

Governor Paterson Delivers \$5.2 Billion, Two-Year Deficit Reduction Plan

Savings of \$2 Billion in Current Year, \$3.2 Billion Next Year Are Spread Across All Areas of State Spending

Plan Represents Series of Tough Choices Necessary to Address Record Four-Year \$47 billion Budget Deficit

Governor David A. Paterson today announced a comprehensive, two-year \$5.2 billion deficit reduction plan that will entirely eliminate the State's \$1.5 billion current-year shortfall, protect against further declines in revenue in a volatile economic climate, and make a substantial down payment on next year's deficit.

Governor Paterson's proposed reductions are spread across virtually every area of State spending, including education, health care, human services, the State workforce, and others. These actions would produce \$2 billion of savings in 2008-09 and \$3.2 billion in 2009-10.

"The deficit reduction plan I have put forward today represents a series of difficult choices across virtually every area of State spending," said Governor Paterson. "The only way we are going to overcome this unprecedented crisis is through shared sacrifice. I look forward to engaging in a productive dialogue with the Legislature about the actions we must take at next week's special session to address our State's record budget deficits."

Governor Paterson's plan would close the State's \$1.5 billion current-year shortfall, while also providing a \$548 million cushion against additional declines in revenue during 2008-09. These proposed actions would also reduce the State's 2009-10 deficit from \$12.5 billion to \$8.8 billion and four-year budget deficit by from \$47.0 billion to \$35.9 billion.

After implementing Governor Paterson's deficit reduction plan, 2008-09 All Funds spending would still total \$119.2 billion, an increase of \$3.1 billion or 2.7 percent over the previous year. State Operating Funds spending would total \$77.0 billion, an increase of \$1.9 billion or 2.5 percent. Inflation is currently projected to be 4.2 percent for 2008-09.

Governor Paterson continued: "The unfortunate reality is that many worthy programs with laudable goals, some of which I have supported in the past, will have to experience reductions in funding. These are not decisions that I have made lightly. With the State facing the largest deficits in its history, we have no other option but to make these tough but necessary choices. In times like this, government needs to put the public interest ahead of special interests - this budget plan tackles this financial crisis head-on and addresses the State's collective needs for fiscal responsibility."

Governor Paterson's plan includes the following major components. A full listing of all proposed actions is also attached.

School Aid (Fiscal Year 2008-09 Savings: \$585 million, Fiscal Year 2009-10 Savings: \$844 million).

The deficit reduction plan would decrease the rate of growth in School Aid in the 2008-09 School Year by \$836 million (\$585 million in the 2008-09 State Fiscal Year). Even after these actions, 2008-09 School Year School Aid would still increase by \$1.0 billion or 5 percent compared to 2007-08 and total \$20.7 billion. Moreover, the level of School Aid spending statewide in 2008-09 would represent an increase of \$6.2 billion or 43 percent compared to 2003-04. According to the US Census Bureau, New York spent on average \$14,884 per pupil on its public schools in 2006 – the highest amount of any State and 63 percent above the national average.

Medicaid/Health Care (2008-09 Savings: \$572 million, 2009-10 Savings \$1.2 billion).

The deficit reduction plan recommends \$1.8 billion in Medicaid and other health care savings over the next two years. Major actions include reducing reimbursement rates and eliminating trend factor increases across all sectors, recouping Early Intervention overpayments from New York City, using unspent Graduate Medical Education (GME) funds for financial plan relief, and discontinuing funding for several HCRA programs. Additionally, to ensure that the insurance industry contributes its fair share of savings, assessments levied upon that industry will be increased.

Even after these actions, 2008-09 State Funds Medicaid spending is still expected to increase over the next year by \$145 million or 1 percent to \$15.3 billion. Additionally, State Funds Medicaid spending is still projected to increase by \$1.5 billion or 10 percent in 2009-10.

Other Education-related Programs (2008-09 Savings: \$36 million, 2009-10 Savings: \$16 million).

The deficit reduction plan recommends a number of other savings actions in education-related areas outside of School Aid. These include reduced funding for grants awarded by the NYS Council on the Arts by \$7 million and reduced funding for Bundy Aid to private colleges and universities by \$2 million. It would also reduce library aid by \$20 million on a one-time basis and continue to provide reimbursement to non-public schools for attendance-taking consistent with the methodology used in 2007-08 thereby saving \$7 million.

Higher Education (2008-09 Savings: \$115 million, 2009-10 Savings: \$233 million).

The deficit reduction plan recommends increasing both SUNY (from \$4,350 to \$4,950) and CUNY (from \$4,000 to \$4,600) annual undergraduate tuition by \$600. Tuition for these institutions has not been increased since 2003-04, and before that in 1995-96. Spring 2009 tuition will increase by \$300. The full annual \$600 increase would become effective in the following academic year.

The new recommended tuition rates are below 2003-04 levels after adjusting for inflation (\$5,100 for SUNY, \$4,700 for CUNY), and also below those at all public colleges in the Northeast and Mid-Atlantic regions. Moreover, even after this increase, SUNY and CUNY tuition would still be below the \$5,000 threshold for Tuition Assistance Program (TAP)

awards, ensuring that the neediest students would have their entire tuition costs covered.

In a departure from more than 30-year old practice of using 100 percent of the revenue resulting from tuition increases to offset General Fund spending on higher education, SUNY and CUNY will be allowed to retain 10 percent of the fiscal benefit from the 2008-09 spring semester increase and 20 percent of the full annual increase in 2009-10 for increased investment.

Commensurate with the 10 percent reduction in operating support for SUNY and CUNY senior colleges already enacted earlier this year, the plan also reduces per-student base aid to community colleges by an average of 10 percent, from \$2,675 to an average of \$2,405. To recognize the disproportionately adverse impact that this reduction could have on smaller community colleges if applied in an across-the-board fashion, legislation will be proposed to reduce the impact of the proposal on these colleges, as follows: colleges with fewer than 3,000 full time equivalent students will have their base aid payments reduced by \$160 per student; colleges with between 3,000 and 6,000 students will have their base aid payments reduced by \$230; and colleges with more than 6,000 students will have their base aid payments reduced by \$300. After these reductions, total State base operating aid support for community colleges will be \$580 million.

Local Governments (2008-09 Savings: \$134 million, 2009-10 Savings: \$110 million).

The deficit reduction plan includes several actions related to local governments. The proposal eliminates \$41 million in additional Aid and Incentives for Municipalities (AIM) funding for New York City that was added in the 2008-09 Enacted Budget. New York City will still receive an AIM payment of \$205 million in 2008-09.

For municipalities outside of New York City, the plan would maintain 2009-10 AIM payments at 2008-09 levels, eliminating a previously scheduled \$61 million increase. Even after these actions, AIM payments outside of NYC would still total \$755 million in 2009-10, an increase of \$290 million or 62 percent compared to 2004-05. Governor Paterson is also proposing to reduce 2009-10 VLT Impact Aid for 17 municipalities by 50 percent compared to 2008-09 levels and limit eligibility for this program to municipalities that already participate. Yonkers would not be impacted by this VLT Impact Aid proposal. Although these actions will not provide savings in the 2008-09 fiscal year, Governor Paterson believes it is important to enact these reductions now so that local governments will have an opportunity to prepare for these changes in State aid before the beginning of their 2009 fiscal years and to modify their spending accordingly to find cost efficiencies.

Workforce (2008-09 Savings: \$137 million, 2009-10 Savings: \$167 million).

Governor Paterson will partner with State employee unions to reduce personnel costs, and has proposed the following actions for collective bargaining: delaying salary payments for five-days worth of work during the current fiscal year until an employee leaves State service, and withholding the 3 percent, 2009-10 salary increase previously negotiated with several unions before the State's finances deteriorated to their current level. He has proposed the following actions that do not require collective bargaining: requiring new State employee retirees to pay for a greater portion of their health care costs; requiring State

employees and retirees to contribute to the Medicare Part B premiums; and rescinding a vacation exchange program for Management/Confidential employees.

Human Services (2008-09 Savings: \$20 million, 2009-10 Savings: \$75 million).

In the area of human services, major recommendations include partially reducing a cost-of-living adjustment for human service providers from 3.2 percent to 2.2 percent; reducing funding for the Neighborhood Preservation Program and Rural Preservation Program; delaying the phase-in of the “Bridges to Health” program; and eliminating a \$3.0 million operating subsidy for the New York State Housing Authority (NYCHA), which has a \$2.8 billion operating budget. Currently, no other local housing authority in the State besides NYCHA receives an operating subsidy.

Governor Paterson is recommending several actions that will help right-size the Office of Children and Family Services’ (OCFS) juvenile justice system. These actions include:

- **Closing Six Underutilized Youth Facilities:** The Adirondack Residential Center in Clinton County, the Cattaraugus Residential Center and Great Valley Residential Center in Cattaraugus County, the Pyramid Reception Center in the Bronx, the Rochester Community Residential Home in Monroe County, and the Syracuse Community Residential Home in Onondaga County.
- **Downsizing Two Underutilized Youth Facilities:** The Allen Residential Center in Delaware County and the Tryon Residential Center in Fulton County.
- **Closing Three Underutilized Evening Reporting Centers:** These include the Capital District Evening Reporting Center in Albany County, the Buffalo Evening Reporting Center in Erie County, and the Syracuse Evening Reporting Center in Onondaga County.

The facilities recommended for closure or downsizing have an average vacancy rate of 63 percent. Great Valley and Rochester have 100 percent vacancy rates.

Overall, these actions will result in a 255 full-time equivalent reduction in the size of the OCFS workforce. The agency will make all possible efforts to ensure that this reduction is achieved through attrition.

Other Actions (2008-09 Savings: \$424 million, 2009-10 Savings: \$514 million).

The deficit reduction plan also includes a number of other actions in the areas of environmental conservation, economic development, and financial management.

During the August 2008 special session, funding for most new executive and legislative programs was reduced across-the-board by 50 percent and 6 percent, respectively. Governor Paterson is recommending reducing new legislative programs by 50 percent of remaining spending, commensurate with the reduction enacted for new executive programs.

Governor Paterson is also proposing to expand the current 5-cent deposit on beer and soda containers to water and other non-carbonated beverages, capture all unclaimed

deposits, and use that funding to offset other financial support to the Environmental Protection Fund. Additionally, spending in the EPF would be reduced by \$50 million, which would be transferred to the General Fund. Notwithstanding these budgetary actions, the EPF is still projected to have a year-end balance of \$34 million, and there will be no impact on any current funding commitments for environmental conservation.

Governor Paterson's plan would reduce funding for several economic development initiatives, including local tourism matching grants (\$1.5 million), JOBS Now (\$1.5 million), the Focus Research Center at Albany Nanotech/RPI (\$2.6 million), Technology Transfer (\$1 million), and Faculty Development programs (\$1 million). It is also recommended that the Centers for Applied Research and Technology program be allowed to expire at the end of 2008, providing savings of \$900,000.

Other proposals include transferring excess revenues from certain State authorities and special revenue accounts into the General Fund, including the New York Power Authority (\$40 million in 2008-09, \$25 million in 2009-10) the Dormitory Authority (\$6 million in 2008-09), the Office of Temporary Disability Assistance's federal administration account for child support enforcement activities (\$100 million in 2008-09, \$5 million in 2009-10), the Battery Park City Authority (\$20 million in 2008-09, \$250 million in 2009-10), and the Empire State Development Corporation (\$60 million in 2008-09, \$8 million in 2009-10). Transferring funds from the Battery Park City Authority would be negotiated with that organization's board, the Office of the New York City Mayor and the Office of the New York City Comptroller. It is expected that any potential transaction regarding the BPCA would include a comparable financial benefit for New York City as well.

Additionally, \$50 million in eligible capital expenses for affordable housing previously anticipated to be financed on a pay-as-you-go basis will be financed through bonding.

"Thus far, in partnership with the Legislature, New York has acted swiftly and responsibly to respond to a deteriorating fiscal environment. And we must do so again at next week's special session by making hard choices, not looking for easy answers," said Governor Paterson.

Governor Paterson continued: "Raiding our \$1.2 billion in rainy day reserves sounds logical, but doing so would provide only a fraction of the funds we need, does nothing to address next year's record deficits, threatens our State's good credit rating, and leaves us with no options to meet year-end expenses if the downturn is worse than expected. Delaying action in hopes of help from Washington sounds sensible, but doing so sends a message to our nation's leaders that we aren't willing to solve our own problems. Raising taxes in special session sounds easy, but ignores the fact that overspending is at the root of our problem."

Full Detail on the Governor's Proposals can be found on the web at:
www.budget.state.ny.us.