

# ANNUAL REPORT 2012

*A Citizen's Guide To the State of The States*

## NEW YORK



## THE STATE OF THE STATES

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**The State of the States**  
**THE ANNUAL REPORT OF NEW YORK**  
**2012**

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2012

# Dear Citizens of the State of New York,

We are pleased to present to you the 2012 Annual Report of New York, a joint venture of Harvard University’s Institute of Politics at the Kennedy School, the Fels Institute of Government at the University of Pennsylvania, and the American Education Foundation, for the fiscal year which ended on March 31, 2011. This report presents information not only from the 2011 fiscal year (the latest year for which data is available), but also from fiscal year 2012, the FY 2013 New York budget, and previous years to provide context and enable a comprehensive analysis of state government financial trends. The data in this report were drawn from New York’s Comprehensive Annual Financial Reports (“CAFRs”) from years 2002 to 2011, the 2010 United States Census, and various other official data sources that we found to be the most reliable sources of data on state finance.

This report was designed to synthesize the complicated financial information available into one easy-to-read document. We believe that you deserve to know “the state of the state” and we hope that our report will inform all citizens about the basics of state finance and the challenges that lie ahead. We did our best to ensure that this report reflects a nonpartisan analysis of the state’s fiscal health. With all the politics and noise surrounding budgeting and state financial planning, we believe that this neutral perspective is vital when assessing budgets.

We begin the report by looking at basic demographic and financial information about the state to provide a snapshot of New York’s financial position. The report then moves on to discuss key budget topics that we believe are crucial to understanding financial trends: health care, education, infrastructure, and pensions.

We hope that this document is an informative and useful guide for understanding the many challenges that New York faces. To find out more about the States Project and how you can get involved, please visit our website at <http://www.thestatesproject.org>

Sincerely,

Meredith Bagby  
PUBLISHER

Syon Bhanot  
EDITOR-IN-CHIEF

## OVERVIEW

Across the country, states grapple with difficult fiscal issues. The financial crisis of 2008 and subsequent years of stagnant economic growth have brought state finances to a near critical condition. As tax revenue fell, the country saw mass layoffs of state workers, from teachers to police officers to judiciary employees. Meanwhile, the demand for public services continued to increase. A stagnant economy sent more Americans toward public programs like unemployment insurance and Medicaid. Health care costs swelled and educational capacity was stretched to its limits. National infrastructure — from government buildings to schools, roads, and bridges — continued to suffer with little funding available for necessary repairs. In 2009, the federal government stepped in with much needed stimulus for the states, but those funds will expire in 2012, leaving states with even bigger deficits to fill, despite an improving economy.

“New York remains in a relatively strong position compared to other states, with a low debt/GDP ratio, a large economic capacity, and a fully funded pension program for state employees.”

New York has not been immune to these issues. Unemployment levels remain high by historical standards and tax revenues have yet to rebound to pre-recession levels. Medicaid costs are ballooning and now take up nearly a third of New York’s total state budget. Student debt is on the rise as a result of cuts to higher education spending and increasing tuition, and public education and infrastructure can barely keep pace with public use. Despite these challenges, New York remains in a relatively strong position compared to other states, with a low debt/GDP ratio, a large economic capacity, and a relatively well-funded pension program for state employees.

New York State lawmakers are seeking ways to control spending. In early 2011, Governor Andrew Cuomo created the Medicaid Redesign Team to put forward recommendations for controlling Medicaid spending, including introducing a cap on state Medicaid spending, partnering with the health care industry to lower costs, and streamlining programs. In March 2012, Governor Cuomo signed pension reform into law, with the aim of saving \$80 billion over the next thirty years by requiring public workers to pay more for a smaller pension benefit.

Still, much of the most difficult work in ensuring a sustainable fiscal future for New York — addressing infrastructure needs, providing accessible and high-quality public education to all children, and meeting challenges in health care as the Baby Boomer generation retires — remains incomplete. As Governor Cuomo and the New York State Legislature work together to craft

## { executive summary }

future budgets, they will need to leverage the success of recent reforms to address the numerous fiscal issues confronting the state.

### REVENUES AND EXPENDITURES

In FY 2011, New York brought in \$152.2 billion in revenues from three main sources: taxes, user fees from state-run programs, and grants from the federal government, and spent a total of \$152.7 billion, creating a deficit of \$552 million.

The largest source of tax revenue in 2011 was from the state's progressive income tax, which produced over 50% of total tax revenue.<sup>1</sup> Income tax collection rose nearly 60% from 2003 to 2008, but fell by 15% in 2009 due to the economic downturn.<sup>2</sup> In 2011, as unemployment fell to just over 8%, income taxes rose nearly 10%. Still, tax collections have still not returned to pre-recession levels. The New York sales tax is the second largest source of tax revenue in the state, followed by corporate tax revenue.

User fees from state-run programs come largely from higher education fees and health care fees; these revenue sources are classified as "business-type activities" and brought in roughly \$16 billion in 2011. Grants (largely from the federal government) totaled roughly \$66 billion in 2011. Federal grants, which are often linked to specific programs, rose from 32.0% of state revenue in 2008 to 40.0% in 2011 due to increased funding for Medicaid, food stamps, and K-12 education.<sup>3</sup>

Including business-type activities, the state of New York spent a total of \$152.7 billion in fiscal year 2011.<sup>4</sup> Since 2006, state expenses have grown 22.0% after adjusting for inflation, owing in large part to increased expenditures on Medicaid and unemployment compensation, which saw greater public demand as a result of the Great Recession.<sup>5</sup>

Like many states, the largest outlay by the New York state government, \$52.6 billion, went to public health — specifically to the Medicaid program, which funds health care for low-income individuals and has a total expenditure of \$52.0 billion.<sup>6</sup> In 2011, Governor Cuomo's Medicaid Redesign Team put forward a number of recommendations to trim rising Medicaid costs in the state, and the state government has begun implementing some of these proposals. Public education at the K-12 level is the second-largest area of state spending, with expenditures totaling \$32.5 billion in 2011, roughly 21% of the state's budget.

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1 New York CAFR 2011.

2 New York CAFRs 2001 - 2011.

3 Ibid.

4 Ibid.

5 Ibid.

6 "Medicaid and CHIP." Kaiser Family Foundation. [<http://www.statehealthfacts.org/comparecat.jsp?cat=4&rgn=34&rgn=11>].

# { executive summary }

## NET WORTH, ASSETS AND LIABILITIES

New York's net worth is calculated by taking the difference between the total assets of the state (\$135.9 billion) and the total liabilities (\$108.9 billion).<sup>7</sup> According to the State Comptroller, New York has a net worth of \$27 billion.<sup>8</sup> That means that if New York theoretically sold off all its assets to pay all its debts, the state would have approximately \$27 billion in surplus.<sup>9</sup> Since 2000, the balance sheet has shown net worth ranging from \$22 to \$35 billion, with the biggest drop occurring in the midst of the Great Recession.

“Using a broader measure of debt tallied by the Census Bureau, New York State’s per capita debt is \$5,584 per citizen through fiscal year 2011.”

At the end of FY 2011, New York owed a total of \$56.1 billion in bonded debt secured by future revenues, state assets, and capital leases. This bonded debt represents 6% of the total annual personal income of the state. Using a broader measure of debt tallied by the Census Bureau, New York State’s per capita debt is \$5,584 per citizen through fiscal year 2011, or \$122.7 billion total. This broader measure includes all debts owed by the state and its agencies, whether fully backed by the credit of the state or not. Many of these debts include tuition repayment bonds and other bonds that the state is not technically liable for, but may assist state agencies in repaying to continue fulfilling important policy objectives such as the availability of affordable higher education. Though New York’s per-capita state debt is lower than some outlier states like Massachusetts, it is well above the national average. According to one measure of state debt calculated by Moody’s Investor Services, New York’s per-capita debt was \$3,135 in 2010, compared to a national average of just below \$1,500.<sup>10</sup>

## DEMOGRAPHICS

New York’s demographic statistics show a state of extremes. In measures of population, income, ethnicity and education, New York is consistently well above or well below the national average. Despite being the third most-highly populated state in the country, New York has experienced anemic population growth of only 2.1% between 2000 and 2010, compared to the national average of 9.7%.<sup>11</sup> Meanwhile, the state has far more immigrants — 22.2% of the state population — than the national average, which is just below 13.0%. Even as the general population in the state

<sup>7</sup> Assets can take the form of explicit value, like cash or investments, or of held value, like a bridge or a building. Liabilities are all debts for which the state is responsible, including bond issuances, the pensions and health care of state workers, tax refunds to citizens, and financing agreements such as leases for vehicles or land. All assets and liabilities are reported by the state Comptroller of the Commonwealth at the end of each fiscal year. These figures gathered by the Comptroller are as reported by each of the state agencies.

<sup>8</sup> New York CAFR 2011, Statement of Net Assets, P 23.

<sup>9</sup> New York CAFR 2011.

<sup>10</sup> “Your share of the state debt.” CNN Money. [[http://money.cnn.com/news/storiesupplement/economy/state\\_debt/index.html](http://money.cnn.com/news/storiesupplement/economy/state_debt/index.html)].

<sup>11</sup> “Population Distribution and Change: 2000-2010.” US Census Bureau. [<http://www.census.gov/prod/cen2010/briefs/c2010br-01.pdf>].

## { executive summary }

grew slowly over the last decade, the foreign-born population grew by over 11.0%. In 2010, both the state's median income and average income were above the national average, owing in part to the state's disproportionately large number of wealthy individuals (those earning above \$100,000 each year).<sup>12</sup> However, New York's poverty rate is also above the national average. The state has a disproportionately large number of extremely poor people (those earning below \$10,000 each year). The state has a much larger percentage of citizens with a bachelor's degree or higher and a graduate or professional degree than other states, but also more citizens who have not completed high school. The state's rate of incarceration as well as marriage and divorce are also below national averages. The state unemployment rate as of March 2012 was 8.7%, slightly above the national average of 8.4%.

### HEALTH CARE

At nearly one-third of total state expenditures, health care spending constitutes the largest single item in the New York state budget at \$52.6 billion in FY 2011. Since 2003, the cost of health benefits for consumers has risen 31.2%. The largest component of health care spending is Medicaid. As of FY 2011, New York's Medicaid payments per beneficiary were \$9,057, the highest in the country.<sup>13</sup> There is widespread consensus that health care will continue to be the largest single budget expenditure for New York for at least the next decade.<sup>14</sup> In fact, health care spending as a percentage of the state budget is expected to rise in coming years. Governor Cuomo has made controlling rising health care costs a priority through his Medicaid Redesign Team. By implementing recommendations from this team, the state government hopes to save billions in the coming years. Reigning in these costs will be especially important as the state deals with covering billions of dollars in promised health care benefits to retired state workers and their families.

“The state spends approximately 21% of its budget on K-12 education, with the highest per-pupil spending in the nation as of 2009.”

### EDUCATION

New York operates two systems of public education: kindergarten through twelfth grade (K-12), and a system of public universities and community colleges which provide higher education at a reduced cost to the state's citizens.

The state spends approximately 21% of its budget on K-12 education, or \$32.5 billion in FY 2011, with the highest per-pupil spending in the nation as of 2009. The state has become more reliant

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<sup>12</sup> Ibid.

<sup>13</sup> “The States Doing the Most (and Least) To Spread the Wealth.” 24/7 Wall Street. [<http://247wallst.com/2011/11/11/the-states-doing-the-most-and-least-to-spread-the-wealth/3/>].

<sup>14</sup> See data provided by the Kaiser Family Foundation at <http://www.statehealthfacts.org/profileind.jsp?cat=5&rgn=34>.

## { executive summary }

on federal and local funding for schools in recent years; however, this strategy will be difficult to continue as federal stimulus funds dry up in 2012. To make matters worse, local communities may struggle to fully fund their school districts due to a recently passed cap on property tax increases in the state. Meanwhile, in the classroom, New York students receive lackluster marks on national standardized tests. Disparities in achievement between the state's urban and suburban areas are especially acute, and within urban areas (particularly New York City) there are achievement gaps between socio-economic communities. The state has a strong and growing charter school movement that aims to address these inequalities, but problems remain.

Higher education consumes \$12 billion of the New York budget. New York State operates two separate systems of higher education: the City University of New York (CUNY) and the State University of New York (SUNY). Together, CUNY and SUNY have almost 100 campuses and institutions located across the state and educate around one million students. In recent years, state support for New York's system of public higher education has been imperiled by economic turmoil, increasing government debt, and budget cuts. From FY 2010 to FY 2011, state spending on higher education fell 7.1% to \$4.7 billion. Decreasing state support has caused tuition hikes at many campuses, leading students to take on greater amounts of student debt to fund their education.

### INFRASTRUCTURE

In 2011, New York spent \$22.7 billion on transportation and public works, but studies show that the state's roads, bridges, and other pieces of physical infrastructure are in need of serious repair. A 2009 national survey by the American Society of Civil Engineers indicated that the state's infrastructure needs are acute when compared to those of other states. Bridges, roads, and mass transit are among the main concerns. In particular, the ASCE survey concluded that 42% of state bridges were "structurally deficient or functionally obsolete," compared to only 26% of bridges nationwide. It also found that 46% of state roads were in "poor or mediocre condition," compared to only 33% nationwide.<sup>15</sup> As a result, Governor Cuomo launched a \$15 billion public-private partnership program called NY Works designed to speed up the completion of road and bridge projects.

### PENSIONS

New York's state pension system is well funded compared to other states. As of FY 2011, New York State's two pension funds — the New York State & Local Retirement System (NYSLRS) and the New York State Teachers' Retirement System (NYSTRS) — had a combined 1.4 million members and \$240 billion in assets. In FY 2011, the NYSLRS paid out \$8.4 billion in benefits<sup>16</sup> and the NYSTRS paid out \$4 billion.

<sup>15</sup> Survey of the state's ASCE members conducted in September 2009. [<http://www.infrastructurereportcard.org/state-page/new-york>].

<sup>16</sup> New York State and Local Retirement System: 2011 Comprehensive Annual Financial Report. New York State Office of the State Comptroller. [[http://www.osc.state.ny.us/retire/word\\_and\\_pdf\\_documents/publications/cafr/cafr\\_11.pdf](http://www.osc.state.ny.us/retire/word_and_pdf_documents/publications/cafr/cafr_11.pdf)]. Page 22.

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As of April 2010, the NYSLRS had a funded ratio of over 95%, with the Employees' Retirement System at 93.9% and the Police and Fire Retirement System at 96.7%.<sup>17</sup> The NYSTRS had a funded ratio of 103.2% as of June 2009, meaning that the fund expects that its assets can already cover more than its total expected future liabilities.<sup>18</sup>

However, some economists argue that New York is not properly valuing its unfunded liabilities by using too generous a rate of return to measure future outcomes. Other estimates — including a recent report produced by Paul Volcker and Richard Ravitch — put New York's unfunded liabilities at about \$47 billion, calculating an 87% funded ratio.<sup>19</sup>

In March 2012, Governor Cuomo proposed a law to reform the state pension system and ensure its continued health. The measure, recently passed by the State Legislature, promises to save the state and local governments a combined \$80 billion over the next thirty years. It achieves these savings by requiring new employees to contribute more of their salary for a smaller pension benefit. The measure, for the first time, requires all employees to contribute to their own individual pensions. The NYSLRS also decreased its expected rate of return from 8.0% to 7.5%, though the NYSTRS still uses a rate of 8.0%.

### THE FUTURE

Even after the setbacks of the recession, New York finds itself in a relatively strong fiscal and economic position. However, critical problems remain. The state's population is large, diverse, and wealthy, but population growth over the last decade has been worryingly low and poverty levels are well above the national average. The state has taken steps to reign in rising spending in areas like Medicare and pensions, but revenues have yet to rebound to pre-recession levels. Governor Cuomo has made a commitment to renewing the state's infrastructure, but the state's highways, roads, and bridges are still crumbling and in need of repair. A cap on Medicaid spending was implemented in 2011, but the state's payments per beneficiary are still the highest in the country. Per pupil spending in K-12 education is the highest in the country, but funding issues are becoming more pressing and achievement remains low compared to other states, especially in urban areas.

“Maintaining a responsible budget in the coming years, while ensuring that state services are not slashed severely, will require difficult political choices and a reassessment of the state's priorities and its abilities to meet them.”

17 New York State and Local Retirement System: 2011 Comprehensive Annual Financial Report. New York State Office of the State Comptroller. [[http://www.osc.state.ny.us/retire/word\\_and\\_pdf\\_documents/publications/cafr/cafr\\_11.pdf](http://www.osc.state.ny.us/retire/word_and_pdf_documents/publications/cafr/cafr_11.pdf)]. Page 10.

18 Investing in the People & Economy of the Empire State. NYSTRS Comprehensive Annual Financial Report 2010. [<http://www.nystrs.org/main/library/AnnualReport/2010CAFR.pdf>]. Page 24.

19 Ravitch, Richard and Volcker, Paul. Report of the States Budget Crisis Task Force. [<http://www.statebudgetcrisis.org>].

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New York, with its huge economic potential, diverse population, and history of leadership, can certainly address these pressing issues. But maintaining a responsible budget in the coming years, while ensuring that state services are not slashed, will require difficult political choices and a reassessment of the state's priorities and its abilities to meet them. If New York cannot provide — and improve upon — services to its citizens while also crafting a sustainable budget, it will be a troubling sign for other states.

The state's recently passed budget for fiscal year 2012-2013 provides an indication of the fiscal priorities of state legislators. In January 2012, Governor Cuomo released his annual budget proposals, touting the closure of New York's budget deficit without any new taxes or fees thanks to the "tough decisions and bipartisan cooperation of the past year." The Governor also put forward a number of major proposals, including: \$1.3 billion in state infrastructure spending; saving local governments \$1.2 billion in Medicaid spending over the next five years; and increasing school aid by \$805 million.<sup>20</sup> The State Senate and State Assembly passed their own proposed budgets, and the reconciliation process was smooth and harmonious. In fact, the passage of the 2012-2013 budget marked the first time since 1983 that the State Legislature had passed a spending plan with more than 24 hours to spare before the start of the new fiscal year. The new budget, which slightly reduces overall spending from 2011-2012 while honoring a commitment to increase school aid and Medicaid funding by 4%, reflected common priorities between the Cuomo administration and leaders in the Legislature.<sup>21</sup> ★

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20 "Governor Cuomo's 2012 Executive Budget." Office of the Governor of New York. [<http://www.governor.ny.gov/press/01172011ExecutiveBudget>].

21 Kaplan, Thomas. "New York's 2012 Budget Sails Through Albany." The New York Times. [<http://www.nytimes.com/2012/03/31/nyregion/new-york-state-legislature-passes-2012-budget.html>].

# { income statement }

The income statement, or profit and loss statement, shows a snapshot of all revenues for a given year, set against all the expenditures. In fiscal year 2012, New York's income statement showed a net deficit of \$552 million, sharply down from the previous year's deficit of \$6.3 billion. The reduction in the deficit was largely due to increased revenues, especially income taxes, as the economy began to recover. In addition, the state made significant cuts to transportation (\$334 million) and higher education (\$374 million).

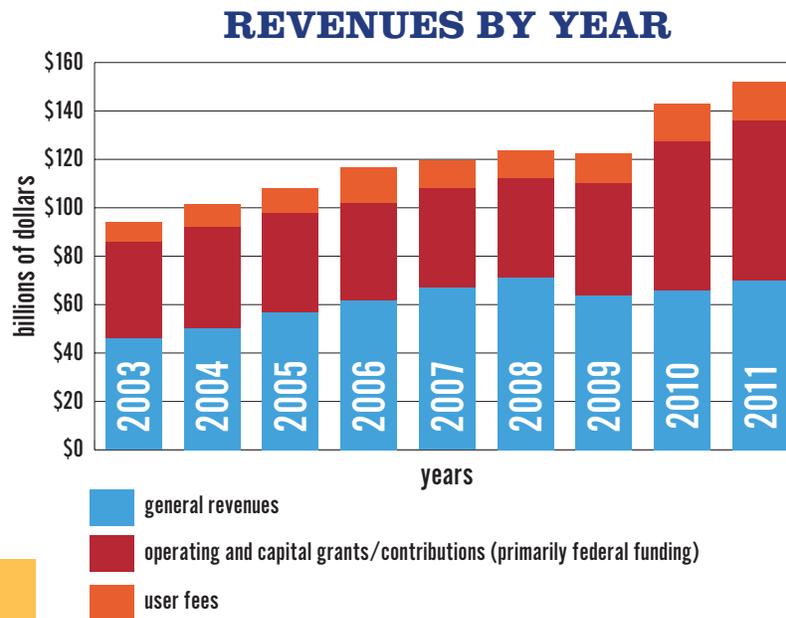
<i>FISCAL YEAR ENDING MARCH 31</i>	<b>2009</b> <small>(IN MILLIONS)</small>	<b>2010</b> <small>(IN MILLIONS)</small>	<b>2011</b> <small>(IN MILLIONS)</small>
<b>REVENUES</b>			
<b>General Revenues</b>			
Income Tax	\$33,108	\$34,521	\$37,629
Consumption and Use Tax	\$13,910	\$13,076	\$14,115
Business Tax	\$7,661	\$7,662	\$6,892
Other Taxes	\$1,898	\$2,780	\$3,187
Investment Earnings	\$526	\$154	\$292
Miscellaneous	\$4,283	\$5,141	\$5,256
<b>Total General Revenues</b>	<b>\$61,386</b>	<b>\$63,334</b>	<b>\$67,371</b>
<b>Business Type Activities</b>			
Net Lottery	\$2,425	\$2,597	\$2,618
Higher Education (Tuition/User Fees)	\$3,798	\$4,074	\$4,417
Other User Fees <sup>22</sup>	\$8,559	\$11,559	\$11,725
<b>Total Revenues (excluding grants)</b>	<b>\$76,168</b>	<b>\$81,564</b>	<b>\$86,131</b>
Operating & Capital Grants & Contributions	\$46,068	\$61,412	\$66,020
<b>TOTAL REVENUE</b>	<b>\$122,236</b>	<b>\$142,976</b>	<b>\$152,151</b>
<b>EXPENDITURES</b> <sup>23</sup>			
Education (K - 12)	\$32,184	\$31,075	\$32,478
Public Health	\$47,233	\$51,499	\$52,618
Public Welfare	\$13,824	\$16,226	\$17,091
Higher Education	\$10,996	\$12,356	\$11,982
Unemployment Insurance	\$4,562	\$10,267	\$9,414
Public Safety	\$6,066	\$5,641	\$6,143
Transportation	\$7,164	\$8,112	\$7,778
Environment and Recreation	\$1,276	\$1,338	\$1,625
Support and Regulate Business	\$1,911	\$1,713	\$1,827
General Government	\$9,457	\$9,234	\$9,707
Interest on Long-Term Debt	\$1,752	\$1,839	\$2,040
<b>TOTAL EXPENDITURES</b>	<b>\$136,425</b>	<b>\$149,300</b>	<b>\$152,703</b>
<b>NET SURPLUS OR DEFICIT</b>	<b>(\$14,189)</b>	<b>(\$6,324)</b>	<b>(\$552)</b>

22 Consists of all charges for services in CAFR Statement of Activities, minus all lottery charges, since those have already been netted out using the "net lottery" calculation.

23 From CAFR Statement of Activities, and excluding Component Units and Lottery expenditures. The latter was included in the "net lottery" calculation under revenue.

## OVERVIEW

New York collected over \$152 billion in revenues including taxes, user fees, grants, and contributions in the 2011 fiscal year.<sup>24</sup> Most of the revenues collected by the state come either from taxes or operating grants, the majority of which come from the federal government.



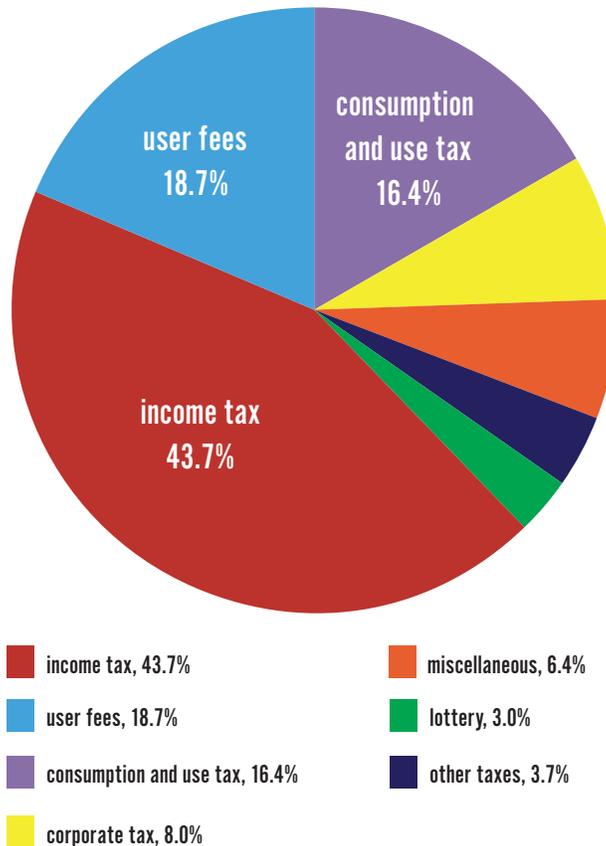
**Figure 1**

Figure 1 shows New York state revenues over the last nine years. The overall increases in revenue resemble trends in other states. Specifically, the economic downturn in 2008 marked a key moment that changed the way the state paid for services for its citizens. From 2008 to 2009, General Revenues dropped off dramatically, falling 10.4%. This fall was primarily driven by a \$7 billion decrease in state income tax revenues from 2008 to 2009. To maintain adequate funding for state services, the federal government stepped in. Federal grants to the state rose by nearly \$10 billion from 2009 to 2010.<sup>25</sup> Figure 1 shows this shift, with operating and capital grants and contributions (primarily made up of federal funding) increasing from \$46 billion in 2009 to over \$61 billion in 2010.

Figure 2 shows the breakdown of funds that the state received from taxes and from various state programs that collect user fees in 2011. Most state revenue comes from taxes in various forms. Figure 2 does not include operating grants and contributions from the federal government, which play a major role in funding many state programs. Federal funds are not included here because operating grants are often linked directly to specific state projects, and including them as a “revenue”

<sup>24</sup> New York CAFR 2011, computed by adding total government general revenue, net lottery revenue, and program revenues, excluding component units.  
<sup>25</sup> New York CAFR 2009 - 2010, Statement of Revenues, Expenditures, and Changes in Fund Balances.

### REVENUE, BY SOURCE 2011



**Figure 2**

SOURCE: NEW YORK CAFR 2011

source does not reflect the revenues the state is collecting directly from citizens for general use. Federal grants are discussed at the end of this section, however, because of the significant role they play in state finances.

### TAXES

There are four main sources of tax revenue in New York: income tax, sales and use tax, business tax, and excise tax. While the state government mainly levies taxes on incomes and sales, local governments generally collect the largest portion of their revenue from property taxes.

#### Income Taxes

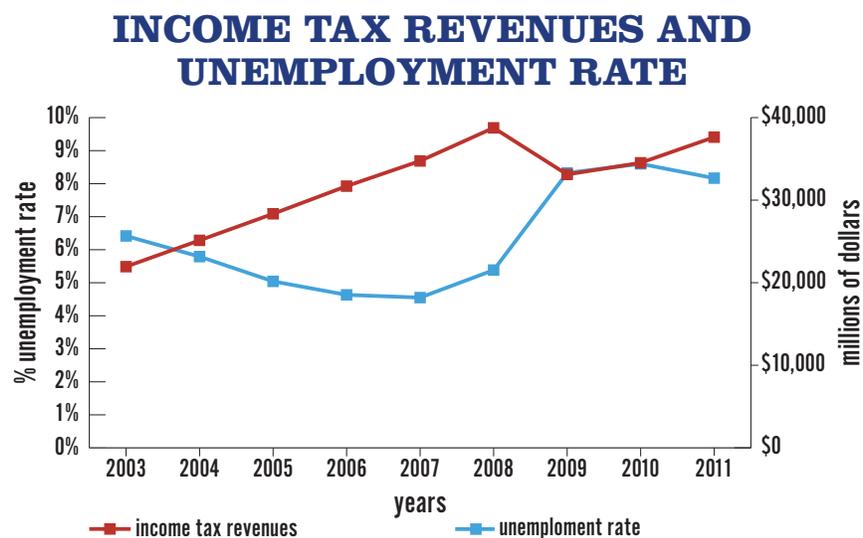
Income tax, or the tax levied on individual and family incomes, comprised 44% of non-federal revenues in New York in 2011. At \$37.6 billion in 2011, the income tax is the largest source of

# { revenues }

tax revenues, as well as revenues in general, in New York. The New York income tax system is progressive — the more money one earns, the higher his income tax will be as a percent of income.<sup>26</sup>

“At \$37.6 billion in 2011, the income tax is the largest source of tax revenues, as well as revenues in general, in New York.”

Among the states, New York has an especially progressive system of taxation on income. As of July 1, 2012, the lowest tax bracket in the state has an income tax of 4% associated with it, while the highest tax bracket has a 8.82% rate. Though this difference between the highest and lowest brackets may seem small, it is larger than in other states. In North Carolina, for instance, the difference between the lowest and highest tax bracket rates is only 1.75%, and in West Virginia it is only 3.5%.<sup>27</sup> New York’s highest rate of income taxation is also higher than in most states. As a result, the Tax Foundation ranked New York’s individual income tax as the second highest in the country, meaning individuals are more heavily taxed by their state government in New York than elsewhere.<sup>28</sup>



**Figure 3**

SOURCE: BUREAU OF LABOR STATISTICS AND NEW YORK CAFRS 2003 - 2011

Figure 3 shows the trend in income tax compared to unemployment over the last 10 years. Income tax rose steadily from 2003 to 2009, following a nearly perfect upward trend line. However, in 2009,

26 For details, see page 9 of the NY State Tax Handbook: [http://www.tax.ny.gov/pdf/stats/policy\\_special/handbook\\_of\\_new\\_york\\_state\\_and\\_local\\_taxes\\_july\\_2011.pdf](http://www.tax.ny.gov/pdf/stats/policy_special/handbook_of_new_york_state_and_local_taxes_july_2011.pdf).

27 “State Individual Income Tax Rates.” Tax Foundation. [[http://taxfoundation.org/sites/taxfoundation.org/files/docs/state\\_individual\\_income\\_rates-2000-2012-20120216\\_july12.pdf](http://taxfoundation.org/sites/taxfoundation.org/files/docs/state_individual_income_rates-2000-2012-20120216_july12.pdf)].

28 Robyn, Mark. “2012 State Business Tax Climate Index.” Tax Foundation. [<http://taxfoundation.org/article/2012-state-business-tax-climate-index>].

# { revenues }

income tax revenues decreased by 14.6% due to the economic crisis. The crisis triggered higher unemployment and underemployment in the state, which meant less overall income for citizens and less income tax for the state. There is a close negative correlation between unemployment figures and income tax collection — when unemployment is high, income tax revenues are low. Though there has been some recovery since 2009, unemployment remains high in the state and income tax revenues are rising only gradually.

## Sales and Use Taxes

Sales and use taxes, paid on in-state purchases, are the second largest source of tax revenue for the state of New York, at 16.4% of total tax revenue. In 2011, sales and use taxes brought in \$14.1 billion in revenue. Use taxes are essentially sales taxes paid by individuals after the time of sale, when a sales tax was not paid at purchase for some reason (for example, for out-of-state purchases, purchases from unlicensed vendors, etc). Sales taxes are a highly visible tax, because citizens pay a sales tax with most consumer purchases. In New York, the sales tax is 4.0%, with additional levels of local sales tax varying across the state. New York City, for example, has a sales tax of 8.875%.<sup>29</sup> The government exempts some items from the state sales tax, such as food, medicines, and some clothing. As Figure 4 shows, revenue from sales taxes has been relatively stable over the last decade.

### BUSINESS AND SALES/USE TAX REVENUES

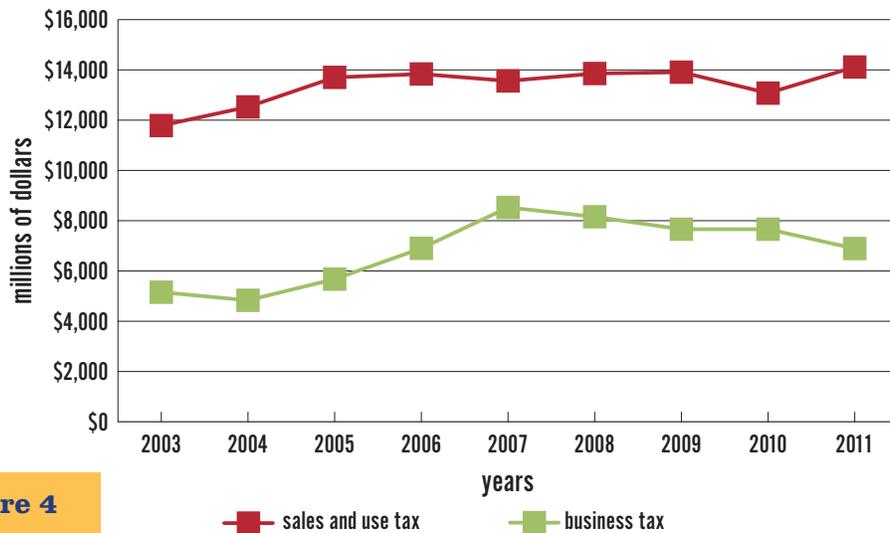


Figure 4

## Business Taxes

Corporate taxes, levied on the profits of corporate entities, accounted for 8.0% of all tax revenue taken in by the state. In total, business taxes raised \$6.8 billion in revenue for New York last year. New York's business tax rate is 24th highest in the country, meaning that New York runs in the middle of the pack in terms of corporate tax rates.<sup>30</sup>

29 "Sales Tax Rates." RAND New York Statistics. [<http://ny.rand.org/stats/govtfin/salestax.html>].

30 Robyn, Mark. "2012 State Business Tax Climate Index." [<http://www.taxfoundation.org/research/show/22658.html>]. January 25, 2012.

# { revenues }

Corporate tax revenues grew steadily throughout the 2000s, until 2007, when the Great Recession decreased business profits and revenue from corporate taxes across the country. Since 2007, corporate tax revenue has been on a slow and steady decline in the state, indicating that New York continues to suffer the effects of the downturn.

## **Excise Taxes**

New York collects revenue on the production of certain goods through excise taxes. Because the tax is levied on the production side (and therefore built into the price of the good itself), many citizens may not be aware of excise taxes.

In New York, excise taxes are levied on cigarettes, alcohol, gasoline, horse racing, boxing, and wrestling. Some excise taxes are commonly referred to as “sin” taxes because they act to dissuade the consumption of the taxed items by raising their prices. Governments may favor such “sin” taxes, because they have the potential to raise a large amount of money, and simultaneously provide a disincentive for citizens to participate in a bad habit. The excise tax on cigarettes in New York, for example, is \$4.35 per pack of 20 cigarettes. New York has by far the highest state tax on cigarettes. Though New York State Assemblyman Denny Farrell calls the cigarette tax a “win-win tax,” his Republican counterpart Jim Hayes worries that New York taxes are potentially “spiraling out of control.”<sup>31</sup>

## **USER FEES**

The state of New York, like all other states, collects significant fees from its citizens in direct exchange for the services it provides. In 2011, these collections totaled over \$16 billion, over half of which came from public higher education tuitions and public health program fees. This \$16 billion figure does not factor in lottery ticket revenues and money collected by the Metropolitan Transit Authority (MTA), which represent roughly \$8 billion and \$6 billion in revenue, respectively.

Lottery revenues are not included in the overall figure because lottery revenues are most accurately reflected by their net total (once lottery winnings are subtracted from the total lottery revenues). The net lottery contribution represents close to \$3 billion in revenue and is listed separately from user fees in this section (and visible in Figure 2). Meanwhile, the MTA is considered a “component unit” of the government, and thus legally separate from the rest of the government financials. As such, this report assesses its financial situation separately, in the Infrastructure section of this report.

## **OPERATING AND CAPITAL GRANTS**

Another major source of revenue for New York is federal grant money, the primary contributor to a category of revenue called operating and capital grants/contributions. This federal money comes from federal tax dollars that are collected state-by-state from sources such as the federal income

<sup>31</sup> DeWitt, Karen. “NY Lawmakers Approve Nation’s Highest Tobacco Tax as Part of Emergency Budget Bill.” [<http://www.wnyc.org/articles/politics/2010/jun/21/lawmakers-pass-new-tobacco-tax-part-emergency-spending-bill/>]. June 21, 2010.

## { revenues }

tax. According to figures from the National Association of State Budget Officers, states in the U.S. receive roughly 34.1% of their funds from the federal government.<sup>32</sup>

“In 2011, New York received \$54.7 billion in federal grants, roughly 40% of state revenues.”

In 2011, New York received \$54.7 billion in federal grants, roughly 40% of state revenues (excluding user fees).<sup>33</sup> That amounts to around \$2,800 per New York citizen. New York ended the year with a budget deficit due to rising costs in public health and welfare programs. Not coincidentally, the majority of federal grants are spent on those two programs, as well as education.

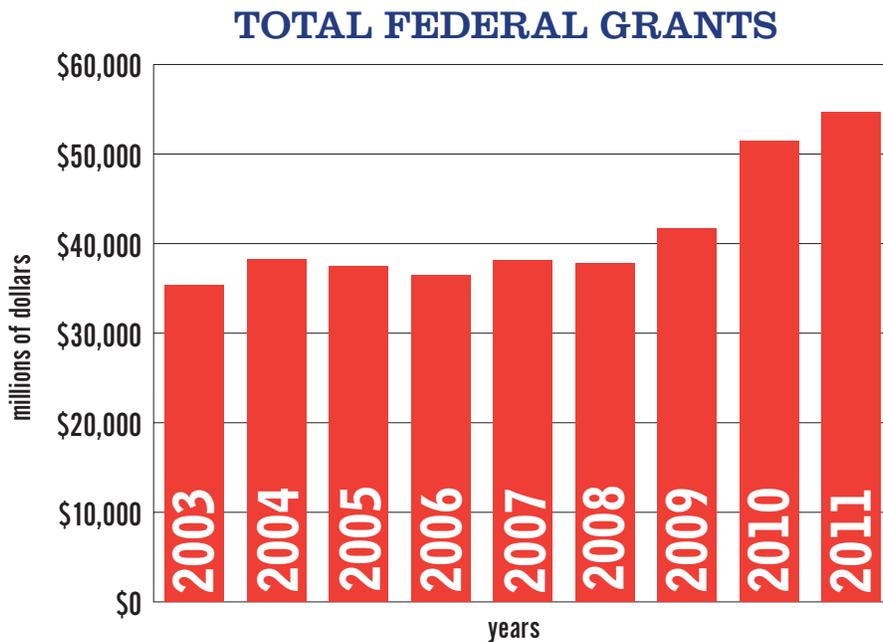
Many federal grant dollars are linked directly to specific programs and projects, which may carry certain requirements. Therefore, states are constrained in how they spend federal grants. Requirements can come in the form of building code standards for affordable housing grants, coverage minimums for Medicaid assistance, or standardized testing requirements for K-12 education funding. State budgets that rely on federal grants for these programs face risks that federal funding for such programs will be reduced, leaving states to more fully fund these services. Because states do not always like the strings attached, some states choose to take federal dollars for some programs and not others.

### FEDERAL MONEY & ECONOMIC DOWNTURNS

During economic downturns, the federal government will often increase the amount of money it provides to states in order to make up for state deficits and shortfalls. The federal government can do this because it has the ability to both print more money and carry an annual budget deficit, whereas most states are required to balance their budgets every year. Giving more federal grants to states allows states to weather recessions with fewer layoffs of teachers and public safety workers, while still providing unemployment checks and basic services to state citizens.

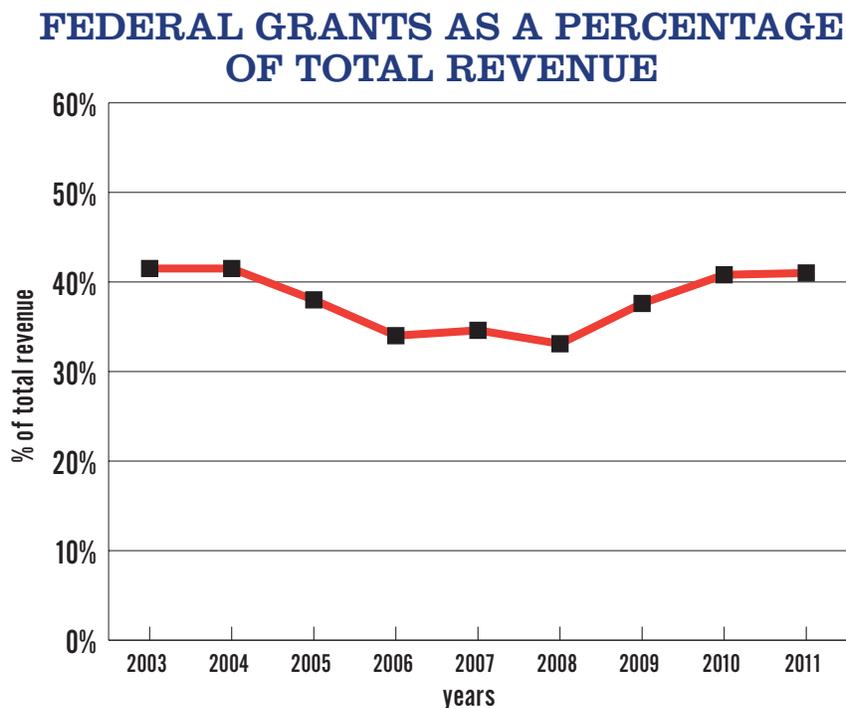
<sup>32</sup> National Association of State Budget Officers. “2010 State Expenditure Report: Examining Fiscal 2009-2011 State Spending.” [<http://www.nasbo.org/sites/default/files/2010%20State%20Expenditure%20Report.pdf>]. 2011.

<sup>33</sup> New York CAFR 2011.



**Figure 5**

SOURCE: NEW YORK CAFRS 2003 - 2011, "STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES"



**Figure 6**

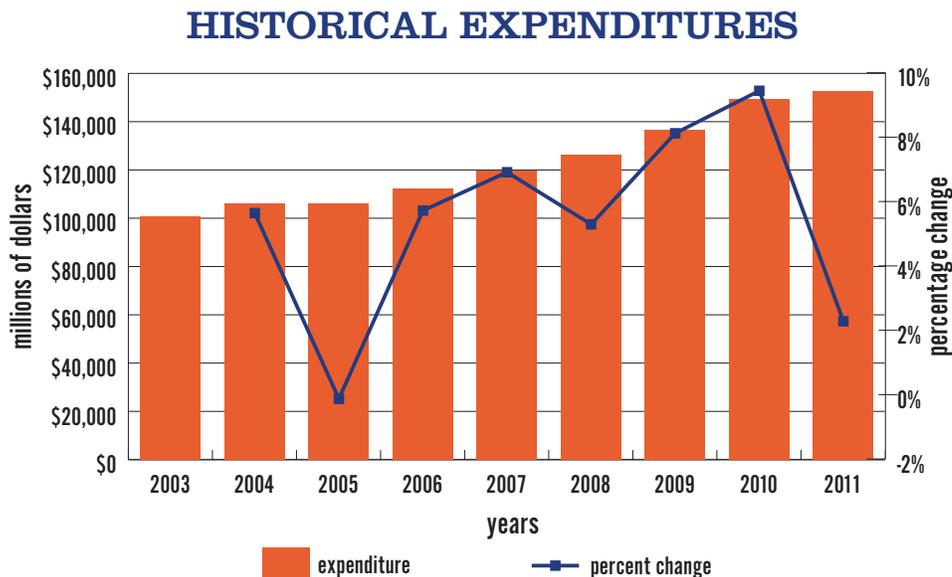
SOURCE: NEW YORK CAFRS 2003 - 2011, "STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES"

## OVERVIEW

In 2011, the State of New York paid \$152.7 billion to provide services to its citizens, an increase of 2.3% from 2010, or \$3.4 billion.<sup>34</sup> After adjusting for inflation, however, state spending actually decreased by 0.7%. This is a departure from the longer-term trend of increased state spending. Since 2006, state expenses have grown 35.2% before adjusting for inflation, and 22% after adjusting for inflation.<sup>35</sup> The main components of that growth are public health, public welfare, education, and unemployment insurance.

“Since 2006, state expenses have grown 35.2% before adjusting for inflation, and 22% after adjusting for inflation.”

New York’s largest expenditure category in 2011 was public health with \$52.6 billion in spending, followed by K-12 Education (\$32.5 billion), public welfare (\$17.1 billion), public colleges and universities (\$12.0 billion), general government (\$9.7 billion), transportation (\$7.8 billion), and public safety (\$6.1 billion). Lottery revenue minus prizes is classified here as net revenues, meaning lottery prizes are not directly reported as a component of state expenditures.



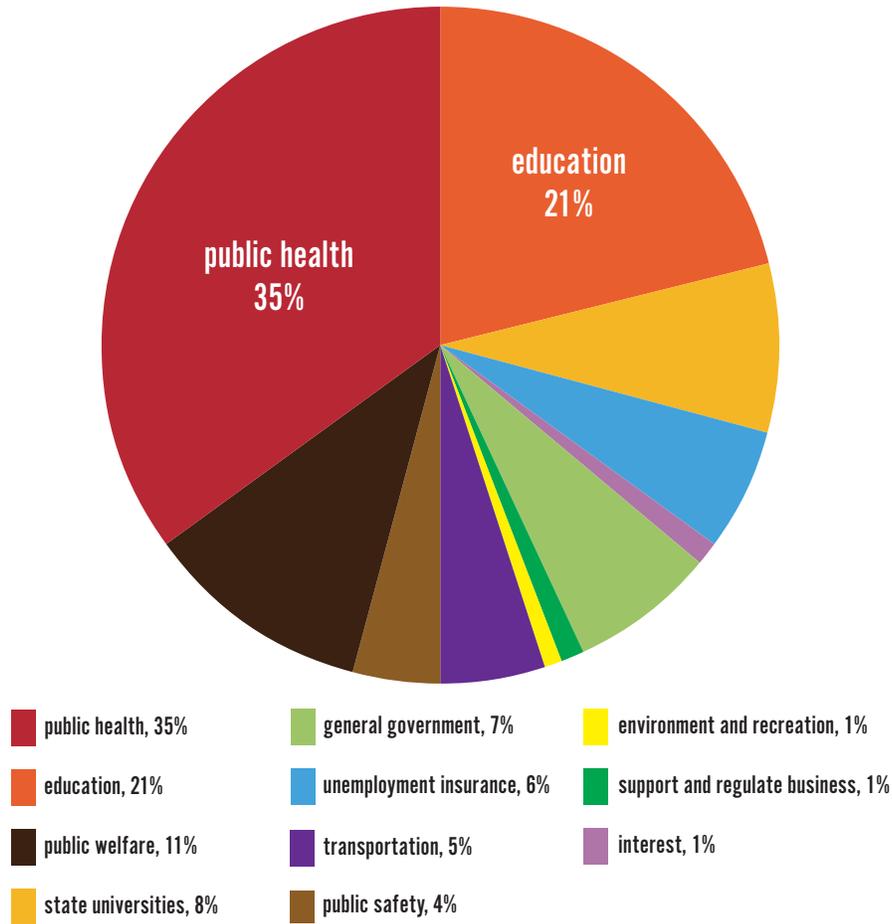
**Figure 7**

SOURCE: NEW YORK CAFRS 2003-2011, STATEMENT OF ACTIVITIES

<sup>34</sup> From New York CAFR 2011, Statement of Activities, and excluding Component Units and Lottery expenditures (the latter was included in the “net lottery” calculation under revenue. From CAFR Statement of Activities, and excluding Component Units and Lottery expenditures (the latter was included in the “net lottery” calculation under revenue.

<sup>35</sup> New York CAFRs 2006 and 2011, page 23.

**EXPENDITURE BY CATEGORY, AS A PERCENTAGE OF TOTAL EXPENDITURE  
2011**



**Figure 8**

SOURCE: NEW YORK CAFRS 2003-2011

**Where Does the State Get Its Funds?**

The revenue sources for state spending vary considerably by spending category. Many of the dollars spent by state government come from taxes on corporations, individual income, and retail sales. However, user fees, grants, and contributions comprise a large funding source for many expenditure categories as well. For example, 62.8% of New York’s public health expenditures, a total of \$33.0 billion, were funded through federal grants and user contributions. Meanwhile, user fees paid for services accounted for 77.3% of the cost of state level business regulation and 36.9% of the cost of state universities and colleges.

# { expenditures }

**Table 1: Spending Trends (2007 to 2011)**

<b>Spending Category</b>	<b>Increase/Decrease in millions of dollars</b>	<b>Increase/Decrease in percentage terms</b>
Public Health	\$7,749	17.27%
Unemployment Insurance	\$7,070	301.62%
Public Welfare	\$5,800	51.37%
Education	\$4,256	15.08%
State Universities	\$2,733	29.55%
Transportation	\$1,885	31.99%
General Government	\$1,023	11.78%
Support and Regulate Business	\$765	72.03%
Public Safety	\$622	11.27%
Interest	\$562	38.02%
Environment and Recreation	\$399	32.54%

SOURCE: NEW YORK CAFRS 2007 - 2011

The years 2007-2011 were hard on the New York State budget, as the state struggled to deal with a depressed economy and rising costs across the board. Unemployment expenses ate up a greater percentage of the budget, increasing 301.62% in only four years, as workers across the state were laid off from their jobs. Though the unemployment rate in New York has decreased since its peak in early 2009, spending on unemployment insurance still remains well above 2007 levels.

“Unemployment expenses ate up a greater percentage of the budget, increasing 301.62% in only four years, as workers across the state were laid off from their jobs.”

Public welfare spending has also increased by \$5.8 billion since 2007. As more families face hardship and poverty due to the recession, spending on public welfare programs such as food stamps and income assistance, increases. Though the state economy has begun to recover from the worst of the recession, spending on public welfare continues to be a source of spending growth as New York families navigate a struggling economy.

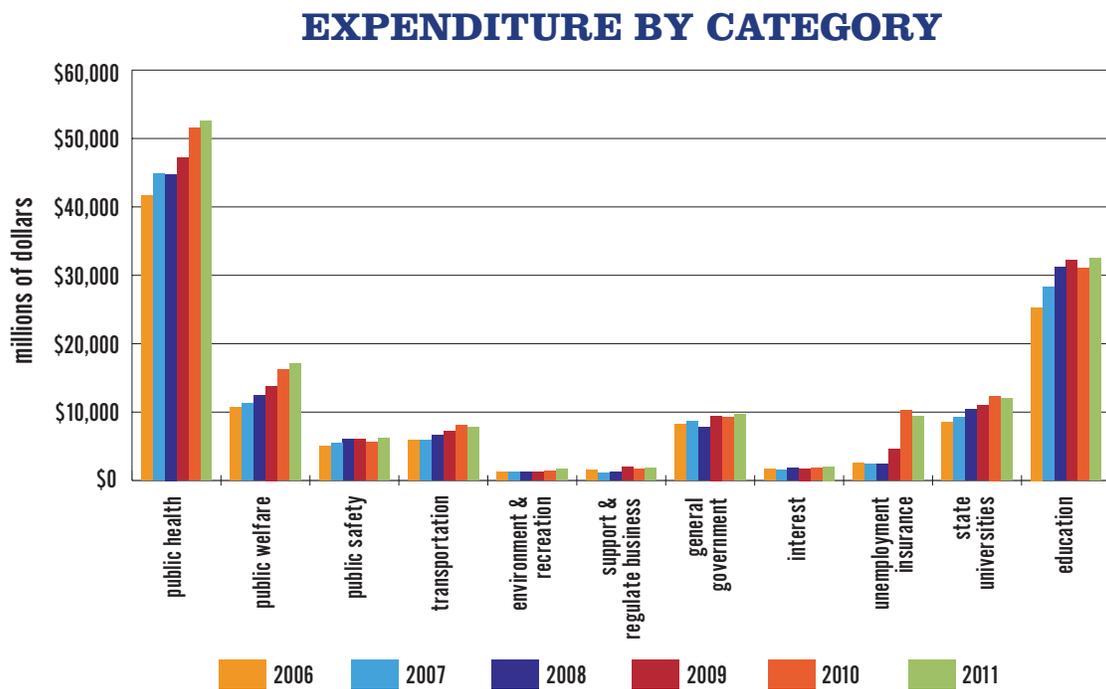
Expenditures on transportation have also seen a marked increase since 2007. With the state's infrastructure network falling into disrepair, Governor Cuomo has made revitalizing New York's roads, bridges, and public transportation systems a priority. The state is increasingly relying on “public-private partnerships” (PPPs) to fund infrastructure projects, however. In January 2012,

# { expenditures }

Governor Cuomo announced a new \$15 billion infrastructure program called NY Works that will continue to drive increases in transportation spending.

Though public health spending has seen only a moderate increase in percentage terms, the absolute increase in spending has been the largest of any category. This is not surprising, given the skyrocketing health care costs across the country. Medicaid spending has grown especially rapidly in New York. The state government has begun implementing recommendations from the state's Medicaid Redesign Team in the hopes of containing the steady increase in health costs.

The smaller percentage increase in education spending is the result of the need to divert funds to other spending categories, like unemployment insurance and public welfare, due to the Great Recession. Like many states, New York has scaled back normal increases in higher education funding, passing on the costs to universities and their students. Funding for K-12 education has also been tightened.



**Figure 9**

SOURCE: NEW YORK CAFRS 2006 - 2011, STATEMENT OF ACTIVITIES

# { expenditures }

**TABLE 2: OVERVIEW OF KEY PRIMARY SPENDING AREAS (GOVERNMENTAL ACTIVITIES)**

<p><b>\$52.6 billion</b> PUBLIC HEALTH</p>	<p>Public health expenditures encompass state spending on Medicaid, grants to non-profit providers, child and family health programs, and administration of all those programs. Total public health expenditure represents an average cost of \$2,700 per citizen in 2011. New York's largest health care expenditure is Medicaid, where New Yorkers pay over \$9,000 per Medicaid enrollee. Public health spending has grown quickly in New York, as it has elsewhere, increasing 48.5% between 2003 and 2011.</p>
<p><b>\$32.5 billion</b> K-12 EDUCATION</p>	<p>State education expenditures in New York totaled \$32.5 billion in 2011, or 21% of its budget. New York has strongly resisted cutbacks in its educational budget during the recession and has increased its education budget above 2009 levels after a year of budget reductions in 2010. New York spends more than any other state in the country per K-12 student at \$18,126 per year. However, as a percent of its total budget, primary and secondary education spending is less than the national average of 26%. This difference is likely caused by New York's high spending on health care, public welfare, and public safety relative to other states.</p>
<p><b>\$17.1 billion</b> PUBLIC WELFARE</p>	<p>Public welfare spending in New York aims to protect the state's most vulnerable populations from abject poverty. Public welfare spending provides temporary food assistance, school meal vouchers, cash assistance, and other welfare programs. Expenditures totaled \$17.1 billion, or about \$878 per citizen in 2011. Expenditures on public welfare have risen considerably during the recession, increasing 23.6% in just the past two years.</p>
<p><b>\$9.7 billion</b> GENERAL GOVERNMENT</p>	<p>General government covers the high level administration of the state, the judicial system, and revenue collection. These expenses totaled \$9.7 billion in 2011, 50% more than in 2003. Administrative costs increased with rising salaries, benefits, and office space required to house government employees and activities.</p>
<p><b>\$7.8 billion</b> TRANSPORTATION</p>	<p>Transportation funding pays for the maintenance and construction of roads, bridges, tunnels, and waterways throughout the state. Infrastructure in New York is rapidly deteriorating and the state has increased funds in an attempt to satisfy its transportation needs. Funding for transportation was \$7.8 billion in 2011, or 5% of the state's budget. However, the \$7.8 billion transportation budget is actually a 4% decrease from 2010. Note that these figures do not include expenditures by the MTA or Thruway Authority, which are considered component units and are discussed below.</p>
<p><b>\$6.1 billion</b> PUBLIC SAFETY</p>	<p>Public safety spending in New York goes towards police officer salaries and training, prisoner re-entry and anti-recidivism programs, and housing prisoners, among other anti-crime activities. Spending on public safety was \$6.1 billion in 2011, which was a 9% increase from 2010, but just a small increase from 2008 and 2009 pre-recession funding levels.</p>
<p><b>\$2 billion</b> INTEREST ON LONG-TERM DEBT</p>	<p>Interest payments on New York bonds exceeded \$2.0 billion for the first time in 2011. In fact, the interest that New York pays annually on its bonds has increased 69% since 2003. This reflects New York increased borrowing in recent years as well as higher rates of interest the state must pay to attract investors.</p>
<p><b>\$1.8 billion</b> SUPPORT &amp; REGULATION OF BUSINESS</p>	<p>Spending for regulation and support of business was \$1.8 billion in 2011, less than the \$1.9 billion these services cost in 2009, but more than double what was spent on business support and regulation as recently as 2003.</p>
<p><b>\$1.6 billion</b> ENVIRONMENT &amp; RECREATION</p>	<p>Environment and recreation expenditures go towards conservancy and land preservation agencies that regulate land use and environmental protection. These expenditures are a small part of New York's budget, accounting for 1% of its expenditures, and are largely supported through user fees for parks and through federal grants and contributions.</p>

# { expenditures }

## Business-Type Activities

The state runs several programs that it classifies as “business-type activities,” in contrast to primary government programs. These activities are ideally self-sustaining, relying more on user fees than on state funds.

### TABLE 2A: OVERVIEW OF KEY PRIMARY SPENDING AREAS (BUSINESS-TYPE ACTIVITIES)

**\$12 billion**  
HIGHER  
EDUCATION

Between the State Universities of New York and the City University of New York, higher education expenditures were \$12.0 billion in 2011; 36.9% of those expenditures were captured through tuition and fees, while grants and contributions added another 22.6%, leaving the higher education system 40.5% funded through state funds.

**\$9.4 billion**  
UNEMPLOYMENT  
INSURANCE

Expenditures on unemployment insurance vary drastically with the unemployment rate and the average length of unemployment for those who lose their jobs. Unemployment insurance is a tax, so that inflows to the insurance fund match the payments that the fund makes to unemployed recipients. Unemployment insurance expenditures were \$9.4 billion in 2011, including paid benefits and administration. Illustrating how unemployment expenditures vary with the economy, expenditures were 290% higher in 2011 than they were before the crisis in 2008.

SOURCE: NEW YORK CAFRS 2006 - 2011

## Component Spending Areas

The state also has several areas of spending that are not considered part of primary government spending in a legal sense, but are accountable to the state and its citizens. These component units spent roughly \$33 billion in 2011, and some of the largest component units are described in detail in the table below.

### TABLE 2B: OVERVIEW OF KEY COMPONENT SPENDING AREAS

**\$14.1 billion**  
METROPOLITAN  
TRANSPORTATION  
AUTHORITY (MTA)

The MTA operates and maintains the public transportation systems in the metropolitan New York City area. The MTA is heavily reliant on state money and debt servicing to fund capital projects. Indeed, user fees brought in only \$6 billion in MTA revenues in 2011.

**\$6.4 billion**  
POWER AUTHORITY  
OF THE STATE OF  
NEW YORK & THE  
LONG ISLAND  
POWER AUTHORITY

These two agencies are tasked with providing continuous and adequate power for residents of New York. Spending by these two agencies combined rose by approximately 10% from 2010 to 2011.

# { expenditures }

## BUDGETING AND DEFICITS

Unlike the federal government, many states, including New York, cannot technically run a deficit due to balanced budget provisions in their constitutions. To pass a balanced budget, gaps between planned spending and revenue need to be closed. States can close budget gaps a number of ways, including cutting spending, raising taxes, deferring payments and raising additional debt to cover shortfalls. The governor can also close the gap by using his “line-item” veto to remove specific expenditures or even specific words from appropriations bills.

Unfortunately, budget predictions are not always accurate. If the state ends up spending less than the actual revenue collected, it has a surplus, and can store the extra money in the bank for future years. If the state ends up spending more than the actual revenue, it is operating a deficit and must cut spending or borrow money in order to pay for its expenses. Deficits can pile up and become costly, as bonds must be paid back in full, with interest. ★

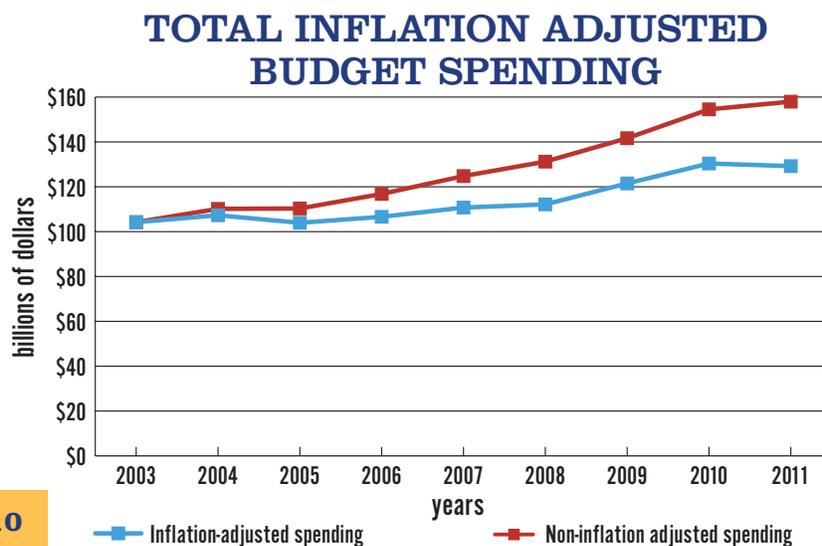


Figure 10

# { balance sheet }

FISCAL YEAR ENDING MARCH 31

## ASSETS

(IN MILLIONS)

	2011 TOTAL GOVERNMENT	2010 TOTAL GOVERNMENT	% CHANGE FROM 2010 TO 2011
<b>Current Assets:</b>			
Cash	\$15,428	\$16,600	-7.6%
Receivables	\$25,801	\$22,926	11.1%
Other	\$1,382	\$1,087	21.3%
<b>Total Current Assets</b>	<b>\$42,611</b>	<b>\$40,613</b>	<b>4.7%</b>
<b>Noncurrent Assets:</b>			
Capital Assets	\$92,928	\$90,641	2.5%
Other	\$377	\$0	100.0%
<b>Total Noncurrent Assets</b>	<b>\$93,305</b>	<b>\$90,641</b>	<b>2.9%</b>
<b>TOTAL ASSETS</b>	<b>\$135,916</b>	<b>\$131,254</b>	<b>3.4%</b>
<b>LIABILITIES</b>			
<b>Current Liabilities:</b>			
Tax Refunds Payable, Accounts Payable & Accrued Liabilities	\$20,003	\$18,886	5.6%
Due to Federal Government	\$0	\$3,073	N/A
Due to Local Governments	\$5,864	\$6,827	-16.4%
Interest Payable	\$725	\$741	-2.2%
Other	\$1,097	\$1,191	-8.6%
<b>Total Current Liabilities</b>	<b>\$27,689</b>	<b>\$30,718</b>	<b>-10.9%</b>
<b>Noncurrent Liabilities:</b>			
Due within 1 year	\$6,524	\$4,346	33.4%
Tax Refunds Payable, Accrued Liabilities & Payable to Other Governments	\$9,359	\$6,761	27.8%
Pension & Post-Employment Benefits	\$11,314	\$8,332	26.4%
Lease-Purchase & Other Financing Obligations	\$49,379	\$49,019	0.7%
Bonds Payable	\$3,258	\$3,093	5.1%
Other	\$1,363	\$893	34.5%
<b>Total Noncurrent Liabilities</b>	<b>\$81,197</b>	<b>\$72,444</b>	<b>10.8%</b>
<b>TOTAL LIABILITIES</b>	<b>\$108,886</b>	<b>\$103,162</b>	<b>5.3%</b>
<b>TOTAL NET ASSETS</b>	<b>\$27,030</b>	<b>\$28,092</b>	<b>-3.9%</b>

# { balance sheet }

## NET WORTH

The New York balance sheet compares all the state's assets to its liabilities in order to calculate a "net worth" for the state. Calculating the net worth for a public sector entity, like a state, is not equivalent to calculating the net worth of a company. However, the calculation is still an important determinant of liquidity and creditworthiness because it gives a snapshot of both the state's ability to generate revenue as well as its spending habits over time.

In 2011 New York had assets totaling \$135.9 billion and liabilities totaling \$108.9 billion, according to the State Comptroller. Thus, in 2011 New York had a positive net worth of \$27 billion.<sup>36</sup> Since 2000, the balance sheet has shown net worth ranging from \$22 to \$35 billion, with the biggest drop occurring in the midst of the Great Recession. Having net equity and liquid assets on the balance sheet, as New York does, improves the credit rating of the state and lowers the cost of borrowing money — an important mechanism for a state that has a high level of debt.

“Despite having a positive net worth, New York State has run deficits for years.”

Despite having a positive net worth, New York State has run deficits for years. How is this possible? Every state in the United States with the exception of Vermont is required to “balance” its budget. However, the definition of balance in each state is flexible and interpreted independently. Overall, there are states that have strong anti-deficit rules and ones, such as New York, with weak anti-deficit rules. The difference is, weak anti-deficit rules allow the state to carry their deficits into the next fiscal year.<sup>37</sup>

The worry is that the weak anti-deficit rules in New York might make the state less willing or able to make cuts in the budget, if necessary, in the short run. A study by economist James Poterba at MIT found that states with strong anti-deficit rules reduced state spending by \$44 per \$100 of deficits in a given year, compared to just \$17 per \$100 for states with weak anti-deficit rules.<sup>38</sup> In addition, there are many other ways states with weak anti-deficit laws can pay for negative fund balances that are not as readily transparent. As an example, New York pushed costs into the next year by delaying income tax refund payments. It also dipped into state funds meant for other uses.<sup>39</sup>

<sup>36</sup> New York CAFR 2011, Statement of Net Assets.

<sup>37</sup> Hood, John. “The States in Crisis”. [<http://www.nationalaffairs.com/publications/detail/the-states-in-crisis>]. National Affairs, Winter 2011.

<sup>38</sup> Ibid.

<sup>39</sup> Walsh, Mary Williams; Cooper, Michael. “Gloomy Forecasts for States, Even if Economy Rebounds.” [[http://www.nytimes.com/2012/07/18/us/in-report-on-states-finances-a-grim-long-term-forecast.html?\\_r=1&ref=business](http://www.nytimes.com/2012/07/18/us/in-report-on-states-finances-a-grim-long-term-forecast.html?_r=1&ref=business)]. July 17, 2012.

# { balance sheet }

## ASSETS

At the end of 2011, New York reported \$135.9 billion in assets, made up of \$42.6 billion dollars in current assets and \$93.3 billion in noncurrent assets.<sup>40</sup>

Current assets are short-term assets which can readily be turned into hard dollars, such as cash, receivables that the state expects to be redeemed within 12 months (e.g. taxes due), or investments (e.g. Treasury bills or other stocks, bonds, or market positions). New York saw an increase in receivables on its balance sheet in 2011 that increased current assets by 4.7% from the previous year. Non-depreciable capital assets also increased by \$2.3 billion in 2011, mostly from construction projects in progress. Total assets increased by 3.4% from 2010.<sup>41</sup>

Non-current assets are holdings that the state is unlikely to turn into liquid assets within a short time frame. These assets include investments such as real estate, schools, roads, and long-term bonds (although those can often be securitized into liquid assets for a fee). The largest component of the non-current asset class is “Capital Assets.” These capital assets, like schools, parks, and roads, make up a big part of the state’s overall assets, and their valuations are highly debated. Some argue that these assets are undervalued, as they are valued at the cost of the asset, and not the market price. This means that capital assets do not capture the appreciation in value, for instance, of state land. However, others argue that capital assets like schools and roads could be worth significantly more in the public domain than the private domain, meaning these asset values would likely be overstated if measured in today’s dollars.

## LIABILITIES

In 2011, New York’s total liabilities were estimated at \$108.9 billion, which included \$27.7 billion of current liabilities and \$81.2 billion of noncurrent liabilities.<sup>42</sup>

Current liabilities are obligations that require payment within twelve months. Examples of current liabilities include salaries to government workers, payments to companies contracted by the government to provide services (such as private contractors who build and run prisons), entitlement and welfare payments to citizens (such as payments to Medicaid recipients or unemployment beneficiaries), and debts to other levels of government (negotiated payments for government goods and services).

Non-current liabilities are comprised of obligations that the state owes in the long term, i.e., outside a twelve-month horizon. Non-current liabilities include bond obligations, leasing agreements for financed projects, and employee pension and health care liability. These long-term liabilities generally represent the state’s current spending and obligations that will be carried into the future as debt.

<sup>40</sup> New York CAFR 2011, Statement of Net Assets.

<sup>41</sup> Ibid.

<sup>42</sup> New York CAFR 2011, Statement of Net Assets.

## { balance sheet }

New York's overall liabilities increased in 2011 by 5.3%, largely due to bonds payable that were issued to pay for capital projects through Build America Bonds and bonds issued to the New York School Building Authority.<sup>43</sup> Post-employment benefit liabilities also increased by \$3 billion in 2011, a 26.4% increase from 2010.

“As part of its total liabilities, New York is responsible for \$61.7 billion dollars of debt secured by future revenues, state assets, and capital leases.”

### THE DEBT

Just like the federal government, the states fund deficit spending by raising debt. States can raise debt in a variety of ways. They can issue general bonds in which investors bet on the full faith and credit of the state or they can issue special purpose bonds that are secured by the success of a specific project like road construction or the building of a school. Additionally, a state can sometimes borrow from federal grants that it expects to receive in the future. New York borrowed in this way to fund the 5-year MTA Capital Program, which started in 2010 and will have a total cost of \$26.3 billion when the project ends in 2014.

As part of its total liabilities, New York is responsible for \$61.7 billion dollars of debt secured by future revenues, state assets, and capital leases.<sup>44</sup> This debt will be repaid for years into the future, so it may not represent a significant burden in any given year. However, each New York resident would have to pay \$2,896 to pay off the debt today. That figure was \$1,948 just ten years ago, and now represents 6% of personal income in the state.

Using a broader measure of debt tallied by the Census Bureau, New York State's per capita debt is \$5,584 per citizen through fiscal year 2011. This broader measure includes all debts owed by the state and its agencies, whether fully backed by the credit of the state or not. Many of these debts include tuition repayment bonds and other bonds that the state is not technically liable for, but may assist state agencies in repaying to continue fulfilling important policy objectives such as the availability of affordable higher education. While this figure per citizen is high, it does not compare to some other states like Massachusetts, which is the largest per capita debtor state with liabilities of \$11,357 per citizen through fiscal year 2009, or \$122.6 billion total.<sup>45</sup>

While it is true that a state can issue debt in order to finance its current spending, it is also true that a state cannot borrow without limits. Investors will only lend to a state — or any entity —

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<sup>43</sup> Ibid.

<sup>44</sup> State of New York Financial Condition Report, March 31, 2011, pg 17. State funded debt as compiled by the State Comptroller is a comprehensive measure of debt encompassing the state's direct and indirect debt burden..

<sup>45</sup> U.S. Census Bureau, “State and Local Government Finances by Level of Government and by State”. 2010.

## { balance sheet }

if they believe that entity can and will pay them back. Once there are worries about financial mismanagement or potential insolvency, investors may be wary of lending or only do so at higher interest rates, making the cost of capital high and even prohibitive. As a result, the capital that the state has access to can dwindle, no longer covering the shortfall between expenses and income. New York's General Obligation (GO) bonds currently have a relatively high AA rating from all three major credit rating agencies, which indicates that though the state has strong economic potential, it is not viewed by the market as the safest form of bond due to its growing debt and persistent budget deficits.<sup>46</sup>

### UNFUNDED LIABILITIES

Though state debts often receive significant attention, a given state's unfunded liabilities, which are reported as noncurrent liabilities, may be of greater fiscal concern. Indeed, many analysts argue that states are underreporting the liabilities that they will owe to citizens in the future. While the state, itself, reports a well-funded pension system, other outside estimates — including a recent report by Paul Volcker and Richard Ravitch — show unfunded liabilities of about \$47 billion with a funded ratio of 87%.<sup>47</sup>

Much debate has surrounded the issue of valuing future state liabilities for pensions. Pensions are paid to government workers upon their retirement, which is available to most state employees at age 55. A growing number of analysts are concerned, for instance, that the assumed rate of return used to value pension assets is overstated. Right now, states use assumed long-term rates of around 8%, while assumed rates in the private sector tend to be much lower.<sup>48</sup> That is why the largest public New York State pension fund lowered its assumed long-term rate to 7.5% in May 2012, after the state announced a 5.96% return for fiscal year 2011–2012.<sup>49</sup> Adjusting the rate downward revealed the true extent of the state's pension liability and it also diminished the state's net worth due to a lowered present dollar value of all future cash flows from the pension fund.

“Across the country, state legislatures are realizing the incredible urgency of pension reform and are taking steps to reduce costs by increasing retirement ages, reducing benefits, and increasing costs for public employees.”

46 “NYS Debt Facts.” Office of the State Comptroller. [<http://osc.state.ny.us/debt/debtfacts.htm>].

47 Ravitch, Richard and Volcker, Paul. Report of the States Budget Crisis Task Force. [<http://www.statebudgetcrisis.org>].

48 Walsh, Mary; Hakim, Danny. “Public Pensions Faulted for Bets on Rosy Returns.” [<http://www.nytimes.com/2012/05/28/nyregion/fragile-calculus-in-plans-to-fix-pension-systems.html?pagewanted=all>]. May 27, 2012.

49 DiNapoli, Thomas, Press Office. “DiNapoli: State Pension Fund Posts Strong Gain.” [<http://www.osc.state.ny.us/press/releases/may12/052312.htm>]. May 23, 2012.

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Across the country, state legislatures are realizing the incredible urgency of pension reform and are taking steps to reduce costs by increasing retirement ages, reducing benefits, and increasing costs for public employees. States such as Utah have moved to defined contribution plans, where workers take responsibility for their own pensions, much like private sector 401(k) plans.<sup>50</sup> Rhode Island, which has severe pension funding shortfalls, had to make larger cuts to its cost of living adjustment for retiree pensions. As a result, experts are saying that these retirees' standard of living will likely decrease over the course of their retirement.<sup>51</sup>

## PROGNOSIS

On the surface, New York's long-term financial prognosis is better than many other states. This is in large part because New York has well funded its state worker pension plan, a challenge that has eluded most other states. That said, there are still many issues the state needs to address to achieve long-term sustainability. Most notably, New York must develop a plan to fund its long-term fiscal obligations, such as its accrued annual deficits. The state will also need a plan to pay for the unfunded health care costs of current government workers and retirees. Lastly, the state must find a way to become less reliant on the federal government for funding. The \$8.9 billion of relief given to the state by the federal government in the American Recovery and Reinvestment Act of 2009 is winding down, and there are no indications that this flow of federal money will be reinvigorated anytime soon.<sup>52</sup> New York will have to find a way to deal with its fiscal issues internally, which will not be an easy task. ★

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50 Liljenquist, Dan. "The 2010 Utah Response: Utah State Retirement Systems." [[www.ncsl.org/documents/flabor/fliljenquist\\_Pensions\\_Leg-Sum2010.pdf](http://www.ncsl.org/documents/flabor/fliljenquist_Pensions_Leg-Sum2010.pdf)]. July 27, 2010.

51 Gabriel Roeder Smith & Company. "Report with GRS." [<http://www.pensionreformri.com/resources/ReportwithGRSAppendix.pdf>]. November 14, 2011.

52 Recovery.gov.

## OVERVIEW

New York has 19.4 million citizens according to the 2010 Census, representing 6.2% of the total U.S. population.<sup>53</sup> It is the third most highly populated state behind California and Texas, with most residents located in the New York City metropolitan area. New York is growing more slowly than the national average; from 2000 to 2010, the New York population grew 2.1%, while the U.S. population as a whole grew by 9.7% over the same period.<sup>54</sup> Analysts attribute New York's slower growth to decreased immigration rates and low birth rates in the state.<sup>55</sup> Indeed, like much of the northeastern United States, New York has a birth rate below the national average. Across the country, there are 13.5 births per 1,000 women every year. In New York, this figure is 12.7 per 1,000 women.<sup>56</sup> New York City also has an especially high cost of living, perhaps driving citizens to relocate to other more affordable metropolitan centers throughout the country.<sup>57</sup>

"From 2000 to 2010, the New York population grew 2.1%, while the U.S. population as a whole grew by 9.7%."

## RACE, ETHNICITY, AND IMMIGRATION

New York's citizens identify predominantly as white (58.3%), although the proportion of white citizens has been declining in both absolute and percentage terms in the last ten years.<sup>58</sup> Meanwhile, Asian and Hispanic populations have increased since 2000. The growth in the Asian population from 2000 to 2010 has been especially notable at 35.7%. The largest minority populations are Hispanic or Latino (17.6%), followed by black or African American (14.4%) and Asian (7.3%). The percentages of both African-Americans and Asians in New York are higher than the national averages, while the percentage of white residents is smaller than the national average. Other racial groups have experienced minimal, if any, growth in the same time frame.

Immigrants (or foreign-born individuals) make up 22.2% of New York's total population, much higher than the national average of 12.9%.<sup>59</sup> The immigrant population in New York has increased steadily between 2000 and 2010, from 3.3 million to 4.3 million, or 11.1%.<sup>60</sup> The most common place of origin for foreign-born nationals in New York is Latin America, representing 50.1% of

53 "2010 Census Interactive Population Search." United States Census Bureau. [<http://2010.census.gov/2010census/popmap/ipmtext.php?fl=34Immigration%20Statistics>].

54 "Population Distribution and Change: 2000 to 2010." United States Census Bureau. [<http://www.census.gov/prod/cen2010/briefs/c2010br-01.pdf>].

55 Tavernise, Sabrina. "Economy Contributes to Slowest Population Growth Rate Since '40s." The New York Times. [<http://www.nytimes.com/2011/12/22/us/economy-contributes-to-slowest-population-growth-rate-since-1940s.html>].

56 "Births: Final Data for 2009." Centers for Disease Control. [[http://www.cdc.gov/nchs/data/nvsr/nvsr60/nvsr60\\_01.pdf](http://www.cdc.gov/nchs/data/nvsr/nvsr60/nvsr60_01.pdf)]. Page 43.

57 "Slow Population Growth Will Cost NY in Congress." Gothamist. [[http://gothamist.com/2007/12/28/slow\\_population.php](http://gothamist.com/2007/12/28/slow_population.php)].

58 "Profile of General Population and Housing Characteristics: 2010." United States Census Bureau. [[http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC\\_10\\_DP\\_DPDP1](http://factfinder2.census.gov/faces/tableservices/jsf/pages/productview.xhtml?pid=DEC_10_DP_DPDP1)].

59 "New York: Social and Demographic Characteristics." Migration Policy Institute Data Hub. [<http://www.migrationinformation.org/datahub/state.cfm?ID=ny>].

60 Ibid.

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the total immigrant population. The top three countries of birth for foreign-born nationals are China, Mexico, and Jamaica.<sup>61</sup> These demographic shifts have had clear impacts on New York politics over the years. According to the Center for Immigration Studies, increases in the New York immigrant population since 1980 are correlated with a 7.3% decrease in the Republican vote share in presidential elections.<sup>62</sup> In addition, only five of the New York City Council's 51 members are now Republicans.<sup>63</sup>

## RACIAL BREAKDOWN IN NEW YORK, & CHANGES FROM 2000 TO 2010

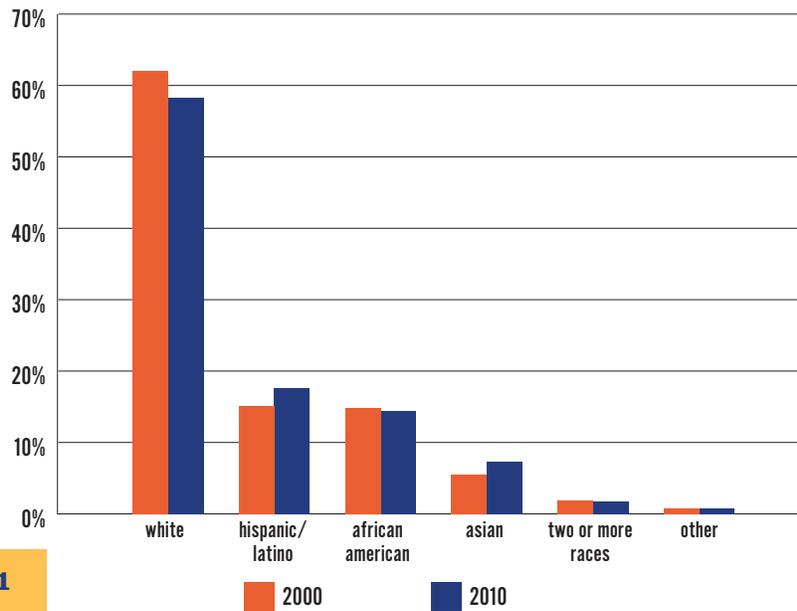


Figure 11

Immigrants play a vital role in the New York economy, and particularly in the New York City economy. According to research by the Urban Institute, immigrants in New York account for \$57.5 billion in aggregate personal income, or 17.4% of the total personal income of state residents.<sup>64</sup>

“According to research by the Urban Institute, immigrants in New York account for \$57.5 billion in aggregate personal income, or 17.4% of the total personal income of state residents.”

61 Ibid.

62 Gimpel, James G. “Immigration, Political Realignment, and the Demise of Republican Political Prospects.” Center for Immigration Studies. [<http://www.cis.org/republican-demise>].

63 Ibid.

64 Passel, Jeffrey S. and Rebecca L. Clark. “Immigrants in New York: Their Legal Status, Incomes, and Taxes.” Urban Institute. [<http://www.urban.org/publications/407432.html#II>].

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New York's legal foreign-born population pays \$18.2 billion in taxes, 15.5% of the state's total.<sup>65</sup> While immigrants tend to earn less than native-born Americans, the difference decreases rapidly by generation: among adults of working age (18 - 64 years), the average incomes of second-generation Americans (\$26,800) are virtually identical to those of third-and-higher-generation Americans (\$26,900).<sup>66</sup>

In New York City, the important economic role of immigrants is especially clear. In 2008, immigrants accounted for \$215 billion in economic activity in New York City, which represented about 32% of the gross city product.<sup>67</sup> Moreover, there are signs that immigrants are becoming even more important to the city's economy. The ten neighborhoods with the highest concentration of foreign-born residents had stronger economic growth than the rest of New York City between 2000 and 2007.<sup>68</sup>

## AGE

Overall, the state has age demographics that match those of the entire nation, with the exception of a slightly lower than average proportion of children under 15. The majority of New York's citizens are adults over the age of 25.

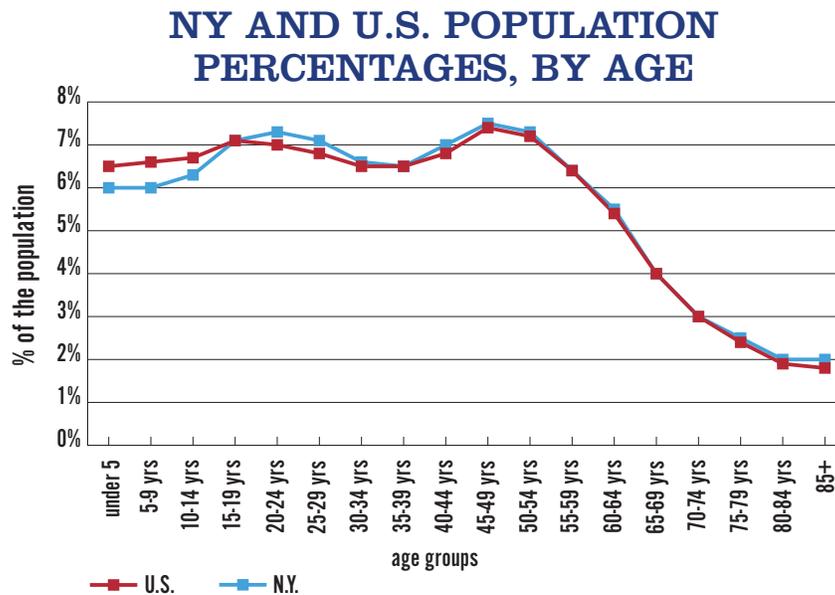


Figure 12

Despite a strong young adult population, driven in part by the appeal of New York City, the state's relative imbalance in the age of its citizens raises some concerns from a fiscal perspective.

<sup>65</sup> Ibid.

<sup>66</sup> Passel, Jeffrey S. and Rebecca L. Clark. "Immigrants in New York: Their Legal Status, Incomes, and Taxes." Urban Institute. [<http://www.urban.org/publications/407432.html#11>].

<sup>67</sup> DiNapoli, Thomas P. and Kenneth B. Bleiwas. "The Role of Immigrants in the New York City Economy." Office of the State Comptroller. [<http://www.osc.state.ny.us/osdc/rpt17-2010.pdf>].

<sup>68</sup> Ibid.

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Specifically, the ratio of old to young citizens in New York is relatively high among states and has grown over time. As Table 3 shows, the gulf between the number of old and young in New York has grown faster than the national average.

This demographic shift will strain the budget for state government programs that rely on young workers to pay for older retirees, such as state-run pensions, health insurance, and other services for the elderly.

## NEW YORK: AGING... AND FAST

	Ratio of People 60+ Years Old to People Under 20 Years Old	
	2000	2010
United States	0.57	0.69
New York	0.61	0.75

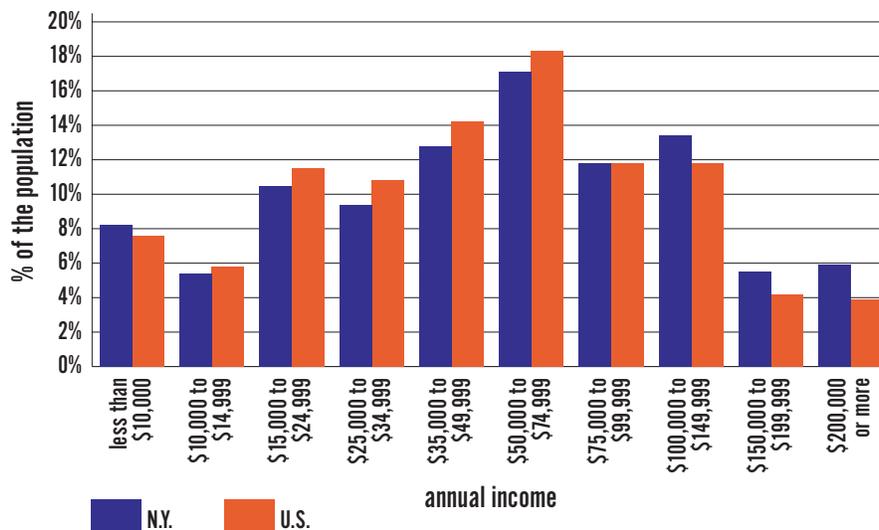
**Table 3**

SOURCE: U.S. CENSUS. "PROFILE OF GENERAL POPULATION AND HOUSING CHARACTERISTICS. 2010 DEMOGRAPHIC PROFILE DATA."

## INCOME

In 2010, the median household income for New York's 7 million households was \$55,603, above the national average of \$51,914.<sup>69</sup> New York's high per-capita income is buoyed by the presence of an unusually large number of extremely wealthy residents, particularly in New York City.<sup>70</sup>

## INCOME DISTRIBUTION: HOW DOES NY COMPARE TO THE REST OF THE U.S.?



**Figure 13**

SOURCE: U.S. CENSUS BUREAU. 2010 AMERICAN COMMUNITY SURVEY, 1-YEAR ESTIMATES.

<sup>69</sup> "State and County QuickFacts." United States Census Bureau. [<http://quickfacts.census.gov/qfd/index.html>].

<sup>70</sup> McGeehan, Patrick. "More Earners at Extremes in New York Than in U.S." The New York Times. [<http://www.nytimes.com/2012/05/21/nyregion/middle-class-smaller-in-new-york-city-than-nationally-study-finds.html>].

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Paradoxically, New York also has an above average number of low-income families. Of New York's 19.4 million residents, 14.2% live below the poverty line as compared to 13.8% at the national level.<sup>71</sup> The U.S. Census Bureau defined the 2010 poverty line as a household income of \$22,314 per year for a family of four.<sup>72</sup>

Looking at the distribution of income across the population in a given state is another useful way of understanding the economic status of the state's citizens. Figure 14 shows the percentage of New Yorkers earning different levels of annual income compared to the national averages in each income category. The two main takeaways are that there are a disproportionately large number of very poor people in New York (those earning under \$10,000 per year), and a disproportionately large number of relatively wealthy people (those earning over \$100,000 per year).

## EDUCATION

Though New York's K-12 students fare poorly on national standardized tests like the SAT, the citizens of New York are relatively well-educated, with the state outperforming the national averages in higher educational attainment in particular. The percentage of New York residents who have attained bachelor's degrees and graduate or professional degrees are both well above the national average. However, the state also has more citizens without a high school education than the national average, indicating that while many New Yorkers are well educated, a sizable percentage are not. The state's K-12 graduation rate remains below the national average, and the NAEP standardized exam placed New York's 4th and 8th grade students in the middle of the pack in terms of educational achievement. On the other hand, the state's colleges and universities continue to see record yearly enrollment, and K-12 reform is becoming an important issue at the state level.

<b>Educational Attainment (Age 25+)</b>	<b>U.S.</b>	<b>NY</b>
<b>Less than 9<sup>th</sup> Grade</b>	<b>6.1%</b>	<b>7.0%</b>
<b>High School Graduate or Higher</b>	<b>85.6%</b>	<b>84.9%</b>
<b>Bachelor's Degree or Higher</b>	<b>28.2%</b>	<b>32.5%</b>
<b>Graduate or Professional Degree</b>	<b>10.4%</b>	<b>14.0%</b>

**Table 4**

SOURCE: AMERICAN COMMUNITY SURVEY 2010

71 State and County QuickFacts." United States Census Bureau. [<http://quickfacts.census.gov/qfd/index.html>].

72 U.S. Census Bureau. "Poverty Thresholds for 2010 by Size of Family and Number of Related Children Under 18 Years." [[www.census.gov/hhes/www/poverty/data/threshld/thresh10.xls](http://www.census.gov/hhes/www/poverty/data/threshld/thresh10.xls)].

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## UNEMPLOYMENT

Out of its 19.4 million citizens, New York has a civilian labor force of 9.9 million. The state's unemployment rate of 9.1% in July 2012, was above the national average of 8.3% at the time.<sup>73</sup> Since 2010, as the rest of the national economy has experienced declining unemployment, New York's rate has remained nearly the same.

Industries important to New York, such as professional and business services, manufacturing, financial services, and construction, were hit particularly hard by the recession.<sup>74</sup> New York also lost many public sector jobs as the state cut back its budget by laying off public employees like teachers, firefighters, and public works employees.<sup>75</sup>

**“As of March 2012, New York had regained 76% of the private-sector positions lost in the recession, compared to the national average of 29%.”**

By another measure, as of March 2012, New York had regained 76% of the private-sector positions lost in the recession, compared to the national average of 29%.<sup>76</sup> The number of private sector jobs in the state increased by 1.7% from January 2011 to January 2012, which New York City Mayor Michael Bloomberg says is a rate 60% “greater than the country as a whole in 2011.”<sup>77</sup> New York City is leading the way in driving the state's economic recovery. According to the New York State Department of Labor, New York City saw its best four-month streak of job growth since the 1950s in early 2012.<sup>78</sup> However, as the stubbornly high unemployment rate demonstrates, New York remains far from a full economic recovery.

Many argue that the unemployment rate misrepresents the true state of the New York economy. The labor force is comprised of individuals over the age of 16 who are either in a job (“employed”) or not in a job but “actively looking” for work (“unemployed”). People who are not seeking employment are not part of the labor force. If a high percentage of people have fallen outside the labor force (for example, if they have given up looking for work), the unemployment rate will underestimate the economic struggles of a state.

73 Rugaber, Christopher S. “Unemployment rates rise in 18 states in May.” USA Today. [<http://www.usatoday.com/money/economy/employment/story/2012-06-15/state-unemployment-rates-may/55621446/1>] and “United States Unemployment Rate.” Trading Economics. [<http://www.tradingeconomics.com/united-states/unemployment-rate>].

74 DiNapoli, Thomas D. and Kenneth B. Bleiwas. “Who Has Been Hurt by the Recession in New York State?” Office of the State Comptroller. [<http://www.osc.state.ny.us/osdc/rpt20-2010.pdf>].

75 De Avila, Joseph and Will James. “Suburbs Cut Public Workers.” The Wall Street Journal. [<http://online.wsj.com/article/SB10001424052702303918204577444592509371550.html>].

76 “Officials: NY recovered more jobs than thought.” The Wall Street Journal. [<http://online.wsj.com/article/AP5cf0aeaf921144df941fb74b0499ab98.html>].

77 Ibid.

78 Smiley, Brett. “City's Job Growth Rate at Its best Since the Fifties.” New York Magazine. [<http://www.nytimes.com/2012/05/21/nyregion/middle-class-smaller-in-new-york-city-than-nationally-study-finds.html>].

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Furthermore, the unemployment rate does not factor in the possibility that people are taking part-time work because they cannot find full-time work. Such workers are called “underemployed.” These categorizations are extremely important in New York, where the number of “underemployed” workers was 14.9% in late 2011.<sup>79</sup> Though the exact national average is difficult to determine, data from Gallup suggests that New York’s underemployment rate is near the national average.<sup>80</sup>

## PRISONS

The state of New York has a below average proportion of institutionalized individuals, compared to the nation as a whole. According to the 2010 Census, roughly 0.5% of the New York population (231,163 individuals) resides in adult correctional facilities compared to 0.73% nationally (roughly 2.3 million individuals). Of these in New York, roughly 6,000 individuals are in federal prisons and detention centers with the majority of the institutionalized individuals residing in state prisons and local jails (approximately 88,000 individuals).

## MARRIAGE AND DIVORCE

Of the New York population over 15 years of age, 45.1% are now married, which is below the national figure of 48.8%. New York also has a lower percentage of people who are divorced (8.5%) than the nation as a whole (10.9%). This is true not only on average, but also consistently across age and gender categories. For example, 8.1% of men 35-44 years old are divorced in New York compared to 11.7% at the national level.

“Non-traditional households are increasingly common in the United States, and New York is at the forefront of this demographic change.”

Non-traditional households are increasingly common in the United States, and New York is at the forefront of this demographic change. In June 2011, the State Legislature passed a bill called the Marriage Equality Act permitting same sex marriages, making New York only the sixth state in the nation to pass such a bill. Though statistics on gay marriage in the state are hard to come by, New York City issued 659 marriage licenses on July 24, 2011, the day the law took effect.<sup>81</sup> In February 2012, the state released statistics on gay marriage in the state outside New York City that showed that more than 2,300 same-sex couples have wed in communities outside New York City since the Marriage Equality Act was passed.<sup>82</sup> ★

79 Feeney, Sheila Anne. “Underemployment resulting in downward mobility.” AM New York. [<http://www.amny.com/urbanite-1.812039/underemployment-resulting-in-downward-mobility-1.3081436>].

80 Newport, Frank and Gale Muller. “In U.S., Underemployment Lowest in North Dakota, Wyoming.” Gallup. [<http://www.gallup.com/poll/146486/underemployment-lowest-north-dakota-wyoming.aspx>].

81 “Gay marriage in New York: By the numbers.” The Week. [<http://theweek.com/article/index/217582/gay-marriage-in-new-york-by-the-numbers>].

82 Kaplan, Thomas. “2,300 Gay Unions Outside City, State Says.” The New York Times. [<http://www.nytimes.com/2012/02/16/nyregion/state-data-on-same-sex-weddings-outside-new-york-city.html>].

## OVERVIEW

As in most states across the country, health care is New York's single largest expense. In the fiscal year ending March 31, 2011, total spending on public health was \$52.6 billion, comprising nearly one-third of the state's total primary government spending.<sup>83</sup> Since 2003, public health spending has increased 48.5%. Public safety spending, by comparison, increased 23.2% during the same period.<sup>84</sup> There is widespread consensus that health care will continue to be the largest budget expenditure for New York for the next decade at least.<sup>85</sup>

“In the fiscal year ending March 31, 2011, total spending on public health was \$52.6 billion, comprising nearly one-third of the state's total primary government spending.”

Health care cost as a percentage of the state budget is also on the rise as Baby Boomers retire and begin receiving health benefits. New York, which has an aging population, will feel the burden in particular. Increased spending on these popular public health programs is likely to constrain the state's ability to spend on investments that can spur growth, like education or infrastructure.<sup>86</sup> The National Association of State Budget Officers, for instance, warns that because of the economic downturn and changes in American demographics, “Medicaid has steadily eaten up a growing share of state budgets over the past three years, while education has been getting a smaller slice of the pie.”<sup>87</sup>

Lastly, there is growing concern about the rising costs of state and local employees' health care. Estimates from the Manhattan Institute's Empire Center suggest that unfunded liabilities for public employee health benefits top \$60 billion for the state.<sup>88</sup> Add in New York City, local governments and public authorities, and the total retiree health care liabilities amount to \$200 billion, according to the director of the Empire Center. Because health care accounts for such a large percentage of the budget, cost containment is at the center of policymakers' agenda for the state.

## HIGH — AND RISING — COSTS

According to the RAND Corporation, between 1999 and 2009, total health care spending in the United States nearly doubled, from \$1.3 trillion to \$2.5 trillion.<sup>89</sup> Prices for medical care have

83 New York CAFR 2011, 32.

84 New York CAFRs, 2003-2011.

85 “New York: Health Costs & Budgets.” The Kaiser Family Foundation [<http://www.statehealthfacts.org/profileind.jsp?cat=5&rgn=34>].

86 “Kaiser Health Tracking Poll—May 2011.” The Kaiser Family Foundation. [<http://www.kff.org/kaiserpolls/8190.cfm>].

87 Cooper, Michael. “Bigger Share of State Cash for Medicaid.” The New York Times. [<http://www.nytimes.com/2011/12/14/us/in-downturn-medicaid-takes-up-more-of-state-budgets-analysis-finds.html>].

88 McMahon, E.J. “A \$205 Billion Bomb.” New York Post. [[http://www.nypost.com/p/news/opinion/opedcolumnists/billion\\_bomb\\_L3ANNg-FReIwt73QnxKucyI](http://www.nypost.com/p/news/opinion/opedcolumnists/billion_bomb_L3ANNg-FReIwt73QnxKucyI)].

89 “Accelerating Health Care Costs Wiping Out Much of Americans' Income Gains.” RAND Corporation. [<http://www.rand.org/news/press/2011/09/08.html>].

## { health care }

risen faster than nearly any other sector of the economy for over a decade.<sup>90</sup> The Kaiser Family Foundation notes that while there is broad agreement over the need to control skyrocketing health care costs, the exact causes of the higher prices are disputed. Possible drivers include demand for new technology and new prescription drugs, administrative costs, a rise in chronic diseases, and a distorted incentive system for health care spending that encourages costly procedures and visits to specialists rather than preventive care. In addition, since many procedures are covered by insurance rather than by out-of-pocket payments, the system can encourage patients to spend more on tests and unnecessary procedures.<sup>91</sup>

The Great Recession has added additional pressure to the system. Spending on Medicaid since 2008 has skyrocketed as enrollment has shot up, with more people struggling in a recession economy turning to Medicaid for health care. In addition, the expansion of eligibility under recent federal health care legislation has increased enrollment overall.<sup>92</sup>

“New York spends more than twice the national average on Medicaid on a per capita basis, and spending per enrollee is the second highest in the nation.”

These drivers of rising costs have hit New York particularly hard. According to a February 2011 report by Governor Cuomo’s office, using numbers from 2010, “New York spends more than twice the national average on Medicaid on a per capita basis, and spending per enrollee is the second highest in the nation.”<sup>93</sup> (Per capita basis refers to the amount of money spent per citizen of New York State, whereas the amount per enrollee references the total cost per Medicaid recipient.) Nationally, the state of New York ranks among the highest spenders for Medicaid using either measure. As of 2011, New York’s Medicaid payments per beneficiary were \$9,057, the highest in the country.<sup>94</sup>

Even outside of Medicaid spending, New York still spends much more than other states on health care for its citizens. According to data from 2009, New York’s health care expenditures were \$8,341 per capita, while the national average was only \$6,815.<sup>95</sup> Prescription drugs and other medical nondurables are an especially large burden on New York’s budget. The state government spent

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90 Ibid.

91 “U.S. Health Care Costs.” Kaiser.edu. [<http://www.kaiseredu.org/issue-modules/us-health-care-costs/background-brief.aspx>].

92 “Resources Examine Recession-Driven Record Medicaid Enrollment and Assess Medicaid Spending Growth.” The Kaiser Family Foundation. [<http://www.kff.org/medicaid/Resources-Examine-Recession-Driven-Record-Medicaid-Enrollment-Assess-Medicaid-Spending-Growth.cfm>].

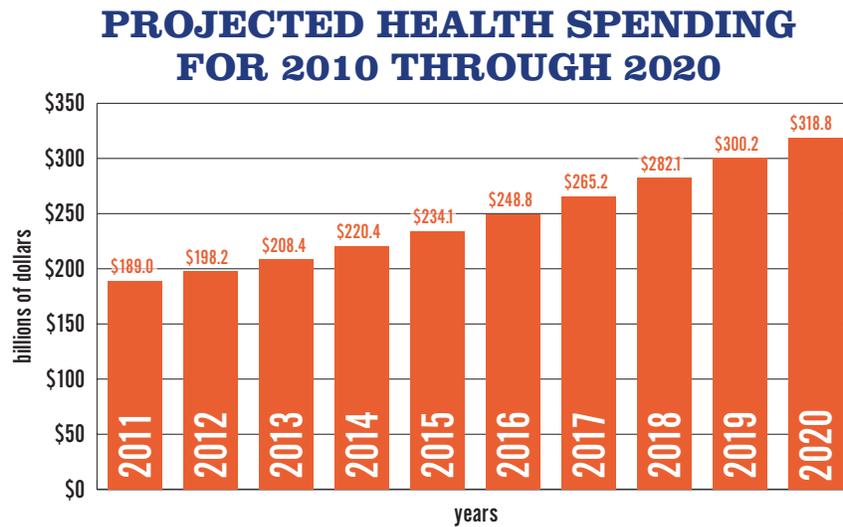
93 “Governor Cuomo Issues Executive Order Creating Medicaid Redesign Team.” Office of the Governor of New York. [<http://www.governor.ny.gov/press/01052011medicaid>].

94 “The States Doing the Most (and Least) to Spread the Wealth.” 24/7 Wall Street. [<http://247wallst.com/2011/11/11/the-states-doing-the-most-and-least-to-spread-the-wealth/3/>].

95 “New York: Health Costs & Budgets.” The Kaiser Family Foundation [<http://www.statehealthfacts.org/profileind.jsp?cat=5&rqn=34>].

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\$1,112 per capita on prescription drugs in 2009, compared to an average of \$956 nationally.<sup>96</sup> In addition, budget expenditures on nursing home care in New York are nearly a full percentage point above the national average. Home health care is nearly 1.5% above the national average, and “other health, residential, and personal care” is nearly double the national average.<sup>97</sup> Despite an average or below average level of costs in other areas of health care, like physician and professional services and hospital care, these rising costs have put New York’s average annual percent growth in health care at 5.5% between 1991 and 2009, above the national average of 5.3%.



**Figure 14**

SOURCE: “BENDING THE HEALTH CARE COST CURVE IN NEW YORK STATE: OPTIONS FOR SAVING MONEY AND IMPROVING CARE .” NYS HEALTH FOUNDATION..

Unfortunately, these higher costs do not translate into better quality service. A report from the Governor’s Office finds that while the state spends more than the national average on health, “New York ranks 21st out of all states for overall health system quality and ranks last among all states for avoidable hospital use and costs.”<sup>98</sup>

96 Ibid.

97 Ibid.

98 “Governor Cuomo Accepts Recommendations from the Medicaid Redesign Team.” Office of the Governor of New York. [[http://www.governor.ny.gov/press/022411cuomoaccepts\\_medicaidredesignteam](http://www.governor.ny.gov/press/022411cuomoaccepts_medicaidredesignteam)].

## NEW YORK STATE SCORECARD ON HEALTH SYSTEM PERFORMANCE, 2009

Care Measure	National Ranking
Overall	21
Prevention and Treatment	22
Healthy Lives	17
Avoidable Hospital Use and Cost	50

Figure 15

SOURCE: THE COMMONWEALTH FUND "2009 STATE SCORECARD."

### MEDICAID

The vast majority of the government's spending on health care goes to fund Medicaid, a government health care program that assists low-income families as well as individuals with disabilities.<sup>99</sup> The program is jointly funded by state and federal governments, but managed by the state. In 2011, 27% of New York residents received health benefits through the Medicaid program, while the national average was 20%.<sup>100</sup> This statistic offers one indication of why New York continues to see high health care costs.

"New York has some of the most generous Medicaid laws in the country with the average recipient in New York receiving three times the Medicare benefits of the average recipient, for instance, in Alabama."

Medicaid eligibility varies by state. New York has some of the most generous Medicaid laws in the country with the average recipient in New York receiving three times the Medicare benefits of the average recipient in Alabama, for instance. The state also has generous eligibility requirements for Medicaid coverage.<sup>101</sup> Citizens who have infants are eligible for Medicaid if their household income is less than 200% of the federal poverty cutoff (or \$45,000); parents with children ages 1-5 are eligible up to 133% (around \$30,000), and parents with children ages 6-19 are eligible up to 100% (around \$20,000).<sup>102</sup>

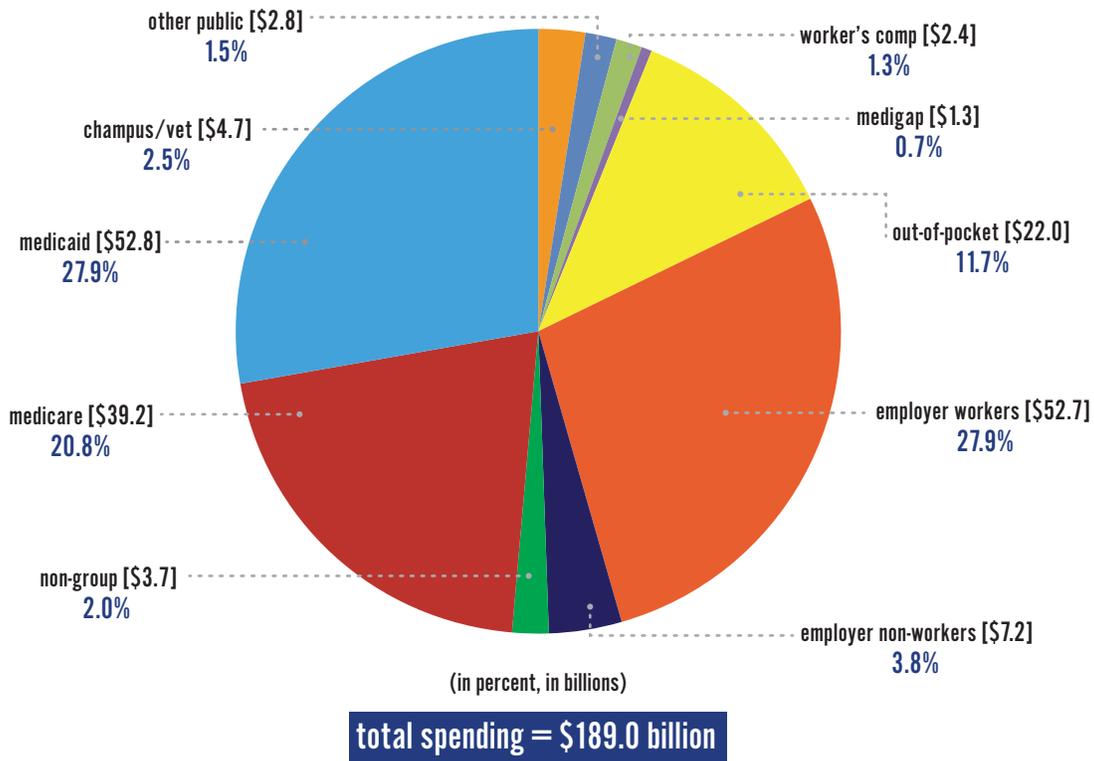
99 "Medicaid Spending Below Target for Current Year as Health Care Reform Initiatives Improve Quality and Control Costs." New York State Department of Health. [[http://www.health.ny.gov/press/releases/2011/2011-10-05\\_medicaid\\_spending\\_below\\_target.htm](http://www.health.ny.gov/press/releases/2011/2011-10-05_medicaid_spending_below_target.htm)].

100 "Medicaid & CHIP." The Kaiser Family Foundation. [<http://www.statehealthfacts.org/comparecat.jsp?cat=4&rgn=1&rgn=34>].

101 "The States Doing the Most (and Least) to Spread the Wealth." 24/7 Wall Street. [<http://247wallst.com/2011/11/11/the-states-doing-the-most-and-least-to-spread-the-wealth/3/>].

102 "States Nearing End of Medicaid Boost." Fox Business. [<http://www.foxbusiness.com/industries/2011/06/30/states-fearing-end-medicaid-boost/>]. and "Medicaid in New York State." New York State Department of Health. [[http://www.health.ny.gov/health\\_care/medicaid/](http://www.health.ny.gov/health_care/medicaid/)].

### HEALTH CARE SPENDING BY SOURCE 2011



**Figure 16**

SOURCE: THE LEWIN GROUP ESTIMATES USING DATA PROVIDED BY THE OFFICE OF THE ACTUARY OF THE CENTERS FOR MEDICARE AND MEDICAID SERVICES [CMS]. NUMBERS MAY NOT ADD UP TO TOTALS DUE TO ROUNDING.

Under the new federal health reform legislation, Medicaid will be expanded to all Americans with annual incomes up to 133% of federal poverty guidelines effective in 2014; in 2010, this figure was \$29,327 a year for a family of four.<sup>103</sup> This represents a significant change for state Medicaid programs, and for New York’s in particular. The Congressional Research Service estimates that under the new legislation, New York will see constant increases in the percentage of its Medicaid costs covered by the federal government — a figure known as the federal medical assistance percentage, or FMAP. New York’s FMAP also saw a recent increase due the 2009 American Recovery and Reinvestment Act (ARRA), which increased the state’s FMAP from 50.1% to 61.6% thanks to the stimulus from federal funds. Under the new legislation, however, New York’s FMAP could increase to 93% by 2019 and then level off at 90% in following years.<sup>104</sup> Thus, while New York already has

103 See Henderson, Ashley, Wilma Robinson and Kenneth Finegold. “The Affordable Cart Act and Latinos.” U.S. Department of Health and Human Services. [http://aspe.hhs.gov/health/reports/2012/ACA&Latinos/rb.shtml] and “Medicaid and CHIP Eligibility Table by State.” National Conference of State Legislatures. [http://www.ncsl.org/issues-research/health/medicaid-eligibility-table-by-state-state-activit.aspx].

104 Baumrucker, Evelyn P. “Medicaid: The Federal Medical Assistance Percentage (FMAP).” Congressional Research Service. [http://aging.senate.gov/crs/medicaid6.pdf]. Pages 11-15.

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a generous Medicaid program funded by the state government, the ARRA means that more New York citizens will have their Medicaid coverage funded by the federal government.

“In a majority of the State’s counties, Medicaid costs alone account for more than half of the entire county tax levy.”

### PROSPECTS FOR REFORM

New York State received over \$11 billion in health spending assistance through the federal stimulus package.<sup>105</sup> The end of federal stimulus funding in 2012 means that the state budget must bear a larger share of the burden for health care costs by itself. The state has tried to rein in costs by transferring more services to the private sector, switching patients to managed care, and eliminating fraud, but these efforts have not decreased costs as much as expected.<sup>106</sup> Another reform option, cutting Medicaid spending, presents a significant business risk to New York hospitals which receive a great deal of business from Medicaid recipients; a report from the Healthcare Association of New York State concludes that the treatment of Medicaid recipients provides over \$100 billion to the state economy each year.<sup>107</sup> Additionally, Medicaid is funded by matching funds provided by the state and federal governments. When Governor Cuomo cut \$2.2 billion in health care costs to help eliminate a \$10 billion budget deficit, the state lost a matching amount of federal aid, meaning the total loss in health care spending was more than \$4 billion.

Leaders of other state governments, especially California, Arizona, and Georgia, have reduced Medicaid spending by cutting the number of services covered or by restricting enrollment. Governor Cuomo has responded in a similar fashion, proposing cuts of over \$2 billion to expected increases in state Medicaid spending.<sup>108</sup> Others worry that Medicaid is dangerously crowding out other important areas of spending. In response to these worries, a compromise was reached in 2011 to increase Medicaid spending concurrently with school aid by 4% for the 2012-13 fiscal year, which began on April 1, 2012.<sup>109</sup>

Even with these big cuts, the program is nowhere near fiscally sustainable. In January 2011, Governor Cuomo issued an executive order creating a new Medicaid Redesign Team tasked with reforming the state’s huge Medicaid program. As the Governor’s Office noted in a press release announcing the new team, “In a majority of the State’s counties, Medicaid costs alone account for

105 “Medicaid Federal Medical Assistance Program (FMAP).” New York State Department of Health. [[http://www.health.ny.gov/regulations/arra/departments\\_of\\_health\\_programs.htm#fmap](http://www.health.ny.gov/regulations/arra/departments_of_health_programs.htm#fmap)].

106 Golden, Martin J. “Fraud Cost NY Praises Cuomo, Lawsky for Tackling No-Fault Auto Insurance Fraud Head-On.” [<http://www.nysenate.gov/press-release/fraud-costs-ny-praises-cuomo-lawsky-tackling-no-fault-auto-insurance-fraud-head>].

107 “States Nearing End of Medicaid Boost.” Fox Business. [<http://www.foxbusiness.com/industries/2011/06/30/states-fearing-end-medicaid-boost/>].

108 Sack, Kevin. “For Governors, Medicaid Looks Ripe for Slashing.” The New York Times. [<http://www.nytimes.com/2011/01/29/us/politics/29medicaid.html?pagewanted=all>].

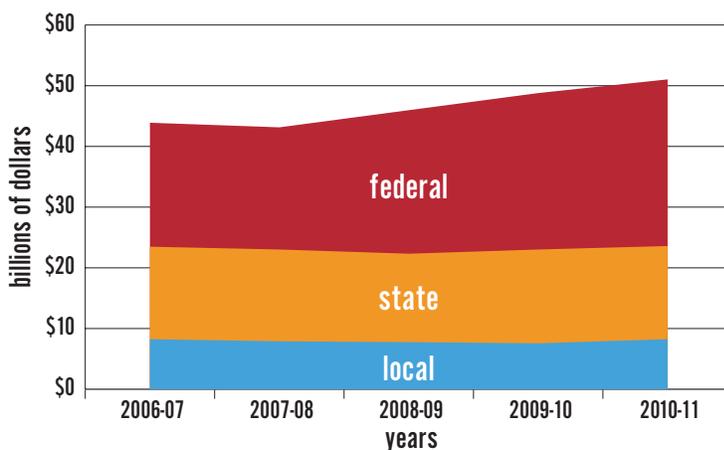
109 Spector, Joseph. “Lawmakers Giving Final Passage to State Budget Today.” Albany Watch. [<http://statepolitics.lohudblogs.com/2012/03/30/lawmakers-giving-final-passage-to-state-budget-today/>] and Smerd, Jeremy. “Cuomo cuts state budget second year in row.” Crain’s New York. [<http://www.craigslist.com/article/20120117/POLITICS/120119899>].

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more than half of the entire county tax levy.” Reforming Medicaid spending, he said, was a crucial step in addressing larger health care spending issues and the state budget in general.<sup>110</sup>

Just a few days after Governor Cuomo created the Team, the U.S. Attorney for the Southern District of New York filed a lawsuit against New York City alleging that the city had improperly overcharged the Medicaid program for 24-hour personal care services for some of the state’s 80,000 elderly and disabled Medicaid recipients who qualified for personal care services. Instances of fraud like this are thought to cost New York millions of dollars each year in Medicaid charges alone.<sup>111</sup> These allegations added further impetus to calls for reform and restructuring.<sup>112</sup>

### OVER THE PAST FIVE YEARS TOTAL MEDICAID SPENDING IN NEW YORK INCREASED BY 14% TO \$52.9B



**Figure 17**

SOURCE: “A PLAN TO TRANSFORM THE EMPIRE STATE’S MEDICAID PROGRAM: BETTER CARE, BETTER HEALTH, LOWER COSTS.” NEW YORK STATE DEPARTMENT OF HEALTH.

In February 2011, the Medicaid Redesign Team delivered their first set of recommendations to Governor Cuomo. The Team recommended introducing a cap on state Medicaid spending of \$15.1 billion. The report included 78 additional proposals for reform and restructuring including:

- Reforming the Medicaid payment and program structure to generate \$1.1 billion in total state savings;
- Implementing a 2% across-the-board Medicaid rate reduction to generate \$345 million in savings;
- Reforming medical malpractice insurance;
- Streamlining regulations;

110 “Governor Cuomo Issues Executive Order Creating Medicaid Redesign Team.” Office of the Governor of New York. [<http://www.governor.ny.gov/press/01052011medicaid>].

111 “Health Fraud.” New York Health Plan Association. [<http://www.nyhpa.org/HPAInitiatives/HealthCareFraud.asp>].

112 Benson, Barbara. “Feds see fraud in NYC health care spending.” Crain’s New York Business. [<http://www.craigslist.com/article/20110112/FREE/110119943>].

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- Expanding the use of care management so that Medicaid enrollees will have more direct access to a health care professional for routine issues rather than relying on expensive visits to specialists and hospitals.

The Governor expects these and similar recommendations to save the state billions of dollars in Medicaid costs. Still, it is too early to tell which recommendations will actually be implemented and how they will affect costs in practice.<sup>113</sup>

A series of proposals developed by the Lewin Group, a health care policy research firm, and the New York State Health Foundation offered a more expansive set of recommendations for overhauling health care, going beyond the focus on Medicaid that characterized the Medicaid Redesign Team. The Lewin Group highlighted ten ways to rein in spending, including popular ideas like modernizing primary care, expanding palliative care (care which aims at preventing pain and suffering rather than curing disease), and increasing the use of managed care, as well as more non-traditional ideas like imposing a statewide tax on sugar-sweetened beverages and expanding hospital pay for performance.<sup>114</sup>

In April 2012, Governor Cuomo used his executive power to implement an important feature of the recent federal health care legislation — the Affordable Care Act or ACA — that Republican lawmakers in the New York State Senate had previously blocked. The executive order provided for the establishment of a health insurance exchange, described as “an online marketplace where individuals and small businesses can choose among competing health insurance plans.”<sup>115</sup> Though it is too early to tell the effects of the new reform, Governor Cuomo issued a statement contending that the measure would drive down the cost of insurance statewide and help 2.7 million uninsured New Yorkers find affordable coverage.

With the ACA largely upheld by the Supreme Court in June 2012, federal health reforms will become more important in New York. The federal government will be shouldering a larger and larger share of the state’s Medicaid spending, while also reducing the cost of prescription drugs, incentivizing preventive services, and preventing unreasonable premium increases. Federal health legislation will change the landscape of New York’s health care sector in the coming years, especially as Governor Cuomo remains a strong supporter with the power to implement the reform on a state level.<sup>116</sup>

### HEALTH COSTS FOR STATE EMPLOYEES

The state of New York owes tens of billions in future health payments to retired government employees and their families. According to Bloomberg Businessweek, New York owes \$72.2 billion

113 “Governor Cuomo Accepts Recommendations from the Medicaid Redesign Team.” Office of the Governor of New York. [[http://www.governor.ny.gov/press/022411cuomoaccepts\\_medicaidredesignteam](http://www.governor.ny.gov/press/022411cuomoaccepts_medicaidredesignteam)].

114 “Bending the Health Care Cost Curve in New York State: Options for Saving Money and Improving Care.” NYS Health Foundation. [[http://www.lewin.com/~media/lewin/site\\_sections/publications/nyshealthbendingthecurve.pdf](http://www.lewin.com/~media/lewin/site_sections/publications/nyshealthbendingthecurve.pdf)].

115 Kaplan, Thomas. “Cuomo Acts to Advance Health Law in New York.” [<http://www.nytimes.com/2012/04/13/nyregion/cuomo-orders-health-insurance-exchange-in-new-york.html>].

116 “How the Health Care Law is Making a Difference for the People of New York.” Healthcare.gov. [<http://www.healthcare.gov/law/resources/ny.html>].

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in promised health benefits for retired government workers. That figure has increased 29% in the last year, and is only expected to increase in the future.<sup>117</sup> In 2011 alone, New York spent \$3.3 billion on health care for active and retired employees as overall health care spending rose 6%.<sup>118</sup> As more public employees retire and retirees live longer, the state will be on the hook for growing health care costs over time.

The outstanding health care payments to state employees are the result of decades of promises made to employees by the state government. New York State offered employees generous health care benefits that were supposed to last for the rest of their lives, and often allowed public sector employees to retire relatively early compared to private-sector workers. Between 2011 and 2012, expected future retiree benefits rose by \$16.3 billion. New York City alone had a retiree health care benefit liability of \$84 billion for the previous fiscal year.<sup>119</sup>

Unlike pensions, which are covered by money set aside in state budgets annually, retiree health benefits are covered on a pay-as-you-go basis, meaning that expected future payments are calculated each year, but money is not set aside to cover them. To help address this issue, in 2008 State Comptroller Thomas DiNapoli proposed creating trust funds to help the state and local governments plan for the cost of health care coverage for retirees. Legislation authorizing the trusts passed the State Senate in 2010, but it failed to pass the State Assembly.

“For New York State, New York City, local governments and public authorities, total retiree health care liabilities amount to \$240 billion.”

For New York State, New York City, local governments and public authorities, total retiree health care liabilities amount to \$240 billion, according to E.J. McMahon, a senior fellow at the Manhattan Institute for Policy Research in New York. McMahon says that some cities in New York State that have been losing population over the last few decades, like Syracuse and Rochester, spend more on retiree health benefits than they do on current employees.<sup>120</sup> As the Baby Boomer generation retires and fewer active workers are available to support a growing number of retirees, the state’s liabilities are almost certain to skyrocket.

Reforming the system will likely mean a combination of decreased benefits and increased premiums paid by current workers. However, lobbying and legal challenges by current workers and retirees

117 Braun, Martin Z. “New York State Retiree Health Costs Rise 29% to \$72 Billion.” BloombergBusinessweek. [<http://www.businessweek.com/news/2012-05-17/new-york-state-s-retiree-health-costs-rise-29-percent-to-72-billion>].

118 Ibid.

119 Braun, Martin Z. “New York State Retiree Health Costs Rise 29% to \$72 Billion.” BloombergBusinessweek. [<http://www.businessweek.com/news/2012-05-17/new-york-state-s-retiree-health-costs-rise-29-percent-to-72-billion>].

120 Ibid.

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to retain their promised benefits have hampered reform. When Governor Cuomo and the Retired Public Employees Association agreed to a labor contract that increased health care contributions by employees, a group representing 40,000 retirees sued the Cuomo administration, saying that applying contract changes to employees who had already retired violates “civil-service law and the state and U.S. constitutions.”<sup>121</sup>

“New York’s largest health care expenditure is Medicaid, where New Yorkers pay nearly \$8,000 per Medicaid enrollee, compared to the national average of \$4,575.”

### THE CHALLENGES AHEAD

The state government faces significant challenges in its health care budget as it implements the new federal legislation, tries to meet its commitments to Medicaid enrollees, and supports current and retired state employees. In line with national trends, the state is moving toward a population that is older, retired, and living longer. Retirees who paid into the system for many years as workers are now deriving benefits far exceeding what they paid into the system.<sup>122</sup> In order to fund health care in the future, the state will need to take on further debt, raise taxes, and cut back on the promises it has already made to former and current employees. All these options are politically unpopular.

Health care spending, which already accounts for nearly one-third of the state’s total spending on primary government, will become even more expensive in the coming years. The state spends more per capita on health care than almost any other state, and yet the quality of care and the delivery of services remains poor compared to other states. Governor Cuomo and other members of his administration have taken steps toward reform, but no proposals thus far come close to solving the long-term issues. ★

121 Klopott, Freeman and Thom Weidlich. “Retired New York Workers Sue Over Health-Care Cost Boost.” Bloomberg. [<http://www.bloomberg.com/news/2011-12-07/retired-new-york-workers-sue-over-health-care-cost-boost-1-.html>].

122 “Will You Get Back Your Social Security Taxes in Retirement?” U.S. News & World Report Money. [<http://money.usnews.com/money/blogs/planning-to-retire/2011/01/06/will-you-get-back-your-social-security-taxes-in-retirement>].

## OVERVIEW

States are responsible for running two massive educational systems. First, states operate a public school system with a mandate to provide free education for all children from kindergarten through twelfth grade (K-12). Second, states operate public universities and community colleges, which provide higher education at a reduced cost to state citizens and serve millions of students (and employ hundreds of thousands of people) nationally. State governments manage these two education systems, K-12 and higher education, separately. Altogether, the states, along with cities and local governments, are responsible for approximately 90% of public education financing.<sup>123</sup>

“Altogether, the states, along with cities and local governments, are responsible for the vast majority — approximately 90% — of public education financing.”

While the issues plaguing states in each segment of the education system are different, there are several trends that run throughout the public education systems in the United States. These include increasing tuition costs for university education, declining levels of achievement in math and science among high school students, and entrenched underperformance at all levels by schools in impoverished areas. In New York, the key issues facing the public education system are decreasing state funding, low achievement in K-12 schools, differences in achievement among socio-economic communities, and increasing tuition at the college level.

## K-12 EDUCATION

### Overview

In New York, K-12 education is administered by the Office of P-12 Education within the New York State Education Department (NYSED). NYSED reports directly to the Governor. The Office of P-12 Education estimated that as of the 2010-2011 school year, there were over 3 million students enrolled in K-12 schools in the state, with 2.6 million enrolled in public schools (including charter schools) and 425,000 in private schools.<sup>124</sup>

As of fall 2009, the most recent semester for which NYSED provides such data, the state had a total of 4,529 public schools.<sup>125</sup> In New York City alone, there were over 1 million students in 1,602 schools.<sup>126</sup> Private school enrollment in New York has steadily declined as a percent of total

123 “Public School Funding in Massachusetts: Where We Are, What Has Changed, and How We Compare to Other States.” MassBudget. [[http://www.mass-budget.org/report\\_window.php?loc=Annual\\_Census\\_Education\\_paper\\_FY09\\_data\\_Sept\\_2011\\_release\\_v04.html#footnote5](http://www.mass-budget.org/report_window.php?loc=Annual_Census_Education_paper_FY09_data_Sept_2011_release_v04.html#footnote5)].

124 “Elementary and Secondary Public and Non-Public School Enrollment.” New York State Education Department. [<http://www.p12.nysed.gov/irs/stats/table1.html>].

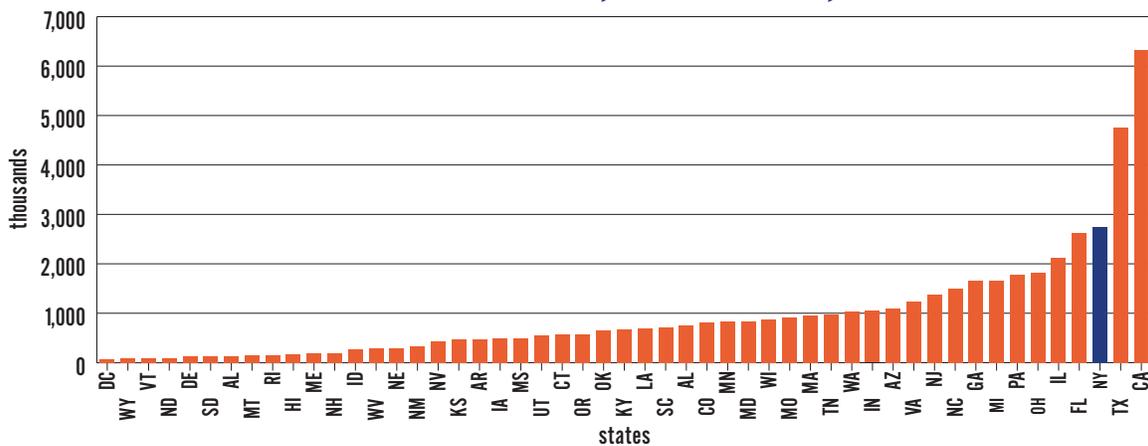
125 “Number of Public Schools by Level.” New York State Education Department. [<http://www.p12.nysed.gov/irs/statistics/enroll-n-staff/TABLE6.pdf>].

126 “Statistical Summaries.” New York City Department of Education. [<http://schools.nyc.gov/AboutUs/data/stats/default.htm>].

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K-12 enrollment. In 1970, 18.4% of K-12 students in New York State were enrolled in private schools; by the 2011-2012 school year, only 13.0% of K-12 students were in private schools.<sup>127</sup>

## PUBLIC ELEMENTARY AND SECONDARY SCHOOL ENROLLMENT, BY STATE, 2008



**Figure 18**

SOURCE: US CENSUS BUREAU STATISTICAL ABSTRACT OF THE UNITED STATES, 2012

Total enrollment in elementary and secondary schools had been increasing regularly in New York since 1970, when total enrollment reached a high of over 4 million. By 1990-1991, though, enrollment had fallen to 3 million. An eleven-year upward trend in enrollment ensued, followed by a leveling off period.<sup>128</sup> New York State educates the third most students in the nation behind California and Texas.

### Financing

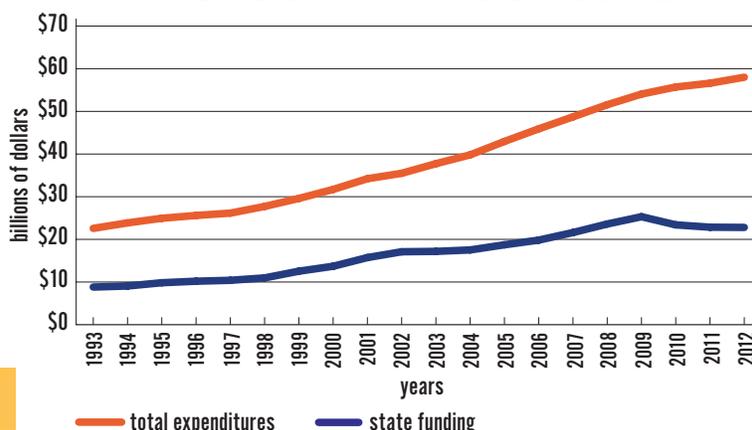
Education funding in New York State comes from three sources: state funds, local tax revenue, and federal aid administered by the U.S. Department of Education, with total spending at \$32.5 billion. State funds increased in absolute terms every year from 1993 to 2009, from \$8.8 billion in 1993 to \$25.3 billion in 2009. During the same period, state funds as a percentage of total education expenditures increased from 39.1% in 1993 to 46.8% in 2009. In FY 2009, however, state funds fell as a percent of total education expenditures in the state. This was driven by the recession, which drove down state tax revenue and increased the need for spending in other areas, like Medicaid. As a result, state expenditure on education has fallen \$2.5 billion since 2009 in real terms. In percentage terms, the state's fiscal contribution to total education expenditures has fallen by 7.5%.<sup>129</sup>

<sup>127</sup> Ibid.

<sup>128</sup> "Elementary and Secondary Public and Nonpublic School Enrollment." New York State Department of Education. [<http://www.p12.nysed.gov/irs/statistics/public/2012/TABLE1.pdf>].

<sup>129</sup> "Total Expenditures and State Funds for Public Elementary and Secondary Schools." New York State Department of Education. [<http://www.p12.nysed.gov/irs/statistics/public/2012/TABLE10.pdf>].

### TOTAL EXPENDITURES AND STATE FUNDS FOR PUBLIC ELEMENTARY AND SECONDARY SCHOOLS



**Figure 19**

The decrease in state education spending has put more pressure on local tax revenue to support K-12 education. A reliance on local funding, however, comes with its share of problems. First, school-funding based on local tax revenue disadvantages low-income communities. The same tax rate in a low-income community will raise fewer funds than in a high-income community. New York State, the second most economically unequal state in the country, is particularly vulnerable to this problem.<sup>130</sup>

Recent legislation that caps annual property tax increases at 2% has made raising school funds through local taxes even more problematic. The measure, passed in June 2011, was intended to address the state’s runaway growth in property taxes. New York State property taxes are nearly double the national average, and between 1998 and 2008 local property taxes increased by 73%.<sup>131</sup> The unintended consequence, however, has been to limit local governments’ ability to raise education funding. Communities that wish to exceed the 2% tax increase cap need a supermajority of votes (60%), making change politically difficult.<sup>132</sup>

In recent years, New York has become increasingly reliant on federal funds to cover shortfalls. In FY 2010 and FY 2011, New York received a total of \$6.3 billion from the American Recovery and Reinvestment Act (ARRA) alone. In 2010 New York received a total of \$8.1 billion in federal aid, making up 14% of the state’s total education spending.<sup>133</sup> In the same year, local expenditures

130 Brownell, Matt. “The States with the Biggest Income Inequality.” MainStreet. [<http://www.mainstreet.com/slideshow/moneyinvesting/news/states-biggest-income-inequality>].  
 131 Backstorm, Brian. “A Property-Tax Cap to Reform Education Spending: It’s Now or Never.” Foundation for Education Reform & Accountability.” [<http://www.nyfera.org/?p=3065>].  
 132 “NY Tax Cap Limits Funding for Schools.” National Opportunity to Learn Campaign. [<http://www.otlcampaign.org/blog/2012/05/18/ny-tax-cap-limits-funding-schools>].  
 133 “Total Expenditures and State Funds for Public Elementary and Secondary Schools.” New York State Department of Education. [<http://www.p12.nysed.gov/irs/statistics/public/2012/TABLE10.pdf>] and “Federal Aid for Education Administered by the State Education Department.” New York State Department of Education. [<http://www.p12.nysed.gov/irs/statistics/public/2012/TABLE11.pdf>].

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made up 46% of education spending, above the national average of 43.6%.<sup>134</sup> Now that ARRA funds have run out in the 2011–2012 school year and the property tax cap is in place, the state government will need to make difficult choices about how to pay for education spending.

Despite the state's funding issues, the Census Bureau reported that New York spent more per pupil than any other state in 2009. On average, public school systems spent \$10,499 per pupil in 2009, but in New York State that figure was \$18,126 per pupil.<sup>135</sup>

### **The Future of K-12 Education**

Despite the state's high spending per pupil in K-12 education, New York students receive lackluster marks on national standardized tests and high school graduation rates. Based on the results of the 2010 National Assessment of Educational Progress (NAEP), an assessment given to 4<sup>th</sup> and 8<sup>th</sup> graders, New York ranked 19<sup>th</sup> in the nation in K-12 achievement.<sup>136</sup> New York students rank 46<sup>th</sup> in the nation in average composite SAT score, and 48<sup>th</sup> overall in critical reading.<sup>137</sup> There are a number of theories for why New York students perform so poorly on the SAT, including increased diversity in schools, negative effects from the federal No Child Left Behind policy, and the entrenched power of teacher unions in the state.<sup>138</sup>

“New York students rank 46th in the nation in average composite SAT score, and 48th overall in critical reading.”

The state has a high school graduation rate of 74%, slightly below the national average of 74.9%.<sup>139</sup> In the state's urban centers, these rates are far below average. In 2011, New York City's graduation rate was just 60.9%, while the rates amongst students in Syracuse and Rochester were below 50%.<sup>140</sup> The low graduation rates in big cities stand in stark contrast to graduation rates in higher-income areas in the state, which graduate over 90% of public school students.<sup>141</sup>

The disparity in graduation rates between ethnic groups in New York is also pronounced. For Asian students and white students, the high school graduation rate is 85%; for black and Hispanic

134 “Census Bureau Reports Public School Systems Spend \$10,499 Per Pupil in 2009.” United States Census Bureau. [<http://www.census.gov/newsroom/releases/archives/governments/cb11-94.html>].

135 Ibid.

136 “America's Smartest Kids.” The Daily Beast. [<http://www.thedailybeast.com/galleries/2011/01/21/america-s-smartest-kids.html#slide19>].

137 Grant, J.C. “State Education Rankings: SAT Scores.” Yahoo! [<http://voices.yahoo.com/state-education-rankings-sat-scores-6382040.html>].

138 Lewin, Tamar. “Average Scores Slip on SAT.” The New York Times. [[http://www.nytimes.com/2011/09/15/education/15sat.html?\\_r=1](http://www.nytimes.com/2011/09/15/education/15sat.html?_r=1)].

139 “Education Department Releases High School Graduation Rates.” New York State Department of Education. [<http://www.p12.nysed.gov/irs/pressRelease/20120611/GradRates2012.pdf>]. and Rampell, Catherine. “Graduation Rates, by State and Race.” The New York Times. [<http://economix.blogs.nytimes.com/2010/06/02/graduation-rates-by-state-and-race/>].

140 “Education Department Releases High School Graduation Rates.” New York State Department of Education. [<http://www.p12.nysed.gov/irs/pressRelease/20120611/GradRates2012.pdf>].

141 Data provided by the New York State Department of Education, available for download at: [<http://www.p12.nysed.gov/irs/statistics/hsgads/2012/201011GradRateReleaseGradsDiplomasOutcomes.xls>].

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students, it is below 60%.<sup>142</sup> This problem is especially prevalent in New York City, where Mayor Bloomberg has made increasing graduation rates among minority students a priority by supporting charter schools, taking on teachers unions, and increasing funding for communities in need — including, in some cases, by using Mayor Bloomberg’s personal fortune.<sup>143</sup>

“New York City has made impressive progress in increasing graduation rates among all students in recent years, increasing the graduation rate 40% between 2005 and 2010.”

New York City has made impressive progress in increasing graduation rates among all students in recent years, increasing the graduation rate 40% between 2005 and 2010.<sup>144</sup> For the state as a whole, an impressive 81% of the public high school class of 2009 went on to an institution of higher education the next fall. Though this percentage has fluctuated in recent years, the overall trend is positive.<sup>145</sup>

So far, New York has avoided the most damaging cuts to public education, but there have been substantial layoffs of teachers and school administrators, leading to increased class sizes in some areas. If funding continues to decrease in coming years, broader and deeper cuts will need to be made.<sup>146</sup>

### **The Charter School Movement**

In order to deal with some of these challenges, New York is experimenting by opening more charter schools. In May 2010, the New York State legislature voted to raise the maximum number of charter schools in the state from 200 to 460, with 60 new charter schools slated to open each year between 2010 and 2014. This legislation will allow the state to compete for “Race to the Top” financing from the federal government to the tune of \$700 million until the \$4.35 billion in financing is used up.<sup>147</sup> The Center for Education Reform rates New York’s charter school law, passed in 1998, as the 7<sup>th</sup> strongest in the country, meaning the state law makes it relatively easy to open a charter school and gives them ample legal protection.<sup>148</sup>

142 “Education Department Releases High School Graduation Rates.” New York State Department of Education. [<http://www.p12.nysed.gov/irs/pressRelease/20120611/GradRates2012.pdf>].

143 Barbaro, Michael and Fernanda Santos. “Bloomberg to Use Own Funds in Plan to Aid Minority Youth.” The New York Times. [<http://www.nytimes.com/2011/08/04/nyregion/new-york-plan-will-aim-to-lift-minority-youth.html?pagewanted=all>].

144 “NYC Graduation Rates: Class of 2010.” New York City Department of Education Research and Policy Group. [[http://schools.nyc.gov/NR/rdonlyres/678EA9CF-69C0-4CFD-87EF-7E0F670059C2/0/GRADRATE2010\\_SHORT\\_HIGHLIGHTS\\_WEB.pdf](http://schools.nyc.gov/NR/rdonlyres/678EA9CF-69C0-4CFD-87EF-7E0F670059C2/0/GRADRATE2010_SHORT_HIGHLIGHTS_WEB.pdf)].

145 “Percent of Public High School Graduates Entering Postsecondary Education by Type of Institution.” New York State Department of Education. [<http://www.p12.nysed.gov/irs/statistics/public/2012/TABLE9.pdf>].

146 “Report: Layoffs hit 3% of NY teachers.” Crain’s New York Business. [<http://www.craigslist.com/article/20111012/EDUCATION/111019949>].

147 Medina, Jennifer. “New York State Votes to Expand Charter School.” The New York Times. [<http://www.nytimes.com/2010/05/29/nyregion/29charter.html>].

148 “New York Charter Schools.” The Center for Education Reform. [[http://www.charterschoolsearch.com/stateprofile.cfm?&state\\_id=33](http://www.charterschoolsearch.com/stateprofile.cfm?&state_id=33)].

New York City, in particular, has been a leader in the charter school movement. New York City alone has 100 charter schools, with the ability to build up to 214. Mayor Michael Bloomberg, a proponent of charter schools, opened 54 new schools in New York City in 2012: 24 charter schools and 30 traditional public schools.<sup>149</sup> Though Mayor Bloomberg will leave office at the end of 2013, the charter school movement has enough momentum and supporters to keep it strong even after he leaves office. In June 2012, students and parents from 80 charter schools across New York City gathered outside City Hall to express their support for charter schools and make it clear to aspiring mayoral candidates that they will constitute an important electoral force.<sup>150</sup>

There remains a vigorous debate surrounding charter schools and their educational and social benefits, however. Proponents argue that charter schools provide families with an alternative to a failing school system. In addition, the competition introduced into the educational system by charter schools can help improve results for students in every type of school. Finally, proponents cite the greater flexibility and accountability of charter schools: the vast majority of charter schools are not unionized, and thus principals have the flexibility to hire, fire, and reward teachers based on merit. Also, unlike a traditional public school, if a charter school does not perform, their charter is not renewed.

However, charter school critics maintain that charter schools are destroying rather than improving the public education system by diverting funding and talented students from traditional public schools. Funding is allocated to public schools based on the number of students they have, so every student who leaves a public school for a charter school takes with him tens of thousands of dollars in funding. There is also some worrying evidence that charter schools may not, on average, perform better than traditional public schools.<sup>151</sup>

## HIGHER EDUCATION

### **Financing and Overview**

New York State operates two separate systems of higher education: the City University of New York (CUNY), overseen by a 17-member Board of Trustees, and the State University of New York, overseen by a 16-member Board of Trustees. CUNY has 500,000 students and 23 institutions: 11 colleges, six community colleges, and several graduate and specialized schools. SUNY is the largest system of public colleges and universities in the United States, with nearly 500,000 students and over 1 million adult education students. Together, CUNY and SUNY have almost 100 campuses and institutions located across the state. Enrollments at CUNY and SUNY schools have increased year after year, stretching state resources and education infrastructure. In 2006, enrollment at

149 Taylor, Kate and Anna M. Phillips. "54 New Schools Will Open This Fall, Bloomberg Says." The New York Times. [<http://www.nytimes.com/2012/04/18/nyregion/54-new-schools-to-open-in-fall-bloomberg-says.html>].

150 Spencer, Kyle. "Charter Schools Prepare for a New Regime at City Hall." The New York Times. [<http://www.nytimes.com/schoolbook/2012/06/07/charter-schools-prepare-for-a-new-regime-at-city-hall/>].

151 Paulson, Amanda. "Study: On average, charter schools do no better than public schools." The Christian Science Monitor. [<http://www.csmonitor.com/USA/Education/2010/0629/Study-On-average-charter-schools-do-no-better-than-public-schools>].

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CUNY set a 31-year record with 226,213 students, with each subsequent year topping the last.<sup>152</sup> SUNY has also seen record enrollment, with total enrollment increasing each year since 1997.<sup>153</sup>

“SUNY is the largest system of public colleges and universities in the United States, with nearly 500,000 students and over 1 million adult education students.”

New York State is also well known for its private colleges and universities. The state has a total of 307 colleges and universities, including well-ranked institutions like Columbia University, Cornell University, and New York University.

In recent years, economic turmoil, increasing government debt, and budget cuts have imperiled funding for higher education. From 2011 to 2012, inflation-adjusted state spending (including federal stimulus funds) fell 7.1%, from \$5.0 billion to \$4.7 billion. New York follows a national trend, where public funding for higher education has dropped 7.6% on average - the largest decline in a half-century. Despite cuts, New York still spends more on higher education than any state except California and Texas, due in large part to the huge size of CUNY and SUNY and their increasing enrollment.<sup>154</sup> Per-pupil, New York ranks well above the national average, but behind states like Texas and New Jersey.<sup>155</sup>

## Challenges for Higher Education

The increasing cost of tuition is a challenge for New York State Universities, as in most states across the country. In 2012, 4-year college tuition for in-state students was \$5,430 per year and \$14,550 per year for out-of-state students. Prices were similar at SUNY: \$5,270 per year for in-state students and \$14,320 per year for out-of-state students. These prices are lower than at most public universities across the country (and especially in the northeast). That said, the continuing rise in tuition remains a concern for cash-strapped students and families.

In November 2011, the CUNY Board of Trustees approved a series of annual \$300 tuition increases through 2015, which together will raise tuition for in-state students to \$6,330 by 2016,

152 “CUNY Enrollment at Thirty-One Year Record.” CUNY. [<http://www1.cuny.edu/mu/forum/2006/09/18/record-number-of-students-attending-cuny-students-are-most-qualified-ever-transfers-to-cuny-up-87-and-enrollment-rises-by-25/>]; “CUNY Enrollment at Thirty-Two Year Record.” CUNY. [<http://www1.cuny.edu/mu/forum/2007/09/18/cuny-enrollment-at-32-year-record/>]. Fraser, Lisa. “CUNY Enrollment Reaches a New High.” The Ticker. [<http://www.theticker.org/about/2.8215/cuny-enrollment-reaches-a-new-high-1.2163218#.T90Xa5mXT4U>].

153 “Record Setting SUNY Enrollment Tops 427,000.” SUNY. [<http://www.suny.edu/sunynews/News.cfm?filename=2008-01-29%20final%20enrollment%20release.htm>]. “SUNY Celebrates 10 Years of Record-Setting Enrollment.” SUNY. [<http://www.suny.edu/sunynews/News.cfm?filename=2007-11-26%20final%20draft%20w%20minority%20enroll3.htm>]. “SUNY Enrollment Increases Nearly 6 Percent, Sets Records.” SUNY. [<http://www.suny.edu/sunynews/News.cfm?filename=2009-11-16%20final%20draft%20SUNY%20Sets%20Enrollment%20Records.htm>].

154 Lederman, Doug. “State Support Slumps Again.” Inside Higher Ed. [<http://www.insidehighered.com/news/2012/01/23/state-funds-higher-education-fell-76-2011-12>]. Kelderman, Eric. “State Support for Colleges Falls 7.6% in 2012 Fiscal Year.” The Chronicle of Higher Education. [<http://chronicle.com/article/State-Support-For-Higher/130414/>].

155 “State Higher Education Finance: FY 2010.” State Higher Education Executive Office. [[http://www.sheeo.org/finance/shef/SHEF\\_FY10.pdf](http://www.sheeo.org/finance/shef/SHEF_FY10.pdf)]. Page 37.

not counting \$500 in additional fees.<sup>156</sup> SUNY's Board of Trustees passed a similar plan in June 2011, raising tuition \$300 annually for the next five years for in-state students and 10% per year annually for out-of-state students.<sup>157</sup> Critics argue that even modest tuition increases will make CUNY and SUNY unaffordable for many students, even though the CUNY Board of Trustees set aside \$5 million in new aid to offset the tuition increases for the poorest students.<sup>158</sup> So far, the state government has remained silent on helping families cope with increasing tuition costs.

Other measures have also made public colleges in New York more expensive for some students. In 2011, the state decreased its funding for the graduate Tuition Assistance Program (TAP). Almost 14,000 fewer undergraduate students qualified for TAP in 2011 than in the previous year due to the new regulations. Average funding for those who did receive TAP funds decreased by 5%.<sup>159</sup>

“According to the Project on Student Debt, the average debt of a student graduating from a New York college or university in 2010 was \$26,271, the tenth highest in the nation.”

Students at New York's public colleges and universities have responded to increasing tuition and decreasing state aid by taking out private loans to finance their education. As a result, student debt is ballooning across the state. According to the Project on Student Debt, the average debt of a student graduating from a New York college or university in 2010 was \$26,271, the tenth highest in the nation. Sixty-one percent of graduates from the state graduate with some debt. The average debt of a student graduating from one of SUNY or CUNY's many campuses varies, but often exceeds \$20,000.<sup>160</sup>

## THE FUTURE OF EDUCATION IN NEW YORK

New York, with its large and diverse population, faces unique challenges in providing quality K-12 and higher education to its citizens. As enrollment continues to increase at every level of the public education system, a property tax cap restricts the ability of communities to raise education funds. As federal assistance dries up, the state faces a more difficult financial situation than ever before. Test scores indicate that New York K-12 students are struggling compared to their peers across

156 Pérez-Peña, Richard. “Amid Protests by Students and Others, CUNY Trustees Vote to Raise Tuition.” The New York Times. [<http://www.nytimes.com/2011/11/29/nyregion/cuny-board-approves-tuition-increases.html>].

157 Matthews, Cara. “SUNY makes tuition increase official.” Politics on the Hudson. [<http://polhudson.lohudblogs.com/2011/06/30/suny-makes-tuition-increase-official/>].

158 Pérez-Peña, Richard. “Amid Protests by Students and Others, CUNY Trustees Vote to Raise Tuition.” The New York Times. [<http://www.nytimes.com/2011/11/29/nyregion/cuny-board-approves-tuition-increases.html>].

159 “Gov. Proposed TAP Cuts to Continue, Requires Higher Grades.” Vos Iz Neias? [<http://www.vosizneias.com/75049/2011/02/03/albany-ny-gov-proposed-tap-cuts-to-continue-requires-higher-grades/>].

160 “New York.” Project on Student Debt. [[http://projectonstudentdebt.org/state\\_by\\_state-view2011.php?area=NY](http://projectonstudentdebt.org/state_by_state-view2011.php?area=NY)].

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the nation, student debt is piling up for college graduates, and SAT scores remain troublingly low. The state has taken some steps to address these issues, including promoting charter schools and providing greater support to students from disadvantaged backgrounds, but much work remains. The coming years will be crucial for New York's public education system, and the choices that state leaders make regarding how much funding to provide and where it should go will affect the state's citizens for decades to come.★



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experienced. The infrastructure lacks both functionality and flexibility in comparison to some of the more modern systems in the world. A 2009 national survey by the American Society of Civil Engineers (ASCE) indicated that New York's infrastructure needs are acute when compared to those of other states. Bridges, roads, and mass transit are among the main concerns.<sup>165</sup> In particular, the ASCE survey concluded that 42% of state bridges were "structurally deficient or functionally obsolete," compared to only 26% of bridges nationwide.<sup>166</sup> It also found that 46% of major state roads were in "poor or mediocre condition," compared to only 33% nationwide.<sup>167</sup>

"...46% of major state roads were in poor or mediocre condition, compared to only 33% nationwide."

Failing infrastructure has been a problem in the state for decades. In 1996, a colloquium held at Columbia University handed out a report card on New York City's infrastructure: for bridges, roads, and mass transit, the state scored in the D- to C range with comments such as "performance rated near failure as volume exceeds the capacity" and "mass transit built without vision by independent businesses in competition."<sup>168</sup>

### FINANCING AND INVESTMENT

Financing for state infrastructure has increased significantly in recent years. The state's \$22.7 billion expenditure on transportation infrastructure represents a 65.1% increase in real percentage terms since 2004.<sup>169</sup> The state has traditionally financed infrastructure through a combination of taxes, federal funds, user fees, and state bonds.

#### Federal Funds

As Figure 20 shows, New York has increasingly relied on federal funds to meet its growing infrastructure needs. In 2009, the federal government passed The American Recovery and Reinvestment Act (ARRA), which provided nearly \$35 billion to New York over two years.<sup>170</sup> Of that, \$3.4 billion was given to the state specifically to fund transportation-related projects, including \$1.3 billion for mass transit, \$1.1 billion for highways and bridges, and \$432.6 million for the Clean Water State Revolving Fund, a loan assistance fund for water quality improvement projects.<sup>171</sup> Governor Cuomo also secured over \$350 million in additional federal funding for the state's three high-speed rail projects in 2011.

165 Survey of the state's ASCE members conducted in September 2009. [<http://www.infrastructurereportcard.org/state-page/newyork>].

166 Ibid.

167 Ibid.

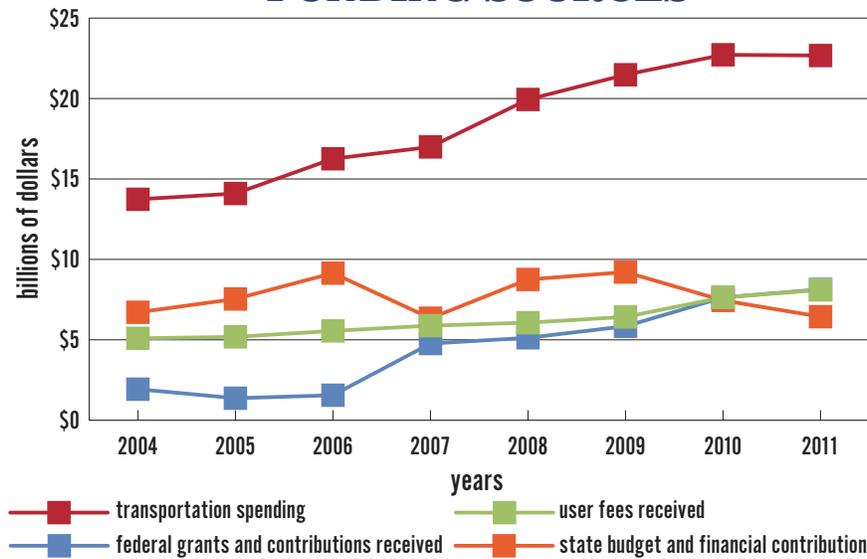
168 "New York City's Infrastructure Report Card." Columbia University Colloquium." [<http://www.columbia.edu/cu/pr/96/18915A.html>].

169 Comprehensive Annual Financial Report 2011. This figure comes from the sum total of expenses for Transportation from the Statement of Activities, and for the MTA and Thruway Authority from the Combining Statement of Activities.

170 NY Recovery website. [<http://www.recovery.ny.gov/>].

171 "New York's Share." [<http://www.recovery.ny.gov/directaid/aidnewyork.htm>].

### TRANSPORTATION SPENDING AND FUNDING SOURCES



**Figure 20**

SOURCE: NEW YORK RECOVERY: WWW.RECOVERY.NY.GOV

Though federal stimulus funds provided a much-needed boost to “shovel-ready” projects across the state, federal funding will not solve the long-term infrastructure needs of the state. In June 2012, the U.S. Congress passed a transportation funding bill for FY 2013 that left federal funding for New York State infrastructure largely unchanged.<sup>172</sup> According to Thomas DiNapoli, the New York State Comptroller, the average annual growth rate in federal funding for state infrastructure projects between 1997 and 2003 was 11.4%, but between 2003 and 2007 the rate was only 2.6%.<sup>173</sup> By contrast, the percentage of infrastructure spending funded by local government has been steadily increasing, creating a larger and larger burden on local tax bases.<sup>174</sup>

“The percentage of infrastructure spending funded by local government has been steadily increasing, creating a larger and larger burden on local tax bases.”

**User Fees**

The state collects user fees for transportation services from citizens in the form of tolls and fares, which help offset state transportation expenses. In New York, user fees are collected by

172 “Transportation bill leaves NY with largely flat funding.” PressConnects. [<http://www.pressconnects.com/article/20120629/NEWS01/206290376/Transportation-bill-leaves-NY-largely-flat-funding?odyssey=nav%7Chead>].  
 173 “Cracks in the Foundation: Local Government Infrastructure and Capital Planning Needs.” Office of the New York State Comptroller. [<http://www.osc.state.ny.us/localgov/pubs/research/capitalplanning.pdf>]. Page 2.  
 174 Ibid, page 6.

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three government entities: MTA, the New York State Thruway Authority, and the New York Transportation Department. User fees have increased 60% from 2004 to 2011, from \$5.1 billion to \$8.1 billion. Although this 60% increase is significant, the growth in user fees did not keep pace with the rise in transportation spending (a 65% increase). During the same period, federal grants rose by a whopping 321%. Meanwhile, New Yorkers have seen fares increase four times since 2008. Still, additional demand on the public transportation system has meant longer wait times and overcrowding.<sup>175</sup>

In late 2011, the Port Authority of New York and New Jersey, which controls much of the infrastructure of the Port of New York and New Jersey, announced steep toll increases on bridges and tunnels crossing the Hudson River. The additional revenue from the toll increases will be used to make up for the effects of the declining economy, as the recession reduced the number of commuters and thus fare revenue.

New York Governor Andrew Cuomo and New Jersey Governor Chris Christie, who jointly oversee the Port Authority, have called for a significant audit of the organization and blamed “fiscal mismanagement” for the raising of tolls and fares. The governors promised to reduce the agency’s budget for maintenance and expansion.<sup>176</sup> The initial proposal for toll and fare increases was expected to raise \$1 billion in revenue by 2014, but Governor Cuomo and Governor Christie lobbied to ensure the fare increases were smaller. Given that the MTA has a total budget of \$12.5 billion to fund transportation throughout the entire state, \$1 billion in additional revenue for the Port Authority would have been a significant increase.<sup>177</sup>

### **State Funding**

Although there have been relevant increases in revenues from user fees and federal grants, the amount contributed from state funding has remained flat over the last seven years. The state’s contribution fell from \$6.7 billion in 2004 to \$6.4 billion in fiscal year 2011. This amounts to a nominal decrease of 0.4% and a much larger decrease when adjusting for inflation. The bottom line is that nearly all increases in infrastructure spending in New York State in the last decade have come from the federal government. That said, with the federal budget under scrutiny, there is evidence that New York will have to step up and provide its own infrastructure needs going forward.

To address infrastructure needs, Governor Cuomo issued the New York State Department of Transportation (NYSDOT) and 5-year MTA Capital Plans. These plans, renewed at the end of each 5-year cycle, lay out the goals of purchasing new equipment, maintaining tracks, and

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175 Fried, Ben. “After the Service Cuts: Riders Cram on to Overburdened, Unreliable B61.” StreetsBlog. [<http://www.streetsblog.org/2011/12/05/after-the-service-cuts-riders-cram-on-to-overburdened-b61/>].

176 “Higher Bridge, Tunnel and PATH Rates Approved.” The New York Times. [<http://cityroom.blogs.nytimes.com/2011/08/19/higher-bridge-tunnel-and-path-rates-approved/>].

177 “MTA 2012 Adopted Budget.” Metropolitan Transportation Authority. [<http://www.mta.info/mta/budget/feb2012/Master.pdf>].

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renovating stations.<sup>178</sup> In addition, the plan attempts to deal with any operating deficits from the previous cycle. The bad news is that those deficits are quite large. The current spending cycle, which ends in 2014, has been hampered by funding difficulties, with an annual shortfall topping \$1.3 billion.<sup>179</sup>

In July of 2011, the MTA alone announced that it needed to borrow \$6.9 billion in order to close gaps in the FY 2012 budget caused by two huge tunnel projects.<sup>180</sup> As a result, by 2015 the amount the MTA spends on debt service each year will grow nearly 32% from 2011.<sup>181</sup> To address these shortfalls, Governor Cuomo proposed a budget cut of \$57 million for the MTA in his 2011 budget. A revised estimate, however, put the figure closer to \$100 million. The loss came exclusively from the operating budget, money set aside to fund the day-to-day expenses of the MTA, rather than the capital budgets used to fund new projects. According to John Petro, an urban policy analyst at the Drum Major Institute for Public Policy, losses like these “make it nearly impossible for the MTA to improve service and to update the region’s mass transit system for the 21st century.”<sup>182</sup> To keep its budget afloat, the MTA has had to make cuts to key services, for example by cleaning the subways less frequently and canceling bus routes if a driver calls in sick.<sup>183</sup>

Infrastructure funding in New York is gradually shifting towards public-private partnerships (PPP) for funding.<sup>184</sup> These partnerships are agreements between a public agency and a private sector entity. PPP contracts attract more private sector funding than traditional infrastructure projects, and allow for the state to complete more projects overall. The hope is that this approach can fuse the benefits of free markets with traditional public interests.<sup>185</sup> Last year, Governor Cuomo proposed using public-private partnerships to establish a large infrastructure fund to pay for the renovation and development of highways, bridges, and major construction projects.<sup>186</sup> Cuomo also proposed the use of private pension funds to finance infrastructure projects such as the construction of a new Tappan Zee Bridge.

The growing popularity of PPPs in the state has culminated in NYWorks, a \$15 billion infrastructure program launched by Governor Cuomo in January 2012 to speed up road and bridge projects. The NY Works fund includes \$1.2 billion in state funding, \$1 billion from the federal government, \$9.3

178 Neuman, William. “MTA’s Biggest Headache: Its 5-Year Capital Plan”. [<http://www.nytimes.com/2008/11/20/nyregion/20transit.html>]. November 19, 2008.

179 Higashide, Steven. “NY Lt. Governor: State Needs \$1.3B/Year for Transportation.” Mobilizing the Region. [<http://blog.tstc.org/2010/11/18/ny-lt-governor-state-needs-1-3b-year-for-transportation/>].

180 “Fare hikes, more borrowing in NYC transit budget.” Crain’s New York Business. [<http://www.crainnewyork.com/article/20110727/FREE/110729897>].

181 Fried, Ben. “Andrew Cuomo Can’t Ignore Transit in 2012.” StreetsBlog. [<http://www.streetsblog.org/2011/12/22/andrew-cuomo-cant-ignore-transit-in-2012/>].

182 Petro, John. “Cuomo Budget Cuts MTA Operating Funds, Puts a Bandage on Capital Budget.” [<http://drummajorinst.tumblr.com/post/10282595128/cuomo-budget-cuts-mta-operating-funds-puts-a-bandage>].

183 “Cuomo Cuts \$100 Million to Transit [Updated].” StreetsBlog. [<http://www.streetsblog.org/2011/02/01/cuomo-cuts-100-million-to-transit-prioritizes-capital-spending/>].

184 “Controlling Risk Without Gimmicks: New York’s Infrastructure Crisis and Public-Private Partnerships.” Office of the State Comptroller. [<http://www.osc.state.ny.us/reports/infrastructure/pppjan61202.pdf>].

185 Ibid.

186 “Cuomo Proposes New York Tax Overhaul, Infrastructure Fund.” BloombergBusinessweek. [<http://www.businessweek.com/news/2011-12-07/cuomo-proposes-new-york-tax-overhaul-infrastructure-fund.html>].

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billion from state authorities like the Port Authority, and \$3.5 billion from private industry. New York State will contribute just \$2.2 billion in state and federal funds to the total. Governor Cuomo emphasized that NY Works will help spur the economy with only 5% of the funding coming from the state budget.<sup>187</sup> The \$3.5 billion from the private sector, however, has yet to be secured.

“Governor Cuomo emphasized that NY Works will help spur the economy with only 5% of the funding coming from the state budget. The \$3.5 billion from the private sector, however, has yet to be secured.”

In theory, the funding from NY Works will be used to perform maintenance on 115 bridges and 2,000 miles of roads, and to fast track major projects such as the reconstruction of the Tappan Zee Bridge (which will eventually cost an estimated \$16 billion).<sup>188</sup> In addition, the Patterson Bridge will be replaced for \$32 million and bridgework over the Hudson River will cost another \$145 million.<sup>189</sup> Work on the Major Deegan Expressway will total \$13 million, and another \$9 million will go toward concrete pavement repair on the Long Island Expressway.<sup>190</sup>

### CHALLENGES AHEAD

New York faces a “perfect storm” in its infrastructure needs: an aging urban center, overpopulation and overuse, reduced federal spending, a strapped state budget, and a high pre-existing debt load. In order to address the many challenges, the state will have to come up with innovative solutions that incorporate public private partnerships, increase efficiencies and transparency, and combine a mix of increased user fees, taxes and a reduction of services. ★

187 “Inside Cuomo’s NY Works Program.” Crain’s New York Business. [<http://www.craigslist.com/article/20120401/SUB/304019981>].

188 Ibid.

189 “U.S. Says It Will Expedite Approval to Replace Deteriorating Tappan Zee Bridge.” The New York Times. [<http://www.nytimes.com/2011/10/12/nyregion/us-to-expedite-tappan-zee-bridge-project.html>]; “DOT: \$32M Patterson Bridge project to start next winter.” The Leader. [<http://www.the-leader.com/news/x760619563/-32M-Patterson-Bridge-project-will-begin-this-summer>]; “New York Works’ program lists infrastructure projects.” Syracuse.com. [[http://www.syracuse.com/news/index.ssf/2012/04/new\\_york\\_works\\_program\\_lists\\_i.html](http://www.syracuse.com/news/index.ssf/2012/04/new_york_works_program_lists_i.html)].

190 New Jersey Department of Transportation’s Press Releases, Construction Begins on First NY Works Project to Repair Roads in New York City, June 20, 2012. [<https://www.dot.ny.gov/news/press-releases/2012/2012-06-2011>].

## OVERVIEW

As part of their compensation, state and local workers, ranging from clerks to police officers, receive pensions upon their retirement. In fact, Article V, Section VII of the New York State Constitution guarantees all state and local workers a pension.

The State of New York has three pension systems: the Employees' Retirement System, the Police and Fire Retirement System, and the New York State Teachers' Retirement System. The Employees' Retirement System and the Police and Fire Retirement System together comprise the New York State & Local Retirement System (NYSLRS), which is administered by the Office of the State Comptroller. The New York State Teachers' Retirement System (NYSTRS), on the other hand, is administered independently and has its own Board of Trustees. Together, these funds are responsible for paying all pension benefits for state employees and most for local employees.

## TYPES OF PENSION PLANS

There are two major types of pension benefits: defined benefit and defined contribution. A defined benefit pension plan entitles retirees to a monthly payment of a certain value from their former employer. A defined contribution pension plan, on the other hand, entitles a retiree to a contribution from the employer to a retirement fund, which the employee then invests and receives access to upon retirement. With defined benefit pension plans, the state government can decide to either prefund its obligations or pay as it goes. Prefunding involves the state putting money aside in advance to pay for retiree benefits; the money is subsequently invested. When the employee retires and the benefits come due, the state can pay for the benefits with a combination of money from the general fund and investment returns. If a state chooses to pay as it goes, retirement benefits are more expensive because the state must pay for all current benefits out of the general fund without investment returns to defray the cost.

Both the NYSLRS and NYSTRS are defined benefit pension programs. As of March 31, 2012, the NYSLRS had more than one million participants deriving pension benefits from a \$150.3 billion Common Retirement Fund directed by State Comptroller Thomas P. DiNapoli.<sup>191</sup> In fiscal year 2011, the fund paid out over \$8.4 billion in benefits.<sup>192</sup> The NYSTRS, led by a ten member Retirement Board, has more than 280,000 active members and nearly 147,000 retirees and beneficiaries.<sup>193</sup> As of June 30, 2011, the NYSTRS had \$89.9 billion in net assets and paid out approximately \$4 billion in benefits to members.<sup>194</sup> These figures make the NYSLRS and NYSTRS two of the largest pension programs in the country, and two of the largest institutional

191 "What are the Comptroller's Responsibilities?" Office of the State Comptroller. [<http://www.osc.state.ny.us/about/response.htm>].

192 New York State and Local Retirement System: 2011 Comprehensive Annual Financial Report. New York State Office of the State Comptroller. [[http://www.osc.state.ny.us/retire/word\\_and\\_pdf\\_documents/publications/cafr/cafr\\_11.pdf](http://www.osc.state.ny.us/retire/word_and_pdf_documents/publications/cafr/cafr_11.pdf)]. Page 22.

193 "Learning about NYSTRS." [<http://www.nystrs.org/main/library/learningaboutstrs.html#Actuarial>].

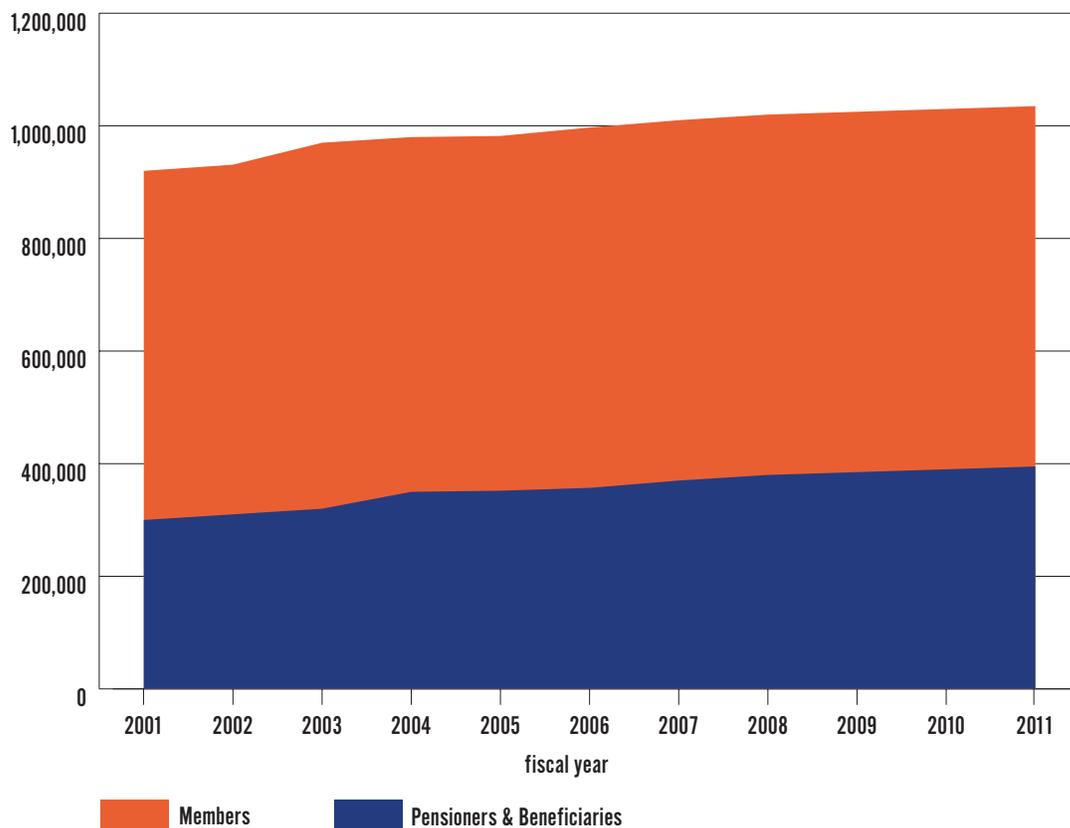
194 "Learning about NYSTRS." [<http://www.nystrs.org/main/library/learningaboutstrs.html#Actuarial>], and Investing in the People & Economy of the Empire State. NYSTRS Comprehensive Annual Financial Report 2010. [<http://www.nystrs.org/main/library/AnnualReport/2010CAFR.pdf>]. Page 24.

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investors in the world. In addition to pension benefits, both programs also provide disability and death benefits.

It should be noted that the State Government of New York does not include distributed pension funds in its statement of primary government activities, because these funds are set aside for retired state workers and cannot be used for general government spending. Instead, the state lists funds spent on pension benefits under “Fiduciary Funds.”

## NYSLRS MEMBERS, PENSIONERS AND BENEFICIARIES BY YEAR



**Figure 21**

SOURCE: NEW YORK STATE AND LOCAL RETIREMENT SYSTEM: 2011 COMPREHENSIVE ANNUAL FINANCIAL REPORT. NEW YORK STATE OFFICE OF THE STATE COMPTROLLER

In fiscal year 2011, the state distributed \$8.3 billion in retirement allowances, \$192 million in death benefits, and \$55 million in other benefits.<sup>195</sup> This figure has more than doubled over the last decade. In 2000, the state spent just over \$3.6 billion on all pension benefits.<sup>196</sup> This figure climbed quickly, to \$4.9 billion in 2003, \$6.1 billion in 2006, \$6.8 billion in 2008, and \$7.6 billion in 2010.<sup>197</sup>

<sup>195</sup> New York CAFR 2011, 43.

<sup>196</sup> New York CAFR 2000, 30.

<sup>197</sup> New York CAFRs 2003 - 2011, 43.

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Members of the NYSLRS and NYSTRS contribute a percentage of their salaries to the program investment funds to help pay for their pension benefits. The size of a member's contribution reflects a number of factors: final average salary, accrued overtime, age, years of employment, accumulated unused vacation days, and more.<sup>198</sup> These rates are generally between 3% and 6%, with higher rates of contribution from newer members.

“NYSLRS and NYSTRS are two of the largest pension programs in the country, and two of the largest institutional investors in the world.”

### EXPECTED RATE OF RETURN AND PENSION FUND HISTORY

The state calculates its pension contribution based on actuarial assumptions such as retirement age, expected salary increases, life expectancy, and the state pension fund's expected long-term rate of return. The NYSTRS uses an expected rate of return of 8.0% on its pension fund investments. The NYSLRS also used a rate of 8.0% until September 2010, when the Fund lowered its long-term expected rate of return to 7.5%.<sup>199</sup> As of March 2010, the majority of states used an expected return rate of 8.0% or higher. Only nine states used an expected return rate of 7.5% or lower. The 7.5% rate used by the NYSLRS is therefore “conservative” among state pension funds.<sup>200</sup>

Though a pension fund's expected rate of return may seem technical and unimportant, a pension fund's expected long-term rate of return is key to its fiscal health and the cost of pensions to the state. If the pension fund selects a very low expected rate of return, the state will have little risk of falling short of its investment targets, but will have to contribute more money from the general fund to fully fund pensions. If the pension fund chooses a very high expected rate of return, the cost of pensions will be kept low by the expectation that significant interest will be earned on contributions to the fund. However, a high expected rate of return exposes the pension fund to a sizeable risk that it will fall short of investment return assumptions. When the pension fund falls short of its expected rate of return in a given year, it must make up for the funds in increased contributions from the state. The shortfall, or unfunded liability, caused by losses to the pension fund is amortized over the next decade or longer. The amortization period combined with a high expected rate of return can obscure serious deficits in the pension fund by delaying a sizeable increase in state contributions to the pension fund.

198 See for instance “Employees’ Retirement System Benefits.” [[http://www.osc.state.ny.us/retire/members/tier-6/ers\\_benefits.php](http://www.osc.state.ny.us/retire/members/tier-6/ers_benefits.php)] and “Service Retirement.” [<http://www.nystrs.org/main/benefits/service.htm>].

199 “Investments.” NYSTRS. [<http://www.nystrs.org/main/about/investments.htm>], and “DiNapoli: State Pension Fund Posts Strong Gain.” Office of the New York State Comptroller. [<http://www.osc.state.ny.us/press/releases/may12/052312.htm>].

200 [http://www.clearonmoney.com/dw/doku.php?id=public:retirement\\_fund\\_discount\\_rate](http://www.clearonmoney.com/dw/doku.php?id=public:retirement_fund_discount_rate)

“Unlike many other states, New York has funded its pension funds adequately throughout their history.”

Unlike many other states, New York has funded its pension funds adequately throughout their history. In the early years, the state actually had issues with overfunding. In recent years, however, the fiscal condition of the pension funds worsened due to changes made by the legislature. A period of high investment returns during the 1990s caused state pension contributions to drop even as the funding status of the state pension fund improved due to high investment returns.<sup>201</sup> In response, the legislature granted more generous pension benefits to state and local workers and paid for them with increased investment returns. In 2000, all state and local employees received a significant retroactive pension boost.<sup>202</sup> In 2008, an early retirement program for pension holders also increased the costs of pensions in the state.

## THE GREAT RECESSION OF 2008 AND PENSION REFORM

The stock market crash of 2008 reversed the trend of retroactive benefit increases. The downturn in the economy caused the pension funds' actual rates of return and asset values to plummet, while increasing the cost of state pension contributions.<sup>203</sup> As an immediate response to the economic crisis, New York enacted minor pension reforms in 2009. The reform rolled back the retroactive pension increases of the 1990s for new hires and reduced police and firefighter pension benefits.<sup>204</sup> In 2010, State Comptroller DiNapoli reduced the expected rate of return for the NYSLRS fund to 7.5% from 8.0%.

However, it soon became clear that the initial round of reform was not enough. State pension costs were projected to double for the state between 2010 and 2012. Pension costs were climbing at an even greater rate for local governments - local pension costs were on pace to grow 650% over the decade.<sup>205</sup> In the face of such rapidly climbing costs and difficult tradeoffs, the state government pursued another round of pension reform.

In March 2012, Governor Cuomo successfully pushed a pension reform bill through the legislature. The measure promises to save the state and local governments a combined \$80 billion over the next thirty years. It achieves these savings by requiring new employees to contribute more of their salary for a smaller pension benefit. The measure, for the first time, requires all employees to contribute to their pensions. A worker making \$45,000 a year will be required to contribute 3% of their salary to their pension, while the contribution rate rises to 6% for workers making over \$100,000 a year.

201 “Can States Fix Their Pension Problems?” The New York Times. [<http://roomfordebate.blogs.nytimes.com/2010/05/20/can-states-fix-their-pension-problems/>].

202 “Economic boom & pension boost incentive to retire.” New York Daily News. [[http://articles.nydailynews.com/2000-01-13/news/18135647\\_1\\_pension-benefits-retire-cops](http://articles.nydailynews.com/2000-01-13/news/18135647_1_pension-benefits-retire-cops)].

203 See, for instance, “Investments.” NYSTRS. [<http://www.nystrs.org/main/about/investments.htm>].

204 “A Little Pension Reform.” The New York Times. [<http://www.nytimes.com/2009/12/05/opinion/05sat3.html>].

205 “Governor Cuomo Signs Law to Enact Major Pension Reform.” Office of the Governor. [<http://www.governor.ny.gov/press/031612pension>].

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Cuomo's reform measure also raises the retirement age to 63 from 62 and requires employees to work at least 12 years to receive a pension, up from 10 years. Workers who choose to retire earlier than that will be forced to take a 6.5% penalty to their pension benefit. Additionally, the bill reduces the number of sick days that can be cashed out for an increased pension benefit from 200 to 100 days. New workers making more than \$75,000 year will also be given the chance to choose between the existing defined benefit pension and a new defined contribution plan. The defined contribution plan would make employers contribute 10% of an employee's salary to a 401k account. The defined contribution plan has the advantage of being more portable than a pension benefit, which the state hopes will entice many new employees to select it.<sup>206</sup>

“Governor Cuomo’s pension reform measures promise to save the state and local governments a combined \$80 billion over the next thirty years.”

There is some question as to whether Governor Cuomo's pension reform bill went far enough. The measure only reduces benefits for new employees, which means the reform will have little impact in the short term. While the measure saves over \$80 billion overall, it saves only \$1.2 billion over the next five years.<sup>207</sup> The lack of short-term relief means both state and local governments will struggle with inflated pension payments for years to come.

In addition, strong political objections from unions drastically limited the scope of New York's new defined contribution plan. Governor Cuomo originally intended for the plan to be offered to all workers, potentially shifting a sizable portion of workers away from the defined benefit plan. The plan that was passed, however, limited the legislation to new workers making more than \$75,000, dramatically limiting the scope of the plan and its ability to generate substantive savings for the state.<sup>208</sup>

The expected rate of return also remains an issue. While the comptroller recently reduced the pension funds' long-term expected rate of return to 7.5%, this estimate may still be too high. For example, in the 2011-2012 fiscal year, New York's pension fund had a 5.96% rate of return, well below the 7.5% expected return rate.<sup>209</sup>

206 “New York cuts pension benefits for public workers.” Reuters. [<http://www.reuters.com/article/2012/03/15/us-newyork-pensions-idUSBRE82E00F20120315>] and “Governor Cuomo Signs Law to Enact Major Pension Reform.” Office of the Governor. [<http://www.governor.ny.gov/press/031612pension>].

207 “Gov. Cuomo proposes landmark changes.” New York Daily News. [[http://articles.nydailynews.com/2012-01-17/news/30637347\\_1\\_teacher-evaluation-system-pension-change-cuomo](http://articles.nydailynews.com/2012-01-17/news/30637347_1_teacher-evaluation-system-pension-change-cuomo)].

208 “Cuomo Pension Plan Sparks Fight with New York Unions.” The Huffington Post. [[http://www.huffingtonpost.com/2012/03/14/cuomo-pension-plan-new-york-unions\\_n\\_1345939.html](http://www.huffingtonpost.com/2012/03/14/cuomo-pension-plan-new-york-unions_n_1345939.html)].

209 Spector, Joseph. “NY Pension Fund’s Rate of Return: 5.96 Percent.” Politics on the Hudson. [<http://polhudson.lohudblogs.com/2012/05/23/ny-pension-funds-rate-of-return-5-96-percent/>].

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Michael Bloomberg, the Mayor of New York City, has been an especially vocal critic of the assumed rate of return of public pension funds. When the city's chief actuary proposed lowering the rate to 7.0%, Bloomberg said, "The actuary is supposedly going to lower the assumed reinvestment rate from an absolutely hysterical, laughable 8 percent to a totally indefensible 7 or 7.5 percent. If I can give you one piece of financial advice: if somebody offers you a guaranteed 7 percent on your money for the rest of your life, you take it and just make sure the guy's name is not Madoff."<sup>210</sup> However, the 7.5% expected rate of return currently in use may not be as outrageous as Bloomberg asserts. The NYSTRS pension fund has a 25-year annualized rate of return of 9.0% - suggesting that the talk of lowering the rate dramatically may be more a symptom of the current economic downturn than of long-term financial trends.<sup>211</sup>

In the private sector, expected rates of return on pension funds are well below the average rate used by state pension funds, and many analysts argue that even funds that have fared well in the past are not guaranteed to achieve strong returns in the tumultuous years ahead for the country's budget.<sup>212</sup> For instance, Warren Buffet, widely recognized as one of the nation's preeminent investors, only expects to achieve a 6.5% long-term rate of return with his pension fund. Warren Buffet's substantially lower return assumption suggests that it may not be possible to achieve the high rates of return that the state pension funds project over the long term, which means that states will be left footing a huge bill when pensions are due and pension fund investment returns have come up short.

There is also concern in the state over the generosity of some pension plans for retired police and firefighters. According to a report by the Empire Center, more than 10% of the police officers and firefighters in New York state pension system who retired last year will receive annual pensions exceeding \$100,000. This percentage has more than tripled since a decade ago, far exceeding cost of living increases for the same period.<sup>213</sup>

## CHALLENGES AHEAD

Despite concern over the health of the pension fund and the negative effects of the financial crisis, New York's state pension funds are relatively well funded. According to data compiled by Joshua Rauh, a Professor at Stanford University, New York's state pension funds are very well positioned compared to other state funds. Ranked by their unfunded pension liability as a percentage of gross state product (a measure of the state's unfunded pension liability as compared to the state's ability to pay for pensions), New York ranked ninth best-funded in the country with an unfunded liability as a percentage of gross state product at 12%. Nevertheless, because of the size of these funds, Rauh

210 Walsh, Mary Williams and Danny Hakim. "Public Pensions Faulted for Bets on Rosy Returns." The New York Times. [<http://www.nytimes.com/2012/05/28/nyregion/fragile-calculus-in-plans-to-fix-pension-systems.html?pagewanted=all>].

211 "Investments." NYSTRS. [<http://www.nystrs.org/main/about/investments.htm>].

212 "The Intelligent Investor: Are Pension Forecasts Way Too Sunny?" [<http://online.wsj.com/article/SB10001424052970203363504577185440666871560.html>]. January 28, 2012.

213 "More cops, firefighters join 100G state pension club." New York Post. [[http://www.nypost.com/p/news/local/more\\_cops\\_firefighters\\_join\\_state\\_52wGXd8FEmM2iNtYqsgnYL](http://www.nypost.com/p/news/local/more_cops_firefighters_join_state_52wGXd8FEmM2iNtYqsgnYL)].

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projected New York's unfunded liability to be a sizeable \$46.9 billion.<sup>214</sup> A recent report by Paul Volcker and Richard Ravitch had the number at \$46.8 billion.<sup>215</sup>

**“A March 2011 analysis by *The Fiscal Times* ranked New York as the best-funded pension plan in the United States.”**

A March 2011 analysis by *The Fiscal Times* ranked New York as the best-funded pension plan in the United States, stating that New York's pension programs are fully funded and that the state has kept up its “annual funding requirements in both good times and bad.”<sup>216</sup> Over the last 20 years, 82% of the costs of benefits for the NYSLRS pension fund have been funded from investment returns, meaning that the costs to both current employees and the state have been relatively low.<sup>217</sup>

The funded ratio of the two pension funds is a good indication of their fiscal health. A funded ratio is a comparison of assets to liabilities; the higher the percentage, the more future liabilities the state will be able to cover through assets it already possesses. As of April 2010, the NYSLRS had a funded ratio of over 95%, with the Employees' Retirement System at 93.9% and the Police and Fire Retirement System at 96.7%.<sup>218</sup> The NYSTRS had a funded ratio of 103.2% as of June 2009, meaning that the fund's assets are already projected to cover more than its expected future liabilities.<sup>219</sup> By contrast, West Virginia's public pension system has a funded ratio of 50%, and Oklahoma, Illinois, and New Hampshire are all below 60%.<sup>220</sup>

The news may not be all rosy, however. As more and more Baby Boomers retire into the state's public pension funds in the coming years, there will be ever greater stress on the system—especially if retirees live longer than expected. Moreover, if the economic downturn continues, the rate of return on the pension fund will continue to be below the expected return rate and the funded ratio will decrease. Even with these difficulties New York's pension program is much healthier than those of most other states.

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214 Novy-Marx, Robert and Joshua D. Rauh. “Public Pension Promises: How Big are They and What are They Worth?” *Journal of Finance*. [[http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1352608](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=1352608)].

215 Ravitch, Richard and Volcker, Paul. Report of the States Budget Crisis Task Force. [<http://www.statebudgetcrisis.org>].

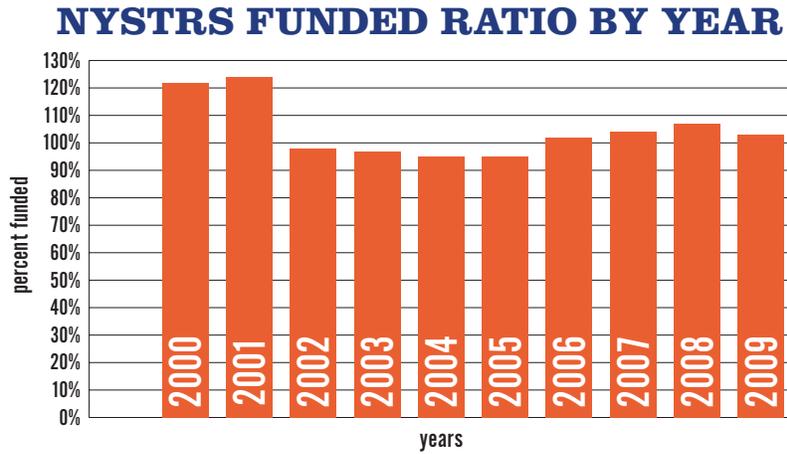
216 “Special Report: Best and Worst State Funded Pensions.” *The Fiscal Times*. [<http://www.thefiscaltimes.com/Articles/2011/03/24/States-Short-Change-Pension-Funds.aspx#page1>].

217 “DiNapoli: State Pension Fund Posts Strong Gain.” Office of the New York State Comptroller. [<http://www.osc.state.ny.us/press/releases/may12/052312.htm>].

218 New York State and Local Retirement System: 2011 Comprehensive Annual Financial Report. New York State Office of the State Comptroller. [[http://www.osc.state.ny.us/retire/word\\_and\\_pdf\\_documents/publications/cafr/cafr\\_11.pdf](http://www.osc.state.ny.us/retire/word_and_pdf_documents/publications/cafr/cafr_11.pdf)]. Page 10.

219 Investing in the People & Economy of the Empire State. NYSTRS Comprehensive Annual Financial Report 2010. [<http://www.nystrs.org/main/library/AnnualReport/2010CAFR.pdf>]. Page 24.

220 “Special Report: Best and Worst State Funded Pensions.” *The Fiscal Times*. [<http://www.thefiscaltimes.com/Articles/2011/03/24/States-Short-Change-Pension-Funds.aspx#page1>].



**Figure 22**

SOURCE: NYSTRS COMPREHENSIVE ANNUAL FINANCIAL REPORT 2010. "INVESTING IN THE PEOPLE & ECONOMY OF THE EMPIRE STATE."

Thus, while continued attention to the state pension system and ideas for reform and keeping costs low remain important, New York finds itself in a favorable position in regard to its public pension plans. Though many other states are struggling with huge unfunded liabilities and skyrocketing costs, New York's pension funds are closer to fully funded, and recent reforms will continue to keep costs reasonable and under control. ★

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