Financial Plan Overview

New York State of Opportunity. Division of the Budget

FINANCIAL PLAN

The Executive Budget, again, holds annual State spending growth to **2%** over a **10-year period.**

The growth rate since FY 2011 is less than **half the rate** for the **previous 50 years.**

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

2014 2015 2016 2017 2018

General Fund formal reserves are at

$3.9 BILLION

more than tripled 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.

Overview

Governor Cuomo has led a bipartisan effort with the Legislature to enact nine fiscally responsible budgets. These budgets embrace the principle that State spending must grow more slowly than the overall economy to ensure that the state is not spending more than available resources and established the discipline to use its available 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 2 percent spending benchmark, this unsustainable trend has been reversed.

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
- Formal saving for the future by more than tripling the State's reserves by setting aside an additional $2.6 billion to reduce debt and meet 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.

Financial Plan Overview

FINANCIAL PLAN AT-A-GLANCE: KEY MEASURES
(millions of dollars)

	FY 2019	FY 2020	FY 2021	
	Results	Current Estimate	Before Changes[2]	Executive Proposal
State Operating Funds Disbursements[1]				
Size of Budget	$101,829	$103,882	$111,189	$105,811
Annual Growth	3.7%	2.0%	7.0%	1.9%
Other Disbursement Measures				
General Fund (Including Transfers)[1, 3]	$74,475	$79,011	$86,460	$81,921
Annual Growth	6.8%	6.1%	9.4%	3.7%
Capital Budget (Federal and State)	$12,266	$13,428	$13,619	$14,466
Annual Growth	15.3%	9.5%	1.4%	7.7%
Federal Operating Aid	$58,472	$58,599	$59,652	$57,752
Annual Growth	6.4%	0.2%	1.8%	-1.4%
All Funds[1]	$172,567	$175,909	$184,460	$178,029
Annual Growth	5.4%	1.9%	4.9%	1.2%
Capital Budget (Including "Off-Budget" Capital)[4]	$12,783	$13,986	$14,183	$15,029
Annual Growth	13.3%	9.4%	1.4%	7.5%
All Funds (Including "Off-Budget" Capital)[1,4]	$173,084	$176,467	$185,024	$178,592
Annual Growth	5.3%	2.0%	4.8%	1.2%
Inflation (CPI)	2.3%	2.0%	2.3%	2.2%
All Funds Receipts				
Taxes	$75,578	$82,390	$85,686	$87,932
Annual Growth	-4.7%	9.0%	4.0%	6.7%
Miscellaneous Receipts	$31,184	$29,701	$26,161	$26,253
Annual Growth	14.4%	-4.8%	-11.9%	-11.6%
Federal Receipts (Operating and Capital)	$61,344	$66,162	$63,478	$62,187
Annual Growth	4.1%	7.9%	-4.1%	-6.0%
Total All Funds Receipts	$168,106	$178,253	$175,325	$176,372
Annual Growth	1.6%	6.0%	-1.6%	-1.1%
General Fund Cash Balance	$7,206	$6,527	$5,904	$5,904
Rainy Day Reserves	$2,048	$2,476	$2,476	$2,476
Extraordinary Monetary Settlements	$4,194	$2,640	$2,017	$2,017
Economic Uncertainties	$0	$890	$890	$890
All Other Reserves/Fund Balances	$964	$521	$521	$521
Debt				
Debt Service as % All Funds Receipts	4.0%	2.9%	3.8%	3.4%
State-Related Debt Outstanding	$53,528	$57,019	$60,191	$60,395
Debt Outstanding as % Personal Income	4.0%	4.1%	4.2%	4.2%
State Workforce FTEs (Subject to Direct Executive Control)	117,967	119,962	119,491	118,955

1 FY 2019 disbursements as restated by DOB for FY 2019 Medicaid payment deferral. See "Introduction - Impact of Medicaid Deferrals on State Operating Funds" in the Fiscal Year 2021 Executive Budget Financial Plan.

2 As reported in the FY 2020 Mid-Year Update, before Executive proposals to balance the FY 2021 Budget.

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

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

Fiscal Outlook (Prior to Executive Budget Proposal)

The FY 2021 Executive Budget must close an estimated $6.1 billion budget gap in the General Fund. The gap consists of two distinct parts: the baseline budget gap and the Medicaid budget gap.

The baseline General Fund gap for FY 2021 is estimated at $4.1 billion and reflects the difference between the expected level of resources to pay for the projected disbursements, including transfers to other funds, needed to maintain current services levels and specific commitments. The baseline gap is within the range of those closed in recent years (FY 2018: $3.5 billion; FY 2019: $4.4 billion; and FY 2020: $5.3 billion).

The Medicaid gap in FY 2021 is estimated at just over $2.0 billion, after the recurring value of the expected FY 2020 savings plan ($890 million) and payment restructuring ($177 million) assumed in the Mid-Year Update. The gap is the difference between estimated Medicaid spending and the spending limit established by the Medicaid Global Cap index. The Medicaid gap, which emerged abruptly at the end of FY 2019, is a risk to State finances if measures to control costs are not enacted.

FY 2021 Executive Budget

The Executive Budget closes the $6.1 billion budget gap with recurring solutions. The Financial Plan for FY 2021 is balanced in the General Fund and limits spending growth to 1.9 percent in State Operating Funds. The FY 2022 budget gap, - the clearest measure of whether the Executive Budget improves the State's fiscal position over time, is estimated at $1.9 billion, a reduction of nearly $5.6 billion (75 percent) from the Mid-Year estimate. The *cumulative* (FY 2022 through FY 2024) outyear budget gaps are estimated at $8.5 billion, lower than the *one-year* gap that the Governor closed in his first budget (FY 2012).

The Governor has convened a Medicaid Redesign Team (MRT II) charged with identifying additional cost-containment measures that will provide approximately $2.5 billion in gap-closing savings in FY 2021 and ensure Medicaid spending in future years adheres to the Global Cap indexed rate. The Executive Budget recommends a School Aid increase of $826 million, or 3 percent, with more than 80 percent of the increase targeted to high-need districts. It proposes targeted savings in local aid programs and continues to limit growth in agency operations to investments that are expected to yield improved performance or reduced costs over time. It continues middle class tax cuts for 4.7 million New Yorkers earning under $300,000 a year and recommends no new tax increases.

Formal reserves have more than tripled since Governor Cuomo took office. The State is reserving the entire amount of Extraordinary Monetary Settlements received in FY 2020 ($890 million to date) for economic uncertainties, and will continue this policy in future years. It also plans to deposit $428 million into the Rainy Day Reserves at the close of the current fiscal year. Measured as a share of General Fund disbursements, formal reserves have increased from just over 2 percent in FY 2011 to nearly 5 percent in FY 2020. The State's primary cash reserves, which consist of cash on hand that can be tapped in an emergency, are expected to total nearly $6 billion at the close of FY 2021.

The following table summarizes the Executive Budget gap-closing plan.

SUMMARY OF REVISIONS TO THE MID-YEAR UPDATE GENERAL FUND BUDGETARY BASIS OF ACCOUNTING SAVINGS/(COSTS) (millions of dollars)	FY 2021 Proposed	FY 2022 Projected	FY 2023 Projected	FY 2024 Projected
MID-YEAR UPDATE SURPLUS/(GAP)	**(6,073)**	**(7,529)**	**(8,549)**	**(8,899)**
FY 2020 Savings Plan [1]	**(890)**	**(890)**	**(890)**	**(890)**
FY 2021 Savings Plan	**6,963**	**6,480**	**6,126**	**6,523**
Tax Receipts Revisions	2,069	1,869	1,440	1,097
Medicaid MRT II Savings	2,500	2,722	3,122	3,522
Local Assistance	1,783	1,778	1,594	1,644
Agency Operations	359	377	461	412
Other Savings/Revisions	252	(266)	(491)	(152)
EXECUTIVE BUDGET SURPLUS/(GAP) [2]	**0**	**(1,939)**	**(3,313)**	**(3,266)**

[1] The General Fund gap estimates in the Mid-Year Update were reduced by the value of a savings plan that DOB intended to develop and allocate later in the fiscal year. The savings plan is allocated in this Financial Plan Update.

[2] Before actions to adhere to the 2 percent benchmark.

The key elements of the FY 2021 gap-closing plan include:

- DOB has revised the tax receipts forecast across all years in the Financial Plan based on stronger receipts collections to date and updated economic information. Through the first three quarters of FY 2020, General Fund receipts, including transfers from other funds, totaled $57.8 billion, $1.5 billion (2.7 percent) above the initial estimate of which PIT receipts were $1.3 billion higher.

- The Medicaid Redesign Team (MRT) is charged with identifying cost-containment measures that will provide approximately $2.5 billion in gap-closing savings in FY 2021 and ensure Medicaid spending in future years adheres to the Global Cap indexed rate. The spending targets are incorporated into the Financial Plan projections. The Team's recommendations are due prior to the Enacted Budget.

- Another $1.8 billion in local assistance savings is expected from targeted actions and the continuation of prior-year cost containment.

- Savings in agency operations, including fringe benefits, reduce spending by $359 million from the baseline forecast. The Executive Budget holds agency operations spending flat at $10.7 billion, on a State Operating Funds basis. In addition, sensible reforms are again advanced to achieve savings in health insurance and judgments against the State.

- Other actions include debt service savings from refundings, prepayment of expenses, and other portfolio management; an increase in hard dollar capital resources to ensure the State remains within the statutory debt limit; and a range of administrative actions to manage costs.

DOB estimates the General Fund would end FY 2021 with a closing balance of $5.9 billion, a decrease of $623 million from FY 2020. The decrease is due exclusively to the planned use of Extraordinary Monetary Settlements to fund activities appropriated from Capital Projects Funds.

Similar to FY 2020, the Executive Budget includes several measures to respond to uncertainties and Federal risks, including the following provisions:

- Legislation is proposed that establishes a process for the uniform reduction of local assistance disbursements of up to 1 percent of State Operating Funds disbursements (approximately $1.02 billion) if DOB identifies a potential General Fund imbalance of $500 million or more in the current fiscal year. Upon identification of a potential imbalance, the Budget Director would transmit a plan to the Legislature, identifying the specific appropriations and cash disbursements that would be reduced. The Legislature would then have 30 days to adopt, by concurrent resolution, its own plan for eliminating the imbalance. If the Legislature does not act within 30 days, the plan submitted by the Budget Director would take effect automatically. The process expressly excludes certain types of local assistance appropriations from uniform reduction, including public assistance and Supplemental Security Income (SSI) payments.

- For the fourth-year legislation is proposed to establish a process by which the State can address significant reductions in Federal aid during FY 2020 should they arise. Specifically, the Budget 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 the State or its subdivisions by $850 million or more; or (b) reduce FFP or other Federal aid in funding to the State that affects the State Operating Funds financial projections 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.

Plan to Address the Medicaid Structural Gap

DOB and DOH conducted an in-depth examination of Medicaid expenditures following the FY 2019 payment deferral. The examination found that a structural gap had formed within the Medicaid Global Cap. The gaps were estimated at $4.0 billion in FY 2020 and $3.1 billion in FY 2021. An initial plan to address the gaps was outlined in the Mid-Year Update. At the time, DOB said that it expected the current year gap to be eliminated, and the FY 2021 gap reduced to $2.0 billion, through a combination of payment restructuring (FY 2020: $2.2 billion; FY 2021: $177 million) and savings in the Medicaid program and other General Fund activities (FY 2020: $1.8 billion; FY 2021: $890 million). The remaining gaps were to be addressed in the FY 2021 Executive Budget.

Following the inclusion of the FY 2020 Savings Plan in the Mid-Year Update, the State has instituted a plan that is expected to reduce Medicaid costs by $599 million in FY 2020, growing to $851 million in FY 2021. Stronger tax receipts and savings elsewhere in the General Fund close the remaining FY 2020 Medicaid gap ($1.2 billion) and allow the State to reverse the FY 2020 payment deferral ($552 million) planned in the Mid-Year Update.

Since the Mid-Year Update, the Governor has convened a Medicaid Redesign Team (MRT II) charged with identifying additional cost-containment measures that will provide approximately

$2.5 billion in gap-closing savings in FY 2021 and ensure Medicaid spending in future years adheres to the Global Cap indexed rate.

Current Year Update

In the Mid-Year Update to FY 2020, DOB reported that it expected the General Fund to remain in balance, but that the outcome would depend on the successful implementation of measures to address a $1.8 billion gap caused entirely by Medicaid. DOB now estimates that gap has been eliminated and the General Fund will end the year in balance. The following table summarizes revisions to FY 2020 General Fund projections since the Mid-Year Update. A brief summary of changes follows the table below.

SUMMARY OF REVISIONS TO MID-YEAR UPDATE GENERAL FUND BUDGETARY BASIS OF ACCOUNTING SAVINGS/(COSTS) (millions of dollars)	
	FY 2020
MID-YEAR UPDATE SURPLUS/(GAP)	**0**
FY 2020 Savings Plan [1]	(1,782)
Receipts Revisions[2]	**1,049**
Tax Receipts (before Debt Service)	1,012
Debt Service (impact on Tax Receipts)	(90)
Non-Tax Receipts	127
Disbursements Revisions	**533**
Local Assistance	455
Agency Operations	216
Transfers to Other Funds	62
Monetary Settlement Transfers	(200)
Use/(Reserve) of Fund Balance	**200**
Settlement Transfers	200
EXECUTIVE BUDGET SURPLUS/(GAP)	**0**

[1] The General Fund gap estimates in the Mid-Year Update were reduced by the value of a savings plan that DOB intended to develop and allocate later in the fiscal year. The savings plan is allocated in this Financial Plan Update.

[2] Includes the impact of changes to estimated debt service that alter the amount of tax receipts transferred to the General Fund.

Receipts

General Fund receipts, including transfers from other funds, is expected to be $1.0 billion higher than estimated in the Mid-Year Update. The estimate for tax receipts in the current year has been increased by $1.0 billion, excluding the impact of debt service changes. The revisions are driven mainly by higher than expected PIT collections due to lower refunds to date, and stronger business tax collections to date. Debt service costs in FY 2020 are projected to increase by $90 million compared to the Mid-Year Update due to prepayment of FY 2021 expenses ($250 million), partly offset by savings recognized from bond sale results to date, refunding savings, and the adjustment of debt issuances to align with projected bond-financed capital spending ($160 million). Non-tax receipts have been increased to reflect higher investment income and fees based on results to date and updated information.

Disbursements

General Fund disbursements, including transfers to other funds, have been lowered by $533 million. Medicaid spending has been reduced to reflect the implementation of the FY 2020 savings plan ($599 million), which includes a one percent across the board reduction in rates paid to providers and health plans and reductions in discretionary payments. In addition, spending has been reduced for a range of programs and activities, including education, mental hygiene, social welfare and fringe benefits costs based on updated data, cautious estimation of expenses, and operating results to date. These savings are offset in part by the payment of $552 million in Medicaid costs that were tentatively planned for deferral in the Mid-Year Update. Other revisions reflect routine adjustments to transfers.

Closing Balance

The General Fund is expected to end FY 2020 with a balance of $6.5 billion. The balance is $200 million lower due to the timing of a capital advance that will be reimbursed in full in FY 2021.

Annual Spending Growth

State Operating Funds spending is estimated to total $105.8 billion in FY 2021, an increase of 1.9 percent over FY 2020 projected spending. The table below summarizes the sources of the annual change.

STATE OPERATING FUNDS DISBURSEMENTS FY 2020 TO FY 2021 (millions of dollars)	FY 2020 Current	FY 2021 Proposed	Annual Change $	 %
LOCAL ASSISTANCE	**70,324**	**70,754**	**430**	**0.6%**
School Aid (School Year Basis)	27,724	28,550	826	3.0%
DOH Medicaid[1]	22,039	23,291	1,252	5.7%
Transportation	3,552	4,075	523	14.7%
STAR[2]	2,176	2,000	(176)	-8.1%
Social Services	2,823	2,766	(57)	-2.0%
Higher Education	2,927	2,841	(86)	-2.9%
Mental Hygiene[3]	3,413	2,137	(1,276)	-37.4%
All Other[4]	5,670	5,094	(576)	-10.2%
STATE OPERATIONS/GENERAL STATE CHARGES	**28,392**	**29,045**	**653**	**2.3%**
State Operations	**19,711**	**20,030**	**319**	**1.6%**
Personal Service:	14,289	14,608	319	2.2%
Executive Agencies	7,892	7,827	(65)	-0.8%
27th Administrative Payroll	0	107	107	0.0%
University Systems	4,239	4,406	167	3.9%
Elected Officials	2,158	2,268	110	5.1%
Non-Personal Service:	5,422	5,422	0	0.0%
Executive Agencies	2,769	2,770	1	0.0%
University Systems	2,093	2,081	(12)	-0.6%
Elected Officials	560	571	11	2.0%
General State Charges	**8,681**	**9,015**	**334**	**3.8%**
Pension Contribution	2,448	2,495	47	1.9%
Health Insurance	4,308	4,513	205	4.8%
Other Fringe Benefits/Fixed Costs	1,925	2,007	82	4.3%
DEBT SERVICE	**5,166**	**6,012**	**846**	**16.4%**
TOTAL STATE OPERATING FUNDS	**103,882**	**105,811**	**1,929**	**1.9%**
Capital Projects (State and Federal Funds)	**13,428**	**14,466**	**1,038**	**7.7%**
Federal Operating Aid	**58,599**	**57,752**	**(847)**	**-1.4%**
TOTAL ALL GOVERNMENTAL FUNDS	**175,909**	**178,029**	**2,120**	**1.2%**

[1] Total State share Medicaid funding is reported prior to the spending offset from the application of Master Settlement Agreement (MSA) payments, which are deposited directly to a Medicaid Escrow Fund to cover a portion of the State's takeover of Medicaid costs for counties and New York City. Beginning in FY 2021, the Financial Plan anticipates a $150 million offset from local contributions. The value of these offsets is reported in "All Other" local assistance disbursements.

[2] The conversion of benefit payments to a State PIT credit decreases reported disbursements for STAR and decreases reported PIT receipts by an identical amount; there is no impact on STAR benefits received by these homeowners.

[3] Total Mental Hygiene spending is $4.3 billion in FY 2021, an increase of 7.7 percent from FY 2020, a portion of which is funded by the DOH Medicaid budget.

[4] "All Other" includes spending for various other functions, as well as reclassifications between financial plan categories, a reconciliation between school year and State fiscal year spending for School Aid, MSA payments deposited directly to a Medicaid Escrow Fund ($315 million in FY 2020 and $371 million in FY 2021), and a $150 million offset from local contributions in FY 2021, which reduces reported disbursements.