Balancing New York State's 2005-2006 Budget in an Economically Sensible Manner

January 2005

Fiscal Policy Institute

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The Fiscal Policy Institute (FPI) wishes to thank the Ford and Charles Stewart Mott Foundations for their support of the state fiscal analysis work that makes this briefing book and the briefings at which it is being presented possible. FPI also wishes to thank the other foundations that support FPI's work and the many organizations, including labor unions, faith-based organizations, human services providers and advocates, and community and good government groups, that support FPI's work and/or utilize and disseminate the results of FPI's analysis. And a special note of appreciation to CSEA for printing this briefing book.

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- The budget gap that New York State currently faces is a direct result of the way state policymakers dealt with the $11.5 billion budget gap that was announced by Governor Pataki in early 2003. As later portions of this report explain in detail, this year's deficit is basically a planned deficit - the result of the Legislature's adoption of the multi-year strategy proposed in January 2003 by Governor Pataki for bringing the state's finances back into some semblance of balance. While the Governor may be criticized for obscuring the size of the state's growing budget deficit during 2002, the multi-year strategy that he recommended in 2003 was clearly preferable to the alternative of much deeper service cuts and/or revenue increases during the depths of an economic downturn.

- An examination of the various "causes" of this year's projected $4.152 billion budget gap, as identified and quantified by the NYS Division of the Budget, shows that the overwhelming majority of that gap -over $3.5 Billion - is the result of the loss of a series of one-time actions that were used to balance the state's last two budgets. Underlying revenue growth is once again sufficient to cover underlying expenditure growth. But revenue growth has not yet returned to levels sufficient to replace the one time revenue and expenditure actions that were used to balance the 2003-04 and 2004-05 budgets.

- This briefing will review the roots of the enormous $11.5 billion budget gap that Governor Pataki announced in January 2003, the budget choices of the last several years and their impact on this year's budget outlook, the Governor's strategies for balancing the 2005-06 budget, and some alternative approaches to some of the major policy issues facing the state from including the funding of public education in the wake of the Court of Appeals' decision in the Campaign for Fiscal Equity lawsuit, the financing of Medicaid, and approached to reducing the pressure on the property tax.

Origins of New York State's Recent Budget Gap~s~

The budget gap that New York State currently faces is the direct result of the way in which it dealt with the substantial fiscal challenges that it faced over the last several years. Prominent among the underlying causes of the states budget problems at the beginning of the current decade were:

- **The bursting of the Wall Street and dot.com bubbles**

- **The September 11th attacks and their aftermath**

- **The national recession**

- **An overly ambitious multi-year tax reduction that could not be sustained through a downturn in the economy or on Wall Street, let alone both at the same time and September 11th as well.**

  - **The bursting of the Wall Street and dot.com bubbles.** New York's 2003-2004 budget gaps did not emerge out of the blue in late 2002 or early 2003. The primary cause of these budget problems (and the budget problems facing most of other states at that time) involved the bursting of two interrelated bubbles: the Wall Street bubble and the dot.com bubble. We now know that these developments hit the states like a tidal wave in 2001 but it is not clear when state officials were first aware of their actual impact on state revenues.

  - Beginning with the 1999-2000 state fiscal year, personal income tax receipts grew by double digits for three straight years: 12.8%, 12.9%, and 16.2%. This growth compensated for the cuts that were then being implemented in the states other less "elastic" taxes, allowing total revenues to grow sufficiently to finance several major programmatic expansions - particularly the state financed STAR homestead exemption which has grown to \$3 billion a year from \$0

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in 1997-98, the expansion of Child Health Plus and the establishment of Family Health Plus - without significant reductions in other services.

- But the bursting of the Wall Street and dot.com bubbles caused capital gains, the fastest growing component of personal income, to not only stop growing but to decline precipitously. This phenomenon did great fiscal damage not only to New York but to all the states with income taxes. In California, for example, taxable capital gains grew from about $20 billion a year in the early 1990s to $118 billion in 2000. But this source of income then plummeted to $48 billion in 2001 and $40 billion in 2002.

- In New York, the net amount of capital gains taxable on New York State personal income tax returns fell 52.7 % from $62.3 billion in 2000 to $29.5 billion in 2001, and another 30.7% to an estimated $20.4 billion in 2002.

- The result was a significant reduction in New York State's personal income tax receipts from a peak amount of $26.9 billion in 2000-01 to approximately $25.6 billion in 2001-02 and $22.6 billion in 2002-03.

- **The World Trade Center disaster.** No state suffered as much as New York from the September 11th attacks. State tax revenues were reduced by billions because of the loss of thousands of lives, the destruction of 26 million square feet of prime office space, and the indirect impact on numerous industries from hotels to apparel manufacturing.

- The U. S. General Accounting Office (GAO) reviewed and validated the Pataki Administration's estimate that $1.4 billion of the state's revenue losses during 2001-02 were attributable to the September 11th attacks. But, while the federal government has provided aid for other disaster-related losses it has not yet provided any recompense for these revenue losses. At the time of its report on New York's revenue losses, the GAO said that it did not yet have enough information to reach a conclusion as to the reasonableness of the Pataki Administration's estimate of 2002-03 tax revenue losses attributable to the disaster.

Growth or decline in Wall Street-related capital gains and wages has had a large impact on the annual change in Adjusted Gross Income (AGI), a proxy measure of the State's personal income tax base.

Capital gains and Wall Street wages are projected to keep growing in 2005 and 2006, but not as fast as in 2004. As a result, AGI is expected to grow at a slightly slower pace in 2005 and 2006.

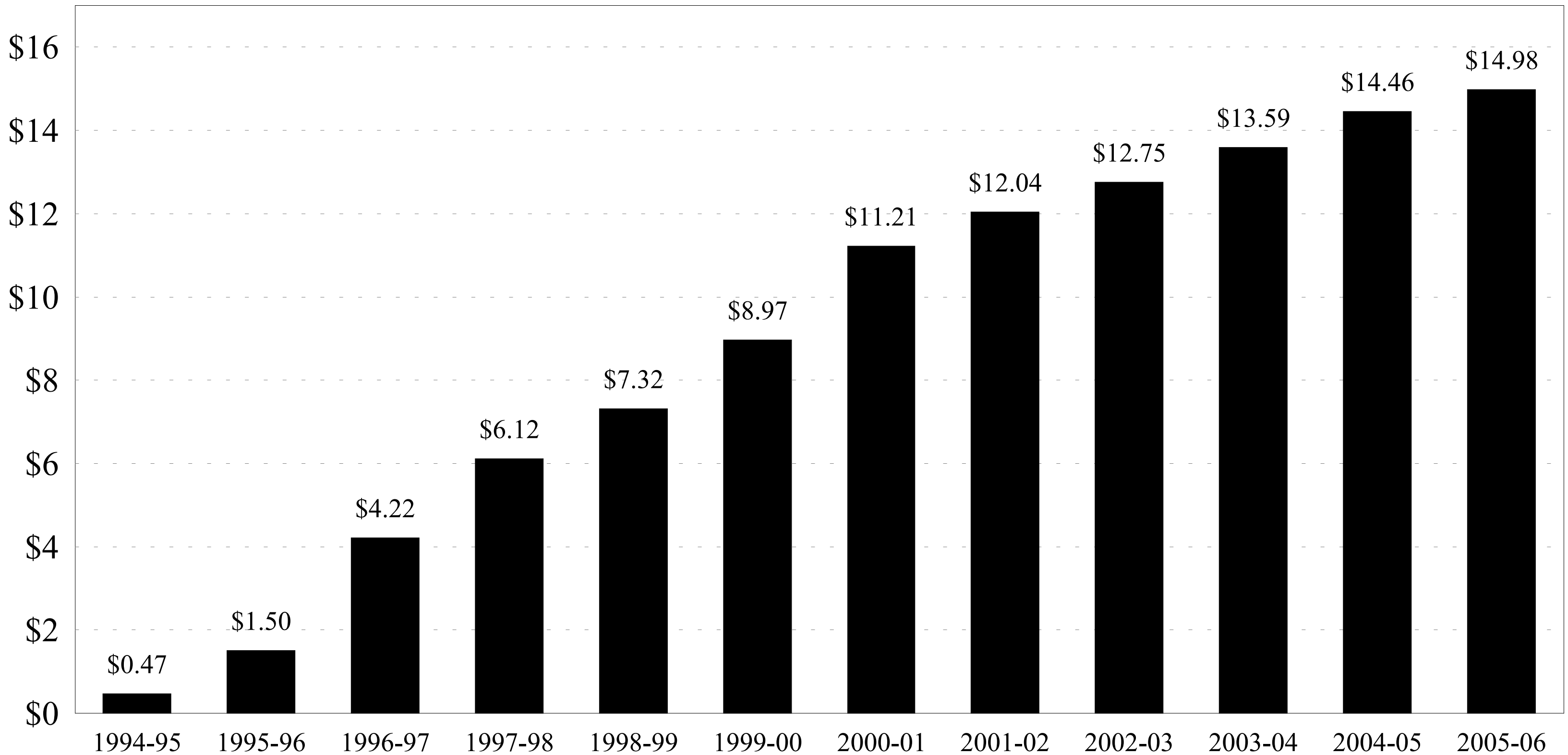
				Change from prior year			Capital Gains and Wall Street Wages as share of	
	Adjusted Gross Income (AGI) ($ millions)	**Net Capital Gains** ($ millions)	**Total Wall Street Wages** ($ millions)	**AGI** ($ millions)	**Capital Gains** ($ millions)	**Wall Street Wages** ($ millions)	**AGI**	**AGI change from prior year**
1991	276,058	8,735	12,321	-7,369	-392	12,321	7.3%	
1992	294,861	9,457	17,850	18,803	722	5,529	9.3%	33.2%
1993	297,112	13,365	18,572	2,251	3,908	722	10.7%	205.7%
1994	301,362	12,032	17,274	4,250	-1,333	-1,298	9.7%	-61.9%
1995	321,124	14,086	20,187	19,762	2,054	2,913	10.7%	25.1%
1996	347,981	22,441	24,534	26,857	8,355	4,347	13.5%	47.3%
1997	383,179	31,563	28,790	35,198	9,122	4,256	15.8%	38.0%
1998	417,996	38,929	33,602	34,817	7,366	4,812	17.4%	35.0%
1999	452,130	48,330	35,116	34,134	9,401	1,514	18.5%	32.0%
2000	514,501	62,302	48,777	62,371	13,972	13,661	21.6%	44.3%
2001	487,532	29,451	49,810	-26,969	-32,851	1,033	16.3%	118.0%
2002	467,528	20,398	39,797	-20,004	-9,053	-10,013	12.9%	95.3%
2003	480,904	28,621	37,739	13,376	8,223	-2,058	13.8%	46.1%
2004	516,464	37,439	44,887	35,560	8,818	7,148	15.9%	44.9%
2005	545,184	41,496	49,376	28,720	4,057	4,489	16.7%	29.8%
2006	577,100	49,900	51,844	31,916	8,404	2,469	17.6%	34.1%
Change, 1995-2000	**193,377**	**48,216**	**28,590**					
Change, 2000-2002	**-46,973**	**-41,904**	**-8,980**					
Change, 2002-2004	**48,936**	**17,041**	**5,090**					
Change, 2004-2006	**60,636**	**12,461**	**6,957**					
%change from prior year								
2003	**2.9%**	**40.3%**	**-5.2%**					
2004	**7.4%**	**30.8%**	**18.9%**					
2005	**5.6%**	**10.8%**	**10.0%**					
2006	**5.9%**	**20.3%**	**5.0%**					

Sources: AGI and Capital Gains, New York State Division of the Budget; 2003-2006 are DoB projections.
Wall Street Wages from NYS DoL: 1991-1999 on SIC basis; 2000-2006 on NAICS basis.
2004-2006 Wall Street wages are FPI projections.

- **The Multi-Year Tax Cuts.** In retrospect, it appears that the large multi-year tax cuts enacted in Governor Cuomo's last year in office and Governor Pataki's first six years were, when taken together, overly ambitious. The Division of the Budget estimates that these tax cuts are reducing state tax revenues by about $14.6 billion this year and about $15 billion next year.
- Governor Pataki has described this effort as the largest multi-year tax reduction ever, by any state. In terms of balancing this objective with prudent fiscal planning, however, a tax reduction plan half this size would have still been the largest state tax reduction in history but New York would have been much better positioned to weather the fiscal storms of the last several years.
- Analysts and commentators who concluded that these tax reduction plans could not be sustained in the event of a downturn in the economy or on Wall Street, without significant backtracking on either the revenue and/or the expenditure sides of the budget, were dismissed as "nay sayers." Unfortunately, during the early years of the current decade, New York had to deal with both of those development simultaneously <u>and</u> with the aftermath of September 11th as well.
- A technical aside: Some observers have criticized Governor Pataki's claims from a different perspective, claiming that his tax reduction claims are inconsistent with the fact that New York's total state-local tax revenue per capita and relatively to personal income are relatively high and continue to grow. This criticism relies on information about total tax revenues collected and published by the U. S. Census Bureau. This information is reliable for what it is (i.e., information about total tax collections) but it represents only one of the factors in the basic equation explaining the workings of any tax. Specifically "tax base" (what is being taxed, such as income or sales or property values) TIMES "tax rate" (the rate at which the base is taxed) EQUALS "tax yield" or "tax revenue." New York's continuing high revenues in the face of the tax cuts enacted between 1994 and 2000 is a testament to the strength of the state's tax base, primarily in the New York metropolitan area.

The tax cuts enacted since 1994 will reduce state revenues by almost $15 billion during the 2005-06 fiscal year.

Revenue impact, in billions of tax cuts enacted in 1994 through 2004.



2002: The Year of Ostrich-Like Budgeting

- All of the problems discussed above were clearly in focus in January 2002 when the Governor submitted his 2002-03 Executive Budget. At that time, the Governor estimated that New York State faced a $6.8 billion budget gap - $1.1 billion during the fiscal year that was then coming to an end and $5.7 billion during 2002-03. To get through the year, the Governor proposed some modest tax and fee increases, the use of approximately $2.6 billion in various reserves and other nonrecurring resources, freezes on spending for a wide variety of services and, in several areas, particularly in education and higher education, some pretty stiff budget cuts. The legislature restored many of the proposed cuts and provided an increase in school aid (which was still below the Budget Division's baseline). These restorations were financed primarily with the use of about $1.4 billion in additional nonrecurring resources.

- The official view at that time was that New York State was headed for a 2003-04 budget gap of at least $4.2 billion IF revenue growth rebounded as projected by the Governor in January 2002. <u>But it did not.</u> The result was the announcement in early 2003 of a budget gap of enormous proportions - $11.5 billion. This gap consisted of an estimated $2.2 billion shortfall for the 2002-03 fiscal year plus a projected budget gap of $9.3 billion for 2003-04.

- While the 2002-03 budget, as adopted, had anticipated a decline in revenues, the actual decline turned out to be about $2.2 billion greater than projected at the time of budget adoption. This meant that the state had to address a $2.2 billion gap in closing out its 2002-03 fiscal year. It also meant that the gap for 2003-04 would be at least $6.3 billion (i.e., $4.2 billion plus $2.1 billion) unless the rate of revenue growth was greater than the 5.25% projected in January 2002. <u>But it was not.</u> In reality, rate of revenue growth turned out to be less than previously projected, further increasing the projected gap for 2003-04 to the $9.3 billion level announced by the Governor in January 2003.

Closing the 2003-04 Budget Gap: The Governor's Approach

- On January 29, 2003, Governor Pataki proposed a multi-year plan for bringing the state's finances back into some semblance of structural balance. The Governor's multi-year strategy was not an illogical or inappropriate approach since implementing over $9 billion in recurring service cuts and/or recurring revenue increases during a single fiscal year could very well cause substantial harm to the state's economy. In thinking about the magnitude of this gap, it is important to remember that this gap was in the state's General Fund which, at the time, represented approximately $40 billion of state spending. (NOTE: Some General Fund gap closing actions can involve the use of resources from other funds.)

- Implicit in the Governor's multi-year approach were two kinds of budget balancing actions. **First,** the Governor was, in effect, proposing to reduce the projected budget gap to "manageable" proportions through one-shots (such as the proposed tobacco securitization), additional federal aid, efficiencies and other actions that would not create an additional drag on the state's economy during what was then a "job-loss" recovery.

- **Second**, in recommending a mix of more painful budget cuts and revenue increases to close the remaining gap, the Governor leaned much more heavily toward service cuts than to revenue increases; **and** in terms of the revenue increases that he did propose, he relied almost entirely on increases in regressive consumption taxes and fees.

- We said at the time and still believe that the Governor was correct in taking a multi-year approach to addressing the state's 2003-04 budget gap. And, in implementing such an approach, he was correct in proposing to reduce the projected budget gap to manageable proportions before resorting to service cuts and/or tax increases since these latter actions would create an additional drag on the state's economy. But, when it came to the mix of service cuts and tax increases that he proposed for closing the remainder of the gap, it was clear that much better choices were possible. And the Legislature ended up making a series of such "better choices" in the changes it made to the Governor's budget.

Reducing the 2003-04 Budget Gap to Manageable Proportions

- The use of nonrecurring resources to balance the 2003-04 budget was criticized by some observers as "simply putting off the problem."
- But, attempting to close all or most of a $9.3 billion gap in a single year with ongoing service cuts and/or tax increases would have done significant damage to the state's economy.
- The argument that state policymakers should have "bitten the entire bullet" immediately was premised on the incorrect notion that the economy and Wall Street would not recover or that it would take many years for them to recover.
- The challenge in budgeting during such a period is guessing
  - guessing when these various recoveries are likely to begin,
  - guessing how strong they are likely to be, and
  - guessing what the effects (in terms of both timing and magnitude) they are likely to have on state revenues.
- On balance, the use of a mix of both recurring and nonrecurring actions to close the 2003-04 budget was not unwarranted even though uncertainty clearly existed at the time regarding the timing and strength of the recoveries in the economy and in the financial markets, and of their impact on state revenues.
- Under the Governor’s Executive Budget, the proposed tobacco securitization reduced the amount of the 2002-03 "close out" gap from $2.2 billion to $700 million, and the amount of the 2003-04 gap to be closed by other actions from $9.3 billion to $7 billion. Proposed debt restructuring and refinancing would further reduce the 2003-04 gap to be closed through spending cuts and revenue increases to a little less than $6.5 billion.

The Governor's Approach to the Hard Choices in the 2003-04 Budget

- Once the Governor got to the more difficult step of closing the remaining gap, he proposed to deal with the remaining $700 million gap for 2002-03 entirely on the spending side of the ledger and to cover the remaining 2003-04 gap with $5.2 billion in spending cuts and $1.3 billion in revenue increases, or about $4 of cuts (in state services and aid to localities) for every $1 of revenue increases.
- The revenue increases that the Governor did propose were overwhelmingly increases in consumption and other regressive taxes and fees. The largest single revenue increase proposed by the Governor, for example, involved eliminating the State's relatively new $110 clothing sales tax exemption and the replacing it with four one-week exempt periods.[1] Moreover, as the Governor's budget was reviewed by the Legislature and outside observers it became clear that many of the proposed cuts in aid to localities would have to be made up, at least in part, by property tax increases.
- The 2003-04 Executive Budget's $5.2 billion in General Fund spending cuts included a $1.27 billion cut in school aid, $1.02 billion cut in Medicaid, a $1 billion cut in other local assistance programs, a $1 billion cut in state government operations, and the use of over $500 million of federal family assistance funds to cover portions of the cost of the Tuition Assistance Program and other programs that were traditionally funded with state revenues.
- At the time, the Governor attempted to justify these policy choices by asserting a relationship among taxes, government spending and the economy that is inconsistent with basic economic principles, and presenting an incorrect rendition of New York State's economic history.

[1] In the adopted budget, the Legislature made the repeal of the clothing tax exemption temporary rather than permanent as proposed in the Executive Budget.

Closing the 2003-04 Budget Gap: The Legislature's Alternative

- In May 2003, the legislature adopted significant changes in the Governor budget bills. By that time, the 2-year budget gap had grown to $12.6 billion, due to revenue and spending re-estimates. Despite the growth in the size of the gap, the Legislature adopted a much more balanced approach to balancing the state budget, relying more heavily on revenue increases than the Governor had originally recommended and reducing many of the spending cuts that had been recommended by the Governor.
- Ten days after the original legislative passage of its budget package, the Governor vetoed the Legislature's bill to raise state taxes, authorize transitional borrowing and allocate school aid and line-item vetoed 118 spending additions. Within 20 hours, the Legislature overrode every one of the Governor's vetoes on a bipartisan basis.
- The Governor originally argued that the revenue increases enacted by the legislature would not cover all of its spending restorations. But, shortly thereafter, the Congress adopted a significant but temporary "state fiscal relief package." With this infusion of federal "budget balancing" aid, the Governor concluded that the 2003-04 state budget, as adopted, was credibly balanced.
- While much attention was focused on the Legislature's revenue actions, which included a temporary increase in the income tax rates for high income New Yorkers (the first income tax rate increases since 1971) and a temporary 0.25 % increase in the state sales tax, the Legislature, like the Governor, relied heavily on spending restraint to close the budget gap.
    - School aid was still $500 million below the baseline and about $200 million below the previous year's spending.
    - Spending on government operations and other local assistance was still $1.2 billion below the baseline.
    - State funding for SUNY was reduced by $183 million, forcing a $950 per year increase in tuition, the first such tuition increase since 1995.

- Many programs designed to help welfare recipients enter the labor force also suffered funding cuts. For example, funding to provide transportation assistance was cut by a third, from $7.5 million to $5 million; funding for Basic Education was cut from $5 million to $3 million and funds for drug abuse screening and treatment were cut in half (from $5 million to $2.5 million).

- The budget package adopted by the Legislature avoided the extremes that characterized the budget balancing packages of the early 1990s and the plan proposed by the Governor a in January 2003. The results have been heartening.

  - New York ended the 2003-04 fiscal year with a surplus of several hundred million dollars and the deficit for 2004-05 turned out to be at the low end of the Administration's earlier projections ($5.1 billion).

  - In addition, the projected budget gap for 2004-05 was overwhelmingly attributable to the multi-year strategy[2] that the Governor recommended for closing last year's $11.5 billion gap and which the Legislature adopted. Thus, for the most part, this is a "planned" deficit. That does not make it any easier to close but it does make it more understandable.

  - Since the adoption of the 2003-04 budget, the state's economic performance relative to the rest of the nation has improved. While both the state and national job creation rates for this period have been extremely low, at least they are positive (a welcome turnaround from the first 18 months of the current "recovery") and New York is doing better than more than half the states.

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[2] The one-time actions that drive the projected $5.1 billion gap include the following, with the value of each as estimated by the Division of the Budget: Tobacco Securitization ($3.4 billion), temporary federal "fiscal relief" package ($1.035 billion), other one time revenues ($230 million), Medicaid Cycle Shift ($170 million), OMH Patient Income Account reserves ($220 million), TANF offsets ($568 million), TAP Spending roll ($104 million). After reducing the total of these one-shots by the one-time payments of $1.9 billion made in 2003-04 for 2002-03 bills, it appears that at least $3.8 billion of the $5.1 billion gap is a "planned" deficit resulting from the multi-year strategy used to close the 2003-04 budget gap.

The 2003 Temporary Income Tax Rate Increases

The Effect on Taxpayers

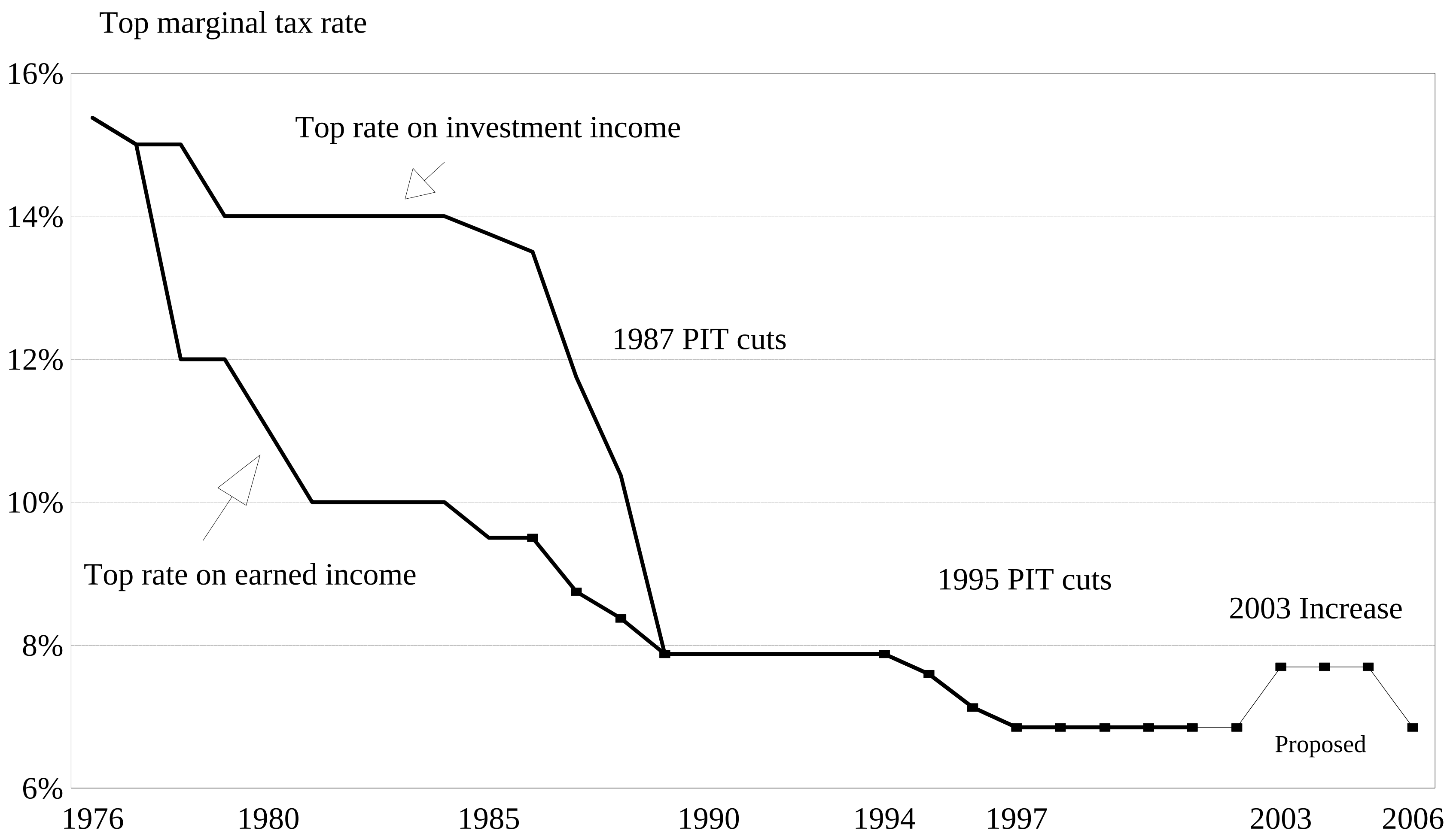
- Through its action on the 2003-2004 budget, the New York State Legislature was able to greatly reduce the local property and sales tax increases and the service cuts that would have occurred if Governor Pataki's budget had been adopted as submitted.

- To a significant degree, this local tax relief was made possible by the Legislature's adoption of a temporary increase in the individual income tax rates for families with taxable incomes above $150,000 and single individuals with taxable incomes above $100,000. The legislature adopted two temporary brackets - one for taxpayers with taxable incomes between these levels and $500,000, and the other for taxpayers with taxable incomes above $500,000.

- The new top rate, which only applies to taxpayers with taxable incomes above $500,000, is 7.7%. The second temporary rate was set at 7.5% for 2003, 7.375% for 2004, and 7.25% for 2005. The new 7.7% top rate is about half what New York State's top personal income tax rate (15.375%) was in the early and mid-1970s. And that mid-1970s top rate applied to the portions of taxable income above $25,000.

- From a tax equity or tax fairness perspective, choosing a high-end income tax increase over further property and sales tax hikes was a very positive step since it only increased the effective tax rate for those taxpayers who pay less (relative to their income or ability to pay) in state and local taxes than the other 90% to 95% of New York taxpayers.

New York State has cut its top personal income tax rate by more than 50% over the last 25 years.



- Moreover, because state and local income taxes are deductible from income in calculating federal income tax liability, the net impact on the affected taxpayers is much less than the amount of their payment to the state. In addition, the federal tax cuts enacted in 2001 and 2003 are particularly generous for taxpayers in these income ranges. The net result is that the combined impact of the recent federal, state and New York City income tax changes is a substantial net reduction in the income tax liability of affected taxpayers. (Note: See the section of this briefing on federal issues for a discussion of the need to protect state-local tax deductibility from erosion by the workings of the federal Alternate Minimum Tax and from efforts that might be made to repeal this important aspect of the U.S.system of fiscal federalism.)

- Without even taking the President's cut in dividend taxes into consideration, the net tax cut for New York families earning $1 million is over $31,000 for those who live outside New York City and about $25,000 for those living in the city.

- New York families of four earning $300,000 a year (with an average amount of itemized deductions for that income level) will be paying about $8,400 a year less in income taxes in 2003 after taking into consideration both the federal and state tax changes. While such a family is paying an additional $1,737 to New York State, federal deductibility reduces the net effect of this tax increase by about 31% to $1,195.

- In 2004, this family’s state taxes will decline by $400 as the second highest rate (applicable to taxpayers with taxable income between $150,000 and $500,000) declines from 7.5% to 7.375%. This temporary rate will decrease to 7.25% in 2005 and 6.85% in 2006.

Change in Federal/State Tax Liability for a Family of Four

Based on Rate Increase From 6.85% to 7.5% for Taxpayers with Taxable Income between $150,000 and $500,000 and 7.7% for Taxpayers with Taxable Income over $500,000

	Adjusted Gross Income					
	$200,000	**$250,000**	**$300,000**	**$500,000**	**$1,000,000**	**$1,663,000**
2000 Federal Law						
Federal Itemized Deductions - 2000	$39,620	$53,595	$57,738	$80,824	$146,410	$224,971
Federal Exemptions -- 2000	$10,528	$6,048	$1,568	$0	$0	$0
Federal Taxable Income - 2000	$149,852	$190,357	$240,694	$419,176	$853,590	$1,438,029
Federal Tax Liability - 2000	**$37,575**	**$51,577**	**$69,698**	**$138,662**	**$310,690**	**$542,127**
2004 Federal Law						
Federal Itemized Deductions - 2004	$39,728	$53,698	$57,854	$80,965	$146,565	$225,138
Federal Exemptions - 2004	$12,400	$8,680	$3,720	$0	$0	$0
Federal Taxable Income - 2004	$147,872	$187,622	$238,426	$419,035	$853,435	$1,437,862
Federal Tax Liability - 2004	**$31,585**	**$43,361**	**$60,126**	**$121,869**	**$273,909**	**$478,458**
New York State - Old Law						
NYS Itemized Deductions - 2004	$28,633	$29,729	$30,762	$33,223	$46,018	$68,160
NYS Exemptions - 2004	$2,000	$2,000	$2,000	$2,000	$2,000	$2,000
NYS Taxable Income - 2004	$169,367	$218,271	$267,238	$464,777	$951,982	$1,592,840
NYS Tax Liability - 2004	**$11,602**	**$14,952**	**$18,306**	**$31,837**	**$65,211**	**$109,110**
New York State - New Law						
NYS Tax Liability with Rate Increase	**$12,703**	**$16,370**	**$20,043**	**$34,858**	$73,303	**$122,649**
Impact of NYS Tax Changes on Federal Taxes						
Federal Itemized Deductions with NYS Tax Changes	$40,795	$55,057	$59,497	$83,755	$153,919	$237,351
Federal Exemptions	$12,400	$8,680	$3,720	$0	$0	$0
Federal Taxable Income with NYS Tax Changes	$146,805	$186,263	$236,783	$416,245	$846,081	$1,425,649
Federal Tax Liability for 2004 with NYS Tax Changes	**$31,286**	**$42,912**	**$59,584**	**$120,892**	**$271,335**	**$474,184**
Combined Federal-State Impact of NYS Tax Changes						
NYS Tax Increase	$1,101	$1,419	$1,737	$3,021	$8,092	$13,539
Change in Federal Taxes due to Federal Tax Changes Since 2000 & H.R. 2	-$5,991	-$8,216	-$9,572	-$16,793	-$36,781	-$63,669
Change in Federal Taxes due to NYS Tax Changes	-$299	-$448	-$542	-$977	-$2,574	-$4,275
Net Change in Total Federal and State Income Taxes	**-$5,189**	**-$7,246**	**-$8,377**	**-$14,748**	**-$31,263**	**-$54,405**

The Effect on the Economy

- Because state and local income taxes paid are deductible from income in calculating federal income tax liability, the net impact on the affected taxpayers is much less than the revenue raised by the state. While property taxes are also deductible, the economic impact of deductibility of a high-end income tax increase since the affected taxpayers are much more likely to itemize their deductions and are in higher federal tax brackets (which increases the value of deductibility) than the broad range of real property tax payers. The result is that the federal government pays about a third of the bill.

- The approach adopted by the Legislature also has a much less negative effect on the New York economy than the alternatives proposed by the Governor (cuts in state and local services and/or increases in local property taxes) since over 15% of the personal income tax increase is being paid by residents of other states and other countries. Third, because of federal deductibility of state and local income taxes, the federal government is paying for about a third of the bill.

- As indicated above, the new 7.7% top rate is just about half what New York State's top personal income tax rate (15.375%) was in the early and mid-1970s. At that time, New York had the 3rd highest income tax rate of all the states with income taxes. The temporary 7.7% top rate places New York 15th among the 42 states with personal income taxes.

- It is also important to note that over the course of the last quarter century, as New York has substantially reduced its top personal income tax rates, the states with which it has the most direct economic competition, Connecticut and New Jersey, have moved in the opposite direction. New Jersey's top rate is now 8.97%, more than three and a half times higher than its mid-1970s rate and, since 1991, Connecticut has had a broad-based personal income tax, the top rate of which was increased from 4.5% to 5% in 2003.

Top State Personal Income Tax Rates on Earned Income

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

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

The Economic Impact of the 2003 Budget Agreement: The Example of the School Aid Restorations

- The 2003-04 Executive Budget proposed a $1.24 billion (8.5%) cut in school aid over the previous school year. This represented a cut of over $1.8 billion against the increase that would have been necessary to allow for school districts to maintain current services without increasing the portion of their budgets financed through local revenue sources - primarily the real property tax. The Legislature ended up restoring over $1 billion of this reduction, leaving a year-to-year cut of $207 million or 1.5%. The Legislative restorations had three important consequences:

  - <u>Educationally</u>, the restorations meant that school districts could maintain programs and services of importance to student achievement and avoid lay offs of teachers and other critical school staff.

  - <u>Fiscally</u>, local school districts were able to substantially reduce the magnitude of the real property tax increases which would have been necessary to avoid deep cuts in services without the additional state aid. The New York State Council of School Superintendents reviewed data from 518 school districts that amended their Property Tax Report Cards between the original and revised filing deadlines which occurred, respectively, before and after the Legislature voted to over-ride the Governor's budget vetoes. This study found that these districts, which received an additional $394 million in state aid as a result of the Legislature's restorations, responded in the following way:
    - 147 districts raised their proposed spending by a total of $38 million
    - 383 districts lowered their proposed tax levy by a total of $189 million

    This report also pointed out that "the proposed 2003-04 tax levy for all districts as of April 28th (before the Legislature passed its budget the first time) was $294 million less than what could have been expected given the Governor's proposed aid cuts and the spending increases they were seeking. This suggests that many districts were either budgeting for Legislative aid restorations, spending down reserves, or using some combination of strategies. And some still reduced their projected tax levy in amended Property Tax Report Cards."

- Economically, restoring the education cuts and paying for those restorations with a high-end income tax increase was a far better alternative than implementing the cuts as proposed. If the school aid cuts could have been restored without paying for them (which is an unrealistic alternative) the benefits would have been substantial.
  - An analysis of this unrealistic alternative, using the same input-output economic model used by the Empire State Development Corporation to evaluate economic development proposals, found that adding $1.84 billion in spending to the state education system without having to pay for this investment would generate about 79,000 jobs per year in each year 2004 through 2007 and increase Gross State Project by over $2.5 billion each year.

  - A fiscally responsible "balanced budget" alternative that increased state aid to education by $1.84 billion over the level proposed by the Governor and funded that increase in state aid with a concomitant and offsetting $1.84 billion increase in the state individual income tax would increase employment by about 56,000 jobs and Gross State Product by more than $1.5 billion a year. This analysis confirmed the theoretical arguments regarding the relative economic impact of spending cuts and tax increases on the state economy finding that even if taxes are increased to pay for a substantial increase in school spending that there will still be a net positive effect on the economy.

The Legislature's 2003 "budget choices" were supported by basic economic reasoning.

- Neither tax increases or service cuts are desirable during a recession. Both take demand out of the economy - making recessions longer and deeper, and making recovery more difficult.
- But New York, like most other states, is required to balance its budget in both good times and bad.
- So the states face a real dilemma during economic downturns - having to figure out what mix of spending cuts and tax increases will do the least harm. Ideally, during such periods, the federal government, which is not required to run balanced budgets and which is responsible in our governmental system for overall macroeconomic management, will assist the states with some form of counter-cyclical financial assistance.
- But what are the states to do during economic downturns absent federal aid or sufficient federal aid to avoid spending cuts and/or tax increases? Joseph Stiglitz, winner of the 2001 Nobel Prize in Economics, and Peter Orszag of the Brookings Institution, in their paper, ***Budget Cuts vs. Tax Increases at the State Level: Is One More Counter- Productive than the Other During a Recession?***, use basic economic reasoning to explain why a temporary increase in the tax on the portions of income over some relatively high level is the least damaging mechanism for balancing state budgets during recessions. On the other hand, they conclude that basic economic reasoning indicates that reductions in government spending on goods and services that are produced locally (like education and healthcare) and reductions in transfer payments to lower-income families are most damaging to the economy since they come closest to taking dollar for dollar out of the local economy. Increases in consumption taxes and fees will take more demand out of the economy than tax increases on the portion of income over some relatively high level but less demand than cuts in locally-produced goods and services or transfer payments to lower-income families.

The Aftermath of 2003's Multi-Year Strategy

- Last year's projected budget gap ($5.1 billion) was less than half the size of the previous year's but in percentage terms the Governor once again proposed to rely much more heavily on spending cuts ($2.6 billion according to the Executive Budget) in balancing the budget than revenue increases ($972 million).
- The 2004-05 Executive Budget proposed to close the remainder of the gap ($1.5 billion) with nonrecurring actions or one-shots.
- On the revenue side, the two largest gap closing proposals involved eliminating the $110 clothing sales tax exemption and replacing it with four one-week exempt periods ($400 million) and reimposing an assessment on hospital and home-care revenues and increasing an existing reimbursable assessment on nursing homes one-shots.
- The Legislature once again deferred the $110 clothing exemption rather than going along with the Governor's call for repeal and it adopted some but not all of his proposed health care assessments. On the expenditure side the Legislature restored most but not all of the Governor's proposed service cuts. While the Governor went along with many of the most significant restorations, he used his line item veto power to stop the restorations of hundred of smaller items which would have increased state spending during the 2004-05 fiscal year by an estimated $235 million.
- In defending these vetoes, the Governor argued that he supported the programs involved but that the state faced a $6 billion deficit for the coming year even without the appropriations that he was rejecting. While the Legislature had denied a number of gubernatorial proposals that would have made it easier rather than harder to balance future year budgets, the many small programs vetoed by the Governor would have made very little difference in the state's overall fiscal picture.

- For 2005-06, the projected budget deficit is once again an outgrowth of the multi-year strategy that the state utilized in getting out of the hole in which it found itself in 2003.

- An examination of the various "causes" of this year's projected $4.152 billion budget gap, as identified and quantified by the NYS Division of the Budget, shows that the overwhelming majority of that gap - over $3.5 Billion - is the result of the loss of a series of one-time actions that were used to balance the state's last two budgets. The underlying revenue growth being projected by the Division of the Budget for 2005-06 is sufficient to cover underlying expenditure growth, but it is not yet sufficient to replace the one time revenue and expenditure actions that were used to balance the 2003-04 and 2004-05 budgets.

- New York State has a projected deficit of substantial proportions but it does not have a "structural deficit" in that its expenditure base is not growing faster than its underlying revenues. This is the case in many states that are fast growing but with inelastic revenue systems. In such situations, expenditure demands grow as population and economic activity grow, but the existing revenue system does not grow at the same rate. As the following table indicates, New York's projected underlying revenue growth for the coming year (an estimated $3.1 billion) is virtually equal to the .projected growth in existing expenditures. A gap, however, then results because of the loss of one-time revenue or expenditure actions, and because of policy decisions to take on new responsibilities. For 2005-06, the former category (the loss of non-recurring resources) is substantial, while the latter category (programmatic enhancements) is modest. The latter category may prove more important in future years as state policymakers determine an appropriate response to the Court of Appeals decision in the Campaign for Fiscal Equity lawsuit.

New York State's Projected Budget Gap is Not the Result of a Structural Imbalance between Underlying Revenue Growth and Underlying Expenditure Growth

Executive Budget Presentation of the Causes of the 2005-06 Projected Budget Gap*

	(amounts in millions)	
Revenues		
Underlying Revenue Growth	3,127	
Loss of One-Time Actions	(1,182)	
PIT/Sales Tax Temporary Surcharge Phase-Out/Clothing Exemption	(1,080)	
Final Use of Tobacco Proceeds	(400)	
STAR Fund Transfer	(150)	
Transfer for Higher Debt Service Costs (RBTF)	(138)	
All Other Revenue Changes	20	
Subtotal		**197**
Expenditures		
Loss of One-Time Actions	(683)	
Medicaid	(1,069)	
State Takeover of FHP	(282)	
Loss of Enhanced Federal Medicaid Match Rate (Reverts to 50%)	(220)	
School Aid	(360)	
Welfare	(251)	
Pension/Health Insurance	(650)	
Collective Bargaining Costs (including fringe benefits)	(387)	
All Other Spending Growth	(447)	
Subtotal		**(4,349)**
Total Projected Budget Gap		**(4,152)**

*from page 8 of the Financial Plan volume of the 2005-06 New York State Executive Budget

Causes of the 2005-06 Projected Budget Gap, Categorized by Type (Structural Factors vs. Policy Choices vs. One Shots)

	(amounts in millions)	
Structural Factors		
Underlying Revenue Growth	3,127	
Medicaid Expenditures	(1,069)	
School Aid Expenditures	(360)	
Welfare Expenditures	(251)	
Pension/Health Insurance Costs	(650)	
Collective Bargaining Costs (including fringe benefits)	(387)	
All Other Spending Growth	(447)	
All Other Revenue Changes	20	
STAR Fund Transfer**	(150)	
Subtotal		**(167)**
Policy Choices/Programmatic Enhancements		
State Takeover of FHP	(282)	
Subtotal		**(282)**
Impact of Prior-Year Nonrecurring Budget Balancing Actions		
Loss of One-Time Revenue Actions	(1,182)	
PIT/Sales Tax Temporary Surcharge Phase-Out/Clothing Exemption	(1,080)	
Final Use of Tobacco Proceeds	(400)	
Loss of One-Time Expenditure Actions	(683)	
Loss of Enhanced Federal Medicaid Match Rate (Reverts to 50%)	(220)	
Transfer for Higher Debt Service Costs (RBTF)	(138)	
Subtotal		**(3,703)**
Total Projected Budget Gap		**(4,152)**

**The increase in STAR spending may be due in part to prior year policy choices to enrich the program's benefits.

Closing the 2005-06 Budget Gap: The Governor's Approach

- This year's projected budget gap ($4.2 billion) is somewhat smaller than last years ($5.1 billion) but the Governor is relying even more heavily on spending cuts ($3.1 billion) than revenue increases ($779 million).
- The Executive Budget proposes to close the remainder of the gap ($856 million) with nonrecurring actions or one-shots. The largest one-shot ($321 million) is a proposal to implement a review and public comment of increased contributions to the state retirement system which like last year's unsuccessful proposal to cap increases in employer contributions is an attempt to postpone the inevitable need to increase contributions.
- On the revenue side, the largest gap closing proposal is to eliminate the $110 clothing sales tax exemption and replace it with two one-week exempt periods on clothing and footwear under $250 ($456 million). Other revenue proposals include some minor reforms of the corporate tax system and increasing the excise tax on wine from 5 cents per liter to 28 cents per liter.
- Over $2 billion of the $3.1 billion in spending actions involve the health care system. Medicaid spending from the General Fund would be cut by $1.89 billion through a combination of cuts, health care provider assessments and use of other financing sources. Spending for mental hygiene would be reduced by $250 million.
- The expenditure side gap closing actions also include proposals to withhold one-half of college students TAP awards until "timely degree completion" ($135 million) and a reduction in State support for SUNY and CUNY operations of $137 million. The first proposal is certainly a long shot. The TAP withholding proposal has been advanced by the Administration before but it has always been rejected as illogical and as having a negative effect on the neediest of students.

The Executive Budget Substantially Increases the Size of the State's Projected Budget Gaps Without Addressing the Campaign for Fiscal Equity Decision, and Then Addresses Those Enlarged Gaps in an Unbalanced Manner

(all amounts in millions of dollars)

	2005-06	2006-07	2007-08
Projected Budget Gaps Per Executive Budget (Before Revenue and Expenditure Increases and Decreases Proposed in the Executive Budget)	(4,152)	(5,844)	(5,571)
Proposed Programmatic Enhancements	(313)	(970)	(1,736)
Proposed Tax Cuts	(246)	(303)	(204)
Out-Year Impact of Proposed 2005-06 One-Shots		(104)	(33)
The Executive Budget's Proposed Enhanced Budget Gaps	**(4,711)**	**(7,221)**	**(7,544)**
Actions Proposed in the Executive Budget to Address the Enlarged Gaps:			
Proposed Expenditure Reductions	3,076	3,483	3,761
Proposed Revenue Increases	779	1,027	995
One-Time Resources	856	10	3
"Proposed Budget Gaps"	**0**	**(2,701)**	**(2,785)**

* per page 9 of the Financial Plan volume of the 2005-06 New York State Executive Budget

The Executive Budget would increase the 2006-07 and 2007-2008 budget gaps and then rely on "unbalanced" strategies to close the gaps.

- The Executive Budget projects budget gaps of $7.2 billion and $7.5 billion for the next two fiscal years.
- Each of the "gap" estimates is the result of taking the projected budget gaps and "enhancing" them by adding on the impact of proposed programmatic initiatives and tax cuts and factoring in the out-year impact of 2005-2006 one-shots. For 2006-2007, this method increases the projected budget gap from $5.8 billion to $7.2 billion primarily due to the spending related to the proposed cap/takeover of local Medicaid costs and $300 million in tax cuts. In a similar fashion, the 2007-2008 budget gap grows from $5.6 billion to $7.5 billion, again driven primarily by the proposal to takeover local Medicaid costs ($1.3 billion) and $200 million for corporate franchise tax cuts and ST AR plus.

- For both out years, the Governor proposes to continue to rely heavily on expenditure actions to reduce the gaps while still leaving a substantial portion of the gaps — $2.7 and $2.8 billion respectively — unclosed.

- The Executive Budget's gap "proposals" for the out years virtually eliminate the reliance on one-time resources that has been so prevalent in the last few budget cycles. For 2006-2007 one-time revenue resources are reduced to $10 million. For 2007-2008 proposed one-time resources fall to $3 million.

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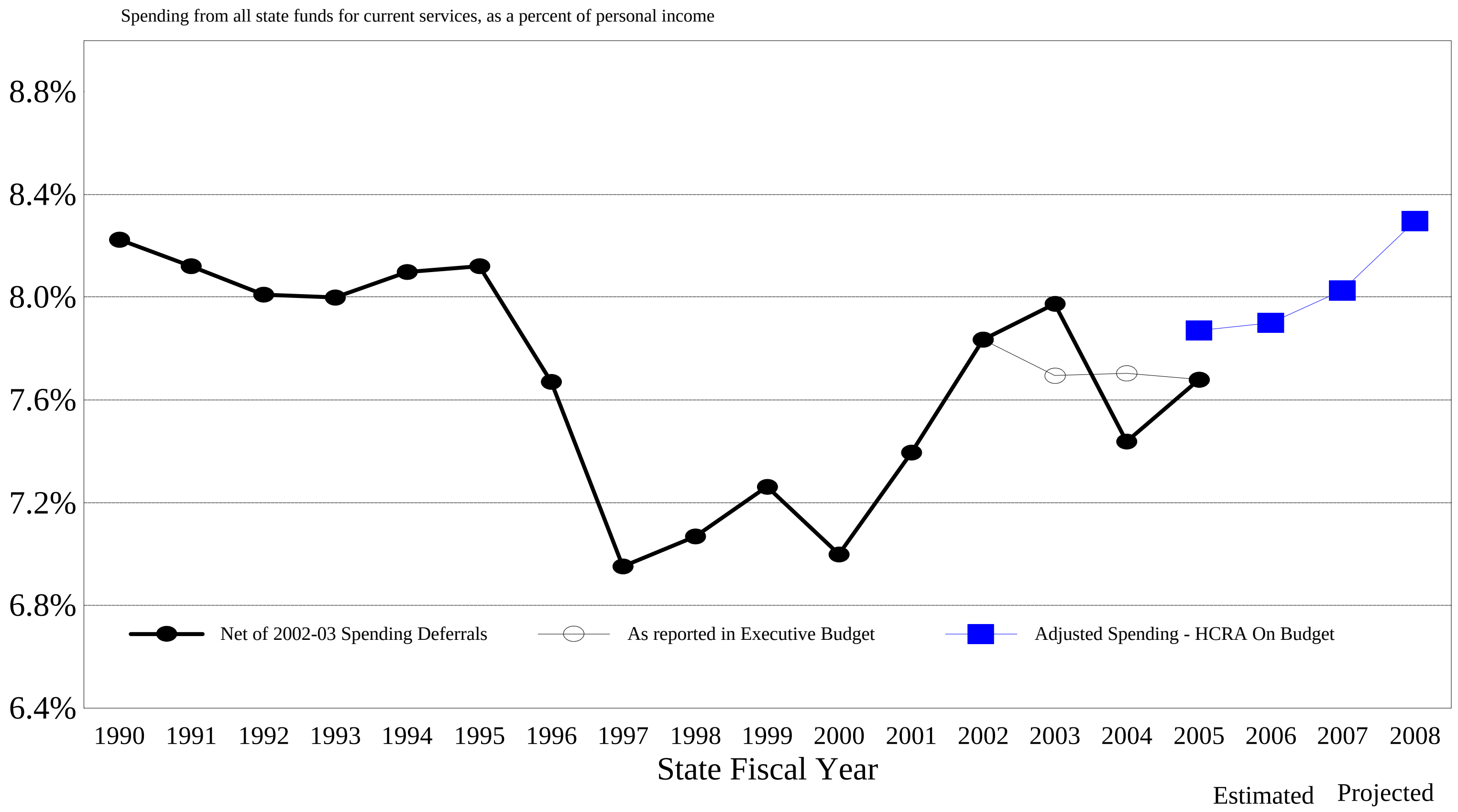
Current services spending relative to the size of the economy has declined substantially since 1990.



Source: SFY Personal Income estimates from the Executive Budget 2005-2006, Appendix II, p.259

Since 1990, New York State's expenditures for employee wages and salaries have declined in real terms by over $1 billion, more than 10%.

Personal Service expenditures in millions of SFY 2004 dollars

	General Fund	Special Revenue Funds	Total
State FY 1989-90	$7,045.7	$4,028.2	$11,073.9
State FY 1994-95	$5,653.9	$4,719.6	$10,373.5
State FY 2003-04	$5,137.3	$4,780.0	$9,917.3
Average Annual Change			
1989-90 to 1994-95	-$278.4	$138.3	-$140.1
1994-95 to 2003-04	-$57.4	$6.7	-$50.7
Average Annual Percent Change			
1989-90 to 1994-95	-4.31%	3.22%	-1.30%
1994-95 to 2003-04	-1.06%	0.14%	-0.50%
Total 14 -Year Change			
Amount	-$1,908.4	$751.8	-$1,156.5
Percent	-27.09%	18.66%	-10.44%

The 2005-06 Executive Budget's School Aid Proposal and the Search for a Statewide Solution to the CFE Decision

- The Court of Appeals decision in the Campaign for Fiscal Equity (CFE) lawsuit deals specifically with New York City but it raises questions about the school funding system for all school districts. And, the Governor and the legislative leaders have all indicated that they want a statewide solution to the CFE decision. But the Governor's 2005-06 school aid proposal, however, does not appear to fit that bill. Nor does it propose a 2-year approach to school aid budgeting as the Governor's Commission on Education Reform (the Zarb Commission) recommended and as the two houses of the Legislature endorsed in the budget process reform legislation that they adopted last year.

- The Executive Budget proposes to merge six existing aid programs into a single block grant, which the Governor calls Flex Aid, with minimal increases in funding from last year. For Rockland County's 8 school districts, for example, the proposed increases in Flex Aid range from 0.56% to 1.7%. Two grant programs (Prekindergarten and Class Size Reduction) would be frozen at this year's funding level. And for BOCES aid, a cost reimbursement program, school districts would be entitled to receive only the lesser of their prior year's aid or what they would otherwise be eligible to receive for the current year.

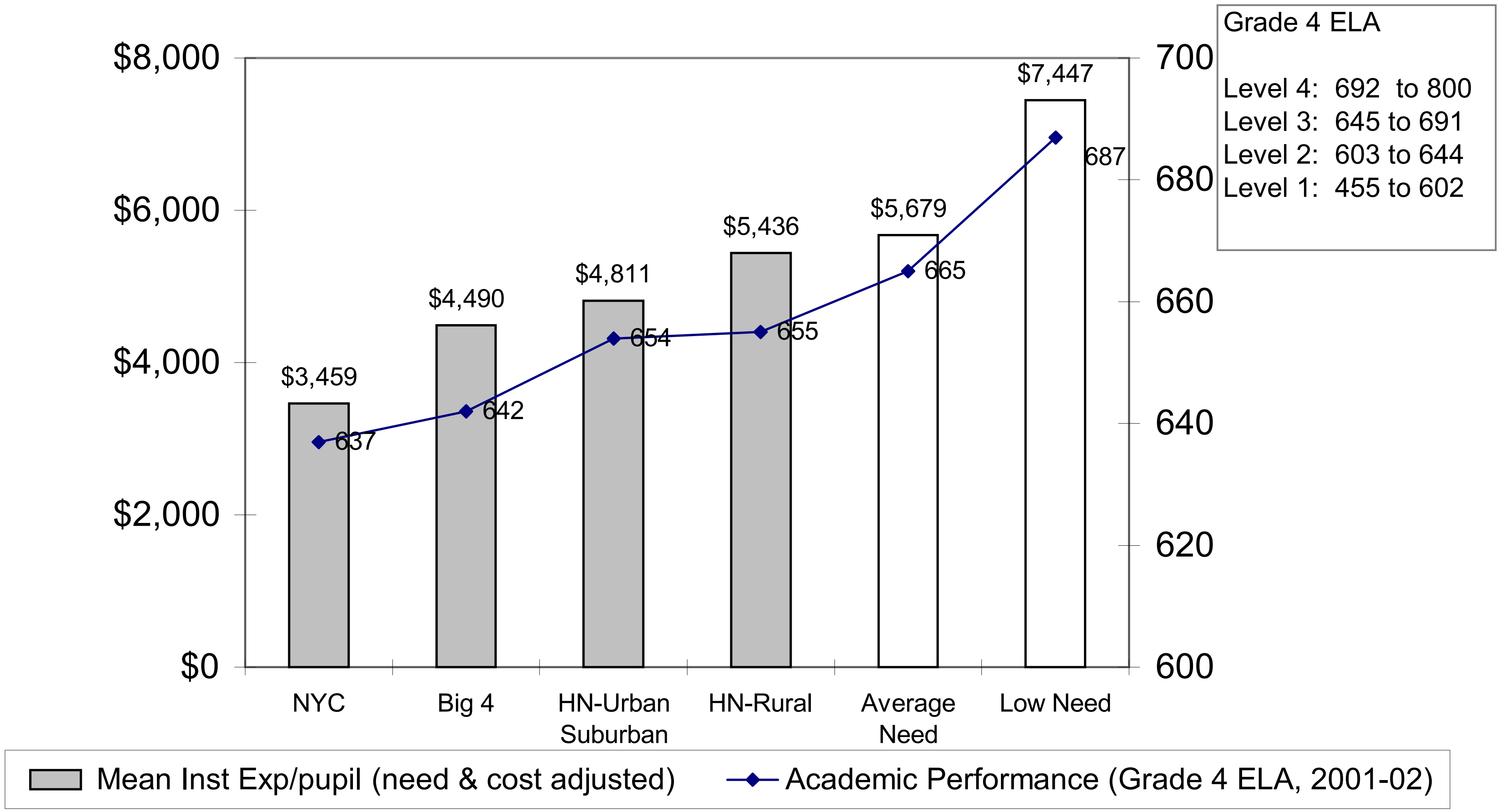
- The Executive Budget also proposes a new Sound Basic Education (SBE) aid program that would total \$325 million in the 2005-06 school year. This aid would be targeted primarily to 207 high needs school districts but every one of the state's 677 school districts would receive at least \$25,000 under this proposal during 2005-06. For the eight Rockland County school districts, the amounts of SBE aid to be received during the coming year would range from

0.76% to 5.38% of the aid that they are receiving this year through the programs to be consolidated into Flex Aid.

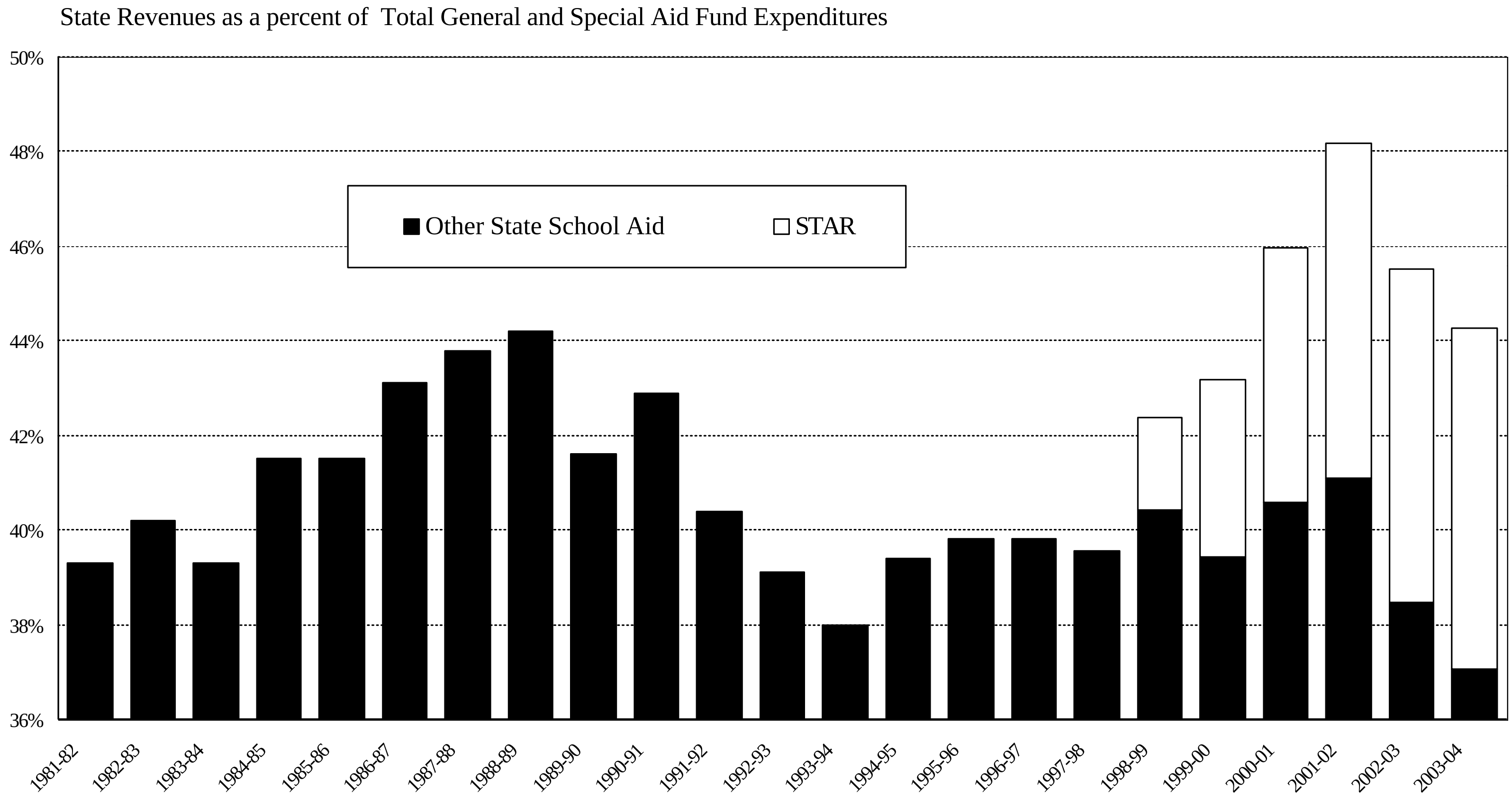
- The New York State Educational Conference Board (ECB) has estimated that, on average, school districts must spend about 4.4% more in 2005-2006 than in 2004-05 to simply maintain current programs and services given the scheduled increases in health insurance premiums, pension contributions, salaries and other components of school budgets. Applying these growth rates, the Conference Board concluded that school districts statewide would have to spend $1.486 billion more in the 2005-2006 school year just to maintain the current level of services. To avoid shifting an increasing share of these school costs onto the local property tax base, the state would have to provide an increase in aid of about $743 million. In presenting this analysis, the ECB made clear that these estimates do not include any remedies or additional funding in response to the Court of Appeals decision..

- At the time the 2005-06 Executive Budget was submitted to the Legislature, the State Supreme Court, to which the CFE case had been remanded by the Court of Appeals for implementation after the state had failed to meet the high court's July 30, 2004, deadline, had not yet issued an order based on the report of the court-appointed referees. That panel had concluded, in its November 30, 2005, report, that the resources available to the New York City school district should be gradually increased over the next four years to $18.25 billion (in 2004-05 dollars) per year, which would be $5.63 billion more than the district is currently receiving . Once the Court issues its order confirming or modifying the panel's recommendations, state policymakers will face the choice of crafting a statewide plan that complies with the order, or delaying the matter through further appeals. To implement a legitimate statewide solution to the CFE decision without jeopardizing other important state-funded services, additional revenues will be required.

After Adjusting for Need and Regional Cost, the Higher the School District Spending, the Greater the Pupil Achievement



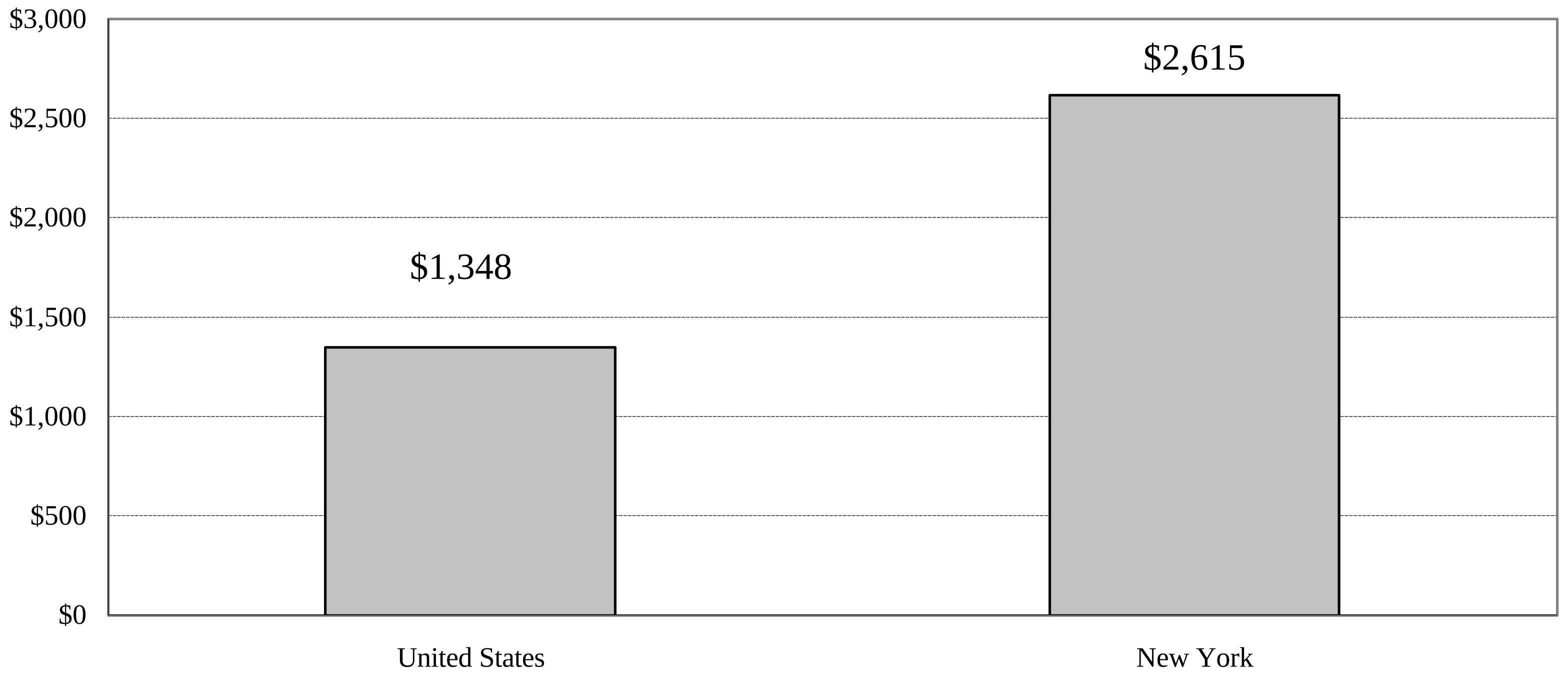
Except for STAR, New York State has not increased its share of public school budgets, and STAR is distributed in a disequalizing manner.



Source: New York State Department of Education, Analysis of School District Finances in New York State School Districts 2002-2003

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

Gap between highest and lowest-poverty districts in 2001-2002 (cost-adjusted dollars).



Source: "The Funding Gap 2004: Many States Still Shortchange Low-Income and Minority Students," Kevin Carey, The Education Trust Inc., October, 2004.

The Governor's 2005-2006 budget proposal includes a number of proposals which will make it much harder for needy families to make ends meet.

- **Changes to the Earned Income Disregard:** The budget proposes to increase the Earned Income Disregard to 50% for recipients on welfare less than five years and reduce the disregard percentage to 25% for recipients on welfare more than five years. This proposal penalizes families who are doing the "right" thing — working long hard hours — merely because they are stuck in low paying jobs that do not enable them to earn enough to support their families without public help. Even the "increase" in the Earned Income Disregard from 43% to 50 % is deceptive — the current earned income disregard is indexed to changes in the Consumer Price Index and would increase next year without legislative action.

- **Full Family Sanctions:** Currently public assistance benefits are withheld only from the head of household for noncompliance with work requirements. The Executive Budget proposes the elimination of public assistance benefits to the entire household if the head of household does not comply with work requirements. Full family sanctions will punish children for the actions or inactions of their parents despite the fact that research has found that states with full family sanctions have not been any more successful in moving families from welfare to work than states (California and New York) which do not currently exercise this option. Sanctionable offenses can be as minor as being late for an appointment or not filing paperwork with the right office.

- The January 1, 2005 increase in the state minimum wage was an important first step towards helping New York's low-income families work towards self-sufficiency. New York must now <u>strengthen</u> work incentives and invest in services and programs to help families move from welfare to the labor force. Programs should also help those stuck in low paying jobs move to higher paying jobs.

- Rather than weaken work incentives, New York should maintain and expand the current work incentives, particularly the Earned Income Disregard. Currently recipients are ineligible for public assistance when their total monthly income exceeds the lower of the poverty level or 185% of the standard of need. New York should change its eligibility rules to permit benefits until income reaches the higher limit to recognize the increased costs faced by families in those counties where 185% of the standard of need exceeds the poverty threshold.

- New York should invest in programs and services that help public assistance recipients gain skills and work experience which will help them earn high enough wages to no longer need public income support. Moving all TANF Surplus funds into a county block grant threatens to shut down existing training and education programs without regard to their past performance.

- New York should devote more resources to programs and services that remove barriers that prevent public assistance recipients from moving into the work force rather than focusing on mean spirited reductions in already extremely low benefits or punitive sanctions to try to "push" recipients off the welfare rolls.

- The proposed Flexible Fund for Family Services has no mechanism for public involvement in their development nor sufficient oversight mechanisms to ensure that counties do not use their flexibility to fill other county budget gaps rather than provide services to low-income families and children.

Governor Pataki's proposed Medicaid and Family Health Plus cuts would hurt millions of New Yorkers <u>and</u> the state's economy

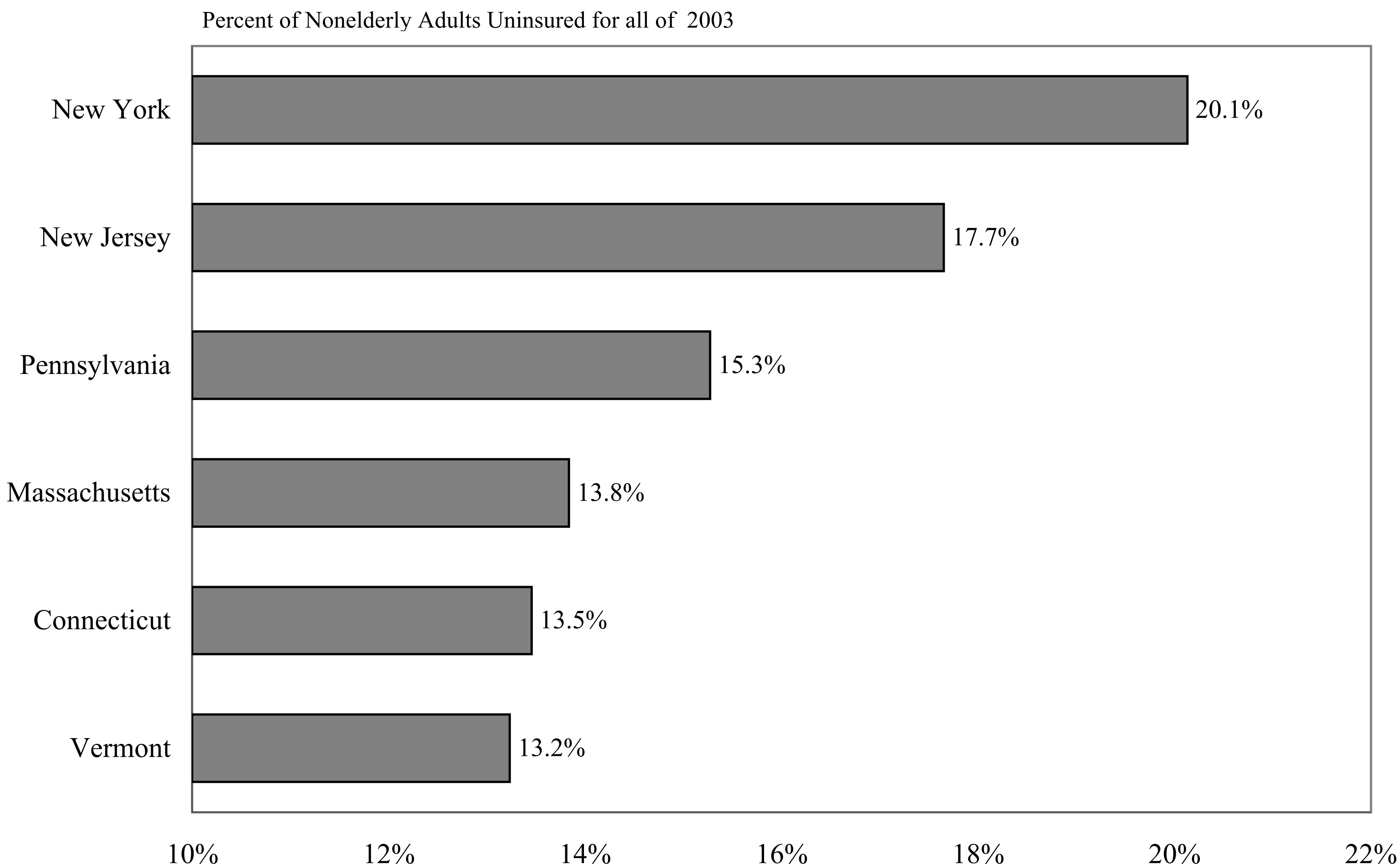
The 2005-2006 Executive Budget proposes significant cuts in Medicaid service. Since each state and local dollar spent on Medicaid services generates a dollar in federal assistance, the Governor's proposal would syphon as much as $2.5 billion dollars from the state's health care system.

- Once again, the Governor proposes to eliminate Medicaid coverage for so-called "optional" services -- podiatry, audiologists and psychologists. This is estimated to save the state $13 million dollars but denies critical services to low-income adults. Restricting adult dental services to clinical settings will save another $53 million.

- Benefit reductions in Family Health Plus, including the imposition of a $250 co-pay for hospital visits and the elimination of vision, dental and mental health services. In the Family Health Plus program, the Governor also proposes to:
    - Impose a stricter asset/resource test on applicants for Family Health Plus
    - Require a 12-month waiting period for Family Health Plus applicants who had group health insurance previously
    - Prohibit coverage under Family Health Plus for individuals employed by a large business or government entity

- Despite the fact that New York has a much higher percentage of its nonelderly adult population uninsured than any of its neighboring states, the Governor would eliminate facilitated enrollment for the Family Health program Keeping eligible New Yorkers out of the program by making it difficult to apply may save the Family Health Plus program a few dollars but it will cost the state's health care system much more as these uninsured individuals are left without preventive and routine care.

New York has a much higher percentage of its nonelderly adult population without health insurance than any of its neighboring states.



Source: U.S. Bureau of the Census

- The Governor would also reduce payments to New York's hospitals ($201 million) and nursing homes ($182 million) while re-establishing a 0.7 percent assessment on hospital revenues and freezing managed care premium payments ($194 million). The president of the Health Care Association of New York has warned that these cuts and taxes "will further cripple hospitals, nursing homes, and other health care provider."

- The Governor's proposal to "eliminate long-term care eligibility loopholes" would require spouses of the elderly and families of the disabled to impoverish themselves in order for a potential enrollee to become eligible for Medicaid long term care.

- Several proposals to reduce spending on prescription drugs would reduce spending by $80 million but the proposed Preferred Drug List does not include the kinds of consumer protections needed to maintain adequate access to medically critical drugs for low-income New Yorkers.

- The Governor's budget provides no analysis of the impact of these draconian cuts on the state's economy, particularly outside New York City where medical services are a growing and critical source of employment and income. It is ironic that on the one hand the Governor proposes to spend millions of dollars on his new "Operation SPUR" in the hopes that these programs will stimulate additional economic growth and job creation while cutting back on Medicaid which is a proven source of economic stimulus.

The Governor premises his call for Medicaid cuts on the need to make Medicaid relief to the counties more affordable for the state. But the magnitude of county Medicaid expenditures has been exaggerated.

- Most counties, in talking about their Medicaid costs, refer to their gross MMIS payments, not their net costs after taking overburden aid and InterGovernmental transfers into account.
  - A recent report on county Medicaid costs sby the State Comptroller, for example, said that Albany County’s projected 2005 Medicaid expenditures are $74.7 million - an amount that is almost $8 million more than the county’s entire 2005 property tax levy of $66.7 million.
  - But Albany County’s budget documents show that its "net" Medicaid expenditures ($55.5 million) are 25% less than its "gross" MMIS payments. (Note: Albany County’s budget documents show an even lower "net" cost, but that is because of that County’s voluntary decision to use tobacco settlement proceeds to help ofset its Medicaid costs.

- Nassau County provides another example of Medicaid cost exaggeration.
  - Nassau County estimates that between 2004 and 2005 its Medicaid expenditures will increase from $260 million to $282 million.
  - But when one examines the "Supporting Schedules to the Fiscal 2005 Proposed Budget" to get the net numbers, we find a decline in Nassau County’s "net" Medicaid expenditures from $219 million to $218 million.

Albany County's 2005 Executive Budget Helps to Explain the Difference between Gross and Net Medicaid Expenditures.

	2004 Estimated	2005 Projected	$ Change	% Change
MMIS Payments	71,269,002	74,698,052	3,429,050	4.8%
Other Expenses	3,291,063	2,590,000	(701,063)	-21.3%
Total Expenses	**74,560,065**	**77,288,052**	**2,727,987**	**3.7%**
Repayments	2,300,000	2,700,000	400,000	17.4%
IGTs	6,338,750	4,437,125	(1,901,625)	-30.0%
Overburden Aid	11,753,000	14,430,469	2,677,469	22.8%
Other St & Fedl Aid	917,708	180,133	(737,575)	-80.4%
Total Aid	**21,309,458**	**21,747,727**	**438,269**	**2.1%**
Net Costs	**53,250,607**	**55,540,325**	**2,289,718**	**4.3%**

Local expenditures on Medicaid have gone up significantly but federal and state Medicaid expenditures increased as fast or faster. Moreover, New York's Medicaid expenditures have not been growing as fast as health care expenditures in general.

- Statewide, local Medicaid expenditures increased by 14% from 2001 and 2002 and by 5% from 2002 to 2003. Overall, expenses rose by 20% over the two years.

- For the state as a whole, expenditures were also up by 20% over this two-year period.

- Federal expenditures increased by 29% during this period. This was due to the increased FMAP (Federal Medical Assistance Percentage) which was in effect for part of 2003. The federal share of New York's Medicaid costs went from 50% to 52.95% for the last two quarters of FFY 2003 and the first 3 quarters of FFY 2004. Both county and state Medicaid expenditures are expected to go up now that the enhanced FMAP has expired.

- According to a study published by the Kaiser Family Foundation, nationally, overall health care expenditures per capita grew by 30% between 1998 and 2002, from $4,179 to $5,440. (Kaiser Family Foundation). In New York State, Medicaid expenditures per participant grew by only 10% over this same period, from $7,807 to $8,574.

Skyrocketing expenditures on prescription drugs accounted for almost a quarter of the growth in New York's Medicaid expenditures.

- Between 1997 and 2003, 23% of the increase in NYS Medicaid expenditures can be attributed to increasing expenditures for prescription drugs. Over this period, expenditures on prescription drugs increased at an average annual rate of 20% --- vs. 7% for NYS's Medicaid expenditures on everything else.

- The Executive Budget once again proposes a preferred drug list in an attempt to tackle the issue of skyrocketing prescription drug costs but, like last year, the Governor's proposal fails to include the kinds of consumer safeguards that are necessary to make this program effective <u>and</u> to earn legislative approval.

- The Governor's proposal to increase prescription co-pays for Medicaid recipients is short sighted. A substantial and rigorous body of research has demonstrated that low-income individuals are more vulnerable to the adverse effects of cost-sharing than other groups are. Cost-sharing policies that cause only modest reductions in health care use among middle-class individuals can result in more substantial reductions in health care use and lead to significant adverse health consequences among poorer individuals, especially those with chronic health problems. *See for example,* "Charging the Poor More for Health Care: Cost Sharing in Medicaid," Leighton Ku, Center for Budget and Policy Priorities, May 7, 2003.

- New York could cut its drug costs by more than one third if it were able to use its bargaining power to purchase at "federal supply schedule" prices. Options include: regional drug purchasing pools; preferred drug list with adequate consumer protections; reimportation from Canada.

Almost one fourth of the growth in Medicaid expenditures in NYS since 1997 can be attributed to increased expenditures on prescription drugs and supplies.

	NYS Spending on Prescription Drugs and Supplies (billions)	All Other NYS Medicaid Spending (billions)	Total NYS Medicaid Spending (billions)
1997	$1.40	$18.97	$20.37
1998	$1.70	$20.20	$21.90
1999	$2.15	$20.72	$22.87
2000	$2.58	$21.09	$23.67
2001	$3.10	$22.95	$26.05
2002	$3.77	$25.44	$29.21
2003	$4.29	$28.47	$32.76
Growth (in billions)	$2.89	$9.51	$12.40
Rate of Growth	206.19%	50.13%	60.87%
Share of Base	7%	93%	100%
Share of Growth	23%	77%	100%

Source: New York State Department of Health: Medicaid Expenditures by Function

Under current law, each county's share of overall Medicaid expenditures depends on the kind of care (long term care vs. regular care) and type of recipient (former OMH and OMRDD residents) not on the county's relative "ability to pay"

- In 2003, county shares averaged 16.7% but varied from 18.3% for NYC to 10.2% for Putnam. New York requires counties to pay 10% of long term care costs and 25% of most other Medicaid costs. State and federal funds pay the entire cost for some former OMH and OMRDD residents.

- On the other hand, federally the state share varies from a maximum of 83% to a minimum of 50% based on a formula that compares each state's per capita income to the national per capita income. While New York has argued that factors other than per capita income should be taken into account (e.g. poverty rates) in establishing the federal matching rate[1], at least the federal rate varies by "ability to pay."

- Counties have very different "burdens" when Medicaid expenditures are compared to either property tax values or the sales tax base.

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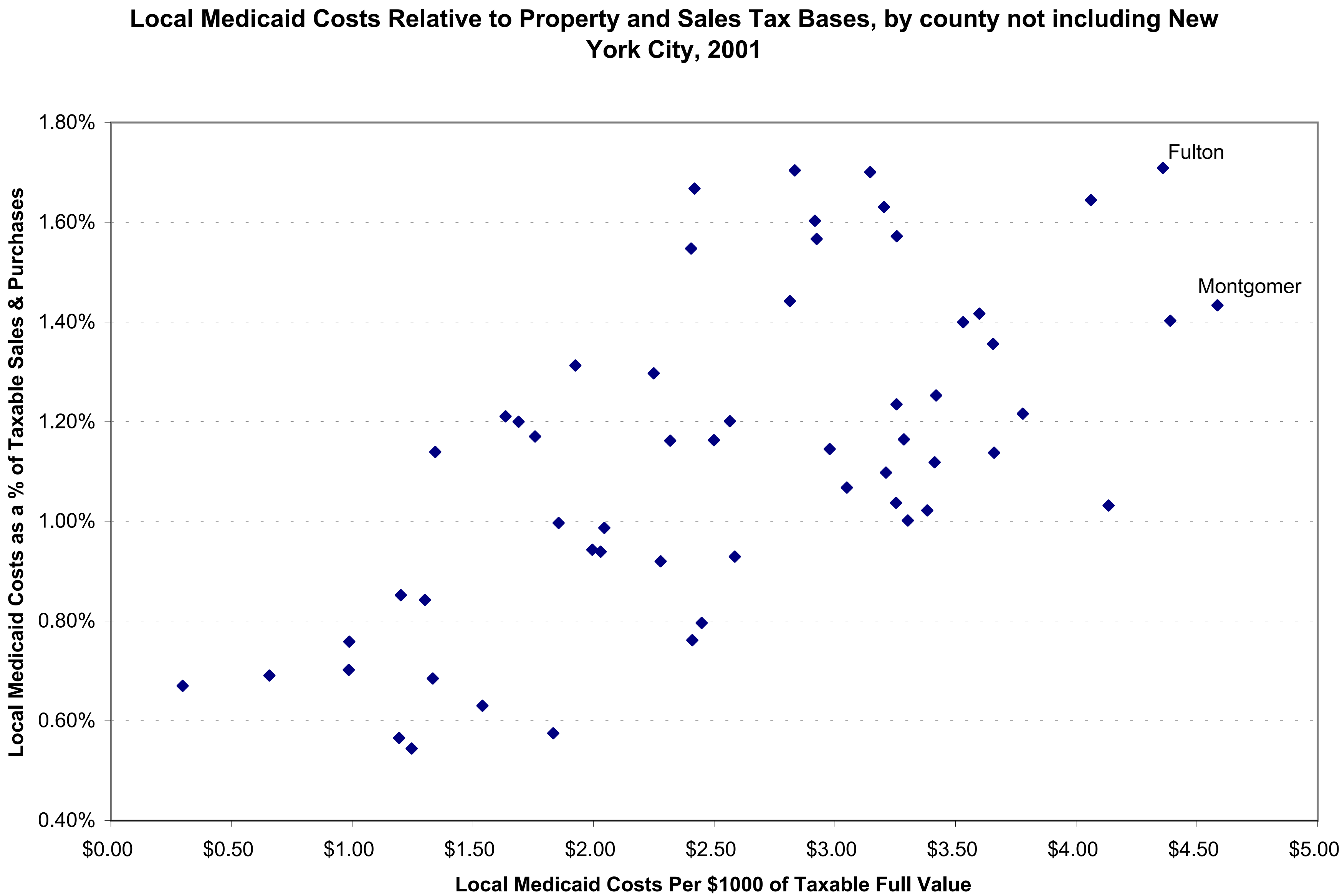
[1] New York and Connecticut have similar per capita incomes but New York has a much higher poverty rate and therefore much higher Medicaid expenditures. *See* US General Accounting Office, "Medicaid Formula—Differences in Funding Ability among States Often are Widened", GAO-03-620, July 2003.



Local Medicaid Costs Relative to Property and Sales Tax Bases, by county not including New York City, 2001
Fulton
Montgomer
1.80%
1.60%
1.40%
1.20%
1.00%
0.80%
0.60%
0.40%
Local Medicaid Costs as a % of Taxable Sales & Purchases
$0.00
$0.50
$1.00
$1.50
$2.00
$2.50
$3.00
$3.50
$4.00
$4.50
$5.00
Local Medicaid Costs Per $1000 of Taxable Full Value

While New York State should work to pick up an additional portion of local Medicaid costs, the most common proposals have serious flaws.

- Capping local contributions at their 2004 or 2005 levels (or at those levels plus some annual growth factor) would freeze into place the serious inequities of the current system. For Chemung, Oneida, Fulton, Allegany and Montgomery counties and New York City, local Medicaid expenditures currently amount to more than $4 per $1,000 of taxable full value. But for Putnam and Hamilton counties local Medicaid expenditures represent much less than $1 per $1,000 of taxable full value.

- Capping local contributions would also remove any incentives for counties to improve their management of the program. The counties' claim that they have no say in the cost of the program ignores the discretion that counties have in implementing the program within the constraints of federal and state law. For example, a recent audit by the Nassau County Comptroller found that Nassau county was making much greater use of home care than comparable counties.

- Governor Pataki's so-called "Medicaid takeover" plan is really no different than capping the local contribution. The state would "takeover" Medicaid expenditures <u>but</u> also "takeover" sales tax revenues.

- Increasing the state share across the board would have the same effect of freezing current inequities into place. Increasing the state share of particular services is even worse. When the state increased its share of long term care rather than its share of all care, it gave more relief to counties with low concentrations of poverty. In those counties, long term care makes up the lion's share of all Medicaid costs. This exacerbated the overburden facing counties with higher poverty rates particularly those that also have comparatively weak property and sales tax bases.

What are some preferable alternatives?

- **Make the state share the same for all services but have that share vary from county to county based on the relative strength of the various counties' tax bases (or the strength of their tax bases relative to their poverty rates).** Alternatively, the state could maintain the current distinction between long term care and regular Medicaid, but have each of these shares vary from county to county based on the relative strength of the various counties' tax bases (or the strength of their tax bases relative to their poverty rates).

- **Counties should also be given some additional revenue options. New York State could give all counties (or all counties above a certain size) the authority to levy a piggyback income tax similar to that which the City of Yonkers is currently authorized to levy.** Indiana has a series of county-option piggyback income taxes, with 85 of its 92 counties now making use of this option. Some counties would find this alternative of taxation based on the "ability to pay" preferable to increasing their sales tax rates to 9.25% or 9.755 as Erie and Oneida counties, respectively, are now proposing.

- **Broadening the sales tax base would provide additional revenue to the state and all the counties.** Including more services in the sales tax base would also make this tax fairer in its impact. Making the reforms necessary to implement the Streamlined Sales Tax Project will help to ensure that local retailers can compete on a more even playing field with remote sellers who can currently refuse to collect sales tax from their customers.

Federal block grant proposals now being discussed in Washington would be disastrous for New York State.

- Block granting Medicaid would be very different than what happened when they block granted TANF
  - No reason to expect Medicaid caseloads to collapse the way TANF caseloads collapsed in the second half of the 1990s, particularly when the number of adults without employer-provided health insurance growing.

  - TANF spending went down because benefit levels were frozen. In the midst of skyrocketing health care costs, very difficult to stop the growth in the cost of medical services for Medicaid beneficiaries. The alternative would be to cut services to the needy.

- Under a fixed block grant, New York would have to use state and local revenues to finance many of the services for which the federal government now pays 50% of the cost.

- A Medicaid block grant would deprive the New York State economy of one of the most important automatic stabilizers. When the New York State economy hits a downturn, historically the state has been able to count on increased federal Medicaid funds to provide economic stimulus.

Balancing the New York State Budget: Alternative Approaches

Many of the cuts and freezes proposed in the Executive Budget would have negative effects on the state's economy and its quality of life. In order to balance the 2005-06 and subsequent state budgets in a more economically sensible manner, the following approaches should be considered:

- **Federal Assistance.** New York's government, labor and business leaders should work with their counterparts in other states and at the national level to secure an extension of the temporary "state fiscal relief" package enacted in May 2003 and the implementation of other steps necessary to protect state finances and provide appropriate federal assistance.

- **Public Procurement Reform.** New York should reduce cost-ineffective contracting out to high priced consultants and it should use the state's purchasing power to get better prices on prescription drugs.

  Corporate Tax Reform. New York should even the economic playing field by eliminating corporate tax avoidance schemes and instituting appropriate corporate tax reforms so that all corporations pay a fair share of taxes and that government subsidies are only provided for jobs actually created.

- **Sales Tax Reform.** New York should continue the efforts that it began in 2003 to implement the Streamlined Sales Tax Project in order to ensure that New York retailers do not face unfair competition from remote sellers. New York should also consider the extension of the sales tax base to include additional services.

- **Environmental Tax and Fee Reform.** New York should expand its bottle bill to cover a broader range of beverages, raise the deposit to 10 cents, and reclaim a portion of unclaimed deposit revenues for public purposes; and ensure that the tradable emission permits under Governor Pataki's proposed regional carbon cap proposal are auctioned rather than given away.

Balancing the New York State Budget: Federal Assistance

- New York leaders should work for the extension of the temporary federal revenue sharing program and the temporary increase in the federal Medicaid match rates that were enacted into law in May 2003. These programs provided $20 billion in assistance to State and local governments including $2.1 billion for New York.

- New York leaders should attempt to build regional and national coalitions in support of legislation which would repeal the limit that the Congress enacted in 2000 on the size of the loans that the federal government can make to state and local governments for tax revenue losses directly attributable to presidentially-declared major disasters. This legislation would also waive the requirement for the repayment of such loans when the losses involved are the result of terrorist attacks. This could provide both New York State and New York City with at least $1.6 in aid to make up for September 11-related tax revenue losses.

- New York leaders should work to build regional and national coalitions to eliminate the current treatment of the deduction for state and local taxes in the calculation of the federal Alternate Minimum Tax. As Senator Kay Baily Hutchinson has pointed out,"For those in states with income taxes, their tax deduction benefit has been diminished by the alternative minimum tax, AMT. People can deduct their state and local income taxes when calculating their regular taxes, but not when determining the AMT. The difference often is the reason people must pay the higher alternative tax. In fact, state and local taxes account for 54 percent of the difference between the AMT and the regular tax calculation. This particularly hurts the 60 percent of AMT payers who are from states with higher income tax rates. Eliminating this discrepancy would go a long way toward reducing the number of people affected by the AMT." (Congressional Record, February 27, 2003, Page S2924)

Balancing the New York State Budget: Public Procurement Reform

- **Reduce Wasteful Contracting Out By the New York State government.** The Public Employees Federation has documented that up to $250 million is wasted by NYS each year by contracting out work that could be done by State employees at a significantly lower cost. There are numerous State contracts under which NYS pays contractors up to four times the salary of a State employee (including a 35% fringe benefit factor) to do the same work done by State employees. A more rational approach to contracting out would protect state taxpayers by requiring a cost/benefit analysis before a contract for personal services is executed to determine whether those services could be performed at a lower cost by State employees. Maine and Massachusetts have already adopted legislation restricting wasteful contracting out. The current system could also be improved through disclosure with each agency's proposed budget of information regarding proposed state operations personal service contracts.

- **Spend Less on Prescription Drugs by Combining State and Local Purchasing Power to Get Lower Prices.** The savings of aggressive action on this front are substantial. For example, the Health Reform Program at Boston University School of Public Health has estimated (using data for 2000) that New York could reduce its Medicaid expenditures by over $400 million per year if it were able to purchase brand name prescription drugs at federal supply schedule prices. These researchers have also concluded New Yorkers would have saved $3 billion in 2001 if international pharmaceutical makers accepted the same prices for brand name prescription drugs in the United States that they charge in Canada. The State's share of these savings would easily exceed $1 billion.

Balancing the New York State Budget: Corporate Tax Reform

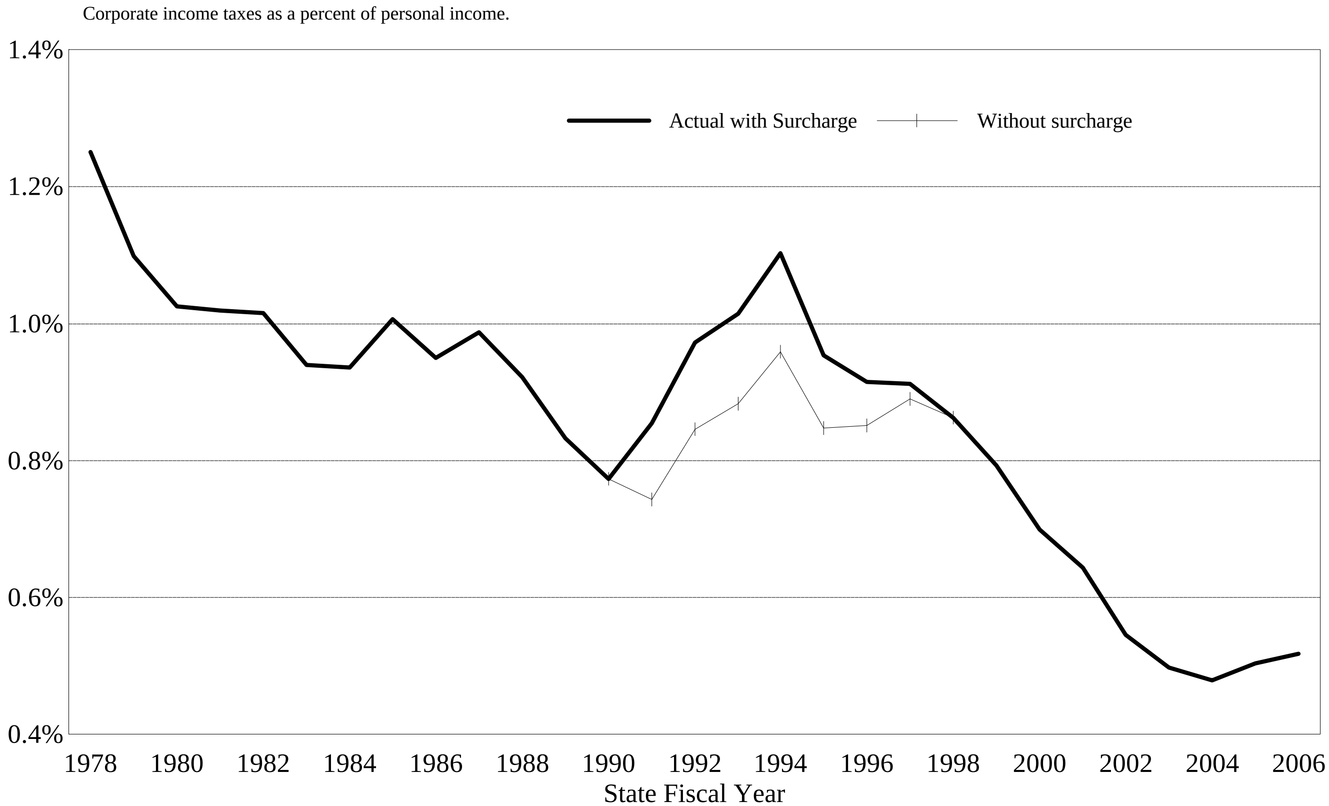
- **Eliminate specific loopholes that do not create jobs.** Such actions include reform of the Empire Zone program ($50 to $100 million annually), reducing the abuse of "point-of-service" exceptions ($75 million), limiting Industrial Development Agencies' ability to abate State taxes ($60 million), and recovering subsidies from companies that do not live up to the conditions of their tax abatements ($15 million).

- **Reform New York's Corporate Alternate Minimum Tax (AMT).** Several significant loopholes were added to New York's Corpoarte AMT in 1994. These changes could be repealed. Alternatively, New York's current AMT could be replaced with a variation of the Alternative Minimum Assessment (AMA) adopted by New Jersey in 2002. While the New Jersey AMA applies to all businesses with gross profits of $1 million or more, New York could apply such an assessment only to businesses with gross profits of over $5 million in order to ensure that this revision would not hurt small businesses.

- **Crack down on schemes that create "Nowhere Income."** Many large corpoarations pay no taxes on profits derived from sales made in states in which they do not have a physical presence. 25 states, including Texas, Utah, Oregon and California, have enacted "throwback rules" to ensure that profits earned in a state in which a corporation may not be subjected to an income tax are taxed instead by its home state.

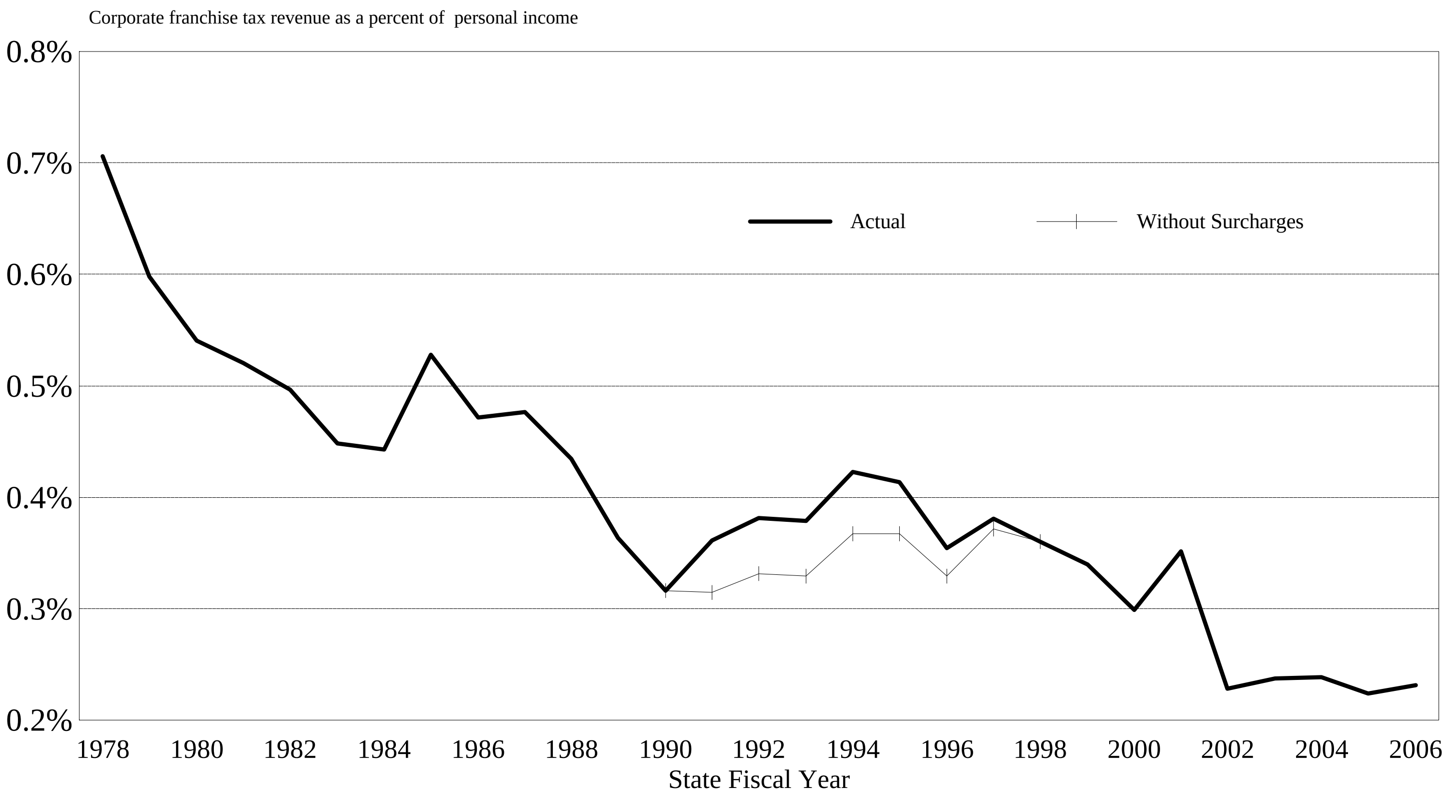
- **Adopt "Combined Reporting."** 17 states including California, Colorado, Illinois, and New Hampshire require multi-state and multi-national corporations to file a combined return for their entire "corporate family" (with that income apportioned among the states based on the locations of all its property, payroll and sales) rather than being able to use inter-subsidiary transactions to move income to countries or states where that income is not taxable. Last summer, Vermont - with the support of the business community - adopted combined reporting and reduced its corporate tax rate to a level that is still higher than New York's.

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



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

For example, revenues from the state's main tax on general business corporations has fallen by over 50% relative to the size of the state's economy.



Note: The increase in corporate tax revenues from SFY 1999-00 to SFY 2000-01 is due primarily to the impact of legislation which moved energy companies to the corporate franchise tax.

Employment in New York and the U.S. through recession and recovery

Employment (in thousands)	**NYC**	**NYS**	**U.S.**
Mar. 2001 (U.S. peak month)	3,741	8,673	132,507
Nov. 2001 (end of national recession)	3,605	8,473	130,871
Aug. 2003 (employment trough, NY and US)	3,514	8,387	129,789
Dec. 2004 (latest month)	3,552	8,454	132,266
Mar. 2001- Nov. 2001 (official national recession)			
Absolute Change	-136	-200	-1,636
% Change	-3.6%	-2.3%	-1.2%
Nov. 2001 - Aug. 2003 (job-loss recovery phase)			
Absolute Change	-91	-87	-1,082
% Change	-2.5%	-1.0%	-0.8%
Aug. 2003 - Dec. 2004 (trough to latest)			
Absolute Change	37	67	2,477
% Change	1.1%	0.8%	1.9%
Mar. 2001- Dec. 2004 (peak to latest)			
Absolute Change	-190	-219	-241
% Change	-5.1%	-2.5%	-0.2%

All data are seasonally adjusted.

Source: Bureau of Labor Statistics (BLS), NYSDOL, an Fiscal Policy Institute.

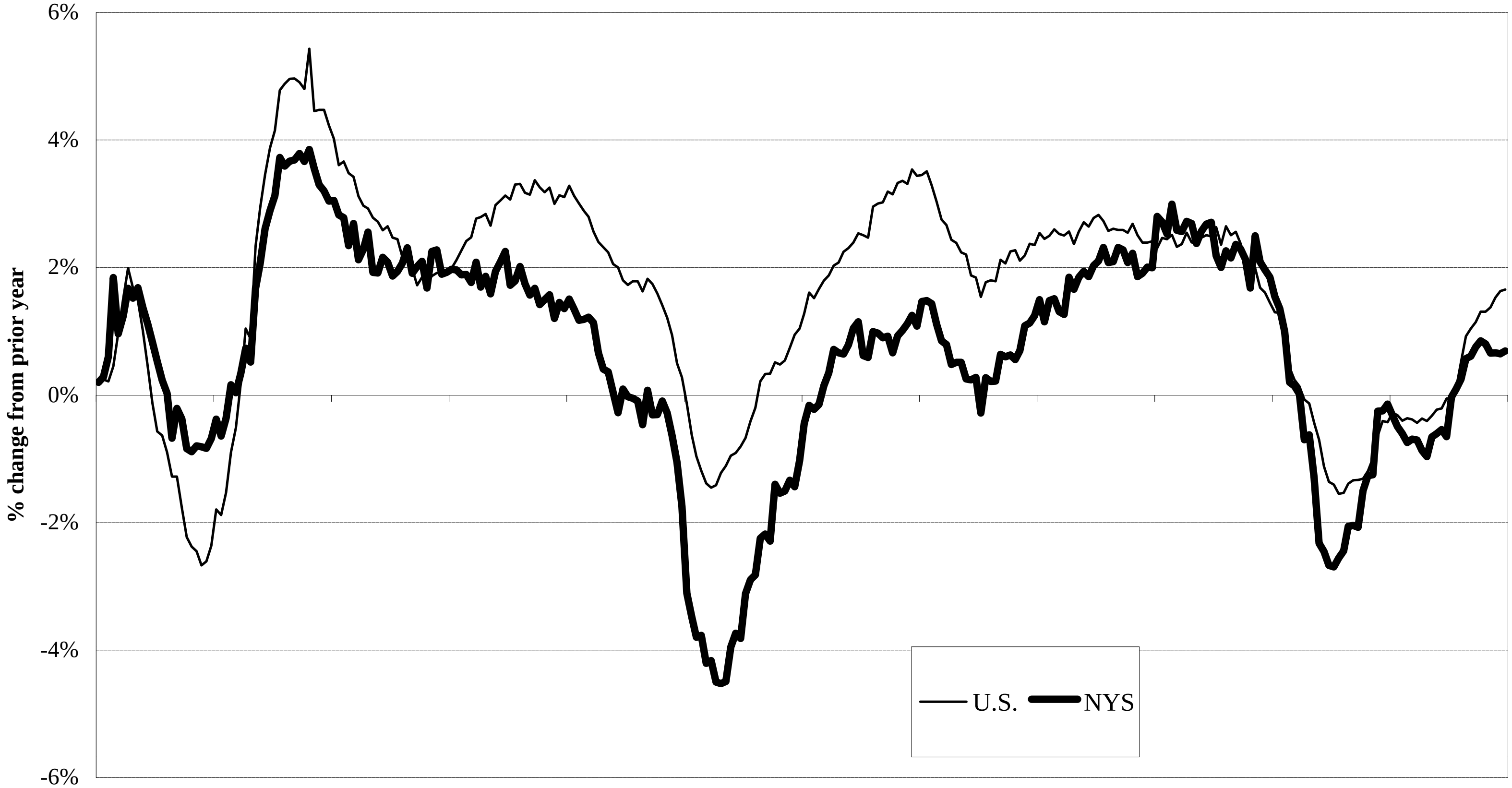
While NYS's job decline during the downturn was nearly twice the nation's, decline was concentrated in NYC. Over the past year, New York's State's job growth has trailed the nation's, although the upstate Eastern region has nearly matched national growth.

	EMPLOYMENT					absolute change		percent change	
	Dec. 2000	Dec. 2001	Dec. 2002	Dec. 2003	Dec. 2004	Dec. 2000-Dec. 2003	Dec. 2003-Dec. 2004	Dec. 2000-Dec. 2003	Dec. 2003-Dec. 2004
United States	***133,308,000***	***131,491,000***	***130,933,000***	***130,862,000***	***133,027,000***	***-2,446,000***	***2,165,000***	***-1.8%***	***1.7%***
New York State	***8,831,400***	***8,595,300***	***8,583,200***	***8,527,300***	***8,586,300***	***-304,100***	***59,000***	***-3.4%***	***0.7%***
10 County Downstate Area	***5,643,100***	***5,458,500***	***5,439,800***	***5,397,000***	***5,449,900***	***-246,100***	***52,900***	***-4.4%***	***1.0%***
New York City	3,821,400	3,657,700	3,634,200	3,577,400	3,611,200	-244,000	33,800	-6.4%	0.9%
Nassau-Suffolk PMSA	1,253,800	1,240,100	1,241,300	1,249,600	1,262,800	-4,200	13,200	-0.3%	1.1%
Putnam County	23,400	24,200	24,100	25,000	26,200	1,600	1,200	6.8%	4.8%
Rockland County	113,400	113,100	116,600	118,900	120,500	5,500	1,600	4.9%	1.3%
Westchester County	431,100	423,400	423,600	426,100	429,200	-5,000	3,100	-1.2%	0.7%
Upstate Metropolitan Areas	***2,616,800***	***2,573,600***	***2,572,200***	***2,569,900***	***2,579,600***	***-46,900***	***9,700***	***-1.8%***	***0.4%***
Western & Central									
Binghamton MSA	121,300	117,200	115,900	114,500	114,900	-6,800	400	-5.6%	0.3%
Buffalo-Niagara Falls MSA	564,800	549,500	556,000	553,400	552,100	-11,400	-1,300	-2.0%	-0.2%
Elmira MSA	44,500	42,800	42,600	41,600	41,400	-2,900	-200	-6.5%	-0.5%
Jamestown MSA	59,700	57,400	57,100	56,800	56,800	-2,900	0	-4.9%	0.0%
Rochester MSA	559,600	548,700	541,500	539,600	534,400	-20,000	-5,200	-3.6%	-1.0%
Syracuse MSA	356,400	350,400	349,700	350,000	353,300	-6,400	3,300	-1.8%	0.9%
Utica-Rome MSA	137,600	135,100	134,100	132,900	134,400	-4,700	1,500	-3.4%	1.1%
Western & Central Total*	***1,843,900***	***1,801,100***	***1,796,900***	***1,788,800***	***1,787,300***	***-55,100***	***-1,500***	***-3.0%***	***-0.1%***
Eastern									
Dutchess County PMSA	119,700	122,000	122,200	124,000	126,300	4,300	2,300	3.6%	1.9%
Glens Falls MSA	50,000	49,700	50,000	51,300	52,400	1,300	1,100	2.6%	2.1%
Newburgh, NY-PA PMSA	135,100	133,700	138,500	140,400	142,500	5,300	2,100	3.9%	1.5%
Albany-Schenectady-Troy MSA	468,100	467,100	464,600	465,400	471,100	-2,700	5,700	-0.6%	1.2%
Eastern Total*	***772,900***	***772,500***	***775,300***	***781,100***	***792,300***	***8,200***	***11,200***	***1.1%***	***1.4%***
Non-metroplitan Counties	***579,600***	***575,800***	***579,100***	***578,800***	***585,100***	***-800***	***6,300***	***-0.1%***	***1.1%***
Western & Central Total**	***453,200***	***449,600***	***450,900***	***450,900***	***453,700***	***-2,300***	***2,800***	***-0.5%***	***0.6%***
Eastern Total**	***126,400***	***126,200***	***128,200***	***127,900***	***131,400***	***1,500***	***3,500***	***1.2%***	***2.7%***
Combined Western & Central Region	***2,297,100***	***2,250,700***	***2,247,800***	***2,239,700***	***2,241,000***	***-57,400***	***1,300***	***-2.5%***	***0.1%***
Combined Eastern Region	***899,300***	***898,700***	***903,500***	***909,000***	***923,700***	***9,700***	***14,700***	***1.1%***	***1.6%***

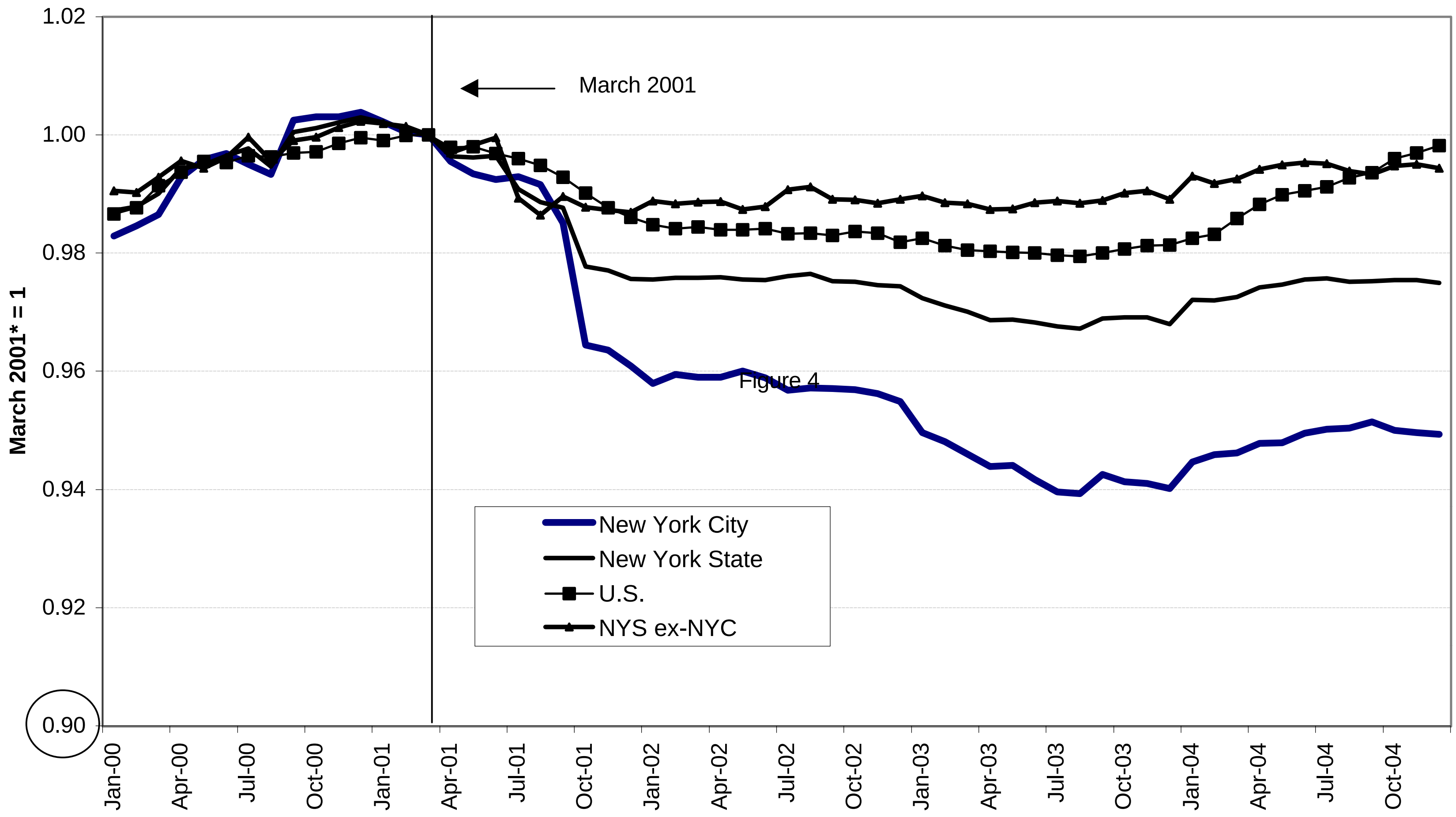
* Eastern includes: Albany-Schenectady-Troy, Dutchess, Glens Falls, and Newburgh MSAs. Western & Central includes: Binghamton, Buffalo-Niagra, Elmira, Jamestown, Rochester, Syracuse, and Utica-Rome MSAs.
** Eastern includes: Columbia, Greene, Sullivan, and Ulster counties. Western & Central includes all other non-metro counties.
Note: NYS total separately estimated in the Current Employment Statistics program; the sum of the component regions may not equal the state totals.

Source: New York State Department of Labor.

New York State and U.S. Job Growth, 1981-2004



Employment Trajectories through the recession and recovery: New York City, New York State and the U.S. January 2000 to December 2004



Source: U.S. Bureau of Labor Statistics (BLS), NYS DOL, and Fiscal Policy Institute.

NYS's job change during the recession meant the loss of higher than average paying jobs and the gain of lower than average wage jobs

	Employment (000)		Average Annual	Job Change		Share Change	
	Nov-00	**Nov-03**	**Wage 2003**	Change (000)	Gain/Loss	Change (pps.*)	Gain/Loss
Educational and Health Services	1,417	1,533	$34,613	116	gained jobs	1.90	gained share
Government	1,486	1,507	$42,947	21	gained jobs	0.81	gained share
Leisure and Hospitality	640	643	$21,184	3	gained jobs	0.28	gained share
Other Services	344	351	$26,307	7	gained jobs	0.21	gained share
Management of Companies and Enterprises	117	120	$112,772	3	gained jobs	0.08	gained share
Real Estate and Rental and Leasing	186	182	$42,062	-4	lost jobs	0.02	gained share
Utilities	42	41	$77,825	-1	lost jobs	0.00	gained share
Retail Trade	918	889	$24,985	-29	lost jobs	0.00	gained share
Subtotal, industries gaining job share [1]	***5,149***	***5,264***	***$36,971***	***115***		***3.3***	
Construction	346	331	$47,721	-15	lost jobs	-0.05	lost share
Transportation and Warehousing	247	225	$36,663	-21	lost jobs	-0.16	lost share
Wholesale Trade	382	354	$55,917	-29	lost jobs	-0.19	lost share
Finance and Insurance	563	518	$124,531	-44	lost jobs	-0.31	lost share
Admin. & Supp. and Waste Manage. & Remed. Servs.	461	418	$30,446	-43	lost jobs	-0.33	lost share
Professional, Scientific, and Technical Services	567	512	$68,726	-55	lost jobs	-0.43	lost share
Information	332	277	$66,569	-55	lost jobs	-0.52	lost share
Manufacturing	745	610	$46,295	-136	lost jobs	-1.31	lost share
Subtotal, industries losing job share [1]	***3,643***	***3,244***	***$58,244***	***-399***		***-3.3***	
Total Nonfarm	**8,798**	**8,514**	**$46,328**	**-284**			

* Percentage point change.
Note: Employment data are not seasonally adjusted. Wage data are for 2002 from the Insured Employment series.

[1.] The average wage for the group is computed by weighting the industry average wage by each industry's share of the change in the job share for its group.
Source: NYS DoL and Fiscal Policy Institute.

The deterioration in job quality has continued in NYS over the past year

	Employment (000)		Average Annual Wage	Job Change		Share Change	
	Nov-03	**Nov-04**	**2003**	Change (000)	Gain/Loss	Change (pps.*)	Gain/Loss
Educational and Health Services	1,533	1,557	$34,613	23.6	gained jobs	0.16	gained share
Admin. & Supp. and Waste Manage. & Remed. Servs.	418	432	$30,446	14.8	gained jobs	0.14	gained share
Leisure and Hospitality	643	654	$21,184	11.6	gained jobs	0.09	gained share
Construction	331	338	$47,721	7.1	gained jobs	0.06	gained share
Professional, Scientific, and Technical Services	512	518	$68,726	6.5	gained jobs	0.04	gained share
Real Estate and Rental and Leasing	182	185	$42,062	3.1	gained jobs	0.02	gained share
Other Services	351	354	$26,307	3.3	gained jobs	0.01	gained share
Management of Companies and Enterprises	120	121	$112,772	1.1	gained jobs	0.004	gained share
Retail Trade	889	894	$24,985	5.6	gained jobs	0.001	gained share
Utilities	41	41	$77,825	0.3	gained jobs	0.001	gained share
Subtotal, industries gaining job share [1]	***5,018***	***5,095***	***$35,932***	***77***		***0.53***	
Transportation and Warehousing	225	226	$36,663	0.6	gained jobs	-0.01	lost share
Finance and Insurance	518	520	$124,531	2.0	gained jobs	-0.01	lost share
Information	277	276	$66,569	-1.0	lost jobs	-0.03	lost share
Wholesale Trade	354	350	$55,917	-3.7	lost jobs	-0.07	lost share
Government	1,507	1,502	$42,947	-5.2	lost jobs	-0.17	lost share
Manufacturing	610	593	$46,295	-16.7	lost jobs	-0.24	lost share
Subtotal, industries losing job share [1]	***3,491***	***3,467***	***$49,613***	***-24***		***-0.53***	
Total Nonfarm	**8,514**	**8,568**	**$46,328**	**53**			

* Percentage point change.

Note: Employment data are not seasonally adjusted. Wage data are for 2002 from the Insured Employment series.

Source: NYS DoL and Fiscal Policy Institute.