# FINANCIAL PLAN OVERVIEW

Over the past two years, the State's financial position has strengthened significantly. Reserves have increased to the highest levels in history, debt levels remain nearly flat at less than 1 percent growth over the past decade, historic liquidity levels are delivering high investment returns, and new reserves have been established for future costs. The extraordinary influx of resources during the post-COVID-19 period fueled these financial achievements and allowed the State to make historic investments to adequately fund essential services and programs. These investments include fully funding the Foundation Aid formula; expanding access to mental health services; increasing assistance to hospitals, other health care providers and workers; addressing the solvency of the Metropolitan Transportation Authority (MTA); aiding the City of New York for the provision of care for thousands of asylum seekers; increasing wages; supporting health care delivery improvements; increasing recurring support for the State University of New York (SUNY) and City University of New York (CUNY); addressing gun crime and violence; and expanding access to child care, housing, school lunches and energy affordability.

Roughly half of the State Operating Funds budget supports the State's two largest program areas – health care and education. Spending for assistance and grants in FY 2025 is projected to be nearly $23 billion (32 percent) higher than the level recorded in FY 2022[1]. Roughly two-thirds of the estimated growth is concentrated in health care and education, reflecting historic, recurring funding increases for schools and the health care system. While the State's investments over the past two years recur, the elevated levels of tax receipts that initially supported the increased funding do not. Following two-years of substantially stronger tax collections, New York began to experience a precipitous drop in tax receipts beginning in FY 2024. The updated projections for tax receipts[2] in the current year are expected to decline by 7.8 percent from FY 2023 levels, followed by growth of 2.5 percent in FY 2025 from this lower base. This decline in tax receipts was also experienced by the Federal government and other states that rely on personal income taxes as a significant share of their revenues.

The long-term, historical average annual growth rate for tax receipts, which support roughly 80 percent of State Operating Funds spending, is roughly 4 percent. Tax receipts are projected to grow on average by 4 percent annually over the Financial Plan period from FY 2024 levels, while spending is projected to grow by just over 5 percent on average through FY 2028, resulting in a structural imbalance. Accordingly, in preparing the FY 2025 Executive Budget, the structural General Fund budget gaps required the State to evaluate multi-year growth assumptions across all programs to ensure long-term sustainability within projected resources.

The FY 2025 Executive Budget proposal reduces the multi-year budget gaps and provides for balanced General Fund operations on a cash basis in FY 2025, while preserving existing commitments and funding new investments to address critical needs. Proposed savings initiatives are intended to prudently use resources from New York taxpayers to continue support for investments made over the past two years in education, physical and mental health care, public safety, economic stability, and environmental protection; and continue to ensure assistance is available for individuals and entities with demonstratable need. The Executive Budget also includes new funding for services and initiatives consistent with announcements made by the Governor in her State of the State plan presented on January 9, 2024. In addition, State Medicaid spending is increased, consistent with the recently approved 1115 Medicaid Waiver Amendment, and expanded support to assist the City of New York with aiding asylum seekers.

In this Financial Plan, DOB is increasing the estimate for tax receipts and other resources in all years from the levels forecasted in the Mid-Year Update. The projection for General Fund tax receipts, over the multi-year Financial Plan, excluding proposed extensions, is revised upward by $5.9 billion from the forecast included in the Mid-Year Update. In the current year (FY 2024), the upward revision in tax receipts, combined with the reserve for transaction risk that was set aside for FY 2024, and other

1 Excludes roughly $3 billion in one-time COVID-19 pandemic assistance and grants spending.

2 Tax receipts and General Fund balance are affected by the Pass-Through Entity Tax (PTET); however, DOB expects that the PTET will, on a multi-year basis, be revenue neutral for the State. The discussion of tax receipts throughout the Financial Plan Overview exclude the impact of PTET, unless otherwise noted.

revisions, leave an estimated General Fund surplus of $2.2 billion. The surplus will be used to prepay $1.7 billion in FY 2025 expenses to reduce the budget year gap, and the remaining $500 million will be set aside in reserves for future one-time costs related to assisting asylum seekers.

The Executive Budget maintains Principal Reserves at 15 percent of State Operating Funds spending to protect essential services in the event of an economic downturn, as well as other reserves for dedicated purposes to manage risks to the Financial Plan and future costs.

DOB expects that the General Fund will have sufficient liquidity in FY 2025 to make all planned payments as they become due, and the General Fund balance will continue to benefit the State by providing high levels of investment income due to elevated market interest rates. DOB 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.

## FY 2025 Executive Budget Financial Plan Summary

This Financial Plan Update reflects the Governor's FY 2025 Executive Budget proposal and accompanying legislation introduced on January 16, 2024, as well as revisions to the projections of receipts and spending in all years based on results to date, updated forecasts, and adjustments to programmatic assumptions. DOB estimates that the General Fund is balanced on a cash basis in FY 2025, should the Legislature adopt the Governor's proposal without modification.

DOB expects the General Fund to end FY 2025 with a balance of nearly $44 billion. Approximately half of the balance consists of Principal Reserves to protect essential services in the event of an economic downturn. The remaining balance is comprised of other reserves that were previously pledged to reduce outyear gaps, manage risks and support future costs that include tax refunds and liabilities, capital projects, and potential labor agreements.

The Budget supports the implementation and expansion of various initiatives laid out in the Governor's State of the State plan presented to the Legislature on January 9, 2024, and continues funding for existing commitments, including increased funding for Foundation Aid, support for Medicaid and distressed hospitals, increases in the minimum wage, and expanded access to affordable child care.

The Executive Budget proposal increases FY 2025 State Operating Funds spending by $5.9 billion (4.5 percent) compared to the prior year, adjusted for the routine management of resources, execution of prepayments, and fluctuations in the timing of transactions across fiscal years that impact reported spending growth. Nearly two-thirds of the proposed growth is driven by increased spending on School Aid and Medicaid.

**School Aid**

The State provides a substantial amount of financial support for public schools through State formula aids and grants. For over a decade, New York has ranked the highest in the nation for per pupil spending. In school year (SY) 2021, New York spent $26,571 per pupil, 85 percent more than the national average of $14,347 per pupil[3]. In SY 2024, approximately 2.4 million kindergarten through 12th grade students are enrolled in the State's public schools, including 182,000 students enrolled in charter schools. Compared to SY 2014 levels, enrollment in the State's public schools has declined by roughly 10 percent (268,000 students). Despite these enrollment declines, State aid has continued to increase each year. From SY 2021 to SY 2024, total School Aid grew by an average of $2.3 billion (7.7 percent) per year (excluding the SY 2022 Pandemic Adjustment restoration), driven primarily by the three-year phase-in of full funding of the Foundation Aid formula. In addition to State aid, school districts have continued to raise revenue through local property tax increases,

3 Based on U.S. Census Bureau, *2021 Annual Survey of School System Finances.*

which when combined with State aid increases and Federal COVID-19 pandemic related assistance, have afforded many districts the ability to amass substantial reserves and surplus balances.

Adding to the historic increases in funding over the past three years, the Executive Budget includes $35.3 billion for School Aid in SY 2025, an increase of approximately $921 million (2.7 percent), inclusive of the State's full takeover of funding for prekindergarten expansion grants previously supported with Federal American Rescue Plan Act of 2021 (ARP) funds. Excluding the State funds needed to support this takeover, the School Aid increase for SY 2025 totals $825 million (2.4 percent). This growth reflects a $507 million (2.1 percent) Foundation Aid increase.

Since SY 2022, State-funded School Aid will have increased by over $6 billion (21 percent), inclusive of the Executive Budget's proposed increase.

**Medicaid**

The New York State Medicaid Program provides health and long-term care coverage to lower-income children, pregnant women, adults, seniors, and people with disabilities, and is financed jointly by the Federal, State, and Local governments. New York receives the minimum Federal Medicaid matching share of roughly 50 percent. Local districts' costs have been capped at calendar year 2015 levels, shifting the increased costs to the State and saving the City of New York and counties an estimated $7.4 billion in FY 2025. The State offers some of the most comprehensive and extensive Medicaid benefits in the nation, including optional services such as coverage for pharmacy and personal care services, spending $3,582 per capita based on the latest CMS data (Federal Fiscal Year 2021) , which was more than an any other state. New York's per capita spending was 10 percent higher than the next highest state, New Mexico which spent $3,245 per capita. Nearly 7.6 million (39 percent) New Yorkers are currently covered by Medicaid. When combined with other public insurance coverage, New York has the highest percent of people covered by publicly funded medical insurance (Medicaid, Child Health Plus (CHP) and Essential Plan (EP)) in the nation.

The Medicaid program is also a large contributor of funding to hospitals and nursing homes through various supplemental programs. Medicaid spending growth continues to escalate as utilization of the system, primarily Managed Long Term Care (MLTC), rises with an aging population. In FY 2025, Department of Health Medicaid spending is projected to total $30.9 billion, an increase of $3 billion (10.9 percent) from the revised FY 2024 levels, including over $1 billion in savings proposals.

State-share Medicaid spending, including administrative costs, is projected to be $8.6 billion (39 percent) higher in FY 2025 than the levels recorded three years prior in FY 2022.

**Other Spending Growth**

The Executive Budget also proposes spending increases to support agency operations and addresses the State's many continuing challenges, including access to mental health care, public safety, the stability of the State's health care system, and an extension and expansion of extraordinary State funding to continue to assist the City of New York with providing services and assistance to asylum seekers. In addition to significant investments made in the past two years, the FY 2025 Budget provides funding to expand mental health services for children and teens through school and pediatric health care settings; increases pregnant and postpartum services; grants the Department of Financial Services (DFS) authority to hold insurers accountable for mental health coverage; addresses the opioid epidemic; advances a plan consistent with the recent Federal government waiver approval to improve health care delivery; adds funding for law enforcement activities; increases access to swimming and instruction; and funds other program enhancements and initiatives.

The Budget also adds substantial new capital funding for Artificial Intelligence (AI) research and innovation; economic development initiatives; energy affordability improvements; incentives for communities to grow their housing stock; and storm and flood risk remediation and protection.

[4] Excludes District of Columbia. Based on U.S. Census Bureau data and the 2021 Centers for Medicare and Medicaid Services Financial Report, Expenditure Reports From MBES/CBES.

**State Spending**

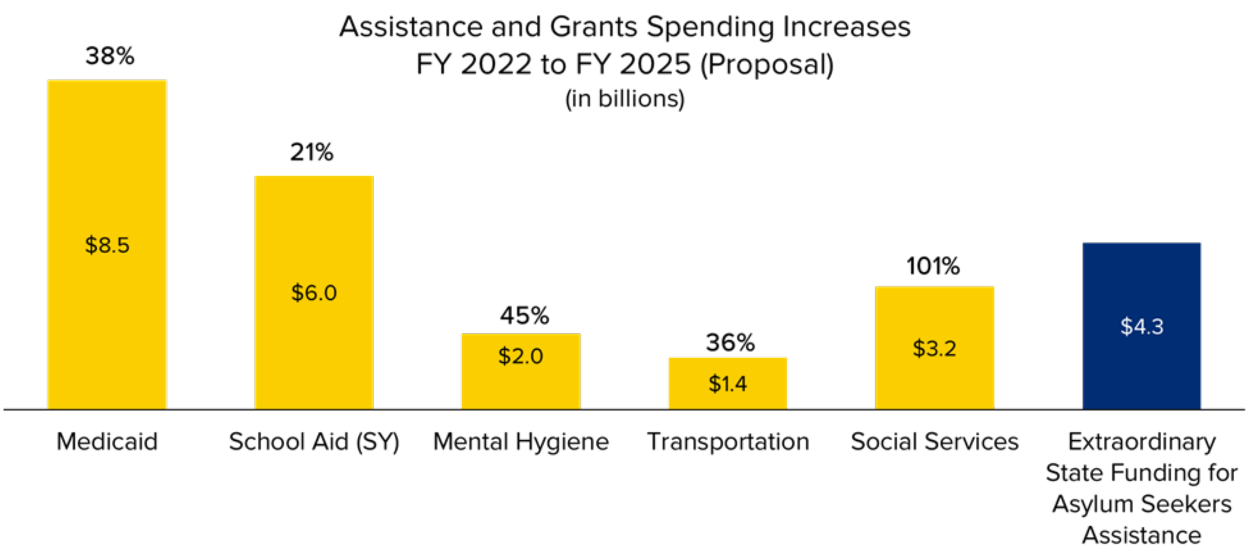
The Executive Budget proposal drives FY 2025 State Operating Funds spending to $136.2 billion, an increase of $5.9 billion (4.5 percent) compared to the current FY 2024 estimate, excluding the routine management of resources, execution of prepayments, and fluctuations in the timing of transactions and reimbursements across fiscal years.

FY 2025 spending growth is largely driven by Medicaid, School Aid and increased operational funding for all branches of State government as agencies continue to strive to restore service capacity and workforce levels to pre-COVID-19 pandemic levels.

Medicaid spending is driven largely by elevated enrollment relative to pre-COVID-19 pandemic levels; expansion of benefits; increases in reimbursement rates; and growing utilization of the State's MLTC program by the State's aging population.

Spending for assistance and grants has grown from $72 billion in FY 2022, adjusted to exclude for COVID-19 pandemic assistance and recovery spending, to nearly $95 billion of projected spending in FY 2025. The $23 billion (32 percent) increase reflects historic investments over the preceding years in education, health care and other assistance and program growth.

Spending growth is routinely impacted by planned prepayments and timing-related transactions and reimbursements. In FY 2025, spending growth reflects the planned payment of FY 2025 pension expenses in FY 2024; delayed recoupment from providers of excess payments attributable to State-only Medicaid payments that were previously advanced and are now expected in FY 2025; the expiration of the temporary enhanced Federal Medical Assistance Percentage (eFMAP) that lowers Medicaid costs in FY 2024; COVID-19 pandemic related Federal Emergency Management Agency (FEMA) reimbursements that are expected to lower spending to offset costs accounted for in




State funding for Asylum Seekers Assistance includes total proposed commitment through FY 2026, including operational expenses.

prior years; and the impact of prior year debt service prepayments. Accounting for these transactions, State Operating Funds spending is projected to total $129.3 billion, an increase of $2.7 billion (2.1 percent).

Including spending for capital projects and spending supported by the Federal government, All Funds spending is estimated to total $232.7 billion in FY 2025, an increase of $1 billion (0.5 percent), from the current fiscal year estimate. The increase in All Funds spending is attributable to the end of COVID-19 pandemic related recovery and assistance provided through increased Federal funding and reimbursements, which is partly offset by significant increases in capital projects spending consistent with approved and proposed capital commitments.

**FY 2025 EXECUTIVE BUDGET SPENDING ESTIMATES**
**(millions of dollars)**

| | FY 2024 Updated | FY 2025 Projected | $ Change | % Change |
|---|---|---|---|---|
| **State Operating Funds** | **126,610** | **129,268** | **2,658** | **2.1%** |
| School Aid (School Year Basis)[1] | 34,385 | 35,306 | 921 | 2.7% |
| Medicaid | 27,442 | 30,431 | 2,989 | 10.9% |
| All Other Assistance and Grants | 30,382 | 30,135 | (247) | -0.8% |
| Agency Operations | 31,727 | 33,583 | 1,856 | 5.8% |
| Debt Service | 6,312 | 6,717 | 405 | 6.4% |
| Resource Management/Timing: | | | | |
| Planned Pension Prepayment | 1,709 | (1,709) | (3,418) | - |
| Medicaid DPT Recoupment | 1,100 | (1,100) | (2,200) | - |
| Temporary eFMAP | (1,692) | 0 | 1,692 | - |
| FEMA Reimbursement | (1,050) | (400) | 650 | - |
| Prior Year Debt Service Prepayments | (3,705) | (3,695) | 10 | - |
| **Federal Operating** | **89,324** | **84,586** | **(4,738)** | **-5.3%** |
| **Capital Projects** | **15,670** | **18,798** | **3,128** | **20.0%** |
| **All Funds** | **231,604** | **232,652** | **1,048** | **0.5%** |
| **State Operating Funds (Adjusted)** | **130,248** | **136,172** | **5,924** | **4.5%** |

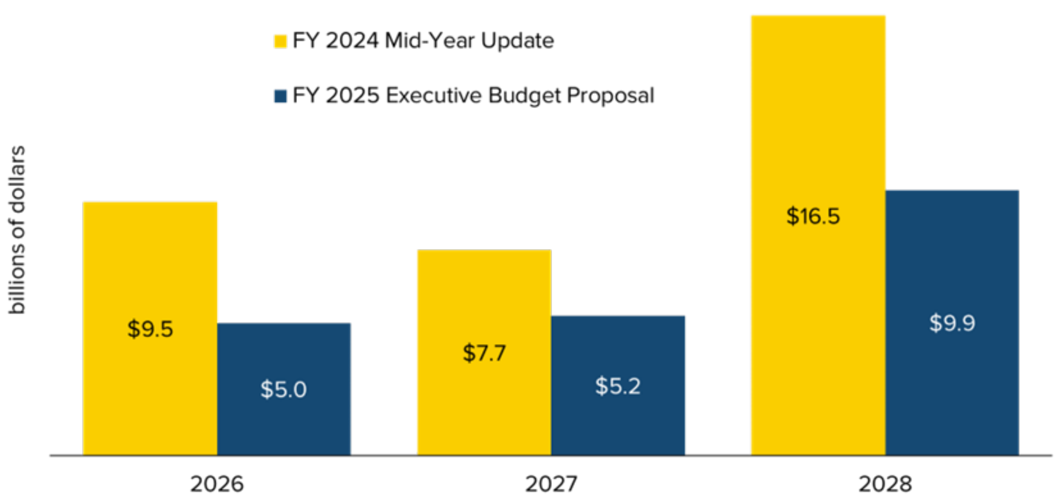
1 The Financial Plan includes a $921 million (2.7 percent) increase for School Aid in SY 2025, inclusive of the State's full takeover of funding for prekindergarten expansion grants previously supported with Federal ARP Act funds. Excluding the State funds needed to support this takeover, the School Aid increase for SY 2025 totals $825 million (2.4 percent).

**Outyear Budget Gaps**

The FY 2025 Executive Budget Financial Plan proposal provides savings that reduces the outyear budget gaps to $5 billion in FY 2026, $5.2 billion in FY 2027, and $9.9 billion in FY 2028 in comparison to the Mid-Year Update. If the FY 2026 Budget is balanced with recurring savings, the budget gap for FY 2027 would be nearly eliminated and the FY 2028 gap would be reduced to roughly $5 billion.

The outyear budget gaps are the result of a structural imbalance between the forecasted levels of spending growth and available resources. The gaps include Medicaid spending projections that exceeds the global cap beginning in FY 2026, which is partly due to $1.7 billion in additional State spending over the multi-year Financial Plan to leverage roughly $6 billion in additional Federal Medicaid funding, as well as upward revisions reflecting sustained enrollment levels and spending for MLTC. The projected budget gaps do not reflect the use of any principal reserves to balance operations but do include the use of prior year surpluses carried forwarded into future years and the one-time use of a portion of the Reserve for Economic Uncertainties to fund additional assistance to the City of New York to alleviate fiscal pressures from asylum seekers in FY 2026.

In addition, the projected budget gap for FY 2027 includes a one-time acceleration of between $3 and $4 billion in estimated PIT tax receipts due to the scheduled expiration of the Federal SALT Cap at the end of 2025 and expectation that taxpayers will seek to benefit from unlimited SALT deductibility beginning in tax year 2026. If the Federal government extends or revises the SALT Cap, the acceleration would likely be substantially less, which would reduce tax receipts and increase the budget gap for FY 2027 by a concomitant amount.



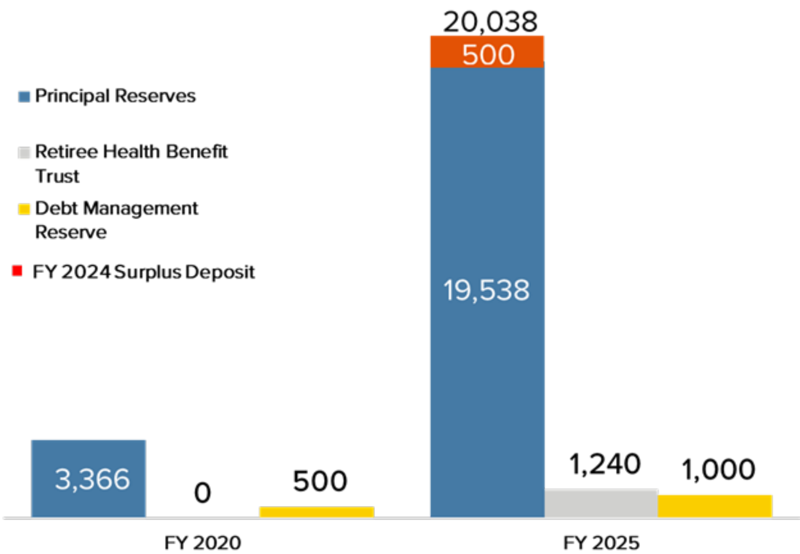
Lastly, the FY 2028 projected budget gap reflects the initial impact of the current law sunset at the end of tax year 2027 of higher tax rates for high income filers, reverting the schedule to a single top rate of 8.82 percent. If the current rate schedule were extended, DOB estimates that PIT withholding receipts would increase by an amount in the range of $750 million to $1 billion in the last quarter of FY 2028.

**Reserves and Risks**

The Financial Plan faces looming economic risks, including: slowing economic growth; continued price inflation; geopolitical uncertainties; programmatic cost pressures; uncertainty about the fiscal conditions of outside entities relying on State assistance; risks due to the State's dependance on Federal funding and approvals; and uncertainty about the timing and feasibility of implementing cost savings actions.

While the DOB forecast of receipts and spending is based on current law and reasonable assumptions as of the time it was prepared, the timing and impact of an economic slowdown or downturn is highly unpredictable, and thus necessitates a prudent level of reserves to hedge against these risks.

In October 2021, the Governor committed to building the State's reserves to 15 percent of State Operating Funds spending by FY 2025 to ensure that it could honor its commitments through good and bad times. This commitment was met two years ahead of schedule in FY 2023 with a nearly $11 billion deposit. The FY 2025 Executive Budget preserves these critical investments and utilizes a portion of the projected current year surplus to add $500 million for future costs.




- **Principal Reserves** include the statutory Rainy Day Reserve Funds and the informal Reserve for Economic Uncertainties.
- The **Retiree Health Benefit Trust Fund** (excluded from the General Fund balance) is for health benefits of retired employees and their dependents.
- **Debt Management Reserve** is an informal reserve that can be used for any debt related purpose.