



**2022 JOINT REPORT
ON RECEIPTS AND DISBURSEMENTS
NOVEMBER 15, 2022**

Division of the Budget
Assembly Ways and Means Committee
Senate Finance Committee



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Quick Start Report

This report summarizes the results of the “quick start” forecasting process conducted by the Executive, Legislature and Comptroller, pursuant to Chapter 1 of the Laws of 2007. Specifically, this report meets the statutory requirement that by “not later than November 15, the Governor, the Temporary President of the Senate and the Speaker of the Assembly shall jointly prepare and make available on their internet websites a report on the actual, estimated, and projected State receipts and disbursements for the prior, current, and ensuing fiscal years, respectively, for all funds of the State.”

Introduction

“Quick start” brings the Executive and legislative fiscal staffs together and the Office of the State Comptroller together, well in advance of the Governor’s budget submission, to begin an open, public dialogue on the fiscal outlook for the upcoming year. By jump-starting the formal exchange of information and analysis, “quick start” is intended to stimulate timely discussion and analysis on economic and fiscal factors likely to shape the Fiscal Year 2024 budget deliberations.

As part of this process, each party that plays a role in the budget was invited to contribute an assessment of the State economic outlook, an estimate of State spending and receipts, and a forecast for the certain major programs -- School Aid, Medicaid, and Public Assistance, which combined represent half of total State Operating Funds spending.

The law directs the Executive, Senate, Assembly, and the State Comptroller to prepare separate “quick start” reports. The Executive and Legislature are then required to meet publicly shortly thereafter to discuss their findings, which occurred on November 15, 2022. In addition, the Executive, Assembly Majority and Senate Majority must issue a joint report on the actual, estimated, and projected State receipts and disbursements of the prior, current and ensuing fiscal years.

Overview

On November 11, 2022, the Division of the Budget (DOB) issued its [Mid-Year Financial Plan](#) updating the State’s official financial projections for the 2023 through 2027 fiscal years. The Mid-Year Financial Plan provides multi-year financial projections intended to assist discussions among the participants and the public.

In early November, the Senate Majority, Assembly Majority, Senate Minority, Assembly Minority and State Comptroller each submitted “quick start” reports. The Director of DOB and fiscal staff from the Senate Majority, Assembly Majority, Senate Minority, Assembly Minority and Comptroller’s Office met publicly on November 15 to review and discuss their individual forecasts. Though there are differences between the respective estimates, representatives of all parties agreed that the State’s economic recovery has slowed and remains vulnerable to a range of risks.

Joint Review of Economic and Fiscal Factors

The following sections highlight the discussions that took place with respect to the economy, receipts and disbursements projections, and the fiscal outlook.

Economy and Revenues

Economic Context

The Senate Majority, Assembly Majority, Senate Minority, Assembly Minority, and Executive all agree that the economic recovery is continuing, albeit more slowly. Estimated real U.S. GDP growth for 2022 is 1.8 percent (see Table 1), while growth for 2023 ranges from 0.5 percent to 1.1 percent. All parties agree that the labor market continued to improve in 2022, with projected growth rates for nonfarm employment ranging from 3.9 percent to 4.1 percent. Consistent with this outlook, personal income growth is projected to range from 2.1 percent to 2.3 percent for 2022, with growth in its largest component, wages, ranging from 8.5 percent to 8.9 percent. Projected growth in U.S. corporate profits ranges from 5.5 percent to 7.2 percent for 2022.

Estimated growth rates in New York State employment for 2022 range from 4.1 percent to 5.1 percent for 2021 (see Table 2). Employment projections for 2023 range from 0.8 percent to 1.6 percent. Projected growth in personal income ranges from a decline of 0.1 percent to an increase of 0.9 percent for 2022, with wage growth ranging from 5.9 percent to 7.8 percent. Wage growth for 2023 ranges from 2.6 percent to 3.7 percent, and personal income growth projections range between 3.0 percent to 4.1 percent.

The U.S. economy faces significant downside risks that could potentially tip the national economy into a recession. Tightening credit conditions are raising borrowing costs for both consumers and businesses, discouraging consumption and investment, and leading to a slowdown in production and hiring. If consumer price inflation does not slow markedly in response to the ongoing rate hikes, the Federal Reserve could implement a more aggressive monetary tightening policy, which could further weigh on employment growth, resulting in larger and more sustained job losses. A higher-than-anticipated rise in interest rates could further raise consumer and business borrowing costs and lead to even sharper declines in the housing market. Other downside risks to the forecast include slower global economic growth, continued supply chain disruptions, an acceleration in commodity and oil price increases, an escalation of the Russia-Ukraine War and a prolonged bear equity market. All risks that are related to the financial sector are compounded for New York, due to the sector's importance to the State economy. Additionally, the ongoing persistence of telework and continued relocation of urban-based workers outside of the State remain long-run downside risks to total wages and employment.

U.S. FORECAST				
ANNUAL CALENDAR YEAR				
Percent Change				
	<u>CY 2021</u>	<u>CY 2022</u>	<u>CY 2023</u>	<u>CY 2024</u>
REAL U.S. GDP				
Assembly Majority	5.9	1.8	0.5	1.6
Assembly Minority	5.9	1.8	0.7	2.0
DOB	5.9	1.8	1.1	2.2
Senate Majority	5.9	1.8	0.7	2.1
Senate Minority	5.9	1.8	1.1	2.2
PERSONAL INCOME				
Assembly Majority	7.4	2.2	4.5	4.4
Assembly Minority	7.4	2.2	3.8	4.0
DOB	7.4	2.1	4.1	4.7
Senate Majority	7.4	2.3	5.3	4.7
Senate Minority	7.4	2.1	4.1	4.7
WAGES				
Assembly Majority	8.8	8.8	4.9	4.0
Assembly Minority	8.8	8.9	3.2	3.2
DOB	8.8	8.8	3.4	3.4
Senate Majority	8.6	8.5	3.3	3.1
Senate Minority	8.8	8.8	3.4	3.4
CORP PROFITS W/ IVA & CCA				
Assembly Majority	22.6	7.1	(0.0)	4.4
Assembly Minority	22.6	7.2	(2.4)	3.4
DOB	22.6	5.5	(6.0)	3.7
Senate Majority	22.6	7.1	0.7	4.4
Senate Minority	22.6	5.5	(6.0)	3.7
NONFARM EMPLOYMENT				
Assembly Majority	2.8	4.0	1.2	0.7
Assembly Minority	2.8	3.9	0.4	0.7
DOB	2.8	4.0	0.7	0.8
Senate Majority	2.8	4.1	1.4	0.7
Senate Minority	2.8	4.0	0.7	0.8
3-MONTH T-BILL RATE				
Assembly Majority	0.0	2.0	3.7	3.1
Assembly Minority	0.0	2.1	4.4	3.8
DOB	0.0	2.0	4.2	3.7
Senate Majority	0.0	2.1	4.5	3.8
Senate Minority	0.0	2.0	4.2	3.7

N.Y. FORECAST ANNUAL CALENDAR YEAR Percent Change				
	<u>CY 2021</u>	<u>CY 2022</u>	<u>CY 2023</u>	<u>CY 2024</u>
NONFARM EMPLOYMENT				
Assembly Majority*	2.7	5.1	1.3	0.7
Assembly Minority	2.6	4.5	1.6	1.0
DOB*	2.6	4.2	0.8	0.9
Senate Majority	2.8	4.1	1.4	0.7
Senate Minority	2.6	4.2	0.8	0.9
PERSONAL INCOME				
Assembly Majority*	5.7	0.6	3.0	3.9
Assembly Minority	5.7	0.5	3.3	4.3
DOB*	5.7	(0.1)	3.0	4.4
Senate Majority	5.6	0.9	4.1	4.3
Senate Minority	5.7	(0.1)	3.0	4.4
WAGES				
Assembly Majority*	8.8	7.8	2.6	3.4
Assembly Minority	8.7	6.0	3.4	5.7
DOB*	8.7	5.9	3.0	4.0
Senate Majority	8.6	6.5	3.7	4.6
Senate Minority	8.7	5.9	3.0	4.0

* Constructed based on QCEW data.

Revenue Projections Comparison

MID-YEAR REVENUE COMPARISON FY 2023 (millions of dollars)					
	Executive Mid-Year Estimate	Senate Majority	Senate Minority	Assembly Majority	Assembly Minority
Personal Income Taxes	48,950	49,172	48,450	52,980	49,052
User Taxes and Fees	20,219	20,550	20,219	20,705	20,480
Business Taxes	28,088	28,088	27,958	28,085	28,106
Other Taxes	3,138	3,435	2,828	3,187	3,145
All Funds Taxes Subtotal	100,395	101,245	99,455	104,958	100,783
General Fund Misc. Rec. & Fed. Grants	4,545	4,545	4,545	4,541	4,545
Education Gaming	4,253	4,371	4,253	4,283	4,333
Total	109,193	110,161	108,253	113,782	109,661

MID-YEAR REVENUE COMPARISON FY 2024 (millions of dollars)					
	Executive Mid-Year Estimate	Senate Majority	Senate Minority	Assembly Majority	Assembly Minority
Personal Income Taxes	59,710	59,749	59,710	60,469	59,799
User Taxes and Fees	21,140	21,286	21,140	21,234	21,386
Business Taxes	27,511	27,511	27,311	27,322	27,540
Other Taxes	2,787	2,797	2,787	2,894	2,803
All Funds Taxes Subtotal	111,148	111,343	110,948	111,918	111,527
General Fund Misc. Rec. & Fed. Grants	4,064	4,064	4,064	4,060	4,064
Education Gaming	4,329	4,633	4,329	4,300	4,419
Total	119,541	120,040	119,341	120,278	120,010

MID-YEAR REVENUE COMPARISON FY 2023 AND FY 2024 -- TWO-YEAR TOTAL (millions of dollars)					
	Executive Mid-Year Estimate	Senate Majority	Senate Minority	Assembly Majority	Assembly Minority
Personal Income Taxes	108,660	108,921	108,160	113,449	108,850
User Taxes and Fees	41,359	41,836	41,359	41,939	41,866
Business Taxes	55,599	55,599	55,269	55,407	55,646
Other Taxes	5,925	6,232	5,615	6,081	5,948
All Funds Taxes Subtotal	211,543	212,588	210,403	216,876	212,310
General Fund Misc. Rec.	8,609	8,609	8,609	8,601	8,609
Education Gaming	8,582	9,004	8,582	8,583	8,752
Total	228,734	230,201	227,594	234,060	229,671

Following strong receipts performance during FY 2021-22, the outlook for FY 2022-23 and the outyears is highly vulnerable to the overall economy, especially with increased uncertainty related to the extent and depth of the economic slowdown.

Revenue growth for the current and upcoming fiscal year remains dependent on several global, national, and statewide factors that could pose risks to the forecasts. These risks are:

- Although tax revenues are, in general, closely related to economic activity, the degree and, importantly, timing of concomitant tax receipts represents a risk to the forecast.
- Persistent inflationary pressures could force the Federal Reserve to pursue a more aggressive path to interest rate increases that could lead to an outright national economic recession.
- Slower global economic growth, continued supply chain disruptions and rising borrowing costs could lead to significant job losses, weakening household incomes and consumption.
- Prevalence of remote work, combined with outmigration, could permanently reduce the demand in leisure and hospitality and commercial real estate sectors in New York City and other large cities around the State.
- Financial sector bonus payments represent a significant portion of New York wages and are paid during a short period late in the fiscal year. Should the level of these payments be lower than anticipated, especially due to a more severe economic slowdown or an outright national recession, income tax receipts could be lower than expected.

Disbursement Projections Comparison

The Mid-Year Financial Plan prepared by the Executive contains detailed forecasts of all major spending programs. The General Fund traditionally has been, and will continue to be, an important focus of State financial performance because State law requires it be balanced. State Operating Funds is a more inclusive measure that captures all spending financed by dedicated revenue sources and for servicing the State’s debt, excluding capital spending and Federal aid. All Governmental Funds includes spending for capital purposes and Federal grants.

The table below summarizes the State’s actual and projected disbursements for FY 2022 through FY 2024 as prepared by the Executive in the Mid-Year Financial Plan.

EXECUTIVE MID-YEAR SPENDING FORECAST (millions of dollars)			
	FY 2022 Actuals	FY 2023 Projected	FY 2024 Projected
State Operating Funds	\$117,404	\$121,832	\$124,842
<i>Annual Growth</i>	12.7%	3.8%	2.5%
General Fund (with transfers)	\$88,918	\$95,181	\$104,664
<i>Annual Growth</i>	20.0%	7.0%	10.0%
State Funds	\$129,856	\$135,778	\$142,844
<i>Annual Growth</i>	13.0%	4.6%	5.2%
All Funds	\$209,339	\$221,942	\$222,600
<i>Annual Growth</i>	12.2%	6.0%	0.3%

The following table summarizes the comparison of State Operating Funds spending projections for FY 2024 to the Executive projections in the Mid-Year Financial Plan.

MID-YEAR COMPARISON FY 2024 State Operating Funds (millions of dollars)					
	Executive Mid-Year Estimate	Estimates			
		Senate Majority	Senate Minority	Assembly Majority	Assembly Minority
School Aid (School Year)	34,707	34,707	34,674	34,769	34,964
Medicaid	27,317	27,317	27,317	27,317	27,317
Public Assistance	600	600	600	571	602
Subtotal	62,624	62,624	62,591	62,657	62,883
All Other Disbursements	62,218	62,218	62,218	62,185	62,218
Total Disbursements	124,842	124,842	124,809	124,842	125,101

Summary information for three key areas of spending -- Medicaid, School Aid, and Public Assistance -- is provided below.

Medicaid

Medicaid -- jointly financed by the Federal government, the State, and local governments (i.e., counties and New York City) -- provides health care services for low income, mentally ill, disabled, and elderly individuals. Prior to 2006, for most services the non-Federal share of Medicaid costs was shared between the State and local governments. Beginning in January 2006, counties' Medicaid cost contributions were capped based on 2005 expenditures that were indexed at a growth rate of 3.5 percent in 2006, 3.25 percent in 2007, and 3 percent per year thereafter. In FY 2013, the State committed to phasing out over a three-year period all growth in the local share of Medicaid costs. The State takeover capped local districts' Medicaid costs at calendar year 2015 levels.

In FY 2012 the Medicaid Global Cap was established, which placed a spending limit on non-Federal Medicaid expenses that was computed based on the ten-year rolling average of the medical component of the Consumer Price Index as published by the United States Department of Labor, Bureau of Labor Statistics. To accommodate growth in factors that were not indexed under the Global Cap and reflect recent trends, the FY 2023 Enacted Budget modified the allowable spending growth rate to be tied to the five-year rolling average of health care spending, using from the Centers for Medicare and Medicaid Services (CMS) Office of the Actuary. Approximately 85 percent of DOH State Funds Medicaid spending growth is subject to the Global Cap.

The Global Cap legislation authorizes the Department of Health Commissioner and the Director of DOB to exercise cost-saving measures, called a Medicaid savings allocation plan, if the Budget Director determines the Medicaid program is projected to exceed the Global Cap. Actions can include: across the board or targeted spending reductions, reimbursement reductions, and/or new opportunities for more Federal financial participation among other things.

In estimating Medicaid spending the parties use somewhat different projection models. The Executive's projected Medicaid forecast involves an evaluation of all major service categories using a specific approach, depending on whether expenditures are based on monthly plan premiums or fee-for-service payments. The forecast uses category specific Medicaid Management Information System (MMIS) data. This includes detail on total paid claims and premiums, retroactive spending adjustments, caseload, and service utilization. This data is incorporated into mathematical models that are used to predict future expenditures based upon historical expenditure patterns and seasonal trends. The models also consider non-MMIS data (e.g., managed care enrollment, Federal Medicare premiums, and trends in the pharmaceutical industry) in certain areas to generate program specific expenditure projections.

The Senate and Assembly's projections align with the Executive's forecast published in the Financial Plan. Therefore, their methodology is assumed to be comparable to the Executive's.

It should be noted that the forecasts provide a point-in-time estimate for program spending based on the most current data available and therefore are subject to considerable variance depending on several risks that could affect Medicaid spending and enrollment. These include natural disasters, economic fluctuations, shifts in demographic patterns, litigation and changes in State and Federal policies and statutes.

Below is a summary of the Medicaid State Operating Funds spending projections included in the respective "quick start" reports issued by the Executive and Legislature.

FY 2022

FY 2022 DOH Medicaid State Operating Funds spending totaled \$22.3 billion, which included \$3.0 billion in savings from enhanced Federal Medicaid Assistance Percentages (eFMAP) authorized in the Families First Coronavirus Relief Act (FFCRA). Spending increased from \$19.6 billion in FY 2021, driven primarily by increased program enrollment attributable to the COVID-19 pandemic and maintenance of effort (MOE) requirements included in the FFCRA legislation, which required 12-month continuous coverage for all new enrollees during the Federal Public Health Emergency (PHE) period. A portion of the eFMAP benefit was used to support these increased enrollment costs. Removing the benefit from eFMAP, FY 2022 State Operating Funds spending would have increased over FY 2021 spending by 9.6 percent, inclusive of spending that is not subject to the statutorily indexed growth provisions of the State's Medicaid Global Cap (e.g., minimum wage, local growth takeover).

FY 2023

In FY 2023, the Executive projects Medicaid spending of \$19.3 billion on a General Fund basis (including State Operations costs), \$25.6 billion on State Operating Funds basis, and \$98.7 billion on an All Funds basis. Both General Fund and State Funds numbers are reduced by \$3.5 billion due to the eFMAP benefit.

With the eFMAP benefit removed, this projected spending forecast reflects an increase over actual FY 2022 State Operating Funds spending of approximately 14.9 percent, inclusive of spending that is not subject to the statutorily indexed growth provisions of the State's Medicaid Global cap (e.g., minimum wage, local growth takeover). A portion of the eFMAP benefit was used to support increased Medicaid costs in FY 2023 due to increased program enrollment attributable to the COVID-19 pandemic and maintenance of effort (MOE) requirements included in the FFCRA legislation requiring 12-month continuous coverage for all new enrollees during the Federal Public Health Emergency (PHE) period.

The FY 2023 estimates for both houses (majority and minority) are consistent with the Executive estimate.

FY 2024

In FY 2024, the Executive projects Medicaid spending of \$21.4 billion on a General Fund basis (inclusive of State Operations costs), \$27.3 billion on a State Operating Funds basis, and \$98.5 billion on an All Funds basis. Both General Fund and State Operating Funds spending estimates are reduced by \$267 million due to the eFMAP benefit which is currently authorized through March 2023. FY 2024 assumes one month of eFMAP benefit due to a one-month timing lag associated with claiming eFMAP.

The FY 2024 estimates for both houses (majority and minority) are consistent with the Executive estimate.

Both houses also raise the possibility of risk to the Financial Plan if Medicaid enrollment declines at a slower pace than projected, which would result in spending above what is currently projected in these forecasts.

Medicaid spending with and without the benefit of enhanced FMAP for FY 2023 and FY 2024 is presented below.

COMPARISON OF EXECUTIVE, ASSEMBLY, AND SENATE MEDICAID STATE OPERATING FUNDS SPENDING
(in millions)

	With FMAP Benefit			Without FMAP Benefit		
	<u>FY 2023</u>	<u>FY 2024</u>	<u>% Change</u>	<u>FY 2023</u>	<u>FY 2024</u>	<u>% Change</u>
Assembly Majority	25,575	27,317	6.8%	29,029	27,584	-5.0%
Assembly Minority	25,575	27,317	6.8%	29,029	27,584	-5.0%
Executive	25,575	27,317	6.8%	29,029	27,584	-5.0%
Senate Majority	25,575	27,317	6.8%	29,029	27,584	-5.0%
Senate Minority	25,575	27,317	6.8%	29,029	27,584	-5.0%

School Aid

The State Education Department (SED) releases school district specific data three times a year pursuant to §305 of the Education Law. The November 15 database update provides the first information on the projected upcoming school year. This data will continue to be updated on February 15 and May 15. Executive Budget estimates are based upon data reported from SED at the November 15 database.

Since this data for the School Year (SY) 2024 is not yet available, estimating School Aid for SY 2024 presents significant challenges. Expense-based aids (e.g., Transportation Aid, BOCES Aid, and Building Aid) can be volatile and difficult to project with a high level of certainty because they depend on individual school districts' expenses and relative income and property wealth per pupil; for SY 2017 through SY 2020, for example, aid projections varied by approximately \$75 million to \$150 million from the time of Budget enactment through the following November database, while SY 2021 and SY 2022 projections fluctuated by over \$300 million due to the impact of the COVID-19 pandemic on district expenses. In addition, due to the continuation of the FY 2022 Enacted Budget requirement to phase in full funding of the Foundation Aid formula by SY 2024, SED's initial projections of current law aid in the November 2022 database for the upcoming school year will include a Foundation Aid increase up to the level necessary to fully fund the formula. The value of this increase depends on the formula's full funding target, which is in turn impacted by annually updated factors such as inflation, enrollment, and levels of district wealth and student need.

The following table summarizes the School Aid projections reflected in the respective reports put forward by Executive, Senate, and Assembly staffs. The reports used different approaches to forecasting School Aid for SY 2024, with differing degrees of specificity; however, all incorporate a significant Foundation Aid increase due to statutory provisions enacted with the FY 2022 and FY 2023 Budgets, as well as continued growth in expense-based aids under current law. The projected SY 2024 increases all recognize the substantial impact that higher inflation continues to have on School Aid. The Senate Majority concurs with the Executive's projections. The other parties' reports merely differ in their assumptions in regard to inflation, enrollment, and how the annual expense-based aid increase will compare to the average of prior years.

SY 2024 (\$ in Millions)	EXECUTIVE	ASSEMBLY MAJORITY	SENATE MAJORITY	ASSEMBLY MINORITY	SENATE MINORITY
School Aid Increase (School Year Basis)	3,335	3,397	3,335	3,592	3,302

Public Assistance

The Office of Temporary and Disability Assistance (OTDA) local assistance programs provide cash benefits and supportive services to low-income families, children and adults living in NYS. OTDA's public assistance (PA) program is comprised of the Family Assistance and Safety Net Assistance programs. The Family Assistance program, which is financed by Federal Temporary Assistance for Needy Families (TANF) funds, provides cash assistance to those families who have been on assistance for less than five years. The Safety Net Assistance program, financed by the State and counties, provides cash assistance to single adults, childless couples, and families who have exhausted their five-year Federal time-limit on TANF.

The following is a summary of public assistance disbursement projections as reflected in the respective reports put forward by Executive, Senate and Assembly staffs. Variances between disbursement estimates may be attributable to differing conclusions regarding the extent of caseload increases. However, because a portion of public assistance expenditures are for non-benefit payments such as diversion payments and transitional services, it is difficult to determine expenditures based solely on caseload.

FY 2022

The FY 2022 public assistance caseload was 472,043, with associated gross costs (Federal/State/local) of \$2.7 billion. The caseload decreased by 3.5 percent while gross costs decreased by 11.8 percent, over FY 2021.

FY 2023

The Executive FY 2023 forecast for the public assistance caseload is 472,440, a projected .08 percent increase from FY 2022 actuals. Public assistance gross State costs are estimated at \$595 million. Inclusive of Federal and local assistance, total public assistance costs is estimated to be \$3.02 billion, a 11.8 percent increase from FY 2022 actuals.

The Senate Majority and Senate Minority agree with the Executive's FY 2023 forecast.

The Assembly Majority FY 2023 forecast for the public assistance caseload is 526,236, a projected increase of 11.48 percent over FY 2022 actuals. Public assistance gross costs are estimated at \$3.02 billion, an increase of 12 percent over FY 2022 actuals.

The Assembly Minority FY 2023 forecast for the public assistance caseload is 541,882, a projected increase of 14.8 percent over FY 2022 actuals. Public assistance gross costs are estimated at \$3.16 billion, an increase of 17.84 percent over FY 2022 actuals.

FY 2024

The Executive FY 2024 forecast for the public assistance caseload is 479,651, a projected 1.5 percent increase from FY 2023. Public assistance gross costs (Federal/State/local) are estimated at \$3.07 billion, a projected 1.7 percent increase from FY 2023, with State-funded costs estimated at \$600 million.

The Senate Majority and Senate Minority agree with the Executive's FY 2023 forecast.

The Assembly Majority FY 2024 forecast for the public assistance caseload is 523,894, decrease of .44 percent from FY 2023. Public assistance gross costs are estimated at \$3.0 billion, a projected decrease of .46 percent from FY 2023.

The Assembly Minority FY 2024 forecast for the public assistance caseload is 549,339, an increase of 1.38 percent from FY 2023. Public assistance gross costs are estimated at \$3.17 billion, a projected increase of 0.35 percent from FY 2023.

Fiscal Outlook

As the United States returns to “normalcy” after the initial disruption caused by COVID, New York’s finances are on stable footing.

During the acute phase of COVID, the State stepped up to provide extraordinary aid to the businesses and families whose lives were upended. In FY 2024, the need for such extraordinary programs has greatly diminished. At the same time, the State must honor the important recurring spending commitments in education, health care, and other areas that were made in FY 2022 and FY 2023. Those commitments will be put at risk if the State finds itself unprepared for a recession by overextending itself with costly new promises.

The Executive’s projections are based on recent tax and expenditure results, updated forecasts for the State and US economy, and programmatic assumptions that the Executive believes are reasonable. They do not “factor in” potential economic and financial shocks, which are, by definition, unpredictable. They also do not account for the real but hard to quantify risks created by COVID. Other key data that will impact the forecast include the November 15 School Aid database update as well as revised economic and spending performance over the next several months.

Reserves are the most practical and effective defense against such unpredictable risks. Accordingly, the Financial Plan projects principal reserves will reach 15 percent of State Operating Funds spending by the end of FY 2025. The 15 percent target is equal to about \$19 billion of State spending -- or roughly half the revenue replacement that could be needed, over three years, at the low end of a potential national recession.