Overview

Governor Cuomo has led a bipartisan effort with the Legislature to enact six timely, fiscally responsible budgets. These 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 2018 Executive Budget.

Importantly, the fiscal actions of the past six 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 budgets have been disciplined, sustainable, and affordable in the long term. The budgets of the last six 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 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;

Budget Highlights

Prudent Fiscal Practices. The Executive Budget holds annual spending growth in State Operating Funds to less than 2 percent, consistent with the fiscal benchmark adopted by the current administration, and is balanced on a cash basis in the General Fund, as required by law.

Proceeds from Windfall Monetary Settlements. An additional $1.4 billion windfall from monetary settlements received in FY 2017 is again set aside primarily for one-time capital investments and a $150 million deposit to the State's Rainy Day Reserves.

Performance Profile

New York's prudent fiscal management has resulted in the following:

- Six timely consecutive budgets.
- Spending levels adhere to two percent spending benchmark.
- Another planned deposit of $150 million will bring general reserves to $2.5 billion – highest levels on record.
- Gaps have been eliminated on both a cash basis and GAAP basis.
- Total State debt has declined for five consecutive years.
- Credit ratings have been upgraded and the State now has its highest credit rating since 1972.
- Medicaid and School Aid growth is based on statutory indexes.
- Spending for agency operations has been held flat through ongoing State agency redesign and cost-control efforts.
- The State workforce levels are down nearly 10,000 since 2011.

- Relieving localities of the growth in the Medicaid program, and all its administrative costs, as a way to help counties remain within the property tax cap;
- Controlling and targeting new borrowing to keep debt service affordable and within the State's debt limit; and
- Setting aside nearly $1.1 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.
- State-related debt outstanding has declined for four years, FY 2013 through FY 2016, and is expected to decline for the fifth consecutive year in FY 2017. This marks the first time in modern history that New York has achieved this result, and debt will have declined from $55.7 billion to $50.8 billion during the five-year period. Debt outstanding at the end of FY 2017 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 5.9 percent in FY 2011 to 4.2 percent in FY 2017 – the most favorable debt to income ratio since the 1960s – and is expected to remain relatively constant 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 2018 Executive Budget Highlights

- The FY 2018 Executive budget is proposed in an uncertain fiscal environment. Tax receipts during the current year have been weaker than expected, with DOB revising its estimates downward in each quarterly update. At the Federal level, the new presidential administration and Congress may redefine the partnership with the states in health care, social services, and infrastructure, with potentially adverse consequences for State finances.

- Accordingly, the Executive Budget for FY 2018 adopts a cautious stance. It continues the prudent fiscal practices that have produced six consecutive timely and balanced budgets. The Executive Budget holds annual spending growth in State Operating Funds to less than 2 percent, consistent with the fiscal benchmark adopted by the current administration, and is balanced on a cash basis in the General Fund, as required by law.

- Medicaid and School Aid are recommended to grow in line with their statutory indexes. The index for Medicaid spending subject to the Global Cap is the ten-year moving average of the medical component of the Consumer Price Index (CPI). The index for School Aid is the estimated annual growth in State personal income. Spending for agency operations is expected to be held flat, and a plan is proposed that would use the $1.4 billion in new monetary settlements to fund capital projects and other time-limited costs, as well as a deposit to the rainy day reserves, if fiscal conditions permit.

- The tax reforms enacted in recent years are continued, reducing the burden on middle-class taxpayers. Average middle class savings in 2018 will be $250, and when fully effective the annual savings will be $700.

- To plan for Federal uncertainties, the Executive Budget includes contingency language that would authorize the Budget Director to reduce certain local assistance payments by a uniform amount in the event that Federal aid is reduced from planned levels.

- General reserves will be increased by $150 million, and total $2.5 billion at the end of FY 2018.

- The following table summarizes the multi-year impact of the Executive Budget Financial Plan on General Fund operations.

Table 1: FY 2018 Executive Budget Gap-Closing Plan (General Fund)

	FY 2018	FY 2019	FY 2020	FY 2021
MID-YEAR BUDGET SURPLUS/(GAP) ESTIMATE[1]	**(3,533)**	**(7,122)**	**(8,935)**	**(6,816)**
Spending Changes	**2,705**	**2,476**	**2,432**	**2,326**
Agency Operations	624	218	161	11
Local Assistance[2]	1,623	2,243	2,577	2,718
Capital Projects/Debt Management	580	391	316	331
Initiatives/Investments/New Costs	(122)	(376)	(622)	(734)
Resource Changes	**(2)**	**(826)**	**(976)**	**(1,633)**
Tax Revisions	(415)	(475)	(679)	(1,039)
All Other[2]	413	(351)	(297)	(594)
Tax Actions	**830**	**3,700**	**4,820**	**4,344**
PIT Top Bracket Extender	683	3,375	4,505	4,029
Tax Extenders/Credits	147	325	315	315
EXECUTIVE BUDGET SURPLUS/(GAP) ESTIMATE[1]	**0**	**(1,772)**	**(2,659)**	**(1,779)**
Adherence to 2% Spending Benchmark[3]	**n/a**	**2,464**	**4,751**	**6,739**
EXECUTIVE BUDGET SURPLUS/(GAP)	**0**	**692**	**2,092**	**4,960**

1 Before actions to adhere to the 2 percent benchmark.

2 The FY 2018 Executive Budget proposes converting the NYC PIT credit to a nonrefundable State PIT credit. This change has no impact on the STAR benefits received by homeowners - it will decrease reported disbursements for STAR and decrease reported PIT receipts by an identical amount.

3 Savings estimated from limiting annual spending growth in future years to 2 percent (calculation based on current FY 2017 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.

- Consistent with the Governor's approach in balancing his first six budgets, all of which emphasized spending restraint, the Executive Budget reduces spending in FY 2018 by $2.7 billion compared to prior projections. The reductions reflect reestimates to spending based on updated information, specific cost-containment proposals, and the prepayment of FY 2018 expenses from excess resources available in FY 2017.

  - **Agency Operations.** Since the Governor took office in January 2011, Executive State agency operating costs have essentially remained flat through ongoing State agency redesign and cost-control efforts. These measures have included closures and consolidations of facilities to reduce excess capacity; enterprise-wide consolidation of procurement, information technology, and workforce management functions; and a range of operational measures to improve efficiency. The FY 2018 Executive Budget generally holds Executive agency operations at a fixed level of spending over the Financial Plan period.

  - **Local Assistance.** Medicaid and School Aid are the State's largest local aid programs, composing over 45 percent of the State Operating Funds budget. The Executive Budget increases education aid by $1 billion, including a School Aid increase of $961 million (3.9 percent), consistent with the statutory growth formula. Total School Aid will reach $25.6 billion for school year (SY) 2018. Medicaid will grow at the indexed rate of 3.2 percent or $567 million, consistent with the statutory index ("Global Cap"), to $18.3 billion. In total, Department of Health (DOH) Medicaid spending will increase to $19.5 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 local assistance savings in the Executive Budget include, among other things, targeted reforms to STAR, health care programs, and pharmaceutical costs; use of asset sale proceeds to offset State support to City University of New York (CUNY); and updated cost estimates for a range of State programs, which reflect the impact of cost containment and spending controls enacted in prior years.

  - **Capital Projects/Debt Management.** Savings include the planned payment of FY 2018 debt service in the current year, continued use of competitive bond sales, and refundings.

- **Initiatives/Investments/New Costs.** The Executive Budget proposes new initiatives and additional funding that have a budgetary impact. Among the most significant are funding for a new scholarship program to allow families and individuals making up to $125,000 per year to attend college tuition-free at all public universities in New York State (Excelsior Scholarship); juvenile justice reform, which proposes to raise, over time, the age of criminal responsibility for juveniles from 16 to 18; and reforms to the State's indigent criminal defense system. The Budget also proposes providing student financial assistance to undocumented immigrants (DREAM Act) and enhanced funding for economic development, local government aid, and domestic violence prevention.

- **Resources.** Tax receipts during the year have been weaker than expected. Since the introduction of the FY 2017 Executive Budget in January 2016, DOB has reduced the annual estimate for tax receipts in each updated Financial Plan. In the current update, DOB is again revising the tax receipts estimate downward in each year of the Financial Plan. In comparison to the Mid-Year estimate, General Fund tax receipts have been reduced by $415 million in FY 2018, $475 million in FY 2019, and by nearly $700 million in FY 2020. Other resource changes include an upward revision of available resources to fund the mental hygiene system; new and increased fees; and tax receipt revisions from the proposed changes to the STAR program.

- **Tax Actions.** The current income tax rate for high-income earners would be extended for three years, through calendar year 2020. The current rate has been in place since January 1, 2012, when the top rate was cut from 8.97 percent to 8.82 percent. The Executive Budget also proposes a permanent extension of the high-income charitable contribution deduction, as well as several other tax extenders. In addition, the Budget proposes an increase to the Child and Dependent Care Credit. The Budget proposes new tax actions, which include requiring online marketplace providers to collect and remit sales tax on behalf of all vendors that sell to New York residents, and authorizing transportation network companies (TNC's) to operate outside the City of New York and throughout the State, subject to a 5.5 percent tax.

Other Financial Plan Matters

- **Status of Labor Agreements.** The current spending estimates for personal service reflect the potential costs of labor agreements with State unions patterned on the labor contract ratified by the Public Employees Federation (PEF) membership in December 2016.

- **New Monetary Settlements**. New settlements that have not been appropriated to date total $1.4 billion. Following the approach used in FY 2016 and FY 2017, the FY 2018 Executive Budget proposes using the new settlements for capital purposes and other time-limited investments. Specific investments include: the Buffalo Billion Phase II ($400 million), Health Care Capital Grants ($200 million), Life Sciences ($300 million), Counter-Terrorism and Emergency Response Preparedness ($203 million), Downtown Revitalization ($100 million), and the Division of Military and Naval Affairs (DMNA) armories ($20 million). In addition, the Budget proposes depositing $150 million of the settlement money into the State's rainy day reserve, if fiscal conditions permit.

- **Master Settlement Agreement (MSA).** In 2018, bonds issued in 2003 that were secured by annual payments under the MSA with tobacco manufacturers will be fully retired. DOB expects that MSA payments of approximately $125 million in FY 2018, and $400 million annually thereafter, will be available for State purposes. The Executive Budget proposes using the payments to help defray the costs of the State's takeover of Medicaid costs borne by counties and New York City, one of the most important mandate relief measures enacted in recent years. The State takeover, in which local Medicaid costs are capped at 2015 calendar year levels, began in FY 2016 and is expected to cost the State $735 million in FY 2018, growing to $917 million in FY 2019.

- **Long-Term Fiscal Reforms**. The Budget includes legislation that creates a Retiree Health Benefit Trust Fund for the purposes of funding health benefits of retired employees and their dependents. It also includes legislation that would direct a portion of any future cash-basis surplus to the Debt Reduction Reserve Fund.

- **Cash Position.** DOB expects that the State will have sufficient liquidity in FY 2018 to make all planned payments as they become due. The State continues to reserve money on a quarterly basis for debt service payments that are financed with General Fund resources. Money to pay debt service on bonds secured by dedicated receipts, including PIT and Sales Tax bonds, continues to be set aside as required by law and bond covenants.

Annual Spending Growth

The Executive Budget holds FY 2018 annual spending growth in State Operating Funds to 1.9 percent, below the two percent spending benchmark. All Funds spending, which includes spending from capital funds and Federal funds, is expected to increase by 3.4 percent from the level estimated for FY 2017, excluding extraordinary aid.

Table 2: Total Disbursements (Millions of Dollars)

	FY 2017 Current	FY 2018 Proposed	Annual $ Change	Annual % Change
STATE OPERATING FUNDS	**96,200**	**98,062**	**1,862**	**1.9%**
General Fund (excluding transfers)	58,732	61,293	2,561	4.4%
Other State Funds	32,119	31,166	(953)	-3.0%
Debt Service Funds	5,349	5,603	254	4.7%
ALL GOVERNMENTAL FUNDS (Excluding Extraordinary Aid)	**147,281**	**152,278**	**4,997**	**3.4%**
State Operating Funds	96,200	98,062	1,862	1.9%
Capital Projects Funds	10,903	13,759	2,856	26.2%
Federal Operating Funds	40,178	40,457	279	0.7%

Excludes (i) Federal disaster aid for Superstorm Sandy, and (ii) additional Federal aid associated with Federal health care reform.