1. Financial Plan Overview

Overview

Governor Cuomo has led a bipartisan effort with the Legislature to enact five timely, fiscally responsible budgets. The passage of the FY 2016 Budget marked the first time since 1978 that New York has enacted five consecutive on-time budgets. The Governor's budgets embrace the principle that State spending must grow more slowly than the overall economy to leave more money in the hands of the people and to discipline the government to use its resources prudently. This principle has been put into practice with the establishment of the two percent spending benchmark at the State level, and with the two percent property tax cap at the local level.

The effort to rein in State government spending is working. In the 50 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 7.0 percent, compared to income growth of 6.2 percent. With the adoption of the two 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 FY 2017 Executive Budget.

Importantly, the fiscal actions of the past five years have reduced volatility from the budget-making process. Rather than including large spending increases in good economic times that cannot be sustained when the economy slows, the past five budgets have been disciplined, sustainable and affordable in the long term. The budgets of the last five years have instituted fundamental reforms that have reduced the cost of State and local government in New York. These reforms include:

- Limiting the annual growth in State Operating Funds to two percent;
- Eliminating unsustainable inflators in major programs;
- 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 more than $80 billion over 30 years;

- Relieving localities of the growth in the Medicaid program, and all its administrative costs, as a way to help counties remain with tax cap;
- Controlling and targeting new borrowing to keep debt service affordable and within the State's debt limit; and
- Setting aside more than $1 billion in reserves to reduce debt and meet unforeseen "rainy day" needs.

The combination of spending restraint and the accompanying budget reforms have led to measurable improvements in the State's financial position.

- General Fund deficits totaling tens of billions of dollars have been eliminated and turned into operating surpluses used to bolster reserves to the highest levels on record.
- Total State debt has declined in each of the last three fiscal years, and will decline again in FY 2016. This is the first instance in modern times that New York's debt has declined for four consecutive years. Debt outstanding at the end of FY 2016 is on track to be lower than when the Governor took office in 2011. State debt measured as a percent of personal income has decreased from 6.0 percent in FY 2010 to 4.6 percent – the most favorable debt to income ratio since the 1960s – and is expected to decline annually over the plan period, even as the State makes targeted capital investments for housing,

health care, transportation, and economic development.

- The accumulated GAAP-basis deficit of $3.5 billion inherited when the Governor took office has been eliminated.

In the summer of 2014, all three major credit rating agencies, Standard and Poor's, Fitch, and Moody's, recognized New York's outstanding financial performance by upgrading the State to its highest credit rating since 1972. The State now enjoys the second highest investment-grade credit rating possible from all three raters on its general obligation bonds (S&P rates the State's Personal Income Tax Bonds and Sales Tax Bonds at AAA, the highest rating possible).

FY 2017 Executive Budget Highlights

- The Executive Budget continues the disciplined approach to fiscal matters that has defined the Governor's first five 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. 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 two percent or less, consistent with the spending benchmark adopted in FY 2012. 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 two percent or less.
- An additional $2.3 billion windfall from monetary settlements with financial institutions is again set aside primarily for one-time investments and reserves. The FY 2017 Executive Budget proposes using these settlement proceeds for investments that supplement State activities, including transportation ($900 million), homeless and affordable housing ($640 million), and economic development ($255 million). In addition, settlements are used to increase funding for the Environmental Protection Fund ($120 million), create a toll credit for regular users of the Thruway ($340 million), support the Empire State Poverty Reduction Initiative ($25 million), and promote municipal consolidation ($20 million).

- The combination of effective budget management and adherence to the two percent spending benchmark in future fiscal years would produce surpluses, based on current projections. The Budget proposes a small business tax reduction plan and several new and expanded tax credits, which are sized to absorb much of the surplus that would otherwise be expected to occur if the State is successful in adhering to the two percent spending benchmark in future years. The following table summarizes the multi-year impact of the Executive Budget Financial Plan on General Fund operations.

GENERAL FUND BUDGETARY BASIS SURPLUS/(GAP) PROJECTIONS
EXECUTIVE BUDGET
GAP-CLOSING PLAN
(millions of dollars)

	FY 2017	FY 2018	FY 2019	FY 2020
MID-YEAR BUDGET SURPLUS/(GAP) ESTIMATE[1]	**(1,781)**	**(2,802)**	**(4,414)**	**(4,205)**
Spending Changes	**2,048**	**2,055**	**1,698**	**1,515**
Agency Operations	397	145	40	(357)
Local Assistance*	1,333	2,124	2,259	2,480
Capital Projects/Debt Management	439	167	152	88
Initiatives/Investments	(121)	(381)	(753)	(696)
Resource Changes	**(284)**	**(48)**	**130**	**(424)**
Tax Revisions	(229)	(44)	164	100
All Other*	(55)	(4)	(34)	(524)
Tax Actions	**17**	**(322)**	**(534)**	**(512)**
Small Business Tax Rate Reductions	0	(298)	(298)	(298)
Tax Extenders/Credits	17	(24)	(236)	(214)
Adherence to 2% Spending Benchmark[2]	**n/a**	**1,650**	**3,234**	**4,575**
EXECUTIVE BUDGET SURPLUS/(GAP)	**0**	**533**	**114**	**949**

1 Before actions to adhere to the 2 percent benchmark.

2 Savings estimated from limiting annual spending growth in future years to 2 percent (calculation based on current FY 2016 estimate). The Governor is expected to propose, and negotiate with the Legislature to enact, a Budget in each fiscal year that restricts State Operating Funds spending growth to 2 percent. The "Surplus/(Gap)" estimate assumes that all savings from holding spending growth to 2 percent are made available to the General Fund.

* Converting the STAR benefit to a refundable credit will result in lower STAR spending with a comparable decrease in PIT receipts. This change has no impact on the STAR benefits received by homeowners.

- Consistent with the Governor's approach in balancing his first five budgets, all of which emphasized spending restraint, the Executive Budget reduces spending in FY 2017 by $2 billion compared to prior projections. The reductions reflect reestimates to spending based on updated information, specific cost-containment proposals, and the prepayment of FY 2017 expenses from excess resources available in FY 2016.
    - **Agency Operations.** Since the Governor took office in January 2011, State Executive agency operating costs have been held constant through ongoing State agency redesign and cost-control efforts. These efforts have included closure and consolidation 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 FY 2017 Executive Budget generally holds Executive agency operations at a fixed level of spending over the Financial Plan period. Projected cost of employee health insurance and worker compensation has been increased based on market conditions.

- **Local Assistance.** The Budget contains $64.3 billion in Aid to Localities funding. Medicaid and School Aid are the State's largest local aid programs, comprising over 40 percent of the State Operating Funds budget. School Aid is increased by $2.1 billion over the next two school years, including a $991 million (4.3 percent) increase for the 2016-17 school year (SY 2017), bringing total aid to $24.2 billion in SY 2017. Medicaid will grow at the indexed rate of 3.4 percent, consistent with the statutory index ("Global Cap"), to $17.7 billion. In total, State-funded Medicaid will increase to $18.0 billion, including spending outside the Global Cap. In addition, the State continues to provide a substantial amount of capital funding to improve and restructure the State's health care delivery system.

  General Fund savings in the Executive Budget are expected from, among other things, aligning financial responsibility for City University of New York (CUNY) Senior Colleges with CUNY's governance (Currently, New York City appoints one-third of the CUNY board but provides virtually no financial support to Senior Colleges). The Budget proposes reinvesting $240 million from this proposal to fund a potential retroactive labor agreement with CUNY employee unions. Other Executive Budget savings include: targeted reforms to STAR, medical malpractice, and early intervention; the reinstitution of New York City's contribution to the annual growth in Medicaid costs in recognition of the financial capacity derived from the City's exemption from the Property Tax Cap; and updated cost estimates for a range of State programs, reflecting the impact of cost containment and spending controls enacted in prior years.

  - **Debt Service.** Savings are expected through the prepayment of FY 2017 debt service in the current year, continued use of competitive bond sales, refundings, and proactive management of debt issuances.

- The forecast for tax receipts has been revised over the multi-year Financial Plan based on collections experience and an updated economic forecast. Other significant resource adjustments include downward revisions to expected Federal resources to fund the mental hygiene system; savings realized from the refunding in 2014 of bonds funded exclusively from State sales tax receipts paid to STARC; and tax receipt changes from the proposed changes to the STAR program.

- The Budget proposes tax reductions for small businesses, a new Education Tax Credit to encourage private investments in education, an expansion of the Urban Youth Jobs Program Tax Credit, and a new Thruway toll credit. In addition, the Budget extends several tax credits.

Annual Spending Growth

The Executive Budget holds FY 2017 annual spending growth in State Operating Funds to 1.7 percent, below the two percent spending benchmark. All Funds spending, which includes spending from capital funds and Federal funds, is expected to increase by 1.2 percent from the level estimated for FY 2016, excluding extraordinary aid.

TOTAL DISBURSEMENTS (millions of dollars)	FY 2015	FY 2016	Annual	Annual %	FY 2017	Annual	Annual %
STATE OPERATING FUNDS	**92,426**	**94,282**	**1,856**	**2.0%**	**95,885**	**1,603**	**1.7%**
General Fund (excluding transfers)	54,255	57,556	3,301	6.1%	59,195	1,639	2.8%
Other State Funds	31,949	31,230	(719)	-2.3%	31,184	(46)	-0.1%
Debt Service Funds	6,222	5,496	(726)	-11.7%	5,506	10	0.2%
ALL GOVERNMENTAL FUNDS (EXCL. EXTRAORDINARY AID)	**138,642**	**143,593**	**4,951**	**3.6%**	**145,303**	**1,710**	**1.2%**
State Operating Funds	92,426	94,282	1,856	2.0%	95,885	1,603	1.7%
Capital Projects Funds	7,548	9,268	1,720	22.8%	9,681	413	4.5%
Federal Operating Funds	38,668	40,043	1,375	3.6%	39,737	(306)	-0.8%

Excludes (a) Federal disaster aid for Superstorm Sandy, (b) additional Federal aid associated with Federal health care reform, and (c) capital spending from the windfall monetary settlements with financial institutions.