

## Overview of Governor Paterson's 2010-11 Executive Budget Proposal

New York Governor David Paterson unveiled his 2010-2011 Executive Budget on Tuesday, January 19<sup>th</sup>. Totalling \$134 billion – including a comparatively modest spending increase of \$787 million or 0.6% from the prior year -- the proposal is generally “flat” from 2009-2010. His proposal is aimed at closing a projected \$7.4 billion deficit in the current budget year, as well as setting the stage for reducing future-year deficits of \$14.3 billion in 2011-12, \$18.3 billion in 2012-13, and \$20.7 billion in 2013-14.

### Taxes and Fees

The Executive Budget contains \$1.0 billion in tax and fee increases, including:

- A franchise fee plan to allow grocery stores to sell wine. Revenue from these new fees is projected to generate \$92 million in the coming year.
- A new excise tax on syrup used in soft drinks and other beverages (\$465 million).
- A \$1 per pack increase in cigarette taxes (\$218 million).
- Assessments on health care providers (\$216 million).
- “Improved” audit and compliance/tax enforcement actions (\$221 million).
- Legalizing mixed martial arts (\$2.1 million).
- Extending the hours of operation for video lottery terminals/VLT's (\$45 million)
- A new severance tax on natural gas production.
- Deployment of speed enforcement cameras (\$32.9 million).

### Education

The Executive Budget seeks savings of \$1.1 billion in School Aid, representing a 5% reduction. Governor Paterson's plan maintains operating aid formulas at current year levels, and extends the current freeze in Foundation Aid through 2011-2012. School districts would also be subject to a \$2.1 billion Gap Elimination Adjustment (GEA) for the 2010-2011 school year; effectively a wealth-adjusted tax on state aid allocations. State aid to public districts would total \$20.5 billion in 2010-11.

The Governor's budget would also reduce funding for after-school programs, both Advantage and Extended Day, by nearly \$15 million.

### Medical/Health Care

If no action was taken to control costs, the Governor says total federal, state and county Medicaid spending would reach \$53.1 billion in 2010-2011, increasing more than 5%. The Executive Budget proposes \$1.9 billion in “gap closing” measures in health care, including:

- Almost \$1 billion in provider and program reductions.
- \$890.2 million in “dedicated taxes and assessments to finance health care investments.”
- Reductions in indigent care reimbursements to hospitals (\$67.7 million).
- Increased assessments on inpatient services (\$130.2 million).

The Governor says his proposals focus on establishing “more rational and cost-effective reimbursement to produce better care at lower costs.”

### State Workforce

Through a series of initiatives by the Paterson Administration in recent months – including a hiring freeze, attrition efforts, the elimination of many vacant positions and a \$20,000 severance bonus - the

state workforce has been reduced by 5,150 since March 2008. Average compensation for a State employee is \$63,750.

Governor Paterson proposes additional actions to reduce payroll and fringe benefit expenses. These include delaying or reducing payment of a 4% general salary increase scheduled for April 1, 2010, and implementing a salary deferral. In addition, the Governor proposes a continued reduction in the size of the State workforce through facility closures, agency mergers, and ongoing management of employee hiring.

### Aid and Incentives to Municipalities (AIM)

The AIM program is the single largest program of state aid to local governments. The Executive Budget proposes \$325 million in savings from this program, primarily by eliminating AIM assistance to the City of New York and by reducing payments to other local governments by between 2%-5%, based on the amount of AIM funding a particular community receives. The Governor says some of the impact in the AIM program reductions can be offset by other initiatives, including a moratorium on unfunded mandates, and proposals to limit growth in programs which require counties to cost-share.

### Economic Development

The Executive Budget proposal contains a familiar proposal to restructure the State's economic development activities by merging DED and ESDC into the New York State Job Development Corporation (JDC). This merger is intended improve the effectiveness of programs and streamline delivery of services. This consolidation would also save \$4.7 million annually by integrating operations and eliminating duplicative functions. NYSTAR would continue its work in partnership with the new JDC.

The Executive budget proposes the establishment of three new economic development programs:

-- *Excelsior Jobs Program*: a new package of tax credits for selected firms in targeted industries that create and maintain at least 50 net new jobs in New York for five years. These include the Excelsior New Jobs Tax Credit (firms would be eligible to receive between \$2,500 and \$10,000 per new job to cover a portion of the associated payroll cost, the Excelsior Investment Tax Credit (firms would be eligible for a two percent return of total qualified investments) and the Excelsior Research and Development Tax Credit (firms would be eligible for a 10% credit for new investments based on the Federal R&D credit).

-- *Small Business Revolving Loan Fund*: \$25 million is provided for capital loans to support the growth of small businesses. The Governor's Small Business Task Force initially proposed the creation of a small businesses revolving loan fund.

-- *New Technology Seed Fund*: \$25 million is provided to help University-based entrepreneurs transform research and innovation to marketable products that generate revenue and employment. This fund will help institutions of higher learning expand their research, strengthen their partnerships with the business community and advance their work toward commercialization. This initiative will put New York on par with states like Pennsylvania, California, Maryland and Texas that directly support entrepreneurial activity to result in job creation.

## What's Next?

Under New York's budget-making process, the Governor develops and proposes to the Legislature a comprehensive, balanced budget proposal – the 2010-2011 Executive Budget proposal issued January 19<sup>th</sup>. The Governor also has a period of time – 21 days – during which he can actually amend his formal budget proposal; “21-day amendments” are due to be submitted by February 9<sup>th</sup>.

Over the next several weeks, the Legislature will hold a series of joint public hearings on the proposal – by agency/issue area - and then negotiations with the Governor usually commence. These hearings will begin on January 25<sup>th</sup>, and the final hearing is scheduled to be held on February 10<sup>th</sup>.

Once the Governor and Legislature agree on a final budget plan, the Legislature then passes budget bills, and the new budget is enacted into law.

The 2010-11 budget year begins April 1, 2010.