Overview: Balancing New York State's 2011-12 Budget

- The 2011-12 Executive Budget proposes to close a projected $10 billion budget gap with $9 billion in spending cuts – the most unbalanced approach to budget balancing in memory and at a time when joblessness and other recession-induced hardships are widespread.
- Rather than promote job growth and long-term economic recovery, the proposed budget would increase unemployment, disinvest in New York's infrastructure and K-16 education systems, and undermine the state's growth potential.
- State spending has been growing roughly in line with New York's economy, but New York's revenues have not kept pace. The Great Recession resulted in unprecedented reductions of state revenue in New York and the rest of the states, but New York is also still living with the impact of the large multi-year tax reduction packages of the 1990s and some years in the first decade of this century creating a situation that is very similar to what has happened at the federal level. But unlike the federal government which can run deficits in bad times to stimulate demand, New York and the other states must balance their budgets in both good times and bad.
- The economic impact of trying to balance the 2011-12 and 2012-13 budgets without extending the temporary personal income tax surcharge would be devastating. New York also faces a major challenge in reducing its over reliance on property taxes as the way to fund essential services. But a one-size-fits-all cap is not the answer.

What's driving New York's current budget gaps?

- New York State has faced significant and recurring budget gaps since the summer of 2008. These gaps are due overwhelmingly to the onset of the Great Recession which has had a very negative impact on the finances of state governments throughout the country. The recession began nationally in December 2007 and it began its assault on New York during the spring of 2008.

- The Great Recession has affected both the revenue and the expenditure sides of state budgets, driving up enrollment in state Medicaid programs as people lost jobs and driving down revenues. New York has not been immune from this double whammy. In fact, as outlined earlier in this presentation, many states face proportionately larger budget gaps than what we face here in New York.

- Ironically, the budget gaps forecast by the Division of the Budget (DOB) for the next two state fiscal years (2011-12 and 2012-13) are attributable in a more immediate sense to the scheduled expiration of two actions that helped New York make it through the last two years with less harm to its economy than would otherwise have been the case. These actions are (1) the provision by the federal government of an enhanced level of aid to the states; and (2) an increase in personal income tax rates for married couples with taxable incomes above \$300,000, and individuals with taxable incomes above \$200,000.

Elementary and secondary education faces unprecedented challenges.

- Under the proposed Executive Budget, public schools would face the third year in a row of an austerity budget approach to state aid.
  - In 2009-10, with the benefit of extraordinary federal aid, "foundation aid" (the targeted aid program established as part of a statewide solution to the court decisions in the Campaign for Fiscal Equity lawsuit) was frozen at its 2008-09 level and expensed-based aids like transportation aid were funded at their 2009-10 formula levels. But foundation aid represents about 80% of school aid on average statewide but much more for the state's neediest school districts.
  - In 2010-11, foundation aid was again frozen at its 2008-09 level, but this time there was not enough federal aid to make up for all of the state's $2.1 billion gap Elimination adjustment. The net cut ended up at about $800 million
  - This year the Governor is proposing to continue to freeze foundation aid at its 2008-09 level and to apply a cut (called a Gap Elimination Assessment) of $2.8 billion with foundation aid, on average, getting about 80% of that cut.

- But at the same time that the Governor's Executive Budget is proposing a cut of this magnitude in the 2008-09 level of funding, the Governor is also proposing a 2% cap on the rate at which school property tax levies could be increased each year. This combination of a deep cut in state aid and a limit on property taxes is a recipe for economic and educational disaster.

Medicaid spending is projected to rise rapidly due to increased enrollment and higher health care costs

- The governor proposes that the Medicaid Redesign Team find ways to reduce spending by $2.85 billion in 2011-12 and limit future growth to increases in the medical services component of the CPI.
    - The governor argues that there is a need for such an objective growth measure because of the projected 13.3 percent increase in Medicaid costs in the Division of the Budgets 'current services' projections.
    - In the November 1, 2010, update of the state's Financial Plan, DOB explained this projection as follows:
        - 'Overall Medicaid growth results, in part, from the takeover of local Medicaid costs under the cap, the combination of projected increases in service utilization, and medical care cost inflation that affects nearly all categories of service (e.g., hospitals, nursing homes), as well as rising enrollment levels. In addition, the payment of an extra weekly cycle to providers adds an estimated $400 million in 2011-12.'
- But, the Governor's 'rational' limit on Medicaid spending growth may not be sufficient in years like the present when enrollment is also projected to increase substantially. Medicaid enrollment grew by 18% from 2008 to the present and DOB forecasts that it will grow by an additional 6 percent in 2011-12.

- State Medicaid spending has a net positive economic impact because of the large infusion of federal dollars it brings to the state. A cut of $2.8 billion would, according to FamiliesUSA's Medicaid calculator for 2008 result in a loss of $5.8 billion in economic activity; a loss of almost 45,000 jobs; and a loss of over $2 billion in wages and salaries.

At a time of increasing enrollments, the Executive Budget proposes further cuts for SUNY and CUNY

- In the Executive Budget, the governor proposes:
  - To reduce direct state aid to CUNY and SUNY by 10 percent compared to 2010-11 spending. That translates into cuts of $213 million for 4-years colleges and $47 million for 2-year colleges.
  - Eligibility standards for the Tuition Assistance Program (TAP) were already tightened and the Governor proposes to tighten them further. Overall, expenditures for the Higher Education Service Corporation, which administers TAP, will rise by only half of what had been projected as needed. This entails a $44 million reduction from the projected budget.
- Since the recession began three years ago, public higher education enrollments have increased. SUNY enrollment is up by about 10 percent while CUNY enrollment has climbed by 14 percent since 2007. But funding for the system has not kept pace.
- The Governor's proposed reductions come on top of reductions in aid per student (FTE) over the past three years that total 10 percent at 4-year colleges and 13 percent at 2-year colleges. (These cuts are measured on a total state support basis, including direct state aid, fringe benefits, and TAP.)

Further cuts to the Metropolitan Transportation Authority

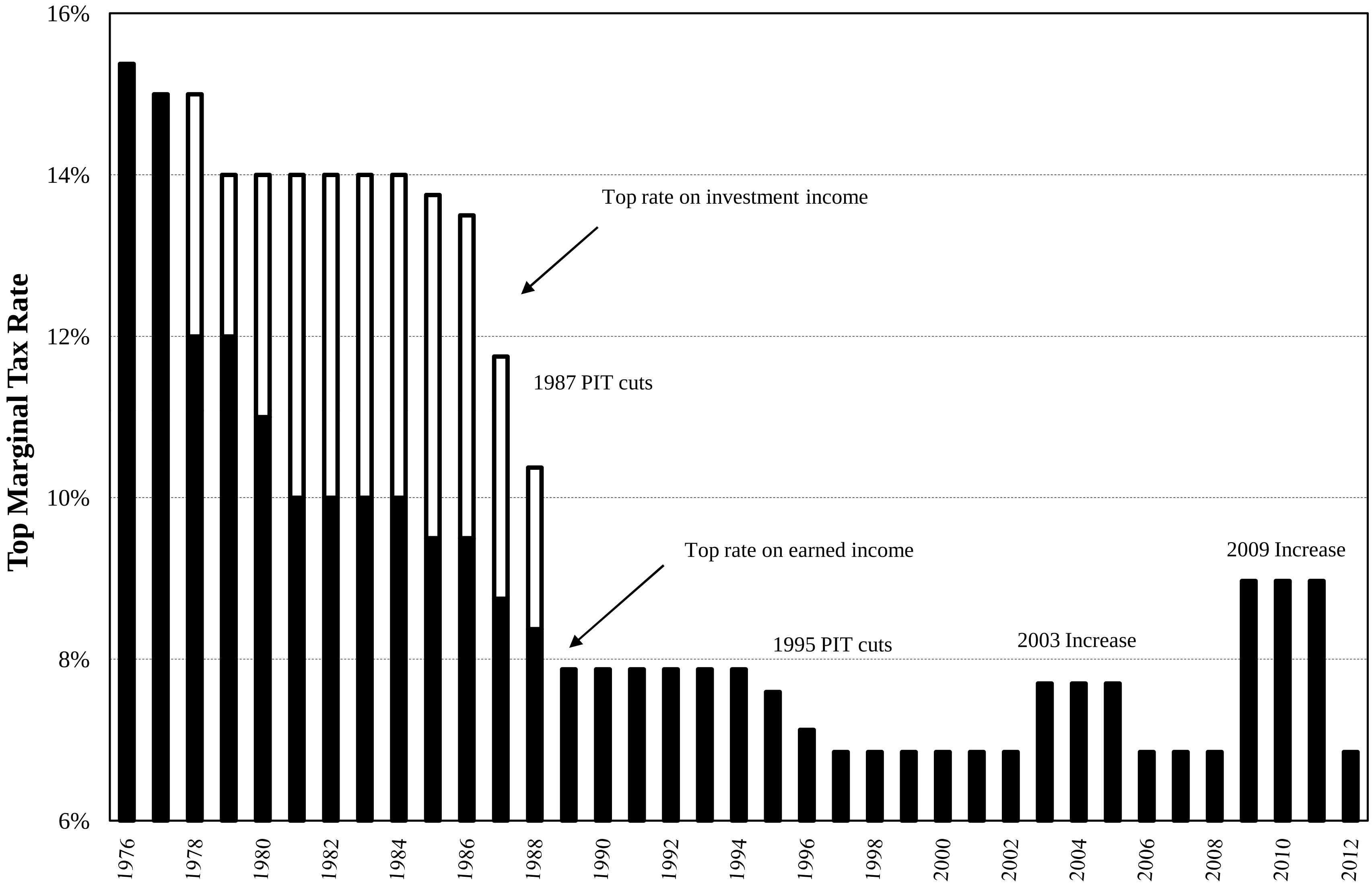
- The Metropolitan Transportation Authority (MTA) provides mass transportation services in the 12-county downstate region.

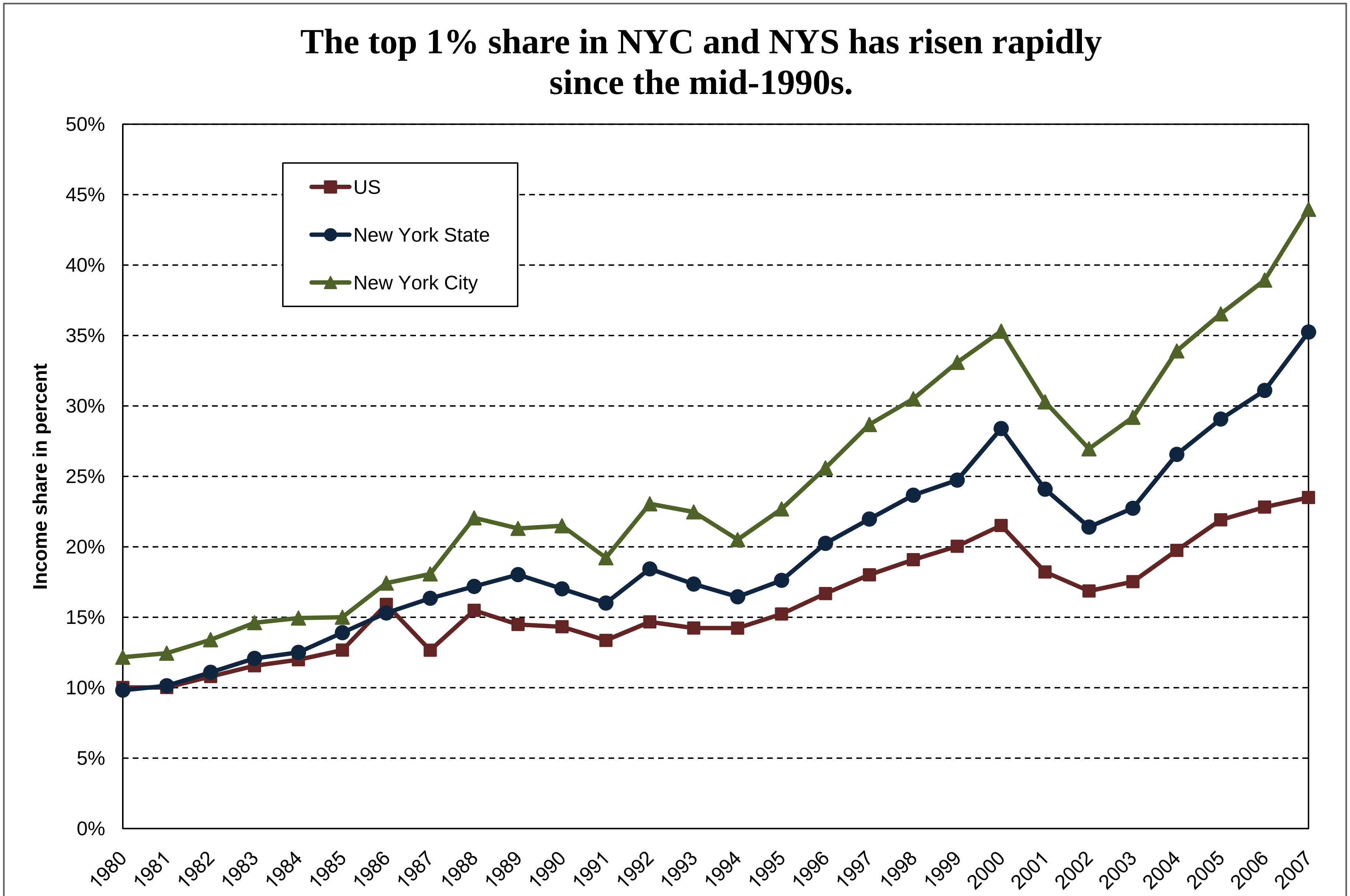
- The Executive Budget is proposing to reduce funding for the MTA in 2011-12 by $200 million, primarily by diverting funds from dedicated tax revenues to the state's general fund.

- This latest reduction in state support comes on top of a $143 million cut as part of the State's December 2009 Deficit Reduction program, and a $104 million reduction in last year's Executive Budget. Moreover, the MTA has suffered downward revisions in dedicated tax collections of $600 million in late 2009 and during 2010. In response the MTA has curtailed service and laid off staff. Transit fares were increased by 7.5 percent at the end of December 2010, with a similar hike scheduled for 2013.

- The 2011-12 Executive Budget also proposes to redirect $100 million of existing economic development capital funds to the MTA capital program. However, this amount is far short of funding the MTA needs from the state in order to complete a reduced 2010-2014 capital program.

After cutting its top personal income tax rate by more than 50%, from 15.375% to 6.85%, New York raised it back to 8.97% for 2009, 2010 and 2011.





Source: Piketty & Saez's analysis of the US top 1% income share (http://www.econ.berkeley.edu/~saez/index.html); FPI analysis of NYS and NYC personal income data from the Department of Taxation and Finance.

There has been considerable growth in the NYS economy since 1990 (2.4% annually), and higher educational attainment.
This growth did not lower poverty, or increase real wages or family income for most New Yorkers. However, the income share of the top 5% and average Wall Street wages increased rapidly.

		1990	2007	1990-2007
1	Real NYS Gross Domestic Product (billions)	$687.8	$1,022.11	48.6%
2	Per Capita Real Personal Income, NYS	$37,624	$47,188	25.4%
3	Real Hourly Median Wage, NYS	$15.86	$16.00	0.9%
4	Real average annual Wall Street salary (including cash bonus)	$190,400	$403,358	111.8%
5	Real Median Family Income, NYS	$49,722	$53,400	7.4%
6	Poverty Rate, NYS	14.3%	14.5%	+ 0.2 ppts
7	Percent of age 25-64 workforce with bachelor's degree or higher, NYS	26.2%	34.1%	+ 7.9 ppts
8	Average earnings for full-time, year-round NYS worker with bachelor's degree or higher, age 25-34	$60,283	$52,000	-13.7%
Income Shares				
9	Share of Total NYS income received by the top 5 percent (in 2007, incomes above $176,400)	30.9%	49.4%	+ 18.5 ppts
10	Share of Total NYS income received by the "middle" 45 percent (the 51st to the 95th percentile; in 2007, income range from $32,600 to $176,400)	55.2%	41.5%	- 13.7 ppts
11	Share of Total NYS income received by the "bottom" 50 percent (in 2007, incomes below $32,600)	13.9%	9.1%	- 4.8 ppts

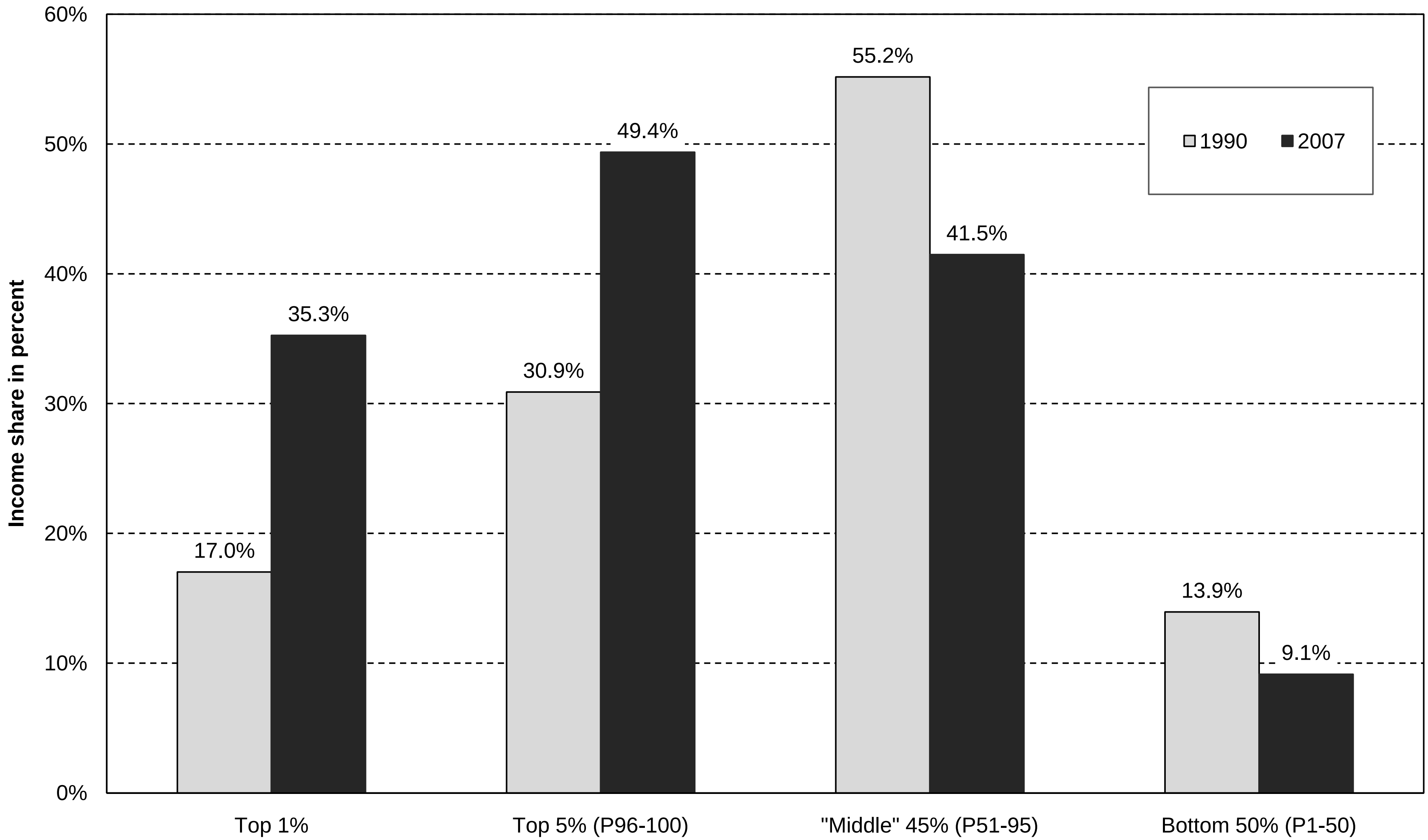
Note: GDP (line 1) is in 2005 dollars. Income, wage and salary figures (lines 2-5) are in 2007 dollars.
Sources: NYC Office of Management and Budget, Bureau of Economic Analysis, Current Population Survey, American Community Survey, Census Bureau, and FPI analysis of NYS tax data.

There has been considerable growth in the NYC economy since 1990 (2.9% annually), and higher educational attainment. This growth did not lower poverty, or increase real wages or family income for most New York City residents. However, the income share of the top 5% and average Wall Street wages doubled.

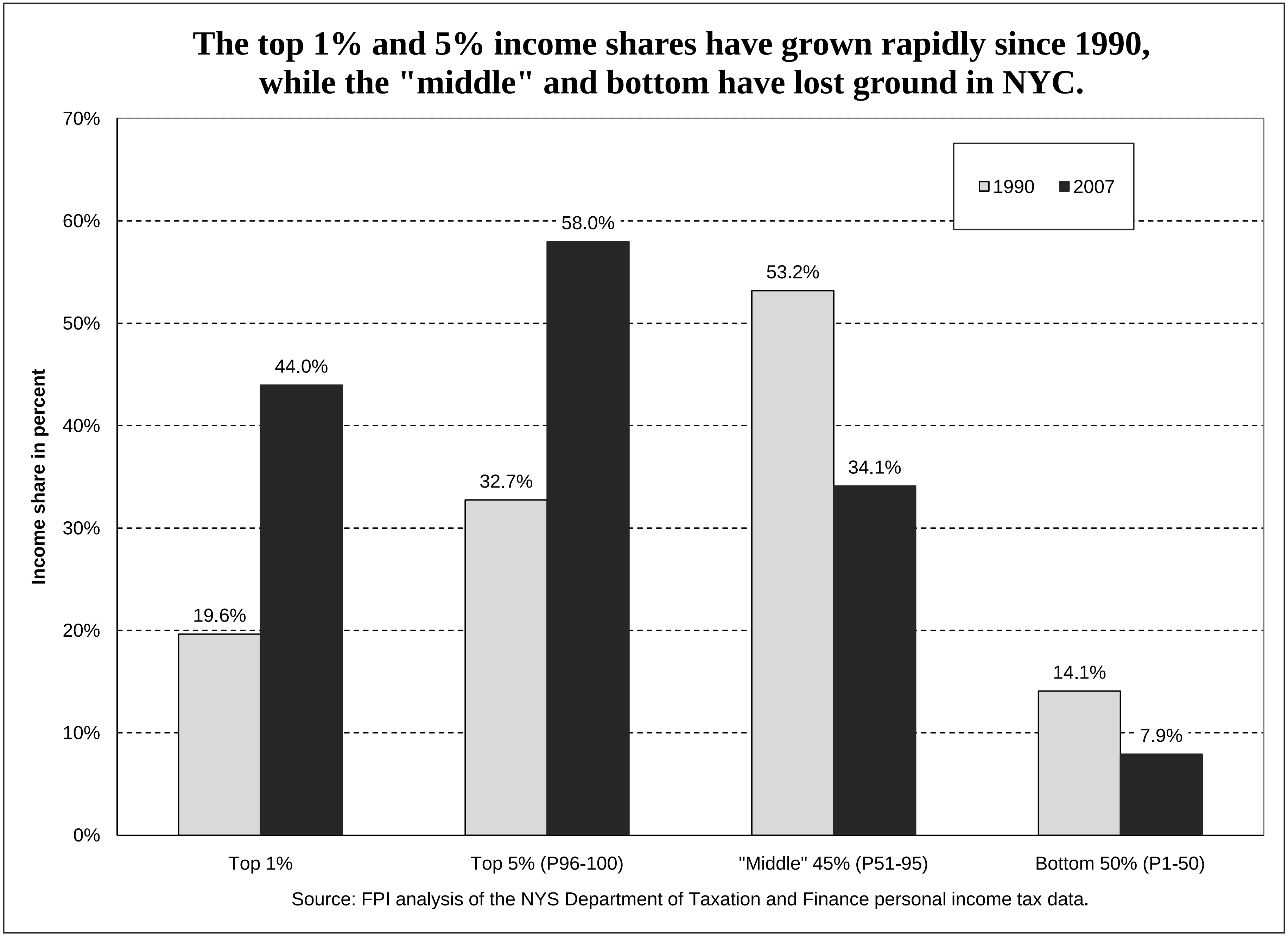
	1990	2007	1990-2007
Real NYC Gross Domestic Product (billions)	$365.3	$595.0	62.9%
Per Capita Real Personal Income, NYC	$42,332	$50,725	19.8%
Real Hourly Median Wage, NYC	$17.00	$15.53	-8.6%
Real average annual Wall Street salary (including cash bonus)	$190,400	$403,358	111.8%
Real Median Family Income, NYC	$46,017	$45,000	-2.2%
Poverty Rate, NYC	19.3%	18.5%	- 0.8 ppts
Percent of age 25-64 workforce with bachelor's degree or higher, NYC	26.0%	35.3%	+ 9.3 ppts
Average earnings for full-time, year-round NYC worker with bachelor's degree or higher, age 25-34	$60,627	$57,000	-6.0%
me Shares			
Share of Total NYC income received by the top 5 percent (in 2007, incomes above $167,400)	30.0%	58.0%	+ 28.0 ppts
Share of Total NYC income received by the "middle" 45 percent (the 51st to the 95th percentile; in 2007, income range from $28,800 to $167,400)	53.2%	34.1%	- 19.1 ppts
Share of Total NYC income received by the "bottom" 50 percent (in 2007, incomes below $28,800)	15.8%	7.9%	- 7.9 ppts

GDP (line 1) is in 2005 dollars. Income, wage and salary figures (lines 2-5) are in 2007 dollars.
ces: NYC Office of Management and Budget, Bureau of Economic Analysis, Current Population Survey, American Community Survey, Census au, and FPI analysis of NYS tax data.

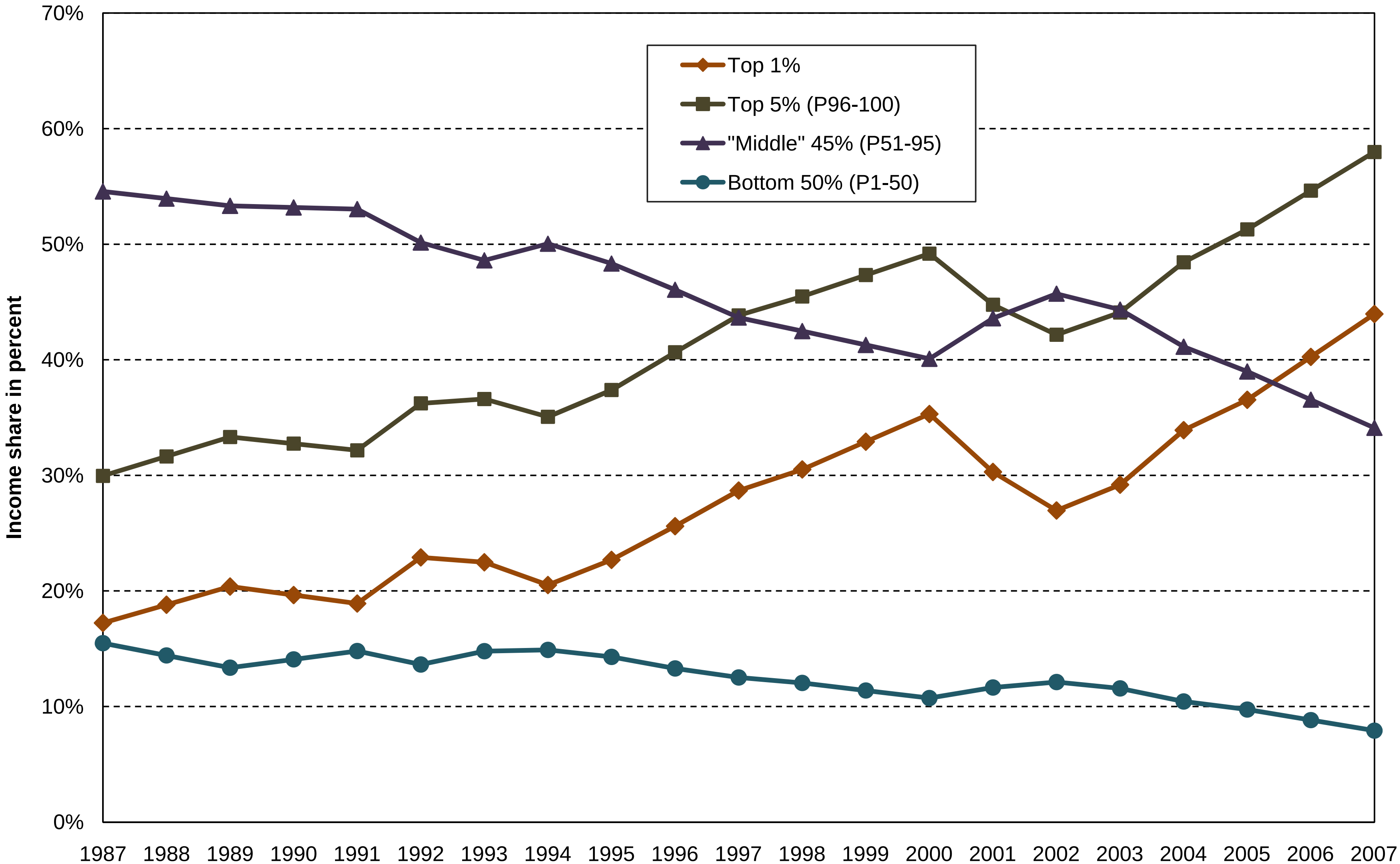
The top 1% and 5% income shares have grown rapidly since 1990, while the "middle" and bottom have lost ground in NYS.



Source: FPI analysis of the NYS Department of Taxation and Finance personal income tax data.

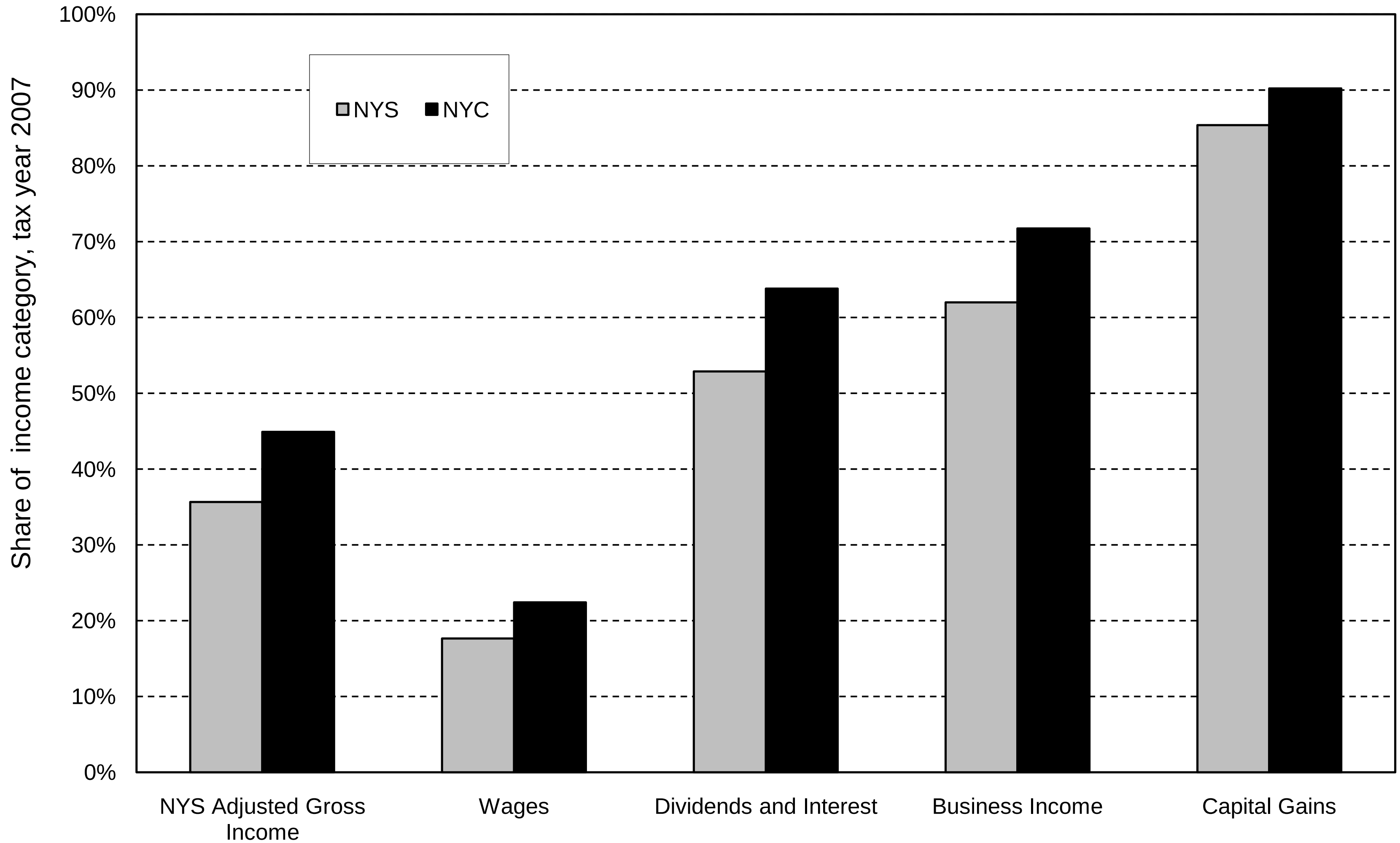

The top 1% and 5% income shares have grown rapidly since 1990, while the "middle" and bottom have lost ground in NYC.
Income share in percent
70%
60%
50%
40%
30%
20%
10%
0%
1990
2007
19.6%
44.0%
32.7%
58.0%
53.2%
34.1%
14.1%
7.9%
Top 1%
Top 5% (P96-100)
"Middle" 45% (P51-95)
Bottom 50% (P1-50)
Source: FPI analysis of the NYS Department of Taxation and Finance personal income tax data.

Over the past 20 years, the top 5% share of NYC income has really doubled, to about 60%.



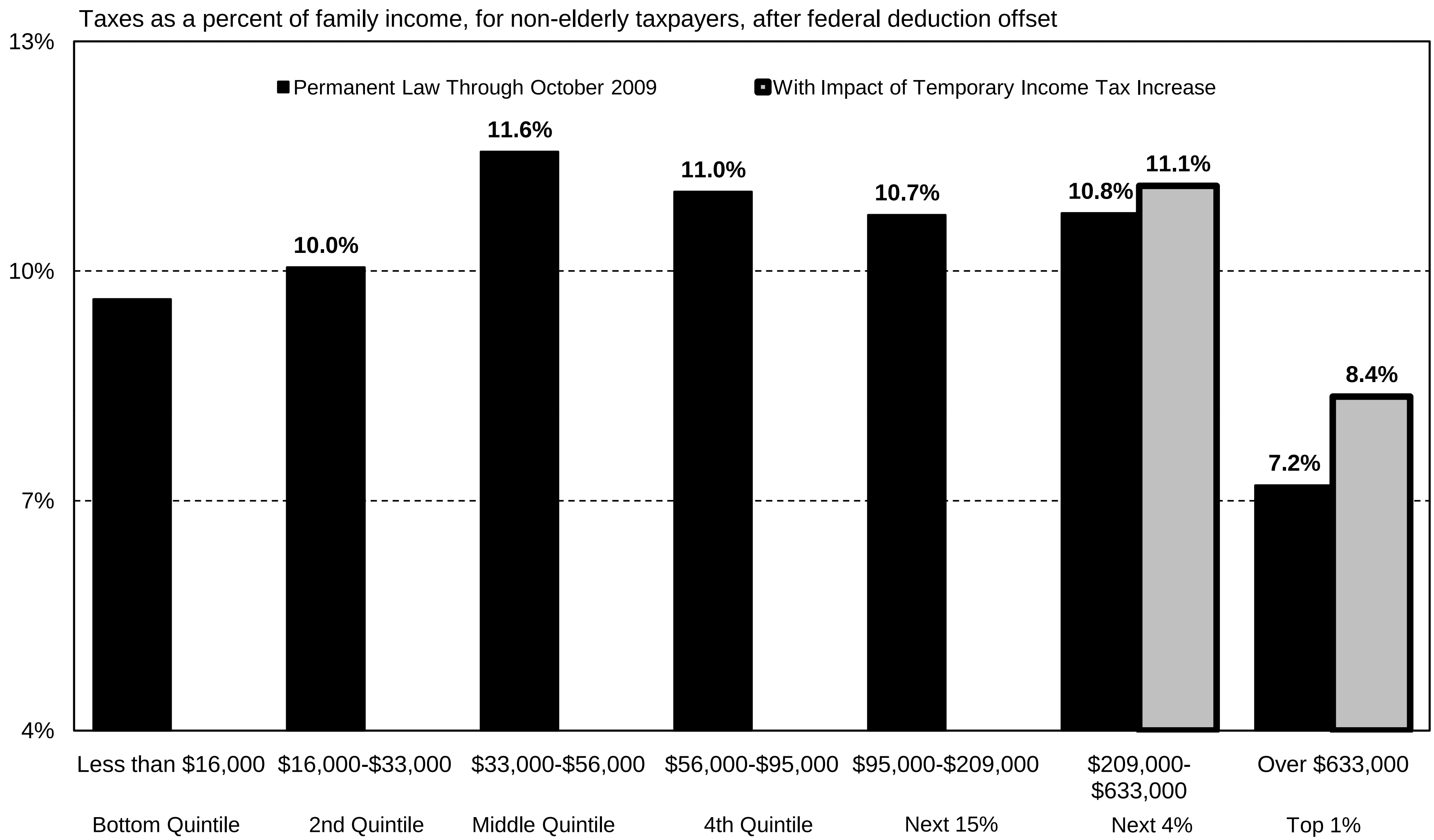
Source: FPI analysis of the NYS Department of Taxation and Finance personal income tax data.

The top 1% has about 20% of total wages in NYS and NYC, and 50-90% of other major forms of income.



Source: FPI analysis of the NYS Department of Taxation and Finance personal income tax data.

Overall, the wealthiest 1% of households pay a much smaller share of their income in state and local taxes than do all other New Yorkers, even with the temporary income tax increase.



Source: Institute on Taxation and Economic Policy, 2009. Note: 2007 tax law updated to reflect changes in law enacted through October

Agenda for corporate tax fairness: closing loopholes, limiting tax expenditures and adapting the tax structure to an evolving finance sector

- Corporate income taxes averaged only 0.5 percent of New York's GDP over the past 10 years, a share that is more than a third smaller than over the prior decade.

- In a budget year when "everything is on the table," New York's $5.4 billion in annual business tax expenditures should be closely examined. This "back door" spending has grown rapidly since 2000, and lacks transparency and accountability. In 2010-11, business tax breaks used to reduce tax payments under the Corporate Franchise Tax are projected at $3 billion, over 90 percent of the $3.27 billion in projected collections. This spending should be carefully examined to determine whether the promised benefits are real, and if so whether the expense entailed is justified.

- As an increasing number of states, including New York, have adopted the Single Sales Factor method of apportioning multistate corporate income for state tax purposes, the amount of "nowhere income" (income not subject to taxation by any state) is increasing dramatically. Legal experts seeking to establish a uniform and fair system of corporate state-level taxation have long recommended the inclusion of a "throw-back" or "throw-out" rule, which half of the states using Single Sales Factor have adopted.

- New York's tax structure has not kept pace with changes in the structure and nature of financial sector firms. Since many sizable financial businesses are organized as Limited Liability Companies (LLCs) and Limited Liability Partnerships (LLPs), New York should raise the maximum filing fee for LLCs and LLPs as it did for tax years 2003-2006. New York should also expand the nonresident personal income tax to include income received from hedge fund management fees earned in New York.