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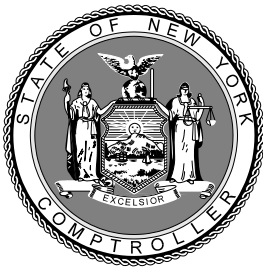
# 2001-02 Budget Analysis

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## Review of the Current Budget

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November 2001



**H. Carl McCall**  
**State Comptroller**

State of New York  
Office of the State Comptroller  
Office of Fiscal Research & Policy Analysis  
Albany, New York 12236

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STATE OF NEW YORK  
**OFFICE OF THE STATE COMPTROLLER**

November 2001

*To the People of the State of New York:*

Last year's budget was enacted at a time when the State was at the peak of a national trend of economic growth. At that time, the State's leaders had resources available and numerous options in deciding what actions would help enhance the State's future.

This year, New York is in a much different place. At a time when resources are needed more than ever, New York finds that the future is one where its resources are limited, its options are fewer, and the choices more painful.

No State has ever faced the magnitude of the adversity New York faced on September 11 and in the aftermath of the destruction of the World Trade Center. In addition to the still unfathomable human toll and terrible emotional impact, the tragedy exacerbated weaknesses in the State economy. Unfortunately, the current State budget does nothing to calm the fears of New Yorkers worried about the State's future.

Typically, the budget gives taxpayers a vision of where the State is going. It lets people see what they can expect for the future and what the State's priorities are and will be. A clear picture of the State's priorities is needed now more than ever, but this budget raises more questions than it answers.

This budget was the result of paralysis and panic, the first created as the Governor refused to negotiate with the Legislature, and the latter created following the terrible aftermath of the tragedy in New York City. As such, it creates pain and confusion for countless New Yorkers.

All New Yorkers depend on local governments, school districts and non-profit agencies to provide needed services. Unfortunately, this budget leaves all of us wondering how the State plans to live up to commitments made and plans of the past. A "baseline budget" was passed to bring the Governor to the table, but left New Yorkers expecting open questions would be resolved. Sadly, the current budget is defined as much by what it lacks as what it contains.

First, the budget lacks a meaningful economic stimulus plan that promises to build New York for the future. Rather than investing in our educational institutions and in industries

that can create jobs, this budget contains an unprecedented expansion of gambling. Our system of higher education requires sustained attention if it is going to serve as an engine for the State's economic growth. Funding university/business partnerships in fits and starts and allowing faculty/student ratios to increase sends the wrong message regarding the State's commitment to the creation of high wage jobs.

Second, this budget lacks input from the public. After months of inaction from the Governor's office, the tragedies in NYC prompted the State to resolve the budget in the middle of the night. This year, the State enacted the largest expansion of gambling in New York's history without even a single public hearing.

Third, it lacks attention to the fundamental issues needed to help New York grow in the future. Obviously, faced with the challenges of September 11 the State needs to reassess its priorities. However, the State cannot afford to ignore areas such as education, health care and the environment that are essential for ensuring that New York can progress. This budget failed to address the inequities in the school aid formulas, failed to provide a financing plan for the clean up of toxic waste sites (Superfund), failed to appropriate existing funding for the Environmental Protection Fund, failed to make improvements in the State's health insurance programs and failed to expand insurance coverage for the disabled and women with breast cancer.

Clearly, much remains to be done. The problems ignored before September 11 have taken on increased urgency. Now more than ever before, New York needs to end its short-sighted approach to governing and develop a long range plan to address the challenges the State failed to address prior to the World Trade Center tragedy and the new set of crises that have erupted since the attack.

Sincerely,

A handwritten signature in black ink, appearing to read "H. Carl McCall". The signature is written in a cursive, flowing style.

H. Carl McCall  
State Comptroller

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# ***EXECUTIVE SUMMARY***

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## **Overview**

This report reviews and provides analysis of the series of budget bills, beginning with the “baseline budget” passed August 3<sup>rd</sup> and ending with the budget bill passed October 24<sup>th</sup>. The final product, while it meets the basic criteria to keep State government running, is seven months late and fails to address many pressing needs which have worsened with the events of September 11<sup>th</sup>. Even after passage of the budget action taken on October 24<sup>th</sup>, there are still major issues left unaddressed such as the Campaign for Fiscal Equity (CFE) school funding lawsuit, appropriations for the Environmental Protection Fund, the lack of a Superfund financing plan, Medicaid coverage for people with disabilities and women with breast cancer, and cost of living adjustments (COLA) for workers serving the mentally ill.

This Office recently reported on the fiscal uncertainties facing the State and local governments. The report stated that the already slowing economy, coupled with the September 11<sup>th</sup> attacks on America and continued State budgetary dysfunction have placed governments at all levels in a situation where sound fiscal leadership is not only necessary, but vital. The budget and financial plan reviewed in this report unfortunately contain some of the same gimmicks and fiscal vagaries seen in years when the State faced similar financial circumstances.

The current State Fiscal Year (SFY) 2001-02 budget contains all funds spending of \$84.3 billion, representing a 5.6 percent increase over 2000-01. General Fund spending increases by 5.7 percent or \$2.2 billion. Spending growth is above the projected 2001 inflation rate of 3.0 percent.

The Executive Budget, after 30-day amendments, estimated a 2000-01 surplus of \$1.75 billion; \$1.5 billion was allocated to a “fiscal responsibility reserve fund” which essentially provides unrestricted reserves for future use and \$250 million to the Debt Reduction Reserve Fund (DRRF). SFY 2000-01 closed with an additional \$1.3 billion in resources that were moved into the current fiscal year, making the actual 2000-01 surplus closer to \$3.0 billion, the majority of which is available for this fiscal year. The most recent financial plan indicates the Governor expects to use \$1.5 billion in unrestricted reserves to maintain budget balance and help mitigate his projected revenue loss of \$1.63 billion due to the World Trade Center attack and slowing economy.

## **Structural Balance**

The current financial plan projects a significantly higher General Fund gap than the initial \$2.5 billion in SFY 2002-03 and \$2.9 billion in 2003-04 as provided in the Executive’s proposed budget. Because of the attacks of September 11<sup>th</sup>, the Division of Budget now projects that the SFY 2002-03 General Fund gap could increase by between \$2 to \$6 billion. These out-year gaps are estimates and actual gaps can differ

substantially. At this time, it is unclear how much or when federal reimbursements will become available for the attacks of September 11<sup>th</sup>. Such additional funding is not considered in the current financial plan and will undoubtedly affect future budget decisions.

The Governor, in order to address estimated revenue losses of up to \$9 billion by the end of the next fiscal year and an apparent lack of support for his \$54 billion federal aid proposal, announced that he would implement \$3 billion in budget reductions covering the remainder of the current fiscal year and next fiscal year. However, only a very vague four-point plan was released including a hiring freeze, retirement buy-outs, restructured debt, and the elimination of “unnecessary spending”. His plan does not provide further details. The current financial plan does not reflect any savings that may be realized from such actions.

State officials have also approved a gambling package that will authorize the construction of six new casinos to be located in the Catskill and Buffalo/Niagara Falls areas. The package also authorizes the State to enter into multi-state lottery games and install video lottery terminals at eight horseracing facilities. While some initial revenue estimates project additional annual resources of \$1 billion or more for the State, they are yet unproven and likely too high when other states’ experiences with gambling are considered. Nonetheless, the current financial plan does not include any additional revenues from new gambling initiatives for SFY 2001-02.

## **School Finance**

State aid to schools will increase for the 2001-02 school year by \$680 million, or 5 percent, bringing total aid to nearly \$14.4 billion. This exceeds the Executive Budget by \$300 million, but is still nearly \$800 million below what last year’s formulas and planned expansions would have provided. The largest portion of the increase is for building aid (\$330 million), but a modified version of the Executive’s “assumed amortization” building aid cut will go into effect next year. This increase will largely be financed by delaying aid payments to school districts.

The budget package was put together in a piecemeal fashion that has failed to provide either an equitable or adequate distribution of school aid. No effort was made to address the Campaign for Fiscal Equity (CFE) case, and the budget actually drives greater aid increases to wealthier districts than to needy school districts. For example, New York City received a 3.6 percent increase in computerized aid categories, the lowest among the major groups of districts, whereas low-need (predominantly wealthy) school districts received an average increase of 6.1 percent.

## **Higher Education**

The end result of this year’s multi-stage budget was an acceleration in the continuing and serious erosion in State support for higher education. The October 24<sup>th</sup> budget bills did not add funding for higher education, and the Executive’s damaging cuts

to opportunity programs at public and independent institutions were allowed to stand. Over the past ten years State operating support for higher education has increased by just 8.5 percent, placing New York 49<sup>th</sup> among the states, while nationally higher education spending rose 52 percent. During the same period the consumer price index rose 34 percent, leaving New York State with a net decline of 26 percent after inflation.

While State-operated institutions did not impose a general tuition increase, half of the SUNY community colleges are increasing tuition. Counties sponsoring community colleges are also increasing local property taxes by \$11 million to cover rising costs not supported by State aid.

Enrollment at the State's public universities is increasing at most campuses because of a nationwide surge in the college-age population, but the numbers and proportion of full-time faculty continue to drop, which is considered to be a problem for academic quality. For example, at City University of New York (CUNY) senior colleges full-time faculty taught 62 percent of courses in 1990. This had dropped to only 51 percent by 1999. In total, State University of New York (SUNY) institutions have lost 1,470 full time faculty positions since 1994-95.

## **Tax Actions**

The Executive Budget proposed tax reductions totaling \$25 million in the first year and \$528 million when fully implemented. Expansion of certain Empire Zones and the creation of co-STAR, which would reduce county property taxes for seniors and farmers, accounted for over half of the proposed tax cuts.

Aside from the authorization of eight additional Empire Zones, the Executive's tax package was rejected by the Legislature. The eight additional Empire Zones are created to provide temporary tax relief to eligible businesses.

## **Health**

The Governor proposed Medicaid savings of \$300 million. Approximately \$138 million of this savings was attributable to harmful cuts in Medicaid reimbursements to nursing homes. The Executive Budget also recommended \$41 million in cost-containments in Elderly Pharmaceutical Insurance Coverage (EPIC). The Legislature rejected both the Medicaid provider cuts and the EPIC cost containment.

More than 3 million New Yorkers lack health insurance and half are eligible for existing no cost or low-cost State programs but are not enrolled. Unfortunately, the State missed an opportunity to improve the State's health insurance programs by streamlining and simplifying enrollment and recertification. Instead, a straight extender of the Child Health Insurance Program (CHIP) through March 31, 2002 was enacted. In addition, despite lead-time of almost two years, the State's new Family Health Plus program was and continues to be delayed in some areas because of the Governor's inability to complete the necessary groundwork and contract negotiations.

## **Social Services and Non-Profits**

This year's budget process had a major impact on non-profit providers. Reappropriations authorizing expenditures from previously allocated funds were excluded from the baseline budget and were not reinstated until September. The federal Temporary Assistance to Needy Families (TANF) block grant appropriations were delayed until October 24<sup>th</sup>. As a result, the uncertainty surrounding additional budget action left many not-for-profit groups scrambling to make budget cuts in order to survive without deficits or program eliminations. Although federal TANF funding was restored, the baseline budget excluded other non-profit funding. Amid a slowing economy compounded by the World Trade Center disaster, these organizations will face additional pressure to help needy New Yorkers without adequate funding. The \$100 million added in the October 24<sup>th</sup> budget bills will provide some assistance but fails to fill the hole created in the baseline budget (\$300 to \$500 million).

## **Local Governments**

Local governments are under extreme pressure this year. They are facing fiscal difficulties stemming from both the lateness of the State's budget and its inadequacy in many areas. Cuts in aid for highway programs, coupled with no growth in revenue sharing and the new aid stream intended to offset the Health Care Reform Act (HCRA) have left many areas in fiscal stress. New York City is particularly disadvantaged by the elimination of the State to local funding stream for the Stock Transfer Incentive Fund.

The falloff in revenues stemming from economic declines that accelerated after September 11<sup>th</sup> is putting additional pressure on local budgets, and there are also increased expenditures for heightened security. The largest example of the revenue impact is the erosion of the sales tax base, and local governments outside of New York City could experience reductions in revenues of up to \$300 million. In addition, given recent market performance, pension bills for local governments could also be higher than anticipated.

## **Debt and Capital**

The January capital plan proposed increasing debt outstanding by \$2.5 billion over five years, from \$38.5 billion in SFY 2001-02 to \$41.0 billion in SFY 2005-06. Debt service would grow to \$4.5 billion by the end of the plan, an increase of approximately \$400 million from SFY 2001-02. According to section 23 (3) of the State Finance Law, the Executive is required to submit an updated Capital Plan as soon as practicable after the Legislature has completed action on the budget bills submitted by the Governor. It is expected that a new Capital Plan will be released in November.

New York continues to have the highest level of debt outstanding in the country. As a percentage of personal income, New York's debt burden is the fourth highest in the nation.

## ***OVERVIEW OF THE CURRENT BUDGET***

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This year's budget actions consist of a package of bills enacted between August 3<sup>rd</sup> and October 24<sup>th</sup>. The "baseline budget" was based on the Executive's proposal excluding most new initiatives, all reappropriations and some cost containment. Reappropriations were restored on September 13<sup>th</sup>. The September 11<sup>th</sup> attack on the United States prompted the Executive to reduce revenue estimates by \$1.6 billion. The latest budget bills passed on October 24<sup>th</sup> provided an additional \$100 million in spending for non-profits and municipalities and \$68 million for economic development. An additional appropriation was made in education, but actual spending was rolled over to future fiscal years. Approximately \$1.5 billion in federal TANF surplus funds were appropriated. This section provides a summary description of the current State budget, focusing on the financial plan.

### **Executive Proposed Budget – January 16, 2001**

- The Executive proposal increased all funds spending 5.3 percent over SFY 2000-01 to \$83.7 billion; State funds increased by 4.9 percent or \$2.7 billion; General Funds increased by \$1.4 billion or 3.6 percent.
- The Executive estimated General Fund receipts of \$42.5 billion – a 5.8 percent increase.
- The Executive proposed \$300 million in Medicaid cost containment initiatives, \$41 million in EPIC savings, and an increase of \$612 million for education on a State Fiscal Year basis.

### **Baseline Budget – August 3, 2001**

- The baseline budget used the Executive budget as the foundation and eliminated most new initiatives, all reappropriations, and some cost containment.
- School aid payments are largely based on the amounts shown in the Executive's computer runs, although the formula changes were rejected. Building aid was increased to present law levels driving \$182 million in aid payments.
- The Legislature rejected Medicaid provider cuts, reduced HCRA General Fund support, and EPIC cost containment.
- The baseline budget removed reappropriations worth approximately \$55 billion. Of this, approximately \$39 billion was from federal funds and \$15 billion was for

capital projects. Note, however, that over the last two fiscal years, actual spending on federal reappropriations has ranged from \$13.4 billion to \$14.8 billion. Actual spending on capital reappropriations is also typically much lower than the actual reappropriation.

- The Legislature passed 37 additional single line appropriation bills covering such items as education and children and family services totaling \$2.7 billion.

### **Reappropriations – September 13, 2001**

- The Legislature enacts all of the Governor’s proposed reappropriations.

### **Baseline Budget with Reappropriations**

- The baseline budget, including reinstated reappropriations, included all funds spending of \$84.050 billion, almost \$4.3 billion over 2000-01 levels. This level was approximately \$350 million more than proposed by the Executive. On a General Fund basis, the Executive estimated spending of \$41.993 billion, approximately \$630 million higher than the Executive budget, and about \$2.3 billion higher than SFY 2000-01 levels.

### **October 24, 2001 Budget Bills**

- Total spending increases to \$84.3 billion, an increase of \$700 million or one percent over the initial Executive proposal. It is a \$4.5 billion, or 5.6 percent increase over 2000-01 all funds spending.
- On a General Fund basis, spending stays at essentially the same level as under the baseline budget. Medicaid spending is projected to grow by 6.9 percent in 2001-02. School aid spending on a fiscal year basis grows 8.5 percent.
- New gambling was authorized, including: six casinos, decriminalizing slot machines for Indian casinos, authorization of multi-state lottery games (i.e., Powerball), and video-lottery machines at some racetracks. However, these gambling initiatives are not expected to produce any revenue for the current fiscal year.
- Fiscal gimmicks include \$113 million in delayed school building aid payments. When this is combined with the baseline budget rollout of school aid, the total rollout approaches nearly \$300 million. In addition, \$114 million in one-time revenues associated with retroactively changing the tax law is included to avoid the payment of tax refunds resulting from an adverse court decision (Tennessee Gas Pipeline).

- There is no net change in support for education in SFY 2001-02 from the baseline budget. Several aid programs that support big cities and teachers were restored in the budget, including teacher support aid, bilingual education, teacher centers and the mentor-intern program. However, all of these were eliminated or cut in the Executive/baseline budget and so the restorations are not new money.
- Only \$100 million of the \$200 million in added funding is available for non-profits and municipalities in SFY 2001-02. The remaining \$100 million is supposed to be available next fiscal year. Spending will be pursuant to a Memorandum of Understanding (MOU) among the leaders. The eligibility criteria are: provision of critical direct human services or emergency relief services or receipt of funding in FY2000-01 and without continued funding layoffs or curtailment of services would occur.
- Federal TANF funds of \$1.5 billion were appropriated and included certain welfare and child welfare services that would have otherwise been paid for by the General Fund, thus providing General Fund savings of approximately \$188 million.
- Of the \$100 million in spending for economic development over the next two fiscal years, approximately \$68 million is available in SFY 2001-02.
- Overall tax collections show signs of decline. The Executive estimates revenue losses of \$1.6 billion attributable to the World Trade Center attack and the slowing economy.
- The Executive believes that the use of \$1.5 billion in unrestricted reserves will be necessary to mitigate some of the revenue loss. After using these reserves, the 2001-02 closing fund balance would be \$1.215 billion including \$281 in unrestricted reserves. The remaining \$934 million includes \$627 million in the Tax Stabilization Reserve (Rainy Day) Fund, \$151 in the Contingency Reserve Fund, \$142 million in the Community Projects Fund, and \$14 million in the Universal Pre-kindergarten Fund. The State ended SFY 2000-01 with a surplus of approximately \$3.0 billion.

The fiscal health of the State has benefited from the fact that receipts have consistently out-performed expectations and spending has been less than projected. Strength in the financial markets has driven much of the State's economic success. As current reports of declining tax growth illustrate, growth will not continue indefinitely. In recent years, revenues were strong and year-end surpluses became common. However, in the current year it may be necessary to use much of these reserves simply to keep financial order. Next year will undoubtedly prove more difficult as revenues are projected to decline even further and the State will not have substantial reserves available. At this time, more than ever before, the State needs to consider practical financial management.

## Size of the Current SFY 2001-02 Budget

According to the financial plan released November 14, 2001 by the Division of Budget (DOB), All Funds spending in the current State budget totals \$84.3 billion, an increase of \$4.5 billion, or 5.6 percent, and General Fund increases by 5.8 percent, or \$2.3 billion, to \$42.0 billion.

### Spending by Fund Type As presented in the SFY 2001-02 Executive Budget (Billions)

Comparison Basis	SFY 2000-01 Actual	Executive Budget	Baseline Budget	October 25 Budget
All Funds	\$79.753	\$83.680	\$84.050	\$84.274
State Funds	\$54.187	\$57.394	\$57.957	\$57.937
General Fund	\$39.702	\$41.343	\$41.993	\$41.973

Overall General Fund spending increases by \$630 million over the Executive Budget and \$2.2 billion over SFY 2000-01. Of the \$630 million, the largest spending increases are in Medicaid, education, and grants to non-profits and municipalities.

General Fund receipts are projected to increase by \$2.2 billion, or 5.5 percent, over 2000-01. However, receipts are affected by accounting mechanisms designed to move surplus funds between fiscal years and by STAR transfers. Absent these transactions that are unrelated to SFY 2001-02 receipt growth, tax revenues decrease by 4.5 percent and total receipts decrease by 3.0 percent. Much of the decrease in revenues is attributable to \$1.8 billion in tax cuts enacted in previous years.

## 2000-01 Surplus

The 2000-01 fiscal year ended with a surplus of approximately \$3.0 billion. Due to the events of September 11<sup>th</sup>, \$1.5 billion of this surplus will be used within the current fiscal year to bolster declining receipts and other economic uncertainties. It is worth noting that the current financial plan does not consider savings that might be realized through the Governor's budget reduction plan, possible revenues attributed to increased gambling (although it is doubtful that any revenue will be realized within the current fiscal year), and additional funds received from the federal government related to the attacks. The Division of Budget projects a \$281 million balance in the unrestricted Fiscal Responsibility Reserve Fund. The remaining \$934 million in the closing General Fund balance is made up of statutorily restricted reserves, although only the Tax Stabilization Reserve Fund (\$627 million) is restricted to specific issues such as economic downturn. The remaining reserves (\$307 million) are more discretionary and accessible.

## ***STRUCTURAL BALANCE***

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### **Future Budget Gaps**

The Governor is required to include in the Executive Budget submission a financial plan projection for the two years following the budget to allow an evaluation of the State's financial condition and to measure the impact of the Executive Budget. There is no similar requirement for the current budget.

The Executive's proposed budget initially projected a General Fund gap of \$2.5 billion in SFY 2002-03 and \$2.9 billion in SFY 2003-04. However, due primarily to the events of September 11<sup>th</sup>, the Executive has increased projected gap levels by \$2-\$6 billion for SFY 2002-03. The Executive will release updated gap projections with his SFY 2002-03 budget proposal.

Aside from slowing revenues associated with the World Trade Center attack and the economic downturn, there were a number of other actions that affect gaps in the outyears. They include:

- Proposed tax cuts of \$25 million for SFY 2001-02 and \$183 million for SFY 2002-03 were not enacted and will therefore increase receipt estimates.
- Receipts will also be affected by any additional federal funding that becomes available over the next two fiscal years. At this point, it is unclear how much this will be and when it can actually be counted.
- The Governor announced a budget reduction package of \$3 billion over the next 18 months, none of which has been counted in the current fiscal year.
- The State also enacted broad legislation expanding gambling capabilities within the State that could generate some revenue within two years.
- Spending of \$132 million for non-profits and economic development is committed for next fiscal year.
- School aid funding of approximately \$380 million pushed into SFY 2002-03. The current budget provides an additional \$300 million that must be considered in future years. There is no net increase within SFY 2001-02.
- Newly enacted revenue bonding structure may create debt service savings in outyears.
- Rejected fee increases.

- Cost containment of \$137 million in Medicaid and \$41 million in EPIC was rejected and would likely increase spending in the out years.

## Reserves

The September 21<sup>st</sup> financial plan did not incorporate the impact of the World Trade Center attack and at that time estimated \$2.7 billion in reserves. When the World Trade Center attack and legislative actions on October 24<sup>th</sup> are incorporated, the Executive estimates that approximately \$1.5 billion will be needed to balance the SFY 2001-02 budget plan. The Governor anticipates using these reserves to cover an estimated \$1.6 billion in revenue losses attributable to the World Trade Center and the slowing economy. After the use of \$1.5 billion, \$1.2 billion remains as follows:

### Reserves Fiscal Year Ending 2002 (Millions)

Source	Amount	Fund Type
Tax Stabilization Reserve Fund	\$627	General Fund
Contingency Reserve Fund	\$151	General Fund
Community Projects Fund	\$142	General Fund
Universal Pre-Kindergarten Fund	\$14	General Fund
Fiscal Responsibility Reserve (00-01 surplus)	\$281	General Fund
<b>TOTAL</b>	<b>\$1,215</b>	

While many of the reserves detailed above are earmarked for certain purposes, it is possible to use these monies for other purposes. The only clear reserve for economic hardship is the Tax Stabilization Reserve Fund funded at \$627 million, or only 1.5 percent of General Fund receipts. While the Governor has put forward a proposal to increase this fund from 2 to 5 percent of General Fund spending per year, it is still a small amount of funds to have set aside as the only true rainy day reserve. Even if the threshold were increased to 5 percent, or \$2 billion, the fund would have been nearly drained within this fiscal year. At this point, the role of the unrestricted fiscal responsibility reserve should be considered and whether those funds should be statutorily required to be deposited in a true rainy day reserve. Clearly, in light of recent circumstances and economic changes, a larger amount of true reserves need to be set-aside in statute to ensure that the State is adequately prepared for an economic downturn. Note that other states, in particular Minnesota and Michigan, are authorized to hold much larger amounts within statutorily restricted funds. In contrast, The Governor's fiscal responsibility reserve fund does not restrict lawmakers in any fashion and can be used for any purpose.

The reserves have been created for a variety of purposes, including:

- The Tax Stabilization Reserve Fund, which is restricted to unplanned budget deficits.
- The Contingency Reserve Fund, which was created to provide reserves that the State could use for litigation-related costs.
- The Community Projects Fund and the Universal Pre-Kindergarten Fund, which were created to fund future years spending for current legislative programs.
- The Fiscal Responsibility Reserve, which may be used in future years in the event of a significant economic downturn, but its use is not restricted.

Reserves outside the General fund consist of federal dollars and are made up of the following:

- Since 1996, approximately \$835 million in available TANF funding has not been allocated and is reserved for future use.<sup>1</sup> Pursuant to federal law, the State is limited as to what programs these funds may support.<sup>2</sup> However, the contingency fund for future welfare needs does provide a cushion for increased spending resulting from higher caseloads in the event of an economic downturn. The set-aside for childcare provides additional funding over the next two years for increased childcare needs related to stricter work participation requirements. Although the State is not actually in receipt of these funds, the federal government accounts reflect unused balances.

The federal TANF statute is up for renewal in September 2002. States that have not spent their allocations will be in danger of losing these funds. The concept of a block grant is a good one from the standpoint of long-term management. It is fiscally prudent to set aside a portion of funds to prepare for times of economic downturn that would require higher spending levels. States that took this approach should not be punished for being fiscally responsible.

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<sup>1</sup> This amount includes the Executive's proposed \$128 million in unallocated funds. If this amount remains unallocated, it will be credited to the NY works compliance fund.

<sup>2</sup> While federal funds can provide State and local budget relief, it is limited by maintenance of effort provisions.

## *EDUCATION*

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### **School Finance**

By the Executive's estimates, the current budget for the 2001-02 school year provides a \$680 million, or 5 percent school year increase, bringing total State school aid to nearly \$14.4 billion. This amount exceeds the Executive Budget recommendation by \$300 million, but is still nearly \$800 million below what last year's formulas and planned expansions would have provided. For example, major expansions in funding for pre-kindergarten and class-size reduction did not occur, and funding was frozen for BOCES services and educating students with disabilities.

By far the largest portion of the aid increase is for building aid, which is projected to rise by \$330 million for the 2001-02 school year (an additional \$113 million is deferred until the following year). A modified version of the Executive's "assumed amortization" building aid cut will go into effect next year (discussed further below).

Most categories of general school aid will be equivalent to the amounts identified for school districts in the Executive's "flex-aid" proposal, but the formula changes were not enacted, and so it is a one-year allocation only. Because aid payments are fixed based on the computer run produced for the Executive Budget, many inequities result. For example, some school districts may be aided on school bus purchases that were planned as of November 2000 but not carried out, while others will not be aided for new bus purchases, or will be aided based on out-of-date estimates. In the case of BOCES aid and excess cost aid for students with disabilities, the Governor's proposal froze aid amounts, and so there will be similar inequities for these aid categories. School districts having new high-cost students with disabilities to educate will be particularly disadvantaged.

The budget bills passed on October 24<sup>th</sup> also includes restorations for various cuts proposed in the Executive Budget and continued in the baseline budget, including teacher support aid (\$52.5 million), small cities aid (\$12.5 million) and bilingual education funding (\$11.2 million). However, the general aid restorations that as many as half of the State's school districts were waiting for did not occur.

This year's budget package was put together in a piecemeal fashion that has failed to provide either an equitable or adequate distribution of aid. Not only did the budget completely fail to recognize the initial ruling in the Campaign for Fiscal Equity (CFE) case, it actually drives greater increases to wealthier districts than to needy school districts (see analysis following).

Furthermore, since districts were told that the baseline budget bills passed in August was only a "down payment" many districts were counting on more State aid than they eventually received in the October budget. These districts are now faced with cutting programs and staff in the middle of the school year. According to a recent survey

conducted by the New York State School Boards Association, half of school districts statewide are in this situation. That survey also found that, in order to meet shortfalls, 31 percent of school districts were forced to borrow and incur additional costs and 70 percent tapped reserve funds that they will be required to replenish.

In addition to the school aid restorations, the budget bills passed on October 24<sup>th</sup> provided \$50 million in funding for new member items in SFY 2001-02, with an equal amount available in the following State fiscal year, for a total of \$100 million. These funds are described as “fiscal stabilization grants” for school districts, public libraries and not-for-profit educational organizations, but there is no information on or about how the money will be allocated. The Youth at Risk/Community Partnership program was also restored (\$5.4 million). Two teacher programs eliminated in the Executive Budget, Teacher Centers and Teacher Mentor-Intern programs, were restored, but they were funded through the abandonment of the planned expansion of the Teachers of Tomorrow program.

Education funding in the budget bills passed on October 24<sup>th</sup> was negotiated to produce a zero increase in the State’s fiscal year costs. In order to accomplish this result – \$300 million added to the Executive Budget’s school year total without any additional costs in SFY 2001-02 – a variety of gimmicks had to be employed, including delaying aid payments to school districts and reducing the money available for expansion of pre-kindergarten programs.<sup>3</sup>

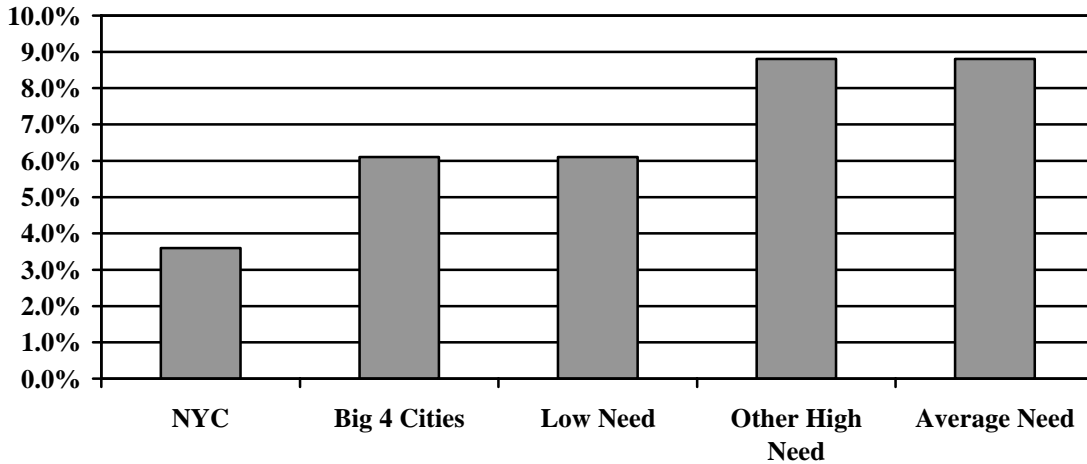
Although school aid figures are often presented in a confusing manner, this year set a high water mark in dissimulation. Initial press reports described a \$200 million increase in the budget bills passed on October 24<sup>th</sup>, but that figure was misleading both because of what it left out (the building aid restoration enacted with the baseline budget) and because of what it included (\$100 million for Legislative initiatives, of which only \$50 million could be spent in SFY 2001-2002). Moreover, the \$200 million “increase” only restored cuts, and it did not reflect the loss of \$113 million in building aid deferred or other reprogrammed funds.

As of this date, the negotiating parties have not agreed on a single figure to represent the Statewide aid increase, and the State Education Department has yet to release a computer run detailing school district aid totals. The continuing lack of information on school aid generated less criticism than it might have, if only because of the extreme lateness of the budget, and the fact that school districts already had to levy school taxes with even less information.

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<sup>3</sup> Much of this confusion began with the baseline budget, which was unclear on these points. In addition to the altered statutory payment date for a portion of building aid included in the October 24<sup>th</sup> budget bills (\$113 million), the current budget did not include funding for a portion of building aid payments which on August 31 the State Education Department estimated to be \$182 million; without a deficiency appropriation, these funds will have to be paid to school districts later than usual, after the close of the 2001-02 State fiscal year. The baseline budget was also unclear on what would happen to some \$23 million in universal pre-k funds not claimed by school districts.

### Average Percentage Aid Increase SY 2000-01 to SY 2001-02



### An Inequitable Aid Distribution

The current budget does not provide an equitable distribution of aid. The major aid categories (excluding building aid) are distributed on the same basis as proposed by Executive. As described in the Comptroller’s Review of the Executive Budget, under the “flex aid” allocation, virtually all school districts received a 2 to 3 percent increase, regardless of wealth or need. The restoration and subsequent manipulation of building aid has added additional inequities, as has the reliance on frozen aid estimates from November 2000.

As shown in the chart above, the average percentage increases under computerized aid categories<sup>4</sup> were in many ways almost antithetical to an equitable distribution. For example, New York City received a 3.6 percent increase, the lowest among the major groups of districts, whereas low-need (predominantly wealthy) school districts received an average increase of 6.1 percent. Although the other big cities received a computerized increase equivalent to the low-need districts, their needs are known to be much greater. Other high-need districts, including small cities, suburbs and rural districts received an average percentage increase equal to that received by average need districts.

The inequitable distribution of aid is unfortunate, especially since it was a distribution determined essentially by accident, and by the Legislature’s reliance on the baseline budget as a stopgap approach which eventually became the final allocation for

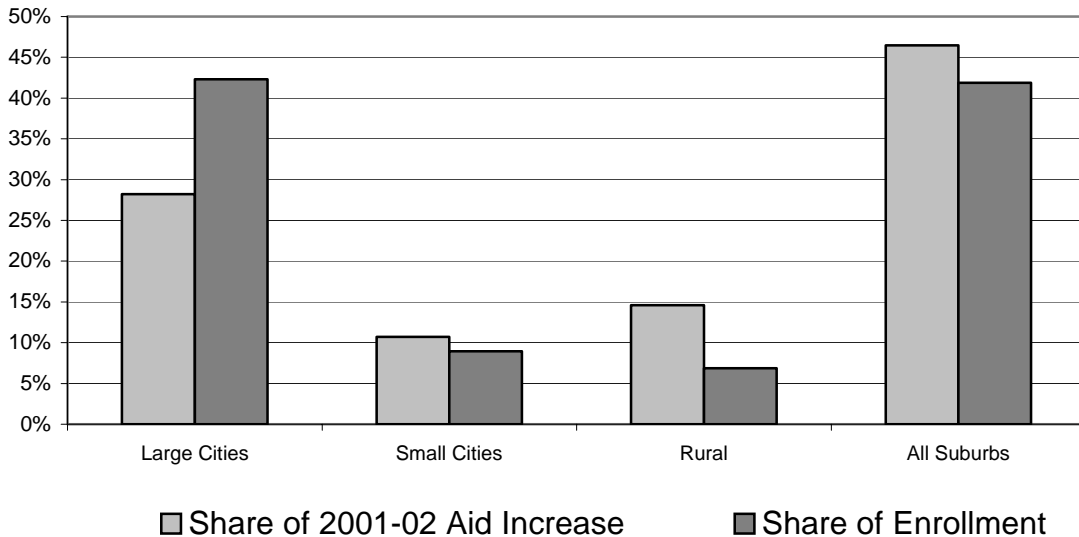
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<sup>4</sup> The statistics on the aid distribution utilized in this report are based on an OSC analysis using estimates for computerized aid categories prepared by the State Education Department (but not released on district computer runs). The OSC estimates included updated totals for the 2000-01 school year (August 2001) as well as the totals on the Executive Budget computer run, now referenced in law as the basis for payments in 2001-02. Revised estimates for building aid were also added to this total, but these estimates include the \$113 million which will be deferred until the 2002-03 school year (these funds have not been identified by school district). Teacher support aid and revised estimates for growth aid were also included. The need categories are based on SED groupings using wealth and student need statistics.

most major aid categories. This year’s budget situation is even more unfortunate when viewed in the context of a recent court ruling finding the State’s school finance system to be constitutionally flawed. In the Campaign for Fiscal Equity (CFE) lawsuit, the New York State Supreme Court ordered the State to reform its school aid system because it does not effectively guarantee children in New York City or elsewhere the opportunity for a sound basic education. Although the case was largely based on conditions in New York City, it applies to all school districts, particularly the hundreds of high need districts in cities, suburbs and rural areas throughout the State.

The Supreme Court ruling called upon the State to develop a new finance system that supports the costs of providing a good education for all students, as well as to ensure that funds are efficiently and effectively utilized. At the direction of the Governor, the State is now appealing that ruling. The Comptroller has called upon the Governor to drop the appeal and to instead work actively to produce the reforms ordered by the Supreme Court. Since the initial court ruling called upon the elected leaders of the State to produce a reformed finance system, prompt action could avoid having the Courts impose a solution directly.

### Share of Aid vs. Share of Enrollment



Big city districts — New York City, Buffalo, Rochester, Syracuse and Yonkers — are especially hurt by the inequitable funding, and are facing shortfalls totaling \$219 million (see description in the local governments section). Only 28 percent of the aid increase goes to the large city districts, which together represent 42 percent of students and the majority of disadvantaged students. This distributional pattern primarily results from the prominence of the building aid increase, under which school districts outside the big cities did much better, as they were able to spend more on new building projects, thereby qualifying for reimbursement.

## Building Aid

The largest increase in aid this year is in building aid — \$330 million, or nearly half of the overall increase. As a result of great facilities needs and the enactment of new incentives, building aid has almost tripled in recent years and will total more than \$1.5 billion in the 2001-02 school year. Owing to this trend, much of the budget negotiations revolved around the Executive’s proposal that aid be based on an “assumed amortization schedule” rather than actual debt service payments. This approach spreads out aid payments over many years, forcing school districts to refinance their debt. It reduces State costs in the short run but raises interest costs over the long run, increasing both local and State costs. Because of concerns about the impact of this proposal on school districts, the Legislature refused to accept the Executive’s cut in the baseline budget and then in the budget bills passed on October 24<sup>th</sup> enacted a slightly scaled back and delayed version, which will not affect school aid until next year. In addition, the State will “roll-out” \$113 million in building aid payments into the 2002-03 school year; this is the estimated aid for all refinancing, which would now be treated as new debt service currently is, with special reimbursement rules and later payments. The building aid changes enacted were so complex that their impact is still very unclear. One school district organization noted that “even Albany staffers are unable to interpret how the administration of the new amortization schedules is going to be managed.”<sup>5</sup>

Under the assumed amortization approach building aid would be reduced for any project that districts financed over a time period shorter than the maximum allowable under State law (e.g., 30 years for new construction, or 20 years for major renovations or additions). For all projects currently financed for shorter periods, school districts would have to refinance to align their debt service with the new, slower reimbursements, or bear the expense themselves by raising property taxes. Although the budget purports to allow school districts to only refinance the State aided portion of their building projects, it is unlikely that any school districts will do so, since building projects are financed as a whole, not as separate State and local portions. The practical impact of the assumed amortization approach will be to force school districts statewide to always use the maximum term for building projects and to refinance any current debt issued for less than the maximum term, thus stretching payments into the future and paying greater interest costs over the long term. The virtual requirement to use the maximum finance period will further disadvantage city school districts facing debt limits because they will not be able to retire their debt as quickly and will consequently be able to afford less capital spending in the future.

As noted in the discussion above, the overall impact of the relative prominence of building aid in this year’s aid increase had much to do with the large cities receiving a relatively small share of the aid increase. Although the original building aid formula paid aid in inverse proportion to wealth (i.e., poorer districts got more aid), there are now so many exceptions and complicated calculations in the formula that its impact is far from equalizing. Building aid is also a reimbursement formula, and in many cases cities have

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<sup>5</sup> Nassau-Suffolk School Boards Association, *Newsline* (Volume No. 49 – October 2001).

not been able to take advantage of this aid because they have not been able to increase capital spending as much as other districts that are better off, or have less debt to begin with. In addition, cities and small city school districts have debt ceilings which limit their capital spending while other school districts do not. While many well-off suburban districts are facing enormous enrollment growth and need space, schools in the State's large cities — often attended by disadvantaged children — are older, have more overcrowding, and are in most need of repair and modernization. It is well known that the most urgent needs for adequate school facilities are increasingly evident in the big cities. The State Board of Regents has acknowledged this problem and is attempting to develop new formula mechanisms to deal with it.

## **Higher Education**

The end result of this year's multistage budget was that, while no major changes for higher education were enacted, the net result of minor inflationary increases offset by a series of cuts was an acceleration in the continuing and serious erosion in State support for higher education. The budget bills passed on October 24<sup>th</sup> did not add funding for higher education, and the Executive's damaging cuts to opportunity programs at public and independent institutions were allowed to stand.

While there was no general tuition increase at the State-operated institutions, half of the SUNY community colleges are increasing tuition. Counties sponsoring community colleges are also increasing local property taxes by \$11 million to cover rising costs not supported by State aid.

Over the past ten years State operating support for higher education has increased by just 8.5 percent, placing New York 49<sup>th</sup> among the states, while nationally spending rose 52 percent. During the same period the consumer price index rose 34.4 percent, and thus there has been a net decline of 26 percent in New York State's effort after inflation.

Enrollment at the State's public universities is increasing at most campuses because of a nationwide surge in the college-age population, but the numbers and proportion of full-time faculty continue to drop, which is considered to be a problem for academic quality. For example, at CUNY senior colleges full-time faculty taught 62 percent of courses in 1990, but that had dropped by 1999 to only 51 percent (the CUNY trustees believe that full-time faculty should teach 70 percent of courses). SUNY State-operated institutions have lost 1,470 full time faculty positions since 1994-95.

## **Opportunity Programs**

The Higher Education Opportunity Program (HEOP) that applies to independent colleges is also cut by \$5.6 million. This re-imposes a 25 percent cut made in SFY 1995-96 that was restored only recently. Opportunity programs at the public university systems (EOP, SEEK and College Discovery) faced similar cuts. The STEP/CSTEP science and technology opportunity programs were also cut by \$2.5 million, 25 percent. By providing

tutoring, counseling and other forms of support all of these programs help provide educationally and economically disadvantaged students with access to a higher education. These programs are now funded from 17 to 25 percent below their level in 1994-95, and including the loss due to inflation these programs have experienced a real decline in State support close to 40 percent.

## **SUNY, CUNY**

At the time the Executive Budget was released, public universities were receiving small positive overall increases. Both systems increased funding for salary increases, inflation, and allocations for university priorities. However, these increases were offset by reductions in rents and other items, including elimination of last year's legislative adds providing funding for opportunity programs (EOP, SEEK/CD), child care, community college contract courses, and the SUNY Academic Achievement Scholarship program. The legislative adds for full-time faculty were also eliminated.

In the baseline budget, the Legislature also removed funding for each system's priorities totaling \$19.2 million at SUNY and \$13 million at CUNY. As a result, both universities are even worse off. For example, CUNY senior colleges are now experiencing a net decline in State support of \$4.9 million. There is also a danger that new reductions for the public universities will be sought administratively, as part of the Executive's plan to cut 2001-02 State expenditures by \$3 billion.

## **Community Colleges**

The Executive Budget did not provide a requested increase in per-student aid for the community colleges at both SUNY and CUNY. Although there was much legislative discussion of the issue, neither the baseline budget nor the budget bills passed on October 24<sup>th</sup> provided additional funding and per-student aid remains at \$2,250 for the 2001-02 academic year.

According to the most recent estimates from SUNY system administration, the State's share of operating costs for SUNY community colleges will be 31.1 percent for the 2001-02 academic year – two and one-half percent below what it was seven years ago. This share is below the one-third originally provided for in law, and last attained in the 1994-95 academic year. It is even further below the 40 percent share promised in the 1970's when community colleges were asked to serve as full opportunity institutions by opening admissions to all students with a high school diploma or GED. Overall, students in SUNY community colleges pay 34.6 percent of operating costs, and local sponsors 34.2 percent (these are primarily county governments). The local sponsor contributions for 2001-02 are expected to increase by nearly \$11 million, an increase of 4.7 percent overall, and it may be assumed that most of these funds will come from increased property taxes.

Tuition increases for January 2002 have been locally approved at 15 of the 30 SUNY community colleges (these increases must be ratified by the SUNY Board of Trustees which will act on them in November). The average tuition increase at those colleges will be \$83 over last year, or 3.6 percent. With these increases, the average tuition at SUNY community colleges will be \$2,452 per year. Based on the most recent comparable figures from the National Center for Education Statistics (NCES), New York community college tuition is the fifth highest in the nation and nearly twice the national average.<sup>6</sup> There are no tuition increases planned for CUNY community colleges in 2001-02.

The SUNY Board of Trustees recently approved a strategic plan for New York's community colleges. The plan offers an assortment of administrative strategies, speaks of bolstering the community college role in economic and workforce development initiatives, and generally calls for adequate and stable State funding. Unfortunately, it offers no fiscal support to be used in accomplishing the program enhancements, nor does it establish a goal or policy for State support. On the issue of governance, the plan focuses largely on defining roles and relationships; it does not address the fundamental question of whether alternative governance structures are more appropriately suited to the system of community colleges.

## **SUNY Hospitals**

This year's budget at long last began to address the shortfall at the SUNY hospitals that has been growing since SFY 1998-99 when the University ended its fiscal year in deficit. Changes included separation of the hospital finances from the operating budgets of the SUNY campuses and increased State support for the hospitals. However, the \$51 million increase in annual support provided is probably not sufficient to prevent continuing shortfalls (which have been closer to \$100 million annually).

The financial difficulties at the three hospitals operated by SUNY stem from a variety of changes in the health care industry that put financial pressure on these institutions, including the rapid growth of managed care and changes in the State and federal health care financing systems, as well as from reduced State funding for the SUNY hospitals during the 1990's.

Financial separation of the hospitals from the SUNY campuses' operating budget is a positive approach that the Comptroller has recommended. Under the new approach the hospitals will no longer have to provide \$116 million to support the campus operating budgets (a revenue target arbitrarily established by the Governor's Division of Budget). However, the hospitals will now be responsible for paying for their fringe benefits and debt service payments directly, which are expected to be \$157 million in 2001-02. Through internal transfers, the hospitals' effective payment to the State will be reduced

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<sup>6</sup> United States Department of Education, National Center for Education Statistics (NCES); average tuition and fees at community colleges in New York State are \$2554 in comparison to a national average of \$1,336; only four states are higher: Vermont, New Hampshire, Maine and South Dakota.

from \$116 million to \$65 million (their contribution to the new fringe benefits and debt service payments budget after various transfers).

The hospital shortfalls have resulted in an accumulated deficit of \$209 million at the close of the 2000-2001 academic year. The Division of the Budget envisions that this accumulated deficit will be paid back over a multiyear period (possibly as long as seven years), with the State paying off \$85 million and the hospitals paying \$124 million (which will place an additional strain on the hospital's budgets).

The Governor's proposed statutory changes to provide the hospitals with greater operating flexibility (primarily through raising contract approval thresholds and providing greater autonomy in various contracting procedures) were not accepted

It is doubtful that the Executive's changes will be enough to fully address the hospitals' problems, and operating deficits will likely continue. Although this year's budget began to address the hospitals crisis, it is clear that there is still a long way to go before a comprehensive solution is achieved.

## **Student Aid**

Enhancements for the Tuition Assistance Program (TAP) enacted last year continue to phase in, but because of reduced program expenditures attributed to a natural decline in program participation and "bracket creep" in the award schedules due to rising income, this year's TAP funding will remain at last year's level of \$636 million. This decline in participation continues a trend seen last year.

## **Bundy Aid**

Bundy aid goes to independent colleges and universities based on the number of degrees granted. Following the Executive's recommendation, Bundy aid is cut by \$3 million to \$44 million. This is only about 40 percent of the "statutory level" (based on a dollars-per-degree calculation set in statute), which has not been fully funded since 1990-91. The Governor's budget had originally recommended a larger cut, eliminating funding for any students from outside the State, but this proposal was withdrawn after negative reactions. Bundy aid goes directly to independent institutions to help keep the sector healthy and New York State benefits when these colleges bring in out-of-state students who generate economic activity and often settle in the State upon graduation.

## **High Technology/Biotechnology Initiative**

The budget bills passed October 24<sup>th</sup> include an appropriation of \$10 million for high technology, biotechnology and biomedical initiatives. The money is to be spent pursuant to a memorandum of understanding to be negotiated between the governor and

the legislative leaders. Although the funds are appropriated to the Urban Development Corporation, all or a portion of it may be sub-allocated to the NYS Office of Science, Technology and Academic Research (NYSTAR).

This appropriation follows proposals from the Governor and the Senate. The Executive Budget recommended “Centers of Excellence” to support linkages between universities and private industry in an effort to tap into the high-technology/biotechnology market. Announcements have already been made for centers at Buffalo (Bioinformatics), Rochester (Photonics and Optoelectronics), and Albany (Nanoelectronics); other centers are planned on Long Island and New York City. The Executive’s proposal was to provide \$283 million in State funds over five years, with leveraged funding from federal, university, and private funds to bring the total to \$1 billion. The Executive’s proposal was similar to and followed the State Senate’s Gen\*NY\*sis proposal. A key difference in the two plans was that the Senate’s program was placed in the New York State Office of Science, Technology and Academic Research (NYSTAR) rather than the Urban Development Corporation (which the Senate has strongly criticized as an agency with a poor track record in this field).

It remains to be seen whether the major differences among the negotiating parties can be worked out for this program.

## ***HEALTH AND SOCIAL SERVICES***

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### **Medicaid**

The Executive Budget included new proposals that would have provided savings of \$300 million in SFY 2001-02. Of this amount, approximately \$162 million was achieved by maximizing other sources of revenue to lower State costs. These actions reduce Medicaid spending or provide General Fund revenues without impacting provider Medicaid payments. The remaining \$138 million represented reductions in State Medicaid spending. The bulk of these reductions, approximately \$131 million, decreased the Medicaid rates paid to nursing homes. When the impact of the federal and local Medicaid shares are incorporated, nursing homes would have faced an estimated total reduction of \$327 million. In addition, prior year cost containment actions, extended in December 1999 until March 31, 2003, save the State more than \$800 million and local governments approximately \$300 million.

Pursuant to the Health Care Reform Act of 2000 (HCRA 2000), the proposed budget includes \$90 million in tobacco settlement receipts to offset State General Fund Medicaid spending. HCRA is slated to provide \$335 million in 2000 and \$419 million in 2001 for programs that would have otherwise been supported by the General Fund. However, due to potential shortfalls in HCRA supported programs, the Executive Budget reduced the transfers from HCRA by \$55 million in calendar year 2000 and proposed reducing transfers from HCRA by \$107 million in calendar year 2001.

The current budget rejected the Executive's proposed provider Medicaid cuts, accepted federal revenue maximizing actions, and did not reduce the scheduled HCRA offsets. Medicaid spending under the current budget increases by \$37 million from the Executive's proposed level of \$6.083 billion. This change is the net result of: \$138 million attributable to rejected provider cuts; \$3 million due to no action being taken on proposed Medicaid expansions; \$107 million from the rejection of reduced HCRA support; and \$9 million in other miscellaneous adjustments.

**Department of Health General Fund  
Medicaid Spending: Current Budget  
(Millions)**

	<b>Amount</b>	<b>Growth</b>
1999-00 Actual	\$5,783	4.0%
2000-01 Actual	\$5,722	-1.1%
2001-02 Estimated	\$6,120	6.9%

Unfortunately no action was taken to expand Medicaid eligibility for two needy populations. The Executive Budget proposed expanding Medicaid eligibility to disabled

individuals with income of up to 250 percent of the federal poverty level and \$10,000 in resources.<sup>7</sup> The Governor's proposal would have increased Medicaid costs by \$2.7 million in SFY 2001-02 and \$5.5 million in SFY 2002-03. The Executive budget also included a proposal to expand Medicaid eligibility to women with incomes below 250 percent of poverty (around \$35,000 for a family of three) who are diagnosed with breast and/or cervical cancer through the National Center for Disease Control's screening program. This expansion was estimated to cost \$500,000 in SFY 2001-02 and \$1.1 million in SFY 2002-03. These expansions were supported in both houses of the Legislature. In addition, the Assembly proposed a more extensive expansion of the Medicaid buy-in program for the disabled. However, despite this support, this year's particularly dysfunctional budget process allowed both of these proposals to languish.

In response to the World Trade Center attack and the damage done to New York City Human Resources Agency computer systems, the State implemented a disaster Medicaid program. This program dramatically simplified the application form and eligible recipients are provided four months of Medicaid coverage. This was a positive step; however, since this is a paper system there are concerns about whether disaster Medicaid enrollees will be properly notified that they must re-apply for Medicaid. Unless the Governor undertakes serious outreach efforts, thousands of New Yorkers will be surprised and without the health coverage they need beginning in January.

### **Child Health Insurance Plus (CHIP)**

CHIP was created in 1991 to help make health insurance for children more affordable. Many children were ineligible for Medicaid because their families' earnings were over the eligibility threshold, yet these same families earned too little to afford health insurance. CHIP pays for, or subsidizes, health insurance for these children.

The federal Balanced Budget Act of 1997 included a new block grant program for states to provide expanded health insurance coverage for children. New York receives approximately \$256 million annually in federal funds. This funding, combined with existing State funding enabled the State, after some debate, to dramatically expand and improve the current program.<sup>8</sup> Legislation passed in 1998 expanded the number of children eligible for the program, expanded the covered services to include vision, dental and certain mental health visits, and reduced the premium payments made by families.

These expansions were set to expire on March 31, 2001. The Governor proposed a straight extension of these provisions until June 30, 2003. The Assembly was interested in further enhancements of the 1998 expansions and improvements to the enrollment and

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<sup>7</sup> This expansion was first proposed by the Assembly, where legislation was passed that increased income eligibility for the disabled to 400 percent of the federal poverty level. However, action was not taken by the Senate or the Executive.

<sup>8</sup> Initially, the Governor proposed only a modest reduction in the required family CHIP premium contribution and an expansion in the services covered by CHIP. However, according to a report by the Office of the State Comptroller entitled *Child Health Insurance: Current Issues and Policy Options* (June 3, 1998) found the Governor's plan left an estimated \$650 million in available federal funding unspent.

re-enrollment of CHIP as well as the State's other health insurance programs. The Comptroller has called for many of the same improvements.<sup>9</sup> The Governor opposed the Assembly's initiatives and the 1998 expansions were extended until March 31, 2002.

CHIP Enrollment increased significantly – from 153,000 in November 1997 to 499,488 in October 2001. The SFY 2001-02 current budget estimates total enrollment of approximately 500,000 children at year-end. This is after the transition of a projected 105,000 children from CHIP to Medicaid.<sup>10</sup>

New York has spent more than the State's annual federal allocation due to the availability of prior year federal funding. This funding (rollover funds) was available because federal law required that federal funds not spent after three years be pooled and redistributed to all states that had spent all of their first year (FY1998) money. At the behest of the states that did not fully utilize their CHIP funding, Congress considered and eventually enacted changes to the reallocation provisions. Before the debate became serious and public, Comptroller McCall joined with then Senator-candidate Hillary Rodham Clinton to provide the first warning of a potential loss of federal funding for the Child Health Plus program. The changes that were being considered would have reduced State funding by more than \$400 million. Ultimately, Congress approved legislation, supported by Comptroller McCall, which retained much of the Federal funding that was at risk.

The current budget provides total CHIP funding of \$736 million: \$478 million in federal funding and \$258 million in State funding. The State portion of CHIP funding through June 30, 2003 comes from the Health Care Initiatives Pool contained in HCRA 2000.

### **Family Health Plus (FHP)**

In June 1999, the Assembly proposed creating a Family Health Plus program. In December 1999, the legislature enacted the Health Care Reform Act of 2000. This legislation included a new FHP program designed to provide health coverage to working adults age 19 to 65 who do not have insurance through their employers, but who earn too much to qualify for Medicaid and other public programs. It is a natural complement to the Child Health Plus program. Physician services, inpatient health care, prescription drugs, lab tests, and other related health care services are covered. However, skilled nursing facilities and home care are excluded.

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<sup>9</sup> See *The Uninsured: More than 3 Million New Yorkers at Risk*. Office of the State Comptroller. July 2001.

<sup>10</sup> A recent audit found an estimated 41 percent of CHIP enrollees appeared eligible for Medicaid. Office of the State Comptroller, Management of Child Health Plus Program, Report 97-S-10, April 1998.

Parents with income below 120 percent of the federal poverty level (approximately \$20,460 for a family of four) are eligible for FHP. Adults without dependent children are eligible for FHP if their income is below 100 percent of the federal poverty level (approximately \$11,250 for a family of two). The Family Health Plus program has the potential to provide health insurance coverage to over 600,000 New Yorkers.

The FHP program is a Medicaid managed care expansion and required a federal waiver. The Governor did not obtain the necessary federal waiver in time to start the program by January 1, 2001 as called for in State law. The waiver was finally secured on May 30, 2001. At that time, the Department of Health announced its intention to accept Family Health Plus applications beginning September 1, 2001 and health insurance coverage would begin on October 1, 2001.

However, despite having almost two years lead time, the Department of Health failed to submit nearly two-thirds of the necessary executed contracts in time to receive an expedited review by the Comptroller's Office to ensure program startup by October 1, 2001. And, the few executed contracts that were submitted would have excluded certain legal immigrants from the program. Based on a recent court case (*Aliessa v. Novello*) that found that an immigration bar to the State's Medicaid program violated both Article XVII of the State Constitution and the Equal Protection Clauses of the State and Federal Constitution, the Comptroller questioned the Department of Health's authority to exclude certain immigrant classes as delineated in the contracts. In the final hour, the Health Department responded that they would reverse the Governor's previously held position and now cover all classes of legal immigrants. The Department of Health stated that a broad standard clause allowed this change of policy without a change in contract language. Given the fact the program was already going to be late since the bulk of the required contracts had not yet been submitted to the Comptroller's Office, this explanation was accepted and the contracts before OSC at that point were approved immediately. The Comptroller was pleased that at his urging legal immigrants will now receive FHP coverage.

The Comptroller's Office also expressed concern because the Family Health Plus program does not offer free-access for family planning services. Instead, enrollees must use family planning providers that are within the managed care networks. And, in the case of plans that do not provide these services, a separate contractual arrangement between the State and other family planning providers (third-party contractors) is utilized. For women enrolled in these plans, assuming they are appropriately informed by the managed care company that while family planning services are not directly provided these services may be obtained through other providers, yet another network of participating providers must be navigated. This will likely result in women facing additional barriers to obtaining these important health services and the Governor and the Legislature should consider providing family planning services in the same manner as currently used under the Medicaid managed care program. FHP use of third party contractors has contributed to the delay in FHP implementation.

Unfortunately, the FHP program is still not operational throughout the State (e.g., in the Capital Region and the North Country) because all of the necessary final executed contracts have not been submitted to the Comptroller's Office. Enrollment in FHP in New York City has been suspended due to the World Trade Center attack. Some of the measures that have been taken in response to the World Trade Center attack, such as the shortened application for Disaster Medicaid and other actions that were taken to simplify enrollment and recertification in New York City are very positive. Many of these temporary provisions are exactly the type of modifications the Comptroller's Office has long promoted in reports and testimony. Many of these temporary provisions should be made permanent. Streamlining and simplifying the enrollment and recertification process for all the State's health insurance programs is vital and would allow the State to make progress in enrolling more than half of the 3 million uninsured in the State programs for which they are eligible.

## **Prescription Drugs**

Drug costs have been rising rapidly in recent years. The growth in spending on prescription drugs has far outpaced general health care inflation. The dramatic increases in drug costs have been commonly cited as one of the primary factors contributing to increased costs of Medicaid and private sector health insurance costs.

Drug costs have been a particular problem for the elderly since Medicare, a primary source of health insurance coverage for those over age 65, does not generally cover prescriptions that are administered outside of a hospital setting. According to a recent AARP study, seniors represent 12 percent of the population but pay approximately one-third of total drug costs. For the elderly, prescription drugs have contributed to unacceptably high out-of-pocket expenses for their medical care.

The State created the Elderly Pharmaceutical Insurance Coverage (EPIC) program in 1986 to provide assistance to non-Medicaid eligible seniors for prescription coverage. Enrollees must pay a portion of the costs of the program. Given the difficulties many seniors have had in purchasing needed prescriptions, the Legislature expanded the program in last year's enacted budget. Effective January 1, 2001 the income eligibility limit was raised from \$18,500 to \$35,000 for single individuals and from \$24,400 to \$50,000 for married couples. Annual fees and co-payments were also reduced by approximately 20 percent.

The current budget increased total EPIC funding from the Governor's recommendation by \$41 million to \$401 million. This increase is attributable to cost containment measures that were rejected by the Legislature. The Executive Budget included provisions that would bring the pharmacy reimbursement methodology and manufacturer's rebates in line with the other DOH drug dispensing programs, such as Medicaid. His proposal would have required Private insurers that cover EPIC enrollees to match enrollee files to ensure that EPIC is the payer of last resort

EPIC funding increases by approximately \$148 million from SFY 2000-01. The significant increase in spending is primarily attributable to the program expansion, increased enrollment, increasing drug costs and utilization. Program enrollment is approximately 230,000, a significant increase from approximately 114,000 in January 2000. Enrollment has surpassed the Executive's original projection of 215,600 when fully implemented.

Lastly, the Governor proposed creating an independent Pharmacy and Therapeutics Committee to consider measures to promote the appropriate and cost-effective provision of pharmaceuticals. This Committee would have been charged with making recommendations to the Commissioner of Health regarding drug formulary and utilization policies and on options to achieve price discounts on drugs. This proposal was not approved by the Legislature; however, the Governor is considering implementing it administratively.

Many states have been much more aggressive at finding ways, such as using their purchasing clout, to reduce prices. New York is behind the curve and it is unfortunate that the issue is only now receiving attention by the Executive. However, since some of the newer more expensive drugs reduce costs in other areas of health care – costs should not be examined in a vacuum. If formulary changes are considered they should incorporate the positive benefits that certain drugs might yield – such as reduced emergency room visits or the prevention of second heart attacks. The focus of an effective policy should be to reduce the cost of drugs without jeopardizing the quality of care.

## **Public Assistance**

Federal funding for public assistance is provided to New York through an annual block grant of \$2.4 billion, which is based on 1995 public assistance caseloads in New York. Since that time, caseloads have declined significantly and New York now receives a greater share of total program costs from the federal government. The additional amount of federal funding compared to the old program is often called the “TANF surplus”. These monies are spent on a range of support services, including child care, job training, employment subsidies, and transportation, which are designed to assist families in attaining self-sufficiency. The TANF surplus was \$624 million in SFY 1997-98 – the first year the State TANF was in place. In SFY 2001-02, this amount is projected at \$1.5 billion.

In order for the State to draw down the full amount of the federal block grant, spending must adhere to the required maintenance of effort (MOE) level of \$1.7 billion. The MOE is split equally between the State and local governments. Both the State and local governments are not expected to reach the required MOE in fiscal year 2001-02 and must therefore increase State and local spending to comply with the federal requirement.

This year's budget process had a major impact on non-profit providers. Reappropriations authorizing expenditures from previously allocated funds were excluded from the baseline budget and were not reinstated until September. The federal TANF block grant appropriations for non-cash assistance programs were delayed until October 24, 2001. As a result, the uncertainty of funding from additional budget action left many not-for-profit groups scrambling to make budget cuts in order to survive without deficits or closures. Although federal TANF funding was restored, the baseline budget excluded other non-profit funding. Amid a slowing economy compounded by the World Trade Center disaster, these organizations will face additional pressure to help needy New Yorkers without adequate funding. The \$100 million added in the October 24th budget bills will provide some assistance but clearly fails to fill the hole created in the baseline budget. For example, HIV/AIDS programs were cut by \$8 million in the Governor's budget. It is unclear how much funding would be available to restore this funding from the non-profit fund included in the budget bills passed on October 24<sup>th</sup>.

## **TANF Surplus**

The SFY 2001-02 current State budget uses \$876 million of the TANF surplus to fund support programs that otherwise might have been paid for by the General Fund of the State and local governments. This represents an increase of \$173 million from the prior year. The largest components include a Social Services Block Grant (Title XX) transfer and the Earned Income Tax Credit (EITC). Title XX is a block grant that New York can use to fund various social services programs, including adoption, day care, housing, and transportation. The benefit of the Title XX transfer is shared equally between the State and local governments.

The EITC provides a personal income tax credit for income-eligible families. In 1999-00, the State began to claim a portion of the Earned Income Tax Credit against the MOE. Spending for this credit totaled \$168 million in SFY 2000-01 and is projected to grow to an estimated \$323 million in SFY 2001-02. Over the past two years, the EITC has been increased from 20 percent to 25 percent of the federal credit. By the time the expansion of the EITC is fully implemented, it should be fully funded with resources made available from federal funding.

## Allocation of Available Federal TANF Surplus Monies

(Millions)

Program	Executive	Current	Difference
Child Welfare (Title XX, local JD/PINS, NYC foster care tuition)	\$474	\$469	(\$5)
Tax Credit for Low Income Working Families	\$384	\$384	(\$0)
EITC	\$323	\$323	(\$0)
Child and dependent care credit	\$61	\$61	(\$0)
Child Care	\$304	\$304	(\$0)
Employment/Transitional Initiatives	\$100	\$94	(\$6)
Services/Education/Health	\$86	\$85	(\$1)
Systems	\$20	\$0	(\$20)
Child Support Disregard	\$8	\$0	(\$8)
Recruitment/retention programs and services	\$0	\$49	\$49
Reserves/unallocated*	\$128	\$119	(\$9)
<b>TOTAL</b>	<b>\$1,504</b>	<b>\$1,504</b>	<b>\$0</b>

Source: Division of Budget

\* \$119 million was unallocated. If this amount remains unallocated, it will be credited to the NY works compliance fund.

Highlights of legislative changes include:

- \$20 million reduced funding for updates to the welfare computer system, CONNECTIONS, which is intended to track children and families who receive services. Numerous audits by the Office of the State Comptroller identified project cost overruns and mismanagement. As a result, the Assembly has argued that further funding is not justified until the Department can demonstrate improvements to the system.
- \$49 million increased funding for recruitment and employment opportunities, with particular emphasis on individuals with incomes below 200 percent of the federal poverty level. Of this amount, \$20 million will be provided for job training and support services for hospital, nursing home, and home care workers. Additional funds provide basic educational skills and training.

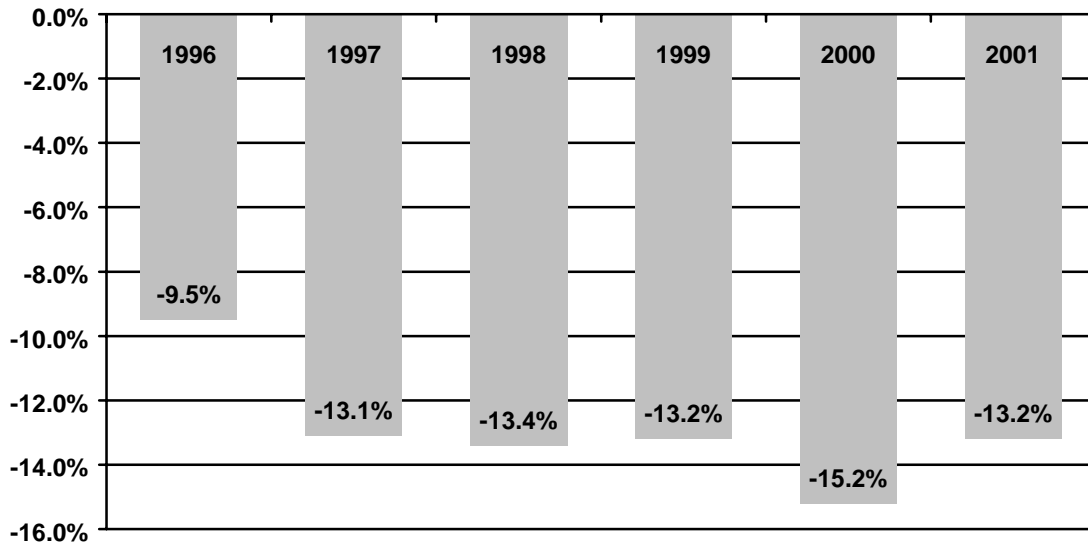
The federal TANF statute is up for renewal in on September 30, 2002. States that have not spent their allocations will be in danger of losing these funds. The concept of a block grant is a good one from the standpoint of long-term management. It is fiscally prudent to set aside a portion of funds to prepare for times of economic downturn that would require higher spending levels. States that took this approach should not be punished for being fiscally responsible. Congress should not reduce the annual block grants or reprogram states' unallocated balances.

## Caseloads

Compared to the same period last year, the monthly average number of public assistance recipients has declined 13.2 percent for the first seven months of this year. This compares to declines of 15.0 percent and 13.4 percent respectively for 1999 and 2000. For the first seven months of 2001, the number of family assistance recipients has declined 14.0 percent and the number of safety net recipients has declined 8.6 percent.

Beginning in 1997, the federal government began imposing a 60 months (or five years) lifetime limit on benefits for public assistance recipients. Once the limit is reached, family assistance benefits cease. Benefits provided after that point must come from State and local resources (i.e., federal funds cannot be used to pay for benefits). The Executive estimates that approximately 39,000 recipients, who have met the 60-month limit, will transition from family assistance to safety net programs.<sup>11</sup> Overall, the Executive projects public assistance caseload will decline by 37,000 to 741,000 (31,000 family assistance cases and 6,000 safety net cases).

### Public Assistance Recipients Year Over Year Percentage Change\*



\* Calculated using monthly averages for the year. 2001 data is calculated using only the first 7 months of the year.

On a cash basis, due to the projected decline in caseloads, General Fund spending for public assistance is expected to decrease 20 percent, or \$263 million, to \$1.050

<sup>11</sup> In the short-term, the additional State and local expenditures would be effectively offset by a reduction in State and local funding for TANF using the available surplus funds, as long as they maintain a level of spending on social services programs set by the State. The Office of the State Deputy Comptroller for New York City estimates that up to 42,000 families in New York City will reach the 60-month time limit.

billion. Although caseloads continue to decline, the State must meet the required MOE and therefore the reduction in spending is not proportional to the projected decline in recipients.

## **Child Care**

The SFY 2001-02 current State budget increases total funding for the Child Care Block Grant by \$36 million to \$840 million. The block grant was created in SFY 1997-98 and combines the public assistance, transitional, at-risk, and State low-income day care into one seamless funding system. The funding breaks down as follows: \$301 million from federal funds, \$96 million from State funds, \$68 million from local funds, and \$375 million from federal TANF surplus monies. The year-to-year increase in the block grant is due in part to the use of federal TANF surplus funds, including the use of \$71 million from the TANF child care reserve. These funds support a total of 174,000 child care slots, as proposed by the Governor. There is unmet need for child care and both houses of the Legislature had proposed an expansion of child care slots.

## ***REVENUE ACTIONS***

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### **Overview**

Aside from the creation of eight additional Empire Zones, costing \$20 million when fully implemented, the current budget provides no new tax cuts. Newly enacted gambling initiatives are not expected to net additional revenues during the current fiscal year, although the multi-state lottery is expected to raise \$125 million in SFY 2002-03. As previous Comptroller reports have shown, additional lottery revenues do not necessarily increase education aid. The budget also includes language relating to the Tennessee Gas Pipeline court case that eliminates a negative impact of \$114 million on receipts that was included in previous financial plans. The Legislature rejected the bulk of the new fees proposed by the Governor that required statutory changes. New fees or fee increases proposed by the Governor that could be done administratively are assumed implemented. The current financial plan does not take into consideration any additional revenues that may be realized from the federal government.

### **Non-Recurring Actions (One-Shots)**

The Executive Budget includes \$270 million in one-time actions. Approximately \$97 million is attributable to retroactive federal fund claims for child welfare (\$57 million), special education (\$25 million), and prison health costs (\$15 million). Additional funds are generated from the elimination of the negative impact of the Tennessee Gas Pipeline court case (\$114) and the administrative change in license terms from five to eight years (\$10 million). Additional funds are also generated from the Dormitory Authority of the State of New York (\$28 million). Remaining actions in the amount of \$21 million are largely comprised of fund sweeps and transfers to the General Fund, including \$19 million in nursing home assessments.

### **Fees**

The Executive proposed approximately \$35 million in additional fee increases that were rejected by the Legislature in the current budget. Of the proposed fees, three were administratively enacted (eight year driver license renewal, camping fees and camping and off-season vehicle use) and two were passed under separate legislation (UCC Filing fees and DMV mandatory surcharges). A total of \$39 million in fees were enacted for the current fiscal year.

**Summary of State Funds Revenue Actions**  
(millions)

Description	Proposed	Current
Revenue Increases	\$33.9	\$9.6
Surcharge on Hazardous waste generators	\$18.1	\$0.0
Eight-year commercial license renewals*	\$9.6	\$9.6
Gas leasing fees	\$5.3	\$0.0
New regional license plates	\$0.5	\$0.0
Videoconferencing equipment lease*	\$0.2	\$0.0
Change tax on moist snuff tobacco from price to weight-based	\$0.2	\$0.0
Revenue Preservation	\$25.0	\$139.0
Tennessee Gas Pipeline Court Case	\$0.0	\$114.0
Mandatory surcharges on vehicle and traffic violations	\$25.0	\$25.0
Fee Increases	\$18.5	\$3.1
Hunting and fishing licenses	\$5.3	\$0.0
Uniform Commercial Code fee changes	\$3.1	\$3.1
Licensing fees for certain occupations regulated by the Department of State	\$2.6	\$0.0
Pesticide fees	\$2.4	\$0.0
Bulk petroleum storage fees	\$1.3	\$0.0
Snowmobile registration fees	\$1.0	\$0.0
Fees for camping and off-season vehicle use*	\$1.0	\$1.0
Camping fees*	\$0.8	\$0.8
Boat registration fees	\$0.7	\$0.0
Boat and docking fees on Lake George	\$0.3	\$0.0
Fee Reduction		
Professional licensing renewal fees regulated by the Department of Education	(\$5.0)	\$0.0
<b>TOTAL</b>	<b>\$72.4</b>	<b>\$153.5</b>

\* Denotes administratively imposed measures.  
Source: Division of the Budget

## *Local Governments*

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This section of the report primarily discusses municipal and county governments; school districts are covered in the education section. However, the section discussing the big five cities includes the fiscal impact stemming from shortfalls in their dependent school districts.

Local governments are under extreme pressure this year, facing fiscal difficulties stemming from both the lateness of the State's budget and its inadequacy in many areas. Cuts in aid for highway programs, no growth in revenue sharing or the new aid stream intended to offset HCRA have left many areas in fiscal stress. New York City is particularly disadvantaged by the elimination of the Stock Transfer Incentive Fund.

The falloff in revenues stemming from economic declines that accelerated after September 11<sup>th</sup> is also putting extreme pressure on local budgets, and there are also increased expenditures for heightened security. The largest example of the revenue impact is the erosion of the sales tax base, and local governments outside of New York City could experience reductions in revenues of up to \$300 million. In addition, given recent market performance, pension bills for local governments could also be higher than anticipated (up to \$100 million for New York City and \$322 million for local governments).<sup>12</sup>

The Executive's proposal for reform of the Wicks law was rejected, as was a proposal to allow counties to increase their E-911 surcharge. The proposed "Co-STAR" program for county property taxpayers (similar to the STAR program for schools) was also rejected.

### **Local Aid**

General Purpose Local Government Assistance, also referred to as revenue sharing, remains virtually unchanged at \$562 million. Three cities – Buffalo, Jamestown and Albany – will receive some of their aid payments early. This acceleration of several months will benefit the three cities by improving their cash flow situation but will not provide any additional aid (they will simply receive less later). Other unrestricted aids, such as emergency and supplemental aids, remain at the same level as last year. However, the Stock Transfer Incentive Fund that has provided New York City with \$114 million in unrestricted aid since 1977 is eliminated, costing the City \$228 million in the current fiscal year (CFY 2002) and \$114 million annually thereafter. The City received this aid to offset losses from the elimination of the Stock Transfer Tax and it has become an integral part of the City's budget.

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<sup>12</sup> For a full discussion of these issues, see *After the World Trade Center Attack: Fiscal Uncertainties Facing the State and Local Governments*, Office of the State Comptroller (October, 2001).

The remainder of the two year, \$22 million aid program designed to offset the costs to counties for last year's HCRA (Family Health Plus) legislation is continued (\$17 million for SFY 2001-02). No increase in this aid is provided, however, while county costs are expected to increase significantly.

The "FIT Chargeback" aids counties outside New York City for the local share charged to them for their students who attend Fashion Institute of Technology (FIT). FIT is a specialized community college in the State University system, and a "chargeback" is the method used to charge counties (other than those that directly sponsor the community college) for their students who attend. Executive Budgets have long recommended ending this special aid, but each year the funding has been restored in the legislative budget. This year the funding was not restored and as a result county governments will have to pay the usual chargeback without receiving special aid (it is a cut to the county governments, not FIT). This will primarily affect counties in the New York City metropolitan area, and the overall loss will be \$6.2 million.

The Consolidated Highway Improvement Program (CHIPS) provides aid for highways and bridges. In SFY 2000-01 CHIPS aid provided \$277 million to counties, cities, towns, and villages. The program has two components: operations and maintenance funding, and capital aid (\$59 million and \$218 million respectively). The operations and maintenance funding is paid out of the State's general fund revenues whereas the capital program is funded through bonds backed by dedicated highway fund revenues. The baseline budget included the Executive's cut of \$34.9 million in CHIPS operations and maintenance funding, eliminating all of this aid to New York City and county governments. Since no additional aid was provided in the budget bills passed on October 24<sup>th</sup>, New York City will lose \$13.5 million and county governments \$21.4 million.

## **Big Five Cities**

This year's budget has exacerbated the serious fiscal problems being faced in the largest cities. These cities, along with their dependent school systems, received \$336 million less in State aid than they anticipated, forcing them to make draconian choices among things such as reducing fire protection, cutting vital educational services and laying off hundreds of employees.

This section focuses on the State's "Big Five" cities partly because the problems are most severe there, but also because there has been a lot of analysis and data presented publicly on the budget gaps in those cities, whereas it would not be possible within the scope of this report to analyze the budget situation in each of several thousand municipalities and school districts. However, it must be noted that hundreds of other school districts, cities, counties, towns and villages are facing fiscal stress and budget gaps brought on by this year's State budget, which was deficient in many ways and also extremely late (providing insufficient time for governments to react). For example, as noted above, three cities are receiving accelerated aid payments as a stopgap measure to

allow additional time for them to work on their budget problems. Schools are facing particular problems as the new educational standards are phased in, along with new mandated services to help students meet the standards (see the preceding discussion on schools).

The budget bills passed on October 24<sup>th</sup> did slightly mitigate the shortfalls being faced by the Big Five cities as it restored several aid school aid categories important to those cities that were cut in the Executive Budget. However, these restorations fall far short of meeting the great needs in these cities' school systems. There was, moreover, no fiscal relief provided to the non-school portions of the cities.

#### *New York City*

The City had been planning on an increase of \$76 million in State aid in its budget, which it did not get. In addition, the State eliminated the stock transfer incentive fund and funding for a number of other programs was also reduced. Combined with the City's preliminary estimate of a \$1 billion shortfall in revenues from the World Trade Center tragedy and higher costs from a recent settlement with the coalition of unions representing uniformed employees, the City projects a budget gap of \$1.6 billion for the current fiscal year and the Mayor has ordered agencies to cut spending to achieve total savings of \$1 billion. In the City's Board of Education side of the budget, an increase of only \$82 million in unrestricted aid is being received, \$171 million less than anticipated, and when combined with an estimated \$120 million shortfall in City funding, a \$291 million budget gap remains. Schools have been ordered to cut spending by \$150 million. Some of this may be mitigated by using surplus funds, but other cuts include after-school programs, district office personnel, professional development and support staff. The Board also implemented a series of management improvements, such as cutting central administrative costs, which are expected to yield another \$100 million in savings, and a freeze in planned program expansions, such as Project English and Project Science, for savings of \$40 million.

After the attack on the World Trade Center, the Mayor ordered agencies to reserve a portion of their annual budgets to offset a potential revenue loss of \$1 billion. The Board of Education expects to meet its reduction target of 2.5 percent of the City-funded portion of its budget, the equivalent of \$115 million, without further reductions in educational programs. In addition, the Board of Education estimates that it would cost \$182 million to provide counseling services to students affected by the disaster, \$108 million to extend the school day to make up for lost instructional time, and another \$41 million to repair damaged buildings, to purchase replacement textbooks and supplies, and to relocate students from affected buildings. The Board of Education is working with the federal government to obtain resources to meet these needs.

#### *Buffalo*

The City of Buffalo is receiving \$31 million less in State Aid than anticipated in their budget. The city has begun to address this shortfall by laying off 75 employees, freezing all spending, authorizing the rotating shutdown of up to two fire companies each day. The City is also reviewing a plan to lay off an additional 225 employees, increase water rates

and garbage fees by 20 percent and close all city recreation programs. In addition, there would be no raises for any employees in the current fiscal year. All of these actions would save the City approximately \$23.5 million, still leaving the City with a \$7.3 million shortfall. Under the baseline budget, the City School District was to receive \$22.5 million less in State aid than they anticipated. The District has announced 557 layoffs, including 433 teachers. The closure of several schools is also being considered.

#### *Rochester*

The City of Rochester is receiving \$4.2 million less in State Aid than the approximately \$52 million they budgeted for in CFY 2001-2002. This has resulted in a budget gap of approximately \$4.2 million in the City budget. The majority of this gap will be addressed through an adjustment to the amount owed the employee retirement fund (\$3.9 million). Rochester's school district is expecting to receive approximately \$19.6 million less in State Aid than was anticipated in their budget. The District is planning on cutting building repairs, professional development programs, temporary employee positions, and purchases of technology. New initiatives such as all-day kindergarten may be cut the next school year and the district's teacher mentoring program could also be affected.

#### *Syracuse*

The baseline budget left the City with a \$5.2 million State aid shortfall for 2001-2002. The City developed a contingency budget plan comprised of anticipated expenditure savings in several areas, deferment of certain projects and equipment purchases, and a transfer of funds from the general fund balance (\$1.7 million) and water fund (\$295,000). The State's budget left the school district with a \$6.1 million State aid shortfall for 2001-2002. Based on the budget adopted by the legislature, the shortfall now stands at \$5.4 million (the district learned they would receive an additional \$630,000 for teacher support aid). The district is in the process of developing a contingency budget plan to address this problem.

#### *Yonkers*

The City and School District budgets were just recently passed using current State aid estimates. As a result, they did not overestimate the amount of State aid to be received to fund operations. However, approximately \$57 million had to be cut from the School District budget before it was adopted due to a \$60 million State aid shortfall. Actions so far planned include cutting jobs for teachers, school safety staff, custodians, administrators, as well as elimination of athletic programs, raises, and overtime. Reduced spending on materials, supplies and contractual agreements has also been included in the plan.

## ***DEBT AND CAPITAL***

According to State Finance Law, the Executive is required to submit a capital and financing plan with the Executive budget submission and an update by July 30 or 90 after the enactment of the State budget. The Division of Budget expects to release an update sometime in the month of November.

The capital plan submitted with the SFY 2001-02 Executive Budget increases the amount of capital paid for in cash with State dollars compared to the prior capital plan. This is due in part to the use of \$250 million in Debt Reduction Reserve Fund (DRRF) resources to pay cash for transportation projects.

The current plan, as amended in the 30 day amendments, proposes to increase debt outstanding by \$2.5 billion over five years, from \$38.5 billion in 2001-02, to \$41.0 billion in 2005-06. Debt service will grow to \$4.5 billion by the end of the plan, an increase of approximately \$400 million from 2001-02.

### **Capital and Debt – Current 5-year Capital Plan (SFY)**

(millions)

	<b>2000-01</b>	<b>2001-02</b>	<b>2002-03</b>	<b>2003-04</b>	<b>2004-05</b>	<b>2005-06</b>
Debt						
Outstanding	\$37.1	\$38.5	\$39.4	\$40.1	\$40.6	\$41.0
Debt						
Service	\$4.2	\$4.1	\$4.3	\$4.3	\$4.4	\$4.5
Capital						
Spending	\$4,338	\$4,965	\$4,813	\$5,045	\$4,710	\$4,671

### **Debt Outstanding and Debt Service**

The current five-year capital plan projects an increase in the amount of State-supported debt outstanding. The plan increases debt outstanding by \$2.5 billion over a five-year period, from \$38.5 billion in SFY 2001-02 to \$41.0 billion in SFY 2005-06. The capital plan released following enactment of the SFY 2000-01 budget assumed greater growth in debt – an increase of \$5.0 billion from \$38.0 billion in SFY 2000-01 to \$43.0 billion in SFY 2004-05.

## Revenue Bonds

The Legislature, as part of the budget package, enacted the Revenue Bond Tax Fund, made up of the withholding portion of PIT receipts. The plan was initially proposed by the Executive as part of the SFY 2001-02 Budget. The plan devotes up to 25 percent of withholding tax receipts to a maximum of \$6 billion in order to provide backing to purchasers. Although PIT receipts are pledged, the fund will only hold required debt service, with remaining receipts transferred back to the General Fund.

The legislation goes on to establish Revenue Bond Financing Program, backed by funds in Revenue Bond Tax Fund. The result is a borrowing system that the Executive expects will provide lower cost financing through the use of dedicated revenues.

The Executive estimates that his proposal could produce debt-service savings of up to \$20 million per year. The structure of the proposal raises questions as to whether it will achieve the stated goals of improving creditworthiness and producing \$20 million in financial plan savings for SFY 2001-02. Results will depend largely on the reaction of the bond market and rating agencies to the new structure. There is the question of whether these bonds will be regarded like other appropriation-backed credits since an appropriation is required, or like revenue bonds since there is a dedicated revenue source. There may be no increased credit rating at all since some rating agencies such as Standard and Poor's, for example, currently rate straight appropriation credits the same as those with a dedicated source like Local Government Assistance Corporation (LGAC) bonds, upon which the new revenue-bond structure is modeled. The more relevant factor may be how the bonds trade in the market, as investors will distinguish between similarly rated bonds based on demand for diversity in debt portfolios and other factors.

## Debt Condition

New Yorkers face one of the highest debt burdens in the country. In the past ten years, debt service on State-supported debt has increased from 3.7 percent of All Governmental Funds Receipts to an estimated 5.0 percent in SFY 2001-02.

### Growth in Debt Service Compared to Receipts (dollar amounts in millions)

<b>Fiscal Year</b>	<b>All Governmental Funds Receipts</b>	<b>Required Total State-Supported Debt Service</b>	<b>Required Debt Service as a Percent of Revenue</b>
1991-92	\$ 51,706	\$ 1,922	3.7%
1992-93	\$ 54,601	\$ 2,198	4.0%
1993-94	\$ 57,971	\$ 2,266	3.9%
1994-95	\$ 61,106	\$ 2,490	4.1%
1995-96	\$ 62,969	\$ 2,749	4.4%
1996-97	\$ 62,886	\$ 2,827	4.5%
1997-98	\$ 66,246	\$ 3,195	4.8%
1998-99	\$ 70,819	\$ 3,387	4.8%
1999-00	\$ 73,502	\$ 3,672	5.0%
2000-01	\$81,123	\$3,772*	4.6%
2001-02 (est.)	\$82,437	\$4,121	5.0%

\* Note: Does not include \$422 million in Debt Reduction Reserve Funds (DRRF) used to defease high-cost debt.

Source: Annual Information Statement, NYS Division of Budget, October 2001.

New York's State-supported debt burden has increased from \$1,198 per person in SFY 1991-92 to an estimated \$2,026 per person in SFY 2001-02. This debt represents 5.6 percent of New York's personal income.

**Growth in State Supported Debt  
As a Percent of Personal Income and Per Capita (in millions)**

Fiscal Year	State-Supported Debt	Per Capita	As a Percent of Personal Income
1991-92	\$ 21,562	\$ 1,198	5.0%
1992-93	\$ 23,971	\$ 1,324	5.3%
1993-94	\$ 26,696	\$ 1,475	5.8%
1994-95	\$ 28,169	\$ 1,548	5.9%
1995-96	\$ 31,009	\$ 1,713	6.2%
1996-97	\$ 33,130	\$ 1,830	6.2%
1997-98	\$ 34,247	\$ 1,892	6.2%
1998-99	\$ 35,842	\$ 1,969	6.1%
1999-00	\$ 36,797	\$ 2,022	6.0%
2000-01	\$ 36,958	\$ 1,945	5.6%
2001-02 (est.)	\$ 38,492	\$ 2,026	5.6%

Source: Annual Information Statement, NYS Division of Budget, October 2001.

For years New York has had one of the lowest credit ratings in the nation. Recently, Standard and Poor's upgraded the State's credit. However, Moody's continues to rate New York's credit as the lowest in the nation, along with Louisiana.

**Standard and Poor's Ratings of State General Obligation Bonds  
(As of March 31, 2001)**

AAA	AA+	AA	AA-	A+	A	A-
Delaware	Florida	Alabama	Massachusetts	Hawaii	Louisiana	
Georgia	Indiana	Arkansas	Montana			
Maryland	Kansas	California	North Dakota			
Michigan	Maine	Connecticut	Rhode Island			
Minnesota	New Hampshire	Illinois	West Virginia			
Missouri	New Jersey	Kentucky				
North Carolina	New Mexico	Mississippi				
South Carolina	Ohio	Nevada				
Utah	Tennessee	<b>New York</b>				
Virginia	Vermont	Oklahoma				
	Washington	Oregon				
		Pennsylvania				
		Texas				
		Wisconsin				
		Wyoming				

Source: Standard and Poor's Corporation.

**Moody's Ratings of State General Obligation Bonds (As of March 31, 2001)**

<b>Aaa</b>	<b>Aa1</b>	<b>Aa2</b>	<b>Aa3</b>	<b>A1</b>	<b>A2</b>	<b>A3</b>
Delaware	Indiana	Alaska	Alabama		Louisiana	
Georgia	New Jersey	Arkansas	Hawaii		<b>New York</b>	
Maryland	New Mexico	California	Mississippi			
Michigan	Ohio	Connecticut	Montana			
			North			
Minnesota	Tennessee	Florida	Dakota			
Missouri	Texas	Illinois	Oklahoma			
North			Rhode			
Carolina	Vermont	Kentucky	Island			
South			West			
Carolina	Washington	Maine	Virginia			
Utah		Massachusetts				
Virginia		Nevada				
		New Hampshire				
		Oregon				
		Pennsylvania				
		Wisconsin				

Source: Moody's Investors Services

**New York Compared to Other States**

According to a Moody's Investors Service report, *2001 State Debt Medians*, New York ranks among the top four of all states in two measures of tax-supported debt burden:

- New York is fourth highest in tax-supported debt per capita, with Connecticut, Hawaii, and Massachusetts the three states with heavier debt loads per person. New York's per capita debt of \$2,026 is nearly two and a half times the national average of \$820.
- Per capita figures do not account for differences in ability to pay for debt among the states. A more precise measure relates debt to the total income of a state's residents. New York ranks fourth in tax-supported debt as a percentage of personal income, with the same three states mentioned above having higher

burdens. New York's debt burden highest debt burden of 6.2 percent of personal income was over two times the average level of all states.<sup>13</sup>

It should be noted that even in light of the 2000 debt reform and the 2001 revenue bond enactment that New York still lacks meaningful debt reform. In fact, according to the latest data, New York still ranks 4<sup>th</sup> in the country in tax-supported debt as a percentage of personal income and per capita. Currently, each New Yorker hold over \$2,000 of State tax supported debt. This does not include local debt paid through local taxes.

Even in light of six straight surpluses, the State increased its debt-load by over 18 percent. Debt has more than doubled since 1990. Clearly the residents of this State deserve better and meaningful debt reform. This office has repeatedly introduced legislation to address the issue of rapidly escalating debt while considering the growing needs of the State. In light of the recent economic downturn, we can and should act responsibly now to save in the future.

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<sup>13</sup> Moody' Investors Service, *2001 State Debt Medians*, April 2001.

**This report was prepared by the State Comptroller's  
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