Financial Plan Overview

Governor Cuomo has forged a bipartisan consensus with the Legislature to enact three on-time, fiscally responsible budgets. The budgets embrace the principle that State spending must grow more slowly than the overall economy, both to leave more money in the hands of the people – and to discipline the government to prudently use the resources granted to it. The principle has been put into practice at the State level with the establishment of the 2 percent spending benchmark, and at the local level with the 2 percent property tax cap.

The effort to control State government spending is working. In the fifty years prior to Governor Cuomo taking office, the annual State Budget grew faster than income 60 percent of the time (or three out of every five budgets), and spending over the entire period grew at an average rate of approximately 7 percent, compared to income growth of 6.2 percent. If spending and income had grown at the same rate, spending today would be approximately $40 billion below today's levels. With the adoption of the 2 percent spending benchmark, the unsustainable trend has been reversed. Since 2011, State spending has grown more slowly than income each year—and will again with the Executive Budget for 2014-15.

The budgets of the last three years have instituted fundamental reforms that have reduced the cost of State and local government in New York and enabled spending restraint to continue. These reforms include:

- Replacing unsustainable inflators for major programs with rational formulas linked to fiscal capacity;
- Negotiating landmark collective bargaining agreements that provide fair and affordable wages and benefits;
- Creating a new tier of fair and affordable pension benefits, which is expected to save the State and local governments $80 billion over 30 years;
- Relieving localities of the growth in the Medicaid program, and all the costs of administering it;
- Controlling and targeting new borrowing to keep debt service affordable and ensuring that the State abides by the debt limit; and
- Setting aside over $450 million in reserves to reduce debt and meet unforeseen "rainy day" needs.

The policy of spending restraint—and the reforms that have accompanied it—have led to measurable improvements in the State's financial position.

- General Fund deficits totaling tens of billions of dollars have been eliminated without fiscal gimmicks.
- The State is on track to record a surplus of over $300 million in the current year, which will be used to help support the 2014-15 initiatives.
- State debt measured as a percent of personal income stands at 5.2 percent – the most favorable ratio since the 1960s – and is expected to decline annually over the next decade, even with the capital investments for schools, health care, and economic development proposed in the 2014-15 Executive Budget.
- Total State debt declined from 2011-12 to 2012-13, and is on track to decline again in 2013-14, the first time debt has declined for two consecutive years since at least the 1960s.
- The accumulated GAAP-basis deficit of $3.5 billion inherited when the Governor took office has been reduced in just three years to less than $750 million, and is expected to be eliminated completely when 2013-14 is complete.

With the enactment of an on-time balanced budget in 2014-15, the State will be well-positioned to achieve its highest credit rating – "AA+" – since 1972. All three major rating agencies have assigned the State's credit (currently at "AA") a positive outlook.

2014-15 Executive Budget

- The Executive Budget continues the disciplined approach to fiscal matters that has defined the Governor's first three budgets. It proposes recurring savings through targeted reforms, as well as continuation of the spending controls and cost-containment put in place in prior years. Agency operations are generally expected to remain at current levels across the Financial Plan period. Reserve levels are expected to remain intact. The projections for receipts and disbursements continue to be based on conservative assumptions.

- The Budget again limits the annual growth in State Operating Funds spending to 2 percent or less, consistent with the spending benchmark adopted in 2011-12. In addition, the Governor is expected to propose, and the Legislature is expected to enact, balanced budgets in future years that continue to limit annual growth in State Operating Funds to no greater than 2 percent.

- The combination of effective budget management and adherence to the 2 percent spending benchmark in each of the next four fiscal years will produce surpluses in future years, based on current projections.[1] For context, every 1 percent change in spending is equal to approximately $900 million in the State's $90 billion Budget. The chart below shows the calculation of the surpluses that would be expected to occur.

ADHERENCE TO 2 PERCENT STATE OPERATING FUNDS SPENDING BENCHMARK -- SURPLUS CALCULATION (billions of dollars)

	2014	2015	2016	2017	2018	Growth Rate
State Operating Funds Spending (1)	90.5	92.3	94.2	96.0	98.0	2.0%
Available Resources (2)	90.5	92.8	95.5	98.3	100.7	2.7%
Surplus (3)	0.0	0.5	1.4	2.2	2.7	

1 Spending calculation based on current FY 2014 estimate. Executive Budget proposes an annual increase of less than 2 percent in FY 2015. Surplus shown in table would be larger if 2 percent calculation was made from FY 2015 proposed level.

2 Available resources before proposed tax reduction plan. Resources include State Operating Fund tax receipts, miscellaneous receipts, and net other financing sources, but exclude resources in dedicated funds (SRO and debt service) not available to the General Fund. Assumes FY 2014 surplus of $310 million is carried forward into FY 2015.

3 Surplus that could be expected to occur under the spending and resource assumptions described above.

[1] Before tax reduction plan proposed in 2014-15 Executive Budget.

- The Executive Budget proposes a multi-year tax reduction plan for individuals and businesses, which has been sized to absorb the surplus that would otherwise occur, using current projections.

- Consistent with the Governor's approach in balancing his first three budgets, all of which emphasized spending restraint, the Executive Budget Financial Plan reduces spending in 2014-15 by nearly $2 billion compared to prior projections. The savings, which are recurring and expected to grow in value in the future years, include the costs of universal pre-school kindergarten and other initiatives proposed in the Budget.

  - **Agency Operations.** Since the Governor took office in January 2011, State agency operating costs have been significantly reduced through ongoing State agency redesign and cost-control efforts. These efforts have included closures and consolidations of facilities to reduce excess capacity; strict controls on attrition and hiring; enterprise-wide consolidation of procurement, information technology, and workforce management functions; and a range of operational measures to improve efficiency. The 2014-15 Executive Budget holds spending for Executive agency operations constant over the Financial Plan period, with limited exceptions. In addition, the State's projected costs for health insurance and pensions have been lowered based on market conditions.

  - **Local Assistance.** Reductions in State spending from prior projections are expected to generate $1.6 billion in General Fund savings.[2] Savings are expected from, among things, the elimination of 2014-15 automatic health and human services "cost of living" increases, and updated cost estimates for a range of State programs, reflecting the impact of cost-containment and spending controls enacted in prior years.

    Medicaid and School Aid are the State's largest aid programs, comprising over 40 percent of the State Operating Funds budget. Consistent with the intent of the reforms enacted in 2011-12, both programs are recommended to grow at a uniform rate of 3.8 percent, excluding growth from the Smart Schools bond act.

  - **Debt Management.** Savings are expected through continued use of competitive bond sales, refundings, and consolidation of debt issuances.

  - **Initiatives/Investments.** The Executive Budget proposes several new initiatives, the most significant of which is increased funding for a statewide Universal Full-Day Pre-Kindergarten program phased in over the next five years.

    The Budget also proposes significant new capital initiatives. These include the Smart Schools bond act ($2 billion) and a capital program to modernize health care facilities ($1.2 billion).

  - **Resources.** The Budget includes use of the $310 million surplus from 2013-14 to fund a portion of the tax reduction plan that will affect 2014-15 receipts.

[2] Local assistance includes payments for School Aid, STAR, Medicaid, public assistance, child welfare, local government assistance and a range of other purposes.

- **Tax Reduction Plan.** The Executive Budget proposes tax and assessment reductions that will provide property, business, and estate tax relief. Property tax relief will consist of a residential property tax freeze credit, a residential real property tax credit, and a renter's credit. Business tax relief will be composed of an elimination of the tax rate on net income for Upstate manufacturers, a 20 percent real property tax credit for manufacturers, and corporate tax reform. The estate tax filing threshold will be increased, and the top rate decreased, over four years. Finally, the 18-a temporary utility assessment will be eliminated immediately for industrial customers and phased out more quickly for all remaining customers.

Annual Spending Growth

The Executive Budget holds 2014-15 annual spending growth in State Operating Funds to 1.7 percent, below the 2 percent spending benchmark. All Funds spending, which includes spending from capital funds and Federal funds, is expected to increase by 1.3 percent from the level estimated for 2013-14, excluding extraordinary Federal aid related to Superstorm Sandy[3] and the implementation of the Affordable Care Act (ACA).

[3] In October 2012, Superstorm Sandy caused widespread flooding, power failures, and wind damage to public and private property in New York City, Long Island, and other Downstate areas. Public infrastructure, including mass transit systems, public schools, and municipal buildings, sustained serious damage. The Executive Budget reflects Federal aid which will flow to local governments, public authorities, and not-for-profits over the next three years for recovery from Superstorm Sandy.

TOTAL DISBURSEMENTS (millions of dollars)	FY 2014 Current	FY 2015 Proposed	Annual $ Change	Annual % Change
STATE OPERATING FUNDS	**90,498**	**92,027**	**1,529**	**1.7%**
General Fund (excluding other transfers)	52,941	54,891	1,950	3.7%
Other State Funds	31,457	31,405	(52)	-0.2%
Debt Service Funds	6,100	5,731	(369)	-6.0%
ALL GOVERNMENTAL FUNDS	**135,350**	**137,168**	**1,818**	**1.3%**
State Operating Funds	90,498	92,027	1,529	1.7%
Capital Projects Funds	7,992	8,526	534	6.7%
Federal Operating Funds	36,860	36,615	(245)	-0.7%
ALL GOVERNMENTAL FUNDS (INCL. EXTRAORDINARY FEDERAL AID)	**140,865**	**142,141**	**1,276**	**0.9%**
Federal Disaster Aid for Superstorm Sandy	5,110	2,406	(2,704)	-52.9%
Federal Affordable Care Act	405	2,567	2,162	533.8%
GENERAL FUND (INCLUDING TRANSFERS)	**61,460**	**63,563**	**2,103**	**3.4%**
STATE FUNDS	**96,624**	**98,874**	**2,250**	**2.3%**