



Division of
the Budget

FINANCIAL PLAN

The Executive Budget holds annual State spending growth to **2%** for the **ninth consecutive year.**

This growth rate is less than **half the rate** for the **previous 25 years.**

New York State recorded **surpluses** in Fiscal Years:



General Fund reserves are at

\$3 BILLION

more than doubling since 2011.



DEBT DECLINED



for **5 consecutive years** for the first time in history (fiscal years 2013 – 2017).

Debt as a percentage of personal income is now at **4%** compared to **5%** in 2011.

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.

School Aid Increase. The Budget recommends \$27.7 billion in School Aid for school year (SY) 2020, an increase of nearly \$1 billion (3.6 percent).

Medicaid/Health Growth.

Including the State share of Health Care transformation investments, Medicaid spending grows at 3.6 percent in FY 2020.

Spending under the Global Cap is expected to total \$19.4 billion in FY 2020, an increase of \$568 million, consistent with the statutory index of 3.0 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 Essential Plan program, and costs associated with Raise the Age.

Overview

Governor Cuomo has led a bipartisan effort with the Legislature to enact eight 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. This resulted in unpredictable budgets, tax increases, and spending cuts to critical programs at the worst times. With the adoption of the two percent spending benchmark, this unsustainable trend has been reversed. Since 2011, State spending has grown more slowly than income each year. The FY 2020 Executive Budget proposes spending growth of 1.9 percent.

Importantly, prudent 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 State has 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
- Saving for the future by more than doubling the State's reserves by setting aside an additional \$1.7 billion to reduce debt and meet unforeseen "rainy day" needs.

The combination of spending restraint and accompanying budget reforms has 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.

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 \$2.8 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.
- State reserves have grown by \$1.7 billion since 2011 – more than doubling reserve levels.

Financial Plan At-A-Glance: Key Measures

Table 1: Financial Plan information for FY 2018, FY 2019 and FY 2020.

FINANCIAL PLAN AT-A-GLANCE: KEY MEASURES (millions of dollars)				
	FY 2018 ¹	FY 2019	FY 2020	
	Results	Current Estimate	Before Changes ²	Executive Proposal
State Operating Funds Disbursements				
Size of Budget	\$98,151	\$100,132	\$104,806	\$102,011
Annual Growth	2.0%	2.0%	4.7%	1.9%
Other Disbursement Measures				
General Fund (Excluding Transfers) ²	\$59,872	\$63,214	\$67,201	\$64,932
Annual Growth	3.2%	5.6%	6.3%	2.7%
General Fund (Including Transfers) ^{2,4}	\$69,724	\$73,981	\$79,291	\$76,474
Annual Growth	2.4%	6.1%	7.2%	3.4%
Capital Budget (Federal and State)	\$10,640	\$13,083	\$13,099	\$13,418
Annual Growth	4.8%	23.0%	0.1%	2.6%
Federal Operating Aid	\$54,953	\$58,456	\$60,108	\$59,759
Annual Growth	8.5%	6.4%	2.8%	2.2%
All Funds ⁵	\$163,744	\$171,671	\$178,013	\$175,188
Annual Growth	4.3%	4.8%	3.7%	2.0%
Capital Budget (Including "Off-Budget" Capital) ⁶	\$11,284	\$13,744	\$13,730	\$14,036
Annual Growth	5.1%	21.8%	-0.1%	2.1%
All Funds (Including "Off-Budget" Capital) ⁶	\$164,388	\$172,332	\$178,644	\$175,806
Annual Growth	4.3%	4.8%	3.7%	2.0%
Inflation (CPI)				
	2.1%	2.4%	2.4%	2.3%
All Funds Receipts				
Taxes	\$79,266	\$77,537	\$82,762	\$81,979
Annual Growth	6.6%	-2.2%	6.7%	5.7%
Miscellaneous Receipts	\$27,262	\$29,614	\$26,474	\$27,158
Annual Growth	2.5%	8.6%	-10.6%	-8.3%
Federal Receipts (Operating and Capital)	\$58,942	\$62,809	\$63,372	\$63,772
Annual Growth	6.4%	6.6%	0.9%	1.5%
Total Receipts ⁶	\$165,470	\$169,960	\$172,608	\$172,909
Annual Growth	5.8%	2.7%	1.6%	1.7%
General Fund Cash Balance				
	\$9,445	\$6,950	\$5,389	\$5,903
Tax Stabilization/Rainy Day Reserve	\$1,798	\$2,048	\$1,798	\$2,286
Extraordinary Monetary Settlements	\$5,020	\$4,193	\$2,908	\$2,934
All Other Reserves/Fund Balances	\$2,627	\$709	\$683	\$683
Debt				
Debt Service as % All Funds Receipts	4.0%	3.5%	3.8%	3.3%
State-Related Debt Outstanding	\$51,631	\$53,576	\$56,849	\$57,281
Debt Outstanding as % Personal Income	4.0%	4.0%	4.1%	4.1%
State Workforce FTEs (Subject to Direct Executive Control) - All Funds				
	117,397	119,327	118,868	120,005

¹ Results as reported by the State Comptroller's Annual Report to the Legislature on State Funds Cash Basis of Accounting, released July 2018.

² For comparability purposes, FY 2019 and FY 2020 General Fund disbursements, before and after transfers, are adjusted to exclude (1) the reclassification of mental hygiene funds to the General Fund from Special Revenue Funds and (2) movement of certain DOT and DMV operating expenses to the General Fund from the Dedicated Highway and Bridge Trust Fund, both of which took effect in FY 2019.

³ As reported in the FY 2019 Mid-Year Update. Before Executive proposals to balance the FY 2020 Budget.

⁴ Includes the planned transfer of Extraordinary Monetary Settlements from the General Fund to other funds to support designated purposes.

⁵ All Funds disbursements are expected to exceed receipts (including other financing sources) in FY 2019 and FY 2020 with the difference funded from other available resources, including Extraordinary Monetary Settlements and GO bond proceeds used to reimburse capital spending planned from other funding sources in the first instance.

⁶ Includes capital spending that occurs outside the All Funds budget financed directly from State-supported bond proceeds held by public authorities.

Executive Summary

Current Fiscal Year (FY 2019)

DOB expects the Financial Plan for FY 2019 to remain in balance on a cash basis in the General Fund, with downward revisions to tax receipts offset by lower disbursements. Estimated tax receipts have been revised downward due to weaker Personal Income Tax (PIT) collections in late December 2018 and early January 2019. The downward revisions to receipts are more than offset by reductions in estimated disbursements, which reflect operating results to date and cautious estimation of future expenses, as well as management and spending controls. In addition, DOB expects to prepay \$765 million of debt services expenses due in FY 2020.

State Operating Funds disbursements are estimated at \$100.1 billion in FY 2019, consistent with the 2 percent annual spending growth benchmark. The calculation of State Operating Funds disbursements is consistent with the accounting and reporting of financial transactions as prescribed by law in the FY 2019 Enacted Budget.

Revision to Tax Receipts Estimates

PIT receipts, before the payment of debt service, were approximately \$500 million below Enacted Budget estimates through December 2018. PIT receipts were lower than expected both for the withholding component, which largely comes from current wages, including bonus income, and the estimated payment component, which mostly reflects nonwage income.

The variance from PIT projections appeared abruptly in the final weeks of December 2018 and has persisted through the early part of January 2019, a period that is typically marked by a relatively heavy flow of PIT receipts compared to the rest of the fiscal year. DOB's economic and receipts forecasts had anticipated year-over-year declines in both withholding and estimated payments, but not by the amounts observed in recent weeks.

Several factors may be contributing to the weakness. The financial markets have experienced increasing volatility in the second half of 2018, driven in part by rising interest rates, trade tensions, and instability in government institutions at home and abroad. Additionally, the Federal limit on the deductibility of state and local taxes (the "SALT limit"), which took effect for tax year 2018, has made December 31 a much less meaningful collection point for income taxes. This may have disrupted the expected pattern of collections. Thus, behavioral changes by individual taxpayers and firms in response to the Federal SALT limit may account for some of the weakness to date.

Responding to Uncertainties

DOB continues to closely monitor collections and expects to have a better view of trends in February, following the next deadline for estimated payments and the next round of bonus payments.

Taking a “wait and see” approach is not a prudent option given current uncertainties. Accordingly, DOB is reducing the forecast for tax receipts in each year of the Financial Plan to ensure that State finances remain on sound footing. In the current fiscal year, the annual estimate for tax receipts has been reduced by \$396 million. Growth from a lower FY 2019 tax base causes corresponding reductions in projected outyear receipts of \$1.6 billion in FY 2020, \$3 billion in FY 2021, \$3.4 billion in FY 2022, and \$4.1 billion in FY 2023.

Financial Plan Remains Balanced in FY 2019

The expected decline in tax receipts in the current year is more than offset by substantial downward revisions to estimated General Fund disbursements based on results to date. Revisions to disbursements have occurred in higher education, mental hygiene, social welfare, agency operations, and debt service. In addition, revisions reflect spending controls executed throughout the year to mitigate risks, and the cautious estimates included in the Financial Plan that create an informal reserve against risks, such as shortfalls in tax receipts and unplanned expenses.

The General Fund is expected to end FY 2019 with a balance of \$6.95 billion, an increase of \$494 million compared to the Mid-Year Update. Over the next two years, nearly the entire increase is expected to be deposited into the State’s Rainy Day reserves (\$250 million in FY 2019 and \$238 million in FY 2020, fiscal conditions permitting).

FY 2020 Executive Budget

The Governor introduced his Executive Budget proposal for FY 2020 to the Legislature on January 15, 2019, sixteen days in advance of the February 1 constitutional deadline.

The Executive Budget is balanced in the General Fund, eliminating a budget gap estimated at \$3.1 billion in the Mid-Year Update, as well as the additional shortfall caused by the reduction in projected tax receipts described above. The budget gaps for future years are reduced to \$4.3 billion in FY 2021, \$3.7 billion in FY 2022, and \$3.8 billion in FY 2023, before actions to hold spending growth at the 2 percent limit.

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 is adopted as proposed without modification.

Table 2: FY 2020 Executive Budget Gap-Closing Plan

FY 2020 EXECUTIVE BUDGET GAP-CLOSING PLAN				
GENERAL FUND BUDGETARY BASIS OF ACCOUNTING				
SAVINGS/(COSTS)				
(millions of dollars)				
	Proposed FY 2020	Projected FY 2021	Projected FY 2022	Projected FY 2023
MID-YEAR UPDATE SURPLUS/(GAP)	(3,070)	(6,429)	(6,551)	(6,735)
Tax Receipts Reestimates	(1,567)	(2,957)	(3,431)	(4,140)
Spending Changes	3,354	682	619	794
Local Assistance	1,986	1,133	1,117	1,155
Agency Operations	283	(141)	(138)	(88)
Debt Service (including prepayment)	843	(52)	(69)	18
All Other	242	(258)	(291)	(291)
Revenue Actions/Resource Changes	1,283	4,368	5,673	6,288
EXECUTIVE BUDGET SURPLUS/(GAP) ¹	0	(4,336)	(3,690)	(3,793)
Adherence to 2% SOF Spending - Calculated Savings ²	0	3,589	4,594	6,269
EXECUTIVE BUDGET SURPLUS/(GAP)	0	(747)	904	2,476

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 FY 2019 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.

DOB estimates that if future budgets hold spending growth in State Operating Funds to 2 percent annually, the General Fund would have a budget gap of \$747 million in FY 2021, and surpluses in FY 2022 and FY 2023. These calculations assume that all savings from the reductions in spending are made available to the General Fund.

The Executive Budget Financial Plan reductions include re-estimates to spending based on updated information, specific cost-containment and tax action proposals, and the prepayment of FY 2020 expenses from excess resources expected to be available in FY 2019.

Local Assistance

In comparison to the current services estimate, General Fund disbursements would be reduced by \$2.0 billion in FY 2020 if the Executive Budget is adopted as proposed. 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 \$27.7 billion in School Aid for school year (SY) 2020, an increase of \$1 billion (3.6 percent). Starting in FY 2020, the Budget proposes legislation to amend and align the School Aid growth cap to the 10-year average growth in personal income. This is consistent with the Medicaid's Global Spending Cap index, which is based on the 10-year average of the Medical Care Consumer Price Index. The FY 2020 Executive Budget proposed School Aid increase of 3.6 percent is consistent with the proposed change to the index.
- **Health Care/Medicaid.** State spending on health care, including the State share of Health Care transformation investments and Medicaid, is \$19.6 billion, reflecting growth of 3.6 percent in FY 2020. Spending under the Global Cap is expected to total \$19.4 billion in FY 2020, an increase of \$568 million, consistent with the statutory index of 3 percent. The Global Cap is expected to provide \$440 million in General Fund savings in FY 2020. Total Medicaid spending, including spending outside the Global Cap, is expected to increase by \$1.3 billion to \$21.7 billion in FY 2020. The Financial Plan continues to fund increases in the minimum wage for health care providers totaling \$1.1 billion in FY 2020 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.

Other General Fund savings in local assistance are from deferring the planned human services COLA in FY 2020, modifying cost-sharing arrangements with local governments, and updating cost estimates for a range of State programs, which reflect in part the continuing impact of cost containment and spending controls enacted in prior years.

Agency Operations

Measures to reduce operating costs, including fringe benefits, for Executive agencies are expected to save \$283 million in FY 2020. The Budget proposes flat spending on agency operations with limited exceptions, such as costs associated with the Raise the Age initiative. Agencies are expected to continue to reduce the cost of service delivery, improve administrative practices, and pursue statewide solutions, including Lean initiatives to streamline operations and management. The Budget also includes interest savings from the payment of the State's pension bill in April 2019.

Debt Service

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; the reimbursement of first-instance capital expenditures made in prior years with available bond proceeds; and other measures. Savings are expected to be offset in part by new debt service on bonds issued to finance capital projects.

In addition, the Executive Budget gap-closing plan assumes payment in FY 2019 of \$620 million of debt service due in FY 2020. This is in addition to \$145 million in debt service prepayments included in the prior Financial Plan update. The level of prepayments may change, depending on FY 2019 operating results.

Tax Actions/Revisions

The Executive Budget extends the current top income tax rate for high-income earners for five years, through calendar year 2024. The current rate has been in place since January 1, 2012, when the top rate was scheduled to revert to 6.85 percent from 8.97 percent but was instead renewed at 8.82 percent. The Budget also extends for five years the provision that limits the amount of charitable contributions that can be deducted by high-income taxpayers from State taxes.

Proposed tax actions also include requiring online marketplace providers to collect sales taxes, a tax on vapor products, the discontinuation of the sales tax exemption on energy services, and various tax credit extensions.

Other Changes

Other changes include upward revisions to the estimated Federal share of mental hygiene expenses and increases in the level of resources available in other funds, as well as accounting changes for certain transactions.

Cash Position

DOB estimates the General Fund would end FY 2020 with a closing balance of \$5.9 billion, a decrease of \$1.0 billion from FY 2019, if the Executive Budget is adopted without modification. The decrease reflects the planned use of Extraordinary Monetary Settlements to fund activities appropriated from capital projects funds (\$1.0 billion) and a deposit of \$238 million to the rainy day reserves at the end of FY 2020, fiscal conditions permitting.

DOB expects that the State will have sufficient liquidity in FY 2020 to make all planned payments as they become due without having to temporarily borrow from the Short-Term Investment Pool (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 Personal Income Tax bonds and Sales Tax bonds, continues to be set aside as required by law and bond covenants.

Managing Risks

Economic uncertainties and actions by the Federal government continue to pose a heightened risk to State finances. Similar to FY 2019, the Executive Budget includes several measures to respond to uncertainties and Federal risks, including the following provisions:

- 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 2020 is revised downward by \$500 million or more during the fiscal year. The legislation provides for a uniform reduction of up to 3 percent to local assistance appropriations and related cash disbursements in the General Fund and State Special Revenue Funds. Programs that are exempt from the across-the-board reductions include School Aid, Medicaid, and public assistance.
- State legislation, proposed with the FY 2020 Executive Budget, continues authorization for a process by which the State would manage significant reductions in Federal aid during FY 2020 should they arise. Specifically, the legislation allows the Budget Director to prepare a plan for consideration by the Legislature in the event that Federal policymakers (a) reduce Federal Financial Participation (FFP) in Medicaid funding to New York State or its subdivisions by \$850 million or more; or (b) reduce FFP or other Federal aid in funding to New York State that affects the State Operating Funds Financial Plan by \$850 million or more, 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.

Annual Spending Growth

DOB estimates spending in State Operating Funds will grow at 1.9 percent from FY 2019 to FY 2020, consistent with the 2 percent spending growth benchmark. The table below illustrates the change in annual State spending by major program, purpose and fund.

Table 3: State Spending Measures

STATE SPENDING MEASURES (millions of dollars)				
	FY 2019 Current	FY 2020 Proposed	Annual Change	
			\$	%
LOCAL ASSISTANCE	66,392	67,966	1,574	2.4%
School Aid (School Year Basis)	26,734	27,690	956	3.6%
DOH Medicaid ¹	20,400	21,685	1,285	6.3%
Transportation	3,936	3,532	(404)	-10.3%
STAR ²	2,424	2,186	(238)	-9.8%
Social Services	2,846	2,831	(15)	-0.5%
Higher Education	3,002	2,945	(57)	-1.9%
Mental Hygiene ³	2,176	1,978	(198)	-9.1%
All Other ⁴	4,874	5,119	245	5.0%
STATE OPERATIONS/GENERAL STATE CHARGES	27,765	28,351	586	2.1%
State Operations	19,384	19,649	265	1.4%
Personal Service:	13,765	14,092	327	2.4%
Executive Agencies	7,621	7,715	94	1.2%
University Systems	4,060	4,232	172	4.2%
Elected Officials	2,084	2,145	61	2.9%
Non-Personal Service:	5,619	5,557	(62)	-1.1%
Executive Agencies	2,901	2,894	(7)	-0.2%
University Systems	2,115	2,068	(47)	-2.2%
Elected Officials	603	595	(8)	-1.3%
General State Charges	8,381	8,702	321	3.8%
Pension Contribution	2,422	2,463	41	1.7%
Health Insurance	4,196	4,313	117	2.8%
Other Fringe Benefits/Fixed Costs	1,763	1,926	163	9.2%
DEBT SERVICE	5,975	5,694	(281)	-4.7%
TOTAL STATE OPERATING FUNDS	100,132	102,011	1,879	1.9%
Capital Projects (State and Federal Funds)	13,083	13,418	335	2.6%
Federal Operating Aid	58,456	59,759	1,303	2.2%
TOTAL ALL GOVERNMENTAL FUNDS	171,671	175,188	3,517	2.0%

¹ Total State share Medicaid funding excludes Master Settlement Agreement (MSA) payments to the State that will be deposited directly to a Medicaid 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 converted the New York City Personal Income Tax (PIT) rate reduction benefit to a nonrefundable State PIT credit. This change has no impact on STAR benefits received by homeowners; it will decrease reported disbursements for STAR and decrease reported PIT receipts by an identical amount. See "STAR Program" in "State Financial Plan Projections Fiscal Years 2019 Through 2023" herein.

³ Mental Hygiene is estimated to total \$4.0 billion in FY 2020, an increase of \$183 million (4.8 percent) from FY 2019. The funding increase is offset by a shift of program expenses to the Medicaid Global Cap (\$440 million), as additional DOH Medicaid savings will allow for a greater share of OPWDD and OMH Medicaid spending to be paid for under the Global Cap.

⁴ "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 \$27.2 billion in FY 2020, an increase of \$734 billion from FY 2019. It also reflects a reduction for 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 a Medicaid Escrow Fund (\$435 million in FY 2019 and \$327 million in FY 2020), which reduces reported disbursements. Lastly, it includes spending for public health, other education, local government assistance, parks, environment, economic development, and public safety, as well as reclassifications.