FINANCIAL PLAN OVERVIEW

EXECUTIVE SUMMARY

The State's Financial Rebound from COVID

In the decade between the Great Recession and the onset of COVID, the New York economy steadily expanded. The State's gross product grew at 4.4 percent annually and total employment increased by nearly 1.4 million. State finances were stable, with State Operating Funds spending increasing at an average annual rate of 2.4 percent. Tax collections, which fund roughly three-quarters of State Operating Funds spending, grew at a yearly average of just under 3.8 percent, reaching a "pre-COVID" peak in FY 2020, rising by nearly 10 percent over FY 2019.

Then COVID struck. The onset of the pandemic in New York, which coincided with the start of the State's 2021 fiscal year, triggered sweeping public health measures at the State and local level to slow the spread of the virus. Economic activity slowed dramatically, unemployment spiked, and the State prepared for a prolonged economic downturn. State spending, adjusted for the timing of payments, flattened.

State finances, however, have fared better than expected. In FY 2021, during the acute phase of the pandemic, tax collections in State Operating Funds declined by just 0.3 percent from FY 2020, bolstered by Federal economic stimulus — and have subsequently soared. In FY 2022, collections grew by 27 percent, which is equal to about seven years of typical tax receipts growth compressed into a single year. In FY 2023, collections are expected to increase by an additional 11 percent to total $115 billion, or nearly $34 billion higher than FY 2021 results.

FY 2023 General Fund Surplus

In this Financial Plan, DOB is increasing the current-year estimate for tax receipts by $5.9 billion in comparison to the Mid-Year Update. The higher tax receipts, combined with other revisions totaling $2.8 billion, including downward revisions to estimated disbursements, leaves a General Fund surplus of $8.7 billion.

As described below, the remarkable surge in tax collections that began last year is expected to peak by the end of FY 2023, as the post-COVID expansion runs its course. Accordingly, the surplus is used to strengthen the State's capacity to weather the economic downturn on the horizon. More than half of the surplus will be used to accelerate the deposits to principal reserves that had been planned for FY 2024 ($2.4 billion) and FY 2025 ($2.9 billion), bringing the balance held in principal reserves to more than 15 percent of spending by March 31, 2023 — two years ahead of schedule. An additional $600 million will be used to fund deposits to the Retiree Health Trust Fund that were scheduled in later years, bringing the balance to $1.2 billion. To ensure the State can abide by the limits imposed by the Debt Reform Act, $1 billion will be used to recapitalize the debt reduction reserve. The remaining surplus will be used to prepay expenses and manage future budget gaps.

In October 2021, the Governor committed to building the State's reserves to ensure that it could honor its current commitments through good and bad times. The extraordinary gains in tax receipts have been directed to accomplish that purpose. By the end of FY 2023, the State will have boosted its reserves by over $20 billion since FY 2020. It will have also prepaid over $10 billion in future debt service costs that were due in FY 2024 through FY 2027.

The Post-COVID Expansion is Ending

Yet even as tax receipts continue to show strength in the current year, DOB has downgraded its expectations for the economic outlook twice since the Enacted Budget Financial Plan was published in May 2022, first in the First Quarterly Update and again in this Financial Plan. It is now forecasting a mild national recession in calendar year 2023, with U.S. real output projected to decline by 1.4 percent in the first quarter and 0.9 percent in the second quarter, followed by a recovery in the latter half of the year.

At the State level, key economic drivers of tax receipts have been revised sharply downward. Total wage growth is now expected to slow to 2.4 percent in FY 2023 and 2.3 percent in FY 2024, compared to 3.3 percent and 4.3 percent in the May 2022 forecast. Bonus income is expected to decline by 27 percent from the FY 2022 peak. In comparison, the Enacted Budget forecast called for a 15.5 percent decline in FY 2023 followed by growth of 3.5 percent in FY 2024.

Beginning in FY 2024, the weakening economic activity is expected to become apparent in tax collections (which are a lagging indicator of changing economic activity). This will carry through the following years of the Financial Plan, with the most pronounced impact on FY 2025 and FY 2026 operations. General Fund tax receipts, before proposed actions in the FY 2024 Executive Budget, have been reduced by $2.6 billion in FY 2024, $7.5 billion in FY 2025, $8 billion in FY 2026, and $5.3 billion in FY 2027 in comparison to the Enacted Budget Financial Plan.

The FY 2024 Executive Budget Financial Plan

The Governor introduced the FY 2024 Executive Budget Financial Plan on February 1, 2023. DOB estimates that the General Fund is balanced on cash basis in FY 2024, if the Legislature adopts the Governor's proposal without modification. The Budget fully funds existing commitments, including the third and final year of the Foundation Aid phase-in. By the end of SY 2024, Foundation Aid will have increased by $5.7 billion since SY 2021. DOB expects the General Fund to end FY 2024 with a balance of nearly $35 billion, with principal reserves intact.

Three of the most pressing issues facing the State at the start of 2023 are addressed in this Executive Budget: the solvency of the MTA, the stability of the State's health care system, and the provision of care for thousands of new asylum seekers coming to the State. In response to these challenges, the Budget advances a comprehensive funding plan to put the MTA on stable financial footing. It adds substantial new operating and capital aid for health care. And it provides extraordinary funding to local governments that are providing services and assisting with the resettlement process for asylum seekers.

The Budget proposal also funds the initiatives outlined in the Governor's State of the State address. These include expanding mental health inpatient, outpatient, and supportive services (FY 2024: $134 million; FY 2025: $276 million); providing matching funds to increase the State University endowment (maximum of $500 million over two years); giving a monthly discount on electric utility bills for moderate-income customers (FY 2024: $200 million; FY 2025: $50 million), and indexing the minimum wage for inflation and funding the cost for State service providers (FY 2024: $19 million; FY 2025: $63 million).

State Spending

State Operating Funds spending will total $125.2 billion, an increase of $2.5 billion, or 2 percent, from the current fiscal year.

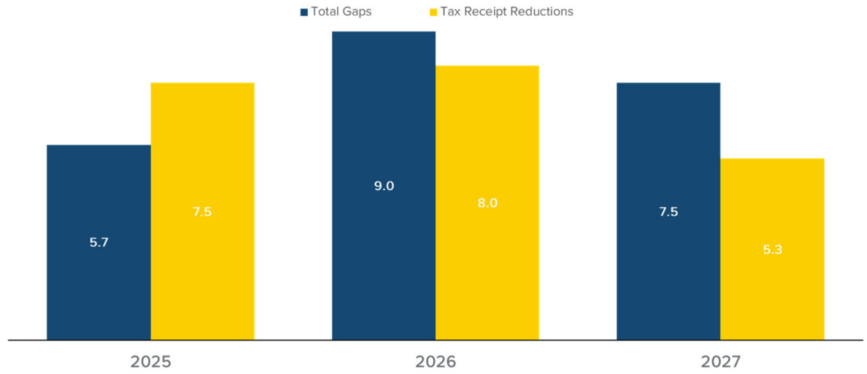
Outyear Budget Gaps

The Executive Budget Financial Plan projects out-year budget gaps of $5.7 billion in FY 2025, $9.0 billion in FY 2026, and $7.5 billion in FY 2027, a total of roughly $22 billion over three years. The gaps that have opened in each year are due principally to the downward revisions in projected tax receipts, which have been lowered by nearly $21 billion (FY 2025 to FY 2027) in comparison to the Enacted Budget Financial Plan. If the FY 2025 Budget is balanced with recurring savings, the budget gap for FY 2026 would be $3.3 billion. The projected budget gaps do not reflect the use of any reserves to balance operations.

FY 2024 EXECUTIVE BUDGET SPENDING (billions of dollars)

	FY 2023 Updated	FY 2024 Projected	$ Change	% Change
All Funds	**221.6**	**227.0**	**5.4**	**2.4%**
State Operating Funds	**122.7**	**125.2**	**2.5**	**2.0%**
School Aid (School Year Basis)	31.3	34.4	3.1	10.0%
Medicaid	25.8	27.8	2.0	7.7%
Executive Agencies	12.3	12.6	0.3	2.4%
All Other	53.3	50.4	-2.9	-5.4%

OUTYEAR BUDGET GAPS AND TAX RECEIPTS REDUCTIONS

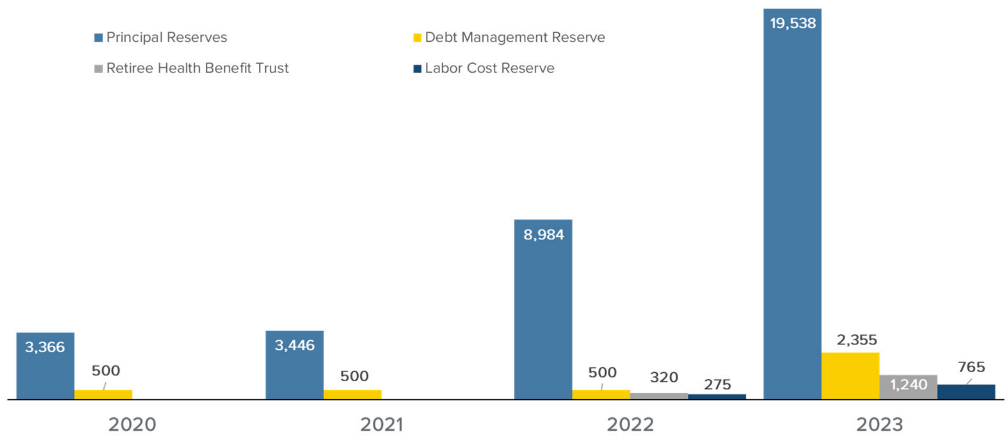


Tax reductions reflect downward revisions since the FY 2023 Enacted Budget Financial Plan (May 2022).

Reserves and Risks

Economic turning points create heightened risks to the Financial Plan. In the two recessions prior to COVID, tax receipts fell more steeply and for a longer period than originally expected. While the DOB forecast is based on reasonable assumptions, the impact of an economic slowdown is highly unpredictable. A second, new risk has been created by the PTET program, which has introduced a high degree of uncertainty in the level and timing of PIT tax collections. Lastly, the State is dependent on a range of Federal approvals to implement savings measures and receive reimbursement for costs it has incurred in the first instance. The Financial Plan maintains a reserve for such transaction risks, in addition to the principal reserves and other reserves for specific purposes (e.g., future labor agreements).

$20 BILLION ADDED TO RESERVES SINCE 2020



- *Principal reserves include the statutory Rainy Day Reserves and the informal reserve for economic uncertainties.*
- *The Retiree Health Benefit Trust Fund is a trust fund for the payment of health benefits of retired employees and their dependents and is not included in the General Fund balance.*
- *Other statutory reserves for dedicated purposes (PTET, pandemic assistance, and undesignated fund balance) are excluded.*