New York State's Economic and Budget Outlook for 2008-2009

January 2008

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The Economic Context

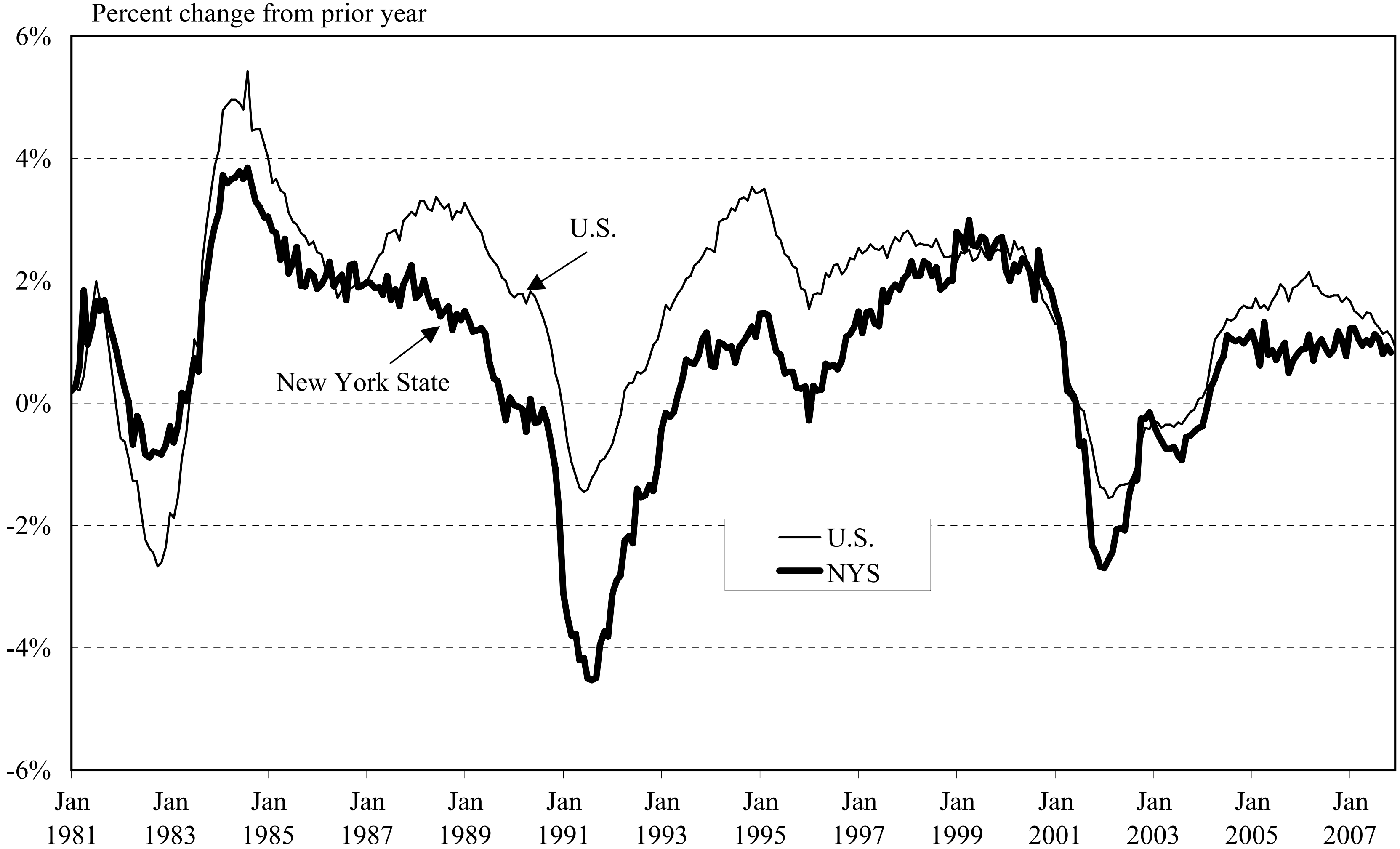
The current national economic slowdown and Wall Street turmoil could mean a recession, and if so, it already may be underway. Four years of moderate job and income growth in New York could be coming to an end in the first part of 2008.

FPI's ***The State of Working New York 2007*** documents the recovery and expansion since mid-2003 and provides extensive data on jobs, wages, and incomes and looks at trends by sector and region. The report describes New York's many economic assets and strengths, particularly the highly productive quality of its well-educated and diverse workforce, and it notes some positive developments in the upstate economy that occurred before the onset of the recent slowdown.

The State of Working New York 2007 also analyzes what FPI refers to as "troubling long-term economic trends": the wage-productivity gap, the deterioration in job quality, income polarization, and the fact that too many jobs in New York still don't pay enough to allow many families to lift themselves out of poverty.

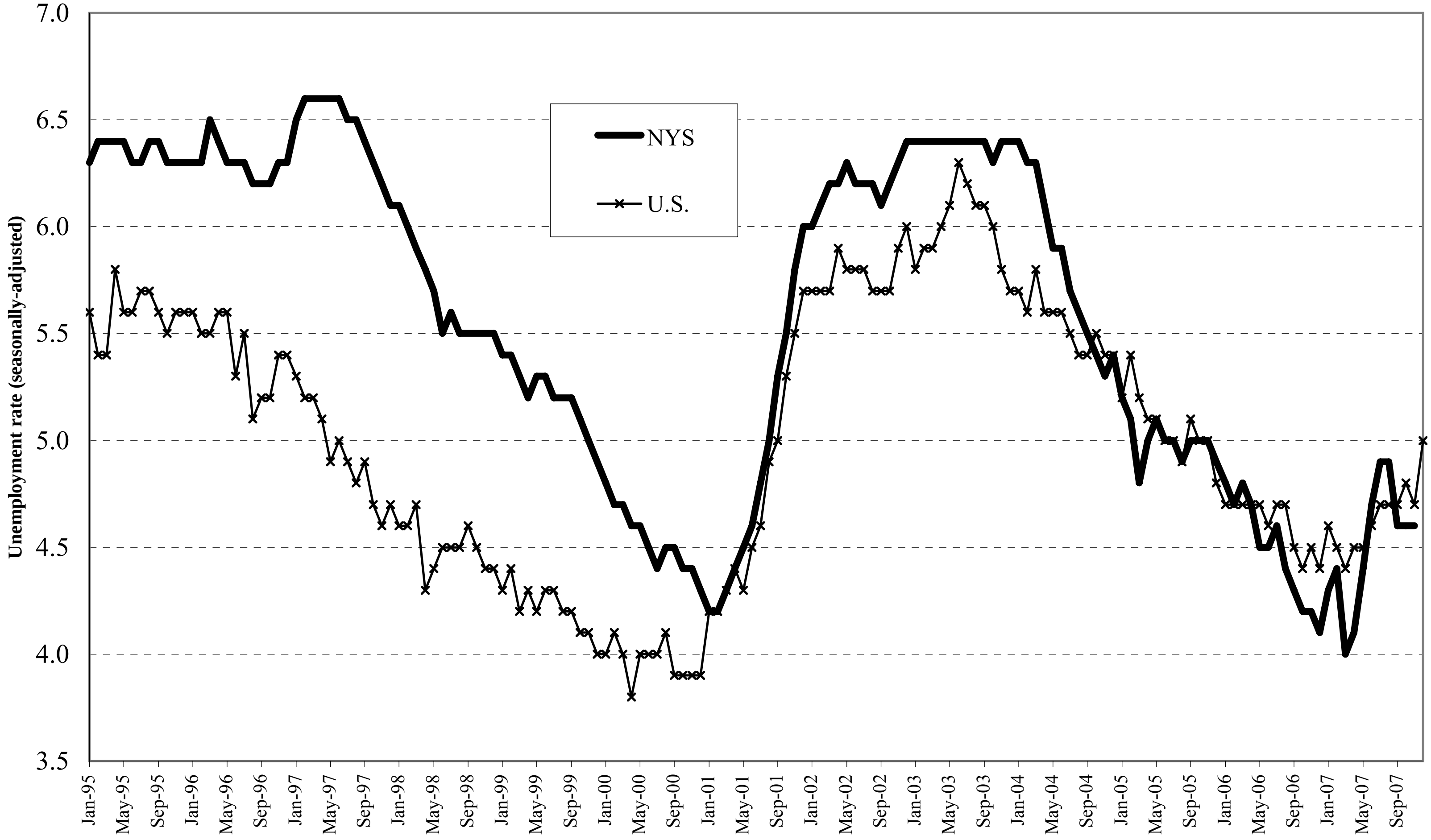
This section of the budget briefing book updates the economic analysis in that report and examines the implications of the current slowdown for New York's budget outlook.

New York's job growth is starting to slow, but nationally it has been slowing for over a year.



Source: BLS CES data.

New York and U.S. unemployment rates have been rising over the past year.



Source: BLS Current Population Survey data.

The U.S. economic expansion since mid-2003 was heavily fueled by debt, much of it related to an unsustainable housing bubble.

Home mortgage debt doubled from 2001 to 2007 and residential construction was by far the fastest growing part of the economy.

- The housing market has collapsed.
- Wage and income growth for most families has been too weak to support higher consumption.
- The soaring trade deficit has seriously eroded the nation's manufacturing base.
- And on top of all this, energy prices keep rising.

The doubling of corporate profits from 2001 to 2007 came at the expense of wage and salary gains that support broad-based personal consumption that accounts for two-thirds of Gross Domestic Product.

- Corporate profits increased by 99% while wages and salaries grew by only 26% in a period when GDP increased by 35%.
- With consumption growing faster than wage incomes, most households could only maintain consumption through borrowing using credit cards or home equity loans.

Wall Street’s turmoil bodes ill for New York and the nation.

- The collapse of the real estate sector, the subprime mortgage mess, and the resulting credit crisis on Wall Street, are leading to a serious slowdown, possibly a recession.

- The real estate bubble, the explosion in household debt, and the surge in questionable financing activity on Wall Street are intertwined. Their unraveling will be painful, messy and should force a re-examination of what Wall Street does.

- In a development that is unprecedented in modern times, most of the major Wall Street firms have had to write down several billion dollars in bad loans and CEOs have had to admit they didn’t understand the “innovative” lending practices in which their employees were engaged. In a development that is not unprecedented, investors who were assured they were buying top-rated securities have taken billions in losses.

- A number of Wall Street investment banks have had to turn to foreign investors to be bailed out. These “sovereign” investment funds have increased in value into the hundreds of billions of dollars as a result of surging oil and manufacturing exports to the U.S. These developments raise serious questions about the future of the U.S. economy.

Capital gains and Wall Street wages accounted for half of the growth in New York's personal income tax base from 2003 to 2007.

	NYS Adjusted Gross Income (NYSAGI) ($ millions)	Net Capital Gains ($ millions)	Total Wall Street Wages ($ millions)	Capital Gains and Wall Street Wages as a share of: the level of AGI	Capital Gains and Wall Street Wages as a share of: AGI change from prior year
1996	347,981	22,441	24,534	13%	47%
1997	383,179	31,563	28,790	16%	38%
1998	417,996	38,929	33,602	17%	35%
1999	448,531	48,330	35,116	19%	36%
2000	508,934	62,302	48,777	22%	46%
2001	481,001	29,450	49,813	16%	114%
2002	459,919	20,398	40,278	13%	88%
2003	473,778	28,455	38,025	14%	42%
2004	525,964	51,196	46,203	19%	59%
2005	572,231	64,039	51,616	20%	39%
2006	629,454	81,458	63,590	23%	51%
2007	677,293	92,943	77,222	25%	53%
1996-2000	**46%**	**178%**	**99%**	**18%**	**39%**
2003-2007	**43%**	**227%**	**103%**	**22%**	**51%**

Sources: NYSAGI and Capital Gains, NYS Division of the Budget; 2006-2007 are DoB projections.
Wall Street Wages from NYS DoL: 1991-1999 on SIC basis; 2000-2007 on NAICS basis.
2007 Wall Street wages projected by FPI.

Mortgage foreclosure problems will worsen in New York.

- While the real estate bubble was much worse in parts of Florida and California, real estate prices soared in New York City and its suburbs and questionable lending practices were widespread.
- With Wall Street opening the credit floodgates by "securitizing" home mortgages and re-selling them to investors, subprime mortgage companies aggressively sought out home buyers with easy credit terms and adjustable rate mortgages with low "teaser" rates that would "re-set" later at higher rates. This recipe could only work as long as real estate prices kept going up
- A report on the mortgage crisis for the U.S. Conference of Mayors by the economics consulting firm, Global Insight, predicts that home price declines will average 7% across the U.S. in 2008, and there is a risk of greater declines. As a result, Global Insight predicts that job growth, incomes and consumption will all falter, shaving a full percentage point from GDP in 2008.
- Even though the economic impact of the mortgage crisis will be slightly less than a 1% reduction across New York's metropolitan areas, Global Insight predicts over 50,000 mortgage foreclosures in New York in 2008, the ninth highest among states (behind CA, FL, MI, TX, OH, AZ, IL, and GA).
- Global Insight projects that the value of housing in foreclosure in New York will reach $14.2 billion in 2008, ranking the state 4th, behind CA, FL, and AZ. New York also ranks 4th in the 2008 projected decline in property values ($63 billion).

There was broad improvement in New York's job growth in 2007, with Western and Northern New York improving the most.

	Non-agricultural Employment	Annual Average Absolute Change				Annual Average Percent Change			
	Jan.-Nov. 2007	2003-04	2004-05	2005-06	2006-07	2003-04	2004-05	2005-06	2006-07
United States	137,853,545	1,436,000	2,268,000	2,471,000	1,841,600	1.1%	1.7%	1.8%	1.4%
New York State	8,684,400	55,000	72,200	78,800	86,800	0.7%	0.9%	0.9%	1.0%
New York City	3,711,327	18,200	52,900	62,200	54,200	0.5%	1.5%	1.7%	1.5%
Eastern New York	2,718,300	29,258	12,783	14,842	21,600	1.1%	0.5%	0.6%	0.8%
Nassau-Suffolk, NY Metropolitan Division	1,255,409	11,200	5,700	8,300	9,400	0.9%	0.5%	0.7%	0.8%
Putnam-Rockland-Westchester	573,255	8,500	2,500	2,000	6,200	1.5%	0.4%	0.4%	1.1%
Albany-Schenectady-Troy, NY MSA	447,882	4,400	2,000	1,600	1,200	1.0%	0.5%	0.4%	0.3%
Glen Falls, NY MSA	55,100	1,400	200	500	500	2.7%	0.4%	0.9%	0.9%
Kingston, NY MSA	65,882	-700	-100	700	1,200	-1.1%	-0.2%	1.1%	1.9%
Poughkeepsie-Newburgh-Middletown, NY MSA	257,518	4,000	2,200	1,700	2,400	1.6%	0.9%	0.7%	0.9%
Columbia County	21,527	500	0	0	100	2.4%	0.0%	0.0%	0.5%
Greene County	15,027	-500	300	200	300	-3.4%	2.1%	1.4%	2.0%
Sullivan County	26,700	400	100	-100	300	1.5%	0.4%	-0.4%	1.1%
Western and Northern New York	2,772,336	12,000	7,267	5,783	14,900	0.4%	0.3%	0.2%	0.5%
W&N NY Metropolitan Areas	2,253,145	8,900	5,992	2,367	11,100	0.4%	0.3%	0.1%	0.5%
Binghamton, NY MSA	113,782	-100	-300	1,100	500	-0.1%	-0.3%	1.0%	0.4%
Buffalo-Niagara Falls, NY MSA	548,518	2,600	-1,300	-1,000	3,300	0.5%	-0.2%	-0.2%	0.6%
Elmira, NY MSA	40,336	-600	0	300	0	-1.5%	0.0%	0.8%	0.0%
Ithaca, NY MSA	62,427	900	500	400	200	1.5%	0.8%	0.6%	0.3%
Rochester, NY MSA	514,109	1,700	3,600	-1,600	1,300	0.3%	0.7%	-0.3%	0.3%
Syracuse, NY MSA	321,982	1,000	1,900	200	1,800	0.3%	0.6%	0.1%	0.6%
Utica-Rome, NY MSA	132,800	400	200	-400	200	0.3%	0.2%	-0.3%	0.2%

	Non-agricultural Employment	Annual Average Absolute Change				Annual Average Percent Change			
	Jan.-Nov. 2007	2003-04	2004-05	2005-06	2006-07	2003-04	2004-05	2005-06	2006-07
W & N NY Non-metropolitan areas	519,191	3,100	1,375	3,317	3,800	0.6%	0.3%	0.6%	0.7%
Allegany County	17,164	300	0	0	100	1.8%	0.0%	0.0%	0.6%
Cattaraugus County	34,127	100	-400	-200	100	0.3%	-1.2%	-0.6%	0.3%
Cayuga County	27,182	500	-300	200	200	1.9%	-1.1%	0.7%	0.7%
Chautauqua County	56,536	500	0	-400	-100	0.9%	0.0%	-0.7%	-0.2%
Chenango County	17,018	0	100	200	0	0.0%	0.6%	1.2%	0.0%
Clinton County	36,073	0	100	0	100	0.0%	0.3%	0.0%	0.3%
Cortland County	18,364	-400	-300	-200	0	-2.1%	-1.6%	-1.1%	0.0%
Delaware County	18,364	300	100	0	0	1.7%	0.5%	0.0%	0.0%
Essex County	15,600	300	0	-200	300	2.0%	0.0%	-1.3%	2.0%
Franklin County	19,636	100	100	100	300	0.5%	0.5%	0.5%	1.6%
Fulton County	18,536	100	-100	200	-100	0.5%	-0.5%	1.1%	-0.5%
Genesee County	23,755	-100	-100	100	700	-0.4%	-0.4%	0.4%	3.0%
Jefferson County	43,309	300	700	1,600	600	0.7%	1.7%	3.9%	1.4%
Lewis County	7,136	100	100	300	200	1.5%	1.5%	4.5%	2.9%
Montgomery County	20,036	400	500	100	0	2.1%	2.6%	0.5%	0.0%
Otsego County	26,945	500	200	300	0	1.9%	0.8%	1.1%	0.0%
St. Lawrence County	41,955	-100	100	300	400	-0.2%	0.2%	0.7%	1.0%
Schuyler County	4,955	100	0	100	0	2.1%	0.0%	2.0%	0.0%
Seneca County	11,936	100	0	0	200	0.9%	0.0%	0.0%	1.7%
Steuben County	38,645	-200	400	200	300	-0.5%	1.1%	0.5%	0.8%
Wyoming County	14,700	0	200	500	400	0.0%	1.5%	3.6%	2.8%
Yates County	7,218	300	-100	-100	100	4.3%	-1.4%	-1.4%	1.4%

Source: New York State Department of Labor. 2007 data projected based on 11 months.

Signs of improvement upstate prior to the onset of slowdown.

- The upstate economy west of the Hudson Valley has generally lagged behind the rest of the state in the past decade. Many upstate areas have seen population levels recede and have fared poorly in terms of retaining and attracting highly educated young adults.

- However, between 2004 and 2006, most upstate metropolitan areas rose in national rankings of per capita income growth. For example, among 363 MSAs in the country, Binghamton rose from 339th place over the 1993-2003 period to 84th over the 2004-2006 period.

- While there was broad improvement across most of New York's metropolitan areas in job growth in 2007, the upstate metro areas west of Albany improved the most.

- Several new state initiatives (new education funding formula that helps urban school districts, smart growth planning, movement to address brown-fields clean-up, and upstate city-specific redevelopment commitments) also offer the potential to aid in stabilizing and revitalizing upstate cities.

- Critical problems such as high property tax burdens in low-wealth upstate communities still need to be addressed through comprehensive state-local tax reform, but these new developments and commitments should be recognized and reinforced.

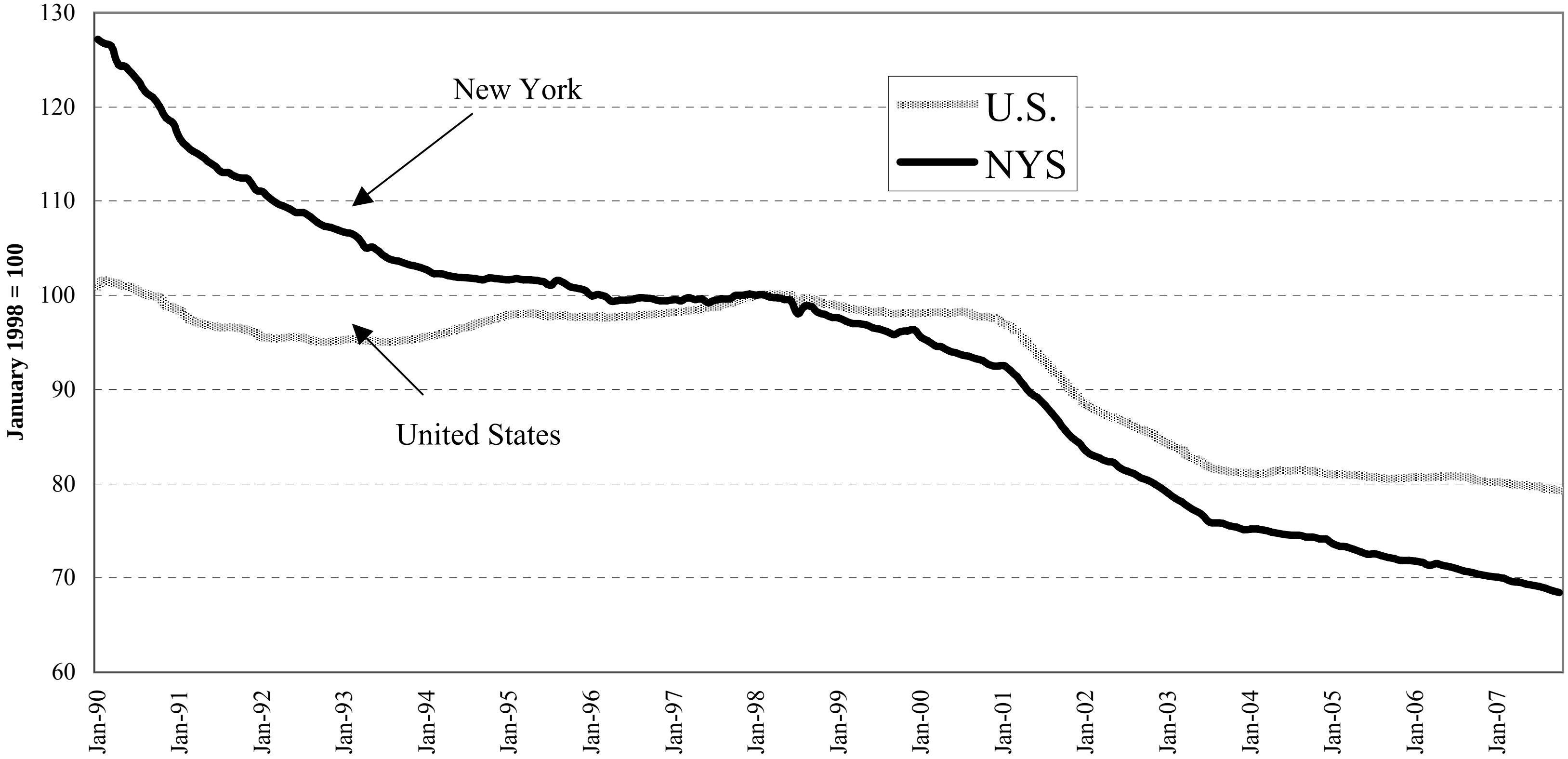
New York's job growth was broadly distributed by sector in 2007.

	Employment level (seasonally adjusted)		Employment change					Percent change				
			Dec.-Nov.	Dec to Dec.			Dec.-Nov.	Dec.-Nov.	Dec. to Dec.			Dec.-Nov.
	Dec. 2000	Nov. 2007	2000-2007	2003-2004	2004-2005	2005-2006	2006-2007	2000-2007	2003-2004	2004-2005	2005-2006	2006-2007
Total Nonfarm	**8,690,030**	**8,706,195**	**16,165**	**89,690**	**66,364**	**65,709**	**76,925**	**0.2%**	**1.1%**	**0.8%**	**0.8%**	**0.9%**
Construction	334,617	348,299	13,682	8,699	1,592	11,361	9,319	4.1%	2.7%	0.5%	3.5%	2.7%
Manufacturing	739,211	544,941	-194,270	-7,909	-18,062	-13,514	-16,051	-26.3%	-1.3%	-3.0%	-2.4%	-2.9%
Wholesale Trade	372,912	350,820	-22,092	1,479	-299	-1,467	-1,770	-5.9%	0.4%	-0.1%	-0.4%	-0.5%
Retail Trade	893,834	889,985	-3,849	17,218	3,412	-4,158	14,908	-0.4%	2.0%	0.4%	-0.5%	1.7%
Utilities	41,777	39,181	-2,596	-902	-100	-398	344	-6.2%	-2.2%	-0.3%	-1.0%	0.9%
Trans. & Warehousing	242,679	234,012	-8,667	4,874	4,038	-1,171	2,459	-3.6%	2.2%	1.8%	-0.5%	1.1%
Information	328,871	276,784	-52,088	-6,054	6,115	-3,692	6,357	-15.8%	-2.2%	2.3%	-1.3%	2.4%
Finance and Insurance	564,304	557,906	-6,398	6,913	10,241	11,307	12,377	-1.1%	1.3%	2.0%	2.1%	2.3%
Real Estate Rental & Leasing	185,198	182,936	-2,263	2,875	1,203	-1,966	-120	-1.2%	1.6%	0.7%	-1.1%	-0.1%
Prof., Sci., & Tech. Services	566,035	584,718	18,683	11,746	20,171	15,872	25,594	3.3%	2.3%	3.9%	2.9%	4.6%
Mgmt. of Companies	49,456	52,438	2,982	3,011	2,430	2,355	3,260	6.0%	7.3%	5.5%	5.0%	6.6%
Admin./Support & Waste Mgmt.	453,035	431,758	-21,277	9,277	3,636	5,502	-442	-4.7%	2.2%	0.9%	1.3%	-0.1%
Educational Services	298,012	367,989	69,977	8,133	8,144	8,902	5,545	23.5%	2.4%	2.4%	2.5%	1.5%
Health Care & Social Assist.	1,102,151	1,239,313	137,162	19,564	12,231	25,077	15,718	12.4%	1.7%	1.0%	2.1%	1.3%
Leisure and Hospitality	646,044	691,775	45,731	15,644	4,308	10,621	9,425	7.1%	2.4%	0.6%	1.6%	1.4%
Other Services	342,737	359,748	17,012	6,115	1,400	2,472	848	5.0%	1.8%	0.4%	0.7%	0.2%
Government	1,462,907	1,494,918	32,011	-9,522	5,148	3,070	3,740	2.2%	-0.6%	0.3%	0.2%	0.3%

Source: NYS Department of Labor, seasonal adjustment by Fiscal Policy Institute.

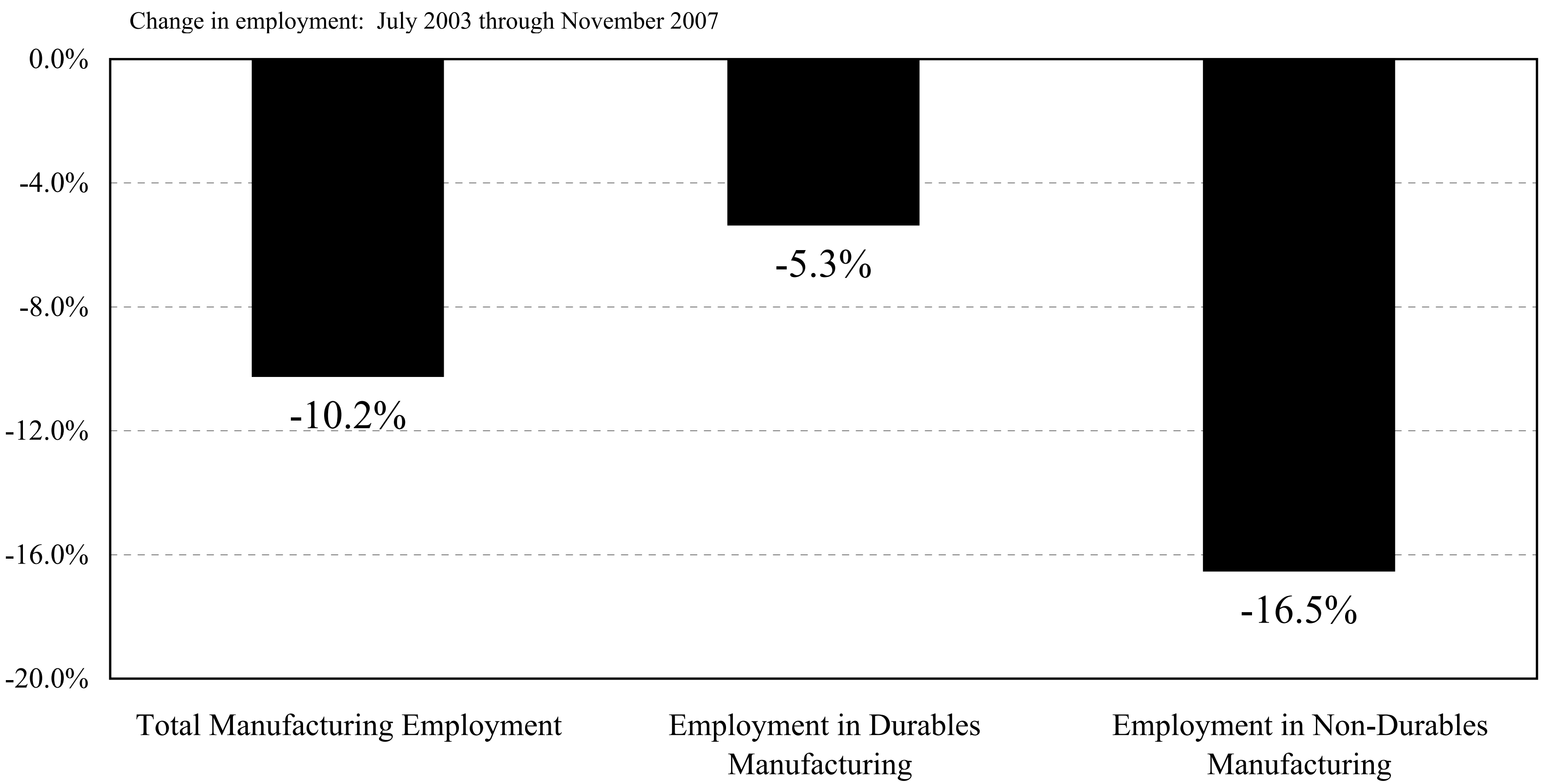
While U.S. manufacturing jobs rebounded slightly after the 1990-91 recession, manufacturing jobs did not grow following the recession early in this decade. Over the past 10 years, NY's factory jobs dropped by 32% compared to a national decline of 21%.

Manufacturing employment indexed, January 1998=100.



Source: US DOL, seasonal adjustment by FPI

Since July 2003, New York's non-durables manufacturing jobs fell by 16.5%, three times the pace of decline in durables factory jobs.



Source: US DOL, seasonal adjustment by FPI

While the economic slowdown takes center stage, New York also needs to understand and address four “troubling trends.”

- The deterioration in job quality—less economic security, fewer benefits
- Wage-productivity gap—New York’s productivity grows but outstrips wage growth
- The reality that just getting a job isn’t enough to lift families out of poverty—the increase in the working poor
- The widest income gap among states between rich and poor and between the rich and the middle class

Several factors make the deterioration in job quality a critical issue.

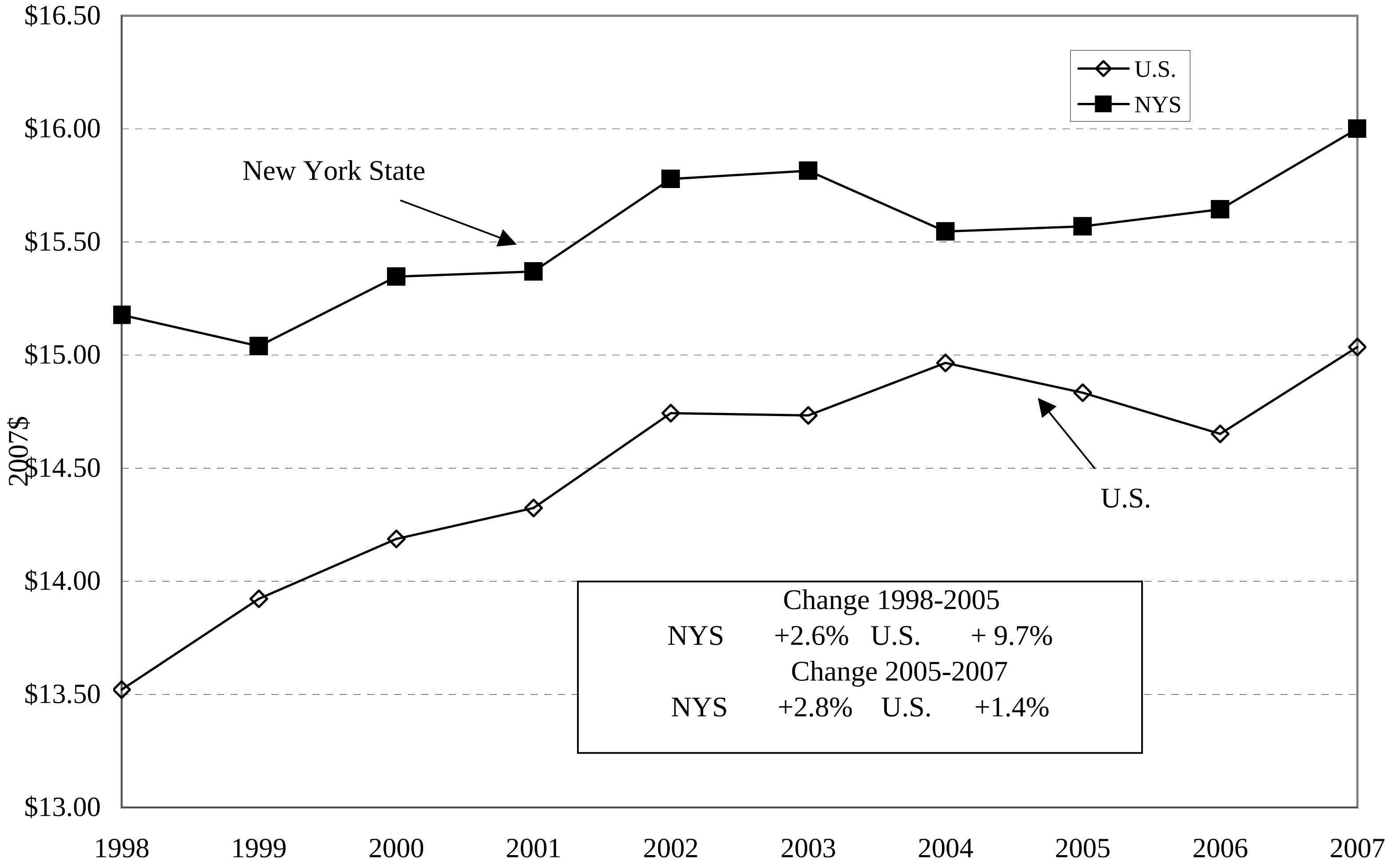
- New York has lost many middle-income paying jobs in manufacturing and other sectors but most of the job growth has been concentrated in industries paying lower wages.

- In the past, New York's private employers provided more health insurance and pension coverage than did private employers in the nation. That changed by the mid-1990s and now New York's private sector workers are less likely to have health or pension coverage.

- Nationally and in New York more employers have degraded the position of their workers by illegally classifying them as "independent contractors" to circumvent their liability for payroll taxes and social insurance premiums that cover for workers' compensation, unemployment insurance, and temporary disability insurance. In establishing the Joint Enforcement Task Force on Employee Misclassification, Governor Spitzer stated, "For years State government has turned a blind eye on a growing epidemic that is keeping wages and benefits artificially low. The problem is the rampant misclassification of workers."

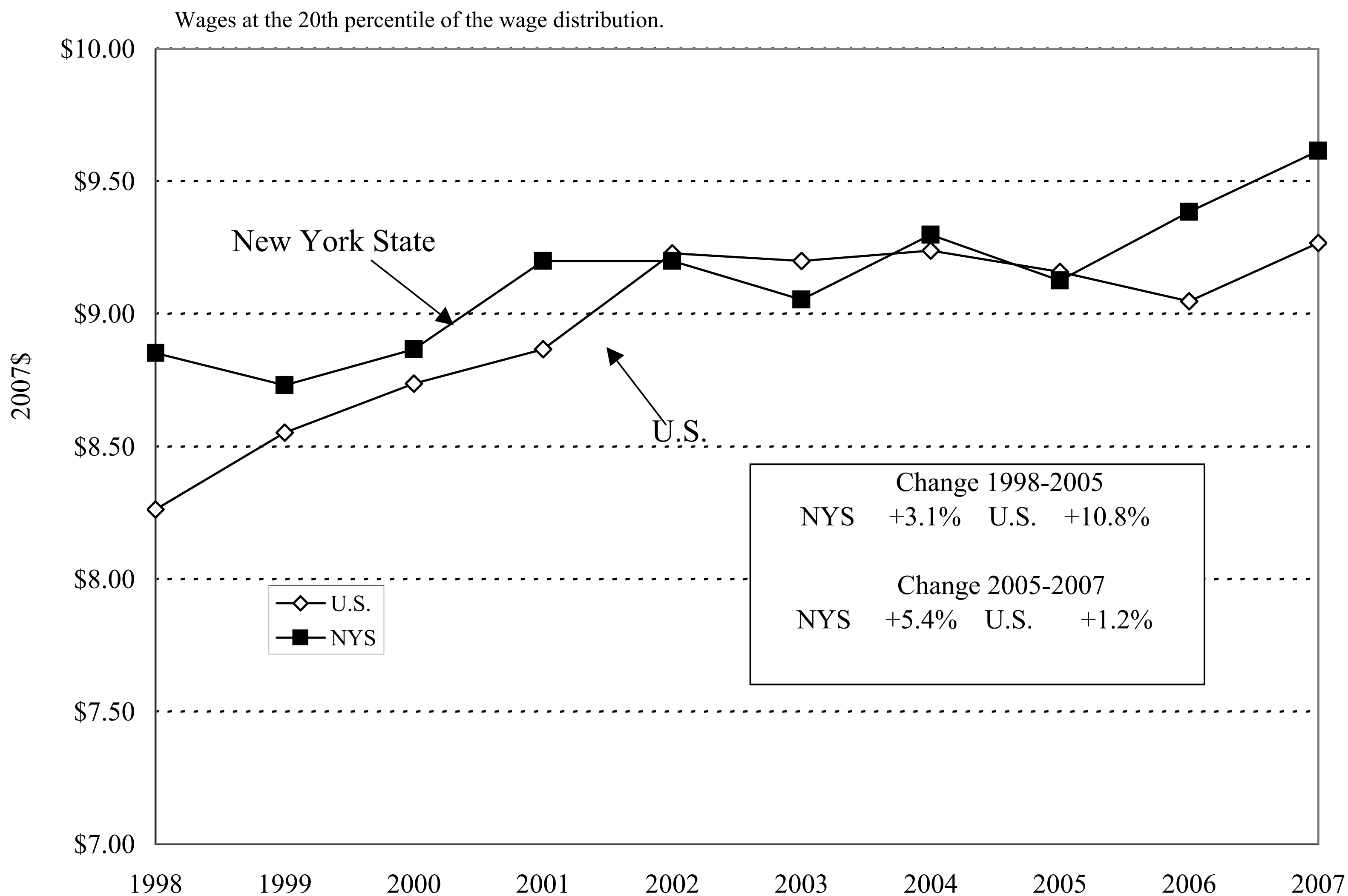
- A Cornell study estimated that 10% of New York's private sector workers were illegally misclassified as independent contractors. FPI's analysis estimated that one-fourth of New York City construction workers were either misclassified or employed off the books by their employers, with substantial adverse fiscal impacts for taxpayers and law-abiding employers.

While real median wages have grown faster in the U.S. than in New York since 1998, New York workers have fared better in the last two years.



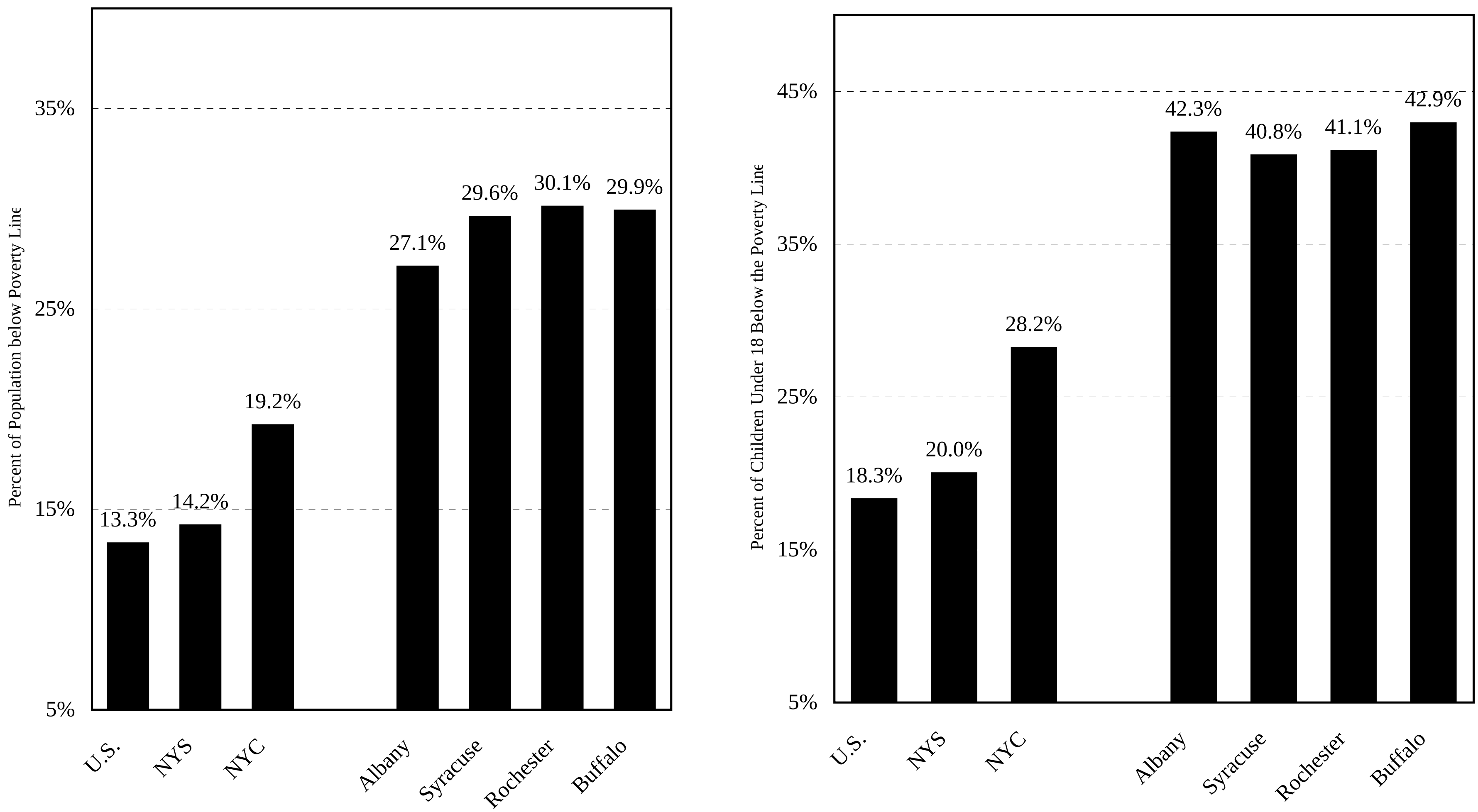
Source: FPI and Economic Policy Institute analysis of Current Population Survey data.

New York's low-wage workers have been helped by the increase in the state minimum wage.



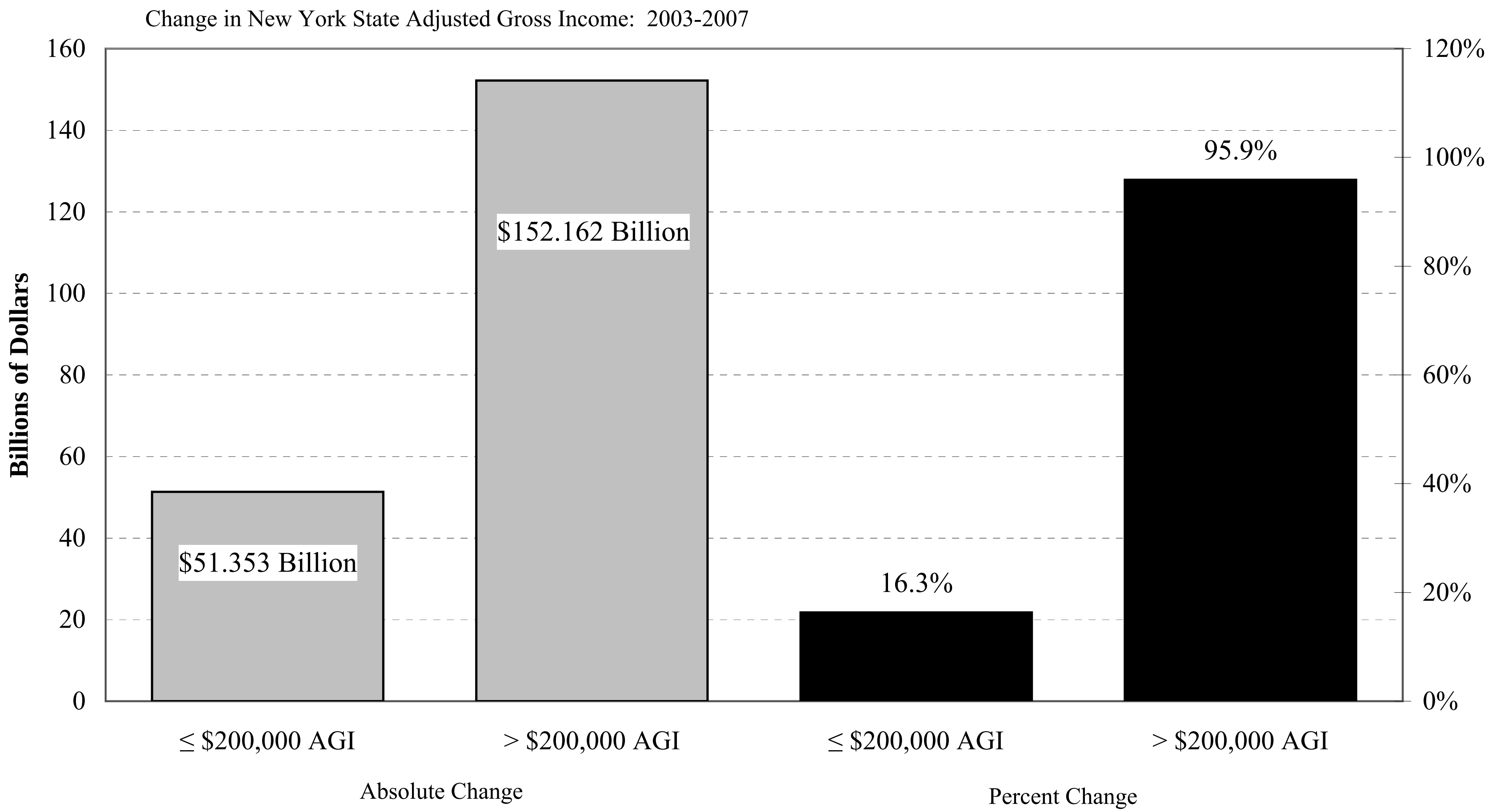
Source: FPI and Economic Policy Institute analysis of Current Population Survey data. 2007 data through 2nd Quarter.

Poverty rates are much higher in the major upstate cities than in New York City or the national average.



Source: American Community Survey: 2006

New York's income growth since 2003 has been concentrated among the top 5 %.



Source: New York State Division of the Budget.

Key economic parameters to look for in the Executive Budget.

- Mid-year financial plan economic forecasts prepared in mid-October. The economic outlook has deteriorated over the last three months.

- The key national economic parameters for the outlook include: GDP, employment, personal income, wages, unemployment rate, S&P 500 stock price index, and interest rates.

- The key New York State economic parameters include: personal income, employment, and wages, including bonuses. The broader conditions on Wall Street have a significant effect on each of the New York variables.

- The key variables to look for in gauging the impact of the economic outlook on tax revenues are the revised forecasts for growth in New York State adjusted gross income (AGI) and capital gains realizations.

Fiscal and economic developments that could change by April 1.

- December, January and March tax collections will affect the year-end picture for State FY 2007-2008.

- Estimated personal income tax payments for the January 15 due date will provide a good indication of how fourth-quarter developments affected realized capital gains.

- January personal income tax withholding receipts will provide a concrete picture of year-end Wall Street bonuses.

- December and April are big months for quarterly business and sales tax payments. December corporate franchise and bank income tax collections will indicate the impact of the fourth quarter financial market turmoil on year-end Wall Street profits. December sales tax collections will also reveal information about the strength of consumer spending since a good part of the sales tax is collected from retailers.

- Given that broad pressure, including from Federal Reserve Chairman Bernanke, seems to be building for the federal government to enact a stimulus program to dampen recessionary effects, the form and magnitude of any federal stimulus package will affect the economic outlook for the nation and for New York.

How are the budget choices of the last several years affecting the budget outlook for 2008-09?

- **Important new commitments were made in the last several years. As these commitments are phased in over time, their costs will increase. Among the most important of these new commitments are the following.**

  - The state takeover of the full cost of the non-federal share of Family Health Plus and the capping of the growth in the counties' share of Medicaid costs will cost almost $1 billion during the current fiscal year, an estimated $1.35 billion in the fiscal year that begins on April 1, 2008, and more than $2.5 billion in 2010-11.

  - The STAR program which began a decade ago cost $582 million in the first year (1998-99) of its implementation, $2.5 billion in the first year in which it was fully phased-in (2001-02), and $4 billion in 2006-07 ($3.32 billion for the original STAR exemptions as enriched, and $673 million for the first year of STAR rebates). The new Middle Class STAR rebates authorized in 2007, further enrichments to the original STAR exemptions, and underlying growth are estimated to increase the annual cost of the STAR programs to more than $6 billion in 2010-11.

- **Important new commitments were made in the last several years. Among the most important of these new commitments are the following.**
    - In 2007, Governor Spitzer proposed, and the Legislature adopted with a few modifications, a legitimate statewide solution to the court decisions in the Campaign for Fiscal Equity lawsuit.
        - These reforms replaced approximately 30 individual aid programs (under which $12.5 billion was distributed in 2006-07) with a "foundation" formula that bases districts' aid on a calculation of the amount necessary to provide all pupils with a sound basic education.
        - As enacted, the 2007 reforms called for a 4-year phase-in that would increase this general operating aid in four annual steps to $18 billion in 2010-11; and required districts receiving substantial aid increases to enter into Contracts for Excellence with the State Education Department to ensure that these new resources are used effectively to increase student performance.
        - Another part of this initiative increased funding for the state's Universal Pre-Kindergarten program by 50%.
    - In finalizing the 2005-06 state budget, the Legislature put into place a solution to the school facilities part of the Campaign for Fiscal Equity lawsuit.

What are the relevant trends on the expenditure side of the state budget?

- Traditionally, discussions of the size of the state budget, and of changes in its size, referred to the state's General Fund where virtually all of its revenues and expenditures for operating purposes were accounted for. Beginning in the early 1980s with New York State's adoption of a financial plan format that corresponds to the 5-column presentation of governmental revenues and expenditures in financial reports under Generally Accepted Accounting Principles, budget participants and observers have also referred to the "all funds" budget. The five columns include one column for the revenues and expenditures of each of the "governmental" fund types under GAAP for governments: General Fund, Special Revenue Funds, Debt Service Funds and Capital Projects Funds; and a "Memo Total" column that adds the numbers in the four columns together. Despite the fact that the "Memo Total" added together operating expenditures and capital investments, it became the figure that has been most commonly used by the New York media in describing the size of the state budget.

- By the early 1990s, because of the movement of a variety of governmental functions from the General Fund to Special Revenue Funds, increasing attention was paid to a new categorization called "State Funds" which included the General Fund, the Debt Service Funds, and the "State" (i.e., non-federal) portions of the Special Revenue Fund Type and the Capital Projects Fund Type. The "State Funds" concept, however, still involves the use of a "Memo Total" in characterizing the size of the state budget.

Spending from All Governmental Funds

	General Fund	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	(MEMO) Total
<u>Amounts in Billions of Dollars</u>					
1994-1995	31,698.4	24,378.3	2,202.9	3,619.0	61,898.6
2000-2001	36,839.7	34,360.0	4,095.0	4,458.5	79,753.2
2006-2007	48,024.6	54,686.4	4,494.8	5,558.1	112,763.9
<u>Average Annual Rate of Change</u>					
1994-1995 to 2000-2001	2.54%	5.89%	10.89%	3.54%	4.31%
2001-2002 to 2006-2007	4.52%	8.05%	1.56%	3.74%	5.94%

What are the relevant trends on the expenditure side of the state budget?

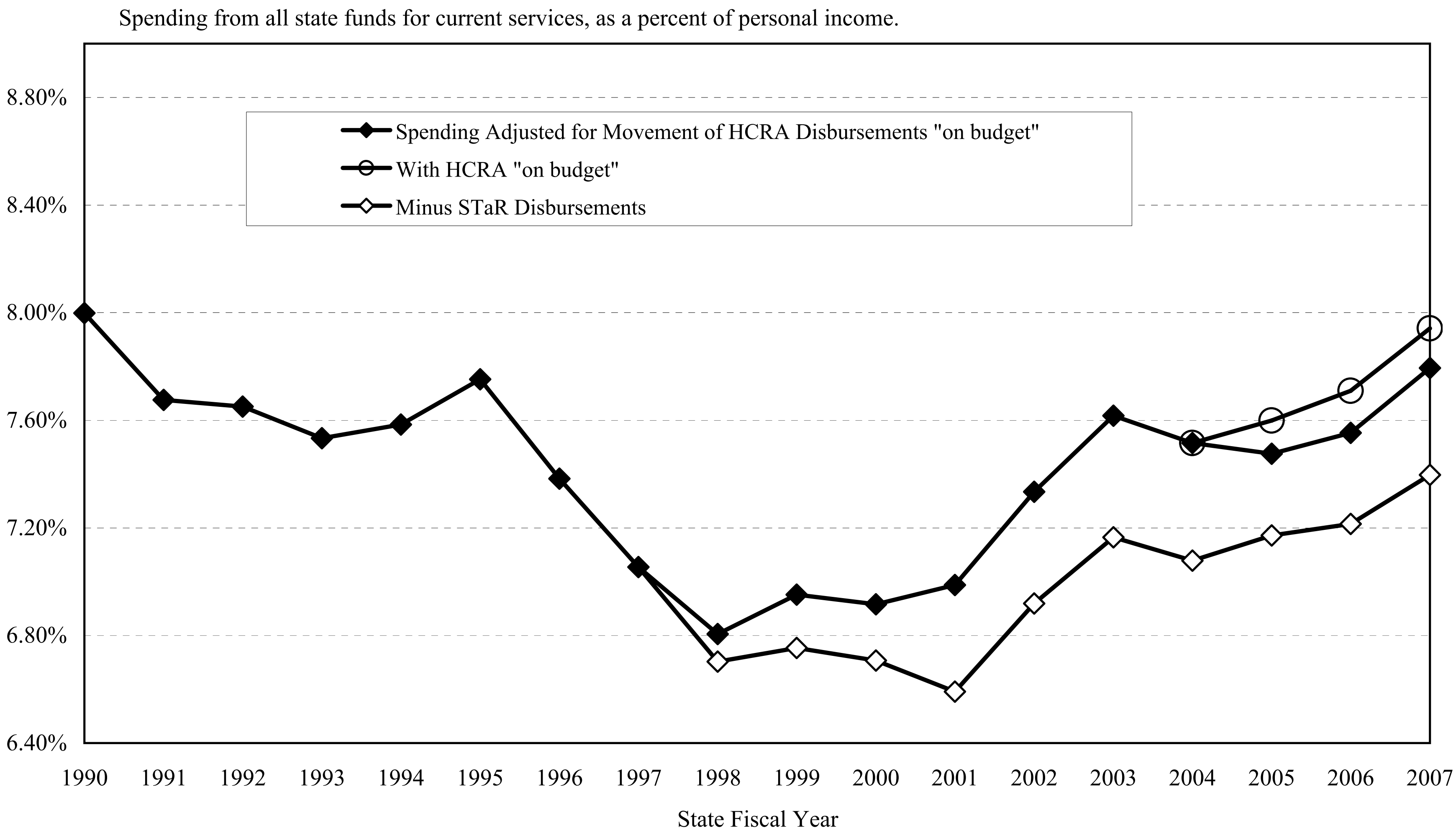
- Calculations of changes in the size of the overall state budget mask substantial differences in the growth of various components of state spending.

- Beginning with the 1991-92 state fiscal year, the State Comptroller has included tables on actual disbursements by agency (from the General Fund, from State Special Revenue Funds and from Federal Special Revenue Funds) in his annual cash basis financial report. These tables make it possible to calculate the rate of change in various agencies' state-funded operating budgets since 1991-92 with two slight exceptions: a difference between the way that the Office of the State Comptroller and the Division of the Budget report spending by state agencies that is funded by patient income revenues from the federal government results in a higher level of state funds spending than is reported in Budget Division reports; and the reorganizations that occurred during this period involving the Health Department, the Office of Children and Family Services, and the Office of Temporary and Disability Assistance, and two state agencies that no longer exist – the Division for Youth and the Department of Social Services.

Trends in State Spending for Current Services and Debt Service by State Agency

Agencies or Other Expenditure Categories with Above-Average Spending Growth	Average Annual Rate of Change, 1994-95 to 2006-07		Agencies or Other Expenditure Categories with Below-Average Spending Growth	Average Annual Rate of Change, 1994-95 to 2006-07
Total Disbursements for Current Servives	4.63%		Total Disbursements for Current Servives	4.63%
Total Disbursements for Current Services and Debt Service	4.71%		Total Disbursements for Current Services and Debt Service	4.71%
Military and Naval Affairs	16.24%		Office for the Aging	4.55%
Urban Development Corporation	14.73%		Parks and Recreation	4.52%
Insurance	14.09%		Other Local Assistance	4.28%
Taxation and Finance	11.44%		Banking	3.96%
Office of the State Comptroller	9.25%		Office of General Services	3.61%
Law	7.84%		Criminal Justice Services	3.33%
Division of State Police	7.70%		Agriculture and Markets	3.30%
Education (including STAR)	6.52%		Mental Retardation	3.04%
General State Charges (not attributed to individual agencies)	6.35%		Environmental Conservation	3.01%
Workers' Compensation Board	6.29%		Other State Operations	2.83%
Debt Service	6.10%		General Purpose Local Assistance	2.81%
Office of Court Administration	6.08%		Council on the Arts	2.79%
State	5.91%		Transportation	2.12%
Lottery	5.89%		Division of Parole	1.81%
Executive Chamber	5.14%		Labor	1.73%
Health & Family Assistance (aggregate of reorganized agencies)	5.00%		City University of New York	1.60%
Education (excluding STAR)	4.89%		Legislature	1.51%
State University of New York	4.81%		Public Service	1.24%
Correctional Services	4.68%		Mental Health	1.16%
			Alcoholism and Substance Abuse Services	1.08%
			Housing and Community Renewal	-0.28%
			Civil Service	-0.43%
			Division of Probation	-0.78%
			Economic Development	-0.83%
			Motor Vehicles	-7.39%

Current services spending relative to the size of the economy returned to traditional levels after a decline in the mid to late 1990s.



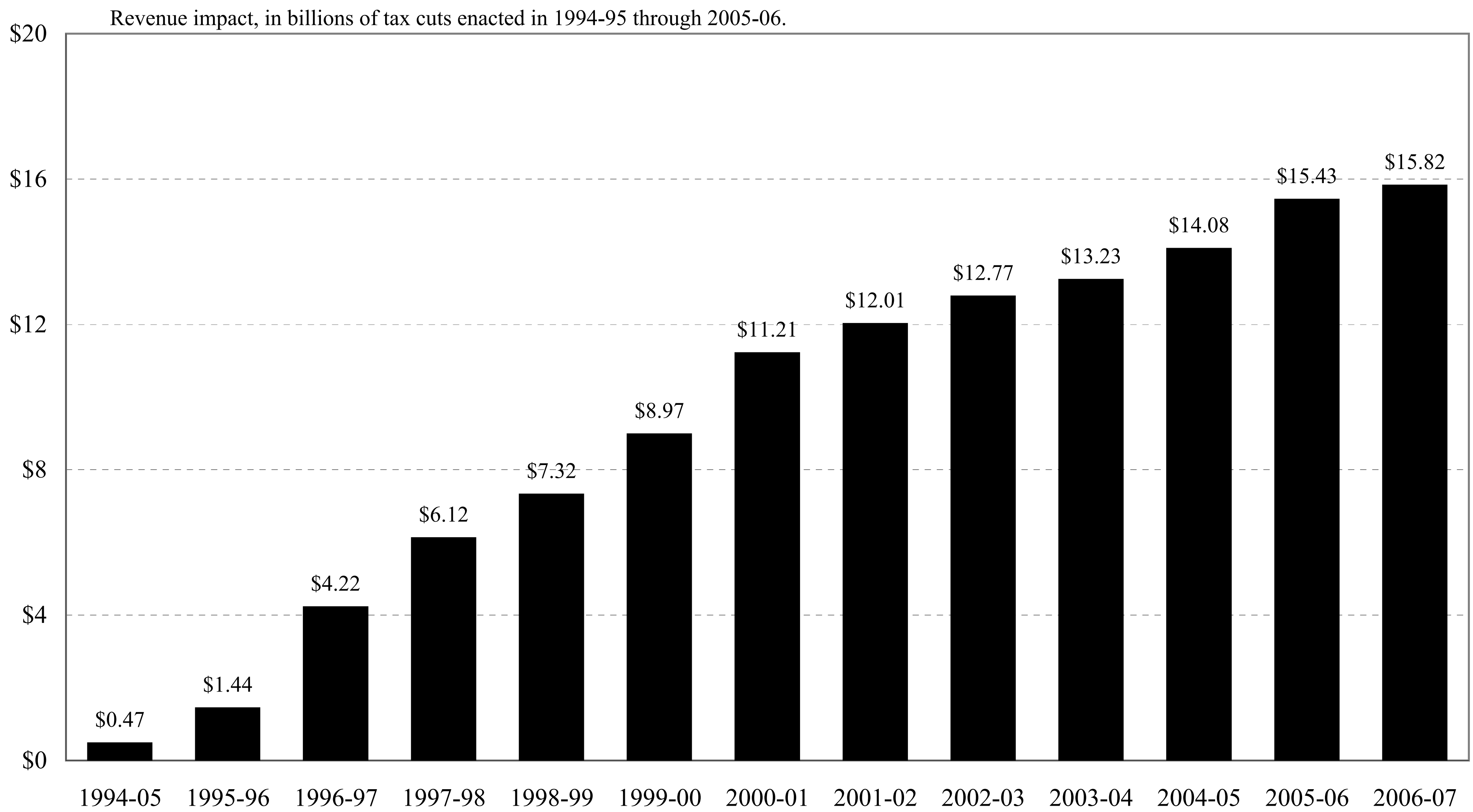
Note: 2002-03 and 2003-04 disbursements have been adjusted to account for the payment in 2003-04 of $1.9 billion of obligations incurred in 2002-03

Since 1990, New York State's expenditures for employee wages and salaries have declined in real terms by more than half a billion dollars, almost 5 percent.

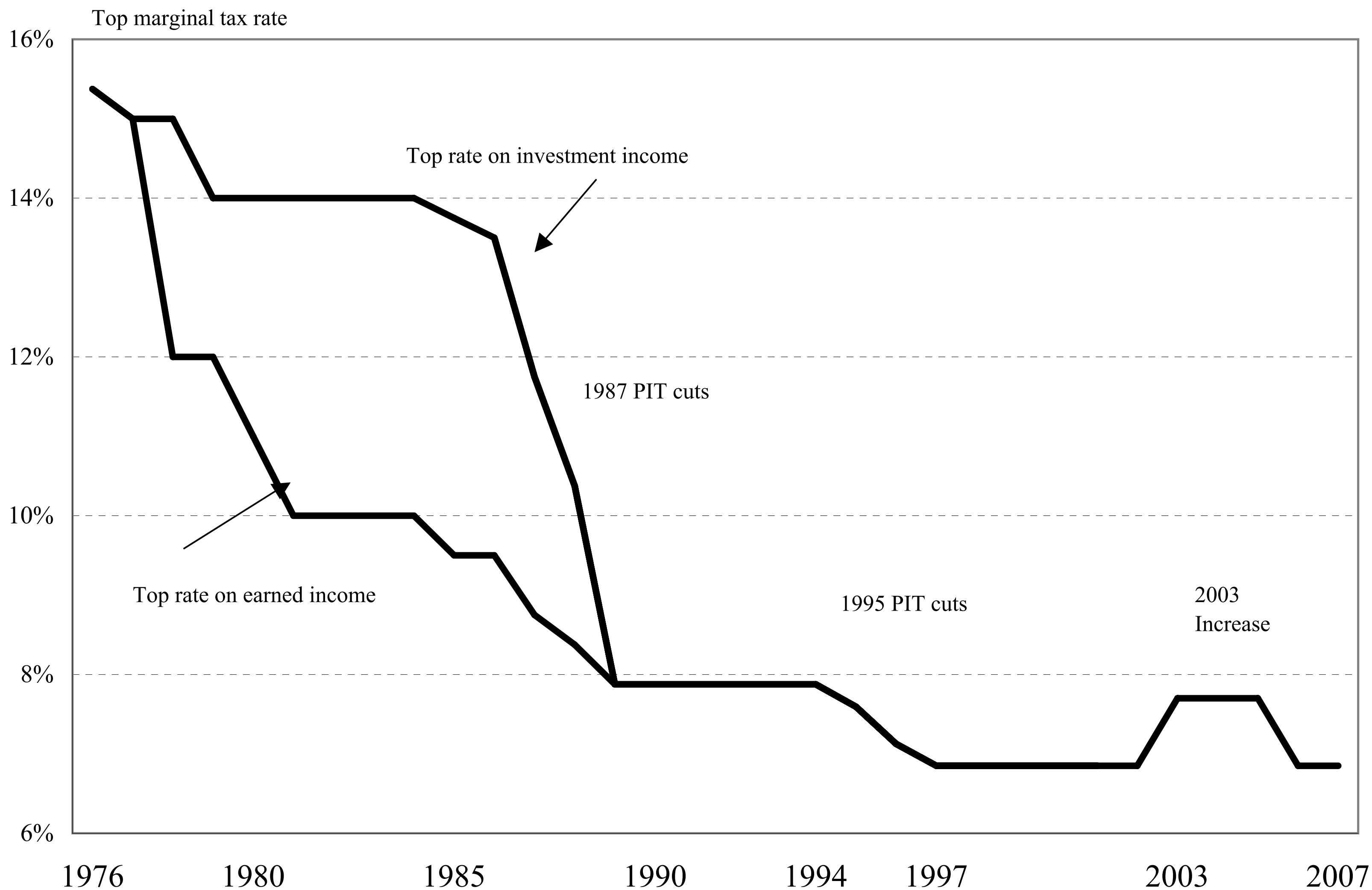
Personal Service expenditures in millions of SFY 2007 dollars

	General Fund	Special Revenue Funds	Total
State FY 1989-90	$7,732.9	$4,421.1	$12,154.0
State FY 1994-95	$6,205.4	$5,179.9	$11,385.3
State FY 2006-07	$6,653.7	$4,904.1	$11,557.8
Average Annual Change			
1989-90 to 1994-95	-$305.5	$151.8	-$153.7
1994-95 to 2006-07	$37.4	-$23.0	$14.4
Average Annual Percent Change			
1989-90 to 1994-95	-4.31%	3.22%	-1.30%
1994-95 to 2006-07	0.58%	-0.45%	0.13%
Total 17 -Year Change			
Amount	-$1,079.2	$483.0	-$596.2
Percent	-13.96%	10.92%	-4.91%

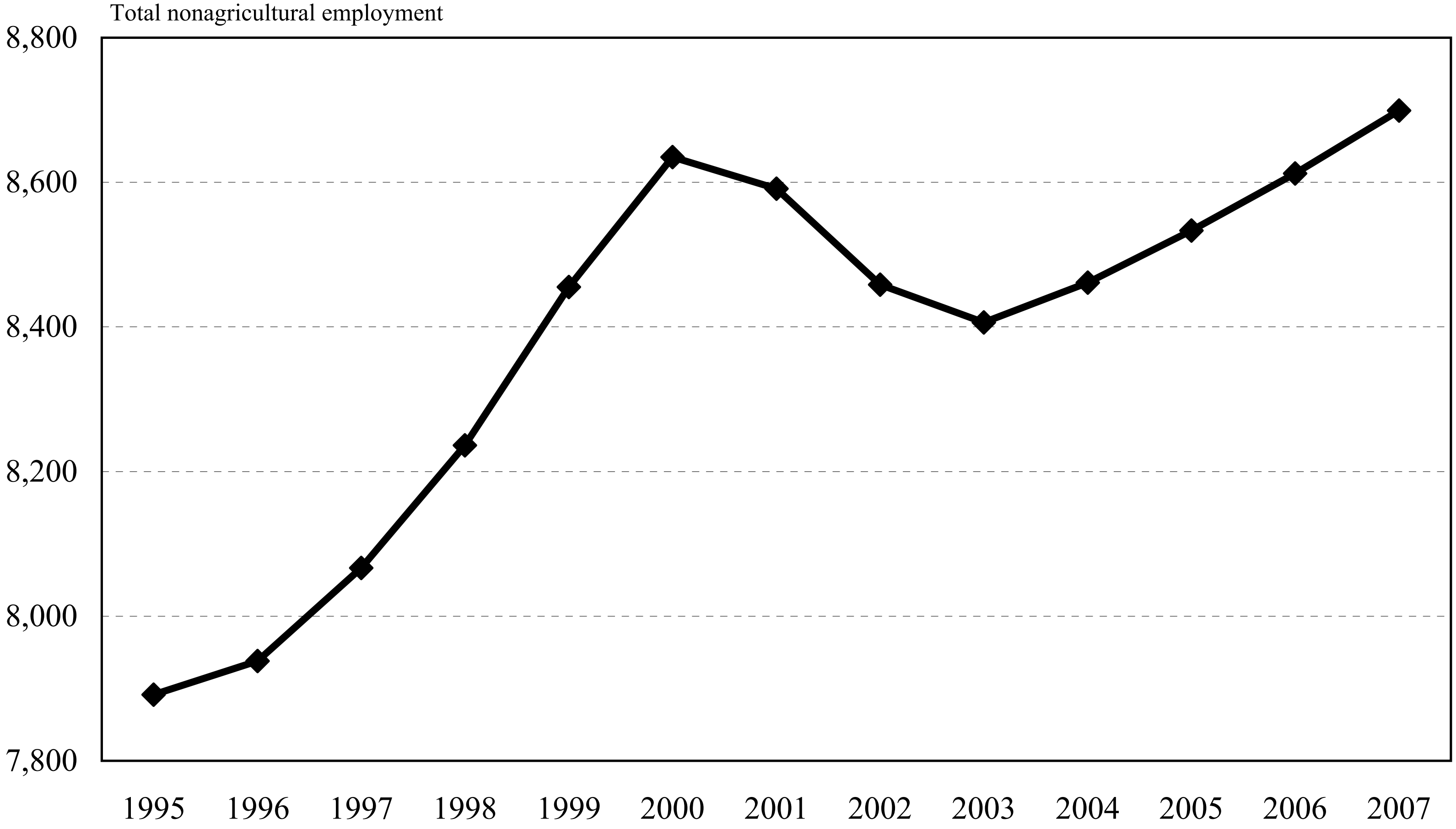
The tax cuts enacted since 1994 are reducing state revenues by over $16 billion.



New York State has cut its top personal income tax rate by more than 50 percent over the last 30 years --- from 15.375% to 6.85%.

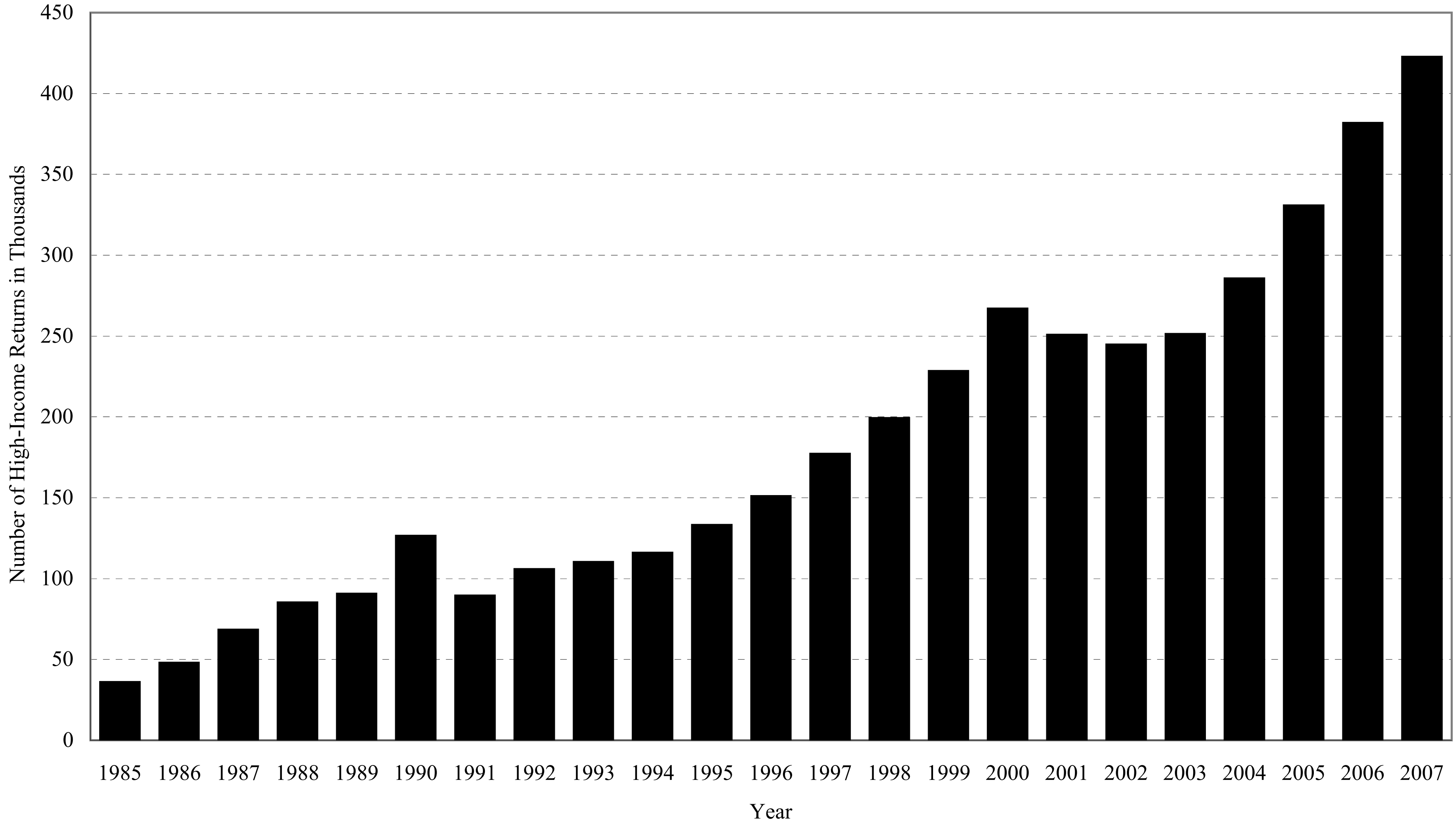


The 2003 tax increases did not have the negative economic effects that Governor Pataki predicted.



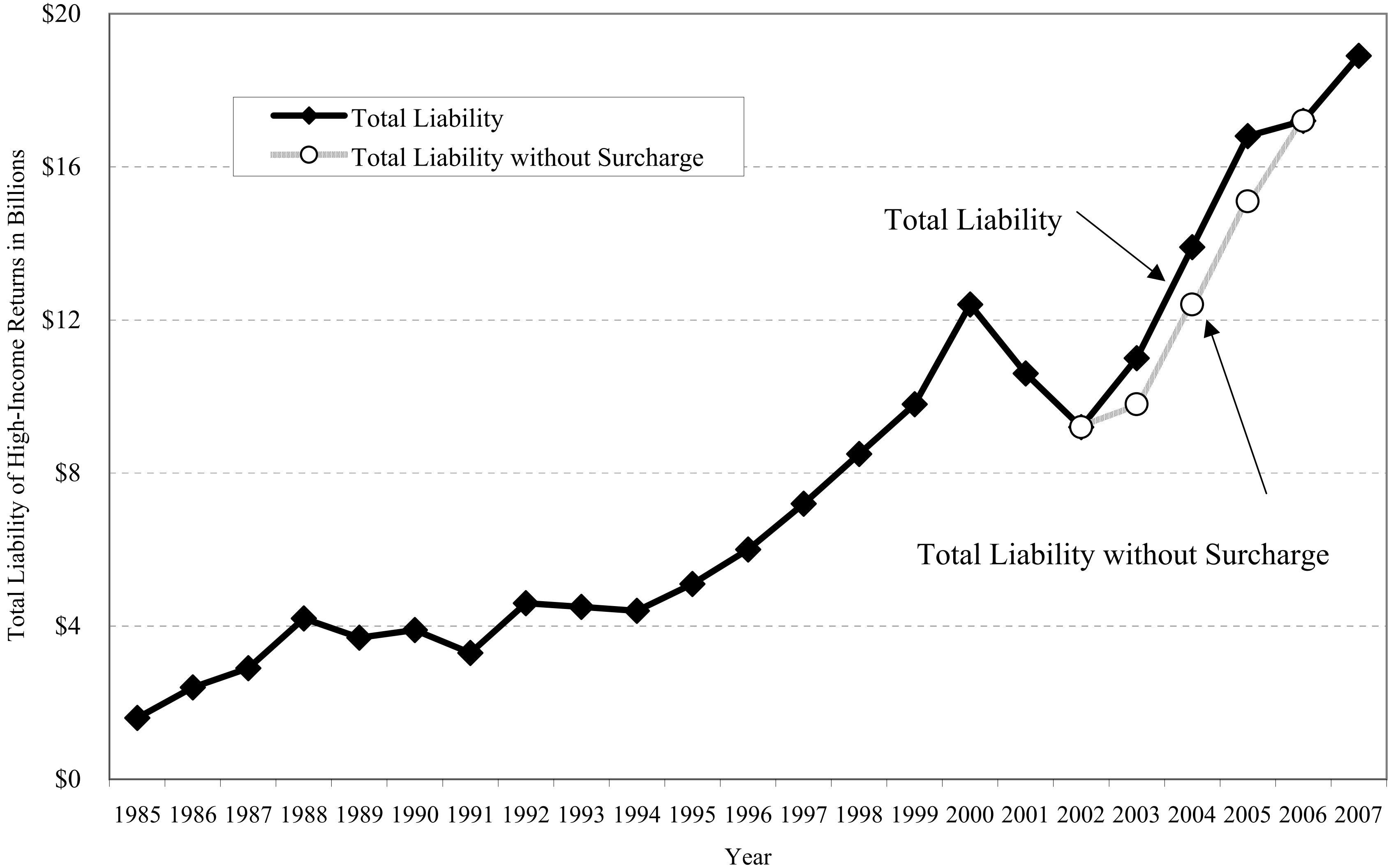
Source: US Department of Labor. 2007 annual employment level projected based on 11-month change.

Following the 2003 adoption of the 3-year temporary increase in the top rate on the personal income tax, the number of high-income returns grew significantly.



Source: New York State Division of the Budget, , Economic and Revenue Forecast, Executive Budget 2007-08

Total NYS Income Tax Liability of High-Income Returns



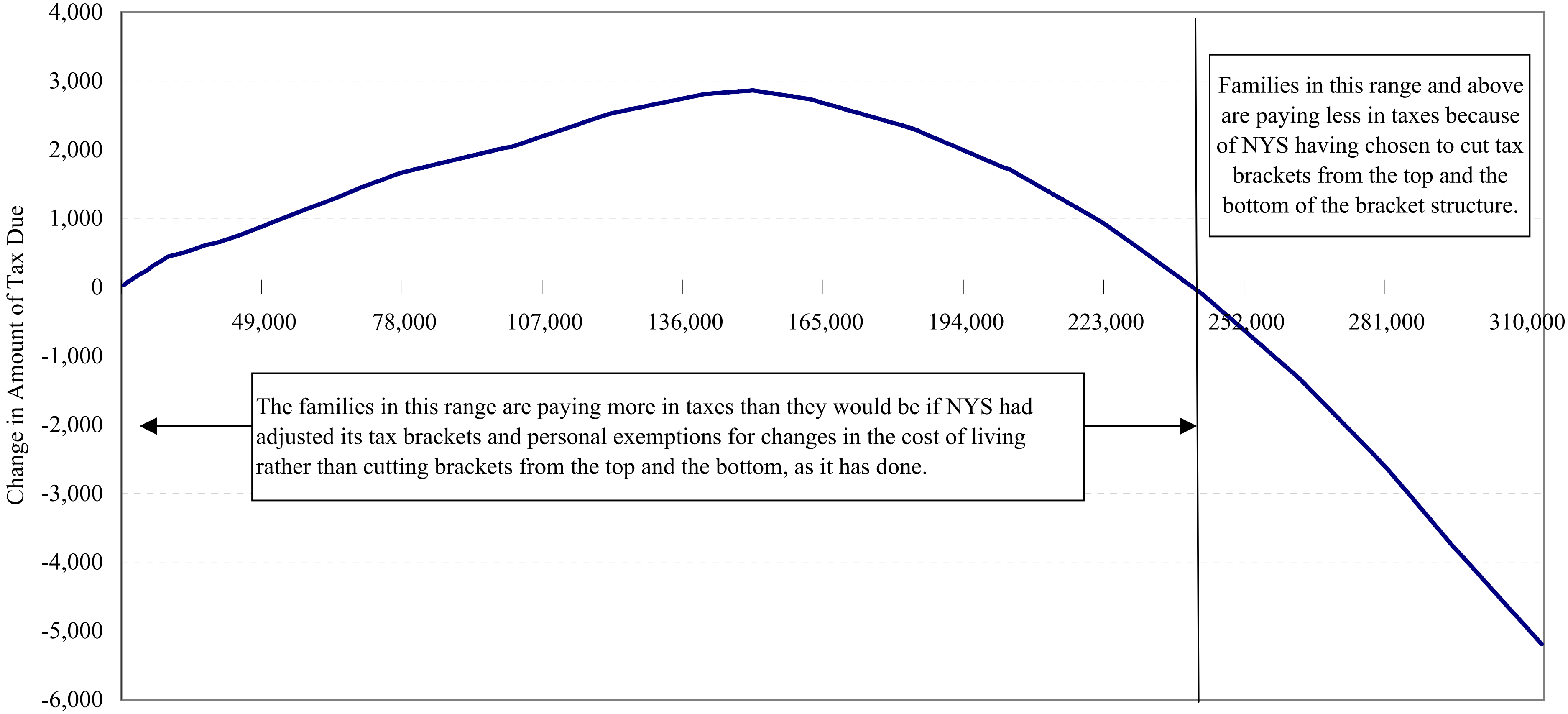
Source: New York State Division of the Budget, Economic and Revenue Forecast, Executive Budget 2007-08

New York's top state personal income tax rate is at an historical low relative to New Jersey and Connecticut.

	1976	1985	2003	2004	2006
New York	15.375%	9.5%	7.7%	7.7%	6.85%
New Jersey	2.5%	3.5%	6.37%	8.97%	8.97%
Connecticut	0	0	5.0%	5.0%	5.0%

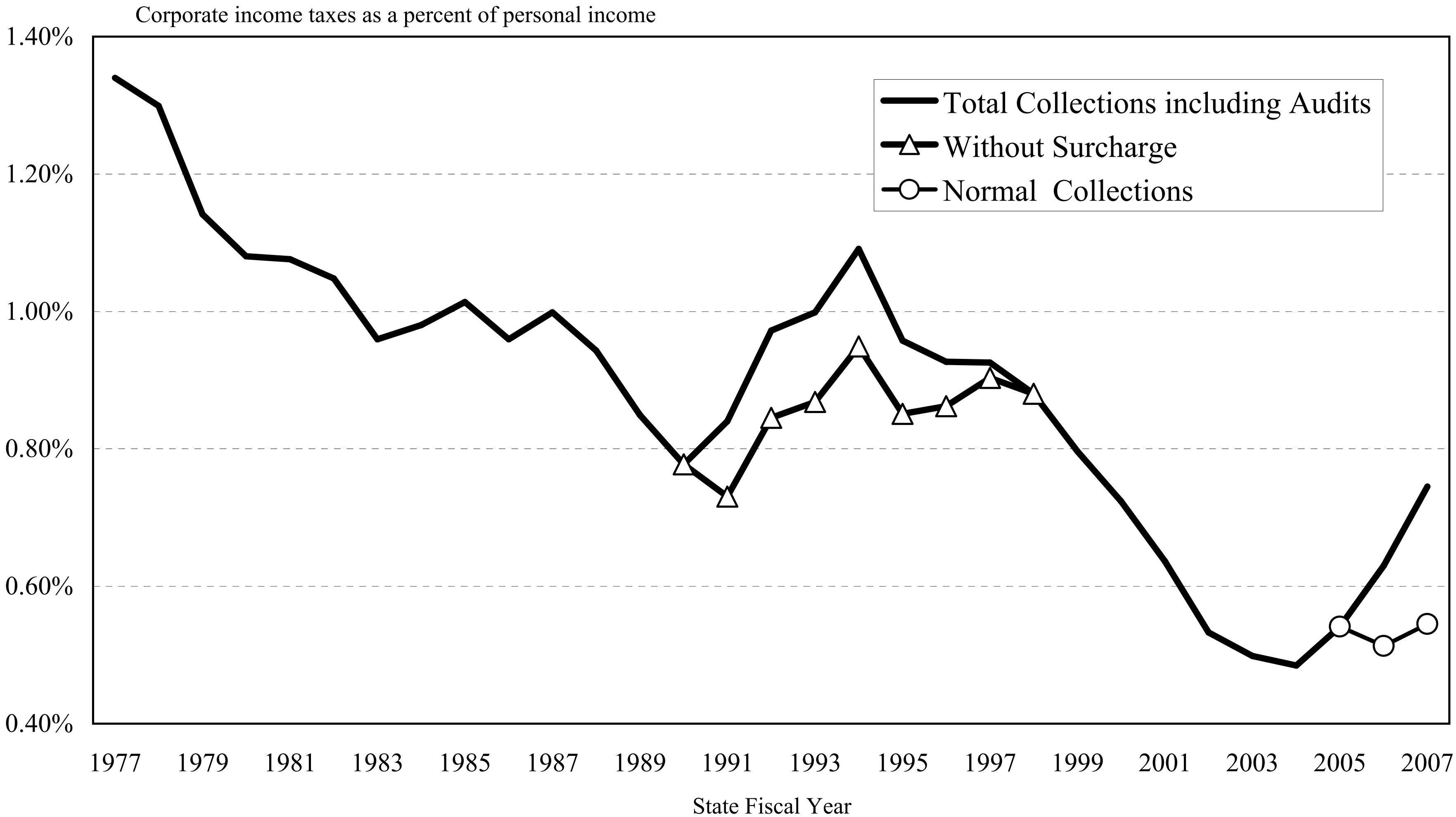
Note: The tax rates shown above are for wages, salaries and business income. Prior to 1991, Connecticut taxed the interest, dividends and capital gains of high income residents but it did not tax business income, wages, salaries and other income. From 1978 through 1988, New York employed a dual-rate system in which it applied a higher top rate to investment income than to wages, salaries and business income. For 1985, the top rate applicable to investment income was 13.5%.

Over the past 30 years, NYS has shifted the tax burden and greatly reduced tax revenues by having cut personal income tax rates from the top and bottom rather than adjusting the state's tax brackets and the personal exemption amounts for inflation.



New York Adjusted Gross Income, from $20,000 to $313,000, of Families of 4 - weighted average of standard vs. itemized deductions - includes Household Credit

Corporate income tax revenues have fallen substantially relative to the size of the economy.



Note: Includes the state's main income tax on general corporations (the Corporate Franchise Tax, Article 9-A & 13), as well as the Corporation and Utilities Tax (Article 9), the Insurance Tax (Article 33) and the Bank Tax (Article 32).

State policy choices have placed great pressure on local property and sales tax bases.

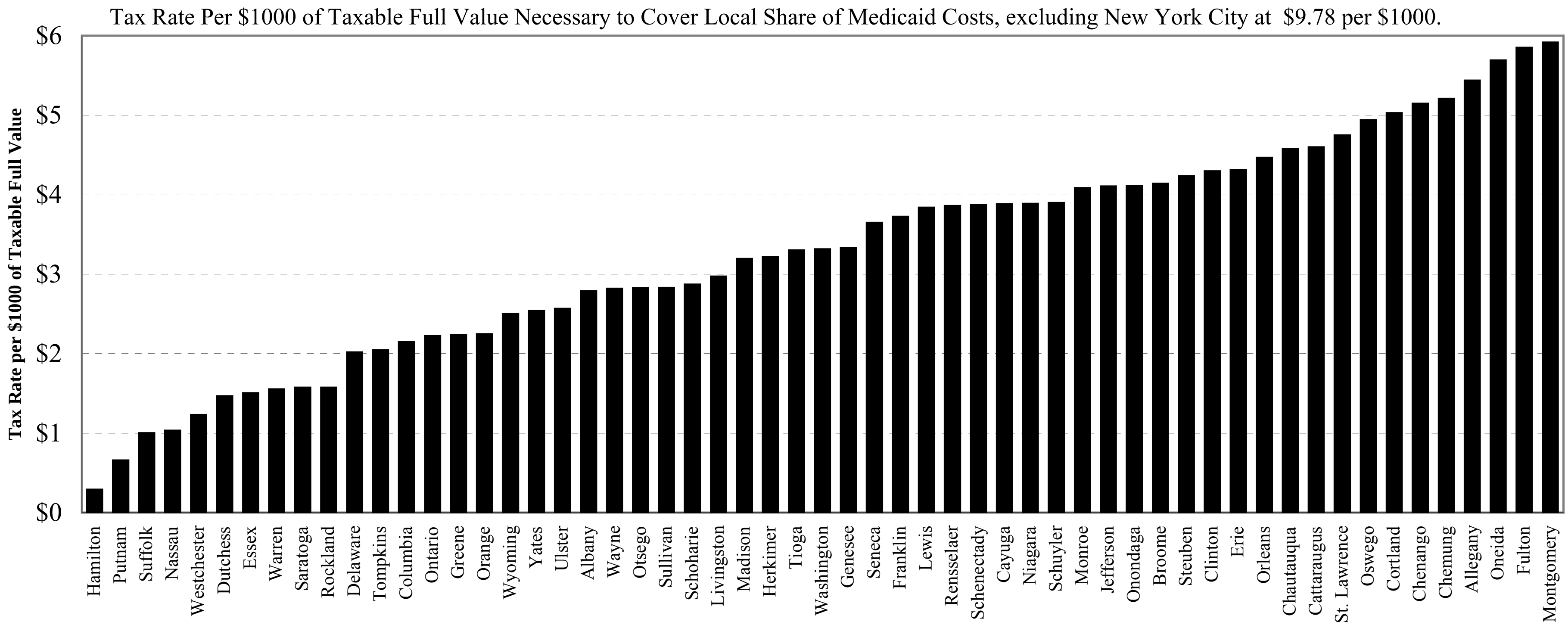
- New York State divides responsibility for the financing of important public services between itself and its local governments in ways that place great pressure on the local property and sales tax bases.

- This is particularly problematical for those localities that have relatively weak tax bases compared to their needs. For example, to cover the local share of Medicaid costs in 2003, it took the equivalent of $6 per $1000 of taxable full value in Montgomery and Fulton counties but only $1 per $1000 of taxable full value in Nassau and Putnam counties.

- That is because New York divides responsibility for the financing of the non-federal share of Medicaid costs between itself and its local governments on a “one size fits all” basis rather than taking the relative “ability to pay” of various localities into consideration.

- The result is that most of the counties for which local Medicaid costs are high relative to their tax bases are also very close to their constitutional tax limits; and they are counties in which the county government tax levy accounts for a much larger percentage of the total real property tax bill for all purposes (i.e., county, city, town, village, school district, etc.).

Basing the local share of Medicaid costs on the kinds of services provided rather than on "ability to pay," places great pressure on communities with weak tax bases relative to their concentrations of needy individuals. Capping the growth in the local share of Medicaid costs institutionalizes that inequity.



Sources: Medicaid Expenditures from NYS Department of Health. Full value from Office of State Comptroller.

Long-run and short-run responses can complement each other effectively.

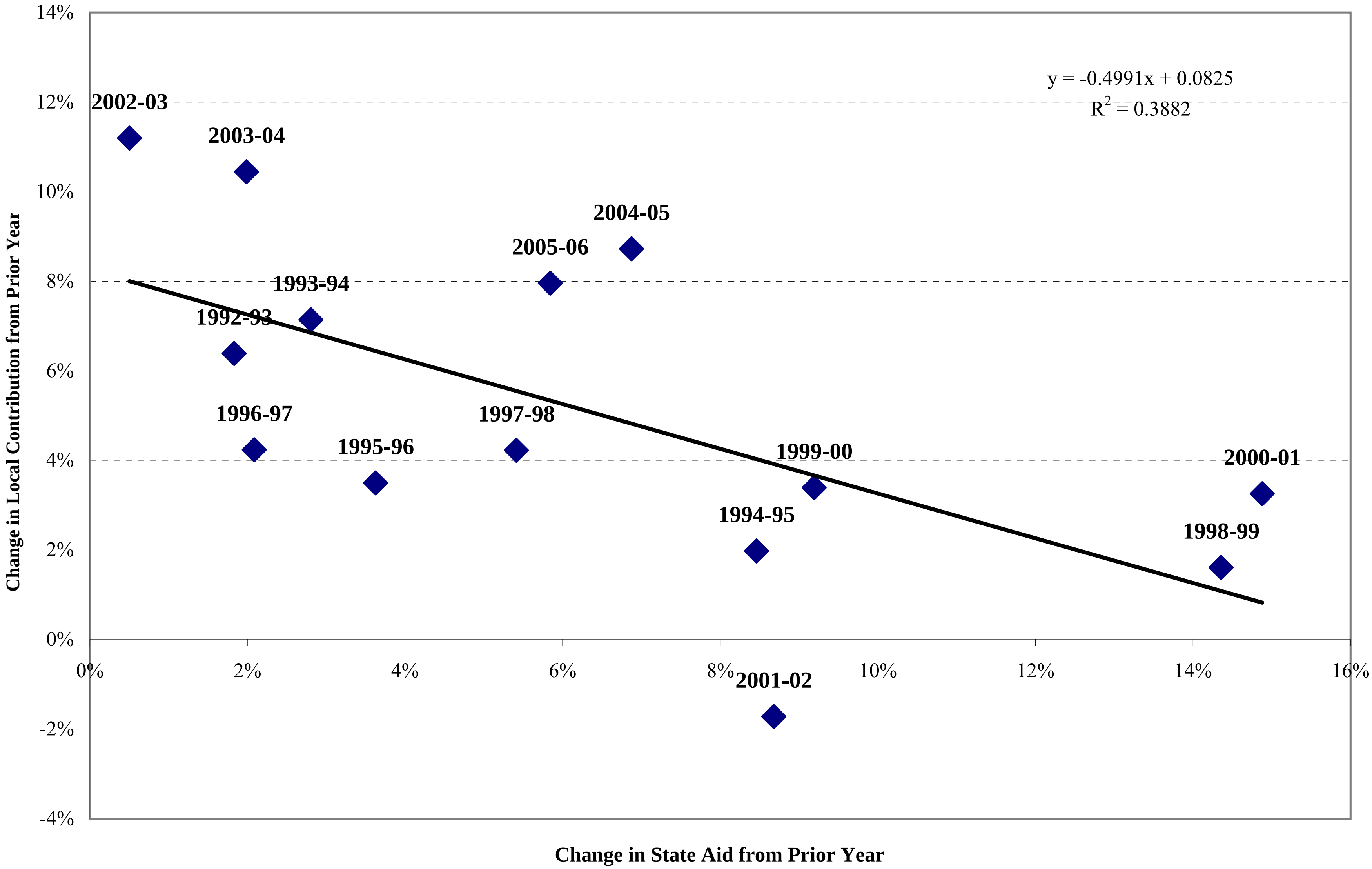
- In the short run, the Governor and the Legislature can and should provide more effective and efficient property tax relief by replacing the Middle Class STAR program with a Middle Class “circuit breaker” that targets aid to those who are the most overburdened by their real property tax bills.

- In the long run, however, more systematic changes are needed in the fiscal policies that place great pressure on the local property and sales tax bases in the first instance.

- Toward this end, the governor and the legislature should adopt a multi-year strategy that will simultaneously (a) reduce the pressure that has been placed on local property and sales tax bases and (b) reduce the significant fiscal disparities that exist within New York State by:

    - Restoring New York State's commitment to "revenue sharing" with its local governments through a transparent needs-based formula that is honored over time.
    - Fully implementing the initial 4-year phase-in of the statewide solution to the Campaign for Fiscal Equity law suit that was proposed by Governor Spitzer and which was enacted by the State Legislature as part of its adoption of the 2007-08 state budget; and then gradually increasing the state share of each district’s foundation or “sound, basic education” amount.
    - Gradually increasing the state share of Medicaid costs in a way that bases each county's share of those costs on objective measures of its relative "ability to pay.”

There is a strong inverse relationship between changes in property tax levies and changes in state aid.



Source: Analysis of School District Finances. Estimates for 2005-06 from Fiscal Profiles.

Replace the Middle Class STAR rebates with a Middle Class Circuit Breaker.

- An integrated approach of the kind described above is necessary to rationalize the current hodgepodge of property tax relief mechanisms that New York State has implemented over the years.

- In the short run, however, the Governor and the Legislature can provide more effective and efficient property tax relief by replacing the Middle Class STAR program with a Middle Class "circuit breaker" that targets aid to those who are the most overburdened by their real property tax bills.

- The Middle Class STAR rebate program is better targeted than the original STAR exemption program in that in takes income into consideration. But it is still not adequately targeted to be an effective and efficient property tax relief mechanism since it does not take the size of a homeowner's property tax bill into consideration and it is still based on county and school district averages of important variables.

- A circuit breaker like the one proposed by Assemblywoman Sandra Galef and Senator Elizabeth Little (A.1575/S.1053) would address both of these shortcomings. Under circuit breaker plans such as this one, a household would receive a refundable credit through the income tax system for a percentage (e.g., 70%) of the amount by which its property taxes on its primary, owner-occupied residence exceeds a percentage (frequently a sliding scale) of its income.

A Middle Class Circuit Breaker would deliver on the promise of STAR, something which the STAR programs as currently structured cannot do.

- One of the arguments that was made and which continues to be made for the STAR program is that there are homeowners who are "literally being taxed out of their homes." But STAR does not address the problem facing those homeowners because of its lack of targeting.

- STAR and the STAR rebate checks provide some money to virtually all homeowners in the state but they do not provide enough to help those homeowners who are "literally being taxed out of their homes."

- A Middle Class Circuit Breaker, by basing the amount of relief that a household can receive on its property taxes relative to its income, will provide more relief to those who have very large property tax bills relative to their incomes. The STAR program is providing aid to many households for whom property taxes are a very reasonable percentage of income, while the aid being provided is not sufficient to assist those who are truly overburdened by property taxes.

- The Middle Class STAR program is a step in the right direction by taking household incomes into consideration, but unless the size of households' property tax bills are also taken into consideration, more aid will still go to households with reasonable property tax burdens relative to their income, and not enough aid will go to those who are truly overburdened.

A Middle Class Circuit Breaker would deliver on the promise of STAR, something which the STAR programs as currently structured cannot do.

- In addition to the property tax relief that a circuit breaker credit can give to homeowners, it can also address the impact of property taxes on renters. New York State's current circuit breaker program, which applies only to very low income households (those with incomes below $18,000), allows tenants to count 25% of their rent as their "property tax equivalent" and then uses the same formula to determine if they are eligible for a credit.

- A Middle Class Circuit Breaker could also cover renters. While the percent of rent that is counted as a tenant's "property tax equivalent" should probably decline as income increases (particularly in the higher income ranges), it does not seem defensible to exclude renters entirely.

- To be both fair and cost-effective, a Middle Class Circuit Breaker needs a broad definition of income, something like the definition of income in the state's current circuit breaker law. A Middle Class Circuit Breaker will not be able to deliver on its potential for fair and equitable tax relief if it takes some types of income into consideration but not other types, despite the fact that all types of income are available to pay property taxes.

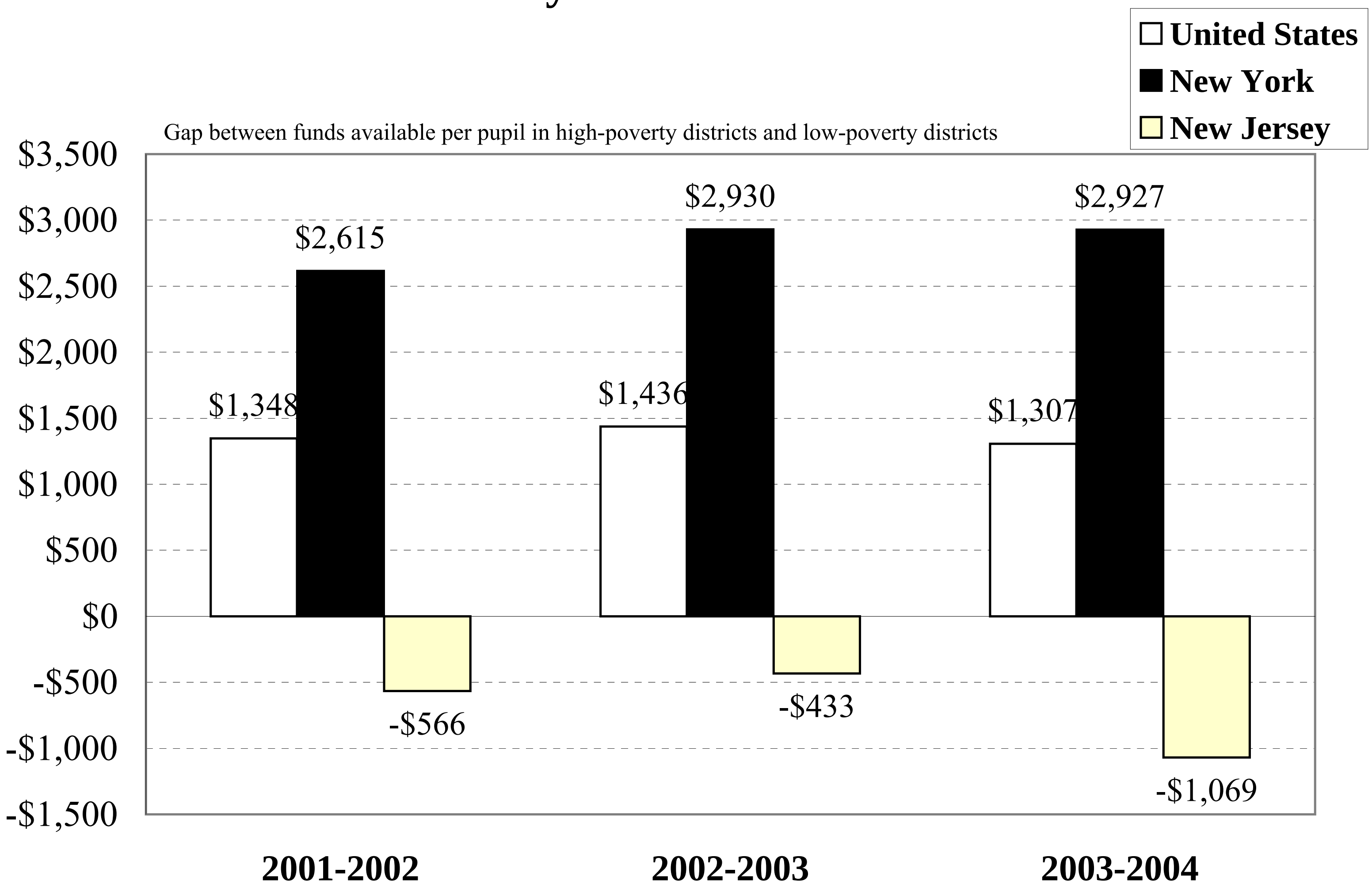
Across-the-board caps on school budgets or school property taxes are inappropriate in a state with huge disparities among school districts in terms of their resources relative to their needs.

- Under the school funding reform plan submitted by Governor Spitzer and adopted by the Legislature, and under the earlier reform plans submitted by Governor Pataki, it was clear that there are hundreds of school districts in New York State that require additional resources over and above inflationary increases in order to provide their pupils with the opportunity for a sound, basic education.

- The school funding reform plan submitted by Governor Spitzer and adopted by the Legislature also recognizes the need for these additional resources to be used effectively on a multi-year basis with a consistent and continuing focus on improving pupil performance. Thus, an across-the-board school spending cap would be fundamentally inconsistent with the statewide solution to the court decisions in the Campaign for Fiscal Equity lawsuit that was adopted in 2007 and with those decisions themselves. Such a cap would actually serve to increase the disparities in services between districts that are currently providing an excellent, well-financed education and those that are not in as fortunate a situation.

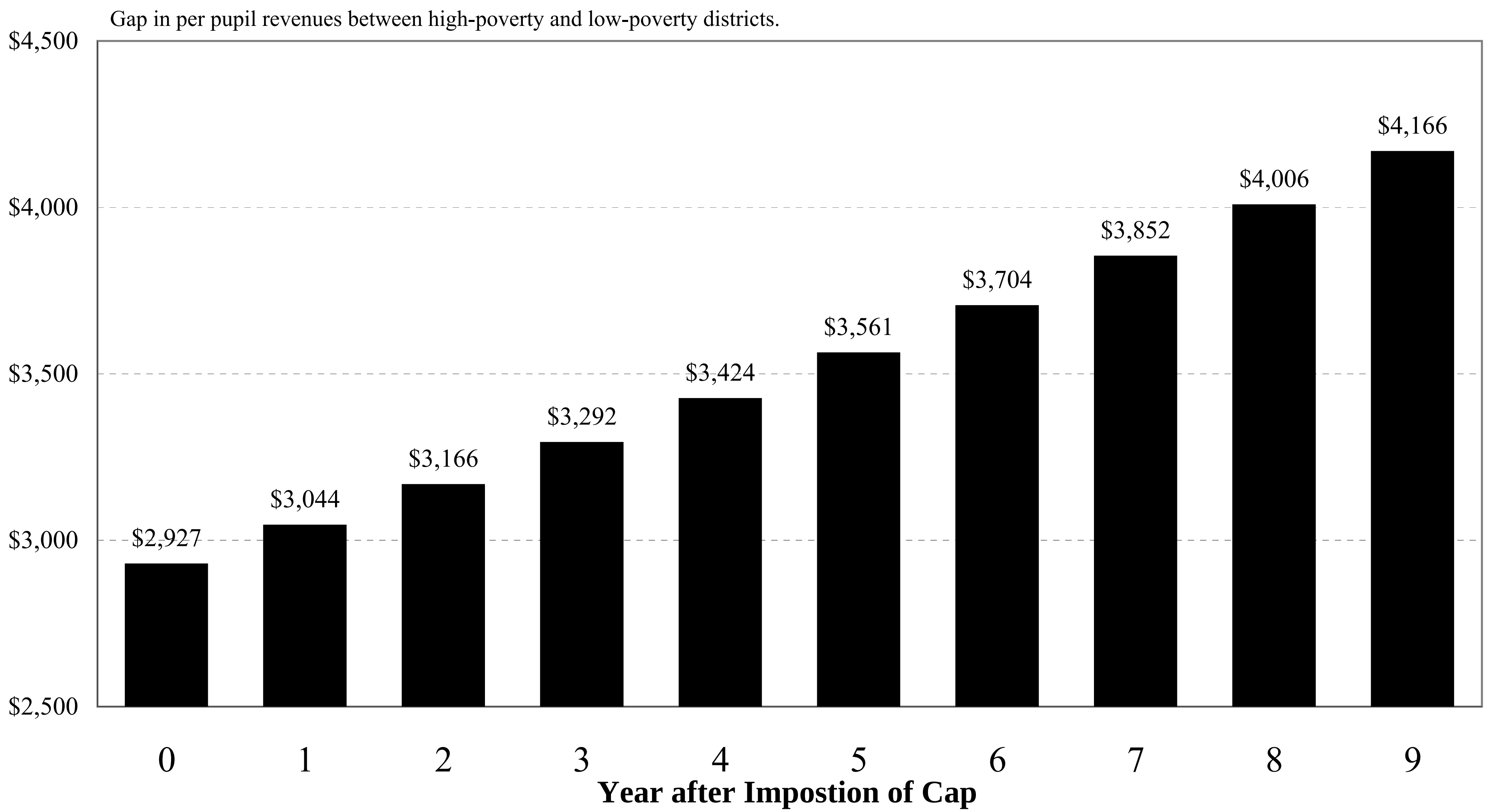
- A cap on year-to-year increases in property tax levies could be disruptive of the educational programs in all districts if the state were to again experience a year like 2003 when state school aid was frozen at the same time that there was a significant externally imposed increase in costs. In 2003, the pension systems, because of the decline in their investment earnings, were required to impose substantial contribution increases.

New York has the largest gap between the resources available in high-poverty and low-poverty school districts of any state in the nation.



Source: The Education Trust, "The Funding Gap 2006: How the Federal Government Makes Rich States Richer," December 20, 2006

A spending cap on school budgets would make this gap even worse.



Source: $2,927 gap from Education Trust calculations based on U.S. Department of Education school district revenue data for the 2003-2004 school year.

Impact of a Cap on Increases in School Spending on Two Neighboring Westchester County School Districts

Base Year Data from the Successful Schools Model developed by Standard & Poor's for the the New York State Commission on Education Reform (the Zarb Commission)*		
	Harrison	**Port Chester**
Enrollment	3,336	3,564
Percentage of Students Economically Disadvantaged	5%	42%
Estimated Actual Spending per Pupil*	16,681	12,048
Needed Resources per Pupil Under Pataki Proposal to the Courts During the CFE Appeal	11,452	13,039
Amount by which actual spending per pupil is over/(under) needed resources per pupil	5,229	(991)

Four Years Later Assuming that (a) Costs per Pupil Increase 4% per Year, (b) enrollment remains constant; and (c) and a Spending Cap Limits the Growth in Actual Spending per Pupil to 4% Per Year		
	Harrison	**Port Chester**
Enrollment	3,336	3,564
Percentage of Students Economically Disadvantaged	5%	42%
Estimated Actual Spending per Pupil*	19,515	14,095
Needed Resources per Pupil Under Pataki Proposal to the Courts During the CFE Appeal	13,397	15,254
Amount by which actual spending per pupil is over/(under) needed resources per pupil	6,117	(1,159)

*Expenditure estimates are for the 2002-03 school year, in January 2004 dollars, not including debt service and transportation

Economic development policy agenda

- **Recognize that "productivity" matters more than "costs."** New York's key strength is its highly educated, highly skilled and diverse workforce that gives the state a significant productivity edge over the national average and among the large states with diverse economies. "Business climate" yardsticks that dwell solely on "cost" comparisons among states but ignore the high relative value of production in New York are conceptually flawed and useless as a factor in policy discussions.

- **Effectiveness and diversification**. As Wall Street regroups from its current, self-inflicted woes, policy makers should thoroughly overhaul financial market regulation, and state policy makers should comprehensively re-vamp state economic development activities to improve their effectiveness and accountability, and concentrate on other critical sectors, particularly manufacturing.

- **Develop a manufacturing strategy.** No large economy has ever had a broad middle class without a sizable manufacturing sector (or very high unionization). Manufacturing employs over half a million New Yorkers and is still the backbone of most upstate regional economies. In addition to focusing on "high tech," the state should assist promising medium-sized manufacturers who could have a bright future in New York and prepare to work with a new Administration in Washington, D.C. next year to revitalize the manufacturing sector.

- **Can't have a middle class without middle-class jobs**. New York needs to improve job quality by investing in its workforce, and helping businesses raise skill requirements and pay and improve opportunities for advancement.

- **Level the playing field among businesses.** New York should establish higher wage standards and effectively enforce labor standards and compliance with workers' compensation and unemployment insurance. Expanding efforts such as the Joint Enforcement Task Force on Employee Misclassification will readily pay for itself in terms of increased revenues to social insurance funds, proper wages to workers, and increased tax revenue.

- **Make economic tax breaks work or invest the money directly in infrastructure.** New York State and its local governments spend $6 billion a year in economic development tax expenditures with unimpressive results. Given the state's many infrastructure needs, the money would be better spent improving infrastructure and expanding public higher education.
  - **IDAs.** Most local Industrial Development Agencies (IDAs) lack employment standards and accountability and do not coordinate their investments with the State. This year, IDA reform can fix that.
  - **Empire Zones.** The Empire Zone program is so severely flawed it should be scrapped.
  - **Investment Tax Credit.** The state's Investment Tax Credit is poorly designed and should be modified to reduce the amount of credits provided without any requirement for job creation or retention.

Last year New York took a giant step to reform the state aid system for public elementary and secondary education and comply with the Court of Appeals' order in the Campaign for Fiscal Equity lawsuit by increasing state aid, implementing a foundation formula, expanding resources for pre-K and establishing a new accountability system.

- New York replaced approximately 30 separate aid programs with foundation aid based on a relatively "simple" formula.
- The legislature altered the Governor's proposal by introducing an alternative "state share ratio" to the foundation formula. The state calculates foundation aid per pupil under each method and the district gets the higher of the two.
- The legislature also added over $121 million in funding for programs directed toward higher income, lower need districts -- High Tax Aid and Supplemental Public Excess Cost Aid. The formulas for distributing this additional aid are complex and irrational.
- Any district receiving more than a $15 million or 10 percent increase in foundation aid with at least one school currently identified as requiring academic progress, in need of improvement, in corrective action, or in restructuring status or that received a supplemental educational improvement plan grant was required to enter into a Contract for Excellence with the State that governs how new funds are used.

FOUNDATION FORMULA SAMPLE CALCULATIONS

Using Parameters from the 2007-08 Enacted Budget

A. Establishing the cost of an adequate education	New York City	Albany	Brentwood
(1) Per Pupil Amount from Successful Schools Study *$5,258 for 2007-08 adjusted for inflation to $5,662 for 2010-11 -- assumes 2.5% inflation per year*	$5,662	$5,662	$5,662
(2) Regional Cost Index *Ranges from 1.0 (North Country to 1.425 in NYC/LI)*	1.425	1.124	1.425
(3) Student Need Adjustment Factor *Ranges from 1.0 to 2.0 depending on poverty, frpl, lep, sparsity*	1.801	1.678	1.779
(4) Per Pupil Foundation Amount - 2010-2011	$14,529	$10,679	$14,353
B. Establishing foundation aid per pupil			
Expected Tax Rate Method			
(5) Full value per pupil	$458,839	$372,348	$275,034
(6) Income adjusment *Income per Pupil Compared to State Average (.65 to 2.0)*	1.127	0.820	0.650
(7) Adjusted Tax Rate *$16 per $1000 times Income Adjustment*	18.03	13.12	10.40
(8) Expected local contribution per pupil	$8,273	$4,885	$2,860
(9) 'Foundation Aid per Pupil Expected Tax Rate Method - *Line(9) minus Line (8)*	$6,256	$5,793	$11,493
Alternative - State Share Method			
(5a) Income per Pupil State Average Alternative Wealth Ratio *Income per Pupil Divided by State Average*	$152,120 $136,600 1.114	$103,876 $136,600 0.760	$59,223 $136,600 0.434
(6a) Property Wealth per Pupil State Average Pupil Wealth Ratio *Property wealth per pupil divided by State Average*	$391,881 $426,800 0.918	$281,057 $426,800 0.659	$238,327 $426,800 0.558
(7a) Combined wealth ratio *Average of Alternative Wealth Ratio and Pupil Wealth Ratio*	1.015	0.709	0.495
(8a) State Share Percentage *The higher of (1.37-1.23CWR);(1-.64CWR);.(8-.39CWR); or (.51-.22CWR)*	40.5%	54.7%	76.2%
(9a) Foundation aid per pupil - state share method	$5,884	$5,841	$10,937

	New York City	Albany	Brentwood
FOUNDATION AID PER PUPIL *Higher of Amount in (9) or (9a)*	**$6,256**	**$5,841**	**$11,493**

C. Calculation of Foundation Aid for 2007-08, 2008-09, 2009-10 and 2010-11

	New York City	Albany	Brentwood
(10) Enrollment - weighted for special education students	1,184,742	12,479	19,041
(11) Foundation Aid for 2010-2011 *Foundation Aid per Pupil times Enrollment*	7,411,544,545	72,889,839	218,834,785
(12) Base Year State Aid	5,063,400,651	42,568,007	139,615,051
(13) Difference between Foundation Aid and Base Year Aid	2,348,143,894	30,321,832	79,219,734
(14) Multiply Line (13) times 20%	469,628,779	6,064,366	15,843,947
(15) Multiply Line (13) times 42.5%	997,961,155	12,886,779	33,668,387
(16) Multiply Line (13) times 70%	1,643,700,726	21,225,282	55,453,814
Proposed 2007-2008 Foundation Aid *Add Line 14 to Line 12*	5,533,029,430	48,632,373	155,458,998
Proposed 2008-2009 Foundation Aid *Add Line 15 to Line 12*	6,061,361,806	55,454,786	173,283,438
Proposed 2009-20010 Foundation Aid *Add Line 16 to Line 12*	6,707,101,377	63,793,289	195,068,865

Expected Percentage Increases

	New York City	Albany	Brentwood
2010-11 Fully Implemented Increase in Foundation Aid (percent change from 2006-07)	46.37%	71.23%	56.74%
2007-08 Foundation Aid Increase (percent change from 2006-07)	9.27%	14.25%	11.35%
2008-09 Foundation Aid Increase (percent change from 2007-08)	9.55%	14.03%	11.47%
2009-10 Foundation Aid Increase (percent change from 2008-09)	10.65%	15.04%	12.57%
2010-11 Foundation Aid Increase (percent change from 2009-10)	10.50%	14.26%	12.18%

For 2007-08 school districts statewide received $13. 6 billion in Foundation Aid an increase of $1.1 billion over the 2006-07 funding. More significantly, the increase in Foundation Aid is designed to grow from $1.1 billion for 2007-08 to $5.5 billion by 2010-11.

- The new foundation formula was hailed by school districts across the state as (1) fair; (2) simplified (3) predictable. For the first time in recent history, school districts were able to engage in multi-year planning, confident that Foundation Aid would increase steadily over the next three years.

- Legislative changes to the Governor's proposal made the formula less "simple" but even the more complicated formula that was enacted is a vast improvement over the myriad of formulas it replaced.

- Some of the key parameters used in the formula, particularly property values, have been extremely volatile in recent years. This volatility may result in the amount of aid a particular district is set to receive in 2008-09 varying significantly from the amount it expected based on last year's funding. The Governor and legislature may need to "fine tune" some elements of the formula to protect districts from extreme swings in foundation aid from one year to the next.

- The legislature should resist efforts to maintain "shares" by adding programs targeted to higher wealth districts. If there are additional funds available, these funds should be used to more rapidly close resources gaps for needy schools or increase the overall state share of school funding to reduce pressure on property taxes across the state.

In 2008-09, the opportunities for parent and public participation expand considerably. Districts will be required to solicit more public involvement in the development of the Contracts for Excellence.

Last year, the Contracts for Excellence were developed under an expedited schedule in order to ensure that students would benefit this year from the infusion of new state money. This year districts are required to make a greater effort to involve parents, students, teachers and the public at large in the development of the new educational programs. The Law specifies the following steps:

- Districts must develop their Contracts through a public process in consultation with parents, teachers, administrators and distinguished educators;

- Districts must hold a public hearing, and New York City must hold a hearing in each borough, before submitting their Contracts to the State Education Department;

- In New York City each Community Education Council must hold a public meeting for review and comment on their community school district's Contract for Excellence;

- The Commissioner of Education must review and consider the public testimony on the Contracts prior to making a decision to approve or reject submitted Contracts;

- Each school district must establish a procedure for parents to file complaints with the school district regarding the implementation of the Contract for Excellence—such complaints are subject to appeal to district superintendent (or NYC Chancellor), school boards and ultimately the Commissioner of Education.

Economic Security

In August 2007, Governor Spitzer announced the formation of an Economic Security Cabinet bringing together 17 state agencies to provide new focus on the needs of working families. The Cabinet's four objectives are to:

(1) reduce New York's high cost of living;
(2) establish educational and workforce development opportunities for a highly competitive economy;
(3) improving services that target low-income, working New Yorkers at risk of falling into the social safety net; and
(4) bring back jobs into our communities.

In announcing the Economic Security agenda, Spitzer noted: "New York leads the nation in the gap between rich and poor. My economic security agenda is focused on low income, working New Yorkers who are one step away from economic peril, and who are neither firmly established in the middle class nor firmly supported by the full array of programs that make up our social safety net. These families work hard and play by the rules. They have done their part. Now we must do ours. That is where state government can play a role – to make certain that no New Yorker falls through the cracks."

While there are many important initiatives on the Governor's Economic Security Agenda, the agenda fails to address several key issues. Most notably, the Agenda does not address the economic insecurities faced by the lowest income New Yorkers, those who are not able to work.

Strengthening the Social Safety Net: Unemployment Insurance

Unemployment benefits are the state's first responder to economic problems, and when the program works it boosts communities and families and empowers the redeployment of New York's workforce into good jobs. During the last recession, state unemployment benefits increased by $2.6 billion, accounting for one-sixth the change in total personal income between 2000 and 2002. But because of major shortcomings, New York is getting a badly diminished economic charge out of the unemployment insurance program. For example, New York's unemployment benefits rank 48th out of 50 states in protecting New Yorkers against the financial impact of job loss. And that's for the minority of workers who are even able to collect--only 41 percent of the jobless receive benefits, with hundreds of thousands left out each year.

- New York has not increased its $405 weekly maximum benefit since September 2000. The weekly maximum benefit should be restored to half the average weekly wage and indexed to changes in wages to prevent future erosion of benefits.

- Governor Spitzer should work with New York's congressional delegation to ensure that any federal fiscal stimulus package includes an infusion of federal funds to strengthen the UI system if we enter an economic downturn.

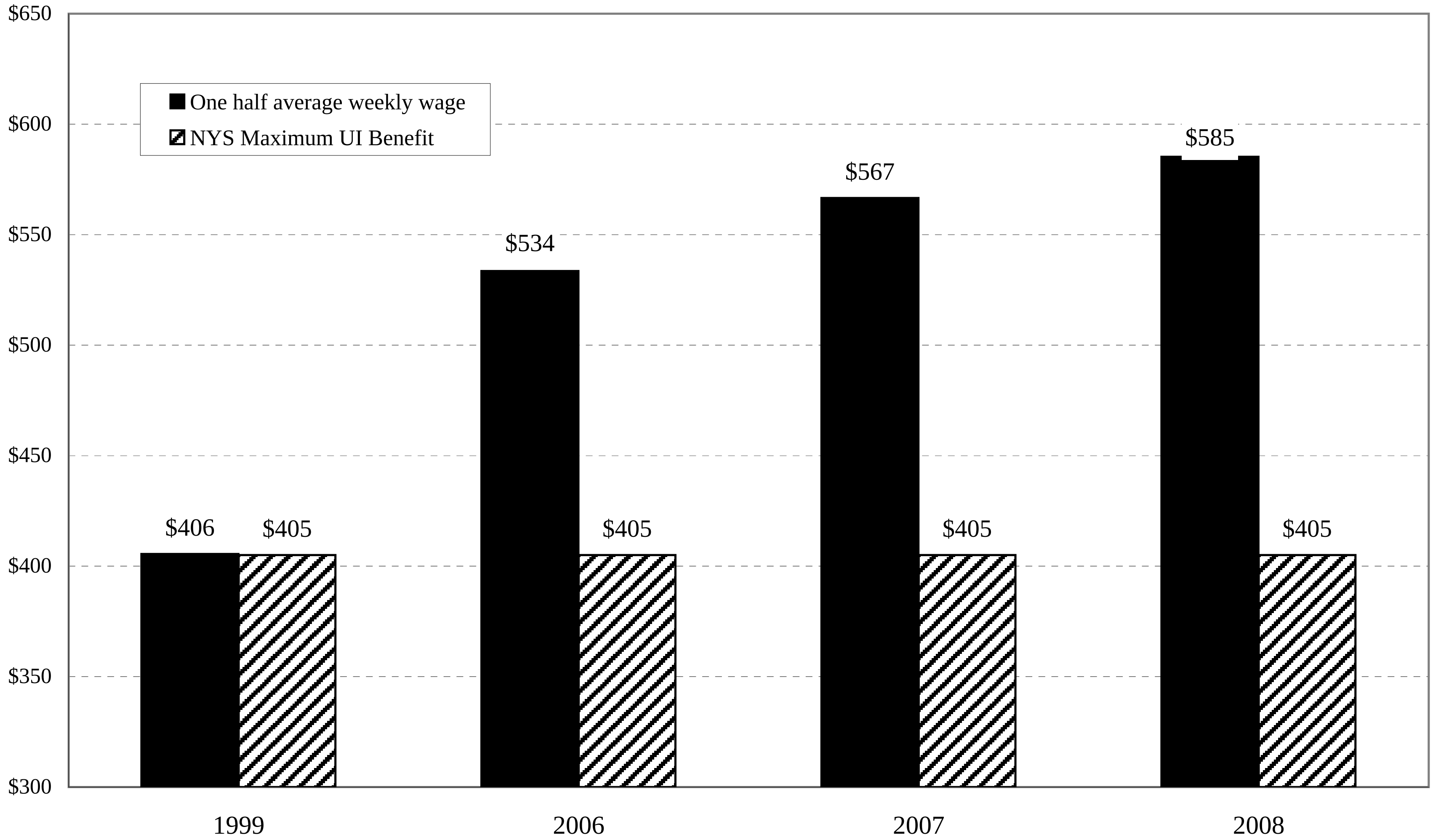
- New York should increase and index for inflation its taxable wage base. New York's current wage base ($8,500) is among the lowest in the nation. Over the past five years, New York has needlessly paid $36 million in interest and penalties because it was forced to borrow money when the trust fund was exhausted. As of the third quarter of 2007, only Michigan had a smaller balance in its trust fund (as a percent of total wages) than New York.

State unemployment insurance benefits served a critical safety net function during the 2000-2002 downturn.

	Increase in state unemployment insurance (in millions)	Percent increase in state unemployment insurance	Change in unemployment insurance as a share of the change in personal income
United States	$32,838	164.9%	3.6%
New York State	$2,620	158.7%	17.9%
New York City	$1,407	168.4%	36.1%
Eastern New York	$588	159.0%	8.8%
Capital District	$81	111.3%	6.8%
Long Island	$295	179.0%	7.9%
Hudson Valley	$212	160.2%	12.1%
Western and Northern New York	$626	140.3%	15.6%
Central New York	$85	150.5%	6.6%
Finger Lakes	$180	175.2%	14.0%
Mohawk Valley	$54	126.3%	25.6%
North Country	$180	175.2%	46.7%
Southern Tier	$100	186.3%	88.1%
Western New York	$167	120.8%	12.3%

Note: Increase in unemployment insurance in millions of dollars.
Source: Bureau of Economic Analysis data analyzed by FPI.
Nominal dollars, not adjusted for inflation

New York State's maximum weekly Unemployment Insurance benefit has not kept pace with wage growth.



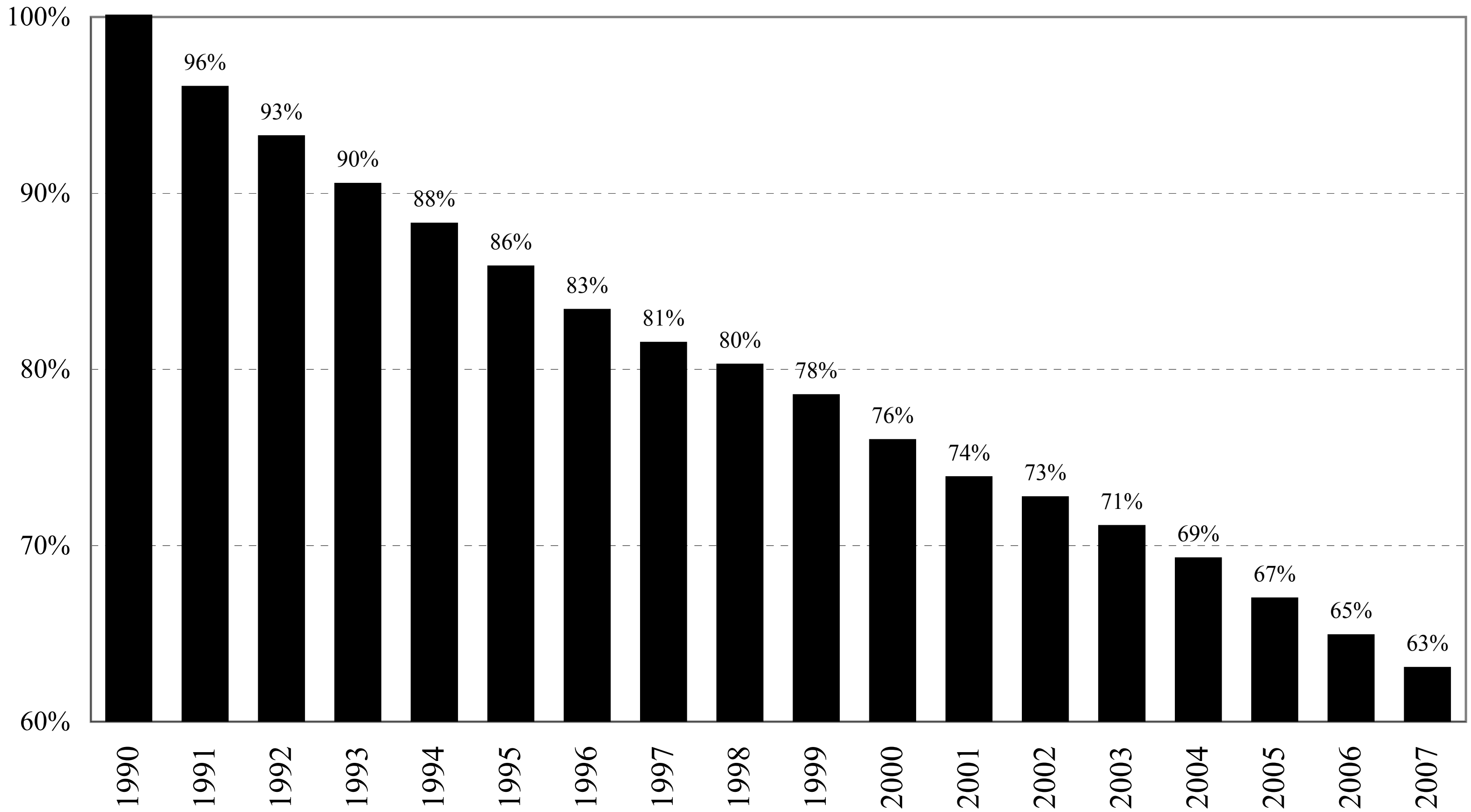
Source: Average weekly wages from the Bureau of Labor Statistics. 2007 and 2008 estimated based on NYS DOB forecasts of growth in wage per employee in the contained in the Multi-year Financial Plan Projections, October 31, 2007.

For public assistance recipients, New York should make sure that work "pays" for low income New Yorkers by increasing the earned income disregard. All families dependent on cash assistance, particularly those unable to work, need an increase in the basic allowance and fuel for heating allowances.

- One group of New Yorkers not mentioned in the Governor's Economic Security Agenda are the thousands of families who depend on cash assistance to support their families. These families are struggling to make ends meet with a basic allowance that has not been increased for 18 years. While many public assistance families are able to supplement their cash assistance payments with earnings, a large portion or the caseload consists of "child-only" families or families headed by adults who are not able to work. These families need a cash assistance allowance in line with the current cost of living.
- In addition, New York could do more to encourage welfare recipients to increase their earnings and work effort by reducing the rate at which welfare benefits are reduced when earnings increase. The basic $90 per month earned income disregard has not been changed since 1990. Updating this amount to reflect changes in the cost of living would provide hard-working welfare recipients with a small monthly grant increase to reflect the higher cost of getting to work.
- New York does not provide cash assistance to any family with gross earnings greater than 185 percent of the standard of need for each social service district. This provision results in families with incomes below the federal poverty guidelines being denied cash assistance despite their low incomes. This provision should be repealed.

New York's Basic Cash Assistance Allowance has not been increased since 1990. It has lost more than a third of its purchasing power since then.

Inflation-adjusted Basic Allowance for a Three Person Family (Pre Add plus HEA plus SHEA) as a Percent of 1990 Basic Allowance.



Strengthen and expand the middle class by creating better "up ramps" to the middle class for low income New Yorkers.

1) **Improve higher education quality, access and affordability.**

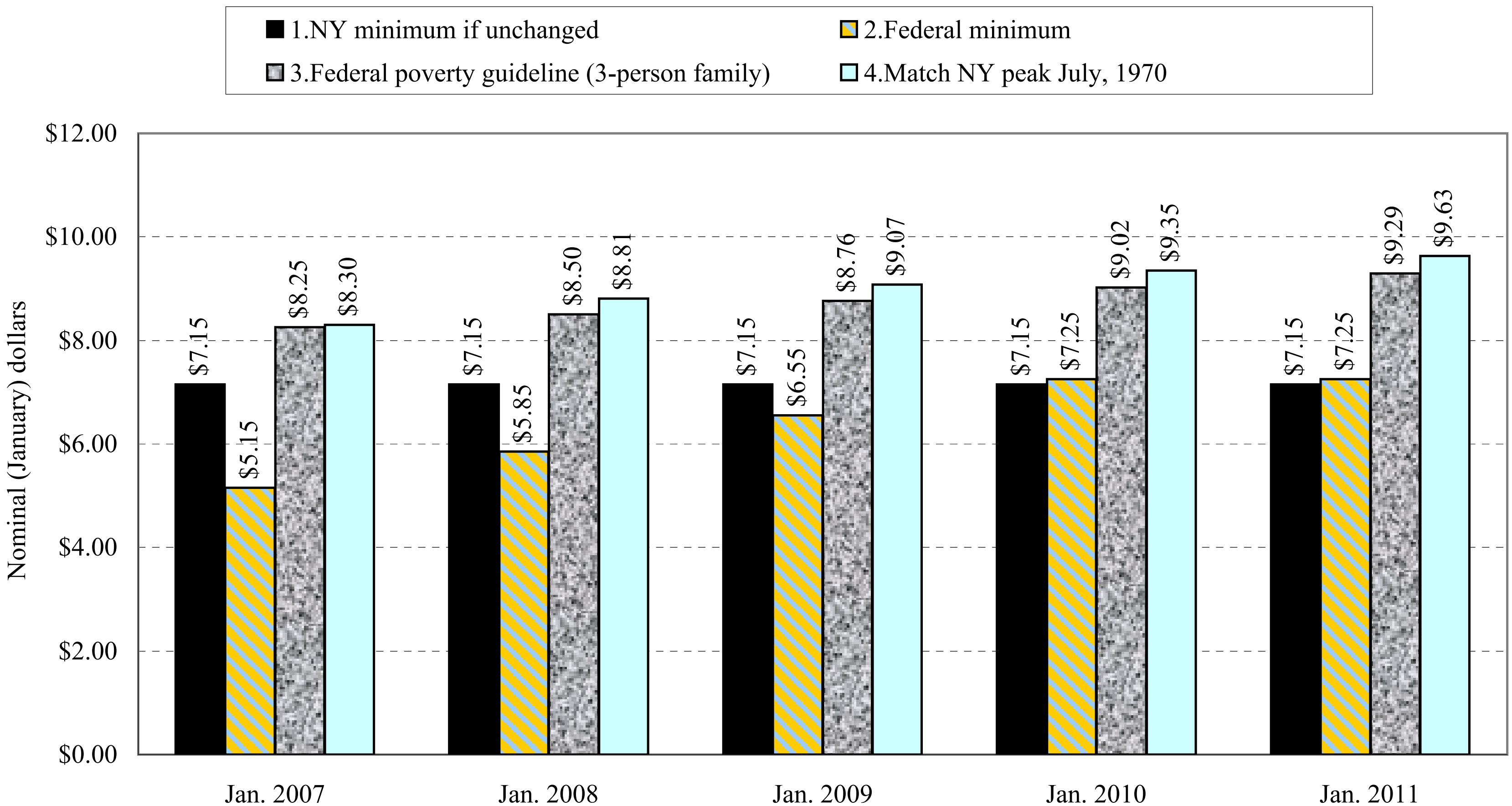
2) **Build more effective labor markets and better career ladders.**
   - Set solid minimum standards for wages and benefits --- starting with restoring the purchasing power of the minimum wage to its 1970 level.

   - Improve enforcement of labor standards.

   - Provide English classes for speakers of foreign languages, and more literacy classes and basic education.

   - Fund transitional jobs and career ladders training programs.

To restore the minimum wage to its July 1970 purchasing power, New York would have to increase its minimum wage to $9.63 by January 2011.



Year-to-year projections assume 3% annual increase in CPI. Federal poverty guideline for 2008 estimated by FPI following HHS methodology.

Make it easier for families to balance work and family.

1) Expand child care options and increase child care quality and affordability

- The governor and legislature should improve access to child care by providing sufficient state funding to meet the needs of all of New York's eligible working families. They should also move to serve more families by increasing subsidy eligibility levels from 200 percent to 275 percent of the federal poverty line, expanding statewide the demonstration projects that currently exist in New York City, the Capital District, Oneida and Monroe Counties. The child-care subsidy rules should be revised to ensure that no family is expected to contribute more than ten percent of its income in co-payments.

- TANF funding for child care should be kept separate from the Flexible Fund for Family Services.

- Last year the Governor and legislature renewed the commitment to make universal pre-K a reality. Increasingly, districts need funding to expand half day pre-K programs to full day programs to meet the needs of working parents.

2) Enact a system for paid family and medical leave

- In 1993, Congress passed the Family and Medical Leave Act (FMLA), which requires employers to provide leave to care for one's own serious health condition, including pregnancy, and to care for a new child or a seriously ill child, spouse or parent. While the FMLA protects an employee's job, seniority and health benefits during a maximum 12 weeks leave from work, it does not replace wages. Among workers who need family and medical leave but do not take it, 78 percent said they cannot afford to miss a paycheck. The rest of the developed world has been providing paid family leave for years—the United States and Australia are the only industrialized countries without paid family leave.

- The "Working Families Time to Care Act" provides a solution that allows working families to care for themselves without risking their economic security. It would expand New York's existing Temporary Disability Insurance (TDI) program (which provides some wage replacement during a worker's own non-work related temporary disability) to also cover a worker who needs time off to care for a newborn or newly adopted child, or a seriously ill family member. Workers would receive up to 12 weeks of benefits, funded through a modest increase in premiums paid within the existing TDI program.

Federal Issues and Concerns

Since states must balance their budgets, the federal government has a special obligation to provide fiscal stimulus if the economy falls into a recession. Federal stimulus can make it easier for states to balance their budgets in a recession if it is done the right way.

- Traditionally, states were able to rely on "automatic stabilizers" such as AFDC, food stamps, and Unemployment Insurance that automatically increased when the economy slowed down. With many federal programs converted to block grants, there is less automatic stabilization.

- During the last recession, the Jobs and Growth Tax Relief Reconciliation Act of 2003 enacted in May 2003 included $20 billion in fiscal stimulus in the form of (1) a temporary (15 month) increase in the federal matching rate for the Medicaid program and (2) a $10 billion program of direct, flexible grants to states which were disbursed in July and October 2003. Given the size of New York's Medicaid program, this mechanism of providing fiscal relief was very effective for New York. The stimulus packaged increased New York's Federal Medicaid Assistance Percentage (FMAP) from 50% to 52.95% for the 15 months from April 1, 2003 through June 30, 2004. According to the New York State Division of the Budget, the increase in the FMAP increased federal funds coming into the state by a total of $1.348 billion --- $990 million in SFY 2003-2004 and $358 million in SFY 2004-2005. A little more than two-thirds of the benefit from the increased federal funds resulted in savings for the state ($929 million) with the other third ($419 million) of the savings passed on to counties and New York City. The other portion of the stimulus package provided New York with $645 million in federal revenue sharing in SFY 2003-2004 for a total state and local budget impact of $1.993 billion.

- Poorly designed fiscal stimulus packages can make it harder to balance state budgets, e.g. federal tax reductions may result in automatic loss of state revenues when state tax laws are "linked" to federal definitions.

- Various measures billed as "stimulus" can entail substantial cost while doing little to stimulate the economy if they are designed poorly, in response to political pressures or ideological fixations. Analysts recognize, as Lawrence Summers has said, that to be effective, stimulus measures must meet three basic tests: they must be timely, targeted, and temporary.
    - Timely measures are those that, once triggered, stimulate new spending quickly.
    - Targeted measures are those aimed at individuals and entities that will spend quickly the bulk of any new resources they receive. Tax cuts and increases in government spending aimed at low- and moderate-income consumers and unemployed workers --- such as tax cuts that provide a flat refund to all tax filers, additional weeks of unemployment benefits to workers who have been unable to find a new job, and increases in food stamp benefits --- are far more effective as stimulus than tax cuts to the wealthy. Fiscal relief for state governments is another well-targeted form of stimulus.
    - Temporary measures are those that expire once the economy improves. The country should not be stuck with permanent, deficit-increasing tax cuts or spending increases because of a temporary economic downturn; it is essential that all stimulus measures terminate when the economy strengthens.[1]

1 Chad Stone and Kris Cox, "Economic Policy in a Weakening Economy: Principles for Fiscal Stimulus," Center on Budget and Policy Priorities, January 8, 2008.

New York depends on the Federal government for almost one third of its total revenues (31.65%). Last year New York received $35.6 billion in federal revenues. Local governments and school districts also depend on the federal government for support. Therefore, budget cuts in federal domestic discretionary spending can have a big impact on state and local finances.

- For the current federal fiscal year (October 1, 2007 to September 30, 2008) New York will experience cuts in many federal programs because President Bush threatened to veto any appropriations bills with total domestic discretionary funding above the levels set forth in his original budget proposals. In the Omnibus Appropriations bill that was approved by Congress on December 19 and signed into law by the President on December 26, Congress protected some programs from draconian cuts this year but even these more moderate cuts layered on top of cuts in previous years have dramatically reduced the ability of these programs to help states and local governments meet their obligations. The following table compares the funding levels for a number of these programs for the last federal fiscal year, the current federal fiscal year and the fiscal year in which each program received its peak funding during the 2001 to 2007 period.

- The President will release his 2008-09 budget in February. New Yorkers should monitor any new attempts to weaken federal support for domestic spending programs.

State and local governments depend on federal programs to help them provide basic services. Federal funding for most of these programs continues to erode relative to inflation.

	2007	Final Omnibus	Peak Year Funding	Year of Peak Funding	Change Relative to 2007 Funding		Change Relative to Peak Year Funding	
	(millions of 2008 $s)				millions of 2008 $s	%	millions of 2008 $s	%
Education/Children/Job Training								
Child Care (Discretionary)	2,118.22	2,062.08	2,476.79	2002	-56	-2.7%	-415	-16.7%
Head Start	7,076.38	6,877.98	7,710.64	2002	-198	-2.8%	-833	-10.8%
K-12 Education	35,470.62	35,526.29	38,950.93	2003	56	0.2%	-3425	-8.8%
Training &Employment Services plus Job Corps	5,274.54	5,115.67	6,768.84	2001	-159	-3.0%	-1653	-24.4%
Health								
Community Health Centers	2,042.24	2,065.02			23	1.1%		
National Institutes of Health	29,662.61	29,011.33	31,230.71	2004	-651	-2.2%	-2219	-7.1%
Energy and Environment								
EPA	7,935.39	7,461.49	9,529.73	2002	-474	-6.0%	-2068	-21.7%
Clean Water Revolving Funds	1,113.55	689.08	1,612.35	2001	-424	-38.1%	-923	-57.3%
Drinking Water Revolving Funds	859.82	829.03	1,002.51	2002	-31	-3.6%	-173	-17.3%
LIHEAP	2,219.92	2,570.33	3,321.87	2006	350	15.8%	-752	-22.6%
Homeland Security Law/Enforcement								
COPS	556.78	587.23	1,241.25	2001	30	5.5%	-654	-52.7%
Firefighter Assistance Grants	680.05	750.00			70	10.3%		
State and Local Law Enforcement Assistance	1,216.28	908.14	3,407.76	2001	-308	-25.3%	-2500	-73.4%
Services for the Elderly and People with Disabilities								
Housing for the Elderly	755.04	735.00	930.04	2001	-20	-2.7%	-195	-21.0%
Housing for People with Disabilities	243.46	237.00	286.89	2003	-6	-2.7%	-50	-17.4%
Home-Delivered Nutrition Services	193.44	193.86			0	0.2%		

Source: Center on Budget and Policy Priorities

Federal policies can encourage state initiatives to expand services to low and moderate income New Yorkers or create roadblocks.

- Last year Governor Spitzer proposed and the legislature passed a significant expansion of eligibility for the Child Health Plus program to families with incomes below 400% of the federal poverty guidelines, contingent on federal approval. The federal government did not approve the waiver and in an August 2007 policy directive created barriers for New York and other states interested in expansion of the program. President Bush vetoed the bill reauthorizing the State Children's Health Insurance Program (SCHIP --- the program that funds Child Health Plus in New York). The reauthorization included language that would have protected federal support for the New York expansion.
- On the other hand, the US Department of Agriculture approved the waivers necessary to pursue Governor's Spitzer's Working Families Food Stamp initiative.
- Both the House and the Senate passed reauthorizations of the Farm Bill, including the Food Stamp Program, in late 2007. Differences between the House and Senate versions will be reconciled by a conference committee in early 2008. Both the Senate and House versions of the Farm Bill contain significant improvements in the food stamp program, including provisions to stop the annual erosion in the value of benefits. More than half the 1.8 million New Yorkers who receive food stamps will have an increase in food stamp benefits thanks to these provisions. Unfortunately, the Senate version of the Farm Bill provides these enhanced benefits for only five years. The House version makes these changes permanent.
- Changes to federal Medicaid regulations would have made it more difficult for New York to use Medicaid to support services to disabled students. The bill extending funding for SCHIP included a six-month moratorium on the implementation of these regulatory changes but Congress will have to act to extend this moratorium beyond June 2008.