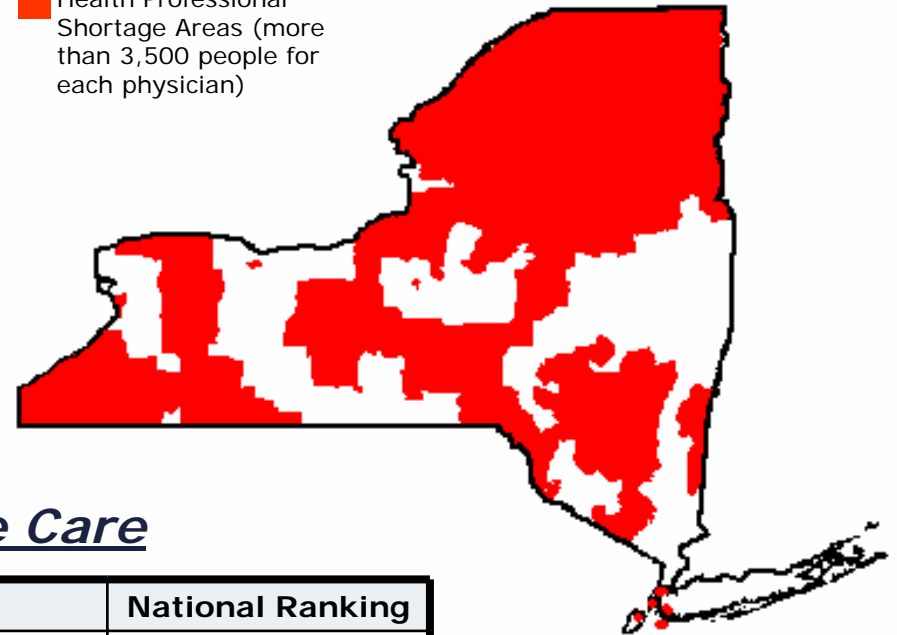
## #1 in Medicaid Spending Per Capita

Per Capita Medicaid Spending (2006)



## Doctor Shortages

Health Professional Shortage Areas (more than 3,500 people for each physician)



## Inadequate Care

Care Measure	National Ranking
Percentage of Uninsured	22nd
Quality of Health Care	30th
Public Health Indicators	30th
Avoidable Hospital Use	39th
Breast Cancer Deaths	31st
Deaths due to chronic disease	1st
1 in 4 children is obese; 1 in 12 has asthma	-

# Paying for the Wrong Care

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## *Core Problem: Irrational Reimbursement System*

- **Reimbursement Doesn't Reflect Actual Costs: Overpays for Some, Underpays for Others**
  - Before: Hip Replacement = \$29,073, 14-day hospital stay
  - After: Hip Replacement = \$17,705, 4-day hospital stay (when fully phased in)
  - Before: Neonate = \$255,506, 109-day hospital stay
  - After: Neonate = \$443,313, 94-day hospital stay (when fully phased in)
- **Underpays for Primary and Preventive Care**
  - Clinic rates frozen for over a decade
  - Physician rates 2<sup>nd</sup> lowest in nation
  - 50% of NYS-trained physicians leave NYS
- **Ignores Quality and Intensity of Care**
  - Pays same for an ear infection and a broken arm
  - Pays the same for a 10-minute visit to a doctor and 100-minute visit
  - Pays for preventable complications (“Never Events”)

# Paying for the Right Care

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## *Rationalizing our Reimbursement System*

- **Invest in Primary & Preventive Care**

- Update inpatient rates and shift \$84 M to clinics, physicians and outpatient hospitals
- “Doctors Across New York”
  - Tuition Loan Repayments
  - Grants to start practices in rural and urban underserved areas
- Pay more for evening and weekend hours

- **Reward Quality**

- Redesign rates to factor in quality and intensity of service (first time ever)
- Begin selectively contracting based on quality (e.g., breast cancer surgery)
  - NYS will only contract with high-volume breast cancer hospitals while ensuring access
  - Women who have breast cancer surgery at *low-volume* hospitals are 60% more likely to die after five years compared to women who go to high-volume hospitals
- Eliminate payment for avoidable inpatient complications (“Never Events”)

# Why This Matters

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## *Transforming our Health Care Delivery System*

- Medicaid can be our most powerful tool for changing our health care system
  - Single-largest payer of health care in NYS, underwriting 1/3 of all costs
  - Covers more than 4 million New Yorkers
  - 100% of NYS hospitals and 75% of physicians serve Medicaid patients
- Leveraging Medicaid's market power will drive down costs and increase quality for ALL New Yorkers
- Transforming the health care delivery system will make care more affordable and pave the way for universal health care

# Year 1: Property Tax Relief

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## *Direct Relief*

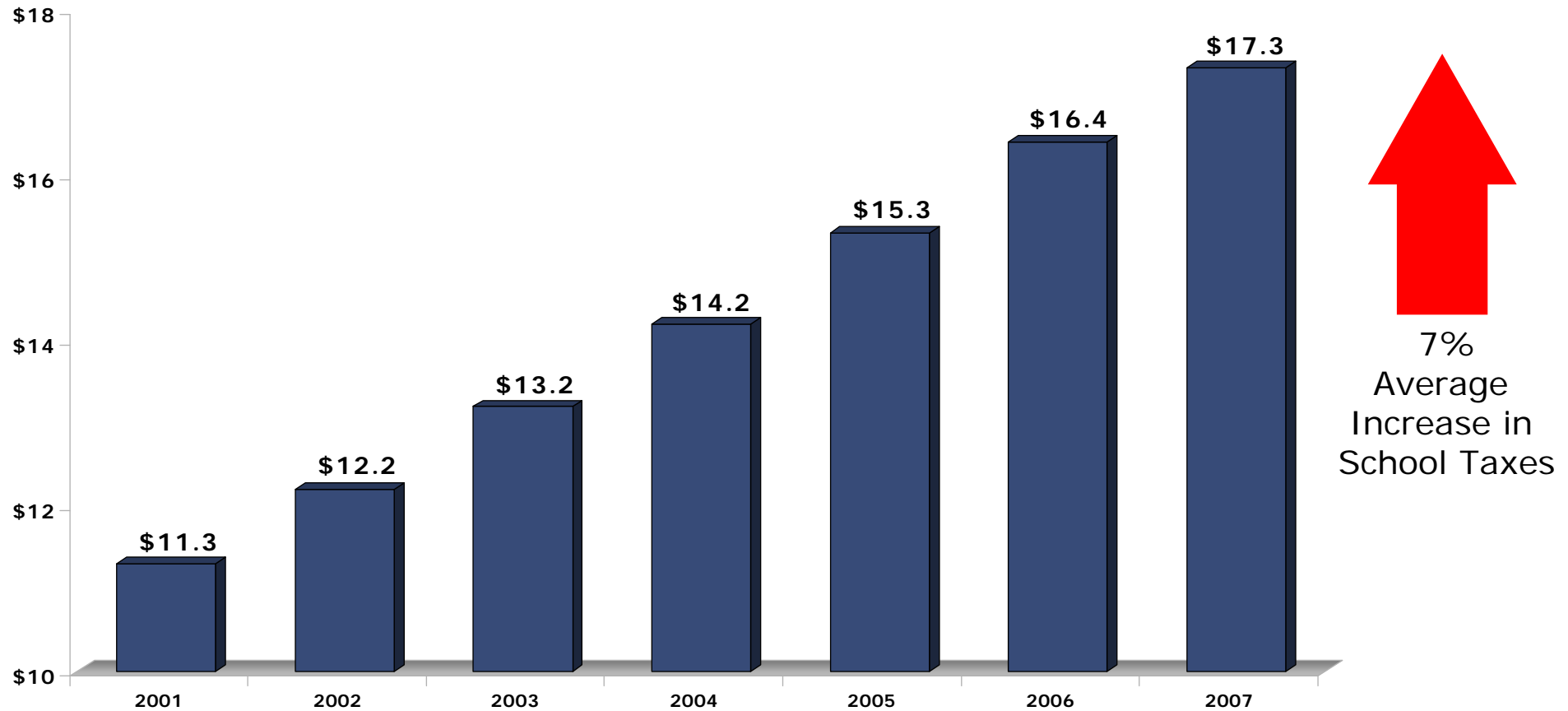
- \$4.8 billion in STAR Tax Relief
  - Targeted to middle-class New Yorkers who need it most
- \$19.6 billion in school aid
- \$720 million in Aid and Incentives for Municipalities

## *Mandate Relief*

- Continue Medicaid Cap and FHP Takeover
- Commission on Local Government Efficiency and Competitiveness
  - Advanced 150 locally-generated proposals for shared services and government consolidation

# Despite Efforts, Property Taxes Continue to Rise

*School District Property Tax Levy (Outside of NYC)*



# Stronger Medicine Needed: 3-Part Plan

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## *Direct Relief*

- Increase property tax relief for seniors
  - 40% increase in Enhanced STAR exemption (\$91 M)
- Continue last year's STAR Rebates, targeted to middle class

## *Mandate Relief*

- Wicks Law Reform
- Preschool Special Education Cap
- Continue Medicaid Cap and FHP Takeover
- Local Government Commission
  - Implement locally-generated initiatives

## *Property Tax Cap*

- Commission will develop:
  - Fair and effective school property tax cap
  - Proposals to address root causes
  - Proposals to increase fairness of tax relief system for middle class

# Year 2 - Significant Direct Relief

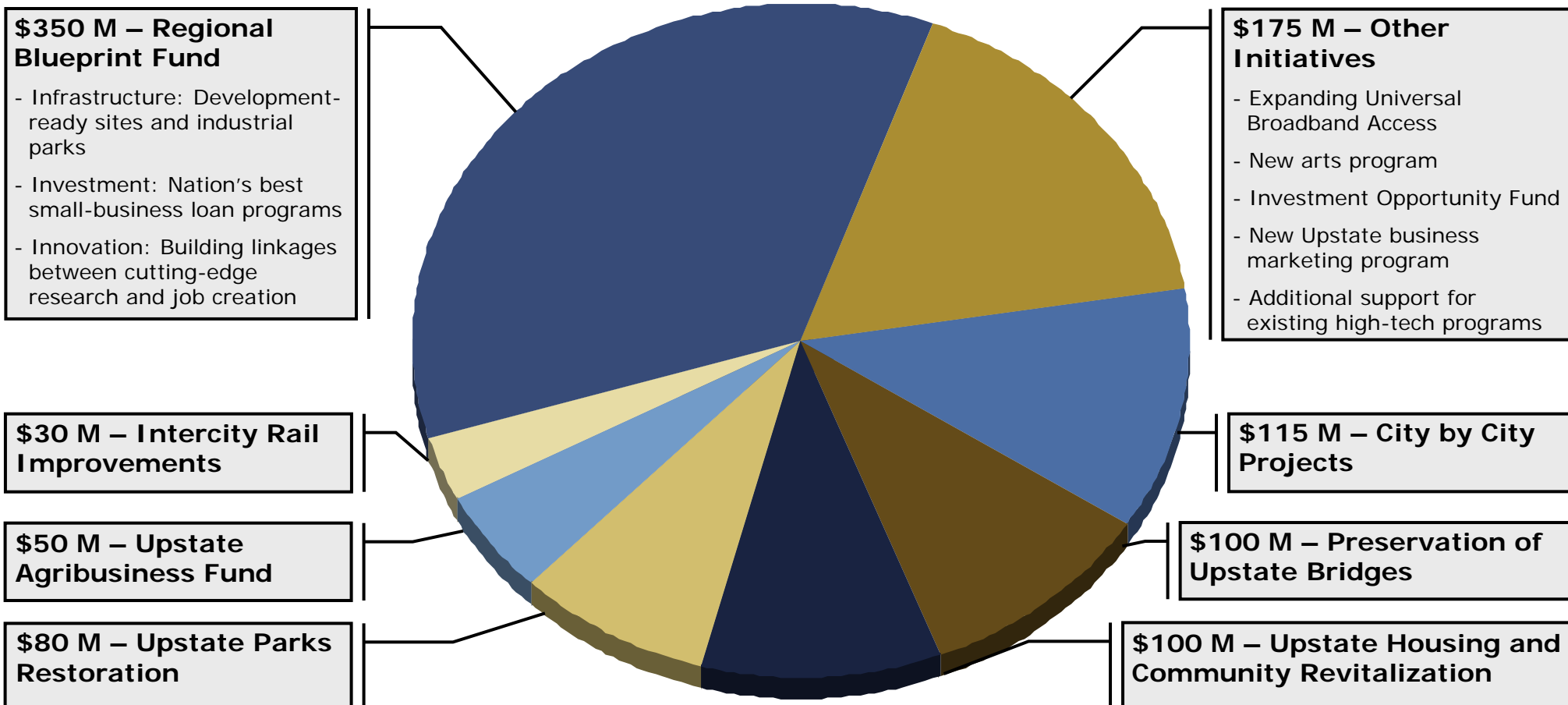
## Direct Property Tax Relief, 2008-09 Executive Budget

County	Basic STAR			Senior STAR		
	Average STAR Exemption Savings	Middle Class STAR Rebate	Total Taxpayer Savings	Average STAR Exemption Savings	Enhanced STAR Rebate	Total Taxpayer Savings
Albany	\$599	\$334	<b>\$933</b>	\$1,072	\$410	<b>\$1,482</b>
Erie	\$516	\$294	<b>\$810</b>	\$901	\$349	<b>\$1,250</b>
Onondaga	\$681	\$385	<b>\$1,066</b>	\$1,172	\$459	<b>\$1,631</b>
Suffolk	\$950	\$535	<b>\$1,485</b>	\$1,691	\$612	<b>\$2,303</b>
Westchester	\$1,834	\$924	<b>\$2,758</b>	\$3,198	\$1,162	<b>\$4,360</b>
Statewide	\$688	\$386	<b>\$1,074</b>	\$1,217	\$458	<b>\$1,675</b>



# Revitalizing the Upstate Economy

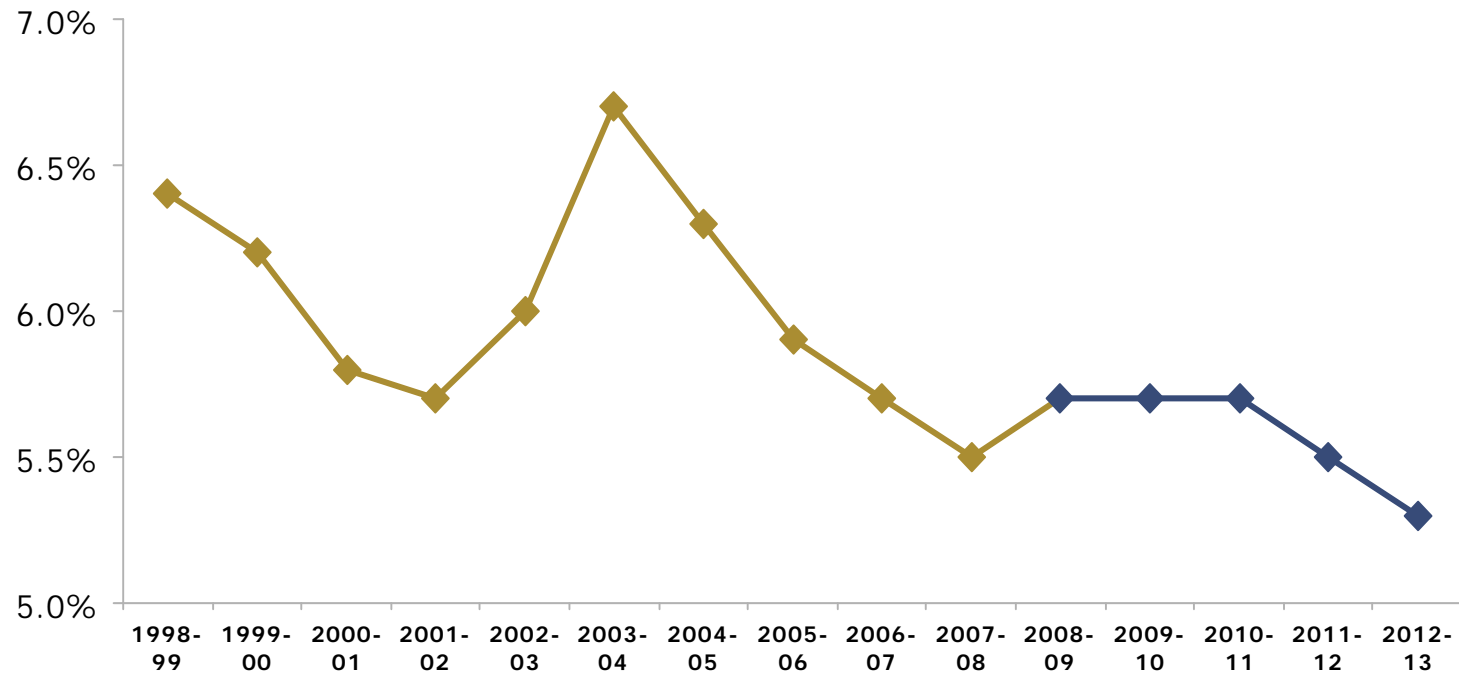
## \$1 Billion Upstate Revitalization Fund



- Will be funded by 60% bonded capital, 40% pay-as-you-go; first time an economic development fund has not been 100% bonded capital in over a decade

# Debt Remains Affordable

*State-Related Debt as a Percent of Personal Income*



# Sustaining Growth Downstate

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## *Investment and Breaking Gridlock*

- **Affordable Housing and Community Development**
  - Housing Opportunity Fund (\$300 M for Downstate)
  - Downstate Revitalization Fund (\$200 M)
- **Ground Zero**
- **Far West Side**
  - Hudson Yards
  - Moynihan Station (in planning stage)
  - Port Authority Bus Terminal
- **Second Avenue Subway**
- **East Side Access**
- **Tappan Zee Bridge**
- **Stewart Airport**
- **Hudson Valley and Long Island high-tech (+\$35 M)**
- **Governors Island (+\$25 M)**
- **Hudson River Park (+\$20 M)**

# Other Building Blocks for Growth

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- New long-term “Electricity Cost Discount Program” to build on expiring Power for Jobs programs
- Universal Broadband (\$15 M, tripling funds)
- Brownfields and Empire Zone Reform
- Revitalizing Cities
  - Reducing Crime
    - Trooper Redeployment
    - New Crime Analysis Centers (Buffalo, Rochester, Syracuse and Albany)
    - Operation IMPACT
  - Increased Aid and Incentives to Municipalities (\$50 M; second installment of four-year, \$200 M plan)

# Net Positive Local Impact

## *Executive Budget Impact on Local Governments (\$ Millions)*

	NYC	School Districts	Counties	Other Cities	Towns & Villages	Total
School Aid/Education	517.7	892.5	31.0	0.0	0.0	1,441.2
Revenue Actions	49.4	0.0	109.3	24.0	6.6	189.3
Welfare	(63.8)	0.0	(41.8)	0.0	0.0	(105.6)
Health	17.1	0.0	8.3	0.0	0.0	25.3
Transportation	7.4	0.0	15.3	0.0	0.0	22.7
Municipal Aid	123.9	0.0	(2.0)	64.8	1.2	187.9
All Other Impacts	5.6	12.3	5.5	1.1	1.2	25.7
<b>Total 2008-09 Exec. Budget Actions</b>	<b>657.3</b>	<b>904.8</b>	<b>125.6</b>	<b>89.9</b>	<b>9.0</b>	<b>1,786.5</b>
Continuing Medicaid Cap Savings	210.6	0.0	244.1	0.0	0.0	454.7
Continuing FHP Takeover Savings	309.8	0.0	149.3	0.0	0.0	459.1
<b>Grand Total</b>	<b>1,177.7</b>	<b>904.8</b>	<b>519.0</b>	<b>89.9</b>	<b>9.0</b>	<b>2,700.3</b>

# BUDGET GOALS

- **Closing the Gap**
- **Protecting Core Priorities**
- **Investing for Economic Growth**