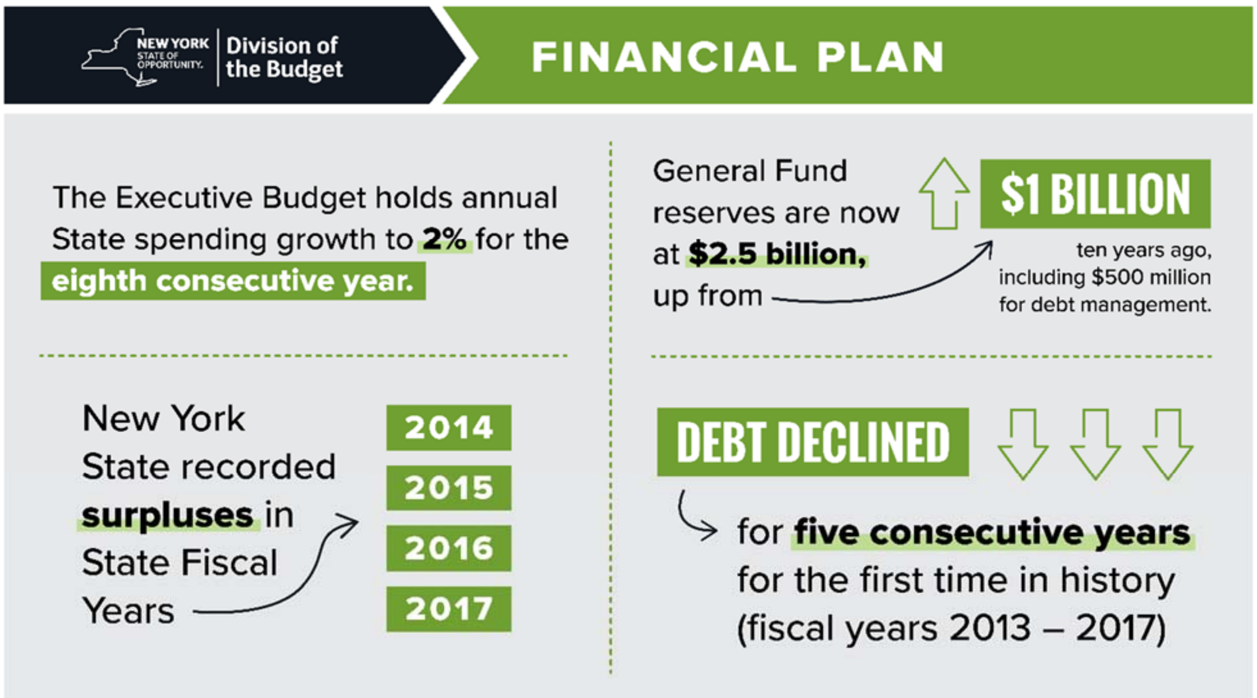
Division of the Budget
FINANCIAL PLAN
The Executive Budget holds annual State spending growth to 2% for the eighth consecutive year.
General Fund reserves are now at $2.5 billion, up from
$1 BILLION
ten years ago, including $500 million for debt management.
New York State recorded surpluses in State Fiscal Years
2014
2015
2016
2017
DEBT DECLINED
for five consecutive years for the first time in history (fiscal years 2013 – 2017)

Budget Highlights

Prudent Fiscal Practices. The Executive Budget holds annual spending growth in State Operating Funds to less than two 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.

School Aid Increase. The Budget recommends $26.4 billion in School Aid for school year (SY) 2019, an increase of $769 million (3 percent). The increase is double the 1.5 percent annual increase allowed under updated personal income growth index.

Medicaid Growth. Spending under the Global Cap is expected to total $18.9 billion in FY 2019, an increase of $593 million, consistent with the statutory index of 3.2 percent.

Agency Operations. The Budget proposes to hold agency spending flat with limited exceptions, such as DOH costs attributable to the New York State of Health (NYSOH) marketplace and the EP program.

MTA Subway Action Plan. The Budget includes capital and operating support to fully fund the State's half of the $836 million MTA Subway Action Plan.

Overview

Governor Cuomo has led a bipartisan effort with the Legislature to enact seven 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. The FY 2019 Executive Budget proposes spending growth of 1.8 percent.

Importantly, the fiscal actions have made State finances more reliable for stakeholders. 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 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;
- 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 an additional $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. 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).

Current Fiscal Year

The State has received a surge in personal income tax payments as taxpayers responded to Federal tax law changes that cap at $10,000 the allowable deduction of State and local income taxes, starting in tax year 2018. DOB estimates that approximately $1.9 billion in tax receipts were accelerated from tax year 2019 to 2018 due to this behavioral response. The acceleration will result in an identical reduction in PIT receipts in FY 2019. Accordingly, the increase in cash in FY 2018 that DOB attributes to the acceleration of PIT receipts will be carried forward and used to offset the loss of PIT receipts in FY 2019.

DOB expects the Financial Plan for FY 2018 to remain in balance on a cash basis in the General Fund. Aside from the impact of the accelerated tax receipts, the annual estimate for tax receipts is unchanged compared to the Mid-Year Update, with an increase to the annual estimate for PIT (exclusive of the amount attributed to acceleration) and real estate tax receipts offset by a reduction to the estimate for corporate tax receipts.

The annual estimate for General Fund disbursements, including transfers to other funds, has been reduced by $350 million, reflecting operating results to date across several program areas, and the conservative estimation of expenses, offset in part by the expected prepayment of certain expenses due in FY 2019.

Performance Profile

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

- Spending levels adhere to two percent spending benchmark.
- Total State debt is $4 billion lower today than at the end of FY 2012.
- Credit ratings have been upgraded and the State now has its highest credit rating since 1972.
- Spending for agency operations has been held flat through ongoing State agency redesign and cost-control efforts.
- Nearly $1.1 billion added to reserves since 2012.

State Operating Funds disbursements are estimated at $98.1 billion in FY 2018, consistent with the 2 percent annual spending growth benchmark. The calculation of SOF disbursements is consistent with the accounting of financial transactions approved by the Legislature in the FY 2018 Enacted Budget.

FY 2019

New York is navigating the most challenging fiscal environment since 2011. The FY 2019 Budget must close a General Fund budget gap estimated at $4.4 billion, as of the Mid-Year Update to the Financial Plan. The gap, while unremarkable compared to those recorded during and after the last recession, is the largest since FY 2012 in both absolute dollars and as a percentage of tax receipts. The budget gaps for future years, before accounting for proposed savings in the Executive Budget, are estimated at $6.4 billion in FY 2020, $8.1 billion in FY 2021, and $8.4 billion in FY 2022.

Several factors contribute to the size of the current gaps, including persistent weakness in tax collections. Since the introduction of the Executive Budget for FY 2017 two years ago, DOB has reduced its estimate of FY 2019 General Fund tax receipts six times, for a total of $4.2 billion. Similar reductions over that period were made as well to the tax receipts estimates for FY 2020 and beyond.

Beyond the budget gap, actions by the Federal government pose a heightened risk to State finances. The enactment of Federal tax law changes is expected to add $1.1 trillion to the Federal deficit over the next five years, increasing the likelihood that Congress will seek material cuts in aid programs. Funding at risk includes, but is not limited to, Child Health Plus, health care subsidies required under the Affordable Care Act, and Disproportionate Share Hospital aid. The State is actively monitoring and managing these risks.

FY 2019 Executive Budget

The Governor introduced his Executive Budget for FY 2019 on January 16, 2018. The Executive Budget would eliminate the estimated General Fund budget gap of $4.3 billion in FY 2019 and reduce the estimated budget gaps to $2.8 billion in FY 2020, $4.5 billion in FY 2021, and $4.8 billion in FY 2022. DOB estimates that if future budgets hold spending growth to 2 percent annually in State Operating Funds, the General Fund would have a budget gap of $246 million in FY 2020, and surpluses in FY 2021 and FY 2022. The calculation assumes that all savings from the reductions in spending are made available to the General Fund.

The following table summarizes the multi-year impact of the Executive Budget Financial Plan on General Fund operations. It is followed by a discussion of significant proposals and revisions in each major Financial Plan category. The estimates assume that the Executive Budget proposal is adopted without modification.

Table 1: 2019 Executive Budget Gap-Closing Plan

GENERAL FUND BUDGETARY BASIS SURPLUS/(GAP) PROJECTIONS
FY 2019 EXECUTIVE BUDGET
GAP-CLOSING PLAN
(millions of dollars)

	FY 2019	FY 2020	FY 2021	FY 2022
MID-YEAR BUDGET SURPLUS/(GAP) ESTIMATE[1]	(4,443)	(6,385)	(8,053)	(8,413)
Spending Changes	2,672	1,465	1,472	1,820
Local Assistance	1,317	1,413	1,462	1,960
Agency Operations	446	67	(11)	(134)
Debt Management/Capital Projects	569	(15)	21	(6)
FY 2018 Payment of FY 2019 Expenses	340	0	0	0
Resource Changes	736	731	802	966
Revenue Actions	1,035	1,403	1,275	1,225
EXECUTIVE BUDGET SURPLUS/(GAP) ESTIMATE[1]	0	(2,786)	(4,504)	(4,402)
Adherence to 2% Spending Benchmark[2]	0	2,659	4,760	5,640
EXECUTIVE BUDGET SURPLUS/(GAP)	0	(127)	256	1,238

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 2018 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.

Spending Changes

The Executive Budget Financial Plan reduces spending in FY 2019 by $2.7 billion, net of new initiatives and costs, compared to the FY 2019 baseline estimate. The reductions include re-estimates to spending based on updated information, specific cost-containment proposals, and the prepayment of FY 2019 expenses from excess resources expected to be available in FY 2018.

Local Assistance

General Fund disbursements would be reduced by $1.3 billion in FY 2019. Savings from the reductions, which consist of specific actions and re-estimates to the spending base, are expected to increase in value over the Financial Plan period.

School Aid and Medicaid are the State's largest local assistance programs, comprising over 45 percent of the State Operating Funds budget. The Executive Budget provides for the following:

- **School Aid.** The Executive Budget recommends $26.4 billion in school aid for school year (SY) 2019, an increase of $769 million (3 percent). The increase is double the 1.5 percent annual increase allowed under the updated personal income growth index for School Aid.

- **Medicaid.** Spending under the Global Cap is expected to total $18.9 billion in FY 2019, an increase of $593 million, consistent with the statutory index of 3.2 percent. The Global Cap is expected to provide $425 million in General Fund savings in FY 2019. Total Medicaid spending, including spending outside the Global Cap, is expected to increase to $20.6 billion in FY 2019. The Financial Plan will continue to fund, outside the Global Cap, increases in the minimum wage for health care providers ($450 million) in FY 2019. In addition, the State continues to provide a substantial amount of capital funding to improve and restructure the State's health care delivery system. The FY 2019 Executive Budget recommends $425 million in new health care capital, funded with bonds ($300 million) and monetary settlements ($125 million).

- **Subway Action Plan.** The most significant new initiative in the Executive Budget is the MTA Subway Action Plan. The State will provide $254 million in operating aid to fully fund its half of the Action Plan that will address system failures, breakdowns, delays and deteriorating customer service, and position the system for future modernization. The Financial Plan assumes the operating aid will be funded from previously unallocated monetary settlements ($194 million) and the accelerated transfer of Payroll Mobility Tax revenue to the MTA by eliminating the need for an annual appropriation ($60 million). The Financial Plan also includes $175 million in new capital funding for the MTA as part of the Action Plan.

- **Other Savings.** Other General Fund savings in local assistance include targeted reforms to STAR, mental hygiene, human services, and education, and updated cost estimates for a range of State programs, which reflect in part the impact of cost containment and spending controls enacted in prior years.

Agency Operations

Measures to reduce operating costs for Executive agencies are expected to save $446 million from the FY 2019 baseline estimate. The Budget proposes to hold agency spending flat with limited exceptions, such as DOH costs attributable to the New York State of Health (NYSOH) marketplace and the EP program. Agencies are expected to continue to use less costly forms of service deliveries, improve administrative practices, and pursue statewide solutions, including the utilization of Lean initiatives to streamline operations and management. The Budget also includes savings from the continued transition of individuals from mental hygiene institutions to appropriate community settings.

Debt Management/Capital Projects

Savings are expected from the sale of at least 50 percent of bonds on a competitive basis; the refunding of bonds that meet DOB's savings criteria; and the reimbursement of first-instance capital expenditures made in prior years with available bond proceeds. Savings from these measures are expected to be offset in part by new debt service on bonds issued to finance capital projects.

Prepayments

The Executive Budget Financial Plan assumes the payment in FY 2018 of $340 million in costs due in FY 2019. The prepayments will be funded with resources that DOB expects to be available from operations. The level of prepayments may change, depending on FY 2018 operating results.

Resource Changes

- **FY 2018 Tax Acceleration**. DOB estimates that taxpayers accelerated approximately $1.9 billion of PIT payments into FY 2018 in response to Federal tax law changes. The acceleration will result in an identical reduction in PIT receipts in FY 2019. Accordingly, the increase in cash in FY 2018 that DOB attributes to the acceleration of PIT receipts will be carried forward and used to offset the loss of PIT receipts in FY 2019. The amount available to be carried forward may be affected by tax experience through the end of FY 2018.

- **Health Insurance Conversions (or comparable transactions).** The Financial Plan includes $500 million annually over four years from conversions, acquisitions, or related transactions in which not-for-profit health insurers convert to corporations organized for pecuniary profit. DOB believes that such activity is likely in the current health insurance market.

- **Use of Monetary Settlements.** The Executive Budget proposes the following uses for new settlements: $194 million for the State's share of the MTA Subway Action Plan; $125 million in "hard-dollar" capital for health care providers; and $383 million for operating purposes.

Revenue Actions

The Executive Budget proposes several revenue actions, including a healthcare insurance windfall profit fee; a new opioid epidemic surcharge of 2 cents per milligram of active opioid ingredient in prescription drugs; discontinuation of the energy services sales tax exemption; deferral of most business credits for tax years 2018 through 2020, where such credits exceed $2 million; imposing an internet fairness conformity tax.

Cash Position

DOB estimates that the General Fund would end FY 2019 with a closing balance of $5.1 billion, a decrease of $4.0 billion from FY 2018. The decrease is due in part to the expected use of $1.9 billion in cash received in FY 2018 from the acceleration of PIT payments to offset the corresponding loss of PIT receipts in FY 2019. It also reflects the planned use of monetary settlements to fund activities in the Dedicated Infrastructure Investment Fund ($1.4 billion); the MTA Subway Action Plan ($194 million); health care capital needs ($125 million); and general operations ($383 million). The State's principal reserves are expected to remain unchanged from FY 2018.

DOB expects that the State will have sufficient liquidity in FY 2019 to make all planned payments as they become due without having to temporarily borrow from STIP. 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 bonds and Sales Tax bonds, continues to be set aside as required by law and bond covenants.

Other Financial Plan Matters

Transportation Funding

The State collects the PMT on behalf of, and disburses the entire amount to, the MTA. The Executive Budget proposes amending the enabling statute to no longer require the PMT owed to the MTA to be appropriated annually by the State legislature. The MTA will benefit from eliminating this unnecessary appropriation. First, PMT revenue pledged to bondholders under the new credit will have no risk of non-appropriation, which is a desirable credit feature. In addition, PMT receipts will be received by MTA more timely. In FY 2019, this will provide a one-time benefit to the MTA of $60 million. Consistent with this proposed law change, The Executive Budget Financial Plan will no longer include PMT receipts and related local assistance disbursements, beginning in FY 2019. PMT receipts are estimated at $1.5 billion in FY 2019.

The Executive Budget also proposes appropriating certain transportation operating costs from the General Fund instead of the DHBTF. These operating expenses are currently funded by a transfer from the General Fund to the DHBTF. There is no compelling reason to appropriate this operating spending from the DHBTF. The change, will increase disbursements in State Operating Funds by nearly $390 million in FY 2019, and include operating costs related to snow and ice removal; bus, truck and rail inspection; and DMV regulatory activities. In the General Fund, the increased operating spending is offset by an identical reduction to the transfer to the DHBTF.

Managing Risks

The Executive Budget includes several measures to respond to potential risks, including the following.

- Legislation is proposed that would allow for across-the-board reductions to certain local assistance disbursements if the annual estimate for tax receipts in FY 2019 is revised downward by $500 million or more during the fiscal year. The legislation provides that appropriations and related cash disbursements for General Fund and State Special Revenue Fund local assistance appropriations can be uniformly reduced by up to 3 percent. Programs that are exempt from the across-the-board reductions include School Aid, Medicaid, and public assistance.

- The Budget updates legislation approved with the FY 2018 Enacted Budget that sets forth a process by which the State would manage significant reductions in Federal aid. Specifically, the updated legislation requires the Budget Director to prepare a plan for consideration by the Legislature in the event that Federal actions reduce Federal financial participation in Medicaid funding to New York State or its subdivisions by a combined $850 million or more in FY 2019 or FY 2020; or reduce Federal financial participation or other Federal aid funding to New York State that affects the State Operating Funds Financial Plan by a combined $850 million or more in FY 2019 or FY 2020, exclusive of any cuts to Medicaid. Each limit is triggered separately and is not additive. The plan prepared by the Budget Director must equally and proportionally reduce appropriations and cash disbursements in the General Fund and State Special Revenue Funds. Upon receipt of the plan, the Legislature has 90 days to prepare its own corrective action plan, which may be adopted by concurrent resolution passed by both houses, or the plan submitted by the Budget Director takes effect automatically.

- The FY 2019 Executive Budget also creates a new account to ensure the continued availability and expansion of funding for quality health services to New York State residents, and mitigate risks associated with the loss of Federal health care funds. This account will be initially populated with funds from any insurer conversion.

- Lastly, to preserve vital service levels in the face of Federal reductions, the Budget proposes modifications in CHIP.

Annual Spending Growth

DOB estimates spending in State Operating Funds will grow at 1.9 percent from FY 2018 to FY 2019, consistent with the 2 percent spending growth benchmark. The table below illustrates the major sources of annual change in State spending by major program, purpose and fund perspective.

Table 2: State Spending Measures

STATE SPENDING MEASURES (millions of dollars)	FY 2018 Current	FY 2019 Proposed	Annual Change $	Annual Change %
LOCAL ASSISTANCE	**65,794**	**66,413**	**619**	**0.9%**
School Aid (School Year Basis)	25,587	26,356	769	3.0%
DOH Medicaid[1]	19,107	20,340	1,233	6.5%
Transportation	5,026	3,962	(1,064)	-21.2%
STAR[2]	2,585	2,410	(175)	-6.8%
Social Services	2,901	2,884	(17)	-0.6%
Higher Education	2,826	3,054	228	8.1%
Mental Hygiene	2,372	2,173	(199)	-8.4%
All Other[3]	5,390	5,234	(156)	-2.9%
STATE OPERATIONS/FRINGE BENEFITS/GENERAL STATE CHARGES	**26,711**	**27,928**	**1,217**	**4.6%**
State Operations	**18,735**	**19,379**	**644**	**3.4%**
Personal Service:	13,026	13,429	403	3.1%
Executive Agencies	7,161	7,273	112	1.6%
DOT/DMV Operations Reclassification	0	167	167	0.0%
University Systems	3,863	3,910	47	1.2%
Elected Officials	2,002	2,079	77	3.8%
Non-Personal Service:	5,709	5,950	241	4.2%
Executive Agencies	2,820	2,788	(32)	-1.1%
DOT/DMV Operations Reclassification	0	115	115	0.0%
University Systems	2,275	2,444	169	7.4%
Elected Officials	614	603	(11)	-1.8%
General State Charges	**7,976**	**8,549**	**573**	**7.2%**
Pension Contribution	2,461	2,469	8	0.3%
Health Insurance	3,968	4,283	315	7.9%
Other Fringe Benefits/Fixed Costs	1,547	1,797	250	16.2%
DEBT SERVICE	**5,621**	**5,636**	**15**	**0.3%**
CAPITAL PROJECTS	**0**	**0**	**0**	**0.0%**
TOTAL STATE OPERATING FUNDS	**98,126**	**99,977**	**1,851**	**1.9%**
Capital Projects (State and Federal Funds)	**12,675**	**14,490**	**1,815**	**14.3%**
Federal Operating Aid	**53,636**	**53,718**	**82**	**0.2%**
TOTAL ALL GOVERNMENTAL FUNDS	**164,437**	**168,185**	**3,748**	**2.3%**

[1] Includes the Essential Plan (EP), which is an insurance plan for individuals who are not eligible for Medicaid and who meet certain income threshold standards. The EP is not a Medicaid program; but State-funded support is managed within total DOH Medicaid Global Cap resources. In addition, total State share Medicaid funding excludes Master Settlement Agreement (MSA) payments to the State that will be deposited directly to the Medicaid Management Information System (MMIS) Escrow Fund to defray the cost of the State's takeover of Medicaid costs for counties and New York City.

[2] The FY 2018 Enacted Budget converts the New York City Personal Income Tax (PIT) rate reduction benefit to a nonrefundable State PIT credit. This change has no impact on the School Tax Relief (STAR) benefits received by homeowners; it will decrease reported disbursements for STAR and decrease reported PIT receipts by an identical amount.

[3] "All Other" includes a reconciliation between school year and State fiscal year spending for School Aid. On a State fiscal year basis, School Aid is estimated to total $26.3 billion in FY 2019, an increase of $581 million from FY 2018. It also includes the portion of the State's takeover of Medicaid costs for counties and New York City that will be funded from MSA payments deposited directly to the MMIS Escrow Fund ($103 million in FY 2018 and $329 million in FY 2019). Lastly, it includes spending for public health, other education, local government assistance, parks, environment, economic development, and public safety.