

# ANNUAL REPORT 2012

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

## NEW YORK



## THE STATE OF THE STATES

## EXECUTIVE SUMMARY

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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  
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## 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/stories/supplement/economy/state\\_debt/index.html](http://money.cnn.com/news/stories/supplement/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.

## { executive summary }

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>].



## { executive summary }

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

<sup>21</sup> 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>].

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