FY2023

NYS Executive Budget

GOVERNOR **KATHY HOCHUL**

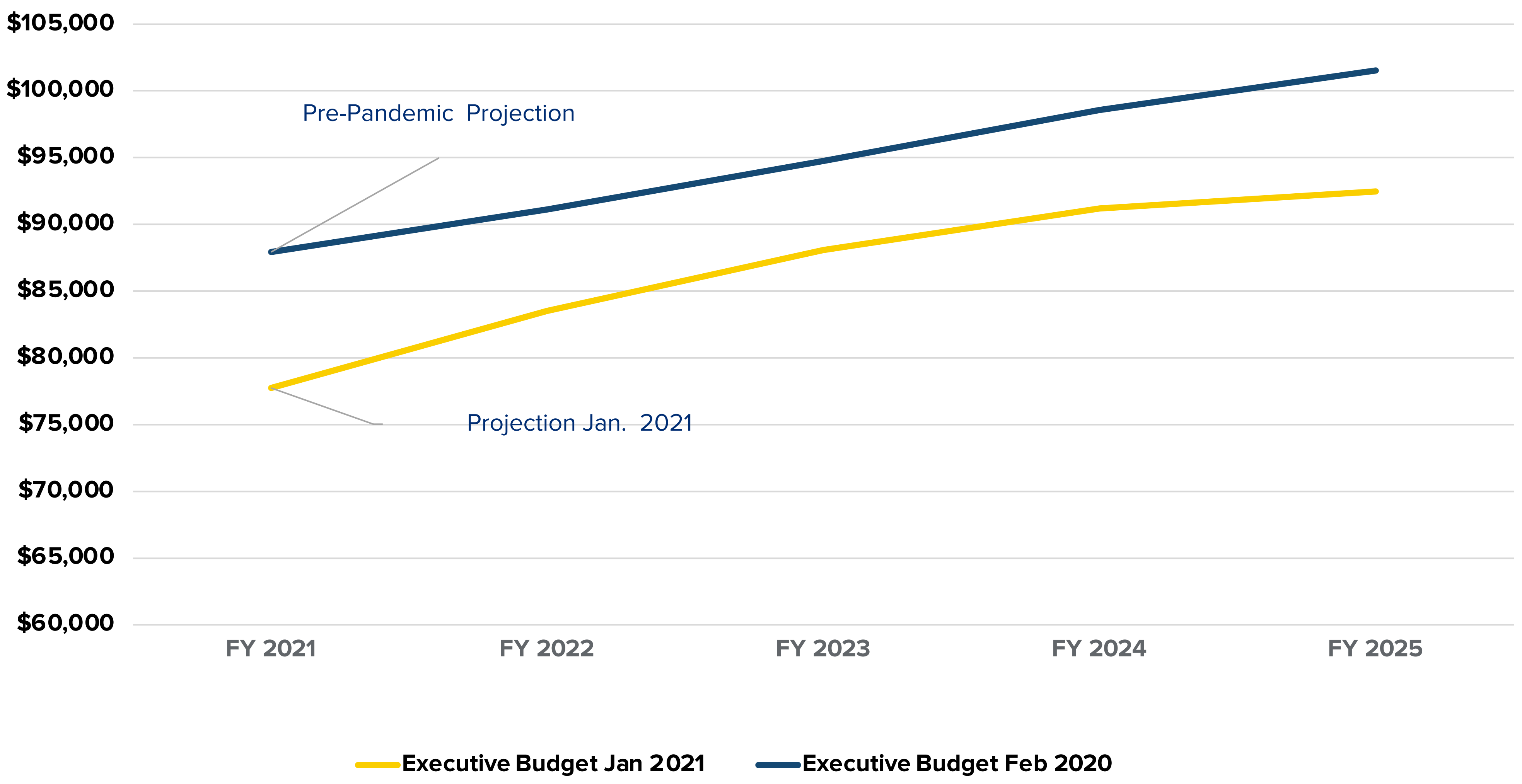
BUDGET DIRECTOR **ROBERT F. MUJICA, JR.**

JANUARY 18, 2022

ONE YEAR AGO

JANUARY 2021

JANUARY 2021:
PROJECTING $39 BILLION, 4-YEAR REVENUE LOSS



REMEMBER: JANUARY 2021

Uncertainty

Federal funding uncertain

Vaccinations had started, but would there be enough and would they work?

Restrictions were in place across the state and country -- that impacted economic activity

COVID-19 cases were again surging nationally

TODAY: JANUARY 2022

COVID-19 cases are surging after a short reprieve, and pandemic restrictions continue but are reduced.

Much else has changed:

- Billions of dollars in federal funding has started to move
- Vaccinations are abundant and clearly saving lives, helping create a path out of the pandemic
- State revenues are recovering faster than anticipated, the state is in a strong financial position right now thanks to strong tax receipts, a strong stock market and federal aid from the pandemic.
- But there are many risks.

ECONOMIC OUTLOOK

ECONOMIC OUTLOOK

Real U.S. GDP surpassed its pre-recession peak during the second quarter of 2021. The national economy is estimated to have posted **strong growth** of 5.6 percent in 2021, after contracting 3.4 percent in 2020.

The **impact of Federal fiscal stimulus has diminished** over the course of 2021. This, combined with fallout from the pandemic, including rising prices and supply shortages of labor and other inputs, is expected to restrain economic growth for 2022. Nonfarm employment is not expected to surpass its first quarter of 2020 level until the fourth quarter of 2022.

Labor shortages, supply-chain disruptions, rebounding energy prices, strong housing market demand, and excess consumer demand supported by Federal fiscal stimulus contributed to **consumer price growth** of 4.7 percent for 2021, the highest annual rate of inflation since 1991.

ECONOMIC OUTLOOK

As of November 2021, **New York's economy has regained 62.6 percent of the private sector jobs** lost in March and April of 2020. Total **New York State employment is projected to grow 4.5 percent in FY 2023,** with private sector jobs growing 5.0 percent.

State wage growth fell by 2.0 percent in FY 2021, despite a more significant employment decline of 12.6 percent. This modest decline in wages is partly due to the job losses disproportionately affecting low-wage workers. **New York State wage growth is projected to increase by 11.4 percent in FY 2022** due to continued strong bonus growth and a rebound from the employment losses in the prior year.

With fiscal stimulus on the wane and three rate hikes expected 2022, **only modest growth of 1.0 percent and 1.1 percent are estimated for state personal income for FY 2022 and FY 2023,** respectively, despite a strong continuing recovery in employment.

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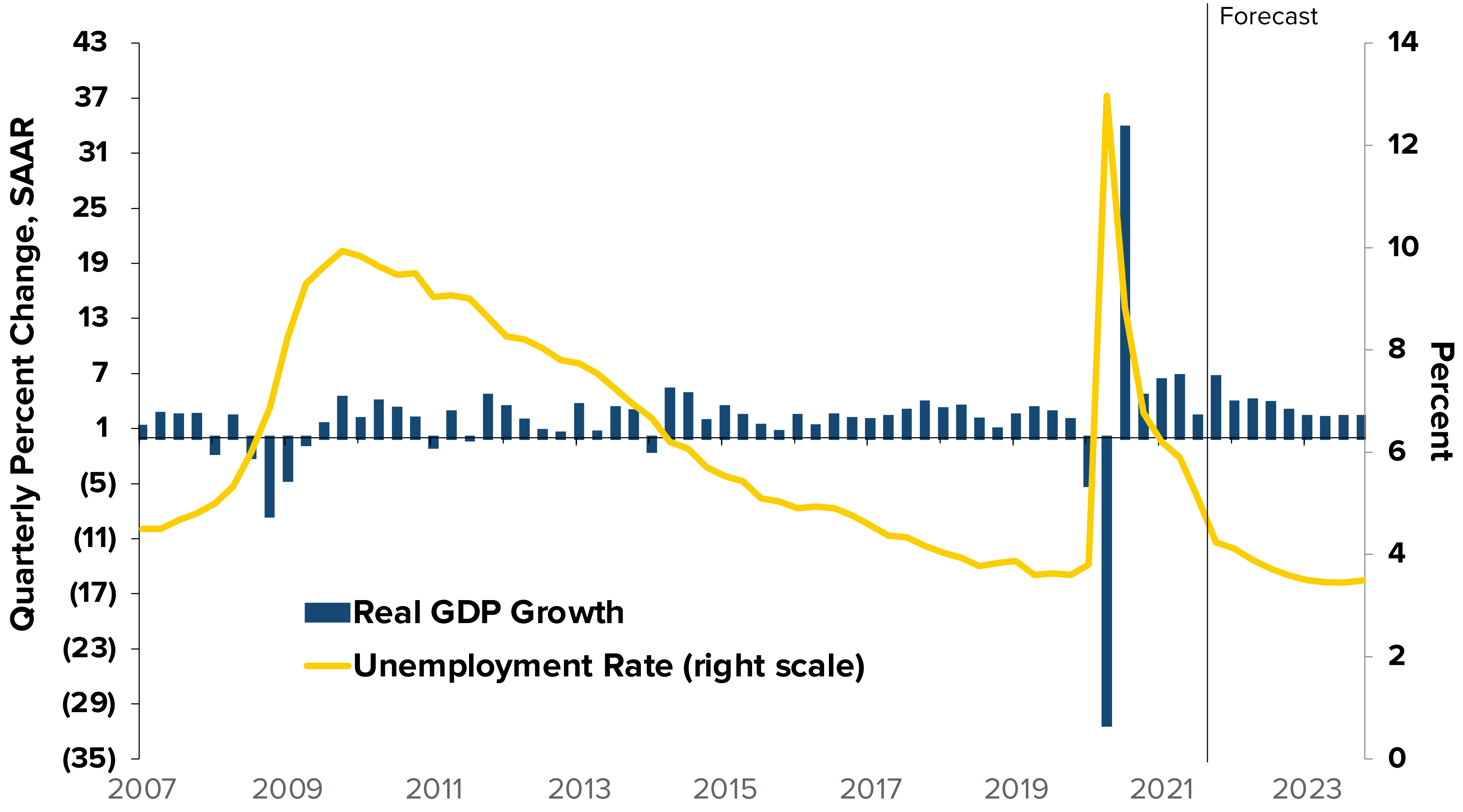
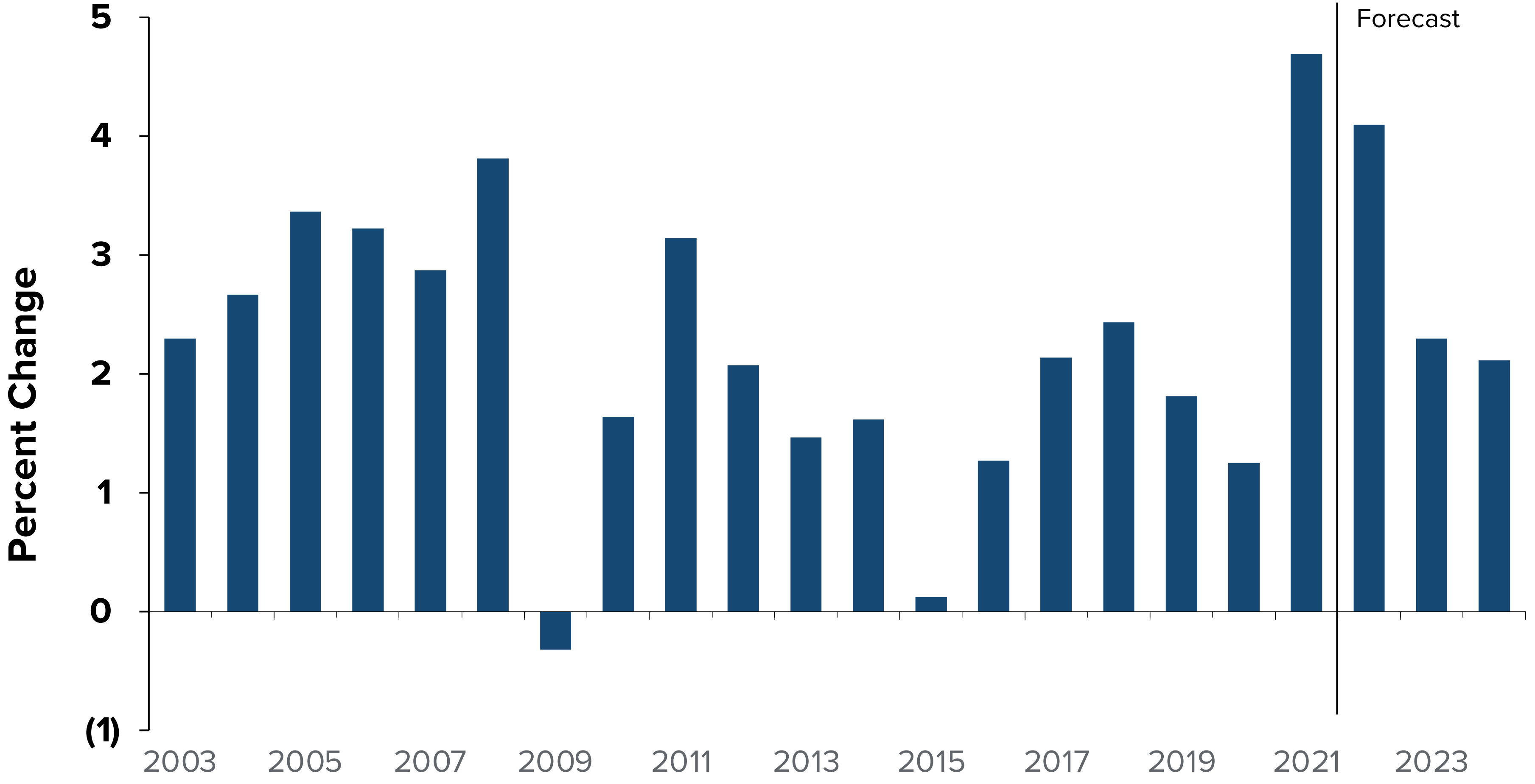
REAL U.S. GDP GROWTH AND UNEMPLOYMENT RATE



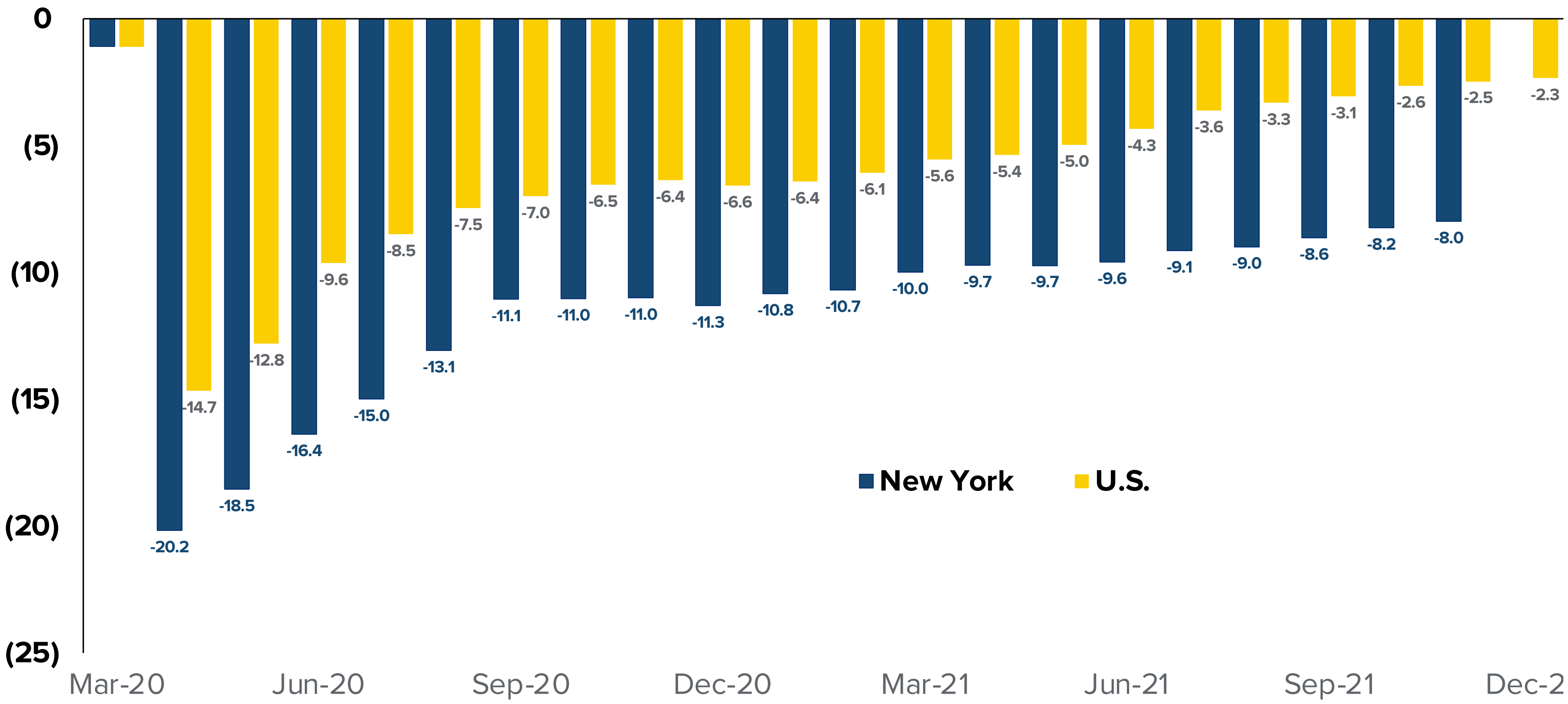
Source: Haver Analytics/BEA, BLS; DOB staff estimates.

CONSUMER PRICE INDEX (CPI)



Source: Haver Analytics/BEA, BLS; DOB staff estimates.

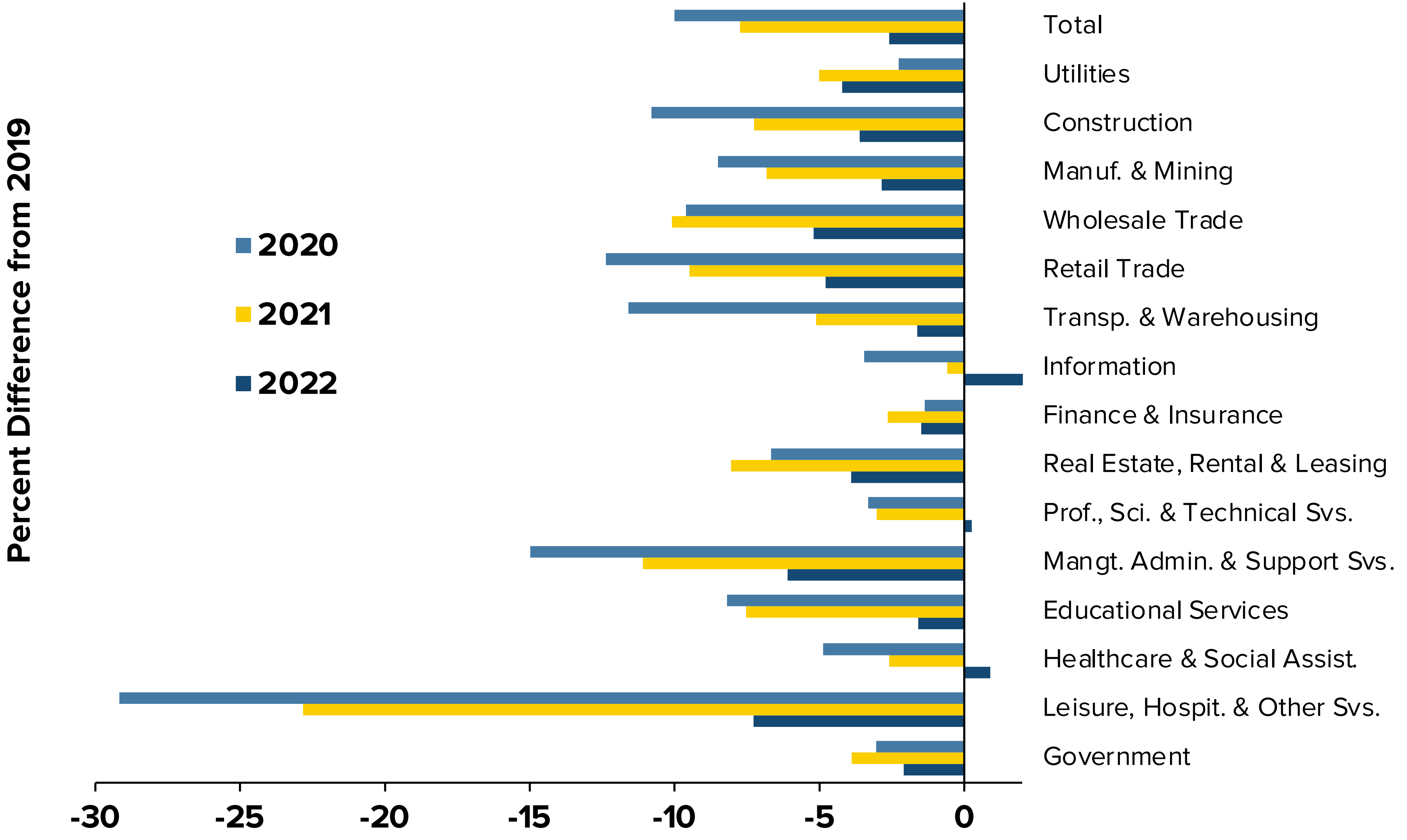
PERCENT CHANGE IN EMPLOYMENT SINCE FEBRUARY 2020



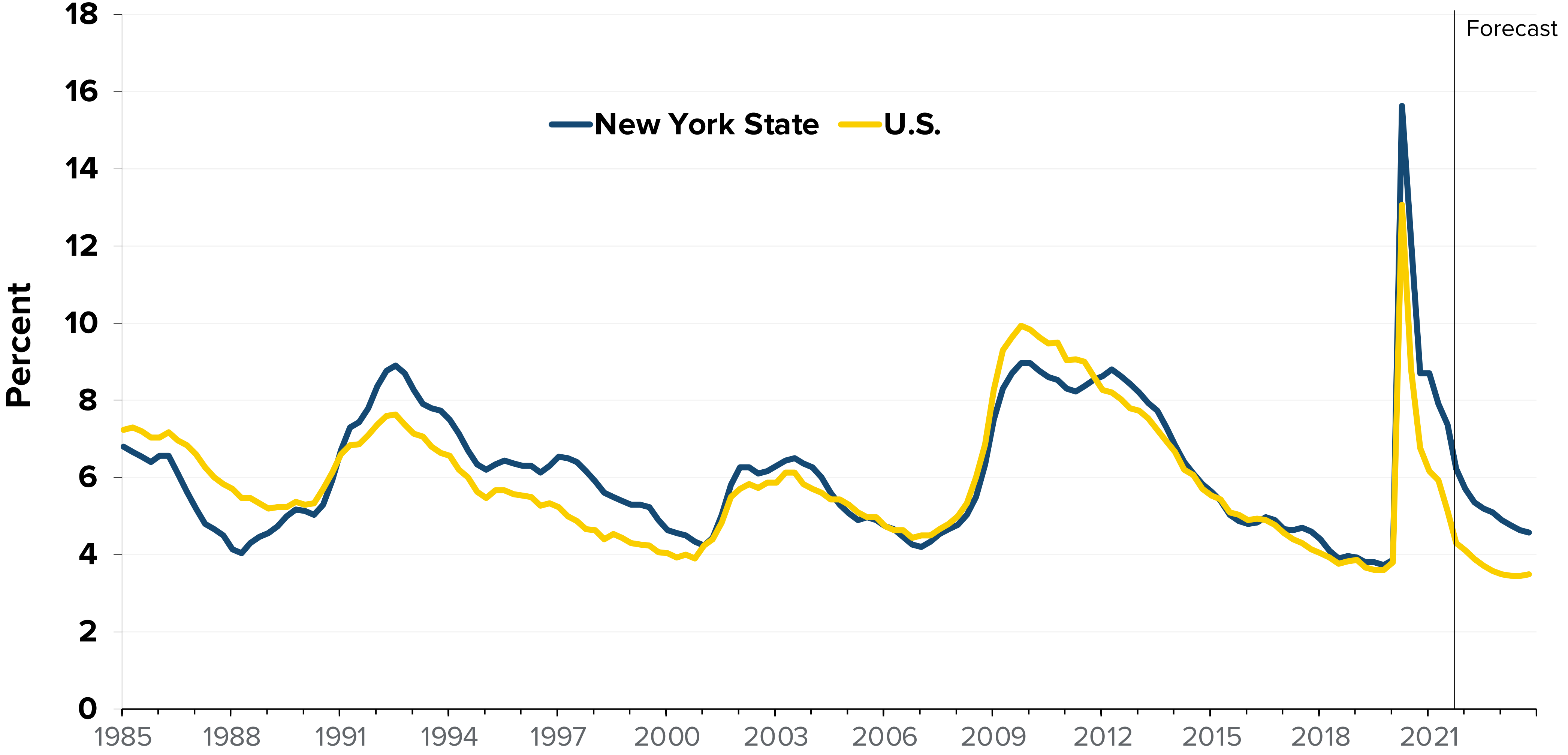
Source: Moody's Analytics/BLS; NYS Department of Labor.

NEW YORK EMPLOYMENT RELATIVE TO 2019

Source: NYS DOL; DOB staff estimates.

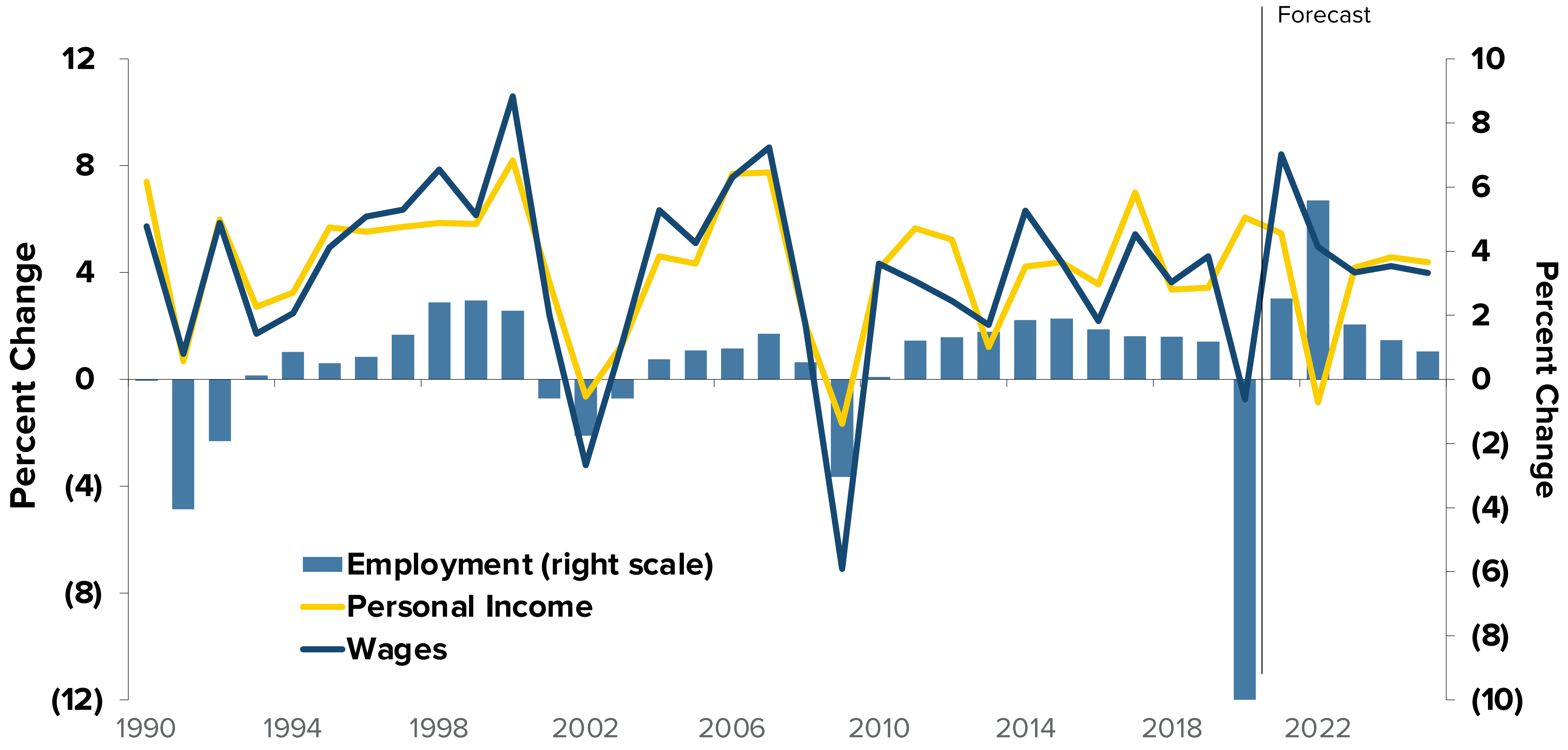


UNEMPLOYMENT RATE



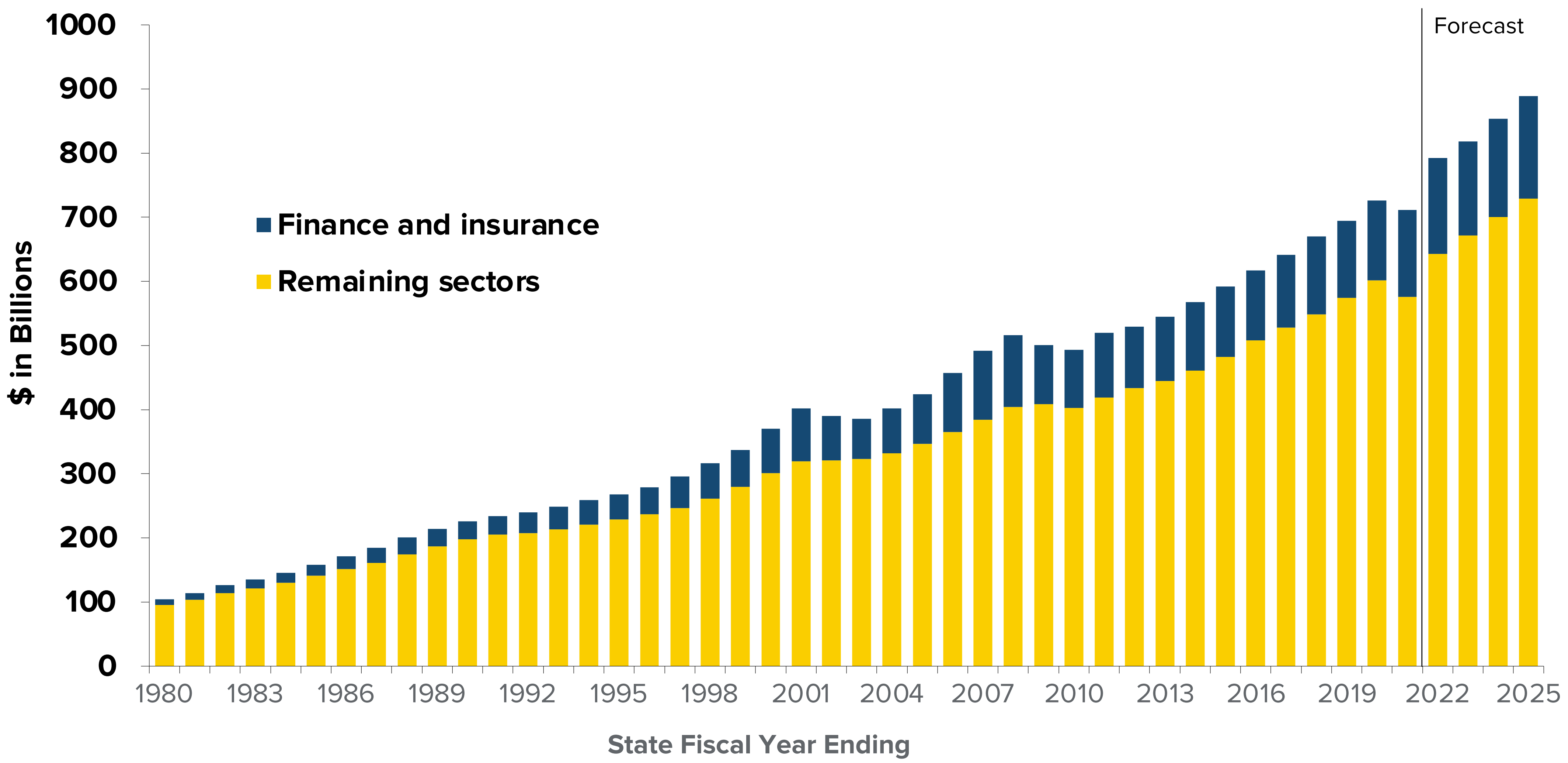
Source: Haver Analytics/BLS; NYS Department of Labor; DOB staff estimates.

NEW YORK STATE INCOME AND EMPLOYMENT OUTLOOK



Source: NYS DOL; BEA, DOB staff estimates.

NEW YORK STATE WAGES
FINANCE AND INSURANCE VS. REMAINING SECTORS



Source: NYS Department of Labor; DOB staff estimates.

FY 2023
FINANCIAL PLAN

FINANCIAL PLAN OVERVIEW

- The Mid-Year Update committed to bringing the State's principal reserves to 15 percent of spending by FY 2025.
- After deposits to reach this goal, DOB showed balanced General Fund operations through FY 2025, the last year published in the Financial Plan, with no surpluses or budget gaps in any year.
- This was the first time that DOB has published a Financial Plan with no budget gaps in any year.
- Forecast revisions since then have created new projected surpluses. Tax receipts estimates have been increased by an average of $4.9 billion annually compared to the Mid-Year forecast.
- In addition, expense estimates have been reduced, with significant savings in categorical school aid claims, pensions, debt service and payroll (the latter from the use of CRF to fund eligible payroll expenses).
- The baselevel projections show surpluses of $5.0 billion in FY 2022, $6.4 billion in FY 2023, $5.3 billion in FY 2024, and $5.5 billion in FY 2025.
- The surpluses for FY 2026 and FY 2027, which are projected for the first time in this Executive Budget, are comparatively lower at $3 billion and $4.1 billion, respectively. This mainly reflects the final spend-down of ARP recovery aid in FY 2025.
- The surplus position, in combination with the reserve deposits already planned, makes it possible to responsibly fund new commitments intended to address the unique and complex problems caused (or exacerbated) by the COVID-19 pandemic.

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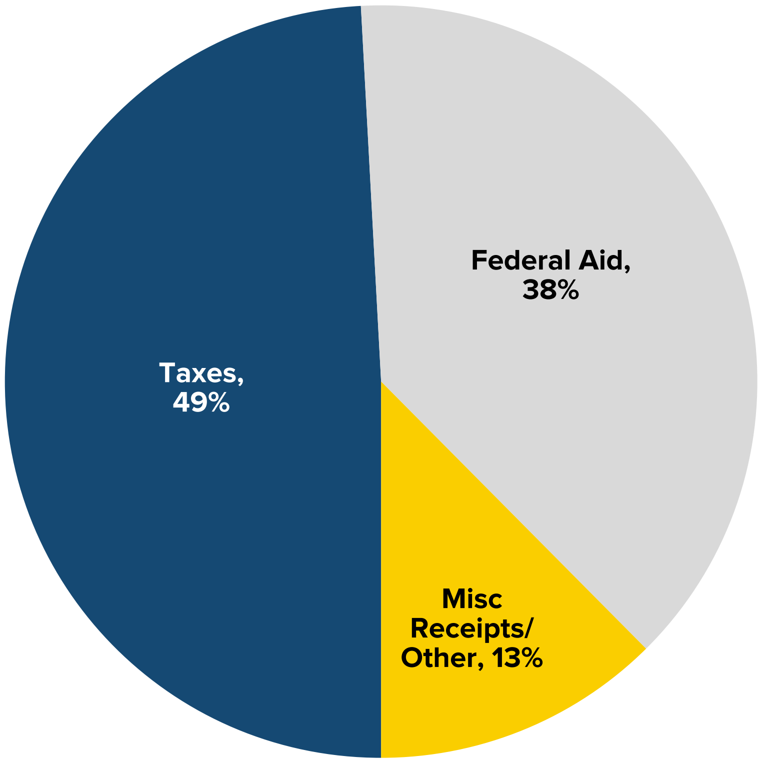
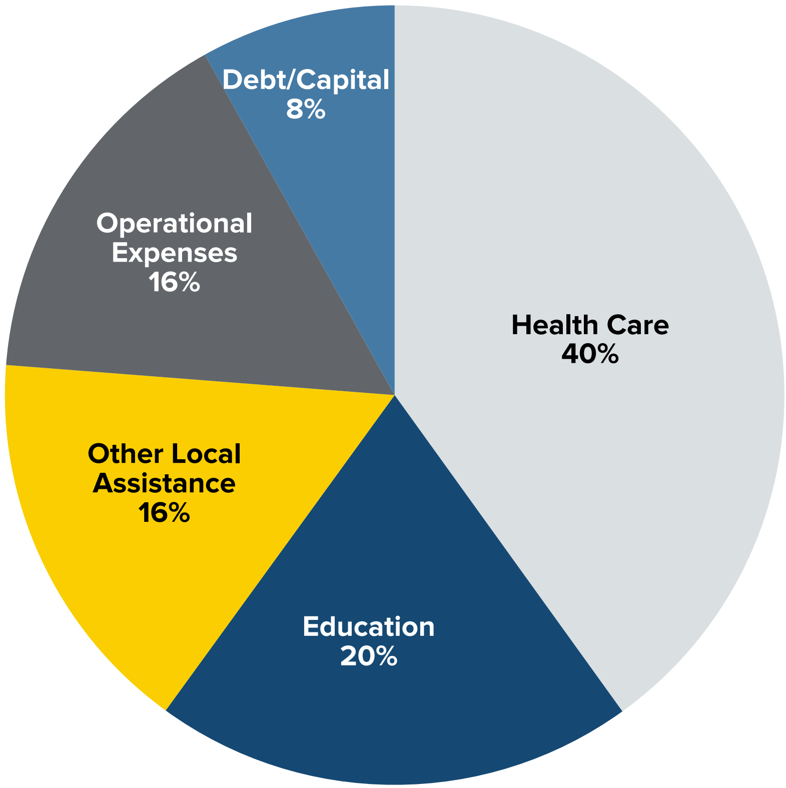
ALL GOVERNMENTAL FUNDS
FY 2023 EXECUTIVE BUDGET - $216.3 BILLION

Where it Comes From*



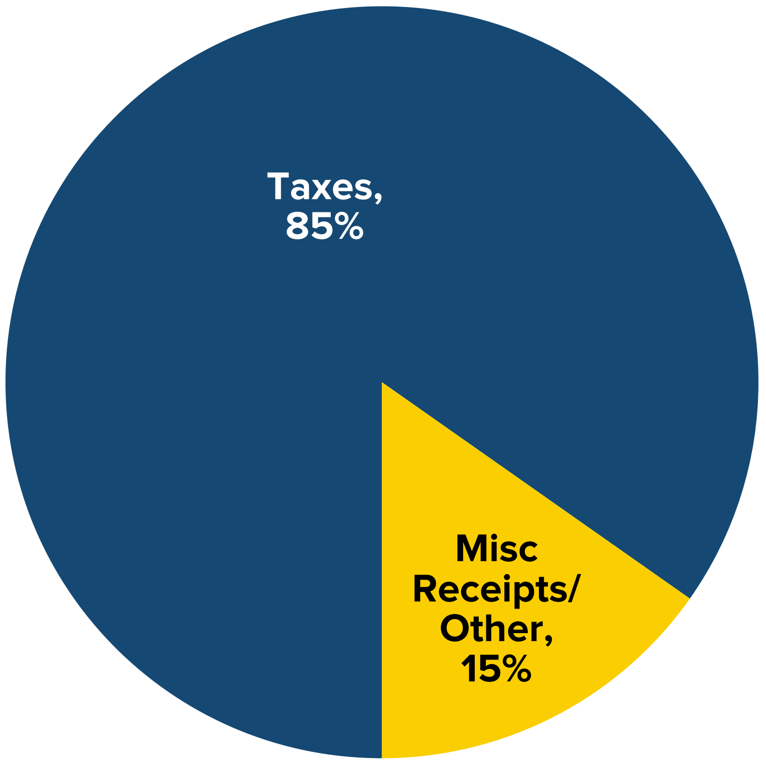
* Excludes impact of Pass Through Entity Tax

Where it goes

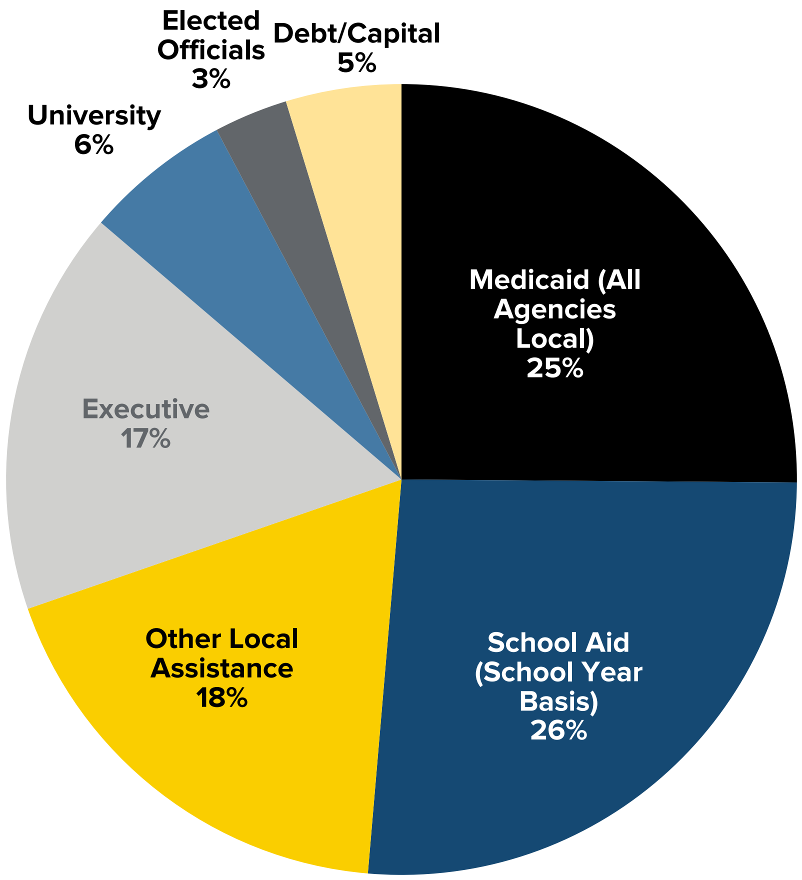


STATE OPERATING FUNDS
FY 2023 EXECUTIVE BUDGET - $118.8 BILLION

Where it Comes From



Where it Goes



FY 2023 EXECUTIVE BUDGET SPENDING

FY 2023 EXECUTIVE BUDGET SPENDING (Millions of Dollars)				
	FY 2022	FY 2023	$ Change	% Change
All Funds	**212.9**	**216.3**	**3.4**	**1.6%**
State Operating Funds	**115.2**	**118.8**	**3.6**	**3.1%**
School Aid (School Year Basis)	29.1	31.2	2.1	7.1%
Medicaid (Excl. eFMAP)	25.0	26.6	1.6	6.3%
Agency Operations	30.0	30.4	0.4	1.2%
All Other	31.1	30.7	-0.4	-1.3%

FINANCIAL PLAN OVERVIEW

The Executive Budget Financial Plan provides for balanced operations annually through FY 2027.

Spending growth is estimated at 3.1 percent in FY 2023, below inflation.

The outyear growth is driven by School Aid (5.3 percent CAGR) and Medicaid (5.5 percent CAGR), offset by slower growth in other local aid programs and agency ops.

The commitments proposed in the Executive Budget are sustainable, with the current-year surplus of $5 billion used to fund one-time expenses.

FINANCIAL PLAN OVERVIEW

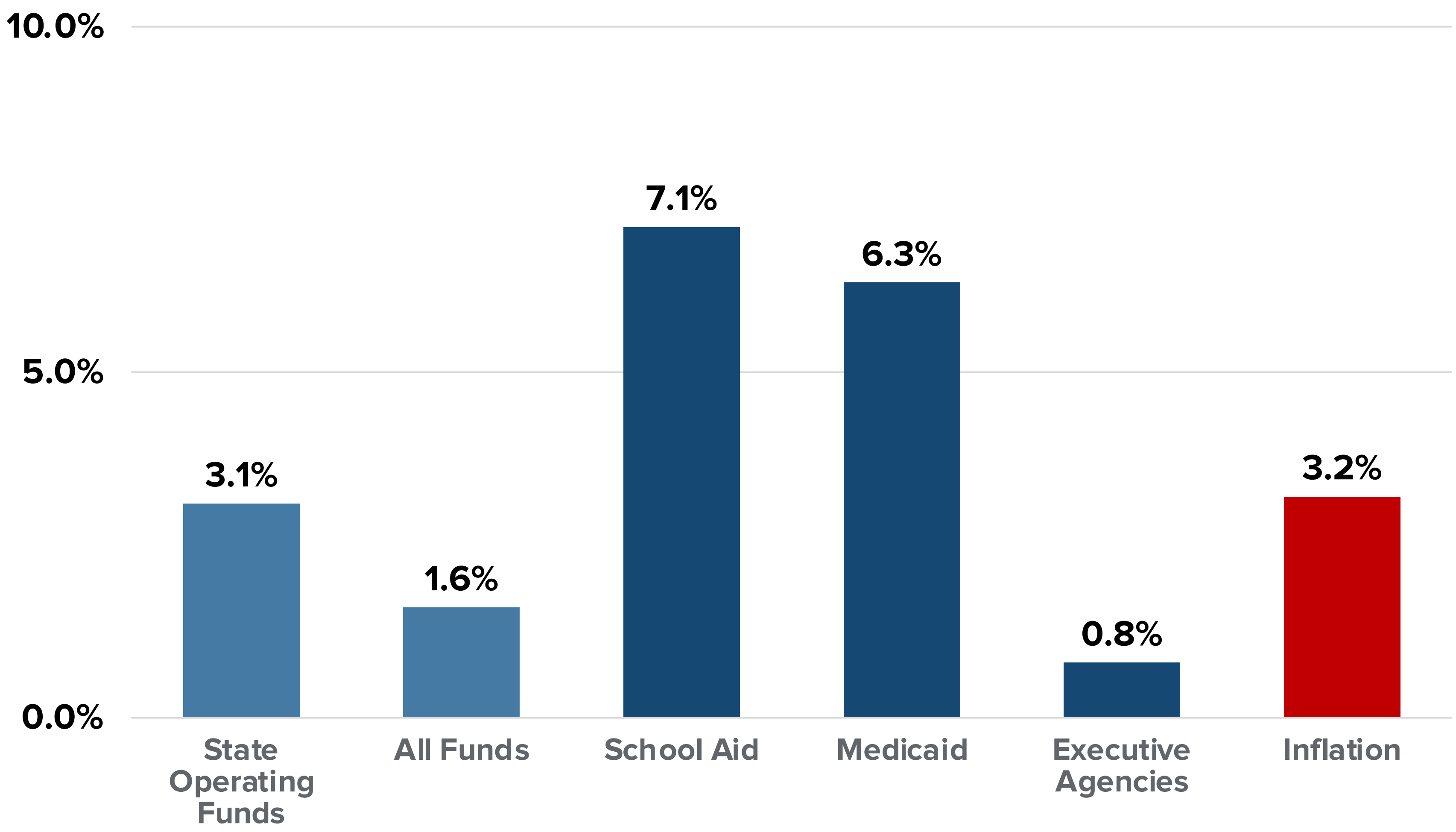
In fact, over $7 billion in proposed actions will not add permanent costs, including:

- $2.2 billion for property tax relief (FY 2023).
- $2 billion for pandemic recovery initiatives (reserve funded in FY 2022).
- $1 billion to enlarge the DOT capital plan (deployed over three years, FY 2023-FY 2025).
- $1 billion for health care transformation (reserve funded from FY 2023 and 2024 operations).
- $1 billion for bonuses for health care/frontline workers.
- $350 million for pandemic relief for businesses and theater/musical arts.

At the same time, the Budget maintains the all planned deposits to principal reserves committed to in FY 2022 (scheduled for FY 2022-FY 2025).

State operations funding is increased to meet critical service needs and restore service capacity to pre-pandemic levels.

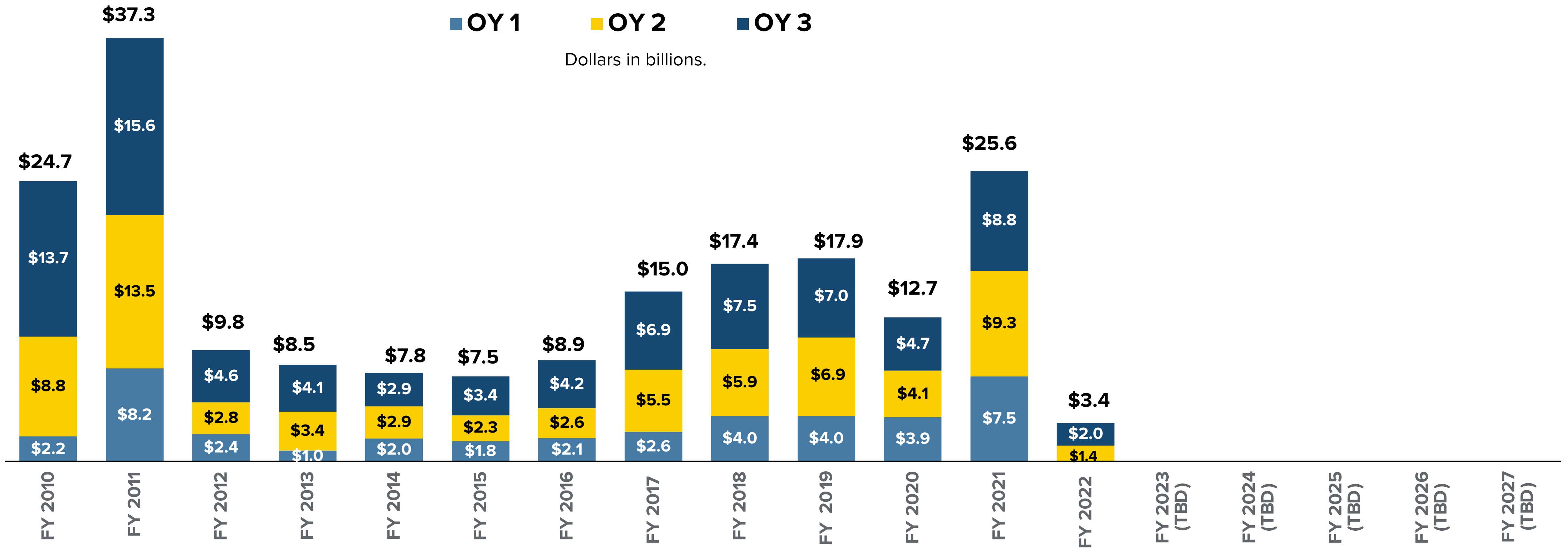
FY 2023 SPENDING GROWTH



FINANCIAL PLAN OVERVIEW

FY 2023 EXECUTIVE BUDGET FINANCIAL PLAN GENERAL FUND PROPOSALS SAVINGS/(COSTS) (millions of dollars)	FY 2023 Projected	FY 2024 Projected	FY 2025 Projected	FY 2026 Projected	FY 2027 Projected
UPDATED "BASE" BUDGET SURPLUS/(GAP) ESTIMATE	**6,436**	**5,349**	**5,520**	**2,966**	**4,070**
Total Budget Actions	**(6,436)**	**(5,349)**	**(5,520)**	**(2,966)**	**(4,070)**
Homeowner Tax Rebate Credit	(2,200)	0	0	0	0
Middle Class Tax Cut Acceleration	(162)	(615)	(360)	(44)	0
Small Business Tax Relief Credits	(100)	(350)	(100)	(100)	(100)
Extend the NYC Musical & Theatrical Credit	0	(100)	0	0	0
Healthcare/Frontline Worker Bonus	(1,192)	0	0	0	0
Human Services/Mental Hygiene COLA	(256)	(256)	(256)	(256)	(256)
Education/Higher Education	(469)	(564)	(527)	(517)	(519)
Medicaid/Public Health/Aging	(76)	132	(281)	(1,002)	(1,831)
Health Care Transformation	(500)	(500)	0	0	0
Mental Hygiene	(323)	(345)	(302)	(292)	(282)
Social Services	(167)	(221)	(614)	(758)	(758)
Agency Operations	84	(636)	(641)	(667)	(690)
All Other (incl. PAYGO; Debt Mgt)	(1,075)	(1,894)	(2,439)	670	366
EXECUTIVE BUDGET SURPLUS/(GAP) ESTIMATE	**0**	**0**	**0**	**0**	**0**

OUTYEAR BUDGET GAPS



- FY 2022 Enacted Budget outyear cumulative budget gaps would have been $11.7 billion absent Federal ARP aid.
- The FY 2023 Executive Budget shows no out-year budget gaps.
- Whether no gaps remain in the FY 2023 through FY 2027 Enacted Budget is TBD.

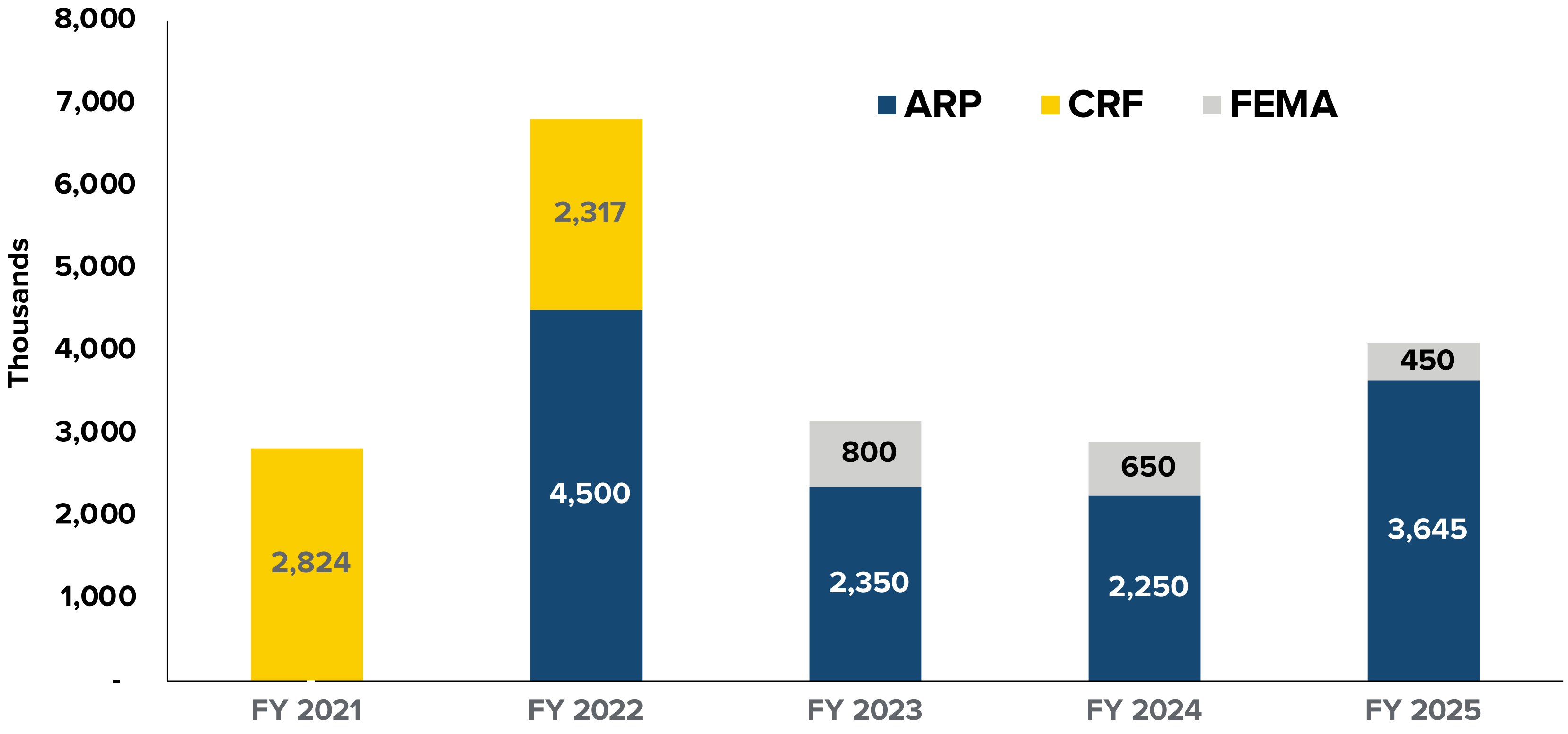
FEDERAL RELIEF

FEDERAL AID - DIRECT FINANCIAL BENEFIT

- The State received $12.75 billion from the ARP in 2021 that it expects to use over four years.

- The remainder of the $5.1 billion must be committed by December 31, 2021.

- The Financial Plan assumes that Federal aid will fully fund the State's direct pandemic response costs, which includes $1.9 billion in FEMA reimbursements expected over several years.



AMERICAN RESCUE PLAN

- The State received $12.75 billion from the ARP in May 2021 and expects to use the funds over four years – the allocation of revenue loss uses by year is flexible.

ARP AID PLANNED USED (millions of dollars)				
FY 2022	**FY 2023**	**FY 2024**	**FY 2025**	**TOTAL**
4,500	2,350	2,250	3,645	12,745

- The aid may be used to support pandemic response efforts; replace lost State revenue; aid households, small businesses, impacted industries, essential workers, and communities disproportionately impacted by the pandemic; and water, sewer and broadband infrastructure.

- We have calculated a revenue loss of $9.9 billion on a modified accrual basis per the Federal calculation and methodology. The allowable use of these funds is for broad government services and may not be used to pay principal or interest on outstanding debt or be deposited to reserves.

- The remaining $2.9 billion is expected to fund recovery initiatives.

- The State submitted an interim report due August 31, 2021 to the U.S. Treasury (UST) which included the revenue loss calculation and a broad summary of planned uses of the funds, which is pending a Federal response.

- The next report is due January 31, 2022.

FISCAL CRISES AND RESERVES

Since 2000, State finances have been badly damaged three times by sudden events: 9/11; the Great Recession; and COVID.

These specific events were not "predictable" -- but it was (and is) predictable that such events will continue to happen.

Each time, though, the State found itself unprepared, with inadequate reserves.

The outcome was that promises made in good times had to be broken or deferred.

FISCAL CRISES AND RESERVES

We need look no farther than school funding for a real-world example.

In FY 2008, the State committed to funding the new Foundation Aid program within School Aid.

Unfortunately, very little money during the mid-2000s boom was set aside in the rainy-day reserves, which totaled less than 3.5 percent of annual spending in FY 2008.

The Foundation Aid commitment lasted just two years. Starting in FY 2010, with the State beset by recession, the State froze Foundation Aid for three years.

Not until the current fiscal year (FY 2022), with the benefit of unprecedented Federal aid and new tax increases, is Foundation Aid again on schedule to be fully funded, this time by FY 2024.

Reserves are the best defense against a “repeat performance” in the next crisis.

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FISCAL CRISES AND RESERVES

Reserves are the best defense against a “repeat performance” in the next crisis. Accordingly, under Governor Hochul’s direction, the Mid-Year Update committed to bringing the State’s reserves to 15 percent of State Operating Funds spending by FY 2025.

After deposits to reach this goal, DOB showed balanced General Fund operations through FY 2025, the last year published in the Financial Plan, with no surpluses or budget gaps in any year. This was the first time that DOB has published a Financial Plan with no budget gaps in any year.

RAINY DAY RESERVES RECOMMENDATION/FINDINGS

Center on Budget Policy and Priorities (CBPP)[1]

- General-purpose governments should set a minimum reserves target of 15 percent of general fund operating expenditures.

- A reserve balance of 15 percent of operating expenditures would be enough funds to fully cover budget shortfalls that result from relatively short, minor recessions.

- A 15 percent reserve balance would not be able to fully cover shortfalls from major recessions, such as the 2008-2009 Recession. However, if states have had a 15 percent reserve balance during the 2008-2009 Recession, they would have been able to cover 20 percent of their shortfall with rainy day balances instead of just 7 percent.

- An estimated more than 200,000 jobs would have been saved during the 2008-2009 Recession if states had a 15 percent reserve balance and spent it on economic recovery.

Government Financial Officers Association (GFOA)[2]

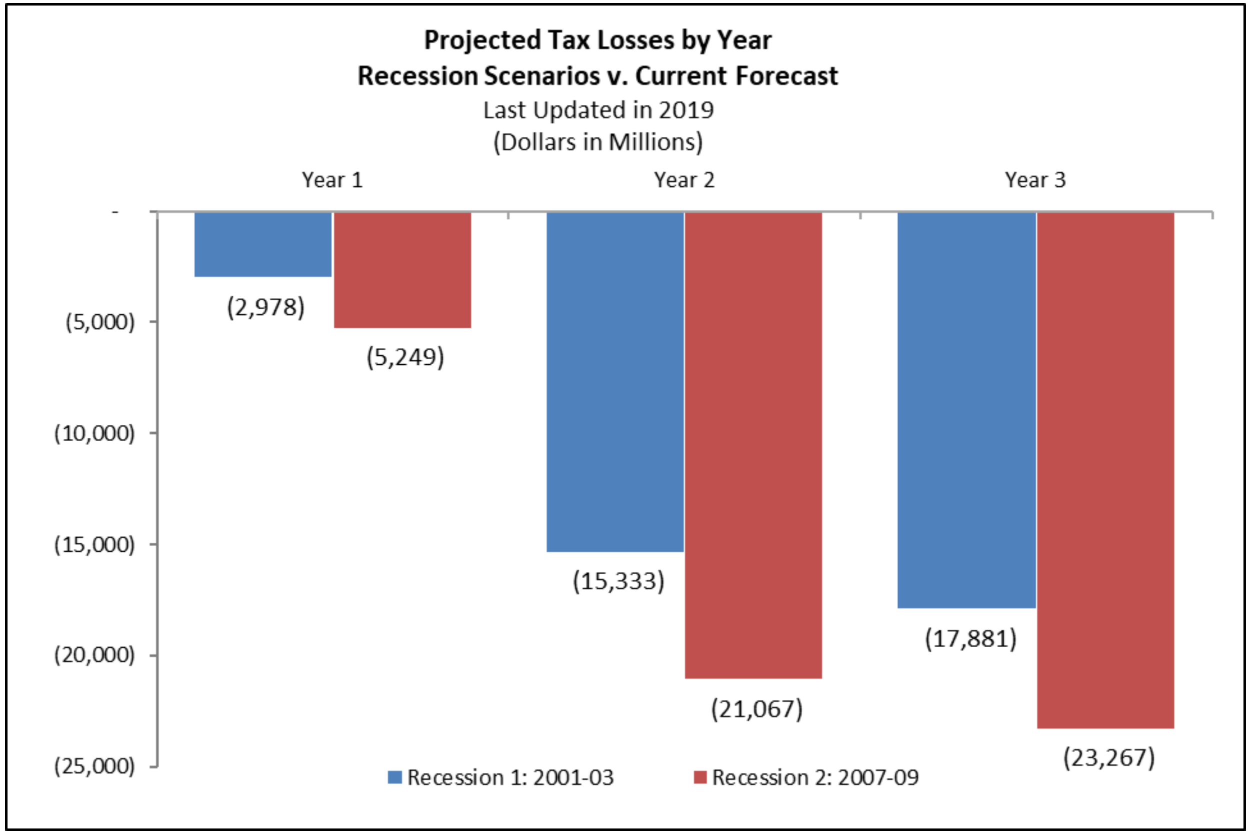
- General-purpose governments should maintain an unrestricted budgetary general fund balance of no less than two months of regular general fund operating revenues or expenditures. They recommend that states should choose whether to use revenues or expenditures as a benchmark based on which can be more easily projected.

- Assuming disbursements are even across months, this recommendation dictates that states should have reserve balances that are nearly 17% of annual general fund operating expenditures or revenues.

Sources:
1. Why and How States Should Strengthen Their Rainy-Day Funds. CBPP, February 3, 2011.
2. Fund Balance Guidelines for the General Fund, GFOA, September 30, 2015

HYPOTHETICAL RECESSION SCENARIOS

- The simulation of prior recessions would result in a tax receipts losses in the range of $36 to $50 billion over a three-year period.
- The size of the losses illustrates the challenge of setting aside reserves to "weather a downturn."
- Even covering half the low range three-year loss would require $18 billion in reserves, an amount equal to about 15 percent of State Operating Funds spending.



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PLANNED DEPOSITS TO PRINCIPAL RESERVES

- By any measure, New York's reserves are inadequate. In FY 2021, principal reserves totaled just 3.8% of spending – or about two weeks of bills.
- At the end of FY 2022, we expect them to increase to 7.8%, or about half of what national experts recommend.
- Our plan is to build toward 15% over the next several years, conditions permitting. The money is NOT "in the bank."

FY 2023 EXECUTIVE BUDGET
(Millions of Dollars)

	FY 2022 Projected	FY 2023 Projected	FY 2024 Projected	FY 2025 Projected
Planned Deposits	**4,984**	**5,053**	**2,448**	**2,925**
Rainy Day Reserves	875	920	915	950
Economic Uncertainties	4,109	4,133	1,533	1,975
Balance At Year-End	**8,950**	**14,003**	**16,451**	**19,376**
Rainy Day Reserves	3,351	4,271	5,186	6,136
Economic Uncertainties	5,599	9,732	11,265	13,240
Estimated SOF Spending	**115,218**	**118,839**	**123,394**	**128,895**
Principal Reserves % SOF	*7.8%*	*11.8%*	*13.3%*	*15.0%*

RISKS

Sudden, catastrophic events that upend State finances quickly, e.g., 9/11, The Great Recession, COVID 19

Trends that could erode the State's wealth over time:

- Slow population growth
- Tax "migration"
- Telework

Short memories and optimism

WE ARE INVESTING SMARTLY

PREPARING FOR THE FUTURE

MITIGATING RISK

BUILDING RESERVES