

New York's Balanced Budget: Passing the Buck and Business Opportunities in a \$10 Billion Reduction

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The New York State Legislature and Governor Cuomo reached an agreement by the April 1 deadline to balance the state budget. The press releases and budget introductions by both touted making the "hard choices" to change "business as usual" in the state. Notably, the state faced a \$10 billion shortfall for FY 11–12 before enacting the current budget measures. After budget measures, the state's FY 11–12 budget was balanced with a \$0 deficit. So, how exactly did New York eliminate \$10 billion from its budget and where can business opportunities be found in such an environment?

Table 1: New York Budget Comparison Across FY 11 – FY 13

	FY 11 \$	% Δ FY 11 to FY 12	FY 12 \$	% Δ FY 12 to FY 13	FY 13 \$	% Δ FY 12 to FY 13		
Budget	134,824,401,000	6.29%	131,888,432,000	-2.22%	131,999,569,000	0.23%		
Estimated IT Budget	1,855,157,000	2.99%	1,235,458,000	-25.57%	Unpublished			
Education (K-12) (Vert. w/Most Gain)	32,821,076,000	18.38%	Homeland Security (Vert. w/Most Gain)	861,187,000	8.86%	Public Finance (Vert. w/Most Gain)	12,303,288,000	11.83%
Homeland Security (Vert. w/Most Loss)	781,034,000	-12.86%	Gen. Gov. (Vert. w/Most Loss)	792,191,000	-8.86%	Community Dev. (Vert. w/Most Loss)	238,983,000	-42.23%

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At first glance, the realities of budget math and political speeches seem different, as the bottom line of the state budget indicates a cut of approximately \$3.1 billion from FY 11 to FY 12. Where is the other \$7 billion?

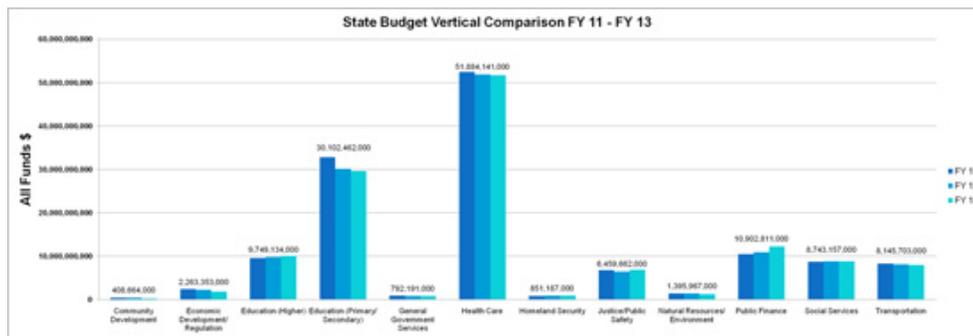
Taxes will be raised (accounting for \$324 million). However, this tax increase is certainly not as egregious as some in the media have indicated (passing fairly easily in both houses). What about the other \$6.7 billion? Well, there are an additional savings of \$900 million in one-time actions and another \$300 million through other financial measures. Still, where is the balance of the balanced budget?

New York identified cutting \$8.5 billion through what it called "spending control." In comparing the budget summaries with the actual enacted budget documents, it appears that state officials reduced the budget by \$3.1 billion from FY 11 to FY 12, yet claimed the elimination of \$8.5 billion in spending. Diving deeper, New York, similarly to California, accomplished this by cutting state aid to localities (funds to local governments for schools, social services, and entitlements), with 70% of the \$10 billion in savings for FY 11–12 coming in this area. The bottom line is that the buck is being passed down to localities not only in the coming fiscal year, but for many years to come. Still, why doesn't this \$7 billion in cuts show up immediately in the enacted budget? These budget cuts are made from projected increases in expenses. So, before the funds for projected increases are appropriated, they are eliminated. The net effect was that the state reduced its own expenses by \$3.1 billion (\$1.5 billion savings through state agency redesign and ~\$1.6 billion in various accounting adjustments) and passed on costs to local government by eliminating \$7 billion in state aid to localities.

While the governor and legislature have come to an agreement that will keep the New York government operating for another year, deficit spending levels still exist with localities now picking up an increased portion of the bill. Looking ahead, the state budget again has projected spending deficits after the next fiscal year (\$2.4 billion in FY 13; \$2.8 billion in FY 14; and \$4.6 billion in FY 15). If New York is to truly balance the budget, the state will either need to make difficult choices or come up with creative solutions.

However, even with these proposed cuts for the upcoming fiscal year, there is good news for IT contractors wishing to do business with the state. With only \$3.1 billion in cuts (\$1.5 billion in actual state spending cuts) for FY 11–12, New York will largely operate as they have, albeit with slowed growth. As identified by GovWin, IT procurement opportunities still exist in New York through the approximated \$1.2 billion total IT expenditures in FY 11–12. In order to examine the IT business opportunities in New York in greater detail, the following vertical analysis is presented.

Figure 1: NY Spending Comparison Across Verticals FY 11 – FY 13



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In FY 10–11, 8 of 12 verticals experienced growth, more than likely coinciding with the 6.26% overall budget growth from FY 09-10. K-12 education led the way with 18.38% growth, while homeland security experienced the biggest loss at -12.66%. However, the \$10 billion in cuts necessary to balance the budget in FY 11-12 resulted in more vertical losses than gains, with the biggest three losers (in order) being general government (-9.86%), K-12 education (-8.28%), and economic development/regulation (-6.71%). These losses seem in line with the governor's stated priorities of "cap[ping] spending increases for education" and "creating efficiencies through consolidation." However, given the governor's recent focus on economic development initiatives within the state, the cut to this vertical is somewhat surprising.

While more modest than in previous years, 5 out of 12 verticals experienced increases in FY 11-12. The biggest three gainers were homeland security (8.98%), public finance (3.93%), and higher education (2.62%). The gains in homeland security and public finance are logical given the governor's priority of increasing efficiency in these areas. In terms of higher education, the governor has also stated a priority of "ensuring affordable higher education."

Looking out further to FY 12-13, the state budget stabilizes somewhat, with 0.23% growth rate. While 7 out of 12 verticals will still experience decreases, the losses are much less severe. The good news is that some verticals are projected to experience real growth, including public finance (11.93%), justice/public safety (5.42%), and homeland security (4.33%). Higher education also continues its upward trend with a projected growth rate of 3.32%. Probably even better news for contractors looking for opportunities to position for future state growth are the projected overall state budget growth rates for FY 13-14 (3.98%) and FY 14-15 (6.27%). While not nearly as robust as the halcyon days prior to the recession, positive budget growth is certainly welcome news and should boost any flagging business spirits; budgetary increases will translate into more state spending.

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